

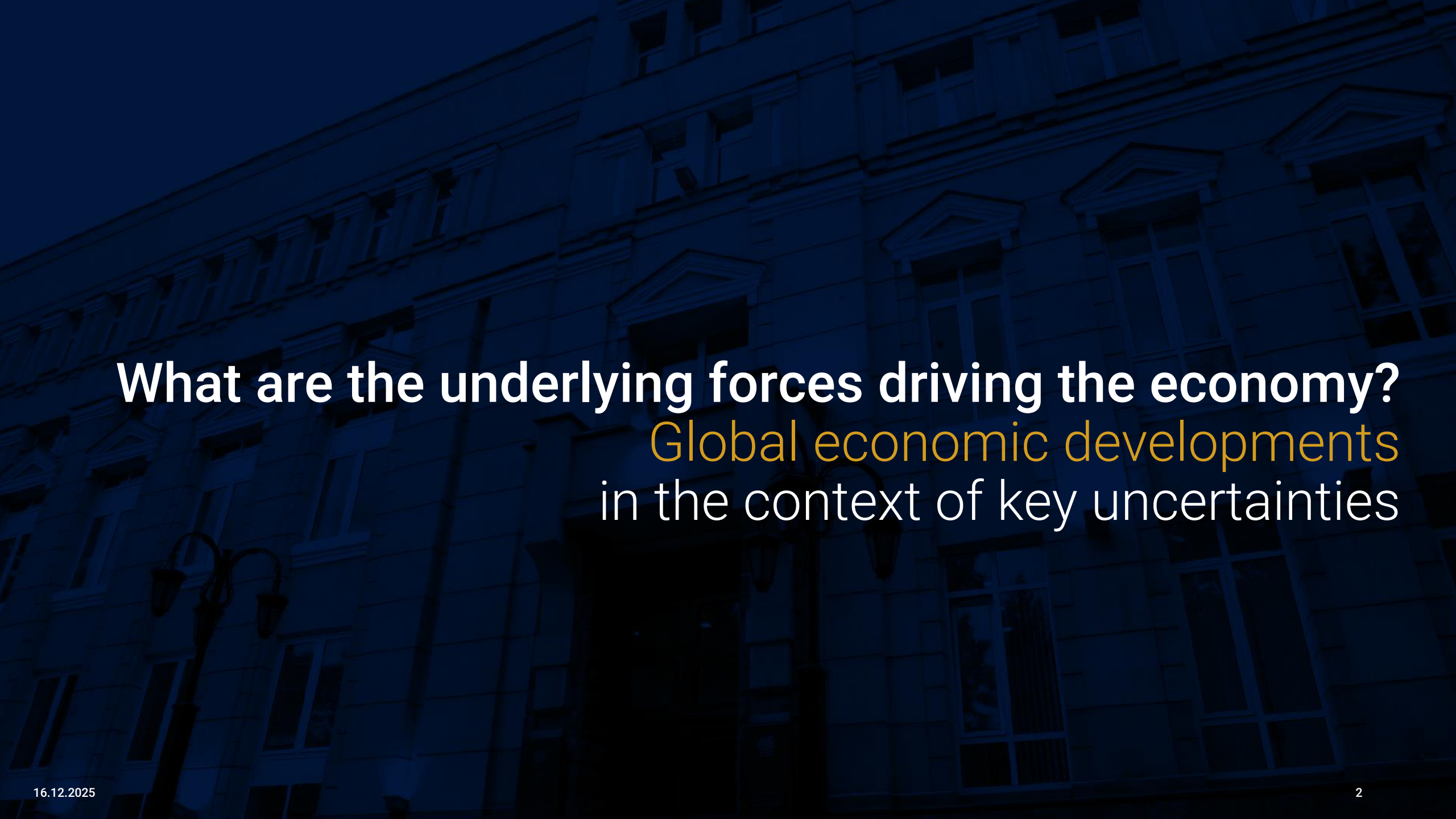


Central Bank
of Armenia

Monetary Policy **Outlook**

Q4 Policymaking Round

December 16, 2025

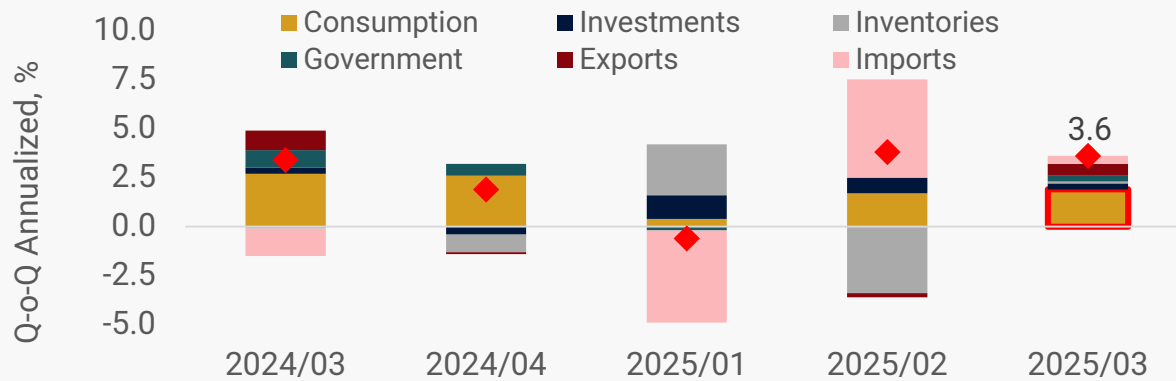


What are the underlying forces driving the economy?

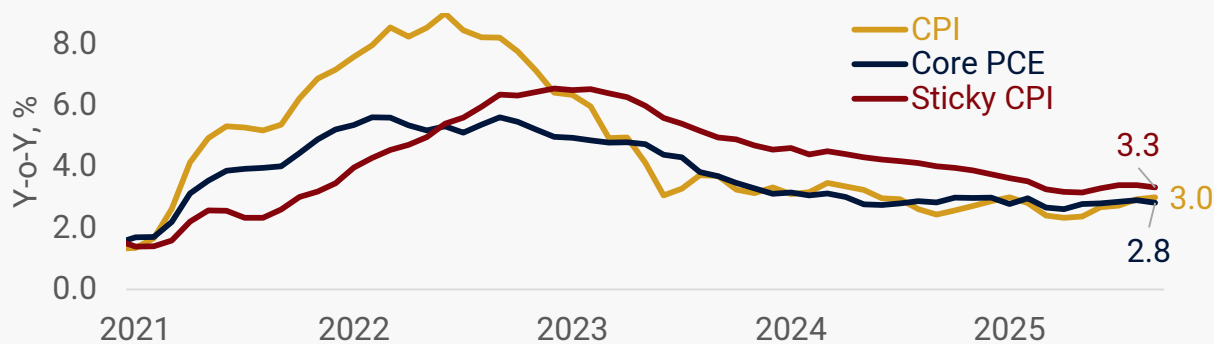
Global economic developments
in the context of key uncertainties

US. How strong are demand conditions?

Following a slowdown in Q1, consumption has rebounded and remains the main driver of economic growth

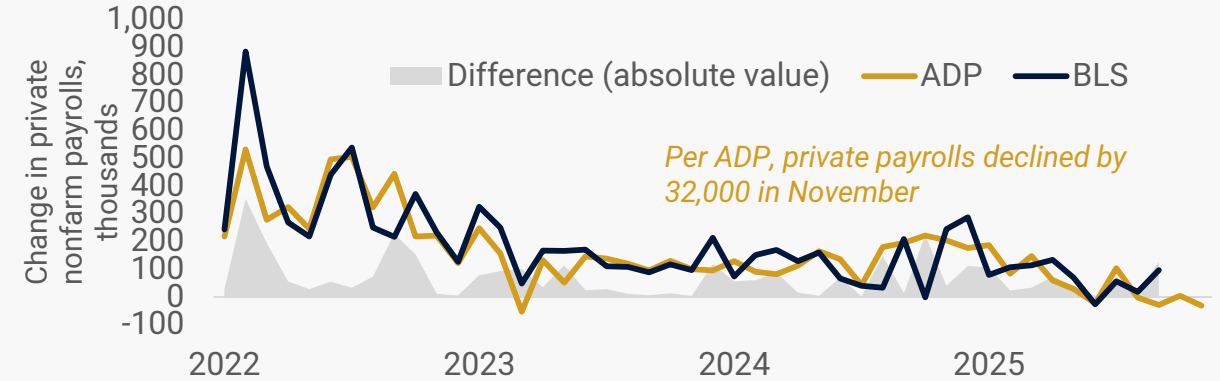


Given high underlying inflation, stronger-than-expected demand conditions in tandem amid high tariffs can pose inflationary risks

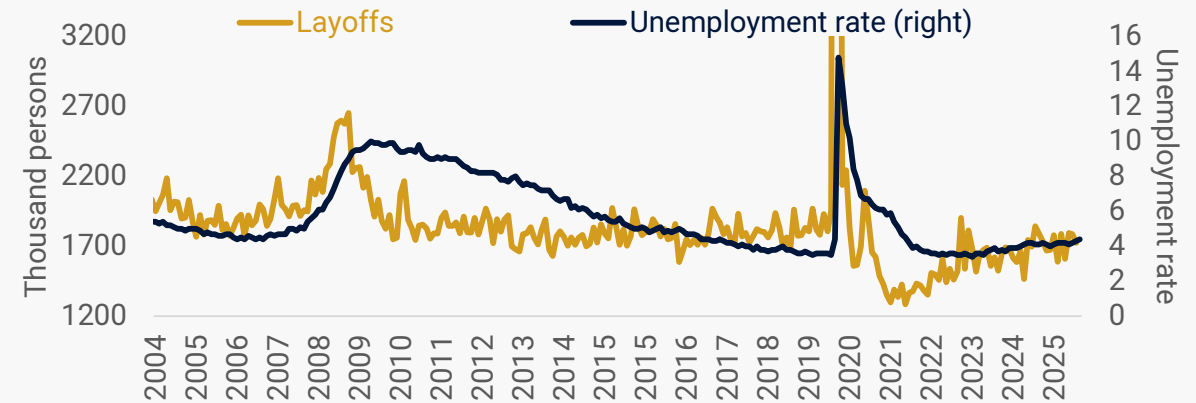


Source: AtlantaFed, BLS

Labor market conditions continue to deteriorate, albeit not at a pace that suggests a wholesale slowdown in aggregate demand conditions



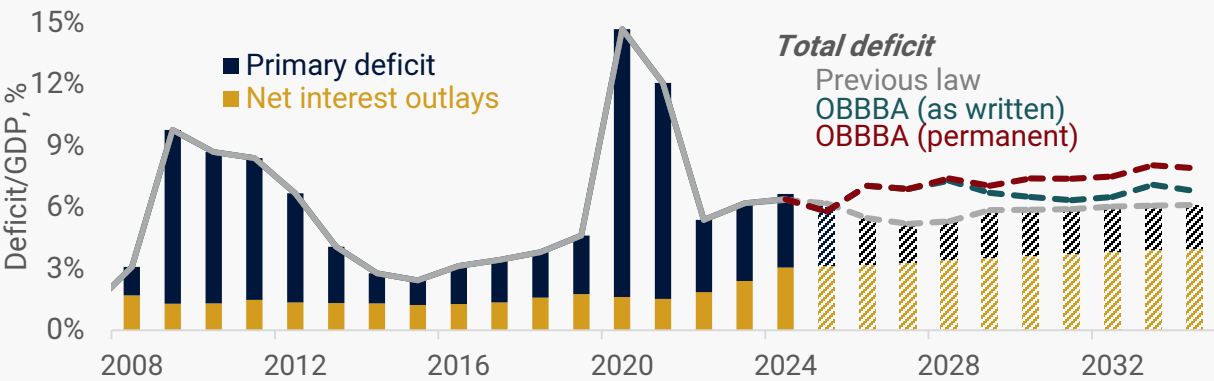
Despite slight upticks, unemployment and layoffs remain broadly stable



Source: BLS, ADP

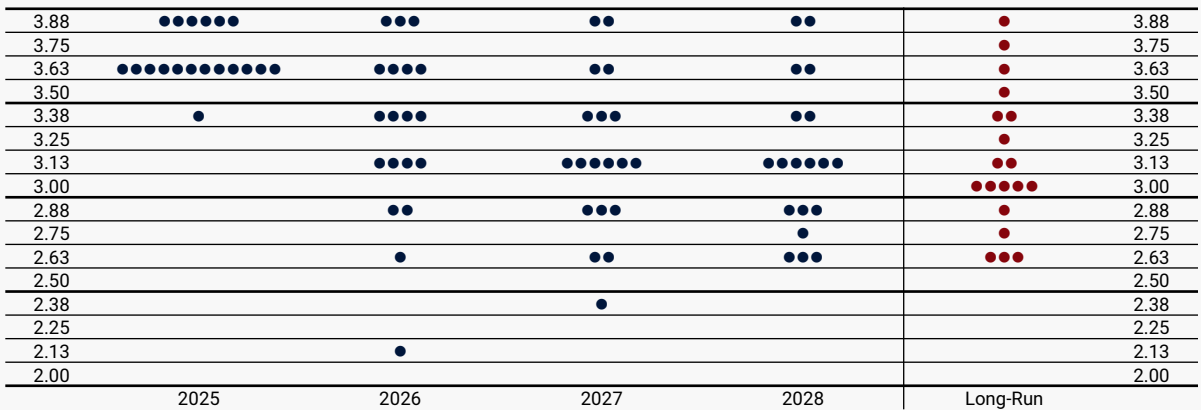
US. Medium- and long-term risks pose serious challenges to the Fed policy outlook

Expansionary fiscal policy threatens meaningful increases in deficit and higher public debt trajectory...



...posing serious upside risks to long-term interest rates in the US and emerging markets

Fed Summary of Economic Projections (Dot Plot)

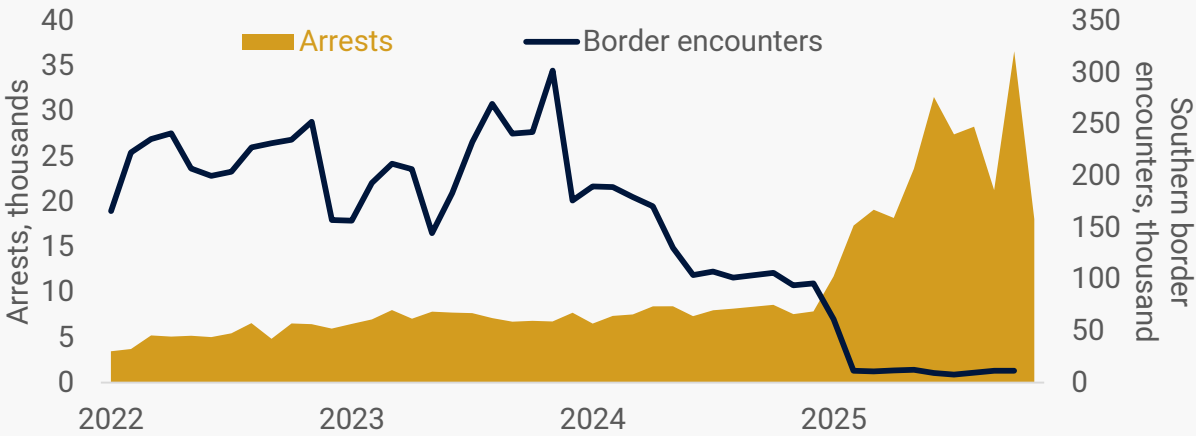


Source: US CBO, FRB

Possible overvaluation in financial asset prices adds uncertainty to medium-term consumption and growth outlook



Migration policy threatens medium-term tightening of labor market conditions, inflationary pressures, and lower potential output growth



Source: Robert Shiller Transactional Records Access Clearinghouse, ICE, CBP

US. Challenges associated with managing short-run inflation-output tradeoff on the one hand and underlying long-term risks on the other significantly complicates the monetary policy outlook

Challenges with managing **short-run** inflation-output tradeoff

Downside risks: labor market weakening, rising loan delinquency rates, worsening sentiment

Upside risks: still unresolved inflation problem, high consumption

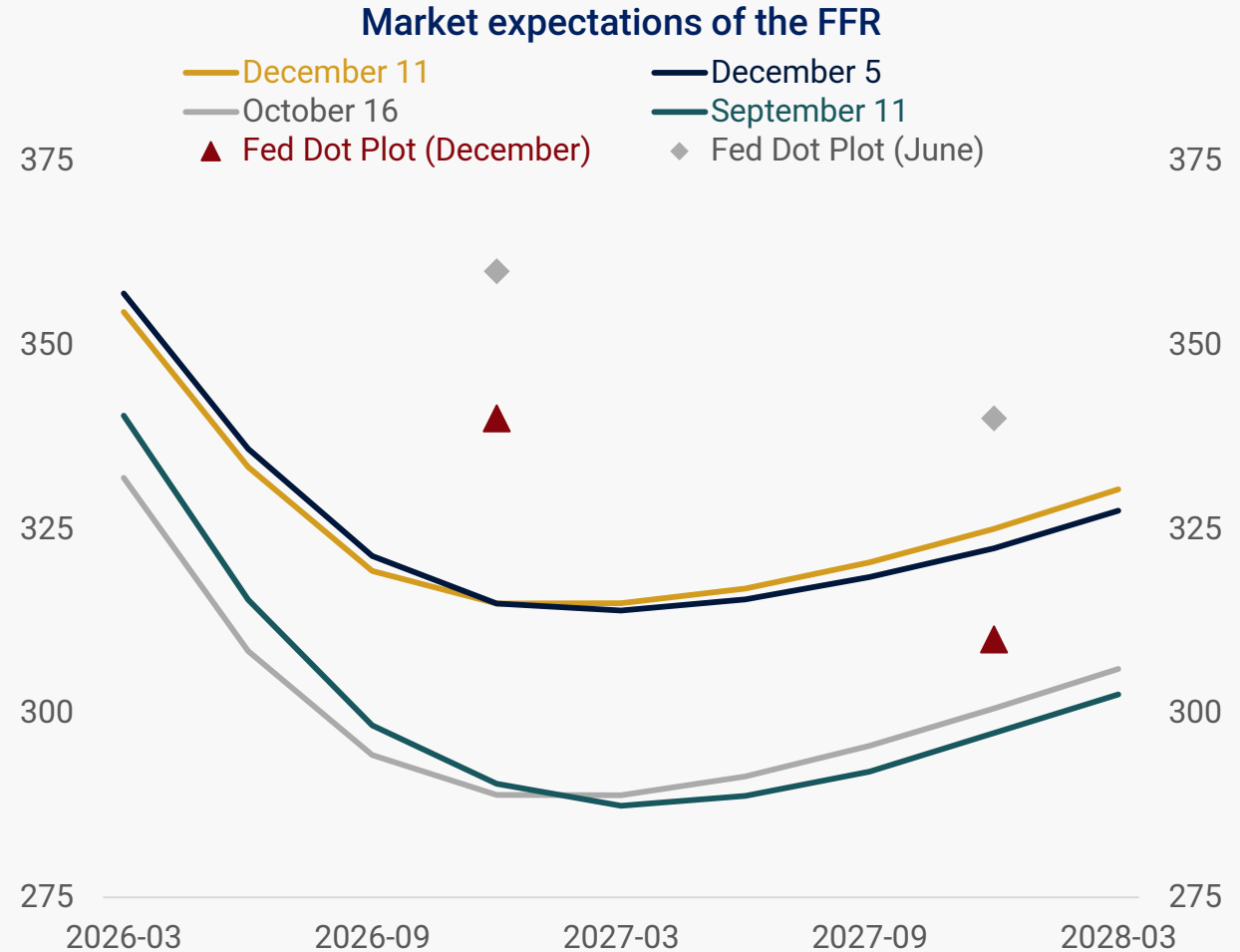
Medium- and long-term risks

Persistent inflationary risks, driven by sustained consumption growth and expansionary fiscal policy

Fiscal unsustainability, generating upside pressure on neutral rates

Risks of **overvalued stock prices** and possible price corrections

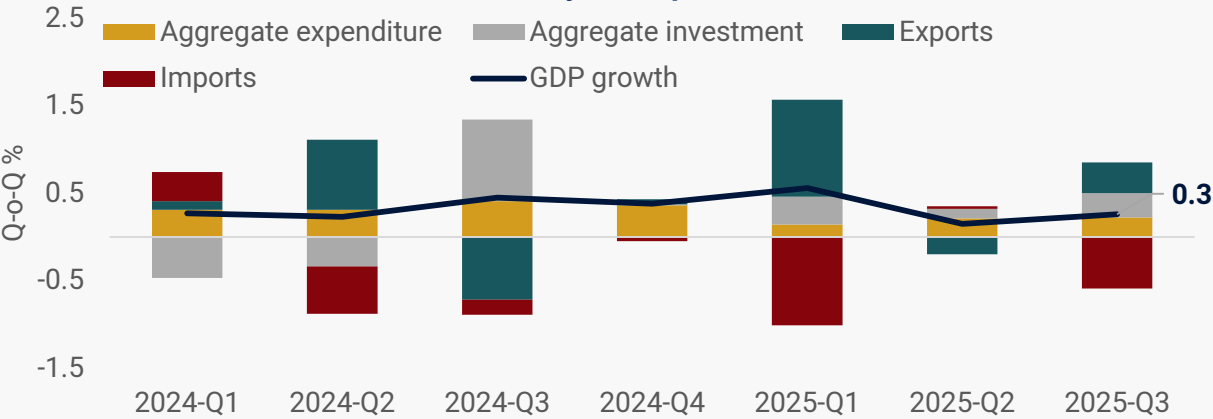
Tightening migration policy generating labor supply shortages, inflationary pressures, and lower potential output growth



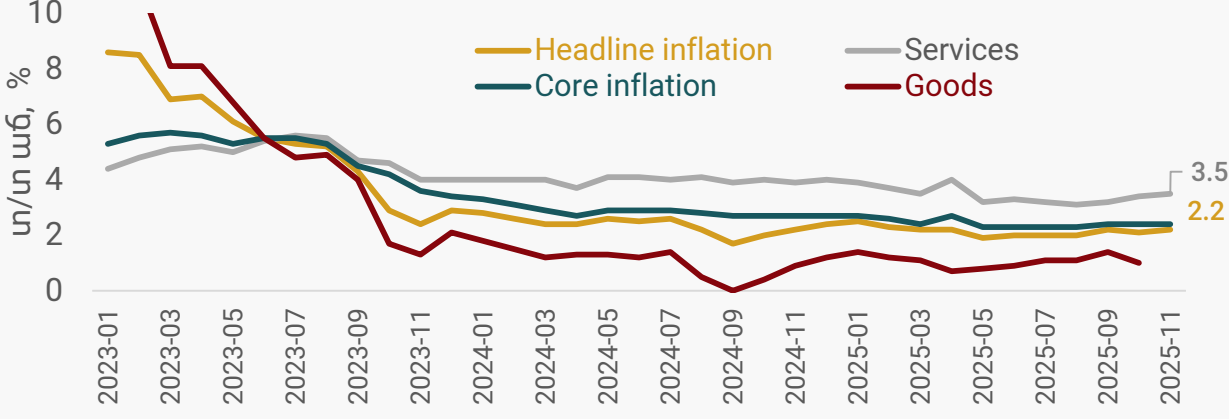
Source: Atlanta Fed

Euro Area: Despite some expansion in economic growth and exports in the third quarter, structural issues pose challenges to the long-term sustainability and outlook of growth.

Economic growth accelerated in the third quarter, driven by a partial recovery in exports.



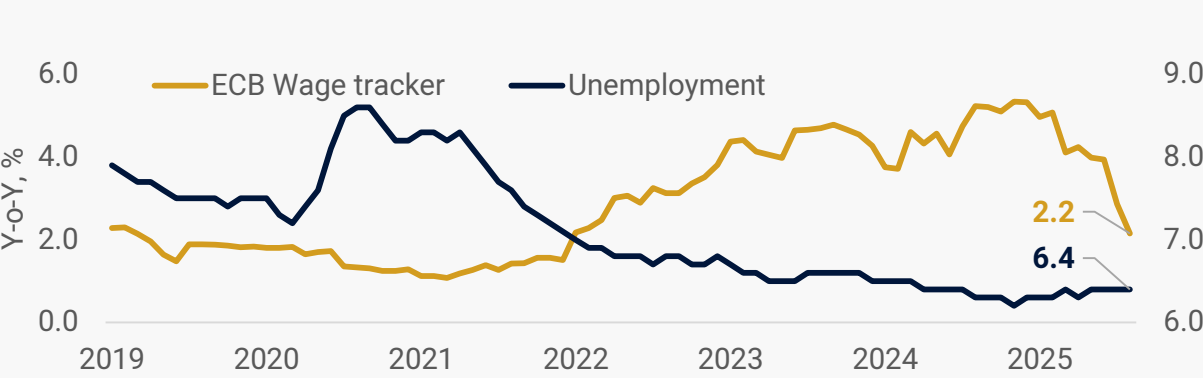
Inflation remains at stable levels; however, services inflation has accelerated in recent months.



Against the backdrop of structural challenges, weak investment activity and low levels of gross capital formation persist.



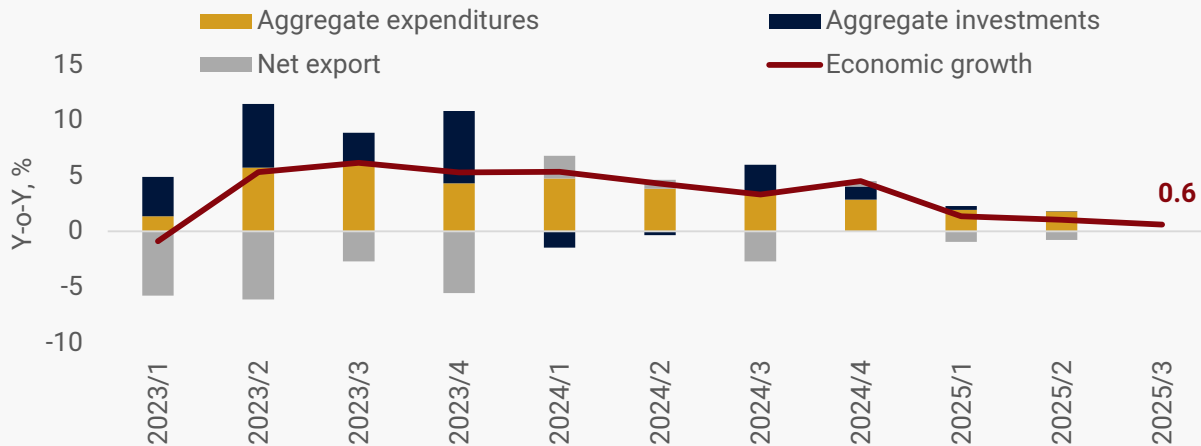
Unemployment remains at low levels, however the recent slowdown in wage growth may signal some easing in labor market conditions.



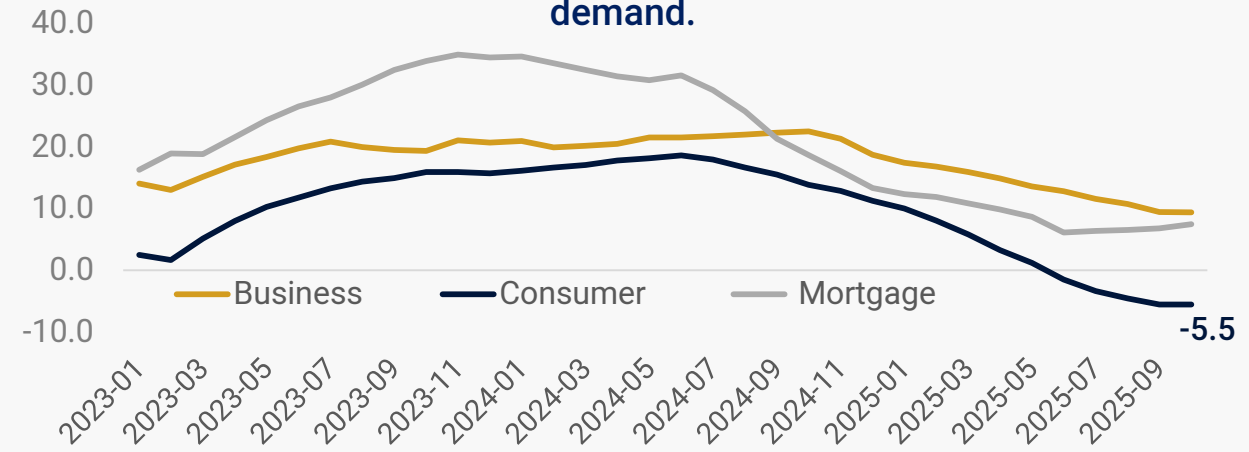
Source: Eurostat, ECB

Russia: Despite some expansion in economic activity in October, risks of a deterioration in demand conditions and the growth outlook persist.

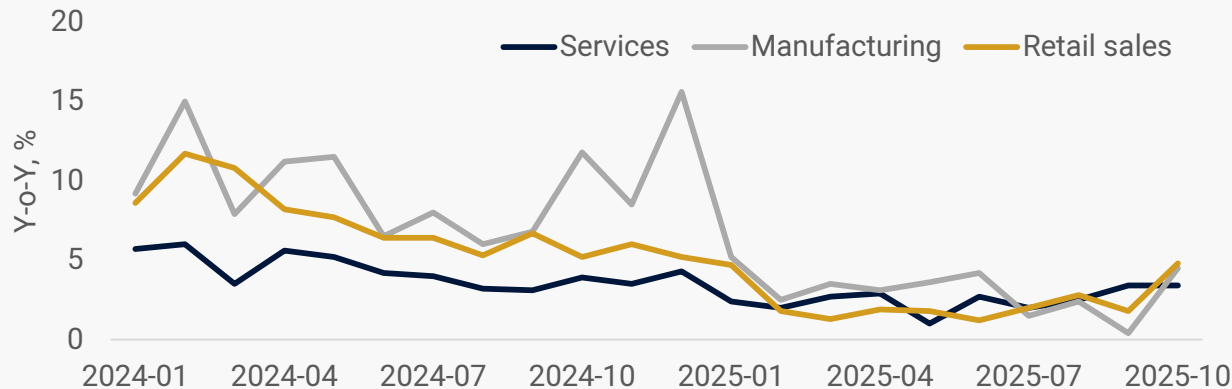
Economic growth slowed sharply in the third quarter of 2025



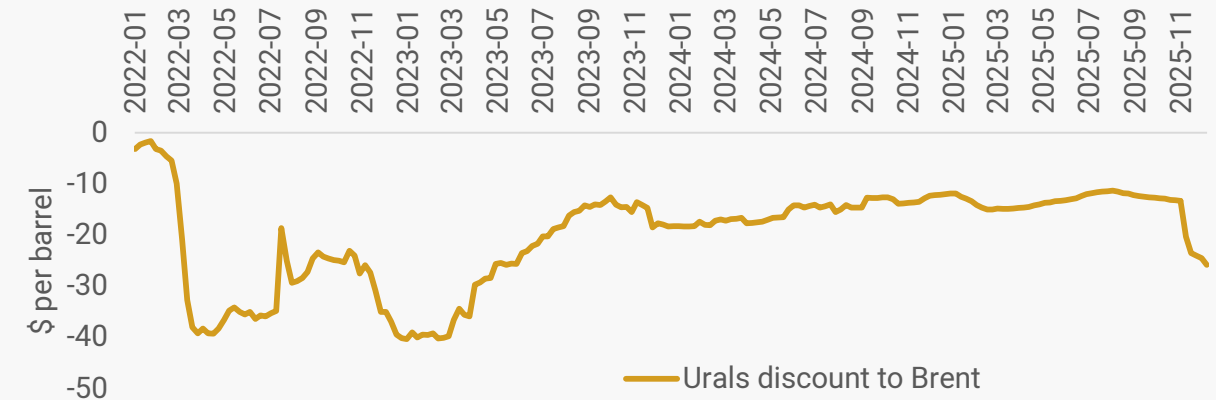
The continued slowdown in lending may reflect weak underlying demand.



There are mixed signals regarding demand conditions in the economy.



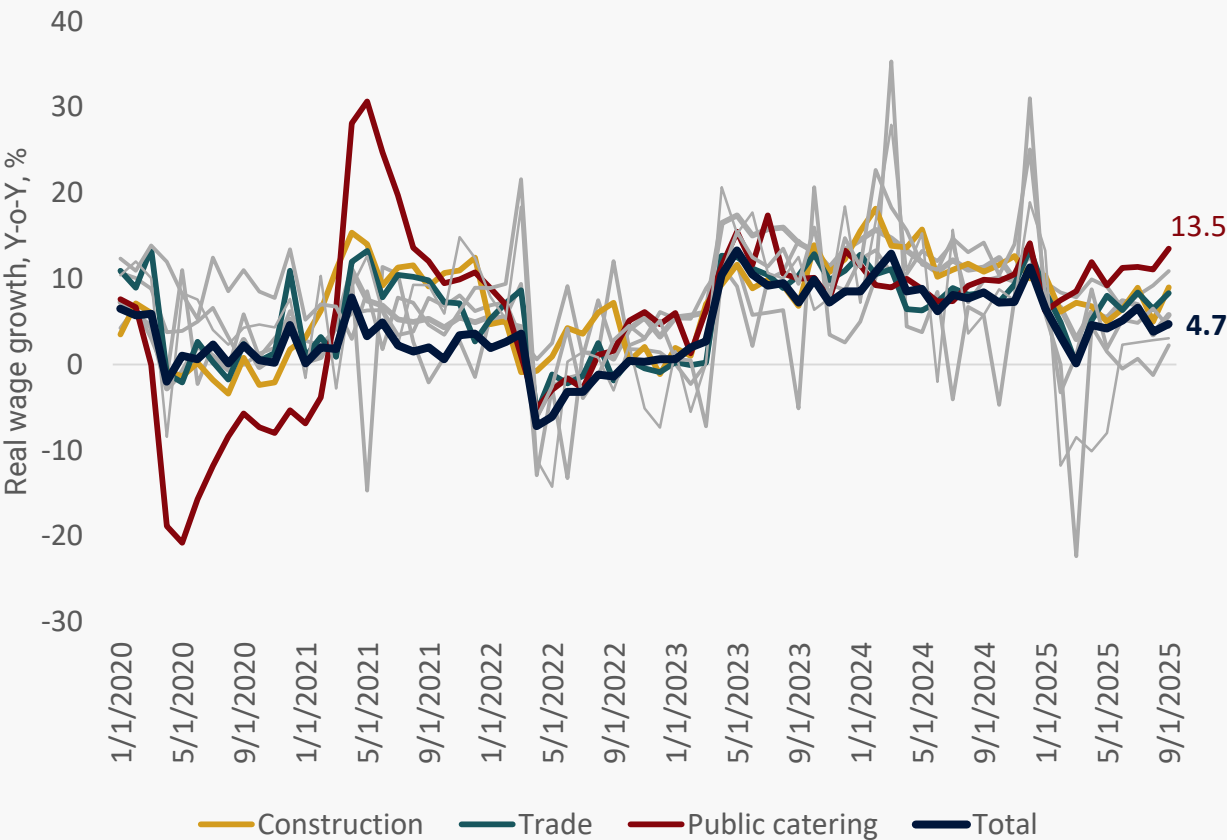
The recent sharp decline in Russian oil prices poses significant risks to budget revenue collection



Source: Rosstat, CBR

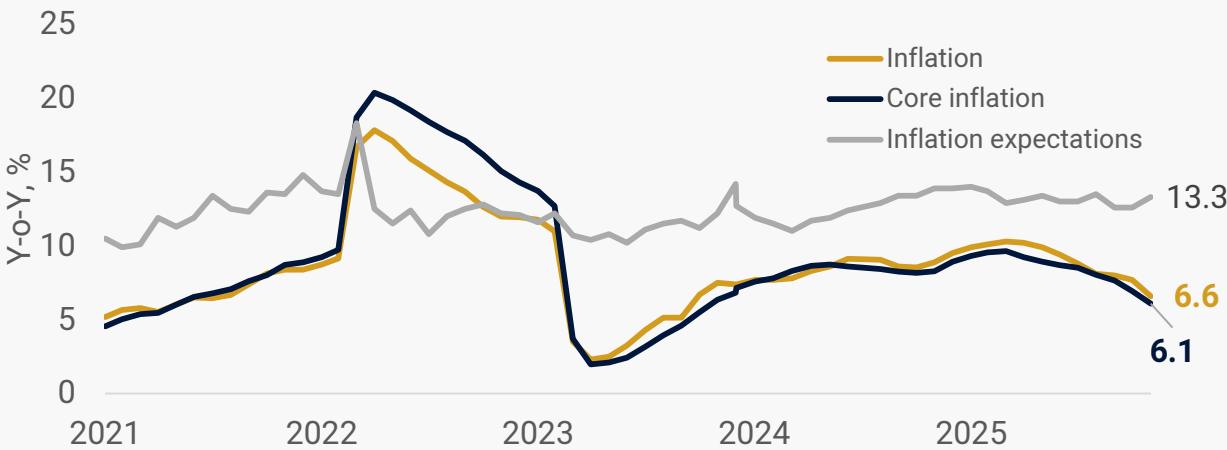
Russia: Labor market conditions remain tight, exerting strong inflationary pressures on the economy, while elevated inflation expectations create additional obstacles to achieving the price stability objective.

Labor market conditions remain tight, exerting additional inflationary pressures on the economy, while tighter migration policy may constitute an additional source of pressure.

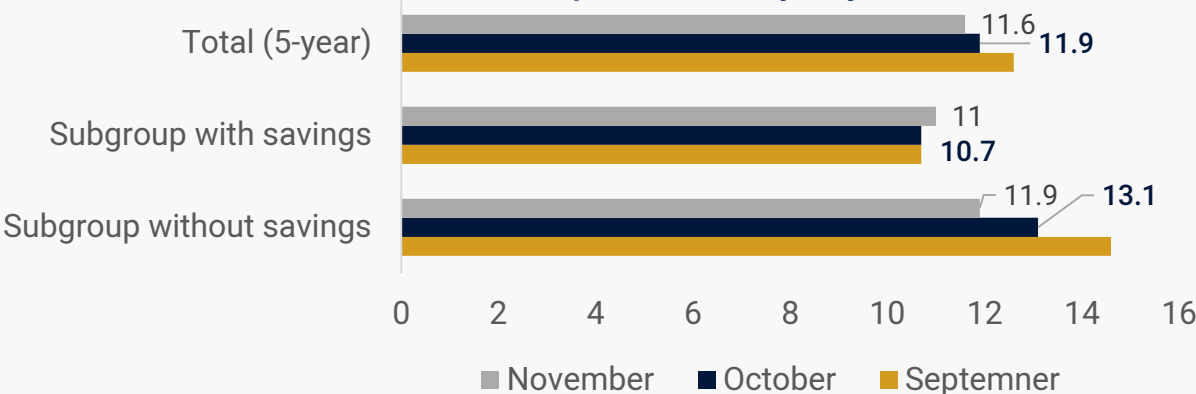


Source: Rosstat, CBR

Inflation remains above the target.

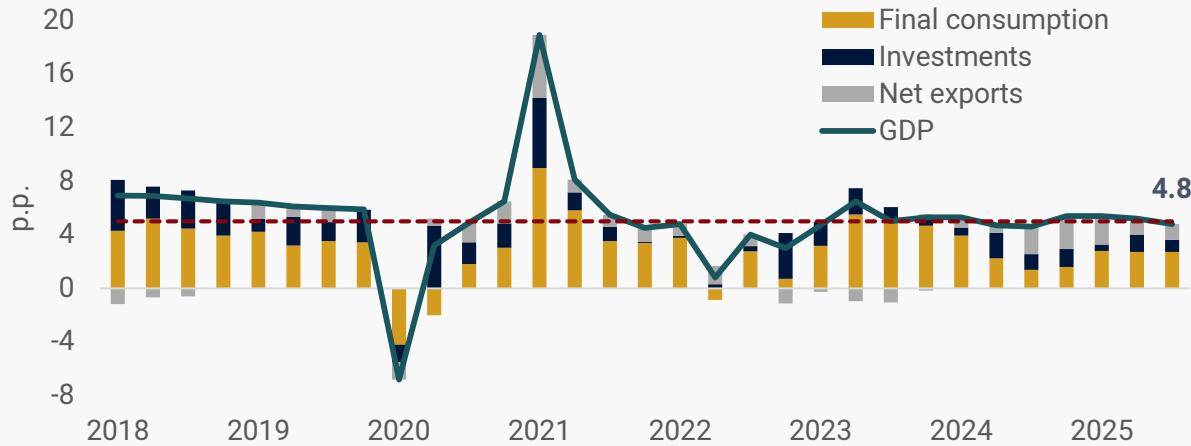


Elevated inflation expectations pose challenges to the CBA's achievement of the price stability objective.

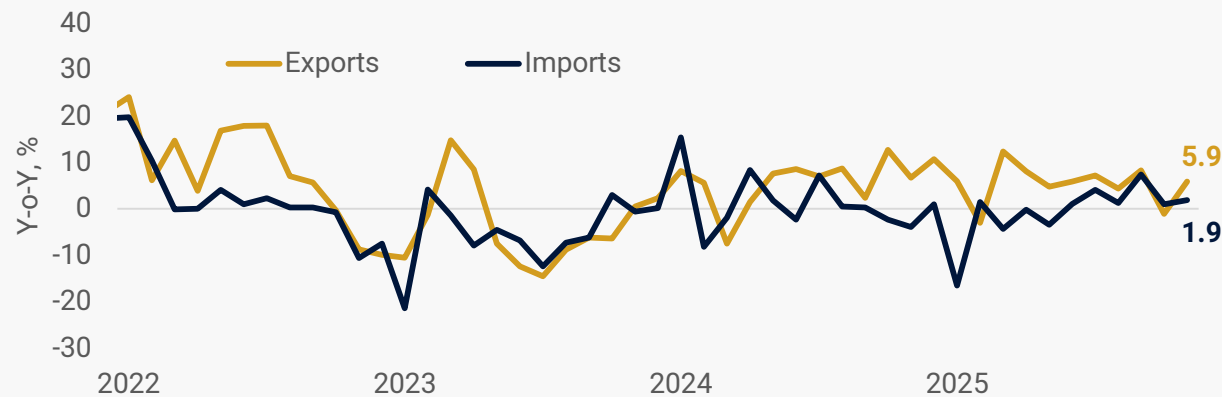


China. Despite stronger-than-expected export growth, economic growth slowed somewhat in the third quarter, reflecting weak consumption and a subdued investment environment.

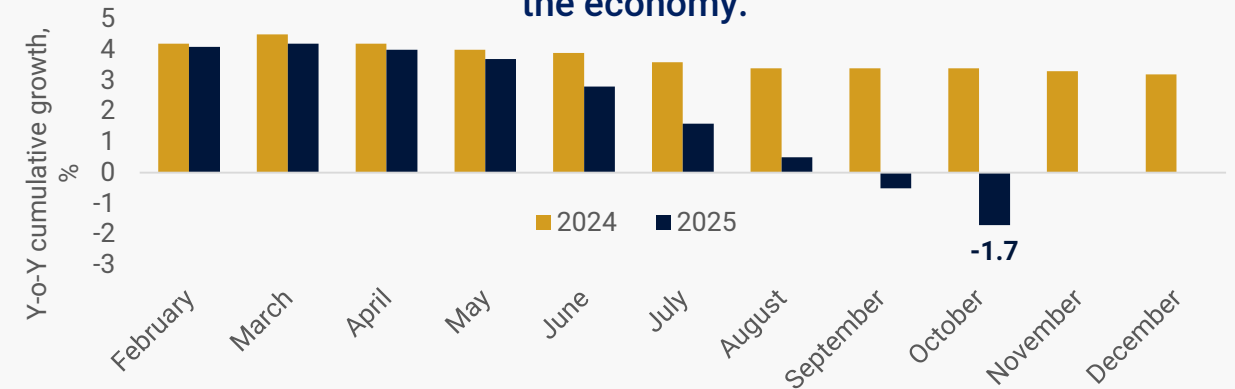
Exports remain the main driver of the economy.



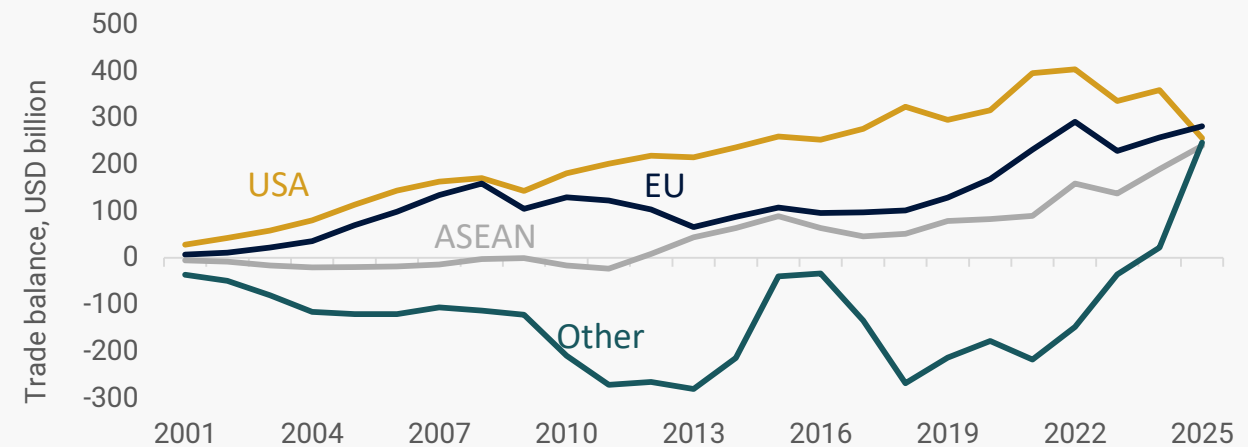
The slowdown in imports and retail trade may point to weak demand and rising risks of a deepening disinflationary environment.



Investment activity continues to weaken across almost all sectors of the economy.



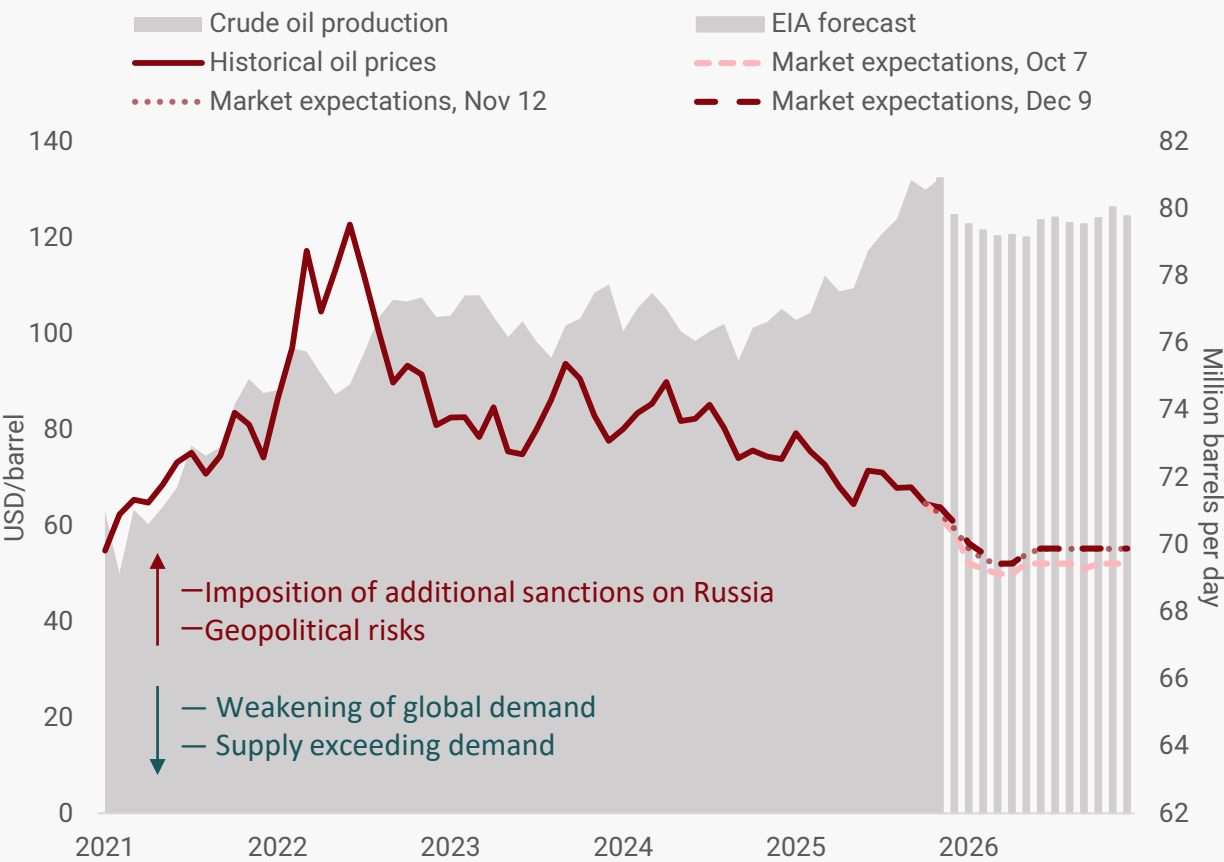
Against the backdrop of trade sanctions imposed on China, the risks of spillover disinflationary effects to other countries are increasing.



Source: National Bureau of Statistics of China.

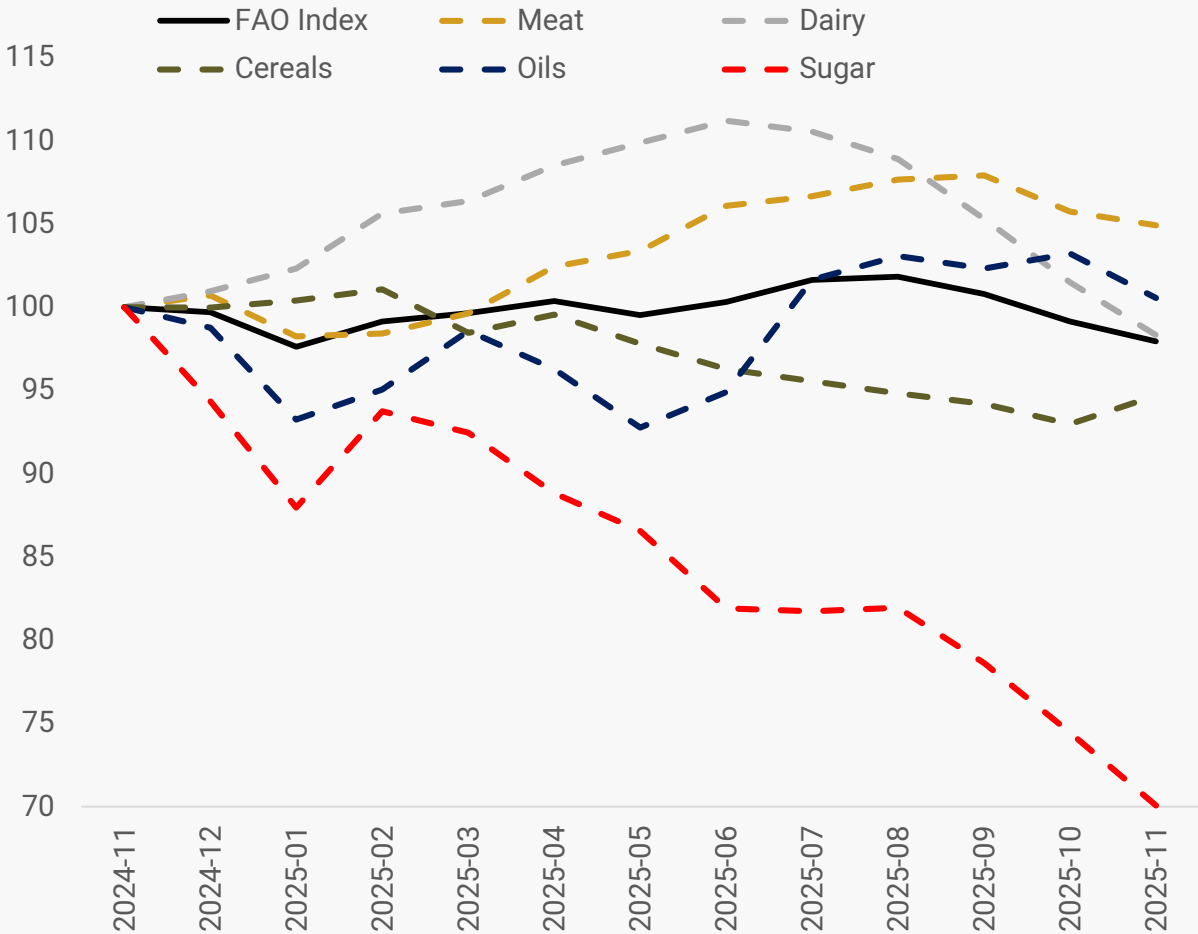
Commodity markets. Global oil prices have continued to decline, while food prices have eased amid a waning impact of supply-side factors.

Global oil production continues to exceed consumption, exerting downward pressure on global oil prices.

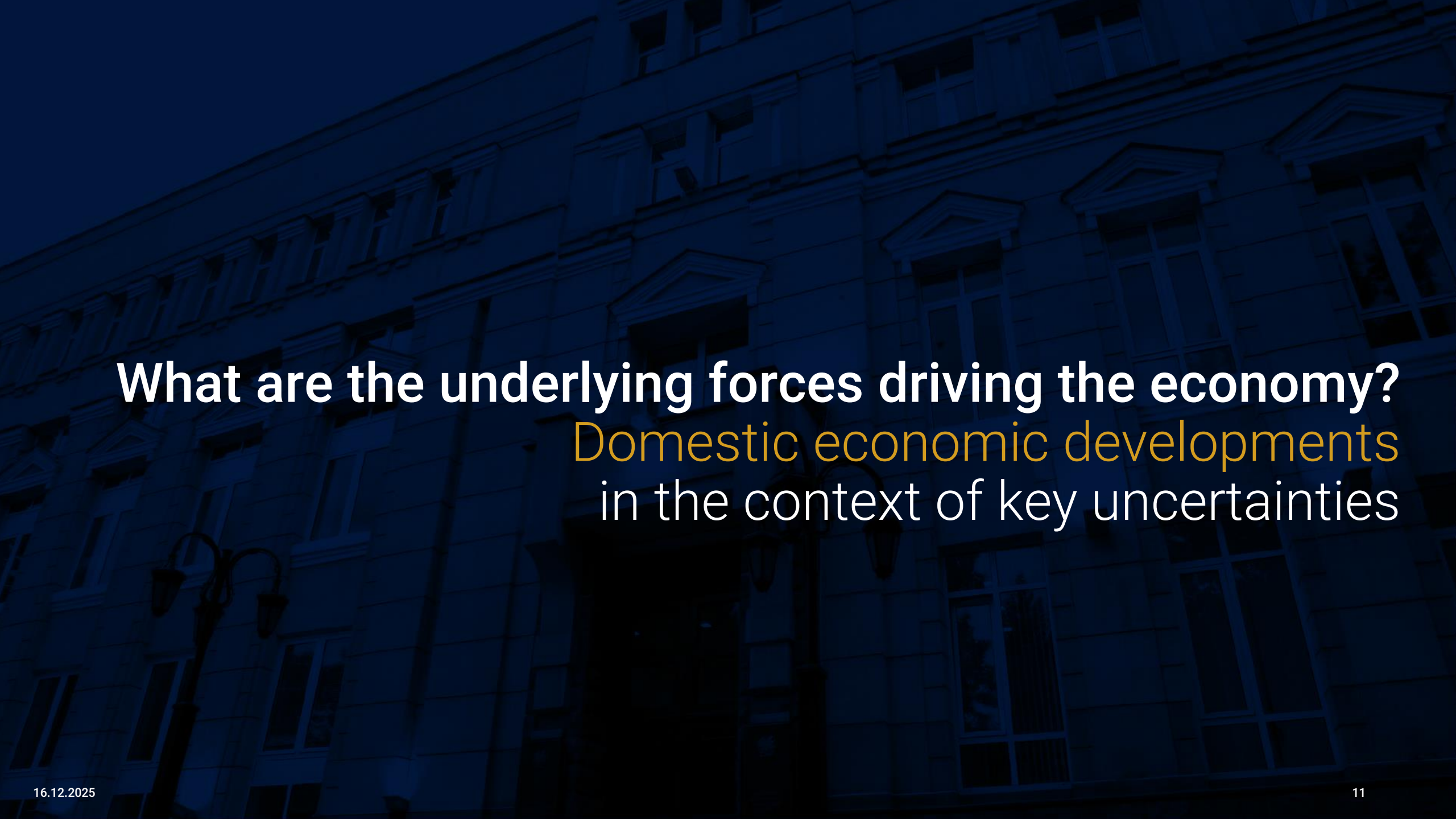


Source: EIA

FAO Food Price Index, 2024 November =100



Source: FAO

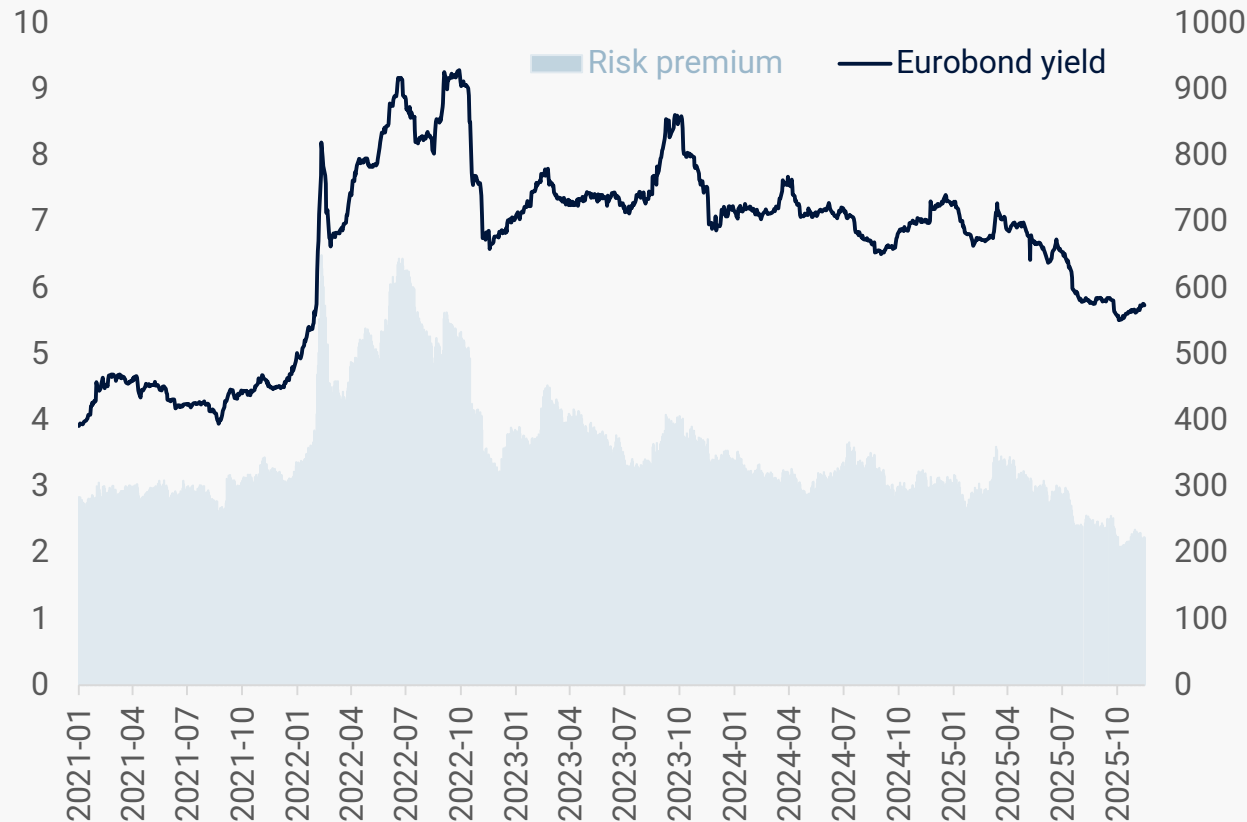


What are the underlying forces driving the economy?

Domestic economic developments
in the context of key uncertainties

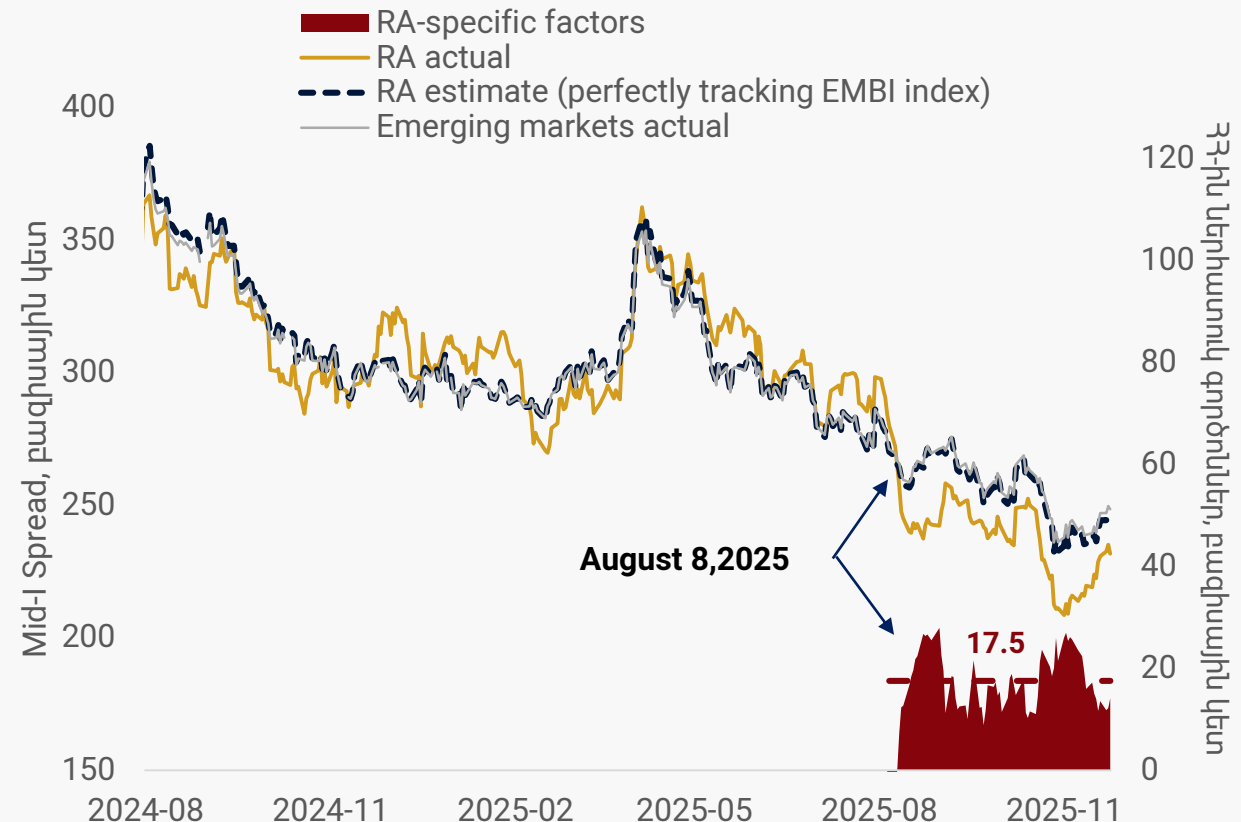
Risk premium. Uncertainties persist regarding the long-term sustainable level of Armenia's risk premium (1/2)

Recent movements in Armenia's risk premium reflect both broader trends among emerging and comparable economies and the impact of country-specific factors

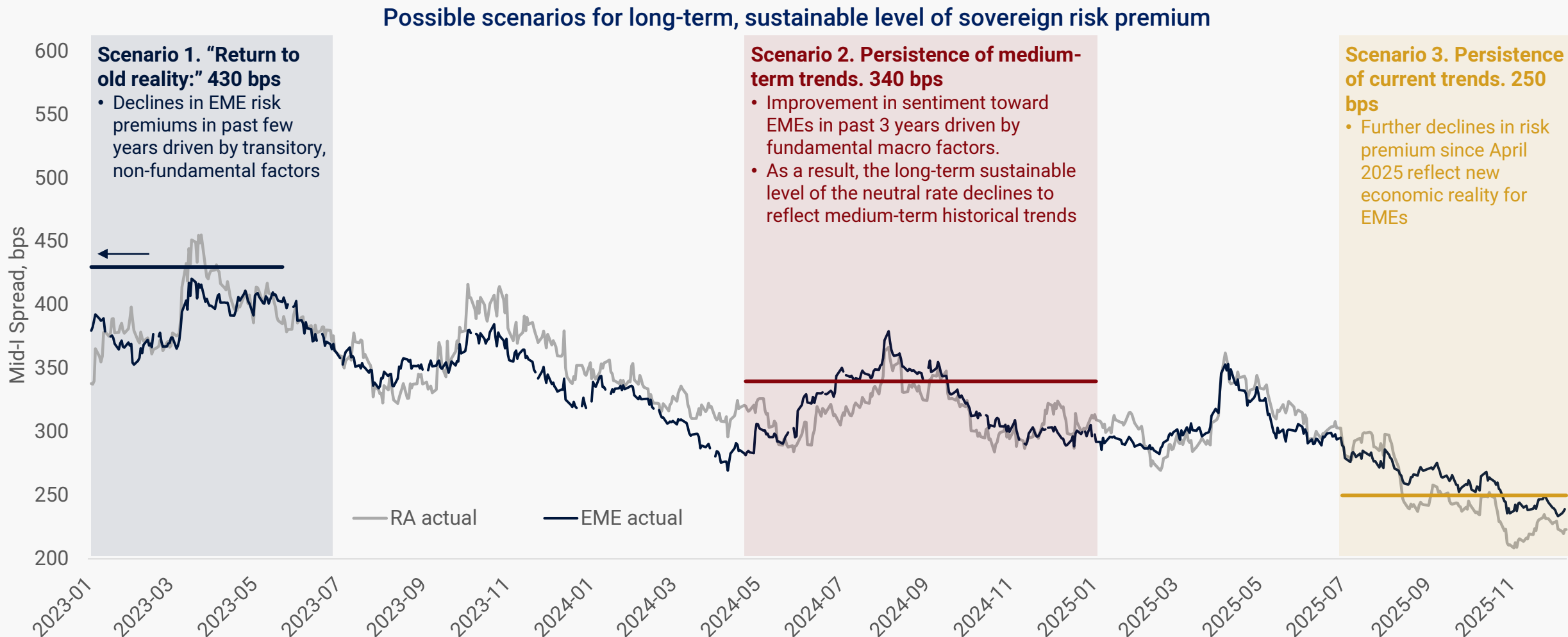


Source(s): Bloomberg, Fitch

While declines in Armenia's risk premium primarily follow broader EME trends, country-specific factors have driven steeper declines compared to EMEs, particularly after August 8



Risk premium. Uncertainties persist regarding the long-term sustainable level of Armenia's risk premium (2/2)

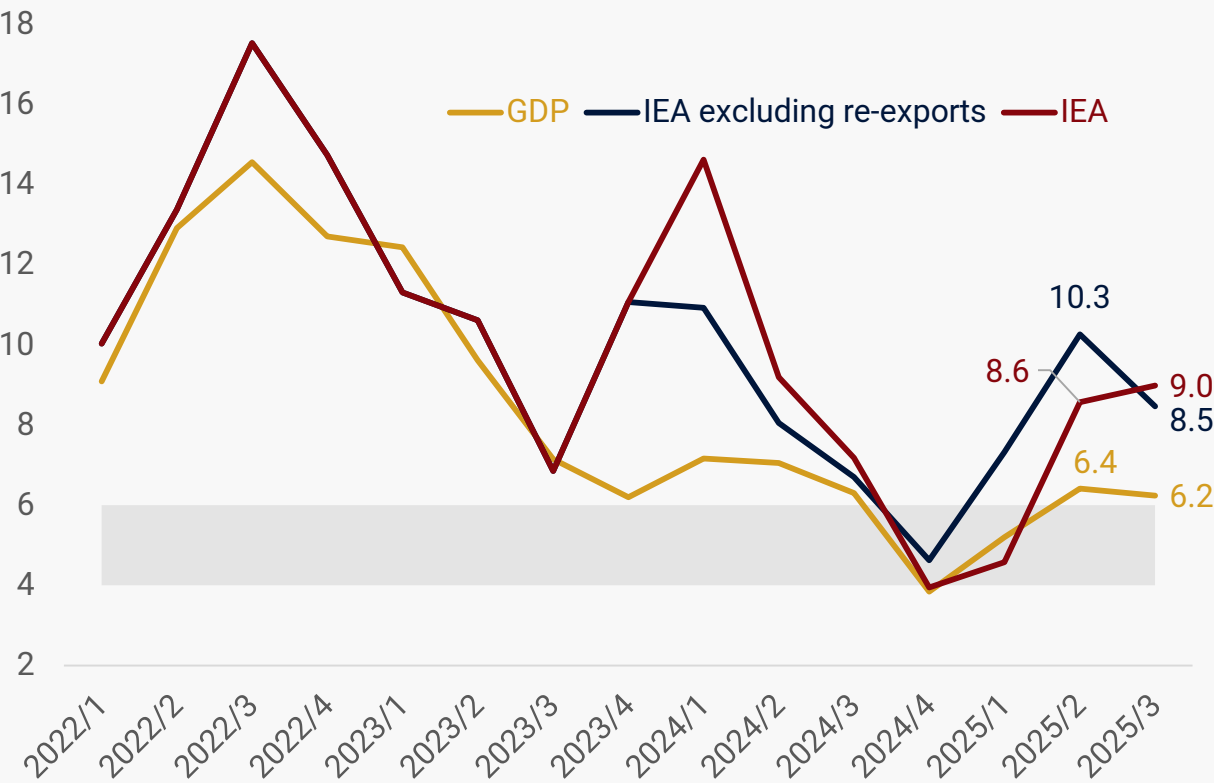


Source: Bloomberg, CBA estimates

Economic growth. In the third quarter, economic growth remained at elevated levels, driven by strong growth in the services and construction sectors.

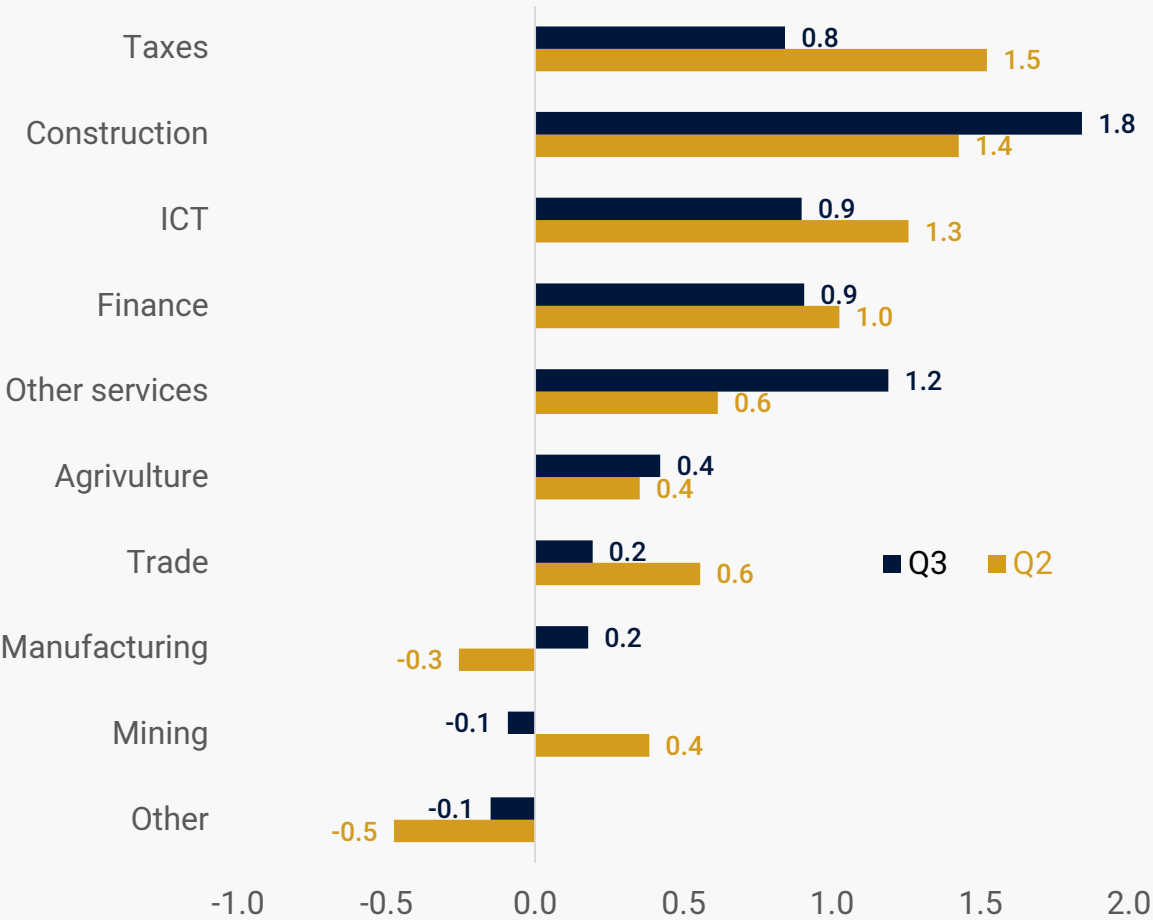
In the third quarter, strong increases in the IEA indicators were not accompanied by comparable GDP growth, reflecting the influence of certain non-structural factors

GDP and IEA Indicators, Real YoY Growth (%)

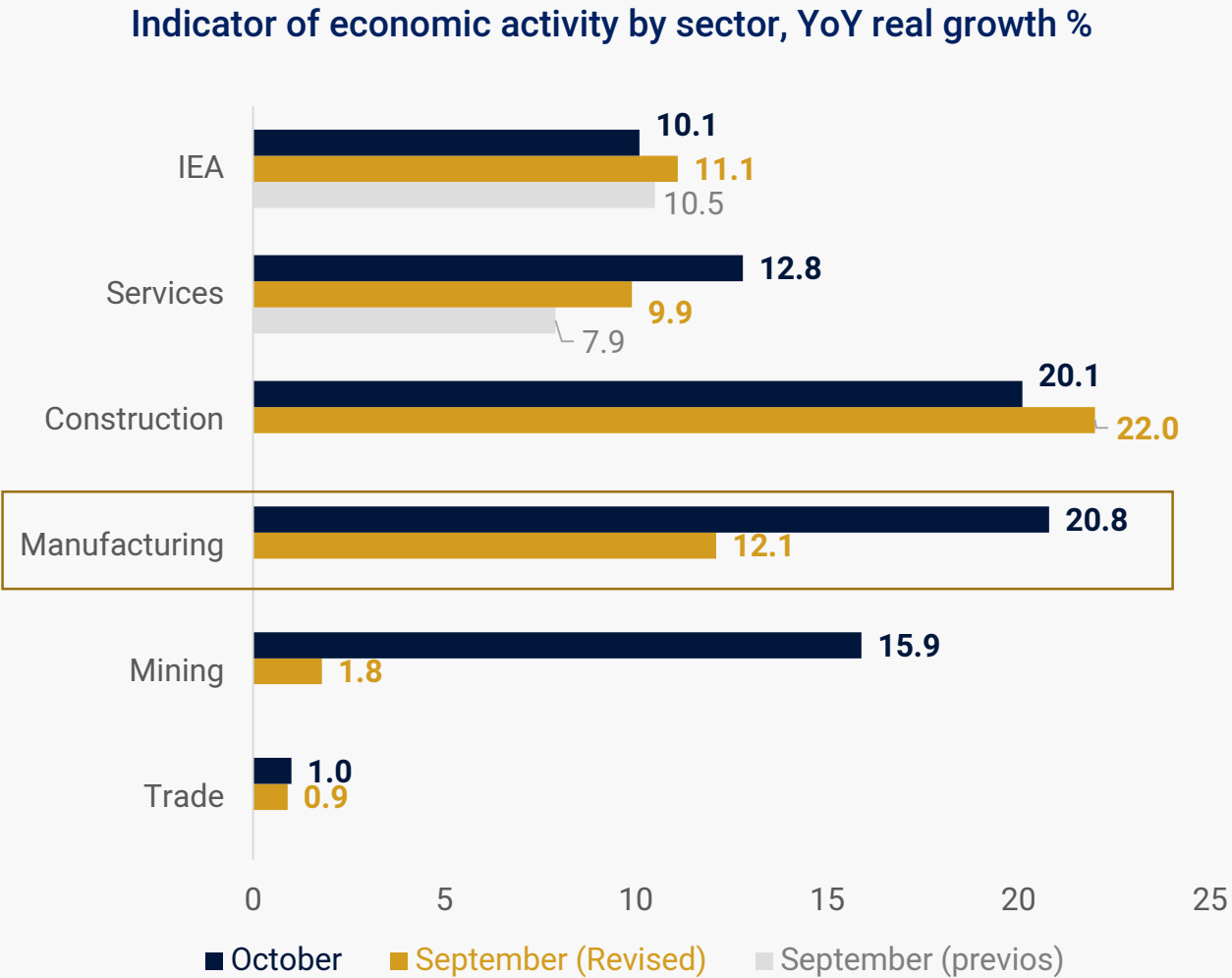
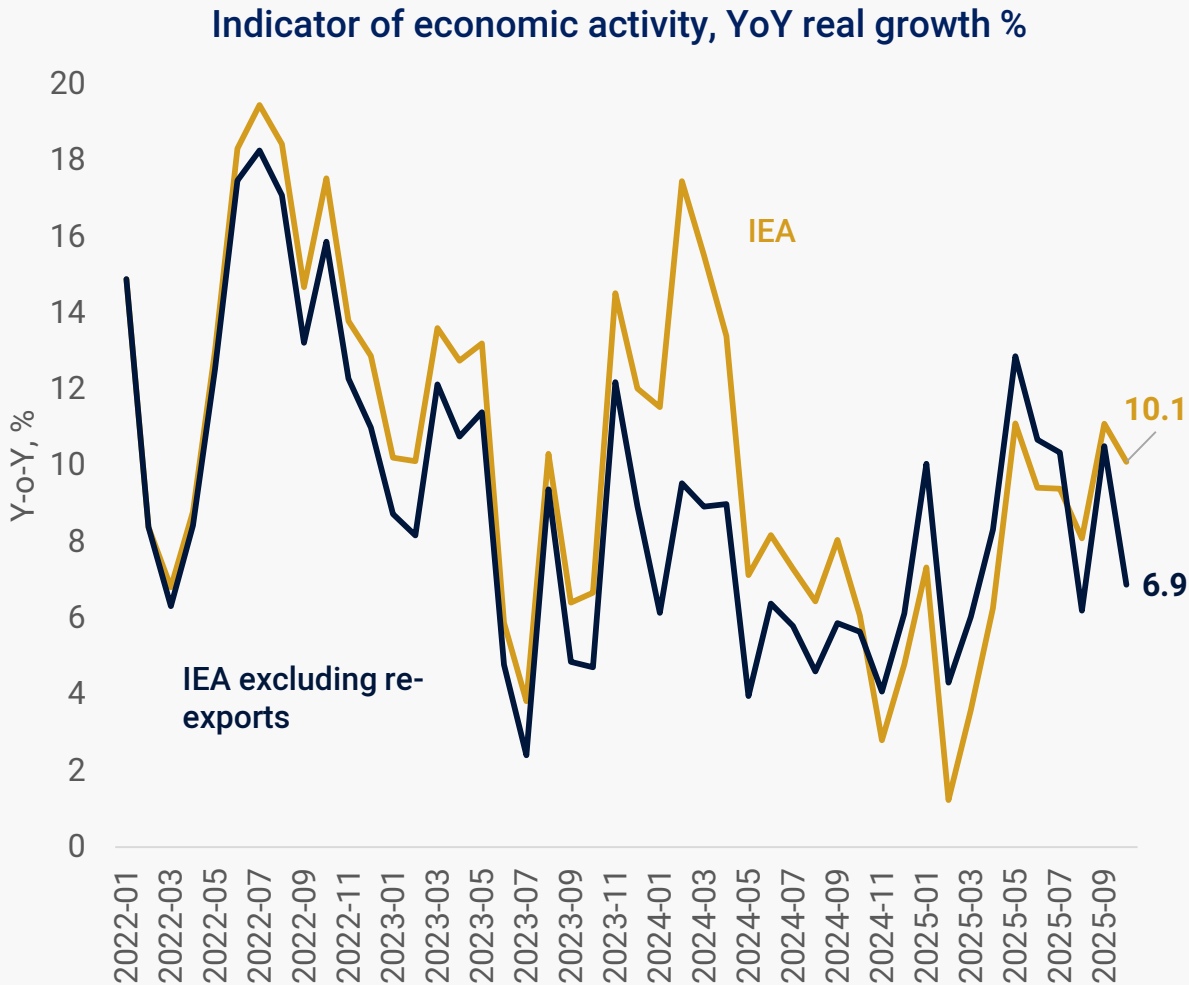


Source(s): SCRA, CBA estimations

Contribution of Key Sectors to GDP Growth (pp)



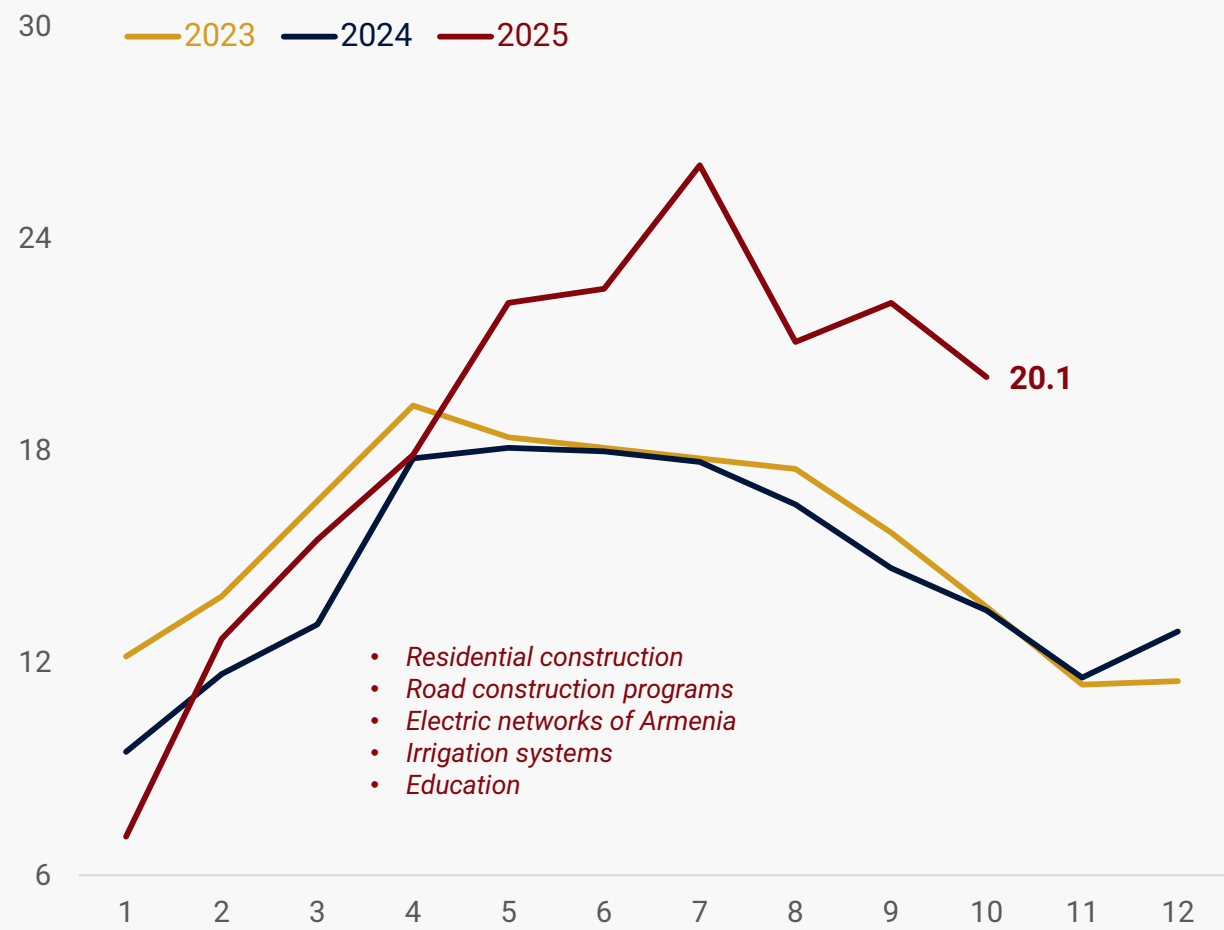
Economic Activity remained at elevated levels in October, largely supported by strong growth in the construction and services sectors, as well as a sharp acceleration in manufacturing activity.



Source(s): SC of Armenia, CBA estimations

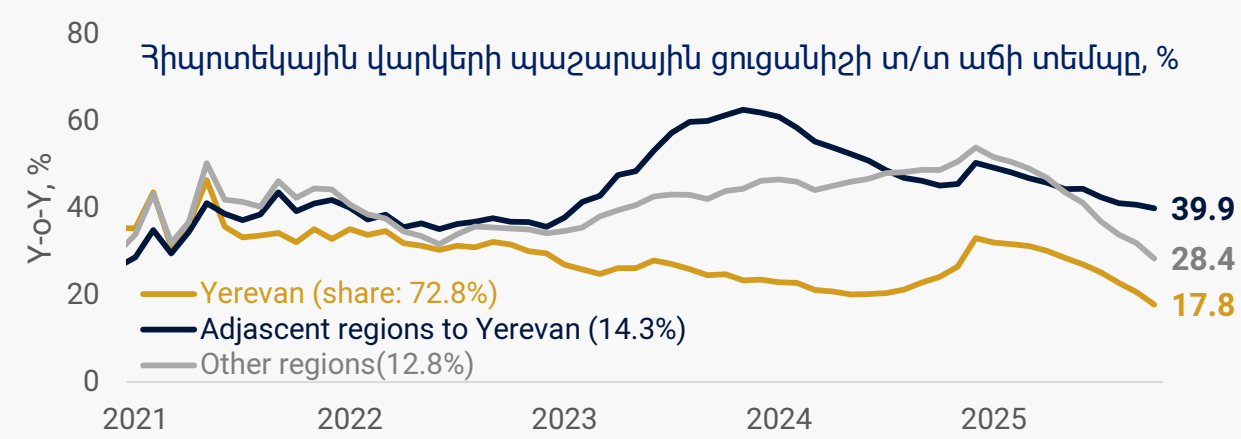
Construction sector continues to expand at a rapid pace; however, amid a gradual adjustment in real estate prices, downside risks to growth in related sectors, a weakening of demand, and consequently deflationary pressures persist.

Construction continues to grow at a robust pace

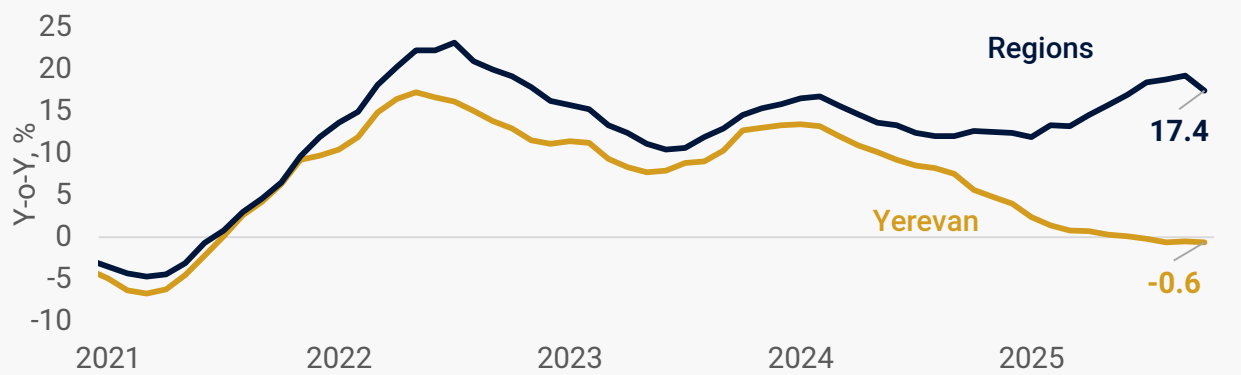


Source(s): SC of Armenia, Cadastre Committee of Armenia

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

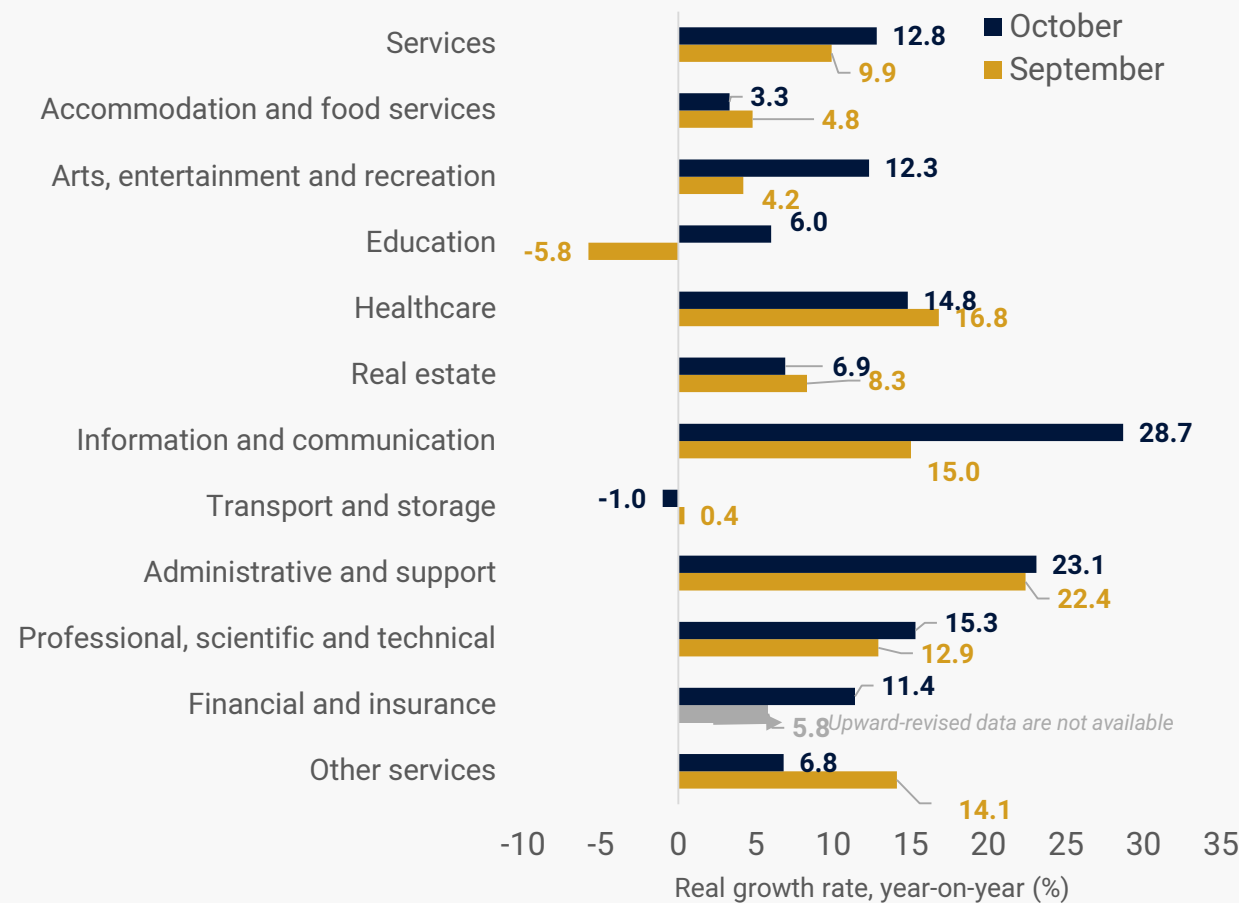


Change in prices per square meter of multi-apartment residential buildings, YoY %



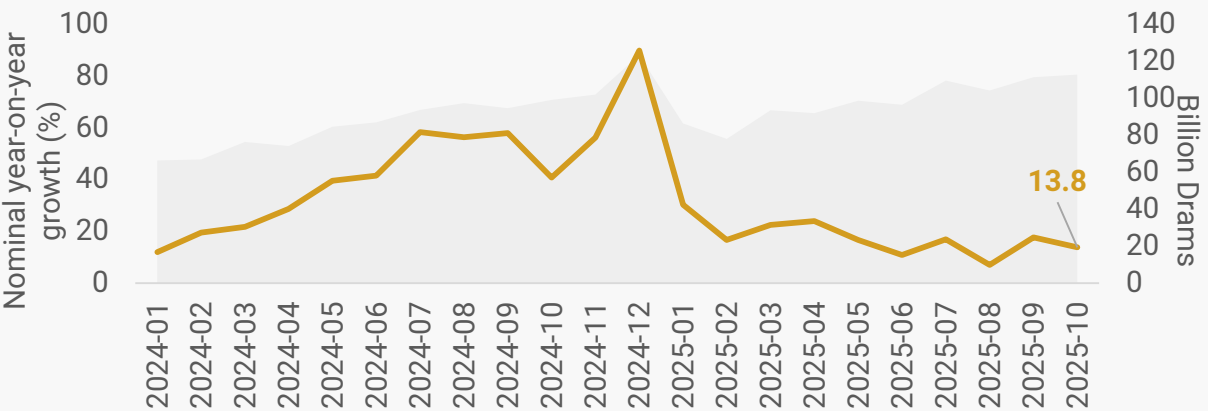
Services. Although financial services and the ICT sector remain the main growth drivers, faster growth in other sub-sectors suggests some expansion in economy-wide demand conditions

Growth in the services sector has been broad-based

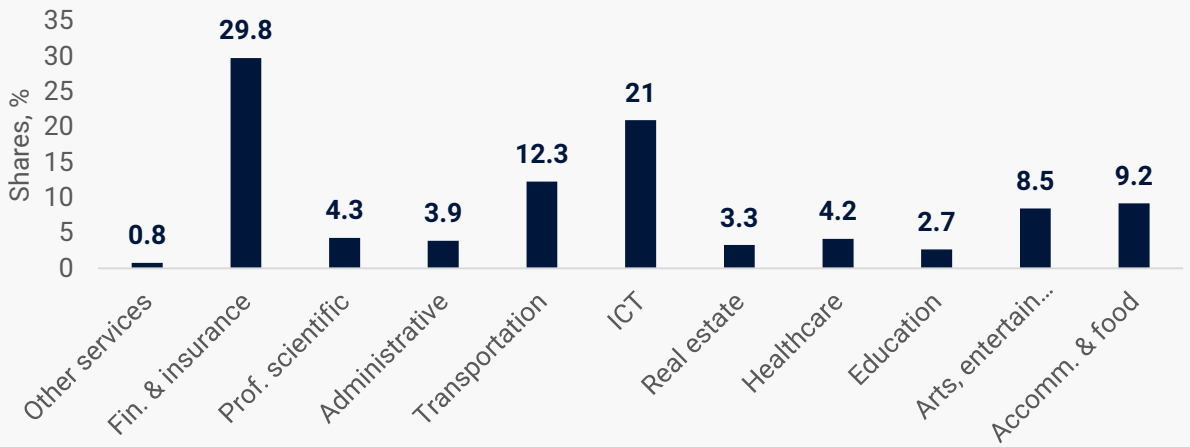


Source: SC of RA, CBA

Strong growth in financial and insurance activities has been supported by a significant increase in net interest income from traditional banking operations

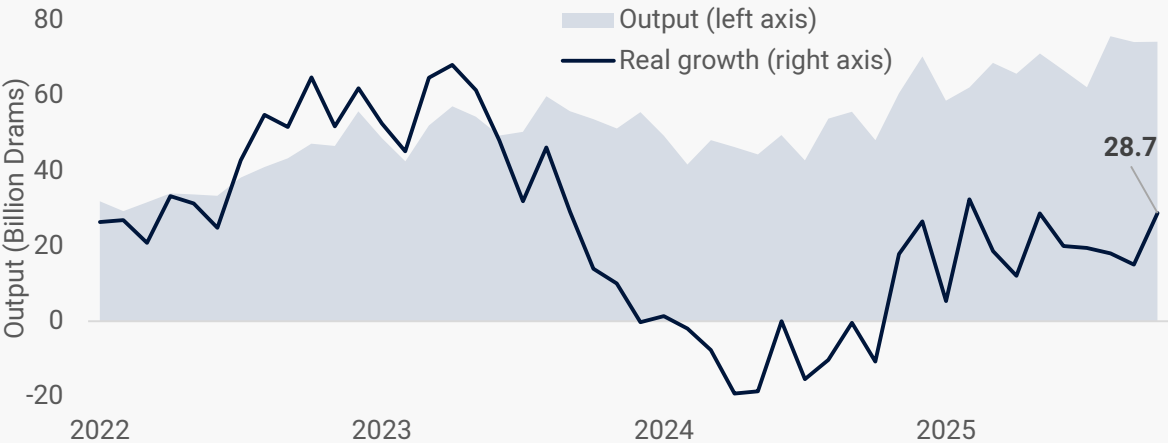


Shares of main sub-sectors in total services output

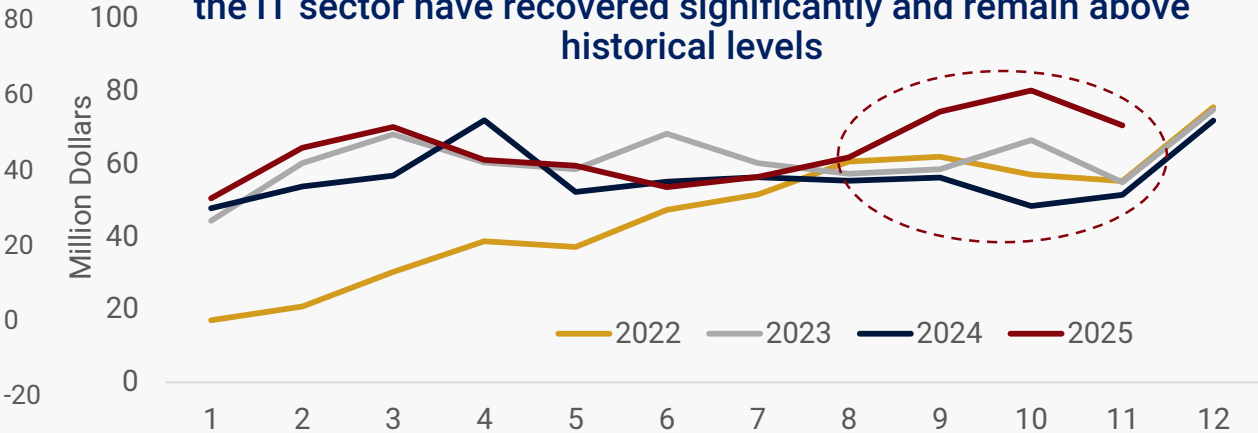


Services. Statistical limitations create uncertainty in the interpretation of high growth rates in the ICT sector

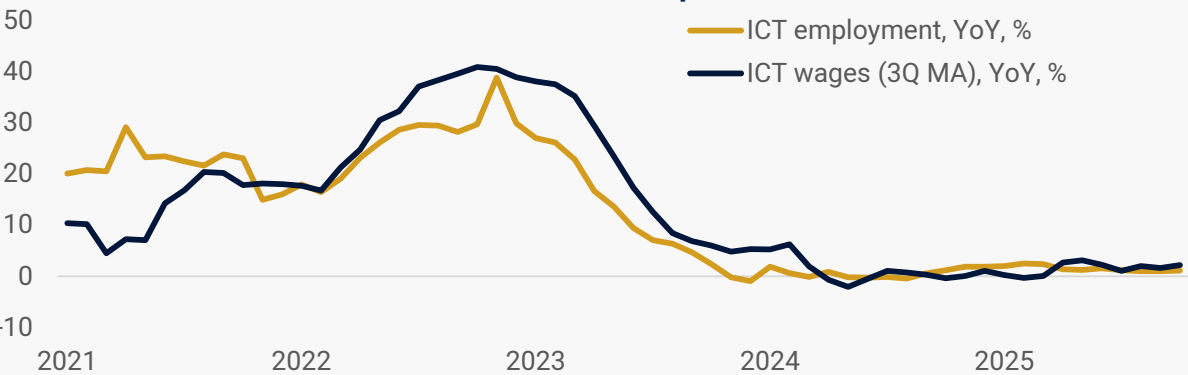
ICT sector output remains at elevated levels



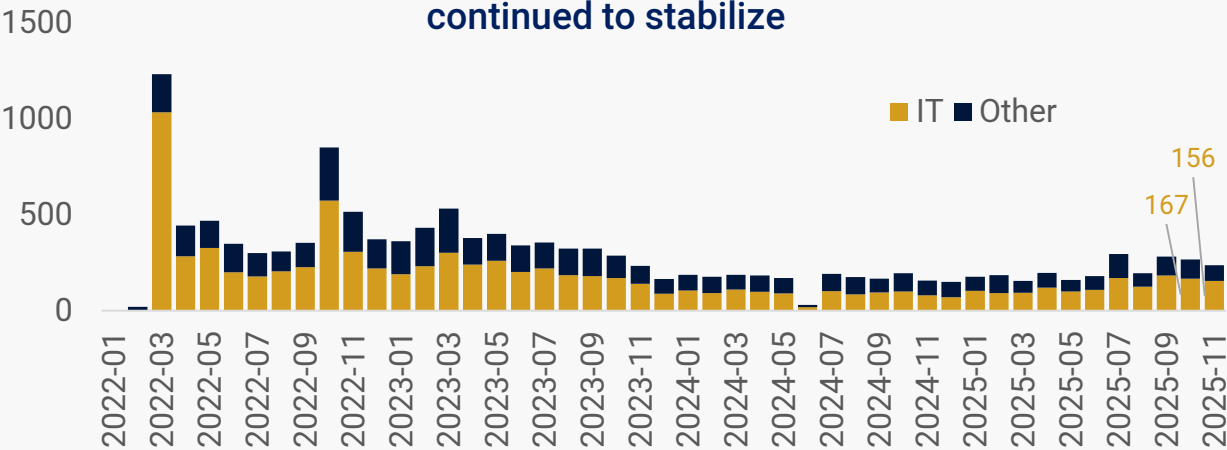
Following the slowdown in 2024, foreign-exchange transactions in the IT sector have recovered significantly and remain above historical levels



Employment and wage growth in the sector do not reflect strong growth dynamics, which may indicate that additional capacity has not been formed in recent periods



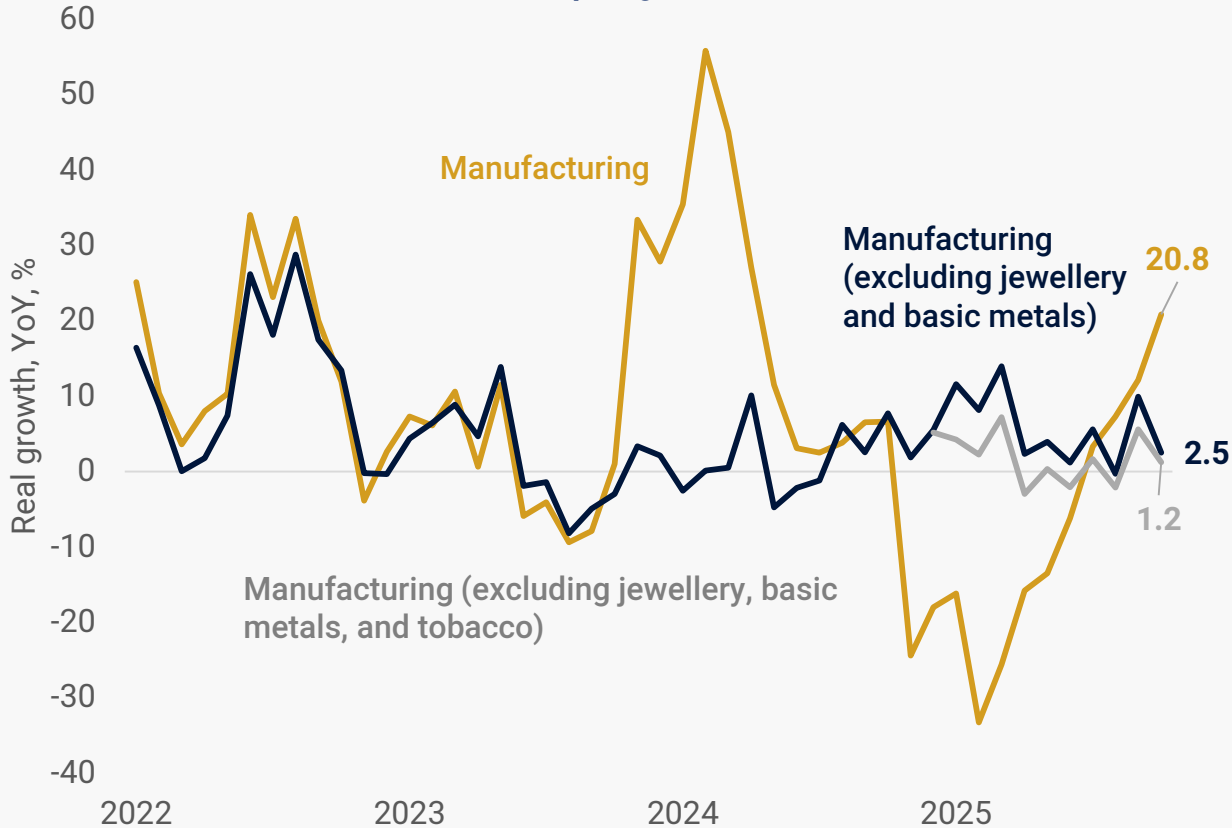
The number of newly registered non-resident sole proprietors has continued to stabilize



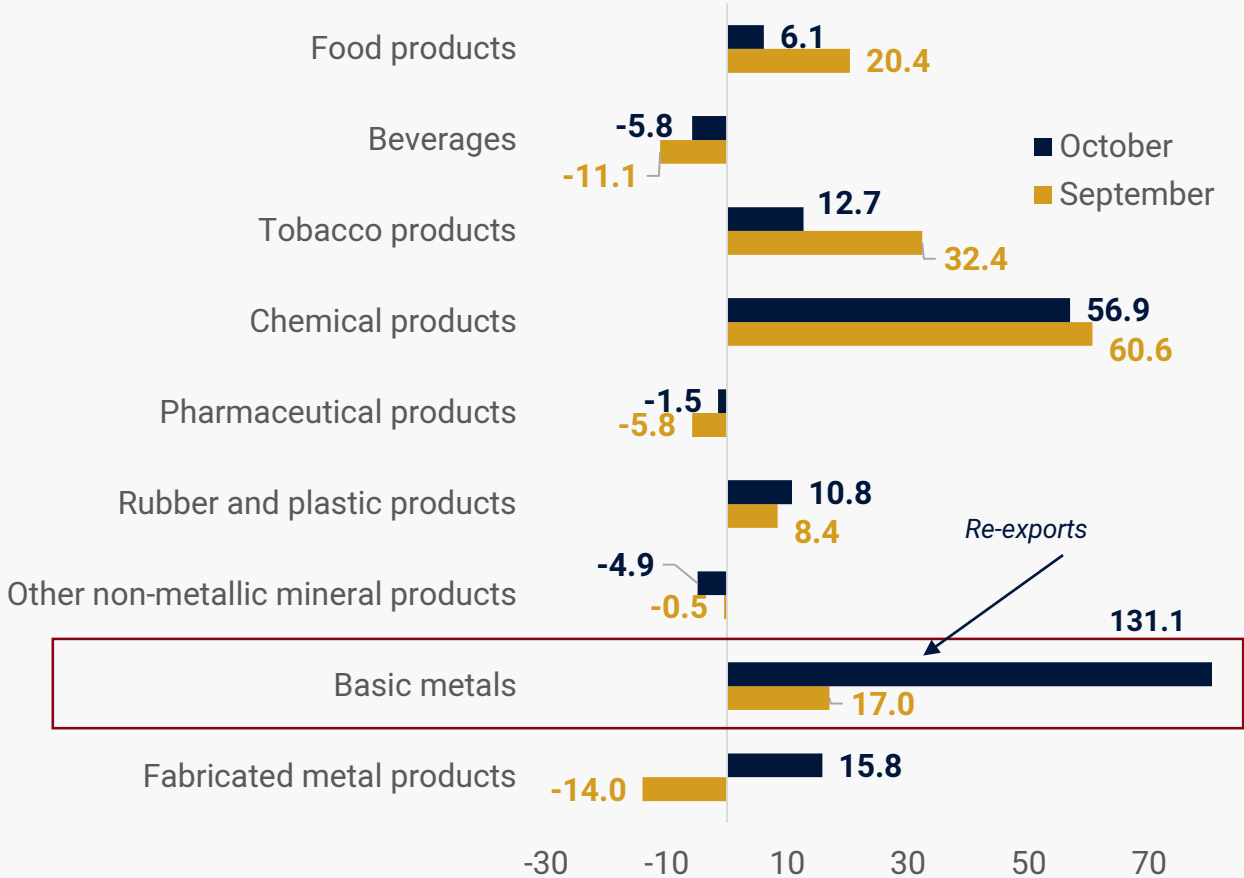
Source: SC of RA, CBA

Manufacturing: The sharp acceleration in sectoral activity in October was largely driven by an intensification of non-structural factors

The impact of short-term, non-structural factors has increased, contributing 18.5 percentage points to year-on-year manufacturing output growth



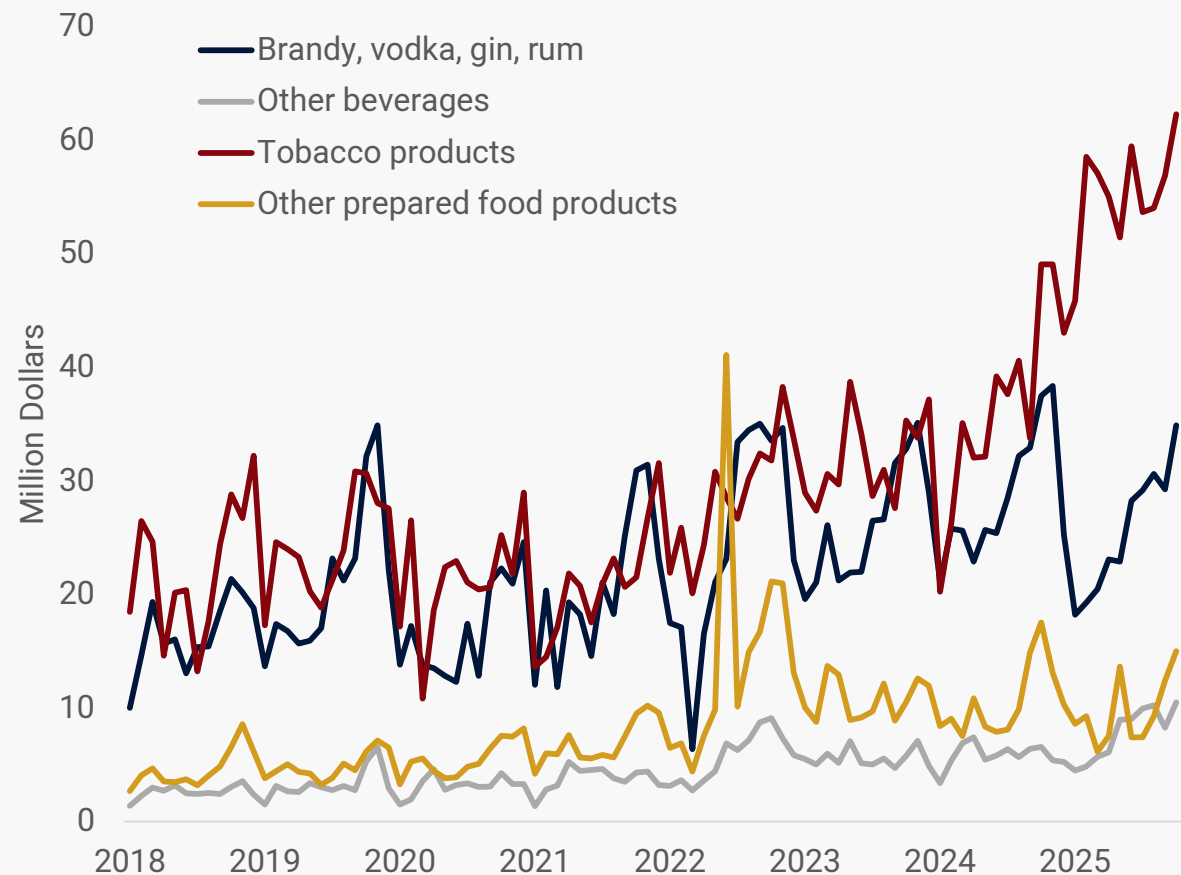
Strong growth in traditional manufacturing sub-sectors has been sustained



Source: SC of RA

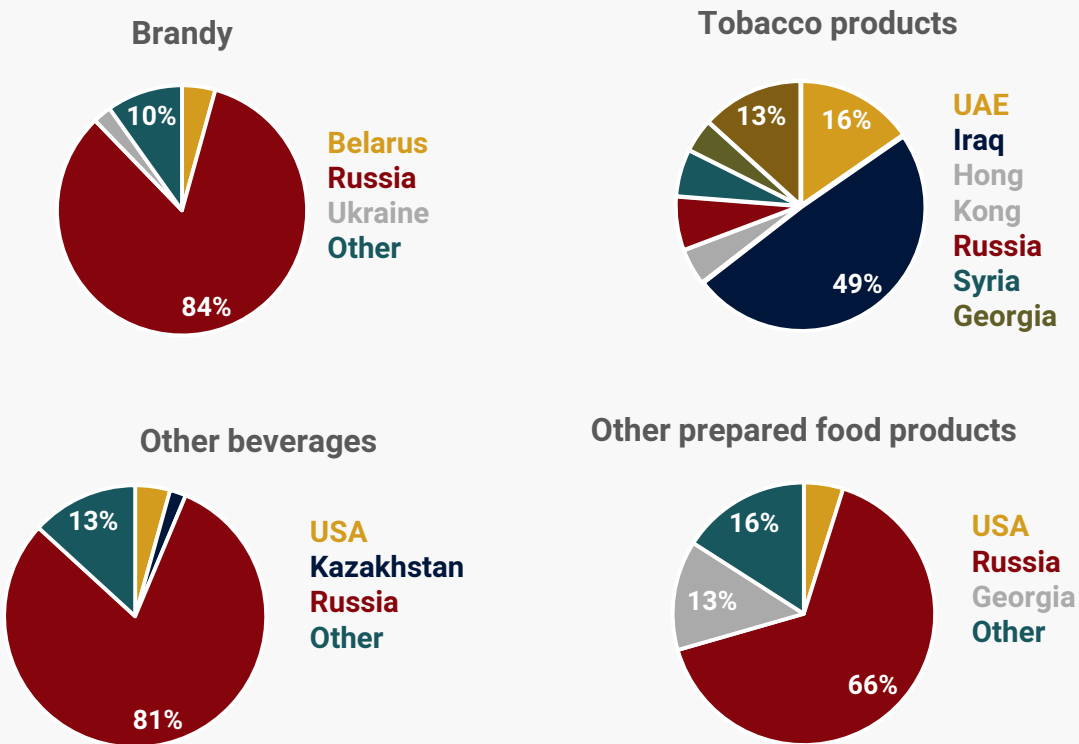
Manufacturing: Exports remain at persistently high levels, but uncertainty surrounds the outlook for external demand

Manufacturing exports by main sub-groups (USD million)



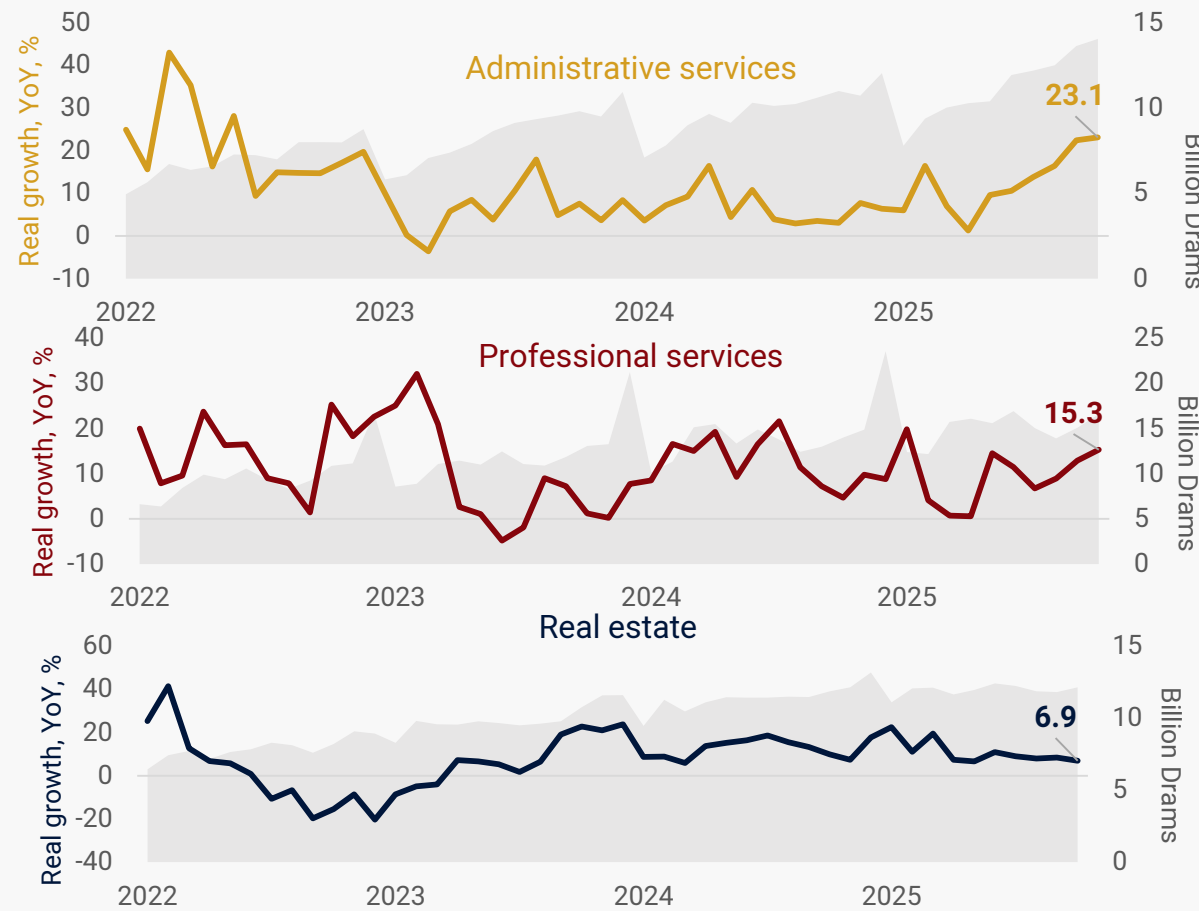
Source: SC of RA, Intracen

Given the structural characteristics of manufacturing exports, medium-term uncertainties are mainly related to potential spillovers from weakening demand and deteriorating growth prospects in the Russian economy

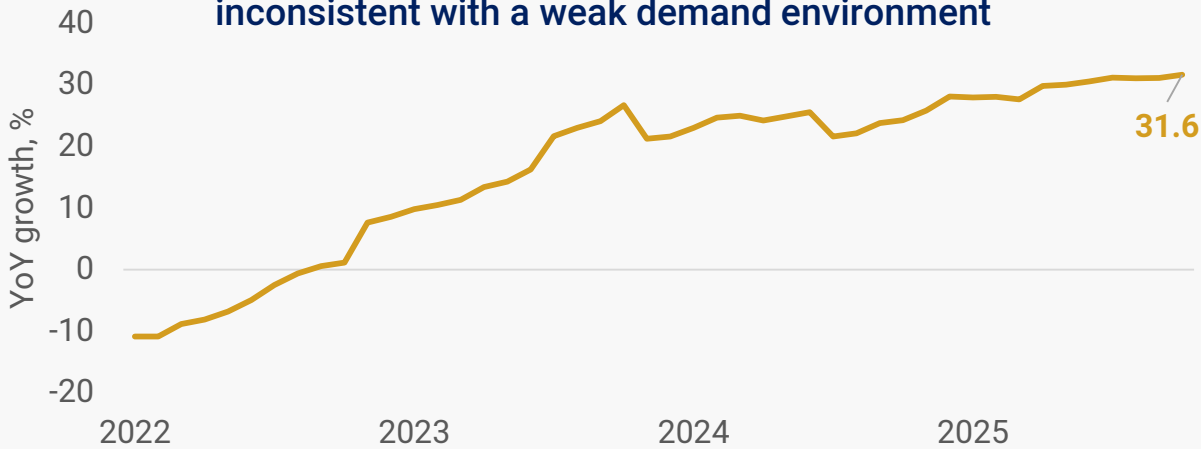


Domestic demand. Various indicators offer mixed signals about the strength of domestic demand and its outlook (1/2)

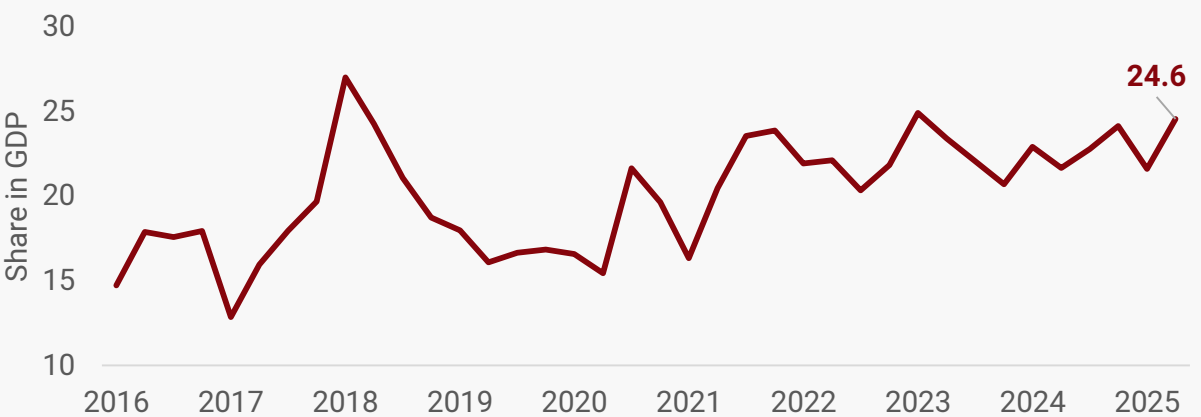
Strong growth in services that are sensitive to domestic demand may indicate elevated demand conditions



The continued double-digit growth in consumer lending appears inconsistent with a weak demand environment

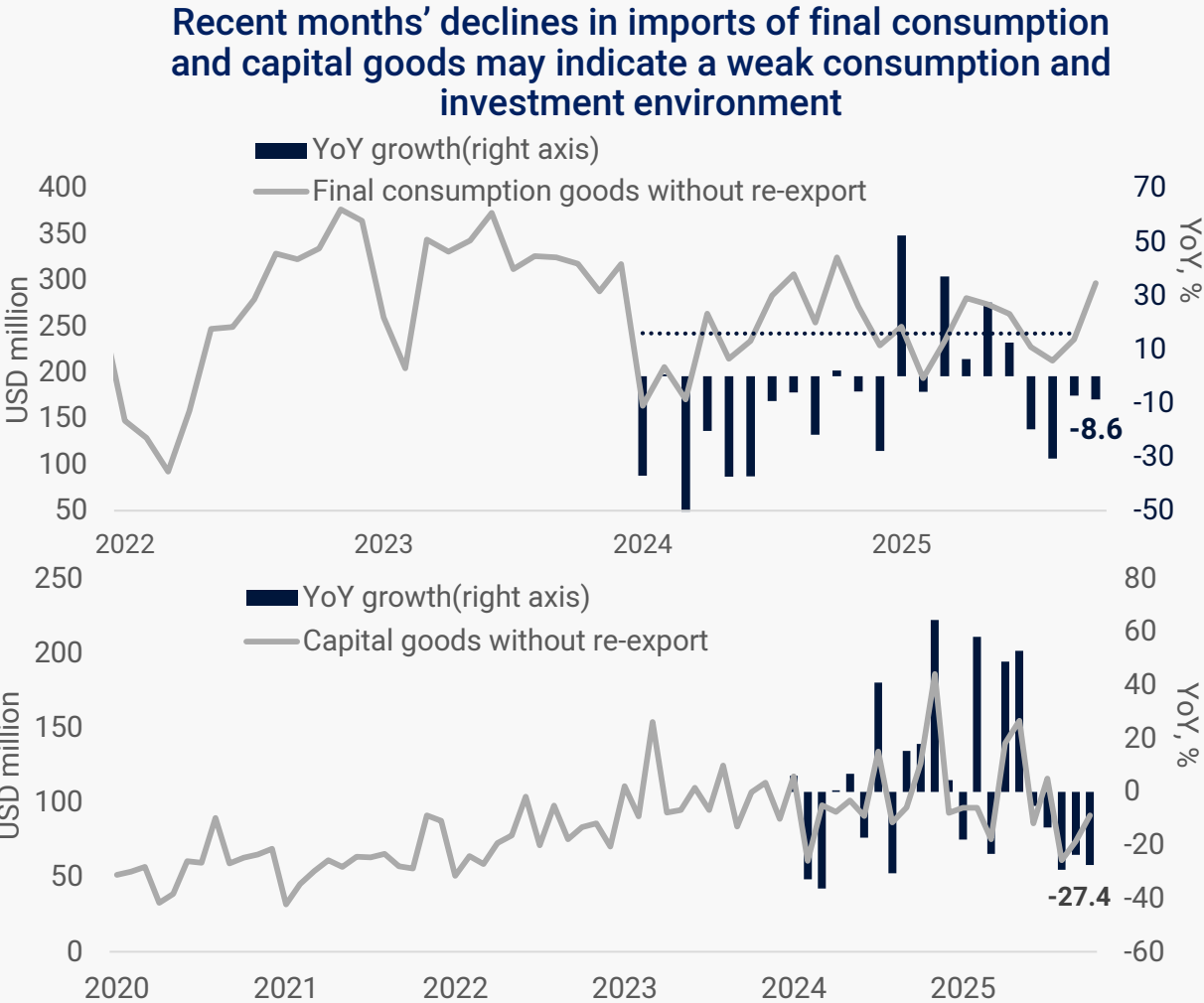
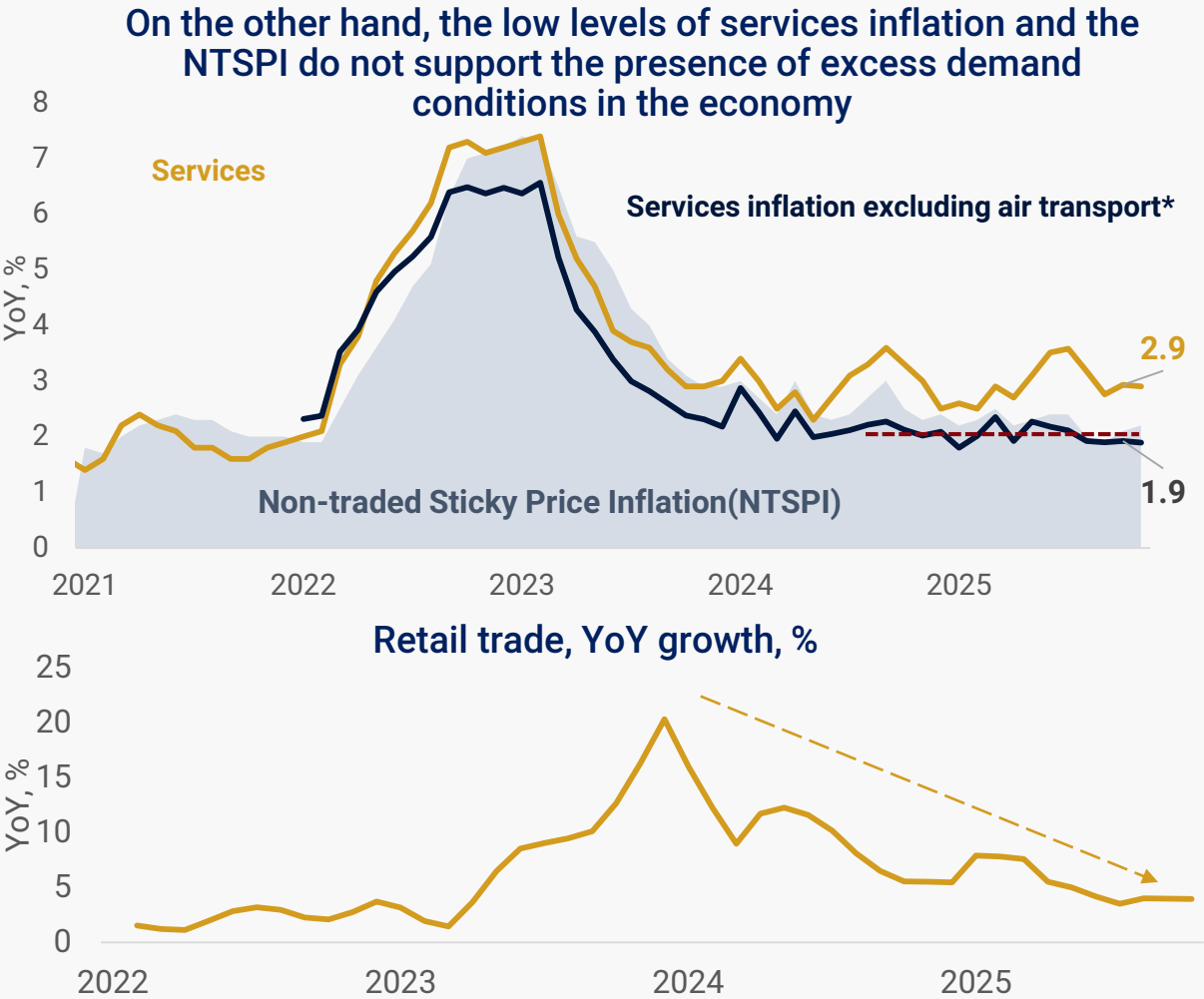


Further use of accumulated private savings entails upside risks to demand



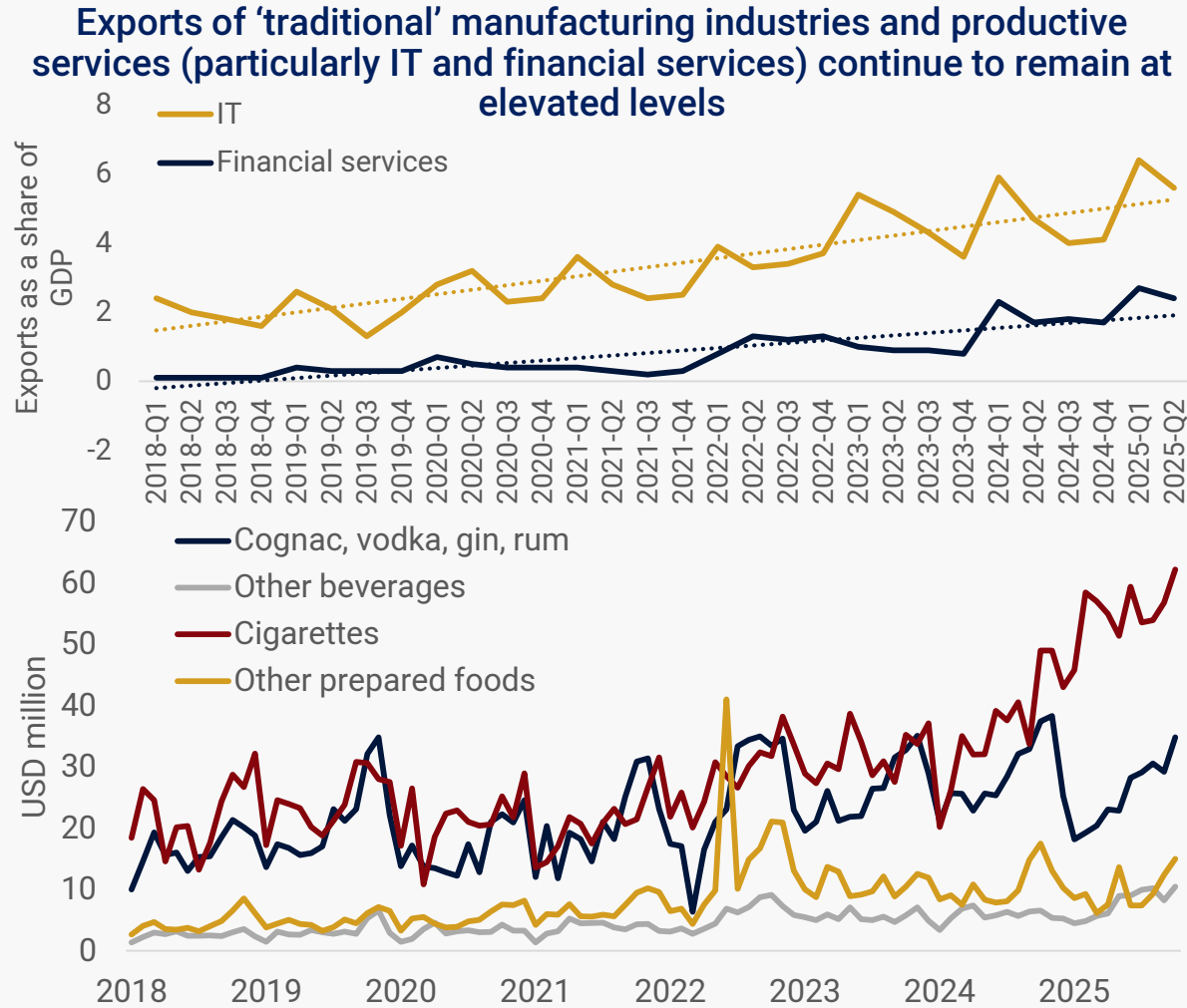
Source: SC of RA, CBA

Domestic demand. Various indicators offer mixed signals about the strength of domestic demand and its outlook (2/2)



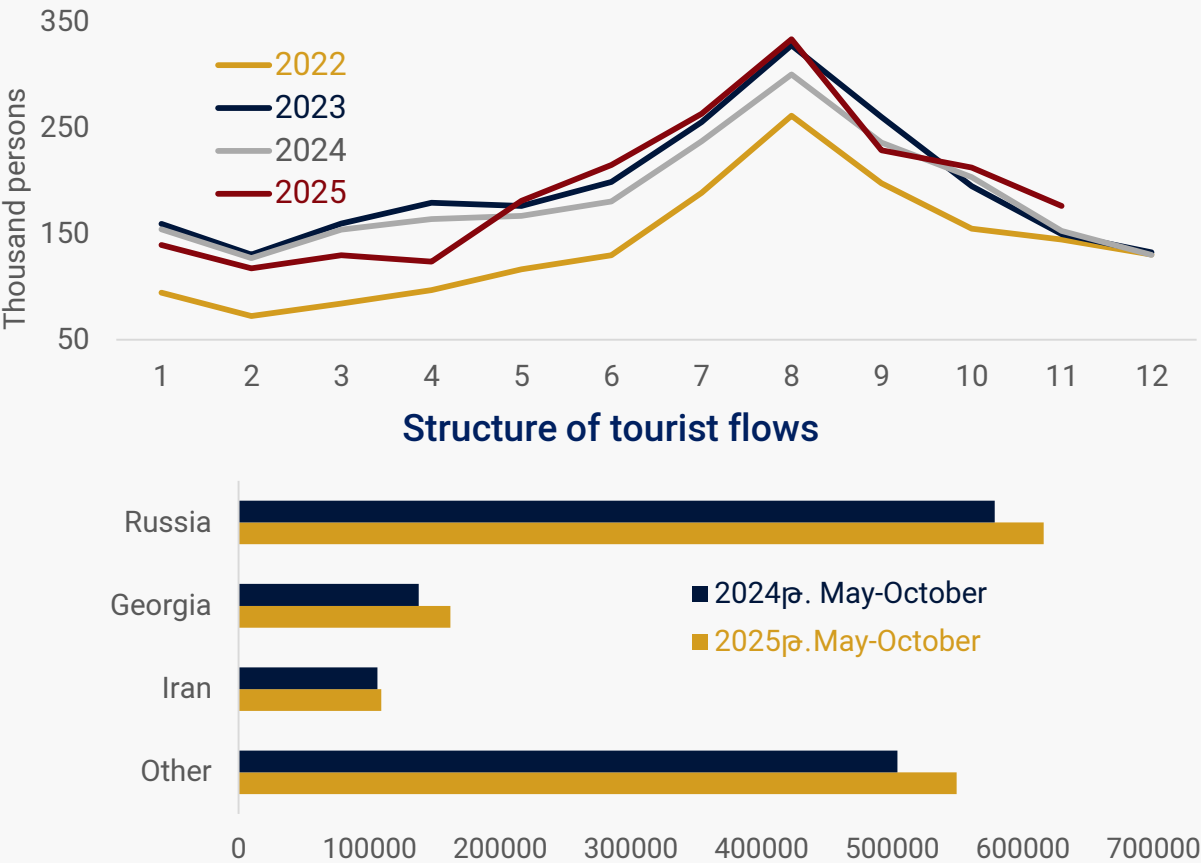
Source: Statistical Committee Republic of Armenia, Central Bank of Armenia

External demand. Outlook remains uncertain, driven primarily by risks of weakening demand conditions in key trading partner economies



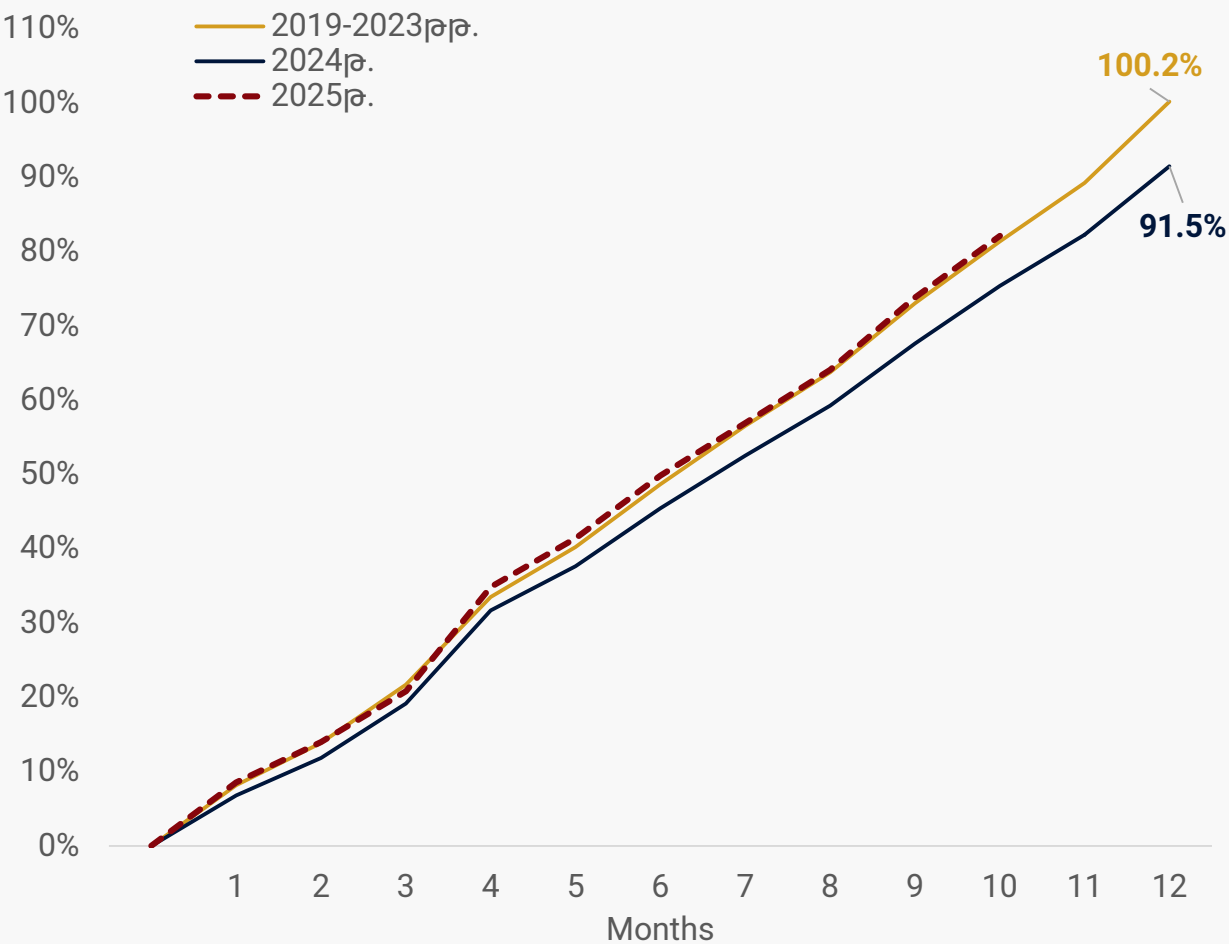
Source: Statistical Committee Republic of Armenia

During 2025, the acceleration of tourist flows was accompanied by structural changes



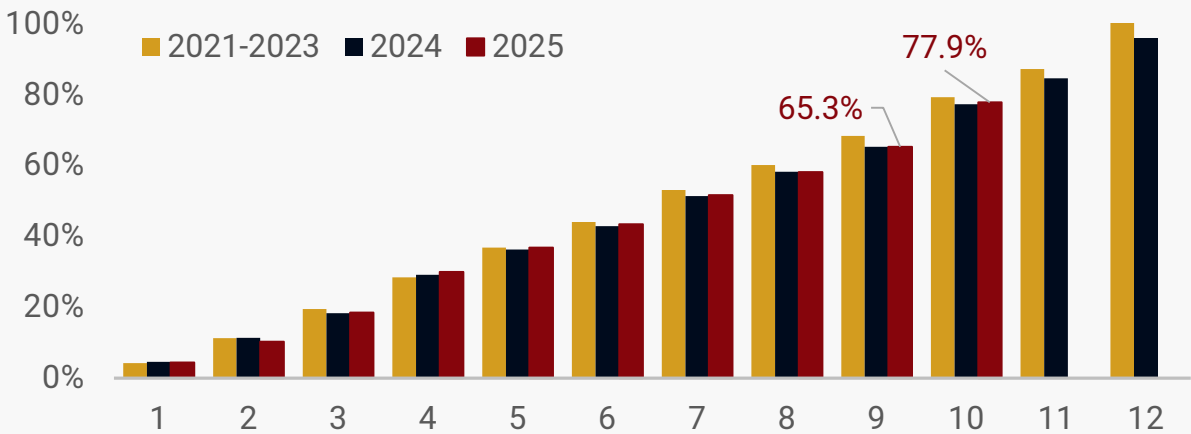
2025 execution: Revenue collection has been strong, while expenditures, and particularly capital expenditures, have slightly underperformed YTD

2025 tax revenue execution

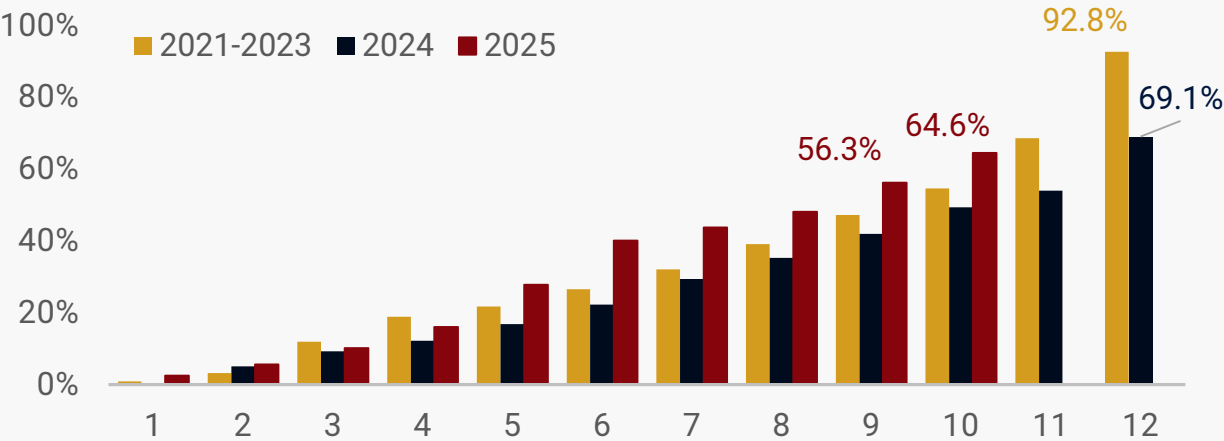


Source: Ministry of Finance

The execution of current expenditures is in line with historical trends

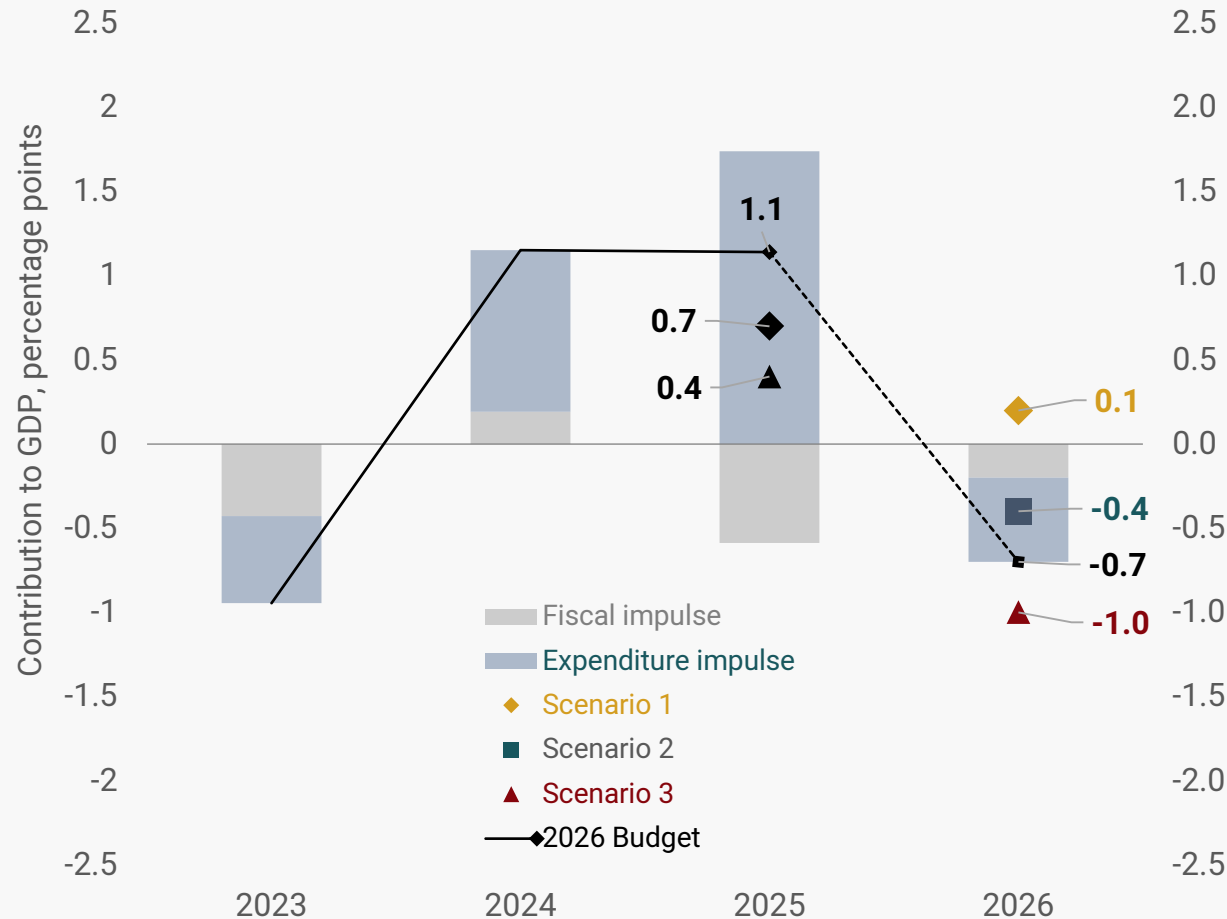


The execution of capital expenditures has improved



Fiscal policy: Given the planned fiscal consolidation in 2026, the impact of fiscal policy on aggregate demand is expected to be more subdued.

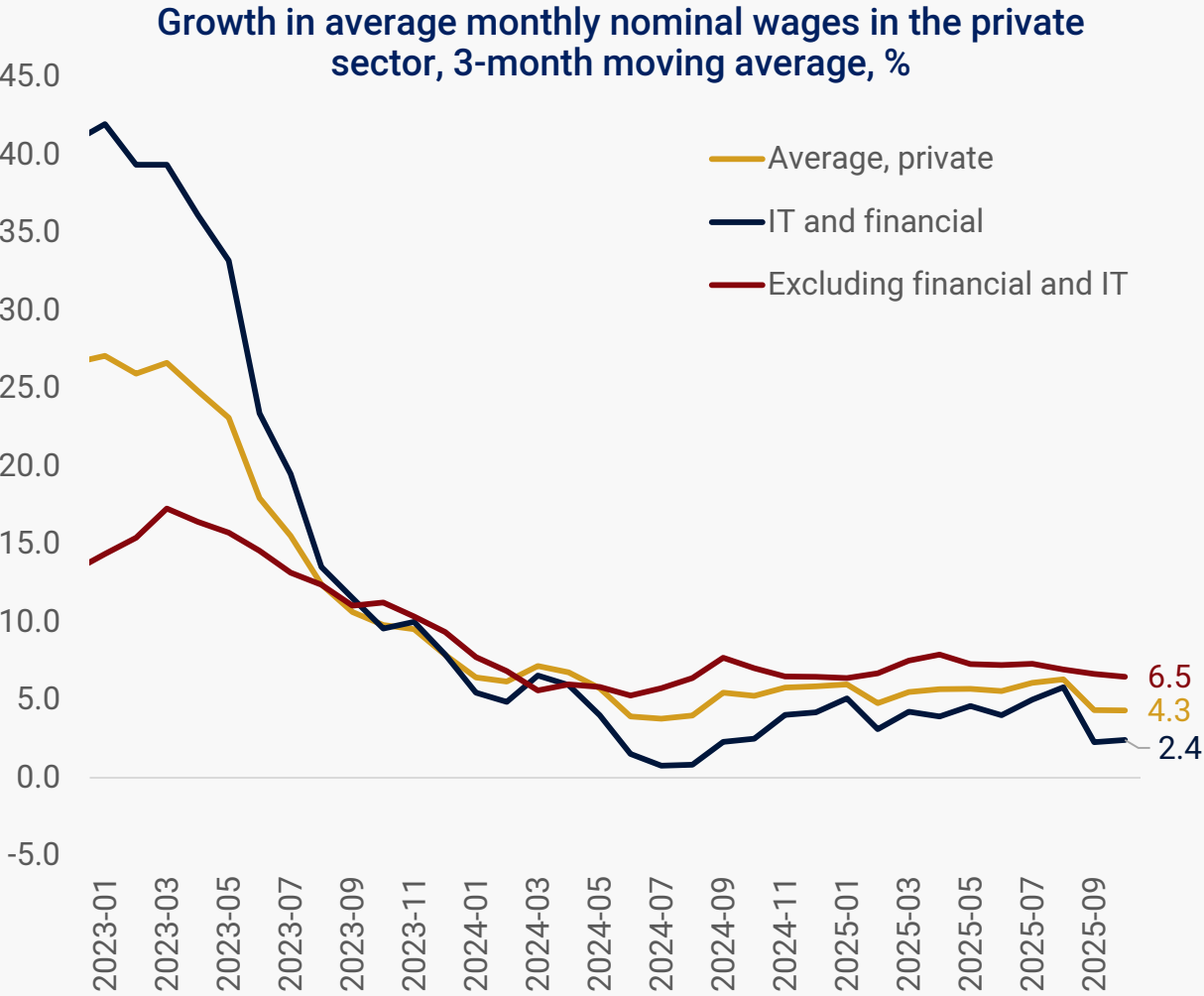
Illustrative scenarios for the Impact of Fiscal Policy on Aggregate Demand in 2025 and 2026



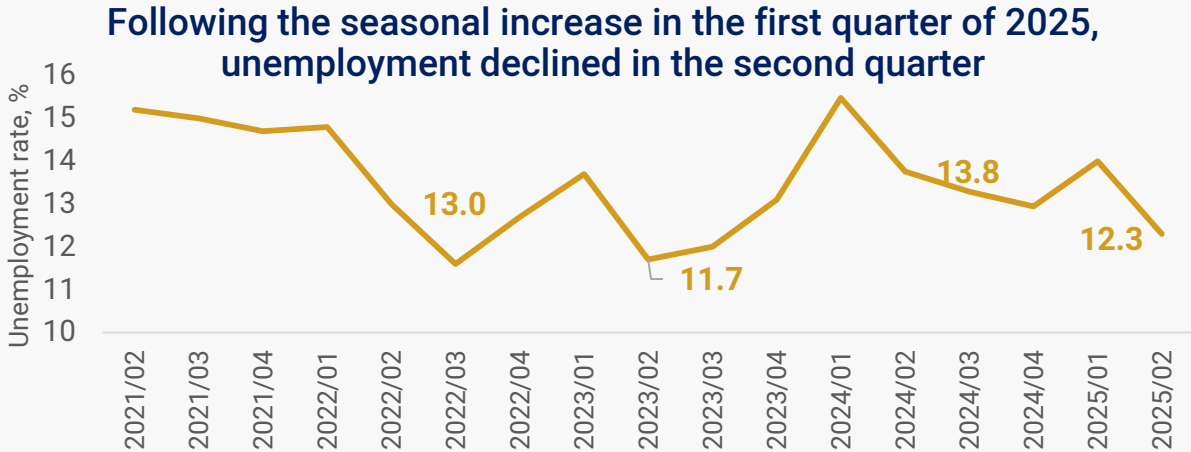
- **Scenario 1.** Underperformance of tax revenues and a slower-than-expected improvement in the tax-to-GDP ratio, accompanied by full utilization of the reserve fund.
- **Scenario 2.** The reduction in capital expenditures occurs through components that do not affect aggregate demand, while being accompanied by increased spending directed toward the domestic economy and infrastructure.
- **Scenario 3.** Full implementation of the tax revenue plan; however, under-execution of capital expenditures in line with trends observed in previous years, largely due to limited capacity to implement large-scale projects.

Source: Ministry of Finance, CBA calculations

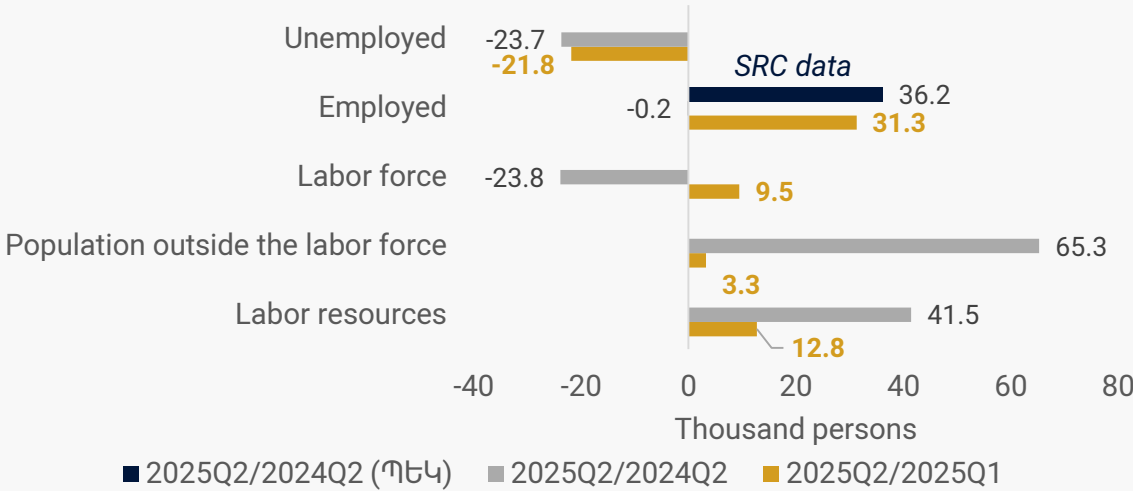
Labor Market. Uncertainty surrounding labor market conditions persists



Source: Statistical Committee of the Republic of Armenia, CBA calculations

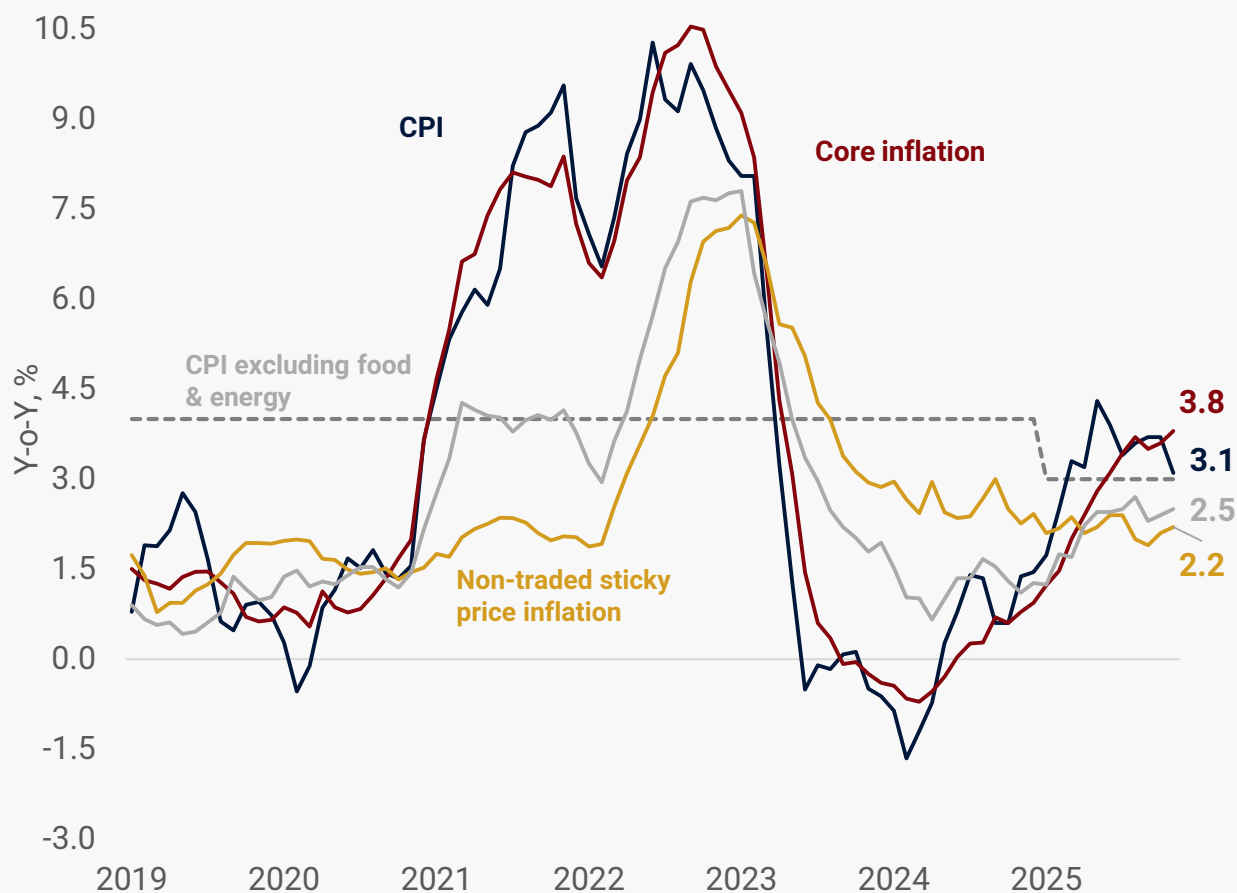


The results of the labor force survey are not consistent with the official data of the SRC, giving rise to differing interpretations

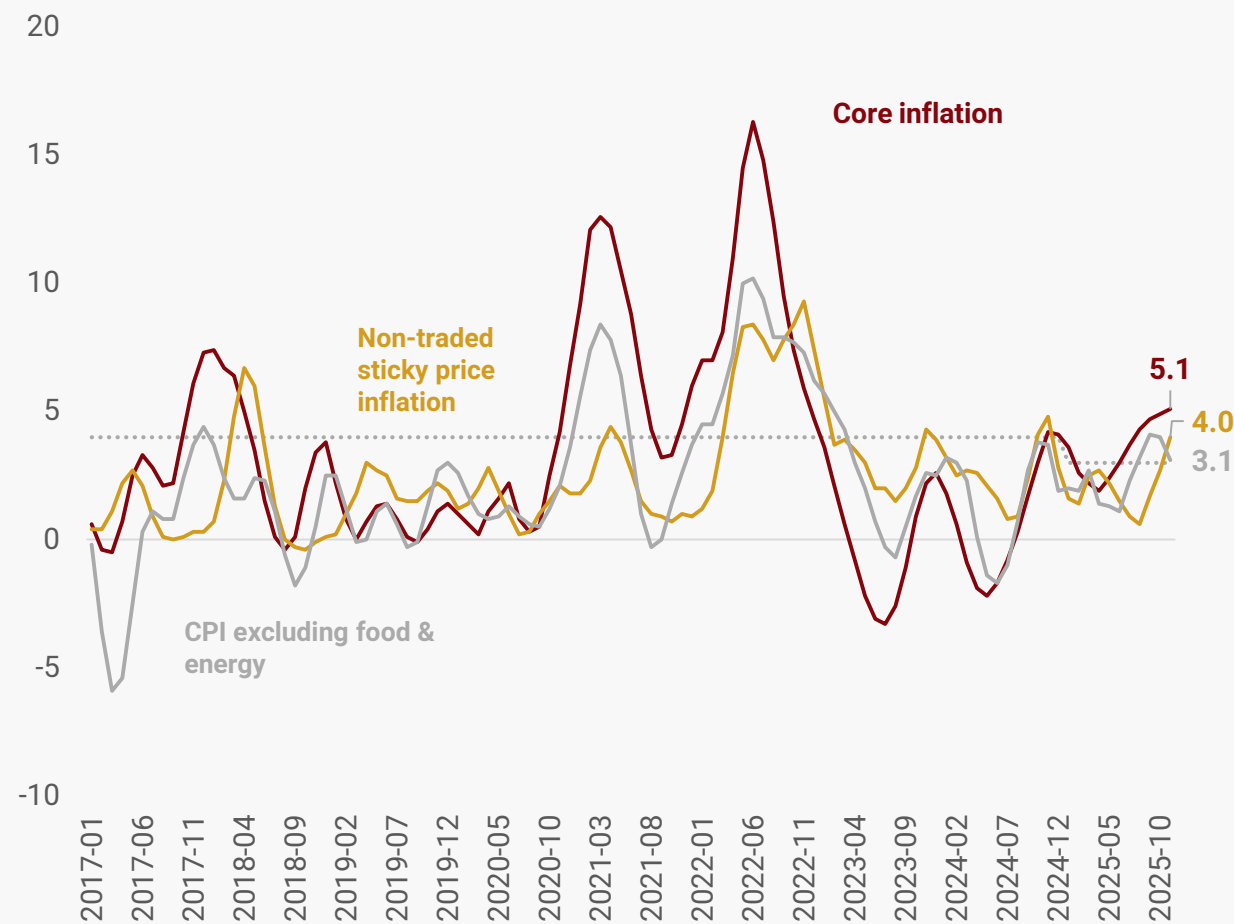


Inflation. In recent months, amid a slowdown in global food prices, imported food prices have somewhat softened. Looking ahead, the key uncertainties relate to whether these global trends will persist, as well as the scale and pace of commensurate price adjustments in the domestic economy

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



Underlying inflation, 3M-o-3M Annualized, %

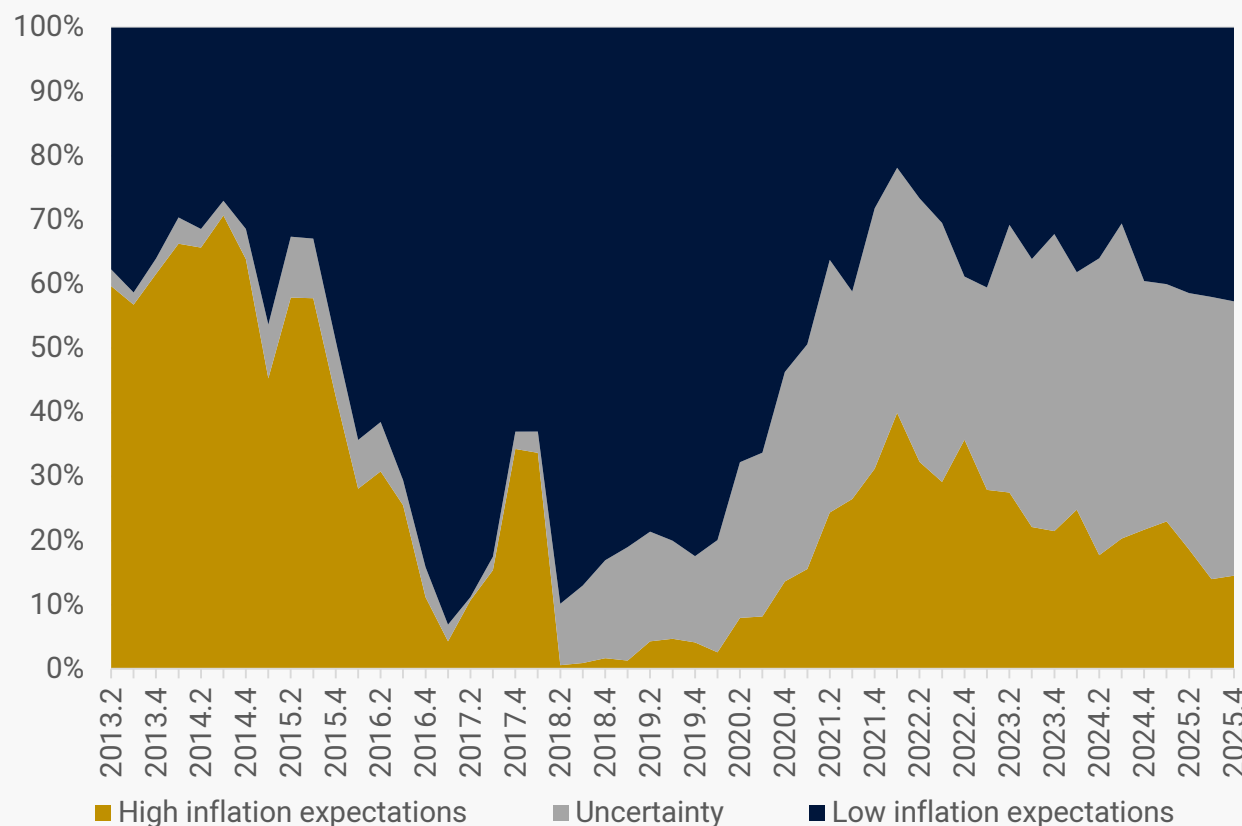


Source: SCRA, CBA

Inflation expectations have broadly stabilized, but some uncertainty persists

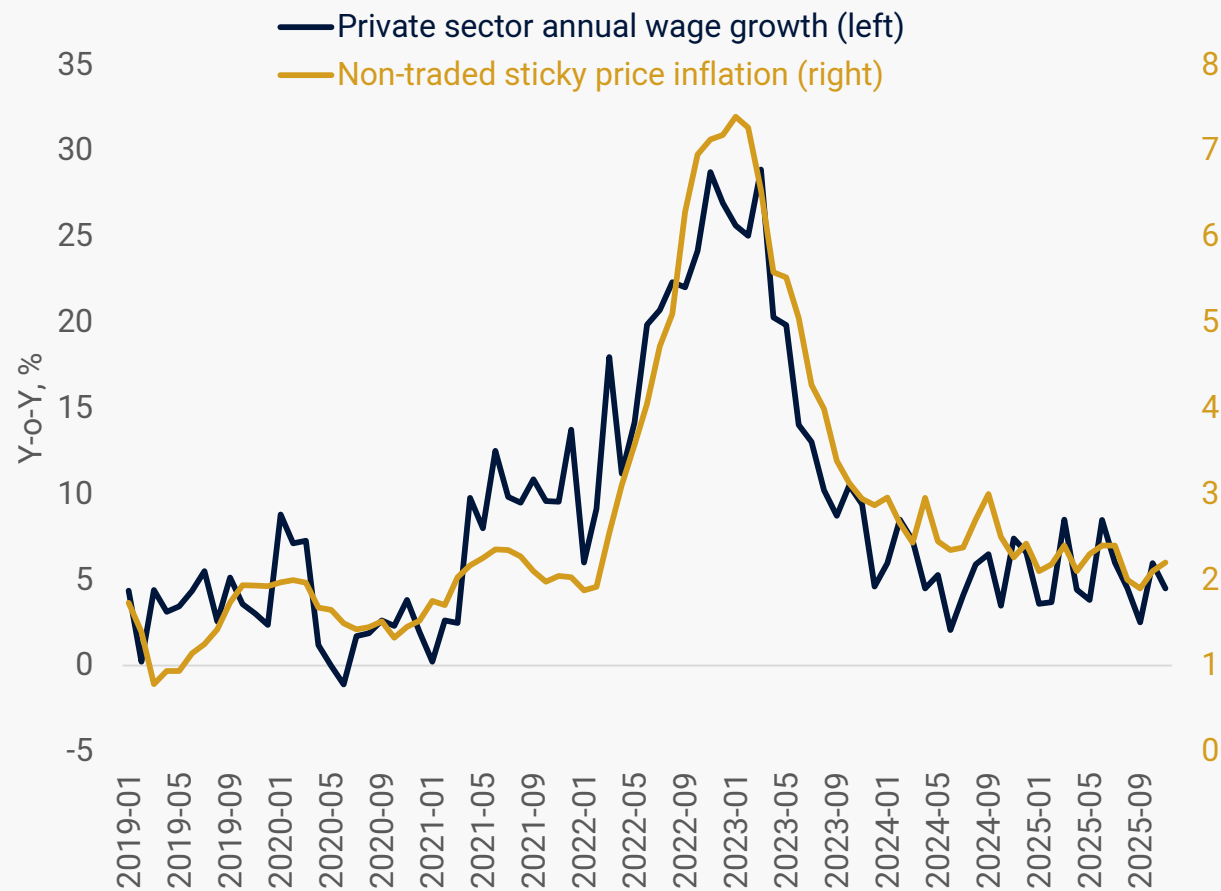
High inflation expectations have declined, but uncertainty remains high

Inflation expectations per quarterly CBA survey



Source: CBA survey

At the same time, non-traded sticky prices and private sector wage growth point to low and stable inflation expectations



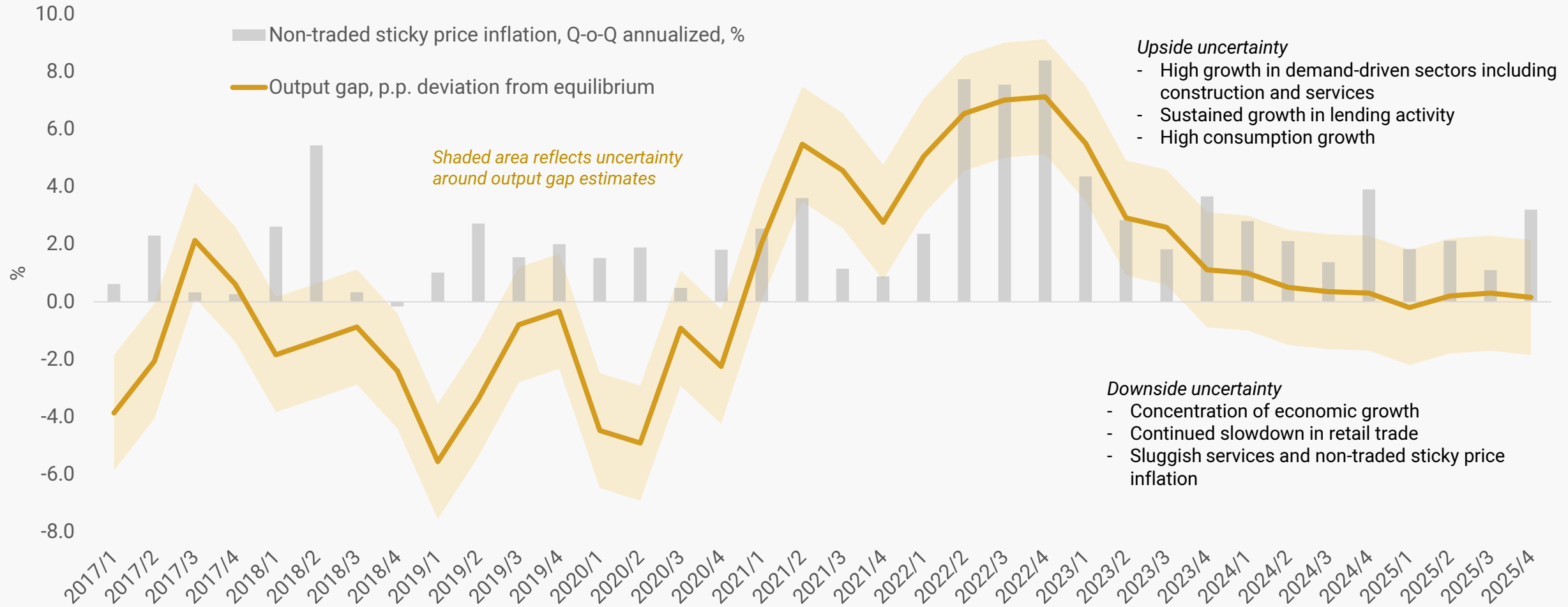
Source: SCRA, CBA



Where is the economy now?

Structural characteristics of economic growth, uneven developments across sectors, and differing interpretations of various indicators add uncertainty about the current position of the economy

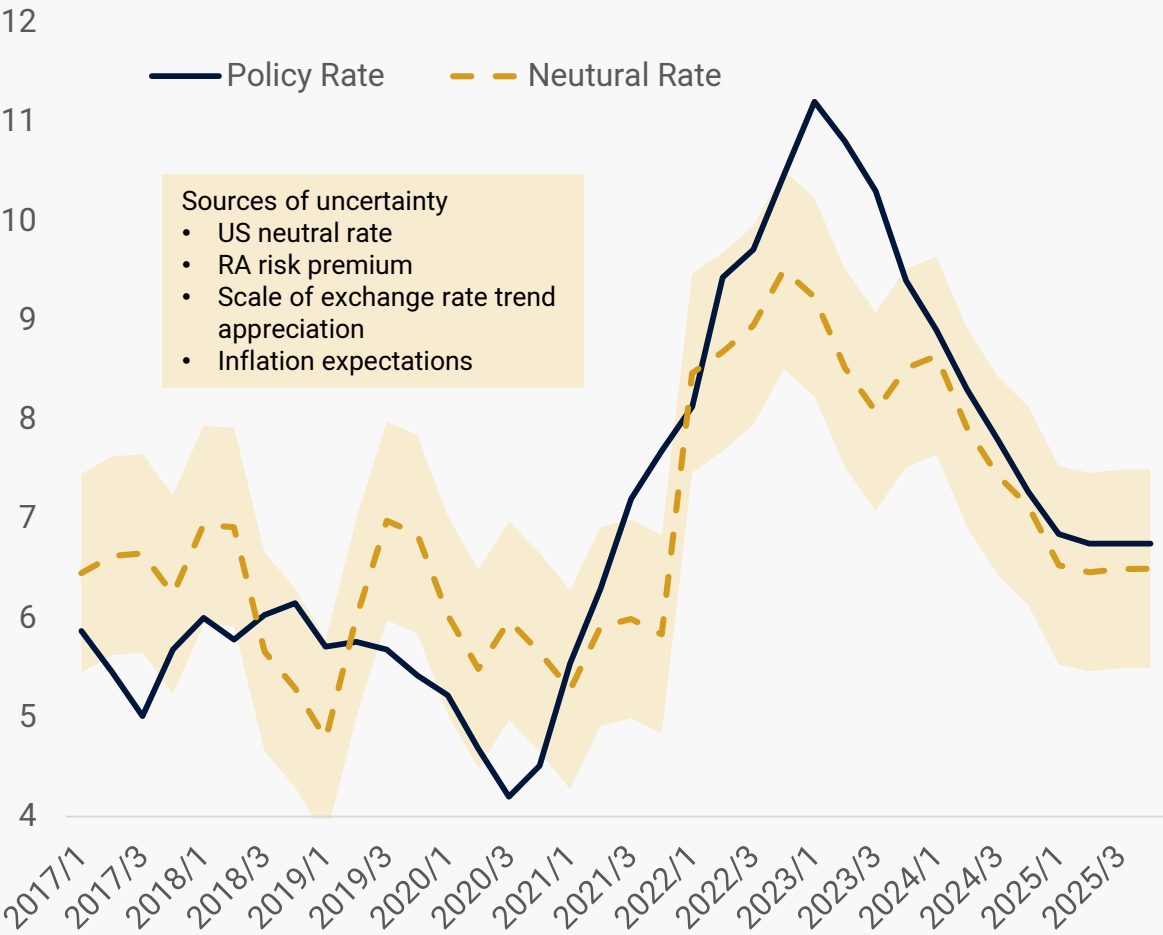
Output gap and underlying inflation



Source: CBA estimates

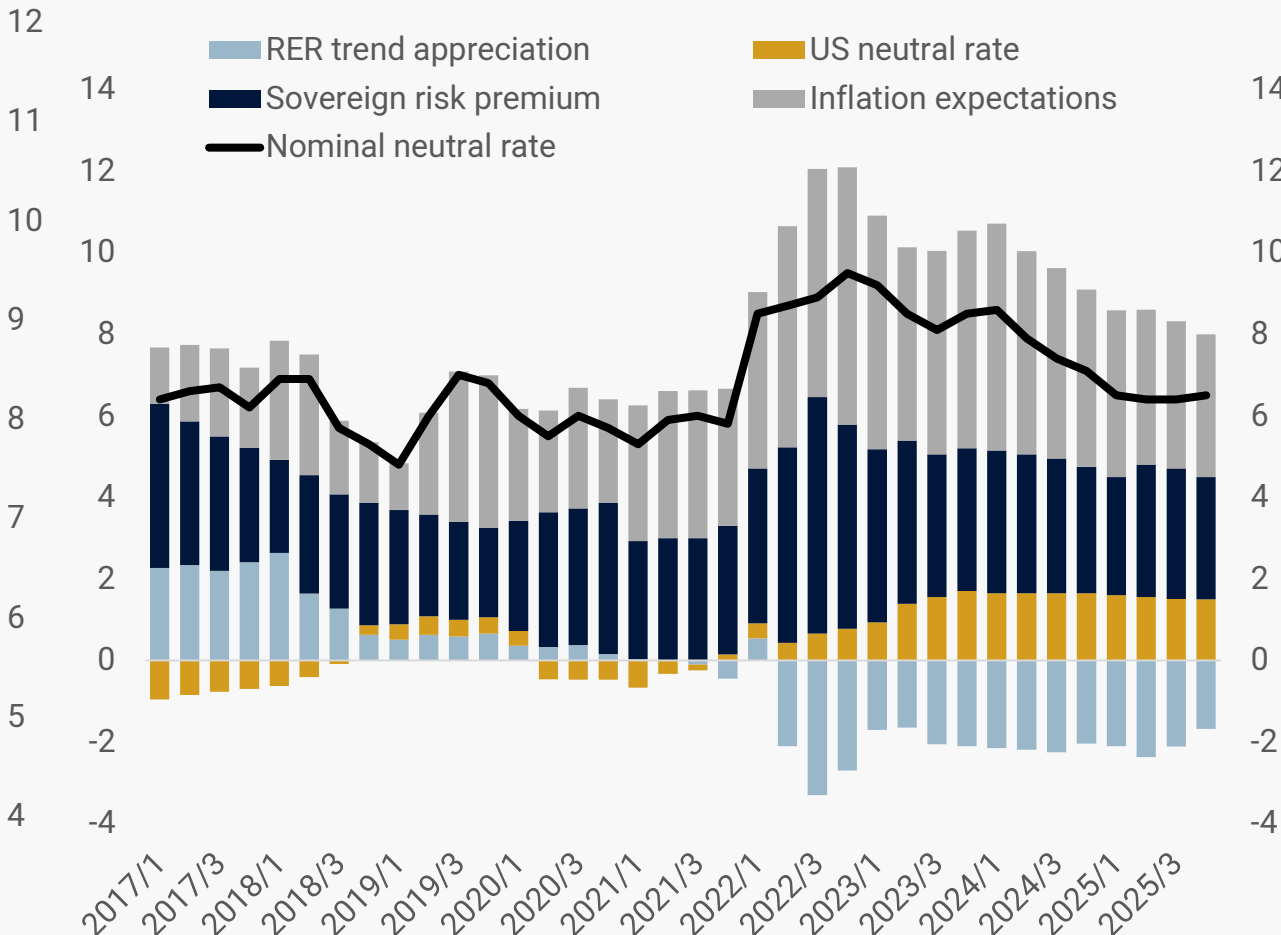
Overall neutrality of demand conditions, labor market conditions, and inflationary environment suggest policy is close to neutral. At the same time, uncertainty about the neutral rate and its underlying components remains high

Policy rate and underlying neutral rate

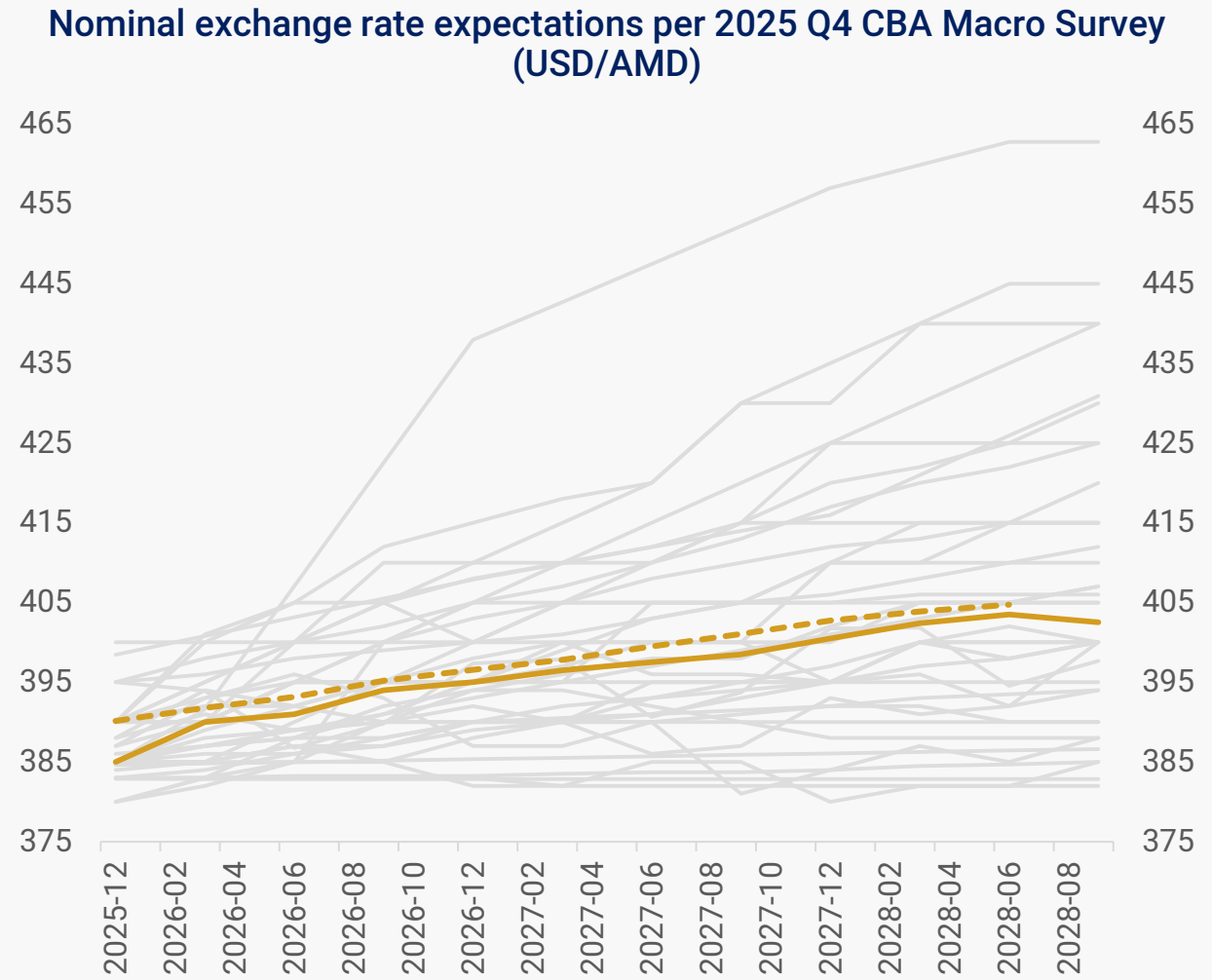
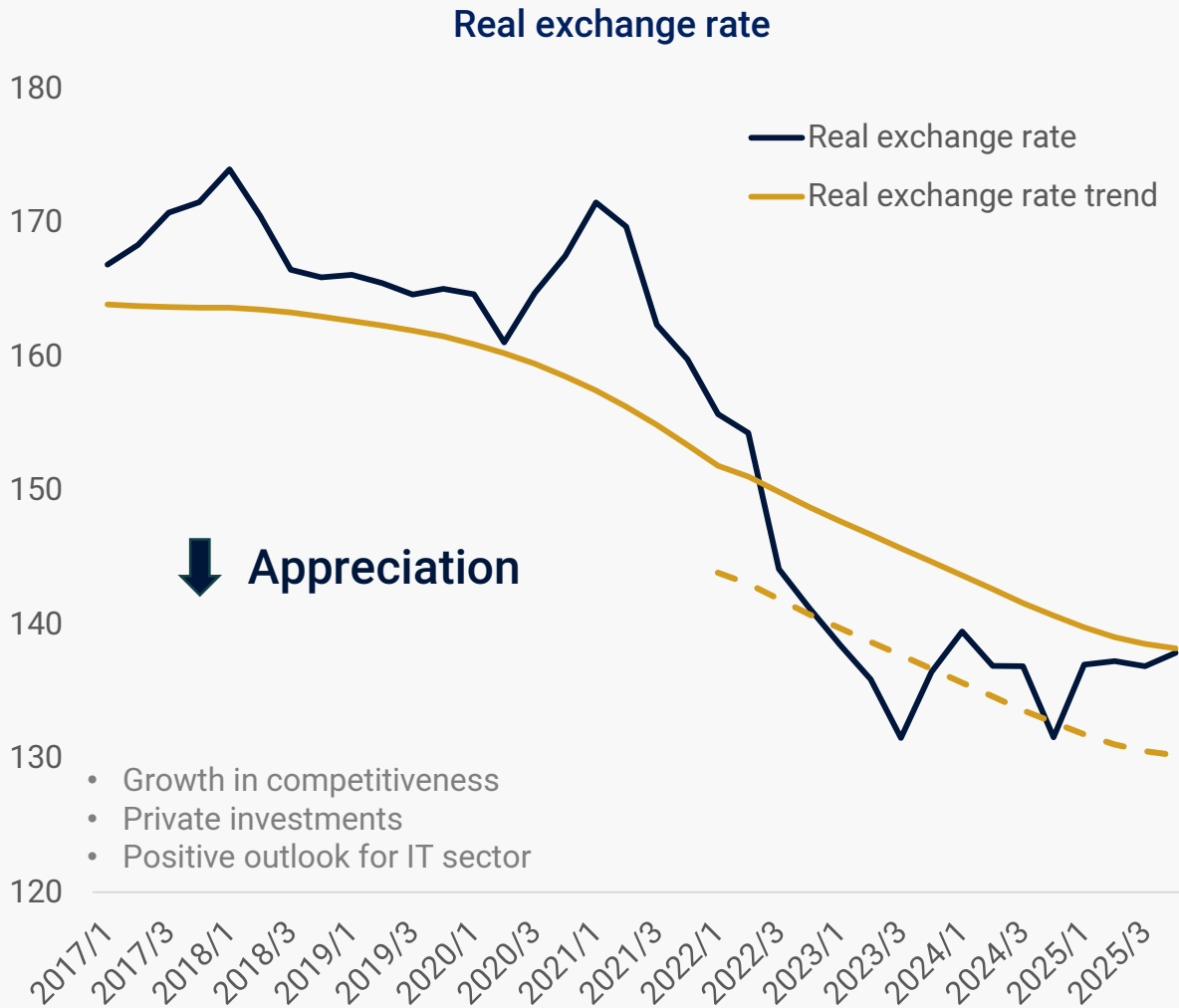


Source: CBA estimates

Contributions of individual components of the neutral rate



Uncertainty regarding the fundamental level of the real exchange rate persists: to what extent has rising productivity and competitiveness growth in exportable sectors contributed to a “new” economic reality?

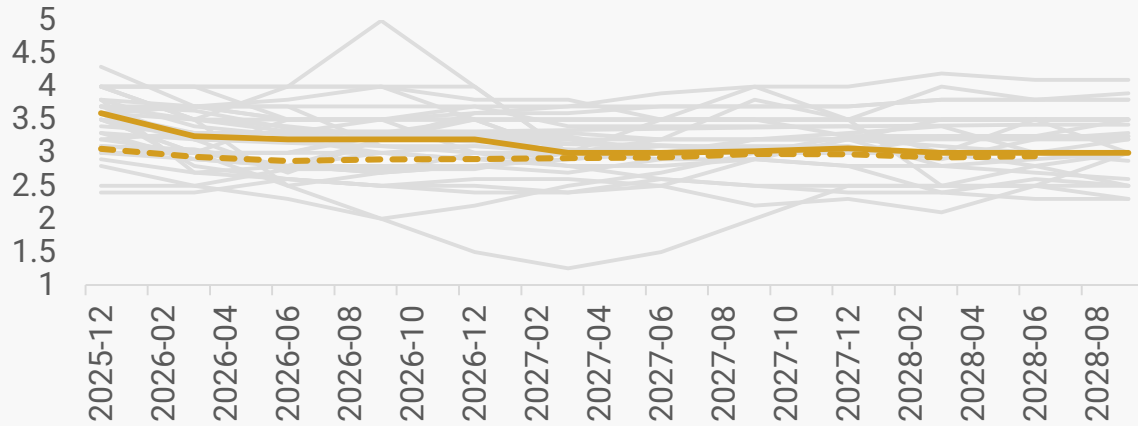




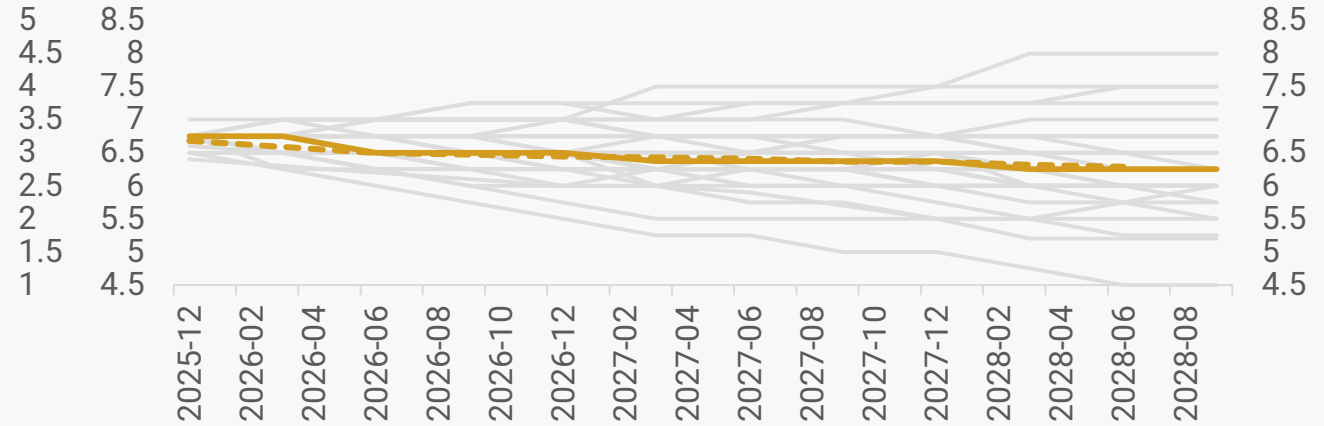
Market Reference Scenario and Expectations

Market Reference Scenario. Markets expect inflation and growth to stabilize around long-term sustainable levels, with the policy rate gradually declining over the medium term

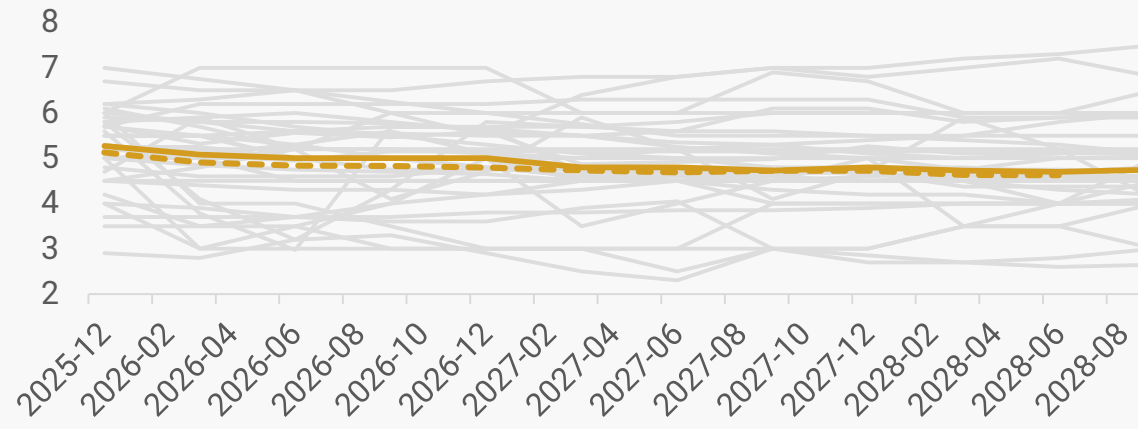
Inflation, Y-o-Y, %



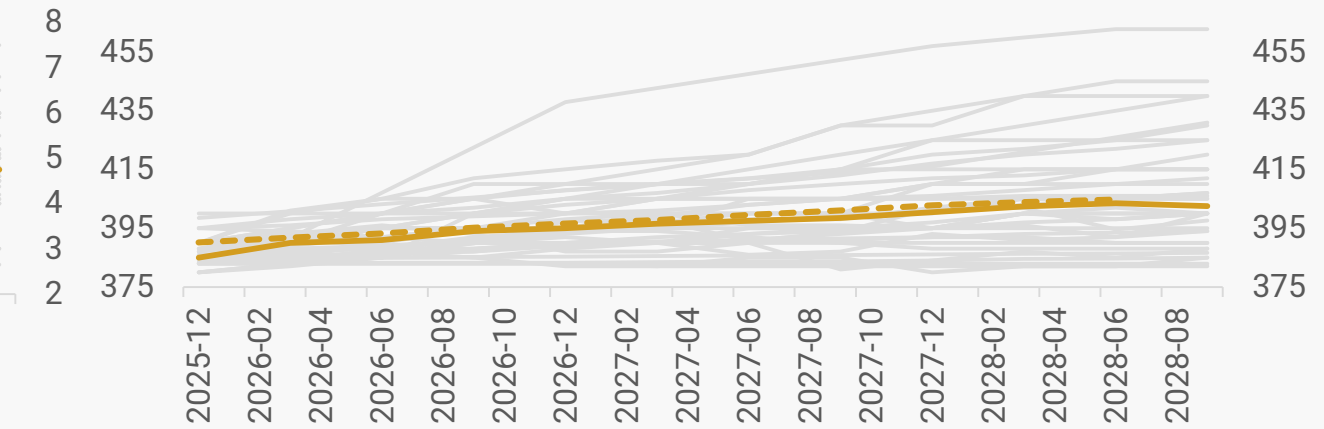
Policy rate, %



Real GDP Growth, Y-o-Y, %



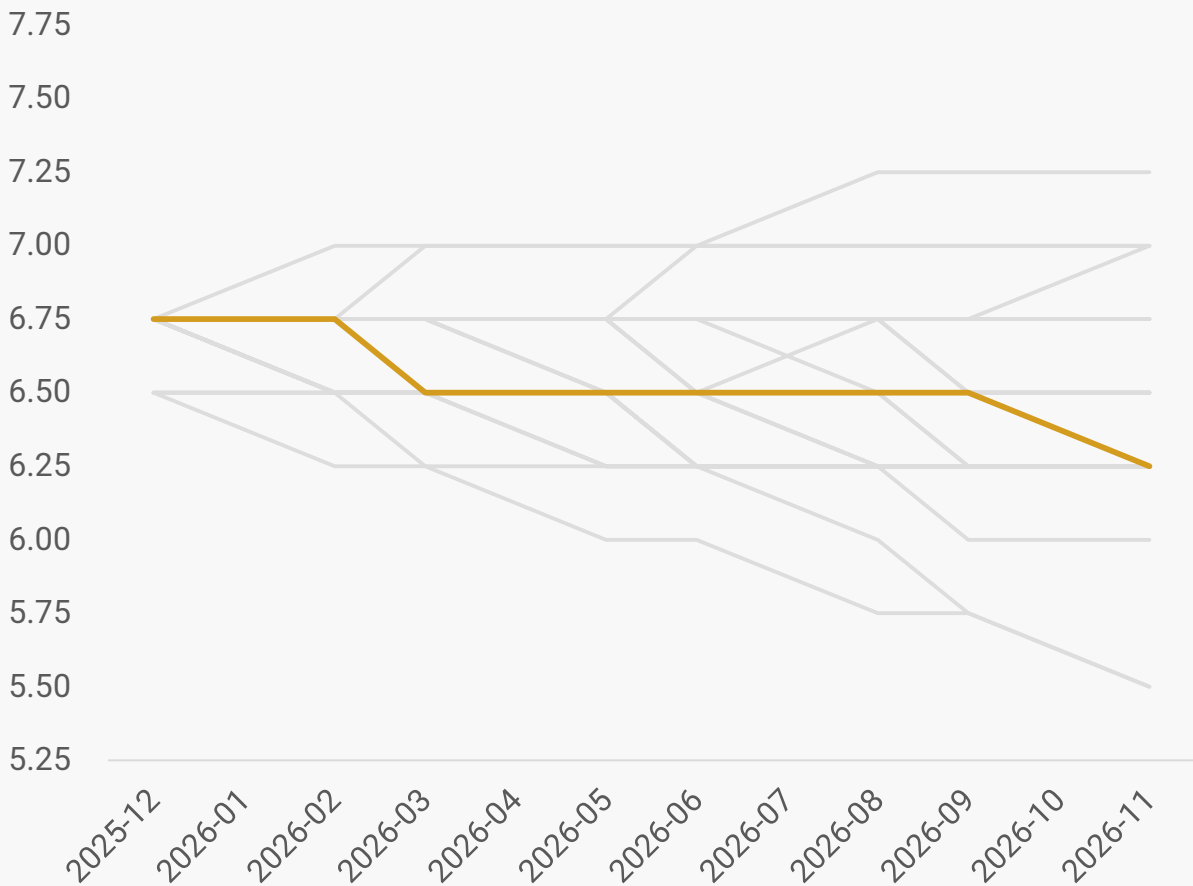
Nominal exchange rate (USD/AMD)



Source: Q4 2025 CBA Macro Survey

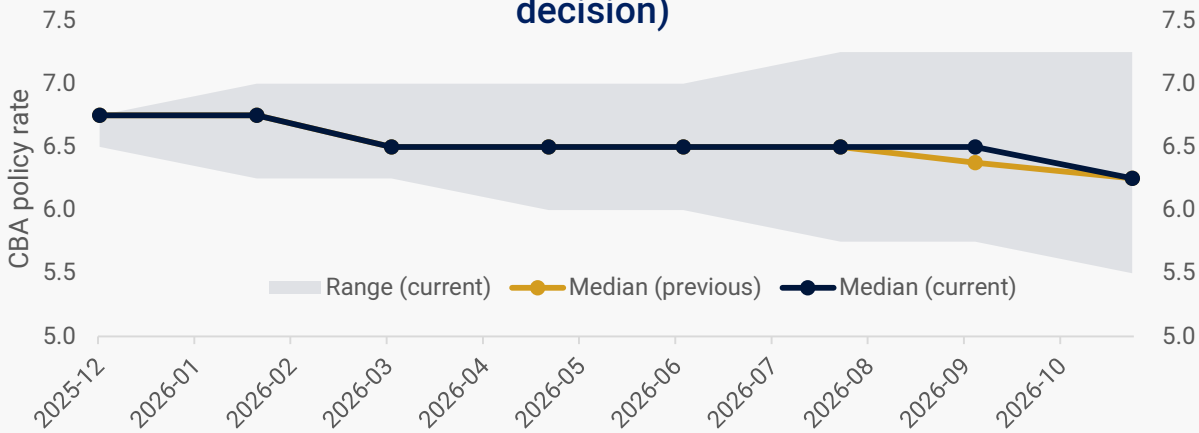
High-frequency survey. Market expectations remain virtually unchanged since the previous decision

Market expectations of the policy rate path (December 10, 2025 survey)

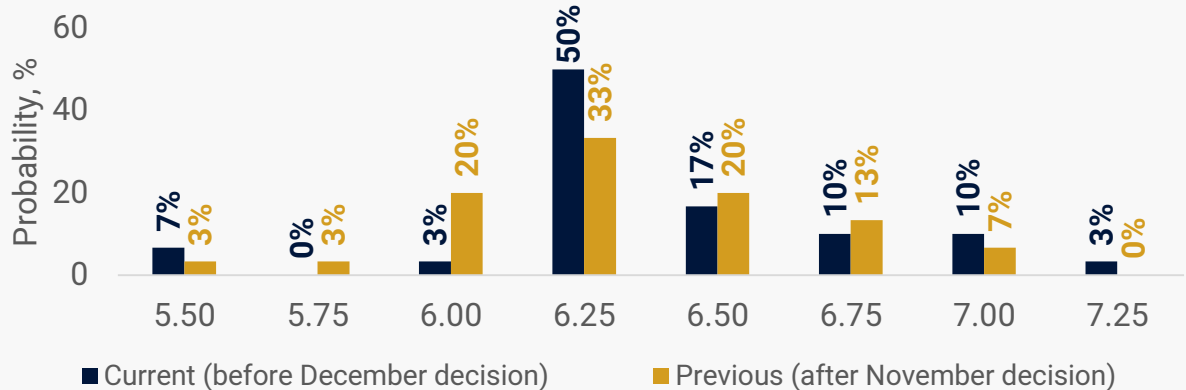


Source: CBA December 10, 2025 survey, n=33

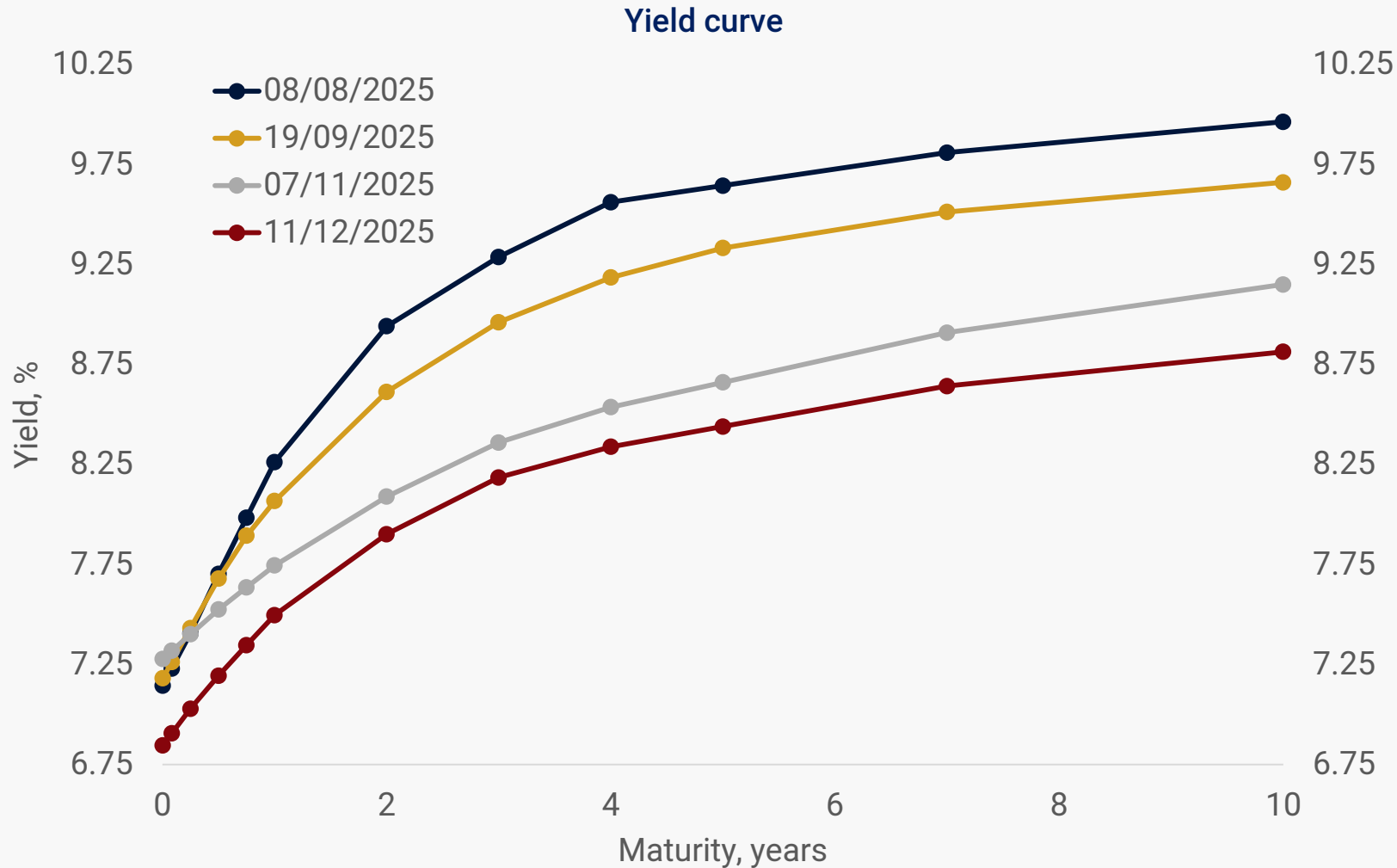
Change in expectations since last survey (following November decision)



Expectations of one-year ahead policy rate



Yield curve has declined across all segments



- improving sentiment toward emerging market bonds, as well as well as country-specific factors that could point to a downward reassessment of the country risk premium,
- the gradual impact of long-term, structural factors, including declining inflation expectations amid a reduction in the inflation target at the beginning of the year, fiscal consolidation, as well as the gradual transmission of monetary policy, and/or
- non-structural factors, including, for example, increased AMD liquidity in domestic financial markets.

Source: CBA



Taxonomy of **Scenarios**

Taxonomy of Scenarios.

Case A-Type Considerations

Expansionary Demand

- In the United States, a higher trajectory for deficit and debt levels raises questions about fiscal sustainability and exerts upward pressure on the U.S. neutral interest rate, with potential spillover effects on the neutral rates of developing economies, including Armenia.
- Uncertainty regarding the trajectory of the Russian-Ukrainian conflict, coupled with the tightening sanctions regime 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 conditions:
 - Economic growth that is above estimated long-term potential and concentrated in primarily demand-driven sectors 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.
 - Recent increases in tourism flows, as well as sustained strong demand for Armenian goods and especially services, could generate additional demand and inflationary pressures.
 - The adoption of a more expansionary fiscal stance than previously anticipated present risks of further intensifying domestic demand 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.
- Given risks of weakening U.S. economic activity and labor market conditions, as well as potential overvaluation in financial assets, a potential sharp correction in financial asset prices could generate deflationary pressures both globally and within the Armenian economy.
- A sharp slowdown in demand conditions and real incomes in Russia could significantly curtail tourism flows to Armenia, negatively impacting services growth and generating deflationary pressures.
- 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.

Taxonomy of Scenarios.

Case B-Type Considerations

Contractionary Demand

- Persistently low inflation in services and non-traded sticky prices; slowing retail trade and final consumption goods imports; weak wage growth; and the structural characteristics of growth could lead to risks of subdued demand and deflationary conditions forming.
- 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.
- 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.
- 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.

Taxonomy of Scenarios.

Case B-Type Considerations

Contractionary Demand

- 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.
- A sharper-than-expected slowdown in Russian demand conditions could represent a negative external demand shock for Armenian goods exports, thereby increasing domestic supply in select goods markets and generating broad-based deflationary pressures.



Illustrative Case A & B Scenarios

Illustrative Case A Scenario. Policy rate path above market expectations

Illustrative Case A Scenario. Economic growth that is above estimated long-term potential and concentrated in primarily demand-driven sectors could point to excess demand conditions in the Armenian economy.

Brief summary of scenario narrative

- Throughout 2025, economic growth has been high, above most estimates of its long-term potential growth (around 5%). Growth has been driven primarily by demand factors, as reflected in very high growth in construction and services.
- The services sector has similarly continued to exhibit very high growth, which has been broad-based across various services sub-sectors. Additionally, services that are sensitive to domestic demand conditions (administrative, professional and business services, real estate-related activity, etc.) have seen an uptick in growth in recent months, which could point to an expansion of domestic demand conditions. In tandem with these developments, high growth in lending activity could further speak to high demand conditions in the economy.
- The expansion of demand and high lending activity could reflect excess demand conditions and an existing positive output gap.

Importance from the perspective of monetary policy

- In this context, an underappraisal of aggregate demand could lead to a further expansion of excess demand conditions in the economy, which in its turn can contribute to an uptick in inflationary pressures and inflation expectations. Thus, if such a scenario were to materialize, the policy rate would need to follow a higher path than current market expectations to manage this risk and prevent inflationary pressures and a possible de-anchoring of inflation expectations from emerging and taking hold.

Illustrative Case B scenario. Policy rate path below market expectations

Illustrative Case B scenario. Persistently low inflation in services and non-traded sticky prices; slowing retail trade and final consumption goods imports; weak wage growth; and the structural characteristics of growth could lead to risks of subdued demand and deflationary conditions forming

Brief summary of scenario narrative

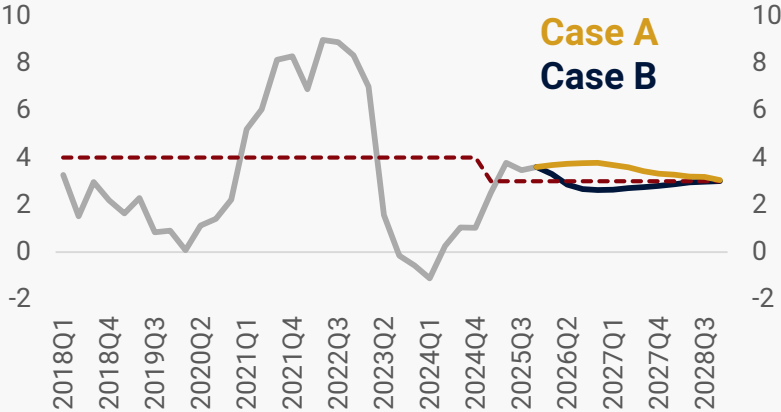
- The structural characteristics of economic growth and its concentration in a limited number of sectors could be masking weakening demand conditions in the economy
- At the same time, non-traded sticky price inflation, which chiefly reflects price movements for services highly sensitive to domestic demand conditions, as well as services inflation excluding air transport, have remained at low levels for a lengthy period of time, potentially pointing to already weak demand conditions in the economy.
- Adding further credence to this argument is the continued slowing in retail trade activity. Similarly, imports of final consumption and capital goods have experienced Y-o-Y declines in recent months, pointing to weak consumption and investment activity.
- These developments could point to already weak demand conditions and a negative output gap in the economy.

Importance from the perspective of monetary policy

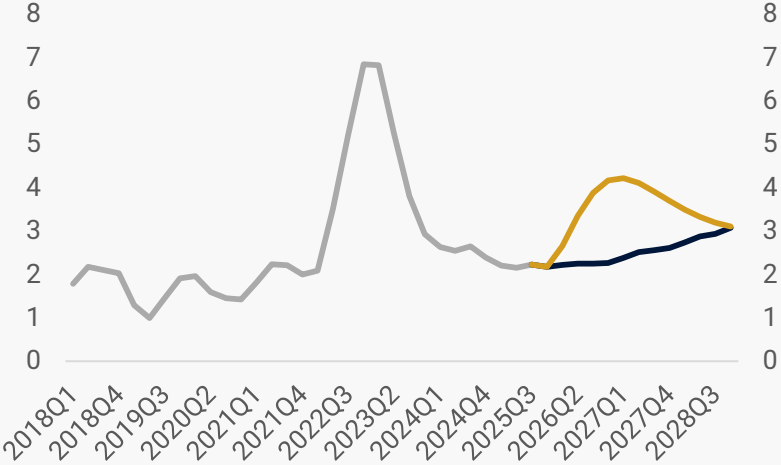
- The persistence of these trends in the medium term could lead to a deepening of the negative output gap and long-lasting deflationary pressures. Managing this risk would require a lower path for the policy rate relative to market expectations in order to prevent the accumulation of deflationary pressures and a possible downward de-anchoring of inflation expectations.

Illustrative Case A & B scenarios

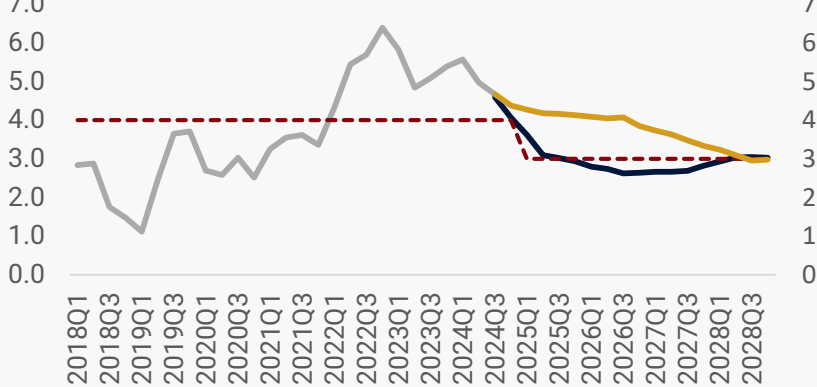
Inflation, Y-o-Y



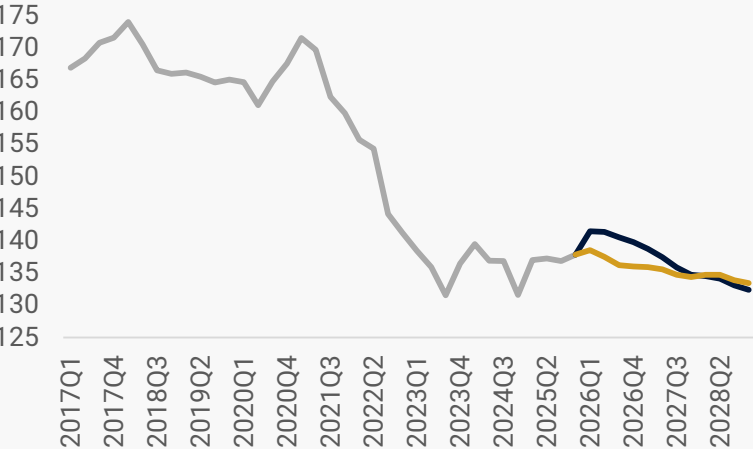
NTSPI, Y-o-Y



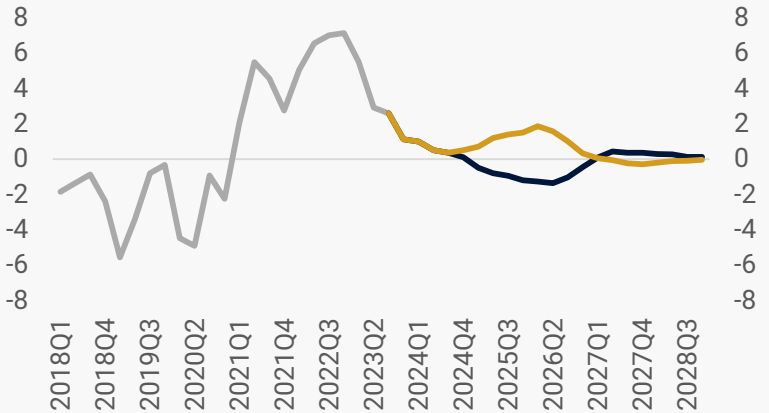
Inflation Expectations



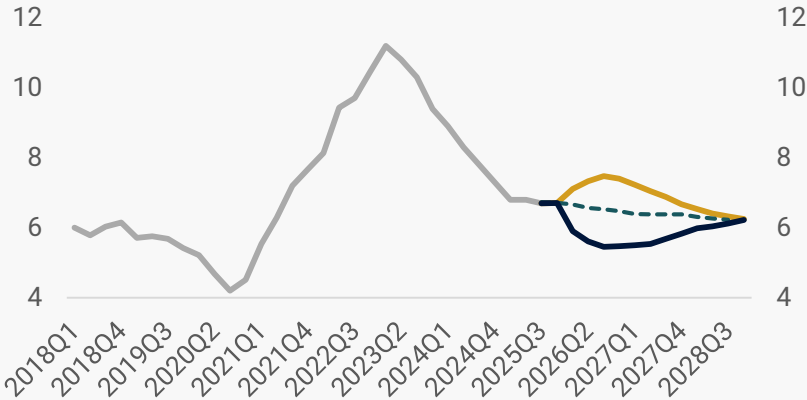
Real effective exchange rate



Output gap



Policy rate

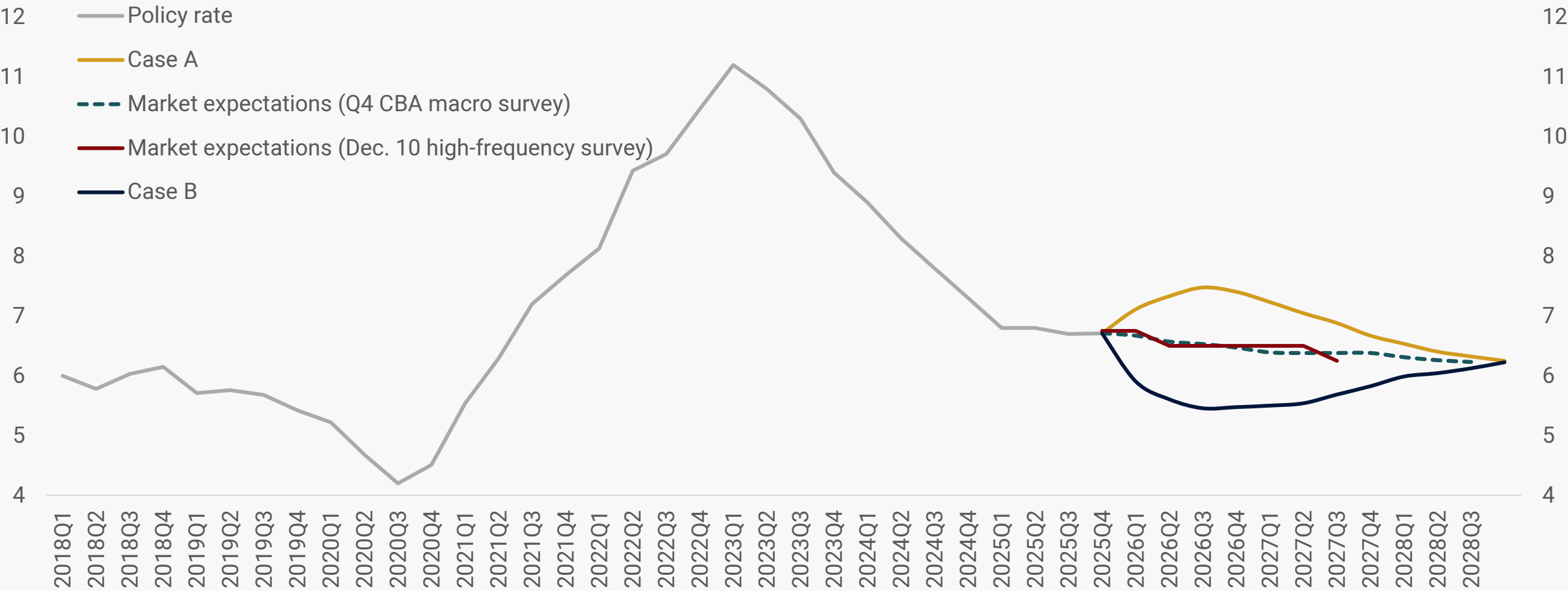




Policy deliberations

Policy deliberations

Illustrative Scenarios – 2025 Q4





Thank you