



Monetary Policy Outlook, 2025 Q2

June 18, 2025



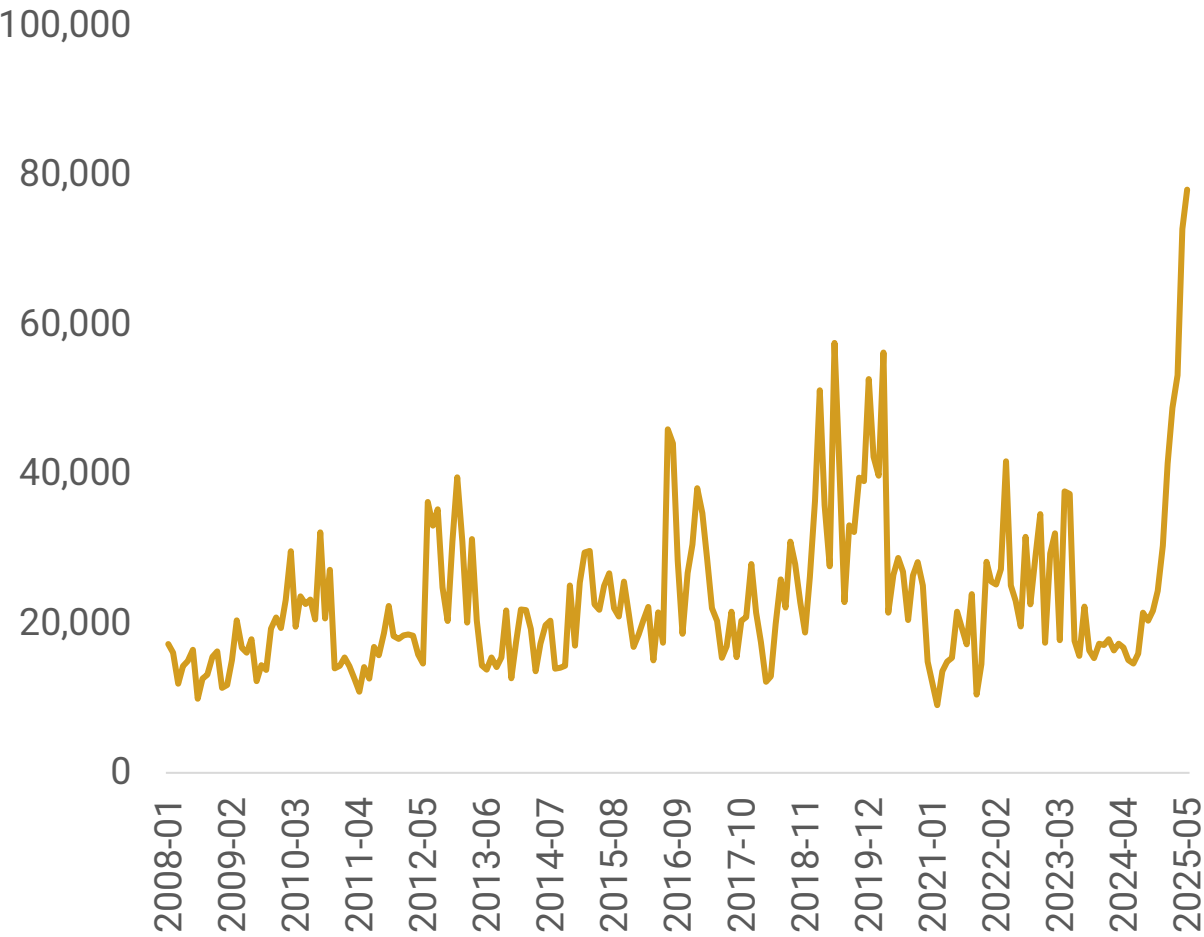
Current and Fundamental Economic Factors

Global Economic Developments

USA: Due to US economic policies and geopolitical situation, high uncertainty persists both regarding the current state of the economy and growth outlook.

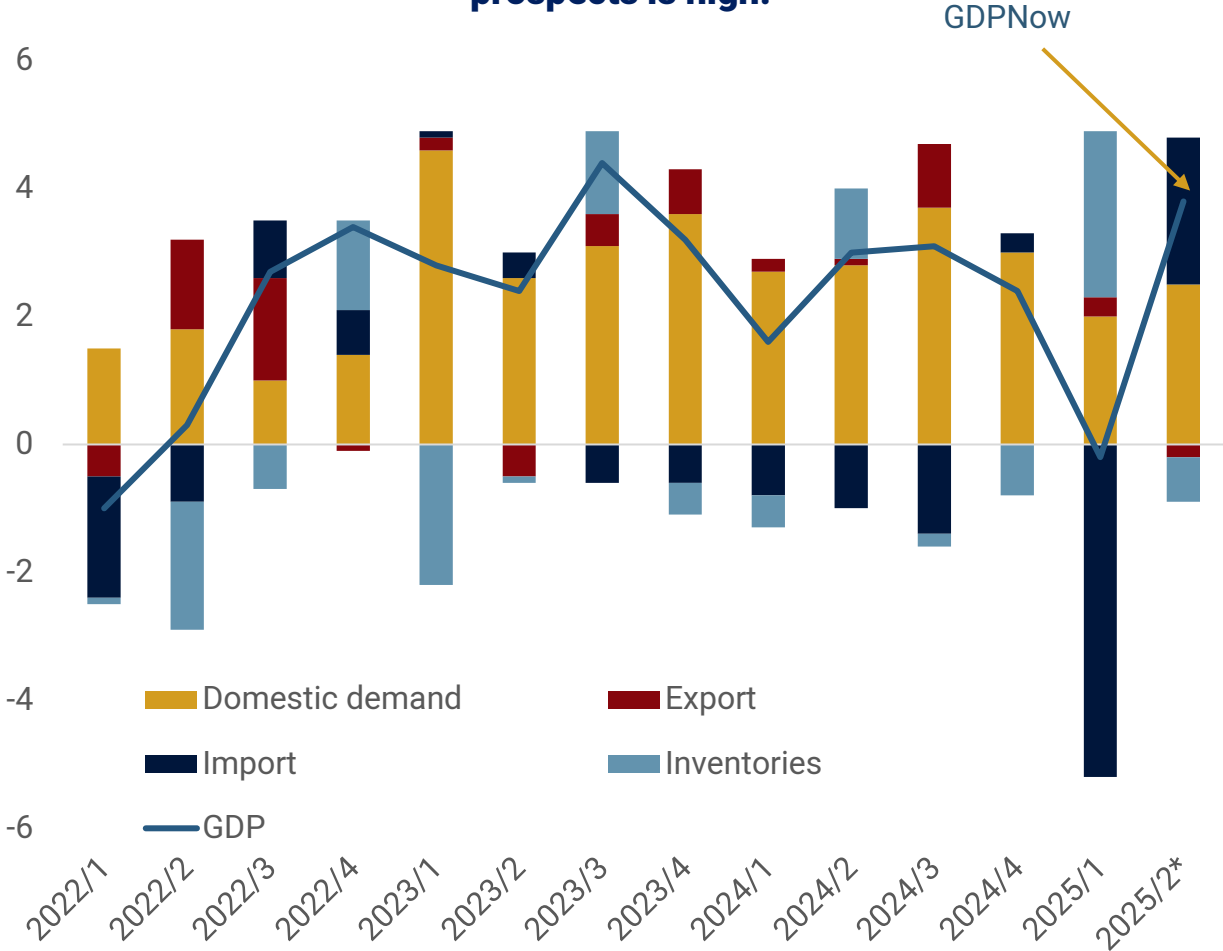


The global uncertainty index is at historically high levels.



Source: Economist Intelligence Unit (EIU)

Uncertainty about the current pace of economic growth and its prospects is high.



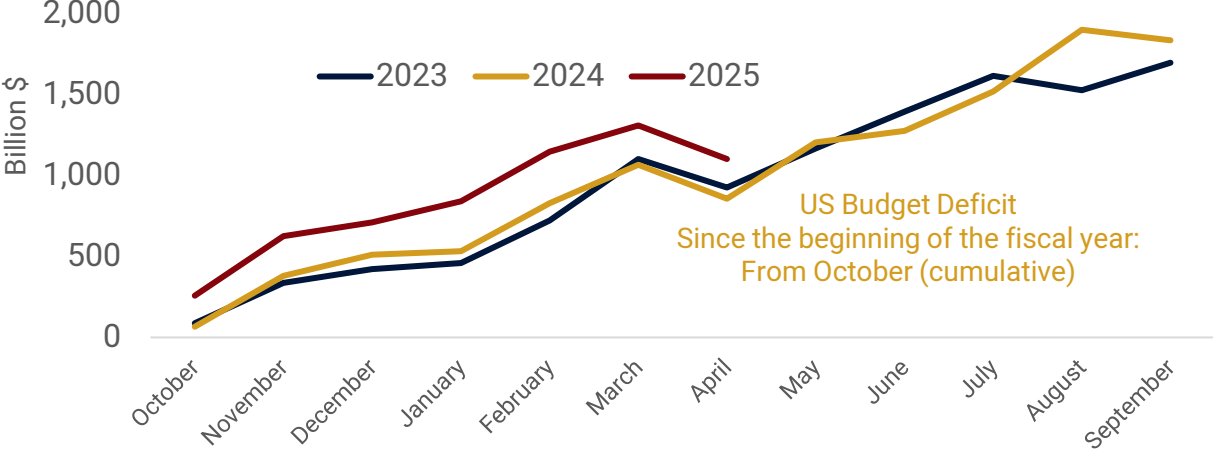
Source: Census Bureau

USA: Implementation of a more expansionary fiscal policy expected to significantly elevate public debt trajectory.

Uncertainty surrounding the current level of the neutral rate remains high...



If current trends persist, even taking into account revenues from tariffs, the deficit may exceed the planned level.

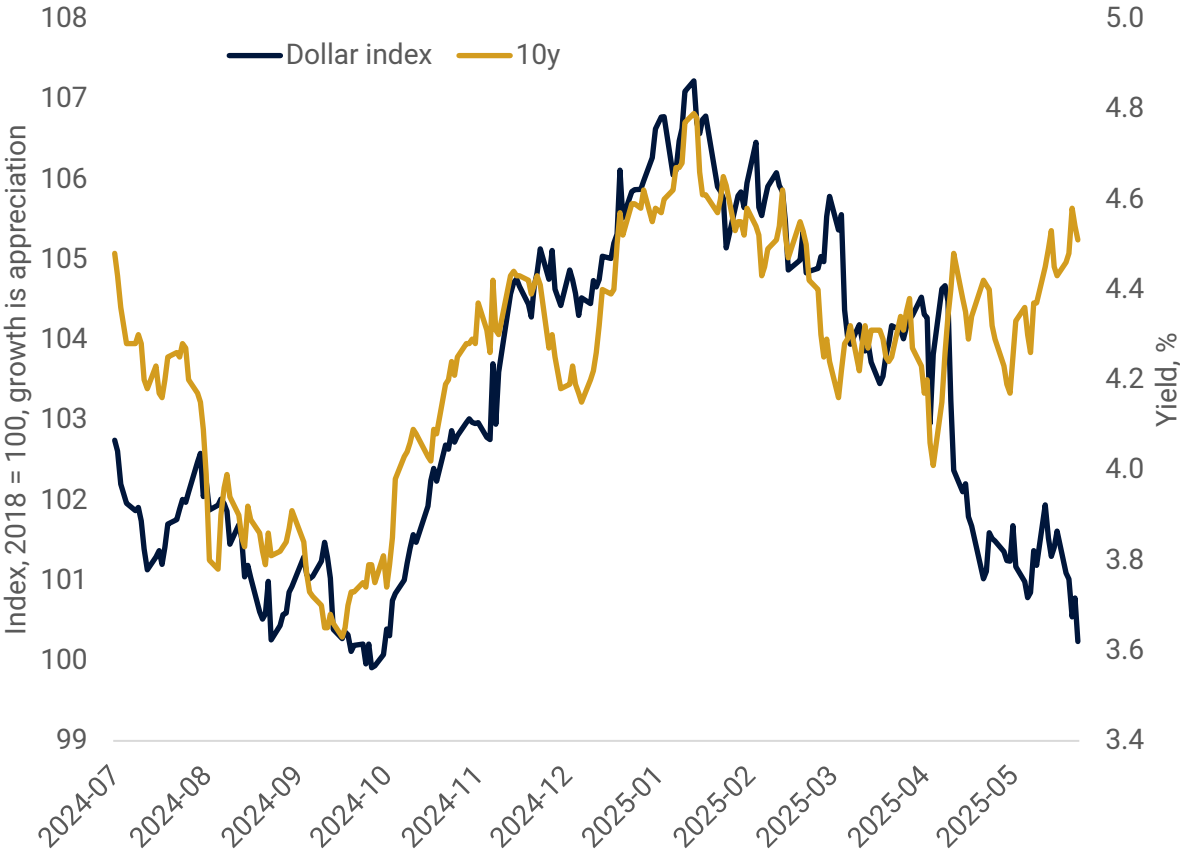


The potential impact of new US fiscal initiatives on public debt

trillion \$	Revenues	Expenditures	Deficit
CBO	-3.75	+1.33	2.4
Tax Foundation	-4	+1.4	2.6
Moody's			4.0
Debt/GDP, %			
	2024	2029	2034
CBO (January)	97.8	109.0	118.0
CBO (June)	97.8	112.1	123.8
JP Morgan	97.8	116.0	132.0
Tax foundation	97.8	123.4	140.0
Moody's	97.8	117.6	134.0

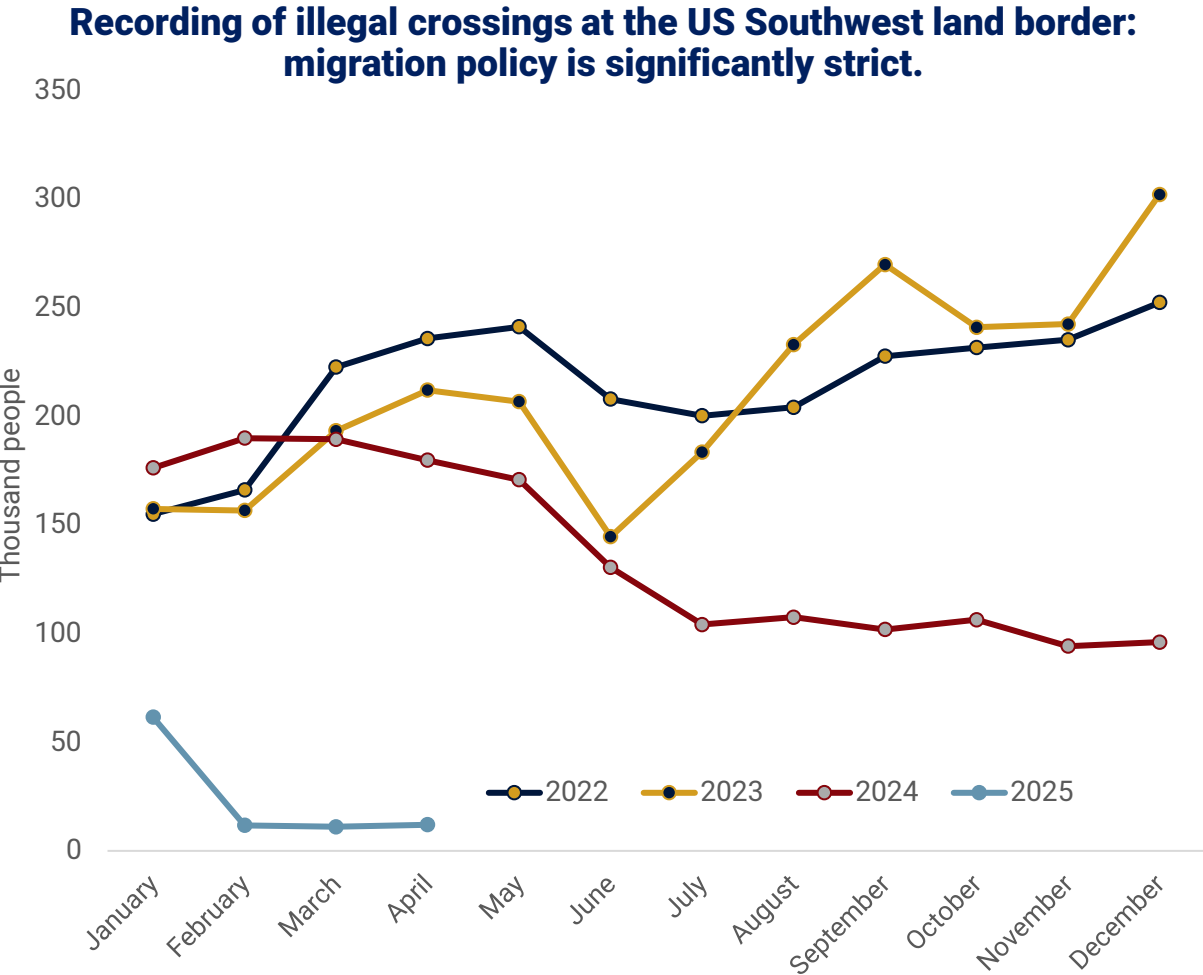
Source: CBO, J.P. Morgan, Tax Foundation, Moody's

The rise in long-term interest rates, which has also been accompanied by the depreciation of the US dollar, likely indicates some pricing of fiscal risks.

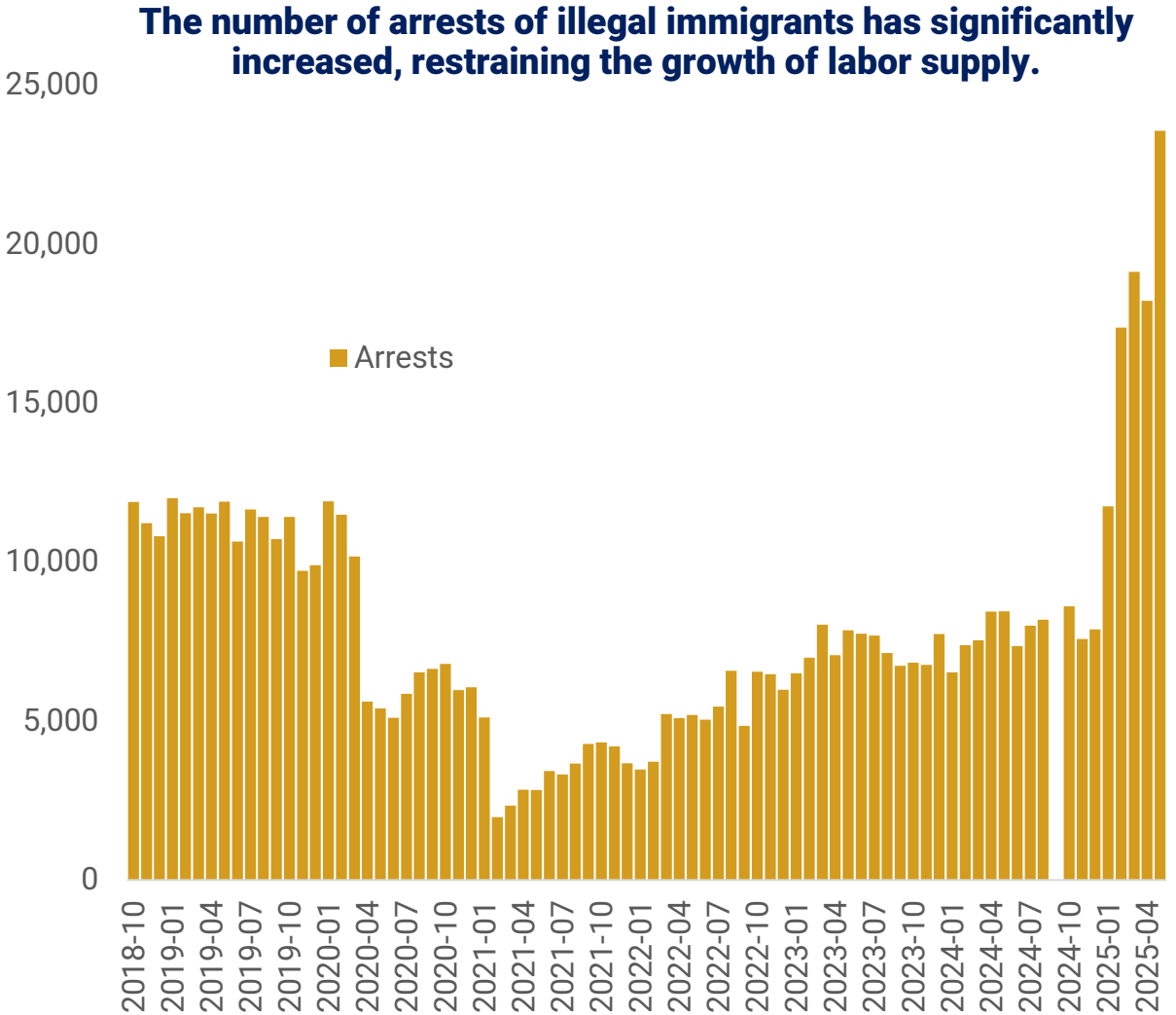


Source: Fed, Bloomberg

USA: Current migration policy could contribute to the further tightening of labor market conditions while potentially limiting medium-term growth potential



Source: US Immigration and Customs Enforcement (ICE), TRAC

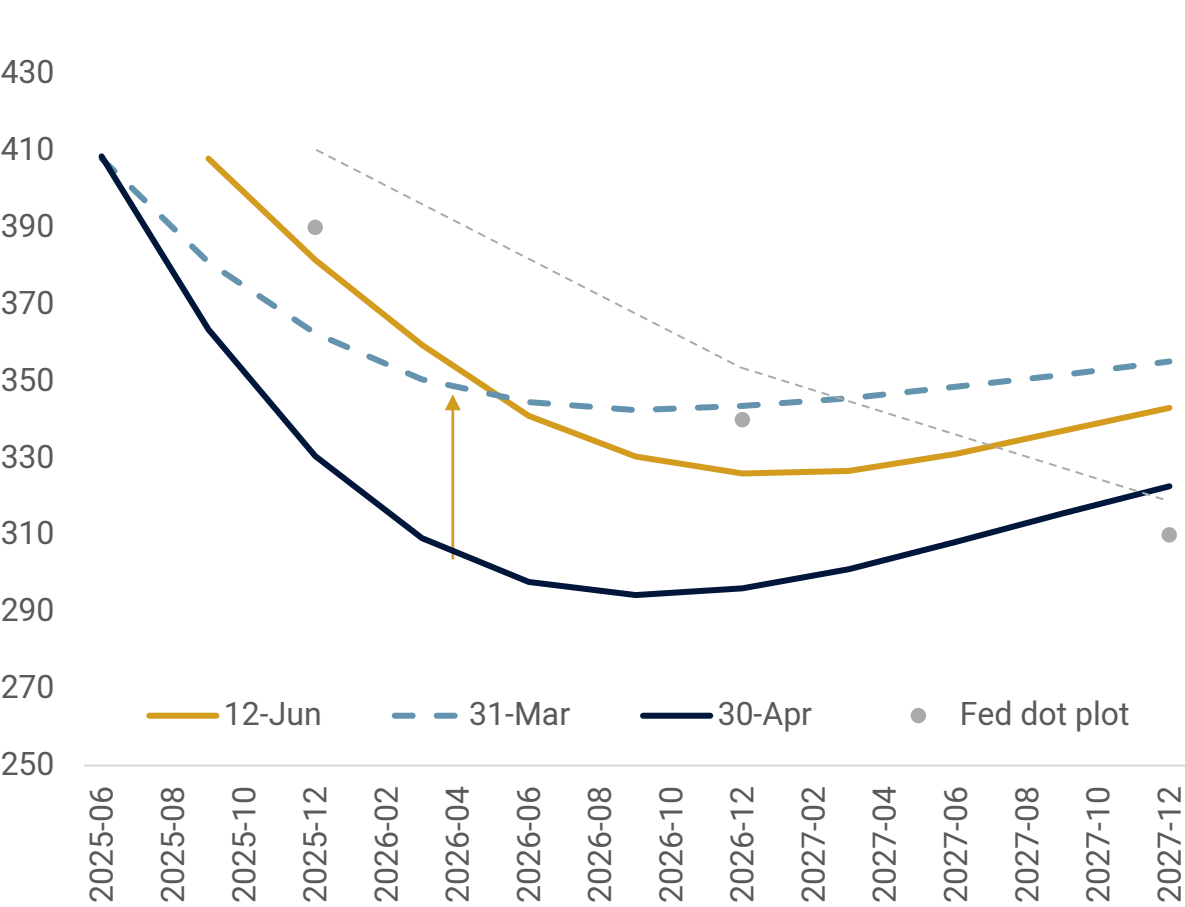


Source: Homeland Security Statistical Office (BHSS) TRAC

USA: From a monetary policy perspective, the main challenge is to ensure the commitment to price stability and bring inflation sustainably back to the target, while simultaneously managing the risks of an undesirable and sharp weakening of demand in a highly uncertain environment.

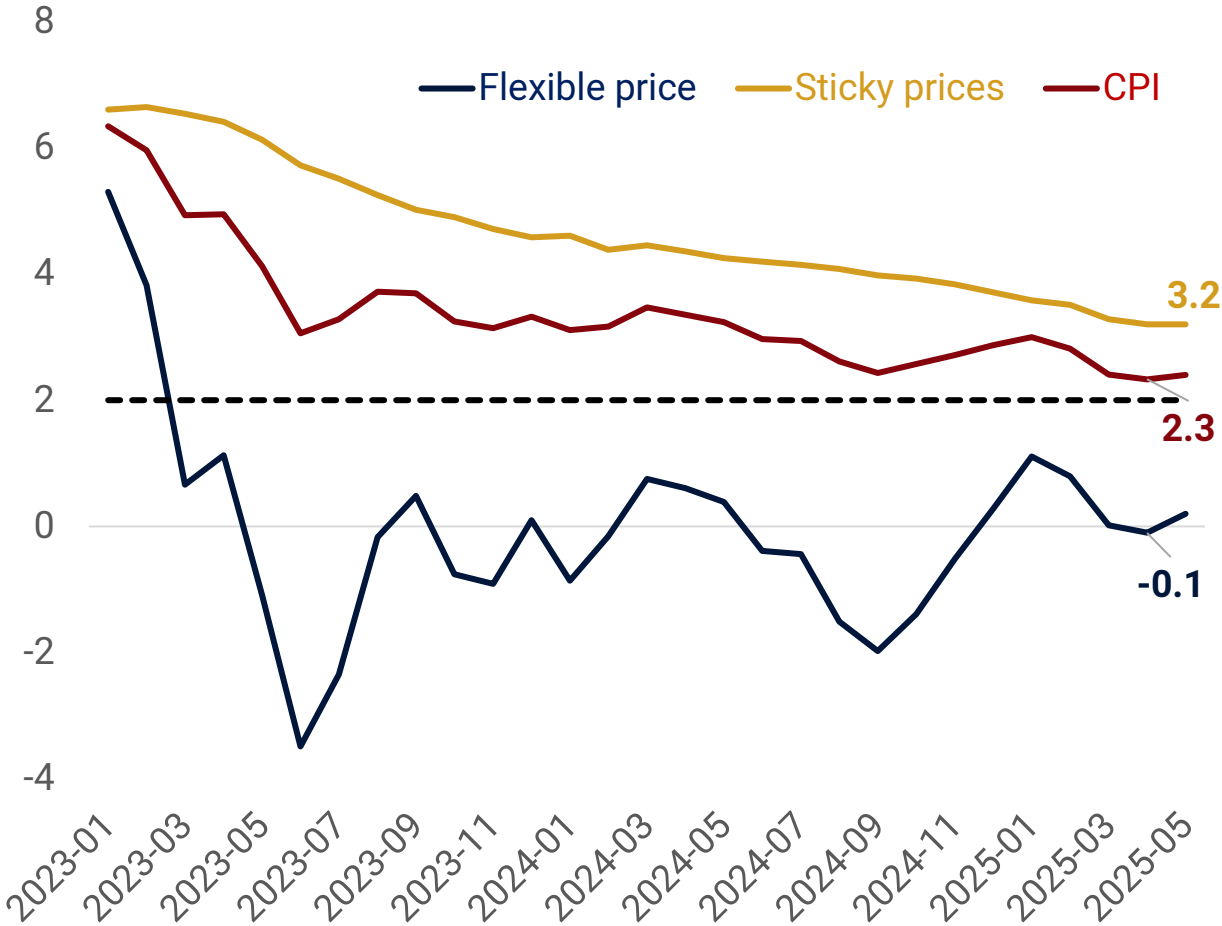


Market expectations around FED’s policy rate path



Source: Atlanta Fed

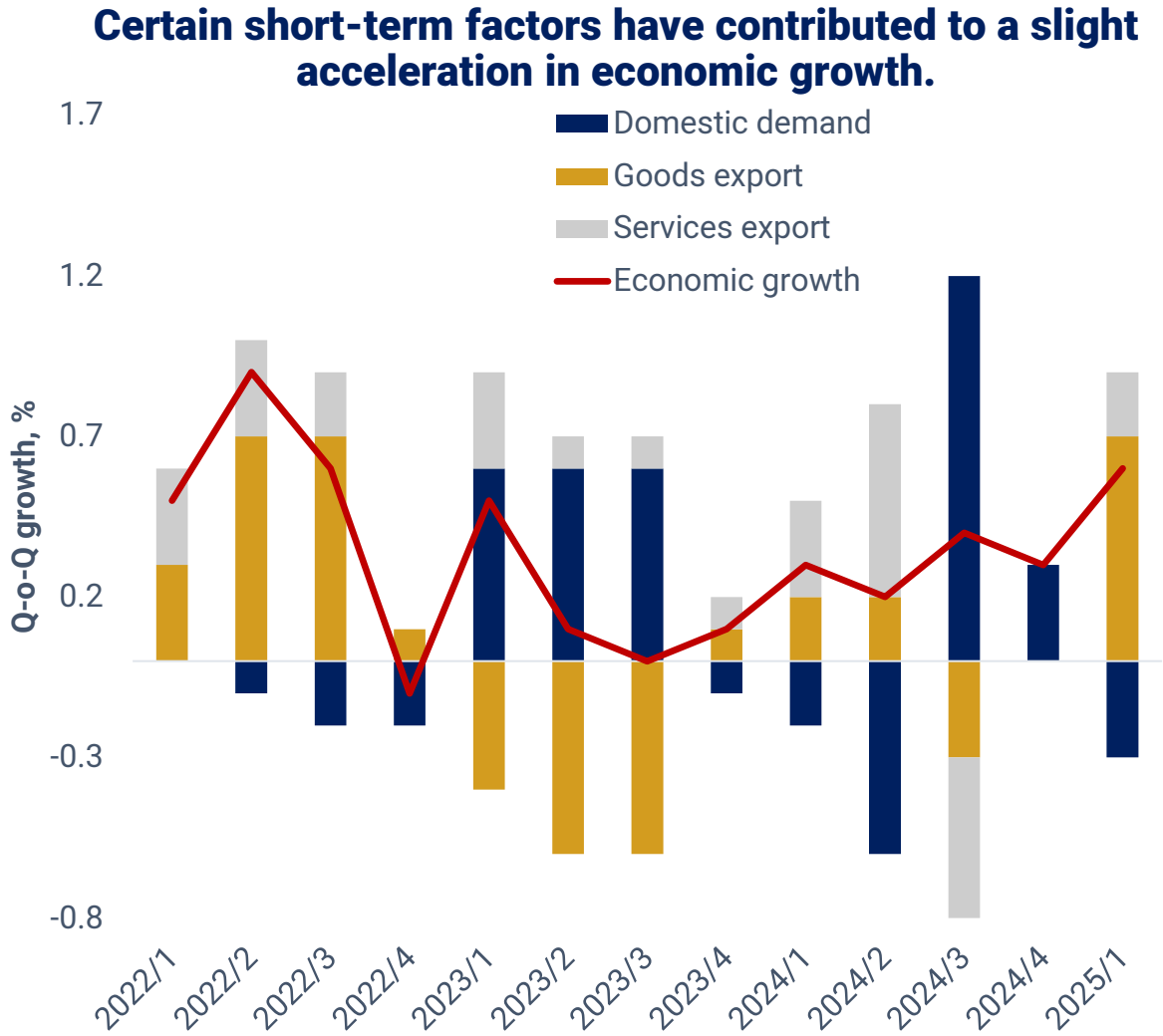
Imposed tariffs impact on inflation is still marginal.



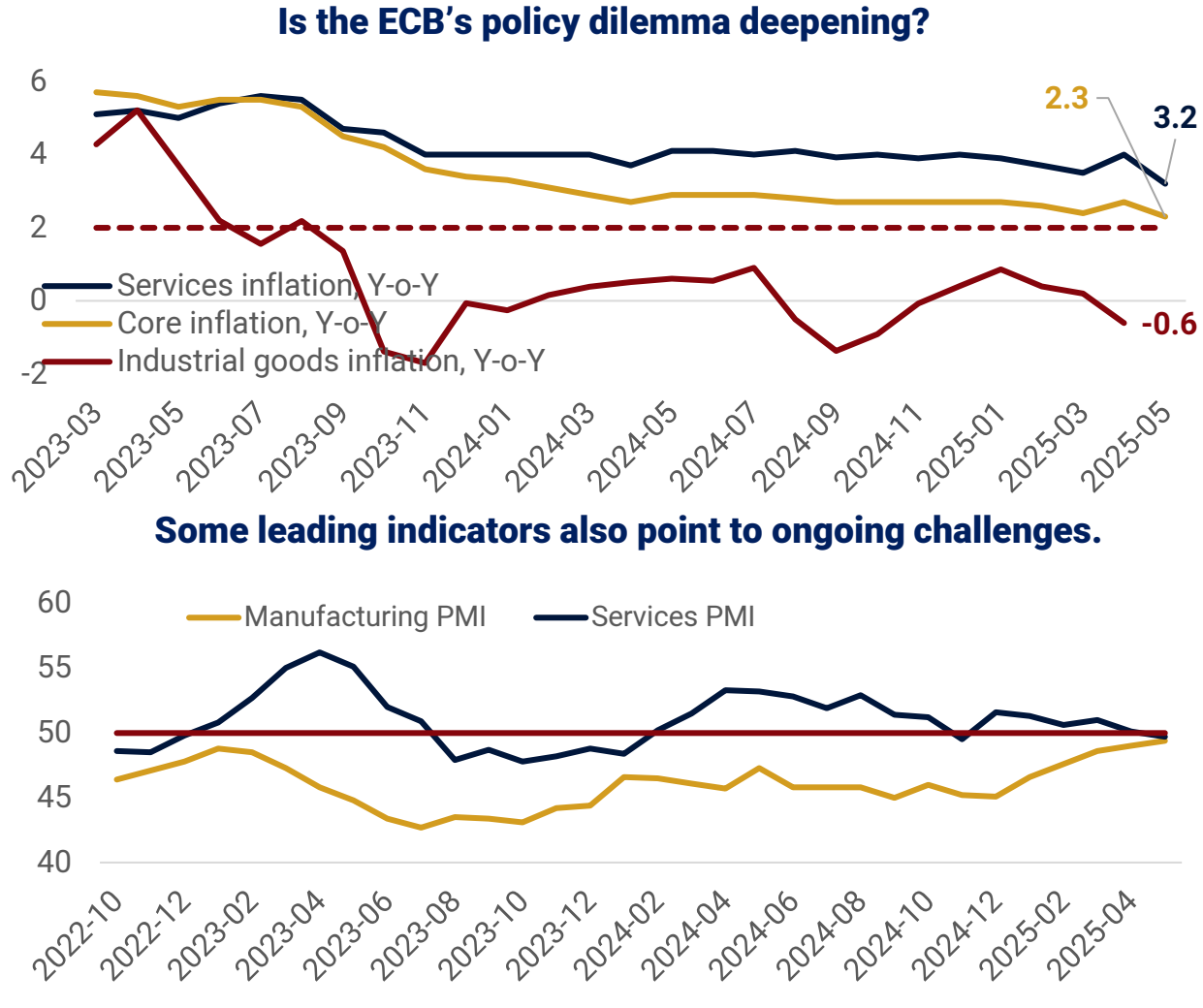
Source: CBA calculations

EA: The outlook and structure of economic growth remain concerning, particularly in the context of the tightening of trade policy with the U.S. and the risks associated with further weakening of china's economic growth.





Source: Eurostat



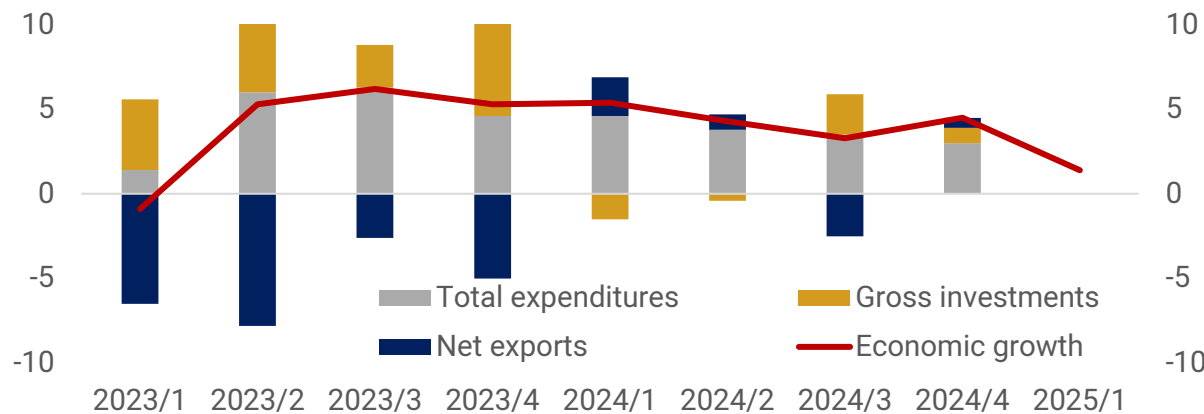
Source: Eurostat

Russia: Uncertainty persists regarding the current state of the economy and the medium-term outlook amid a significant slowdown in economic growth.

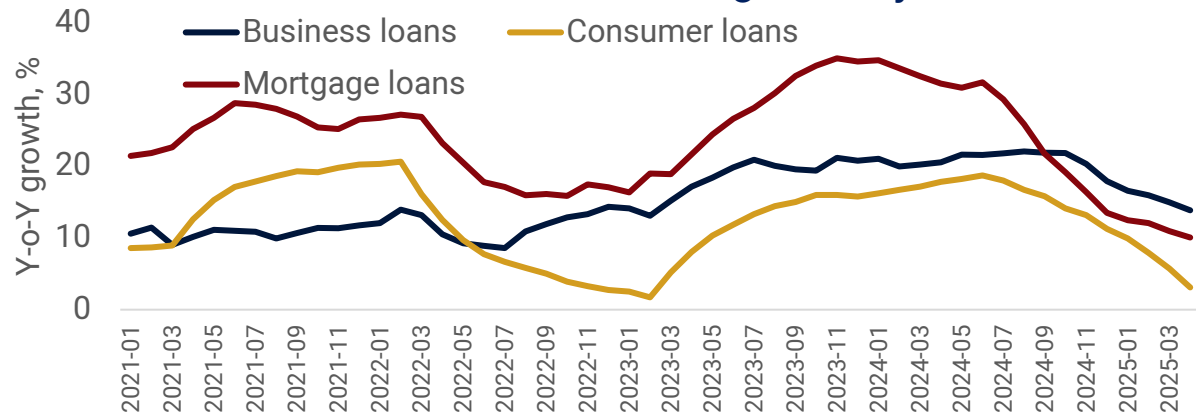
In the context of slowdown in domestic demand and, on the other hand, the sharp appreciation of the ruble, the inflationary environment has recently been easing.



GDP growth composition, contributions, percentage points (p.p.)

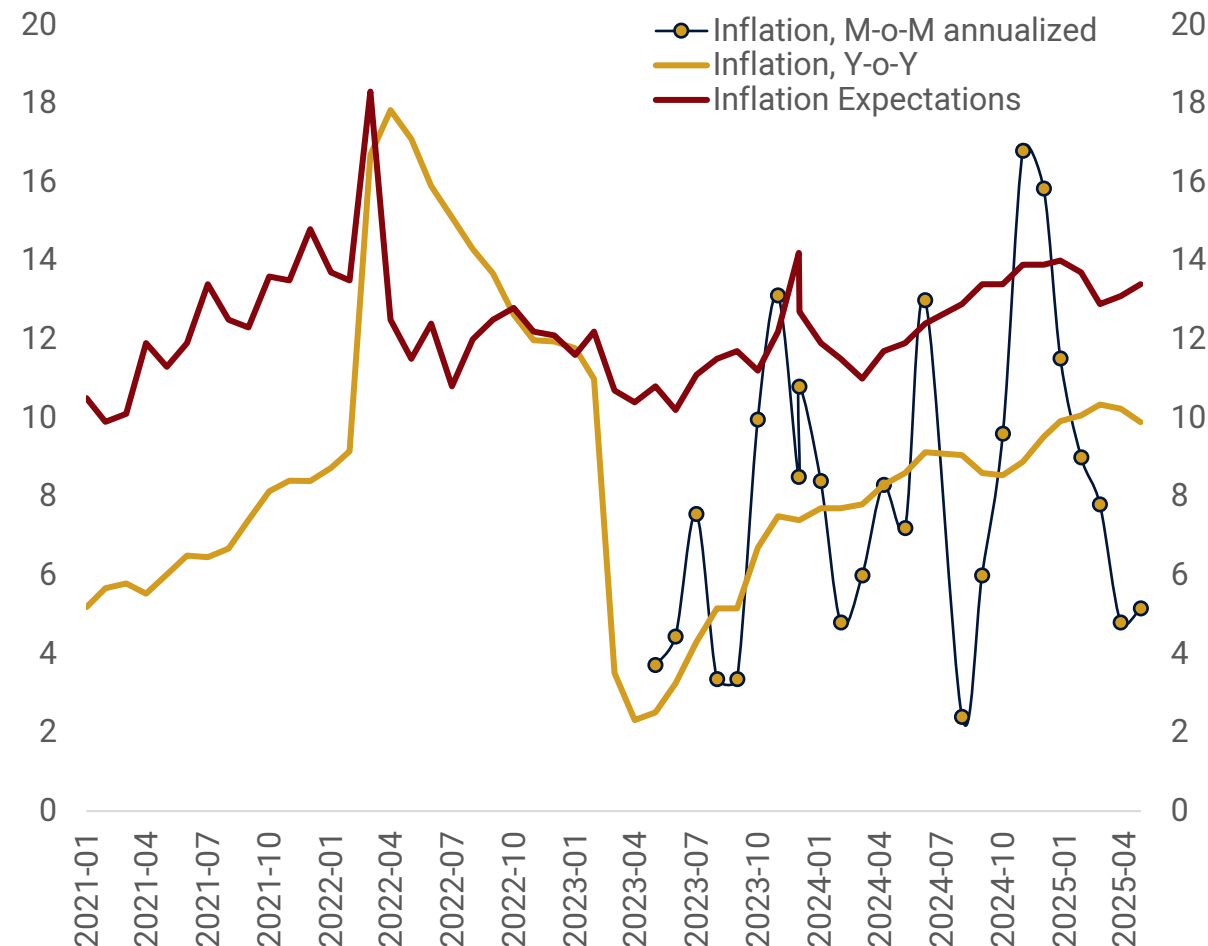


Under conditions of prolonged high market interest rates, credit growth rates have slowed significantly.



Source: Rosstat, Bank of Russia

Despite current signs of a weakening inflationary environment, risks to its stability remain.

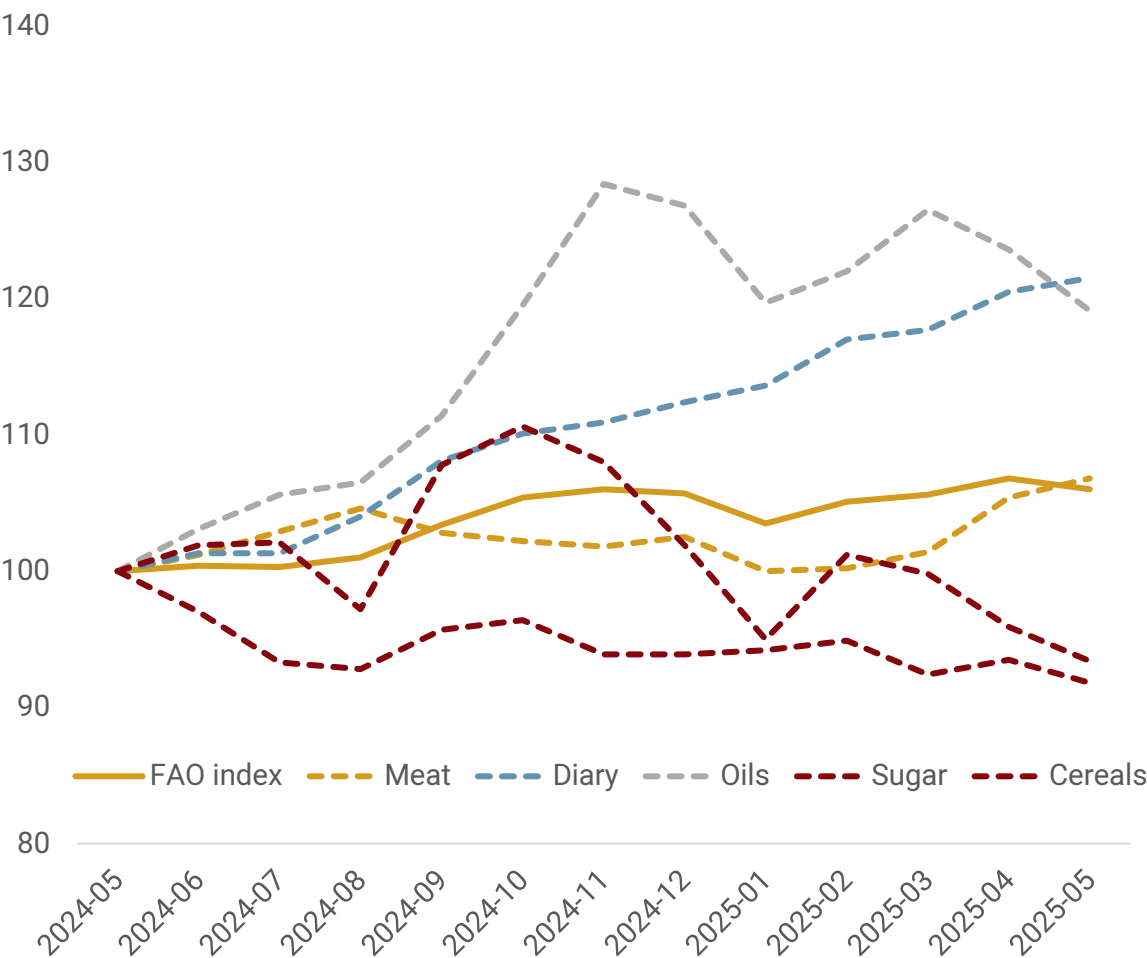


Source: Russian CB

Commodity markets: The escalation of geopolitical tensions in the Middle East and risks surrounding a weaker global economic outlook carry significant risks related to rising prices and volatility, as well as potential disruptions to value chains.

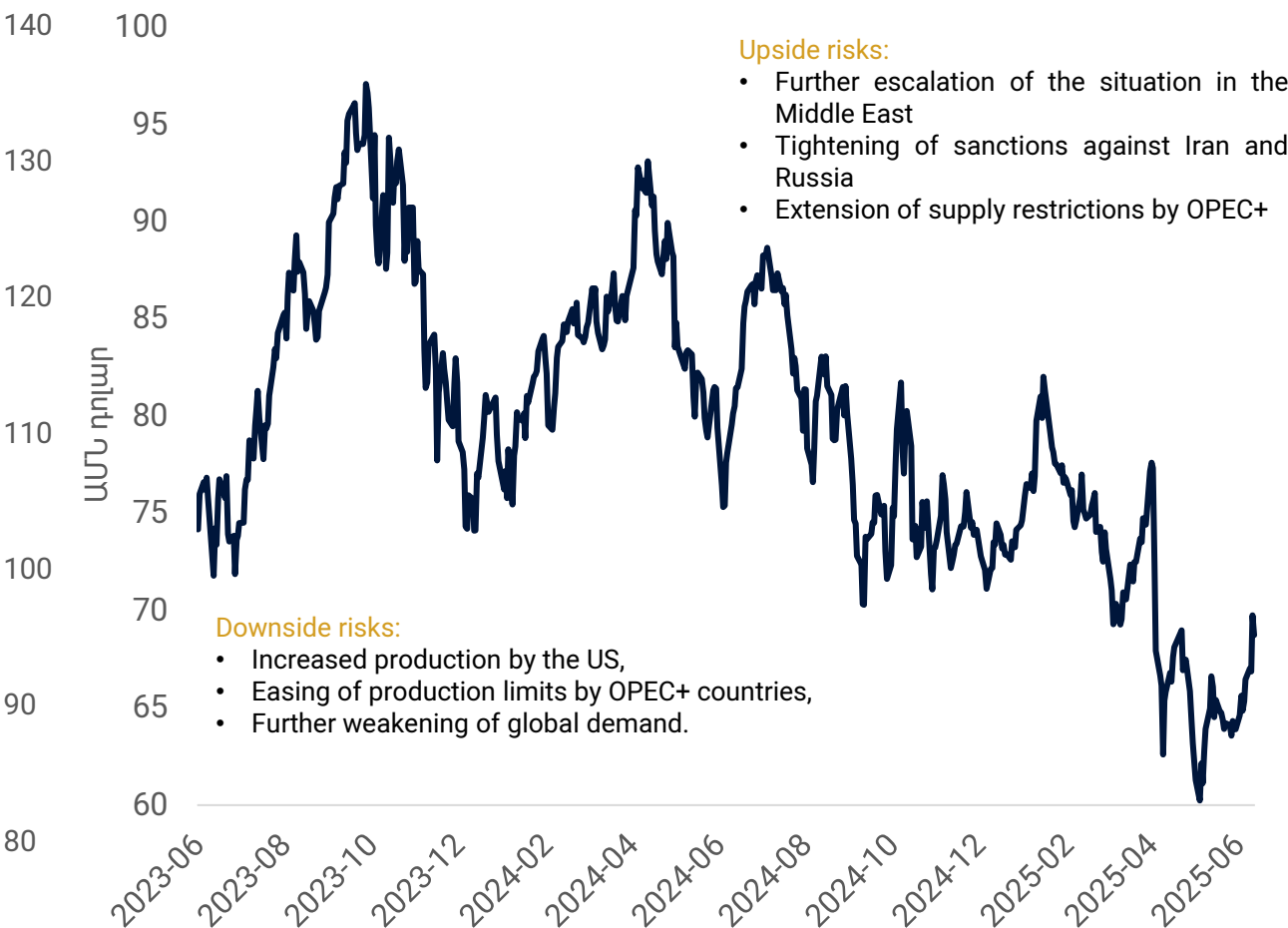


Global Food Price Index(FAO), May 2024 = 100



Source: FAO

International oil prices (Brent), daily, USD/barrel



Source: Bloomberg

Key sources of uncertainty related to the global economy



USA

- Uncertainties regarding long-term (neutral) interest rates.
- Potentially more expansionary fiscal policy introduces additional uncertainties about debt levels and sustainability.
- Risks stemming from the tightening of trade and migration policies

EA

- Uncertainty related to economic growth prospects, economic structure, and fundamentals,
- Risks regarding the more stimulative medium-term stance of fiscal policy

China

Despite the acceleration of economic growth, risks related to the real estate market, financial stability, and further weakening of demand persist.

Russia

- Despite the significant slowdown in economic growth, strong domestic demand persists, raising risks to the sustainability of the easing inflationary environment.
- Risks related to the possible resolution of the Russia-Ukraine conflict and the formation of a positive economic outlook
 - Significant increase in volatility in commodity markets due to the geopolitical situation

Commodity Markets

The further escalation of geopolitical tensions, sanctions against Russia, weather-related and trade risks contains threats of global supply chain disruptions, a further increase in global oil prices, and heightened volatility.



Current and Fundamental Economic Factors

Domestic Economic Developments

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



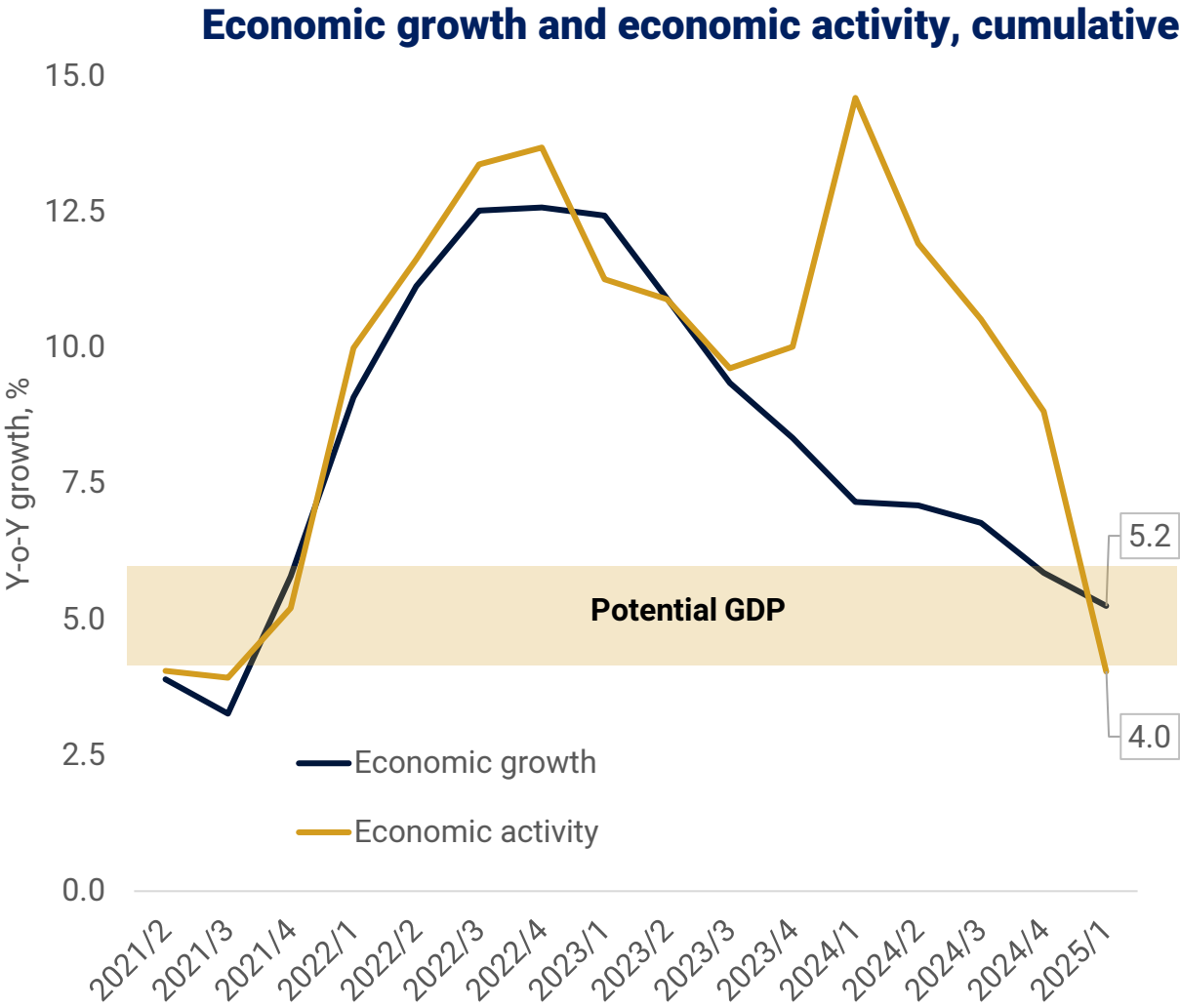
Source: Bloomberg, CBA calculations



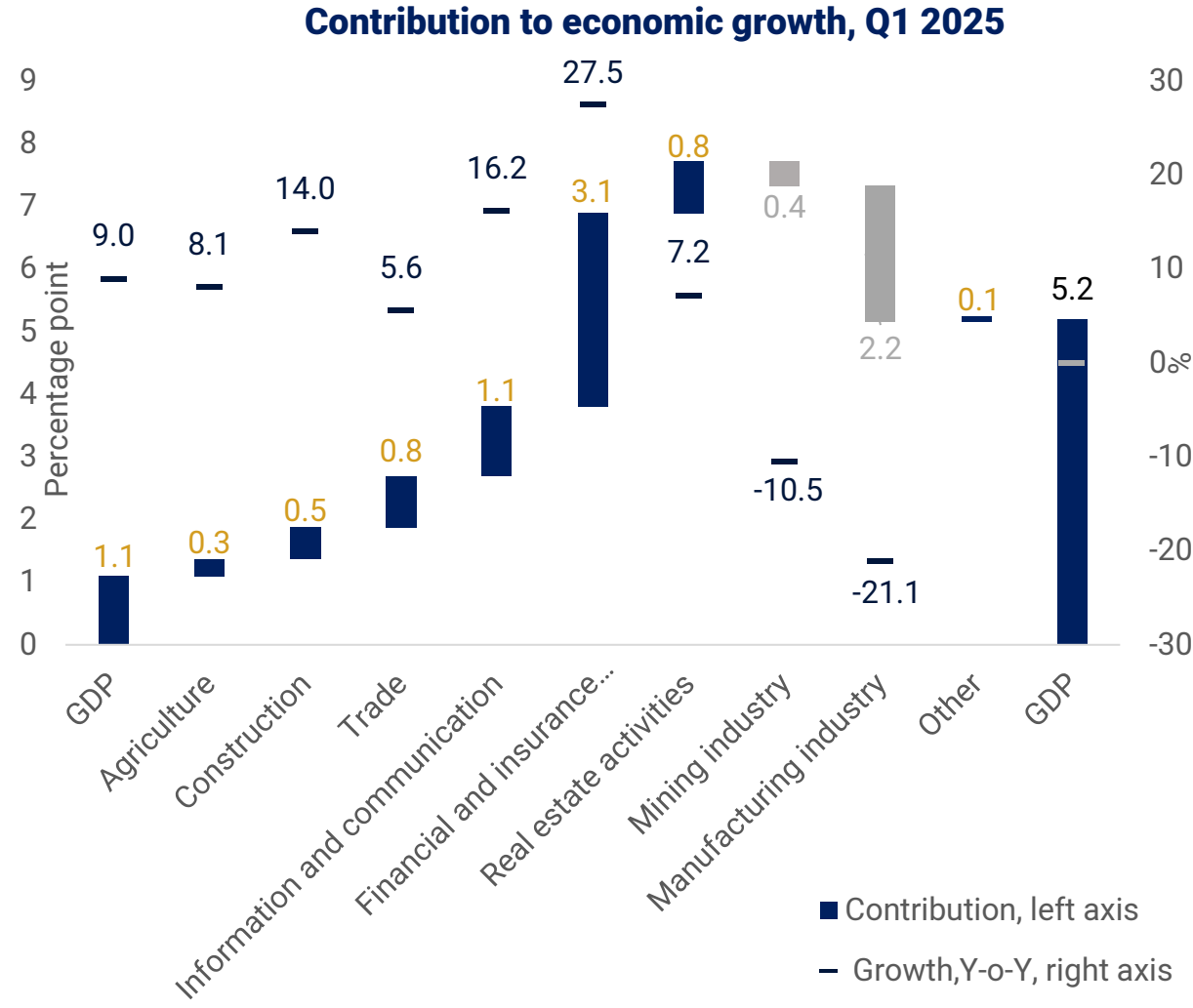
Source: Bloomberg, CBA calculations

Economic growth: As certain short-term, non-fundamental factors fade, economic growth in Armenia has been gradually weakening approaching the long-term sustainable levels.



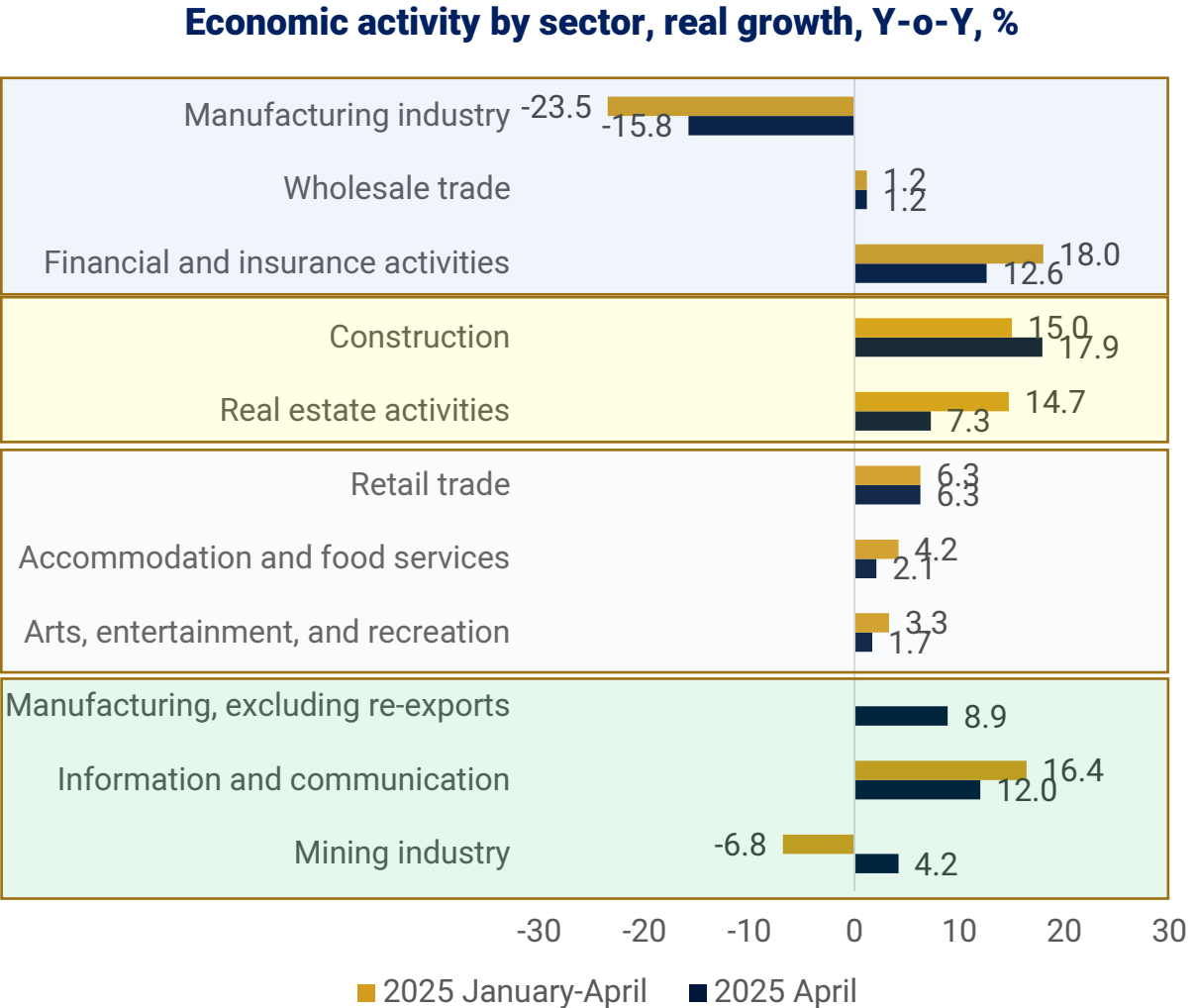
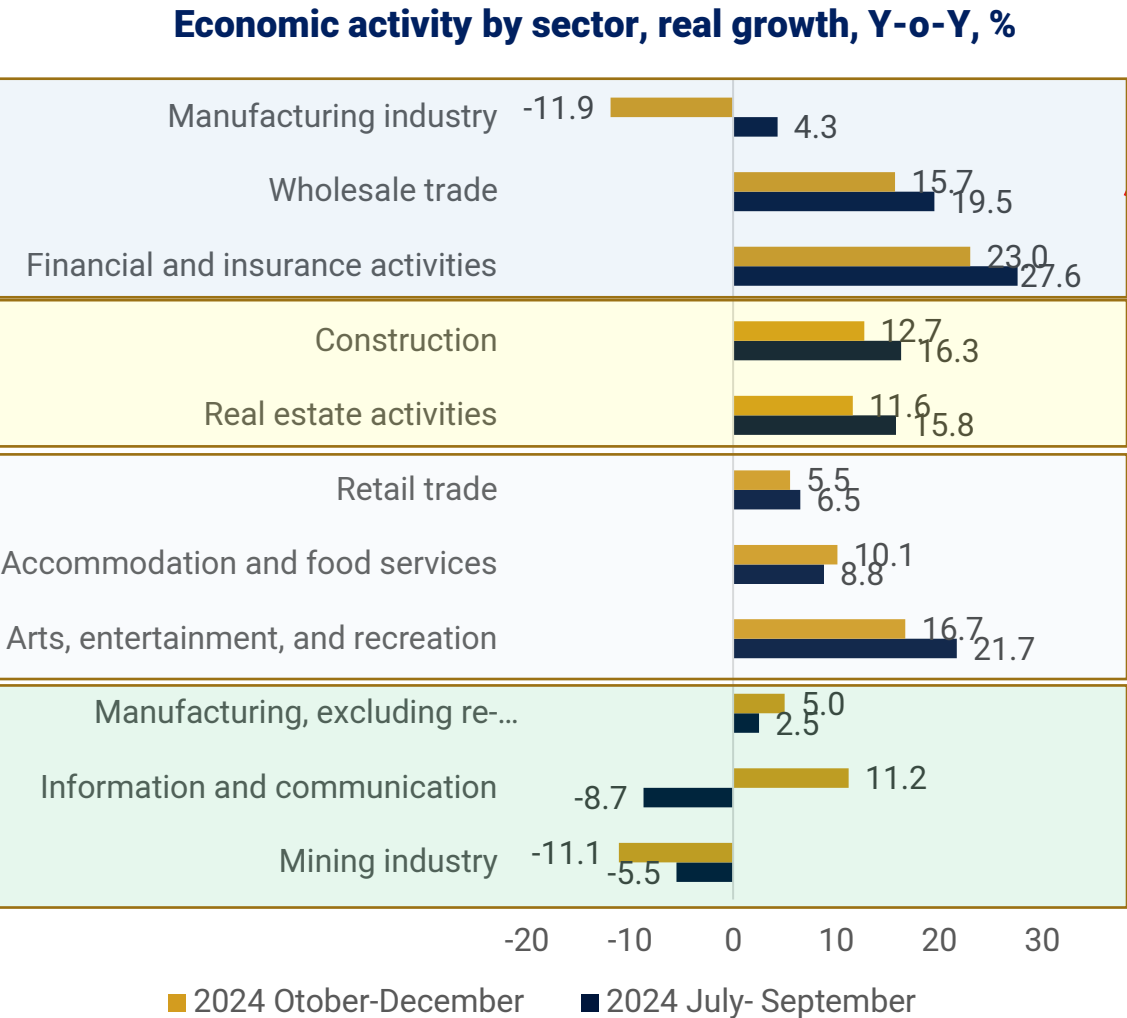


Source: RA Statistical Committee, CBA calculations



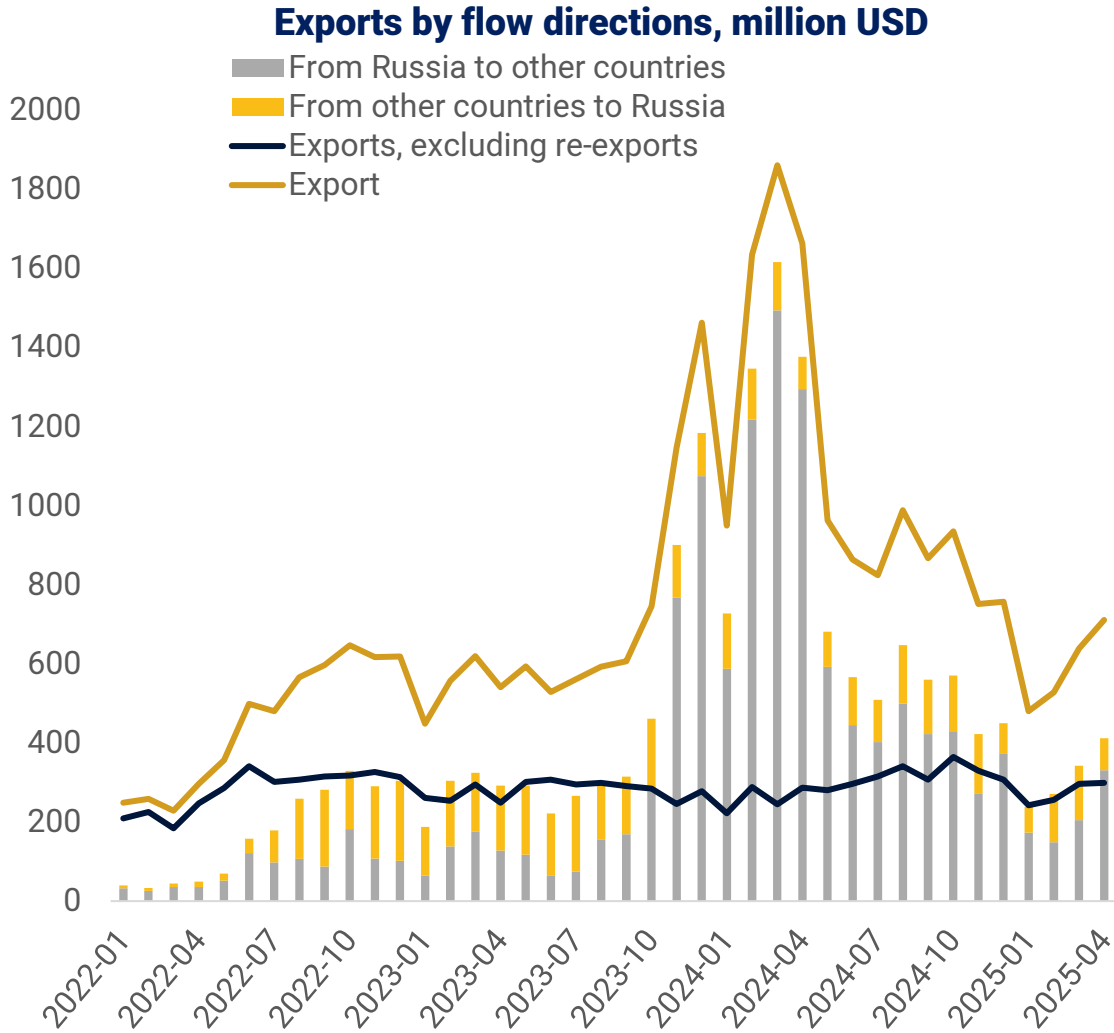
Source: RA Statistical Committee, CBA calculations

Economic activity: Notable changes in the growth structure continue to be observed, in favor of more productive, export-oriented sectors.

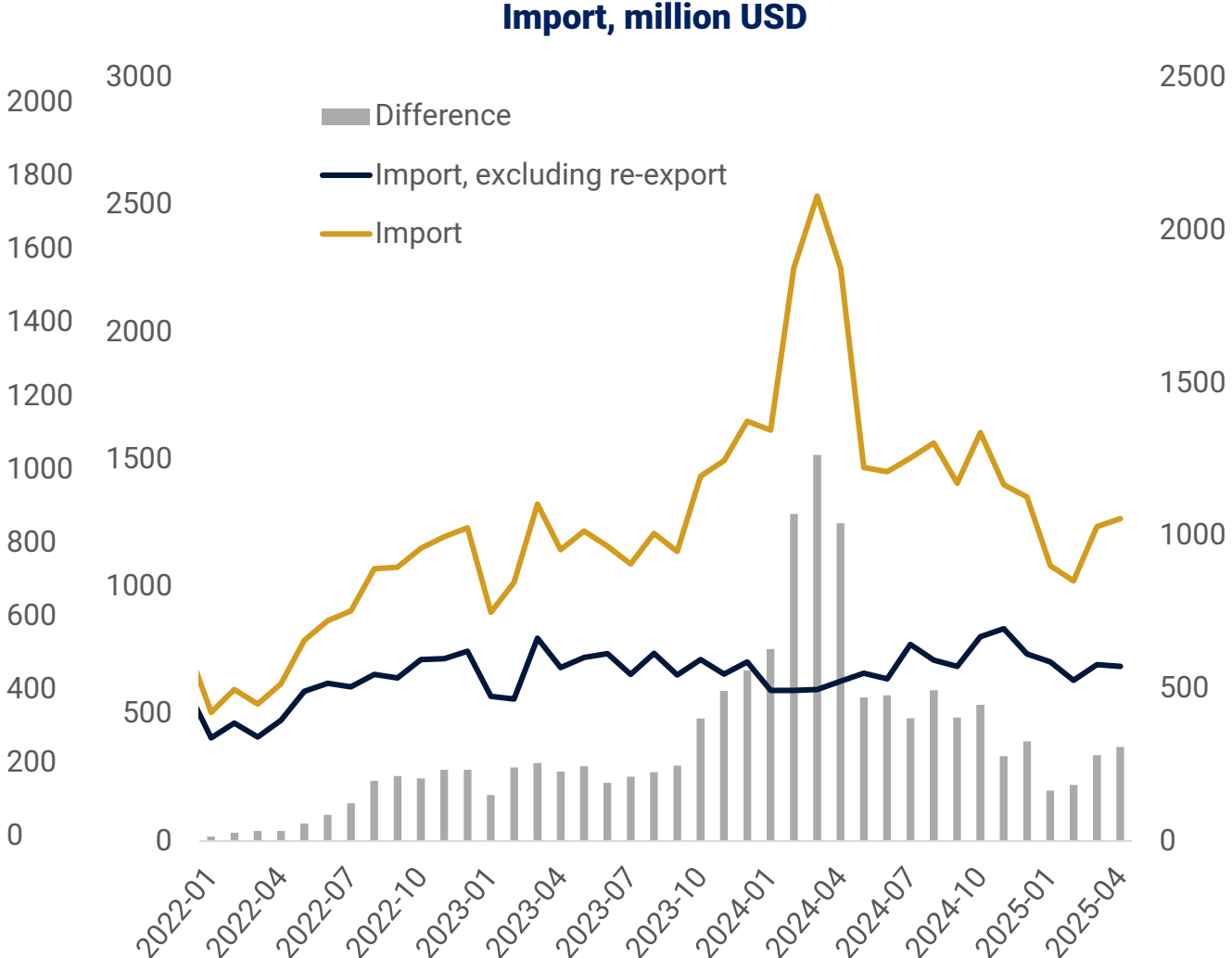


Source: RA Statistical Committee

Economic activity: Although trade-related flows have increased in recent months, they remain low, and risks to their stability persist.



Source: RA Statistical Committee, Central Bank estimates



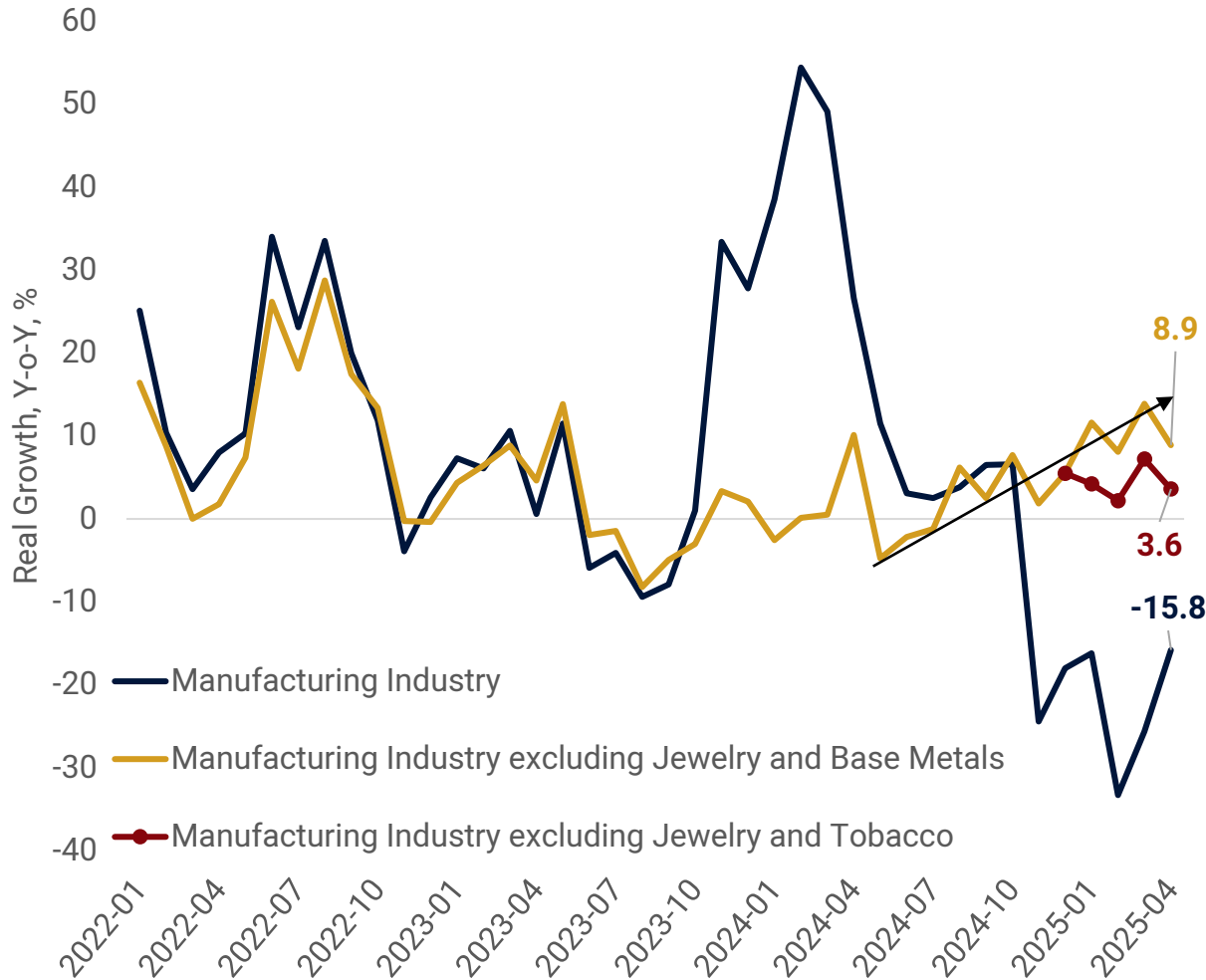
Source: RA Statistical Committee, Central Bank estimates

Economic activity: Along with the weakening in external trade, signs of recovery in traditional manufacturing sectors are evident.

Though concentration in certain specific subsectors remains high...

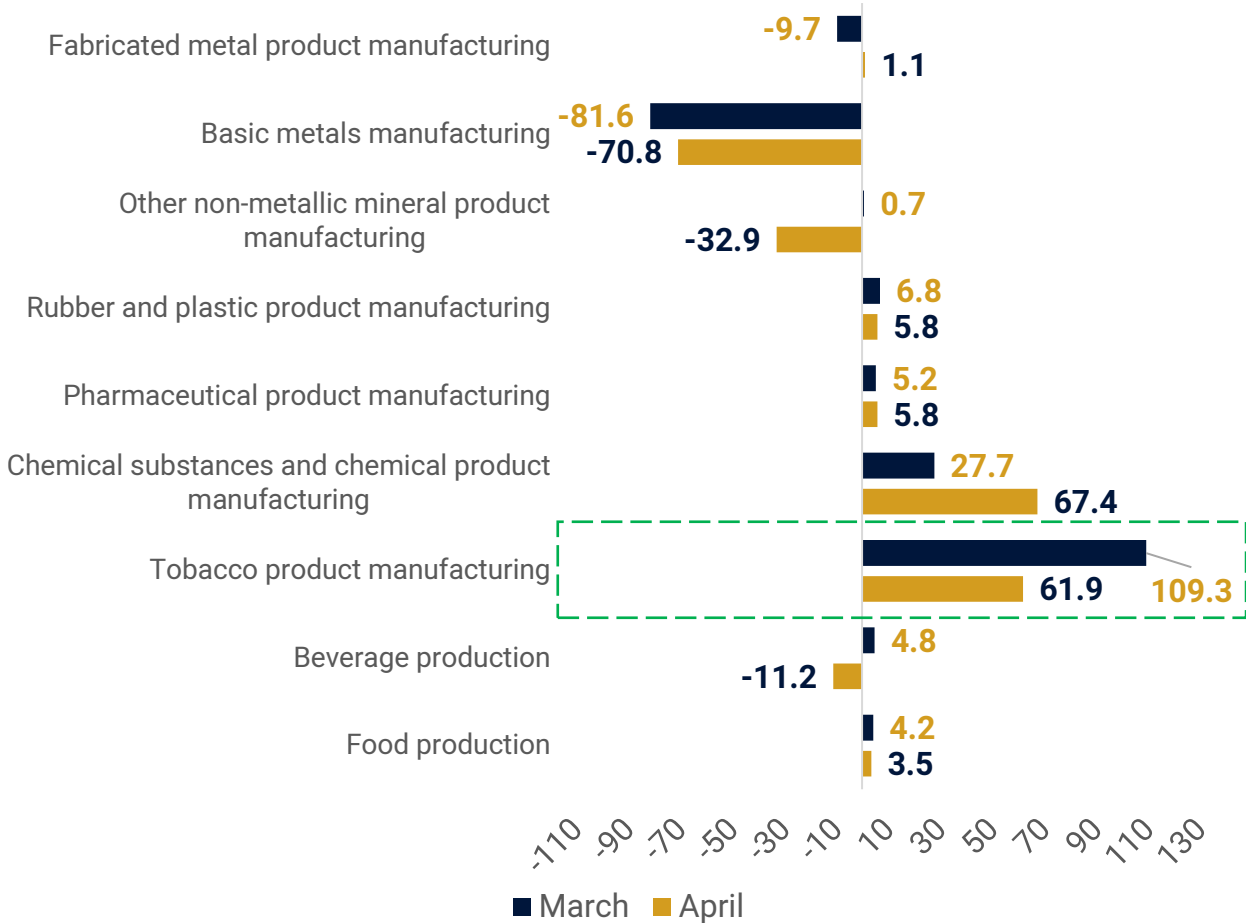


Manufacturing industry, real growth



Source: RA Statistical Committee, CBA calculations

The growth of the manufacturing industry has been mainly driven by the strong expansion of the tobacco production sector.

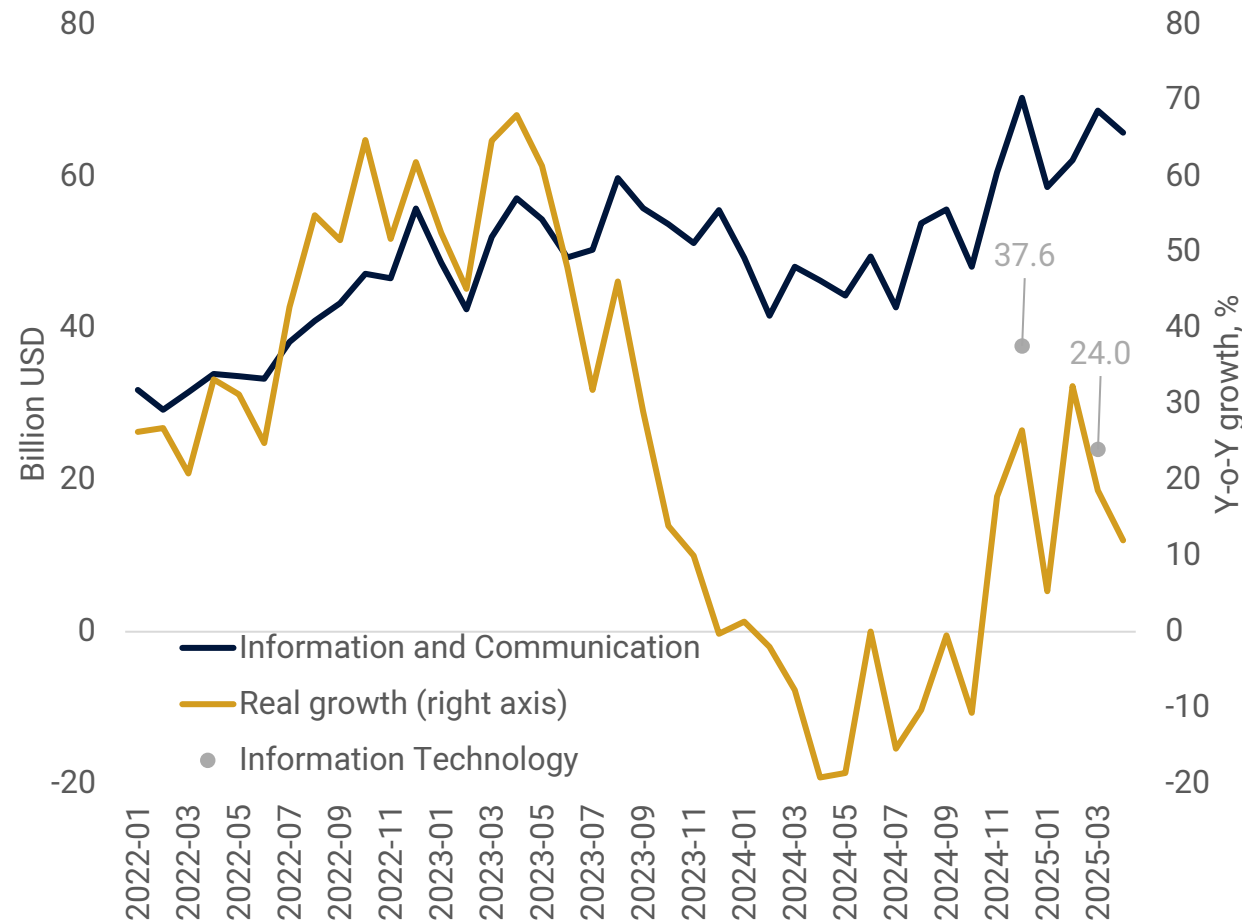


Source: RA Statistical Committee

Economic activity: In the IT sector, despite recorded high growth, employment, wage growth, and other key indicators do not signal capacity expansion.

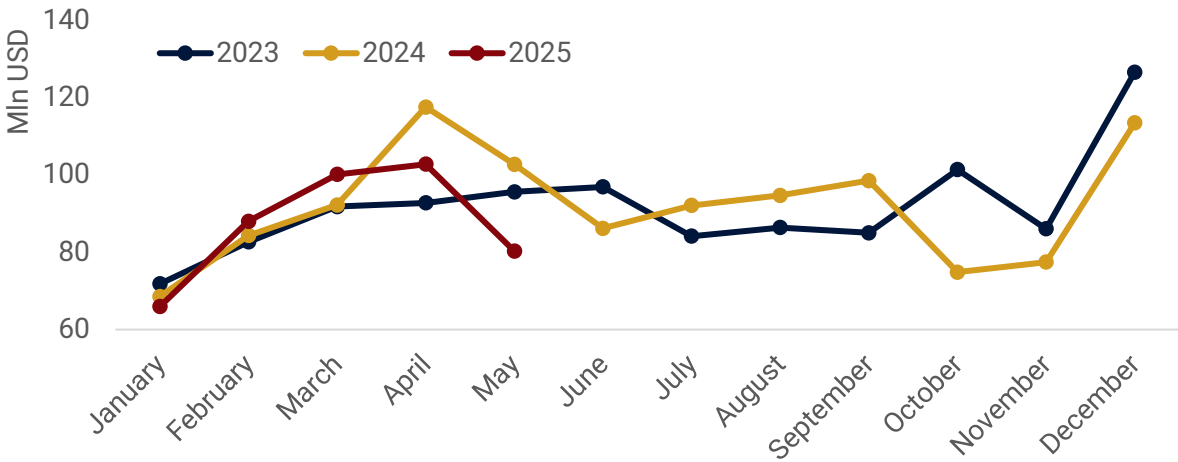


Growth in the information and communication sector continues to remain at high levels.

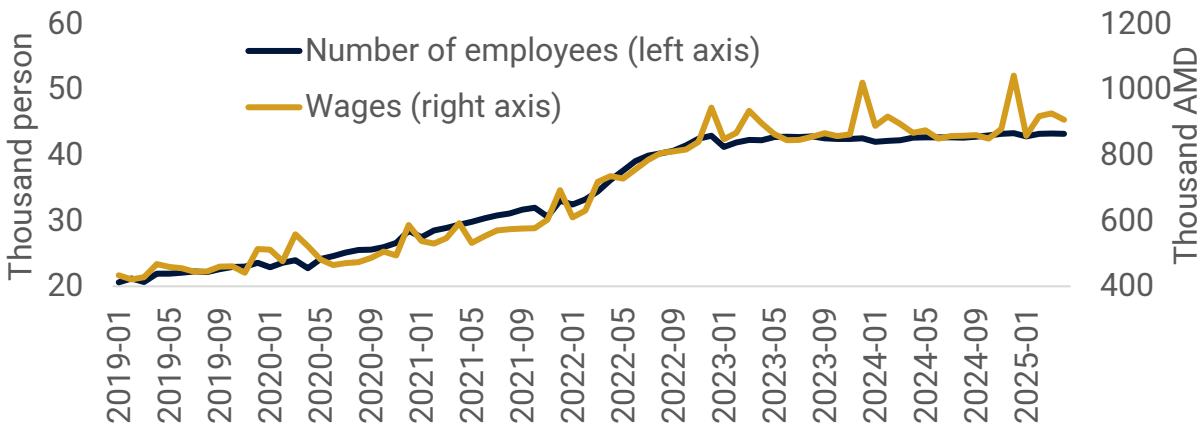


Source: RA Statistical Committee CBA (Central Bank of Armenia)

Foreign Currency Sales by the IT Sector, Monthly



Employment in the information and communication sector

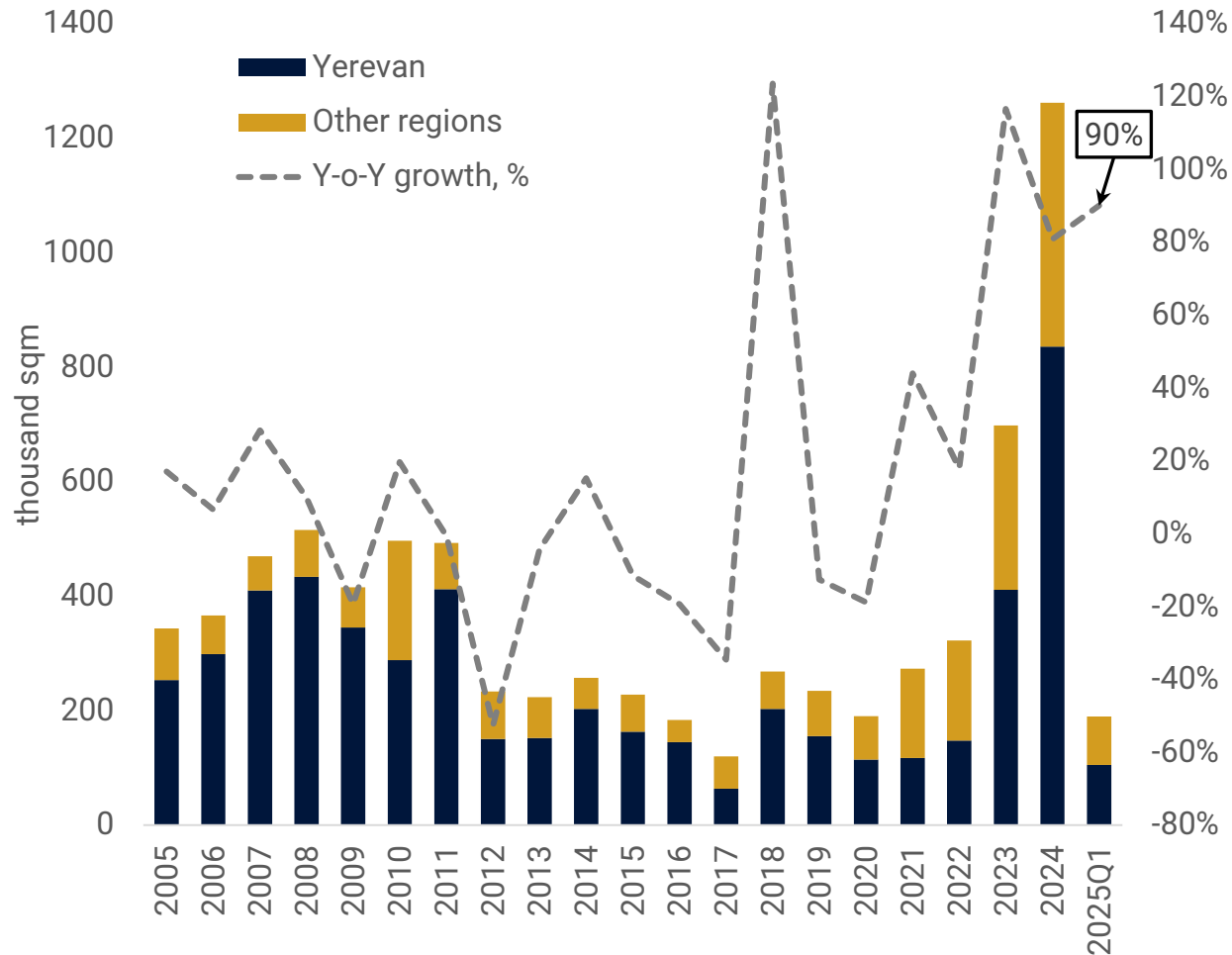


Source: RA Statistical Committee, CBA (Central Bank of Armenia)

Economic activity: Amid gradual adjustment in property prices, growth and demand in related sectors are weakening posing risks for a broader slowdown in economy.



In the coming years, supply is likely to be high.



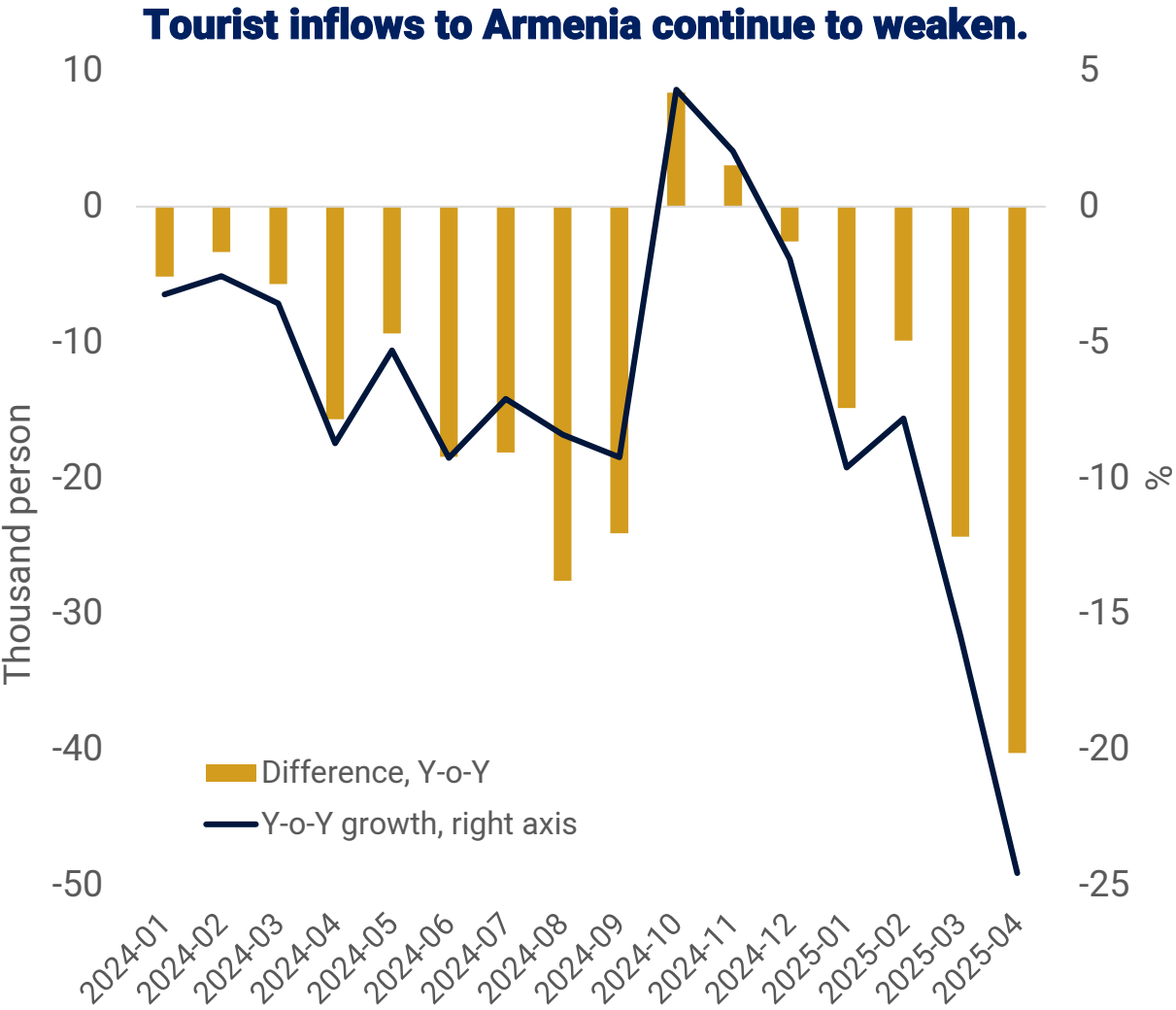
Source: RA Statistical Committee

Real estate prices gradually adjust.

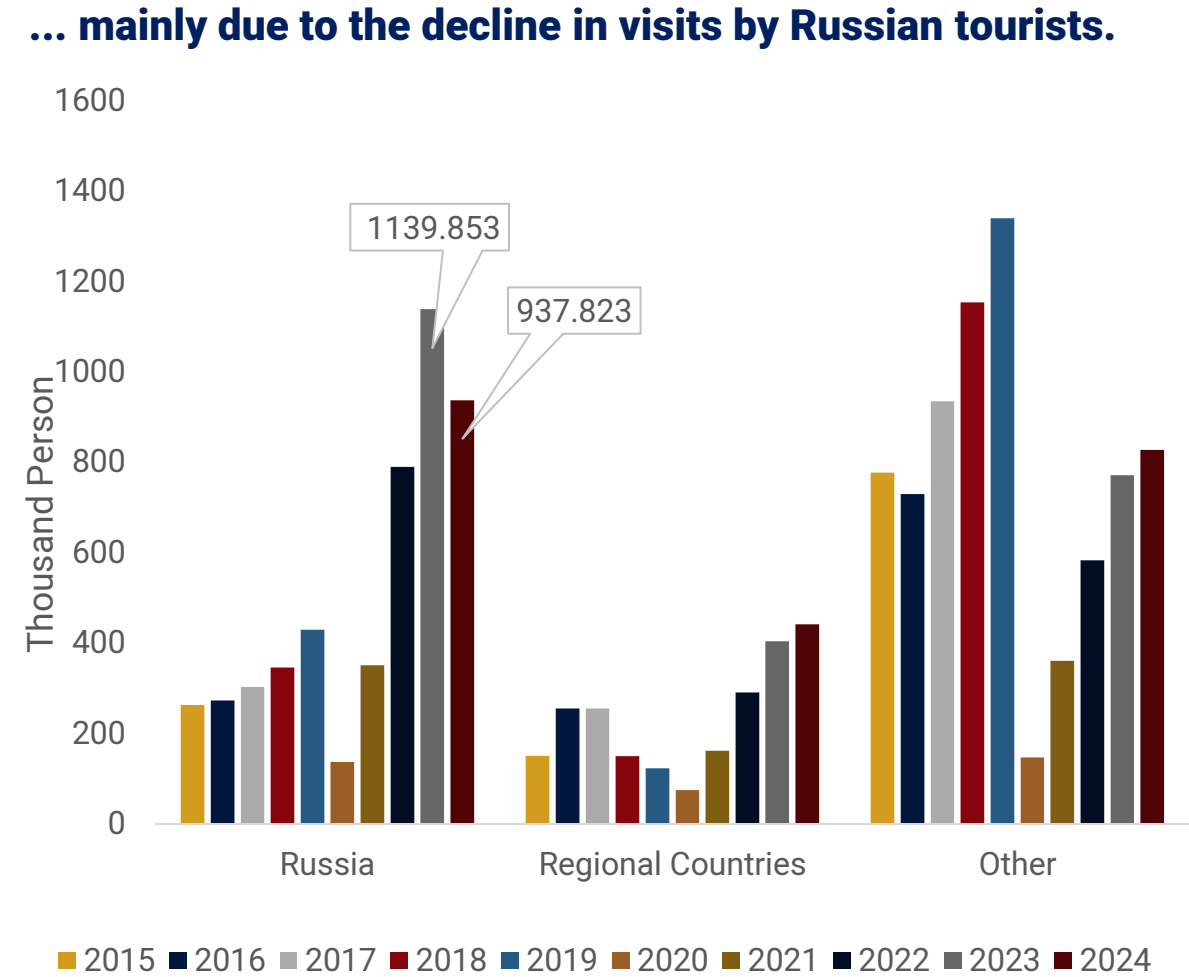


Source: RA Cadastre Committee

Aggregate Demand: External demand is gradually adjusting over recent quarters....



Source: RA State Tourism Committee



Source: RA State Tourism Committee

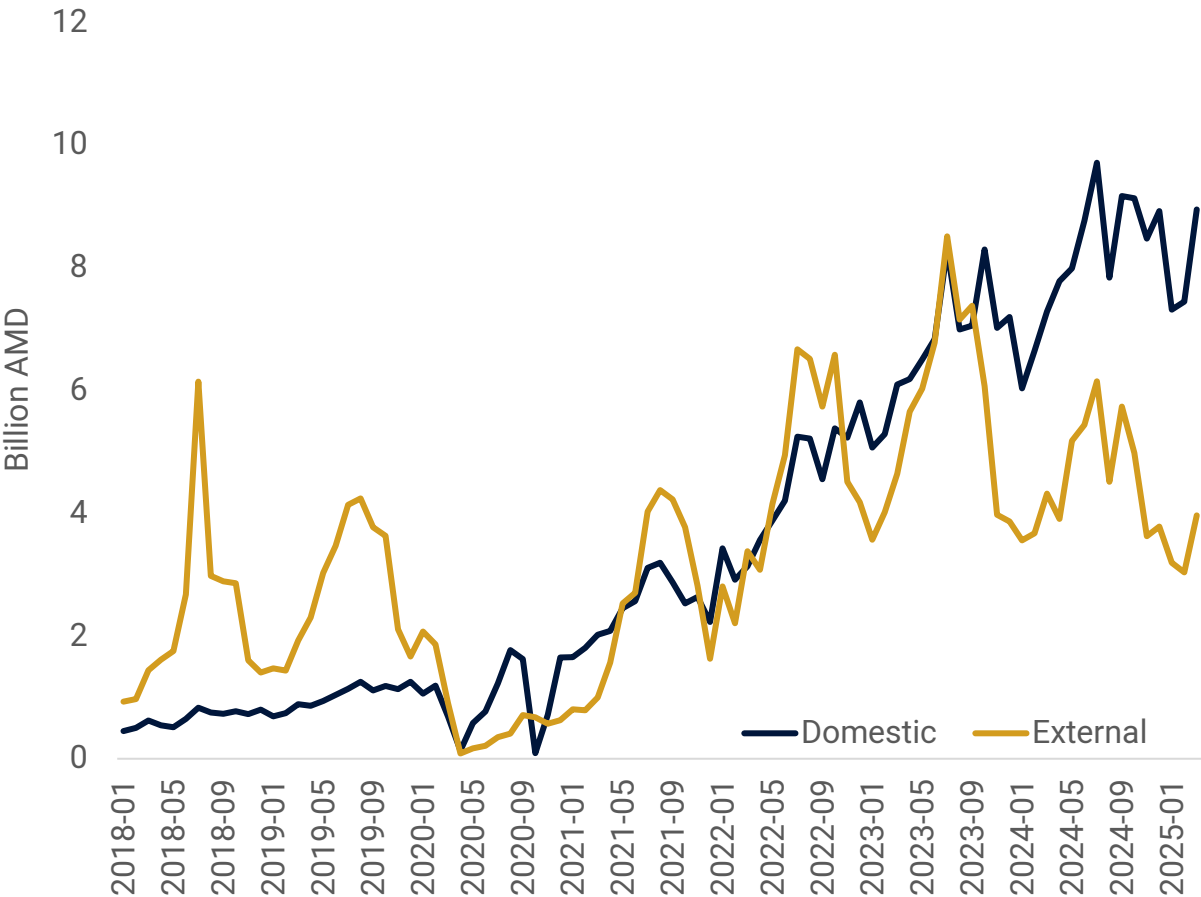
Note: The group of regional countries includes Georgia and Iran

Aggregate demand: ... Reflected in relatively low inflation in certain service sectors.

The further adjustment in external demand may have asymmetric impact on some sectors.

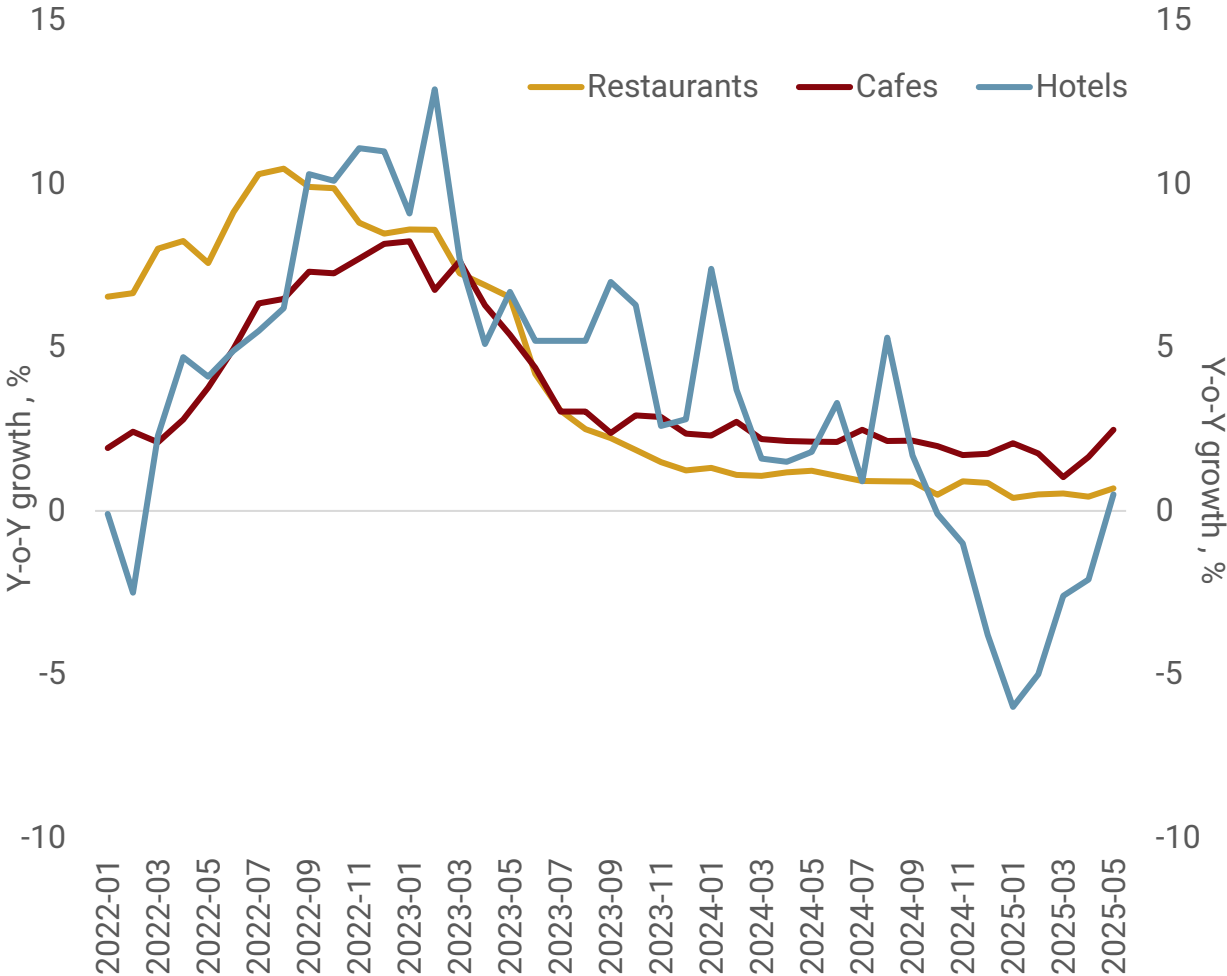


Volume of Card Transactions in the Accommodation and Food Service Sector by Card Issuing Country



Source: CBA

Inflation Across Different Service Sectors



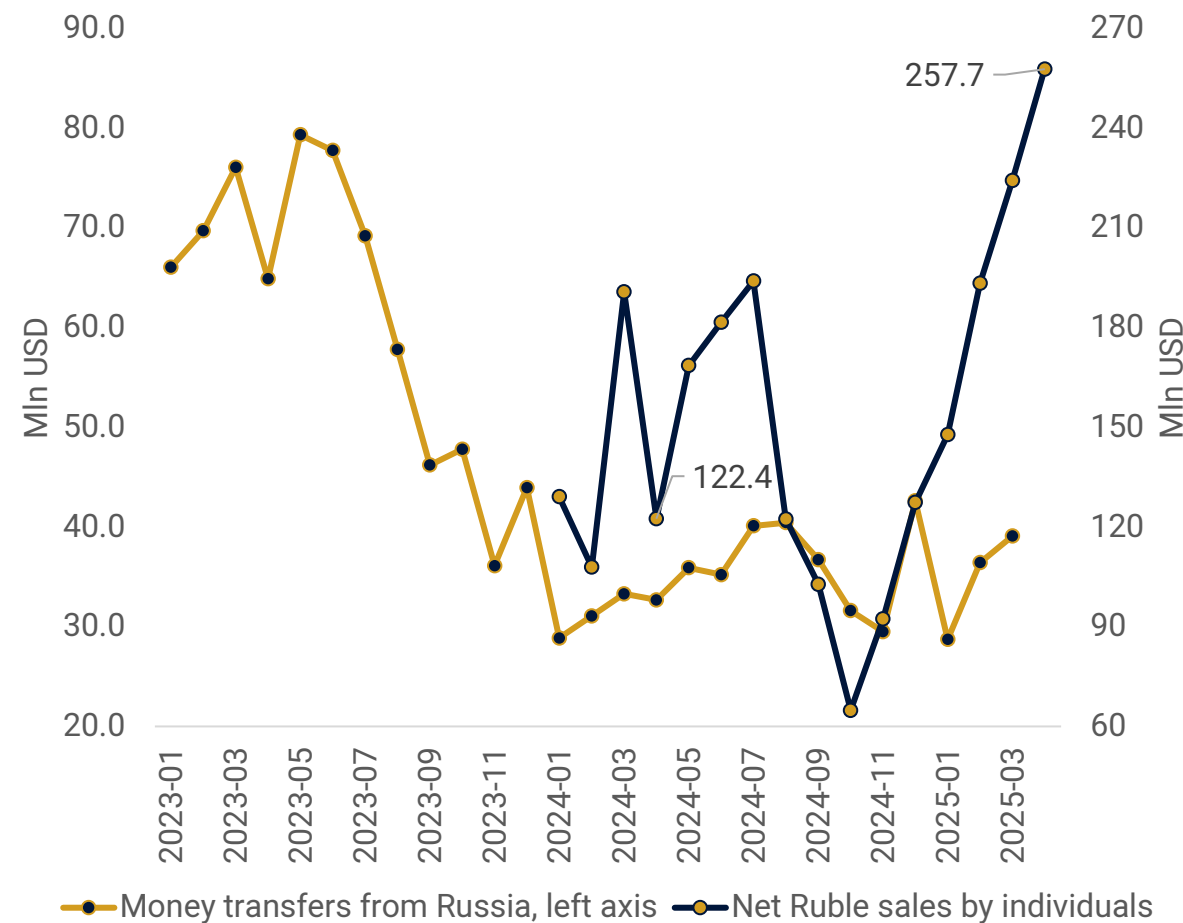
Source: Source: RA Statistical Committee

Aggregate Demand: Uncertainties persist regarding trends in seasonal migration to Russia and the channels of money transfers.

In case the current exchange rate of the ruble is maintained or further appreciates, the risks of increased labor migration to Russia become more pronounced.

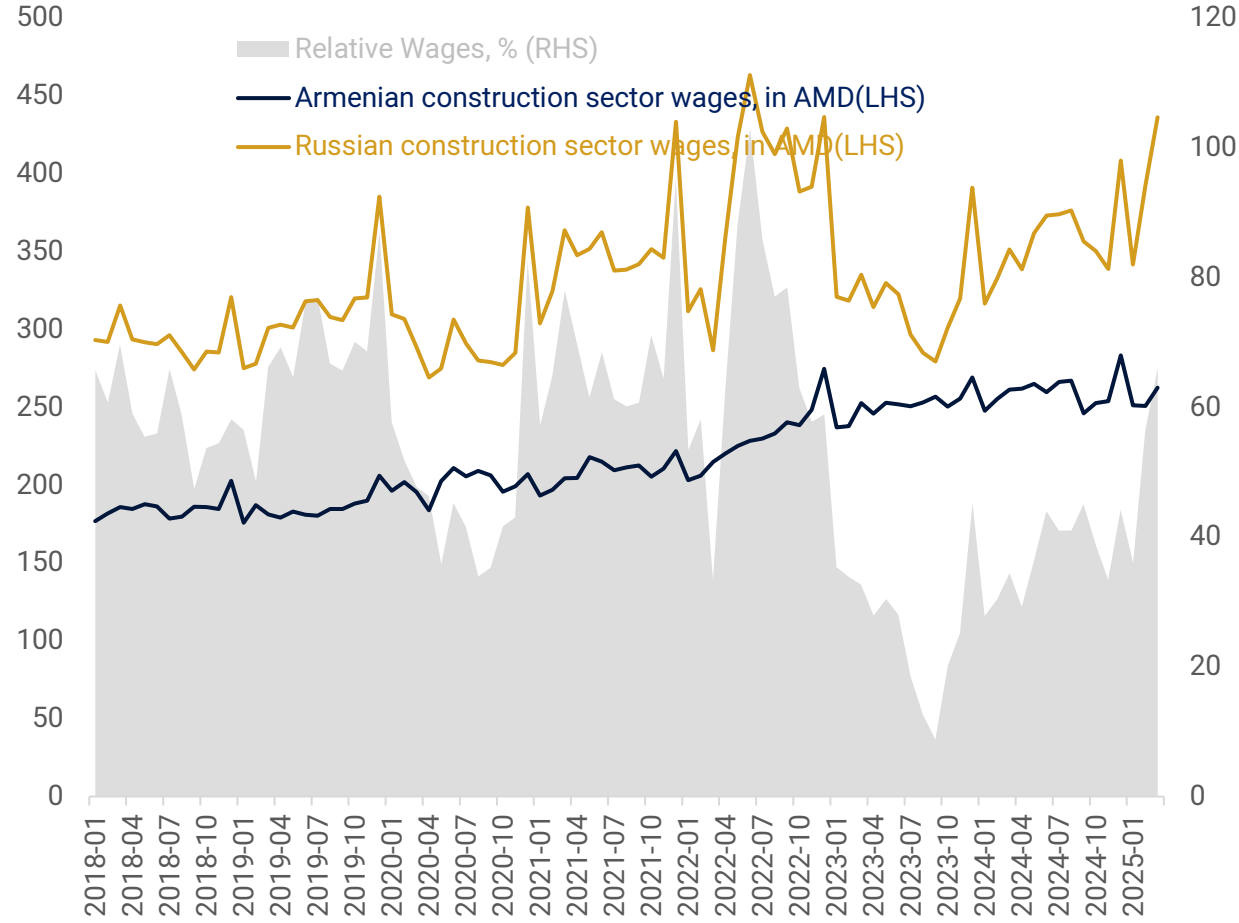


Recently, Ruble conversions by individuals have increased significantly though non-commercial transfers stay relatively stable.



Source: CBA

The difference in average wages in the construction sectors of Armenia and Russia has increased.



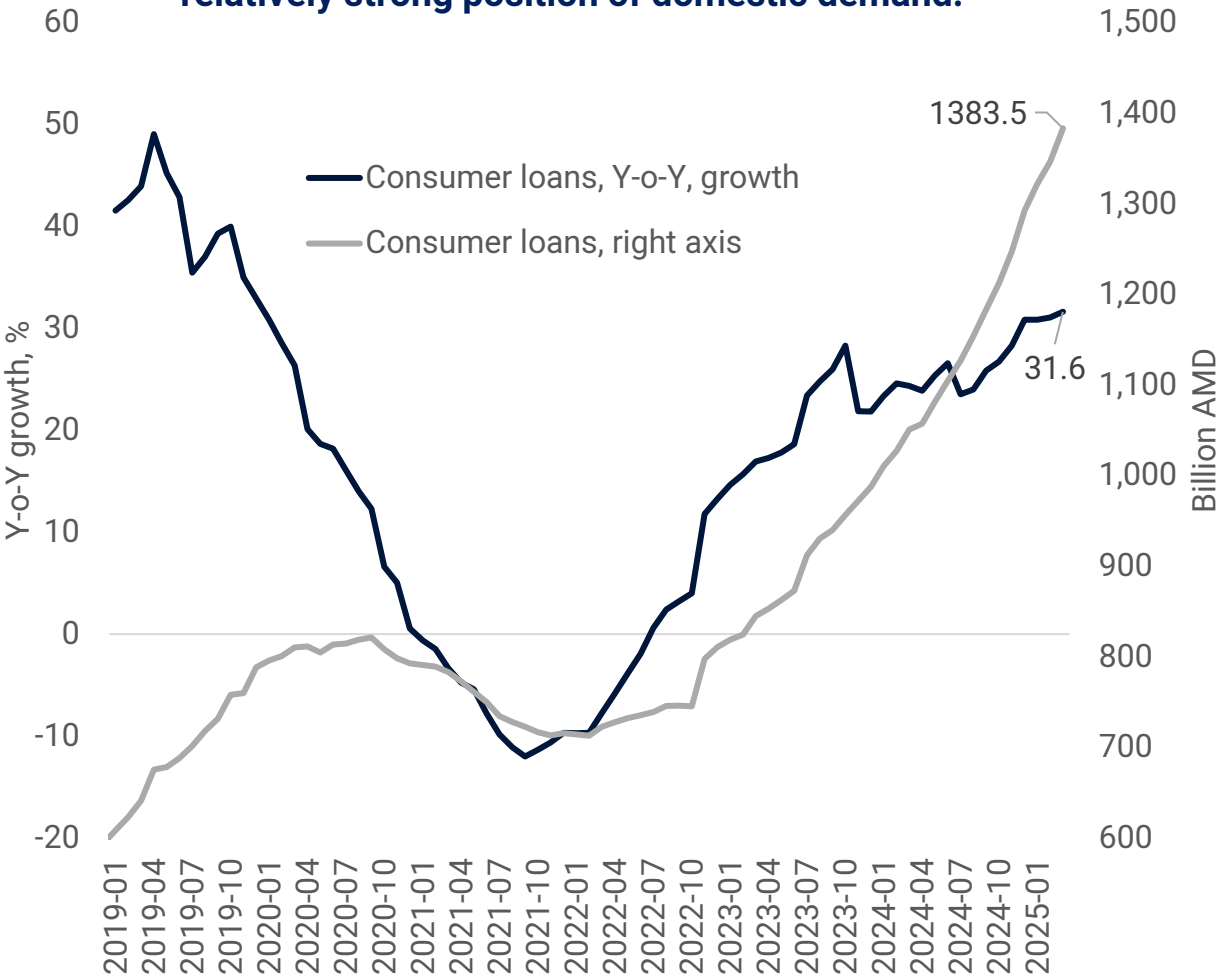
Source: Rosstat, CBA calculations

Aggregate demand: Despite the slowdown in certain services, some strong signs of domestic demand expansion are observed...

Looser lending conditions and accumulated private savings may further expand the domestic demand.



High volumes of lending persist—possibly reflecting the relatively strong position of domestic demand.

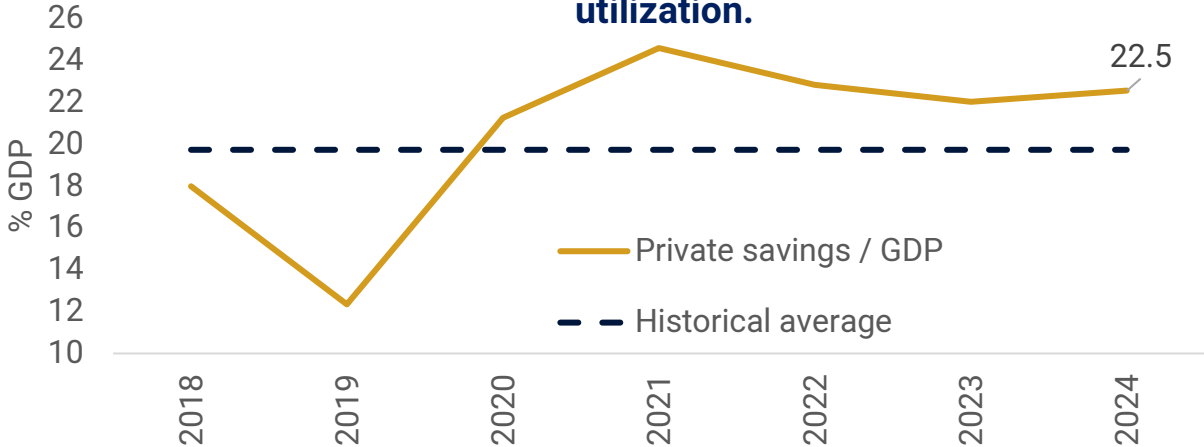


Source: CBA

Import growth for personal consumption continues to remain at high levels.



There are uncertainties regarding the directions of savings utilization.

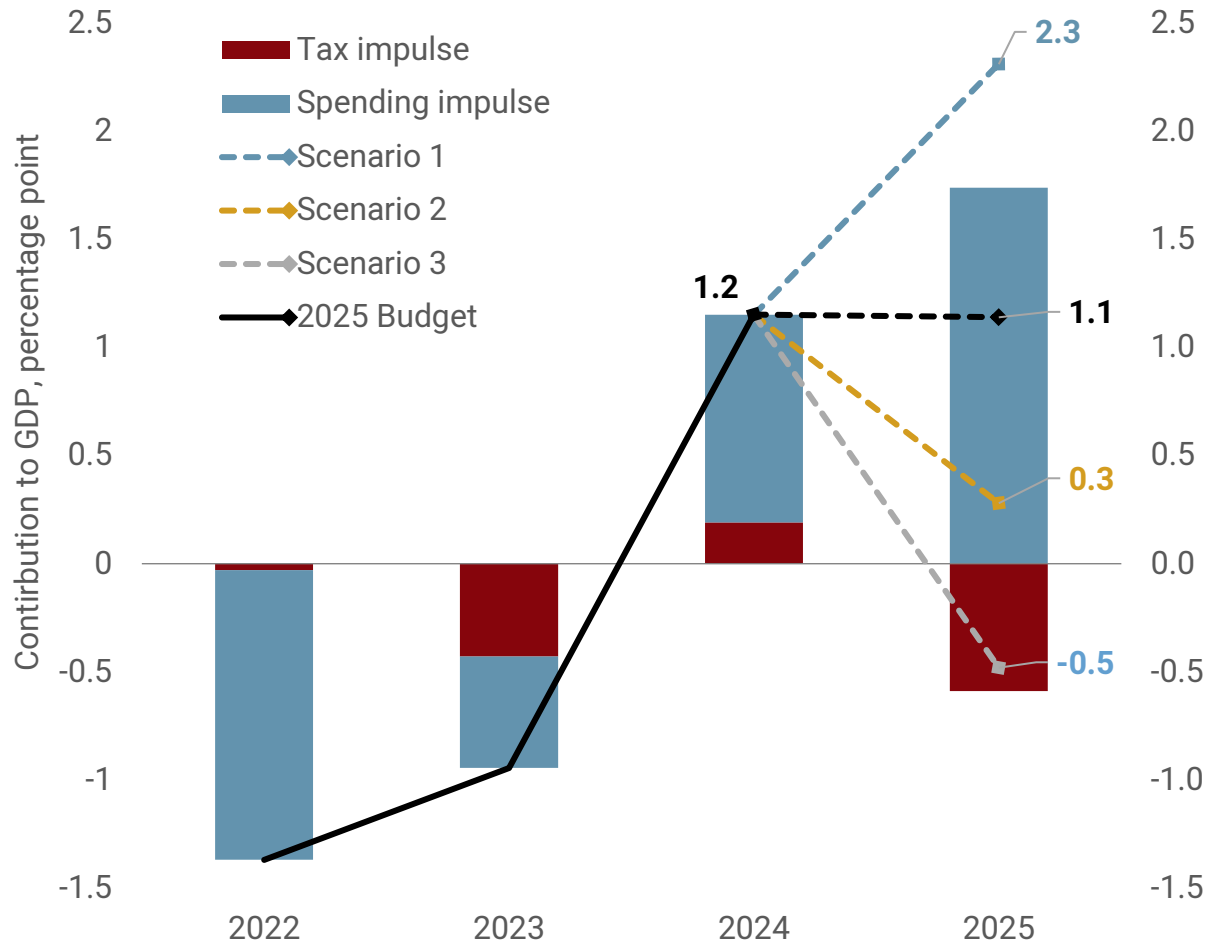


Source: RA Statistical Committee

Fiscal policy: Risks related to revenue underperformance, as well as the structure of expenditures—particularly capital spending—and the capacity to implement them, generate significant uncertainty regarding the overall impact of fiscal policy.



Scenarios of fiscal policy impact on aggregate demand for 2025

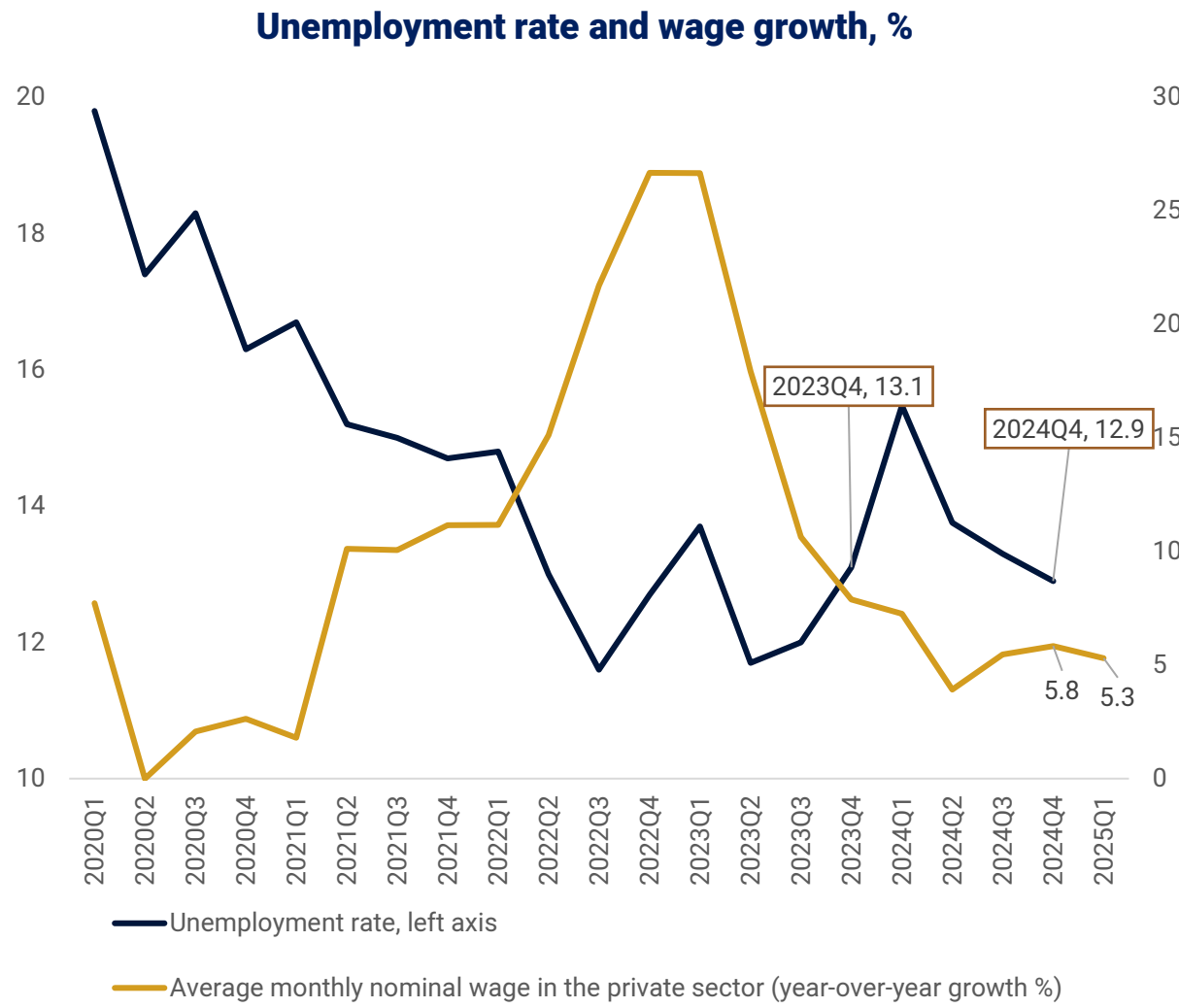


- **Scenario 1** – Partial undercollection of tax revenues combined with a certain overspending of current expenditures due to the need to cover social-type expenses, along with full utilization of the reserve fund.
- **Scenario 2** – Full achievement of tax revenues, but underspending of capital expenditures as the capacity to implement large-scale capital spending is limited.
- **Scenario 3** – Scenario 2 + additionally considering the potentially weaker overall impact on aggregate demand due to structure of capital expenditures.

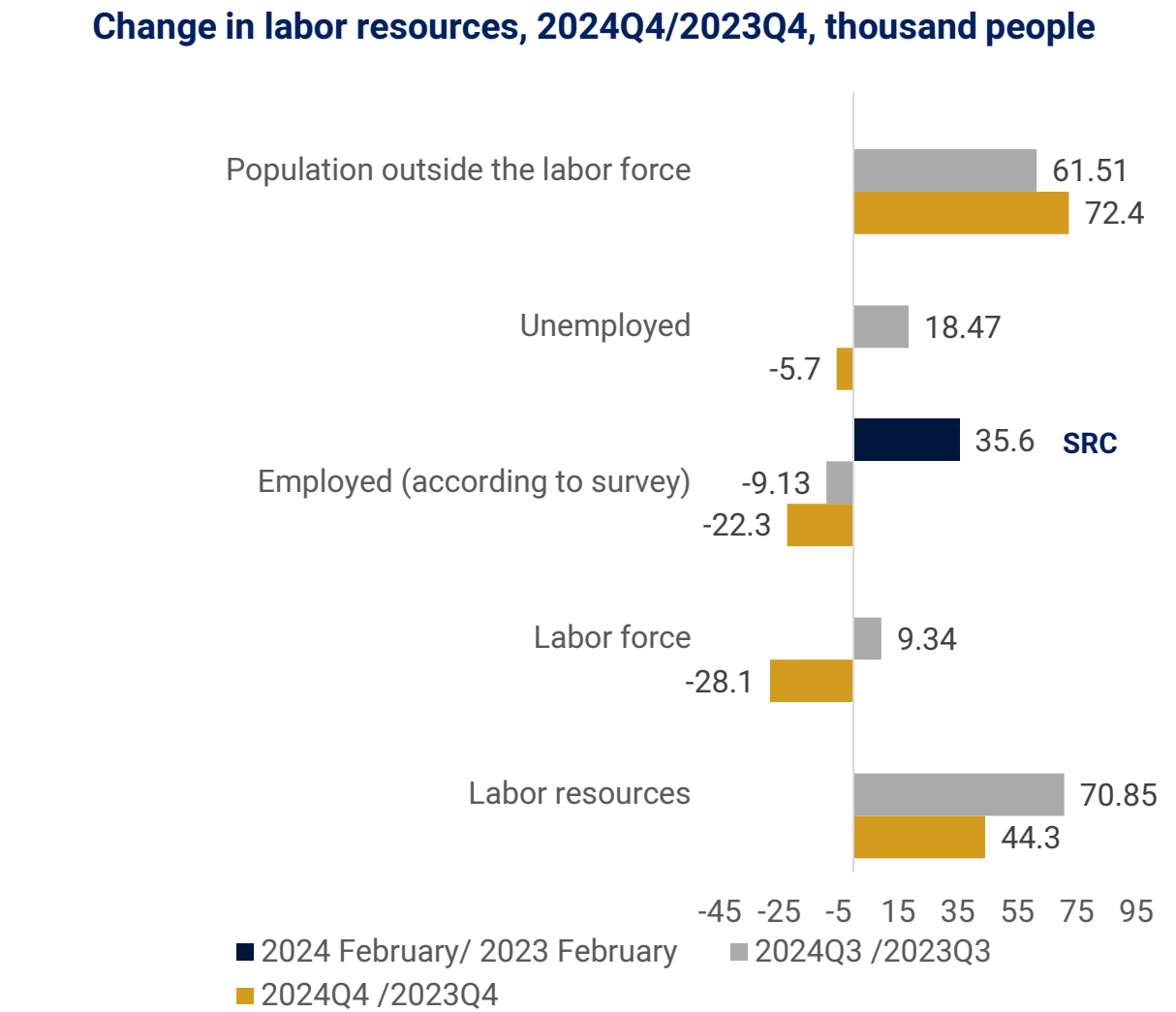
Source: Ministry of Finance of the Republic of Armenia, CBA calculation

Labor market: Although uncertainty remains regarding employment growth, several key indicators point to a significant improvement in labor market balance.



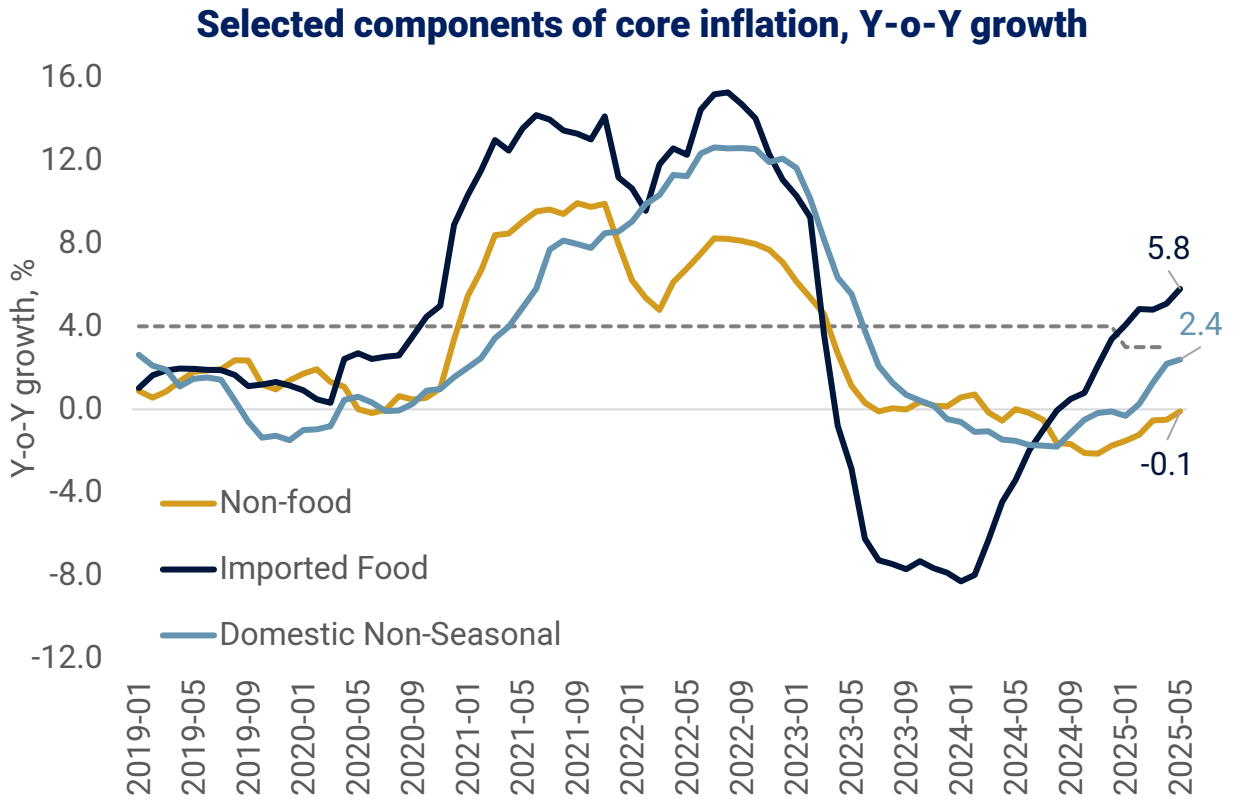
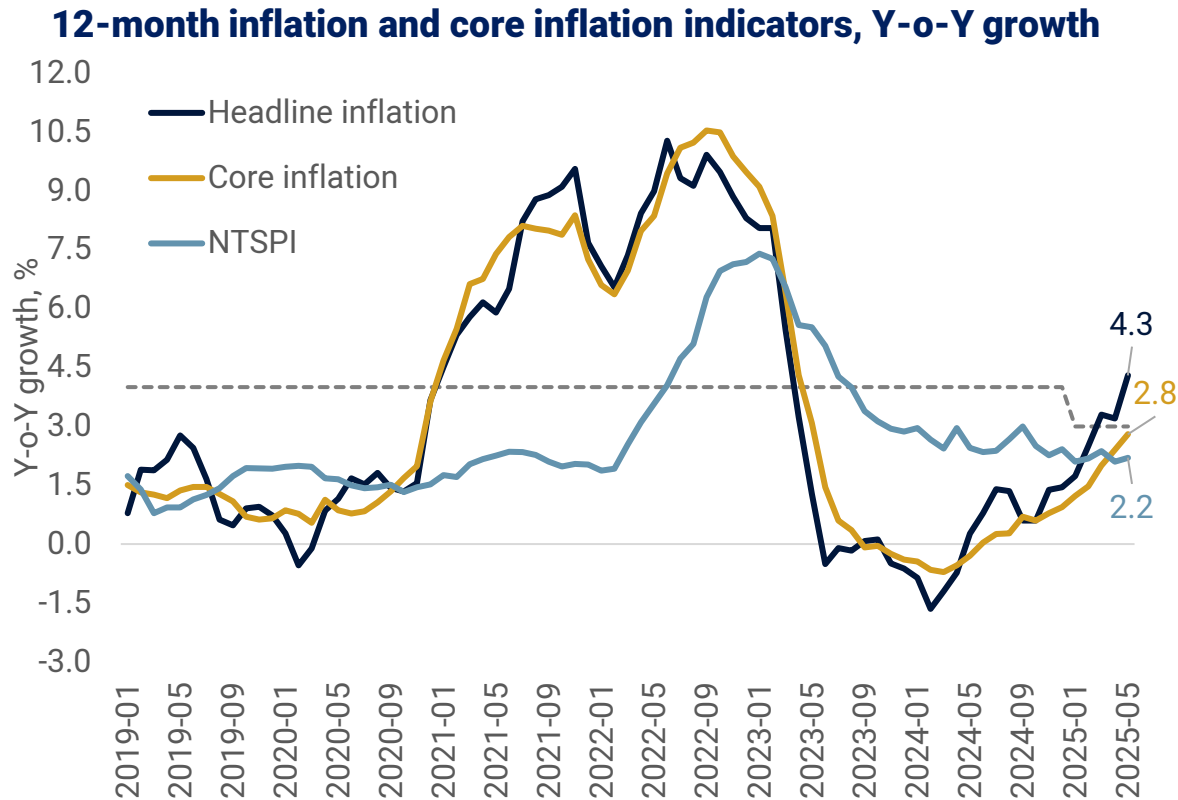


Source : RA Statistical Committee



Source : RA Statistical Committee

Inflation: The 12-month inflation has accelerated in recent months, reaching 4.3% in May 2025.



The increase in prices for non-regulated services was mainly driven by the rise in air transportation costs, influenced by both domestic and external factors. Meanwhile, the price growth in regulated services reflects the increase in public transport fares.

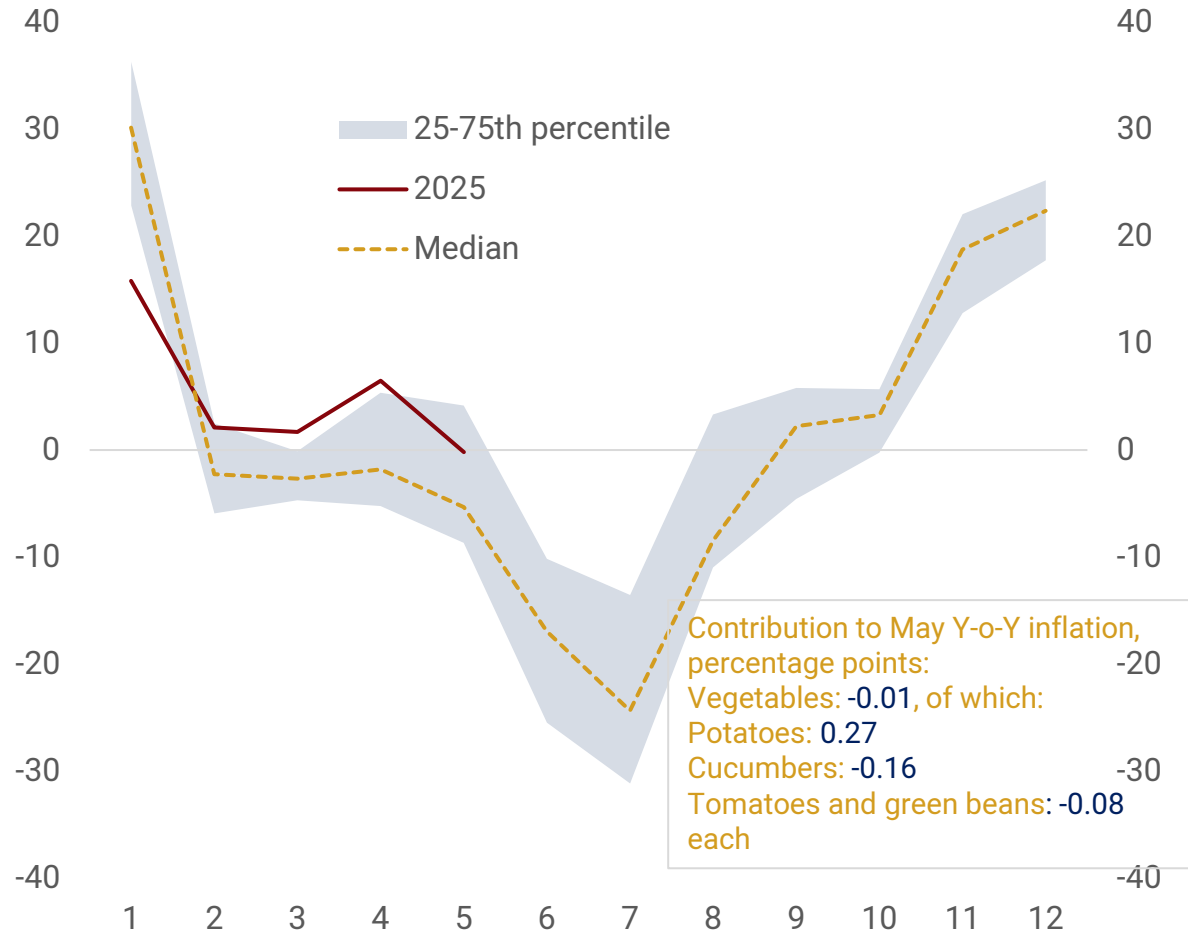
The price increase of seasonal food products in May was one of the main factors driving headline inflation, growing much higher compared to historical seasonal patterns.

International commodity markets have recorded an increase in food prices, which is consistently reflected in the rising prices of imported food products. The 12-month inflation rate for imported food products stood at 5.8%, with oils/fats and coffee/tea product groups contributing approximately 3.6% to this increase.

Inflation: Nevertheless, this is largely driven by high price increases in a small number of seasonal food products, while signals of a sustainable recovery in inflation to the target remain weak.

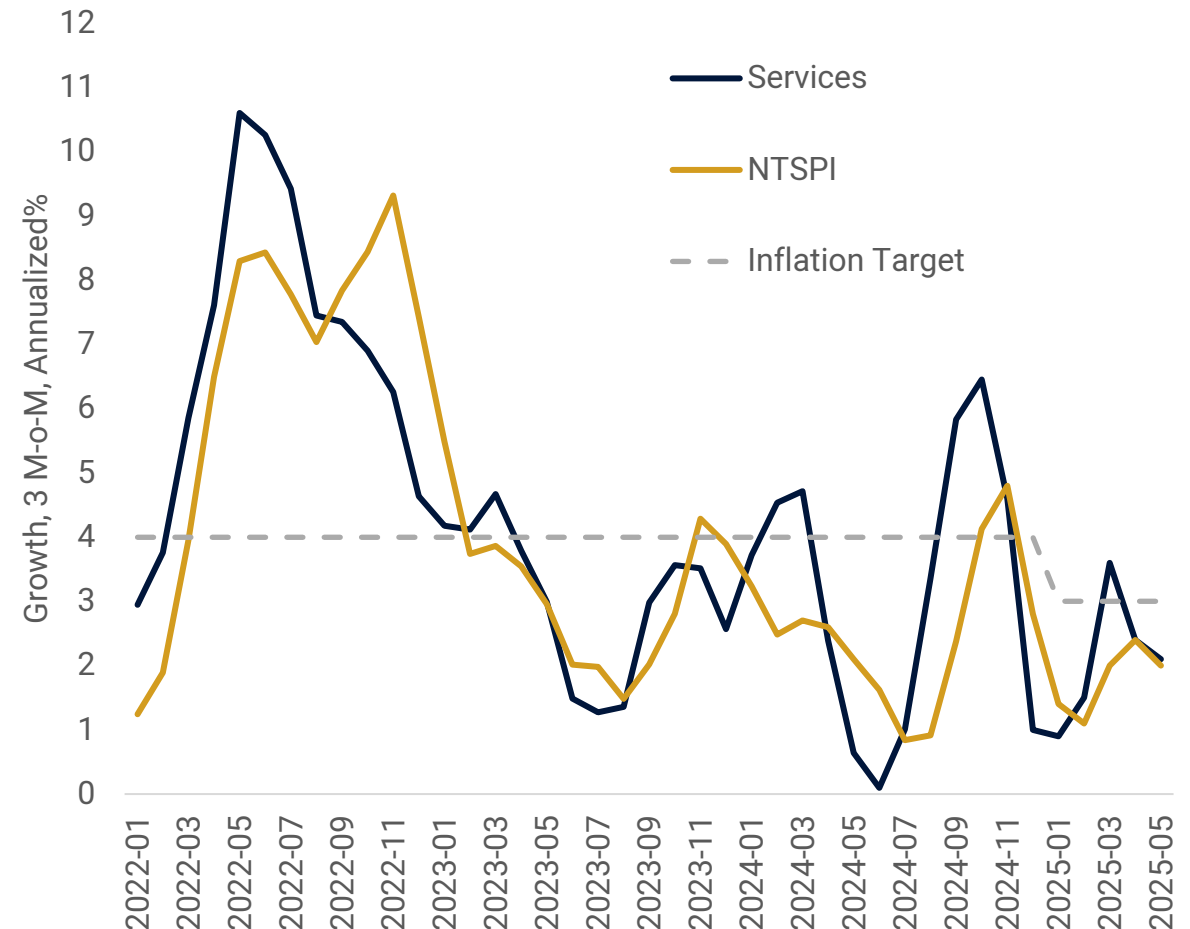


Inflation in vegetables is significantly higher compared to historical patterns.



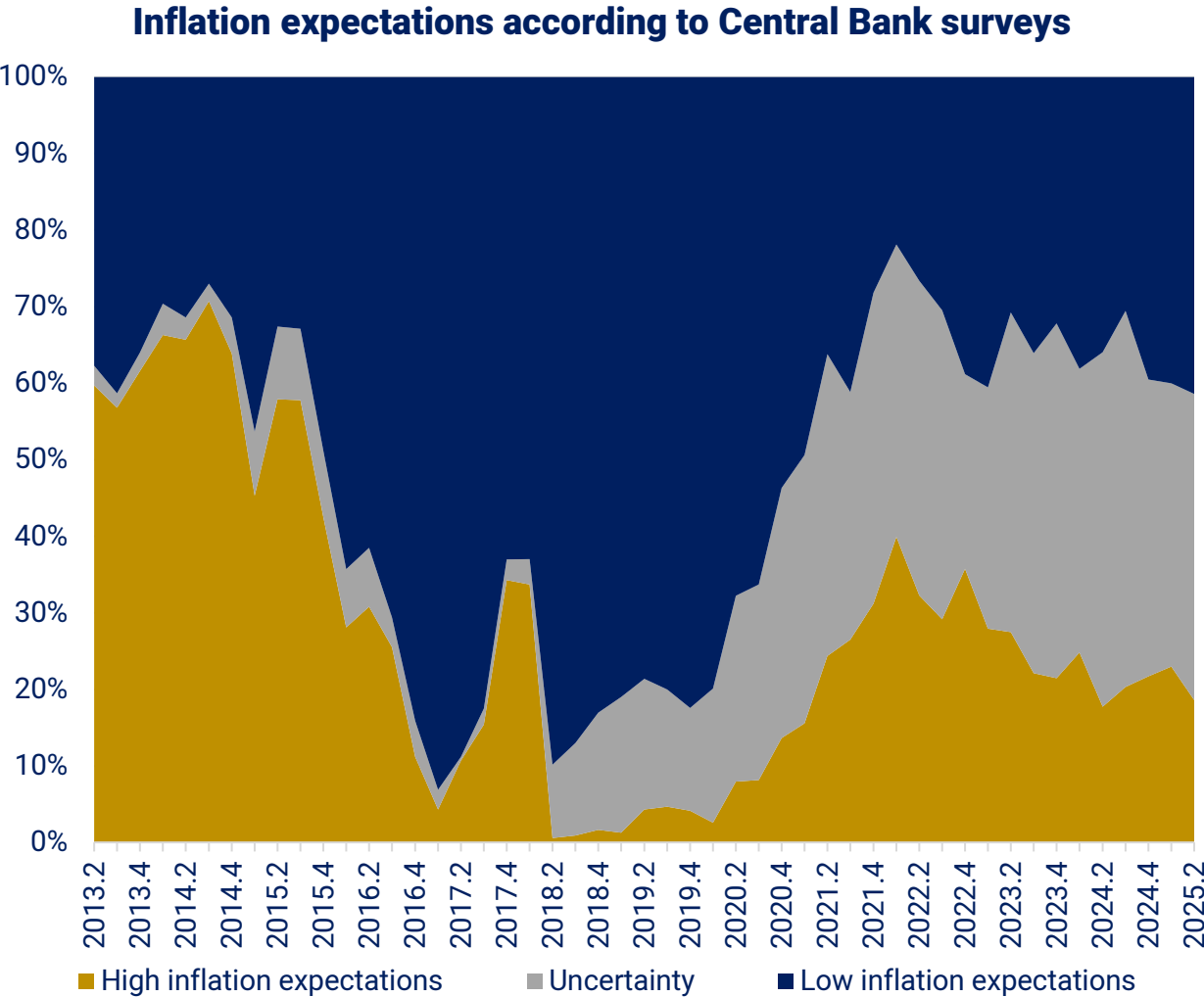
Source: RA Statistical Committee, CBA calculation

Meanwhile, underlying inflation remains close but lower than the target.

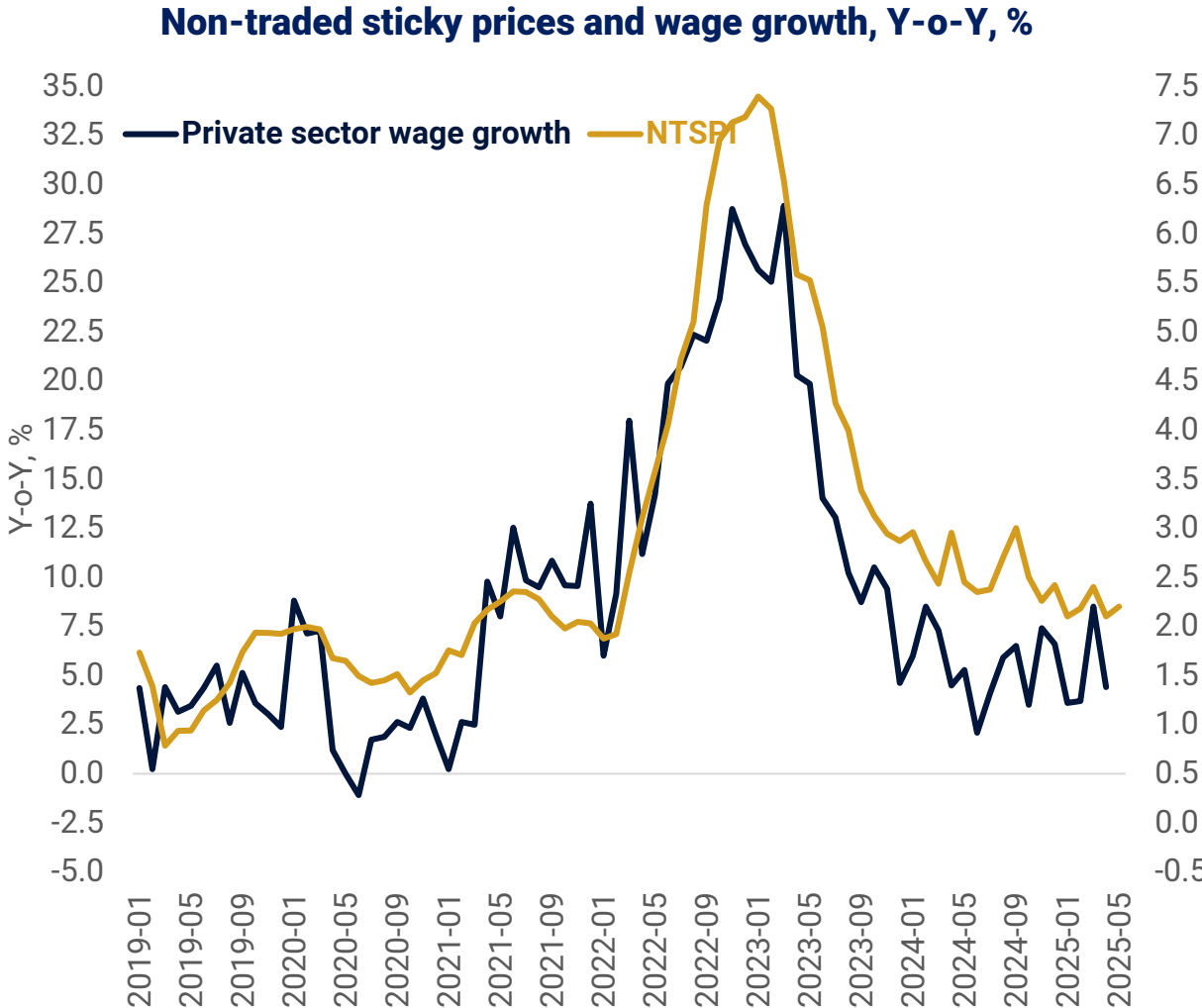


Source: RA Statistical Committee, CBA calculation

Inflation Expectations: Inflation expectations gradually decline, approaching the target... High uncertainty remains.



Source: CBA calculation



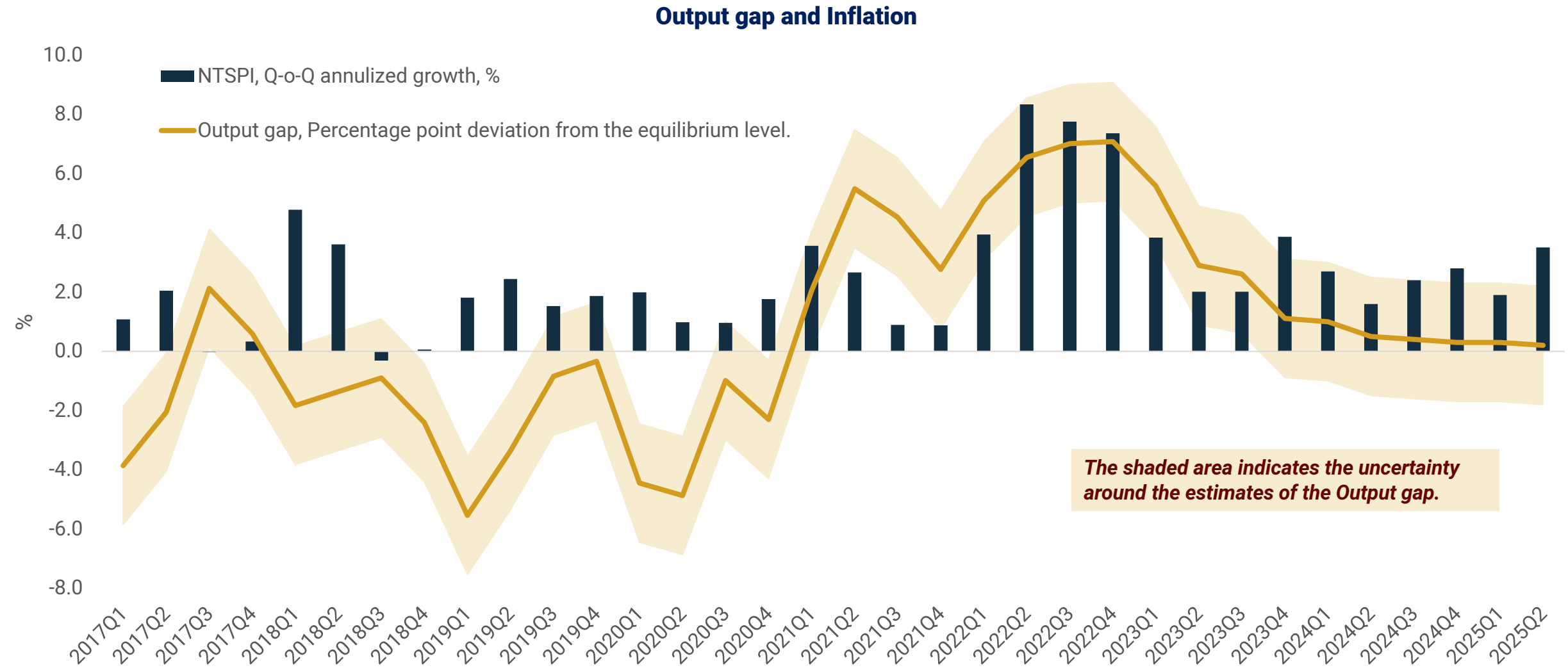
Source: RA Statistical Committee, CBA calculation



The Cyclical Position of the Economy

Domestic Economy

Amid gradual adjustment in external demand, the stabilization of economic growth around the long-term sustainable levels with the underlying inflation in 2–3% range, indicate a significant reduction in supply-demand imbalances.

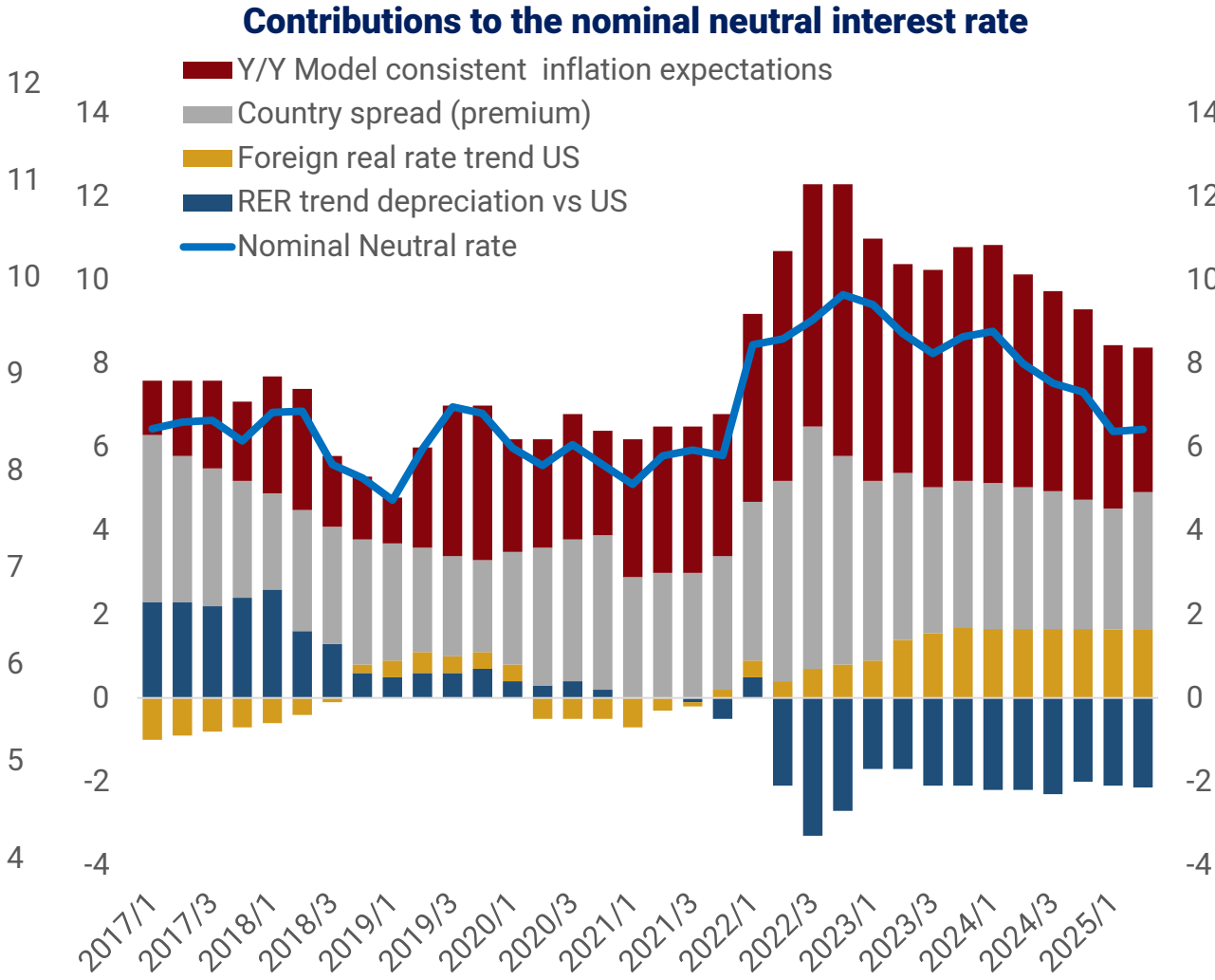
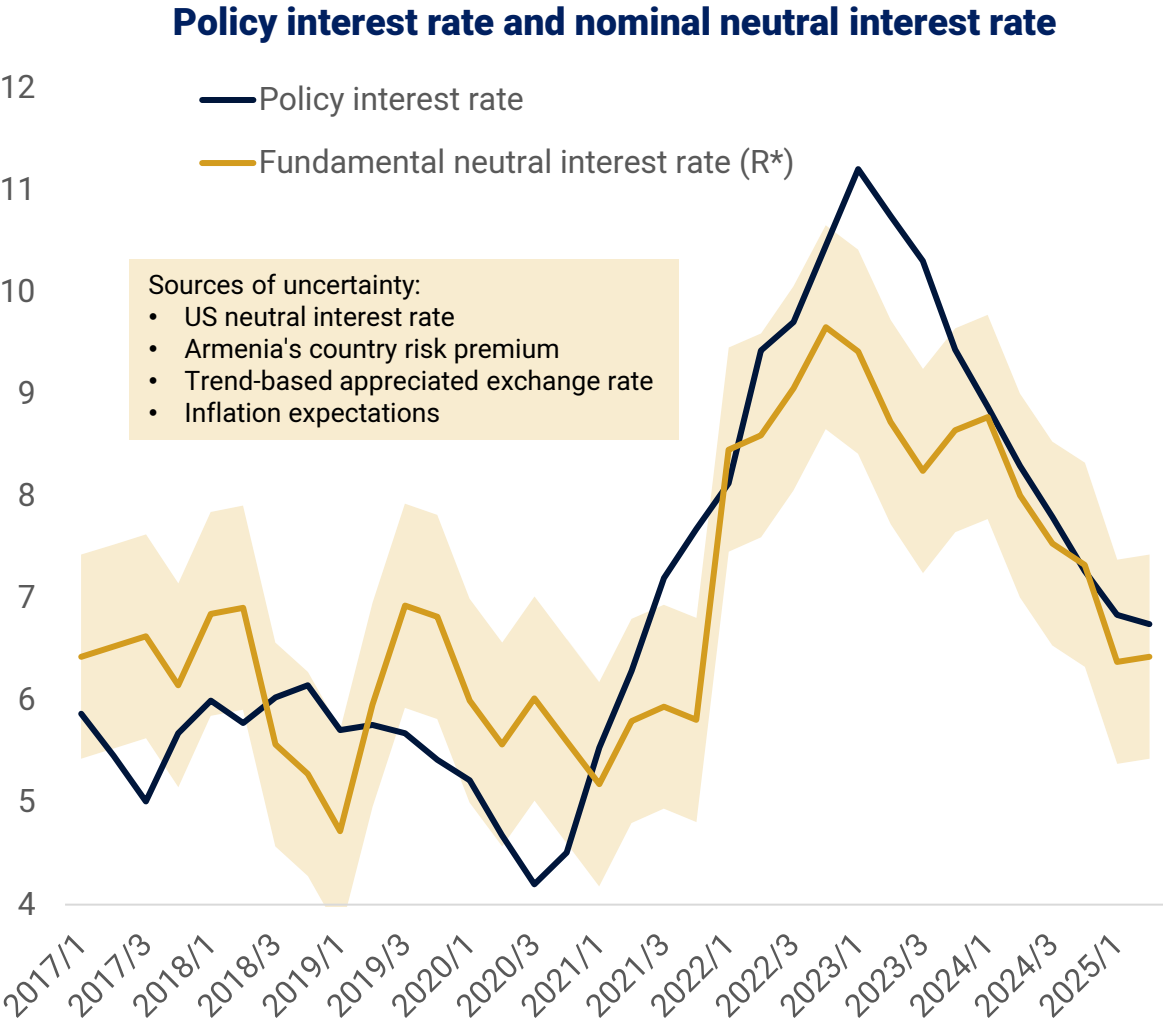


Source: CBA calculation

As the demand conditions cooled and the underlying inflation stabilized, the CBA cut the interest rates significantly.

High uncertainties persist around the neutral interest rate and its components.





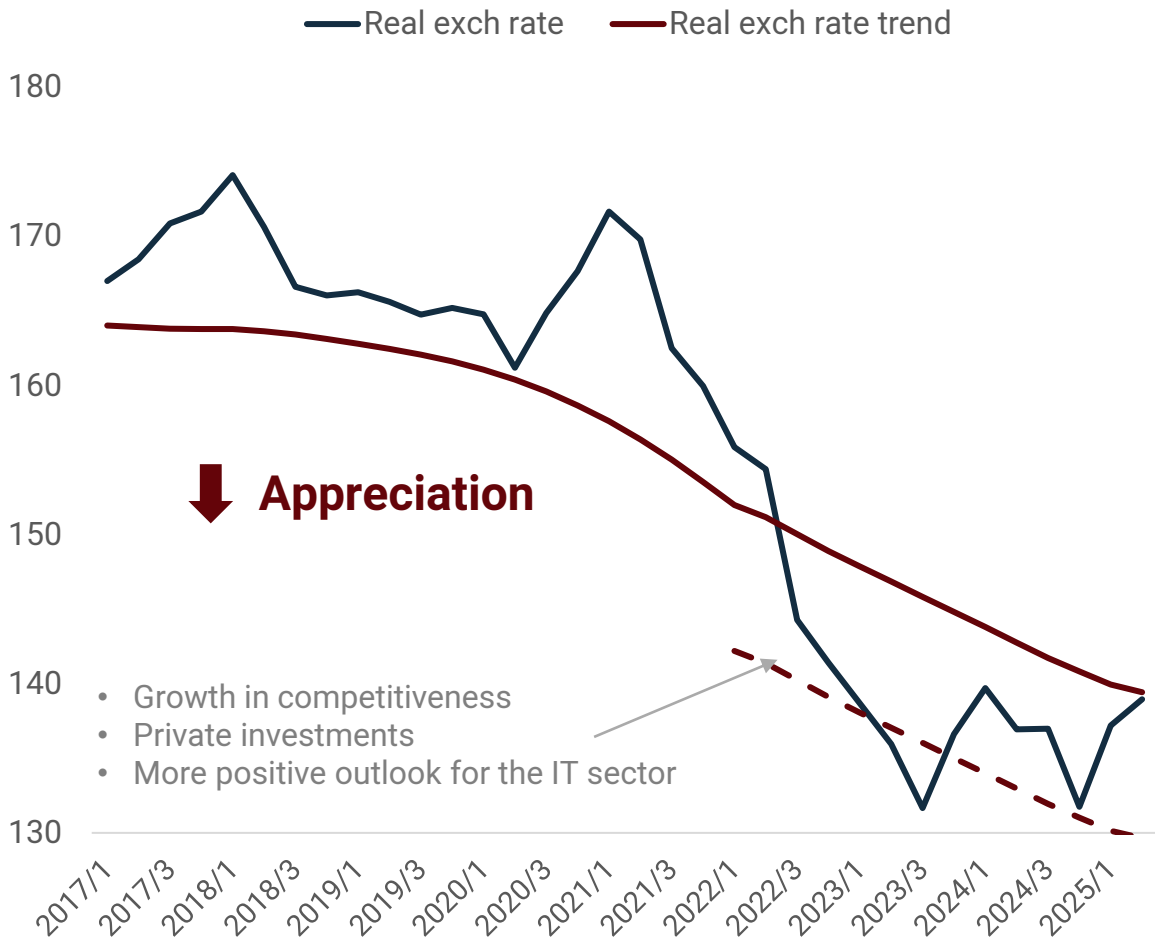
Source: CBA Calculation

Source: CBA Calculation

The real effective exchange rate has depreciated significantly due to appreciation of Ruble. Uncertainties remain regarding the stability of the ruble's appreciation and the equilibrium level of the Armenian dram, raising concerns about potential adjustment in demand.

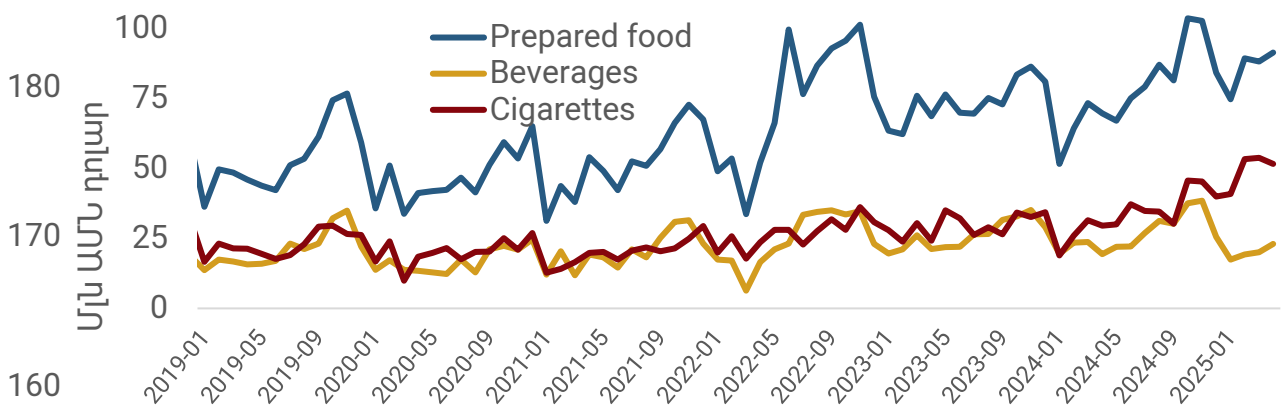


Real effective exchange rate, index

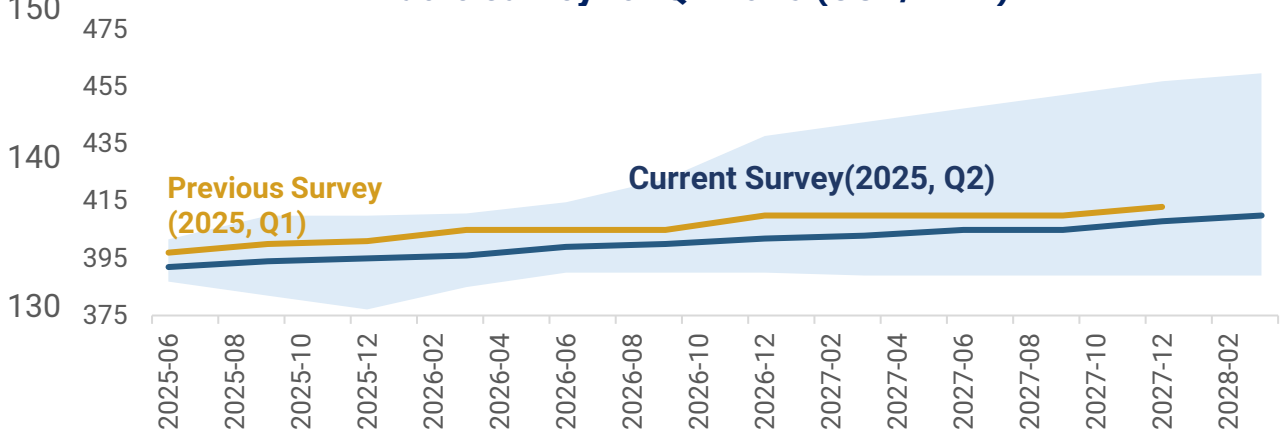


Source: CBA calculations

Manufacturing: export of certain product groups



Nominal exchange rate expectations according to the Central Bank's macro survey for Q2 2025 (USD/AMD)



Source: Central Bank of Armenia's Second Quarter Macro Survey.

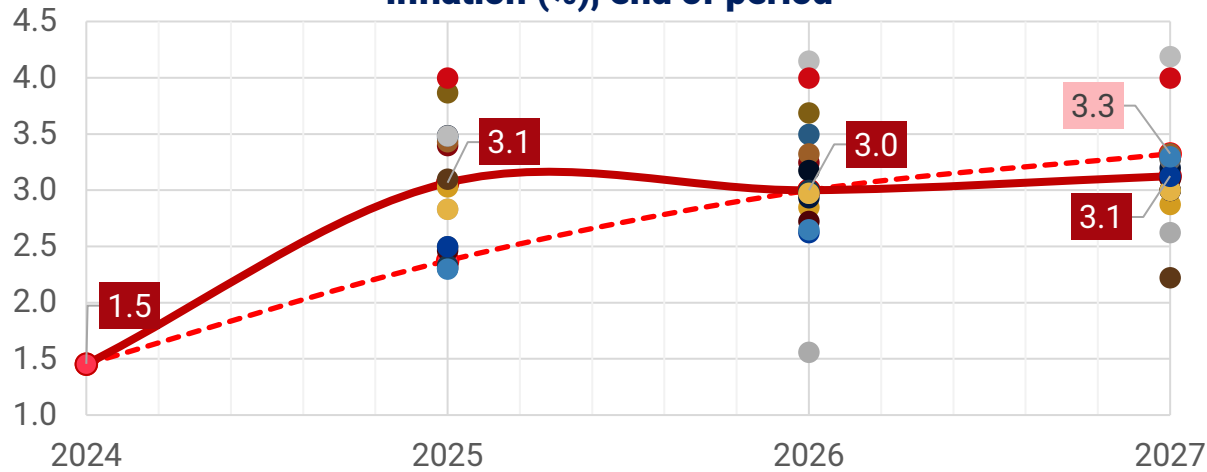


Market Expectations

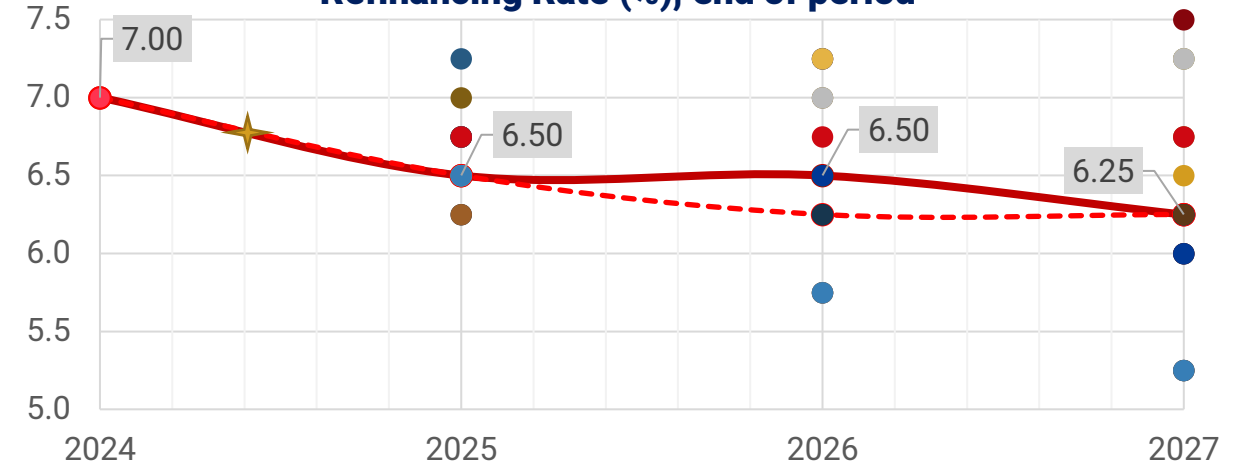
Financial markets expect a moderate further slowdown in economic growth with inflation stabilizing around the target in the near term.



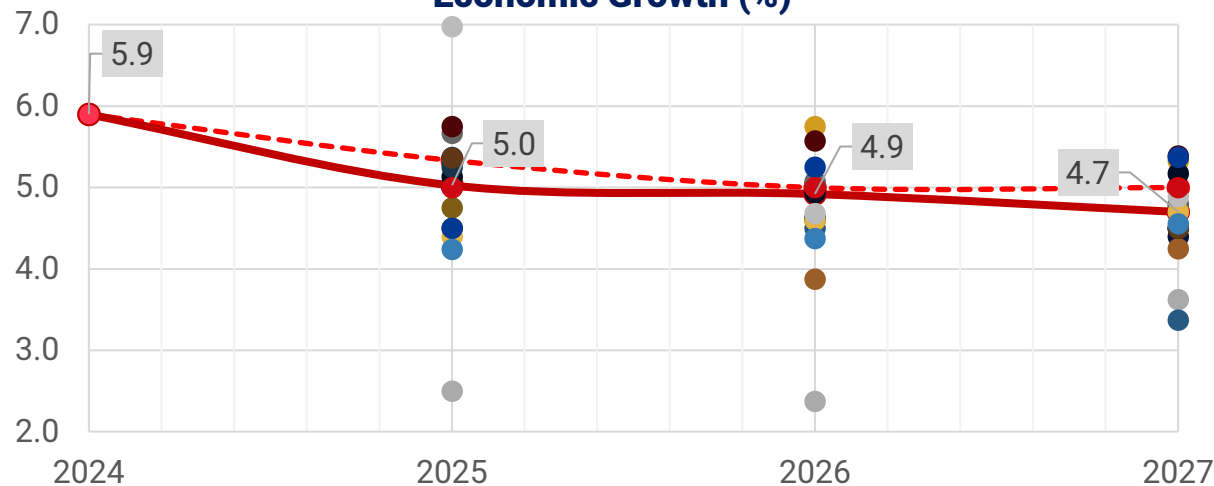
Inflation (%), end of period



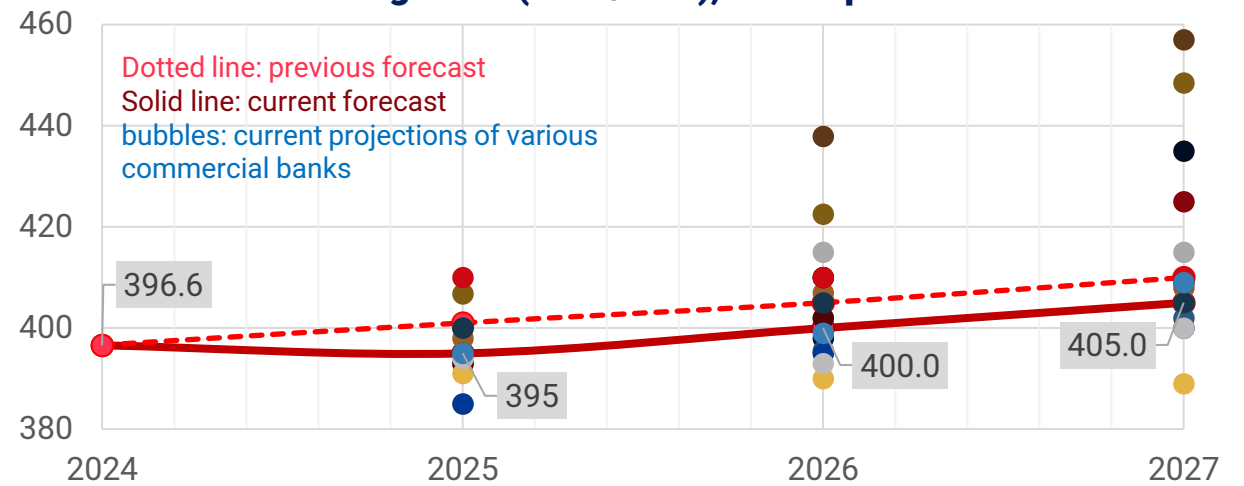
Refinancing Rate (%), end of period



Economic Growth (%)



Exchange rate (AMD/USD), end of period



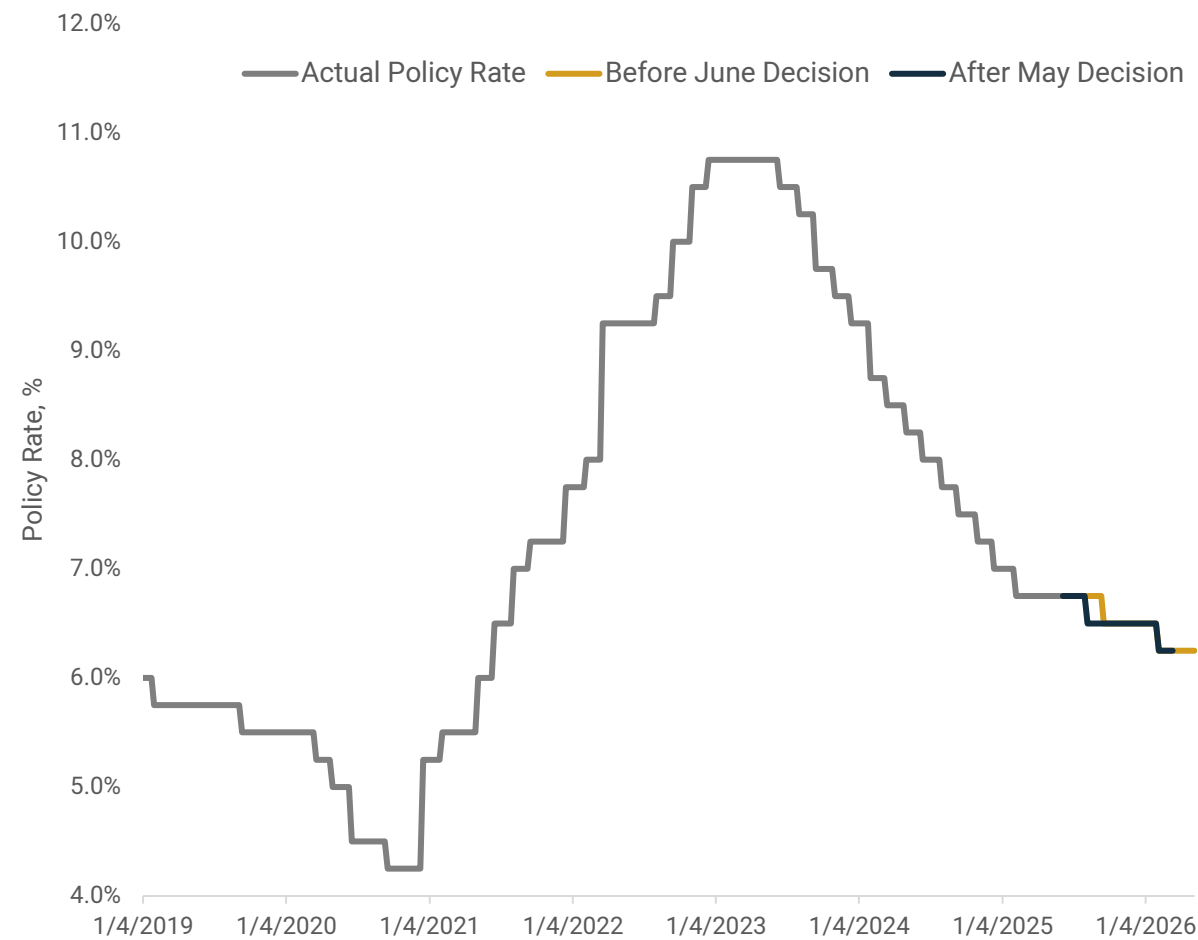
Financial market participants generally expect the Central Bank to gradually reduce the policy rate over the next year, setting it at 6.25%.

This reflects a policy of gradually easing monetary conditions.



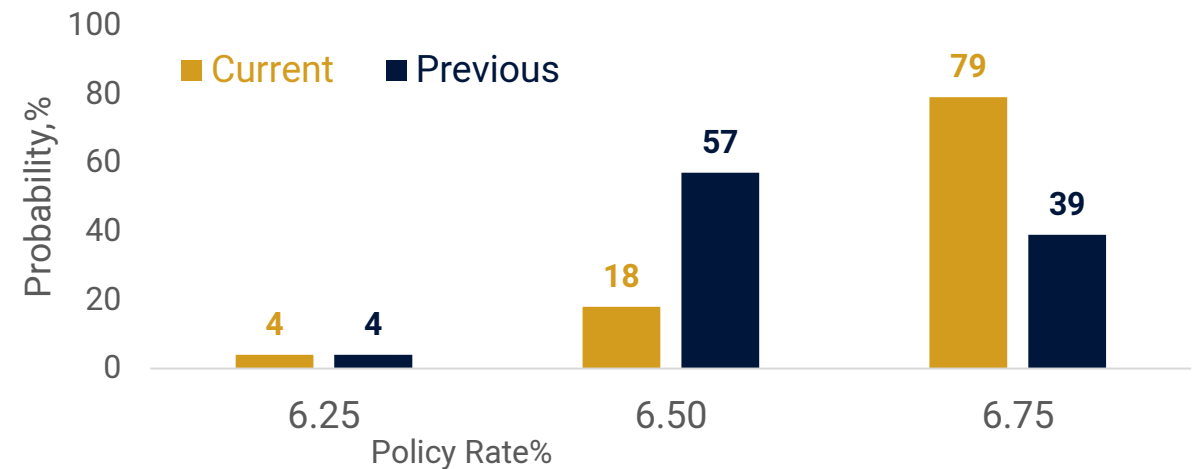
Survey of market participants: 12.06.2025

Expectations regarding policy interest rates.

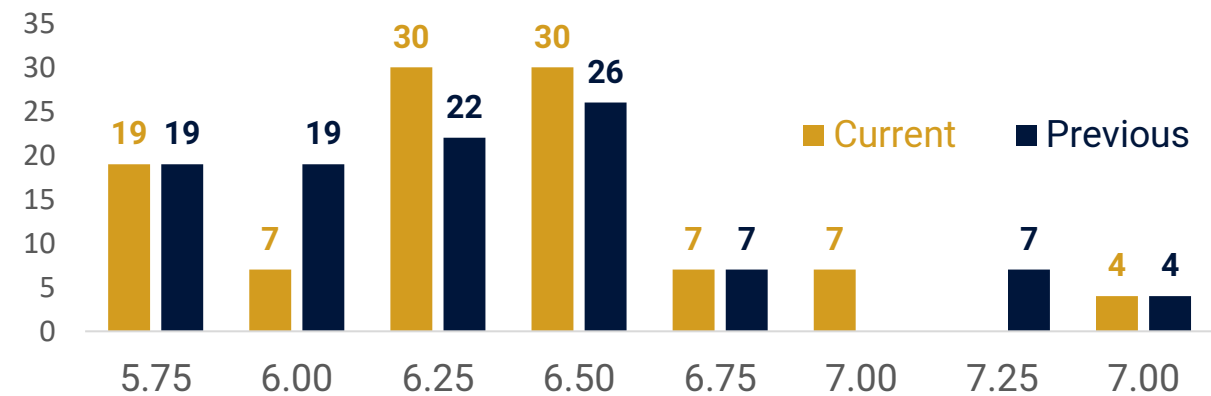


Source: Central Bank of Armenia, Financial Market Survey.

Expected policy rate change for June 2025

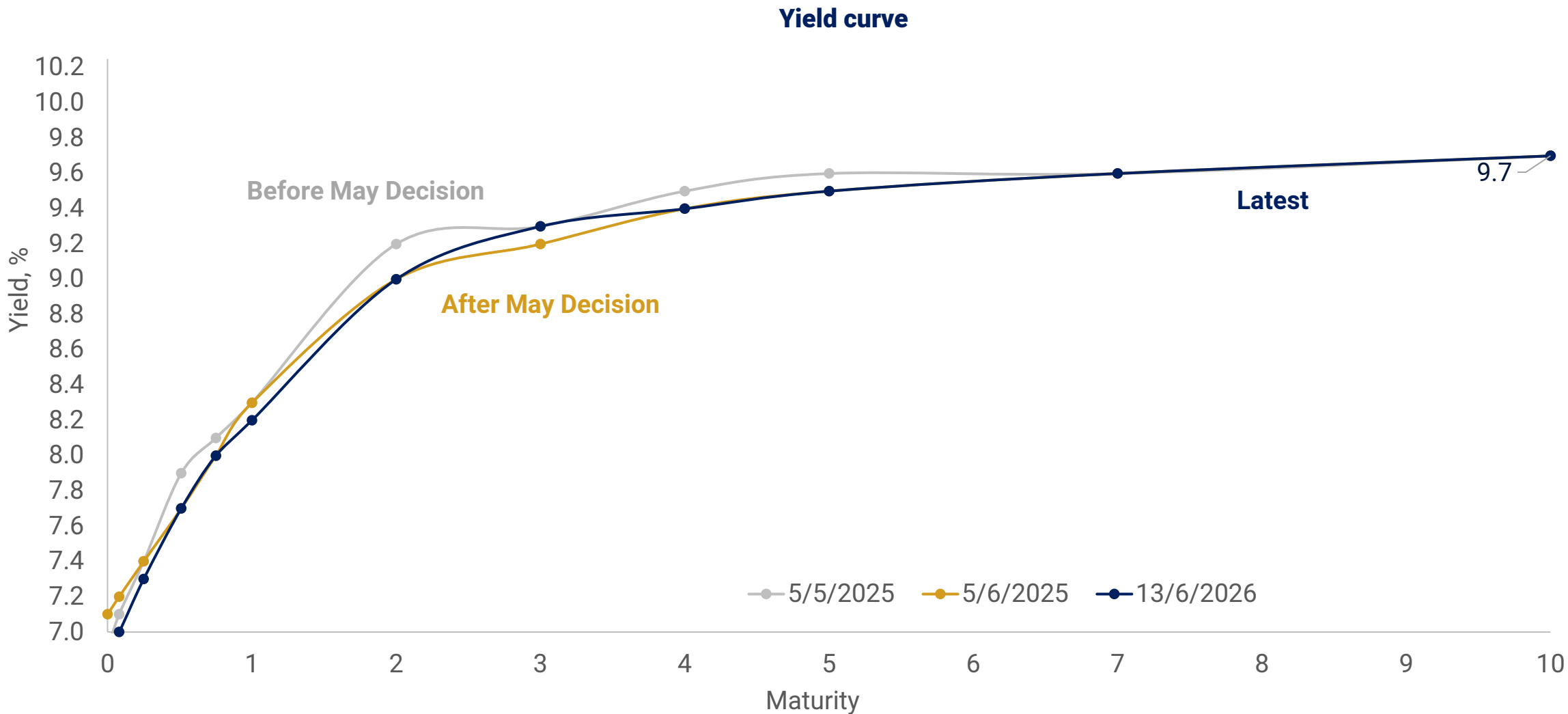


Expected policy rate level for March 2026



Source: Central Bank of Armenia, Financial Market Survey.

Accordingly, the Yield curve stays generally unchanged.



Source:CBA



Taxonomy of Scenarios

The structure and significance of the Taxonomy of Scenarios.



The main purpose of the table summarizing the variety of scenarios is to systematically provide an assessment of the key diverse potential risks and uncertainties for the Armenian economy, and describe the possible and likely impacts of these risks on inflation and the economic environment. It may also include a description of the appropriate response of the Central Bank of Armenia's monetary policy in the case of different risks and shocks.

Risks characteristic of Scenario A.	Risks characteristic of Scenario B.
Expansion of demand. Shocks that could lead to a higher growth of aggregate demand relative to aggregate supply, which, in turn, could cause an increase in domestic inflation. In such a situation, ensuring price stability and anchoring inflation expectations might require a relatively tight response in terms of raising interest rates from a monetary policy perspective. Complications: Trust in the Central Bank might be weak. Output + Inflation +	Contraction of demand. Shocks that could lead to weaker aggregate demand relative to aggregate supply, which, in turn, could cause a decrease in domestic inflation. In such a situation, ensuring price stability and anchoring inflation expectations might require a relatively strong response in terms of lowering interest rates from a monetary policy perspective. Complications: The effective lower bound for interest rates, a low inflation or deflationary environment. Output - Inflation -
Contraction of supply. Stagflationary shocks that may require a tough and aggressive response in the direction of raising the expected policy interest rate path, resulting in a significant short-term trade-off between inflation, economic growth, or other objectives (e.g., unemployment). Complications: Issues related to further restraining a weak economy. Output - Inflation +	Expansion of supply. Favorable supply-side shocks that could bring inflation back to its target level, lead to higher economic growth, and lower interest rates. Complications: There may be risks when extrapolating current trends onto the future. Output + Inflation -



Expansion of demand.
Output + | Inflation +

Contraction of supply.
Output - | Inflation +

Risks characteristic of Scenario A.

❑ **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 undercollection 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 (deglobalization).

- ❑ 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



Risks characteristic of Scenario B.

❑ 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 still-overvalued 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.

Contraction of demand.
Output - | Inflation -

Expansion of supply.
Output + | Inflation -



Illustrative Case A

Over the medium term, the expansion of the US fiscal policy—with its potential effects on the US neutral interest rate and emerging economies, including Armenia.

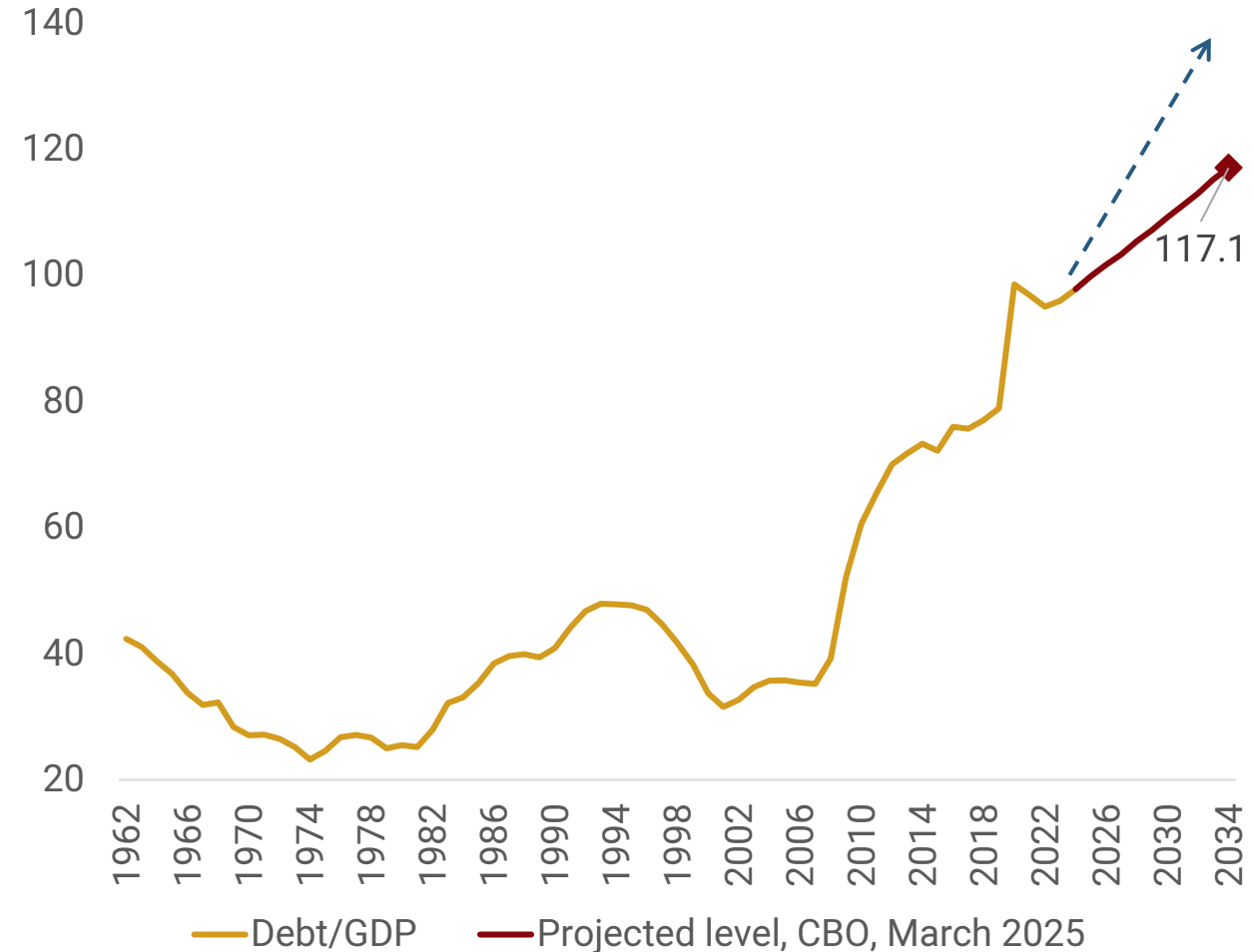
United States: Over the medium term, the expansion of the US fiscal policy—with its potential effects on the US neutral interest rate and emerging economies, including Armenia.



Scenario brief description:

- In the post-pandemic period, the US government implemented a significantly expansionary fiscal policy. Under these conditions, even considering the economy's unprecedented nominal growth, this led to a substantial increase in the debt-to-GDP ratio
- Current fiscal arrangements imply a continuous and steady rise in the debt burden. However, the high level of current expenditures highlights risks to meeting even the current targets regarding the budget deficit.
- At the same time, there are significant risks of a sharp worsening of debt-related problems, driven by the likely adoption of new fiscal initiatives by the US administration.
- In this context, risks related to public debt and its sustainability will increase, with potential effects on the neutral interest rate levels both in the US and in emerging economies, including Armenia

Government debt-to-GDP ratio in the United States, %

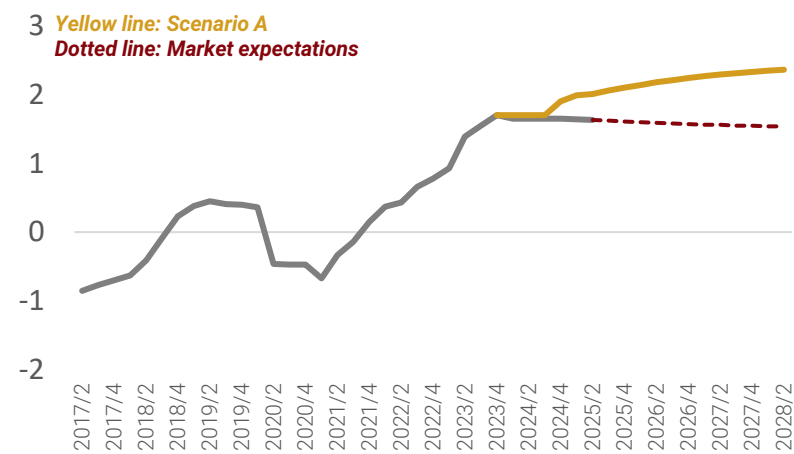


Source: CBO, CBA calculation

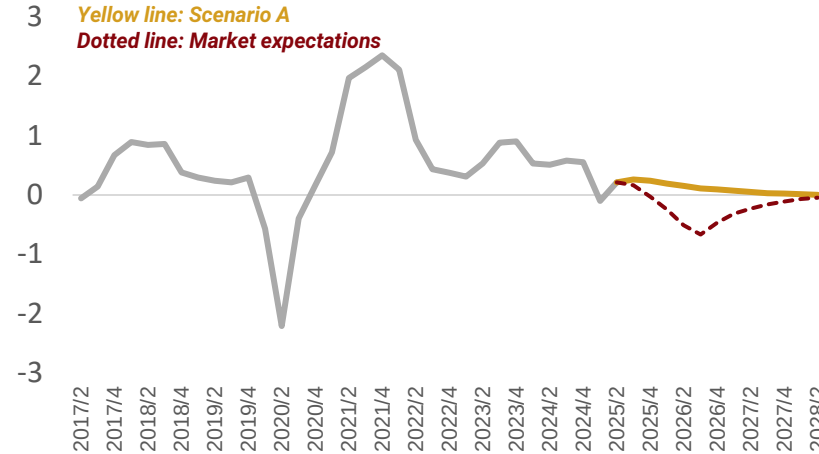
Case A scenario: Higher interest rate path than what the market currently expects



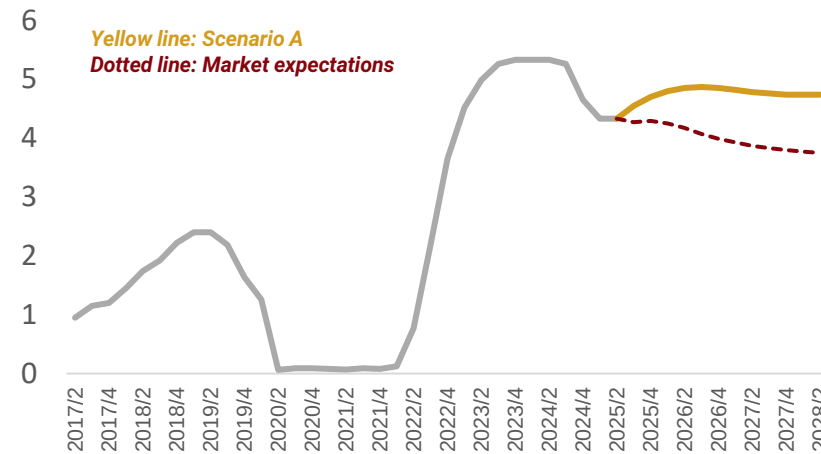
US Neutral Rate



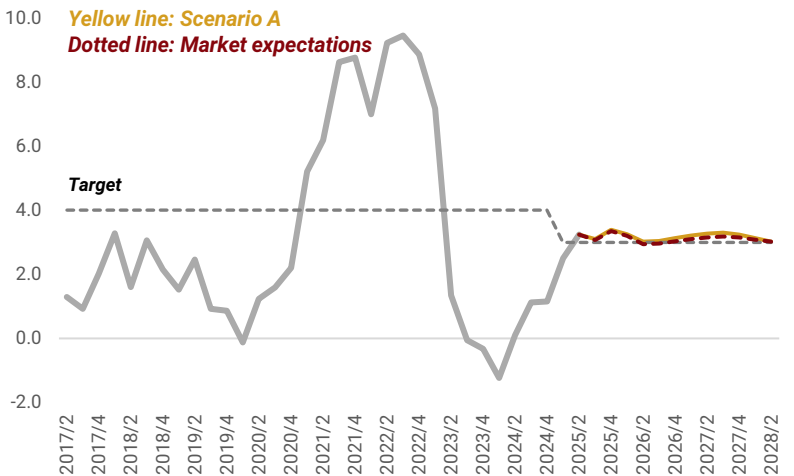
US Output Gap



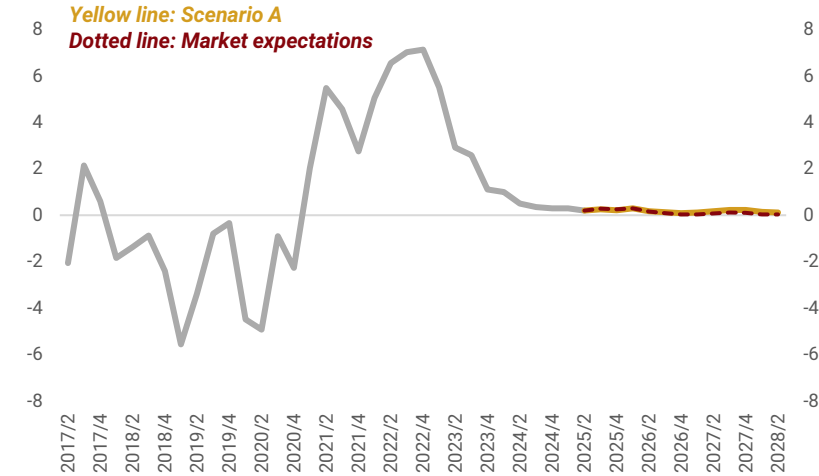
US Policy Rate



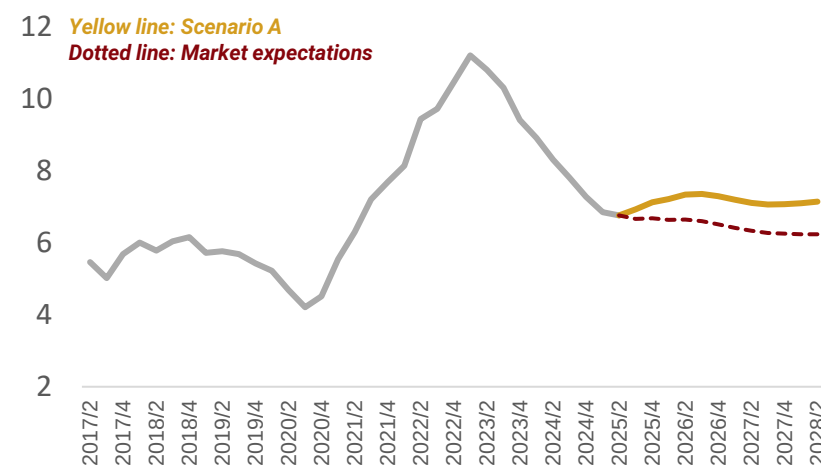
CPI, Y-o-Y



Output Gap



CBA Policy Rate



Source: Central Bank of Armenia, CBA Macroeconomic Surveys



Illustrative Case B Scenario

Amid gradual adjustment in external demand, the increasing debt burden accumulated in certain sectors of Armenia's economy poses risks of disproportionate spending restraint.

Amid adjustment in external demand, an increase in the burden of accumulated liabilities in certain sectors of the Armenian economy—accompanied by risks of disproportionate expenditure restraint.

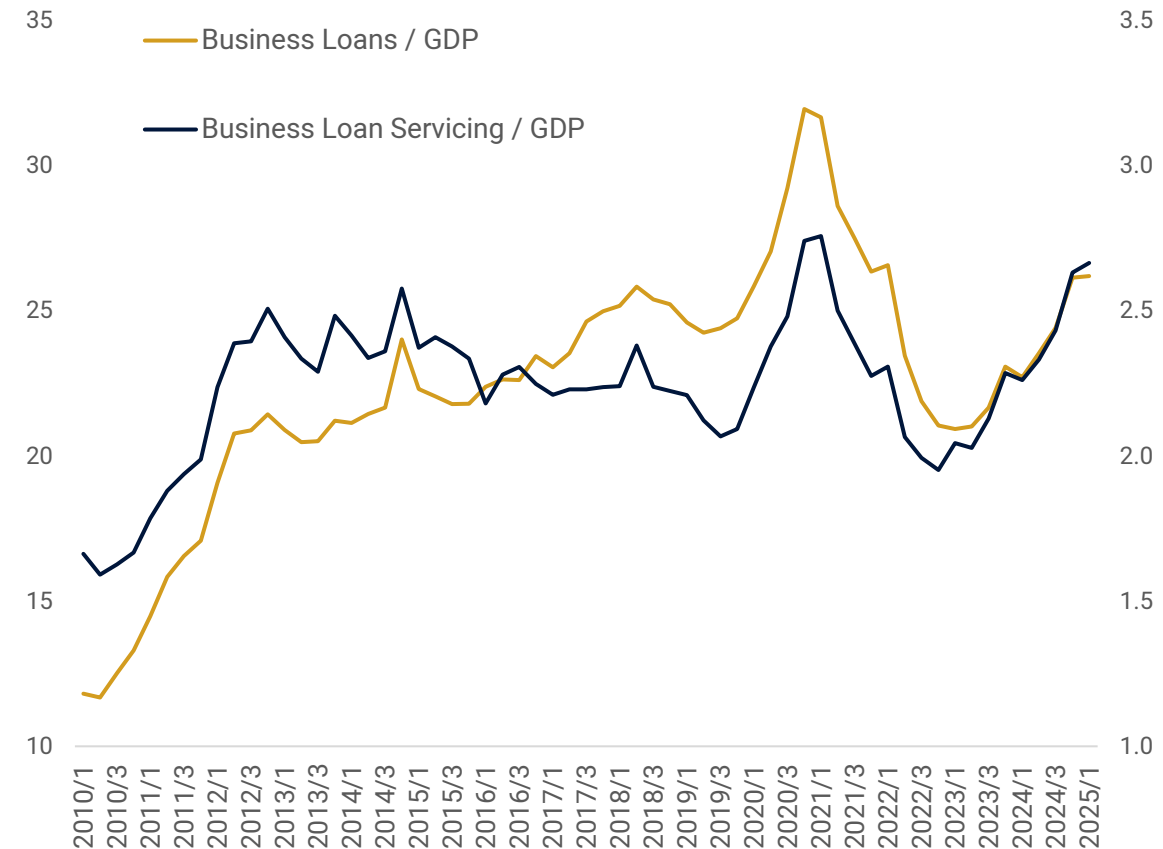


Scenario brief description:

- In previous years, under conditions of strong external demand, significant credit liabilities have accumulated in the Armenian economy, driven by actual and expected income growth. Notably, certain sectors of the economy—especially those sensitive to external demand—carry a higher debt burden,
- Following the high growth rates of 2022–23, external demand is undergoing a normal adjustment, particularly reflected in a significant weakening of tourism flows, a trend that may continue in the coming years.
- The gradual slowdown in growth across the above-mentioned sectors is broadly expected. However, the accumulated debt—together with a possible further adjustment in incomes—carries risks of an uneven and excessive decline in investment, employment, and the consumption of intermediate goods and services in these sectors.

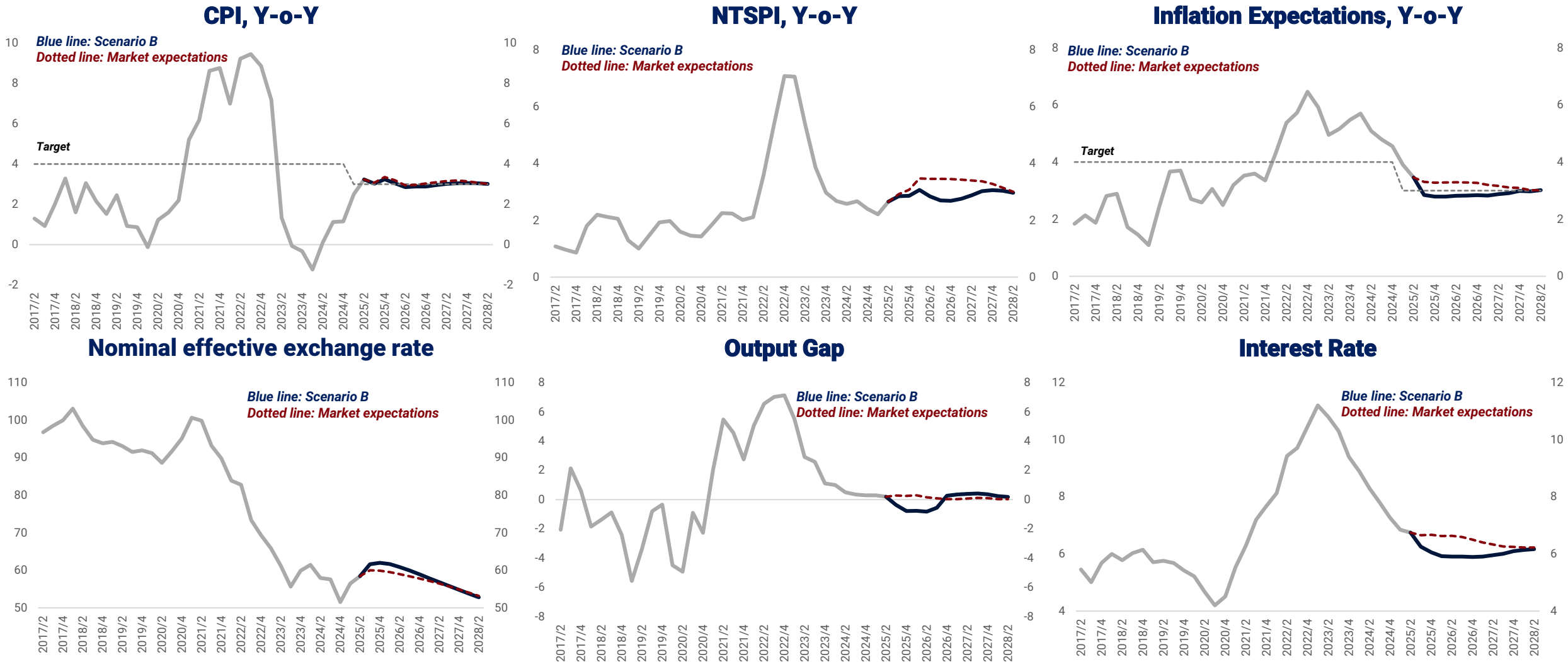
Private sector debt and its servicing

%, loans/GDP (left axis), servicing/GDP (right axis)



Source: CBA calculation

Case B scenario. Lower interest rate path than what the market currently expects

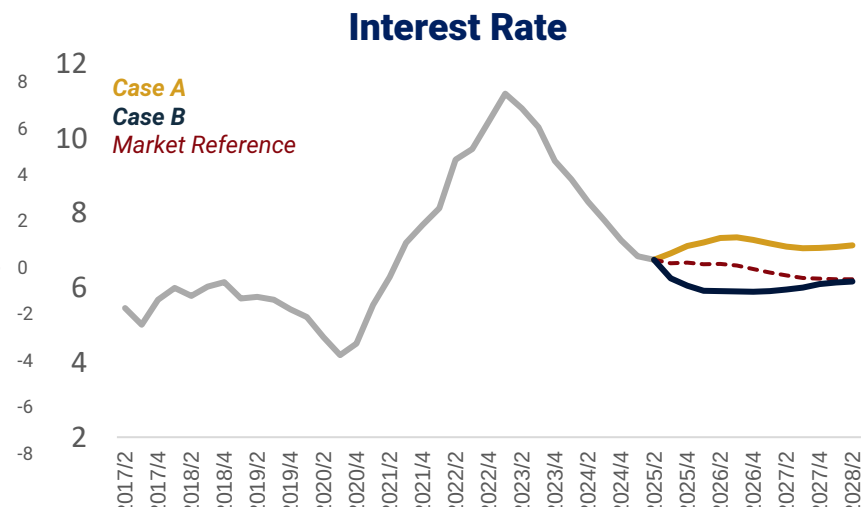
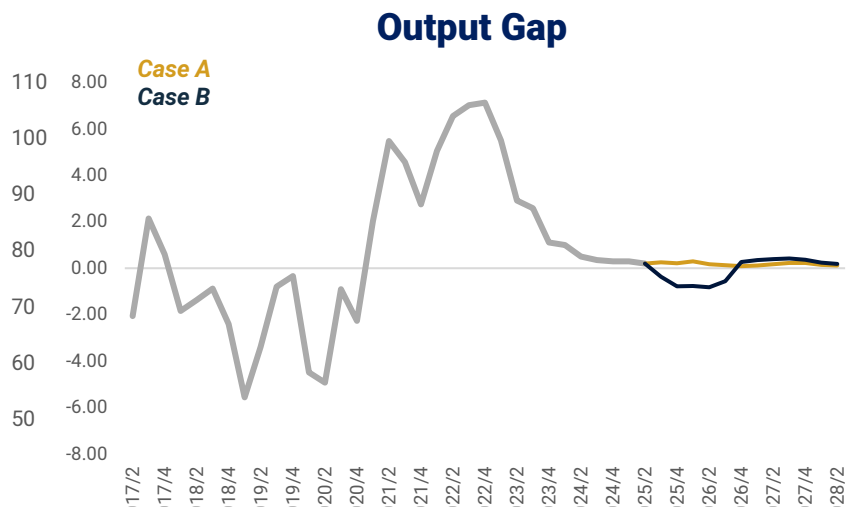
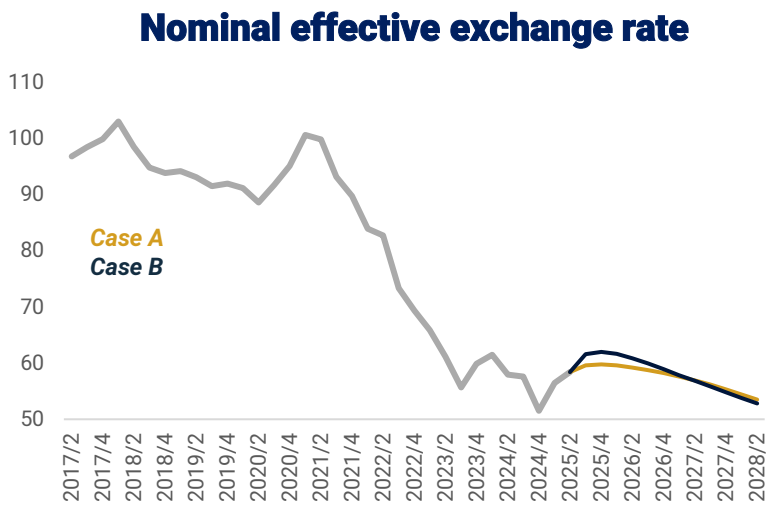
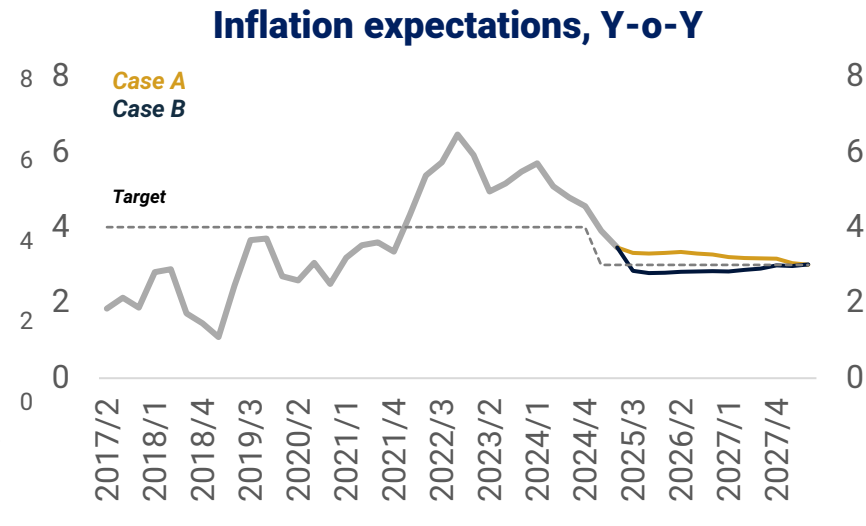
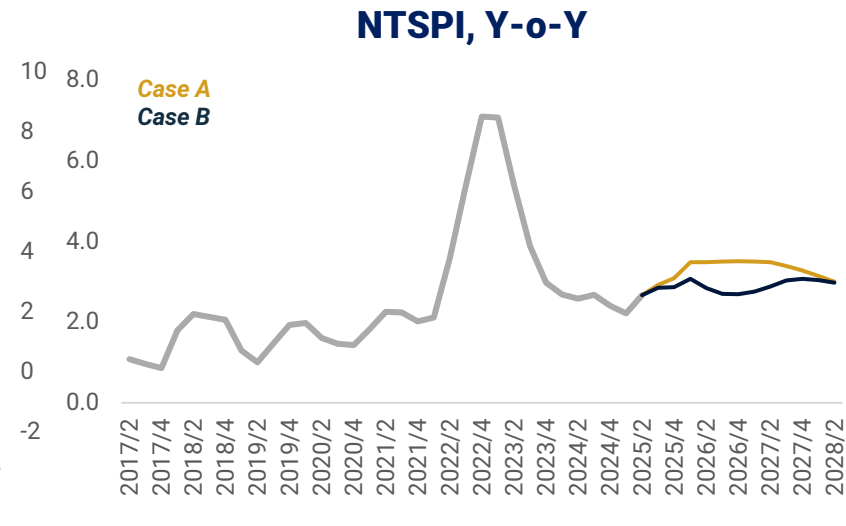
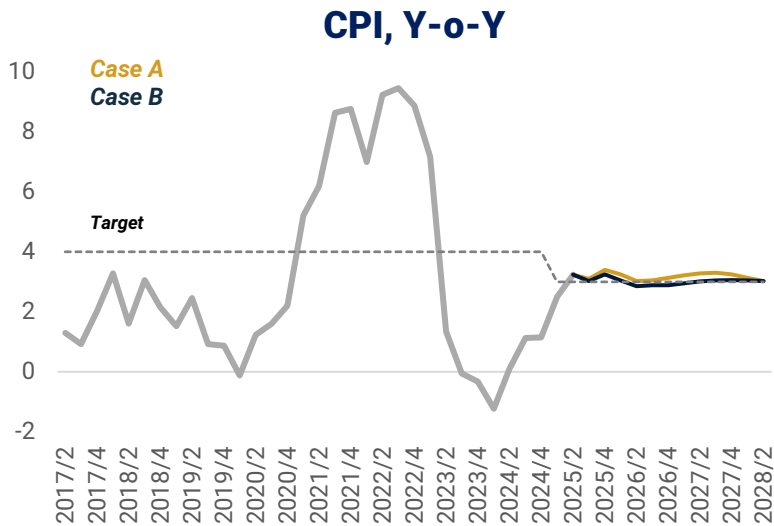


Source: Central Bank of Armenia, CBA Macroeconomic Surveys



Policy discussion

Case A and Case B scenarios

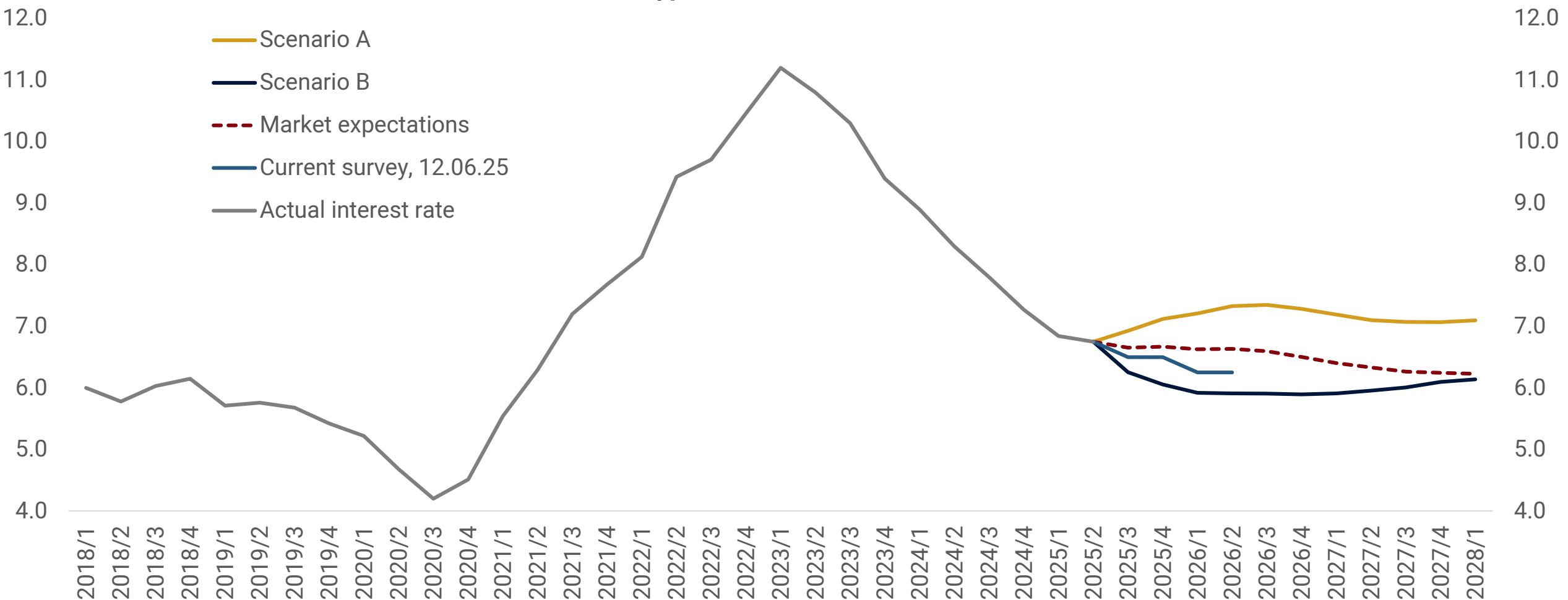


Source: Central Bank of Armenia, CBA Macroeconomic Surveys

Policy Discussion



Typical scenarios – Q2 2025



Source: Central Bank of Armenia, CBA Macroeconomic Surveys



Thank You