

Armenian Capital Markets Comprehensive Analysis

An in-depth analysis of Armenia's local bond markets, FX dynamics, secondary market liquidity, carry trade risks, and the derivatives market gap — for institutional and investment professionals.

AMX

Armenia Stock
Exchange

AMD

Armenian Dram (֏)

CBA

Central Bank
of Armenia

Market Overview — Armenia Capital Markets

Key metrics, market structure, and current state of Armenia's financial system



TOTAL GOV BONDS OUTSTANDING

~AMD 1.8T

≈ \$4.5B USD equivalent (2024)

AMX MARKET CAP (EQUITIES)

~\$180M

Highly concentrated, 12 listed companies

CBA POLICY RATE

9.25%

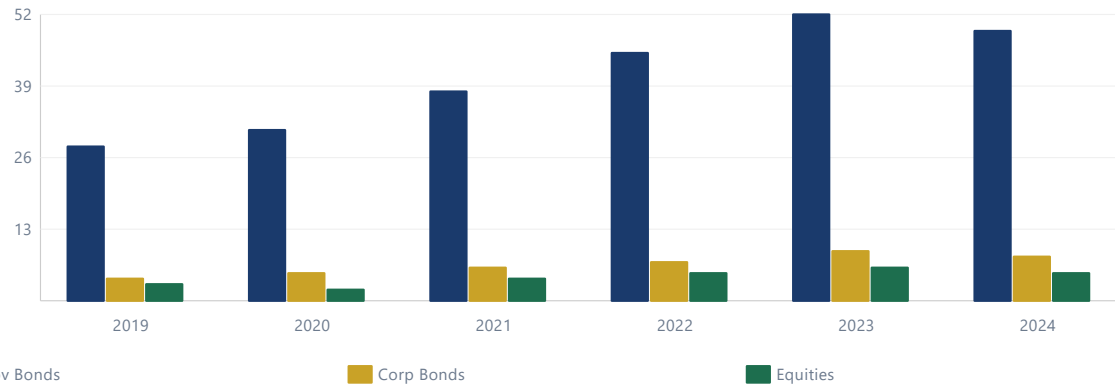
As of mid-2024; carry appeal for foreigners

GDP RATIO – CAPITAL MARKETS

~18%

Bonds/GDP; equities market negligible at ~1.5%

Secondary Market Annual Turnover (AMD Billion)



Market Structure Highlights

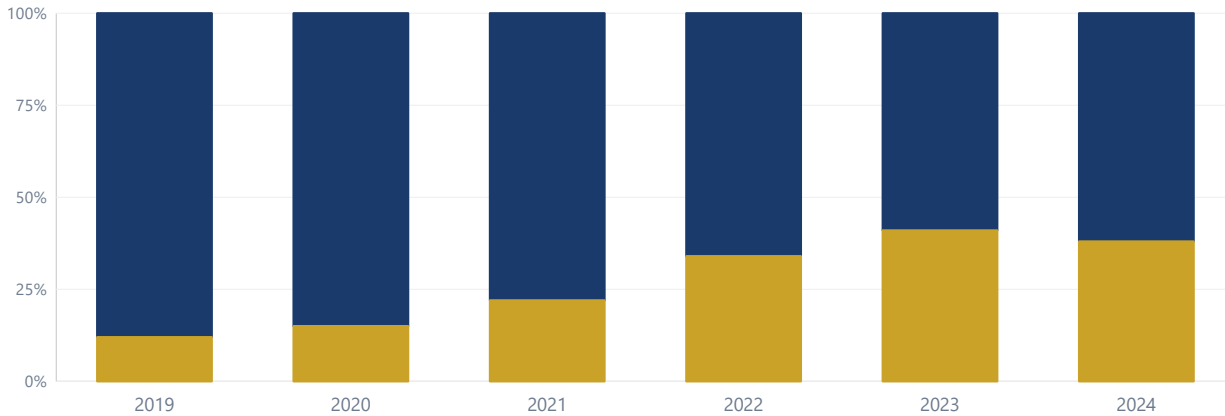
- Government Bonds:**
Dominant instrument; primary funding tool for MoF
- T-Bills (3–12mo):**
High secondary turnover; preferred by banks
- Corporate Bonds:**
Nascent; few issuers, thin secondary market
- Equities (AMX):**
Very illiquid; mostly state-owned/privatized firms
- Derivatives:**
Virtually absent — no listed futures/options market

Foreign Investor Participation in State Bonds

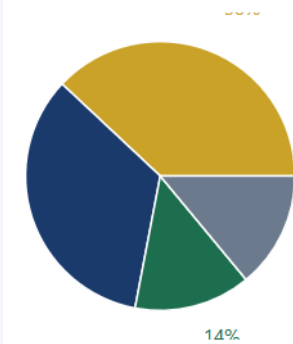
Share of non-resident investors in Armenian government securities



Foreign vs Domestic Ownership of Gov Bonds (%)



2023 Ownership Breakdown



- Foreign Investors — 38%
- Commercial Banks — 34%
- Pension Funds — 14%
- Insurance & Other — 14%

Foreign Investors

Domestic (Banks + Pensions)

PEAK FOREIGN SHARE (2023)

~41%

Driven by carry trade inflows post-2022

EST. FOREIGN HOLDINGS

~\$420M

Concentrated in 2-5yr AMD bonds

MAIN FOREIGN INVESTORS

US based fund and Russian speaking capital

Post-2022 capital flight + global EM funds

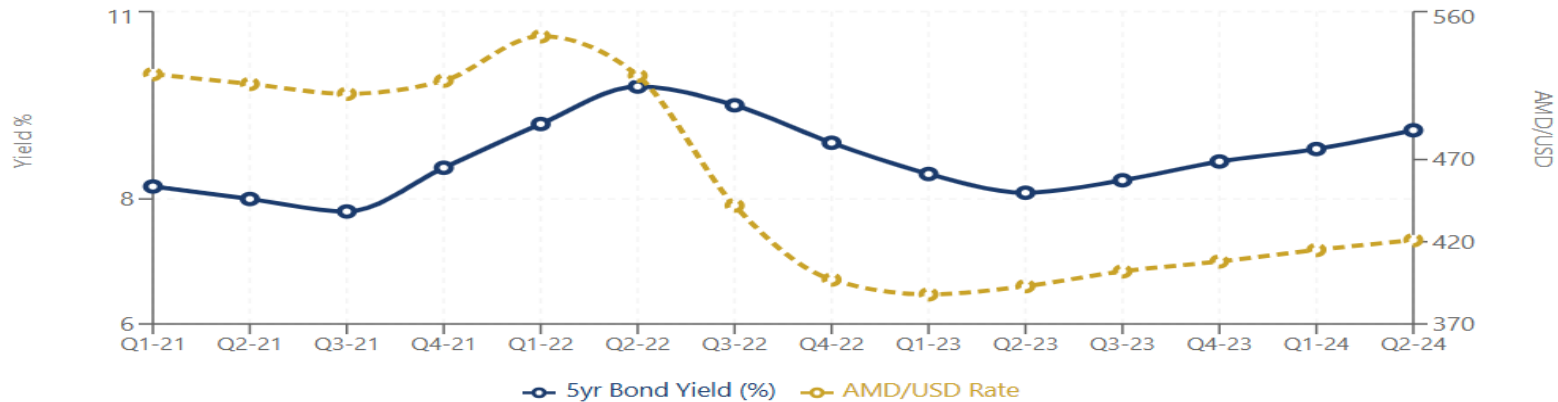
⚠ Key Observation: The sharp rise from ~12% (2019) to ~41% (2023) was driven by two factors: (1) AMD appreciation post-2022 Russian capital inflows making AMD assets extremely attractive, and (2) a high real yield spread. This concentration creates significant exit risk.

Bond Price Dynamics vs AMD/USD Exchange Rate

Inverse relationship between AMD/USD rate and Armenian government bond yields



Gov Bond Yield (%) vs AMD/USD Rate — 2021–2024



Key Correlation Observations

2022 AMD Appreciation

▲ AMD Strength → ↓ Yields

AMD strengthened from 545→397 vs USD (27% gain), driven by Russian capital inflows. This compressed bond yields as foreign demand surged.

CBA Rate Hikes (2022)

↑ Policy Rate → ↑ Short Yields

CBA raised policy rate to combat inflation, pushing short-end yields up sharply, even while AMD was appreciating.

USD Strengthening Cycles

↑ USD → ↑ Yields (temp.)

Global USD strength (2022 H1) temporarily pressured AMD and widened bond spreads before Russian capital flows dominated.

AMD-Bond Carry Trade Anatomy — Total Return 2022–23

Coupon Yield (AMD)	+8.5 – 9.5%
AMD Appreciation vs USD	+15 – 27%
Total USD Return (est.)	+24 – 37%

⚠ **Reversal Risk:** If AMD weakens 15–20%, the entire coupon advantage is wiped out. Without FX hedging instruments, foreign investors are fully exposed to AMD/USD volatility — a critical structural vulnerability.

Secondary Market Analysis — Deep or Illiquid?

Armenia Stock Exchange (AMX) — depth, liquidity, and turnover analysis by asset class



Verdict: Structurally Illiquid. Armenia's capital market secondary segment is one of the thinnest in the region. Daily trading volumes across all instruments rarely exceed \$3–4M USD combined — comparable to a mid-cap stock on an emerging market exchange.

Est. Avg Daily Turnover (USD Million)



Liquidity Scorecard by Segment

T-Bills (3–12mo) Most active. Banks dominate; OTC trades common	● Moderate
Gov Bonds (2–7yr) Foreign-held bonds rarely traded; buy-and-hold	● Low-Moderate
Corporate Bonds ~24 issues; bid-ask spreads of 150–300bps	● Very Low
Equities (AMX) Days with zero trades common; 12 listed stocks	● Extremely Low

LISTED COMPANIES (AMX)

12

vs 40+ for comparable frontier markets

CORP BOND ISSUERS

~20–25

Mostly banks; no real corporate diversification

TURNOVER RATIO (EQUITIES)

~3–5%

Frontier avg is 15–25%; extremely low velocity

OTC VS EXCHANGE

>80% OTC

Most bond trades happen off-exchange bilaterally

Carry Trade Exit Risk — A Structural Vulnerability

Systemic risk from carry trade unwind — FX crash and bond market stress scenario



AMD POLICY RATE

9.25%

US FED FUNDS RATE

5.25%

CARRY SPREAD

~4.0%

FOREIGN SHARE IN GOV BONDS

~38–41%

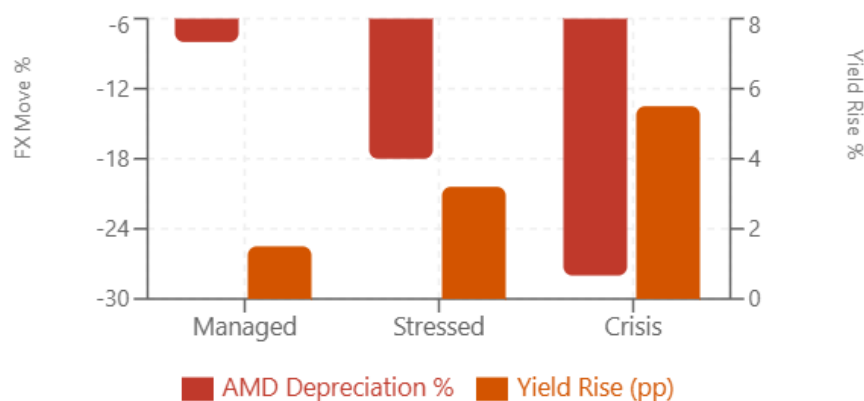
EST. FOREIGN HOLDINGS (USD)

~\$420M

DAILY FX MARKET VOLUME

~\$25–30M

Exit Scenario Impact on FX & Bond Yields



Why This Risk Is Acute

- **Market Too Small**

Daily FX ~\$25–30M. Foreign holdings ~\$420M. Even 10% exit = 1.4× daily FX volume.

- **No Absorption Mechanism**

CBA reserves (~\$3.6B) buffer is finite. Sustained selling forces defend-or-float dilemma.

- **No Hedging Instruments**

Foreign investors cannot hedge AMD risk. Rational response: EXIT simultaneously — cliff-edge dynamic.

- **Pension Fund Pro-cyclicality**

Local pension funds hold long AMD bonds. Rate spike from selling triggers MTM losses.

- **Correlated with Risk-Off**

Carry attractiveness disappears exactly when global EM risk appetite falls.

Systemic Scenario: A rapid global carry trade unwind (e.g., Fed rate cut reversal, geopolitical shock, or EM contagion) could simultaneously trigger: (1) AMD depreciation of 15–30%, (2) government bond yields spiking 200–500bps, (3) sovereign borrowing costs rising sharply, and (4) domestic pension fund losses — all within weeks. The illiquid secondary market means **there are no buyers during a panic.**

The Derivatives Market Gap

Absence of hedging instruments — a critical barrier to sustainable foreign investment



What's Missing vs Comparable Markets

FX Forward / NDF Market

✗ Absent

Investors cannot lock in AMD/USD rates. No liquid, standardized NDF market exists.

Interest Rate Swaps

✗ Absent

No ability to swap fixed-for-floating AMD rates. Critical for bond portfolio duration management.

Currency Options

✗ Absent

No listed or OTC AMD options market. Cannot buy downside protection on AMD.

Bond Futures

✗ Absent

No government bond futures for duration hedging or price discovery.

Repo Market (Bilateral)

⚠ Nascent

CBA-administered repo exists but interbank repo is thin; no proper GMRA framework.

Equity Derivatives

✗ Absent

Zero listed equity options or futures on any AMX stocks.

How Derivatives Would Transform the Market

✓ Risk-Adjusted Entry

FX forwards/NDFs let investors isolate the bond yield without AMD currency risk → wider investor base.

✓ Longer Duration Investment

Rate swaps enable interest rate risk management → investors can hold longer-dated bonds.

✓ Market Making Incentive

Derivatives create arbitrage/hedging flows that incentivize banks to actively market-make.

✓ Orderly Exit Mechanism

Hedged investors unwind gradually. Unhedged investors must exit all at once → cliff-edge risk reduced.

✓ Local Corporate Hedging

Armenian corporates with USD liabilities could hedge FX risk, deepening the market.

Regional Comparison

Georgia (GEL):

Basic FX forwards available; bond market significantly more developed

Kazakhstan (KZT):

Listed FX futures, interest rate derivatives — KASE is a regional benchmark

Azerbaijan (AZN):

Limited but growing NDF market post-manat devaluation experience

Armenia (AMD):

No standardized derivatives; entirely OTC bilateral at best

Key Challenges & Strategic Recommendations

Structural barriers to market development and the path forward



● Critical Challenges

Illiquid Secondary Market

HIGH RISK

Thin trading volumes make entry/exit costly. Bid-ask spreads are wide, deterring institutional investors who need execution certainty.

FX Carry Exit Cliff Risk

HIGH RISK

~\$420M foreign holdings in a \$25–30M/day FX market. Any coordinated exit triggers a self-reinforcing crisis.

No Derivatives Ecosystem

HIGH RISK

Foreign institutional investors with mandates requiring hedging simply CANNOT invest. This disqualifies a large pool of global capital.

Small Investor Base

MEDIUM RISK

Domestic institutional demand (pensions, insurance) is growing but insufficient to replace foreign exits or absorb new primary issuance.

Concentrated Issuance

MEDIUM RISK

Government dominates; corporate bond market lacks depth, issuers, credit rating infrastructure, and yield curve benchmarks.

Limited Credit Rating Coverage

MEDIUM RISK

Few Armenian corporates have international credit ratings. Without ratings, global funds cannot include them in portfolios.

Regulatory Gaps

MEDIUM RISK

Derivatives require robust legal (ISDA/CSA), tax, and clearing frameworks — currently underdeveloped in Armenian law.

✓ Strategic Recommendations

1 Develop AMD FX Forward Market

CBA and MoF should work with banks to standardize NDF contracts. Mandate at least 3 primary dealers to quote AMD forward rates. Priority: 1–2 years.

2 Introduce IRS Framework

Adopt ISDA master agreements under Armenian law. Pilot with 2–3 major banks. Required for pension fund ALM and foreign investor hedging.

3 Expand Primary Dealer Network

Increase licensed primary dealers from 4–5 to 8–10, including regional banks, to deepen secondary market liquidity.

4 Develop Eurobond-Linked Local Curve

Issue benchmark bonds at standard maturities (3, 5, 7, 10yr) to build a proper yield curve — currently too sparse for curve trading.

5 Implement Repo Market Infrastructure

Introduce a tri-party repo platform to enable banks and investors to finance bond positions efficiently, increasing turnover.

6 Foreign Investor Concentration Limits

CBA should consider macro-prudential caps (e.g., max 30% foreign ownership in domestic bonds) to limit cliff-edge exit risk.