



Central Bank
of Armenia

2026 Q3

Executive Monetary
Policy **Statement**

Published September 15, 2026

A. Executive Monetary Policy Statement

The Board of the CBA decided today to increase the policy rate by 0.25 percentage point to 6.75%.

At its meeting on September 15, 2026, the Board of the Central Bank of Armenia decided to increase the policy rate by 0.25 percentage points, setting it at 6.75%.

In the third quarter of 2026, 12-month inflation continued to run above target, reaching 4.4% in August, while 12-month core inflation stood at 4.8%.

Amid prolonged persistence and some broadening of regional conflicts, the risks of a further weakening in global demand conditions and, at the same time, intensifying inflationary pressures are gradually becoming more tangible. In the US, strong investment activity and growing concerns over fiscal sustainability have contributed to upside risks to long-term neutral interest rates, with corresponding implications for neutral rates and capital flows in emerging market economies. In the Eurozone and Russia, despite a modest recovery in economic growth in the second quarter, structural challenges continue to deepen, weighing on the medium-term growth outlook. Amid rising tensions in the Middle East, energy prices have remained elevated, while the gradual drawdown of accumulated inventories is increasing market vulnerability to potential new supply shocks. In this context, the risks that central banks in major economies may raise policy rates further or keep them at elevated levels for an extended period have become more tangible.

In Q2 2026, economic growth in Armenia accelerated, running above its long-term sustainable level. Growth continued to be driven largely by the construction and services sectors, pointing to the presence of excess demand conditions. This is also reflected in strong growth in final consumption goods imports and retail trade. Moreover, there are signs of expanding external demand, reflected primarily in a significant increase in visits to Armenia, which also poses material upside risks to wage growth and services inflation in the relevant sectors. On the other hand, restrictions on exports to Russia continue to pose risks of excess supply forming in the domestic market, as well as of weakening consumer and investment confidence.

In the context of current macroeconomic developments, financial market participants in Armenia generally expect the Central Bank to maintain the policy rate at its current level over the next year, followed by a reduction to 6.25% over the medium-term horizon.

Amid the discussed risks and prevailing uncertainty, the Board considered, on the one hand, Case A-type scenarios related to stronger demand conditions in the domestic economy, a further expansion in external demand, and risks of rising inflation expectations, all of which would require a higher policy rate path relative to market expectations. On the other hand, the Board discussed Case B-type scenarios related to the prospect of slowing global economic growth, the emergence of disinflationary risks stemming from restrictions on exports to Russia, and a fundamental decline in Armenia's country risk premium, which would imply a lower policy rate path relative to market expectations.

As a result, emphasizing the need to manage the macroeconomic implications stemming from Case A-type scenarios, the Board of the Central Bank of Armenia decided to raise the policy rate by 0.25 percentage points, setting it at 6.75%. The Board will continue to monitor the scenarios for economic developments and stands ready to take appropriate actions to ensure the 3% inflation target and price stability in the medium term.

Approved by the Board of the Central Bank of Armenia.
September 15, 2026

Governor

Martin Galstyan

Deputy Governors

Armen Nurbekyan

Hovhannes Khachatryan

Board Members

Davit Nahapetyan

Artak Manukyan

Levon Sahakyan

Narek Ghazaryan

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B. Summary of Economic Conditions

Global Economy

In Q3 2026, uncertainty surrounding the global growth outlook remains elevated. On the one hand, persistent geopolitical tensions in the Middle East, some broadening of their scope, and continued disruptions to trade routes sustain risks of elevated and volatile energy prices, as well as a further weakening in economic growth. On the other hand, increased investment activity driven by optimistic expectations surrounding developments in artificial intelligence, particularly in the US, somewhat offsets these adverse effects.

Amid elevated geopolitical uncertainty and ongoing shifts in economic policy, particularly trade policy, US economic growth has exhibited significant volatility in recent quarters, slowing somewhat most recently to an annualized Q-o-Q rate of 1.5% in Q2 2026. Nonetheless, domestic demand has remained relatively strong, with private consumption and fixed investment—particularly AI-related technology and infrastructure investment—continuing to serve as key drivers of economic growth. At the same time, uncertainty surrounding the persistence of the AI investment cycle and the efficiency of its deployment, as well as potential corrections in financial asset prices, pose downside risks to the outlook for economic growth and demand.

Risks surrounding US fiscal sustainability are gradually being priced into financial markets. Refunds associated with the rollback of some tariffs, particularly if accompanied by the need for additional defense spending, could pose additional risks of a wider fiscal deficit over the medium term. According to estimates by the US Congressional Budget Office, the federal budget deficit is expected to remain at around 6% of GDP in 2026, broadly in line with recent years and well above historical levels, particularly those observed during relatively stable periods. Although these risks have largely been priced into financial markets, they continue to pose upside risks to long-term neutral interest rates in the US, with corresponding implications for neutral rates and capital flows in emerging market economies.

In the US, both headline and core inflation continue to run above target. At the same time, amid considerable volatility in global energy prices, their persistence at elevated levels, and high uncertainty surrounding their outlook, material risks of a further worsening in the inflationary environment persist. Against this backdrop, financial markets expect the policy rate to rise gradually by around 75 basis points over the next year.

In the Eurozone, economic growth has generally remained stable at low levels in recent quarters, while uncertainty surrounding the medium-term outlook remains elevated. On the one hand, this reflects the accumulation of structural challenges and the adverse effects of the conflict in the Middle East; on the other, a pickup in investment activity in AI, defense-related industries, and infrastructure provides some support to the outlook. At the same time, amid persistently high energy prices and significant vulnerability to energy supply disruptions, particularly given low gas storage levels, risks of a further broadening of the inflationary environment are also increasing. As a result, financial markets are pricing in a gradual increase of around 50 basis points in the ECB policy rate over the course of the year.

Amid escalating tensions in the Middle East, global oil prices have risen again, standing at levels significantly above those observed at the beginning of the year. Moreover, substantial drawdowns of strategic oil reserves, particularly in major economies, have increased the global economy's vulnerability to renewed oil supply shocks. On the other hand, the continued expansion of supply by non-OPEC+ producers could mitigate the impact of such developments. High energy prices, together with disruptions to trade routes and supply chains amid escalating regional conflicts, could also contribute to further increases in food prices, particularly for grains, oils, and sugar.

In Q2 2026, economic growth in Russia recovered somewhat, standing at 1.3% Y-o-Y. Growth was driven mainly by the trade and services sectors, also reflecting the impact of stimulative fiscal policy. At the same time, the prolonged persistence of oil prices at elevated levels is supporting higher oil and gas revenues and some expansion in fiscal space, creating additional scope to support economic activity in the short term. On the other hand, structural challenges in certain parts of the economy, as well as risks of a deterioration in the security situation, persist.

Labor market conditions remain tight, while migration policy carries risks of further constraining labor supply. Inflationary pressures have intensified again, including amid disruptions to fuel production and damage to storage facilities, while inflation expectations remain elevated. Against this backdrop, elevated inflationary pressures on the one hand, and weakening economic growth and risks of deepening structural challenges in certain sectors on the other, complicate the Central Bank of Russia's management of the inflation-output trade-off.

Domestic Demand Conditions

In the second quarter of 2026, economic growth in Armenia accelerated somewhat, reaching 6.7% year-on-year, above its long-term sustainable level. However, the composition of growth has become somewhat divergent. Amid both a delay in the agricultural season due to adverse weather conditions and export restrictions to Russia, agricultural output declined by 15.3% year-on-year, subtracting around 1.0 percentage point from economic growth. These restrictions also pose risks to the medium-term growth and export prospects of the manufacturing sector, which have weakened somewhat recently due to disruptions to trade routes in the Middle East.

On the other hand, alongside investment in AI and the gradual, deeper integration into global IT infrastructure, growth in the ICT sector accelerated in the second quarter, reaching 15%. It should also be noted that several AI factories have been commissioned in recent months, with the aim of significantly expanding output and exports in the coming years. While these developments are expected to have a limited effect on domestic value added during the construction phase due to their high capital intensity, once operational, they could make a significant positive contribution to increasing the productive potential of the Armenian economy, depending on how effectively these opportunities are utilized.

Nevertheless, the services and construction sectors have continued to make the largest contributions to economic growth. In particular, the rapid growth of the construction sector in recent months has been accompanied by a sharp increase in real estate prices, while growth in the services sector has been more broad-based. These developments likely largely reflect the significant increase in visits from Russia to Armenia. In particular, despite the recent weakening of tourism flows, a significant increase in visits to Armenia by Russian citizens has been observed amid heightened uncertainty surrounding Russia's security and economic outlook. Meanwhile, elevated uncertainty surrounding Russia's medium-term economic outlook, together with tighter migration policies, may constrain seasonal labor migration from Armenia to Russia and reduce remittances, thereby posing risks to domestic demand.

During 2026, strong economic growth, the widening inflationary environment, and some improvement in tax administration have contributed to strong tax revenue performance. On the other hand, capital expenditure has recorded significantly lower execution compared with historical trends. In particular, during January-July 2026, capital expenditures declined by around 26.6% year-on-year, mainly due to a reduction in defense-related spending, while the planned reduction in spending in this area creates uncertainty regarding the future execution of capital expenditures and their impact on the economy. At the same time,

the risks of overexecution of social spending, particularly expenditures planned under the universal health insurance system, have increased. In January–June 2026, expenditures under this item amounted to around 80% of the amount planned for the full year, while the number of insured persons has also expanded.

Labor Market & Inflation

Despite the continued high level of uncertainty, a number of indicators may point to relatively more balanced conditions in the labor market. The unemployment rate continues to fluctuate within the 12–14% range, while the number of officially registered employees continues to grow at a steady pace, possibly indicating also a shift of labor from informal to formal employment.

Private nominal wage growth, excluding the financial sector, continues to show signs of stabilization, remaining within the 6–7% year-on-year range. Nevertheless, the declining concentration of wage growth in the sector, in line with the recent acceleration of growth in certain service subsectors, may indicate an expansion in demand conditions. The recent increase in the number of non-resident workers may also indicate the presence of excess demand, potentially masking, to some extent, the resulting inflationary pressures. On the other hand, the tightening of Russia's migration policy and uncertainty surrounding its economic outlook may, in the period ahead, not only constrain labor outflows to Russia but also create conditions for increased labor inflows from Russia.

In the third quarter of 2026, 12-month inflation in Armenia slowed somewhat, reaching 4.4% year-on-year in August, mainly reflecting more pronounced deflationary developments in the prices of certain goods following Russia's export restrictions. Nevertheless, certain government support programs and poor harvests of some products may limit the full manifestation of these trends. Core inflation accelerated somewhat, reaching 4.8% year-on-year in August, mainly reflecting inflation in locally produced non-seasonal food products. On the other hand, the effects of volatility in global commodity and energy prices, as well as disruptions to trade routes, may continue to be transmitted to domestic prices. At the same time, the recent acceleration in core inflation has become more broad-based, which, in addition to supply-side factors, likely points to prevailing strong demand conditions. Growth in the non-traded sticky prices also accelerated somewhat in August, mainly due to higher housing rents, consistent with stronger external demand. It should also be noted that these developments are gradually being transmitted to services characterized by relatively stickier prices. Nevertheless, the share of items recording price increases in both the overall inflation and non-traded sticky price inflation baskets remains around historical average levels, likely indicating that inflation expectations are stabilizing.

Financial Markets & Monetary Policy

According to the results of the survey conducted by the Central Bank of Armenia among financial market participants on September 9, 2026, expectations regarding the CBA policy rate path have not changed since the previous policy decision and imply that the policy rate will remain at 6.5% over the next eight policy decisions. It should be noted that the risk map of market participants has also remained largely unchanged, reflecting, on the one hand, risks arising from geopolitical developments, particularly concerns surrounding aggregate demand and the inflationary environment in the Armenian economy, and, on the other hand, risks of excess supply arising from export restrictions and a further weakening of demand.

Since the CBA Council's June 2026 decision, the yield curve has shifted slightly downward, likely reflecting both a decline in the supply of government bonds and, in particular, increased interest in Armenian government bonds among non-residents, potentially also driven by factors underlying the fundamental decline in Armenia's country risk premium.

Armenia's short-term country risk premium has continued to decline, remaining at historically low levels. This reflects both the broader downward trend in risk premia across emerging markets, including amid abundant global liquidity and increased investor appetite for riskier assets, and Armenia-specific factors, including improvements in fundamentals and perceptions of reduced security risks surrounding Armenia.

To prudently manage the potential risks arising from prevailing uncertainties, the CBA considers a range of scenarios for economic developments. The Case A-type scenario presented in the MPR, which requires a higher interest rate path relative to market expectations, captures the risks associated with an expansion in external demand. This is driven by the significant increase in visits by Russian citizens to regional countries, including Armenia, and the longer duration of their stays amid the deterioration in Russia's economic and, particularly, security outlook in recent months. Effective management of the risks arising from this scenario requires a higher policy rate path relative to financial market expectations, alongside some appreciation of the nominal effective exchange rate.

The Case B-type scenario presented in the MPR relates to risks arising from restrictions imposed on a number of Armenian-origin products exported to Russia. A prolonged persistence of these restrictions, together with uncertainty surrounding their outlook and scope, could lead to some decline in export revenues and, given the broad employment base in agriculture, could also adversely affect overall consumer and investment activity in the economy. Effective management of the risks arising from this scenario requires a policy rate path below current financial market expectations.

As part of its prudent risk management framework for monetary policy, the CBA builds and discusses various scenarios, summarized in the Taxonomy of Scenarios. These scenarios reflect key sources of risk and uncertainty that could lead to

unwelcome policy errors (that might drive the economy into “dark corners”), which policymakers hope to minimize through a least-regrets decision-making model. For communications purposes, the MPR includes a deeper dive into two illustrative scenarios almost randomly selected from the Taxonomy, which reflect illustrative future paths of the economy that would require either a higher path for the policy rate (Case A) or a lower path of the policy rate (Case B) relative to current market expectations. These illustrative scenarios do not represent a most-likely future, assign weight or probability to outcomes, or reflect the Board’s most-favored scenarios.