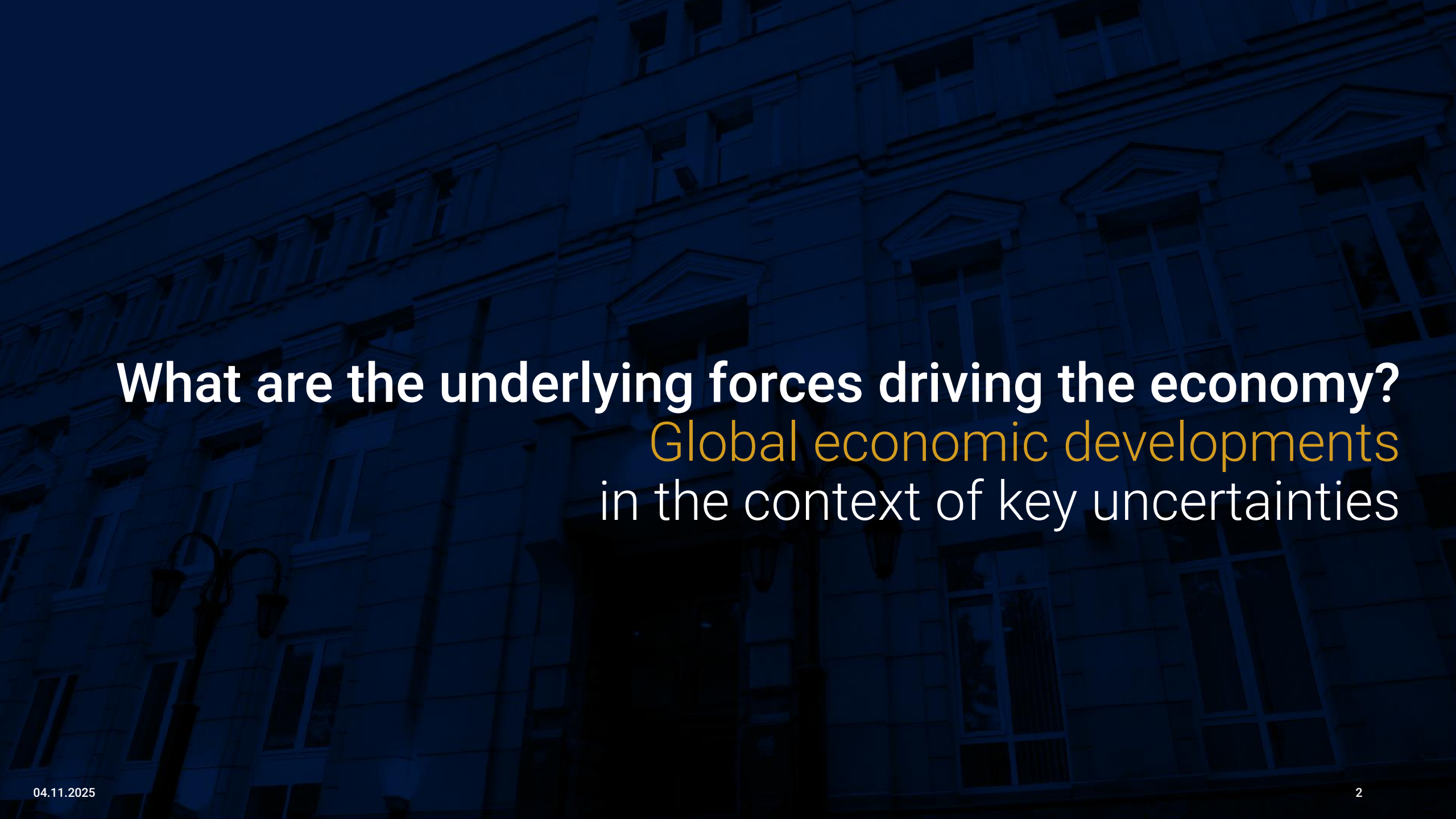




**Central Bank**  
of Armenia

# **Monetary Policy** **Outlook**

November 2025 Interim Decision  
November 4, 2025

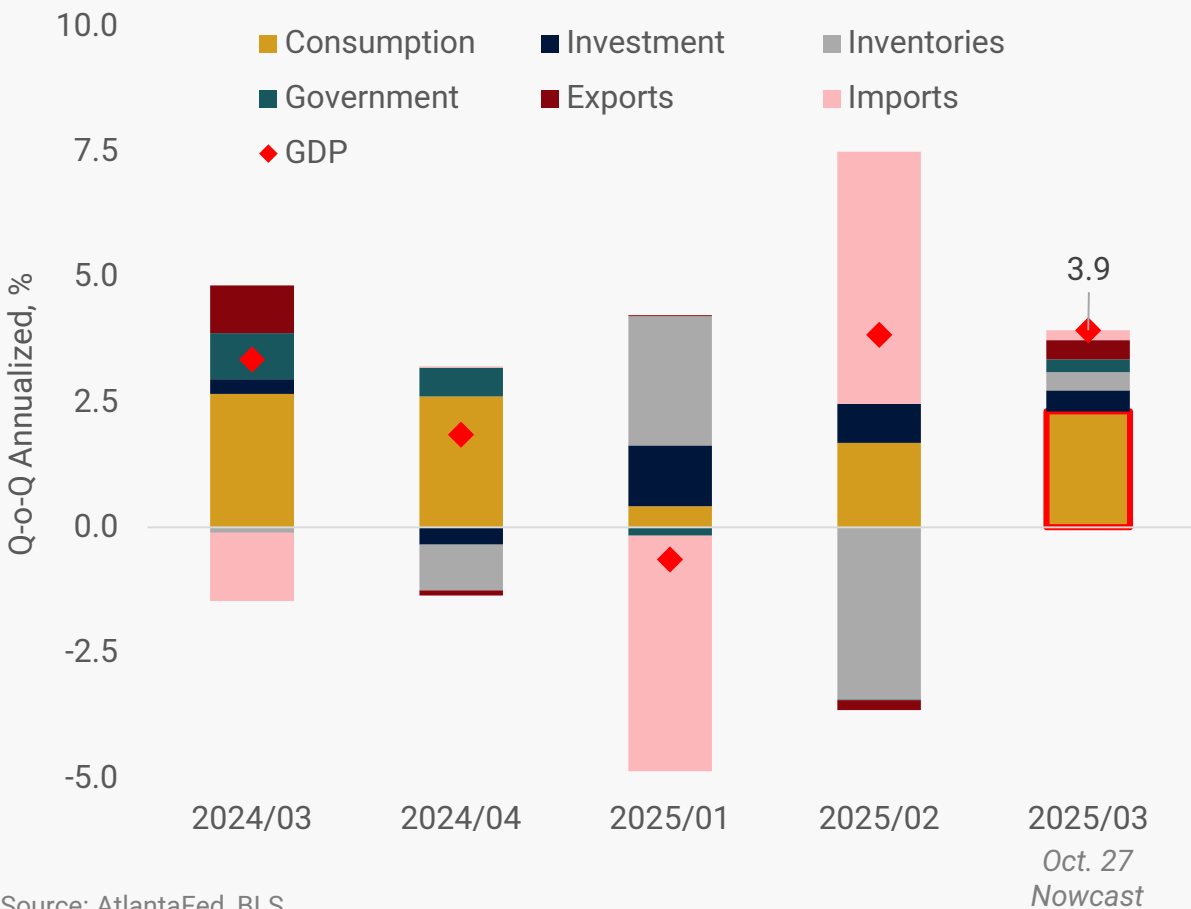


# What are the underlying forces driving the economy?

Global economic developments  
in the context of key uncertainties

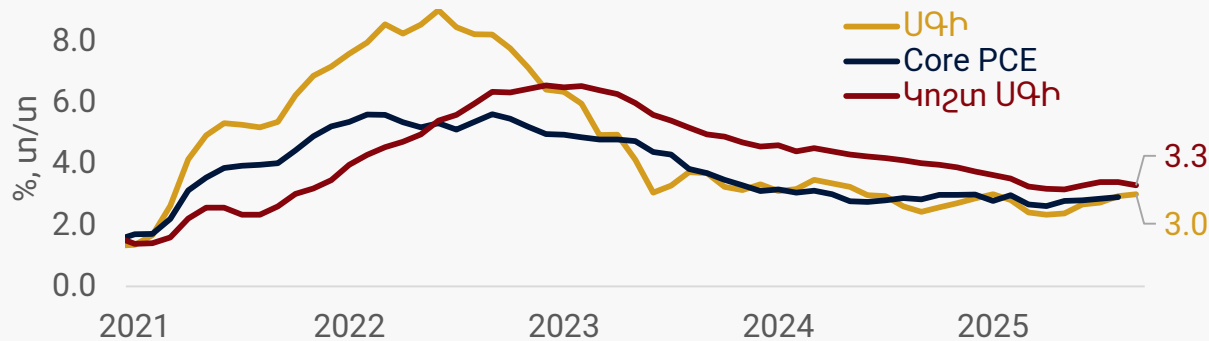
# US. How strong are demand conditions?

Consumption has reemerged as the main driver of the economy following a slowdown in H1 2025

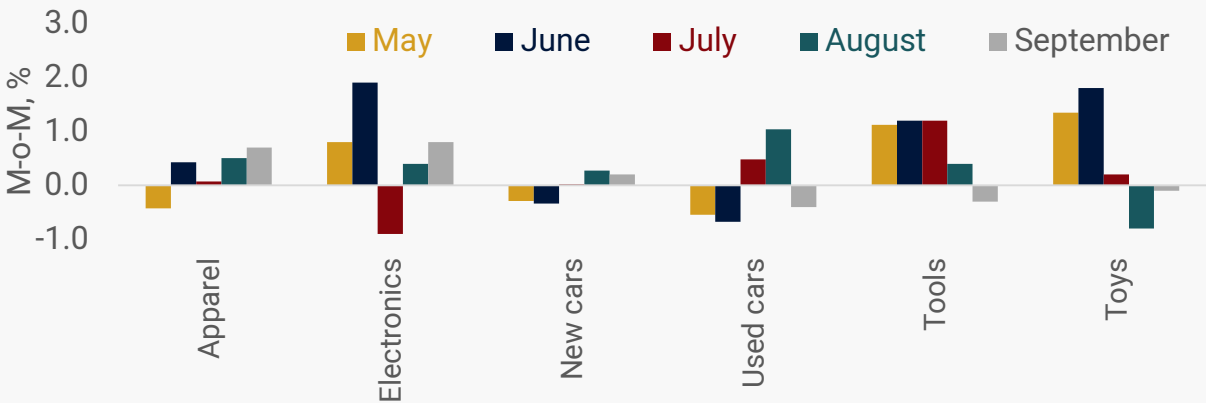


Source: AtlantaFed, BLS

With sticky prices still elevated, stronger-than-expected demand conditions amid high tariffs could pose serious inflationary risks

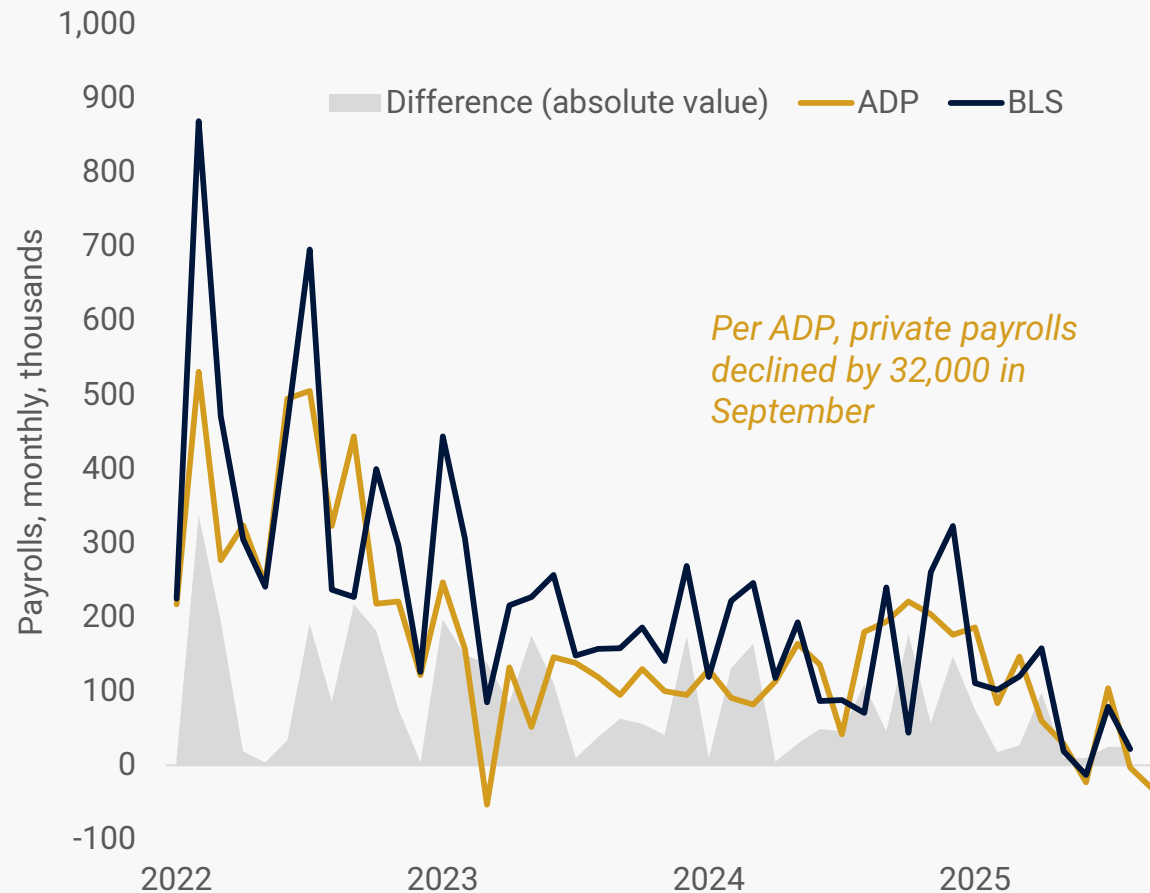


Impact of tariffs is gradually being transmitted through to consumer prices for most tariff-sensitive goods



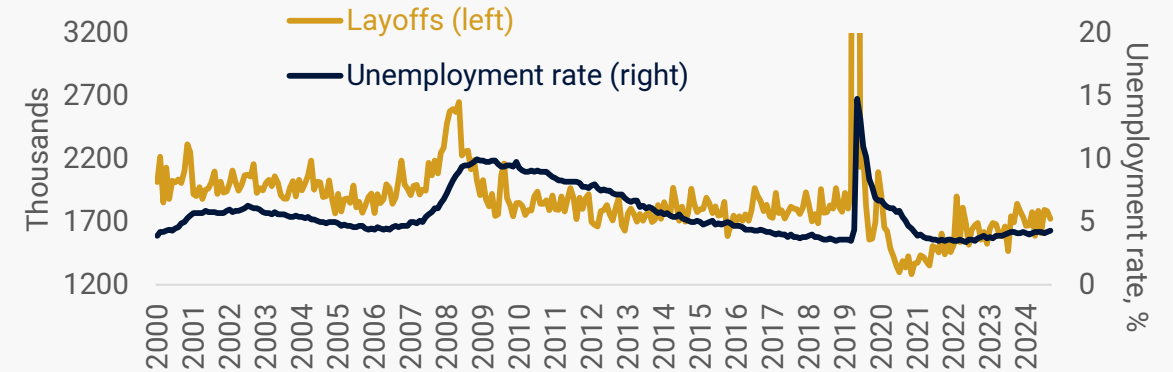
# US. While labor market conditions continue to deteriorate, they do not yet point to an abrupt weakening in aggregate demand conditions

Per ADP's National Employment Report, labor market conditions continue to weaken

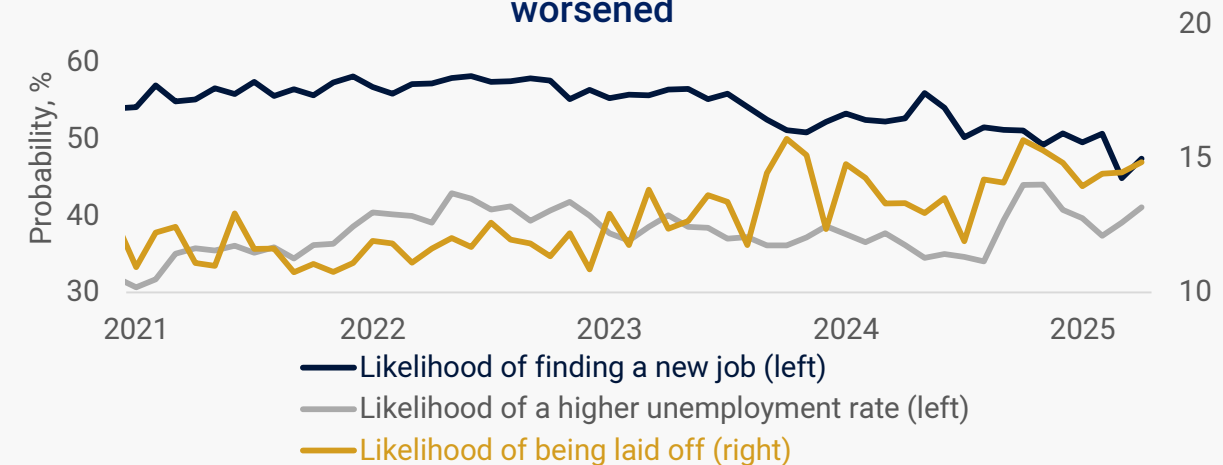


Source: ADP, BLS

At the same time, however, layoffs and unemployment remain relatively stable



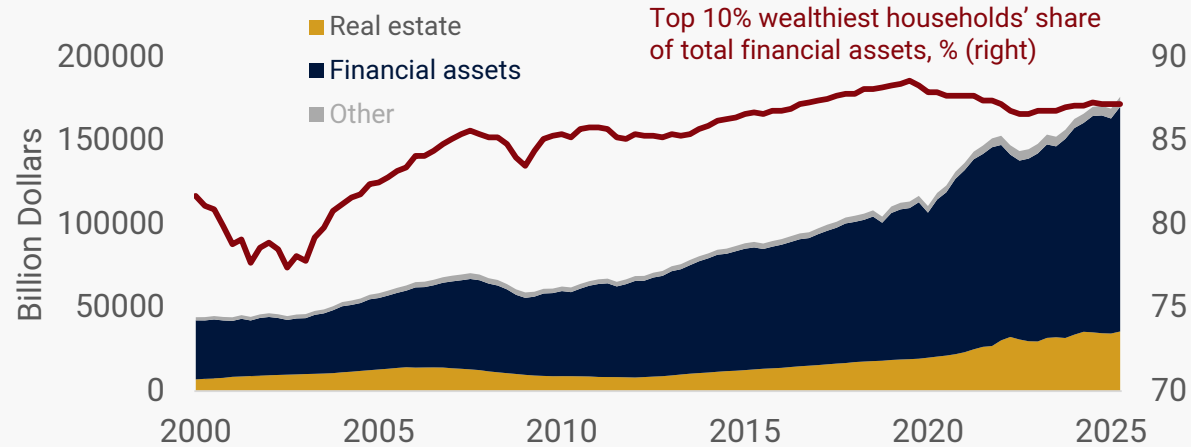
Households' sentiment regarding labor market conditions has worsened



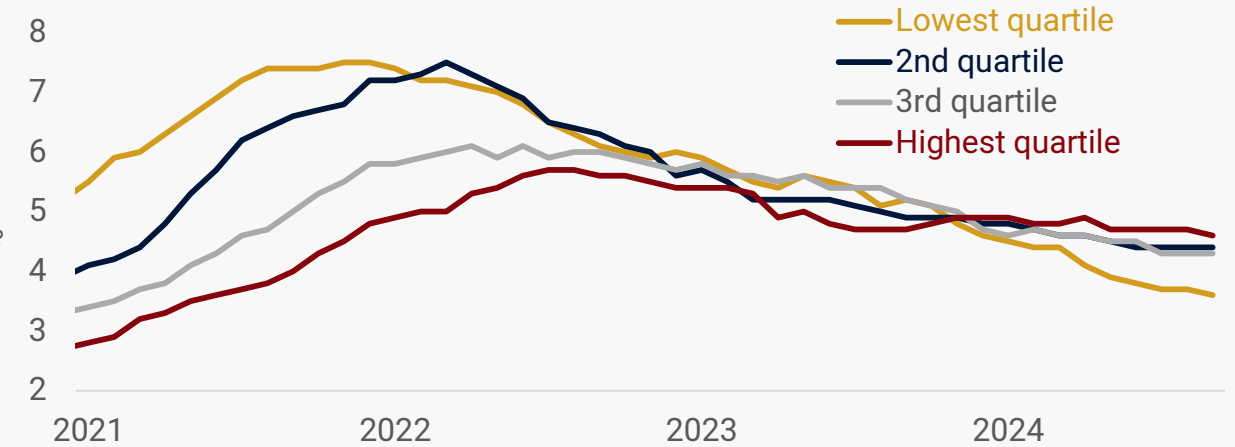
Source: BLS, NY Fed Survey of Consumer Expectations

# US. “A Tale of Two Economies?” Top 10% of earners are the economy’s main driver, while low-income households are seeing lowest wage growth and rising credit delinquency rates

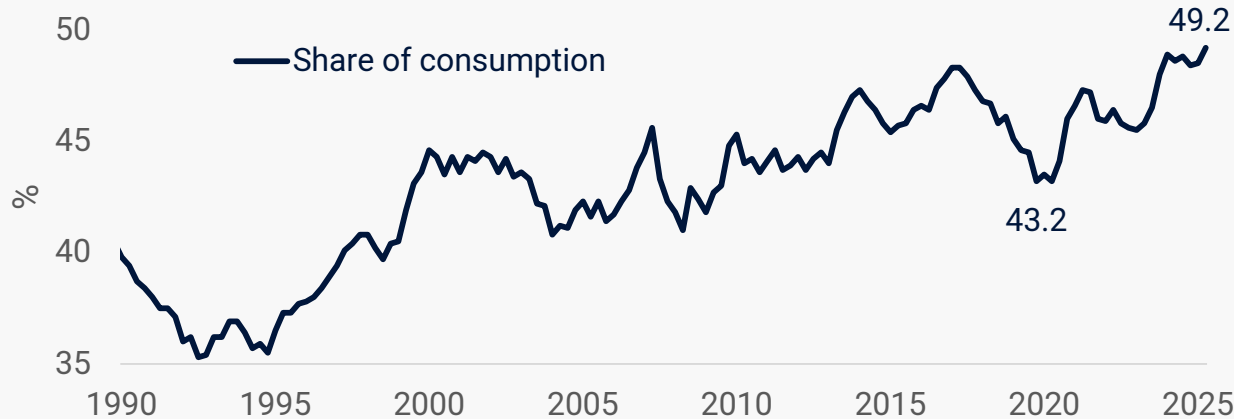
Net household wealth has grown by 50%, or \$59 trillion, since 2019



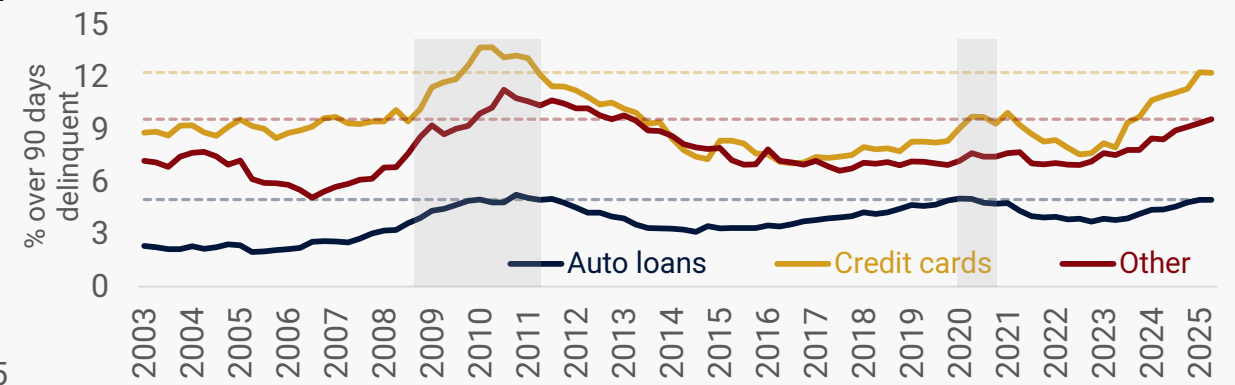
Wage growth is slowing the fastest for the lowest income earners



Top 10% of earners account for nearly half of all consumption



Delinquency rates continue to rise, potentially pointing to weakening demand conditions, especially for low-income households

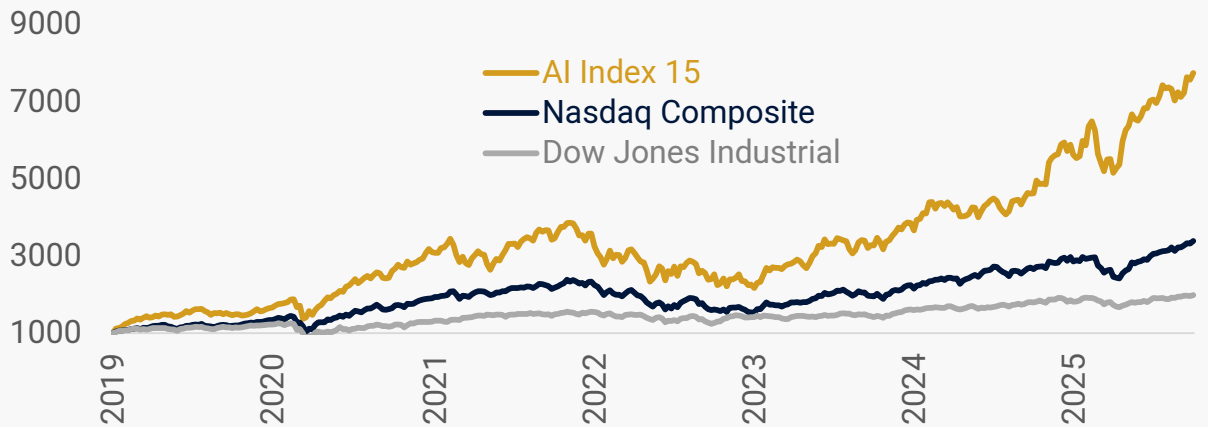


Source: US Fed, Moody's

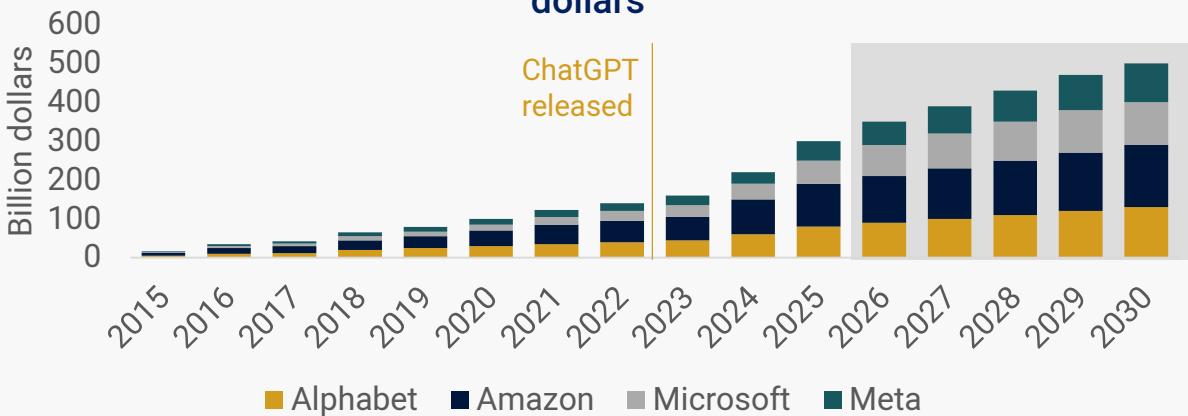
Source: US Fed, Atlanta Fed

# US. AI investment has emerged as one of the main drivers of the US economy. A new cycle of “irrational exuberance?”

AI has been a major driver of record-breaking stock prices



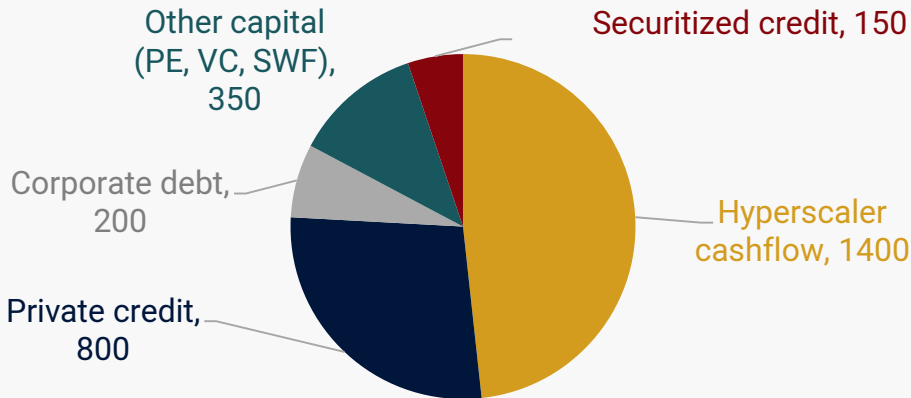
Actual and planned capital expenditures by AI hyperscalers, billion dollars



Cyclically-adjusted P/E ratios are nearing dot-com bubble levels



Over half of all AI investments over the next five years will be financed through debt



Source: AI-Index, Robert Shiller  
\* Price divided by past ten years' inflation-adjusted earnings

Source: Company 10-k statements, Morgan Stanley

# US. While markets continue to price in a relatively rapid reduction in interest rates, managing upside risks will be a major policy imperative

- Continued «mixed signals» about economic activity, demand, and consumption:

*On the one hand: continued labor market weakening, rising credit delinquency rates, worsening sentiment*

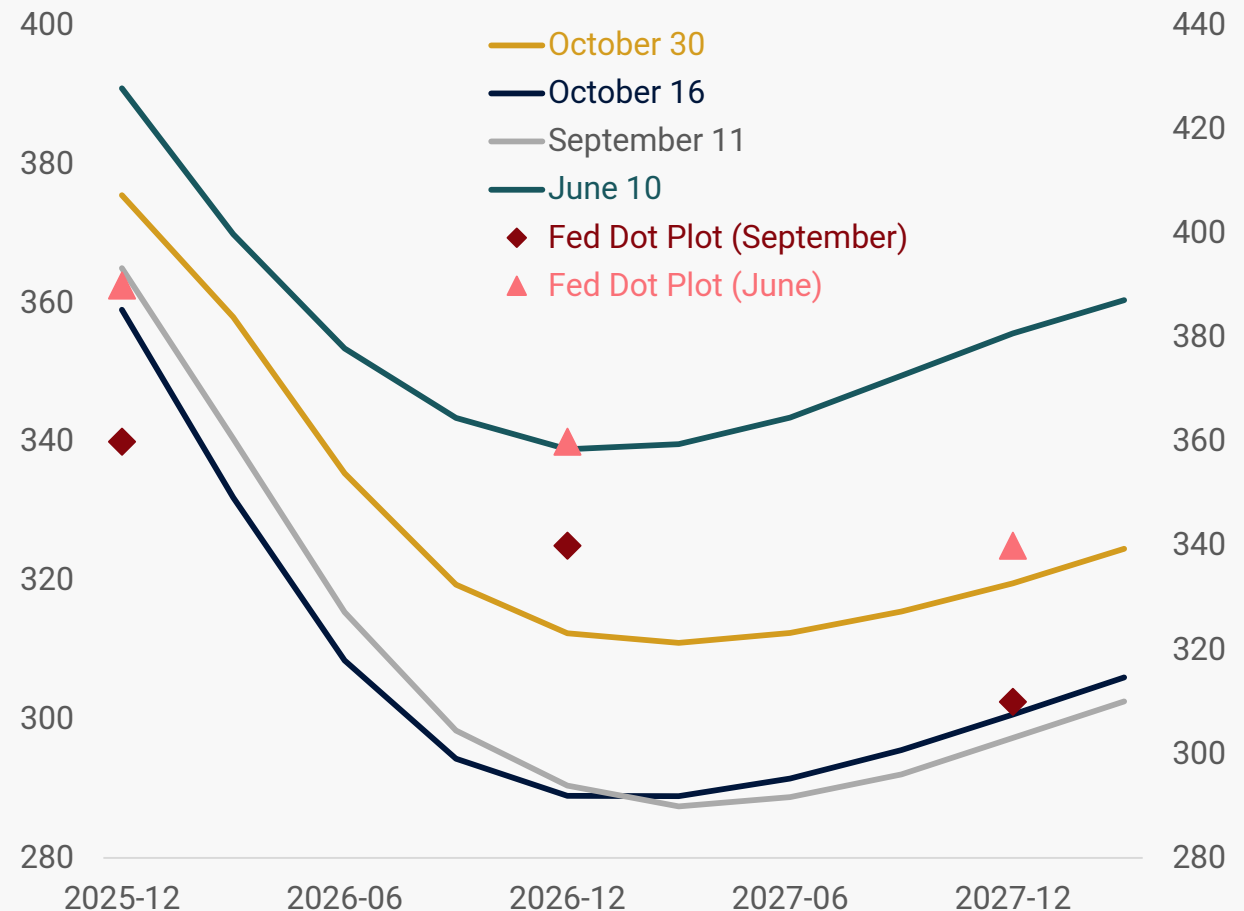
*On the other hand: high consumption, accumulated wealth, still-unresolved inflationary risks, potential labor supply shortages amid migration policy*

- Risks of an inflationary environment forming, particularly if demand conditions remain elevated, which could lead to rising inflation expectations and pose “dark corner” risks
- Absence of key data amid government shutdown

## The Fed’s forward guidance:

- In the Committee’s discussions at this meeting, there were strongly differing views about how to proceed in December. **A further reduction in the policy rate at the December meeting is not a forgone conclusion—far from it.** Policy is not on a preset course

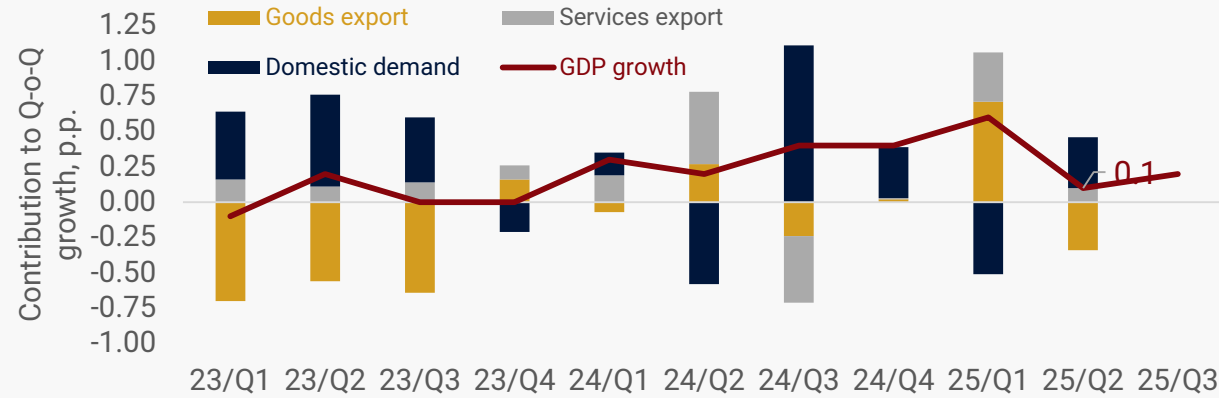
## Market expectations about the future path of the Fed Funds Rate



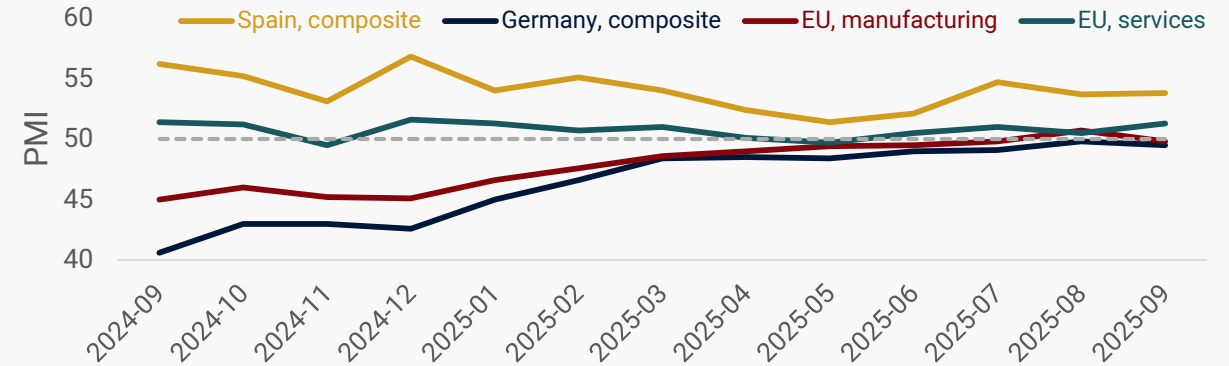
Source: Atlanta Fed

# Euro Area. Economic outlook remains uncertain amid structural problems and trade uncertainty on the one hand and expansionary fiscal policy on the other hand

**Economic activity remains weak, reflecting uncertainty stemming from structural challenges and trade uncertainty**



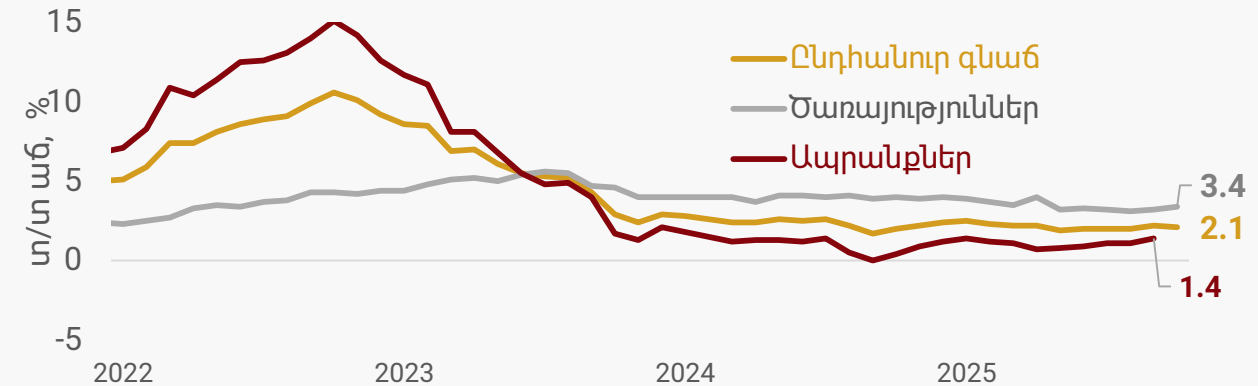
**Southern Europe is the main driver of the economy, while stagflation continues to dominate in traditional, leading economies**



**Given these challenges and worsening sentiment, a weak investment climate poses risks to the long-term growth outlook**



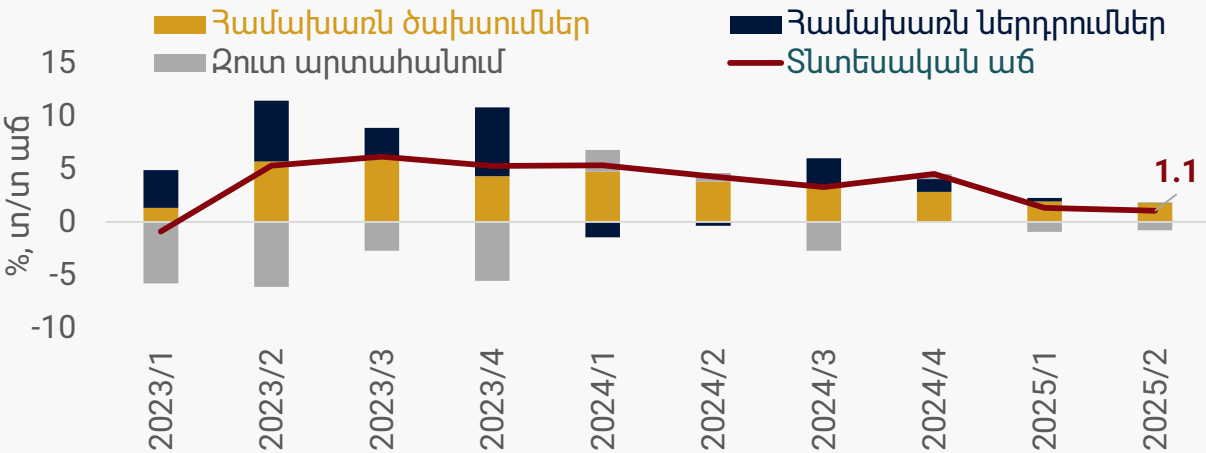
**Although inflation has stabilized around the target, services inflation still remains elevated**



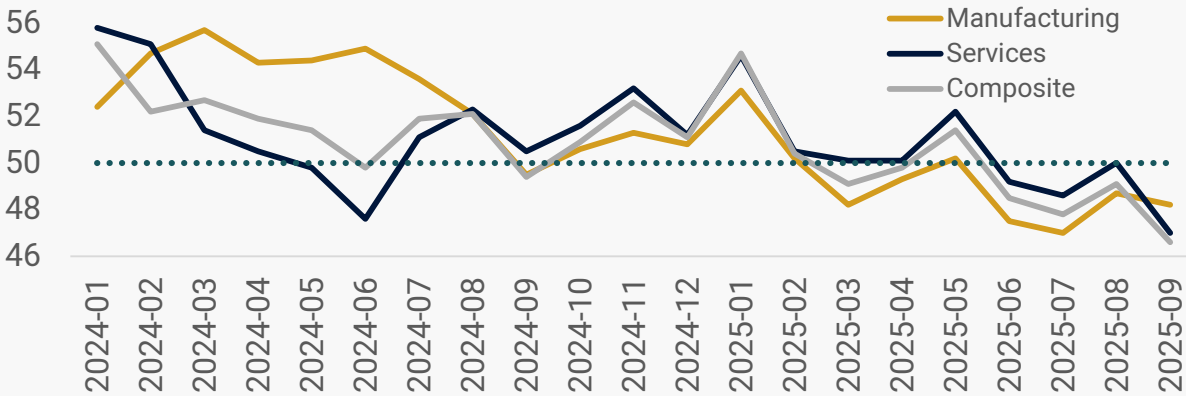
Source: S&P Global, Eurostat

# Russia. Economic growth continues to weaken amid cooling demand conditions

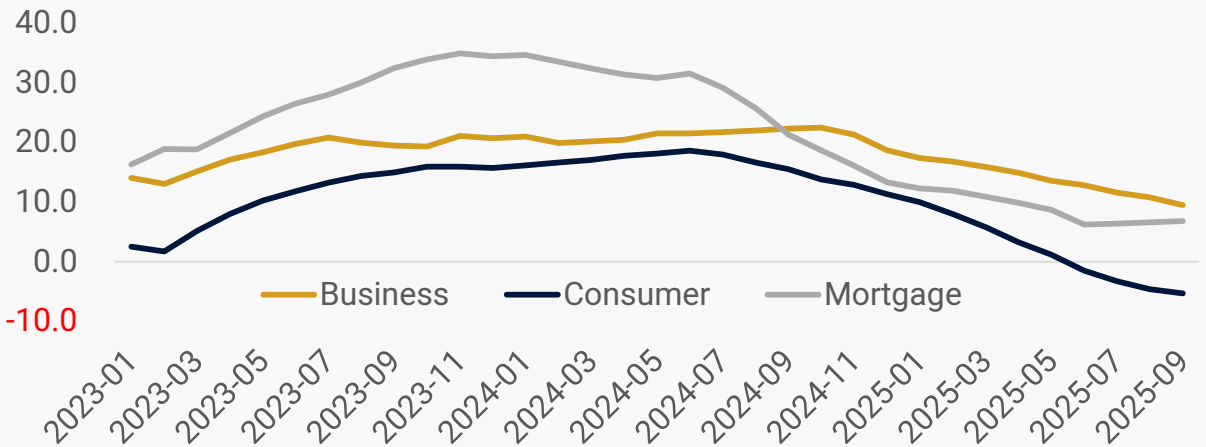
Growth has continued to slow in Q2



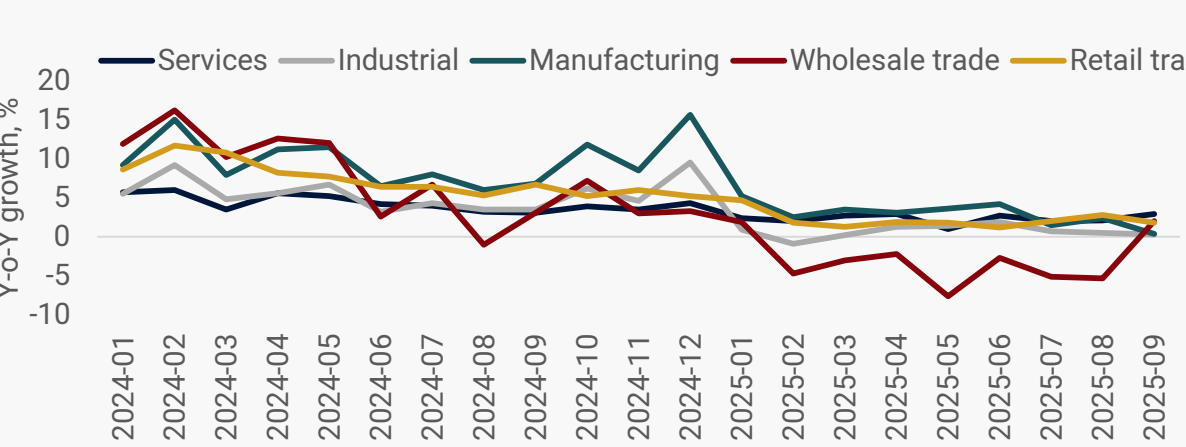
Unprecedented declines in PMIs driven by cutbacks in domestic and foreign orders



Sustained weakening in lending activity points to cooling demand



Տնտեսական ակտիվության անկումը կրում է համատարած բնույթ

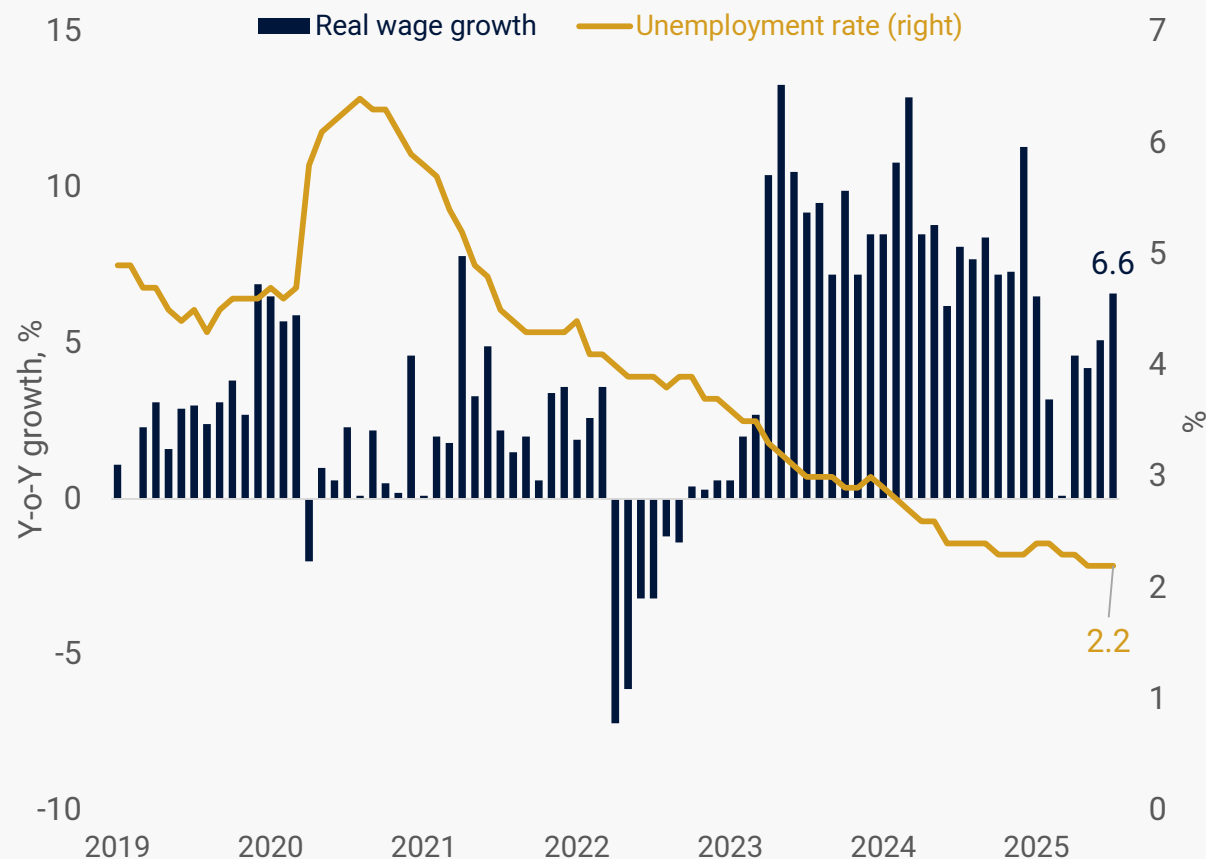


Աղբյուրը՝ Ռուսաստանի վիճակագրական կոմիտե, Ռուսաստանի կենտրոնական բանկ

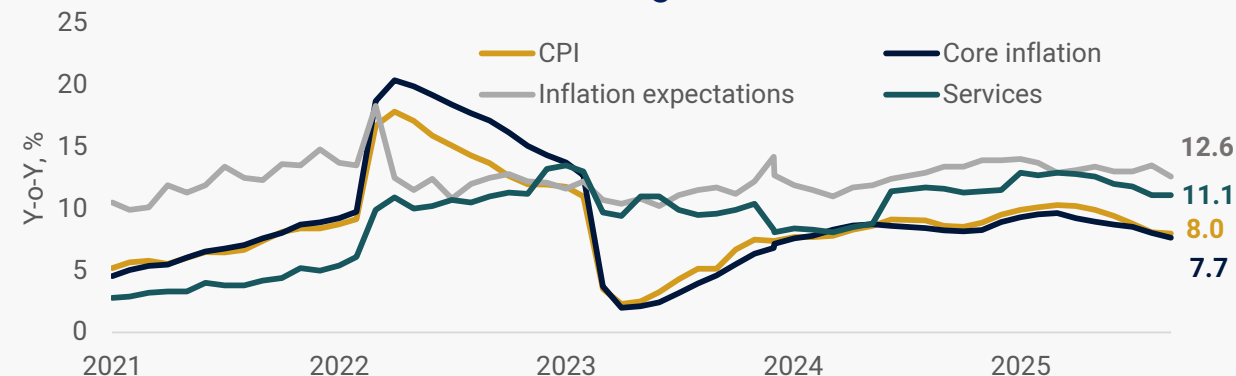
Աղբյուրը՝ S&P Global, Ռուսաստանի վիճակագրական կոմիտե

# Russia. Weakening demand on the one hand, and tight labor market conditions and high inflation expectations on the other hand, complicate the management of the short-run inflation-output tradeoff

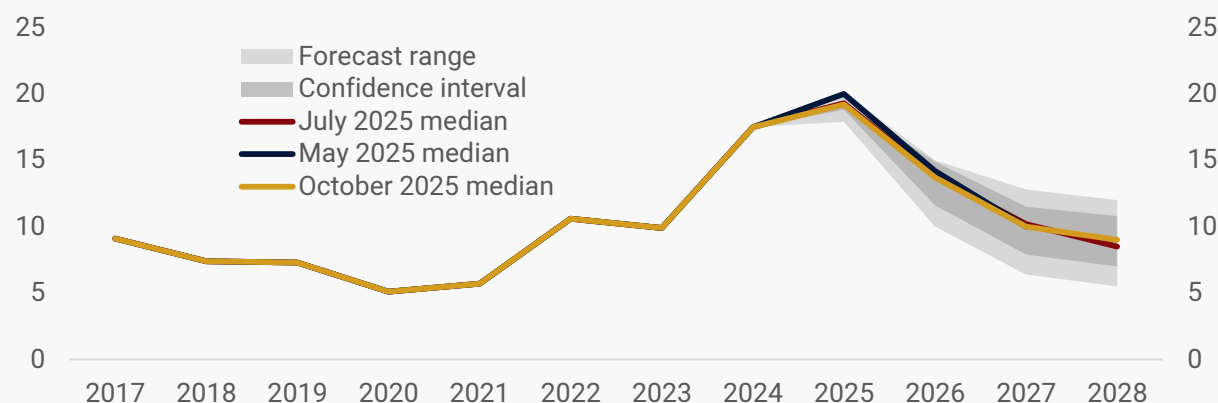
## Labor market conditions remain tight, posing additional inflationary pressures



## Despite some softening in inflationary pressures, high inflation expectations can complicate the task of durably returning inflation to the target



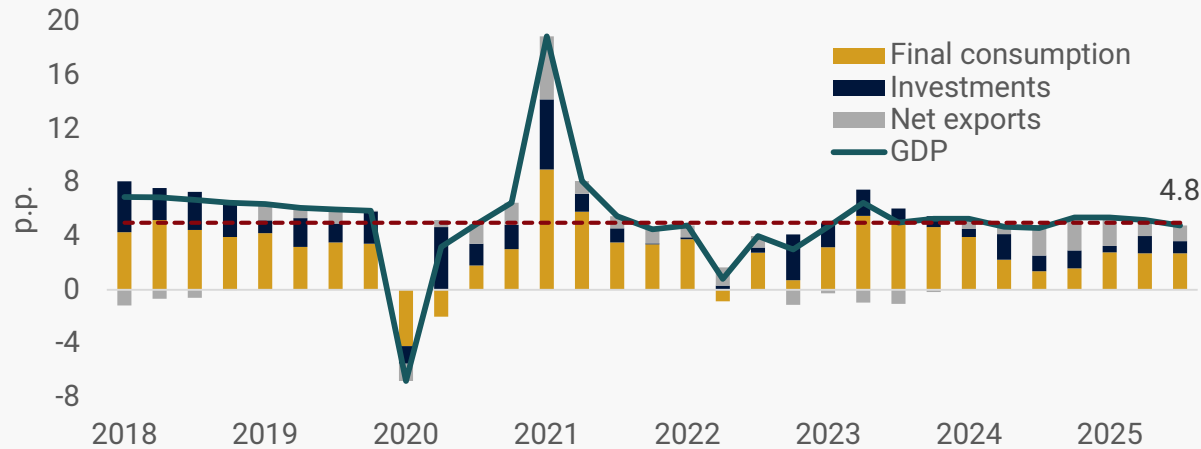
## CBR continues to lower interest rates, but is communicating a cautious approach to future rate cuts



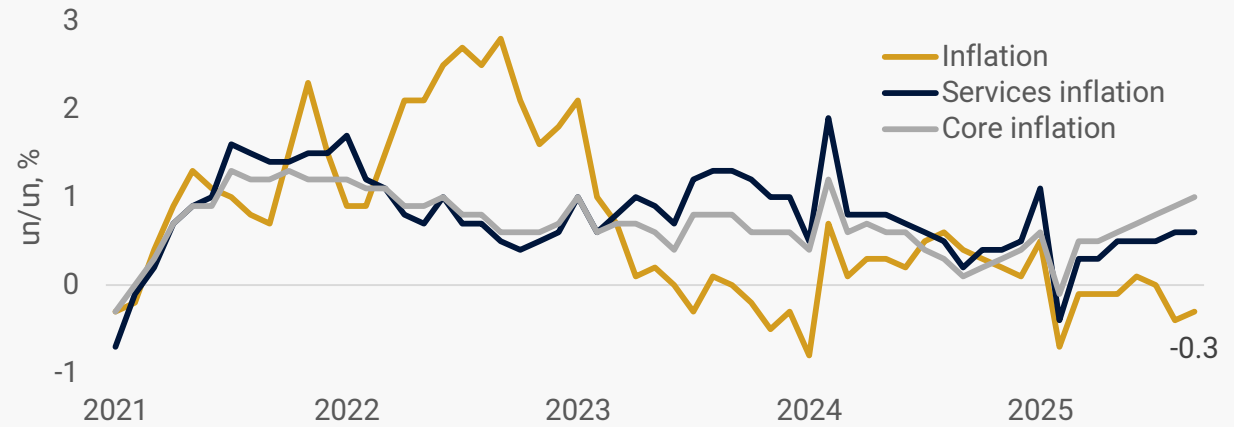
Source: CBR, CBR macro survey

# China. Despite higher-than-expected export growth, growth in Q2 and Q3 has weakened, reflecting a relatively muted consumption and investment environment

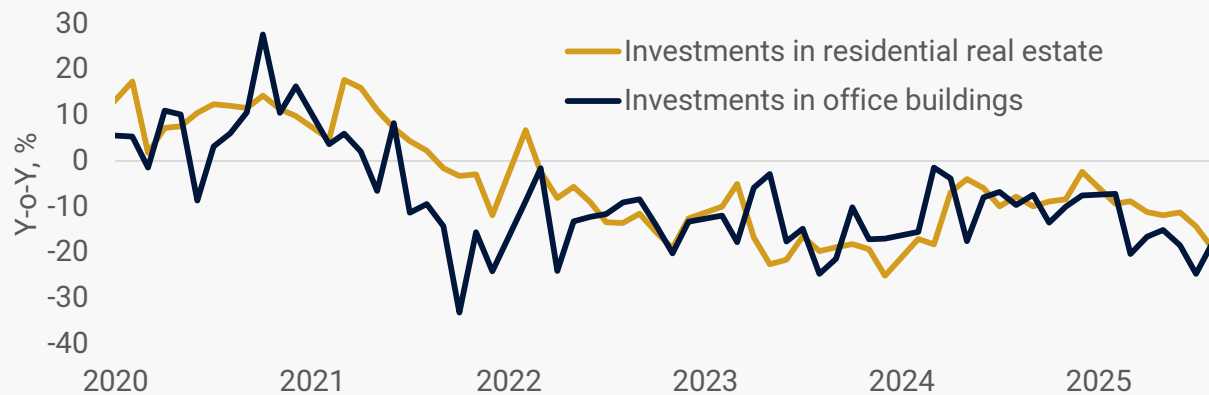
Growth is below target, while the outlook remains uncertain



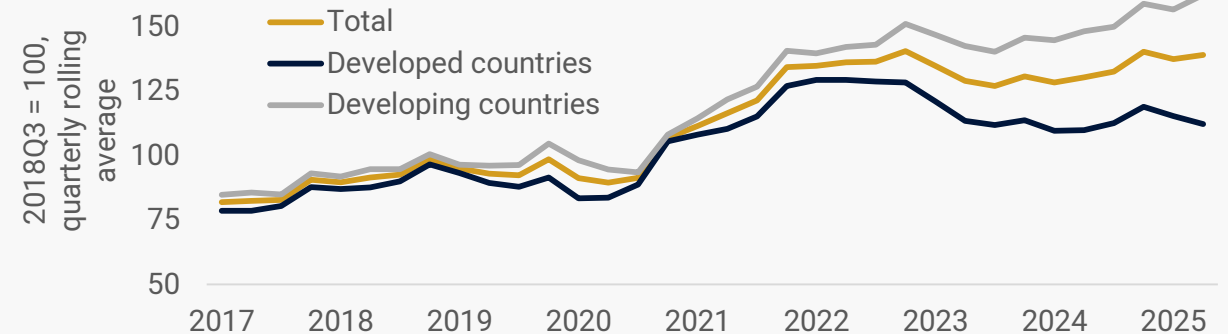
Weakening demand points to persistence of deflationary risks



Investment activity in both residential and commercial real estate continues to decline amid worsening sentiment



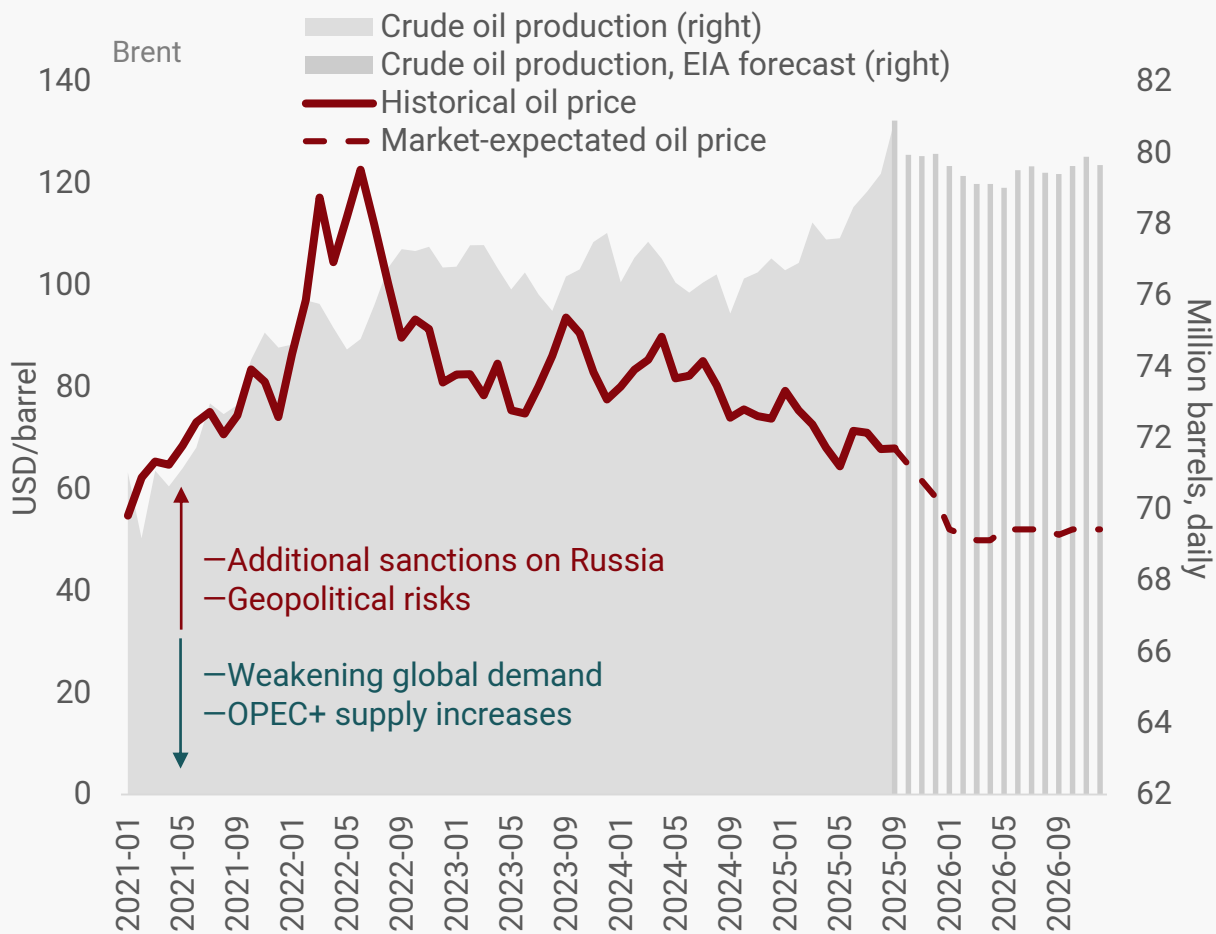
Growth is driven by exports to new markets, particularly in the developing world. At the same time, trade wars pose risks of 'exported deflation' to third countries



Source: National Bureau of Statistics of China

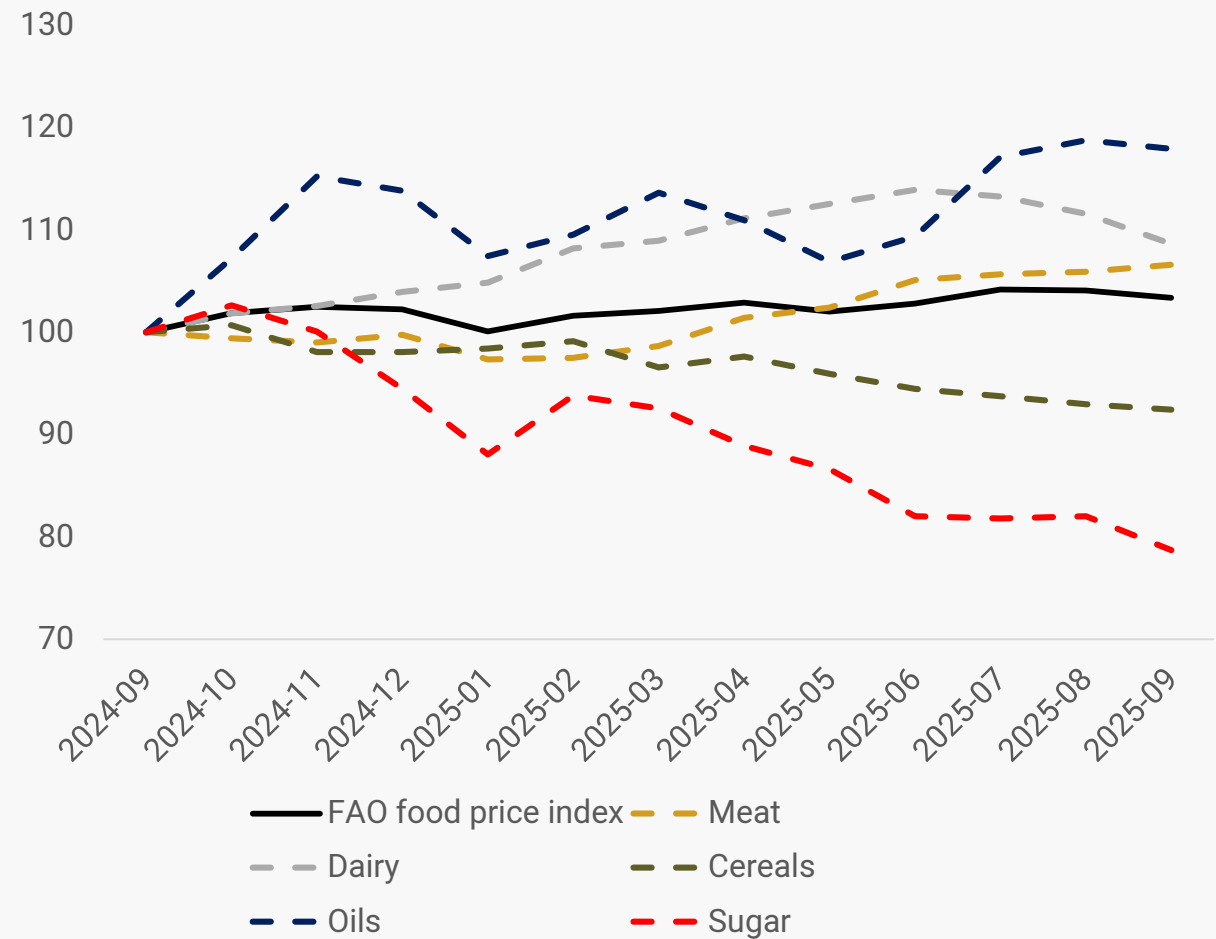
# Commodity markets. Global oil prices continue to weaken, while food prices have somewhat softened

Oil prices have somewhat stabilized following a weakening in geopolitical tensions in the Middle East, but remain pointed downwards



Source: EIA

FAO Food Price Index, 2024 August =100



Source: UN FAO

# Key uncertainties affecting the global economic outlook

## United States

- Uncertain growth outlook, primarily driven by optimism regarding AI
- Continued weakening of labor market conditions
- Inflationary risks persist, particularly amid stronger-than-expected demand

## Euro Area

- Growth outlook remains clouded by structural challenges and trade uncertainty
- Uncertain impact of fiscal policy on growth in potential, since emphasis is on military-related expenditures, which can have inflationary implications

## Russia

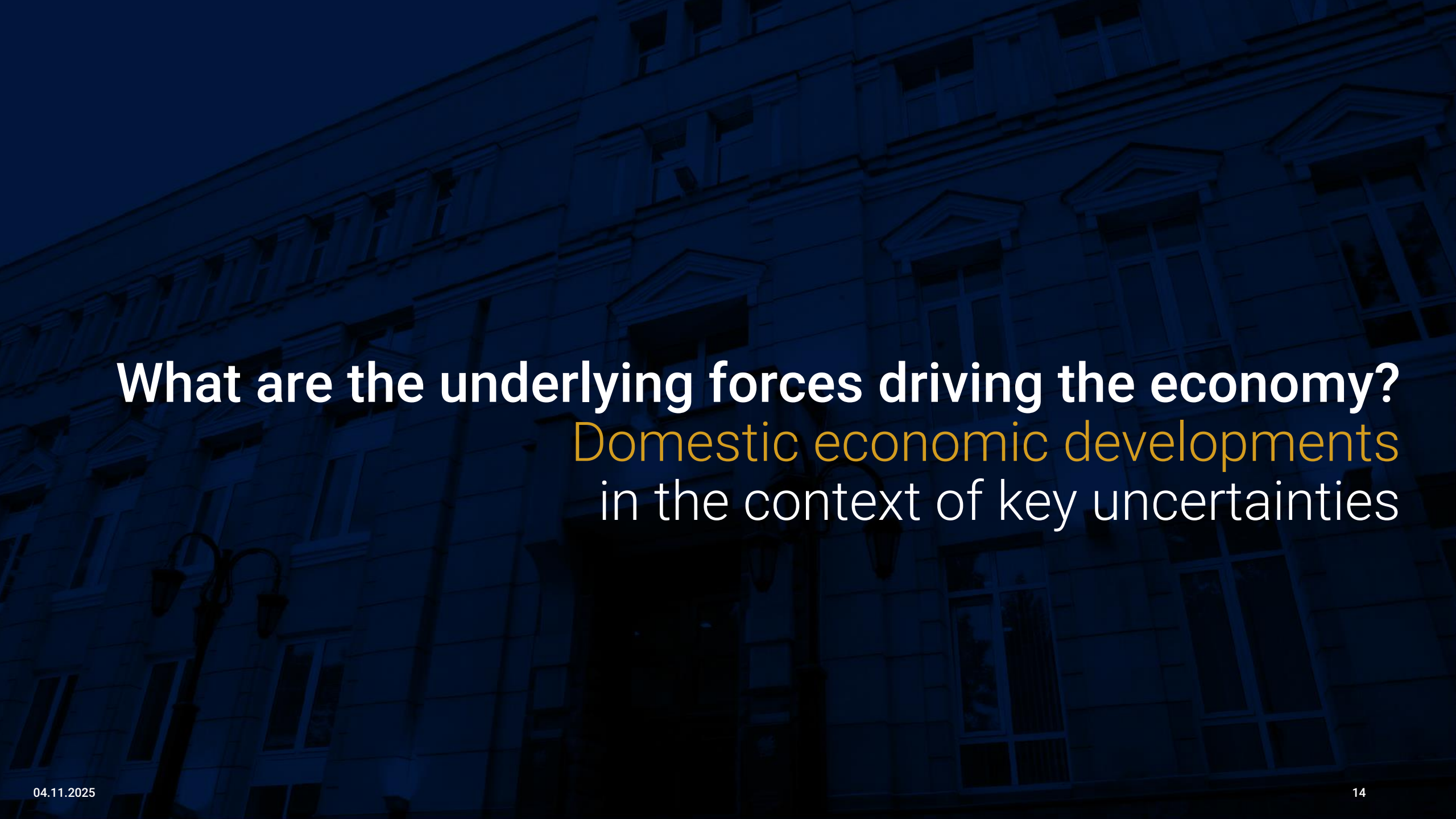
- Growth and demand continue to weaken. Growth slowdown is widespread across sectors (manufacturing, services, trade, lending activity, etc.)
- Amid weakening of oil & gas revenues, tightening of other taxes could have contractionary impact on demand
- Labor market conditions remain tight, inflation expectations well above target

## China

- Below-potential growth, reflecting weakening demand conditions and persistence of deflationary risks
- Exports are the main driver of the economy. Trade wars could lead to deflationary pressures being transmitted to other countries, particularly in emerging and developing markets

## Commodities

- Oil prices continue to decline, driven by worsening global demand outlook and actual and expected supply increases
- Global food prices have increased since the beginning of the year due to supply-side factors, but some softening has been observed in September

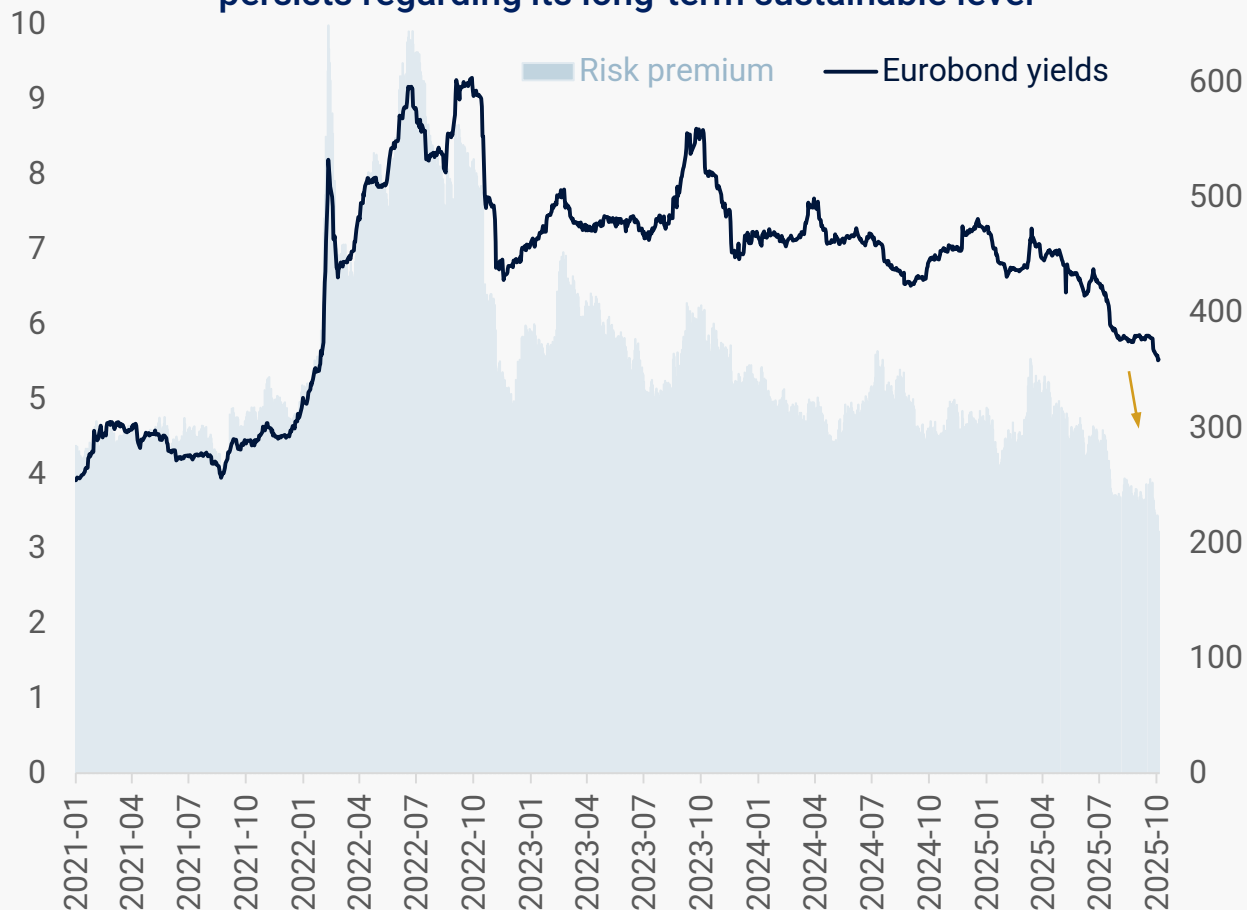


# What are the underlying forces driving the economy?

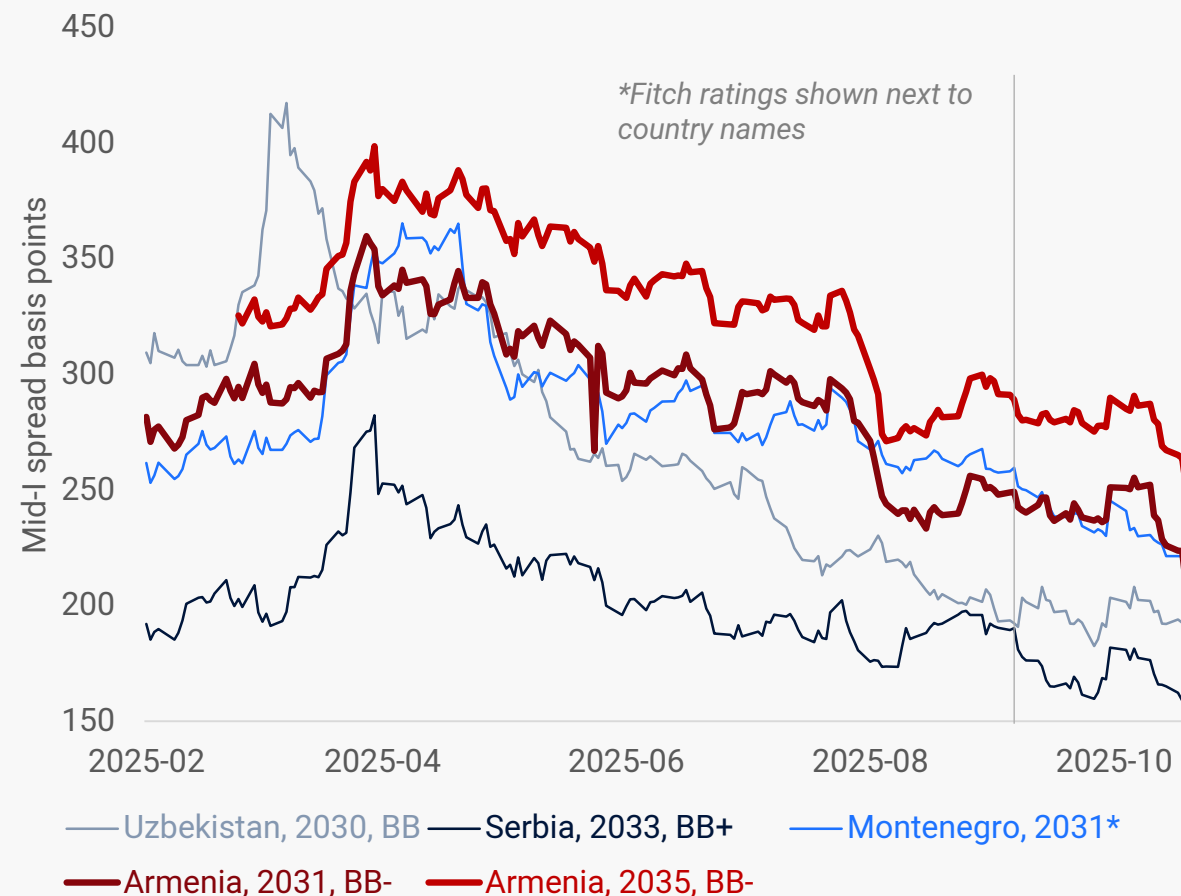
Domestic economic developments  
in the context of key uncertainties

# Risk Premium. The recent decline in Armenia's risk premium both reflects country-specific factors as well as mirrors the broader trends among regional EMEs

Armenia's risk premium has declined in recent months, but uncertainty persists regarding its long-term sustainable level



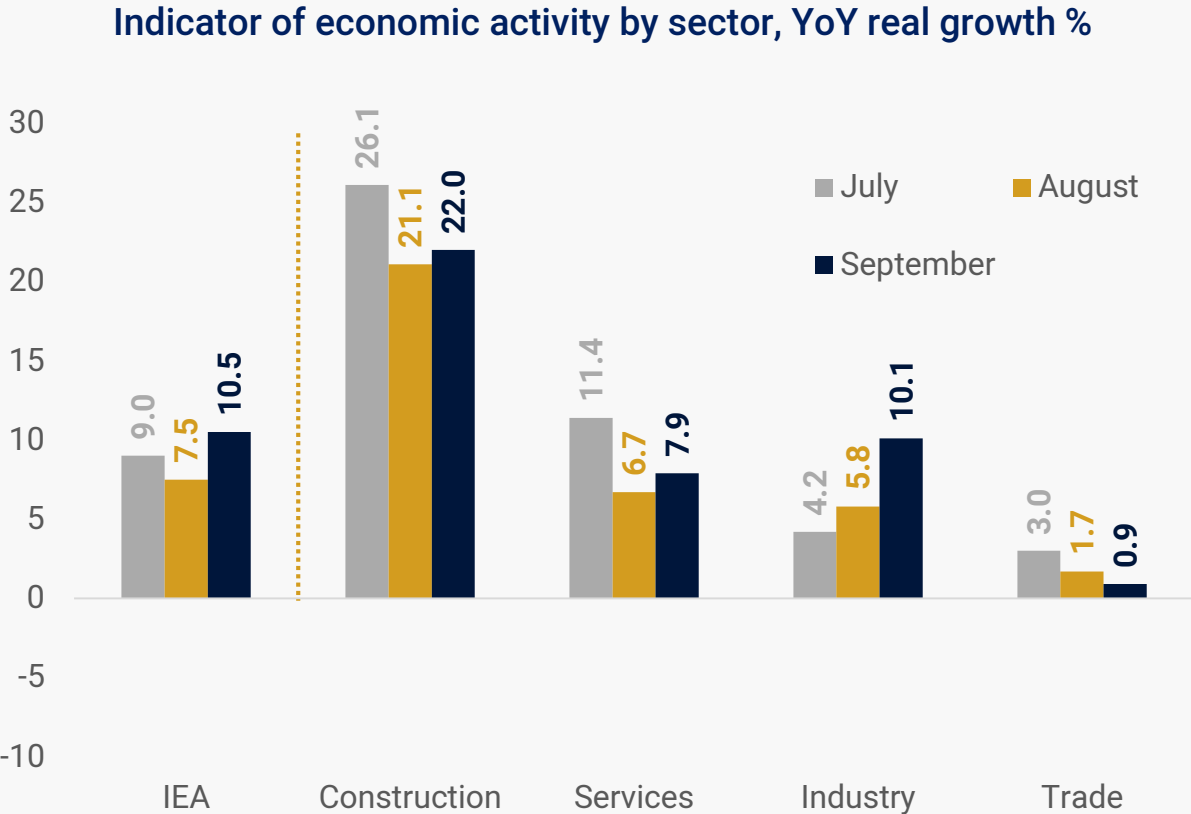
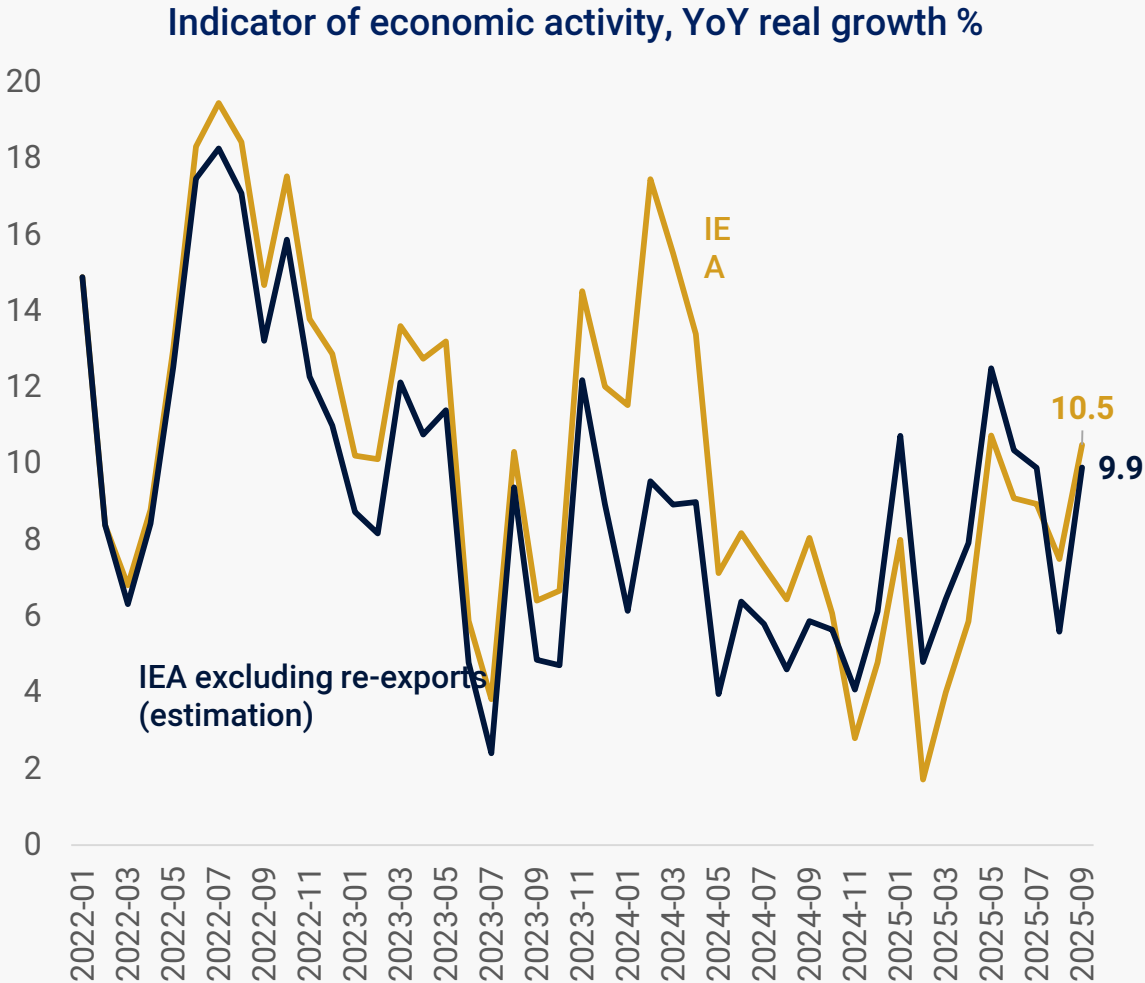
Declines in the risk premium partly reflect trends in regional EMEs, including improving sentiment toward EMEs broadly



Source(s): Bloomberg, Fitch

\* Montenegro's rating by Moody's is Ba3 (Armenia is also rated Ba3)

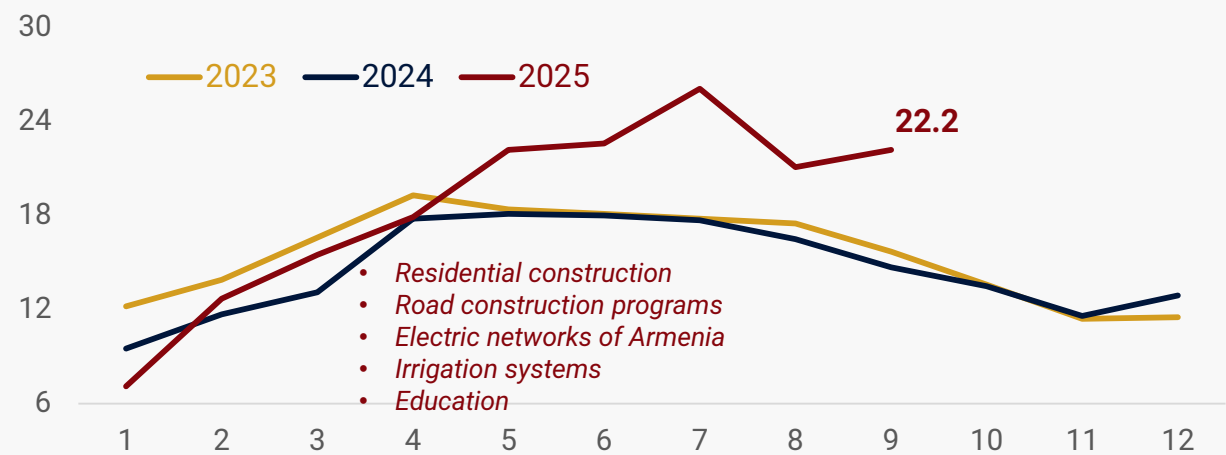
**Economic Activity.** Strong economic activity continued in the third quarter of 2025, driven largely by robust growth in demand driven sectors and a sharp acceleration in industrial output



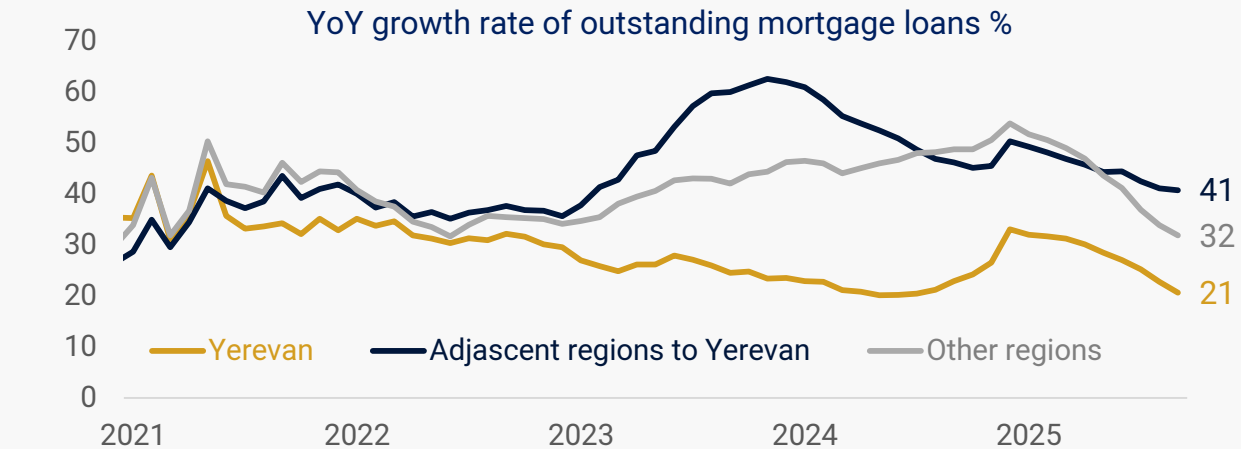
Source(s): SC of Armenia, CBA estimations

**Construction** continues to grow at a rapid pace, although risks persist of a potential, gradual adjustment in real estate prices leading to slower growth in adjacent sectors, as well as a broad cooling in demand conditions

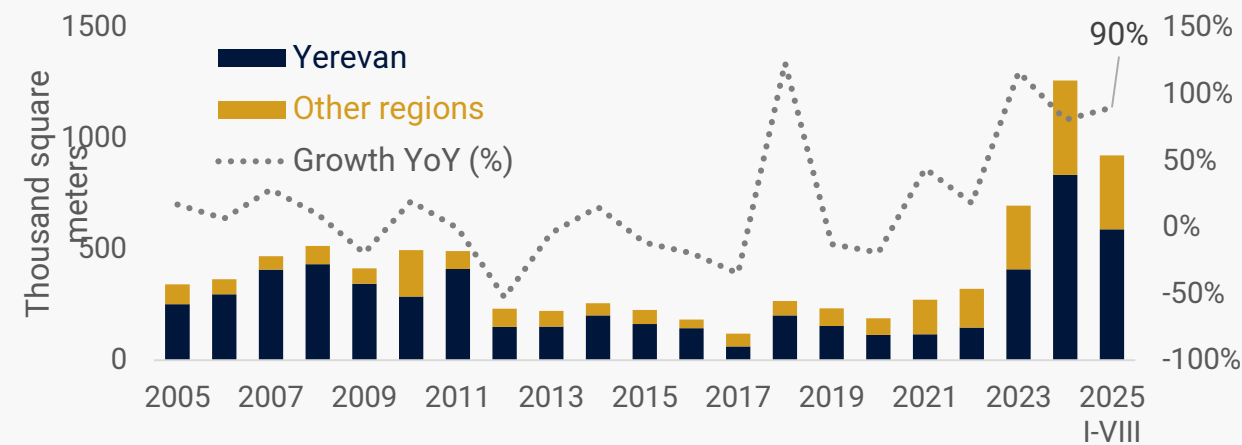
Construction continues to grow at a robust pace



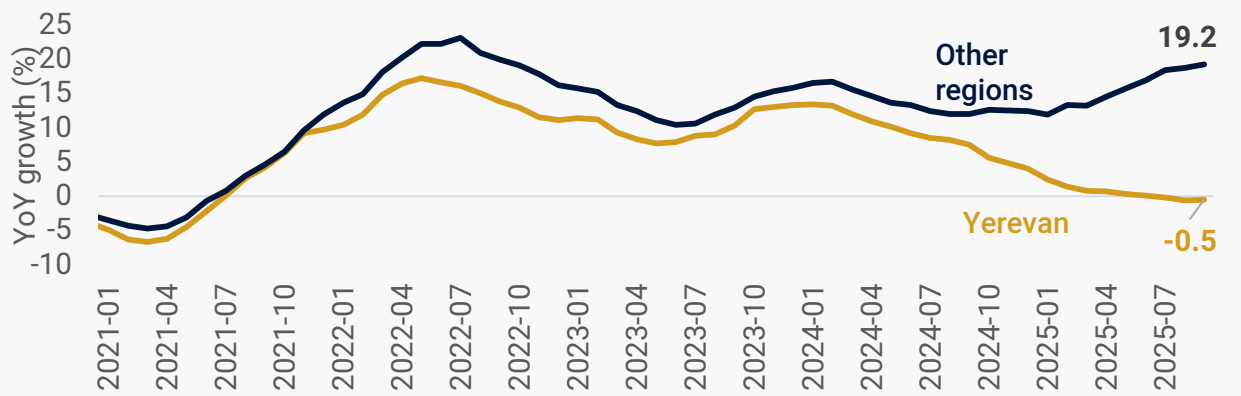
Despite shifts in housing demand and supply from Yerevan to the regions, risks of oversaturation in real estate remain



Residential supply increasing at very strong pace



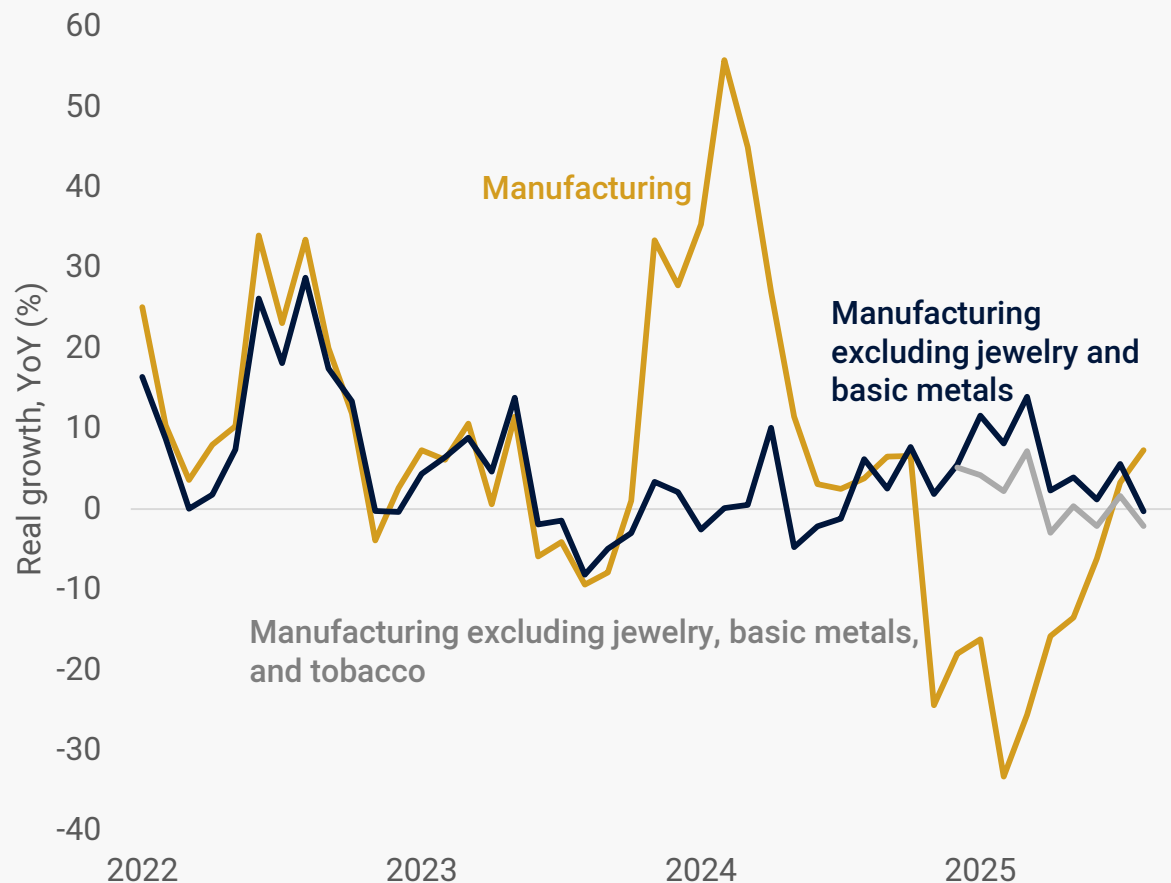
Change in prices per square meter of multi-apartment residential buildings, YoY



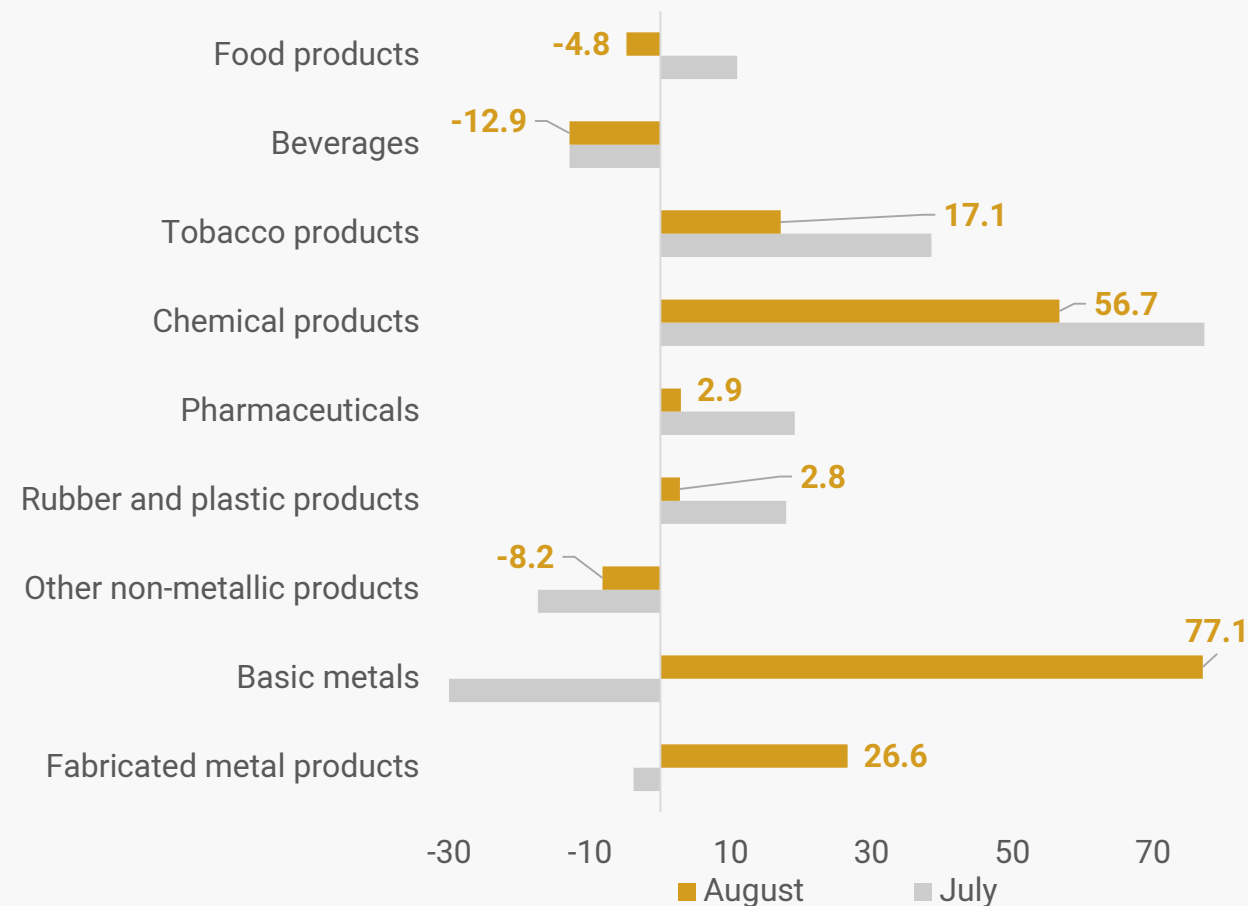
Source(s): SC of Armenia, CBA estimations

# Manufacturing. Acceleration in manufacturing activity is driven by both temporary, non-structural factors as well as strong growth in traditional sub-sectors

Manufacturing, YoY real growth %



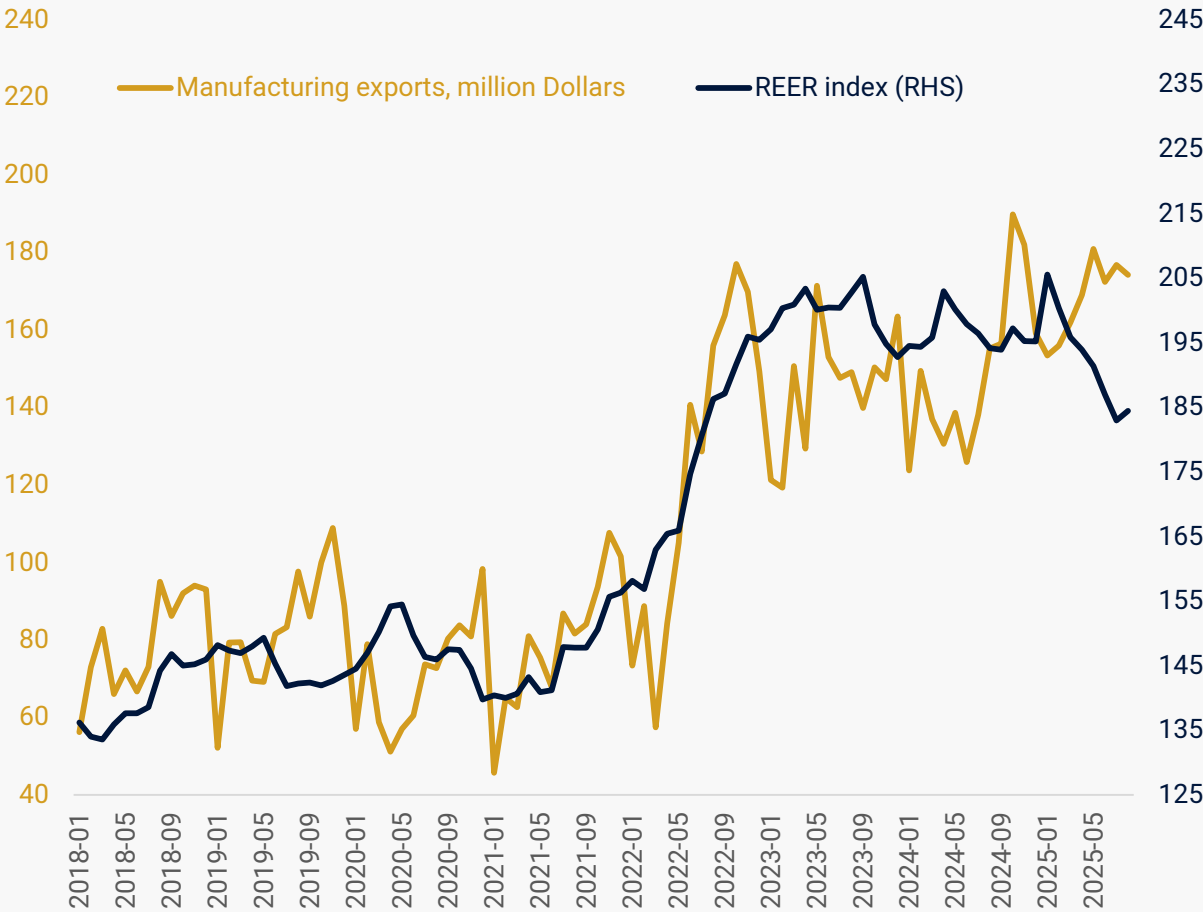
Real growth of output in main manufacturing sub-sectors, YoY %



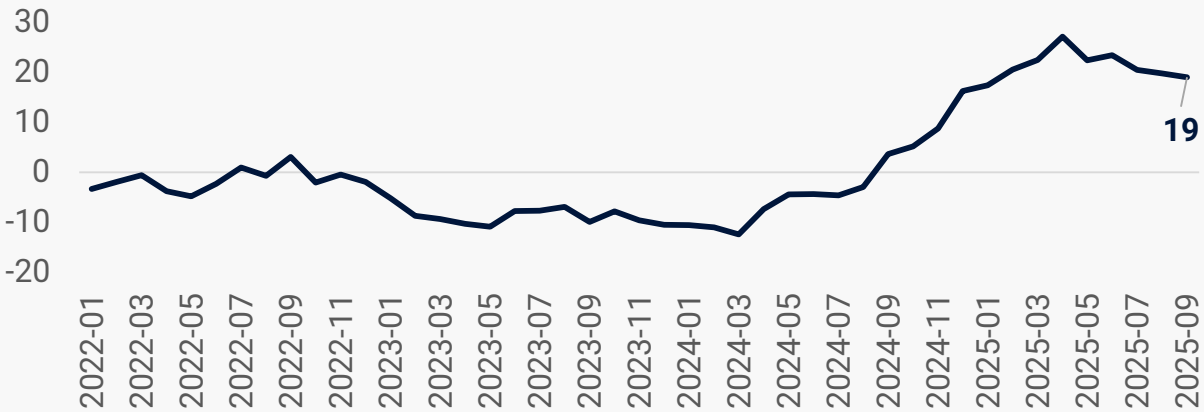
Source(s): SC of Armenia, CBA estimations

**Manufacturing.** Exports in the manufacturing sector remain stable at high levels, while continued growth in lending and investment goods may indicate a stable outlook for the sector

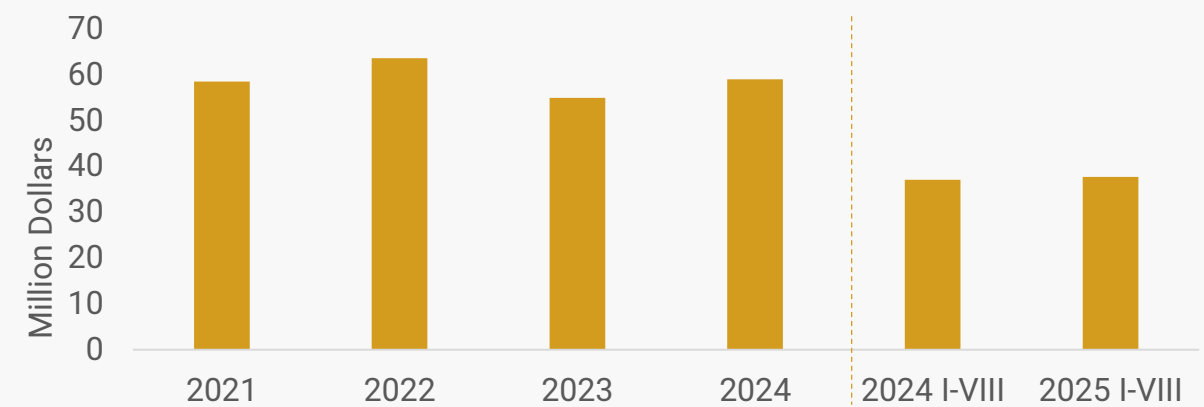
The main export sub-groups of the manufacturing sector remain at high levels



Growth in loans to the manufacturing sector, YoY %

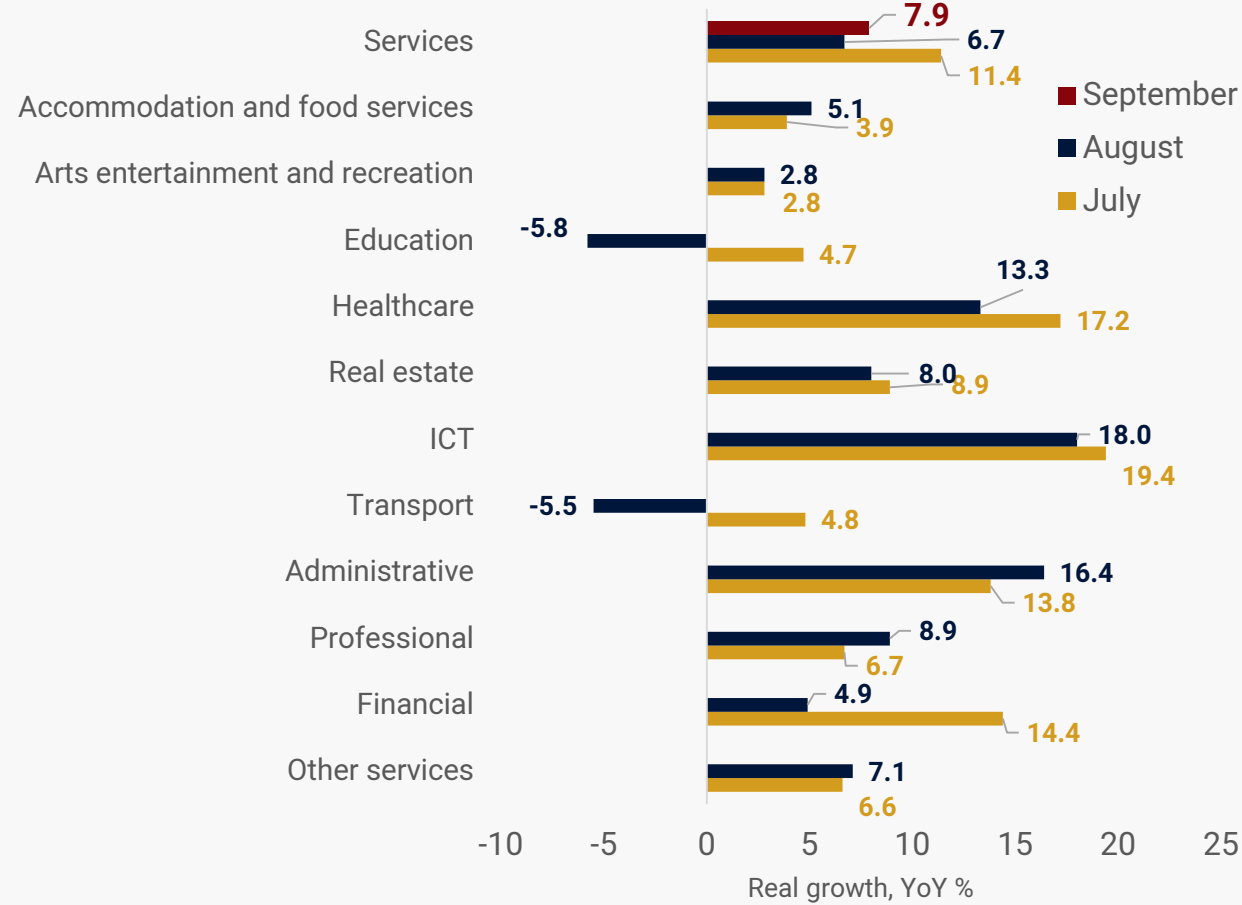


Import volumes of investment goods in the food, beverage and tobacco sectors remain stable

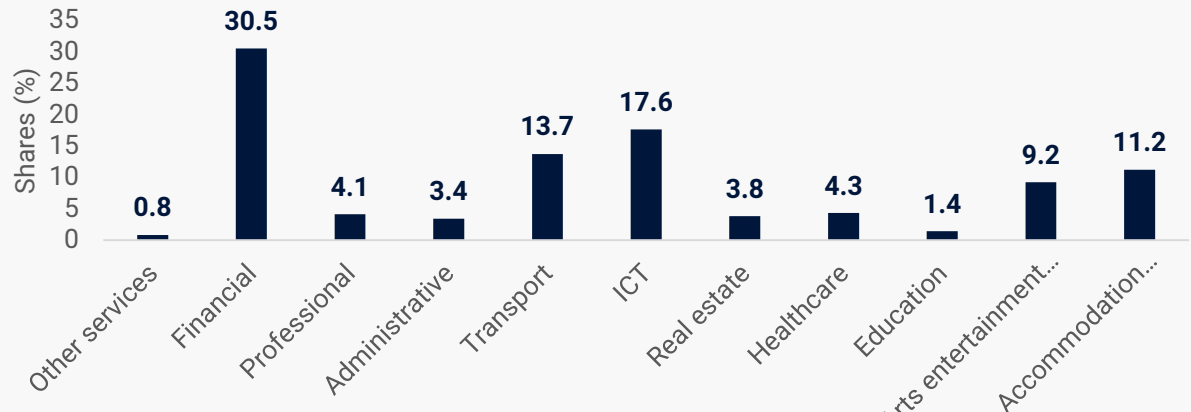


# Services. High growth in the services sector persists, while the recent slowdown in growth likely reflects revisions to financial sector statistics

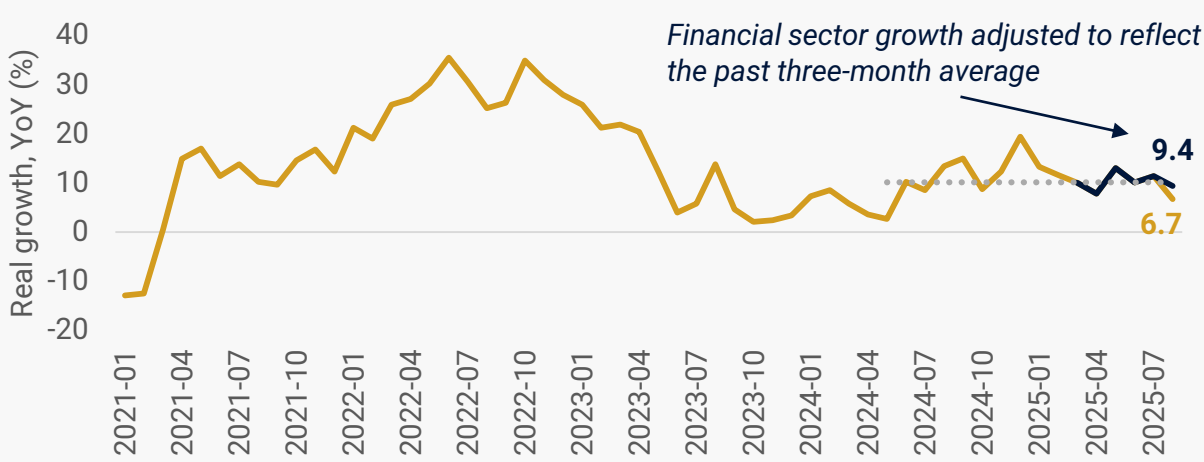
High economic activity in the services sector persists



Share of main sub-sectors in total services output



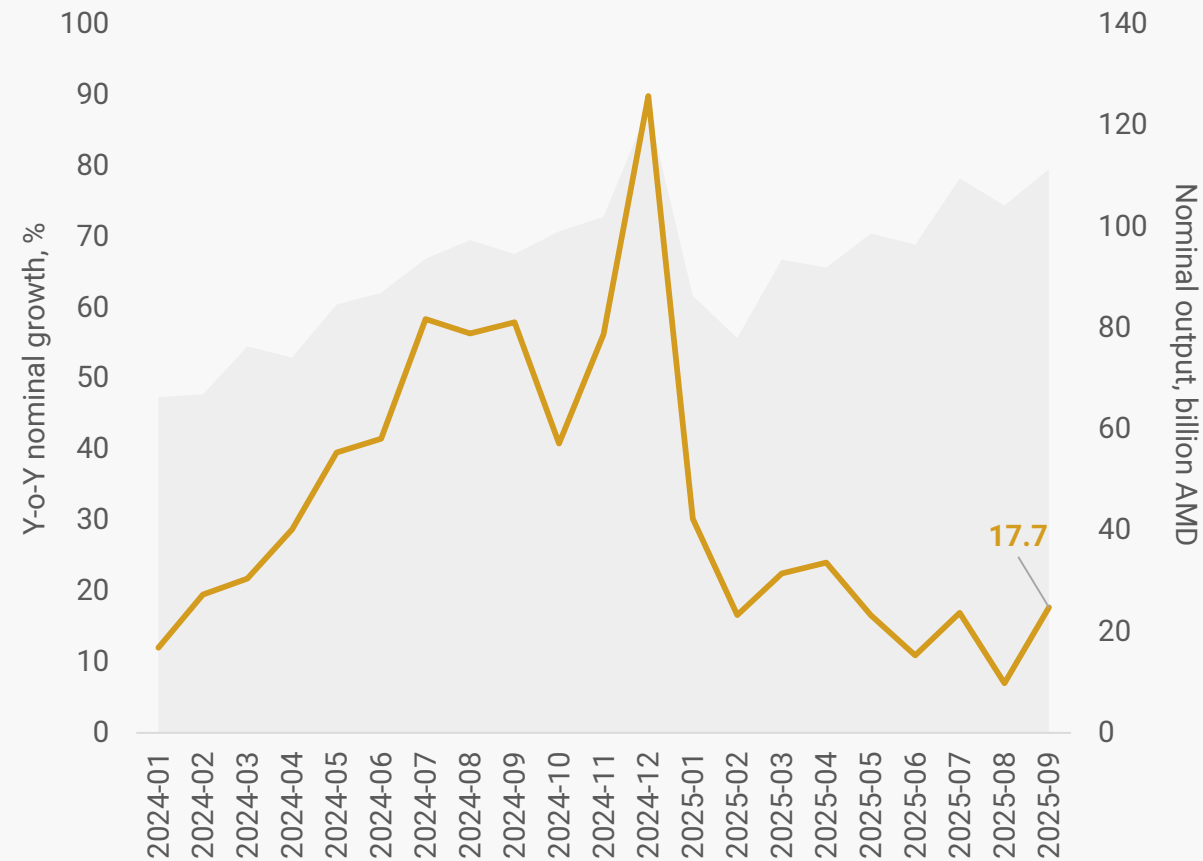
Real growth of services sector, YoY %



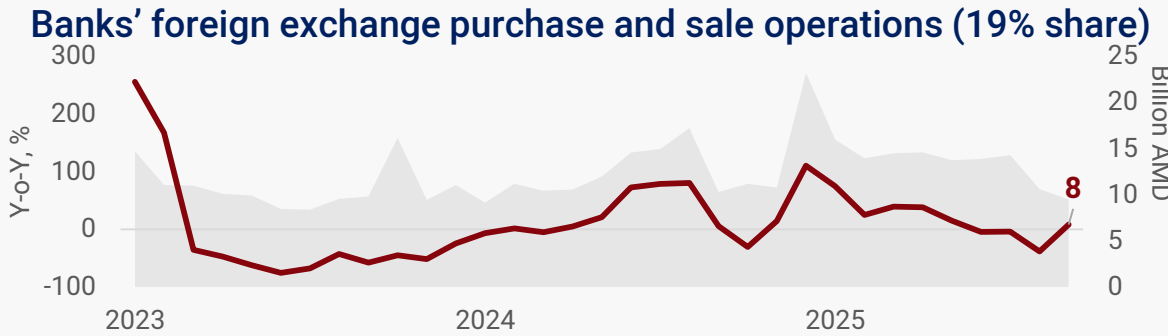
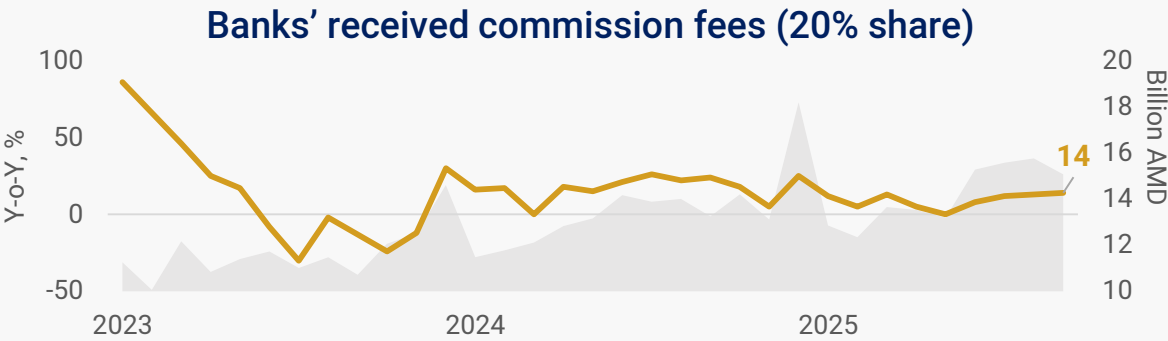
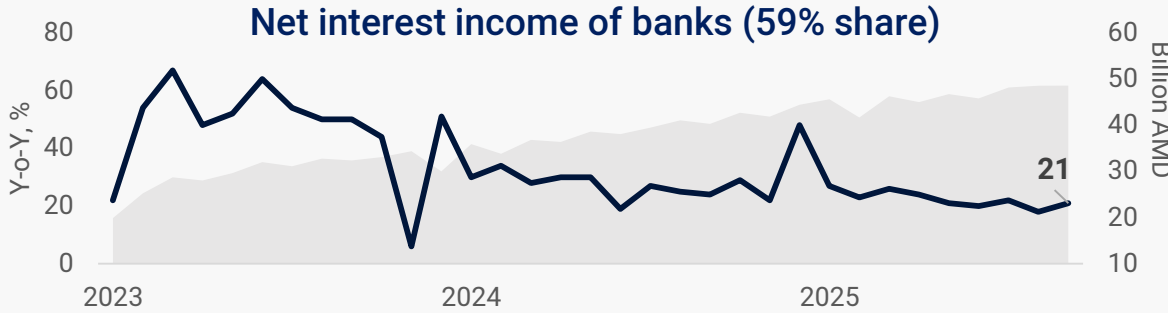
Source(s): SC of Armenia, CBA estimations

Despite issues with statistical indicators, strong growth in the financial sector persists, accompanied by substantial increases in both employment and wages (1/2)

The statistical consolidation of the financial sector implies the incorporation of pension fund activities into the sector's sub-classification starting from 2025.

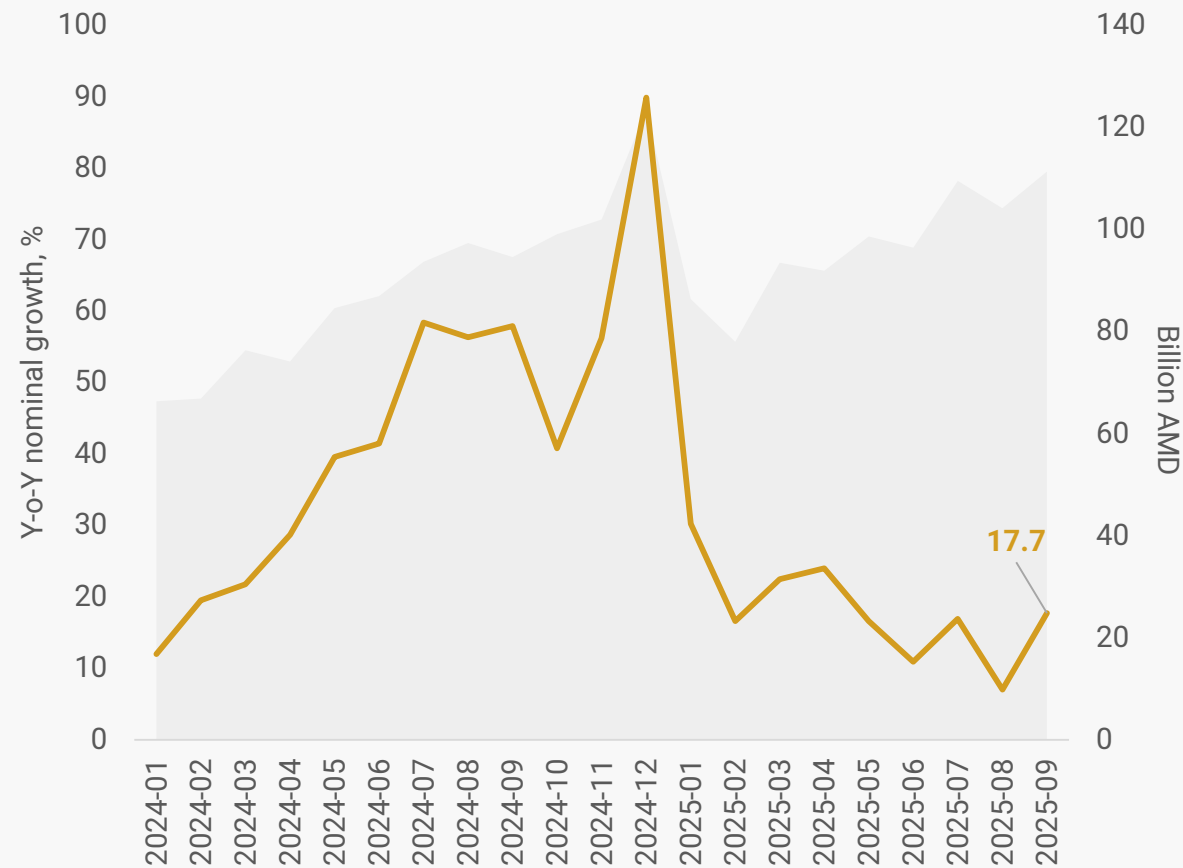


Source: CBA



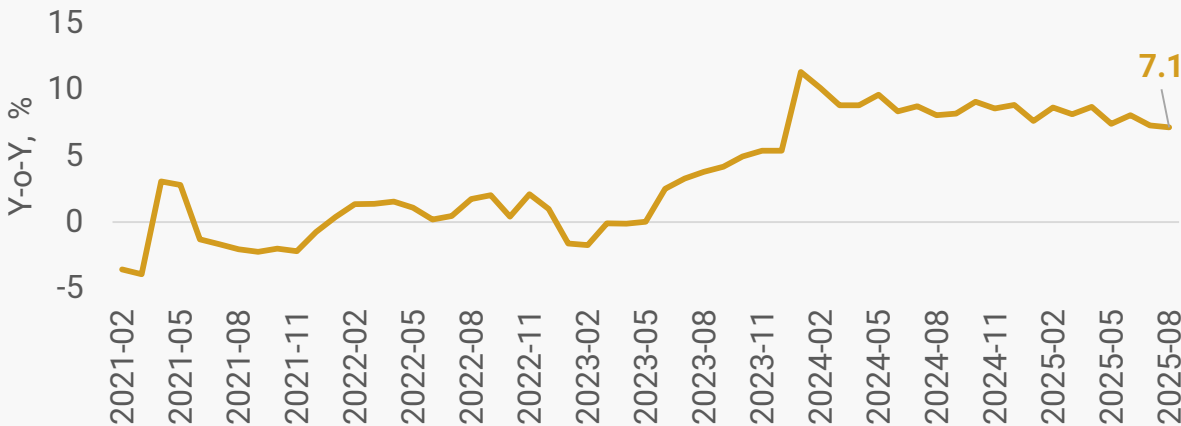
Despite issues with statistical indicators, strong growth in the financial sector persists, accompanied by substantial increases in both employment and wages (2/2)

The statistical consolidation of the financial sector implies the incorporation of pension fund activities into the sector's sub-classification starting from 2025.

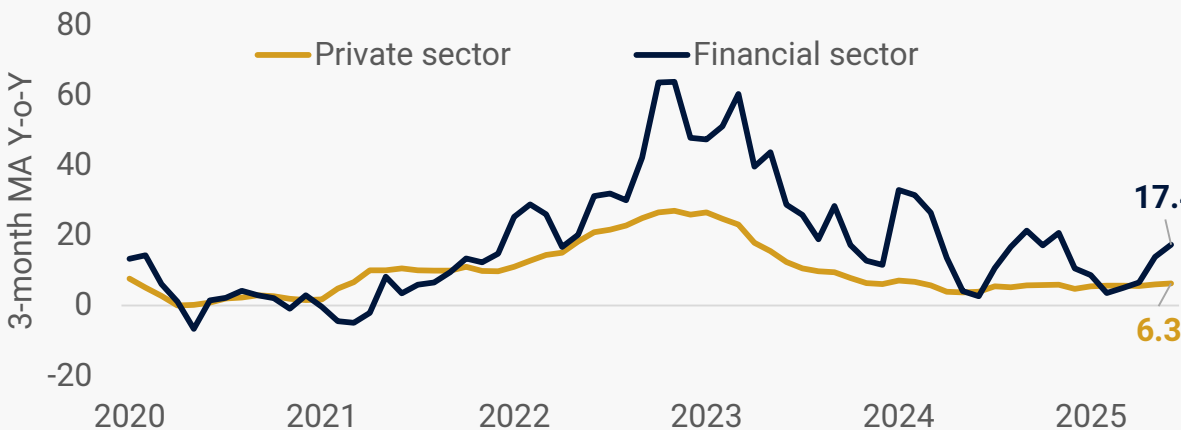


Source: CBA, Statistical Committee of Armenia

Number of employees, Y-o-Y growth, %



Nominal wages in the financial sector, Y-o-Y growth, %

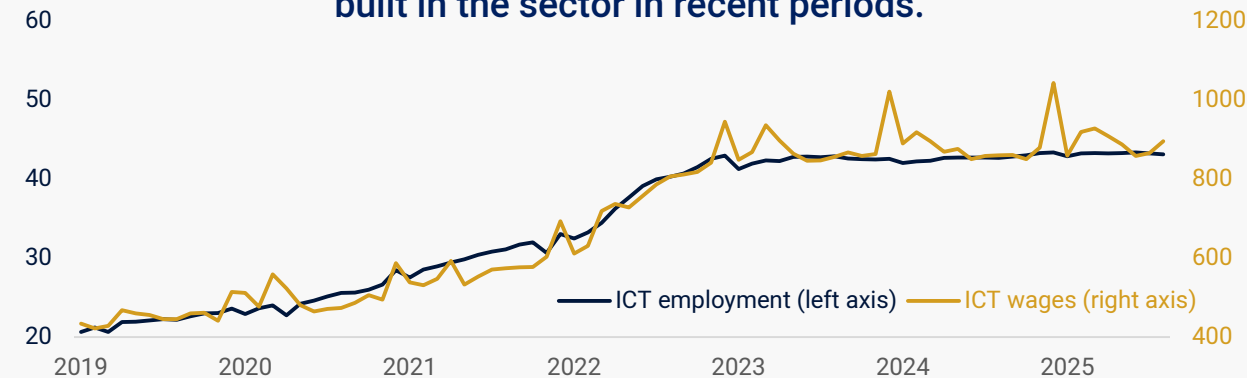


Due to some statistical inconsistencies, the interpretation of the strong growth observed in the IT sector is subject to uncertainties.

The strong growth in the ICT sector partially reflects certain statistical issues.

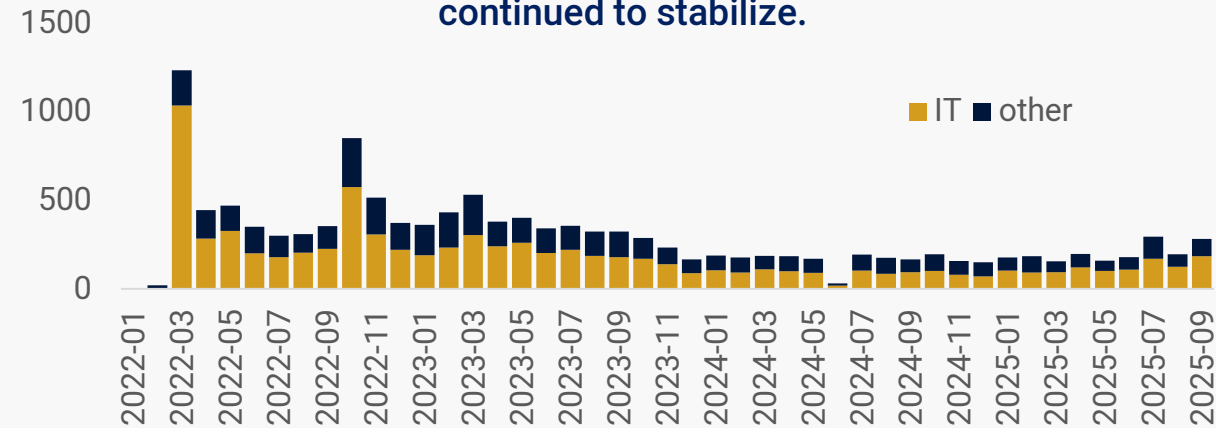


The growth of employment and wages does not exhibit a pronounced upward trend, which may indicate that no additional capacity has been built in the sector in recent periods.

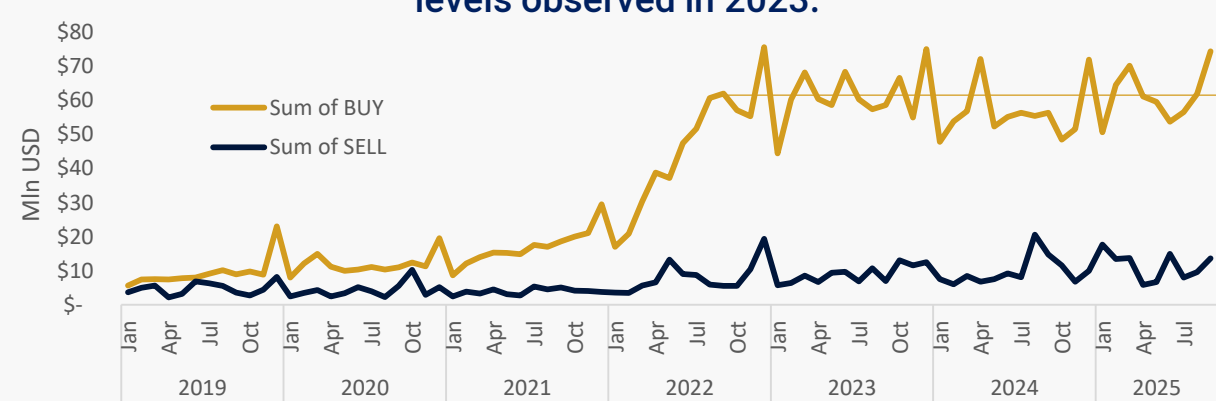


Source: Statistical Committee of Armenia

The number of newly registered non-resident private entrepreneurs has continued to stabilize.



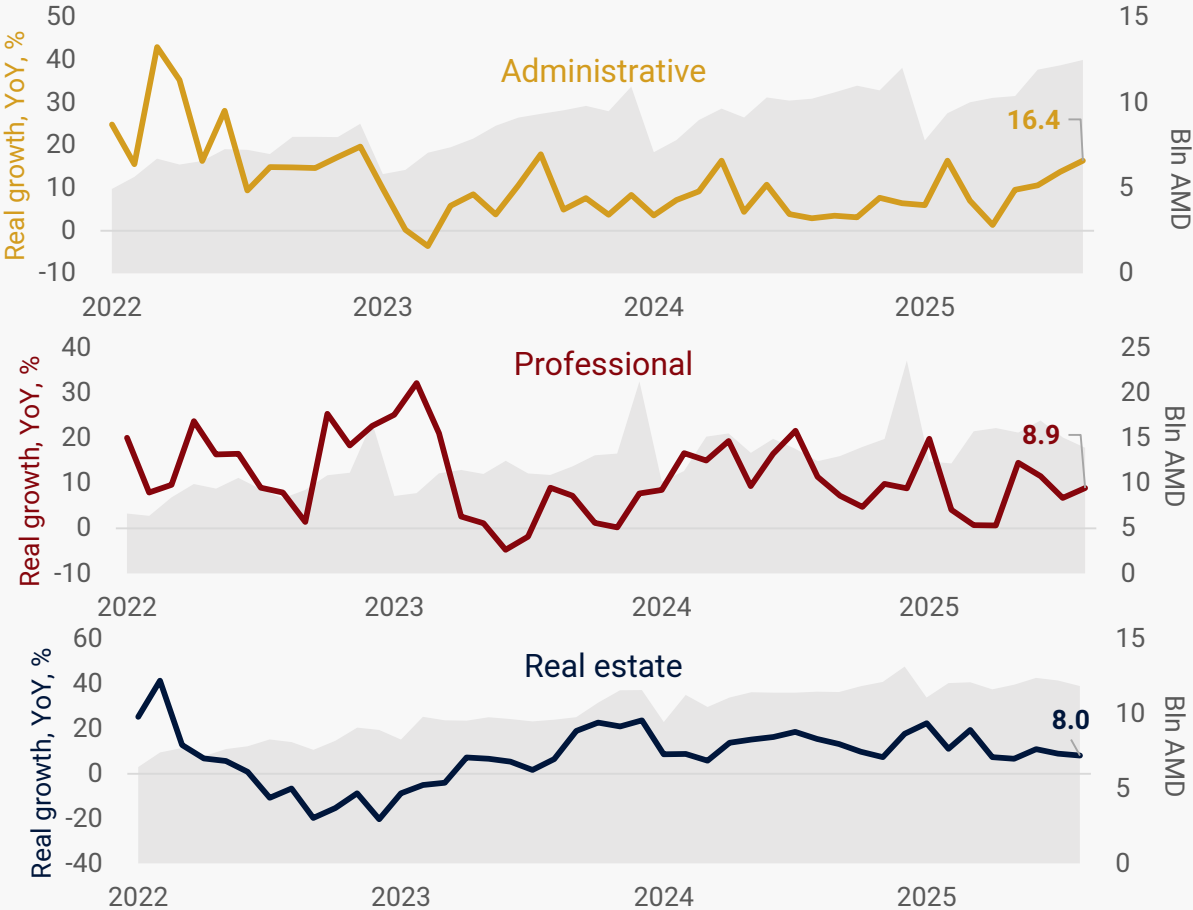
Following the slowdown in 2024, foreign exchange transactions in the IT sector have recovered significantly and are currently near the high levels observed in 2023.



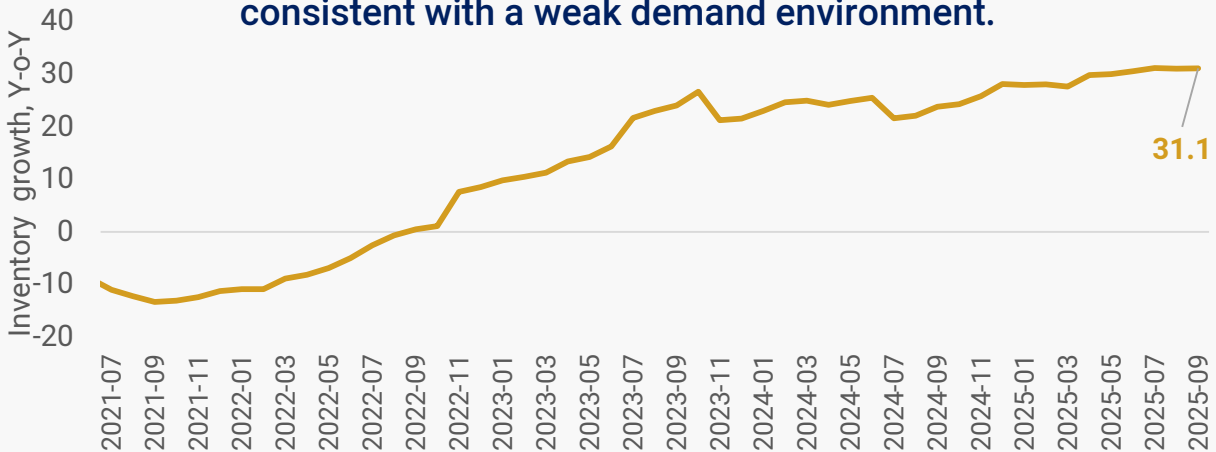
Source: CBA

# Uncertainties persist regarding the strength of domestic demand conditions and their outlook.(1/2)

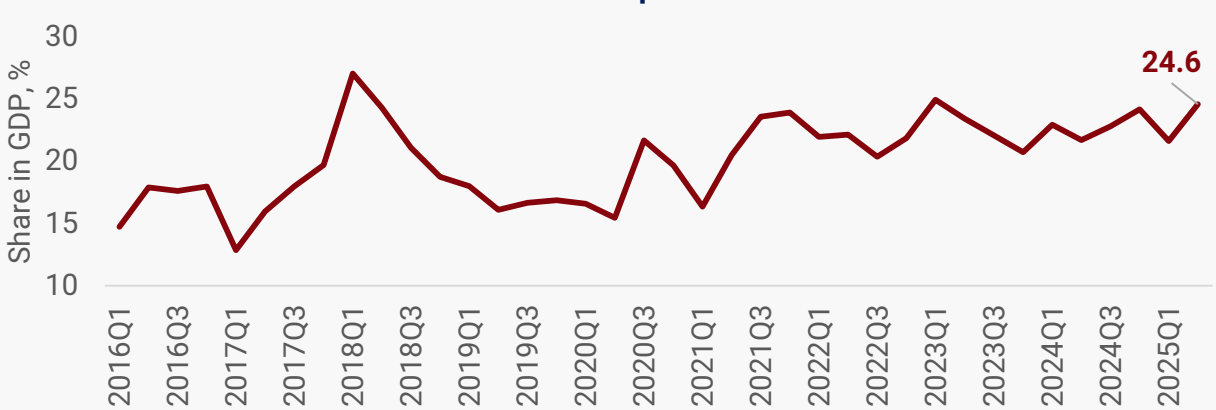
On the one hand, the concentration of growth in demand-driven sectors, as well as the strong growth in services that are sensitive to domestic demand conditions, may indicate that demand pressures remain elevated.



Moreover, the continued double-digit growth in consumer lending is not consistent with a weak demand environment.



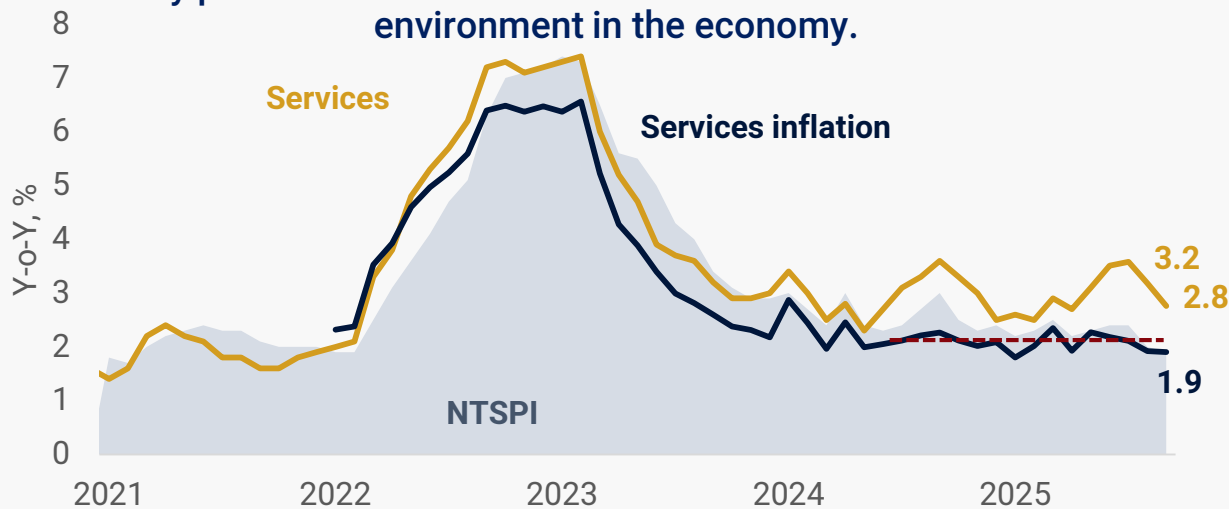
Further utilization of accumulated private savings poses risks of demand expansion.



Source: Statistical Committee of Armenia, CBA

# Uncertainties persist regarding the strength of domestic demand conditions and their outlook. (2/2)

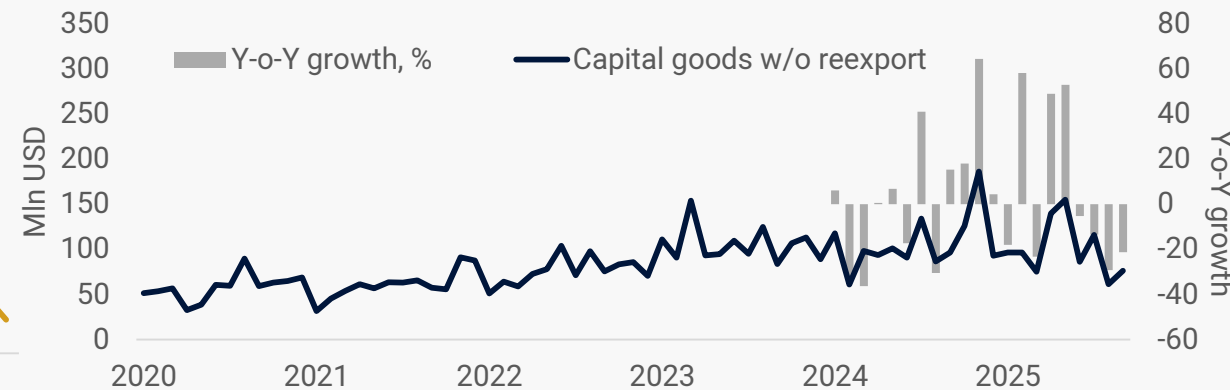
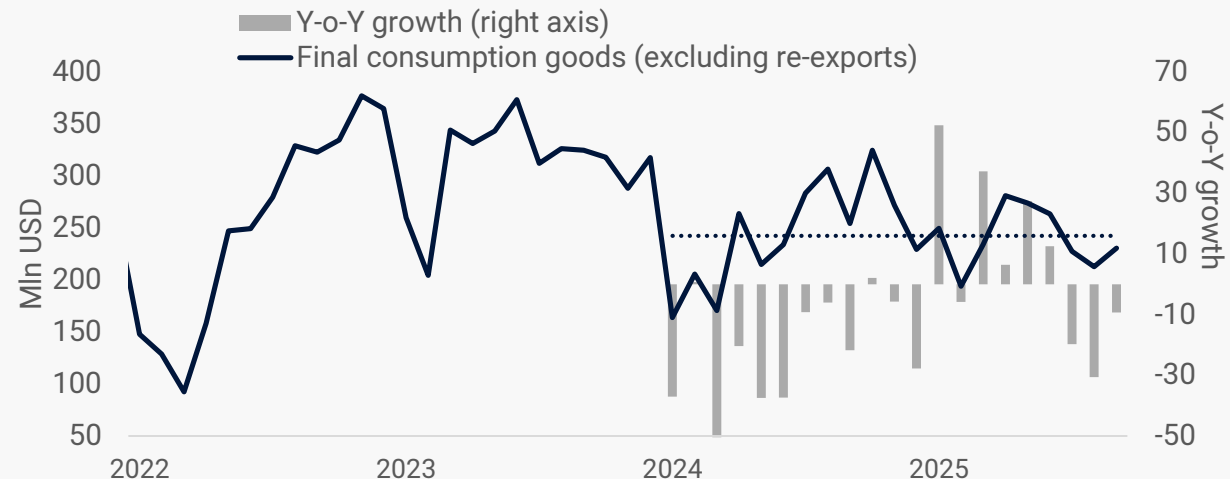
On the other hand, the low levels of services inflation and non-tradable sticky price inflation are not consistent with an excess-demand environment in the economy.



Retail trade growth, Y-o-Y



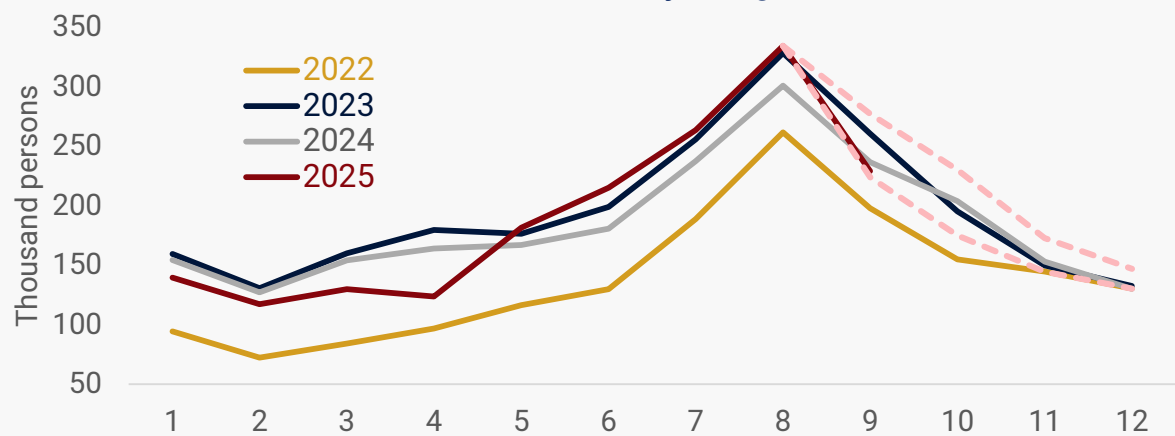
The dynamics of final consumption goods imports and retail trade may indicate relatively more moderate domestic demand conditions.



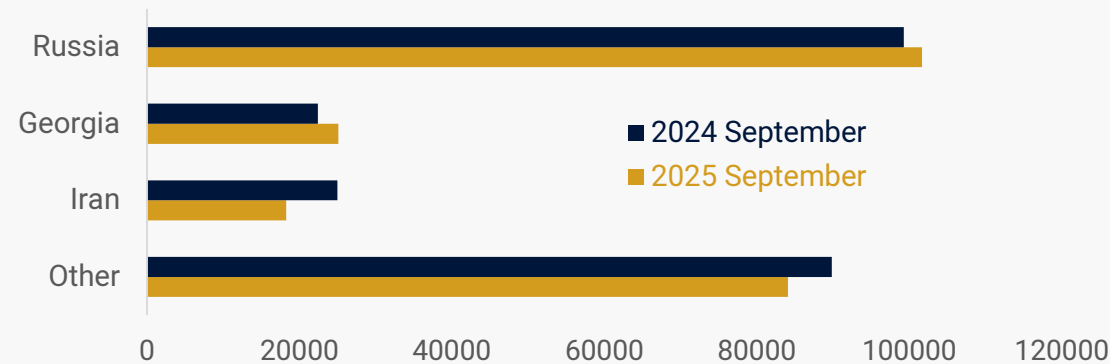
Source: Statistical Committee of Armenia, CBA

**External demand.** Despite a sharp acceleration in tourist inflows since May 2025, their impact on the economy has been significantly weaker compared to 2022

Although tourist inflows to Armenia were substantially lower in the early months of 2025 relative to 2023–24, a pronounced acceleration was recorded over May–August.

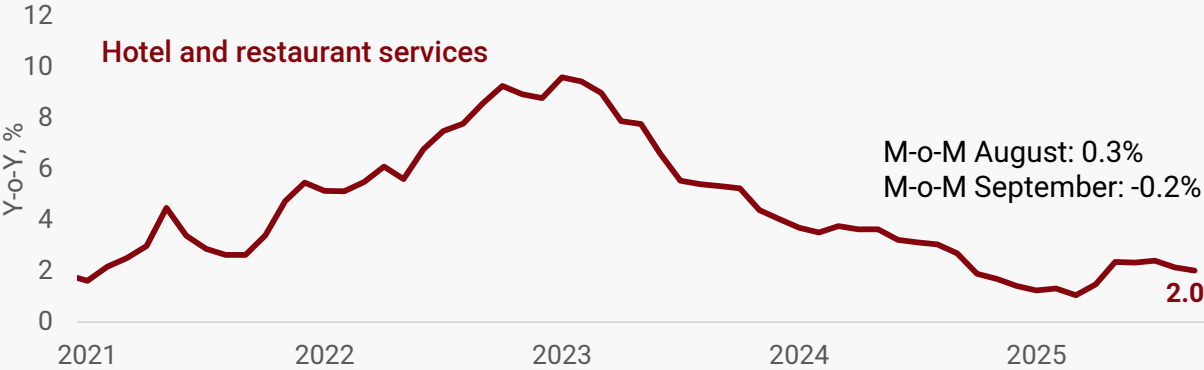


Structure of tourist inflows in September

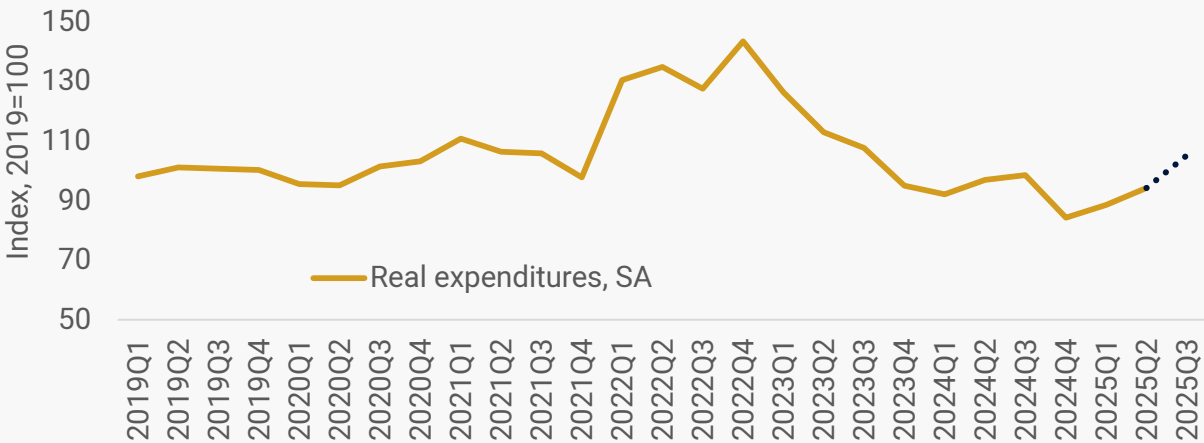


Source: Tourism Committee, Statistical Committee of Armenia

Amid the seasonal, natural slowdown in tourist inflows, inflation in services sensitive to external demand has eased in September.

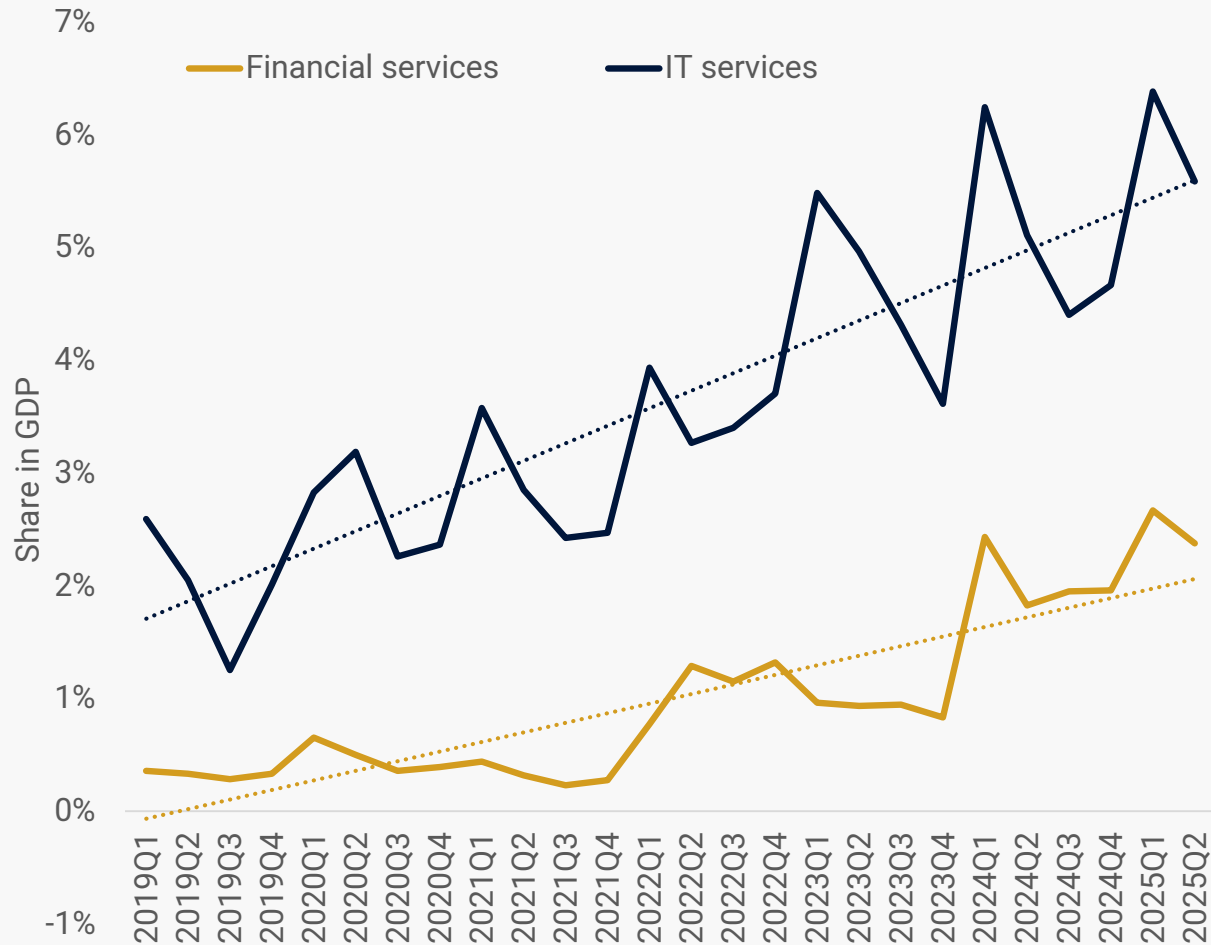


Although real per-tourist expenditures have increased in recent months, they remain below the levels observed in 2022–23.

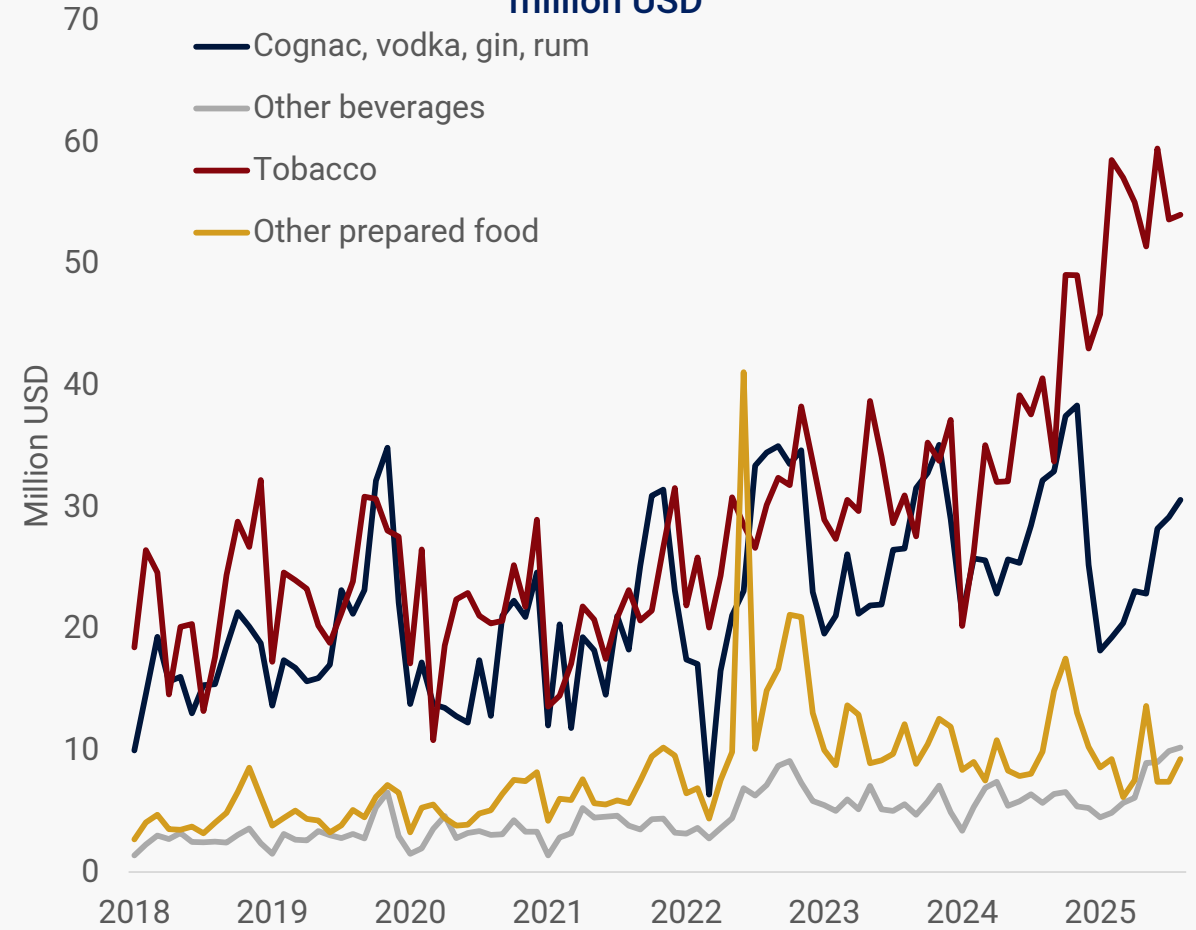


# External demand: Moreover, external demand for locally produced goods, and especially for services, remains high

Export of productive services, share in GDP



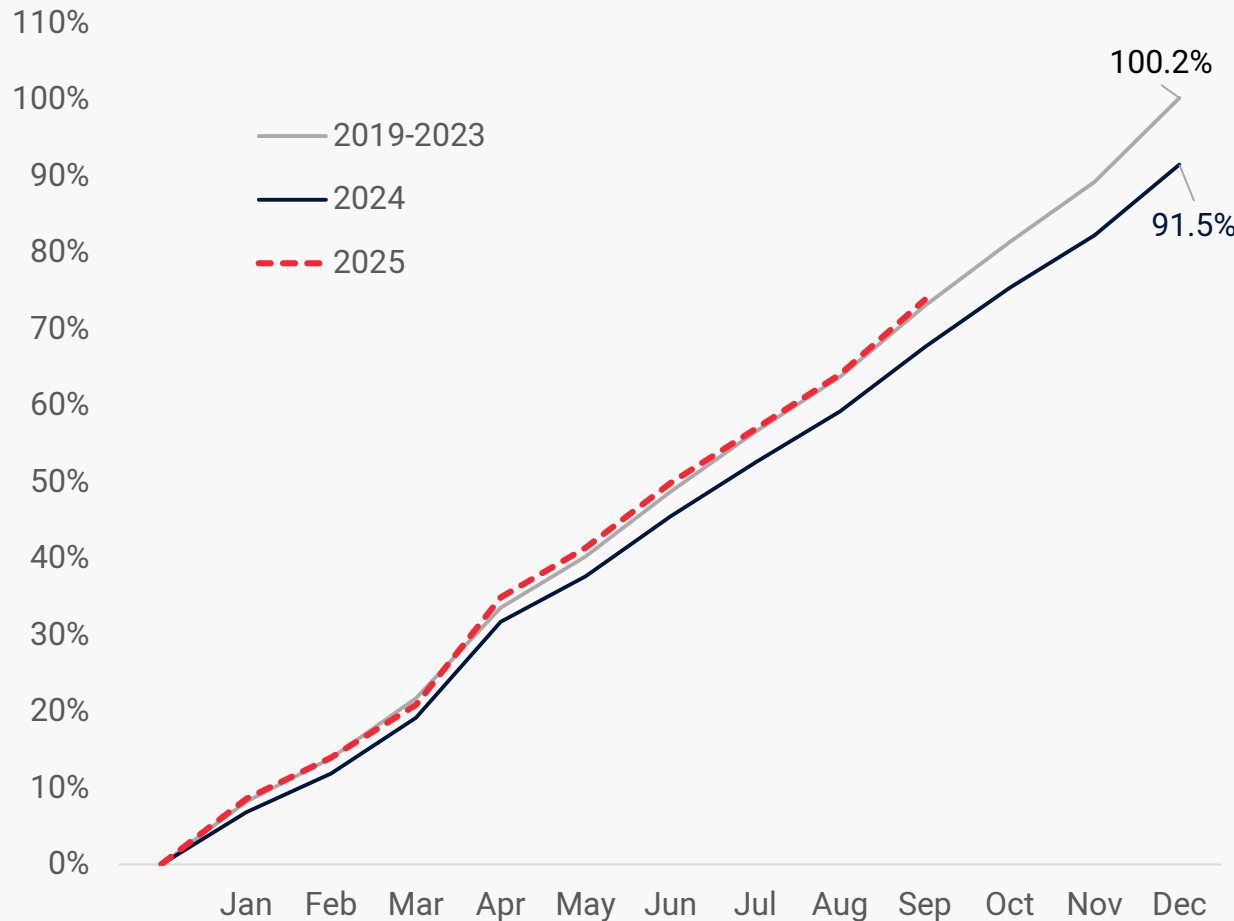
Export of "traditional" product groups of the manufacturing industry, million USD



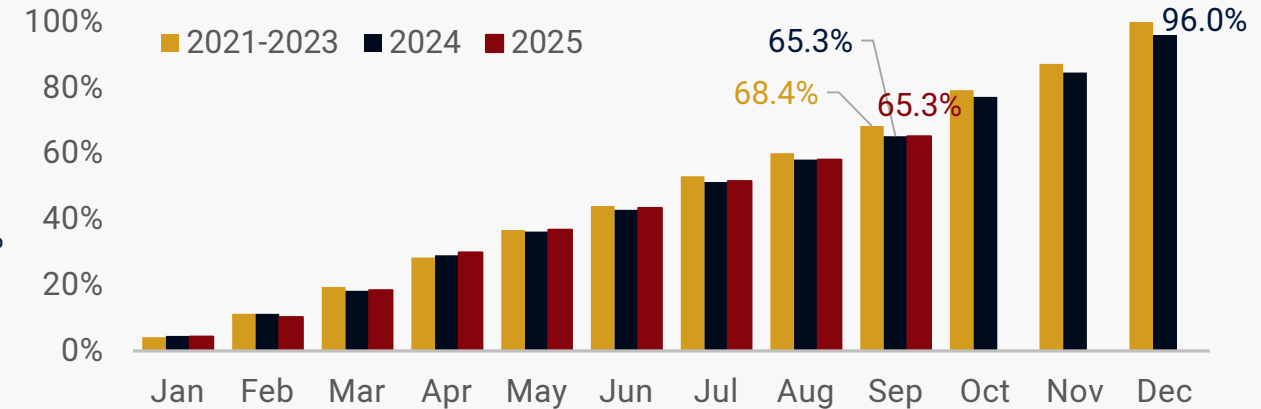
Source: Statistical Committee of Armenia

# Fiscal Policy. The risks of revenue underperformance have significantly eased, whereas risks of increased current expenditures, particularly toward the end of the year, remain

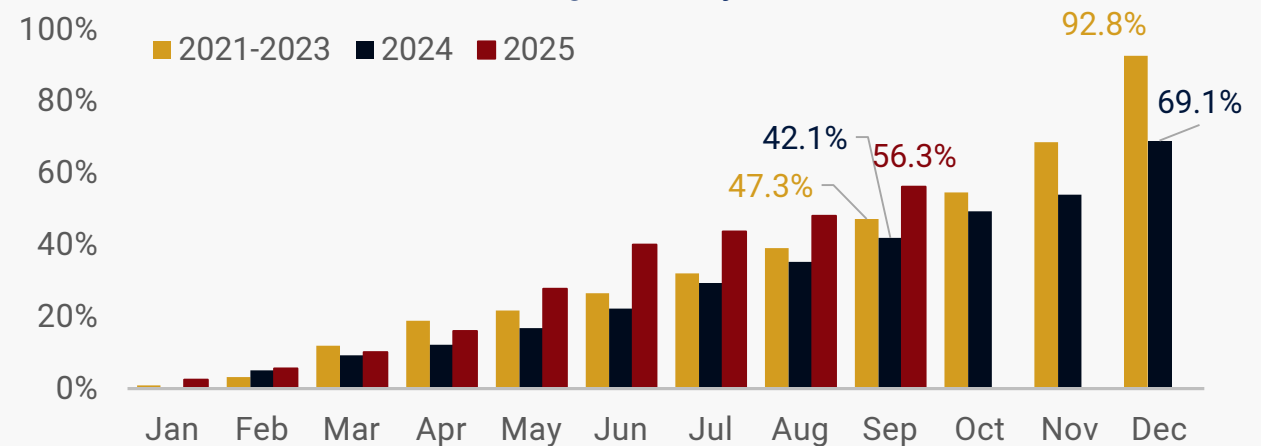
**Tax Revenue Performance in 2025**



**The execution of current expenditures remains consistent with historical trends**



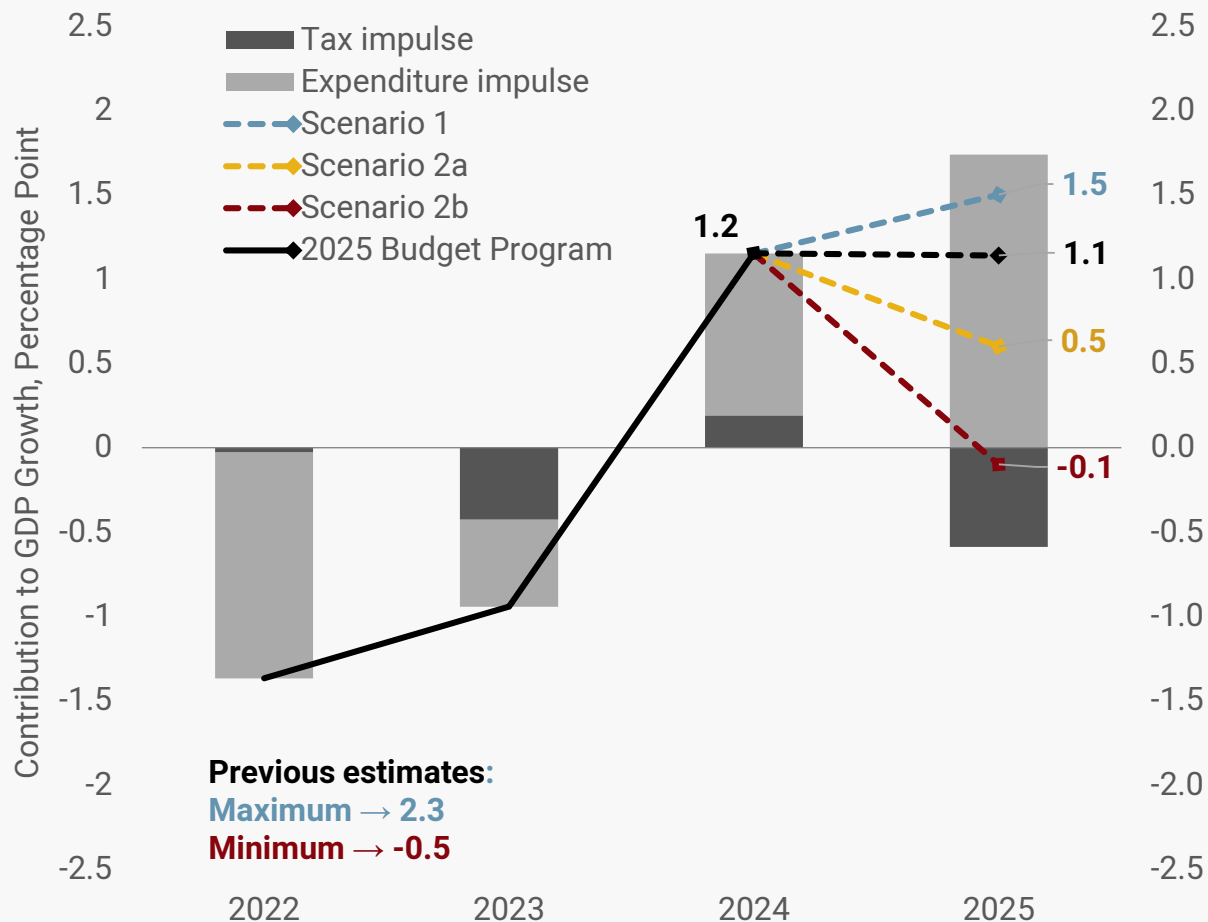
**The execution of capital expenditures continues to improve significantly**



Source: Ministry of Finance; CBA calculations

**Fiscal Policy.** Although uncertainty remains regarding the magnitude of the fiscal policy's impact on aggregate demand in 2025, the risks of a significant expansionary effect have somewhat diminished.

**Illustrative Scenarios for the Impact of Fiscal Policy on Aggregate Demand in 2025**

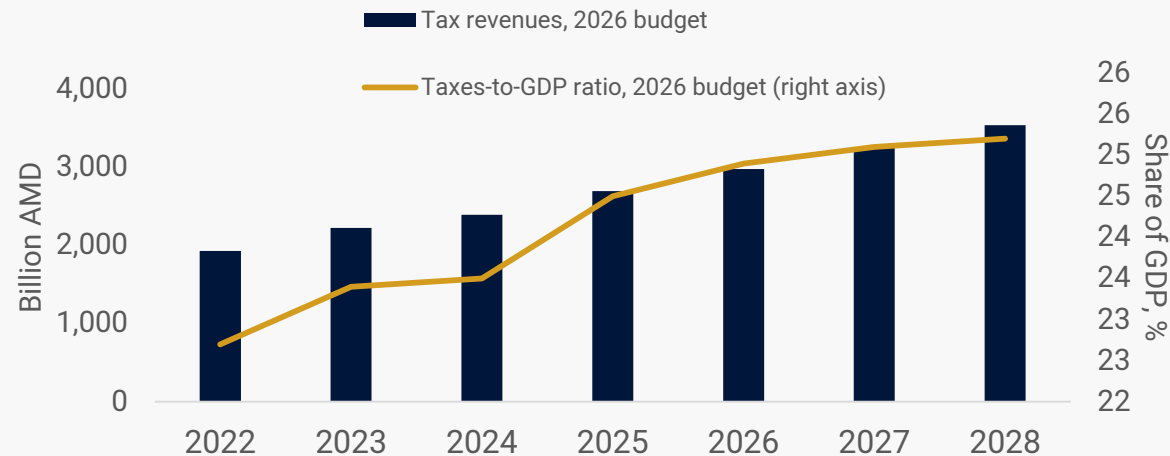


Source: Ministry of Finance; CBA calculations

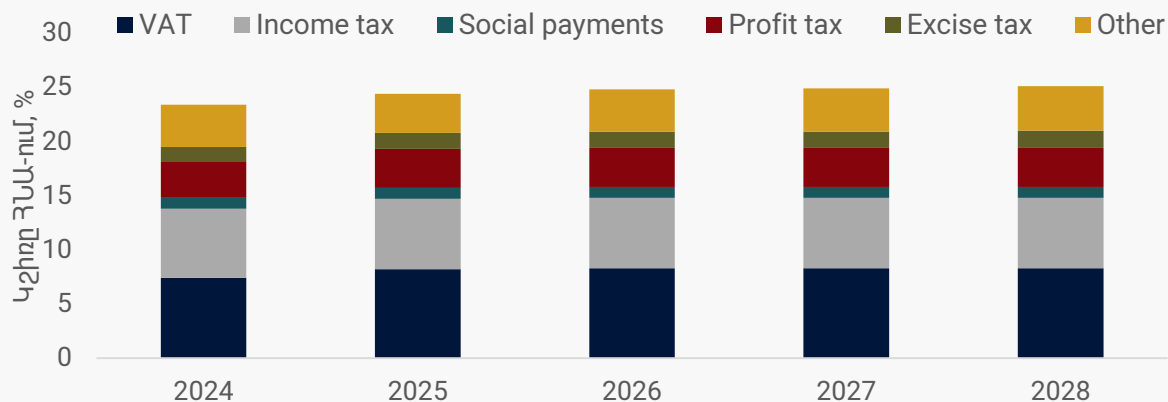
- **Scenario 1** – Underperformance of tax revenues, accompanied by a certain over-execution of current expenditures due to the necessity of increased social spending, along with the partial utilization of the reserve fund.
- **Scenario 2a** – Full implementation of the tax revenue plan; however, underperformance of capital expenditures in line with trends of previous years, largely because of limited capacity to implement large-scale projects.
- **Scenario 2b** – Same as Scenario 2, but with an even weaker effect on aggregate demand, reflecting the structural characteristics of capital spending.

# Fiscal Policy. The main uncertainties surrounding the 2026 budget relate to the trajectory of the deficit and public debt amid improvements in tax administration and expenditure execution

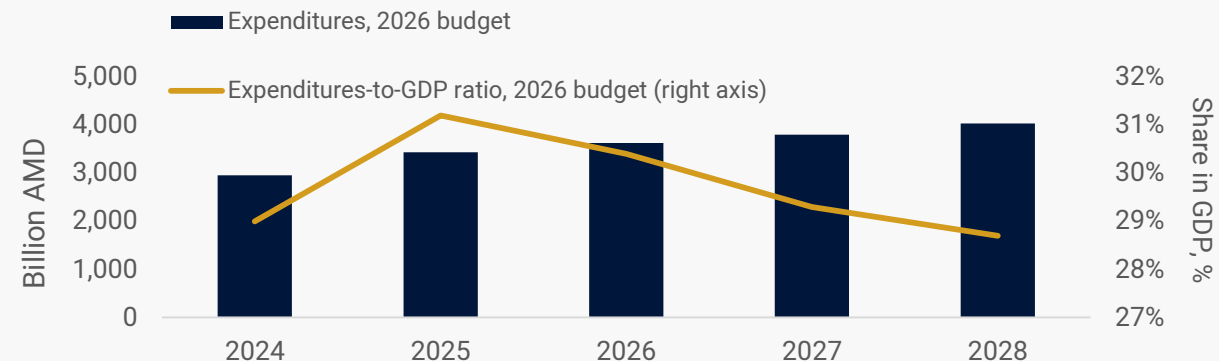
## Tax revenues to continue to grow



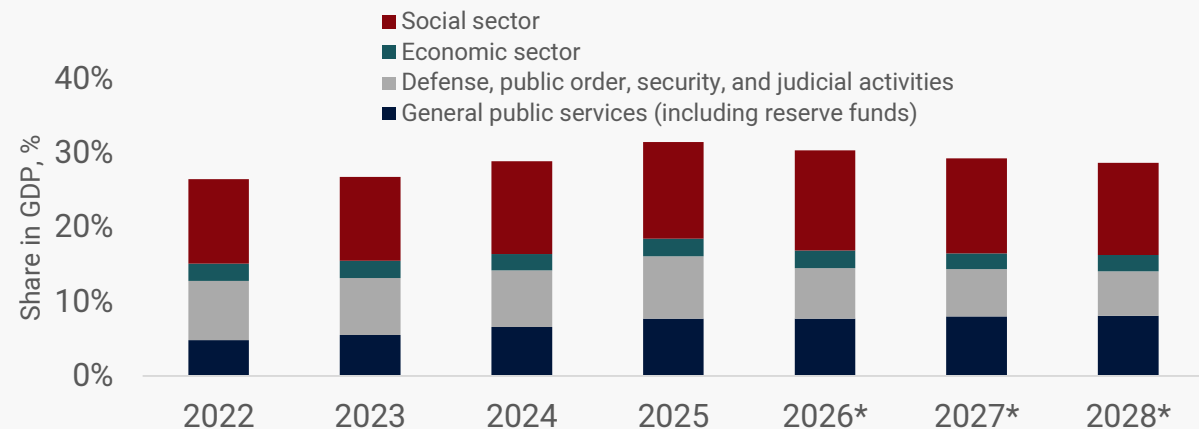
## VAT expected to have highest contribution to tax revenue growth



In the medium term, given the projected increase in the debt level above 50% of GDP, a certain slowdown in expenditure growth is expected.



## Expenditures will be primarily directed toward the social programs



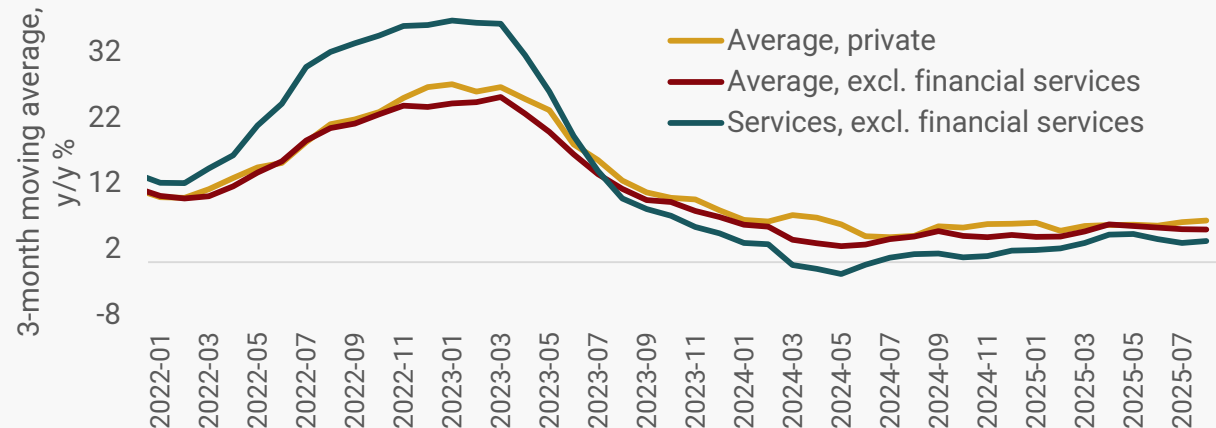
Source: Ministry of Finance

# Uncertainty regarding labor market conditions persists

Following the seasonal increase in the first quarter of 2025, unemployment declined in the second quarter

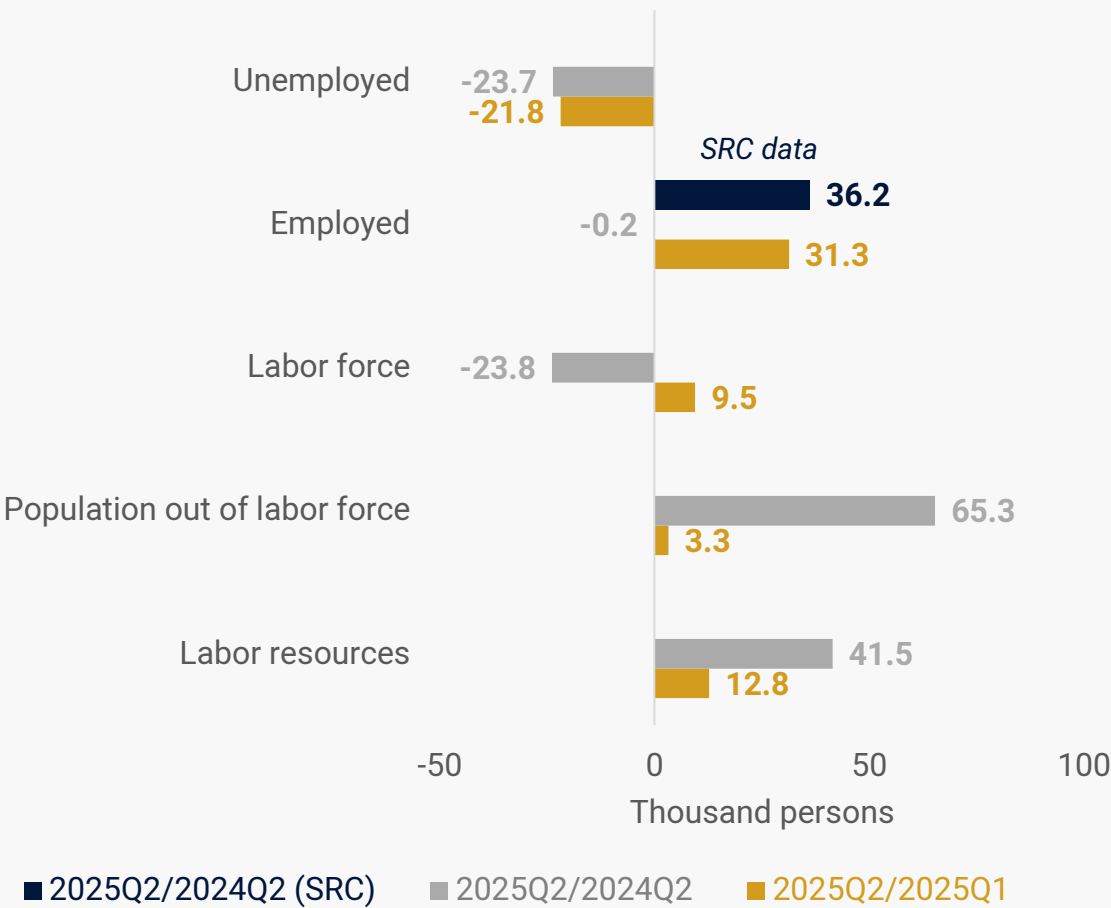


Wage growth continues to stabilize around 5–6% year-on-year, while the concentration of growth has decreased significantly



Source: Statistical Committee of the Republic of Armenia

The results of the labor force survey are not consistent with the official SRC data, giving rise to different interpretations



# Uncertainty persists regarding seasonal migration trends to Russia and the channels of money transfers

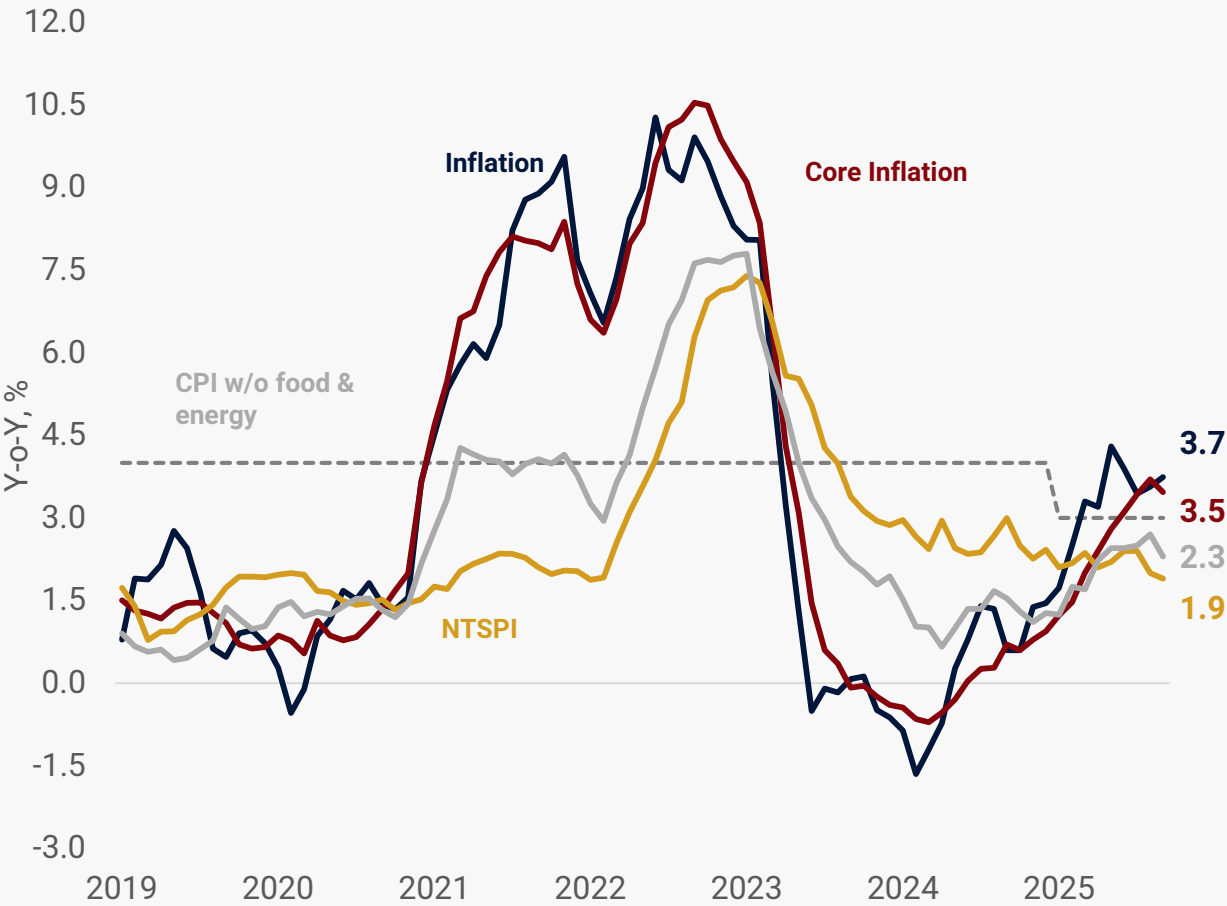
On the one hand, the widening wage gap between Armenia and Russia, combined with a moderate increase in non-commercial money inflows, may create pressures from the labor supply side. On the other hand, tighter migration regulations in Russia may limit outbound labor flows, thereby increasing domestic labor supply



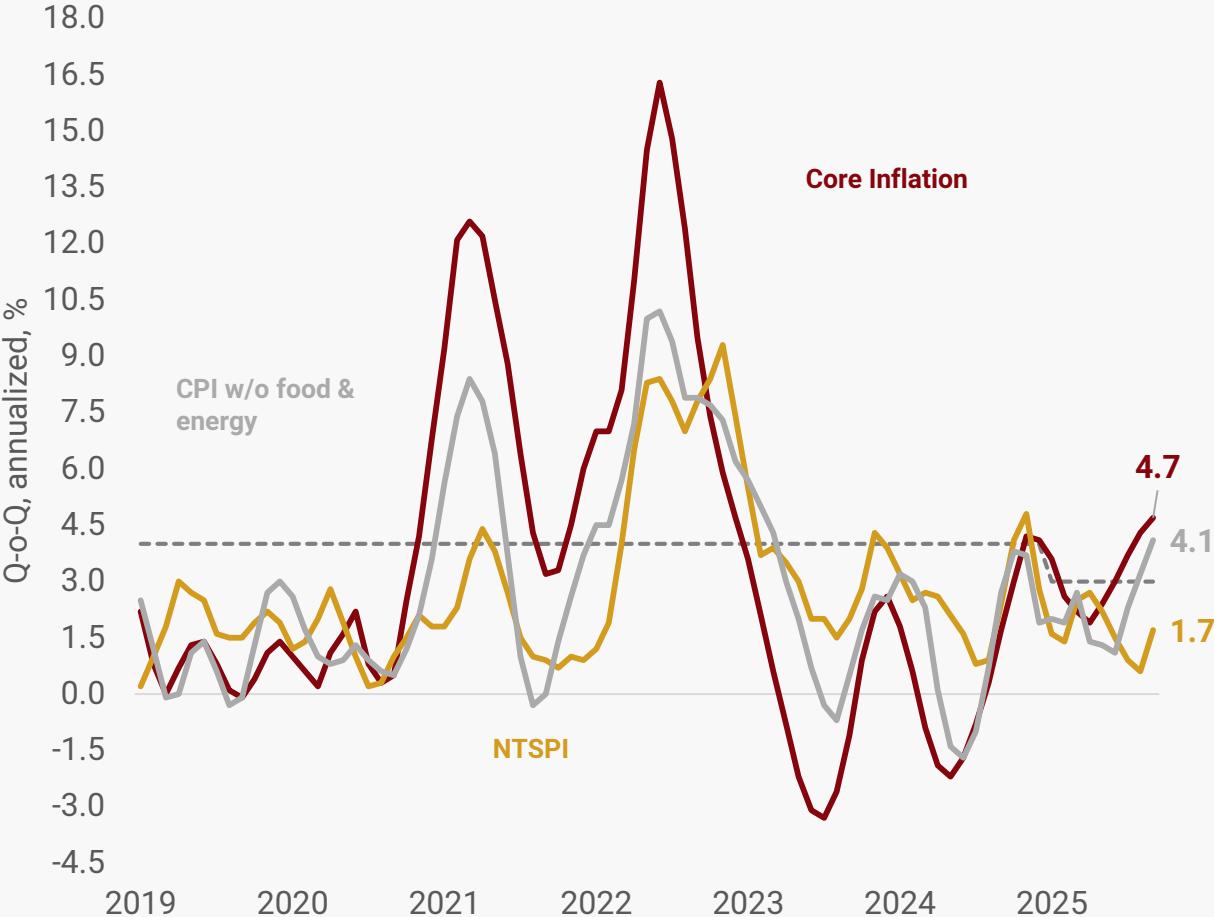
Source: Statistical Committee of the Republic of Armenia; CBA

Inflationary pressures from the global economy, particularly for imported food, have increased, reflecting increases in global food prices. A persistence of global supply-side factors affecting imported goods prices could be a primary source of further increases in domestic inflationary pressures.

Inflation and underlying inflation measures, Y-o-Y, %



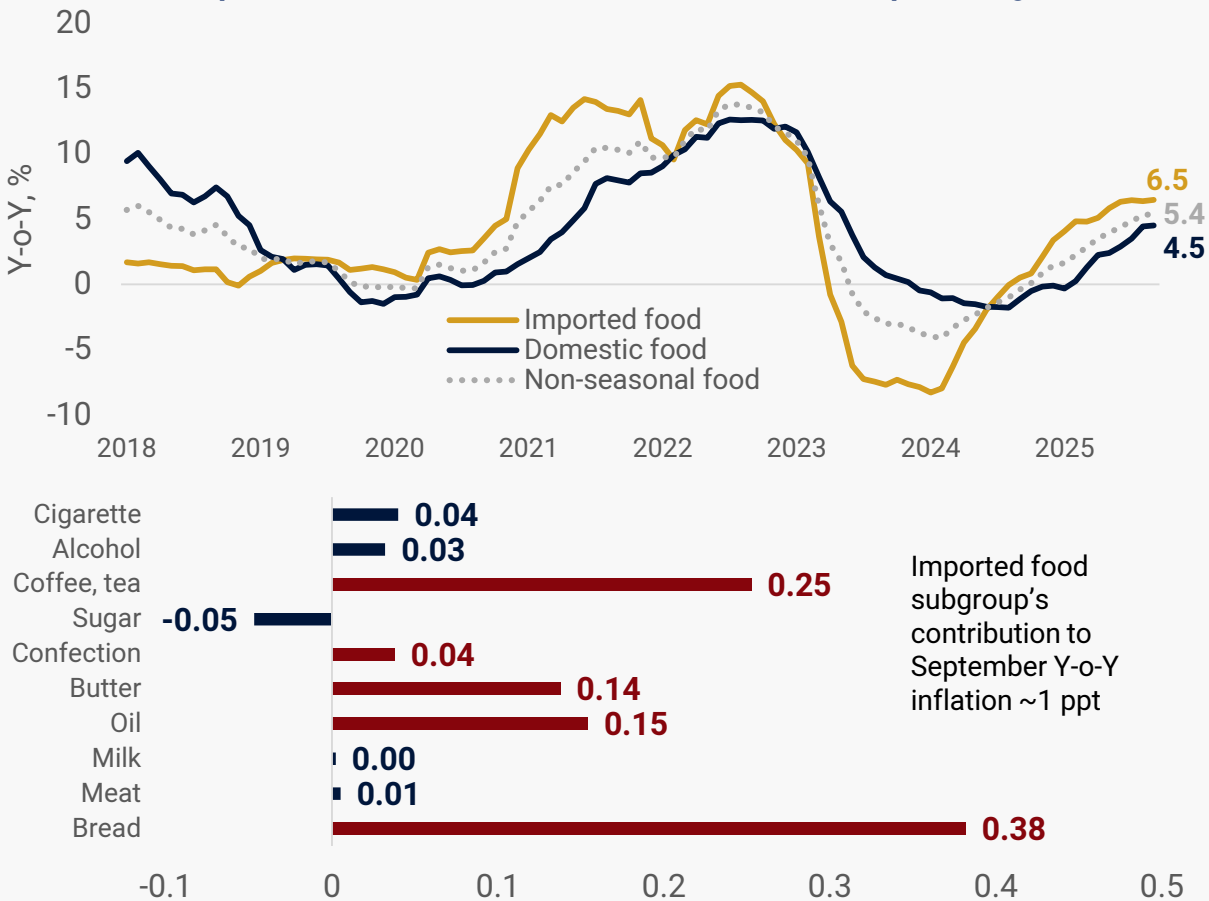
Underlying inflation measures, Q-o-Q, annualized, %



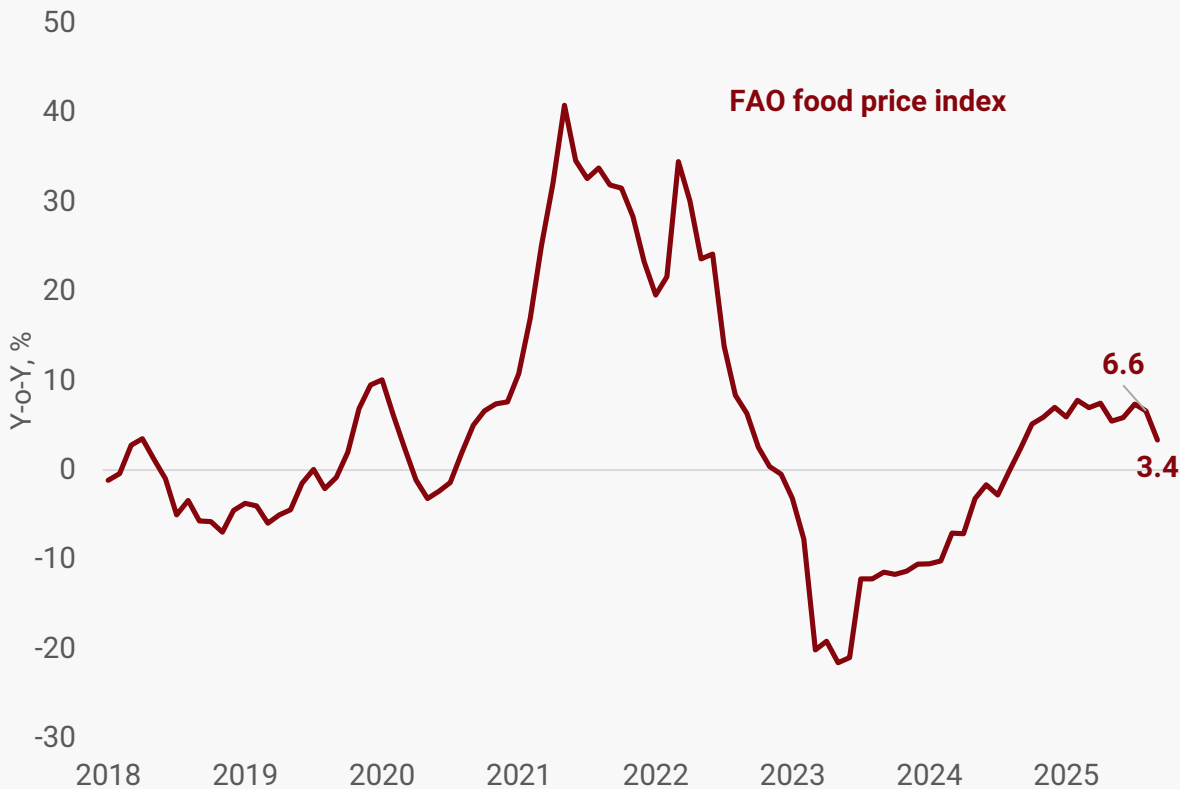
Source: SC of RA, CBA

Since the beginning of the year, inflationary pressures from the global economy, particularly for imported food, have accelerated, which has been consistent with developments in world food prices (FAO)

Price adjustments have also been observed in the domestic market due to competitive conditions between local and imported goods.



The impact of supply-side factors on global food price developments has eased significantly in September 2025. The main uncertainties going forward relate to the sustainability of recent trends and the pace and extent of domestic price adjustments against this backdrop

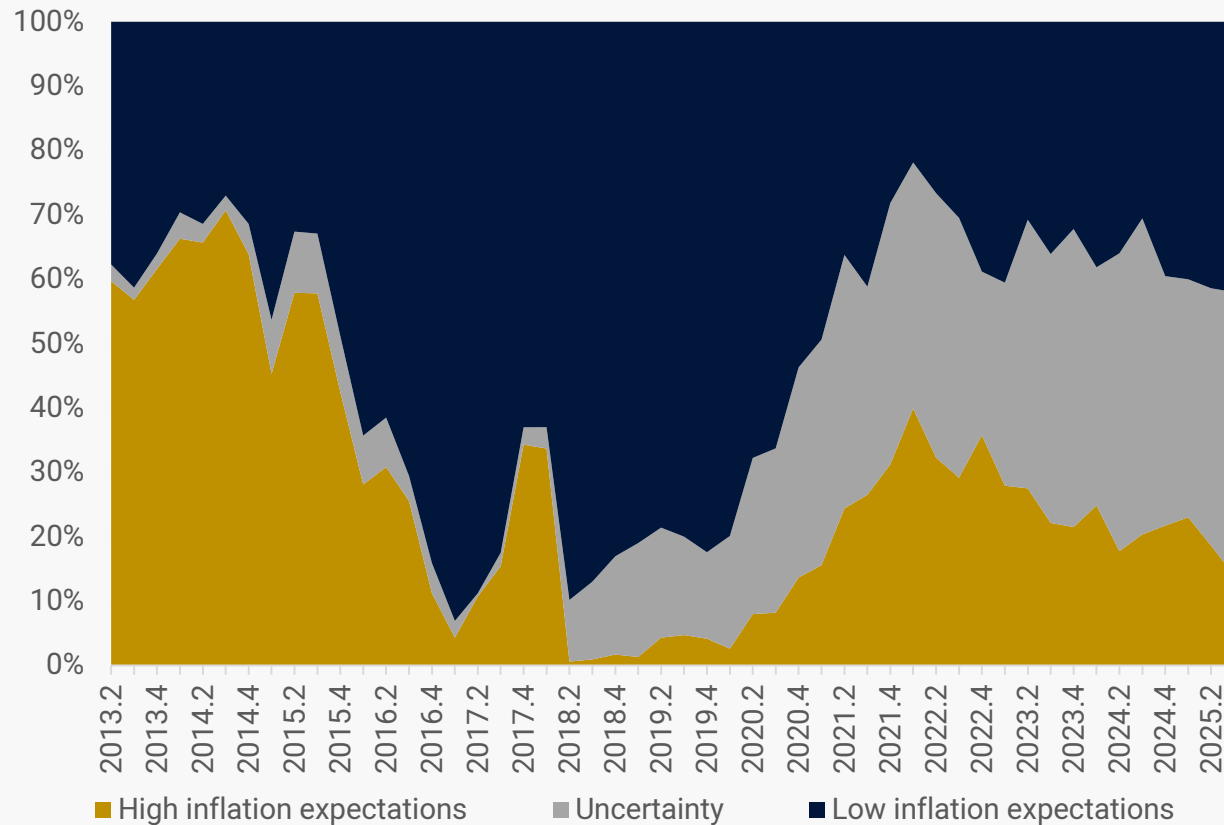


Source: SC of RA, CBA calculations

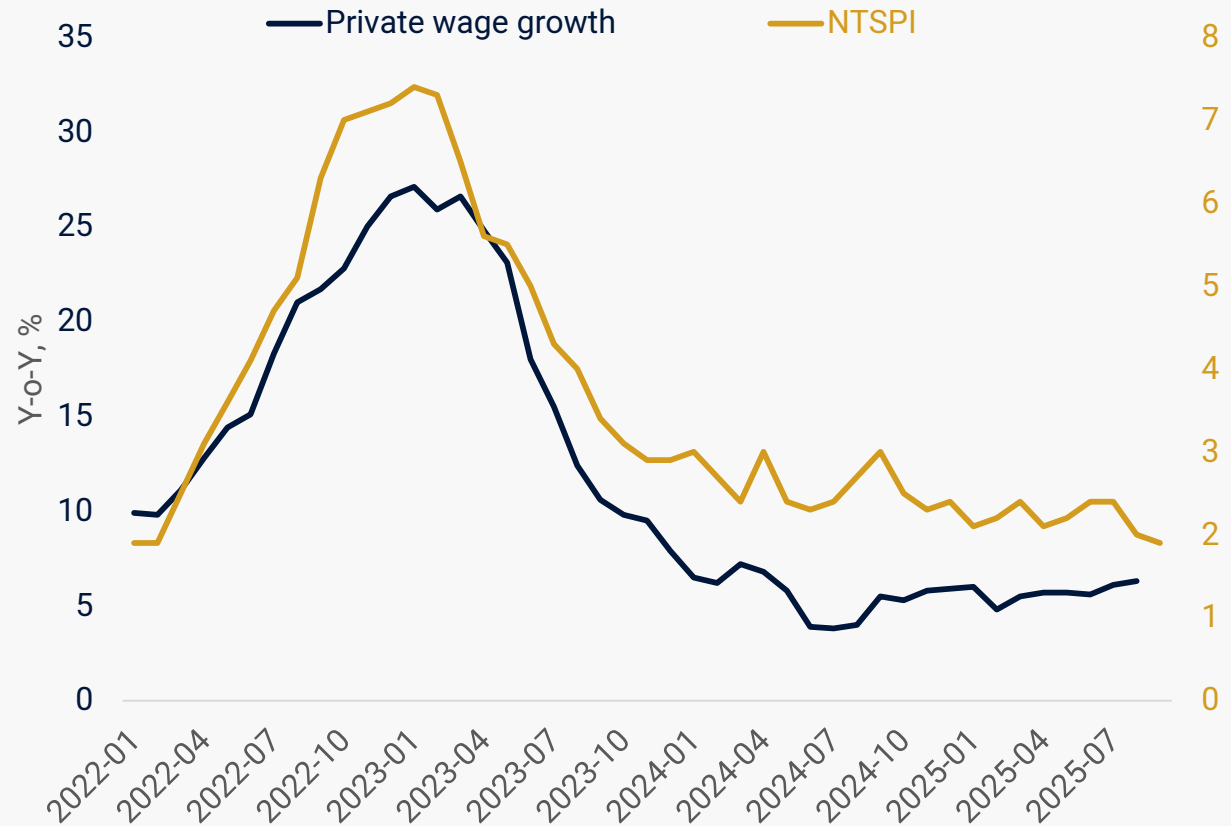
# Uncertainty around inflation expectations persists

On the one hand, high inflation expectations continue to decline, while uncertainties remain high.

Inflation expectations (CBA survey)



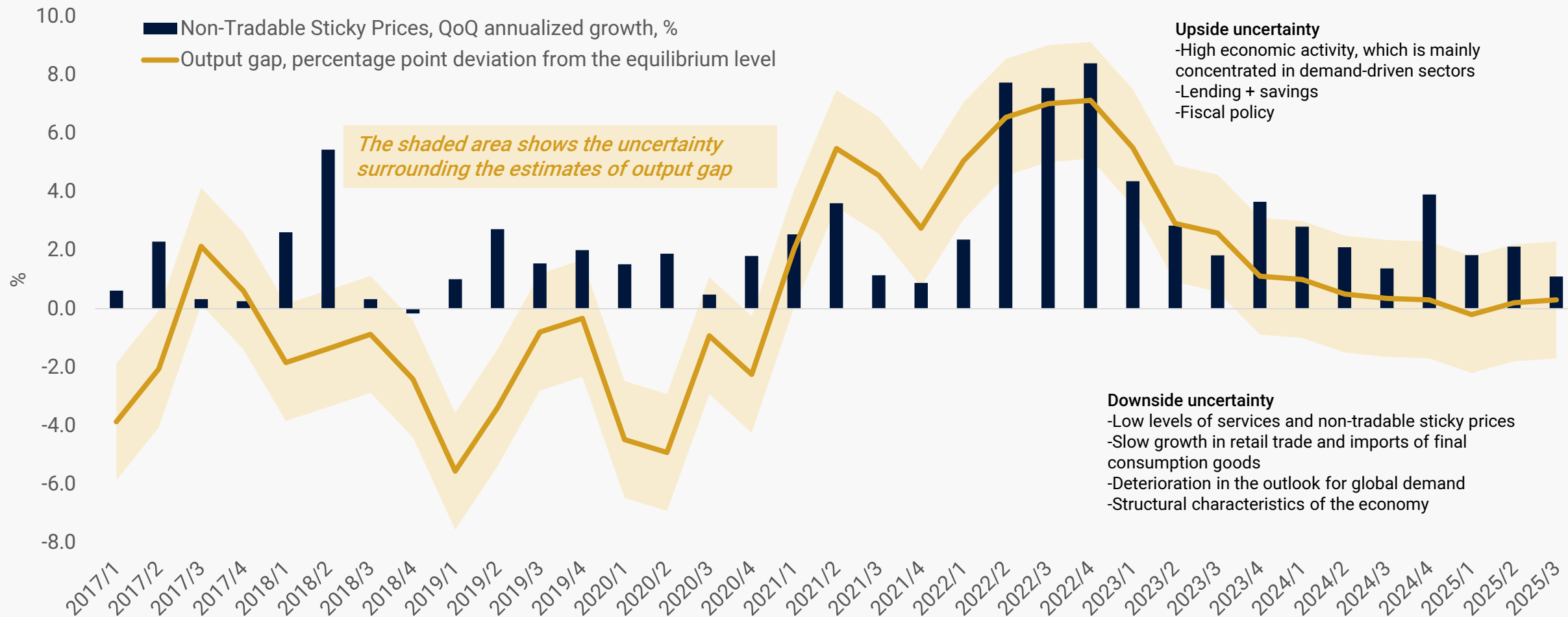
On the other hand, developments in NTSPI and private wages may indicate stable, low inflation expectations.



Source: CBA, SC of RA

# Uncertainty persists regarding the current state of the economy

Output gap and underlying inflation



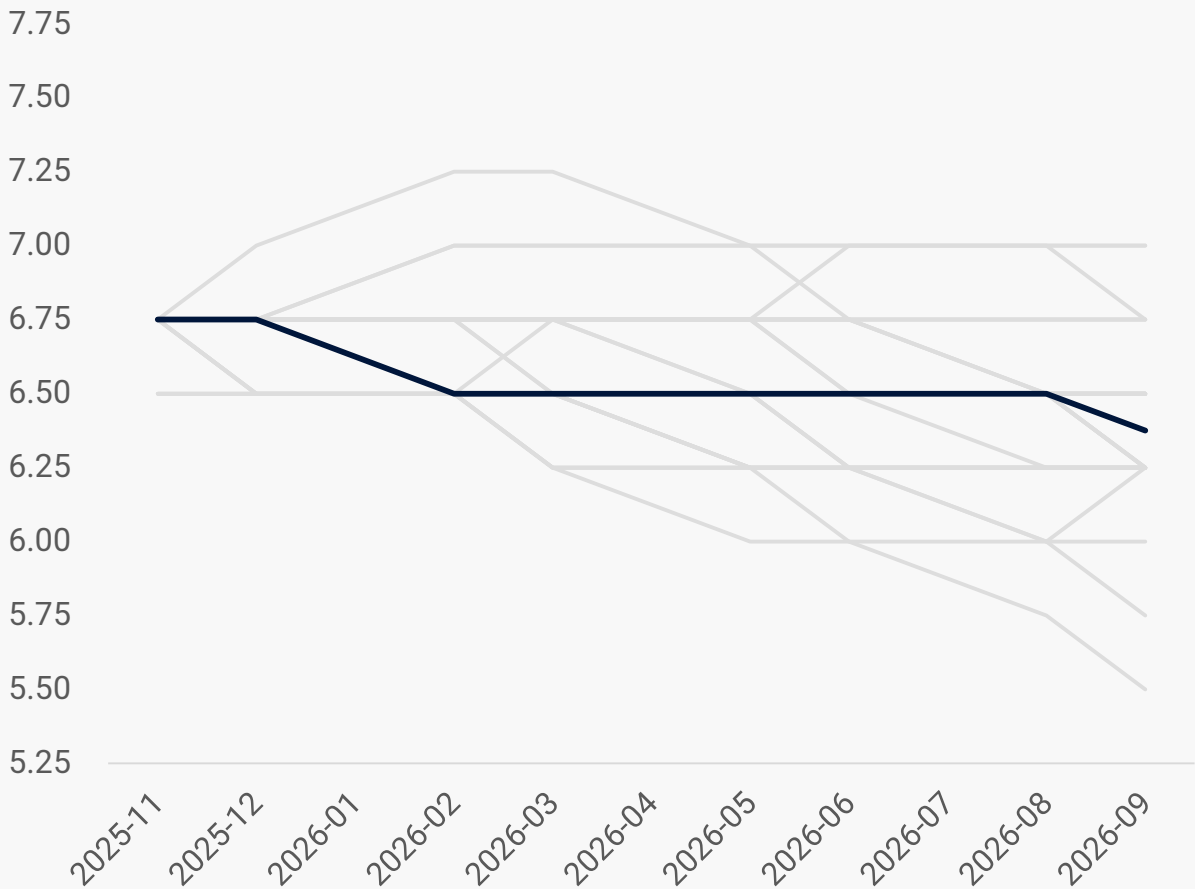
Source: CBA calculations



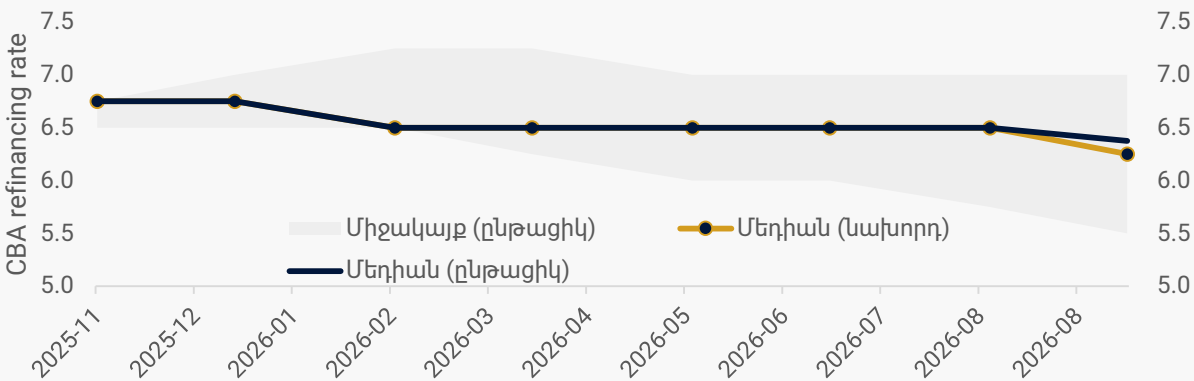
# Market expectations

# Market expectations have remained almost unchanged following the CBA's latest decision

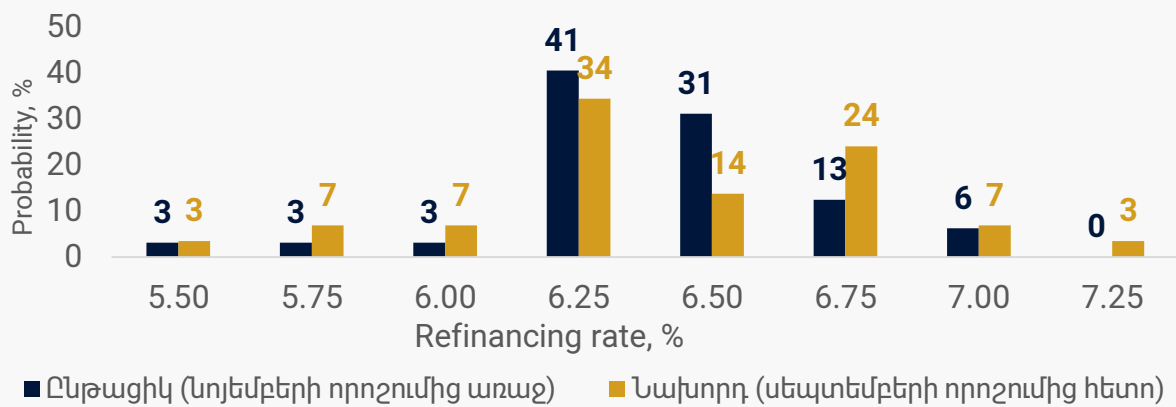
Markets continue to expect a gradual decrease in the interest rate over the next eight policy decisions



Change in expectations compared to the previous survey

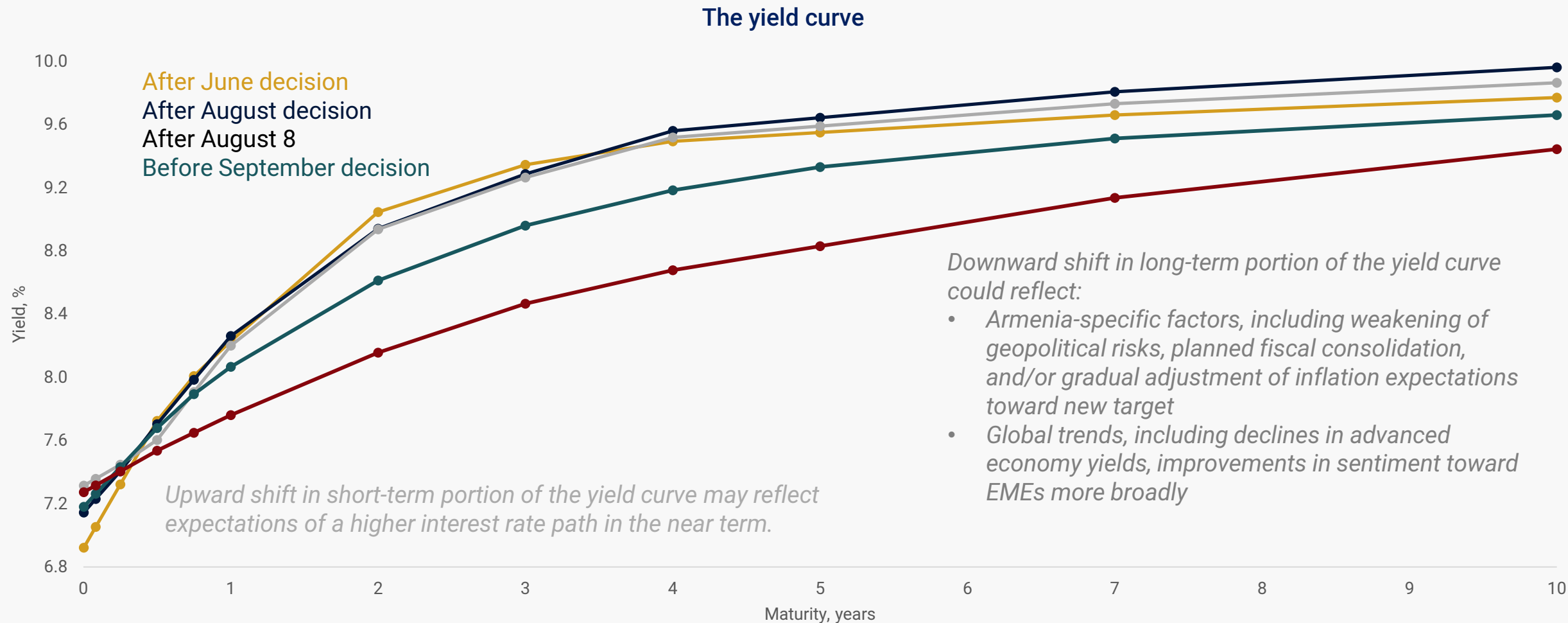


Expected level of the policy rate in September 2026



Source: CBA survey. \* Current survey: n=30, previous survey: n=27.

# The yield curve has shifted downward



Source: CBA



# Taxonomy of scenarios

# Taxonomy of Scenarios.

## Case A-type Considerations

### Expansionary Demand

- In the United States, the reconfiguration of fiscal rules has heightened uncertainty regarding the magnitude of fiscal stimulus and, more critically, the trajectory of long-term public debt accumulation. This may exert upward pressure on **the U.S. neutral interest rate**, with potential spillover effects on the neutral rates of developing economies, including Armenia.
- Ongoing negotiations to resolve the Russian-Ukrainian conflict, coupled with the **continued enforcement of sanctions against Russia**, may further bolster **capital inflows into the Armenian** economy, thereby amplifying domestic demand and reinforcing inflationary pressures.
- Inflationary trends from the global economy, **especially for food and basic necessities**, could lead to an undesirable increase in inflation expectations in Armenia.
- **A possible cooling of regional geopolitical tensions** could pose **risks of accelerating capital inflows**, which could contribute to an expansion in demand conditions.

# Taxonomy of Scenarios.

## Case A-type Considerations

### Expansionary Demand

- Persistent uncertainties around **domestic demand conditions**, particularly regarding the emergence and potential **persistence of excess demand**:
  - Economic growth **exceeding its estimated long-term potential** and concentrated in primarily **demand-driven sectors** (tourism, finance, other services) could point to excess demand conditions in the Armenian economy.
  - Sustained growth in consumption driven by **accumulated savings, wealth, and credit growth**, as well as rising incomes linked to favorable export performance, may further amplify aggregate demand conditions.
  - The adoption of a **more expansionary fiscal stance** than previously anticipated present risks of further intensifying domestic demand pressures.
  - Recent increases in **tourism flows**, as well as sustained **strong demand for Armenian goods and especially services**, could generate additional demand and inflationary pressures.

# Taxonomy of Scenarios.

## Case A-type Considerations

### Contractionary Supply

- Amid the **tightening of trade policies** among major economies and the broader trend of de-globalization, disruptions in global supply chains may lead to higher production costs and a **broadening of inflationary pressures in the global economy** over the short to medium term.
- **An accumulation of stagflationary risks in the global economy** could result in a higher path for interest rates in advanced economies if inflation expectations there prove to be imperfectly anchored.

# Taxonomy of Scenarios.

## Case B-type Considerations

### Contractionary Demand

- Subdued domestic demand—arising from structural challenges in the global economy, particularly within the Eurozone and China—may prove persistent, contributing to a **prolonged period of low inflation in international commodity and raw material markets**.
- Prolonged elevated uncertainty surrounding U.S. economic policy could evolve into a broader **crisis of confidence**, sharply dampening consumer and investment activity both within the United States and across the global economy.
- Expectations surrounding **U.S. economic activity** have moderated, while uncertainty has intensified. Under these conditions, a **potential sharp correction in the prices of still-overvalued assets** could generate deflationary pressures both globally and within the Armenian economy.
- In response to the strong external demand observed in recent years, the private sector in the Armenian economy—particularly in certain industries— **accumulated substantial credit liabilities** amid expectations of sustained high future income. Given risks of a worsening global economic outlook and a possible adjustment in external demand, these liabilities may become an additional constraining factor, potentially leading to a disproportionate tightening of income and expenditure dynamics, especially within the services sector.

# Taxonomy of Scenarios.

## Case B-type Considerations

### Contractionary Demand

- In the context of a **gradual, natural adjustment in construction and real estate prices**, related sectors of the economy may experience slowing growth, softening demand, and emerging deflationary effects.
- **The increase in certain tax rates and the tightening of tax administration**, as well as a **downward adjustment in current and capital expenditures**, may exert additional **dampening effects on investment activity**, potentially contributing to higher unemployment and subdued demand.
- In the event of a **resolution to the Russian-Ukrainian conflict** and the full or partial removal of sanctions, a **substantial outflow of capital and labor from the Republic of Armenia** may occur, posing risks of a marked weakening in aggregate demand and, more notably, a moderation of inflationary pressures.
- **Uncertainty about neutral rate fundamentals** in Armenia:
  - **Growth in productive capacities and productivity** in exportable sectors in recent years—in tandem with an **improved investment climate**, persistent capital flows, and an **historical and expected appreciation of the real exchange rate trend**—implies a lower level of the neutral rate.
  - A possible **cooling of regional geopolitical tensions** could contribute to a **reappraisal of country fundamentals**, including a **lower country risk premium** and thus a lower neutral rate.

# Taxonomy of Scenarios.

## Case B-type Considerations

### Expansionary Supply

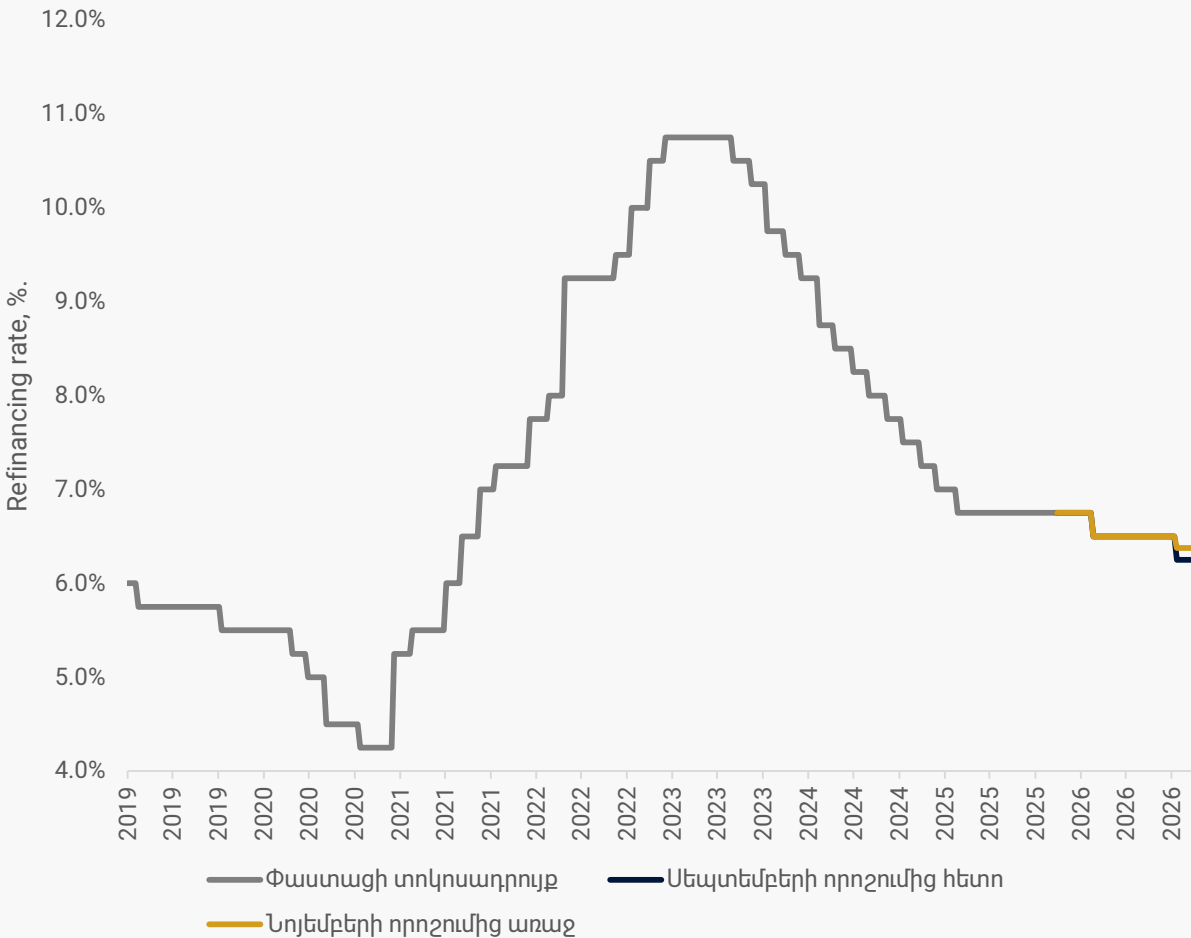
- **Continuous growth of labor supply** in the Armenian economy, resulting from uncertainties about medium-term developments in the Russian economy and, notably, the persistent decline in seasonal migration from Armenia to the Russian Federation amid tightening migration policies in Russia.



# Policy discussion

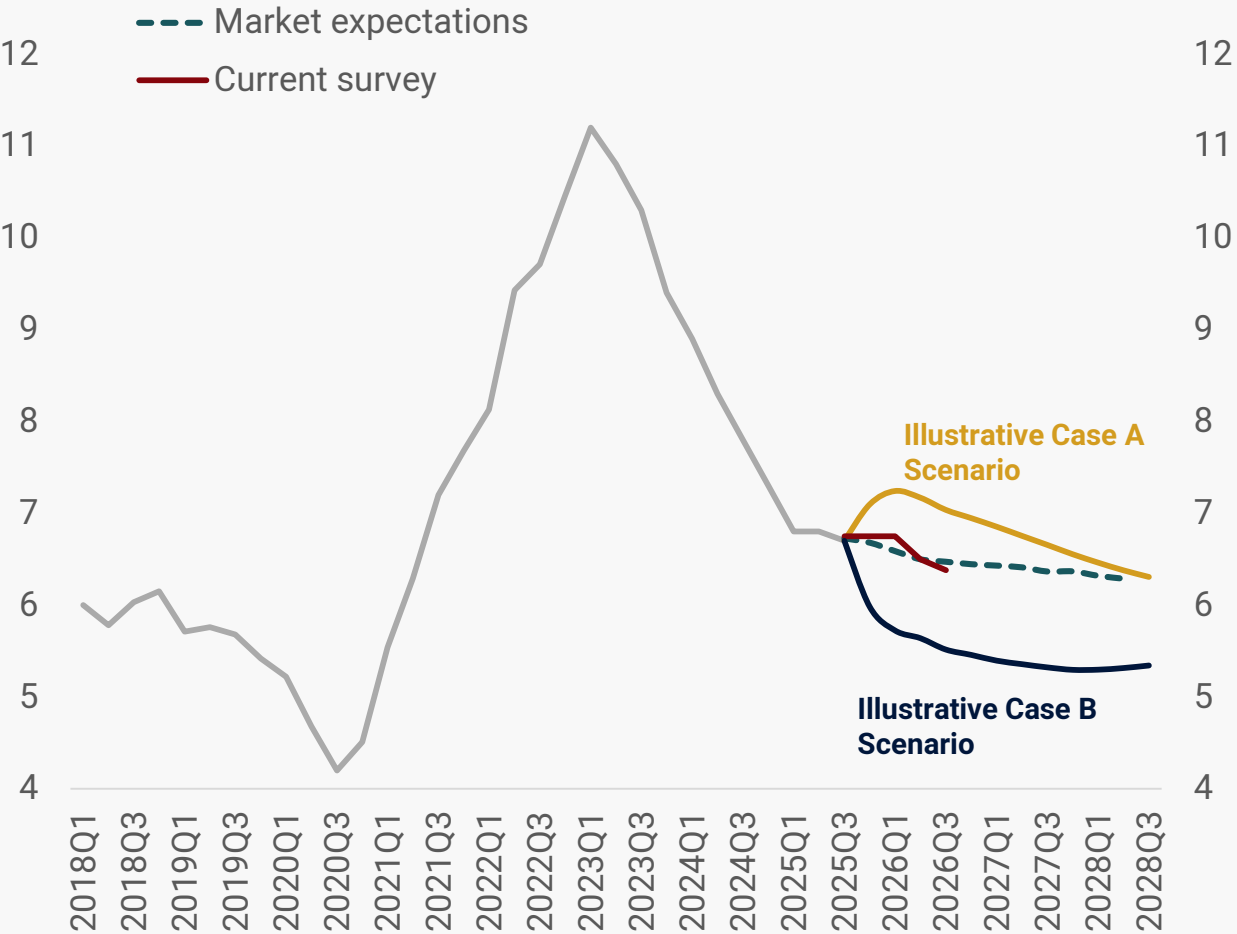
# Policy discussion

Financial market expectations



Source: CBA Survey

Illustrative scenarios – Q3 2025



Source: Central Bank of Armenia, CBA surveys



**Thank you**