

Inflation Approaches the Target, the Banking Sector Growths

Market overview

During the period from February 24 to March 10, 2025, ACBA Bank shares exhibited moderately positive performance in the Armenian stock market. The share price increased by 2.1% over this period, surpassing AMD 15,000 per share for the first time in almost 12 months, before settling back to AMD 14,800 per share at the last moment. One driving factor behind the interest in the stock might be the announcement that the total profit of the Armenian banking system grew by 61% y/y in 2024. However, Telecom Armenia shares were trading sideways amid reports of modest revenue growth in the telecommunications sector in January—just 1.7% y/y and 8.7% m/m.

The AMX 3-year Corporate Bond Index saw a slight increase, likely due to the lack of significant news and changes in the market. The AMD exchange rate remains within the AMD/USD 385-404 range observed over the past 12 months. There has been no substantial change in the exchange rate since the beginning of 2025. The negative dynamics of foreign trade flows in recent months should be already reflected in the current exchange rate. Ongoing price increases in the economy, which surged last month to a level close to the target, make further rate cuts by the Central Bank less probable, with all other conditions constant. At present, we do not rule out the possibility of another rate cut in the coming months, although the dynamics of macroeconomic statistics will play a key role.

Economic news

From February 10 to February 24, 2025, the Statistical Committee of the Republic of Armenia released data indicating a rise in consumer inflation, which is now approaching the Central Bank of Armenia's target level. Accelerating inflation or its growth rate keeping near the target level may prompt the Central Bank to halt its monetary policy easing, all other things being equal. While we suppose there may be another rate cut in the first half of 2025, the dynamics of macroeconomic data will be a critical factor. Notably, statistics reveal that the country's services sector remains strong, though industrial production is facing challenges.

- As anticipated, consumer inflation climbed to 2.5% y/y in February, nearing the Central Bank's target of 3.0%, from 1.7% y/y in January. Compared to the previous month, inflation rose slightly by 0.1% m/m. The primary drivers of this increase were rising prices of food products, particularly fruits and vegetables (weighing about 8% in the inflation basket), along with soft drinks.
- Industrial production, which accounted for just over 10% of GDP in 2023, reduced by 10.4% y/y and 41.3% m/m in January. The manufacturing sector experienced a decline of 16.2% y/y, exerting significant pressure on the country's industrial output. Separately, copper concentrate production decreased by 20.4% y/y in January 2025. In contrast, the services sector exhibited resilience in the first month of 2025, growing by 12.6% y/y and 19.7% m/m.
- Real estate transactions in Armenia dropped by 38% m/m in January. However, the total number of real estate deals, including alienations, donations, etc., increased by 6.8% y/y and nearly 34% m/m. The data suggests some cooling in real estate demand in the country, amidst the gradual phase-out of the state mortgage support program. This trend may benefit the Armenian financial market as an alternative avenue for capital allocation, given that a significant portion of recent investment demand has been concentrated in the real estate sector.



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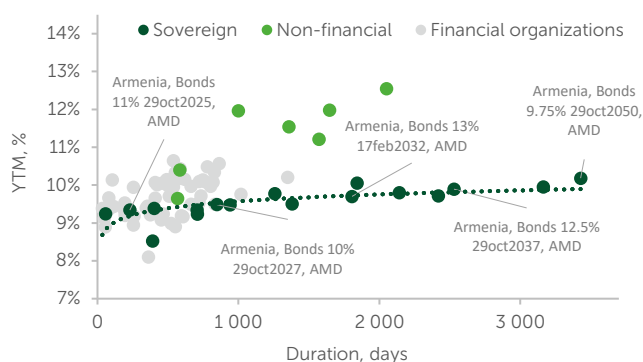
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Key economic indicators

	Growth YoY	Growth MoM
CPI - Feb	2.5%	0.1%
GDP - 4Q	3.7%	10.4% QoQ
Economic activity index - Jan	7.1%	-45.3%

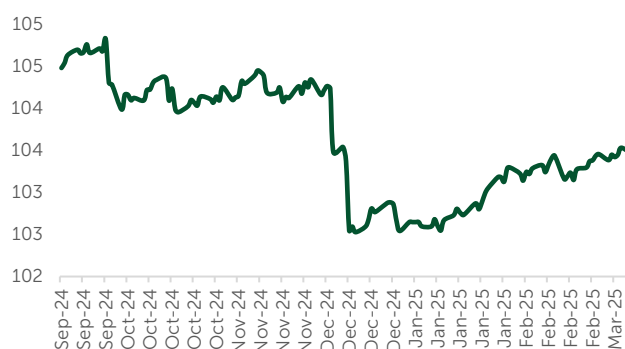
Source: armstat.am, Freedom Broker Armenia

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

Company news

- o Armenian startup Picsart and Deutsche Telekom have announced a collaboration to develop an innovative AI tool accessible to all, as reported by Arka. The plan includes integrating Picsart's AI Avatars into Deutsche Telekom's smartphone and into Magenta AI in the MyMagenta app, which is set to be released this year.

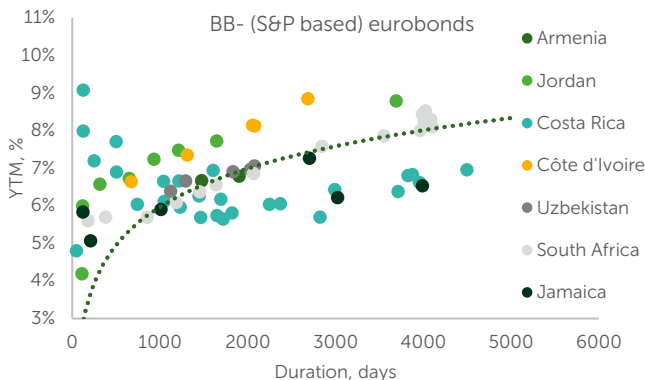
Outlook for the next two weeks

Between March 14 and March 24, just a few macroeconomic indicators are scheduled to be released. However, finalized figures of previously published statistics may also become available during this period.

The publication of economic activity data for February is anticipated to show that activity remains stable, with growth likely being close to the previous rate of +7.1% y/y. Additionally, the February PPI will be published and is expected to mirror the CPI dynamics, possibly indicating a slight acceleration from the 2.8% growth in January. The dynamics of economic activity in the country and inflation trends may significantly impact future interest rate decisions by the Central Bank.

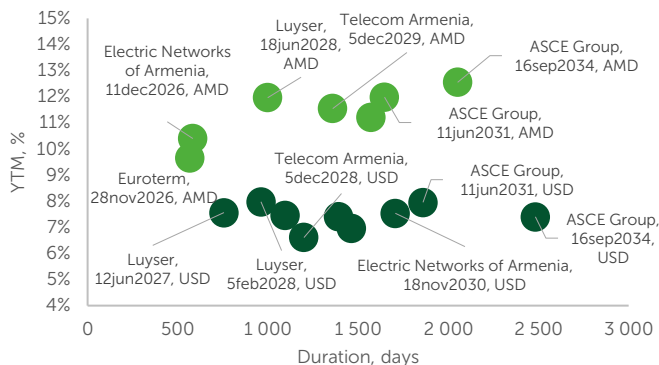
The retail sales statistics for February will provide insights into the current state of consumer demand within the country. It's noteworthy that for 2024, the growth rate of retail sales has markedly slowed, showing only a 9.9% year-on-year increase in January versus 19% increase in January 2024 and 28% in February 2024. Armenia's trade balance report is also expected, offering clarity on the trends in imports and exports, and consequently, the country's currency outlook.

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



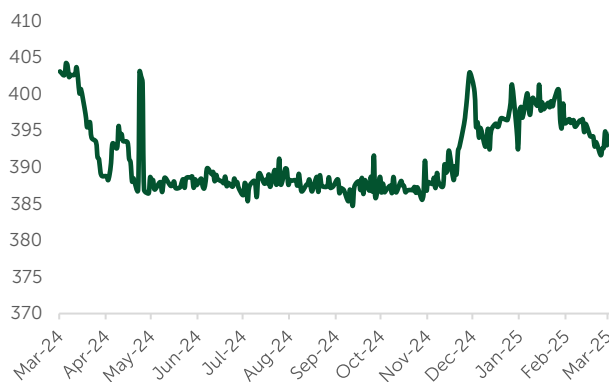
Source: amx.am, cbonds.com, Freedom Broker Armenia

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

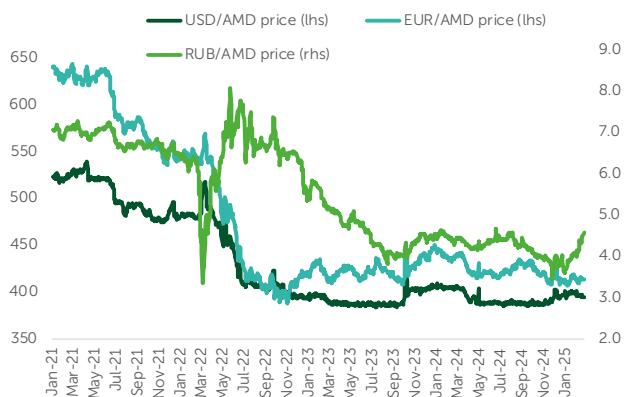


Chart 2: CPI vs refinancing rates of RA

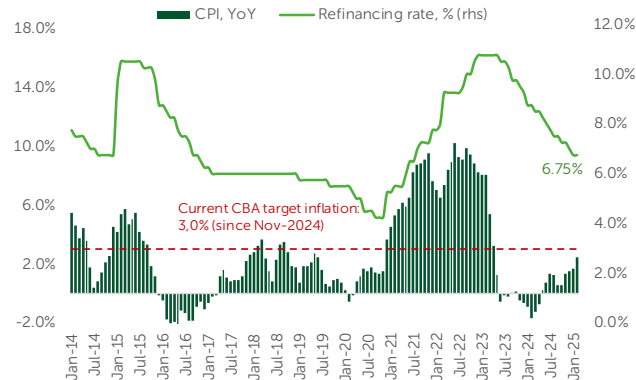


Chart 3: Armenian export breakdown by countries

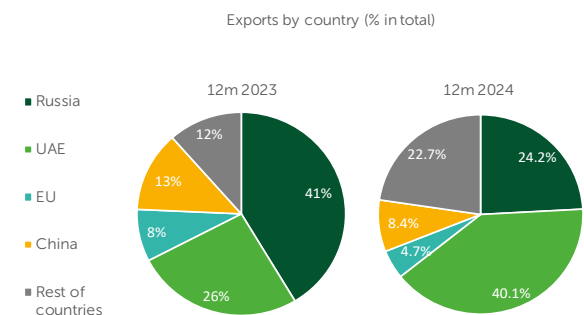


Chart 4: Armenian import breakdown by origin countries

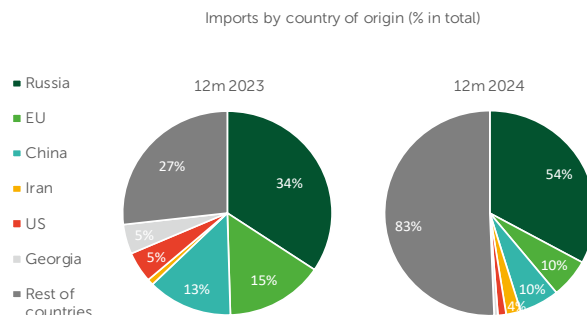


Chart 5: Armenian export breakdown by products

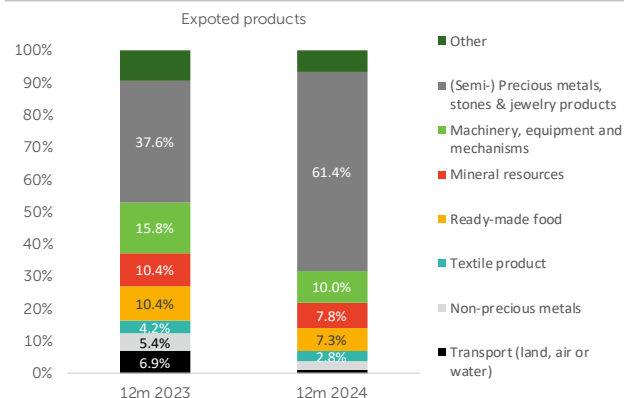


Chart 5: Armenian import breakdown by products

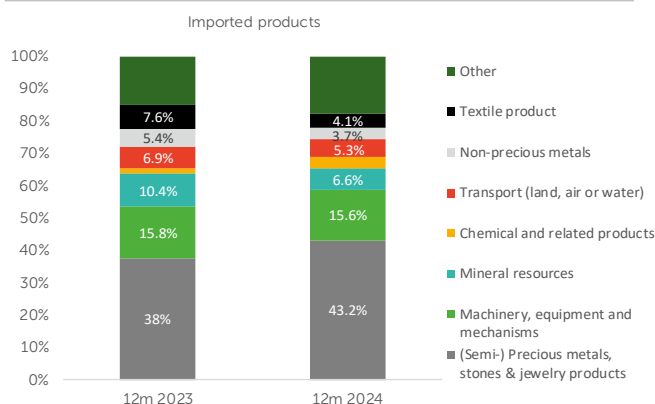


Chart 6: Construction price index

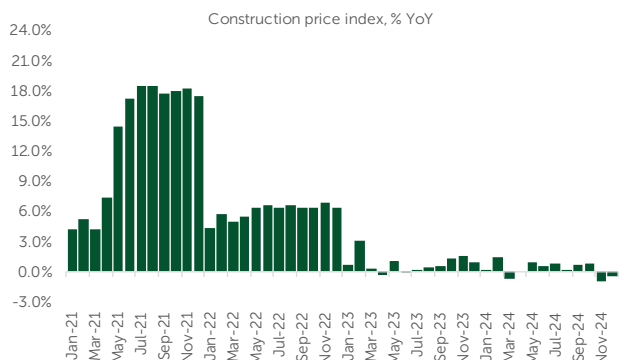
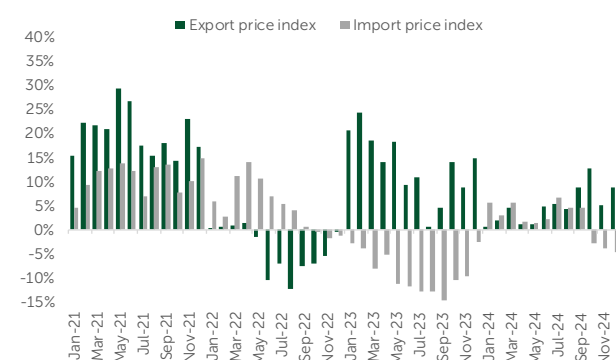


Chart 7: Export and import price indices



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

Freedom Broker Armenia

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