

Global Financial Conditions, Sovereign Risk Premia, and Capital Flow Dynamics: Evidence from Armenia

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Глобальные финансовые условия, суверенные риск-премии и динамика потоков капитала: эмпирические данные по Армении

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Аннотация: Глобальные финансовые условия и международные потоки капитала играют ключевую роль в формировании макрофинансовой динамики малых открытых экономик, прежде всего через их влияние на суверенные спреды. В условиях доминирования глобальных факторов «толкания» и высокой волатильности потоков капитала в данной работе исследуются чувствительность и совместная динамика суверенных спредов Армении и спредов развивающихся экономик. Связывая суверенные спреды Армении с глобальными финансовыми условиями, статья выявляет проявления «дилеммы» и оценивает потенциальную роль страновых фундаментальных факторов. Результаты показывают, что волатильность суверенных спредов Армении, как показателя страновой риск-премии, в значительной степени определяется глобальными финансовыми условиями, при этом спреды развивающихся экономик объясняют существенную долю их вариации. Исторически подобные закономерности были особенно выражены в периоды глобальных финансовых потрясений и в условиях компромиссов, возникающих при управлении «невозможной трилеммой». Однако в последние годы, вследствие укрепления отдельных страновых характеристик, прежде всего в сфере фискальной и макропруденциальной политики, а также ослабления проявлений «первородного греха», Армения структурно отошла от высокобетового поведения развивающихся экономик и в настоящее время демонстрирует более пропорциональное со-движение с широкой группой развивающихся рынков. Полученные результаты подчеркивают, что, несмотря на сохраняющуюся уязвимость малых открытых экономик к внешним шокам, характер этой уязвимости со временем может изменяться, а не исчезать полностью, во многом вследствие усиления роли страновых факторов.

Ключевые слова и словосочетания: суверенный риск, внешний долг, финансовая стабильность, открытость, макропруденциальная политика, трилемма, «первородный грех»

Համաշխարհային ֆինանսական պայմաններ, ռիսկի հավելավճար և կապիտալի հոսքերի դինամիկա. Հայաստանի օրինակի հիման վրա

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Ամփոփագիր. Համաշխարհային ֆինանսական պայմաններն ու միջազգային կապիտալի հոսքերը կենտրոնական դեր են խաղում փոքր բաց տնտեսություններում մակրոֆինանսական միջավայրի ձևավորման հարցում հատկապես երկրի ռիսկի հավելավճարի վրա ունեցած ազդեցությամբ: Հաշվի առնելով գլոբալ «հրոդ» գործոնների գերակայությունը և կապիտալ հոսքերի տատանողականությունը՝ սույն աշխատությունը ուսումնասիրում է Հայաստանի ռիսկի հավելավճարի և սպրեդների զգայունությունն ու միաժամանակյա շարժը զարգացող տնտեսությունների սպրեդների նկատմամբ: Կապելով Հայաստանի ռիսկի հավելավճարի դինամիկան գլոբալ ֆինանսական պայմանների հետ՝ աշխատանքը ուսումնասիրում է տնտեսությունում մակրոտնտեսական «դիլեմայի» առկա դրսևորումները և բացահայտում երկրին ներհատուկ հիմնարար գործոնների հնարավոր դերը: Ստացված արդյունքները մատնանշում են, որ Հայաստանի սպրեդների տատանողականությունը, որը հանդիսանում է երկրի ռիսկի հավելավճարի չափորոշիչ, մեծապես պայմանավորված է համաշխարհային ֆինանսական պայմաններով և դրա զգալի մասը բացատրվում է զարգացող տնտեսությունների սպրեդների դինամիկայով: Պատմականորեն, նման օրինաչափությունները

հատկապես ակնառու են եղել համաշխարհային ճգնաժամի ընթացքում և «անհնարին տրիլեմայի» կառավարումից բխող քաղաքականության փոխզիջումների պայմաններում: Այնուամենայնիվ, վերջին տարիներին հիմնարարների որոշակի ամրապնդման, մասնավորապես հարկաբյուջետային և մակրոպրոդեյնցիալ քաղաքականությունների բարելավման պայմաններում, ինչպես նաև «սկզբնական մեղքի» դրսևորումների հնարավոր մեղմացման արդյունքում, Հայաստանը կառուցվածքայնորեն հեռացել է բարձր բետա ունեցող զարգացող տնտեսության վարքագծից և ներկայումս շարժվում է զարգացող տնտեսությունների միտումներին առաջվել համամասնորեն: Արդյունքները փաստում են, որ թեև փոքր բաց տնտեսությունները շարունակում են խոցելի մնալ արտաքին շոկերի նկատմամբ, այդ խոցելիությունների բնույթը ժամանակի ընթացքում կարող է փոփոխվել, այլ ոչ թե ամբողջությամբ վերանայ՝ հիմնականում երկրին ներհատուկ գործոնների աճող դերի հետևանքով:

Հանգուցաբառեր և բառակապակցություններ՝ ֆինանսական կայունություն, բաց տնտեսություն, տրիլեմա, սկզբնական մեղք

երկրին ռիսկի հավելվմամբ, արտաքին պարտք, մակրոպրոդեյնցիալ քաղաքականություն, անհնարին

Introduction: The traditional approach to the impossible trilemma in international economics has long been studied for small open economies amidst the existence of the global financial cycle. Episodes of heightened global distress, accompanied by elevated uncertainty and higher interest rates, as well as risk-off events, commonly lead to the widening of sovereign spreads across emerging economies and tightening of financing conditions. These, in turn, are associated with external volatilities stemming from surges and stops in international capital flows. As a result, symptoms of “dilemma” rather than trilemma are sometimes observed, largely aligned with the Global Financial Cycle literature [1; 2].

Against this backdrop, Armenia’s financial environment, characterised by a high degree of financial account openness, tends to be heavily impacted by global financial conditions, and consequently, its sovereign spreads closely co-move with emerging market spreads. Moreover, in recent years, Armenia’s financial account has further deepened, with gross capital inflows exhibiting increased volatility and larger magnitudes, making the economy more sensitive to financial shocks and future sudden stop episodes. However, the extent to which the Armenian economy is exposed to global financial conditions and whether domestic economic conditions play a role has received limited empirical attention in the literature. This is particularly relevant in post-2022 macroeconomic developments, as the world experienced turbulent times while the Armenian economy witnessed robust growth amidst external demand shocks. Therefore, the paper examines the sensitivity of Armenia’s macrofinancial environment to global financial conditions, its co-movement with emerging economies, and the emergence of country-specific factors.

Literature Review: In the intersection of global financial conditions and international capital flows, sovereign spreads defining risk premiums for emerging economies play a central transmission role. Early literature defined sovereign spreads as an

endogenous penalty applied to sovereigns given their inability to repay or possibly to repudiate their debt [3]. While such behaviour could affect their future borrowing capacity and access to international markets, the concerns regarding servicing current debt obligations led international investors to demand higher premiums.

In traditional international capital flow frameworks, hence, developing economies’ inherent inability to tolerate large volumes of debt and to borrow in domestic currency is widely described as the “original sin”. First introduced by Eichengreen and Hausman in 1999 [4], original sin refers to the inability of developing economies to borrow internationally in their own currency, forcing them to rely on foreign currency debt issued in international capital markets. This, consequently, introduces vulnerabilities characterised by currency mismatches and foreign exposure. More recent studies still document the evidence of “original sin”, further intensifying external-debt-related balance sheet financial vulnerabilities in emerging economies [5; 6].

Meanwhile, documented evidence shows that unsustainably high sovereign debt levels were the primary vulnerability fuelling the Latin American crises [7], whereas volatile private capital flows led to the Asian Financial Crises. Such findings suggest that sovereign spreads react differently to external financing conditions, given the source of vulnerability. This is particularly relevant given that capital outflow procyclicality is driven by Advanced Economies (AEs) banks and emerging economies sovereigns, where debt flows tend to have the largest share in inflows and outflows dynamics. Given that portfolio debt and other-bank flows dominate the vulnerabilities in emerging economies, understanding sovereign spreads is then essential to capture the transmission through which global financial conditions translate into sudden stops and crises.

The literature attributes the movements in sovereign risk premia to both country fundamentals and global financial conditions. Empirical evidence

shows that certain country-specific factors, including fiscal space and economic activity, as well as global interest rates, determined the emerging market’s sovereign spreads over the COVID-19 risk-off period [8]. Moreover, while capital inflow surges and stops can be driven by global conditions, domestic macroeconomic and financial vulnerability build-up in times of boom makes economies more prone to crisis episodes [9]. Such country-specific fundamentals refer are commonly referred as domestic “antidotes” to sudden stops [10].

However, country-specific fundamentals tend to determine sovereign spreads in the medium to

longer term. Previous literature has demonstrated that most of the short-term variation is determined by global conditions, the infamous “push” factor dichotomy, which is further reinforced by the patterns observed in international capital flows [1]. Therefore, capital flows coincide with global risk-on and -off episodes and are inherently procyclical. Their surge compresses sovereign risk premiums and eases lending standards [11], making recipient economies more vulnerable and prone to external shocks [12]. Armenia is no exception, and systematic risks are heavily linked to external shocks that affect output significantly [13].

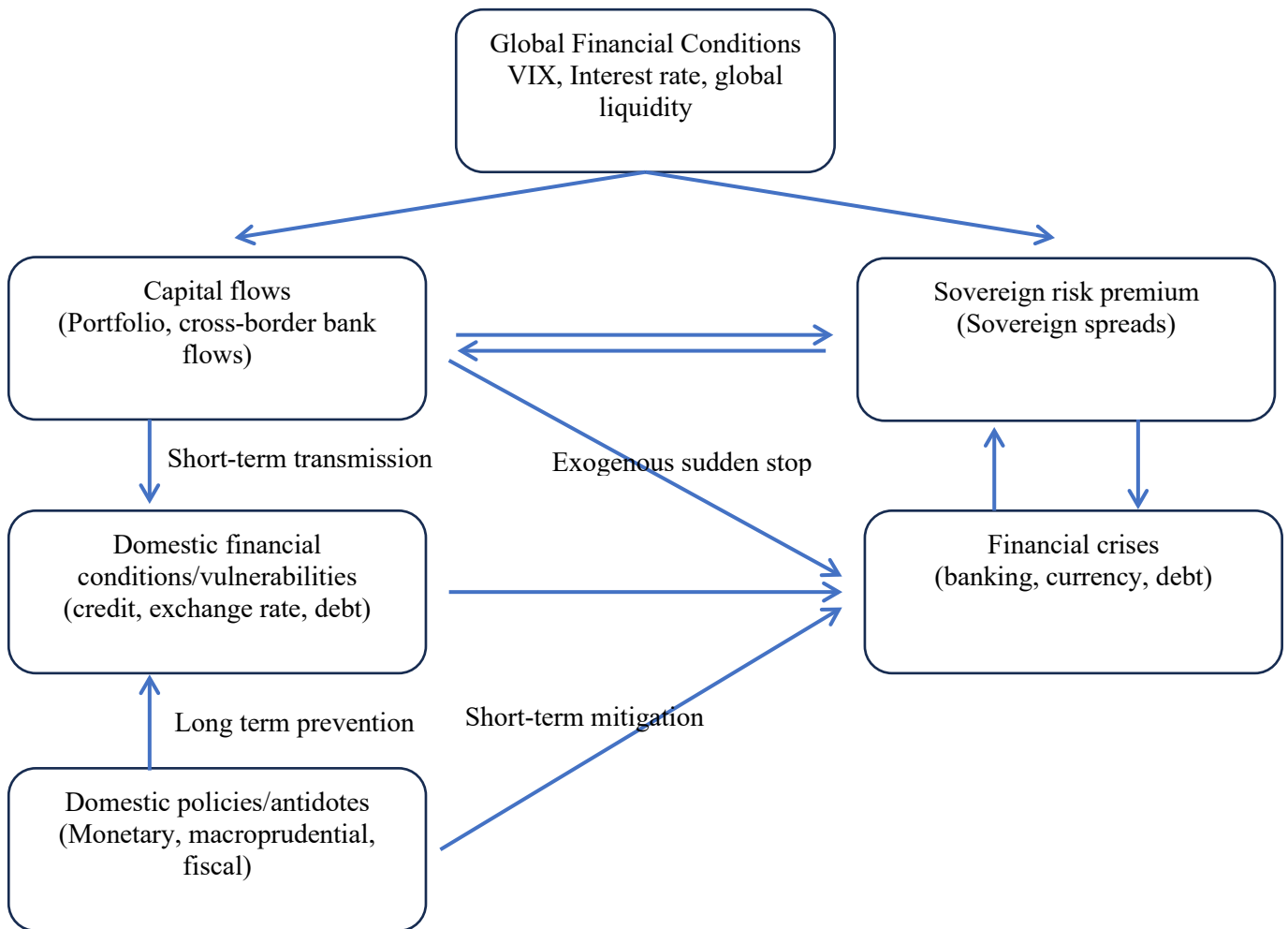


Figure 1. Transmission mechanism linking global financial conditions, capital flows, and financial crises

In recent years, diversification by international investors and increased demand for EM assets, alongside a surge in local currency debt issuance by emerging market sovereigns, have fuelled speculations that progress may have been made to overcome the original sin. In this context, Aizenman et al. argued that the relevance of original sin has somewhat diminished [14], and global risk-on/risk-off episodes and financial conditions are the central forces leading to crises associated with capital flows. More recent evidence suggests that indeed

surges and stops in different types of capital flows are associated with both banking and currency crises that are heavily influenced by global factors. However, it is cautioned that, despite efforts by developing economies to reduce foreign currency mismatches or, in some cases, to limit external debt issuance at the expense of forgoing large-scale investment opportunities to ensure financial stability, the original sin still endures and remains a persistent feature of emerging market economies [5].

The conceptualisation of the discussion above is represented Figure 1.

Therefore, the framework allows us to establish that capital flows are both a reflection (quantity-adjuster) and a cause (price-setter), enabling them to act as a transmission channel, a feedback amplifier and a constraint on policy. Capital flows and sovereign spreads are jointly determined and mutually reinforcing. This distinction is essential in understanding the impossible trilemma under a high degree of capital account openness.

Research Methodology

To empirically evaluate the relationship between global financial conditions and Armenia's external vulnerability, the paper studies the transmission role of Armenia's sovereign spreads. Hence, Armenia's sovereign spreads are a function of (i) global financial conditions, (ii) country-specific characteristics. Spreads of the Emerging Markets Bond Index (EMBI) are used as a benchmark for global emerging economies, and Armenia's Eurobonds spreads are used to measure country sovereign spreads. The empirical model is as follows.

$$\text{Spread}_{AM,t} = \alpha + \beta_1 \text{EMBI_Spread}_t + \varepsilon_t$$

EMBI spreads are a single indicator reflecting the joint impact of different global financial variables, including interest rates in core economies, global uncertainty and liquidity. Therefore, one could assume that any variation not captured by global financial conditions would be attributed to country-specific characteristics. One important caveat of such straightforward approach is the assumption that omitted variables captured by the error term are not correlated with global conditions. Since Armenia's country-specific fundamentals are medium to long-term indicators, the model assumes that, at least in the short-term, they are not correlated or determined by the same global forces. Such an approach allows examining Armenia's exposure to global risks, evaluating the sensitivity and the extent to which Armenia's spreads follow the global financial cycle. As a result, a model-derived level of sovereign spreads for the Armenian economy would facilitate measuring the deviation around its sustainable levels and its volatility.

Moreover, following IMF's Balance of Payments and International Investment Position Manual (BMP6), the paper examines vulnerabilities associated with capital flows given both the flow of capital and the existing stock of external liabilities. Balance of Payment records and represents the inflow (net incurrence of liabilities) and outflow (net acquisition of assets) of capital in a given period, which facilitates the flow analysis. The existing stock of external assets and liabilities are, however, represented in the international investment

position statistics. Therefore, to reveal existing financial vulnerabilities and the exposure to external financing conditions, the paper relies both on the flow and the stock of foreign capital.

Daily data on emerging economies' spreads is constructed by JP Morgan's Emerging Markets Bond Index's (EMBI) Bloomberg Mid-I spreads over risk-free rates. Armenia's sovereign spreads are constructed by taking the Bloomberg Mid-I spread for 10-year government Eurobonds maturing in 2025, 2029 and 2031. Further macroeconomic data on the Armenian economy is taken from the Central Bank of Armenia's official statistics on Balance of Payments, the Ministry of Finance's Debt statistics, whereas data on Trilemma indices is extracted from Aizenman et al. (2013) and Chinn and Ito (2005) [15; 16]. The components of the trilemma, which are financial account openness, exchange rate stability and monetary policy independence, are measured on a scale from 0 to 1, with 1 indicating the highest degree.

Findings, Results and Discussion

The section delves deeper into the international capital flow dynamics in small open economies, examining the evidence observed from Armenia. Given the highly volatile nature of the portfolio and other flows as opposed to the Foreign Direct Investments, as well as the evidence that these flows are heavily affected by global push factors, only such flows are considered. Figure 1 reveals the gross capital flow dynamics for portfolio and cross-border bank (other) flows in Armenia. In the early 2000s, a stable flow of capital was recorded, which, however, brought on sharp reversals in the financial account during the Global Financial Crisis (GFC), followed by greater volatility and larger magnitudes since the 2010s, especially during the 2013 Taper Tantrum episode. However, capital flows remain relatively small compared to the GDP (Figure 7 in the Appendices), a major portion of which is financed by cross-border bank flows. Despite these conditions, Armenia's macrofinancial environment is significantly shaped by global financial conditions, given its high degree of financial account openness and flexible exchange rate regime.

Moreover, the post-2022 reality, characterised by increased external demand conditions, also injected large waves of capital inflows into the economy, fuelling exchange rate appreciation and amplifying the volatility of gross capital flows. Although no prominent sudden stop episodes by the standard [17] methodology are observed, largely due to a relatively small size of the financial account, questions on how sensitive and vulnerable While Armenia may receive relatively small volumes of international capital, its macrofinancial dynamics can be highly influenced by the global

movement of capital, affecting its sovereign spreads and risk premiums, supporting the original sin

theory and the applicability of the push/pull framework.

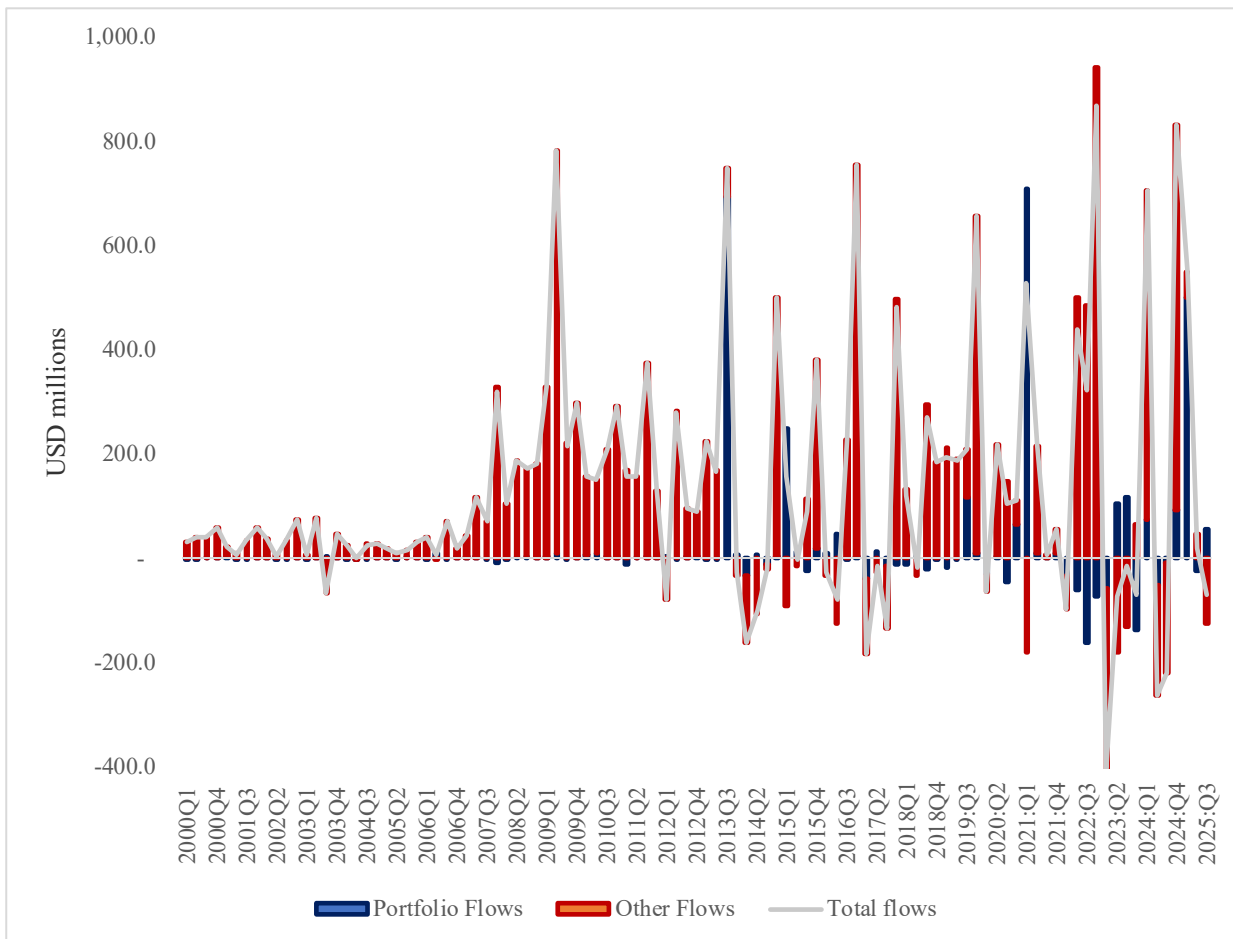


Figure 1. *Gross capital inflows to Armenia, quarterly data (USD millions) [18]*

Furthermore, Figure 2 represents the international investment position of Armenia. The historic data reveals that while the inflow of capital has not been significantly large, the accumulated stock of existing external liabilities reveals contrasting patterns. With international asset position remaining relatively small and stable, the significant increase in the stock of existing external liabilities has fuelled financial vulnerabilities and further exposure to external conditions. Net international investment positions have deepened gradually and reached almost 10 bln USD in 2024 amidst surge in capital inflows without proportional increase in asset acquisitions. Such exposure accumulates significant vulnerabilities in terms of the exchange rate and

servicing of external financial obligations. Moreover, cross-border flows have dominated most to the expansion. Stock of portfolio liabilities somewhat deepened amidst debt issuance in international markets in recent decade (Figure 8 in the Appendices). In 2024 alone, the existing external liabilities have reached over 14 bln USD, almost 54% of the nominal GDP. Such vulnerabilities, however, might be masked if only considered the flow without the stock. Such persistent reliance on external financing renders Armenian economy more exposed to external financing conditions and shocks, which is as well reflected in sovereign spreads.

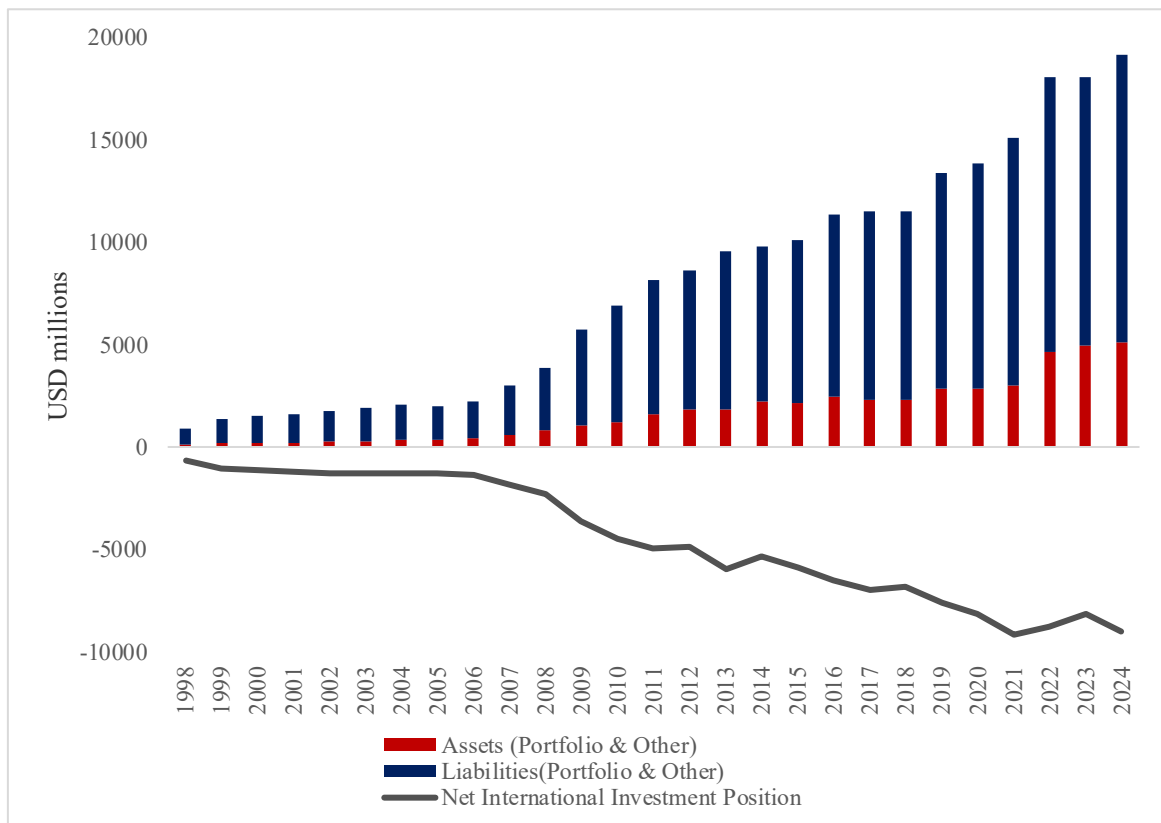


Figure 2. Armenia's International Investment Position, Assets and Liabilities (USD millions) [18]



Figure 3. Armenia Eurobond spreads maturing in 2025, 2029, and 2031 and EMBI spreads (basis points) [19]

Figure 3 compares Armenia’s sovereign spreads on international Eurobonds and emerging economies’ sovereign spreads over time, illustrating a clear pattern: Armenia’s sovereign spreads closely co-move with global EMBI spreads. Moreover, Armenia’s spreads tend to move towards their upper bounds during global risk-off episodes. Notable periods include the COVID-19 pandemic and the post-2022 global monetary tightening episode. Such behaviour confirms the sensitivity of Armenia’s sovereign spreads to the global financial cycle.

Armenia’s Eurobonds (maturing in 2031) spreads’ empirical sensitivity to EMBI spreads is represented column (1) in Table 1. The main variable of interest is the beta coefficient on global EMBI spreads. Results reveal that Armenia’s sovereign spreads are highly dependent on emerging

economies’ sovereign spreads, with EMBI spreads explaining a substantial share of their variation and with a beta coefficient magnitude of around 1.6. This implies that, ceteris paribus, a point increase in global emerging economies’ spread leads to a 1.6 basis point increase in Armenia’s sovereign spreads. This essentially implies that investors require extra premia, relative to other emerging economies, to allocate capital to Armenia. Moreover, the R-squared in the estimations is around 80%, largely aligned with the literature findings that most of the short-term volatility in emerging economies is driven by global factors. The empirical relationship is illustrated in Figure 4, where the model-derived levels for sovereign spreads are plotted alongside actual historic data, pointing to increase volatility in times of global distress.

Table 1. *Sensitivity of Armenia sovereign spreads to emerging market spreads*

	(1) 2021-2025	(2) 2023-2025
Constant	-183.17*** (7.49)	-18.77*** (4.90)
EMBI spreads	1.572*** (0.022)	1.065*** (0.015)
Observations	1,206	725
R-squared	0.813	0.876

Notes: *** p < 0.01, ** p < 0.05, * p < 0.1.

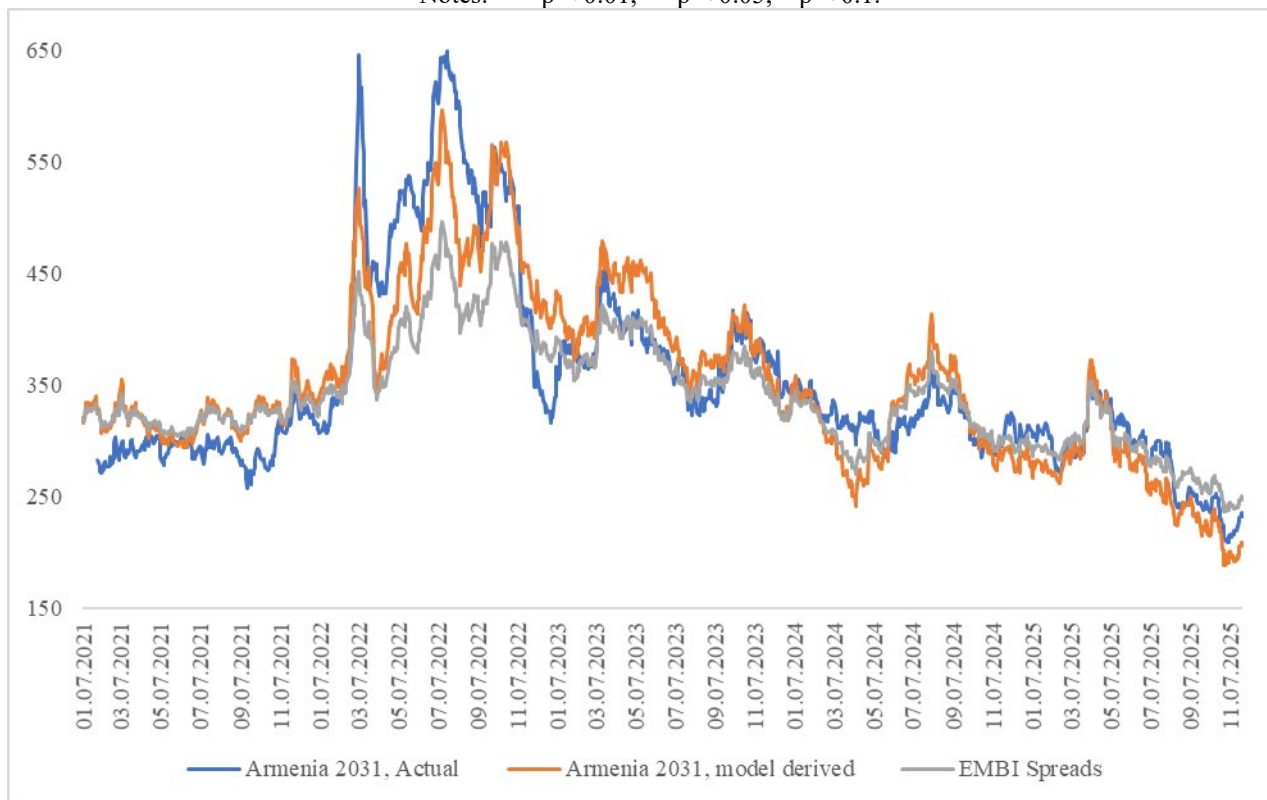


Figure 4. *Armenia sovereign spreads and model-implied estimates*

These estimations incorporated both the recent global tightening cycle of post-2022 and the gradual easing of monetary conditions since 2023, offering insights into both risk-on and off episodes. However, the global and domestic macrofinancial environment has been largely reshaped since 2023. On one hand, certain optimism about emerging economies was observed, given their resilience in times of COVID-19 and post-2022 global monetary policy tightening, reflecting broader policy commitments and build-up of buffers. On the other hand, Armenia's post-2022 macroeconomic environment, characterised by double-digit economic growth, strengthened current account, rise in real incomes, and the build-up of policy buffers, has reshaped Armenia's external financial environment. To evaluate the previously observed dynamics in recent years, we examine the co-movement of Armenia's spreads with global spreads post-2023. Table 1 column (2) confirms that while Armenia was previously highly sensitive to external conditions, in recent years its sovereign spreads have become less volatile and co-move proportionally with emerging economies' spreads. The estimated beta coefficient now is close to 1, suggesting that Armenia has structurally decoupled from high-beta EM behaviour over the last 3 years. Therefore, significant deviations from previous

volatility shall be attributed to domestic macroeconomic fundamentals.

While it is premature to assume a significant mitigation of the original sin, such findings call for an understanding of the country-specific factors that have affected Armenia's dependence on external financing. One informative approach to analyse Armenia's connectedness to global financial conditions is to examine how it manages the trade-offs arising from the impossible trilemma, that is, financial account openness, exchange rate stability and monetary policy independence. Trilemma indices in Figure 5 reveal that Armenia's trilemma configuration evolves from the early transition period of financial account liberalisation to a more independent monetary policy framework, with a flexible exchange rate that adjusts to absorb shocks from external financing conditions. Armenia has mostly committed to financial account liberalisation, naturally meaning that it had to manage the trade-off between exchange rate stabilisation and monetary policy independence. Crisis-periods of 2008, 2014 and 2020 are followed by significant exchange rate instability and weakening of monetary policy independence, showing that at times of global distress, small open economies experience symptoms of dilemma instead of trilemma.

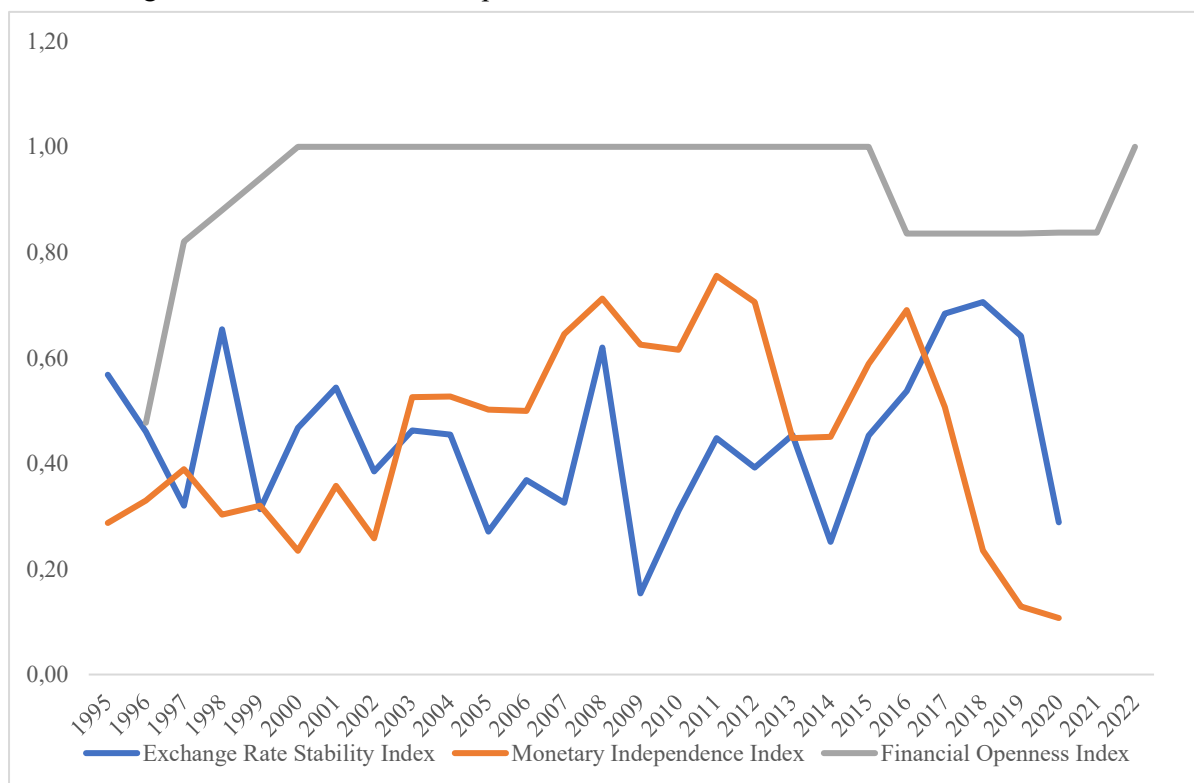


Figure 5. Trilemma indexes for Armenia¹ [15; 16]

¹ Trilemma indices are based on Aizenman, Chinn, and Ito (2013), updated through 2021, and the Chinn–Ito Index database, updated through 2022.

During external distress, the exchange rate sharply depreciates to absorb shocks, while monetary policy is facing a binding policy constraint that reacts to global financial conditions, distress, risk premium and FX shocks, leaving limited policy space to accommodate shifts in domestic economic and financial conditions, making monetary policy reactive but not autonomous. This broadly aligns with Helen Rey’s theory, suggesting that under free capital mobility, there is a global financial cycle in capital flows, asset prices and credit growth. Therefore, in times of global distress, the impossible trilemma can operationally manifest as a dilemma in emerging economies.

To evaluate the evolution of country-specific characteristics that provide buffers against external shocks associated with capital flows and trilemma management, public debt dynamics are analysed. As discussed, historically, emerging economies financed a significant share of public debt through borrowing in international markets by issuing foreign currency debt, rendering these economies

debt-intolerant and subject to original sin. Figure 6 portrays Armenia’s government debt structure over time, illustrating the large volumes of foreign currency debt. Such dynamics fuelled financial vulnerabilities associated with a potential sudden stop in capital flows and currency crises. Although the debt/GDP ratio has been growing steadily in the recent decade, one notable improvement was the increased volumes of domestic debt issuance. This is a prominent country-specific characteristic that affects the sovereign spreads and risk premiums, thereby expanding the opportunity to import capital at larger volumes with contained risks related to financial stability. Moreover, the issuance of local currency debt among emerging economies has largely risen in recent years, amidst improved policy buffers and the deepening of domestic financial markets. IMF’s recent Financial Stability Report [20] also notes that macroeconomic policy strengthening among emerging economies in the recent decade has enhanced policy credibility and debt-carrying capacity.

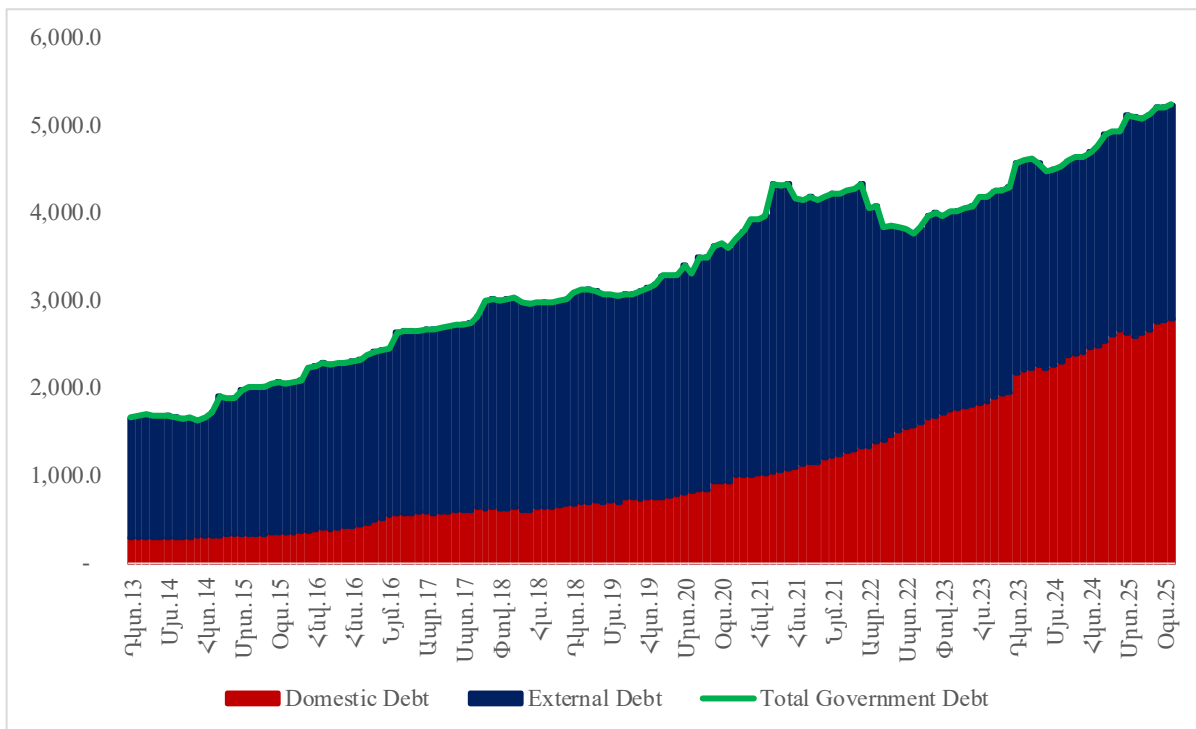


Figure 6. Armenia’s public debt structure (bn AMD) [21]

While the issuance of local currency debt increases policy credibility, the rise of credibility itself, especially for monetary and fiscal authorities, supports further demand for local currency debt as concerns over unsustainable fiscal practices and debt inflation practices are somewhat contained. Moreover, forward-looking and pre-emptive policy actions by the Central Bank of Armenia, particularly in terms of macroprudential policies, has significantly reshaped such patterns. The Central

Bank of Armenia has been actively using macroprudential policy measures that curb financial vulnerabilities related to capital flows, targeting excessive lending, establishing the pre-emptive use of country-cyclical buffers and addressing FX mismatches and risks related to external shocks. Therefore, strengthening macroprudential policy frameworks and enhancing credibility amidst managing trade-offs stemming from the symptoms of dilemma and the limited monetary policy space in

times of global distress is crucial for emerging economies to contain risks associated with international capital flows and sudden stops.

Conclusions

The paper examines the vulnerability of small open economies to international capital flows and global financial cycle by leveraging empirical evidence from the Armenian economy, with a particular focus on the sovereign spreads as a key transmission mechanism. With a renewed debate over the relevance of the original sin and the dominance of global push factors in shaping capital flows dynamics in emerging economies, the paper measures the sensitivity of Armenia's macrofinancial environment to external financing conditions, its co-movement with emerging economies, and the emergence of country-specific factors.

Although Armenia's economy is characterised by a high degree of capital account openness, capital flows do not constitute a structurally significant component of the economy. Nevertheless, the existing large stock of external liabilities signals otherwise: Armenia's international investment position is persistently negative and has deepened significantly in the recent decade amidst the increase in cross-border bank inflows. The sustained reliance on external financing conditions renders the financial system more vulnerable to global financial conditions, which is broadly reflected in sovereign spreads. Against this backdrop, empirical findings suggest that Armenia's sovereign spreads are heavily influenced by external financing conditions, with emerging economy spreads explaining a substantial share of their variation. Such findings suggest that investors require extra premia, relative to other emerging economies, to allocate capital to Armenia. This tendency is particularly prominent in times of significant global distress, with higher deviations from peer economies due to country-

specific characteristics. Therefore, examining the flow and the stock of foreign capital as well as sovereign spreads' dynamics in small open economies reveals significant vulnerabilities associated with domestic and global financial stability.

However, in recent years, particularly post-2022, Armenia's the observed sensitivity has declined in a structurally significant manner and is more proportionally aligned with broader emerging economy patterns. This suggests that investors have reconfigured the risk perception on Armenia, emphasising the increased role of country-specific factors and the potential mitigations of the original sin symptoms. Therefore, with decreased sensitivity to global financial conditions, there is more space for domestic policies to act against financial vulnerabilities associated with capital flows and mitigate their potential manifestation into systemic crisis. Sovereign spreads, hence, shall be treated as an outcome variable reflecting the transmission of global and domestic financial conditions.

Such patterns are broadly consistent with recent mitigation of original sin symptoms among emerging economies and the enhancement in the debt-carrying capacity. However, in times of global distress, small open economies persistently experience symptoms of dilemma instead of trilemma, leaving limited policy space to accommodate shifts in domestic economic and financial conditions. This emphasises the importance of building policy buffers or domestic antidotes outside periods of heightened uncertainty to contain vulnerability build-up to prevent their manifestation into sudden stop episodes. Such buffers are achieved through enhanced monetary, macroprudential and fiscal policy credibility, largely attributed to local currency debt issuance, pre-emptive macroprudential policy activation and monetary policy independence.

Appendices

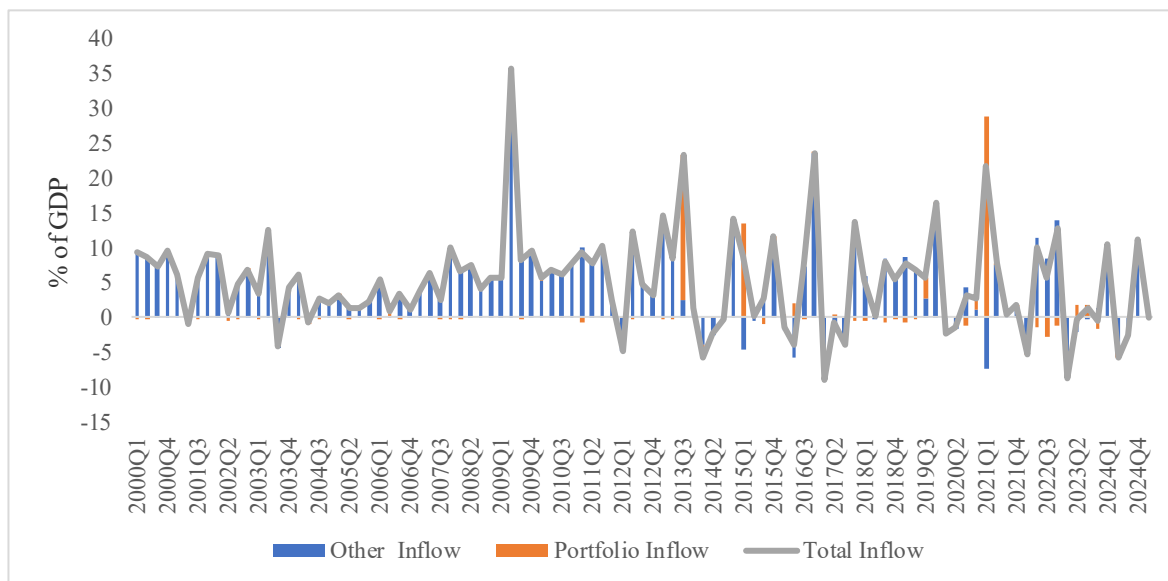


Figure 7. Gross capital inflows to Armenia, quarterly data (percent of GDP) [18]

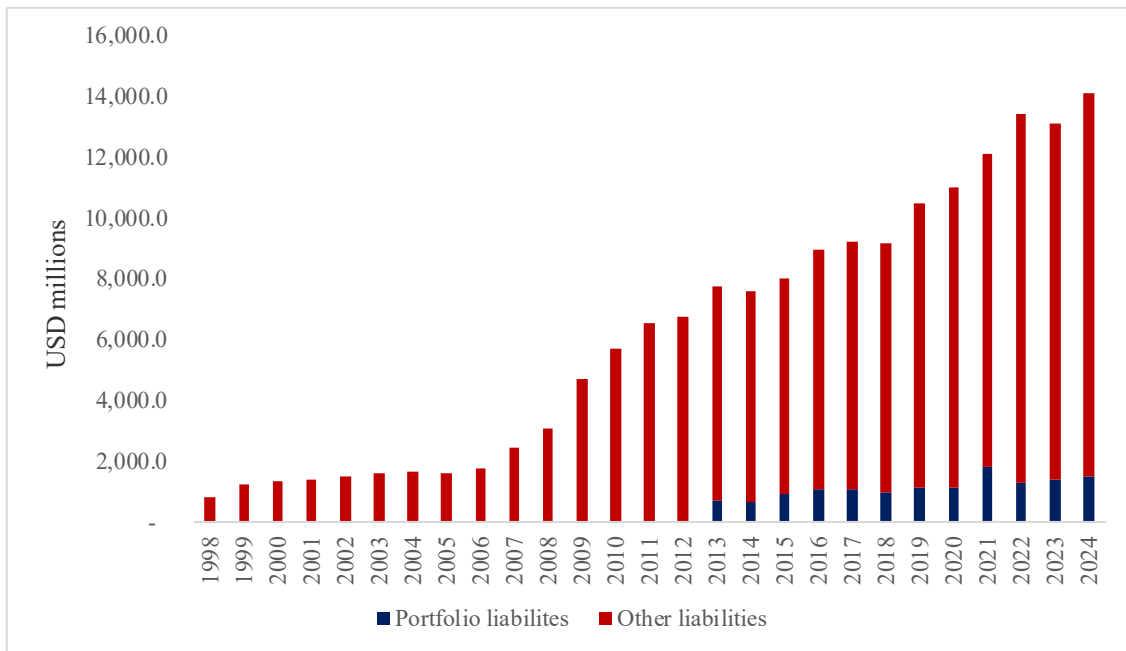


Figure 8. Armenia's International Investment Position for Liabilities (USD millions) [18]

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