Central Bank of Armenia

2026 November

Executive Monetary Policy Statement

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A. Executive Monetary Policy Statement

The Board of the CBA decided to increase the policy rate by 0.25 percentage points to 7.0%.

At its meeting on November 3, 2026, the Board of the Central Bank of Armenia decided to increase the policy rate by 0.25 percentage points, setting it at 7.0%.

In the third quarter of 2026, 12-month inflation continued to run above target, reaching 4.3% in September, while 12-month core inflation stood at 4.7%.

Amid the prolonged persistence of regional conflicts and elevated uncertainty surrounding prospects for their resolution, 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 and expanding investment activity in artificial intelligence (AI), and concerns surrounding fiscal sustainability pose 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 recent quarters, structural challenges persist, constraining medium-term economic growth prospects. Amid persistent tensions in the Middle East and concerns over the resilience of supply chains, energy prices have remained elevated, while the gradual drawdown of accumulated inventories has increased market vulnerability to potential new supply shocks. In parallel, global food price inflation has accelerated, reflecting both current geopolitical developments and adverse weather conditions. Against this backdrop, 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 Q3 2026, economic activity in Armenia slowed somewhat, partly reflecting the continued unwinding of non-structural drivers of growth. Growth in economic activity continued to be driven largely by developments in construction and services, 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, primarily reflected in an increase in visits to Armenia and the duration of stays, posing 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 goods supply emerging in the domestic market and weakening consumer and investment confidence.

Amid current macroeconomic developments and risks, financial market participants in Armenia expect the CBA to raise the policy rate to 7.0% in the period ahead, followed by a return to the 6.75% level at the end of the short-term horizon.

Amid the discussed risks and prevailing uncertainties, the Board considered, on the one hand, Case A-type scenarios related to rising neutral interest rates globally, stronger domestic demand conditions, and risks of a continued increase in inflationary pressures amid persistent regional conflicts. These 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 slowing global economic growth, weakening investment and consumer confidence amid uncertainties surrounding the outlook for economic relations with 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 increase the policy rate by 0.25 percentage points, setting it at 7.0%. The Board will continue to monitor 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.

November 3, 2026

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B. Summary of Economic Conditions

Global Economy

In Q3 2026, uncertainty surrounding the global growth outlook remained elevated. On the one hand, persistent geopolitical tensions in the Middle East and continued disruptions to trade routes contribute to elevated and volatile energy prices and the materialization of risks of further weakening in economic growth. On the other hand, increased investment activity driven by optimistic expectations surrounding developments in AI, particularly in the US, supports stronger economic growth.

US economic growth has accelerated in recent quarters, reaching an annualized quarter-on-quarter rate of 3.4% in Q3 2026, compared with 2.2% in Q2. Private consumption and fixed investment, particularly AI-related investment, continue to serve as the key drivers of economic growth. At the same time, uncertainty surrounding the effective deployment of AI, as well as potential further corrections in financial asset prices, pose downside risks to the growth outlook.

US government bond yields have increased amid inflationary pressures from elevated energy prices against a backdrop of expanding demand, growing debt-financing needs in the AI sector, and concerns surrounding fiscal sustainability. In particular, the yield on 10-year US Treasury exceeded 5% in October. It should also be noted that risks of a further deterioration in the fiscal balance and, consequently, the debt trajectory persist, reflecting the need for increased defense spending and potential shortfalls in expected tariff revenues. Such developments could contribute to an increase in the neutral interest rate in the US and, correspondingly, affect 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 energy prices and high uncertainty surrounding their outlook, risks of a deterioration in the inflationary environment persist. Against this backdrop, the Federal Reserve raised the policy rate by 0.25 percentage points in September, setting the target range at 3.75–4.00%. Although the Fed kept the rate unchanged in October, financial markets expect further increases in the period ahead.

In Q3 2026, economic growth in the Eurozone slowed slightly to 0.4% quarter-on-quarter, while uncertainty surrounding the medium-term outlook remains elevated. On the one hand, accumulated structural challenges and the adverse effects of the conflict in the Middle East weigh on economic growth. On the other hand, positive expectations surrounding investment in AI, defense-related industries, and infrastructure provide some support to the outlook, although these have yet to fully materialize. Amid persistently high energy prices and significant vulnerability to disruptions in energy supply, 12-month inflation accelerated to 3.8% in September, while core inflation remained relatively stable at 2.5% year-on-year. Against this backdrop, the ECB raised its policy rate by 25 basis points. Amid monetary policy tightening, deepening fiscal risks, particularly in some economies, have contributed to larger increases in long-term interest rates. In particular, investor sentiment has shifted more sharply in France, where fiscal sustainability risks remain tangible. In this context, a key uncertainty is whether fiscal and debt sustainability challenges could lead to a further deterioration in investment and consumer confidence in the Eurozone.

Amid persistent tensions in the Middle East, global oil prices remain at historically elevated levels. Despite the restoration of a substantial share of oil shipments through the Strait of Hormuz, prices remain high due to concerns over the resilience of supply, significant increases in shipping and insurance costs, and other factors. Moreover, substantial use of strategic oil reserves in major economies has increased the global economy's vulnerability to renewed oil supply shocks. On the other hand, continued expansion of supply by non-OPEC+ producers and a possible decline in global demand could mitigate the effects of these developments. Elevated energy prices and disruptions to trade routes and supply chains amid escalating regional conflicts are also contributing to further increases in food prices, particularly grains, oils, and sugar.

In Q2 2026, economic growth in Russia picked up somewhat. Investment activity recovered to some extent, accompanied by higher imports of capital goods. Fiscal policy continues to make a positive contribution to growth, while the prolonged persistence of energy prices at elevated levels could expand fiscal space. On the other hand, structural challenges in certain parts of the economy and risks of a deterioration in the security situation persist. At the same time, inflationary pressures have intensified again, including due to disruptions to fuel production and damage to storage facilities, while inflation expectations remain elevated.

Domestic Demand Conditions

In Q3 2026, economic activity slowed somewhat but remained elevated. The recent moderation in growth largely reflects a particular decline in manufacturing related to re-exports and does not indicate a broad-based weakening in economic activity. Excluding the effects of these factors, developments in manufacturing remain generally positive, although the sector continues to be affected by disruptions to trade routes following the escalation of the conflict in the Middle East, as well as export restrictions to Russia and the potential effects of slowing growth in the Russian economy. On the other hand, the continued decline in agriculture has also weighed somewhat on economic growth, likely reflecting both adverse weather conditions and restrictions on exports to Russia. Although the damage resulting from export restrictions to Russia has not yet been tangible, uncertainty surrounding their duration and scope could also constrain investment activity in Armenia.

At the same time, strong growth in mining continues, reflecting the recovery in production volumes following last year's decline. The forthcoming launch of operations at the Amulsar mine could also provide a significant additional boost to economic growth by expanding mining capacity and export volumes. Developments in the ICT sector have also continued to contribute significantly to economic activity, amid investment in AI and gradual integration into global IT infrastructure. Moreover, the recent slowdown in imports of capital goods associated with the development of AI infrastructure may signal a gradual transition from the investment phase to the operational phase, creating opportunities for export expansion in the period ahead. Depending on the implementation of investment projects and the domestic value added generated, these developments could significantly expand the economy's productive and export potential over the medium term.

Nevertheless, despite some strengthening in the outlook for activity and capacity expansion in certain more productive sectors, economic activity continues to be driven predominantly by developments in services and construction, indicating persistently strong domestic and external demand conditions. In particular, rapid growth in construction has been accompanied by a significant increase in real estate prices, while growth in services remains relatively broad-based. These developments may partly reflect increased visits from Russia to Armenia, including the return of Armenian citizens, amid a significant rise in uncertainty surrounding Russia's security and economic outlook. Although some of these flows could return to Russia if security concerns ease, growing interest in Armenian real estate and financial assets may indicate an intention by some visitors to engage economically over a longer horizon. This, in turn, could support elevated domestic demand and asset prices even if tourism flows weaken somewhat.

During 2026, strong economic growth and its structural composition, together with improvements in tax administration, have contributed to robust tax revenue growth outpacing nominal economic growth. Tax revenue overperformance has significantly mitigated risks of a widening budget deficit arising from the expansion of current expenditures since the beginning of the year. At the same time, strong tax revenue performance has been accompanied by high execution of current expenditures, particularly social spending. Specifically, expenditures planned under the universal health insurance system during January-September 2026 have already reached around 120% of the amount budgeted for the full year, pointing to the materialization of expenditure overruns and additional pressures on domestic demand.

On the other hand, capital expenditure execution remains low, recording a decline of around 25.3% year-on-year in January-September 2026. Although a substantial share of capital expenditure has historically been executed toward year-end, the significant planned increase in non-defense capital spending in the coming years, against a backdrop of limited capacity to implement large-scale projects, raises the risk of even greater underexecution relative to historical trends. This creates uncertainty for both the short-term growth outlook and the expansion of medium-term productive potential.

Labor Market & Inflation

Current labor market developments generally suggest the absence of significant imbalances between supply and demand in the economy. The number of officially registered employees continues to grow steadily, while the unemployment rate fluctuates within the 12–14% range. On the other hand, nominal wage growth in the private sector has moderated somewhat to around 4–5%.

Nevertheless, labor supply in Armenia has also increased somewhat recently. This may reflect the gradual tightening of Russia's migration policy and uncertainty surrounding its economic outlook, as well as weaker flows of seasonal labor migration to Russia amid strong construction activity in Armenia. In parallel, growth in the number of non-resident workers has accelerated significantly in recent months. In this regard, a material increase in labor supply could partly mask the effects of strong economic activity on the labor market. Moreover, alongside high activity in several services subsectors, wage growth has accelerated significantly to 10–12%, while growth has become less concentrated across the sector, potentially reflecting stronger demand conditions.

In September 2026, 12-month inflation slowed somewhat but remained above target at 4.3%, while core inflation stood at 4.7% year-on-year. Inflation continues to largely reflect price pressures transmitted through imported and domestically produced non-seasonal food products, driven by inflationary pressures from the global economy in recent quarters and certain domestic supply-side factors. At the same time, the acceleration in core inflation has gradually become more broad-based across product groups, which, in addition to supply-side factors, points to prevailing strong demand conditions.

Amid persistent tensions surrounding the conflict in the Middle East and other regional conflicts, upward trends in global commodity prices continue. Against a backdrop of high volatility in energy prices, disruptions to trade routes, and significant increases in shipping and insurance costs, non-food goods price inflation has also accelerated markedly, with these effects so far only partly reflected in the domestic economy.

The non-traded sticky price index continued to accelerate in September, reaching 4.4% year-on-year. Rising housing rents, alongside expanding external demand, continued to account for most of the acceleration in sticky price inflation. Nevertheless, inflation in several other services characterized by sticky prices is also showing signs of acceleration, pointing to a possible strengthening in domestic demand conditions. On the other hand, despite some broadening of inflationary pressures in the non-traded sticky price basket, certain indicators, particularly the relatively stable weight of goods

and services groups changing prices within the basket, may indicate that inflation expectations remain anchored.

Financial Markets & Monetary Policy

According to the results of the survey conducted by the Central Bank of Armenia among financial market participants on October 28, 2026, expectations regarding the CBA policy rate path have been revised somewhat upward since the previous policy decision. They imply that the policy rate will remain unchanged at the upcoming decision, rise to 7% in early 2027, and subsequently return to 6.75%. The risk map of market participants reflects, on the one hand, concerns over above-target inflation, excess domestic demand, and elevated energy prices arising from geopolitical developments, and, on the other hand, risks of a gradual easing in inflationary pressures, export restrictions to Russia, and slower economic growth over the medium term.

Since the CBA Board's September 2026 decision, the yield curve has shifted upward across its entire length, by around 0.4 percentage points at the short end and 0.7 percentage points at the long end. This may reflect changes in financial market participants' expectations regarding the CBA policy rate path (at the short and medium ends of the curve), the upward shift in the US yield curve and expectations of monetary policy tightening, as well as some reassessment of country risk premia across emerging market economies generally and in Armenia specifically.

Despite a small increase recently, Armenia's country risk premium remains low, while the share of non-residents in Armenian dram-denominated government bonds has not declined. This may reflect both broader emerging market trends and Armenia-specific factors, particularly a gradual easing of security risks, continued strengthening of macroeconomic stability, Armenia's relatively lower vulnerability to various geopolitical developments, and the availability of relatively stable sources of energy supply and energy prices, among other factors.

To prudently manage the potential risks arising from prevailing uncertainties, the CBA considers a range of scenarios for economic developments. The main Case A-type scenarios (requiring a higher interest rate path relative to market expectations) are related to rising neutral interest rates globally, stronger domestic demand conditions, and risks of continuously intensifying inflationary pressures amid persistent regional conflicts. The main Case B-type scenarios (requiring a lower interest rate path relative to market expectations) are primarily related to slowing global economic growth, weakening investment and consumer confidence amid uncertainties surrounding the outlook for economic relations with Russia, and a fundamental decline in Armenia's country risk premium.

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