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Assessment of the analysis of the sustainability of the RA public debt according to the MAC DSA methodology of the International Monetary Fund

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ABSTRACT

Sustainability of the public debt is a necessary condition for macroeconomic stability and long-term economic growth. However, in order to be sustainable, the government must service the debt without declaring insolvency, renegotiating the terms of the debt or restructuring the debt, as well as without introducing unrealistic big pressure into economic policy.

Regardless of the debt and the burden of its servicing, over the past decade, the RA Government has managed to service the public debt of the RA on time and in full. However, this circumstance is not enough for full-fledged judgments about stability. To ensure stability, it is necessary to identify all possible risks and sources of vulnerability, so that the behavior of debt in the event of these risks becomes figurative.

The analysis of public debt stability was carried out on the basis of the MAC DSA (Debt sustainability analysis for market-access countries) methodology of two reputable financial structures widely used in international practice -the International Monetary Fund and the World Bank.

As a result of the analysis, it was revealed that:
1. Although the debt of the RA Government is manageable, it is nevertheless sensitive to economic growth and exchange rate shocks. 2. Sources of vulnerability for government debt are also high risk for non-residents - the share of debt and the share of debt in foreign currency, as well as the requirement for external financing of the economy. 3. In order to maintain the risks of government debt at a low level and reduce financing risks, it is necessary to continue reducing the debt burden in accordance with fiscal rules, the policy of improving the weight of domestic debt and take steps to maintain financial stability, further deepen and develop the market.

KEYWORDS: Public debt, public debt stability, public debt stability assessment, MAC DSA model, deterministic, stochastic and alternative approaches, basic and alternative scenarios, stress tests.

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I. INTRODUCTION

The Debt Management Strategy of the Government of the RA clarifies the policy of debt attraction, including indicative indicators of government debt management, identifies and evaluates the risks associated with government debt management, and also identifies those principles, goals and upcoming activities that will not jeopardize fiscal stability.[1]

Three groups of debt sustainability analysis (DSA) are adopted in international practice: deterministic, stochastic and alternative approaches. Deterministic models are based on the debt accumulation formula and simulations of shocks on its individual elements, as well as established debt burden thresholds. The basis of stochastic models are mutual connections and patterns of factors that form debt, which project into the future. Alternative approaches include an assessment of the “balanced debt/GDP” limit, an assessment of the “fiscal space”, an assessment of the “fiscal reaction function”, and other methods of econometric analysis.

As a result, stochastic and alternative approaches complement the results of deterministic analysis, considering it as an additional risk assessment toolkit.[2]

II. RESEARCH METHODOLOGY

The MAC DSA model is a standardized system of comprehensive analysis of medium-term risks, which can be fully used in the analysis of the stability of Armenia's debt. The model was created in 2002 and has been gradually improved, applying the analyses of the International Monetary Fund and the World Bank, as well as the responsible departments of individual countries . After significant revisions in 2013, the model, in addition to studying the results of various shocks to the baseline scenario, allows an analysis of the feasibility of the baseline scenario, the risks of debt indicators and issues specific to individual countries. The forecast horizon of the model is 5 years.

Armenia meets all the necessary conditions for using the model, in particular:

1 . Has significant and stable access to the international capital market . Tranches of Eurobonds in the amount of 700 and 500 million US dollars, successfully issued in 2013, 2015, 2019, 2020, trends of a steady decline in the yield of these bonds on the secondary market and sovereign ratings received from international organizations Moodys and Fitch reflect the availability of such access. The year 2021 was marked by the fact that three high-ranking international organizations, Moody's, Fitch and S&P Powers, also praised the government's economic policies, confirming their reliability. The mentioned above is also important for the reason that these assessments were carried out during the period of overcoming the consequences of the major challenges of 2020 - coronavirus and war, and confirmed the effectiveness of the economic programs of the Armenian government and a positive assessment of the prospects for macroeconomic stability of these reputable organizations.[3]

On September 26, 2019, the Republic of Armenia successfully placed on the international capital market Eurobonds in the amount of 500 million US dollars with a maturity of 10 years with a yield of 4.2% .

The coupon yield of the new Eurobonds is 3.95%. This is significantly lower than the bond yield of Eurobonds issued in 2015 (7.150%) and 2013 (6.00%).

The low profitability of the placement was due to the low assessment of the country's risk by investors. If in 2015 the risk component of the country was estimated at 551.8 basis points (5.518 percentage points) in the 10-year maturity of Eurobonds issued, then the risk of the country was assessed by investors at 242.8 basis points (2.428 percentage points) for newly issued Eurobonds with the same maturity. The result reflects the improved international perception of the Republic of Armenia.

This is the third issue of Eurobonds by Armenia in the international capital market, the purpose of which is to refinance the Eurobonds repaid in 2020. In parallel with the new issue, Armenia announced the repurchase of its Eurobonds issued in 2013 (with a 6.00% coupon), which resulted in the repurchase of more than 80% of the current volume ($ 402,415,000) . [4]

For the first issue of Eurobonds, it is necessary to set the issue of 500 million US dollars as the minimum effective volume, since the burden of placement fees on the issuer will be low, and this will be considered by investors as a liquid volume and will cause an incentive to expand the circle of participants . At the same time, given the current situation on international markets and the prospects for global economic development in the coming years, it is advisable for Armenia to consider the possibility of placing bonds with a maturity of 10 years . This will reduce the potential risk of debt repayment by placing it on a longer horizon in terms of time.

From the trends in the Eurobond market, it can be concluded that bonds with a maturity of 5 years can be placed in the fixed range of 4.0-5.0%, and 10-year bonds with a 1.1 percentage point higher.

It is preferable to issue in US dollars, as the range of dollar-oriented investors is wider than that of other major currency-oriented investors and the US dollar continues to be the main reserve currency.

In the case of the issue of Eurobonds, it is necessary to provide for the use of borrowed funds and sources of repayment, since Eurobonds are subject to one-time repayment at the end of the term, which increases the risks of refinancing and interest rate overfixation.

Nevertheless, it should be noted that the issue of Eurobonds may cause certain risks from the point of view of debt management, which, however, the Government of the Republic of Armenia should make manageable, since the issue of Eurobonds from the point of view of cash flow management, as already noted, gives flexibility and in this regard, it is possible to make the GDP indicator of last year manageable through early repayments of already formed debt, keeping it in a non-dangerous range.[5]

2. The policy of increasing the weight of domestic debt in the debt portfolio, the relocation of Armenia in international classifications, the formation of higher income groups and access to the international capital market and its expansion increase the weight of debt on market conditions. Under these conditions, the use of LIC DSF is impractical, since it mainly focuses on the analysis of debt generated by concessional loans (including in the forecast period).

3. Sufficient data coverage has been provided for both the historical and the forecast period. The macroeconomic statistics required for the model are mostly fully available in the publications of the Statistical Committee of the Republic of Armenia and the Central Bank of the Republic of Armenia, and indicators related to the state budget and government debt are available in the statistical bulletins of the Ministry of Finance of the Republic of Armenia and reports on public debt. For the forecast period, the forecasts of the medium-term government spending program for 2020-2022, the revised debt reduction program for 2019-2023 and the debt management strategy of the Government of the Republic of Armenia for 2020-2022 are used.

4. Ranked among the countries with market access by debt consolidation model development organizations. The International Monetary Fund and the World Bank periodically publish an analysis of the stability of the debt of member countries in order to make decisions on lending programs implemented with these countries, as well as support these countries in their policy decisions. In this context, the analysis of the stability of Armenia's debt in recent years is carried out according to the MAC DSA model.

III. LITERATURE REVIEW

There is no single perception of the concept of "debt stability" in professional circles, and different approaches to analysis are based on different definitions: The concepts of solvency, liquidity and vulnerability can be used to describe approaches to debt sustainability. Debt stability is often described as a state of satisfaction in the absence of solvency, liquidity or the need for unrealistic adjustments.

The government is solvent when it is able to repay the debt through future revenues. Indicators characterizing solvency are considered to be indicators of the ratio of the stock of debt and the ability to repay debt: debt/GDP, debt/exports, debt/budget revenues. The government is liquid when its own liquid assets or available financing are sufficient to repay or refinance the obligations to be repaid. Liquidity is characterized by the ratio of debt service to debt repayment ratio to gross financing requirement.

Vulnerability is the risk of liquidity or solvency breaches, in which case the borrower may face a crisis.

In professional discussions, the approaches of "academic", "practical" and "economic policy" of debt stability are distinguished.

1. "Academic or off-season approach to budget constraint". The debt is stable when the off-season condition is satisfied, that is, the current value of future primary balances covers the current stock of debt:

2. Practical approach. Debt is stable if the projected relative debt ratio is stable or decreases while being relatively low. To be sustainable, debt can not grow faster than income and debt repayment capacity. In this case, the solvency condition is met.

3. Economic policy approach. Debt is stable when the government will not have to declare insolvency, renegotiate or restructure debt, or make unrealistic policy adjstments in the future.

Thus, most debt stability analyses are based on a "practical" approach, according to which, in order to be stable, the relative debt indicators in the forecast period should decrease or be at least stable, being at an acceptable low level.

In the deterministic model of debt stability analysis, simulations of the baseline scenario and various shocks are carried out, with the help of which the risks of this scenario are identified. The methodology developed by the International Monetary Fund and the World Bank is mainly used in international practice to carry out such analyzes. It is embedded in the two tools developed by the latter: the debt stability analysis model of low-income countries (LIC – low income countries) (LIC DSF) and the debt stability model of countries (MAC – market access countries) with market access (MAC DSA). The first group of countries secures their debt financing needs mainly through soft loans, and the second group countries through market-based loans, as they have stable, significant access to international capital markets.

In the MAC DSA model, the debt stability analysis has a certain sequence of steps, depending on the country parameters, focused on a comprehensive risk analysis.

Table 1. Sequential steps for stability assessment in the MAC DSA model depending on the depth determined

N	Sequential steps	Low depth	High depth
1	Construction of a basic scenario	+	+
2	Development of alternative scenarios	+	+
3	Assessment of baseline scenario realities	+	+
4	Sensitivity analyses	-	+
5	Assessment of uncertainty over baseline scenarios	-	+
6	Vulnerability assessment	-	+
7	Summarize debt stability assessments through a "risk map"	-	+

The first step is to develop a baseline scenario, which includes the fiscal framework and debt management plan. In the second stage, alternative scenarios are developed, which serve as guidelines for evaluating the baseline scenario, and then the baseline scenario realism analysis is performed with the appropriate tools. In the third stage, risk-vulnerability assessments are performed, the results of which are summarized in a "risk map". Both government solvency and liquidity risks are analyzed by conducting sensitivity analyzes, uncertainty and vulnerability assessments. The shock parameters defined by the MAC DSA methodology and indicator thresholds, developed on the basis of in-depth studies of international experience, serve as a guide for the assessment.

The interpretation of the analysis results in the MAC DSA model is based on a combination of "practical" and "economic policy" definitions of stability. Debt is considered stable when the primary budget balance needed to reduce (or at least stabilize) the debt burden can be economically and politically secured in baseline-realistic shock scenarios, while debt risks are reasonably low and potential economic growth is not jeopardized. That is, solvency conditions must be met for debt stability. Therefore, the model analyzes the debt burden (solvency) and debt service (liquidity) indicators within the framework of the baseline scenario and stress tests[6].

IV. ANALYSIS

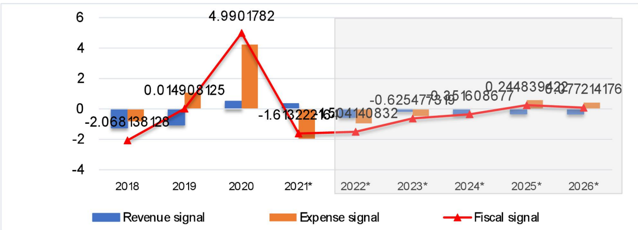
The medium-term baseline scenario of the MAC DSA model and the assumptions underlying it are the medium-term strategic documents describing the fiscal policy of the Government of the Republic of Armenia, which plan to continue fiscal consolidation. The baseline scenario is based on the Government Debt Reduction Program 2021-2023, according to which the government debt / GDP ratio is gradually decreasing from 50% of GDP in 2023. The scenario is based on the assumption that in the medium term economic growth will average about 5%, GDP deflator growth will accelerate to 4%, the share of state budget revenues in GDP will gradually improve in the medium term, mainly due to tax administration expenditures. GDP will improve along with revenues, and the deficit will have a stable behavior, being in the range of 2.2% -2.3% of GDP.

In 2018-2019, fiscal policy had a restraining effect on aggregate demand, and in 2020, due to the need for COVID-19 to respond to the aftermath of the Artsakh war, fiscal policy was significantly expanding. At the same time, in 2018-2019, the focus was on ensuring the debt stability of the Government of the Republic of Armenia - reducing the debt burden, while aiming to accelerate economic growth and ensure macroeconomic stability. In 2018-2019, the fiscal policy was implemented in accordance with the "golden rule" - the logic of the new fiscal rules, due to which the amount of capital expenditures exceeded the size of the deficit, and tax revenues exceeded current expenditures.

As a result of the implementation of the fiscal policy aimed at ensuring the debt sustainability of the government in 2018-2019, the state budget deficit / GDP ratio decreased to 1.8% and 1.0%, respectively. As a result, the impact of fiscal policy on aggregate demand in 2018-2019 was averaging 1.1 percent.

As a result of the economic downturn in 2020 due to declining tax revenues, as well as increased spending on government anti-crisis measures, there was a sharp increase in the state budget deficit, as well as government debt. In 2020, a state budget deficit of 334.0 billion drams was formed, compared to 63.9 billion drams in the previous year. In relation to GDP, the state budget deficit was 5.4%, increasing by 4.4 percentage points compared to the previous year. As a result, the impact of fiscal policy on aggregate demand has been significantly expanding by about 5.1%.

Figure 1. Fiscal signal

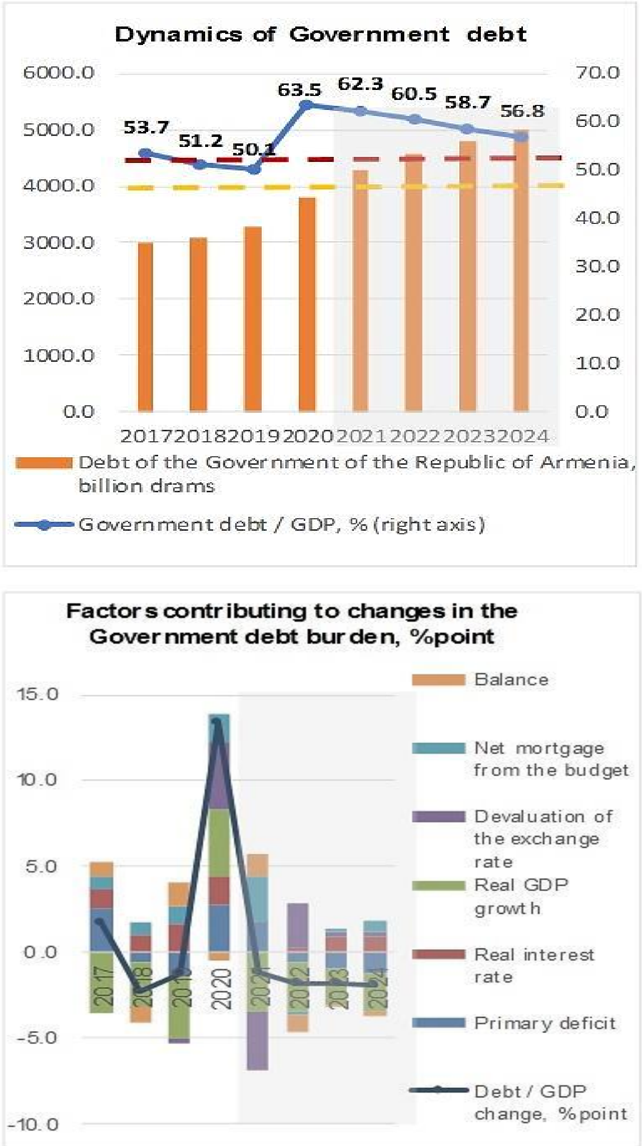


Source: Assessments of the RA Ministry of Finance

Due to the economic turmoil that took place in the conditions of the COVID-19 convoy and the Artsakh War, opposition to its fiscal policy and financing of the additional requirement for state budget expenditures, the debt burden of the Government of the Republic of

Armenia after fiscal consolidation recorded in 2018-2019 in 2020 increased sharply, exceeding the indicator of the border threshold of 60% and amounting to 63.5%. The government's debt/GDP indicator grew by 13.4%, which was most facilitated by the economic downturn and the devaluation of the currency by 3.9 percentage points each. The primary balance benefit was 2.7% point, and the real interest rate benefit was 1.7% point.

Figure 2. Dynamics of the debt of the Government of the Republic of Armenia and the factors causing it



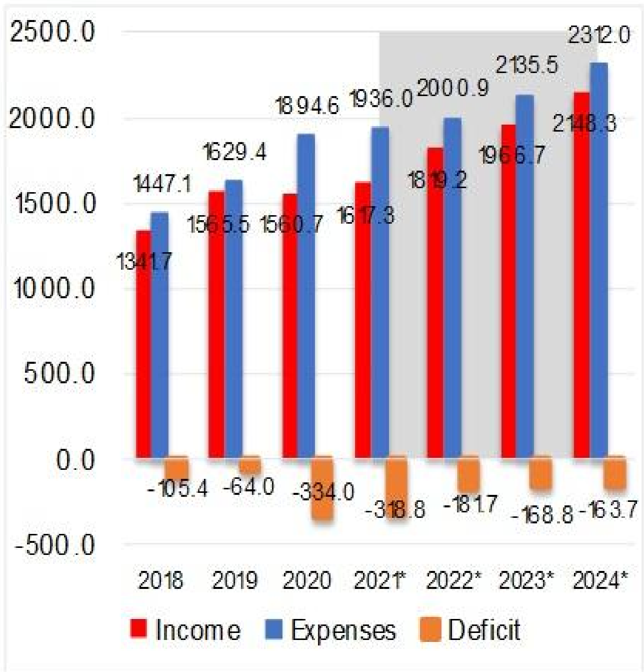
Source: RA Ministry of Finance [1]

Due to the need to create a stable fiscal-debt environment, fiscal consolidation is planned to start in 2021. In 2021, given the slower forecasts for economic recovery as a result of the economic crisis, it is planned to use another year to resolve the exceptional case provided for by the system of fiscal rules and return to the logic of the “golden rules” of public finance in the medium-term sector in order to ensure an effective recovery process . In this context, the capital expenditures of the state budget will be less than the budget deficit for another year. In order not to hinder the economic recovery in 2021 and contribute to macroeconomic stability, it is planned to implement a smooth fiscal consolidation, as a result of which the government's debt burden will be reduced.

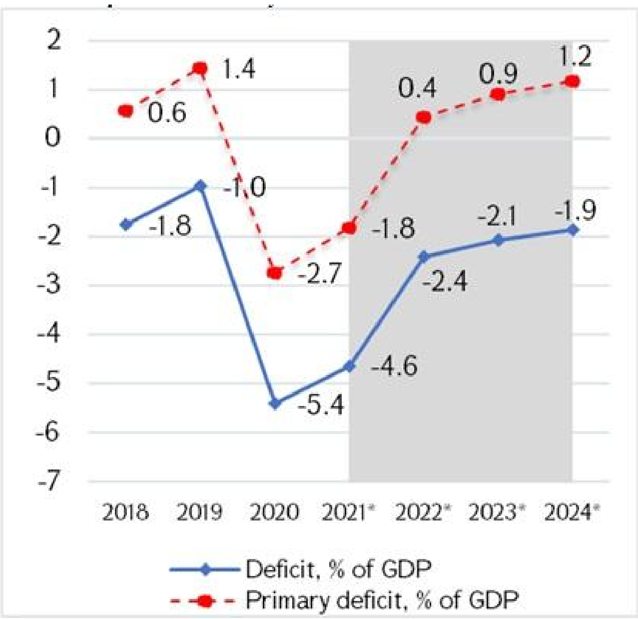
Based on the consequences of the epidemic and military actions, it is estimated that by 2021 there will be an increase in current expenditures due to anti-crisis fiscal measures -COVID-19 and expenditures aimed at eliminating the consequences of the Artsakh War . However, in conditions of outstripping nominal GDP growth, the ratio of current expenditures/GDP will decrease by 1.7 percentage points compared to last year . It is also expected that some omission of capital expenditures will be recorded, taking as a basis the indicators of previous years and the development of the current year . As a result, total expenditures in relation to GDP in 2021 will decrease by 2.5 percentage points compared to 2020 .

The state budget deficit by 2021, the government's debt/GDP indicator will also decrease, amounting to about 62.3:

Figure 3 . State budget revenues, expenditures, deficit,



[1] The breakdown of the government's debt burden by factors was calculated using the “debt movement” formula in an open economy, where the debt change is a function of economic growth, the primary budget balance, the exchange rate, the real interest rate and other debt inflows (for RA-net lending from the state budget). When calculating, the amount of change in unexplained debt due to these factors is reflected as a “balance”, and can characterize the effect of revaluation due to changes in cross rates (currencies to each other).



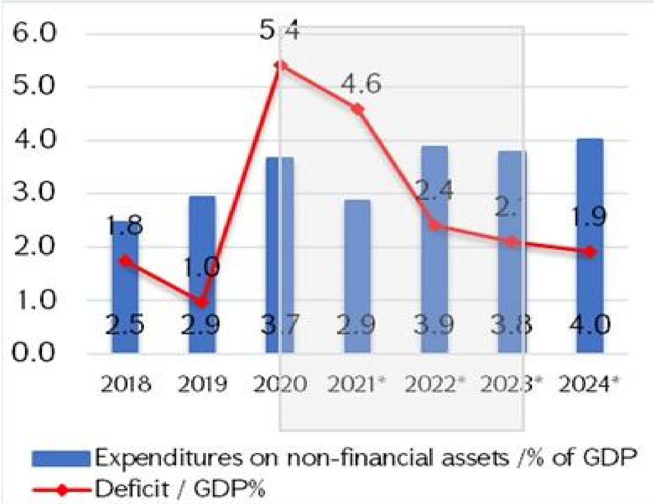
Source: RA Ministry of Finance / billion drams

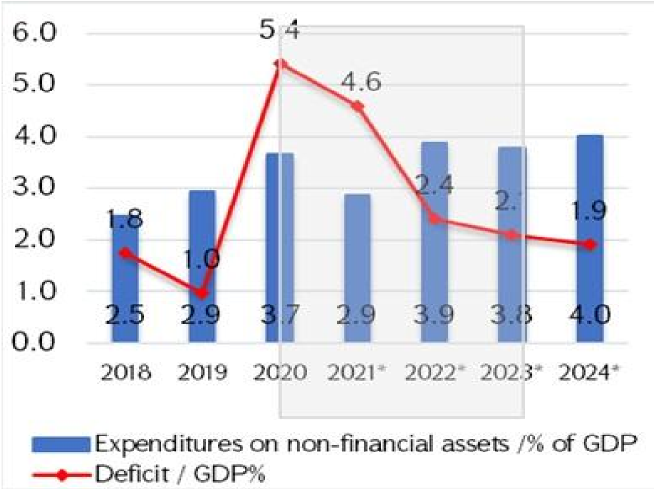
Based on the need to form a stable fiscal and debt environment in the medium term, it is planned to implement a restraining and then neutral fiscal policy at the initial stage. In the medium term, the target was a gradual decline in the debt/GDP of the Government of the Republic of Armenia, bringing it to 56.8% by 2024. In 2022-2024, in order to achieve the government's debt target, it is planned to implement a smooth fiscal consolidation, reducing the state budget deficit and bringing it to 1.9% of GDP by 2024.

In the medium term, in parallel with the economic recovery, the logic of the “golden rules” of public finance established by the fiscal rules will be returned, creating a solid foundation for ensuring long-term economic growth, ensuring a decreasing trajectory of the debt/GDP ratio and improving the structure of spending, as well as taking consistent cost-effective steps to increase savings and income. In particular, it is planned to increase the share of capital expenditures in total expenditures, as a result of which the volume of capital expenditures at the end of the medium term will significantly exceed the size of the state budget deficit. In addition, in the context of a limited increase in current expenditures tax / GDP և current expenditures in line with fiscal rules, tax revenues / GDP at the end of the forecast horizon will exceed current expenditures by about 1.4 percentage points.

As a result of the economic recovery, the improvement of tax administration, and the reform of tax legislation, tax revenues are expected to improve by an average of about 0.4 percentage points per year in terms of GDP in the medium term. Improving tax revenues / GDP will provide greater resources for capital expenditures that drive long-term economic growth, increasing their share of GDP to 4.0% in 2024.

Figure 4: Deviation from the golden rules by 2020-2021. and a return to their preservation in the medium term

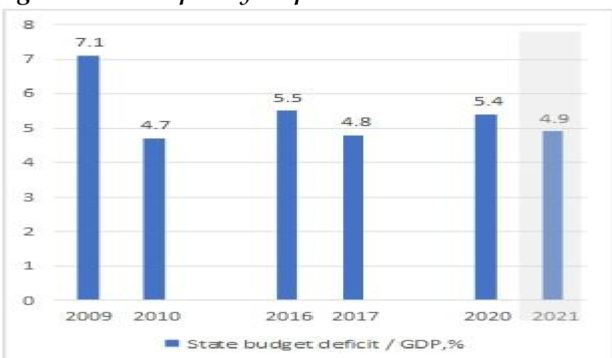




Source: RA Ministry of Finance

In the conditions of the government's debt/GDP indicator registered in 2020, fiscal consolidation provided for by the RA fiscal rules will begin in 2021, as a result of which the government's public debt/GDP indicator will be below the government's debt limit in 2023, and by 2026 it will approach 50% of GDP. The main factor contributing to the reduction of the debt/GDP indicator of the Government of the Republic of Armenia in the medium term will be economic growth and improvement of the primary balance of the state budget due to fiscal policy.

Figure 6: Fiscal policy response to economic crises



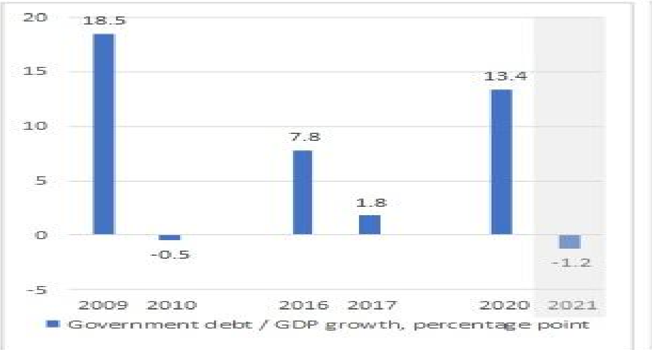


Figure 5 . Fiscal policy response to the economic consequences of the pandemic in individual countries

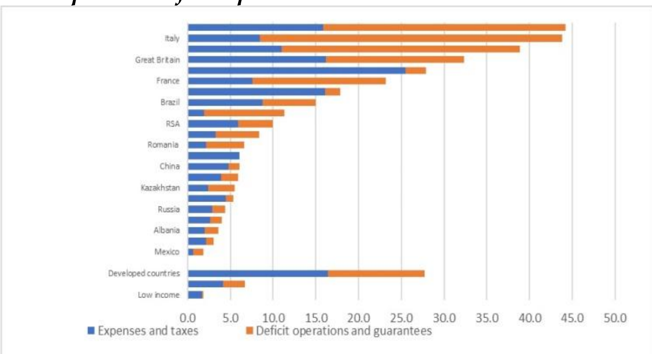
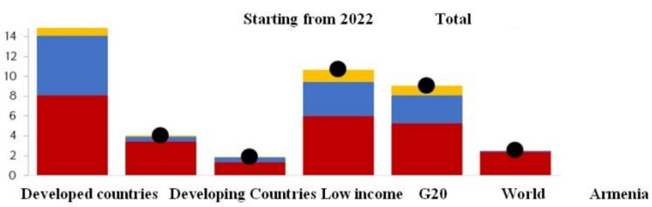


Figure 6 . Fiscal policy response to the economic consequences of the epidemic in groups of individual countries (expenditure and revenue measures only)



In general, the fiscal packages developed to counteract the epidemic are estimated at $16 trillion worldwide (activities for 2020 and 2021).[7] The last 10 trillion are related to spending and tax measures, and 6 trillion are related to government loans, capital injections and credit guarantees. The largest packages of counteraction are allocated to Japan and Germany, which plan to hold events in the amount of more than 40% of GDP. It is noteworthy that most countries use government lending or guarantees as the main tools of support, but it should be noted that the scope of countermeasures varies greatly from developing to developed. Thus, the total packages of developed countries are close to 24% of GDP, while in developing countries - to 6%, and in low-income countries - to 1.8%. Armenia's package, which is collectively estimated at 4% of GDP[2], is comparable to the packages of developing countries.[8]

[2] This indicator, compared with the actual 2.3%, includes a full package of measures to neutralize the socio-economic consequences of the pandemic of 150 billion drams, since the IMF database for international comparisons refers to the planned indicators.

V. RESULTS

In the debt management scenario implemented in the MAC DSA model, the government gradually increases and prioritizes domestic debt instruments in deficit financing, as a result of which the weight of domestic debt in the debt portfolio is significantly improved. In 2019-2022, the requirement to finance the state budget is met by the structure of financing the deficit projected in the strategic debt management program of the Government of Armenia for 2020-2022, gradually increasing the weight of dram instruments. In the next two years, the share of dram instruments continues to increase, increasing by 5 percentage points per year and in 2024 to 65% in 2018 compared to 36%). As a result, the share of AMD debt increases significantly in the debt portfolio, and from the 1st indicator of 2018 to 28.3% in 2024. Of the currency instruments, the government uses multilateral and bilateral loans, and also carries out one issue of Eurobonds . For the analysis of debt stability in the MAC DSA model, according to the parameters defined by the model methodology, the necessary degree of depth of study has been determined, as a result of which the debt of the Government of the Republic of Armenia is subject to in-depth study. In-depth study means that the baseline scenario and debt portfolio risk assessment, macro-fiscal sentiment analysis, contingent liability shocks if necessary, their standardized reports are generated. In the absence of the need for in-depth study, only two standards are studied: the study of historically consistent primary equilibrium scenarios.

VI. DISCUSSION

Despite the risks arising from the current level of the public debt/GDP indicator, the key benchmarks for assessing debt stability are the behavior of financial markets and forecasted debt trends, according to which, based on an internationally recognized methodology, the risks of debt servicing and government debt are assessed at the limit of low, but extremely close to average risk. As part of the stress tests, the debt of the Government of the Republic of Armenia is most sensitive to economic growth and exchange rate shocks, with the appearance of which the debt/GDP ratio of the Government reaches 69.7% by 2023, remaining in the medium term (until 2026) above the 60% threshold established by the fiscal rules of the Republic of Armenia and close to the level of 70% of the debt risk level. In the event of a shock of the exchange rate, the government's debt/GDP ratio reaches a maximum level of 62% by 2022, but in the medium term it decreases from 60% of the threshold. The need for gross financing of the RA state budget in any of the stress tests conducted in the forecast period does not exceed the 15% risk limit for developing countries.

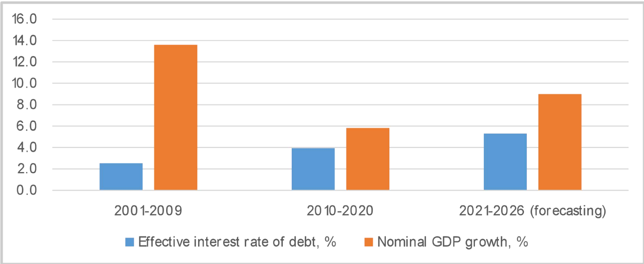
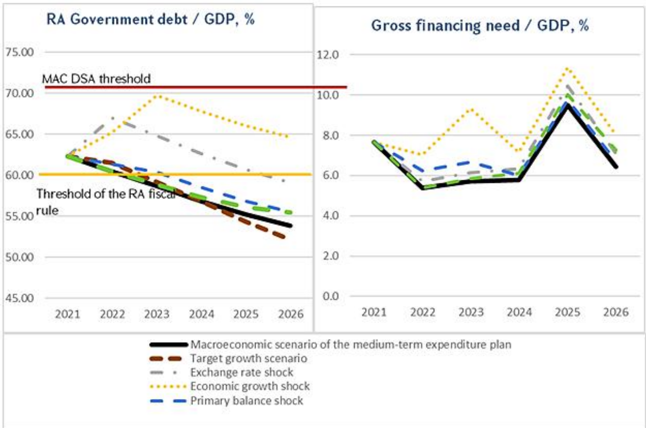


Figure 7: Stress tests on debt and gross financing of the Government of the Republic of Armenia *



** Forecasts for 2025 and 2026 are based on the RA government's debt reduction program for 2022-2026.*

The debt structure of the Government of the Republic of Armenia is assessed as high risk, but the behavior of the international market is assessed in the range of medium risk. In particular, in the debt structure of the Government of the Republic of Armenia, the shares of debt to foreign currency and non-residents were in the high risk area as of May 2021, amounting to 76.4% and 75.2%, respectively. At the same time, the assessment of the international financial market for the debt of the Government of the Republic of Armenia (the risk premium of the country of the Republic of Armenia - the spread of foreign currency bond yields) was in the medium risk zone at the end of June 2021, approaching the low risk threshold.

Table 1: RA Government debt portfolio risk indicators

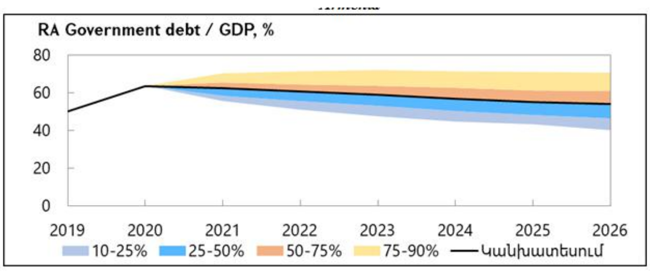
	Thresholds			RA index
	Low	Medium	High	
RA country surcharge, base point *	<200	200-600	>600	291.1
Debt weight to non-residents,% of total debt **	<15	15-45	>45	75.2
Weight of foreign currency debt,% of total debt **	<20	20-60	>60	76.4

** It is calculated as the average spread of the RA Eurobonds repaid in the secondary market in March-May 2021 for the 2029 and 2031, a medium spread with the US Treasury bonds.*

*****as of May 2021***

The debt forecasts of the Government of the Republic of Armenia contain a high degree of uncertainty, as the debt-forming factors have historically had high volatility. This description is revealed in the probability distribution graph below, according to which, by 2024, the 10 to 90% probability range outlines 48% to 72% of GDP and a range of 40% to 70% for 2026.

Figure 8. Probability distribution graph for forecasting the Government debt of the Republic of Armenia



Forecasting

Under the scenario of targeted (at least 7% for 2022-26) economic growth, the debt trajectory is the most favorable. Despite a deeper budget deficit compared to the macroeconomic scenario of the medium-term spending program, a greater reduction in debt is provided in the targeted growth scenario. A more detailed analysis of the target growth scenario (including the risks of the RA government's debt under this scenario) will be carried out in parallel with the materialization of measures aimed at implementing this scenario.[9]

According to the IMF, after the fall of 2020, the Armenian economy has entered the stage of stable recovery, although current challenges continue . It is expected that the gradual, albeit uneven improvement of the covid-19 situation, the expansion of consumption, as well as public and private investment will stimulate growth by 2022 . Nevertheless, uncertainty continues to remain high, including in the context of global economic and financial conditions and the consequences of the COVID-19 epidemic… The IMF's financial support will help Armenia to face challenges, including mitigating the social and economic consequences of the COVID-19 epidemic in accordance with the reform agenda.[9]

VII. CONCLUSION

Summing up, we can note that all the risks inherent in the government's public debt portfolio are in the sphere of management, however, as a result of stress tests, the risks of debt and gross financing requirements are assessed higher, since both in the case of a real GDP shock and in combined stress tests, the government's debt/GDP level is above the established threshold (70%). In the event that debt/GDP exceeds 60%, the limitation of current expenditures should be tightened (the growth rate of current primary expenditures with a reduced indicator by 0.5 percentage points from the average annual nominal GDP growth over the previous 7 years), as well as a new standard for limiting current expenditures should be increased in order to reduce the debt/GDP ratio from 60% over the next 5 years.

In the medium term, the debt of the Government of the Republic of Armenia continues to be assessed as stable and manageable, however, the risks arising from the current level of the debt burden are quite noticeable, especially given the likelihood of shocks characteristic of the economy of the Republic of Armenia. To ensure the stability of the debt, it is necessary to implement fiscal consolidation and reduce the debt burden from the limit of 60% of GDP, the implementation of which is also subject to certain uncertainty, taking into account the historical volatility of the factors forming the debt. At the same time, the debt portfolio of the Armenian government, since its formation, continues to remain vulnerable due to high debt shares in relation to foreign currency and non-residents.

The current level of the RA government's public debt/GDP indicator in the context of the RA fiscal rules makes it necessary to take concrete actions, since it exceeded the threshold estimated from the point of view of the current capabilities of the RA economy by 60%. Additional risks to the public debt cause a tendency to increase weighted average interest rates and the burden of debt servicing (including a decrease in GDP growth and a reduction in the nominal interest rate of debt over the past decade), which is also accompanied by an increase in the external debt of the private sector and increases the vulnerability of the economy to shocks. This situation implies the need to adopt a policy of fiscal consolidation in accordance with the fiscal rules of the Republic of Armenia and implement it in the medium term.

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