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The Calm Before the Next Storm: Is the Armenian Dram's Current Consolidation a Sign of an Upcoming High Volatility?

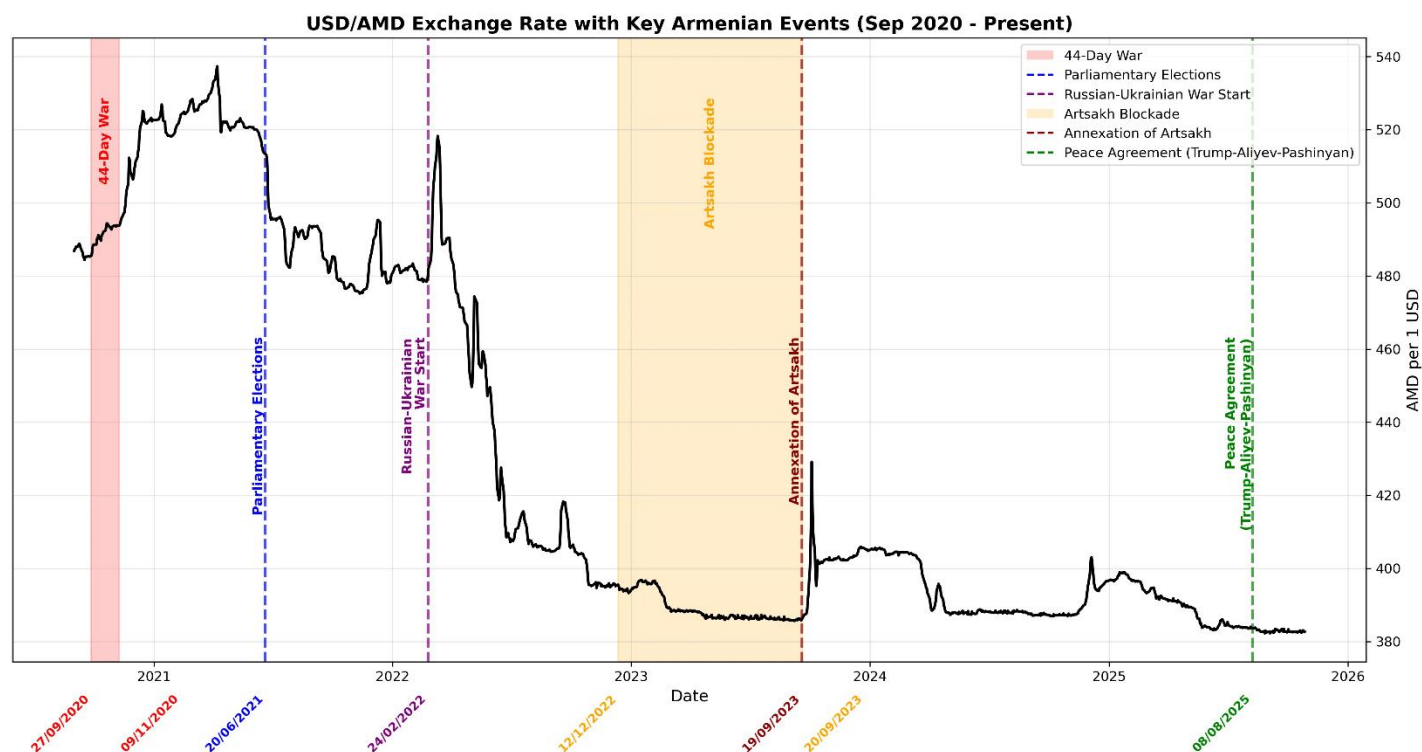
Executive summary

- The Armenian dram has emerged as one of the region's strongest currencies, defying expectations through five years of geopolitical and economic turbulence.
- From post-war losses to renewed strength and eventual stability, the dram has moved in step with Armenia's changing geopolitical realities - the 2020 conflict, the 2022 inflows, the Artsakh Blockade, and the 2025 Peace Agreement.
- Major rating agencies maintain a stable outlook for Armenia, highlighting fiscal strength and the dram's resilience. Following the 2025 Peace Agreement, Moody's reaffirmed this outlook, signaling reduced geopolitical risk and growing confidence in long-term stability.
- The current calm may endure, but history shows that the dram's long stretches of stability have often preceded sharp movements - and this time, the balance of factors, including the opening of trade borders with Azerbaijan, points toward a stronger dram.

Geopolitics and the Dram's Turning Points

The Armenian dram has been a clear reflection of the country's geopolitical journey over the past five years. The period opened with the 44-Day War in late 2020, a time of heightened uncertainty for Armenia's economy.

- While the dram showed a slight depreciation during the conflict, it weakened more sharply in the post-war period. Over the course of that time, it went from roughly 485 AMD to almost 540 per USD, a typical market reaction to heightened military and political instability.
- Despite the wartime pressure, Fitch Ratings maintained Armenia's B+ credit rating with a stable outlook, signaling confidence in the country's fiscal management and the Central Bank's ability to contain volatility.

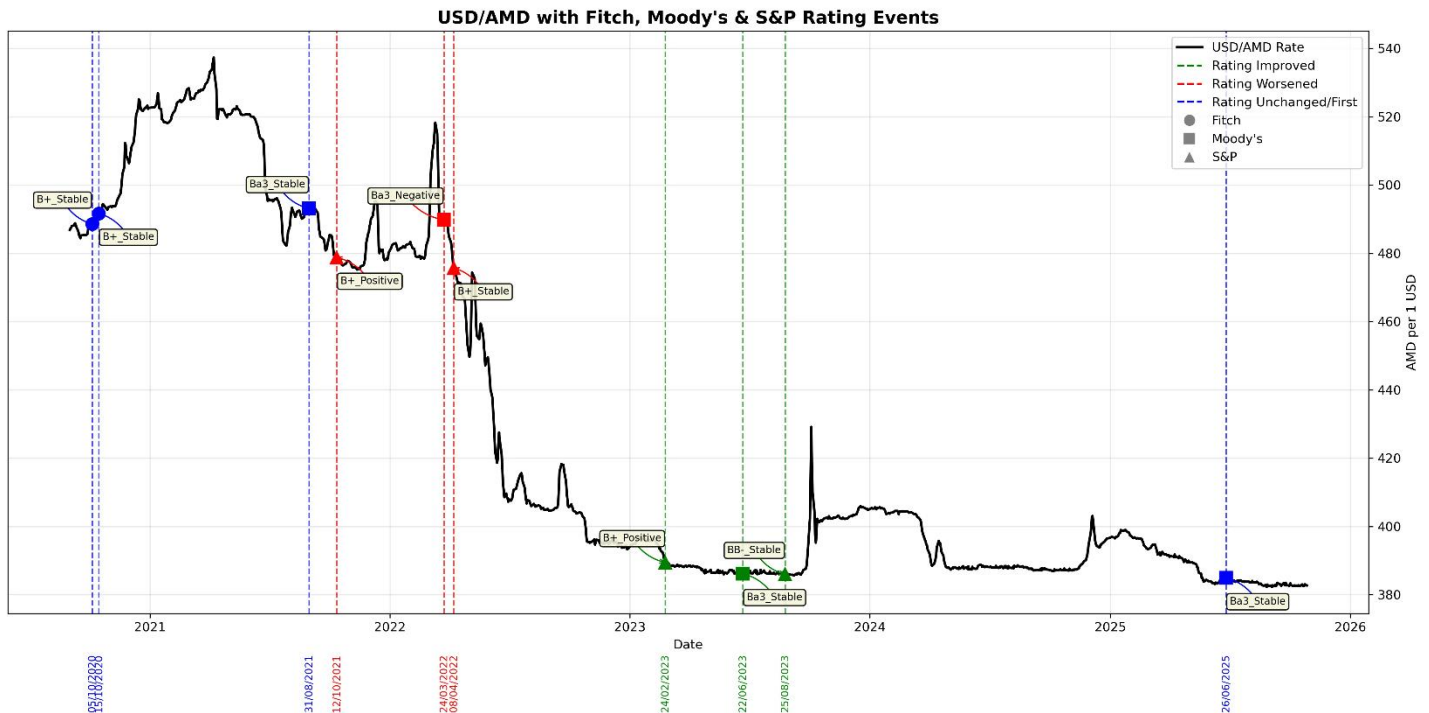


Data: CBA | Analysis: KK Partners

The 2021 parliamentary elections caused brief fluctuations but no major shifts, as the dram gradually stabilized in the months that followed.

A dramatic reversal of fortune for the dram occurred with the onset of the Russian-Ukrainian War in early 2022. After a brief depreciation, the currency began a strong and extended appreciation phase, driven by the influx of Russian capital, migrants, and businesses that boosted foreign currency inflows into Armenia.

- The rate strengthened to about 395 AMD per USD, then settled near 385, its strongest level in years.
- During this time, Moody's and S&P revised Armenia's outlooks downward (Moody's from stable to negative; S&P from positive to stable), but later improved their ratings as the dram continued to strengthen and reserves increased.



Data: CBA, countryeconomy.com | Analysis: KK Partners

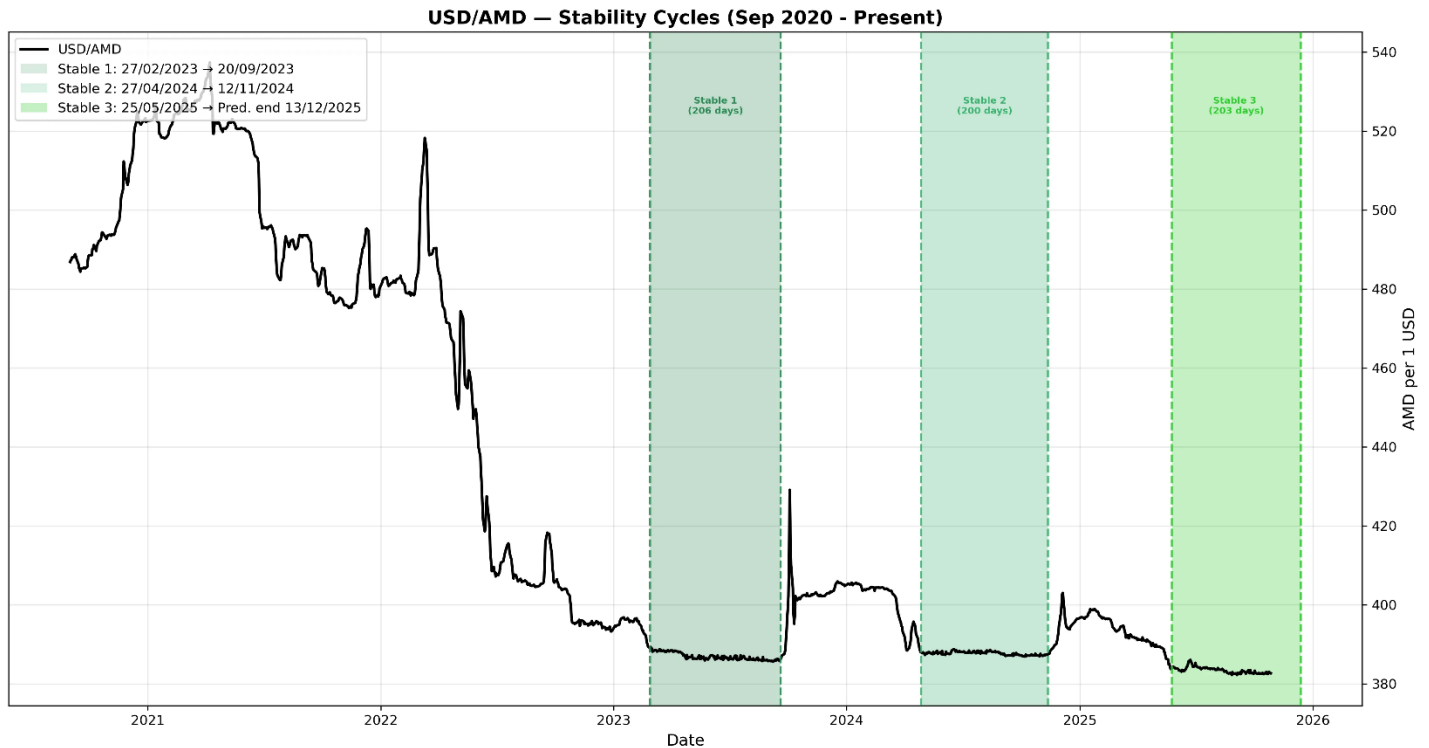
Even during the Artsakh Blockade (Dec 2022-Sept 2023), the dram remained firm - suggesting that capital inflows and remittances outweighed the impact of geopolitical risks. However, in September 2023, following the loss of Artsakh and the resulting political and humanitarian fallout, the dram briefly weakened to around 430 per USD before recovering under the Central Bank of Armenia's guidance.

The Current Calm: Real Stability or an Inflection Point Ahead?

After May 25, the Armenian dram entered one of its most stable phases in recent years. Market confidence strengthened further as political uncertainty eased, and trade relations began to normalize. But if we look back at previous "stable" periods in the dram's history, they often preceded a shift.

- February to September 2023 was one such phase - a stretch of relative stability when the dram traded in a narrow range and market sentiment was steady. Then we can see how the dram weakened sharply, moving from stability to a quick depreciation as conflict and uncertainty set in.

- April to November 2024 phase of stability closely resembles the earlier one - and interestingly, it lasted almost the same amount of time.



Data: CBA | Analysis: KK Partners

All this allows us to conclude that we will have the same picture this time, however, taking into account the existing positive factors, especially the opening of trade borders with Azerbaijan, we should expect a sharp strengthening of the dram this time. Considering the almost equal duration of the previous periods, we predict that the next major shift will occur in 1-2 months.

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