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under the Central Bank of the Republic of Armenia
Board Resolution No. 294A,
dated November 17, 2026

STATUS REPORT ON IMPLEMENTATION OF THE MONETARY POLICY PROGRAM

(Quarter 4, 2025 to Quarter 3, 2026)

In the time between the fourth quarter of 2025 and the third quarter of 2026 inclusive, the inflationary environment in the Republic of Armenia gradually broadened. This mainly reflects inflationary effects transmitted through imported and domestically produced non-seasonal food products, driven by inflationary pressures transmitted from the global economy in recent quarters and certain supply-side factors in the domestic economy. Since the beginning of 2026, the acceleration of inflation has also been supported by a certain increase in healthcare service prices following the introduction of a comprehensive health insurance system, as well as significant energy price inflation amid the escalation of the conflict in the Middle East. During the period under review, underlying inflation also increased, gradually becoming more broad-based across product groups, which, in addition to supply-side factors, points to strong demand conditions in the economy.

In the period under review, despite some volatility, economic growth and activity remained strong, continuing to be largely supported by developments in construction and services, pointing to the presence of excess demand. The expansion of external demand, particularly reflected in an increase in both the number and duration of visits to Armenia, also contributed significantly to the latter, especially from the second quarter of the current year, creating substantial risks of wage growth and an acceleration in services prices in the relevant sectors. In this context, the Case A scenarios considered during the reporting period were associated with risks of a further expansion of excess demand conditions in the economy and an intensification of inflationary pressures. In particular, a further acceleration in visits to Armenia amid a possible escalation of geopolitical tensions, as well as the persistence of substantial capital inflows into Armenia or their increase, driven by growing interest in Armenian assets and external push factors, could have contributed to a further expansion of demand conditions in the domestic economy.

On the other hand, Case B scenarios were considered in connection with the persistence of elevated geopolitical uncertainty, the deterioration in economic growth and its outlook amid deepening structural challenges in major partner countries, particularly Russia, as well as a fundamental decline in Armenia's country risk premium. Moreover, the tightening by Russia of import standards applicable to Armenian exporters could have led to a weakening of income and demand in Armenia, while also exerting a direct deflationary impact due to the risk of excess supply emerging in certain markets.

Under these conditions, at the beginning of the reporting period, the Central Bank continued the gradual normalization of monetary policy initiated in the preceding period, reducing the policy rate by 0.25 percentage points in December 2025 and bringing monetary conditions closer to the neutral stance estimated by market participants. It should be noted that, at the beginning of the reporting period, 12-month inflation slowed, reaching 3.3% in December 2025, around the target.

In subsequent months, mainly under the influence of supply-side factors and amid some expansion in demand, inflation began to accelerate. Thus, also reflecting the rise in global energy and food prices associated with the conflict in the Middle East, 12-month inflation reached 5.3% in April 2026 and underlying inflation reached 4.9%. Thereafter, both showed some signs of slowing, while remaining above the target, reaching 4.3% and 4.7%, respectively, in September. Under these conditions, from February to August 2026, primarily emphasizing the need to balance the management

of risks in both directions, the Board of the Central Bank of Armenia left the policy rate unchanged. In September, given the need to manage the potential macroeconomic implications of the materialization of Case A risks, it raised the rate by 0.25 percentage points to 6.75%.

1. MONETARY POLICY IN THE PERIOD UNDER REVIEW

In the period under review, with a notable amount of uncertainty in the macroeconomic environment, a range of scenarios were considered in the monetary policy formulation and decision-making process. On the one hand, Case A scenarios, which envisaged a policy rate path above market expectations, incorporated risks stemming from the evolving geopolitical situation, a possible increase in global and Armenia's neutral interest rates and an elevated risk premium for Armenia amid fiscal policy developments in the United States and the Republic of Armenia, as well as the presence and further expansion of excess demand in the domestic economy and an increase in inflation expectations. On the other hand, the Case B scenarios considered, which envisaged a policy rate path below market expectations, included risks associated with weakening growth and demand and the emergence of deflationary effects in construction and related sectors of the economy amid a gradual and natural adjustment of real estate prices; a rapid easing of domestic and external demand and labor market conditions; the outlook for a slowdown in global demand; the potential effects of the tightening of import standards by Russia; and a fundamental decline in Armenia's risk premium. In view of these uncertainties, the monetary policy implemented through prudent risk management was aimed at stabilizing 12-month inflation and inflation expectations around the target over the medium-term horizon.

In the reporting year, against the backdrop of significant geopolitical and economic policy realignments, elevated uncertainty, and heightened risks, global economic growth and its outlook gradually deteriorated. In particular, GDP growth in the United States exhibited considerable volatility; overall, it slowed and settled at a more stable pace. Nevertheless, domestic demand remained relatively strong, while private consumption and fixed capital investment, particularly AI-related technology and infrastructure investment, continue to be the main drivers of economic growth. At the same time, uncertainty surrounding the duration of the AI investment cycle and the effective use of these investments, as well as potential adjustments in financial asset prices, pose downside risks to the outlook for economic growth and demand. The continued slowdown in economic growth in the Eurozone and China reflects persistent structural challenges, economic polarization, and weak domestic demand, as well as the adverse effects of the conflict in the Middle East, with significant medium- to long-term challenges remaining. Economic growth in Russia weakened significantly. Trade and services continue to make a substantial positive contribution to growth, reflecting the impact of expansionary fiscal policy. At the same time, the persistence of elevated oil prices is supporting an increase in oil and gas revenues and some expansion of fiscal space, creating opportunities for additional stimulus to economic activity. Labor market conditions remain tight, while migration policy poses risks of further constraints on labor supply.

During the first half of the period under review, global inflation gradually slowed and then increased, largely reflecting the sharp rise in energy prices. Since the beginning of 2026, amid the escalation of geopolitical tensions in the Middle East and disruptions to trade routes, global oil prices have risen significantly, exceeding USD 100 per barrel in the third quarter. Moreover, the decline in strategic oil reserves and spare production capacity has increased the market's vulnerability to potential new supply shocks. In parallel, the increase in production and transportation costs resulting from higher energy prices, as well as adverse weather conditions in several major food-supplying countries, contributed to a

significant rise in global food prices and their volatility. As of September 2026, international food prices had risen by around 8% since the start of the conflict in the Middle East. As a result, primarily inflationary effects were transmitted from the external sector to the Armenian economy during the reporting year, partially mitigated by the nominal appreciation of the Armenian dram.

In the United States and the Eurozone, 12-month inflation, as well as inflation in goods and services characterized by sticky prices, continued to remain persistently above the target. At the same time, amid considerable volatility in global energy prices and their persistence at elevated levels, risks of a further broadening of the inflationary environment remain. As a result, toward the end of the reporting period, central banks in a number of major economies began raising policy rates, while expected interest rate paths in financial markets were revised significantly upward, reflecting expectations of further tightening of monetary conditions and their persistence for a longer period.

In the period under review, economic growth and activity in Armenia, despite some recent slowdown, generally remained above the estimated long-term sustainable growth rate. Strong economic growth continued to be largely supported by high growth in a number of predominantly demand-driven sub-sectors of construction and services, accompanied by a marked increase in lending, imports, and retail trade activity. A significant increase in visits to Armenia since the beginning of 2026 also contributed substantially to the expansion of demand conditions.

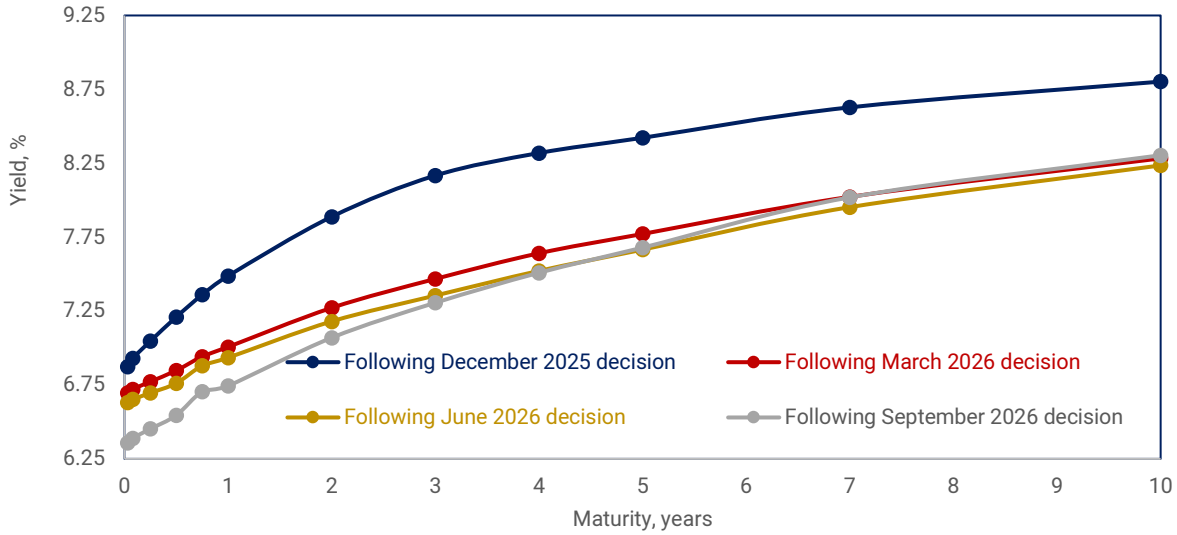
At the same time, the structural features of economic growth and uneven developments across sectors create some uncertainty regarding the future course of demand conditions. On the one hand, the persistence of strong consumption and lending growth, a further expansion of external demand, and the risk of a more expansionary fiscal stance could contribute to a further expansion of excess demand conditions. On the other hand, a deterioration in the outlook for economic growth in major partner countries could lead to a gradual weakening of demand conditions.

In view of the aforementioned developments and the principle of prudent management of potential risks stemming from prevailing uncertainties, the Central Bank reduced the policy rate by 0.25 percentage points in December 2025, in line with market expectations, and subsequently left it unchanged through August, emphasizing the need to balance the management of risks in both directions. As part of the decision to leave the rate unchanged on August 4, 2026, a high probability of the materialization of Case A scenarios was noted, while the need to manage the macroeconomic implications of Case B scenarios was also emphasized. In September 2026, given the need to manage the macroeconomic implications of Case A scenarios, the policy rate was raised by 0.25 percentage points to 6.75%.

During the year under review, market interest rates largely remained around the operational target, i.e., the policy rate. In the government bonds market, the behavior of the yield curve primarily reflected the effects of the normalization of monetary policy, an improvement in overall sentiment toward emerging economies, a partial easing of geopolitical risks surrounding Armenia, an improvement in expectations regarding the public debt path, and certain other factors.

Figure 1

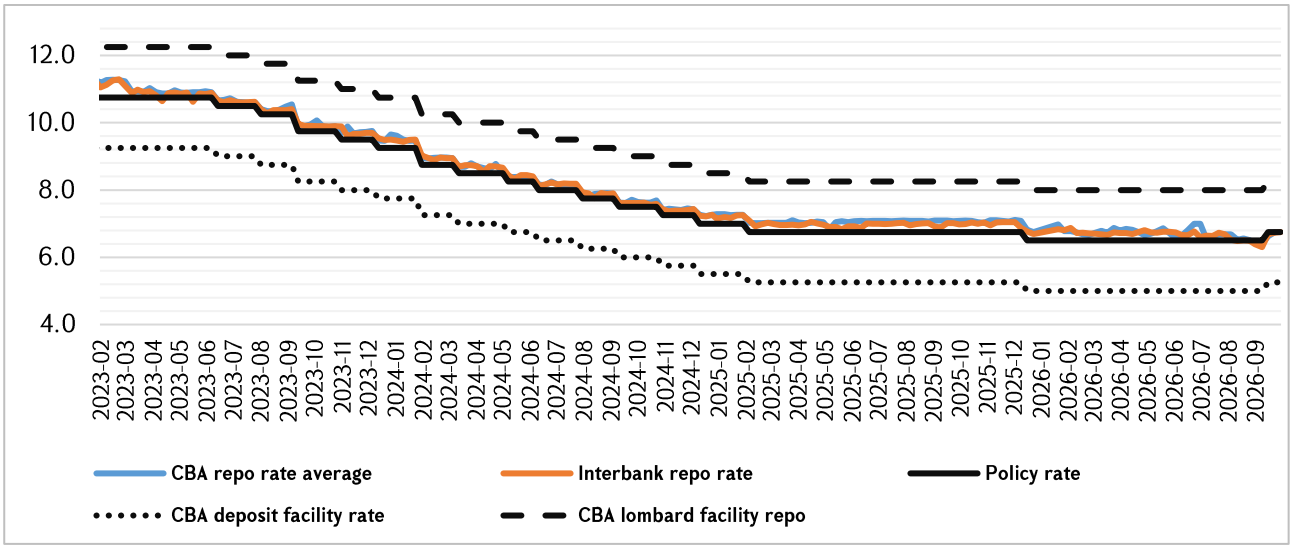
Yield curve of Armenian government bonds following the Central Bank interest rate decisions



Source: Central Bank of Armenia

Figure 2

Dynamics of the Central Bank instruments and short-term market interest rates



Source: Central Bank of Armenia

In the reporting year, amid strong activity in certain sectors of the Armenian economy, demand for lending remained elevated. This was particularly reflected in the persistently strong growth of consumer lending to households, while the growth rate of mortgage lending moderated to some extent, although it remained high.

In the foreign exchange market, the dram gradually appreciated against the US dollar, reflecting strong external demand for Armenian goods, services, and assets, also supported by an improvement in investor sentiment toward emerging economies. In certain situations, the Central Bank conducted foreign exchange purchase operations in the market to ensure the smooth functioning of the financial market.

Against the backdrop of these developments, **12-month inflation accelerated during the reporting period and reached 4.3% as of end-September 2026. The 12-month underlying inflation increased as well, reaching 4.7%.**

2. INFLATION COMPONENTS IN THE PERIOD UNDER REVIEW

Over the past year, inflation accelerated, mainly driven by inflationary effects transmitted to Armenia from the external sector, a moderate expansion of domestic demand, as well as the impact of certain temporary factors.

Thus, in the period under review, adverse weather conditions in several major global food-supplying countries, coupled with increased global demand for certain products, led to significant price increases for selected commodities, which were largely reflected in imported food prices as well. Nevertheless, in recent months, imported food price inflation slowed to some extent, reaching 3.9% year-on-year in September 2026. It should also be noted that inflationary pressures transmitted from the external sector were partially mitigated by the nominal appreciation of the Armenian dram.

During the reporting year, partly reflecting a relatively lower agricultural harvest, high inflation was recorded in the Fruits and Vegetables product groups, partially mitigated by import restrictions imposed by Russia. Despite some easing of inflationary pressures toward the end of the period, cumulative inflation during the year continued to significantly exceed historical seasonal patterns.

Underlying inflation, which excludes seasonal food products and regulated services, continued to show signs of acceleration, remaining above the target throughout the reporting period and reaching 4.7% year-on-year in September. Within underlying inflation, notable price increases were recorded mainly in non-seasonal food products and non-regulated services. In particular, despite some easing in recent months, inflation in the Meat and Dairy product groups remained elevated, largely driven by both supply-side and demand-side factors. At the same time, price increases in the Tobacco products and Alcoholic beverages groups, among the components of underlying inflation, reflected the inflationary impact of changes in excise tax rates in 2026, remaining broadly in line with the Central Bank's estimates.

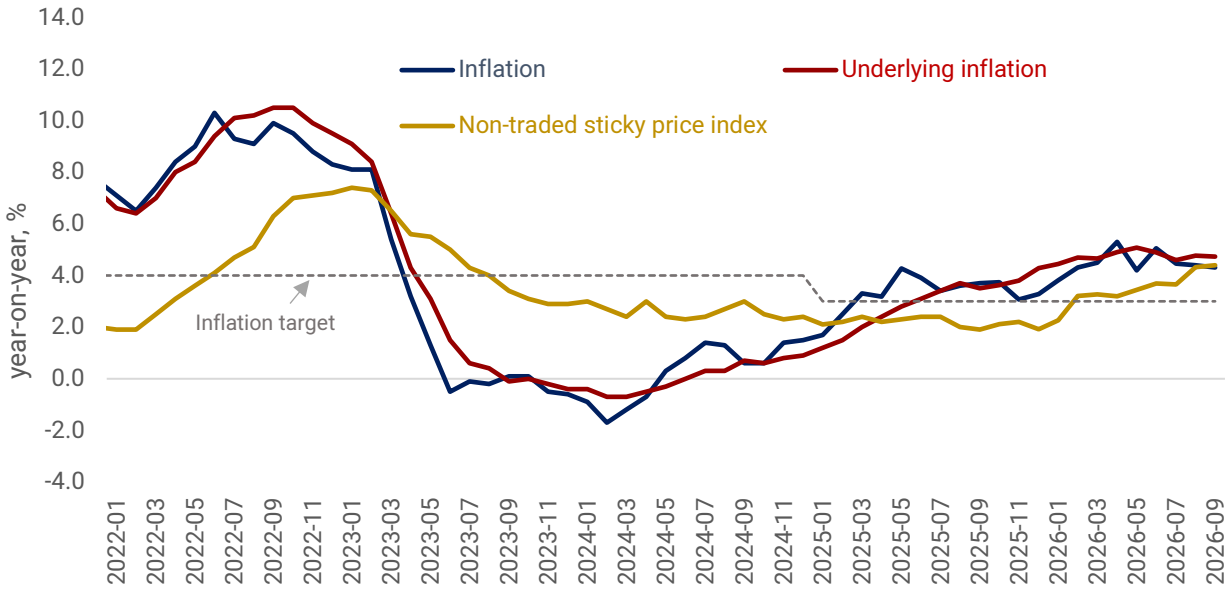
In the period under review, services inflation also accelerated to some extent, largely driven by higher air transport fares and housing rents. The latter accelerated significantly toward the end of the period, alongside a substantial increase in visits to Armenia. The increase in visits was also reflected in accelerating inflation in certain services that are highly sensitive to external demand, particularly hotels, cafes, and transportation services. In parallel, services inflation was also supported by higher medical service prices following the introduction of the universal health insurance system in January 2026. The initial increase in medical service prices mainly represented a one-off adjustment in the price level. Following some moderation in the pace of price increases in subsequent months, medical service price inflation has recently accelerated again amid continued cost increases in the sector. Nevertheless, it should be noted that services inflation continues to remain close to the target, within a 2.5-3% range.

In the period under review, the non-tradable sticky price index, an important indicator of demand conditions in the domestic economy, accelerated significantly, reaching 4.4% year-on-year in September, above the Central Bank's target. This was largely driven by rising housing rents amid the expansion of external demand. Nevertheless, inflation in a number of other services with sticky prices also accelerated, pointing to a possible intensification of

demand pressures in the domestic economy. At the same time, despite some broadening of inflationary pressures within the basket of the non-tradable sticky price index, the relative stability of certain indicators, particularly the weight of goods and services recording price changes, may point to signs of stabilization in inflation expectations.

Figure 3

In the period under review, headline inflation accelerated primarily owing to an increase in prices of non-seasonal food products



Source: RA Statistics Committee, Central Bank estimates

Table 1

Product/Item	Weight in basket, %, 2026	12-month inflation, %	Contribution to inflation, p.p.
		September 2026	September 2026
Underlying inflation	**77.2**	**4.7**	**3.7**
Bread and cereals	7.4	2.7	0.2
Meat	10.7	10.5	1.1
Oils and fats	2.0	2.0	0.1
Sugar	0.5	4.5	0.0
Dairy products	4.2	7.0	0.3
Alcoholic beverages	2.0	8.3	0.0
Tobacco products	3.0	6.9	0.2
Clothing	2.0	5.2	0.1
Footwear	1.1	3.6	0.0
Household appliances	0.7	-0.3	-0.0
Fuel	4.9	2.4	0.1
Air passenger transportation services	1.5	4.8	0.1
Outpatient care services	2.7	6.9	0.2
Actual rent paid by tenant for additional accommodation	2.7	8.5	0.2
Restaurants and hotels	2.4	5.4	0.1
Seasonal food products	**9.8**	**7.4**	**0.6**
Eggs	1.3	23.8	0.3
Fruits	3.3	7.3	0.3
Vegetables	5.3	3.9	0.0
Regulated services	**13**	**0.3**	**0.0**
Other product and service groups			
Imported food products	**14.5**	**3.9**	**0.6**
Food products of domestic produce	**20.0**	**8.1**	**1.6**
Non-regulated services	**20.7**	**4.5**	**0.9**

Table 2

Product/Item	Weight in basket, %, 2025	12-month inflation, %			
		December 2025	March 2026	June 2026	September 2026
Underlying inflation	**77.2**	**4.3**	**4.7**	**4.9**	**4.7**
Bread and cereals	8.2	3.9	3.5	2.8	2.7
Meat	10.8	7.9	9.4	12.5	10.5
Oils and fats	2.3	6.8	7.5	4.6	2.0
Sugar	0.5	1.1	2.8	-0.6	4.5
Dairy products	4.3	6.1	7.9	7.5	7.0
Alcoholic beverages	2.0	5.5	6.9	8.3	8.3
Tobacco products	2.5	8.7	9.7	6.9	6.9
Clothing	1.9	-0.2	1.8	3.4	5.2
Footwear	1.0	1.0	-0.4	2.1	3.6
Household appliances	0.6	-0.2	-1.3	1.6	-0.3
Fuel	5.1	-0.3	-1.2	1.8	2.4
Air passenger transportation services	1.5	26.6	13.9	0.7	4.8
Outpatient care services	2.7	2.7	6.1	6.0	6.9
Actual rent paid by tenant for additional accommodation	2.6	-3.5	-2.4	1.4	8.5
Restaurants and hotels	2.2	2.9	4.3	4.1	5.4
Seasonal food products	**9.6**	**-2.8**	**7.3**	**11.3**	**7.4**
Eggs	1.3	7.2	30.1	29.9	23.8
Fruits	3.1	0.7	5.6	16.8	7.3
Vegetables	5.1	-7.5	3.1	3.1	3.9
Regulated services	**13.2**	**1.9**	**0.1**	**0.5**	**0.3**
Other product and service groups					
Imported food products	**15.4**	**5.3**	**5.5**	**4.2**	**3.9**
Food products of domestic produce	**19.8**	**7.7**	**8.5**	**9.6**	**8.1**
Non-regulated services	**20.6**	**3.8**	**4.3**	**3.6**	**4.5**