Political Decisions about Public Debt Management in Armenia in Recent Years and Their Consequences

Final Report

Artak Kyurumyan

YEREVAN

MAY 2014

This research has been carried out from October 2013 to May 2014. The results of the research were presented on April 28 2014 at Ani Plaza hotel. The final report is prepared based on that discussion and comments and suggestions received.

Thanks to everybody whose valuable comments and suggestions helped polishing the report.

The research was carried out with the support of Open Society Foundations – Armenia. The views expressed in the paper are those of the author and do not represent those of the Open Society Foundations – Armenia or its policy.

Content

Executive Summery…………………………………………………………………………………………......... 1

Introduction……………………………………………………………………………………………………….. 3

Study of the international experience and public debt literature……………………………………. 5

Armenian public debt……………………………………………………………………………………………. 11

Analysis……. 21

Conclusions ……. 31

Recommendations……………………………………………………………………………………………….. 33

Sources used…… 35

Abbreviations used

CB	**-**	**Central Bank**
GDP	**-**	**Gross Domestic Product**
GNI	**-**	**Gross National Income**
IMF	**-**	**International Monetary Fund**
MTEF	**-**	**Medium Term Expenditure Framework**
NA	**-**	**National Assembly**
NSS	**-**	**National Statistical Services**
PRSP	**-**	**Poverty Reductions Strategic Paper**
RA	**-**	**Republic of Armenia**
RF	**-**	**Russian Federation**
TSA	**-**	**Treasury Single Account**
USA	**-**	**United States of America**

Executive summery

Armenian public debt increased dramatically over the recent years reaching from AMD 584.6 billion in 2008 to AMD 1861.3 billion in 2013. The government of Armenia (GoA) claims that the public debt is sustainable and cannot be a reason for concern.

This research studies such issues as the size of interest expenses accrued against the outstanding debt, free cash available to the GoA, substantial differences between the deficit of the state budget and increases in public debt, authority to borrow, etc.

It was specifically mentioned that:

- Conventional (universal) methods of measuring the sustainability of public debt may not depict the true debt burden, because they do not take into account economic and fiscal specifics of the country and the level of development and legal regulation of public debt management system.
- There were substantial differences between the goals specified in the GoA strategic and medium term documents and decisions taken in specific years: E.g. in no long-term or medium-term strategic document approved in 2013 or before that was registered that the GoA is going to issue foreign currency denominated debt in international financial markets (one of the documents mentioned that the calculations are based on the assumptions that the bonds will be placed in 2014).
- The interest expenses against the public debt increased substantially (reaching from AMD 11 billion in 2008 to AMD46.5 billion in 2013) as well as the amounts of repayments of principal amounts (from annual repayments of USD 15-16 million in 2005-2008 exceeding USD 150 million in 2013). This is a huge burden for the state budget. The burden may increase in coming years because of new borrowings and lesser concessionality of new loans.
- The GoA continues to borrow large sums of money while having tens of billions of AMD on treasury single account (in some years the balance of the treasury single account exceeded one hundred million drams).
- Number of public bodies and officials have a right to borrow on behalf of the government.

The paper recommends clarifying the authority to borrow and clarify that every year the parliament must approve the characteristic of the debt portfolio. It is also proposes reducing the share of foreign exchange denominated debt and considers debt sustainability not only from the perspective of indicators accepted internationally but also taking into consideration the specifics of the Armenian economy and public finances.

Introduction

Public debt became a broad issue of concern for taxpayers, investors and international organizations around the world. In the XX century debt problems were much common to developing countries. In the XXI century the members of the Organization of Economic Cooperation and Development (OECD) also faced debt problems. In recent years rating agencies downgraded credit ratings of OECD member states and the countries of G7.

Public debt can foster economic development if the borrowed funds are used effectively, or become an obstacle to development if debt repayment and servicing absorb large amounts of resources that could be used to solve other issues faced by governments.

Large scale borrowings of the Armenian Government over 2008-2013 motivated this research. This research did not address the issues related to effectiveness of utilization of borrowed funds leaving it to analysts in respective fields. This approach had been adopted because effectiveness of utilization of funds in different sectors doesn't depend on the source of funds. That is, irrespective of the fact whether the government is using tax revenues or borrowed funds to solve the problems being faced by the country the officials working in respective sectors must manage resources in most effective way.

Within the framework of this research the public debt development of Armenia over the recent years had been investigated and the problems associated with borrowing decisions had been revealed taking into account the international experience accumulated and available publications. The paper makes recommendations that will allow improving the public debt management system and escape from the mistakes of the past.

Specifically an effort was made to clarify whether the government of Armenia needed so much funds and whether it had developed programs for which it was not able to get funds in the domestic market. Based on Armenian debt management experience and data the research tried to evaluate the debt burden for the Armenian economy and fiscal policy. The research also evaluated the risks associated with the government of Armenia bonds placed in international capital markets in 2013.

This report is organized as follows. The first section presents the conclusions of recent publications on public debt management that refer to ratios of domestic and external debt, debt burden, cash flow management, etc. The second section presents the public debt developments of Armenia over 2008-2013 from different perspectives. The third section presents the analysis of the presented data. Conclusions are presented in the forth and recommendations in the fifth sections.

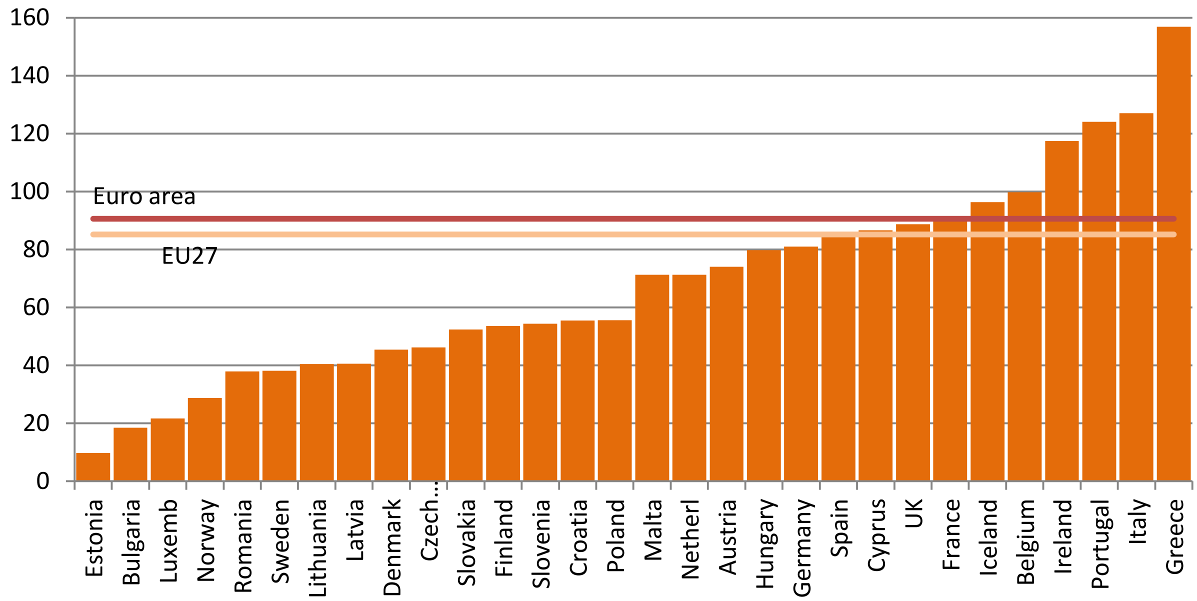
Study of the international experience and public debt literature

Countries borrow from the domestic and international markets in domestic or foreign currency mainly to:

1. Finance public budget deficit.
2. Finance specific projects (usually investment).
3. Replenish international reserves.

The member countries of the European Union (EU) have relatively developed public debt management systems. The Maastricht treaty (Maastricht Treaty 1992) set upper limit on public debt of EU member countries according to which the public debt must not exceed 60 percent of gross domestic product (GDP).

Chart 1.1. Public debt of EU member countries, average public debt of 27 countries and average public debt of Euro area at the end of 2012 (percent of GDP)



Source. Eurostat

According to Claessens, Klingebiel and Schmukler (2003) small countries issue more debt in foreign currency to broaden their investor base. De Fontenay, Milesi-Ferretti and Pill (1995) reveal that lower interest rates abroad force countries to increase the share of foreign currency denominated debt in total debt. Pecchi and di Meana (1998) conclude that expected costs play a major role when making decisions about borrowing currency. Baksay, Karvalits and Kuti claim that although foreign currency borrowing may substantially increase foreign currency reserves, it may distort the overall picture when evaluating adequacy of reserves especially at times of crisis when there is more demand for reserves and it is practically impossible to refinance the maturing debt (Baksay, Karvalits and Kuti 2012). According to Bua, Pradelli and Presbitero, the public debt portfolio of non-HIPC[1] countries has a substantial share of government securities, while the public debt portfolio of HIPC countries has a larger share of loans from central bank authorities (CB). The authors explain this fact by the low level of development of domestic financial markets. The maturity of public debt of developing countries increased in 1996-2011 because the share of long-term debt increased from 52 to 67 percent, which can be mostly attributed to the increased share of long-term debt in the public debt of non-HIPC countries (Bua, Pradelli and Presbitero 2014).

Developing countries must learn to manage the risks associated with public debt (Stiglitz 2002) because they are subject to those risks when they borrow on market terms. The Latin American debt crisis of the 1980s[2] was the result of increased interest rates by US monetary authorities after which the growth rate of economies of those countries was substantially lower during the rest of the decade. According to Stiglitz (2007) creditors lent large sums of money to developing countries leaving the responsibility to manage risks associated with interest rates, exchange rates, revenues and other factors to those countries. For this unwise behavior one must blame not only the governments of developing countries but also the creditors who have more developed risk management systems, but provide large sums of money to fund projects with doubtful efficiency. The main difference between developing and developed economies in the area of public debt management is that developed economies have clearly formulated and well functioning legal and management systems and public debt management strategies and goals[3].

A World Bank study (2007) indicated that few developing countries have clearly formulated public debt goals and strategies[4]. Very often public debt management legislation is not clear about who has the authority to borrow. According to Wheeler one of the main differences between developing and developed countries is the fact that in developed economies public debt management is free from political influence (Wheeler 2004). Most developed economies established an independent or semi-independent professional debt management office within the ministry of finance or outside it with a responsibility to achieve public debt management goals set by the parliament or the government while operating within a strategic framework.

Hanson (2007) studied data for 25 developing countries with relatively big financial systems and found that as a percent of GDP domestic public debt somewhat declined in the first half of 1990s going from 26.3 percent in 1990 to 22.9 percent in 1995 and later increased to 34.8

[1] Highly Indebted Poor Countries.
[2] Argentina – 1981, Chile and Mexico – 1982, Brazil – 1983.
[3] Probably in addition to other differences such as differences in fiscal and economic systems, well-functioning secondary market of government securities, etc.
[4] Most probably the situation has improved in many countries.

percent by 2004. As share of public debt, domestic debt increased from 37.7 percent in 1990 to 58.4 percent in 2004. Hanson explains the increase of domestic public debt by (1) financial crisis, (2) efforts to sterilize capital flows, (3) attractiveness of domestic borrowing and (4) increase of demand for debt denominated in currencies of developing economies.

In countries studied by Bua, Pradelli and Presbitero, domestic public debt increased from 12.3 percent of GDP in 1996 to 16.2 percent in 2011. Servicing domestic public debt was more burdensome compared to external debt but reduced over time. Low income countries managed to increased the share of long term debt over time (with the help of securities in non-HIPC countries). The main issue of concern was the small investor base mostly dominated by commercial banks and the CB which can have a crowding out effect and endanger financial stability.

After studying domestic debt data of 93 low income and developing countries for 1975-2004 Ali Abbas and Christensen found that small volumes of domestic debt[5] had positive effect on economic growth, improved monetary policy, fostered development of financial markets, improved domestic institutions and accountability, private savings and financial intermediation (especially when the debt is on market terms, real interest rates are positive and the banking sector is not the main holder of government securities). When the domestic debt exceeds 35 percent of bank deposits it becomes an obstacle for economic development, crowds out private investment and harms the effectiveness of the banking system (Ali Abbas and Christense 2007).

Reinhart and Rogoff collected and studied domestic debt data for 64 countries since 1914 (Reinhart and Rogoff 2008) and concluded that the lack of data about domestic public debt was the reason for most researchers to think that the increase of domestic public debt in early-2000s as a new phenomenon; an opinion was formed that domestic public debt has a small role in public finances of developing and post-conflict countries.

According to Stiglitz the demands of the International Monetary Fund (IMF) to liberalize markets and raise interest rates are not appropriate (Stiglitz 2002) because they deepen the crises at the time when economies need low interest rate loans. Capital market liberalization in this case doesn’t serve the purpose because companies refrain from large borrowings because of high interest rates.

In an article written after the 1983 debt crises, Krugman expressed an opinion that with regard to heavily indebted countries the IMF and the USA can have two approaches (Krugman 1988): 1) refinance the debt expecting that in future years the country will be able to repay the loan due to positive economic developments; 2) forgive part of the debt. However, according to

[5] Domestic public debt not exceeding 6.5 percent of GDP and 22 percent of deposits.

Krugman this approach distorts the incentive structure of debtor countries, because in the case of success the creditors will be the main beneficiaries.

Stiglitz (2002) criticizes the IMF for imposing heavy conditions on developing countries when they apply for financial resources in times of desperate need[6]. Stieglitz mentions that looking back IMF agreed that it imposed strict measures (e.g. to Korea in 1997) however even at the time of development of the program several economists were of the opinion that they were meaningless. However they refrained from voicing their opinion because if the IMF had received negative opinion about the program from local economists, the country would not only have been deprived of IMF financial resources but it would have also reduced its chances of attracting funds from private investors, since the latter always follow IMF advice. Stiglitz is of the opinion that according to IMF experts there is only one true solution (the one proposed by the IMF experts) and when the governments don't accept that solution it means the country deviated from the right track[7]. This approach is very strange because developing countries are deprived of the right to search for their own solutions while developed economies in the West consider several alternatives before making political or economic decisions. Developing countries should discuss those alternatives in parliament and try to adopt a decision that not only includes the economic and political specifics of the country but also the role and the power of unions, specifics of bankruptcy legislation and several other factors. Stiglitz specifies (2007) that the IMF and the World Bank agree that in the past they imposed several conditions on developing governments and in recent years they reduced the number of these conditions.

Stiglitz (2002) finds it unfair that taxpayers in developing economies are paying for loans that have been borrowed from the World Bank or banks of developed countries to finance programs proposed by experts from developed economies, that are designed according to the advice of experts from developed economies and sometimes implemented by companies from developed economies.

Cash flow management is an area closely linked with public debt management and because of that many public debt managers are also responsible for cash flow management. Cash flow and public debt management have two types of mutual impacts. It is inefficient to borrow when you have large sums of money in your bank account[8]. On the other hand it is necessary to have a

---

[6] Exploiting their desparate need to borrow financial resources.

[7] The initiative to forgive the debt of the developing countries gave more power to the IMF because when the government doesn't develop a program in agreement with the IMF (and the agreement in this case means accepting the program developed by the IMF experts) it is not enrolled in debt forgiveness programs. Stiglitz mentions that in such cases the IMF announces that the country has gone "off track".

[8] One must take into account that modern day cash flow management also takes into account the demand, investor preferences and other factors. Public debt manager may in certain cases discard the seasonality of government revenues and expenditures and follow a pre-announced auction schedule. However, modern public debt managers have several instruments under their possession to solve this complex issue.

certain level of protection in the form highly liquid assets to fulfill all obligations on time. It is a difficult task to find the balance between effectiveness and security. However, several governments solved that problem. E.g. the French government established an upper limit on average daily balance of treasury single account at 100 million Euros[9]. For 2012 the French Treasury set three main goals for its cash management operations:

Objective 1: Invest temporary state cash surpluses for the best return

Objective 2: Optimize the end-of-day balance of the treasury account with the banque de France according to market conditions[10].

Objective 3: Advance notice from Treasury correspondents of transactions posted on the Treasury's account

Sometimes countries are not able to fulfill their debt obligations. To describe these situations the economists and finance professionals use the word default. According to Lastra and Buchheit (2013) "From an economic perspective, default is any change in the stream of current and future payments on a debt contract that makes it less valuable to the creditor than the execution of the contractually agreed payment stream".

Reinhart, Rogoff and Savastano studied capital flow cycles of developing countries over the last two hundred years (Reinhart, Rogoff and Savastano 2003) and concluded that the maximum tolerable amount of debt is unique for each country and depends on its history of past defaults and inflation. In the case of some debt intolerant countries, the total volume of debt in those countries is equal to 15 percent of gross national income. According to Reinhart, Rogoff and Savastano understanding and measuring debt intolerance is crucial when assessing debt sustainability, debt restructuring, capital market integration and international borrowing to alleviate the consequences of the crises.

Part 2 of this paper looks at the political decisions on public debt management taken by the Armenian government over 2008-2013 taking into account the above mentioned international experience and research on public debt management.

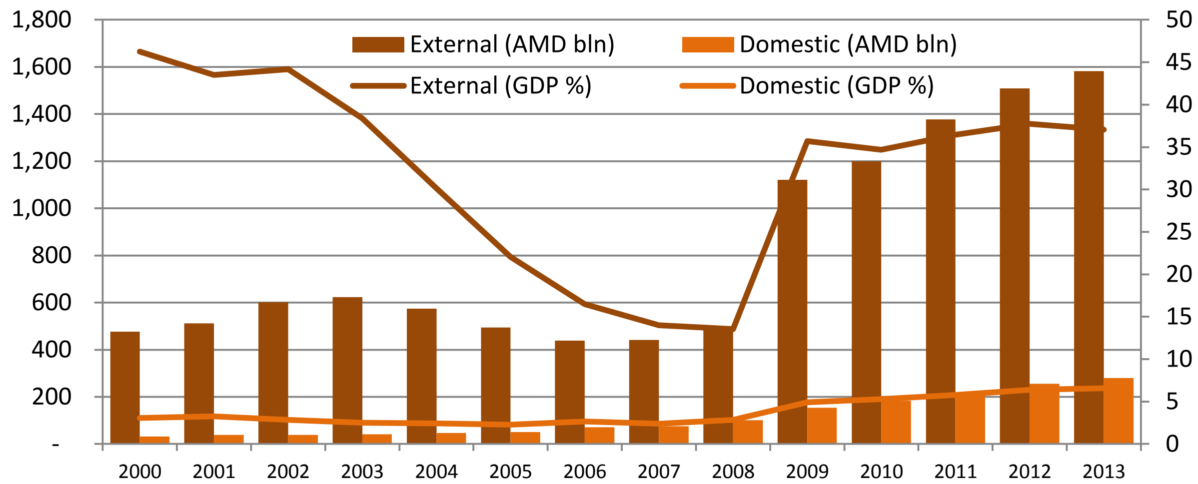
[9] The average daily turnover of the French Treasury in 2012 was EUR30.3 billion.

[10] The indicator was the percentage of days where the end-of-day balance on treasury accounts was at EUR70-80 million or EUR290-310 million on "low-interest" dates.

Armenian public debt

Armenia first started to borrow after its independence. Armenian public debt reached its highest level relative to GDP in 2000 when debt was 49.3 percent[11] of GDP (chart 2.1).

Chart 2.1. Armenian public debt indicators for 2000-2013 (left axis - AMD billion, write axis - percent of GDP)



Source: Armenian public debt reports

While in the past the GoA attempted to replace external debt with domestic issuance, in recent years it retracted from that idea[12]. The share of domestic debt to total public debt had increased since 1995 and reached its peak of 17.3 percent in 2008. As a result of large scale borrowings from external sources in 2009 the share of domestic debt to total public debt declined to 11.8 percent.

The appreciation of the national currency had a major role when public debt was declining relative to GDP over 2004-2008. Chart 2.2 presents information about the size of the Armenian external debt over 1999-2013. If the Armenian dram had not appreciated over 2002-2008[13], the decline of public debt relative to GDP would have been much smaller[14]. The explosion of public debt indicators in 2009 can be explained not only by large scale borrowings from external sources, along with a decline of GDP by 14 percent, but also by a 23 percent depreciation of the national currency[15].

[11] Of which the external debt was equal to 46.2 percent of GDP and domestic debt was equal to 3.1 percent of GDP.

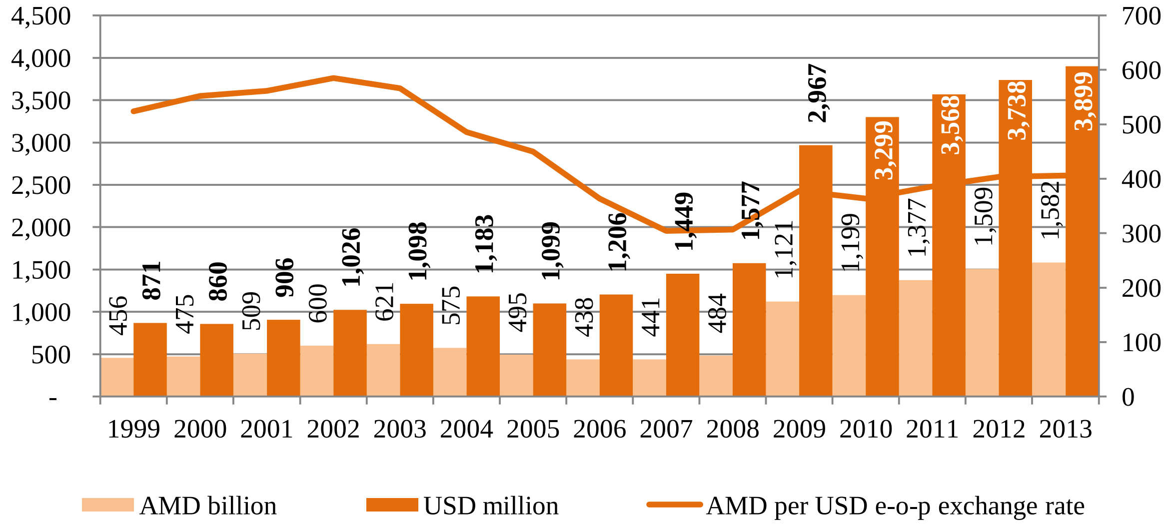
[12] See GOA decrees №695-A from June 21 2007, №380-A from April 28 2008, №730-A from June 18 and №740-N from June 14 2012, №515-A from May 6 and №740-N from July 4 2013.

[13] Going down from AMD584.89 per dollar to AMD306.73 per dollar

[14] Would have been mainly the result of high GDP growth.

[15] If the exchange rate had been the same at the end of 2009 and 2008 then at the end of 2009 the external debt would have been not AMD1121 billion but AMD910 billion.

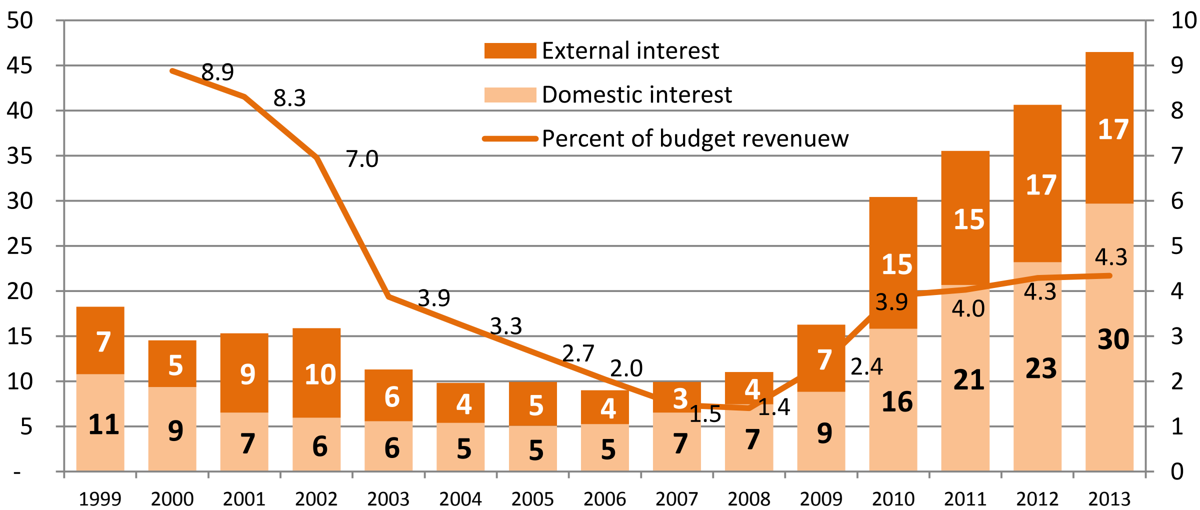
Chart 2.2. Armenian public external debt over 1999-2013 (left axis– AMD billion and USD million, right axis – end of period AMD exchange rate per USD)



Source: Armenian public debt reports

The low interest expense for Armenian external public debt prior to 2009 was mainly due to concessionality of borrowed funds. Interest expense for domestic issuance was minor mainly because of the small size of the domestic debt. Interest expenses against public external and domestic debt over 1999-2013 is presented in Chart 2.3. Since 2009 interest expense for external debt sharply increased because of increases in the size of debt as well as the absence of concessionality of newly borrowed funds. The interest expense of domestic debt increased since 2009 mainly because of the increase in the volume of government bonds. .

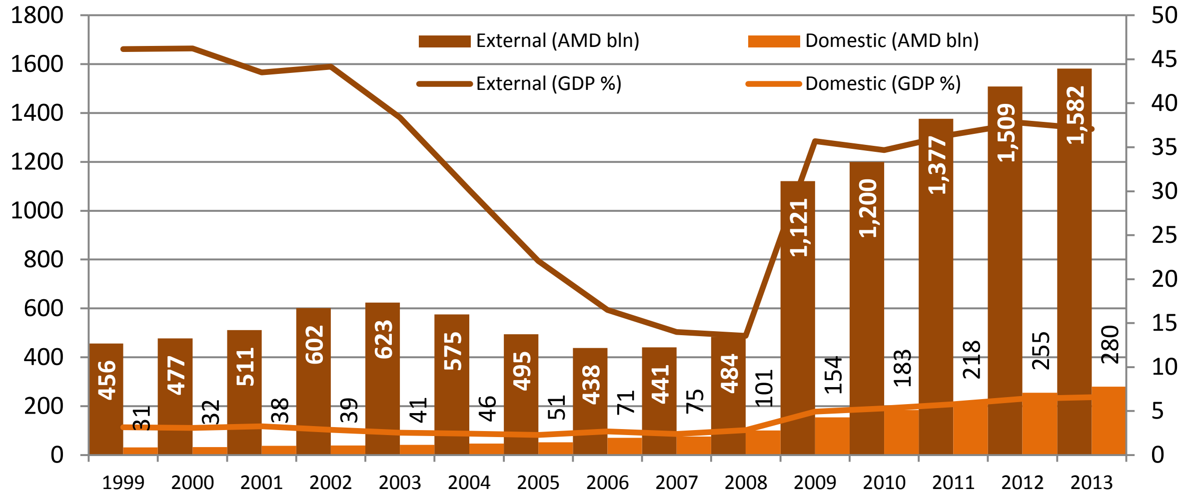
Chart 2.3. Interest expenses against Armenian public debt over 1999-2013 (left axis – AMD billion, right axis – share of budget revenue)



Source: Armenian public debt reports

The GoA is allocating a bigger share of state budget revenue to pay interest for its public debt[16] which means that allocations for other purposes[17] are declining in relative terms.

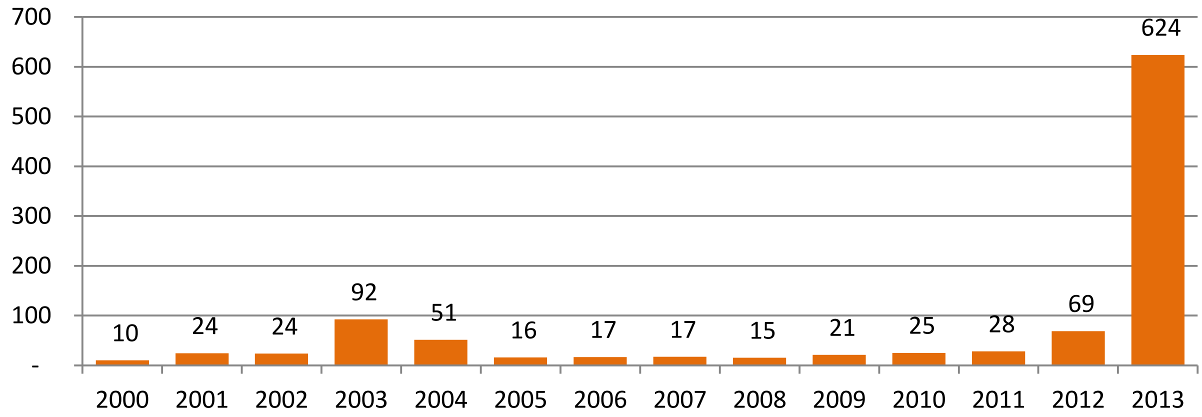
Chart 2.4. Public debt developments of Armenia in 1999-2013 (AMD billion)



Source: Armenian public debt reports

Data on Armenian public external and domestic debt is presented in chart 2.4. The increase in the size of public debt resulted in increases in debt repayments. The repayment for external as well as domestic debt has increased. If we disregard the repayment of a Russian loan in the amount of USD500 million in 2013, one can claim that external debt repayments have increased from USD15—17 million per year in 2005-2008 to USD69 million in 2012 and USD124 million in 2013 (see chart 2.5).

Chart 2.5 Armenian public external debt repayments in 2000-2013 (USD million)



Source: Armenian public debt reports

[16] Please note that according to poverty reduction strategic paper interest payments against external debt should have been about 1.2 percent of tax revenues in 2012 and 1.0 percent in 2015.

[17] E.g., health, education, other.

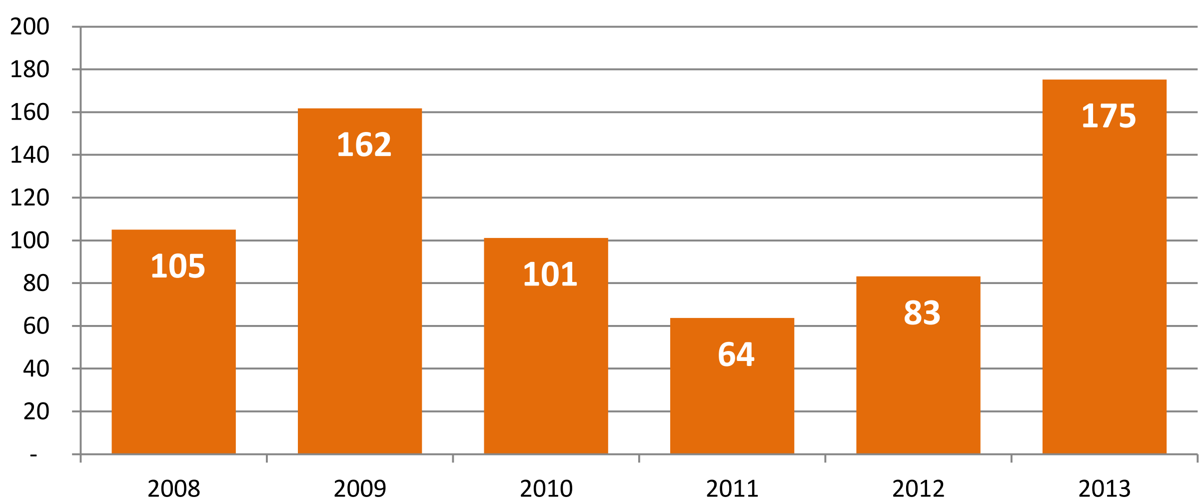
As of late-2013 the most difficult year in terms of debt repayments will be in 2020 when it will be necessary to redeem USD700 million of foreign currency denominated bonds. Based on the above one can assume that in coming years the refinancing risk as well as exchange rate risk will increase.

Cash Flow Management

During the XXI century the GoA had large balances in its treasury single account (TSA) at the Central Bank of Armenia (CBA). Debt transactions – borrowings and payments against debt – can have substantial impact on TSA balance. In 2009 the GoA borrowed USD500 million from the Russian Federation (RF). At the end of that year the balance in the TSA was equal to AMD162 billion or USD428 million (see chart 2.6). If we take into account that the financial resources not under direct control of the GoA[18] were about AMD13-14 billion (or USD36-37 million) one can claim that six months after borrowing from the RF the GoA had free resources of about USD400 million at its disposal.

A similar situation emerged three months after placement of government bonds in international capital markets in September 2013. At the end of 2013 the GoA had AMD175 billion or USD432 million in its TSA.

Chart 2.6. TSA balance in 2008-2013 (AMD billion)



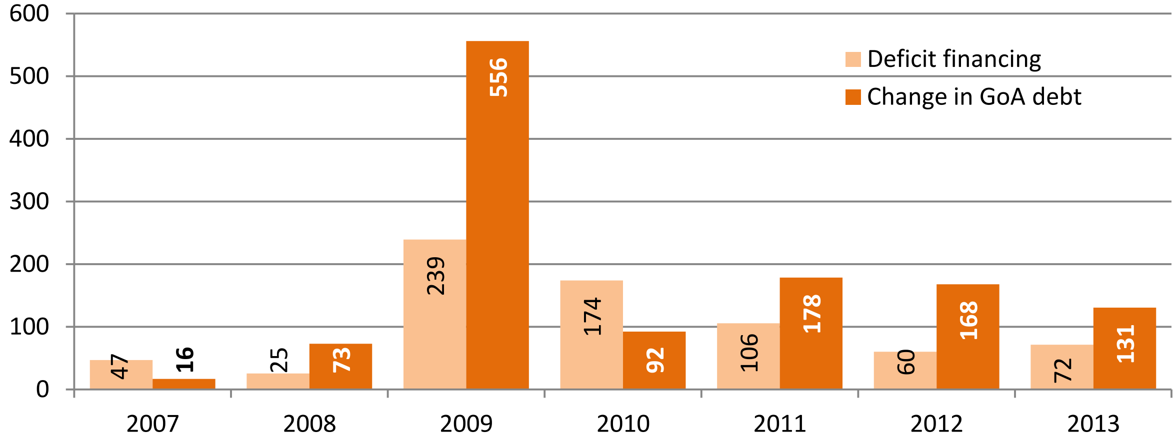
Source: Armenian public debt reports and CBA publications

[18] The TSA includes also the balances of accounts of local self-governing bodies, extra-budgetary funds and other accounts. This is based on data from different sources and calculations using data from the Chamber of Control opinions about state budget execution reports.

State budget deficit and increase in public debt

The debt of the GoA[19] is the sum of its state budget deficits. Over the 2007-2013 period, the debt of the GoA increased by AMD1213.7 billion while the sum of the state budget deficits was equal to AMD722 billion (see chart 2.7). In real life the cash available at the beginning of the year can be used to finance the expenditures of the state budget, thus reducing the need for borrowed funds. Accumulated privatization funds can also be used to finance state budget expenditures which will result in a difference between increase in debt and deficit.

Chart 2.7. State budget deficit and increase of the GoA debt in 2008-2013 (AMD billion)



Source. Annual debt and annual budget execution reports

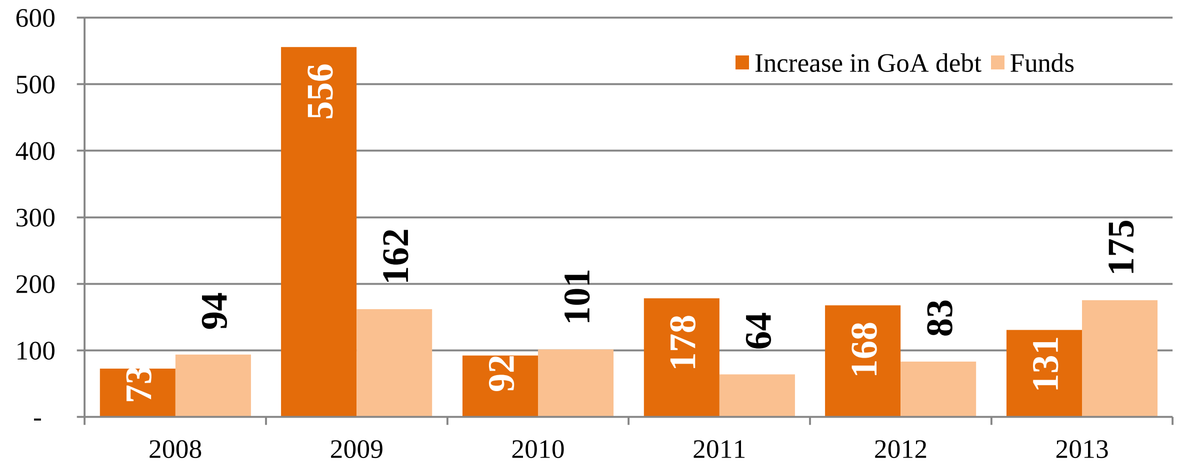
Over 2008-2011 the actual and planned indicators for utilization of cash available at the beginning of the year were quite close[20] and could not have any substantial impact on the state budget and changes of the debt. In 2012 and 2013 instead of using free cash balances of AMD37.3 billion and AMD7.6 billion respectively the GoA actually "saved" AMD29 billion and AMD24.7 billion[21]. The planned and actual receipts from privatization were equal and substantial (AMD13.4 billion) in 2008[22].

Over the 2008-2013 the GoA always had large volumes of free cash available in the TSA however; the GOA continued to borrow large sums (chart 2.8). E.g., in 2008 when they borrowed funds for AMD73 billion when it had AMD94 billion on deposit in the TSA. Of course it is clear that some of the funds in the TSA do not belong to the GoA[23]. However, taking into account that the GoA funds comprise about 80 percent of the TSA one can assume that in

[19] In does not include the debt of the CBA because funds are not used to finance the state budget deficit.
[20] If we compare them with the volumes of cash flows of the state budget.
[21] At the same time accumulating new AMD167 billion debt.
[22] In 2009-2013 those receipts were just couple of million drams.
[23] TSA balance includes also the funds of local self-governing bodies and extra-budgetary funds which fluctuate around AMD20-25 billion.

certain years – namely in 2008, 2010 and 2013 – it could have been possible to refrain from borrowing such large amounts.

Chart 2.8. Increases in public debt and balance of the TSA in 2008-2013 (AMD billion)

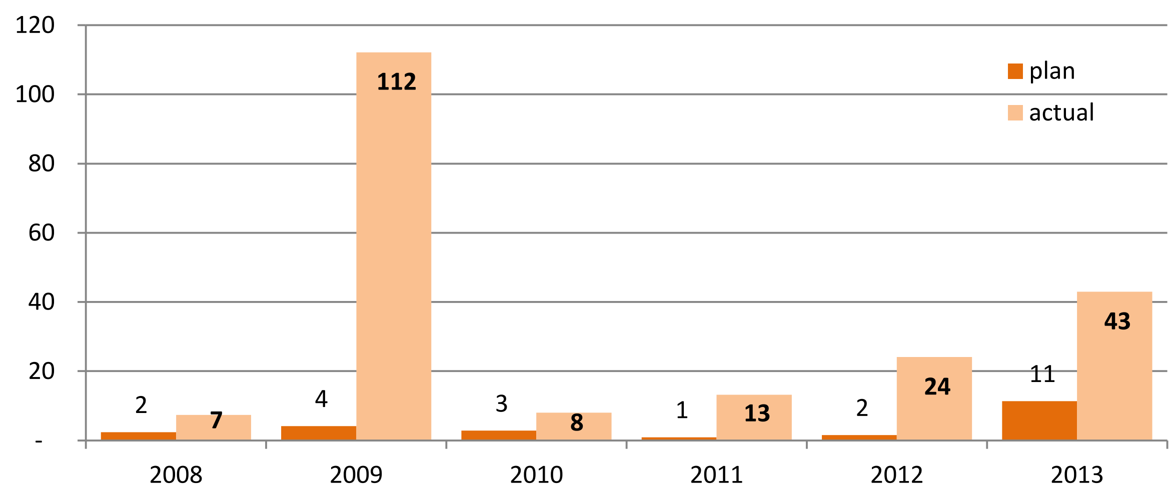


Source. Reports and publications of the GoA and of the CBA

The data above does not help explain the difference between the increase in public debt and the state budget deficit.

The difference can be explained by the loans from the state budget (chart 2.9). According to IMF government finance statistics (IMF 2001) loans extended by the government are classified among sources of funding the deficit and they reduce the size of the deficit. When the government borrows and lends borrowed funds, the state budget deficit declines by the amount of these loans. In 2009 and 2012-2013 the GoA lent substantial amounts of money[24].

Chart 2.9. Volumes of loans extended from the state budget in 2008-2013 (AMD billion)



Source: Annual budget execution reports

[24] Annual budget execution reports.

Borrowing from international capital markets

In September 2013 the GoA issued bonds in international capital markets. Prior to that no strategic or current[25] document mentioned about the GoA plans to issue government bonds in international capital markets in 2013.

Authority to borrow

While the "Law on Public Debt" defines that "Only the authorized body has the right to sign credit and loan agreements with residents on behalf of the Republic of Armenia"[26], that is the Ministry of Finance, Armenian legislation does not define clearly which state body has the right to borrow from external sources on behalf of the RA. According to part 2 of Article 5 of the Law on Public Debt "The external debt is borrowed on behalf of the Republic of Armenia by the government, state bodies and state enterprises and by the central bank on behalf of the central bank". According to the "Law on international agreements of the Republic of Armenia" loan agreements with international financial organizations and foreign governments are subject to approval by the parliament because they are international agreements. Parliamentary approval is not necessary for loans from commercial and other private banks and bonds issued in international capital markets.

There are a number of other issues associated with the public debt management system. Specifically it is not clear what actions – the Ministry of Finance - must take when a program funded from external sources is terminated. E.g., on February 26 2014 the prime minister mentioned that the construction of the north-south highway is being terminated because Armenia does not have the knowledge and experience to design and manage such a large scale road project[27]. Two weeks later, on March 11 2014, the Minister of Finance and the resident

[25] In July 2013 – two months before issuing bonds in international capital markets – the GoA approved and published the MTEF where it announces that it is considering the possibility of borrowing funds from international capital market (GoA 2013): MTEF relates to 2014-2016, that the GoA was considering the option of issuing bonds in international capital markets in 2014-2016. According to "Concept of issuing foreign currency bonds in international capital markets" approved by the GoA from the cash flow point of view the GoA was considering that the Eurobond issuance will take place in 2014 (GoA 2013). The law on 2013 state budget did not envisage any proceeds from issuance of bonds in international markets. The program of activities and priorities of the GoA for 2013 also did not mention about plans to issue bonds in international capital markets (GoA decree №800-N from 2013). According to draft 2013 annual budget execution report interest revenues from the free cash and deposits exceeded the plan by 204 percent among other reasons also because "when forecasting revenues from the management of treasury single account the proceeds from the Eurobond placement – part of which was deposited - had not been accounted"

[26] Part 2 of Article 16 of the Law on Public Debt.

[27] http://www.azatutyun.am/content/article/25278335.html

representative of the Asian Development Bank in Armenia signed a USD100 million loan agreement related to second tranche of funding for north-south investment project[28].

Debt sustainability analysis

In 2011 the Ministry of Finance of Armenia published the "Debt sustainability analysis for Armenia"[29] and evaluated the impact of a 20 percent depreciation. According to the government, a 30 percent depreciation was not realistic because historically Armenia did not experience such a steep depreciation[30]. It is assumed that Armenia can only experience something that has already occurred in the past.

The authors of debt sustainability analysis concluded that in medium run revenues must be 0.5-1.5 percent higher compared to macroeconomic forecasts of 2009. At the same time according to authors of the analysis "the results of the analysis are more favorable when the sub-loans are discarded and borrowing organizations promptly fulfill their debt obligations", because "loans were extended to systemic organizations including operators of different systems, enterprises of financial-banking and energy sectors, that can be considered as trustworthy from solvency perspective".

It is worth mentioning that while the authors of the analysis consider those loans reliable, the GoA does not provide information about risks associate with loans that it extended. It is well known that many credit organizations that employ high quality loan officers from time to time face defaults of their debtors. If we take into account that the GoA has little experience of extending loans in such massive scale and does not have a system of evaluation risks associated with the loans it extended, the above mentioned claim about "solvency" may be worrisome.

---

[28] http://minfin.am/index.php?art=1518&lang=1

[29] It was recorded that "the analysis of academia about debt sustainability come to axiomatic conclusion that debt sustainability is not in the size of the debt but how the country or government (if we are talking about public debt) manages the debt and whether the newly borrowed debt generates additional value and necessary cash flows in the economy in order to use them for repaying future obligations without facing liquidity and solvency problems" (translated by Artak Kyurumyan).

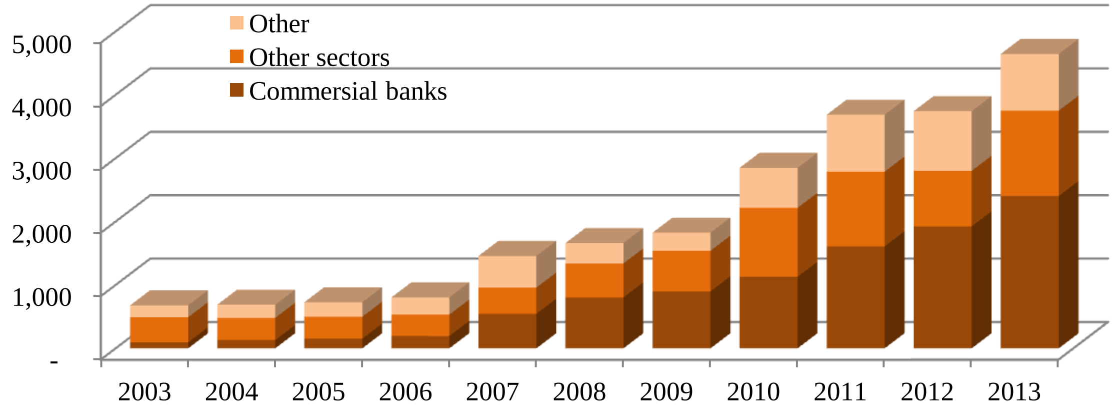
The authors of the analysis also mentioned the ***importance of remittances*** and concluded that developments in Russian economy are important for external sustainability of Armenia. According to the authors of the analysis fiscal sustainability requires higher level of revenues compared to plans and in the medium term the revenues must be higher by 0.5-1.5 percent compared to current macroeconomic forecasts.

[30] However, a couple of days before March 3 2009 – before the Armenian dram depreciated by 20 percent - the representatives of the GoA and the CBA were claiming that the dram is stable and depreciation is excluded.

Private sector debt

To comprehend the relationship of the Armenian financial system with the rest of the world one must also understand the changes in financial obligations of the nonpublic sector. Chart 2.10 presents information about obligations of commercial banks and enterprises to non-residents. Financial obligations of Armenian economic entities towards non-residents increased from USD1.5 billion in 2007 to USD4.644 billion at end-2013.

Chart 2.10. External debt of non-public sector of Armenia in 2003-2013 (USD billion)



Source: World Bank

Analysis

The majority of modern literature on public debt management is based on quantitative analysis of existing data. Quantitative analysis helps to make assumptions based on historical data, formulated mathematical models, develop scenarios of possible future developments and considers the outcome of alternative policies, evaluates risks associated with them and selects the best of alternative policies when making strategic decisions about public debt management.

As presented in the first part of this research, OECD countries and developed economies with experience in public debt management use data over a number of decades. According to Bolder (2008) models add benefit to decision making but they cannot replace knowledge and discretion. According to Silva, de Carvalho and de Medeiros (2010), models are efforts to simplify the reality and when developing policies it is necessary to substantially rely on management experience.

Armenia does not have sufficient numerical data about public debt to carry out quantitative analysis. Thus it is more prudent to carry out qualitative analysis of the accumulated data and events and base proposals related to public debt management strategy and policies on those analysis.

In the Poverty reductions strategic program (PRSP) of the GoA published in 2003 the government mentioned (page 132 §454) that "The increase of the public debt gave rise to rather serious problems towards the end of the 90s – both in terms of management and servicing. In particular, with respect to the external debt, these problems were related to the large sum redemptions and servicing of non-concessional loans received in 1992-96." Between 1999-2002, the government carried out number of restructuring transactions[31]. It was necessary to restructure the debt while the debt to GDP ratio was below 47 percent. At the end of 2013 the debt to GDP ratio was equal to 44 percent. According to PRSP, the GoA was expecting an increase in the share of concessional debt to 100 percent in the 2012-2015 period. Before the financial-economic crisis, Armenia was already classified as a middle income country because of high economic growth of the early 2000s and concessional loans were less accessible[32].

Large-scale non concessional borrowings in 2008-2013, non-efficient management of those resources and a lack of capacity to manage large scale investment projects in the Armenian public sector did not provide sufficient economic growth. At the same time public debt became a heavy burden for the state budget and is going to absorb large volumes of resources in the coming years.

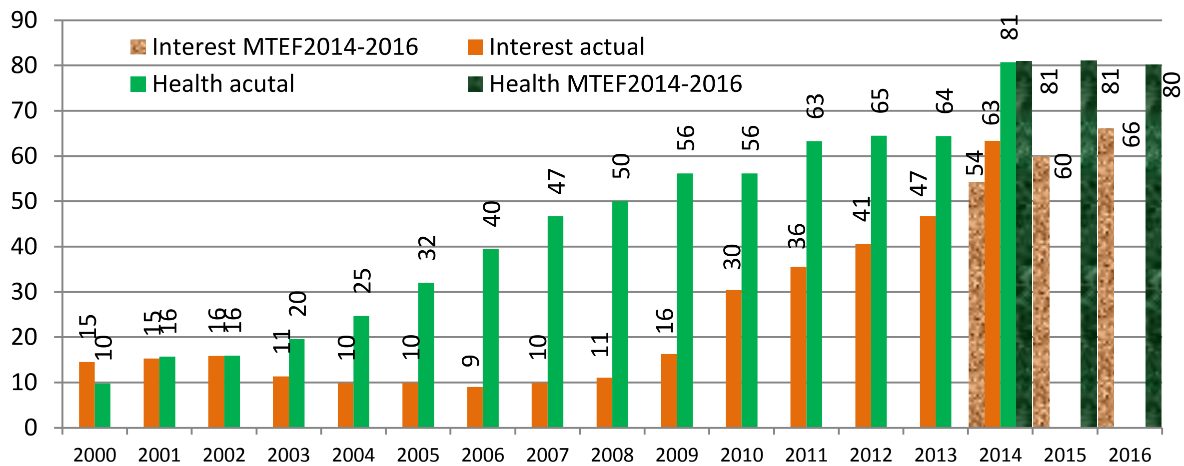
[31] The maturity date of the Turkmen loan of about USD 11 million was extended, with an opportunity of partial in-kind repayment. The Russian loan of USD 93.76 million has been repaid under debt-for-equity swap by transferring the ownership of some enterprises to RF.

[32] Although Armenia still had an option to use some concessional loans

Comparing state financial allocations for public debt and health services will give one a better understanding of the mis-allocation of resource issue. In 2000, allocations for interest payments against public debt were exceeding allocations for health. In 2001-2002 they were roughly equal. Later, as a result of restructuring debt by the GoA, by borrowing concessional loans, as well as an appreciation of the national currency, it was possible to reduce interest expenses. Allocations to public health increase during early XXI century.

Over 2003-2007 public health allocations increased annually by 20-30 percent going from AMD16 billion in 2002 to AMD40 billion in 2007 (see chart 3.1). During the same period public debt interest payments declined from AMD16 billion in 2002 to AMD10 billion in 2007. Since 2008 the rate of increase in public health expenditures has declined while the rate of increase of interest expense has increased. In 2010 interest expense increased by 87 percent which can be explained by a dramatic increase of public debt as well as depreciation of the national currency.

Chart 3.1 Actual amounts of public health expenditures and interest expenses against public debt in 2000-2013 and plans for 2014-2016 according to medium-term expenditure program (AMD billion)



Source: Annual budget execution reports for different years, MTEFs
"Actual" data for 2014 is the actual number reflected in the 2014 budget. The actual expenditures on health and education will be reported in May 2015 and may be different from allocated amounts.

In 2008 public health expenditures were five times greater than interest expenditures. However, as a result of increases in the share of non-concessional debt, depreciation of the national currency and other factors, interest expense increased sharply and according to the MTEF is going to increase in 2014-2016 while health expenditures are projected to remain on the same level at AMD81 billion.

- Expected allocations for health according to the MTEF are far below the figures envisaged by the sustainable development program of the GoA (respectively AMD101 billion in 2012 and AMD194 billion in 2015).
- Although the MTEF2014-2016 was planning to allocate AMD54 billion for interest expenses, the annual budget law for 2014 allocated AMD63.4 billion. According to Armenian legislation the GoA approves the MTEF in July and the draft of the state budget law is ready in September. The fact that forecasts for interest expenses have increased by 17 percent in such a short period (two months) is an evidence that interest expenses are less manageable and are becoming more troublesome.

One must assume that by allocating large amounts of financial resources for servicing public debt the GoA is depriving other sectors, e.g., education and health from essential resources. That transfers financial burdens onto the shoulders of consumers[33].

In this context it is necessary to refer to those opinions[34] according to which in 2009 it would not have been possible to carry out priority social expenditures of the state budget without new debt. State budget revenues in 2009 were equal to AMD690 billion (in lieu of projected AMD905 billion) including tax revenues of AMD522 billion and mandatory social contributions of AMD103 billion.

The expenditures of the state budget did not exceed AMD929.1 billion and the priority expenditures did not exceed AMD560 billion, including:

	AMD billion
Salaries, bonuses and social payments	76.0
Interest expenses	16.3
Transfers to local self-governing bodies	27.5
Social benefits and pensions	240.2
Defense [X]	130.2
Public safety security and courts [X]	69.4
TOTAL	**560.6**

Source: 2009 annual budget execution report

X If we take into account that expenditures for defense and public safety, security and courts include also salaries, bonuses and social payments and in that sense there can be double counting, the elimination of the effect of double counting will reduce the total and thus makes the argument that the state budget resources would have been enough to carry out priority expenditures more justified.

Proceeds from the loan from the RF had been used either to extend loans in the amount of AMD112.2 billion (while it was planned AMD4.2 billion) or to increase the TSA balance at the

[33] E.g., in 2013a number of higher education institutions raised fees for education, in the health sector the number of services that require copayments are increasing and users of those services have to pay from their pocket a large part of the price for these services.

[34] These opinions had been expressed during discussions of the results of this paper with several experts.

CBA. If those loans as well as the AMD210 billion expenditures of the state budget (allocated for the purchase of buildings, construction, renovation, acquisition, maintenance and renovations of machinery and equipment) were intended to prevent the economic downfall, then the 14.4 percent economic decline in 2009 is evidence that it did not succeed. This raises the issue of the capability of the government to effectively manage the resources allocated to it by the parliament.

Authority to borrow and information flows

Legislation does not clearly define who has the right to borrow on behalf of the GOA. Targeted public debt management indicators are not approved by the National Assembly, giving the government a great degree of autonomy. While loan agreements with international organizations and foreign governments are subject to parliamentary approval, other financial agreements are not. If one takes into account that until recently the Republic of Armenia was classified among low income countries and was mainly relying on concessional loans from international financial organizations; it now is a middle income country and must start borrowing more funds on market terms. Because of this, there is a need to regulate public debt management and follow the example of developed economies, which means giving the exclusive role and authority to take on public debt to the Minister of Finance and set target public debt performance indicators.

Armenia will still be receiving loans from international organizations to finance specific programs. It is necessary to strengthen and clarify the information and communication flows between those in charge of implementing these programs with public debt management in order for public debt managers to receive timely and full information about terminated or canceled programs.

The size of the public debt

Part 7 of article 5 of the Law about Public Debt envisages certain procedures when the public debt exceeds 50 percent of GDP[35]. According to part 6 of the same article public debt must not exceed 60 percent of the previous year's GDP but it does not specify what steps must be taken if the debt exceeds that benchmark.

As presented above the international experience suggests that the developing countries had much lower debt to GDP ratio in the years preceding public debt crisis. Even some EU member states faced debt problems at much lower debt to GDP ratio. Table 3.1 presents gross public

[35] "If by December 31 of the year public debt exceeds 60 percent of the last year's gross domestic product of the Republic of Armenia then the deficit of the next year's state budget must not exceed 3 percent of the average of the gross domestic product for the last three years."

debt indicators of some European countries before the financial and economic crisis of 2008-2009.

Table 3.1. Gross public debt of some European countries (as percent of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Iceland	…	…	…	26.0	27.9	28.5	70.4	87.9	93.0
Ireland	31.8	31.0	29.4	27.2	24.6	24.9	44.2	64.4	91.2
Portugal	56.8	59.4	61.9	67.7	69.4	68.4	71.7	83.7	94.0
Spain	52.6	59.4	61.9	67.7	69.4	68.4	71.7	83.7	94.0

Source: Eurostat

The purpose of borrowing

Although article 8 of the Law on Public Debt defines the purposes of public borrowing[36] from the point of view of the law it is not clear why the GoA borrowed in recent years. E.g., it is not clear why the government issued bonds in international capital markets in September 2013[37].

MTEFs 2011-2013, 2012-2014 and 2013-2015 did not mention any plans to issue bonds in international capital markets in 2013, it was not planned in the 2013 state budget nor in the GoA decree №800-N from July 18 2013 "About Government of Armenia plan of activities for 2013 and priority tasks" and not in the concept paper "About issuing foreign currency bonds in international capital markets" approved by the protocol decree №19 from May 16 2013 mentioning that calculations are based on the assumption that bonds will be issued in 2014. MTEF2014-2016 mentioned that "the GoA will consider the possibility of borrowing from international capital markets"[38].

One may claim that borrowing from international capital markets in 2013 was a hasty unprepared step in the sense that the GoA did not have a program for effective use of these

[36] Public borrowings take place to finance public budget deficits and provide short-term liquidity, support balance of payments, replenish international reserves , maintain and develop domestic government securities market.

[37] The draft 2013 annual budget execution report witness that the budget did not need any additional funding. Instead of planned AMD119.8 billion and revised AMD184.4 billion deficit the 2013 state budget actually had a deficit of only AMD71.5 billion. As mentioned above (see footnote 19) there were no programs that needed funding and after repaying the loan from the RF the government just deposited remaining funds at the CBA.
After placing bonds in international capital markets the GoA canceled a number of domestic government bond auction results and as a result instead of funding AMD55.2 billion from domestic sources had a negative funding of minus 10.9 billion (this includes actual funding of AMD20.2 billion by government bonds while the state budget envisaged funding of AMD30.2 billion by government bonds).
It is hard to claim that this action supported the development of the domestic government bond market.
The GoA extended loans in the amount of AMD42.9 billion against the planned AMD11.4 billion.

[38] This means it will be considered during 2014-2016.

funds. Borrowing was not done because of a need to finance the state budget deficit, provide liquidity (as it was mentioned above the GoA always had large amounts of funds in the TSA), support the balance of payments, replenish international reserves (the CBA is in charge of this) or maintain or develop the domestic government securities market.

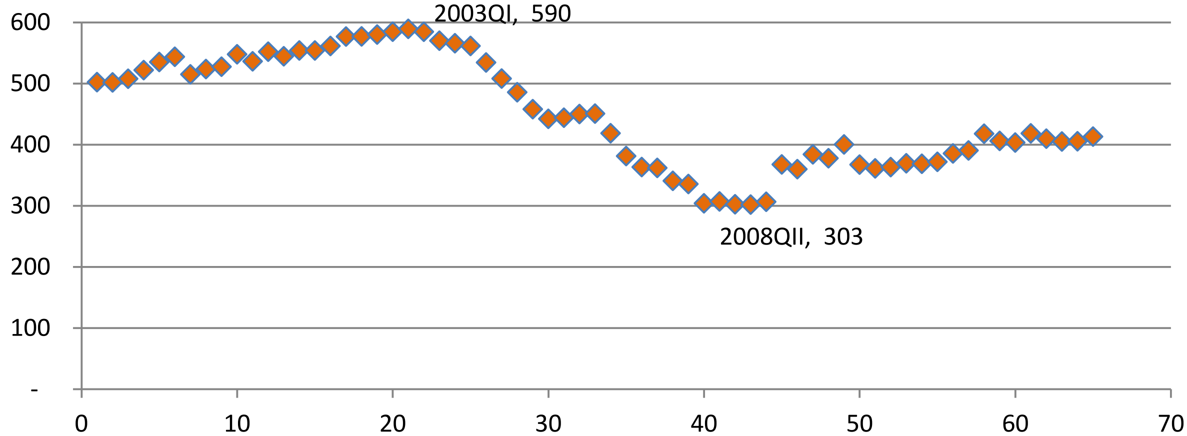
Taking into account that according to the IMF Government Finance Statistics loans extended from the state budget reduce the budget deficit and the fact that parliament does not control the absolute amount of these loans, public debt can increase uncontrollably even when the public budget deficit is small. The government may extend loans using the proceeds from the borrowed funds. As a result the difference between borrowed and extended loans is used to finance the deficit, while public debt increases by the amount of borrowed funds.

It is necessary to somehow regulate the authority of the government to make amendments to the state budget. Although the Law on Budget System defines certain limitations, several provisions of the annual budget law essentially allows the government to amend the budget without limitations. Changes in deficit financing are a witness to that, e.g. extending loans a number of times exceeding the limits established by the parliament. It is not clear why it is necessary for the parliament to approve the annual budget execution law if the government can restructure the budget in a completely different manner. . It is also necessary to regulate by law the process of extending loans from the state budget.

Increasing the share of domestic currency public

One of the most important factors affecting Armenian public debt management is the exchange rate of the national currency. Quarterly exchange rates of the national currency since 1998 are presented in chart 3.2. As presented, appreciation and depreciation of the national currency have had a couple of hundred billion impact on the size of the debt (in AMD terms). When the dram appreciated Armenian public debt declined substantially in AMD terms and when the dram depreciated the Armenian public debt increased. Exchange rate fluctuations also affect debt service payments. It is worth mentioning that as large scale borrowings from external sources take place, the need to borrow from domestic sources declines. Cancelation of several auction results of government bonds in late 2013 and early 2014 is evidence of that. The fact that the GoA reduced the plan for financing the budget deficit is also evidence. Reduction of the volume of government securities does not help development of the secondary market as well as the capital markets overall. Availability of substantial volumes of government securities is one of the preconditions for secondary market development of government securities.

Chart 3.2. AMD per USD end of period exchange rates from the first quarter of 1998 to the first quarter of 2015



Source: CBA statistical bulletins from different years

Sustainability of public debt

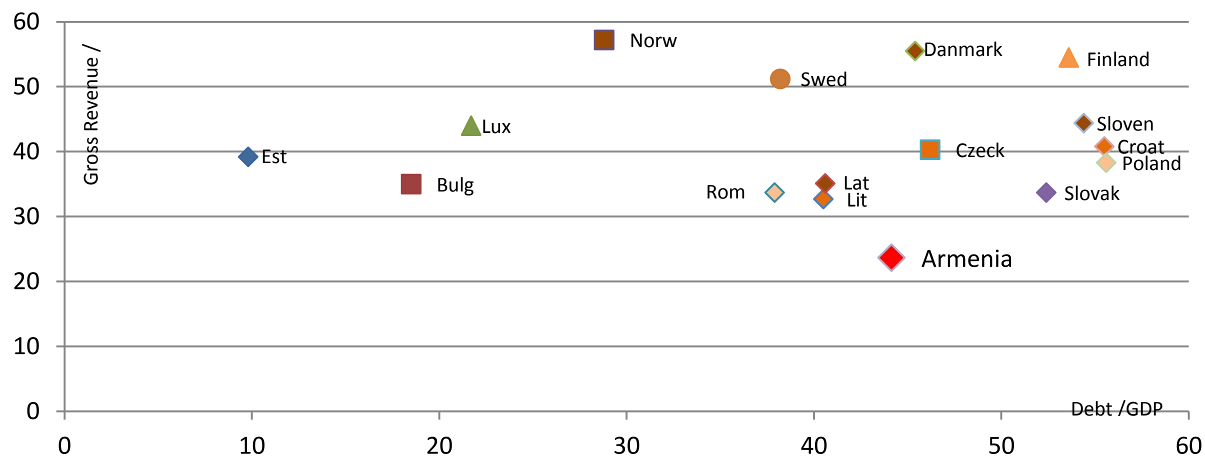
One of the GoA documents provided the following definition of debt sustainability: "Economic sustainability of the debt is the sum of solvency and liquidity or the country's ability to completely fulfill its current and future obligations without debt restructuring, violating the terms and endangering economic growth. That is the country is able to fully carry out its functions, promote high economic growth and simultaneously properly fulfill its debt obligations notwithstanding the size of debt" (GoA 2012).

Within the context of public debt sustainability, this definition refers to problems of economic growth and the ability to carry out public functions. It is not sufficiently clear e what it infers when including those terms in the definition. In this research, debt is considered from the perspective of a country's capability not only to fulfill its debt obligations but to carry out its main functions. Debt sustainability is defined as follows:

Public debt is sustainable if the government is capable to carry out timely and full payments against its debt obligations without making substantial negative changes in its economic and financial policies. In this context negative changes in economic and financial policies constitute actions as a result of which tax rates are raised, new taxes are introduced, prices of publicly regulated services are raised, the volumes of public financial resources for socially important sectors (e.g., health, education, other) are not in line with the amounts specified in government strategic documents or not enough to provide normal services to the public.

All official government documents related to public debt mention that debt is below the limits specified by the Armenian legislation and considered dangerous by international financial organizations. However, as it is mentioned above, some economists are of the opinion that countries can face insolvency even at lower levels of debt to GDP ratio. It is worth remembering that in 2000-2001 when Armenia stopped making payments against the funds borrowed from the Russian Federation (which is usually characterized by term “default”) Armenian public debt was less than 47 percent of GDP.

Chart 3.3 Gross revenues to GDP and debt to GDP ratios in Armenia and other countries



Source: Eurostat (2012) and Annual public debt and annual budget execution reports

The fact that debt is below 50 percent of GDP is not enough for the public to be confident that it is sustainable. Defining debt sustainability based on its size discards the qualitative characteristics of debt. E.g., debt may be below 50 percent of GDP but it may be short-term or expensive.

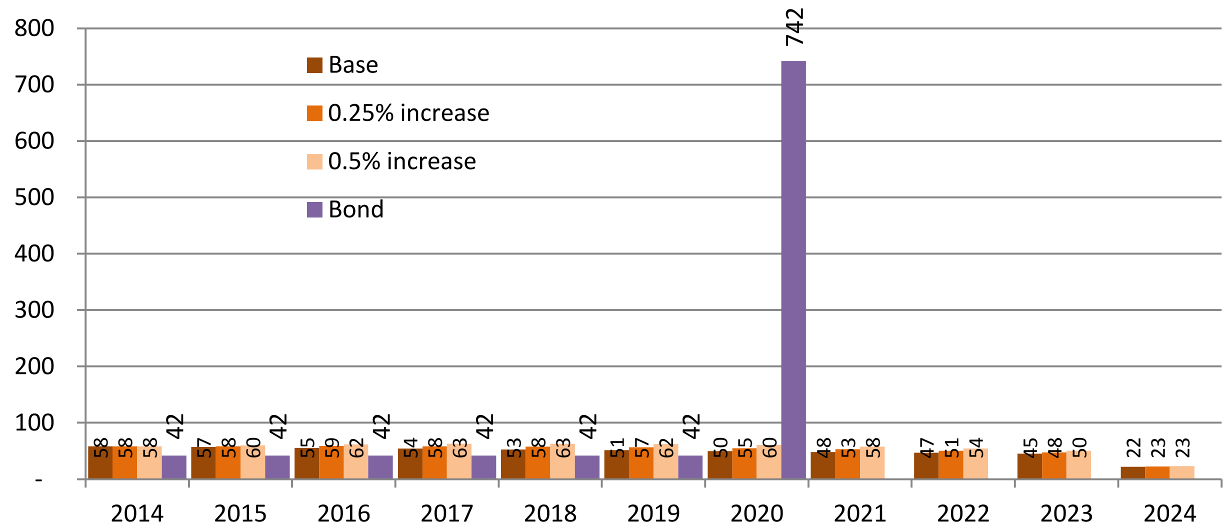
As data in chart 3.3 evidence although Armenian debt to GDP ratio is higher than the similar ratios for Latvia, Lithuania, Sweden, Romania, Norway, Luxemburg, Bulgaria and Estonia (that is Armenia is more indebted) gross revenues of the GoA are substantially less compared to those countries. It must be taken into account when planning future payments to redeem debt, that inability to rollover debt is a distinct possibility, requiring governments to use their own revenues.

When evaluating debt sustainability it is necessary to also take into account the financial obligations of Armenian private companies to non-residents. It is clear that the Armenian government does not have any direct obligation for debts of the private sector. However it is worth evaluating the burden the above mentioned financial obligations would create for the Armenian economy, the financial system and the resulting shock in the foreign currency market if debtors are not be able to refinance their debt.

The "Debt sustainability analysis of Armenia" indicated the importance of developments in Russian economy and money transfers for external sustainability of Armenia. Decline of prices of energy resources and minerals in international markets – that supply the lion's share of foreign currency revenues of Russia – may directly affect the Russian economy. As a result the risks associated with the present model of development of Armenian economy may materialize.

Large scale foreign currency borrowing from external sources increased the refinancing and exchange rate risks in Armenia. An opinion was expressed[39] that exchanging the Russian loan for government bonds placed in international capital markets, the GoA reduced the state budget's servicing burden by AMD10 billion over the 2014 to 2021 period. Chart 3.4 presents the possible cash flows of two alternatives. The Russian loan is presented assuming three different scenarios for LIBOR[40] (own calculations).

Chart 3.4. Cash flows of the loan received from RF in 2009 under three possible different LIBOR scenarios and the cash flows of Armenian government bonds placed in international capital markets (AMD million)



The possibility of LIBOR remaining at the level of May 2014 is taken as a base option. The second option assumes that for the each next payment the LIBOR rate goes up by 0.25 percent[41], reaching 5.35 percent in 2024. In the third case, it is assumed that in the next payment the LIBOR rate goes up by 0.5 percent semi-annually[42], reaching 10.35 percent[43] in 2024.

---

[39] http://civilnet.am/tigran_sargsyan_interview
[40] LIBOR – London Interbank Offered Rate.
[41] Taking into account there are semi-annual payments each year the rate goes up annually by 0.5 percent.
[42] Which means 1 percent annually.

The advantage of the loan from the RF is that after each repayment the principal amount diminishes thus reducing the amount that serves as a basis for interest payment calculations. Risks associated with future behavior of LIBOR and exchange rate still exist. In the case of bonds placed in international capital markets there are no risks associated with a rise in interest rates but the exchange rate risk is still in place and there is a huge refinancing risk associated with rolling over of the principal amount of the bond in 2020.

The chart depicts that in the case of bonds issued in international capital markets the government is going to pay less money in 2014-2020 than in the case of Russian loan. However, in the case of the government bonds during the first six years only interest is paid, while in the case of the RF loan, a certain amount of principal is also paid each year along with interest. This would have reduced the principal amount each year that is used to calculate the following year's interest payment. The case against the government bonds in international capital markets is the high degree of refinancing risk the country faces as it approaches 2020. A major question mark is how will the GoA redeem these bonds if at the time of redemption the financial situation in international financial markets somewhat resembles the situations at the end of 2008 and early-2009 or the fall of 1998.

Taking into consideration the fact that the international financial markets regularly experience "freezes" it is necessary to develop a plan of redemption of Armenian government bonds issued in international capital markets in such situations (e.g., opening a subaccount in the TSA and beginning in 2015 accumulating funds necessary for redemption of the bonds or re-purchasing portions of the bonds annually or using other market related instruments).

If one accepts the reasoning that future economic events in Armenia only occur if they also occurred in the past, then one must be prepared to take responsibility for failing to anticipate a major economic event such as a repeat of 2009.

The exchange rate of the AMD was AMD 403.58 per USD at the end of 2012. If the dram had depreciated by 20 percent (in 2009 the depreciation was 23 percent) then the exchange rate at the end of 2013 would have been AMD484.3 per USD. The foreign currency denominated debt at the end of 2013 was USD3899.1 million or AMD1888.3 billion. If we add this to domestic debt of AMD279.6 then the total public debt would have been AMD2168 billion or 50.8 percent of the GDP for that year[44]. The reader can make personal judgments as to what might happen if other negative economic event of 2009 repeat (i.e. GDP decline of 14 percent).

---

[43] According to data available at http://research.stlouisfed.org/fred2/series/USD6MTD156N/downloaddata in the XXI century 6 month LIBOR reached maximum of 6.16375 (on January 2 2001) and since January 2 1986 the maximum for the LIBOR was 11.00 percent (March 21).

[44] Here we assume that everything else will remain the same (ceteris paribus).

Conclusions

This research was not intended to study all the policy decisions of public debt and their consequences but to study and present to the public some issues of concern and possible solutions.

Armenia was able to withstand the international financial crises and its negative consequences because the economy and the public financial system was not overburdened with debt and the necessity of making large volume payments associated with it. At present volume of debt shocks in the external environment may have dire consequences for Armenian economy. As a result of political decisions taken over 2008-2013 the public debt increased dramatically, while the economy did not experience any substantial qualitative or quantitative progress. Public debt repayments and interest payments already absorb large volumes of financial resources that could have been used for solving problems in other sectors.

Additional research is necessary to evaluate the need of large scale borrowings, the capacity of the Armenian economy to absorb those resources, the capability of the GoA to manage large scale programs and to evaluate the impact of debt on the Armenian economy and financial system.

Recommendations

Although the Law on Public Debt limits the size of the debt by 50 percent of the last years GDP there are number of issues associated with this figure. First, GDP is not a good base for making calculations because of the large shadow economy in Armenia (according to some estimates exceeding 30 percent[45]). Second, as it was presented above historically, several countries including Armenia were not able to fully and timely fulfill their public debt obligations even during the times of lower values of debt to GDP ratios.

Based on the above analysis one can claim that Armenia will benefit if:

- Legislation to give the Minister of Finance exclusive authority to borrow,
- Legislation to regulate the maximum amount of public debt. The NA must be empowered to set limits on public debt and define targeted characteristics of the debt portfolio (maturity, currency composition, ratio of fixed and floating rate debt, concessionality and other indicators. Public debt management must be free from political influence, which can be achieved by establishing a professional body in charge of public debt management,
- Reduce the share of non-concessional as well as foreign currency denominated debt. While in the past the reduction of a share of foreign currency denominated debt was one of the GoA's public debt management goals, the change in policy over recent years and large scale borrowings from international financial markets may endanger the sustainability of public financial system.
- Clarification in the Law on Public Debt on what happens when the public debt exceeds 60 percent of GDP,
- Insure information flows associated with public debt are regulated and the link between the implementers of targeted public investment programs and debt managers is clear,
- Regulate the procedure of extending loans from the state budget by legislation,
- Develop a plan that clarifies how the Armenian bonds issued in international capital markets will be redeemed in case of negative development in those markets.

The research revealed cases when actions of the GoA were not in line with the ideas and steps envisaged in strategic documents (e.g., in case Eurobonds). Additional research is necessary to clarify how other public debt management actions taken by the GoA match with their adopted strategies.

[45] According to Armenian Statistical Service the share of shadow or "unaccounted" economy is 25 percent (http://www.armstat.am/Metadata/Pages_Armenian/SM/ArmSMNationalAccounts.htm, http://dsbb.imf.org/pages/sdds/BaseSMReport.aspx?ctycode=ARM&catcode=NAG00&ctyType=SDDS)

Sources used

Government of Armenia (2003). Poverty Reduction Strategy Program.

Government of Armenia (2007). Decree N 695-A from June 21 2007.

Government of Armenia (2007). Decree N 738-N from June 21, 2007.

Government of Armenia (2008). Decree N 380-A from April 28 2008.

Government of Armenia (2008). Decree N 1207-N from October 28 2008.

Government of Armenia (2010). Decree N 859-N from July 8 2010.

Government of Armenia (2011). 2010 annual budget execution report.

Government of Armenia (2012). Decree N 730-A from June 18 2012.

Government of Armenia (2013). Decree N 515-A from May 6 2013.

Government of Armenia (2013). Protocol decree N 19 from May1 6 2013.

Government of Armenia (2013). Decree N 740-N from July 4 2013.

Government of Armenia (2013). Decree N 800-N from July 18 2013.

Ministry of Finance of Armenia. (2011). Debt sustainability analysis of Armenia.

AFT. (2012).Annual report.Agence France Tresor.

Baksay Gergely, Karvalits Ferenc and Kuti Zsolt. (2012). The impact of public debt on foreign exchange reserves and central bank profitability: the case of Hungary. BIS Papers No 67

Basu, Kaushik and Stiglitz, Joseph. (2013). International Lending, Sovereing Debt and Joint Liability: an Economic Theory Model for Amending the Treaty of Lisbon. World Bank Policy Research Working Paper 6555. August 2013

Bi, Huixin, Shen, Wenyi and Yang, Shu-Chun. (2014). Fiscal Limits, External Debt, and Fiscal Policy in Developing Countries. IMF Working Paper #49. March 2014.

Bua, Giovanna, Pradelli, Juan, and Presbitero, Andrea. (2014). Domestic Public Debt in Low-Income Countries: Trends and Structure. World Bank Policy Research Working Paper 6777. February 2014.

Claessens, S., D. Klingebiel and S. Schmukler (2003), “Government Bonds in Domestic and Foreign Currency: The Role of Macroeconomic and Institutional Factors”, CEPR Discussion Paper, No. 3789.

De Bolle, Monica, Rother, Bjorn, Hakobyan, Ivetta. (2006). The Level and Composition *of Public Sector Debt in Emerging Market Crises. IMF working paper #186. August 2006.*

De Fontenay, P., G. Milesi-Ferretti and H. Pill (1995), “The Role of Foreign Currency Debt in Public Debt Management”, *IMF Working Paper*, No. 95/21.

Eden Maya, Kraay Aart and Qian Rong. (2012). Sovereign Defaults and Expropriations Empirical Regularities. The World Bank Policy Research Working Paper 6218.

Hanson James A. (2007). *The Growth in Government Domestic Debt: Changing Burdens* and Risks. The World Bank policy research working paper #4348. September 2007

IMF. (2001). Government Finance Statistics Manual 2001. https://www.imf.org/external/pubs/ft/gfs/manual/index.htm

Khalfan, Ashfaq, King, Jeff, Thomas, Bryan. (2003). Advancing the Odious Debt Doctrine. Centre for International Sustainable Development Law working paper.

Kremer, Michael, Jayachandran, Seema. (2002). Odious Debt. National Bureau of Economic Research working paper 8953. May 2002.

Krugman, Paul. (1988). Financing vs. Forgiving a Debt Overhang. NBER working paper #2486. January 1988.

Lastra, Rosa M, and Buchheit, Lee. (2013). Sovereign Debt Management. Oxford University Press.

Maastricht Treaty. (1992). Provisions Amending the Treaty Establishing the European Economic Community with a View to Establishing the European Community. The Protocol on the Excessive Deficit Procedure. Maastricht. 7 February 1992.

Myers, S. (1977). "Determinants of Corporate Borrowing". Journal of Financial Economics 5 (2): 147–175.

Nebru, Vikram, Thomas, Mark. (2008). The Concept of Odious Debt: some considerations. World Bank Policy Research Working Paper 4676. July 2008.

Pecchi, L., and A. di Meana (1998): “Public foreign currency debt: a cross-country evaluation of competing theories”, Giornale degli Economisti e Annali di Economia, No. 2.

Reinhart Carmen M. and Rogoff Kenneth S. (2008). THE FORGOTTEN HISTORY OF DOMESTIC DEBT. NATIONAL BUREAU OF ECONOMIC RESEARCH. Working Paper 13946. http://www.nber.org/papers/w13946

Reinhart Carmen M., Rogoff Kenneth S., Savastano Miguel A. (2003). DEBT INTOLERANCE. NATIONAL BUREAU OF ECONOMIC RESEARCH. Working Paper 9908. http://www.nber.org/papers/w9908

Sachs, Jeffrey. (1988). Conditionality, Debt Relief, and the Developing Country Debt Crisis. NBER working paper #2644. July 1988.

Stiglitz, Joseph E. (2002). Globalization and its Discontent. W. W. Norton and company.

Stiglitz, Joseph E. (2007). Making the Globalization Work. W. W. Norton and company.

United Nations Conference on Trade and Development. (2007). The Concept of Odious Debt in Public International Law. Discussion paper No. 185. July 2007

World Bank. (2007). Managing Public Debt: from Diagnostics to Reform Implemenation.

Wheeler, Graeme. (2004). Sound Practice in Government Debt Management. The World Bank.