

Central Bank Cuts Rates Further Amid Slight Inflation Uptick

Market overview

Between January 27 and February 10, 2025, the Armenian stock market displayed a sideways trend. Shares of Telecom Armenia experienced a modest decline of 0.7% during the period. December figures revealing a marginal 0.2% y/y increase in Communication Services revenue likely failed to motivate investors to adjust their holdings. ACBA Bank shares held steady, despite the bank being the fourth most profitable Armenian bank in 2024. However, it is important, that the bank's earnings showed virtually no growth compared to 2023, contrasting sharply with the substantial profit increases of industry leaders: Ardashinbank, with nearly a 2.2 times y/y rise, and Ameriabank, which climbed 30% y/y.

The Central Bank's recent 0.25 percentage point rate cut has yet to influence medium-term debt instruments, as evidenced by the three-year corporate bond price index, which has stayed nearly flat (+0.1%). Similarly, short-term exchange rate dynamics remain stable. However, the average exchange rate of the dram against the U.S. dollar has depreciated by 2.6% since early 2025, relative to the average level in the second half of 2024. This shift is largely attributed to a decrease in FX inflows from the re-export of (semi-)precious stones. This downturn, which the World Bank cites as a significant factor in the drop in exports and imports in November, could pose potential risks to the dram's exchange rate if the trend persists.

Economic news

From January 27 to February 10, 2025, the Statistical Committee of Armenia released data showing a slight acceleration in inflation over the month, although it remained well below the central bank's target level. The Central Bank of Armenia has once more lowered the rate, seeking to ignite inflation, drive economic growth, and boost business activity. Meanwhile, business activity dynamics, coupled with an increase in industrial production, suggested a modest recovery in December.

- For the 14th consecutive time, the CBA reduced its refinancing rate, decreasing it by 0.25 percentage points to 6.75%. As anticipated, these rate cuts persisted into the early part of the year. Alongside this move, the deposit facility rate and lombard repo rate were also lowered. Nonetheless, inflation remains below the Central Bank's target of 3%, and future actions by the regulator will hinge, in part, on the trajectory of inflation.
- In January, price growth in Armenia gently accelerated to 1.7% y/y, up from December's 1.4%, as Freedom Broker anticipated. Inflation reached 1.4% m/m. Notable contributors to this increase were food items, transportation, and housing and communal services, while clothing and household appliances saw a decline in prices. Even with this slight uptick in December, the growth rate remains well below the target set by the national regulator. However, the recent interest rate cut, along with a moderate weakening of the dram's exchange rate (compared to the average of the second half of 2024) is expected to foster price growth in upcoming months due to the prominent role of imports in the foreign trade balance.
- In December 2024, following a slowdown in November, the economic activity index growth surged to 22.7% m/m and 4.7% y/y, surpassing the projected increase of +2.0% y/y. This improvement was mostly bolstered by a 17.7% m/m rebound in industrial production in December, recovering from its decline in November.
- Exports decreased by 48.6% y/y in December and by 1.3% m/m over the month. Imports decreased by 26.5% y/y and by 6.5% m/m. As a result, foreign trade turnover for December fell by 37.3% y/y, and compared to November – by 4.4% m/m. The downward trend continued, likely driven by a decline in imports and exports of precious and semi-precious stones, which, according to the World Bank, was the main reason for the unexpected downturn in November.



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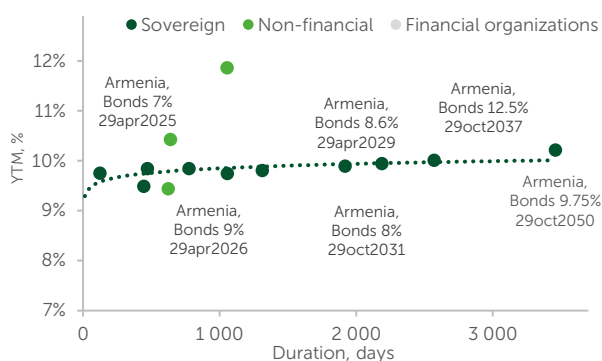
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Key economic indicators

	Growth YoY	Growth MoM
CPI - Jan	1.7%	1.4%
GDP - 3Q	5.2%	25.6% QoQ
Economic activity index - Dec	4.7%	22.7%

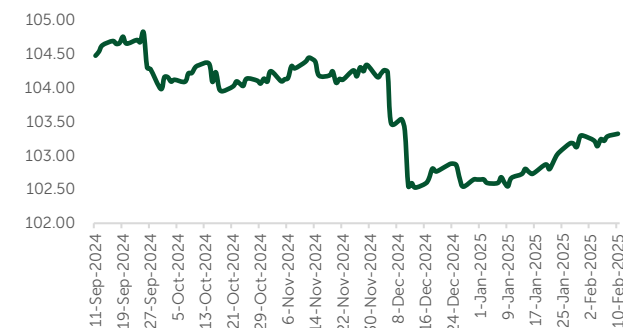
Source: armstat.am, Freedom Broker Armenia

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 On February 3, Ameriabank revealed it secured a €105 million (c.\$109 million) loan from the EIB Global to support small and medium-sized enterprises in Armenia. Additionally, in January, the bank announced it had raised \$200 million from the International Finance Corporation (IFC).

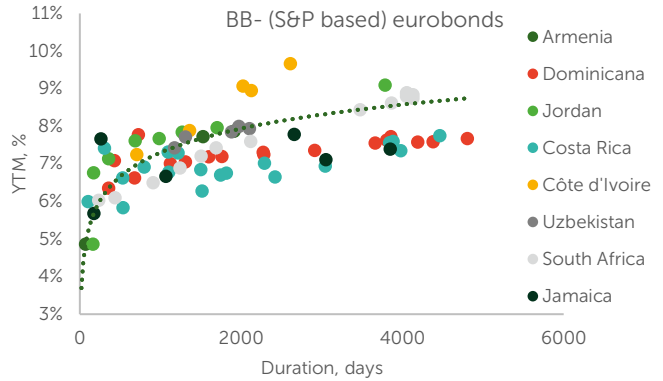
Outlook for the next two weeks

Between February 14 and 24, 2025, a limited amount of macroeconomic data is slated for release, though revised figures for earlier statistics might also be unveiled.

The forthcoming GDP growth statistics for the fourth quarter, alongside the economic activity index for January (anticipated on February 25), are expected to reveal overarching economic trends and illuminate the effects of the nation's accommodative monetary policy. GDP growth is projected to ease to 4.7% y/y in Q4, down from 5.2% y/y in Q3.

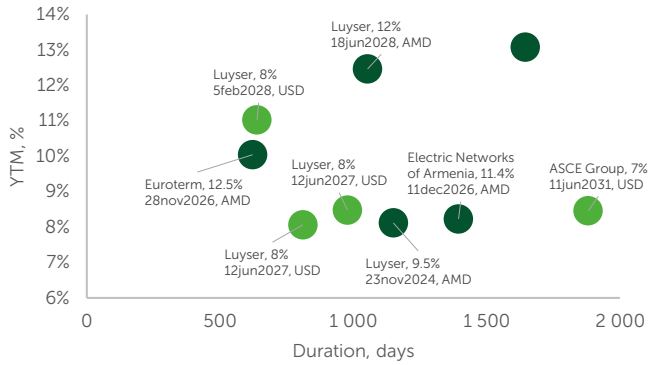
Additionally, the Producer Price Index is set to be released on February 25. It is anticipated to mirror the Consumer Price Index trends, suggesting a slight acceleration in both annual and monthly measures. Meanwhile, data on the volume of construction activities may offer enhanced insight into current trends within the real estate sector.

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



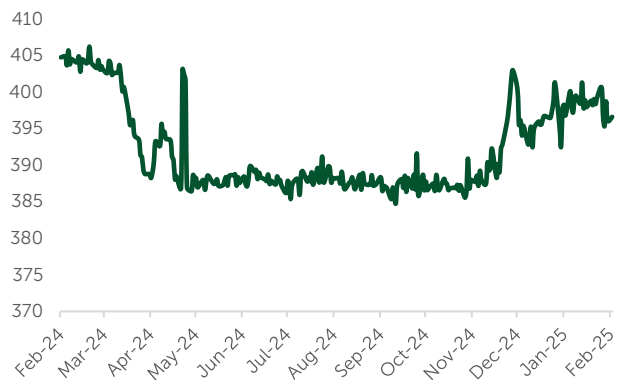
Source: amx.am, cbonds.com, Freedom Broker Armenia

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

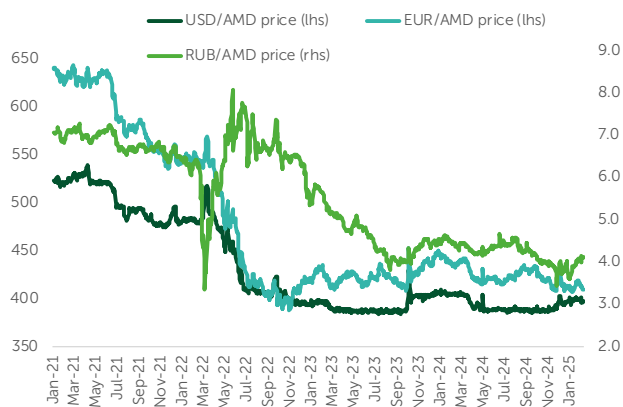


Chart 2: CPY vs refinancing rates of RA

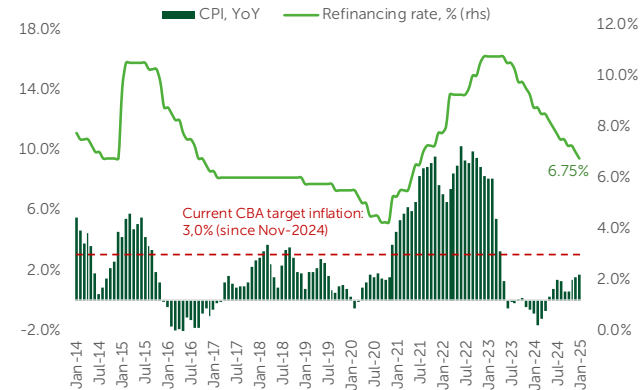


Chart 3: Armenian export breakdown by countries

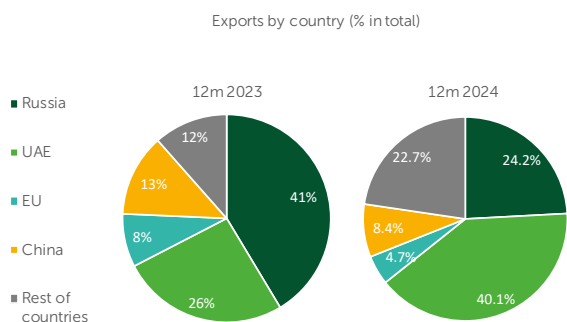


Chart 4: Armenian import breakdown by origin countries

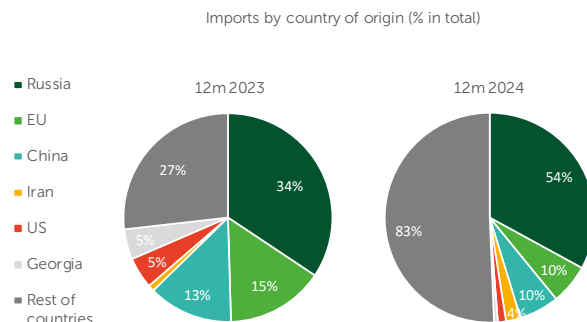


Chart 5: Armenian export breakdown by products

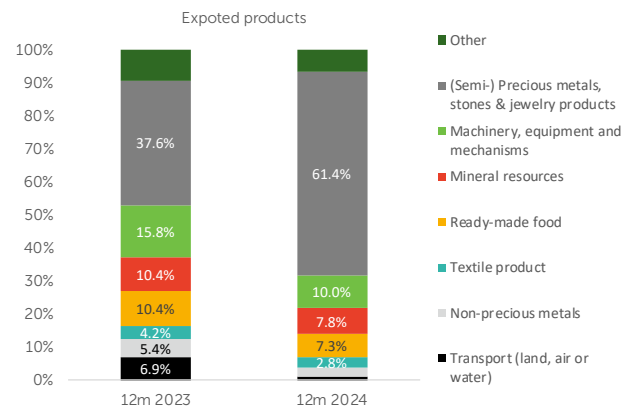


Chart 5: Armenian import breakdown by products

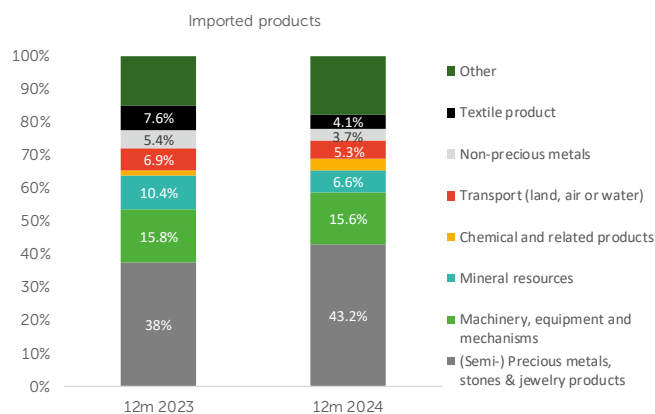


Chart 6: Construction price index

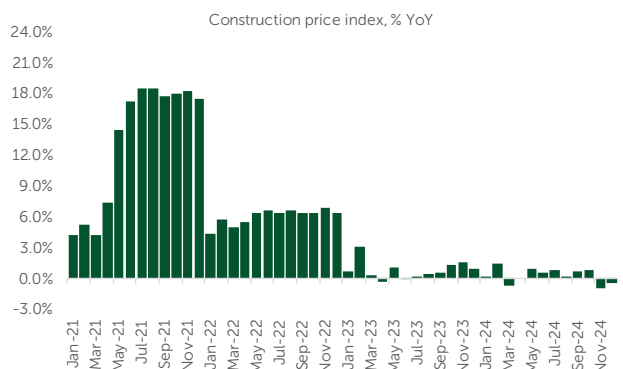
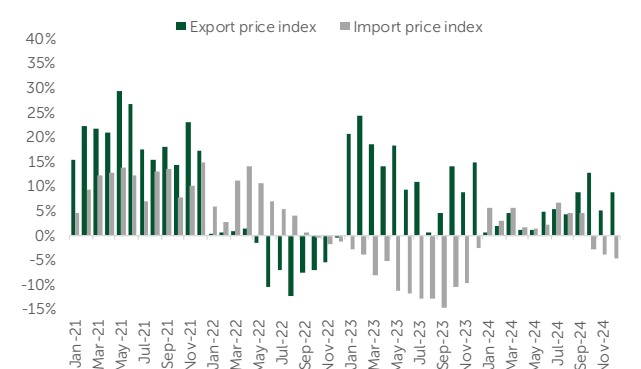


Chart 7: Export and import price indices



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

Freedom Broker Armenia

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