

I. COUNTRY REFORM PROGRESS

This Global Public Finance Partnership (GPFP) project provides capacity development (CD) support to Armenia on tax policy, revenue administration, and public financial management (PFM).

Recent and ongoing tax policy reforms include: (1) in the mining sector, a 2022 tax policy engagement by the IMF's Fiscal Affairs Department (FAD) contributed to a major reform of the fiscal regime adopted in 2023–24, shifting toward a more progressive and balanced system; (2) a 2023 review of tax expenditures is now leading to the introduction of a capital gains tax as part of a broader reform package, which was the focus of a follow-up FAD engagement in 2025; and (3) the October 2024 review of road transport taxation proposed a vehicle feebate to replace regressive value-added tax (VAT) and import-duty incentives, with subsequent discussions in March 2025 centered on implementation issues. Repeal of the VAT exemption and adoption of a rebate system—consistent with FAD recommendations—are planned for inclusion in the 2027 budget. In FY26, follow-up work on tax policy included CD on the legislative process of tax policy changes.

In revenue administration, progress was made in further implementing technical advice earlier provided by FAD. This mainly included strengthening the State Revenue Committee's (SRC) analytical capacity to assess tax compliance gaps, but also to systemically treat detected tax non-compliance. Following FAD advice and practical support, the SRC has built an internal analytical capacity to assess tax compliance gaps and matured its compliance improvement processes. However, there is still a lot to do to strengthen compliance risk management (CRM) in SRC, including expanding similar approach to customs operations, while improving tax and customs information exchange.

Armenia has been advancing its public investment management (PIM) and budget reforms. Recent progress in PIM includes strengthening the legal and institutional framework, introducing new arrangements for project appraisal, assurance and prioritization, and undertaking public procurement reforms; central PIM oversight has been reassigned to the Ministry of Finance (MOF), which was a key institutional change during 2025. Supported by the previously completed and the recently approved country programs (the IMF's Stand-by Arrangement, or SBA), Armenia revised its PIM legislation by introducing amendments to the Government PIM Decree, clarifying the definition of public investment projects, standardizing appraisal and prioritization procedures, and strengthening centralized oversight by the MOF.

On the budget side, the MOF launched a comprehensive reform in 2024 aimed at strengthening the strategic focus of the Medium-Term Expenditure Framework (MTEF), including better alignment with medium-term macroeconomic forecasts, the introduction of broad expenditure ceilings, and efforts to improve the overall efficiency of budget preparation. To achieve this, the Government adopted amendments to the Budget System Law in 2024 and updated supporting decrees, reinforcing the MTEF and improving the legal basis for integrating public investment projects into the annual budget and medium-term fiscal planning.

Armenia's work on strengthening its fiscal risk management continues and focuses on deepening analysis and disclosure of risks from state-owned enterprises, public-private partnerships, budget loans, and guarantees. Recent efforts focused on the application of IMF fiscal risk toolkits, and clarifying legal requirements for reporting contingent liabilities.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY26: Interaction with government was positive with strong collaboration. CD has contributed to stronger ownership, policy change, and improvement of outcomes—on road transport taxation and capital gains taxation. Coordination with other donors (particularly the World Bank), as well as the implementation of the ongoing IMF program (the repeal of the VAT and customs duties exemption on electric vehicles is a structural benchmark) support implementation of structural reforms on road transport and capital gains taxation. Changes to electric vehicle taxation are being implemented through the 2027 budget law. In FY26, follow-up work included CD support on the legislative process of tax policy changes.

Previous Progress: In FY25, with follow-up in FY26, CD was delivered on capital gains taxation, which is expected to be implemented in the 2027 budget.

Next Steps: Not further CD on tax policy is planned in FY27.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY26: While there were no GPFP-financed CD activities delivered during FY26, the SRC continued improving tax administration processes as recommended during earlier periods. During May 2025, the Tax Administration Diagnostic Assessment Tool (TADAT) evaluation performed by FAD in collaboration with other development partners (Sweden and France) confirmed positive developments in several tax administration key performance areas, notably in tax compliance related processes.

Previous Progress: The SRC has made good progress during FY25 and earlier in maturing their CRM framework and developing analytical capacity for measuring tax compliance gaps.

Next Steps: TADAT assessment identified several areas for potential CD going forward: access to and use of third-party data, strengthening CRM, performance and outcome measurement, and large taxpayer payment compliance—particularly for VAT. The exact areas of engagement will be confirmed with the authorities in the nearest months.

SM II: Spending Module II – Managing Public Finance

Key Progress in FY26: FAD's first GPFP-funded activity in February 2026 to support the authorities included combined public investment management assessment (PIMA) Update and Climate PIMA missions. Staff noted improvements in Armenia's infrastructure governance and climate-sensitive PIM since 2018. As a result of these missions, current gaps and persisting challenges were identified including fragmented infrastructure planning, lack of investment strategies, a disconnect between PIM and the budget process, issues in project implementation, including procurement, portfolio monitoring, and asset maintenance. These hinder investment efficiency and capital budget execution.

Next Steps: In FY27, FAD support will focus on strengthening budget processes and implementation of PIMA and C-PIMA recommendations.

III. LOGICAL FRAMEWORK

Country – Armenia		
RM I: Objective – Strengthen Policy Monitoring, Evaluation, and Institutions - TPM		Rating - 2
Outcome	Rating	Narrative
Improved structures (e.g., tax policy units) or capacity (e.g., models and tools) related to tax policy advice and analysis.	2 Partially Achieved	In FY26, follow-up work included CD on the legislative process of tax policy changes. Authorities are considering changes to that process, including through the development of a medium-term revenue strategy.
RM II: Objective – Strengthened revenue administration management and governance arrangements - RAM		Rating - 3
Outcome	Rating	Narrative
Corporate priorities are better managed through effective risk management	3 Largely Achieved	SRC has made very good progress in implementing CRM Framework to better manage tax compliance through effective risk management. However, there is still more to do to have a fully operational international good practice CRM Framework. The 2025 TADAT showed significant improvement in effective risk management.
RM II: Objective – Strengthened core tax administration functions (SDG 17.1) - TAD		Rating - 3
Outcome	Rating	Narrative
A larger proportion of taxpayers meet their filing obligations as required by law	3 Largely Achieved	2025 TADAT reveals P4-12 has moved from a 'D' rating in 2016 to a 'B+' rating in 2025.
A larger proportion of taxpayers meet their payment obligations as required by law	3 Largely Achieved	2025 TADAT reveals P5-18 results improved from 'D+' to 'B' since 2016 to 2026. Further improvement is needed in aged arrears over 12 months.
RM II: Objective – Improved customs administration functions (SDG 17.1) - CAD		Rating - 1
Outcome	Rating	Narrative
Customs control during the clearance process more effectively ensures accuracy of declarations	1 Not Achieved	CD support in customs has not yet been provided.
SM II: Objective – Build Sustainable Fiscal Institutions - SFI		Rating - 2
Outcome	Rating	Narrative

Strengthened capacity to plan, implement and sustain infrastructure governance	2 Partially Achieved	PIMA and C-PIMA were completed. Assessments identified current gaps and persisting challenges in PIM processes, including fragmented infrastructure planning, lack of investment strategies, a disconnect between PIM and the budget process, issues in project implementation, including procurement, portfolio monitoring, and asset maintenance.
Strengthened capacity to plan, implement and sustain reforms in strategic areas, including climate, gender, and SDGs	2 Partially Achieved	On climate matters, progress was acknowledged with the adoption of new Climate Law, with report identifying areas for improvements in reflecting climate issues into sectoral strategies and construction regulations, asset maintenance and management, and expanding the frameworks for disaster risk management.
SM II: Objective – Strengthen Budget Management - SBM		Rating - 1
Outcome	Rating	Narrative
Strengthened annual budget process for more efficient and effective use of resources	1 Not Achieved	No CD has been delivered yet. Missions are planned to start in FY27 with strategic HQ assessment and setting of reform priorities and implementation actions.
Strengthened medium-term budget frameworks	1 Not Achieved	Same as above.
SM II: Objective – Strengthen Macroeconomic Frameworks - SMF		Rating - 2
Outcome	Rating	Narrative
Strengthened identification, monitoring, and management of fiscal risks	2 Partially Achieved	No CD has been delivered yet under GPFP. Fiscal risks workstream has been advancing under the intervention of the IMF's Caucasus, Central Asia and Mongolia Regional Capacity Development Center (CCAMTAC), and partially achieved the desired outcome.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
RM I, RM II: CD delivery interrupted due to health crisis. Significant regional (border) tension.	Medium	Known techniques for virtual engagement and delivery of CD, if needed. Border tension reduced with peace treaty.
SM II: 2022-26 have been characterized by regional tensions, tight global financial conditions, a slowdown in major trading	Medium	Agree with the authorities on potential of remote activities in case of adverse events. Ensure proper coordination of PFM CD with the IMF's Middle East

Description	Rating	Mitigation Measures
partners—including Russia, as well as rising global food and energy prices, including most recent conflict in the Gulf Region.		and Central Asia Department (MCD), so that it can be resumed following any disruption.
Political Support		
RM I: Lack of political support for reforms.	Low	The IMF's SBA is a strong sign of political support. Considered unlikely under newly appointed (2024) Chair, who was former deputy finance minister. If needed, engage MCD country team to assist in securing additional political support.
RM II: Political leadership has not always motivated the SRC in progressing with reforms.	Low	Considered unlikely under current SRC chair, who was former deputy finance minister. If needed, engage MCD country team to assist in securing additional political support.
SM II: Armenian economy remains vulnerable to external shocks. In case of any further external factors or political instability, the MOF commitment to PFM reform implementation could deteriorate.	Medium	The IMF-supported SBA structural benchmarks are anchoring important PFM reforms. Engage regularly with the Finance Minister, relevant deputy ministers, and MOF technical staff to foster and monitor government ownership of reforms. Leverage MCD support.
Management and Technical Staff Support and Commitment		
RM I: Low commitment of management and staff in finance and other ministries to adopt and implement fiscal risk management practices.	Low	All past CD projects have evidenced the availability and engagement of qualified staff.
RM II: SRC management and staff previously took a passive position during CD assignments (2021), but this has not been observed recently (2024)	Low	Low risk assessment, so we accept the risk. If authorities do become passive, we can tailor mitigation, including proportionately reduced CD or active management of milestones.
SM II: Commitment and capacity in different aspects of PFM reform have progressed overall, but there remain weak areas in implementation.	Medium	Proactively engage with MOF leadership and technical staff, explain the importance and prioritization of PFM reforms, following up on the progress and providing regular check-ins. Regularly update status of PFM reforms, coordinate with other donors to ensure complementary capacity development activities

Description	Rating	Mitigation Measures
Resource Adequacy		
RM I: The project is constrained by ministry of finance/SRC staff capability and capacity.	Low	Advice will include a realistic implementation timetable. This would ensure that CD complements the authorities' ongoing work. Staffing options will be explored early in the project.
RM II: Resources available do not allow us to address some requested development areas. Resource adequacy has generally improved between 2021 and 2024, although some skills (e.g., analytics) present challenges in all administrations.	Low	Focus CD on those matters that do not have resource constraints. If needed, direct CD to the process of how to overcome skilled resource constraints.
SM II: Armenia's demand for IMF CD resources on PFM continues to be high, while insufficient technical capacity and human resources limit CD absorption capacity	Medium	Ensure CD plans include sufficient capacity building, training elements and prioritize CD to priority or highest risk areas where resources are limited.
Other Risks		
RM II, SM II: Multiple donors are providing technical assistance on revenue administration reforms, which may result in overlaps.	Low	Participate in regular donor coordination meetings, take an active role in engaging with other donors to ensure support is prioritized and well-coordinated.

V. PROJECT MANAGERS: CONTACT INFORMATION

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