
Moody's Assigns Ba2 Rating To Armenia's US\$700 Million 6% Notes Due 2020

Moody's - 27/9/2013

Global Credit Research - 27 Sep 2013

New York, September 27, 2013 -- Moody's Investors Service has today assigned a rating of Ba2 to the Government of Armenia's 700 million US\$-denominated notes due 2020. The notes will bear interest at a rate of 6% per annum. The rating is derived from Armenia's Ba2 government bond rating with stable outlook.

RATINGS RATIONALE

Moody's notes that Armenia's rating is supported by its prudent fiscal policy, which is reflected in recent deficit reduction from 7.5% in 2009 to 1.5% in 2012, in part achieved by under-realised capital expenditure and gradual revenue-mobilization. The latter is underpinned by tax reform to broaden the tax base and the introduction of a funded multi-pillar pension system from 2014 onwards. Other credit positive factors include the favourable cost of funding due to borrowings from official lenders.

At the same time, Armenia's Ba2 rating is constrained by the economy's small size and its reliance on commodity exports and on remittances, mainly from Russia. In this regard, Armenia's already high economic and financial exposure to Russia is set to intensify within the Customs Union of Russia, Belarus and Kazakhstan as opposed to the previously considered EU Deep and Comprehensive Free Trade Area (DCFTA). Moreover, the country's limited tax take and relatively high corruption rank also represent credit challenges.

Armenia's moderate geopolitical risks stem from its strained relations with neighbouring Azerbaijan and Turkey. With respect to economic event risk, the supply side shock stemming from the increase in natural gas and energy tariffs that came into effect in July 2013 will likely weaken the country's shock-absorption capacity, especially in view of a sufficient, but limited international reserve buffer at 3.9 months as of June 2013. While we expect a gradual reduction in Armenia's still large current account deficit at 11.1% of GDP in 2012 over the medium term, the economy has accrued a sizable external debt stock at 77% of GDP as of end-2012. The multilateral debt repayment schedule and the graduation from concessional funding further drives the external debt service ratio over the next few years.

The US\$700 million note sale proceeds amounting to 7% of 2012 GDP will be used for general governmental purposes and potentially for infrastructure investment. They add to the general government debt stock of 44.1% of GDP to the extent that they are not used for the repayment of the US\$500 million loan from Russia. At the same time, the note sale proceeds are set to temporarily boost gross foreign exchange reserves.

Moody's also notes that the high degree of dollarisation in the banking system amid rapid, but slowing credit growth toward nominal GDP growth levels underpins the country's medium financial event risk.

This is particularly relevant if the country was to experience a foreign-exchange funding shortfall, mitigated in part by the central bank's macro-prudential regulations regarding banks' foreign-currency exposures.

GDP per capita (PPP basis, US\$): 5,838 (2012 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 7.2% (2012 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 3.2% (2012 Actual)

Gen. Gov. Financial Balance/GDP: -1.5% (2012 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: -11.1% (2012 Actual) (also known as External Balance)

External debt/GDP: 76.7 (2012 Actual)

Level of economic development: Low level of economic resilience

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 15 August 2013, a rating committee was called to discuss the rating of the Armenia, Government of. The main points raised during the discussion were:

The issuer's economic fundamentals, including its economic strength, have not materially changed. The issuer's institutional strength/framework, has not materially changed. The issuer's fiscal or financial strength, including its debt profile, has materially increased. The issuer's susceptibility to political and economic event risk and the susceptibility to risks in the banking system have not materially changed.

The principal methodology used in this rating was Sovereign Bond Ratings published in September 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating.

For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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