

## Inflation Slightly Exceeds Expectations, with Geopolitical Risks in the Spotlight

### Market overview

During the period from June 2 to June 16, 2025, Armenia's stock market experienced positive momentum. Shares of Telecom Armenia (AMTL) rose by 3.8%, buoyed by reports of a 2.4% year-over-year revenue increase in the country's communications sector in April, despite a 4.6% decline compared to March. This uptick brought AMTL stock closer to the psychological threshold of AMD 200 per share. Similarly, ACBA Bank shares continued their upward trajectory, growing by 4.9% over the same period. Meanwhile, as anticipated, the Central Bank opted to maintain its refinancing rate at 6.75%, even though inflation slightly outpaced the projected growth rate.

A risk-on sentiment dominated the market environment, as evidenced by a substantial 1.4% decrease in the 3-year (medium-term) corporate bond index during this timeframe. This dynamic may also indicate a repricing of regional risk premiums and/or inflation expectations amid rising geopolitical tensions—particularly the conflict between Israel and Iran. Additionally, this movement was supported by a weakening appetite for credit risk in global high-yield markets during the week ending June 15, as evidenced by a moderate widening of credit spreads. While, no clear domestic triggers within Armenia's corporate sector were identified that could lead to the decline in the index. Concurrently, Finance Minister Vahe Hovhannisyan addressed the "negative scenario" posed by ongoing tensions between Iran and Israel, cautioning that economic growth could slow to 1.3%, compared to the budgeted target of 5.1%. The Minister also highlighted that if the conflict alters the global investment community's perception of Armenia as a riskier investment destination, this should impact interest rates, thereby increasing volatility and raising the risk premium on local debt securities. Additionally, the escalation of this conflict could negatively influence domestic price growth. Meanwhile, the exchange rate of the dram against the U.S. dollar remained within its typical range of previous months, ultimately depreciating by only 0.9%.

### Economic news

Between June 2 and June 16, 2025, the Statistical Committee of Armenia released several economic indicators. Consumer price growth in Armenia exceeded expectations slightly, yet remained close to the Central Bank's target. In light of this, the country's Central Bank once again decided to maintain the refinancing rate. Despite a robust real estate market, the Central Bank's Governor indicated expectations of a slowdown in this market's activity.

- In May, Armenia saw a price increase of 4.3% y/y, versus the anticipated 3.2% y/y and just 0.3% m/m. For the first five months of 2025, inflation growth coincided with the Central Bank's target of 3.0% (+/- 1 percentage point). Although there's been some seasonal price growth acceleration, particularly noted during the end of spring and summer, the overall inflation dynamics seem to be normalizing. However, geopolitical tensions related to the Iran-Israel conflict have already caused substantial disruptions (according to media reports) in cargo transport for the country's exporters and importers, posing a risk of further inflation acceleration.
- The Central Bank of Armenia retained the refinancing rate at 6.75%, consistent with our expectations, despite the slight uptick in annual inflation in May. This decision was not surprising, given inflation staying within the target range, alongside the regulator's stance that the current rate is close to neutral. Nonetheless, if the above said geopolitical risks materialize, inflation could deviate from the base case scenario, potentially prompting the Central Bank to adopt a tighter monetary policy. This situation could see GDP growth slowing to 1.3%, versus the budgeted 5.1%, as noted by the Armenian Finance Minister.

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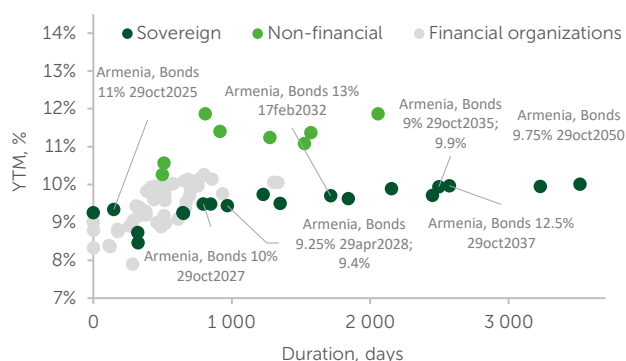
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### Key economic indicators

	Growth YoY	Growth MoM
CPI - May	4.3%	0.3%
GDP - 1Q 2025	5.2%	-34.4% QoQ
Economic activity index - Apr	5.4%	4.3%

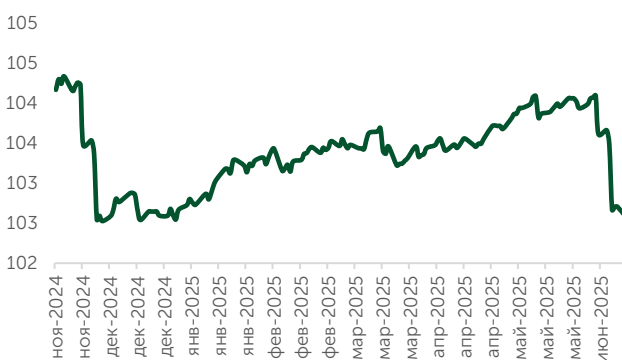
Source: armstat.am, Freedom Broker Armenia

### Armenian issuers' bonds denominated in AMD



Source: cbonds.com, Freedom Broker Armenia

### Three-year corporate bonds index in AMD \*



Source: amx.am, Freedom Broker Armenia

\*The historical comparison of the index is irrelevant - since September 10 the calculation method was revised

- In April, Armenia's real estate market recorded 4,778 sales and purchase transactions, marking a 5.3% increase from the previous month. However, this one-time growth does not yet signal a renewed surge of interest in the real estate market. Moreover, the Central Bank's Governor stated the other day that a further slowdown in this market's activity is anticipated. Despite this, the investment interest in real estate still exerts pressure on the demand for investment instruments in the country.

#### Company news

- The TUMO Center for Creative Technologies, an educational institution, has announced the opening of its new center in Takasaki, Japan. Situated at G Messe Gunma, this center will provide thousands of Japanese teenagers with opportunities to acquire advanced skills at the nexus of technology and design.

#### Outlook for the next two weeks

During the period from June 20 to June 30, 2025, several key macroeconomic indicators are set to be released, which could significantly influence evaluations of the current dynamics in the Armenian economy. Revised and clarified metrics related to previously issued statistics might also be published.

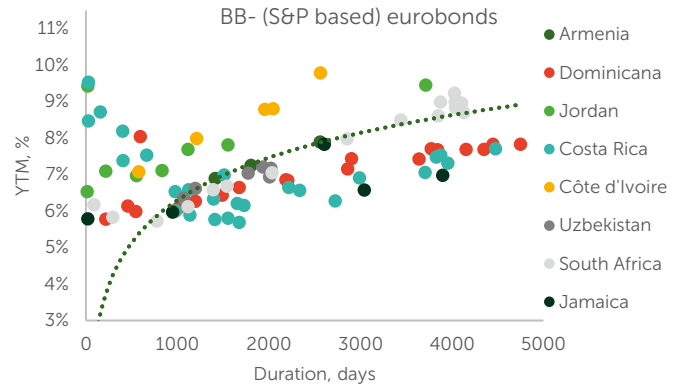
The market's attention will be particularly drawn to the May economic activity indicator (previous value: +5.4%), as it offers a comprehensive assessment of the economy's key sectors.

The Producer Price Index (PPI) for May will serve as an additional factor in understanding prevailing price trends within the economy, which subsequently affect the Central Bank's decisions and market predictions concerning the regulator's interest rate policy. Freedom Broker anticipates a slight acceleration in growth from the previous level: +1.9% y/y. This expectation is based on consumer price trends and local economic conditions, especially noting the growth in prices of imports into the country, as highlighted in recent statistics releases, etc.

The trade balance data for May will also be published, providing a detailed breakdown of exports and imports. The volume of imports, which underwent a significant slowdown in 2025, remains under closer scrutiny. Additionally, the publication of construction statistics for May will help us assess the sector's performance. However, given the characteristics of the construction industry, we do not anticipate considerable fluctuations.

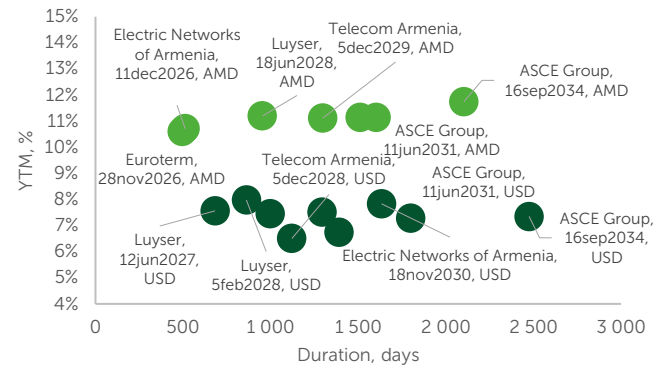
This data will enable us to refine our expectations regarding economic growth trajectory in the second quarter and gain a more comprehensive understanding of domestic demand and production activity.

#### Sovereign Eurobonds of developing countries with BB-rating, in USD



Source: amx.am, cbonds.com, Freedom Broker Armenia

#### Non-financial organizations' bonds of RA



Source: cbonds.com, Freedom Broker Armenia

#### USD/AMD dynamics

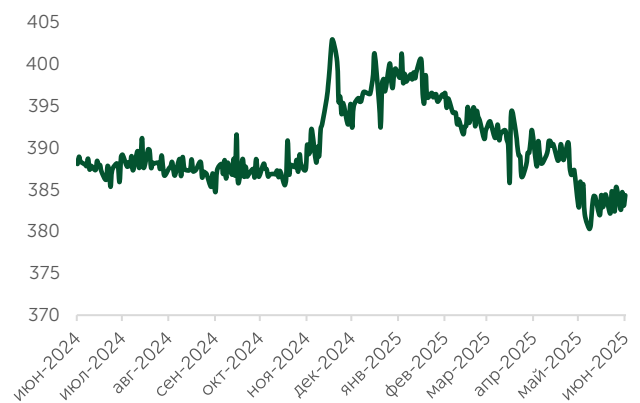


Chart 1: Currency rate dynamics

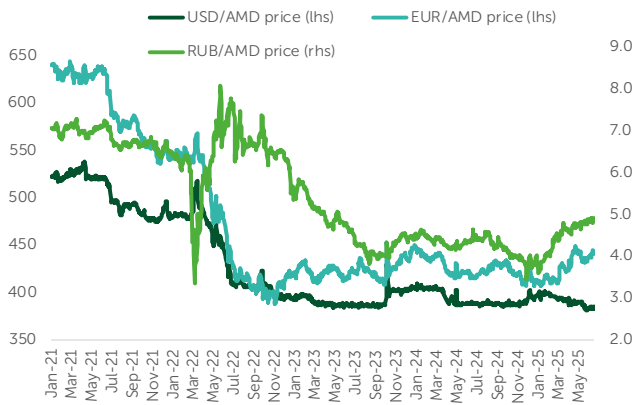


Chart 2: CPY vs refinancing rates of RA

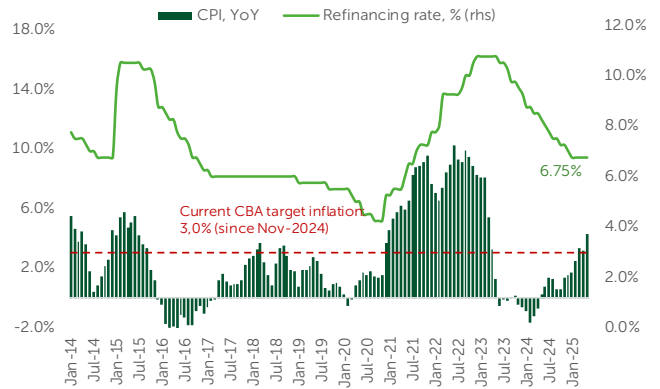


Chart 3: Armenian export breakdown by countries

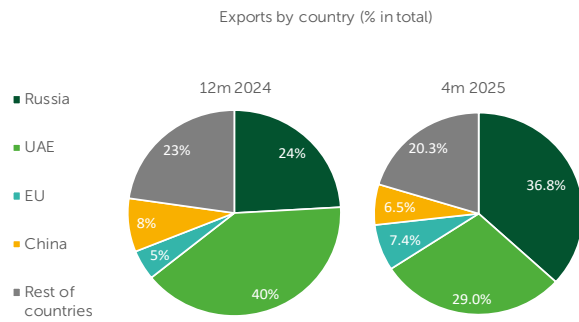


Chart 4: Armenian import breakdown by origin countries

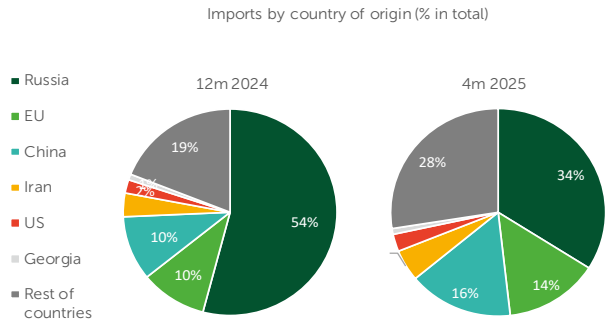


Chart 5: Armenian export breakdown by products

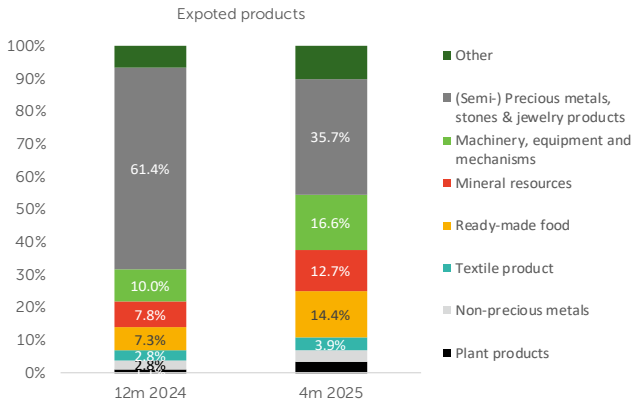


Chart 5: Armenian import breakdown by products

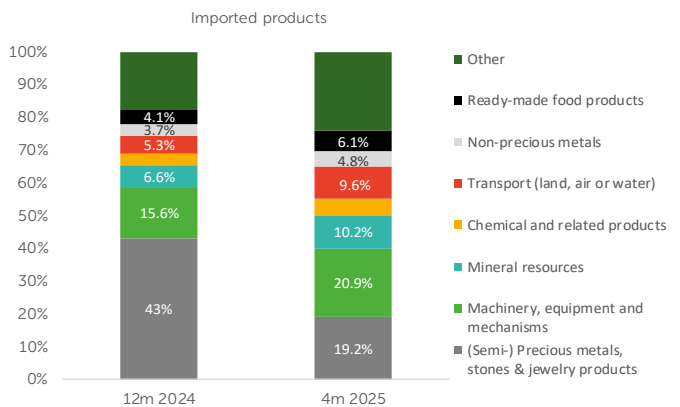


Chart 6: Construction price index

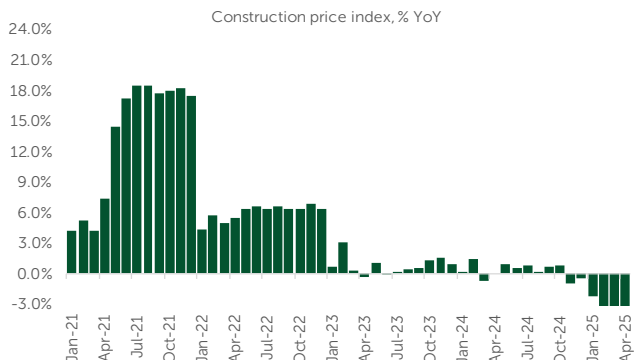
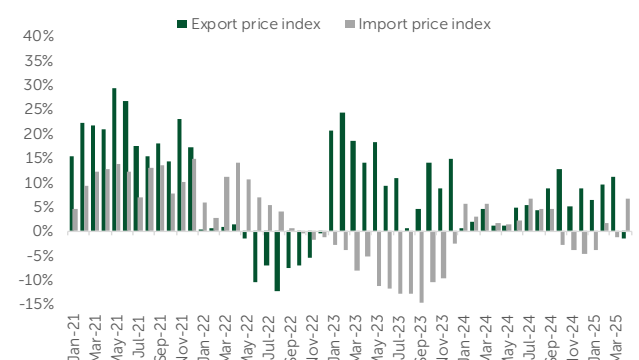


Chart 7: Export and import price indices



Source: armstat.am, cba.am, FactSet, Bloomberg, Freedom Broker Armenia

# Freedom Broker Armenia

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