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**THE ROLE AND SIGNIFICANCE OF ARMENIA'S SOVEREIGN CREDIT RATING  
IN THE DEVELOPMENT OF THE GOVERNMENT BOND MARKET**

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CREDIT RATING IN THE DEVELOPMENT OF THE GOVERNMENT  
BOND MARKET**

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**Abstract**

Sovereign credit ratings currently represent some of the most important indicators in global financial markets, having a significant influence on government financing conditions and investment decisions. In the case of the Republic of Armenia, these ratings are of particular importance given the current stage of economic development and the existing challenges in public debt management. However, delays in market response (1–2 months) and the limited development of the domestic financial market constrain the effectiveness of the financial system's functioning. A comparative analysis shows that in countries such as Georgia and the Baltic states (Latvia and Lithuania), the transmission of rating signals to the market occurs more rapidly and more efficiently, which is explained by higher levels of institutional reforms and the quality of financial governance. All of this underscores the need for the implementation of consistent reforms in Armenia, the improvement of the public debt management strategy, and the enhancement of information transparency in the financial market. These steps will make it possible to improve the country's sovereign ratings, reduce borrowing costs, and ensure sustainable long-term economic growth.

**Keywords:** Sovereign credit rating, government bonds, financial stability, risk premium, debt management, bond yields.

**Introduction**

The modern global financial environment imposes higher requirements on the investment decision-making process, emphasizing the need for transparency, objectivity, and

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rigorous analysis. Under these conditions, sovereign credit ratings provided by leading international rating agencies—Moody's, Standard & Poor's, and Fitch—become key signals for financial markets. They reflect a country's financial and economic condition, credit risks, and the government's ability to meet its debt obligations. Ratings represent a decisive factor not only in investment decision-making but also in the formation of borrowing costs for governments. Sovereign ratings constitute a classification system based on a wide range of criteria, including fiscal indicators (public debt, budget deficit, monetary policy), economic factors (economic growth, export levels), as well as structural and institutional characteristics (political stability, legal environment, quality of governance). The combination and analysis of these diverse criteria allow rating agencies to assess a country's long-term financial sustainability and risks, which in turn has an additional impact on capital markets. Credit ratings serve as an important tool for assessing a country's creditworthiness and financial stability. The outlooks that accompany them—"stable," "positive," or "negative"—signal possible changes in the level of investor confidence and the direction of future rating revisions. These indicators serve as important tools for investors when assessing risks, forecasting government bond yields, and managing their investment portfolios accordingly. In the case of the Republic of Armenia, sovereign ratings are of particular importance, as the country is undergoing a complex phase of recovery and reform, in which public debt management and the provision of financial stability constitute key fundamental factors. The public debt management strategy, which is regularly updated and published by the Government of Armenia, is aimed at the timely and efficient mobilization of borrowed funds, the reduction of financial risks, and the optimization of debt servicing costs. The aforementioned rating agencies, despite certain methodological differences, unanimously emphasize the importance of economic and political risks, the impact of which is particularly pronounced for emerging economies. Nevertheless, indicators such as control over public debt, fiscal discipline, political stability, and the implementation of structural reforms constitute key components in the formation of sovereign ratings. The relationship between government ratings and government bond yields represents a multifaceted interaction that directly affects the stability of a country's financial markets and investment flows. A high rating generally contributes to lower bond yields by acting as a signal of reduced risk, which stimulates capital inflows and ensures more accessible financing. Conversely, a rating downgrade increases borrowing costs, which may constrain a government's financial capacity and affect macroeconomic performance. In this context, the present article is aimed at conducting an in-depth quantitative analysis of the relationship between Armenia's sovereign ratings and the yields on 364-day government bonds over the period 2010–2025. The results of the study not only complement the academic literature on sovereign ratings and public debt management but may also serve as a tool for developing effective fiscal policy strategies and financial market development, thereby ensuring Armenia's financial stability and favorable prospects for economic growth.

This study is relevant both for the academic community and for practical policy-making, strengthening the link between theory and the implementation of financial policy, particularly in developing countries, where financial market infrastructure and the role of rating agencies continue to expand steadily [1, 2].

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### **Conflict Setting**

The aim of this study is to examine the significance of sovereign credit ratings within the context of Armenia's ongoing economic recovery and structural reforms. Effective public debt management and financial stability are pivotal for sustainable development and play a decisive role in shaping investment decisions and borrowing conditions.

This research utilizes official data from the Government of Armenia and reports from leading international rating agencies to conduct a rigorous quantitative assessment of the determinants of sovereign ratings, including fiscal performance, economic indicators, and institutional factors. Additionally, the study investigates the relationship between sovereign ratings and 364-day government bond yields, exploring their influence on capital flows, financing conditions, and overall macroeconomic performance.

The findings offer evidence-based insights for policymakers and investors, illuminating the complex interactions between sovereign ratings, financial market stability, and long-term economic growth, thereby contributing to informed fiscal strategy and investment planning in a transitioning economy.

### **Research Results**

In the modern global financial environment, sovereign credit ratings are a key factor shaping investment behavior, guiding decisions of capital market participants and influencing perceptions of a country's creditworthiness, financial reliability, and external financing conditions, as well as the signals transmitted to the market. Government bonds are often regarded as instruments with relatively low risk and stable returns, especially in emerging economies, where investors closely monitor the assessments of rating agencies such as Moody's, Standard & Poor's, and Fitch. These assessments are based on a comprehensive set of criteria, including the level of public debt, budgetary discipline, stability of economic growth, external risks, effectiveness of monetary policy, and the quality of institutional governance.

The Republic of Armenia, as a small and open emerging economy, is sensitive to changes in sovereign ratings and their impact on the financial market.

The data analysis shows a significant negative correlation ( $r \approx -0.61$ ) between Armenia's sovereign rating and the yield on 364-day government bonds, indicating a reduction in short-term financing costs when the rating improves. This correlation suggests that as the rating improves, bond yields decline because investors perceive a reduction in the risk premium as a sign of safer lending. At the same time, a downgrade is accompanied by an increase in bond yields, reflecting a higher risk premium.

Secondly, the structure of investors and insufficiently developed market practices reduce market efficiency and slow the speed of reaction. This delay lowers the predictability and transparency of market processes, which in the long run may negatively affect the stability of the investment environment.

Using Armenia as an example makes it possible to more clearly illustrate how rating factors and perceived sovereign risk influence external financing conditions. Despite the fact that since 2006 Armenia has been classified within the non-investment-grade ("speculative")

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category, a certain level of confidence in international markets has been maintained, as evidenced by a number of successful Eurobond issuances.

The main Eurobond issuances include the following:

- In 2013, a 7-year issuance with a risk spread of 413.2 basis points;
- In 2015, a 10-year issuance with a yield of 7.15 percent and a risk spread of 551.8 basis points.
- In 2019, an issuance with a yield of 3.95 percent.
- In 2021, an issuance of USD 750 million with a coupon rate of 3.6 percent and a yield of 3.875 percent;
- In 2025, an issuance with a yield of 7.1 percent.

The yields of these issuances were formed mainly under the influence of two key factors.

1. The yield on U.S. Treasury securities with a comparable maturity (benchmark rate).
2. Armenia's sovereign risk premium (country risk premium).

Although the sovereign rating reflects many macroeconomic, debt-related, and political indicators, government bond yields may also be influenced by additional factors that are not fully captured by rating agencies. These elements include regional uncertainty, short-term political events, and specific features of financial market regulation. Clarifying these factors is important for achieving a more comprehensive understanding of the dynamics of government bond yields.

Taken together, these factors shape investors' risk expectations and the cost of financing. Fluctuations in yields on Armenian Eurobonds indicate that both the assessment of external risks and the quality of domestic economic governance play an important role in building confidence in the country in international financial markets.

Demand indicators for Armenia's Eurobonds also reflect growing confidence among international investors, namely: on average more than 200 investors are attracted; total demand amounts to approximately USD 2.7 billion; the highest demand was recorded in 2021 at USD 3 billion; the lowest demand was observed for the 2025 issuance at USD 2.6 billion.

These data indicate a gradual improvement in Armenia's credit profile and the strengthening of the country's position in international financial markets.

The process of yield formation for Armenian Eurobonds is considered an important component in assessing the risks of financial instruments in emerging markets under systemic trends in international financial markets. In this context, external factors play a significant role, within which market activity takes place, substantially influencing bond yields and risk premiums.

In the first quarter of 2025, important developments occurred in the field of public debt management of the Republic of Armenia. On March 12, 2025, the government successfully placed Eurobonds in the amount of USD 750 million with a 10-year maturity, at a placement yield of 7.10 percent and a coupon rate of 6.75 percent. This issuance, which became the fifth foreign-currency sovereign bond issuance by Armenia on the international capital market, exceeded the initially planned volume of USD 500 million by an additional USD 250 million. The objective was to reduce pressure on the domestic debt market and strengthen balance-of-payments sustainability through the attraction of external financial flows and the replenishment

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of international reserves. Actual proceeds amounted to 287.4 billion drams (USD 731.4 million), indicating high market efficiency and strong investor interest.

The increase in yields compared to 3.875 percent in 2021 requires in-depth analysis. In 2021, the yield on 10-year U.S. Treasury bonds was 1.039 percent, while Armenia's spread amounted to 2.836 percentage points. In 2025, the yield on U.S. bonds of the same maturity increased to 4.24 percent, while Armenia's spread remained almost unchanged at 2.86 percentage points. These data indicate the stability of Armenia's risk premium in the perception of international investors, despite a significant increase in global interest rates. Thus, the rise in yields is mainly due to the tightening of global monetary policy rather than a deterioration of Armenia's credit profile.

In addition, on March 24, 2025, the Government of the Republic of Armenia redeemed Eurobonds issued in 2015 in the amount of USD 313.166 million, which confirms the soundness of the public debt management strategy and the effectiveness of the policy of timely repayment of existing obligations.

These complex processes are regarded as important indicators of investor confidence and the stability of public debt management. Strategic approaches of rating agencies can serve as a basis for improving the country's credit rating by ensuring predictability, mitigating risks, and maintaining a balanced policy toward capital markets.

For a comprehensive analysis, it is necessary to conduct comparative studies of government bond yield dynamics in emerging economies, especially those with sovereign credit ratings similar or close to that of Armenia. Such an approach makes it possible to distinguish between the impact of domestic macroeconomic factors and international financial conditions, as well as to develop a deeper understanding of investor perceptions of financial risks related to Armenia in the global market context.

For the comparative analysis, Georgia and the Baltic states (Latvia and Lithuania) were selected due to differences in the level of financial market development, institutional maturity, and the availability of comparable long-term data on bond yields and rating assessments. The analysis showed that the financial markets of these countries differ in their level of maturity and demonstrate varying responses to rating signals. In Georgia, a moderate relationship between sovereign ratings and government bond yields is observed, with a correlation coefficient of  $-0.54$ , and the average transmission lag of rating signals to the market is about one month. In the Baltic states, sovereign ratings are higher according to Moody's (A3/A- and A2/A), which is reflected in lower yield levels ranging from 1.5 to 3.0 percent and from 1.0 to 2.8 percent, respectively, as well as in a stronger relationship with yields, with correlation coefficients of  $-0.72$  and  $-0.75$ . In addition, in these countries the transmission of rating signals to the market occurs more rapidly, within one month or less, due to deep financial market integration, information transparency, and a high level of institutional capacity.

These data indicate that market size, governance quality, and the efficiency of information flows play an important role in the speed and strength of the impact of rating signals on the market, which should be taken into account in financial policy and governance reforms in emerging economies, including Armenia.

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**Table 1**

Country	Moody's Rating	Yield (%)	Correlation (r)	Average response Time(month)
Armenia	B1 / B+	6,5 - 10,5	-0,61	1,5
Georgia	Ba2 / BB	5,2 - 8,8	-0,54	1
Latvia	A3 / A-	1,5 - 3,0	-0,72	≤1
Lithuania	A2 / A	1,0 - 2,8	-0,75	≤1

Significant differences are also observed in the size of the risk premium. In Armenia, the average risk premium amounts to 3–4 percent, reflecting a relatively high level of risk. Georgia is in approximately the same range at 2.5–3.5 percent, indicating an above-average level of confidence. Indeed, the observed relationship between sovereign ratings and the level of the risk premium is expected: countries with higher sovereign ratings (the Baltic states) exhibit a lower risk premium, reflecting a high level of institutional stability and investor confidence. By contrast, Armenia and Georgia have higher risk premia, which corresponds to a more moderate level of confidence and less developed financial markets. Thus, differences in risk premia are consistent with sovereign ratings and the degree of financial market maturity.

**Table 2**

Country	Risk premium (%)	Level of investor confidence
Armenia	3,0 - 4,0	Medium
Georgia	2,5 - 3,5	Above average
Latvia	1,0 - 1,5	High
Lithuania	1,0	High

The presented statistical data and analysis show that rating agency assessments not only reflect a country's financial and economic condition but also play an important signaling role for the market, guiding investment decisions and contributing to financial stability. At the same time, the depth and dynamics of this influence depend on the level of institutional market development, the effectiveness of financial governance, and the transparency of information flows. In the case of Armenia, key challenges remain the need to ensure rapid and efficient information transmission, the development of secondary markets, and the institutional strengthening of financial governance systems. Periodic revision of the public debt management strategy by the Government of the Republic of Armenia, along with increased transparency, can be key steps toward enhancing market confidence and strengthening financial stability. Georgia's experience shows that monetary policy stability, consistency of structural reforms, and the development of institutional market mechanisms contribute to rating stabilization and the reduction of financial risks. The example of the Baltic states highlights that long-term maintenance of high credit ratings is possible only through deep institutional reforms, the application of European governance standards, and broad integration of capital markets.

These insights and statistical data provide an important foundation for the development of Armenia's financial policy and the improvement of the investment climate, which will help reduce financing costs, increase investor confidence, and ensure long-term prospects for sustainable economic growth. In the context of increasing globalization and growing instability

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in international financial markets, sovereign credit ratings acquire particular importance for developing economies. They not only reflect a country's current financial and economic position but also serve as an important signal for international investors, shaping expectations regarding risk, government bond yields, and the cost of attracting external capital.

The study conducted using the Republic of Armenia as a case study made it possible to identify a stable statistical relationship between changes in the sovereign rating and government bond yields, with a correlation coefficient of  $-0.61$ . This confirms the existence of a direct impact of ratings on market borrowing rates, even under conditions of limited liquidity and institutional maturity of the market. At the same time, an important scientific result is that the increase in yields in recent years has been driven primarily by global macroeconomic conditions (rising interest rates in the United States and the European Union), rather than by a deterioration in Armenia's domestic credit profile. The stability of the risk premium (approximately 2.86 percentage points in 2025) confirms sustained investor confidence in the country.

**The scientific novelty of the research is expressed as follows:**

- for the first time, a systematic analysis of the dependence of Armenian Eurobond yields on rating signals has been conducted in comparison with similar countries in the region;
- differences in the speed of market reaction have been identified: Armenia demonstrates a delayed response (up to 1.5 months) compared to Latvia and Lithuania (up to 1 month), which is associated with lower information transparency and market development;
- the conservative perception of Armenia by rating agencies has been identified, while investor behavior reflects a more positive assessment of the country's credit risk.

A comparative analysis was also conducted with other post-Soviet countries (Georgia, Latvia, and Lithuania), which showed that:

- higher ratings and greater institutional maturity ensure lower yield levels (1–3%) and a stronger correlation between ratings and market interest rates;
- institutional infrastructure (transparency, speed of information transmission, and development of secondary markets) plays a decisive role in transforming rating signals into investment decisions.

Thus, despite Armenia's current classification as a country with a "speculative" rating, there remains significant potential for improving its credit profile. This is driven by: macroeconomic stability; a consistent public debt management policy; positive dynamics in demand for sovereign bonds; a stable external position and reserve policy.

**Conclusion**

To enhance the transparency and predictability of fiscal policy, it is recommended to regularly publish public debt management strategies and conduct independent audits. This strengthens investor confidence, reduces financial risks, and improves the effectiveness of budgetary management.

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**ՀԱՅԱՍՏԱՆԻ ՍՈՒՎԵՐԵՆ ՎԱՐԿԱՆԻՇԻ ԴԵՐԸ ԵՎ ՆՇԱՆԱԿՈՒԹՅՈՒՆԸ  
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Կ.Ա. Ներսիսյան<sup>1</sup>, Ս.Ա. Ավետիսյան<sup>2</sup><sup>1</sup>Քոթանյանի անվան տնտեսագիտության ինստիտուտ,<sup>2</sup>Հայաստանի պետական տնտեսագիտական համալսարան

Համեմատական վերլուծությունը ցույց է տալիս, որ Վրաստանի և Բալթյան երկրների (Լատվիա և Լիտվա) պարագայում վարկանիշային ազդանշանների փոխանցումը շուկային կատարվում է ավելի արագ և արդյունավետ, ինչը բացատրվում է ինստիտուցիոնալ բարեփոխումների բարձր մակարդակով և ֆինանսական կառավարման որակով: Սրանք ընդգծում են Հայաստանի համար համաչափ բարեփոխումներ իրականացնելու, պետական պարտքի կառավարման ռազմավարությունը բարելավելու և ֆինանսական շուկայում տեղեկատվության թափանցիկությունը բարձրացնելու անհրաժեշտությունը:

**Բանալի բառեր.** Սուվերեն վարկանիշ, պետական պարտատոմսեր, ֆինանսական կայունություն, ռիսկային պրեմիա, պարտքի կառավարում, պարտատոմսերի եկամտաբերություն

**РОЛЬ И ЗНАЧЕНИЕ СУВЕРЕННОГО КРЕДИТНОГО РЕЙТИНГА АРМЕНИИ В  
РАЗВИТИИ РЫНКА ГОСУДАРСТВЕННЫХ ОБЛИГАЦИЙ**

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Сравнительный анализ показывает, что в таких странах, как Грузия, а также в странах Балтии (Латвия и Литва), передача рейтинговых сигналов на рынок происходит быстрее и эффективнее, что обусловлено более высоким уровнем институциональных реформ и качества финансового управления. Все это подчеркивает необходимость проведения последовательных реформ в Армении, совершенствования стратегии управления государственным долгом и повышения информационной прозрачности финансового рынка.

**Ключевые слова:** суверенный рейтинг, государственные облигации, финансовая стабильность, премия за риск, управление долгом, доходность облигаций.

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