

Approved:
under the Central Bank of the Republic of Armenia
Board Resolution No. 133A, dated August 12, 2025

**STATUS REPORT ON IMPLEMENTATION OF THE
MONETARY POLICY PROGRAM**
(Quarter 3, 2024 to Quarter 2, 2025)

Between the third quarter of 2024 and the second quarter of 2025 inclusive, the inflation environment in the Republic of Armenia has expanded: the 12-month inflation has accelerated throughout that period, approaching the target level. This dynamic was largely driven by inflationary pressures transmitting from the external sector and, in parallel, by a moderate strengthening of domestic demand amid a gradual easing of monetary conditions by the Central Bank of Armenia. In the second quarter of 2025, additional short-term supply-side factors also contributed to the acceleration of inflation.

In the period under review, a gradual adjustment in aggregate demand and a reduction in labor market tightness were observed. This led to a slowdown in wage and sticky prices, as well as a decline in inflation expectations, shaping around the target level by the end of the period under review. In the current situation, from the second half of 2024 through March 2025, the Central Bank of Armenia continued to gradually ease monetary conditions, lowering the policy rate by a cumulative 1.25 percentage points. Subsequently, during the March-June period, in light of heightened Case A inflationary risks and the need to manage the macroeconomic impacts arising from them, the Central Bank opted to maintain the policy rate unchanged.

As a result, in both the period under review and the preceding months, given the combined impact of the Central Bank's monetary policy stance and the spillover effects from the external sector, the 12-month inflation rose from 0.8 percent in June 2024 to 3.9 percent in June 2025. Over the same period of time, the core inflation also increased, reaching 3.1 percent by June 2025.

1. MONETARY POLICY IN THE PERIOD UNDER REVIEW

In the period under review, a variety of scenarios were deliberated in the formulation of the monetary policy and decision-making process at a time of uncertainties in the macroeconomic environment. Within this framework, Case A scenarios – which envisage policy rates remaining above market expectations – emphasized the risk of a persistently elevated neutral interest rate and risk premium for Armenia. These risks stemmed from uncertainty surrounding the neutral rate in the United States, geopolitical developments, domestic fiscal policy, and the potential for sustained excess demand in the domestic economy. On the other hand, Case B scenarios – which assume a faster pace of policy rate reductions relative to market expectations – highlighted risks associated with the natural adjustment of real estate prices, a gradual deceleration in construction sector activity, a more pronounced easing of domestic and external demand and labor market conditions, as well as a sluggish outlook for the global economic growth. The monetary policy implemented alongside prudent risk management during periods of uncertainty would be steered toward stabilizing the 12-month inflation around the target level over the medium-term horizon.

In the context of further unfolding geopolitical developments and heightened uncertainty and risks, the global growth outlook has deteriorated. In the United States – one of Armenia's main trading partners – robust growth in 2024, driven largely by strong private consumption, has begun to slow since the start of 2025, amid elevated uncertainty surrounding economic policy. In the Euro Area and China, a short-term increase in imports from the United States contributed to a temporary acceleration in economic growth; however, structural challenges in these economies are persisting. In Russia, economic activity has weakened markedly, signaling a gradual normalization from previously overheated conditions. Nevertheless, economic growth remains supported by expansionary fiscal policy and private spending growth, while tightness in the labor market continues.

Global inflation continued to slow down; however, inflation in goods and services with sticky prices in partner economies remained relatively high. In international commodity markets, risks in terms of price increases and potential disruptions to supply chains were significant due to geopolitical developments unfolding in the Middle East since the start of the year, as well as mounting tensions in global trade relations. More recently, however, on the back of weakening global demand and generally a deteriorating growth outlook, commodity prices have gradually decreased, particularly in oil and metal markets. At the same time, high inflation was observable in the global market for certain food products, reflecting adverse weather conditions. In view of these developments, mild deflationary effects were spilled over to the Armenian economy from the external sector in the first half of the period under review, shifting to predominantly inflationary effects in the second half.

Over the past year, economic growth in Armenia has gradually slowed, reflecting the fading influence of some short-term, non-structural growth factors, and has converged toward its estimated long-term sustainable rate. Growth was supported primarily by robust

activity in the services and construction sectors. Aggregate demand has continued to stabilize, largely driven by the natural adjustment of external demand, most visibly reflected in a sharp slowdown in tourist inflows during the period under review. In this context, pressures in the labor market have eased significantly, contributing to a stabilization of wages, sticky prices, and inflation expectations.

In light of the aforementioned developments, with a continued focus on the prudent management of potential risks stemming from uncertainties as well as a strong commitment to fulfilling its price stability objective, the Central Bank of Armenia continued to gradually reduce the policy rate up until March 2025 by a cumulative 1.25 percentage points, setting it at 6.75 percent in March 2025. During the March–June period, in light of heightened Case A risks associated with inflationary pressures and the need to mitigate their macroeconomic impacts, the Central Bank left the policy rate unchanged.

In the period under review, market interest rates came in largely aligned with the operational target, i.e. the policy rate. In the government bonds market, the behavior of the yield curve has mainly expressed the logic of reducing the policy rate. Thus, with inflation expectations stabilizing and the Central Bank’s policy rate further following a decline path, the yield curve shifted downward in the period under review, which has been particularly notable in the short and mid-term segments.

Figure 1

The yield curve of Armenian government bonds following the Central Bank interest rate decisions

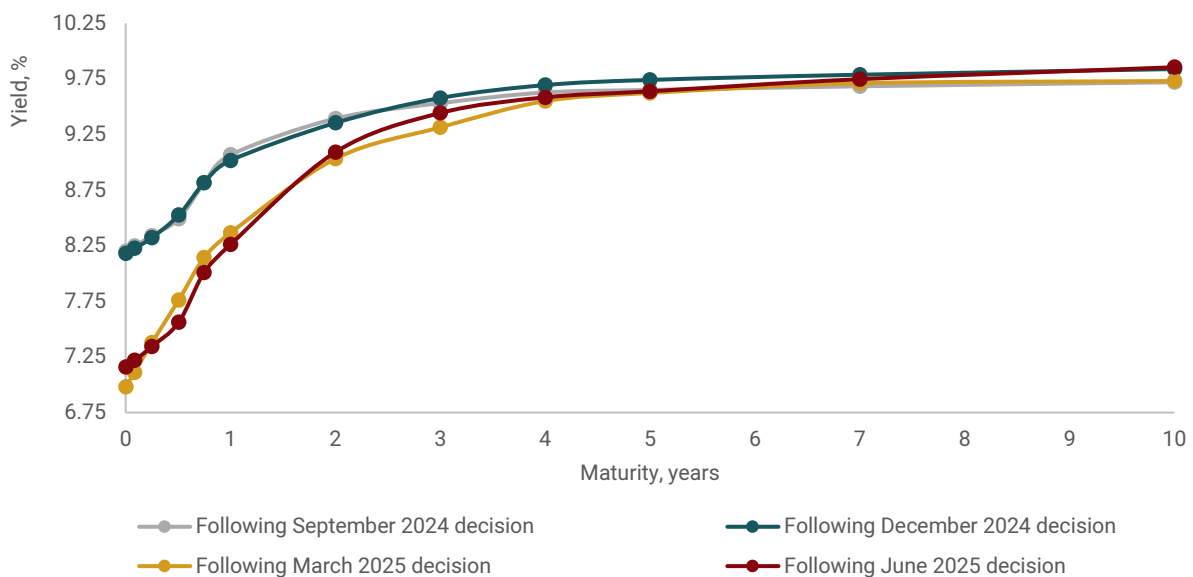
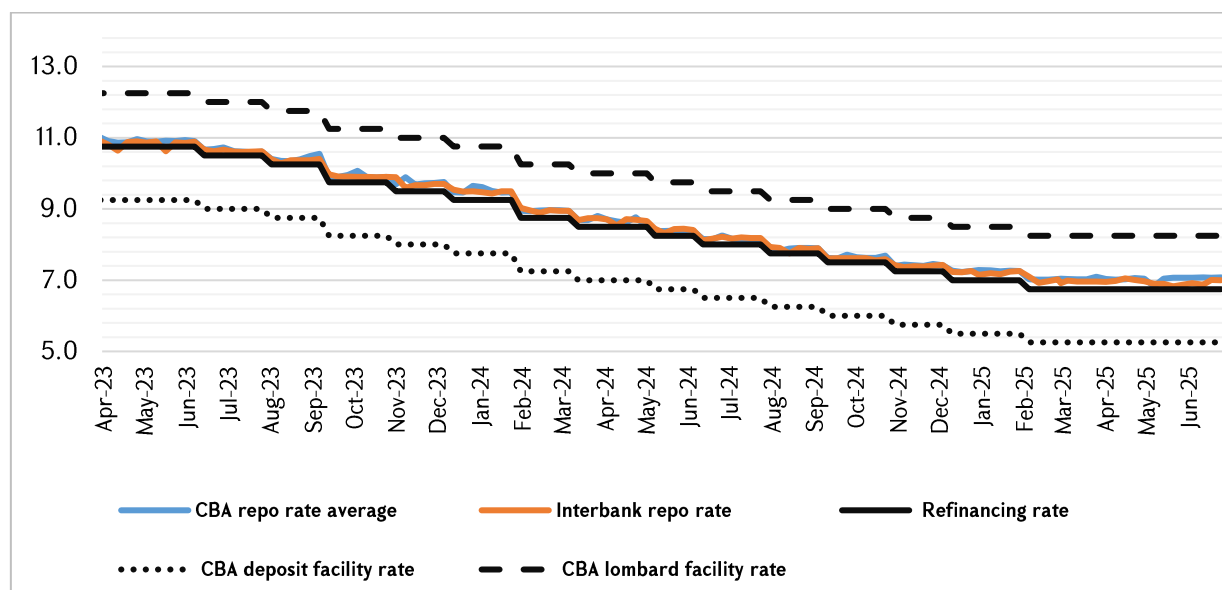


Figure 2

The Central Bank instruments and short-term market interest rates dynamics



In the period under review, amid persistently high activity in certain segments of the Armenian economy, a strong demand for credit continued to prevail. This trend was particularly evident in the steady growth of consumer loans extended to households, while the pace of growth in mortgage lending somewhat slowed down, reflecting the gradual phase-out of the income tax refund program. At the same time, despite the continued decline in the Central Bank’s policy rate and short-term market rates, lending rates in the banking system largely demonstrated a steady behavior.

In the foreign exchange market, the Armenian dram appreciated against the US dollar, determined by sustained strong growth in export- and trade-related activity and a decrease in the country risk premium. At the same time, in certain situations, the Central Bank of Armenia conducted foreign currency purchases in order to neutralize risks of disruptions to the orderly functioning of financial markets.

As a result, in view of the aforementioned developments and the monetary policy implementation, **the 12-month inflation accelerated to 3.9 percent as of the end of June 2025. The 12-month core inflation notably increased as well, amounting to 3.1 percent in June.**

2. INFLATION COMPONENTS IN THE PERIOD UNDER REVIEW

Over the past year, the 12-month inflation exhibited an accelerating trend, driven primarily by inflationary pressures transmitted from the external sector, alongside a gradual easing of monetary conditions by the Central Bank of Armenia and a moderate expansion of domestic demand, as well as the influence of certain temporary factors.

Thus, in the period under review, adverse weather conditions in several major food-supplying countries in the world, coupled with increased global demand for certain products, contributed to a considerable rise in prices for specific commodities, which has gradually been reflected in the prices of imported food products (with year-on-year inflation for imported food products standing at 6.3% in June). In this context, the inflationary pressures from international food markets intensified especially in the product groups, such as “Bread and cereals”, “Oils and fats”, “Coffee, tea” and “Confectionery, sweets”. At the same time, persisted deflationary trends were observed in non-food products, amounting to -0.2% year-on-year at the end of the period.

It is important to note that the acceleration of the 12-month inflation in recent months has been largely driven by a significant increase in the prices of seasonal food products compared with historical levels. However, this effect has been limited to a small number of seasonal products and has not been widespread. Nevertheless, by June 2025, the influence of these factors had moderated to a certain extent.

In the reporting year, with external demand going through a gradual, natural adjustment, price growth for certain goods and services – particularly those sensitive to external conditions, such as restaurants and hotels – slowed substantially. It is noteworthy that in May and June, alongside a rebound in international visitor flows, inflation for these services modestly accelerated.

Core inflation, which excludes seasonal food products and regulated services, also tended to accelerate, approaching the inflation target by the end of the period (3.1 percent year-on-year). The behavior of core inflation was reflected, on the one hand, in speeding up of price growth for non-seasonal food products and non-regulated services and, on the other hand, in a decline in prices of imported non-food products. The acceleration of the 12-month inflation in non-regulated services (4.5 percent in June) was driven largely by a significant increase in air transportation service fees, without which inflation in non-regulated services would have remained below the target level (around 2 percent year-on-year in June).

It should also be noted that the increase in prices of product groups “Tobacco products” and “Alcoholic beverage” out of *Core Inflation* components at the end of the period under review has incurred the inflationary impact from the change in excise tax rates in early 2025, remaining within the Central Bank’s estimates. In the first quarter of 2025, public transport tariffs in Yerevan also increased, although their impact on overall inflation remained weak, consistent with the Central Bank’s estimates.

Over the past year, the non-tradable sticky price index – a useful indicator that captures the fundamental conditions of the domestic economy – has shown stabilizing trends, averaging within 2.0-2.5 percent year-on-year (see Figure 3).

Figure 3

In the period under review, an increase in prices of seasonal and non-seasonal food products primarily contributed to the acceleration of headline inflation

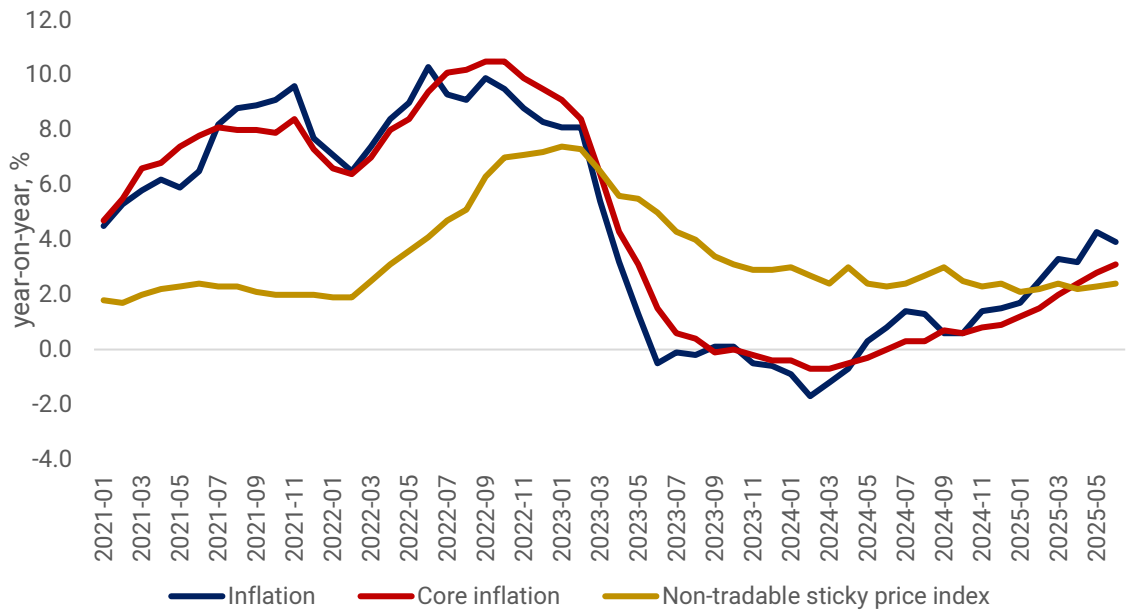


Table 1

Product/item	Weight	12-month inflation: June 2025	Contribution to y/y inflation
Core inflation	77.2	3.1	2.4
Bread and cereals	8.2	3.5	0.29
Meat	10.8	1.6	0.17
Oils and fats	2.3	14.2	0.33
Sugar	0.5	-2.8	-0.01
Dairy products	4.3	-0.4	-0.02
Alcoholic beverage	1.9	4.5	0.09
Tobacco products	2.5	7.4	0.19
Clothing	2.0	-2.7	-0.05
Footwear	1.0	-0.8	-0.01
Household appliances	0.6	3.1	0.02
Fuel	5.1	-1.9	-0.10
Air passenger transportation services	1.5	29.9	0.45
Outpatient care services	2.6	4.4	0.11
Actual rent paid by the tenant for additional accommodation	2.6	-2.4	-0.06
Restaurants and hotels	2.2	2.3	0.05
Fees for services by banks, post offices	1.0	1.3	0.01
Seasonal food products	9.6	12.7	1.2
Eggs	1.3	-6.2	-0.08
Fruits	3.1	3.7	0.11
Vegetables	5.1	25.0	1.28
Regulated services	13.2	2.0	0.3
Other product and service groups			
Imported food products	15.4	6.3	0.97
Non-regulated services	20.6	4.5	0.93

Table 2

Product/item	12-month inflation: as of September 2024	12-month inflation: as of December 2024	12-month inflation: as of March 2025	12-month inflation: as of June 2025
Core inflation	0.7	0.9	2.0	3.1
Bread and cereals	-1.1	0.6	1.7	3.5
Meat	-1.4	-0.9	0.2	1.6
Oils and fats	-1.7	9.7	12.5	14.2
Sugar	7.4	-4.2	-5.2	-2.8
Dairy products	-3.2	-2.0	-2.0	-0.4
Alcoholic beverage	7.2	7.0	5.3	4.5
Tobacco products	1.3	1.1	4.8	7.4
Clothing	-4.1	-3.4	-3.9	-2.7
Footwear	-2.3	-1.2	-1.6	-0.8
Household appliances	3.1	2.8	3.2	3.1
Fuel	0.3	-2.1	-0.5	-1.9
Air passenger transportation services	25.0	8.1	9.8	29.9
Outpatient care services	2.4	4.1	5.6	4.4
Actual rent paid by the tenant for additional accommodation	4.4	-4.4	-3.8	-2.4
Restaurants and hotels	2.7	1.4	1.1	2.3
Fees for services by banks, post offices	1.8	1.0	1.0	1.3
Seasonal food products	-1.8	4.7	14.6	12.7
Eggs	8.0	-3.7	-2.5	-6.2
Fruits	1.0	-0.1	11.3	3.7
Vegetables	-4.3	9.7	21.0	25.0
Regulated services	1.4	1.8	2.4	2.0
Other product and service groups				
Imported food products	0.5	3.4	4.8	6.3
Non-regulated services	5.3	3.0	3.3	4.5