

*Approved by
the Board Resolution No. 196-A
of the Central Bank of the Republic
of Armenia, dated 18 November 2025*

**STATUS REPORT ON IMPLEMENTATION OF THE
MONETARY POLICY PROGRAM
(Quarter 4, 2024 to Quarter 3, 2025)**

Between the 4th quarter of 2024 and the 3rd quarter of 2025 (inclusive), the 12-month inflation in the Republic of Armenia accelerated, gradually approaching and stabilizing around the target level. The acceleration of inflation was mainly driven by inflationary effects transmitted from the external sector and, in parallel with the gradual adjustment of monetary conditions by the Central Bank of Armenia, a certain expansion of domestic demand. In the second quarter of 2025, certain short-term supply factors in the domestic economy also contributed to the acceleration of inflation, the effect of which was largely neutralized by the end of the third quarter.

In the period under review, a gradual adjustment of aggregate demand and an easing of tensions in the labor market were observed, leading to a deceleration in the growth of wages and inflation of services characterized by sticky prices. Under these conditions, inflation expectations continued to gradually decline and stabilize around the target level. In this situation, during the fourth quarter of 2024 and the first quarter of 2025, the CBA continued to gradually adjust monetary conditions by lowering the policy rate by a total of 0.75 percentage points. Subsequently, from March to September, the CBA held the policy rate unchanged, taking into account the gradual increase in Type A risks and emphasizing the need to manage their macroeconomic impacts. The CBA further communicated the necessity of maintaining a higher interest rate path in the medium term compared to financial market expectations.

As a result, amid the monetary policy conducted by the CBA during the period under review and the preceding months, and the slipover effects from the external sector, the 12-month inflation increased, rising from 0.6% in September 2024 to 3.7% in September 2025. Over the same period, core inflation also rose, hitting 3.5% in September 2025.

1. MONETARY POLICY IN THE PERIOD UNDER REVIEW

In the period under review, given the significant uncertainties present in the macroeconomic environment, a number of scenarios were considered during the formulation of monetary policy and decision-making. Within this framework, Case A scenarios, which entail setting higher interest rates compared to market expectations, focused on risks derived from the effects of US fiscal policy and geopolitical developments, which could drive up global and domestic neutral interest rates and contribute to the formation of the RA risk premium at a high level, as well as risks related to the formation and prolonged persistence of excess demand in the domestic economy. Conversely, the Case B scenarios, which entail setting lower interest rates compared to market expectations, included risks associated with the weakening of demand and the formation of disinflationary effects; the rapid moderation of conditions in the domestic and external demand and the labor market; and the prospect of a slowdown in global economic growth, amidst the gradual, natural correction of real estate prices and the growth in construction and related economic sectors. Under these uncertainties, the monetary policy implemented through prudent risk management was aimed at stabilizing the 12-month inflation around the target level over the medium-term horizon.

In the reporting year, amidst ongoing geopolitical developments and persistent uncertainties and risks, the global economic growth outlook has deteriorated. Specifically, the high economic growth generated in the US, one of the Republic of Armenia's main partner countries, in 2024 due to increased domestic private consumption has decelerated since the beginning of this year, also conditioned by the high uncertainty surrounding economic policy. Although a certain acceleration in economic growth was observed in the Eurozone and China, driven by a short-term increase in imports from the US ahead of anticipated tariff hikes, structural problems persist. In Russia, economic activity has significantly weakened, reflecting the gradual adjustment of the economy's overheated state. Nevertheless, the primary drivers remain the stimulating fiscal policy and private spending growth, with the sustained tightness of labor market conditions serving as the key source of additional inflationary pressure.

Global inflation continued to slow down; however, inflation for goods and services with sticky prices in main partner countries remained significantly above the target level. In the international commodity market, risks related to price growth and the potential disruption of supply chains were significant, conditioned by the geopolitical issues created in the Middle East since the beginning of the year, as well as the growing tension in international trade relations. Nevertheless, amid the slowdown in global demand and the deterioration of the economic outlook, prices gradually decreased in recent months, especially in the oil and metals markets. At the same time, high inflation was recorded in the global market for certain food items, primarily due to unfavorable weather conditions, which was also reflected in the developments of the global food price (FAO) index. Consequently, the external sector

transmitted predominantly inflationary effects to the RA economy in the period under review.

Over the past year, the economic growth rate in Armenia gradually moderated, largely reflecting the neutralization of certain short-term, non-structural growth factors, thereby converging toward the estimated level of long-term sustainable growth. Nevertheless, an acceleration in the growth of economic activity was observed in the third quarter of 2025, partly conditioned by the impact of a certain expansion of external demand. The high growth recorded in the construction and services sectors continued to contribute significantly to the overall growth. Aggregate demand continued to stabilize during the fourth quarter of 2024 and the first quarter of 2025, driven by the natural adjustment in external demand, primarily conditioned by the decline in tourism flows. In the second and third quarters of 2025, amid the acceleration of economic activity and a significant increase in tourism flows, an acceleration in growth was observed in certain services sectors. Notably, the third quarter recorded a substantial acceleration in growth within certain export-oriented sectors, especially the manufacturing industry. Concurrently, labor market conditions continued to moderate, reflected by the gradual stabilization of wages, inflation of services characterized by sticky prices, and inflation expectations. Given this environment, the impact of demand on inflation remains assessed as neutral, with current inflation trends predominantly stemming from certain supply factors.

In line with the aforementioned developments and the principle of prudently managing potential risks stemming from the existing uncertainties, the Central Bank of Armenia (CBA) continued to gradually lower the policy rate until March 2025, reducing it by a cumulative 0.75 percentage points, setting it at 6.75%. During the March-September period, considering the gradual accumulation of Case A risks, which contain inflationary factors, and emphasizing the necessity of managing the macroeconomic effects stemming from them, the CBA kept the policy rate unchanged.

In the period under review, market interest rates were mainly formed around the operational target, i.e. the policy rate. In the government bond (GB) market, the behavior of the yield curve primarily reflected the logic of gradual adjustment of long-term inflation expectations resulting from the lowering of the policy rate and the reduction of the inflation target, and other factors. Thus, in the first half of the reporting year, concurrently with the CBA lowering the policy rate, the curve shifted downwards, which was particularly noticeable in the short-term and med-term segments. In the second half of the year under review, especially towards the end of the period, the yield curve continued to shift downwards, reflecting the improvement in investor sentiment towards developing countries in recent months and the decrease of the country-specific risk premium inherent to the RA, as well as the increase in liquidity supply in the financial market and the gradual transmission of monetary policy effects.

Chart 1

The behavior of the RA yield curve after CBA decisions on the interest rate

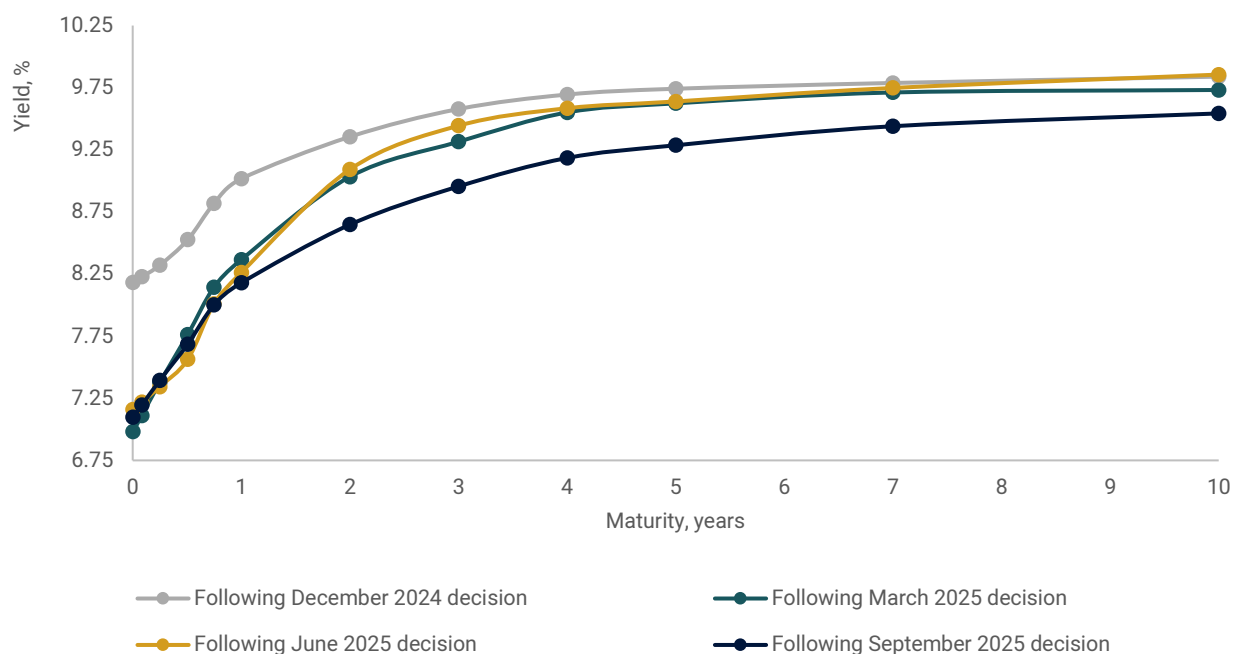
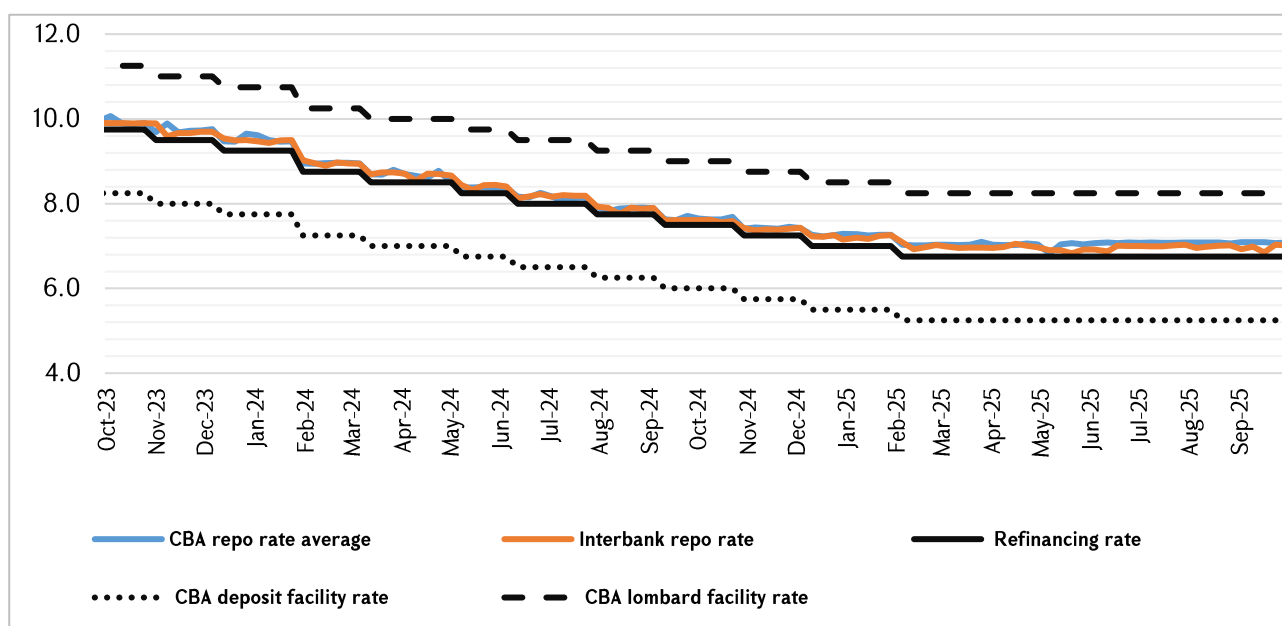


Chart 2

The behavior of CBA instruments and short-term market interest rates



In the period under review, amidst sustained high activity in certain sectors of the RA economy, a strong demand for lending continued to be observed. This was particularly reflected in the steady growth of consumer loans granted to households, alongside which the growth rate of mortgage loans somewhat decelerated due to the significant narrowing of the scope of the income tax refund program; the mortgage growth rate, however, still remains high. Notwithstanding the continuous easing of the CBA policy rate and short-term market rates, banking system interest rates are exhibiting sluggish adjustment under these circumstances.

In the foreign exchange market, a certain, moderate appreciation of the Dram (AMD) against the US Dollar was observed, conditioned by a combination of factors, including increased capital inflows and the depreciation of the US Dollar against currencies of both developed and emerging economies. At the same time, in certain situations, the CBA intervened by conducting foreign currency purchase operations in the market to neutralize risks to the financial market's orderly functioning.

As a result, amid the aforementioned developments and the monetary policy implemented, **the 12-month inflation accelerated, reaching 3.7% as of the end of September 2025. The 12-month core inflation also increased substantially, settling at a level of 3.5% in September.**

2. INFLATION COMPONENTS IN THE PERIOD UNDER REVIEW

Over the past year, 12-month inflation exhibited accelerating trends, primarily conditioned by inflationary effects transmitted to the RA from the external sector, a certain expansion of aggregate demand alongside the gradual adjustment of monetary conditions implemented by the CBA, as well as several temporary factors.

Consequently, unfavorable weather conditions in key global food-supplying countries and sustained global demand for specific commodities resulted in significant price hikes for those products during the period under review. These price pressure were heavily transmitted to imported food products, where Year-on-Year (Y-o-Y) inflation stood at 6.5% in September. In this context, inflationary effects from international food markets intensified, particularly in the "Bread and cereal products," "Oils and fats," "Coffee, tea," and "Confectionery and sweets" commodity groups. Nevertheless, in September 2025, the impact of supply-side factors on global food price developments significantly moderated.

It is important to note that the acceleration of 12-month inflation in recent quarters was largely driven by the significantly high growth in seasonal food prices compared to historical norms. This acceleration, however, was confined to a narrow range of seasonal products and **lacked broad pervasiveness**. Nevertheless, the influence of the aforementioned factors significantly moderated in July-September 2025.

The certain acceleration of services inflation in the reporting period was largely conditioned by the strong upward pressure from air transport. Services inflation excluding air transport remained below the target, in the 2.0–2.5% range. At the same time, an acceleration of inflation for certain services highly sensitive to external demand, specifically hotels, restaurants, and others, was observed starting in May 2025, aligning with the significant increase in tourism flows over recent months. Nonetheless, inflation for these services also eased in September 2025 amid slowdown in tourism flows.

Core inflation, which excludes seasonal food items and regulated services, also exhibited accelerating dynamics, ending the period slightly above the inflation target at 3.5% Y-o-Y. The behavior of core inflation reflected accelerated price growth in non-seasonal food items, certain exportable services and unregulated services. Furthermore, disinflationary pressures stemming from non-food goods gradually neutralized starting from the beginning of 2025, entering a mild inflationary territory in May and reaching 1.3% Y-o-Y in September.

The price growth recorded in the "Tobacco products" and "Alcoholic beverages" groups, key components of core inflation, reflected the full inflationary pass-through of excise tax rate changes implemented at the beginning of 2025 and remained broadly consistent with the CBA's projections by the end of the period. In the first quarter of 2025, public transport **tariffs in Yerevan also increased, though their impact** on overall inflation was mild, remaining within the bounds of the CBA's estimate.

Over the past year, the non-tradable sticky price index, a useful indicator of underlying domestic economic conditions, has shown stabilizing dynamics, averaging in the 2.0–2.5% Y-o-Y range (see Chart 3).

Chart 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

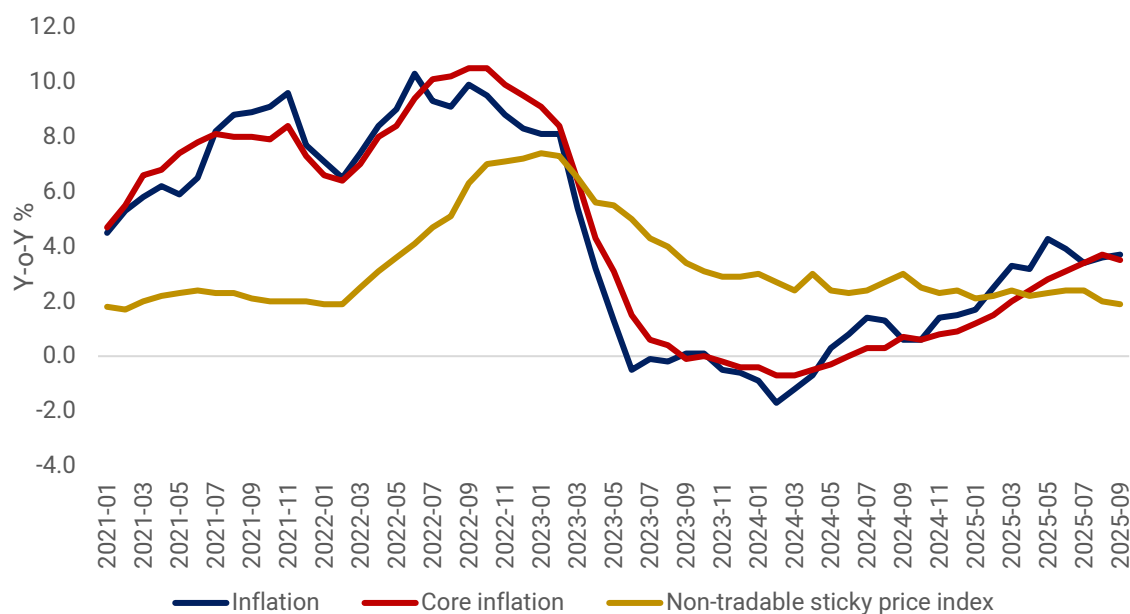


Table 1

Product name	Weight in the Consumer Basket	12-month inflation: September 2025	Contribution to Y-o-Y Inflation
Core inflation	77.2	3.5	2.70
Bread and cereals	8.2	4.6	0.38
Meat	10.8	3.6	0.39
Oils and fats	2.3	12.8	0.29
Sugar	0.5	-8.9	-0.04
Dairy products	4.3	2.0	0.09
Alcoholic beverages	1.9	4.7	0.09
Tobacco products	2.5	8.3	0.21
Clothing	2.0	-1.9	-0.04
Footwear	1.0	-0.1	0.00
Household appliances	0.6	2.8	0.02
Fuel	5.1	-0.4	-0.02
Air passenger transport services	1.5	19.4	0.29
Outpatient care services	2.6	4.3	0.11
Actual rent paid by tenant for additional accommodation	2.6	-5.9	-0.15
Restaurants and hotels	2.2	2.0	0.04
Fees for banking and postal services	1.0	1.3	0.01
Seasonal food products	9.6	6.3	0.60
Eggs	1.3	-3.0	-0.04
Fruits	3.1	12.4	0.38
Vegetables	5.1	2.4	0.12
Regulated services	13.2	2.5	0.33
Other product and service groups			
Imported food products	15.4	6.5	1.00
Non-regulated services	20.6	2.8	0.58

Table 2

Product name	12-month inflation as of December 2024	12-month inflation as of March 2025	12-month inflation as of June 2025	12-month inflation as of September 2025
Core inflation	0.9	2.0	3.1	3.5
Bread and cereals	0.6	1.7	3.5	4.6
Meat	-0.9	0.2	1.6	3.6
Oils and fats	9.7	12.5	14.2	12.8
Sugar	-4.2	-5.2	-2.8	-8.9
Dairy products	-2.0	-2.0	-0.4	2.0
Alcoholic beverages	7.0	5.3	4.5	4.7
Tobacco products	1.1	4.8	7.4	8.3
Clothing	-3.4	-3.9	-2.7	-1.9
Footwear	-1.2	-1.6	-0.8	-0.1
Household appliances	2.8	3.2	3.1	2.8
Fuel	-2.1	-0.5	-1.9	-0.4
Air passenger transport services	8.1	9.8	29.9	19.4
Outpatient care services	4.1	5.6	4.4	4.3
Actual rent paid by tenant for additional accommodation	-4.4	-3.8	-2.4	-5.9
Restaurants and hotels	1.4	1.1	2.3	2.0
Fees for banking and postal services	1.0	1.0	1.3	1.3
Seasonal food products	4.7	14.6	12.7	6.3
Eggs	-3.7	-2.5	-6.2	-3.0
Fruits	-0.1	11.3	3.7	12.4
Vegetables	9.7	21.0	25.0	2.4
Regulated services	1.8	2.4	2.0	2.5
Other product and service groups				
Imported food products	3.4	4.8	6.3	6.5
Non-regulated services	3.0	3.3	4.5	2.8