REPUBLIC OF ARMENIA

Social and Economic Development in the First Half of 2023 and Medium-Term Prospective*

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LIST OF ABBREVIATIONS
Armstat – Statistical Committee of the Republic of Armenia
CA – current account of the balance of payments
CBA – Central Bank of the Republic of Armenia
EAEU – Eurasian Economic Union
EFSD Project Unit – Project Unit of the Eurasian Fund for Stabilization and Development
FDI – foreign direct investment
GDP – gross domestic product
GIR – gross international reserves
IT – information technology
RA – Republic of Armenia
RF – Russian Federation
VAT – value added tax

In the first half of 2023, the Armenian economy was still under the influence of the positive externalities that emerged in 2022. In January–June 2023, economic growth in the RA was supported by both external and domestic demand. Inflation decelerated significantly against the backdrop of appreciation of the Armenian dram, lower prices in international commodity markets, a high base of the previous year, and the effect of monetary policy tightening in 2022. The CBA lowered the refinancing rate by 0.25 p.p. to 10.5% as a result of the significant easing of inflationary pressures. The fiscal position improved due to higher tax revenues against a background of low budgetary expenditures. The CA deficit widened slightly on the back of a deteriorating trade balance and a slowdown in remittance inflows.

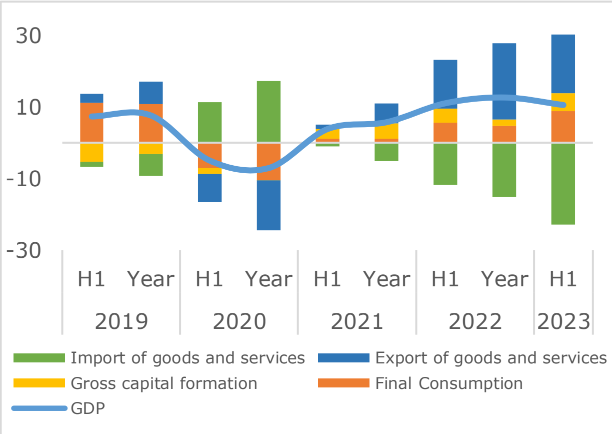
Real Sector and Labour Market

Stronger domestic and external demand contributed to maintaining a high rate of economic growth in the RA. In January–June 2023, real GDP grew by 10.5%, compared with an increase of 11% in the corresponding period of the previous year (Figure 1). Consumer demand (contributing 8.8 p.p. to GDP growth) was supported by a rise in private sector wages (15.3% in real terms), an increase in consumer loans (32.8%), and a continued inflow of tourists (mainly from Russia). The main driver of investment demand (contributing 4.9 p.p.) was housing construction, which was supported by a 26.9% increase in mortgage loans and a 21.9% increase in commercial loans in the construction sector. Exports of goods and services (contributing 19.8 p.p.) grew mainly due to higher demand for certain goods on the Russian market, while the increase in imports (contributing 22.9 p.p.) was driven by higher domestic demand, including from tourists and relocating residents. As a result, the contribution of net exports of goods and services to GDP growth was negative at -3.2 p.p.

In terms of sectors, a positive effect on economic activity was generated by all sectors, excluding agriculture, but trade and services combined made the largest contribution to the GDP growth of 8.5 p.p. (Figure 2). The contribution of wholesale and retail trade was 2.7 p.p., mainly due to wholesale trade, the high growth of which was driven by an increase in demand from other sectors of the economy. Information and communication (2.9 p.p.), transport and warehousing (0.9 p.p.), and transactions with real estate (0.9 p.p.) were the main contributors to growth in the services sector. The financial and insurance sector made a negative contribution (-0.4 p.p.) against the background of a slowdown in banking. In particular, the growth rate of non-interest income declined compared with the same period a year earlier, when there was a boom in new bank accounts opened by non-residents.

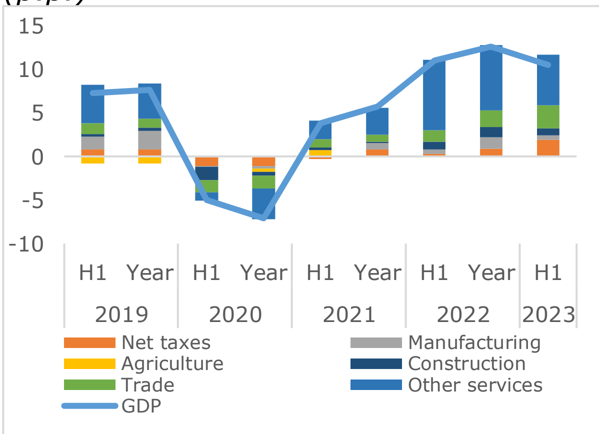
The contribution of manufacturing was 0.5 p.p., due to increases in the production of beverages (by 7.3%), tobacco products (by 16.1%), jewellery (by 52%), and other non-metallic mineral products (by 29.1%), supported by domestic and external demand. At the same time, the mining industry continued to show negative dynamics starting from the previous year, against the background of a decline in metal ore production (-0.4 p.p.).

Figure 1. *Decomposition of annual GDP growth by use components (p.p.)*



Source: Armstat

Figure 2. *Decomposition of annual GDP growth by production components (p.p.)*



Source: Armstat

The acceleration in economic activity had a positive effect on the performance of the labour market. In the first six months, the number of officially registered unemployed fell by 16.3%, leading to a 5.7% increase in the number of people in employment. The growth rate of nominal wages accelerated to 19.5% compared with an increase of 11.3% a year earlier. High rates of wage growth were registered in the information and communication, manufacturing, wholesale and retail trade, entertainment and recreation sectors. In the context of decelerating inflation, economy-wide real wages increased by 15.3% (compared with an increase of 3.2% in the corresponding period of the previous year). In particular, they increased by 17.9% in the private sector, and by 5% in the public sector.

Inflation and Monetary Policy

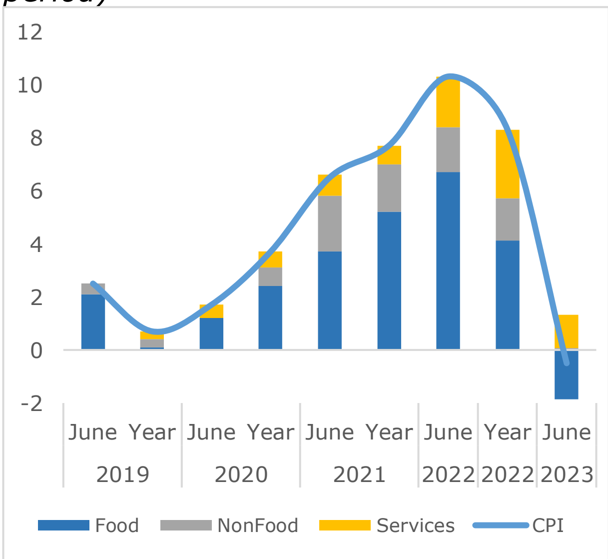
In the first half of 2023, prices moved into deflation on the back of lower prices on international commodity markets and the appreciating nominal exchange rate (Figure 3). By the end of June 2023, 12-month inflation was -0.5% (compared to 8.3% in December 2022). Deflation was facilitated by a decline in food prices, whose contribution amounted to -1.9 p.p. (compared with 4.1 p.p. in December 2022), mainly due to lower prices for bread and bakery products, oils and fats, fruit, vegetables, and sugar. The contribution of prices for non-food products and services was 0.1 p.p. (1.6 p.p. in December 2022) and 1.3 p.p. (2.6 p.p. in December 2022) respectively. The core inflation rate also fell to 1.5% at the end of June, compared with 9.5% in December of the previous year.

Taking into account the significant easing of inflationary pressures, the CBA reduced the refinancing rate by 0.25 p.p. to 10.5% in June 2023.[1]

The growth rate of money supply accelerated to 21.5%, from 9.2% a year earlier (Figure 4)**.** The main contributors to the growth of the broad money supply were domestic and foreign currency demand deposits, which accounted for 8.1 p.p. and 5.9 p.p. respectively (compared with 3.8 p.p. and 2.5 p.p. a year earlier), and term deposits in general (in both domestic and foreign currencies), which accounted for 5.3 p.p. Cash in circulation contributed 2.1 p.p. (compared with a decrease of -0.4 p.p. a year earlier).

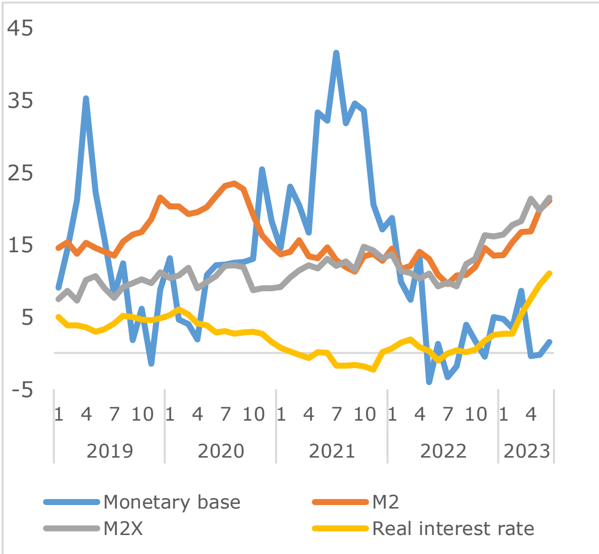
The base money growth was 1.5% (against 1.2% a year earlier), which was mainly due to an increase in net foreign assets, whose contribution was 8.6 p.p. (against a decrease of 12.3 p.p. a year earlier). Net foreign assets increased as a result of foreign exchange transactions of the CBA in the amount of USD 782.2 million (CBA interventions). Net domestic assets decreased by 18.5% (compared to an increase of 53.4% a year earlier), due to a decrease in REPO credits and an increase in Government deposits as a result of the budget surplus generated during the reporting period.

Figure 3. *Inflation (in %, y-o-y, end of period)*



Source: CBA, Armstat

Figure 4. *Monetary indicators (in %)*



Source: CBA

[1] https://www.cba.am/RU/pperiodicals/Inflation_report_2023Q2_rus.pdf

Budget Sector and Government Debt

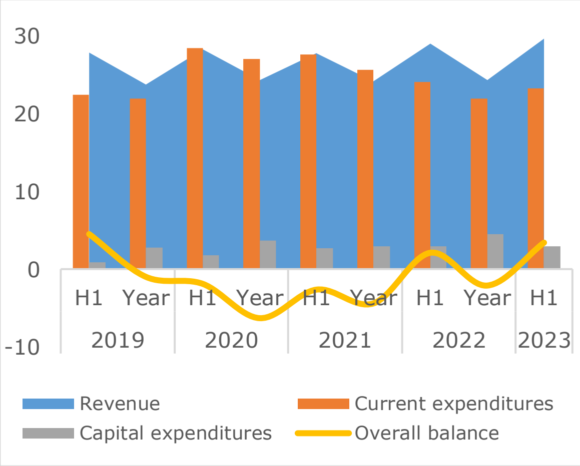
High economic growth rates and a low level of budget expenditure execution contributed to a significant improvement in the fiscal position (Figure 5). In the first half of the year, the state budget was executed with a surplus of 3.4% of GDP compared with 2.1% of GDP a year earlier. Budget revenues increased reaching 29.6% of GDP (against 29.0% a year earlier) due to the growth of tax revenues by 0.7 p.p. to 28.1% of GDP. Budget revenues were supported by an increase in profit tax revenues (by 1.2 p.p.) against the background of an improvement in the financial situation of enterprises; customs duties (by 0.4 p.p.), due to an increase in the amount of customs duties transferred to the RA from the EAEU general customs fund; VAT (by 0.3 p.p.), the growth of which was due to an increase in revenues from imported goods from non-EAEU countries; social security contributions (by 0.2 p.p.) as a result of an increase in the employee social contribution rate from 4.5% to 5% from 1 January 2023 and higher employment and wages; personal income tax (by 0.2 p.p.) as a result of higher employment and wages despite a reduction of the tax rate from 22% to 21% and an increase in personal income tax refunds (an increase in the amount of interest paid for servicing mortgage loans); excise tax (by 0.1 p.p.) due to an increase in revenues from imports of excisable goods; turnover tax (by 0.1 p.p.), and an increase in revenues from other taxes (by 0.2 p.p.).

Other types of taxes showed declines or no growth: revenues from environmental payments and payments for environmental management decreased by 1 p.p., mainly due to a decrease in royalties on metallic mineral extraction (a decline by 68.8% compared to a year earlier); and state duties decreased by 1.1 p.p. due to the abolition of export duties on concentrate of copper-molybdenum ore.

Budget expenditures declined to 26.1% of GDP from 26.9% a year earlier, despite their nominal growth by 12.7% compared to the first half of the previous year. Current expenditure declined by 0.8 p.p. to 23.2% of GDP for all items except for transfers and interest payments, reflecting a 9.8% underspending (despite nominal growth of 12.1%). Capital expenditures amounted to 2.9% of GDP, remaining at the level of the previous year, which also occurred in the context of a 47.4% underperformance of the plan, with a nominal increase in expenditures of 16.2%. The main reason for not meeting the plan is still the problems with the management and implementation of capital projects.

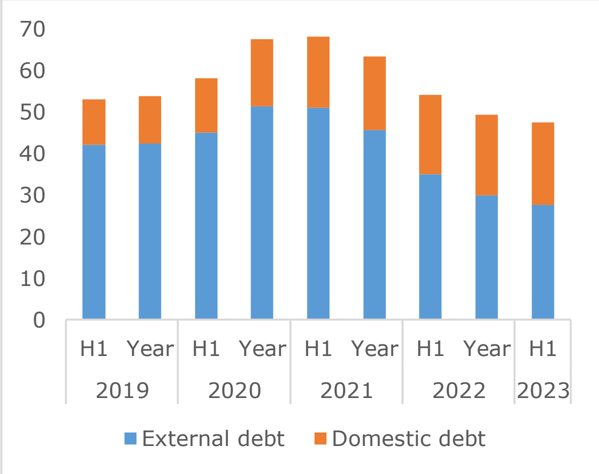
Exchange rate appreciation and GDP growth led to a decline in the public debt level to 47.5% of GDP (Figure 6). Due to the above factors, the external debt decreased by 2.4 p.p. to 27.5% of GDP. At the same time, as a result of an increase in the volume of government bonds, the domestic debt increased by 0.5 p.p. to 19.9% of GDP in the reporting period. As a result, the composition of the public debt changed, with the share of external debt in the total debt down to 58%, and that of domestic debt up to 42%, which is generally in line with the Government's strategy of its debt management in terms of changing its composition with a greater focus on domestic borrowing.

Figure 5. *State budget (in % of GDP)*



Source: MF RA

Figure 6. *Public debt (in % of GDP)*



Source: MF RA

External Sector

The current account deficit widened due to a sharp decline in remittances and an increase in the trade deficit, despite a significant increase in exports of services (Figure 7). In the first half of 2023, the CA balance showed a deficit of USD 650 million (-6.4% of GDP), compared with USD 160 million (-2.2% of GDP) a year earlier. The composition of foreign trade changed against the background of a significant increase in trade turnover with the RF. As the value of imports of goods exceeded that of exports, the trade deficit was USD 1,445 million (14.3% of GDP), compared with USD 800 million (11% of GDP) a year earlier. At the same time, the surplus of the services balance increased significantly to USD 966 million (9.6% of GDP), compared with USD 504 million (7% of GDP) a year earlier, against the background of a 70.3% increase in the number of tourists to more than one million (including 518,000 from the RF).

The primary income deficit decreased slightly in the first half of 2023 and stood at USD 433 million or 4.3% of GDP (compared to USD 437 million or 6% of GDP a year earlier). Due to a significant drop in remittances and depreciation of the Russian ruble against the US dollar, secondary incomes halved making USD 262 million or 2.6% of GDP (against USD 573 million or 7.9% of GDP a year earlier).

A significant increase in physical import volumes, against the background of growing domestic demand and increased re-exports in the context of lower import prices, led to a widening of the trade deficit, despite the growth in exports, due to both the price factor and an increase in physical volumes. The value of exports of goods increased by 72.8% (real growth of 26%[2]), which was facilitated by stronger external demand, in particular, in the Russian market. The largest contribution to the increase in exports was made by precious stones and metals (20.3 p.p.), machinery

[2] Taking into account the effect of the exchange rate appreciation.

and equipment (26.4 p.p.), land, air, and water transport (17.3 p.p.), textiles (3.9 p.p.), and ready-to-eat food products (3.3 p.p.). At the same time, exports of mineral products made a negative contribution (-7.4 p.p.). Stronger consumer and investment demand led to a significant increase in imports of goods, which grew by 73% in value terms (by 60.8% in real terms). The largest contribution to the increase in imports was made by land, air, and water transport (25.3 p.p.), machinery and equipment (21.1 p.p.), precious stones and metals (13.2 p.p.), and textiles (3.9 p.p.). Only imports of mineral products made a negative contribution (-0.7 p.p.) to the total volume of imports of goods.

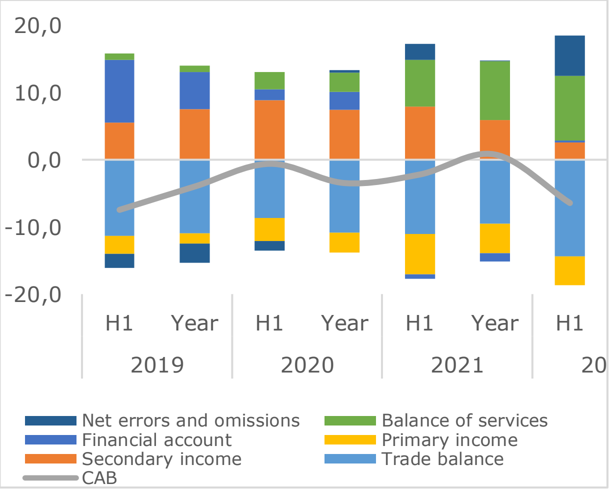
In the first half of 2023, there was a significant change in the composition of trade flows against the background of a 3-fold increase in exports to Russia and growth of imports by 28.6%. As a result, the share of the RF in Armenia's trade turnover during this period was 34.6%. The main trading partners of Armenia also include China (11.4%), the United Arab Emirates (5.6%), the US (4.4%), Iran (3.9%), and Germany (3.9%).

The financial account of the balance of payments showed net borrowing of USD 24 million or 0.2% of GDP (against net lending of USD 43 million or 0.6% of GDP a year earlier). The sources of inflow of funds included foreign direct investment and portfolio investment, which in the first half of 2023 amounted to USD 226 million (2.2% of GDP) and USD 189 million (1.9% of GDP) respectively. The total outflow of other investment in the first half of 2023 increased to USD 628 million (6.2% of GDP) against USD 59 million (0.8% of GDP) a year earlier. These dynamics are largely driven by repayment of deposits of deposit-taking organisations in the amount of USD 136 million (1.4% of GDP), as well as a significant decrease in accounts payable of deposit-taking organisations and other sectors to non-residents in the amount of USD 392 million (3.9% of GDP).

The CA deficit was largely covered by unrecorded flows under the item "Errors and Omissions", which amounted to USD 607 million or 6.0% of GDP. The increased unrecorded flows are most likely related to a significant inflow of foreign currency cash and its sale on the domestic market.

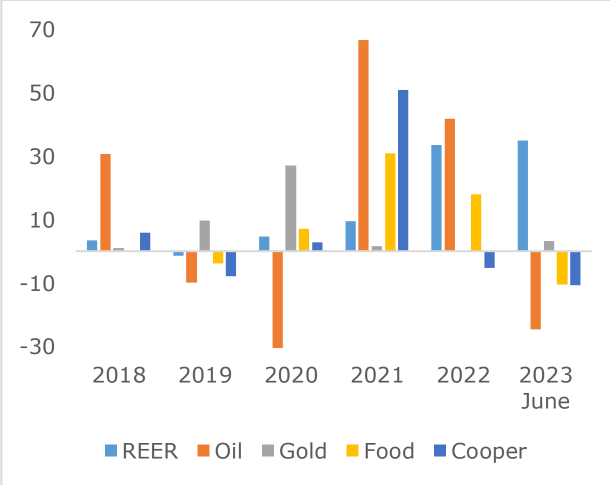
Gross international reserves decreased by USD 0.2 billion in 6 months and amounted to USD 3.9 billion (4.1 months of imports). In the context of the inflow of foreign exchange (due to unrecorded flows) in January–June, the CBA intervened and purchased foreign exchange equivalent to USD 782.2 million to smooth out excessive appreciation of the local currency. The nominal exchange rate of the local currency appreciated in June 2023 by 8.5% y-o-y, and the real effective exchange rate appreciated by 30.5% y-o-y, thus reducing the competitiveness of Armenian exports (Figure 8).

Figure 7. *Balance of payments (in % of GDP)*



Source: CBA

Figure 8. *Dynamics of external price variables (in %, y-o-y)*



Source: CBA, World Bank

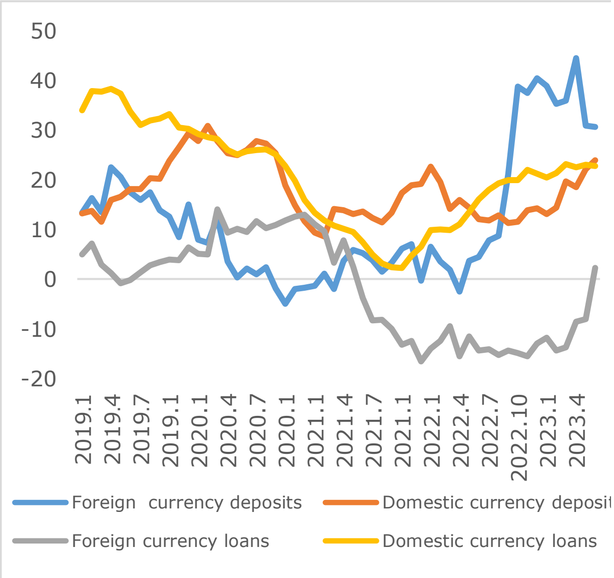
Financial Sector

Bank lending accelerated against the background of high economic growth. During the 12-month period, the total volume of loans provided by commercial banks increased by 14.6% compared to 1.7% in the previous year (Figure 9). At the same time, the growth of local currency loans accelerated significantly, reaching 22.8% (against 16.1% a year earlier), while foreign currency loans grew by 2.3%. In terms of sectors, credit growth was driven by an increase in mortgage loans (6.6 p.p.), consumer loans (3.8 p.p.), and commercial loans to the construction sector (2.0 p.p.). The volume of loans to the industrial sector decreased. The volume of foreign currency loans declined (also as a result of the Armenian dram appreciation) leading to lower dollarisation of the loan portfolio, down from 39.7% to 35.4%.

The deposit base (in local and foreign currencies) continued to grow at a high rate (an increase of 27.3% against 8.0% a year earlier). The growth was driven by deposits of both residents (up by 23.9%, contributing 18.4 p.p.) and non-residents (up by 38.4%, contributing 8.9 p.p.). The faster growth of foreign currency deposits by non-residents led to an increase in the dollarisation of deposits from 50.4% to 51.7%.

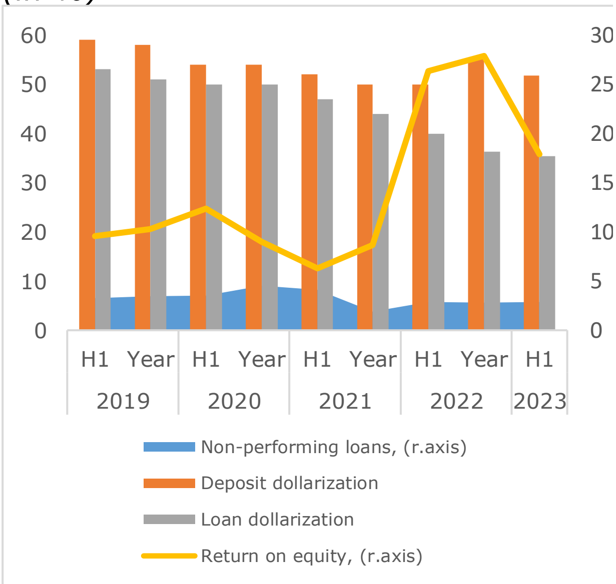
Financial soundness indicators of the banking system continue to remain at a relatively high level, despite some deterioration compared to a year earlier. In the 12-month period, the return on equity decreased from 26.3% to 17.9%, and the return on assets went down from 3.7% to 2.7% against the background of a slowdown in the growth of non-interest income compared to the same period of the previous year, when new bank accounts of non-residents were booming (Figure 10). The growth of banking sector profits by 38.5% contributed to an increase in the capital adequacy ratio from 18.6% to 20.5% (the threshold value is 12%). The quality of the loan portfolio remained unchanged, the share of nonperforming loans stood at 2.9%. Based on its analysis of the of macro-financial and credit market development, the CBA decided to leave the countercyclical capital buffer rate unchanged at 1.5% in the second quarter.

Figure 9. *Bank lending (in %, y-o-y)*



Source: CBA

Figure 10. *Banking sector indicators (in %)*



Source: CBA

Box 1: Improvement of Financial Sector Transparency

In response to the growing demand for statistical information, the CBA has expanded the range of indicators published on its official website. In particular, surveys on inflation expectations and credit conditions, as well as data on loans to SMEs, a breakdown of loans by RA regions, etc. are posted on the CBA website.

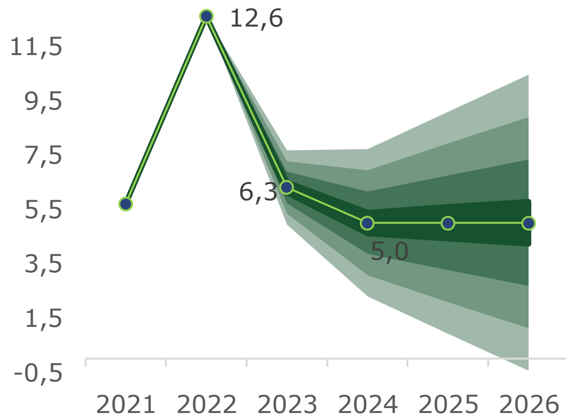
Medium-Term Prospective

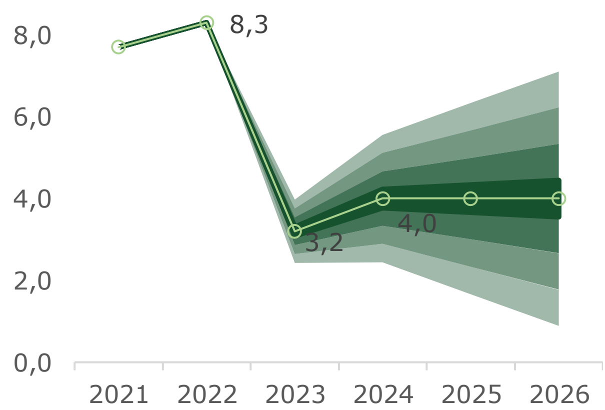
The positive externalities that emerged in 2022 are likely to persist in 2023, but in combination with a relatively low growth rate of the influx of Russian tourists and capital. Demand is expected to gradually return to normal in 2023, and economic growth would decelerate by half to 6.3%, among other things as a result of the high base of 2022 (Figure 11). In 2023, domestic demand would be supported by rising salaries and wages in the private sector and consumer loans. Gross capital formation in the private sector would also have further positive effects on economic growth due to the growth of housing construction, the expected resumption of construction at the Amulsar mine (contributing about 1 p.p. to the economic growth as estimated by the CBA), and higher public investment due to the Government's plans to gradually raise its share to 6% of GDP in the medium term. Exports of goods and services would continue to grow at a high rate supported by stronger external demand, including that for certain goods on the Russian market.

According to forecasts of the EFSD Project Unit, economic growth rates would be within their long-term potential range of about 5%[3] in the medium term (Figure 11).

Monetary policy would be aimed at keeping the inflation at the targeted level (4±1.5%). According to the EFSD Project Unit, 12-month inflation will be below the target in December 2023, at 3.2% (y-o-y) compared to 8.3% in 2022, against the backdrop of lower international food prices, appreciation of the dram, and weaker consumption pressures. In the medium term, inflation is projected within the targeted range that will facilitate gradual reduction of the refinancing rate by the CBA to a neutral level (Figure 12).

Figure 11. *Real GDP forecast (in %)* **Figure 12.** *Inflation forecast (in %, y-o-y)*





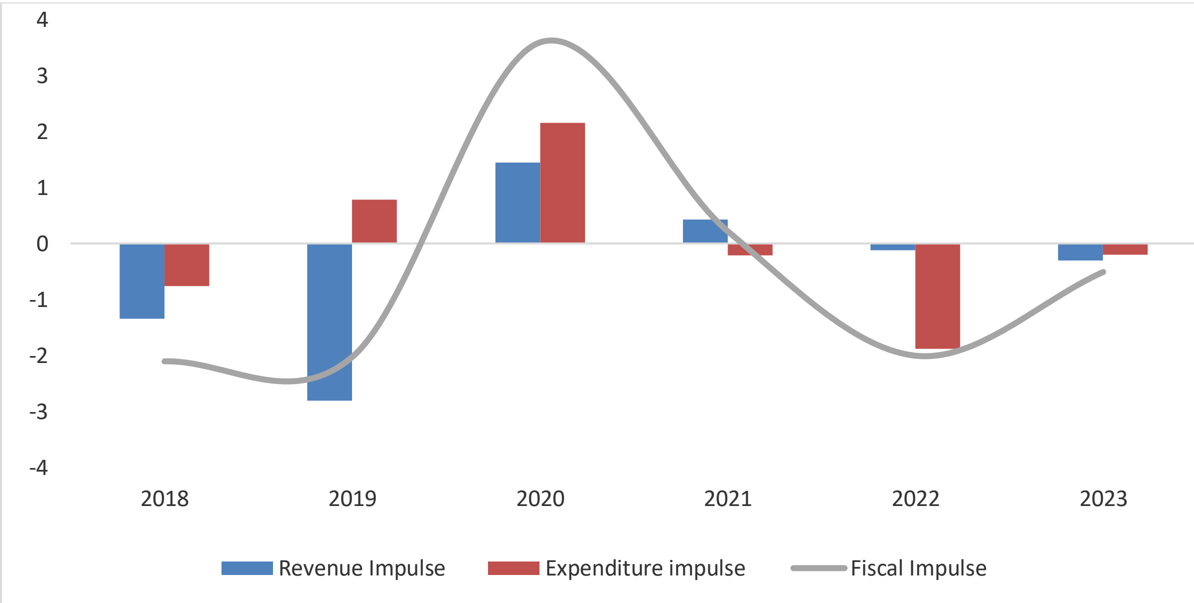
Source: EFSD estimates, which show the probability of forecasts falling into specific intervals

[3] The estimate corresponds to those of the CBA published in the "Inflation Report" of 27 June 2023

An increase in capital expenditures would lead to a higher budget deficit in 2023 at 2.8%. Tax revenues would increase approximately by 0.75 p.p. in 2023, of which 0.5% is expected due to improved tax administration, and 0.25% due to tax policies (revenues from e-commerce taxation, increased excise tax rates, increased tax burden on the gambling sector). In 2024–2026, tax revenues would grow by 0.5% annually. As a result, the budget deficit in 2023–2026 would average 2.6% of GDP.

Fiscal impulse: In the first half of 2023, in the context of a positive output gap, the RA Government implemented countercyclical policies. In 2023, the impact of fiscal policy on aggregate demand is estimated to be restraining: according to our estimates, the fiscal impulse will be negative (-0.5 p.p.), including the expenditure impulse of -0.2 p.p. and the revenue impulse of -0.3 p.p. (Figure 13).[4]

Figure 13. Fiscal impulse (in %)



Source: EFSD estimates

The current account deficit would expand slightly in 2023–2026 to 2.5% of GDP (on average) due to projected deterioration in the trade balance. Substantial growth of imports in the forecast period would lead to lower adequacy of international reserves at 3.9 months of imports in 2026, compared to 4.8 months in 2022.

Risks: The EFSD baseline forecast scenario has both downside and upside risks. Downside macroeconomic risks include a potential outflow of RF capital and relocation of RF citizens temporarily residing in Armenia to other countries that would

[4] Expenditures and revenues do not include components that have no effect on domestic demand (grants, interest payments on external debt, export credits).

lead to weaker consumption. If realised, those risks may put pressure on the exchange rate and lead to depreciation the Armenian dram, which, in turn, may result in accelerated inflation, weaker soundness indicators of the banking sector, and higher government debt. In addition, deteriorating macroeconomic conditions may have a negative impact on the formation of state budget revenues. The upside macroeconomic risks include further capital inflows from the RF, implementation of the EU assistance package, increased investment in the implementation of the Amulsar mine project and its launch starting from 2024 (the contribution to economic growth, according to the CBA, is about 2 p.p.), as well as the resumption of work at the Teghut mine (see Table 2. Factors of risk).

Table 1. Forecast of key macroeconomic indicators

	2022 Actual	2023 Estimate	2024 Forecast	2025 Forecast	2026 Forecast
National accounts and prices (in %)					
Real GDP growth	12.6	6.3	5.0	5.0	5.0
CPI (December, y-o-y)	8.3	3.2	4.0	4.0	4.0
Money and credit (end of period)					
Broad money, percentage change	16.1	14.0	11.5	11.5	11.5
Policy interest rate	10.75	9.75	9.5	9.5	9.5
Public finance (in % of GDP)					
Revenues and grants	24.3	24.5	24.8	25.1	25.5
of which tax revenues	22.7	23.5	23.9	24.4	24.9
Budget expenditures	26.4	27.3	27.4	27.6	27.9
Current expenditures	21.9	21.4	21.2	21.3	21.5
Capital expenditures	4.5	5.8	6.1	6.3	6.3
Budget balance ("-" deficit/"+" surplus)	-2.1	-2.8	-2.6	-2.5	-2.4
External sector (in % of GDP)					
Current account	0.8	-2.1	-2.5	-2.8	-2.8
Foreign direct investment	5.1	4.7	4.3	3.9	3.5
Gross reserves, in months of imports of goods and services	4.8	4.3	4.1	4.0	3.9

Table 2. Factors of risks to the baseline forecast

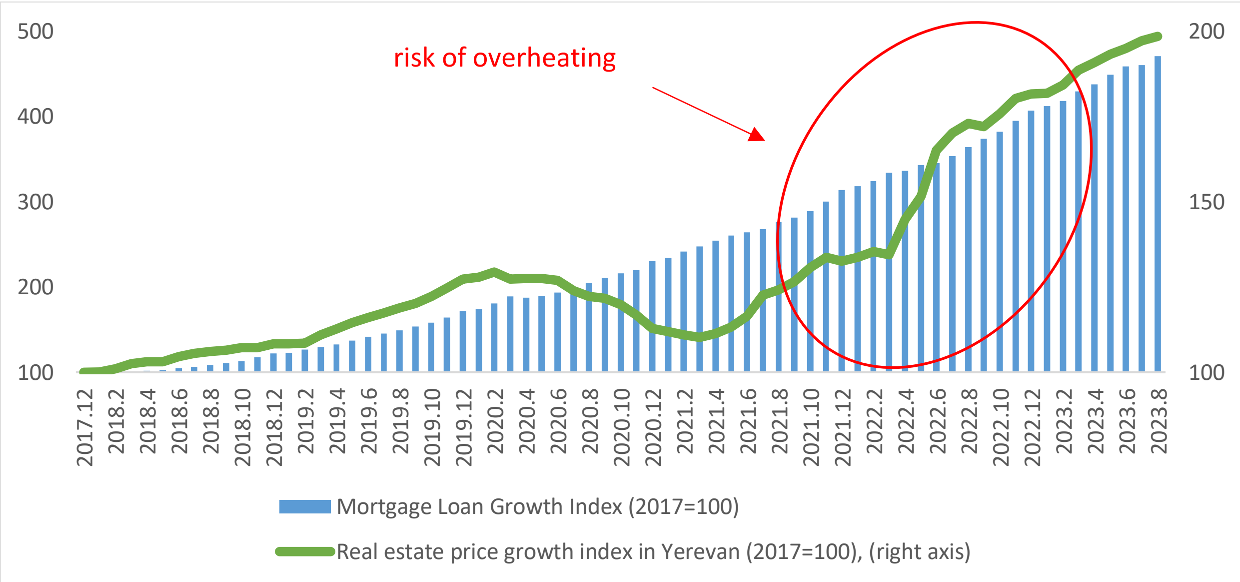
	To GDP growth	To inflation
Upside risks (+)	• additional influx of capital, • accelerating investment due to savings accumulated in the private sector, • implementation of the EU "Eastern Partnership" assistance package in the amount of EUR 2.6 billion (according to the CBA, the annual growth is expected to increase by about 1 p.p.), • operation of the Amulsar mine starting from 2024 (the contribution to economic growth is estimated by the CBA at about 2 p.p.), as well as the resumption of the operation of the Teghut mine.	• duration of acceleration of private consumption, • growth of government expenditures, • duration of acceleration of wage growth, • rising prices on the international market for commodities and food, • depreciation of the Armenian dram (in case of capital outflows).
Downside risks (-)	• potential outflow of RF capital and a decline in the consumption of RF citizens temporarily residing in the RA, • expansion of the package of sanctions against Russia and, to some extent, their extension to Armenia, • risks associated with the effectiveness of capital expenditure execution as envisaged by the medium-term budget plan, • risks associated with rising geopolitical tensions.	• duration of appreciation of the Armenian dram, • deceleration of private consumption, • declining prices on the international market for commodities and food.

Annex: "Analysis of the Drivers of the Housing Construction Boom in the Republic of Armenia in 2018–2023 and Potential Risks"

Analysing the sustainability of construction as a driver of economic growth is crucial for Armenia, which had a precedent for the manifestation of Dutch disease, when double-digit economic growth in 2003–2008 was fuelled by capital investment in housing through remittances. Following the financial crisis of 2008–2009, the recession in the construction sector was very deep (-42%) and volumes only recovered after the start of the Government income tax refund programme. Although the drivers of housing growth before and after the financial crisis are different (remittances in the former case, mortgage loans in the latter), it is necessary to assess the potential risks to the economy and the sufficiency of the measures taken by the Government and the CBA to offset these risks.

Since 2018, with the exception of the crisis in 2020 (the COVID-19 pandemic), there has been an acceleration in the growth of mortgage loans and an increase in property prices. The analysis shows that the property market has overheated in recent years, mainly due to Government measures to stimulate housing and mortgage lending through income tax rebates (see Figure 1). This is confirmed by the fact that according to our estimates, real estate prices in Armenia are currently around 30–40% above their fundamental level, which is close to the CBA estimates (around 30%)[5].

Figure1 Growth of mortgage loans and real estate prices, in % (2017=100)



Source: CBA, EFSD estimates

[5] https://www.cba.am/Storage/AM/downloads/finstability/Cyclic_2023Q2.pdf

In addition, the new housing construction boom increases the financial obligations of the RA Government every year. The level of payments is rising not only for households, but also for the Government, which will have to absorb a significant proportion of mortgage interest payments in the future. Expenditures of the state budget for refund from the income tax paid in 2022 increased by a factor of about 15 compared to 2017. According to our estimates, the long-term cumulative expenditures of the state budget on income tax refunds are likely to reach 6.0% of GDP (about USD 2.4 billion) by 2030 (see Figure 3).

Figure 2 Interest payments made by the Government under mortgage loans (flow)

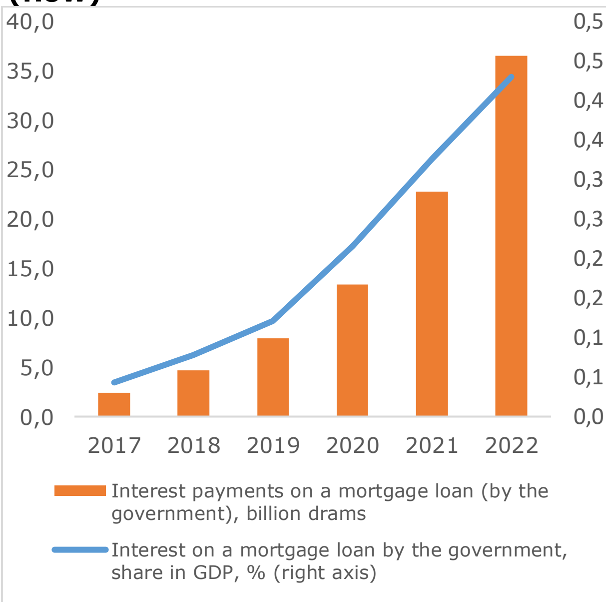
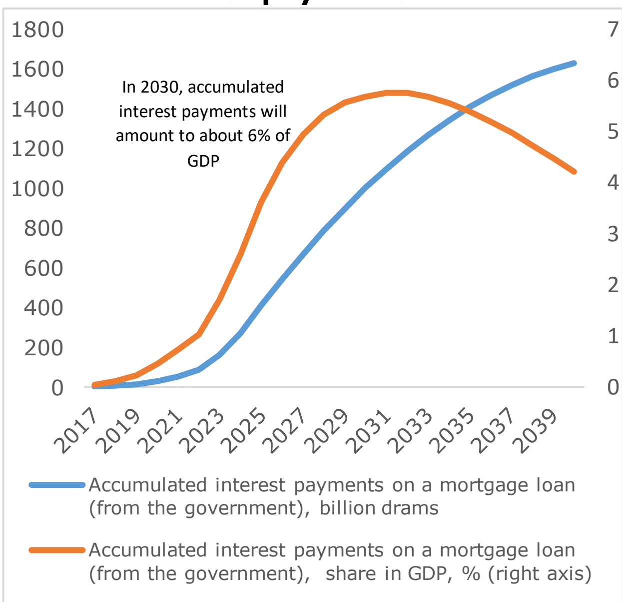


Figure 3 Government loan obligations accumulated in 2017–2040 due to future interest payments



Source: MF RA and EFSD Estimates

The growth of mortgage loans and the increase in the cost of servicing them in the debt structure of households in the long term pose certain risks. A slowdown in economic growth and an increase in inflation may lead to a reduction in the real disposable income of households, which, in the context of fixed mortgage payments (annuities), may weaken the solvency of borrowers and thereby lead to the emergence of risks in the banking sector. Changes in real estate prices can also adversely affect the quality of banks' assets and pose risks to financial stability. A sharp increase in the expenditure of the state budget on income tax refunds also poses some risks from the point of view of fiscal sustainability.

The Government and the CBA are taking appropriate measures to offset the risks that have built up in the real estate market and may affect further development of the construction sector, the financial sector, and (indirectly) other sectors of the economy. In particular, to ensure the stability of the financial system, the CBA closely monitors the real estate market and applies appropriate macroprudential tools: in recent years, a tool was introduced to limit the issuance of loans secured by real estate, which sets the maximum loan-to-value ratio limit; the countercyclical capital buffer rate for commercial banks was raised; the CBA regularly reviews fundamental real estate prices as part of its financial stability assessment exercise. The Government has also taken certain steps – amendments have been made to the Tax Code to reduce the amount of subsidised income tax refunds related to the purchase of real estate in Yerevan gradually until 2025.