

I. COUNTRY REFORM PROGRESS

The IMF has maintained a long-standing engagement with Armenia, providing extensive capacity development (CD) over the years. Significant CD has been necessary to support both past and ongoing program objectives in areas such as public financial management, tax policy and administration, tax gap measurement, monetary and Forex operations, financial programming and policies, and statistics. This assistance has yielded positive results, contributing to stronger ownership, policy changes, and improved outcomes. Additionally, coordination with other donors has facilitated the implementation of structural reforms in health, education, governance, and other social policies.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY25: The Government of Armenia has requested CD in two areas: (i) assessment of the tax buoyancy of the tax system to provide insights regarding growing sectors of the economy and their shares of tax revenues; and (ii) evaluation of vehicle taxation in the country and advice on alternative tax designs. Additionally, the second activity aims to revise the existing environmental taxes applied to vehicles, as well as reassess the level of fuel excise taxes.

Next Steps: During the Annual Meetings in 2024, the government requested new CD for an introduction of the capital gains taxation; specifically, to explore modalities for implementation and draft the legal formulation of the capital gains tax. This request pertains to a new activity that was not included in the original GPFP proposal, but it was added to the FY25 workplan to maintain agility in meeting CD demand requests.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY25: The Chairman of the Armenian State Revenue Committee (SRC) has requested an estimation of the gaps in personal income tax (PIT) and Social Security Contributions (SSC). This request was confirmed at the 2024 Spring Meetings. Understanding these gaps will provide crucial insights for the SRC as they work on implementing a PIT declaration, as well as inform their compliance risk management. To achieve this, the SRC will continue to collect withholding tax and data from employers, relying heavily on high-quality data.

The IMF's Fiscal Affairs Department (FAD) conducted a comprehensive scoping mission in September to gain a detailed understanding of the operating context for PIT and SSC. This mission was the first step in ensuring that the gaps in PIT and SSC can be accurately measured. A key part of this mission involved analyzing the available data to measure these gaps.

Next Steps: The next step is to measure the PIT/SSC gaps. The SRC has provided the necessary data, and the findings on the CIT/SSC gaps are expected to be presented to the SRC on December 30, 2024.

III. LOGICAL FRAMEWORK

Country – Armenia		
RM I: Objective – Strengthen Policy Monitoring, Evaluation, and Institutions - TPM		Rating - 0
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	The government expressed interest in participating in the buoyancy analysis of the tax system and produce a joined product. The work is currently in progress. The team is working with the government on the analysis. The CD on vehicle taxation was delivered to the government.
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 Conditions/Climate		
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	Plan for virtual delivery
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 take a passive position during CD assignments	Medium	Enhanced communication, aligning CD with SRC priorities
Political Support		
RM I: Lack of political support for reforms.	Low	The IMF's Stand by Arrangement is a strong sign of political support.

Description	Rating	Mitigation Measures
RM II: Political leadership does not motivate the SRC progressing with reforms	Medium	Involve the country team of the IMF's Middle East and Central Asian Department
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	High	Focus on items with highest impact, plan increase in resource for the next period
Other Risks		
RM I: Emerging risks as the project evolves.	Medium	Continuous monitoring of emerging risks and mitigations developed.
RM II: N/A	N/A	N/A

V. PROJECT MANAGERS CONTACT INFORMATION

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