

Approved:
under the Central Bank of the Republic of Armenia
Board Resolution No. 32A, dated February 24, 2026

**STATUS REPORT ON IMPLEMENTATION OF THE
MONETARY POLICY PROGRAM**
(Quarter 1, 2025 to Quarter 4, 2025)

Between the first quarter of 2025 and the fourth quarter of 2025 inclusive, the 12-month inflation in the Republic of Armenia has gradually accelerated, reaching around the target level by the end of the year. The accelerated inflation in 2025 was mainly driven by inflationary pressures transmitted from the global economy, particularly through imported food products, although this effect was somewhat mitigated by year-end, as well as by prices of domestic food products rose, largely due to the introduction of the marking process. Meanwhile, deflationary pressures from imported non-food products gradually dissipated over the year, entering the low inflation range since May. However, the acceleration of underlying inflation, especially during the fourth quarter, points to an expansion in demand conditions.

In the period under review, in general, the processes aimed at steering aggregate demand and easing imbalances in the labor market continued. These developments were reflected in slower wage growth and the inflation in services with sticky prices stabilizing at a level slightly below the target. Under these conditions, inflation expectations continued to decline steadily, approaching the target level. In 2025, given the situation prevailing at the time, the Central Bank of Armenia continued to gradually adjust monetary conditions, reducing the policy rate by a cumulative 0.5 percentage points.

As a result, on the back of gradual normalization of monetary policy and external spillovers, the 12-month inflation increased from 1.5% at the beginning of 2025 to 3.3% in December. Over the same period, the 12-month core inflation also accelerated, rising from 0.9% at the beginning of the year to 4.3% in December.

1. MONETARY POLICY IN THE PERIOD UNDER REVIEW

In the period under review, in view of significant uncertainties accumulated in the macroeconomic environment, a range of scenarios were deliberated in the monetary policy formulation and decision-making process. On the one hand, Case A scenarios, which envisaged a policy rate path above market expectations, incorporated risks stemming from the evolving geopolitical situation, a possible increase in the global and Armenia neutral interest rate on the back of fiscal policy developments in the United States and the Republic of Armenia, and the formation of a persistently high risk premium for Armenia, as well as the risks related to the formation and long-term maintenance of excess demand in the domestic economy. On the other hand, Case B scenarios, which assumed a policy rate path below market expectations, addressed risks related to the developments in construction and related sectors amid gradual and natural adjustment of real estate prices, weakening demand and associated deflationary pressures, a rapid easing of domestic and external demand and labor market conditions, as well as a slowdown in global economic growth outlook. In the face of these uncertainties, monetary policy, implemented with prudent risk management, was aimed at stabilizing the 12-month inflation and inflation expectations around the target over the medium-term horizon.

In the period under review, as geopolitical developments further unfolded along with continued high uncertainties and risks, despite strong economic growth recorded in the economies of individual partner countries, the growth outlook for the global economy has deteriorated. In particular, GDP growth in the United States in 2025 has demonstrated a notable volatility: following the strong economic expansion recorded in 2024, the growth moderated somewhat in the first half of the year, reflecting a deceleration in previously robust consumption and heightened uncertainty about the economic policy outlook. Although actual indicators and impulses of strong economic growth persisted in the second half of the year, uncertainty surrounding its sustainability remained elevated. Serious structural challenges continue to weigh on in the Eurozone and China. In Russia, economic activity has weakened significantly; combined with the pronounced slowdown in core inflation observed in recent months, this may signal a gradual normalization of overheated economic conditions. At the same time, the contraction in consumer lending and the continued rise in the share of non-performing loans may point to weakening demand and the accumulation of structural vulnerabilities in certain sectors of the economy. Nevertheless, uncertainty over the potential growth rate of the Russian economy remains high.

Global inflation continued to slow down: in all main partner countries, the 12-month inflation is approaching the target level, however inflation of goods and services with sticky prices remains considerably above the target. In international commodity markets, risks in terms of price increases and potential disruptions to supply chains were significant due to geopolitical developments unfolding in the Middle East since the start of the year, as well as

mounting tensions in international trade relations. During 2025, global oil prices – and toward the end of the year, food prices as well – followed a gradual downward trend. However, due to the aforementioned factors, price volatility remained elevated. Against this backdrop, predominantly inflationary effects were transmitted to the Armenian economy from the external sector during 2025, although these pressures were somewhat mitigated by the end of the year.

In Armenia, economic growth in 2025 increased to some extent, reaching a level slightly above the estimated long-term sustainable growth. In the second half of the year, and particularly toward year-end, economic activity accelerated, mainly reflecting the recovery of certain short-term, non-structural factors. Throughout the period under review, strong economic performance continued to be largely driven by robust growth in the construction and services sectors. It should also be noted that in the second half of the year – especially toward the end – several tradable sectors recorded a marked acceleration in output and exports, particularly in certain “traditional” sub-sectors of the manufacturing industry. At the same time, labor market imbalances eased significantly, as it reflected in the gradual stabilization of wage growth, inflation in services with sticky prices, and inflation expectations. In this context, the contribution of demand-side factors to inflation is assessed as neutral, with current inflation dynamics largely driven by certain supply-side factors.

In view of the aforementioned developments, with a further focus on the prudent management of potential risks stemming from uncertainties prevailing at the time, the Central Bank of Armenia continued to gradually adjust monetary conditions in the course of 2025 by reducing the policy rate by a cumulative 0.5 percentage points. Moreover, following the 0.25 percentage point policy rate cut in February, the Central Bank left the policy rate unchanged in the period March–November. This decision reflected the growing of Case A risks and the need to contain the associated macroeconomic implications, while communicating the suitability of maintaining a higher policy rate path in the medium term relative to financial market expectations. Subsequently, amid the gradual easing of these risks, the Board of the Central Bank of Armenia reduced the policy rate by a further 0.25 percentage points in December 2025, in line with market expectations.

In the period under review, market interest rates came in largely around the operational target, i.e. the policy rate. In the government bonds market, the yield curve primarily reflected the logic of the gradual adjustment of long-term inflation expectations as a result of the normalization of monetary policy, the reduction of the inflation target, the lower-than-expected level of public debt, and other contributing factors. Thus, in the first half of the year, the yield curve shifted slightly downward, particularly in the short- and medium-term segments. In the second half of the year – especially toward year-end – a more pronounced downward shift was observed across the entire curve. This reflected improved investor sentiment about emerging markets, a decline in specific country risk premium for Armenia, increased liquidity supply in the financial market, and the gradual transmission of monetary policy.

Figure 1

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

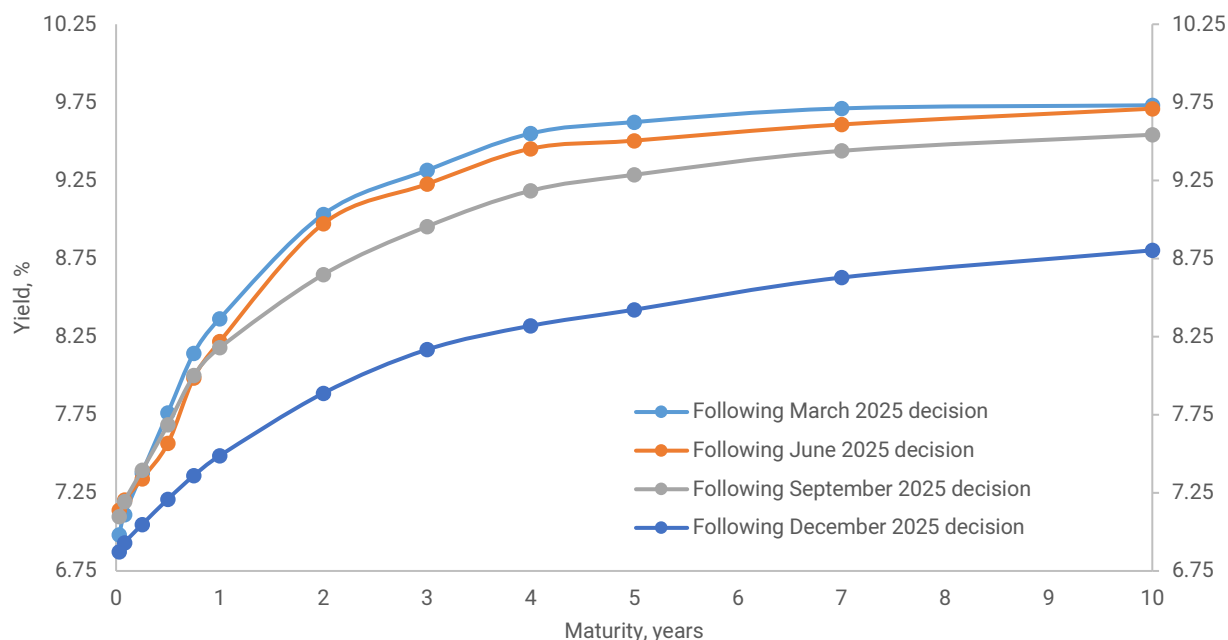
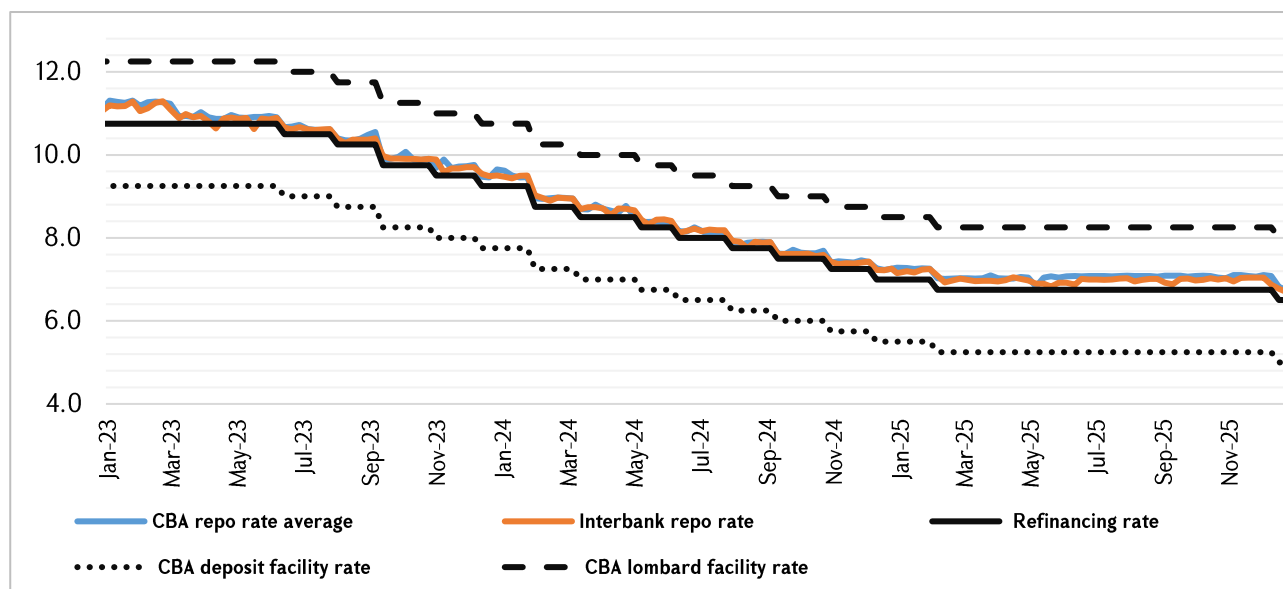


Figure 2

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



In 2025, amid high activity in certain sectors of the economy, demand for credit remained strong. This was particularly evident in the steady growth of consumer lending to households. At the same time, mortgage lending growth somewhat slowed down due to the significant narrowing of the income tax refund program, although it remained at a relatively high level.

Under these conditions, despite the continued reduction in the policy rate and short-term market rates, the banking system lending rates adjusted slowly.

In the foreign exchange market, the Armenian dram appreciated moderately against the US dollar, reflecting a combination of factors, including increased capital inflows and the depreciation of the US dollar against both developed and emerging market currencies. At the same time, in certain episodes, the Central Bank of Armenia conducted foreign currency purchase operations to neutralize risks to the smooth functioning of the financial market.

As a result, in view of the aforementioned developments and the monetary policy implementation, in the period under review **the 12-month inflation accelerated to 3.3 percent at the end of the year. The 12-month core inflation notably increased as well, amounting to 4.3 percent in December.**

2. INFLATION COMPONENTS IN THE PERIOD UNDER REVIEW

In 2025, the 12-month inflation accelerated, mainly driven by inflationary pressures transmitted from the external sector, alongside the gradual normalization of monetary conditions, a moderate expansion of aggregate demand – particularly in the second half of the year – and the influence of certain temporary factors.

Thus, in the period under review adverse weather conditions in several key global food-supplying countries, together with increased global demand for specific products, led to significant price increases for selected commodities. These developments were largely reflected in imported food prices (with imported food price inflation reaching 5.3% year-on-year in December). In this context, inflationary pressures from international food markets intensified especially in the product groups, such as “Bread and cereals”, “Oils and fats”, and “Meat”. However, in September 2025, the impact of global supply factors on food prices moderated considerably, although this was only partially reflected in imported food prices.

In the period under review, inflation in services accelerated to a certain extent as well, which was largely caused by higher air transport prices. Since May 2025, inflation has increased mainly in services that are highly sensitive to external demand, particularly hotels and restaurants, etc., consistent with the significant increase in tourist inflows in preceding months. Nevertheless, services inflation excluding air transport remained below the target, within a 2.0-2.5% range.

Core inflation, which excludes seasonal food products and regulated services, also tended to speed up; it amounted to 4.3 percent year-on-year in December. In the structure of core inflation, a notable increase was recorded mainly in the prices of non-seasonal food products and non-regulated services. Moreover, since the beginning of 2025, deflationary pressures from non-food products have gradually been neutralized, and since July inflation of non-food products prices has entered a positive territory, reaching 0.9% year-on-year in December.

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

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

Figure 3

In the period under review, the acceleration of headline inflation was primarily driven by an increase in prices of non-seasonal food products

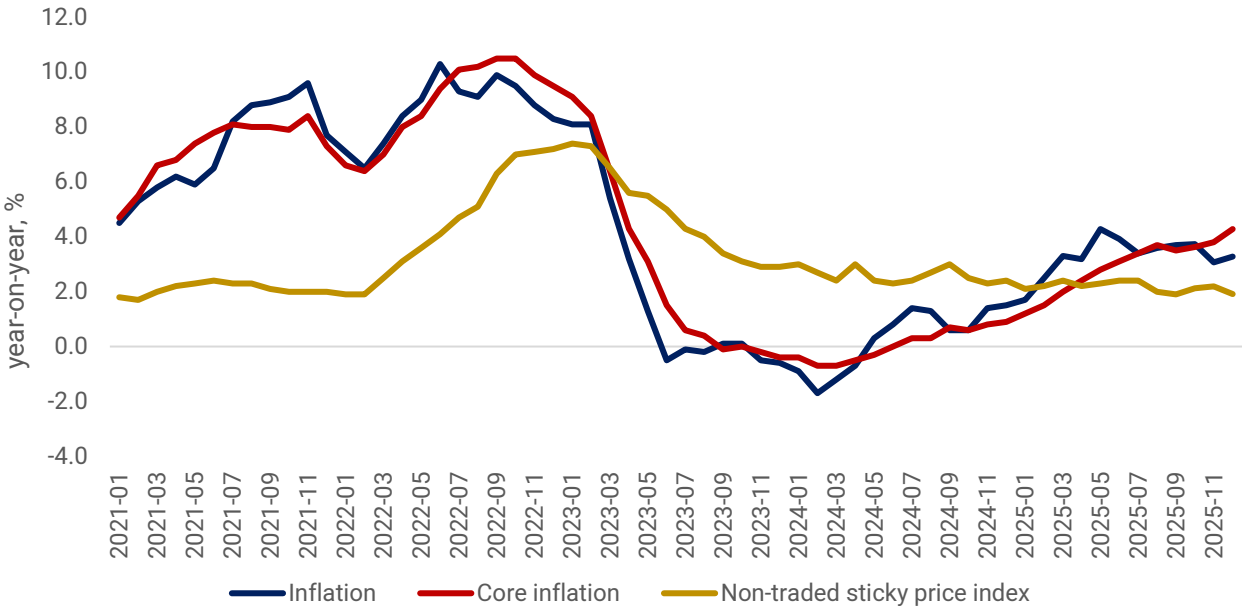


Table 1

Product/item	Weight in the basket	12-month inflation: December 2025	Contribution to y/y inflation
Core inflation	77.2	4.3	3.30
Bread and cereals	8.2	3.9	0.32
Meat	10.8	7.9	0.85
Oils and fats	2.3	6.8	0.16
Sugar	0.5	1.1	0.01
Dairy products	4.3	6.1	0.27
Alcoholic beverage	1.9	5.0	0.12
Tobacco products	2.5	8.7	0.22
Clothing	2.0	-0.1	0.00
Footwear	1.0	1.0	0.01
Household appliances	0.6	-0.2	0.00
Fuel	5.1	-0.3	-0.01
Air passenger transportation services	1.5	26.6	0.4
Outpatient care services	2.6	3.8	0.10
Actual rent paid by the tenant for additional accommodation	2.6	-3.5	-0.91
Restaurants and hotels	2.2	2.9	0.06
Fees for services by banks, post offices	1.0	2.1	0.02
Seasonal food products	9.6	-2.8	-0.27
Eggs	1.3	7.2	0.09
Fruits	3.1	0.7	0.02
Vegetables	5.1	-7.5	-0.39
Regulated services	13.2	1.9	0.25
Other product and service groups			
Imported food products	15.4	5.3	0.81
Non-regulated services	20.6	3.8	0.79

Table 2

Product/item	12-month inflation: as of March 2025	12-month inflation: as of June 2025	12-month inflation: as of September 2025	12-month inflation: as of December 2025
Core inflation	2.0	3.1	3.5	4.3
Bread and cereals	1.7	3.5	4.6	3.9
Meat	0.2	1.6	3.6	7.9
Oils and fats	12.5	14.2	12.8	6.8
Sugar	-5.2	-2.8	-8.9	1.1
Dairy products	-2.0	-0.4	2.0	6.1
Alcoholic beverage	5.3	4.5	4.7	5.0
Tobacco products	4.8	7.4	8.3	8.7
Clothing	-3.9	-2.7	-1.9	-0.1
Footwear	-1.6	-0.8	-0.1	1.0
Household appliances	3.2	3.1	2.8	-0.2
Fuel	-0.5	-1.9	-0.4	-0.3
Air passenger transportation services	9.8	29.9	19.4	26.6
Outpatient care services	5.6	4.4	4.3	3.8
Actual rent paid by the tenant for additional accommodation	-3.8	-2.4	-5.9	-3.5
Restaurants and hotels	1.1	2.3	2.0	2.9
Fees for services by banks, post offices	1.0	1.3	1.3	2.1
Seasonal food products	14.6	12.7	6.3	-2.8
Eggs	-2.5	-6.2	-3.0	7.2
Fruits	11.3	3.7	12.4	0.7
Vegetables	21.0	25.0	2.4	-7.5
Regulated services	2.4	2.0	2.5	1.9
Other product and service groups				
Imported food products	4.8	6.3	6.5	5.3
Non-regulated services	3.3	4.5	2.8	3.8