Republic of Armenia

Central Bank

Annual Financial Statements

2006

Central Bank of the Republic of Armenia
Financial Statements
For the year ended 31 December 2006

Independent Auditors' Report

To the Board of the Central Bank of Armenia

Report on the Financial Statements

We have audited the accompanying financial statements the of Central Bank of Armenia (the "Bank"), which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in accumulated deficit and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Armenia cjsc
23 March 2007



KPMG Armenia cjsc

INTRODUCTION

In January 2006, the Central Bank of Armenia made a statement that, operating within the framework Republic of Armenia Law on the Central Bank, the Central Bank of Armenia adopted effective January 1, 2006 a new approach to inflation management by transitioning to an inflation targeting strategy.

The earlier-used monetary aggregates targeting strategy had been adopted by the CBA in 1994 on the backdrop of an autonomous monetary policy pursued since the introduction of a national currency in late 1993. The strategy implied setting an ultimate goal, followed by setting an intermediate target, also known as a nominal anchor. The ultimate goal was inflation, and the intermediate target—money supply or broad money, which the CBA managed by means of an operational target—the monetary base. Hence, a *monetary base-broad money-inflation* chain was operational. Though the CBA had been attaining the inflation targets in recent years, the monetary aggregates targeting strategy encountered problems in the course of its implementation. In the more recent past, the *broad money-inflation* link had become volatile because of a fluctuating money supply, broad money structural changes in a highly-dollarized environment, and the sizable impact on inflation of non-monetary factors (external shocks and the like). As the primary goal of the CBA is to maintain price stability—defined by the legislature in the Law on the State Budget as a "certain level of inflation"—the CBA, given the weakening of the aforementioned link and the preference for the inflation target, has periodically had to revise its projection of broad money in the implementation of monetary policy. Essentially, the nominal anchor of monetary aggregates was not efficiently serving its purpose, because the legislature's requirement to deliver a certain level of inflation forced the CBA to exercise discretion authority on numerous instances.

Since the transition in 2006 to an inflation targeting strategy, for which the ultimate goal is a targeted level of inflation, and the nominal anchor is the projected level of inflation, the CBA is no longer guided by monetary aggregates. Short-term interest rate is the operational goal; however, for reasons of financial stability, the CBA will also practice some volume regulation. Using an inflation model to forecast inflation for a future period, the CBA assesses the deviation from the target and aims its policy at eliminating the discrepancy between the target and the projection. The chain now runs from *interest rate* to *projected inflation* to *inflation*. The main advantage of explicit inflation targeting over the previous strategy is that, under the latter, broad money was considered the only factor driving inflation, whereas the new strategy conceives a broad spectrum of factors probably impacting inflation, including the public's expectations of the future.

Accountability and transparency of the CBA's activities become rather important for implementing an inflation targeting strategy. Hence, the CBA will regularly publish the inflation forecast in the form of Inflation Reports, which, since 2006, have been issued on a quarterly basis (in *The Newsletter of the Republic of Armenia Central Bank*), covering the policy implementation progress. In this manner, the public can keep up with the CBA's activities and obtain explanation of the policies pursued and the deviations found. This process aims at bolstering public confidence in the CBA and the national currency, increasing dram savings, and improving the effectiveness of monetary policy.

As a result of the monetary policy carried out in line with the new inflation management strategy, annual inflation in 2006 was 5.2%. Inflation was mainly caused by a 6.6% increase in food products prices and a 5.3% increase in service tariffs, which contributed 3.6 and 1.6 percentage points, respectively, to inflation. The increase in food products prices was mainly due to changes in prices of several product groups such as Vegetables, Fruit, and Sugar (contributing 3.3, 1.4, and 0.5 percentage points, respectively), while the increase in service tariffs was mainly due to the "Health Care Services" and "Housing Services and Utilities" groups (contributing 0.9 and 0.3 percentage points, respectively).

Economic growth remained buoyant in 2006—coming in at 13.4% at yearend. Growth continued to be fueled mainly by strong real growth of value added in construction and services (annual growth in these sectors was 37.2% and 14%, respectively). These developments, along with the higher growth of tourism and private transfers,

caused a marked inflow of foreign currency to the economy, resulting in higher household income. The latter, through a rise in private consumption, generated some inflationary pressure in the consumer market.

In two other sectors of the economy—the industry and agriculture—growth slowed down. The decline of annual value added in the industry was mainly due to changes in international markets, while agriculture was negatively affected by adverse weather conditions. Consequently, annual industrial output declined by 0.9% in real terms in 2006 (compared to a 7.4% growth in 2005), while annual growth of agriculture came in at only 0.4% (compared to 11.2% in 2005).

During 2006, domestic demand grew by an annual 13.7%, and private sector expenditures grew by an annual 13.2%. The performance was rather sound in terms of private investment, which grew by an annual 27.9%, mainly on account of Q4 growth. Capital investment growth was mainly expressed in the form of faster construction growth, especially in the housing construction segment.

During 2006, private consumption grew by 9.2%, which, coupled with a lower harvest in plant cultivation, somewhat intensified the inflationary pressure in the consumer market.

The last five years' labor market trends of unemployment reduction and wage growth were sustained in 2006. Annual growth of the average nominal wage was 23.5%, while real wages grew by 20.8%; it is important to note that wages grew in all the sectors of the economy. Unemployment was 7.4%, representing a 0.8 percentage point reduction over 2005. Productivity growth remains lower than the wage growth, which generates inflationary pressure in the consumer market.

During 2006, dollar prices of imports increased by 15.2%, which far exceeded the 6.7% growth in 2005. However, the dram appreciation and the Government subsidies for higher natural gas tariffs broadly offset the increase in dollar prices of imports, which meant that dram prices of imports increased only by 3.6%. In 2006, the current account deficit exacerbated (by US $159.2 million). The current account balance to GDP ratio was 5.3% in 2006, compared to 3.9% in 2005. On the other hand, if the CBA's estimate of net inflow of foreign currency cash through the non-bank sector were considered, the current account would be in a surplus with US $346.3 million, accounting for 5.4% of the GDP.

The marked increase in financial inflows during the year contributed to higher aggregate demand and generated inflationary pressures. However, the CBA's floating exchange rate policy managed to contain such pressures.

The impact of fiscal policy on aggregate demand was neutral in 2006 in terms of both expenditures and revenues. Previous years' trends of state budget execution were sustained: the annual budget revenue target was exceeded, with expenditures being underexecuted in Q1 and reaching relatively higher levels in Q4.

In 2006, monetary developments could be characterized with two particular developments in the macroeconomic environment. The first was the materialization of the main risks posed by other sectors of the economy to the attainment of the CBA's primary goal: a lower harvest in plant cultivation, caused by adverse weather conditions, contributed to a considerable increase in the prices of "Fruit" and "Vegetables and Potato" commodity groups (29.5% and 37.9%, respectively). This was paralleled with an increase in prices of energy carriers, especially oil, in the external sector, which contributed to higher-than-projected inflation. Under these circumstances, the CBA revised the inflation target (5% $\pm$ 1.5%, instead of a yearend annual target of up to 3%) with a view to preventing sharp price fluctuations in the financial market, among other considerations.

The second development was the more intensive "dramization" of the economy starting from mid-2006 (at yearend 2006, the share of dram broad money in broad money grew by about 15% over yearend 2005), which, too, contributed to higher demand for the dram and, consequently, higher supply met by the CBA. At yearend 2006, dram broad money grew by 52.3%; the monetary base grew by 41.1%, and broad money grew by 32.9%.

According to the inflation projection for 2007, capital construction and services are expected to grow further in 2007 due to higher household income and inbound tourism development, which will promote aggregate demand and generate inflationary pressures.

The main risks deriving from the external sector are associated with higher-than-expected

growth of oil prices, input prices, and private remittances to Armenia.

Given these conditions, inflation for 2007 is expected to be 4.1%, which is within the annual 4% ± 1.5% target band. The risks of inflation being higher or lower do not prevail in either direction. Therefore, the CBA will constantly monitor internal and external economic developments and, in case of the emergence of risks, will adequately respond by addressing the risks deviating inflation from the target.

The key to financial stability is a soundly-functioning financial system in which financial institutions are able to attract and efficiently allocate resources. Financial stability in turn is essential to maintaining the appropriate level of liquidity, smoothly performing non-cash transactions, assessing and managing risks, and absorbing risks emerging in the market. In a wider sense, financial stability is the absence of crises, when the three main components of the financial system—the financial market, financial institutions, and financial infrastructures—effectively and efficiently perform their functions.

The risks undermining financial stability are diverse and stem out of different sources. It is necessary to assess both the internal risks of the financial system and the risks arising in all sectors of the economy; when the level of risk is impermissibly high, it is necessary to respond without any delay. Such a review should focus on both the microenvironment and the three components of the financial system (the financial market, financial institutions, and financial infrastructures).

The risks deriving from the real sector are mainly associated with changes taking place in various sectors of the economy, household income and indebtedness, and the overall level of prices, especially fluctuations in real estate prices. The risks deriving from the fiscal sector mainly stem from the size of public debt, the state budget deficit, deficit financing sources, and possible future developments. To maintain financial stability in Armenia, it is essential to identify the external sector risks, because foreign remittances and factor income account for a rather large share of gross disposable income.

On the whole, risks deriving from the microenvironment can mainly be due to possible changes in natural persons' and legal entities income, as well as the in the prices of assets (especially real estate), which may sharply change the behavior of natural persons and legal entities in terms of borrowing and repaying loans and placing deposits.

To this end, money and currency markets are worth examining: risks deriving from the money market are associated with interest rate fluctuations in primary and secondary markets for government bonds, while the greatest risk factor in terms of financial stability in the currency market is the volatility of the dram-USD exchange rate.

In Armenia, the banking sector accounts for about 92% of the financial system assets; consequently, banking sector risks must be analyzed as a priority for identifying and assessing financial institutions' risks in the context of broader financial system stability in Armenia.

Household income growth and, consequently, financial stability in Armenia depend greatly on the remittances of natural persons from abroad (in 2006, net remittances of natural persons were 189 billion drams) and non-cash payments (2,627,716 transactions worth a total of 5,194 billion in 2006). Hence, the smooth operation of payment systems, too, is essential to economic development and financial stability.

To mitigate liquidity risks that can be caused by a sharp increase in demand for drams and to maintain financial stability, it is essential to ensure an adequate volume of drams in circulation and in reserves. During 2006, dram reserves of the CBA were sufficient to meet the economy's demand for cash drams.

An imperfect legislative framework may hamper the development of and generate numerous risks in the financial system. Legislative and sub-legislative acts are being amended in order to prevent such risks and to promote financial stability.

In 2006, the CBA constantly monitored developments in the operation of financial infrastructures in Armenia, including the payment and settlement systems, cash circulation, legislative and sub-legislative amendments, and the fight against money laundering and terrorism financing.

The human resource policy of the CBA has aimed at supporting the core activities of the organization and, at the same time, addressing the social and professional needs of the staff.

1. INFLATION REPORT

1.1. INFLATION DEVELOPMENTS

Inflation by Goods and Services. Core Inflation.

Year-on-year inflation was 5.2% in December 2006, compared to a 0.2% deflation in 2005.

Inflation was mainly due to a 6.6% increase in prices of food products (including alcoholic beverages and tobacco), which account for 53.9% of the consumer basket, and contributed 3.6 percentage points to annual inflation. A relatively high (5.3%) increase in tariffs was reported in the service sector (compared to 1.9% in 2005), which contributed 1.6 percentage points to annual inflation. In the non-food products market, the situation is different: here, year-on-year inflation was relatively low (0.5%, compared to 2.1% in December 2005 over December 2004), and contributed only 0.1 percentage points to inflation.

The 6.6% increase in prices of food products (including alcoholic beverages and tobacco) was mainly due to higher prices of vegetables (37.9%), fruit (29.5%), granulated sugar (19.7%), fish produce (50.1%), eggs (13.3%), and bread products (1.3%), which contributed 3.3, 1.4, 0.5, 0.5, 0.4, and 0.4 respectively, to the inflation of food products.

The 5.3% increase in service tariffs was mainly due to higher tariffs on health care services (9.9%), housing services and utilities (3.7%), telecommunication services (10.5%), and education services (4.9%), which contributed 0.9, 0.3, 0.2, and 0.2 percentage points, respectively, to inflation.

The 0.5% increase in prices of non-food products was mainly formed as a result of higher prices of detergents (5.3%), shoe products (4.4%), and garment and knitwear (3.6%), and lower prices of personal-use automobiles and gasoline (7.1% for 2006, compared to an 8.5% increase in the prices of personal-use automobiles and gasoline in December 2005 over December 2004). The decline in prices of commodities in the "personal-use automobiles and gasoline" category was due to 10.6% lower prices of gasoline, which mitigated inflation of non-food products by about 1.7 and year-end total inflation by about 0.3 percentage points.

Main Commodity Groups Contributing to Inflation in 2006

Item	*Price Index in December 2006 over December 2005*
CPI	**105.2**
Foodstuffs (including alcoholic beverages and tobacco), of which:	**106.6**
Vegetables and potato	137.9
Fruit	129.5
Granulated sugar	119.7
Fish produce	150.1
Bread products	101.3
Eggs	113.3
Non-foodstuffs, of which:	**100.5**
Personal-use automobiles and gasoline	92.9
Detergents	105.3
Shoe products	104.4
Garment and knitwear	103.6
Services, of which:	**105.3**
Health care	109.9
Telecommunications	110.5
Housing services and utilities	103.7

December Inflation and Core Inflation (%)

Year	Indicator	Over Previous Month	Over December of Previous Year	Cumulative, Over Previous Year
2004	Inflation	2.3	2.0	7.0
	Core Inflation	0.3	0.6	5.5
2005	Inflation	2.3	-0.2	0.6
	Core Inflation	0.3	0.5	0.6
2006	Inflation	1.6	5.2	2.9
	Core Inflation	0.1	2.2	2.3

In 2006, inflation for Q4 compared to the end of Q3 was 2.8%, which was mainly conditioned by a 5.4% increase in prices of food products (including alcoholic beverages and tobacco) and a 0.9% increase in service tariffs, partially offset by 1.9% decline in prices of non-food products.

For January-December 2006 over the same period in 2005, inflation was 2.9%.

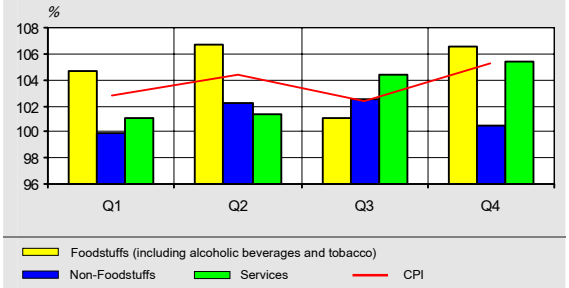


Chart 1.1
CPI Trends by Main Commodity Groups and Services (over December 2005)

Attaining the annual inflation target requires an assessment of core inflation, as the latter reflects long-term patterns in price changes, netting the impact of shocks during the year. From June 2004, the CBA publishes the official core inflation figure using the 15 percent trimmed mean method.[1]

Core inflation in December 2006 over December 2005 was 2.2%, mainly due to higher prices of beef (3.3%) and poultry (10.1%), and higher tariffs of university tuition (6.1%), dental services (9.9%), and medical services provided by middle-level health professionals and laboratorians (9.9%), which contributed 0.2, 0.1, 0.2, 0.1, and 0.1, respectively, to core inflation.

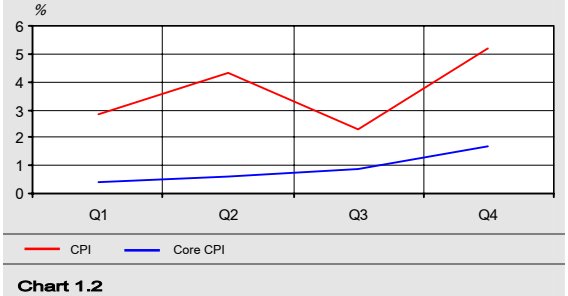


Chart 1.2
Inflation and Core Inflation (over December 2005)

[1] *A detailed overview of the calculation methodology is presented in the "Newsletter of CBA" (Q1, 2004).*

A Statistical Overview of Inflation Fluctuations

Considering that, as a rule, consumer prices in Armenia fluctuate during the year, it would be appropriate to use a combination of several methods to study fluctuations of the CPI, including the indices for individual commodity groups. To study changes in CPI and in the indices for individual commodity groups within the consumer basket, and to reveal the factors causing them to fluctuate, the impact of three elements (trend, seasonality, and the random element) commonly used in statistics theory has been identified and evaluated for the period from January 2004 to December 2006.

Share of Elements Causing Fluctuation of Monthly Price Indices (January 2004 – December 2006) (in %)

Commodity Groups	Trend	Seasonality	Random element	Total
CPI	0.1	78.8	21.1	100.0
1. Bread products	5.1	35.2	59.8	100.0
2. Meat products	8.0	28.0	64.0	100.0
3. Fish produce	2.7	47.9	49.4	100.0
4. Dairy products and oils	0.2	88.4	11.4	100.0
5. Fruit and vegetables	7.2	62.3	30.5	100.0
6. Other food products	13.8	32.6	53.6	100.0
7. Non-alcoholic beverages	14.2	31.7	54.1	100.0
8. Alcoholic beverages and tobacco	29.0	44.2	26.8	100.0
9. Garment and shoe products	0.0	44.4	55.6	100.0
10. Housing fees, electricity, and fuel	25.8	30.7	43.5	100.0
11. Home appliances	11.0	31.3	57.7	100.0
12. Health services and medication	0.6	6.5	92.9	100.0
13. Transport and communications	2.5	59.3	38.3	100.0
14. Leisure and culture products and services	0.0	44.7	55.3	100.0
15. Other goods and services	0.1	78.8	21.1	100.0

The estimates show that during the period from January 2004 to December 2006, compared to the period from January 2003 to December 2005, the impact of the random element on total inflation has grown (by 6.0 percentage points), whereas the impact of seasonality and trend has declined (by 4.5 and 1.3 percentage points, respectively).

During the period from January 2004 to December 2006, compared to the period from January 2003 to December 2005, the impact of the three elements (trend, seasonality, and the random element) has changed in different ways. The impact of trend remains the smallest in almost all the commodity groups. The impact of trend on higher prices of "bread products," "housing fees, electricity, and fuel," "transport and communications," and "other goods and services" has declined (by 4.8, 1.2, 2.2, and 13.1 percentage points, respectively). Nevertheless, the impact of trend on certain commodity groups has grown considerably: the share of the impact of trend on "alcoholic beverages and tobacco," "garment and shoe products," and "home appliances" has increased by about 14, 30, and 25 percentage points, respectively.

The impact of seasonality has somewhat declined (by about 4.5 percentage points), but it continues to have the greatest impact on the formation of CPI (justifying 78.8% of the CPI fluctuation). The impact of seasonality on "non-alcoholic beverages," "meat products and fish produce," "other food products," and "transport and communications" has declined (by 38.1, 36.4, 28.5, and 10.3 percentage points, respectively). On the other hand, the impact of the seasonality element on essential commodity groups such as "fruit and vegetables," "garment and shoe products," and "bread products" has grown (by 32.7, 18.5, and 6.4 percentage points, respectively).

The largest increase in the impact of the random element was reported on "meat products and fish produce," and "non-alcoholic beverages" (by about 32 and 26 percentage points, respectively), and the largest decline—on the "garment and shoe products" and "fruit and vegetables" commodity groups (by 47 and 38 percentage points, respectively).

The volatility of consumer price indices was also studied with the help of monthly price index variation ratios for each commodity group.

* *Estimates are made using the Census X12 ARIMA seasonal adjustment method.*

Monthly Price Index Fluctuation Ratios, 2004-2006 (%)			
	2004	2005	2006
CPI	1.6	2.4	1.2
1. Bread products	0.8	0.4	0.2
2. Meat products	1.4	1.5	0.8
3. Fish produce	23.2	16.1	14.8
4. Dairy products and oils	1.9	0.7	0.3
5. Fruit and vegetables	11.1	17.6	14.7
6. Other food products	1.5	2.2	0.7
7. Non-alcoholic beverages	0.7	0.5	0.3
8. Alcoholic beverages and tobacco	0.3	0.1	0.0
9. Garment and shoe products	0.3	0.5	0.4
10. Housing fees, electricity, and fuel	0.7	0.5	0.7
11. Home appliances	0.1	0.3	0.3
12. Health services and medication	0.4	0.4	1.6
13. Transport and communications	1.0	2.1	1.7
14. Leisure and culture products and services	0.3	1.1	1.0
15. Other goods and services	0.2	0.2	0.2

According to the table above, CPI volatility was mainly due to fluctuations in prices of food products. The most volatile were the prices of "fish produce" and "fruit and vegetable" groups, although the price volatility of each of these groups declined by about 2 percentage points in 2006 over 2005. In virtually all of the other commodity groups, volatility declined in 2006, which explains the CPI pattern. Volatility increased only in the "health services and medication" group (about 5-fold).

1.2. INFLATION FACTORS

External Environment

Growth in the world economy remained high in 2006, surpassing expectations in almost all the key countries and regions. During the fourth quarter of 2006, the US dollar continued to depreciate against the main currencies, with the exception of the Japanese yen, and, although the annual deprecation of the US dollar against the European currencies was only around 1%, December depreciation of the US dollar against the European currencies averaged 7-12%.

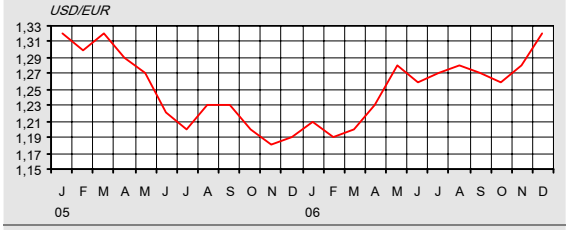


Chart 1.3
Euro Exchange Rate Continued to Appreciate in Q4 of 2006

After the decline reported in Q3, international oil prices remained low. In Q4, the oil price increase slowed down to 4.9% YOY[1] (compared to 13.9% in Q3). In 2006, oil prices grew by more than 20% to reach the highest nominal rate ever—about US $80 for the barrel.

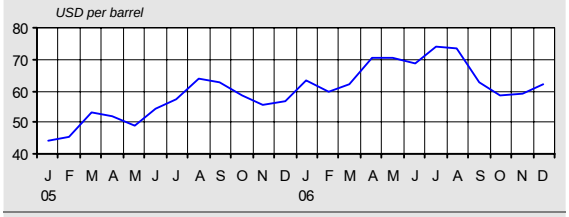


Chart 1.4
Prices of Oil Products Continued to Decline in Q4

According to preliminary estimates, economic growth of the **United States of America**[2] was 2.5% YOY in Q4 of 2006 (a slight increase over a relatively low 2.0% in Q3). Annual growth of the US economy, however, remained rather high at around 3.3% compared to 3.2% in 2005. The largest (2.9 percentage points) contributor to growth was private consumption, which grew by 4.2% YOY in Q4, whereas investments declined by 15.2% YOY (-2.7 percentage points) due to a slackening real estate market.

The trade deficit of the USA somewhat improved in Q4 to reach 5.2% of GDP. Defined as the difference between investments and savings, the current account improvement was due to lower investments on the background of still negative savings. The foreign trade deficit remains financed primarily on account of building up external liabilities, which still supports expectations in the world economy that the position of the dollar will be undermined.

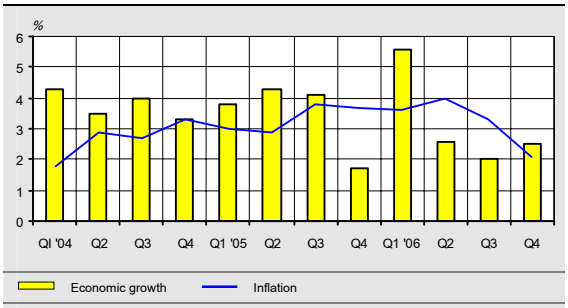


Chart 1.5
Q4 Economic Growth Remained Exposed to a Risk of Further Acceleration of Inflation

Inflation in the US was 3.3% in 2006, compared to 3.4% in 2005; in Q4, inflation was 2.1% YOY (compared to 3.3% in Q3). However, high inflationary risks persisted throughout 2006 on the background of strong growth in private consumption and a favorable employment market. Despite the impulses coming from international markets about falling prices of inputs, the Federal Reserve System kept up its flat interest rate policy and did not lower interest rates during Q4.

Eurozone economic growth in Q4 sustained the high pace reported in Q3—coming in at 0.9% QOQ[3], or 3.3% on an annualized basis, which surpassed economists' expectations. Growth was mainly fueled by much higher investments (4.7%) and public consumption (2.7%). As a result, the Eurozone reported 2.7% economic growth in 2006—a figure that is rather high. However, the short-term outlook for growth remains jeopardized by the high exchange rate of the euro and

[1] *YOY: year-over-year.*
[2] *Source: Bureau of Economic Analysis, US Department of Commerce.*
[3] *QOQ: quarter over previous quarter.*

contractionary monetary and fiscal policies, while long-term growth is undermined by persisting structural problems.[4]

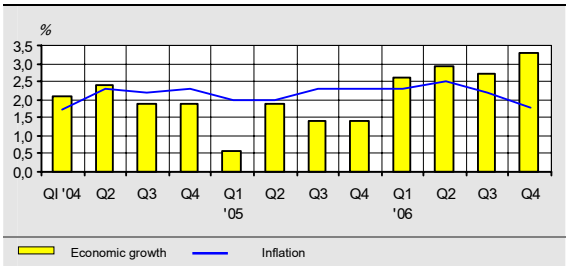


Chart 1.6
Eurozone economic growth trends are upward and inflation trends—downward

The 12-month-increase in the CPI somewhat accelerated in Q4 (reaching 1.9% YOY in December) compared to the low figure reported for September. However, quarterly average inflation fell to 1.8% YOY, compared to 2.2% in Q3. With a view to addressing anticipated inflationary pressures, the European Central Bank continued to increase interest rates during Q4 to reach 3.5% in December. Inflation in 2006 was 2.2%, the same as in 2005, though the risk of high inflation in the future persists.

Russia's economy continued in Q4 of 2006, similar to the quarters before, to derive obvious gains from the situation in the world oil market, where oil prices were higher on average.[5]

GDP and Industry: increasing domestic demand remains the engine of growth in Russia, which makes evident the structural changes in the economy and movement of resources to non-tradable sectors (mainly to the construction sector,).

In Q4, industry grew by 3.0% YOY, compared to 4.9% in 2005; annual growth of the industry was 3.9% in 2006 compared to 4.0% in 2005. The processing industry grew by 4.4% in 2006, compared to 5.7% in 2005.

In contrast to the industry, growth in the non-tradable sector remained high throughout the year, especially in construction (14.2% growth during January-November 2006, compared to 9.8% during the same period in 2005) and retail trade (12.8% compared to 12.6% in 2005). Construction and retail trade are considered the engines of real GDP growth. As a result of the aforementioned indicators, real GDP growth was 6.5% during January-November 2006.

Current Account: the decline in international oil prices during the fourth quarter of 2006 affected the pace at which the current account surplus shrunk. In Q4 2006 over Q4 2005, the current account surplus shrunk by US $4 billion to reach US $17.6 billion. This was due to a US $3 billion decline in the trade balance surplus. Nevertheless, annual figures for 2006 confirm that the current account surplus grew by US $12.3 billion to reach US $95.6 billion.[6]

Owing to favorable balances of the current account, as well as the capital and financial account, gross reserves of the Central Bank of Russia increased considerably to reach US $303.7 billion at yearend. This indicator pushed Russia ahead of Taiwan (US $266.15 billion at end-December), and Russia now lags only behind the two leaders—China (US $1,066.0 billion at end-December) and Japan (US $895.32 billion at end-December).

Inflation and Exchange Rate: during 2006, foreign currency supply grew faster than foreign currency demand in the forex market, which laid the groundwork for the ruble exchange rate to appreciate.

Under such conditions, the Central Bank of Russia, with a view to containing inflation, allowed the ruble exchange rate to appreciate rather strongly in contrast to 2005, when the Central Bank preferred to maintain a stable exchange rate. In Q4 2006, the Russian ruble appreciated by 7.4% YOY against the US dollar, while the annual appreciation of the ruble/USD exchange rate was 3.9% in 2006 compared to 1.8% in 2005.

In addition to the unprecedented increase in the current account surplus, which was the predominant factor behind a strengthening ruble, the appreciation of the ruble was due to the devaluation of the US dollar in the international market. Besides, the supply-demand relationship

[4] *The structural problems of the EU can be said to include the rigidity of employment markets, the less-than-full integration and approximation, the business cycle mismatch between the economies of Member States, lack of harmonization in fiscal policies, and the like.*

[5] *During the first eight months of 2006, over December 2005, international oil prices grew by 29.7% to reach US $73.6 (monthly average), but then gradually declined from September to yearend, though oil prices grew by 20.2% on average in 2006 over 2005.*

[6] *The 2006 figure is an estimate of the Central Bank of Russia.*

was affected in the domestic market by growing interest among non-residents in ruble-denominated assets.

The pattern of a smoothly-appreciating exchange rate throughout the year, which is a key determinant of inflationary expectations, was reflected in the inflation indicator of 9.2% YOY in the fourth quarter of 2006 (compared to 11.3% in the same period of 2005). Consequently, the year ended with a 9.8% increase in consumer prices.

Macroeconomic Situation in Neighboring Countries

Azerbaijan's *economy was the fastest-growing in both the region and the CIS during 2006. Real GDP growth in 2006 over 2005 was 34.5%, with the non-oil GDP growth amounting to 12.1%. As in 2004 and 2005, the growth in 2006, too, was due mainly to extraction of fuel (oil, natural gas, and other hydrocarbons) and the related growth in construction and transport sectors. Growth in the production sectors of the economy was 72.9%, while service sectors grew by 20.6%. Net taxes on production and imports accounted for 6.5% of GDP. The industry accounted for 58.3% of GDP, agriculture—7.1%, transport—5.3%, communications—1.8%, trade, restaurants, and hotel services—5.6%, and social and other services—7.9%.*

During January-December 2006, over the same period in 2005, inflation was 8.3% in Azerbaijan, or 11.4% over December 2005. Inflation was mainly due to higher prices of food products: compared to December 2005, prices of food products grew by 11.9%, while prices of non-foodstuffs grew by 5.3% and services—by 2.6%.

According to preliminary data, the export and import transactions carried out during January-December 2006 left Azerbaijan with a positive balance of about US $1 billion.[7] According to estimates, foreign investments reached about US $3 billion in 2006. Such a capital inflow and trade balance surplus put some pressure on prices and the manat exchange rate. To contain inflation, the National Bank carried out a policy of slow appreciation of the manat and activated its intervention in the foreign exchange market. In 2006, the share of the National Bank in total foreign exchange market transactions was 10-11% compared to 2-3% in 2005.[8] Though in 2006, foreign exchange market interventions of the National Bank reached about US $1 billion, the manat exchange rate appreciated by 5.4% against the US dollar, while the average annual exchange rate appreciated by 5.9% over the average annual for 2005.

Georgia *saw 8.6% growth during January-September 2006.[9] Industrial and agricultural output accounted for 27.6% and 17.6% of the GDP, respectively.[10] The Georgian authorities have declared that, in spite of external shocks such as the establishing by Russia of higher natural gas prices and hindering exports of Georgian goods to Russia, real GDP will grow by 8% in 2006.[11]*

During January-December 2006, inflation remained high in Georgia, similar to Azerbaijan: compared to the same period in 2005, Georgia had inflation of 9.2%, and 8.8% inflation compared to December 2005. In contrast to Azerbaijan, where inflation continues to be affected mainly by the prices of food products, Georgia's inflation has been largely affected by prices of non-foodstuffs, as well. In Georgia, prices of food products increased by 9.3% over December 2005, while non-foodstuffs prices increased by 9.2% and service tariffs—by 7.3%.[12] During 2006, inflation was especially high from April to June due to structural factors and excess liquidity, which caused an unprecedented increase in domestic demand. Among the structural factors are the higher world prices of oil and other mineral inputs, as well as the increase in administrative prices of natural gas and electricity.[13]

During January-December 2006 over December 2005, the Georgian lari appreciated by 4.6% against the US dollar; the average annual exchange rate appreciated by 2.04% in 2006 over the average annual for 2005. The Georgian lari would have appreciated more, had the National Bank of Georgia not transacted a non-sterilized net purchase of US

[7] *Compared to the same period in 2005, exports of goods grew by 22.0% to reach US $5.6 billion, while imports grew by 36.0% to reach US $4.6 billion. Source: Day.Az, January 9, 2007.*

[8] *Source: Day.Az, February 7, 2007.*

[9] *Due to the introduction of a new statistical system in Georgia, indicators related to trends of the GDP and its components are published with delays.*

[10] *Source: Newsgeorgia.ru, January 11, 2007.*

[11] *About 7% economic growth is projected for 2007.*

[12] *During 2006, prices of truck crops, melons, and gourds increased by 21.8%, prices of fruit and grapes—by 35.6%, and prices of sugar and confectionery—by 11.2%. Prices of utility services increased by 22.2%, while prices of health services grew by 16%. Moreover, transportation became 2.5% more expensive, while the prices of hotel, cafn, and restaurant services increased by 7.7%. During the year, prices of alcohol and tobacco products fell by 10.5% due to a lowering of excise taxes.*

[13] *From January 2006, the price of electricity in Georgia increased on average by 58.9%, and the price of natural gas increased by 31.3% starting from May.*

$415.8 million during 2006 in the Tbilisi Inter-Bank Currency Stock Exchange (the net purchase of US $112 million was made during May-August, while that of US $238 million was during November and December).

In the economy of Turkey,[14] *real GDP growth slowed down considerably in Q3 of 2006 to reach 3.4% YOY (compared to 7.0% growth for the same period in 2005). The decline of GDP growth rates was due to the decline of agricultural output and the poor performance of sectors like trade, transport, and telecommunications. On the other hand, industrial growth was strong on account of export-oriented sectors (industrial growth was 6.4% in Q3). After all, the Q3 unfavorable developments were offset by the strong growth in the preceding quarters, and three quarters' growth was 5.6% compared to 5.5% for the first three quarters of 2005.*

In terms of demand, low growth rates in Q3 were mainly due to a negligible 1.3% increase in real spending of the private sector (compared to 11.2% during the same quarter in 2005). In contrast, real spending of the public sector on final consumption grew by 15.4% compared to 3.3% in 2005.

The Q4 increase in consumer prices was driven by shifts in both the nominal exchange rate and international oil prices. The strong price increases reported in the previous quarters persisted in Q4. Consumer prices grew by 9.8% YOY in the fourth quarter of 2006, which is 2.2 percentage points higher than the same indicator for 2005. This was partially due to the fact that, in spite of the appreciation of the Turkish lira against the US dollar since July, the lira still remained 7.6% depreciated in Q4, which through import prices expanded inflation. Average annual inflation was 9.6% (yearend inflation was 9.7%).

The unfavorable developments in the external sector continued through October and November, as expressed in the growing current account deficit (US $29.9 billion for January-November 2006, representing a US $10.5 billion increase over the same period in 2005). The first three quarters' current account deficit amounted to 8.8% of the GDP. The continued deepening of the current account deficit was due to a growing trade balance deficit, which in turn was due to imports growing faster than exports. Export growth was mainly fueled by capital-intensive sectors in which investments had been made in the past. As for imports, their structure changed during Q4: imports of capital goods and intermediate goods grew, while imports of consumer goods declined.

Compared to January-November 2005, the positive balance of services shrunk by about US $2 billion.

Within the structure of current account deficit financing sources, the share of FDI increased considerably[15] (to reach 57.8% compared to 33.3% for January-November 2005). In contrast, the share of portfolio investments declined to 26.7%, while other capital accounted for 46.3%. During the said period, the Central Bank built up reserves of US $3.4 billion.

In spite of the nominal exchange rate stabilization, medium-term inflationary expectations exceed the target. Such expectations, coupled with risks associated with service prices and persisting uncertainties in the world market, have given the Central Bank grounds to keep the policy interest rates unchanged at 17.5%. Under these factors, nominal interest rates remain high, in turn contributing to high real interest rates.

[14] 2006 Q4 and annual indicators of economic growth and its structure will be published during 2007 (see the website where Turkey's official statistics are published: www.turkstat.gov.tr).

Balance of Payments[16]

The above-mentioned external sector developments have been reflected in the behavior of the 2006 balance of payments flows.

Supply shocks transmitted from the external world from the beginning of the year faded out by Q4 2006, which caused the YOY increase in prices of raw materials and intermediate goods to slow down over the preceding quarter. The gradual decline in international oil prices, which started in August, brought oil prices down to about US $60 for the barrel in Q4 2006, which was still higher than the price in Q4 2005. In contrast, dollar prices of imported consumer goods grew faster on account of high inflation in the trading partner countries, as well as the appreciation of currencies against the US dollar. Consequently, dollar prices of imports grew by 14.1% YOY during Q4 and by 15.2% annually, which also

[15] During January-November, FDI grew about 2.4-fold to reach US $18.13 billion.

[16] The Balance of Payments numbers for the first three quarters of 2006 are the official figures available as of March 29, while the Q4 numbers are estimates of the CBA.

contributed to a strong increase of imports in dollar terms.

From a different perspective, on the background of high international oil prices, the Armenian economy was indirectly influenced by developments in the Russian economy, as reflected in the continuing significant increase in large-scale foreign currency inflows. Though a positive phenomenon in terms of current account deficit financing, these inflows impose the horns of dilemma upon the CBA in terms of ensuring financial and monetary stability. Non-commercial remittances grew by 41.3% YOY during Q4 of 2006, while annual growth for 2006 was 33.7%.

Developments in both the external environment and the domestic economy exacerbated the Q4 balance of payments current account deficit YOY nominal figure and share in GDP, which was due to a growing deficit of the trade balance. At the end of Q4, export growth reached 13.4% YOY on the backdrop of 30.1% YOY growth in imports. In 2006, the volumes of exports (credit) and imports (debit) grew by 3.4% and 21.1%, respectively.

The balance of payments had a surplus, which resulted in continuing appreciation of the dram in the forex market, accompanied with a process of further dramization.

In supply terms, the external world had an expansionary impact on inflation during the fourth quarter of 2006 due to the lagged effect of external prices, as well as fact that, despite the decline over Q3, their levels still remain high in comparison to the fourth quarter of 2005. Nevertheless, the negative impact of high dollar prices of imports was mostly offset by the continuing appreciation of the nominal exchange rate.[17]

In demand terms, too, the external world had an expansionary impact on inflation: the massive inflows of financial and capital means stimulated an additional increase in domestic demand. The inflationary pressures caused by financial inflows and the resulting strong growth in demand were mitigated by the following factors:

1. A part of growing demand was met by imports, which ensured an excess supply of goods and services in the domestic economy, while the growing deficit of the trade balance , which was due to imports growing faster than exports, caused an increase in the outflow of funds.
2. As a result of continuing appreciation of the exchange rate, foreign currency flowing into the country in dram terms declined, leading in turn to lower demand fueled by such inflows.

Current Account

The trends discerned from the beginning of 2006 persisted throughout Q4: net inflows of private transfers and income continued positively contributing to the current account deficit reduction. The trade balance deficit, however, deepened and caused the current account deficit to grow, as well. In Q4, the current account deficit grew both in absolute terms (by US $43.6 million, or about 1.7-fold, reaching US $105.2 million) and as a share of GDP (reaching 4.1% compared to 3.5% in Q4 of 2005). According to yearend-2006 results, the current account deficit deepened by US $159.2 million to reach US $352.5 million, while the ratio of the current account to GDP reached 5.3% compared to 3.9% in 2005.

During the fourth quarter of 2006, the trade balance deficit deepened by US $103.9 million (54.0%) to reach US $296.2 million; the annual increase in the trade balance deficit was US $301.5 million (51.3%), bringing the total to US$ 889.5 million. The trade balance worsening was influenced by growing domestic demand for consumer goods and investment goods, in particular, as well as the appreciating exchange rate.

Exports (credit) grew by 13.4% YOY in Q4 (exports amounted to US $313.4 million), while export growth for the whole of 2006 was low at only 3.4%. In Q4, the 7.4% YOY decline in exports of the “Base metals and articles thereof” commodity group was compensated by the increase in exports of “Mineral products,” “Precious and semiprecious stones, precious metals, and articles,” and “Products of prepared food” (53.0%, 14.1%, and 11.8% YOY, respectively). The decline in exports of the “Base metals and articles

[17] *In the real economy, due to price rigidities and the market structure, appreciation of the exchange rate does not immediately lead to an equivalent price decrease; hence, an increase in dollar prices of imports, even in case of same rate of appreciation, may expand inflation. For details of the numerical analyses, see the section on “Import Prices.”*

thereof" commodity group was largely due to decline of molybdenum prices in world markets.[18] In contrast, the unprecedented growth in exports of the "Mineral products" commodity group was facilitated by an about 52.0% YOY increase in prices of copper in Q4 (though copper prices tended to decline during Q4, they still remained high compared to the same quarter of 2005). The YOY increase in exports of the "Products of prepared food" commodity group was due to the fact that, from the beginning of 2006, technical problems were being solved, though annual exports of this commodity group declined by 1.6%. Exports of the "Precious and semiprecious stones, precious metals, and articles" commodity group grew 14.1% YOY in Q4 due to increased exports of two major subgroups within this group—diamonds and gold.[19] Nevertheless, annual exports of this commodity group are still behind the 2005 level.

Exports of the "Mineral products" commodity group grew by 45.9% during 2006, while exports of the "Precious and semiprecious stones, precious metals, and articles" and the "Non-precious metals and articles" commodity groups declined by 4.7% and 12.8%, respectively, in 2006.

In Q4, imports (debit) grew by 30.1% YOY (imports amounted to US $609.6 million). Imports of all commodity groups grew, with the exception of just one group that accounts for a small share of total imports. In addition to the sizeable increase in commodity groups that account for a large share of total imports (such as "Machinery and equipment" (10.9% YOY growth in Q4), "Base metals and articles thereof" (51.8% YOY growth in Q4), and "Transport means" (40.0% YOY growth in Q4), import growth continues to be fueled by higher imports of commodity groups that do not account for a large share of total imports ("Products of chemical and related industries" (31.7% YOY growth) and "Plastic and rubber" (2-fold YOY growth)).

Imports of the "Precious and semiprecious stones, precious metals, and articles" commodity group grew by 6.6% YOY in Q4, though, in annual terms, imports of this group declined by 10.1%. Within this group, the 8.4% decline in diamond imports was compensated by higher imports of gold, which explains the Q4 growth.

Export growth, excluding the "Precious and semiprecious stones, precious metals, and articles" commodity group, was 13.1% YOY in Q4, while imports, excluding the same commodity group, grew by 34.6%. As a result, the trade balance deficit, excluding this commodity group, increased by US $110.9 million (55.0%) in Q4 to reach US $312.6 million; in 2006 annual terms, the trade balance deficit increased by US $320.7 million to reach US $897.3 million.

As to the geographic structure of foreign trade, the trade balance deficit deepened mostly on account of growing trade balance deficits with the CIS, the EU, Iran, and Turkey (by 38.6%, 58.8%, 32.2%, and 36.6%, respectively).[20] The trade balance deficit with China grew 2.1-fold.

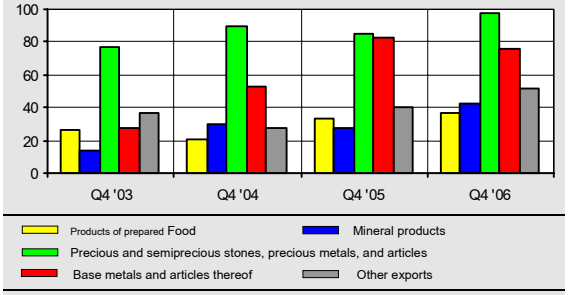


Chart 1.7
Exports of three out of the four main commodity groups of exports grew in Q4 2006 (US $ million)

During the fourth quarter of 2006, compared to the same period of 2005, the service balance deficit increased by 4.4% (a deficit of US $21.4 million compared to US $20.5 million). Service exports grew by 8.4% (US $7.5 million) YOY in Q4 2006, while service imports grew by 7.7% (US $8.4 million). The latter was mainly due to an increase in transportation services rendered by non-residents in relation to imports of commodities. Nevertheless, the service balance deficit shrunk by US $1.7 million in 2006 to reach US $57.6 million.

[18] The share of molybdenum in this commodity group was around 66.0% in 2006.

[19] In the world market for diamonds, the supply of high-quality and large-size stones has gradually declined on account of lower mining volumes of ore containing quality stones. Consequently, the considerable increase in the price of large stones has caused shifts in the structure of demand: demand for large stones has declined, while demand for small stones has grown, which is typical of diamond markets. Armenia specializes in the processing and exportation of medium-sized stones.

[20] To calculate commodity balances with different countries, "country of origin" imports statistics have been used instead of trading partner countries' statistics.

Current Account, 2004 – 2006 (US $ million)						
	Q4 '04	2004	Q4 '05	2005	Q4 '06	2006
Current account	-11.2	-161.6	-61.6	-193.3	-105.2	-352.5
Trade balance	-117.8	-458.0	-192.3	-587.9	-296.2	-889.5
Services (net)	-18.8	-70.7	-20.5	-59.3	-21.4	-57.6
Income (net)	21.0	36.7	8.4	44.7	29.4	75.4
Private transfers (net)	81.5	269.4	113.6	341.9	158.0	451.7
Official transfers (net)	22.9	61.0	29.2	67.3	24.9	67.6

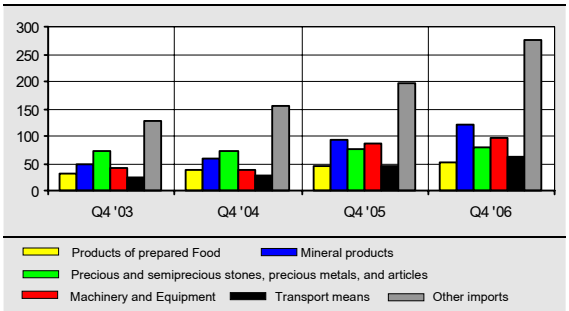


Chart 1.8
Almost all import items grew in Q4 2006 (US $ million)

The net inflow of private transfers and income continued to have a positive impact on current account financing. The unprecedented increase in private transfers continued throughout Q4 2006, when private transfers grew by 39.1% YOY.[21] The net inflow of income grew 3.5-fold to reach US $29.4 million, while official transfers fell by 14.7%. The growth in the "Income" item was mostly due to increased income of seasonal workers.

Nonetheless, the deepening current account deficit restrained the financial inflow-driven expansionary impact of higher demand on inflation, as it led to a outflow of income, on the one hand, and excess supply of consumer goods through imports, on the other.

Capital and Financial Account

In the fourth quarter of 2006, external world savings, i.e. net inflows of the capital and financial account by far exceeded the current account deficit. Under these circumstances, the CBA's foreign reserves increased significantly. In addition to the unparalleled growth of net inflows of private sector other capital,[22] the increase in the CBA's foreign reserves was also due to the US $85.6 million conversion of the Government's privatization proceeds. The net inflow of the capital and financial account in Q4 was US $355.7 million, representing a 4.3-fold YOY growth. In particular, net inflows of other private sector capital reached US $121.1 million in Q4.

Capital transfers declined by 27.2% YOY (amounting to US $13.0 million) and accounted for 12.3% of the current account deficit financing.[23] FDI grew by 20% YOY in Q4 reaching US $100.0 million to finance 95.0% of the current account deficit. Inflows of other capital financed 197.3% (US $209.5 million), while net disbursements of public sector loans financed 31.6%. Given these flows of the current account and the capital and financial account, the balance of payments had a surplus, which resulted in the CBA's NFA growing

[21] In Q4, net non-commercial remittances of natural persons grew by 41.3% YOY to reach US $248.2 million (annual growth in 2006 was 33.7%). This figure includes income from seasonal employment, private transfers, and capital transfers. Most of the remittances originate from Russia and the USA (90.0% and 9.1%, respectively, of net remittances).

[22] Other private sector capital includes mainly commercial loans borrowed by the private sector and foreign currency cash. A survey conducted by the Statistics Department of the CBA concluded that the net inflow of foreign currency cash through the non-bank sector was US $735.5 million in 2006. A part of this inflow (about US $147.1 million) was considered to comprise cash capital transfers and direct investments, whereas another part (US $588.4 million) was attributed to current account transactions (tourism exports, wages of seasonal workers, and private remittances). By adding these amounts to the current account and the capital and financial account, and considering the other side of the transaction an increase by the same amount of other private sector foreign currency cash, it can be concluded that the current account is in surplus of US $346.3 million (or 5.4% of GDP) in 2006.

[23] A part of the private remittances to Armenia is used to acquire real estate, another part goes to consumption, and the rest (which comes in the form of cash that is not reported anywhere) replenishes the foreign currency cash stock of households. Hence, it would be realistic for a part of the private remittances and other private sector capital funds to be reported as capital transfers.

by US $248.8 million during Q4. For the whole of 2006, net inflows of the capital and financial account were US $737.7 million, which by far exceeded the current account deficit. As a result, the CBA's NFA grew by US $380.8 million in 2006.

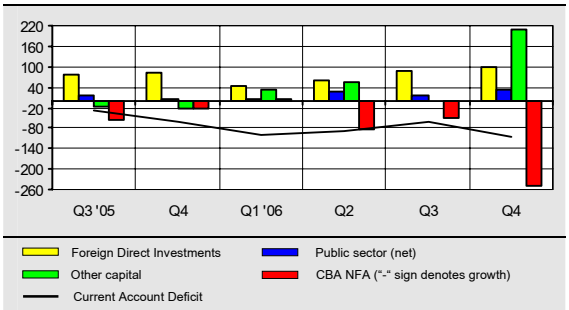


Chart 1.9
Capital inflows by far exceeded the current account deficit in Q4 2006 (US $ million)

The considerable increase in financial inflows once more stimulated higher demand, which in turn generated inflationary pressures. On the other hand, though, as a result of the CBA's floating exchange rate policy the nominal exchange rate appreciated, and the inflationary pressures of large-scale financial inflows were contained.[24]

Interest Rates, Exchange Rate, and Monetary Developments

Interest Rates

As a period of transition to inflation targeting strategy, the year 2006 implied not only the adoption of the essential principles of this strategy, but also the implementation of certain reforms. The reforms needed to adapt the monetary toolkit to the realities of inflation targeting. At the same time, the policy transparency requirements of the new strategy would entail monthly press releases and quarterly reporting to ensure public awareness of the CBA's activities. In addition to the goal of elaborating in-depth comments and factor analysis to present the progress and results of the monetary policy aimed at achieving the primary objective of the CBA, this process would also convey impulses regarding expected inflationary developments and possible risks over the upcoming 12-month period.

According to the inflation targeting strategy, the CBA's ultimate goal is to achieve a target level of inflation. The projected level of inflation has been selected as the nominal anchor, while short-term interest rate is the operational target. However, for reasons of financial stability, the CBA will also implement some volume regulation. The CBA will forecast inflation for a future period, assess the deviation from the target, and aim its policy at eliminating the discrepancy between the target and the projection. The chain runs from *interest rate* to *projected inflation* to *inflation*.

At the first link of the chain, the CBA made some changes in the monetary policy toolkit starting from April in order to activate the interest rate transmission channel and to increase the role of short-term interest rate. The main change is that the indirect instruments are aimed at achieving the short-term interest rate target.

Repo is the main instrument being applied. Every Wednesday, the CBA offers the market a one-week repo operation at the CBA refinancing interest rate; thus, the CBA constantly maintains the necessary level of market liquidity, at the same time achieving the short-term interest rate target.

To reduce excess liquidity of the banking system, the CBA issues securities that are considered as a structural instrument; at the beginning of each month, the CBA publishes a monthly calendar of issuances.

For making liquidity available to or absorbing excess liquidity from the market players over a relatively longer period, the CBA implements outright operations in the secondary market. Fine-tuning instruments are applied to adjust short-term fluctuations in liquidity and interest rates.

The CBA also acts as a lender of last resort in the financial market and gives commercial banks the possibility of investing their excess funds at any time at above-market and below-market interest rates, respectively. The duration of standing facilities is one day, and their interest rates, as a rule, are equally distanced from the refinancing interest rate.

[24] *The appreciation of the exchange rate lessens the dram equivalent of foreign currency-denominated means, which would have been larger given a fixed exchange rate. Under a fixed exchange rate, foreign currency means in dram terms would be much higher, and price pressures—much heavier.*

With a view to moderating the impact of financial inflows, smoothing exchange rate fluctuations, and enhancing the "dramization" process, the CBA also intervenes in the foreign exchange market.

The monetary environment was influenced by certain risks materialized as a result of the annual economic developments. They are as follows:

- In the real sector, a lower gross harvest in plant cultivation, caused by adverse weather conditions, restrained the seasonal decline in the prices of "Fruit" and "Vegetables" commodity groups during the summer months;
- In the external sector, international prices of energy, especially oil, grew;
- In the fiscal sector, public spending was not evenly distributed throughout the year, and most of the government spending was backlogged to Q4; and
- The dramization process accelerated.

Due to the materialization of the first two of the aforementioned risks, the behavior of inflation significantly deviated from the projected scenario, which caused July-August inflation to exceed 6% YOY. It was evident that the yearend up to 3% target would be exceeded on account of the aforementioned non-monetary factors. Under these circumstances, carrying out a contractionary monetary policy would not be appropriate, among other things, from the point of view of avoiding sharp price fluctuations in the financial market, especially because its impact on inflation would normally be felt with a 9-12 month lag, i.e. in the second half of 2007. Consequently, the CBA and the Government of Armenia discussed and jointly decided in September to revise the yearend inflation target to 5%± 1.5% for end-December.

Another factor that affected the CBA's monetary policy during the year was the process of dramization. In the first half of 2006, compared to 2005, this process somewhat slowed down, but was reactivated in the second half, which partially influenced the choice of monetary instruments to be applied during the year.

Taking into account the likelihood of high inflation projected as early as in Q1, the CBA revised upwards the interest rate on the CBA's main instrument in late-January from 3.5 to 4%, and, during the months that followed, preferred active operations in the financial market in order to absorb excess liquidity from the banking system. However, mainly due to high international prices of mineral products and slower real growth of agriculture, when inflation pressures strengthened, the CBA started from August to increase the interest rate by 0.25 percentage points each time, so that the interest rate reached 4.75% in October. The interest rates on Lombard loans and deposits were raised by the same amount to reach 7.75% and 1.75% in October, respectively.

With a view to improving the efficiency of the interest rate transmission channel and guiding the inter-bank repo interest rate, the CBA carried out short-term operations in the financial market during the year and absorbed excess liquidity mainly by means of issuing bonds.

Due to the change in the CBA toolkit from April, the volumes of inter-bank and CBA repo transactions grew during the period from April to December. The volume of transactions in the secondary repo market in 2006 reached AMD 167.3 billion, representing a 70% increase over 2005, and the repo interest rate stabilized around 5.25% in December. The total annual volume of repo transactions carried out by the CBA was AMD 51.0 billion drams.

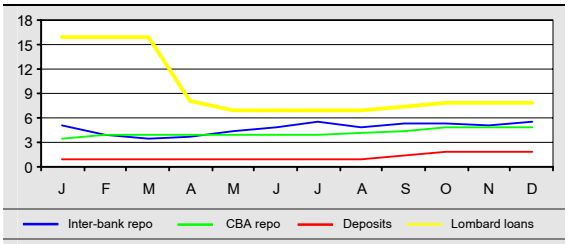


Chart 1.10
Deviation between the CBA repo and market repo interest rates somewhat declined

The volumes of CBA absorbing operations, too, grew significantly. The CBA completed 75 issues of bills for a total of AMD 77.5 billion, for which there was total demand of AMD 111.1 billion. The allocation of CBA bills reached AMD 70.1 billion at an average yield of 5.46% (a 1.11 percentage point increase over 2005). Moreover, US $9.6 million worth of foreign currency was attracted in a swap transaction. Gross commercial bank claims on the CBA were AMD 226.8 billion, the bulk of which (AMD 154.5 billion) was attracted during the fourth quarter of 2006. This instrument, too, was affected by the change in the

CBA toolkit, because the reduction of the maturity of CBA deposit facility (to one day) has made it more accessible and efficient.

During 2006, interest rates grew in the government securities market, as well. Average annual yield in the primary market for government securities grew in 2006 over 2005 by 0.98 percentage points for longer-term securities (reaching 5.12%), by 0.7 percentage points for medium-term securities (reaching 6.11%), and by 1.47 percentage points for long-term securities (reaching 9.3%).

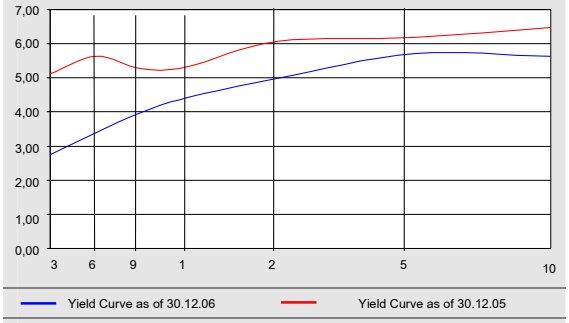


Chart 1.11
Interest rates grew in the short-term segment of the yield curve

A closer look at the yield curve shows that yields in the secondary market for government securities grew along the whole curve. The majority (90%) of the yield curve position change has been due to a proportional shift of the curve, which, on account of higher yields, reached 1.32 percentage points. The convexity of the curve changed by 48.58% (from 0.061 to 0.031), which indicates the shrinking difference between long-term and short-term securities interest rates. The residual factor accounted for -38.58% of the curve change.

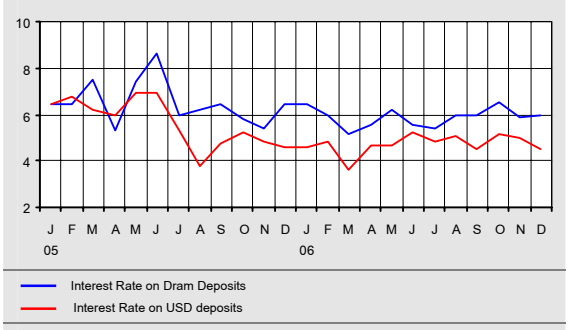


Chart 1.12
Interest rates on dram and USD deposits in the banking system remained virtually unchanged

In December 2006, interest rates on dram deposits fell by 0.5 percentage points over December 2005 to reach 5.95%, while interest rates on dollar deposits remained virtually unchanged at 4.53%. Consequently, the difference between interest rates on US dollar and dram deposits was 1.42 percentage points, compared to 1.86 during the same period of 2005.

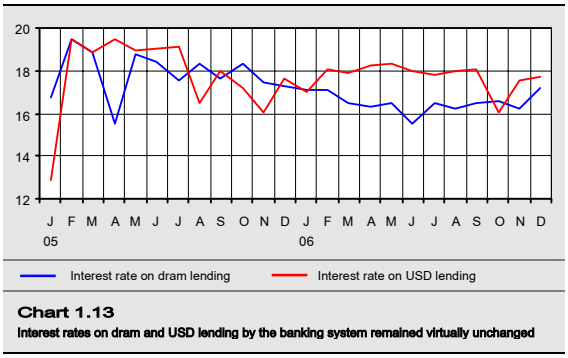


Chart 1.13
Interest rates on dram and USD lending by the banking system remained virtually unchanged

The interest rates on USD and dram lending by commercial banks remained virtually unchanged in 2006 over 2005 (17.68% and 17.20%, respectively, in 2006). The spread between USD loans and deposits was 13.15 percentage points, while that between dram loans and deposits was 11.25 percentage points.

Exchange Rate

As an important and speedy channel of transmission, the nominal exchange rate influences the whole economy, which is reflected in import prices, volumes of exports and imports, and, consequently, the current account balance. The nominal exchange rate also influences the dram amount of transfers, and, therefore, demand.

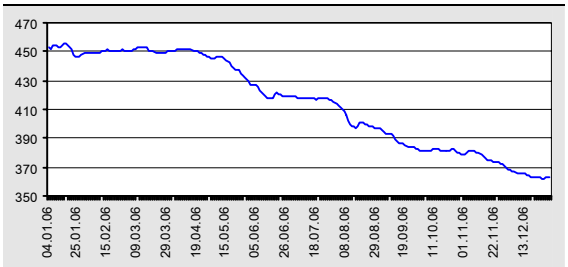


Chart 1.14
AMD/USD exchange rate in 2006

The AMD/USD exchange rate appreciated in 2006 over end-December 2005. Such behavior of the exchange rate was due to a balance of payments surplus emerging as a result of financial inflows and higher demand for the dram. During Q4 2006, the dram appreciated by 9.52%[25]; annual appreciation was 23.85%[25], as the average AMD/USD exchange rate appreciated by 10.01%[25] (from AMD 457.69 to 416.04) in comparison to the average for 2005.

During 2006, the gross volume of transactions in the inter-bank market reached US $5,024.93 million, which was 66.09% greater than the volume of transactions carried out in 2005. The volume of foreign exchange market transactions grew mostly in Q4 (by 86.17% over the same period in 2005) to reach US $1,746.14 million. This is a sign of strong growth of foreign trade volumes, foreign financial inflows, and the domestic economy.

During 2006, the volume of EUR/AMD transactions increased by 43.62%. The gross volume of transactions was EUR 336.36 (compared to EUR 234.20 million during 2005). In this segment of the currency market, too, volumes grew predominantly in Q4 (by 58.78% over Q4 of 2005) to reach EUR 112.53 million. With a view to mitigating the impact of financial flows, smoothing the exchange rate fluctuations, and enhancing the dramization process, the CBA purchased US $245.33 million net from Armenian commercial banks in 2006, of which US $131.36 million was purchased in Q4 (the indicators in 2005 were US $102.38 and 7.28 million, respectively).

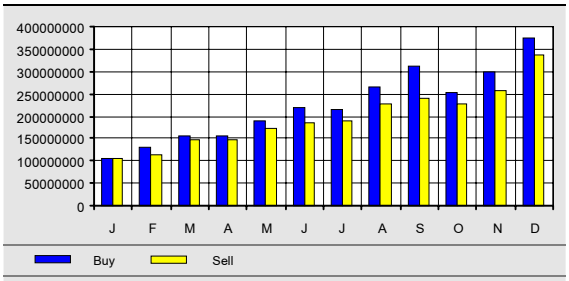


Chart 1.15
Volume of Transactions in the Armenian Currency Market (in US $)

In Q4, the AMD nominal effective exchange rate appreciation averaged 15.4% YOY, which was considerably higher than the Q3 figure of 9.9%. The Q4 appreciation was fully due to the faster appreciation of the AMD/USD exchange rate, which averaged 21.0% YOY on a quarterly basis, and was only partially offset by the 4.5% average-weighted appreciation in trading partner countries.

Such appreciation of the nominal effective exchange rate determined the Q4 behavior of the real exchange rate, because inflation in Armenia was almost the same as the average-weighted inflation in the trading partner countries (5.8% and 5.7%, respectively). As a result, the real exchange rate appreciated by 15.2% in Q4. The main contributors to the inflation of trading partner countries were Russia (1.8 percentage points) and Iran (1.6 percentage points), while total inflation in developed countries somewhat declined in comparison to the quarter before. Inflation in Armenia, too, declined to some extent in comparison to the high Q3 inflation caused by the lower output in agriculture.

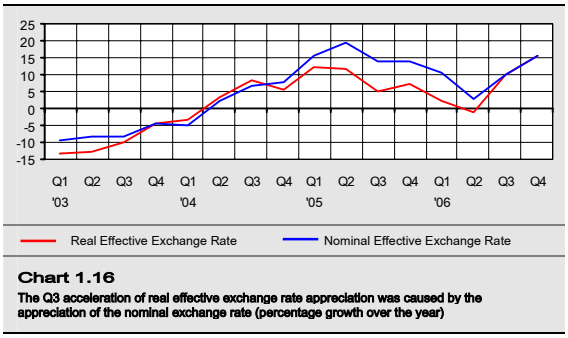


Chart 1.16
The Q3 acceleration of real effective exchange rate appreciation was caused by the appreciation of the nominal exchange rate (percentage growth over the year)

The real exchange rate appreciated by 6.6% in 2006 (compared to 9.0% in 2005), demonstrating a weaker trend of appreciation. This, too, was due to a 10.0% appreciation of the AMD, which resulted in an annual appreciation of 9.3% of the nominal effective exchange rate. The annual impact of the exchange rate of trading partner countries was not significant, as it appreciated by only 0.7%. In 2006, average inflation was 2.9% in Armenia, while that in trading partner countries was 5.6%.

In Q4, prices of the non-tradable segment grew by about 5% QOQ, which—being less than the growth in Q4 of 2005—slowed down the appreciation of the domestic real exchange rate.

[25] The appreciation (depreciation) of the Armenian dram—as a directly priced currency—is calculated using the following formula:

$$P_{\%} = \left(\frac{P^1 - P^2}{P^2} \right) * 100\%$$

, where P^1 and P^2 reflect exchange rates at the beginning and at the end of the period, respectively.

In Q4 2006, the internal real exchange rate appreciated by 2.6% YOY, while depreciating by 1.2% during 2006.

Prices of non-tradable goods increased by 4.9% YOY during Q4, while prices of tradable goods increased by only 0.1%. The main reason was the rapid appreciation of the nominal AMD exchange rate (21.0% YOY in Q4), which not only mitigated the increase in prices of non-tradable goods, but also—by reducing demand—restrained the increase in prices of the non-tradable segment.

The same phenomena hold true for the year 2006. The impact of world inflation and the economic growth- and financial inflows-driven growth in domestic demand were offset by an appreciation of the AMD exchange rate, which resulted in tradable goods' prices growing by 3.0% and those of non-tradable goods—by 1.8%.

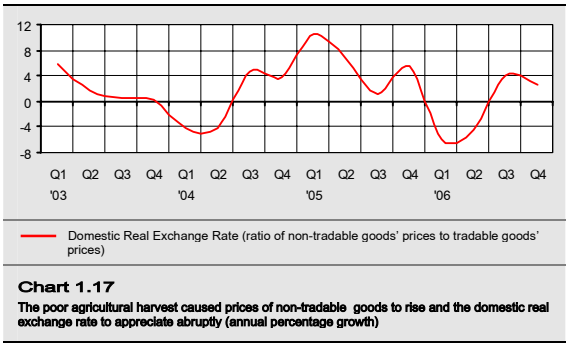


Chart 1.17

The poor agricultural harvest caused prices of non-tradable goods to rise and the domestic real exchange rate to appreciate abruptly (annual percentage growth)

Monetary Developments

In the context of rapid dramization, dram broad money grew extensively (by AMD 117.5 billion or 52.3%) in 2006, albeit slightly less than in 2005 (when dram broad money grew by 54.3%). The fact of active "dramization" is also confirmed by the ratio of dram broad money to the GDP, which rose from 7.6% in 2004 to 13% in 2006.

Both structural components of dram broad money grew rapidly: annual growth of cash in circulation was 46.5% (compared to 46.4% in 2005), while dram deposits increased by 62.6% in 2006 (compared to 70.7% in 2005).

Foreign currency deposits increased by about 13% in dollar terms during 2006 (excluding the temporary foreign currency proceeds received by one bank at yearend). This indicator is slightly higher than the 2005 figure of 8.8% due to relatively slower dramization in 2006 than in 2005. If the trends of AMD appreciation during the year are factored in, then foreign currency deposits have decreased by 9.5% in AMD terms.

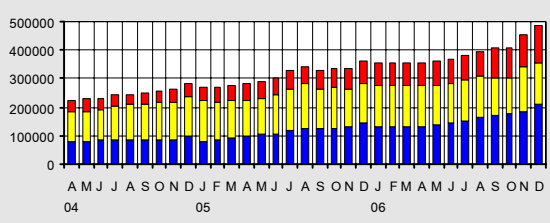


Chart 1.18

Extensive growth of dram components confirm the process of dramization in the structure of broad money (in AMD million)

As a result of these changes, annual growth of broad money was 32.9% in 2006, compared to 27.8% in 2005.

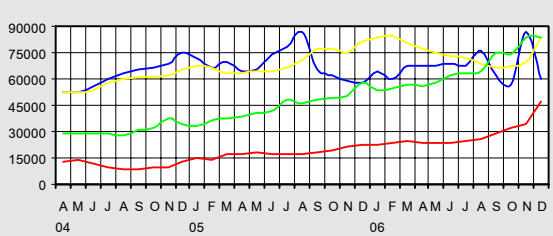


Chart 1.19

Dram- and foreign currency-denominated deposits, by maturity (in AMD million)

In terms of the components of supply, broad money growth was due only to the large (70.7% or AMD 164.9 billion) increase in the NFA of the banking system, while the NDA of the banking system decreased by 33.8% or AMD 44.7 billion. The NFA of commercial banks continued to decline (by AMD 25.2 billion during the year), which means that, in 2006, banks continued to finance their activities of lending to the economy by foreign currency reserves. However, after a large-scale foreign currency transaction carried out by one bank at yearend, the NFA of commercial banks increased sharply, bringing the annual decline in NFA of commercial banks to about AMD 9.0 billion.

The NDA of the banking system decreased on account of lower net claims on Government and

other net assets of the system (by AMD 36.8 and 60.8 billion, respectively), most of which was caused by changes in the same indicators of the CBA (for details, see the "*Monetary Base*" section).

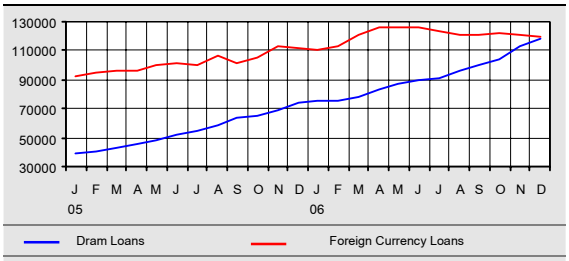


Chart 1.20
In 2006, AMD lending grew faster than foreign currency lending, which resulted in almost equal portfolios (in AMD terms) of AMD and foreign currency loans at yearend (in AMD million)

Another component of NDA—lending to the economy—sustained its rapid growth reported in recent years: in 2006, lending to the economy grew by 28.1% or AMD 52.9 billion (compared to 33.7% in 2005 and 37.9% in 2004). The growth numbers indicate certain slow down, but in reality, they bear the impact of the AMD appreciation: after netting the AMD appreciation factor, the growth of lending to the economy looks as follows: 43.7% in 2006, 42.0% in 2005, and 49.7% in 2004. Another manifestation of "dramization" of the economy is the change in the currency structure of lending to the economy, which has meant that the share of foreign currency lending in total lending has declined from 68.5% in 2004 to 50.2% in 2006.

Annual changes in all of the aforementioned indicators were predominantly caused by Q4 changes, mainly due to the seasonality of money demand and fiscal policies.

In connection with the process of "dramization" in recent years, dollarization of the economy (foreign currency deposits to broad money) has tended to decline, from 49% in 2004 to 38.5% in 2005 and 29.5% in 2006.

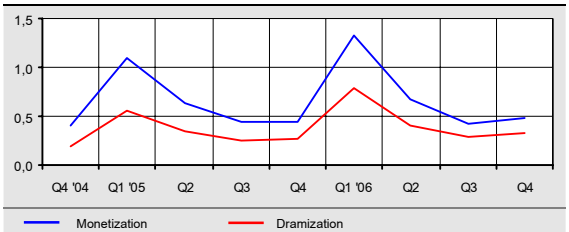


Chart 1.21
Monetization of the Economy

The indicators of the level of financial intermediation—monetization and dramization ratios—grew at a normal pace in 2006 (5.9% and 21.9% per annum, respectively): dramization growth was much faster due to large demand for the dram.

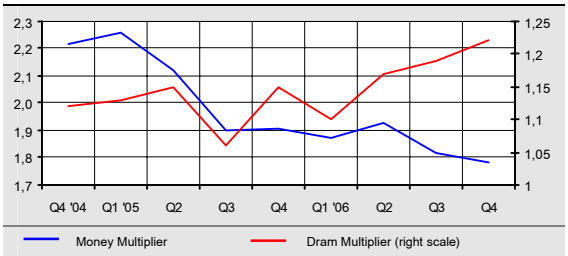


Chart 1.22
Money and Dram Multipliers

Nonetheless, information available at yearend 2006 shows that 14.7% monetization is rather low in comparison to other countries in transition. However, monetization assessed through effective broad money[26] is more than 42%.[27]

The money multiplier decreased by 12.7% in 2006, while the dram multiplier remained virtually unchanged, growing by only 0.5%. These indicators were below expected, due to more rapid growth of cash drams.

Monetary Base: as was already mentioned, the dramization process became more active in 2006 and, especially, in Q3, which caused the CBA to meet the economy's sizeable demand for drams by means of attaining faster-than-planned growth of the monetary base (actual annual growth of 41.1% or AMD 82.4 billion). This process was accompanied with large-scale financial inflows, some of which the CBA sterilized by purchasing foreign currency with a view to mitigating the impact of a sharp appreciation of the dram. However, considering that the considerable injection of drams, adding to risks stemming from other sectors, had built up strong inflationary pressures in terms of meeting the yearend inflation target and upcoming quarterly targets during the year that followed, the CBA also

[26] *Effective broad money includes, in addition to cash drams outside the banking system and demand and term deposits in drams and foreign currencies (which are all components of broad money), also foreign currency cash in circulation. Source: CBA Monetary and Financial Statistics Handbook, 2004.*

[27] *At yearend 2006, the volume of foreign currency cash in circulation was equivalent to AMD 649 billion (a CBA estimate).*

used dram-absorbing instruments, such as the allocation of CBA bills, in order to achieve its primary objective. This was the reason why the annual growth of the monetary base in 2006 was smaller than in 2005 (51.9%), as the same period of 2005 saw deflationary risks and there was no need to contain money supply.

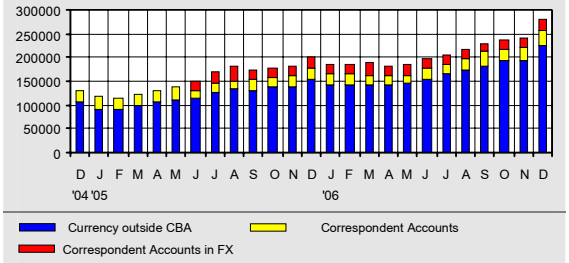


Chart 1.23
Monetary Base Growth Remained Strong in 2006 (in AMD million)

The annual behavior and seasonality of the monetary base and its structural components varied greatly between the first and second halves of 2006. The annual behavior of cash drams, which account for a predominant share (80%) of the monetary base, makes it obvious that, during the first half of 2006, cash drams mainly underwent the same seasonality as in 2004, while the behavior of cash drams in the second half of 2006 was similar to 2005 on account of high demand for the dram on the background of accelerating dramization.

Consequently, the monetary base and cash outside the CBA both decreased in the first half of 2006 (by 0.7% and 0.6%, respectively, compared to 14% and 7.5% increases in 2005, and 10.4% and 10.1% decreases in 2004). In the second half of 2006, the monetary base and cash outside the CBA grew by 42.1% and 46.9%, respectively (compared to 33% and 36.9% increases in 2005, and 24.3% and 21.3% increases in 2004).

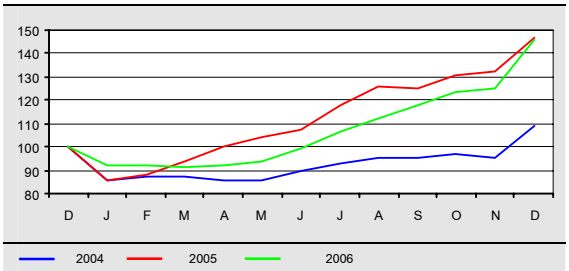


Chart 1.24
Much faster growth of cash outside the CBA during 2005-2006 evidences an active process of dramization (in %)

During 2006, monetary base growth was driven exclusively by an increase (of AMD 172.8 billion or 80.5%) in the CBA's NFA, which was accompanied with an AMD 90.4 billion (7.4-fold) decrease in the CBA's NDA.

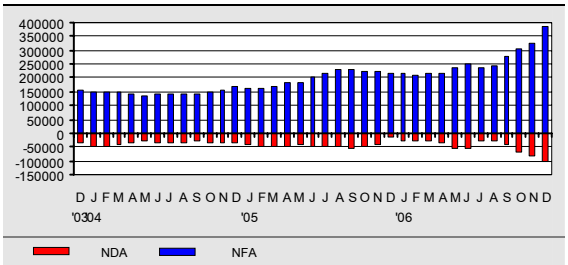


Chart 1.25
Monetary Base Behavior, by NFA and NDA (in AMD million)

The substantial growth of the CBA's NFA in 2006 was largely due to the foreign currency purchases (of AMD 93.3 billion net) by the CBA with a view to absorbing the excess foreign currency caused by financial inflows. Besides, NFA was stocked up by foreign currency (worth AMD 34.6 billion) bought with the proceeds of the Government's Special Privatization Account, grants received, revenue from the management of external reserves, and other foreign currency proceeds (AMD 46.7 billion).

The CBA's NDA fell due to an AMD 40.4 billion decline in the CBA's net claims on Government (for details, see the "Public Consumption and Investments" sub-section in the "Aggregate Demand and Supply" section), an AMD 36.0 billion decline in the CBA's net other assets (caused by the revaluation of foreign currency reserves at the yearend exchange rate), and an AMD 17.5 billion increase in the stock of CBA bills.

During the year, the CBA's relationship with commercial banks focused on addressing monetary policy issues. In other words, the CBA carried out large-scale purchase operations in the foreign currency market with a view to absorbing the excess foreign currency stemming from financial inflows and dramization, and used dram-absorbing instruments to partially sterilize the excess dram liquidity caused by such operations. This aim was furthered by the allocation of CBA bills, which succeeded in absorbing liquidity of AMD 17.5 billion net. Nonetheless, the banking system had a high level of excess liquidity during the year: average monthly liquidity was AMD 15.5

billion in 2006 compared to AMD 13.0 billion in 2005. Under these circumstances, banks also made active use of the standing deposit facility.

In parallel to this, banks used repos (of more than AMD 51.0 billion gross) to solve short-term liquidity problems during the year. Most of these transactions took place in Q2 and Q3 (AMD 20.0 and 22.4 billion, respectively).

Aggregate Demand and Supply

Aggregate Demand [28]

Domestic Demand

Private Consumption and Investments: during 2006, aggregate demand grew mainly due to higher domestic demand, especially higher private sector spending (including both consumption and investments).

Domestic demand grew by 13.7% in 2006, while private sector spending grew by 13.2%. Private investment grew at an unprecedented pace in Q4 (35.1%) and during the year as a whole (27.9%). The increase in capital investments was mainly expressed in the form of faster growth of construction, especially in housing construction.

On the background of sustained economic growth, remittances, and wages, private consumption grew in Q4 2006 and during the year as a whole (by 8.1% and 9.2%, respectively). Private consumption growth, coupled with a lower harvest in plant production, somewhat exacerbated inflationary pressures on the consumer market.

Public Consumption and Investments: [29] in 2006, the impact of fiscal policy on aggregate demand was neutral in terms of both revenues and expenditures.

Lack of information about the adjusted scenarios of the quarterly programs of the budget posed some difficulties to the assessment of fiscal flows. Under these circumstances, the CBA based the implementation of monetary policy on the historical trends and monthly programs. The historical trends of budget execution, especially in the area of expenditures, were sustained. Savings on expenditures were built up in Q1, with rather large-scale expenditure execution at yearend, while the annual program attributed about 80% of the annual deficit and about 47% of expenditure execution to the first half of the year.

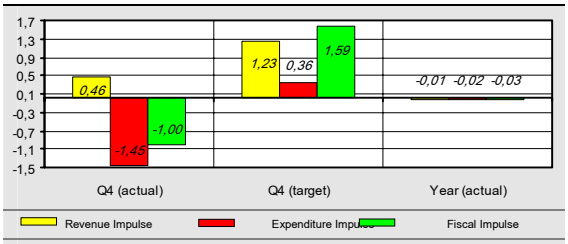


Chart 1.26
Contractionary Impact of Fiscal Impulse, 2006

In spite of the expected expansionary impact, budget expenditures had a contractionary impact, which was due to the non-disbursement of Lincy Fund grants and the appearance of savings under some expenditure items. As to revenues, despite their above-planned collections, revenues had a somewhat expansionary impact due to faster GDP growth.

In 2006, compared to 2005, expenditures grew by 13.3%, while the expenditure-to-GDP ratio fell by 1.0 percentage points and amounted to 21.1%. Within the structure of expenditures, the share of current expenditures grew by 12.6%, with public consumption growing by 10.3%, transfers—by 17.9%, and subsidies—by 16.3%. Interest payments were the only item to shrink (by 12.5%). Public consumption was 56.9% of current expenditures, reflecting a 1.1 percentage point YOY decline. The ratio of public consumption to GDP fell by 0.7 percentage points to 9.2%.

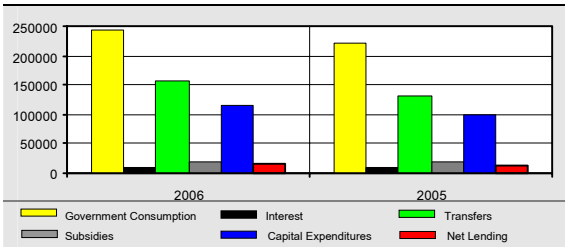


Chart 1.27
Structure of Consolidated Budget Expenditures (in AMD million)

[28] Growth of aggregate demand components is expressed in real terms.

[29] The fiscal sector analysis was performed on the basis of the preliminary actual indicators of the 2006 Consolidated Budget. Due to the absence of adjusted programs, indicators were compared with the preliminary programs. Fiscal impulses, too, were calculated using preliminary indicators of the 2006 Consolidated Budget, and comparisons are with the same period of the previous year.

In 2006, compared to 2005, capital expenditures increased by 15.1%, with 80% of capital expenditures financed from domestic sources, and 20%-from external sources (compared to 79% and 21%, respectively, in 2005). It is worth noting that the share of domestically-financed capital expenditures continued to increase, sustaining a trend that emerged in 2005. Although the share of public investments fell by 0.1 percentage points to 4.3% of the GDP, the ratio of capital expenditures to GDP has generally increased in recent years, serving as a favorable prerequisite of long-term economic growth. The decline of capital expenditures in 2006 was mainly due to under-financing of externally-funded capital expenditures. Expenditures had a contractionary impact due to both current expenditure savings of about AMD 10.0 billion and the non-receipt of about AMD 6.0 billion of external financing for capital expenditures.

In Q4 2006, compared to Q4 2005, expenditures grew by 3.3%, which was mainly a result of higher current expenditures.

In virtually all the quarters of 2006, budget revenue collection was higher than planned. In the first half of 2006, revenues had a contractionary impact, while in the second half, the impact of revenues was somewhat expansionary on account of faster nominal GDP growth. The adjusted revenue target was annually exceeded in terms of only non-tax and capital revenues; however, in the absence of adjusted quarterly programs, the CBA relied on its own projections of quarterly revenues. Annual revenue collection exceeded by about AMD 40 billion the target stipulated by the Law on the 2006 Republic of Armenia State Budget: tax revenue collection exceeded the target by AMD 14 billion, while non-tax and capital revenues were AMD 26 billion above the target.

In 2006, YOY revenue growth was 15.9%: tax revenues grew by 16%, while non-tax and capital revenues grew by 14%. The ratio of fiscal revenues to the GDP fell by 0.5% percentage points YOY to 19.1% of the GDP. On the background of strong economic growth, the tax-to-GDP ratio fell by 0.4 percentage points. The state budget taxes-to-GDP ratio fell by 0.2 percentage points to 14.2%.

Within the structure of tax revenues, the share of indirect taxes shrunk by 2.2 percentage points to 48.5% of tax revenues, while the share of direct taxes grew by 3.2 percentage points to 23.5% of total taxes. The greater share of direct taxes was achieved through corporate profit tax and personal income tax (which grew by 40.3% and 33.2%, respectively). Indirect and direct tax collections grew by 11% and 34.2% YOY, respectively. The share of indirect taxes in the GDP fell by 0.6 percentage points to 8.4%, while that of direct taxes increased by 0.5 percentage points to 4.1%.

Revenues grew by 13.5% in Q4: tax revenues grew by 12.2%, while non-tax and capital revenues grew by 29.7%. The latter was due to higher proceeds from the sale of land in the City of Yerevan.

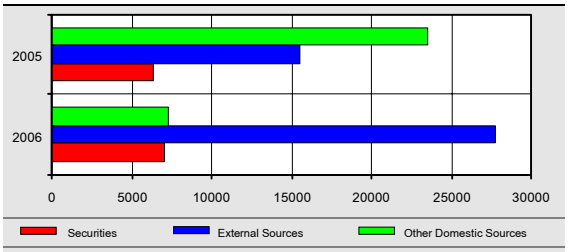


Chart 1.28
Within the structure of deficit financing sources, the share of external financing grew, while that of domestic financing shrunk (in AMD million)

The 2006 annual budget deficit was AMD 42.2 billion or 1.6% of GDP. Net external financing was AMD 27.8 billion (66% of the deficit), while domestic financing was AMD 14.4 billion (34% of the deficit). Government securities raised financing in the amount of AMD 7.1 billion, while the privatization proceeds financed AMD 29.3 billion, as had been planned. At yearend 2006, the Government's accounts with the CBA increased by about AMD 40.4 billion due to the conversion of the privatization account proceeds, the above-planned revenue collection, and the savings in local budgets and the budget of the State Fund for Social Insurance.

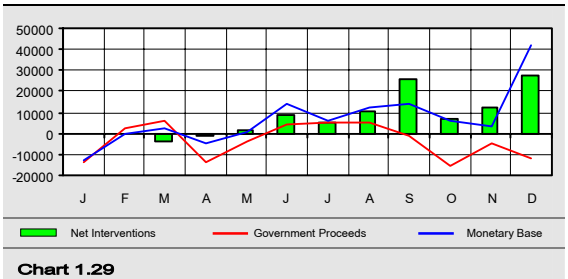


Chart 1.29
Changes in the monetary base, the Government's balance with the CBA, and net interventions in 2006 (in AMD million)

During the first half of 2006, changes in the monetary base were mostly driven by changes in the Government's proceeds, while in the second half, they were mainly caused by net interventions of the CBA in the forex market.

Net External Demand:[30] the real decline in exports of goods and services, which had started at the beginning of the year, as well as the growth of import volumes continued throughout Q3.

Real Growth of Main Macroeconomic Indicators

	Q4 2006 / Q4 2005	2006/ 2005
Real GDP	14.9	13.4
Domestic demand	14.8	13.7
Consumption	10.3	10.5
Public	28.4	19.8
Private	8.1	9.2
Capital investments	29.1	25.0
Public	-6.5	7.5
Private	35.1	27.9
Exports[31]	6.1	-2.2
Imports	7.2	1.7

Exports shrunk by 13.9% and imports—by 1.6% in Q3. It was mainly due to lower international prices of diamonds and changes in the structure of demand, which caused a decline in imports and exports of precious stones that account for a predominant share of Armenia's foreign trade.

Gross Supply [32]

In Q4 2006, the pace of economic growth accelerated mainly due to the reversal of the Q3 real decline of added value in industry and agriculture.

Due to increased output in the metallurgy and food processing industries, the overall industry ended the fourth quarter of 2006 with a 0.4% YOY increase in added value. Real growth of agriculture in Q4 was 12% YOY due to the rich harvest of the vegetables and a larger volume of slaughtering in the animal breeding sub-sector.

The aforementioned developments, coupled with more rapid growth of construction and sustained strong growth of the service sector reported from Q2 onwards, supported a 14.9% YOY real GDP growth in Q4.

Economic growth remained high in 2006, with some acceleration in the second half of the year, resulting in a 13.4% YOY growth figure.

During the year, considerable changes were observed in the development trends of different sectors of the economy due to both external and internal factors. In contrast to the previous years, growth rates of industry and agriculture slowed down in 2006. Lower growth of added value in the industry was caused by changes in international markets (a certain decline in prices of non-ferrous metals and a structural change in demand for diamonds), while agriculture was negatively affected by unfavorable weather conditions.

Inflation was most affected by a slump in the agriculture sector, caused by hotter-than-usual weather in Q2 and Q3 At yearend, the output in plant cultivation shrunk by 4.4% due to lower gross harvest of grains and legumes (46%), fodder plants (20.8%), fruit and berries (9.3%), and potatoes (4.4%). A more limited supply of these commodity groups caused an increase in their prices, which has contributed 1.87 percentage points to annual inflation.

The real output in the animal breeding sub-sector grew by 10.4% due to both increased livestock and more slaughtering because of the limited harvest of fodder plants. Consequently, added value in agriculture grew by only 0.4% in 2006 (compared to 11.2% growth in 2005), while its annual contribution to economic growth was 0.1 percentage points, compared to 2.5 in 2005.

As in the past, construction remained a key contributor to economic growth in 2006. From Q2, the growth rates of construction accelerated due to a continuing increase in household income, larger inflows of private remittances (particularly since Q2), and the implementation of large-scale investment projects (most notably, in the metallurgy and telecommunications). As a result, added value in construction grew by 37.2% in 2006, contributing 8.1 percentage points to economic growth.

Strong growth of the services sector, which started in 2001, continued throughout 2006. Considerable growth was reported in trade, telecommunications, and transport services, due

[30] Real export and import figures are based on actual data for the first nine months of 2006 and projections for Q4.
[31] This concerns exports and imports of goods and services.
[32] All indicators of real growth of aggregate supply components are over the previous year, unless otherwise specified.

to both a sustained increase in household income and tourism development in the country. Consequently, added value in services increased by 14% in 2006, contributing 4.5 percentage points to economic growth.

It is worth noting that rapid growth of construction and services affect inflation through higher demand caused by larger incomes.

Unlike the years before, a real decline was reported in industry since the beginning of the year, which led to a yearend decline of 0.9%. This recession, particularly the 24.3% annual decline in jewelry output, was mainly attributable to negative developments in international markets starting from January, Besides, the energy sector output declined by about 2.2% in 2006, although natural gas distribution grew by about 17% in real terms.

The recent years' high pace of growth in the metallurgy slowed down in 2006 because of a smaller output of converted copper.

The previous year's real growth in the food processing industry sustained, amounting to 4.2%. In 2005, food industry growth had been driven mainly by a 12.3% increase in the production of alcoholic beverages, whereas in 2006, when the production of alcoholic beverages declined by 2.6% in real terms, the production of foodstuffs increased by 6.7% in real terms. The decline in the production of alcoholic beverages had almost no influence on the consumer market, because it was largely a consequence of lower export volumes caused by excise tax changes in the Russian Federation.

Previous years' high real growth of the metallurgy slowed down in 2006 due to a 11% decline in the output of converter copper. This decline was caused by purely technical problems encountered in one plant during the year. In the production of molybdenum, there has been a shift from ferromolybdenum production to molybdenum concentrate, which caused the ferromolybdenum output to shrink by about 13%, while molybdenum production grew by about 35%.

Labor Market

The last five years' labor market trends of declining unemployment and growing wages were sustained throughout 2006.

Average nominal wages increased by 23.5% YOY, while real wages grew by 20.8%. The Q4 increase in the average nominal wage was 35.4% YOY.

Wages increased in all the sectors of the economy: wages in the trade and public catering, telecommunications, forestry, culture, health care, construction, and utility services sectors grew faster than the average wage in the economy (by 103.8%, 50.7%, 38.4%, 68.8%, 42.0%, 33.8%, and 30.3%, respectively).

In spite of this faster-than-average growth, wages in the majority of the aforementioned sectors (trade, forestry, culture, and health care, as well as education and arts) still remain below the AMD 64,000 average wage in the economy.

Unemployment was 7.4% in 2006, reflecting a 0.8 percentage point decline over the same period of 2005. The majority of the unemployed has completed high school and is in the 31-50 age group, and only a negligible number of the unemployed have only completed middle school. The average duration of seeking employment is rather long (14.8 months).

Parallel to rapid growth of construction activity, the largest share (80.5%) of demand for labor force during the year, as in the last two years, is for ordinary unskilled workers, of which about 30% is for jobs that do not require specialization.

In view of the current sector structure of GDP and, in particular, the fact that GDP growth is largely driven by low-productivity sectors, such as services and construction, productivity in the economy continues to grow at a slower pace than wages. This fact continuously creates inflationary pressures in the consumer market.

According to CBA estimates, real wages contributed 2.6 percentage points to the 5.2% figure of 12-month inflation, whereas productivity growth mitigated inflation by 1.2 percentage points, resulting in the labor market stimulating inflation by 1.4 percentage points.

Import Prices and Producer Prices

In Q3, import prices continued increasing at a high pace, mainly due to persevering high international prices of natural gas and other raw materials. However, the AMD exchange rate appreciation and the Government's subsidization of the increased natural gas tariffs have partially offset the negative impact of higher import prices on the domestic economy. As a result, the producer price increase was rather limited.

Import Prices

According to CBA estimates, prices of imports in dollar terms grew by 14.7% YOY in Q4 2006 (the rapid growth somewhat slowed down). In 2006, import prices increased by 15.4%, which is much higher than the 6.7% increase in 2005.

In Q4 2006, higher prices of input commodities had the strongest impact (contributing 6.5 percentage points), furthered by the doubling of natural gas export prices by the Russian Federation (contributing 4.2 percentage points). The increase in prices of oil products noticeably slowed down, consequently contributing only 0.4 percentage points to higher import prices. Prices of oil products continued to decline in Q4 2006, reaching about US $60 for the barrel (compared to about US $57 for the barrel during the same period of 2005). In 2006, prices of oil products were US $65.4 for the barrel, which is over 20% higher than their level in 2005.

Sugar prices continued to fall in Q4, reaching a level lower than the sugar prices in Q4 2005. The YOY increase in grain prices continued to slow down in Q4, even though grain prices still remain rather high. The annual increases in prices of sugar and grains were rather high (46.8% and 26.1%, respectively).

The increase in prices of imported consumer products, which was 8.0% YOY for the quarter, was due to high inflation and appreciating exchange rates in trading partner countries. Owing to the appreciation of European currencies, the Eurozone contributed 0.5 percentage points to the increase in prices of imported consumer products, the UK—0.4, and Switzerland—0.3 percentage points. The increase in prices of imported consumer products was 3.5% in 2006, also mostly due to the aforementioned factor.

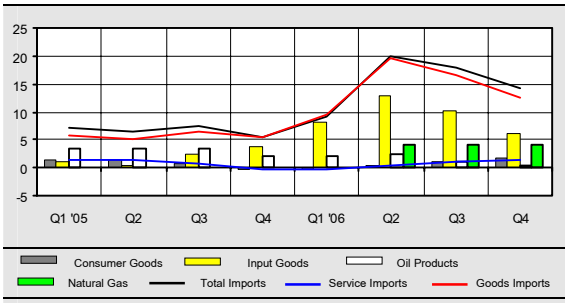


Chart 1.30
Increase in prices of imported goods continued to slow down

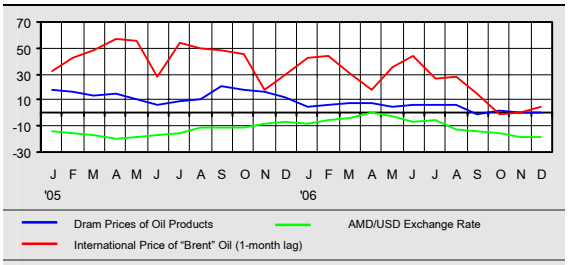


Chart 1.31
Increase in dram prices of oil products was contained by the exchange rate appreciation (%)

The Government's subsidization of the higher natural gas tariffs and the AMD exchange rate appreciation (by 20.9% in Q4) largely offset the increase in dollar prices of imports, and the latter increased by only 3.3%.

In 2006, the nominal AMD exchange rate appreciated by 10.0%, which almost fully neutralized the 15.4% annual increase in import prices; as a result, dram prices of imported goods grew by only 3.6%.

Price Change of Imported Goods

Indicators	2005	2006				
	Q 4	Q 1	Q 2	Q 3	Q 4	Annual
Imports (total)	5.3	9.1	19.9	17.7	14.7	15.4
Imports (services)	-1.1	-1.9	2.6	5.6	8.0	3.5
Imports (goods)	6.9	12.0	24.4	20.8	16.4	18.4
Capital goods*	0.0	0.0	0.0	0.0	0.0	0.0
Consumer goods	-1.1	-1.9	2.6	5.6	8.0	3.5
Raw material	13.2	29.7	46.1	37.0	13.5	33.6
Diamond*	0.0	0.0	0.0	0.0	0.0	0.0
Oil products	28.9	30.0	35.3	13.9	4.9	20.1
Natural gas	0.0	0.0	100.0	100.0	100.0	75.0

** Lack of data for capital goods and diamonds is due to their actual extreme fluctuations, therefore the price change has been estimated as zero.*

Producer Prices [33]

In Q4, in contrast to the other quarters of 2006, the price increase slowed down in all the sectors of the economy, mainly on account of the seasonal factor. Owing to the not inconsiderable vegetable harvest and increased output of animal products, the agricultural products sale price index increased by 3.8% YOY in Q4 2006, compared to a 16.1% YOY increase in Q3.

The seasonal factor also influenced capital construction prices, slowing down the construction sector price increase in comparison to the same period of 2005, from 5.5% in Q3 2006 to 1.4% in Q4. As a result, the GDP deflator increased by 4% YOY in Q4 2006, compared to about 8.2% in Q3.

The Producer Price Index grew in all the sectors of the economy, due to both external and internal factors. Internal factors most seriously affected agriculture and capital construction. Consequently, the annual GDP deflator came in at 4.8%, compared to 3.2% in 2005.

In agriculture, which has the greatest impact on consumer prices, grew faster in 2006 than in 2005. This development mostly took place in the second half of the year, caused by an about 4.5% decline in the harvest due to adverse weather. This, accompanied by the ever-increasing demand for agricultural products, explains the 35% YOY increase in wholesale prices of plant cultivation products in December 2006. The increase was rather high in the Ararat and Gegharkunik regions, which had suffered great losses due to hotter-than-usual summer weather: in these regions, producer prices in plant cultivation products rose by about 60% and 40%, respectively. As a consequence, the agricultural products producer price index increased by 8.9% in 2006, compared to 6.9% in 2005.

The capital construction price index grew more slowly in 2006 than in 2005: as a result, prices in this sector increased by about 6.9% in 2006 (compared to an 18.5% increase in 2005). The continuing price increase in this sector was due to sustained high growth in capital construction volumes, stimulating demand for labor and construction materials, leading to a persistent price increase therein. Nonetheless, the above-mentioned growth of construction prices and construction materials had almost no effect on inflation, as their share in CPI is negligible (about 0.3%).

The increase in the producer price index slowed down considerably in the industry sector, where the PPI grew by only 0.9% in 2006, compared to 7.7% in 2005. This was mainly due to an about 5% decline in producer prices in the metallurgy, in turn caused by a certain decline in international prices of non-ferrous metals (molybdenum and copper). Price increase accelerated in the construction materials production sub-branch of industry, which led to a 22.2% annual increase in prices. The latter was due to demand for construction materials growing faster than the supply of such materials.

External factors influenced the service sector, too: due to the increase in natural gas prices since April 2006, cargo transportation tariffs grew by about 15%. At the same time, mobile telephony tariffs fell during the year, which stimulated an increase in the volume of rendered telecommunication services. Consequently, service prices rose by 3.2% in 2006, compared to a slight decline in 2005.

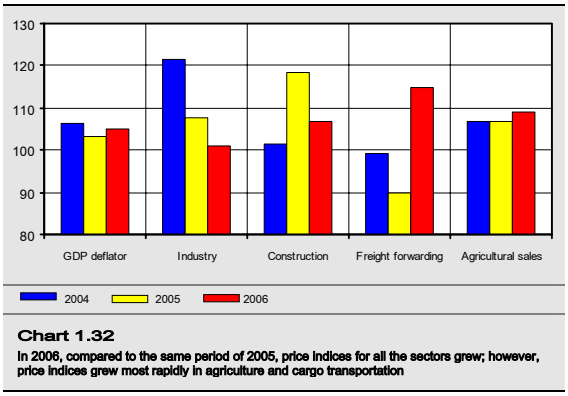


Chart 1.32
In 2006, compared to the same period of 2005, price indices for all the sectors grew; however, price indices grew most rapidly in agriculture and cargo transportation

[33] *The price indices presented in this section and their change is for January-December 2006 over the same period of 2005, unless otherwise specified.*

1.3. MACROECONOMIC PROJECTIONS

Developments in the External Environment

Expectations related to developments in the external environment are inferences derived from an assessment of the economic situation. According to the IMF "World Economic Outlook" data for September, strong growth of the world economy will be sustained in 2007.

Developments of World Economy

	2005	2006	2007
World economy			
Economic growth	4.9	5.1	4.9
USA			
Economic growth	3.2	3.4	2.6
Inflation	3.4	3.6	1.9
Eurozone			
Economic growth	1.3	2.7	2.0
Inflation	2.2	2.3	2.0
Russian Federation			
Economic growth	6.4	6.7	6.6
Inflation	12.6	9.7	8.3

According to consensus forecast by "The Economist," the 2007 economic growth projection for the USA was adjusted downwards by 0.3 percentage points in comparison to the September data in the "World Economic Outlook" publication of the IMF, while the Eurozone economic growth projection was not changed, and Russia's economic growth projection was revised upwards by 0.1 percentage point. Moreover, strong economic growth is projected for Eastern Asia and developing countries, as well.

In world markets, the trend of declining prices for raw materials, which emerged in the second half of 2006, resulted in a downward revision of world inflation projections. The 2007 inflation projection for the USA will be 1.0 percentage point lower than earlier estimates, while those for the Eurozone and Russia will be 0.4 and 0.2 percentage points lower, respectively.

In the fourth quarter of 2006, prices of input goods continued to fall, while those of oil products stabilized. Despite the ensuing slowdown in the pace of world inflation, the central banks of the largest countries (with the exception of Japan) still consider the risk of accelerating inflation very high.

Terms in international financial markets became tighter in Q4. Although the US Federal Reserve System did not raise its interest rates during Q4, the European Central Bank and the Bank of England continued to raise interest rates. Global imbalances, most notably the profound deficit of the current account in the USA, were to a small extent mitigated on account of a weakening US dollar and lower oil prices.

The most characteristic developments in 2006 included the increase in prices of input goods, the acceleration of world inflation, a contractionary monetary policy, persisting global imbalances, the "soft landing" of the US economy, and the smooth depreciation of the US dollar.

Development of International Financial and Primary Goods Markets

	2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
LIBOR 3-month interest rate	4.8	5.3	5.4	5.4	5.3	5.3	5.2	5.2
USD/EUR exchange rate	1.20	1.26	1.27	1.29	1.30	1.31	1.32	1.33
RUR/USD exchange rate	28.2	27.2	26.8	26.6	26.2	26.2	26.1	26.0
Brent oil price (USD/barrel)	61.9	69.8	70.1	59.6	54.5	56.2	57.9	59.7
Gold price (USD/ troy ounce)	554.0	627.4	621.5	611.2	632.7	634.9	637.1	639.3
Cooper price (USD/ton)	4947.5	7228.8	7679.9	7108.9	5533.4	5483.7	5434.5	5385.7

The aforementioned trends are expected to sustain throughout 2007, with the exception of the increase in prices of input goods. If all central banks, with the exception of the Federal Reserve System, raise interest rates, and if the USA continues to run a current account deficit, preconditions will be created for further weakening of the US dollar. Furthermore, these factors will somewhat reduce financial inflows to developing countries, especially because developed countries are starting to achieve higher rates of growth. On the whole, the absence of risks of new supply shocks gives reason to assume that, in 2007, pressures of the external environment on inflation will be moderate compared to 2006.

Developments in the Domestic Economy

Aggregate Supply

Economic growth is expected to remain high (at about 9%) in 2007. Growth will continue to be fueled largely by capital construction and services; moreover, real growth of industry is projected to accelerate.

In Q1 2007, industry growth is expected to rebound, reaching 6.5% at yearend. This will be facilitated by further development of the food processing industry due to employment of the industrial capacities built up through earlier investments and somewhat faster growth of the metallurgy.

In industry, higher-than-projected real growth is possible also due to anticipated investments in the chemical industry and launching of two large factories.

As to the service sector, rapid growth is expected in telecommunications, transport, and tourism, which are expected to result in an about 11% real increase in the value added in the service sector in 2007.

In the construction sector, strong growth reported in previous years is projected to slow down to some extent, resulting in an about 13% increase in construction sector added value. Considerable investments in housing construction will continue because of long-term nature of projects in this sphere. Significant growth of capital construction is projected in the energy sector, as well, due to the construction of the second portion of the Armenia-Iran gas pipeline and the implementation of investment projects in small hydro-power stations, the Hrazdan thermal power plant, and other energy sector facilities. Capital investments are also expected to increase in transport, telecommunications, and services.

Nonetheless, there is risk that the construction sector projection will be exceeded, if currently pending large-scale investment projects are approved and implemented. Presently, there are such projects for the mining industry and metallurgy, as well as the energy sector, transport, telecommunications, and other services.

In agriculture, no major deviation is expected in view of the negligible volumes of technological innovation and the slow growth of productivity. For the whole year, value added in agriculture is expected to grow by 3.2%, which will come from higher gross output in both plant cultivation and animal breeding. There still remains high risk related to growth in this sector, because output in plant cultivation subsector, which accounts for half of total output of agriculture, is significantly dependent on the weather. Hence, the risk in agriculture may materialize in either direction—higher-than-expected or lower-than-expected growth (if not negative growth).

Aggregate Demand

During 2007, higher domestic demand will provide for the predominant share of economic growth. Within the structure of domestic demand, the share of private expenditures (in terms of both investments and consumption) will continue to expand.

In 2007, the share of domestic in aggregate demand is projected to expand by 12.1%, with private expenditures growing by 12.5%. In Q1, higher private expenditures will be due to an over 10% increase in private consumption, whereas, during the other quarters of 2007, private investments, too, will considerably stimulate higher private expenditures (private investments will grow by over 28%).

Public Demand

According to estimates made on the basis of the Draft Law on the 2007 State Budget of the Republic of Armenia, fiscal policy is expected to

have a contractionary impact on aggregate demand in the first half of 2007 and an expansionary impact in the second half of 2007. Annually, fiscal policy will be somewhat expansionary on account of the expansionary impact of expenditures and the contractionary impact of revenues. A rather high revenue collection target has been set for 2007, which, if met, will result in a 1 percentage point increase in the tax-to-GDP ratio.

Inflation Projections

External Environment

The 2007 inflation projections are based on the following assumptions regarding the external sector:

- As per adjusted projections, international oil prices will average about US $58 in 2007;[1]
- Base metal prices (on average) will be somewhat lower in 2007 than the maximum prices reported in 2006;
- There still persist expectations of the US dollar further depreciating moderately against the main currencies, which may lead to somewhat higher dollar prices of imports from trading partner countries;
- In spite of some decline trends in world inflation, overall growth will remain rather high; and
- Terms in world financial markets will continue to become tighter (central banks of the main countries, with the exception of the US Federal Reserve System, raising interest rates).

On the whole, inflationary pressures expected from the external sector will diminish significantly, even though there are risks of them growing due to greater-than-expected depreciation of the US dollar, higher prices of oil and input goods, and higher remittances. Furthermore, there are risks related to the behavior of the real and nominal exchange rates, which may evolve in either direction depending on Armenia's terms of trade, capital inflows, productivity, and other core indicators.

[1] In December 2006, international oil prices were projected to rise to US $80 by yearend 2007, but developments early into the year caused to revise this projection (to US $60).

Domestic Environment

The following are the main assumptions regarding the domestic economy:

- In 2007, real economic growth of at least 9% is expected: capital construction, agriculture, and services will continue to grow at the same pace, while industry will grow somewhat faster;
- Within the structure of aggregate demand, domestic demand is expected to grow somewhat more slowly and exports—more rapidly in 2007. Parallel to a more rapid real growth of public expenditures, real growth of private expenditures will slow down to some extent. Similar to the years before, it will be driven by a continuing increase in household income, as well as expected significant inflow of private remittances. Private investments will continue growing rapidly, concentrating mainly in housing construction, transport and telecommunications, energy, mining, the metal industry, and the chemical industry;
- The export growth[2] expected in 2007 will be achieved through the recovery of the industry sector. Growth of real imports will be as high as in 2006, given the slower increase in dollar prices of imports and the demand projections;
- In the labor market, higher demand for labor will continue to reduce unemployment in 2007, especially in construction and services. Since construction and services are the main contributors to GDP growth and do not require great strides in productivity, wages will continue growing faster than productivity. This will create some inflationary pressures in the consumer market;
- Private to Armenia will grow at a slightly slower pace, but will continue to have an expansionary impact on inflation;
- The impact of fiscal policy on aggregate demand will be somewhat expansionary;
- The dramization process will continue owing to the implementation of a number of

[2] The methodology of calculating real exports and imports of goods and services has changed. Now, the price calculation also includes the service export and import prices, which makes the new 2007 indicators incompatible with the latest projections.

measures to achieve dramization of the economy;

- In 2007, financial intermediation will continue growing, which will be reflected in a higher dram multiplier, higher monetization, and a higher degree of dramization. At the same time, dollarization of the economy will decline; and
- In 2007, lending to the economy will continue growing rapidly due to large profits posted by banks in 2006, as well as the implementation of large-scale lending (especially mortgage) programs financed from replenished statutory equity in 2007.

In view of the aforementioned assumptions and developments in certain sectors of the economy, 4.1% inflation is projected for 2007. It does not deviate from the target 4 (±1.5%). Presently, risks of higher or lower inflation do not prevail in either direction.

If inflationary risks materialize moderately, the 2007 inflation target will be achieved under a relatively neutral monetary policy.

During the year, the CBA will constantly monitor domestic and external developments and, if risks emerge, it will respond adequately by offsetting the risks that might upset the inflation target.

1.4. MINUTES OF CBA BOARD SESSIONS

MINUTES OF THE REPUBLIC OF ARMENIA CENTRAL BANK BOARD SESSION (31.10.06)

On the November 2006 Refinancing Interest Rate

The Republic of Armenia Central Bank Board session of October 31, 2006 was attended by the CBA Chairman T. Sargsyan, Deputy CBA Chairman A. Javadyan, and Board members A. Saribekyan, A. Norekyan, V. Movsesyan, and K. Minasyan.

Before the CBA Board decided the November refinancing interest rate, the macroeconomic situation through October, inflation, developments in the external, real, fiscal, and monetary sectors of the economy, and possible future risks were presented.

Inflation: 6.0% inflation was reported in October 2006 over October 2005. Prices of food products increased by 6.6%, while prices of non-food products and service tariffs increased by 2.3% and 4.6%, respectively. Inflation remains driven by higher prices of the "Fruit" and "Vegetables and Potato" commodity groups, and sugar, as well as higher service tariffs (each contributing 0.6, 1.2, 0.4, and 1.4 percentage points, respectively).

In October 2006 over December 2005, food and non-food prices and service tariffs increased by 1.0%, 2.0%, and 4.5%, respectively; overall inflation was 2.5%.

External Environment: developments in the external environment remain within the scope of the projections made in October 2006. The euro continued to appreciate against the US dollar in October at the same pace as in September, reaching 4.7%. The increase in international prices of oil products continued to slow down in October, reaching only 4% over October 2005. Risks of price increases of grains and other input goods persist. Prices of oil products are projected to grow slowly but steadily over the next 12 months.

Real Sector: in Q3, growth was higher than projected (13.1% actual growth). In the industry and agriculture, real growth fell considerably short of the projections, while in construction and services, real growth exceeded the projections.

Due to lower output of plant cultivation in Q3, agriculture declined by 3.5% in real terms as a consequence of the poor harvest of fodder plants, vegetable, and some times of fruit caused by adverse weather.

Industry declined by about 2% in real terms in Q3 due to delays in launching new production capacity in the metal industry, as well as some decline in canned food production volumes (which was due to lower supplies to factories caused by the poor harvest).

Construction grew by 37.9% in real terms, faster than projected, which was mainly due to a strong increase in household-financed construction volumes.

Service growth, too, exceeded the expectations, reaching 19.2%. This was due to a sustained increase in household income, as well as considerable tourism activity related to the 15th anniversary of Armenia's independence.

Real exports of goods and services fell by 13.9% in Q3 2006 compared to Q3 2005,[1] mainly due to unfavorable developments that emerged in the industry in the beginning of the year, as well as some technical problems related to exports (tax administration changes in Russia). Real imports of goods and services shrunk by 1.6%,[2] mainly due to an 11.8% decline in real imports of input goods. Nonetheless, real imports of consumer goods grew by 11.0%, which reflects ever-growing demand in the economy.

Labor Market: average wages, which account for the largest share of household income, continued to grow in real terms in Q3 2006 (by

[1] Exports in nominal terms fell by 1.8% in Q3 2006 over Q3 2005; without the "Precious and semi-precious stones, precious metals, and articles" commodity group, nominal exports fell by 3%.

[2] Imports in nominal terms grew by 18% in Q3 2006 over Q3 2005; without the "Precious and semi-precious stones, precious metals, and articles" commodity group, imports grew by 22.2%.

20.5%). Household income growth was also fueled by sustained large inflows of private remittances: in September 2006, remittances grew by 12.8% over September 2005. During January-September 2006, over the same period of 2005, remittances grew by 30.2%. Income increases continue generating inflationary pressures in the consumer market.

Fiscal Sector: in Q3 2006, the fiscal sector had a contractionary impact on inflation. If the budgeted public expenditures are executed in full by yearend, the impact will be somewhat expansionary.

Money and Credit: in October 2006, the previous months' developments continued in the monetary sector, and dramization of the economy became more active.

On the background of a dramization process, monetary indicators changed in the following way: the 46.2% increase in dram broad money in September 2006 over September 2005 considerably exceeded the 22.3% increase in broad money; as a result, dramization of the economy grew by 23.6%, while monetization grew by only 3.3%. During this period, the monetary base grew by 32.9%. The monetization process influenced lending and deposit figures in the following way: lending to the economy grew by 34.2% in September 2006 over September 2005. Dram lending grew by 59% or AMD 37 billion, while foreign currency lending—by 38.6% (excluding the impact of dram appreciation). Presently, dram lending accounts for 45.3% of total lending. In September 2006 over September 2005, deposits grew by 11.1%; dram deposits grew by 56.8%, while foreign currency deposits grew by only about 5% (excluding the impact of dram appreciation).

As the dramization process accelerates, the CBA will continue meeting demand for drams by means of purchasing foreign currency, which, coupled with large-scale budget spending at yearend, will create excess liquidity in the economy, creating inflationary pressures.

In the dram market, the inter-bank repo interest rate stabilized at around 5.25%, while the interest rate on CBA bills stabilized at around 6%.

The CBA Board noted the following: although international oil prices have somewhat declined and stabilized from August 2006, external sector inflationary pressures still persist due to the possibility that prices of grains, oil products, and other input goods will increase.

Growth remains strong, mainly owing to construction and services; as a result, higher household incomes, coupled with increasing private remittances, create inflationary pressures. Inflationary pressures continue to stem from the agriculture sector, as well.

Despite existing inflationary pressures, inflation will remain within the 4+1.5% target during the next 12 months, if the aforementioned risks materialize to a moderate extent.

As dramization of the economy continues, the CBA's purchases of foreign currency to meet demand for dram, coupled with possible large-scale budget spending at yearend, will create excess liquidity in the economy, which can be absorbed at the current level of interest rates.

If the aforementioned pressures intensify, the CBA will gradually mitigate their impact during the upcoming 12-month period.

The CBA Board decided: to leave unchanged (at 4.75%) the November refinancing interest rate. The overnight Lombard credit facility interest rate is 7.75%, and the overnight deposit facility interest rate is 1.75%.

MINUTES OF THE REPUBLIC OF ARMENIA CENTRAL BANK BOARD SESSION (5.12.06)

On the December 2006 Refinancing Interest Rate

The Republic of Armenia Central Bank Board session of December 5, 2006 was attended by the CBA Chairman T. Sargsyan, Deputy CBA Chairman A. Javadyan, and Board members A. Saribekyan, V. Movsesyan, K. Minasyan, and V. Gabrielyan.

Before the CBA Board decided the December refinancing interest rate, the macroeconomic situation through November, inflation, developments in the external, real, fiscal, and monetary sectors of the economy, and possible future risks were presented.

Inflation: 1% inflation was reported in November over October 2006. Prices of food products increased by 1.9%, while prices of non-food products decreased by 0.9%, and service tariffs rose by 0.6%. November 12-month inflation was 6.0%. Inflation over December 2005 was 3.5% in November 2006.

External Environment: external environment developments, including in particular prices of oil products and base metals, were generally within the expected scope in October and November 2006. During this period, the EUR/USD exchange rate appreciation, too, was within the projection; however, during the last ten days of November, the exchange rate appreciated more rapidly, which enables future adjustments to the euro exchange rate projections.

Real Sector: in October, no major change took place in the real sector of the economy, which resulted in 13% January-October economic growth. As in the previous month, this growth was mainly driven by a faster increase in construction volumes, as well as intensive growth of services, which began early in the year.

During January-October 2006 over the same period of 2005, gross agriculture output remained virtually unchanged: output of the animal breeding sub-sector continued to grow (by 8% from January to October), while the plant cultivation harvest shrunk (by about 4% during the same period). The latter was due to lower gross harvests of grains and legumes (43.9%), fruit and berries (7.0%), potatoes (5.9%), and fodder plants (28.4%). The decline in gross output of plant cultivation, coupled with the processing industry's higher demand for export-oriented (especially to Georgia) agricultural products,[3] continued exerting inflationary pressures on both product supply prices and retail prices in the consumer market.

Industry developments, too, fell within the expected scope: from January to October, industry declined by 0.9% in real terms due to diminishing outputs of the diamond industry, electricity generation, and the chemical industry from the beginning of the year.

As the adverse developments that were noted in the industry earlier in the year faded away, nominal exports grew by 2.3% during January-October (excluding diamonds, nominal exports grew by 5.4% during the same period). Nonetheless, real exports are still rather low compared to 2005. As was projected, rapid growth of imports sustained through October, which resulted in a 20.9% increase during January-October 2006 over the same period of 2005. This trend remains affected by constantly rising demand.

Labor Market: the labor market behavior, including the wage increase, was within the projected scope. Moreover, real wages continued growing faster than productivity, on the background of declining unemployment. In October 2006 over the same period of 2005, average wages increased by 19.6% in real terms, whereas productivity grew by about 12%. The fact that real wages grow faster than productivity, partially due to the persisting large-scale inflows of remittances, inevitably continues posing inflationary pressures. Net inflows of remittances grew by 24.9% in October 2006 (during January-October 2006 over the same period of 2005, remittances grew by 29.5%).

Fiscal Sector: in spite of early Q4 2006 projections that the fiscal sector will have an expansionary impact on aggregate demand, October and November developments proved the contrary. Fiscal policy is now projected to have a contractionary impact in Q4, which will result in fiscal policy annually having a contractionary impact on aggregate demand.

[3] *According to data provided by the Republic of Armenia NSS, production of natural juices grew by 52.9% in real terms during January-October 2006, while can production grew by 11%.*

Money and Credit: in October and November, the previous months' developments persisted in the monetary sector of the economy. As was expected, dramization of the economy became more intensive. On this background, monetary indicators changed in the following way: dram broad money grew by 45.8% in November 2006 compared to the same period of 2005, which significantly outweighed the 25.5% increase in broad money. During the same period, the monetary base grew by 30.1%. Cash in circulation increased by 39.2%, while dram deposits grew by 57.1%.

Foreign currency deposits decreased by 4.7% in dram terms, which lowered the dollarization of the economy by 24%. Lending to the economy, too, grew faster than projected for the year: in November 2006 over November 2005, lending to the economy grew by 27.6%. Real growth of lending is even higher, if the dram appreciation is factored in.

The CBA Board noted the following: although external sector inflationary pressures still persist, mainly due to high international prices of energy and a number of other goods (most notably, sugar) during the year, the inflationary pressures anticipated from this sector in the upcoming 12 months are still weaker.

Growth remains strong, mainly owing to construction and services; in view of these developments, higher household incomes, coupled with increasing private remittances, sustain moderate inflationary pressures.

Furthermore, in view of the vast increase in seasonal demand for the dram at yearend and the enduring dramization of the economy, the CBA's purchases of foreign currency to meet demand for dram will create excess liquidity in the economy. The CBA Board estimates that the excess liquidity can be absorbed at the current level of interest rates.

The CBA Board decided: to leave unchanged (at 4.75%) the December refinancing interest rate. The overnight Lombard credit facility interest rate is 7.75%, and the overnight deposit facility interest rate is 1.75%.

If the economic development outlook remains unchanged, the CBA Board does not rule out the possibility of interest rates adjustment in the months ahead.

MINUTES OF THE REPUBLIC OF ARMENIA CENTRAL BANK BOARD SESSION (30.12.2006)[4]

On Directions of the 2007 Monetary Policy

The Republic of Armenia Central Bank Board session of December 30, 2006 was attended by the CBA Chairman T. Sargsyan, Deputy CBA Chairman A. Javadyan, and Board members A. Saribekyan, V. Movsesyan, A. Norekyan, K. Minasyan, and V. Gabrielyan.

Before the CBA Board decided the directions of monetary policy in 2007, the economic situation in 2006, an overview of actual inflation, and projections for 2007 were presented. The actual data and projections cover the developments in the external, real, fiscal, and monetary sectors of the economy, as well as possible future risks.

According to CBA projections, given the hypothesis that interest rates will remain unchanged in light of the market expectations, inflation will be around 4.1% in December 2007 over December 2006. In the context of projections, the impact of various sectors of the economy on the inflation forecast has been assessed.

Performance in 2006

Inflation: in December 2006, inflation was 1.6% over November 2006 and 5.2% over December 2005, compare to a 5% (+/-1.5%) target. Food products prices increased by 6.6% over December 2005, while prices of non-food products and service tariffs rose by 0.5% and 5.5%, respectively. Within food products, price indices of the "Fruit" and "Vegetables and Potato" commodity groups increased by 29.5% and 37.9%, respectively, contributing over 2.5 percentage points to annual inflation. Average annual inflation was 2.9% in 2006.

The impact of sectors of the economy on annual inflation is as follows: the external sector impact on inflation was moderately expansionary;

[4] *Before publication, the preliminary data were replaced with actual data available at such time.*

the real sector and the labor market had an expansionary impact on inflation, while the fiscal sector impact on inflation was contractionary. These developments and the results of the monetary policy carried out in this environment are presented in greater detail below.

External Environment: in Q4 2006, the external environment impact on inflation was moderately expansionary. On the one hand, it was manifested in the appreciation of the euro against the US dollar (7.7% over the same period of 2005), which drives up the dollar prices of goods imported from the Eurozone. On the other hand, in spite of the lower-than-projected international prices of oil products, they still increased by 5.0% over the same period of 2005, which, too, had an expansionary impact on inflation.

On the whole, dollar prices of imported goods increased by 13.4% in Q4 2006 over the same period of 2005, which was offset by a 17.3% appreciation of the Armenian dram against the US dollar, leaving prices of imported goods almost unchanged.

It can be concluded that, because of a slower increase in prices of input goods, external sector inflationary pressures have subsided.

Real Sector: in Q4 2006, the real sector impact on inflation was expansionary, due to a significant increase in incomes driven by rather strong growth of construction and services, real wage growth exceeding productivity growth, and a considerable inflow of private remittances, on the one hand, and the creation of little added value in industry and agriculture, on the other.

In Q4 2006, developments in various sectors of the economy resulted in 15% economic growth. In industry and agriculture, real growth was below projected, while in the other sectors of the economy, the projections were exceeded. In Q4, capital construction added value grew by 37.5%, which contributed 9.6 percentage points to economic growth. Driven by higher volumes of trade, transport, and telecommunications services owing to ever-growing household income, real growth of services in Q4 was 13.2% (contributing 4.7 percentage points to economic growth). On account of such developments in different sectors of the economy, economic growth was 13.4% in 2006, compared to 14% in 2005. The greatest contributors to growth were capital construction and services, while agriculture had a neutral contribution. Hence, added value in capital construction grew by 37.2% in 2006 (contributing 8.1 percentage points to economic growth), while services grew by 14% (contributing 4.5 percentage points to economic growth). The industry added value index did not change, and real growth of added value in agriculture did not exceed 1%.[5]

In the structure of aggregate demand, the share of domestic demand expanded by 13.6%. Public expenditures in real terms fell by 5.3%, while private expenditures rose by 15.8%. In the structure of private expenditures, both consumption and investments grew extensively on account of both growing household incomes and the long-term nature of investment projects (especially in areas such as housing construction, the mining industry, energy, and transport). Private consumption increased by 11.6% compared to 13.3% in 2005, while private investments grew by about 30% compared to 34.8% in 2005. The adverse developments noted in the industry from the beginning of the year led to decline of real exports of goods and services. To a degree, this helped to slow down the increase in real income, bearing a contractionary impact on prices. Higher real imports of goods and services, too, bore a contractionary impact on prices, because, on the one hand, it augmented the supply of goods and services in the consumer market, and, on the other, facilitated the outflow of a part of household income.

Labor Market: in 2006, demand for workforce continued to rise in the labor market on account of economic growth, resulting in higher average nominal and real wages. Concurrently, unemployment declined. In spite of high economic growth, productivity growth was slower than real wage growth, causing inflationary pressures in the consumer market.

The large inflows of non-commercial remittances from the beginning of the year on (in 2006, January-November growth was 32.2%) added to the inflationary pressures in the consumer market, which was partially offset by the continuing appreciation of the nominal exchange rate.

Consolidated Budget: in 2006, the impact of fiscal policy on aggregate demand was negligibly

[5] *Industry added value shrunk by 1.1%, which held economic growth back by 0.2 percentage points.*

contractionary on account of the contractionary impact of expenditures.

Money and Credit: at yearend 2006, the previous months' developments of the monetary sector maintained and, as was expected, dramization of the economy accelerated. The CBA met demand for drams by means of purchasing foreign currency, and absorbed excess liquidity in line with the objective of hitting the inflation target. On the whole, the CBA's Q4 2006 net purchases of foreign currency were worth AMD 46.7 billion, coupled with the CBA's net issuance of bills worth AMD 4.1 billion. During this period, the CBA Board only once raised the refinancing interest rate—fixing it at 4.75% in early October. In November and December, the refinancing interest rate remained unchanged, because, first, the inflationary potential had been somewhat mitigated, and second, the achievement of the annual inflation target by absorbing excess liquidity was completely realistic given that level of the interest rate.

The dramization process and the monetary policy carried out during 2006 resulted in the following changes of the monetary indicators: dram broad money grew by 52.5% at yearend 2006 over yearend 2005, which was much higher than the 32.9% increase in broad money. In the meantime, the monetary base grew by 41%. Average annual growth of broad money, dram broad money, and the monetary base was 26%, 45%, and 44%, respectively. Cash in circulation grew by 46.5%, while dram deposits grew by 67%, compared to a mere 1.9% increase in foreign currency deposits in dram terms. Such changes in the components of broad money resulted in an over 23% reduction of the dollarization of the economy, which reached 30% at end-December. Owing to more rapid dramization, the money multiplier decreased by 7% to reach 1.78. Owing to the same factor, the dram multiplier grew by 6.4% to reach 1.22. Under these circumstances, the dramization ratio of the economy increased by 28.4% to reach 12.1%, while monetization increased by 12.1% to reach 18.2%. During the same period, lending to the economy grew by 28.1%.

Developments in individual sectors of the economy and their impact on inflation will be elaborated presented in greater detail in the 2006 Annual Report of the CBA.

Projections for 2007

External Environment: in 2007, the following developments are expected in the external environment: the euro will continue appreciating smoothly, attaining a EUR/USD exchange rate of 1.35 at yearend 2007. These expectations are based on the fiscal and current account deficits of the US economy, which are rather high. Moreover, the spread between interest rates of the US Federal Reserve System and those of the European Central Bank will continue to shrink in favor of the euro.

As for the oil price scenario, it is projected to reach US $80 per barrel instead of US $61. This projection follows the fact that the medium-term and long-term increase in prices of energy will still continue on account of the persisting gap between supply and demand.

International financial terms will be tighter in 2007 due to the central banks of virtually all the developed countries setting higher interest rates. The only exception is the US economy, where interest rates are expected to decline in the first half of 2007 due to low economic growth and still-high, though subsiding inflation. This tightening will cause a certain slackening of capital inflow to developed countries, as well as Armenia.

As for grain prices, the price increase risks have weakened to a certain degree, due to the sufficiency of Russia's harvest and the small decline in grain exports from Russia.

Real Sector: in 2007, growth is expected to slow down in comparison to the years before. Capital construction growth will slow down, while agriculture and services will grow at the same pace as before, and industry growth will become somewhat faster. In the structure of aggregate demand, the share of domestic demand is expected to rise more slowly, while exports are projected to grow faster. As to the components of domestic demand, public expenditures are projected to grow more rapidly in real terms, while private expenditures are expected to grow more slowly in real terms. As in the past, it will be driven by continuously increasing household income and a considerable inflow of private remittances. Private investments will continue growing at a high pace, concentrating mostly in housing construction, transport and telecommunications, energy, mining, and the metal and chemical industries.

Export growth projections for 2007[6] will be sustained by the recovery of industry and the solution of structural problems in the diamond sector. Given that dollar prices of imports will rise more slowly and demand will be as projected, real imports will grow at the same pace as in 2006.

Labor Market: labor market indicators will retain their last five years' behavior through 2007. On account of higher demand for workforce, the level of unemployment will continue falling, especially in construction and services. As these sectors are the main contributors to GDP growth and do not require greater productivity, wages will continue growing more rapidly than productivity. This will create inflationary pressures in the consumer market.

Private remittances to Armenia, which will grow at a slightly lower pace in 2007, will have an expansionary impact on inflation.

Consolidated Budget: in 2007, aggregate demand is expected to bear a somewhat expansionary impact of fiscal policy, which will be mainly due to the expansionary impact of expenditures.

Money and Credit: the dramization process that was reported in the last two years is expected to continue through 2007 due to the implementation of a number of measures to further the dramization of the economy.

The level of financial intermediation will continue growing in 2007; this growth will be reflected in a higher dram multiplier, monetization, and dramization. Concurrently, dollarization of the economy will diminish.

Lending to the economy will continue growing at a high pace in 2007 due to the financing of lending programs (especially mortgage lending) from the extensive profits of commercial banks in 2006 and the replenishment of statutory equity.

In some sectors of the economy, inflation for the upcoming 12-month period has been projected, too. In March 2007, 12-month inflation will be 5.1%, while inflation for the upcoming 12-month period is projected at 4.1%.

[6] *The methodology of calculating real exports and imports of goods and services has changed. Now, the price calculation also includes the service export and import prices, which makes the new 2007 indicators incompatible with the latest projections.*

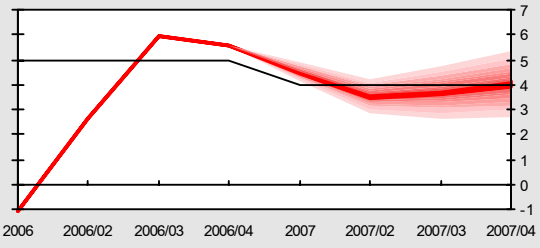


Chart 1.33
Euro exchange rate continued appreciating in Q4 2006

Q4 2007 inflation is projected at 4.1%						
Band	Below 2%	2%-3%	3%-4%	4%-5%	5%-6%	Over 6%
Probability	<1	9.9	39.4	39.4	9.9	<1

The inflation projection almost does not deviate from the 4% (+/-1.5%) target. The inflation projection probability distribution graph shows that the probability of deviation from the projected central value is evenly distributed, i.e. the risks of higher or lower inflation do not prevail in any direction yet.

The CBA Board noted the following: in December 2006, 12-month inflation was 5.2%, which was about 1 percentage point lower than the Q3 figure. Inflation projections for the upcoming 12-month period are within the 4% target, which includes the expectation that prices of energy will grow less rapidly in 2007, and that domestic economic growth will be sustained.

The CBA Board considers that the 4% inflation target can be realistically attained, given the hypothesis that interest rates will remain unchanged in light of current market expectations.

The CBA Board considers probable the following developments, which would bring along risks of lower inflation:

- International oil prices may be far below their projected level, because, in spite of the long-term growth trend, the short-term price adjustment at yearend 2006 may carry over to 2007; and
- Risks in the agriculture sector, too, may bear a contractionary impact on inflation due to a rich harvest in case of favorable weather, which may create deflationary pressures starting from Q3.

The CBA Board also considers probable the following upward risk to inflation: in the industry and capital construction, higher-than-planned

growth may be achieved, which, through higher household income, will create inflationary pressures.

The CBA Board decided: to leave unchanged (at 4.75%) the November refinancing interest rate. The overnight Lombard credit facility interest rate is 7.75%, and the overnight deposit facility interest rate is 1.75%.

If new information about inflation and growth developments comes to light, the CBA Board does not rule out a possibility of interest rates adjustment in the months ahead.

2. FINANCIAL STABILITY IN THE REPUBLIC OF ARMENIA

Financial stability is defined as sound functioning of a financial system, which implies effective allocation of resources, the ability to ensure adequate liquidity, and the smooth execution of non-cash transactions. In general terms, financial stability is the absence of crises, when the three pillars of the financial system—the financial market, financial institutions, and financial infrastructures—effectively and continuously perform their functions of attracting and allocating funds, executing payments and settlements, evaluating and managing risks, and absorbing risks emerging from shocks.

Risks undermining financial stability are diverse and stem from a variety of sources. Hence, it is necessary to evaluate not only risks intrinsic to the financial system, but also risks emerging in all sectors of the economy. Maintaining financial stability, thus, requires a study into both the macro-environment and the three pillars of the financial system - financial market, financial institutions and financial infrastructures.

2.1. FINANCIAL STABILITY IN THE MACROECONOMIC ENVIRONMENT

In open economies, such as Armenia, financial system stability may be undermined by risks emerging from adverse developments in both domestic economy and external environment (most notably, risks in the trading partner countries). Therefore, it is of paramount importance to carry out a thorough analysis of all macroeconomic sectors (the real, fiscal, and external sectors) from the perspective of risks undermining financial stability, to identify such risks, and to manage them to the extent possible.

Real Sector

Risks undermining financial stability that emerge from the real sector are predominantly associated with changes in certain sectors of the economy, fluctuations in household income, the overall price level, particularly, real estate prices.

Indicators of Income and Indebtedness: in recent years lending growth has tended to outrun the growth of disposable income in the world economy. If this trend persists, it may jeopardize financial system stability and pose a risk. These developments may lead to a point at which debt service will exceed household income.

Increase in Gross National Disposable Income vs. Increase in Lending to the Economy

	2004	2005	2006
Growth of bank lending to the economy	39%	39%	25%
Growth of gross national disposable income	16%	17%	19%
Bank lending to economy / Gross national disposable income	6%	8%	8%

The Republic of Armenia has still not encountered this problem, as lending to the economy is currently rather low in comparison with gross national disposable income. In spite of the fact that in recent years lending in Armenia has grown much more rapidly than gross national disposable income, the financial system still has large potential to commit new debt.

Changes in the Structure of GDP: relatively stable developments in the sectors of the Armenian economy in 2006 had a neutral impact on the quality of loans extended to the economy by the financial system, and did not pose risks that would seriously undermine financial stability.

As a result of unfavorable weather conditions the volume of argicultural production decreased, which in turn led to higher-than-projected inflation. Despite these changes, the share of non-performing loans in the total agricultural loan

portfolio of the banking system remained virtually unchanged.

In the industry, too, some problems arose connected with the decline in the diamond cutting and nonferrous metal sub-sectors, both of which were caused by structural changes in international markets. Although the quality of loans to the industry slightly deteriorated, it is not directly related to the diamond cutting and the nonferrous metal sub-sectors, and, according to estimates, has a temporary nature. Generally, developments in the industry sector cannot directly lead to systemic risks; it can be concluded that the financial system of Armenia is free from unexpected risks stemming from sub-sectors of the industry.

In terms of GDP growth, the decline in both agriculture and industry has been compensated by strong growth in construction and services, which have been driven by the continuing increase in private remittances and household income. In line with the growth of construction and services, lending to these sectors has increased. The quality of loans to construction slightly deteriorated. This has not led to systemic risks, because lending to this sector comprises only 4.7% of the banks' loan portfolio, and there is no major concentration of such loans in any bank. As for lending to the service sector, it was one third of the banks' loan portfolio, with very little concentration. Lending to the service sector did not experience significant qualitative changes in 2006; considering that over 30% of the annual increase in the banks' loan portfolio was in loans to various sub-sectors of the service sector, it can be concluded that developments in the service sector did not pose apparent risks to financial stability.

Thus, in general, the aforementioned structural changes have neither restrained double-digit GDP growth nor posed significant risks to financial stability.

Real Estate Prices: in developing countries like Armenia, the stable level of real estate prices is a decisive factor for maintaining financial stability, because in conditions of a low level of financial intermediation, savings flow to the real estate market, which is a more preferable environment for investments. Moreover, the recent years' continuous increase in real estate prices, the high level of rent charges, and the relatively low riskiness of investments in this sector have generated an uninterrupted flow of funds to the real estate market. Any significant change in the real estate market influences the financial system both directly and indirectly, since the real estate market has increasingly become an alternative to the financial market.

Generally, fluctuations in real estate prices are caused by supply and demand factors, including innovation in the real estate market, as well as household income, changing costs of construction, the state of the housing stock, and the land availability. Changes in real estate prices directly affect the volume of and yield on investments, and indirectly influence income, private consumption, and savings.

In 2006, real estate prices rose by 29%, but only in Yerevan, which, according to expert estimates, does not pose a serious risk to financial stability. In transition economies with rapid economic growth like Armenia, real estate price increase trends are considered normal.

As for demand, the most important factor influencing real estate prices is household income, which has increased in recent years on account of strong GDP growth, large-scale inflow of remittances to Armenia, and factor income.

As for supply, real estate prices have been significantly influenced by the scarcity of land, the ensuing increases in land prices, the stock of real estate, and growing costs of construction.

Taking into consideration demand and supply factors, it can be concluded that unfavorable fluctuations of real estate prices are not expected in Armenia in the coming years. Under such conditions, risks from mortgage loans to the financial system will not increase considerably, and the revaluation of fixed assets will not result in significant losses. Nonetheless, it has been estimated that even an abrupt decline in real estate prices will not undermine financial stability in the Republic of Armenia.[1]

[1] *Detailed findings of real estate price stress tests are presented in the section entitled "Financial Institutions in the Republic of Armenia."*

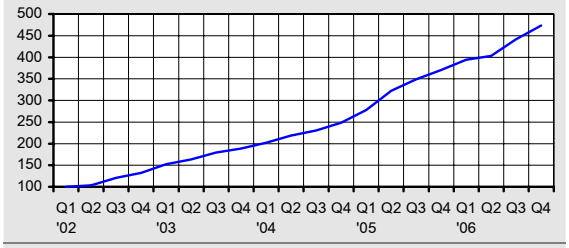


Chart 2.1
Average Price Index[2] of Apartments in Yerevan (per square meter, 2002 = 100)

Fiscal Sector

In developing countries, fiscal sector indicators, particularly public debt, the fiscal deficit, deficit financing sources, and possible future developments, are essential to maintaining financial stability.

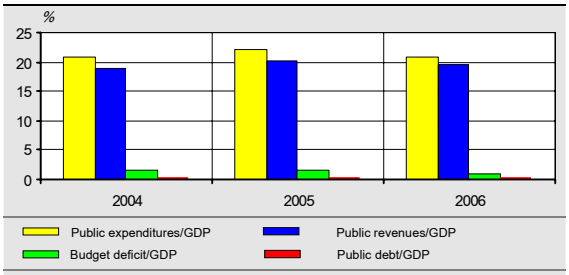


Chart 2.2
Share of State Budget Indicators in GDP

Clearly, strong GDP growth was accompanied with higher public expenditures and revenues, while the share of the budget deficit in GDP did not increase. In these conditions, there was no need for extensive internal and external financing of the deficit. These trends do not endanger financial stability.

In developing countries, risks stemming from the public sector concern under-collection of tax revenues, over-execution of expenditures, deepening of fiscal deficits. These problems are present in Armenia, because the budget runs a deficit and is financed mainly from external sources. Only negligible portion of the budget deficit is financing from internal sources, which means that market interest rates are not threatened by considerable pressure due to fluctuating interest rates on government bonds. Considering that, in recent years, budget revenue collection has grown much faster, expenditures have remained within the targets, and public debt has been reduced (in the near future, Armenia will be considered a country with medium to low public debt), it can be assumed that the risks stemming from the fiscal sector may gradually diminish.

External Sector

Net Factor Income and Remittances: identification of risks stemming from the external sector are essential for maintaining financial stability in the Republic of Armenia, because both transfers and factor income to Armenia from abroad account for rather large shares in gross disposable income.

In 2006, net household transfers to Armenia amounted to AMD 216 billion, while net factor income was AMD 31 billion: about 85% of them were received from Russia.

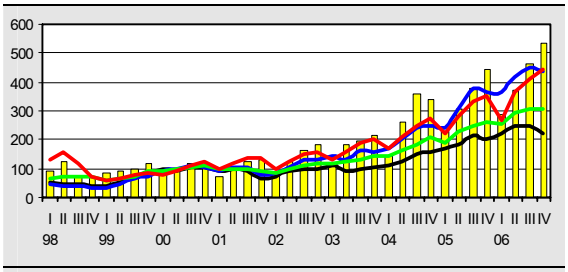


Chart 2.3
International Oil Prices, the Russian Export Index, Transfers to Armenia, and Factor Income (2000 = 100)

Considering that Russia is the main trade partner of Armenia, income and economic stability in Russia is also fundamental for maintaining financial stability in Armenia. CBA studies have

[2] *See the website of the Republic of Armenia State Cadastre Committee--www.cadastre.am, (because of the absence of the composite average real estate price index the website presents the average price index for apartments in Yerevan as an indicator of the change in real estate prices). As Prior to June 2005, real estate was priced in US dollars, and pricing switched to drams only in June 2006; therefore, the composite average price index for the period before June 2005 has been calculated on the basis of the increase in dollar prices, and only after June 2005 the index has been calculated on the basis of the increase in dram prices.*

shown that international oil prices are a primary factor influencing financial stability in Russia, because Russia, as an oil exporting country, bears the direct impact of oil prices. Oil price fluctuations influence exports from Russia, which in turn influences total income and other macro-economic indicators.

The majority of Armenians in Russia are engaged in the non-tradable sector, particularly in trade and construction;[3] therefore, the volume of transfers and factor income from Russia depends on non-exportable sectors' income.

Regression analysis performed by the CBA has shown that oil price fluctuations influenced the Russian non-exportable sectors' income, which is tightly correlated with transfers to Armenia.[4]

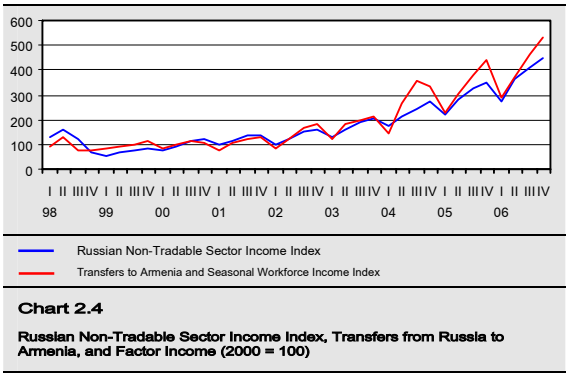


Chart 2.4

Russian Non-Tradable Sector Income Index, Transfers from Russia to Armenia, and Factor Income (2000 = 100)

From the standpoint of financial stability, adverse changes in oil prices may pose risks: a decrease in oil prices will reduce Russian exports and income, which in turn will influence financial inflows to Armenia, gross disposable income in Armenia, and, thus, aggregate demand. Forecasting oil prices is a difficult task, because it is related to the geopolitical situation, terms in the international financial markets, and other unpredictable factors. According to some estimates, the international oil price will grow by 10.6% in 2007 to reach US $73.1 per barrel, which means that, in the near future, there is no risk of lower transfers and factor income.[5]

Exports and Imports: a challenge for Armenia is the concentration of certain commodities in both exports and imports, which implies that any fluctuation of such commodities in international markets will influence the domestic economy and financial stability.

The recent years' large influx of transfers and factor income has resulted in appreciation of the dram exchange rate, which has been neutralized by import growth. Besides, imports have increased largely due to extensive imports of raw materials. About 55% of raw materials used by Armenian enterprises is imported from abroad (mostly from non-CIS countries),[6] which means that external sector stability is essential from the standpoint of production, too. Surveys have found that imported raw materials are mainly used in production of mechanical machines, jewelry production, food industry, light industry, and printing companies. This is primarily due to the absence of such raw materials in Armenia, as well as the high quality and low prices of imported raw materials. It can be assumed that, if strong economic growth is sustained, demand for imported raw materials will rise in the future.

During the first three quarters of 2006, prices of raw materials rose by 36.9% due to growth of gold, oil, and natural gas prices; however, in the last quarter, they started to crawl down, preventing the emergence of possible risks. This growth was due to the increase (25.5%) in import prices of wheat. Wheat prices are projected to decline in 2007. According to forecasts, significant price fluctuations are not expected in international markets of raw materials, which mitigates the riskiness of this problem for maintaining financial stability.

In 2006, the share of jewelry, which has traditionally had a large share both in Armenia's import and export, declined because of international market preferences and the structural changes of demand, which caused, in particular, a slump in exports. According to forecasts, the situation in the international market is projected to stabilize in 2007, and this problem will be resolved.

In 2006, the shares of textile and leatherware in imports grew considerably. According to estimates, textile and weaving enterprises mainly use imported raw materials, which most probably facilitated the aforementioned growth.

[3] *See the results of the survey conducted by the CBA to identify the structure of noncommercial remittances to the Republic of Armenia natural persons from abroad.*

[4] *For details, see the 2007 Monetary Policy Program of the Republic of Armenia.*

[5] *Ibid.*

[6] *For details, see the Enterprise Competitiveness and Financial Resource Management Survey conducted jointly by the CBA and the Slavic University of Armenia.*

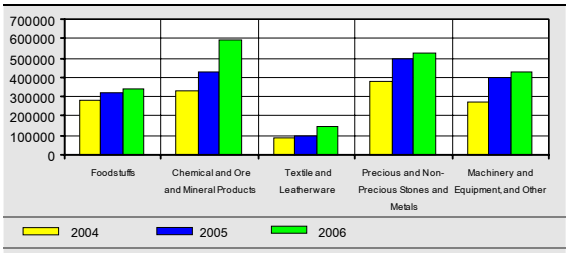


Chart 2.5
Armenia's Imports by Commodity Group (in USD thousand)

From the standpoint of exports, risks are mainly related to prices of mineral and ore products, because Armenian exports mainly consist of metals (especially gold, copper, and molybdenum). In 2006, exports grew considerably on account of higher gold and copper prices, while molybdenum prices fell. This change did not cause any problem in terms of financial stability, because, to some extent, it contributed to improved terms of trade. No particular risks are expected in 2007, as metal prices are projected to remain unchanged or to change insignificantly.

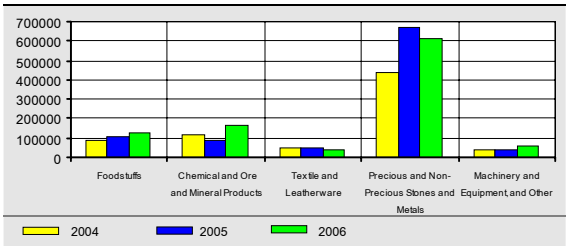


Chart 2.6
Armenia's Exports by Commodity Group (in USD thousand)

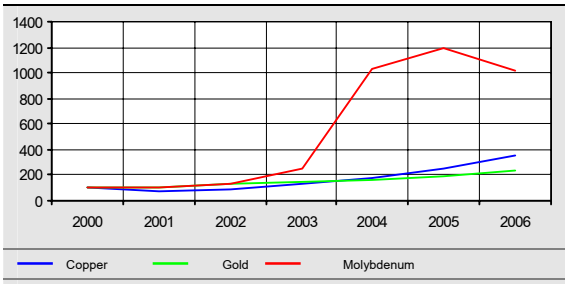


Chart 2.7
Average Prices of Copper, Gold, and Molybdenum (2000 = 100)

According to forecasts, Armenia's exports and imports will not change significantly in 2007, because prices of the main tradable commodities are not expected to fluctuate much. Oil prices are projected to grow steadily, contributing to import growth, while prices of ore and mineral products will change negligibly, resulting in a minor change in import and export volumes. These changes do not undermine financial stability, and are manageable.

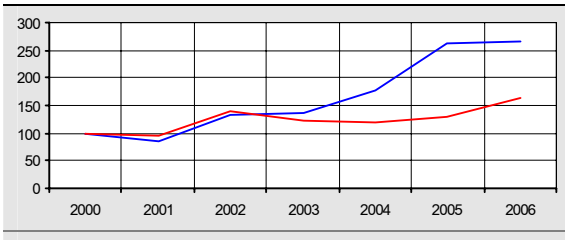


Chart 2.8
Average Prices of Oil and Grains (2000 = 100)

2.2. STABILITY OF FINANCIAL MARKETS IN ARMENIA

Money and Capital Markets

In 2006, interest rates rose in virtually all the segments of Armenia's financial market. The average indicator of modified duration (D_M) estimated for the purpose of interest risk assessment, which shows the price change level in relation to fluctuations of yields, was 2.49 for government securities circulating at yearend 2006, excluding CBA securities (the indicator was 2.16 in 2005). The increase of D_M for government securities was mainly the result of longer duration of government securities, which reached 974 days at yearend 2006 (compared to 839 days at yearend 2005). At the same time as a result of an increase in the volume of outstanding short-term securities due to the issuance of CBA securities, the average indicator of modified duration fell by only 0.02 percentage points to reach 1.66%, which means that, 1% change in yields will increase or decrease the price of a security on average by about 1.66%.

Modified Duration of Outstanding Government Securities, by Maturity

Maturity	D_M
Under 3 months	0.14
3-6 months	0.44
6-9 months	0.73
9 months to 1 year	1.12
1 - 2 years	2.67
2 - 5 years	4.91
5 - 10 years	6.82

Though financial market interest rates grew in 2006, the average standard deviation of yields of secondary market transactions with government securities did not change significantly (1.8). The same is true for market repurchase interest rates. On the background of rising interest rates, the average standard deviation grew slightly to reach 0.74 in 2006.

Commercial Banks' Portfolio of Government Securities (including CBA Bonds) and Estimated Change in Profit or Loss in Case of a 1% Yield Change (December 2006)

Maturity	Government Securities Volume (in AMD million)	D_M	Price Change (±) (in AMD million)
Under 3 months	29933.1	0.15	43.07
3-6 months	9104.3	0.43	38.83
6-9 months	6674.0	0.73	48.39
9 months to 1 year	10460.3	1.11	122.09
1-2 years	12085.2	2.76	346.02
2-5 years	3531.9	4.76	183.20
5-10 years	6933.2	6.82	521.65
Total	78722.0	1.55	1303.25

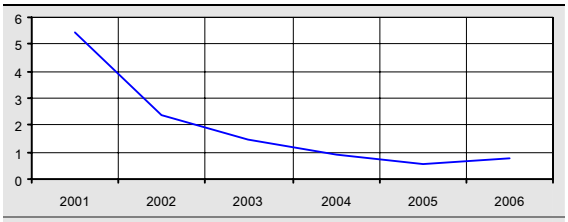


Chart 2.9
Average Standard Deviation of Repurchase Interest Rates

In 2006, government securities continued to prevail over corporate ones in the securities market of Armenia. Both commercial banks and professional participants of security market mainly operated with government securities.

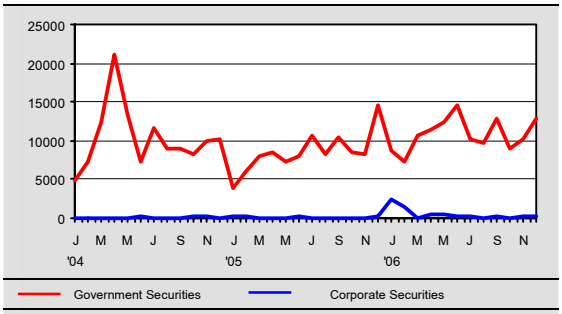


Chart 2.10
Volume of Government and Corporate Securities Transactions by Professional Participants of the Securities Market (in AMD million)

Taking into account that, in 2006, the bid-to-cover ratio was 2.2 in the primary market for government securities of the Republic of Armenia,

and excess liquidity of the banking system is still high, it can be concluded that there is strong demand for profitable and secure financial instruments in Armenia's financial market.

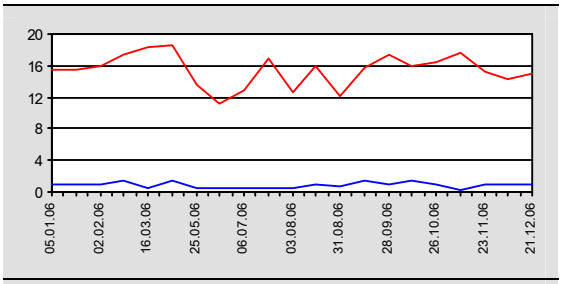


Chart 2.11
GS Placement Volumes vs. Banking System Excess Liquidity (In AMD billion)

At yearend 2006, the securities market capitalization ratio (calculated as the ratio of the market value of listed securities to GDP), which defines the size of the capital market, was 0.82%, declining by 0.02 percentage point over 2005. This decline was due to the increased threshold of eligibility (AMD 500 million in assets from AMD 5 million, that used to be the threshold before) to be considered a reporting issuer in the securities market, which meant that reporting issuers, which had assets below this threshold and could fall outside the regulatory framework for reporting issuers, left the market.

The capital market turnover ratio, which characterizes the liquidity of the capital market, and is calculated as the ratio of transactions with listed securities during the year to the GDP, was 0.08% in 2006, representing a 0.07 percentage points increase over 2005.

Taking into consideration the small size of the corporate securities market, as well as the fact that commercial banks and credit organizations in Armenia are not professional participants of the securities market yet, it can be said that this sector does not pose risks to financial stability so far.

Currency Market

Exchange rate volatility is an important factor of financial market stability, as it determines the behavior of importers, exporters, and all the players in the currency market.

In recent years (2004-2006), volatility growth has been rather high in the Armenian domestic currency market.

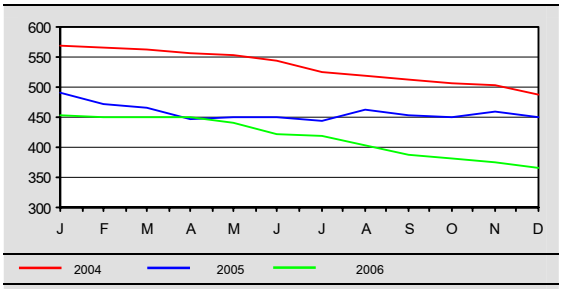


Chart 2.12
Change in AMD/USD Exchange Rate (In AMD)

With growing volatility, factors influencing on the exchange rate cause higher deviation than they would in a stable market. Starting from the second half of 2003, the currency market has seen a stable exchange rate appreciation trend,

Indicators of the Capital Markets of the CIS, Central European, and Baltic Countries

Country	Capitalization/GDP (%)		Turnover/GDP	
	2004	2005	2004	2005
Bulgaria	10.6	20.1	2.4	7.1
Estonia	48.5	25.3	8.5	12.9
Latvia	11.5	16.8	0.9	0.8
Lithuania	26.2	31.8	2.1	3.2
Czech Republic	25.4	31.9	20.1	37.8
Hungary	25.4	31.9	14.6	24.9
Slovenia	27.2	23.5	4.0	2.1
Poland	23.1	31.3	7.6	11.4
Russia	44.6	71.9	23.6	28.0
Kazakhstan	8.7	18.9	2.6	2.8

which formed corresponding expectations, and banks are trying to maintain their currency positions closed in order to reduce their currency risk.

In terms of volatility, the year 2006 was unfavorable (variation was 1,003.15 in 2006, compared to 197.83 in 2005). From this perspective, in 2006 the currency market may be characterized as one of high currency risk.

Nonetheless, despite the rather high risk in the currency market, the losses of the market participants declined in 2006 over 2005: in 2006 losses were 0.3% of the banking system regulatory capital, compared to 0.5% in 2005.

2.3. FINANCIAL INSTITUTIONS IN THE REPUBLIC OF ARMENIA

At present, to ensure financial system stability in the Republic of Armenia, the identification and evaluation of banking system risks is more important than the identification and evaluation of risks in other financial institutions.[1] This is due to the fact that the banking system accounts for about 92% of financial system assets in Armenia.

The Banking System in 2006

General Overview

All 21 of the banks operating in Armenia at the start of 2006 were operating in Armenia at yearend 2006. During the year, the number of bank branches increased by 32 to reach 299 at yearend.

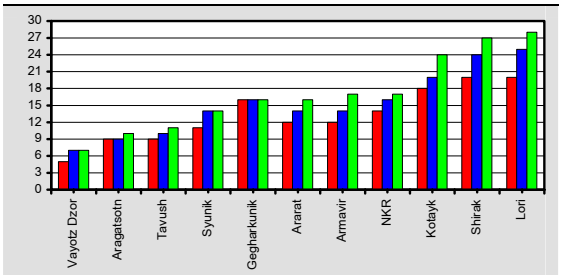


Chart 2.13
Number of Commercial Bank Branches in Armenia, by Marzes (Regions) of Armenia and the NKR*

** The indicators for Yerevan are not included (87 in 2004, 100 in 2005, and 112 in 2006)*

In 2006, the banking system of Armenia made a profit and secured an increase in total capital, liabilities, and assets.

Assets, Liabilities, Capital, and Profit of the Banking System (*AMD thousand*)

	31.12.2005	31.12.2006	2006 percentage increase
Assets	440674145	524517487	19.0%
Liabilities	345913389	404345948	16.9%
Capital	94760756	120171539	26.8%
Net profit	11977985	16870499	40.8%

It is worth noting that the currency structure of banking system assets and liabilities changed significantly:

- The share of dram assets increased by 9.5 percentage points to reach 56.9% of total assets (dram assets grew by 42.9%, while foreign currency assets shrunk by 2.5%);
- The share of dram liabilities increased by 10.8 percentage points to reach 44.0% of total liabilities (dram liabilities grew by 54.8%, while foreign currency liabilities shrunk by 2.0%).

Banking System Capital. Net profit and capital of the banking system grew faster than total assets, thus supporting financial stability, improving the ability of the banking system to neutralize possible risk-caused losses.

Total capital of the banking system beat the AMD 16.0 billion growth projected at the beginning of the year,[2] as it grew by AMD 25.4 billion.

The statutory fund grew much faster than projected. Projections of statutory fund growth had been based on strategic plans submitted by banks, which had not planned such an increase at the beginning of the year (mainly due to the acquisition by a non-resident bank of a large stake in an Armenian bank). The statutory fund grew in nine banks by a total of AMD 19.8 billion.

Net profit of the banking system was AMD 16.9 billion in 2006, which was AMD 1.1 billion less than the AMD 18.0 billion projected at the beginning of the year, mainly due to the gap between projected and actual net non-interest income.

Banking System Liabilities. In 2006, total liabilities of the Armenian banking system grew by AMD 58.4 billion, falling short of the AMD 65.0 billion projection at the beginning of the year. This shortfall was due to lower growth of non-residents' deposits (an AMD 9.6 billion actual decline, compared to an AMD 4.0 billion growth projection).

Actual growth of liabilities was mainly driven by growth of deposits (AMD 38.3 billion), bank claims (AMD 8.8 billion), and other financial institutions' claims (AMD 6.2 billion).

[1] *This section elaborates developments of financial market participants in 2006 and assesses possible risks. However, emphasis is mainly laid on detecting risks originating in the banking system and assessing the banking risks' impact on financial system stability in the event of shocks.*

[2] *In the context of financial stability assessment, the CBA makes regular forecasts of banking system developments, which are based on commercial banks' strategic plans and estimates of CBA experts. The results are incorporated into annual Monetary Policy Programs of the Republic of Armenia.*

Banking System Assets. Total assets of the banking system grew slightly above the target (AMD 83.8 billion growth, compared to a projected AMD 81.0 billion).

As of December 31, 2006, total assets of the banking system were 19.8% of GDP (unchanged from 19.8% in 2005). Lending to the economy reached 8.6% of GDP (compared to 8.3% in 2005).

The loan portfolio accounted for 54.4% of the growth of total assets of the banking system. Actual growth of the loan portfolio was AMD 45.6 billion—very close to the AMD 45.0 billion projection.

The banking system loan portfolio grew faster than total assets did and reached 24.8%. Highly-liquid assets grew by 13.7%. The rapid growth of the banking system loan portfolio somewhat impaired the quality of banking system assets: the share of non-performing loans in total assets grew by 0.8 percentage points to reach 2.4% at yearend. However, this share of non-performing loans is still considered rather low and does not undermine financial stability.

Financial stability in the Republic of Armenia has greatly benefited from recent years' improvements in the banking system, such as the increase in assets, liabilities, capital, and revenues, as well as an improved risk management system that has steadily lowered the risks.

Credit Risk

In the context of financial stability, credit risk is considered the most significant among the risks arising in financial institutions. Losses from credit risk in the Armenian banking system have tended to decline in recent years.

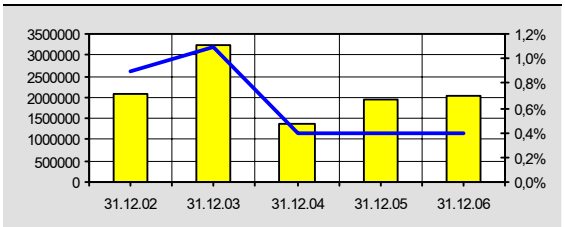


Chart 2.14
Ratio of Banking System Net Provisions to Total Assets

The ratio of net provisions to assets is an important indicator of credit risk: this ratio reflects the credit risk-caused average loss per unit asset. Having declined in recent years (0.4% in 2006), this indicator serves as an evidence of improved credit risk management in the banking system.

It is worth noting that the credit risk has declined, though loans have rapidly increased. During recent years the loan portfolio has grown faster than total assets. This has resulted in a higher share of loans in total assets (43.8% as of December 31, 2006).

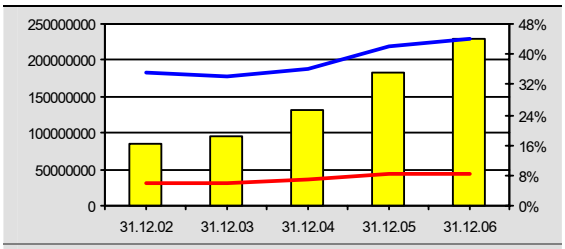


Chart 2.15
Banking System Loans to the Economy

Banking system financial intermediation remains low; in spite of growth trends in recent years (the ratio of banking system loans to GDP rose from 6.2% in 2002 to 8.6% in 2006).

Another important indicator of banking system financial intermediation is the ratio of loans to the economy to total deposits. In a broad sense, this indicator reflects the transmission of savings into investments. In recent years, this indicator has increased, reaching 76.7% at yearend 2006.

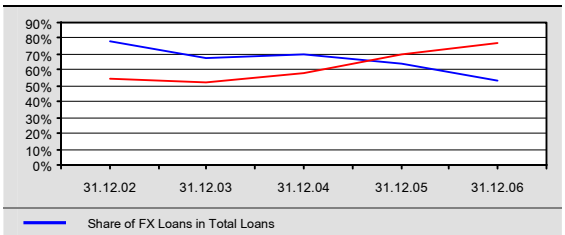


Chart 2.16
Banking System Loans / Deposits Ratio, and Share of FX Loans

In recent years, the share of dram loans in total loans to the economy has increased: the increase was rather sharp in 2006 (9.8 percentage points, to reach 46.2%).

Total loan portfolio (loans plus accounts receivable) grew by 25% (AMD 51.1 billion) in 2006. Loans to non-residents grew by 19% (AMD 3.8 billion), while loans to residents grew by 29% (AMD 54.9 billion).

Among loans to residents, mortgage lending grew at an unprecedented pace (114% or AMD 12.7 billion). Consumer loans and loans to trade also grew extensively (by 35% or AMD 17.5 billion, and by 18% or AMD 7.4 billion, respectively).

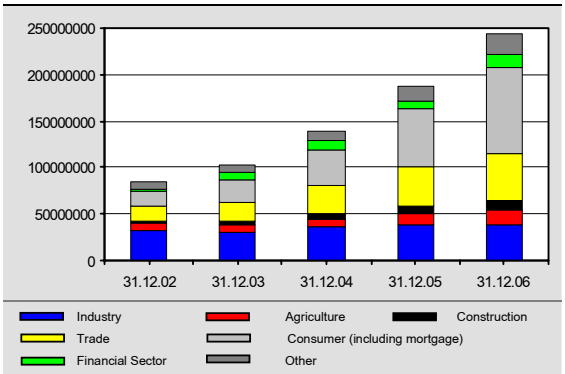


Chart 2.17
Banking System Loans to Residents, by Sectors of Economy (In AMD thousand)

The share of long-term (1 year and above) loans in total loans has grown significantly in recent years, mainly due to the development of the mortgage lending market.

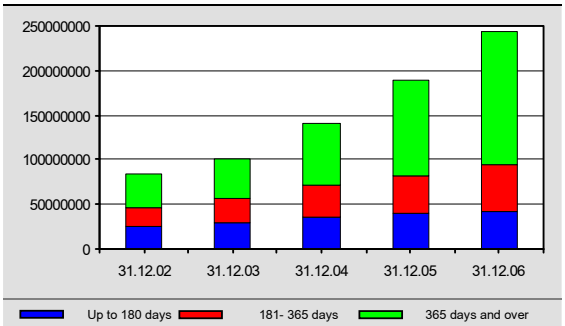


Chart 2.18
Banking System Loans to Residents, by Maturity (In AMD thousand)

As to the quality of banking system assets, the shares of standard loans and accounts receivable have increased in recent years. Although in 2006, the share of standard loans and accounts receivable shrunk by 0.8 percentage points to reach 97.6%, it is still considered rather high quality and does not undermine financial stability.

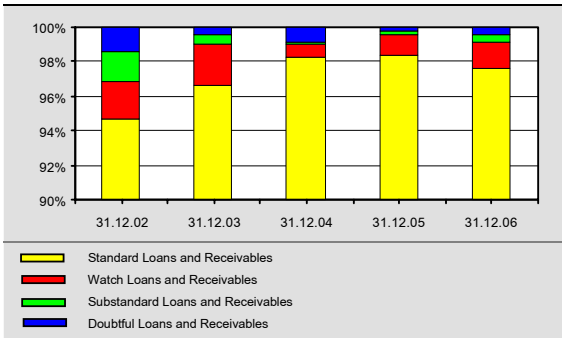


Chart 2.19
Shares of Banking System Loans and Receivables, By Category

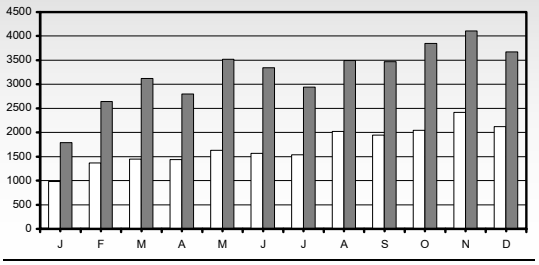
As of December 31, 2006, the total amount of non-performing loans was AMD 7.2 billion, 1% of which were loans to non-residents, and 99% were loans to residents. From the sectors of the economy construction accounts for a relatively large share (9.5%) of non-performing loans to residents, followed by the chemical industry (8.4%), and public catering and other services (4.9%).

The reduction of the credit risk in recent years has also significantly benefited from the activities of the Credit Registry (operating in the CBA since January 1, 2003), from which banks receive advance information on the credit history of borrowers. Business discipline of borrowers has improved. Delays in repaying loan instalments have become less frequent, which can be attributed to increased borrower awareness of the importance of credit history.

The Credit Registry records loans in excess of AMD 1.5 million as well as overdue and classified loans under AMD 1.5 million. At yearend 2006, the CBA Credit Registry had 282,710 credit history entries, having grown by 105,098 during 2006. The Registry has information on 52,743 outstanding and 229,967 repaid loans. Compared to 2005, the total number of loans recorded in the Credit Registry increased 1.6-fold, which is a sign of increased lending activity. Parallel to this increase, the volume of information received by the Registry also increased—to an average of 4,350 records per day, which is a 25% increase over 2005.

The majority of commercial banks and credit organizations have automated their processes of data provision to the Credit Registry, which has increased system operation speed. Due to upgrades of the CBA's Credit Registry software, credit histories can be provided to banks and credit organizations within one day of receiving an inquiry.

In 2006, the Registry continued to make quarterly publication of lists of the names of delinquent borrowers in the press and the Internet. The number of delinquent borrowers (either in breach of the CBA-established requirement concerning 5% of minimum capital, or having 180-day overdue obligation) fell by 5 (from 23 in Q4 2005 to 18 in Q4 2006).



Number of Inquiries Received by Credit Registry, by Month

In 2006, compared to yearend 2005, the number of credit histories inquired by banks and credit organizations has increased about 1.9-fold. Due to an increase in consumer lending, there is growing demand in the banking system for customer credit histories. Customer creditworthiness assessment by means of checking the customer's credit history reduces the time required for underwriting and allows reducing credit risk by avoiding irresponsible borrowers. In 2006, banks rejected loan applications of 1,900 borrowers that had negative credit reports in the Credit Registry, which helped the banks to eschew lending to such customers.

In the context of ensuring financial stability, the international experience in the field of risk projection, identification and evaluation emphasizes the application of stress tests to elaborate various stress scenarios (even ones with low probabilities) and to evaluate their potential impact on financial stability.

Credit Risk Stress Tests. Credit risk stress tests are used to evaluate the impact of changes in loan classifications on capital adequacy. Loans are classified into the following categories: standard, watch, substandard, doubtful, and loss loans. The following assumptions are made in the stress tests: 1) loan portfolio of banks does not change, and 2) collateral is disregarded.

It has been estimated that, if the worst of below-mentioned stress scenarios takes place, no bank will breach N1[1] and N1[2] requirements on capital adequacy. It has also been evaluated that banking system losses in the event of the worst scenario will not have a negative impact on financial stability in the Republic of Armenia.

Stress Scenarios

31.12.06	25% of watch, substandard, and doubtful loans classified as loss	75% of doubtful loans classified as loss	30% of standard loans classified as watch loans
Banking system loss	AMD 1.2 billion, or 1.1% of banking system regulatory capital	AMD 0.5 billion, or 0.5% of banking system regulatory capital	AMD 6.3 billion, or 6.1% of banking system regulatory capital
Banking system N1[1]	34.6 %	34.8 %	33.5 %
Banking system N1[2]	32.4 %	32.6 %	31.2 %

Liquidity Risk

During the year, highly-liquid assets grew by 14% to reach AMD 209.5 billion. Highly-liquid assets grew more slowly than total assets did. As a consequence, their share in total assets fell by 1.9 percentage points to reach 39.9%.

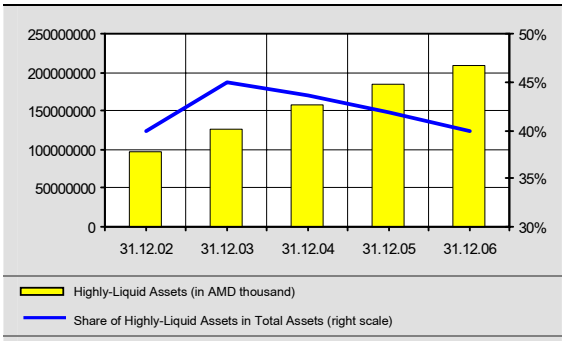


Chart 2.20
Share of Banking System Highly-Liquid Assets in Total Assets

In 2006, highly-liquid assets grew more slowly than demand liabilities and total assets, which brought down the total and current liquidity ratios of the banking system. In general, banking system total and current liquidity ratios have not fluctuated much in recent years, and have remained far above the required minimums (of 20% and 80%, respectively).

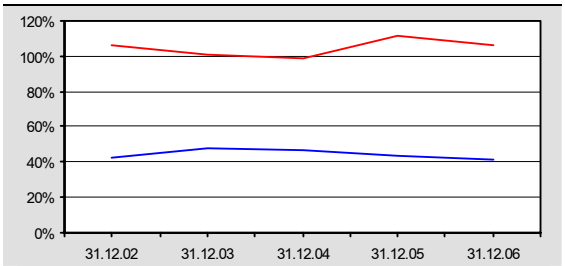


Chart 2.21
Banking System Total Liquidity and Current Liquidity Regulatory Ratios

In terms of maturity-to-repayment bunches, banking system assets surpassed liabilities for all periods (facilitated, among other things, by recent years' rapid growth of banking system capital). This leads to the projection that, other conditions being equal, the banking system will avoid liquidity risk-related alternative losses in 2007.

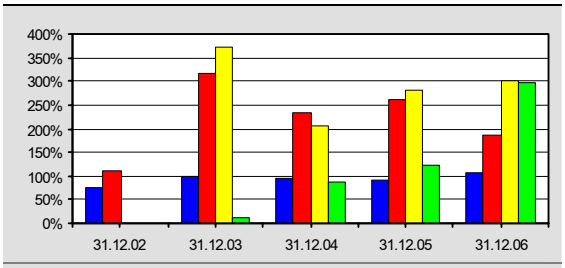


Chart 2.22
Banking System Assets / Liabilities Ratio, by Days left to Maturity[3]

In the banking system, the share of "large" liabilities[4] in total liabilities increased a little in 2006, reaching 27.5%. This indicates that fluctuations of banking system liabilities do not depend on several large depositors, precluding the possibility that it will give rise to liquidity problems.

It has been estimated that, if the worst of below-mentioned stress scenarios materializes, some banks may slightly breach the N2[1] total liquidity and N2[2] current liquidity requirements; however, the system will not face a liquidity problem, and such scenarios will not affect financial stability in the Republic of Armenia.

[3] In the calculation of indicators as of December 31, 2002, assets and liabilities with one year or longer maturity are included in the "181-365 days maturity" category.
[4] The sum of all amounts that, taken separately, exceed 5% of the bank's total liabilities, excluding related parties.

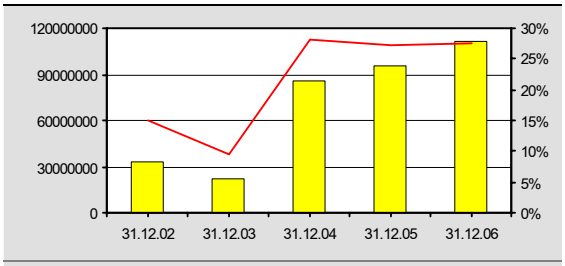


Chart 2.23
Banking System "Large" Liabilities to Total Liabilities

Stress Scenarios

31.12.2005	25% of time deposits of natural persons are repaid[5]	25% of demand accounts are repaid	25% of demand accounts and 25% of time deposits of natural persons are repaid
Banking system N2[1]	38.7% (one bank would be in breach)	34.9% (one bank would be in breach)	31.7% (three banks would be in breach)
Banking system N2[2]	95.2% (four banks would be in breach)	107.8% (one bank would be in breach)	93.5% (six banks would be in breach)

Market Risks

In 2006, the Armenian dram appreciated by an annual average of 10.0% and by yearend 23.8% against the US dollar.

In terms of foreign currency risk, the banking system incurred total losses of AMD 272 million in 2006, due to foreign currency revaluations caused by fluctuations of the AMD exchange rate, which accounted for 0.3% of banking system regulatory capital (compared to 0.5% in 2005). Foreign currency revaluation caused losses to nine and gains to 12 banks. In 2006, banking system income from forex trading was AMD 6.4 billion, which is 6.3% higher than the 2005 figure.

[5] Article 905(2) of the Republic of Armenia Civil Code provides: "Under the contract of bank deposit of any type, the bank undertakes the duty to release the sum of the deposit or part of it on the first demand of the depositor, with exception of deposits made by legal persons on other conditions of return provided by the contract."

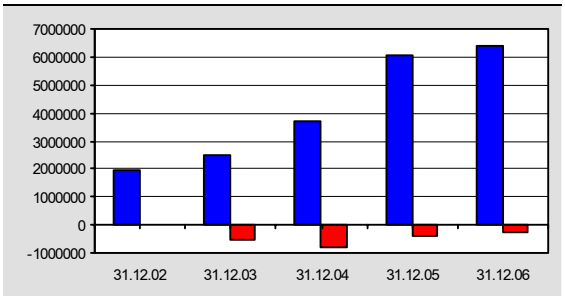


Chart 2.24
Net Proceeds from FX Purchase and Sale and FX Revaluation (in AMD thousand)

As of December 31, 2006, the gross forex position of the convertible currencies of the banking system was 4.4% of regulatory capital, while that of non-convertible currencies was 1.1% (compared to regulatory caps of 15% and 5%, respectively).

It has been estimated that, under the worst-case scenarios presented in the table below, banks would not incur significant losses, and there would be no impact on financial stability in the Republic of Armenia.

Stress Scenarios			
31.12.2006	10% appreciation/depreciation of the Armenian dram against the US dollar	10% appreciation/depreciation of the Armenian dram against the euro	Maximum possible loss in 2007, estimated under the VaR model
Banking system gain/loss due to foreign currency revaluation	AMD 171 million (-AMD 171 million)	AMD 15 million (-AMD15 million)	-AMD 200 million

Interest rate risk in the banking system is currently rather low. Market interest rates on loans and deposits have consistently declined in recent years.

Average weighed maturity of banking system assets exceeded that of liabilities; therefore a general decline (i.e. a decline in interest rates of both loans and deposits) would not harm the system. Considering that the gap between average weighted maturities of assets and liabilities is not significant (currently, about 0.5 year), fluctuation of market interest rates would not inflict much harm upon the banking system.

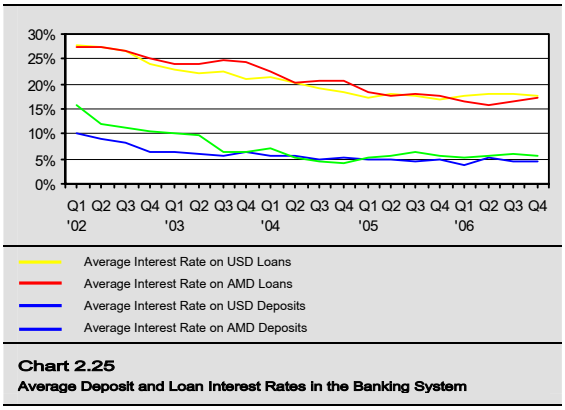


Chart 2.25
Average Deposit and Loan Interest Rates in the Banking System

Stress Scenarios		
31.12.2006	Impact of a 2 percentage point increase (decrease) in market interest rates on total portfolio, estimated using the *duration method*	In the event of a 2 percentage point increase (decrease) in market interest rates, deviation from net interest income anticipated in the next three months, estimated using the GAP method [7]
Banking system gains/losses	AMD 2.4 billion, or 2% of banking system capital (-2.4 billion AMD or 2% of banking system capital)	AMD 30 million (-AMD 30 million)

It has been estimated that, under the worst-case scenarios presented in the table, banks would not incur significant losses in relation to banking system capital, and there would be no impact on financial stability in the Republic of Armenia.

Price risk is currently rather low in the banking system, and there are virtually no losses caused by price risk.

Nevertheless, the table below addresses the banks' losses under the worst-case scenario, which, though significant, would not have a tangible impact on financial stability in the Republic of Armenia.

[6] *For purposes of loss calculation under these stress scenarios and the VaR model (which is not considered a stress scenario, because the VaR calculation takes into account historical series of exchange rates), it has been assumed that the foreign exchange position of the banking system does not change during the year.*

[7] *Under this methodology, it is assumed that the structure and the volumes of assets and liabilities remain unchanged during the considered period (3-month), i.e. redeemed assets and liabilities are again allocated and attracted, but already at new interest rates.*

Stress Scenario	
31.12.2005	Price of real estate falling by 50%
Banking system loss caused by revaluation of real estate owned by the bank (*price risk*)	AMD 15.3 billion (or 13% of banking system capital)
Banking system loss caused by non-repayment of 30% of the vulnerable loan portfolio[8] under the stress scenario (taking into account foreclosure of collateral against such loans) (*credit risk*)	AMD 4.4 billion (or 3.7% of banking system capital)
Banking system loss caused by non-repayment of 100% of the vulnerable loan portfolio under the stress scenario (taking into account foreclosure of collateral against such loans) (*credit risk*)	AMD 14.8 billion (or 12.3% of banking system capital)

Capital Adequacy and Return

Returns and a high ratio of capital to assets are both essential safeguards of banking system stability, as they provide the banking system with an enhanced ability to neutralize risk-caused possible losses with own resources.

In 2006, banking system returns surpassed the 2005 figures: return on assets (the ratio of retained earnings to average annual assets) was 3.6%, while return on equity (retained earnings to average annual capital) was 15.9% (compared to 3.0% and 15.3%, respectively, in 2005).

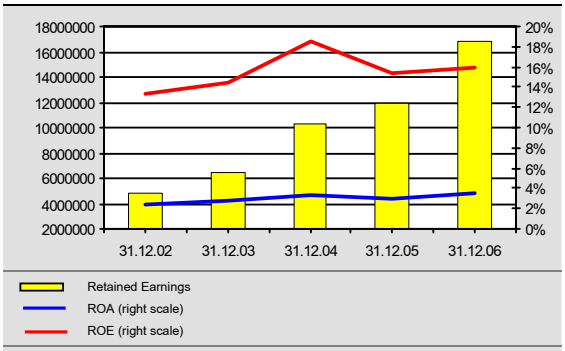


Chart 2.26
Banking System Returns

Retained earnings of the banking system have grown steadily in recent years (a 40.8% increase in 2006). All banks were profitable.

Interest income accounted for the largest share (46.2% in 2006, compared to 46.1% in 2002) of gross income of the banking system. Interest expense, similarly, accounted for the largest share (44.6% in 2006, compared to 40.9% in 2002) of gross expense. 80.4% of interest income was interest income from loans to the economy, while 44.5% of non-interest expense went to wages and related payments.

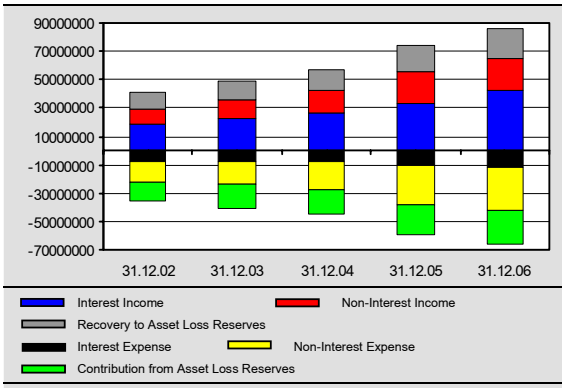


Chart 2.27
Banking System Income and Expense (in AMD thousand)

As the banking system capital grows faster than assets, the ratio of capital to assets has increased in recent years, bolstering financial stability.

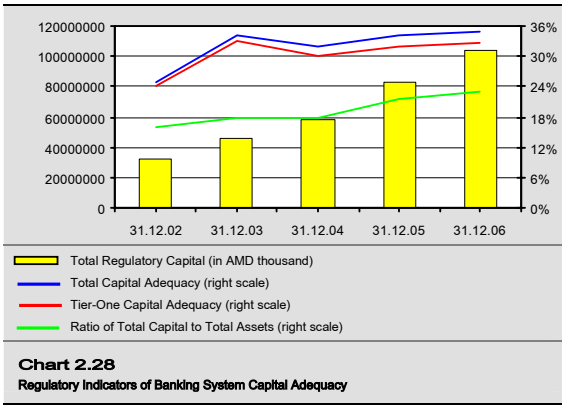


Chart 2.28
Regulatory Indicators of Banking System Capital Adequacy

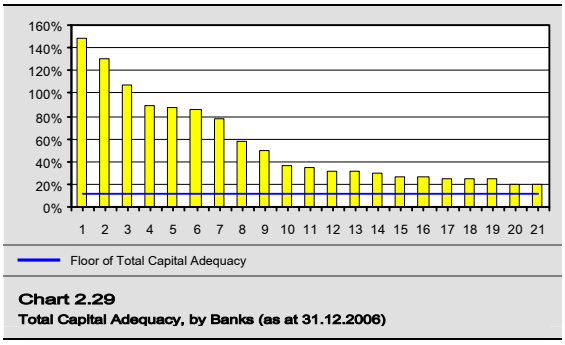


Chart 2.29
Total Capital Adequacy, by Banks (as at 31.12.2006)

[8] *Vulnerable loan portfolio is the sum of balances of a bank's loans, which have balances that exceed the 50% devaluated value of real estate pledged as collateral against such loans.*

Over 2006, banks' total and tier-one capital adequacy ratios (the ratio of total capital to risk-weighted assets, and the ratio of tier-one capital to risk-weighted assets, respectively) have noticeably increased, reaching 34.9% and 32.7%, respectively, on December 31, 2006 (the required minimum standards are 12% and 8%, respectively).

As at December 31, 2006, no bank was in breach of the capital adequacy requirements.

Credit Organizations

During 2006, seven companies obtained credit organization licenses ("Finca," "Aregak," "Norwik," and "Garni Invest" universal credit organizations incorporated as closed joint-stock companies, and "New Horizon," "Malatia," and "Ecumenical Church Lending Fund" universal credit organizations incorporated as limited liability companies). At yearend, 17 credit organizations (with ten branches) were active in Armenia, two of which were leasing organizations, one—a credit union, and 14—universal credit organizations.

In 2006, total capital, liabilities, and assets of credit organizations grew several-fold faster than the same indicators of the banking system. As a result, credit organizations' assets reached 3.9% of banking system assets at yearend 2006 (compared to 1.8% at yearend 2005).

Capital growth was mainly achieved on account of seven newly-licensed credit organizations, as well as the increase in the statutory fund of four existing credit organizations. In 2006, retained earnings of all credit organizations reached AMD 106 million in 2006. Return on assets was 0.9%, and return on equity—1.8%.

Liabilities grew mainly due to the growth of borrowings from legal entities (an AMD 3.5 billion increase), liabilities to banks (an AMD 3.2 billion increase), and liabilities to other financial organizations (an AMD 1.5 billion increase). Liabilities to legal entities and natural persons were AMD 5.4 billion at yearend (legal entities—86%).

Assets, Liabilities, Capital, and Profit of Credit Organizations
(in AMD thousand)

	31.12.2005	31.12.2006	2006 percentage increase
Assets	7872259	20590720	161.6%
Liabilities	3481501	12134040	248.5%
Capital	4390758	8456680	92.6%
Net profit	79877	105949	32.6%

About 82% of the AMD 12.7 billion increase in credit organizations' assets was invested in the economy in the form of loans and leasing. The loan portfolio (including leasing) grew by 168% or AMD 10.4 billion. Lending grew in virtually all the sectors of the economy.

From the prospective of financial stability, credit risk is among the most important risks arising in credit organizations. Parallel to the rapid growth of the loan portfolio, credit risk has declined: the share of standard loans and accounts receivable in total grew by 7.5 percentage points to reach 97.5%. 48% of non-performing assets were in the consumer sector, and 41% were loans to the industry. The reduction of credit risk is further confirmed by the fact that credit organizations' net provisions to the fund for possible asset losses fell to 0.5% of total assets (compared to 2.2% as at December 31, 2005).

Insurance Companies

In 2006, the licenses of eight insurance companies ("Avuar" and "Ermed" closed joint-stock companies, and "Yerashkhik," "Inorient," "Goba," "Samgas," "Renaissance Insurance," and "H&F" limited liability companies) and the "Saha" LLC insurance brokerage firm were revoked.

As of December 31, 2006, 15 insurance companies and six insurance brokerage firms

were licensed in the territory of Republic of Armenia. The own capital of insurance companies grew, while their liabilities and assets shrunk.[9]

The capital growth was mainly due to an AMD 1.5 billion increase in the statutory fund. In 2006, insurance companies' total profit was AMD 348.5 million.

Total assets and liabilities shrunk mainly because of the reduced number of insurance companies. A large share (76.7%) of insurance companies' total assets was in current assets, while all of their liabilities were current liabilities.

Assets, Liabilities, and Capital of Insurance Companies *(in AMD thousand)*

	31.12.2005	31.12.2006	2006 percentage increase
Assets	9891075	8637138	-12.7%
Liabilities	5462748	2645950	-51.6%
Own capital	4428328	5991188	35.3%

At yearend 29,500 insurance contracts were in force. Sums insured of the contracts in force reached AMD 3.93 trillion, of which AMD 3.76 trillion (95.7%) was the share of reinsurers (in 2005, sums insured were AMD 1.73 trillion, of which AMD 1.69 trillion (97%) was the share of reinsurers).

In 2006, accrued premiums reached AMD 5.91 billion, which is 36% higher than the 2005 figure of AMD 4.35 billion.

As for financial stability, one of the most important indicators for insurance companies is the loss ratio: (insurance compensations divided by insurance premiums). As of December 31, 2006, this ratio was 28,3%[10].

As of December 31, 2006 total assets and own capital of insurance brokerage firms reached AMD 189.3 million and AMD 50.9, respectively.

Securities Market Participants

At yearend 2006, two self-regulating organizations operated in the securities market of Armenia—the Central Depository of Armenia and the Armenian Stock Exchange (the latter organizes foreign currency and securities trading).

A total of 1,181 transactions for a total amount of AMD 2.6 billion were executed in the Armenian Stock Exchange. Nine proffesional companies participated in stock exchange trading.

In the Central Depository of Armenia, there are 710 issuer companies that maintain registries of nominal securities owners and 130,900 individuals owning securities issued by companies maintaining registries.

During 2006, two professioanl securities companies became active in the Armenian securities market: a brokerage license was issued to the "Tamrazyan and Friends" Brokerage LLC, and brokerage and trust management licenses—to the "Ecapital Asset Management" CJSC. As of December 31, 2006, 20 companies perform proffesional activities in the Armenian securities market. Seven of these 20 companies have not only brokerage/dealer licenses, but also trust management licenses. One company has these two types of licenses, plus a custodian license.

In 2006, specialized companies executed transactions worth a total of AMD 191.4 billion, of which AMD 7.2 billion (3.8%) was executed in the framework of brokerage activities, and AMD 184.2 billion (96.2%) was in dealer transactions.

In terms of brokerage activities, 98% of the transactions were with shares, 55% of the transactions with corporate bonds, and 1% of the transactions with government bonds. In dealer transactions, 99% of the transactions were with government bonds.

[9] Insurance companies are analyzed by comparing the total indicators of the 23 insurance companies that were operating on 31.12.2005 with those of 15 companies operating on 31.12.2006. One company's indicators are included in the total annual indicators of insurance companies as of the end of Q3, because it has not submitted its annual financial report.

[10] The system is not portrayed in full, because the calculation of this indicator does not include one of the insurance companies, which has provided insurance compensation in the amount of AMD 26.1 billion.

About 97% of the brokerage and dealer trading was over the counter. At the same time, 84% and 95% of transactions with corporate bonds and shares, respectively, were executed in the Armenian Stock Exchange.

In 2006, AMD 7.8 billion worth of transactions were executed in the framework of trust management, of which AMD 124 million (2%) were executed with securities of non-resident issuers, through agents.

At yearend, securities of 36 reporting issuers were listed in the Stock Exchange. Two of them are banks, and one is a credit organization. Four of the 36 issuers are rated by the CBA.

In 2006, companies completed three prospectus-based placements of securities: one was a closed placement of shares, and the other two were public placements. One of the issuers of corporate bonds was a credit organization and one – a construction company (at annual yields of 7.25% and 9.0%, respectively); in both cases, the corporate bonds were guaranteed by USAID.

Foreign Exchange Bureaus and Currency Dealers

At the beginning of 2006, 376 foreign exchange bureaus (including branches) had licenses to buy and sell foreign exchange in the Republic of Armenia. This number decreased to 288 by yearend 2006. During the year, the licenses of 148 exchange bureaus were revoked and foreign exchange buy and sell licenses were issued to 60 bureaus.

Compared to 2005, the total volume of foreign exchange trading in foreign exchange bureaus grew in 2006.

Buy and Sell Volumes of Foreign Exchange Bureaus *(in AMD thousand)*

	2005	2006	Growth in 2006 (in percents)
US dollar purchases (in USD million)	255.6	324.8	27%
US dollar sales (in USD million)	260.9	322.1	23%
Euro purchases (in EUR million)	19.4	21.5	11%
Euro sales (in EUR million)	19.0	21.2	12%

A foreign currency dealer license was issued to the “Armane Gazpa” LLC. As of December 31, 2006, seven legal entities had foreign currency dealer licenses. Foreign currency dealers bought a total of US $7.0 million and sold a total of US $14.4 million (in 2005, purchases were US $15.9 million, and sales were US $14.9 million).

Other Participants of the Financial Market

At yearend 2006, 64 pawnshops were active in Armenia. During the year, 13 companies and sole entrepreneurs received pawnshop licenses, and the licenses of 10 pawnshops were revoked. Total assets of pawnshops and total loans given by pawnshops grew by 26% and 55%, respectively. Total assets of pawnshops reached AMD 2.5 billion, and their total loan portfolio reached AMD 1.7 billion. The total number of loan agreements provided by pawnshops was 31,100.

In 2006, three companies (“Haypost” CJSC, “Armenian Express” CJSC, and “Depi Tun” LLC; the latter two were licensed in 2006) provided money transfer services in the financial market of Armenia. The companies providing money transfer services may accept and make payments without opening bank accounts. Their activities are mainly geared towards inbound payments to Armenia from abroad, by becoming members of international payment systems. In 2006, these companies transferred a total of AMD 5,271 million to customers in Armenia and AMD 1,055 million abroad. These companies accounted for 1% of total international payments made without opening a bank account. The amount of inbound transfers to Armenia was 4.9-fold greater than that of outbound transfers. The average payment per customer was AMD 117,000.

The “Armenian Card” CJSC was also active in the financial market of Armenia. It carried out processing and clearing of payment instruments and payment and settlement documents. This company processes transactions made via ArCa plastic cards issued by 18 commercial banks

participating in the “ArCa” unified system of card payments and via plastic cards belonging to the “VISA” and “MasterCard” international card systems.

The “ArCa” Processing Center provides card services through ATMs, POS terminals, imprinters, and the Internet. In the framework of system upgrades, the Processing Center is working towards issuing and serving cards with magnetic stripes and plastic cards based on chip technology. There are plans to enable cash depositing to card accounts through ATMs.

As a result of card transactions, the Processing Center also derives net positions and presents them to the CBA for final settlement.

As the operator of the “ArCa” unified system of card payments, the Processing Center has executed card transactions totaling AMD 86 billion, including AMD 10 billion transactions with cards issued by foreign banks.

2.4. FINANCIAL STABILITY IN FINANCIAL INFRASTRUCTURES OF THE REPUBLIC OF ARMENIA

The identification and mitigation of risks stemming from infrastructure is essential to financial stability in the Republic of Armenia. Financial stability can be undermined by operational, legal, and other risks arising out of the payment and settlement system, as well as risks going beyond the limits prescribed by the legal framework on the financial system.

Payment and Settlement System and Legal Framework

With the aim of developing the payment and settlement system, the CBA regulated payments and settlements in 2006, focusing primarily on the legal regulation of non-bank organizations providing payment and settlement services, the reduction of cash circulation in Armenia, and the promotion of non-cash turnover. Taking into consideration the importance of smoothly-operating payment systems to economic growth and financial stability, payment system oversight procedures have been developed and implemented.

In 2006, the non-cash payment turnover in Armenia was AMD 5,494 billion (a total of 2,627,716 transactions). Daily average non-cash payments in the GDP were AMD 2,665 billion (0.8%), remaining virtually unchanged in comparison to 2005. To increase the share of non-cash payments in GDP, work is currently underway to develop non-cash payments in the retail trade and service sectors.

Remittances to households in Armenia are crucial from the standpoint of increased household income in Armenia and, therefore, also financial stability. Inbound remittances to households through commercial banks and organizations performing money transfers totaled AMD 510 billion, while outbound remittances totaled AMD 321 billion. Net money transfers of households totaled AMD 189 billion in 2006 (a 14% increase over 2005). The payment and settlement system that functioned in Armenia in 2006 did not pose any risks to financial stability and operated smoothly (see the “External Environment” heading under the “Inflation Factors” section and the “Development of Payments and Settlements” heading under the “Development of Financial Infrastructures” section).

With a view to mitigating potential liquidity risks arising out of an abrupt increase in demand for drams and maintaining financial stability, emphasis has been laid on the level of cash in circulation and the adequacy of cash reserves. During the year, the CBA’s cash reserves sufficed to meet demand for cash drams in the economy.

In order to meet additional demand for cash caused by significant deviations from the Monetary Policy Program, emergencies (which may undermine financial stability), and other contingencies, the CBA has compiled cash reserves. In other words, the CBA has capacity to mitigate potential risks arising out of an abrupt increase in demand for liquidity in various situations (for details, see the “Cash in Circulation” heading under the “Development of Financial Infrastructures” section).

Flaws in the financial system legal framework can hinder development and pose various risks to the financial system. As a rule, the legislative framework is constantly revised in line with financial system developments and the newly-emerging risks and problems.

In 2006, the National Assembly of Armenia enacted CBA-initiated amendments to the following laws: the Republic of Armenia Law on Currency Regulation and Supervision, the Republic of Armenia Law on the Central Bank, the Republic of Armenia Law on Public Notaries, the Republic of Armenia Law on Compulsory Execution of Judicial Acts, the Republic of Armenia Civil Code, the Republic of Armenia Law on Legal Acts, the Republic of Armenia Law on Cash Collection, and a number of other laws.

Amendments were also made to the sub-legislative framework regulating the financial system:

- In the area of insurance regulation, the CBA Board adopted the Regulation Defining Requirements on Reinsurance, the Regulation on Transfer of Insurance Risks Assumed under Insurance Contracts, the Regulation on Obtaining Preliminary Consent for Licensing an Insurer, Registering a Branch, and Acquiring a Share or Stake in an Insurer’s Statutory Fund, the Regulation on Competence Requirements

and Qualification Checking for Managers, Actuaries, and Agents of an Insurer, Regulation 30 on the Main Prudential Requirements for Insurance Activities and the Procedure of Measuring and Calculating Them, Regulation 31 on Types of Insurance Reserves and the Procedure of Their Formation, Regulation 32 on Insurance Companies' Reports and the Terms and Procedure of Filing and Submitting Them.

- In the securities market regulatory framework, amendments were made to the Securities Market Regulation Code with a view to improving and raising the effectiveness of securities market regulation and supervision. A legal framework has been created for inter-bank repurchase transactions involving bonds of enterprises that obtained high rating from the CBA. The forms and procedure of reports filed by specialized entities, as well as the requirements on reporting issuers, and the procedure by which issuers are required to present their prospectus and reports have been reviewed.
- In the banking sector regulatory framework, amendments were made to Regulation 1 ("Registration and Licensing of Banks and Foreign Bank Branches; Registration of Bank Branches and Representative Offices; Qualification and Registration of Bank and Foreign Bank Branch Managers"), Regulation 2 ("Regulation of Bank Activities and Main Prudential Requirements on Bank Activities"), Regulation 3 ("Bank Reports, Their Presentation and Publication"), the Guide on Acquisition of Significant Participation or Occupying a Management Position in a Bank, and the Regulation on the Minimum Requirements of Internal Audit in Banks. To facilitate the adoption of corporate governance standards by banks operating in Armenia and to ensure the transparency of bank operations, the Regulation on Publication (Submission) by Banks of Information about Them. The Manual for Auditing Banks has been fully revised, taking into account problems encountered in its implementation. The following new chapters have been added to the Manual: "Combating Money Laundering and Terrorism Financing," "Corporate Governance Quality Assessment," and "Risk Management System Evaluation."
- Amendments were made to Regulation 14 ("Regulation of Credit Organization Activities and Prudential Requirements"). A Manual for Auditing Pawnshops Operating in Armenia was developed.

The aforementioned legislative and sub-legislative amendments stem from the present-day needs of the regulatory framework and are aimed at preventing intolerably high risks in the financial system and creating a legal framework conducive of financial stability (for details, see the "Amendments to Financial System Legislation and Sub-Legislation" heading under the "Development of Financial Infrastructures" section).

The CBA's activities in the frameworks of the Republic of Armenia Law on Combating Money Laundering and Terrorism Financing are essential to ensuring financial stability and mitigating financial risks in the country. The Financial Monitoring Center created within the CBA in 2005 has come up with its Three-Year Operational Strategy.

All financial institutions operating in Armenia and non-financial institutions and entities defined by law have already started filing suspicious transaction reports to the Financial Monitoring Center. With a view to streamlining the reporting and facilitating the analysis, a database of the Financial Monitoring Center has been developed. Through content, security, and appropriate software, the database enables the Financial Monitoring Center to perform comprehensive operational, tactical, and strategic financial analysis.

The fight against money laundering and terrorism financing will be continued, contributing to the reputation of the country, expanding international financial markets' cooperation with the Armenian financial market, and, more broadly, maintaining financial stability in the Republic of Armenia (for details, see the "Fight against Money Laundering and Terrorism Financing" heading under the "Development of Financial Infrastructures" section).

3. DEVELOPMENT OF FINANCIAL INFRASTRUCTURES

3.1. DEVELOPMENT OF PAYMENTS AND SETTLEMENTS

Promoting Non-Cash Turnover

The CBA has developed an Action Plan for the Development of Non-Cash Turnover, based on which it plans to cooperate with the Republic of Armenia Government and other relevant bodies to carry out a comprehensive set of activities in the payment and settlement system and related areas, which will promote the use of non-cash payment instruments and the development of non-cash turnover.

Due to the importance of developing payment card transactions in Armenia, and based on the development trends in this field, the CBA has developed a Regulation on the Issuance, Acquiring, and Distribution of Payment Cards in the Republic of Armenia, and the Performance of Transactions Using Payment Cards.

Oversight of Payment Systems

With a view to ensuring financial stability in Armenia, and taking into consideration the role of the payment system in the economy, the CBA has developed a Concept Paper on Payment System Oversight by the Central Bank of Armenia, which sets forth the CBA's objectives and scope of the payment system oversight, as well as the policy and process, and the scope of cooperation with other entities.

Financial, legal, and other requirements on payment and settlement organizations willing to participate in foreign payment systems have been clarified in order to minimize potential risks.

Payment Service Organizations

In 2006, the amendments to the Republic of Armenia Law on Payment and Settlement Systems and Organizations entered into force, which have clarified the legal framework on the activities of organizations performing money transfers (money transfer organizations). In accordance with the CBA legal framework, the CBA has authorized several of the commercial banks operating in Armenia to participate in various international payment systems. In addition to authorization to join VISA and MasterCard international card systems, the CBA has also authorized participation in the American Express (AMEX) international card system, which means that banks in Armenia can now issue and acquire AMEX international cards, as well. "Armenian Express" CJSC and "Depy Tun" LLC were licensed in 2006 as money transfer organizations.

In connection with unified supervision, the CBA has made amendments to the Regulation on Coding of Participants of the CBA Payment and Settlement System, Their Customers Accounts, and Participants of Information Systems to lay down the procedure of issuing codes to securities market participants, reporting issuers, insurers, and others.

Settlement Procedures for Foreign Currency and Securities Market Transactions

During 2006, the CBA was closely focused on the securities market development, including the issuance of new types of both government and corporate securities, as well as improvements of the existing infrastructure.

To regulate the issuance and circulation of new types of securities by the Republic of Armenia Ministry of Finance and Economy (perpetual government bonds and government savings (coupon) bonds), the CBA's Government Securities Accounting and Settlement System was modified appropriately, and procedures were developed.

Taking into consideration the importance of transparency, accessibility, and development of stock exchange trading in Armenia, the CBA initiated and, jointly with the Armenian Stock

Exchange and commercial banks, designed and implemented a procedure for foreign exchange trading in the Armenian Stock Exchange. In order to minimize operational risks in the settlement of transactions in the Armenian Stock Exchange and automate the process, the appropriate payment message formats have been developed, which ensure the electronic submission to the CBA of the net positions for purposes of settlement.

With a view to developing the securities market by means of channeling through the Central Depository of Armenia the repurchase and reverse repurchase transactions involving highly-rated commercial papers, a number of documents have been developed to streamline the legal framework.

Payments and Settlements: Some Key Indicators

The volume of transactions carried out using payment systems and payment instruments grew in 2006.

Non-cash payment turnover reached AMD 5,494 billion in 2006 (a total of 2,627,716 transactions), of which AMD 4,815 billion (1,053,339 transactions) had gone through the CBA's payment systems. Non-cash payment turnover grew 1.1-fold (by AMD 615 billion) over 2005, while the number of non-cash transactions increased 1.2-fold (by 488,789). Compared to 2005, payments through the CBA's payment systems grew 1.6-fold (by AMD 1,818 billion) in terms of value, or 1.2-fold (by 194,861) in terms of the number of transactions.

The average daily value of transfers using the CBA's payment systems was about AMD 18.8 billion (4,115 transfers). Compared to 2005, the average daily volume of transfers increased by AMD 7 billion (the number of transfers grew by 761); of this increase, AMD 5.7 billion was due to the larger volume of transfers related to stock exchange trading.

During 2006, transfers initiated by and destined to the Treasury continued to account for a large share (36.8% of the total value and 43.8% of the total volume of transactions) of payments executed through the CBA (excluding transfers related to stock exchange trading). The total value of transfers initiated by and destined to the Treasury through the CBA shrunk by 11% (AMD 162 million) in 2006 over 2005, while their volume increased by 15% (62,082 transfers).

During 2006, a total of 3,029,569 transactions worth AMD 138,245 million were executed using plastic cards in Armenia; of this amount, non-cash card payments were about AMD 11,322 million. Of the non-cash turnover, e-payments (transactions via the Internet) accounted for AMD 258 million (including e-commerce of AMD 161 million and card-to-card payments of AMD 97 million). The total number of cards in circulation was 209,113 at yearend, representing a 1.5-fold (71,927 cards) increased over 2005. Card-based non-cash payments accounted for about 8.2% of total payments. On the whole, the card-based non-cash transaction value grew by 65% in 2006 over 2005.

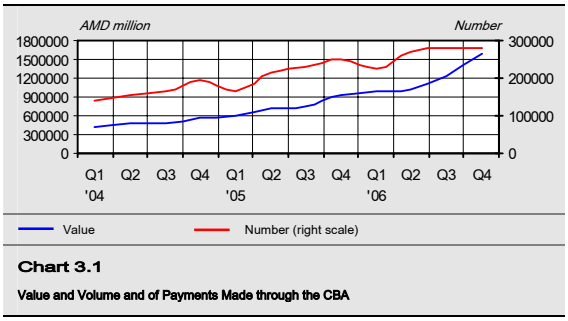


Chart 3.1

Value and Volume and of Payments Made through the CBA

Electronic Payments System

At yearend 2006, the total number of participants in the CBA's Electronic Payments System was 217, including the CBA and its three territorial cash centers, the Treasury of the Republic of Armenia with its 44 branches, 21 commercial banks with 145 branches, the "Armenian Card" Processing Center, and the Inter-State Bank (Moscow, Russia).

The vast majority of payments via the CBA's payment systems were executed using the Electronic Payments System: on average, 80.62% of the value of total payments and 95.84% of the total number of transactions, representing increases over 2005 of 77.58% (AMD 1,696 billion) and 22.11% (182,792 transactions), respectively. Of these numbers, stock exchange trading-related transfers were AMD 1,456 billion. In the structure of total payments by commercial

Payments Executed by the CBA, Commercial Banks Operating in Armenia, and the Treasury of Armenia Using Payment Systems of the CBA

Period	Gross				Government Securities Accounting and Settlement System		Total	
	Electronic		Paper-Based					
	Value (AMD mln)	Volume	Value (AMD mln)	Volume	Value (AMD mln)	Volume	Value (AMD mln)	Volume
2005								
Q1	429654	158131	150806	5188	20993	471	601453	163790
Share of total payments (in %)	71.44	96.54	25.07	3.17	3.49	0.29	100	100
Q2	515359	207423	123228	6062	74161	901	712748	214386
Share of total payments (in %)	72.31	96.75	17.29	2.83	10.40	0.42	100	100
Q3	524899	219123	153970	8315	60841	909	739710	228347
Share of total payments (in %)	70.96	95.96	20.81	3.64	8.23	0.40	100	100
Q4	716214	242062	154294	8951	72601	942	943109	251955
Share of total payments (in %)	75.94	96.07	16.36	3.55	7.70	0.37	100	100
Total	2186126	826739	582298	28516	228596	3223	2997020	858478
Share of total payments (in %)	72.94	96.30	19.43	3.32	7.63	0.38	100	100
2006								
Q1	855565	215711	70193	8984	53645	757	979403	225452
Share of total payments (in %)	87.35	95.68	7.17	3.98	5.48	0.34	100	100
Q2	829977	258599	86905	8913	106179	1171	1023061	268683
Share of total payments (in %)	81.13	96.25	8.49	3.31	10.38	0.44	100	100
Q3	965029	269752	144908	9466	115703	1305	1225640	280523
Share of total payments (in %)	78.74	96.16	11.82	3.37	9.44	0.47	100	100
Q4	1231594	265469	235410	11885	120401	1327	1587405	278681
Share of total payments (in %)	77.59	95.26	14.83	4.26	7.58	0.48	100	100
Total	3882165	1009531	537416	39248	395928	4560	4815509	1053339
Share of total payments (in %)	80.62	95.84	11.16	3.73	8.22	0.43	100	100

banks, the value of electronic payments was about 66.19%, and the volume was about 90.17% of the total.

The average daily number of transfers using the Electronic Payments System increased in 2006 over 2005 by 714, reaching 3,943, while the value of such transfers grew by AMD 6,625 million, reaching AMD 15,165 million. Average daily transfers related to stock exchange trading amounted to AMD 5,688 million. The average size of one electronic transfer in the Electronic Payments System, excluding stock exchange trading-related transfers, fell by about AMD 0.2 million compared to 2005, and reached AMD 2.4 million. The average value of a stock exchange trading-related transfer by commercial banks using the Electronic Payments System was AMD 197 million.

During 2006, rejections in the electronic payment system were 0.06% of the volume and 0.4% of the value of initiated payments (593 transfers with a total value of AMD 16,534 million); rejections due to insufficient liquidity were 0.04% of the volume and 0.27% of the value of initiated payments (449 transfers with a total value of AMD 10,512 million). The aforementioned volume and value of rejections are characteristic of the low level of operational and liquidity risks in the system.

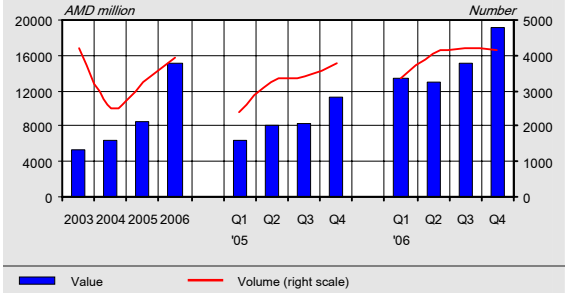


Chart 3.2

Average Daily Transfers via Electronic Payment System

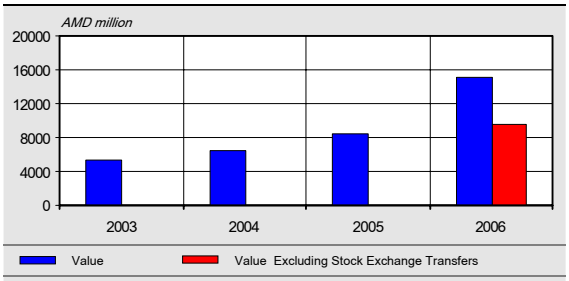


Chart 3.3

Stock Exchange Trading-Related Transfers Using Electronic Payment System, as a Share of Average Daily Payments

The volume of average daily paper-based payments through the CBA was 153, for a total value of AMD 2,099 million (the average daily value of transfers fell by AMD 175 million compared to 2005). Compared to 2005, the average size of a paper-based payment fell by about AMD 6.7 million and reached AMD 13.7 million. During 2006, 64 paper-based transfers with a total value of AMD 10.3 million were carried out between commercial banks.

Paper-Based Gross Payments System

During 2006, the CBA, the commercial banks operating in the country, and the Treasury of the Republic of Armenia made paper-based payment transactions through the CBA. Paper-based payments by commercial banks during the year accounted for 13.86% of the total value of bank payments (a 1.75-fold increase compared to 2005) and 0.49% of their volume (a 1.4-fold increase compared to 2005).

Government Securities Accounting and Settlement System

As of yearend 2006, 7 agent banks and 14 dealer banks operating in Armenia were members of this system, together with the Deposit Guarantee Fund, one non-bank dealer, the Ministry of Finance and Economy and the CBA (as the issuer and the agent of the issuer), the Treasury Direct, and the CBA (as the Central Depository).

Types of Cards Issued by Banks Operating in Armenia

Name of Bank	ArCa	MasterCard	VISA	AMEX	Other Cards
Armbusinessbank	+				
Anelik Bank	+	+	+		
Ararat Bank	+				
Armimpexbank	+	+			
VTB-Armenia Bank			+		
Armeconombank	+	+			
Prometey Bank	+	+			
BTA Invest Bank	+				
Armenian Development Bank	+	+			
Converse Bank	+		+		+
Inecobank	+	+			
Mellat Bank	+				
ITB International Trade Bank	+				
HSBC Bank Armenia	+	+	+		+
ACBA-Credit Agricole Bank	+		+		
Artsakh Bank	+	+			
Cascade Bank	+	+			
Areximbank		+	+	+	
Unibank	+		+		
Ardshininvestbank	+	+			

During 2006, the system generated 1,871 instructions for a total value of AMD 61,426 million regarding primary allocation and redemption of government securities—an AMD 26 billion decrease over 2005 (payments regarding the primary allocation and redemption of securities declined evenly). Banks transferred AMD 32,475 million in return for government securities purchased at the primary allocation, while the Treasury transferred AMD 28,951 million for redeemed government securities. The Treasury Direct has made payments of AMD 1.8 billion for government securities, of which AMD 1,186 million for allocation, and AMD 621 million for redemption of government securities.

The participants of the Government Securities Accounting and Settlement System generated 690 instructions for a total sum of AMD 120,849 million. In the primary allocation of such securities, commercial banks transferred AMD 68,454 million against CBA-issued bonds acquired by them, while AMD 52,395 million was transferred against redemption of CBA-issued securities.

During 2006, operations of the participants of the Government Securities Accounting and Settlement System in the secondary market for government securities have become more active: the value of such operations reached AMD 374,970 million (at face value), including purchases and sales totaling AMD 244,033 million, free delivery of AMD 130,937 million, and pledges of AMD 22,102 million (at face value). 2,022 DVP purchase and sale transactions worth AMD 222,990 million were performed.

Payment Cards Market

As of yearend 2006, 20 commercial banks were issuing and acquiring payment cards. 18 commercial banks were members of the "Armenian Card" ("ArCa") Unified Card Payment System. During 2006, the number of banks-members of ArCa grew by two (Ararat Bank and Armbusinessbank).

During 2006, 64 new ATMs were installed to serve payment cards, bringing the total number of ATMs to 180 at yearend. 136 of these ATMs serve "ArCa" cards. Commercial banks set (placed) 345 POS terminals, to bring their total number to 1,326 (of which 282 are installed in subdivisions of commercial banks). There are currently 83 imprinters set.

With a view to enhancing the reliability of the "ArCa" Unified Card Payment System and lowering the goodwill risk, card-serving devices are gradually being connected with the ArCa Processing Center through the CBANet inter-bank computer network.

At yearend, the number of active "ArCa" cards grew 1.65-fold compared to yearend 2005 (36,586 new cards) to reach 92,283. The number of international system cards grew 1.43-fold (35,341 new cards), of which VISA international cards grew 1.44-fold (27,894 cards) to reach 90,733, while MasterCard international cards grew 2-fold (5,916 new cards) to reach 11,817.

The value of card transactions grew 1.53-fold in 2006 over 2005 (by AMD 48,109 million), while their volume increased 1.38-fold (by 845,077).

Alongside the development of card systems, regulatory acts have been adopted to protect cardholders' interests by defining the requisites that the payment document generated on the basis of a card transaction must contain, as well as the fields of the statement issued from the cardholder's card account. In essence, setting rules on payment card transactions, too, is aimed at reducing goodwill risk in the system.

A total of 1,408,879 transactions with a total value of AMD 45,471 million were carried out using "ArCa" cards. The value and volume of transactions with "ArCa" cards grew about 1.63-fold and 1.38-fold over 2005 (by AMD 17,649 million and by 385,575) respectively.

The value of transactions using VISA international cards reached AMD 60,511 million (1,008,054 transactions), while MasterCard international cards were used in a total of 169,523 transactions for a total value of AMD 12,664 million. The value of transactions using VISA and MasterCard cards grew 1.53-fold and 1.65-fold, respectively (by AMD 20,916 million and AMD 4,975 million, respectively).

Other international cards were used in 443,113 transactions for a total of AMD 19,598 million, representing an AMD 4,569 million increase over 2005.

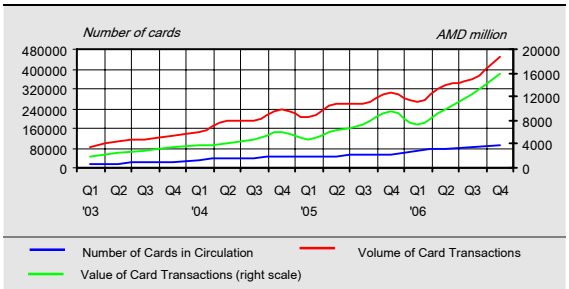


Chart 3.4
The Trend of ArCa Cards Development

Card Transactions via Accepting Devices

	Total Transactions (in AMD million)	Of which, using ArCa cards (in AMD million)	Total Number of Transactions	Of which, using ArCa cards
ATMs	95774	32685	2464434	1124891
of which, non-cash	2766	366	60762	33386
POS terminals	40995	12786	547632	283988
of which, non-cash	8526	2161	151478	56739
Imprinters	1475	0	17503	0
of which, non-cash	30	0	151	0
Total	138244	45471	3029569	1408879
of which, non-cash	11322	2527	212391	90125

International Systems of MoneyTransfers

In order to expedite money transfers of their customers, commercial banks operating in Armenia have participated in Western Union, Money Gram, Anelik, Unistream, Contact, and other remittance systems. The commercial banks in Armenia participate in a total of 15 international remittance systems.

During 2006, the influx of funds into Armenia through these systems amounted to AMD 315,469 million (1,253,637 remittances), which exceeded the value of outgoing transfers 8.2-fold. Compared to 2005, the value of inward remittances grew 1.29-fold (by AMD 71,226 million). The average size of a remittance was AMD 252,000 during 2006, which remained virtually the same as in 2005.

During 2006, the volume of inbound remittances to Armenia via S.W.I.F.T. was AMD 1,857 billion (a total of 273,351 remittances). The average remittance via S.W.I.F.T. was AMD 6.7 million in 2006, representing an AMD 3.6 million decrease over 2005. In the total value of remittances via S.W.I.F.T., remittances to individuals declined by AMD 11 billion to reach about AMD 189 billion: the average remittance amount remained virtually the same at AMD 1.5 million. Outbound remittances of individuals via S.W.I.F.T. grew by AMD 34 billion to reach AMD 281 billion.

International Money Transfers

	Number of Participating Banks	Number of Participating Organizations	Share in Influx of Funds (in %)
UNISTREAM	3		46.50
WESTERN UNION	15		12.84
ANELIK	5		12.69
BISTRAYA POCHTA	5		11.89
CONTACT	3	1	7.15
MIGOM	3		2.51
MONEY GRAM	1		1.82
INTEREXPRESS	2		1.78
LIDER	3		0.70
PRIVAT MONEY TRANSFER	1		0.30
STB Express	1		-
JIVIE DENGI	1		0.001
BLIZKO	1		0.016
FASTER	1		0.001
Travelex	-	1	0.13
STEFI	-	1	0.23
Armenian Express	1	1	1.05

3.2. CASH CIRCULATION

Cash in circulation grew considerably, as the CBA met the large demand of the economy for drams, which was manifested in 2005 and continued through 2006 on the backdrop of an active process of dramization. The volume of cash drams outside the CBA increased, as well: as of December 31, 2006, cash drams outside the CBA grew by AMD 71.6 billion (46.1%) over 2005, reaching AMD 226.8 billion. Cash outside the CBA had increased by 47.1% during 2005, 9.0% during 2004, and 5.2% during 2003.

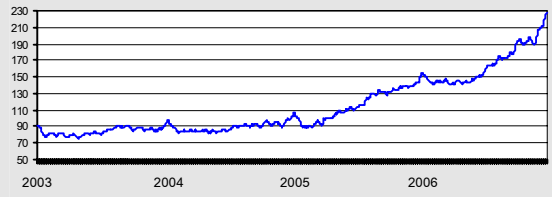


Chart 3.5
Dynamics of Cash Outside the CBA in 2003-2006 (in AMD billion)

As in the past, the volume of cash sharply declined in January 2006 (by 8.4%, compared to 13.5% in January 2005). Thereafter, cash in circulation grew at a relatively stable pace. The pace of growth accelerated in Q3. In December, there was a seasonal increase in demand for cash drams, which resulted in the volume of cash growing by 16.6% over November.

As the volume of cash drams in circulation grew faster than broad money, the share of cash in broad money increased. At yearend, cash outside the banking system was 43.5% of broad money, compared to 39.5% at yearend 2005.

As opposed to broad money, the share of cash in dram broad money shrunk by 2.4 percentage points to reach 61.9% at yearend 2006. Steady appreciation of the dram and the dramization process were reflected in the more rapid increase of the dram component of broad money. As a result, this indicator is rather high in comparison to what can be found in a number of developing countries.

In 2006, cash circulation through the CBA vault grew by 7.8% to reach AMD 579.1 billion. Cash entering the CBA's vault grew by 4.1% to AMD 253.8 billion, while cash leaving the vault grew by 10.9% to AMD 325.3 billion.

Share of Cash in Broad Money [1] (in %)

Country	2004	2005	2006
Kyrgyzstan	57.2	61.2	60.0
Armenia	34.5	39.5	43.5
Azerbaijan	32.7	30.4	39.0
Georgia	40.5	38.2	30.8
Ukraine	33.7	31.2	28.9
Russia	29.0	27.8	27.4
Moldova	31.4	28.9	26.3
Tajikistan	40.5	28.5	19.1
Bulgaria	22.3	20.9	18.9
Latvia	22.0	19.4	17.2
Belarus	15.4	16.2	16.2
Kazakhstan	23.2	19.9	16.2
Estonia	13.2	10.6	9.5

The CBA rendered cash services to banks and bank branches in regions of Armenia and in the NKR by means of the CBA Headquarters Cash Vault and Regional Cash Centers of the CBA in Goris, Vanadzor, and Hrazdan (Tsaghkadzor).

Activities were implemented to create a new cash hub, which will improve the CBA's ability to serve customers efficiently.

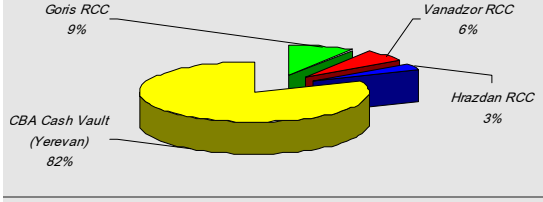


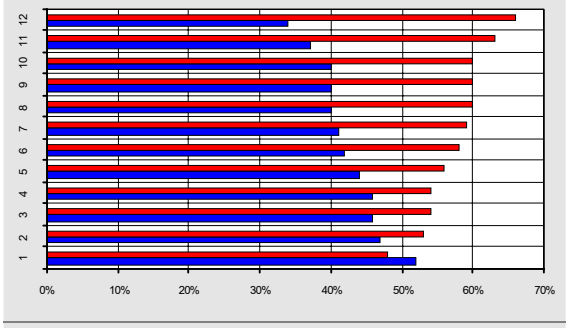
Chart 3.6
The CBA Cash Circulation

There has been no major change in the activities of Regional Cash Centers. As in 2005, Regional Cash Centers covered 18.9% of the total cash circulation of the CBA. The Goris RCC accounted for the largest share of this circulation (50.1% of the total turnover).

Regional cash centers were mainly used for provision of cash to banks and branches in the regions of Armenia and in the NKR. Regional cash centers' cash outflow was about 90% of their total cash turnover.

[1] *Data in the table is taken from the IFS (International Financial Statistics) service.*

The commercial bank vault turnover followed similar patterns. Cash outflow from vaults of commercial banks and branches in Armenia and the NKR exceeded their cash inflows.



1. Yerevan, 2. Armavir, 3. Kotayk, 4. Ararat, 5. Vayotz Dzor, 6. Lori, 7. Shirak, 8. Aragatsotn, 9. Gegharkunik, 10. NKR, 11. Tavush, 12. Syunik

Chart 3.7
Commercial Banks in Regions of Armenia and in the NKR: Share of Cash in and out, %

Commercial bank cash vault inflows exceeded outflows only in Yerevan (by 6%).

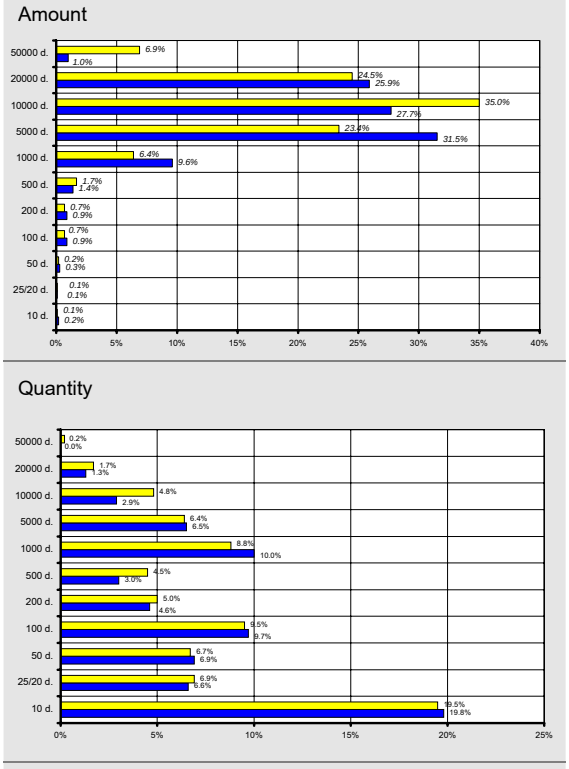


Chart 3.8
Type Structure of Cash Circulating outside the CBA

The significant increase in cash in circulation has also influenced the type structure of cash, because the increase was mainly achieved on account of high face value. 92% of the increase in cash circulating outside the CBA was due to 10,000-dram, 20,000-dram, and 50,000-dram face value banknotes: their cumulative share in total cash in circulation grew by 21.6 percentage points to reach 66.4% at yearend. The volume of circulating 50,000-dram face value banknotes grew the most (9.8-fold), reaching AMD 15.7 billion at yearend.

Despite the growth in the circulating volume of the aforementioned banknotes, the CBA has managed to meet the demand for such banknotes in the economy, i.e. commercial bank requests for cash, by different face values.

The volume of the 500-dram coin increased about 4.5-fold during the year.

The shares of all other face value banknotes and coins fell.

The process of replacing redeemed 10-dram, 25-dram, 50-dram, 100-dram, and 200-dram face value banknotes virtually stopped. As of December 31, 2006, their total volume in circulation was AMD 536.5 million (0.24% of total cash outside the CBA).

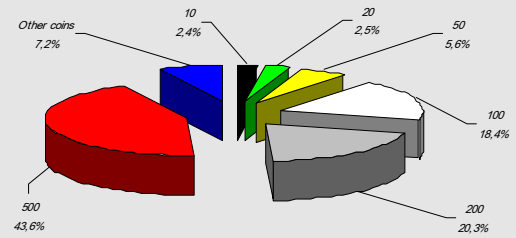


Chart 3.9
Type Structure of Coins in Circulation[2]

As a result of the aforementioned changes in the types and structure of cash in circulation, the "notional average weighed money value"[3] grew to reach AMD 1,852 at yearend.

[2] Other coins include the 10-luma, 20-luma, 50-luma, 1-dram, 3-dram, 5-dram, and 100-dram ("Charentz-100", "32nd Chess Olympiad") face value coins, as well as a 25,000-dram face value "Anahit" gold coin.

[3] The "notional average weighed money value" calculation includes Armenian coins and banknotes between 10-dram and 50,000-dram face value.

Substitution of Worn-out Banknotes and Coins

In 2006, the CBA extracted and replaced with new ones about AMD 25.6 billion worth of, or 10.5 million old banknotes and coins, which amounted to 10% of the total currency returned to the CBA during the year. Compared to 2005, the volume of worn-out banknotes and coins extracted by the CBA fell by 33.6% in 2006, which was mainly due to the significant "refreshment" of circulating banknotes in 2005. The replacement of banknotes extracted from circulation is almost over. During the year, the CBA also extracted from circulation worn-out 10-200-dram coins, though their volume is still negligible.

Issuance of Commemorative Coins

In 2006, the CBA continued issuing a number of commemorative coins made of precious metals, all dedicated to various memorable events.

In 2006, the CBA issued the following commemorative coins:

- 10,000-dram face value "Komitas" gold coin dedicated to Komitas (Soghomon Soghomonyan, born 1869, died 1935);
- 5,000-dram face value "15th Anniversary of Independence of the Republic of Armenia" silver coin in the "Armenian Statehood" series dedicated to the 15th anniversary of declaring the Republic of Armenia an independent state (on September 21, 1991);
- 100-dram face value "International Polar Year" silver coin within the "International Polar Year 2007-2008" international program;
- 1,000-dram face value "Marshal Hamazasp Babajanyan" silver coin on the 100th birthday of Hamazasp Babajanyan (born 1906, died 1977);
- 10,000-dram face value "37th Chess Olympiad" gold coin dedicated to the victory of the Armenian men's team in the 37th World Chess Olympiad;
- 10,000-dram face value "Hakob Gyurjyan" gold coin on the 125th birthday of Hakob Gyurjyan (born 1881, died 1948);
- 100-dram face value "Hovhannes Ayvazovski" silver coin dedicated to Hovhannes Ayvazovski (born 1817, died 1900) in the framework of the "Artists of the World" international program; and
- 100-dram face value silver coins illustrating the Caucasus Forest Cat, Big-Eared Hedgehog, Transcaucasian Brown Bear, and Mediterranean Turtle, in the framework of the "Caucasus Fauna" international program.

Activities launched in 2005 continued through 2006 with the aim of raising the awareness of the broad public about the history of Armenian coin circulation and Armenian moneys. A traveling exhibition was organized in the town of Ijevan. In the framework of events dedicated to the 15th anniversary of the independence of Armenia, the CBA organized an exhibition/sale of commemorative coins.

Measures against Counterfeiting

During 2006, the CBA notified banks operating in Armenia and the relevant law-enforcement authorities of each case of discovered counterfeit banknotes.

During 2006, the number of counterfeit banknotes and coins discovered in the banking system fell by 2% compared to 2005. In addition to counterfeit banknotes, 100-dram, 200-dram, and 500-dram face value coin counterfeits, too, were found in the banking system.

The 200-dram face value coin and the 1,000-dram face value banknote accounted for the largest share of the discovered counterfeit banknotes and coins.

The CBA has undertaken measures to improve its technical capacity for studying counterfeit banknotes and coins.

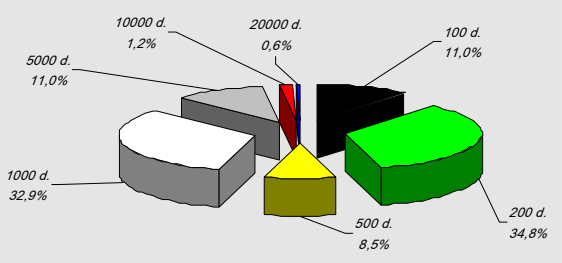


Chart 3.10
Types of Counterfeit Coins and Banknotes Discovered in Armenian Banking System in 2006

3.3. AMENDMENTS TO FINANCIAL SYSTEM LEGISLATION AND SUB-LEGISLATION

Amendments to Financial System Legislation

In 2006, the Republic of Armenia National Assembly adopted the following packages of draft legislation initiated by the CBA:

1. AL-76 on Amending the Republic of Armenia Law on the Central Bank; AL-77 on Amending the Republic of Armenia Law on Public Notaries; AL-78 on Amending the Republic of Armenia Law on Compulsory Execution of Judicial Acts; and AL-79 on Amending the Republic of Armenia Civil Code.

2. AL-69 on Amending the Republic of Armenia Law on the Legal Acts; and AL-70 on Amending the Republic of Armenia Law on the Central Bank.

3. AL-73 on Amending the Republic of Armenia Law on Road Fees; AL-74 on Amending the Republic of Armenia Law on Protection of Economic Competition; and AL-75 on Amending the Republic of Armenia Law on Privatization of State-Owned Assets.

4. AL-101 on Amending the Republic of Armenia Law on Cash Collection.

5. AL-39 on Amending the Republic of Armenia Law on Currency Regulation and Supervision; and other related laws.

6. Law on Amending the Republic of Armenia Law on the Central Bank; Law on Amending the Republic of Armenia Law on the Budgetary System; and Law on Amending the Republic of Armenia Law on the Statute of the National Assembly.

The Laws specified in Paragraph 1 are aimed at amending the Armenian laws in relation to the custody and circulation of government securities issued in non-documentary form, including the following:

1. The Law on Amending the Civil Code is intended to address the following issues:

- Under Article 235 of the Civil Code, "the right of pledge arises from the time of conclusion of the contract of pledge, and in cases when the right of pledge is subject to state registration, from the time of its registration." The amendments provide that, in case of securities issued in non-documentary form, the rights under a transaction with such securities may, in practice, arise after just recording an entry with the custodian (sub-custodian). The amendments also provide that such a record cannot ever be considered state registration.

Thus, there was an inconsistency with the Civil Code regarding the moment when the right of pledge over non-documentary securities arises.

- Presently, government securities are issued in non-documentary form, and transactions involving their pledge are carried out through a two-level custody system. As a result, a subsequent pledge of government securities was impossible for purely technical reasons, which created a conflict with the Civil Code Article 236.
- It was necessary to clarify that, in case of redemption of pledged securities, the proceeds of such redemption are considered to be pledged.

2. The Law on Amending the Law on the Central Bank is intended to address the following issue: the third paragraph of Article 152(1) of the Civil Code provides: "The rights certified by means of such fixation, the procedure for official fixation of rights and of right-holders, the procedure for documentary confirmation of records and *the procedure for performing transactions with non-documentary securities shall be prescribed by a law or by a procedure established by a law*." However, there was no law that, in accordance with the aforementioned provision, would prescribe a procedure of performing transactions with non-documentary securities.

It is worth mentioning that the procedure of performing transactions simply had to define the manner in which parties had to submit "depo" instructions to the custodian system for initiating a transaction of proceeds from "depo" accounts of securities, as well as the form and submission procedure of such instructions.

3. The Law on Amending the Law on the Compulsory Execution of Judicial Acts is intended to address the following issue: Chapter 11 of the Regulation on Performing Transactions Involving the Pledge of Republic of Armenia Government Bonds (approved by CBA Board Decision 75-N

dated March 30, 2004) provides that bond seizure operations shall be carried out in accordance with the procedure prescribed by a law. However, such a law did not exist.

Since the bond seizure procedure had to lay down binding requirements for not only the CBA and commercial banks, but also the Department for Compulsory Execution of Judicial Acts, the prescription of such a procedure by the CBA Board alone could be challenged, because the CBA does not have the authority to prescribe binding rules for other state bodies.

In view of this circumstance and Article 16(2) of the Law on Legal Acts, the Law was amended to provide: "The CBA Board shall, with the consent of the Republic of Armenia Ministry of Justice, prescribe the requirements and the submission terms and procedure of depo instructions presented by Judicial Enforcement Officers to a custodian (sub-custodian) for the purpose of the foreclosure, seizure, or forced sale of debtor-owned Armenian government securities issued in non-documentary form."

4. The Law on Amending the Law on Public Notaries is intended to address the following issue: the Regulation on Performing Transactions Involving the Pledge of Republic of Armenia Government Bonds (approved by CBA Board Decision 75-N dated March 30, 2004) provides, regarding the proceeds of the redemption of pledged bonds, that the pledgor's custodian is obliged to present to the bank, within five banking days, an agreement on accounting in a third-party commercial bank the proceeds of the redemption of pledged bonds; if the pledgor's custodian fails to present such an agreement within five banking days, then the CBA shall have the power to transfer the pledged proceeds to a *notary deposit*.

The Law on Public Notaries was the most appropriate legislation in which to incorporate this requirement and the procedure of complying with it.

Of the Laws specified in Paragraph 2, the adoption of amendments to the Law on Legal Acts is aimed primarily at addressing the inconsistency between the Law on Legal Acts and the Law on the CBA.

More specifically, the Law was needed due to the following reasons.

1. Previously, the banking settlement interest rate was set by an individual act of the CBA Governor, although the Law on Legal Acts required it to be set by a statutory act. Stipulating the possibility of it coming into force prior to the date set by law was due to the fact that the prescribed rates are used for settlement by different persons and entities from the moment of their prescription. Consequently, it would be unreasonable, given these circumstances, to make a case for the need to comply with the established timelines and procedures for the registration, publication, and coming into force of statutory acts.

2. The mandatory reserve requirement is not only a prudential requirement applying to banks, but also a monetary policy tool used by the CBA. Hence, there are frequently situations in which the CBA needs to intervene in the market immediately by setting a new percentage of required mandatory reserves, which it needs to take effect in a rather short period.

3. As for special prudential requirements, the possibility for them to take effect in a short period had to be defined in view of the urgent nature of remedies that must be taken to prevent a banking system crisis.

4. Moreover, it needs be taken into consideration that the nature of the CBA's legal acts setting the banking settlement interest rate, the mandatory reserve requirement percentage, and the special prudential requirements stipulated by law does not create any conflict between such acts, on the one hand, and the Republic of Armenia Constitution, laws, or other legal acts, on the other, because the CBA's legal acts only set the numerical amounts, which are not subject to any limitation prescribed by other laws or legal acts. To this end, it is also important to note that the experience of registering the CBA's aforementioned legal acts has shown that, to date, the legal review of such acts by the Ministry of Justice has not revealed any conflict with the extant legislation of Armenia (which is logical given the reasons explained above). At a theoretical level, there might be concerns that the CBA's aforementioned legal acts could contradict the Law on Legal Acts in terms of legal drafting techniques, rather than substance; however, these concerns are easily dispelled given the potential volume of such acts.

The amendments to the Law on the Central Bank are due to the fact that, by establishing an interest rate on and paying interest against the required reserves and the funds in excess of the required minimum, the CBA effectively acts as a bank, which means that, under Article 16(5) of the Law on Legal Acts, the CBA needs to take such decisions in the form of internal legal acts, endorsed by the CBA Governor.

The Laws specified in Paragraph 3 were adopted with the aim of aligning the Law on Road Fees, the Law on the Protection of Economic Competition, and the Law on Privatization of State-Owned Assets with the Law on Currency Regulation and Supervision, most notably its Article 6(1), which provides that prices of goods (assets) for sale, services and works performance, and property use in the territory of the Republic of Armenia shall be marked in the Armenian dram.

The Law specified in Paragraph 4 was adopted primarily with the aim of regulating matters arising in connection with cash transfer by several entities. Article 1(2) of the Law on Cash Collection used to provide that the Law on Cash Collection applied only to dealings with the involvement of banks and credit organizations. This wording meant that the Law did not regulate the cash collection process involving other entities (such as a transaction involving a foreign exchange bureau and a cash collection company), unless a bank or credit organization was involved, which created serious problems in practice. Besides, it had become necessary to set additional requirements on cash collection companies in order to make their activities more secure.

In 2006, a Law on Amending the Law on Insurance was enacted, repealing Article 8(6) of the Law on Insurance, which used to prohibit insurance companies with more than 49% foreign ownership of the statutory fund from providing life insurance, mandatory insurance, mandatory state insurance, and state and local organizations' property insurance in the Republic of Armenia.

This provision effectively restrained foreign capital entry to the aforementioned fields of insurance, which was not in line with Armenia's declared strategy of having a free market economy.

Furthermore, the repealed provision contradicted a number of international treaties on economic cooperation ratified by Armenia, including the terms of the WTO Accession Treaty.

The Law specified in Paragraph 5 was adopted by the National Assembly on December 25, 2006.

The Law on Amending the Republic of Armenia Law on Currency Regulation and Supervision defines notions such as "a pricing entity," "a dealer/broker trading foreign currency," "an entity trading foreign currency," and "an entity conducting foreign currency trading auctions"; it is also aimed at addressing deficiencies identified in the application of the Law.

The Law defines pricing as the declaring, stating, defining, or in any other way informing other persons of the price, value, or compensation amount of any commodity (asset), service, property use, work performance, or wages and/or wage-equated payments.

The Law provides that, in the territory of Armenia, consumer loans and credit may be provided only in Armenian drams, which is aimed at reducing the level of dollarization in society.

The Law was supplemented with a new article regulating the activities foreign currency trading dealers/brokers, entities trading foreign currency, and entities conducting foreign currency trading auctions. This Article provides that foreign currency trading dealers/brokers and entities trading foreign currency must be legal entities.

The Law provides that a license for trading foreign currency in a shop may only be issued to the legal entity trading goods in that shop; in a trade center, such a license may only be issued to the organizer of trade; in a hotel, such a license may only be issued to the legal entity that provides hotel services. This provision is intended to enhance the responsibility of foreign exchange bureaus for compliance with the currency legislation and to prevent violations of law. For instance, a legal entity that does not trade goods in a shop, but trades foreign currency in that shop, will not be interested in whether or not there is a foreign exchange bureau in that shop. It is only interested in its foreign exchange business. In contrast, the legal entity that trades goods in the shop is keen on the presence of a foreign exchange bureau in the shop, because it would facilitate and increase the sale of goods in the shop.

The Law defines as currency agents also the credit organizations and money transfers organizations, which monitor compliance with the currency legislation.

In a package with the Law on Amending the Republic of Armenia Law on Currency Regulation and Supervision, the National Assembly enacted a Law amending the Code of Administrative Infringements. The latter was related to the prescription of sanctions by officials monitoring compliance with the currency-regulating legislation and other legal acts (by means of controlled purchases), as well as the need to introduce heavier penalties for violations of the currency-regulating legislation and other legal acts of Armenia.

The Law amending the Criminal Code criminalized the operation of a foreign exchange bureau without an appropriate license, with a view to effectively combating such offences.

The Law on Amending the Republic of Armenia Law on the Central Bank, specified in Paragraph 6, was adopted by the National Assembly on December 25, 2006. These amendments can be divided into two parts:

1. Amendments aligning the Law with the Amended Constitution of Armenia; and
2. Amendments prescribing the CBA-adopted new approach to inflation management—the inflation targeting strategy.

The amendments regarding the adoption of the inflation targeting strategy provide the following: under Article 4 of the Law on the Central Bank, the CBA's primary objective is to ensure price stability in the Republic of Armenia, and the CBA's activities must aim at achieving that objective. If any other provision contradicts the achievement of the primary objective, then preference should be given to ensuring price stability. Consequently, the application of some provisions of the Law on the Central Bank (such as Article 6 of the Law, or other provisions regarding the implementation of monetary policy by the CBA) contradicted the objective stipulated by Article 4 in view of the current economic realities. Therefore, it had become necessary to clarify these provisions and to enact legislation laying strong foundations for the CBA's achievement of its primary objective.

The inflation targeting strategy adopted by the CBA, too, pursues the achievement of the CBA's primary objective set forth in Article 4 of the Law.

The clarification to Article 4 means that the effectiveness of monetary policy, carried out from the standpoint of the inflation targeting strategy, requires a higher degree of flexibility and predictability, which fundamentally hinges on inflation projections for the long run. Along these lines, the National Assembly also amended the Law on the Budgetary System.

In 2006, the CBA drafted a Law on Insurance Activities on the basis of the EU legislation, which is profoundly different from the extant Republic of Armenia Law on Insurance. The main novelties proposed in the draft are the following:

1. Insurance classification (insurance types, classes, and categories). The draft classified insurance into types and classes (categories), which is in keeping with the EU legislation (directives and Member States' legislation) and the practice of all EU Member States. The draft allows further clarifying the licensing and supervision processes by adopting a differentiated approach to companies carrying out insurance activities under separate classes.

2. Distinction of life and non-life insurance undertakings. The draft proposes the approach whereby the same insurance company is prohibited from providing both life and non-life insurance.

3. Corporate governance of insurance companies. The draft introduces corporate governance principles for insurance companies, which are consistent with the international best practice, including the EU legislation and the fundamental principles of the International Association of Insurance Supervisors.

4. Outsourcing. The draft defines the notion of "outsourcing," which will allow insurance companies to outsource some of their functions (such as accounting, actuarial operations, asset management, etc.) to a different company. Requirements on and mechanisms of supervision over such companies have been elaborated.

5. Insurance intermediaries. The draft proposes clear arrangements for regulating insurance intermediation, which are fully in line with the international best practice and the EU directives. Insurance intermediaries may be either legal entities or natural persons. The scope of insurance intermediation has been clarified; for some (risk) part of these undertakings, insurance

intermediaries will have to comply with certain prudential requirements.

6. Insurance secret. The draft introduces the concept of an "insurance secret" and the third parties not bound by insurance secrecy limitations.

7. Liquidation of insurance companies. The draft regulates the procedure of liquidating insurance companies.

8. Sanctions. The draft has revised the sanctions. Instead of prescribing specific sanctions, the draft sets the maximum limits of sanctions, whereas the application and exact magnitude of a sanction will be determined by the supervisor based on materiality.

9. Reorganization. The draft also regulates the process of insurance companies' reorganization.

The CBA has drafted and submitted to the Government of Armenia for review the following proposed amendments to the Law on Banking Secrecy:

1. Under the current Law on Banking Secrecy, the CBA makes quarterly publications in the press and/or other mass media of the names of irresponsible debtors regarding which banks and/or an individual bank have large exposure. "Large exposure" is defined as any exposure that exceeds 5% of the CBA-defined amount of a bank's total capital. The draft proposes an amendment to define "large exposure" as any exposure in excess of AMD 20 million. This amendment is intended to break the link between the exposure and total capital, because the amount of total capital changes frequently.

2. The draft proposes to stop treating as bank secrecy the violations of laws or other legal acts by a bank and/or bank manager, and the publication by the CBA or offending bank of the CBA's decision about sanctions applied to such bank and/or manager for such violations. This amendment will increase the transparency of bank operations and contribute to the prevention of violations.

3. The draft allows bodies conducting criminal prosecution to obtain, via court procedure, banking secrecy information about a criminal suspect, which is aimed at making banking secrecy information accessible to bodies conducting criminal prosecution, via court procedure, at an earlier stage of proceedings (such as the early stage of investigation).

4. Another amendment will prohibit banks from informing their customers about the provision of banking secrecy information to bodies conducting criminal prosecution. This amendment is due to international legal documents (FATF).

In 2006, the CBA submitted to the Government of Armenia draft amendments to the Law on Joint-Stock Companies and to the Civil Code.

The aim of these proposals is to promote the development of the bond market. One of the proposed amendments is to remove from the Law on Joint-Stock Companies the provision whereby the sum of face values of a company's collateralized bonds may not exceed its statutory fund. The draft also addresses the illogical provision that currently limits the sum of face values of a joint-stock company's secured bonds, but does not limit that of unsecured bonds.

The draft also intends to address an inconsistency between different articles of the Law on Joint-Stock Companies. Under one article, a company may issue and allocate documentary and non-documentary bonds, while another article clearly provides that bonds must be in printed form.

In 2006, the CBA submitted to the Government of Armenia for review a draft Law on Pension Reform, which provides a general overview of the proposed pension system, as well as the social contributions made to and the pensions anticipated from each pillar.

Amendments to Banking System Regulatory Framework

In 2006, the CBA drafted and amended the following legal acts:

- In line with the amendments to the Law on Banks and Banking Activities, the CBA has amended a number of sub-legislative acts, including the following: Regulation 1 ("Registration and Licensing of Banks and Foreign Bank Branches; Registration of Bank Branches and Representative Offices; Qualification and Registration of Bank and Foreign Bank Branch Managers"); the Guide on Acquisition of Significant Participation or Occupying a Management Position in a Bank; and the

Regulation on the Minimum Requirements of Internal Audit in Banks. The CBA Board approved the Guide on Criteria for Establishing Significant Participation of Persons Having the Ability to Predetermine the Directions or Areas of Activities or Decisions of Management Bodies, or to Materially Influence the Decision-Making of a Legal Entity or of Legal Entities that Have Significant Direct Participation in the Statutory Fund of a Legal Entity; and the Guide on Criteria for Considering as Related Parties the Employees Related to a Legal Entity's Main Activities, or Employees Working under the Direct Supervision of the Executive Director, or Employees that Have Significant Influence over the Decision-Making by a Legal Entity's Management Bodies. These amendments are aimed at further regulating the acquisition of significant participation in a bank and the registration of a bank's board members, as well as establishing and strengthening independent internal audit.

- With a view to effectively implementing corporate governance standards in banks operating in Armenia and ensuring banks' transparency, the Regulation on Publication (Provision) by Banks of Information about Them. This Regulation defines the information that a bank must post on its homepage or publish through other mass media, including the information about the bank's management structure, shareholders, managers, product mix, and so on.
- In order to diversity the investment portfolio of banks operating in Armenia and to encourage investment in new investment tools, amendments were made to Regulation 2 ("Regulation of Bank Activities and Main Prudential Requirements on Bank Activities").
- Amendments were made to Regulation 3 ("Bank Reports, Their Presentation and Publication"). The following standard reports are no longer required: Form 12, "Report on Cash Flows of the Bank," and Form 23, "Report on Tangible and Intangible Assets Owned by, but Not Used by the Bank for Its Activities, and about Investments in Statutory Funds of Other Entities."
- Amendments were made to Regulation 9 ("Cash Transactions in Banks Operating in Armenia").
- The Manual for Auditing Banks has been revised on the basis of issues encountered in practice. The Manual has been supplemented with new sections on "Combating Money Laundering and Terrorism Financing," "Corporate Governance Quality Assessment," and "Risk Management System Evaluation."

Amendments to Insurance Market Regulatory Framework

In 2006, the CBA Board approved:

- The Regulation on Reinsurance Requirements (approved by CBA Board Decision 190-N dated May 10, 2006). This Regulation sets forth the criteria under which re-insurers are considered reliable.
- The Regulation on Transfer of Insurance Risks Assumed under Insurance Contracts (approved by CBA Board Decision 454-N dated July 18, 2006). The main purpose of this Regulation is to regulate the process of transferring insurance risks assumed under insurance contracts.
- The "Chart of Accounts for Insurance Companies" and the "Instructions on the Application of the Chart of Accounts for Insurance Companies" (approved by CBA Board Decision 544-N dated September 12, 2006), which are aimed at bringing the accounting of Armenian insurance companies into line with the International Accounting Standards.
- The Regulation on Obtaining Preliminary Consent for Licensing an Insurer, Registering a Branch, and Acquiring a Share or Stake in an Insurer's Statutory Fund; the Regulation on Competence Requirements and Qualification Checking for Managers, Actuaries, and Agents of an Insurer; and the Regulation on the Submission of a Three-Year Business Plan on the Activities of an Insurer (approved by CBA Board Decision 476-N dated August 1, 2006). Their purpose is to regulate the licensing and the competence testing of insurers.
- The List of Topics for the Qualification Checking for Nominated Managers and Agents of an Insurer (approved by CBA Board Decision 477-N dated August 1, 2006).

- Regulation 30 on the Main Prudential Requirements for Insurance Activities and the Procedure of Measuring and Calculating Them (approved by CBA Board Decision 663-N dated November 7, 2006), which is aimed at aligning the regulatory framework with the international best practice in order to have financially-sound insurance companies.
- Regulation 31 on Types of Insurance Reserves and the Procedure of Their Formation (approved by CBA Board Decision 664-N dated November 7, 2006), which is intended to bring insurance companies' reserves into line with IAIS standards and, by prescribing clear mechanisms for their calculation, to increase the reliability of insurance companies).
- Regulation 32 on Insurance Companies' Reports and the Terms and Procedure of Filing and Submitting Them (approved by CBA Board Decision 716-N dated December 5, 2006), which is aimed at ensuring that the information regularly submitted to the CBA by insurance companies is used to identify risks related to insurance activities, to analyze the insurance market, and to compile supervisory and analytical data on the activities of insurers.

Amendments to Securities Market Regulatory Framework

During 2006, amendments were made to the Securities Market Regulation Code with a view to improving and raising the effectiveness of securities market regulation and supervision. The amendments included the following:

- A legal basis has been created for inter-bank repurchase transactions involving bonds of enterprises that obtained high rating from the CBA, and the documentation of this process has been automated;
- The drafting of rules regulating custody activities involving corporate securities (including foreign corporate securities) has started, laying the groundwork for the formation of a two-level custody system;
- Work is underway to grant banks and credit organizations direct access to the securities market;
- The reporting procedure and forms of reports filed by specialized entities have been revised, addressing redundant information requirements in the forms, and introducing the principle of information presentation on the basis of securities' and customers' residency;
- The requirements on reporting issuers and the procedure by which issuers must present the prospectus and reports have been revised. To be qualified as a reporting issuer, net assets of AMD 500 million are now required. Prospectus and report electronic filing has been implemented, and the number of filed paper-based copies has been reduced.

Moreover, the CBA Governor has approved the Guide on the Procedures of Audits and Off-Site Supervision of Securities Market Specialized Entities, Self-Regulating Organizations, and Issuers.

Amendments to Regulatory Framework on Other Participants of the Financial Market

- Amendments have been made to Regulation 14 ("Regulation of Credit Organization Activities and Prudential Requirements"). Credit organizations operating in Armenia now have the right to issue bonds on their behalf and allocate them among legal entities.
- Effective January 1, 2006, the power to license and supervise pawnshops was transferred to the CBA. The CBA has drafted a Manual for Auditing Pawnshops Operating in Armenia.
- Amendments were made to Regulation 10 ("Licensing and Regulation of Foreign Exchange Trading Operations"), Regulation 12 ("Licensing of Foreign Exchange Dealer Trading Operations"), and Regulation 16 ("Licensing of Organizations Carrying out Money Transfers, Registration of Their Branches and Representative Offices; Regulation of Activities, and Qualification of Managers").

The Program Management Unit of the German-Armenian Fund (GAF)

Throughout the program, which started in 1998, the CBA has, in collaboration with KfW, carried out loan programs. The first such program was the "Promotion of Micro, Small and Medium-Sized Enterprises" Loan Program, in the frameworks of which the CBA received a loan of EUR 16.8 million (with a repayment term of 40 years, at 0.75% per annum).

Since 1999, the program partner banks (ACBA-Credit Agricole Bank, Anelik Bank, Armeconombank, Converse Bank, and Inecobank) have received a total of AMD 11.7 billion from the Central Bank.

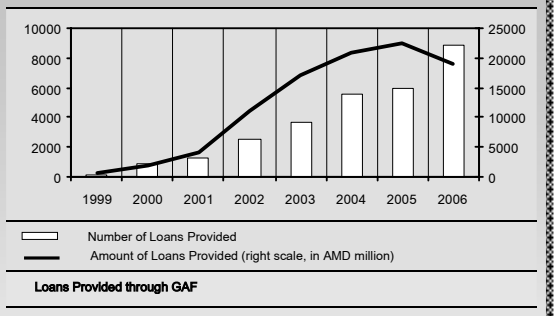
During 2006, the partner banks extended 8,810 loans in the frameworks of this program for a total amount of AMD 19.1 billion. Throughout the program, a total of 28,696 loans have been extended for a total amount of AMD 97.7 billion.

The partner banks' outstanding loan portfolio as of December 31, 2006 amounted to AMD 16.4 billion drams in 8,603 loans. The efficiency of the new lending technology implemented under this program has motivated banks to extend AMD 4.7 billion in MSME loans out of their own resources, in addition to the resources made available to them by the CBA. Program efficiency is also confirmed by the fact that the EBRD also made loans through ACBA-Credit Agricole using the same lending technology during 2006 (a total of 1,823 loans in the amount of AMD 2.8 billion).

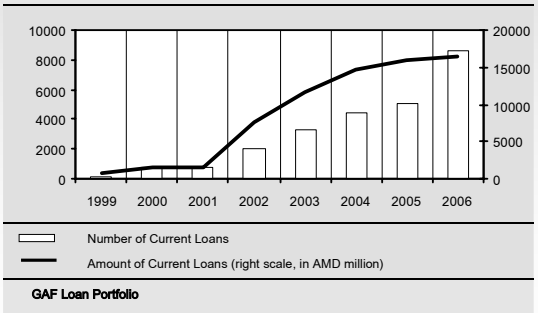
The "Promotion of Renewable Energy" loan agreement signed between the CBA and KFW in 2004 contemplates the provision of a EUR 6.0 million loan (with a repayment term of 40 years, at 0.75% per annum) and a EUR 1.5 million grant to the project consultants. The primary aim of this program is to make loans, through competitively-selected partner banks, for refurbishing existing SHPPs and building new SHPPs.

In 2006, a banking consultant (Savings Banks Foundation for International Cooperation) and a technical consultant (Lahmeyer International) were selected for the program through an international tender.

Loans under this program will be provided in the first half of 2007, after the partner banks and SHPPs eligible for lending are selected by means of a tender.



Loans Provided through GAF



GAF Loan Portfolio

Under the "Development of a Sustainable Housing Finance Market" agreement signed on March 23, 2006, KfW will provide a EUR 6.0 million loan (with a repayment term of 40 years, at 0.75% per annum) to the CBA and a EUR 1.5 million grant for consulting services and training programs. The goal of this program is to refinance MQS-compliant mortgage loans provided by the partner financial institutions (PFIs).

As a result of the tender, the company "Bankakademie International" was selected as the program consultant. In 2006, a joint tender carried out by the CBA and the program consultant led to the selection of eight PFIs (Armeconombank, Inecobank, Ararat Bank, Cascade Bank, Areximbank, ITB International Trade Bank, and the "First Mortgage Company" and "Washington Capital" Universal Credit Organizations). During 2006, 52 loan officers and senior and middle-level managers of PFIs have been trained in the "Finance and Banking College" Foundation.

Program refinancing will start in Q1 2007. It is planned that, subject to the successful placement of EUR 6.0 million, KfW will make another EUR 6.0 million available, and the program will total EUR 12.0 million.

3.4. COMBATING MONEY LAUNDERING AND TERRORISM FINANCING

In 2006, the CBA carried on its activities in the frameworks of the Republic of Armenia Law on Combating Money Laundering and Terrorism Financing, through the Financial Monitoring Center established as a structural unit of the CBA in 2005. The Financial Monitoring Center operates in accordance with its Three-Year Strategic Plan. During 2006, the Financial Monitoring Center was active in the following areas.

Collection, Analysis, and Dissemination of Data

During March and April, 2006, the CBA Board approved the procedure, forms, and deadlines of information submission by reporting entities to the Financial Monitoring Center (FMC). On this basis, all financial institutions operating in Armenia, as well as non-financial institutions and entities prescribed by law started to provide the required notification and suspicious transaction reports to the FMC. In 2006, about 55,000 cash transaction reports and 26 suspicious transaction reports were submitted to the FMC.

To store and analyze these reports, the FMC database was created, which enables comprehensive operational, tactical, and strategic financial analysis.

As a result of analyzing the information from reporting entities and other sources, the FMC, based on CBA Board decisions, has sent four reports of suspicious transactions to the Office of the Prosecutor General of the Republic of Armenia.

Reforms of Legislation and Other Legal Acts of the Republic of Armenia on Combating Money Laundering and Terrorism Financing

During 2006, the CBA also worked to improve the Armenian legislation on combating money laundering and terrorism financing.

Based on recommendations of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures of the Council of Europe (MONEYVAL), the CBA, jointly with the Ministry of Justice and the Office of the Prosecutor General, developed a package of amendments to the Law of the Republic of Armenia on Combating Money Laundering and Terrorism Financing, the Criminal Code of the Republic of Armenia and the Criminal Procedure Code of the Republic of Armenia. Under the amendments, the concept of "money laundering" has been brought into line with the international standards; procedures related to the immediate arrest and mandatory confiscation of assets in cases of money laundering and terrorism financing, the list of money laundering predicate crimes, and other procedures have been defined.

On numerous occasions, this package was discussed, and finally agreed upon with competent state authorities and MONEYVAL's experts. The Armenian National Assembly adopted the package in November 2006.

At the CBA's initiative, IMF experts visited Armenia in 2006 with the aim of reviewing the Republic of Armenia Law on Combating Money Laundering and Terrorism Financing and making recommendations to bring it into conformity with the international standards. A task force comprising the IMF experts and staff of different public agencies of Armenia developed a package of complex structural amendments to the law, which will be submitted to the National Assembly in 2007.

Together with the IMF experts, a Regulation describing the procedures to be applied by the reporting entities in the area of combating money laundering and terrorism financing was drafted, which the CBA plans to adopt in 2007.

International Cooperation

In the area of combating money laundering and terrorism financing, the CBA cooperated with international organizations and foreign agencies in the following directions in 2006:

- The CBA took part in the activities of the Council of Europe's MONEYVAL task force. With CBA involvement, progress and conformity reports presented after the assessment by MONEYVAL of the situation in Armenia were developed and submitted in MONEYVAL's plenary sessions. The FMC Head led the Armenian delegation participating in these sessions.

- In accordance with the Strategic Plan, the CBA worked actively towards FMC's accession to Egmont Group. This matter was discussed in working-level meetings; final endorsement is expected in 2007. On the basis of Egmont Group's procedures, for this matter the FMC is sponsored by the Russian Federal Financial Monitoring Service and the Financial Monitoring Committee of the Ukraine.
- The CBA also collaborated with the UN Office on Drugs and Crime (UNODC), and jointly carried out a training needs assessment project.
- At the CBA's request, the IMF and the US Treasury Department provided technical assistance projects designed to build the FMC's institutional and operational capacity.
- The FMC of the Central Bank started to exchange information with foreign financial intelligence authorities. During 2006, four information sharing requests were received, and nine were sent.

Domestic Cooperation

The CBA enjoyed close cooperation not only at the inter-agency level, but also bilaterally.

The inter-agency cooperation evolved in the frameworks of the Intergovernmental Committee against Fraud and Forgery in Plastic Cards and Other Payment Instruments and on Fight Against Money Laundering and Terrorism Financing, which was set up back in 2002 by an instruction of the President of Armenia. The Intergovernmental Committee, chaired by the CBA Governor, convened eight sessions in 2006, during which it discussed policies against money laundering and terrorism financing, inter-agency cooperation, and other urgent issues. The Intergovernmental Committee submitted an annual progress report to the President of Armenia.

Bilateral cooperation agreements were signed with the Office of the Prosecutor General, the Police of Armenia, the National Security Service, the State Tax Service, and the State Customs Committee. These agreements lay down procedures of information sharing and cooperation on statistics, training, and other areas.

Training and Development

In 2006, upon submission by the CBA, the Intergovernmental Committee approved the National Training Program on Combating Money Laundering and Terrorism Financing and a timetable for its implementation. According to the timetable, training programs will be organized in all the relevant agencies after the training needs assessment is finalized. To this end, a pilot project for training needs assessment in Armenia was started jointly with the UNODC, which intends to cover the CBA, the Prosecution Office, and the Police. International experts have organized several seminars in Armenia to present the international best practice in this field. The project is scheduled to complete in 2007.

The CBA has organized a number of meetings and seminars for financial institutions, where it discussed the laws and regulations against money laundering and terrorism financing, typology, and other matters.

Furthermore, staff of various units of the CBA, including the FMC, participated in seminars, conferences, and other training programs organized in Armenia and abroad on the prevention of money laundering and terrorism financing.

4. MANAGEMENT

4.1. INTERNATIONAL RESERVES: LEVEL AND MANAGEMENT

During 2006, international reserves increased by 40% over 2005. In absolute terms, the growth of reserves reached about $310 million. As a result, at the end of the year the level of international reserves increased to US $1,071 million.

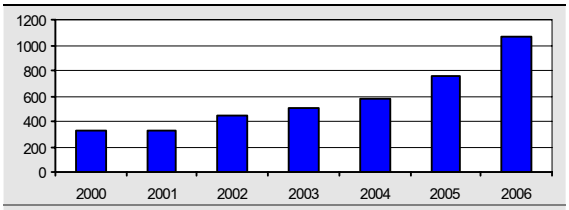


Chart 4.1
International Reserves of Armenia (in USD million)

In 2006, the international reserves generated income of US $37.6 million (compared to US $23 million in 2005). About 60% of the income increase was due to the larger amount of international reserves, as well as higher main interest rates in the USA, the UK, and the Euro zone.[1]

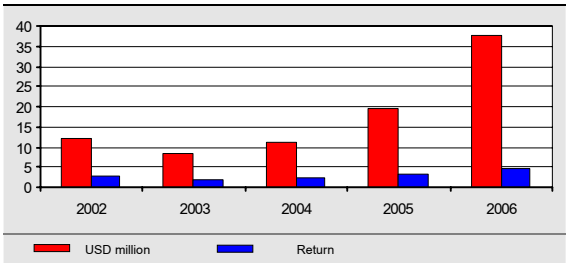


Chart 4.2
International Reserve Management Revenue

During the year , the bulk of reserves were invested in deposits, which neutralized the price volatility of the securities' portfolio, therefore the rising global interest rates environment had a positive impact on the performance of international reserves. As a result, the annual return averaged 4.57% in 2006, compared to 3.34% in 2005.

Managing the international reserves of the Republic of Armenia, the CBA remained committed to its policy of maximizing return within low risk on investments and high liquidity. In 2006, the international reserves were invested mainly in notes and bonds issued by foreign governments and high credit quality bonds guaranteed by foreign governments, as well as in foreign currencies denominated bank deposits.

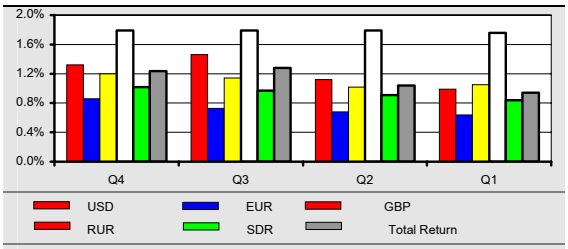


Chart 4.3
Republic of Armenia Foreign Reserve Management Performance in 2006

To maximize return, the CBA created a Russian ruble portfolio by converting US dollars at the beginning of the year. The whole ruble portfolio was invested in bank deposits.

USD-, GBP-, and RUR-denominated investments were the best performers of the year.

Through 2006, the US dollar depreciated against the main currencies—by 12.04% against the GBP, 10.23% against the Euro, and 8.41% against the RUR, resulting in almost the same increase in the return in US dollar terms from investments in such currencies.

[1] *In 2006, the US Federal Reserve System three times increased Fed. Funds interest rate by 25 basis points each time, reaching 5.25%. Bank of England raised the repo rate two times, by 25 basis points each time, reaching 5%. The European Central Bank increased refinancing rate five times, by 25 basis points each time, reaching 3.50% level at the yearend.*

4.2. HUMAN RESOURCE POLICIES

Human Resource Policies

During 2006, the personnel management policy of the Central Bank of Armenia was aimed at promoting the core activities of the CBA by means of management schemes and catering to the social and professional development needs of staff.

A flexible scheme of remuneration and career advancement based on outputs and experience is in place, which is based on an arrangement for competence and performance appraisal.

A committee has been created to monitor staff compliance with the Code of Ethics.

The CBA's personnel management legal acts have been harmonized with the requirements of the new Labor Code.

Similar to the past, vacancies in the CBA have been filled mostly by competition. Principles for a prequalification stage have been elaborated in order to improve the evaluation of candidates. The selection of young specialists has given preference to candidates that have attended the "Central Bank of Armenia: Introductory Course" organized by the "Finance and Banking College" Foundation.

The CBA has sustained a policy of recruiting young specialists, making the best use of their potential, and improving their competence. During 2006, 20 young experts worked in various units of the CBA under term contracts, 11 of whom joined the CBA.

In order to promote outstanding students of the Economics Department at Yerevan State University and of the Yerevan State Institute of Economics, the CBA awarded the Isahak Isahakyan stipend to the top 7 students.

During 2006, 36 students of higher academic institutions of the country undertook their academic and pre-diploma internship in the CBA.

The average number of CBA staff in 2006 was 587 (316 women and 271 men). The average age of CBA staff is 38.9.

Staff Training

During 2006, the CBA developed and carried out programs aimed at improving staff competence and professional skills.

210 specialists of the CBA attended training courses conducted by training centers of foreign countries' central banks and other banks. In this respect, the CBA enjoyed close cooperation with the IMF, the CCBS (Bank of England), the Bank of France, the German Bundesbank, Bank of the Netherlands and the Central Bank of Russian Federation, the Bank for International Settlements, the National Bank of Switzerland, the Czech National Bank, the Financial Stability Institute, and others.

The CBA focused in particular on expanding its bilateral cooperation with foreign banks, which resulted in the development and implementation of productive training programs. Bilateral contacts were established with the National Bank of Poland, which led to the organization of tailor-made training courses. Besides, special programs were organized jointly with the Bank of Netherlands and Bank of France, the German Bundesbank, the Czech National Bank, and the Central Bank of the Russian Federation.

During 2006, 23 tailor-made programs were organized, of which 16—in foreign banks, and seven—in Armenia through visiting foreign experts. 145 employees of the CBA were trained in such programs during 2006.

As in 2005, the Bank of the Netherlands remains the leader in organizing tailor-made courses.

Regional development of the banking system has greatly benefited from international seminars held in Yerevan, such as "Basics of Interest Rate Risk Management," held at the initiative of the US Federal Reserve Bank, and attended by representatives of more than 10 foreign banks.

In January and September 2006, the CBA took part in the regular meetings of the Coordinator Board in the frameworks of the Economic Cooperation for Eurasia, which addressed ongoing matters of cooperation and current and future training programs. As a result, 31 the CBA staff members were able to attend training programs on various banking topics conducted for central banks of the CIS countries during 2006.

The CBA, too, organized seminars and meetings, during which CBA experts shared their knowledge and experience with employees of central banks of the CIS countries.

The CBA initiated and carried out in-country seminars and workshops on urgent topics with a view to enhancing the performance of the Armenian banking industry. They were attended by 88 staff members of the CBA.

Over 20 seminars were organized with a view to share experience. Another 28 were held on the CBA's regulatory framework. These seminars were attended by a total of 575 staff of the CBA.

The Introductory Course for newly-recruited staff of the CBA was organized twice during the year.

22 CBA senior officials took part in a special course on Management Skills.

International Cooperation of the CBA

In 2006, the Central Bank of Armenia sustained its multilateral and bilateral cooperation with international and foreign financial organizations. In particular, within the framework of IMF/WB technical assistance, the CBA hosted various IMF missions and advisors on monetary policy, banking supervision, and financial operations.

CBA staff attended international conferences, fora, round tables, workshops, exhibitions, and other meetings on banking and finance, where they made presentations and reports. It is worth mentioning the session of the Coordinator Board of Central Banks of Countries in the Economic Cooperation for Eurasia (Tula, Russia), the session of the Inter-State Currency Committee of CIS Member States (Moscow, Russia), the Eurasia and South-East Europe Corporate Governance Round Table (Istanbul, Turkey), the Second Round of EU-Armenia Talks for the Development of Armenia's Country Action Plan under the European Neighborhood Policy (Brussels, Belgium), the Study Tour on the experience of the Bank of Estonia in Unified Supervision (Tallinn, Estonia), the Annual Conference of Banking Supervisors from Central and Eastern Europe (Podgorice, Serbia and Montenegro), the International Forum on Micro-Finance Legislation and Regulation (Warsaw, Poland), the Workshop on Securities Market Development (Washington, DC), the International Conference on "Armenia: Challenges to Sustainable Development" organized by the University of California (Los Angeles, USA), the session of the Regional Group of the Basle Committee on Banking Supervision of the States of Transcaucasia, Central Asia and Russian Federation (Kazan, Russia), the Annual Conference of the EBRD Board of Governors and the Business Forum (London, UK), the IMF and World Bank Annual Meeting of Boards of Governors (Singapore, Singapore), the Annual Meeting of Heads of Internal Audit Units of Central Banks of the CIS and Baltic States (Saint Petersburg, Russia), the international conference on "The International Monetary Fund and South Caucasus Countries in the 21st Century" (Tbilisi, Georgia), meetings of the Board of Directors of the Black Sea Trade and Development Bank (Thessalonica, Greece), the seminar on "Insurance Supervision Development in Non-EU States" (London, UK), the meeting of the Supervisory Board of the German KfW (Frankfurt, Germany), the 14th International Conference of Banking Supervisors (Merida, Mexico), the SWIFT Chairpersons Annual Meeting (Sydney, Australia), and the Annual Meeting of Coordinators of Technical Cooperation and Training from G-10 and CIS Central Banks, organized by the Bank for International Settlements (Basle, Switzerland).

In 2006, the CBA actively cooperated with EU structures and took part in conferences held by the Council of Europe on issues of combating money laundering and terrorism financing (MONEYVAL, Strasbourg, France), as well as workshops and conferences organized by foreign commercial banks.

For the purpose of strengthening business ties and conducting negotiations, delegations of "Moody's Investor Services" and "Fitch Ratings" rating agencies, the Federal Financial Monitoring Service of the Russian Federation, the OMX Group, Bloomberg UK, the Dutch ABN-AMRO Bank and ING Bank, the National Bank of Bulgaria, the National Bank of Poland, and the Black Sea Trade and Development Bank (led by the President of the Bank Hayrettin Kaplan) visited the CBA.

On June 17 and 18, 2006, the IMF and World Bank Netherlands Constituency Annual Meeting

took place in Yerevan, with the attendance of the IMF Managing Director Rodrigo de Rato.

On June 26 and 27, 2006, a workshop on "Building the Awareness of Armenian State Bodies on Money Laundering Matters" was held in Yerevan under the auspices of the CBA.

The CBA signed agreements and memoranda of understanding with other central banks in the frameworks of inter-governmental commissions

On April 13, 2006, in the Cyprus capital Nicosia, the CBA and the Central Bank of Cyprus signed a Memorandum of Understanding on cooperation in matters of banking supervision.

During 2006, preparatory works continued for signing a banking cooperation agreement between the CBA and the People's Bank of China and a banking supervision cooperation agreement between the CBA and the Central Bank of the Islamic Republic of Iran.

From November 1 to 4, 2006, the 33rd session of the Inter-State Bank Board was held in Yerevan, which was attended by representatives of all the member states (since April 2006, CBA Governor Tigran Sargsyan has chaired the Inter-State Bank Board).

Central Bank of the Republic of Armenia

Income Statement for the year ended 31 December 2006

AMD '000

	Notes	2006	2005
Interest income	4	13,640,989	9,939,553
Interest expense	5	(2,501,883)	(2,829,109)
Net interest income		**11,139,106**	**7,110,444**
Fee and commission income		22,127	5,936
Fee and commission expense		(143,660)	(117,750)
Net fee and commission expense		**(121,533)**	**(111,814)**
Net foreign exchange loss	6	(37,927,006)	(16,470,978)
Net realized loss on available-for-sale assets		(377,797)	-
Net gain on financial instruments at fair value through profit or loss	7	2,699,004	725,219
Other income	8	700,846	406,420
Operating loss		**(23,887,380)**	**(8,340,709)**
Costs of production of banknotes and coins		(506,228)	(1,588,825)
Impairment loss reversal		-	180,622
General administrative expenses	9	(4,577,173)	(3,825,838)
Operating expenses		**(5,083,401)**	**(5,234,041)**
Loss for the year		**(28,970,781)**	**(13,574,750)**

The financial statements as set out on pages 101 to 131 were approved by Board on 23 March 2007 and were signed on its behalf by:

Tigran SARGSYAN
Chairman of the Central Bank of Armenia



Haykanush HAKOBYAN
Chief Accountant of the Central Bank of Armenia



The income statement is to be read in conjunction with the notes to, and forming part of, the financial statements.

Central Bank of the Republic of Armenia

Balance Sheet as at 31 December 2006

AMD '000

	Notes	2006	2005
ASSETS			
Foreign currency assets			
Cash		491,363	269,956
Placements with banks and other financial institutions	10	283,201,115	155,699,229
Financial instruments at fair value through profit or loss	11	79,440,951	47,602,452
Available-for-sale assets	12	21,435,036	1,301
Held to maturity investments		-	135,171,386
Placements with the IMF	13	5,117,455	4,612,308
Other assets		166,248	422,267
		389,852,168	**343,778,899**
Domestic currency assets			
Loans and reverse repurchase agreements	14	15,290,302	11,949,866
Available-for-sale assets	12	19,171,500	8,077,077
Property and equipment	15	7,061,116	6,088,280
Intangible assets	16	70,484	77,914
Other assets	17	566,507	326,865
		42,159,909	**26,520,002**
Total Assets		**432,012,077**	**370,298,901**
LIABILITIES AND ACCUMULATED DEFICIT			
Foreign currency liabilities			
Deposits and balances from financial and other institutions	18	25,810,253	24,267,780
Due to the Government of the Republic of Armenia	19	59,694,152	118,905,185
Financial instruments at fair value through profit or loss	11	-	267,539
Other borrowed funds	20	8,043,093	8,928,231
Other liabilities		29,897	104,115
		93,577,395	**152,472,850**

The balance sheet is to be read in conjunction with the notes to, and forming part of, the financial statements.

Domestic currency liabilities			
Notes and coins in circulation		226,841,135	155,274,723
Deposits and balances from financial and other institutions	18	39,301,849	31,003,713
Due to the Government of the Republic of Armenia		61,532,562	21,993,849
Debt securities issued		38,987,836	21,482,856
Other liabilities	21	946,661	705,147
		367,610,043	**230,460,288**
Total Liabilities		**461,187,438**	**382,933,138**
Accumulated deficit			
Issued capital	22	100,000	100,000
General reserve	22	9,870,486	9,870,486
Additional paid in capital	12	12,734,237	-
Revaluation reserve for available-for-sale assets		(249,275)	55,305
Accumulated losses		(51,630,809)	(22,660,028)
Total Accumulated deficit		**(29,175,361)**	**(12,634,237)**
TOTAL LIABILITIES AND ACCUMULATED DEFICIT		**432,012,077**	**370,298,901**

The balance sheet is to be read in conjunction with the notes to, and forming part of, the financial statements.

Central Bank of the Republic of Armenia

Statement of Cash Flows for the year ended 31 December 2006

AMD '000

	Notes	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the period		(28,970,781)	(13,574,750)
Adjustments for:			
Impairment loss reversal		-	(180,622)
Depreciation and amortization		739,984	760,402
		(28,230,797)	**(12,994,970)**
(Increase)/decrease in operating assets			
Placements with banks and other financial institutions		(130,743,760)	18,094,072
Financial instruments at fair value through profit or loss		(32,106,038)	(22,660,876)
Available-for-sale assets		115,072,884	241,433
Loans and reverse repurchase agreements		(3,340,437)	1,070,135
Other assets		16,377	1,130,841
Increase/(decrease) in operating liabilities			
Notes and coins in circulation		71,566,411	49,741,054
Deposits and balances from financial and other institutions		9,711,129	26,056,113
Due to the Government of the Republic of Armenia		(19,672,319)	(20,987,851)
Debt securities issued		17,504,980	21,482,856
Other borrowed funds		(885,138)	(2,159,584)
Other liabilities		296,779	(21,531)
Cash flows from operations		**(809,929)**	**58,991,987**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of held to maturity investments		-	(61,080,104)
Purchase of property, equipment and intangible assets		(1,715,914)	(1,308,888)
Sale of property and equipment		10,524	3,637
Cash flows from investing activities		**(1,705,390)**	**(62,385,355)**
Net increase/(decrease) in cash and cash equivalents		**(2,515,319)**	**(3,393,368)**
Cash and cash equivalents at the beginning of the year		33,551,919	36,945,287
Cash and cash equivalents at the end of the year	27	**31,036,600**	**33,551,919**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

Central Bank of the Republic of Armenia

Statement of Changes in Accumulated Deficit for the year ended 31 December 2006

AMD '000

	Issued capital	General reserve	Additional paid in capital	Revaluation reserve for available-for-sale assets	Accumulated losses	Total equity
Balance at 1 January 2005	**100,000**	**9,870,486**	**-**	**179,203**	**(9,085,278)**	**1,064,411**
Net loss for the period	-	-	-	-	(13,574,750)	(13,574,750)
Net unrealized losses on available-for-sale financial assets	-	-	-	(123,898)	-	(123,898)
Balance at 31 December 2005	**100,000**	**9,870,486**	**-**	**55,305**	**(22,660,028)**	**(12,634,237)**
Net loss for the period	-	-	-	-	(28,970,781)	(28,970,781)
Net unrealized losses on available-for-sale financial assets	-	-	-	(304,580)	-	(304,580)
The Government of the Republic of Armenia contribution into equity (Note 22)	-	-	12,734,237	-	-	12,734,237
Balance at 31 December 2006	**100,000**	**9,870,486**	**12,734,237**	**(249,275)**	**(51,630,809)**	**(29,175,361)**

The statement of changes in accumulated deficit is to be read in conjunction with the notes to, and forming part of, the financial statements.

Central Bank of the Republic of Armenia

Notes to, and forming part of, the financial statements for the year ended 31 December 2006

1. Background

Principal activities

The Central Bank of the Republic of Armenia (the "Bank") is a legal entity established by the act of the National Assembly of the Republic of Armenia.

The registered address of the Bank's head office is 6 Vazgen Sargsyan Street, Yerevan 0010, Republic of Armenia. The average number of persons employed by the Bank during the year was 612 (2005: 532).

The primary objective of the Bank is price stability in the Republic of Armenia. It is achieved through formulation and implementation of monetary policy. In addition to its primary objective, the Bank is also responsible for:

- ensuring the stability, liquidity, solvency and other necessary conditions for sound operation of the financial banking system in the Republic of Armenia; and,
- creation and development of an effective payment and settlement system.

The Bank also:

- issues the national currency of the Republic of Armenia and regulates its circulation;
- organizes and regulates anti money laundering and terrorism financing activities;
- is the fiscal agent and financial consultant of the Government of the Republic of Armenia;
- licenses commercial banks and, if so provided by law, other entities, and supervises and regulates their activities;
- is the lender of last resort to commercial banks; and,
- possesses, uses and administers international reserves of the Republic of Armenia.

2. Basis of preparation

Statement of compliance

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale assets are stated at fair value.

The national currency of the Republic of Armenia is the Armenian Dram ("AMD"), which is the Company's functional currency and the currency in which these financial statements are presented. All financial information presented in AMD has been rounded to the nearest thousand.

Use of estimates and judgments

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

3. Significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied except for the changes in accounting policies described at the end of Note 3.

Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement.

Cash and cash equivalents

The Bank considers cash, nostro accounts with banks and SDR holdings in the IMF to be cash and cash equivalents.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative (except for a derivative that is a designated and effective hedging instrument); or,
- upon initial recognition, designated by the entity as at fair through the profit or loss.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank intends to sell immediately or in the near term, those that the Bank upon initial recognition designates as at fair value through profit or loss, or those which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank designates as available-for-sale; or
- those that meet the definition of loans and receivables.

Available-for-sale assets are those financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial instruments at fair value through profit or loss.

Recognition

Financial assets and liabilities are recognised in the balance sheet when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method;
- held to maturity investments which are measured at amortized cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is

calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the income statement;
- a gain or loss on an available-for-sale financial asset is recognised directly in equity through the statement of changes in shareholders' equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Interest in relation to an available-for-sale financial asset is recognised as earned in the income statement calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the income statement when the financial asset or liability is derecognised or impaired, and through the amortization process.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the balance sheet and the counterparty liability included in amounts due to other banks or to customers, as appropriate. The difference between the sale and repurchase price represents interest expense and is recognised in the income statement over the terms of the repo agreement.

Securities purchased under agreements to resell ("reverse repo") are recorded as due from banks or customers as appropriate. The differences between the sale and repurchase prices are treated as interest and accrued over the life of the reverse repo agreement using the effective interest method.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Notes and coins in circulation

Notes and coins in circulation issued by the Bank are presented in the balance sheet as a liability in favor of the holder, at face value. Notes printing and coins production costs are treated as expense in the income statement in the year of occurrence.

Numismatic coins

Numismatic coins are measured at the lower of cost and net realisable value. The cost of coins is based on the first-in first-out principle, and includes expenditure incurred in acquiring the numismatic coins and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Upon sale the difference between estimated net proceeds and the carrying value is recognised as a gain or loss in the current year income statement.

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Leased assets

Leases under which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment

acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	10 to 20 years
Networks, computer and other equipment	5 years
Vehicles	5 years
Others	5 years

Intangible assets

Intangible assets, which are acquired by the Bank, are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Computer software	3 to 5 years

Impairment

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of placements with banks and other financial institutions, loans, other receivables and unquoted available-for-sale debt securities (“loans and receivables”). The Bank reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has an impact on the estimated future cash flows of the loan that can be reliably estimated.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics

and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in the income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not reliably measured. If there is objective evidence that such investments are impaired the impairment loss is calculated as the different between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in the income statement and can not be reversed.

Non financial assets

Other non financial assets are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in the income statement and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss revered is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Taxation

The Bank is not subject to any taxes, with the exception of taxes, duties or customs fees collected at the border of the Republic of Armenia for imported goods.

Interest income and expenses and fee and commission income

Interest income and expense are recognised in the income statement as they accrue, taking into account the effective interest rate of the asset/liability or an applicable floating rate. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income on financial instruments at fair value through profit or loss is included in net gain on financial instruments at fair value through profit or loss.

Loan organization fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to the interest income over the estimated live of the financial instrument using the effective interest rate method.

Other fee and commission income is recognised when the corresponding service is provided.

Comparative information

Comparative information has been amended to conform to changes in presentation in the current year as follows:

Cash flow statement

Included in cash and cash equivalents in the statement of cash flows in the prior year financial statements are deposits placed in banks and investment securities with remaining maturity as at 31

December 2005 of up to 90 days. In the current year these assets have been excluded from the cash and cash equivalents to reflect the change in accounting policy in respect of cash and cash equivalents. Accordingly, these assets, amounting AMD 151,027,144 thousand as at 31 December 2005 have been reclassified for consistency in the comparative information in the statement of cash flows from cash and cash equivalents to:

- placements with banks and financial institutions, in the amount of AMD 98,477,370 thousand;
- purchase of held to maturity investments, in the amount of AMD 52,549,774 thousand.

Income statement

The gain from financial instruments at fair value through profit or loss for assets under trust management of AMD 1,076,365 thousand was included in interest income in the prior year. The loss from financial instruments at fair value through profit or loss for assets under trust management of AMD 282,071 thousand was included in fee and commission expense in the prior year. In the current year the net gain has been presented as a net gain on financial instruments at fair value through profit or loss to better reflect the substance of the transactions. Accordingly, comparative information for 2005 in the income statement has been reclassified for consistency.

Balance sheet

Financial instruments under trust management of AMD 47,602,452 thousand were presented as due from foreign banks and credit institutions in the balance sheet in the prior year financial statements. In addition these assets had been offset with derivative instruments with a negative fair value of AMD 267,539 thousand. In the current year these financial instruments were not offset and presented separately as financial assets and liabilities at fair value through profit or loss to better reflect the substance of the transactions. Accordingly, comparative information in the balance sheet has been reclassified and the negative derivative instruments have been presented as financial liabilities at fair value through profit or loss.

In the prior year financial statements the Quota (subscription) of the Republic of Armenia in the International Monetary Fund (the "IMF") in the amount of AMD 59,196,581 thousand was included as an asset as special drawing rights in IMF. In addition promissory note payable by the Republic of Armenia and other payables related to the subscription of the Republic of Armenia with the IMF in total in the same amount as the Quota had been included in liabilities as amounts owed to the IMF. In the current year the above mentioned assets and liabilities were removed from the assets and liabilities as they belong to the Republic of Armenia. For consistency these accounts have been eliminated from the 2005 comparatives.

In the prior year financial statements, the PRGF (poverty reduction and growth facility) loan received by the Republic of Armenia from the IMF and placed with the Bank has been presented in the balance

sheet as borrowings from the IMF in the amount of AMD 79,411,892 thousand. In the current year financial statements the loan has been included in due to the Government of the Republic of Armenia as this loan is payable by the Bank to the Government of the Republic of Armenia. Accordingly, comparative information in the balance sheet has been reclassified for consistency.

Changes in accounting policies

As mentioned above the accounting policies have been consistently applied by the Bank, except for the following changes in accounting policies.

As at 1 January 2006, the Bank adopted the amendment to International Financial Reporting Standard IAS 39 "Financial Instruments: Recognition and Measurement" – "The Fair Value Option". Upon application of this amendment, the Bank may designate a financial instrument as at fair value through profit or loss only if certain conditions are met. Financial instruments which were designated as at fair value through profit or loss as at 31 December 2005 complied with the requirements of the amendment and were retained within this category upon its application.

During 2006 the Bank changed its accounting policy so that cash and cash equivalents excludes deposits placed in banks and investment securities with remaining maturity of up to 90 days. Management believes this approach better reflects the Bank's cash management policy.

New Standards and Interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2006, and have not been applied in preparing these consolidated financial statements. The Bank plans to adopt these pronouncements when they become effective.

- IFRS 7 *Financial Instruments*: Disclosures, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Bank's financial instruments.
- Amendment to IAS 1 *Presentation of Financial Statements* – Capital Disclosures, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Bank's capital.
- IFRIC 9 *Reassessment of Embedded Derivatives* requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9 becomes mandatory for the Bank's 2007 financial statements.

4. Interest income

AMD '000

	2006	2005
Interest income from foreign currency assets		
Term deposits	8,118,941	4,626,547
Available-for-sale assets and held to maturity investments	2,547,436	3,116,911
Nostro accounts	1,131,074	701,145
Placements with the IMF	235,674	103,883
	12,033,125	**8,548,486**
Interest income from domestic currency assets		
Loans and reverse repurchase agreements	924,619	919,860
Available-for-sale assets	665,557	459,394
Other	17,688	11,813
	1, 607,864	**1,391,067**
	13,640,989	**9,939,553**

5. Interest expense

AMD '000

	2006	2005
Interest expense on foreign currency liabilities		
Payable to the Government of the Republic of Armenia	345,127	436,595
Other borrowings	77,234	66,969
Other liabilities	69,624	20,331
	491,985	**523,895**
Interest expense on domestic currency liabilities		
Debt securities issued	1,451,430	279,940
Due to The Government of the Republic of Armenia	445,064	1,811,279
Deposits and balances from financial and other institutions	43,642	140,845
Other liabilities	69,762	73,150
	2,009,898	**2,305,214**
	2,501,883	**2,829,109**

6. Net foreign exchange loss

AMD '000

	2006	2005
Loss from revaluation of monetary assets and liabilities	36,013,048	16,692,821
Net (gain)/loss on spot transactions	1,913,958	(221,843)
	37,927,006	**16,470,978**

Included in the loss on spot transactions is loss of AMD 2,688,214 thousand which relate to a transaction with the Government of the Republic of Armenia

7. Net gain on financial instruments at fair value through profit or loss

AMD '000

	2006	2005
Net gain on assets under trust management excluding foreign exchange revaluation	2,147,505	794,294
Net gain on foreign securities under own management excluding foreign exchange revaluation	651,880	-
Trust management fees	(100,381)	(69,075)
	2,699,004	**725,219**

Included in the loss from revaluation of monetary assets and liabilities is a foreign exchange revaluation loss on financial instruments at fair value through profit or loss of AMD 13,952,537 thousand (2005: 1,963,005).

8. Other income

AMD '000

	2006	2005
Repayment of previously written off debtors	542,551	304,504
Net income from sales of numismatic coins	62,079	26,351
Other income	96,216	75,565
	700,846	**406,420**

9. General administrative expenses

AMD '000

	2006	2005
Employee compensation, staff training and related payments	2,606,728	2,032,750
Security and maintenance of reserves	442,008	271,931
Depreciation and amortization	739,984	760,402
Repairs and maintenance	239,378	282,431
Professional services	99,666	59,932
Other	449,409	418,392
	4,577,173	**3,825,838**

10. Placements with banks and other financial institutions

AMD '000

	2006	2005
Term deposits	255,364,239	125,169,783
Nostro accounts	25,470,880	28,700,242
Accrued interest on deposits and nostro accounts	2,083,644	520,696
Cash included in assets under trust management	282,352	1,308,508
	283,201,115	**155,699,229**

Concentration of placements with banks and other financial institutions

As at 31 December 2006 and 2005 the Bank had 7 and 4 banks and financial institutions, respectively, whose balances exceeded 10% of total placements with banks and other financial institutions. The gross value of these balances as of 31 December 2006 and 2005 was AMD 229,598,575 thousand and AMD 104,195,383 thousand, respectively.

11. Financial instruments at fair value through profit or loss

AMD '000

	2006	2005
Assets		
Debt and other fixed-income instruments - Quoted		
Foreign government securities under own management	38,566,365	-
Securities under trust management	40,227,658	47,602,452
	78,794,023	**47,602,452**
Derivative financial instruments – Quoted		
Foreign exchange forward contracts	646,928	-
	79,440,951	**47,602,452**

Debt and other fixed-income instruments were, upon initial recognition, designated by the Bank as financial assets at fair value through profit or loss.

Securities under trust management represent debt securities of foreign governments in the amount of AMD 26,166,949 thousand (2005: 33,237,868) and securities of foreign financial institutions in the amount of AMD 14,060,709 thousand (2005: 14,364,584). All these instruments are rated A2 or higher by Moody's.

AMD '000

	2006	2005
Liabilities		
Derivative financial instruments– Quoted		
Foreign exchange forward contracts	-	267,539

Securities under trust management and forward contracts represent financial instruments under discretionary asset management at a foreign financial institution. Risk exposure limits and investment guidance are set by the Bank.

Foreign currency contracts

The table below summarises, by major currency, the contractual amounts of the Bank's forward exchange contracts outstanding at 31 December 2006 with details of the contracted exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the balance sheet date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, have been recognised in the income statement and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount (AMD'000)		Weighted average contracted exchange rates	
	2006	2005	2006	2005
Buy USD sell CAD				
Less than three months	590,583	729,985	0.8764	0.8636
Buy EUR sell USD				
Less than three months	282,975	-	0.7557	-
Buy USD sell EUR				
Less than three months	15,004,849	13,759,794	1.3322	1.1787
Buy USD sell GBP				
Less than three months	1,355,374	1,544,408	1.9768	1.7433
Buy USD sell JPY				
Less than three months	11,814,041	11,170,643	0.0087	0.0083
Buy JPY sell USD				
Less than three months	487,986	-	116.57	-
Buy USD sell SEK				
Less than three months	1,357,790	1,191,043	0.1478	0.1252
Buy SEK sell USD				
Less than three months	133,802	-	6.8461	-
Buy SGD sell USD				
Less than three months	416,510	-	1.5360	-

12. Available for sale assets

AMD'000

	2006	2005
Available for sale investments in foreign currency		
Debt and other fixed-income instruments – Quoted		
Foreign government securities under own management	21,433,820	-
Equity investments at cost – Unquoted		
SWIFT	1,216	1,301
	21,435,036	**1,301**

All the held to maturity investments as at 31 December 2005 have been reclassified into available for sale investments due to the change in management's intention in 2006 not to hold them to maturity.

	2006	2005
Available for sale investments in domestic currency		
Debt and other fixed-income instruments		
The Government of the Republic of Armenia treasury securities	4,023,681	5,676,708
The Government of the Republic of Armenia bond	12,759,357	-
	16,783,038	**5 676 708**
Equity investments at cost – Unquoted		
Investments in unconsolidated subsidiaries	2,351,722	2,400,295
Other equity investments	36,740	74
	2,388,462	**2,400,369**
	19,171,500	**8,077,077**

A bond with the nominal amount of AMD 12,734,237 thousand was issued by the Government of the Republic of Armenia as a contribution to the Bank for no consideration. The bond is issued according to the Republic of Armenia law on the Central Bank to cover the negative equity reserves of the Bank as at 31 December 2005 of AMD 12,734,237 thousand. The bond bears interest at the rate of 4% p.a. for 2006 and the interest is paid annually. According to the law interest is payable each year is based on the current market rates. Management believes that the carrying value of the bond approximates its fair value. The bond is expected to be replaced with new bond in 2007 which will be issued by the Government of the Republic of Armenia.

Unconsolidated subsidiaries are comprised of:

Name	Country of incorporation	Main activity	% Controlled		2006 Carrying value AMD '000	2005 Carrying value AMD '000
			2006	2005		
Armenian Card	Republic of Armenia	Payment processing	66	74	400,722	449,295
Armincassatsia	Republic of Armenia	Cash delivery	94	94	1,951,000	1,951,000
					2,351,722	**2,400,295**

The financial statements of the subsidiaries listed above have not been consolidated into those of the Bank, as the effect on the Bank's financial statements would be immaterial.

Available-for-sale equity instruments are stated at cost. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to uncertainty regarding future cash flows.

13. International Monetary Fund

AMD '000

	2006	2005
Placements with the IMF in foreign currency		
SDR holdings in the IMF	5,074,357	4,581,721
Accrued interest	43,098	30,587
	5,117,455	**4,612,308**

The Bank maintains an SDR-denominated current account with the IMF used for processing and settling transactions with the fund. This current account bears interest based on the SDR interest rate, obtained weekly, as a weighted average of selected rates of three-month instruments on the money market of the four currencies which constitute the SDR basket. In 2006, the rate ranged from 3.03% to 4.07% p.a. (2005: 2.22% to 3.03% p.a.).

According to the IMF Statute, the Bank acts as a fiscal agent of the Republic of Armenia and simultaneously behaves as a depositary of the IMF in the Republic of Armenia. As such, the Bank keeps records of the Quota of the Republic of Armenia for membership with the IMF and the promissory note related to the membership of the Republic of Armenia in the IMF. These balances are not included in the Bank's balances sheet as the Bank only acts an agent on these transactions. The positions are as follows:

AMD '000

	2006	2005
Quota in IMF (subscription)	50,301,903	59,196,581
Promissory note denominated in domestic currency for membership in the IMF and liabilities on the basis of account	50,301,903	59,196,581

The quota of the Republic of Armenia for membership with the IMF stands at SDR 92,000,000 as of 31 December 2006 (2005: SDR 92,000,000).

14. Loans and reverse repurchase agreements

AMD '000

	2006	2005
Loans to domestic banks under arrangement with the KFW bank	11,917,775	11,928,247
Amounts receivable under reverse repurchase agreements	3,358,937	-
Other loans	13,590	21,619
	15,290,302	**11,949,866**

Loans to domestic banks under the agreement with the KFW bank (refer to note 19) are provided to five domestic banks and bear interest at rates from 6% to 8% p.a..

As of 31 December 2006 amounts receivable under reverse repurchase agreements are with five domestic banks and are collateralised by the following securities:.

AMD '000

	Fair value
The Government of the Republic of Armenia treasury bonds	2,280,818
Central Bank of Armenia bills	1,072,786
	3,353,604

15. Property and equipment

AMD '000

	Land and buildings	Networks computer and other equipment	Vehicles	Other	Total
Cost					
Balance at 1 January 2005	4,772,617	3,007,898	229,627	1,555,828	9,565,970
Additions	865,889	337,807	7,900	67,028	1,278,624
Disposals	(4,193)	(79,757)	(24,169)	(15,030)	(123,149)
Transfer	(99,867)	-	-	99,867	-
Balance at 31 December 2005	5,534,446	3,265,948	213,358	1,707,693	10,721,445
Balance at 1 January 2006	5,534,446	3,265,948	213,358	1,707,693	10,721,445
Additions	1,135,740	295,118	42,203	216,842	1,689,903
Disposal	(9,986)	(187,750)	-	(69,196)	(266,932)
Transfer	-	(48,906)	-	48,906	-
Balance at 31 December 2006	6,660,200	3,324,410	255,561	1,904,245	12,144,416
Depreciation					
Balance at 1 January 2005	896,592	2,059,678	118,383	945,217	4,019,870
Depreciation charge	205,468	270,562	28,574	229,633	734,237
Disposals	(4,193)	(79,758)	(22,528)	(14,463)	(120,942)
Transfer	(20,178)	-	-	20,178	-
Balance at 31 December 2005	1,077,689	2,250,482	124,429	1,180,565	4,633,165
Balance at 1 January 2006	1,077,689	2,250,482	124,429	1,180,565	4,633,165
Depreciation charge	207,369	297,296	25,729	176,148	706,542
Disposals	(2,936)	(187,699)	-	(65,772)	(256,407)
Transfer	-	(46,401)	-	46,401	-
Balance at 31 December 2006	1,282,122	2,313,678	150,158	1,337,342	5,083,300
Net book value					
At 1 January 2005	3,876,025	948,220	111,244	610,611	5,546,100
At 31 December 2005	4,456,757	1,015,466	88,929	527,128	6,088,280
At 31 December 2006	5,378,078	1,010,732	105,403	566,903	7,061,116

16. Intangible assets

AMD '000

	Computer software
Cost	
Balance at 1 January 2005	190,376
Additions	28,835
Balance at 31 December 2005	219,211
Balance at 1 January 2006	219,211
Additions	26,012
Balance at 31 December 2006	245,223
Amortisation	
Balance at 1 January 2005	115,132
Additions	26,165
Balance at 31 December 2005	141,297
Balance at 1 January 2006	141,297
Additions	33,442
Balance at 31 December 2006	174,739
Net book value	
At 1 January 2005	75,244
At 31 December 2005	77,914
At 31 December 2006	70,484

17. Other assets

AMD '000

	2006	2005
Numismatic coins	307,197	152,574
Receivables	90,966	47,452
Other assets	168,344	126,839
	566,507	**326,865**

18. Deposits and balances from financial and other institutions

AMD '000

	2006	2005
Foreign currency liabilities		
Vostro accounts and deposits of domestic banks	23,628,832	22,277,775
Term deposit of Deposit Insurance fund	1,693,225	1,877,385
Current accounts of other legal entities	488,196	112,620
	25,810,253	**24,267,780**
Domestic currency liabilities		
Vostro accounts and deposits of domestic banks	38,721,925	29,961,284
Term deposit and current accounts of Deposit Insurance fund	332,441	544,767
Current accounts of other legal entities	247,483	497,662
	39,301,849	**31,003,713**

Concentration of deposits and balances from financial and other institutions

As at 31 December 2006 and 2005 the Bank had 3 and 2 domestic banks respectively, whose balances exceeded 10% of total Deposits and balances from financial and other institutions. The gross value of these balances as of 31 December 2006 and 2005 were AMD 23,277,651 thousand and AMD 18,214,734 thousand, respectively.

19. Due to the Government of the Republic of Armenia

AMD '000

	2006	2005
Payable to the Government of the Republic of Armenia in relation to the loans from the IMF	59,487,180	79,411,892
Other accounts	206,972	39,493,293
	59,694,152	**118,905,185**

The PRGF (Poverty Reduction and Growth Facility) loan has been received from IMF by the Republic of Armenia and placed in the Bank.

20. Other borrowed funds

AMD '000

	2006	2005
Loans from KFW bank	8,028,783	8,928,045
Accrued interest	14,310	186
	8,043,093	**8,928,231**

The loans are provided to the Bank under an intergovernmental agreement on financial cooperation between the Government of the Republic of Armenia and the Federal Republic of Germany to finance special loan programs placed through domestic banks (Note 14). The loans mature from 2008 through 2043, and bear interest of 0.75% p.a. for the used part of the loan, and 0.25% for the unused part of the loan. The repayment of loans to KFW is guaranteed by the Government of the Republic of Armenia.

21. Other liabilities

AMD '000

	2006	2005
Demand deposits of employees	684,632	555,151
Other liabilities	262,029	149,996
	946,661	**705,147**

22. Equity

Issued capital

The issued capital of the Bank is owned by the Republic of Armenia and cannot be pledged, sold or otherwise disposed.

Additional paid in capital

Additional paid in capital represents a contribution made by the Government of the Republic of Armenia in the form of a bond (refer to Note 12).

General reserve

The general reserve is formed according to law on the Central Bank of the Republic of Armenia and cannot be distributed.

23. Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, which includes price, fair value interest rate and currency risks, credit risk and liquidity risk. These risks are managed in the following manner:

Market risk

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arise when the Bank takes a long or short position in a financial instrument.

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rate. Fair value interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period. For further information on the Bank's exposure to fair value interest rate risk at year end refer to Notes 29 and 30.

Currency risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's exposure to currency risk at year end refer to Notes 11 and 31.

The Bank manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions which are monitored on a regular basis and reviewed and approved by the Board of the Central Bank of Armenia.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank. The Bank has developed policies and procedures for the management of credit risk exposures, including guidelines to limit concentration and the establishment of an investment Committee, which actively monitors the Bank's credit risk. The Bank's credit policy is reviewed and approved by the Board of the Central Bank of Armenia.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Bank maintains liquidity management with the

objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Bank's liquidity policy is reviewed and approved by the Board of the Central Bank of Armenia. For further information on the Bank's exposure to liquidity risk at year end refer to Note 30.

24. Commitments

The capital commitments outstanding at 31 December 2006 related to the construction of the Bank's premises is AMD 48,725 thousand.

25. Contingencies

Litigation

Bank management is unaware of any significant actual, pending or threatened claims against the Bank.

Guarantees

As at 31 December 2006 the Bank has given guarantees in the amount of AMD 2,458,000 thousand, of which AMD 1,800,000 thousand was issued on behalf of domestic bank and AMD 658,000 thousand issued from 1994 to 1995 on behalf of construction companies and relates to earthquake zone construction. Guarantees represent irrevocable assurance that the bank will make payments in the event that a customer cannot meet its obligations to third parties and carry credit risk.

26. Related party transactions

Transactions with members the key management

Total remuneration included in employee compensation (Note 9):

AMD '000

	2006	2005
Key management including the Bank's board members	117,863	104,303

The outstanding balances and average interest rates as of 31 December 2006 with members of the key management are as follows:

	2006 *AMD '000*	Average Interest Rate	2005 *AMD '000*	Average Interest Rate
Balance sheet				
Liabilities				
Deposits	134,000	12%	91,659	16%

Amounts included in the income statement in relation to transactions with the key management are as follows:

AMD '000

	2006	2005
Income statement		
Interest expense	12,828	13,089

Transactions with subsidiaries

Amounts included in the income statement in relation to transactions with subsidiaries are as follows:

AMD '000

	2006	2005
Income statement		
General administrative expenses	346,434	185,522

Transactions with the Government of the Republic of Armenia

The outstanding balances and average interest rates as of 31 December 2006 with the Government

	2006 *AMD '000*	Average Interest Rate	2005 *AMD '000*	Average Interest Rate
Balance sheet				
Assets				
The Government of Republic of Armenia treasury securities	4,023,681	6,72%	5,676,708	6,72%
The Government of Republic of Armenia bond issued to the Bank as additional paid in capital (Note 12)	12,759,357	4,00%	-	-
Liabilities				
Due to the Government of the Republic of Armenia (local currency)	61,532,562	1,75%	21,993,849	1,00%
Payable to the Government of the Republic of Armenia in relation to the loans from the IMF (SDR)	59,487,180	0,50%	79,411,892	0,50%
Due to the Government of the Republic of Armenia (other foreign currency)	206,972	0,00%	39,493,293	0,00%

Amounts included in the income statement in relation to transactions with the Government are as follows:

AMD '000

	2006	2005
Income statement		
Interest income from treasury securities of the Government of Republic of Armenia	344,584	459,394
Interest income from bond issued by the Government of Republic of Armenia to the Bank as additional paid in capital	320,973	-
Net gain/(loss) on spot transactions	(2,299,807)	274,511
Interest paid on payables to the Government of the Republic of Armenia in relation to the loans from the IMF	(345,127)	(436,596)
Interest paid on other amounts due to the Government of the Republic of Armenia	(445,064)	(1,811,279)

Included in the loss on spot transactions is loss of AMD 2,688,214 thousand which relate to a transaction with the Government of the Republic of Armenia.

27. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow is composed of the following items:

AMD '000

	2006	2005
Cash	491,363	269,956
Nostro accounts	25,470,880	28,700,242
SDR holdings in the IMF	5,074,357	4,581,721
	31,036,600	**33,551,919**

28. Fair value of financial instruments

The Bank has performed an assessment of its financial instruments, as required by IAS 32 *Financial Instruments: Disclosure and Presentation*, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

The Bank estimates the fair value of financial assets and liabilities other than unquoted equity instruments not to be materially different from their carrying values. The estimated fair values of its financial assets and liabilities, except for available-for-sale assets held in unquoted equity securities, is calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for a similar instruments at the balance sheet date.

As disclosed in Note 12 the fair value of unquoted equity securities with a carrying value of AMD 2,388,462 thousand (2005: AMD 2,400,369 thousand) could not be determined.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

29. Average effective interest rates

The table below displays the Bank's interest bearing assets and liabilities as at 31 December 2006 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Value *AMD '000*	2006 Average Effective Interest Rate	Value *AMD '000*	2005 Average Effective Interest Rate
Interest Bearing Assets				
Placements with banks and other financial institutions				
Nostro accounts				
- USD	19,777,226	5,19%	19,166,051	3,44%
- EUR	4,903,265	2,08%	8,773,477	3,55%
- GBP	673,108	4,00%	670,691	3,50%
- Other currencies	123,876	0,00%	90,023	0,00%
Deposits and other balances in foreign banks				
- USD	157,709,310	5,44%	80,775,827	4,60%
- EUR	58,788,462	3,54%	13,203,744	2,26%
- GBP	33,164,714	5,17%	32,471,628	4,52%
- Other currencies	8,061,154	7,00%	547,788	0,00%
	283,201,115		**155,699,229**	
Financial instruments at fair value through profit or loss				
Foreign government securities under own management				
- USD	38,566,365	4,86%	-	-
Securities under trust management				
- USD	11,463,019	4,91%	12,420,086	4,14%
- GBR	1,383,044	4,37%	1,949,646	4,40%
- EUR	14,708,355	3,27%	17,106,365	2,99%
- JPY	11,430,834	0,39%	13,641,432	0,28%
- Other currencies	1,889,334	3,59%	2,484,923	3,70%
	79,440,951		**47,602,452**	
Loans and reverse repurchase agreements				
- AMD	15,290,302	6,80%	11,949,866	7,38%
Available-for-sale assets				
- AMD	12,759,357	4,00%	-	-
- AMD	4,023,681	6,72%	5,676,708	6,72%
- AMD (Equity investments)	2,388,462	0,00%	2,400,369	0,00%
- USD	12,493,077	3,78%	-	-
- GBP	8,940,743	4,46%	-	-
- EUR (Equity investments)	1,216	0,00%	1,301	0,00%
	40,606,536		**8,078,378**	

Held to maturity investments				
- USD	-	-	77,937,768	3,61%
- EUR	-	-	46,518,761	2,34%
- GBP	-	-	10,714,857	4,44%
	-		**135,171,386**	
Placements with the IMF				
- SDR (SDR holdings)	5,117,455	4,07%	4,612,308	3,03%
Interest Bearing Liabilities				
Deposits and balances from financial and other institutions				
Deposits of domestic banks				
- AMD	7,400,000	1,75%	7,700,000	1,00%
Vostro accounts of domestic banks				
- AMD	31,321,925	0,00%	22,261,284	0,00%
- Other currencies	23,628,832	0,00%	22,277,775	0,00%
Other term deposits				
- EUR	1,693,225	4,23%	1,877,385	3,30%
- AMD	332,441	4,23%	544,767	3,30%
Other accounts				
- AMD	247,483	0,00%	497,662	0,00%
- Other currencies	488,196	0,00%	112,620	0,00%
	65,112,102		**55,271,493**	
Due to the Government of the Republic of Armenia				
- AMD	61,532,562	1,75%	21,993,849	1,00%
- SDR	59,487,180	0,50%	79,411,892	0,50%
- USD	206,972	0,00%	39,493,293	0,00%
	121,226,714		**140,899,034**	
Other borrowed funds				
- EUR	8,043,093	0,75%	8,928,231	0,75%
Debt securities issued				
- AMD	38,987,836	5,70%	21,482,856	4,31%
Other liabilities				
Demand deposits				
- AMD	684,632	12,00%	555,151	12,00%
Other liabilities				
- AMD	262,029	0,00%	149,996	0,00%
- Other currencies	29,897	0,00%	104,115	0,00%
	976,558		**809,262**	

30. Maturity analysis

The following table shows financial assets and liabilities by remaining contractual maturity dates as at 31 December 2006. Due to the fact that substantially all the financial instruments of by the Bank are fixed rated these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

AMD '000

	Less than 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	No maturity	Total
Assets							
Cash	491,363	-	-	-	-	-	491,363
Placements with banks and financial institutions	79,893,876	122,392,337	80,914,902	-	-	-	283,201,115
Financial instruments at fair value through profit or loss	646,928	24,047,559	27,982,003	20,791,358	5,973,103	-	79,440,951
Loans and reverse repurchase agreements	3,358,937	217,775	4,500,000	7,213,590	-	-	15,290,302
Available for sale assets	89,043	5,757,808	30,028,626	2,341,381	-	2,389,678	40,606,536
Placements with the IMF	5,117,455	-	-	-	-	-	5,117,455
Other assets	223,726	-	-	-	-	-	223,726
Total financial assets	**89,821,328**	**152,415,479**	**143,425,531**	**30,346,329**	**5,973,103**	**2,389,678**	**424,371,448**
Liabilities							
Notes and coins in circulation	-	-	-	-	-	226,841,135	226,841,135
Deposits and balances from financial and other institutions	63,272,626	146,251	1,693,225	-	-	-	65,112,102
Due to the Government of the Republic of Armenia	121,226,714	-	-	-	-	-	121,226,714
Debt securities issued	5,368,761	19,122,684	14,496,391	-	-	-	38,987,836
Other borrowed funds	14,310	-	-	233,022	7,795,761	-	8,043,093
Other liabilities	896,608	19,242	-	-	-	-	915,850
Total financial liabilities	**190,779,019**	**19,288,177**	**16,189,616**	**233,022**	**7,795,761**	**226,841,135**	**461,126,730**
Net position as at 31 December 2006	**(100,957,691)**	**133,127,302**	**127,235,915**	**30,113,307**	**(1,822,658)**	**(224,451,457)**	**(36,755,282)**
Net position as at 31 December 2005	15,545,438	43,656,957	44,016,594	7,148,901	25,730,893	(155,274,723)	(19,175,940)

31. Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2006:

	AMD	USD	EUR	GBP
Assets				
Cash	-	488,856	2,408	-
Placements with banks and financial institutions	-	177,486,536	63,695,727	33,837,822
Financial instruments at fair value through profit or loss	-	50,029,384	14,708,355	1,383,044
Loans and other claims	15,290,302	-	-	-
Available for sale investments	19,171,500	12,493,077	1,216	8,940,743
Placements with the IMF	-	-	-	-
Property and equipment	7,061,116	-	-	-
Intangible assets	70,484	-	-	-
Other assets	566,507	8,631	157,509	-
Total assets	**42,159,909**	**240,506,484**	**78,565,215**	**44,161,609**
Liabilities				
Notes and coins in circulation	226,841,135	-	-	-
Deposits and balances from financial and other institutions	39,301,849	21,407,382	4,402,357	-
Due to the Government of the Republic of Armenia	61,532,562	206,972	-	-
Debt securities issued	38,987,836	-	-	-
Other borrowed funds	-	-	8,043,093	-
Other liabilities	946,660	19,242	2,469	-
Total liabilities	**367,610,042**	**21,633,596**	**12,447,919**	**-**
Net on balance sheet position as of 31 December 2006	**(325,450,133)**	**218,872,888**	**66,117,296**	**44,161,609**
Net off balance sheet position as of 31 December 2006	**-**	**28,801,365**	**(14,721,874)**	**(1,355,374)**
Net on and off balance sheet positions as of 31 December 2006	**(325,450,133)**	**247,674,253**	**51,395,422**	**42,806,235**
Net on and off balance sheet positions as of 31 December 2005	**(263,139,913)**	**168,165,252**	**53,825,084**	**44,028,271**

AMD '000

JPY	SDR	RUR	Other	Total
-	-	-	99	491,363
9,429	-	8,141,533	30,068	283,201,115
11,430,834	-	-	1,889,334	79,440,951
-	-	-	-	15,290,302
-	-	-	-	40,606,536
-	5,117,455	-	-	5,117,455
-	-	-	-	7,061,116
-	-	-	-	70,484
-	-	-	108	732,755
11,440,263	**5,117,455**	**8,141,533**	**1,919,609**	**432,012,077**
-	-	-	-	226,841,135
-	-	-	514	65,112,102
-	59,487,180	-	-	121,226,714
-	-	-	-	38,987,836
-	-	-	-	8,043,093
-	2,589	-	5,598	976,558
-	**59,489,769**	**-**	**6,112**	**461,187,438**
11,440,263	**(54,372,314)**	**8,141,533**	**1,913,497**	**(29,175,361)**
(11,326,055)	**-**	**-**	**(1,398,062)**	**-**
114,208	**(54,372,314)**	**8,141,533**	**515,435**	**(29,175,361)**
-	**(15,603,003)**	**55,090**	**34,982**	**(12,634,237)**

Appendix

NOTES ON DIFFERENCES IN DATA PROVIDED IN THE CBA PUBLICATIONS AND THE 2006 REPORT

The GDP, state budget and balance of payments indicators provided in statistical tables, as well as ratios calculated based on these indicators, have been adjusted by agencies responsible for the statistics of these indicators. However, there are certain indicators in the text that differ from those provided in the 2007 Monetary Policy Program of the Republic of Armenia, as preliminary data and the CBA estimations for 2006 were used in developing the program.

Differences in relevant monetary and supervisory indicators are due to different methods of classification: monetary indicators are classified according to principles of sectorization, whereas the supervisory indicators are classified based on balance sheet items.

The reason for the difference between indicators in Table “The CBA Balance Sheet” in the appendix to the CBA Annual Report and the Annual Financial Statements is that all classifications in Table 7 are made in accordance with the “RA Monetary and Financial Statistics Manual” issued by the CBA, whereas in the Financial Statements classifications are made according to balance sheet items.

Table 1. Main Macroeconomic Indicators

million drams

	2005 [3]	2006				
		I	II	III	IV	Annual
1	*2*	*3*	*4*	*5*	*6*	*7*
I. Real sector						
Gross domestic product *(GDP)*	2243953.1	266145.5	543403.8	910513.7	944973.6	2665036.6
real growth (%) [1]	14.0	8.0	14.0	13.2	14.9	13.4
real growth (cumulative, %)	14.0	8.0	11.9	12.5	13.4	13.4
GDP deflator *(cumulative, %)*	3.2	-1.0	1.8	5.1	4.8	4.8
GDP per capita [2] *(drams)*	697594.8	82678.3	168803.5	282759.4	293310.7	827647.9
real growth (%) [1]	13.9	7.9	13.9	13.1	10.5	13.2
GDP per employee [2] *(drams)*	2044045.5	241972.5	479403.4	811003.6	864173.4	2395753.9
real growth (%) [1]	15.4	5.1	12.5	14.7	7.8	11.8
Gross national income *(GNI)* [2,14]	2264549.4	274094.8	546907.4	918215.5	965240.6	2704458.3
real growth (%) [1]	14.0	8.1	14.2	13.0	12.5	14.0
GNI per capita [2,14] *(drams)*	703997.7	85147.7	169891.9	285151.2	299601.3	839890.6
real growth (%) [1]	13.8	8.0	14.1	12.9	12.4	13.9
Gross national disposable income *(GNDI)* [2,14] *(drams)*	2450976.6	310309.8	603474.9	982734.5	1043596.6	2940115.7
real growth (%) [1]	13.4	9.2	16.1	13.6	12.7	14.7
GNDI per capita [2,14] *(drams)*	761953.7	96397.9	187464.1	305187.6	323922.3	913075.9
real growth (%) [1]	13.2	9.1	15.9	13.4	12.6	14.5
Gross national savings [2, 14]	502729.4	-6147.6	140166.2	275724.2	301360.8	711103.5
Net lending (+) / borrowing (-) [2, 14]	-140101.2	-48282.9	-37305.8	-18000.9	-31356.0	-134,945.6
Household income	1437607.4	312792.0	372396.1	458475.6	578590.0	1722253.7
real growth (%) [2]	12.9	18.4	16.8	16.2	13.0	16.4
Household expenses	1405138.6	633739.9	1694198.8	2924486.1	4343346.1	1650686.8
real growth (%) [2]	11.1	17.8	17.1	12.2	12.2	14.2
Labor market (cumulative)						
Average monthly nominal wages per employee *(drams)*	52060	56114	59832	61561	64278	64278
Labor force *(thousands)*	1195.8	1189.2	1206.7	1208.4	1201.3	1201.3
Number of employed *(thousands)*	1097.8	1099.9	1116.7	1118.6	1112.4	1112.4
Number of unemployed *(thousands)*	98.0	89.3	90.0	89.8	88.9	88.9
Unemployment rate *(%)*	8.1	7.7	7.6	7.4	7.4	7.4
Inflation (%) [4]						
Average monthly	0.0	0.9	0.5	-0.7	0.9	0.4
Compared to the same period of the previous year	0.6	-2.0	1.7	6.6	5.7	2.9
Compared to the previous period	0.6	4.6	1.6	-1.4	0.8	2.9
Compared to the end of the previous period	-0.2	2.8	1.5	-2.0	2.8	5.2
II. Fiscal sector [5]						
Total revenue and grants	374747	82478	111536	111923	130423	436359
Tax, non-tax and capital revenue	363117	81671	108116	110327	123230	423344
of which: tax revenue	321532	74564	92080	99655	112400	378700
Total expenditure	417506	83880	118554	129383	143032	474712
Budget deficit (-) / surplus (+)	-42759	-1403	-7018	-17460	-12608	-38353
Share in GDP *(%)*	-1.7	-0.6	-1.5	-2.4	-1.6	-1.7
III. Monetary sector						
Broad money [6,7,15]	365559	358470	370759	405395	485737	485737
Monetary base [7,8,15]	200578	189091	199115	231092	282997	282997
Net domestic assets of the CBA *(NDA)* [7,8,15]	-14153	-24394	-52531	-43541	-104556	-104556
Net domestic assets of the banking system *(NDA)* [7,8,15]	132245	133563	111321	121238	87495	87495
Velocity of broad money turnover (period average) [17]	7.28	0.75	1.50	2.31	2.20	6.82
Money multiplier (period average)	2.03	1.87	1.94	1.85	1.84	1.81

1	2	3	4	5	6	7
Financial market (%)						
CBA repo rate [7]	3.50	4.00	4.00	4.50	4.75	4.75
T-bill yield [9]	5.09	4.88	6.07	5.96	6.50	6.50
Interbank rate [10]	4.33	3.21	4.94	4.96	4.98	4.98
Commercial banks' deposit rate [11]	6.45	5.17	5.57	5.92	5.59	5.59
Commercial banks' lending rate [11]	17.29	16.51	15.56	16.49	17.20	17.20
IV. External sector [14]						
AMD/USD exchange rate						
end of period	450.19	450.92	418.79	381.50	363.50	363.50
period average	457.69	450.95	436.78	402.39	374.04	416.04
AMD real effective exchange rate (1997=100)[12]	106.2	101.15	102.03	107.38	114.09	116.5
Net foreign assets of the CBA *(million drams)* [7, 13,15]	214731	213485	251646	274633	387514	387553
Gross international reserves *(million US dollars)* [7, 15,16]	674.2	674.7	761.1	817.1	1072.0	1072.0
Gross international reserves *(million drams)* [7,15,16]	303499	304227	318749	311719	389685	389685
Exports *(FOB, million US dollars)*	973.9	184.4	253.2	261.8	304.5	1004.0
Imports *(CIF, million US dollars)*	1801.7	422.0	529.2	557.5	685.6	2194.4
Trade balance *(million US dollars)*	-827.8	-237.6	-276.0	-295.8	-381.1	-1190.4
Current account to GDP ratio *(%)*	-3.9	-16.5	-7.2	-2.7	-4.1	-5.3
Current account to GDP ratio (less official transfers) *(%)*	-5.3	-18.1	-9.2	-3.0	-5.1	-6.3

[1] Real growth is compared with the same period of the previous year.

[2] CBA calculation based on data provided by the National Statistical Service of the Republic of Armenia. The Net Lending/Borrowing indicator is calculated as national savings plus net capital transfers minus gross investment.

[3] Data for 2005 on the real sector and balance of payments are adjusted by the National Statistical Service of the Republic of Armenia. That is why these indicators differ from relevant indicators shown in the 2005 CBA Annual Report.

[4] Quarterly figures are calculated by the CBA on the basis of data provided by the National Statistical Service of the Republic of Armenia.

[5] Actual indicators of 2005 and actual indicators of nine month of 2006 are based on data provided by the National Statistical Service of Armenia, and the indicators of the forth quarter are preliminary indicators provided by the Ministry of Finance and Economy of the Republic of Armenia.

[6] Broad money includes Armenia dram in circulation, resident's demand and time deposits in drams and FX deposits. Broad money includes also accrued interest, that is why broad money indicators of 2005 differ from indicator shown in the 2005 CBA Annual Report.

[7] As of the end of the period.

[8] Data for 2005 differ from those shown in the 2005 CBA Annual Report, since NFA of the CBA are calculated at revised program exchange rates. Moreover, CBA indicators are calculated on the accrual basis. See also footnote 13.

[9] Weighted average yield on medium-term coupon bonds with partial repayment is shown as at the last month of the period, while the previous month's relevant data shall be taken if no allocations have been made in that months.

[10] Calculated as weighted average interest rate on interbank dram loans and deposits (except for demand) and repos with maturity of up to 1 year for the last month of the period.

[11] Calculated as weighted average interest rate on dram deposits (except for demand) attracted from the economy (extended loans) with the maturity of up to 1 year for the last month of the period.

[12] Calculated with 1999-2003 weights against total volume of foreign trade with 9 main partners of the Republic of Armenia, without account of the volumes of humanitarian aid, petrol, natural gas and diamond.

[13] Excluding privatization account. These include foreign assets in convertible currency and foreign liabilities in convertible currency and drams. NFA are calculated at the following program exchange rates: USD 1 = AMD 450.19, SDR 1 = USD 1.4293, EUR 1 = USD 1.1825, GBP 1 = USD 1.7181.

[14] Data for 2006balance of payment and AMD real effective exchange rate are preliminary.

[15] Include the CBA closing entries.

[16] Excluding privatization account. Include assets only in freely convertible currencies. Calculated at actual exchange rate.

[17] Quarterly indicators of 2006 velocity of money turnover are calculated on the basis of GDP annual and quarterly indicators and broad money average annual and quarterly indicators.

Table 2. Output of Key Branches of Economy

million drams

	2005[1]	2006				
		I	II	III	IV	Annual
1. Industry	651919.6	137928.1	162760.4	167322.1	175493.1	643503.7
real growth [2]	107.6	95.3	99.0	98.4	99.1	99.1
of which:						
a. energy, gas, water production and supply	114229.9	32074.5	24148.1	24486.1	31482.9	112191.6
real growth	110.7	93.7	95.6	96.8	97.8	97.8
b. mining industry	113328.0	22225.5	29898.8	31346.3	29985.8	113456.4
real growth	95.4	96.6	101.6	102.9	106.2	106.2
c. processing industry	424361.7	83628.1	108713.5	111489.7	114024.4	417855.7
real growth	109.9	95.5	99.2	97.8	97.9	97.9
2. Agriculture [3]	493017.9	40202.7	118950.6	370568.0	555922.3	555922.3
real growth	111.2	103.5	107.2	100.0	100.4	100.4
of which:`						
a. plant-breeding	288053.3	3918.4	32899.8	195322.5	124098.5	356239.2
real growth	114.9	104.8	112.6	96.4	95.6	95.6
b. cattle-breeding	204964.6	36284.3	45848.1	56294.9	61255.8	199683.1
real growth	106.4	103.4	105.0	106.7	110.4	110.4
3. Construction	435125.0	27863.4	137761.5	228178.1	229308.5	623111.5
real growth	141.0	125.2	131.8	139.6	137.1	137.1
of which:						
a. for production purposes	172343.3	12928.4	44839.4	87710.9	109663.2	255141.9
b. for non-production purposes	262781.7	14935.0	92922.1	140467.2	119645.3	367969.6
4. Retail sales [4]	853869.0	148281.9	172445.6	215546.0	284543.2	820816.7
real growth	107.5	113.6	112.1	110.9	110.5	110.5
5. Services	333840.9	96064.5	108745.4	134071.0	139977.1	478858.0
real growth	115.5	122.1	121.1	122.1	120.3	120.3
6. Freight turnover of transport for general use, million ton/km	2300.7	628.8	441.7	495.7	779.3	2345.5
real growth	114.6	92.8	96.3	98.6	101.9	101.9

[1] Data are adjusted by the National Statistical Service of the Republic of Armenia.

[2] Real growth of branches is compared with the same period of the previous year, cumulative.

[3] Gross agricultural product is shown on cumulative basis.

[4] According to 2006 revised methodology of the National Statistical Service of the Republic of Armenia, retail sales does not include VAT and other similar (indirect) taxes.

Table 3. Balance of Payment [1]

million US dollars

	2005	2006				
		I	II	III	IV	Annual
Exports (credit)	1004.9	193.3	261.9	270.6	313.4	1039.3
Imports (debit)	1592.8	368.1	459.9	491.2	609.6	1928.7
Trade balance	-587.9	-174.7	-198.0	-220.6	296.2	889.5
Services (net)	-59.3	-9.7	-14.9	-11.7	21.4	57.6
Income (net)	44.7	17.6	8.0	20.3	29.4	75.4
Current transfers (net)	409.2	69.3	115.5	151.5	182.9	519.2
Official transfers (net)	67.3	9.4	25.1	8.0	24.9	67.6
Current account (less official transfers)	-260.6	-106.9	-114.5	-68.5	-130.1	-420.1
Current account	-193.3	-97.4	-89.3	-60.5	-105.2	-352.5
Direct investments (net)	251.5	45.5	62.1	88.1	100.0	295.6
Change in gross reserves (less privatization account) (- growth)	-162.1	6.6	-74.6	-49.9	-242.0	-359.9
Memo items						
Public external debt	1099.2	1110.4	1163.4	1173.1	1205.6	1205.6
Public external debt service	61.8	12.8	17.0	10.0	18.7	58.4
Current account/GDP (%)	-3.9	-16.5	-7.2	-2.7	-4.1	-5.3
Current account (less official transfers)/GDP (%)	-5.3	-18.1	-9.2	-3.0	-5.1	-6.3
Exports of goods and services/GDP (%)	27.1	43.7	28.0	16.8	16.2	21.1
Imports of goods and services/GDP (%)	40.2	74.9	45.1	27.1	28.8	35.4
Imports coverage (month)	4.0	4.6	4.1	4.0	4.4	5.5
Public external debt service / exports of goods and services (%)	4.6	5.0	4.9	2.6	4.6	4.2

[1] *Indicators of 2006 Balance of Payment are preliminary.*

Table 4. Price Indices in the Republic of Armenia

Indicators	01.06	02.06	03.06	04.06	05.06	06.06
1. Consumer price index (CPI)	102.5	102.7	102.8	103.1	105.6	104.3
of which:						
food stuff price index (including alcohol and tobacco)	104.6	104.5	104.7	104.7	109.0	106.7
(in %, compared with the preceding month)	4.6	-0.1	0.2	0.0	4.1	-2.1
non-food stuff price index	99.8	99.7	100.0	101.0	101.9	102.3
(in %, compared with the preceding month)	-0.2	-0.1	0.2	1.0	0.9	0.3
services tariff index	100.2	101.2	101.0	101.4	101.5	101.3
(in %, compared with the preceding month)	0.2	1.0	-0.2	0.4	0.1	-0.2
2. CPI (in %, compared with the same period of the previous year, cumulative)	97.0	97.5	98.0	98.5	99.3	99.8
3. Manufactured products price index	97.8	97.0	94.3	97.3	104.2	101.9
(in %, compared with the preceding month)	-2.2	-0.8	-2.8	3.3	7.1	-2.3
4. Price index in capital construction	100.3	100.4	102.6	104.2	104.4	104.4
(in %, compared with the preceding month)	0.3	0.1	2.2	1.6	0.1	0.0
5. Agricultural products sales price index	99.1	102.0	102.3	105.4	104.5	99.6
(in %, compared with the preceding month)	-0.9	1.5	0.2	3.3	-2.0	-16.8
6. Freight service rates index	99.1	99.1	99.6	119.8	119.7	119.3
(in %, compared with the preceding month)	-0.9	0.0	0.5	20.3	-0.1	-0.3
7. Inflation (in %, compared with the preceding month)	2.5	0.2	0.1	0.3	2.4	-1.2
8. Core inflation index [1]	100.4	100.4	100.4	100.7	100.6	100.6
(in %, compared with the preceding month)	0.1	0.0	0.1	0.1	0.1	0.0

[1] Calculations of the CBA are made on the basis of data provided by the National Statistical Service of the Republic of Armenia.

(12.2005 =100)

07.06	08.06	09.06	10.06	11.06	12.06
103.6	102.7	102.3	102.5	103.5	105.2
103.9	102.0	101.1	101.5	103.4	106.6
-2.6	-1.8	-0.9	0.4	1.9	3.1
102.2	102.7	102.4	102.0	101.1	100.5
-0.1	0.4	-0.2	-0.4	-0.9	-0.6
104.0	103.8	104.4	104.5	105.1	105.3
2.6	-0.2	0.5	0.1	0.6	0.2
100.8	101.5	102.0	102.4	102.7	102.9
101.8	101.5	100.7	101.4	100.6	100.6
0.0	-0.3	-0.8	0.7	-0.8	0.0
104.5	105.0	105.4	105.2	107.2	107.1
0.1	0.5	0.3	-0.2	1.9	-0.1
100.6	100.4	92.4	97.7	102.3	103.8
-16.1	-16.8	-7.2	1.8	3.4	11.9
119.3	119.5	119.5	119.0	118.5	118.2
0.0	0.1	0.0	-0.4	-0.4	-0.3
-0.7	-0.9	-0.3	0.2	1.0	1.6
100.7	100.7	100.9	101.2	101.5	101.7
-0.1	0.0	0.0	0.1	0.1	0.1

Table 5. The CBA Summary Balance Sheet Figures

	01.06	02.06	03.06 [4]	04.06	05.06	06.06 [4]
						Balance at the end of the month
Net foreign assets (less privatization account)[1]	214812	212725	213485	216311	238232	251646
Net foreign assets[1]	253352	251264	252024	254851	257414	270827
of which: privatization account	38539	38539	38539	38539	19181	19181
Net domestic assets, of which:	-27422	-25664	-24394	-32199	-53364	-52531
- Government [2]	-30625	-28170	-22459	-35752	-39567	-35026
- banks	7584	8533	10620	11939	13949	12471
- CBA-issued securities (-)	-23534	-24573	-29078	-27327	-26332	-23908
- other assets net	19153	18547	16523	18941	-1415	-6067
Monetary base, of which:	187391	187061	189091	184112	184869	199115
- national currency outside the CBA	142257	143056	141266	143454	145795	154389
- required reserves (in drams)	22418	22694	22425	19230	17173	21774
- required reserves (in FX)	21652	20659	24645	20630	21150	22274
- other accounts	1064	652	755	798	751	678
in drams	1052	613	643	613	611	631
in FX	13	39	112	184	140	47
						Flows compared with the previous month
Net foreign assets (less privatization account)	-	-2087	760	2826	21921	13413
Net foreign assets	-	-2087	760	2826	2563	13413
of which: privatization account	-	0	0	0	-19358	0
Net domestic assets, of which:	-	1758	1270	-7806	-21164	833
- Government	-	2454	5712	-13294	-3814	4540
- banks	-	948	2087	1319	2011	-1479
- CBA-issued securities (-)	-	1038	4505	-1751	-995	-2423
- other assets net	-	-607	-2024	2418	-20355	-4652
Monetary base, of which:	-	-330	2030	-4979	757	14246
- national currency outside the CBA	-	799	-1791	2189	2341	8594
- required reserves (in drams)	-	276	-269	-3195	-2058	4602
- required reserves (in FX)	-	-993	3987	-4016	521	1123
- other accounts	-	-412	103	43	-47	-73
in drams	-	-438	30	-29	-2	20
in FX	-	26	73	72	-45	-93
						Percentage change against the previous month
Net foreign assets (less privatization account)	-	-1.0	0.4	1.3	10.1	5.6
Net foreign assets	-	-0.8	0.3	1.1	1.0	5.2
of which: privatization account	-	0.0	0.0	0.0	-50.2	0.0
Net domestic assets, of which:	-	6.4	4.9	-32.0	-65.7	1.6
- Government	-	8.0	20.3	-59.2	-10.7	11.5
- banks	-	12.5	24.5	12.4	16.8	-10.6
- CBA-issued securities (-)	-	4.4	18.3	-6.0	-3.6	-9.2
- other assets net	-	-3.2	-10.9	14.6	-107.5	-328.8
Monetary base, of which:	-	-0.2	1.1	-2.6	0.4	7.7
- national currency outside the CBA	-	0.6	-1.3	1.5	1.6	5.9
- required reserves (in drams)	-	1.2	-1.2	-14.2	-10.7	26.8
- required reserves (in FX)	-	-4.6	19.3	-16.3	2.5	5.3
- other accounts	-	-38.7	15.8	5.7	-5.9	-9.7
USD/AMD exchange rate [3]	449.19	450.68	450.92	446.14	427.56	418.79

[1] NFA include foreign assets in convertible currency and foreign liabilities in convertible currency and drams, and are calculated at program exchange rates (USD 1 = AMD 450.19, SDR 1 = USD 1.4293, EUR 1 = USD 1.1825, GBP 1 = USD 1.7181).
[2] CBA net claims on Government include claims on Government less Government deposits with the CBA PIU accounts.
[3] End of period.

million drams

07.06	08.06	09.06 [4]	10.06	11.06	12.06 [4]
234033	246417	274633	304708	321935	387553
272572	284956	313172	323607	341060	387553
38539	38539	38539	18900	19125	0
-28931	-29405	-43541	-67308	-81166	-104556
-29534	-24435	-25389	-41108	-45826	-57716
9887	12251	10624	11673	8644	7876
-23358	-29246	-34956	-39723	-41489	-38988
14075	12024	6181	1849	-2496	-15728
205102	217012	231092	237400	240769	282997
165490	173849	182931	191764	194562	226841
18537	21724	28697	24891	25094	31322
20355	20447	18691	19639	20313	23629
719	992	773	1106	800	1206
719	912	750	1083	778	717
1	80	24	23	21	488
-17613	12384	28216	30075	17227	65618
1745	12384	28216	10436	17452	46493
19358	0	0	-19640	225	-19125
23600	-474	-14136	-23767	-13858	-23389
5492	5099	-954	-15719	-4718	-11890
-2584	2365	-1628	1050	-3029	-768
-550	5888	5710	4766	1767	-2502
20142	-2050	-5843	-4332	-4345	-13233
5987	11909	14080	6308	3369	42228
11101	8359	9082	8833	2798	32279
-3237	3187	6973	-3806	203	6227
-1918	91	-1756	948	674	3316
41	272	-219	333	-307	406
88	193	-162	334	-305	-61
-46	79	-56	0	-2	467
-7.0	5.3	11.5	11.0	5.7	20.4
0.6	4.5	9.9	3.3	5.4	13.6
100.9	0.0	0.0	-51.0	1.2	-100.0
44.9	-1.6	-48.1	-54.6	-20.6	-28.8
15.7	17.3	-3.9	-61.9	-11.5	-25.9
-20.7	23.9	-13.3	9.9	-25.9	-8.9
-2.3	25.2	19.5	13.6	4.4	-6.0
332.0	-14.6	-48.6	-70.1	-235.0	-530.2
3.0	5.8	6.5	2.7	1.4	17.5
7.2	5.1	5.2	4.8	1.5	16.6
-14.9	17.2	32.1	-13.3	0.8	24.8
-8.6	0.4	-8.6	5.1	3.4	16.3
6.1	37.9	-22.1	43.1	-27.7	50.7
415.32	396.54	381.50	378.93	369.05	363.50

[4] *Includes closing entries.*

Table 6. Monetary Survey of the Republic of Armenia

	01.06	02.06	03.06 [7]	04.06	05.06	06.06 [7]
Balance at the end of the month						
Net foreign assets [1]	238115	231084	224907	226454	250969	259438
Net domestic assets, of which:	116533	121625	133563	131359	107637	111321
- Government [2]	-11388	-8933	-1298	-13641	-17834	-13432
- economy	188349	192126	201601	211513	215761	219053
- other assets net	-60429	-61568	-66740	-66513	-90290	-94300
Dram broad money [3]	207189	208809	210910	212696	215970	229466
Broad money [4], of which:	354648	352709	358470	357813	358606	370759
- national currency in circulation	130758	131039	130268	132579	135356	144270
- demand deposits in drams [5]	53935	54402	56500	56208	57330	61770
- time deposits in drams	22496	23368	24142	23909	23284	23425
- FX deposits	147459	143900	147560	145117	142636	141294
demand[5]	64002	59511	67047	67871	67283	68574
time	83456	84389	80512	77246	75354	72720
Money multiplier[6]	1.89	1.89	1.90	1.94	1.94	1.86
Flows compared with the previous month						
Net foreign assets	-	-7031	-6177	1547	24515	8469
Net domestic assets, of which:	-	5092	11938	-2204	-23722	3684
- Government	-	2455	7634	-12342	-4194	4402
- economy	-	3777	9475	9912	4249	3292
- other assets net	-	-1140	-5171	227	-23777	-4010
Dram broad money	-	1619	2101	1786	3274	13496
Broad money, of which:	-	-1939	5761	-657	793	12153
- national currency in circulation	-	281	-771	2311	2777	8914
- demand deposits in drams	-	466	2098	-292	1121	4441
- time deposits in drams	-	872	774	-233	-625	141
- FX deposits	-	-3558	3659	-2443	-2481	-1343
demand	-	-4492	7536	824	-588	1291
time	-	933	-3877	-3267	-1892	-2633
Percentage change against the previous month						
Net foreign assets	-	-3.0	-2.7	0.7	10.8	3.4
Net domestic assets, of which:	-	4.4	9.8	-1.6	-18.1	3.4
- Government	-	21.6	85.5	-950.6	-30.7	24.7
- economy	-	2.0	4.9	4.9	2.0	1.5
- other assets net	-	-1.9	-8.4	0.3	-35.7	-4.4
Dram broad money	-	0.8	1.0	0.8	1.5	6.2
Broad money, of which:	-	-0.5	1.6	-0.2	0.2	3.4
- national currency in circulation	-	0.2	-0.6	1.8	2.1	6.6
- demand deposits in drams	-	0.9	3.9	-0.5	2.0	7.7
- time deposits in drams	-	3.9	3.3	-1.0	-2.6	0.6
- FX deposits	-	-2.4	2.5	-1.7	-1.7	-0.9
demand	-	-7.0	12.7	1.2	-0.9	1.9
time	-	1.1	-4.6	-4.1	-2.4	-3.5
USD/AMD exchange rate [6]	449.19	450.68	450.92	446.14	427.56	418.79

[1] NFA include foreign assets in convertible currency and foreign liabilities in convertible currency and drams. NFA of the CBA are calculated at program exchange rates, NFA of commercial banks - at actual exchange rates.
[2] Net claims of the banking system on the Government are equal to the sum of claims on the Government less liabilities of the banking system to the Government.
[3] Dram broad money includes national currency in circulation, residents' demand and time deposits only in drams (including accrued interest), i.e. broad money less FX deposits.
[4] Broad money includes national currency in circulation, residents' demand and time deposits in drams and FX deposits (including accrued interest).
[5] Including accounts.
[6] End of period.

million drams

07.06	08.06	09.06 [7]	10.06	11.06	12.06 [7]
244905	265202	284157	307865	349095	398242
135787	131660	121238	102142	107877	87495
-7773	-4598	-3840	-22828	-23967	-31832
219313	220350	225525	229330	237657	241461
-75754	-84092	-100447	-104360	-105813	-122133
241503	252893	276876	285349	300944	342326
380692	396862	405395	410007	456972	485737
153647	162132	172716	178824	183727	211469
63734	64760	74702	74377	83283	83858
24122	26000	29458	32148	33934	46998
139189	143969	128520	124658	156028	143411
67018	75652	62271	57162	86909	60002
72171	68316	66249	67496	69119	83409
1.86	1.83	1.75	1.73	1.90	1.72
-14533	20297	18955	23708	41231	49146
24466	-4127	-10422	-19096	5735	-20382
5660	3175	758	-18988	-1140	-7865
260	1036	5176	3805	8327	3804
18546	-8338	-16356	-3912	-1453	-16320
12037	11390	23983	8473	15595	41382
9932	16170	8533	4612	46965	28765
9377	8485	10583	6108	4903	27742
1964	1026	9942	-325	8906	575
697	1879	3457	2691	1786	13064
-2105	4780	-15449	-3862	31370	-12617
-1556	8635	-13382	-5108	29747	-26907
-549	-3855	-2067	1247	1623	14290
-5.6	8.3	7.1	8.3	13.4	14.1
22.0	-3.0	-7.9	-15.8	5.6	-18.9
42.1	40.8	16.5	-494.5	-5.0	-32.8
0.1	0.5	2.3	1.7	3.6	1.6
19.7	-11.0	-19.4	-3.9	-1.4	-15.4
5.2	4.7	9.5	3.1	5.5	13.8
2.7	4.2	2.2	1.1	11.5	6.3
6.5	5.5	6.5	3.5	2.7	15.1
3.2	1.6	15.4	-0.4	12.0	0.7
3.0	7.8	13.3	9.1	5.6	38.5
-1.5	3.4	-10.7	-3.0	25.2	-8.1
-2.3	12.9	-17.7	-8.2	52.0	-31.0
-0.8	-5.3	-3.0	1.9	2.4	20.7
415.32	396.54	381.50	378.93	369.05	363.50

[7] *The CBA indicators include closing entries.*

Table 7. The CBA Balance Sheet [1]

	01.06	02.06	03.06 [6]	04.06	05.06	06.06 [6]
Balance at the end of the month						
Assets						
Foreign assets	344808	340298	342839	341595	336658	336604
Convertible currency and gold, of which:	344746	340263	342829	341584	336647	336592
Gold [2]	0	0	0	0	0	0
Reserve positions in the IMF	0	0	0	0	0	0
SDR holdings	4666	2478	8356	5979	7936	5192
Claims on non-resident banks	222244	228777	211664	227141	229526	286363
Other convertible currency	117836	109008	122808	108464	99185	45038
Non-convertible currency, of which:	56	29	0	0	0	0
Claims on non-resident banks	56	29	0	0	0	0
Other non-convertible currency	0	0	0	0	0	0
Foreign assets in drams	6	6	10	11	10	12
Claims on the Government	5650	5584	5398	5147	5000	4875
Claims on resident banks [3], of which:	7584	8533	10620	11939	13949	12471
Reverse repos (-)	-591	-2062	0	-513	0	0
Deposits (-)	-3601	-1250	-1300	0	0	0
Foreign currency allocation swap (-)	0	0	0	-947	-1617	-1121
Claims on economy	21	20	20	19	19	17
Other financial assets	2401	2401	2400	3325	3927	16234
Accounts receivable	476	437	426	577	463	406
Non-financial assets	6358	6402	6372	6375	6346	6393
Total assets	367300	363676	368074	368977	366363	376999

[1] All classifications are made according to the "RA Monetary and Financial Statistics Manual" issued by the CBA. Foreign assets and liabilities are calculated at actual exchange rates.
[2] Includes gold standard bullions, gold deposits and correspondent accounts in gold with non-resident banks.
[3] Deposits attracted from commercial banks, reverse repo agreements and foreign currency allocation swap with them are netted against claims on banks.

million drams

07.06	08.06	09.06 [6]	10.06	11.06	12.06 [6]
337291	333724	344391	348833	356733	389696
337274	333708	344378	348821	356727	389684
0	0	0	0	0	0
0	0	0	0	0	0
5181	8709	8335	6194	5619	5117
292718	289788	282870	270687	280662	324076
39375	35211	53173	71940	70446	60491
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
17	17	13	11	6	12
4802	4784	4538	4304	4161	4024
9887	12251	10624	11673	8644	7876
0	0	0	0	0	0
0	0	0	0	0	0
-1505	-2425	-2423	0	0	0
17	16	16	15	15	14
16684	17652	17603	15383	15425	15148
346	628	768	1319	1351	445
6467	6562	6695	6702	6765	7607
375493	375619	384634	388229	393093	424810

	01.06	02.06	03.06 [6]	04.06	05.06	06.06 [6]
Liabilities						
Monetary base	187391	187061	189091	184112	184869	199115
National currency outside the CBA	142257	143056	141266	143454	145795	154389
Required reserves of resident banks [4]	44069	43353	47071	39860	38323	44048
Required reserves in drams	22418	22694	22425	19230	17173	21774
Required reserves in FX	21652	20659	24645	20630	21150	22274
Residents' deposits in drams	1052	613	643	613	611	631
Residents' deposits in FX	13	39	112	184	140	47
Accumulation accounts for banks' statutory fund	0	0	45	0	0	0
Foreign liabilities	89657	87725	88728	85963	85920	80834
In convertible currency	89302	86706	88526	85755	85786	80551
of which: IMF credit	80130	77636	77992	76303	76370	71720
in non-convertible currency	17	17	17	17	17	17
in drams	337	1 001	184	190	116	267
Government deposits	36275	33754	27857	40899	44566	39901
CBA-issued securities	23534	24573	29078	27327	26332	23908
Other liabilities [5]	40506	40854	42990	40082	40838	40460
Capital and reserves	-10063	-10291	-9714	-9405	-16162	-7220
Total liabilities and capital	**367300**	**363676**	**368074**	**368977**	**366363**	**376999**

[4] *Do not include Banks' time deposits, reverse repo agreements and foreign currency allocation swap with the CBA.*
[5] *Include also privatization accounts.*

million drams

07.06	08.06	09.06 [6]	10.06	11.06	12.06 [6]
205102	217012	231092	237400	240769	282997
165490	173849	182931	191764	194562	226841
38893	42171	47388	44530	45407	54950
18537	21724	28697	24891	25094	31322
20355	20447	18691	19639	20313	23629
719	912	750	1083	778	717
1	80	24	23	21	488
647	671	0	0	252	0
80504	76178	73247	70192	69259	67813
80215	75946	72507	70101	69145	67550
71342	67334	64251	61857	60815	59485
17	17	17	0	0	0
272	215	723	91	114	263
34336	29219	29927	45412	49986	61740
23358	29246	34956	39723	41489	38988
38257	38937	35673	18354	18413	2450
-6711	-15644	-20261	-22851	-27075	-29178
375493	**375619**	**384634**	**388229**	**393093**	**424810**

[6] *Includes closing entries.*

Table 8. Armenian Commercial Banks' Balance Sheet [1]

	01.06	02.06	03.06	04.06	05.06	06.06
Balance at the end of the month						
Assets						
Reserve assets	82833	82797	87598	77747	73662	78784
Cash in drams	11499	12017	10998	10876	10439	10119
Claims on the CBA	71334	70779	76600	66871	63223	68666
Foreign assets	106800	100253	100429	80059	83471	80558
In convertible currency	99275	93370	94447	74764	78043	74528
In non-convertible currency	4019	3415	2335	1836	1964	2481
In drams	3506	3469	3647	3458	3465	3549
Claims on the Government	37021	37808	40027	40772	40523	41925
Claims on resident enterprises and organizations	97609	99139	103291	108610	110014	109512
In drams	41228	42045	43075	46168	47259	48389
In FX	56330	57042	60164	62407	62721	61088
Securities [2]	52	52	52	35	35	35
Claims on resident households [3]	82797	85233	91205	94655	96636	100969
In drams	28877	28683	30024	30916	33106	35807
In FX	53921	56549	61182	63739	63530	65162
Claims on non-profit organizations	136	122	233	162	188	236
Claims on other financial organizations	7786	7611	6852	8067	8905	8319
Interbank claims [4]	4968	5350	5136	5517	8146	8988
In drams	1287	1231	2123	2684	2884	5059
In FX	3681	4119	3012	2833	5263	3930
Other financial assets	8219	10244	9787	9626	12561	13279
of which: significant equity participation	497	497	513	589	590	600
Accounts receivable	2699	3246	3055	3093	4250	4321
Non-financial assets	29402	29950	30451	31067	31422	33161
Total assets	**460271**	**461753**	**478063**	**459373**	**469778**	**480054**

[1] All classifications are made according to the "RA Monetary and Financial Statistics Manual" issued by the CBA. Each instrument includes accrued interest (both in assets and liabilities). Data presented here do not coincide with the respective data shown in the tables of the section "Main Indicators and Prudential Standards of Armenian Commercial Banks", as this tabulation is based on statistical method.
[2] Except for shares.
[3] Include loans to households, bank employees, bank related parties, as well as other claims on them.
[4] Include total claims of Armenian commercial banks on one another.

million drams

07.06	08.06	09.06	10.06	11.06	12.06
75606	82808	92350	96768	100351	115312
11843	11716	10215	12940	10835	15372
63763	71092	82135	83827	89516	99940
87186	93240	80732	72598	97064	81525
80744	86600	74413	68728	93128	77392
2814	2906	2477	155	163	200
3628	3735	3842	3714	3773	3932
42412	39988	41306	40371	42594	44101
108364	107660	111828	112581	115625	111836
48069	48547	49954	50878	55595	54785
60260	59078	61726	61554	59880	56894
35	35	148	149	150	157
102572	103346	103633	107177	112580	119729
37431	40333	42931	46055	50437	56392
65141	63013	60702	61122	62143	63337
251	180	182	219	156	203
8110	9147	9866	9338	9281	9679
8666	4921	4332	4750	4217	6218
4072	1747	1536	1816	1333	3108
4595	3174	2796	2934	2884	3110
13681	14066	13136	10913	12247	12449
608	614	620	639	648	692
6411	5025	5441	5600	5956	3897
33211	33403	33417	34130	35660	36154
486469	**493785**	**496224**	**494444**	**535730**	**541103**

	01.06	02.06	03.06	04.06	05.06	06.06
Liabilities						
Demand deposits in drams	52884	53789	55857	55595	56719	61139
Enterprises	36310	36105	36808	35159	35702	38176
Households	9139	9608	9938	10313	10535	11378
Non-profit organizations	6751	7449	8013	9215	9115	9440
Other financial organizations	684	627	1098	908	1367	2145
Time deposits in drams	22496	23368	24142	23909	23284	23425
Enterprises	8146	7658	8197	8070	6741	7057
Households	8533	8864	9097	9322	9705	10051
Non-profit organizations	5354	6280	6065	5790	6036	5671
Other financial organizations	463	565	784	726	801	646
Deposits in FX	147446	143862	147448	144933	142497	141247
Enterprises	43478	36328	37885	39310	40214	40110
Households	80277	83760	85095	84218	82406	82060
Non-profit organizations	22660	21476	22128	19314	17991	16816
Other financial organizations	1031	2298	2340	2091	1885	2262
Foreign liabilities	78199	76930	84109	64884	65510	67118
In convertible currency	69449	68882	77425	59513	59991	61357
In non-convertible currency	2227	1919	1084	262	204	382
In drams	6524	6129	5601	5109	5315	5379
Liabilities to the Government	17784	18571	18866	18660	18791	20331
Liabilities to the CBA	11775	11840	11916	14339	17107	14639
Interbank liabilities [5]	4519	4812	4646	5403	8062	8845
In drams	872	816	1708	2653	2852	5028
In FX	3647	3996	2938	2750	5210	3818
Other liabilities	29333	31009	31572	31764	37339	40656
Capital and reserves	95835	97573	99506	99887	100470	102653
Statutory fund	60298	60548	60548	60593	65172	65448
reserves [6]	12957	13018	13019	12626	13424	14593
Retained earnings	22580	24007	25940	26668	21873	22612
Total liabilities and capital	**460271**	**461753**	**478063**	**459373**	**469778**	**480054**

[5] Include total liabilities of Armenian commercial banks to one another.
[6] Include general reserve, reserves for loans, accounts receivable and securities losses, special reserves, as well as revaluation accounts.

million drams

07.06	08.06	09.06	10.06	11.06	12.06
63015	63849	73953	73294	82505	83141
39794	40060	41885	44292	50101	50985
12266	12564	16998	15139	16804	19773
9410	9984	12660	11928	13429	9653
1546	1240	2410	1935	2172	2729
24122	26000	29458	32148	33934	46998
6947	8484	9968	9902	9718	16957
11102	11723	13710	15093	16856	21304
5162	4600	4349	5465	4928	6061
911	1192	1431	1687	2431	2677
139188	143889	128496	124635	156006	142923
37224	45682	36449	34075	66932	49851
84646	82550	77447	78655	77771	81741
15013	12831	12269	9850	9647	10033
2305	2826	2331	2054	1656	1297
70568	68570	65321	65576	65971	66706
63635	61500	58063	58668	58992	59504
696	756	432	4	4	2
6237	6315	6826	6903	6976	7199
20650	20151	19757	22091	20736	18218
14846	17555	15339	11772	11842	15275
8336	4833	4032	4639	4072	6131
4039	1715	1373	1793	1311	3087
4298	3118	2660	2846	2761	3044
41110	42672	42023	42191	42453	41047
104633	106267	117846	118098	118211	120664
65448	65448	79656	79656	79656	80108
14823	14724	12206	11753	11857	11835
24362	26095	25985	26690	26699	28721
486469	**493785**	**496224**	**494444**	**535730**	**541103**

Table 9. Monetary Survey of Armenia [1]

	01.06	02.06	03.06 [5]	04.06	05.06	06.06 [5]
Balance at the end of the month						
Net foreign assets	283753	275897	270430	270807	268699	269211
In convertible currency	285270	278045	271325	271080	268912	269213
Central Bank (net) [2]	255444	253557	254302	255829	250861	256042
Foreign assets	344746	340263	342829	341584	336647	336592
Foreign liabilities	-89302	-86706	-88526	-85755	-85786	-80551
Commercial banks (net)	29826	24488	17022	15251	18051	13171
Foreign assets	99275	93370	94447	74764	78043	74528
Foreign liabilities	-69449	-68882	-77425	-59513	-59991	-61357
In non-convertible currency	1831	1507	1234	1557	1742	2082
Central Bank (net)	39	12	-17	-17	-17	-17
Foreign assets	56	29	0	0	0	0
Foreign liabilities	-17	-17	-17	-17	-17	-17
Commercial banks (net)	1792	1495	1251	1574	1759	2099
Foreign assets	4019	3415	2335	1836	1964	2481
Foreign liabilities	-2227	-1919	-1084	-262	-204	-382
Net foreign assets in drams	-3349	-3655	-2129	-1830	-1956	-2085
of which: commercial banks	-3018	-2660	-1954	-1651	-1850	-1830
Net domestic assets	70895	76812	88040	87006	89907	101549
Net domestic credits	176962	183193	200303	197872	197927	205621
Net claims on the Government	-11388	-8933	-1298	-13641	-17834	-13432
Claims on the Government	42672	43392	45425	45919	45523	46800
Government deposits	-54059	-52325	-46723	-59559	-63357	-60232
Claims on economy	188349	192126	201601	211513	215761	219053
Claim on enterprises	97609	99139	103291	108610	110014	109512
In drams	41228	42045	43075	46168	47259	48389
In FX	56330	57042	60164	62407	62721	61088
Securities [3]	52	52	52	35	35	35
Claims on households	82819	85253	91225	94674	96655	100986
In drams	28898	28704	30044	30935	33125	35824
In FX	53921	56549	61182	63739	63530	65162
Claims in non-profit organizations	136	122	233	162	188	236
In drams	81	76	180	110	135	183
In FX	54	47	53	51	53	54

[1] All classifications are made according to the "RA Monetary and Financial Statistics Manual" issued by the CBA. Includes balance sheet indicators of the CBA and commercial banks. All instruments include accrued interest.
[2] NFA of the CBA are calculated at actual exchange rates.
[3] Expect for shares.

million drams

07.06	08.06	09.06 [5]	10.06	11.06	12.06 [5]
273405	282216	286555	285663	318567	336703
274167	282862	288221	288780	321718	340023
257058	257762	271871	278720	287582	322135
337274	333708	344378	348821	356727	389684
-80215	-75946	-72507	-70101	-69145	-67550
17109	25100	16350	10060	34136	17888
80744	86600	74413	68728	93128	77392
-63635	-61500	-58063	-58668	-58992	-59504
2101	2132	2028	151	159	198
-17	-17	-17	0	0	0
0	0	0	0	0	0
-17	-17	-17	0	0	0
2118	2149	2045	151	159	198
2814	2906	2477	155	163	200
-696	-756	-432	-4	-4	-2
-2863	-2778	-3694	-3269	-3310	-3518
-2609	-2580	-2984	-3189	-3202	-3267
107287	114646	118840	124344	138405	149034
211541	215752	221686	206502	213690	209628
-7773	-4598	-3840	-22828	-23967	-31832
47214	44772	45844	44676	46755	48125
-54986	-49370	-49683	-67503	-70722	-79957
219313	220350	225525	229330	237657	241461
108364	107660	111828	112581	115625	111836
48069	48547	49954	50878	55595	54785
60260	59078	61726	61554	59880	56894
35	35	148	149	150	157
102589	103362	103649	107192	112595	119743
37447	40349	42947	46070	50452	56406
65141	63013	60702	61122	62143	63337
251	180	182	219	156	203
201	134	133	169	108	148
50	46	50	50	48	54

	01.06	02.06	03.06 [5]	04.06	05.06	06.06 [5]
Claims on other financial organizations	7786	7611	6852	8067	8905	8319
In drams	6089	6003	5574	6655	7645	6954
In FX	1697	1608	1278	1413	1260	1366
Other assets (net)	-106066	-106381	-112263	-110866	-108019	-104072
Broad money	354648	352709	358470	357813	358606	370759
Currency and demand deposits in drams	184693	185441	186768	188787	192686	206041
National currency outside the banking system	130758	131039	130268	132579	135356	144270
National currency outside the CBA	142257	143056	141266	143454	145795	154389
Commercial banks' cash in vault in drams (-)	-11499	-12017	-10998	-10876	-10439	-10119
Demand deposits in drams	53935	54402	56500	56208	57330	61770
Enterprises	36793	36139	36864	35184	35732	38225
Households	9707	10187	10525	10901	11117	11960
Non-profit organizations	6751	7449	8013	9215	9115	9440
Other financial organizations	684	627	1098	908	1367	2145
of which: accrued interest on demand deposits	27	38	28	34	47	26
Quasi-money [4]	169955	167268	171702	169026	165920	164719
Time deposits in drams	22496	23368	24142	23909	23284	23425
Enterprises	8146	7658	8197	8070	6741	7057
Households	8533	8864	9097	9322	9705	10051
Non-profit organizations	5354	6280	6065	5790	6036	5671
Other financial organizations	463	565	784	726	801	646
of which: accrued interest on time deposits	303	304	326	370	363	312
Residents' deposits in FX	147459	143900	147560	145117	142636	141294
Demand	64002	59511	67047	67871	67283	68574
Time	83456	84389	80512	77246	75354	72720
of which: accrued interest on FX deposits	651	651	688	738	737	690

[4] *Quasi-money of the Armenian banking system is the total of time deposits in drams and all deposits in FX attracted from residents.*

million drams

07.06	08.06	09.06 [5]	10.06	11.06	12.06 [5]
8110	9147	9866	9338	9281	9679
7064	7988	8691	8135	8479	8668
1046	1159	1175	1203	801	1012
-104254	-101106	-102845	-82158	-75284	-60594
380692	396862	405395	410007	456972	485737
217381	226893	247418	253201	267010	295328
153647	162132	172716	178824	183727	211469
165490	173849	182931	191764	194562	226841
-11843	-11716	-10215	-12940	-10835	-15372
63734	64760	74702	74377	83283	83858
39894	40355	42022	44764	50237	51018
12885	13181	17610	15750	17445	20458
9410	9984	12660	11928	13429	9653
1546	1240	2410	1935	2172	2729
40	62	34	56	75	22
163311	169969	157977	156806	189962	190409
24122	26000	29458	32148	33934	46998
6947	8484	9968	9902	9718	16957
11102	11723	13710	15093	16856	21304
5162	4600	4349	5465	4928	6061
911	1192	1431	1687	2431	2677
341	361	404	464	455	467
139189	143969	128520	124658	156028	143411
67018	75652	62271	57162	86909	60002
72171	68316	66249	67496	69119	83409
710	693	688	727	738	752

[5] *The CBA indicators include closing entries.*

Table 10. Credit Organizations' Summary Balance Sheet Indicators

	01.06	02.06	03.06	04.06	05.06	06.06
NFA (convertible currency)	-1821	-1810	-1848	-2059	-2290	-3352
Foreign assets in convertible currency	150	173	116	99	67	175
Foreign liabilities in convertible currency	-1900	-1912	-1963	-2157	-1815	-1813
Foreign liabilities in drams	-71	-71	0	0	-541	-1714
NDA	2744	2771	2822	3053	3149	4271
Government	-11	-11	-4	-4	-4	0
Net claims on commercial banks	1266	1092	935	988	1660	1281
Claims on commercial banks	1506	1349	1289	1398	2078	1652
Liabilities to commercial banks	-241	-257	-354	-410	-418	-371
Economy	6196	6431	6708	7070	7828	8520
Enterprises	3139	3252	3425	3606	3530	3682
In drams	1025	1134	1321	1353	1342	1328
In FX	2114	2118	2104	2254	2188	2354
Securities	-	-	-	-	-	-
Households	3047	3169	3274	3455	4290	4815
In drams	873	883	907	968	1769	2338
In FX	2174	2286	2367	2487	2521	2477
Non-profit organizations	10	10	9	8	8	22
In drams	0	0	0	0	0	15
In FX	10	10	9	8	8	7
Other financial organizations	-	0	0	0	0	1
In drams	-	0	0	0	0	1
In FX	-	-	-	-	-	-
Other assets net	-4706	-4741	-4817	-5001	-6336	-5530
Foreign assets in drams	-	1	2	1	57	102
Foreign assets (non-convertible currency)	-	-	-	-	-	0,05
Foreign liabilities (non-convertible currency)	-	-	-	-	-	-
Dram in vault	34	32	69	14	94	150
Investment in stake	-	-	-	-	-	3
Claims on credit organizations	-	-	-	-	-	-
Other assets	430	434	413	417	937	758
Liabilities to credit organizations	-	-	-	-	-	-
Securities issued	-	-	-	-	-	-
Capital accounts	-4444	-4474	-4669	-4837	-6342	-5694
Other liabilities	-726	-734	-632	-597	-1082	-848
BORROWINGS	924	961	974	994	860	919
Borrowings in drams	91	91	116	144	144	144
Demand borrowings	-	-	-	23	23	23
Time borrowings	91	91	116	121	121	121
Borrowings in FX	833	870	858	851	716	776
Demand borrowings	-	-	-	-	-	-
Time borrowings	833	870	858	851	716	776

million drams

07.06	08.06	09.06	10.06	11.06	12.06
-4010	-4381	-5123	-5603	-6952	-8739
119	118	99	213	174	522
-1849	-2601	-2937	-3190	-3862	-5931
-2280	-1898	-2285	-2626	-3264	-3330
5008	5249	5939	6550	7967	10115
0	0	0	0	0	35
1415	1774	2112	2306	2791	2220
1729	2159	2453	2605	3276	2943
-314	-385	-341	-300	-485	-723
9295	10003	10486	11625	13303	16365
3713	3793	3688	3767	3719	4807
1350	1344	1338	1406	1375	1437
2363	2448	2350	2362	2344	3371
-	-	-	-	-	-
5560	6188	6780	7844	9574	11531
2960	3515	4082	4725	5764	7146
2600	2673	2697	3118	3810	4385
22	21	18	13	9	25
15	15	12	9	5	21
7	6	6	5	4	4
1	1	1	1	1	1
1	1	1	1	1	1
-	-	-	-	-	-
-5702	-6528	-6659	-7381	-8128	-8505
154	205	254	290	337	38
0,4	0,4	0,4	-	0,01	1
-	-	-	-	-	-
96	68	57	95	106	37
3	3	3	3	3	4
-	-	-	-	-	80
814	796	859	869	879	867
-	-	-	-	-	-80
-	-	-140	-141	-142	-142
-6087	-6867	-6973	-7262	-7712	-8491
-682	-734	-721	-1234	-1599	-818
999	868	816	947	1014	1376
144	148	152	215	289	824
23	23	23	-	-	-
121	125	129	215	289	824
855	720	664	733	725	552
-	-	-	-	-	-
855	720	664	733	725	552

Table 11. Financial Sector Survey Indicators

	01.06	02.06	03.06 [3]	04.06	05.06	06.06 [3]
Balance at the end of the period						
Net foreign assets [1]	236294	229274	223059	224395	248679	256087
Net foreign assets (Central Bank)	214812	212725	213485	216311	238232	251646
Net foreign assets (commercial banks)	23303	18359	11422	10142	12737	7792
Net foreign assets (credit organizations)	-1821	-1810	-1848	-2059	-2290	-3352
Net domestic assets	117827	123103	135112	133083	108694	113869
Net claims on the Government	-11399	-8944	-1303	-13645	-17838	-13432
Net claims on the Government (Central Bank)	-30625	-28170	-22459	-35752	-39567	-35026
Net claims on the Government (commercial banks)	19237	19237	21160	22112	21732	21594
Net claims on the Government (credit organizations)	-11	-11	-4	-4	-4	0
Claims on economy	194305	198301	207955	218173	223172	227202
Claims on economy (Central Bank)	21	20	20	19	19	17
Claims on economy (commercial banks)	188088	191849	201228	211084	215325	218665
Claims on economy (credit organizations)	6196	6431	6708	7070	7828	8520
Other assets (net)	-65079	-66254	-71541	-71445	-96639	-99901
Marketable liabilities of financial sector	354121	352377	358171	357478	357374	369956
National currency outside the financial system	130724	131007	130198	132564	135262	144121
Demand deposits in drams [2]	53697	54171	56229	55824	55938	60977
Time deposits in drams	22330	23241	24050	23909	23283	23425
Deposits in FX [2]	146447	142997	146719	144187	142030	140513
Borrowed funds of credit organizations	924	961	974	994	860	919
Change as against the previous period						
Net foreign assets	-	-7020	-6215	1336	24284	7407
Net foreign assets (Central Bank)	-	-2087	760	2826	21921	13413
Net foreign assets (commercial banks)	-	-4944	-6937	-1279	2594	-4944
Net foreign assets (credit organizations)	-	11	-38	-211	-231	-1062
Net domestic assets	-	5276	12009	-2029	-24389	5175
Net claims on the Government	-	2455	7642	-12342	-4194	4406
Net claims on the Government (Central Bank)	-	2454	5712	-13294	-3814	4540
Net claims on the Government (commercial banks)	-	1	1923	951	-380	-138
Net claims on the Government (credit organizations)	-	0	7	0	0	4
Claims on economy	-	3996	9654	10218	4999	4031
Claims on economy (Central Bank)	-	-1	-1	-1	-1	-1
Claims on economy (commercial banks)	-	3761	9379	9856	4241	3340
Claims on economy (credit organizations)	-	235	276	363	758	691
Other assets (net)	-	-1175	-5287	95	-25194	-3262
Marketable liabilities of financial sector	-	-1744	5794	-693	-104	12582
National currency outside the financial system	-	283	-809	2366	2697	8859
Demand deposits in drams	-	474	2058	-405	115	5039
Time deposits in drams	-	911	809	-142	-625	141
Deposits in FX	-	-3450	3722	-2532	-2156	-1517
Borrowed funds of credit organizations	-	37	13	20	-135	60

[1] NFA include foreign assets only in convertible currency and foreign liabilities in convertible currency and drams. NFA of the CBA are calculated at program exchange rates. NFA of commercial banks are calculated at actual exchange rates.
[2] Include also accounts.

million drams

07.06	08.06	09.06 [3]	10.06	11.06	12.06 [3]
240895	260821	279034	302262	342143	389503
234033	246417	274633	304708	321935	387553
10872	18786	9524	3157	27160	10689
-4010	-4381	-5123	-5603	-6952	-8739
139046	134754	124739	106060	112527	94694
-7773	-4598	-3840	-22828	-23967	-31798
-29534	-24435	-25389	-41108	-45826	-57716
21762	19837	21549	18280	21858	25883
0	0	0	0	0	35
228294	229967	235671	240655	250475	257103
17	16	16	15	15	14
218982	219948	225169	229015	237157	240724
9295	10003	10486	11625	13303	16365
-81475	-90615	-107093	-111767	-113981	-130612
379941	395575	403772	408322	454670	484196
153551	162064	172659	178729	183621	211432
62949	64126	73532	73083	81740	82365
24121	25829	29286	31706	33000	46146
138321	142688	127479	123858	155296	142878
999	868	816	947	1014	1376
-15192	19926	18213	23228	39881	47360
-17613	12384	28216	30075	17227	65618
3080	7914	-9261	-6368	24003	-16471
-658	-372	-742	-480	-1350	-1786
25177	-4292	-10016	-18678	6466	-17833
5660	3175	758	-18988	-1140	-7830
5492	5099	-954	-15719	-4718	-11890
168	-1925	1712	-3269	3578	4025
0	0	0	0	0	35
1092	1673	5704	4985	9819	6628
-1	0	-1	-1	-1	-1
317	966	5221	3846	8142	3567
775	707	484	1139	1678	3062
18426	-9139	-16478	-4675	-2213	-16631
9986	15634	8197	4550	46347	29527
9430	8513	10595	6070	4892	27811
1972	1177	9406	-449	8657	625
697	1708	3457	2420	1294	13146
-2192	4367	-15209	-3622	31438	-12418
79	-131	-52	131	67	362

[3] *Includes the CBA closing entries.*

Table 12. Structure of the CBA International Reserves[1]

million US dollars

Indicators	2006[2]			
	I	II	III	IV
Gross international reserves (less privatization funds)	674.7	761.1	817.1	1072.0
Privatization funds	85.6	42.6	85.6	0.0
Gross international reserves	760.3	803.7	902.7	1072.0
of which:				
Gold	0	0	0	0
Reserve position in the IMF	0	0	0	0
SDR holdings	18.5	12.4	21.8	14.1
Other FX accounts	741.8	791.3	880.8	1058.0

[1] *Includes assets in convertible currencies. Calculation is made at actual exchange rates.*
[2] *Data include closing entries.*

Table 13. Financial Market Interest rates

Interest rates	2006			
	I	II	III	IV
CBA repo rate [1]	4.00	4.00	4.50	4.75
Lombard credit rate [1]	12.00	7.00	7.50	7.75
CBA deposits rate [1]	1.00	1.00	1.50	1.75
Yield of short-term government bonds [2]	4.32	4.91	4.96	6.04
Yield of medium-term government bonds with partial repayment [2]	4.88	6.07	5.96	6.50
Yield of CBA-issued bonds [2]	4.66	5.38	5.63	6.10
Lending rates [3]				
In drams				
To enterprises	15.71	14.43	11.73	15.02
To households	21.51	21.66	20.82	21.27
In US dollars				
To enterprises	14.17	13.24	14.33	14.31
To households	22.39	22.56	22.08	20.44
Deposit rates [3]				
In drams				
From enterprises	5.07	4.48	5.33	4.87
From households	5.43	6.77	6.84	6.67
In US dollars				
From enterprises	3.35	4.52	2.60	4.01
From households	3.74	5.51	5.01	5.19
Interbank interest rates [3, 4]				
In drams	3.21	4.94	4.96	4.98
In US dollars	6.00	4.93	7.19	6.34

[1] *As of the end of the quarter.*
[2] *Weighted average yield of securities allocated in the primary market during the last month of the quarter.*
[3] *Calculated as average weighted interest rate for the last month of the quarter of funds (except for demand), attracted/allocated with the period of up to 1 year.*
[4] *Includes also interbank repo agreements.*

Table 14. Volume and Average Annual Interest Rates of Deposits Attracted and Lombard Loans Extended by the CBA

million drams

Month	Volume of deposits [1]	Average weighted interest rate of deposits	Volume of loans [1]	Average weighted interest rate of loans
January	10300	1.00	-	-
February	5400	1.00	-	-
March	4700	1.00	-	-
April	1300	1.00	-	-
May	-	-	-	-
June	-	-	-	-
July	6000	1.00	-	-
August	20200	1.00	-	-
September	24400	1.50	-	-
October	19200	1.74	-	-
November	67600	1.75	-	-
December	67700	1.75	-	-

[1] *Repayments are not excluded.*

Volume and Average Annual Interest Rates of CBA Repo and Reverse Repo Agreements

million drams

Month	Volume of repos [1]	Average weighted interest rates of repos	Volume of reverse repos [1]	Average weighted interest rates of reverse repos
January	-	-	590	3.50
February	-	-	2059	4.00
March	-	-	-	-
April	2104	4.00	512	4.00
May	10217	4.00	-	-
June	7717	4.00	-	-
July	6994	4.00	-	-
August	8503	4.25	521	4.25
September	6930	4.50	-	-
October	1698	4.75	-	-
November	700	4.75	-	-
December	6143	4.75	-	-

[1] *Repayments are not excluded.*

Table 15. Volume and Yield – CBA Short-Term Securities Primary Allocation

Month	1 – 3 months [1] (including 91-day)			
	Volume of allocation *(million drams)*	Average nominal yield (%)	Minimum interest rate	Maximum interest rate
April	2700.0	5.0	4.9	5.3
May	900.0	5.3	5.3	5.3
June	1500.0	5.4	5.4	5.4
July	6000.0	5.1	4.7	5.3
August	6483.5	5.2	5.1	5.5
September	5616.6	5.63	5.61	5.68
October	5378.6	5.7	5.6	6.0
November	6290.0	6.0	6.0	6.0
December	3000.0	6.1	6.1	6.1

Month	3 – 6 months [1] (including 182-day)			
	Volume of allocation *(million drams)*	Average nominal yield (%)	Minimum interest rate	Maximum interest rate
January	2000.0	4.33	4.26	4.39
March	845.5	4.8	4.8	4.8
April	500.0	5.2	5.2	5.2
May	1186.0	5.4	5.4	5.4
August	4000.0	5.40	5.15	5.44
September	3000.0	5.63	5.61	5.71
October	4500.0	5.7	5.6	5.8
November	3500.0	6.0	6.0	6.0
December	1000.0	6.1	6.1	6.1

Month	6 – 9 months [1] (including 273-day)			
	Volume of allocation *(million drams)*	Average nominal yield (%)	Minimum interest rate	Maximum interest rate
March	2755.5	4.7	4.5	4.9

Month	9 - 12 months [1] (including 364-day)			
	Volume of allocation *(million drams)*	Average nominal yield (%)	Minimum interest rate	Maximum interest rate
February	1000.0	4.25	4.16	4.35
March	2000.0	4.5	4.2	4.7
May	900.0	5.4	5.4	5.4
August	1500.0	5.41	5.38	5.45
September	500.0	5.7	5.7	5.7
October	1500.0	6.0	6.0	6.0
November	1500.0	6.1	6.1	6.1

[1] *Yield is calculated as weighted average for the given securities.*

Table 16. Government Securities Secondary Market Operations [1]

	Range of maturity							
	up to 3 months		*3 – 6 months*		*6 – 9 months*		*from 9 months to 1 year*	
	million drams	*%*	*million drams*	*%*	*million drams*	*%*	*million drams*	*%*
January	-	-	5.55	4.19	597.18	5.30	1968.75	5.73
February	190.13	3.68	139.20	3.73	215.66	3.83	1577.20	5.08
March	10.00	3.00	5.00	3.60	2.24	3.00	1378.80	5.19
April	295.50	3.27	25.75	3.62	-	-	973.48	5.38
May	257.00	3.76	177.47	3.56	262.93	5.44	1004.19	5.66
June	491.52	3.34	21.08	4.81	499.90	5.49	100.80	5.85
July	710.00	3.44	120.00	4.02	601.89	4.78	126.80	5.47
August	369.52	3.43	300.00	4.01	222.49	5.12	1397.79	5.46
September	355.66	4.07	100.14	4.38	793.22	5.04	274.06	5.01
October	287.83	4.05	379.64	4.58	373.60	5.12	373.40	5.45
November	481.80	4.78	218.69	5.14	924.99	5.43	400.00	5.51
December	719.32	5.22	694.25	5.31	119.48	5.49	1417.50	5.46
Total	4168.28	4.00	2186.77	4.60	4613.60	5.15	10992.77	5.43

	Range of maturity						*Total*	
	1 – 2 years		*2 – 5 years*		*5 – 10 years*			
	million drams	*%*	*million drams*	*%*	*million drams*	*%*	*million drams*	*%*
January	2747.37	5.84	806.71	7.85	829.10	8.71	6954.66	6.34
February	1217.70	5.10	520.28	7.42	227.06	8.04	4087.24	5.37
March	1271.79	5.38	636.85	4.51	2245.90	8.52	5550.58	6.50
April	3348.69	5.78	441.00	7.98	927.83	7.84	6012.24	6.06
May	2486.70	5.88	752.00	6.75	955.99	7.66	5896.29	6.06
June	2815.62	6.03	1688.00	7.00	1885.22	8.70	7502.14	6.70
July	1448.95	6.04	500.00	6.70	1140.44	7.81	4648.08	5.92
August	1678.72	5.81	529.65	7.40	302.96	8.23	4801.12	5.71
September	1185.94	5.02	1035.38	6.51	3679.61	8.69	7424.01	6.99
October	1640.48	5.40	955.18	6.40	125.31	8.14	4135.44	5.52
November	1085.56	5.85	205.00	7.50	408.69	8.53	3724.73	5.91
December	718.59	6.60	1397.00	9.00	921.13	8.12	5987.27	6.79
Total	21646.10	5.75	9467.05	7.15	13649.23	8.39	66723.79	6.25

[1] *CBA operations are not included.*

Table 17. CBA Securities Secondary Market Operations [1]

	Up to 3 months		*3 - 6 months*		*6 - 9 months*	
	million drams	*%*	*million drams*	*%*	*million drams*	*%*
January	120.00	5.14	50.00	4.19	-	-
February	-	-	550.00	3.95	-	-
March	96.97	2.49	159.57	4.20	200.00	4.86
April	353.57	3.53	401.42	4.03	-	-
May	554.82	3.87	17.27	5.20	-	-
June	667.29	3.85	100.00	4.80	-	-
July	340.00	2.29	-	-	-	-
August	222.50	3.22	3.10	5.00	-	-
September	1032.50	4.94	120.51	5.04	-	-
October	50.00	1.75	87.00	5.00	-	-
November	876.28	4.18	-	-	-	-
December	325.00	3.81	-	-	-	-
Total	4638.93	3.97	1488.87	4.23	200.00	4.86

	from 9 months to 1 year		*Total*	
	million drams	*%*	*million drams*	*%*
January	-	-	170.00	4.86
February	-	-	550.00	3.95
March	406.63	4.44	863.17	4.28
April	-	-	754.99	3.80
May	-	-	572.09	3.91
June	-	-	767.29	3.97
July	-	-	340.00	2.29
August	-	-	225.60	3.25
September	-	-	1153.01	4.95
October	-	-	137.00	3.81
November	-	-	876.28	4.18
December	-	-	325.00	3.81
Total	406.63	4.44	6734.43	4.08

[1] *CBA operations are not included.*

Table 18. Interbank Repo Operations

	Up to 7 days		*8 - 14 days*		*15 - 28 days*	
	million drams	*%*	*million drams*	*%*	*million drams*	*%*
January	1540.76	3.81	3693.61	4.54	2119.73	4.35
February	2812.91	3.55	2385.79	3.79	267.40	4.00
March	3089.72	3.36	2560.94	3.39	1581.79	3.62
April	5326.67	3.71	4089.75	3.71	1171.26	3.99
May	7912.50	4.30	4181.06	4.40	1426.32	4.61
June	10273.73	4.88	6398.81	5.09	1968.08	5.29
July	5761.45	4.99	3827.12	5.26	1012.10	5.45
August	5607.88	4.75	2812.74	4.87	2120.00	5.20
September	8059.51	5.20	8484.73	5.35	1654.93	5.20
October	7177.63	5.06	8700.96	5.22	1935.20	5.31
November	8302.43	4.91	8230.38	5.14	1960.94	5.12
December	9419.75	5.08	5653.35	5.11	3807.74	5.55
Total	75284.93	4.68	61019.25	4.86	21025.48	4.96

	29 days and over		*Total*	
	million drams	*%*	*million drams*	*%*
January	875.58	4.89	8229.68	4.39
February	516.25	4.10	5982.35	3.71
March	403.42	4.32	7635.86	3.47
April	305.70	4.47	10893.38	3.76
May	675.19	4.51	14195.06	4.37
June	670.00	5.87	19310.61	5.03
July	508.00	6.04	11108.68	5.17
August	1942.58	4.81	12483.20	4.86
September	401.03	5.91	18600.20	5.28
October	467.60	5.73	18281.39	5.18
November	1874.02	6.17	20367.77	5.14
December	1289.93	6.28	20170.77	5.25
Total	9929.29	5.40	167258.95	4.82

Table 19. Balance Sheet of Armenian Banking System

thousand drams

			31.03.2006	30.06.2006	30.09.2006	Annual [1]
Assets	Cash	AMD [2]	10997879	10118885	10215027	15372106
		FX [3]	17181777	16692757	23418518	15198111
	Correspondent accounts with the CBA	AMD	21913440	20839820	27766546	30769305
		FX	24679181	24367702	19418228	23628784
	Other claims on the CBA	AMD	1345000	0	0	7400000
		FX	0	0	0	0
	Correspondent accounts with banks	AMD	277164	2311290	950905	97607
		FX	51280982	47258240	36269703	44875712
	Claims on banks	AMD	1465680	2746386	585146	3625512
		FX	19009176	8141390	12368839	13211518
	Claim son other financial organizations	AMD	5644376	6997543	8727646	8714525
		FX	1993234	2162494	1692195	1455717
	Government securities	AMD	75503321	74542074	84867769	93237879
		FX	490622	443156	418426	385610
	Liabilities on securities through repos and foreign currency through currency swap	AMD	-7509982	-10373395	-9200774	-11730337
		FX	-313576	-275928	-190750	-610680
	Repo agreements (less interbank repos)	AMD	598644	300307	355047	238401
		FX	0	0	0	0
	Loans to legal entities	AMD	42373733	47986799	49425294	54234059
		FX	66552484	66355290	65002593	60316870
	Loans to individuals	AMD	24136770	29478126	36324066	49395335
		FX	57414087	61352229	57118157	59577126
	Loans to bank insiders and employees	AMD	2224529	2513617	2736134	2527026
		FX	2962531	3162381	3181121	3603253
	Assets loss provision reserves		-3888625	-4073121	-4587143	-4562064
	Interest receivable	դ	1519691	1448512	1539095	1877721
		ա	1536643	1498765	1345222	1228289
	Fixed assets		25921121	28048099	28209532	30684002
	Other securities	AMD	202169	209514	322276	385502
		FX	1225323	1253444	1168607	840332
	Leasing, factoring (less interbank leasing and factoring)	AMD	3303325	3614123	3585683	3885327
		FX	638817	421256	272463	133853
	Other assets	AMD	11603395	13474504	15910736	12555322
		FX	3869409	2161676	3100086	1965764
	Total balance sheet assets		**466152320**	**465177935**	**482316393**	**524517487**

thousand drams

			31.03.2006	30.06.2006	30.09.2006	Annual [1]
Liabilities	Correspondent accounts of banks	AMD	392977	2527263	1078704	326082
		FX	3846595	3653600	2871480	4385729
	Other liabilities to banks (including the CBA)	AMD	13583040	16085047	13248256	18043543
		FX	16829918	24117402	23545329	20987335
	Liabilities to other financial organizations	AMD	2516284	2922044	4255054	5632112
		FX	7821362	8169500	9157317	8758938
	Demand liabilities to legal entities	AMD	47682416	50255062	57585730	64197565
		FX	60302917	43834955	40033071	37949927
	Demand liabilities to individuals	AMD	10470385	11892939	17688259	20649762
		FX	44677353	43281349	38554497	38176535
	Time deposits of legal entities	AMD	14725737	13014501	14644787	23335332
		FX	28316364	23164913	17262207	30576190
	Time deposits of individuals	AMD	9848174	10815134	14726222	22520313
		FX	63365949	59219893	57598928	62199228
	Funds attracted through repos	AMD	0	0	0	0
		FX	0	0	0	0
	Liabilities to the Government	AMD	6926510	8462492	9533403	8752388
		FX	11795504	11699758	10096540	9311018
	Interest payable	AMD	581523	570745	690756	751057
		FX	1235047	1403756	1353572	1537697
	Other liabilities	AMD	9865945	12267286	15028022	13875377
		FX	12115713	15485248	15977864	12379820
	Total liabilities		**366899713**	**362842887**	**364929998**	**404345948**
Capital	Actually paid-up statutory fund		60547882	65447868	79655615	80107615
	General reserve		6449947	7620422	4620422	4620422
	own shares repurchased by banks		0	0	0	0
	Undistributed profit (loss)	Current period	16343371	8221585	12823055	16314819
		Previous period	9596293	14390285	13161506	12406486
	Total balance sheet capital		**99252607**	**102335048**	**117386395**	**120171539**

[1] *2006 end year indicators include closing entries.*
[2] *AMD – Armenian dram.*
[3] *FX – foreign currency.*

Table 20. Income and Expense of Commercial Banks [1]

thousand drams

Indicators	31.12.2005	31.12.2006 [2]
	17 profit-making banks	21 profit-making banks
Interest income	31773377	42885973
Interest expense	9940338	12410230
Net interest income	21833038	30475743
Non-interest income	18892776	21780912
Non-interest expense	22669553	29187714
Net non-interest income	-3776777	-7406802
Asset loss provisioning	18953836	23872412
Refund of asset loss provisioning	17705353	21844229
Net provisions	1248483	2028183
Pre-tax profit	16807779	21040758
Profit tax	3321097	4170259
Net profit	13486682	16870499
Dividends	0	580000
Undistributed profit	13486682	16290499

[1] *In 2006 all Armenian commercial banks operated with profit.*

[2] *2006 end year indicators include closing entries.*

Table 21. Loans by Sectors of Economy

31.12.2006 *thousand drams*

Sectors	Period				Total		Total
	1 year		over 1 year				
	in drams	in FX	in drams	in FX	in drams	in FX	
Loan investment s (total)	57069676	52123049	65409760	84688162	122479436	136811211	259290647
Loans to non-residents (total)	762248	10553338	56952	4504159	819200	15057497	15876697
Loans to residents (total)	55799197	39464476	65861039	82289238	121660236	121753714	243413950
Industry, of which:	6974760	3703638	12249140	16336442	19223900	20040080	39263980
mining	70553	16866	437249	461751	507802	478617	986419
energy	1991870	21061	534466	2425217	2526336	2446278	4972614
food	2846389	1862804	7038557	7843132	9884946	9705936	19590882
light	350183	483956	811764	1070474	1161947	1554430	2716377
chemical	17823	341800	38259	566757	56082	908557	964639
building materials	610903	88843	1369439	429521	1980342	518364	2498706
precious items	45307	111284	392498	200406	437805	311690	749495
metallurgy	95643	250	20926	394	116569	644	117213
engineering and electrical industry	699511	67939	300417	786450	999928	854389	1854317
other sectors of industry	246578	708835	1305565	2552340	1552143	3261175	4813318
Agriculture, of which:	2866391	2284901	3109549	5935588	5975940	8220489	14196429
cattle breeding	1419102	1190351	2077582	4410130	3496684	5600481	9097165
plant growing	1447289	1094550	1031967	1525458	2479256	2620008	5099264
Construction	2393774	559860	5781966	2805385	8175740	3365245	11540985
Transport and communications	1556974	152532	1250478	956438	2807452	1108970	3916422
trade, of which:	8308063	8374257	13937208	18945438	22245271	27319695	49564966
wholesale	4522217	6039580	6558977	11981695	11081194	18021275	29102469
retail	3785846	2334677	7378231	6963743	11164077	9298420	20462497
Public catering and other services	1678154	933982	5472585	3529438	7150739	4463420	11614159
Financial sector, of which:	11672839	2858248	260738	538701	11933577	3396949	15330526
resident banks	2986791	1967673	0	0	2986791	1967673	4954464
Consumer loans	18629697	18971334	17561528	13235190	36191225	32206524	68397749
Mortgage loans	555783	1113094	4199404	17901769	4755187	19014863	23770050
Other sectors of economy	1162762	512630	2038443	2104849	3201205	2617479	5818684

Table 22. Balance Sheet of Armenian Credit Organizations

thousand drams

			31.03.2006	30.06.2006	30.09.2006	Annual [1]
Assets	Cash	AMD [2]	69468	149517	56671	37187
		FX [3]	49831	37287	4775	45106
	Banking accounts	AMD	270707	792828	1169993	1493223
		FX	215258	472224	421015	439166
	Claims on banks	AMD	175574	122515	241164	910530
		FX	621818	305298	613833	94085
	Claims on other financial organizations	AMD	0	0	0	80000
		FX	0	0	0	43
	Government securities	AMD	0	0	0	34947
		FX	0	0	0	0
	Liabilities on securities through repos and foreign currency through currency swap	AMD	0	0	0	0
	Repo agreements (less interbank repos)	AMD	0	0	0	0
		FX	0	0	0	0
	Loans to legal entities	AMD	456655	559255	548603	753593
		FX	1432801	1604179	1524118	2330991
	Loans to individuals	AMD	737350	2233788	3959372	6956927
		FX	2161254	2318879	2531930	4562257
	Loans to CO insiders and employees	AMD	76785	6708	9279	13549
		FX	67343	56031	58277	59683
	Leasing (less interbank leasing)	AMD	891335	835344	854613	762299
		FX	749809	815274	900039	1118258
	Factoring (less interbank factoring)	AMD	21922	18000	12000	10000
		FX	0	0	0	0
	Assets loss provision reserves		-251344	-175895	-210006	-284564
	Interest receivable	AMD	14196	23357	49494	123588
		FX	33415	37094	43625	46743
	Fixed assets		223144	429762	539913	506658
	Other securities	AMD	0	3300	3300	3680
		FX	0	0	0	0
	Other assets	AMD	181899	385123	571165	388255
		FX	68666	135270	85003	104517
	Total balance sheet assets		**8267886**	**11165139**	**13988175**	**20590720**

thousand drams

			31.03.2006	30.06.2006	30.09.2006	Annual [1]
Liabilities	Liabilities to banks	AMD	100000	100000	117100	200000
		FX	247857	267919	214950	3221416
	Liabilities to other financial organizations	AMD	0	0	0	233455
		FX	901840	837580	1964725	2259758
	Demand liabilities to legal entities	AMD	0	22578	22578	0
		FX	0	0	0	0
	Demand liabilities to individuals	AMD	0	0	0	0
		FX	0	0	0	0
	Time liabilities to legal entities	AMD	62580	1052580	2312580	3787359
		FX	1221804	1066676	1080932	874628
	Time liabilities to individuals	AMD	53020	58220	66219	185077
		FX	562474	543898	453803	566073
	Funds attracted through repos	AMD	0	0	0	0
		FX	0	0	0	0
	Liabilities to the Government	AMD	0	0	7	10
		FX	3958	0	0	0
	Interest payable	AMD	780	4124	14804	33030
		FX	50480	32766	71076	71050
	Other liabilities	AMD	328504	1360108	657348	660589
		FX	118829	166021	83527	41595
	Total liabilities		**3652126**	**5512470**	**7059648**	**12134040**
Capital	Actually paid-up statutory fund		4453195	5434945	6752305	8388902
	General reserve		45566	46017	51477	51479
	Own shares repurchased by bank		0	-12010	-41060	-41060
	Undistributed profit (loss)	Current period	205838	151045	215148	106520
		Previous period	-228703	-106911	-188848	-188787
	Total balance sheet capital		**4615760**	**5652668**	**6928526**	**8456680**

[1] 2006 end year indicators include closing entries. Data of 17 credit organizations are shown in the table.

[2] AMD – Armenian dram.

[3] FX – foreign currency.

Table 23. Income and Expenses of Credit Organizations [1]

thousand drams

Indicators	31.12.2006 [2]		
	9 profit-making organizations	8 loss-making organizations	Total
Interest income	1601627	457393	2059020
Interest expense	314369	38749	353118
Net interest income	1287258	418644	1705902
Non-interest income	774697	-393098	381599
Non-interest expense	1338867	384775	1723642
Net non-interest income	-564170	-777873	-1342043
Asset loss provisioning	669382	392086	1061468
Refund of asset loss provisioning	718038	242228	960266
Net provisions	-48656	149858	101202
Pre-tax profit	771743	-509087	262656
Profit tax	134004	25680	159684
Net profit	637739	-534767	102972
Dividends	637739	-534767	102972

[1] Data of 17 credit organizations are shown in the table.

[2] 2006 end year indicators include closing entries.

Table 24. Loans by Sectors of Economy[1]

31.12.2006 *thousand drams*

Sectors	Period				Total		Total
	1 year		over 1 year				
	in drams	in FX	in drams	in FX	in drams	in FX	
Loan investment (total)	6424088	2155671	3050559	5996220	9474647	8151891	17626538
Loans to non-residents (total)	1150	29943	11606	342022	12756	371965	384721
Loans to residents (total)	3929147	2049774	5532743	5730152	9461891	7779926	17241817
Industry, of which:	264627	317619	521764	1102447	786391	1420066	2206457
mining	464	12766	20614	126897	21078	139663	160741
energy	17948	27575	199454	140555	217402	168130	385532
food	141823	119931	233546	395137	375369	515068	890437
light	24366	71971	33238	112157	57604	184128	241732
chemical	0	296	0	0	0	296	296
building materials	9487	30301	19720	139632	29207	169933	199140
precious items	3389	11458	0	6947	3389	18405	21794
metallurgy	0	327	0	36	0	363	363
engineering and electrical industry	1131	559	0	168	1131	727	1858
other sectors of industry	66019	42435	15192	180918	81211	223353	304564
Agriculture, of which:	299052	12477	1966709	75272	2265761	87749	2353510
cattle breeding	200895	11499	1397704	61096	1598599	72595	1671194
plant growing	98156	978	569006	14176	667162	15154	682316
Construction	74554	31644	1253	150719	75807	182363	258170
Transport and communications	82709	85095	263870	384807	346579	469902	816481
trade, of which:	1132611	850110	1307007	781079	2439618	1631189	4070807
wholesale	27304	358609	87163	493887	114466	852496	966962
retail	1105307	491501	1219844	287192	2325151	778693	3103844
Public catering and other services	83326	102558	302451	297400	385777	399958	785735
Financial sector, of which:	853326	94085	136179	0	989505	94085	1083590
resident banks	853326	94085	136179	0	989505	94085	1083590
Consumer loans	977425	330265	506983	1219630	1484408	1549895	3034303
Mortgage loans	15812	39738	146941	1385583	162753	1425321	1588074
Other sectors of economy	145706	186183	379586	333215	525292	519398	1044690

[1] Data of 17 credit organizations are shown in the table.