

I. COUNTRY REFORM PROGRESS

Tax/GDP reached 22.6 percent in 2024 from 21.9 percent in 2022. Revenue mobilization is growing slowly (23.2 percent in 2025, according to the IMF's projection), with risks of base erosion from new tax incentives. Armenia's Stand-By Arrangement (SBA), expiring in December 2025, is on track. Capacity development (CD) support from the IMF's Fiscal Affairs Department (FAD) in recent years has been crucial for the implementation of structural conditionality of the SBA. Key CD needs in revenue administration include modernizing the audit process, addressing tax gaps, and enhancing medium-term fiscal planning and tax revenues, with potential benefits from assistance through the Tax Administration and Diagnostics Assessment Tool (TADAT). On tax policy, FAD CD has been crucial for enhancing the tax system (tax expenditures and capital gains taxes, mining taxation, road transport taxation).

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY25 The interaction with the government was positive, marked by strong collaboration. The CD contributed to greater ownership, policy changes, and improved outcomes in the areas of road transport and capital gains taxation. In road transport taxation, a review of the existing vehicle and fuel tax regime led to recommendations for a feebate system on vehicles and a gradual increase in fuel excises. Regarding capital gains taxation, the reform—outlined in detail by FAD—aims to tax gains on both real estate and financial assets.

Previous progress: The new capital gains tax directly implements a policy recommendation from FAD's 2023 CD on tax expenditures. This followed direct policy impact on mining taxation in 2022/23 following a FY23 FAD review.

Next Steps: In FY26, the authorities confirmed their interest in focusing on implementation issues related to the recent CD, notably on road transport taxation (feebate) and capital gains taxation.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY25: FAD has provided important insights for the State Revenue Committee (SRC) in their work on implementing personal income tax declarations by estimating the Personal Income Tax gap and the Social Security Tax gap. FAD advised SRC on the taxation of crypto assets, in particular tax compliance issues and implementation of the Organization for Economic Co-operation and Development's (OECD) Crypto-asset Reporting Framework (CARF).

Previous Progress: FAD has laid one of the foundational elements for SRC's Compliance Risk Management (CRM) process by estimating the corporate income tax gap.

Next Steps: FAD will undertake a TADAT assessment to establish a baseline of the current state of SRC tax system operations and then help SRC develop a reform and CD plan to improve their core capabilities in priority areas.

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	Key Progress in FY25: The Government of Armenia requested CD in three areas: (i) assessment of the tax buoyancy of the tax system; (ii) evaluation of the road transport in the country; and (iii) capital gains taxation. The goal of the first activity is to provide insight to the government on growing sectors of the economy and their share in tax revenues of the country. The goal of the second activity is to review the existing regime of property taxation for vehicles and advise on alternative methods of vehicle taxation. The second activity also aims at revision of existing environmental taxes applied to vehicles and as well as reassessment of the level fuel excises. The third activity is the implementation of a policy recommendation of the FY23 CD on tax expenditures and aims at taxing capital gains on real estate and financial assets.
RM II: Objective - Strengthened revenue administration management and governance arrangements		Rating - 2
Outcome	Rating	Narrative
Corporate priorities are better managed through effective risk management	2 Partially Achieved	SRC has made very good progress on implementing an international good practice standard compliance risk management CRM framework to better manage through effective risk management. However, there is still more to do to have a fully operational international good practice CRM framework.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
RM I: The risk is that external events create a more challenging environment to implement reforms.	Medium	Program execution allows for sufficient flexibility ability to adjust activities in the case of adverse events.
RM II: CD delivery abrupted due to health crisis	High	Known techniques for virtual engagement and delivery of CD, if needed.

Description	Rating	Mitigation Measures
Political Support		
RM I, RM II: 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.
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 a mitigation including proportionately reduced CD or active management of logframe milestones.
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 the CD complements the authorities' ongoing work. Staffing options will be explored early in the project.
RM II: Resources available do not allow 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.
Other Risks		
RM I: Emerging risks as the project evolves.	Medium	Continuous monitoring of emerging risks and mitigations developed.
RM II: Long running border war with Azerbaijan, which could escalate.	Medium	Techniques for engaging with fragile and conflict-affected states are available. Tensions seem to be subduing (Mar 2025).

V. PROJECT MANAGERS CONTACT INFORMATION

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