

LAW OF THE REPUBLIC OF ARMENIA

ON THE BUDGETARY SYSTEM OF THE
REPUBLIC OF ARMENIA

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**LAW OF THE REPUBLIC OF ARMENIA
ON THE BUDGETARY SYSTEM OF THE REPUBLIC OF ARMENIA**

*Adopted by the National Assembly
on June 24, 1997
Signed by President L. Ter-Petrosian
on July 21, 1997*

PART 1. GENERAL PROVISIONS

Article 1. The Objective of this Law

The objective of this Law is to define the basic procedures of the budgetary system and to regulate the process of budgeting.

Article 2. The State Budget and Community Budgets

1. The State Budget and community budgets are fiscal plans for a particular period of time on raising and spending the funds necessary for state and local jurisdictions to perform their constitutional and statutory functions.
2. The budgets are drafted, discussed and adopted pursuant to the procedure set forth in the Constitution and the laws.

Article 3. The Budgetary System of the Republic of Armenia

1. The budgetary system of the Republic of Armenia is composed of the State Budget and community budgets (hereafter - the budgets);
2. The State Budget and community budgets are built upon a unified fiscal, monetary and tax policy of the State.
3. The budgetary system of the Republic of Armenia is built upon the principles of:
 - preparation of draft budgets;
 - budgetary classification of budget revenues and expenditures;
 - accounting;
 - reporting;
 - general principles of budget implementation.

Article 4. Consolidated Budget of the Republic of Armenia

Consolidated budget of the Republic of Armenia is the consolidated balance of state and community budget revenues and expenditures.

Article 5. Budgetary Institutions

1. Budget institutions are the legal entities which execute the powers of state and local governments, and are fully financed from corresponding budgets.

2. Personnel expenditure estimates of a state government agency are confirmed, within the limits of the general state budget appropriations, by the head of the agency, in accordance with the statutory procedure.
3. Personnel expenditure estimates of a local self government agency are confirmed by the mayor, within the limits of general local budget appropriations, in accordance with the statutory procedure.
4. Personnel expenditure estimates of a budget institution which cannot be classified as a local agency are confirmed by the head of the responsible government agency, within the limits of general budget appropriations, in accordance with the statutory procedure.

Article 6. The Process of Budgeting

1. The process of budgeting includes the legally regulated activities of state and local government agencies for drafting, discussing, adopting and implementing of annual budgets and confirming the annual report on budget implementation.
 2. Draft budgets are prepared in accordance with action and development plans of the state and local governments.
 3. The fiscal year (FY) in the Republic of Armenia starts on January 1 and ends on December 31 of the same year.
- By a Cabinet Decision, operations on coverage of the previous fiscal year's liabilities (hereafter - conclusive operations) can be continued during the first month of the following fiscal year.
4. The process of budgeting starts on the dates set forth in this law and ends when the annual report on budget implementation is confirmed.

PART 2. THE PRINCIPLES OF REGULATION OF BUDGET RELATIONS

Article 7. Regulation of Budget Relations

1. Regulation of budget relations includes the activities of responsible agencies, performed within the framework of their statutory powers, for organisation and definition of the budgetary system, distribution of revenues among the budgets, budget classification and making amendments to the budgets.
2. Budget relations are regulated in accordance with the statutory principles of uniformity, independence, equilibrium and publicity associated to budgets.

Article 8. Uniformity of the Budget System and Independence of Budgets

1. Uniformity of the budget system is ensured by a common legal framework, a common system of budgetary classification, common procedures and methodology for budgetary accounting and recording, endorsed principles applied in the budgeting process, and the existence of a common monetary system.
2. Independence of a budget is ensured by independent revenue sources assigned to the budget by law and the statutory power, conferred upon the jurisdiction responsible for adoption of the budget, to determine to a certain extent the character of budget expenditures.

Article 9. Budget Revenues and Expenditures

1. Budget inflows include funds generated from the own revenue sources assigned to the budget by law, borrowings and contributions.
2. Budget expenditures fall into two categories:

- capital expenditures include the outlays planned in programmes of state and local importance, which, through purchase of goods and services, result in generation of additional fixed assets and reserves or appreciation of the existing assets;
- current expenses include all the expenditures not classified as capital expenditures.

Article 10. Budget Credits and Loans

1. Budget credits are the funds extended from the state budget to local self government agencies and other entities on the terms of repayment, interest servicing and maturity.
2. Budget loans are the funds extended on concessional terms from the state budget to local self government agencies, subject for repayment by the end of the FY, for financing of specific programmes or expenditures.
3. The procedure of extending budget credits and loans is established by the Cabinet, in accordance with the requirements of this law.

Article 11. Budget Guarantees

1. The budget guarantee is a repayment obligation, which certifies that the liabilities towards the person to whom the budget guarantee is provided shall be appropriately respected, at the expense of state budget funds.
2. The funds due and not paid under a budget guarantee shall be reimbursed from the contingency fund of the state budget and accrued on a separate line.
3. The procedure of providing budget guarantees is established by the Cabinet, in accordance with the requirements of this law.
4. The total amount of liabilities for which budget guarantees in the current fiscal year are provided shall not exceed 10% of the tax revenues collected in the previous fiscal year (except for the guarantees provided under international agreements signed on behalf of the Republic of Armenia). The amounts calculated in this way can be increase every subsequent year by 5%, except for the cases where there is a decline in tax revenues in comparison with the previous year.

Article 12. Budget Surplus, Deficit of the State Budget

1. The budgeted expenditures shall not exceed budget revenue expectations for the same FY.
2. Budget surplus means the excess of budgetary revenues over the budgetary expenditures.
3. State budget deficit means the excess of state budget expenditures over the state budget revenues.

State budget deficit is financed from domestic and foreign borrowings.

In the course of the FY the Central Bank of Armenia carries out financing of the state budget deficit in accordance with the RA Law on the Central Bank of Armenia.

The amount of state budget deficit (surplus) is set forth in the state budget law for the given FY.

The state budget deficit shall not exceed 10% of the GDP in the given FY.

Article 13. Extra Budget Resources of the Beginning of the FY

1. Extra budgetary resources of the beginning of the current FY are generated from the budget surplus at the close of the previous FY which may appear:
 - a) as a result of a planned budget surplus;
 - b) if the actual budget inflows come to be more than the budgeted expenditures;

- c) if the actual execution of budget expenditures come to be less than the expected budget revenues.
2. Extra budget resources of the beginning of a FY are included in the budget revenues of the FY.

Article 14. Capital Expenditures of Budgets

1. The procedure of budget financing of capital expenditures is established by the Cabinet, in accordance with this law. In this procedure of budget financing of capital expenditures the Cabinet defines:
 - a) the legal basis for execution of capital expenditures: the State Programme for Capital Investments, targeted programmes, decisions of executive authorities of local self governments;
 - b) the principal economic and technical criteria and model estimates of expenditures;
 - c) phases and timetable of implementation of expenditures;
 - d) the order of submitting, discussing and confirming the list of capital expenditure items;
 - e) the way of reflecting the capital expenditures in draft budgets and in annual reports on budget implementation;
 - f) other provisions in regard to budget financing of capital expenditures.
2. Capital budget expenditures may include investments in charter capitals of legal entities resulting in state or community ownership of a share of the legal entity's real property.
3. The state property generated from state capital investments shall be managed by the corresponding state or local government agency.
4. The funds generated from the use, sales or rent of state-owned or community-owned property shall be transferred to corresponding budgets.

PART 3. BUDGET IMPLEMENTATION

Article 15. Budget Implementation

1. Budget implementation includes the regulated activities of state and local government agencies in regard to collection of revenues and execution of expenditures.
2. Budget implementation is built upon the principle of unified cash accounting, which means that all the budget revenues and the budget expenditures are accrued on the Unified Treasury Account of the Ministry of Finance and Economy.
3. Budget implementation is organised by the Ministry of Finance and Economy.
4. The procedure of budget implementation is established by the Cabinet on the basis of this law. The procedure of budget implementation defines:
 - a) the basic principles of budget implementation;
 - b) the forms, documentation, timing and volumes;
 - c) rights and duties of the elements of the budgetary system in the course of budget implementation;
 - d) the order of establishing quarterly allocations on the basis of approved budgets;
 - e) the prerequisites for and the order of applying and revoking the sequestration and inflation adjustment mechanisms;
 - f) the order of making amendments to budgets in the course of budget implementation, within the limits set forth in Articles 23 and 33 of this law;

- g) the order of financing expenditures from contingency funds of the budgets;
 - h) other provisions in regard to budget implementation process.
5. To ensure the budget implementation, the Ministry of Finance and Economy and field treasuries carry out:
 - a) cash maintenance of budgets;
 - b) -----
 - c) consolidation of public funds, including state and local budget funds, on the Unified Treasury Account;
 - d) management of the financial resources of budgets and budget institutions consolidated on the Unified Treasury Account;
 - e) management of the state debt;
 - f) methodological regulation of budget accounting and reporting;
 - g) other activities provided for in the law and other legal regulations.
 6. Budget revenues are credited on the Unified Treasury Account of the Ministry of Finance and Economy.
 7. The budget revenues and expenditures of state and local government agencies and subordinate budget institutions are reflected on their treasury accounts, managed by the Ministry of Finance and Economy or the field treasuries.
 8. Disbursements from the treasury accounts of budget institutions are carried out by the Ministry of Finance and Economy and the field treasuries through their agent banks. In case of availability of budget funds on the treasury accounts of budget institutions, the payments are carried out unconditionally.
 9. State and local government agencies and subordinate budget institutions can open bank accounts only upon permission of the Cabinet.
 10. In case of shortage of budget revenues in the course of budget implementation the mechanism of sequestration of expenditures is applied. Sequestration means proportional reduction of budget expenditures on all budget lines, except the state budget level-up subsidies to community budgets and other expenditures protected by law.
 11. The budget expenditures related to purchase of goods and services are financed in accordance with the procedure set forth in RA Law on State Purchases.
 12. The contracts which entail state and local government liabilities shall be registered in the Ministry of Finance and Economy.

PART 4. THE STATE BUDGET OF THE REPUBLIC OF ARMENIA

Article 16. The Structure and Contents of the State Budget Bill

1. The state budget bill is composed of:
 - a) the budget message of the Cabinet;
 - b) the draft law on the state budget.
2. The budget message of the Cabinet includes:
 - a) the statement of the Cabinet on the main directions of socio-economic development and fiscal policies in the coming FY and, if necessary, the draft laws to ensure the implementation of the proposed budget;

- b) three-year forecast of the main indices of socio-economic conditions in the republic;
 - c) explanatory note on the draft of the state budget law.
3. The explanatory note is a complete file of documents, justifying the draft law on the state budget, which includes:
- a) justification of planned state budget revenues, expenditures and deficit (surplus), including the interest rates and maturities on loans borrowed for financing of the deficit, as well as trend analysis of the mentioned budget elements.
 - b) trend analysis of planned state budget revenues, expenditures and deficit (surplus) on the basis of actual figures of the previous FY and confirmed figures of the current FY;
 - c) budget forecasts for the next three years following the FY covered by the draft state budget law;
 - d) justification of state budget revenues expectations in the proposed draft, with a breakdown per “tax”, “non-tax” and “other” revenues;
 - e) justification of the proposed state budget appropriations, for each line of budget classification, identification and justification of the nature and the amount of budget credits and guarantees, identification of the basic norms for calculation of budget expenditures;
 - f) justification of budget appropriations for financing of targeted programmes, with indication of the programme’s:
 - legal basis;
 - substance;
 - tasks and objectives;
 - phases and timing of implementation.
 - g) the structure and trend analysis of external and domestic debt, on the basis of actual figures of previous FY and estimated figures of current FY;
 - h) justification of the appropriations budgeted for generation of Cabinet contingency fund and state reserves;
 - i) information on proposed appropriations against the original budget requests;
 - j) information on state budget appropriations for community budgets made in accordance with the statutory procedure;
 - k) justification of the appropriations generated from financial and commodity assistance, donations and other revenues expected in the next FY;
 - l) information on personnel expenditures of budget financed institutions, and trend analysis of this information based upon the corresponding figures of the last FY and the estimated figures of the current FY, as well as information on the actual number of employees;
 - m) other information, which the Cabinet finds essential for justification of the draft law on the state budget.

Article 17. Revenues of the State Budget

- 1. Revenue sources of the state budget fall into the following categories:
 - a) revenues from taxes and duties;
 - b) non-tax revenues;
 - c) revenues from capital transactions.
- 2. Taxes and duties:
 - a) value added tax;
 - b) excise tax;
 - c) profit tax;

- d) 85% of income tax collections;
 - e) 5% of real property tax collections;
 - f) 5% of land tax collections;
 - g) presumptive income tax;
 - h) customs duties;
 - i) State duties, except for the duties reserved by Article 28 of this law to community budgets;
 - j) charges on violation of tax legislation, except for the charges reserved by law to community budgets;
3. Non-tax revenues:
- a) Central Bank profit;
 - b) dividends and interest;
 - c) revenues from rental of the property of budgetary institutions and the state reserve lands outside the administrative borders of communities;
 - d) interest on state lending;
 - e) revenues from the sales of the property passed to the state as devised or confiscated property, or property in abeyance;
 - f) proceeds from organisation of state lotteries;
 - g) revenues from charges on offences imposed by executive and judicial authorities;
 - h) other non-tax budget revenues provided for in the law and other legal regulations.
4. Revenues from capital transactions:
- a) revenues from the sales of state-owned fixed assets;
 - b) revenues from the sales of the property of budgetary institutions;
 - c) revenues from the sales of state material reserves;
 - d) revenues from the sales of state-owned land and non-material assets;
5. Official transfers:
- a) transfers from overseas countries and international organisations;
 - b) other transfers.

Article 18. Expenditures of the State Budget

1. Below are the main expenditure groups representing national importance programmes financed from the state budget:
- a) general state services;
 - b) defence;
 - c) maintenance of public order and security;
 - d) education and science;
 - e) health care;
 - f) social safety and social insurance;
 - g) communal services;
 - h) culture, sports and religion;
 - i) energy and fuel complex;
 - j) agriculture, forestry, water reserves and fisheries;

- k) mining industry and extraction of minerals (except fuel), processing industry, construction and environmental protection;
 - l) transport, roads and communications;
 - m) other expenditures not included in the main state budget expenditure groups, inter alia:
 - Cabinet contingency fund;
 - level-up subsidies to community budgets;
 - transfers to community budgets for execution of delegated functions;
 - targeted state budget transfers, subventions, to community budgets for financing of capital expenditures of communities.
2. A separate line of state budget expenditures may include funds for paying financial rewards to employees of the Ministry of Finance and Economy, the Tax Inspection and the Customs Department. The procedure of formation and use of these funds shall be stipulated in the state budget law for the given FY.

Article 19. Cabinet Contingency Fund

1. The state budget reserves appropriations for the Cabinet contingency fund, which is the source to finance the expenditures not foreseen in the state budget, as well as the liabilities ensuing from budget guarantees. The Cabinet contingency fund is introduced in the expenditure part of the state budget as a separate Article.
2. The Cabinet contingency fund shall not exceed 5% of the total budget appropriations programmed in state budget law for the given FY.
3. Disbursements from the Cabinet contingency fund are carried out by Cabinet Decisions.

Article 20. Level-up Subsidies to Community Budgets

1. To ensure the harmonic development of communities, the state budget appropriations include level-up subsidies to community budgets.
 2. The total appropriation for level-up subsidies to community budgets is set to an amount not less than 25% of total income tax, land tax and real property tax collections.
- On calculating state budget level-up subsidies to community budget the exemptions granted, in accordance with the statutory procedure, by local self governments are taken into consideration.
3. The procedure for extending level-up subsidies to community budgets is stipulated in the RA Law on Financial Equalisation.

Article 21. Development of the Draft State Budget

1. The activities on development of the draft state budget are organised by the Cabinet, on the basis of Prime Minister's Decision on inception of budgeting process for the coming FY, pursuant to the timing set forth in that decision and this law.
2. On developing the draft of the state budget, the Cabinet or the public administration body authorised by the Cabinet, consults with the Central Bank issues related to the draft budget, in accordance with Article 31 of the RA Law on the Central Bank.
3. To regulate the activities on development of the draft state budget, the Ministry of Finance and Economy shall transmit, by June 20 of the current FY, to local self government agencies the methodological instructions for calculation of budget expenditures, forms and the procedure for submitting of budget financing requests and estimates for personnel expenditures of budget institutions.
4. The state government agencies shall submit, by August 20 of the current FY, to the Ministry of Finance and Economy the budget financing request for their staffs and relevant sectors.

Annexed to the budget financing requests the corresponding expenditure estimates and support statements shall be presented.

5. By September 20 of the current FY, the Ministry of Finance and Economy, in accordance with the procedure set forth in Article 20 of this law, shall calculate and transmit to local agencies of state administration the limits of state budget transfers to community budgets.
6. The budget financing request of a budget institution shall be signed by the head of the budget institution, who bears statutory responsibility for targeted use of budget transfers.
7. In case the budget financing requests are not submitted within the deadlines set forth in this law, they have to be prepared by the Ministry of Finance and Economy.
8. The capital expenditures are calculated on the basis of targeted programmes. For multi-annual programmes, the amounts budgeted for each FY shall be mentioned. The annual amounts of capital expenditures for such programmes are confirmed by the Ministry of Finance and Economy and introduced on a separate line in the state budget for the corresponding FY.
9. The Ministry of Finance and Economy, by September 10 of the current FY, negotiates and endorses with the requesters the budget requests, and fixes this fact in a corresponding protocol.

The protocol is to inform whether the Ministry of Finance and Economy has agreed to fully or partly finance the requested expenditures or has declined the request in its entirety. In the cases when the requests are declined, fully or partly, the reasons for doing so shall be mentioned.

The protocols are signed by the Minister of Finance and Economy or the Deputy Minister authorised by the Minister. The protocols shall be transmitted to the requester by September 15 of the current FY.

10. Copies of budget requests submitted by Judicial Authorities, the Central Bank and the Committee on Energy shall be transmitted also to the National Assembly.
11. The order of settling the disagreements, in regard to budget requests, between the Ministry of Finance and Economy and the requesters is established by the Cabinet, in accordance with the requirements of this law.
12. On the basis of budget requests, external and domestic liabilities and revenue expectations in the coming FY, the Ministry of Finance and Economy develops the draft state budget for the coming FY and presents it to the Cabinet.
13. The Cabinet presents the draft state budget to the National Assembly's discussion at least 60 days before the next FY.

Article 22. Discussion and Approval of the Draft State Budget

1. The procedure of discussing and approving the draft state budget in the National Assembly is fixed by the statutes of the National Assembly.
2. If the draft state budget implies adoption of support laws, the budget bill is put to vote after adoption of these laws.
3. If the state budget is not adopted till the beginning of the FY, the expenditures shall be executed in accordance with to the proportions of the previous FY.

Article 23. Implementation of the State Budget

1. The procedure of state budget implementation is established by the Cabinet, on the basis of this law.
2. In the course of implementation of the state budget, the heads of corresponding state government agencies may reallocate funds between the budget lines of economic classification, within the limits of annual budget appropriations.
3. Amendments to the parliament approved state budget law can be made upon the proposal of National Assembly members or the Cabinet presented as a legislative initiative. The amendments to

the state budget which imply reduction of budget revenues and (or) increase of budget expenditures can be discussed by the National Assembly only if there is a relevant conclusion of the Cabinet, and are adopted by the majority vote of the total number of deputies.

Amendments to the state budget are adopted as a law.

4. After adoption of the state budget the Cabinet defines the quarterly plan of budget implementation.
5. The Cabinet bears the responsibility for state budget implementation.
6. Within 40 days after the end of each quarter the Cabinet informs the National Assembly on the progress of state budget implementation.

Article 24. Control and Supervision over the Process of State Budget Implementation

1. The control over state budget implementation is exercised by the Cabinet, pursuant to the procedure defined by the Cabinet.
2. The supervision over state budget implementation is exercised by the National Assembly.
3. The National Assembly exercises supervision over:
 - a) compliance with the requirements of this law and the state budget law currently in effect;
 - b) the use of credits and loans received from foreign countries and international organisations;
 - c) fulfilment of budget liabilities, legitimacy of budget spendings, and observance of payroll estimation regulations.

Article 25. Annual Account on Implementation of the State Budget

1. The Cabinet shall submit to the National Assembly the annual account on implementation of the state budget by May 1 of the following FY.
2. The annual account on implementation of the state budget includes:
 - a) information on the changes in the fiscal policy and the legal framework affecting the results of state budget implementation;
 - b) justification of the state budget deficit (surplus) in the accountable FY, and trend analysis thereof on the basis of the actual figures of the preceding FY and the accountable FY;
 - c) information on the nature and amount of expenditures executed from the Cabinet contingency fund in the accountable FY, with relevant justification;
 - d) information on foreign and domestic debt in the accountable FY and servicing thereof;
 - e) other information which the Cabinet considers essential for presentation and justification of the results of state budget implementation.
3. The conclusion of the Verification Chamber of the National Assembly in regard to the annual account on implementation of the state budget includes:
 - a) assessment of trustworthiness of the figures reflected in the annual account on state budget implementation.
 - b) assessment of the level of compliance with the requirements of the state budgets law of the accountable FY.
4. The account is discussed and approved at the session of the National Assembly by the second Wednesday of June in current year, pursuant to the procedure defined in National Assembly statutes.

Article 26. Publicity of the State Budget

To ensure the publicity of development, discussion and approval of the draft state budget, implementation of the state budget law, and verification thereof:

- a) within three days after presentation of the state budget bill to the National Assembly, the Cabinet publishes the draft, with exception of the articles containing state secret;
- b) discussions on the draft state budget in the National Assembly are elucidated by mass media sources;
- c) the quarterly plan of state budget implementation is published within 15 days after being confirmed by the Cabinet;
- d) within one month after the end of each quarter, the Cabinet published information on quarterly implementation of the state budget.

PART 5. COMMUNITY BUDGETS OF THE REPUBLIC OF ARMENIA

Article 27. The Principles of Formation of Community Budgets

The main principles of formation of community budgets are:

- a) the planning of financial resources necessary for resolving of problems of local importance, on the basis of a three-year programme for community development;
- b) creation of a contingency fund, as the main guarantee for financing of unplanned expenditures, interest on borrowings, and capital expenditures;
- c) equilibrium of the budget: the total amount of budgeted expenditures shall not exceed the revenue expectations for the same FY;
- d) economising, which implies that each expenditure results in generation of equivalent assets, material and non-material;
- e) efficiency, which implies that a good ratio between the executed expenditures and their usefulness for the community is maintained;
- f) credibility and explicitness, which makes the budget control more efficient through simple and explicit mechanisms of calculation underlying budget articles;
- g) publicity, which makes it possible to keep community members informed on development and implementation of the community budget.

Article 28. The Structure of Community Budgets, Community Budget Revenues and Expenditures

The structure of community budgets, built upon the necessity to ensure the adequacy of the functions and financing of local self government agencies, consists of the following components:

- a) administrative part (administrative budget);
 - b) capital part (capital budget);
2. Each of the components of the community budget has to be zero balanced.
3. The administrative budget includes:

I. REVENUES, which are reserved for community budgets by law and legal regulations, inter alia:

- taxes and duties;
- non-tax revenues;

- official transfers.

1.1. Taxes and Revenues

- a) 95% of land tax collections;
- b) 95% of real property tax collections;
- c) 15% of income tax collections;
- d) other deductions from state taxes;
- e) state duties, including:
 - for registration of citizenship acts, and issuing extra registration certificates to citizens; for making changes and amendments in the register of civil residence acts; for issuing of restitution certificates;
 - for notary services: issuing of copies of certified documents; drafting of contracts and appeals; making copies and annotations of documents;
- f) charges on violation of tax legislation, except for the charges reserved by law for the state budget;
- g) local duties;
- h) other taxes reserved by law for community budgets.

1.2 Non-tax revenues:

- a) revenues from the rent of community reserve lands and the state reserve lands located within the administrative borders of communities;
- b) revenues from the rent of the property of local self government agencies and subordinate budget institutions;
- c) charges on administrative offences imposed by local self governments;
- d) deductions from the profit of the institutions subordinate to local self government agencies, which are carried out by the decision of the local council;
- e) local fees;
- f) other local collections reserved to community budgets by law.

1.3 Official transfers:

- a) level-up subsidies from the state budget;
- b) other transfers.

II. EXPENDITURES, current expenses related to performance of the statutory functions of local self government agencies, inter alia:

- a) general purpose community services;
- b) statutory functions related to defence;
- c) statutory functions related to maintenance of public order and security;
- d) education and science;
- e) health care;
- f) social security and social insurance;
- g) culture, sports and religion;
- h) communal services;
- i) energy and fuel complex;
- j) agriculture, forestry, water reserves and fisheries;

- k) mining industry and extraction of minerals (except fuel), processing industry, construction and environmental protection;
- l) transport, roads and communications;
- m) other expenditures not included in the main local budget expenditure groups.

4. The capital budget includes:

I. REVENUES

- a) state budget subventions for financing of capital expenditures;
- b) other targeted transfers for financing of capital expenditures;
- c) deductions from the profit of the institutions subordinate to local self government agencies, which are carried out by the decision of the local council;
- d) proceeds from the sales of the property devised or donated to local self government agencies and subordinate institutions, or the property in abeyance;
- e) borrowings, inter alia, revenues from distribution of local self government bonds. The procedure for distribution of bonds by local self government agencies is defined by the Cabinet;
- f) transfers from the administrative budget (from the contingency fund);
- g) dividends from participation in charter capitals of shareholding companies, financial institution and banks.

II. EXPENDITURES, capital outlays related to performance of the statutory functions of local self government agencies, inter alia:

- a) capital construction;
 - b) capital repair;
 - c) repayment of credits and other borrowings;
 - d) creation of material reserves.
5. The functions delegated to local self governments are finance from state budget funds allocated for this purpose to community budgets.
6. The order of financing of delegated functions is established by the Cabinet.

Article 29. Contingency Funds of Community Budgets

- 1. Community budgets include a contingency fund, which is the source to finance the expenditures not foreseen in the budget, as well as the interest on community budget borrowings. The contingency fund is introduced in the expenditure part of community budgets as a separate Article.
- 2. A community's contingency fund shall not exceed 30% of total revenue expectations programmed in the community's administrative budget for the given FY.
- 3. Payments from the contingency fund for financing of interest on community borrowings shall not exceed 20% of the contingency fund for the current FY.
- 4. Disbursements from the contingency fund, for financing of the expenditures not programmed in the community budget, are carried out by the local council's decision.

Article 30. Level-up State Budget Subsidies to Community Budgets

The revenues of the administrative budget include level-up subsidies from the state budget, which are introduced in the revenue part as separate article.

Article 31. Development of the Draft Community Budget

1. The draft of the community budget is developed via planning of financial resources necessary for resolving of problems of local importance, on the basis of a three-year programme for community development.
2. The draft of the community budget is developed by the mayor, in accordance with the principles of uniformity of the budgetary system, the unified methodology for budgetary classification and accounting.
3. The norms for calculation of budget expenditures, established by the Cabinet or by a public administration body authorised by the Cabinet, bear advisory nature in the case of community budgets, with exception of the expenditures pertaining to execution of the delegated functions and the use of other targeted state budget transfers.
4. To organise the activities on development of the draft community budget, the mayor:
 - gives assignments to budget institutions and relevant services of the local executive for estimation of budget revenues and expenditures;
 - makes sure that, by July 1 of the current FY, the revenues and expenditures are estimated, in accordance with the standards defined by the Minister of Finance and Economy.
5. Budget institutions submit, by August 15 of the current FY, to the mayor the budget requests and the estimates of their personnel expenditures with corresponding justification.
6. The mayor summarises the submitted requests, by October 1 of the current FY, and develops the draft decision of the local council on the community budget.
7. The decision of the local council on the community budget includes:
 - a) the draft community budget, with a breakdown into budget components, budget revenues and expenditures classified according to the articles of economic and functional classification, with indication of three-year data: the actual figures of previous FY, estimations for the current FY and forecasts for the FY concerned;
 - b) the mayor's statement on the principal directions of the community development programme;
 - c) justification of budgeted revenues and expenditures, as well as trend analysis thereof on the basis of actual figures of the previous FY and estimated figures of the current FY;
 - d) justification of community budget appropriations and the amounts needed for budget financing of targeted programmes, which includes the description of the programme's:
 - legal basis;
 - contents;
 - tasks and objectives;
 - phases and timing of implementation.
 - e) the structure and trend analysis of the local government debt, on the basis of actual figures of the previous FY and estimated figures of the current FY;
 - f) justification of the appropriations budgeted for generation of the community's contingency fund;
 - g) information on state budget appropriations for the community budget;
 - h) justification of the appropriations generated from financial and commodity assistance, donations and other revenues expected in the next FY;
 - i) information on personnel expenditures of budget financed institutions, and trend analysis of this information based upon the corresponding figures of the last FY and the estimated figures of the current FY, as well as information on the actual number of employees;

- j) other information, which the mayor finds essential for justification of the draft decision of the local council on the community budget.

**Article 32. Discussion and Approval of the Draft
Community Budget by the Local Council**

1. The mayor presents the draft community budget to the local council within one month after adoption of the state budget or prior to it. Copies of the draft budget are distributed among the members of the local council at least a week prior to the discussion of the draft by the council.
2. The draft community budget is presented at the meeting of the local council by the mayor.
3. The procedure of discussing and approving the draft community budget in the local council is fixed by the statutes of the local council.
4. Following the discussion in the local council, the mayor shall have one week's time to make relevant amendments to the draft or request the council to adopt it.
5. The local council bears the responsibility for approving the community budget by adopting the relevant draft decision presented by the mayor.
6. The local council may adopt the draft community budget, presented by the mayor, prior to adoption of the state budget by the National Assembly.

Within two weeks after adoption of the state budget, local authorities make relevant amendments to the community budget adopted prior to it.

7. Within three days after adoption of the community budget, the mayor presents it to relevant marzpet¹.

Marzpet verifies the conformity of the presented budget with the law, keeping in mind the principle of budget independence stipulated in this law. If the budget answers the requirements of the established methodology and the principles of uniformity of the budget system, marzpet includes the budget figures in the summary report on the budgets of the communities located in the marz, which he submits to the Ministry of Finance and Economy.

8. Disagreements between the mayor and marzpet in regard to the adopted community budget are settled in accordance with the statutory procedure.
9. If the budget is not adopted, the mayor puts to vote the question of his resignation. If, within 3 days, the local council does not accept the mayor's resignation by a majority vote, the community budget along with mayor's amendments, shall be considered adopted.

If, in regard to adoption of the budget, the mayor's resignation is accepted by the local council, the relevant marzpet shall report to the Cabinet on the matter, in accordance with the statutory procedure.

If, within one week after receiving the report, the Cabinet does not take any decision in regard to the matter, the community budget, along with mayor's amendments, shall be considered adopted.

If the Cabinet takes a decision to dismiss the mayor by accepting his resignation, the new mayor shall present the draft community budget to the local council within 20 days. The draft budget shall be discussed and approved within 30 days, in accordance with the procedure set forth in this law.

10. If the community budget is not adopted till the beginning of the FY, the expenditures shall be executed in accordance with the proportions of the previous FY.

Article 33. Implementation of the Community Budget

1. After adoption of the community budget the mayor defines the quarterly plan of budget implementation, confirms personnel expenditure estimates of budgetary institutions.
2. To ensure the implementation of the community budget, the mayor:

¹ Regional governor appointed by the state government.

- a) transmits the approved community budget, the quarterly plan, and quarterly estimates of personnel expenditures of budget institutions to the field treasury of the Ministry of Finance and Economy responsible for servicing budget implementation of the community;
 - b) signs financial documents
 - c) assists the tax authorities in collecting local taxes;
 - d) performs other statutory functions.
3. In the course of implementation of the community budget, the mayor may reallocate funds between the budget lines of economic and functional classification, if these reallocations do not conflict with the decision of the local council on adoption of the community budget. The reallocation between the budget lines shall not exceed the limits of annual budget appropriations.
 4. Amendments to the community budget can be made upon the proposal of local council members and (or) the mayor. These amendments shall not shatter the community budget equilibrium, defined in this law. The amendments to the community budget which imply reduction of budget revenues and (or) increase of budget expenditures can be discussed by the local council only if there is a relevant conclusion of the mayor, and are adopted by the majority vote of the total number of deputies.
- The procedure of making amendments to the community budget is defined in local council regulations, on the basis of this law.
5. Servicing of community budget implementation is carried out, in accordance with the procedure defined by the Cabinet, by the Ministry of Finance and Economy, through its field treasuries.
 6. The mayor bears the responsibility for implementation of the community budget.

Article 34. Supervision over Implementation of the Community Budget

1. The supervision over implementation of the community budget is exercised by the local council, the National Assembly and the Cabinet, within the framework of their statutory powers.
2. The local council exercises the supervision via its members and (or) a specialised audit company, with a periodicity established by the local council, but not less than once a year.
3. The main objectives of the supervision are:
 - a) to verify the grounds for development of revenue forecasts and expenditure estimates;
 - b) to verify the legitimacy of the use of budget funds, credits and other borrowings;
 - c) assessment of the situation in regard to fulfilment of budget liabilities, observance of payroll estimation regulations, accounting and reporting;
 - d) to exercise control over financial activities of budget institutions and organisations;
 - e) to ensure compliance with other requirements of this law.
4. In the event of providing false or misleading information to the persons exercising the audit or impeding the process of audit, the responsible officials from budgetary institutions, the mayor and the municipality staff shall be made answerable, in accordance with the law.

Article 35. Accounts on Implementation of the Community Budget

1. The mayor shall submit to the local council and the head of marz a quarterly account on implementation of the community budget, within 15 days after the end of the quarter.
2. The mayor shall submit to the council and the head of marz the annual account on implementation of the community budget along with the 1st quarterly account of the following FY.
3. The annual account on community budget implementation, along with conclusions of a specialised audit company, is discussed and approved at a local council meeting by May 1 of the current FY

4. In case the annual account on community budget implementation is not approved, the local council, in accordance with the statutory procedure, may bring in a proposal to dismiss the mayor. If, within one week after receiving the proposal, the Cabinet does not take any decision in regard to the matter, the annual account is considered adopted.
- If the proposal to dismiss the mayor is approved by the Cabinet, the mayor resigns, pursuant to the statutory procedure, while the annual account on community budget implementation is considered approved.
5. The procedure of discussing the annual account on community budget implementation is defined in local council statutes.
 6. The local council takes a corresponding decision on approval of the annual account on community budget implementation.
 7. The annual account on implementation of the state budget includes:
 - a) information on justification of community budget revenues and expenditures in the accountable FY, and trend analysis thereof on the basis of the actual figures of the preceding FY and the accountable FY;
 - b) information on the nature and amount of expenditures executed from the community contingency fund in the accountable FY, with relevant justification;
 - c) information on community budget debts in the accountable FY and servicing thereof;
 - d) other information which the mayor Cabinet considers essential for presentation and justification of the results of community budget implementation.

Article 36. Publicity of Community Budgets

To ensure the publicity of the community budget:

- a) the draft community budget is published in local press within three days after presentation of it to the local council. In the meantime, the main budget indices, including statistical data and charts are prepared and published.
- b) within one month after the end of each quarter, the municipality publishes information on quarterly implementation of the community budget;
- c) the annual account on community budget implementation is published in the local press within 5 days after being approved by the local council;
- d) the mayor takes steps to facilitate the access of community members to the draft of community budget, the annual account and other documentation.

PART 6. BUDGETARY CLASSIFICATION

Article 37. The System of Budgetary Classification

1. Budgets are developed and implemented on the basis of unified system of budgetary classification of revenues and expenditures.
2. Budgetary classification means the breakdown of budget revenues and expenditures, pursuant to the types and directions thereof, into groups to ensure the consistency of budget indices.
3. Budgetary classification has the following structure:
 - a) budget revenues and official transfers;
 - b) budget expenditures and lending less repayment;
 - c) budget arrears and sources of financing of the state budget deficit.

Article 38. Budget Revenues and Official Transfers

1. Budget revenues and official transfers are classified on the basis of the statutory sources of revenue.
2. Budget revenues and official transfers fall into the following groups:
 - total revenues;
 - official transfers.
3. Total revenues are classified into:
 - current revenues;
 - revenues for capital transactions.
4. Current revenues include tax and duty collections, as well as non-tax revenues.
5. Budget revenues from taxes and duties include:
 - a) VAT, inter alia:
 - from enterprises and organisations;
 - from individual entrepreneurs;
 - b) profit tax:
 - from state-owned enterprises;
 - from private enterprises;
 - from foreign entities;
 - from financial organisations;
 - c) income tax:
 - personal income tax;
 - corporate income tax;
 - on dividends and interest;
 - d) excise tax:
 - from local production of excise items;
 - from import of excise items;
 - e) real property tax:
 - from enterprises and organisations;
 - from individual entrepreneurs and citizens;
 - f) land tax:
 - on agricultural land;
 - on non-agricultural land;
 - g) customs duties:
 - on imports;
 - on exports;
 - h) state duty:
 - the state duties stipulated in the RA Law on the State Duty;
 - i) presumptive income tax:
 - on trade;
 - on catering;
 - on services;
 - j) payments for the use of natural resources and environmental protection;
 - k) other tax revenues to budgets, provided for by law.
6. Non-tax budget revenues include:
 - a) Central Bank profit;

- b) revenues from rental of the property of budgetary institutions subordinate to state and local government agencies, including:
 - revenues from the rent on the use of the property of state-owned enterprises;
 - revenues from the rent on the use of state and community reserve lands;
 - revenues from the rent of non-agricultural land;
 - c) dividends and interest, including:
 - dividends on state and local government owned securities;
 - interest and dividends on temporary budget deposits in commercial banks and financial institutions;
 - dividends on budget participation in share capital;
 - d) interest on state lending, including:
 - interest on lending to residents;
 - interest on lending to non-residents;
 - e) revenues from the sales of the property devised or donated to state or local self government agencies and subordinate institutions, or the property in abeyance;
 - f) proceeds from organisation of lotteries by state or local government agencies;
 - g) revenues from charges on offences imposed by executive, judicial and local self government authorities;
 - h) other non-tax budget revenues provided for in the law and other legal regulations.
7. Revenues from capital transactions include:
- a) proceeds from the sales of state or community owned fixed assets;
 - b) proceeds from the sales of balance sheet property of budget institutions;
 - c) proceeds from the sales of material values from the reserves of state and local government agencies;
 - d) proceeds from the sales of state-owned land, as well as non-material property of state and local government agencies.
8. Official transfers include:
- a) transfers from foreign countries and international organisations, including:
 - current transfers;
 - capital transfers;
 - b) other transfers, including:
 - current transfer;
 - capital transfers;
 - c) level-up subsidies from the state budget to community budgets;
 - d) state budget subventions to community budgets.

**Article 39. Budget Expenditures and Lending Less
Repayment**

1. Budget expenditures and lending less repayment (hereinafter - budget expenditures) are classified pursuant to:
 - functions of state and local government agencies;
 - administrative and territorial location;
 - economic character of expenditures.
2. Functional classification of budget expenditures implies the breakdown of budget expenditures pertaining to functions of state and local government agencies into principal groups :
3. Functional classification of budget expenditures has the following structure:

- a) state and community services of general nature;
 - b) defence;
 - c) maintenance of public order and security;
 - d) education and science;
 - e) health care;
 - f) social security and social insurance;
 - g) culture, sports and religion;
 - h) communal services;
 - i) energy and fuel complex;
 - j) agriculture, forestry, water reserves and fisheries;
 - k) mining industry and extraction of minerals (except fuel), processing industry, construction and environmental protection;
 - l) transport, roads and communications;
 - m) other services;
 - n) expenditures not included in the main groups.
4. Economic classification of budget expenditures implies the breakdown of budget expenditures pursuant to economic quality thereof.
5. Economic classification of budget expenditures has the following structure:
- a) total expenditure;
 - b) lending less repayment.
6. "Total expenditure" group includes:
- current expenses;
 - capital outlays.
7. Current expenses include:
- a) payroll expenses of state and local government agencies and subordinate budget institutions;
 - b) interest payments, including:
 - interest on internal debt;
 - interest on external debt;
 - c) subsidies:
 - state budget subventions to community budgets;
 - subsidies to enterprises and organisations;
 - d) current transfers, including:
 - level-up state budget subsidies to community budgets;
 - pensions;
 - scholarships;
 - benefits;
 - other transfers;
 - e) expenses for purchase of goods and services, including:
 - 1) Purchase of goods:
 - office equipment and materials;
 - medicines and bandages;
 - food;
 - other expenses;

- 2) business trips;
 - 3) transport;
 - 4) communications;
 - 5) communal services;
 - 6) other expenses.
8. Capital outlays include:
- capital investments;
 - capital repair.
9. Lending less repayment includes:
- a) internal lending less repayment, including:
 - to state and local government agencies;
 - to non-financial organisations;
 - to financial organisations;
 - other domestic lending less repayment;
 - b) external lending less repayment, including:
 - foreign countries and international organisations;
 - other external lending less repayment;
10. Administrative classification of budget expenditures implies the breakdown of budget expenditures pursuant to the administrative nature of the recipients of budget financing - state and local government agencies.
11. The articles of administrative classification are:
- a) President's Staff;
 - b) National Assembly;
 - c) Cabinet;
 - d) Constitutional Court;
 - e) Judicial System;
 - f) Attorney General's Office;
 - g) Ministries, Departments, state and local government agencies (each on a separate line).
12. Territorial classification of budget expenditures implies the breakdown of budget expenditures pursuant to the units of territorial organisation of the republic, marzes and communities:

Article 40. Budget Liabilities and the Sources of Financing of the State Budget Deficit

- 1. Classification of the sources for financing of the state budget deficit is assorting of the funds borrowed to finance the state budget deficit into principal groups.
- 2. The sources of financing of the state budget deficit are classified as:
 - a) domestic, including:
 - Central Bank credit;
 - borrowings from commercial banks;
 - state government securities;
 - proceeds from privatisation of state-owned enterprises and incomplete construction sites;
 - other domestic sources.
 - b) external, including:
 - financing from international organisations;

- financing from foreign countries;
 - other external sources.
3. Classification of budget liabilities is assorting of state and local government liabilities into principal groups.
 4. Budget liabilities are classified as:
 - a) internal, including:
 - to state and local government agencies;
 - to the Central Bank;
 - to commercial banks of the Republic of Armenia;
 - budget guarantees;
 - other internal liabilities.
 - b) external, including:
 - to international organisations;
 - to foreign countries;
 - other external liabilities.

Article 41. Specification of Budget Classification

1. A more detailed specification of the budget classification set forth in this law, into separate articles, as well as the procedures related to application thereof, is established by the Ministry of Finance and Economy.
2. In the expenditure structure of the state budget the outlays exceeding the amount of 50 million drams shall go by a separate line.

PART 7. RESPONSIBILITY FOR VIOLATION OF THIS LAW

Article 42. Responsibility for Violation of this Law

1. In case of acting in violation of this law, the legal entities and officials responsible for executing the powers of state and local governments, shall be made answerable in accordance with the statutory procedure.

PART 8. CONCLUSIVE PROVISIONS

Article 43. Interim Provisions

1. The provisions of this law pertaining to timing of budget activities shall not apply to preparation and confirmation of the annual account on implementation of the 1996 state budget.
 2. Articles 11, 28, 29 and 30 shall come into force from January 1, 1998.
- Item 10, Article 15 of this law shall become effective after adoption of the Law on Sequestration of Expenditures.
3. By adoption of the Law on State Purchases, budget financing of the expenditures pertaining to purchase of goods and services shall be carried out in accordance with the procedure defined annually in the State Budget Law.

4. By adoption of the Law on Financial Equalisation, the procedure for extending level-up subsidies to community budgets shall be defined annually in the State Budget Law.