



Central Bank
of Armenia

2025 Q4

**Executive
Monetary
Policy
Statement**

Published December 16, 2025

A. Executive Monetary Policy Statement

The Board of the CBA decided today to decrease the policy rate to 6.50%.

At its meeting today, the Board of the Central Bank of Armenia decided to decrease the key policy rate (refinancing rate) by 25 basis points, setting it at 6.50%.

Annual CPI inflation decreased in Q4 2025, standing at 3.1% in November. Meanwhile, core inflation edged up, standing at 3.8% Y-o-Y in November.

In Q4 2025, risks of a further slowdown in demand conditions globally and in Armenia's key partner economies persist, while inflationary pressures in the US have intensified. Consumption in the US continues to drive relatively high economic growth and an elevated inflationary environment. However, risks of a correction in asset prices and labor market weakening could negatively impact the medium-term growth outlook. Uncertainty regarding the medium-term implications of US fiscal policy, including the impact of rising public debt on long-term interest rates, persists. At the same time, in Armenia's other trading partner economies, risks of weakening growth and demand conditions persist, even as some uptick has been observed in recent months. Oil prices, and in recent months food prices as well, have declined. However, geopolitical uncertainty and tensions in international trade relations remain a key source of global inflation volatility. In this context, considering weakening demand conditions on the one hand and persistent inflationary risks on the other, central banks in major economies would be expected to either maintain or gradually ease their tight monetary stance.

In the fourth quarter of 2025, economic activity in Armenia continued to remain high. Growth continues to be driven by the construction and services sectors as well as the impacts of certain short-term, non-structural growth drivers. External demand for domestic goods and services has remained high in Q3 and Q4. At the same time, uncertainty remains elevated regarding the future outlook for domestic demand. In this context, demand continues to have a neutral impact on inflation, while recent increases in headline and core inflation have been driven by supply-side factors. Wage growth, non-traded sticky price inflation, and inflation expectations continue to stabilize. At the same time, risks for short- and medium-term demand pressures from fiscal policy have weakened.

In the context of current macroeconomic developments, financial markets in Armenia generally expect the Central Bank of Armenia to gradually lower the refinancing rate over the next twelve months to approximately 6.25%.

Amid high uncertainty, the Board discussed, on the one hand, Case A-type scenarios where possible underlying developments would require a higher path for the policy rate relative to current market expectations. This includes scenarios related to risks of a rising US neutral rate in the context of fiscal policies, as well as risks of expanding demand conditions. On the other hand, the Board also discussed Case B-type scenarios where potential economic developments imply a more rapid and aggressive downward path for the policy rate than what is currently priced in markets. These scenarios include concerns regarding overall concerns about a weakening growth outlook in key trading partner economies, risks of softening domestic demand conditions, as well as a weak demand environment forming and deepening in the economy due to a potential gradual adjustment of real estate prices.

Balancing the aforementioned risks in both directions, the Board finds it appropriate to decrease the policy rate in line with market expectations.

The Board resolutely affirms its commitment to adopting the appropriate policy actions and strategy to ensure the price stability objective of 3% inflation in the medium term.

Approved by the Board of the Central Bank of Armenia
December 16, 2025

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B. Summary of Economic Conditions

Global Economy

In Q4 2025, the global growth outlook has continued to deteriorate. Following volatility in US GDP growth amid trade policy uncertainty in H1, growth rebounded strongly in Q3 (estimated 3.6% Y-o-Y), primarily reflecting growth in consumption increased investment activity in artificial intelligence. Growth in financial asset prices and wages continue to support consumption among high-income and high net worth households, while slowing wage growth for middle- and low-income earners as well as rising loan delinquency rates points to slowing demand in the rest of the economy. Considering both the drivers of growth and the structural characteristics of consumption, price corrections in financial assets could have negative impacts on US demand conditions, with global spillover effects.

Amid these conditions, US fiscal policy remains a key source of uncertainty. Given the significant expected expansion of the fiscal deficit and national debt, risks of a potential rise in long-term interest rates have deepened. Such developments could impact not only the future course of the Federal Reserve's monetary policy but also impact the neutral interest rate in, and capital flows to, emerging markets.

Inflation in the US has continued to rise in recent months, standing at 3.0% in September, largely reflecting the gradual transmission of tariff policy onto consumer prices. Although trade policy uncertainty has softened somewhat in recent months, looking ahead, the extent and nature of further impacts of trade policy on inflation would depend on the trajectory of domestic demand conditions. At the same time, while slowing wage growth and payrolls could point to softening labor market conditions, relatively stable unemployment and layoff levels are not indicative of a sharp slowdown of aggregate demand conditions. These issues significantly complicate the Federal Reserve's trade-off between maintaining price stability and achieving full employment, a challenge that is further compounded by potential risks of deteriorating central bank independence.

Euro Area economic growth has slowed in Q3 to 1.4% Y-o-Y, reflecting sustained structural challenges, even as exports have increased Q-o-Q amid some easing in global trade policy uncertainty. The inflationary environment continued to stabilize, with headline inflation converging around the target for several consecutive months. Meanwhile, although underlying inflation has moderated, services inflation still remains elevated, while tight labor market conditions exhibit mixed signals of softening. However, the medium and long-term growth outlook remains uncertain and problematic. On the one hand, structural challenges within the Eurozone and trade uncertainty continue to weigh on business sentiment and negatively impact investment and production. On the other hand, sweeping fiscal stimulus measures aimed at addressing structural challenges could have positive impacts

on certain productive sectors, but the emphasis on increasing defense output could have uneven and inflationary implications.

Uncertainty persists surrounding the trajectory of oil prices. On the one hand, sustained high production, along with weakening global demand, may reinforce downward price pressures. On the other hand, the potential escalation of geopolitical tensions in and around major oil producing countries could drive short-term increases in prices. Similarly, the risk of secondary sanctions against Russia could pose upward pressure through potential supply chain disruptions.

In Q3 2025, Russia's economic growth continued to weaken significantly to 0.6% Y-o-Y. At the same time, economic activity ticked up in October, particularly in retail trade and services, suggesting some recovery in consumption and demand conditions. Slowing credit activity and growth in non-performing loans could point to greater weakening in demand conditions. While various indicators of inflation have slowed somewhat in recent months, they nonetheless remain considerably above target. At the same time, labor market conditions remain exceedingly tight, exerting sustained inflationary pressures on the economy, while the recent tightening of migration policy could deepen labor market pressures. Further, oil price uncertainty could pose risks to fiscal policy, while tightening tax policies (especially increases to VAT) pose additional downside risks to consumption and domestic demand. The combination of weakening demand conditions on the one hand and persistently tight labor market conditions and high inflation expectations on the other pose serious challenges to the Central Bank of Russia in managing the inflation-output tradeoff.

Domestic Demand Conditions

In Q3 2025, GDP continued to grow at a high rate, standing at 6.2% Y-o-Y. Further, economic activity continued to expand at a strong pace, standing at 10.1% in October. Growth in the third and fourth quarters was concentrated in demand-driven sectors including construction and services, which could pose risks to the future sustainability of growth and the long-term outlook. Construction continues to grow at a rapid pace, but persistent risks of a gradual adjustment in real estate prices could threaten growth in adjacent sectors, contribute to weakening demand conditions, and pose deflationary pressures. At the same time, while IT and Financial Services continue to play an important role in high services growth, signs of acceleration in other services subsectors, especially in recent months, could point to a potential expansion in aggregate demand conditions. Since the beginning of the year, trade continued to slow amid a gradual fading of certain short-term, non-structural factors. In the past two quarters, industrial sector growth has slightly recovered, primarily

reflecting high growth in traditional manufacturing subsectors. Further, strong growth in these subsectors' exports, lending activity, and production capacity could support a positive outlook for manufacturing.

Tourism flows to Armenia had increased substantially since May, driven partly by some shifts in source markets. Keeping with seasonal trends, tourism flows have softened since September. At the same time, external demand for Armenian goods and services remains elevated. In the medium term, significant uncertainty regarding the outlook for external demand persists in both directions, driven by a weak demand outlook globally and in Russia on the one hand, as well as strong demand for Armenian goods and services and questions about the persistence of structural shifts in tourism on the other.

Uncertainties remain elevated about seasonal migration to Russia and the channels through which remittances are transferred. On the one hand, a persistently strong ruble could increase incentives for labor migration to Russia. On the other hand, an uncertain Russian economic outlook and tightening migration policies may act as limiting factors. The latter scenario could support labor supply growth in Armenia and pose deflationary risks.

In summary, various signals point to a slightly positive output gap in Q4. Nonetheless, the structural characteristics of growth, uneven developments in other sectors of the economy, and mixed signals from other indicators add uncertainty to assessments of the relative position of aggregate demand and aggregate supply. On the one hand, strong growth in lending activity, high private consumption, and the concentration of growth in demand-driven sectors could point to robust domestic demand. Conversely, the concentration of economic growth in a few sectors; the persistence of both non-traded sticky price and services inflation at low levels; as well as relatively flat retail trade and consumer goods imports, could point to a weaker demand environment.

Regarding fiscal policy, revenue collection in 2025 has been strong, while risks of current and capital expenditure over-execution have softened. Through October, the fiscal deficit has been significantly below planned levels, although a full execution of the planned deficit in the fourth quarter could generate some inflationary pressures. Nonetheless, considering both current YTD performance and the planned fiscal consolidation beginning in 2026, risks of fiscal policy generating meaningful pressures on aggregate demand conditions have softened. Looking ahead, considering uncertainty around future expenditure performance and tax revenue administration, the main uncertainties for fiscal policy relate to the trajectory for the public deficit and debt, with implications on the country risk premium.

Labor Market & Inflation

Underlying labor market conditions remain a key source of uncertainty. Unemployment remains at low levels, standing at 12.3% in Q2. Per the labor market survey, labor resources in Q2 have increased Y-o-Y, but this has been at the expense of increases in the economically inactive population rather than employed persons. This could reflect weakening labor demand in the economy. At the same time, SRC data suggesting strong increases in the number of registered employees could point to high labor demand, although it also could reflect a gradual, structural decline in the shadow labor market in favor of formal employment. Developments in wage growth also leave room for conflicting interpretations. On the one hand, slowing headline wage growth in Q3 (4.3% Y-o-Y) could point to weakening domestic demand. However, slowing wage growth primarily reflects weakening in IT and financial sector wages, while wages in other sectors have increased somewhat to 6.7% Y-o-Y in Q3. This could point to more stable demand conditions in the economy. In the medium and long term, a potential expansion in labor supply could ease labor market conditions further and reduce market-driven pressures. The primary uncertainties in this context relate to the Russian economic outlook, the flow of Armenian labor migrants to Russia amid tightening Russian migration policies, domestic labor market participation, and the integration of economically inactive populations into the workforce.

Throughout 2025, inflation has shown some signs of accelerating, primarily reflecting both increased inflationary pressures from the global economy (particularly for imported food) amid elevated supply issues as well as above-historical-average inflation for several seasonal goods. However, these factors have meaningfully softened in November, with CPI declining to 3.1% Y-o-Y. Moving forward, the main uncertainties relate to whether these trends will persist, as well as the scale and pace of domestic price adjustments. In recent months, increases have been observed in specific product groups (especially dairy, with inflation of 5.8% Y-o-Y) amid the imposition of mandates for QR codes. However, inflation in these product groups exceeds the costs associated with the QR code mandates, which suggests that these price increases are also due to other factors, including increased operational costs, adjustments to price-setting behaviors, and others. Additionally, the deflationary pressures from non-food products observed in the beginning of the year have gradually subsided, entering weak inflationary territory in May and standing at 1.2% Y-o-Y in November. Services inflation has increased somewhat since early 2025, mainly due to high inflation for air transport services; excluding this subgroup, services inflation has remained stable and below target. Non-Traded Sticky Price Inflation (NTSPI), which captures domestically-driven demand dynamics, has continued to remain stable, in the range of 2.0- 2.5% Y-o-Y.

Financial Markets & Monetary Policy

Market expectations of the CBA policy rate path have remained largely unchanged since the latest decisions, and continue to reflect an expected gradual reduction in the policy rate to 6.25% over the next year. The yield curve has declined since October across all maturities. This could reflect:

- 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, expectations of greater real exchange rate trend appreciation amid growing capacities and productivity in exportable sectors;
- the gradual transmission of monetary policy; and/or
- non-structural factors, including, for example, increased AMD liquidity in domestic financial markets.

In recent months, Armenia's country risk premium has continued to decline, reflecting both global and country-specific factors. Sentiment towards emerging markets has continued to improve amid declining fiscal and trade uncertainty and macroeconomic reforms. Even though declines in Armenia's risk premium have generally followed global trends in EME spreads, additional declines in recent months in particular reflect country-specific developments, including expectations of weakening geopolitical tensions in the South Caucasus. Looking ahead, the key uncertainty relates to whether improving sentiment toward EMEs is driven by fundamental versus transitory factors. This, in turn, raises questions about the fundamental level of the country risk premium and neutral rate.

Considering the persistence of numerous types of uncertainty, the CBA builds and evaluates several different scenarios for future economic developments in order to manage possible risks stemming from these key areas of uncertainty. The illustrative Case A scenario presented in the MPR (policy rate path above market expectations) interprets recent economic developments—persistent above-potential, demand-driven economic growth—as indicative of an already positive output gap in the economy. If this scenario were to materialize, the policy rate would need to adopt a higher path relative to market expectations in order to prevent the expansion of inflation and de-anchoring of inflation expectations. The illustrative Case B scenario (policy rate path below market expectations), on the other hand, offers a different interpretation of the current position of the economy. In this scenario, persistently low services and non-traded sticky price inflation, weak retail trade and declining consumption goods imports, as well as the structure of growth are taken to indicate weak demand conditions and an existing negative output gap. Such a scenario would require a looser medium-term policy stance compared to market expectations in order to prevent the accumulation of deflationary pressures and a possible downward de-anchoring of inflation expectations.

As part of its prudent risk management framework for monetary policy, the CBA builds and discusses various scenarios, summarized in the Taxonomy of Scenarios. These scenarios reflect key sources of risk and uncertainty that could lead to unwelcome policy errors (that might drive the economy into "dark corners"), which policymakers hope to minimize through a least-regrets decision-making model. For communications purposes, the MPR includes a deeper dive into two illustrative scenarios almost randomly selected from the Taxonomy, which reflect illustrative future paths of the economy that would require either a higher path for the policy rate (Case A) or a lower path of the policy rate (Case B) relative to current market expectations. These illustrative scenarios do not represent a most-likely future, assign weight or probability to outcomes, or reflect the Board's most-favored scenarios.