



Central Bank
of Armenia

2025 May

**Executive
Monetary
Policy
Statement**

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A. Executive Monetary Policy Statement

The Board of the CBA decided today to keep the Refinancing Rate unchanged at 6.75%.

At its meeting today, the Board of the Central Bank of Armenia decided to keep the key Policy rate (refinancing rate) unchanged at 6.75%.

In the first quarter of 2025, 12-month headline inflation accelerated, reaching 3.3% in March. Meanwhile core inflation also recorded a slight uptick during the quarter, yet remained below the inflation target, standing at 2.0% year-on-year in March.

In the second quarter of 2025, risks associated with a further slowdown in global demand and in Armenia's key partner economies increased notably, while inflationary pressures intensified in the U.S. Uncertainty surrounding U.S. economic policies—particularly trade policy and its macroeconomic implications—remains elevated. Against this backdrop, the risks of declining prices in global commodity markets has grown. At the same time, escalating geopolitical tensions and rising trade confrontations continue to pose risks of supply chain disruptions and renewed global inflationary pressures. Uncertainty has also increased regarding the medium-term implications of U.S. fiscal policy, including the extent of aggregate demand support, the resulting rise in public debt, and its potential impact on long-term interest rates. Given persistently tight labor market conditions in partner countries and elevated global inflation, it is likely that central banks in major economies will maintain or only gradually ease their restrictive monetary policy stance in the period ahead.

In the first quarter of 2025, economic activity in Armenia moderated, primarily due to the gradual dissipation of certain short-term, non-structural growth drivers. Nevertheless, robust performance in the construction and services sectors continued to support overall growth. At the same time, uncertainty remains elevated regarding the sustainability of this growth, its long-term trajectory, and the future path of domestic demand—largely reflecting the structural nature of the ongoing expansion. External demand for services has continued to decline, while the overall demand environment is currently assessed as neutral from an inflationary standpoint. In this context, labor market conditions are showing signs of cooling, as evidenced by the gradual stabilization of wage growth, sticky price inflation in non-tradable sectors, and inflation expectations. At the same time fiscal policy pose inflationary risks over the medium term.

Amid the elevated risks and heightened uncertainty, the Board has assessed multiple scenarios, consistent with its mandate to ensure price stability. On one hand, the Board considered scenarios (Case A) where uncertainties — including those related to geopolitical developments and fiscal policy dynamics in Armenia — could lead to an increase in the country's risk premium and related macroeconomic consequences. These scenarios would warrant a higher path for the policy rate relative to market expectations to ensure the price stability. On the other hand, scenarios (Case B) were evaluated that reflect risks arising from prolonged uncertainty surrounding U.S. economic policy, a deterioration in global economic confidence, and potential spillovers in the form of weaker growth and subdued demand in Armenia. Under such conditions a more pronounced and accelerated reduction in the policy rate compared to current market expectations may be warranted to support domestic demand and guide inflation toward its medium-term target.

While the Board believes that though there is a greater likelihood of Case B-type scenarios materializing, it emphasizes the importance of minimizing the potential macroeconomic losses that could stem from the Case A-type risks. As a result, the Board decided to keep the Policy Rate unchanged. 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
May 6, 2025

Governor
Martin Galstyan

Deputy Governors
Armen Nurbekyan
Hovhannes Khachatryan

Board Members
Hasmik Ghahramanyan
Davit Nahapetyan
Levon Sahakyan
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B. Summary of Economic Conditions

Global Economy

At the beginning of 2025—particularly during the early part of the second quarter—the global economic growth outlook deteriorated significantly. In the United States, the strong economic growth observed in recent quarters, fueled by an expansion in domestic private consumption, began to slow early in the year due to rising uncertainty surrounding economic policy. Subsequently, amid expectations of a substantial increase in tariff rates, consumer preferences shifted sharply toward imported long-term goods, contributing to an economic downturn. Preliminary estimates indicate that the U.S. economy contracted at an annualized rate of 0.3% in the first quarter of 2025.

Despite these developments, some major economies—most notably the Eurozone and China—experienced a slight acceleration in growth, likely driven by a short-term increase in orders from the U.S. However, structural challenges within these economies persist. Furthermore, the significant rise in tariff rates and ongoing uncertainty surrounding trade policy—particularly in the case of China—could further exacerbate these underlying issues.

In the United States, uncertainty surrounding economic policy—particularly trade and fiscal policy—remains elevated. In recent months, this uncertainty has contributed to increased volatility in financial markets and has triggered price corrections across various asset classes, including long-term government bonds. Given the current highly expansionary fiscal stance and expectations of its continuation, significant risks have emerged regarding a potential rise in long-term interest rates. Such developments could impact not only the future course of the Federal Reserve's monetary policy but also influence the neutral interest rate and capital flows to emerging markets.

At the same time, it is worth noting that, amid the recent sharp re-evaluation of U.S. trade policy, there are emerging signs of a shift in relative risk perceptions—both between advanced and emerging economies and among advanced economies themselves, particularly with regard to the United States.

Although headline inflation in the U.S. is gradually approaching the target, certain core inflation indicators—such as sticky-price inflation and wage growth—remain significantly above target levels. Concurrently, the trade and fiscal policies implemented by the new U.S. administration pose notable risks of fostering a more inflationary environment, potentially complicating the Federal Reserve's trade-off between maintaining price stability and achieving full employment.

The extent and nature of any potential inflationary acceleration will largely depend on domestic demand conditions. For example, if high tariffs are maintained while uncertainty surrounding trade policy diminishes, investment

could increase and labor demand may rise. Under the current restrictive immigration policy, this scenario could lead to a notable acceleration in core inflation, potentially necessitating a tighter monetary policy stance. Conversely, if uncertainty remains elevated and trade policy tensions intensify, then—despite a short-term rise in headline inflation due to higher tariffs—the Federal Reserve may be compelled to ease monetary conditions more aggressively to stimulate demand and restore price stability over the medium term. These dynamics continue to pose challenges for monetary authorities in sustainably returning inflation to target while reinforcing their commitment to long-term price stability.

In April 2025, the European Central Bank reduced its policy rate by an additional 25 basis points, bringing it down to 2.4%. Headline inflation continues to decline, primarily due to weakening goods inflation, while services inflation remains elevated—reflecting polarization across different sectors of the economy. In both the Eurozone and China, persistently weak domestic demand remains a key source of uncertainty in the global economic outlook.

However, the implementation of ongoing programs aimed at expanding defense and infrastructure capacities could serve as a significant stimulus, potentially revitalizing economic activity in these regions.

Under current conditions, global commodity markets—particularly oil and metals—have experienced significant price declines in recent months, reflecting expectations of a deteriorating global demand outlook. In the oil market, these developments have been further amplified by concerns over a potential expansion in supply.

Despite recent trends, considerable uncertainty surrounds the medium-term outlook for commodity markets. Escalating geopolitical tensions in the Middle East and the tightening of U.S. sanctions on Iran continue to pose risks of higher oil prices and increased volatility, as well as potential disruptions to global value chains. Conversely, if elevated uncertainty persists and trade conflicts intensify, a further weakening of global demand could place additional downward pressure on commodity prices.

In Russia, economic activity is gradually weakening, although it remains at relatively high levels—supported by expansionary fiscal policy and sustained growth in private consumption. The labor market continues to exhibit significant tightness. Notably, in recent months, inflation has somewhat stabilized, partly due to the substantial appreciation of the ruble, driven by optimistic expectations regarding a potential resolution of the Russia-Ukraine conflict. However, underlying inflationary pressures persist.

Domestic Demand Conditions

In the first quarter of 2025, economic activity in Armenia continued to weaken, largely due to the gradual fading of certain short-term, non-structural growth factors. Nonetheless, the construction and services sectors remained the primary drivers of economic expansion. Sectoral concentration—particularly within specific service industries—has moderated to some extent, though it remains elevated. Encouraging signs also emerged from the manufacturing sector, especially in select sub-sectors that recorded strong growth in output, exports, and production capacity. However, the current structure of growth continues to generate considerable uncertainty regarding the balance between aggregate demand and aggregate supply.

Since 2022, Armenia has experienced a gradual slowdown in external demand, particularly evident in declining tourism flows and adjusted real tourist spending. Conversely, remittances from Russia have increased, driven by rising real incomes in the Russian economy and the appreciation of the ruble. If the ruble maintains its current value or strengthens further—particularly with a potential resolution of the Russia-Ukraine conflict—this could increase incentives for migration from Armenia to Russia. However, uncertainties surrounding the outlook and tightening migration policies may act as limiting factors, potentially curbing the growth of migration flows.

Uncertainty continues to surround domestic demand conditions. Strong growth in imports, consumer loans, inbound tourism, and services points to robust domestic demand. However, the persistence of somewhat concentrated economic growth, coupled with its slowing pace, raises concerns about a relatively weak demand environment. Additionally, uncertainties regarding the outlook for domestic demand remain, primarily due to the reduction in debt burdens relative to private sector incomes in previous years and the evolving patterns of accumulated savings utilization. In this context, the direction of private savings spending, along with developments in credit expansion, may have varying effects on both aggregate demand and supply.

There is considerable uncertainty regarding the impact of fiscal policy on aggregate demand, primarily due to the risk of underperforming tax revenues in 2025, despite the current strong performance of tax collections. Additionally, concerns persist about the potential increase in current expenditures required to fund social support programs. On the other hand, there are notable risks associated with underperforming capital expenditures and the structural characteristics of these expenditures, which could exert a restrictive effect on demand.

Labor Market & Inflation

Uncertainty regarding labor market conditions persists. However, the relative stabilization of the unemployment rate at around 13%, along with steady wage growth in the private sector (ranging from 5–6%), may indicate more balanced labor

market conditions. The household survey-based unemployment rate in Q4 2024 stood at 12.9%, closely aligning with the figure from the same quarter of the previous year. Nonetheless, given the ongoing uncertainty surrounding labor market conditions, it remains essential to monitor these trends continuously within the context of potential alternative scenarios.

On one hand, the increase in the unemployment rate compared to 2022-23 may reflect weakening demand conditions and adjustments within the economy. This aligns with a noticeable outflow of foreign workers and a slowdown in wage growth rates during 2024. On the other hand, data from the State Revenue Committee indicate that the total number of registered employees increased by approximately 35.6 thousand over the year, suggesting the potential for tighter labor market conditions. Alternatively, this growth in registered employees could signal a gradual, structural decline in the shadow labor market in favor of formal employment.

In recent months, wage growth in the private sector has stabilized, although it remains slightly below the level consistent with productivity growth and the inflation target. 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 uncertainty in this context relates to the high degree of uncertainty surrounding Russia's economic growth prospects, the flow of Armenian labor migrants to Russia, domestic labor market participation, and the integration of economically inactive populations into the workforce.

In the first quarter of 2025, Armenia's inflation gradually accelerated and reached around its target level by March, with 12-month inflation measured at approximately 3.3%. This increase was primarily driven by seasonal factors, particularly in food prices and other volatile components of the Consumer Price Index. In March, monthly inflation stood at 0.5% compared to February, with seasonal food items alone contributing roughly half of this rise. Inflationary pressures from regulated services were also notable, particularly due to rising transportation prices, in line with market expectations.

At the same time, domestic demand continued to be a key driver of inflation in non-tradable sectors, with the Non-Traded Sticky Price Index stabilizing at around 2.4% year-on-year. In the non-food segment, deflationary pressures were observed in goods imported from China, largely due to continued weakness in Chinese producer prices. Given elevated U.S. tariffs on Chinese goods, the depreciation of the yuan, and a moderate decline in global freight costs, deflationary risks related to these non-food imports remain significant. While some inflation in global commodity markets has yet to be reflected in domestic prices, inflation expectations continue to decline, supported by a prolonged low-inflation environment, as confirmed by household surveys.

Monetary Policy

Market expectations of the CBA policy rate path have remained unchanged since the latest decisions, and continue to reflect a gradual reduction in the policy rate to 6.25% over the next eight decisions. The medium- and long-term segments of the yield curve, which primarily reflect market expectations regarding the economy's fundamentals, have increased slightly. According to estimates, this may be attributed to heightened geopolitical and economic uncertainties in the global economy, as well as concerns over the trajectory of Armenia's public debt, which have contributed to an increase in the country's risk premium and term premium.

In recent months, Armenia's country risk premium has increased somewhat, while remaining significantly below the long-term stable level determined by the country's fundamentals. This increase reflects uncertainties surrounding Armenia's fiscal policy—particularly debt sustainability—as well as geopolitical risks, including border tensions and regional developments. In this context, a potential upward adjustment of the country risk premium poses risks for a revision of the neutral rate to the upside, which, all else being equal, could create inflationary pressures due to a more accommodative monetary policy stance. At the same time, Armenia's macroeconomic stability and strong economic growth provide certain positive factors for a possible reassessment of the country's risk premium and a potential reduction in the 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. On one hand, the Board has discussed scenarios in which developments necessitate a tighter policy response relative to market expectations to stabilize inflation around the target in the medium term. These scenarios primarily encompass the following risks and uncertainties:

- Risk associated with the U.S. neutral interest rate being higher than market expectations.
- A rapid adjustment in Armenia's country risk premium, as well as an increase in its fundamental level.
- Risks of further expansion in domestic demand conditions.
- In the global economy, the imposition of tangible tariffs by major economies on each other and the external world give rise to risks of an expanded inflationary environment, driven by disruptions in supply chains.

On the other hand, the Board has considered scenarios in which potential economic developments suggest a faster downward trajectory for the policy interest rate compared to

market expectations. These scenarios encompass the following risks and uncertainties:

- Prolonged elevated uncertainty surrounding U.S. economic policy poses risks of a sharp contraction in global demand, potentially triggering a 'crisis of confidence.
- Risks of a further weakening in economic demand amid the gradual decline (adjustment) in construction output and real estate prices.
- Risks associated with a gradual slowdown in economic growth, weakening demand, and the prolonged maintenance of a low inflationary environment in the RA.
- Tightening of trade policies among major economies over the medium-term horizon, potentially leading to excess supply of goods and services in international markets and a deflationary environment, along with other risks and uncertainties.

