

Appendix

*Approved:
under the Central Bank of
the Republic of Armenia
Board Resolution No. 76 A,
dated May 20, 2025*

STATUS REPORT ON IMPLEMENTATION OF THE MONETARY POLICY PROGRAM (Quarter 2, 2024 to Quarter 1, 2025)

A low inflation environment persisted in the Republic of Armenia from the second quarter of 2024 to the first quarter of 2025 inclusive. However, during this period, the 12-month inflation accelerated, driven primarily by weak inflationary pressures spilled over from the external sector as well as the monetary policy implemented by the Central Bank of Armenia.

The period under review witnessed a gradual adjustment in aggregate demand and a reduction in labor market tensions, which led to a slowdown in wage and sticky prices, as well as a decline in inflation expectations. In the current situation, taking into account the high probability of risks contributing to maintaining a low inflation environment, the Central Bank of Armenia continued to gradually ease monetary conditions, lowering the policy rate by a total of 1.75 percentage points.

As a result, under the influence of the Central Bank's monetary policy in the period under review and preceding periods, as well as external sector spillovers, the 12-month inflation increased – rising from -1.2% in March of 2024 and entering a positive territory in May that year – and by March of 2025 it approached the target level, reaching 3.3%. In the meanwhile, the 12-month core inflation has behaved similarly as it moved up from -0.7% in March of 2024, amounting to 2.0% in March of 2025.

1. MONETARY POLICY IN THE PERIOD UNDER REVIEW

In the period under review, a variety of scenarios were deliberated when developing monetary policy and making monetary policy decisions at a time of uncertainties in the macroeconomic environment. In this framework, Case A scenarios of setting higher interest rates relative to market expectations were about risks to formation of an elevated neutral interest rate and risk premium for Armenia, which derived from uncertainties over the neutral interest rate in the USA, geopolitical developments, and the fiscal policy in Armenia. Case A scenarios also encompassed situations involving the emergence and sustained persistence of excess demand within the domestic economy. On the other hand, case B scenarios, which anticipated a more rapid reduction in interest rates compared to market expectations, underscored potential risks, such as a gradual slowdown in the construction sector, a rapid weakening of domestic and external demand and labor market conditions, and a generally sluggish outlook for 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.

Amid unfolding geopolitical developments and ongoing uncertainties and risks, the economic trends across the Republic of Armenia's key partner countries increasingly diverged. Thus, economic activity remained robust in both the USA and Russia, largely driven by strong growth in domestic consumption – particularly in services – and the continued implementation of expansionary fiscal policies. However, since the beginning of 2025, economic growth in the United States has slowed due to high uncertainty with regard to the economic policy. In the Eurozone, economic growth has considerably decelerated attributable to the slackened potential growth. Global inflation continued slowing, even though sticky prices were still relatively high in the partner countries. In terms of rising prices in international commodity market and possible supply chain disruption, the risks proved material due to the geopolitical challenges in the Middle East since the beginning of the year 2024, as well as mounting tensions in international trade relations. However, prices have declined in recent months, particularly in oil and metals markets, reflecting expectations of a deteriorating global demand outlook. Given the above developments, in the period under review weak deflationary pressures continued to be transmitted from the external sector onto the Armenian economy. In the second half of the year, as certain inflationary risks materialized, the domestic economy began incurring minor inflationary pressures.

The economic activity persisted high in Armenia in the period under review, which was driven primarily by strong growth recorded in the services, construction, and trade sectors. However, since the second half of 2024, a slowdown in the pace of economic activity has been observed, largely owing to the gradual neutralization of certain short-term, non-structural growth drivers, approaching the estimated level of long-term sustainable growth. At the same time, significant challenges persist regarding the inclusiveness and structural characteristics of the high economic growth. Aggregate demand has adjusted, largely

approaching its sustainable level. Additionally, its structure has reflected a gradual slowdown in the growth rate of external demand, primarily due to the deceleration of growth in the tourism sector. Instead, domestic demand has revived considerably thanks to strong growth in private consumption, which was backed by the continued increase in incomes and spending of previously accumulated savings. In this context, labor market conditions have eased significantly, manifesting in the gradual stabilization of wages, sticky prices, and inflation expectations.

In view of the aforementioned developments, given the approach to prudent management of potential risks stemming from uncertainties as well as its commitment to achieving the goal of price stability, the Central Bank of Armenia continued to gradually reduce the policy rate in the period under review by a total of 1.75 percentage points, setting it at 6.75% in March of 2025. Under these circumstances, having the risks balanced in either direction in the first half of the period under review, the Board of the CBA found it more reasonable to gradually ease the policy stance in line with market expectations, and in the second half, as Case B scenarios were materializing with a greater likelihood, the Board emphasized the need to manage significant impacts arising from Case A scenarios.

In the period under review, market interest rates came in mostly shaping around 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

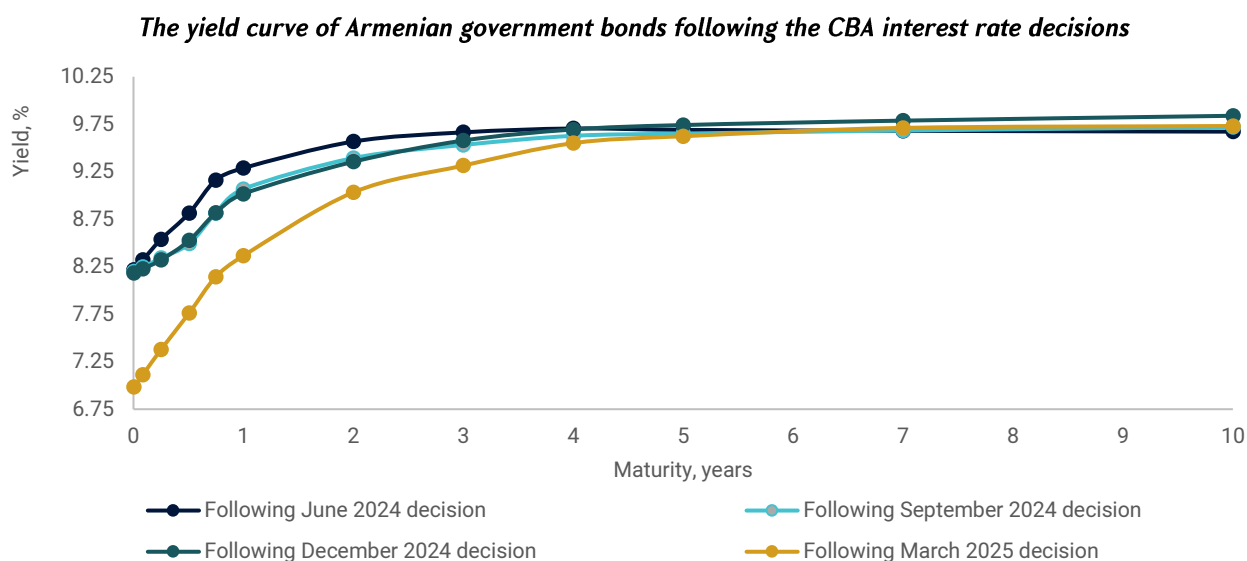
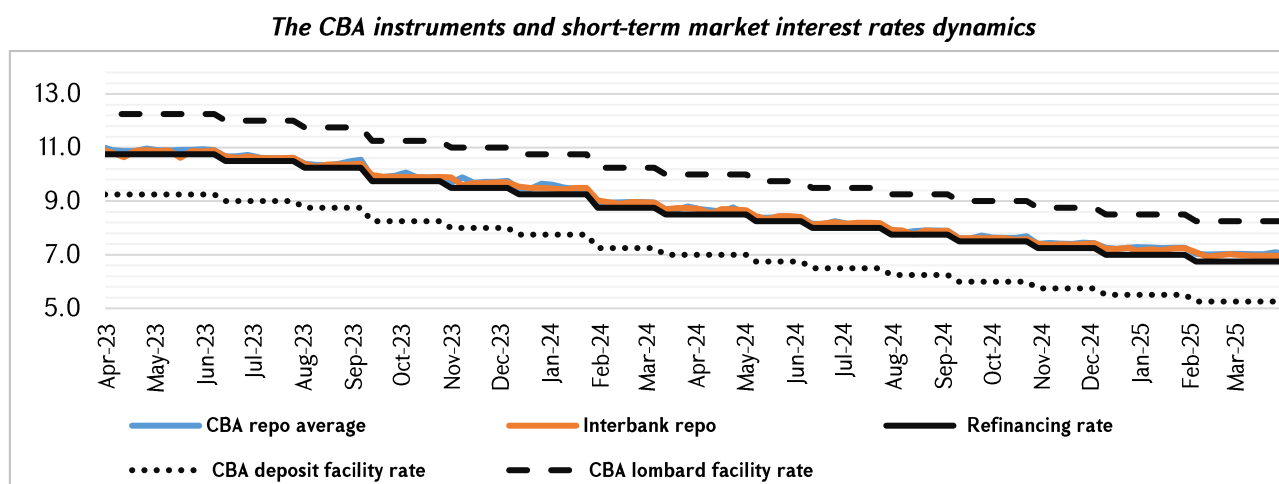


Figure 2



In the year under review, as strong demand for lending persisted, consumer and mortgage lending continued to expand rapidly. Despite a further reduction in the Central Bank's policy rate and short-term market interest rates, the interest rates within the banking system generally remained steady under these conditions.

In the foreign exchange market, the Armenian dram continued to appreciate moderately against the US dollar on the back of sustained growth in export and trade-related activity and a decrease in the country risk premium. Given this, in order to ensure a normal functioning of the financial market, the Central Bank of Armenia arranged a situational participation in the foreign exchange market mainly by purchasing foreign currency.

As a result, in view of the aforementioned developments and the monetary policy implementation, **the 12-month inflation accelerated to 3.3% as of the end of March 2025, approaching the target indicator. The 12-month core inflation increased as well, reaching 2.0% in March.**

2. INFLATION COMPONENTS IN THE PERIOD UNDER REVIEW

Despite a certain acceleration of inflation in recent months, the Armenian economy operated in a predominantly deflationary environment for most of the period under review, transitioning to a weak inflationary environment toward the end of the period – determined primarily by deflationary influences imported from external markets. Furthermore, during the first part of the period, the pressures transmitted onto the Armenian economy from both international food markets and non-food product markets were remarkably deflationary. In April of 2024, in particular, the 12-month deflation for the “imported food” product group was about 4.5%, and for “imported non-food” products, nearly 0.5%. In the meantime, amid the gradual adjustment of external demand, a significant easing of inflationary pressures in the services sector was also observed. In this context, in April of 2024 the 12-month headline inflation rate stood at -0.7%, while core inflation rate registered a level of -0.5%.

The 12-month inflation rate has gradually increased, approaching the target level of 3%, which was driven by the strengthening of domestic demand thanks to the gradual easing of monetary policy, as well as the notable reduction in deflationary pressures transmitted onto the Armenian economy from external markets. Thus, adverse weather conditions in a number of important food supplier countries in the second half of 2024 contributed to a significant increase in prices for individual products, which was gradually reflected in the prices of imported food products. The growth of prices for the “imported food” product group accelerated, amounting to roughly 5% y-o-y in March of 2025. However, certain one-off or short-term factors also contributed to the acceleration of inflation observed in the first quarter of 2025. These factors included seasonal food prices, particularly for vegetables, which continued to settle significantly above the typical seasonality trends. As a result, the 12-month inflation amounted to 3.3% as of the end of the period under review (i.e. March).

In the first quarter of 2025, public transport tariffs in Yerevan posted an increase, too. However, their impact on headline inflation was minor and remained within the Central Bank’s estimates.

Core inflation, which excludes seasonal food products and regulated services, further tended to stabilize, reaching an annual rate of 2.0% by the end of the period. The dynamics of core inflation were reflected, on the one hand, in an acceleration of price growth for non-seasonal food products and non-regulated services (particularly air transportation and medical services) and, on the other hand, in a decline in prices of imported non-food products. Thus, over the past year, high inflation in services has persisted in global and advanced economies, whereas inflation in industrial goods has remained subdued, and even negative in some major economies. Under these conditions, despite signs of recovery, deflationary pressures from the external sector on imported non-food goods continued.

It should 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.

The gradual adjustment of external demand has continued over the past year. In this context, the prices in several services sectors which have relatively sticky prices (rent,

restaurants and hotels, hairdressing, medical, financial, postal services) have seen some adjustment and have displayed gradual stabilization trends (see Figure 3).

At the same time, it is important to note that the non-tradable sticky price index, which captures the fundamental conditions of the domestic economy and is unaffected by both seasonal fluctuations in food prices and external sector influences mentioned above, has remained relatively stable, ranging between 2% and 3% in terms of both the 12-month and quarter-on-quarter annualized figures.

Figure 3

In the period under review, high price increases for both imported and domestic seasonal food products made the main contribution to the acceleration of the headline inflation

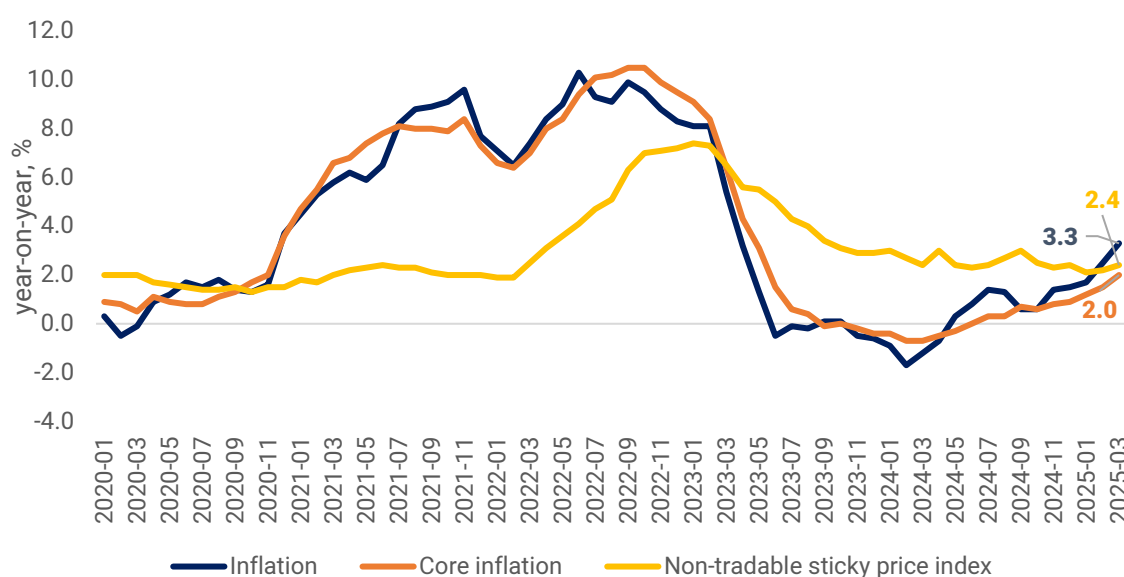


Figure 4

Trends in core inflation indicators suggest that the inflation environment is weakening and stabilizing

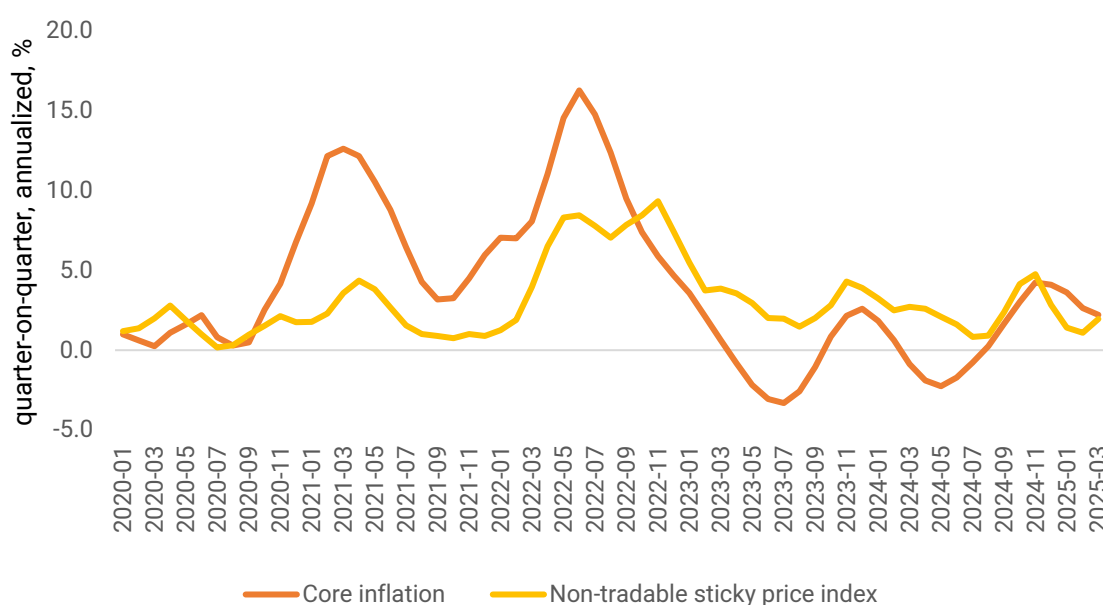


Table 1

Product/item	Weight	12-month inflation: March 2025	Contribution to y/y inflation
Core inflation	77.2	2.0	1.6
Bread and cereals	8.2	1.7	0.14
Meat	10.8	0.2	0.02
Oils and fats	2.3	12.5	0.28
Sugar	0.5	-5.2	-0.03
Dairy products	4.3	-2.0	-0.09
Alcoholic beverage	1.9	5.3	0.10
Tobacco products	2.5	4.8	0.12
Clothing	2.0	-3.9	-0.08
Footwear	1.0	-1.6	-0.02
Household appliances	0.6	3.2	0.02
Fuel	5.1	-0.5	-0.03
Air passenger transportation services	1.5	9.8	0.15
Outpatient care services	2.6	5.6	0.15
Actual rent paid by the tenant for additional accommodation	2.6	-3.8	-0.10
Restaurants and hotels	2.2	1.1	0.02
Fees for services by banks, post offices	1.0	1.0	0.01
Seasonal food products	9.6	14.6	1.4
Eggs	1.3	-2.5	-0.03
Fruits	3.1	11.3	0.35
Vegetables	5.1	21.0	1.08
Regulated services	13.2	2.4	0.3
Other product and service groups			
Imported food products	15.4	4.8	0.7
Non-regulated services	20.6	3.3	0.7

Table 2

Product/item	12-month inflation: as of June 2024	12-month inflation: as of September 2024	12-month inflation: as of December 2024	12-month inflation: as of March 2025
Core inflation	0.0	0.7	0.9	2.0
Bread and cereals	-1.8	-1.1	0.6	1.7
Meat	-2.5	-1.4	-0.9	0.2
Oils and fats	-9.8	-1.7	9.7	12.5
Sugar	-5.6	7.4	-4.2	-5.2
Dairy products	-3.2	-3.2	-2.0	-2.0
Alcoholic beverage	7.4	7.2	7.0	5.3
Tobacco products	2.3	1.3	1.1	4.8
Clothing	-3.1	-4.1	-3.4	-3.9
Footwear	0.2	-2.3	-1.2	-1.6
Household appliances	3.3	3.1	2.8	3.2
Fuel	7.3	0.3	-2.1	-0.5
Air passenger transportation services	18.2	25.0	8.1	9.8
Outpatient care services	2.2	2.4	4.1	5.6
Actual rent paid by the tenant for additional accommodation	2.0	4.4	-4.4	-3.8
Restaurants and hotels	3.2	2.7	1.4	1.1
Fees for services by banks, post offices	1.8	1.8	1.0	1.0
Seasonal food products	5.1	-1.8	4.7	14.6
Eggs	7.6	8.0	-3.7	-2.5
Fruits	6.3	1.0	-0.1	11.3
Vegetables	7.0	-4.3	9.7	21.0
Regulated services	1.6	1.4	1.8	2.4
Other product and service groups				
Imported food products	-2.0	0.5	3.4	4.8
Non-regulated services	3.6	5.3	3.0	3.3