



# Monetary Policy Outlook

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2025Q1 Monetary Policy Program

March 18, 2025



# Current and Fundamental Economic Factors

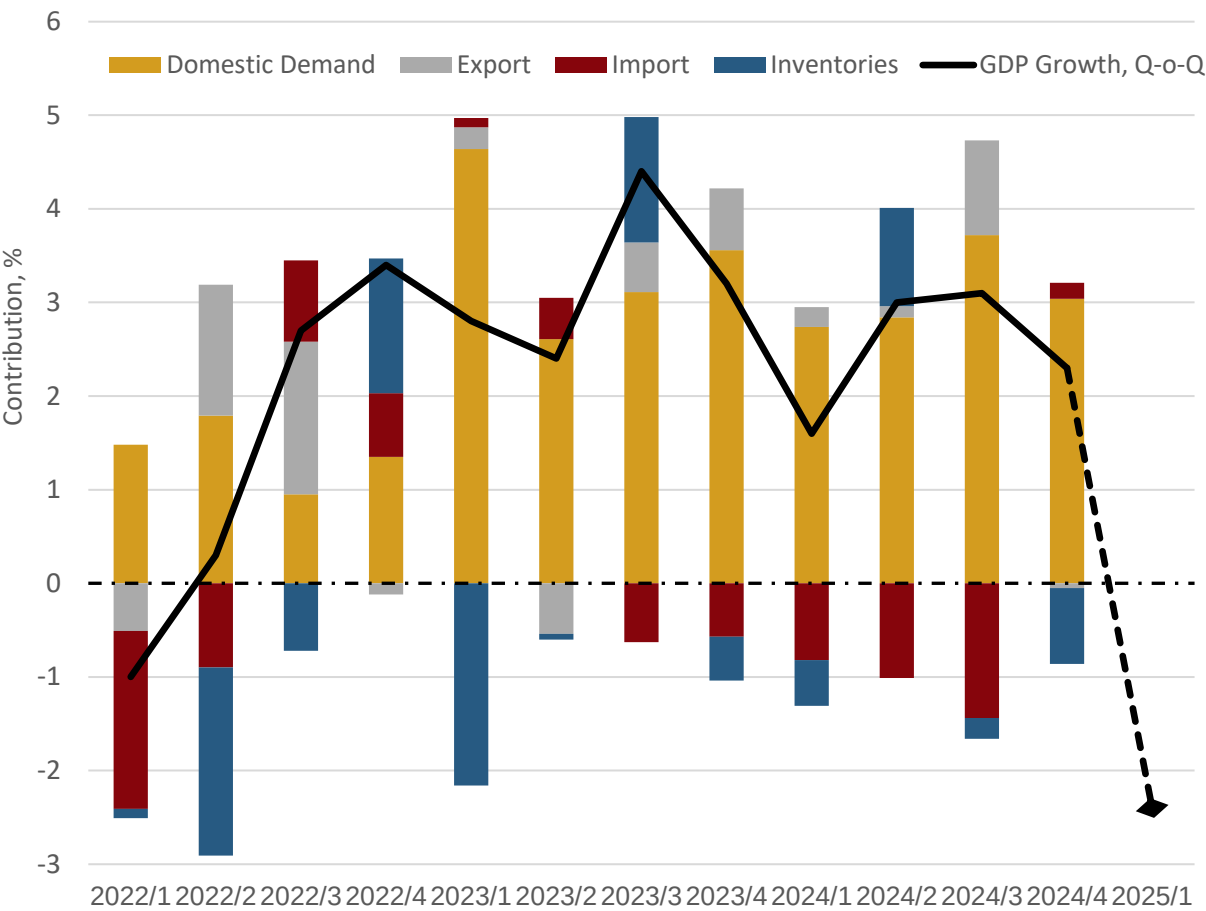
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Global Economic Developments

# U.S. Despite The Weakening Labor Market Conditions and Signs Of Slowing Economic Growth, Core Inflation and Inflation Expectations Remain Well Above The Target

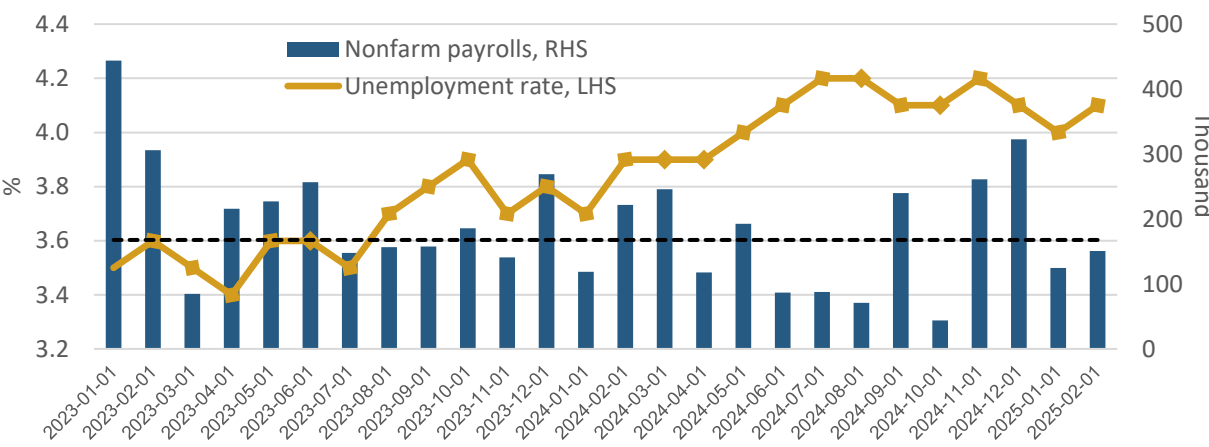


Consumption remains the primary driver of strong economic growth. However, uncertainty surrounding economic policies has led to signs of a slowdown.

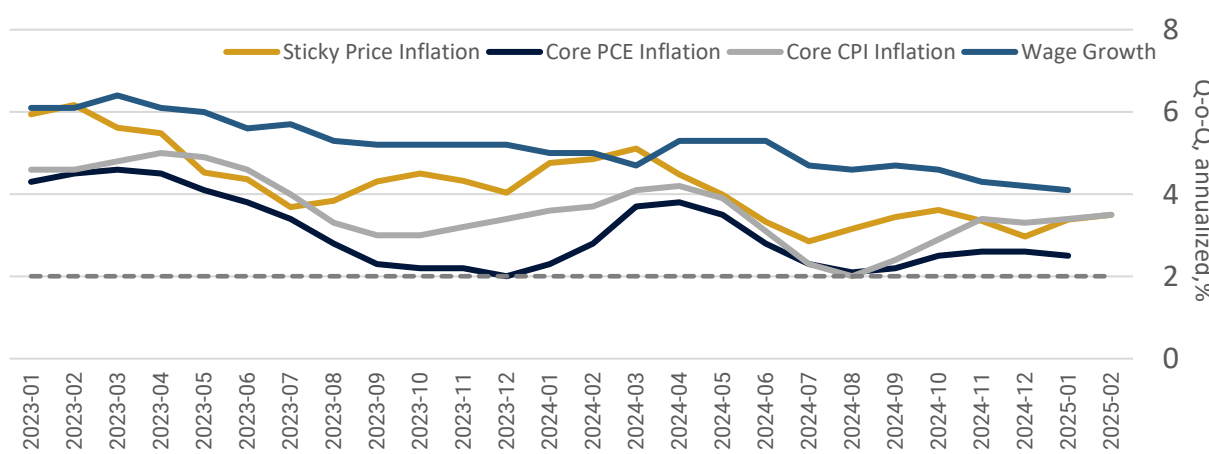


Source: Bureau of Economic Analysis (BEA), Atlanta Fed

Labor market conditions no longer appear to be as tight.

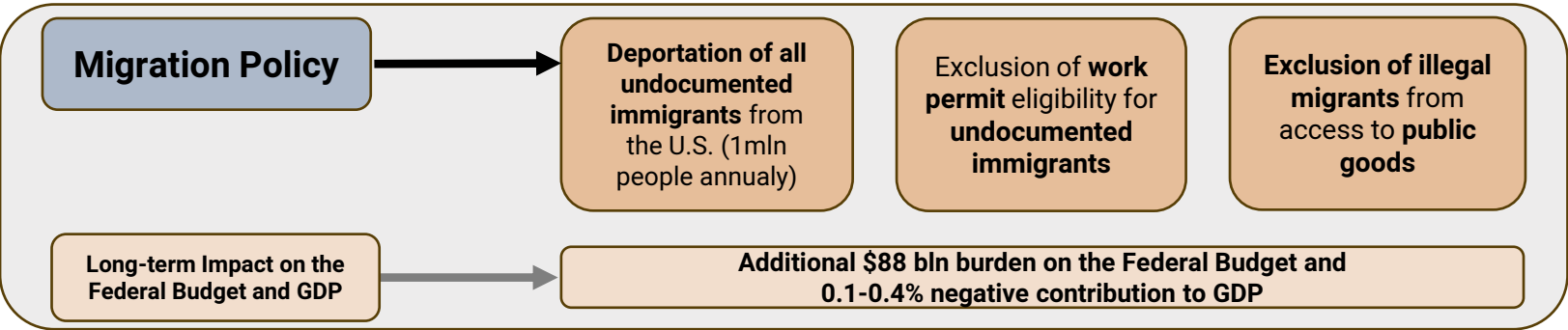
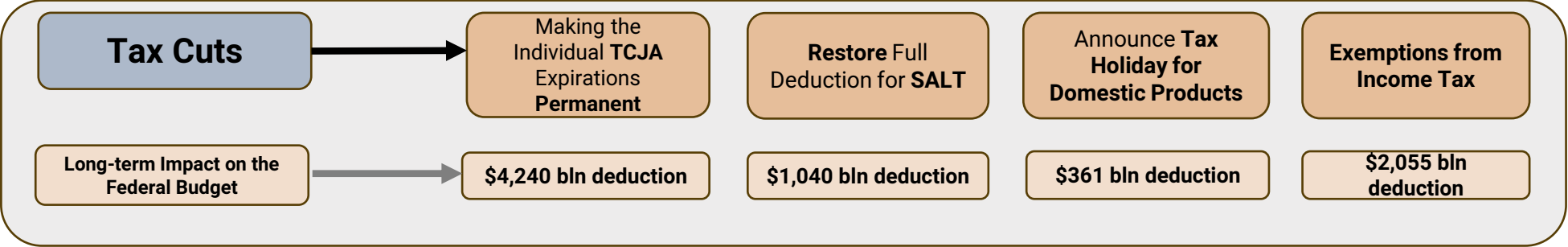
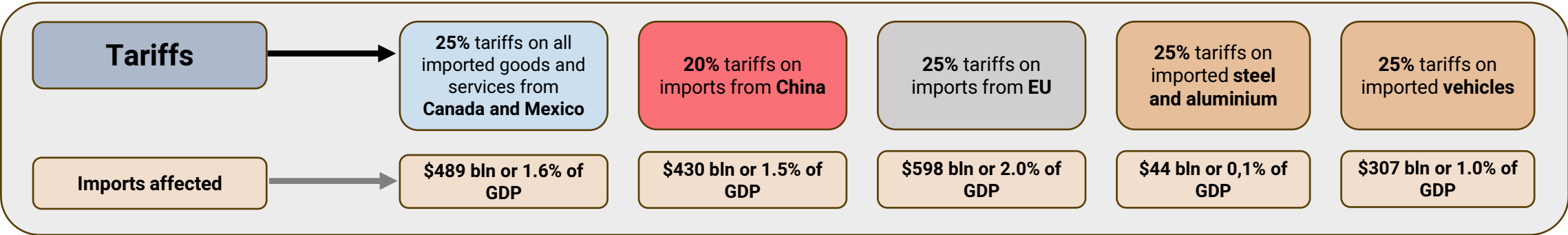


The challenge of bringing inflation to the target remains a key policy priority.



Source: Bureau of Economic Analysis (BEA), Atlanta Fed, Bureau of Labor Statistics(BLS)

# U.S.: Uncertainty Persists Regarding The Trade, Migration, And Fiscal Policies Adopted By The New U.S. Administration.



Completed

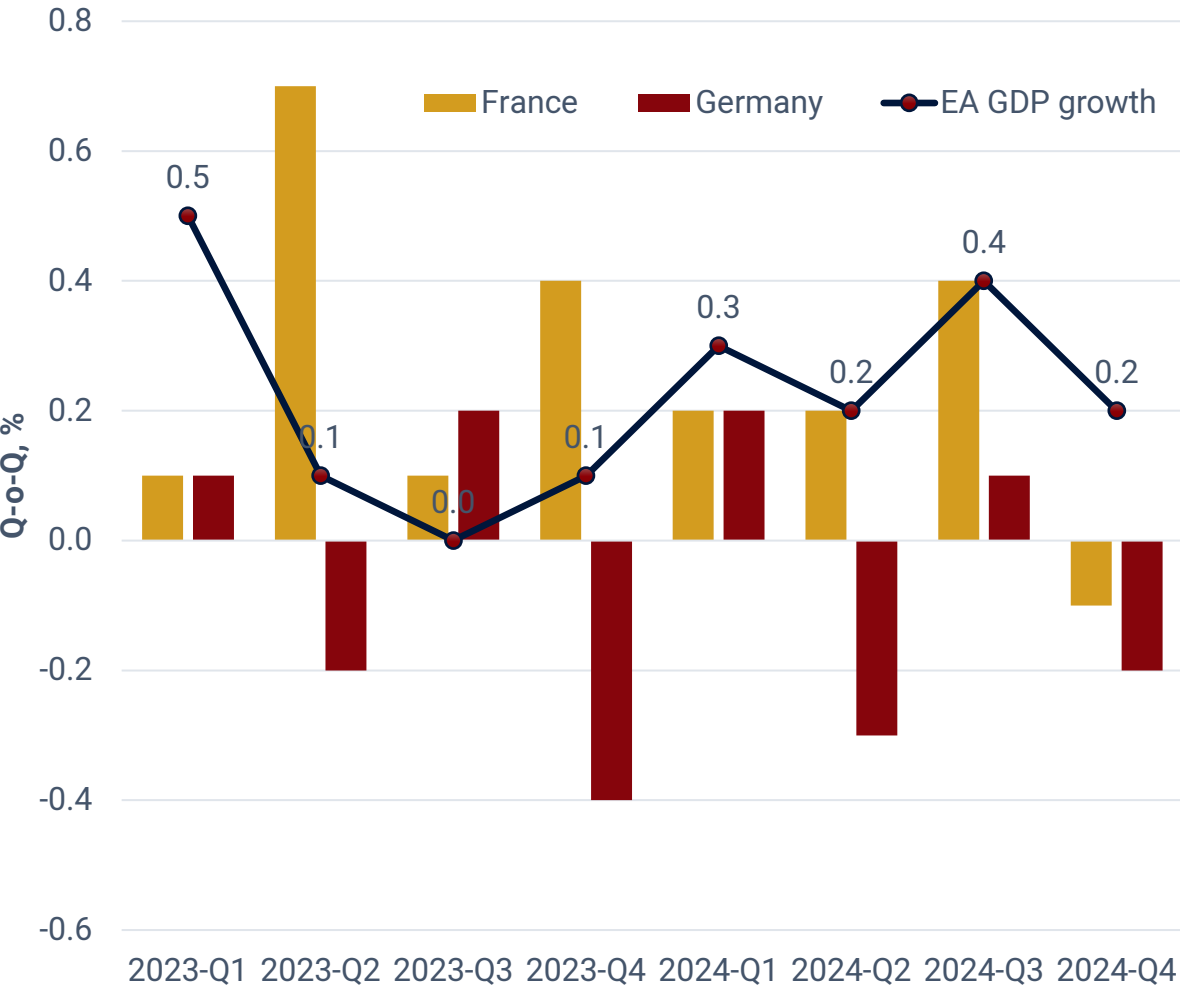
In process

Delayed partially

Uncertain

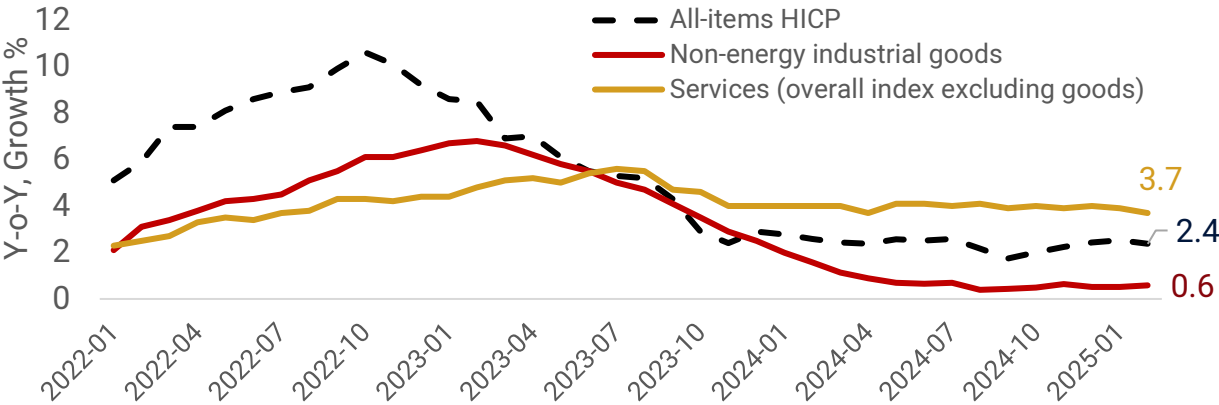
Eurozone: The Outlook and Composition of Economic Growth Remain A Concern. The Strong Economic Growth Driven By Temporary Factors Was Adjusted in The Fourth Quarter.

Economic activity continues to decline in major industrial economies.

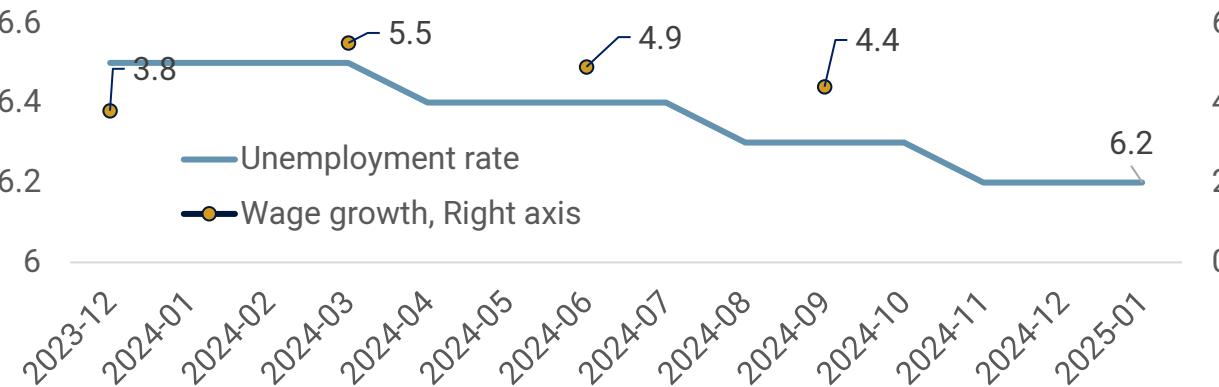


Source: Eurostat

ECB's policy dilemma deepening?



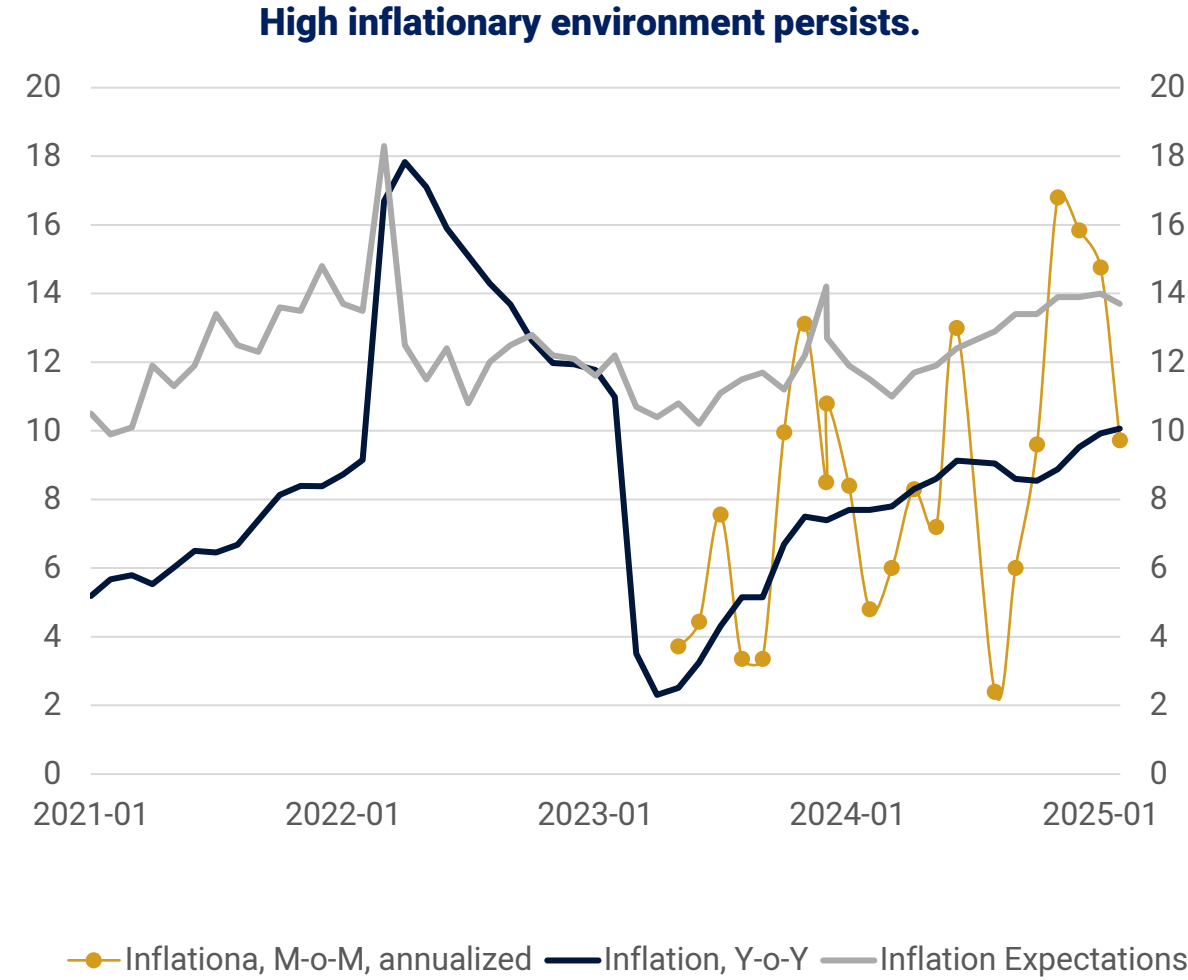
Inflationary pressures stemming from the labor market continue to persist



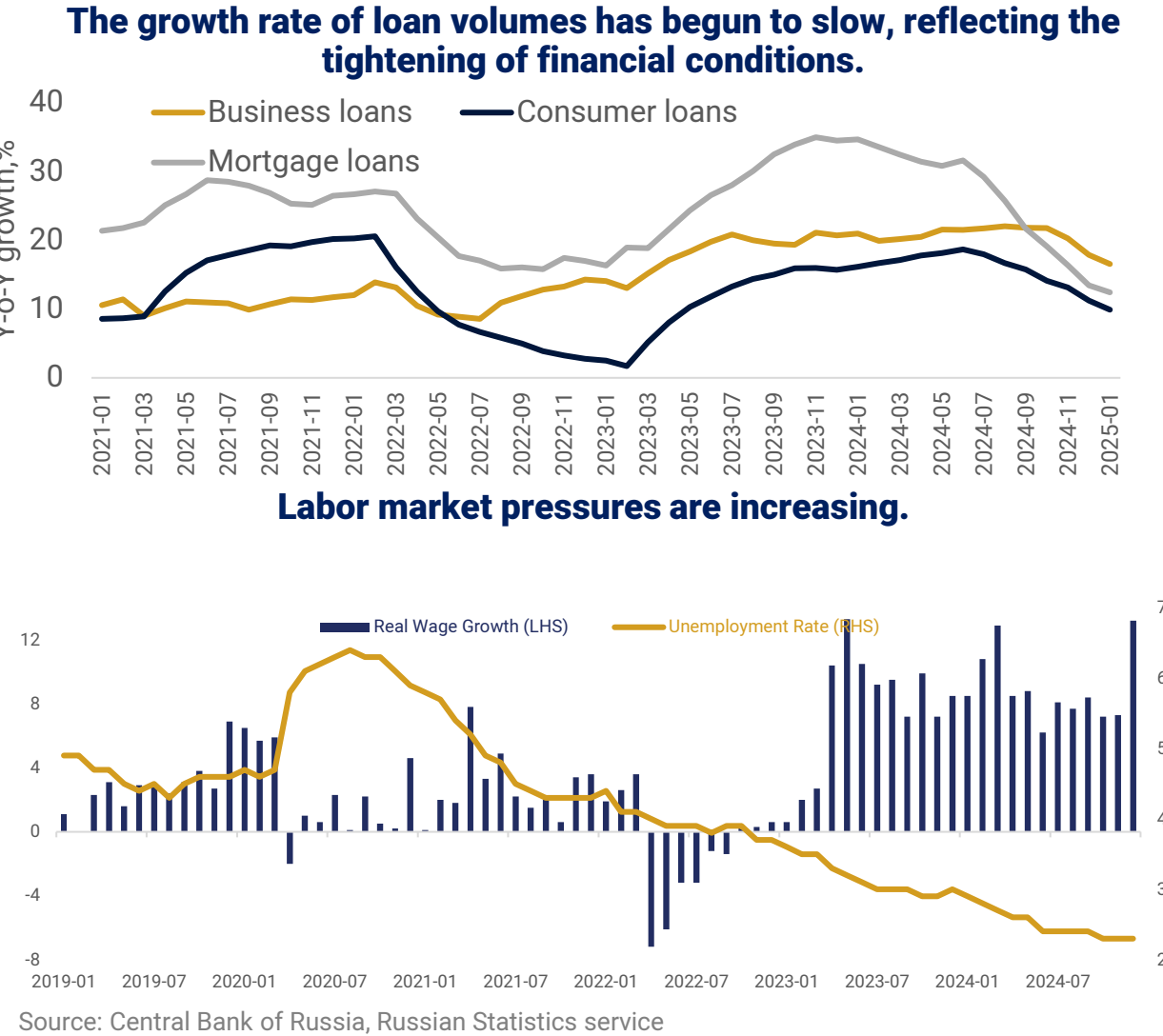
Source: Eurostat

# Russia: A High Inflationary Environment Persists Under Strong Domestic Demand. Medium-term Growth Risks Remain, Primarily Due To Geopolitical Uncertainties.





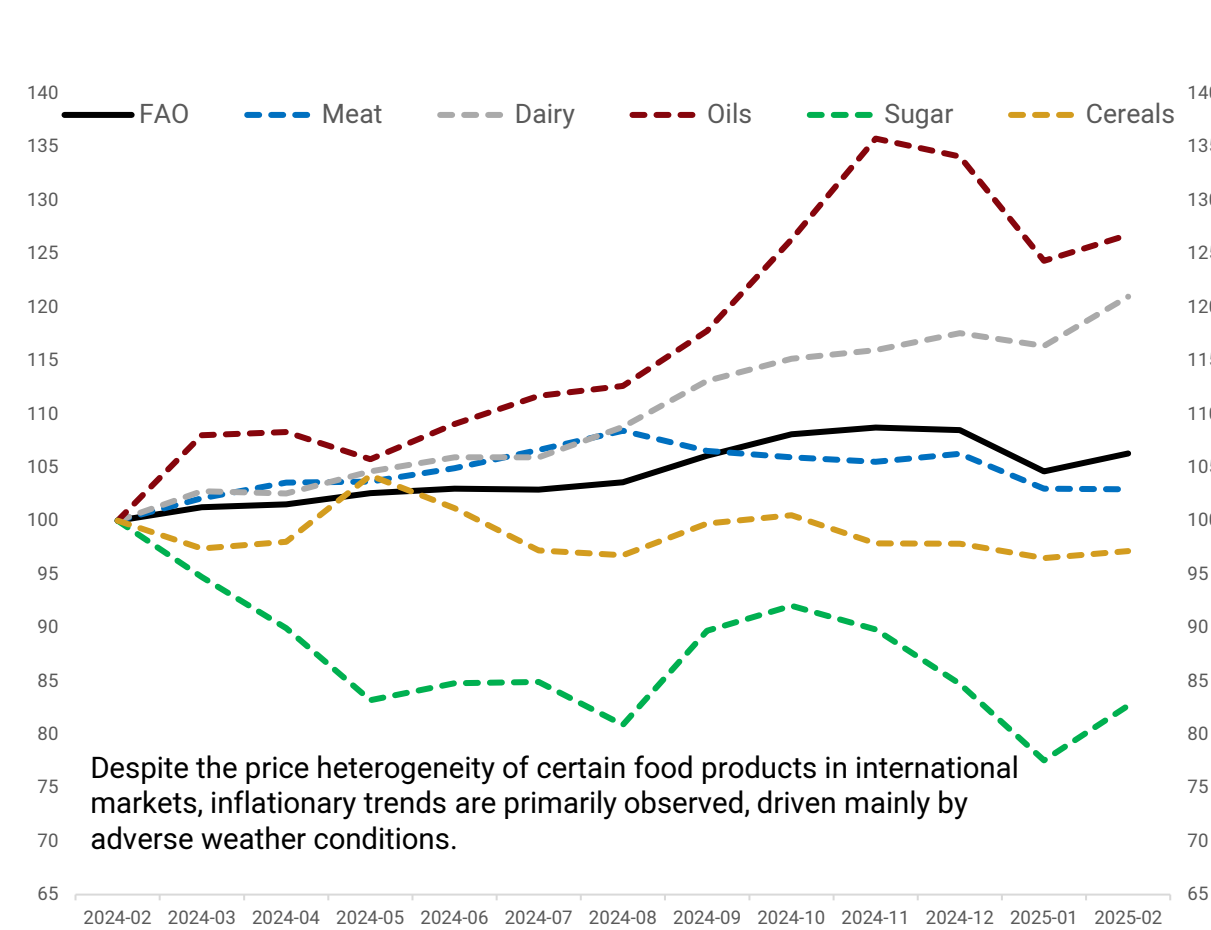
Source: Russian Statistics service, Central Bank of Russia



Source: Central Bank of Russia, Russian Statistics service

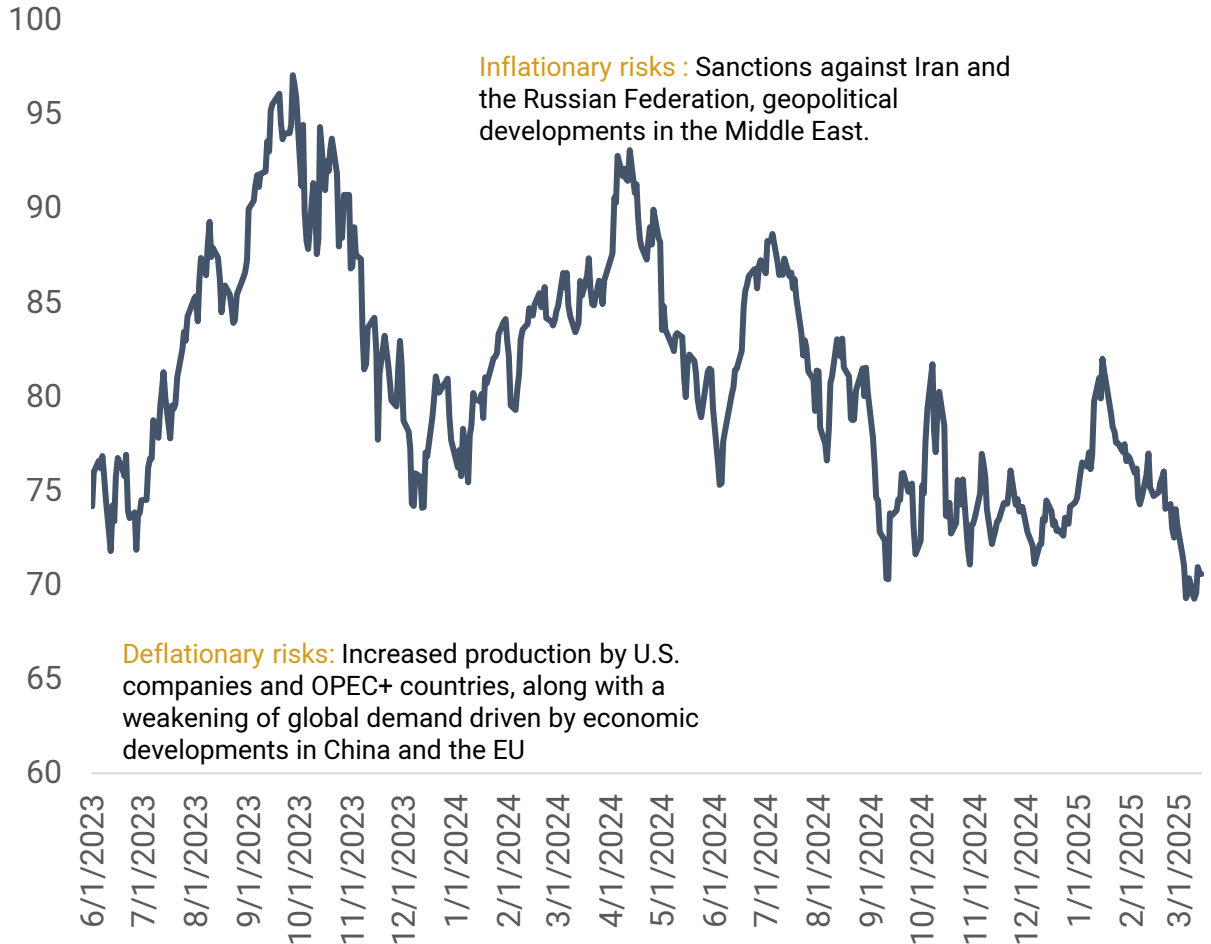
# Commodity markets: Geopolitical Uncertainties Are Making Commodity Markets More Vulnerable And Volatile, While Concerns About Weak Global Economic Growth Are Somewhat Restraining Price Increases.

FAO Food Price Index, 2024 February=100



Source: FAO

International oil prices (Brent), daily, US\$/barrel



Source: Bloomberg

# Main sources of uncertainty related to the global economy.



## USA

- Uncertainty regarding long-term (neutral) interest rates
- Rising fiscal stimulus: assessing the uncertainties around debt levels and long-term sustainability
- Risks from the Tightening of External Trade and Migration Policies

## EA

Uncertainty regarding growth prospects, economic structure, and fundamentals remains.

## China

Despite the acceleration of economic growth at the end of 2024, risks related to the real estate sector, financial stability, and further weakening of demand persist.

## Russia

- Within accelerating inflation expectations, strong domestic demand persists.
- More targeted and flexible Western sanctions continue to pose certain risks for the Russian economy and third countries.
- Risks associated with the potential resolution of the Russia-Ukraine conflict and the formation of a positive environment for economic prospects.

## Commodity Markets

The further escalation of geopolitical tensions, sanctions against Russia, and weather and trade risks pose potential threats to global supply chains, with risks of continued increases in global oil prices and heightened volatility.



# Current and Fundamental Economic Factors

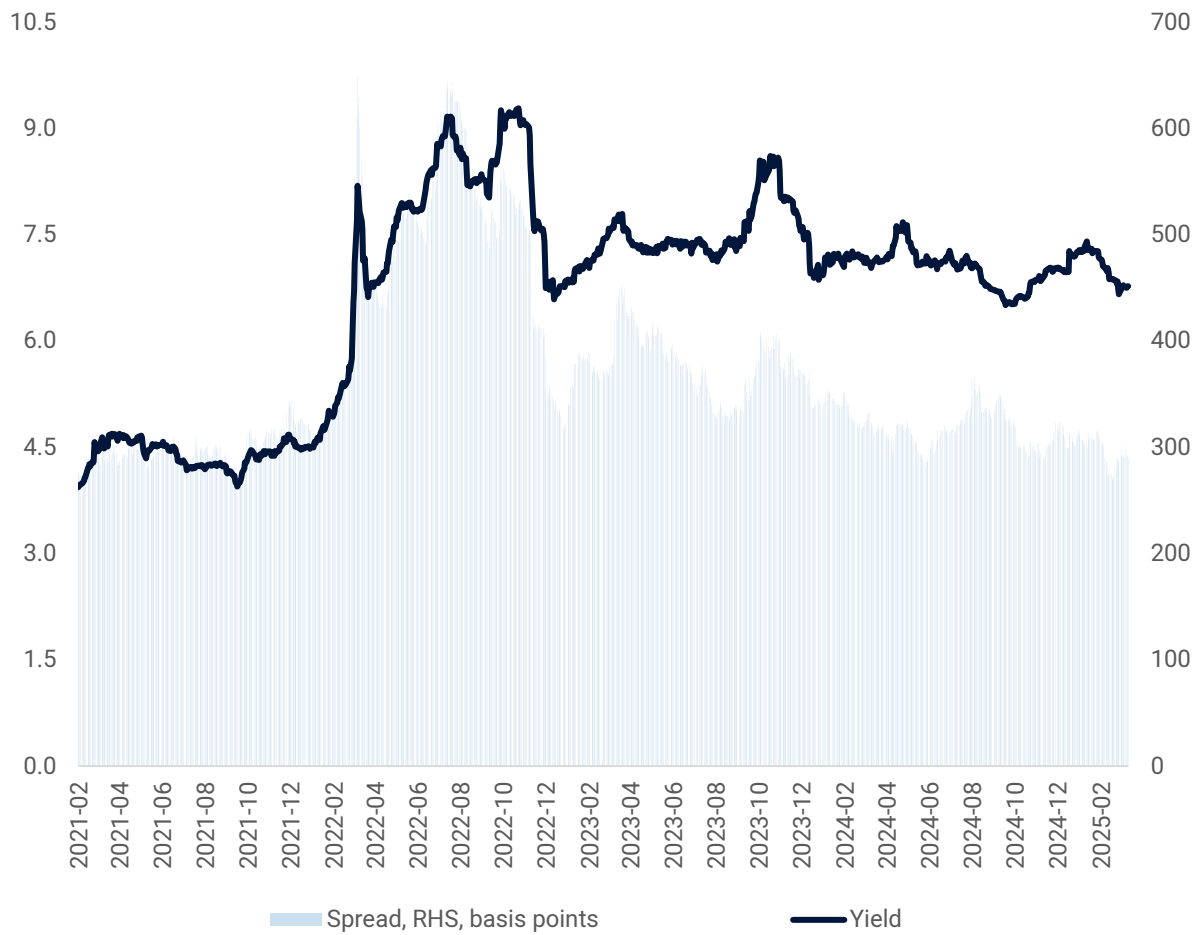
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Domestic Economic Developments

# The country risk premium of Armenia has decreased in line with trends observed in emerging markets. At the same time, uncertainties persist regarding the potential for further reassessment of Armenia's risk by the markets.

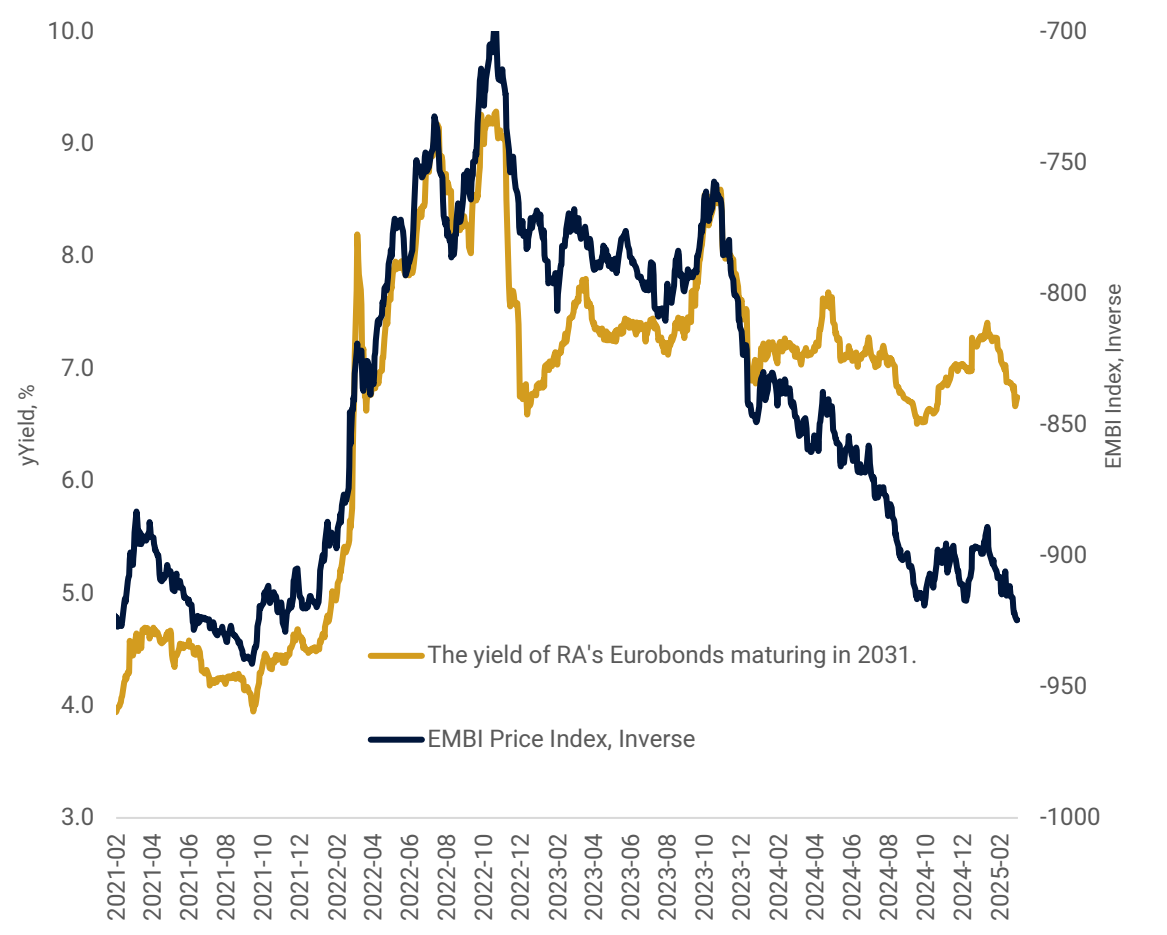


Armenia's country risk premium continues to remain below the long-term equilibrium level.



Source :Bloomberg

The spread of Armenia's Eurobond yields over emerging markets remains unchanged.

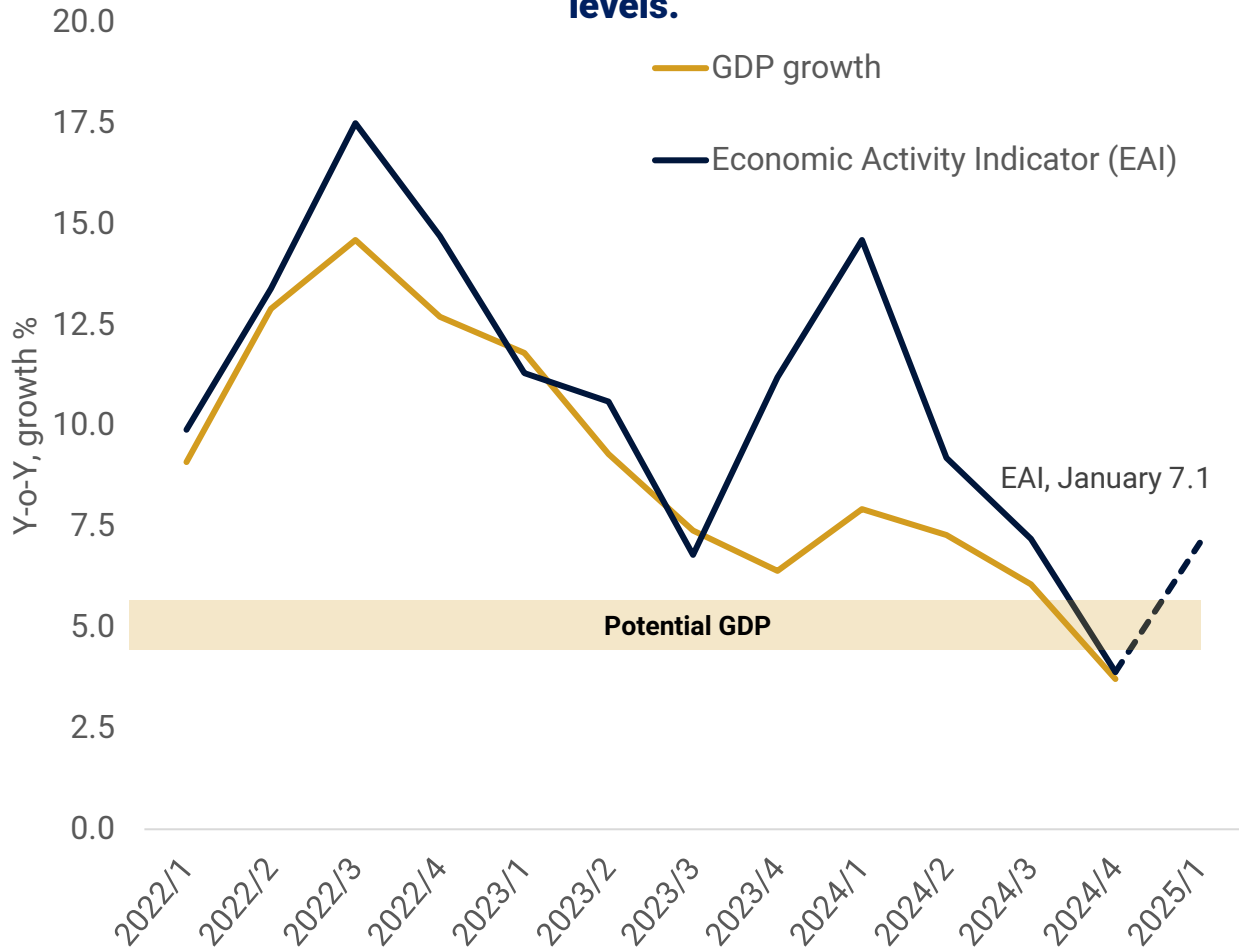


Source:Bloomberg

# Despite some weakening, high economic activity is maintained, primarily concentrated in demand-driven sectors.

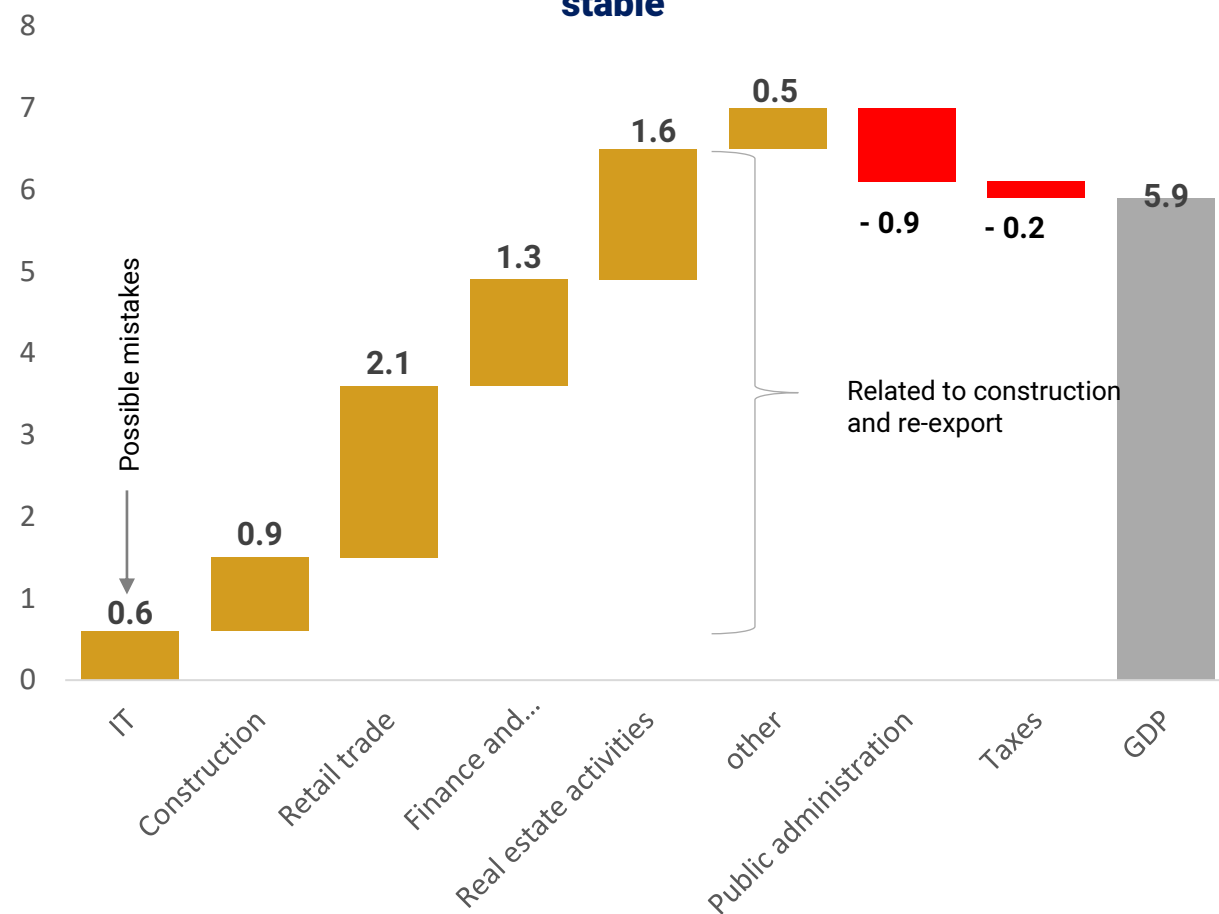


High economic growth has stabilized around long-term sustainable levels.



Source: RA Statistical Committee

The concentration of growth has slightly decreased, yet it remains stable

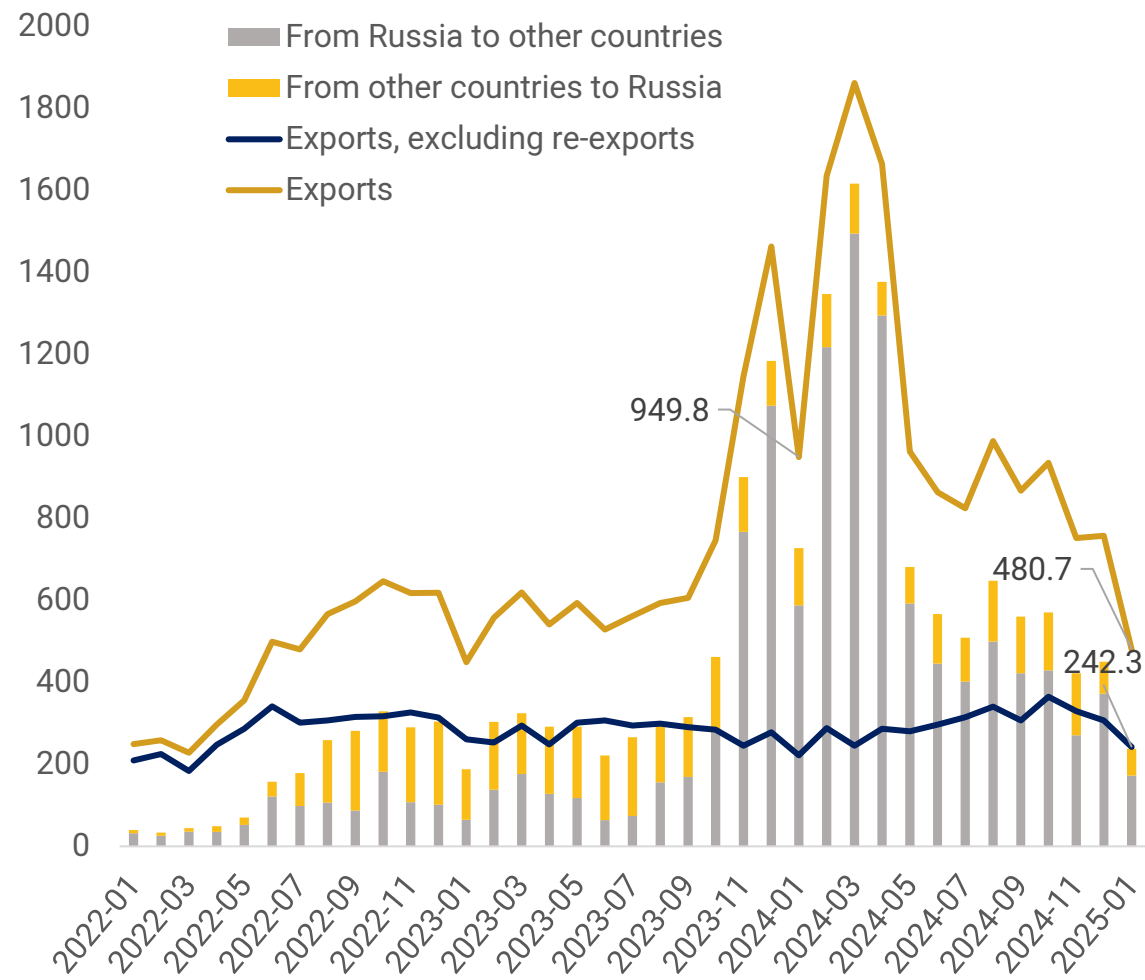


Source: RA Statistical Committee

Flows Related To Foreign Trade Have Significantly Declined, With Risks Of A Further Slowdown Persisting.

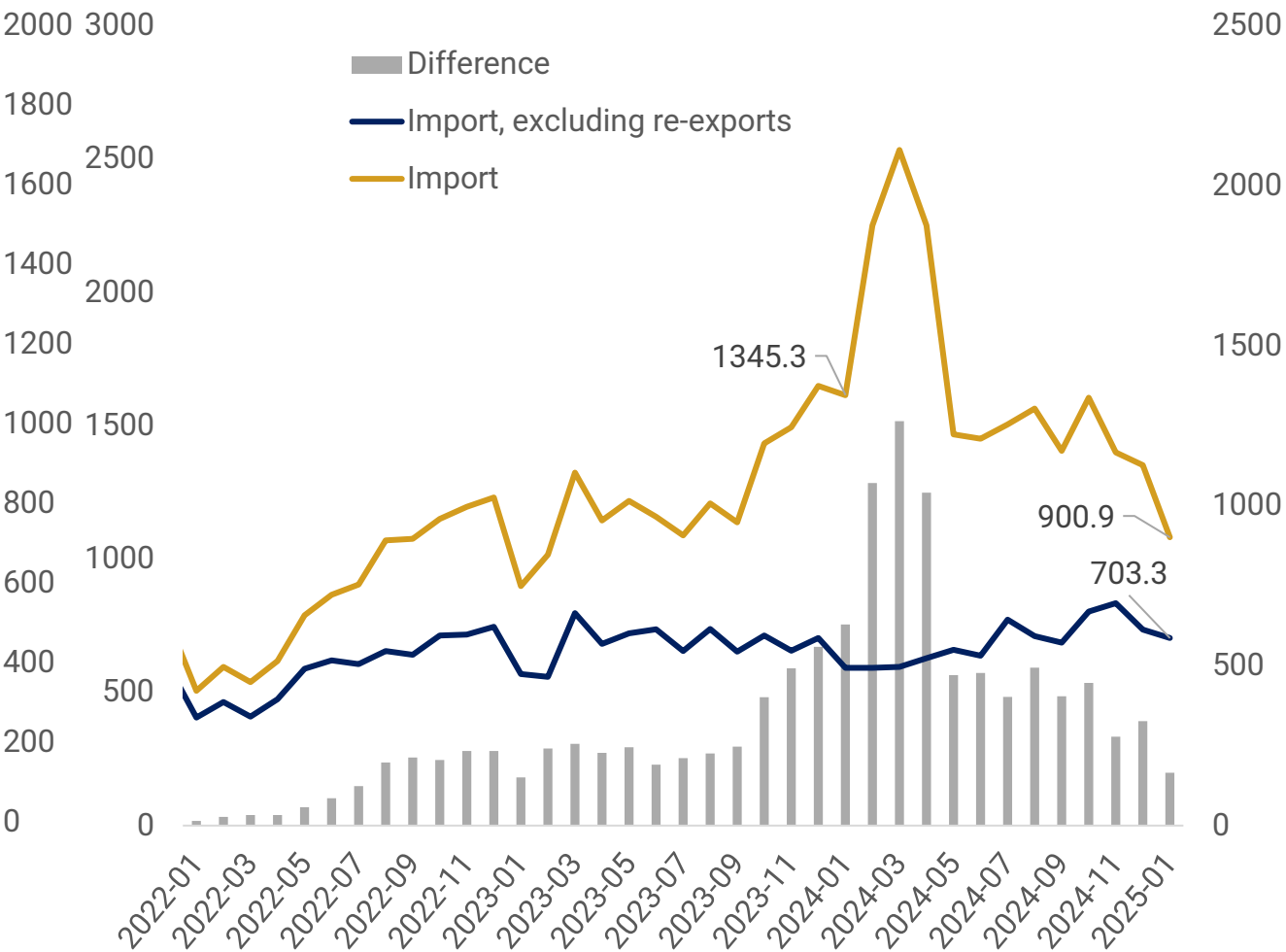


Export by flow directions, Million USD



Source: National Statistical Committee of Armenia, CBA Calculation

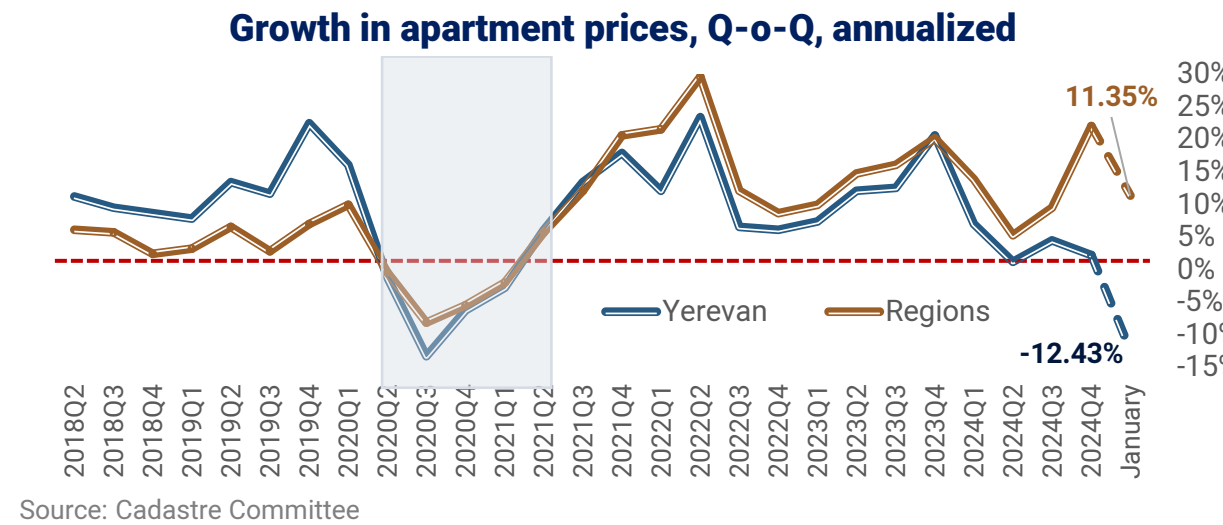
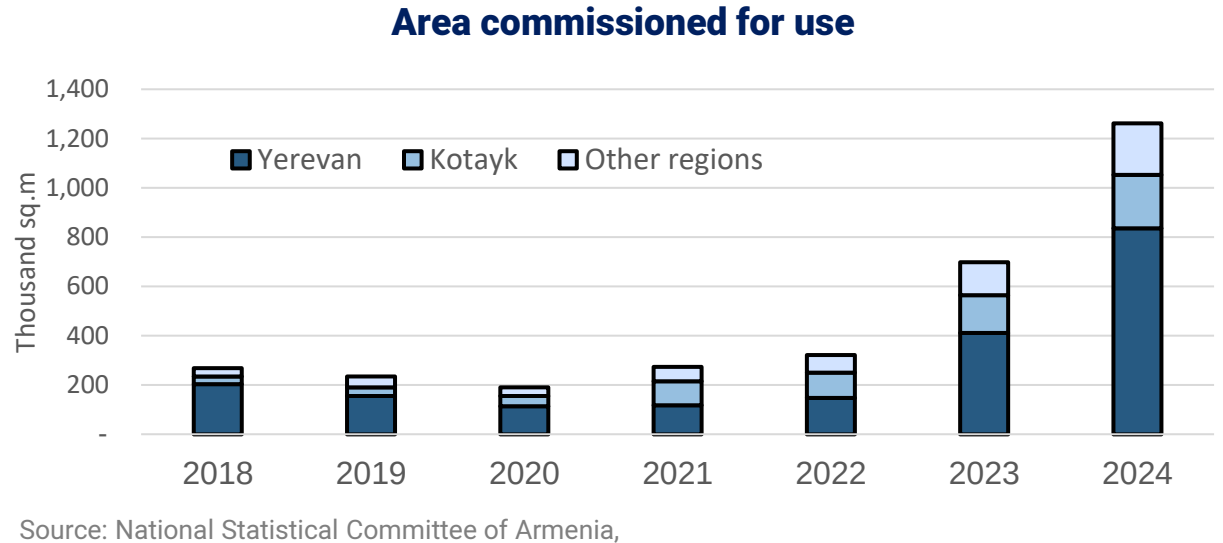
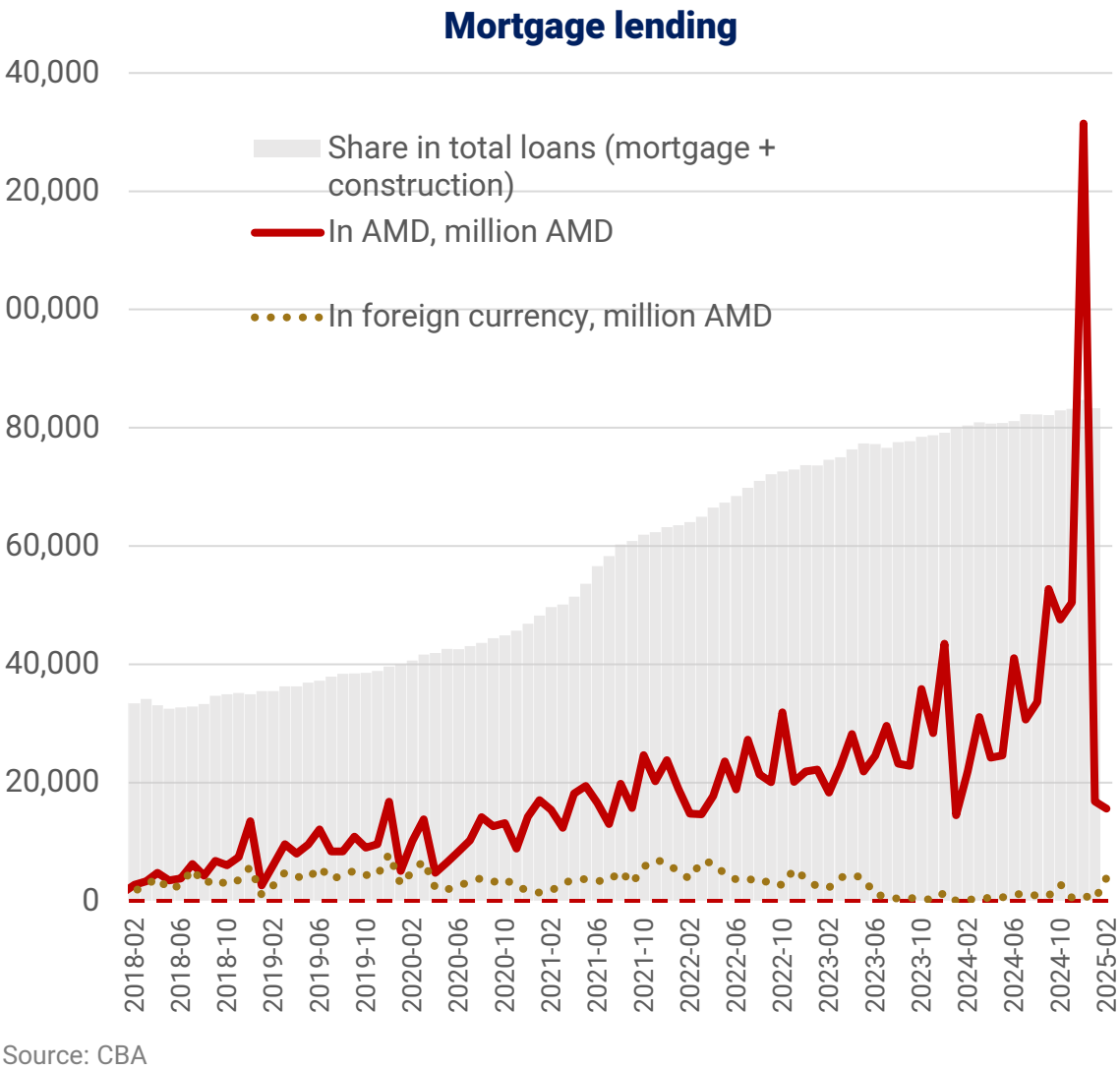
Import, Million USD



Source: National Statistical Committee of Armenia, CBA Calculation

# Uncertainty Remains High Regarding The Future Trajectory Of The Real Estate Market. A Certain Decline in Real Estate Prices Has Been Observed In Recent Periods, Likely Due To A Potential Oversupply.

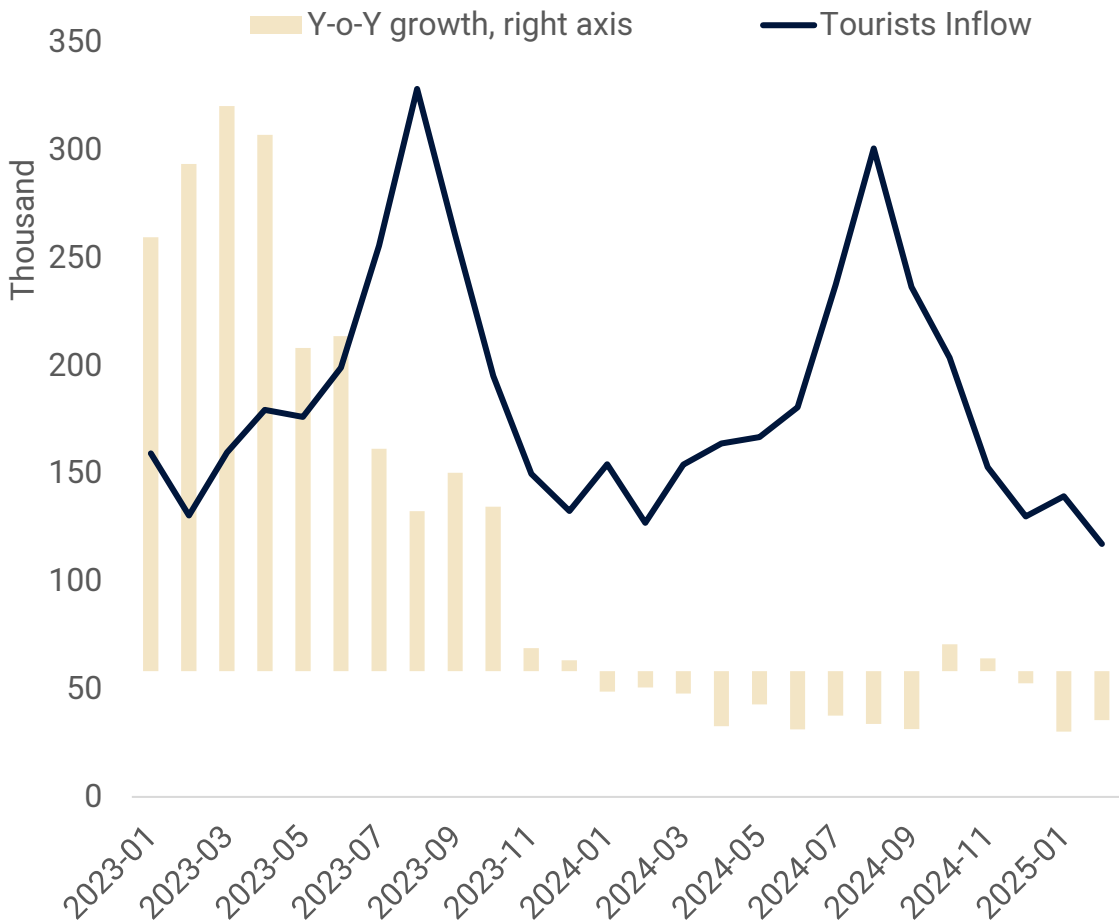




# The Continuous Adjustment Or Price Reduction Of Specific Services Reflects The Persistence Of Weakening External Demand Trends.

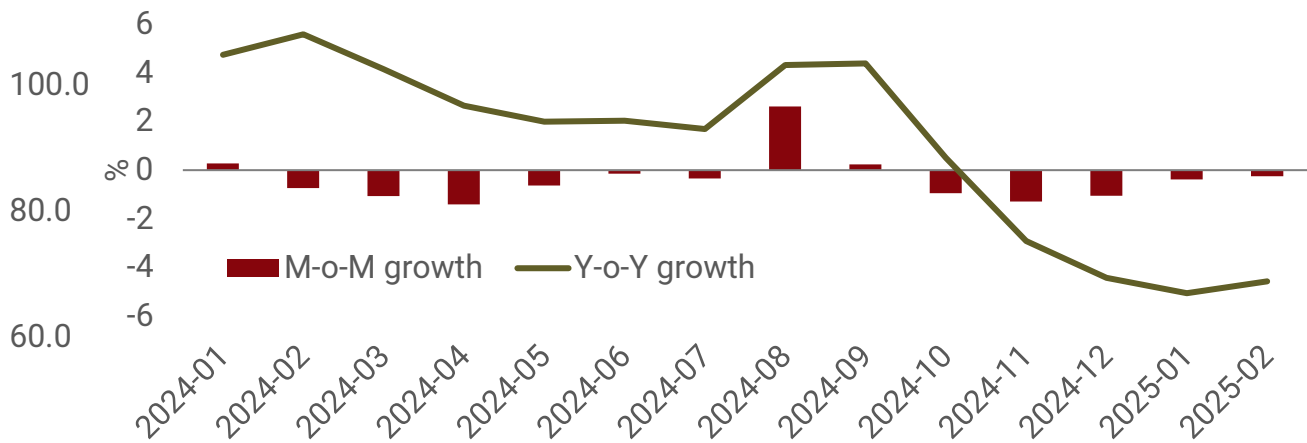


Inflow of tourists



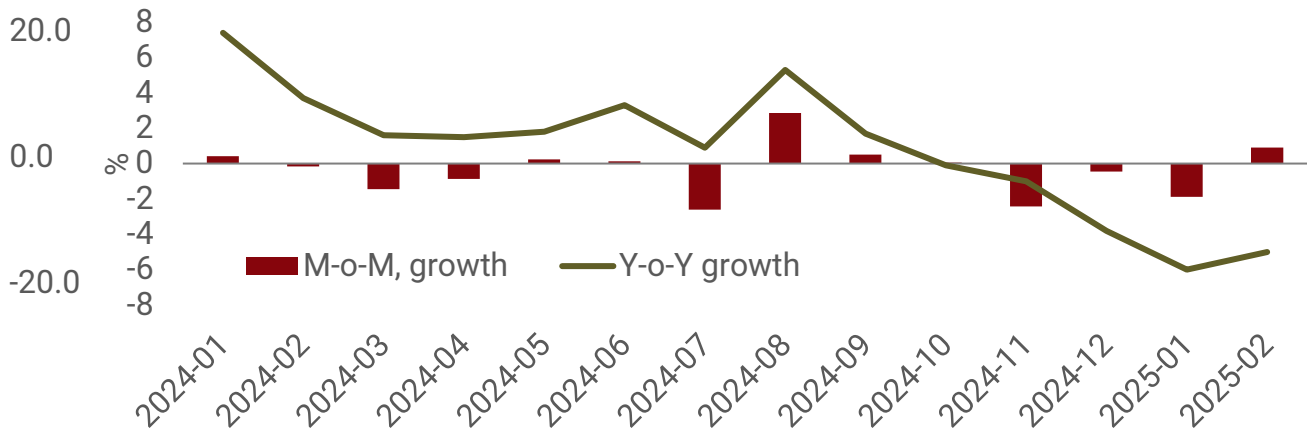
Source: State Tourism Committee

Actual rent paid by the tenant for additional residential units



Source: National Statistical Committee of Armenia,

Hotel Services

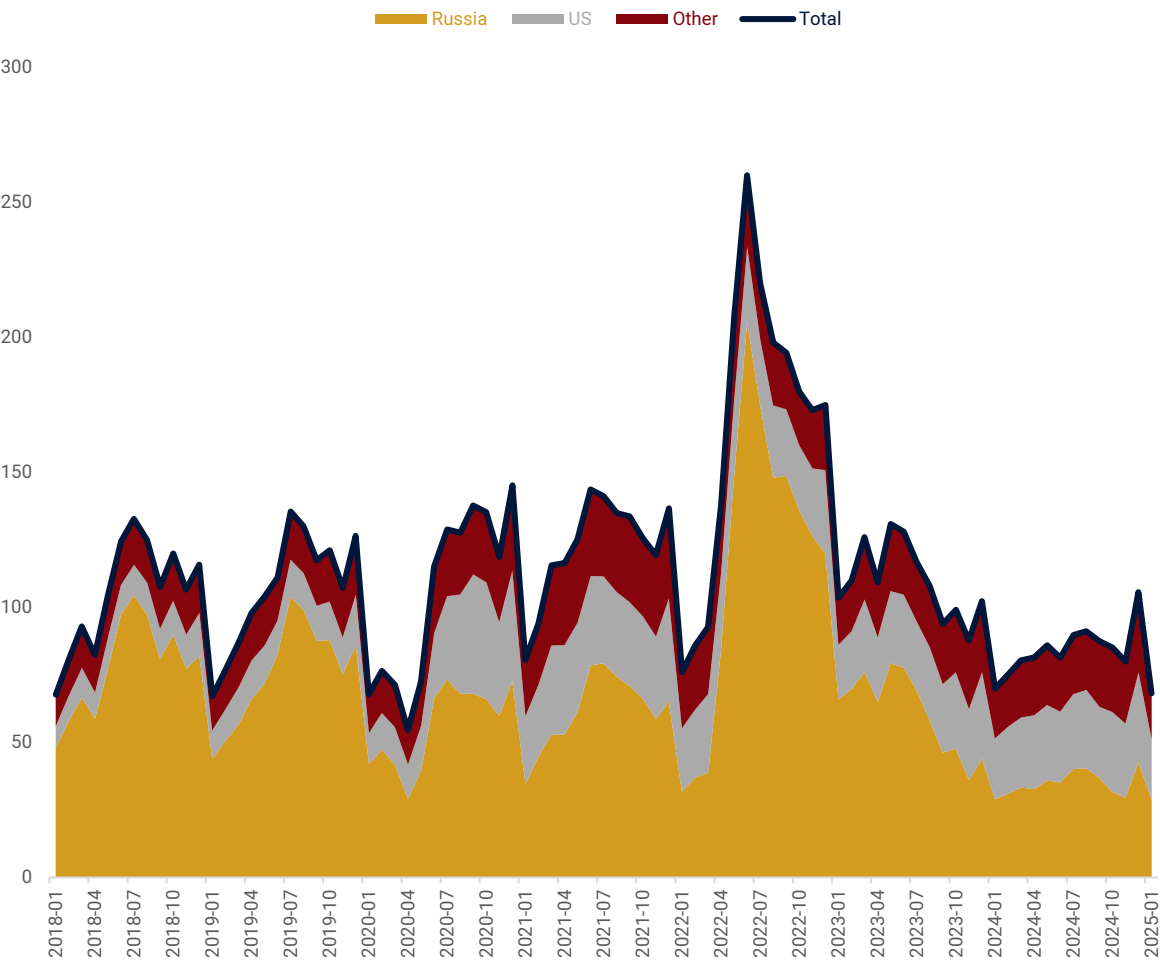


Source: National Statistical Committee of Armenia,

# The inflow of non-commercial transfers continues to decline. The main uncertainty here relates to seasonal migration trends and the methods of money transfers.

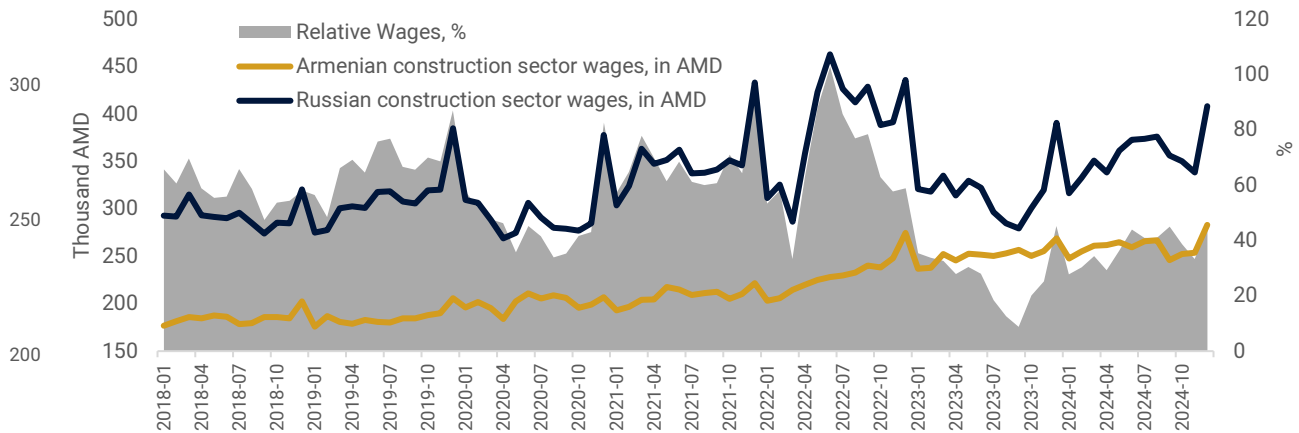


Inflow of remittances by source country.



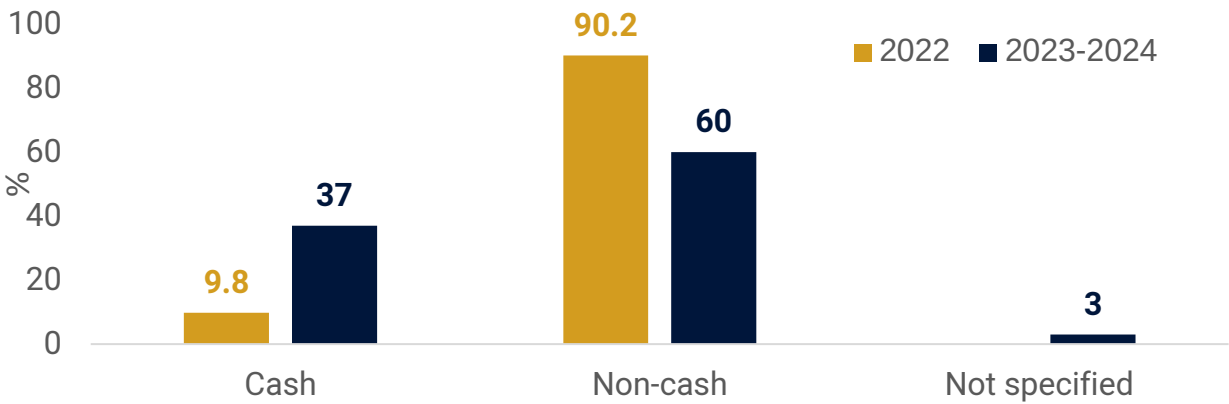
Source: CBA

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



Source: Russian Statistics service, CBA Calculations

Methods of money transfer by seasonal workers according to surveys

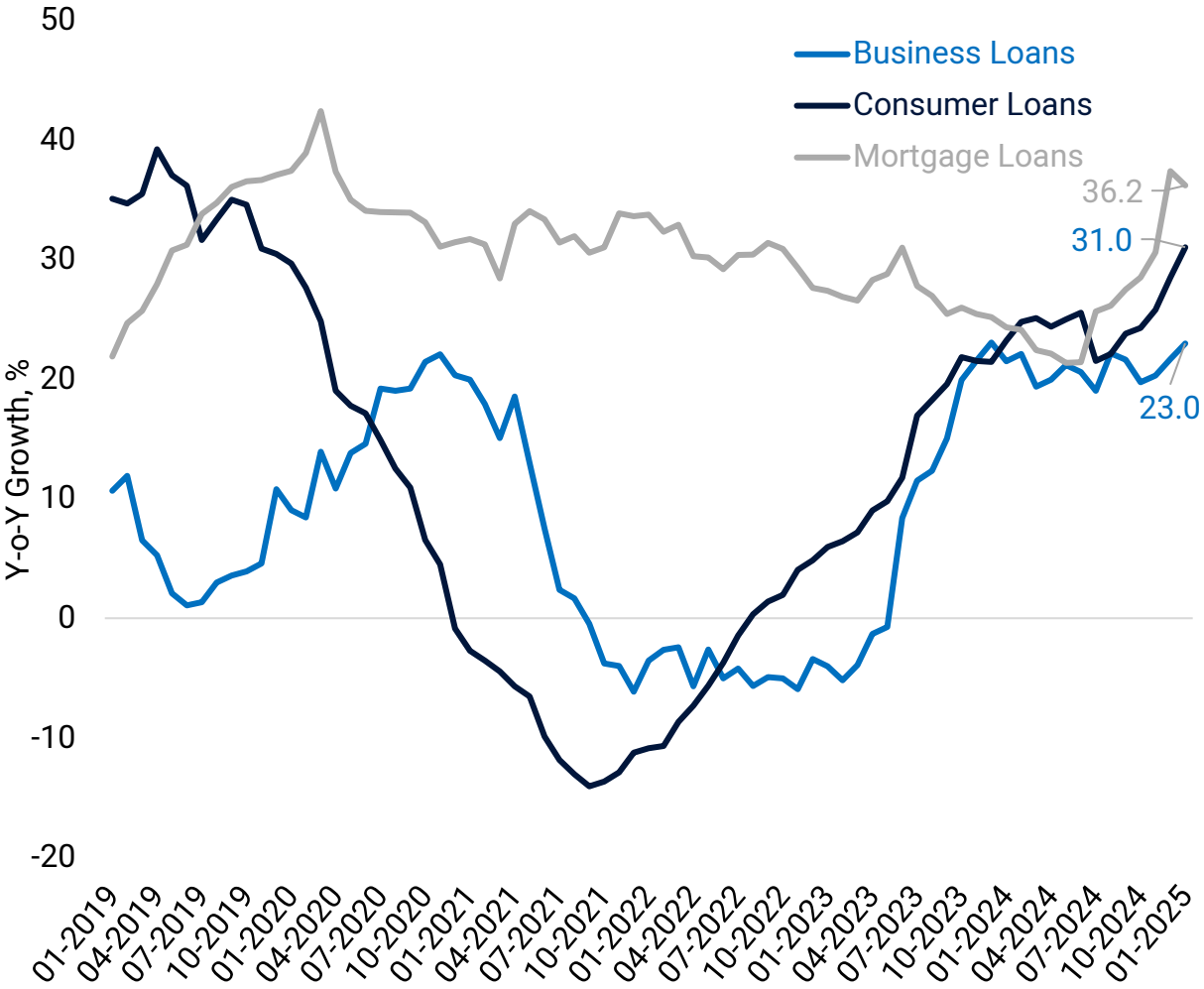


Source: CBA, CBA Survey

**Domestic demand has increased significantly, driven by income growth in previous years. There are risks to demand expansion, particularly due to the sustained high growth in credit and the continued depletion of private savings.**

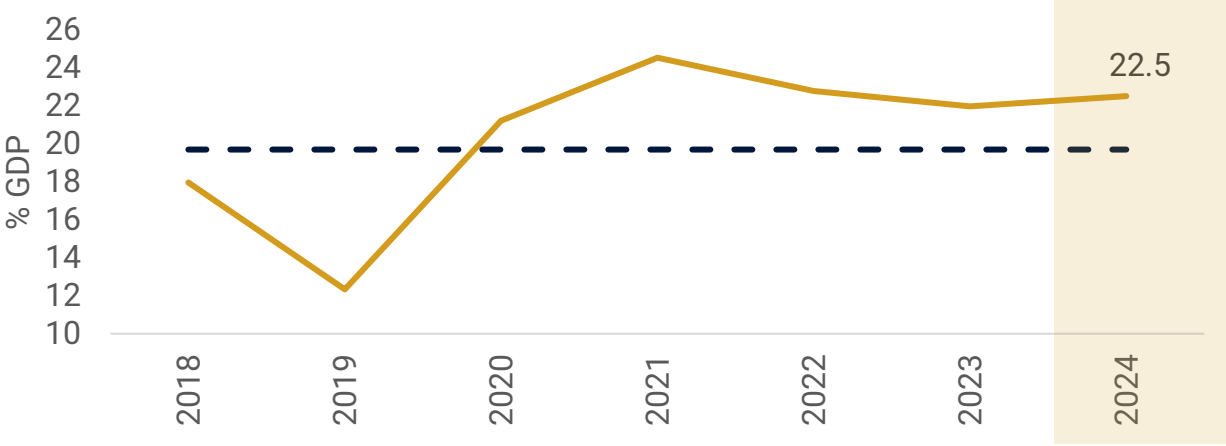


**Total loans to the economy**



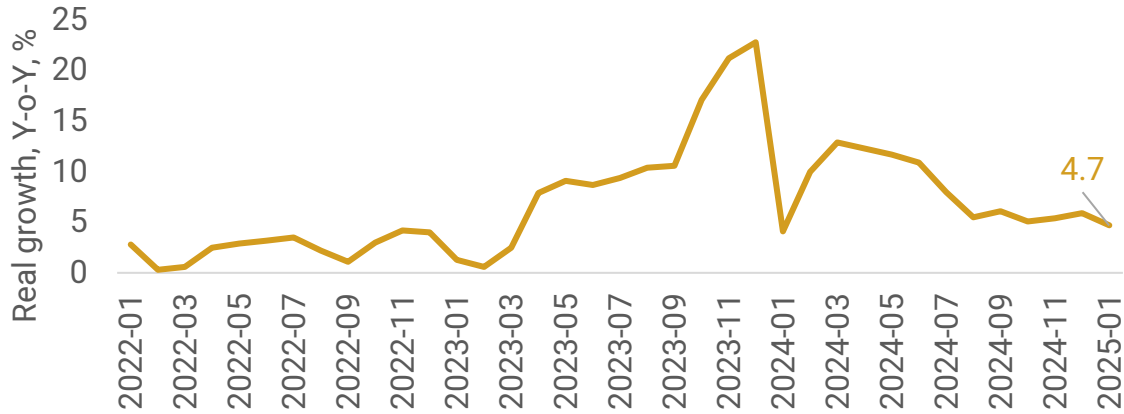
Source: CBA

**There are uncertainties regarding the allocation of savings**



Source: National Statistical Committee of Armenia,

**Retail trade**

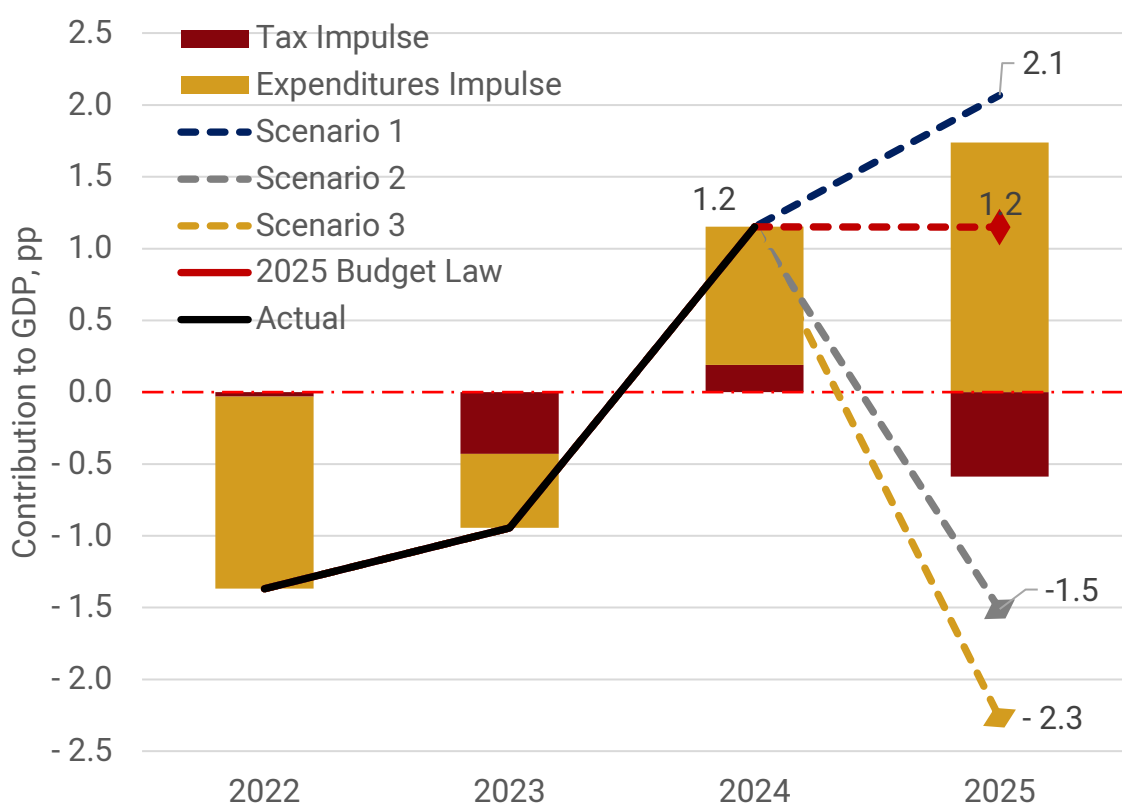


Source: National Statistical Committee of Armenia,

# Uncertainty persists regarding tax revenue collection and the capacity to implement capital expenditures.



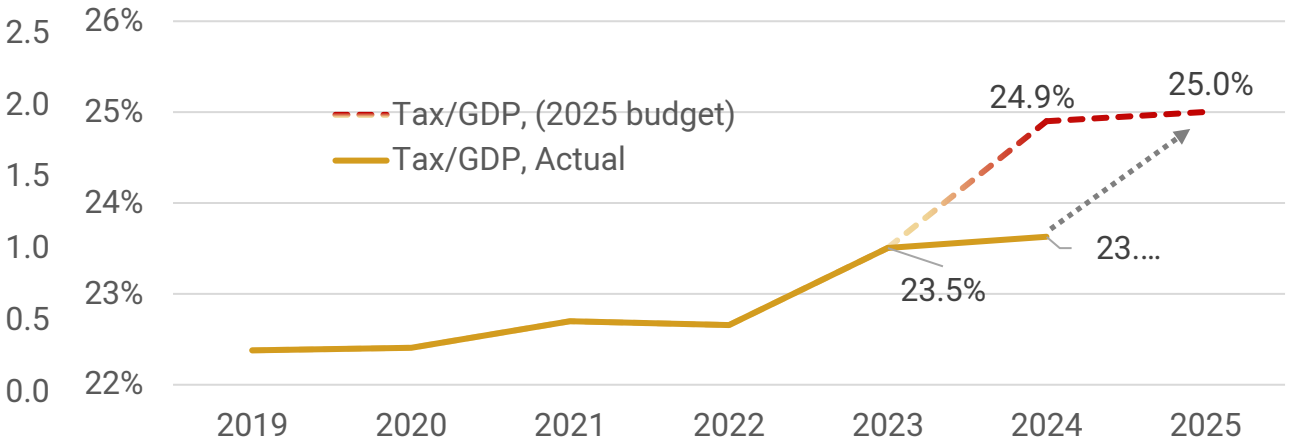
Scenarios of Fiscal Policy Impact



\*Scenario 1 – tax revenue growth based on actual 2024 figures  
\*Scenario 2 – expenditures growth based on actual 2024 figures  
\*Scenario 3 – scenario 2 + excluding some portion of capital expenditures

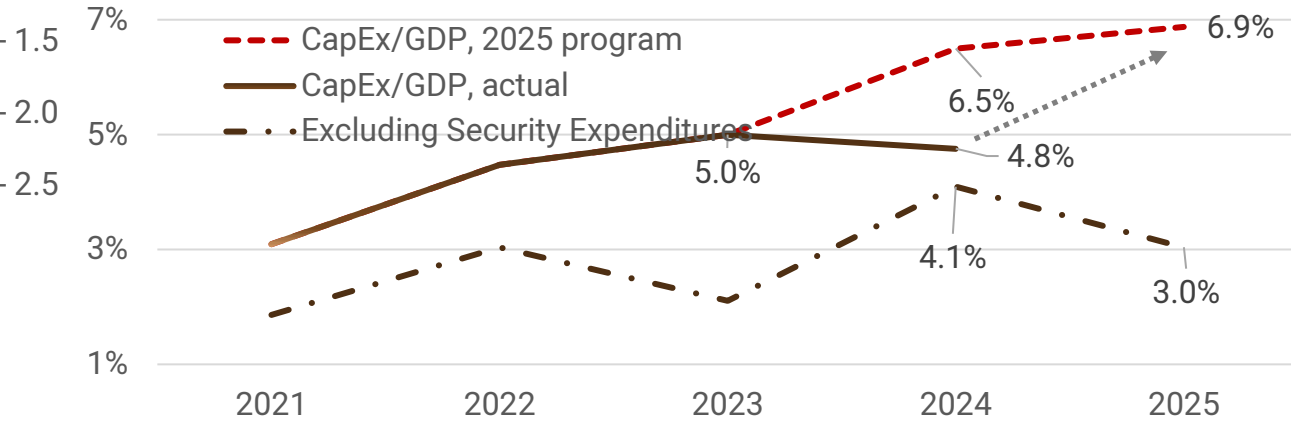
Source: CBA calculations

Tax Revenues relative to GDP



Source: RA Minfin

Capital Expenditures relative to GDP

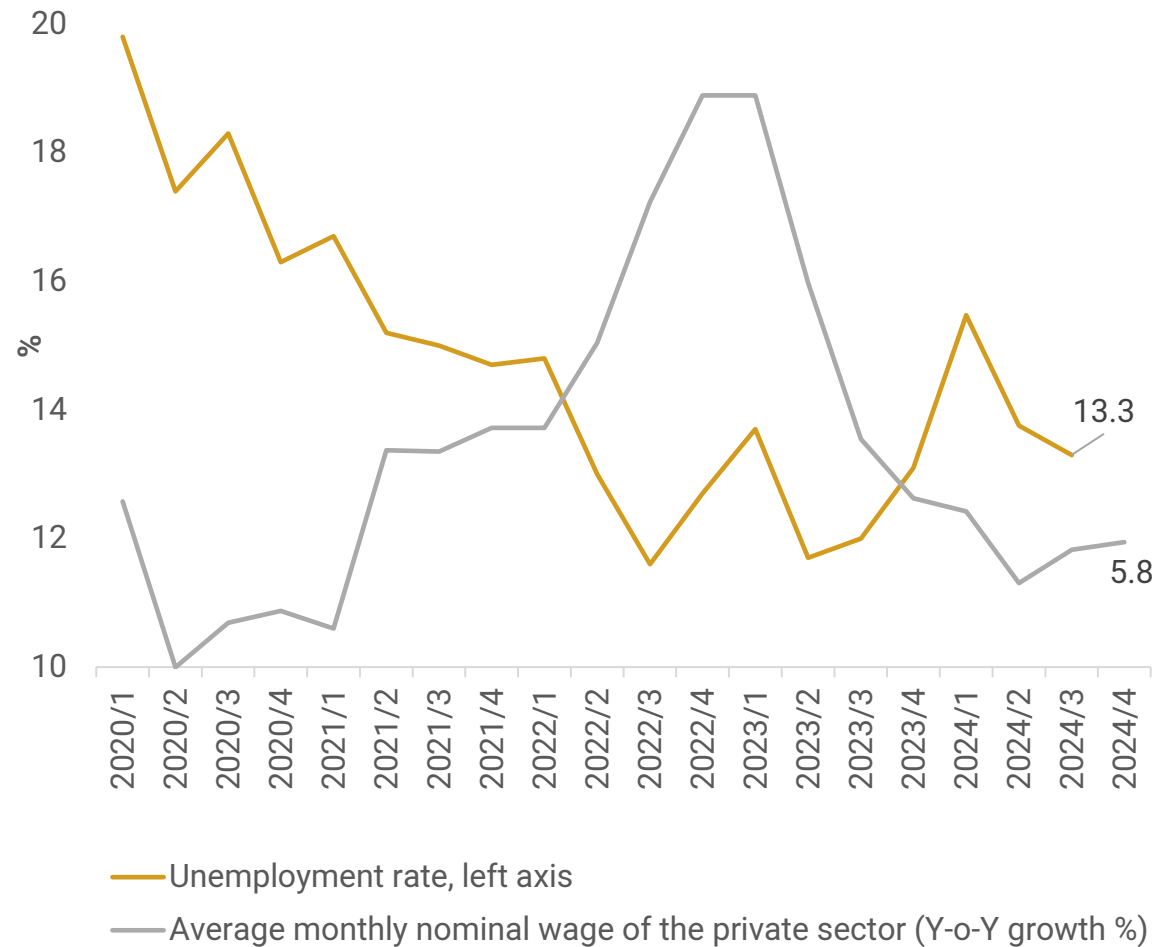


Source: RA Minfin

**Labor Market:** In Parallel With The Adjustment Of Demand, Labor Market Conditions In 2024 Have Slightly Weakened; However, Unemployment Remains at Relatively Low Levels.

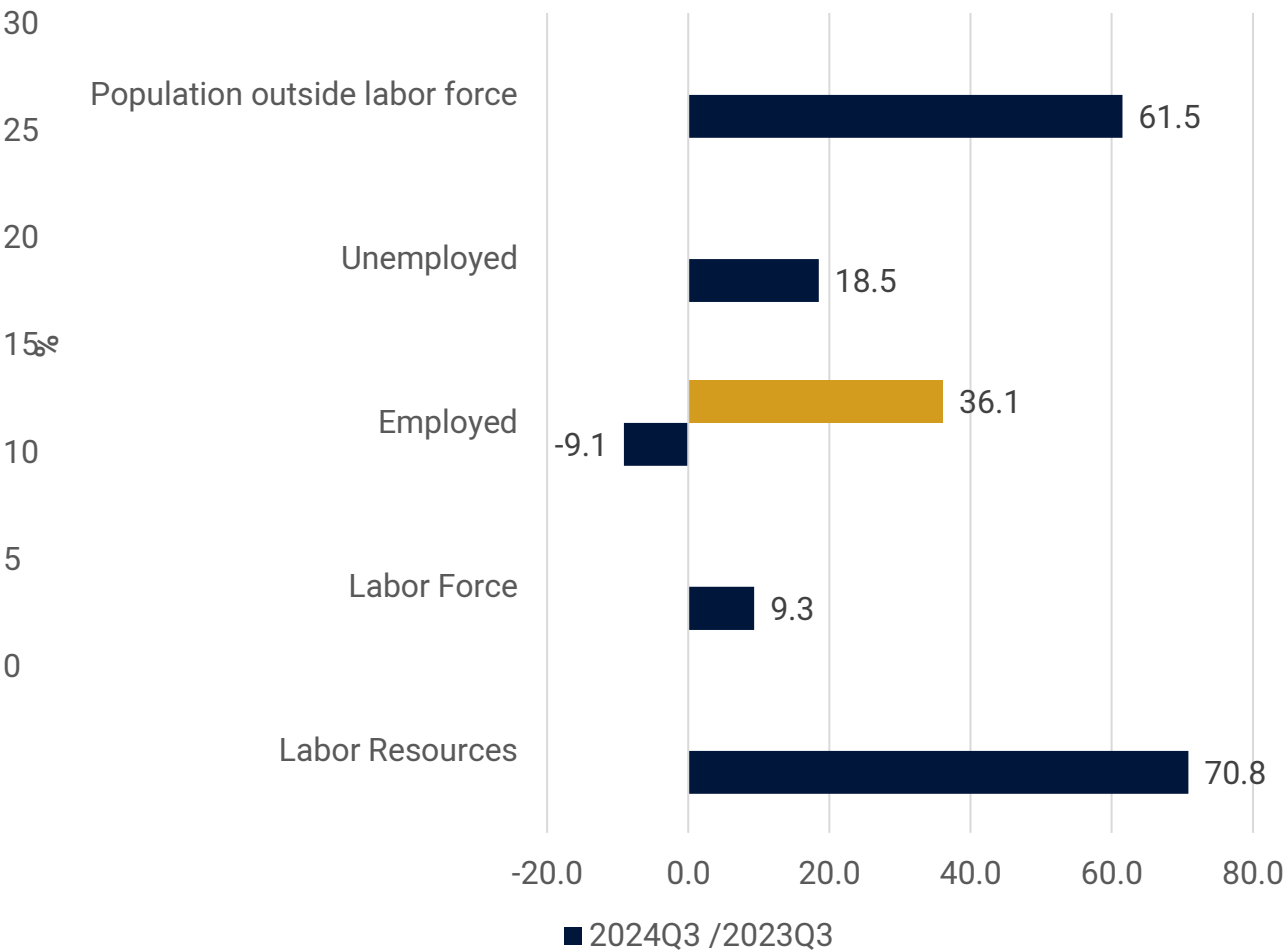


Unemployment rate and wage growth



Source: National Statistical Committee of Armenia,

SRC data and Household Surveys provide different signals regarding labor market conditions.

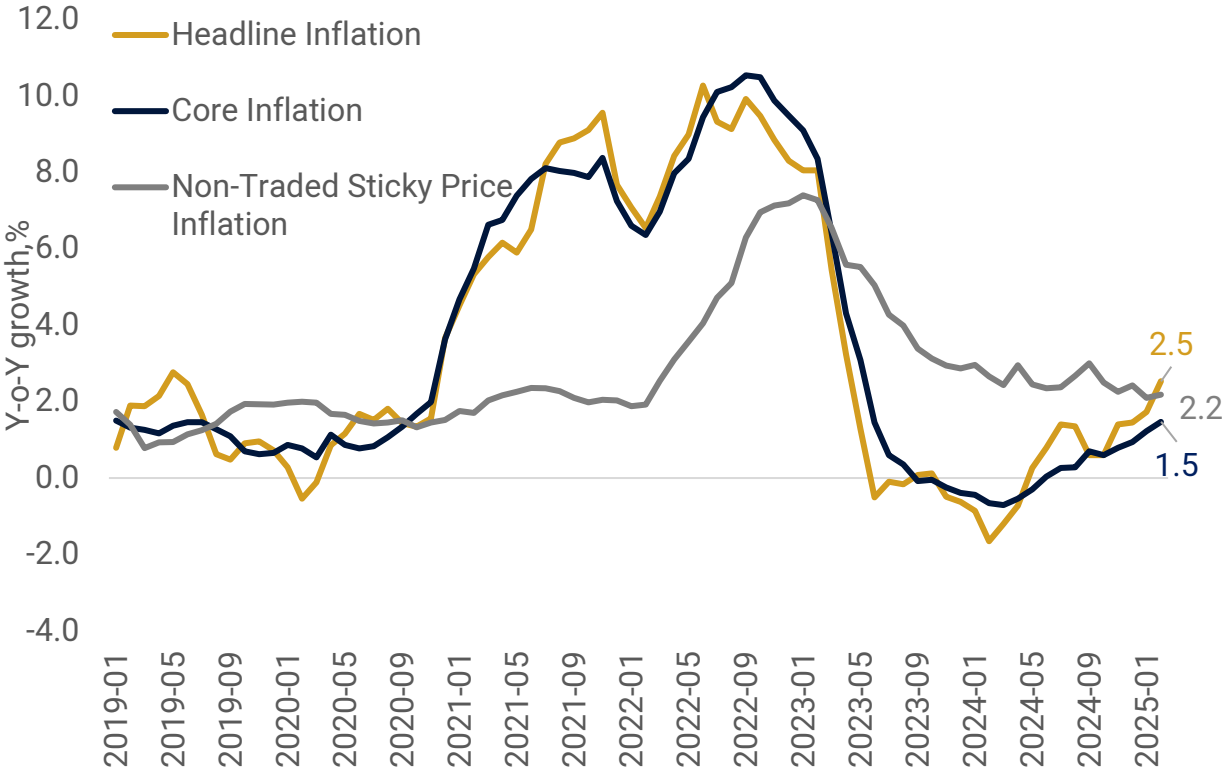


Source: National Statistical Committee of Armenia,

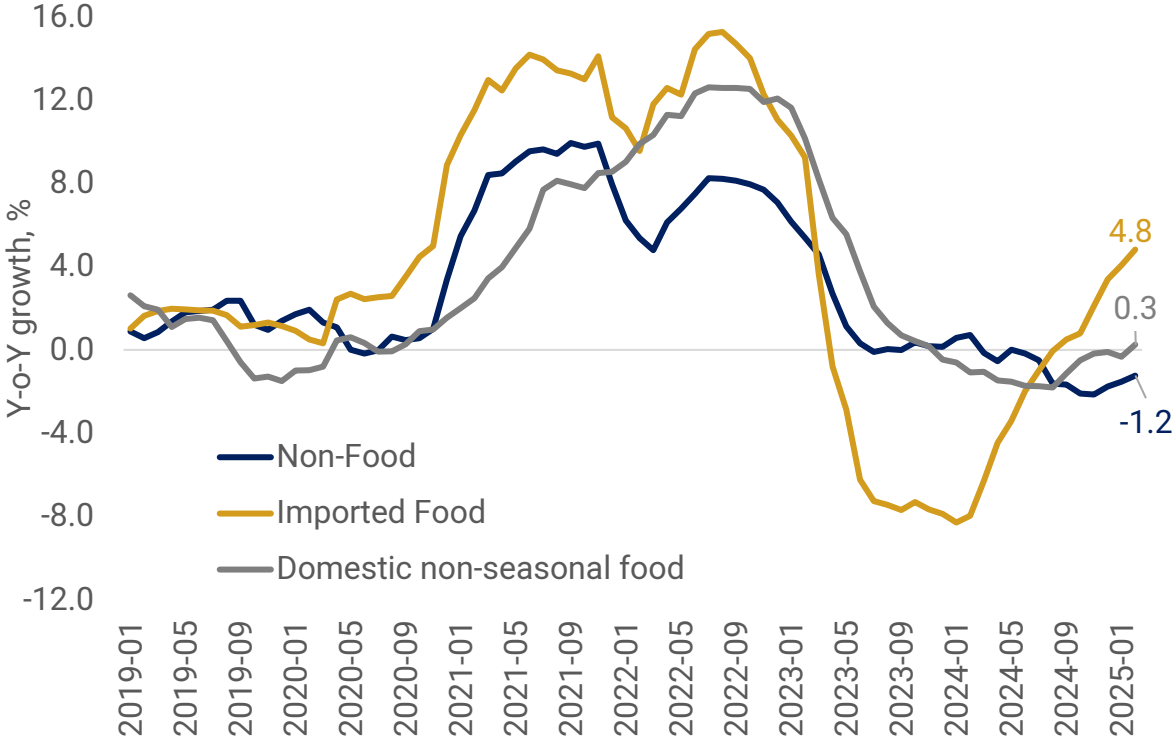
# Despite The Slight Acceleration in Inflation Recorded in February, The Overall Inflationary Environment Remains Weak Due To Deflationary Pressures From External Factors. Meanwhile, Core Inflation Indicators Have Stabilized Around The Target Level.



Headline and core Inflation indicators



The low inflationary environment is primarily driven by imported non-food goods and domestic food products.

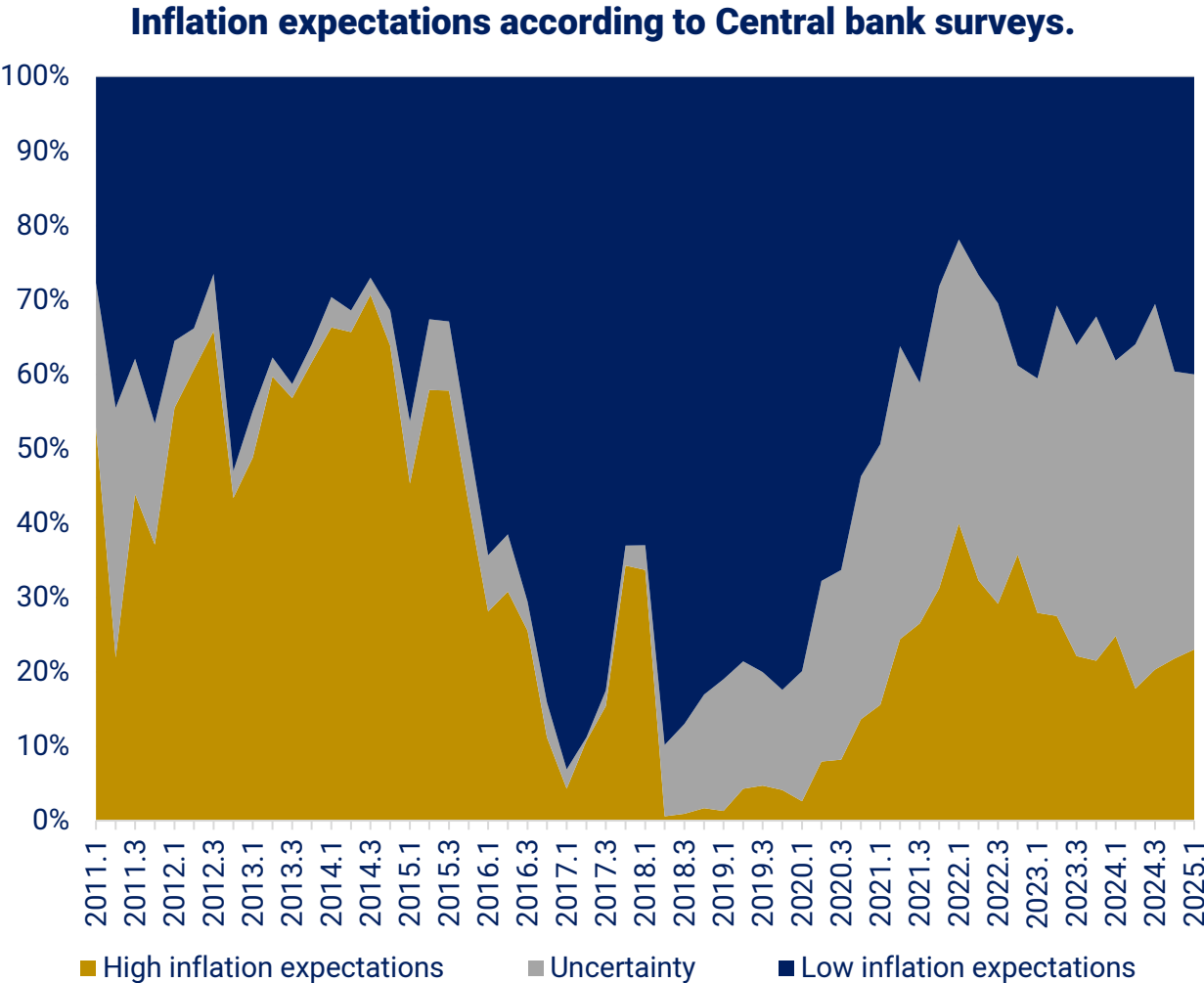


The rise in air transportation prices, driven by both domestic and external factors, has been the main contributor to inflation in non-regulated services. In regulated services, inflation reflects both the base effect of higher waste collection tariffs and the increase in public transportation fares.

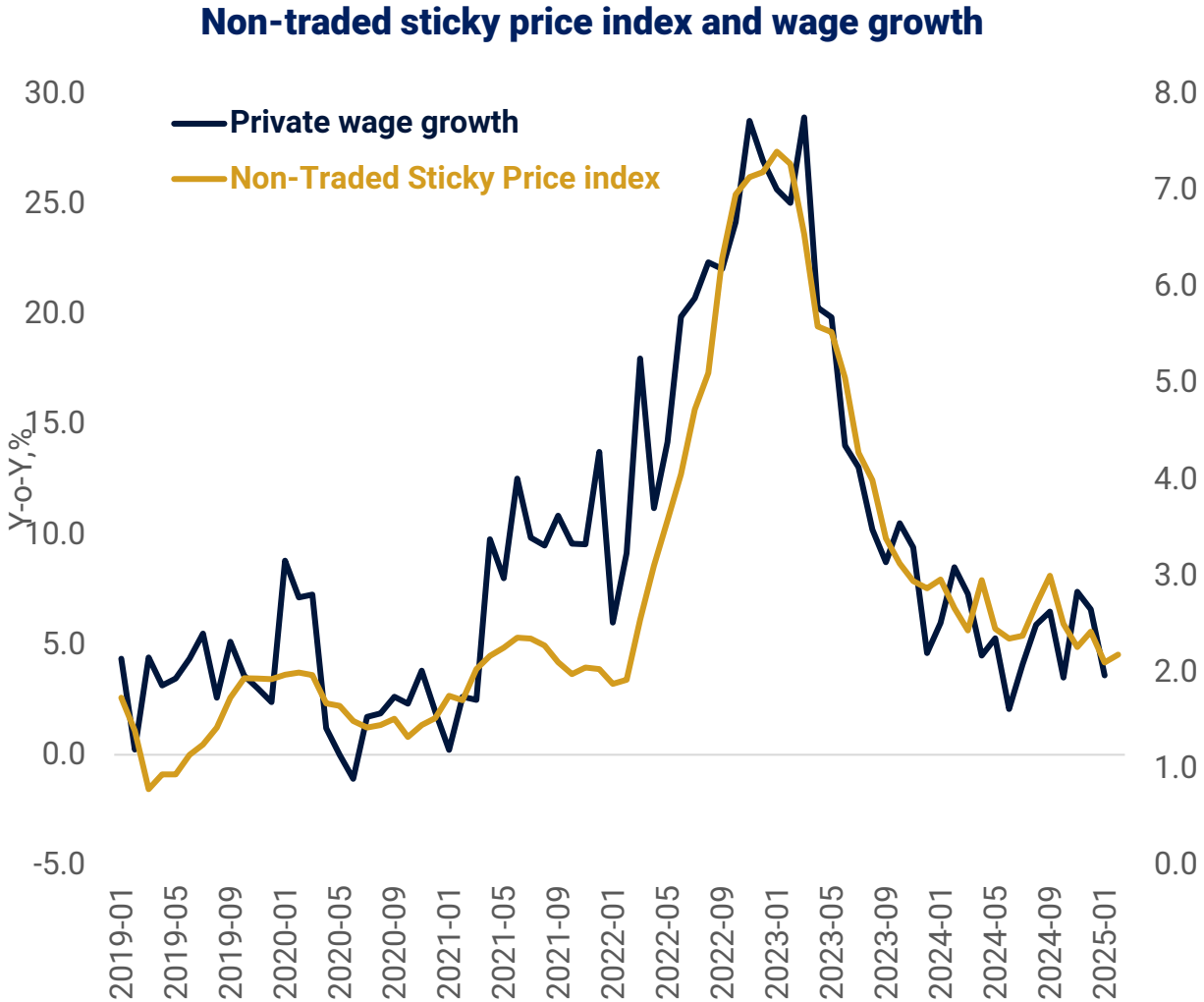
In February, inflation in seasonal food products was one of the main upward drivers of overall inflation, remaining slightly above its typical seasonal level.

Global commodity markets have experienced an increase in food prices, which has been reflected in the continued rise in imported food prices. The 12-month inflation rate for imported food products reached 4.8%, with oils/fats and coffee/tea contributing approximately 3.9 percentage points to this increase.

# High Inflation Expectations Continue To Gradually Decline... However, Significant Uncertainty Persists.



Source: CBA



Source: National Statistical Committee of Armenia, Central Bank of Armenia



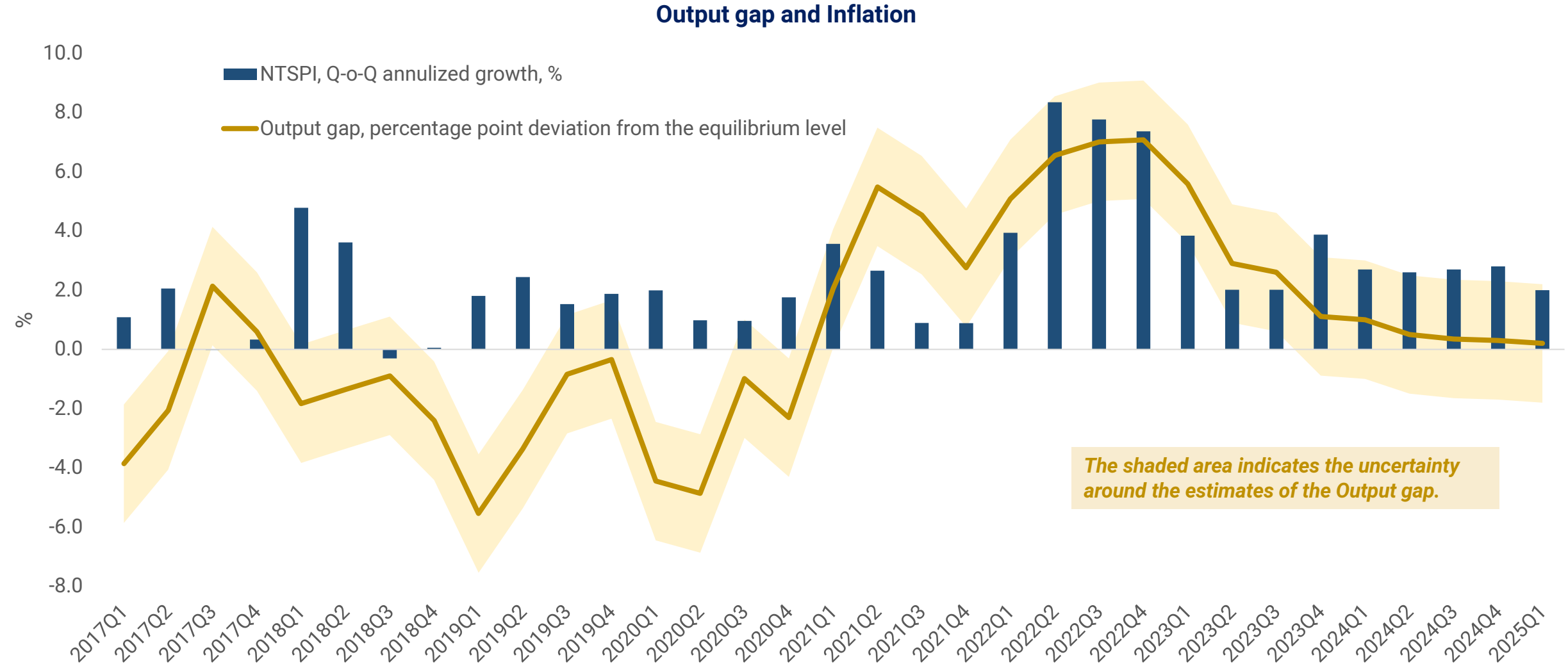
# The Cyclical Position of The Economy

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Domestic Economy

# The Imbalance Between Supply And Demand – The Positive Output Gap – Has Almost Been Neutralized, But High Uncertainty Regarding The Relative Positions Of Demand And Supply Persists.



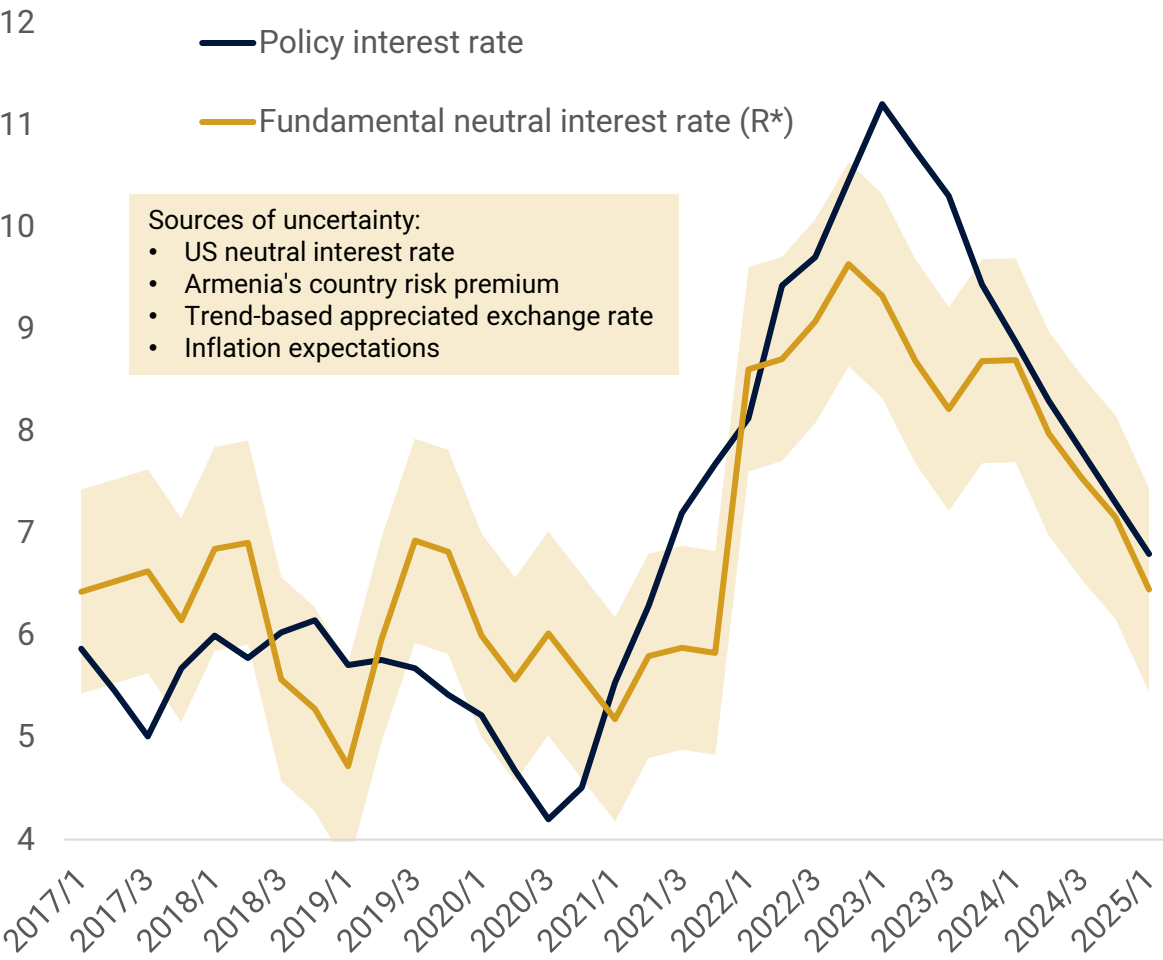


Source: CBA estimates

# As Demand Conditions Stabilize And Core Inflation Moderates,the Monetary Policy Stance Has Significantly Eased. However, Uncertainties Surrounding The Neutral Rate Remain.

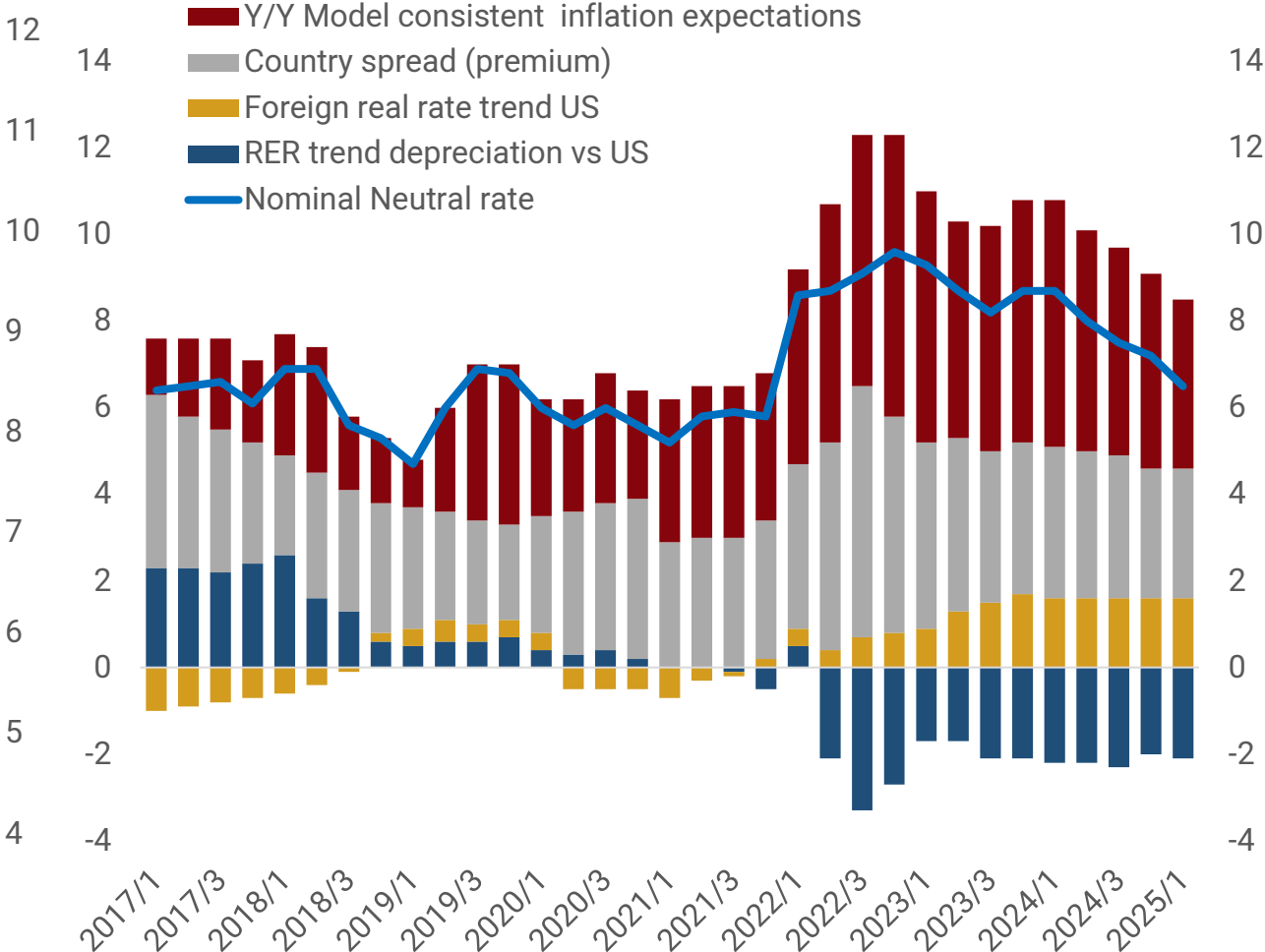


Policy interest rate and nominal neutral interest rate



Source: CBA Estimates

Contributions to the nominal neutral interest rate

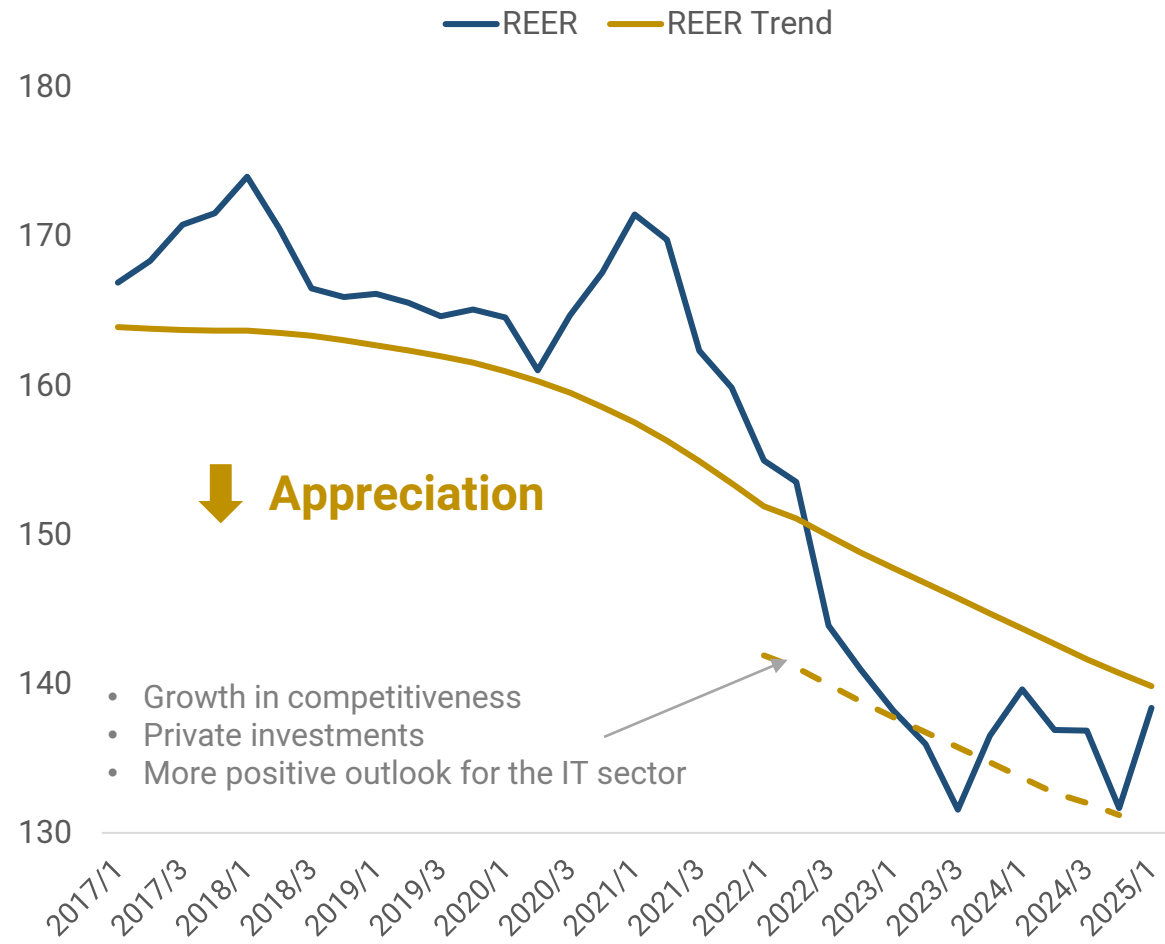


Source: CBA Estimates

# The Real Effective Exchange Rate Has Depreciated Somewhat Due To The Strengthening Of The Ruble. Uncertainty Remains Around The Equilibrium Level, Raising Concerns About A Potential Adjustment In Demand.

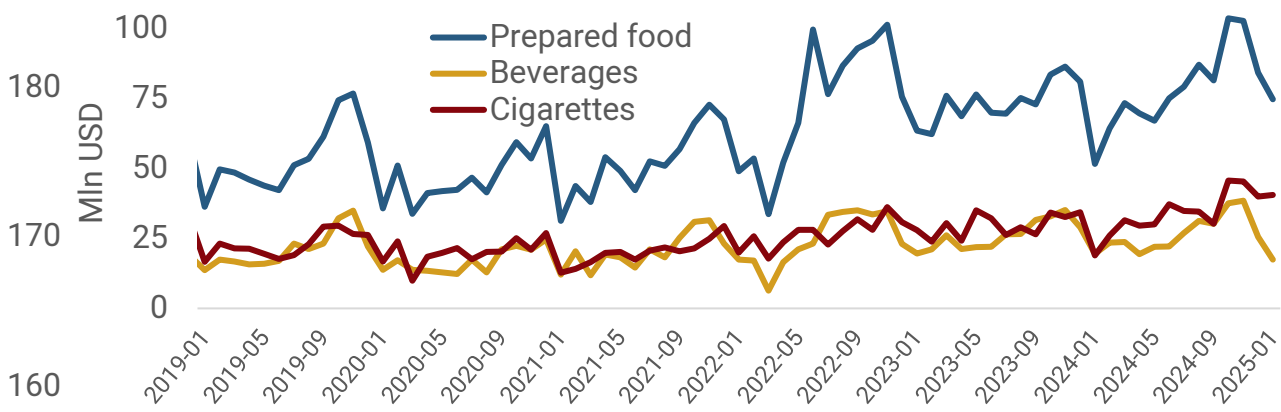


Real effective exchange rate, index

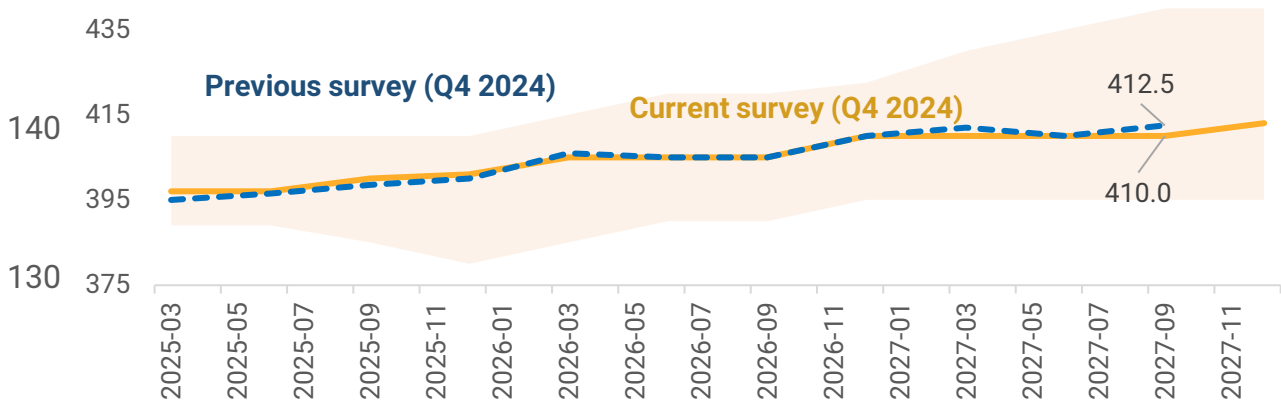


Source: CBA calculations

Manufacturing: export of certain product groups



Nominal exchange rate expectations according to the Central Bank's macro survey for Q1 2025 (AMD/USD)



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



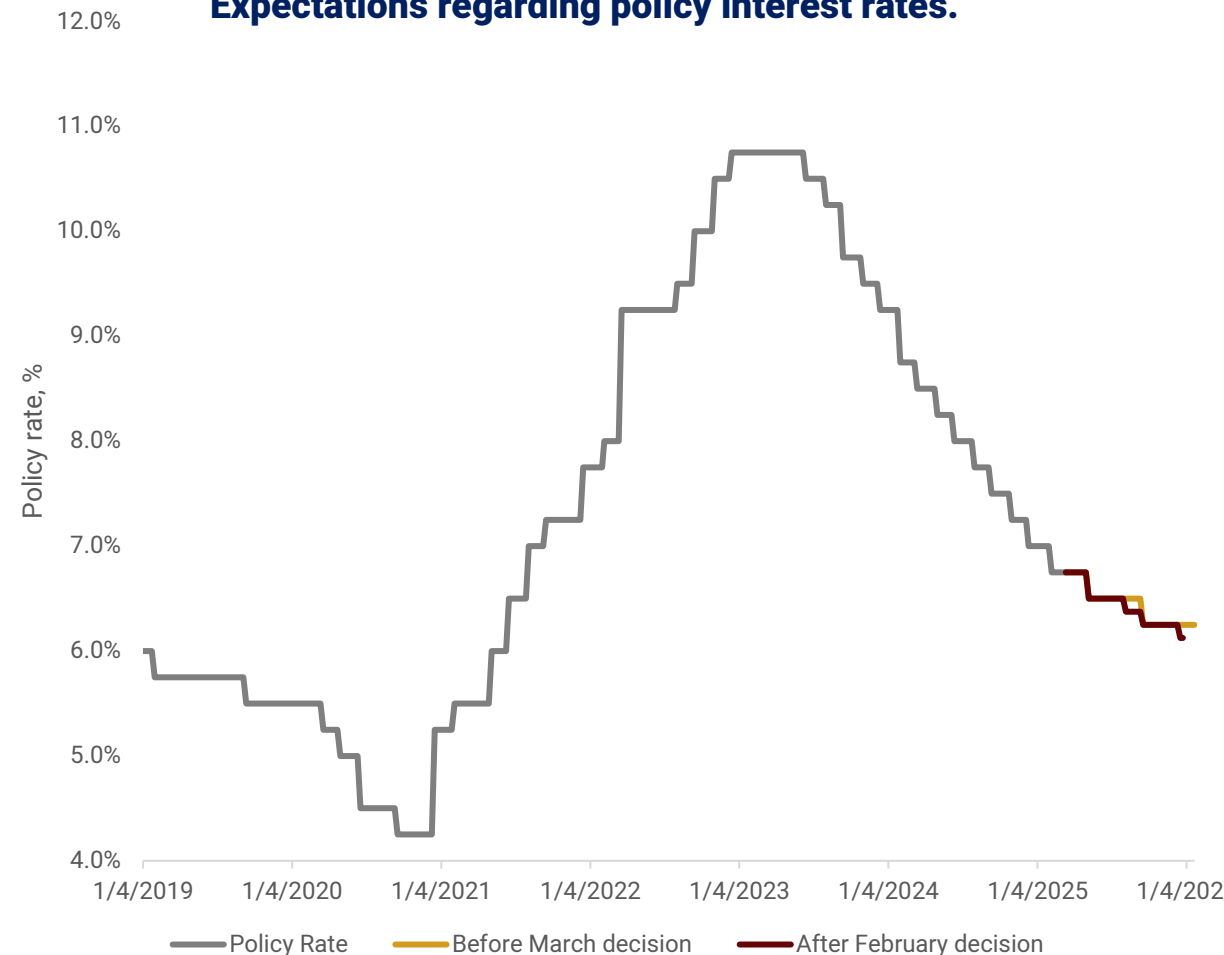
# Market Expectations

# Adjustment In Financial Market Expectations Following The Latest Monetary Policy Decision.



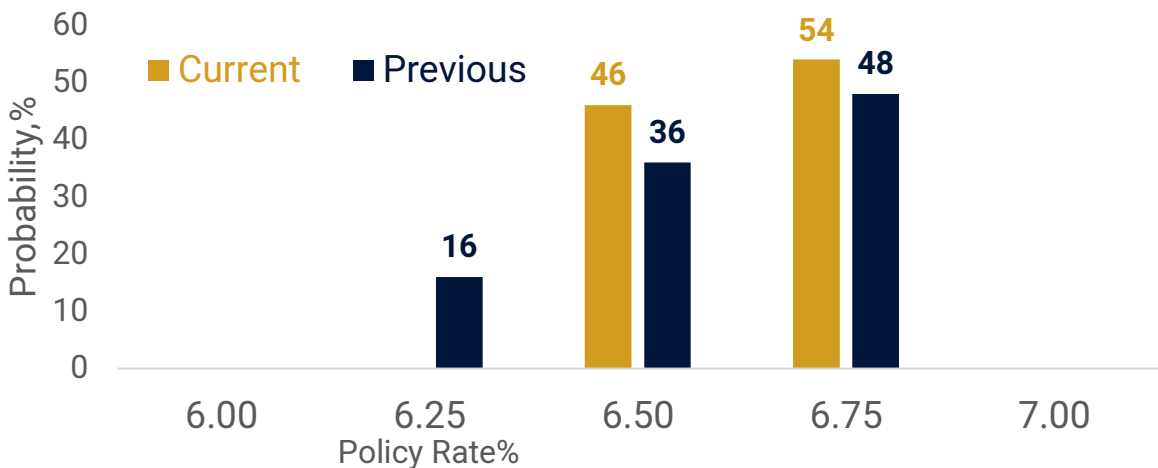
Survey of market participants:

Expectations regarding policy interest rates.

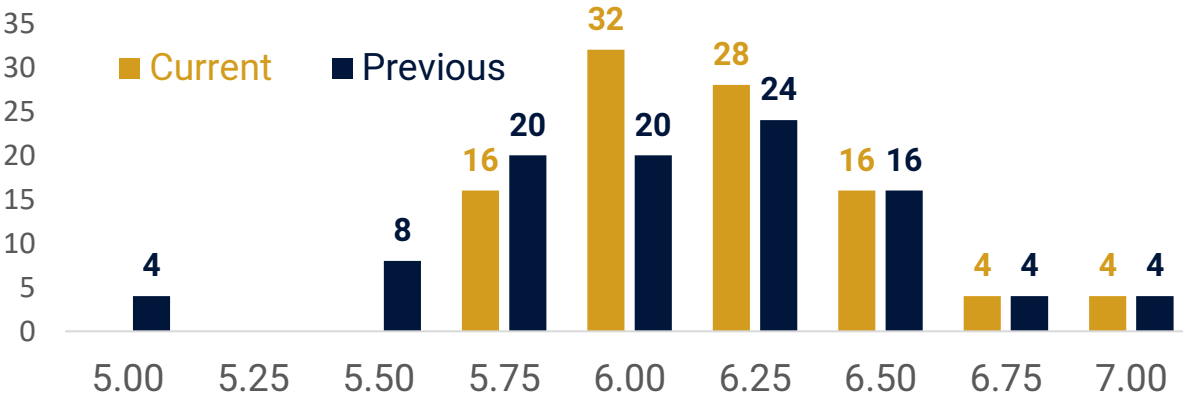


Source: Central Bank of Armenia, Financial Market Survey.

Expected policy rate change for March

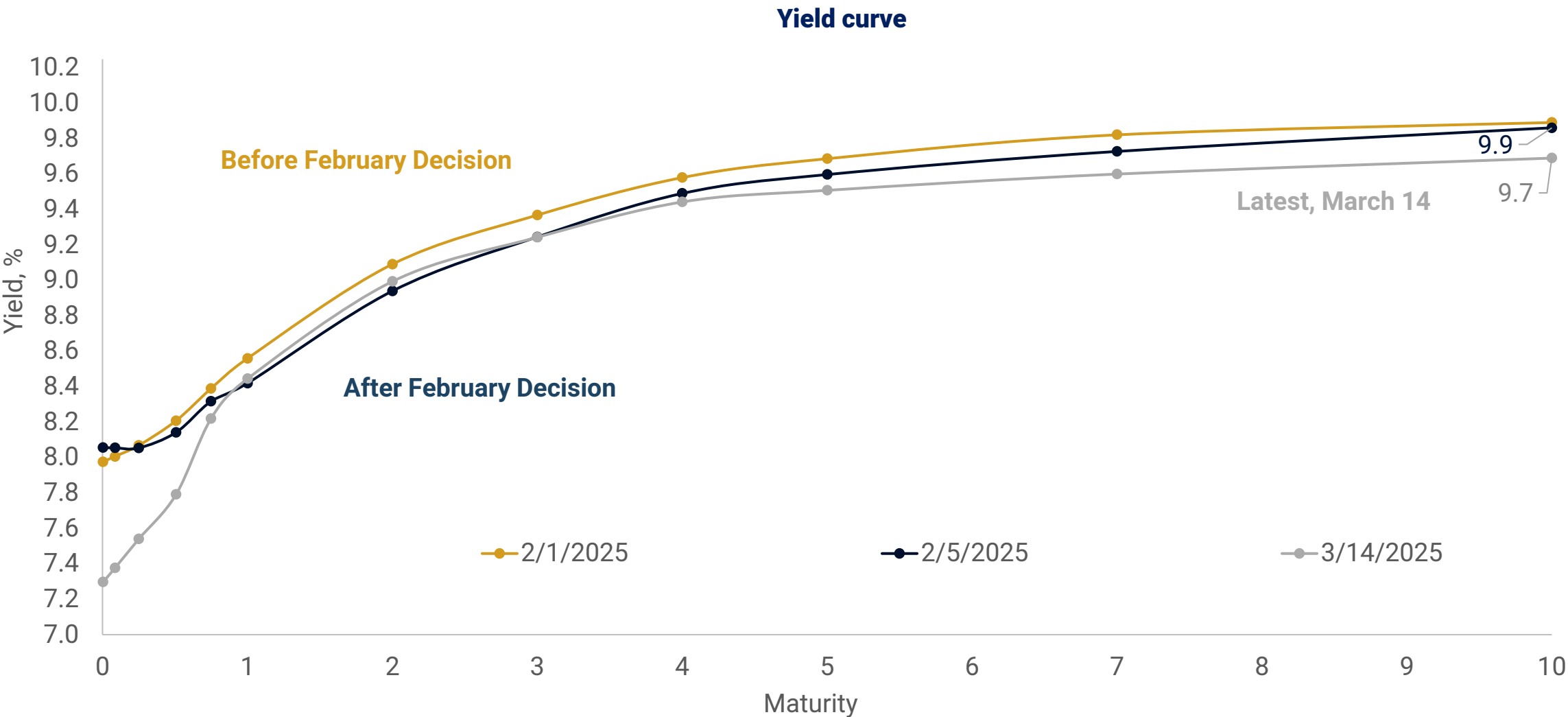


Expected policy rate level for December 2025



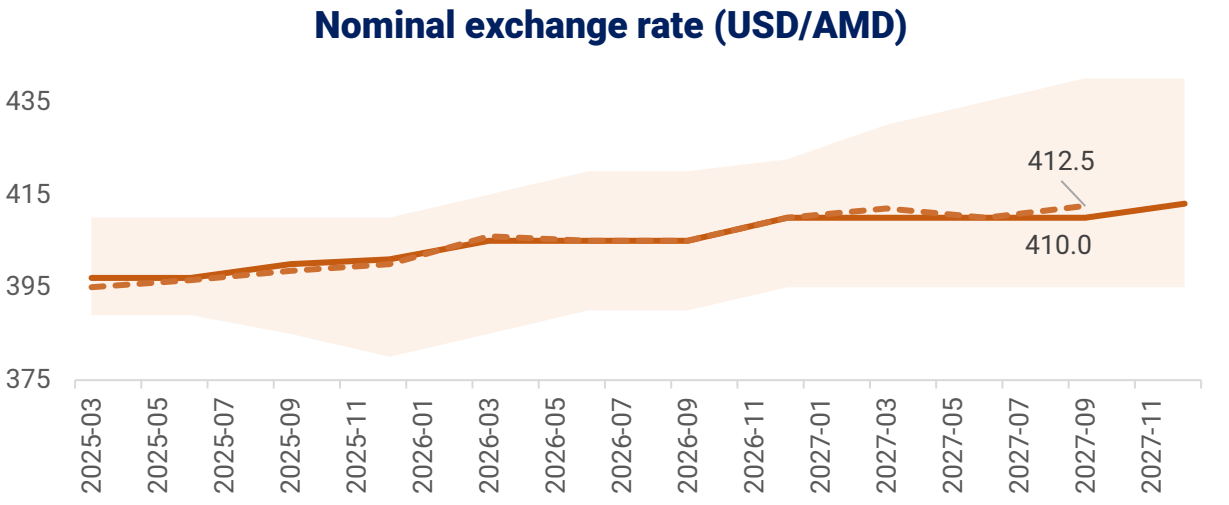
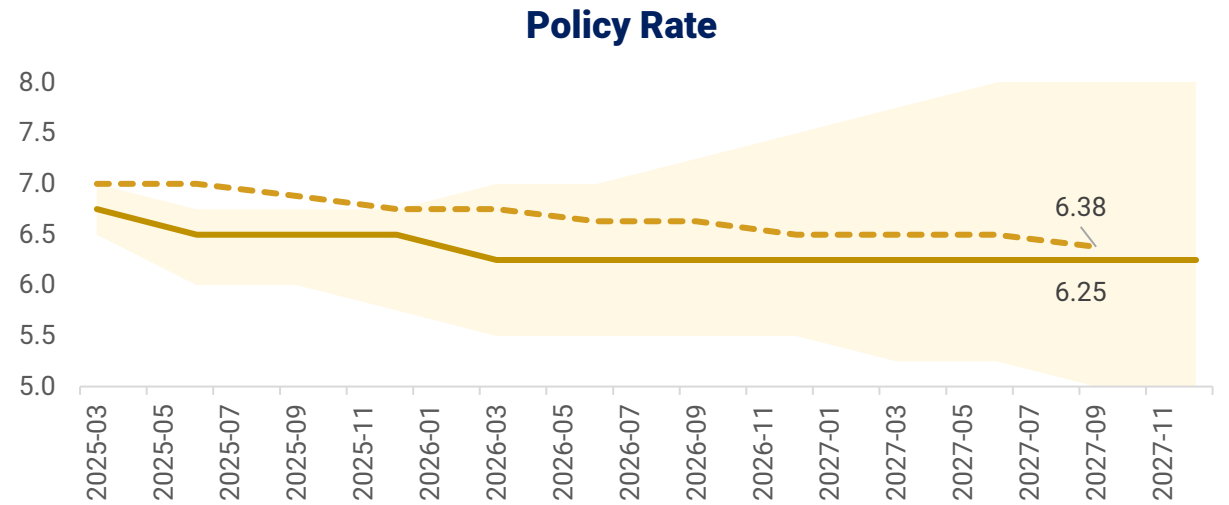
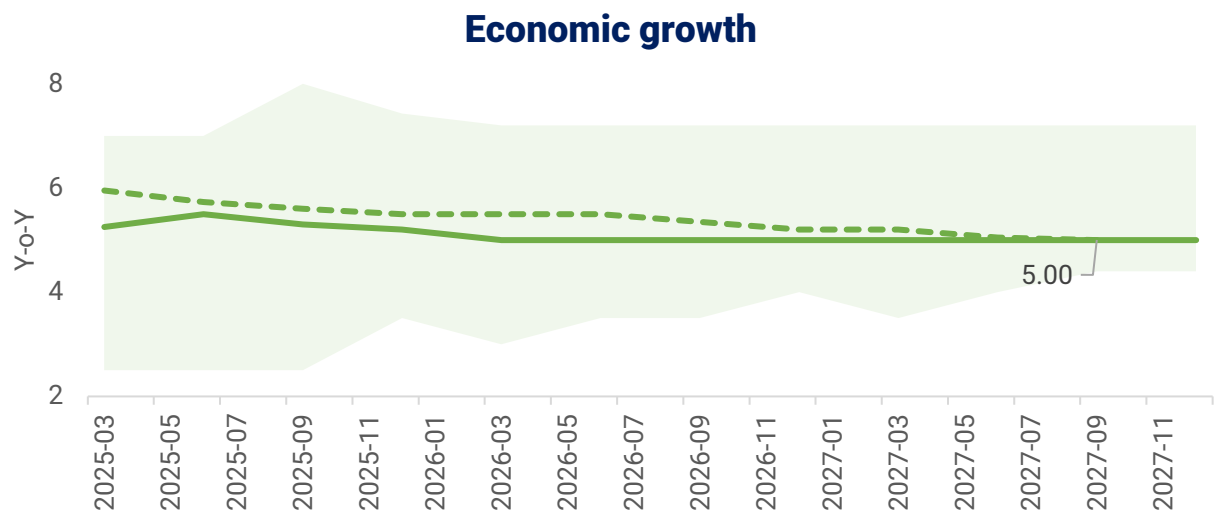
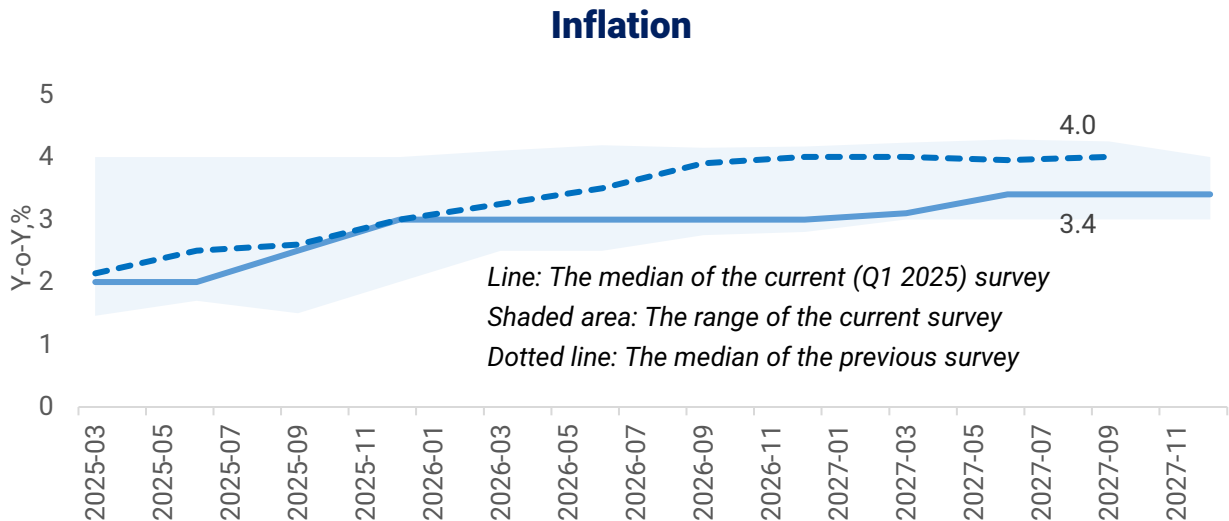
Source: Central Bank of Armenia, Financial Market Survey.

**The Long End Of The Curve, Which Primarily Reflects Developments In Economic Fundamentals, Has Shifted Slightly Downward, Also Indicating The Gradual Adjustment Of Inflation Expectations Following The Revision Of The Inflation Target From 4% To 3%.**



Source:CBA

**Financial Market Expectations:** The Central Bank Is Expected To Maintain Its Gradual Policy Rate Cuts In The Coming Period, Aiming For A Steady Return Of Inflation To The 3% Target. The Reduction Of The Inflation Target Has Not Yet Been Fully Incorporated Into Long-term Market Expectations.



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



# Scenarios

# The structure and significance of the table summarizing the variety 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.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Expansion of demand.</b></p> <p>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.</p> <p>Complications: Trust in the Central Bank might be weak.</p> <p>Output +   Inflation +</p> | <p><b>Contraction of demand.</b></p> <p>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.</p> <p>Complications: The effective lower bound for interest rates, a low inflation or deflationary environment.</p> <p>Output -   Inflation -</p> |
| <p><b>Contraction of supply.</b></p> <p>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).</p> <p>Complications: Issues related to further restraining a weak economy.</p> <p>Output -   Inflation +</p>                                                                        | <p><b>Expansion of supply.</b></p> <p>Favorable supply-side shocks that could bring inflation back to its target level, lead to higher economic growth, and lower interest rates.</p> <p>Complications: There may be risks when extrapolating current trends onto the future.</p> <p>Output +   Inflation -</p>                                                                                                                                                                                                                                |

# Taxonomy of Scenarios



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 U.S. Neutral Interest Rate Level: In the medium term, the expansion of fiscal stimulus positions and its potential effects may influence the neutral interest rate levels in the U.S, thus also affecting the neutral interest rates in emerging economies, including Armenia.
- Scenarios of Armenia's Country Risk Premium Rapid Adjustment: Potential escalation risks of regional and geopolitical conflicts surrounding Armenia may lead to an increase in country risk premiums for both Armenia and neighboring countries.
- Scenario of an Upward Adjustment in Armenia's Fundamental Country Risk Premium Level: Due to the under-collection of tax revenues and the necessity of implementing social and other expenditures (which do not contribute to internal growth), there is a risk of a significant increase in the debt burden compared to expectations in the medium term, leading to an upward adjustment of the country risk premium toward its fundamental level.
- The high economic growth recorded in the domestic economy may reflect higher levels of productivity, an increase in the marginal return on capital and a rise in the neutral interest rate. In this case, there are risks of continued acceleration of demand and increased inflationary pressures.

### □ Uncertainties regarding demand conditions in the domestic economy: emerging strong demand environment.

- Long-term above-potential economic growth, primarily driven by domestic demand factors, reflects the risks of sustaining an excess demand environment in Armenia.
- Private consumption (and resulting inflationary pressures) could accelerate on the back of accumulated private savings, the continued high growth of consumer loans and income growth driven by positive developments in the tradable sector.
- Formation of a more expansionary fiscal policy than expected, posing risks related to the expansion of domestic demand.

### □ Gradual resolution of the Russia-Ukraine conflict and the creation of a favorable economic environment in Russia, a scenario where sanctions remain in full or largely intact, along with the reduction of risk premiums in Russia, could enhance the purchasing power of the ruble. If capital spending increases and/or part of it is redirected towards large infrastructure projects, demand and economic growth could accelerate significantly. In this case, both tourism flows to Armenia and/or their average spending, as well as labor migration from Armenia to Russia, could rise.

### □ Under conditions of persistent uncertainty surrounding inflation (or exchange rate) expectations, various potential shocks could lead to scenarios where these expectations become unanchored in an upward direction.

### □ In the event of a potential increase in military expenditures by several major economies, the rise in prices of certain metals could lead to higher export revenues for Armenia and stimulate domestic demand.

### □ Risks associated with global supply chains disruptions.

- in the context of escalating regional conflicts (Middle East, Russia-Ukraine conflict) and tightening sanctions on certain oil-producing countries, there are risks related to oil extraction and transportation.
- In the context of tightened trade policies among major economies and with the rest of the world, disruptions in production chains are likely to lead to increased production costs and global inflationary pressures in the short to medium term.
- Due to the ongoing and increasingly targeted sanctions against the Russian Federation and third countries, a sharp slowdown in trade-related flows in Armenia, with corresponding macroeconomic implications.
- In the event of a resolution to the Russia-Ukraine conflict and the full or partial lifting of sanctions, Armenia could face a significant outflow of capital and labor. This could lead to a considerable weakening of aggregate demand, while simultaneously increasing the risks of broader inflationary pressures.
- Due to regional and geopolitical uncertainties, Armenia may face a scenario marked by an increase in country risk premiums and a slowdown in investment activity.

# Taxonomy of Scenarios



## Risks characteristic of Scenario B.

### ❑ **Risks Related to the Weakening of External Demand.**

- Concerns about a weak economic outlook persist in the global economy, especially in the European Union and China, the presence of structural issues and high uncertainties may result in sustained weak domestic demand, potentially leading to a prolonged period of subdued inflationary conditions in international commodity and raw material markets.
- The more targeted and consistent application of Western sanctions against the Russian Federation pose risks of a sharp slowdown in Russia's economic growth, particularly under tightening economic policies.
- The prolonged high uncertainty surrounding U.S. economic policies could escalate into a "crisis of confidence," sharply restraining consumer and investment activity both in the U.S. and in global economies.

❑ **Risks Related to Negative Macroeconomic Impacts Amid Real Estate Market Adjustment:** The gradual weakening (adjustment) in construction sector output and real estate prices may lead to the formation and deepening of a weak demand environment in the economy.

❑ Slowing wage growth and rising unemployment amid non-widespread and non-inclusive economic growth reflected in highly concentrated income in specific sectors in parallel with relatively muted private consumption and low inflationary environment, drive uncertainty about domestic demand conditions in Armenia and pose risks that **a negative demand environment** could emerge, with implications for sustained deflationary pressures in the medium term.

❑ **Headline inflation remains persistently below the target for a long period**, which could lead to a downward adjustment in inflation expectations, postponement of demand, and the emergence of a deflationary spiral.

❑ **Uncertainty Regarding the Fiscal Policy Stance:** In the event of higher-than-expected tax revenues alongside a stronger increase in expenditures on investments that do not contribute to demand growth (such as capital goods purchases), fiscal policy could have a significantly restrictive impact on aggregate demand.

❑ **Uncertainties regarding Armenia's Neutral Interest Rate and Its Components.** In recent years, due to the inflow of capital and highly productive labor, significant uncertainties exist regarding productivity, long-term potential growth, the degree of real effective exchange rate appreciation, and the medium-term stability and trends of the capital flows that underpin these factors. This could contribute to the formation and maintenance of lower neutral interest rates in Armenia.

❑ **The continued growth of labor supply in Armenia's economy**, coupled with uncertainties surrounding the medium-term developments of the Russian economy and, in particular, the tightening of migration policies, could lead to a continued decline in seasonal migration from Armenia to Russia.

❑ **Tightening of trade policies among major global economies in the medium-term horizon**, leading to excess supply of goods and services in international markets and the emergence of deflationary scenarios.

Contraction of demand.  
Output - | Inflation -

Expansion of supply.  
Output + | Inflation -



# Illustrative Case A Scenario

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Gradual resolution of the Russia-Ukraine conflict and the creation of a favorable economic environment in Russia.

# Illustrative Case A.

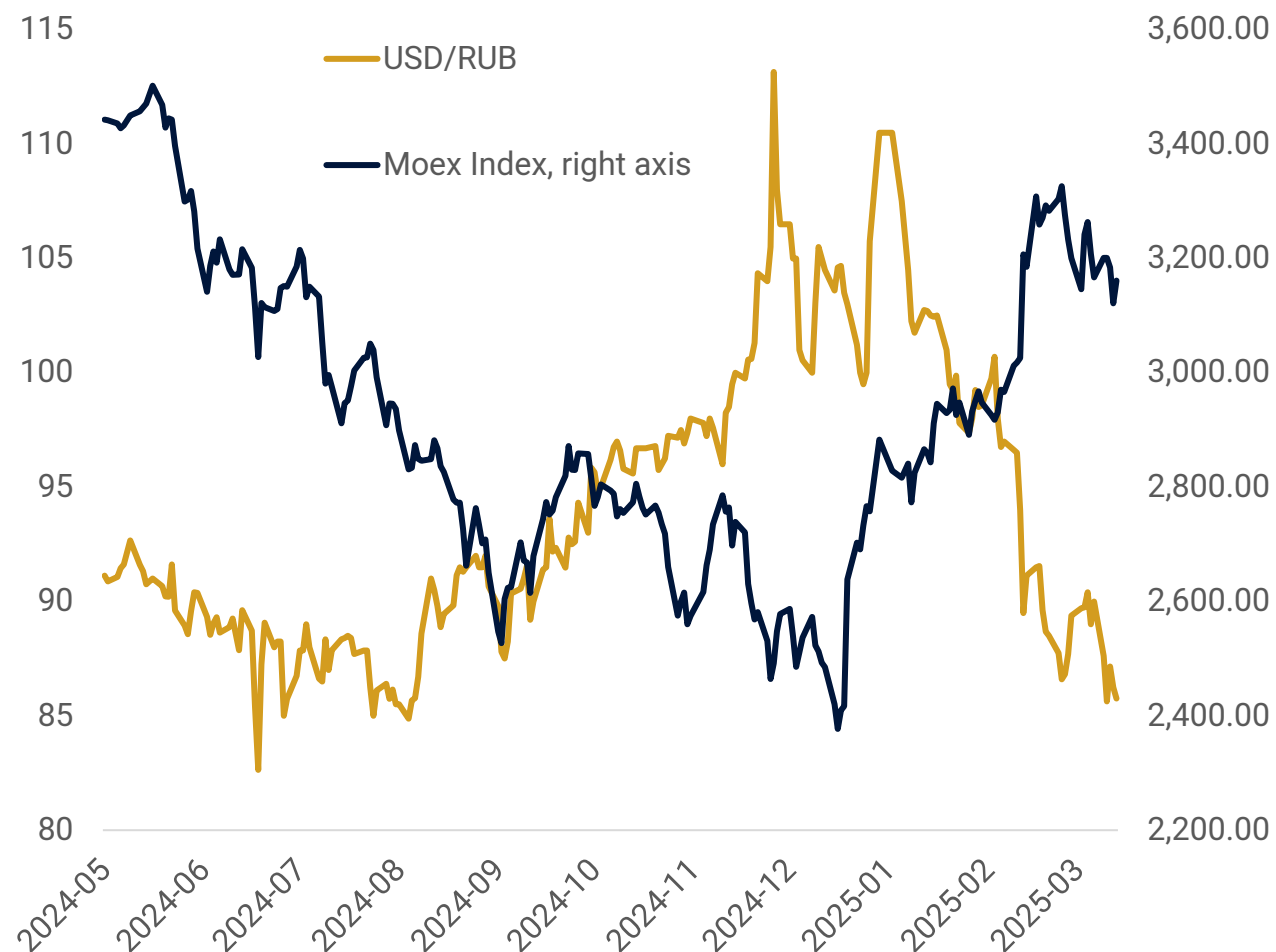


## Gradual resolution of the Russia-Ukraine conflict and the creation of a favorable economic environment in Russia.

In this scenario

- Country risk premiums in Russia would decrease, contributing to an increase in capital inflows to Russia and the appreciation of the ruble.
- On the other hand, budgetary reallocations, particularly in capital expenditures, could take place to support the implementation of large infrastructure projects.
- As a result, the increased purchasing power of the ruble could lead to higher tourism flows to Armenia and/or increased spending per tourist, as well as non-trade-related transfers, thereby boosting demand in Armenia's economy.

### The potential end of the Russia-Ukraine conflict?

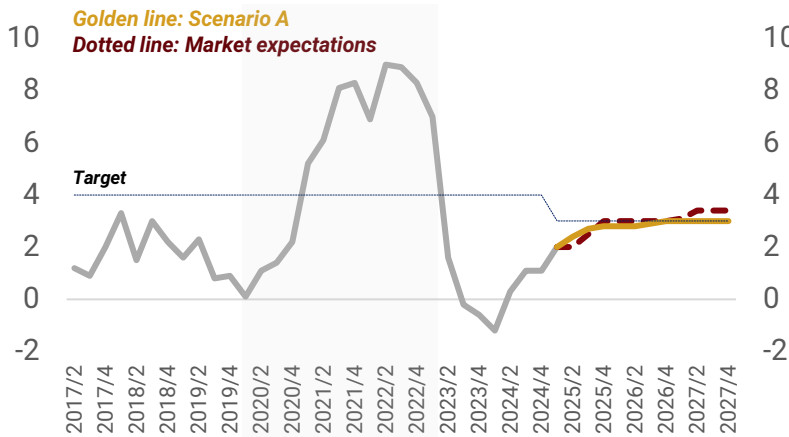


Source: Bloomberg

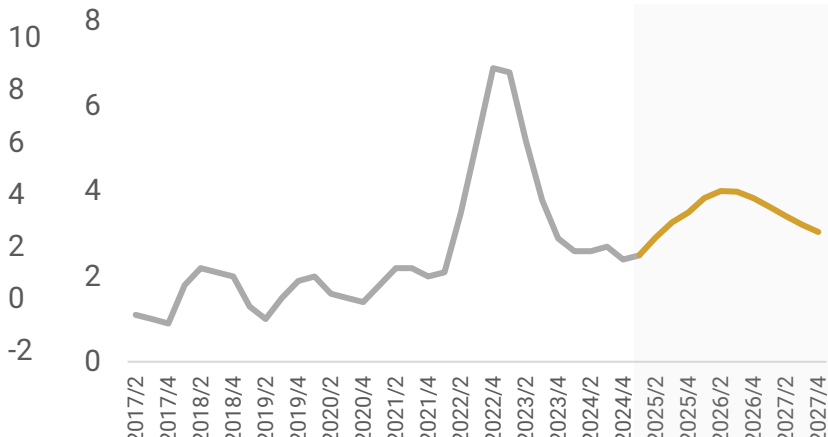
# Case A Scenario. Gradual Resolution Of The Russia-ukraine Conflict And The Creation Of A Favorable Economic Environment In Russia



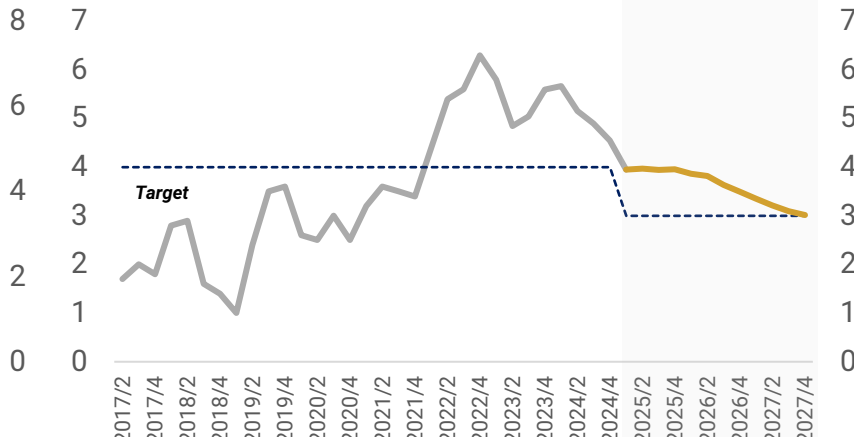
Inflation, Y-o-Y



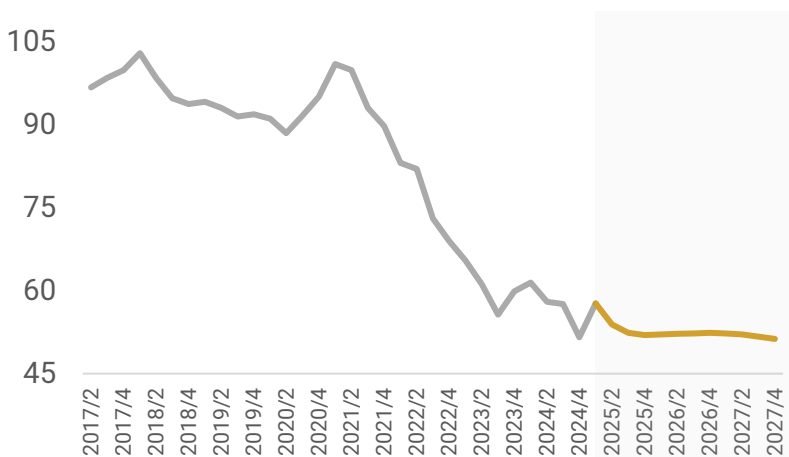
NTSP, Y-o-Y



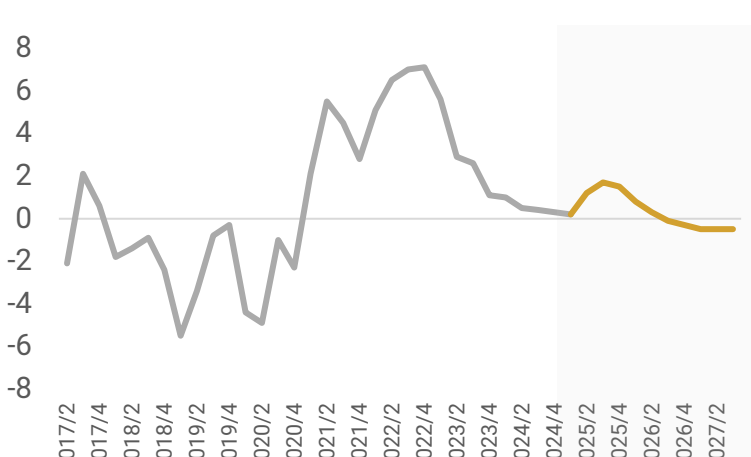
Inflation Expectations, Y-o-Y



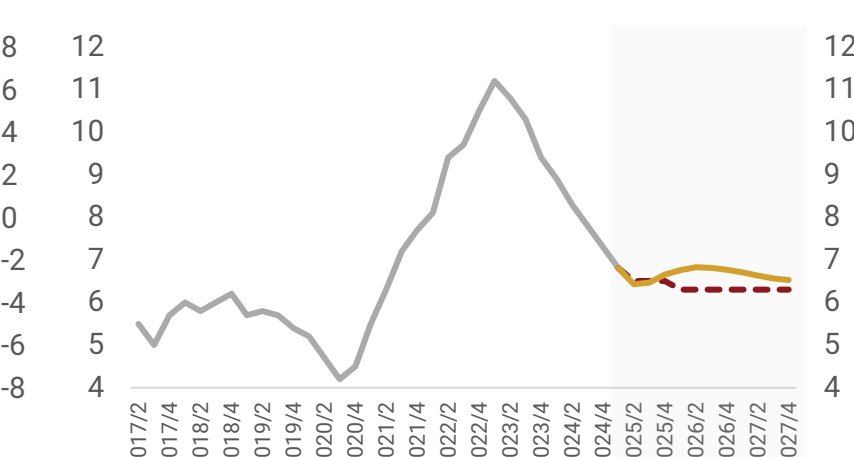
Nominal effective exchange rate



Output Gap



Interest rate



Source: CBA calculations



# **Illustrative Case B Scenario**

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**Prolonged High Uncertainty in U.S. Economic Policies, Heightened Risks of a Sharp Demand Slowdown in Both the U.S. and the Global Economy**

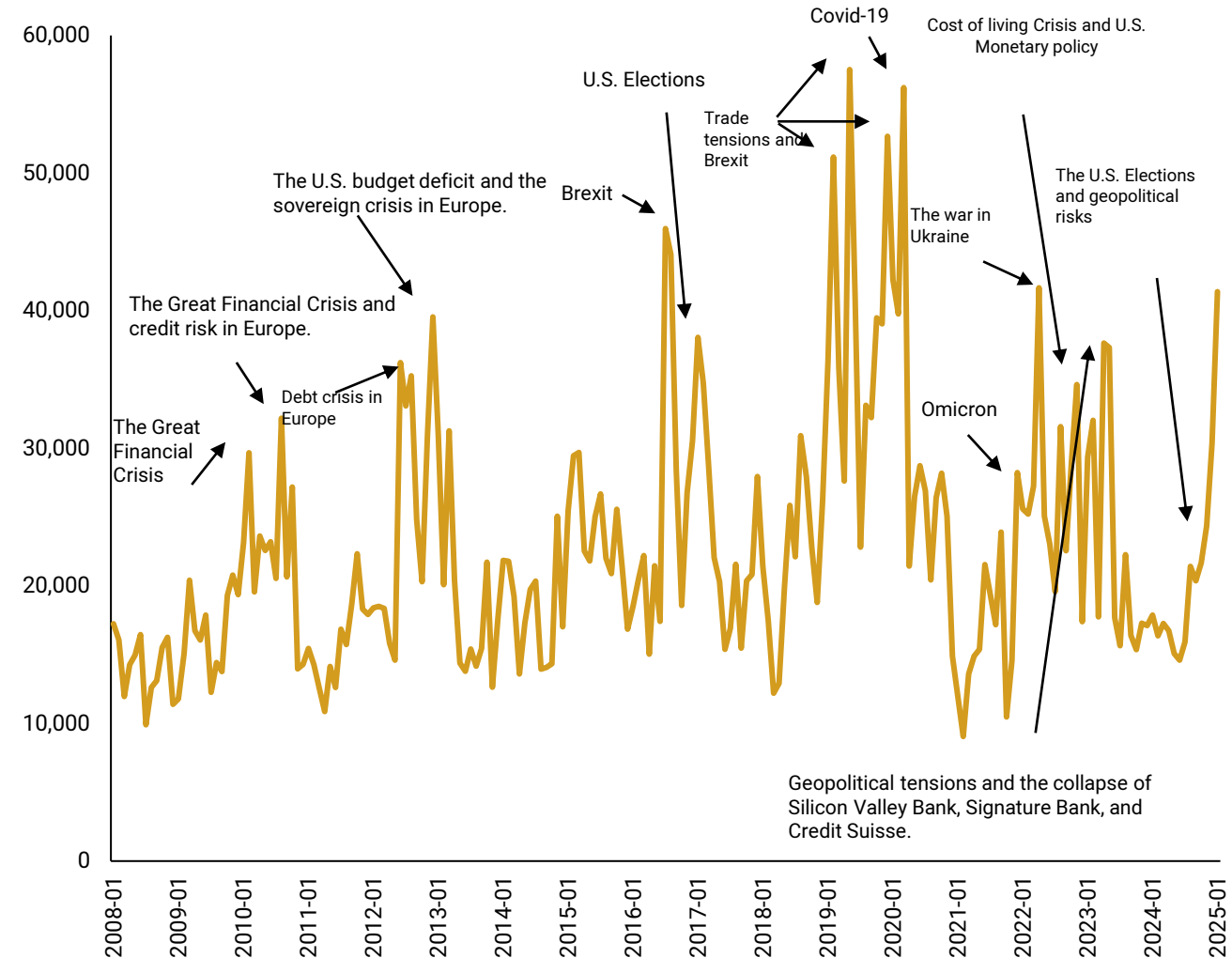
# Illustrative Case B.



## Prolonged High Uncertainty in U.S. Economic Policies, Heightened Risks of a Sharp Demand Slowdown in Both the U.S. and the Global Economy

In the context of high uncertainty surrounding U.S. economic policies

- Long-term investment projects may be delayed or canceled, and consumer activity could significantly weaken
- Demand for low-risk, alternative assets (such as gold, cash, government bonds) may increase.
- In this environment, asset prices could decrease, continuing to suppress consumer demand.

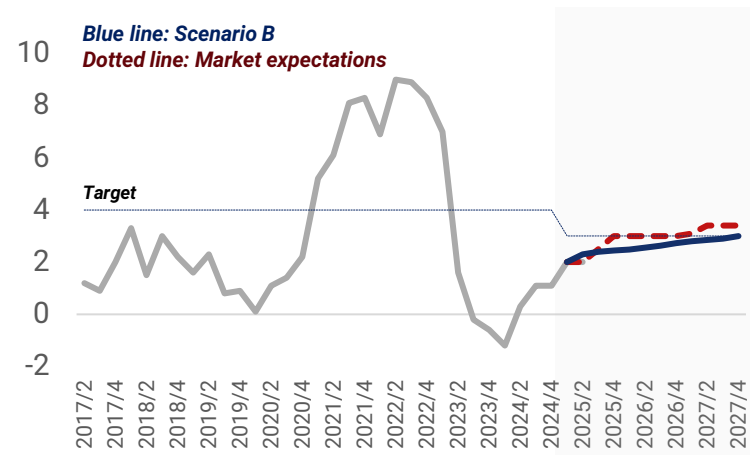


Source: Economist Intelligence Unit (EIU)

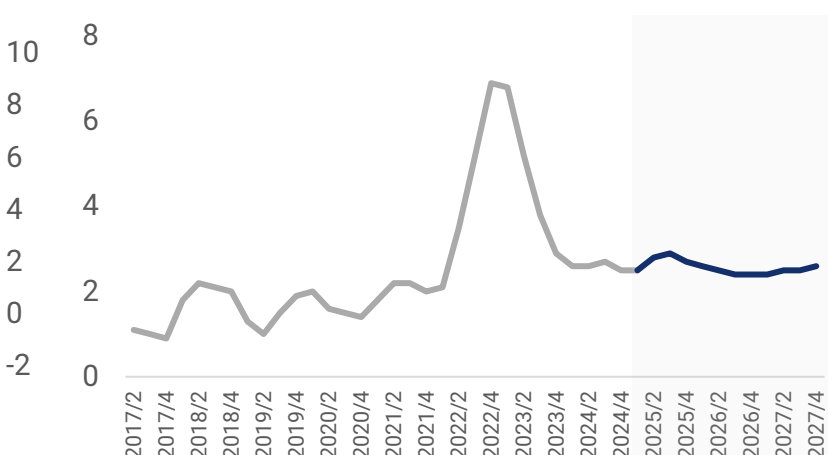
# Case B Scenario: Prolonged High Uncertainty in U.S. Economic Policies, Heightened Risks of a Sharp Demand Slowdown in Both the U.S. and the Global Economy



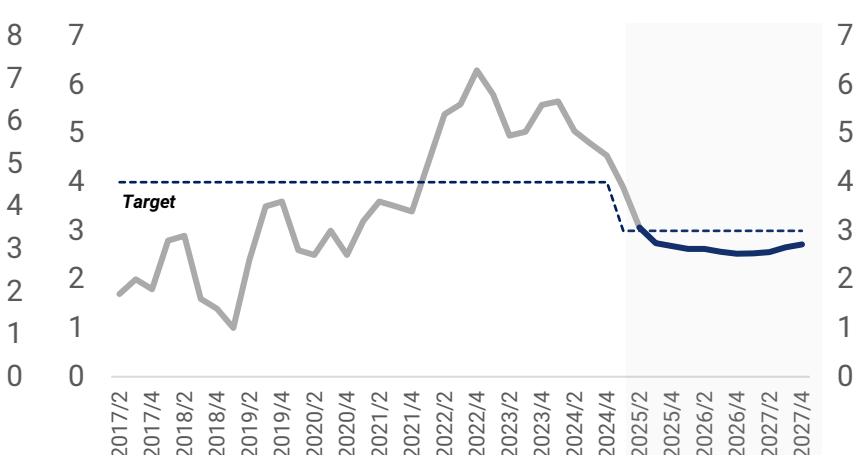
Inflation, Y-o-Y



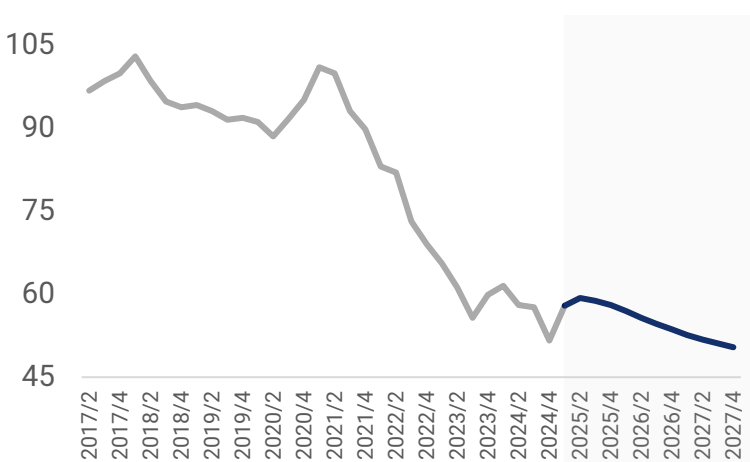
NTSPI, Y-o-Y



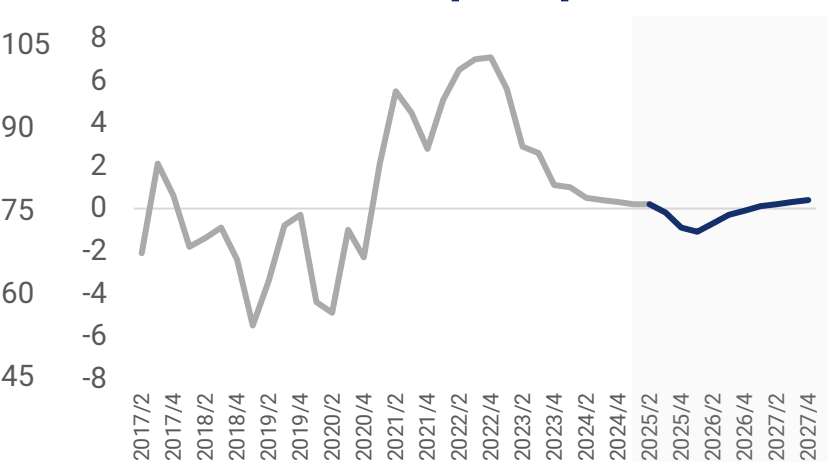
Inflation expectations, Y-o-Y



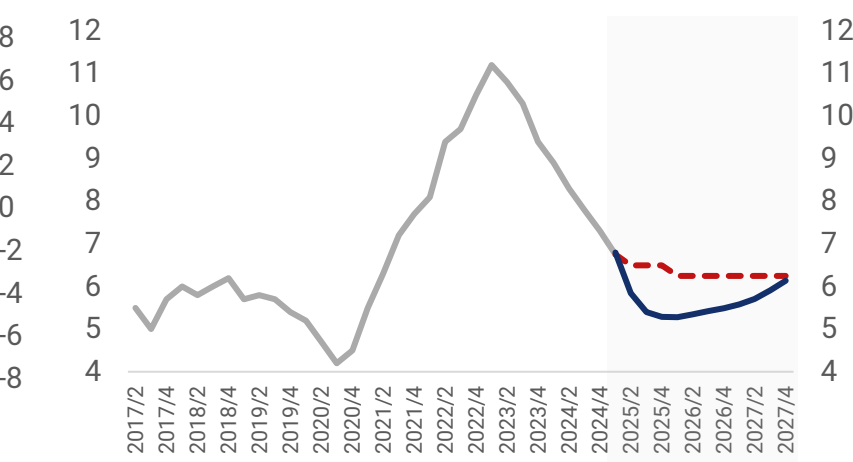
Nominal effective exchange rate



Output Gap



Interest Rate



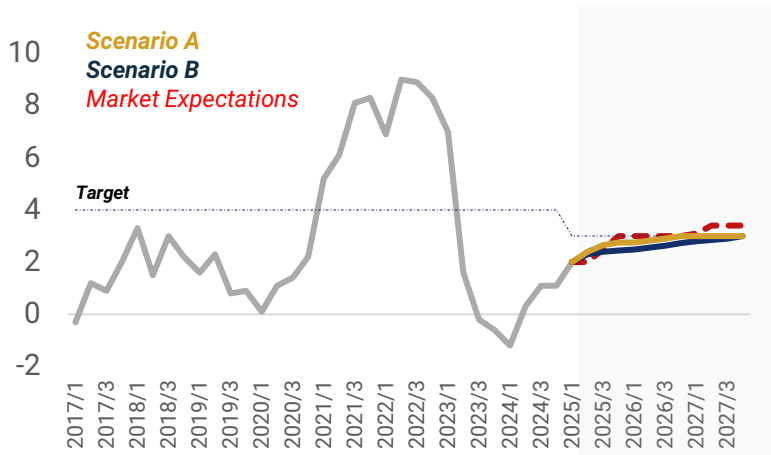
Source: CBA calculations

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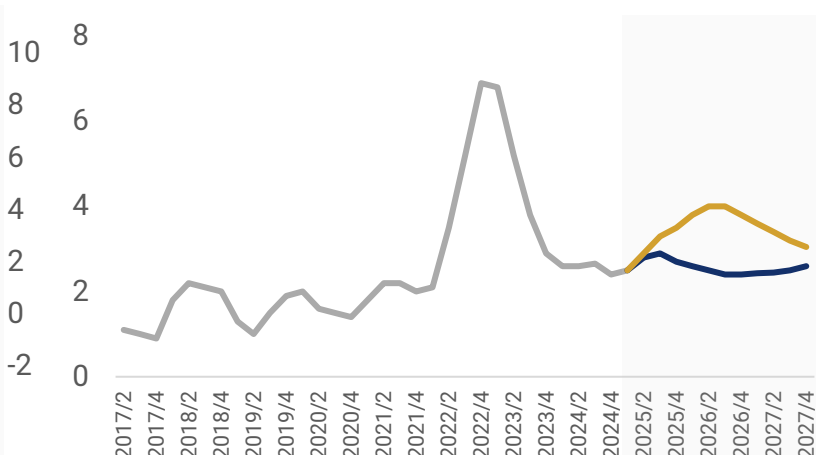
# Summary: Case A and B Scenarios



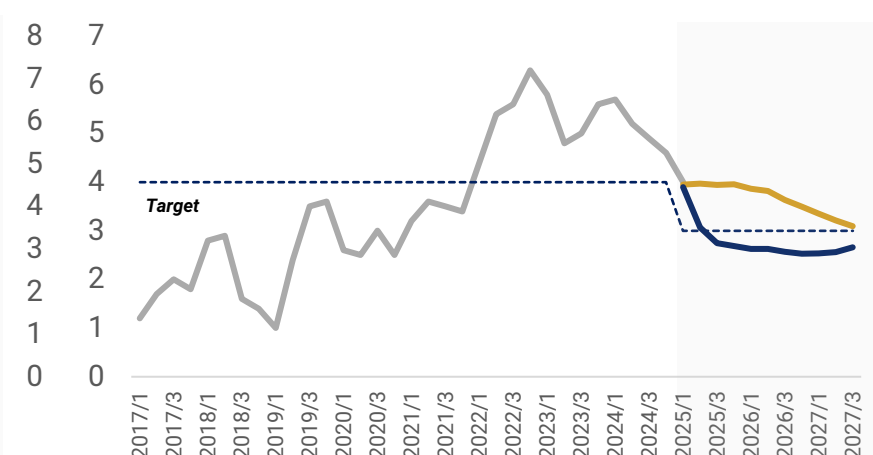
Inflation, Y-o-Y



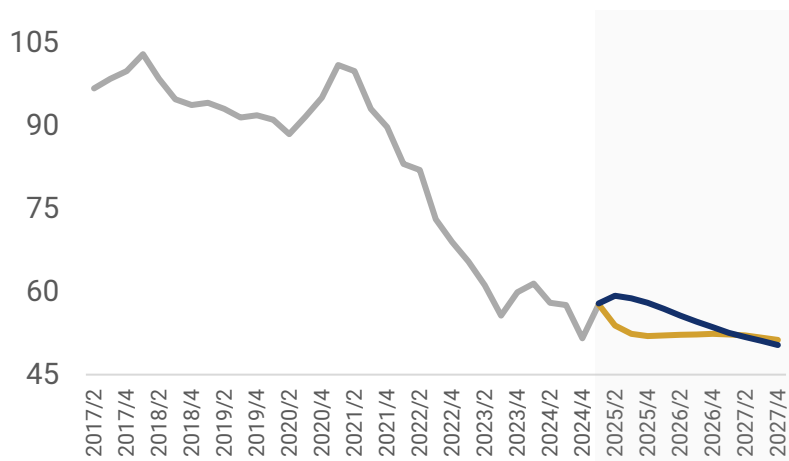
NTSPI, Y-o-Y



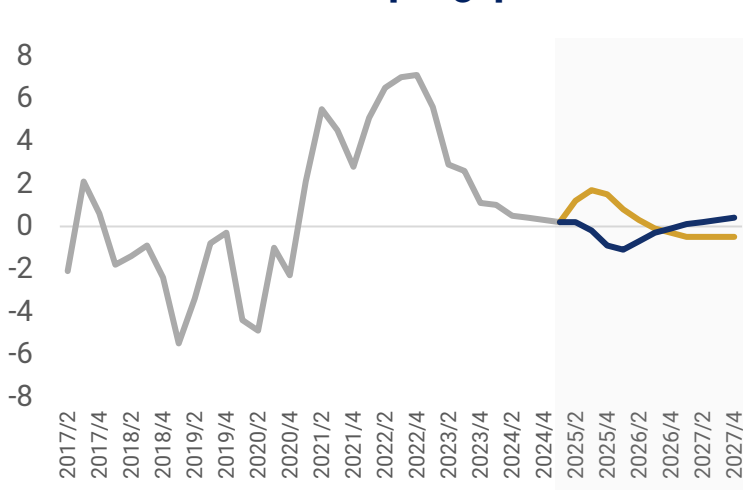
Inflation expectation, Y-o-Y



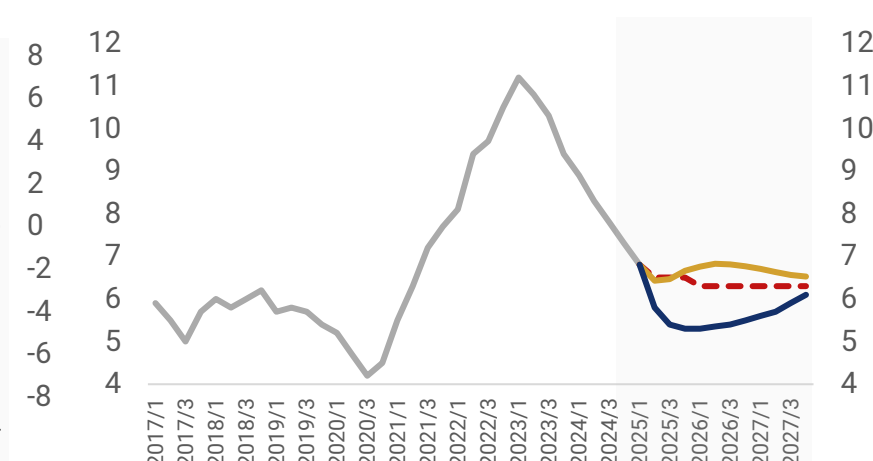
Nominal effective exchange rate



Output gap



Interest rate



Source: CBA calculations