Central Bank of Armenia

2025 Q3

Executive Monetary Policy Statement

Published September 16, 2025

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%.

Annual CPI inflation increased slightly in Q3 2025, standing at 3.6% in August. Meanwhile, core inflation edged up, standing at 3.7% Y-o-Y in August.

In Q3 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. Uncertainty surrounding US trade policy and its macroeconomic implications remains elevated. Uncertainty has also increased regarding the medium-term implications of US fiscal policy, including the extent of aggregate demand support, the resulting rise in public debt, and its potential impact on long-term interest rates. At the same time, persistent geopolitical uncertainty and tensions in international trade relations continue to pose risks of supply chain disruptions and renewed global inflationary pressures. Further, global food prices have ticked up since the beginning of the year, primarily driven by supply factors. A persistence of these trends could be a primary source of further increases in global inflationary pressures. 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 third quarter of 2025, economic activity in Armenia continued to accelerate. Growth in demand-driven sectors continues to offset the gradual dissipation of certain short-term, non-structural growth drivers. Sustained, robust growth in the construction and services sectors has remained the key driver of overall economic activity. Following sustained declines in 2024 and Q1 2025, external demand for services has increased in Q2 and Q3. At the same time, uncertainty remains elevated regarding the sustainability of this growth, its long-term trajectory, and 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 medium-term demand pressures from fiscal policy persist.

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%.

In order to manage possible risks stemming from conditions of high uncertainty, the Board considers multiple scenarios during its deliberations. On the one hand, the Board discussed 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 neutral rate globally and in Armenia 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 a weak demand environment forming and deepening in the economy due to a potential gradual adjustment of real estate prices, as well as overall concerns about the outlook for the global economy.

Seeking to manage the macroeconomic implications that could stem from Case A-type scenarios materializing, the Board finds it appropriate to keep the policy rate unchanged in the current round.

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
September 16, 2025

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Deputy Governors
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Board Members
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B. Summary of Economic Conditions

Global Economy

In Q3 2025, the global growth outlook has continued to deteriorate. In the United States, recent volatility in GDP growth due to swings in imports and inventories adds uncertainty about the health of the underlying economy and aggregate demand conditions. Consumption, the major driver of US growth in the post-Covid era, has shown signs of cooling while still remaining broadly elevated. Further, sharp downward revisions to Q2 labor data suggest meaningful weakening in labor market conditions. At the same time, significant tightening of migration policy could create labor supply issues and bring about excessively tight labor market conditions, fueling risks of further inflationary pressures.

Amid these conditions, uncertainty surrounding the outlook for US economic policies—particularly trade and fiscal policy outlook—remains elevated. 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.

While US inflation continued to gradually recede toward the target in recent quarters, trade policy continues to pose meaningful upside risks. A significant increase in imports and inventories in Q1 helped shield consumers from increased prices, but recent three months have shown signs of growing inflationary pressures emerging for consumer goods most sensitive to tariffs. An acceleration of these trends could bring about a significantly more inflationary environment, but the extent and nature of any inflationary acceleration would depend on the trajectory of domestic 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.

Following a strong uptick in growth in the Eurozone in Q1 2025 due to short-term factors, growth in Q2 slowed meaningfully to 0.1% Q-o-Q, reflecting sustained structural challenges and economic uncertainty stemming from global trade policy. The inflationary environment continued to remain stable, with headline inflation converging around the target for several consecutive months. Meanwhile, indicators of underlying inflation, while still above the target, are gradually moderating, while tight labor market conditions also exhibit modest, though 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 an imbalanced trade deal with the US continue to weigh on sentiment and growth potential. 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.

Oil prices continued to adjust downward, and while markets continue to price sustained declines in prices through 2026, significant uncertainty around the trajectory of oil prices persists. On the one hand, slowing global demand, coupled with actual and expected increases in supply by OPEC+ countries, could each support a downward trend for oil. On the other hand, the potential for an escalation in geopolitical tensions, as well as risks of secondary sanctions against Russia, pose risks of supply chain disruptions and upward price pressures.

In Q2 2025, Russia's economic growth weakened significantly to 1.1% Y-o-Y. At the same time, headline and core inflation, despite moderating somewhat in recent months, still remain well above target. Meanwhile, slowing credit activity, along with persistent deceleration in trade and services, pose further downside risks to domestic demand. On the other hand, labor market conditions remain exceedingly tight, exerting sustained inflationary pressures on the economy. Further, oil price uncertainty could pose risks to fiscal policy, while a weakening growth outlook could negatively impact non-oil and gas revenues and pose additional downside risks to the economy. The combination of weakening demand conditions, persistently tight labor market conditions, and high inflation expectations pose serious challenges to the Central Bank of Russia in managing the inflation-output tradeoff, even as the CBR continues to ease the policy stance.

Domestic Demand Conditions

In Q2 2025, economic growth in Armenia accelerated somewhat, standing at 5.9% Y-o-Y, at the upper end of most estimates of its long-run sustainable level. Growth in the second quarter 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 growth in services remains driven by IT and Financial Services (together contributing 2.0 p.p. to overall growth), signs of acceleration in other services subsectors could point to a potential expansion in aggregate demand conditions. Trade and industry continued to slow amid a gradual fading of certain short-term, non-structural factors. However, select sub-sectors of manufacturing and mining continued to show positive signs, with strong growth in output, exports, lending activity, and production capacity. In this context, various signals point to a possible emergence of a positive output gap in Q2 2025.

Following record inflows in 2023, tourist flows to Armenia in 2024 and through 2025 Q1 had substantially moderated. However, beginning in May, tourist flows to Armenia have increased significantly to historically high levels, driven by a recovery in tourism from Russia as well as significant growth from other, non-traditional markets. The persistence of these trends could increase external demand pressures and exert inflationary impacts, especially on services exposed to external demand. Given the above, significant uncertainty regarding the outlook for external demand persists in both directions, driven by questions an uncertain Russian outlook, as well as stagflationary risks in the global economy amid overall economic policy uncertainty.

Uncertainties persist about seasonal migration to Russia and the channels through which remittances are transferred. On the one hand, a strengthening ruble could increase incentives

for labor migration to Russia. On the other hand, uncertainties surrounding the Russian economic outlook and tightening migration policies may act as limiting factors. The latter scenario could support an increase in labor supply within Armenia and contribute to easing inflationary pressures.

Uncertainty continues to surround domestic demand conditions. Strong growth in lending activity, domestic tourism, and high accumulated savings that could be oriented toward consumption could point to robust domestic demand. However, the structural characteristics of economic growth could suggest risks of a weak demand environment emerging.

There is considerable uncertainty regarding the impact of fiscal policy on aggregate demand. While tax collection in 2025 YTD has been strong, risks of future revenue underperformance persist. This, coupled with potential increases in current expenditures given the need for social assistance programs, could have short- to medium-term implications on deficit and debt levels. At the same time, potential growth in certain capital expenditures (especially road construction projects) could pose risks of expansionary demand pressures. On the other hand, risks of capital expenditure underperformance, as well as the structural characteristics of these expenditures, could mitigate fiscal policy's impact on aggregate demand.

Labor Market & Inflation

Underlying labor market conditions remain a key source of uncertainty. While unemployment increased in Q1 in line with seasonal trends, its current level of 13.9% remains near long-term sustainable levels. The labor market survey suggests Y-o-Y declines in the number of unemployed and strong increases in the number of employed persons, a trend that is corroborated by the increase in the number of registered employees (per SRC data). While the latter data could merely reflect a gradual, structural decline in the shadow labor market in favor of formal employment, taken together, these signals from the labor market could point to still-strong demand conditions in the economy. On the other hand, wage growth continues to stabilize in the range of 5-6%, and is somewhat more evenly distributed across sectors of economy than in recent quarters. This could suggest more balanced labor market conditions and fewer structural imbalances 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, flow of Armenian labor migrants to Russia, domestic labor market participation, and integration of economically inactive populations into the workforce.

Over 2025, inflation has shown some signs of accelerating, with CPI standing at 3.6% Y-o-Y in August. Since the beginning of the year, acceleration in annual inflation has been primarily driven by above-average increases in seasonal food prices, though its impact has been largely neutralized in June-August. At the same time, inflationary pressures from the global economy, particularly for imported food, have increased, reflecting increases in global food prices. Additionally, the deflationary pressures from non-food products observed earlier in the year have gradually subsided, and in August, year-on-year inflation stood at 1.1%. A persistence of global supply-side factors affecting imported goods prices could be a primary source of further increases in domestic inflationary pressures. Services inflation has increased somewhat in 2025, mainly due to high inflation for air transport services; excluding this subgroup, services inflation has remained stable and below target. At the same time, inflation for services highly exposed to external and domestic demand (e.g. hotels, restaurants, etc.) increased since May, consistent with increases in tourist inflows observed during this period. The persistence of these trends amid growing external demand could serve as a source of upward pressure moving forward. However, 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. Conversely, core inflation has accelerated somewhat since the beginning of the year (3.7% Y-o-Y in August), primarily reflecting the above-described increases in imported non-seasonal food and certain exportable services. In this context, inflation expectations have continued to steadily decline, approaching the target level, supported by a prolonged low-inflation environment.

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 eight decisions. Given the above, the yield curve has remained largely unchanged, although very modest upward shifts in the long-term portion of the curve could suggest expectations of slightly higher long-term rates, in the context of neutral rate and risk premium uncertainty.

In recent months, Armenia's country risk premium has remained below the long-term stable level determined by the country's fundamentals. In particular, recent declines could reflect a favorable reassessment of risks, supported not only by the easing of overall sentiment toward emerging markets but also by expectations of a cooling in immediate geopolitical risks in the South Caucasus. These factors, together with Armenia's macroeconomic stability and growth in productive capacities, provide certain positive factors for a possible reassessment of the country's risk premium and reduction in the neutral rate, which, ceteris paribus, could exert deflationary pressures through a relatively tighter monetary policy stance. In this context, several rating agencies note that the ultimate, fundamental adjustments in the country risk premium in response to the above developments would come only after the expected economic implications materialize. On the other hand, any potential upward adjustment of the country risk premium would instead pose 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.

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), derives from risks of an increase in external demand, driven by strong tourism growth, sustained and growing demand for Armenian goods and especially services, as well as increases in remittances. Under this scenario, while the exchange rate would be expected to act as the primary shock absorber, a higher path for the policy rate would be necessary to prevent localized inflation pressures (for services highly exposed to external demand) translating into higher generalized inflation expectations.

The illustrative Case B scenario outlined in the MPR (lower policy interest rate path versus market expectations) is

grounded in the assumption that Armenia's productive capacities, particularly in high value-add exportable sectors including IT, financial services, and manufacturing, have increased considerably in recent years. This increase in productivity may have positively impacted the productive potential of the economy, which, in tandem with an improved investment climate and persistent capital flows, may have resulted in an historical and expected appreciation of the real exchange rate trend. This, in turn, implies a lower level of the real and nominal neutral rate, requiring an appropriate adjustment in the policy rate path below what markets currently expect to prevent the formation of persistent deflationary pressures

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.