

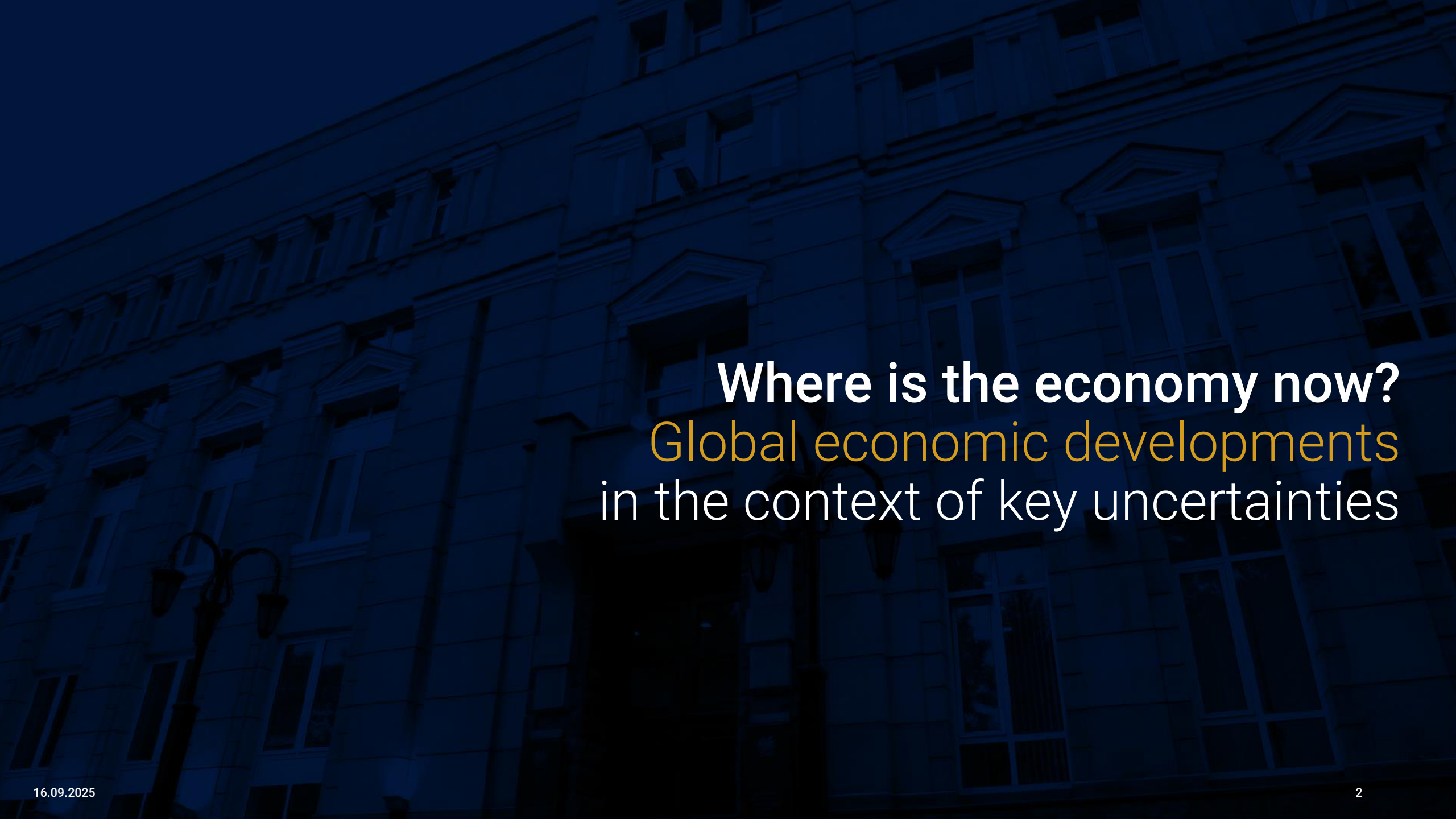


Central Bank
of Armenia

Monetary Policy **Outlook**

2025 Q3 Policymaking Round

16 September 2025

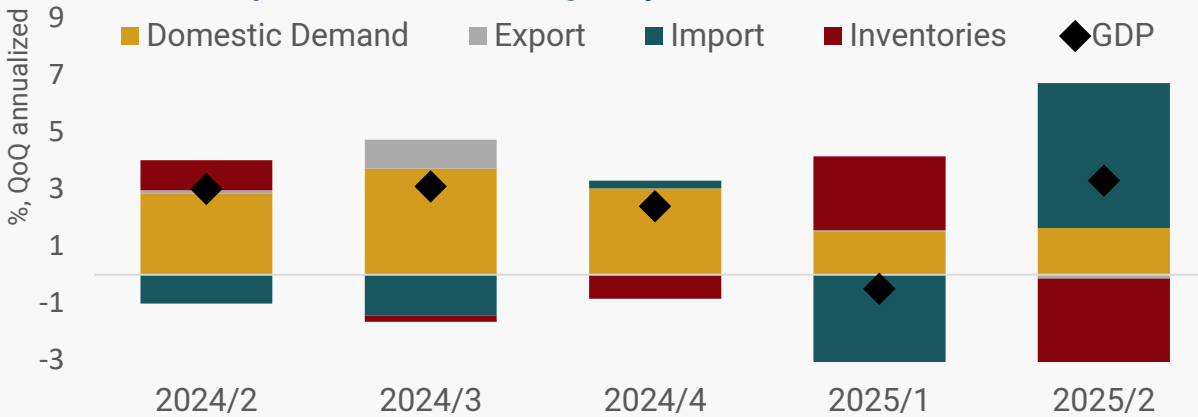


Where is the economy now?

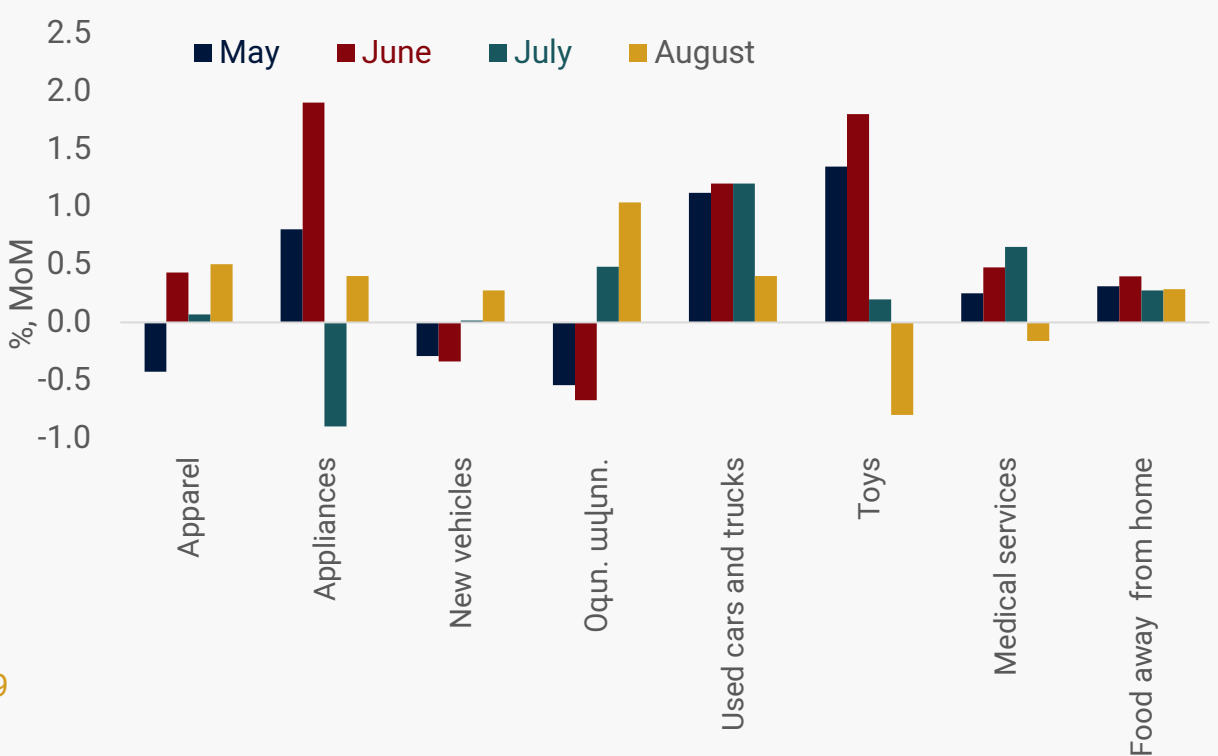
Global economic developments in the context of key uncertainties

U.S. tariff policy: Although inflation accelerated across the board in tariff-sensitive product groups in August, the impact of tariffs has not yet been fully transmitted to consumer prices

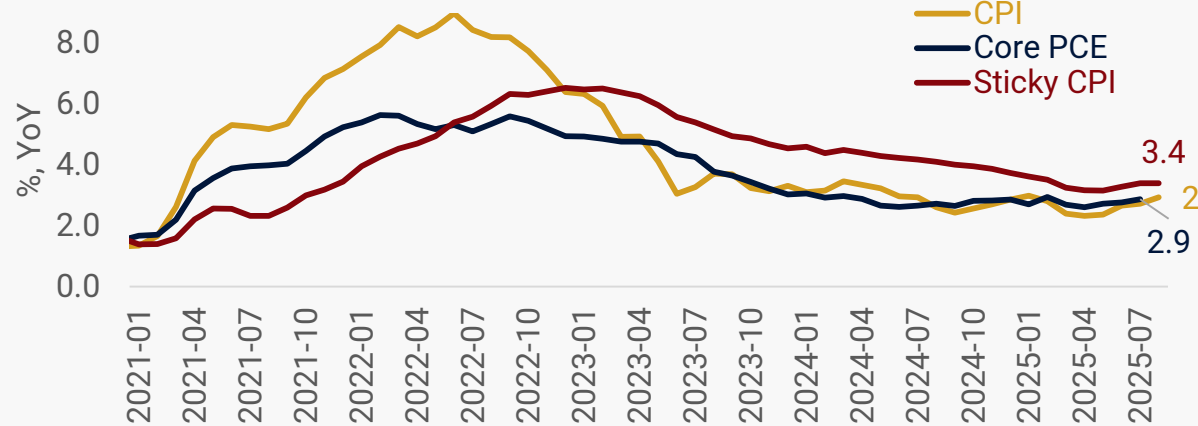
The sharp increase in imports and inventories in Q1 has mitigated the impact of tariffs being fully reflected in inflation.



The impact of tariffs has gradually started to feed through to tariff-sensitive product groups



In August, 12-month inflation stood at 2.9%, while month-on-month inflation was 0.4%



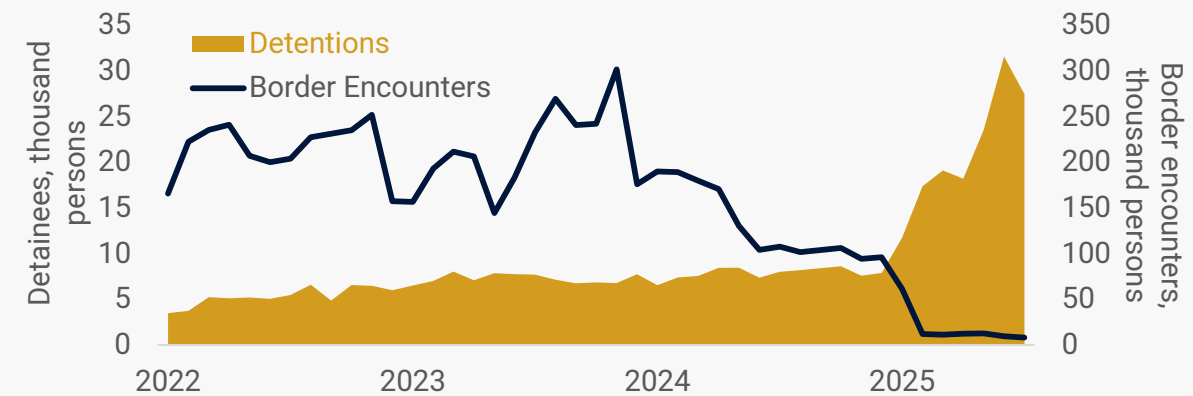
Source: BEA, BLS, Atlanta Fed

Accumulated inventories are gradually being depleted, as a result of which the inflationary effect of tariffs is being transmitted to goods prices.

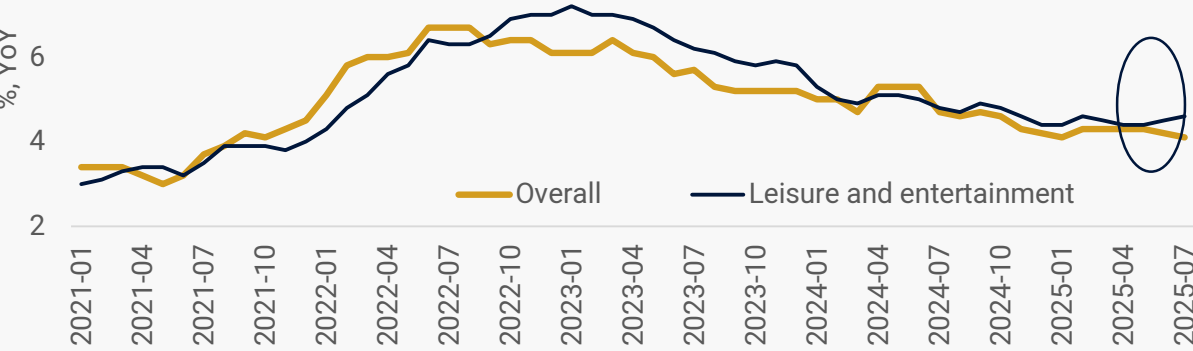
Problems related to labor supply?

U.S. migration policy may contribute to a tightening of labor market conditions and an expansion of inflationary pressures. Weakening demand may be masking the extent to which labor supply shortages are already materializing

The increase in detentions and the halt of new migration inflows could lead to a tightening of labor market conditions

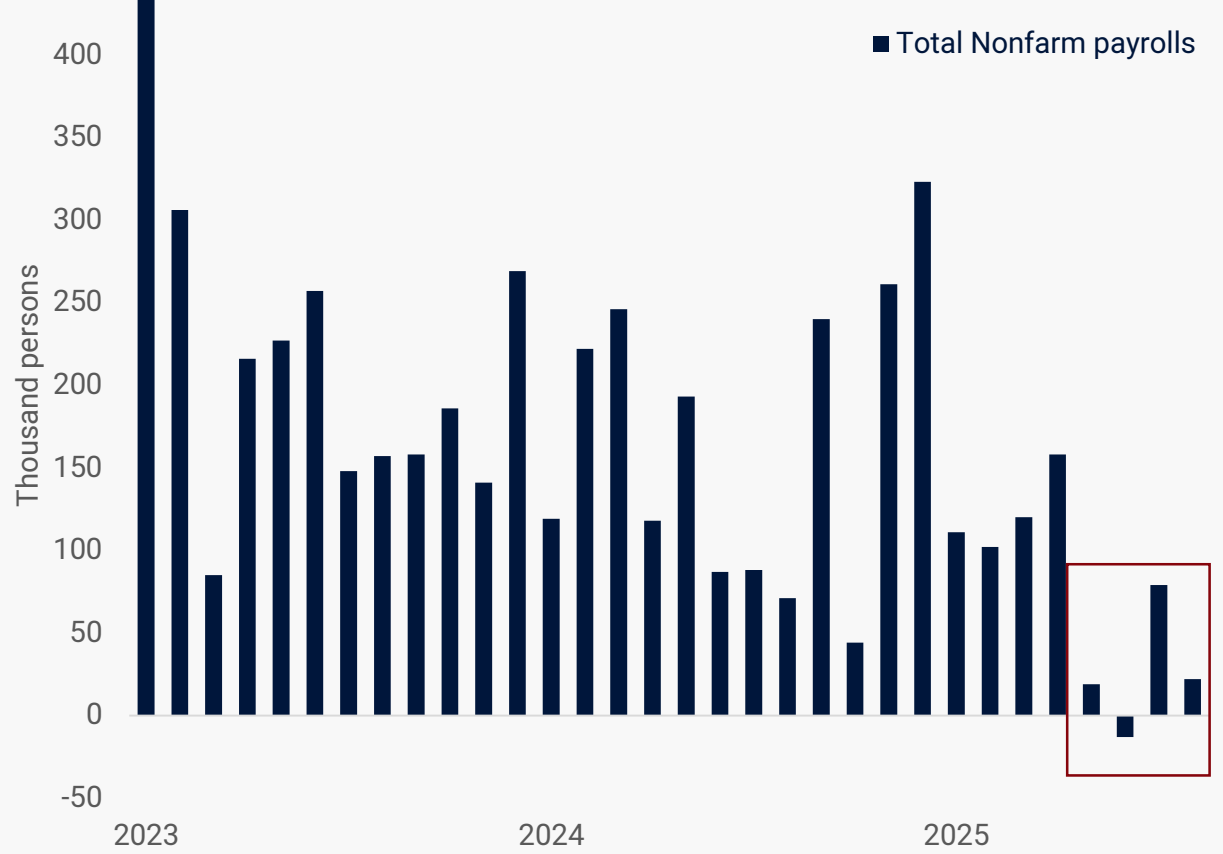


Wage growth continues to slow significantly; at the same time, in certain sectors dominated by migrants, upward pressures on wages are being observed



Source: U.S. Customs and Border Protection, Transactional Records Access Clearinghouse, BLS

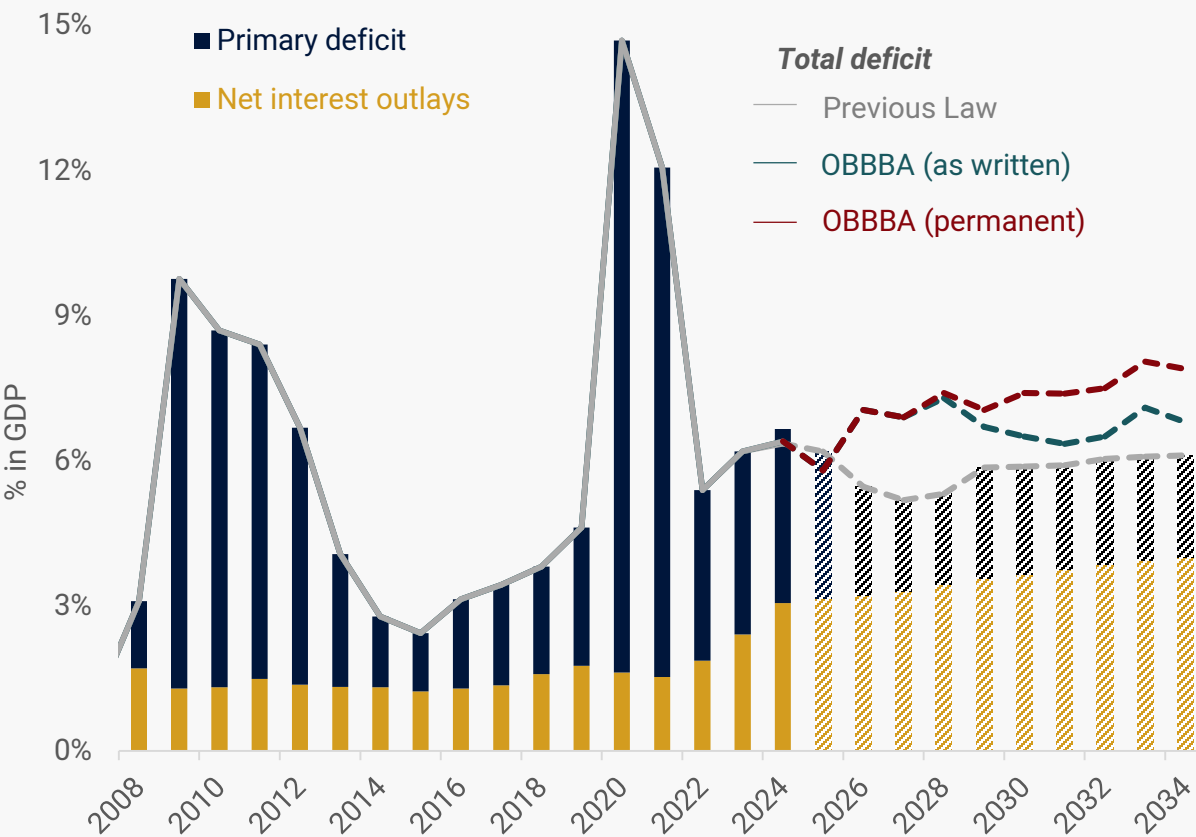
Against the backdrop of deteriorating demand and sentiment, the pace of employment growth has slowed sharply, which may mask the aforementioned risks



Source: AtlantaFed, BLS

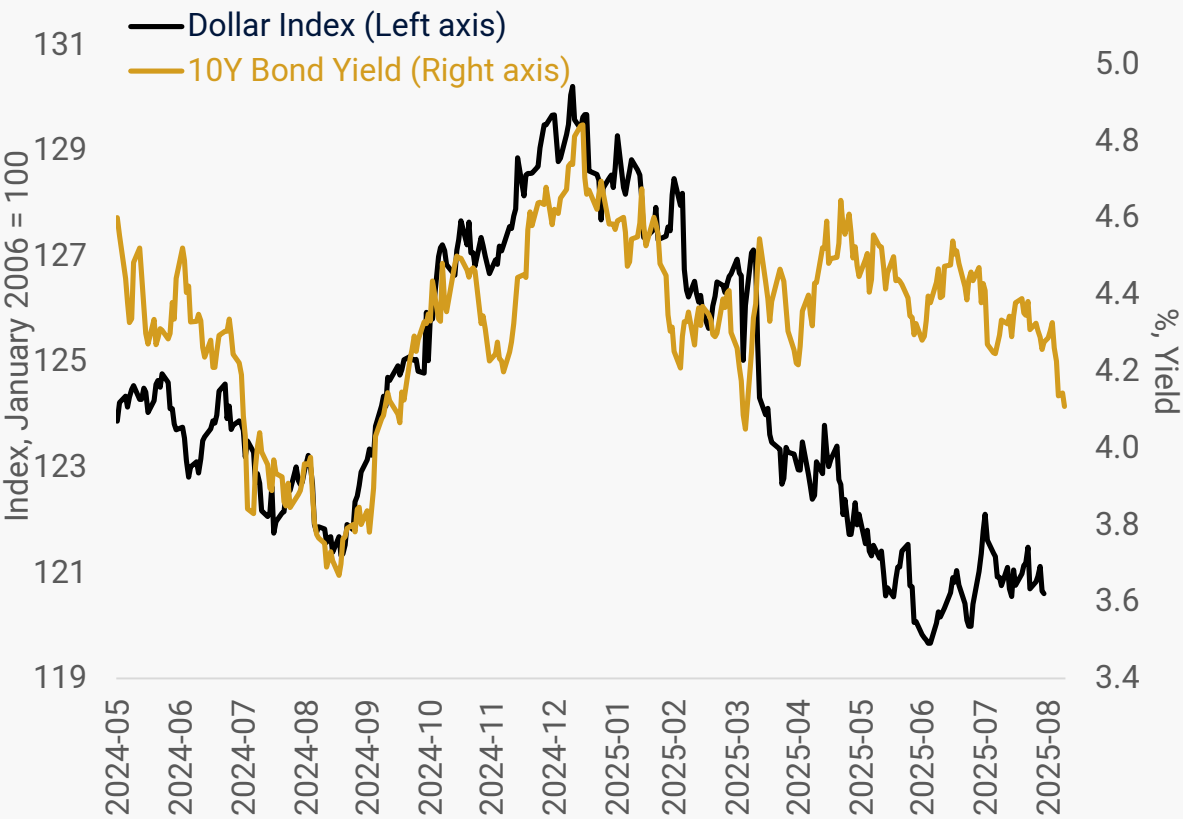
U.S. fiscal policy sustainability issues pose serious risks from the perspective of the country's risk profile

In a high interest rate environment, an increase in the deficit could have serious consequences



Source: Committee for a Responsible Federal Budget, Congressional Budget Office, CBA staff calculations

The rise in long-term interest rates and the depreciation of the U.S. dollar indicate a partial, though not complete, pricing-in of long-term risks by financial markets



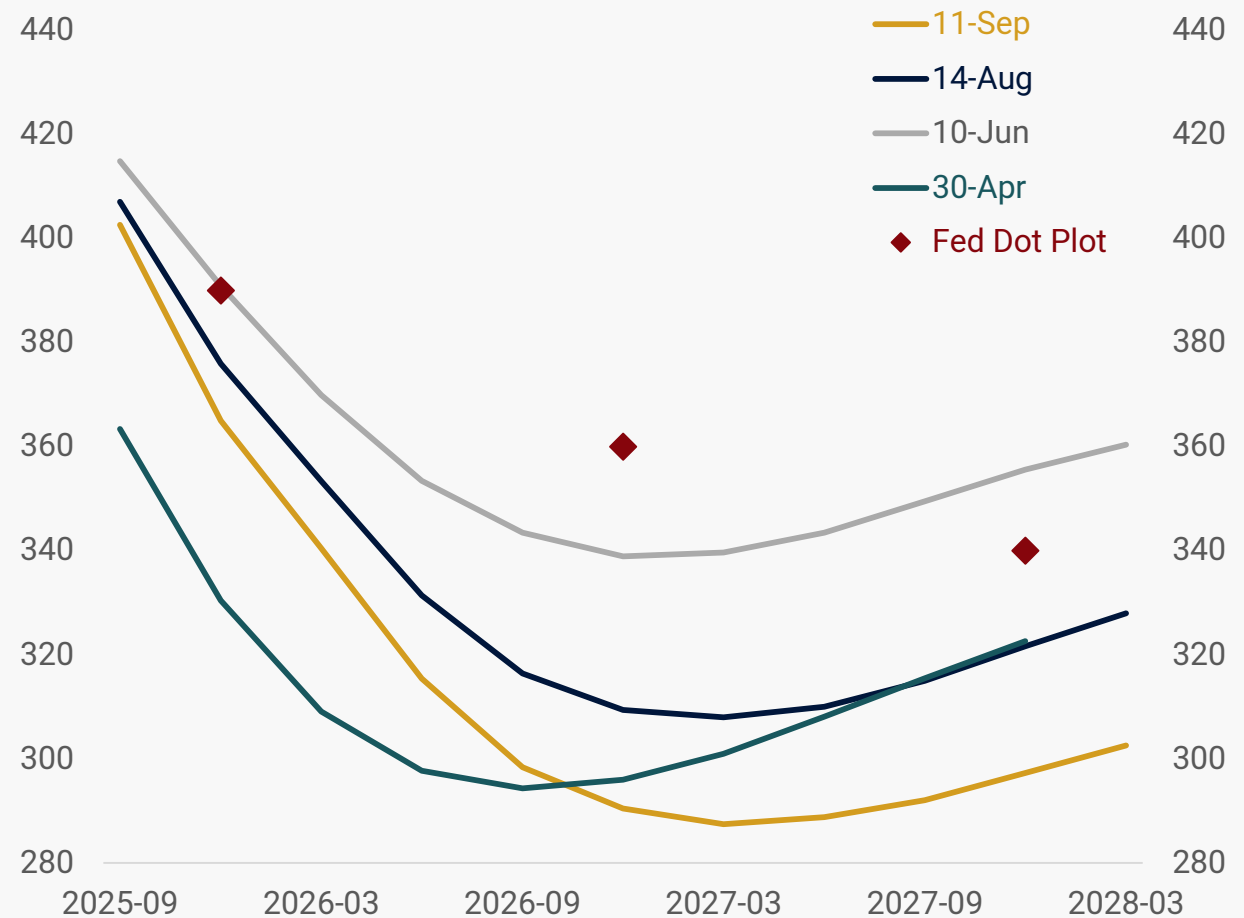
Source: US Treasury Department

U.S. monetary policy: the Fed's dilemma

Managing potential risks will be quite challenging:

- On the one hand, deteriorating outlook for growth, consumption, and demand
- On the other hand, risks of an expansion and prolonged persistence of a high-inflation environment, as well as of de-anchoring of expectations.

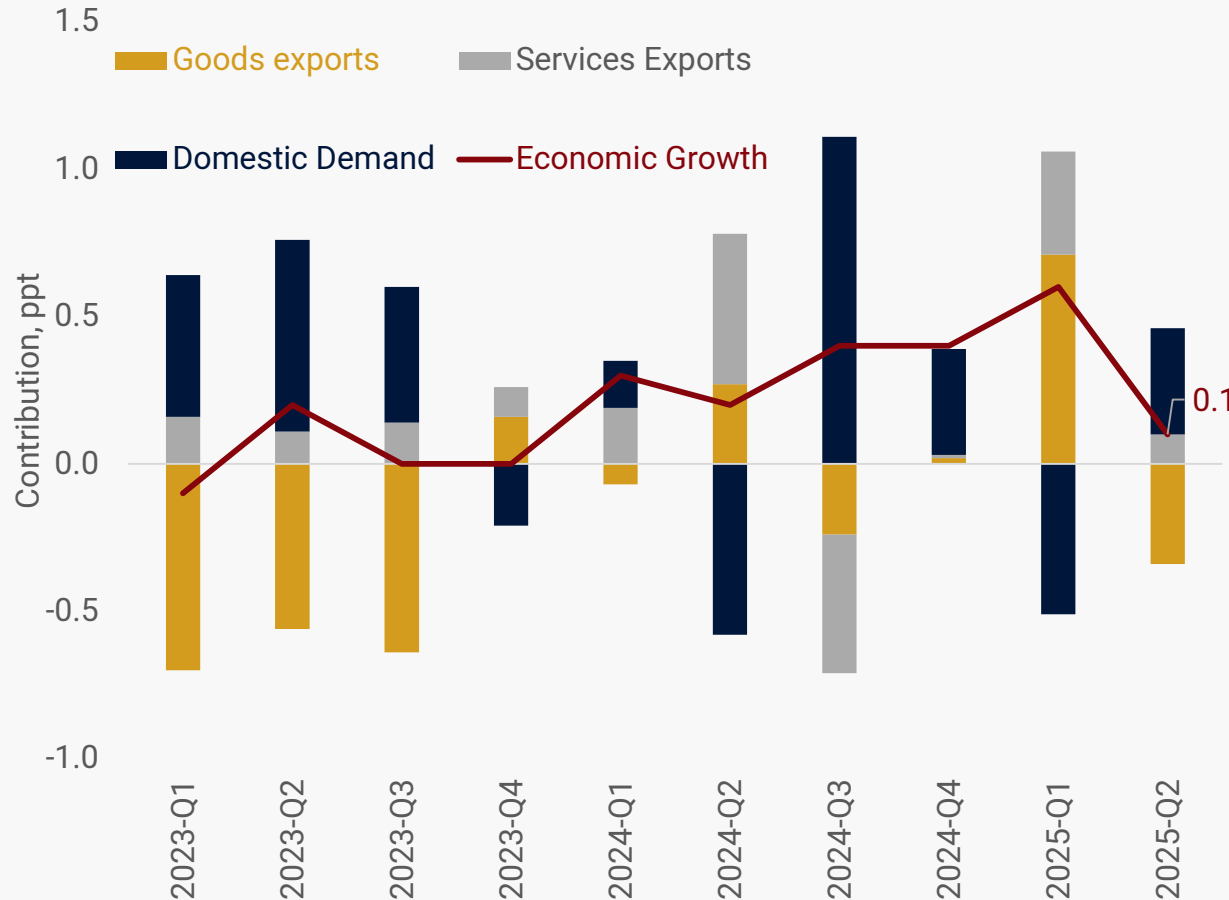
Financial market expectations regarding the Fed's rate path



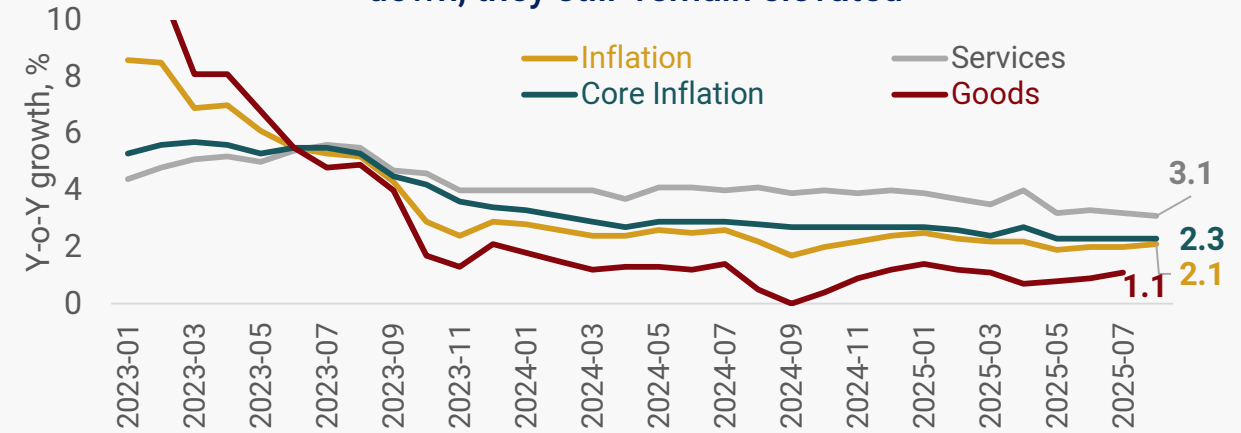
Source: Atlanta Fed

EU: Uncertainty around growth outlook persists, driven by both US trade restrictions and risks of a more expansionary fiscal policy stance

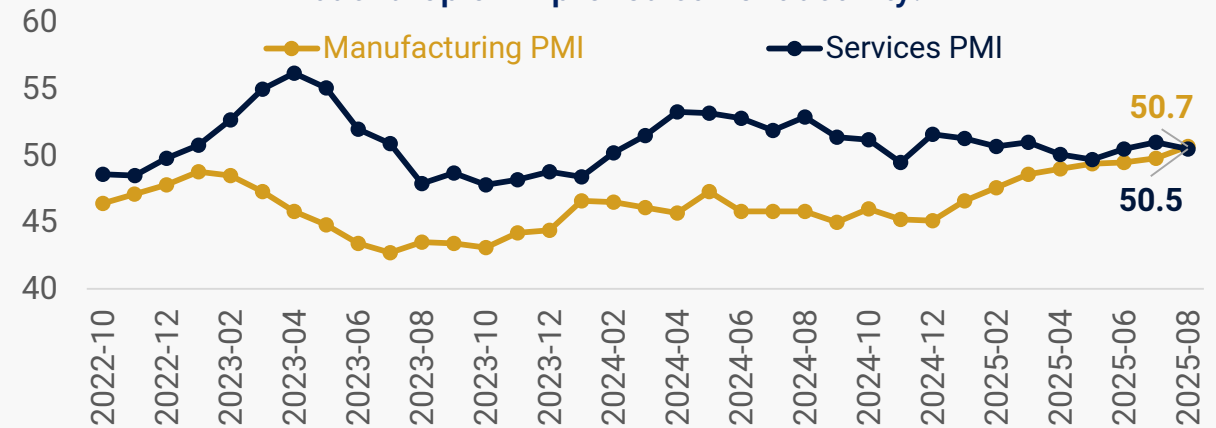
The impact of short-term factors, mainly driven by export growth, on economic growth has weakened.



Although the underlying inflation measures have somewhat slowed down, they still remain elevated



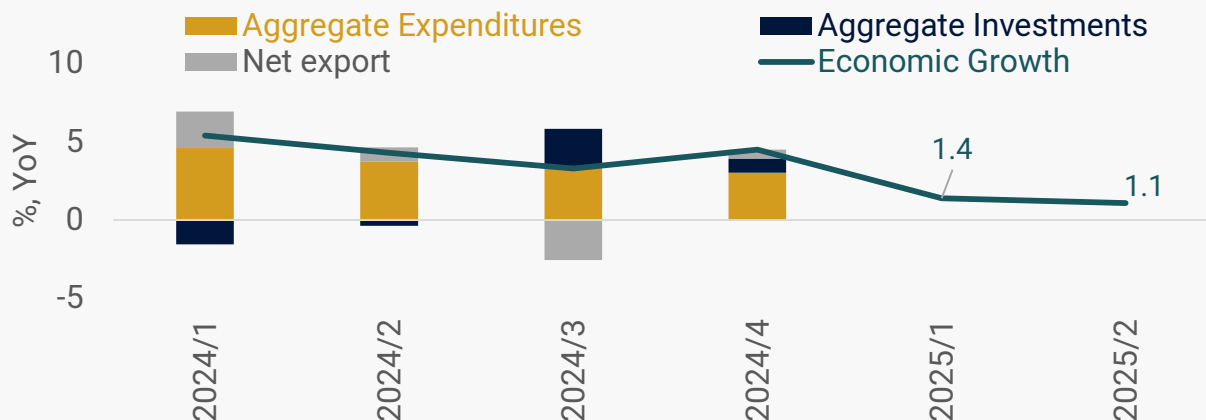
Leading indicators continue to show stabilization trends against the backdrop of improved current activity.



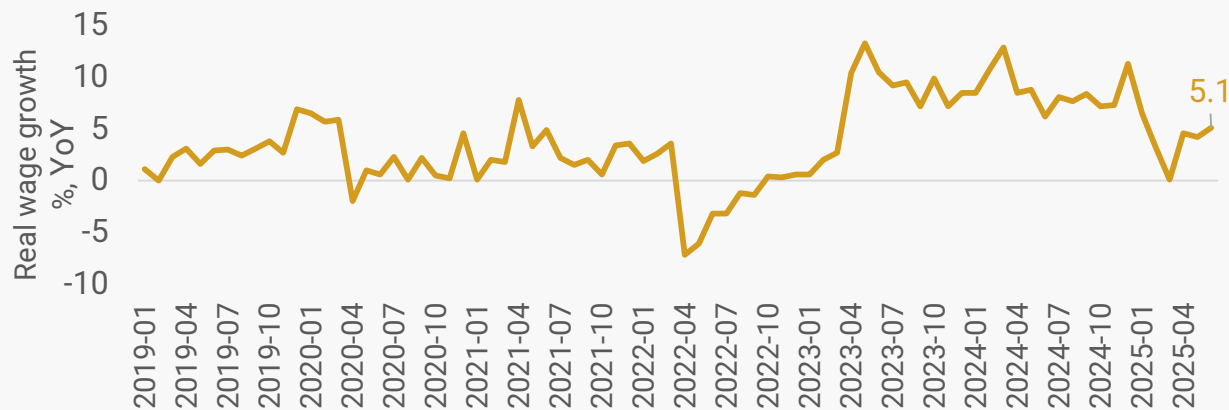
Source: Eurostat

Russia: On the one hand, the sharp slowdown in demand, and on the other, the persistence of tight labor market conditions and elevated inflation expectations, pose challenges for monetary authorities.

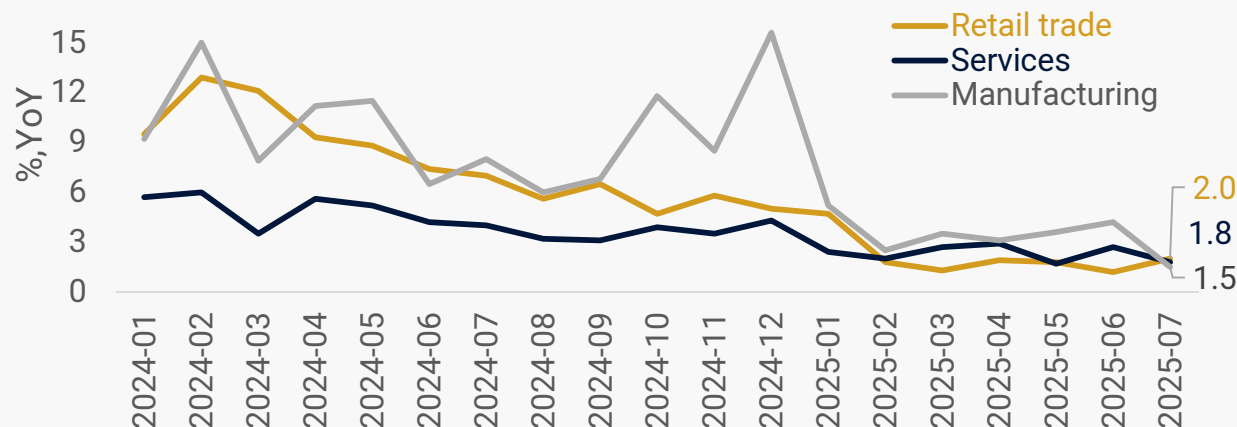
In the second quarter of 2025, economic growth continued to slow.



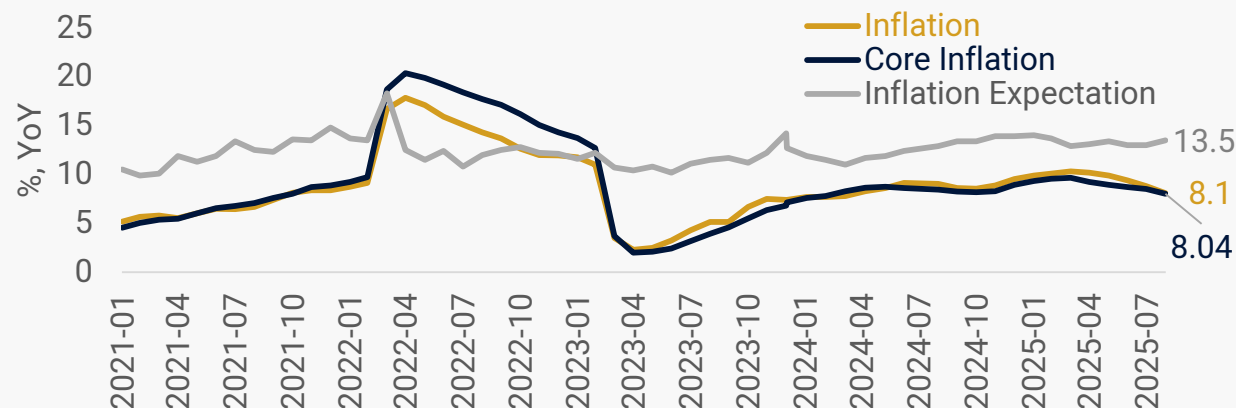
Labor market conditions remain tight, exerting additional inflationary pressures on the economy



The slowdown in economic growth is broad-based



Despite some slowdown in recent months, inflation remains significantly above the target level

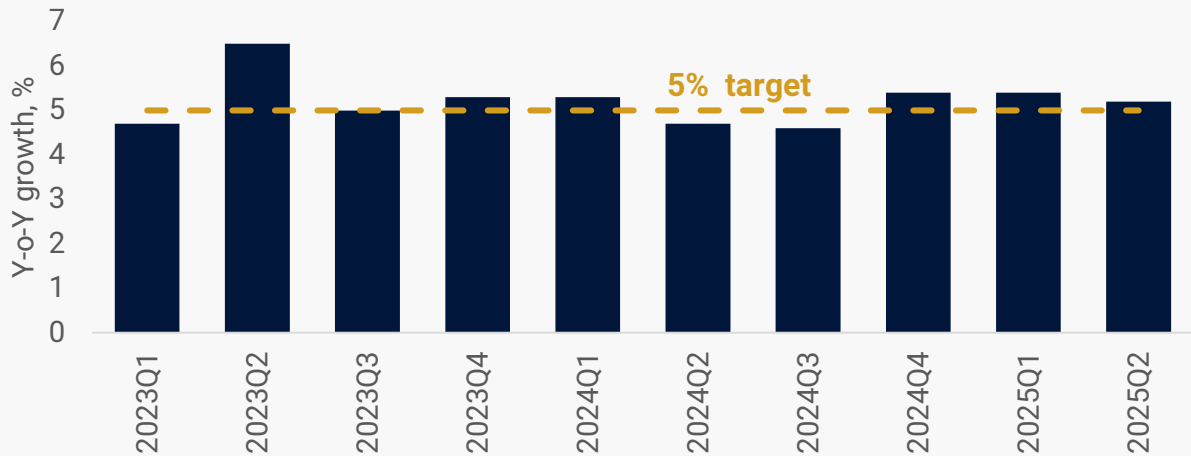


Source: Rosstat

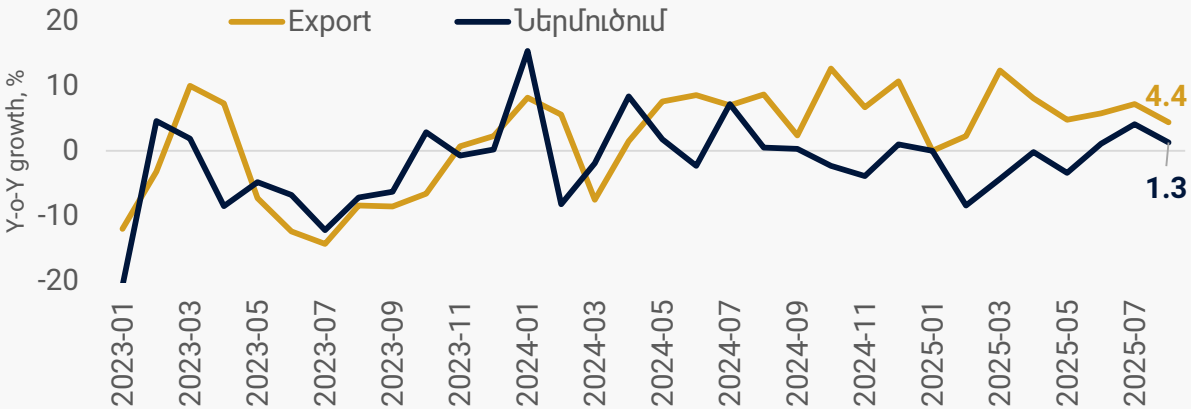
Source: Rosstat

China: Although economic growth remained stable in the second quarter, uncertainty about growth prospects persists in the context of slowing consumption and risks of instability in the real estate market.

In the second quarter, economic growth exceeded market expectations.



Economic growth is largely driven by the increase in exportable industrial production

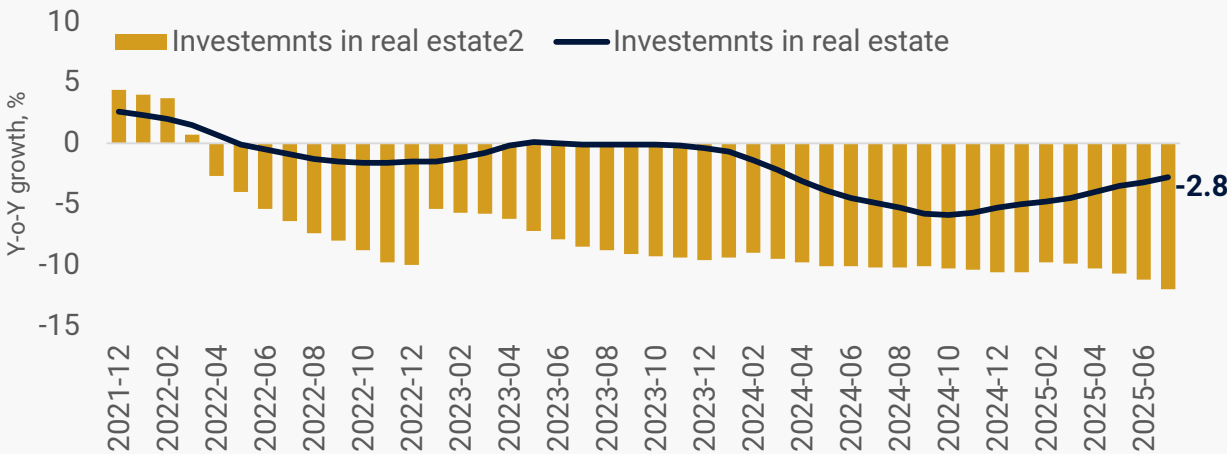


Source: National Statistics of China

Continued slowdown in trade may indicate to weakening of demand conditions.

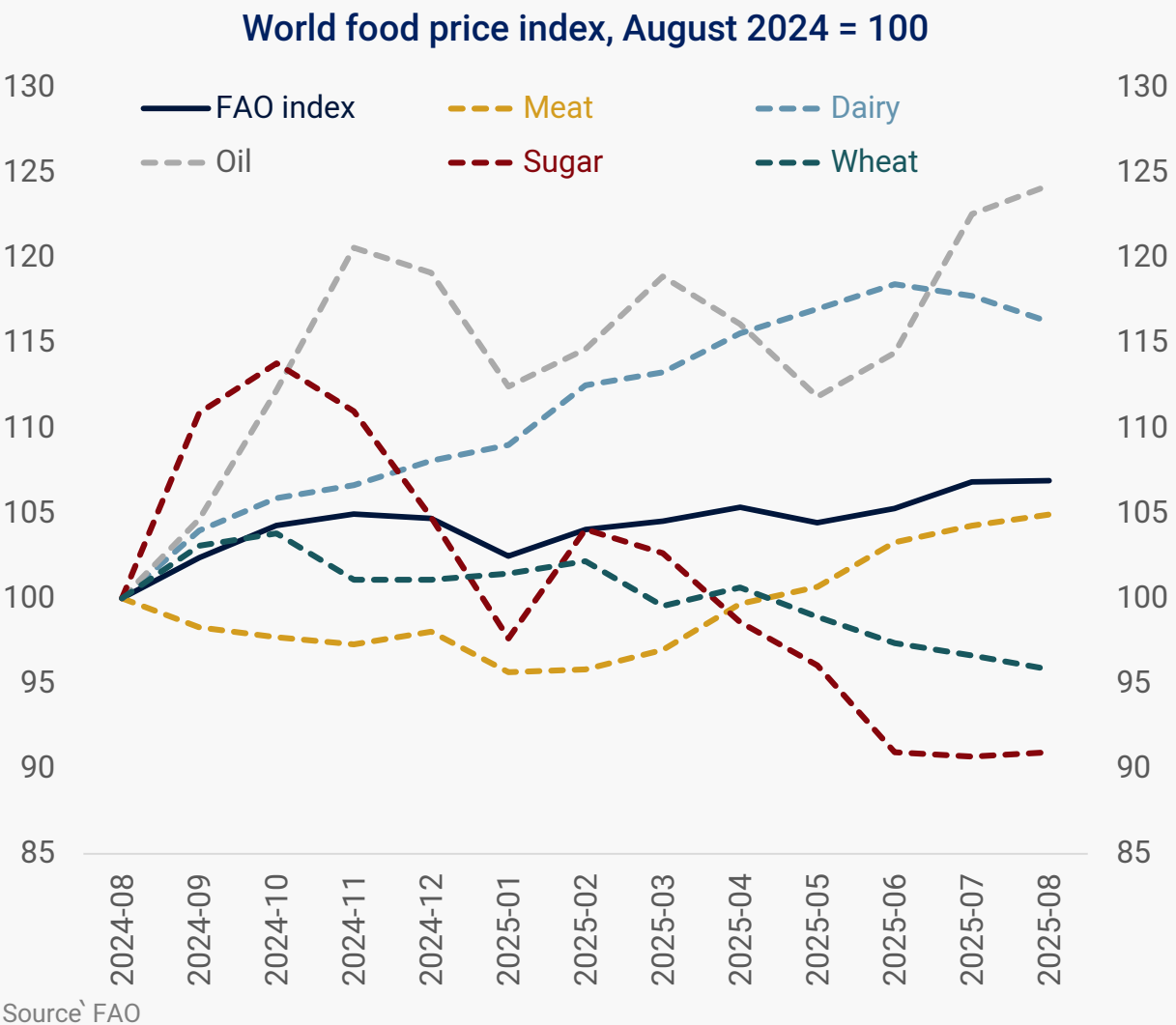
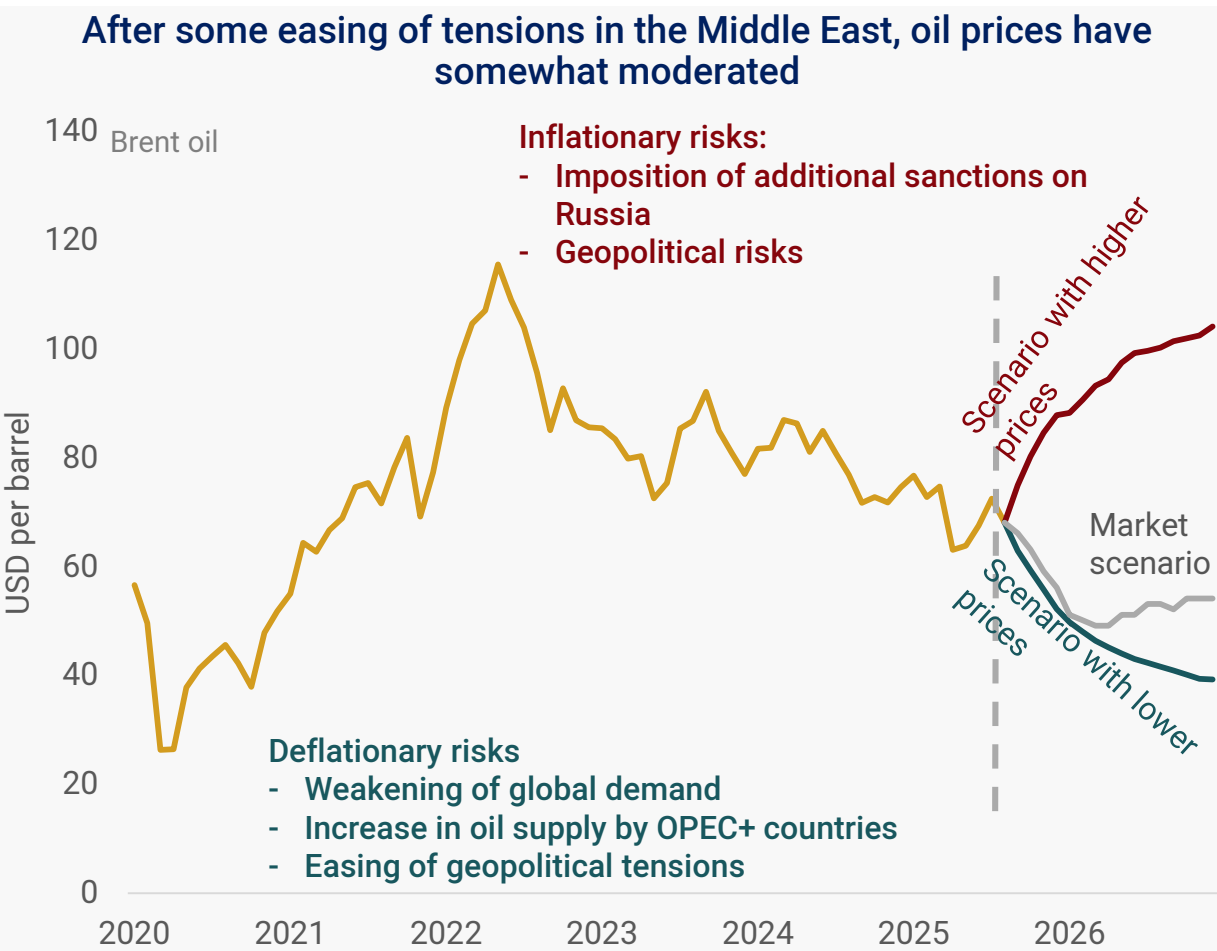


The real estate market continues to remain unstable.



Source: National Statistics of China

Commodity markets: Global oil prices have continued to decline, while inflationary pressures from food prices have accelerated in recent months.



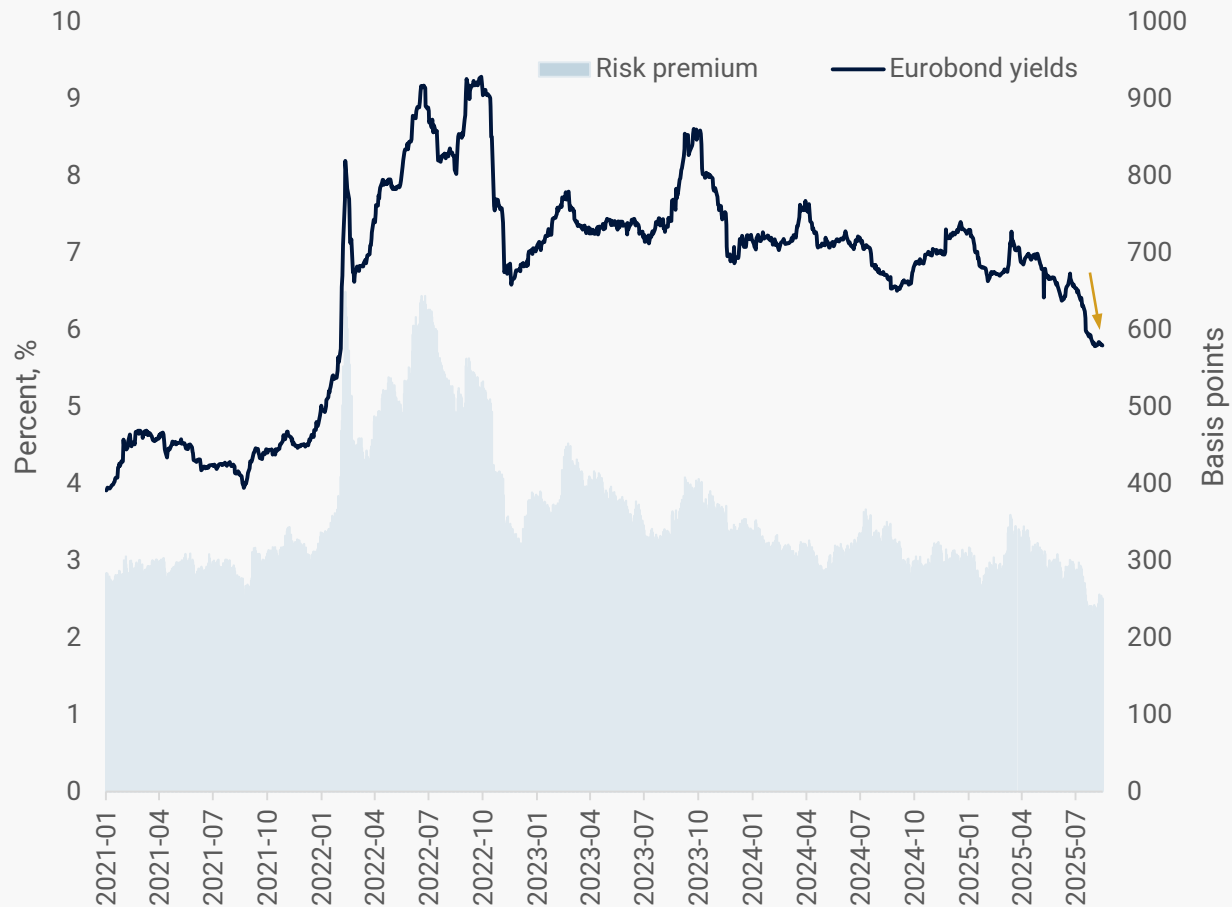


Where is the economy now?

Domestic economic developments in the context of key uncertainties

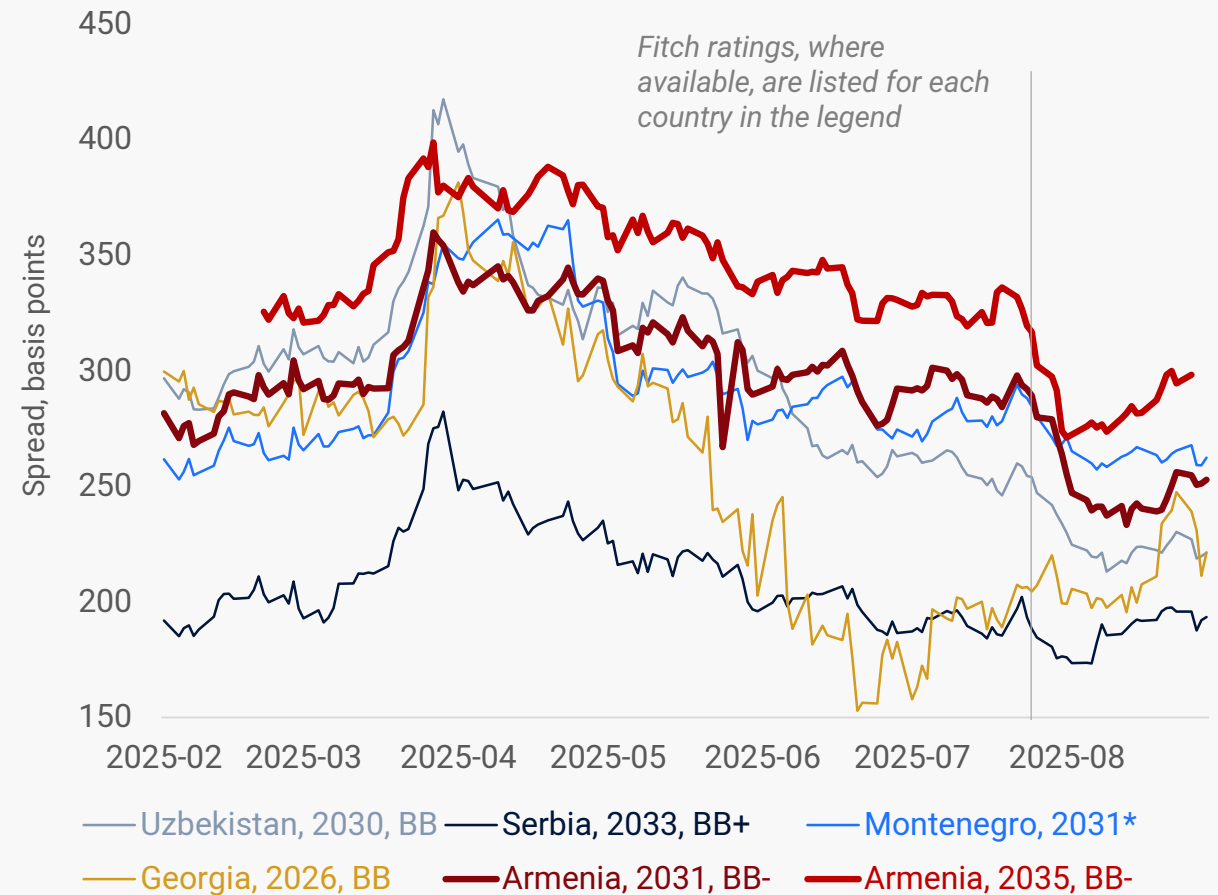
Risk Premium. In recent months, the decline in the country's risk premium partly reflects recent geopolitical developments, as well as broader trends among regional and comparable peer countries

Despite the decline in the country's risk premium, geopolitical uncertainties remain.



Source: Bloomberg, Fitch

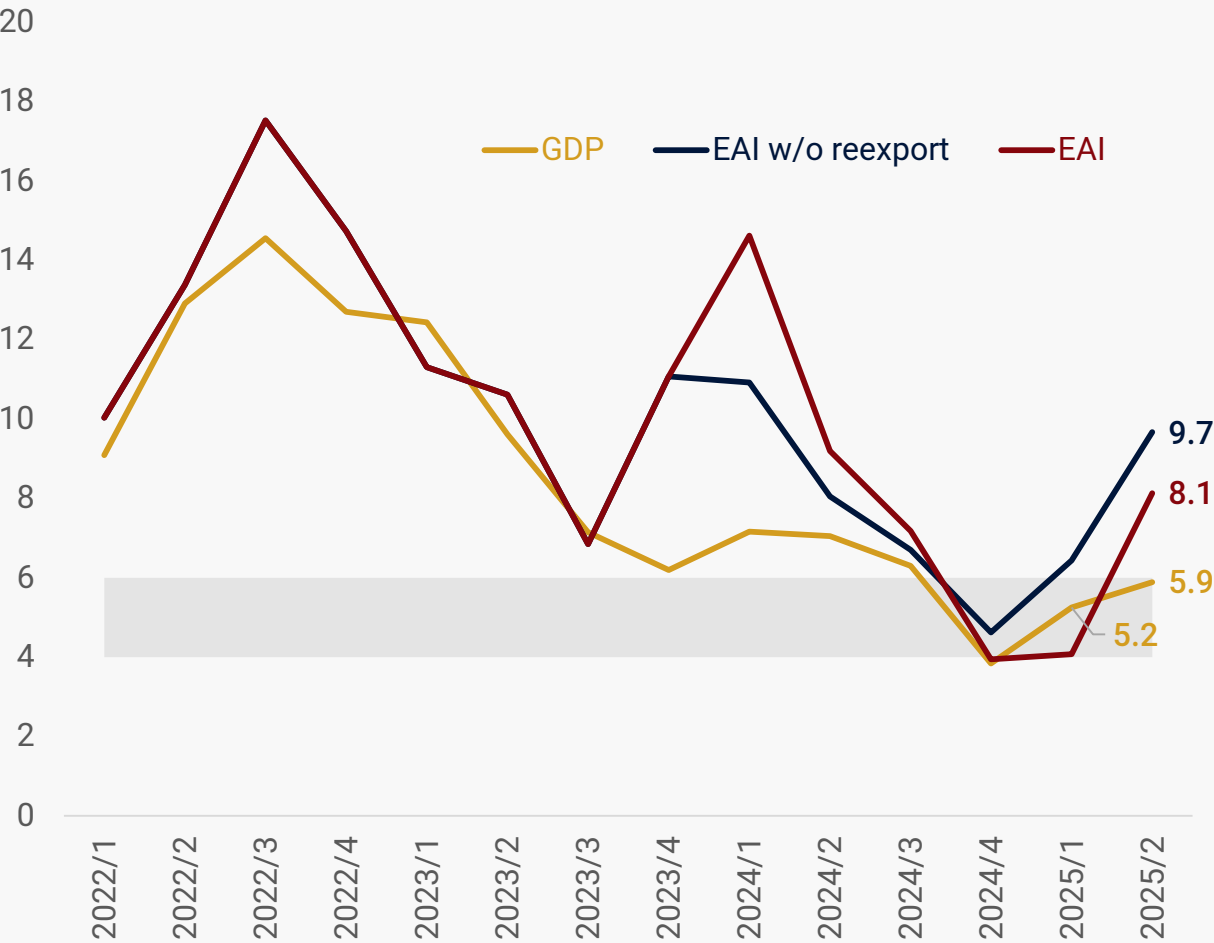
Mid-I spreads of regional and comparable-rated countries



*Montenegro's credit rating, according to Moody's, is Ba3, the same rating as Armenia.

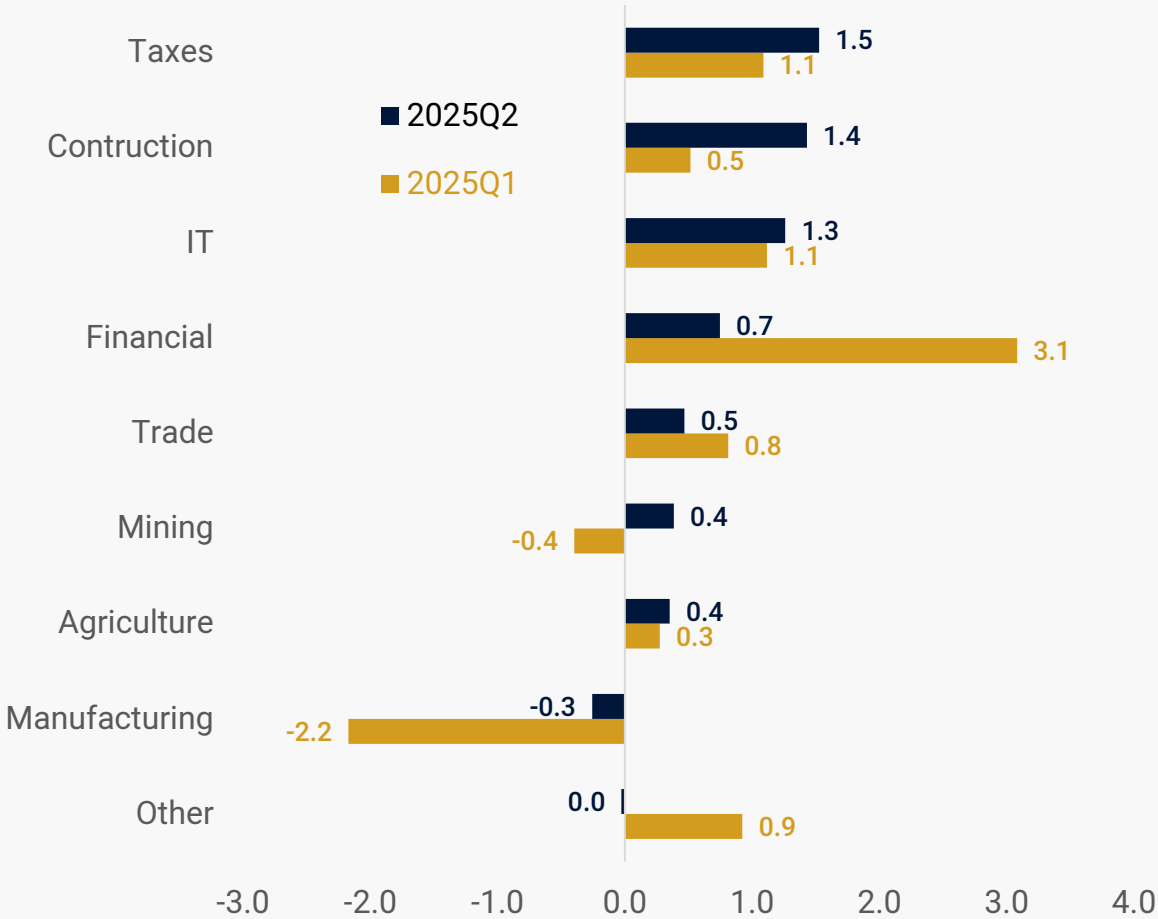
Economic growth: In the second quarter, economic growth accelerated, but possible statistical errors pose uncertainty regarding interpretations of the data

GDP and Economic Activity Indicator (EAI), real Y-o-Y growth, %

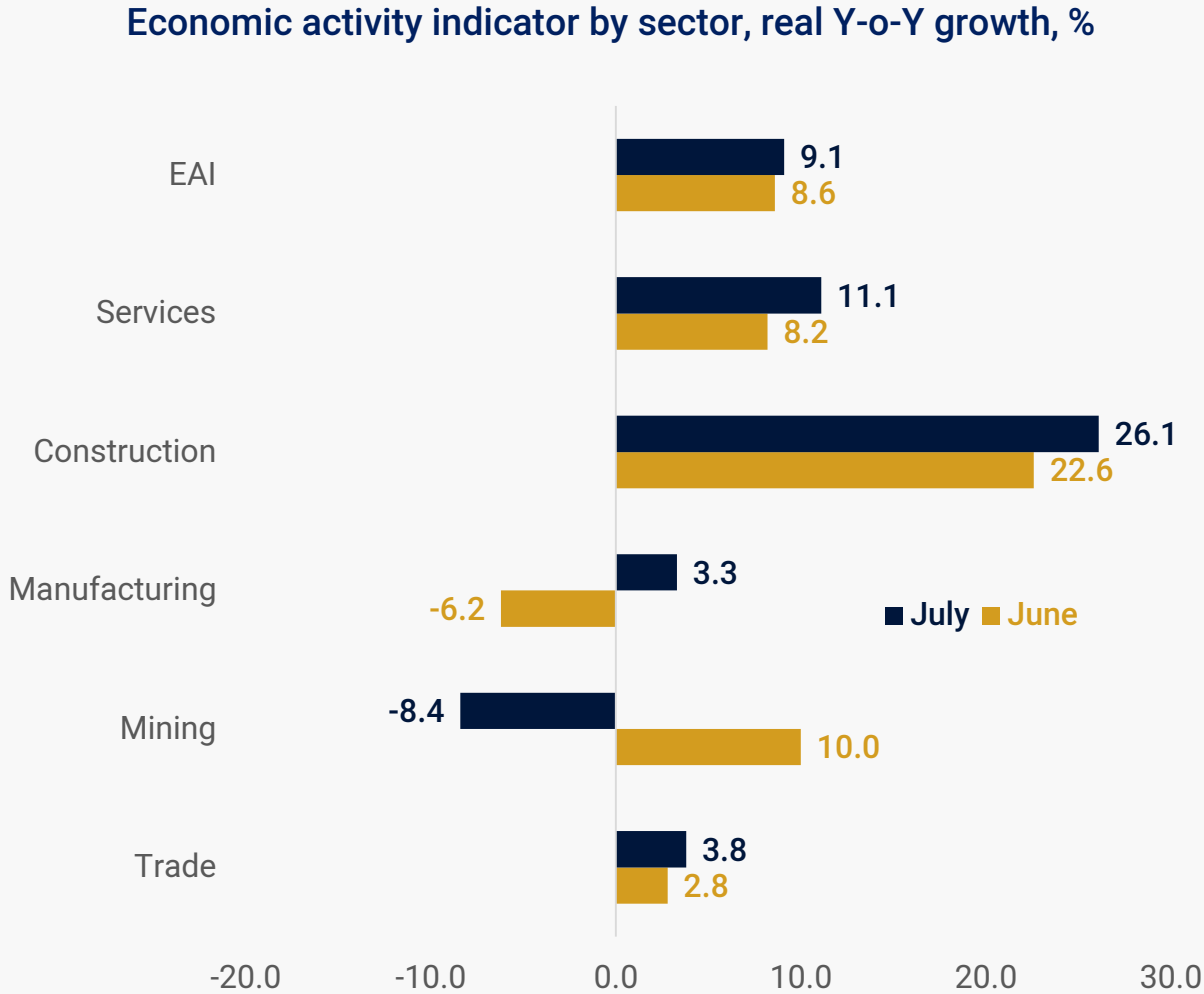
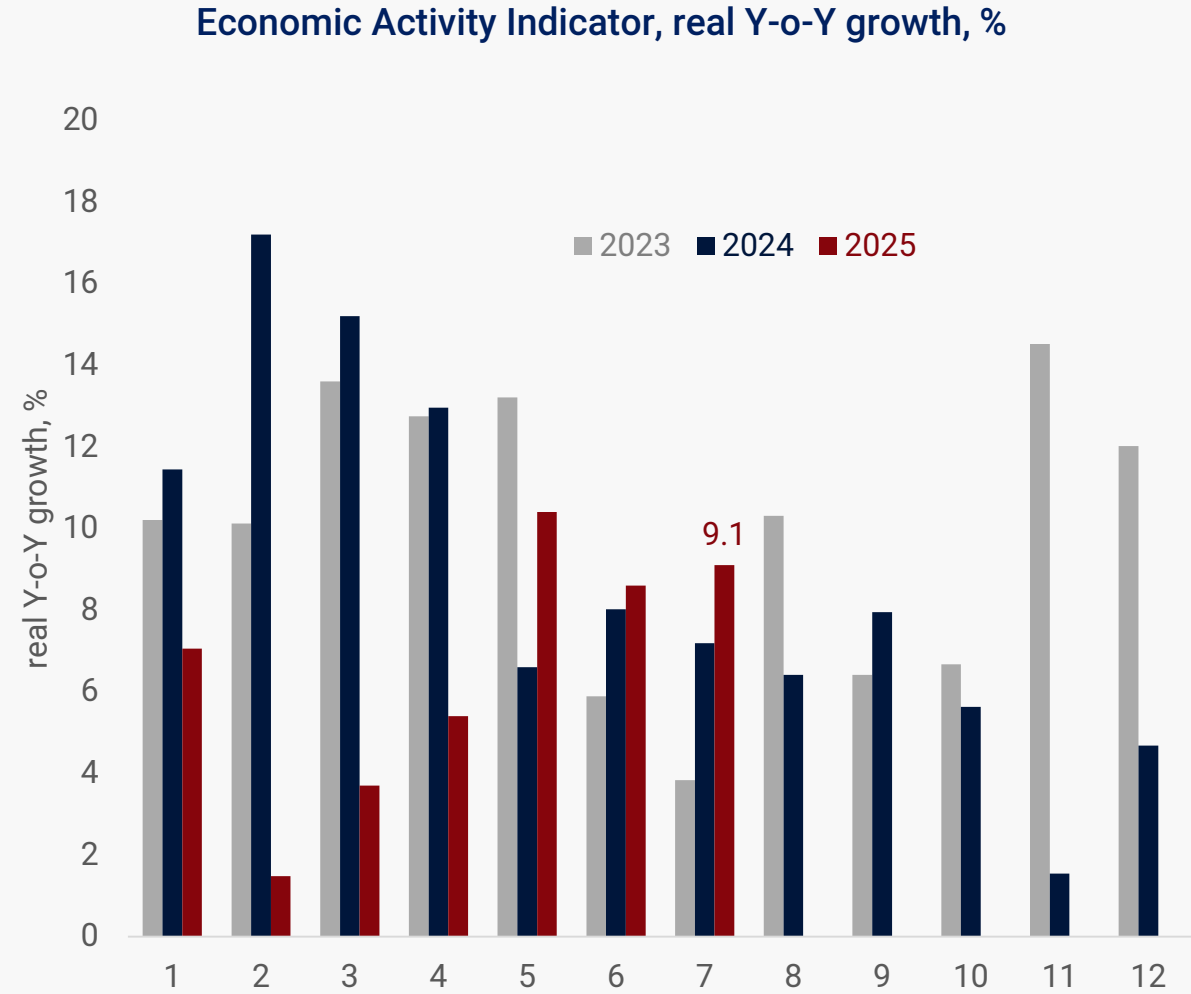


Source: SC of RA, CBA calculations

Contribution of main sectors to GDP growth, ppt



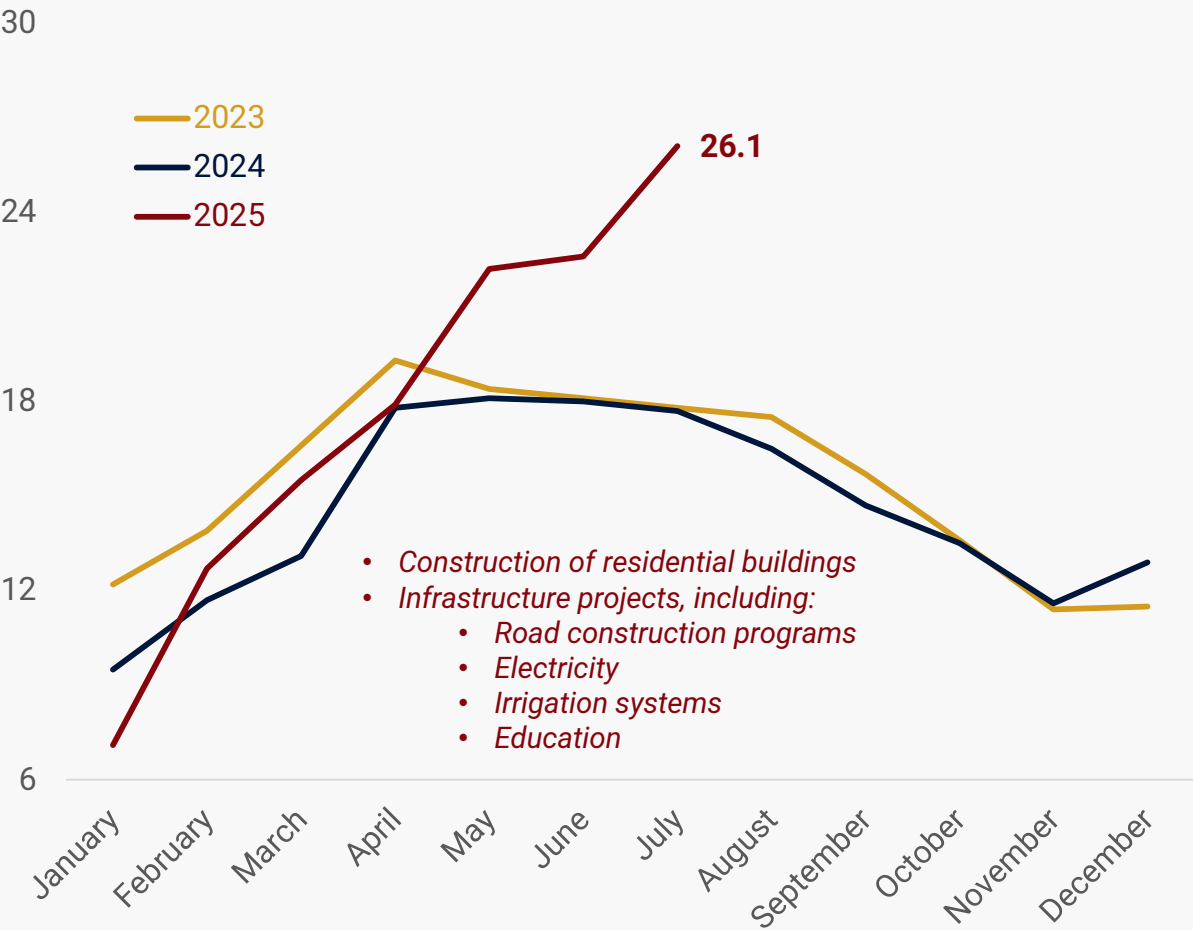
Economic activity: In July, economic activity continued to accelerate, largely driven by high growth in demand-driven sectors



Source: SC of RA

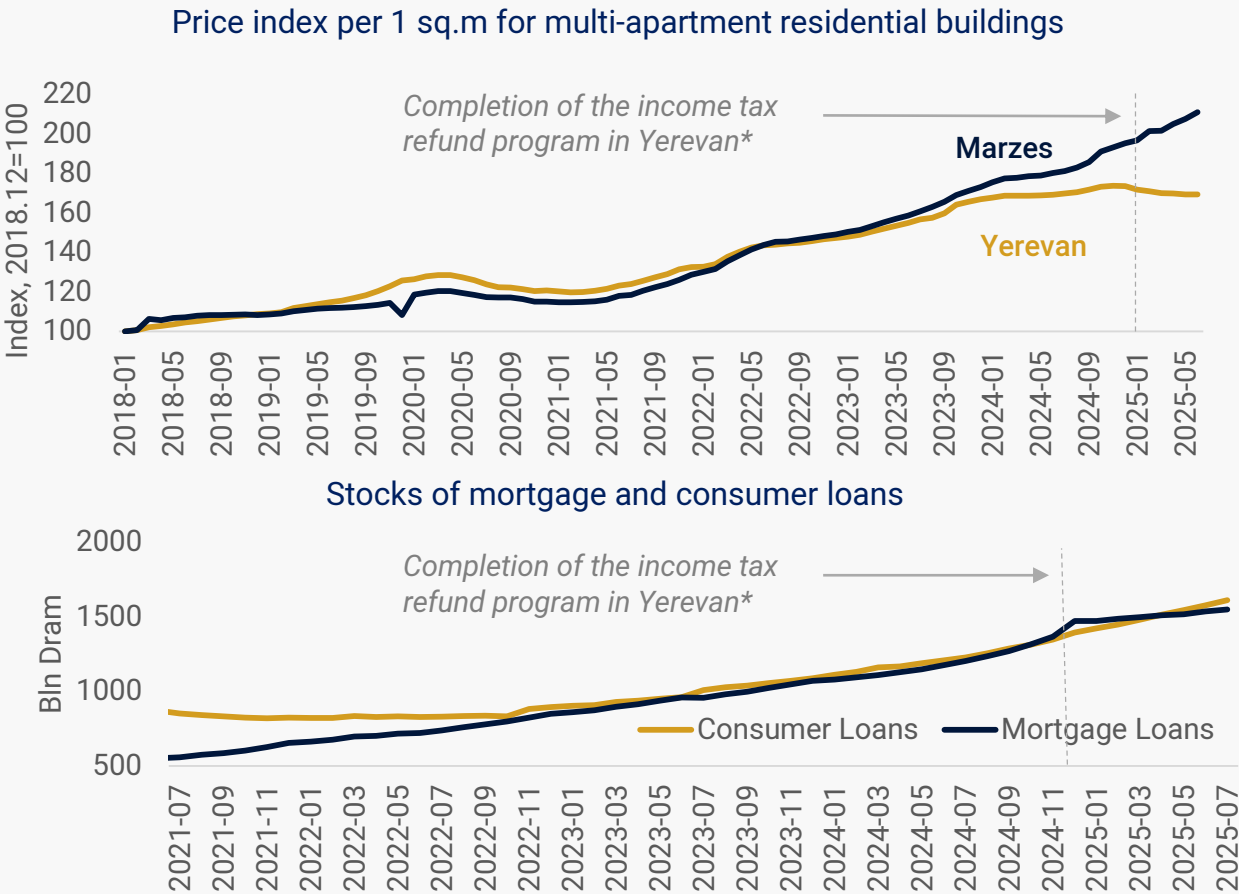
Construction sector continues to grow at a rapid pace, while the real estate market is showing signs of a gradual and mild adjustment.

Construction sector continues to grow at a record-high pace



Source: SC of RA, CBA, RA Cadaster Committee

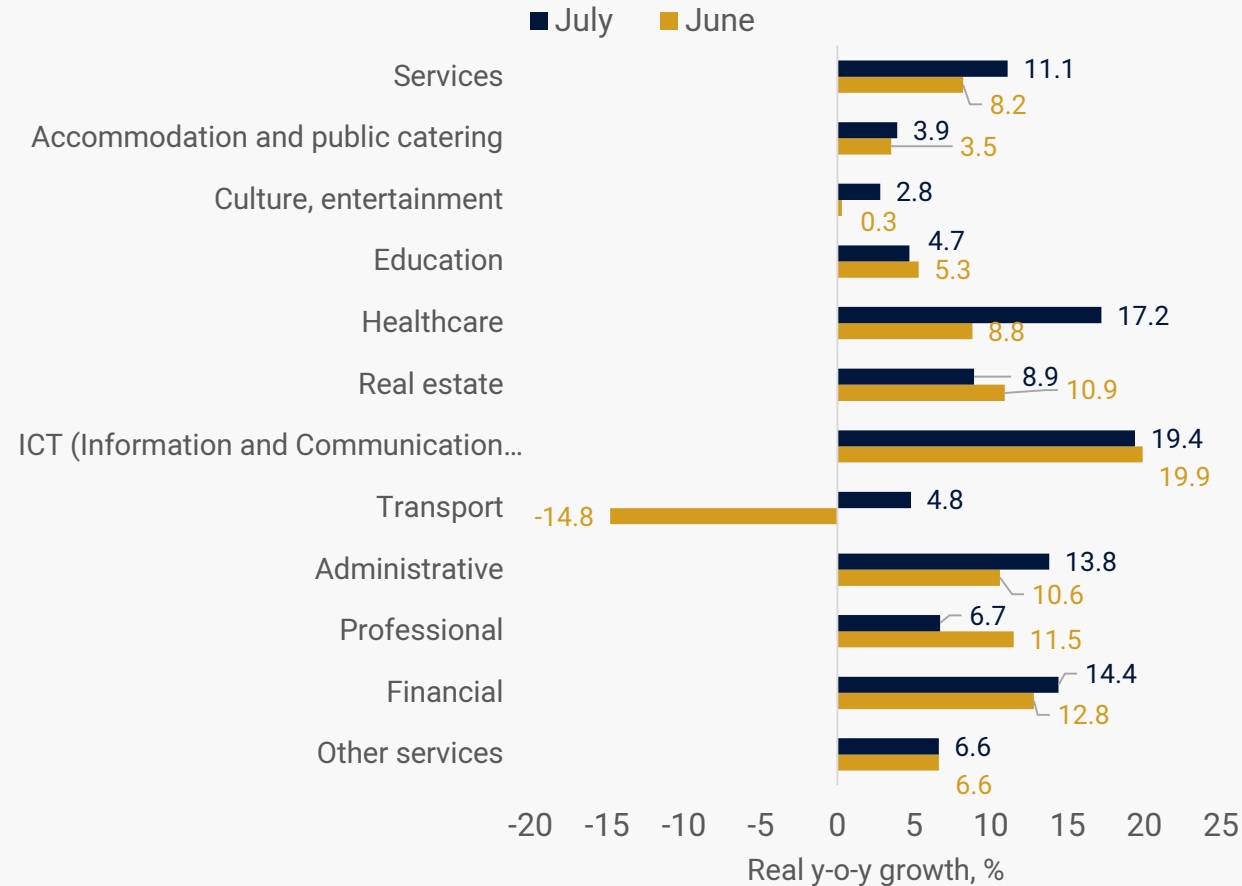
Despite the shifts in demand and supply from Yerevan to the marzes, the risks of saturation in the real estate market persist.



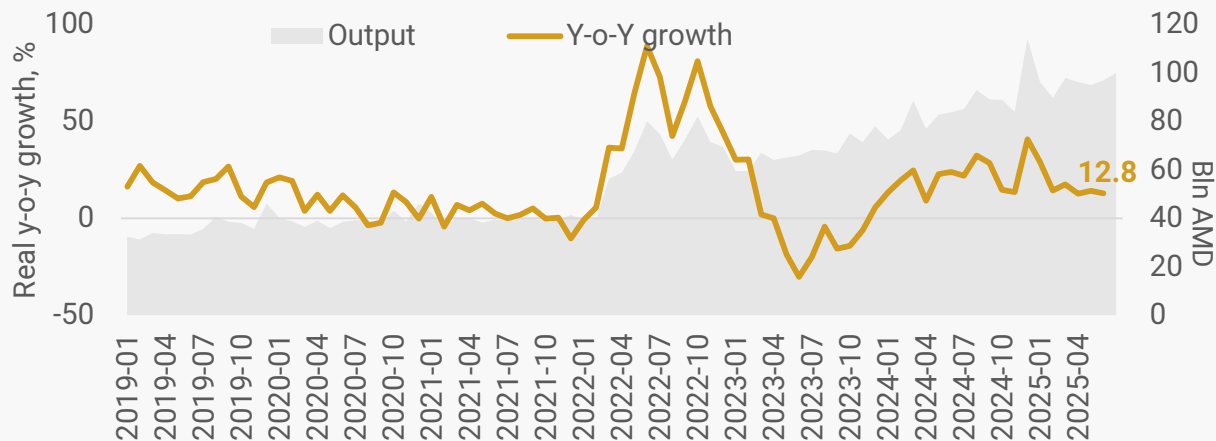
*Except for projects that received a construction permit before 2022

Services: Although the financial and ICT sectors remain the main drivers of services sector, there is a noticeable acceleration in the output growth of other subsectors within the industry, which may indicate some expansion in demand conditions in the economy. (1/2)

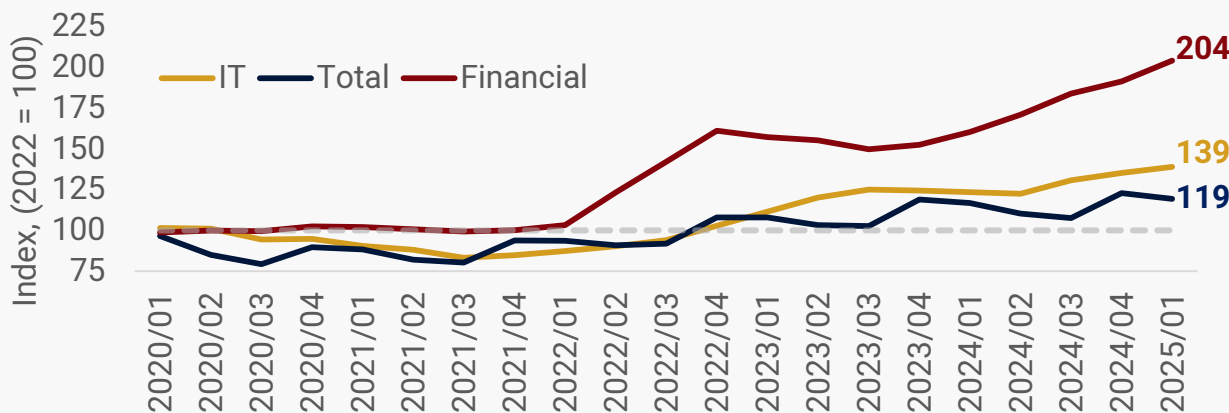
Growth in the services sector is broad-based.



The high growth in the financial services sector is supported by a significant increase in net interest income from the "traditional" types of banking activities.



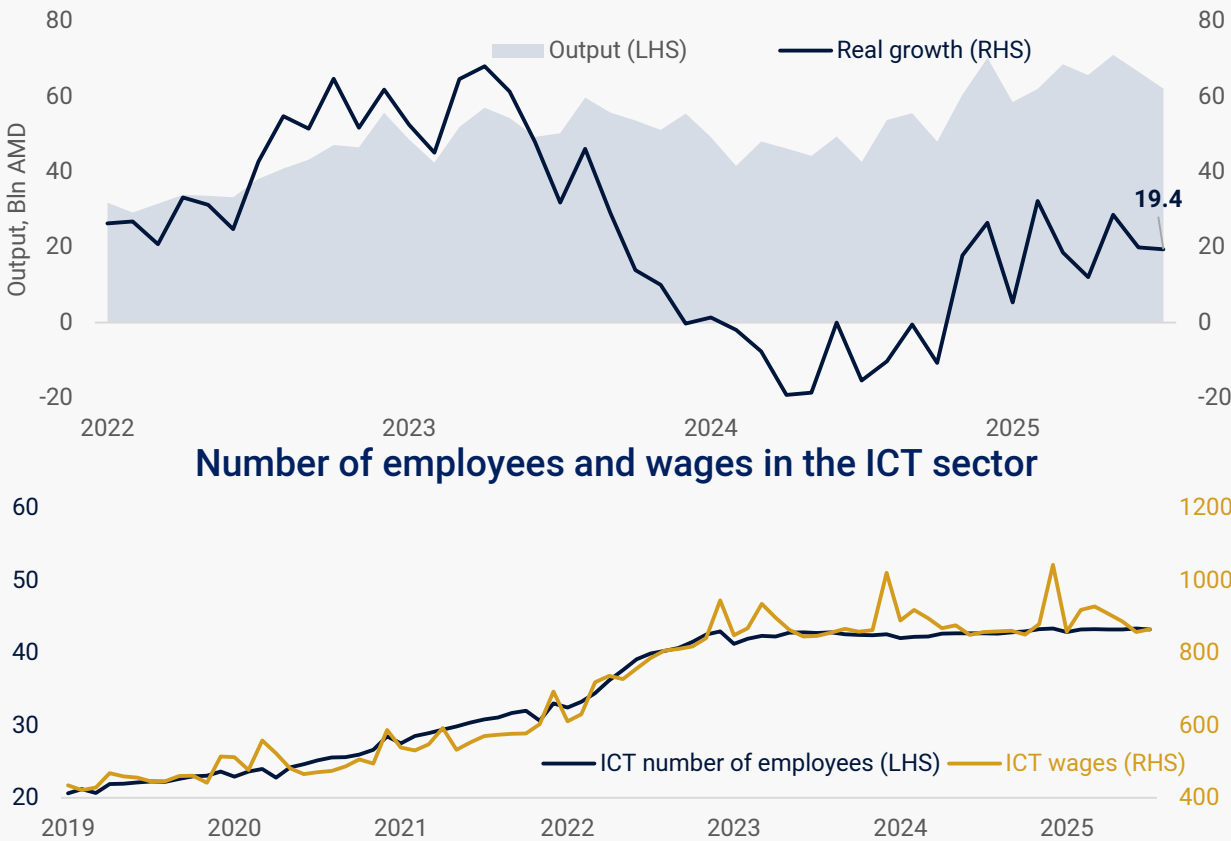
Output per employee, index



Source: SC of RA, CBA

Services: Although the financial and ICT sectors remain the main drivers of services sector, there is a noticeable acceleration in the output growth of other subsectors within the industry, which may indicate some expansion in demand conditions in the economy. (2/2)

On the one hand, despite the high growth in the ICT sector, employment and wage growth do not show similar trends, which may indicate that no additional capacities have been formed in the sector recently.



Source: SC of RA

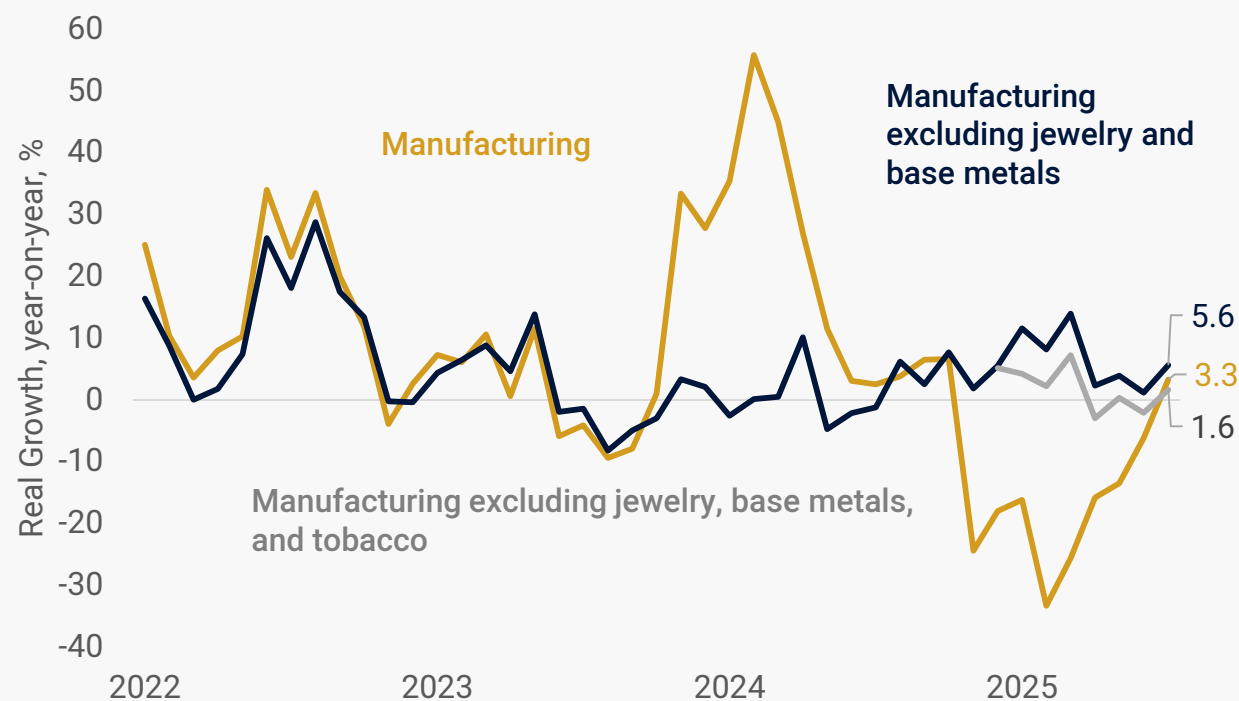
On the other hand, the entry of new global "players" into the IT sector may contribute to maintaining high growth in the industry, further capacity building, and strengthening the prospects for sustainable growth.

	IT sector companies				
Factors	Domestic Startups	Diaspora Startups	Foreign Startups	Global players	Outsource/ Freelance
Innovation					
Access to Venture Capital					
AI opportunities					
AI risks					
Relative wages					
Global demand					
Tax privileges					
Examples	Picsart DevSoft	Service Titan Gecko Robotics	Veeam BostonGene	Synopsys NVIDIA Siemens	-

Source: CBA

Growth in the traditional branches of manufacturing has eased somewhat, yet sustained credit expansion and rising investment goods point to a resilient medium-term outlook for the sector.

The recent slowdown in traditional manufacturing likely reflects short-term, non-structural factors rather than deeper weaknesses

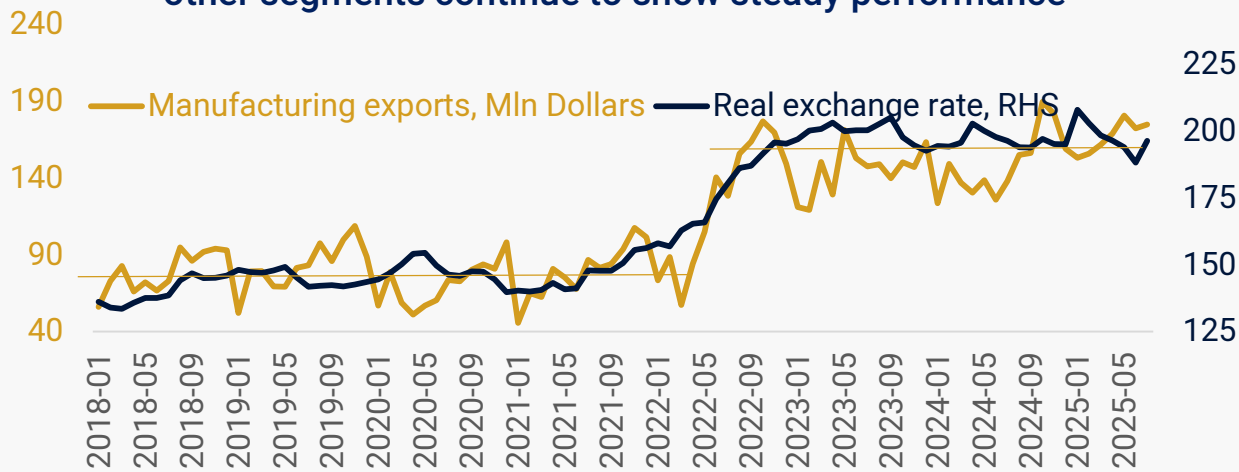


Source: RA Statistical Committee

* Adjusted data

** Including: Bottle and other container washing, filling and capping machines and parts; other food and beverage processing equipment and parts; machinery and equipment for winemaking, fruit juice, or similar beverage production; tobacco processing machines and parts, million USD

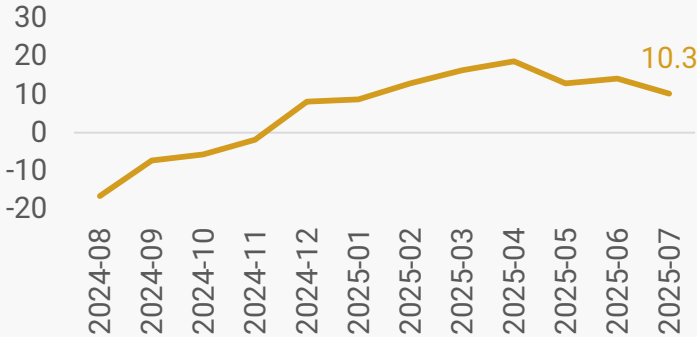
Exports from key manufacturing sub-sectors remain elevated, while other segments continue to show steady performance*



Import volumes of investment goods**

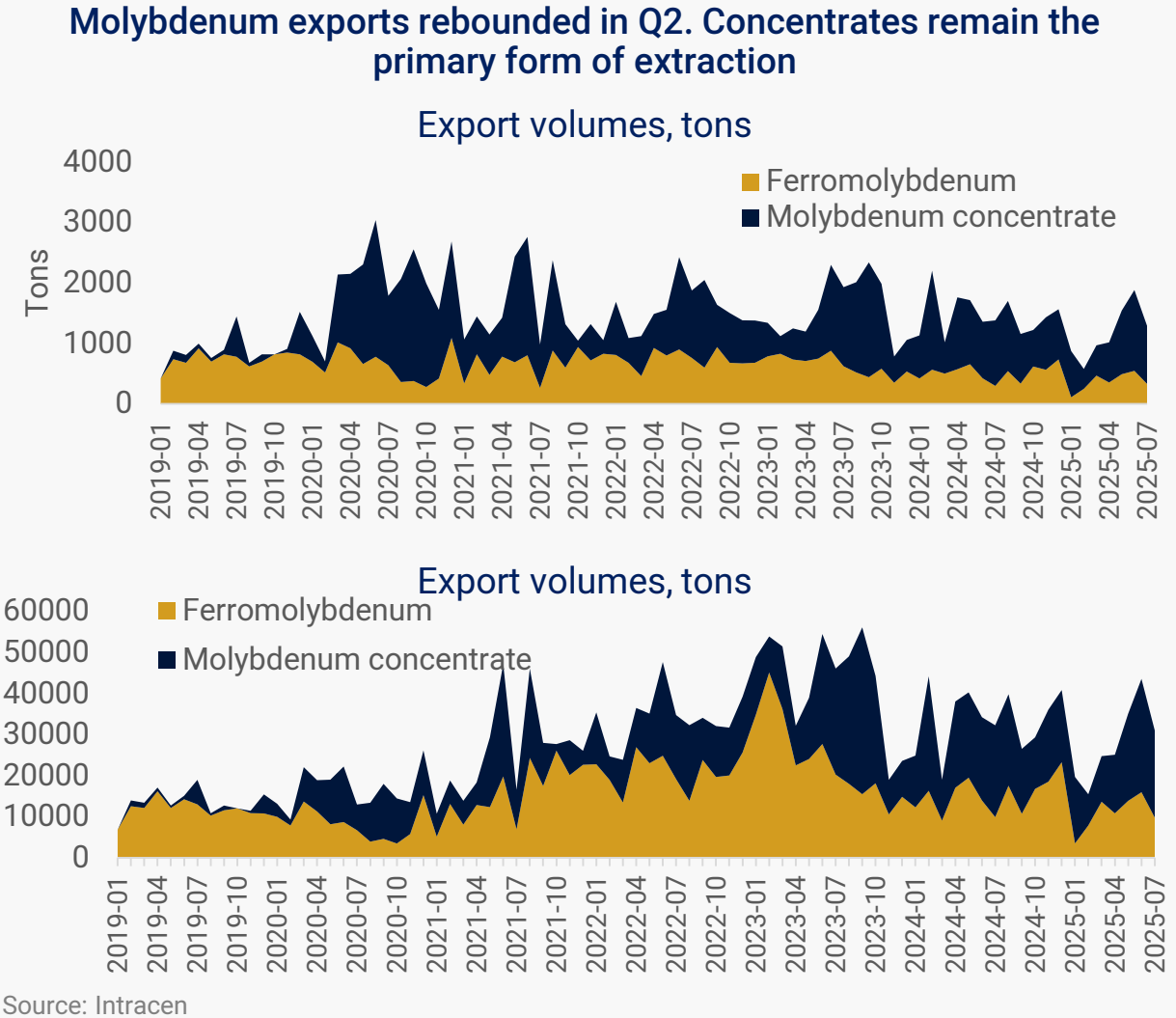
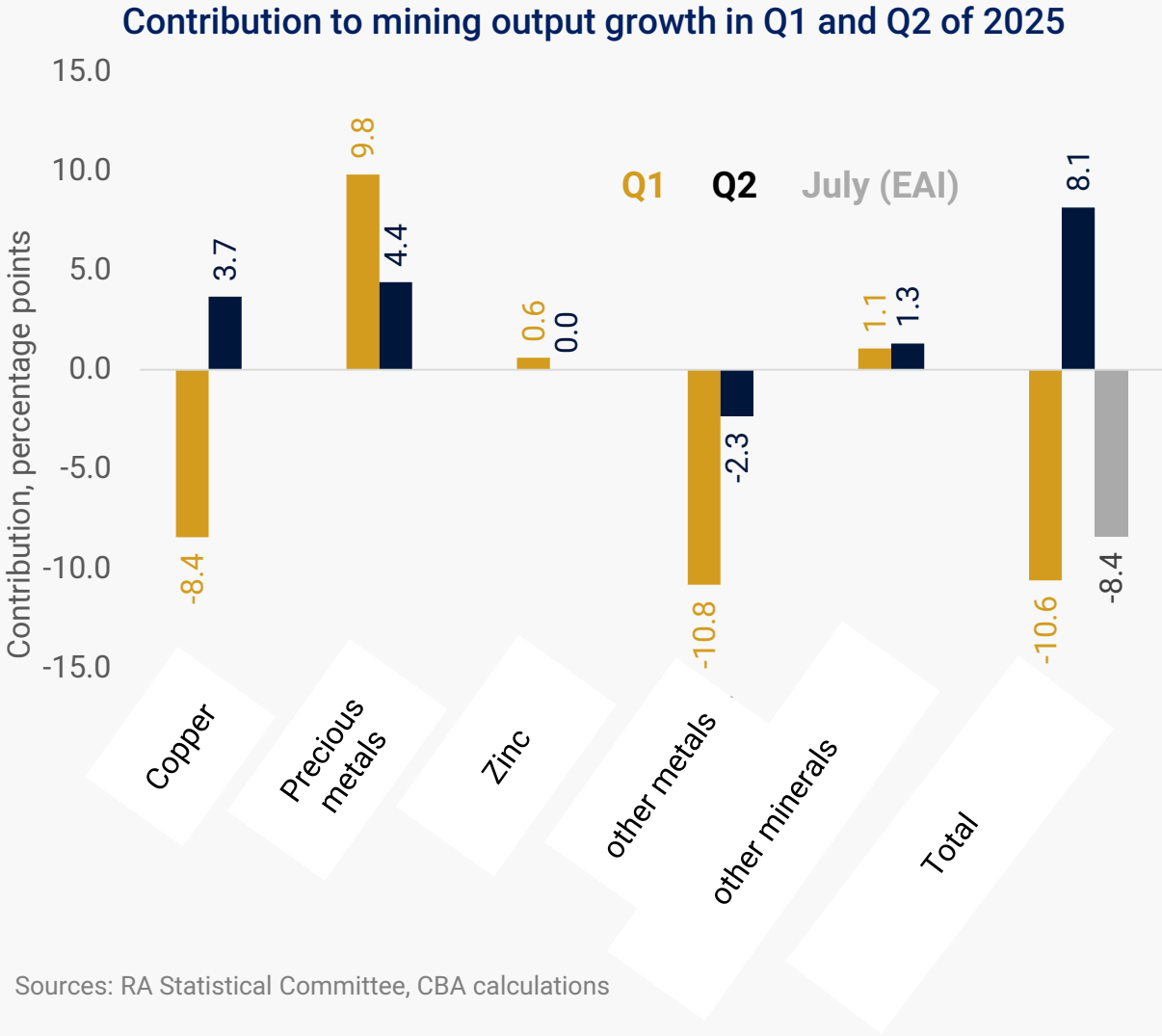
	2024 H1	2025 H2	S/un w6
Imports (tons)	1090	1181	8.3%
Imports (\$1000)	25434	26881	5.7%

Credit growth, year-on-year, % ***



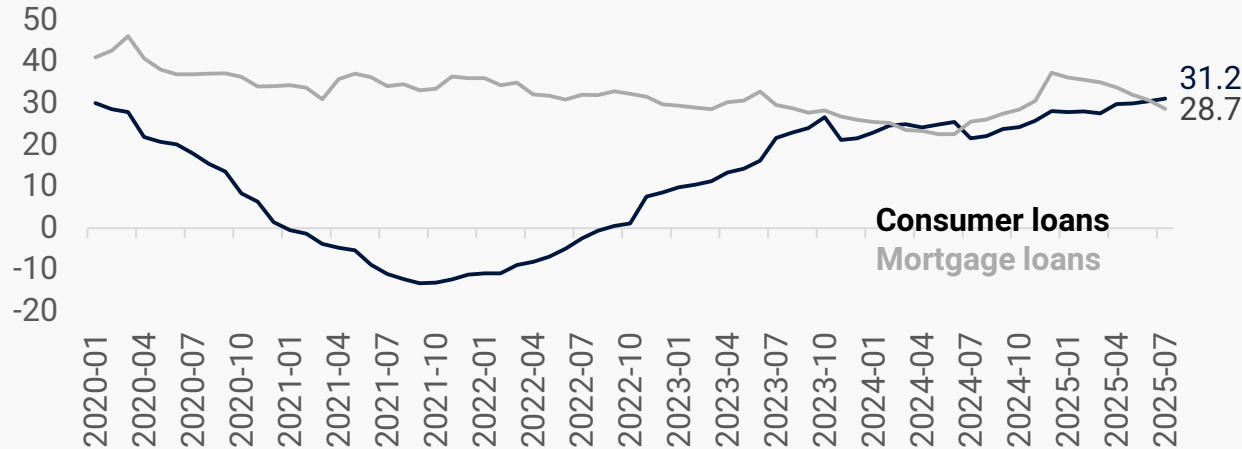
*** Food, tobacco, and beverage sectors

Mining has shown a partial recovery, supported by a rebound in copper, steady growth in gold, and some acceleration in molybdenum

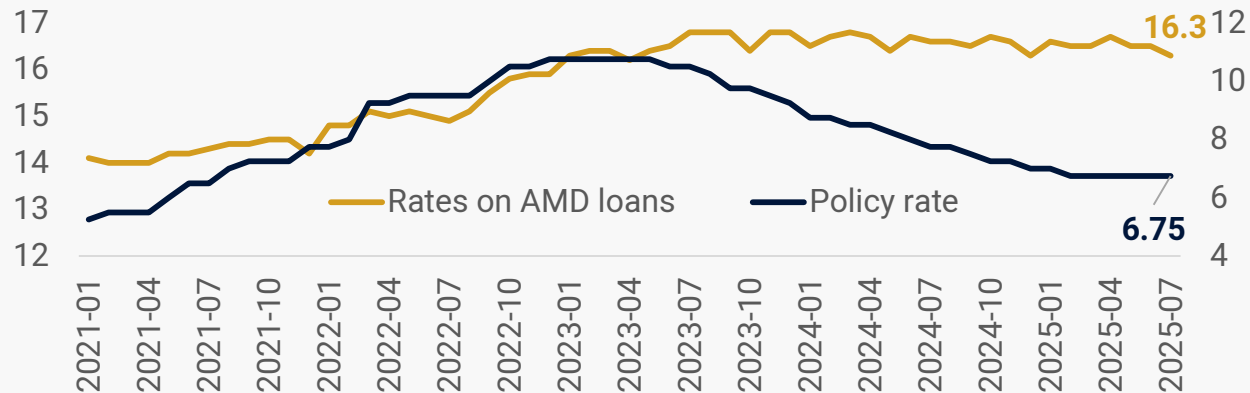


Domestic Demand: Strong credit growth points to robust underlying demand, though uncertainties around its true strength remain.

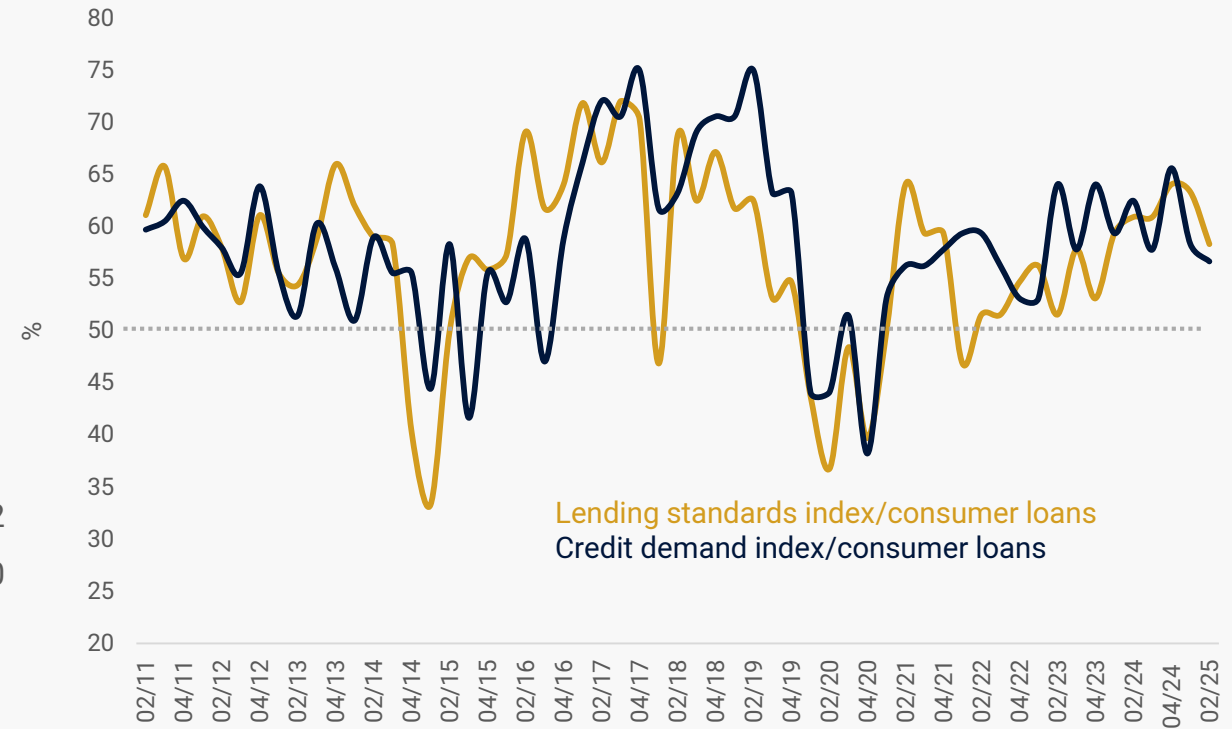
Mortgage and consumer loan portfolios, billion AMD



High demand for credit is helping sustain elevated interest rates

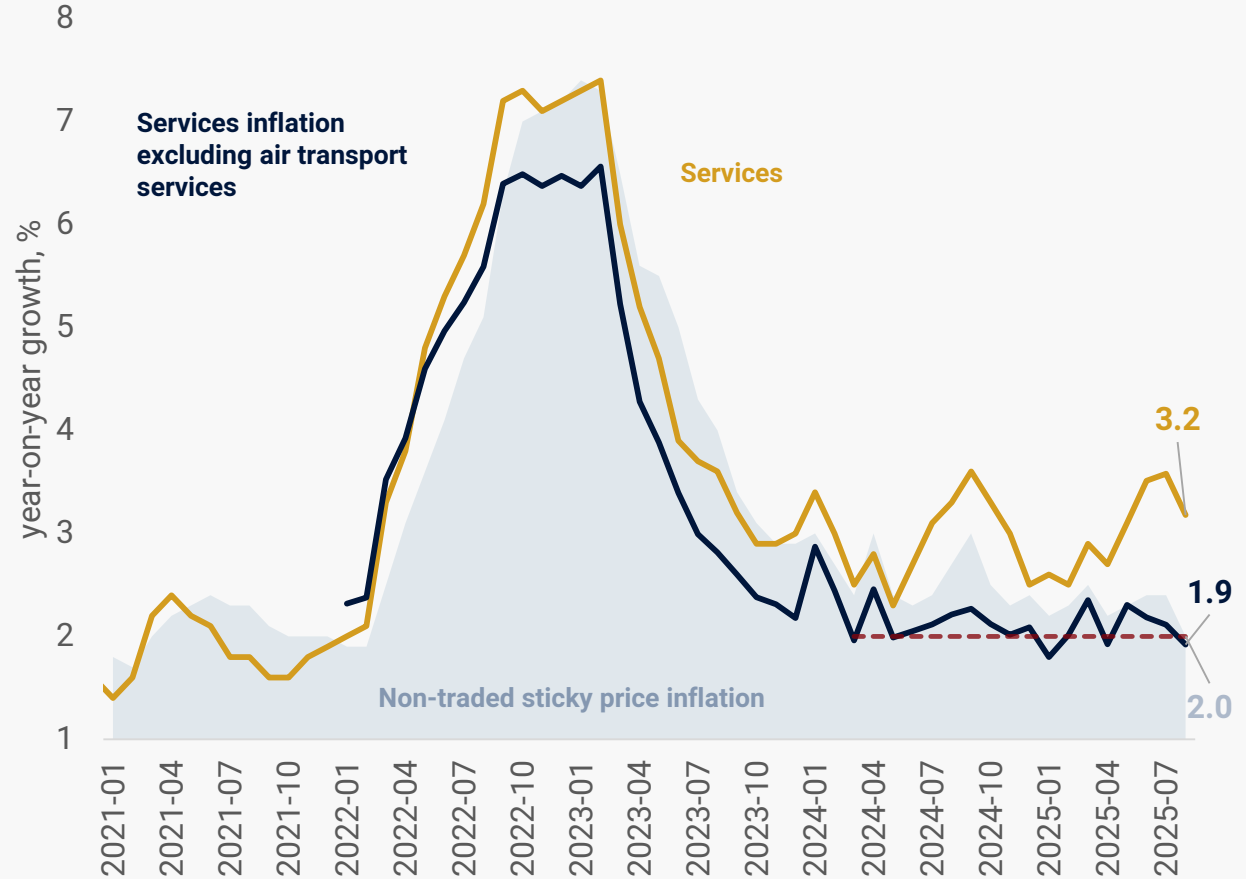


CBA Lending Conditions Survey: Dynamics of consumer lending standards and demand indices



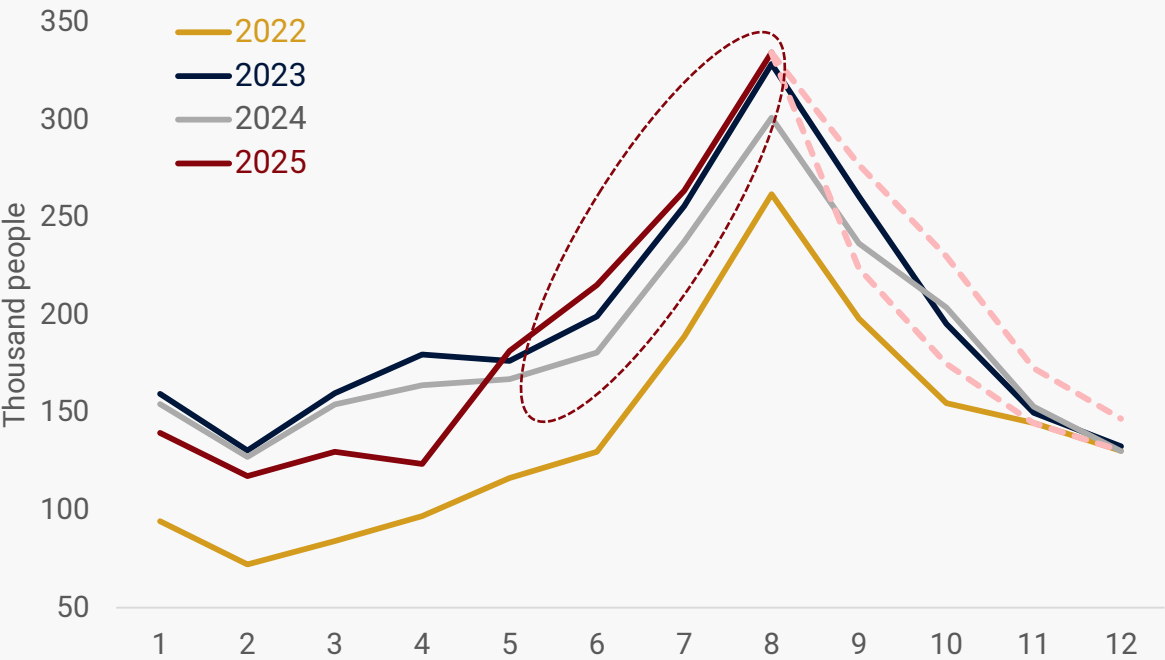
- A net 47% of respondents expect an easing of consumer lending standards in Q3 2025.
- A net 60% of respondents anticipate stronger demand for consumer loans in Q3 2025.

Central Bank
of Armenia



External Demand: The recent acceleration in tourism flows points to some expansion in external demand

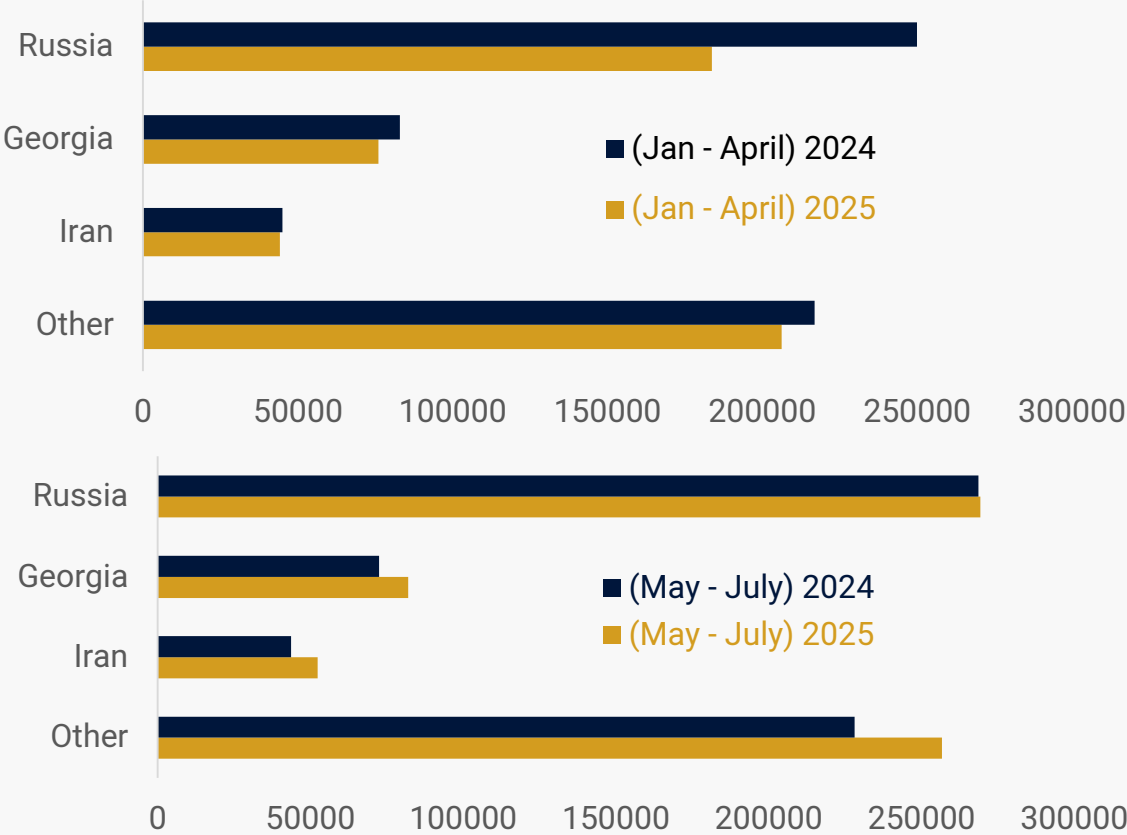
Although tourist arrivals to Armenia in early 2025 were significantly below 2023–24 levels, a sharp rebound was observed during May–July



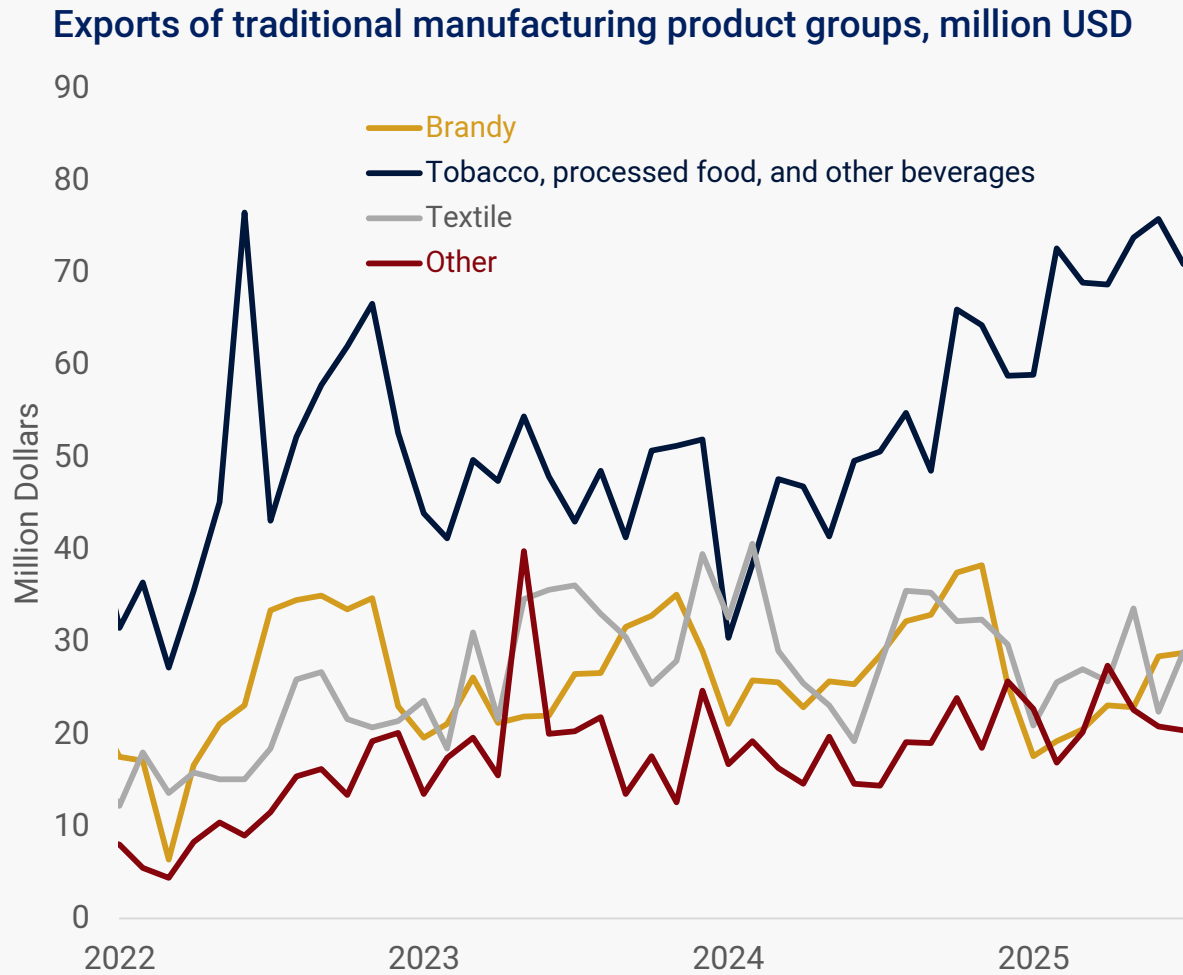
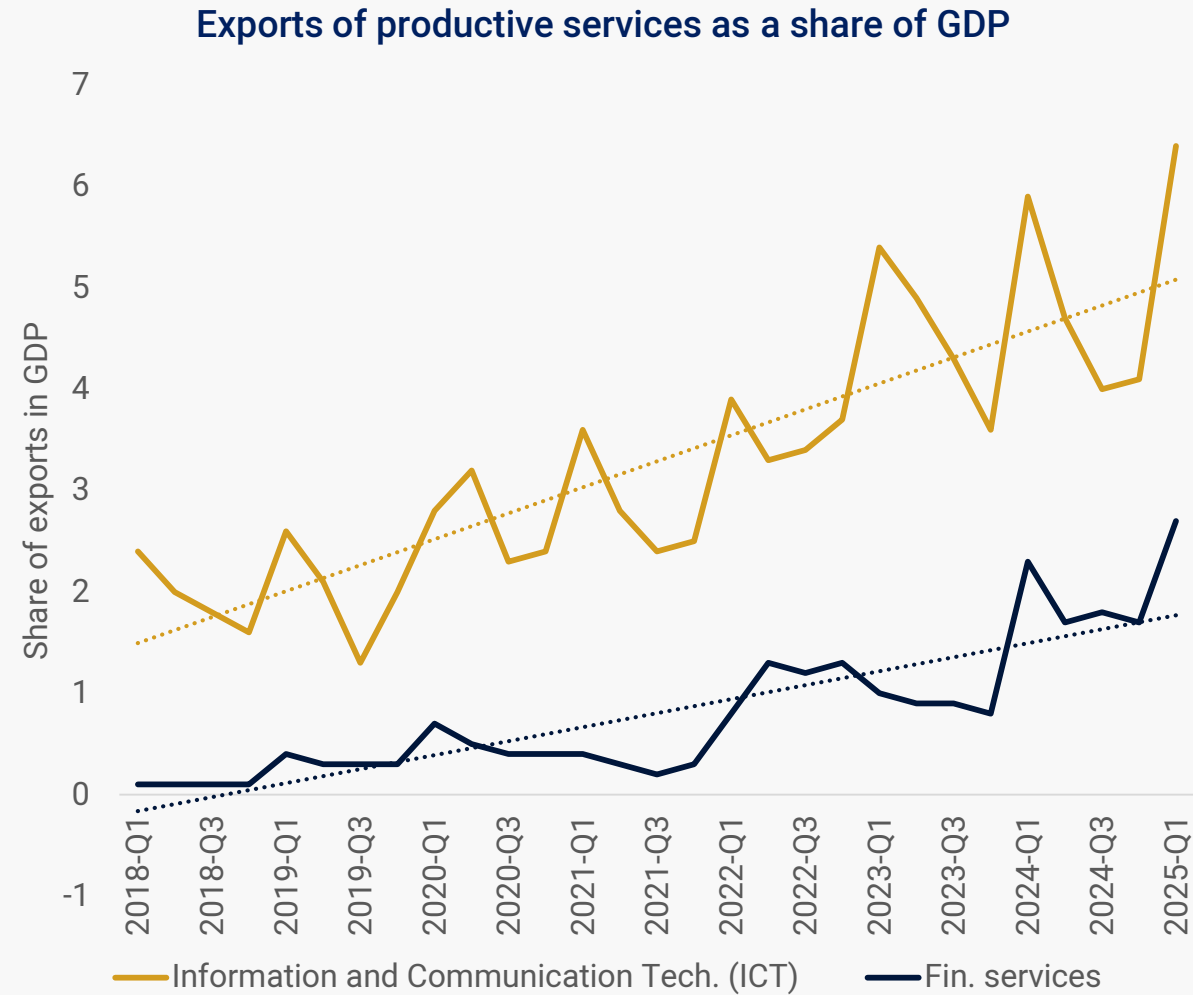
While the impact of tourism on demand and inflation may gradually ease in line with seasonal patterns, key uncertainties remain around Armenia’s long-term tourism appeal and the persistence of this year’s above-seasonal trends.

Source: RA Tourism Committee

Tourist inflows increased in July, particularly from Russia and other countries



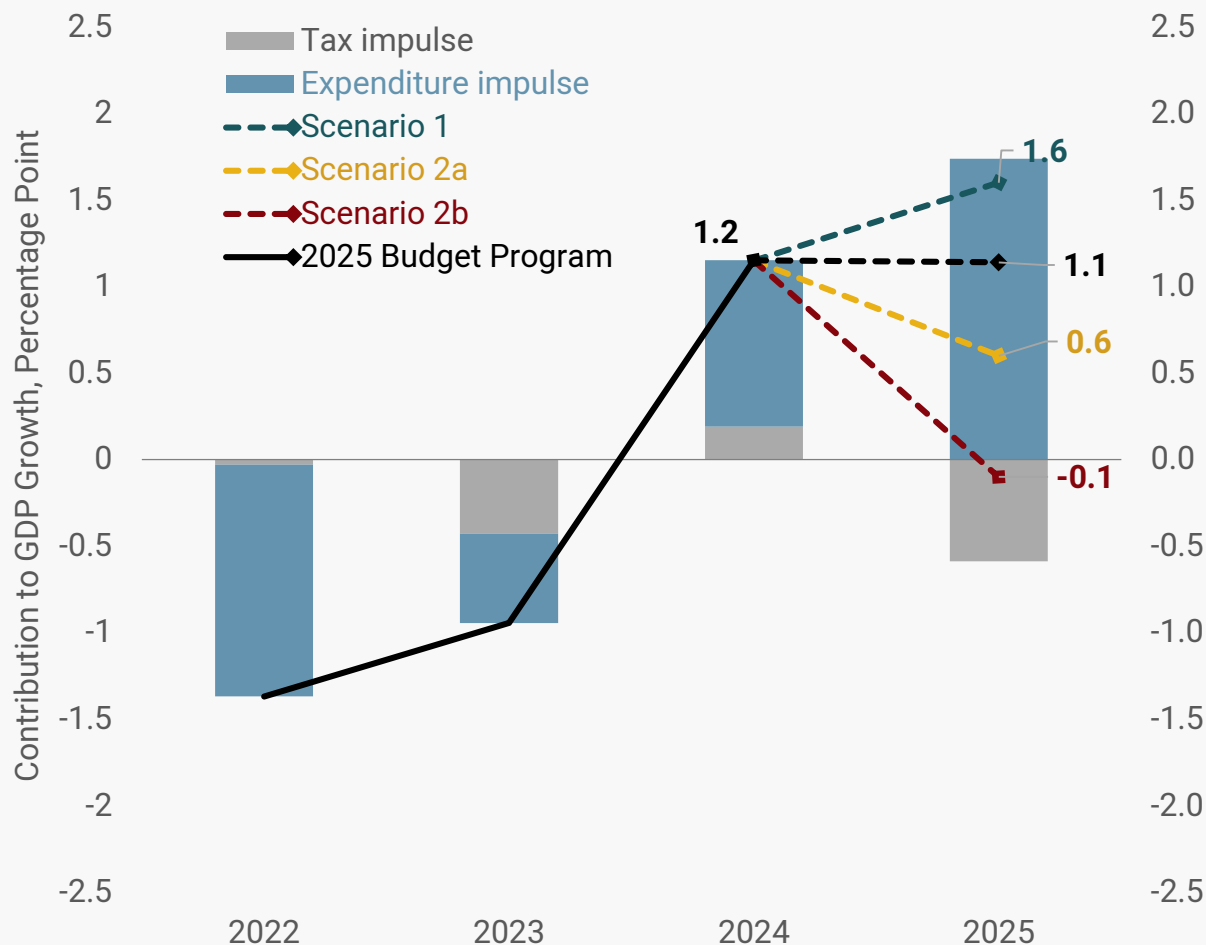
External Demand: Moreover, exports out of the traditional branches of manufacturing and productive services, particularly IT and financial services, remain at elevated levels



Source: RA Statistical Committee

Fiscal Policy. Although uncertainty remains regarding the extent of the policy's impact on aggregate demand, the risks of a significant expansionary effect have somewhat eased.

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



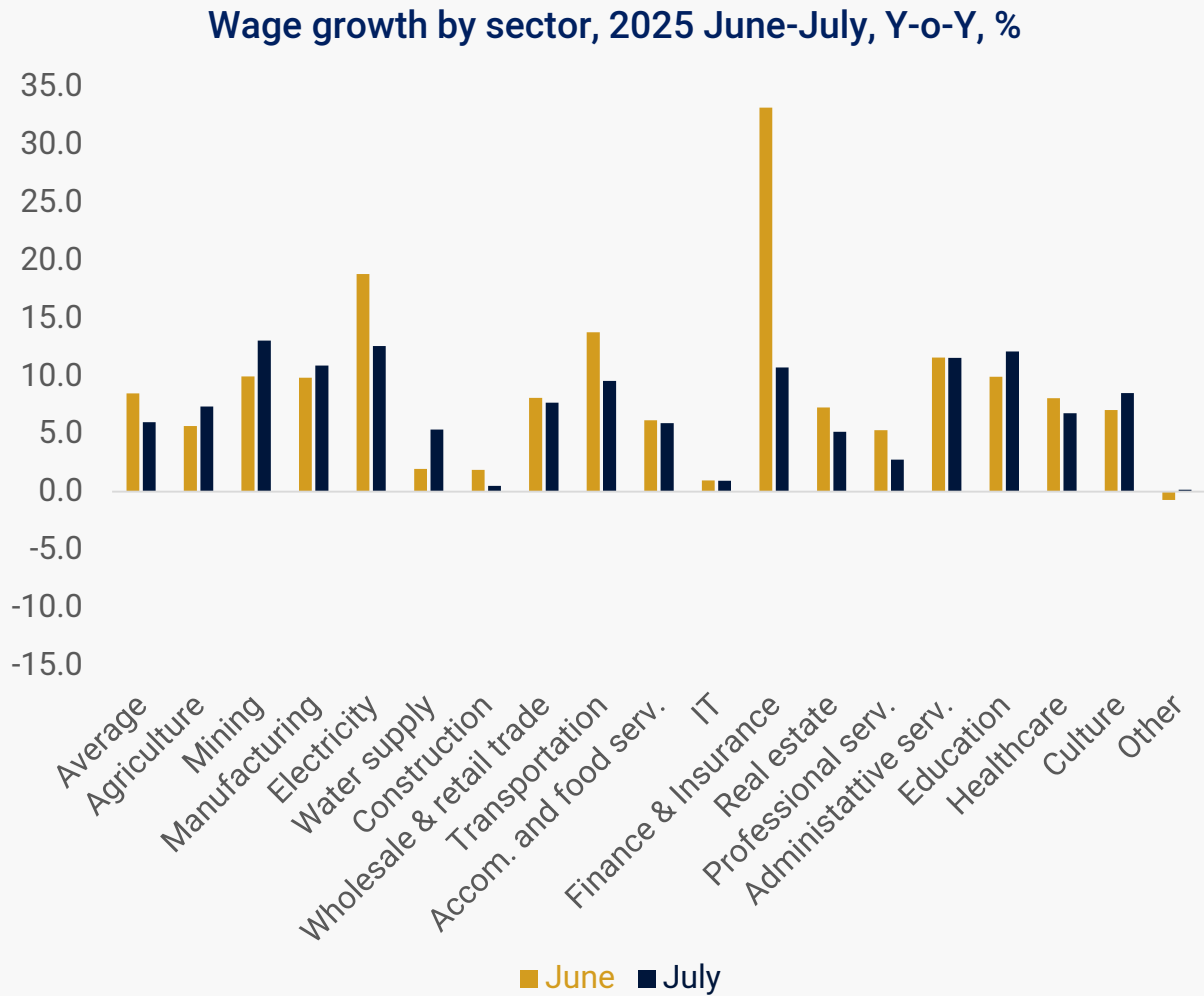
Scenario 1: Underperformance of tax revenues, accompanied by a certain over-execution of current expenditures due to the necessity of **increased social spending**, along with the partial utilization of the **reserve fund**

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**.

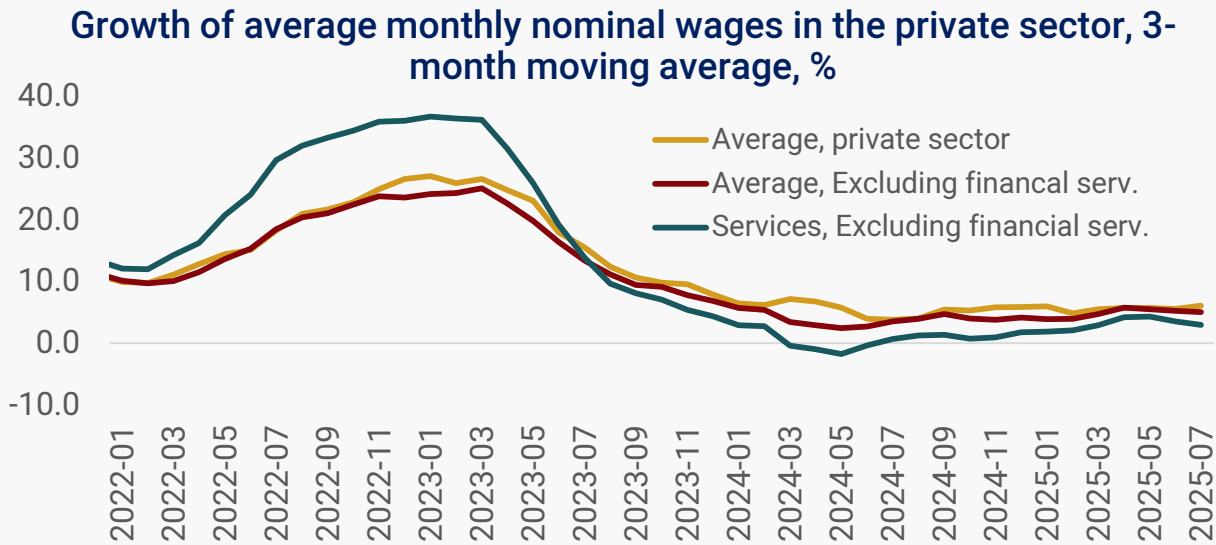
Scenario 2b: Same as Scenario 2, but with an even weaker effect on aggregate demand, reflecting the **structural characteristics of capital spending**.

Source: Ministry of Finance; CBA calculations

Labor Market. Wage growth is showing signs of stabilization, alongside certain easing in its concentration within the economy.

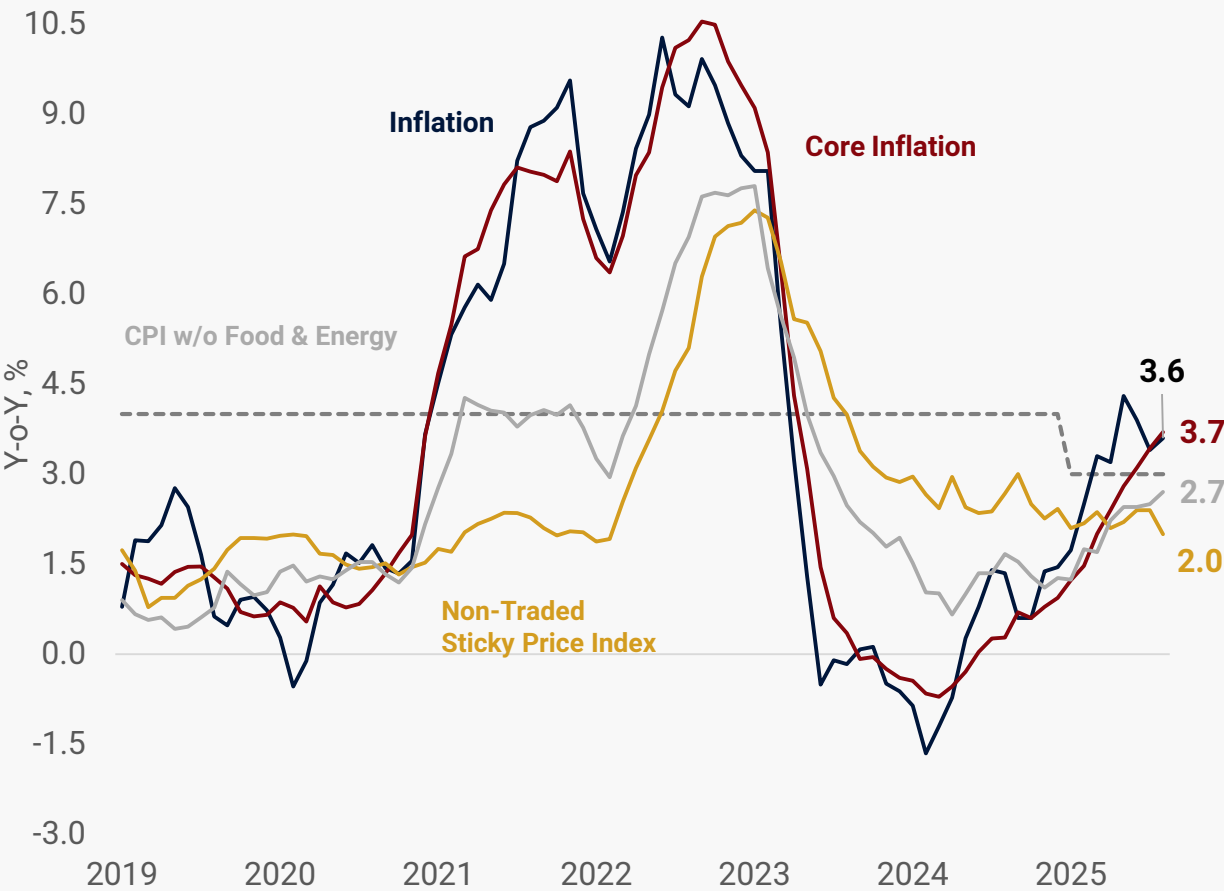


Source: Statistical Committee of the Republic of Armenia, CBA calculations

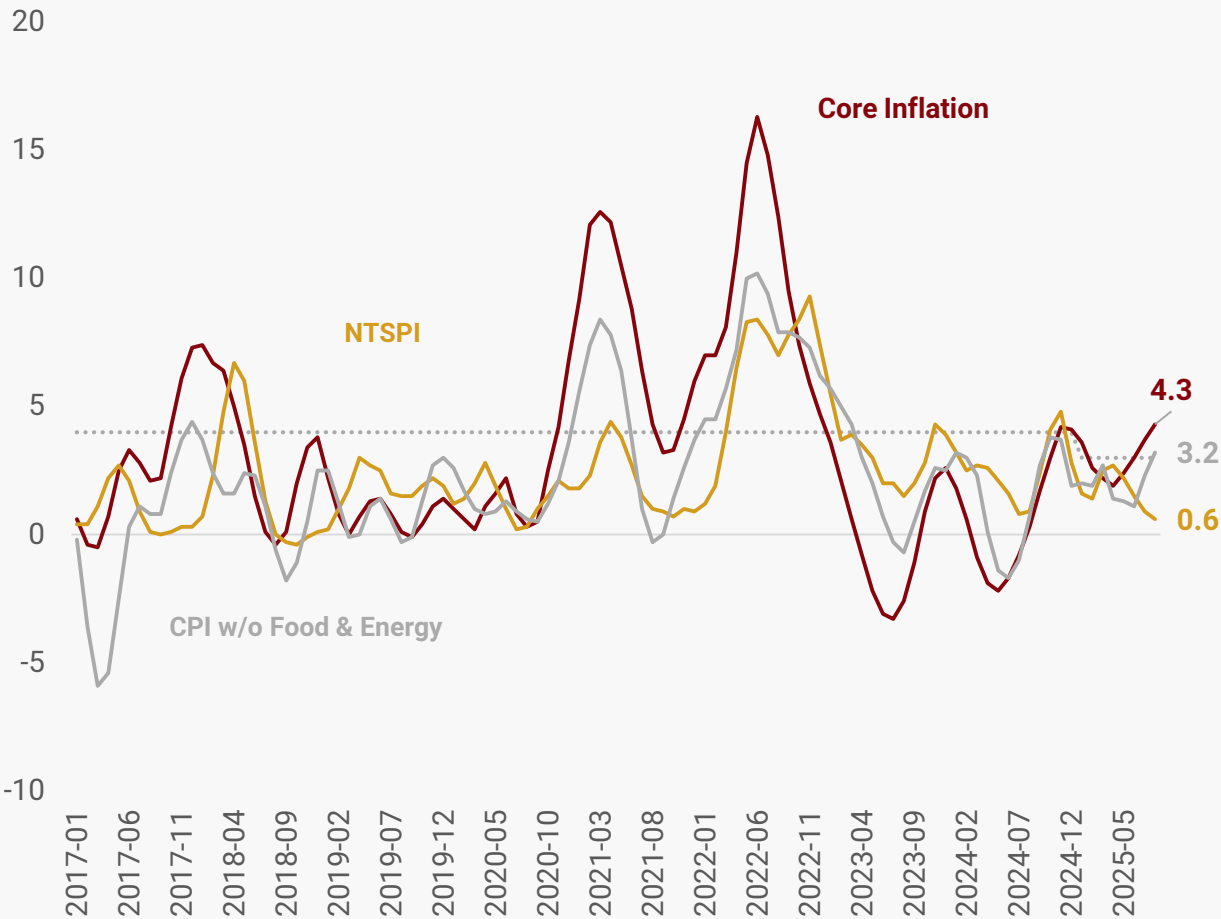


Inflation. Inflationary pressures stemming from the global economy have expanded, which has been expressed by the acceleration of price increases for imported food products. The continued influence of global supply factors on the prices of imported goods may become the main source of risks for further acceleration of domestic inflationary pressures.

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



Underlying Inflation Measures, Q-o-Q annualized, %

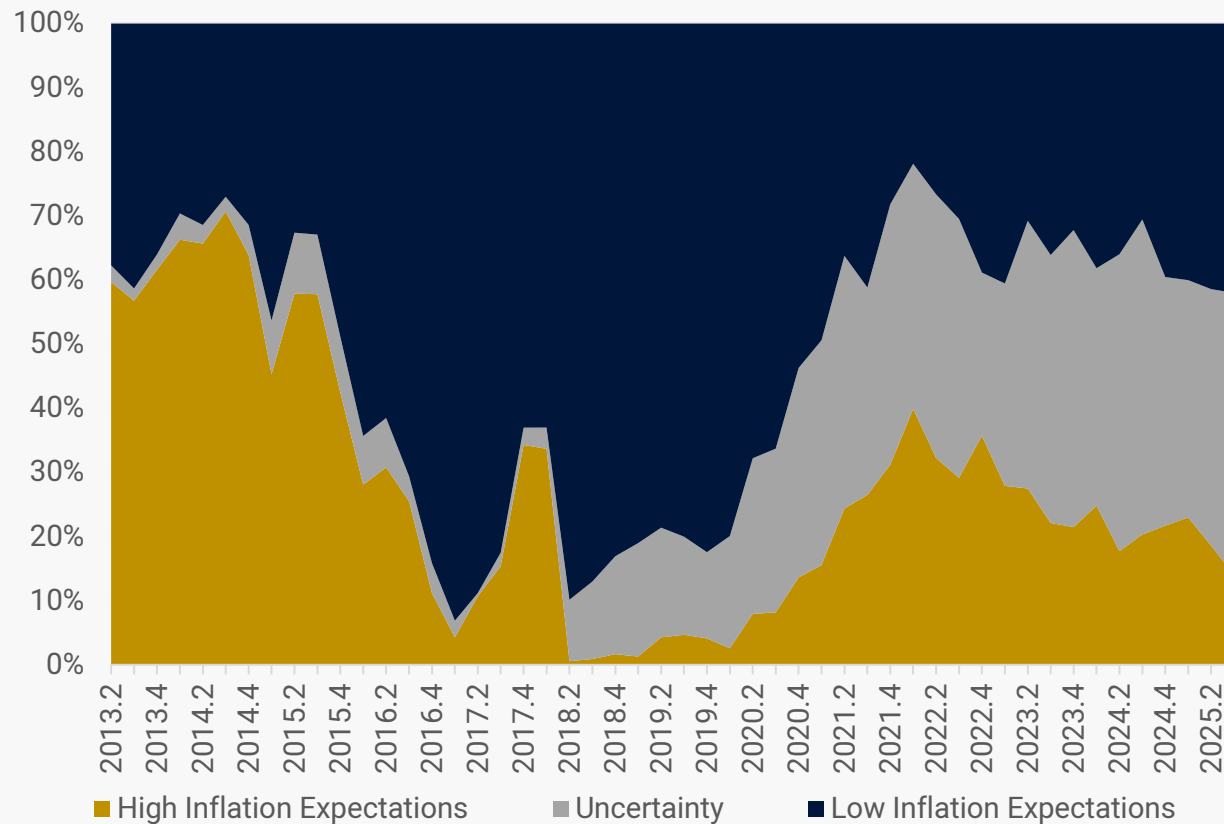


Source: SC of RA, CBA calculations

Inflation expectations continue to stabilize

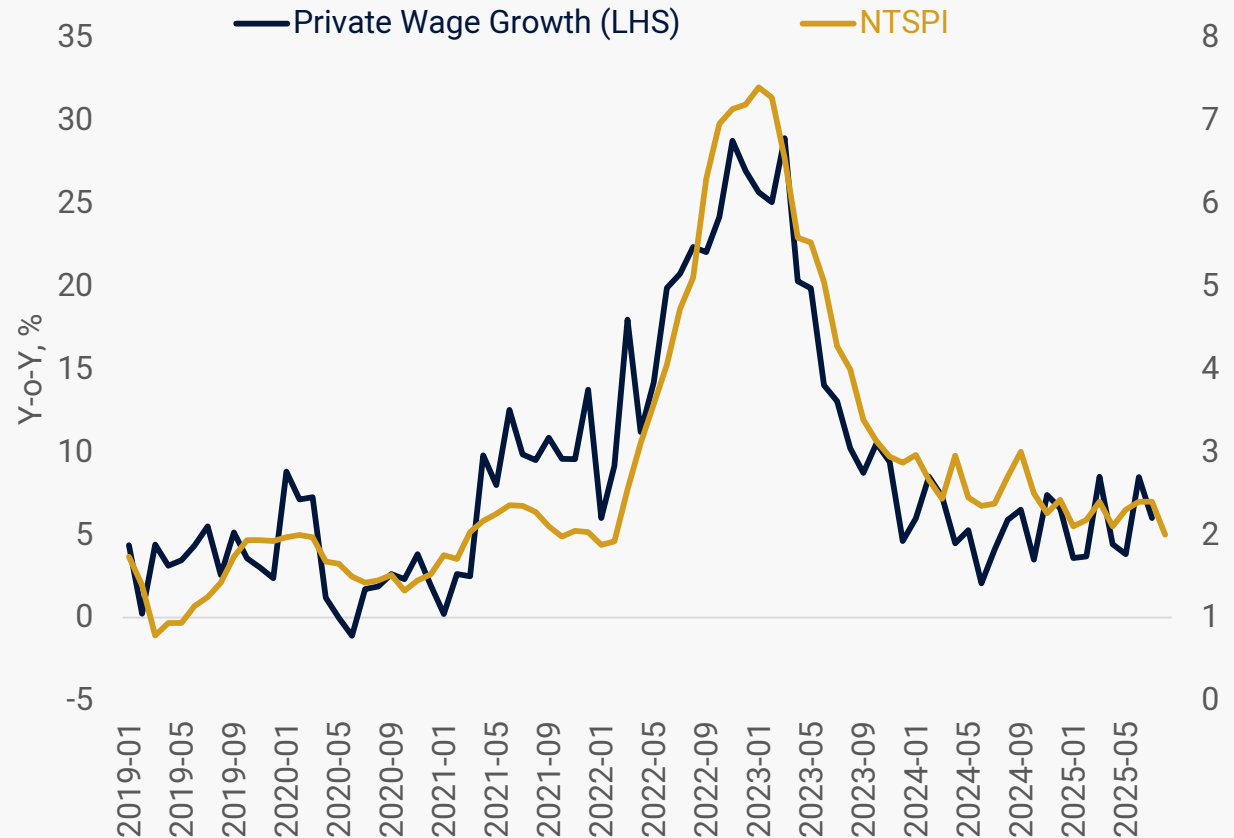
On one hand, high inflation expectations continue to decrease, while uncertainties remain high.

Inflation expectations according to the surveys of the CBA



Source: CBA

On the other hand, the developments in the non-tradable core price index and private wages may indicate stable, low inflation expectations.



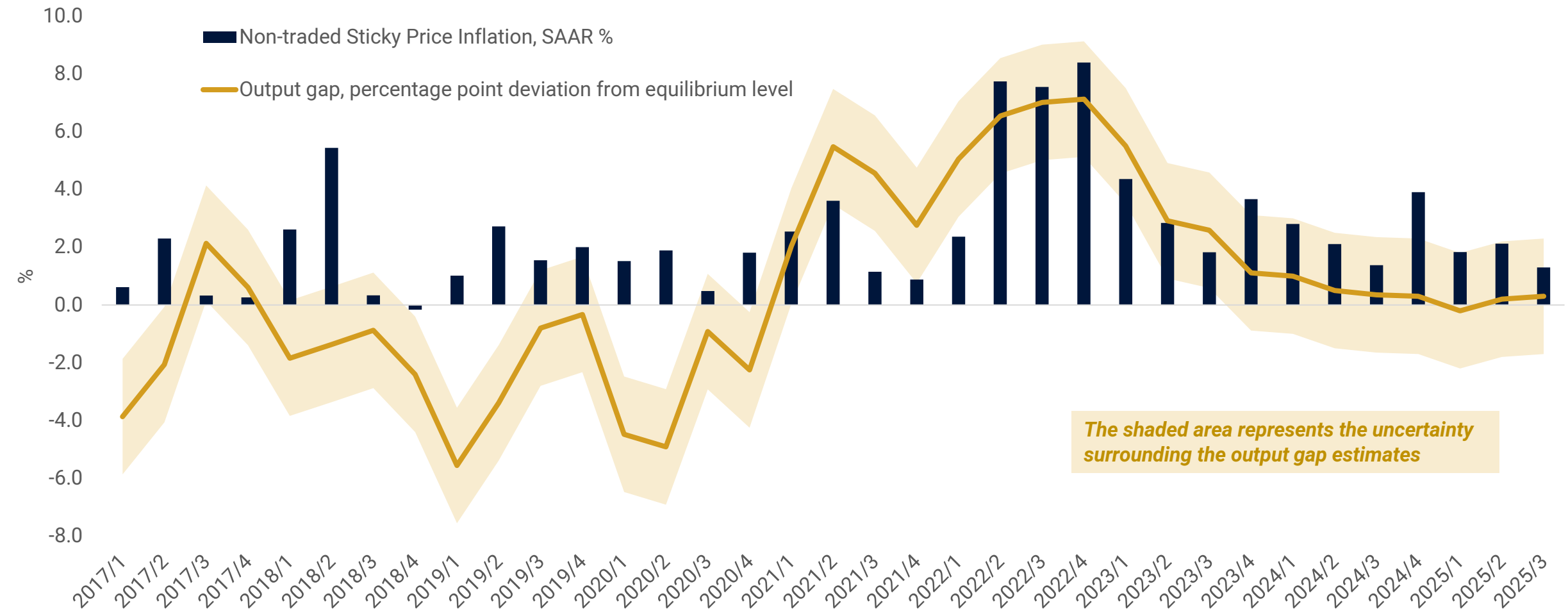
Source: SC of RA



What are the **underlying forces** driving the economy?

The concentration of growth in domestic demand-driven sectors, along with some expansion in external demand, may indicate the formation of a positive output gap.

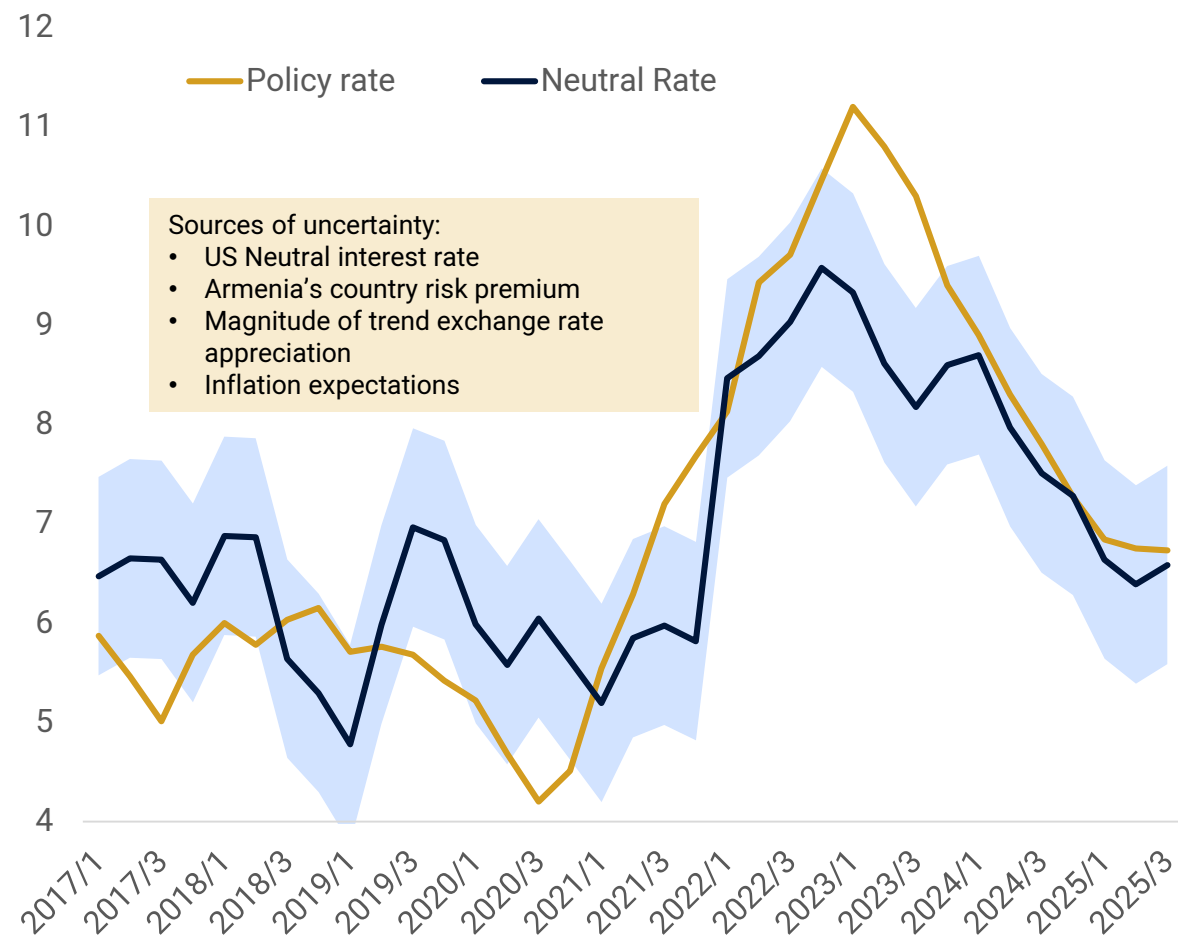
Output gap and underlying inflation



Source: CBA calculations

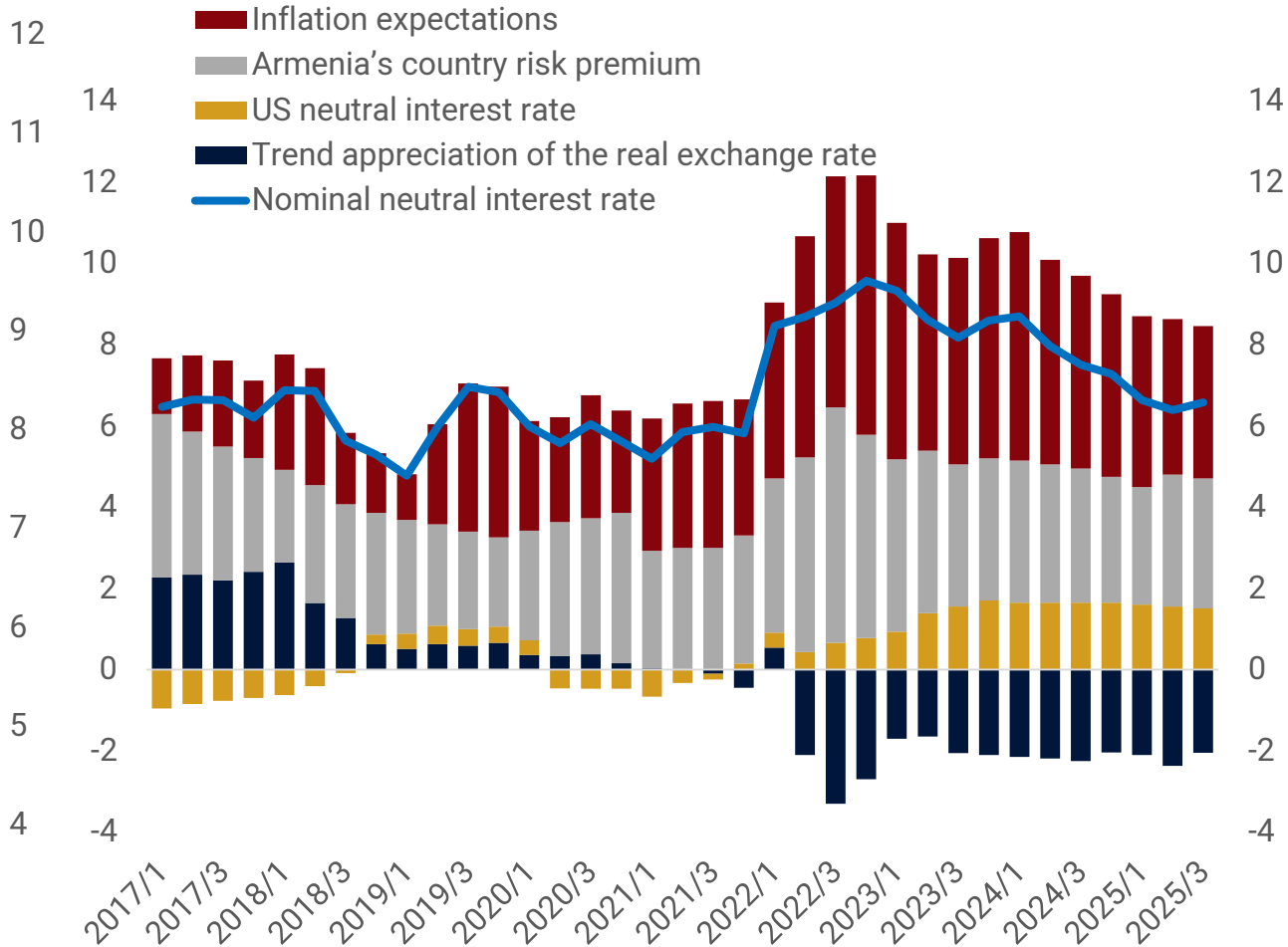
The overall neutral stance of demand conditions in the economy, along with labor market dynamics and the inflation environment, indicate that the policy stance is close to neutral. Meanwhile, significant uncertainties remain around the neutral interest rate and its components.

Policy rate and nominal neutral interest rate



Source: CBA calculations

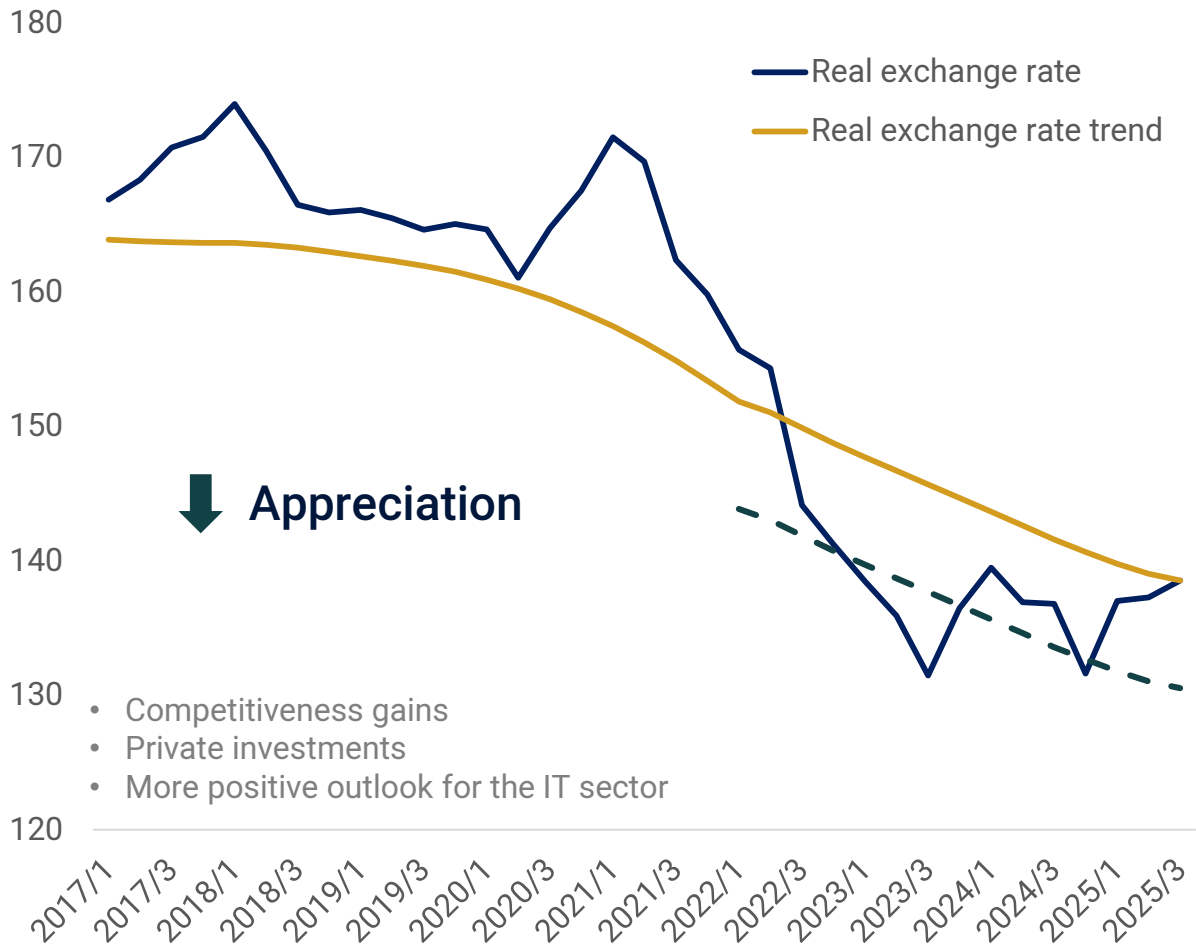
Factors contributing to the nominal neutral interest rate



Source: CBA calculations

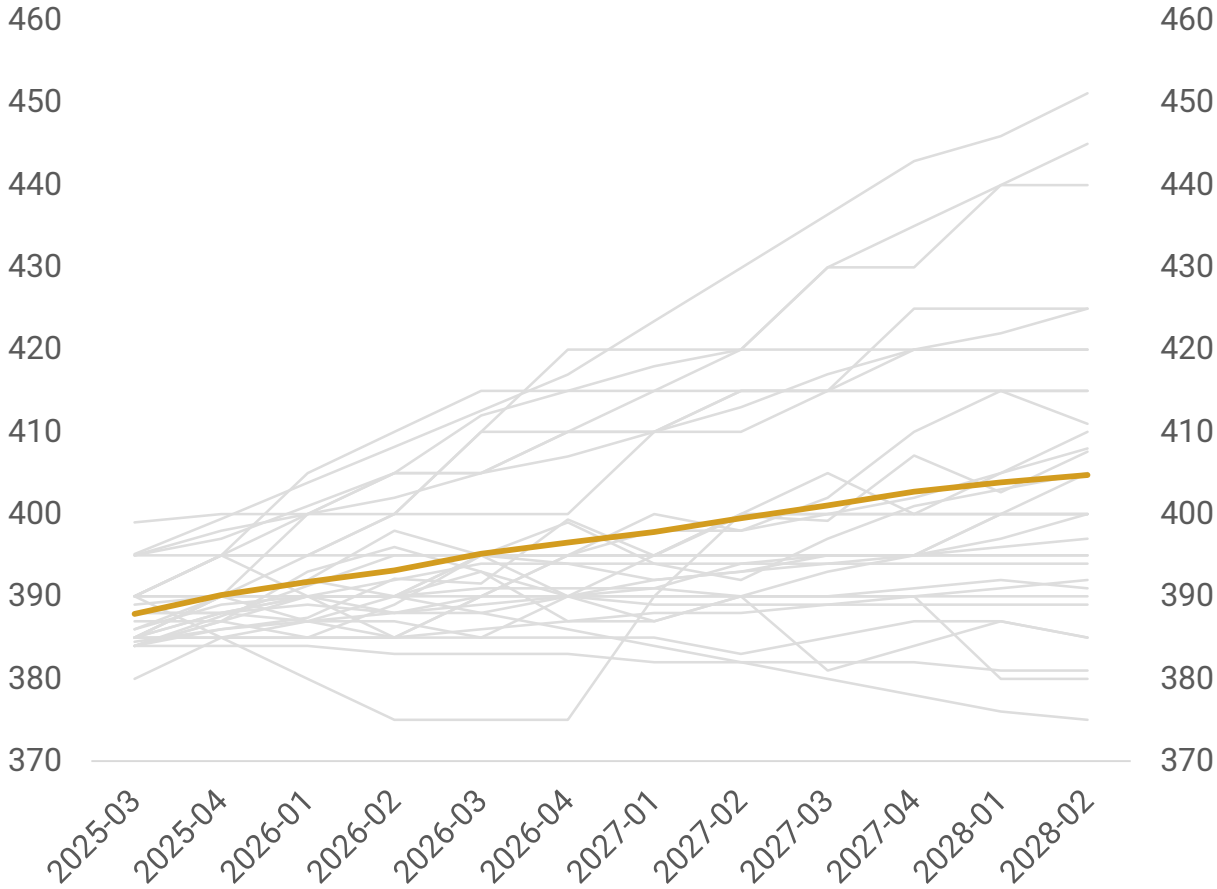
Uncertainty remains around the fundamental level of the real exchange rate, particularly regarding the extent to which productivity and competitiveness gains in export-oriented sectors have contributed to the formation of a “new trend”

Real effective exchange rate, index



Source: CBA calculations

Nominal exchange rate expectations according to the CBA macro survey for Q3 2025 (USD/AMD)

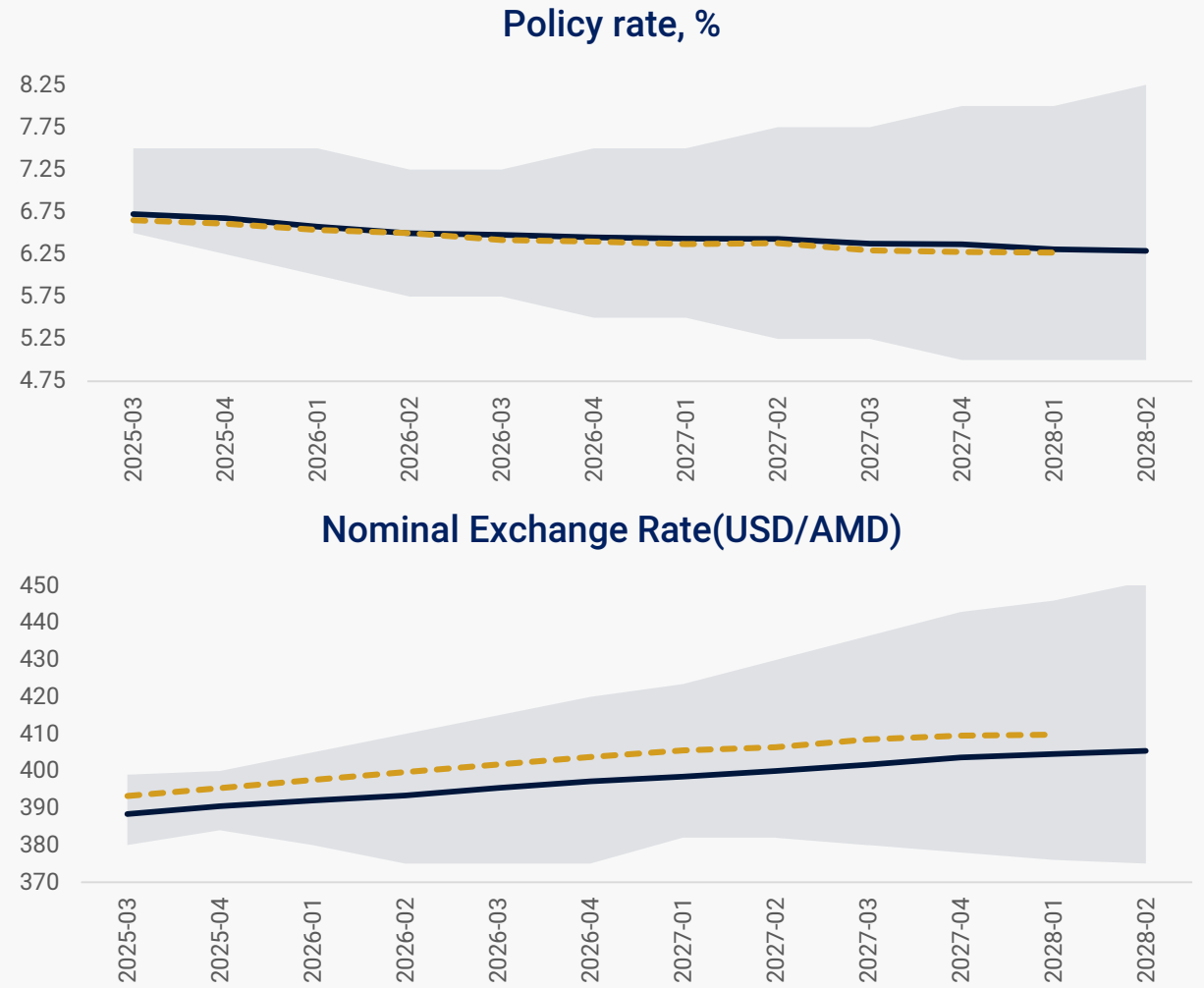
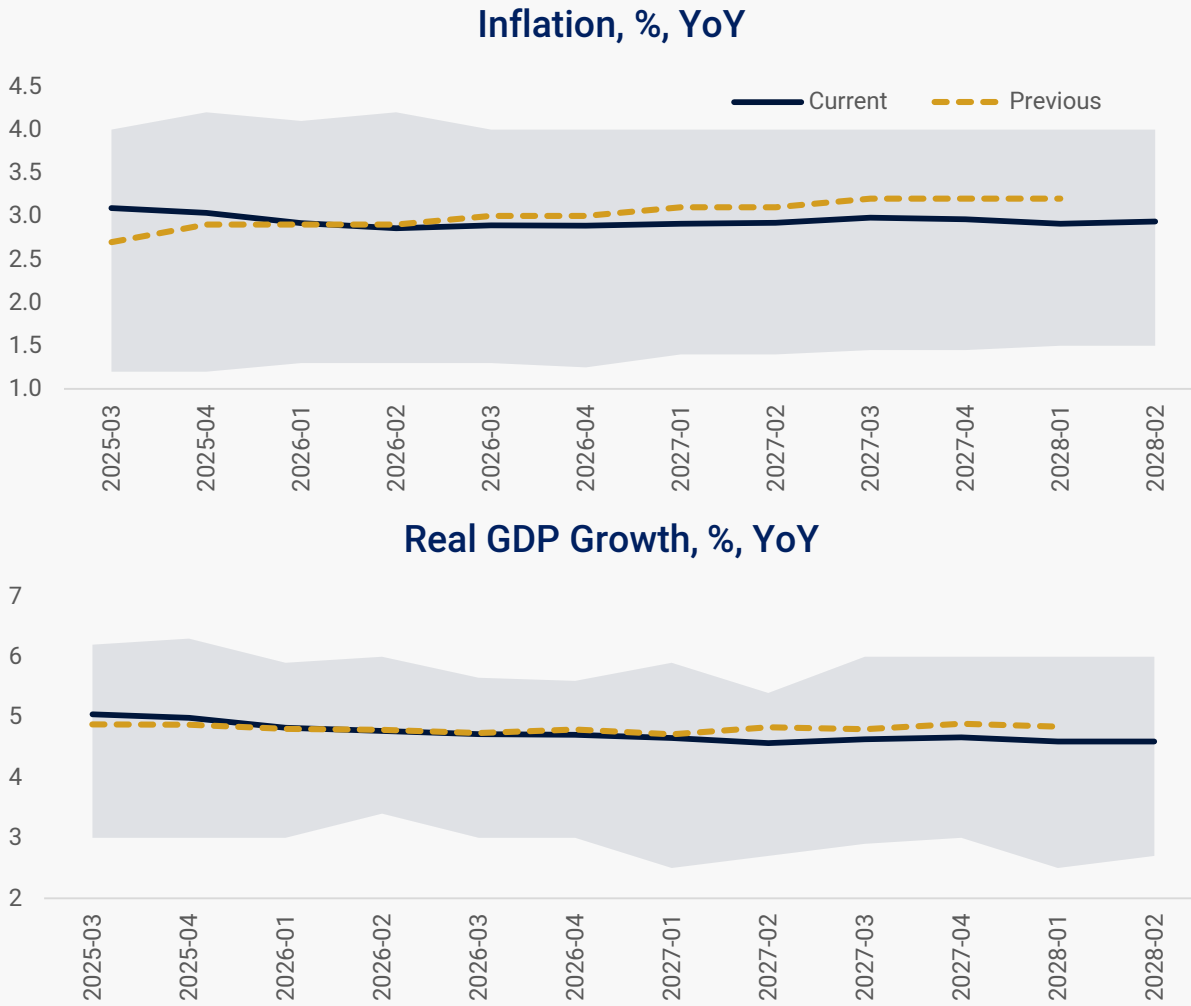


Source: CBA Macro Surveys



Market expectations

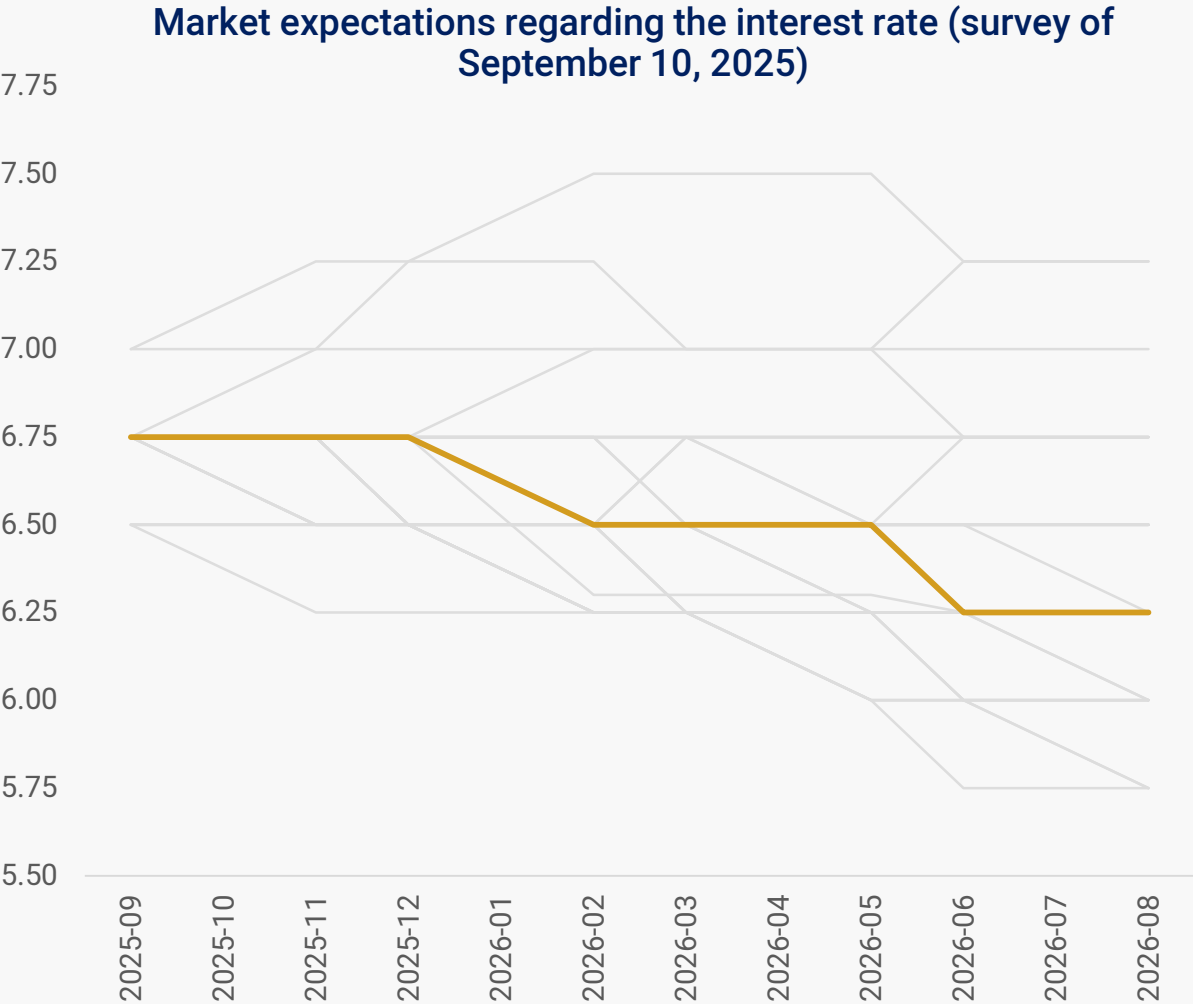
Market Reference Scenario: Financial markets expect further stabilization of economic growth and inflation around a balanced level. Under these conditions, markets anticipate a gradual path of interest rate reductions.



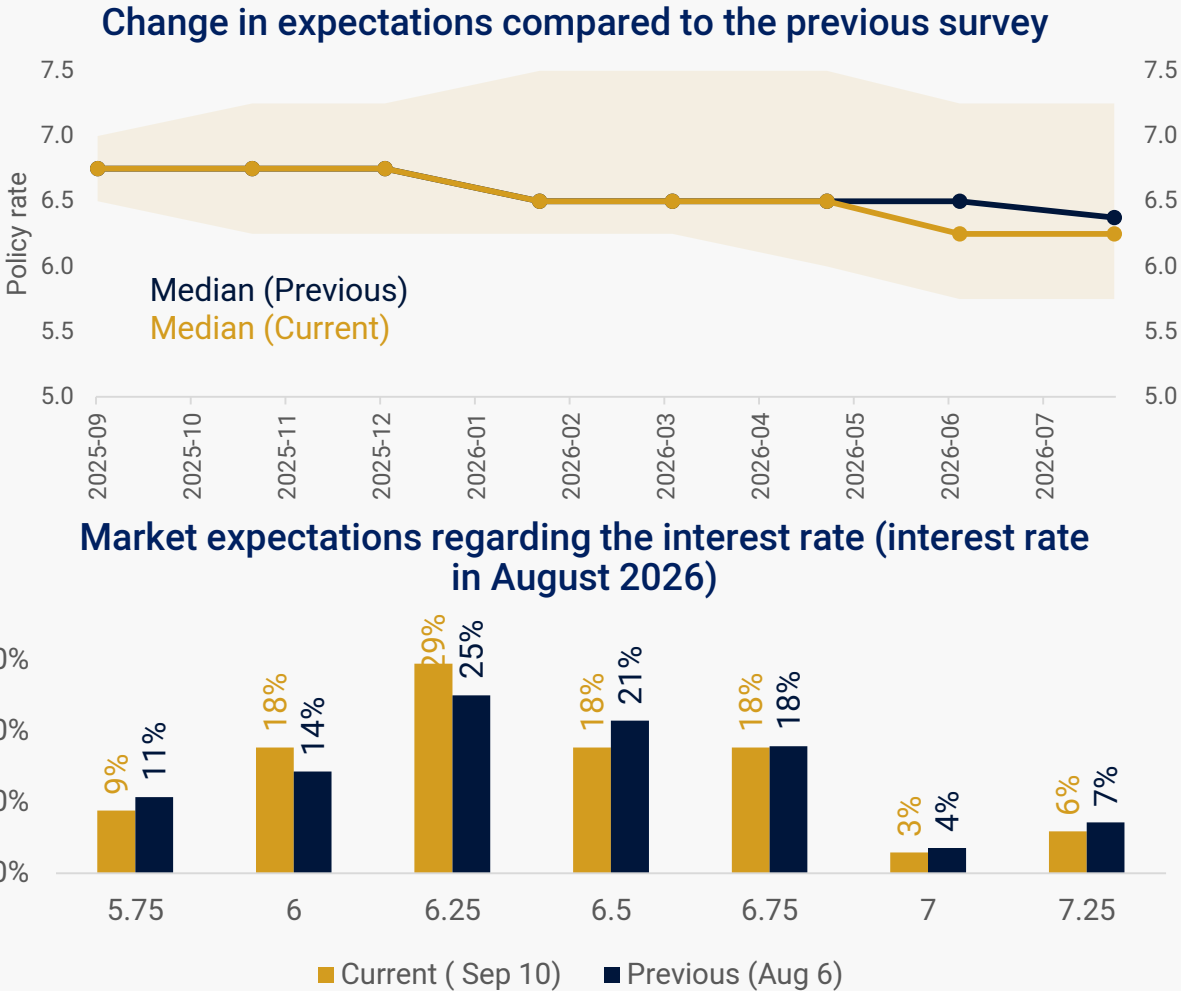
Source: 2025 Q3 CBA Macroeconomic Surveys

Date of Survey: 31.07.2025 – 07.08.2025

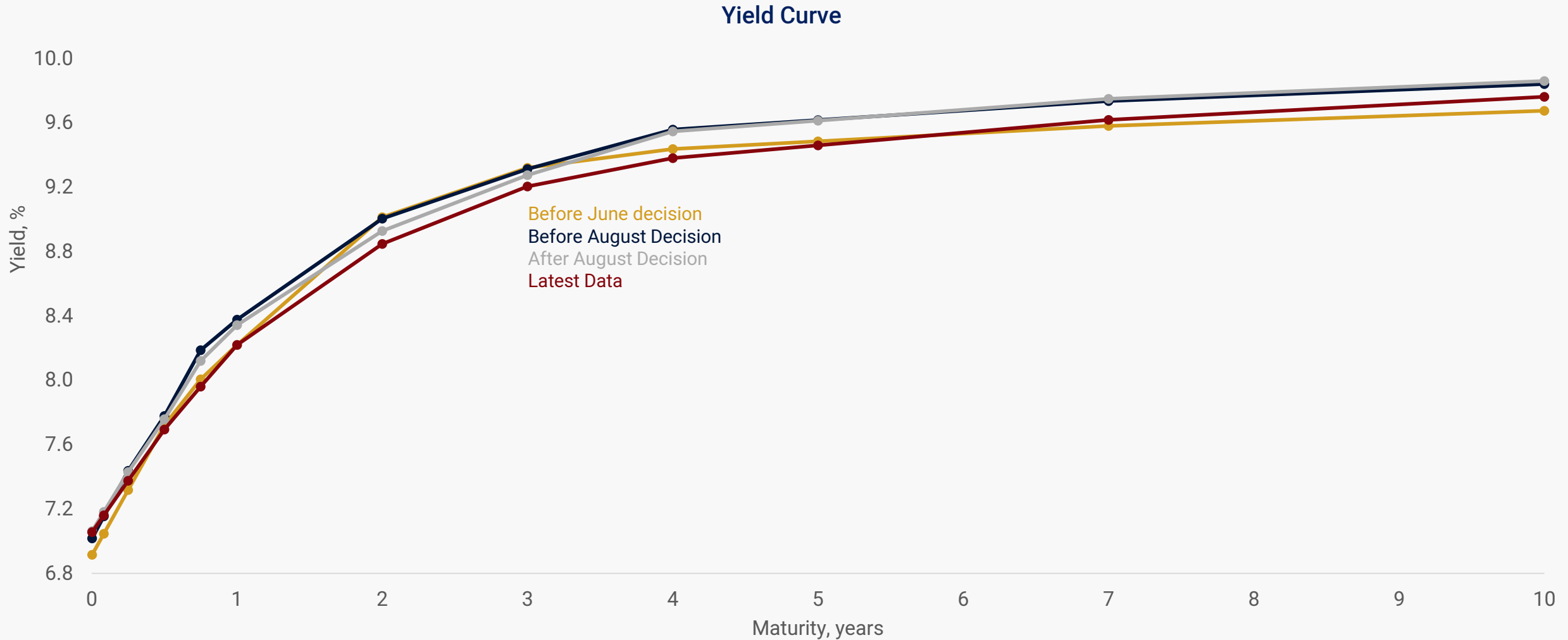
Short Survey: Market expectations have not changed significantly after the latest decision.



Source: Central Bank of Armenia



Yield curve, overall, has remained stable



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.



Illustrative Case A Scenario

The recent acceleration in tourism flows, along with persistently strong external demand for Armenian goods and especially services, may generate additional demand and inflationary pressures in the economy.

Case A: Expansion in External Demand could Require Interest Rates above Market Expectations

Illustrative Case A Scenario: The recent acceleration in tourism flows, along with persistently strong external demand for Armenian goods and especially services, may generate additional demand and inflationary pressures in the economy

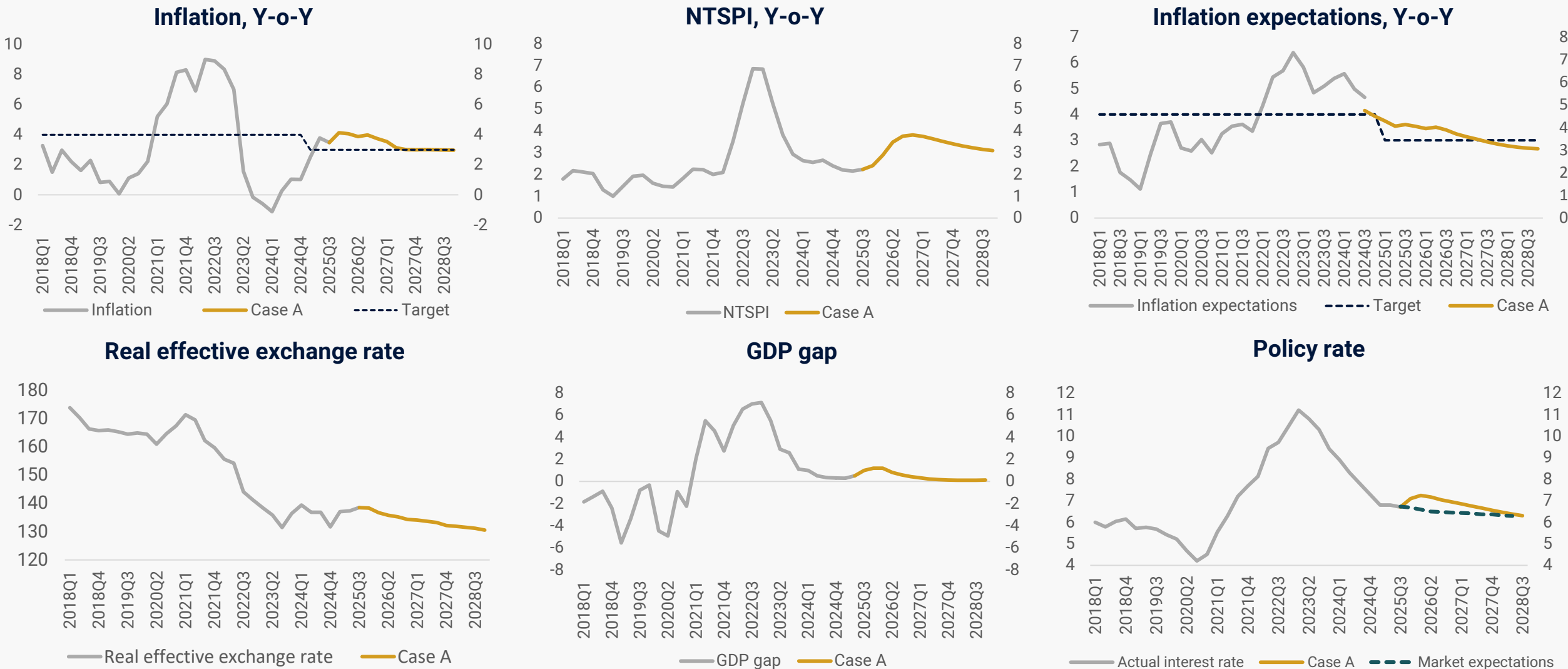
Scenario narrative

- Since May 2025, Armenia has witnessed a sharp recovery and acceleration in **tourism flows**, reaching record-high levels. The composition of tourism has shifted, with Russian inflows recovering but not exceeding 2024 levels, while a surge in arrivals from new, non-traditional destinations has become the main driver of this acceleration
- These developments were accompanied by renewed **inflationary pressures** in sectors exposed to external demand, such as restaurant and hotel services
- Beyond tourism, **foreign demand for locally produced goods and services**, particularly manufacturing exports and financial services, remains strong and continues to expand rapidly.
- In addition, **remittance inflows** have accelerated significantly in recent months, as reflected in increased transfers through the financial system. Cash ruble conversions have also grown, which could also point to rising remittances:
- These patterns support a scenario of a **positive external demand shock**.

Relevance from MP perspective

- Under such a scenario, the free-floating exchange rate, as a shock absorber, would be expected to appreciate in order to absorb external demand and prevent inflationary pressures from transmitting to the domestic economy. However, while the exchange rate appreciation would be expected to absorb much of the external demand shock, one of the main risks under this scenario is that localized inflationary pressures (e.g. in services highly exposed to external demand, such as restaurants and hotels) could lead to inflation expectations ticking upward. Therefore, under this scenario, the policy rate would also need to increase and follow a higher path relative to market expectations in order to prevent localized inflation pressures from translating into higher generalized inflation expectations.

Case A-type scenario. Policy Interest rate path, which is higher relative to market expectations



Illustrative Case B Scenario

In recent years, the growth of capacity and productivity in export-oriented sectors has contributed to an acceleration in potential GDP growth, which has been accompanied by an improvement in the investment climate, stable high capital inflows, and a strong fundamental appreciation of the real exchange rate, both actual and expected. At the same time, this implies relatively low levels of the neutral interest rate in Armenia.

Illustrative Case B Scenario. A policy rate path lower than market expectations

Illustrative Case B Scenario. 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—could imply a lower level of the neutral rate

Scenario narrative

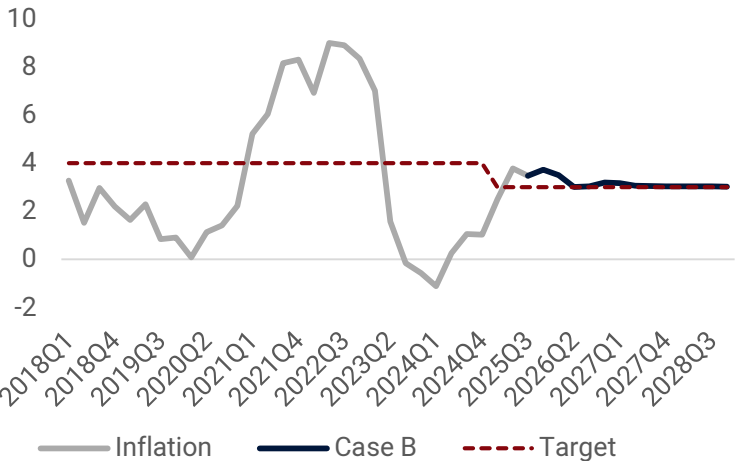
- Together, this significant and sustained growth in **productive capacities and global competitiveness** in Armenia's key tradeable sectors since 2022 could point to a new equilibrium forming in the economy.
- Strong growth in productivity and export potential could support a higher rate of **growth for potential output**.
- Moreover, empirical evidence shows that in small open economies, rising productivity and export capacities, in tandem with a strong investment climate, leads to persistent capital flows which in turn support **greater real exchange rate trend appreciation**.
- Greater fundamentals-driven appreciation of the real exchange rate, in its turn, would imply **a lower level for the neutral rate**.

Relevance from MP perspective

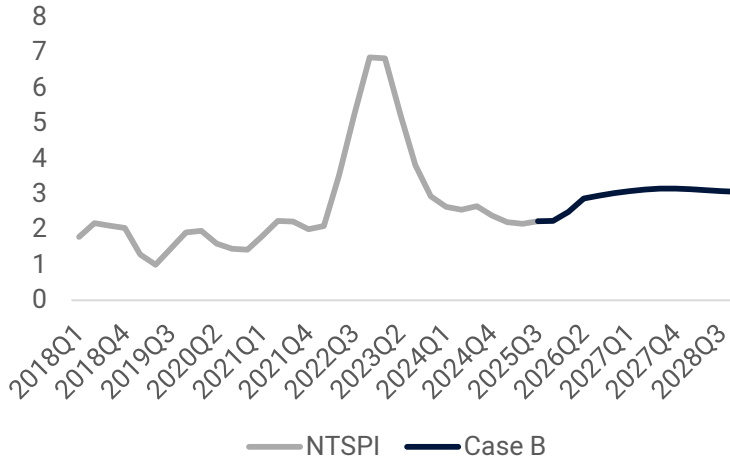
- Under such a scenario, a lower neutral rate would suggest that the monetary **policy stance has been tighter than initially assumed**, especially since 2024. Moreover, a stronger level for potential output growth would indicate that the economy has been operating with a slightly **negative output gap** during this period, which could partly help explain the **low inflationary environment** observed in Armenia during 2023-2024. Given these assumptions, this scenario assumes that the policy rate would need to follow a lower path relative to market expectations in order to reflect this new economic reality, gradually balancing at a lower long-term level in line with the revised estimate of the neutral rate.

Illustrative Case B Scenario. A policy rate path that is lower than market expectations

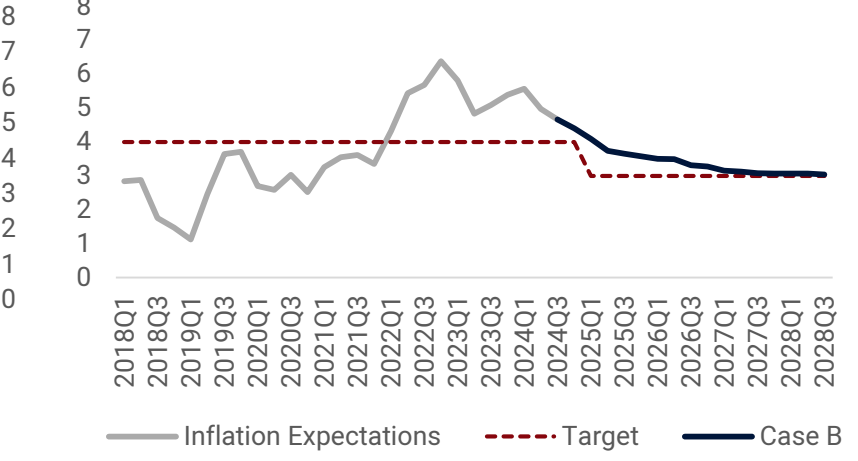
Inflation, YoY



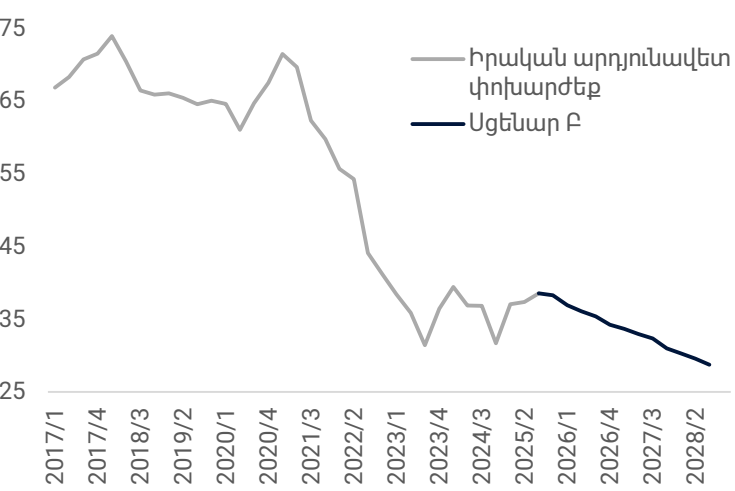
Non-traded Sticky price Inflation, YoY



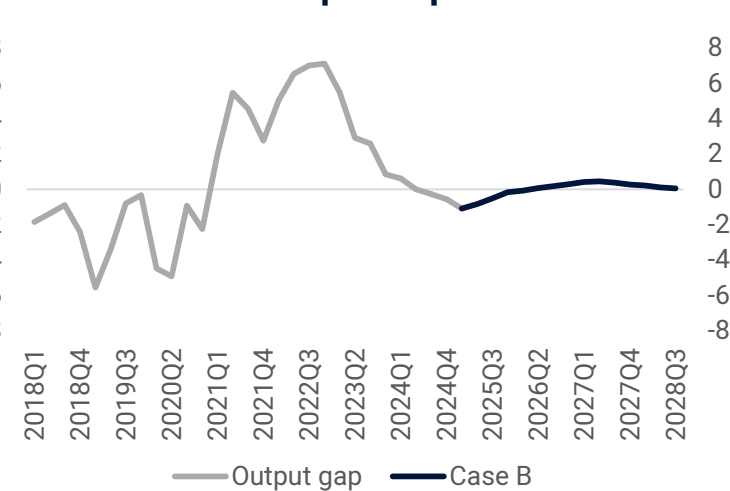
Inflation Expectations, YoY



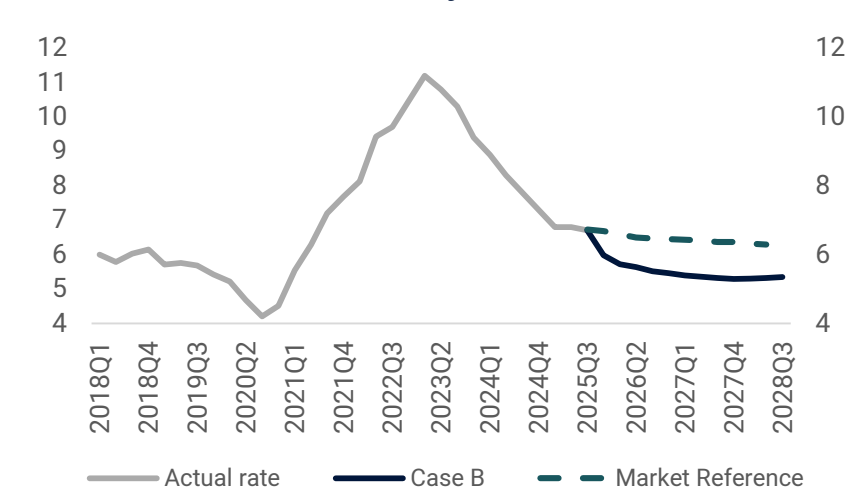
Real Effective Exchange Rate



Output Gap



Policy rate

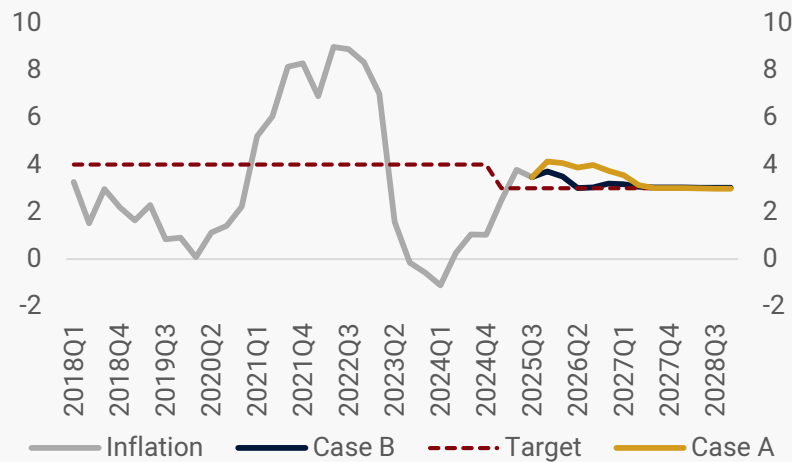




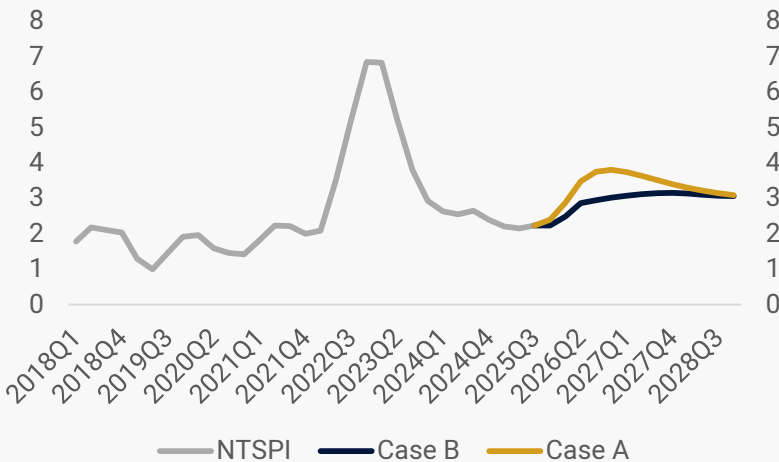
Policy discussion

Illustrative Case A and Case B Scenarios

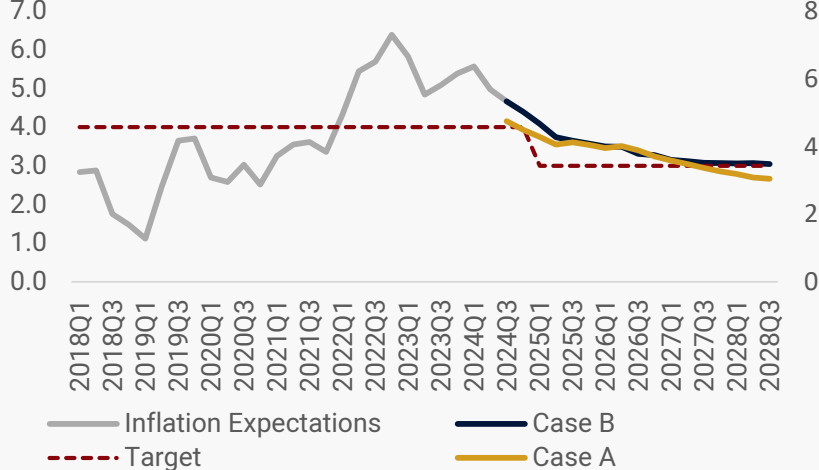
Inflation, YoY



Non-traded Sticky price Inflation, YoY



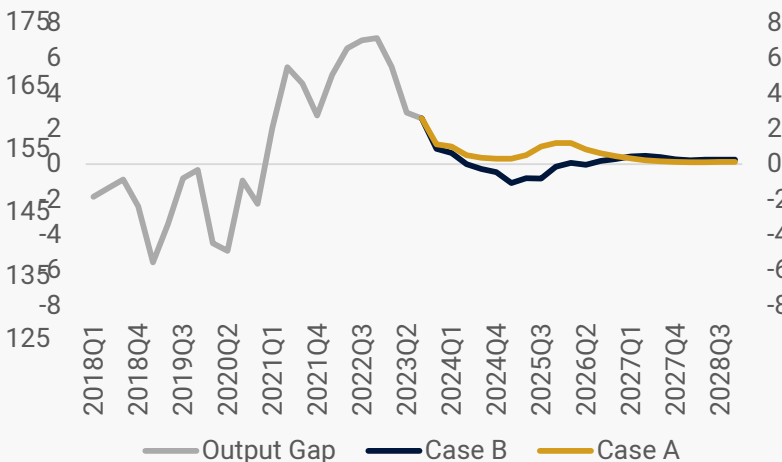
Inflation Expectations, YoY



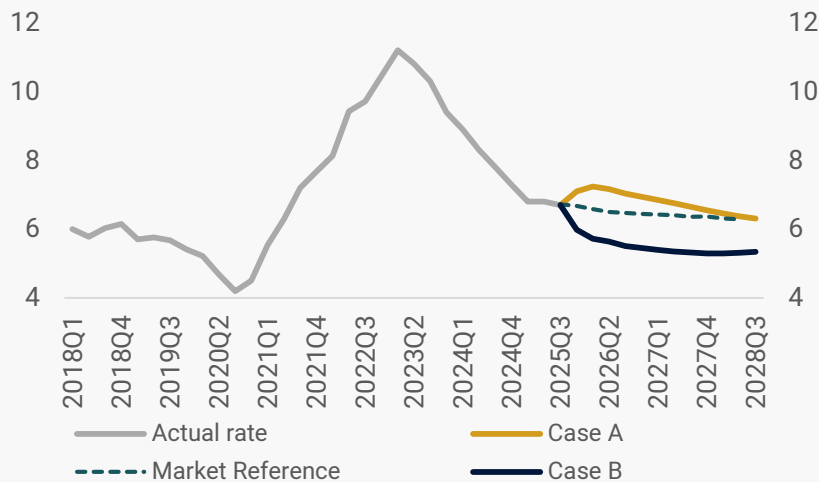
Real Effective Exchange Rate



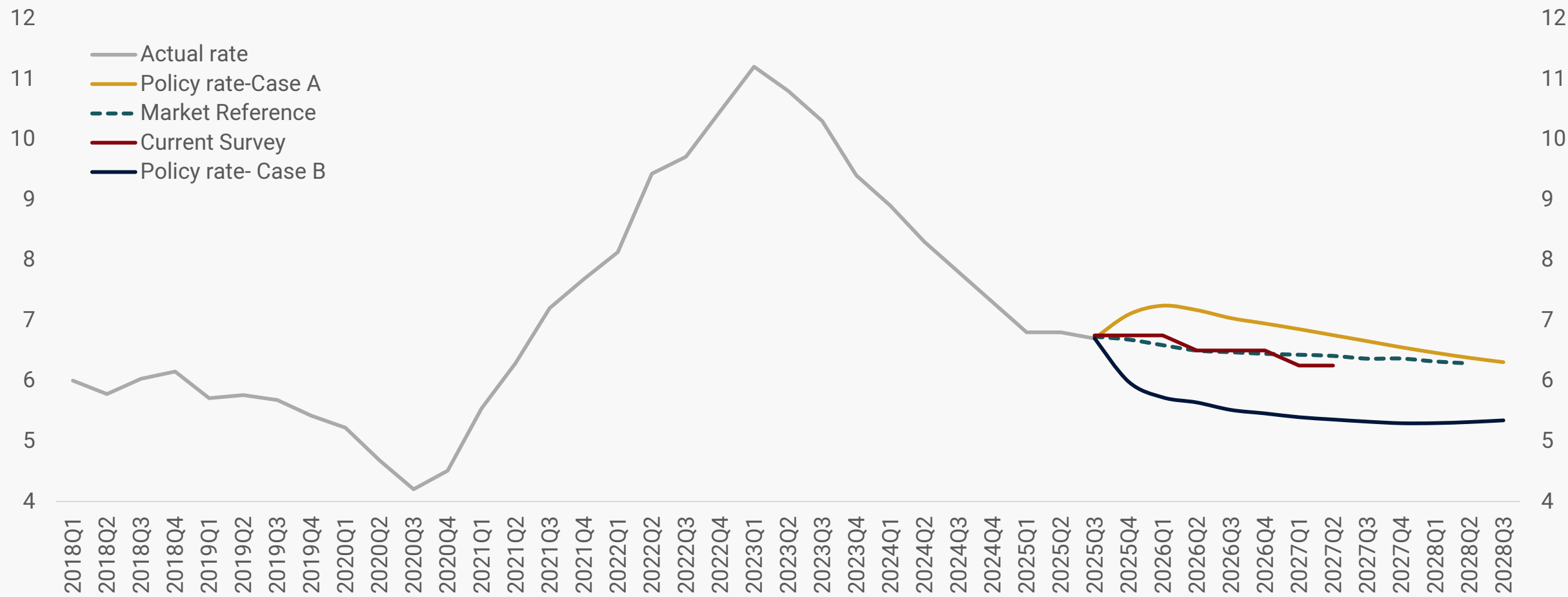
Output Gap



Policy rate



Illustrative Scenarios– 2025 Q3





Thank you