

*Григорян Донара Овиковна*

ЭКОНОМИСТ

Институт экономики им. М. Котаняна

Национальная Академия наук Республики Армении

г. Ереван, Республика Армения

## **PUBLIC DEBT OF ARMENIA**

***Аннотация:** в статье обсуждается государственный долг Армении. Обозначены причины и особенности формирования государственного долга. Автор доказывает необходимость действий со стороны правительства, что позволит защитить социально уязвимые группы населения.*

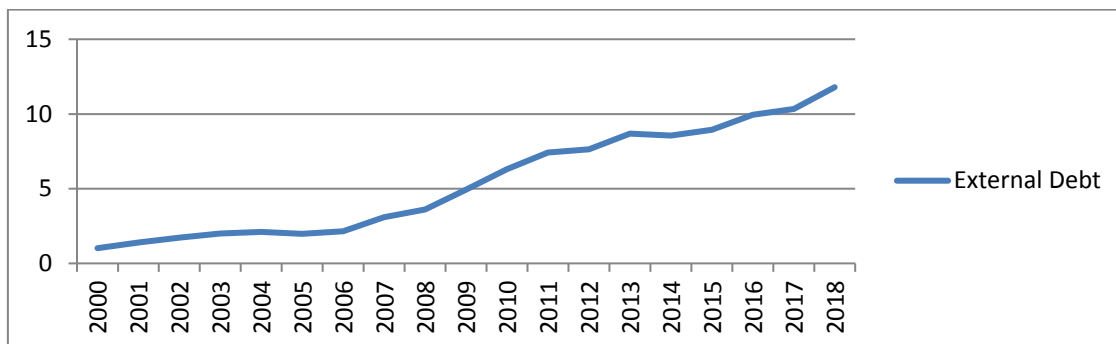
***Ключевые слова:** внешний долг, Армения, ВВП, государственный долг, государственный бюджет.*

***Abstract:** the article is focused on the public debt of Armenia. The reasons for and the mechanism of public debt formation are determined. The study suggests that the government should take action to solve the problem, thereby protecting the socially vulnerable population groups.*

***Keywords:** external debt, Armenia, GDP, public debt, government budget.*

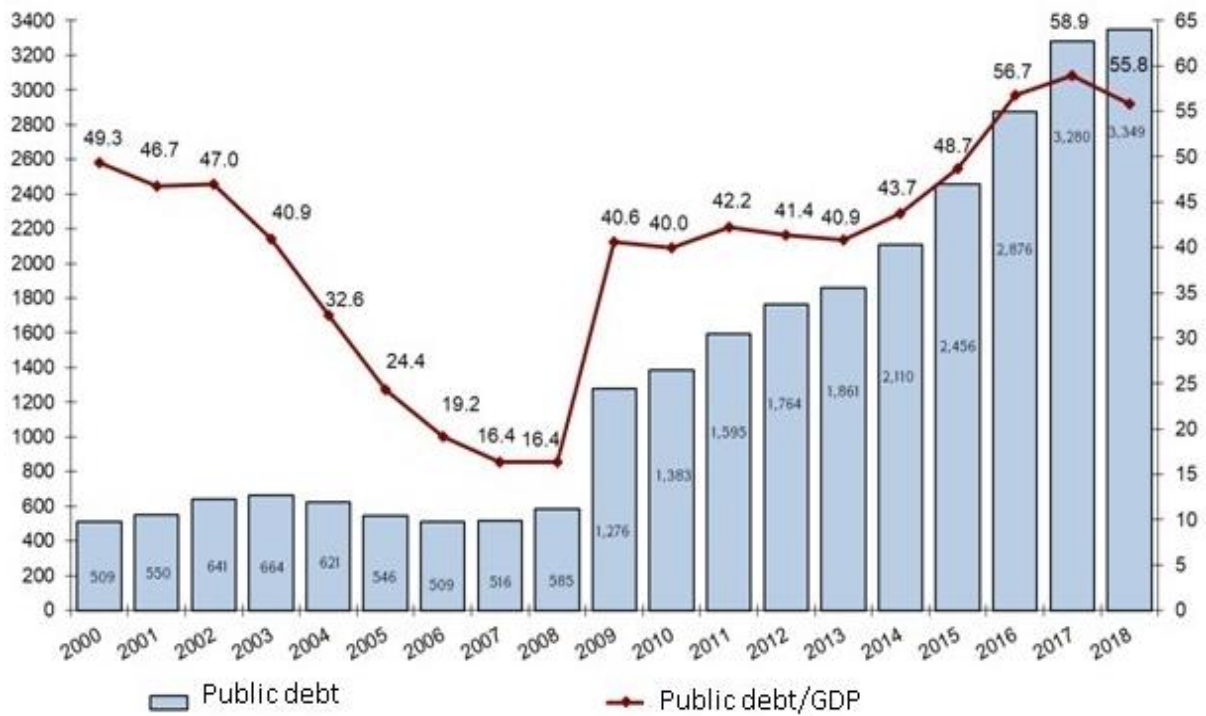
Public debt became a broad issue of concern for taxpayers, investors and international organizations around the world. In the XX century debt problems were much common to developing countries. In the XXI century the members of the Organization of Economic Cooperation and Development (OECD) also faced debt problems [1]. Armenian economy is highly exposed to developments in its main trading partner countries. Over the last decade Russia was the major source of remittances, foreign direct investment (FDI) and energy supply (fuel for thermo-power and nuclear plant). Public debt is the consequence of imbalances in fiscal policy. The debt, in a macro level, is taken to increase the wealth of the economy, to stimulate the economy and to have higher growth rates. The debt emerges and increases because in recent years the state budget had a big deficit. If the government will not take steps to correct the situation awry adjustment may start that will hurt socially vulnerable groups of population.

Properly managed adjustment requires either increasing public revenues, or cutting down expenditures, or both.



Graph 1. External debt of Armenia in 2000–2018, billion USD

Graph 1 shows the external debt of Armenia in 2000–2018. As graph 1 shows the external debt has a tendency to grow in 2000–2018. A sharp increase in public debt was recorded in 2009, when the global economic crisis hit Armenia. The Government Debt Management in 2019–2021 the strategic plan was foreseen, that the debt of the Government of the Republic of Armenia for 2018 by the end of the year it should have made 3,283.6 billion drams or 54.2% of GDP [2]. 2014–2016 was another phase of debt accumulation, due to Armenia’s main partner Russia's economic deterioration (mainly due to West's sanctions and oil deflation) and the price drop of non-ferrous metals – copper and molybdenum – in the international market, *since* mining is one of the top priorities in Armenia's industry and exports. The Armenian dram also devalued at the end of 2014, resulting in the raise of external debt in foreign currency. And to save the situation, Armenian government increased the external debt burden [1]. 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 of GDP, of which the external debt was equal to 46.2 percent of GDP and domestic debt was equal to 3.1 percent of GDP.



Graph 2. Public Debt and Public debt/GDP in Armenia

In 2018 31 of December the index of Public debt/GDP was 55.8%, which is decreased of 3.1% points compared to the previous year, this was mainly due to faster growth in nominal GDP (7.9% versus 2.1% increase in public debt). During the mentioned period the external state debt of the Republic of Armenia increased by 38.0 million USD (16.4 billion AMD) or by 0.6%. In 2018 the state budget deficit was financed by 48.0 billion drams at the expense of borrowing net proceeds from domestic sources (without bills). Armenia's foreign debt will not exceed 60% of the annual GDP volume. The debt of the GOA is becoming a burden for the state budget and taxpayers. The GOA needs to improve the strategic planning of public finances, analyze and present to the public the impact the large-scale borrowings have on Armenian economy, the state budget and public debt. Public debt management reports must present not only deviations from the state budget and the reasons but also deviations from the public debt management strategy. 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 [1]. 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. 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. 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. As a result, the risks associated with the present model of development of Armenian economy may materialize. Public debt repayments and interest payments already absorb large volumes of financial resources that could have been used for solving problems in other sectors. Public debt and economic growth have a complex mechanism of mutual influence. Public debt is a result of the imbalances in fiscal policy. Debt generates and grows, because the state budget in recent years has had a big deficit. This means that the government has committed itself to significantly exceeding its available funds. If the government doesn't take measures to remedy the situation, vulnerable groups in society will suffer. Any government can for a long time have a small budget deficit without endangering the country's economic stability. Any government can shortly have a large state budget deficit without jeopardizing the country's economic stability. One of the most important factors affecting Armenian public debt management is the exchange rate of the national currency. 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. 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. Public debt repayments and interest payments already absorb large volumes of financial resources that could have been used for solving problems in other sectors.

### *References*

1. Kyurumyan A. Political Decisions about Public Debt Management in Armenia in Recent Years and Their Consequences. – URL: <http://www.osf.am/wp-content/uploads/2017/11/Political-Decisions-about-Public-Debt-Management-in-Armenia-in-Recent-Years-and-Their-Consequences.pdf>

2. Ministry of finance of the Republic of Armenia: annual report. – URL: [http://www.minfin.am/en/page/annual\\_reports/](http://www.minfin.am/en/page/annual_reports/)

3. World Bank, International Debt Statistics. – URL: <https://data.worldbank.org/indicator/DT.DOD.DECT.CD?end=2017&locations=AM&start=1993&view=chart>