



**BLACK SEA TRADE AND DEVELOPMENT BANK**

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**ARMENIA**

**Country Strategy**

**2019-2022**

# **ARMENIA COUNTRY STRATEGY**

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**Table 1: Basic Macroeconomic Indicators at a Glance for ARMENIA**

Key Long Term Foreign Currency Sovereign Risk Rating at 14 October, 2019:

**Moody's: Ba3 | S&P: Not Rated | Fitch: B+**

		2015	2016	2017	2018	Proj. 2019	Proj. 2020
1	Population (Million)	3.0	3.0	3.0	3.0	2.9	2.9
2	Avg Exch. Rate (Dram/ US\$)	477.9	480.5	482.7	483.0	481.5	486.7
3	Inflation (CPI Avg.)	3.7%	-1.4%	1.0%	2.5%	2.8%	3.2%
4	Average monthly wages (US\$)	359.1	363.1	368.4	357.6		
5	GDP (Dram billion)	5,043.6	5,067.3	5,564.5	6,005.1	6,713.3	7175.0
6	GDP US\$ million	10,553.3	10,546.1	11,527.5	12,433.1	13,942.5	14,742.1
7	GDP per capita (US\$)	3,519.4	3,531.7	3,877.8	4,193.2	4,739.1	5,000.7
8	Real GDP growth, %	3.2%	0.2%	7.5%	5.2%	5.7%	4.2%
9	Official Unemployment (end of period) %	18.5%	18.0%	17.8%	20.4%	19.5%	18.8%
10	Industrial Production Growth, %	5.3%	6.9%	12.5%	4.3%	9.0%	7.5%
11	Agricultural Production Growth %	8.4%	-3.8%	-2.8%	-7.2%		
12	Domestic Credit Growth %	-1.7%	13.3%	18.0%	16.0%	18.7%	12.4%
13	Domestic Credit/ GDP	48.2%	54.3%	58.4%	62.8%	66.7%	70.1%
14	Foreign Direct Investment - \$US million	184.1	333.7	250.9	254.1	300.0	330.0
15	FDI/ GDP	1.7%	3.2%	2.2%	2.0%	2.2%	2.2%
16	Consolidated Budget Balance/ GDP, %	-4.8%	-5.5%	-4.8%	-1.6%	-2.2%	-2.0%
17	Total External Debt- US\$ million	8,918.8	9,953.1	10,524.6	10,913.6	11,152.0	11,827.0
18	Total External Debt/ GDP	84.5%	94.4%	91.3%	87.8%	80.0%	80.2%
19	Public External Debt/GDP	42.2%	47.7%	50.2%	46.4%	42.1%	38.1%
20	Private External Debt/ GDP	42.3%	46.7%	41.1%	41.4%	37.9%	42.2%
21	Exports- \$US million (Goods)	1,623.9	1,890.7	2,385.2	2,630.4	2,713.7	2,808.0
22	Imports- \$US million (Goods)	2,810.3	2,835.6	3,761.3	4,419.5	4,614.0	4,851.0
23	Trade Balance \$US mn (Goods)	-1,186.4	-944.9	-1,376.1	-1,789.1	-1,900.3	-2,043.0
24	Trade Balance/ GDP	-11.2%	-9.0%	-11.9%	-14.4%	-13.6%	-13.9%
25	Current Account Balance \$US mn	-287.1	-217.4	-344.4	-1,165.3	-833.9	-882.3
26	Current Acct. Bal./ GDP	-2.7%	-2.1%	-3.0%	-9.4%	-6.0%	-6.0%
27	Forex Reserves (end period- exc gold) US\$ m	1,775.3	2,204.1	2,314.1	2,259.3	2,344.0	2,440.2

Sources: Central Bank of Armenia, National Statistical Service of the Republic of Armenia, IFS –IMF May 2019; IMF Armenia: 2019 Article IV Consultation and Request for a Stand-By Arrangement— Press Release; Staff Report; and Statement by the Executive Director for the Republic of Armenia. IMF Country Report No. 19/154

## ARMENIA COUNTRY STRATEGY 2019-2022

### I. Summary of Recent Developments and Outlook

Armenia has experienced twenty five years of high economic growth, with one ‘down year’ interrupting an extended expansion. The immediate period following independence was marked by geopolitical conflict and dislocation from the transition to a market oriented economic system, with output bottoming out in 1993 at around one third of 1989 levels. Over the subsequent 25 years, real GDP growth has averaged 6.1% per annum, with the size of the economy increasing nearly four and one half times in real terms. From a low income country with high rates of poverty, Armenia has become a middle income country, albeit at the lower end of the spectrum with a per capita income nearly US\$ 4,200 in 2018. The only year of negative growth during this period was 2009, in the aftermath of the global financial crisis when the economy suffered a short but very sharp decline in GDP of -14.1%. However, the economy recovered and in the subsequent decade the economy has grown at a somewhat lower annual average rate of 4.3%. However, this compares favorably with the post-crisis annual BSEC Regional growth rate of 2.6%

#### *Recent macroeconomic trends*

Armenian economy grew by an annual average 4.0% in 2015-2018 period, down compared to 4.7% per annum in the previous four year period. This minor retreat is primarily driven by the flat performance in 2016, but was followed by robust 7.5% and 5.2% growth rates in 2017 and 2018 respectively. During this period gross investment was up 8.1% per annum as contractions in 2015 and 2016 were replaced by double digit growth in both 2017 and 2018, making contributions from investment a primary driver of growth. Domestic consumption also shifted from contraction in the first two years to positive territory in 2017 and 2018, and was accompanied by the stronger growth in imports compared to exports. As a result, during the 2015-2018 period against the positive contribution of domestic consumption, there was a negative contribution to growth from net exports due to a surge in imports, particularly in 2017 and 2018.

On the production side, the main positive contribution to growth came from manufacture, which posted double digit growth rates for three years in a row to 2018; domestic trade which was up by an annual average of 6.7% from 2015 to 2018; and the “arts, entertainment, and recreation” category which was up by an annual average of 35.8% during the 2015-2018 period. Negative contributions, on the other hand, came from the construction sector as marginal growth in 2017 and 2018 was not enough to compensate for the contractions recorded in 2015 and 2016; agriculture, which remained in red territory for three years in a row; and the real estate sector.

In nominal US\$ terms Armenian GDP was up from US\$ 11.6bn in 2014 to US\$ 12.4bn in 2018, corresponding to a 7.1% increase, while GDP per capita increased from US\$ 3,852 in 2014 to US\$ 4,188 in 2018, corresponding to an 8.7% increase.

#### External sector

With investment and consumption increasing, Armenia’s current account deficit widened in 2018 to 9.1% of GDP. However, due to low deficits in the previous years, the annual average deficit from 2015 to 2018 was at 4.1% of GDP, which is significantly below the annual average of 8.8% in the previous four year period. Growth in exports and a fall in imports of goods were the main reasons behind the improvement in the external balance over the four year period. In contrast to the balance in goods trade, the country experienced deterioration in the primary and secondary income balances, which

includes remittances, while the services balance remained broadly flat as a share of GDP. Remittance inflows were down from 17.5% of GDP or US\$ 2.0bn in 2014 to 11.7% of GDP or US\$ 1.5bn in 2018.

The current account deficit was mainly financed by government external borrowing; net FDI, which at annual average 2.1% of GDP in the 2015-2018 period was lower than the 3.8% average recorded in the 2011-2014 period; and beneficial flows of currency and deposits to the Armenian banking sector. As financial inflows were above the current account deficit, the country managed to increase its reserves during 2011-2018. Armenia's international reserves were down to US\$ 1.5bn in 2014. However, since then reserve levels grew and reached a recent record high of US\$ 2.31bn in late 2017. As of end of 2018 reserves were at US\$ 2.26bn, corresponding to 4.1 months of imports of goods and services.

As the external deficit was financed through external borrowing, the external debt increased from US\$ 8.5bn or 73.6% of GDP to US\$ 10.9bn or 87.8% of GDP in 2018. Growth in gross external debt was mainly driven by the government borrowing and obligations stemming from foreign investments, while the gross external debt of the non-bank private sector declined and debt of banks remained broadly flat as a ratio of GDP.

Armenian goods exports reached US\$ 2.4bn in 2018, 55.9% higher than in 2014. This growth was mainly helped by a surge in exports of copper ore (+122.8%), cigarettes and tobacco (128.4%), and unwrought gold (+114.6%) which together accounted for 61.7% of total growth in exports. Negative contributions came mainly from decline in the exports of diamonds (-34.5%) and precious metal ores (-90.0%). Goods imports in 2018 reached US\$ 5.0bn, up 12.2% compared to 2014. Unlike exports, growth of imports was far more widespread across product groups, with the exception of imports of natural gas which was down 24.3% compared to 2014.

In terms of destination, exports from 2014 to 2018 increased mainly to Russia (+116.2%), Switzerland (23.1 times), and Bulgaria (+151.5%), while the fall was recorded in exports to China (-37.3%), Canada (-64.4%), and USA (-47.8%). The positive contribution to growth in imports, on the other hand, came mainly from increased imports from China (+53.3%), Russia (+12.0%), Iran (+30.5%) and Greece (+316.2%), while major negative contributions came from a decline in imports from Belgium (-55.8%), Ukraine (-23.8%), and Austria (-65.9%).

Exports to BSTDB member countries reached US\$ 1.0bn in 2018, up 109.2% compared to 2014. As a result, BSTDB member countries accounted for 42.6% of total Armenia exports, up from 31.8% in 2014. Imports from BSTDB member states in 2018 were up only 8.7% compared to 2014, slightly below total growth in imports. Therefore, the share of BSTDB member countries in total imports declined from 38.7% in 2014 to 37.5% in 2018.

#### Public finances

General government budget revenues of Armenia remained broadly flat at an annual average of 23.4% of GDP during the 2015-2018 period compared to the annual average of 23.9% of GDP in the 2011-2014 period, while expenditures increased from an annual average of 25.8% of GDP to 27.6% of GDP. As a result, the budget deficit widened from an annual average of 1.9% of GDP in 2011-2014 to 4.2% of GDP during 2015-2018 period, contributing to the rise in government debt. Total gross outstanding central government debt increased from 43.7% of GDP in 2014 to 55.6% of GDP in 2018, mainly driven by external debt. In US\$ terms, central government external debt reached US\$ 5.7bn in 2018, with multilateral debt at US\$ 3.6bn and bilateral debt at US\$ 2.1bn.

## Inflation, exchange rate, and monetary policy

Following a 1.4% deflation in 2016, consumer prices recovered in Armenia, increasing 1.0 and 2.5% in 2017 and 2018 respectively. From 2015 to 2018 annual inflation averaged 1.5% per year, well below the target of 4.0% and significantly lower than the 4.7% rate of the previous four year period. Core inflation, which excludes seasonal and administratively regulated services prices, rose 4.0% in 2018, from 0.8% in 2017. Over the four year period from 2015 to 2018, core inflation averaged 2.0% per year, compared to 5.4% over the previous four years.

Following a steep depreciation in late 2014 and early 2015, when the US\$ exchange rate rose by more than 15% within three months, the exchange rate remained broadly flat in Armenia, with annual average USD/AMD rate remaining within the range of 472.6-493.6.

To address inflationary pressures in late 2014 and early 2015 the Central Bank of Armenia raised its refinancing rate from 6.75% to 8.50% in late December 2014, and then in three stages to 10.50% by mid-February 2015. Since then, however, inflationary pressures eased significantly, and as a result, the Central Bank repeatedly eased monetary policy, bringing the refinancing rate down to 6.00% in early 2017, where it stayed into 2019.

## Banking sector

Banking sector assets in Armenia increased from 70.6% of GDP in 2014 to 83.0% in 2018, while in nominal AMD terms from AMD 3.4tn to AMD 5.0tn. At the same time, capital of the banking system was up from 9.7% of GDP to 12.5% of GDP, while regulatory capital to risk-weighted assets increased from 14.5% in 2014 to 20.0% in 2016 and then declined to 17.7% by 2018. Positive developments were recorded in loan performance also, with non-performing loans to total loans down to 4.8% in 2018 from a high of 7.9% in 2015.

Total loans of the banking sector were up from 45.3% of GDP in 2014 to 52.1% in 2018. They were driven mainly by local currency loans and resulted in loan dollarization declining from 66.6% to 56.0%. By sector, loan growth was driven by increase in domestic currency loans to households, followed by domestic currency loans to non-financial corporations and foreign currency loans to non-residents. Loans to non-residents were up from 4.4% of total loans in 2014 to 7.6% of total loans in 2018.

Deposits rose from 36.4% of GDP in 2014 to 49.2% of GDP in 2018, driven by local currency deposits, whose share in total deposits increased from 28.4% of total deposits in 2014 to 39.6% of total deposits in 2018. Non-resident deposits recovered from a sharp drop in 2017, returning the share of non-resident deposits in total deposits to 24.0% in 2018, slightly below the 24.9% recorded in 2014.

With the rate of growth in deposits outpacing the rate of growth in loans, the loan to deposit ratio in Armenia declined from 124.5% in 2014 to 105.8% in 2018, when loans and deposits of non-residents included. Excluding non-residents, the ratio was down from 158.5% in 2014 to 128.6% in 2018.

## Outlook

According to official Armenian projections outlined in the 2019-2021 Medium-Term Expenditure Framework, the Armenian economy is projected to grow by an average 5.5% per year from 2019 to 2021. Officials forecast robust growth in investment and private consumption to continue, while increases in exports are projected to outpace increases in imports'- although some of this is due to denominator effects and a low base factor, since the overall external deficit is expected to continue to widen. Against a widening deficit in the goods trade, it is expected that balance in other categories

will remain flat, thereby limiting growth in the current account deficit to 4.1% of GDP by 2021 and averaging 3.9% of GDP from 2019 to 2021.

## II. Overview of Current BSTDB Portfolio

As of 30 September, 2019, the active BSTDB portfolio in Armenia amounted to 15 operations approved by the Board of Directors (BoD), involving an investment of € 140.7 million. All 15 operations were signed for € 125.3 million and the outstanding disbursements were at € 87.8 million. Armenia ranked eighth as a destination for operations by BSTDB, in terms of BoD approved operations, with 4.6% of the total portfolio, eighth in terms of signed operations, with 4.8% of the total portfolio, and ninth in amounts outstanding, with 4.7% of the total portfolio.

The Bank has made concerted efforts to identify suitable operations for financing in Armenia, and it has been one of the main beneficiaries of the increased emphasis placed on finding operations in small shareholder countries. Relative to the Bank's active portfolio at the end of 2014, Board approvals increased by 63.9%, signings by 46.2%, and amounts outstanding by 33.7%.

**Table 2: Active BSTDB Portfolio in Armenia as at 30 September 2019**

All Figures in Euros Million	BoD Approval Date	Approved Amount	Signed Amount	Amount Outstanding
Euroterm	27-Apr-07	3.0	3.0	1.3
Natfood*	Various, most recent 15-Jun-19	17.4	12.7	18.9
Equity to ADM CEECAT Recovery Fund	21-Jul-11	0.1	0.1	0.0
SEAF Caucasus Growth Fund Equity	2-Dec-11	3.1	3.1	1.5
Ardshinbank Mortgage Financing*	23-Jun-12	7.4	7.4	0.3
Euroterm II	26-Apr-13	2.1	1.4	-
Ardshinbank SME*	19-Sep-14	9.2	9.2	1.0
Armenian Airports	14-Dec-15	35.0	25.0	15.2
Ardshinbank SME II*	21-Apr-16	9.2	9.2	4.9
Araratbank SME II*	23-Sep-16	4.6	4.6	3.3
ACBA SME IV*	23-Sep-16	9.2	9.2	5.5
National Mortgage Co. Armenia**	26-May-17	3.9	3.9	3.9
Ameria SME II*	5-Apr-18	13.8	13.8	13.8
Ardshinbank SME III*	21-Sep-18	13.8	13.8	13.8
Armeconombank SME III*	11-Jul-19	9.2	9.2	4.6
<b>Total</b>		<b>140.6</b>	<b>125.3</b>	<b>87.8</b>

\* Financing for Operation provided in USD

\*\* Financing for Operation provided in AMD

## III. Review of Country Strategy 2015-2018: Post-Evaluation

The current evaluation was performed by the Bank's Evaluation Office as per the respective Evaluation Policy. It reveals the performance of the Bank's 2015-2018 Country Strategies, to provide

accountability to the Board of Directors and Board of Governors as well as facilitate the decision-making on the eventual update of the country strategies.

The evaluation of the respective country strategy compares the stated 2018 targets with actual results as of end of 2018, and provides a country-oriented overview. The 2015-2018 Country Strategy was approved by the Board of Directors, reflecting an independent evaluation of the implementation of the BSTDB's earlier strategies. It was aligned with the objectives of the Bank's Business Plan 2015-2018 and was therefore evaluated in that context.

Overall, the implementation of the Country Strategy was consistent with the Business Plan. The Bank exceeded the volumetric targets by 25% but came short in addressing the full spectrum of the outlined sectors. It is noteworthy that it offered some of its lending in local currency, responding to specific country needs. A more comprehensive overview is presented in the table below.

**Table 3: Post Evaluation of 2015-2018 Country Strategy for Armenia**

2015- 2018 TARGETS			RESULTS	
Country Strategy	Sectors/Priorities	Target operations: € approved/ € signed (million)	Actual operations: € approved/ € signed (million)	Evaluation Summary
Armenia	<p><b>1. Financial sector – priority: more intermediaries, SME, equity funds</b></p> <p><b>2. Energy/Infrastructure: energy (efficiency and renewable), transport, municipal, telecom, IT, Media;</b></p> <p><b>3. Manufacturing: repeat business with known SMEs, minerals/mining, fast moving consumer goods, food processing.</b></p> <p><b>4. Real Estate: large projects, wholesale, retail/distribution, office, tourism, etc.</b></p> <p><b>5. Increase operational activity in smaller shareholder countries</b></p>	6/63	7/78,8	<p><b>1.</b> Volume: 125%</p> <p><b>2. Sector coverage:</b> Inecobank (SME) Armenian Airport (Industrials) Ardshinbank (SME) (2) ACBA (SME) NMC Armenda-local Currency Ameriabank (SME)</p> <p><b>3. Conclusion</b> Targets covered at 125%, with a rather concentrated sector coverage (financial and SME).  The Bank covered its targets, as well as some priorities (SME) relatively well, with the exception of energy and manufacturing.</p>

#### IV. BSTDB Operational Priorities for 2019 - 2022

The Bank's role and priorities for Armenia during the 2019-2022 period are outlined in accordance with (i) the priorities and targets laid out in its *Medium-term Strategy and Business Plan 2019-2022*<sup>1</sup>;

<sup>1</sup> Approved by the Bank's Board of Governors in February 2019.



(ii) updates to the MTSBP 2019-2022, (iii) country needs and objectives, and taking due consideration of (iv) available resources, strategies and policies of BSTDB. BSTDB will seek viable opportunities for operational activity and will closely monitor developments in the Armenian economy in order to stand prepared to support bankable projects. Where possible, the Bank will seek to leverage its presence by co-financing with international financial institutions (IFIs), public sector institutions and private partners, per its mandate.

The intention of the Bank is to provide support for the implementation of Government economic priorities, while being responsive to market demand. The Bank will consider undertaking activities and providing services as may advance its purpose, paying special attention to activities that promote regional cooperation, development of infrastructure, increased and diversified export of goods and services, and new employment creation. The Bank will seek to maintain consistency with the UN's Sustainable Development Goals in the context of Armenia and its priorities and needs.

Based on the 2019-2022 BSTDB Medium Term Strategy and Business Plan, the Bank would expect on average to sign one to two new operations each year, for approximately € 30-40 million. Over the four year period, this implies six to seven new commitments (signed operations) for approximately € 140 million (a range of € 130-150 million).

These indicative targets are based on the Base Case Scenario of Growth of the updated MTSBP 2019-2022<sup>2</sup>, and given appropriate circumstances and sufficient operational opportunities, the Bank would exceed this level in order to continue meeting client needs. In case of higher regional economic growth rates, an improved situation in financial markets, and above all, increased demand for Bank funding coming from private and/ or public entities active in the Armenian market, the Bank will welcome the prospect to exceed the projected scenario and achieve higher operational results.

A key consideration for the Bank is to increase its relevance in each Member State. Achievement of such greater prominence has both quantitative and qualitative aspects- how much the Bank plans to do, but also where it plans to do so. In line with the MTSBP 2019-2022, the Bank intends to increase its presence in key infrastructure sectors since on the one hand regional investment rates are low while country needs are high, and on the other hand such operations usually have high cooperation and development impact, and positive economic and social returns that exceed the financial returns of the particular operation. The willingness to provide sovereign guarantees (or equivalent undertakings) for such operations would greatly increase the ability of BSTDB to provide support in these high priority areas, and it improves the risk profile of BSTDB achieving substantially improved risk weightings for that portion of the portfolio.

The Bank will insist that all operations meet criteria of sound banking principles on the one hand, and financial viability/ economic sustainability on the other hand. Within these parameters, and in line with the Bank's continuing strategy to sustain higher operational activity in smaller shareholder countries, the Bank will explore the possibility of taking on additional risk- or risks- in order to facilitate the undertaking of additional operations. The greater 'reward' that justifies the acceptance of more risk is that the Bank would participate in a larger number and volume of operations in smaller

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<sup>2</sup> Any revisions to the MTSBP 2019-2022 may affect the indicative targets, as country specific figures might need to be revised accordingly with the overall figures

countries, and thus better fulfill its mandate to promote economic development, especially where needs are greatest.

### ***Areas for BSTDB Financing***

#### ***Trade Finance and Financial Sector***

Most Bank activity in Armenia has been in the financial sector, over the years, and will remain a priority area for Bank activities in the coming period. One reason for this is that most Armenian firms are too small in order to be able to absorb minimum BSTDB financing levels prudently, and this necessitates the use of financial intermediaries through which the Bank may reach out to many firms. Moreover, SME development is a core priority for the Government. Thus, the Bank will continue to work with banks to support promising small and medium enterprises (SMEs), making available longer term financing to fast growing SMEs. The Bank will prefer eligible financial intermediaries with developed branch networks which emphasize SME financing. BSTDB will also seek other ways to support SMEs, such as leasing, and will be open to other forms of cooperation with intermediaries, including involvement in investment funds or innovative special purpose structures.

Despite reforms and improvements in the legal and regulatory framework, the level of financial intermediation in Armenia remains relatively low. Through the network of financial intermediaries with which it works, the Bank will seek to offer longer tenors, to expand the range of products provided, and to increase lending amounts and tenors for partners which perform well.

In order to support further development and deepening of the domestic financial sector, government initiatives to promote de-dollarization of the banking sector, BSTDB will seek opportunities to provide local currency lending.

In the forecast period the Bank anticipates increase in the exposure to the financial sector in Armenia. Financial viability remains an essential precondition, but the Bank will also seek to mobilize technical assistance resources to facilitate innovation, creative structuring, and help to upgrade managing practices and governance.

#### ***General Industries (Manufacturing and Enterprise) Sector***

A central objective of BSTDB in the general industries sector in Armenia will be to support the development and growth of export oriented businesses. The task is directly related to the national economic policy objective to improve competitiveness and the nation's trade balance. Financing exporters will involve focusing on companies whose business is not limited by the relatively small size of the domestic market of Armenia, thus helping to overcome the generally small size of operations which has often been an impediment to expanding the Bank's presence in Armenia. BSTDB will also assist in mitigating foreign exchange risks related to financing the Armenian general industries sector in currencies other than the local one. Sectors of the Armenian economy that enjoy export potential include: mining, pharmaceutical sector (pre-dominantly manufacturing of generic drugs), food processing, and green houses in the agricultural sector.

Another Bank priority will be to support the development job creating economic activities in services: tourism, retail trade distribution, etc. Tourism is an important source of hard currency with considerable growth potential, while it is also an area which creates numerous new employment opportunities, directly and indirectly. Thus, investment in tourism infrastructure related to the renovation of existing and the construction of new hotels represent another area where the Bank's involvement would be appropriate.

The Bank will be open to consider opportunities in financing of large public sector infrastructure projects supported with a sovereign guarantee or other acceptable guarantees of Armenian government agencies or structured as Public-Private Partnerships. Given the capital intensive nature of such projects, the Bank's involvement would most probably take the form of co-financing with other IFIs operating in the country.

The real estate sector of Armenia is a frequent source of large-scale projects. High risks associated with the financing of the real estate sector necessitate a careful screening and selection of projects eligible for BSTDB financing. The major criteria of a bankable real estate development transaction are (i) the availability of a financially strong sponsor(s) commitment to support the project and bring it to successful completion, and (ii) reasonableness of the scale of the investment, which corresponds to realistic estimates of market demand. The Bank will undertake steps directed at identifying bankable transactions in real estate development in Armenia, applying the aforementioned general criteria.

In all its financings, BSTDB will insist on its clients complying with the principles of good corporate governance and financial transparency. From this perspective, the Bank's activities will contribute to the attainment of such goals of the Armenian Government as increases in revenue collection and a reduction of the grey and black economies.

#### *Energy and Infrastructure (E&I)*

Given existing E&I needs, which are very high, so long as projects are 'bankable', the Bank will be open offering support. This applies to all key infrastructure sectors, including conventional and renewable energy and electricity, oil and gas (upstream, midstream and downstream operations), transport infrastructure, telecommunications, information technology and municipal and social infrastructure. The existence of an appropriate competitive environment and regulatory framework will be an important consideration in ascertaining 'bankability', alongside development impact.

BSTDB will be willing to explore whether the Armenian Government will be able to provide sovereign guarantees for E&I projects. Should a sovereign guarantee be necessary and possible, it primarily shall be sought for an extremely high priority activity in which the guarantee would also serve as a signaling mechanism of the Government's commitment to/ ownership of the operation in order to facilitate greater resource mobilization and broader participation.

In the case of financing at the privatization stage of any E&I objects, the presence of a strategic investor would be a key factor for the Bank, and the Bank's assistance would likely come in the form of post-privatization financing to carry out restructuring and/ or upgrade facilities. Other involvement in infrastructure operations will need to be via creative arrangements such as public-private partnerships (or other forms of concessions).

The Bank will continue to ensure that all BSTDB E&I operations in Armenia meet sound banking principles and comply with the Bank's Environmental Rules and Procedures and incorporate, where appropriate, Environmental and Social Action Plans

The Bank will work in cooperation with EBRD, IFC, EIB, KWF, DEG, Proparco, ADB, Eurasian Development Bank, other IFIs, commercial banks and ECAs in joint energy and infrastructure sector projects as an important source of the project co-financing as well as the institutional knowledge transfer.

BSTDB Energy and Infrastructure strategy in terms of banking instruments:

- Project Finance limited recourse transactions;
- Corporate recourse financing transactions;
- Co-financing of transactions with other IFIs commercial banks and ECAs;
- Participation in syndicated facilities for E&I deals in Armenia;
- To a limited degree, and depending upon the strategic importance of the activity, exploration of financing in the form of Equity

Areas of particular focus in Energy and Infrastructure:

- Energy (conventional and renewable generation, transmission, distribution and storage,
- Oil and gas (upstream, midstream and downstream operations and storage),
- Transportations of all kinds and transport infrastructure
- Telecommunications and Information Technology,
- Municipal and Social infrastructure of all kinds