



Monetary policy interim decision

2025Q1 Monetary Policy Program

May 5, 2025



Central Bank
of Armenia

Taxonomy of Scenarios

Monetary policy interim decision

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 -



Monetary Policy Outlook

2025Q1 Monetary Policy Program

May 05, 2025

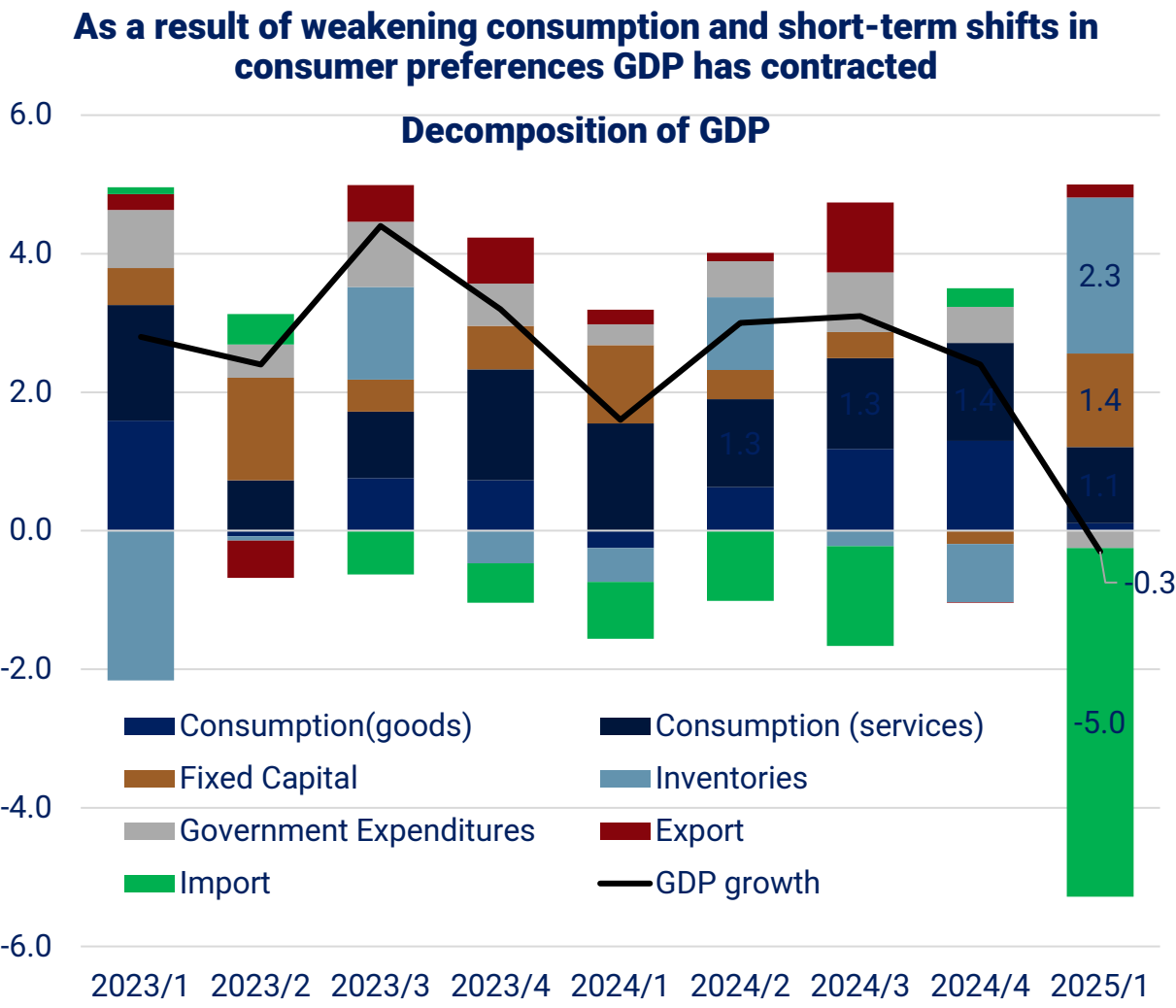


Current and Fundamental Economic Factors

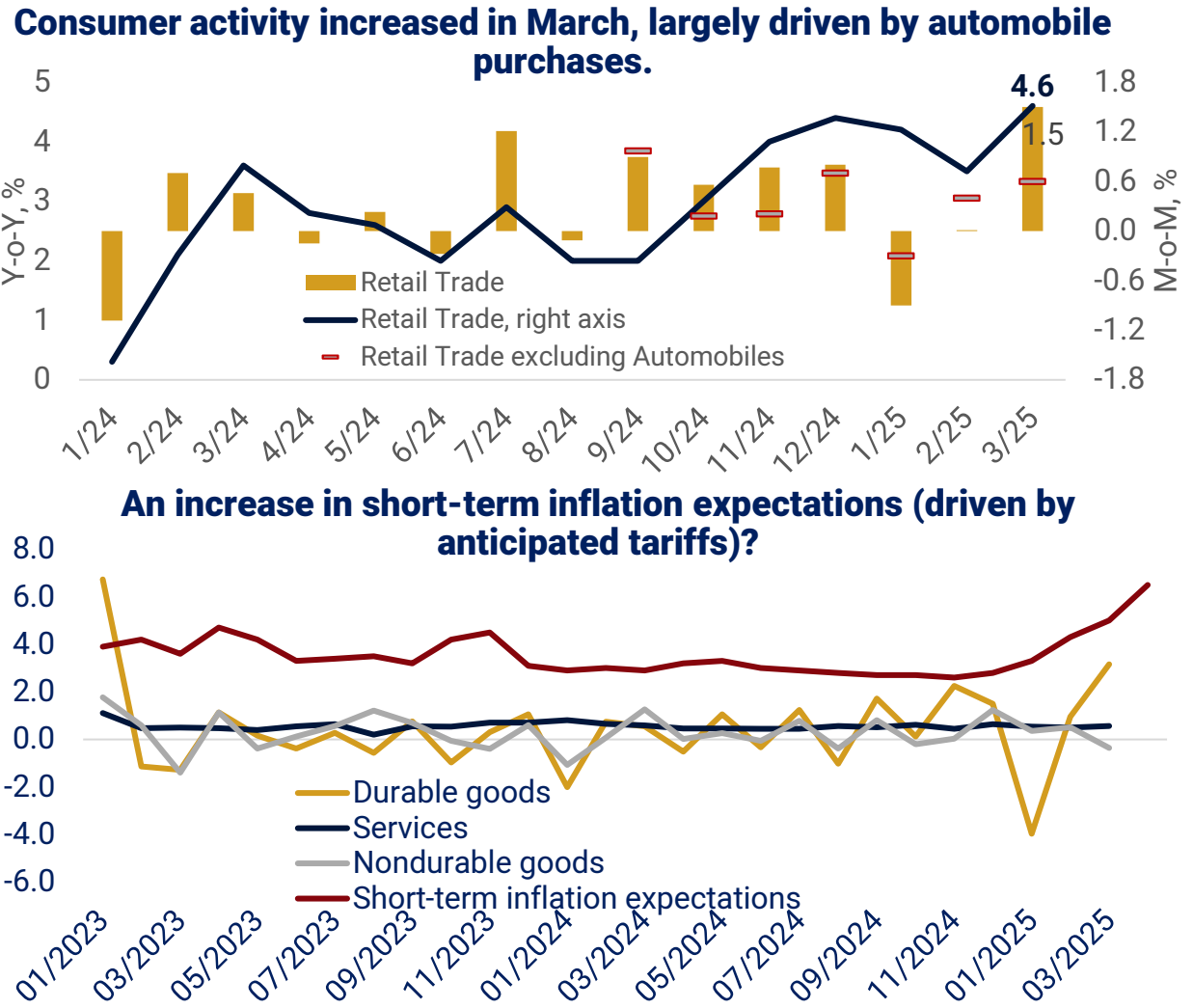
Global Economic Developments

In An Environment Of Heightened Uncertainty Surrounding Economic Policy, Consumption In The U.S. Has Weakened Significantly, While The Anticipated Increase In Tariffs Has Contributed To A Shift In Favor Of Imported Durable Goods.





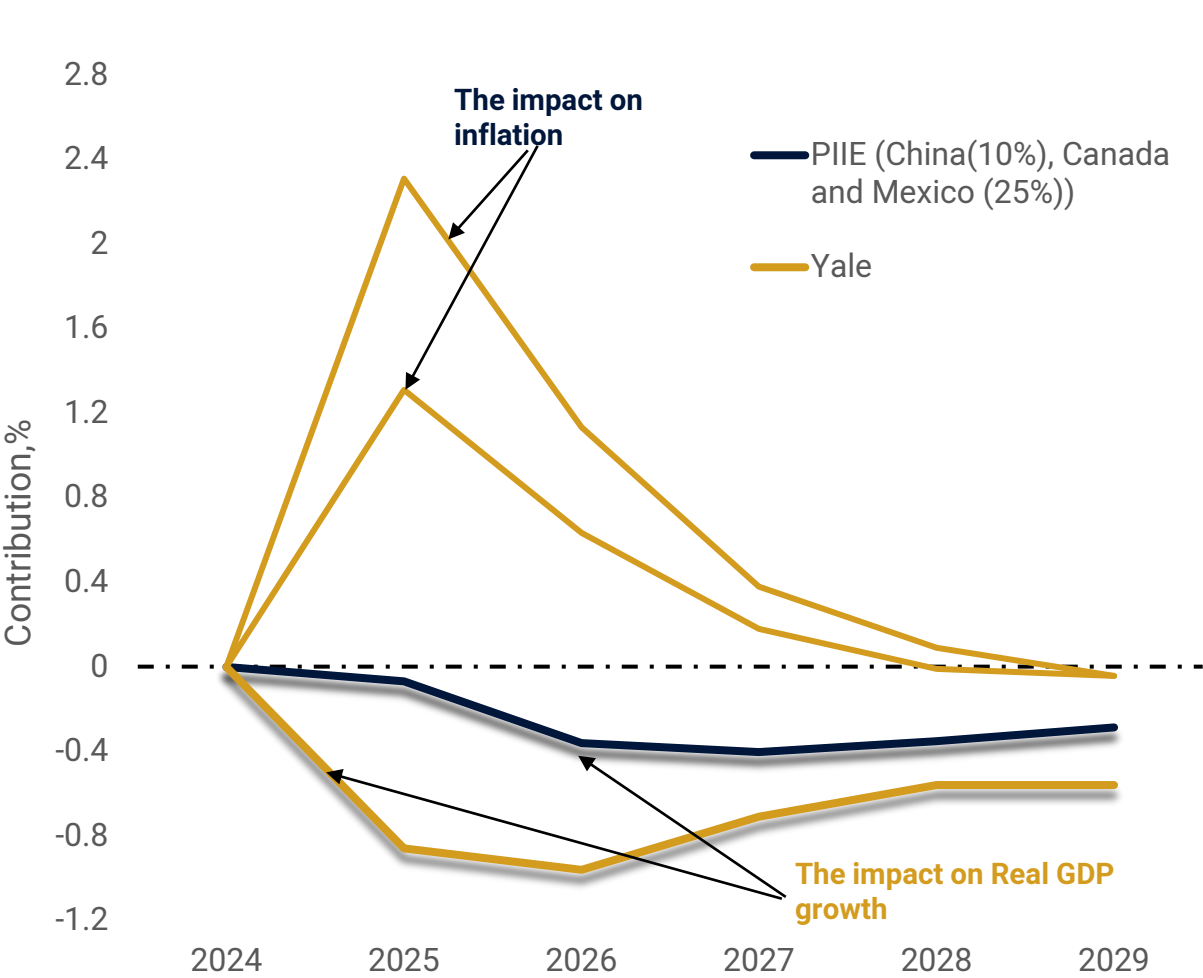
Source: Bureau of Economic Analysis (BEA), Atlanta Fed



Source: US Census Bureau, University of Michigan

A Significant Tightening Of U.S. Trade Policy Could Have Dual Implications—on One Hand, Supporting The Development Of Domestic And Global Economic Capacities And The Efficient Allocation Of Resources; On The Other, Leading To Adverse Effects Stemming From A Substantial Rise In Uncertainty.

The Impact of Tariffs on Real GDP and Inflation: Selected Estimates

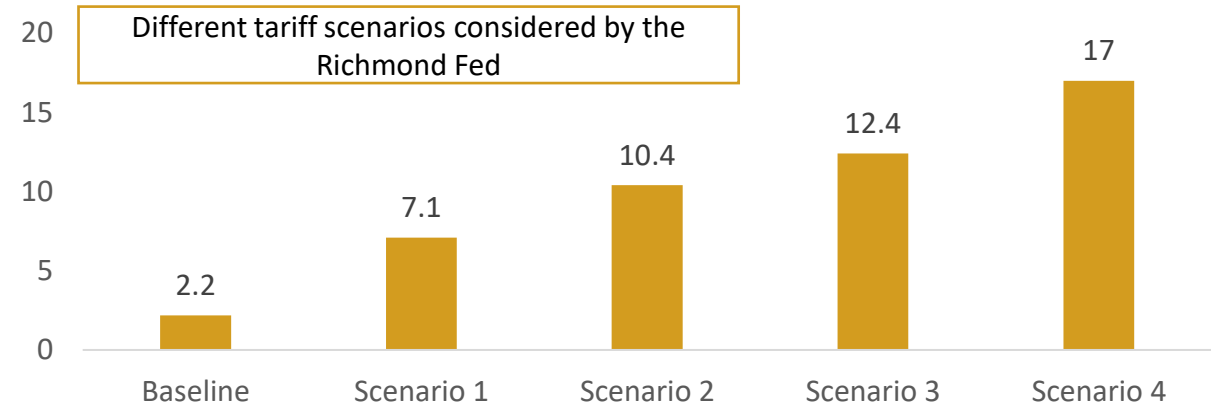


Source: PIIE, S&P Global, Yale

Effective tariff rates are at their highest level since the 1930s (%)



The implemented tariff rates were significantly higher than initially anticipated.

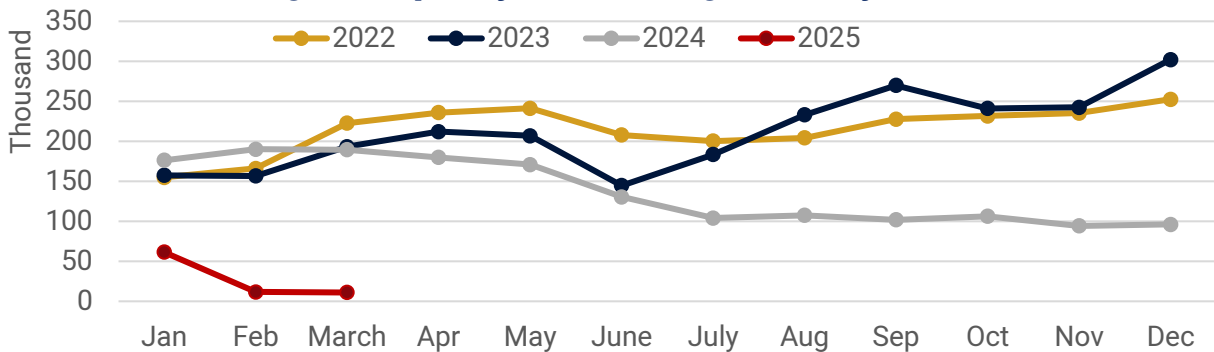


Source: The Budget Lab, Richmond Fed

The Tightening of Migration Policy Is Reinforcing Labor Market Pressures and Fueling Inflation Risks



Recorded illegal crossings at the U.S. southwestern land border.
Migration policy remains significantly strict.

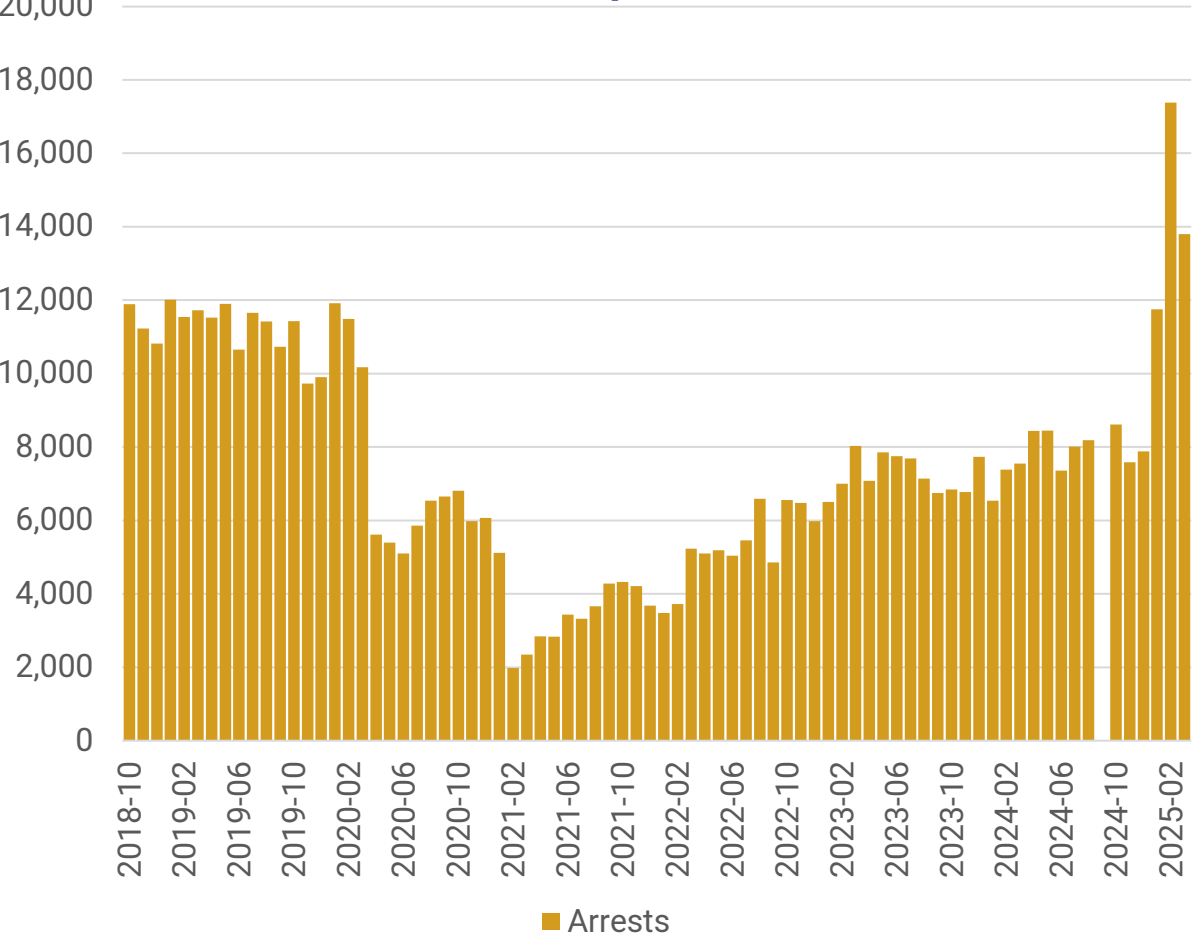


However, the deportation of arrested individuals has been moving more slowly than before.

ICE Report Date	Cummulative Immigrants Removals	Change in Removal	Average/day
2024 (Fiscal Year)	271,484		742
Oct. 1-Jan. 25	85,769	85,769	733
Jan. 26-Feb 8	95,474	9,705	693
Feb 9-22	103,868	8,394	600
Feb 23 –March 8	113,541	9,673	691
Trump (Jan 26-March 8)			661

Source: U.S. Customs and Border Protection (CBP) , ICE, TRAC

The number of arrests of illegal immigrants has increased significantly in recent periods.

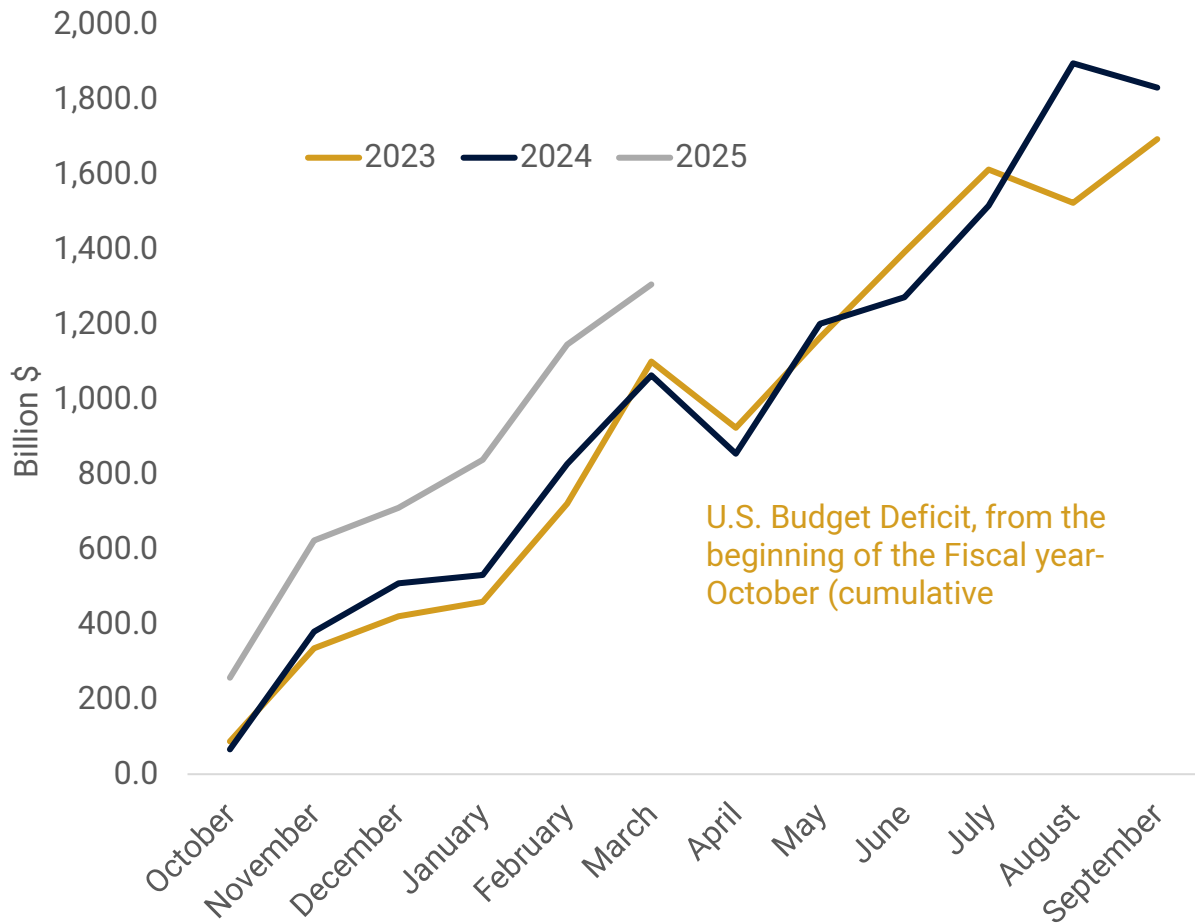


Source: Homeland Security Statistical Office (BHSS) TRAC

A Significantly More Expansionary Fiscal Policy Could Raise Debt Sustainability Risks, Potentially Pushing Up the Neutral Rate and Term Premia

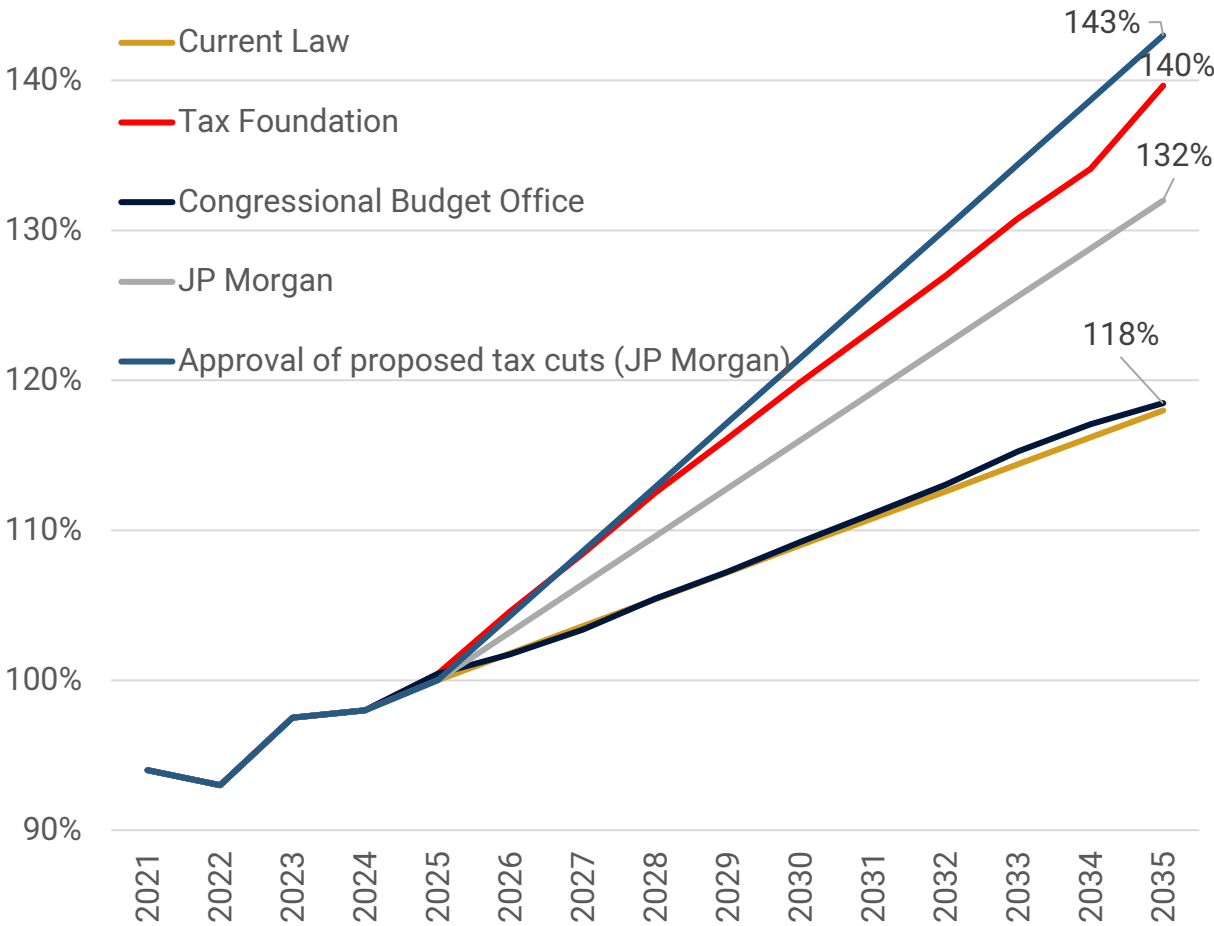


If current trends persist, the deficit could surpass the planned level (>7%), even with the anticipated tariff revenues.



Source: CBO

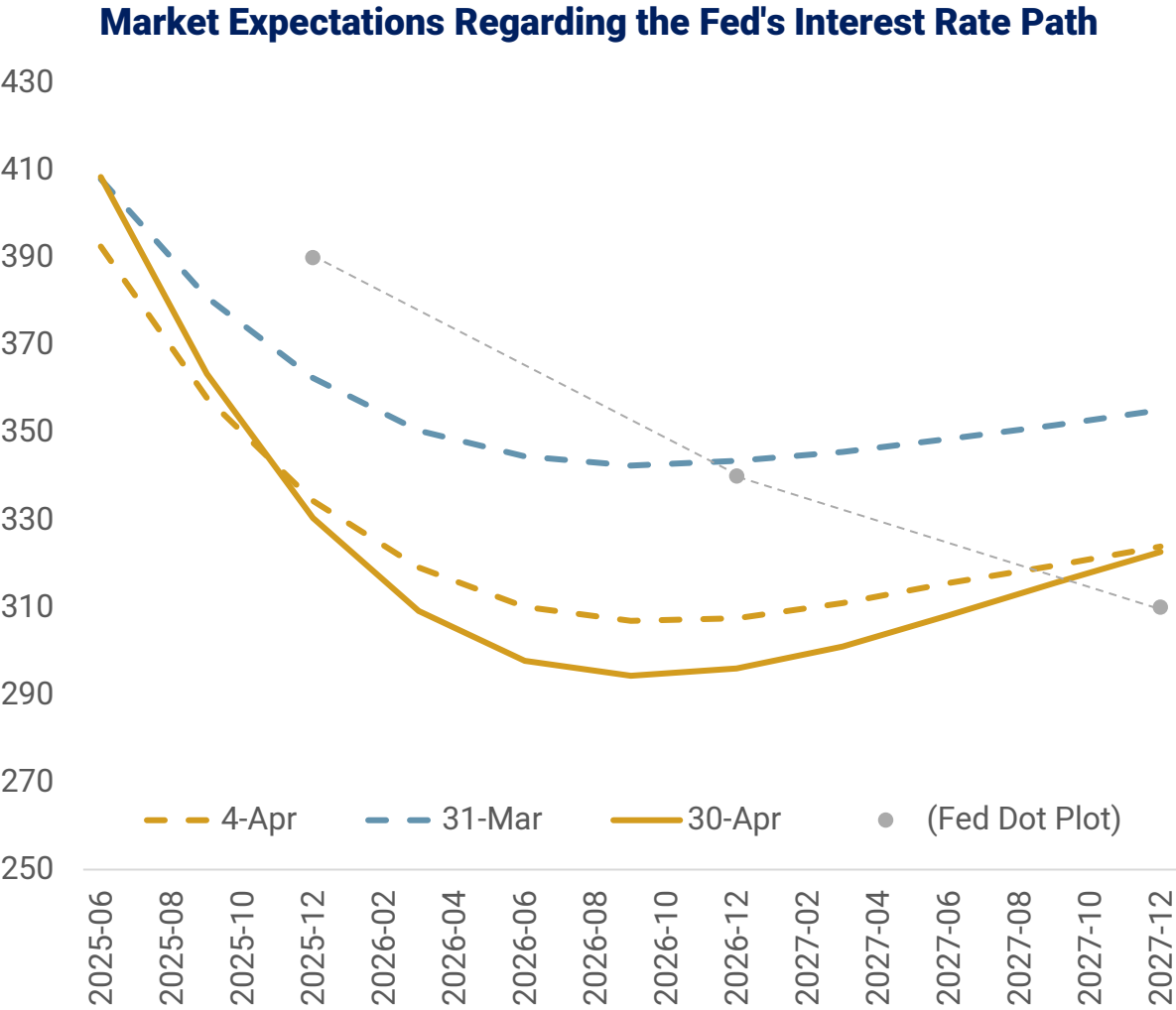
Government Debt-to-GDP Ratio Over the Next Decade: Various Estimates



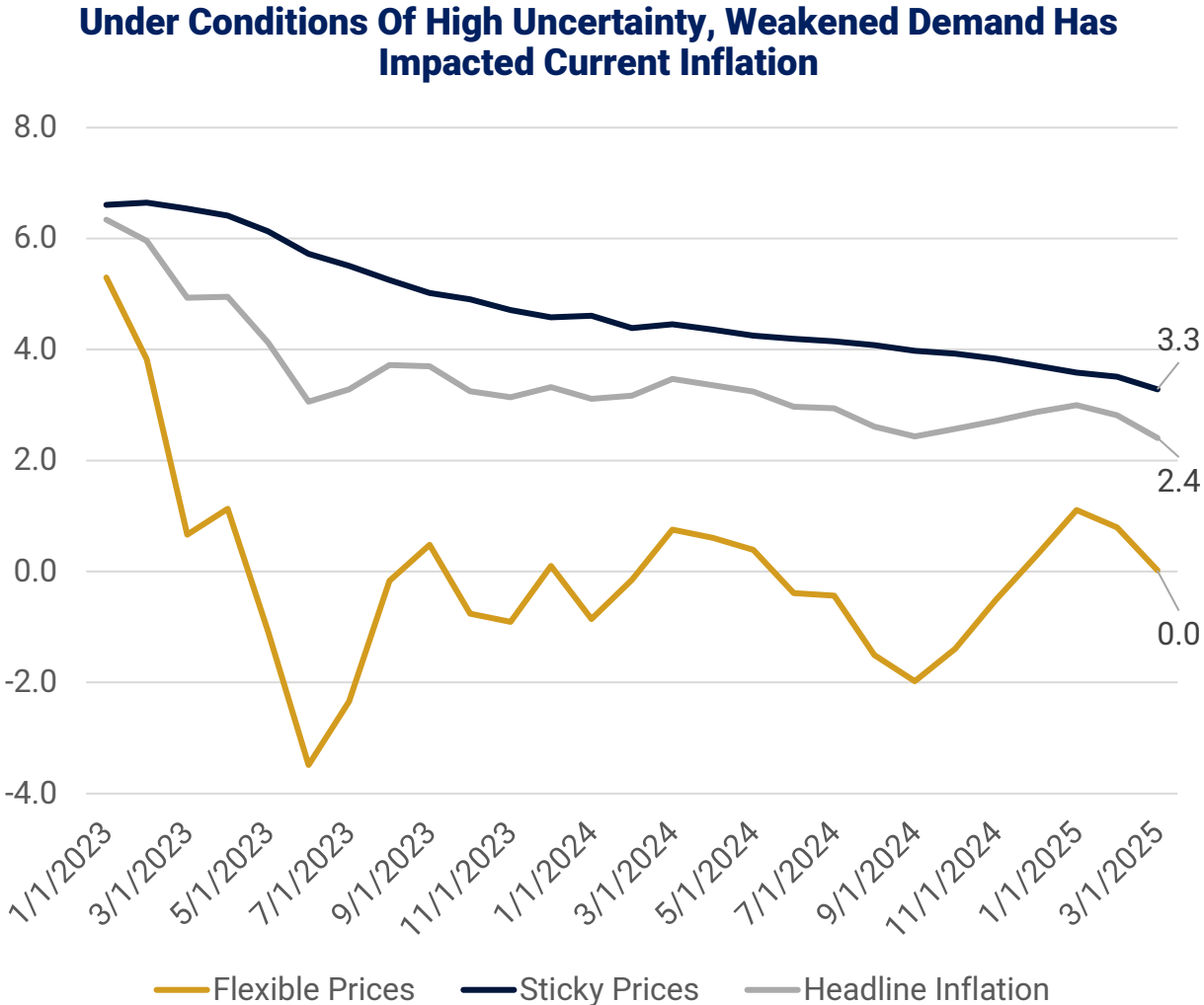
Source: CBO, JP Morgan, Tax Foundation

Under These Conditions, Financial Markets Anticipate a Lower Policy Rate Path.

But Are Long-Term Risks Intensifying?



Source: Atlanta FED

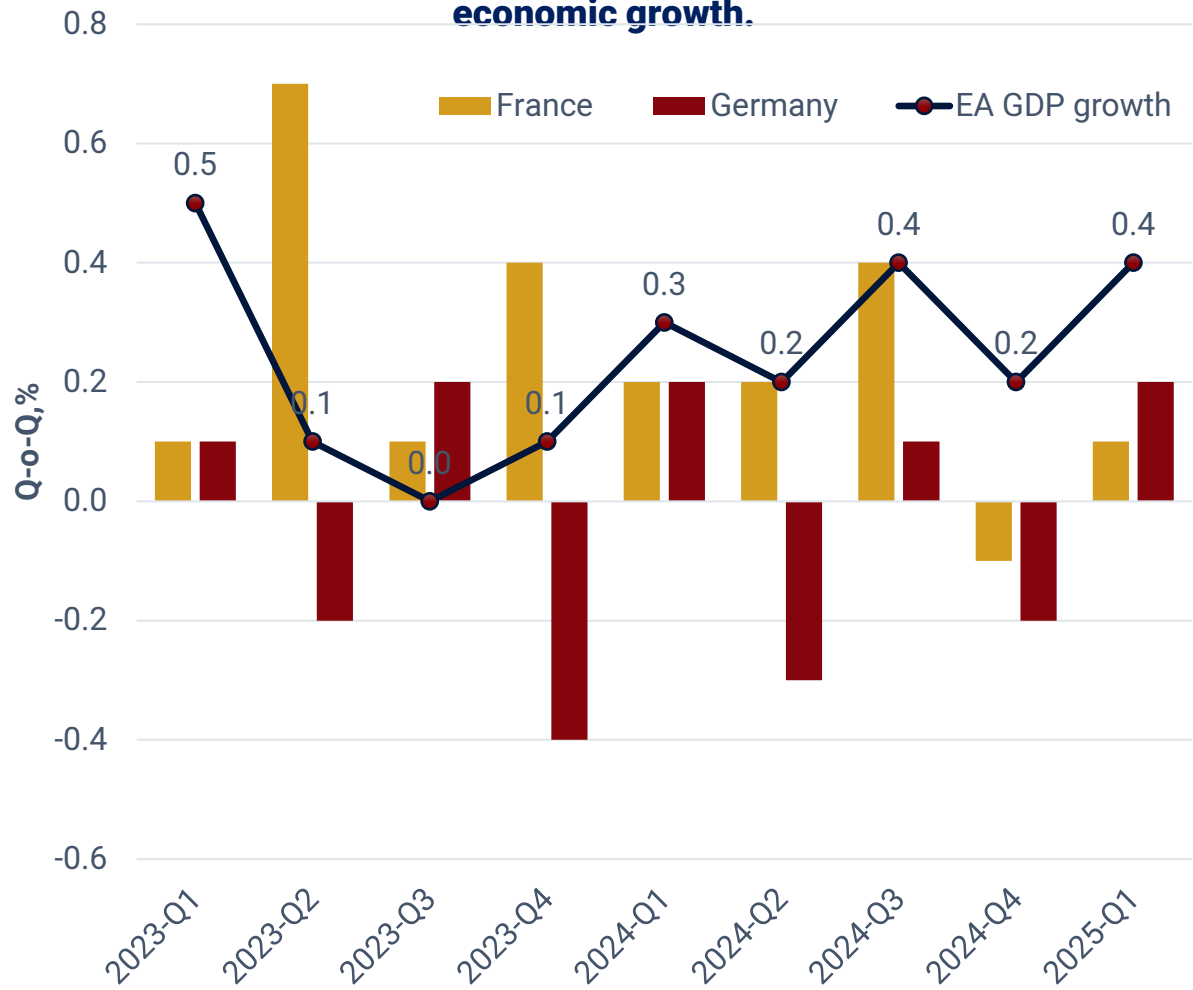


Source: Atlanta FED

EA: The Outlook and Structure of Economic Growth Remain Concerning Amid U.S. Trade Tensions and Mounting Risks from China's Slowdown

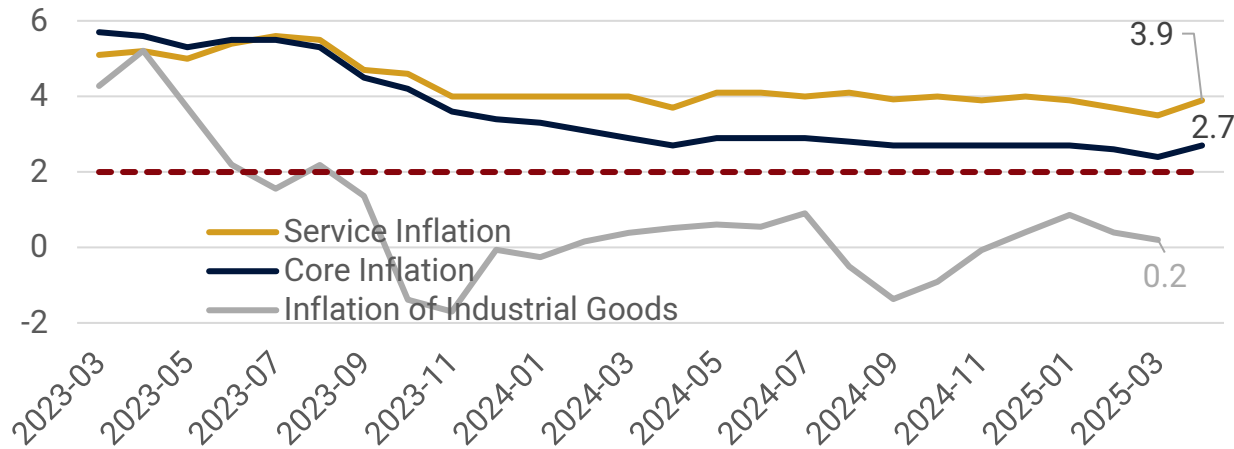


Certain short-term factors have contributed to a slight acceleration in economic growth.

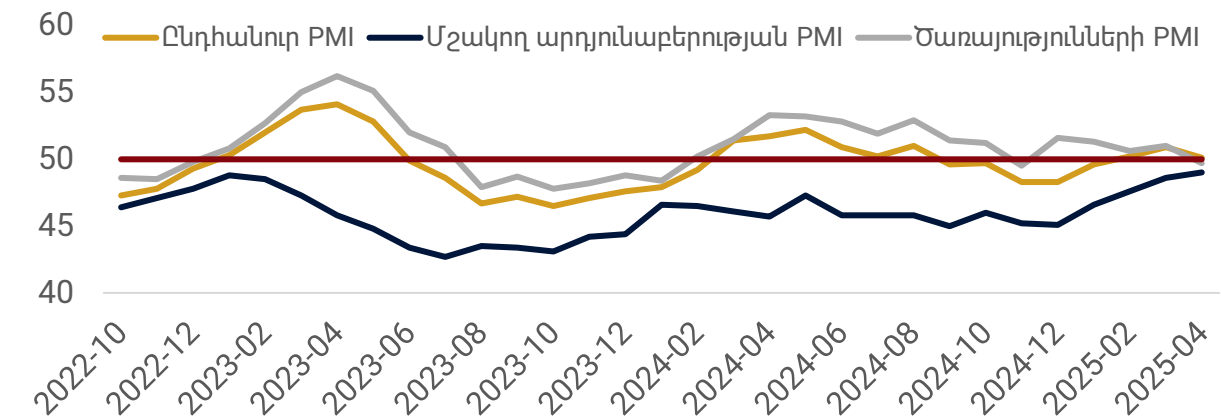


Աղբյուր: Eurostat

ECB's policy dilemma deepening?



Some leading indicators also point to ongoing challenges.

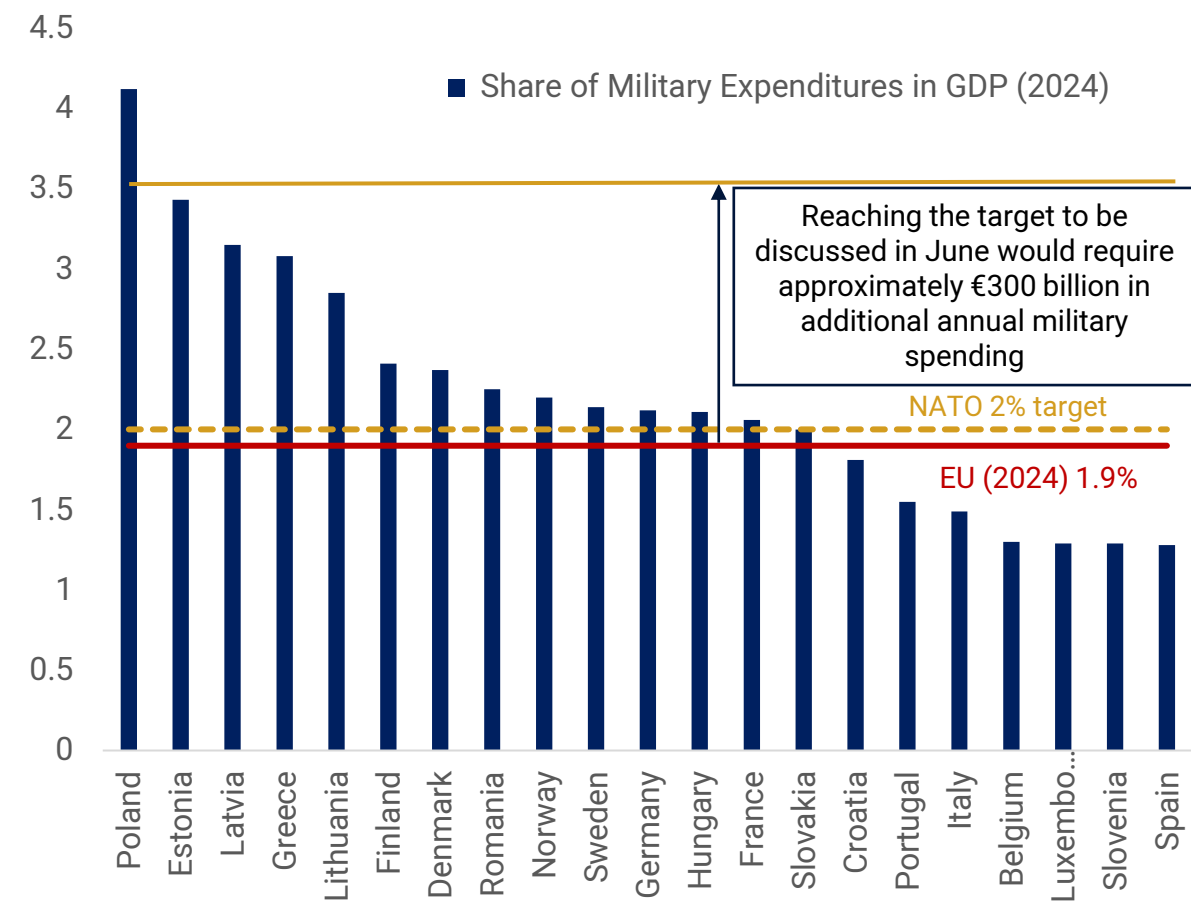


Աղբյուր: Eurostat

Defense and Infrastructure Programs in the Euro Area Could Support Demand, Also Boosting Commodity Markets Up

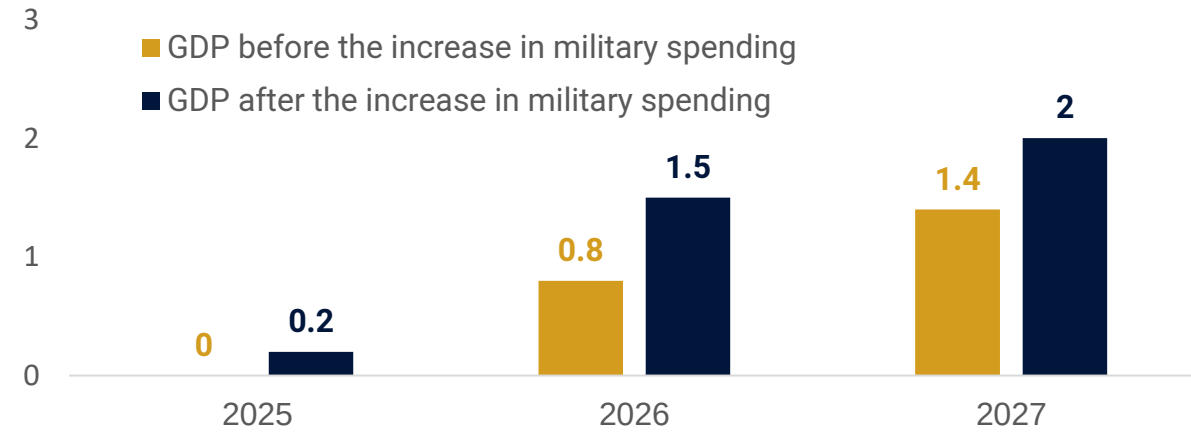


European NATO Members Fell Short of the 2% Defense Spending Target in 2024, Casting Doubt on the Feasibility of the Proposed 3.5% Military and 1.5% Security Benchmarks

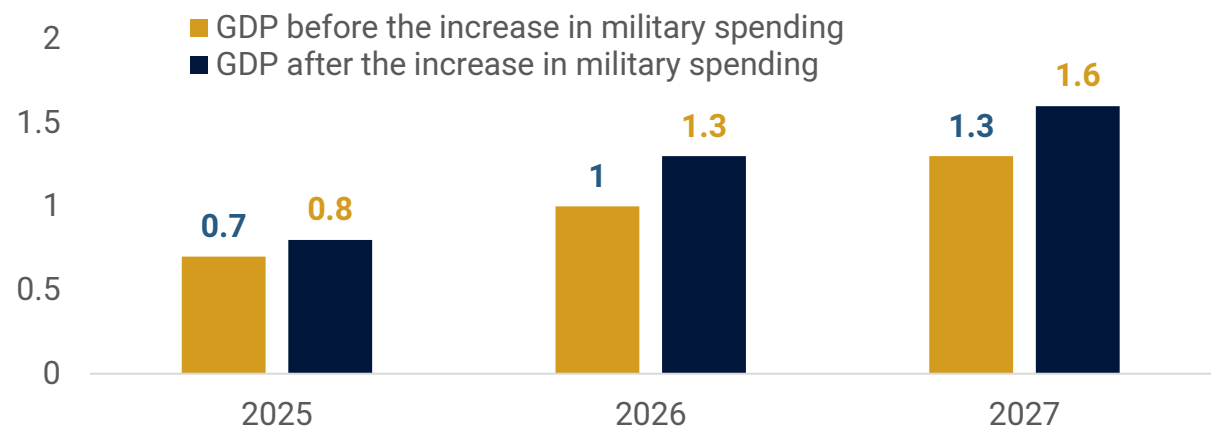


Source: NATO

The increase in defense and infrastructure spending is contributing to a more positive outlook for Germany's GDP.



This could also have a positive impact on the overall economic outlook for the Eurozone.

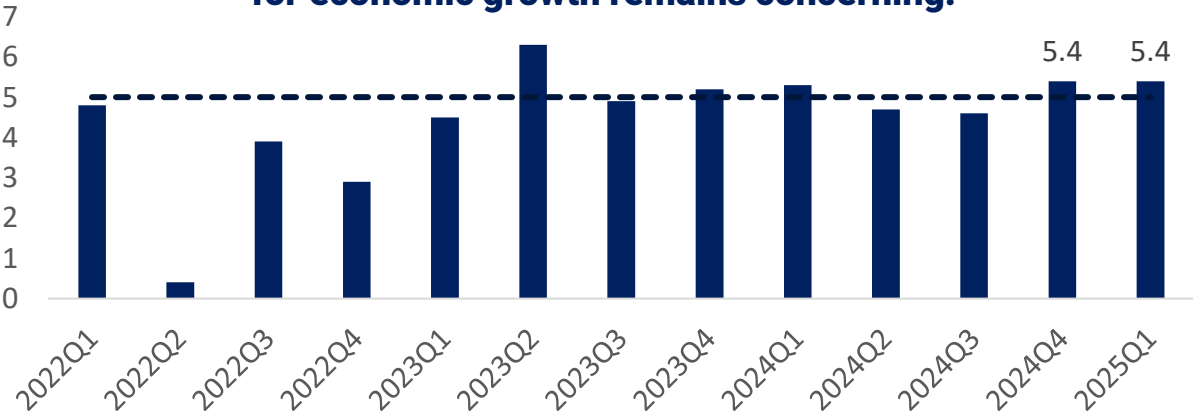


Source: Goldman Sachs

China: Escalating U.S.–China Tariffs Could Deepen Structural Challenges in China, Where Expanding Domestic Demand Remains the Key Hurdle

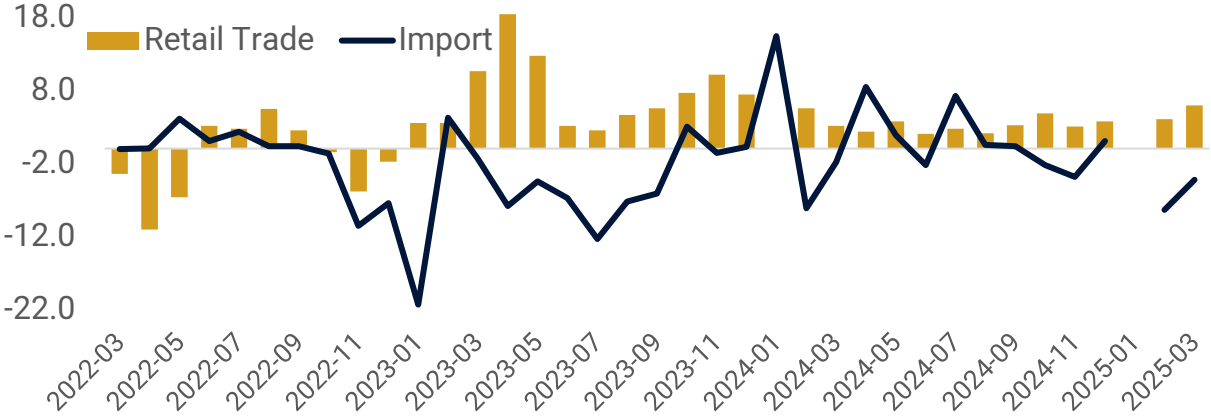


Although China managed to achieve its 5% growth target, the outlook for economic growth remains concerning.



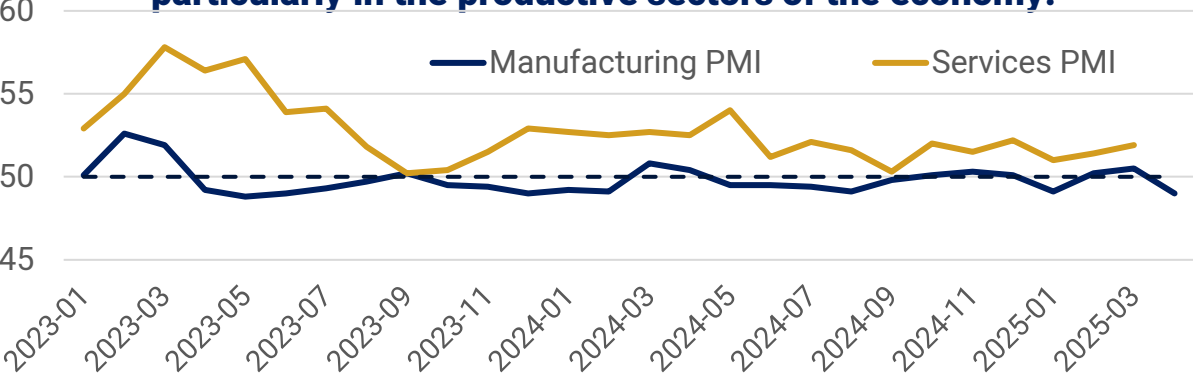
Source: National Bureau of Statistics of China

Nevertheless, some weak positive signals of expanding domestic demand have been recorded



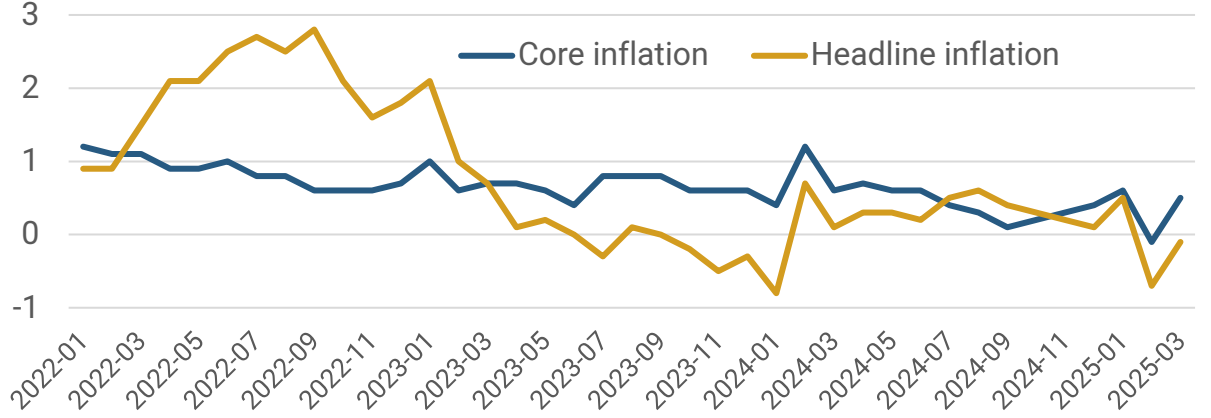
Source: National Bureau of Statistics of China

Certain leading indicators also point to persistent challenges, particularly in the productive sectors of the economy.



Source: National Bureau of Statistics of China

The low inflation environment persists.

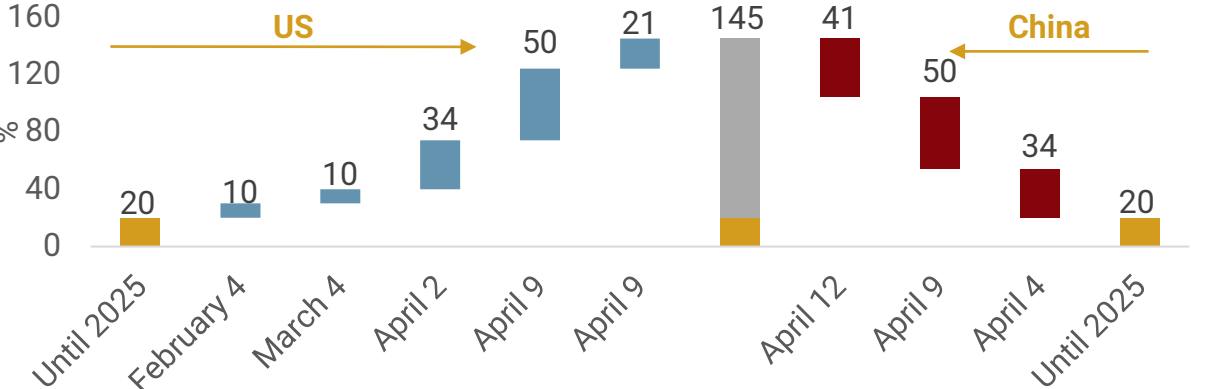


Source: National Bureau of Statistics of China

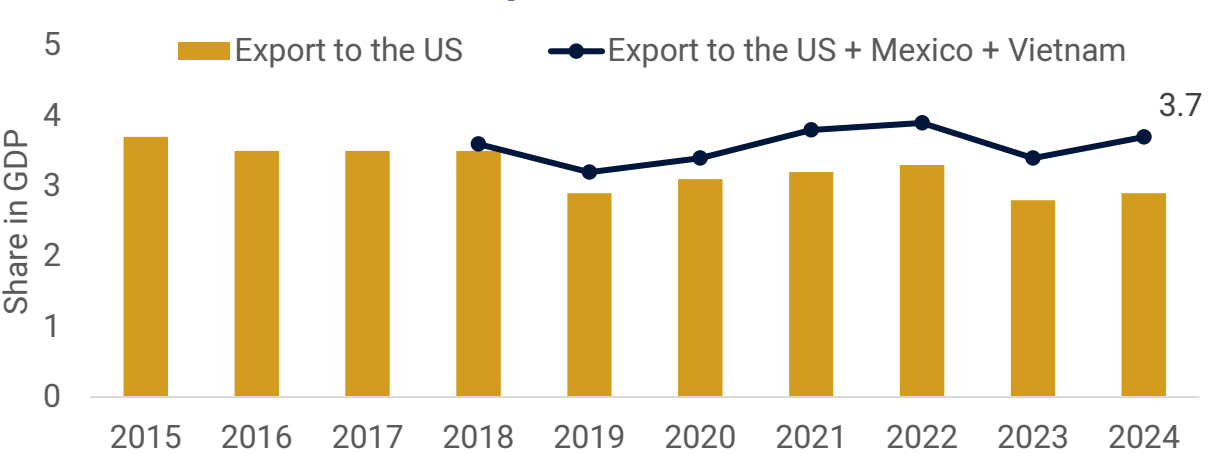
China: The continued imposition of high tariffs between the U.S. and China, or a worsening of the situation, could contribute to a further weakening of demand in both countries and globally.



The imposition of mutual additional tariffs of up to 145% between the U.S. and China.

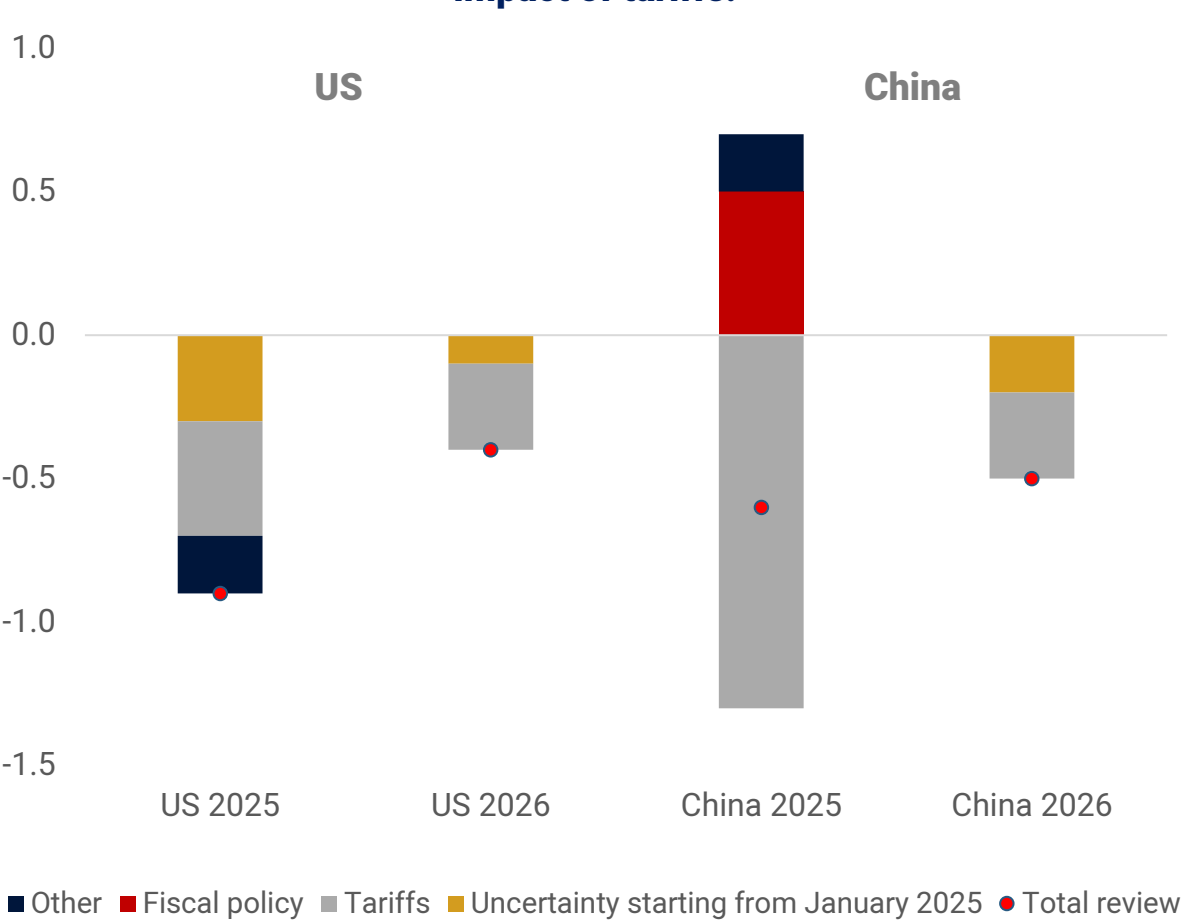


Exports to the U.S. through direct and alternative routes could account for up to 4–5% of GDP.



Source: Financial Times, International Trade Centre (ITC)

The deterioration of economic growth prospects is entirely due to the impact of tariffs.

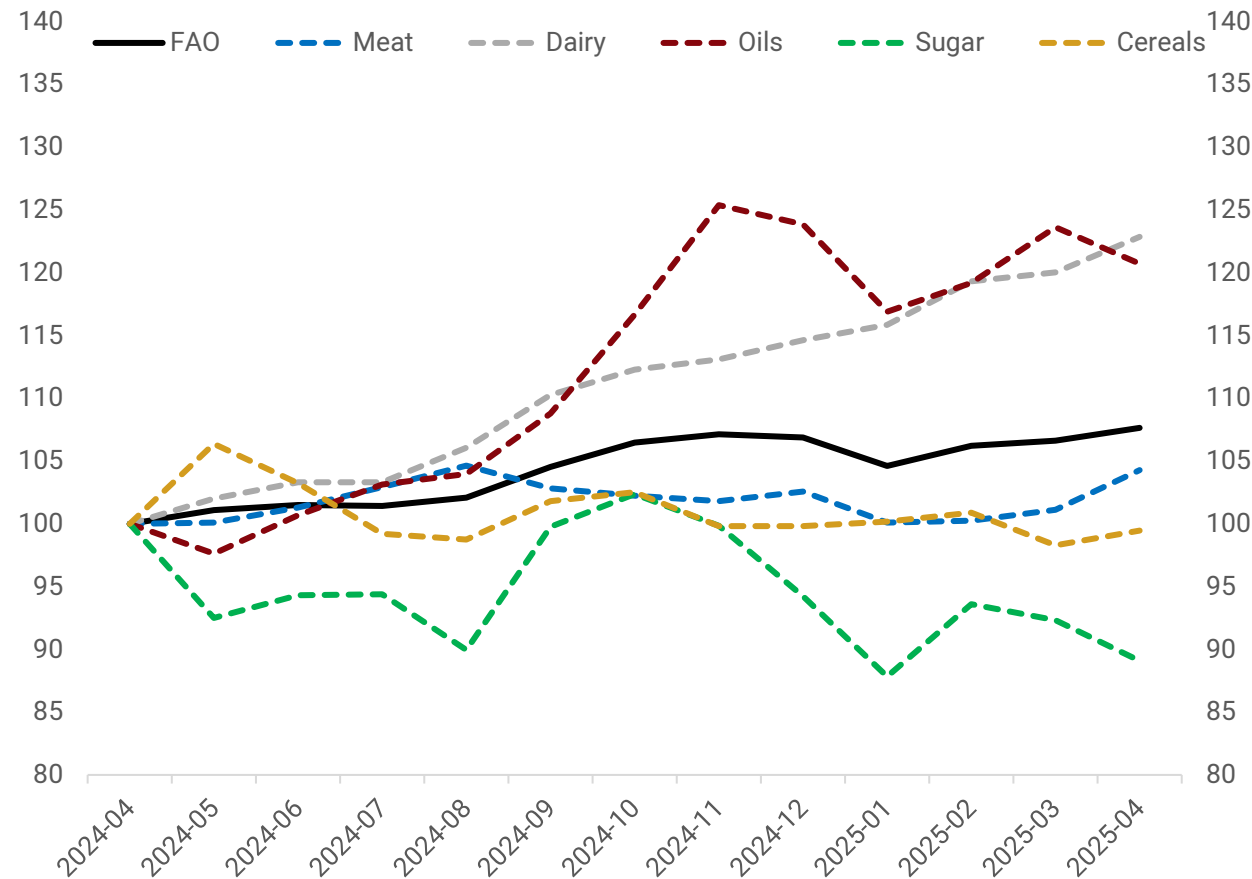


Source: IMF, World Economic Outlook (WEO)

Commodity markets: Geopolitical Uncertainties Increasing Vulnerability and Volatility in Commodity Markets Amid Weak Global Growth



FAO Food Price Index, 2024 April=100



Source: FAO

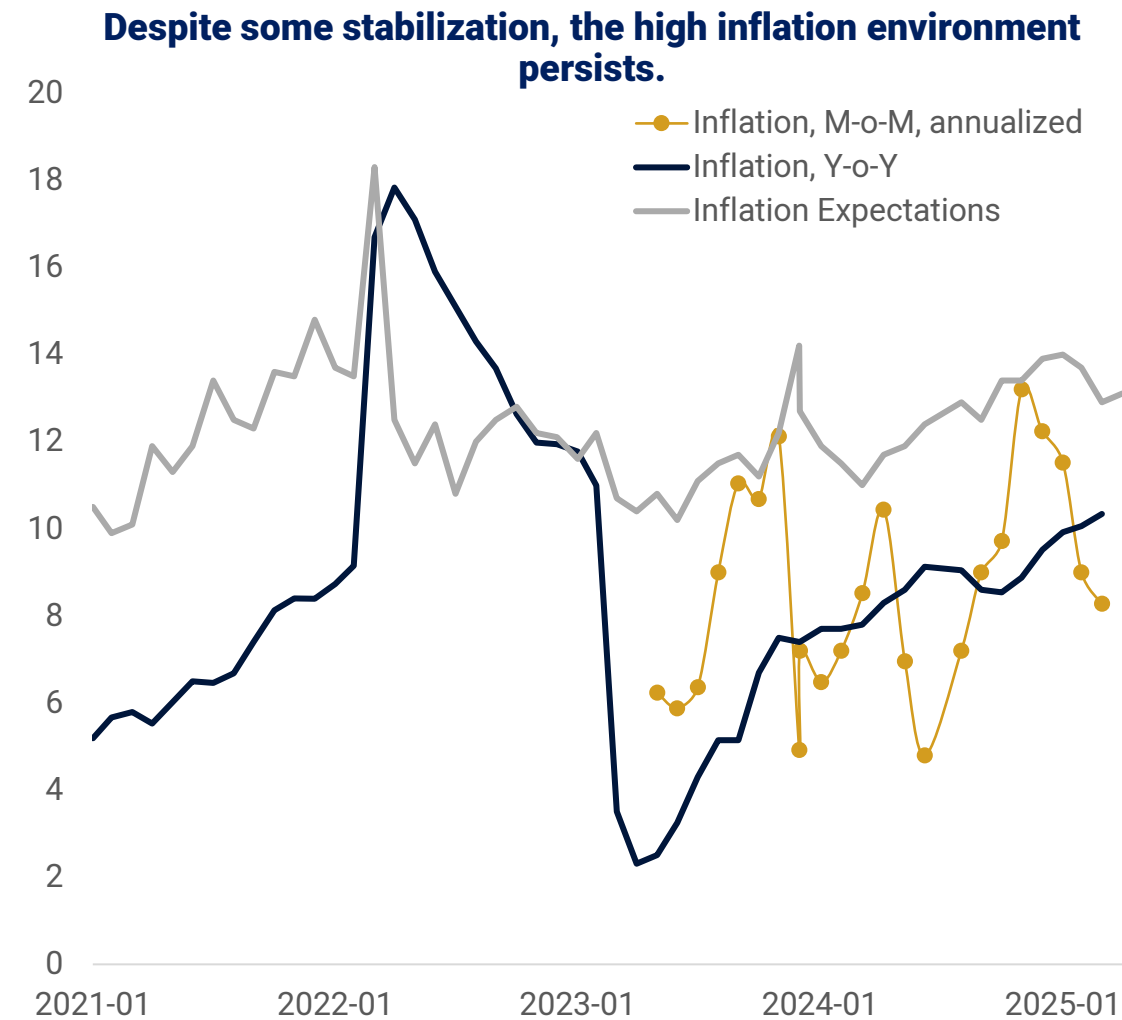
International oil prices (Brent), daily, US\$/barrel



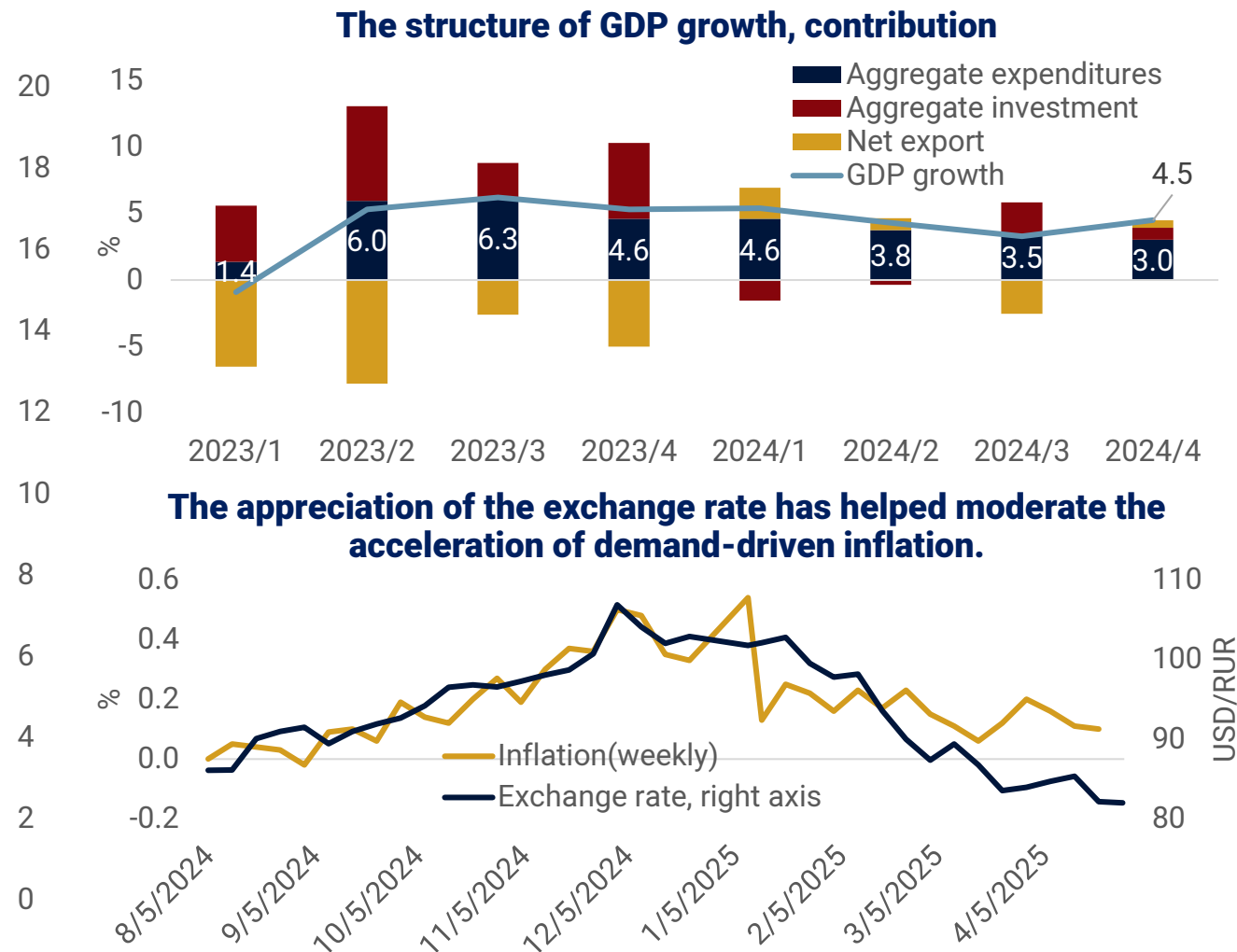
Source: Bloomberg

Russia: High Domestic Demand in Russia Supported by Private and Public Spending, but Inflationary Risks and Growth Uncertainty Persist

Uncertainty regarding medium-term growth prospects remains elevated.



Source: Russian Statistics service, Central Bank of Russia



Source: Russian Statistics service, CBA Estimates

Main sources of uncertainty related to the global economy.



USA

- Uncertainty regarding long-term (neutral) interest rates
- Rising fiscal stimulus: uncertainties around debt levels and its 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, risks related to the real estate sector, financial stability, and further weakening of demand persist.

Russia

- Within accelerating inflation expectations and the expansionary fiscal policy, strong domestic demand persists.
- Main risks associated with the potential resolution of the conflict and the conditions for shaping a positive environment for medium-term growth prospects.

Commodity Markets

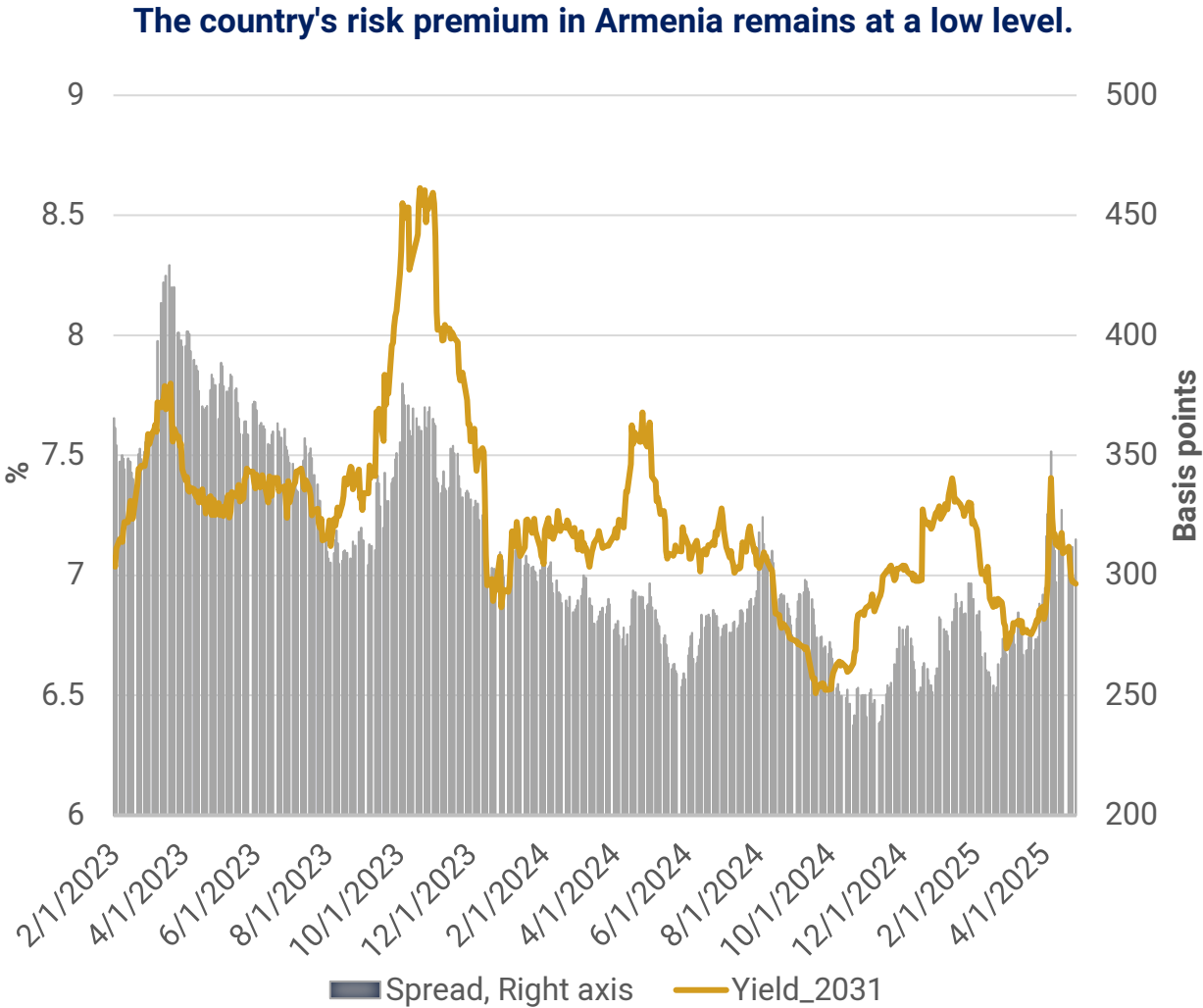
The further escalation of geopolitical tensions, sanctions against Russia, and weather and trade risks pose potential threats to global supply chains, with risks of heightened volatility in global oil prices .



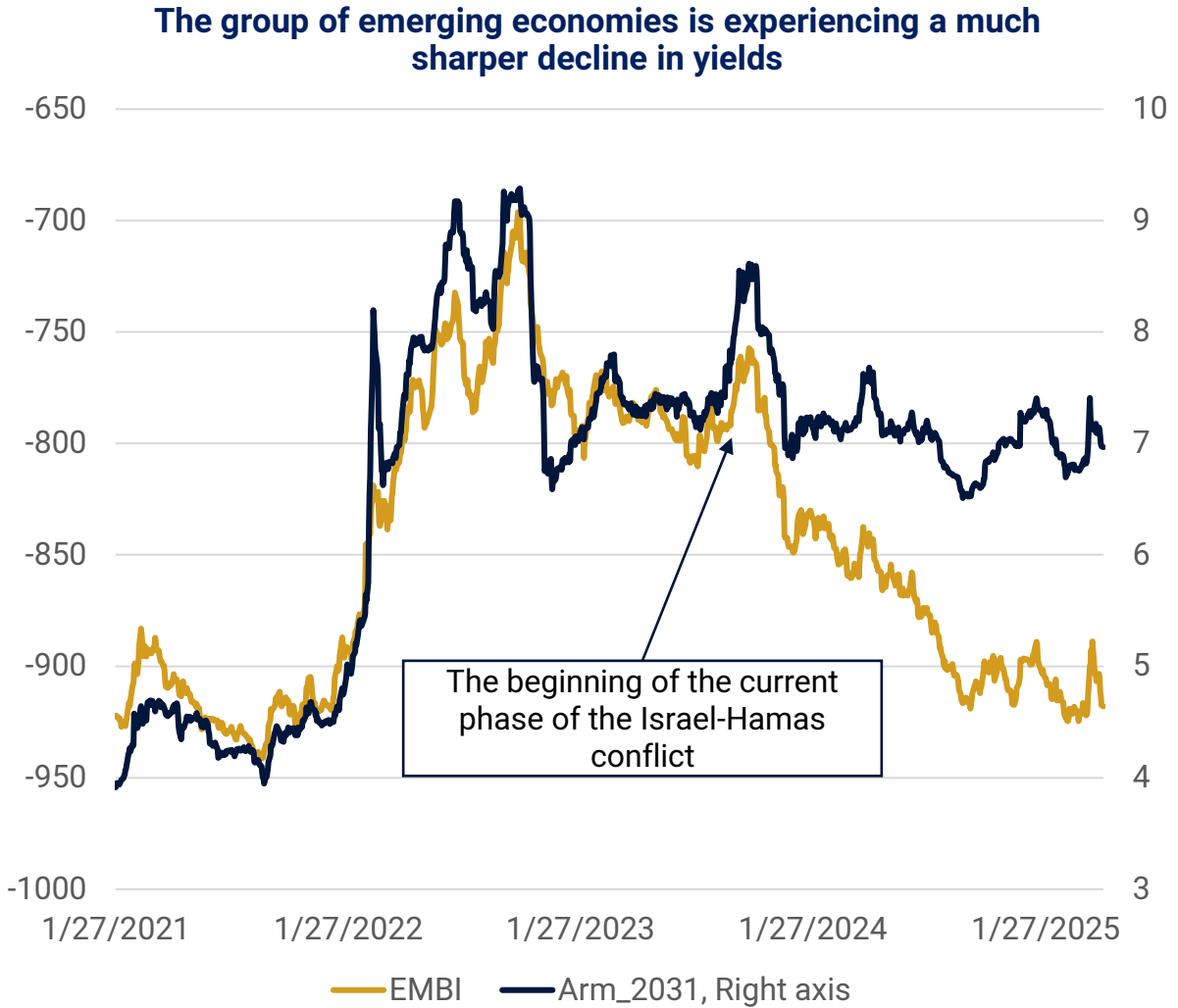
Current and Fundamental Economic Factors

Domestic Economic Developments

Risk Premium: Armenia's Risk Premium Remains Below Long-term Stable Level but Above Emerging Market Trends Due to Regional Geopolitical Tensions.

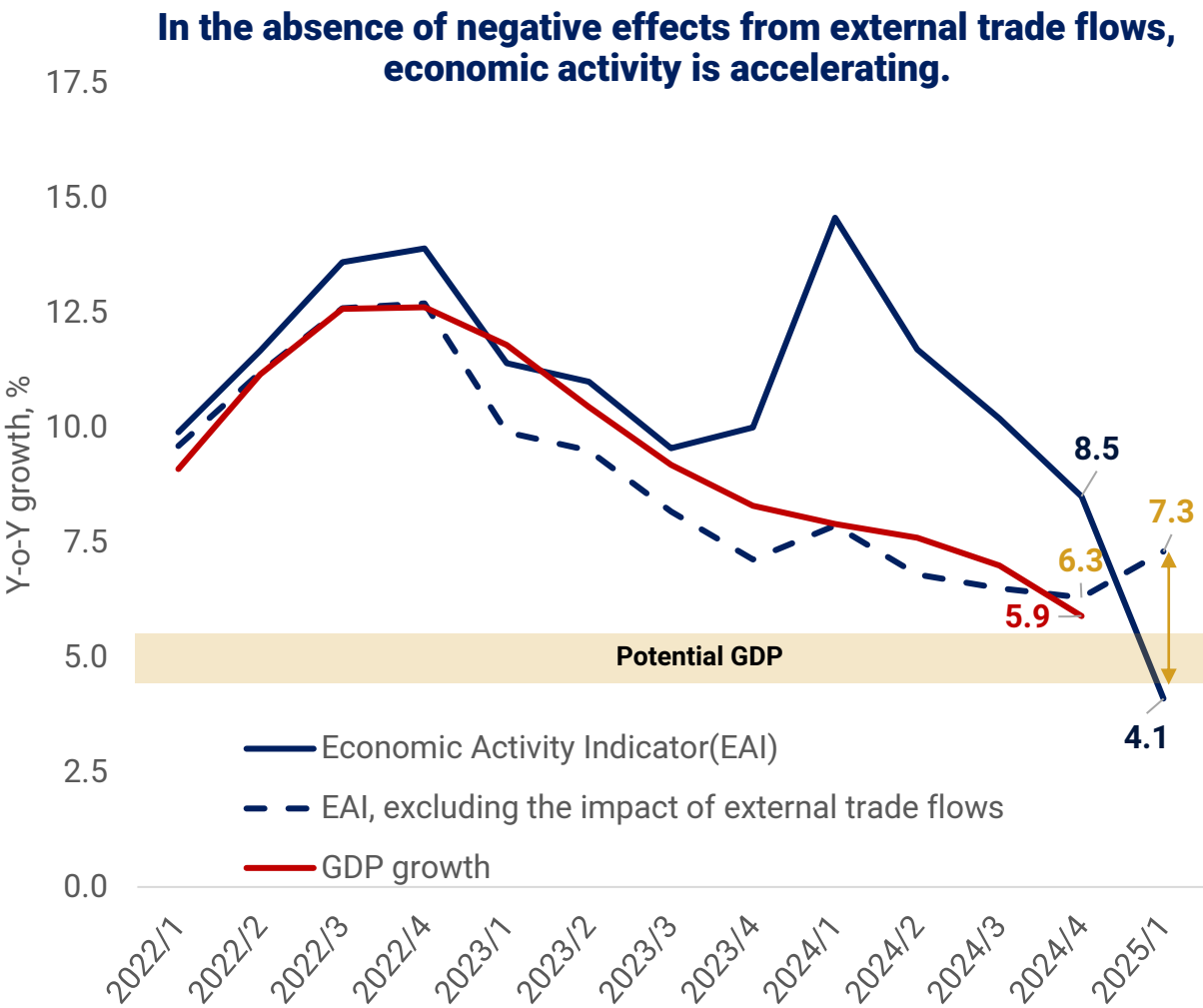


Source: Bloomberg

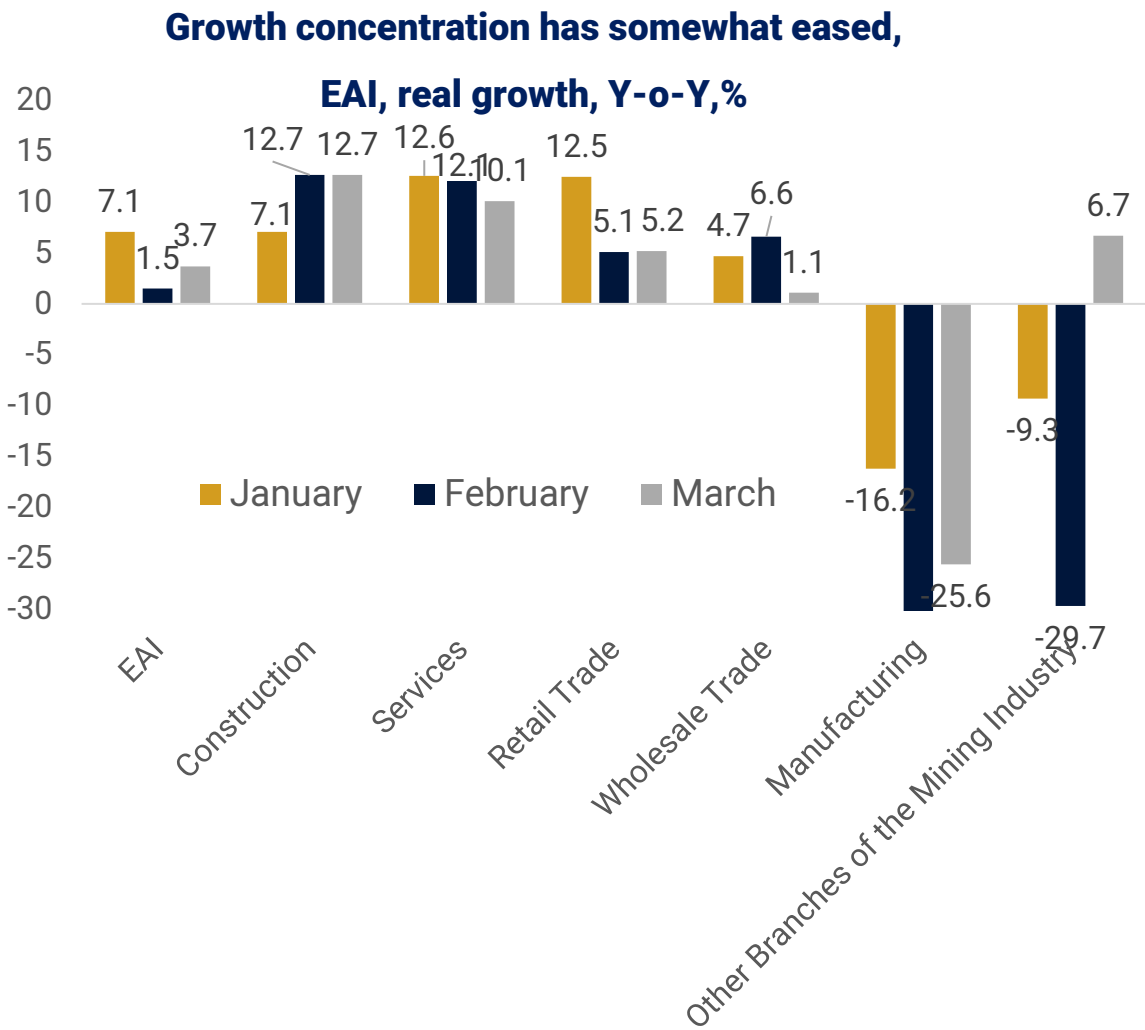


Source: Bloomberg

Economic Activity: Moderation in Armenia's Economic Activity Reflects Weakened Short-term Drivers Despite Strength in Productive Sectors



Source: RA Statistical Committee

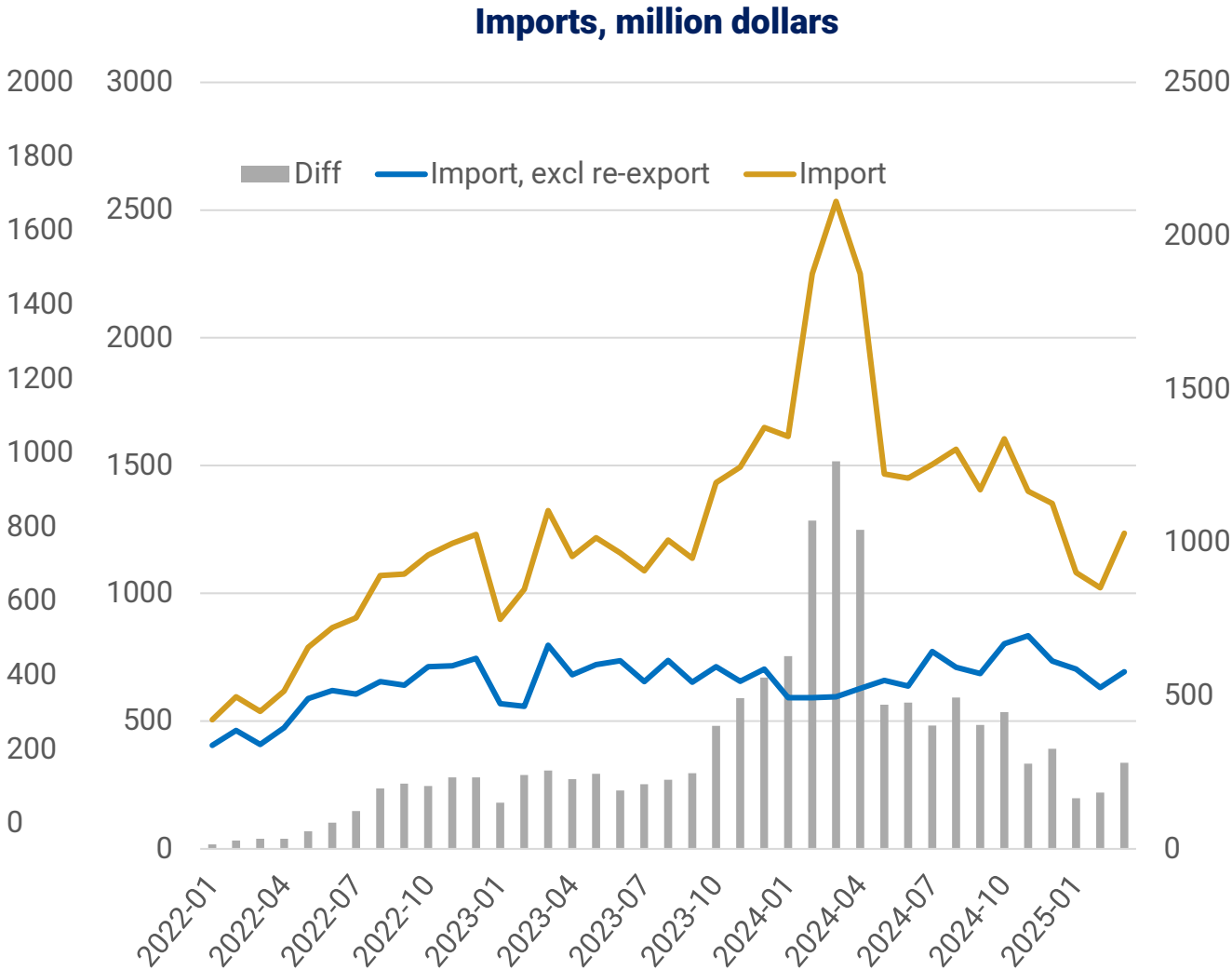


Source: RA Statistical Committee

External Trade-related Flows Have Risen Slightly but Remain Low, Potentially Constraining Economic Activity Ahead



Source: National Statistical Committee of Armenia , CBA estimates

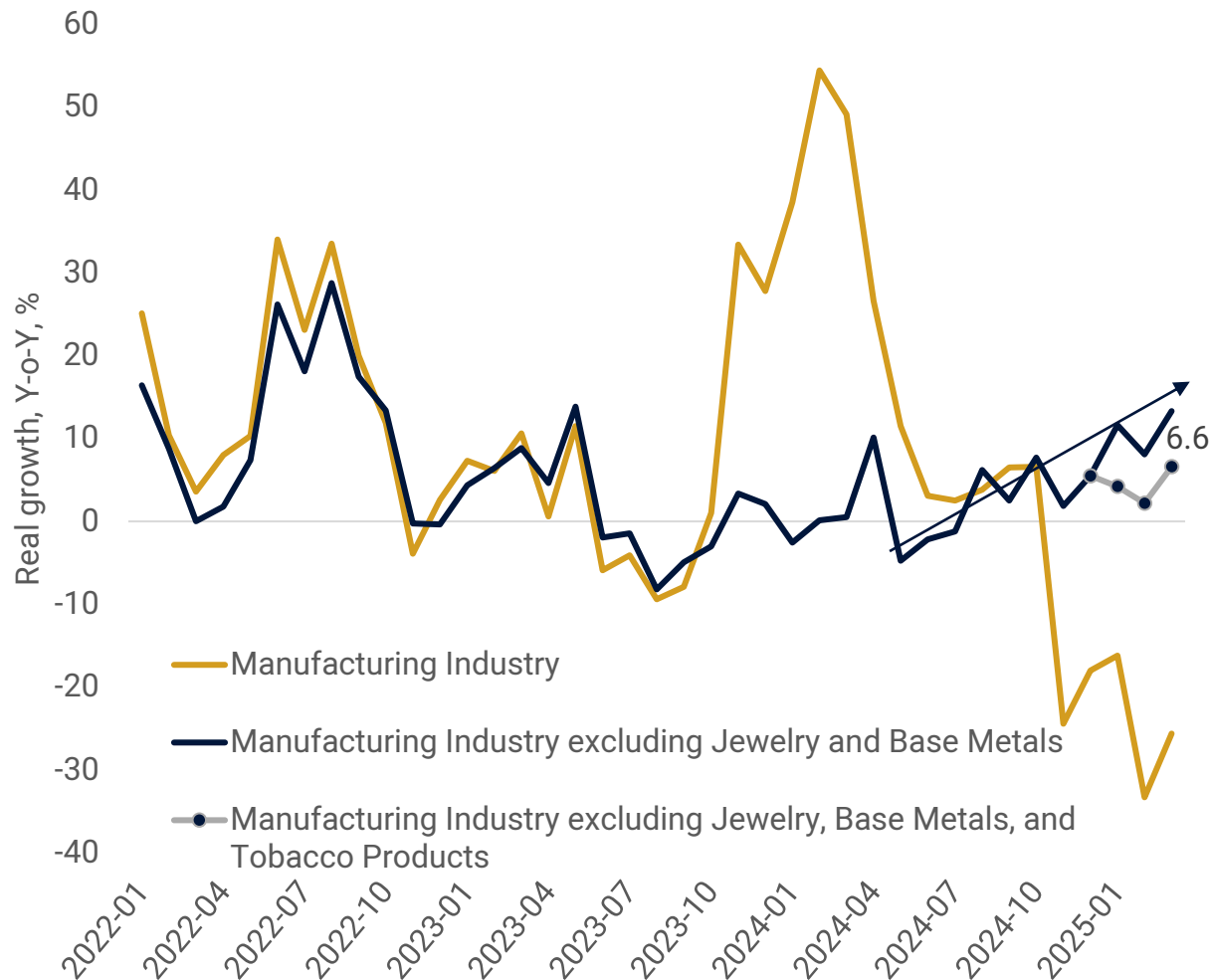


Source: National Statistical Committee of Armenia , CBA estimates

Along with weakening Re-exports, Economic Activity in Traditional Extraction Sectors Accelerates, Though Concentration Remains High

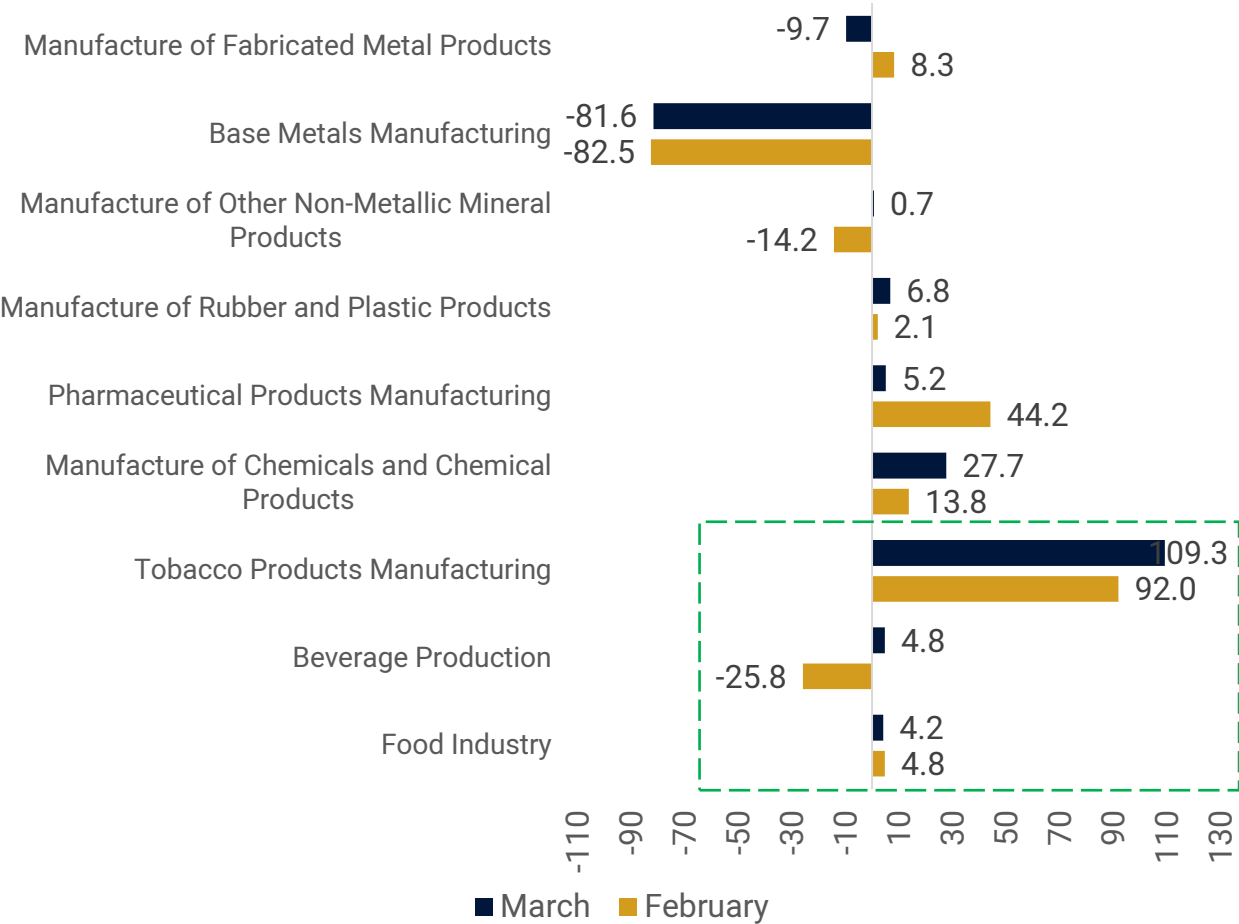


Manufacturing Industry , real growth



Source: National Statistical Committee of Armenia , CBA Estimate

The growth in manufacturing industry was primarily driven by the significant growth in the tobacco production sector.

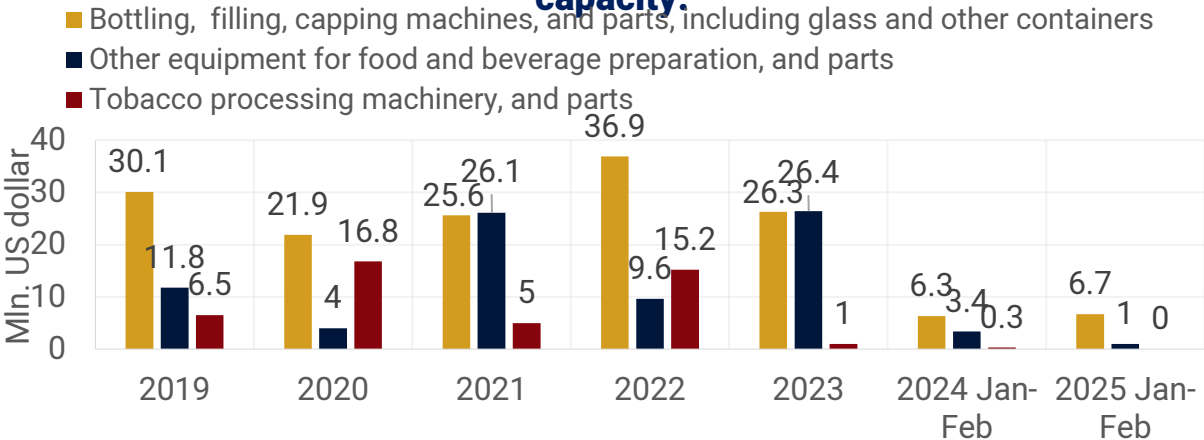


Source: National Statistical Committee of Armenia

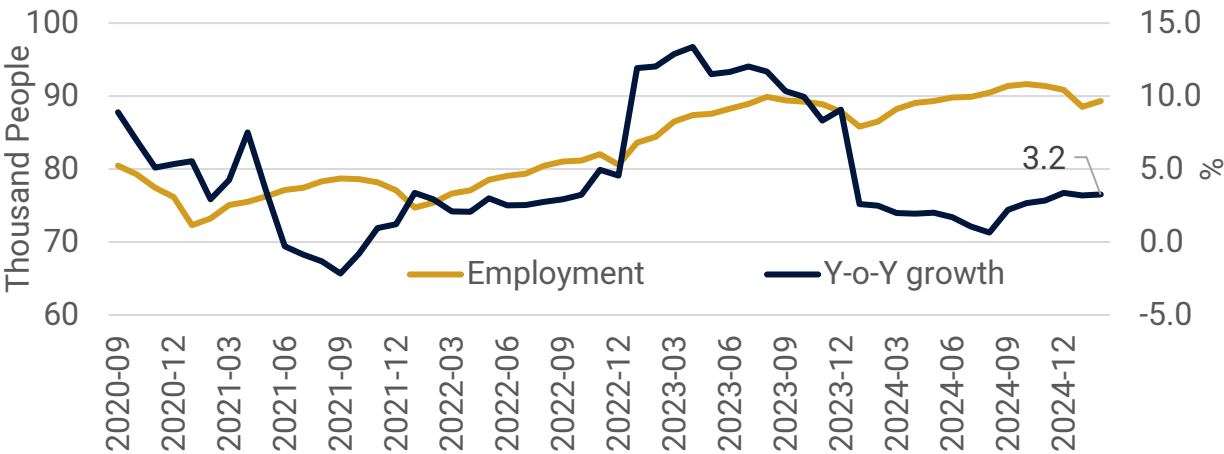
Signs of Expansion in Long-term Potential Growth Are Emerging but Remain Weak Amid Persistent Risks to Sustainability



The import of capital goods does not indicate an expansion of capacity.

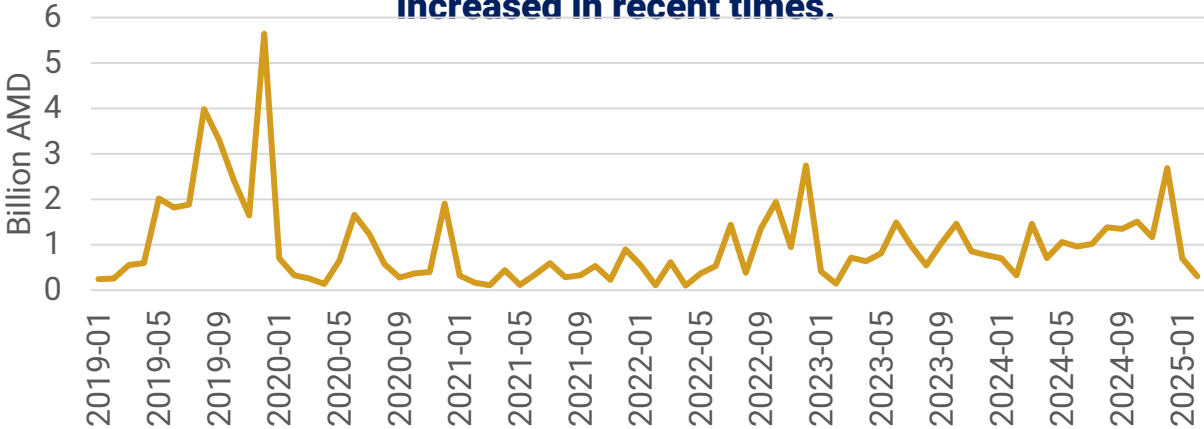


Despite being moderate, the increase in employment is in line with the growth in production and exports

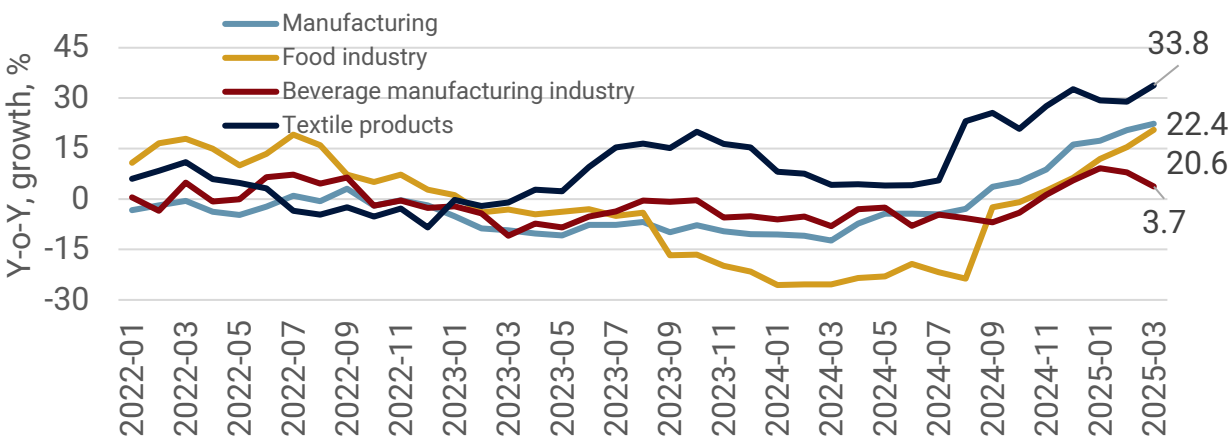


Source: National Statistical Committee of Armenia

Capital construction in the manufacturing sector has somewhat increased in recent times.



Does the current acceleration in lending growth indicate an ongoing and upcoming acceleration in investments?

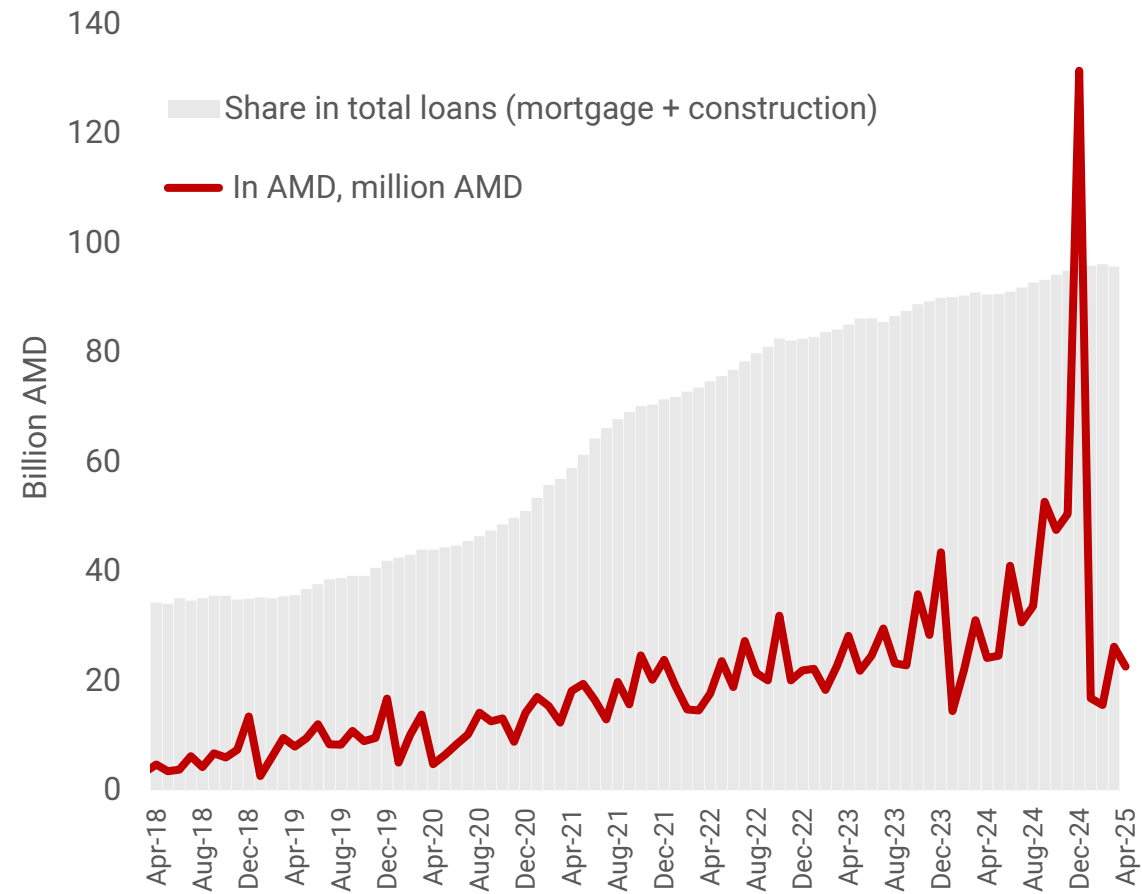


Source: National Statistical Committee of Armenia

Amid Gradual Adjustment in Construction Output and Real Estate Prices, Risks of a Weak Demand Environment Persist

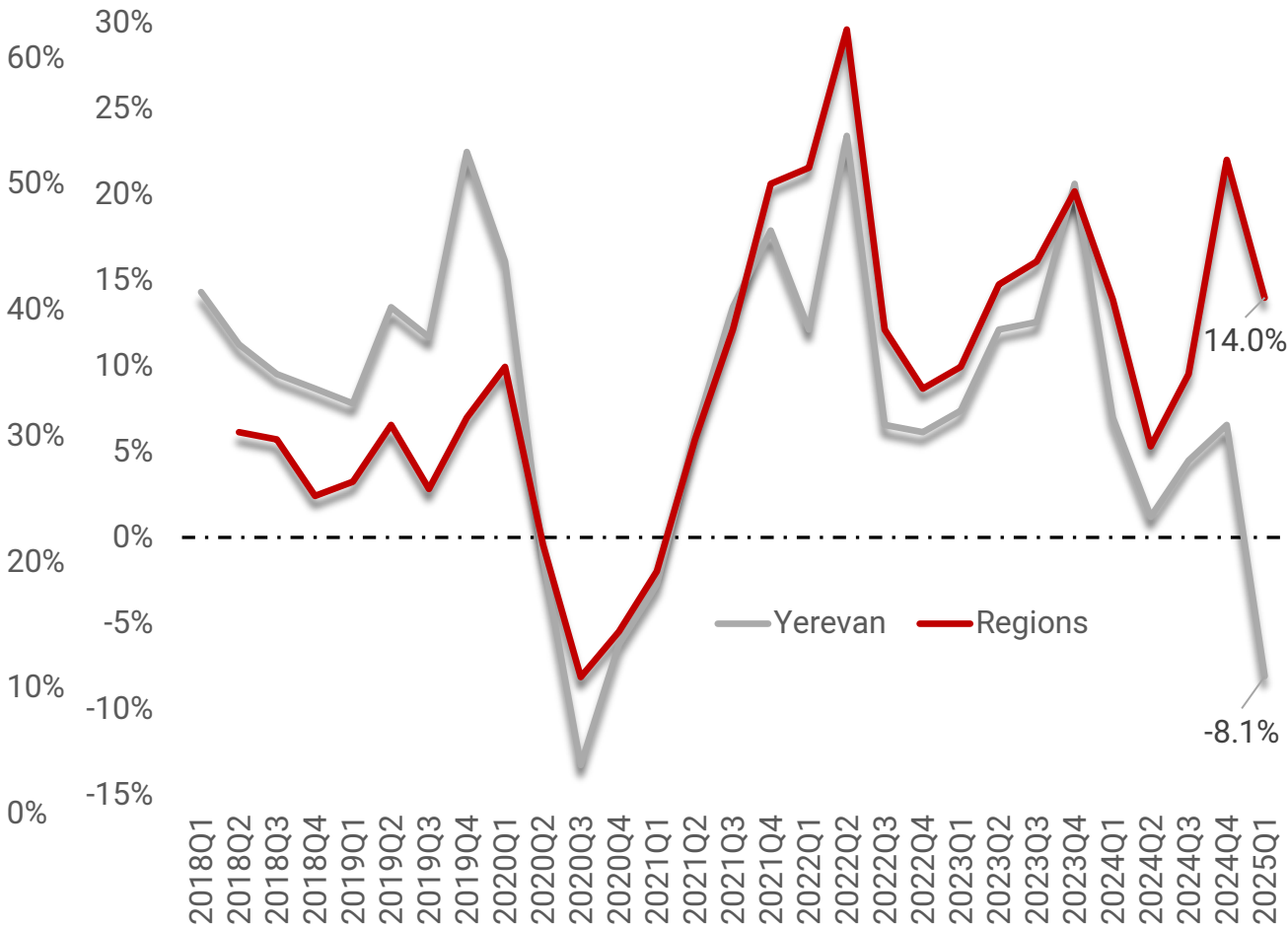


Due to the completion of the income tax refund program in Yerevan, the provision of mortgage loans has significantly decreased, reaching slightly lower levels compared to the previous year



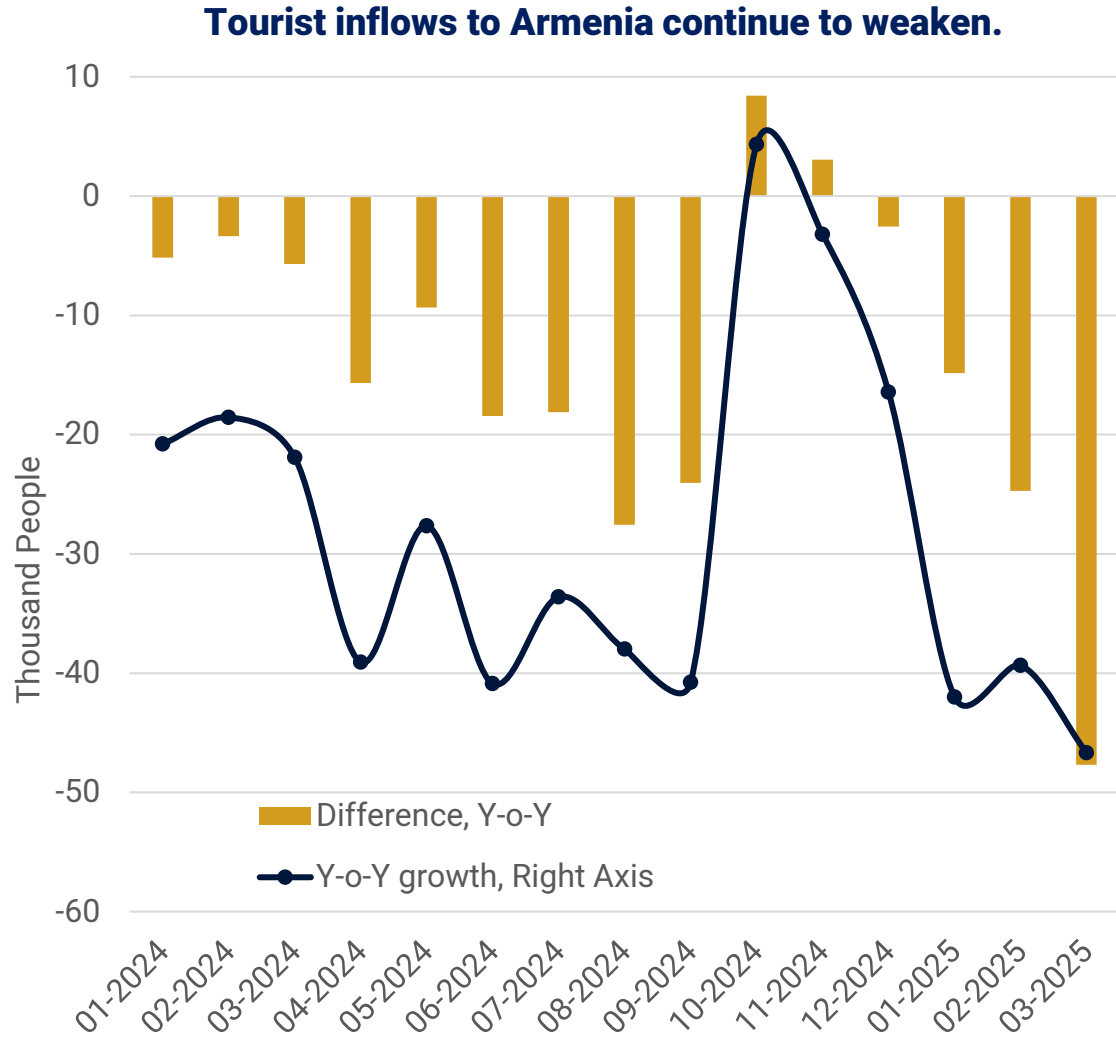
Source: Central Bank of Armenia

Under conditions of accelerated supply growth, real estate prices are gradually and naturally adjusting.

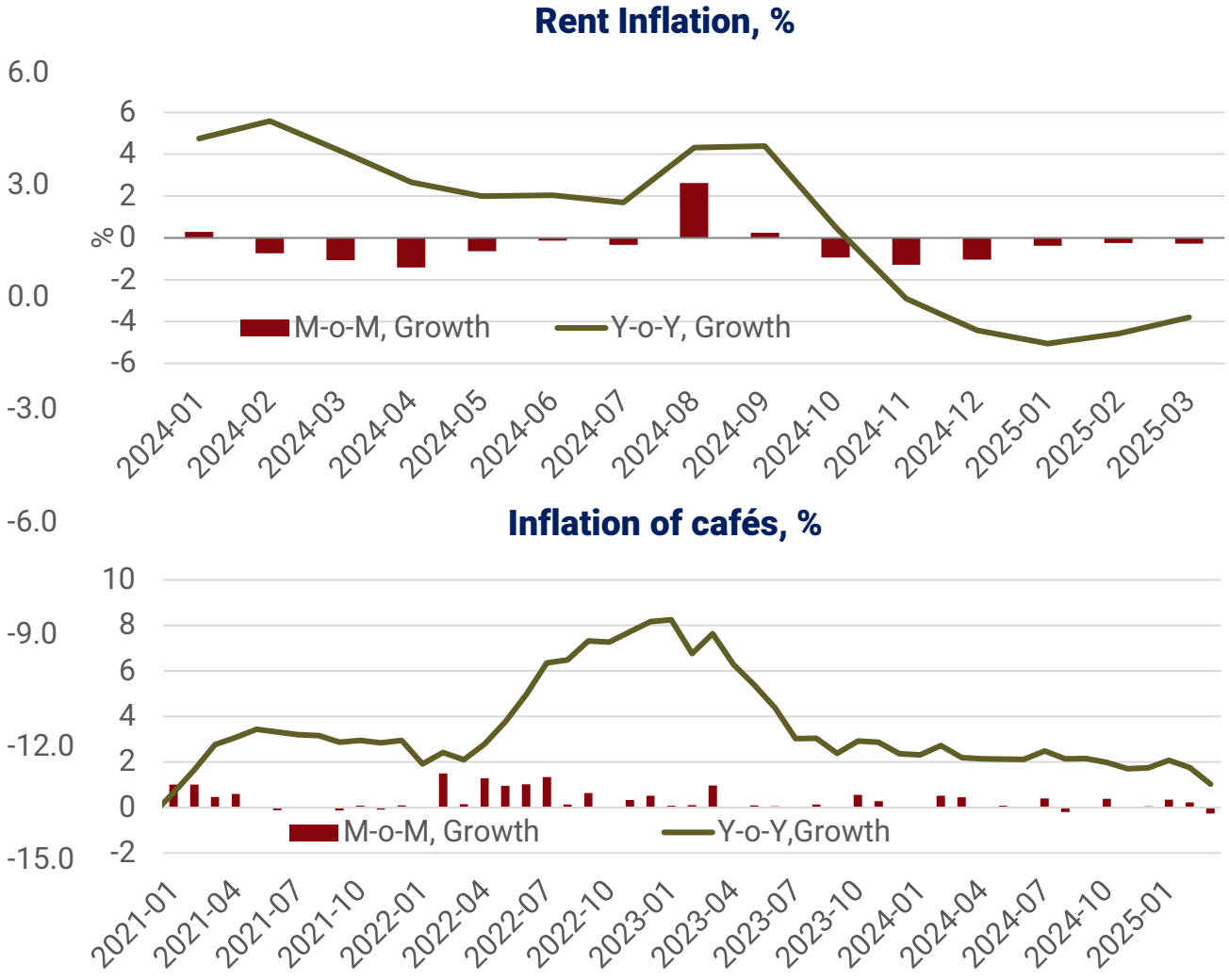


Source: Cadastre Committee

Aggregate Demand: Uncertainty Around The Outlook For External Demand Has Somewhat Increased. On One Hand, The Price Adjustment of Certain Services Likely Reflects The Continued Weakening of Inbound Tourism.



Source: National Statistical Committee of Armenia



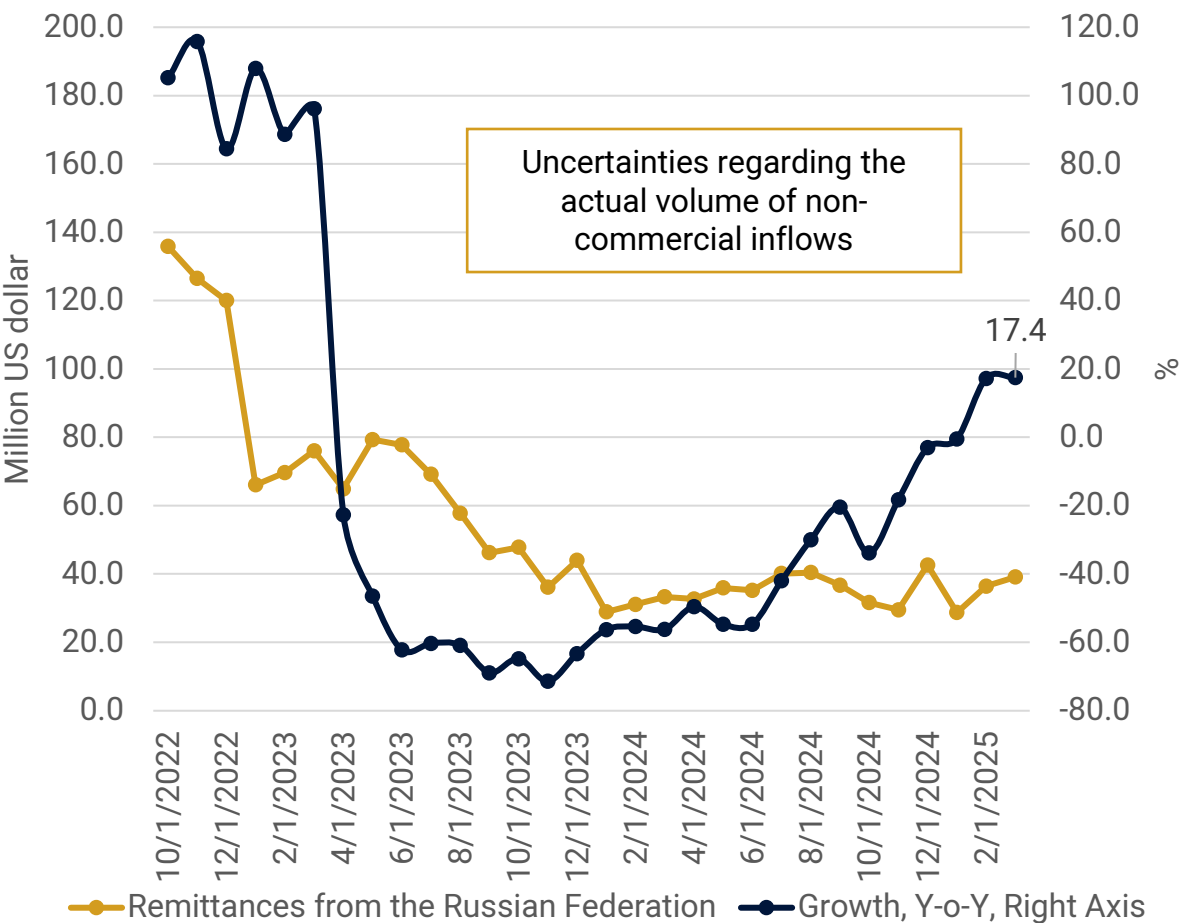
Source: National Statistical Committee of Armenia

On The Other Hand, in Russia, Particularly in Certain Sectors of The Economy, Strong Income Growth Combined With Nominal Appreciation of The Ruble Has Led To An Increase In Remittances.

If the current ruble exchange rate is maintained or it further appreciates, risks of increased labor migration from Armenia to Russia may increase.

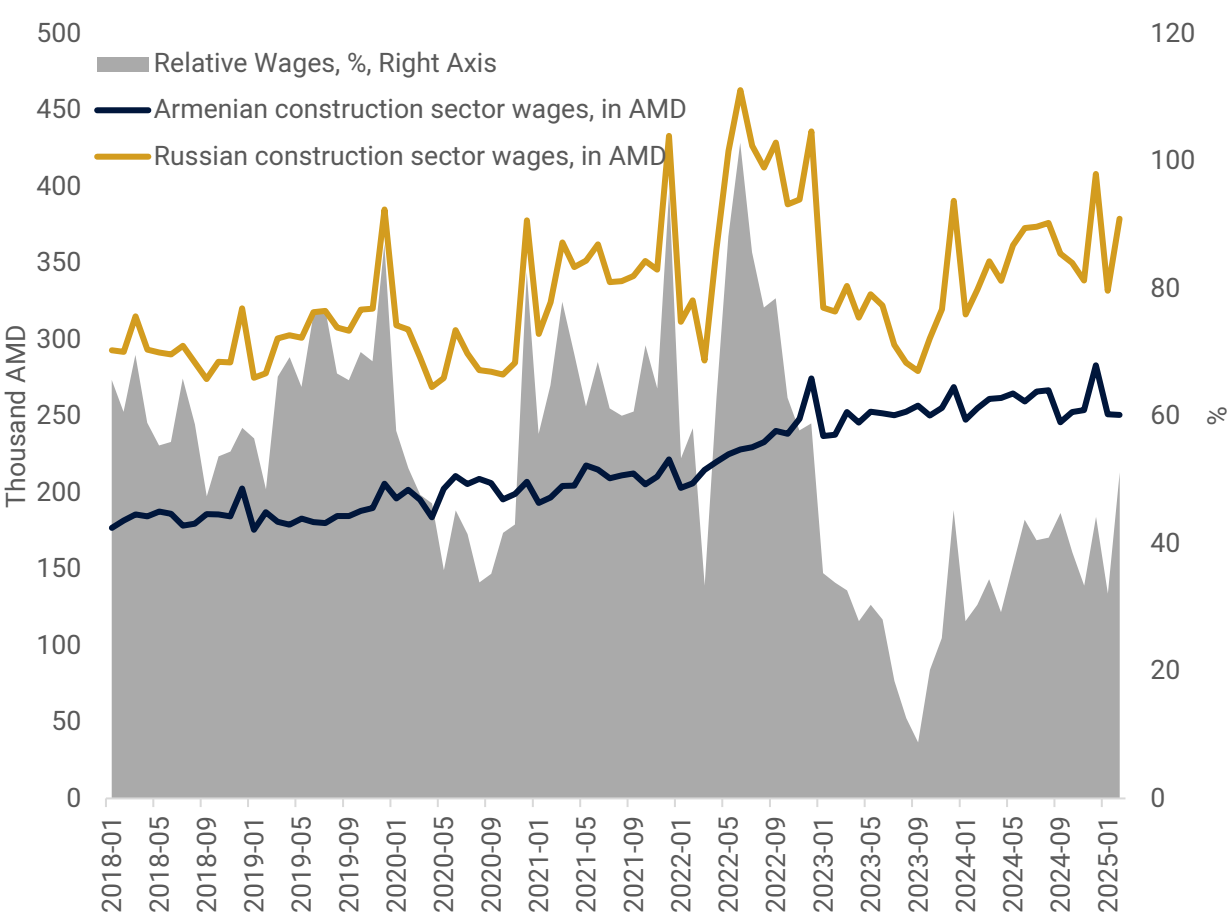


The inflow of Remittances from Russia has increased in recent months in U.S. dollar terms.



Source: National Statistical Committee of Armenia

The wage gap in the construction sector between Armenia and Russia has widened.

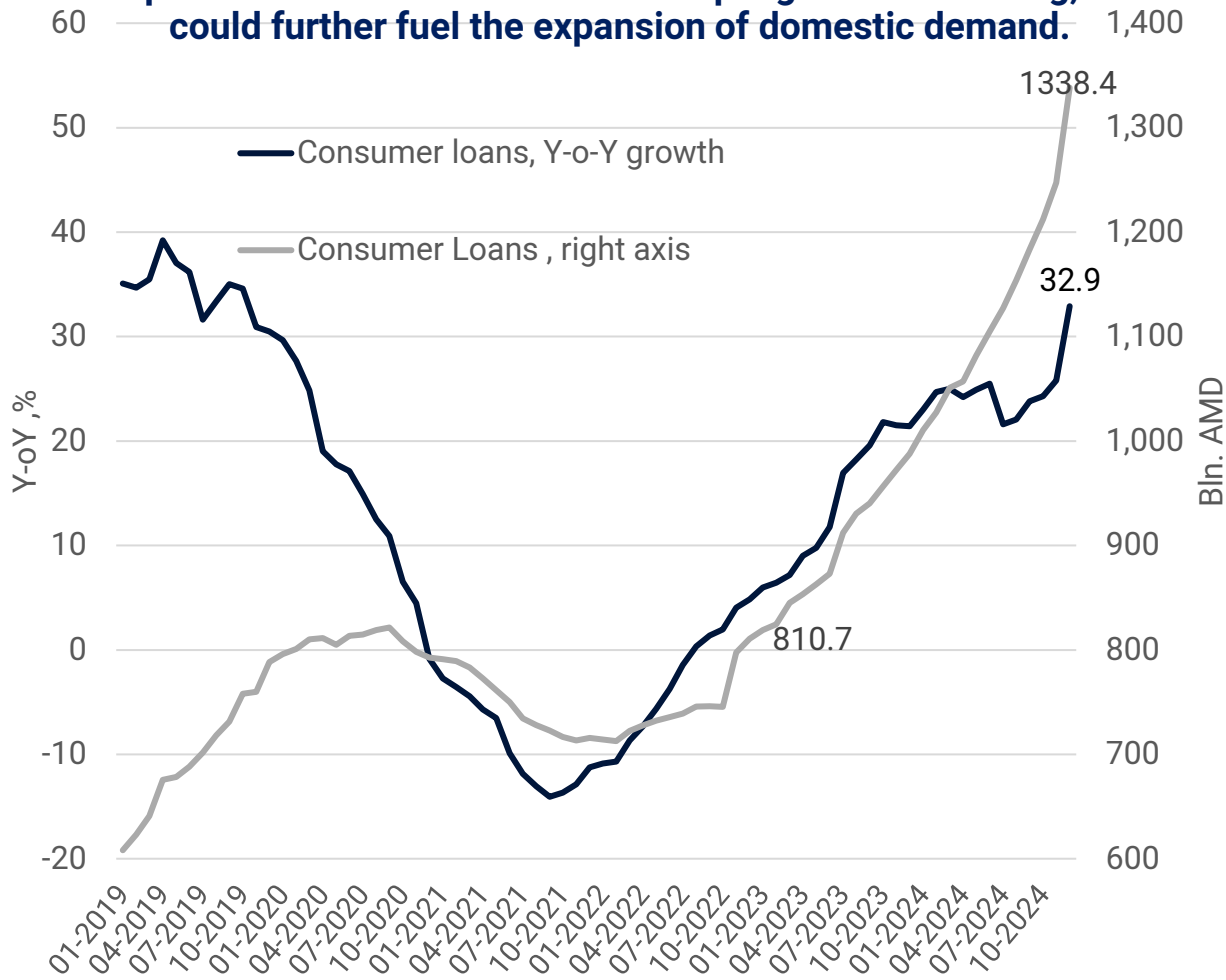


Source: Russian Statistics service, National Statistical Committee of Armenia CBA Calculations

Despite Slower Growth in Some Service Sub-sectors, some Signals Point to still Relatively High Domestic Demand



Amid high liquidity in the banking system and sustained loan demand, risks persist related to the continued rapid growth of lending, which could further fuel the expansion of domestic demand.



Source: Central bank of Armenia

The growth in imports for domestic consumption continues to remain at high levels.



Does the stabilization of retail trade growth around 5% indicate a balance between supply and demand?

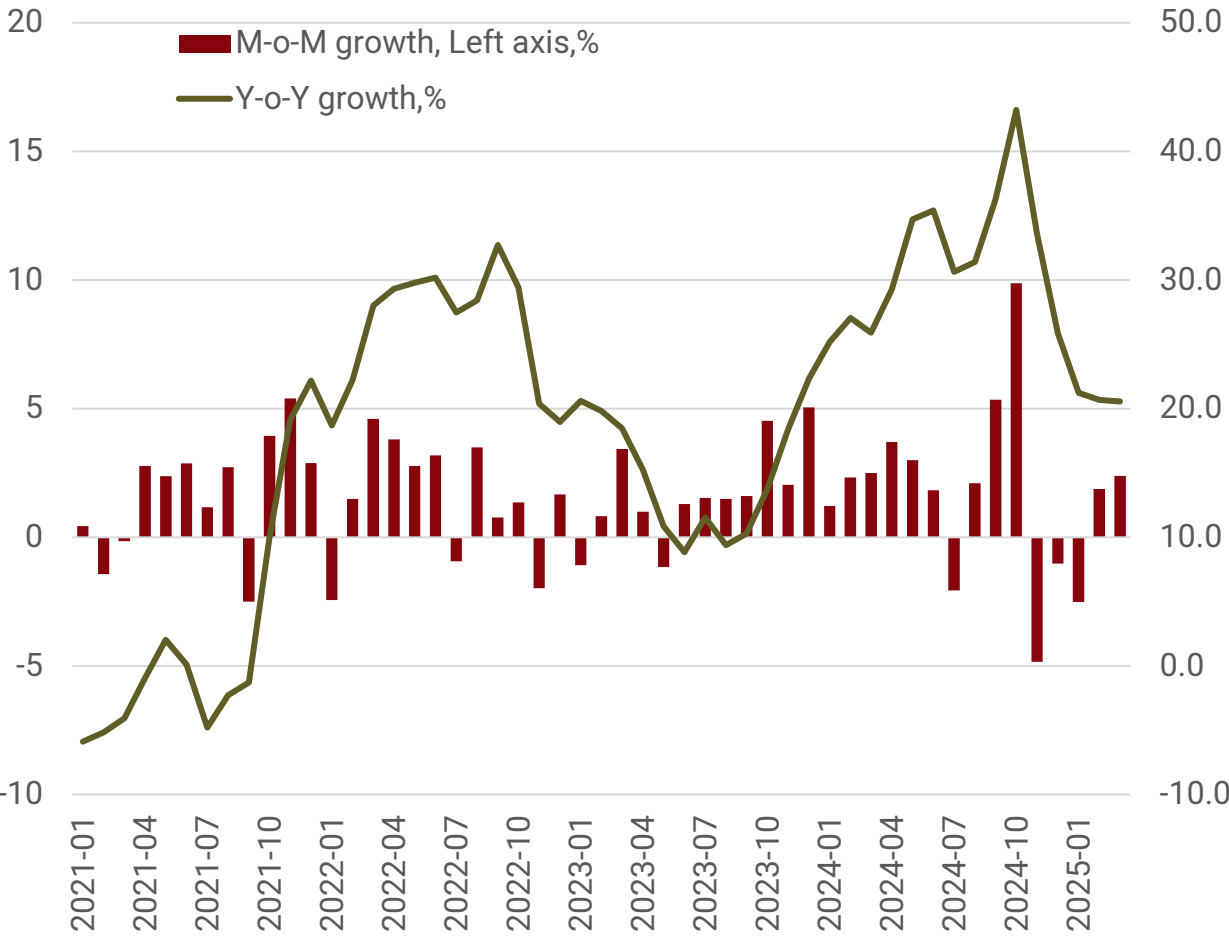


Source: National Statistical Committee of RA

...Which Are Especially Reflected In Still High Price Increases of A Number of Services Driven by Expanding Domestic Demand.

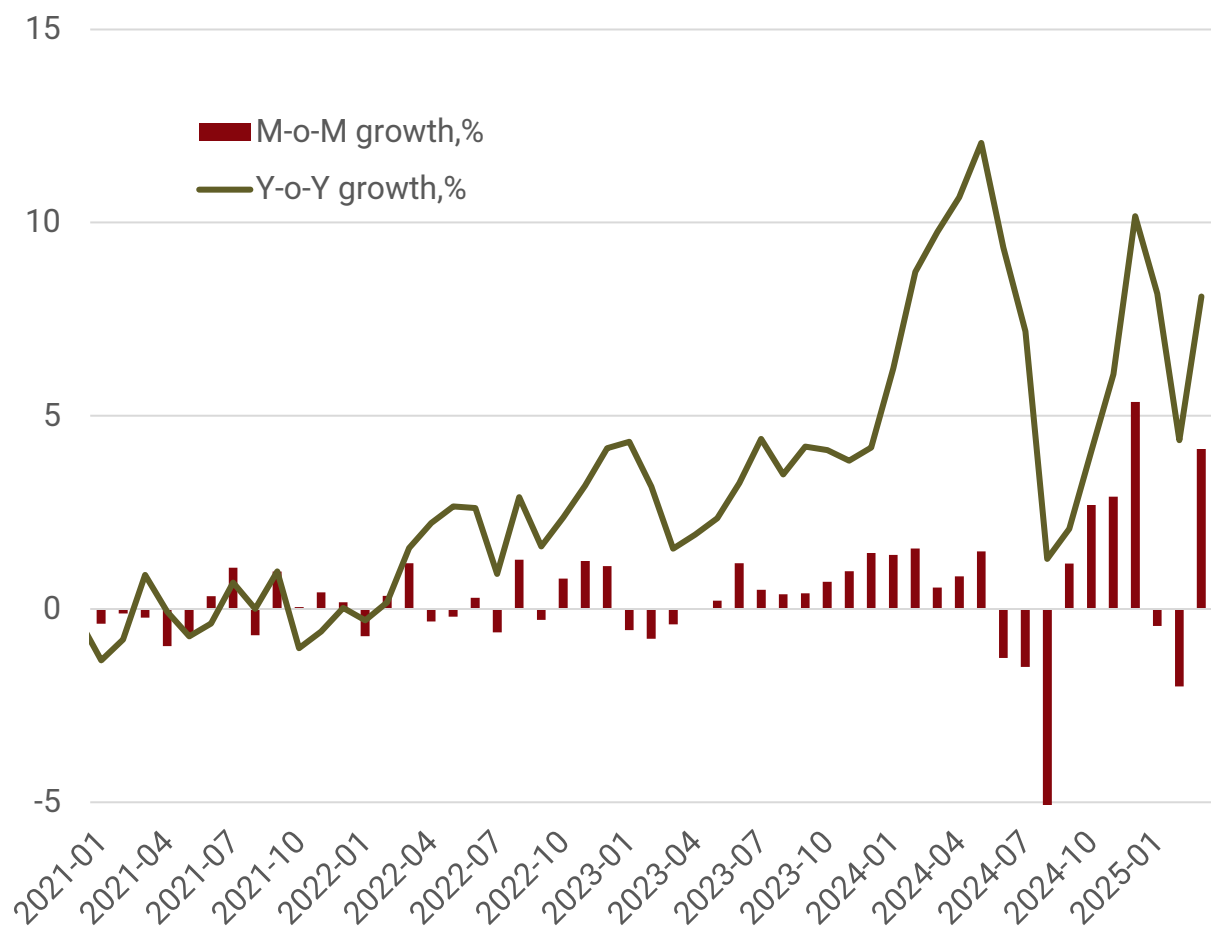


Comprehensive services for organizing international tourism (Inflation)

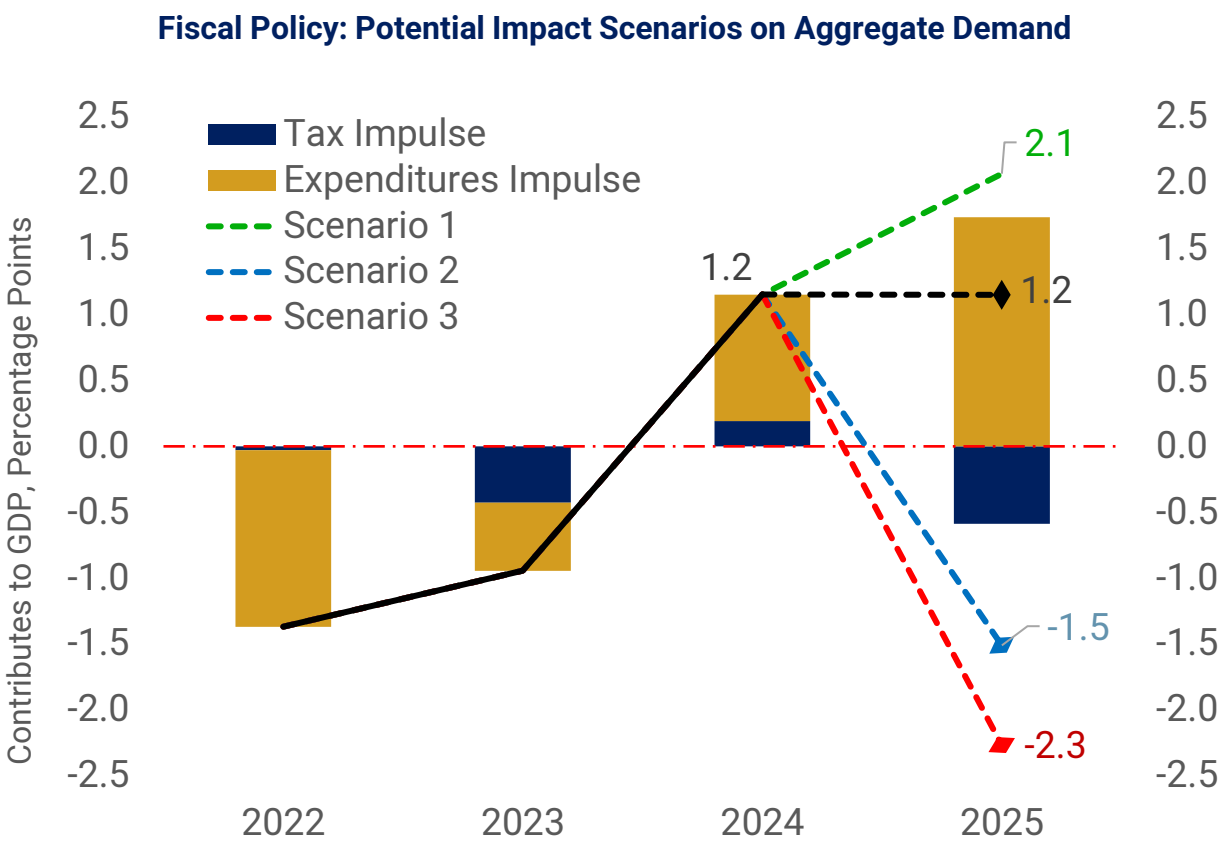
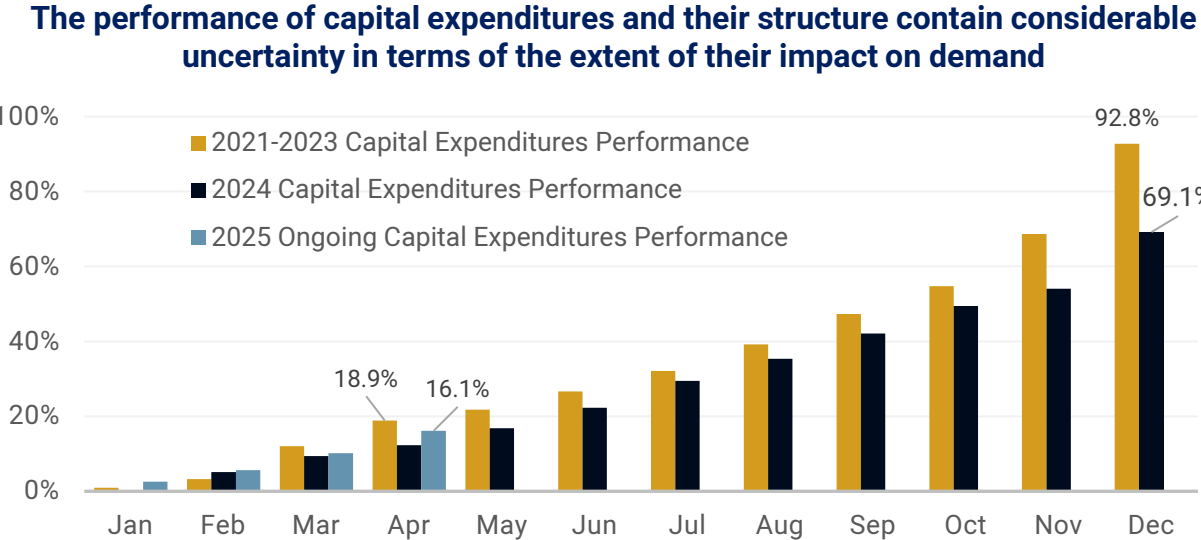
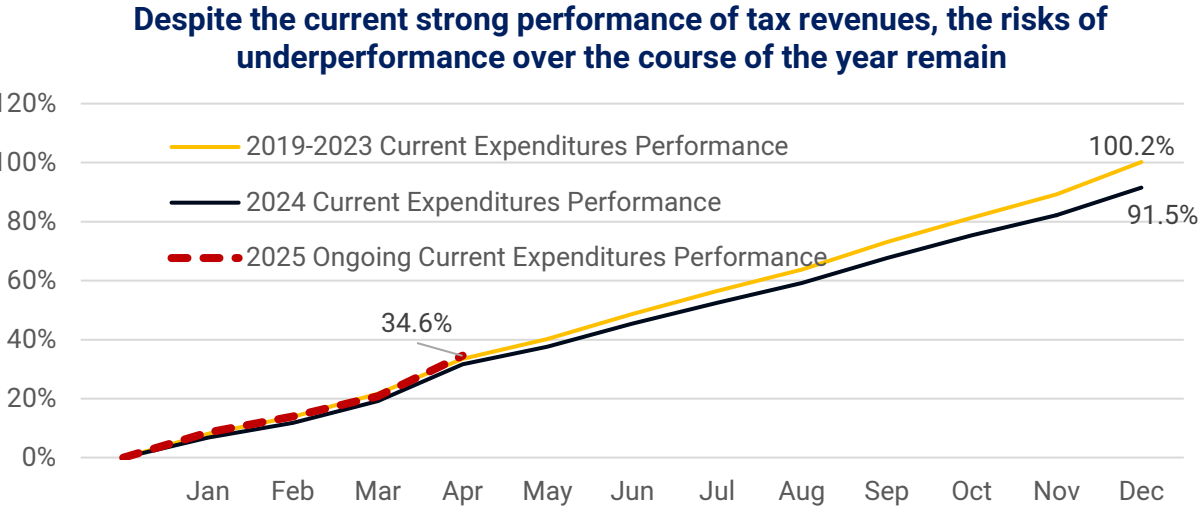


Source: National Statistical Committee of RA

Theatre services (Inflation)



Source: National Statistical Committee of RA



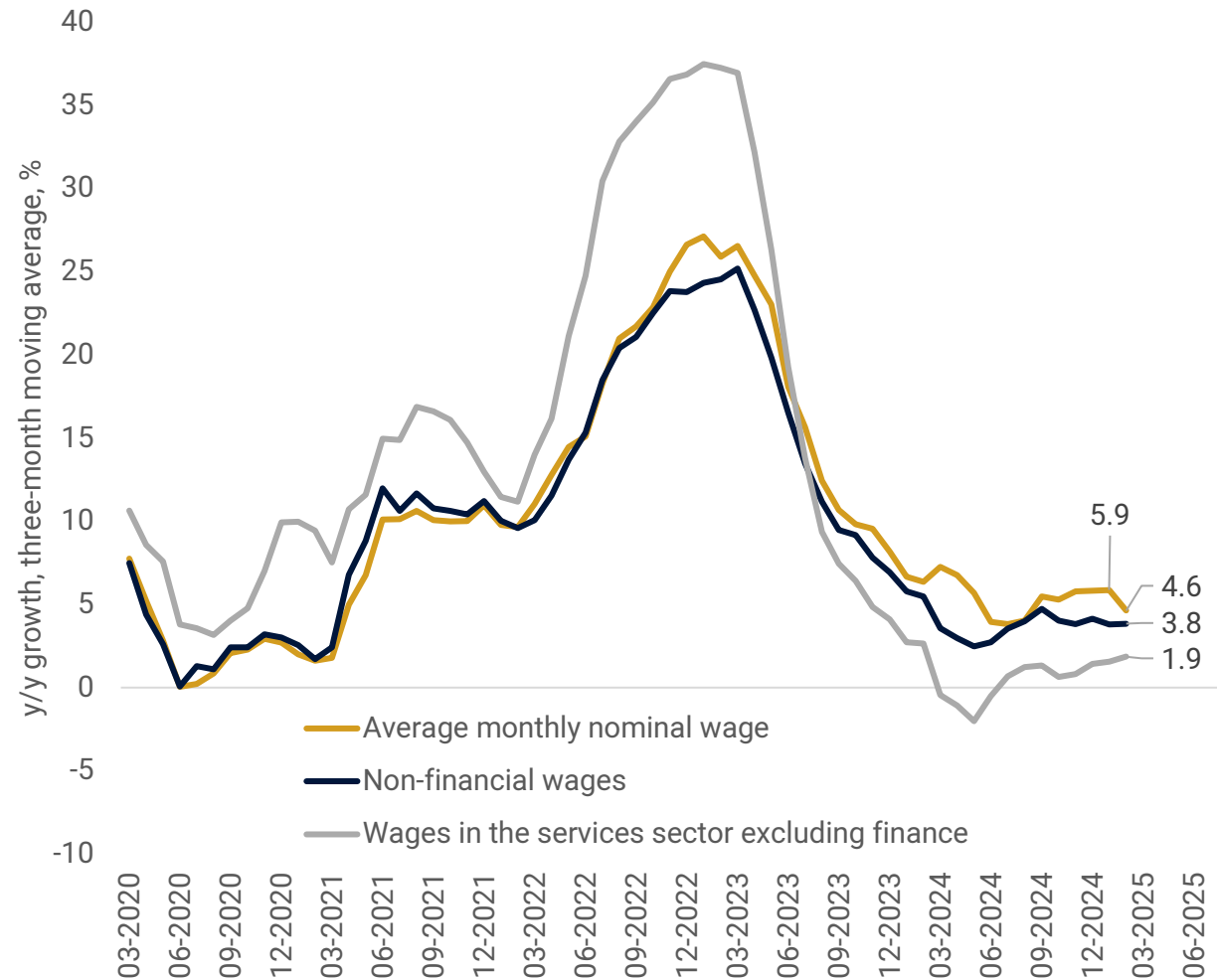
* Scenario 1 – Tax Revenue Growth Based on 2024 Actual Data
* Scenario 2 – Expenditure Growth Based on 2024 Actual Data
* Scenario 3 – Scenario 2, Adjusted for the Effects Arising from the Structural Characteristics of Capital Expenditures

Source: MoF RA, CBA RA Estimates

Labor Market: While Uncertainty Around Employment Growth Estimates Remains, a Number of Key Indicators Suggest That Labor Market Conditions are More Balanced

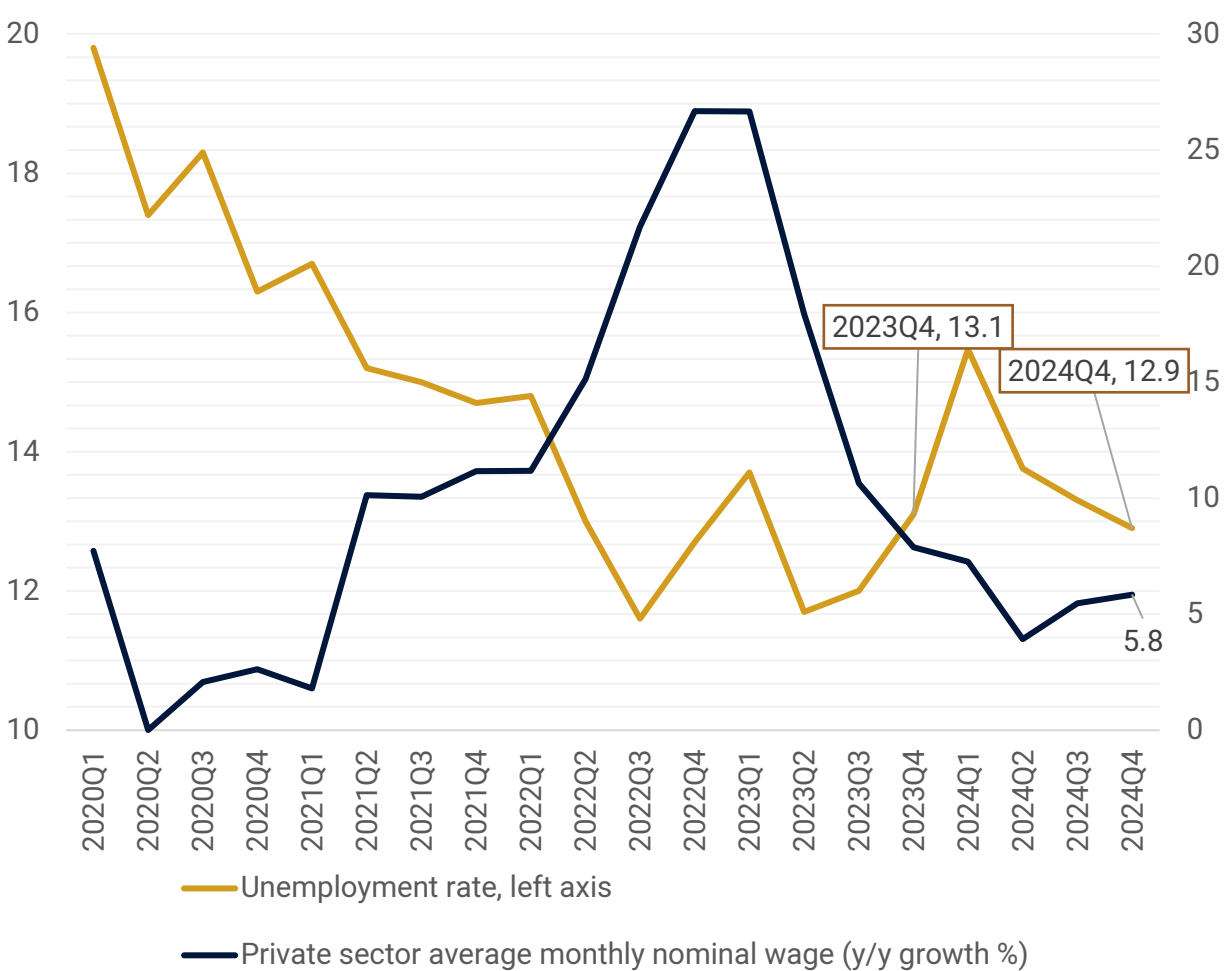


Growth in average monthly nominal wages in the private sector



Source: National Statistical Committee of RA

Unemployment rate and private sector wage growth

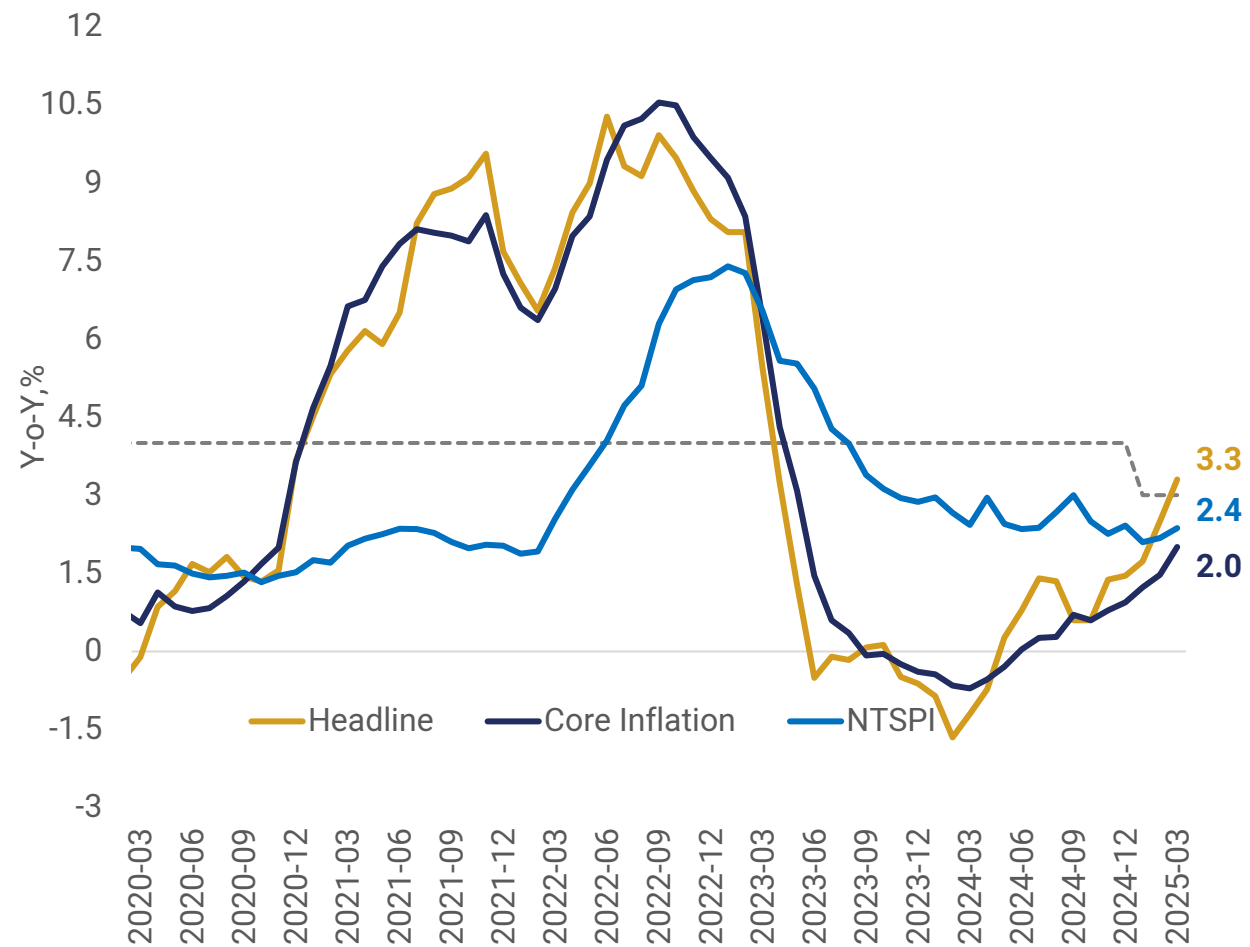


Source: National Statistical Committee of RA

Inflation: Headline Inflation Continued to Accelerate, Reaching 3.3% Y-o-Y In March, Largely Driven by Seasonal and Other Volatile Components. At The Same Time, Core Inflation Indicators Have Gradually Moved Closer to the Target Level.

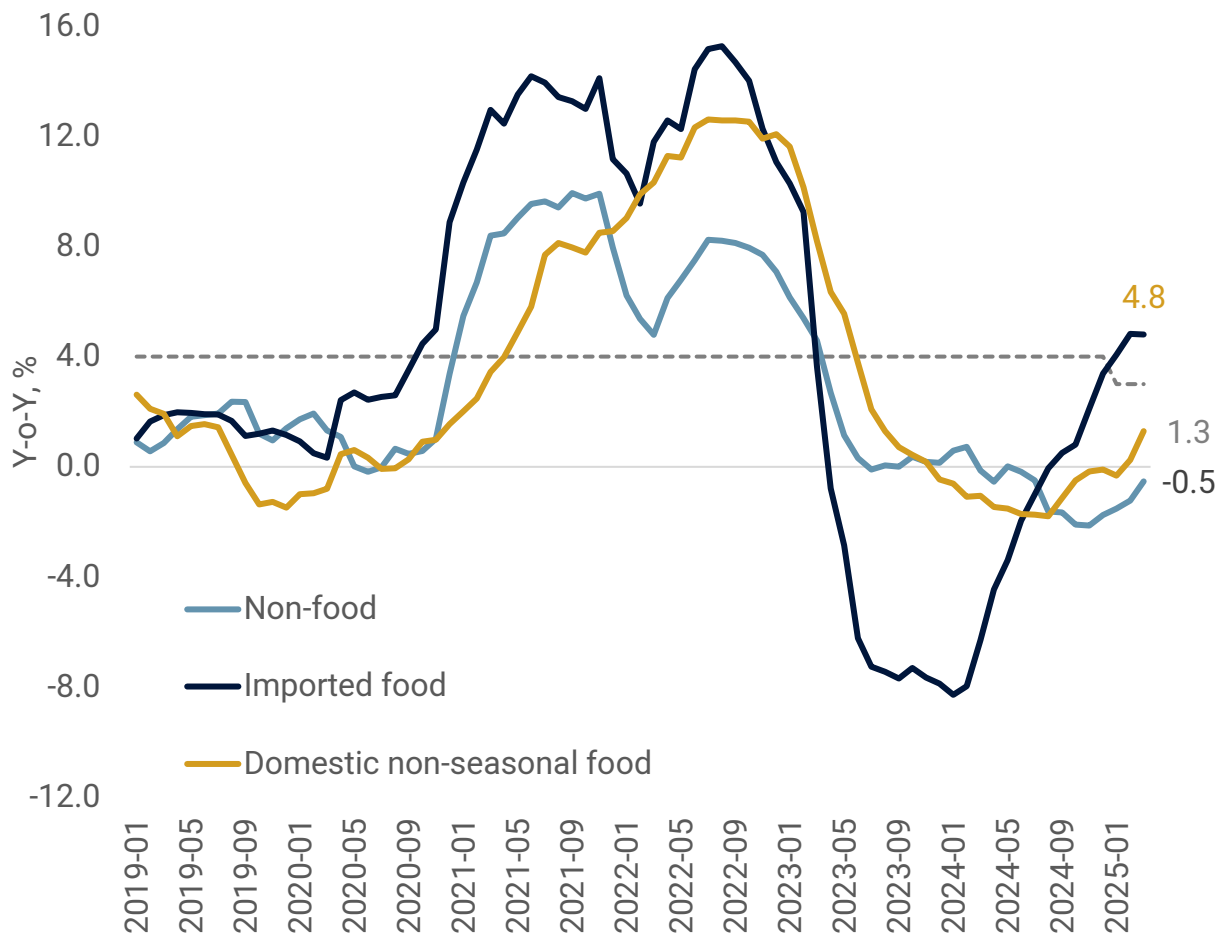


Twelve-month headline inflation and core inflation indicators, Y-o-Y growth



Source: National Statistical Committee of RA

Certain components of core inflation, Y-o-Y growth

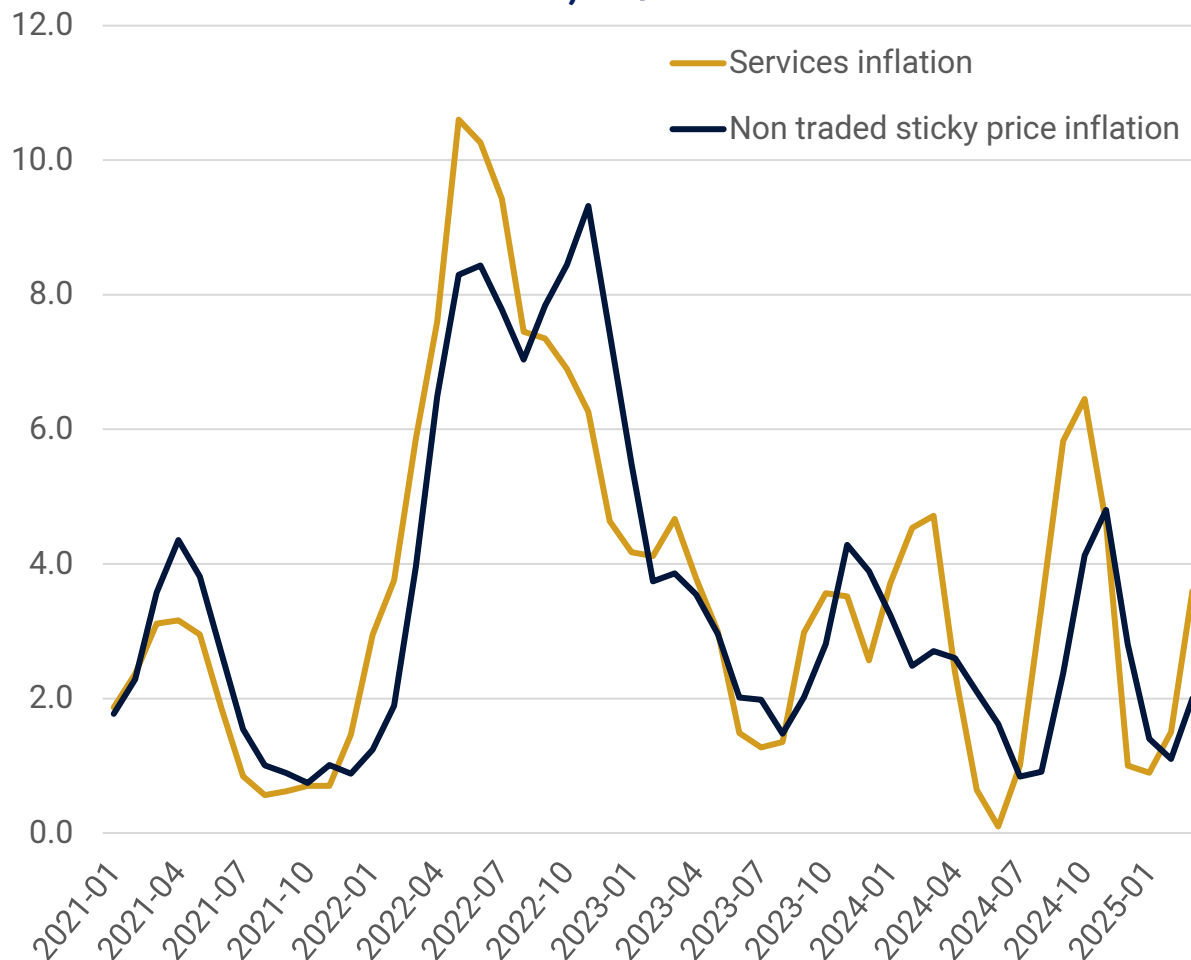


Source: National Statistical Committee of RA

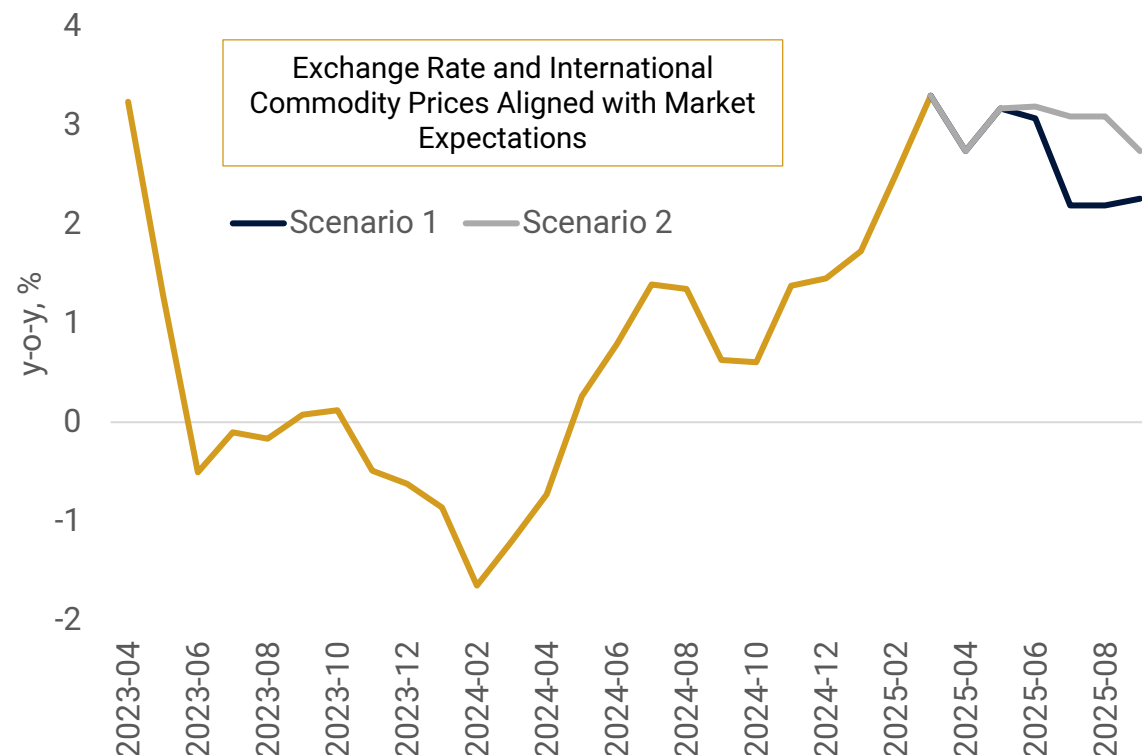
Current Acceleration in 12-Month Headline and Services Inflation is mainly Driven by Short-Term Factors... Though Signals for Inflation's sustained Return to Target Strengthen



The growth of services and sticky prices has accelerated slightly in recent months, 3m/3m annualized



Potential Scenarios for Short-Term Inflation Developments



Assumptions behind the scenarios

Scenario 1 – Inflation of seasonal food products in line with historical median growth

Scenario 2 – Inflation of seasonal food products in line with 2024 developments

Source: SSC RA, CBA RA Calculations

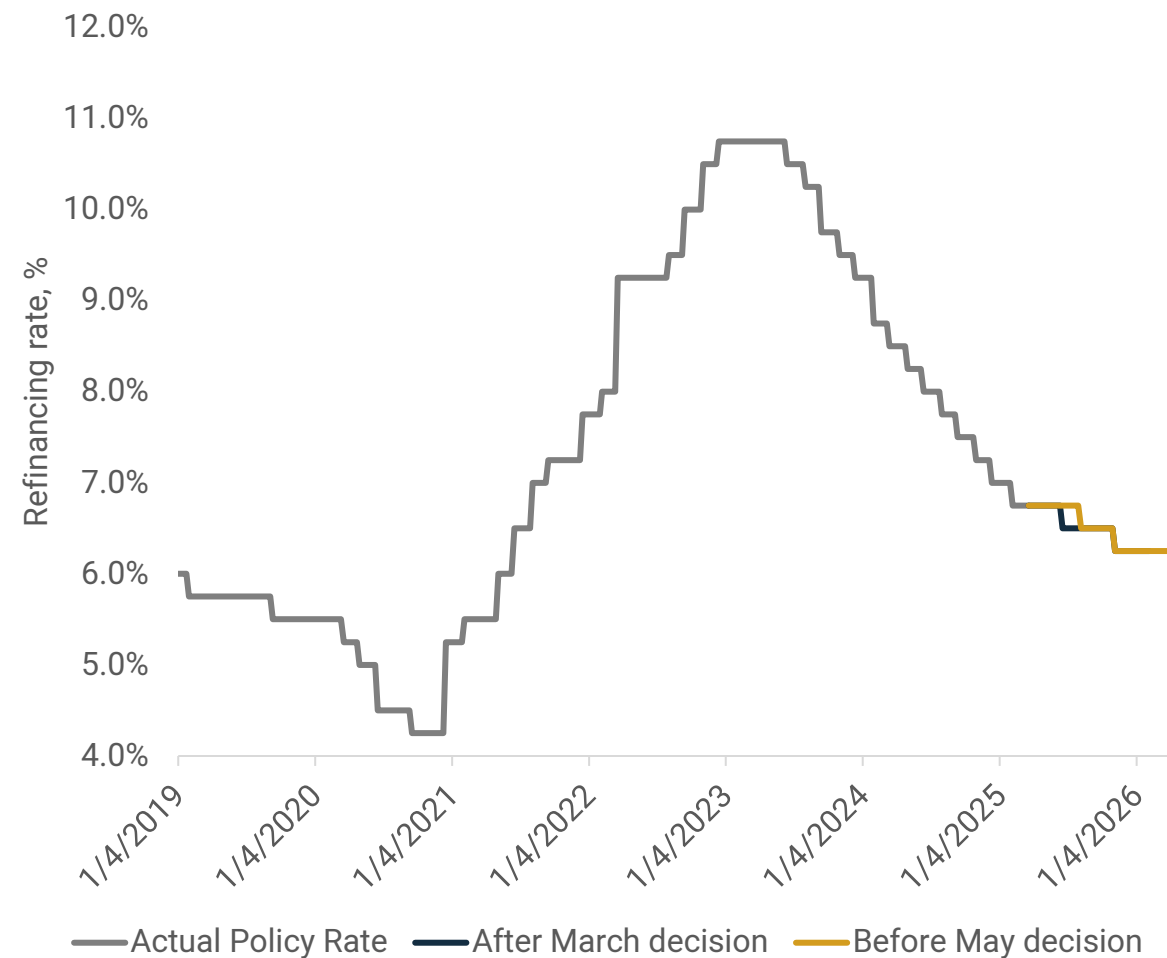


Market Expectations

Change in Financial Market Expectations Following March's Monetary Policy Decision

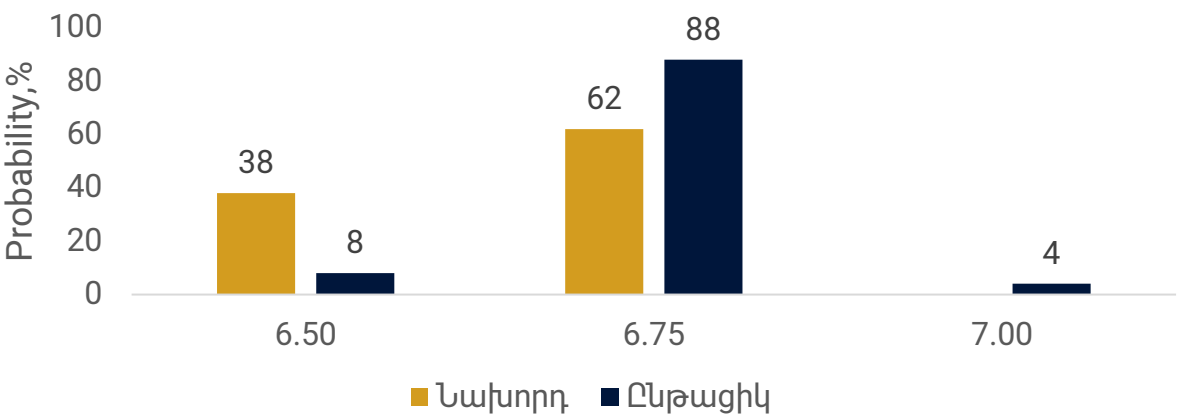


Policy rate expectations over the year ahead.

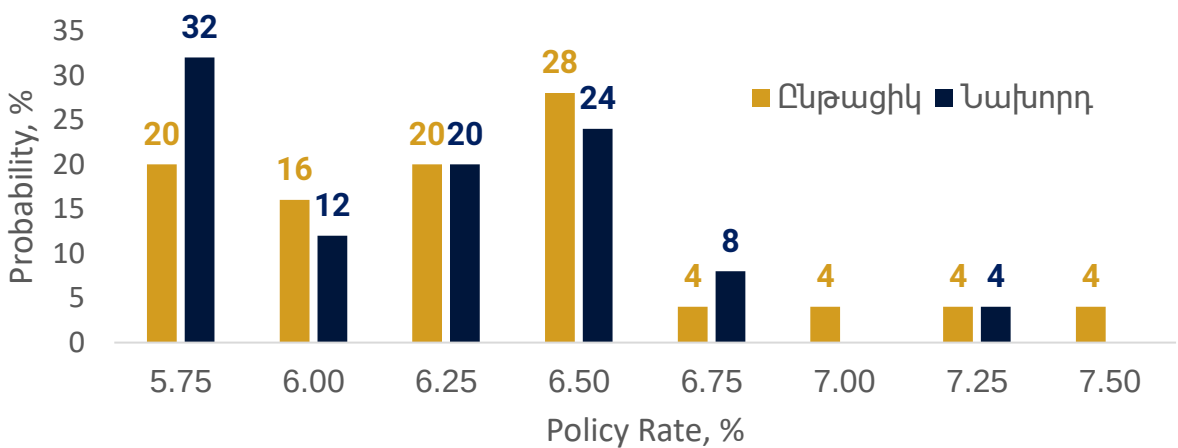


Source` CBA, survey of financial analysts

Expected policy rate change for May

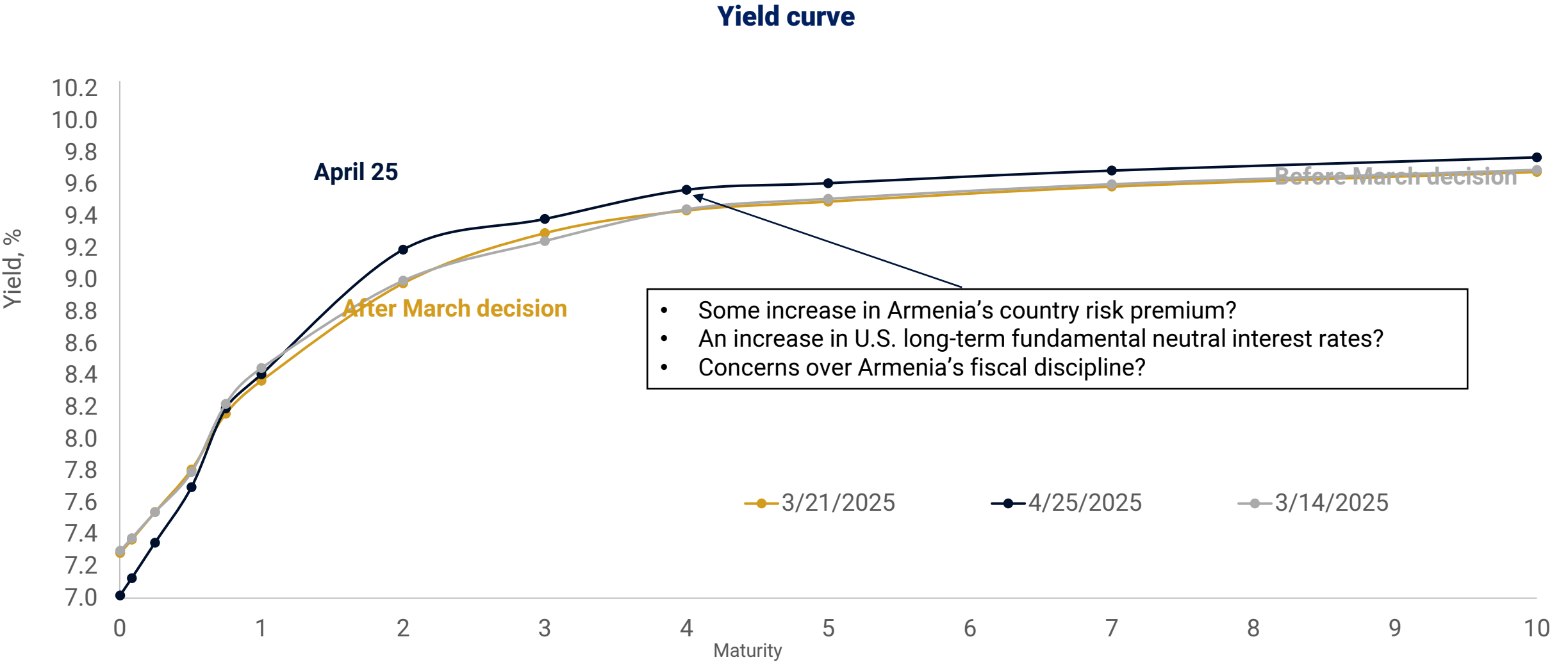


Expected policy rate level for March 2026



Source` CBA, survey of financial analysts

The Middle and Long End of the Yield Curve, Which Primarily Reflects Expectations Around Economic Fundamentals, Has Shifted Slightly Upward.

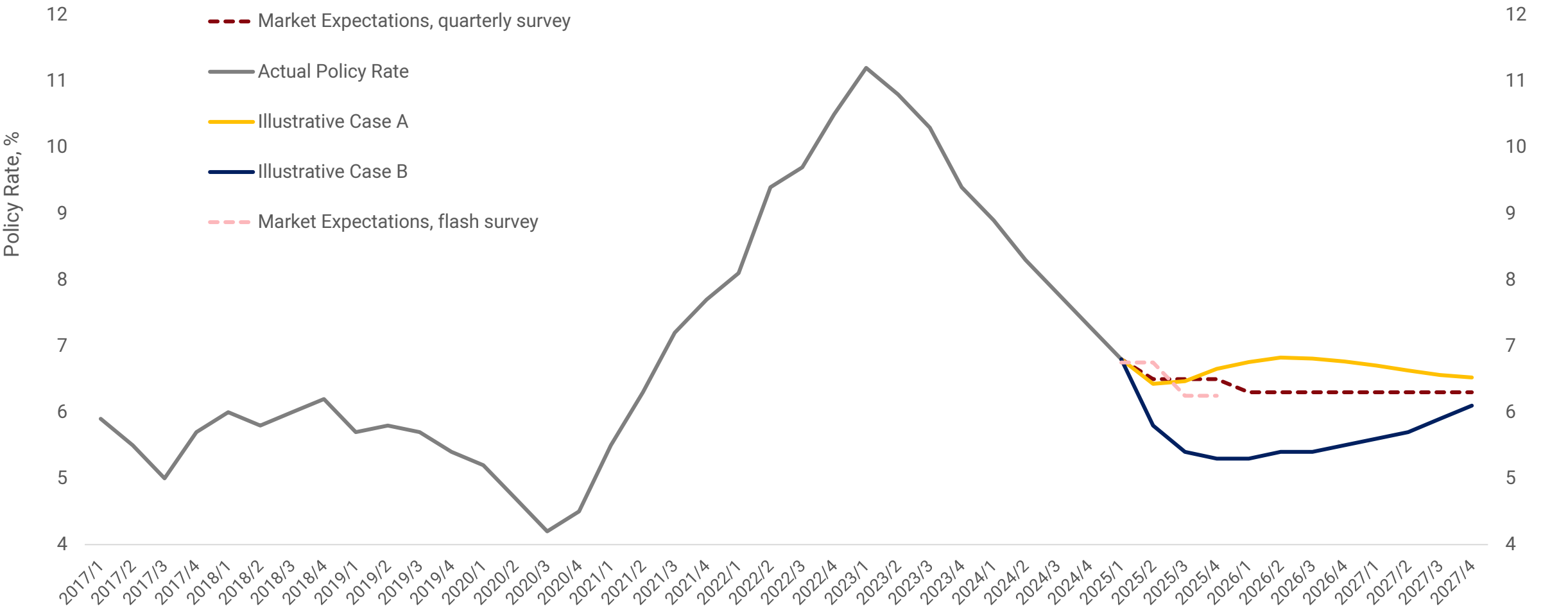


Source` CBA Estimates



Policy Discussion

Policy Discussion



Source` CBA Estimates



Thank You
