

Central Bank Continues Rate Cuts Amid Stable Inflation

Market overview

From October 21 to November 4, 2024, Armenia's stock market displayed mixed trends. Telecom Armenia's shares dropped by 2.1% to a record low of AMD 191 per share over this period, dropping by 8.1% from the beginning of the year. In contrast, ACBA Bank's stock grew by 0.7%, buoyed by the recent release of the country's bank ratings, where ACBA was ranked fourth in net profit and third in loan portfolio for the first nine months of the year.

The 3-year corporate bond price index rose by 0.1%, though it continues to face some pressure since the methodological revisions in September (-0.3%) despite rate cuts in the economy. Recently, the Central Bank Governor, Martin Galstyan, noted that lending rates did not react to the lowered refinancing rate. He attributed this to a "huge demand for credit products." This rate insensitivity partly explains the relatively small changes in yields on medium and long-term debt instruments over the past three months, despite the regulator's rate cuts. The exchange rate of the dram against the U.S. dollar remains stable, slightly strengthening by 0.7%, which aligns with the lack of structural/major changes in the dynamics of the country's net exports.

Economic news

Between October 21 and November 4, 2024, the Statistical Committee of Armenia released data on inflation and economic activity in the country. The latter showed an acceleration in growth, contrary to the expected cooling, which might be a moderately positive sign regarding the short-term economic outlook for the country. Additionally, the Central Bank of Armenia reduced the refinancing rate by another 0.25 basis points, and we anticipate a further reduction. In our baseline scenario, we expect another cut as soon as in early 2025, but do not fully exclude the possibility of an on more rate cut in 2024.

- In September, economic activity in Armenia outperformed expectations, growing by 7.0% y/y compared to 3.5% in August. This stronger-than-projected data suggests positive trends in the economy, and if these dynamics continue, there may be a revision of potential GDP growth expectations for this quarter and 2024. Statistics for the first nine months of 2024 showed growth of 8.7%, similar to the same period last year.
- The Central Bank of Armenia reduced the refinancing rate by 0.25 percentage points to 7.25%, as we anticipated. This latest cut should help accelerate inflation and bolster economic activity in the country. Medium to long-term pressure on bond yields is more likely, in our view, due to their low sensitivity to rate cuts in the short term. Moreover, any potential positive impact on investment activity in financial markets is likely to be limited, as real estate investments remain of greater interest. The Central Bank has also lowered the annual inflation target from 4.0% to 3.0%, according to Martin Galstyan, the head of the regulator. He noted that this requires creating an economic environment where the Central Bank will strive to minimize the costs associated with elevated interest rates.
- The Consumer Price Index (CPI) for Armenia in October, released on September 5, showed an unchanged inflation rate: +0.6% y/y, with a slight monthly acceleration of 0.3% in October (vs. +0.2% in September). The persistent below-target inflation dynamics leave open the possibility of another rate cut by the regulator in 2024. However, currently, Freedom Broker, in its baseline scenario, is more inclined to anticipate further rate cut by the regulator in 2025.
- In September, export growth again surpassed imports, although there was a month-on-month slowdown in foreign trade. Exports increased by 38.9% y/y but declined by 13.1% m/m, while imports rose by 11.9% y/y and fell by 12.9% m/m. Consequently, foreign trade turnover grew by 22.4% y/y in September but reduced by 13% m/m. Overall, there have been no significant and/or structural changes in net export trends, which is reflected in the stability of the country's currency.



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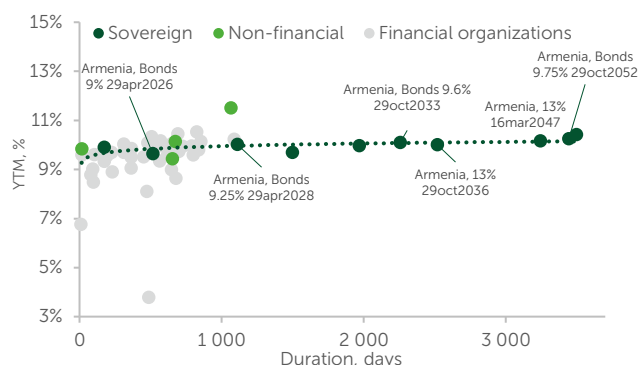
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Key economic indicators

	Growth YoY	Growth MoM
CPI - Oct	0.6%	0.3%
GDP - 2Q	6.4%	16.0% QoQ
Economic activity index - Sep	7.0%	6.6%

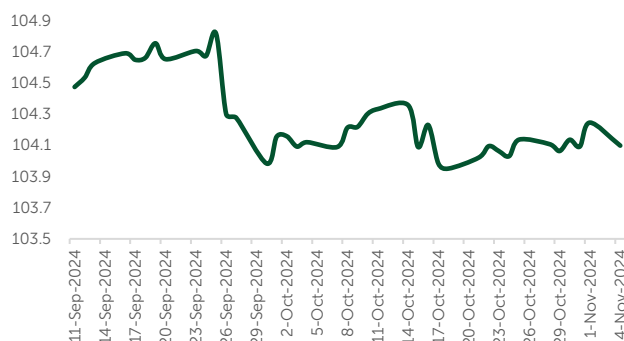
Source: armstat.am, Freedom Broker Armenia

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

Company news

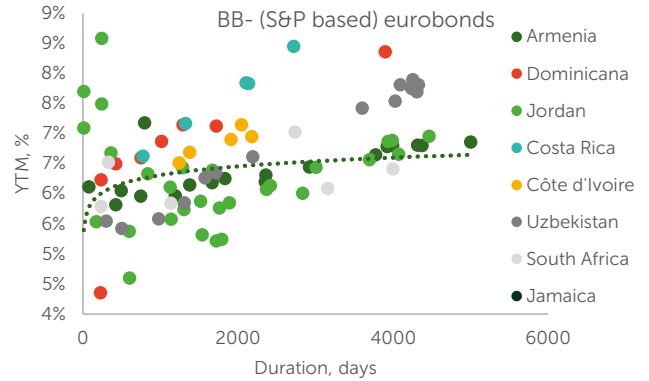
- o ACBA Bank has announced the issuance of coupon bonds with a maturity period of 60 months. The coupon yield for these debt instruments is 6% for U.S. dollar nominated ones, and 11% for Armenian dram nominated bonds. The face values of the bonds are \$100 and 100,000 drams, respectively. The auction began on October 21, 2024, and will continue through December 2, inclusive. .

Outlook for the next two weeks

During the period from November 8 to 18, 2024, a limited number of economic statistical indicators for the Republic of Armenia are scheduled for release. Updated (revised) data on some of the indicators may also be published.

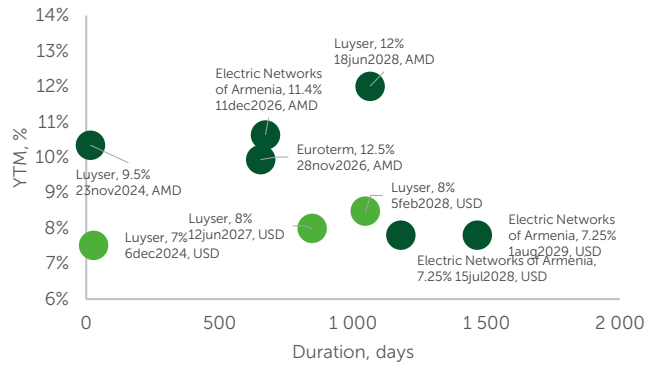
GDP statistics for the third quarter are expected to be issued on November 20 and may indicate a GDP growth acceleration to 4.4% y/y, which is slightly lower than the previous quarter's dynamic 6.4% y/y. The positive trend in economic activity observed in September may persist, supported by a progressive rate cut, potentially leading to stronger GDP growth toward the end of the year. No other significant publications are anticipated during this period.

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



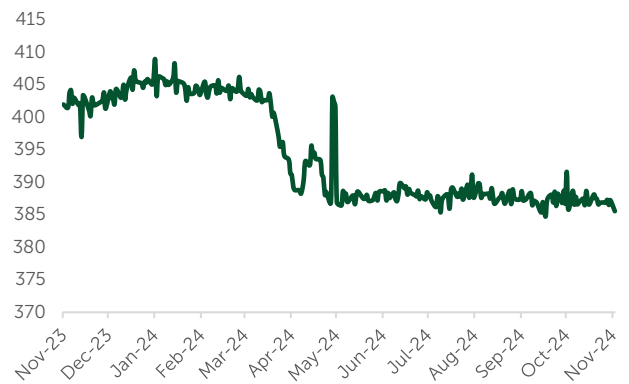
Source: amx.am, cbonds.com, Freedom Broker Armenia

Non-financial organizations' bonds of RA



Source: cbonds.com, Freedom Broker Armenia

USD/AMD dynamics



Source: amx.am, Freedom Broker Armenia

Chart 1: Currency rate dynamics

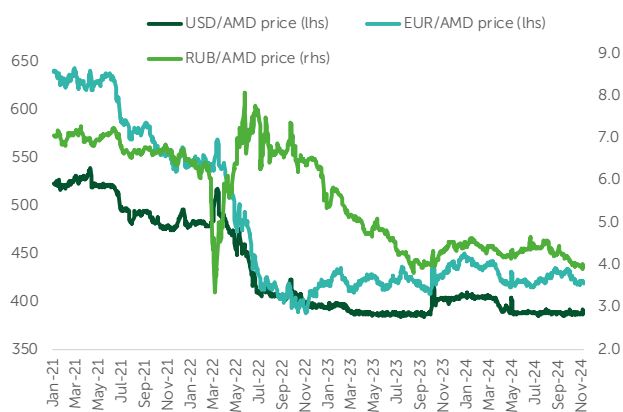


Chart 2: CPY vs refinancing rates of RA

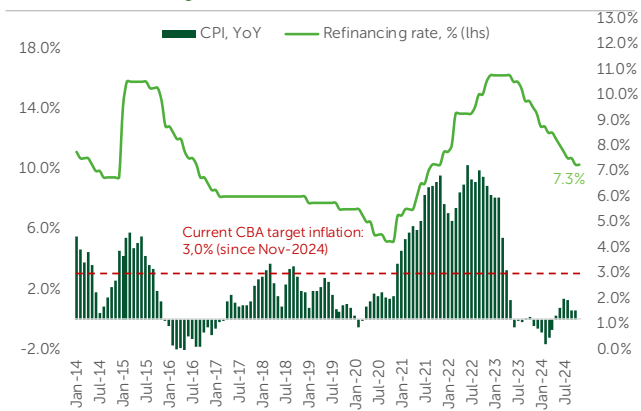


Chart 3: Armenian export breakdown by countries

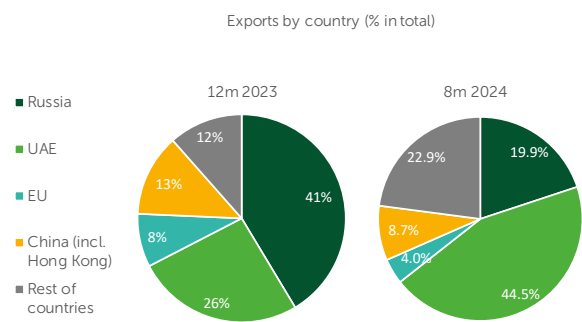


Chart 4: Armenian import breakdown by origin countries

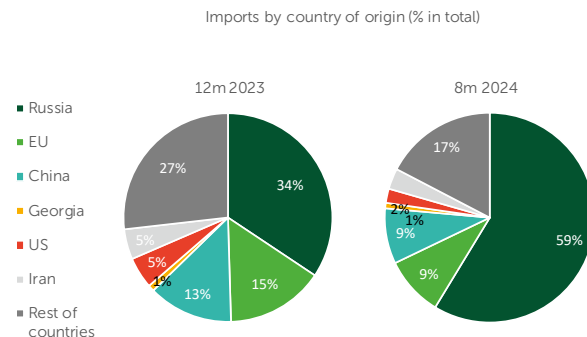


Chart 5: Armenian export breakdown by products

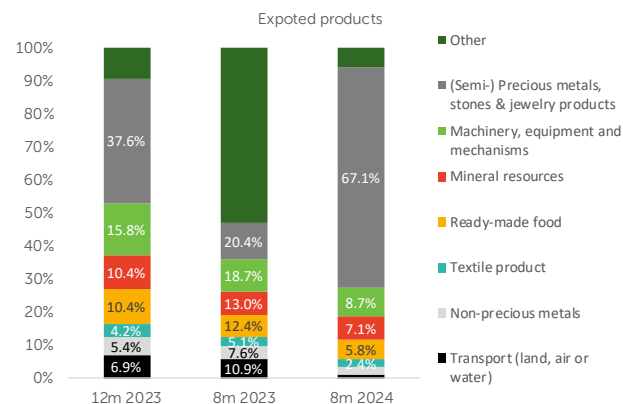


Chart 5: Armenian import breakdown by products

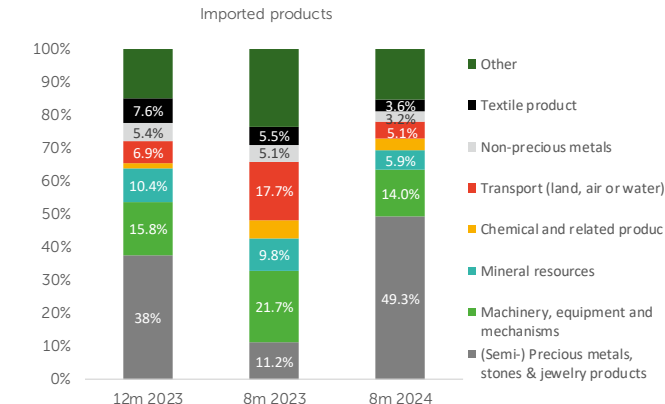


Chart 6: Construction price index

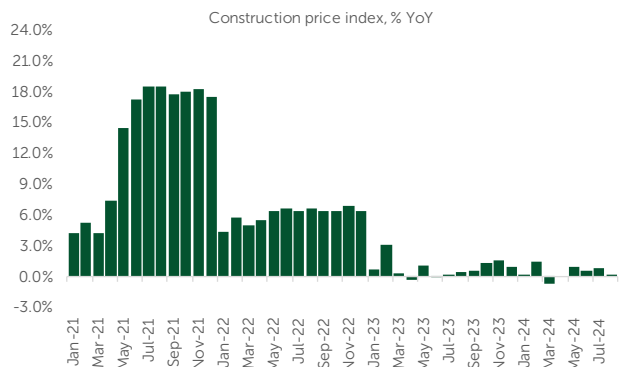
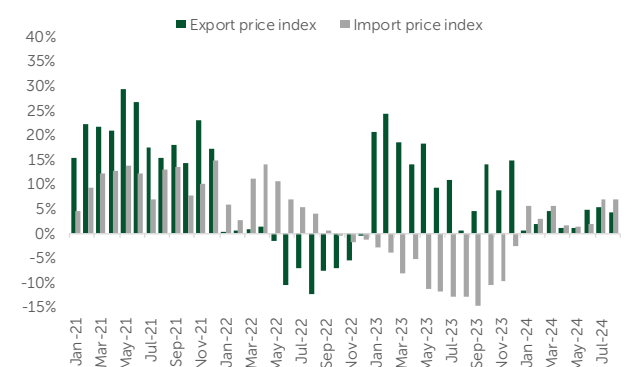


Chart 7: Export and import price indices



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

Freedom Broker Armenia

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