



Central Bank
of Armenia

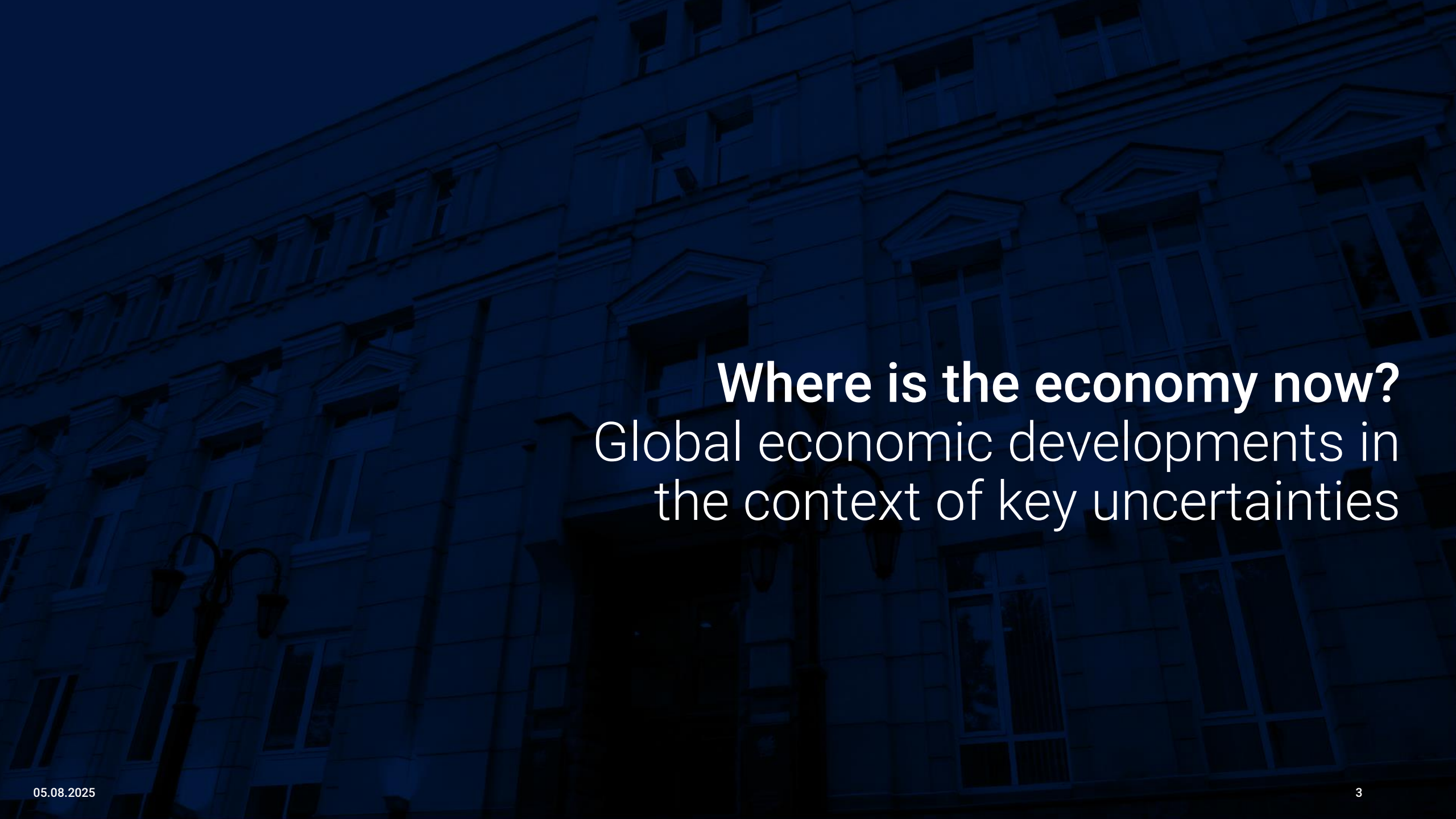
Monetary Policy Outlook

August 2025 Interim Decision

August 5, 2025

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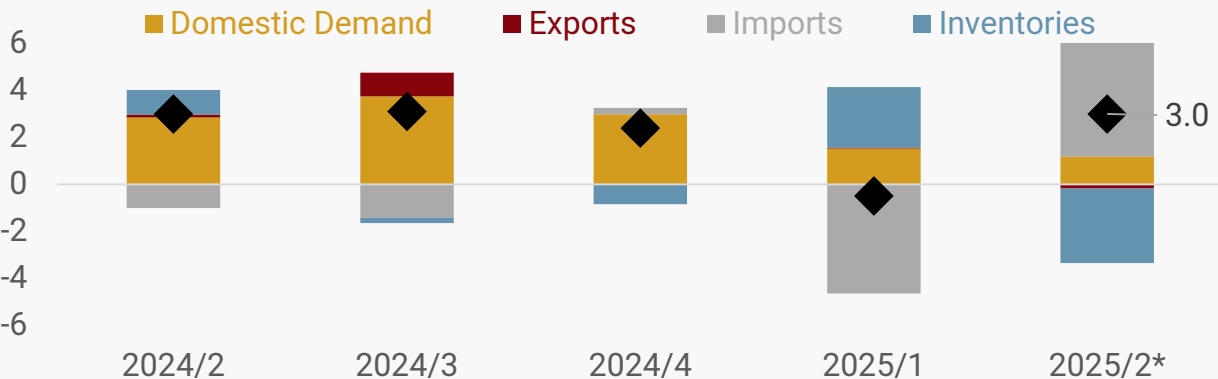


Where is the economy now?

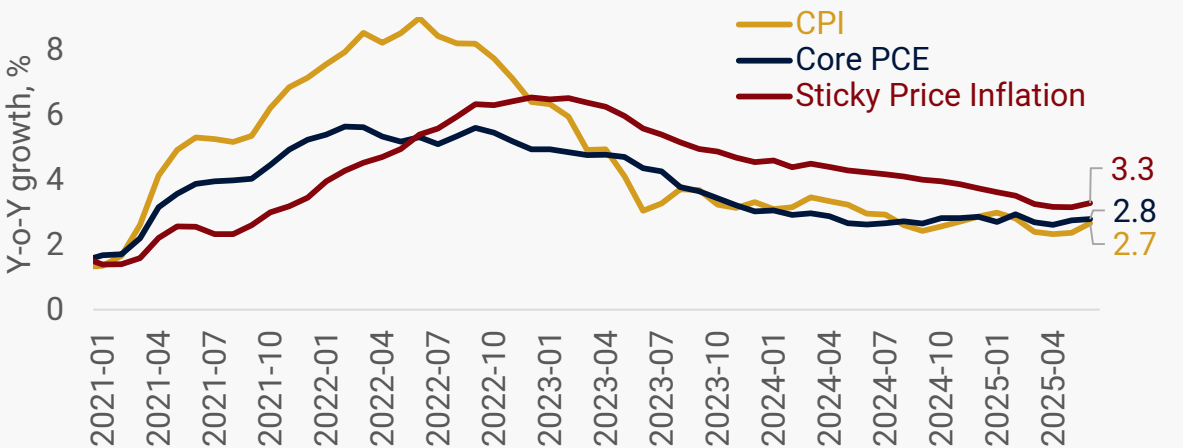
Global economic developments in the context of key uncertainties

US Tariff Policy. While some uptick in inflation has been observed in June, the full effects of tariffs have not yet transmitted to consumer prices

In 2025 Q1, strong growth in imports and inventories have mitigated tariff impacts on consumer prices

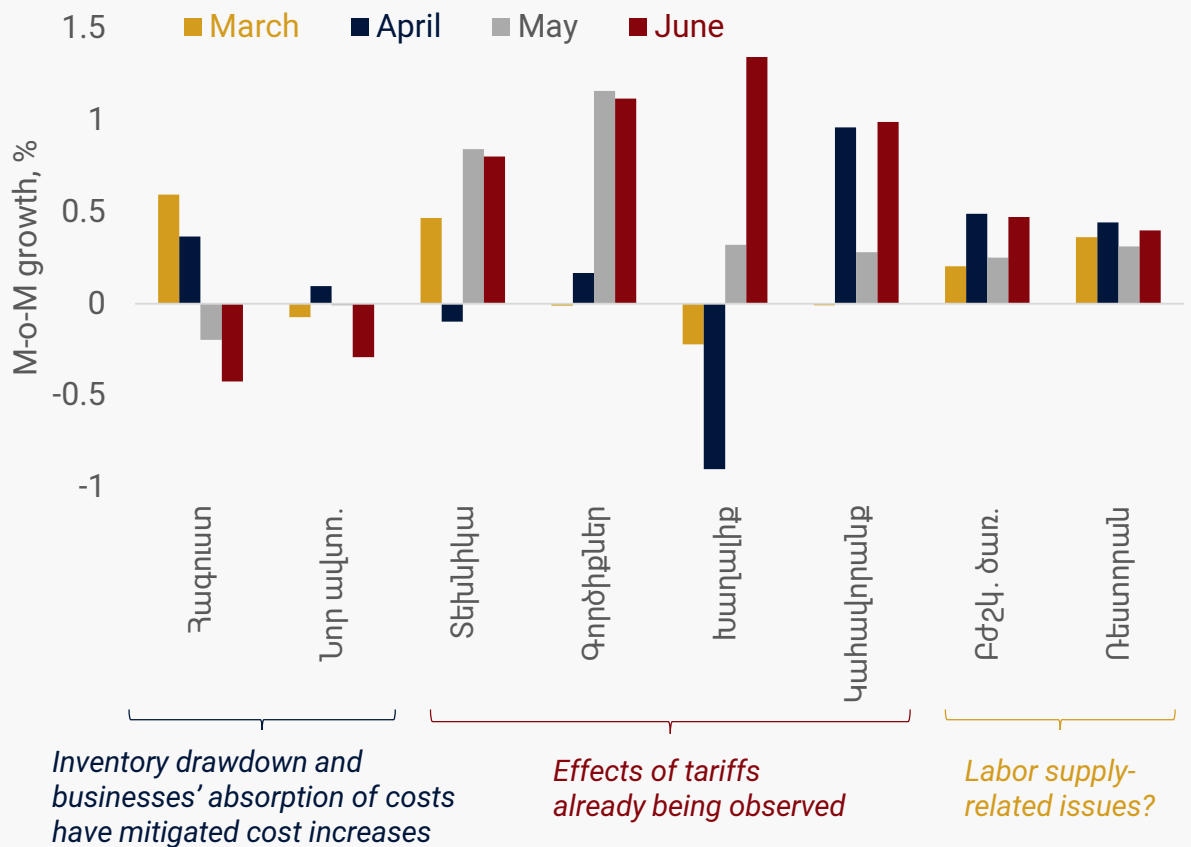


CPI inflation in June increased to 2.7%, grew M-o-M by 0.4%



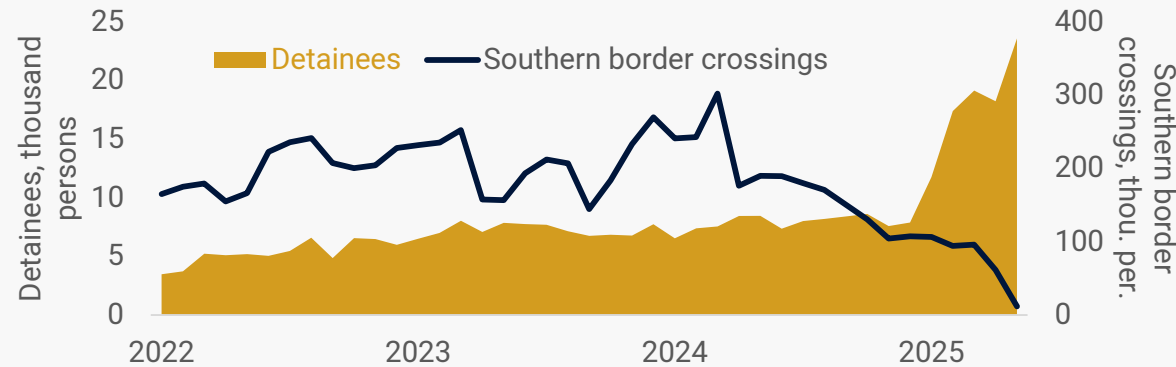
Source: BEA, BLS, Atlanta Fed; * 2025Q2 initial estimate per BEA

Tariffs are beginning to gradually transmit through to prices for certain imported goods, but other categories with high inventories have not yet seen meaningful price increases

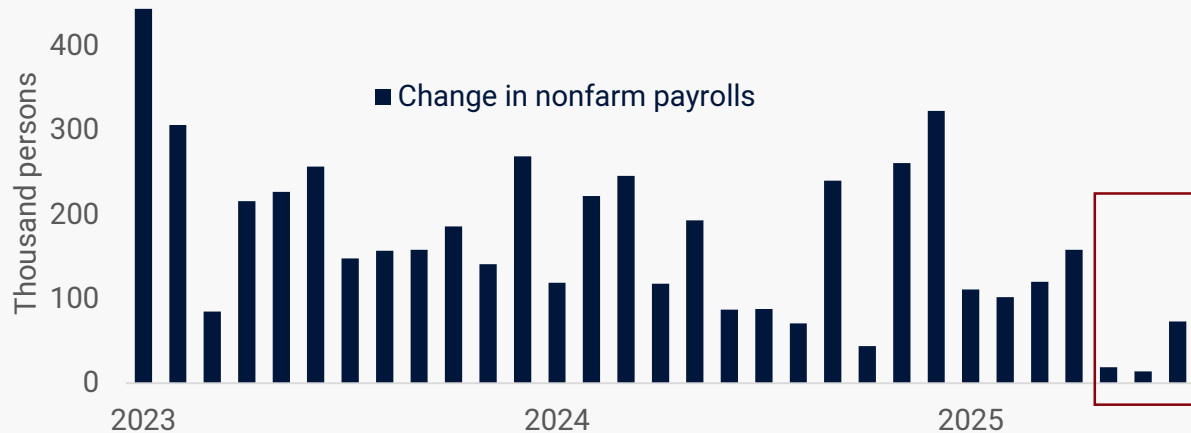


US Immigration Policy could contribute to a meaningful tightening of labor market conditions and pose inflationary risks, but as of yet no meaningful signs of these risks materializing

Sharp uptick in immigrant detainments and halt in immigrant inflows could lead to a tightening of labor market conditions

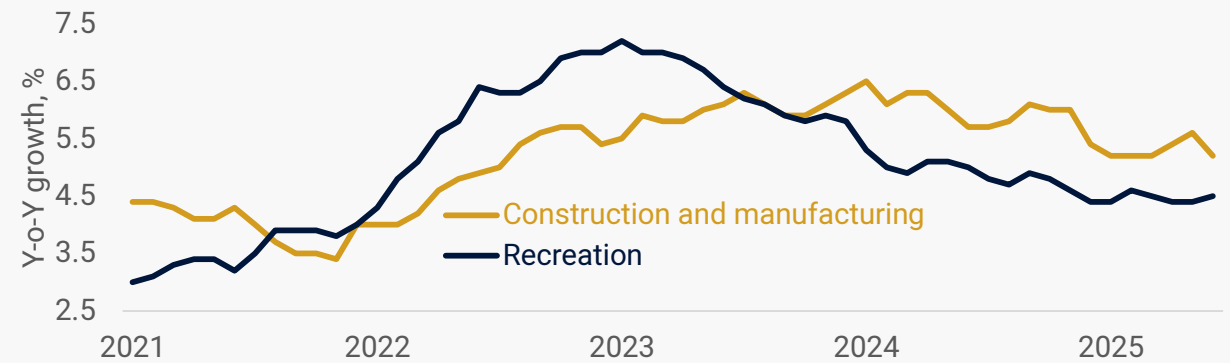


Amid worsening demand and business sentiment, payrolls have declined considerably, which could be masking the above risks

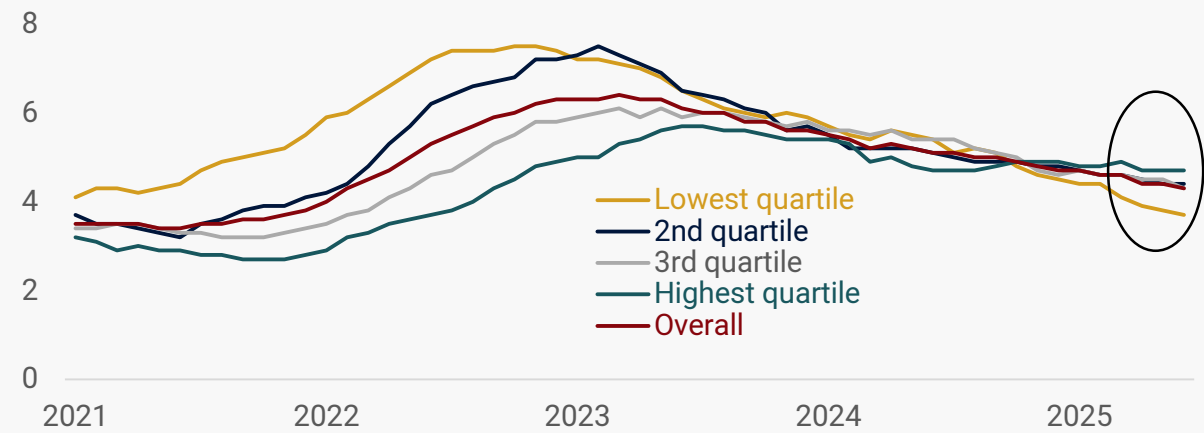


Source: U.S. Customs and Border Protection, Transactional Records Access Clearinghouse, BLS

At the same time, no uptick in wages for sectors highly dependent on immigrant labor



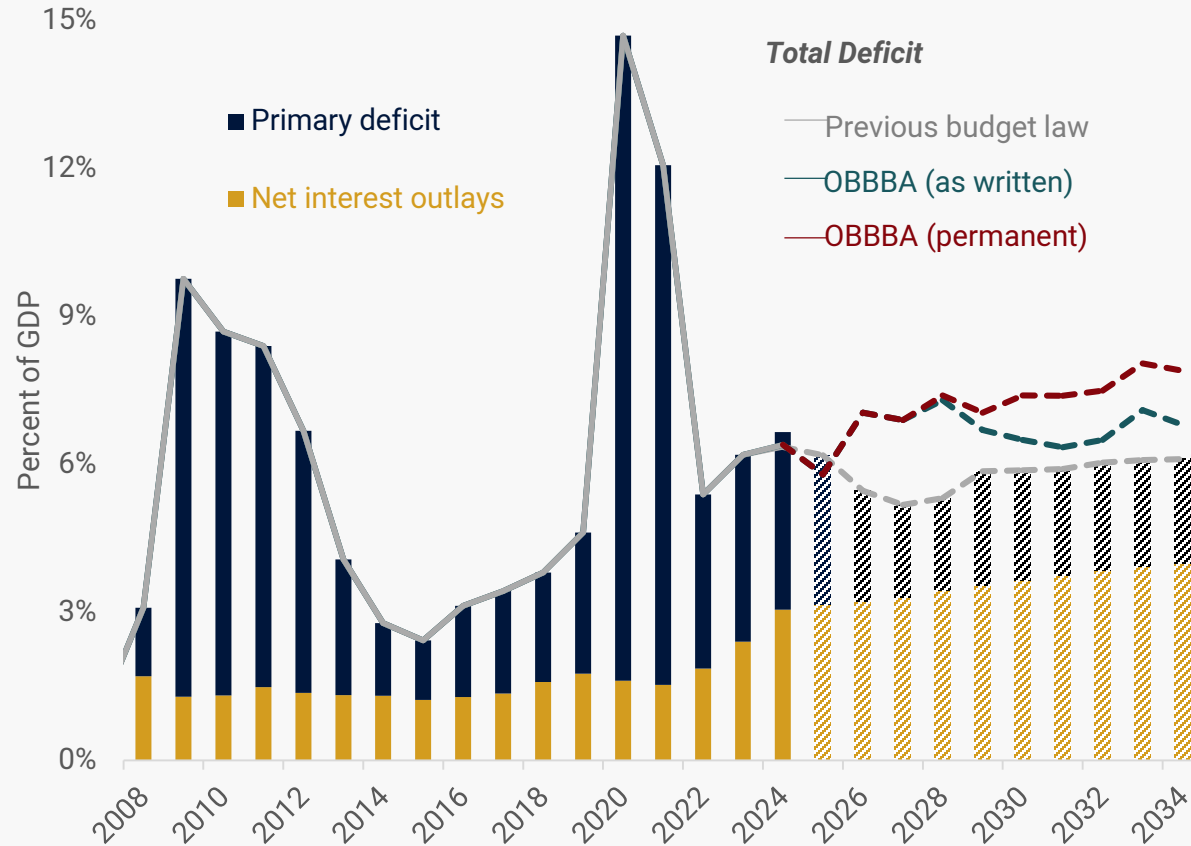
Moreover, wages for the lowest-earners have been declining at the fastest pace



Source: AtlantaFed, BLS

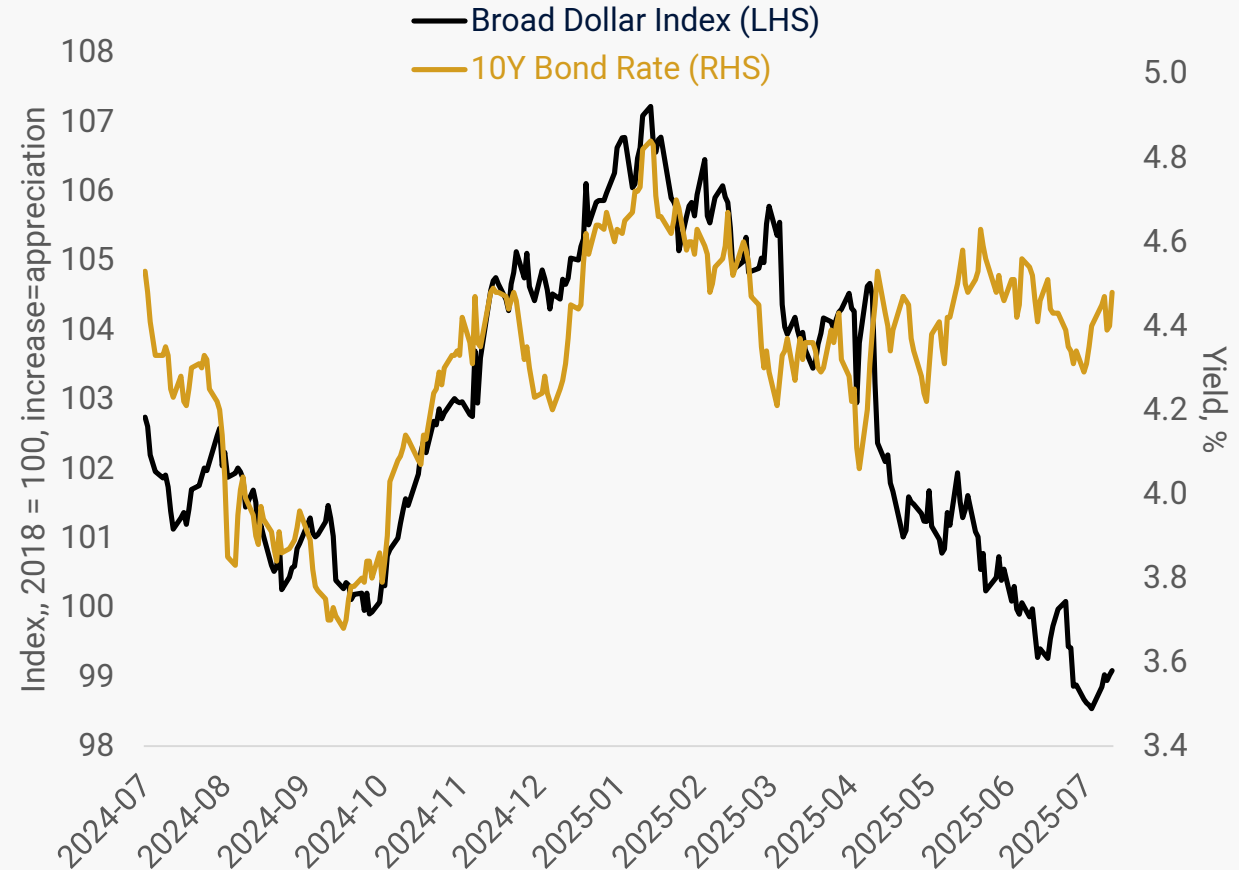
US Fiscal Policy. OBBBA poses serious risks to debt sustainability

Growth in the deficit in a high interest-rate environment can have very costly consequences



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

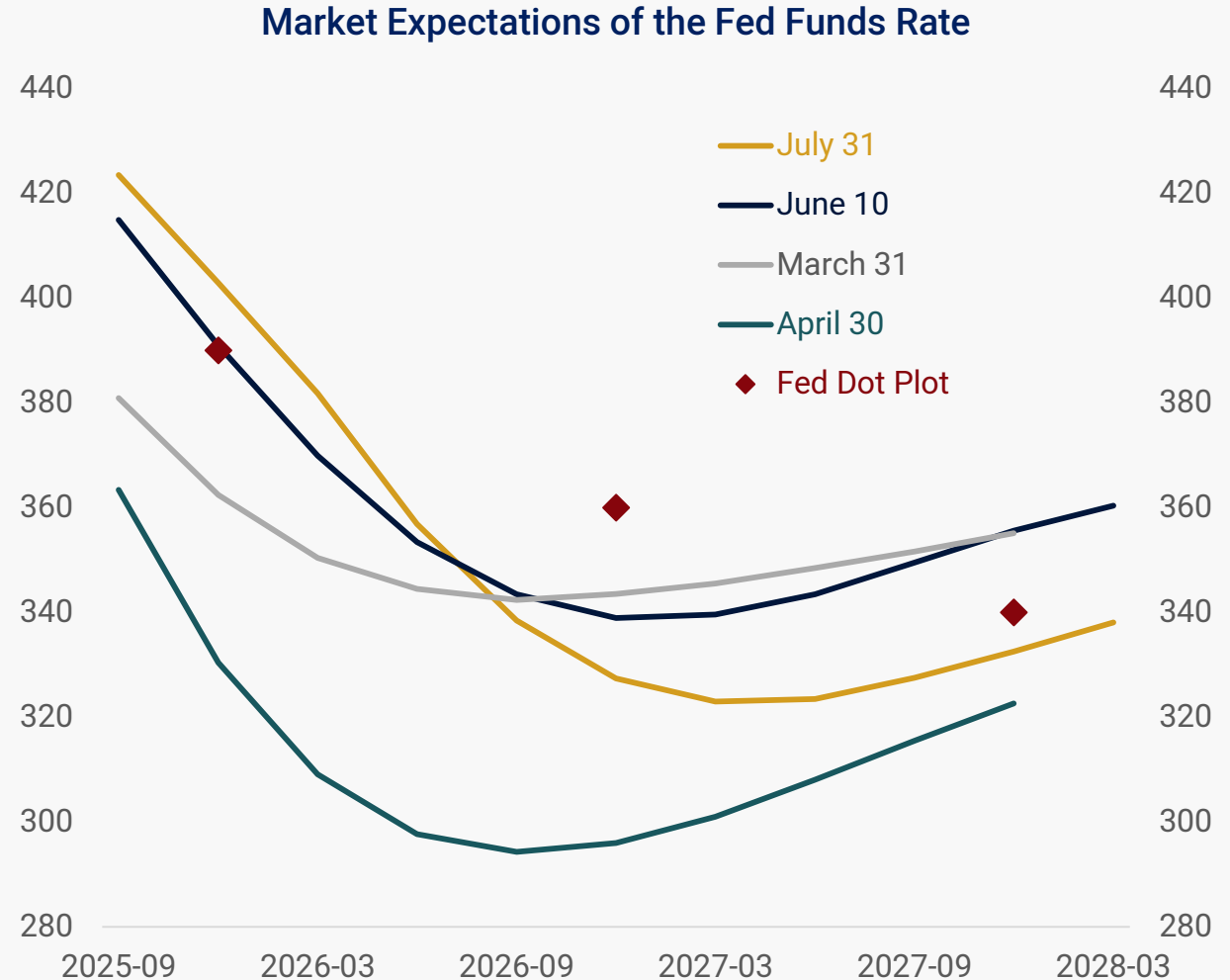
Increases in long-term yields, concurrent with a weakening dollar, likely points to market pricing of some fiscal risk



Source: US Treasury Department

US Monetary Policy. The Fed's Dilemma

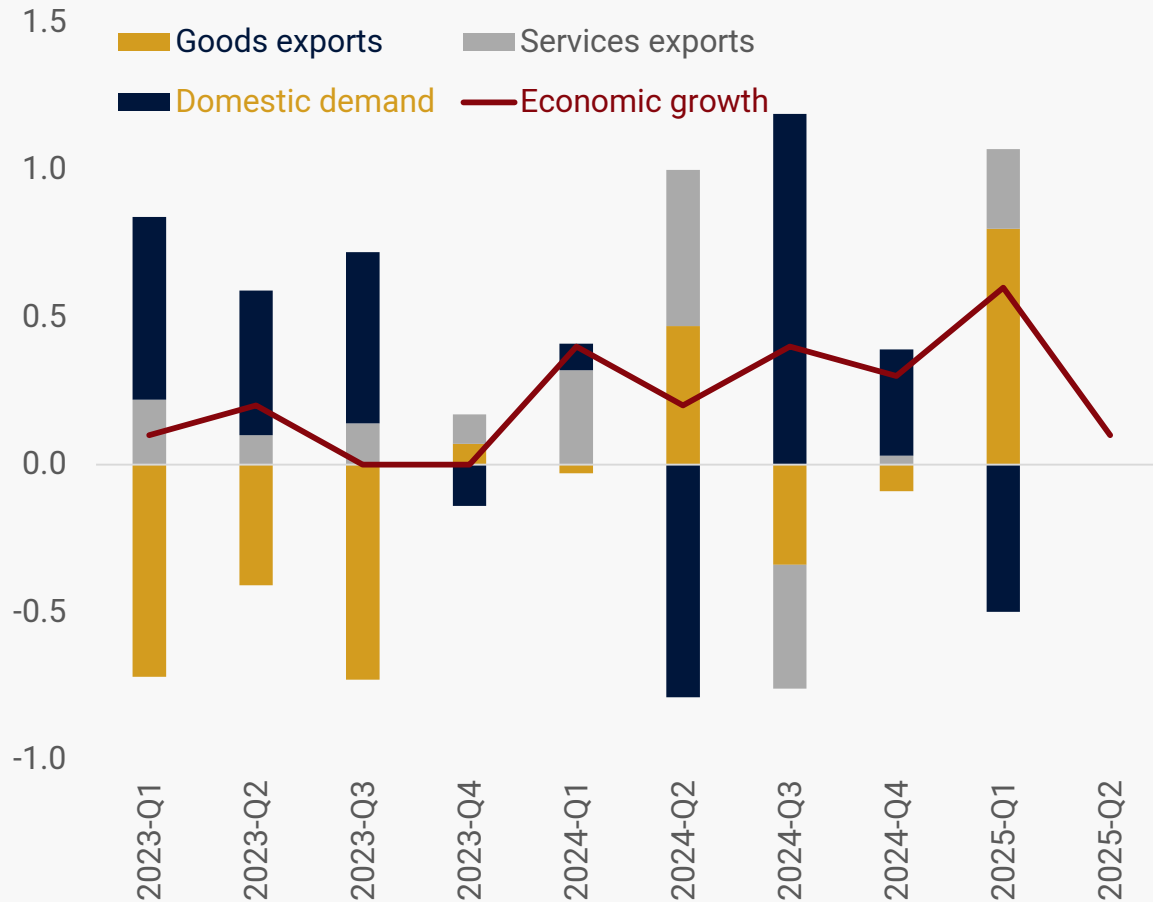
- Managing a potential stagflationary shock will be very difficult:
 - On the one hand, worsening of growth outlook
 - On the other hand, high inflationary environment and risks of inflation expectations ratcheting upwards



Source: Atlanta Fed

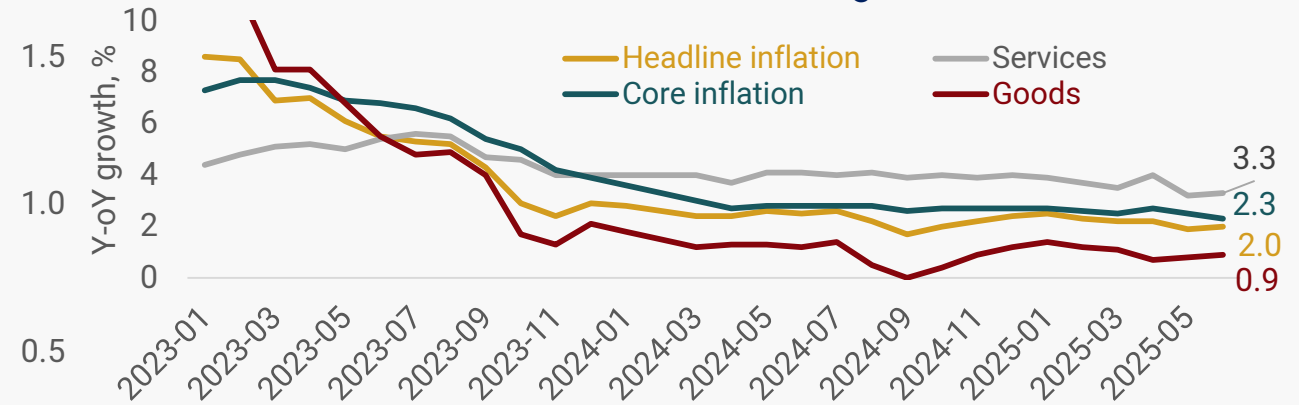
Euro Area. Economic growth outlook is uncertain, driven, on the one hand, by U.S. trade restrictions, and on the other hand, by risks associated with a more expansionary fiscal policy stance

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

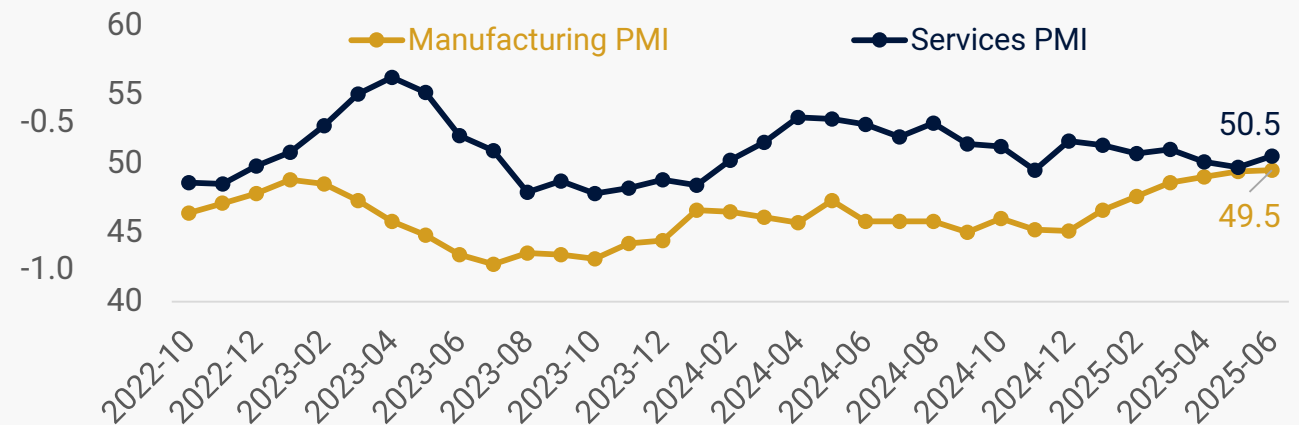


Source: Eurostat

Although core inflation indicators have somewhat moderated, they remain at levels above the target

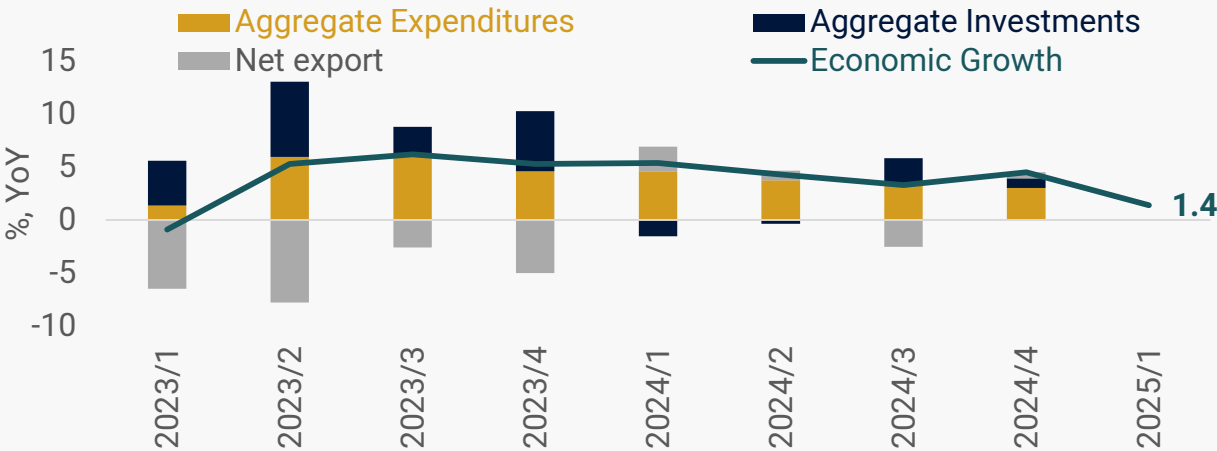


PMI indices have shown some stabilization, supported by the recovery in new orders

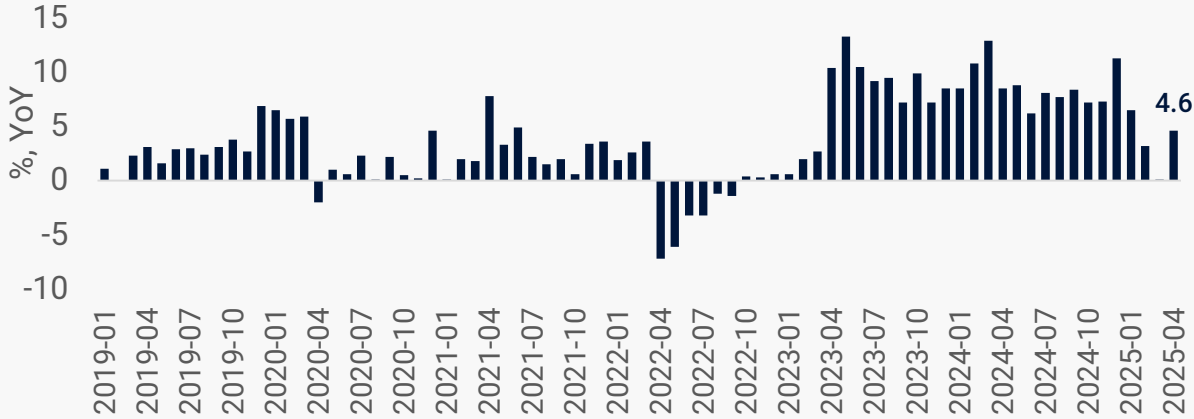


Russia. On the one hand, the rapid slowdown in demand, and on the other hand, the persistence of tight labor market conditions and high inflation expectations complicate the task of fully overcoming inflation for the Central Bank of Russia

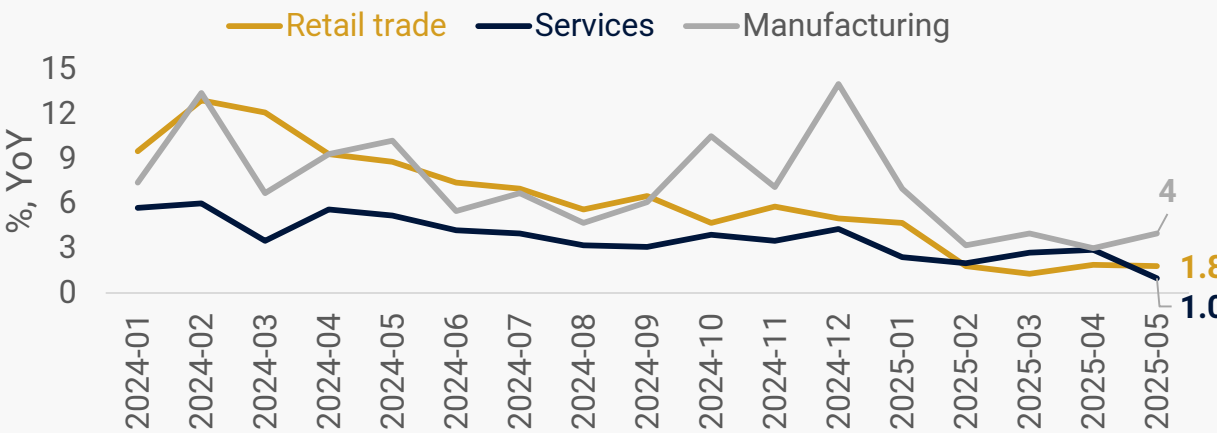
In the first quarter of 2025, economic growth has slowed



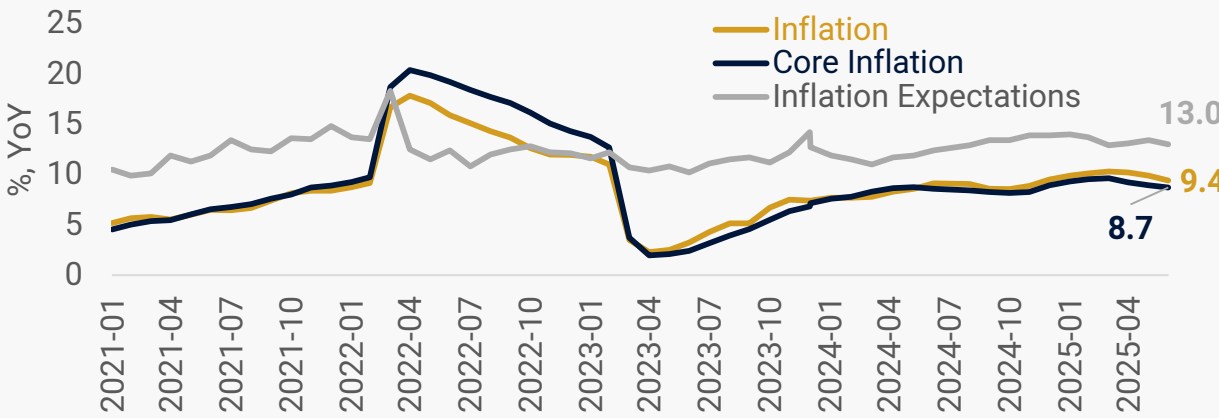
Labor market conditions remain tight, exerting additional inflationary pressures on the economy



The slowdown in economic growth is broad-based



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

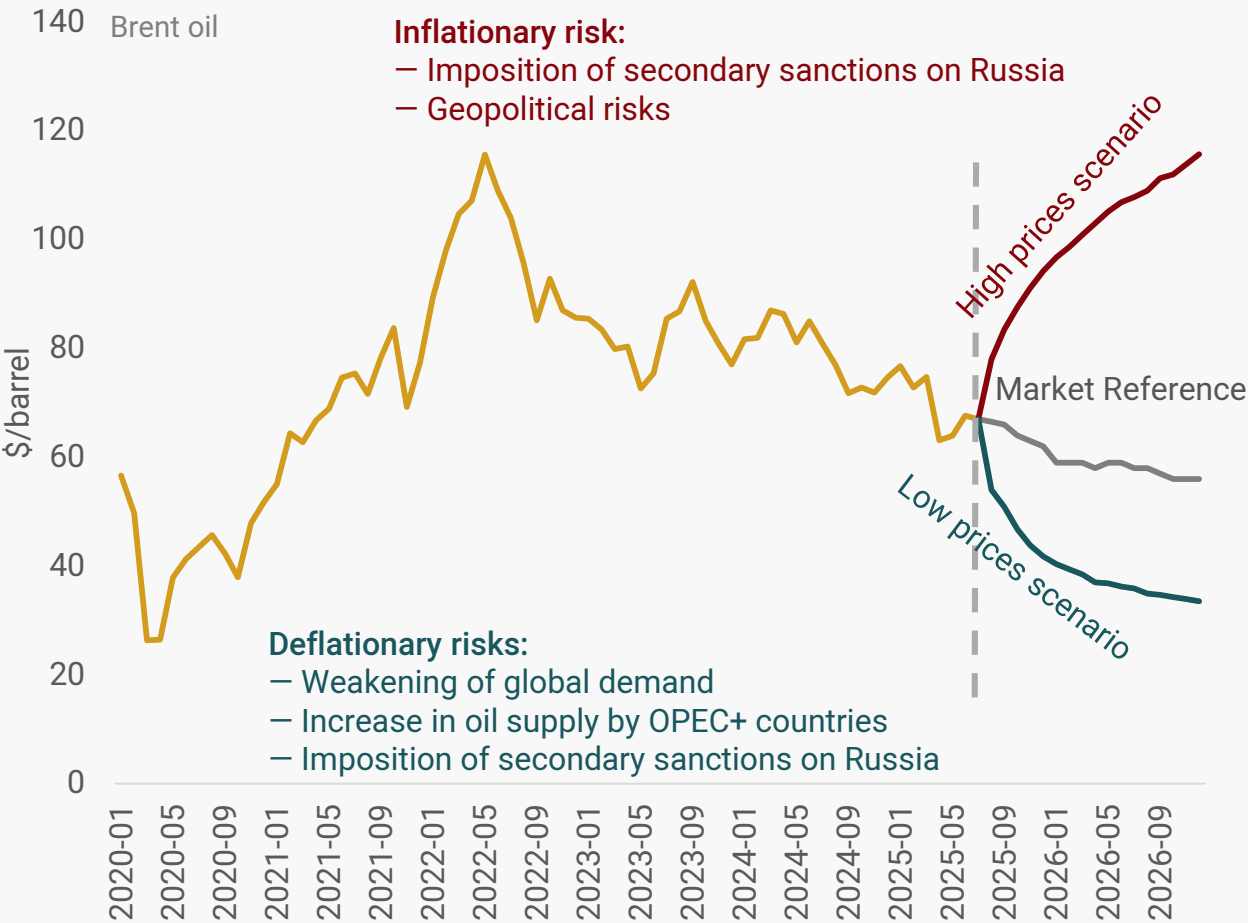


Source: Federal State Statistics Service

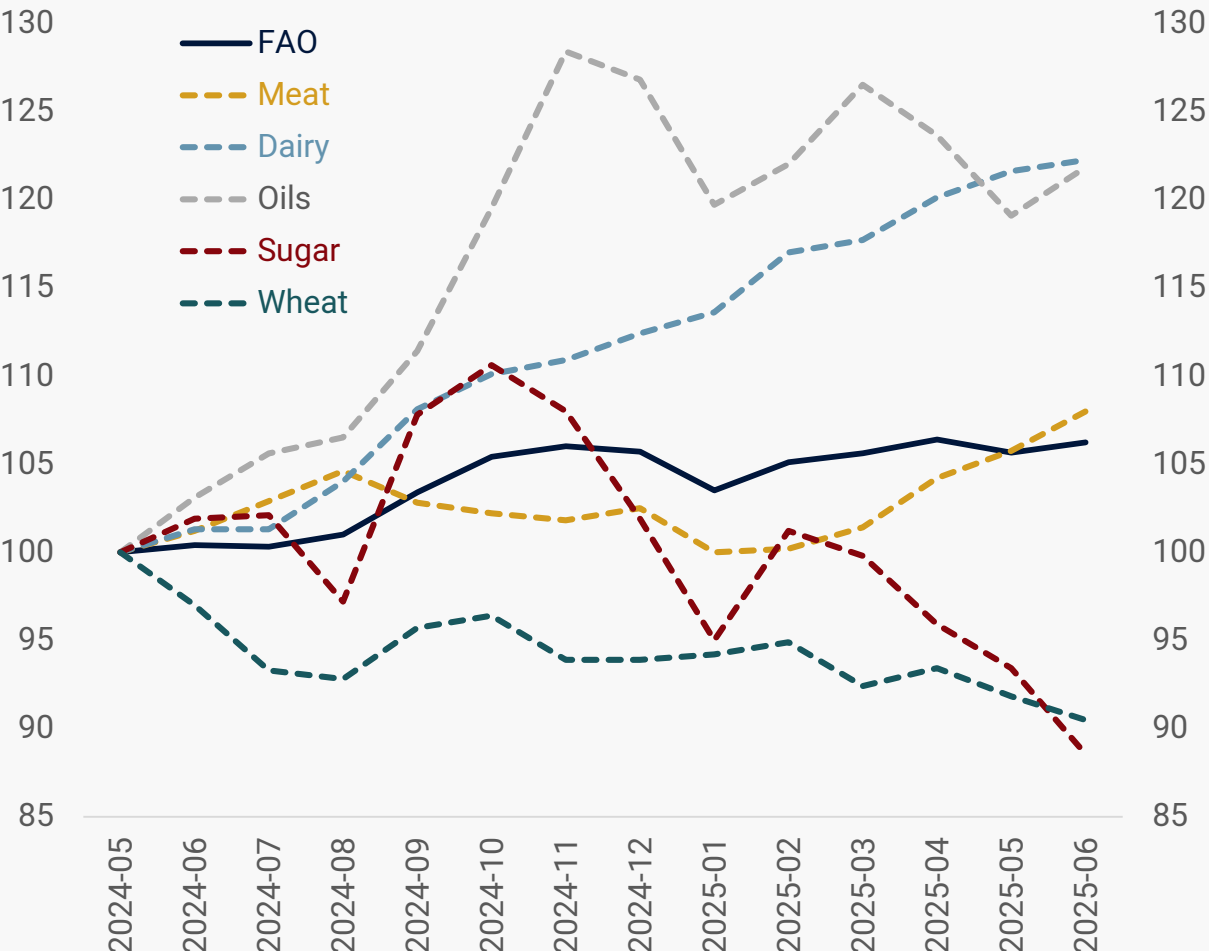
Source: Federal State Statistics Service

Commodity markets: Geopolitical uncertainties and risks stemming from the weaker global economic outlook pose additional risks for prices and its possible volatility, as well as disruptions to supply chains

Following the de-escalation of tensions in the Middle East, oil prices have somewhat stabilized, remaining at a low level



FAO, 2024 May 2024 = 100



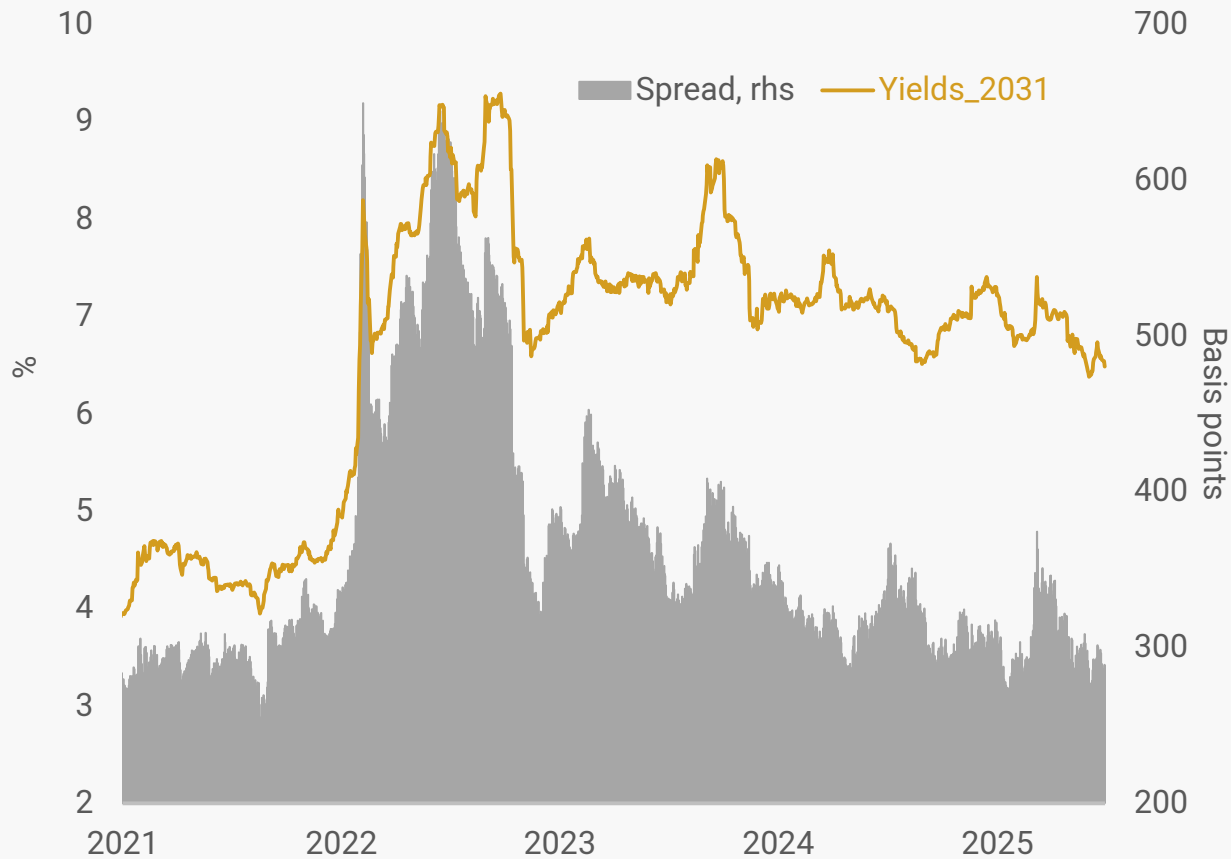


Where is the economy now?

Domestic economic developments in the context of key uncertainties

Risk Premium: Armenia's risk premium continues to remain below the estimated long-term sustainable level

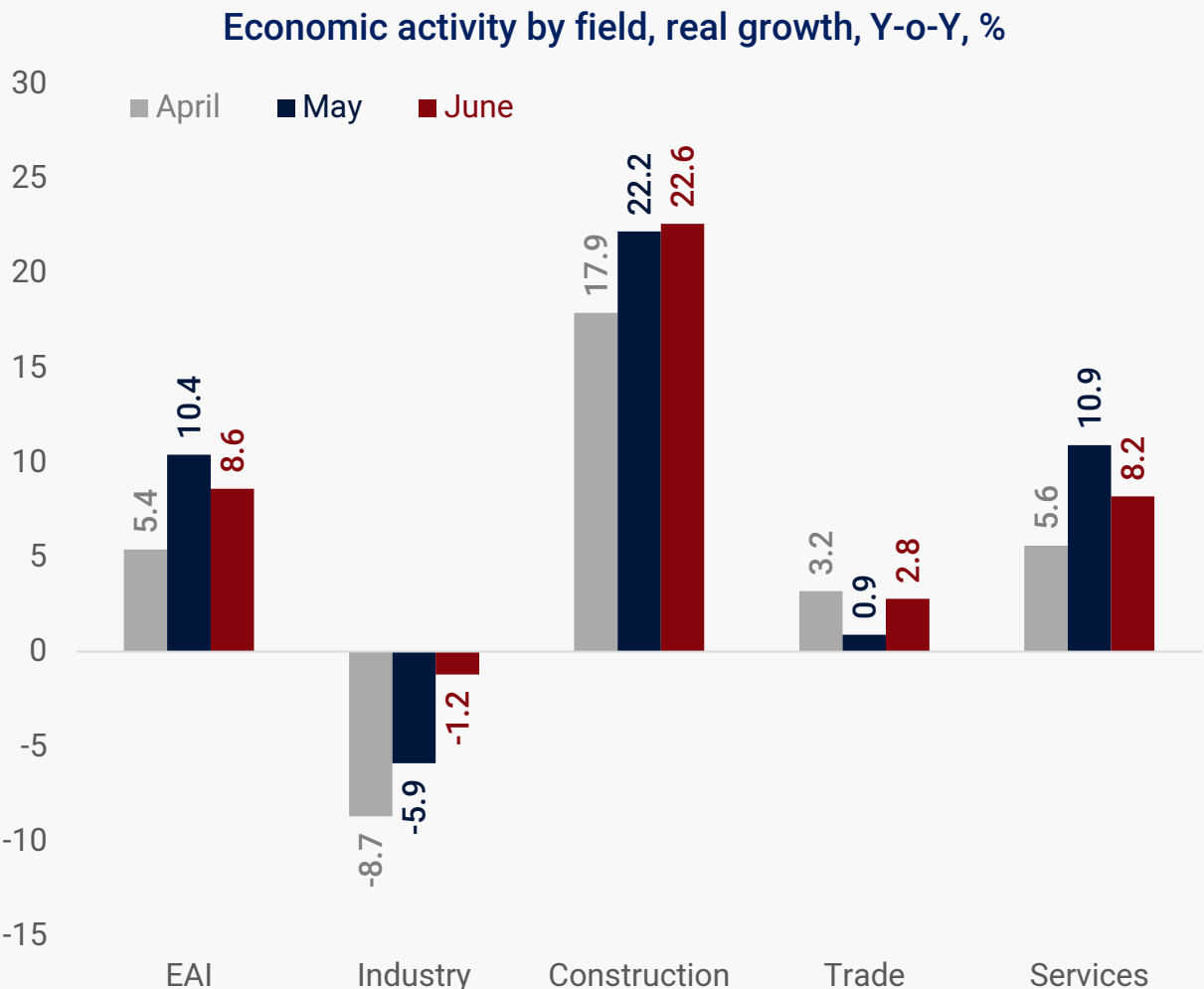
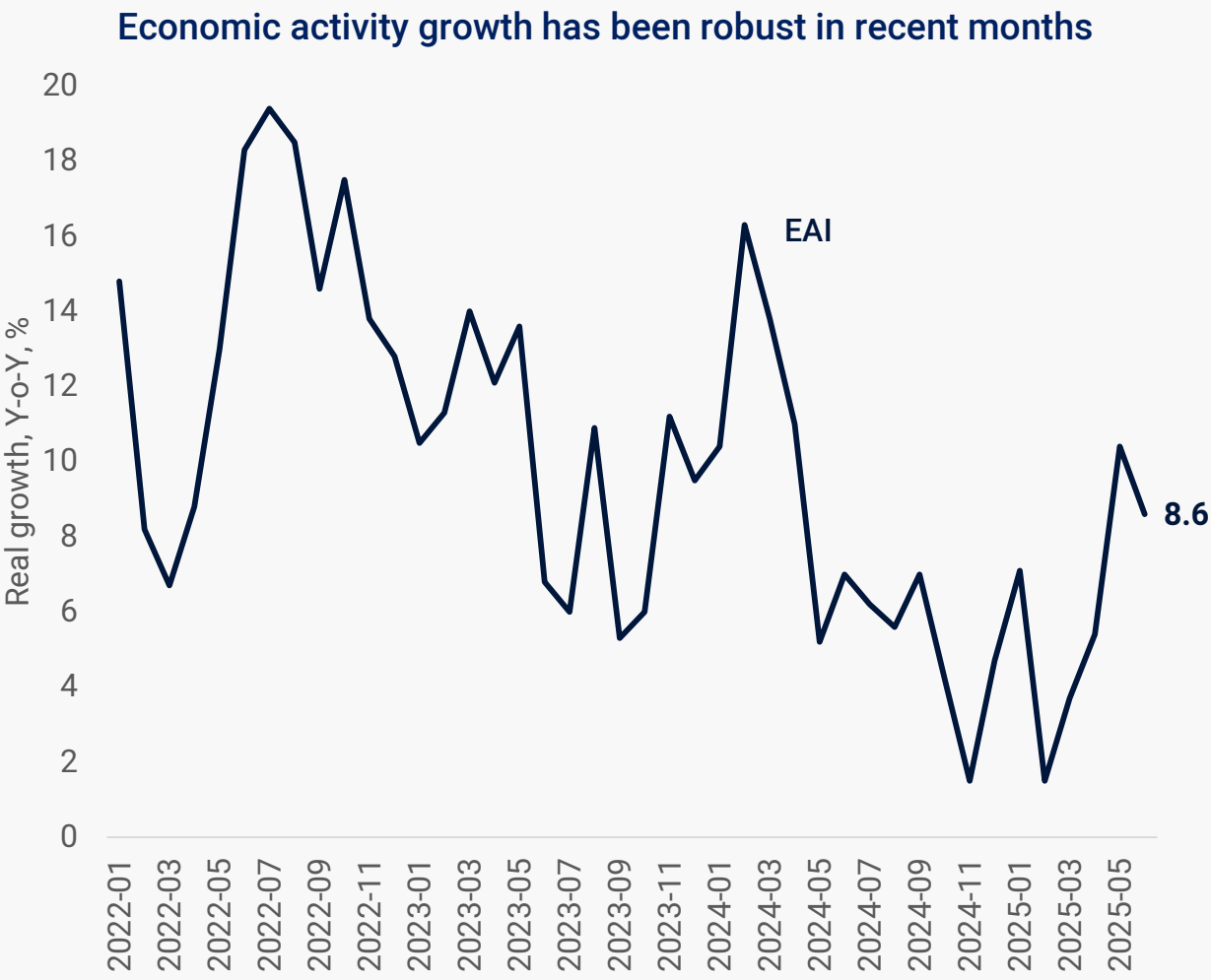
Geopolitical uncertainties pose risks in terms of financial market volatility, including through the potential upward adjustment of the country's risk premium.



The group of emerging market economies has recorded a relatively sharper decline in yields



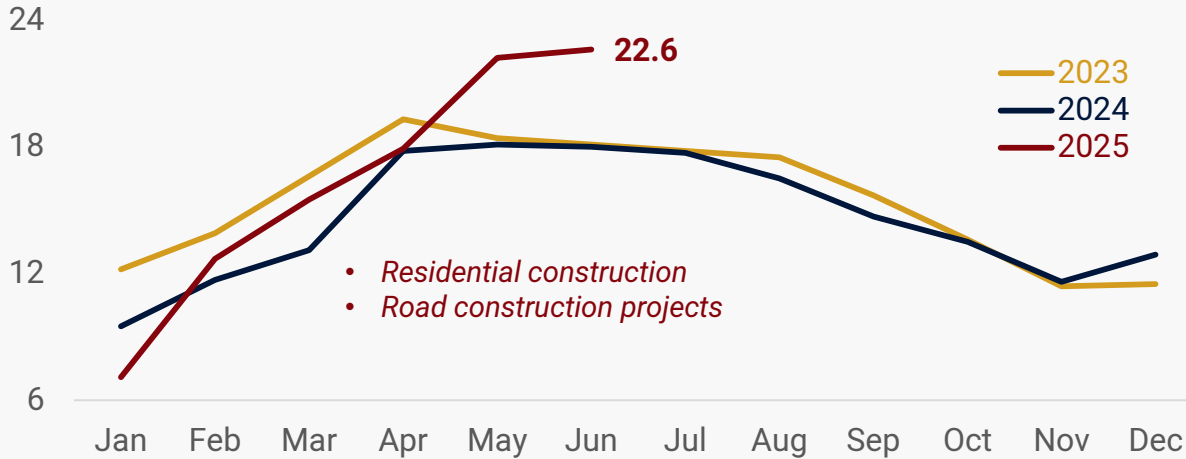
Economic Activity. in recent months, economic activity has increased, primarily concentrated in demand-driven sectors



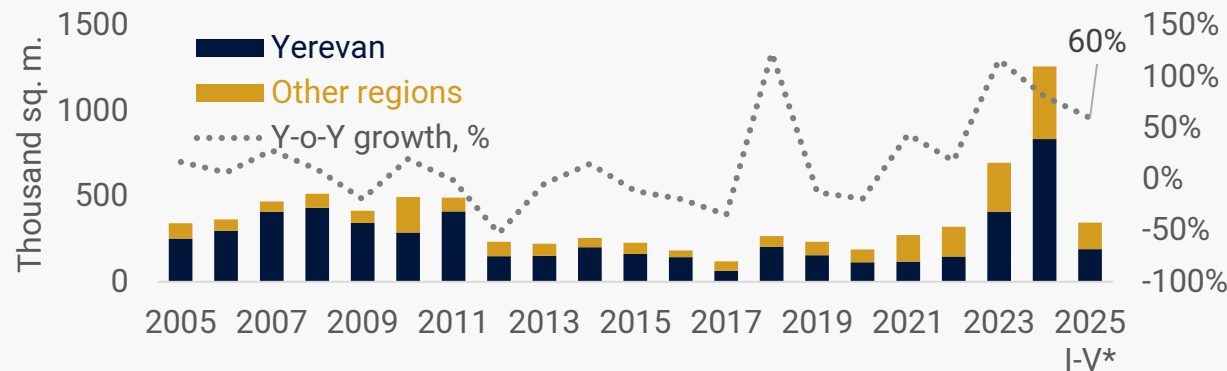
Source: SCRA

Economic Activity. Construction continues to grow at a rapid pace, but a gradual adjustment in real estate prices could result in risks of weakening growth in adjacent sectors, weakening demand, and consequently deflationary pressures

Construction continues to grow at a blistering pace

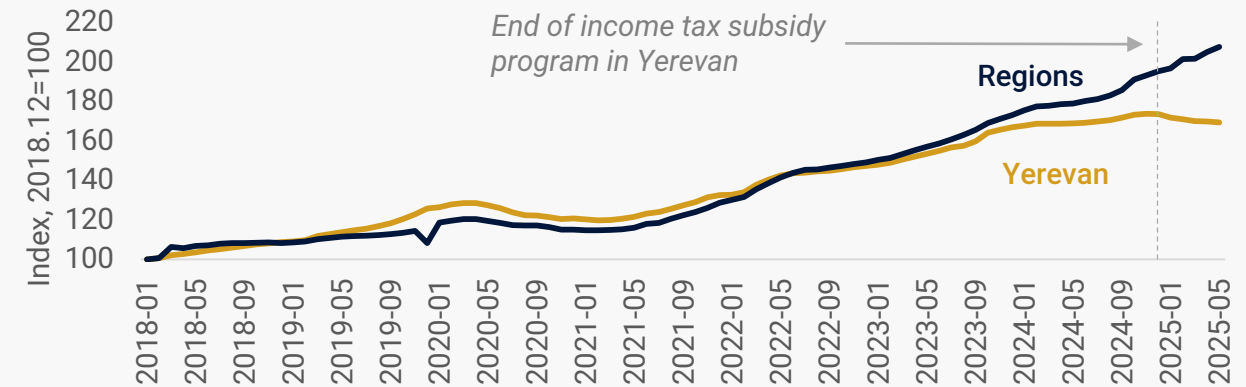


Number of projects reaching completion continues to grow at an accelerating pace

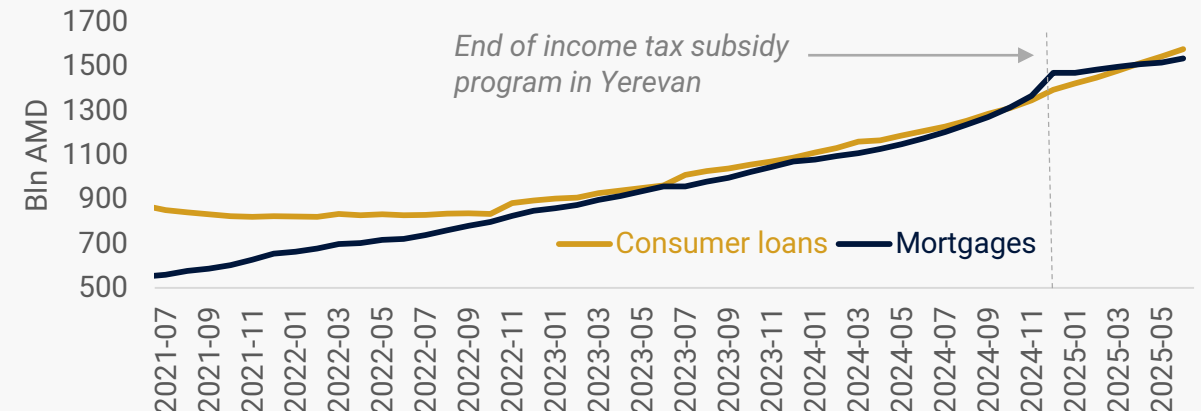


Despite shifts in new supply and demand from Yerevan to regions, risks of oversaturation in the real estate market persist

Multifamily housing price index



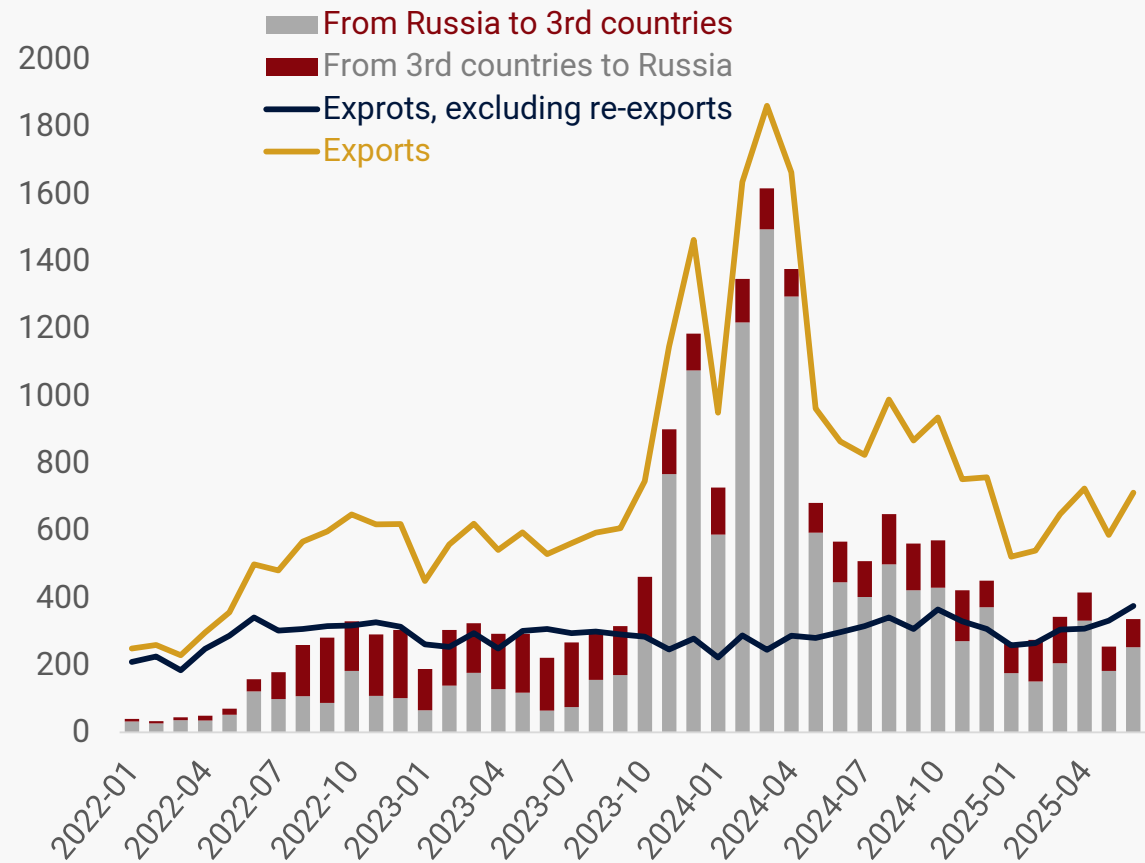
Stock of mortgage and consumer loans



Source: SCRA, CBA, Cadastre Committee, EAEU

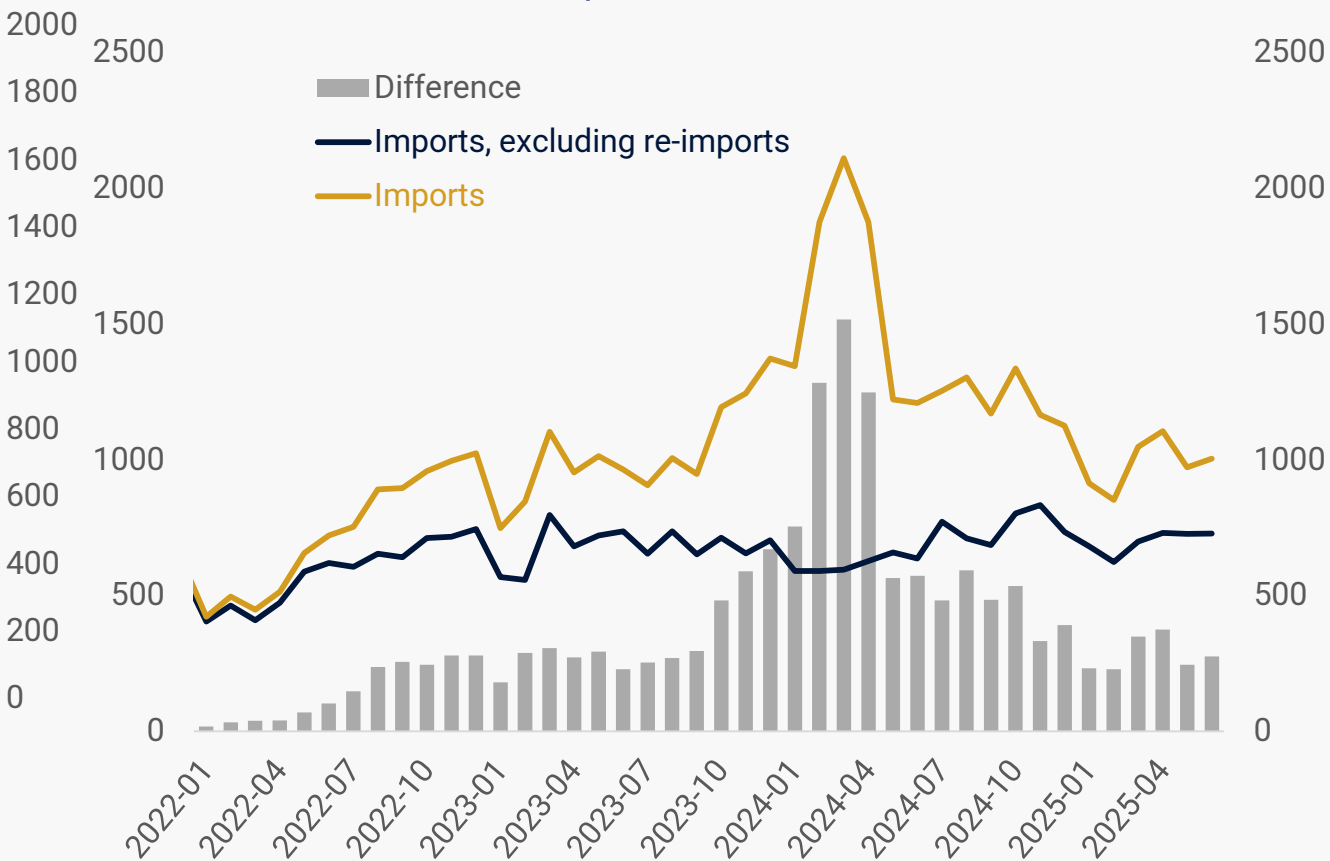
Economic activity. Despite the uptick in flows stemming from external trade in recent months, they continue remain at relatively low levels, and risks to their persistence and sustainability persist.

Exports by Flow Direction, million USD



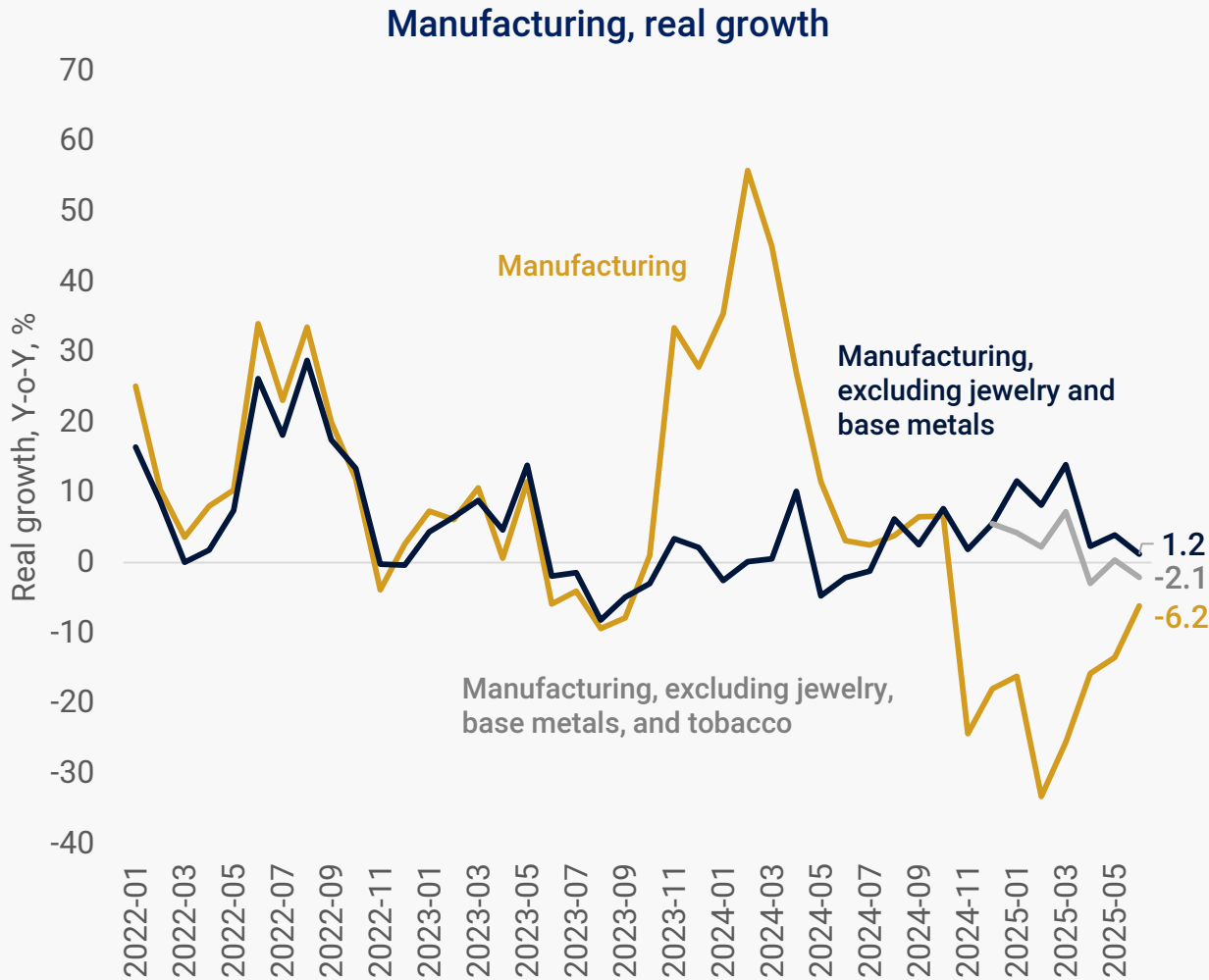
Imports remain at elevated levels, which may indicate that conditions of strong domestic demand persist.

Imports, million USD



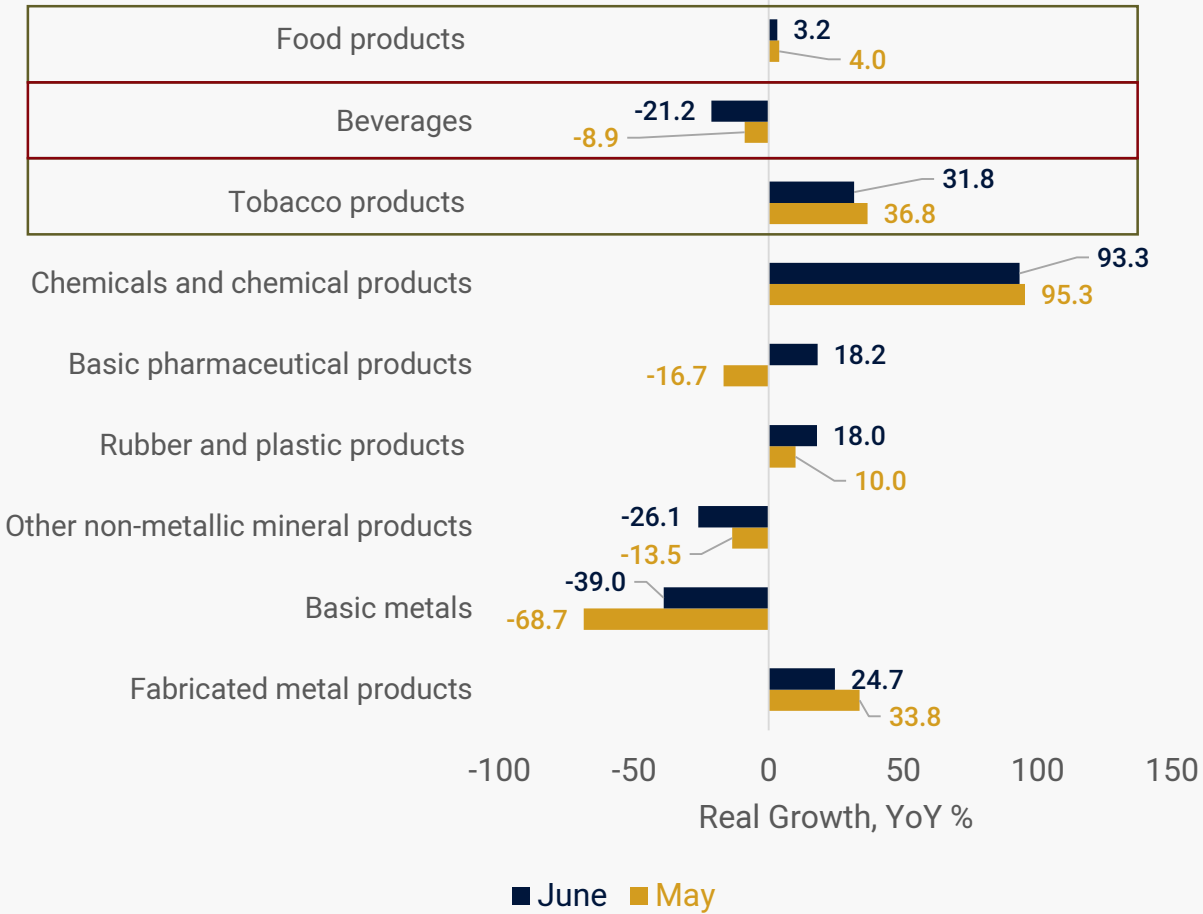
Source(s): RA Statistical Committee, CBA

Economic activity. A certain slowdown in growth is being observed in the traditional sub-sectors of manufacturing, likely due in part to some short-term, non-structural factors



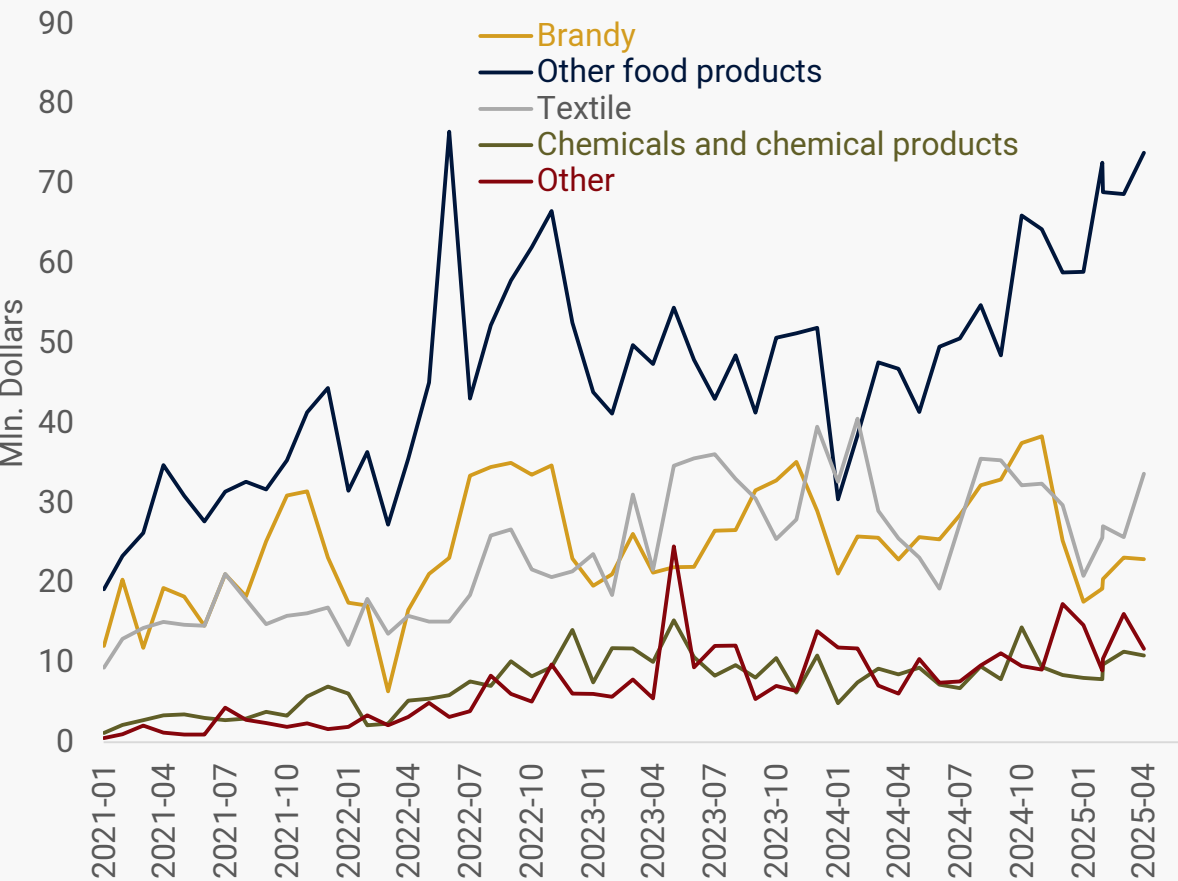
Source(s): RA Statistical Committee

The strong growth in tobacco manufacturing persist contributing to the overall expansion of manufacturing



Economic activity. Despite the marked slowdown in brandy exports, key subgroups remain strong, while continued growth in lending and investment goods imports signals a stable sector outlook

Key export subgroups (excluding brandy) remain at elevated levels, with no significant shifts observed in other subgroups.

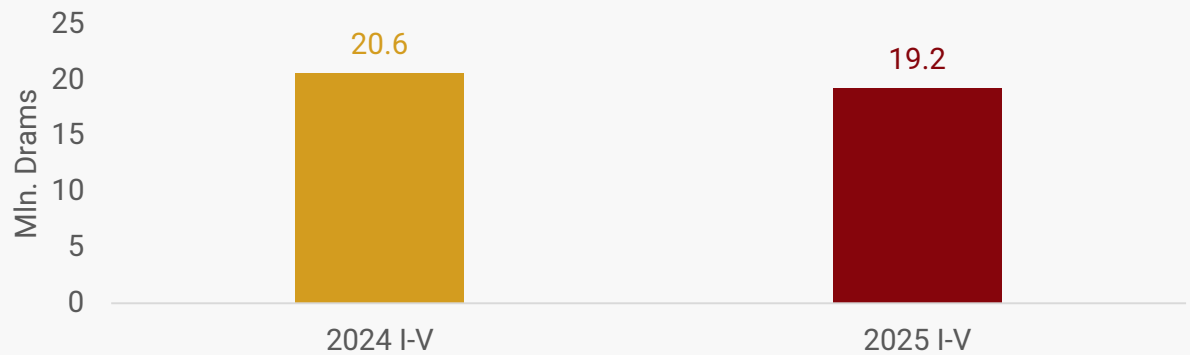


Source(s): RA Statistical Committee, CBA

Rising Manufacturing Credit Volumes Signal Confidence in the Sector's Stability

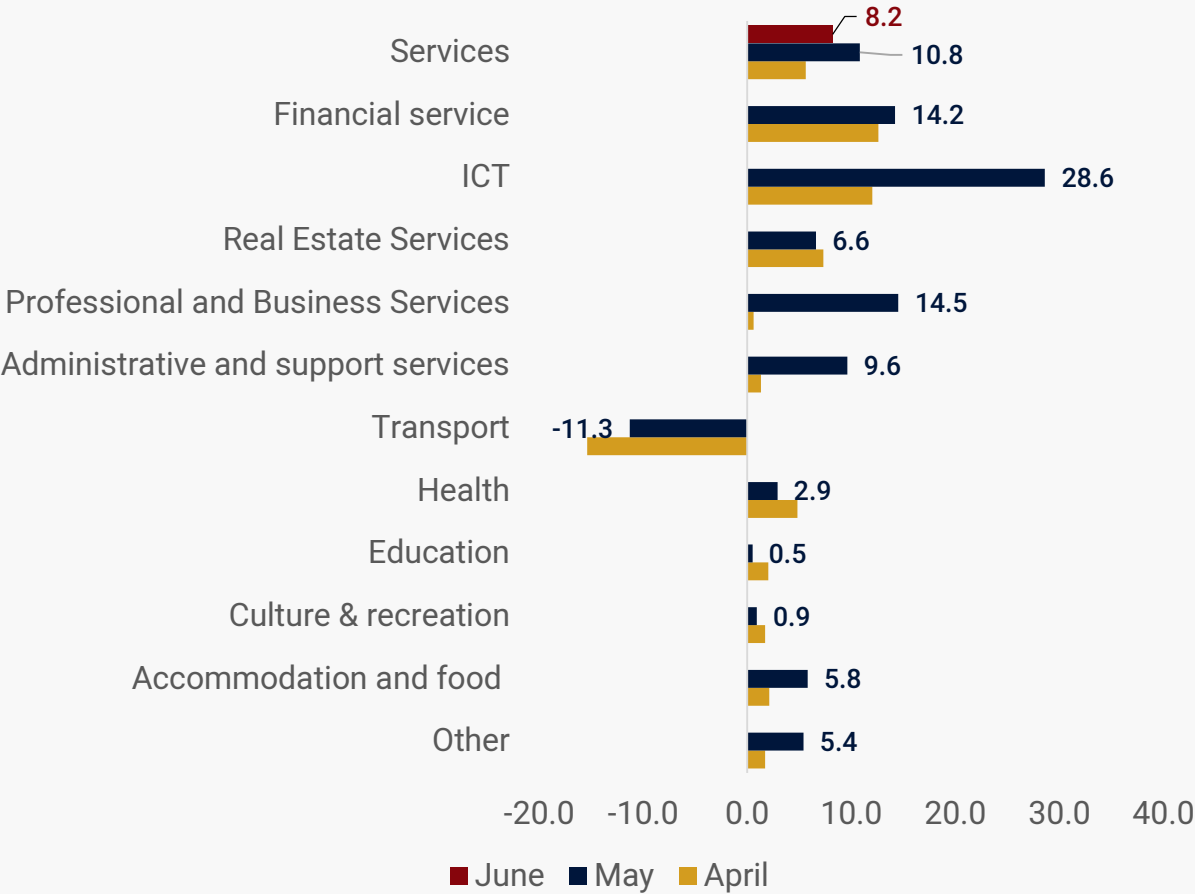


Import volumes of investment goods for the food, beverages, and tobacco products sub-sectors remain steady



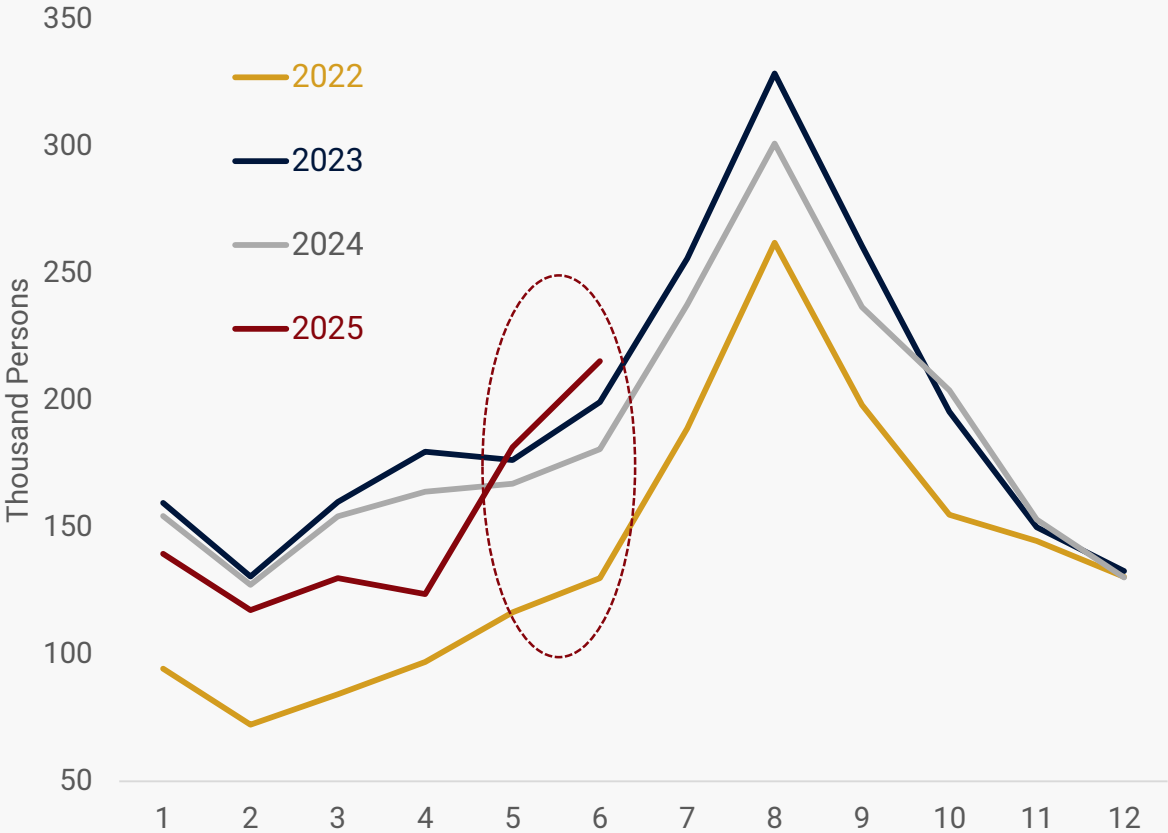
Services: Financial and IT subsectors remain the main drivers of services sector, while the revival of tourism flows is accompanied by growth in the output of other sub-sectors

High economic activity in the services sector persists.



Source: SCRA

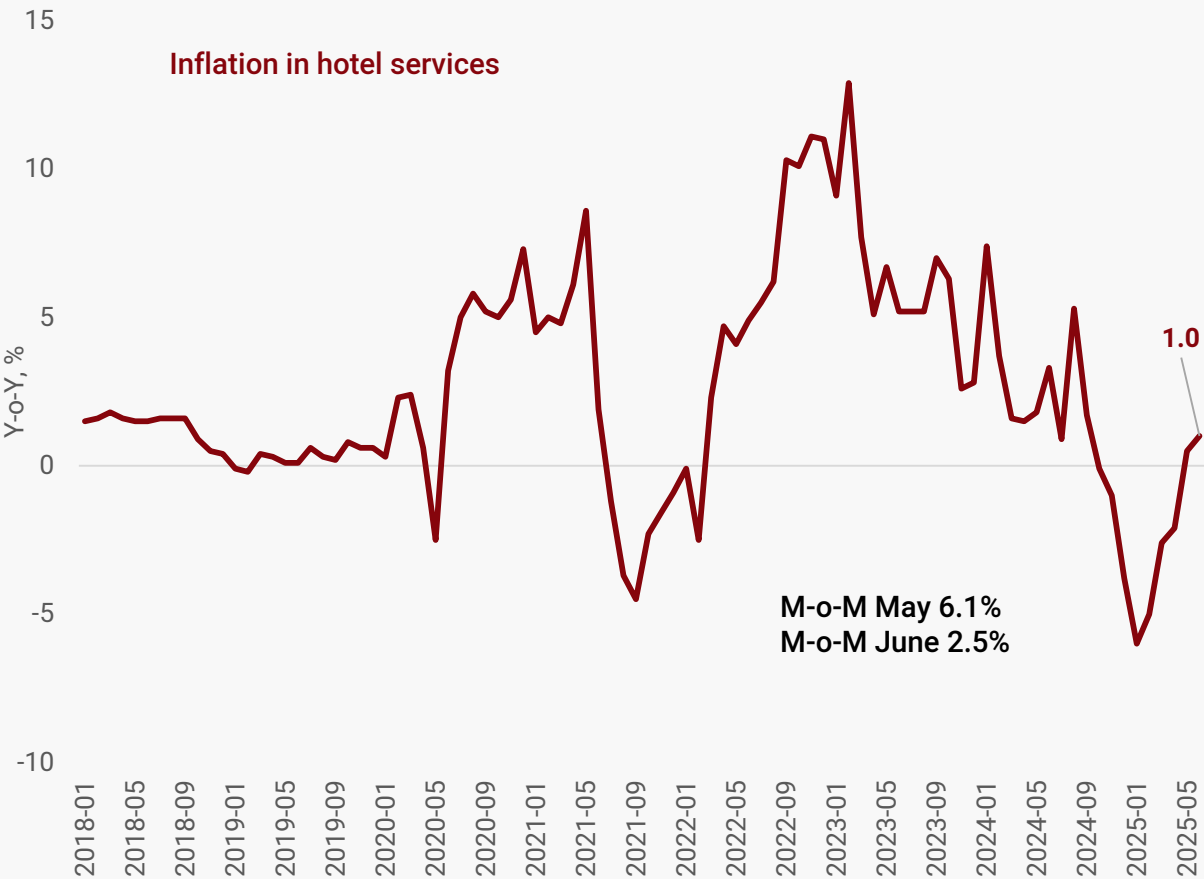
Although the flow of tourists arriving in Armenia had significantly declined in the first months of 2025 compared to 2023–2024, a sharp acceleration was observed in May–June.



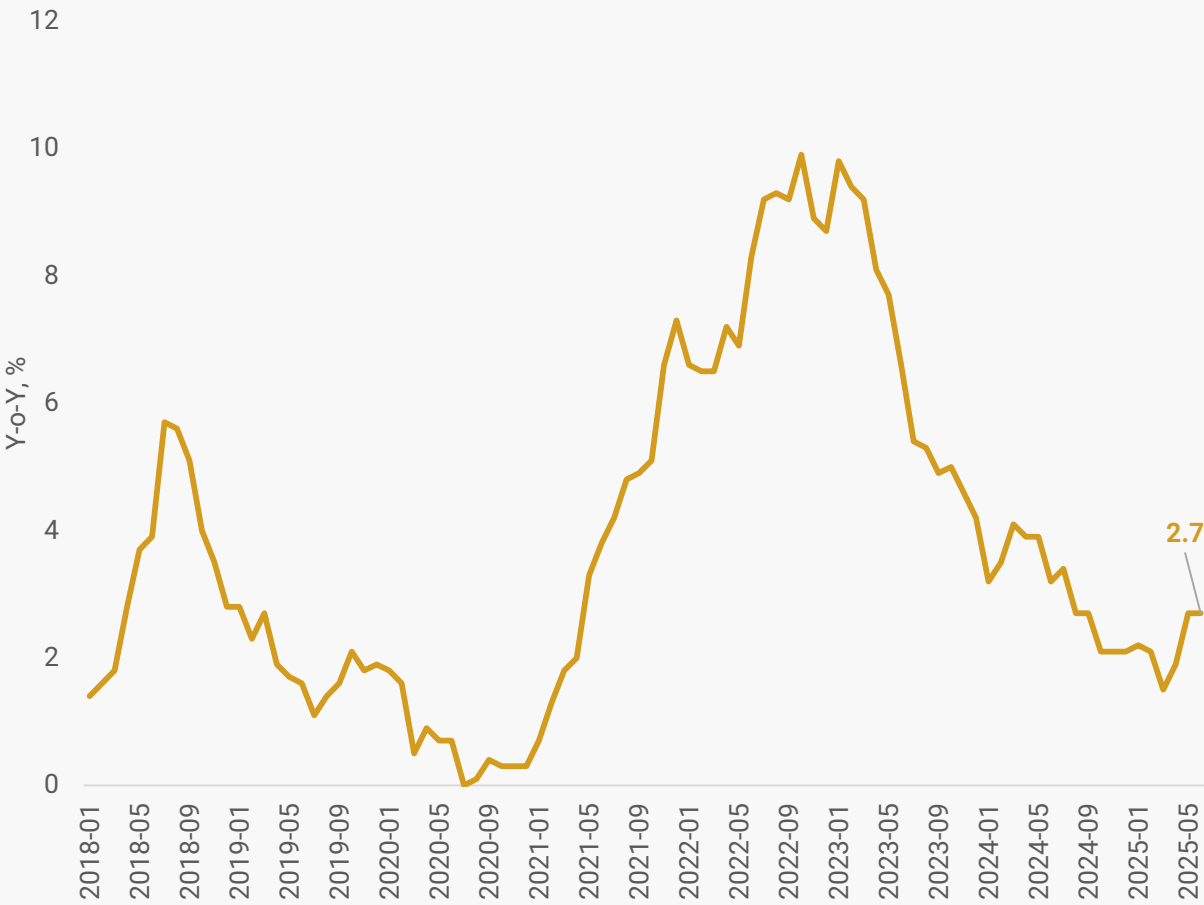
Source: Tourism Committee of RA,

Aggregate demand: Alongside the intensification of the tourism season, a certain acceleration in services inflation has been observed, driven by both external and domestic demand factors

Inflationary trends are being recorded in certain services driven by external demand



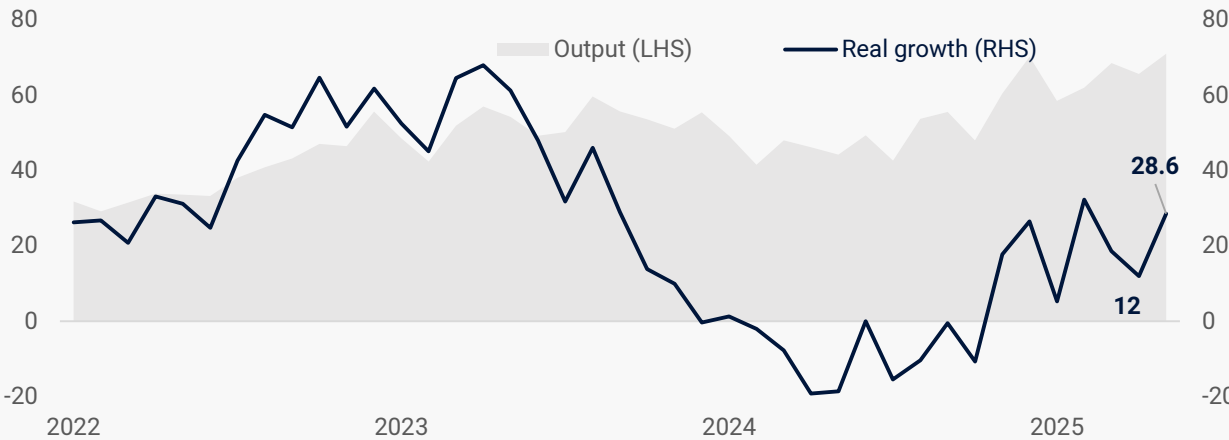
Inflation in restaurant services, Y-o-Y %



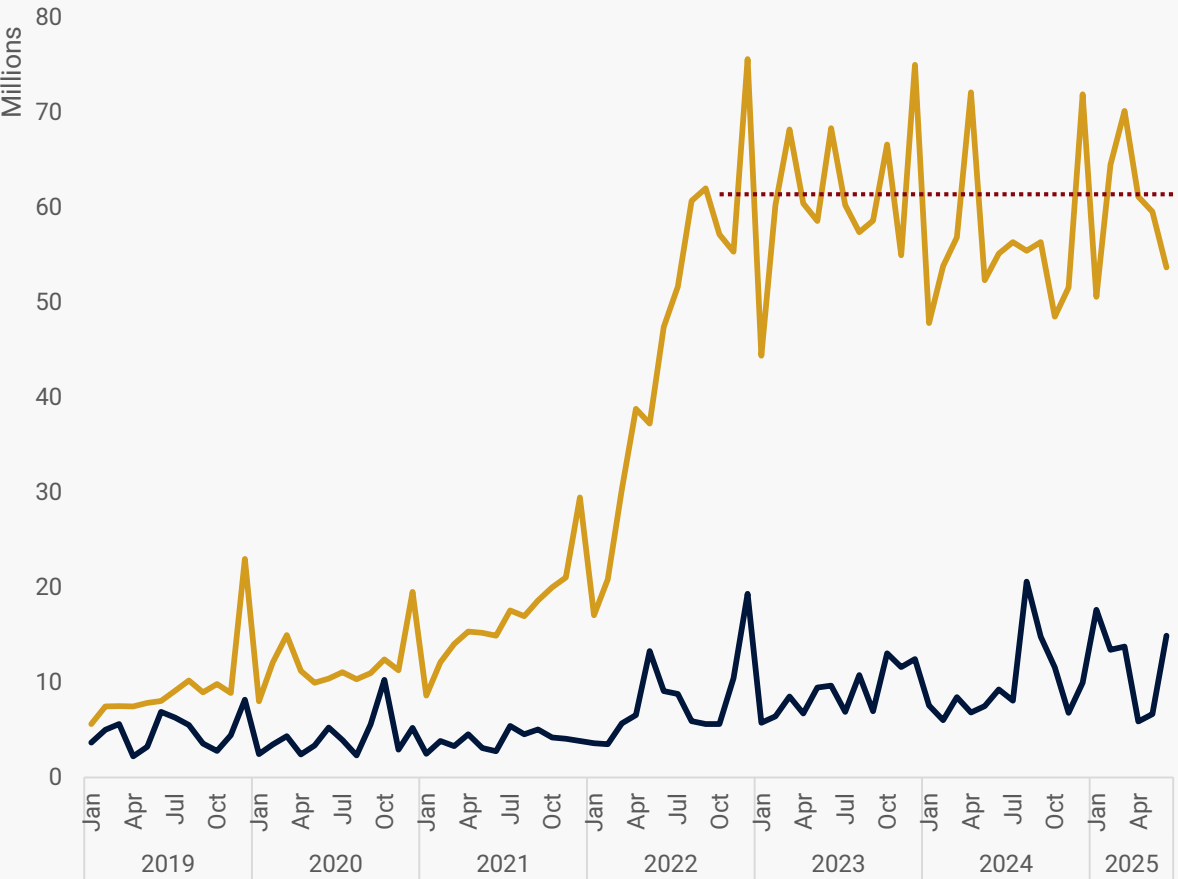
Source: SCRA

Economic Activity: Despite the high growth recorded in the ICT sector, employment and wage growth in the sector do not exhibit similar acceleration trends, which may suggest that no additional capacities have been formed in the sector in recent months.

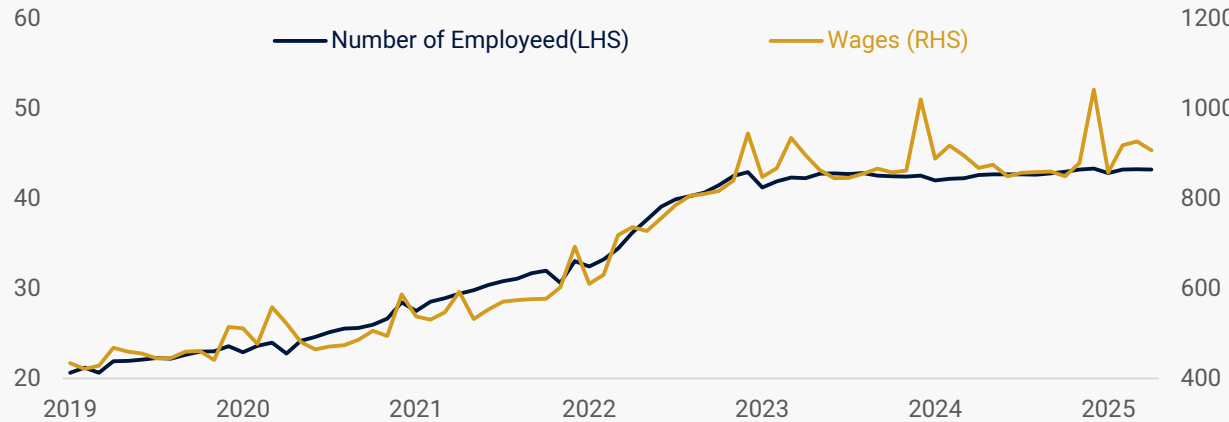
ICT sector output & real growth



Currency transactions in the IT sector have somewhat recovered after the slowdown in 2024, but they do not exceed the 2023 levels.



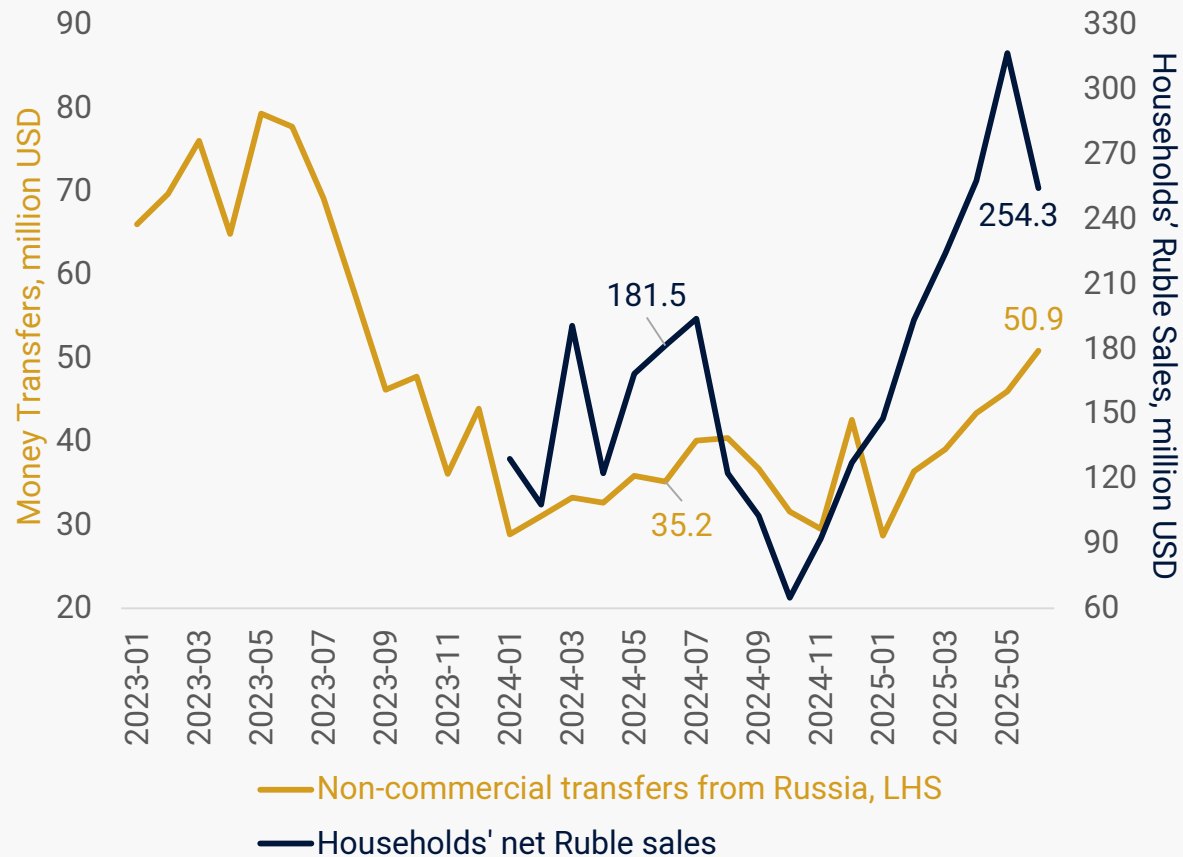
Number of employees and wages in the ICT sector



Source: CBA, SCRA

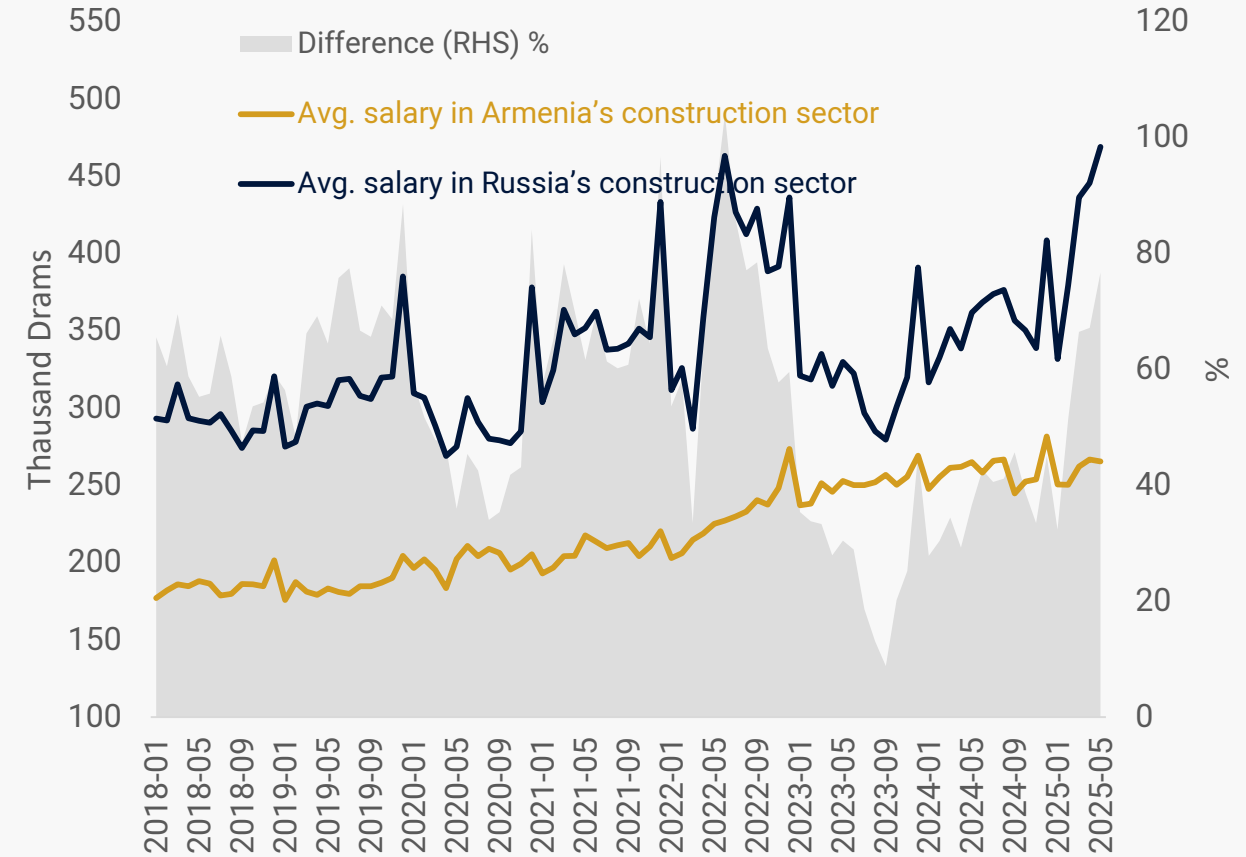
Aggregate Demand. Uncertainties persist regarding seasonal migration trends to Russia and remittance channels

Recently, both ruble conversions by individuals and commercial transfers have increased significantly.



Source(s): CBA

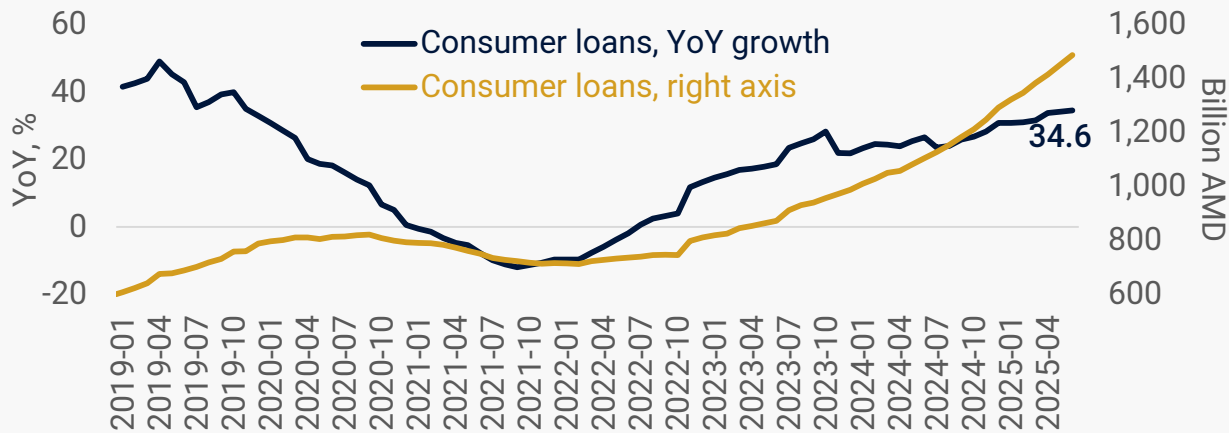
Risks of increased labor migration to Russia would increase in the event of persistence and further appreciation of the Ruble



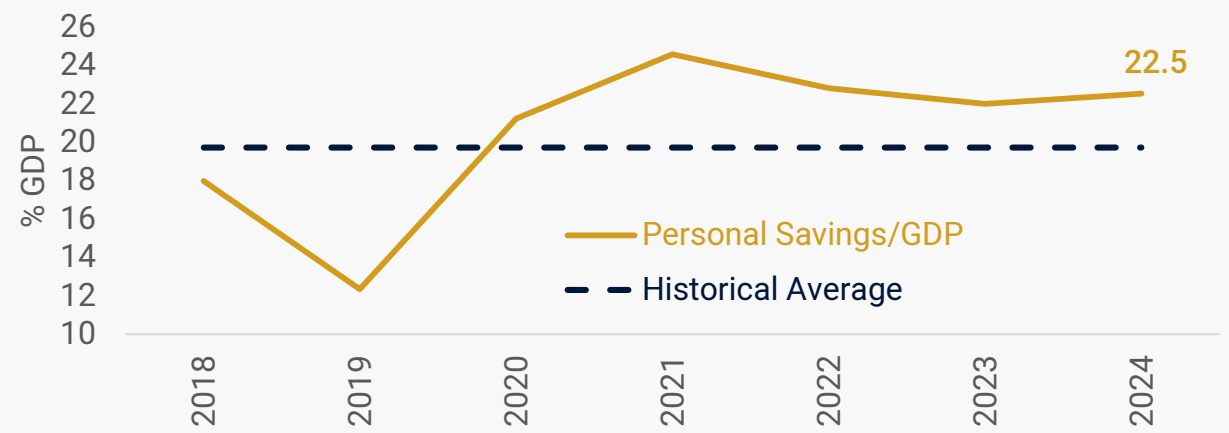
Source(s): RA Statistical Committee, Rosstat

Aggregate demand: Credit growth rates remain elevated, and the continued utilization of accumulated private savings poses risks of further demand expansion

High lending volumes persist, reflecting the relatively strong position of domestic demand

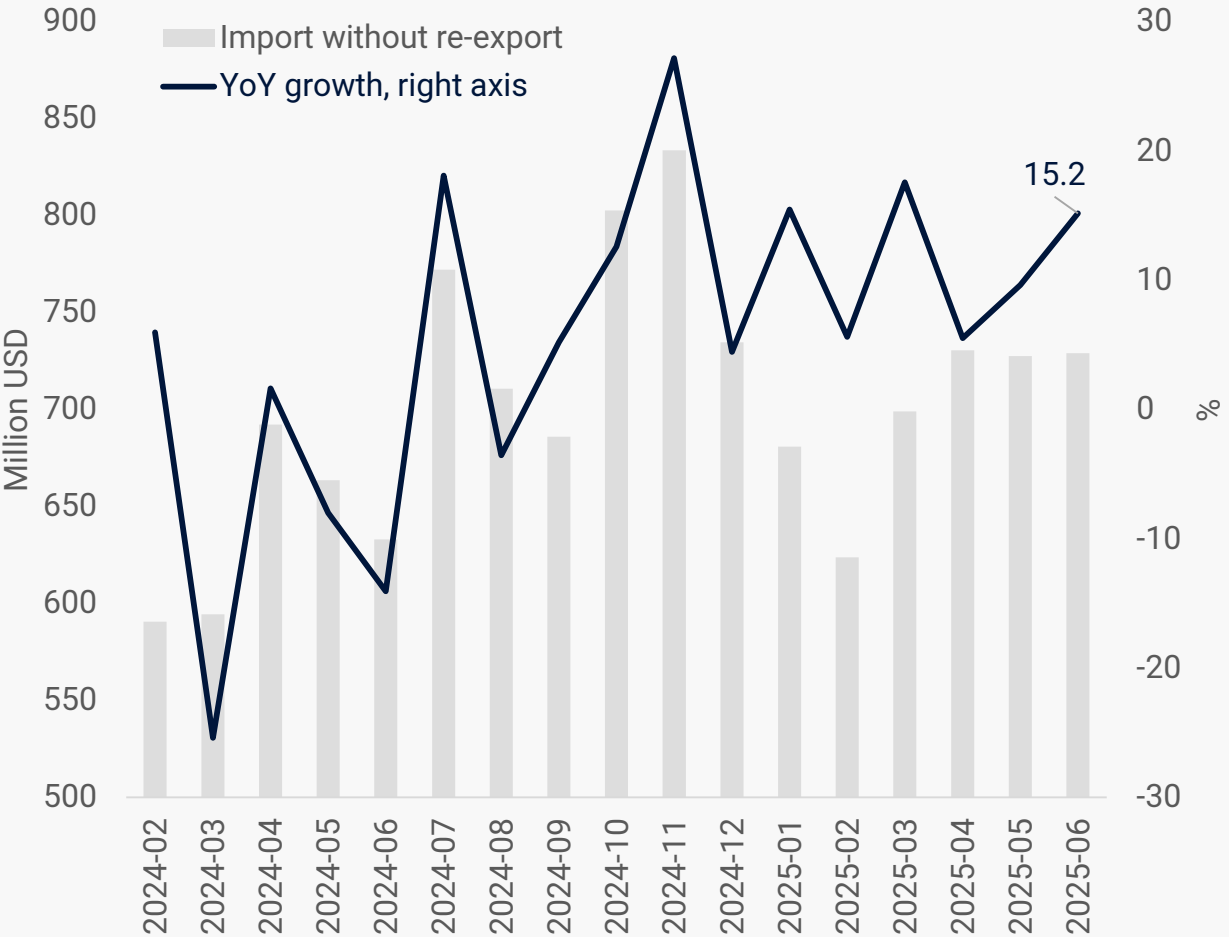


There are uncertainties regarding the allocation of savings



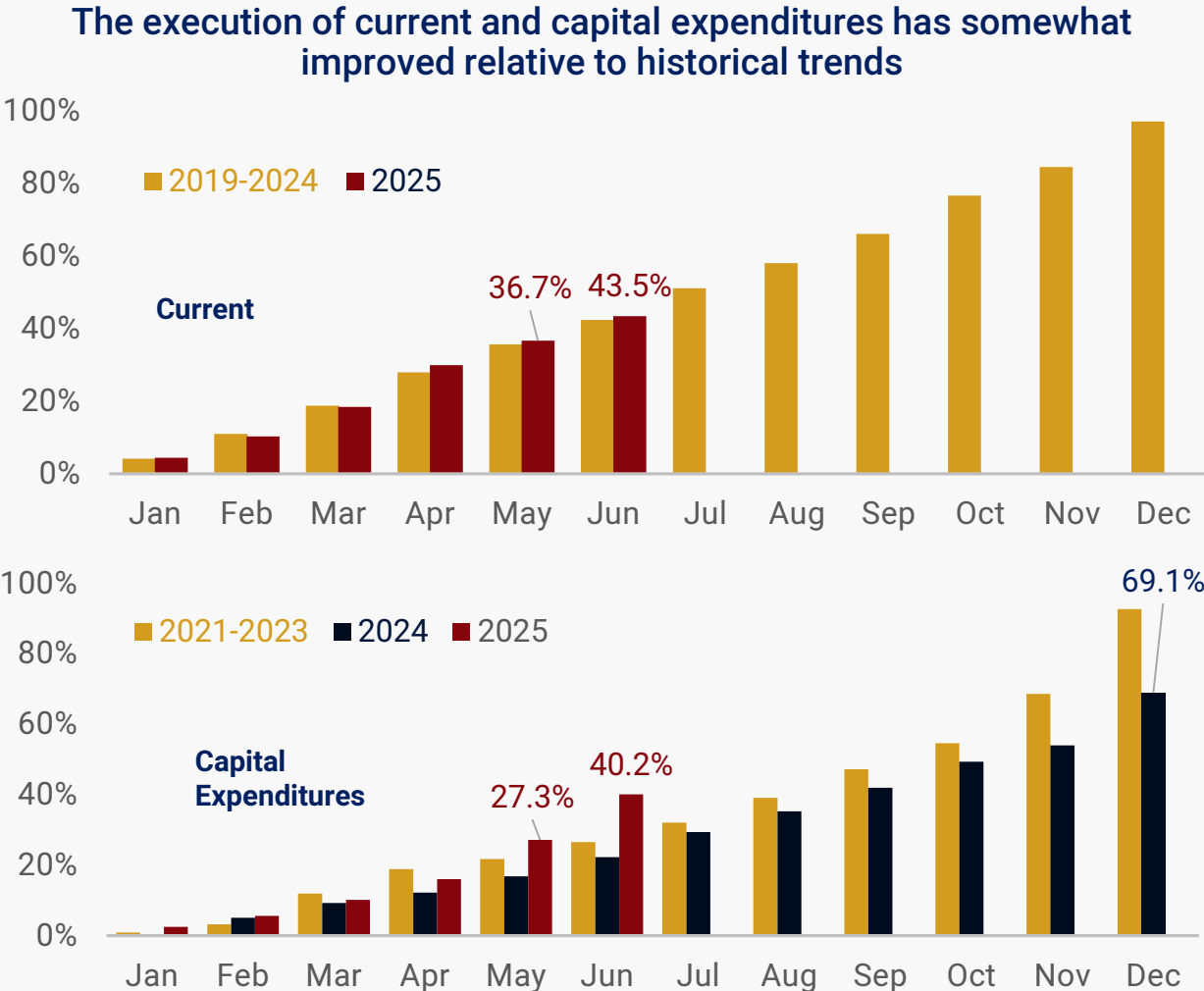
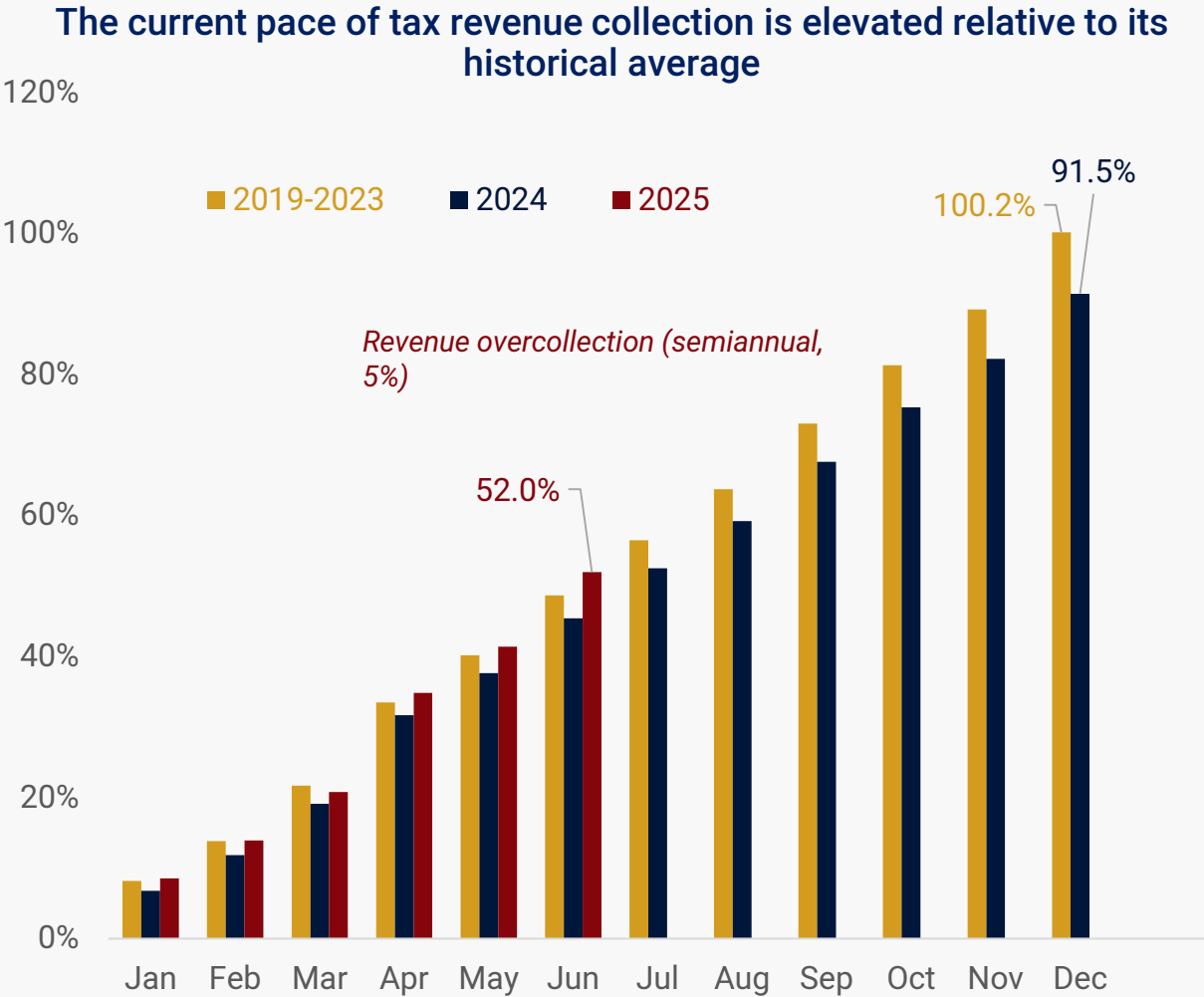
Source: Statistical Committee of the Republic of Armenia; CBA

Import growth for personal consumption continues to remain at elevated levels



Source: Statistical Committee of the Republic of Armenia

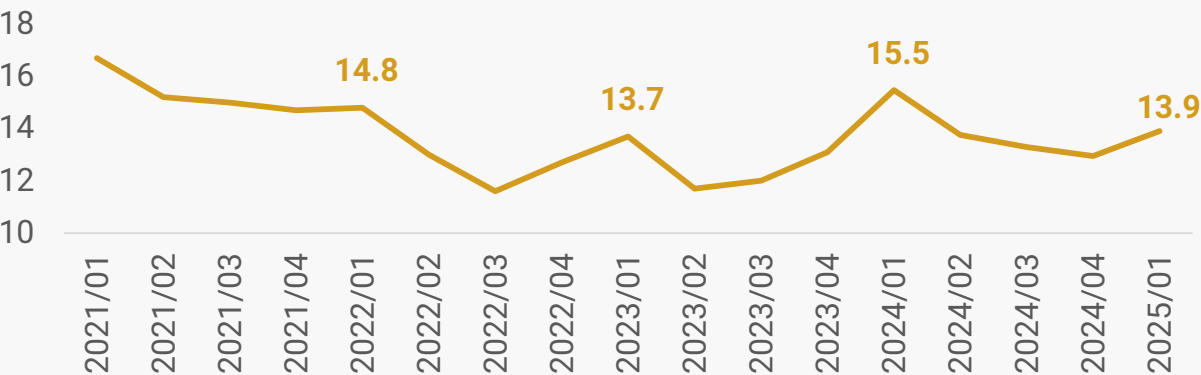
Fiscal Policy: Uncertainty around fiscal policy remains elevated, reflecting the risks of revenue overcollection coupled with under-execution of expenditures, particularly in capital spending



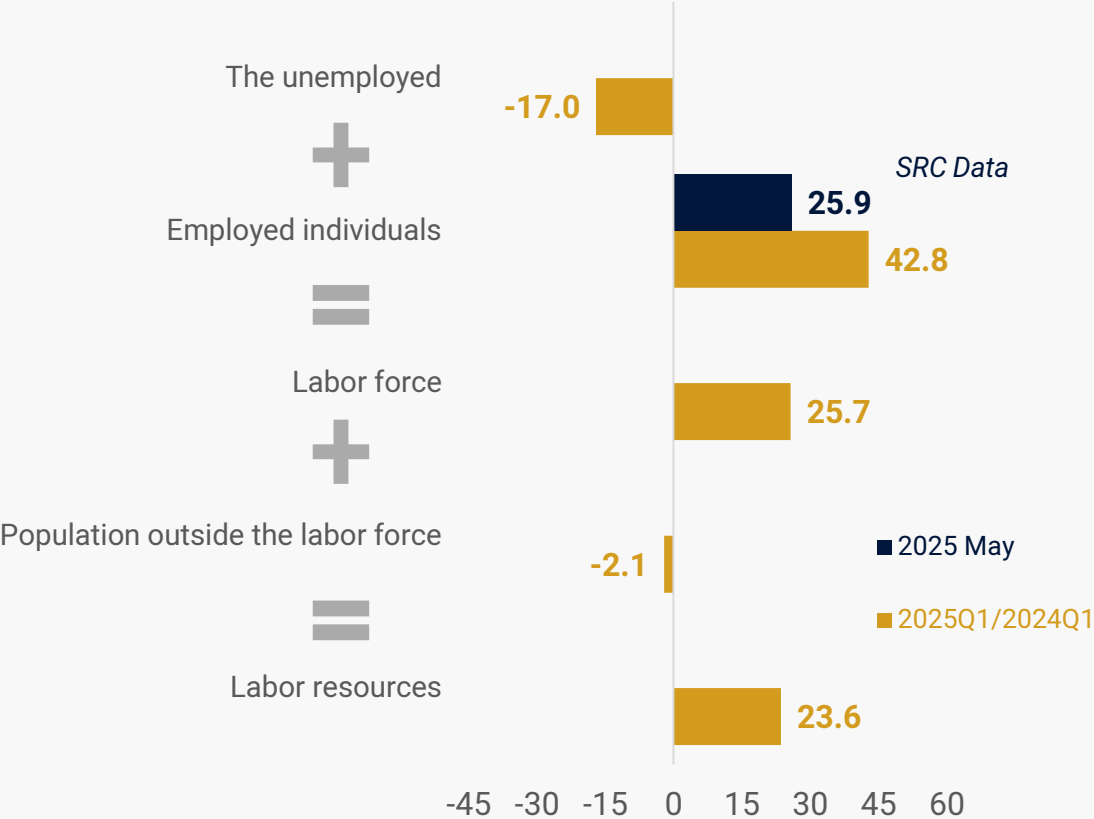
Source: Ministry of Finance of Armenia

Labor market: Uncertainty surrounding labor market conditions persists

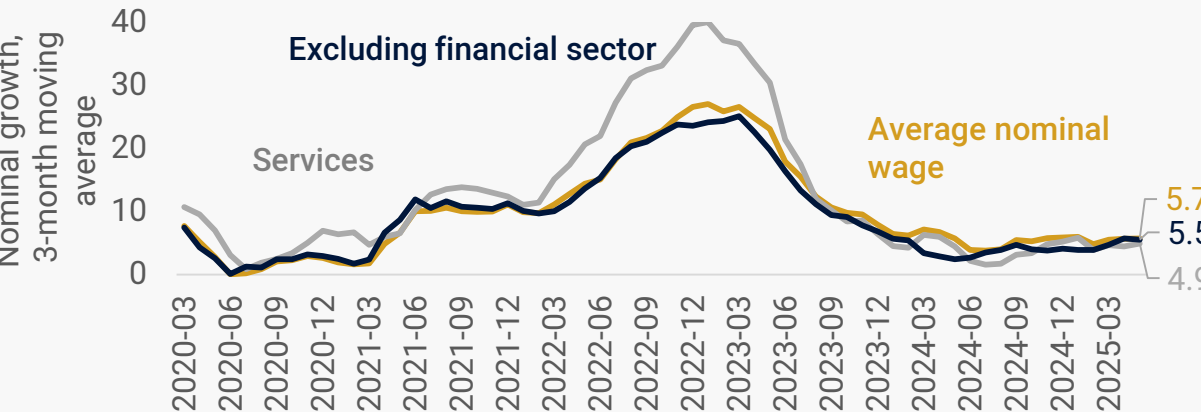
Although the unemployment rate somewhat increased in line with seasonal trends, it still remains at relatively low levels.



The number of unemployed individuals has decreased, while the employed has increased, which may indicate that demand conditions remain strong.



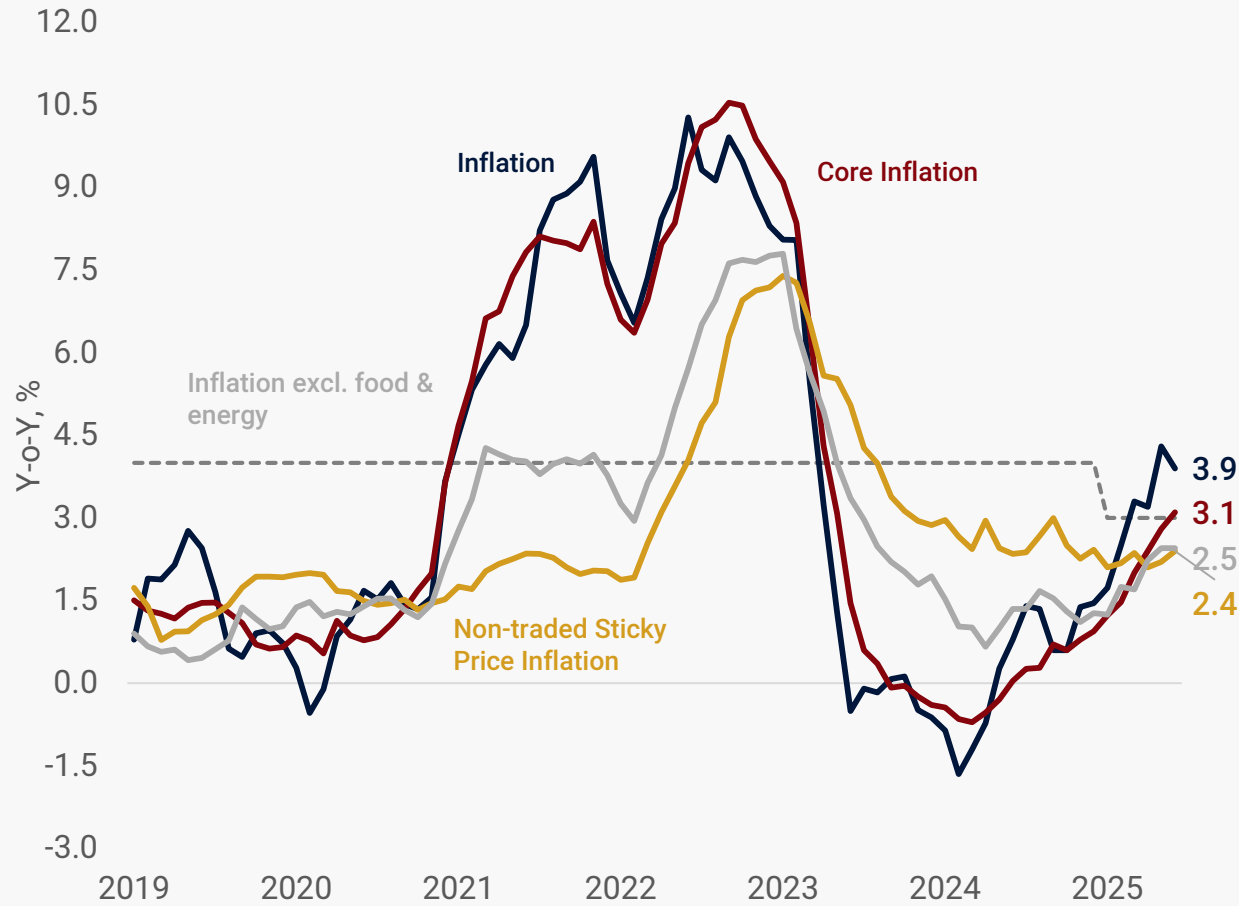
Wage growth continues to stabilize around 5-6% Y-o-Y, while the concentration of growth has significantly declined.



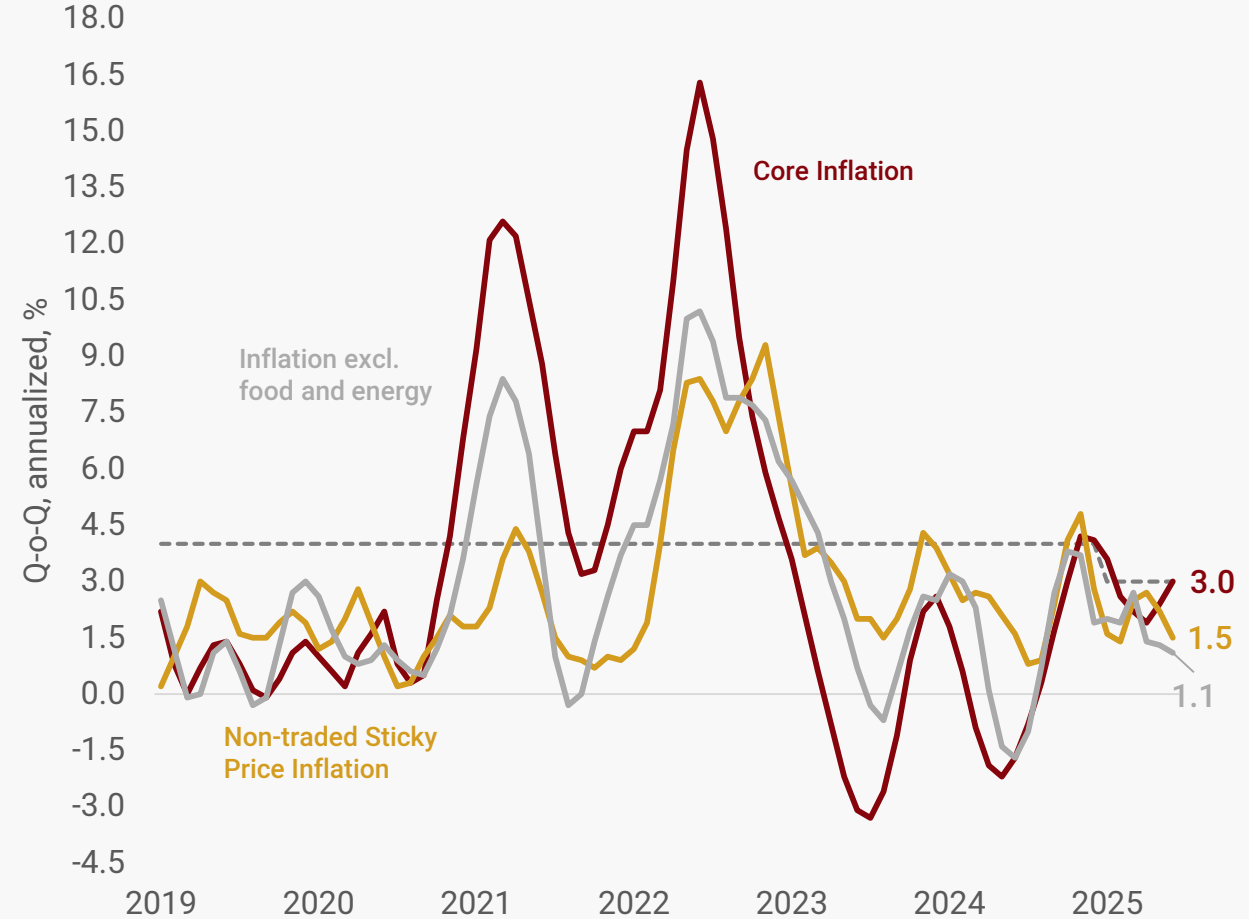
Source: Armstat

Inflation. Y-o-Y inflation rate continues to be influenced by high inflationary effects from a limited number of goods, as well as by inflationary pressures transmitted from the global economy

Inflation & Underlying inflation measures, Y-o-Y, %

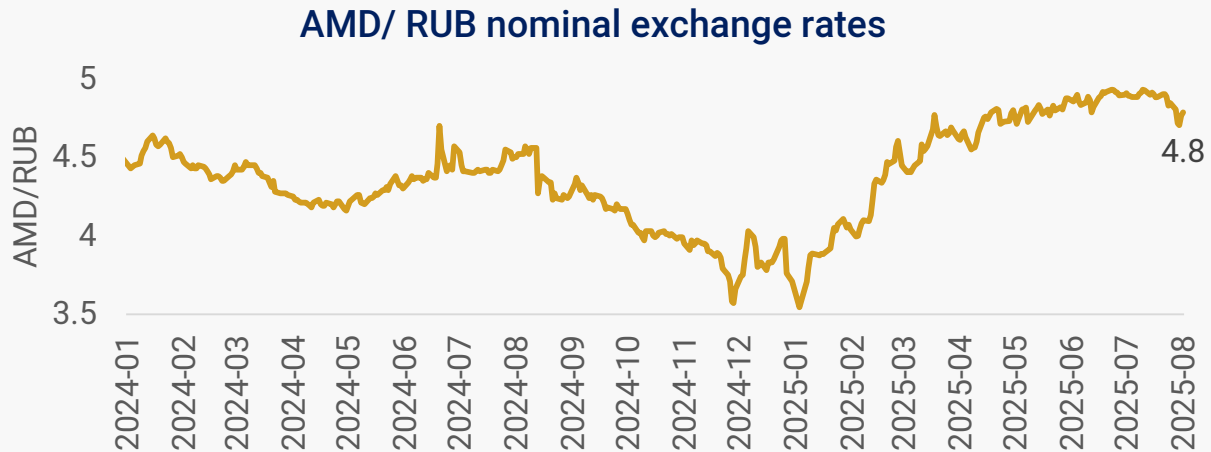
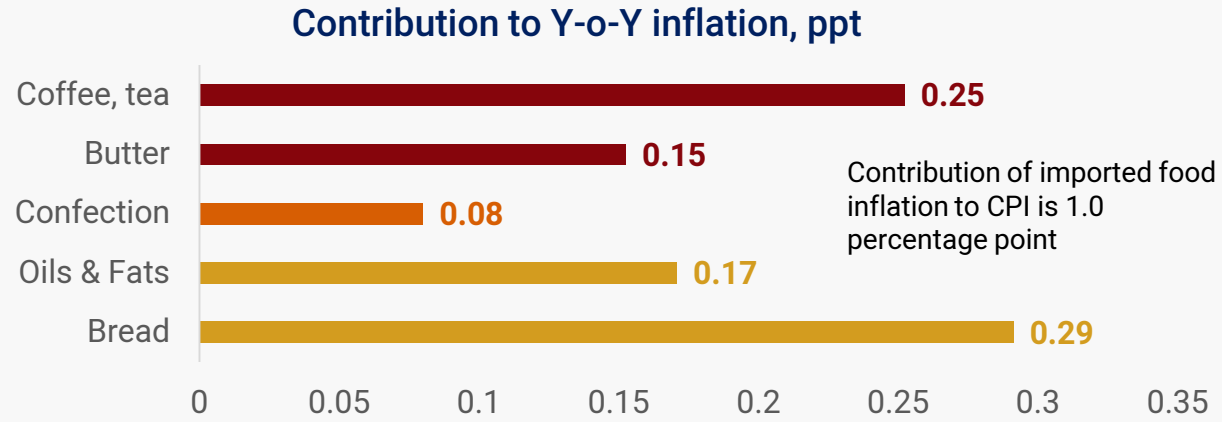
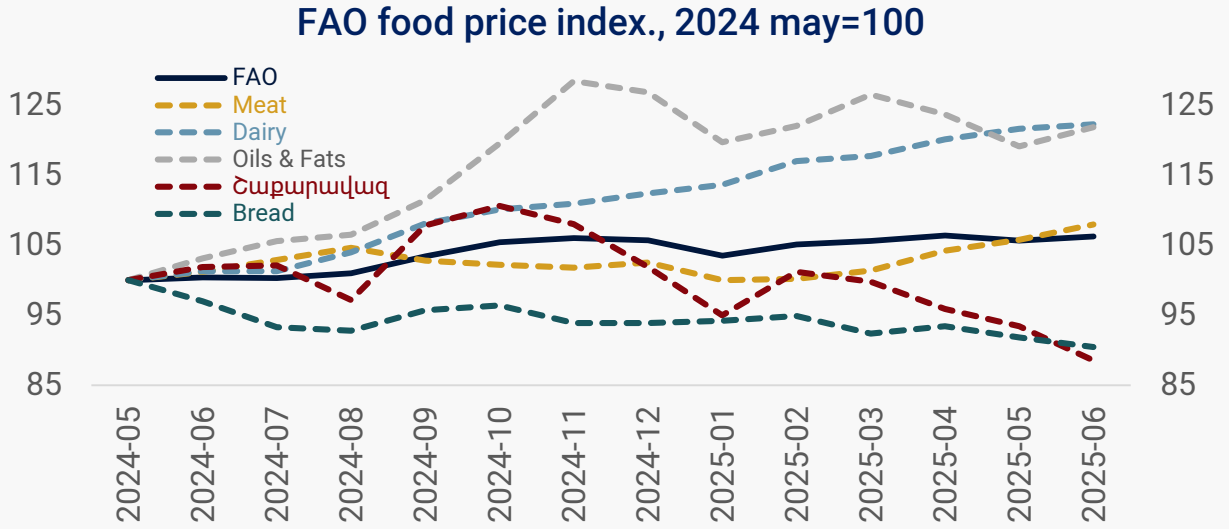
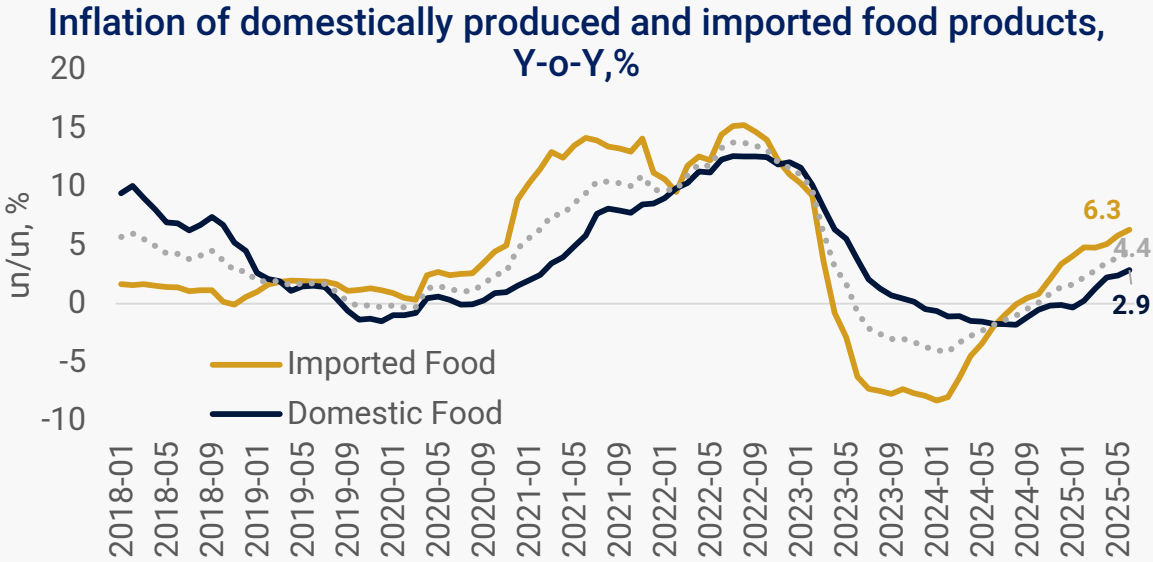


Underlying inflation measures, Q-o-Q annualized, %



Source: CBA, SCTA

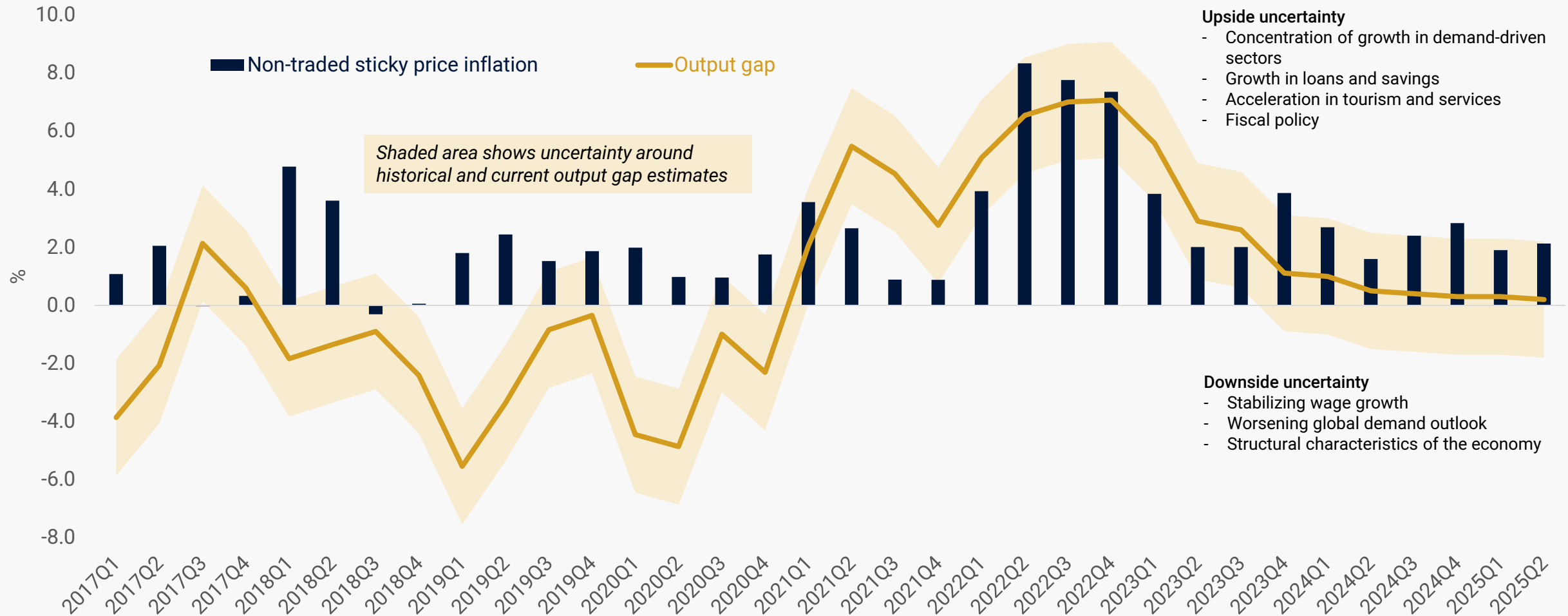
Inflation. Inflationary pressures transmitted from the global economy have intensified in recent months. The persistence of such trends in the near future could become one of the main sources of inflation acceleration risk



Source: SCRA; CBA calculations

Output gap. Although imbalances between aggregate supply and demand have decreased in recent quarters, recent developments could point to risks of excess demand conditions forming

Output gap and underlying inflation



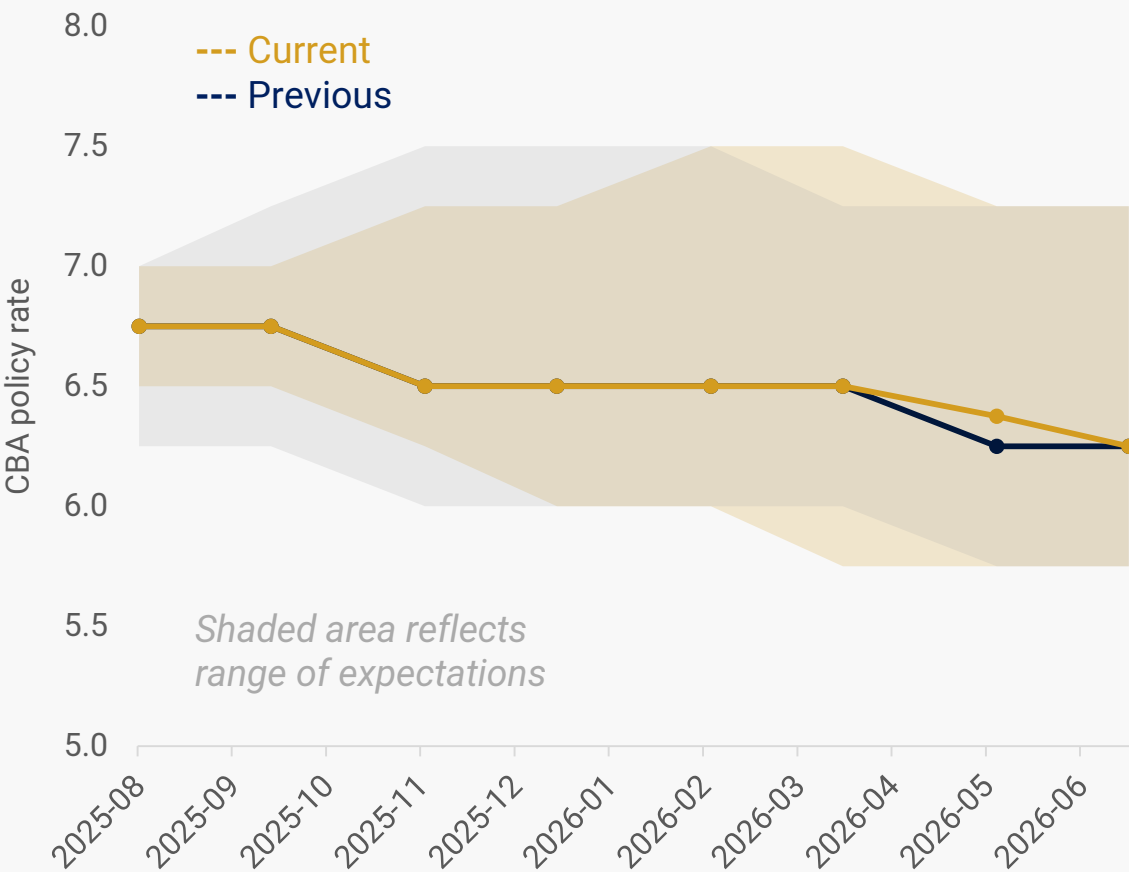
Source: CBA



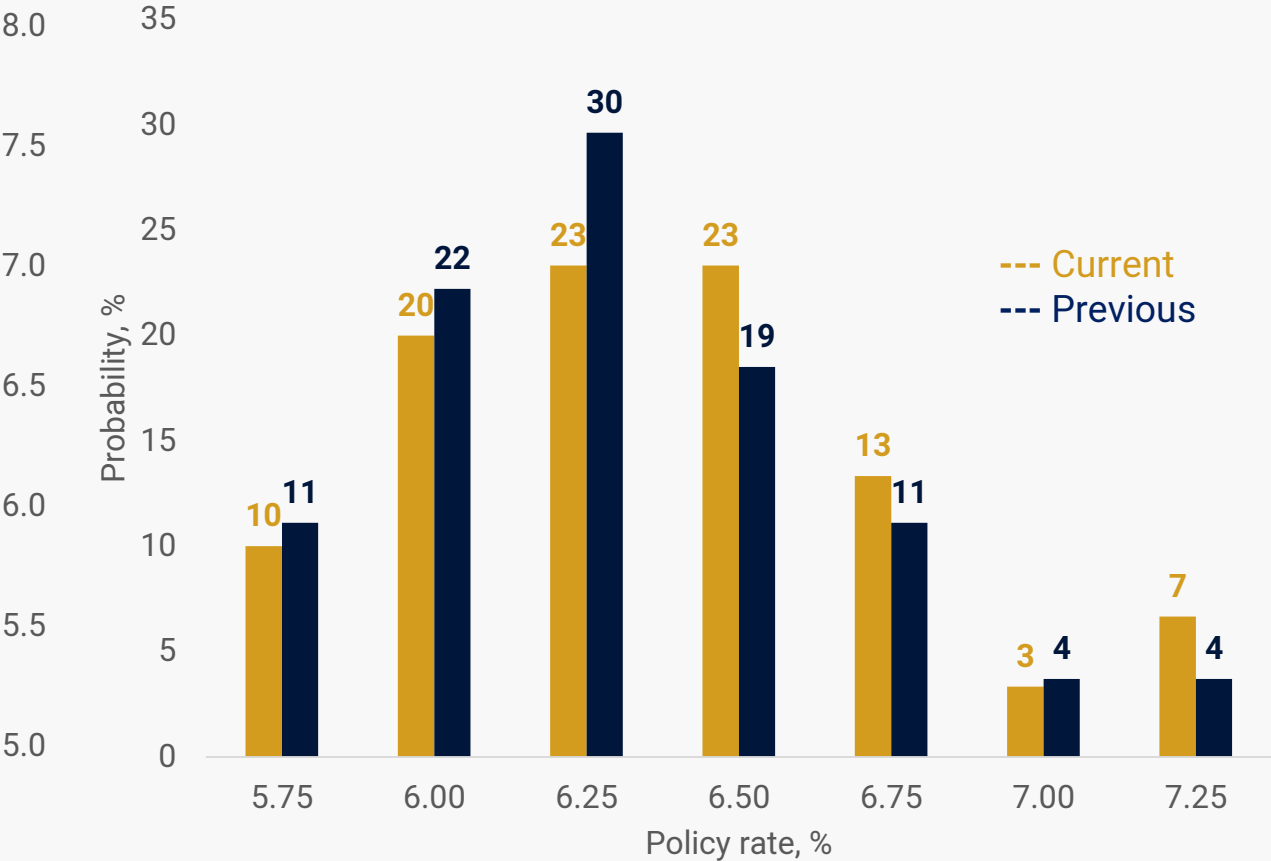
Market Expectations

Market expectations have remained largely unchanged following the latest monetary policy decision

Markets continue to expect a gradual reduction in the policy rate over the next eight decisions, reaching around 6.25%.

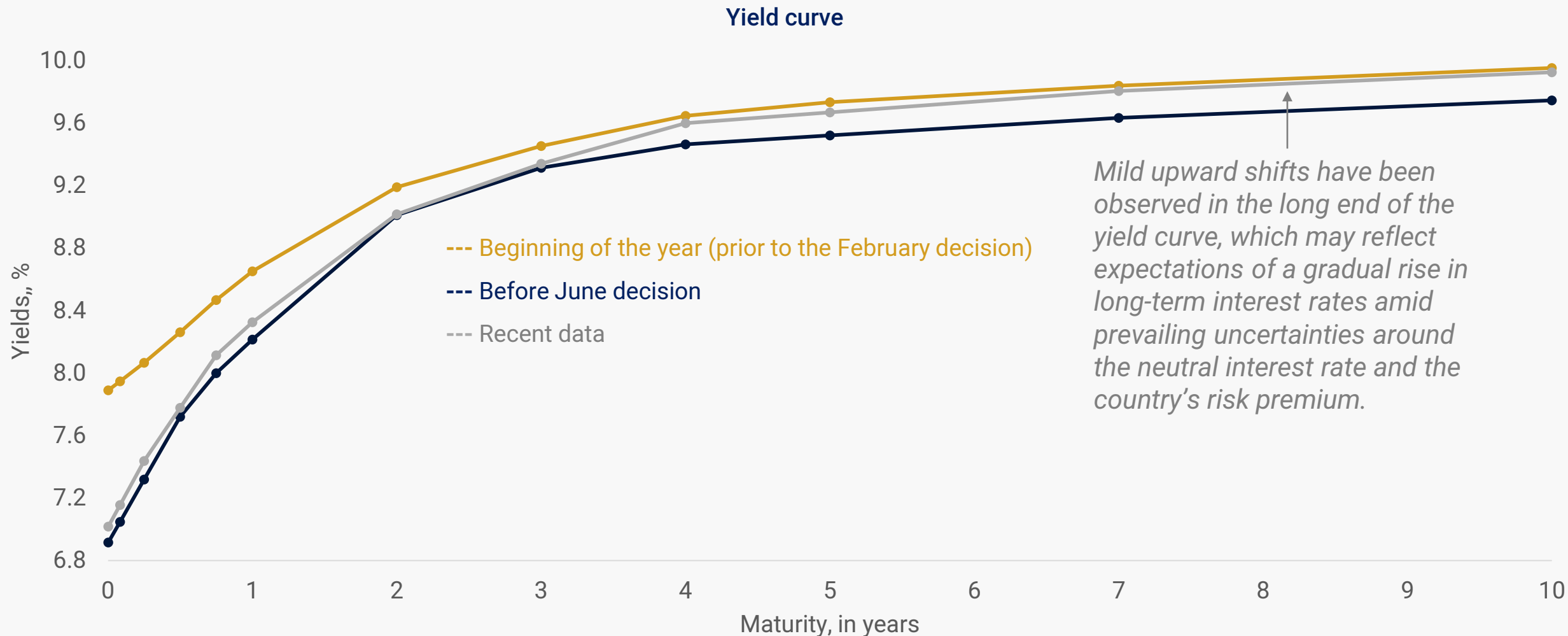


The expected level of the policy rate in June 2026.



Source: Central Bank of Armenia survey. Current survey: n = 30, previous survey: n = 27

Yield Curve has remained broadly stable



Source: Central Bank of Armenia



Taxonomy of Scenarios

Taxonomy of Scenarios. Case A-Type Scenarios

Expansionary demand
Output + | Inflation +

Contractionary supply.
Output - | Inflation +

Case A-Type Risks

- ❑ **Uncertainties regarding Armenia's Neutral Interest Rate and Its Components**
 - Uncertainty Around the US Neutral Interest Rate Level: In the medium term, the expansion of a fiscal stimulus stance may potentially affect the neutral interest rate levels in the US and, consequently, in emerging economies including Armenia.
 - Uncertainties regarding the fundamental level of Armenia's country risk premium and its potential increase: This is due on one hand to geopolitical risk factors related to conflicts surrounding Armenia, and on the other hand to scenarios of significantly higher debt burden than expected, driven by potential under-collection of tax revenues and the necessity of expenditures of social and other nature (which do not support productivity growth).
 - Increase in the capital threshold: The high economic growth recorded in the domestic economy may reflect higher productivity, a higher marginal capital threshold, and a higher neutral interest rate level.
- ❑ **Uncertainties regarding demand conditions in the domestic economy: emerging strong demand environment .**
 - Economic growth above the long-term potential level, primarily driven by domestic demand factors, reflects risks of maintaining an environment of excess demand in Armenia.
 - Consumption growth fueled by accumulated private sector savings, continued strong growth in credit to the economy, as well as persistently high incomes derived from positive export developments, may further contribute to demand expansion.
 - A more expansionary-than-expected fiscal policy stance also poses risks of further amplifying domestic demand.
- ❑ **Uncertainties surrounding the resolution of the Russia-Ukraine conflict.** The prolonged maintenance of sanctions imposed on Russia, alongside the progress of negotiations aimed at resolving the Russia-Ukraine conflict, will contribute to the expansion of capital inflows into the Armenian economy, creating inflationary pressures.
- ❑ **Risks related to disruptions in global value chains**, particularly in the context of leading economies increasingly tightening their trade policies toward each other and third countries, may give rise to short- to medium-term inflationary scenarios (de-globalization).
- ❑ The escalation of geopolitical tensions in the Middle East has led to an increase in **Armenia's risk premium and disruptions in supply chains**, which primarily pose inflationary risks.

Taxonomy of Scenarios. Case B-Type Scenarios

Contractionary demand.
Output - | Inflation -

Expansionary supply.
Output + | Inflation -

Case B-Type Risks

❑ Risks Related to the Weakening of External Demand.

- In the Eurozone and China, structural problems and elevated uncertainties have created an environment of weak domestic demand that may persist for an extended period.
- Under the conditions of a gradual increase in the effectiveness of Western sanctions and tightening of economic policy stances, domestic demand in Russia may significantly weaken. On the other hand, with the gradual increase of alternative import and export routes, Armenia's share in Russia's external trade flows may also decline, further deepening the expected income reduction resulting from the weakening of external demand.
- The prolonged high uncertainty surrounding US economic policies may evolve into a "confidence crisis," sharply restraining consumer and investment activity both in the US and in the global economies.

❑ Risks of negative macroeconomic impacts under real estate market adjustment: In a context of gradually declining output in the construction sector and falling (adjusting) real estate prices, there is a risk of forming and deepening a weak demand environment in the economy.

❑ Under conditions of strong external demand in previous years, significant credit liabilities accumulated in the Armenian economy—particularly in certain sectors—driven by expectations of high future income. In the context of continued, normal adjustment in external demand, this may become an additional constraining factor in the economy, especially in the services sector, potentially leading to a disproportionate restraint in both incomes and expenditures.

❑ The increase in tax rates and the tightening of administration aimed at continuously improving the tax-to-GDP ratio may have an additional restraining effect on both investment activity and contribute to job cuts in several sectors.

❑ Expectations regarding economic activity in the US have declined, while uncertainty has increased. In this environment, a potential rapid decline in the prices of stillovervalued assets could generate deflationary pressures both globally and in the Armenian economy

❑ In the event of a resolution to the Russia-Ukraine conflict and the full or partial lifting of sanctions, there is a risk of significant capital and labor outflows from Armenia. This could lead to a substantial weakening of aggregate demand and, more notably, the inflationary environment.

❑ A continued increase in labor supply in Armenia, driven by uncertainties surrounding Russia's medium-term economic outlook—particularly due to the gradual tightening of its migration policies—may result in a decline in seasonal migration from Armenia to Russia.

❑ In the medium term, the tightening of trade policies among major global economies may lead to excess supply of goods and services on international markets, creating deflationary scenarios for third countries.



Thank you