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ANALYSIS OF KEY INDICATORS' DYNAMICS CHARACTERIZING THE GOVERNMENT BOND MARKET[1]

In the article, the authors attempt to analyze the main indicators of the Armenian government bond market, identify the main trends in their dynamics, and the factors influencing them. The increase in domestic government debt, the extension of debt maturity, and the increase in the weight of non-bank participants among owners create opportunities for qualitative changes in the market. In addition, monetary and debt

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management policies in recent years have affected the formation of market yields and their term structure. As data trends show, monetary policy, rising debt levels, and the activation of major investors driven by external and domestic growth factors are the main drivers of the market. The easing of monetary policy, the Ministry of Finance's policy of satisfying auctions, and the decrease in the number of primary dealers have become the main factors driving the formation of the yield curve. In this regard, market changes may pose risks and make the direction of future effective development uncertain. In summary, the study emphasizes that, for the sustainable development of the market and increased liquidity, comprehensive reforms are necessary, based on a combination of international experience and local specifics.

INTRODUCTION. Financial markets, and especially the government bond market, have faced unprecedented challenges in recent years due to global economic shocks, geopolitical tensions, and unprecedented pandemics. In such a changing environment, the role of government bond markets is particularly important in the context of ensuring the stability of public finances and liquidity for the financial system. This market is not only an important source of government financing, but also a key mechanism for transmitting the central bank's monetary policy.

The government bond market is one of the most established segments in the Armenian financial market. In recent years, the expansion of the market participants' composition, the growth of transaction volumes, and changes in trends in yields indicate the peculiarities of market development. Therefore, a comprehensive analysis of government bond market liquidity and pricing processes becomes particularly relevant. The research topic is important both theoretically and practically, since it allows us to understand market dynamics, identify existing trends, and their main causal relationships. Especially in the case of the Republic of Armenia, where the development of the securities market is still in its initial stage, this kind of analysis will allow assessing investor trust and creating a basis for developing directions for further market development. The research aim is to analyze the dynamics of the secondary market for Armenian government bonds, identifying the main macroeconomic and institutional factors that have influenced market behavior. Based on the stated goal, the main objectives of the research were to observe such areas as the dynamics of the structure of the state debt, the dynamics of the state bond market, the structure of the main instruments, the scope of market participants and the dynamics in their structure, developments in the scope of market interest rates and auctions, etc. The dynamics of the Armenian government

bond market are mainly shaped by monetary policy, domestic debt growth, and changes in the investor structure. The study analyzes official data from the Central Bank and the Ministry of Finance for 2013-2025, examining debt composition, investor types, issuance volumes, yields, placement auctions, and secondary market activity.

LITERATURE REVIEW. Recently, the analyses of government bond market developments conducted in foreign academic circles have given significant importance to the development of market liquidity and pricing systems. Investigating research is especially important in the context of developments in Armenia, where market developments are accompanied by price fluctuations and changes in liquidity. The study by Galliani, Petrella, and Resti focuses on the European fixed-income market. The authors confirm that market liquidity is determined by bond characteristics: duration, rating, issuance volume, and maturity (Galliani et al., 2014). Chaumont argues that monetary interventions and the involvement of passive investors can mitigate negative market effects, showing that the liquidity factor is as important as macroeconomic indicators (Chaumont, 2024). A study of the Australian securities market shows that government issues have had significantly higher activity than non-government bonds (Guo, Zhang, 2020). A Korean government bonds study conducted by Kim confirms the negative relationship between liquidity and yield: panel regression analysis showed that high liquidity reduces yield to maturity (Kim, 2012). Studies on the Indonesian market have also reached similar conclusions: multiple linear regression showed that coupon and loan rates have a positive effect on liquidity, while the exchange rate and stock price index have a negative effect (Soebagio, Solikin, 2019). The article by Renzis, Guagliano, and Loiacono shows that after the financial and sovereign debt crises, the liquidity of the government bond market has gradually improved, especially for benchmark and large-issue bonds. However, increasing market tensions continue to impact liquidity negatively (Renzis, et al. 2018). Handler and Jankowitsch's study addresses the impact of political uncertainties (Handler, Jankowitsch, 2025). Using the Italian economic policy uncertainty index, the authors show that it significantly affects the volatility of bond yields (Baker et al. 2016). The Swedish case has shown that the quantitative easing policy implemented by the Riksbank has increased market liquidity (Grimaldi, et al. 2021).

Analysis of Eurozone countries has shown that the determinants of spreads have changed over time: markets have started to take into account the volume of issuance, liquidity, and maturity (Afonso, et al. 2015). The Bank for International Settlements report emphasized that market liquidity is largely determined by repo transaction infrastructure (Bank for International Settlements, 2002). Research by Deuskar and Johnson shows that the stability of the secondary market depends more on the financial stability of primary

dealers than on general macroeconomic conditions (Deuskar, Johnson 2021). Hans Blommestein's research on the impact of regulatory policy shows that Basel III and Dodd-Frank regulations, while reducing risks, have also limited banks' trading activity, in some cases reducing market liquidity (Blommestein 2017). Martinez-Resano emphasized that the government bond market is mainly shaped by large institutional transactions and trading between dealers. The author argues that for efficiency, it is necessary to promote competition, develop infrastructure, and apply flexible regulatory approaches (Martínez-Resano, 2005). Valseth's analysis of the Norwegian market has shown that bond price formation is largely driven by order flow between dealers, which is the strongest factor driving yield changes (Valseth, 2012). A study by Brugler, Comerton-Forde, and Martin found that secondary market transparency reduces information asymmetry and lowers the issuance rate (Brugler, et al. 2022). A 2022 study by Zhou et al. shows that fiscal and monetary stimulus during the pandemic significantly changed the dynamics of returns (Zhou et al, 2022). Studies on the impact of the COVID-19 pandemic have shown that liquidity can deteriorate dramatically even in large and trusted markets. In March 2020, only the intervention of central banks saved the situation (Financial Stability Board, 2022).

References to developments in the Armenian government bond market in academic literature are multifaceted. N. Karapetyan's study shows that the secondary market is still poorly developed: trading volumes are low, spreads are high, and obstacles are associated with the low activity of non-resident and institutional investors (Karapetyan, 2019). The author analyzed the impact of domestic debt on the financial system and particularly emphasized the importance of the role of primary dealers in this context (Karapetyan, 2021). The latter, as a crucial liquidity provision system, plays an important role in absorbing market risks. E. Aghabekyan's works are dedicated to the analysis of securing real interest rates and the dynamics of yields. The author has shown that real returns are unstable under inflation, due to the large impact of the central bank's refinancing rate on market pricing. In such circumstances, influencing the market situation requires a dynamic policy (Aghabekyan, 2020). The study of the behavior of market yields shows that sometimes a decrease in long-term bond yields leads to a flattening of the curves, which increases market risks (Aghabekyan, 2021). G. Aslanyan's research reveals the impact of the size, structure, and policy of public debt, proposing scenarios to increase the effectiveness of regulatory policy in the face of interest rate and exchange rate shocks (Aslanyan, 2023). V. Melik-Parsadanyan emphasized the importance of using econometric tools for profitability analysis, within which the Armenian application of classical approaches to the mechanisms of yield curve formation is important (Melik-Parsadanyan 2019). H. Aramyan's reflection on the developments in the government bond market is in the context of monetary policy, and the analyses conducted have shown that the impact of monetary

policy on the government bond market is more effective than on the corporate market.

In summary, it can be stated that the combination of international and local experience indicates that the development of the secondary market, the rise of pricing efficiency, transparency, and liquidity can reduce public debt servicing costs and lift the efficiency of the financial system.

RESEARCH METHODOLOGY. The analysis includes a combination of quantitative and qualitative research results based on data on the government bond market and its main components. The data sources were the public debt reports and statistical publications of the Ministry of Finance of the Republic of Armenia, and the periodic statistical reports on financial markets of the Central Bank of the Republic of Armenia. The data generally covers the period 2013–2025, which makes it possible to study not only the trends of recent years, but also longer-term changes in the development of dynamics and structural transformations. Some of the indicators represent a shorter period due to changes in the methodology for statistics and data availability (bond structure by maturity, data on auction satisfaction).

The analytical methodology was built in three main directions. First, the developments in the dynamics of public debt and domestic debt, within the framework of which the total volumes of public debt and their structure were analyzed, observing the growth trends of the share of domestic debt. The goal was to identify the level of strengthening of the role of the domestic market in the context of macroeconomic developments. Within the framework of the structural analysis of the bond market, the structure of investors was studied, considering not only the investment volumes of individual investors but also their role in increasing market depth and competitiveness. In addition, the structure of the bond market by type was observed, which allowed us to assess the reasons for structural changes due to monetary policy and changes in interest rates. Yield and demand analysis allowed us to study the yields of bonds with different maturities, comparing them with inflation and the Central Bank refinancing rate. The goal was to identify the market's sensitivity to interest rates and the factors shaping the yield curve. Moreover, the placement volumes and the demand ratio were analyzed, which allowed assessing the depth of the market and the level of investor confidence.

The data was organized and presented using tables and graphs, which made it possible to visualize both quantitative changes and their logical interrelationships.
Overall, the methodology applied provided a comprehensive assessment of the dynamics and structural features of the government bond market, based on official and reliable data.

ANALYSIS. After a series of adverse shocks in 2020-2024, the global economy is now facing another significant challenge, with rising trade barriers and policy uncertainty leading to a large-scale slowdown in economic growth around the world and a decline in the forecast outlook. This impact has also extended to financial markets, where financial conditions have tightened, and volatility has increased compared to the previous year (Worldbank Group, 2025).

An efficient and well-functioning government bond market is considered essential for the smooth operation of financial markets. The creditworthiness of the government bond market, combined with its liquidity, can make the market a benchmark for risk-free interest rates and pricing instruments in other markets. Such characteristics also make government bonds the main store of value, especially in periods of market volatility (Bai, Jennie, et al. 2013). A well-functioning government bond market is the main cushion mitigating the risks of public debt management. Efficient pricing, a steady increase in liquidity and market depth, under other equal conditions, lead to a decrease in bond yields and, consequently, in the costs of public debt management.

In such economic conditions, considering the structure of the economy of the RA, the weight of debt, and the rather high dependence on foreign markets, there is an urgent need to increase the share of domestic debt and to develop the overall financial system from the perspective of ensuring stability.
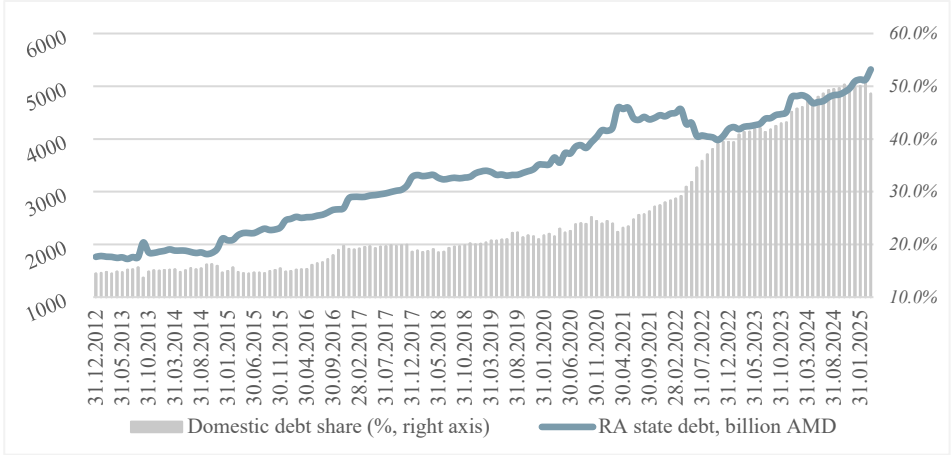
Source: *MoF RA (https://minfin.am/hy/page/petakan_partqi_veraberyal_ampop_tvyalner/)*

Figure 1. *Dynamics of state and domestic debt in the Republic of Armenia, 2013-2025.*

It is noticeable from Figure 1 that the state debt had a constant growth trend during the selected period, but in 2022, there was a debt reduction; in particular, in October 2022, the debt decreased by about 420 billion drams, or 10%, compared to the same period of the previous year. This reduction was contributed to by the progressive pace of real economic growth and the strengthening of the AMD against foreign currencies. However, starting in 2023, the debt increased again and by the end of the first quarter of 2025 amounted to

5,318.2 billion drams, of which 49 percent, or 2,584.3 billion drams, was domestic debt. Domestic debt was below 25 percent until 2021, and since then, the share has been growing steadily and rapidly, reaching a peak of 51 percent in February 2025. This growth is mainly attributable to increased investments in the domestic bond market.

Most of the domestic public debt consists of government treasury bonds purchased by residents, accounting for about 91 percent at the end of 2024. The share of foreign currency bonds was about 9 percent, and the share of domestic guarantees is insignificant (Table 1). In percentage terms, the proportion of state treasury bonds and foreign currency bonds acquired by residents did not undergo any significant changes during the observed period; however, in terms of volume, investments in foreign currency bonds increased 13.6 times in 2024 compared to 2014, and investments in treasury bonds increased by about 8 times. This growth can mainly be attributed to the increased activity and assets of financial institutions in the Armenian financial market, driven by external influences.

Table 1

***Structure of the domestic public debt of the Republic of Armenia***

	Internal debt	Domestic Loans and Borrowings	Government treasury bonds purchased by residents	Foreign Currency government bonds purchased by residents	Internal Guarantees
31.12.2013	279.6	3.2	273.5	1.9	1.0
31.12.2014	308.6	1.9	289.4	16.2	1.0
31.12.2015	364.0	-	320.0	43.0	1.0
31.12.2016	551.1	-	500.3	47.3	3.4
31.12.2017	610.3	-	540.0	65.9	4.4
31.12.2018	670.5	-	584.5	81.7	4.4
31.12.2019	737.2	-	677.7	59.5	-
31.12.2020	997.6	-	955.5	42.1	-
31.12.2021	1,237.4	-	1,154.9	77.1	5.4
31.12.2022	1,650.0	-	1,452.3	188.5	9.2
31.12.2023	2,163.2	-	1,946.9	209.1	7.2
31.12.2024	2,533.3	-	2,303.0	220.7	9.5

Source: *RA MoF (https://minfin.am/hy/page/petakan_partqi_veraberyal_ampop_tvyalner/)*

The dynamics and structure of the RA government bond market by investor type for 2015-2025 are presented below. The chart shows that the volume of investments in government bonds began to increase sharply in 2020, recording an average annual growth of about 32 percent, from 680 billion drams in 2019 to about 2.578 billion drams in April 2025.

Structural differences in investments are also evident. If in 2015, RA banks were the dominant investors (57.1 percent of investments), then in 2025, investments will be almost equally divided between 3 groups: RA banks with a 32.9 percent share, non-bank investors with a 28.9 percent share, and the Central Bank of RA with a 32.9 percent share. If in 2015, RA banks were the dominant investors (57.1 percent of investments), then in 2025 investments will

be almost equally divided among three groups: RA banks with a 32.9 percent share, non-bank investors with a 28.9 percent share, and the Central Bank of the RA with a 32.9 percent share. The Central Bank's share is due to the fact that investments include repo agreements based on government bonds, through which the Central Bank can manage market liquidity.
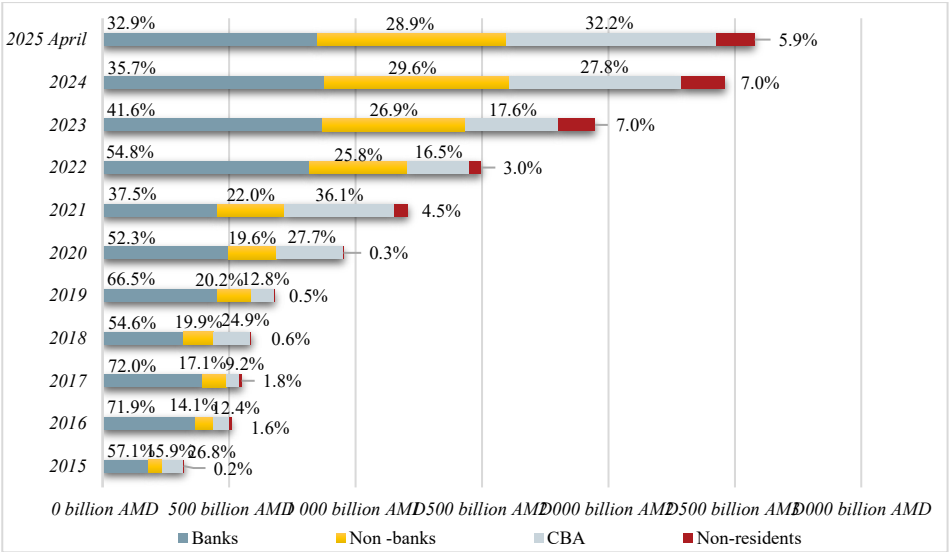
**Source:**   *CBA bulletins (https://www.cba.am/hy/Reports/)*

Figure 2. *Dynamics and structure of investments in RA government bonds by investor type.*

It is noticeable that bank investments generally dominate total investments, which is due to the large share of their assets in the financial market. The investment policy of individual commercial banks in this regard differs due to their status as government bond agents[2], the size of their assets and profitability, as well as their investment preferences and restrictions in credit and other markets. In recent years, the share of banks has decreased due to the increase in the share of non-bank investors, which amounted to 29.6 percent at the end of 2024. There is also a positive change in the share of non-residents; in particular, it is noticeable that during 2021-2024 it increased by 0.2 percent, reaching about 7 percent at the end of 2024. The share of non-bank investors is increasing due to the growth of pension fund assets, the rise in the number of investment funds, and the increased activity of investment companies. The latter is unique in nature. Most investment companies and funds expand their investment portfolios by using financial leverage through repo transactions, which allows them to increase profitability from managing these asset portfolios.

The structure of government treasury bonds by bond type is presented in Figure 3. From the chart, it can be concluded that overall, structural changes were minor during 2021-2025. The share of short-term bonds fluctuated around

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[2] https://minfin.am/hy/page/arajnayin_dilerner_gortsakalner_/ as of 09/07/2025

an average of 5 percent, while the share of savings coupon bonds remained around 0.4 percent.
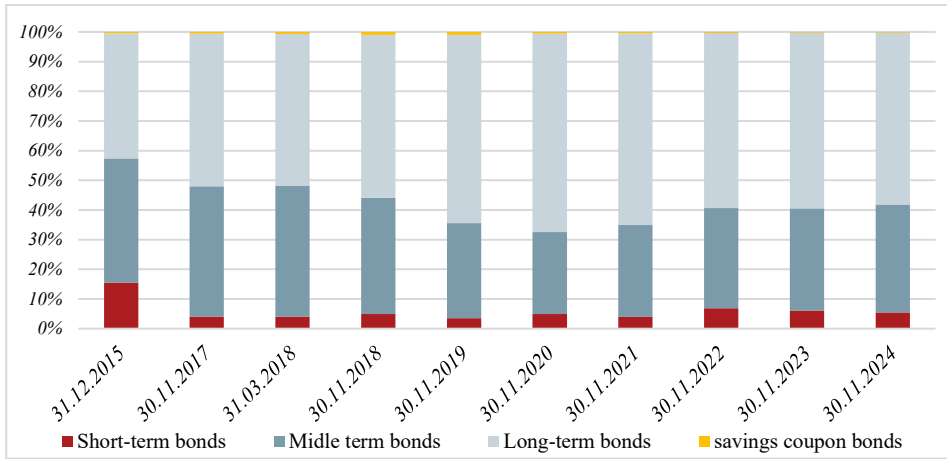
Source: *RA MoF (https://minfin.am/hy/page/amsakan_vichakagrakan_teghekagrer/)*

**Figure 3.** *Structure of RA treasury bonds by type of bond*

The share of the long-term bonds dominates the structure but shows a slight downward trend: compared to 64.9 percent at the beginning of 2021, it amounted to 59.3 percent in May 2025. The share of medium-term bonds has a slight upward trend: from 30 percent at the beginning of 2021, it increased to 35.1 percent in May 2025. The reason for these structural changes is the rising interest rates and, consequently, high yields on government bonds under conditions of tight monetary policy, in which case the government's policy has led to a decrease in the share of long-term bonds in the weight of domestic debt[3].

Figure 4 presents the dynamics of short-term, medium-term, and long-term bond yields, as well as the consumer price index in the Republic of Armenia for 2013-2025.

From 2015 to 2017, bond yields showed a steady downward trend. This trend was driven by both a relatively low inflation environment and the accommodative monetary policy of the central bank. During this period, the consumer price index fluctuated widely in the range of 98–100%.

In 2021–2022, there was a sharp increase in inflation. The consumer price index reached around 109–110%. This rise occurred at the same time as global supply chain disruptions, rising energy prices, and a recovery in domestic demand. As a result, yields on all types of bonds increased. This is typical of the Central Bank's anti-inflation tightening policy. Yields on structured government bonds, in particular, generally respond quickly to changes in the Central Bank's refinancing rate (Aghabekyan, 2020).

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[3] Strategic Program for the Management of the Government of the Republic of Armenia's Debt for 2023–
    2025, Ministry of Finance of the Republic of Armenia,
    https://minfin.am/website/images/files/2023-2025_debt_strategy.doc.
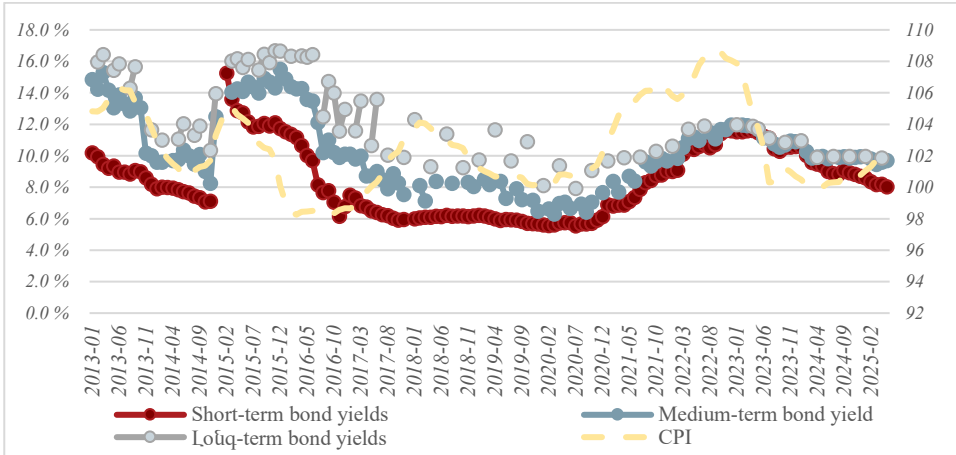
Figure 4. *Yield of government bonds in the primary market*

During 2023–2025, both inflation moderation and a gradual decline in yields are observed. Bond interest rates, especially short-term rates, are returning to levels close to those before the crisis. This indicates that the central bank's monetary policy has contributed to the moderation of inflation.
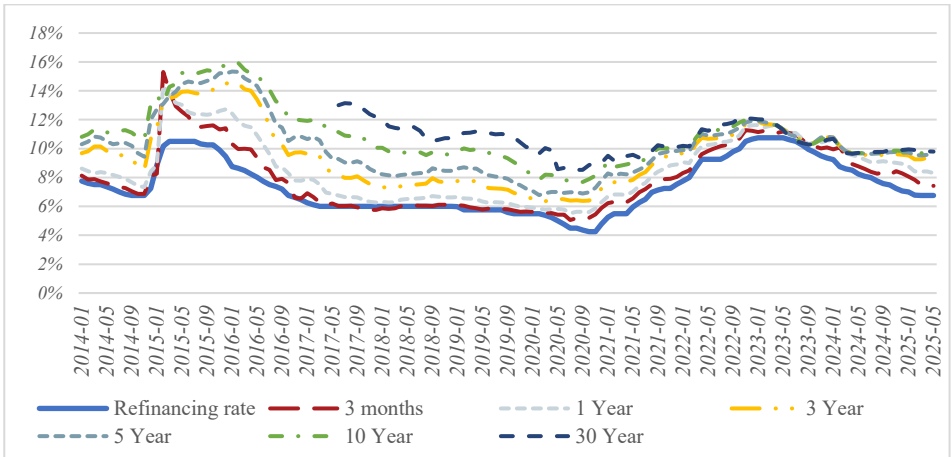
Figure 5. *Yields of government bonds by maturity*

Figure 5 shows government bond yields for different maturities. Bonds with a 30-year maturity showed a decreasing trend until 2020, reaching a minimum of 8.5 percent that year. Between 2020 and 2022, yields increased to 12.1 percent by the end of 2022. After 2024, yields stabilized and fluctuated around 10 percent. Across all maturities, bond yields depended on the refinancing rate. During the 2021–2023 monetary tightening, when the refinancing rate rose from 5.25 percent to 10.75 percent, bond yields increased for all maturities. Short-term bonds responded the most, rising from 6 percent to an average of 12 percent. After 2023, yields gradually declined. For 2024–2025,

the yields for long-term and medium-term bonds are almost the same, or the yield curve is flat, fluctuating around 10 percent. This may reflect investors' caution regarding economic uncertainties (Bayaa, Qadan, 2024), prospects for future rate cuts (Tillmann, P., 2020), or potential recession risks (Kumar, Stauvermann, Vu, 2021).

The analysis highlights that bond yields in Armenia are sensitive to inflation expectations and central bank policy. Successful measures to control inflation subsequently lead to a reduction in interest rates, whereas during inflationary pressures, the market responds with a sharp increase in yields.

Another reason for the leveling of interest rates may be the significant dominance of demand over bond supply in the primary market. In particular, it can be seen from Figure 6 that during 2018-2025, demand always exceeded the actual placement volume by an average of about 2 times. In particular, it can be seen from Figure 6 that, during 2018-2025, demand consistently exceeded the actual placement volume by an average of about 2 times. The largest difference between the allocation and demand for government bonds was recorded in 2023, when demand reached 1.302 billion drams, while the bonds actually placed in the amount of about 620 billion drams. High demand continues in 2025, exceeding the actual allocated volume by about 335 billion drams or 1.76 times, as of June. The steady growth in demand, along with the increase in placement volumes, indicates that market depth is being maintained, and it can be argued that the rise in domestic debt volumes does not yet contain significant risks due to a demand deficit.
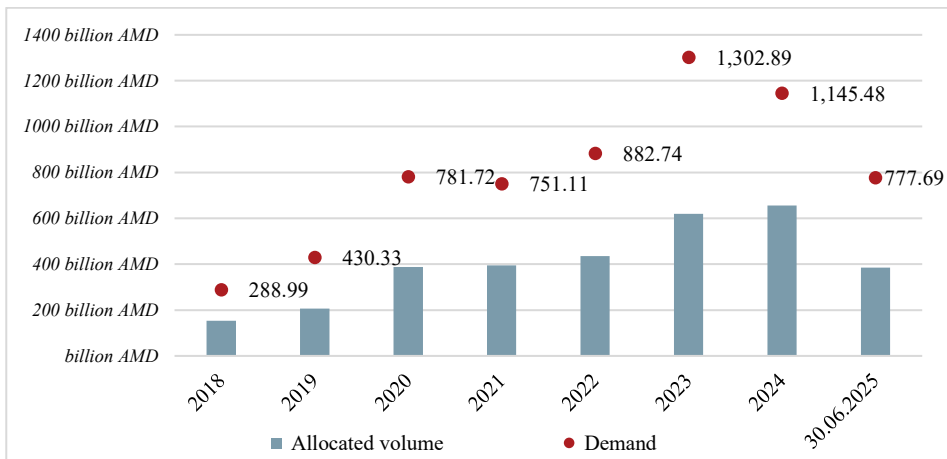

Source: *MoF, Summary Data of Placements and Buyback Auctions*
(https://minfin.am/hy/page/teghabashkhumneri_ev_hetgnumneri_achurdneri_ampop_tvyalner/2)

Figure 6. *Actual Placement and demand volumes of treasury bonds, 2018-2025*

In the secondary government bond market (Figure 7), some market activity was observed during 2016-2019, coinciding with the overall downward trend in interest rates. In 2020–2021, there was a decline and low activity, while in 2022, there was some recovery, accompanied by an increase in average yields,

which indicated the impact of the inflationary environment and the increase in monetary policy interest rates. As of May 2025, there was a certain decline in activity of 6 percent year-on-year, which may indicate either a decrease in demand or a hold-to-maturity behavior of bonds in the market[4].
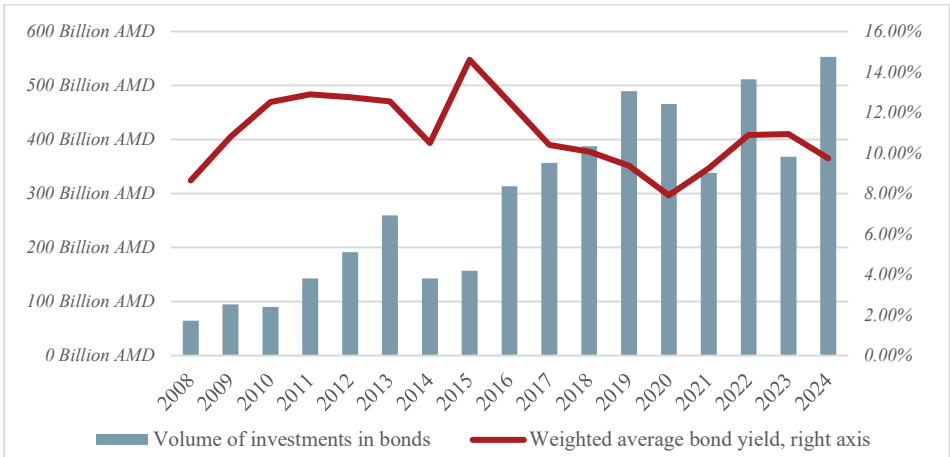
Source: *CBA bulletins (https://www.cba.am/hy/Reports/)*

Figure 7. *Volumes and interest rates of government bonds in the secondary market*

The dynamics of secondary market volumes can be characterized by an unstable trajectory; regardless of changes in the average interest rate, investment volumes may remain low, as, for example, in 2022-2023, when investment volumes were low despite the increase in interest rates. In addition, in recent years, despite the growth in government bond issuance volumes, secondary market volumes have not shown a significant upward trend. This can be attributed to the increase in bond market placement volumes and the approach of Ministry of Finance to satisfying demand for them. The increase in auction volumes and predictable profitability allows investors to satisfy their demand primarily in the primary market, avoiding transactions in the secondary market. The slowdown in the growth of the secondary market and the decrease in its depth have been significantly influenced by the reduction in the number of government bond market makers or agents after 2021. Their number declined from 7 to 4 in 2025.

CONCLUSIONS. Based on the analysis, the following main conclusions can be drawn:

- The increase in the share of domestic debt in total public debt has been progressive and currently accounts for about 50 percent of public debt, the increase of which can reduce the risks arising from exchange rate and external fluctuations in the Republic of Armenia. However, the trend of increasing the share of domestic debt has slowed recently,

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[4] Central Bank of Armenia Bulletin, May 2025, CBA of RA,
https://www.cba.am/file_manager/Statistical%20overview/Statistical_overview_V.2025.pdf

which is due to the high interest rates on both domestic and external debt. At such interest rate levels, raising debt with a floating interest rate is preferable[5]: Considering that dram-denominated debt is entirely at a fixed interest rate, the government increased the share of foreign currency floating-rate loans during this period.

- As a result of structural changes in the government bond market, banks no longer hold a dominant position, which may also indicate the conditions for the development and strengthening of the bond market. The increase in the capital of pension and investment companies plays a significant role in this context. In particular, the total capital of pension funds[6] in May 2025 amounted to about 908.5 billion drams, roughly doubling compared to the same period in 2022. The total capital of investment companies[7] amounted to 82.1 billion drams, increasing by about 8.7 times compared to the corresponding period in 2022. The share of non-resident investment has also increased, although it remains low; however, maintaining this trend may contribute to the development of the secondary bond market in the future.

- It is noticeable from the trajectories of key monetary indicators and the primary market for government bonds that yields on medium-term and long-term bonds remain highly dependent on the Central Bank interest rate. Currently, yields on bonds with different maturities are almost equal, which may indicate uncertainty about future expectations of interest rate cuts, and the presence of recession risks. The flattening of the curve in the medium and long term may also be due to the policy of the Ministry of Finance on determining auction allotments and cut-off prices, where auctions are cut by up to 10 percent for both medium-term and long-term bonds over an extended period.

- Volumes in the primary government bond market generally show a steady growth trend. This can be explained by both the policy of the Ministry of Finance of increasing the share of domestic debt, and by demand volumes, which on average exceed placement volumes by two times.

- There is a growth trend in the secondary government bond market, although it is volatile, and in general, the market can be characterized by unstable behavior. The main reasons for the slowdown in volume growth in the secondary market are the policy of the Ministry of Finance and the reduction in market depth due to the reduction in the

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[5] Strategic Program for the Management of the Government of the Republic of Armenia's Debt for 2025–2027, Ministry of Finance of the Republic of Armenia, https://minfin.am/website/images/files/2025-2027_debt_strategy_Updated.docx

[6] CBA of RA, Key Indicators of Mandatory Pension Funds, https://www.cba.am/file_manager/Statistics_reports/finorg/IC_main%20ind_arm.xls, as of 21/07/2025

[7] CBA of RA, Key Indicators of Investment Companies, https://www.cba.am/file_manager/Statistics_reports/PF_series_arm.xlsx, as of 21/07/2025

number of market makers by about half. Under these conditions, market participants primarily satisfy their demand in the primary market and do not engage in transactions in the secondary market.

The evidence shows a growing share of domestic debt, increasing participation by non-bank investors, yield fluctuations closely linked to the refinancing rate, continued excess demand at auctions, and a reduction in the depth of the secondary market due to a decrease in the number of primary dealers. Together, these trends explain the flattening of the yield curve and liquidity constraints. The development of the Armenian bond market reflects the strengthening of domestic participation, but increasing structural risks. Sustainable development requires broader investor diversification and reforms to promote liquidity, in particular through improvements to the primary dealer system. Considering the main market development trends and existing risks, we note that future development policy should be aimed at:

- expanding the circle of investors, especially non-bank financial institutions;
- increasing market liquidity by reforming the primary dealer system, which will expand their number and, consequently, market depth.

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