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THE CENTRAL BANK OF ARMENIA
STRATEGY, 2015–2017

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CENTRAL BANK DEVELOPMENT STAGES

- ***Introducing the national currency.*** The national referendum of September 21, 1991 proclaimed Armenia an independent republic and very soon, in December that year, the State Bank of the Republic of Armenia took on the functions of the National Bank of the new Republic of Armenia. The Republic of Armenia Law on the Central Bank, dated April 27, 1993, renamed the National Bank as the Central Bank of the Republic of Armenia. The national currency, the Dram, was put into circulation in the territory of the Republic of Armenia under Resolution No. 15, dated November 19, 2003, by the State Committee of Money Cycle Regulation of the Republic of Armenia.
- ***Formulating the monetary policy program.*** In 1994, the Central Bank embarked on formulating the first monetary policy program thus starting a strategy of monetary targeting for price stability. In a short period of time, the Central Bank succeeded in reducing the inflation rate from as high as 1761% in 1994 to 32.2% in 1995. Going a down-sloping path, the inflation rate stabilized around a single-digit figure.
- ***Passing main laws on banking.*** To regularize the Armenian banking sector, in 1996 the National Assembly of the Republic of Armenia passed the following laws: Law on the Central Bank of the Republic of Armenia, Law on Banks and Banking, Law on Bank Bankruptcy, Law on Bank Secrecy. Maintaining price stability has become number one priority for the Central Bank, and a new framework for banking system rehabilitation measures was established.
- ***Creating and introducing national payment and settlement system.*** In 1996-2001, an interbank electronic payments system and a government securities accounting and settlements system (Bookentry) were introduced. The SWIFT system started to be widely used in international payments. In the meantime, efforts were spent to launch the national payments and settlements system in compliance with international standards by creating the unified payment and settlement system ArCa. Later, the Law on Payment and Settlement System and

Payment and Settlement Organizations passed by the National Assembly of the Republic of Armenia provided non-bank payment and settlement organizations a ground for starting activities.

- ***Improving the banking legislation framework for financial market participants and building infrastructures.*** In 2002-2004, considerable improvements and innovations to the banking legislation introduced gave birth to the establishment of guarantee of deposits of individuals. Further, the Central Bank took on the function for combating money laundering and terrorism financing. The rehabilitation of the banking sector made it possible for commercial banks to succeed in replenishing their capital. In the meantime, changes were made to the regulatory framework for credit institutions as the National Assembly of the Republic of Armenia passed the Law on Credit Organizations.
- ***The Central Bank as mega regulator and an entity responsible for financial stability.*** In 2005, a single framework for risk-based financial regulation and supervision was introduced in Armenia in compliance with international practice. The Central Bank was given authority to regulate and supervise activities of all participants of the financial system. So, the Central Bank took on the function of megaregulator along with responsibility for maintaining financial stability. The banking system is outstanding for the variety of services and a sound environment of competitiveness, and the Credit Registry and ACRA credit bureau set up in 2005-2006 was a good example of the said progress.
- ***Inflation targeting.*** In 2006, the Central Bank moved from the monetary targeting to a fully-fledged inflation targeting strategy, and the Bank's Forecasting and Policy Analysis System was designed and published under this new strategy.
- ***Consumer rights protection and financial literacy.*** In 2007, the Central Bank launched a policy to providing financial services in view of consumer protection and financial literacy. The Central Bank pursues to balance its policy

for financial stability and financial market development, highlighting the importance of not only financial institutions and infrastructure development but also consumer enhancement. There are three main pillars for the consumer protection policy: a) design and oversee an appropriate legal framework, b) achieve an effective resolution of consumer complaints, and c) increase consumers' literacy in financial matters. Later, the office of financial system mediator was called to boost up this policy.

- ***Non-bank financial sector development.*** In 2007-2011, the Central Bank started reforms in laws relating to the financial system thus marking the beginning of institutional and infrastructural reforms in the non-bank financial sector – insurance and capital markets, in particular. NASDAQ OMX, one of the best international operators, entered the Armenian market. Institutionalization of protection of consumer rights moved ahead as the financial system mediator started functioning, the National Assembly of the Republic of Armenia endorsed the Law on Compulsory Motor Third Party Liability Insurance, and the National Mortgage Company was established to promote the lending to specific target groups, i.e. students and young families.
- ***Institutional reforms and infrastructural developments.*** In 2012-2014, the Central Bank has carried out a number of institutional reform initiatives to promote the launch of funded pension system in the financial sector of Armenia. To this end, 2 prestigious international asset managers, “C-Quadrat Ampega Asset Management Armenia” and “Amundi-ACBA Asset Management” entered the Armenian financial market. The ArCa single payment and settlement system was entirely modernized to provide an environment for more effective and uninterrupted performance. The launch of the “Dilijan Training and Research Center” of the Central Bank in 2013 marked the beginning of a world-class research in the field of economics and finances. The Visitor Center of the Central Bank continues increasing the public awareness of the role of the Central Bank through various exhibitions and educational activities.

MISSION, TASKS AND VISION

The Central Bank of the Republic of Armenia is an independent public authority the ultimate task of which is to maintain price stability in the territory of the Republic of Armenia. In pursuit of its main objectives, the Central Bank formulates, approves and implements monetary policy programs.

Mission of the Central Bank is to:

- be internationally recognized as a transparent, independent, knowledge-oriented and effective entity that understands and assesses development trends in international financial community;
- continuously maintain institutional capacities in order to promptly respond to changes in economic environment and effectively influence economic processes;
- contribute to a sustainable macroeconomic development of Armenia while remaining a key partner to the Government in facing economic challenges.

Key tasks of the Central Bank are to:

- maintain stability and normal activity of the financial system of Armenia, including creating conditions necessary for stability, liquidity, solvency and functionality of the banking system;
- create and develop an effective payment and settlement system;
- provide issuance of the national currency as well as organize and regulate the money circulation;

- organize and regulate a framework for combating money laundering and terrorism financing;
- provide essential conditions for protection of investors in securities, for formation and retention of equitable quotation at securities market, for regulation of normal fair, transparent, trustworthy activities of securities market and its development;
- provide conditions for Consumer Rights Protection.

VISION OF THE CENTRAL BANK

In fulfilling the primary objective, the Central Bank seeks to uphold its reputation as an independent entity and guarantor of price and financial stability in the Republic of Armenia in the medium and long run by looking to a sustainable economic development and integration to world markets and pursuing to have an important regional role in the industry of financial services.

In 2015-2017, the Central Bank will steer its efforts to introducing and applying best international practices to the financial system in implementation of the objectives while making sure it diversifies adequately and grows proportionately.

VALUES AND BENEFICIARIES

VALUES OF THE CENTRAL BANK

Independence: The sole founder of the Central Bank is the Republic of Armenia. The Central Bank is independent from public authorities of the Republic of Armenia in implementing its activities in the context of setting targets and deciding on the tools to achieve these targets. Independence is needed in order to implement effective policies aimed to maintain price and financial stability. In doing so, the Central Bank contributes to a sustainable economic growth in a longer run.

Transparency: The Central Bank believes that transparency is a necessary and key condition for its accountability and independence. The Central Bank understands how an effective communication is important in the way of being trusted by and perceptible to the public in every aspect of policies it carries out. Consistence in actions is aimed to enhance people's confidence in the Central Bank as an open and transparent entity.

Institutional excellence: In fulfilling its objectives, facing challenges and responding to international developments, the Central Bank pursues to be an initiator and frontrunner in the realm of reforms. Studying and introducing international experience to all areas of the Central Bank activity is a necessary and an ongoing process.

Professionalism: Guided by the guaranty of effectiveness in every field of its activity, it is the Central Bank's top priority to engage a staff with extensive knowledge and high performance skillset, to retain the talent and nurture their lifelong growth through the path of professional development and career. While stressing the importance of using best international experience and advanced approaches, the Central Bank always encourages initiative and creative thinking, it creates good conditions and environment for staff training so that they could get international qualification certificates and pursue professional growth.

BENEFICIARIES OF THE CENTRAL BANK

Society: While communicating to the public the Central Bank pursues to create expectations which will be adequate to the policy on the one hand, and make its policy available in a most understandable way on the other. In doing so, the Central Bank gives impulses to the public and economic agents so that it helps them make informed decisions.

Financial system: The policy of the Central Bank is directly reflected in the conduct of the financial system participants and, therefore, should be perceptible to them for more effectiveness. As a regulatory and supervisory authority, the Central Bank always seeks to be impartial and fair to the financial system participants while making sure a level-playing-field is in place.

Partners: The Central Bank cooperates with public authorities of the Republic of Armenia – the Parliament and its commissions and the Government. At the same time, the Central Bank greatly values its international partners. The Central Bank uses competence to represent interest of the Republic of Armenia by cooperating with international financial institutions, central banks and other banks in different parts of the globe.

Central Bank staff: Human resource is the key asset of the Central Bank. Staff commitment to the values and mission as well as dedication to using their knowledge and skills in fulfillment of the tasks and goals of the Central Bank is a key pledge to effectiveness and success of the Central Bank's activity. Therefore, the Central Bank always seeks to contribute to a lifelong professional growth and attract and retain people who are able to offer value and skill.

STRATEGIC PRIORITIES OF THE CENTRAL BANK

For 2015-2017, the Board of the Central Bank has a blueprint for strategic development in the following areas:

I. Maintaining price stability

In order to maintain price stability in the Republic of Armenia, the Central Bank will, over the next 3 years, pursue:

- A. An effective monetary policy implementation.

II. Maintaining financial stability

In order to maintain financial stability in the Republic of Armenia, the Central Bank will, over the next 3 years, pursue:

- B. A sustainable, sound and functional financial system
- C. An effective payment and settlement system
- D. A regulated securities market and protection of interests of investors in securities.

III. Institutional excellence

In order to effectively carry out its objectives of price and financial stability in the Republic of Armenia, the Central Bank will, over the next 3 years, pursue:

- E. Development of institutional capacities of the Central Bank
- F. Development of the Dilijan Training and Research Center into a regional educational and scientific establishment.

I. MAINTAINING PRICE STABILITY

A. Implementation of effective monetary policy

This aspect is aimed at a monetary policy which anchors people's inflation expectations around the inflation target and keeps price volatility to the minimum under the inflation targeting strategy, while creating preconditions for achieving macroeconomic stability and economic growth in the long run.

1. Current achievements

In 2012-2014, the Central Bank continued implementing the monetary policy based on the principles of inflation targeting and floating exchange rate. As the most progressive among independent monetary policy strategies, it has proven its viability even in the time of global financial crisis.

In 2012-2014, the Central Bank has completely reformulated its forecasting and policy analysis system, from data collection and modeling framework to decision making, to communicating to the general public. In particular, the main forecast horizon has expanded to 3 years from a former 1-year horizon. A new quarterly inflation projection model was introduced to cover the domestic economy's peculiarities more accurately whereas short-term forecast and satellite models were designed and applied to complement and extend the modeling framework of macroeconomic forecasts. Reports and publications were improved to provide a more effective delivery of the monetary policy to the general public.

2. Main development goals

- Continuously improve and develop the forecasting and policy analyses modeling system and the decision making processes under inflation targeting strategy by analysis, research and introduction of best international practice.
- Improve communication aimed at delivering an open, transparent monetary policy to the general public in the most understandable way.
- Design and later introduce Dynamic Stochastic General Equilibrium model.

3. Expected outcome and policy action

<u>Expected outcome</u>	<u>Policy action</u>
<p>1. More accurate and thorough macroeconomic forecasts and effective analysis of monetary policy.</p>	<p><i>1.1. Continuous development and improvement of the main monetary policy model, the forecast and analysis modeling framework (including short-term forecasts and satellite models as well as analysis of sector issues of the economy), including behavioral analyses of economic agents (using the results of micro database and other surveys as well), most corresponding to the principles of inflation targeting, the characteristics of the transition mechanism and micro-foundations of the Armenian economy.</i></p> <p><i>1.2. Assessment of the effectiveness of monetary policy through a retrospective analysis (including through creation of a historical forecasting database and introduction of methods for assessment of forecast effectiveness).</i></p>
<p>2. A higher degree of perception of the monetary policy implementation for the increase of internal and external awareness of the monetary policy.</p>	<p><i>2.1. Targeted communication for individual beneficiaries (the legislature, academic world, media, business entities, and households).</i></p>

	<p><i>2.2. Experience and expertise exchange in respect of strategic issues of monetary policy between the Central Bank, international financial institutions and other central banks through conferences, workshops, expert discussions on various topics.</i></p>
<p>3. Higher effectiveness of monetary policy in the future.</p>	<p><i>3.1. Research aimed at building dynamic stochastic general and partial equilibrium models which will come to replace the quarterly projection model in the future.</i></p> <p><i>3.2. Professional capacity building and business quality improvement.</i></p>

II. MAINTAINING FINANCIAL STABILITY

B. Maintaining a sound, stable and functional financial system

This aspect is aimed at providing the normal activity and stability of the financial system of the Republic of Armenia, including the creation of necessary conditions for normal operation. This implies that financial institutions and payment and settlement system organizations fulfil their obligations in time, perform their functions effectively, efficiently and uninterruptedly, manage their risks prudently, absorb and neutralize the risks arising from probable shock situations, while maintaining their activities open and transparent.

1. Current achievements

The list of achievements included making a comprehensive analysis of the risks of financial institutions and introducing tools for financial stability monitoring. The financial stability report publication has improved. There were simulation games organized for working out response and other relevant action to emergency situations. A system was introduced to assess risks spilling over to the financial system from external and real sectors, through macro-prudential analyses (quantitative methods, stress tests). The crises management concept and systemic bank disclosure methodology were developed and are currently in use.

A concept of introducing the new Basel Principles (Basel 3) was developed in order to align the regulatory framework of the Armenian banking system with internationally accepted principles. Work to implement a new model (risk-based supervision) is underway. The joint World Bank and International Monetary Fund team also conducted an assessment of the financial system of Armenia under the Financial Sector Assessment Program in 2012, which marked notable improvements and progress in the field of regulation and supervision of the financial system compared to the 2005 assessment. In

particular, the latest assessment indicates that the financial system of Armenia **meets the abovementioned principles by nearly 93%** which means the country fits the ranking as compliant or largely compliant.

A timetable of implementation of the framework *Solvency 2* in the Republic of Armenia was developed and approved. The relevant works for the organization of the timetable-indicated events have begun; most particularly the “Non-Life Underwriting Risk Assessment Manual” has been developed and is currently on a pilot stage.

In 2012, the total evaluation of Electronic Payment System of the Central Bank in accordance with international principles, set by the Bank for International Settlements, was completed. Based on the results of the evaluation, the EPS has been estimated to be reliable and risk-free in the financial stability aspect. These evaluation results also served a basis for the World Bank activities conducted under FSAP in 2012.

2. Main development goals

- Develop a financial stability framework to ensure effective systems and procedures are in place for evaluation of potential risks that pose threat to financial stability, and for crisis management.
- Establish a sustainable framework of regulation and supervision in line with best international experience and principles that would be the best combination of financial system risks management (ensuring stability) and current developments.
- Implement reforms under a single financial system development philosophy to ensure tantamount and balanced development of financial institutions, financial markets and financial infrastructures concomitant with increasing financial intermediation.
- Continue actions toward introduction of advanced bank regulation and supervision standards, specifically new Basel principles, risk-based forward-looking supervision, consolidated supervision of financial institutions, improve the reporting system and the quality of data reported by banks, and adopt more streamlined approaches to the supervision on the whole.

- Continue activities towards introduction of best international standards on insurance regulation and supervision, namely the new principles developed by the International Association of Insurance Supervisors, improve the current supervision approaches, and in particular continue further efforts towards the phase by phase introduction of the Solvency 2 framework.
- Evaluate the “Unified System of Securities Registries Maintenance and Settlement” of the Central Depository of Armenia in accordance with the principles established by the Bank for International Settlements, in order to increase the effectiveness in risk management and functionality of securities settlement systems in the Republic of Armenia and align these systems with internationally recognized standards.
- Evaluate the current changes resulting from the assessment of the EPS of the Central Bank and based on the recommendations for the risk management system for the single purpose to establish compliance of the system operation with the principles indicated by the Bank for International Settlements, which will help the system minimize the emergence of risks and will increase the effectiveness of its performance.

3. Expected outcome and policy action

<u>Expected outcome</u>	<u>Policy action</u>
1. Effective systems and mechanisms for financial stability and crisis management in line with best international practices.	<p><i>1.1. Development and application of methods for assessment, monitoring and analysis of financial system-specific risks.</i></p> <p><i>1.2. Regular review and update of the crisis management concept, and its alignment with the legislative and regulatory frameworks.</i></p> <p><i>1.3. Development of quantitative methods for assessment of risks, which spill over from external and real sectors, through macro-prudential analyses.</i></p>

<p>2. Financial system regulation and supervision in accordance with best international practices.</p>	<p><i>2.1. Analysis and evaluation of potential impacts during a staged transition to the Basel 3 Accord.</i></p> <p><i>2.2. Analysis and evaluation of potential impacts during staged implementation of the Solvency 2 framework.</i></p>
<p>3. New financial institutions, financial infrastructure, tools and services for sustainable development of the financial system.</p>	<p><i>3.1. Formulation of a long-term financial system development strategy for the Republic of Armenia. The strategy will incorporate measures for activities towards further development of individual sectors of the financial system (banks, insurance companies, securities market, payment and settlement system).</i></p> <p><i>3.2. Implementation of measures aimed at strengthening financial intermediation in the Republic of Armenia, particularly contribution to the introduction of technologies that support the provision of remote financial services, expansion of their geography, support for the introduction and gradual development of micro-financing services, innovative products and services, such as non-cash, electronic and mobile financial services.</i></p>
<p>4. Advanced bank regulation and supervision standards.</p>	<p><i>4.1. Evaluation of the best international practices introduction feasibility in the banking system of the Republic of Armenia, testing and implementation.</i></p> <p><i>4.2. Improvement and staged introduction of the risk-based supervision framework.</i></p> <p><i>4.3. Testing and final introduction of the system designed to obtain raw data from banks.</i></p> <p><i>4.4. Passing and enforcement of a law on consolidated supervision.</i></p>

<p>5. Advanced insurance regulation and supervision standards.</p>	<p><i>5.1. Evaluation of the best international practices introduction feasibility in the banking system of the Republic of Armenia, testing and implementation.</i></p> <p><i>5.2. Stage by stage introduction and development of a risk-based supervision framework for insurance activity.</i></p>
<p>6. CDA “Unified System of Securities Registries Maintenance and Settlement” performance alignment with Principles for Financial Market Infrastructures.</p>	<p><i>6.1. Detection of possible sources of risks in the system.</i></p> <p><i>6.2. Evaluation of the system based on international principles/standards; initiation of an action plan for necessary reforms towards the minimization of the risks identified during the evaluation.</i></p> <p><i>6.3. A follow-up monitoring of the evaluation results.</i></p>
<p>7. Central Bank EPS performance alignment with FMI Principles.</p>	<p><i>7.1. Evaluation and implementation of the changes intended under the action plan to minimize the risks identified during the evaluation.</i></p> <p><i>7.2. A follow-up monitoring of the system at an established time periodicity.</i></p>

C. Maintaining an effective payment and settlement system

This aspect is aimed at regulation and supervision of payment and settlement system in the Republic of Armenia in order to provide its effective creation and development, including the activities of non-bank organizations providing payment and settlement services.

1. Current achievements

In 2013, the ArCa card unified payment system was entirely modernized. The provision of payment and settlement services, including e-money transactions, by non-bank organizations has been regularized and clarified.

In 2013, the Central Bank introduced new types of electronic messaging to its EPS that made it possible to incorporate additional, more comprehensive information relevant to the payment through the EPS and automated processing of such information, as well as to reduce the risk to performance error in payment transactions.

2. Main development goals

- Develop core policy principles for the payment and settlement system of the Republic of Armenia in 2015-2017.
- Design and implement a unified money transfers system without opening a bank account (the Armenian Remittances Unified System, ARUS).
- Identify risks inherent in payment and settlement organizations and set up mechanisms which will be able to manage these risks.
- In cooperation with Government agencies, support the introduction of a single database created to increase the effectiveness of payments.

3. Expected outcome and policy action

<u>Expected outcome</u>	<u>Policy action</u>
<p>1.1. Main aspects of development of the payment and settlement system in the Republic of Armenia; clarified rules for engaging in activities in the financial market.</p> <p>1.2. Effectively functioning and organically growing payment systems owned by the Central Bank.</p> <p>1.3. A securities settlement procedure.</p>	<p><i>1.1. Development of a conceptual policy and its principles.</i></p> <p><i>1.2. Identification and solution of current problems related to the operational requirements of the system and relevant analysis.</i></p> <p><i>1.3. Development of a securities settlement procedure, including placements through NASDAQ OMX, plus the final settlement using the T+3 principle.</i></p>
<p>2. Opportunity for an effective oversight of services provided by international money transfer system operators in the territory of the Republic of Armenia.</p>	<p><i>2.1. Development of system potential risks management mechanisms.</i></p> <p><i>2.2. Development of effective mechanisms that make sure the system is installed and operated safely.</i></p>
<p>3. Environment and conditions required for effective supervision aimed at risk mitigation.</p>	<p><i>3.1. Definition of approaches to oversight of payment and settlement organizations activities by establishment of effective risk management mechanisms.</i></p>
<p>4. An improved environment for the development of non-cash payments; possibility for an effective payment information management.</p>	<p><i>4.1. Improvement of the legal framework of non-cash payments.</i></p> <p><i>4.2. Provision of a possibility for mutual ties between government agencies and banks.</i></p>

D. Securities market regulation and protection of interests of investors in securities

This aspect is aimed at creating conditions in order to protect the investors in securities, to create and maintain a framework of fair pricing of securities in the market, to ensure a regulated and functional market is in place for fair, transparent and trusted securities operations, as well as to ensure the sustainable development of a funded pension contribution scheme.

1. Current achievements

The legal framework to sustain the functioning of the funded pension contribution scheme was developed in 2012-2014 with basic establishments and technical infrastructure to serve the system. To this end, 2 internationally recognized asset managers; “C-Quadrat Ampega Asset Management Armenia” and “Amundi-ACBA Asset Management” entered the Armenian financial market.

The new centralized securities accounting system has been introduced and made accessible to a larger community of investors.

2. Main development goals

- Improve the regulatory and supervisory framework for securities market participants, financial institutions and funds involved in funded pension system through introduction of relevant industry advanced standards, namely the supervision principles and standards established by the International Association of Securities Supervisors (IOSCO) and the International Organization of Pension Supervisors (IOPS).
- Continuously facilitate and assist the securities market participants, i.e. investors (including funds) in creating new quality tools for the securities market.

- Contribute to the continuous development of the securities market infrastructure and introduction of best standards and practices in securities trading and settlements, including:
 - introduction of a new trading system that will enable the future integration of stock exchange market to other developed markets;
 - introduction of the T+3 system of exchange trading without preliminary deposition, which will significantly increase market liquidity;
 - establishing connection with international depositories, which will make both the Armenian market more accessible to foreign investors (easy access, low transaction costs), and vice versa.

3. Expected outcome and policy action

<u>Expected outcome</u>	<u>Policy action</u>
<p>1.1. A regulatory and supervisory framework for the securities market in accordance with best international practices.</p> <p>1.2. Effective supervision; optimally redistributed supervisory resources.</p>	<p><i>1.1.1. Stage by stage harmonization with the supervisory principles and standards defined by IOSCO and IOPS.</i></p> <p><i>1.2.1. Improvement of the risk-based supervision framework; design and stage by stage implementation of a consolidated supervision framework.</i></p>
<p>2. A higher level of financial intermediation to be achieved through introduction of new financial institutions, financial infrastructure, tools, and services.</p>	<p><i>2.1. Activities aimed at expanding collective investment schemes and making them more attractive for foreign investors.</i></p> <p><i>2.2. Cooperation with large reputable companies operating in the Republic of Armenia, in order to facilitate and assist them in issuance of new stocks and bonds.</i></p> <p><i>2.3. Assistance in creation of establishments responsible for securitization; contribution to the implementation of securitization projects.</i></p>
<p>3. An effective securities market infrastructure.</p>	<p><i>3.1. Introduction of a new securities trading system.</i></p>

	<p><i>3.2. Activities aimed at improving the mechanisms for settlements in the government and corporate securities market, including design and stage by stage implementation of the T+3 system of exchange trading without a preliminary deposition.</i></p>
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III. INSTITUTIONAL EXCELLENCE

E. Institutional capacity building of the Central Bank

In the institutional excellence aspect, the Central Bank pursues to be internationally recognized as a reputable, independent, transparent, perceptible, open-for-communication entity that is a full-fledged partner in international relations and implements economic policies based on scientific research, while ensuring continuous enhancement of Central Bank professional and research potential and effective resource mobilization.

1. Current achievements

The measures taken on for implementation of the strategic plan 2012-2014 included introduction of an electronic registration system for recruitment of external applicants, development and introduction of a virtual work environment policy, review of the principles for evaluation of job performance, creation of alternatives to development opportunities for the staff, aimed at the adjustment to the process of job vacancies, career growth, enhancing staff motivation and increasing work effectiveness.

Further efforts were spent to improve the set of tools of the Central Bank staff education and training policy and the output measurements of trainings. Specifically, a mechanism was set up to collate training needs of the staff and another one was designed for consistent and multilayer evaluation of the results. An internal training course database was established with the aim to set the culture for lifelong education and knowledge sharing within the Central Bank.

In this period the Central Bank structure and governance systems were optimized, the electronic document flow was improved, further work was done to develop information

security management system and align it with international criteria. The Central Bank was first in Armenia officially awarded the international standard ISO/IEC 27001:2005 “Information security management systems: Requirements” by Bureau Veritas Certification. The standard indicates that the Central Bank has introduced an effective, operating and always improving information security management system.

The Visitor Center continued to work on increasing public awareness of the role and activities of the Central Bank. In 2012-2014, the center hosted 18.739 visitors at the main Central Bank building in Yerevan and another 3.033 visitors in regions.

2. Main development goals

- Increase public awareness and international recognition for the Central Bank.
- Carry out strategic planning of the staff.
- Create a multi-skilled personnel reserve for job vacancies at the Central Bank.
- Strengthen the link between job performance, staff development and promotion.
- Expand systemic learning opportunities within the Central Bank by developing internal training capabilities.
- Update, on a regular basis, information technologies for the effective functioning of the Central Bank.
- Improve the system of governance and develop internal culture for the effective functioning of the Central Bank.
- Ensure business continuity of the Central Bank and security of the staff.

3. Expected outcome and policy action

<u>Expected outcome</u>	<u>Policy action</u>
1. A high degree of recognition of the Central Bank; a high level of public perception of Central Bank policies and activities.	<i>1.1. Improvement of the current public communication mechanisms, methods and tools, and continuous cooperation for broader public awareness (seminars, meetings).</i>

<p>2. Availability of human resources for the fulfillment of strategic objectives of the Central Bank.</p>	<p><i>2.1. Evaluation of capacities and skills of available human resources and their adjustment to the requirements of the new strategy; identification of gaps, suggestions for solution.</i></p>
<p>3. Availability of personnel reserve skillful to perform a variety of functions as required by job descriptions of the Central Bank.</p>	<p><i>3.1. Development of required skills and professional knowledge of young specialists aimed at replenishment of the personnel reserve.</i></p>
<p>4. Acceptable/measurable indicators for individual work performance.</p>	<p><i>4.1. Development of a mechanism for formulation and evaluation of indicators; proposal of a set of improvement tools.</i></p>
<p>5. Regular courses at the Central Bank conducted with the involvement of experienced staff and external experts.</p>	<p><i>5.1. Broadening of the internal course database content, investigation of teaching potential of the Central Bank, provision of instructor motivation, establishment of expert database.</i></p>
<p>6. State-of-the-art information delivery solutions for effective performance of the Central Bank.</p>	<p><i>6.1. Continuous performance of the Central Bank's information technology infrastructure and various interbank and intrabank software applications in compliance with required specifications and functionality features.</i></p> <p><i>6.2. Development and improvement of the Central Bank's information technology infrastructure and applied automated system, application of novice technologies thereto, for the facilitation of the objectives defined by this strategy.</i></p>
<p>7. Effectiveness of the structure and governance system, and high level of internal culture within the Central Bank.</p>	<p><i>7.1. Improvement of the Central Bank's structure and governance systems.</i></p> <p><i>7.2. Measures contributing to the development of corporate culture within the Central Bank.</i></p>
<p>8. The Central Bank security and business continuity.</p>	<p><i>8.1. Improvement of the Central Bank's current security system.</i></p> <p><i>8.2. Development of business continuity concept at the Central Bank.</i></p>

F. Development of Dilijan Training and Research Center

The main goal is to help the Dilijan Training and Research Center become eventually established, enhance its international reputation in the field of economics and finances thus contributing to Dilijan recognition as a regional center for education and research.

1. Current achievements

The Central Bank strategy 2012-2014 envisaged the establishment of the Dilijan Training and Research Center, which will be home to international research and policy analyses to contribute to the financial and non-financial sector development in Armenia and in the region. Dilijan TRC launched its activities in 2013; since then the Center has reached remarkable results in **both research and training aspects**, exactly as it has been incorporated into its founding principles.

In terms of the development of the **research aspect**, since the very start of the Center, the Central Bank's economic research team, the analytics and research specialists of the monetary policy, statistics and law departments, as well as support personnel of the information and communication technology department have been performing their activities there. Moreover, in 2014, an internship program commenced between the Central Bank and Harvard University in the framework of perspective cooperation, and for this purpose the Dilijan TRC hosted Harvard University students who are involved in research work on the themes proposed by the Central Bank.

In the **trainings aspect** since 2013, the Dilijan TRC has been organizing a great deal of workshops at domestic and regional levels aimed at broadening knowledge and developing skills, as well as international conferences and conventions. The trainings and other activities have been implemented based on the cooperation with the world's leading organizations, universities and training centers such as Harvard, Oxford, Columbia universities, the Toronto Centre, and training centers of Financial Stability Institute and Bank for International Settlements.

With the aim to support the Dilijan community, the Central Bank has completely renovated the library building in Dilijan. Reopened in 2013, the library as a four-story building houses the *Knowledge for Development* Center. It comprises of a visitor center equipped with modern engineering solutions and information technology facilities (which has hosted 2235 visitors in the abovementioned period); a public library with an electronic library component (which had 823 users in the same period); classes of language and computer learning; Dilijan branch of Tumo, a creative technologies center (which has 338 registered children attendants). The *Knowledge for Development* Center has been established to facilitate the incorporation of Dilijan population into international scientific and academic developments.

2. Main development goals

- Strategically strengthen the Dilijan TRC capacity and develop its research component.
- Enhance existing relationships and create new ones with leading international education, training and research centers.

3. Expected outcome and policy action

<u>Expected outcome</u>	<u>Policy action</u>
1. Publication of research conducted in the Dilijan TRC in international academic journals.	<p><i>1.1. Contribution to the improvement of activities carried out at the Dilijan TRC by redistribution of the Central Bank resources.</i></p> <p><i>1.2. Quantitative expansion and qualitative improvement of research conducted at the Dilijan TRC ensuring its applicability.</i></p>
2. An internationally recognized training center.	<p><i>2.1. Activities aimed at making the Dilijan TRC a recognizable destination.</i></p> <p><i>2.2. Further broadening and qualitative improvement of the range of event participants, the themes and the list of supporting partners.</i></p>

OTHER AREAS OF THE CENTRAL BANK'S ACTIVITY IN 2015-2017

In addition to 3 strategic priorities established for 2015-2017, the Board of the Central Bank highlights other aspects of activity, as specified by the Republic of Armenia Law on the Central Bank, as follows:

- G. Issuance of currency and regulation of cash circulation,
- H. Organization and regulation of fight against money laundering and terrorism financing,
- I. Consumer rights protection in financial system
- J. Effective management of international reserves

G. Issuance of currency and regulation of cash circulation

The main task of this aspect is implementing a regulatory, organizational and supervisory policy so that it satisfies the demand for unhindered flow of cash in necessary amount, nominal, quality and timeframes for all economic agents under the principles of continuity and reliability; representing national values through the issuance of the notes and coins of the Republic of Armenia; as well as increasing the effectiveness of the fight against counterfeit money in the Republic of Armenia.

1. Current achievements

In order to raise the effectiveness of cash service for the Central Bank customers, a number of important measures were taken on during 2014. Particularly, the terms of customer service at the main cash center of the Central Bank were reviewed and new regional cash centers of the Central Bank started operation in Syunik and Dilijan in order to raise the effectiveness of cash service for banks in Republic of Armenia regions. Other benefits included the service effectiveness, safety, reduced maintenance costs, simplified procedures for customer service, more areas of use of the automated banknote processing systems, and reduced risks.

Recently, the Central Bank has reported important achievements in the field of banknote security and improved quality. The change for the similar arrangement of security features and other design components of the banknotes with all nominal values facilitated evaluating the authenticity of the banknotes by population. The new Currency Examination Unit of the Central Bank embarked on expanding and improving the examination of suspicious, damaged and counterfeit banknotes and established close cooperation with the Republic of Armenia law enforcement agencies in the fight against counterfeit money.

Following the developments in the international numismatics in 2011-2012, the Central Bank has taken on issuance of a new type of currency, i.e. collector commemorative coins dedicated to the regions and capital Yerevan, as well as investment coins (“Noah's Ark”). The Central Bank continued participating in international currency contests and

numismatic programs and in the framework of one of such events issued an unprecedented series of gold and silver commemorative coins titled “The Letters of the Armenian Alphabet”.

2. Main development goals

- Issue high security and quality notes and coins, using state-of-the-art printing and striking technologies.
- Supply the money cycle with fit and proper notes and coins through regulation of cash processing (recount, sort-out) in the banking system.
- Reduce risks in the system of cash money circulation through automation of information flows related to cash transactions.
- Establish information database on counterfeit money in order to increase the effectiveness in the fight against money fraud.
- Propagate national, historical, cultural and spiritual values inside and outside Armenia by issuing new kind and quality numismatic values, expanding the Central Bank collection of historic notes and coins and enhancing the Central Bank participation in international numismatic programs and contests.
- Ensure the general public has an increased level of awareness of the notes and coins both in circulation and the newly issued ones.

3. Expected outcome and policy action

<u>Expected outcome</u>	<u>Policy action</u>
1. Circulation of notes and coins reliably protected from forgery while adequately fit for use.	<i>1.1. Assessment of the appropriateness of using new security features, their introduction based on statistical analysis of methods of counterfeiting and research of developments in security printing industry.</i>
2. Proper quality of banknotes in circulation.	<i>2.1. Development and introduction of relevant mechanisms for regulation of banknotes in circulation. 2.2. Continuous monitoring of the domestic currency reserves.</i>

<p>3. Complete, accurate, timely information. A lower level of potential risks in cash transactions.</p>	<p><i>3.1. Automation of information flows on transactions with numismatic values within the Central Bank.</i></p> <p><i>3.2. Continuous improvement of the regulatory legal framework for cash circulation through ongoing monitoring, analysis and study of international experience.</i></p>
<p>4. A complete, reliable database on notes and coins having passed the Central Bank's expertise. An adequate reporting system. Expertise by the use of higher quality, technical facilities and improved procedures.</p>	<p><i>4.1. Improvement and advancement of the information system on counterfeit money.</i></p> <p><i>4.2. Creation of an information system on banknotes qualified as fit or unfit in the result of expertise.</i></p> <p><i>4.3. Research and introduction of modern technical equipment, procedures and methods of expertise.</i></p>
<p>5. Numismatic values of new kind and quality (supply) in local and international numismatic markets.</p>	<p><i>5.1. Organization of issuance of new types of numismatic values (collector coins/banknotes, commemorative coins, medals, their series and collections) by the use of new design and security printing technologies, in line with trends of numismatic industry.</i></p> <p><i>5.2. Activities on propagating numismatic values of Armenia, including their representation in international markets through participation in international projects, contests.</i></p>
<p>6. An increased level of public awareness of existing and newly issued notes and coins of the Republic of Armenia.</p>	<p><i>6.1. Publication of information on existing and newly issued notes and coins of the Republic of Armenia through local and foreign media and the Central Bank's website (www.cba.am).</i></p> <p><i>6.2. Development of print materials on the notes and coins of the Republic of Armenia and their distribution in Armenia and abroad.</i></p>

H. Organization and regulation of fight against money laundering and terrorism financing

The main goal of this aspect is to have an adequate framework that organizes and regulates the fight against money laundering and terrorism financing in the Republic of Armenia through developing legislative and institutional systems as well capacity building of the ML/TF framework participants.

1. Current achievements

The package of amendments to the Republic of Armenia Law on Combatting Money Laundering and Terrorism Financing and to 14 other relevant laws was approved by the National Assembly of the Republic of Armenia and signed by the President of The Republic of Armenia; the amendments were developed by the Financial Monitoring Center of the Central Bank in cooperation with other competent authorities back in 2010 in implementation of the recommendations of the International Monetary Fund and Council of Europe MONEYVAL 3rd phase evaluation report. Further amendments were introduced to the draft law on making supplements to the law on Combatting Money Laundering and Terrorism Financing, draft law on making amendment to the Armenia Criminal Code and draft law on making change and supplement to the law on the Armenia Customs Code that pursued fulfillment of the Government of Armenia timetable of the action plan (Roadmap) for Armenia's accession to the Customs Union and Common Economic Territory of Republic of Belarus, Republic of Kazakhstan and Russian Federation.

Activities were conducted on introduction and further maintenance of the “Integrated Information Area”, a system for fast and secure exchange of information and establishment of a single information environment in the framework of national inter-agency cooperation. Before the launch of IIA, the system testing and security check was completed, the network connection and operation equipment (server stations, secure networking equipment, UPS devices) and software packages were installed. The FMC drafted a Central Bank chairman resolution and agreements on linking Central Bank to IIA and its operation. The draft papers were submitted to the concerned agencies for suggestions and remarks.

2. Main development goals

- Align the Armenia legal framework with international ML/TF standards.
- Enhance national inter-agency cooperation in the field of combatting ML/TF.
- Further develop capacities of the FMC, as the national financial intelligence unit.
- Develop capacity building of reporting entities in the field of ML/TF prevention.
- Enhance international cooperation in the field of combatting ML/TF.

3. Expected outcome and policy action

<u>Expected outcome</u>	<u>Policy action</u>
1. Transition to the CoE MONEYVAL 5th phase of evaluation.	<p><i>1.1. Development of materials for evaluation, coordinated implementation of organizational measures.</i></p> <p><i>1.2. Improvement of the ML/TF combatting framework based on the recommendations of the evaluation report.</i></p>
2.1. Information exchange between the FMC and public authorities in Armenia.	<p><i>2.1.1. Identification and regulation of issues relevant to IIA operational requirements.</i></p> <p><i>2.1.2. Development and introduction of criteria and a mechanism for evaluating the quality of information exchange between public authorities via the IIA.</i></p>
2.2. Coordinated case review by FMC and other government agencies in the field of combatting ML/TF.	<p><i>2.2.1. Provision of legal and methodological platform for coordinated case reviews.</i></p> <p><i>2.2.2. Conduct of coordinated case reviews through modern technologies.</i></p>
2.3. Proper oversight of reporting entities in the field of combatting ML/TF.	<p><i>2.3.1. Collaborative measures aimed at regulating and increasing public awareness in the field of combatting ML/TF together with authorities in charge of oversight of reporting entities.</i></p> <p><i>2.3.2. FMC participation in oversight measures of reporting entities.</i></p>

<p>3. A state-of-the-art software solution for FMC case administration.</p>	<p><i>3.1. Development of the FMC case administration software, including the analytical information database, through acquiring and/or developing and introducing modern technologies/ software solutions.</i></p>
<p>4. Delivery of high-quality reports on suspicious transactions and business relationships by reporting entities.</p>	<p><i>4.1. Improved quality of reports on suspicious transactions and business relationships delivered by reporting entities through provision of guidance, trainings and consultations.</i></p>
<p>5. Proper representation of Armenia in the CoE MONEYVAL Committee, the Egmont Group, the Eurasian Group, the Commonwealth of Independent States Council of Heads of FIUs, and other international institutions.</p>	<p><i>5.1. Active participation in and project initiation and implementation with the CoE MONEYVAL Committee, the Egmont Group, the Eurasian Group, the CIS Council of Heads of FIUs.</i></p> <p><i>5.2. Participation in the assessment of the other countries' framework of combatting ML/TF.</i></p>

I. Consumer rights protection in financial system

This direction aims to protect the rights and legal interests of consumers in the financial system through a fair conduct by financial service providers, maintenance of an appropriate institutional environment and financial education.

1. Current achievements

Measures are taken to develop and improve the legal framework for a fair, transparent and competitive financial market.

The monitoring over protection of consumer interests has been strengthened which is aimed at maintaining behavior adequate to the standards of fair business conduct by financial institutions.

The “Financial Helper”, an online tool through which the information on a variety of financial services and products can be received, compared and selected was developed and introduced.

Inspections are carried out regularly at financial institutions in accordance with the “Business Conduct Supervision Manual”, and remote monitoring is being conducted over the information which organizations publish using various means of communication.

A series of measures in the framework of consumer financial capacity building in 2012-2014 included such events and games as “My Finance Month”, “Economics and Finance” brain ring, the “Finance Literacy for Youth” - (Fly) and others with an aim to increase the public awareness. The “National Strategy of Financial Education” developed by the Central Bank in 2013 and approved by the Government in 2014 establishes the terms, conditions and environment for achieving the required level of financial literacy in the Republic of Armenia and provides the action plan for implementation.

The cooperation with international organizations engaged in consumer protection and financial education activities has been further enhanced.

2. Main development goals

- Ensure financial service providers' compliance with standards of responsible business conduct by carrying out an appropriate regulation and supervision policy of financial institution activities.
- Develop an institutional environment for a fair and transparent market.
- Contribute to the strengthening of the financial system consumers (financial capacity building) through financial education.

3. Expected outcome and policy action

<u>Expected outcome</u>	<u>Policy action</u>
1. Improvement of the regulatory framework and mechanisms for protection of consumer interests.	<i>1.1. Transparency and disclosure of information; effectiveness of rules on transparency and communication between financial organization and consumer.</i> <i>1.2. Regulation of non-property claims handling by financial institutions and Financial System Mediator, increase of accountability on such claims, broadening of the scope of complaints handled by the Financial System Mediator, higher effectiveness of complaint resolution within the Central Bank.</i> <i>1.3. Development of a regulatory framework for protection of personal data of consumers by financial institutions.</i> <i>1.4. Broadening of legal framework for protection of consumers of financial services – mortgage loan, insurance products.</i> <i>1.5. Regulation of insurance companies business conduct.</i>

	<i>1.6. Regular improvement of the systems designed to provide service related fast and comparable information, inclusion of new financial services.</i>
2. Improved capacity building of supervisory technique in consumer protection.	<p><i>2.1. Introduction of new supervisory tools and improvement of the existing ones.</i></p> <p><i>2.2. Improvement of the supervisory accountability.</i></p> <p><i>2.3. Development of new supervisory manuals and improvement of the existing ones.</i></p> <p><i>2.4. Training of supervisors.</i></p>
3. Development and improvement of conditions for public financial awareness.	<i>3.1. Implementation of measures as required by the National Strategy of Financial Education in the Republic of Armenia.</i>

J. Effective management of international reserves

This aspect is aimed at safe and liquid management of international reserves of the Republic of Armenia by expanding the set of tools for reserve management.

1. Current achievements

The Central Bank continued efforts of investing in new financial instruments in 2012-2014 for the purpose of effective and safe management of international reserves of the Republic of Armenia. Moreover, the investment tactics were developed and improved further, generating as a result proceeds and liquidity exceeding the established benchmarks.

2. Main development goals

- Manage the international reserves of the Republic of Armenia to generate proceeds equal to or in excess of the established guidelines, and invest in new financial instruments to boost revenues from management of financial resources on one hand and provide diversification on the other.

3. Expected outcome and policy action

<u>Expected outcome</u>	<u>Policy action</u>
1.1. Higher yield of international reserves, proceeds equal to or in excess of the established benchmarks.	<i>1.1.1. Investment in new financial instruments and improvement of the tactics with invested instruments.</i> <i>1.1.2. Broader diversification.</i>
1.2. Capacity building for the financial risk assessment.	<i>1.2.1. Improvement of the financial risk assessment methods and tools.</i>
1.3. Development of a unified approach to international reserves and external debt management.	<i>1.3.1. Development and introduction of alternative approaches to strategic placement of reserves.</i>

Final provisions

The Central Bank strategy presents Bank's development stages, mission, vision, values and beneficiaries.

For 2015-2017, the Board of the Central Bank sets three strategic priorities – price stability, financial stability and institutional excellence.

In addition to the strategic priorities mentioned above, the Central Bank underscores the importance of other strategies for 2015-2017, as prescribed in the Republic of Armenia Law on the Central Bank. These are the issuance of currency and regulation of cash circulation, the organization and regulation of fight against money laundering and terrorism financing, the consumer rights protection in financial market, and the organization of effective management of international reserves of the Republic of Armenia.

The Central Bank's staff professionalism and well-preparedness will facilitate effective and efficient implementation of activities under the strategy.

List of abbreviations

CDA - Central Depository of Armenia

CIS - Commonwealth of Independent States

CoE – Council of Europe

Dilijan TRC - Dilijan Training and Research Center

EPS - Electronic Payment System

FIU - Financial intelligence unit

FMC - Financial Monitoring Center

FMI Principles - Principles for Financial Market Infrastructures

FSAP - Financial Sector Assessment Program

IAIS - International Association of Insurance Supervisors

IIA - Integrated Information Area

IOPS - International Organization of Pension Supervisors

IOSCO - International Association of Securities Supervisors

ML/TF - Money laundering and terrorism financing

Appendix

