

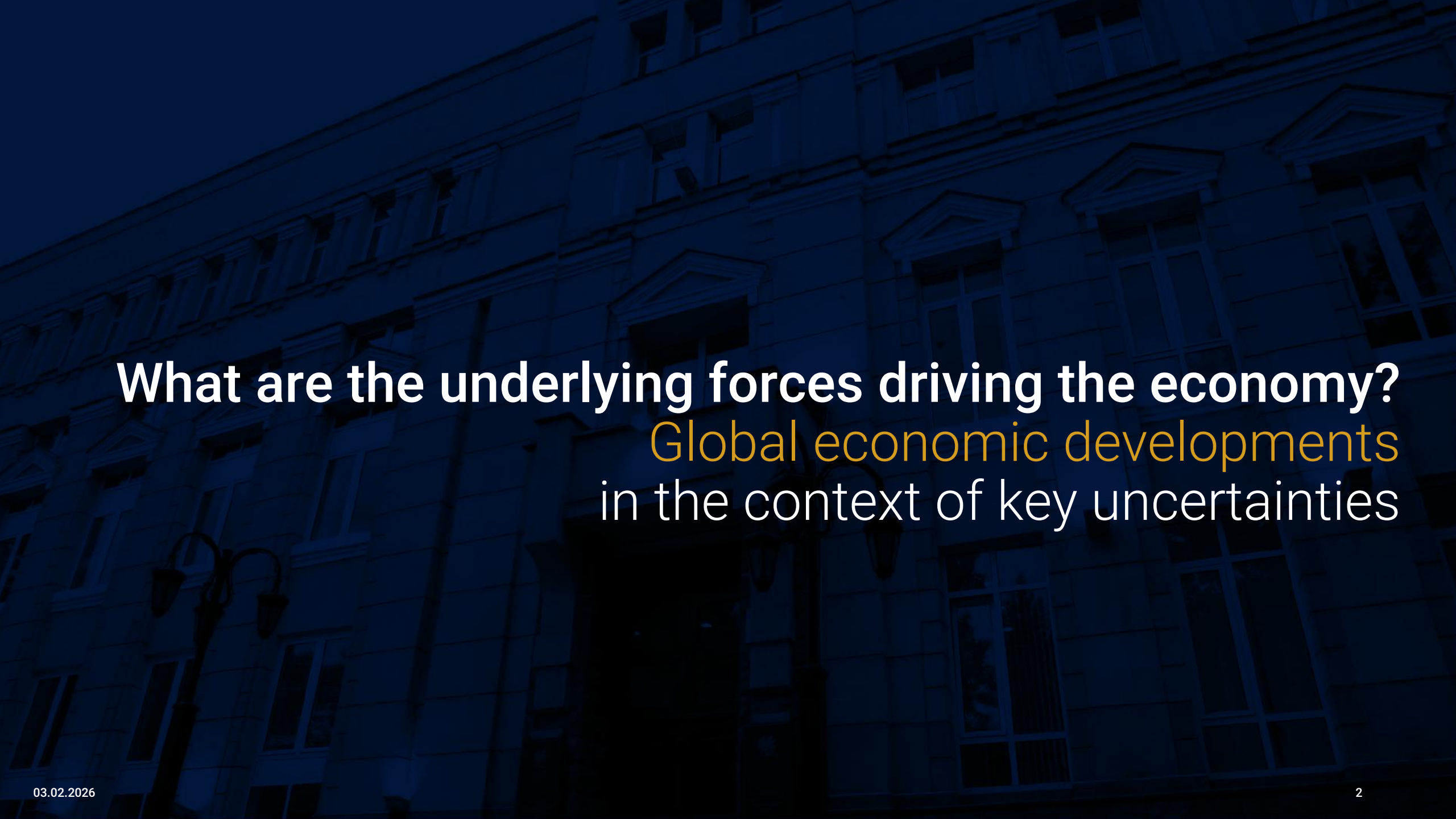


Central Bank
of Armenia

Monetary Policy **Outlook**

February 2026 Interim Decision

February 3, 2026

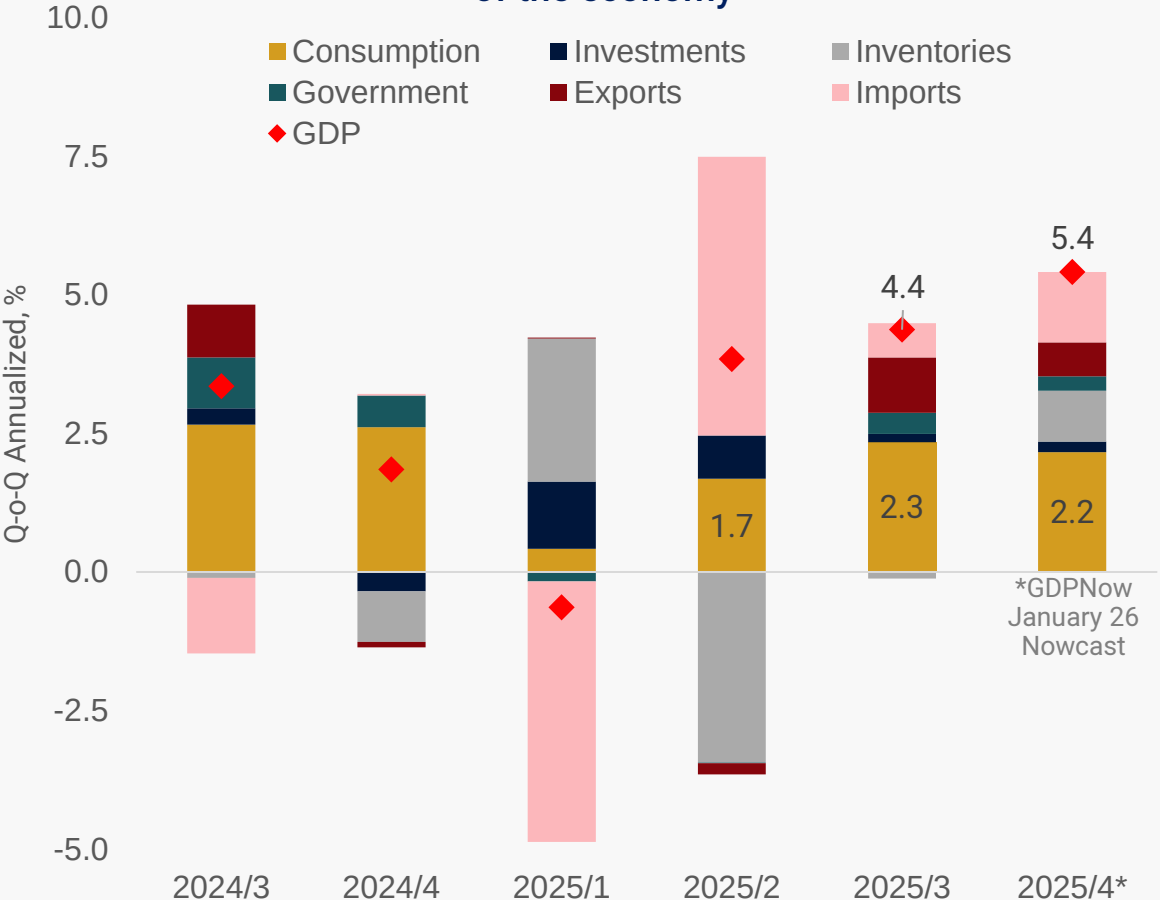


What are the underlying forces driving the economy?

Global economic developments
in the context of key uncertainties

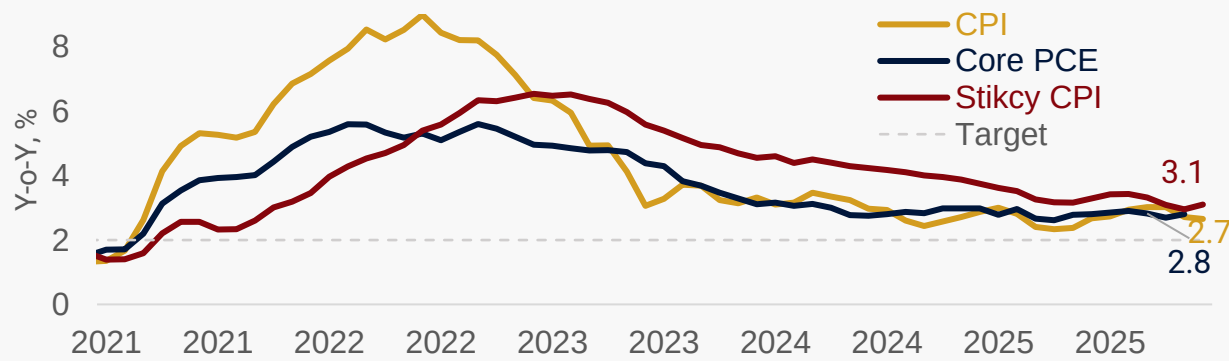
USA. How strong are demand conditions in the US economy in the context of unresolved inflation and tariff policy?

According to GDPNow estimates, economic growth accelerated in the fourth quarter, with consumption continuing to serve as the main driver of the economy

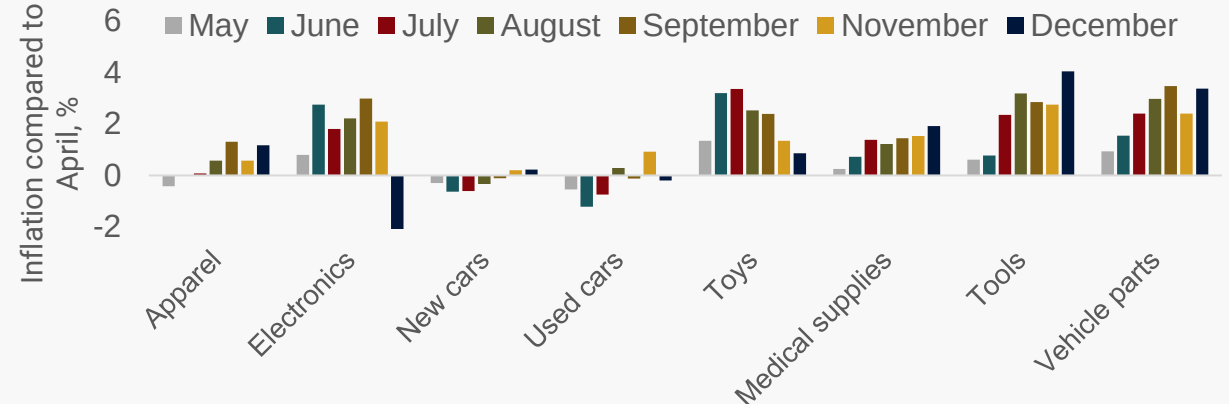


Source(s): U.S. Bureau of Economic Analysis, Atlanta Fed

Under conditions of still-elevated sticky inflation, expanding demand may contribute to the continued pass-through of tariffs to prices and the further expansion of the overall inflationary environment



The impact of tariffs continues to be transmitted to tariff-sensitive product groups

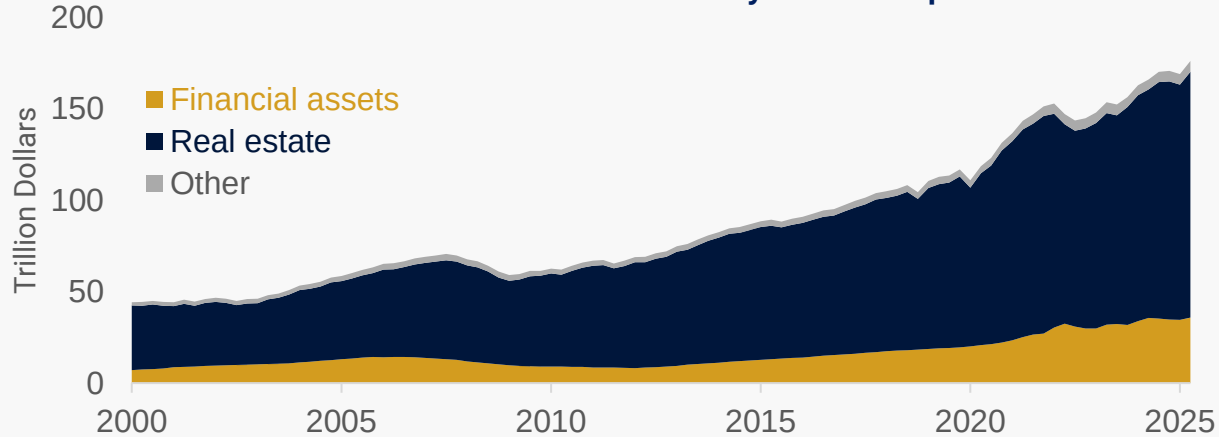


Source(s): U.S. Bureau of Labor Statistics, Atlanta Fed

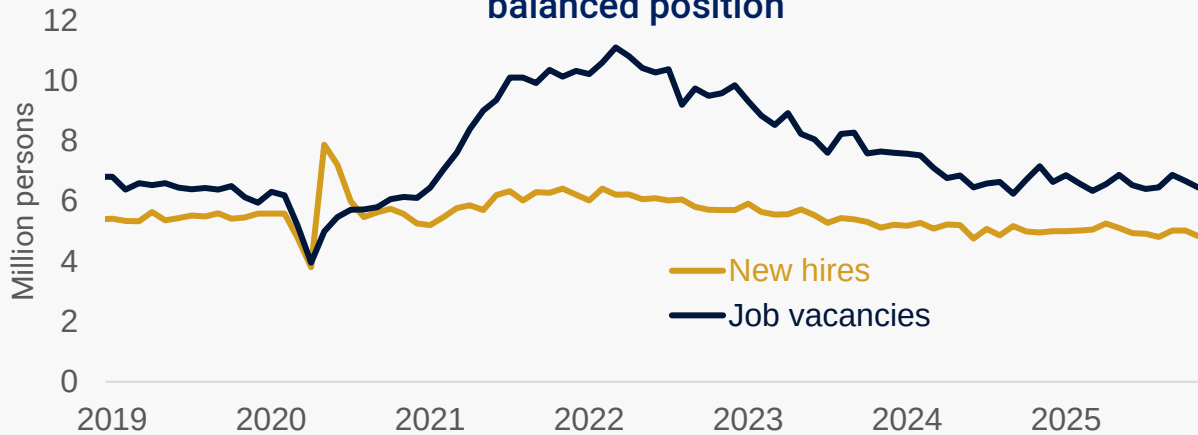
USA. Economic developments provide mixed signals regarding domestic demand and labor market conditions

Signals of strong demand conditions

Net household wealth has increased by 50% compared to 2019



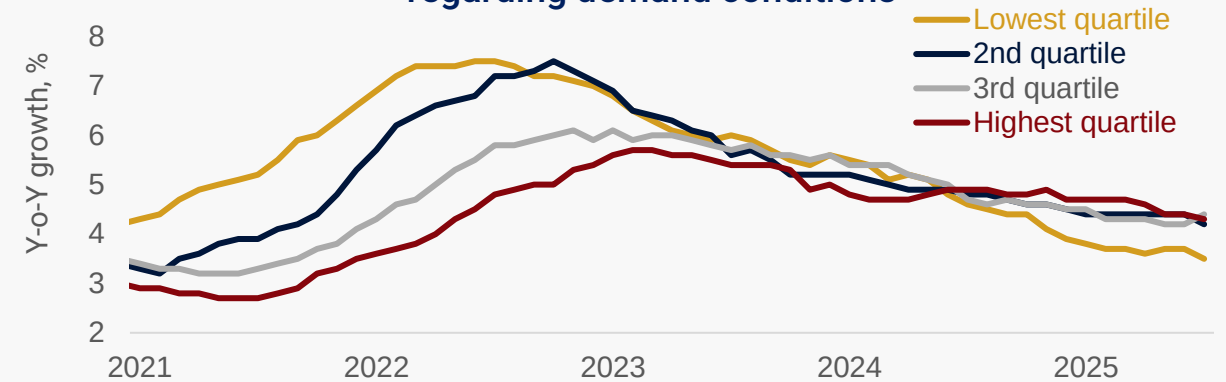
Demand conditions in the labor market are converging toward a balanced position



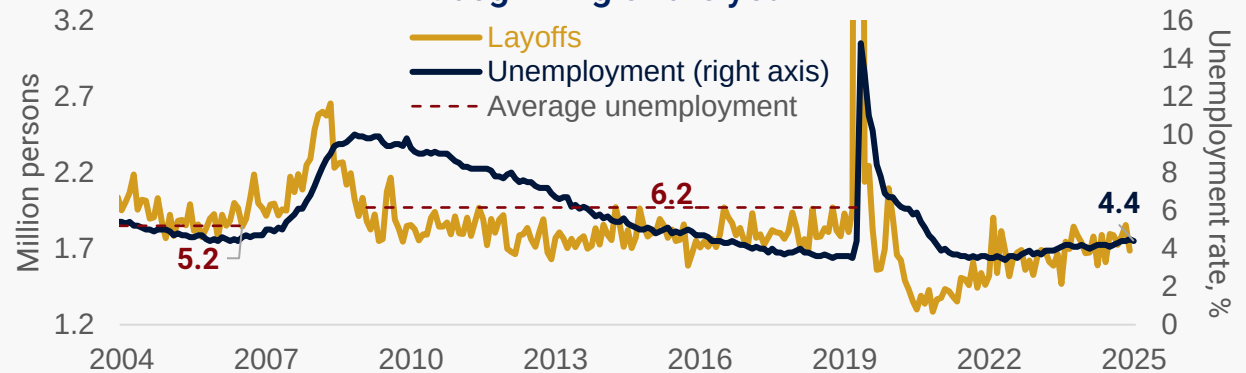
Source(s): Federal Reserve, Federal Reserve Bank of St. Louis

Signals of weak demand conditions

At the same time, income polarization provides additional signals regarding demand conditions

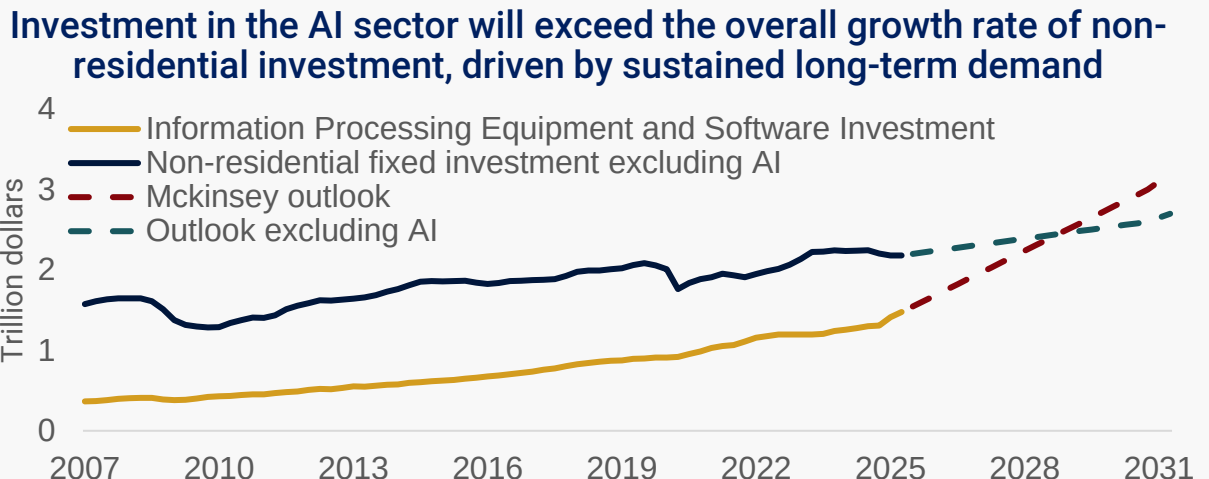
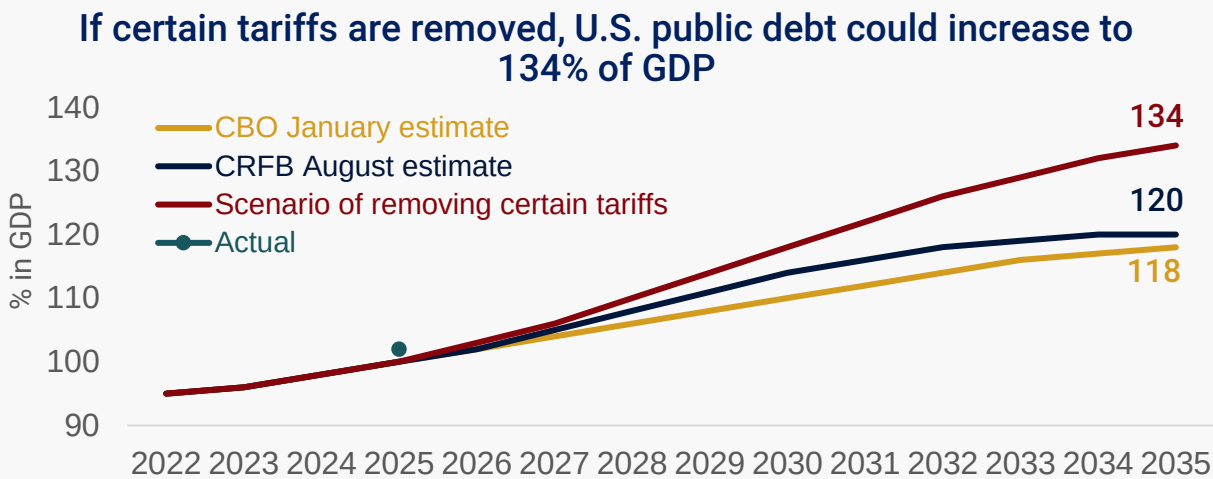
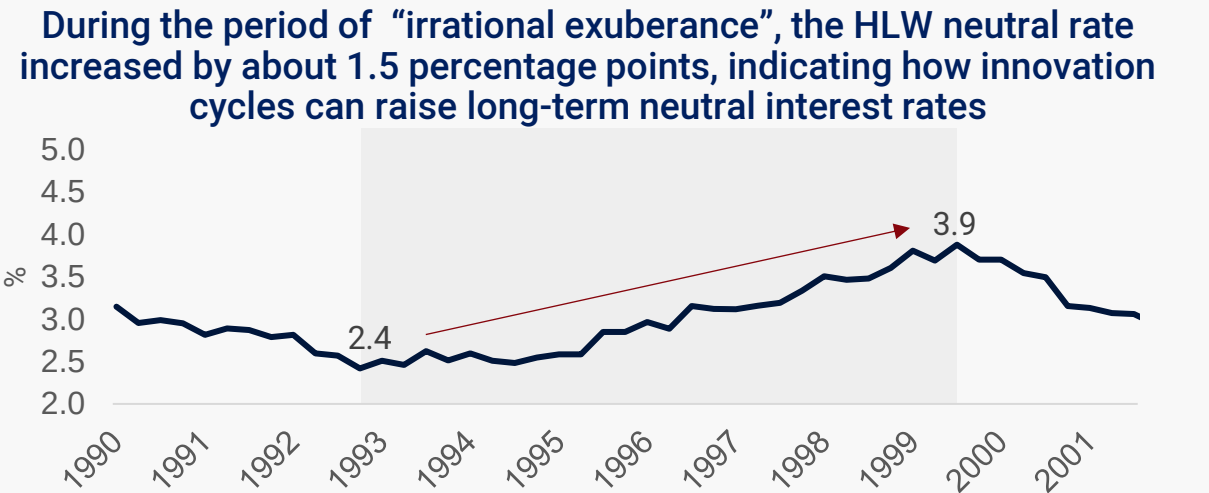
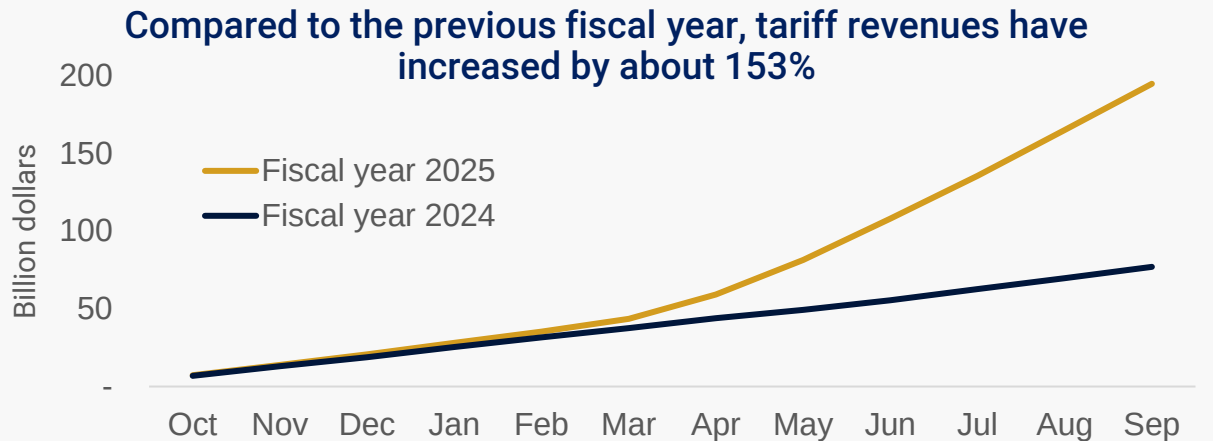


Unemployment and the number of layoffs have increased since the beginning of the year



Source(s): Federal Reserve Bank of Atlanta, Federal Reserve Bank of St. Louis

USA. Uncertainty surrounding the neutral interest rate has increased



Source(s): U.S. Treasury monthly reports, CBO, CRFB

Source(s): Federal Reserve Bank of New York, McKinsey & Co.

USA. While market participants expect the Federal Reserve to maintain the policy rate in the near term, managing risks in both directions remains a key consideration

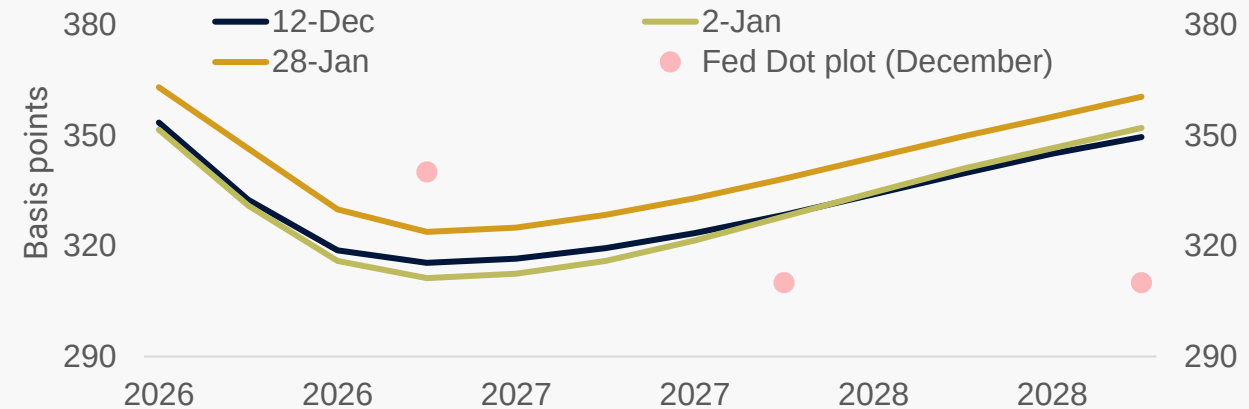
Downside risks

- Further weakening of labor market conditions and a slowdown in lending
- Risks of financial asset overvaluation associated with strong growth in AI investment and a potential correction thereof, with resulting deflationary pressures

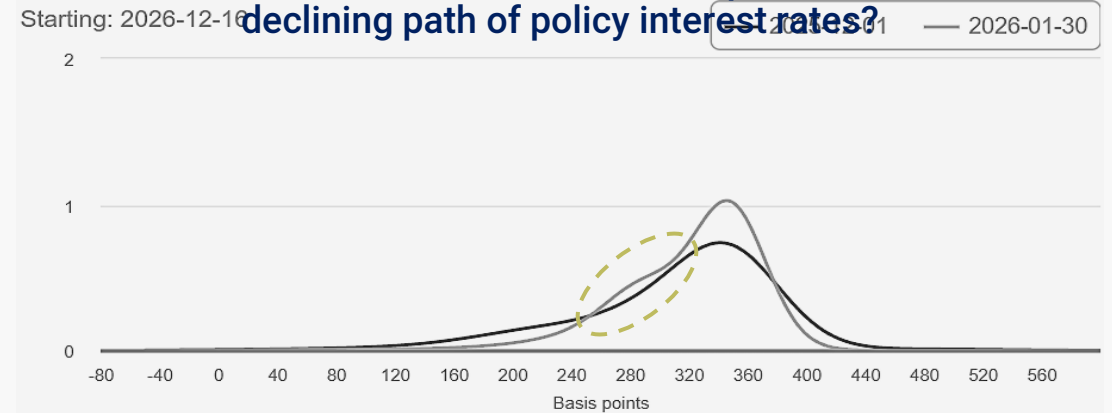
Upside risks

- Persistently strong consumption, wealth accumulation, still-unresolved inflation, and inflationary pressures driven by migration policy
- Uncertainty regarding neutral interest rates amid growth in AI investment
- Potential risks of an expansion of the inflationary environment, particularly due to the still-expected effects of tariffs, uncertainty stemming from trade policy, and planned stimulative fiscal measures
- Risks related to debt sustainability, creating uncertainty from the perspective of the neutral interest rate
- Risks of a loss of Federal Reserve independence and the associated risk of de-anchoring inflation expectations

Market expectations about the future path of the Fed Funds Rate



Does the distribution of expectations for the SOFR rate over the next three months indicate the formation of expectations for a more declining path of policy interest rates?



Source(s): Federal Reserve Bank of Atlanta, Fed Dot Plot

ԱՄՆ. Շուկայի մասնակիցները սպասում են, որ ԴՊՀ-ն առաջիկայում կպահպանի տոկոսադրույքը, այնուամենայնիվ՝ երկու ուղղությամբ ռիսկերի կառավարման անհրաժեշտությունը մնում է առարկայական

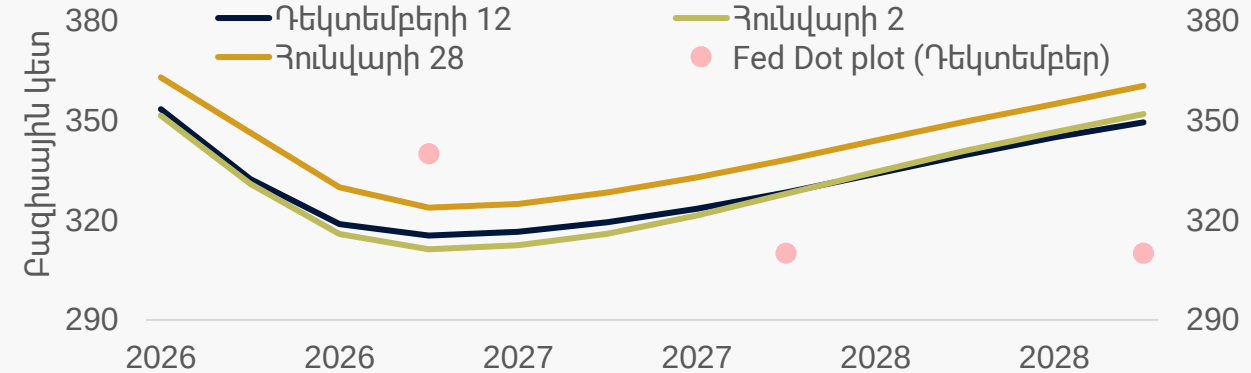
Ներքևի ուղղությամբ ռիսկեր

- Աշխատաշուկայի հետագա թուլացում և վարկերի դանդաղում
- ԱԲ-ի մեջ ներդրումների բարձր աճերով զուգակցվող ֆինանսական ակտիվների գերաթևորման և դրա հնարավոր ճշգրտման ռիսկեր՝ դրանցից ածանցվող հնարավոր գնանկումային ճնշումներով

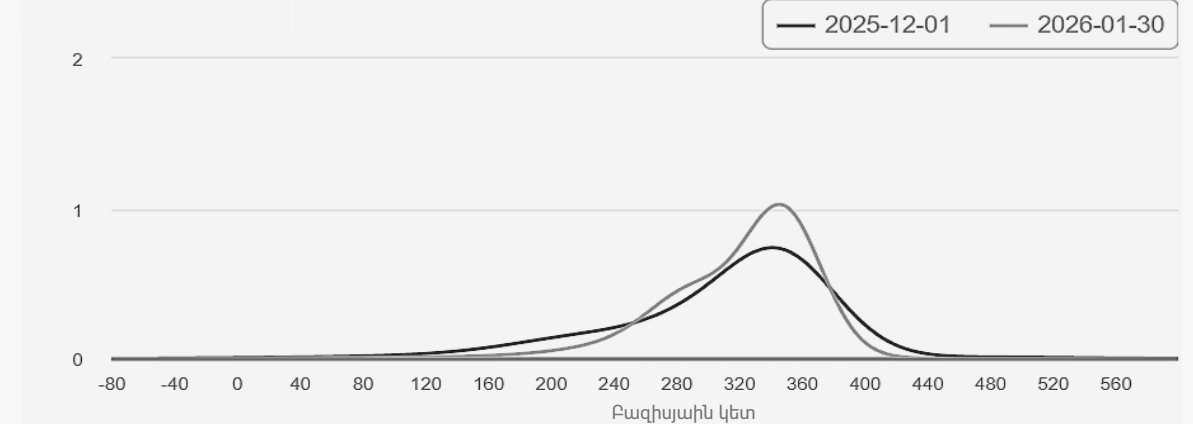
Վերևի ուղղությամբ ռիսկեր

- Շարունակական բարձր սպառում, հարստության կուտակում, դեռևս չլուծված գնաճ, միգրացիոն քաղաքականությամբ պայմանավորված գնաճային ճնշումներ
- ԱԲ ներդրումների աճով պայմանավորված չեզոք տոկոսադրույքների ուղղությամբ անորոշություններ
- Գնաճային վիճավայրի ընդլայնման հնարավոր ռիսկեր, հատկապես՝ սակագների դեռ սպասվելիք ազդեցությամբ, առևտրային քաղաքականությունից բխող անորոշությամբ և հարկաբյուջետային կարգավորումների շուրջ պլանավորված խթանող գործընթացներով
- Պարտքի կայունության վերաբերյալ ռիսկեր, որոնք չեզոք տոկոսադրույքի տեսանկյունից անորոշություններ են ստեղծում
- ԴՊՀ-ի անկախության թուլացման, և դրանով պայմանավորված գնաճային սպասումների ապախարսխման ռիսկեր

ԴՊՀ տոկոսադրույքի ուղեգծի վերաբերյալ ֆինանսական շուկայի սպասումները



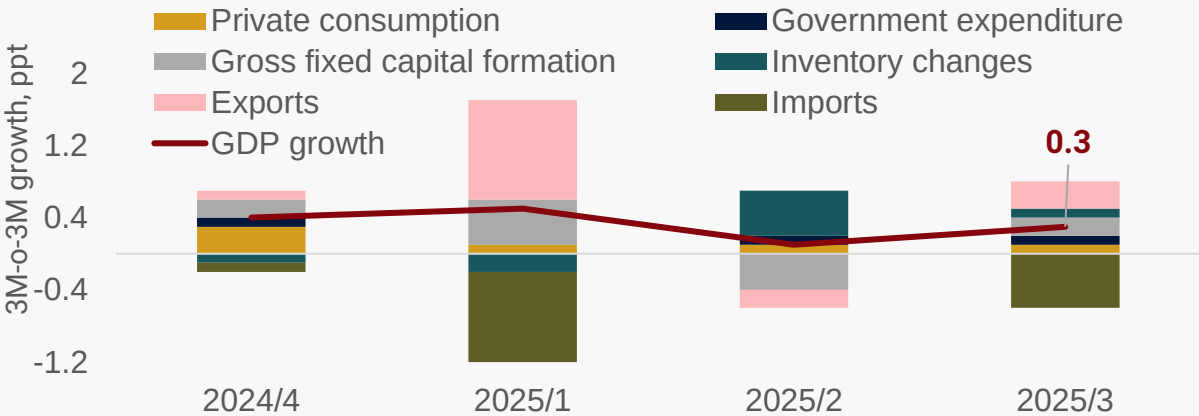
Does the distribution of expectations for the SOFR rate over the next three months indicate the formation of expectations for a more declining path of policy interest rates?



Աղբյուրը՝ Ատլանտայի դաշնային բանկ, Fed Dot Plot

EA. Economic growth remains low and is characterized by polarization, although there are also signals of expanding demand

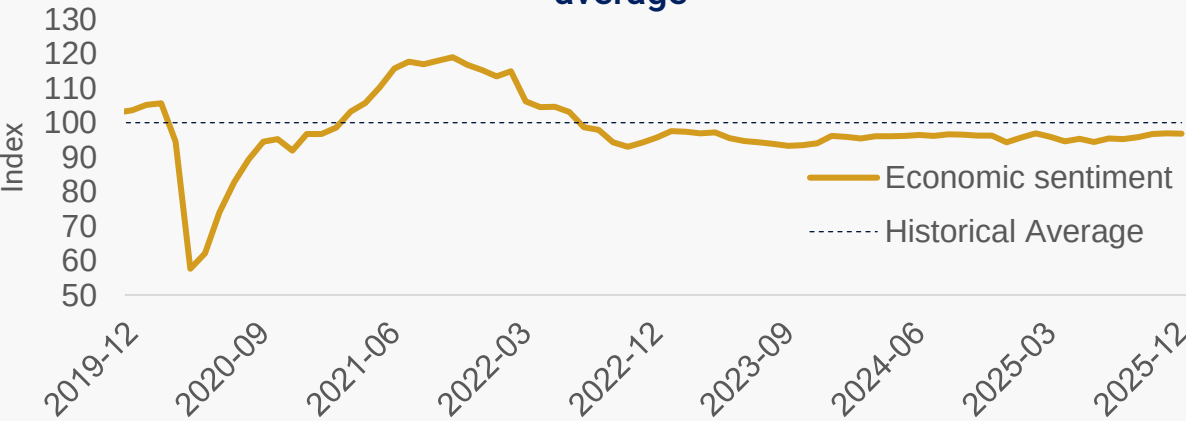
In the third quarter, investment was the main driver of GDP growth, and it was more pronounced in Southern countries



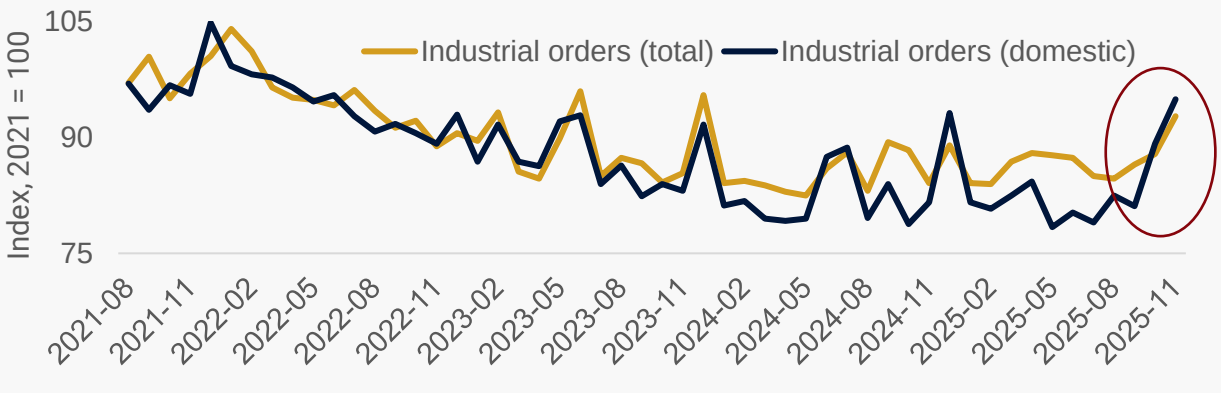
Although unemployment has stabilized at a historically low level, the slowdown in wage growth signals a potential easing of labor market conditions



EU economic sentiment has stabilized at a level below the historical average



At the same time, manufacturing orders in Germany have increased, driven by investment in the defense industry



Source: Eurostat

Source(s): Eurostat, FRED, German Federal Statistics Office

EA. Markets expect the ECB to keep its interest rate at the 2% level in the near term

Downside risks

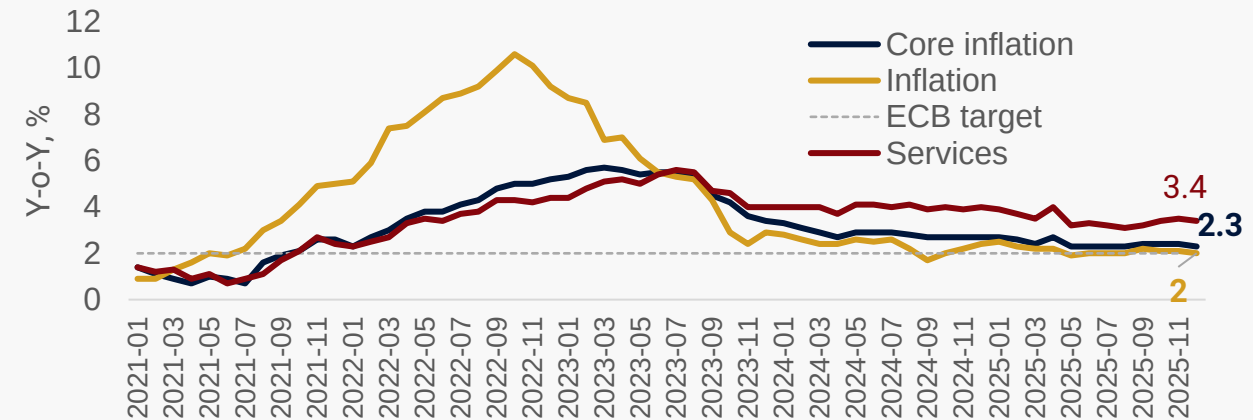
- Against the backdrop of structural challenges, industrial production may continue its slowing trend
- Geopolitical uncertainties could worsen economic sentiment, which in turn may sustain high precautionary savings, thereby restraining demand

Upside risks

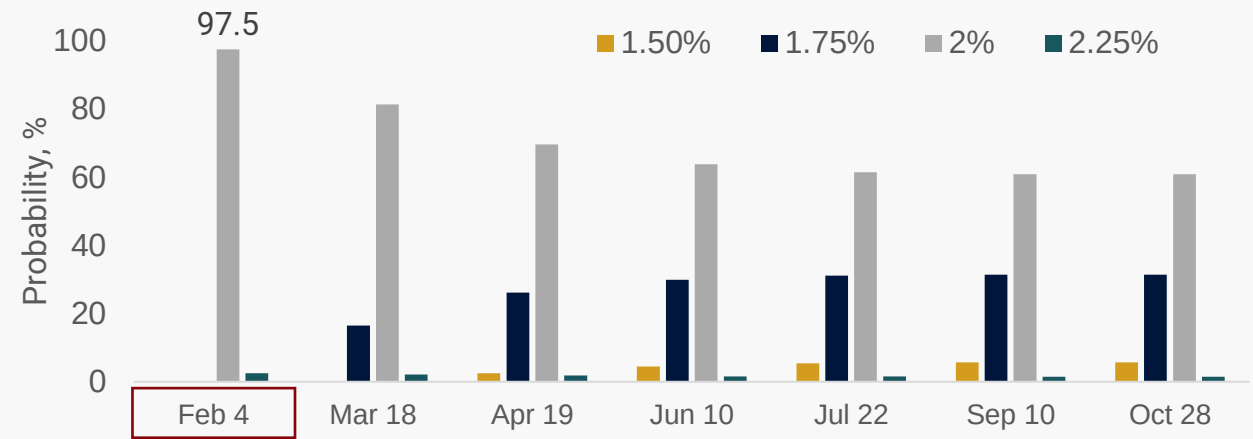
- Recovery in industrial production driven by increased military spending
- Accumulated savings could be rapidly drawn down

Source: ECB

Although headline inflation is close to the ECB's target, services inflation remains elevated and shows some signs of acceleration



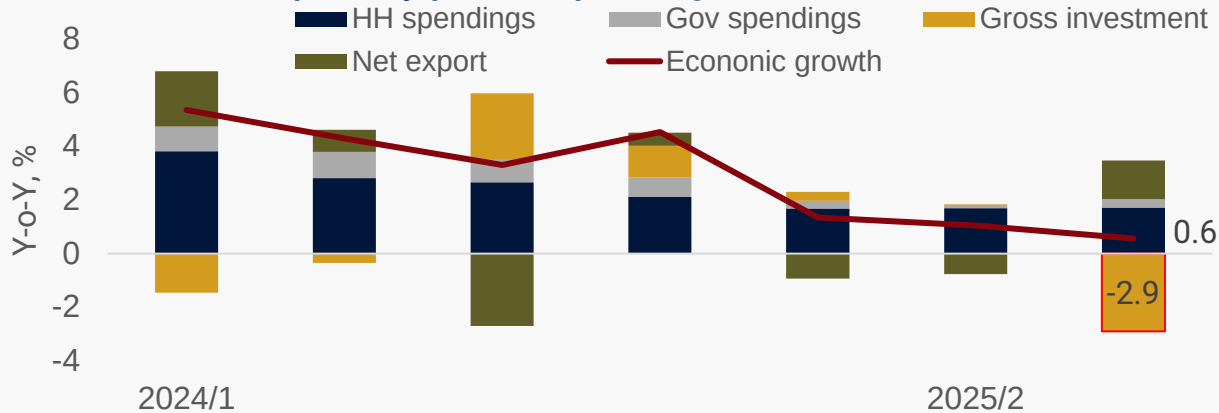
Market expectations regarding the ECB policy rate path



Source(s): Eurostat, ECB

RF. Do recent GDP developments reveal the weaknesses of the Russian economy, or are they policy-driven cyclical developments?

Compared to previous years, the role of government spending, and especially private spending, has diminished

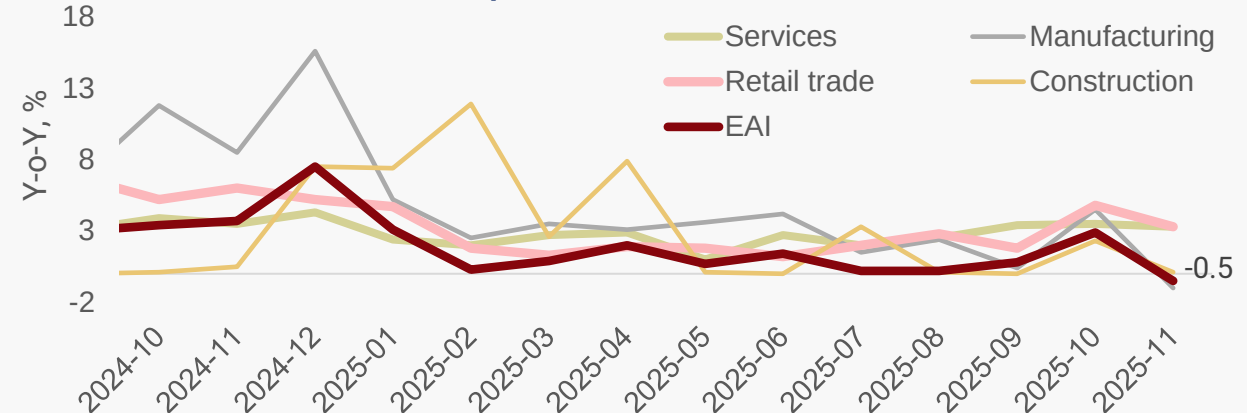


Overall productivity, particularly in manufacturing, is increasing; however, the mining sector does not follow the overall trend

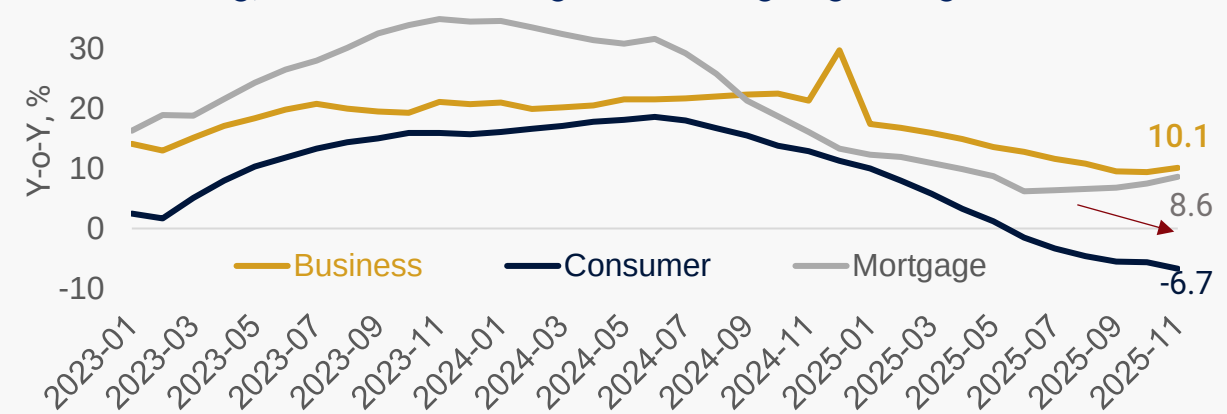


Source: Federal State Statistics Service of Russia

The economic activity indicator has declined; however, activity has remained positive in certain sectors



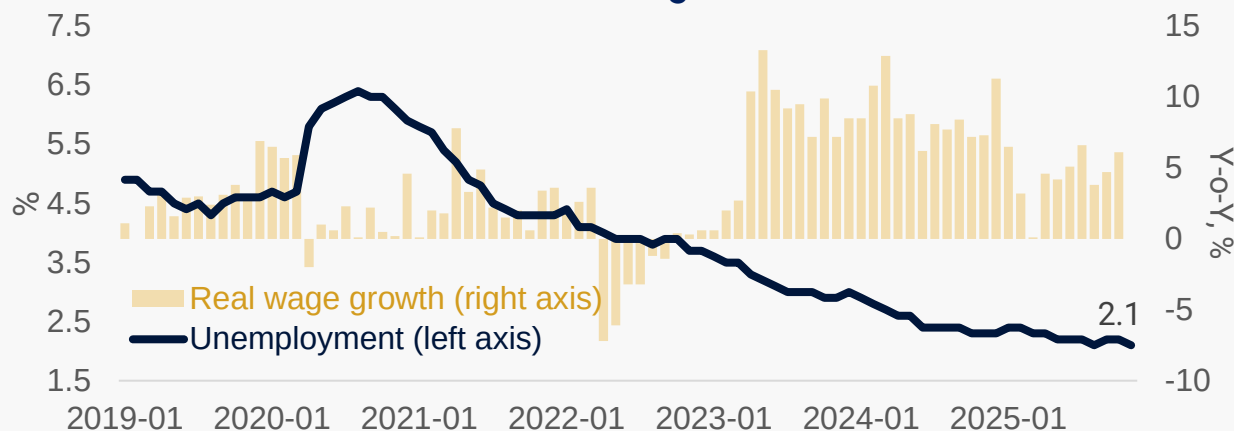
Despite the relative stability of growth in business and mortgage lending, consumer lending is recording negative growth rates



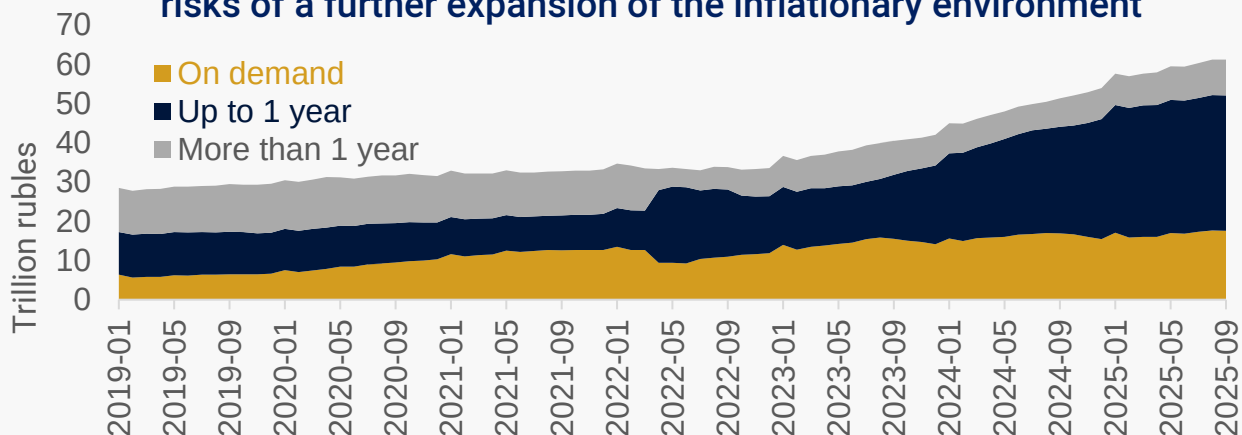
Source(s): Federal State Statistics Service of Russia, Bank of Russia

RF. The labor market remains tight but has shown some signs of easing over the past year. Are there risks of structural supply constraints?

Although the unemployment rate is declining, real wage growth is slowing

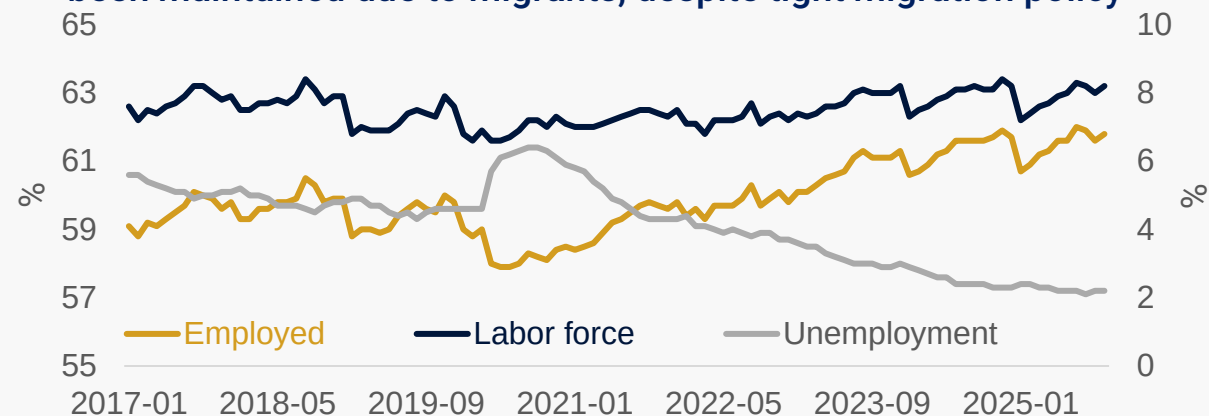


Despite the adjustment in wage growth, accumulated savings entail risks of a further expansion of the inflationary environment

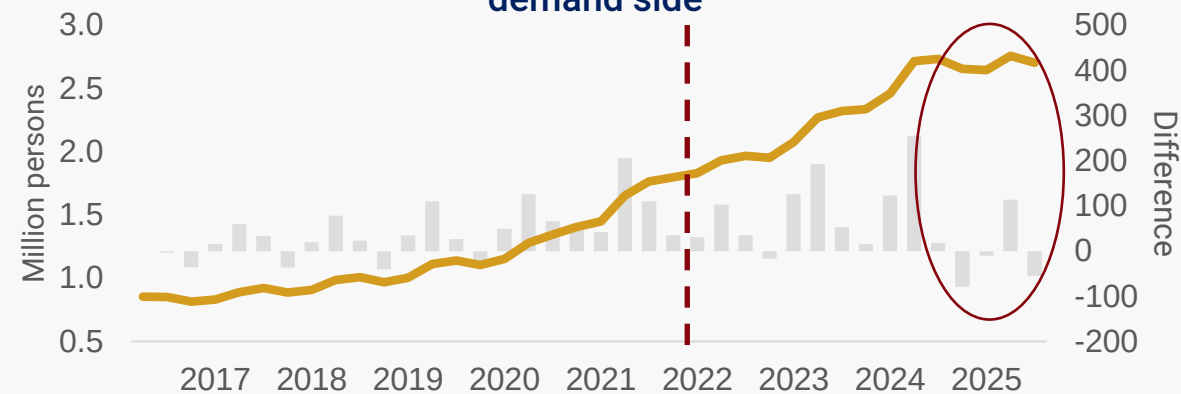


Source(s): Federal State Statistics Service of Russia, Bank of Russia

A certain degree of stability in employment and the labor force has been maintained due to migrants, despite tight migration policy



The number of workers demanded for vacant positions ceased to increase during 2025, indicating signs of weakening on the demand side



Source: Federal State Statistics Service of Russia

RF. Key risks and market expectations

Downside risks:

- Further weakening of demand: slower lending growth, low economic activity
- Demand restraint as a result of fiscal consolidation

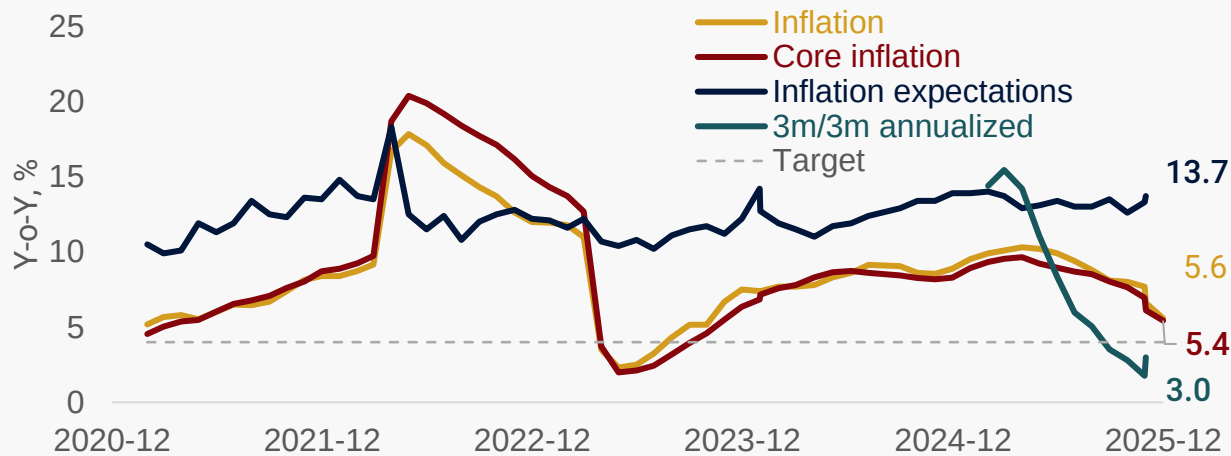
Upside risks:

- Persistence of tight labor market conditions, particularly amid labor supply shortages
- Risks related to the future use of accumulated savings

Other uncertainties:

Uncertainty regarding the level of potential GDP due to possible structural issues

In the fourth quarter, inflation dynamics slowed significantly



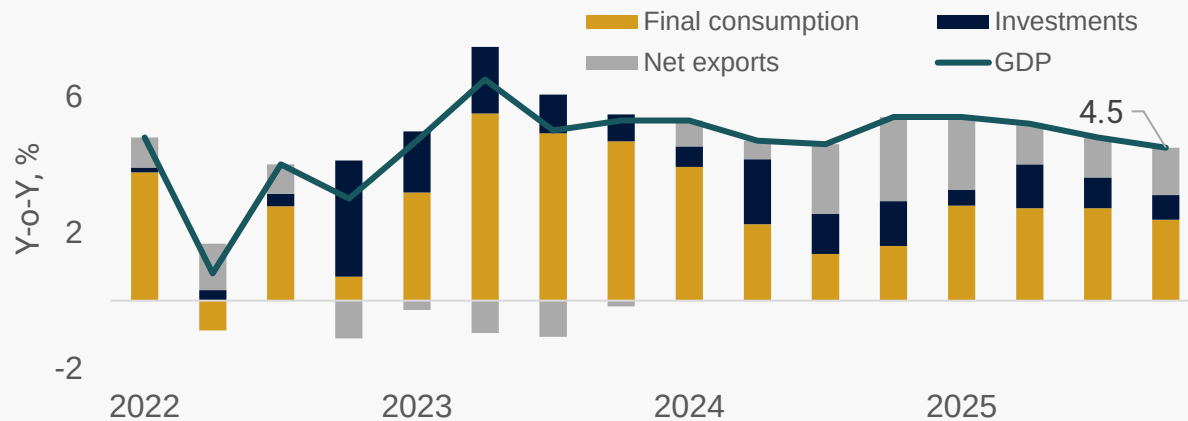
Market expectations regarding the policy rate (before the December decision)



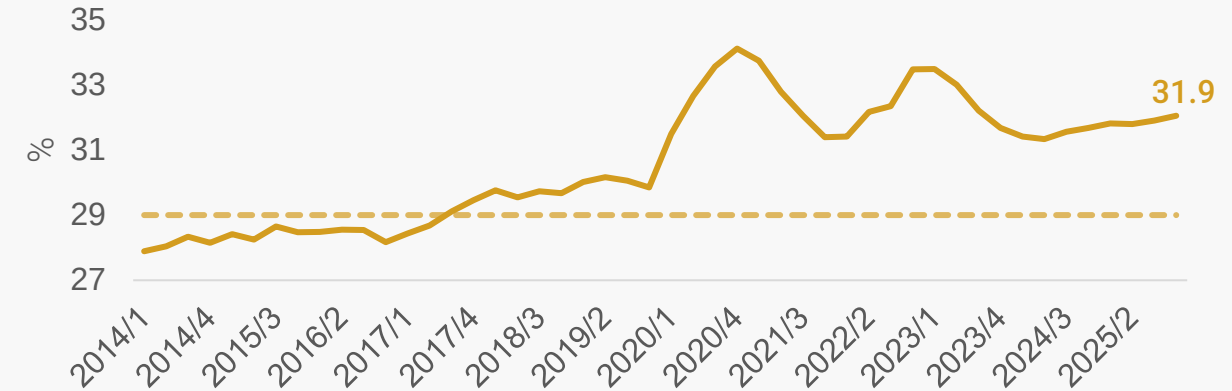
Source: Bank of Russia

China. Various government stimulus measures aimed at restoring consumption have not restored consumer confidence and are largely leading to an increase in savings

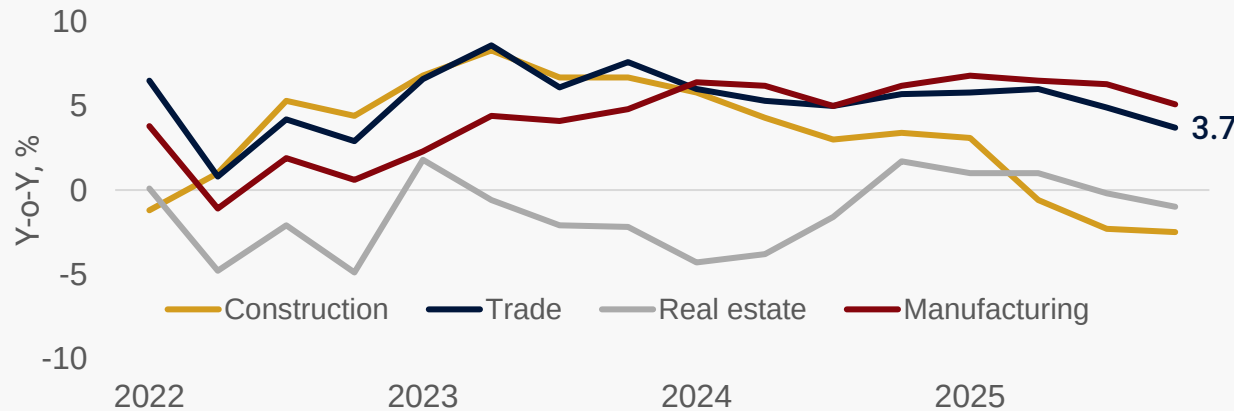
China's Real GDP, Y-o-Y, %



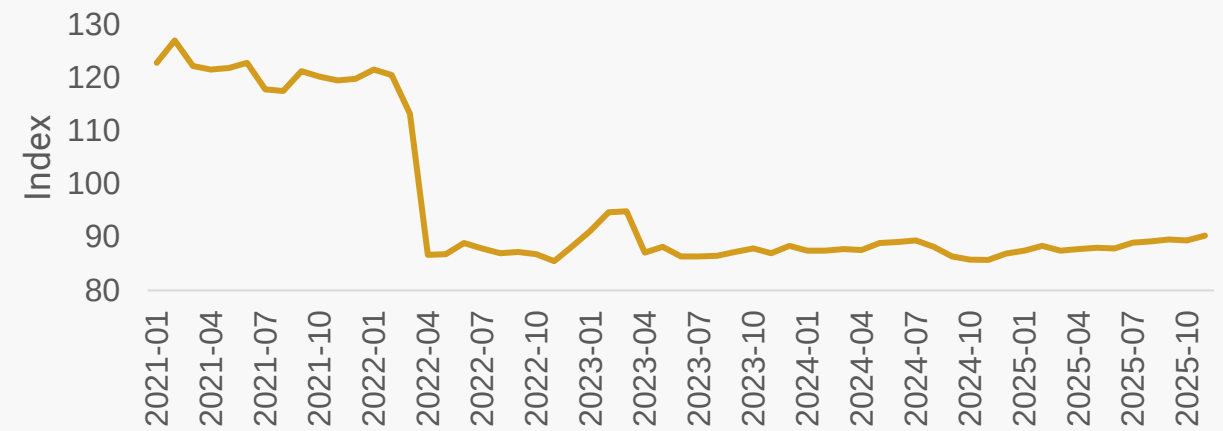
Household Savings as a Share of Disposable Income



The economy's main driving sectors continue to be manufacturing and wholesale trade, while growth in retail trade continues to slow



Consumer Confidence Index

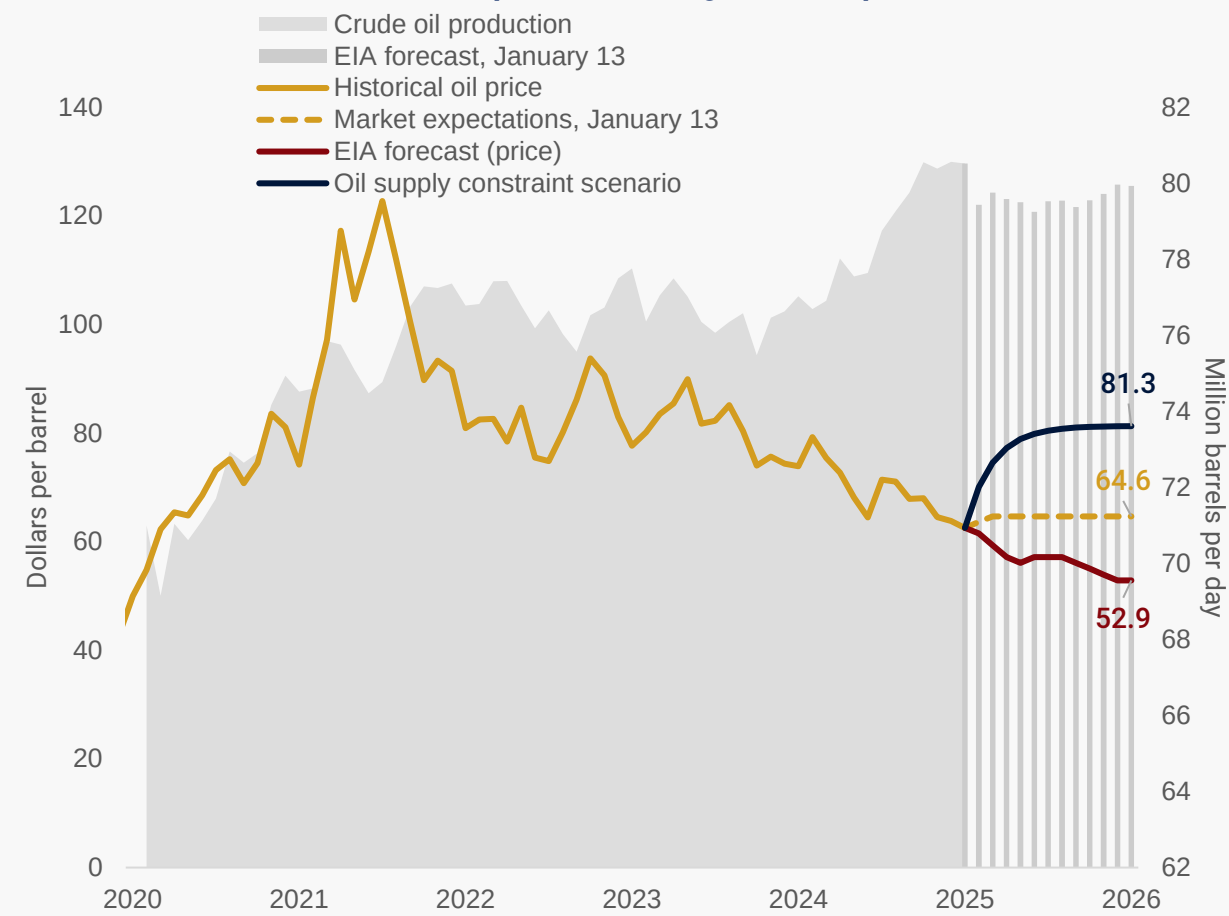


Source: National Bureau of Statistics of China

Source(s): National Bureau of Statistics of China, CBA estimates, OECD

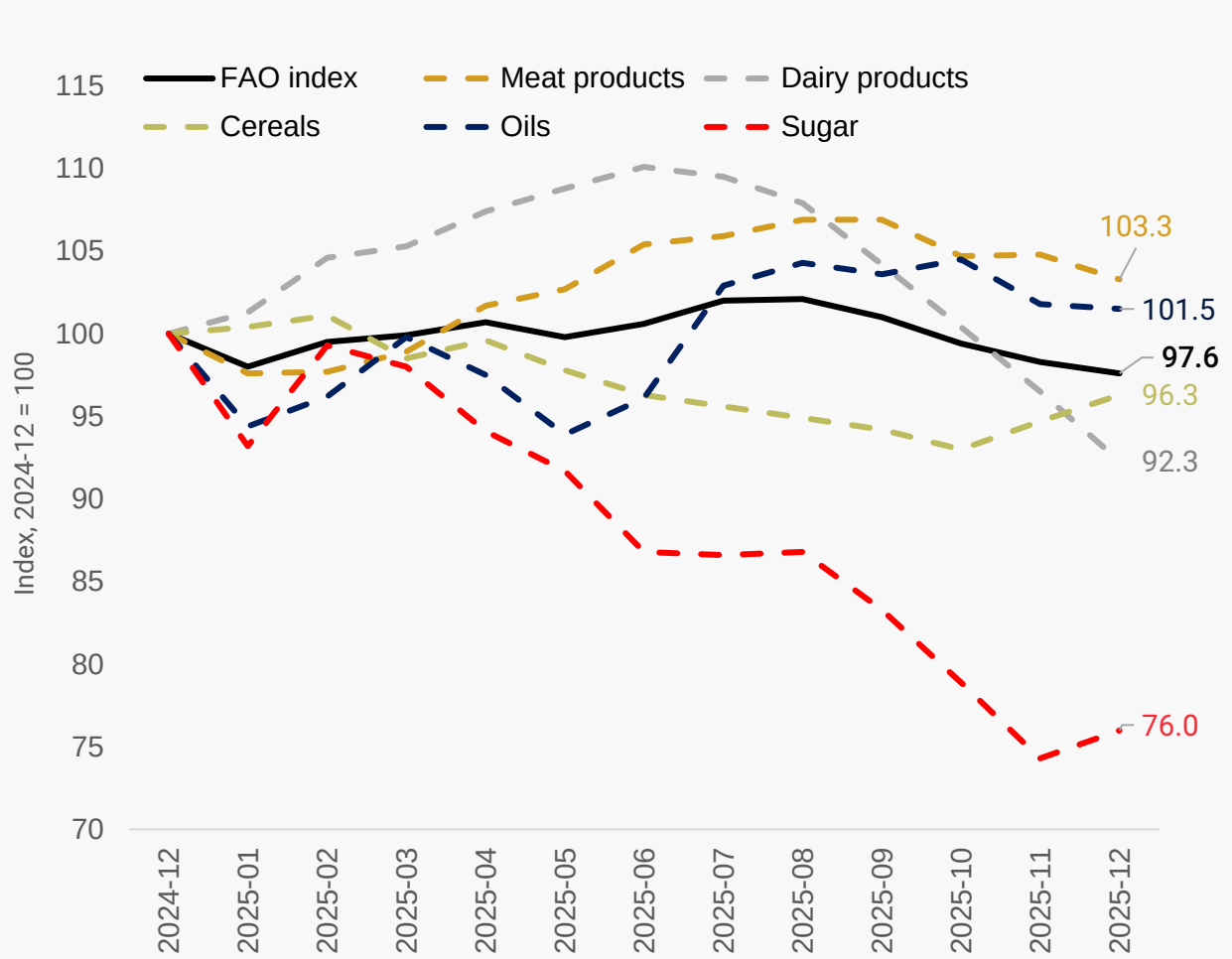
Commodity markets. In the oil market, the race among countries, limited coordination capacity, and the faster-than-expected formation of the “green economy” outlook are maintaining an environment of excess supply, while in food markets, signs of weakening deflationary trends driven by supply factors are observed

Global oil production continues to exceed consumption, exerting downward pressure on global oil prices

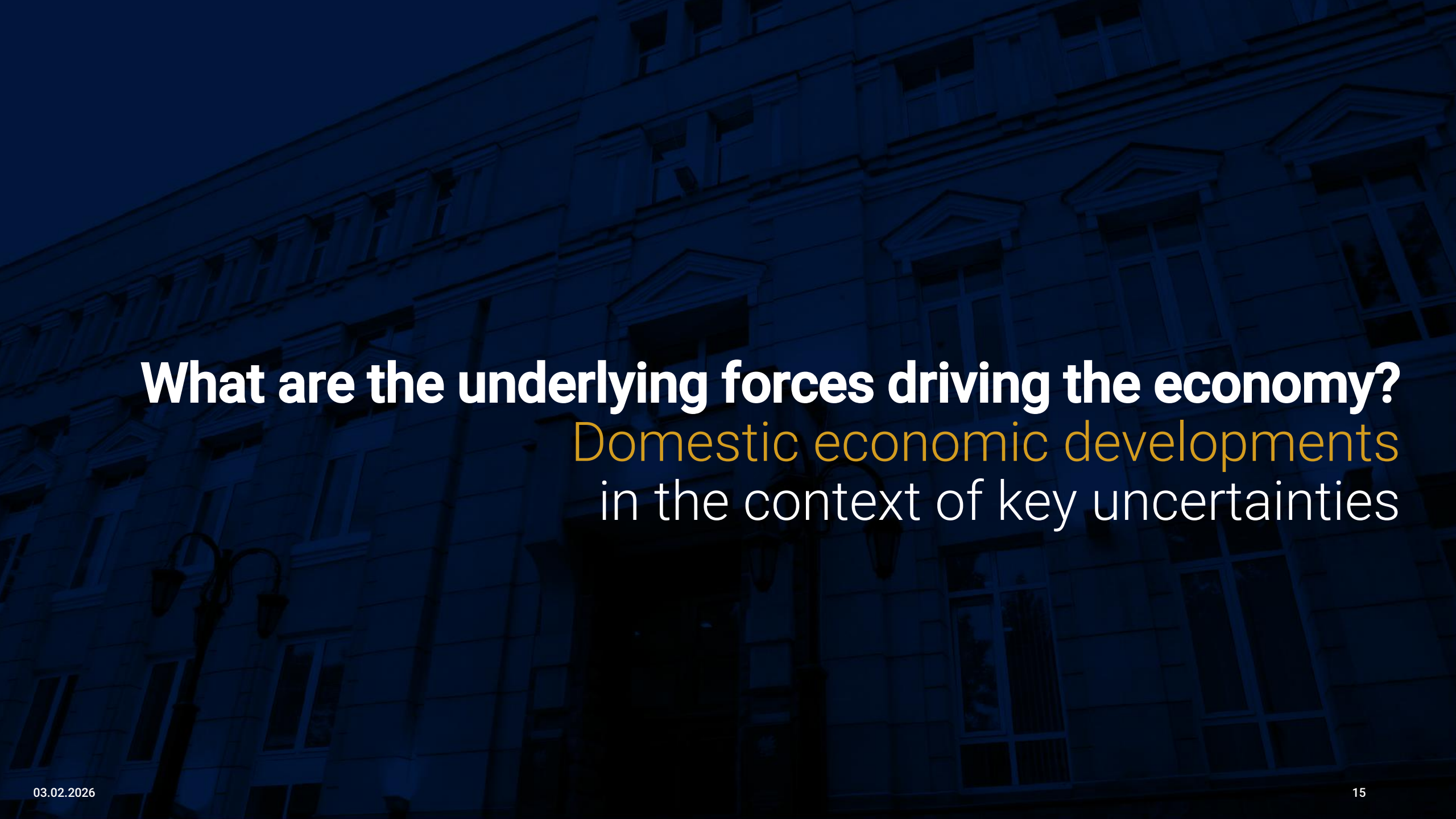


Source(s): EIA, CBA estimates

Global Food Price Index, December 2024 = 100



Source: FAO

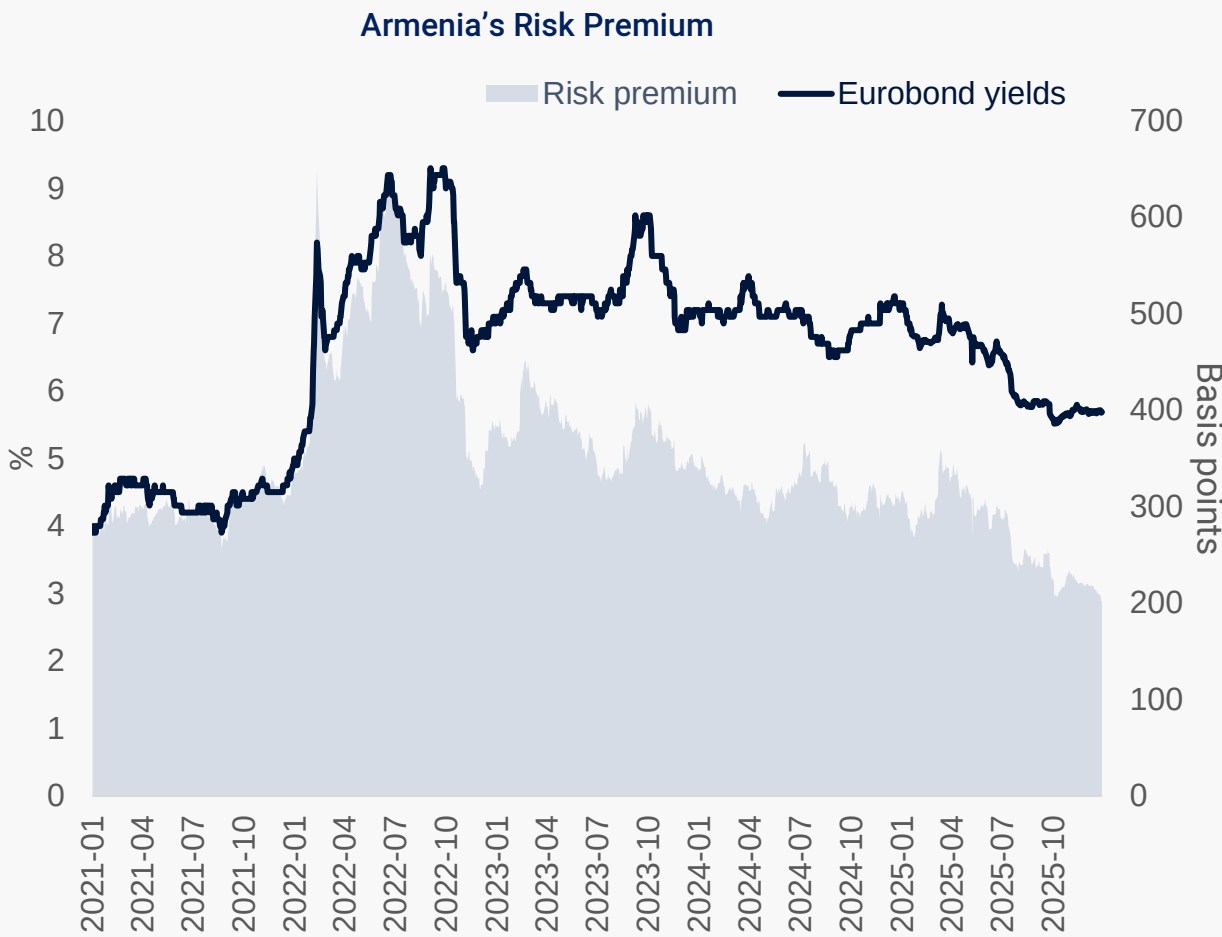


What are the underlying forces driving the economy?

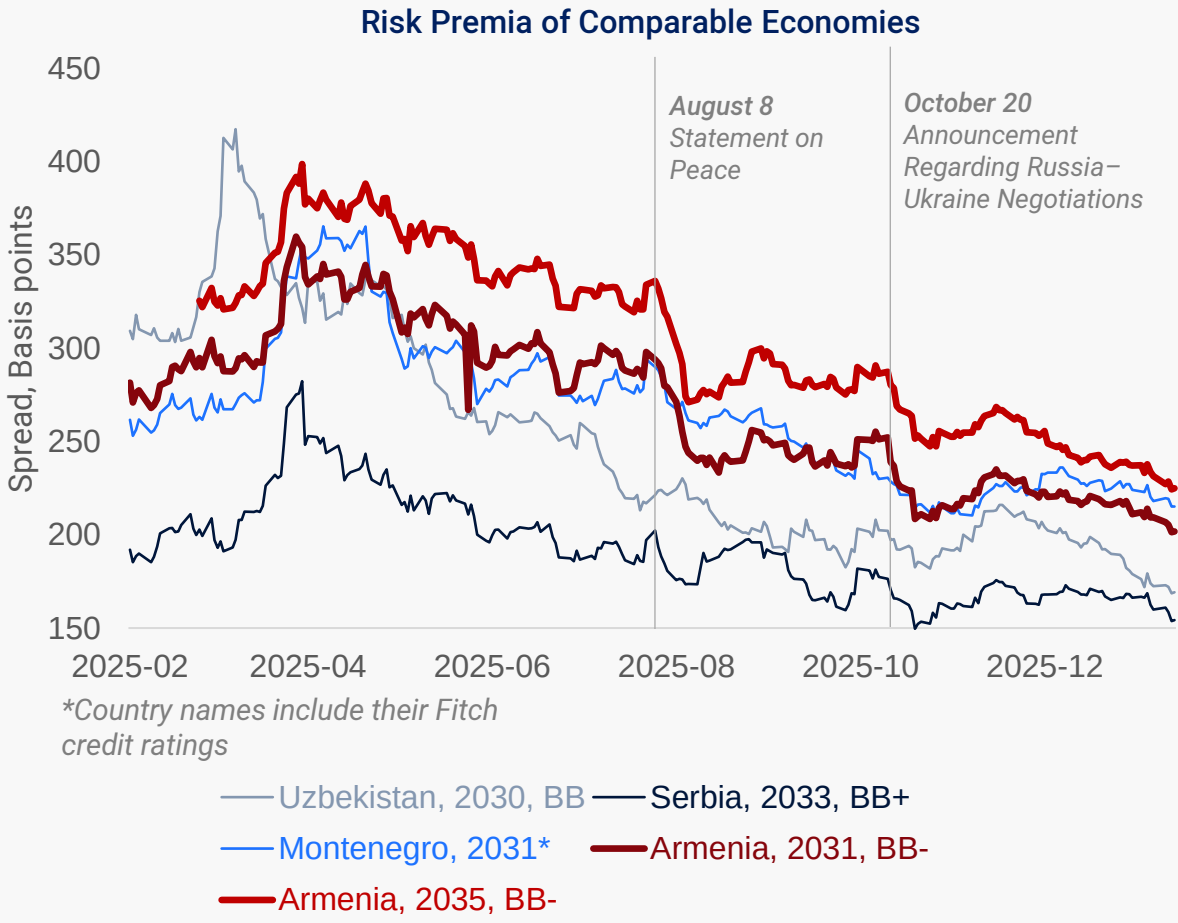
Domestic economic developments
in the context of key uncertainties

Armenia's risk premium has declined, stabilizing in the range of 200–250 basis points. Is this improvement driven by long-term external and/or domestic fundamentals or by short-term, transitory factors?

Developments in Armenia's risk premium reflect both common trends across emerging and comparable economies as well as the influence of Armenia-specific factors



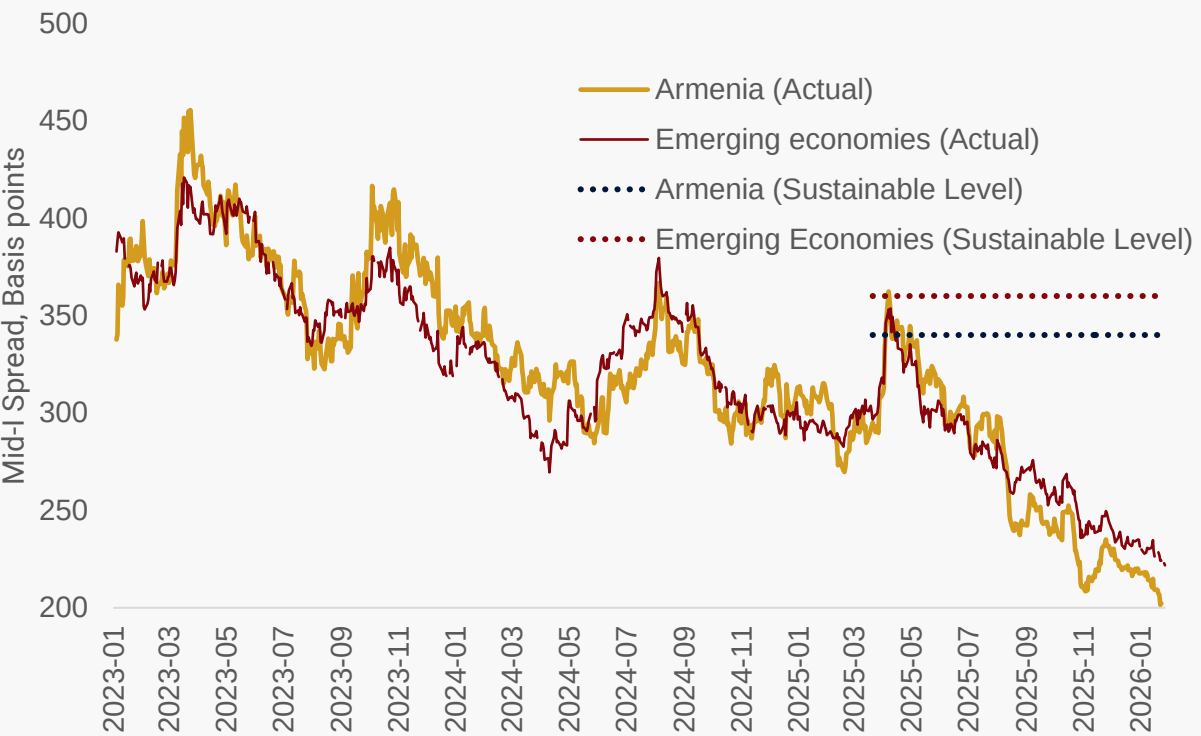
Source(s): CBA calculations, Fitch



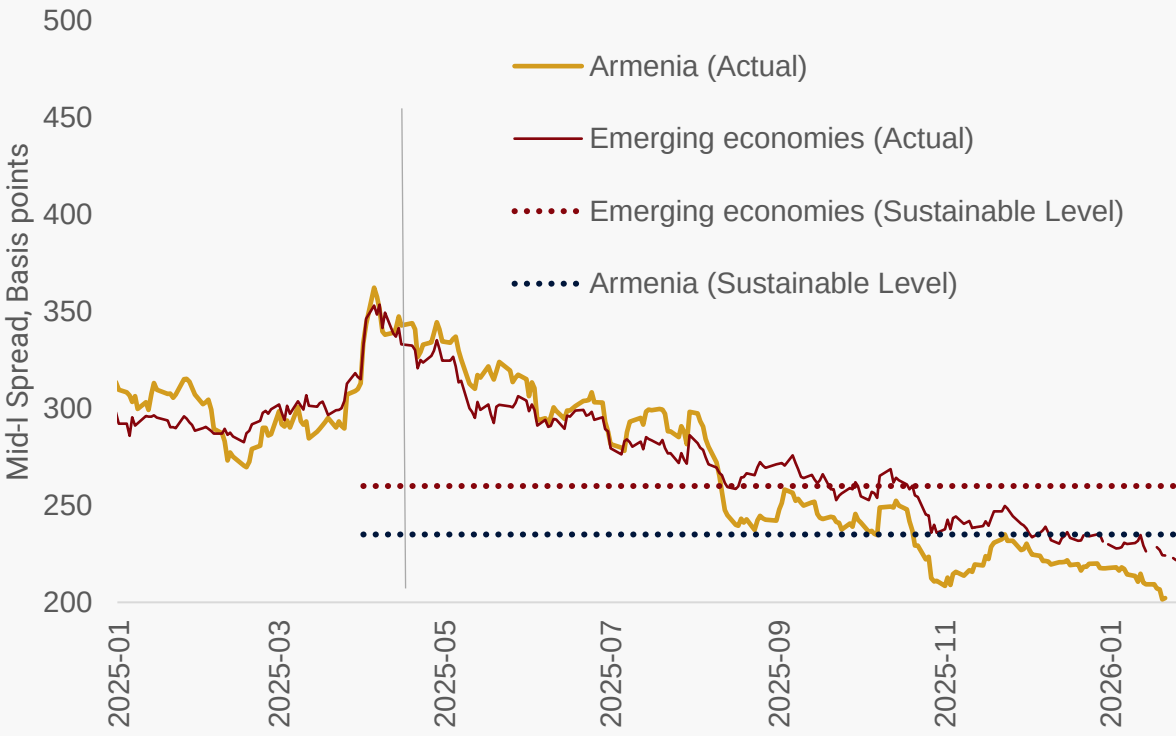
* According to Moody's, Montenegro is rated Ba3 (Armenia is similarly rated Ba3)

Uncertainty remains over the long-term sustainable level of Armenia’s risk premium

Scenario 1. Persistence of medium-term trends in emerging economies



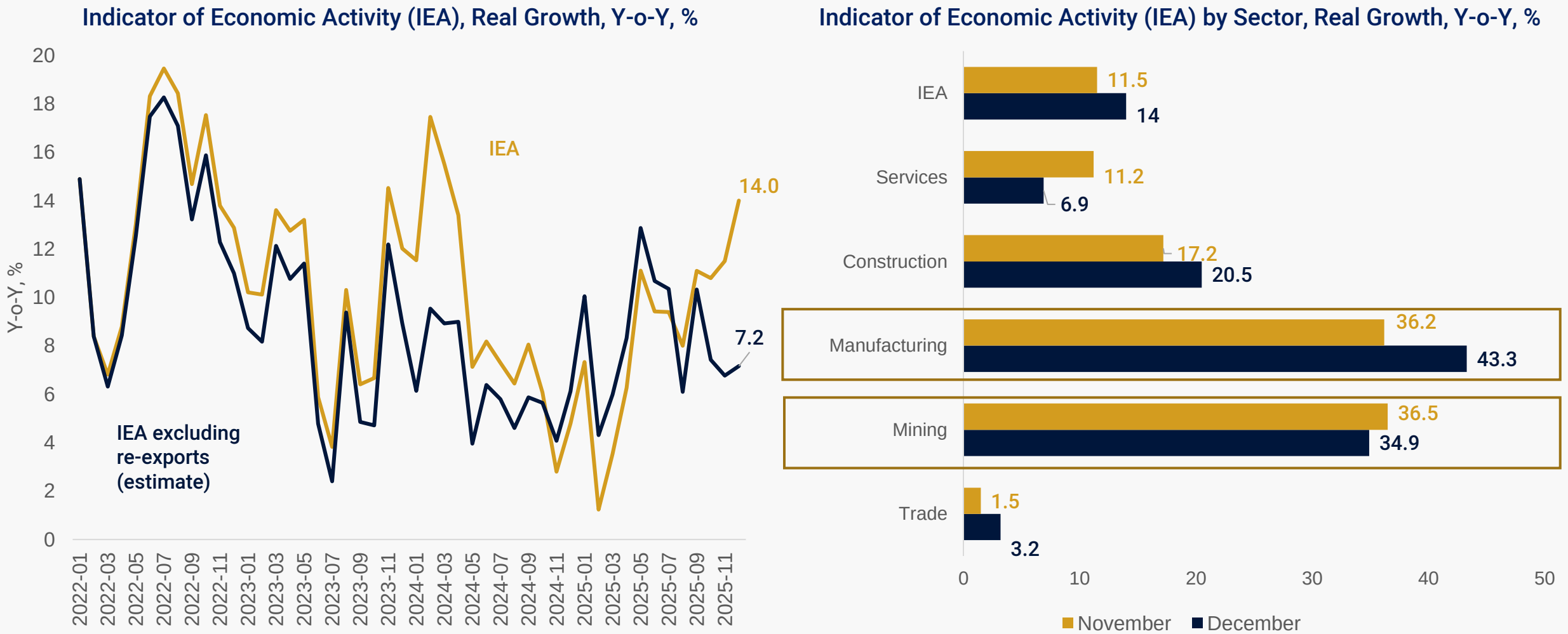
Scenario 2. Persistence of trends observed in recent months in emerging economies



		Emerging economies	Armenia
Scenario 1	Sustained persistence of current trends	260	240
Scenario 2	Sustained persistence of medium-term trends	360	340
Scenario 3	“Old” Reality	450	430

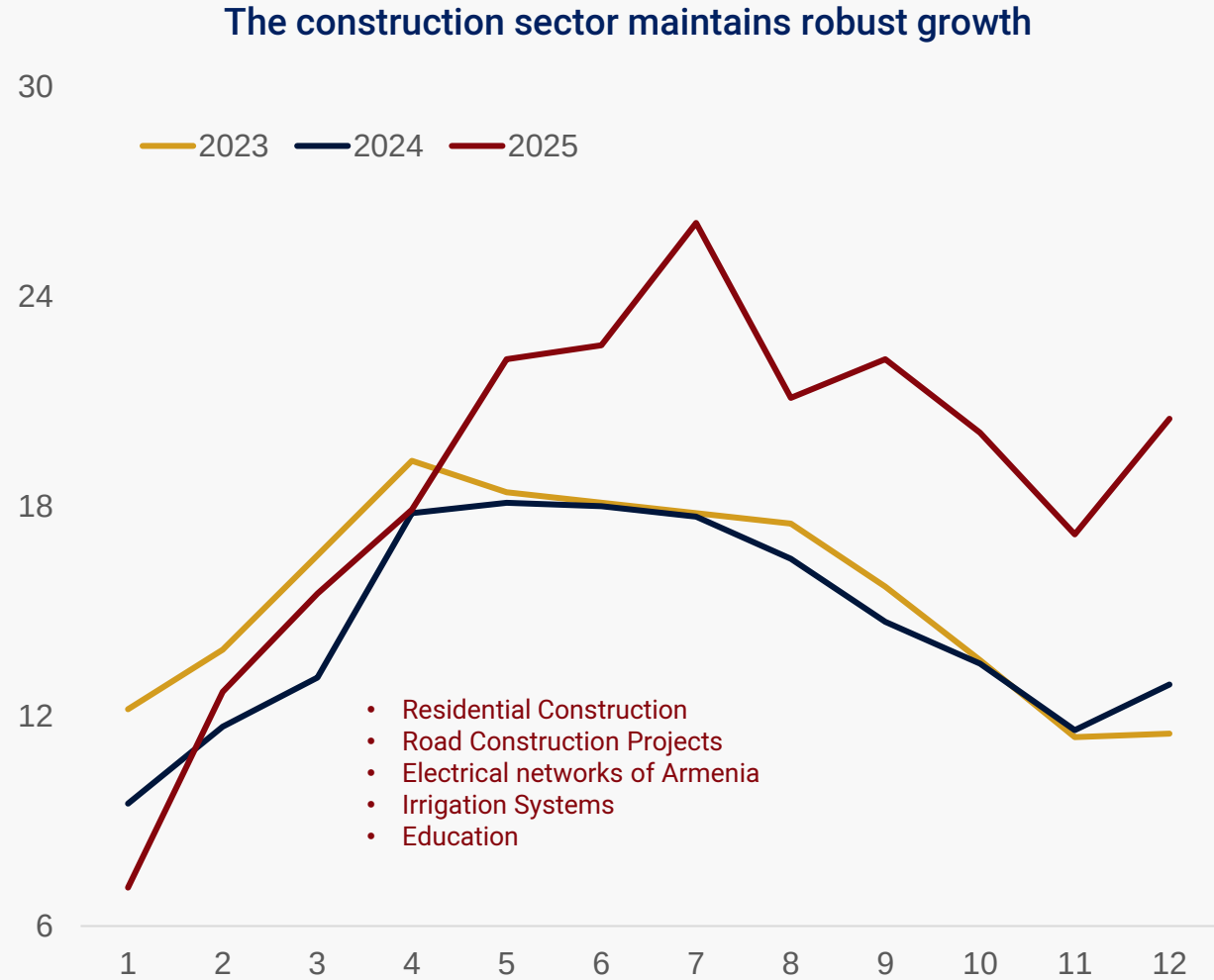
Source: CBA representative estimates

The indicator of economic activity remained at a high level in December, supported by growth across nearly all sectors of the economy, while the trade sub-sector showed mixed signals

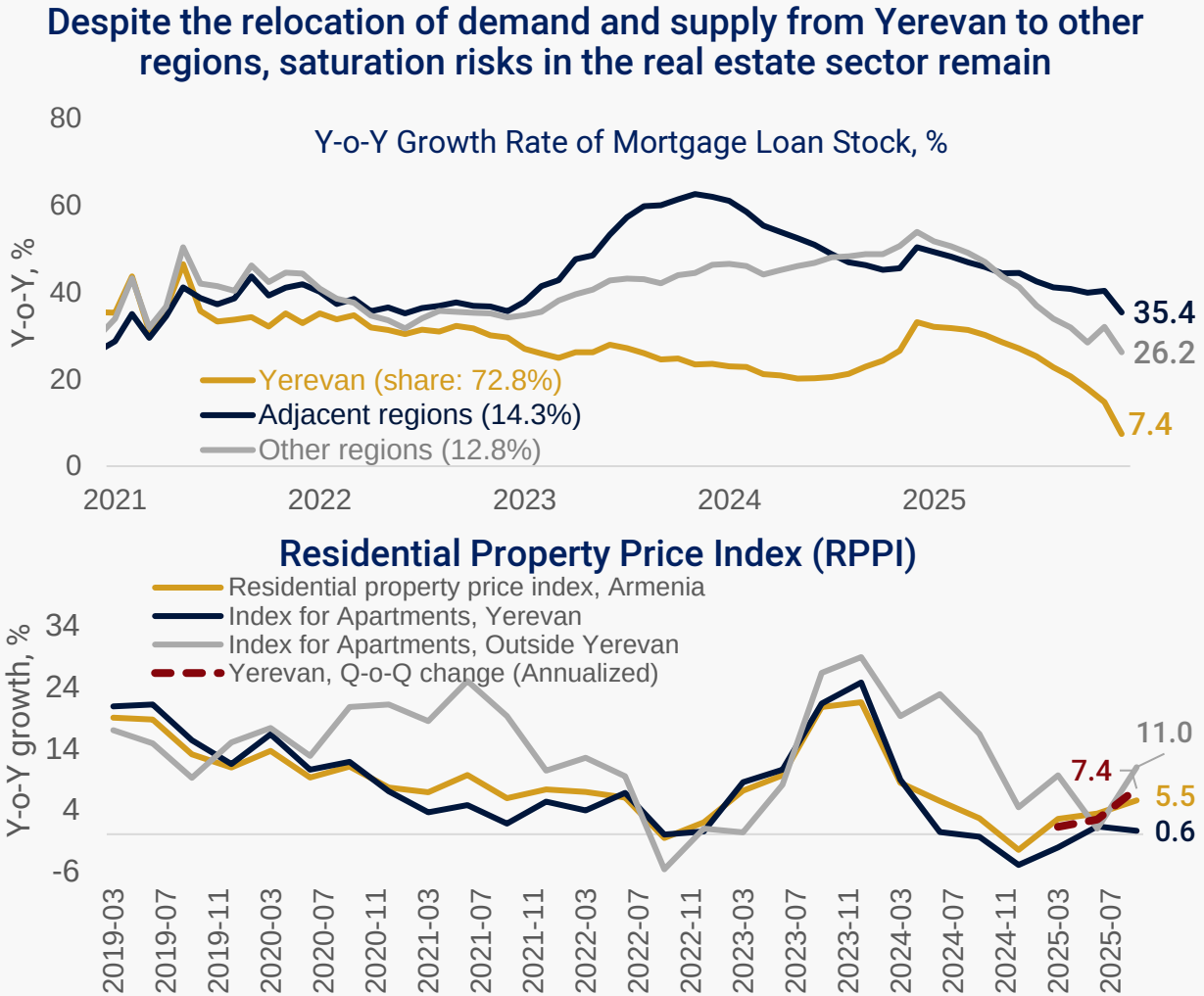


Source(s): Statistical Committee Republic of Armenia, CBA estimates

The construction sector continues to grow with strong momentum, while the real estate market shows emerging signs of price pressures

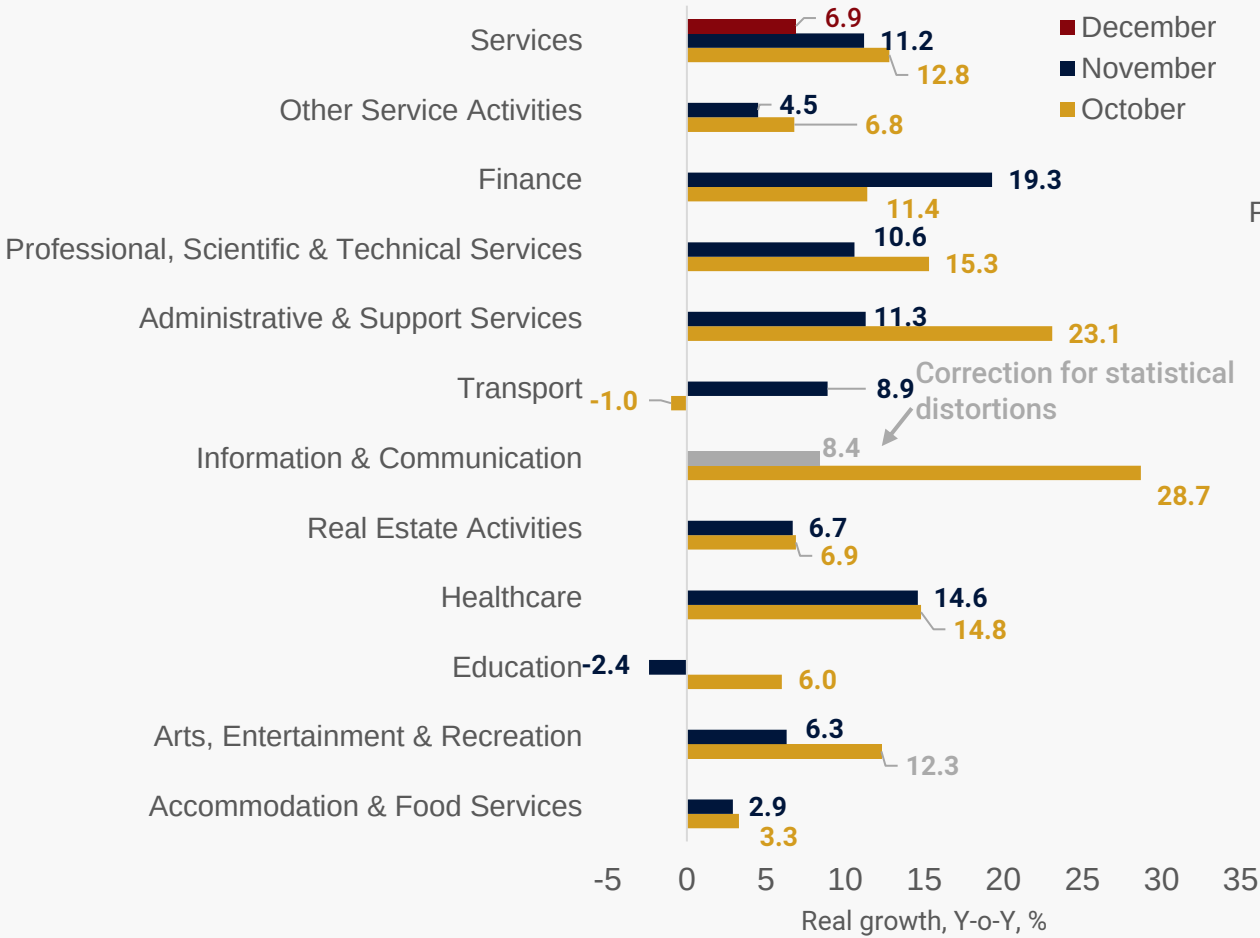


Source(s): Statistical Committee Republic of Armenia, Cadastre Committee of Armenia

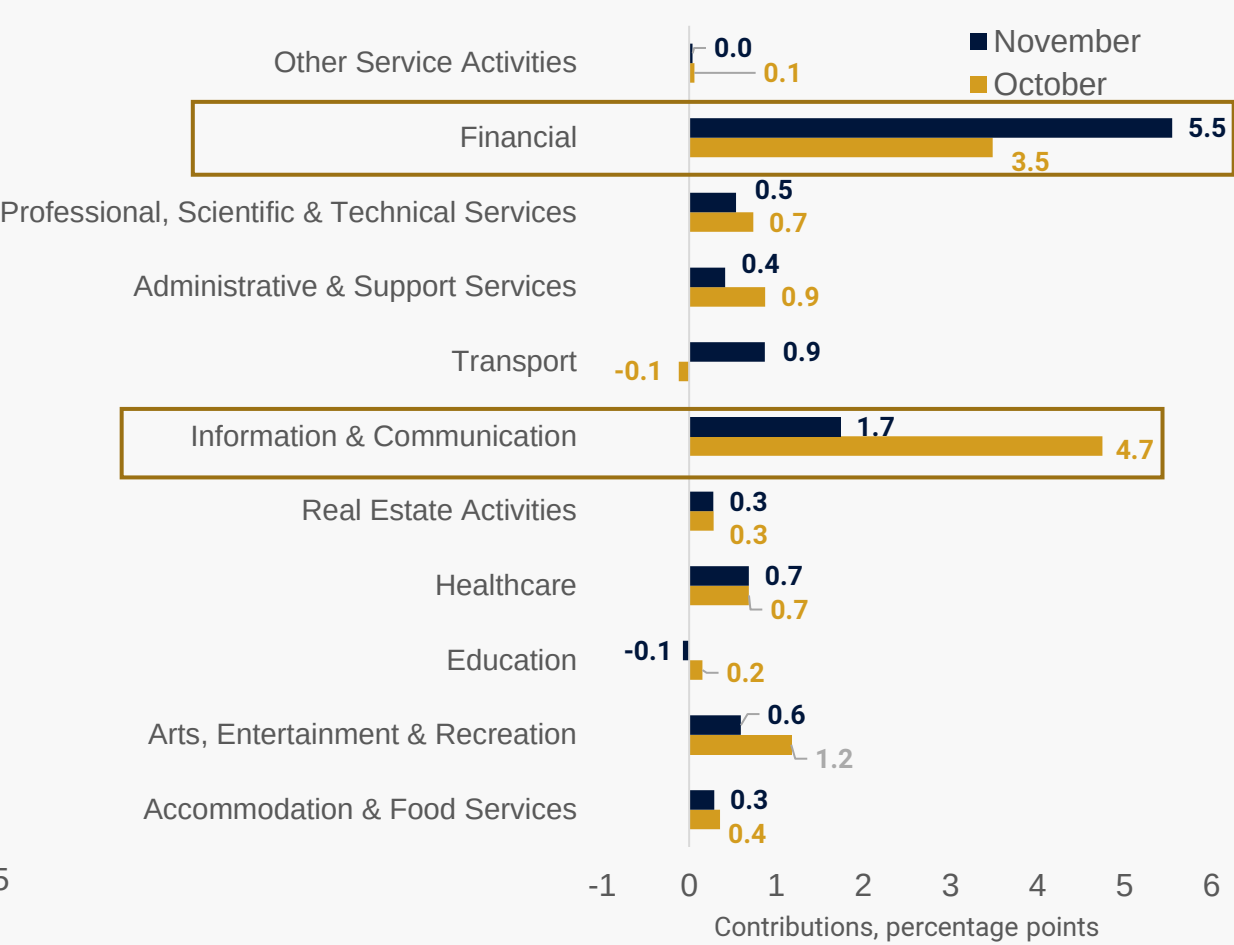


Services sector growth has stabilized at approximately 10%, led primarily by the financial and ICT sectors

Growth in the services sector is pervasive across its sub-sectors



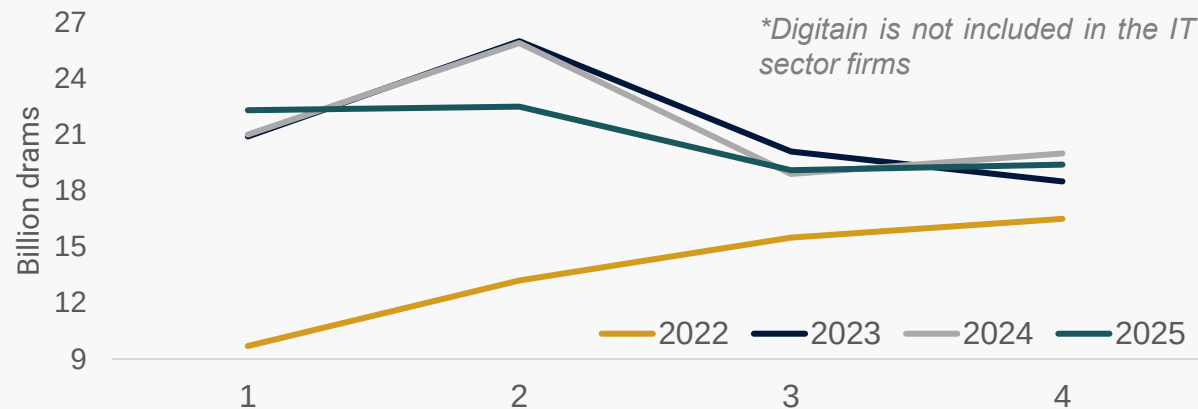
Contributions of Sub-sectors to Services Sector Growth



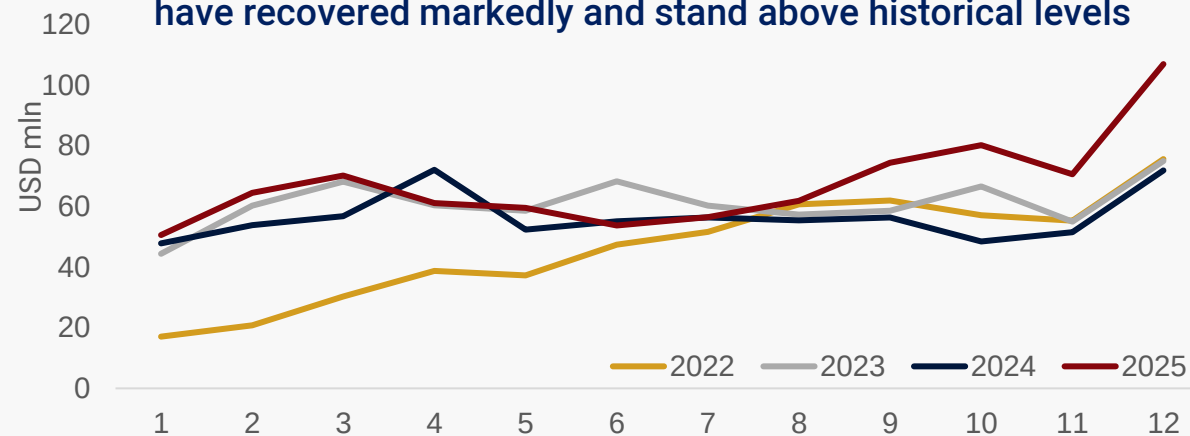
Source(s): Statistical Committee Republic of Armenia, CBA

However, growth in the ICT sector exhibits mixed signals

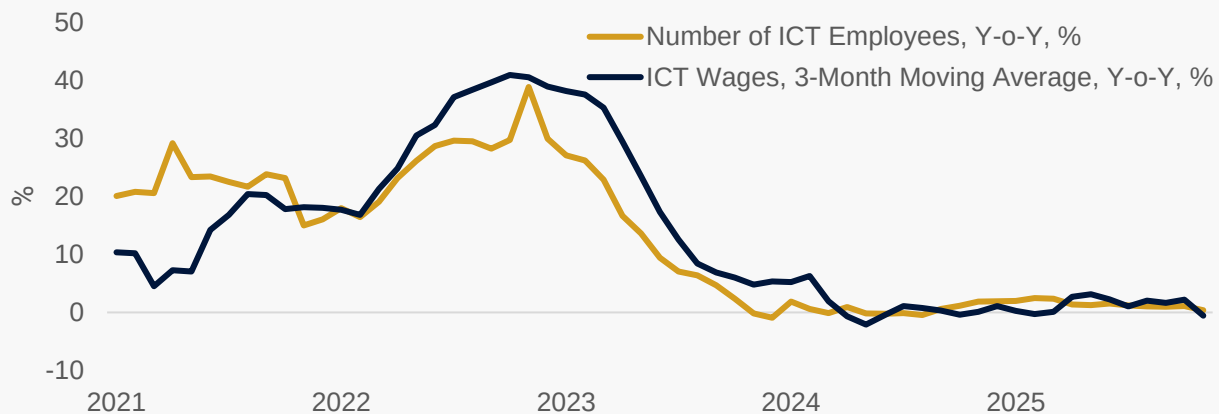
On the one hand, the deceleration of tax revenue growth in the IT sector may signal underlying weakness in industry activity



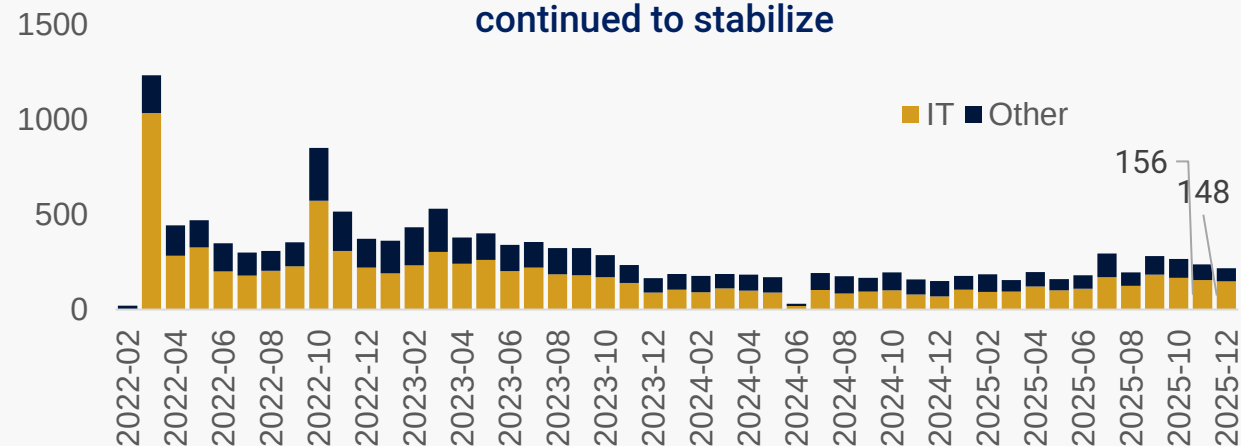
On the other hand, foreign-exchange transactions in the IT sector have recovered markedly and stand above historical levels



The slowdown in wages and employment growth in the ICT sector continues



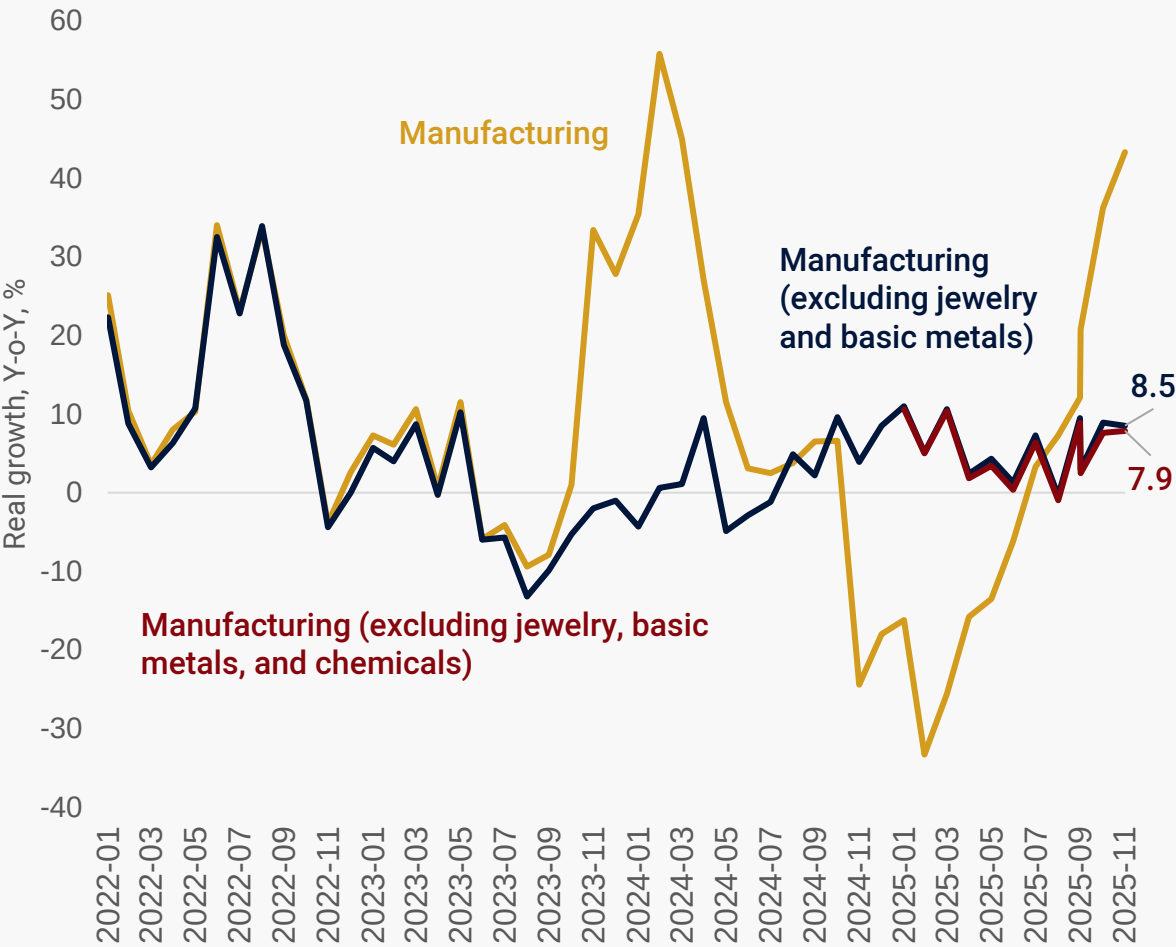
The number of newly registered non-resident sole proprietors has continued to stabilize



Source(s): Statistical Committee Republic of Armenia, CBA

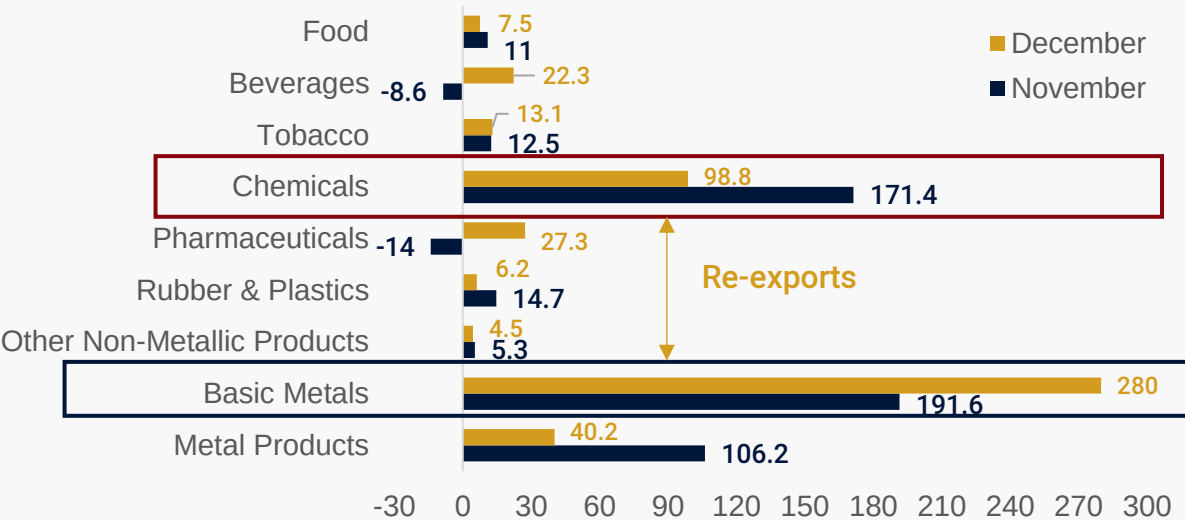
Manufacturing sector. December's sustained high activity in the manufacturing sector reflects not only robust growth in the traditional sub-sectors, but also the influence of non-structural factors (1/2)

Manufacturing Real Growth, Y-o-Y, %

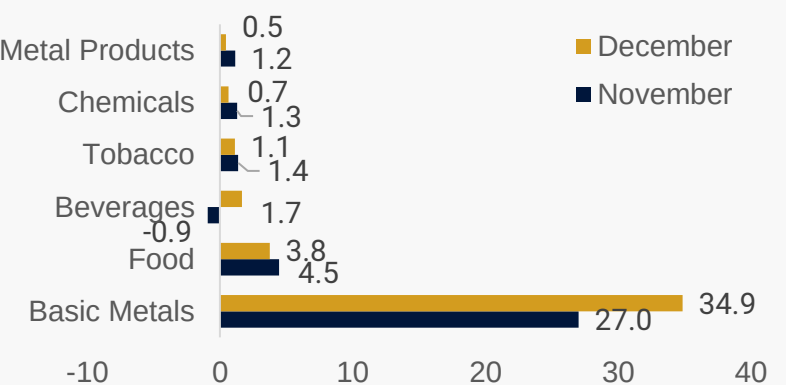


Source(s): Statistical Committee Republic of Armenia, CBA calculations

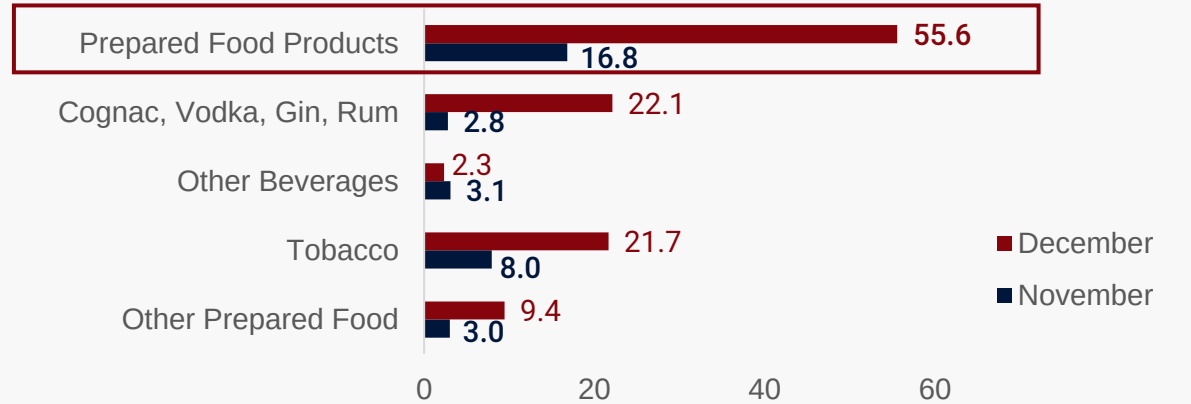
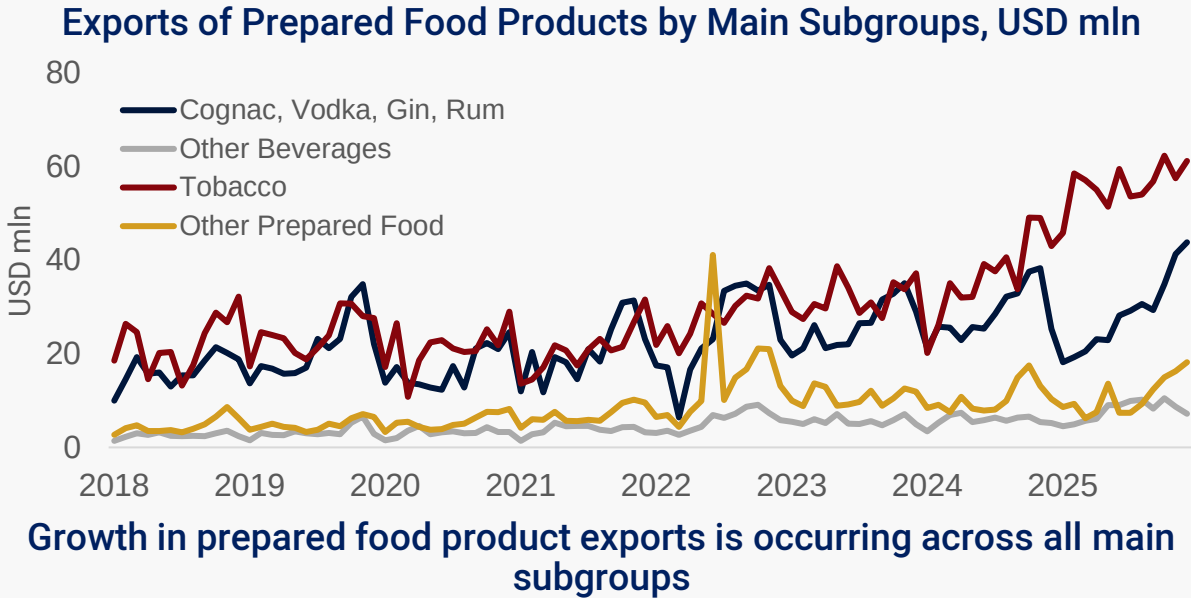
In December, growth was recorded not only in the “traditional” sectors, but also in other sub-sectors



Sectors Contributing Most to Manufacturing Growth

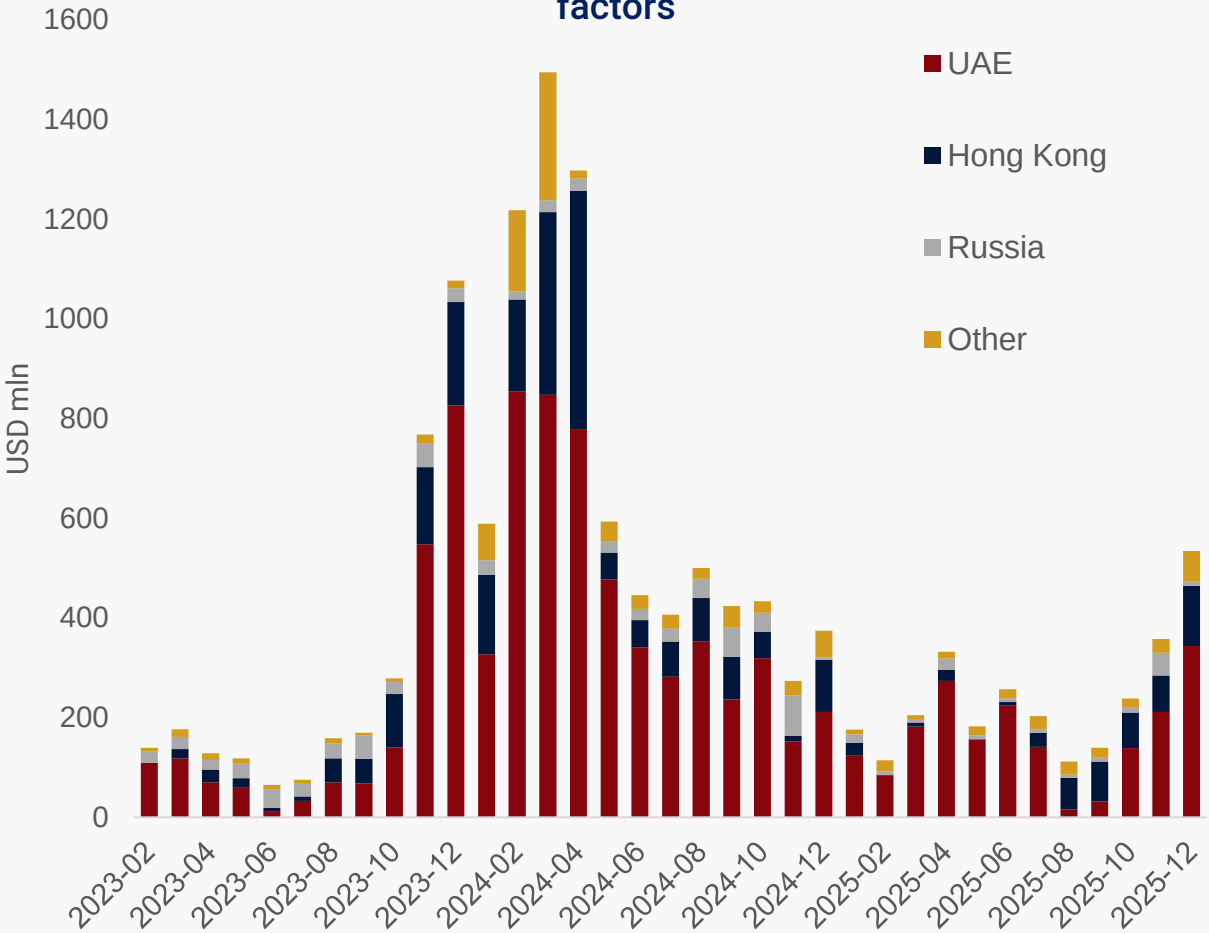


Manufacturing sector. December's sustained high activity in the manufacturing sector reflects not only robust growth in the traditional subsectors, but also the influence of non-structural factors (2/2)

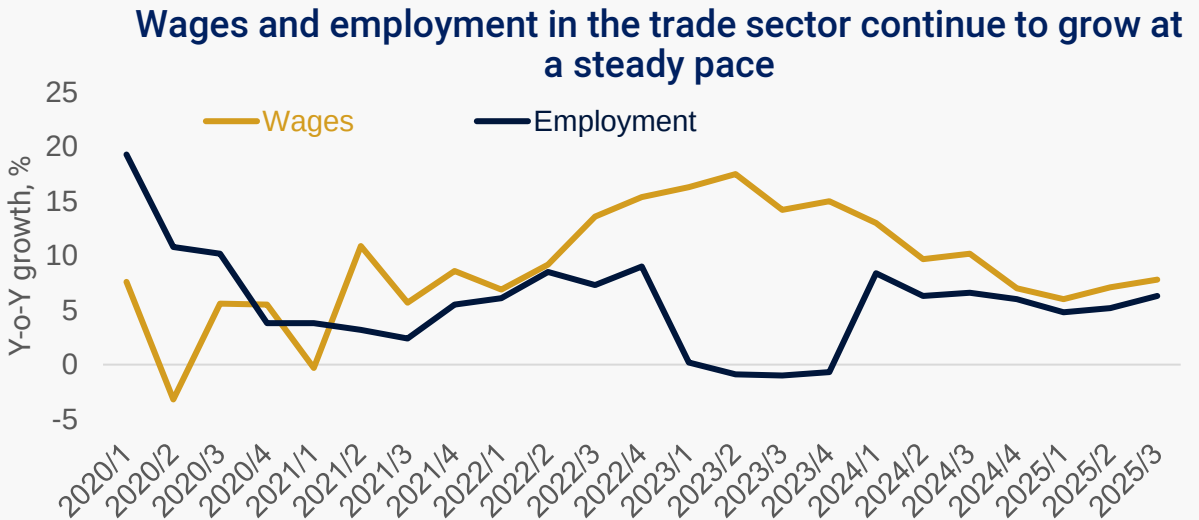
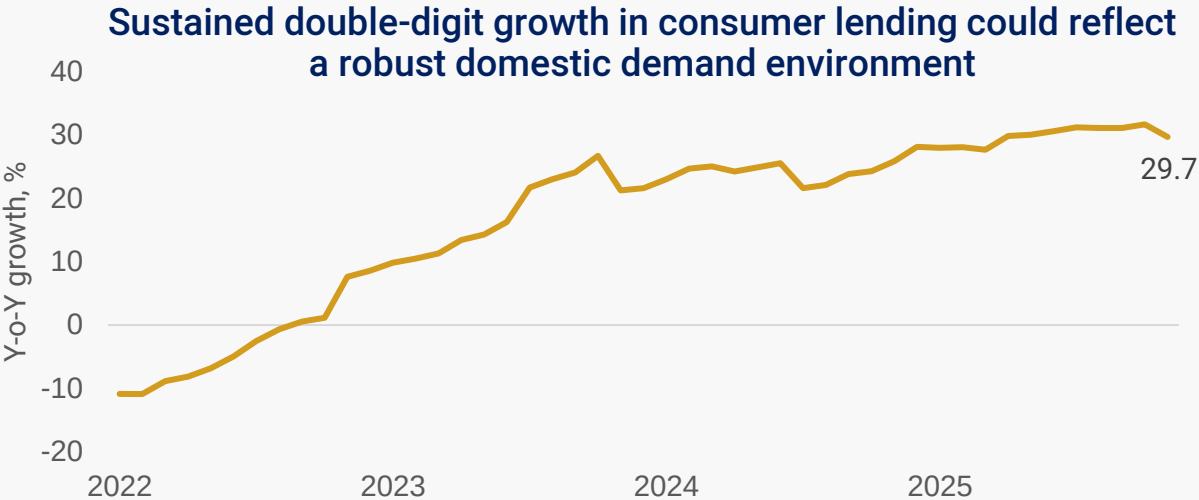
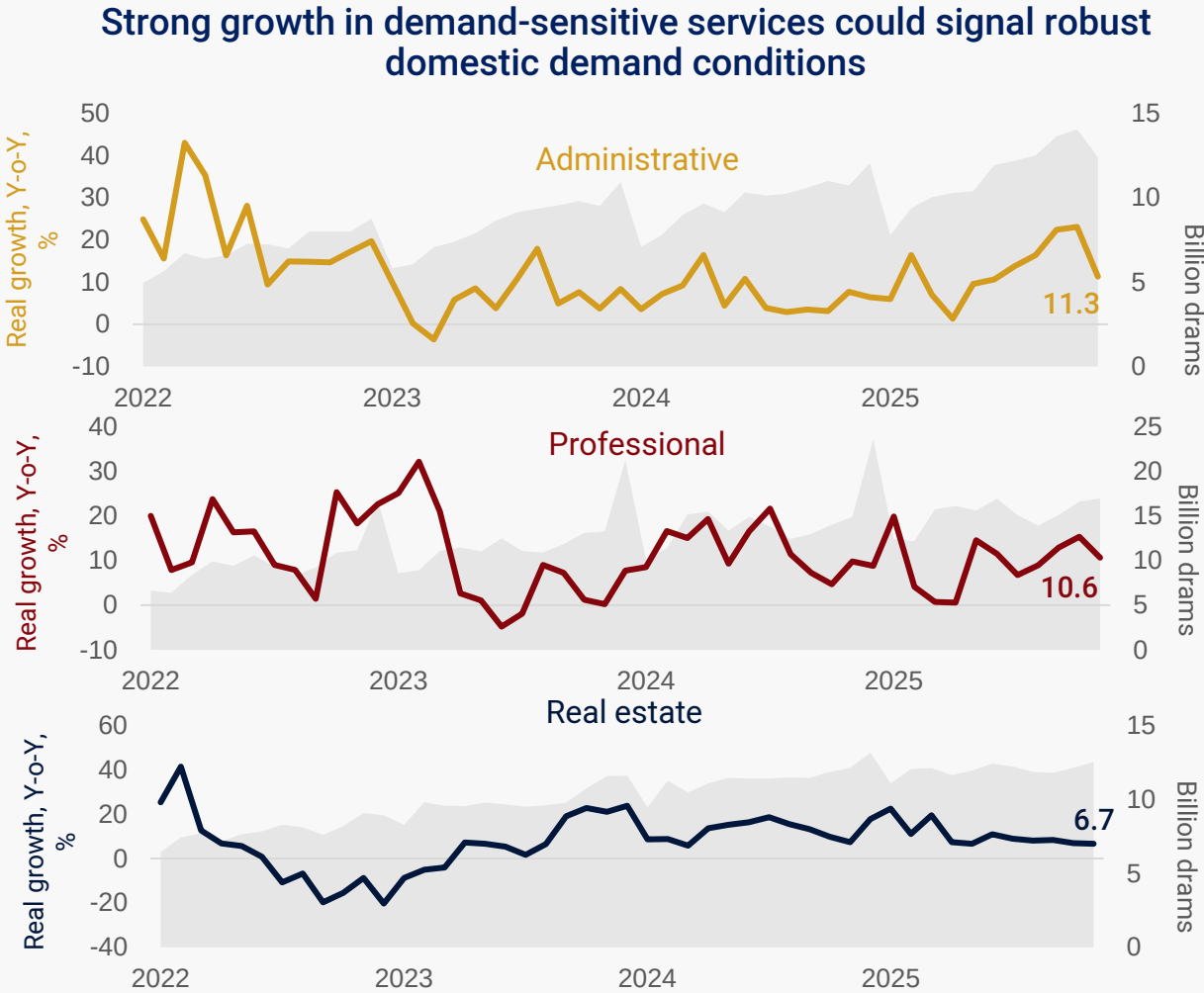


Source(s): Statistical Committee Republic of Armenia, CBA calculations

Exports of precious metals continue to be influenced by non-structural factors

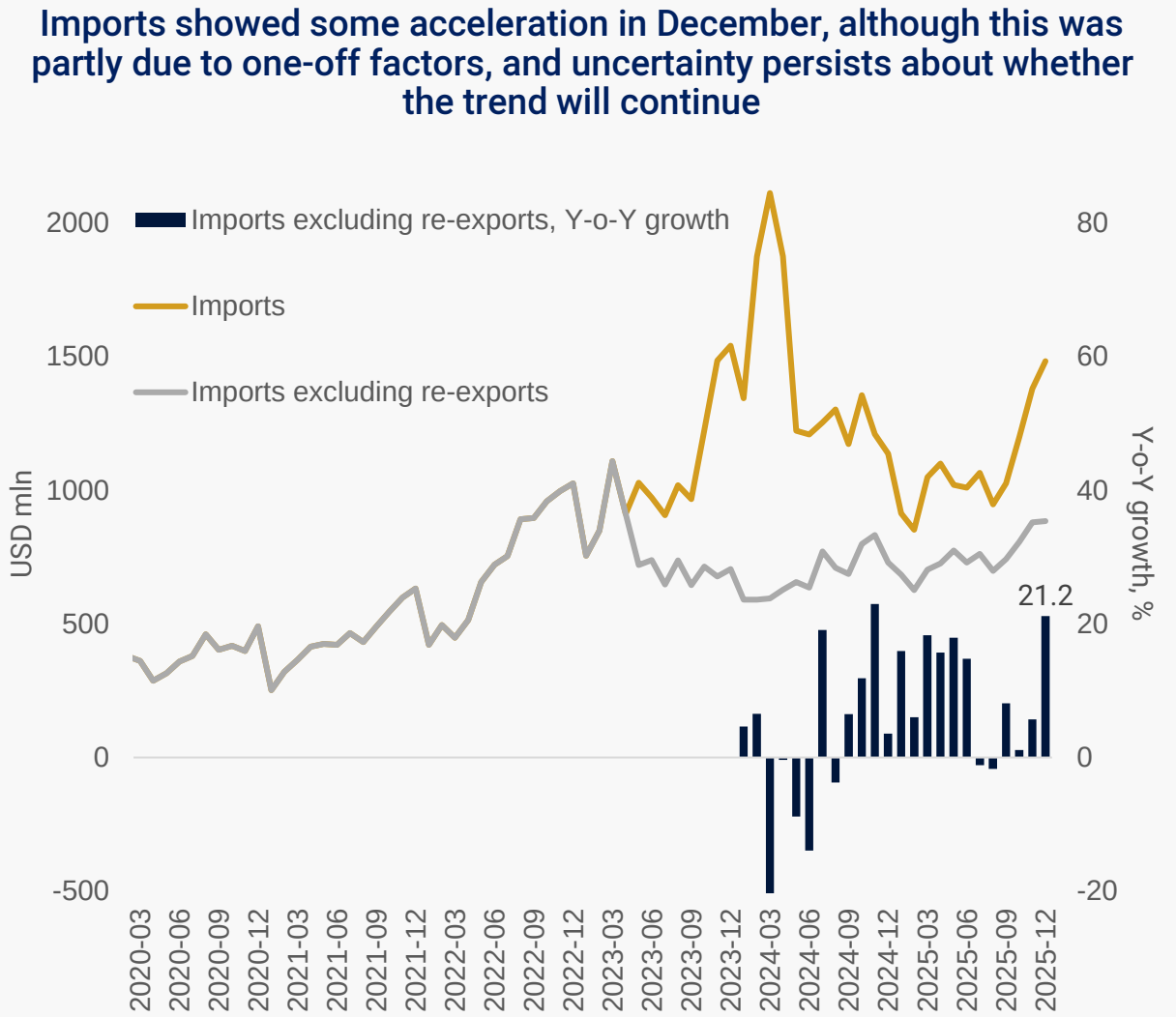
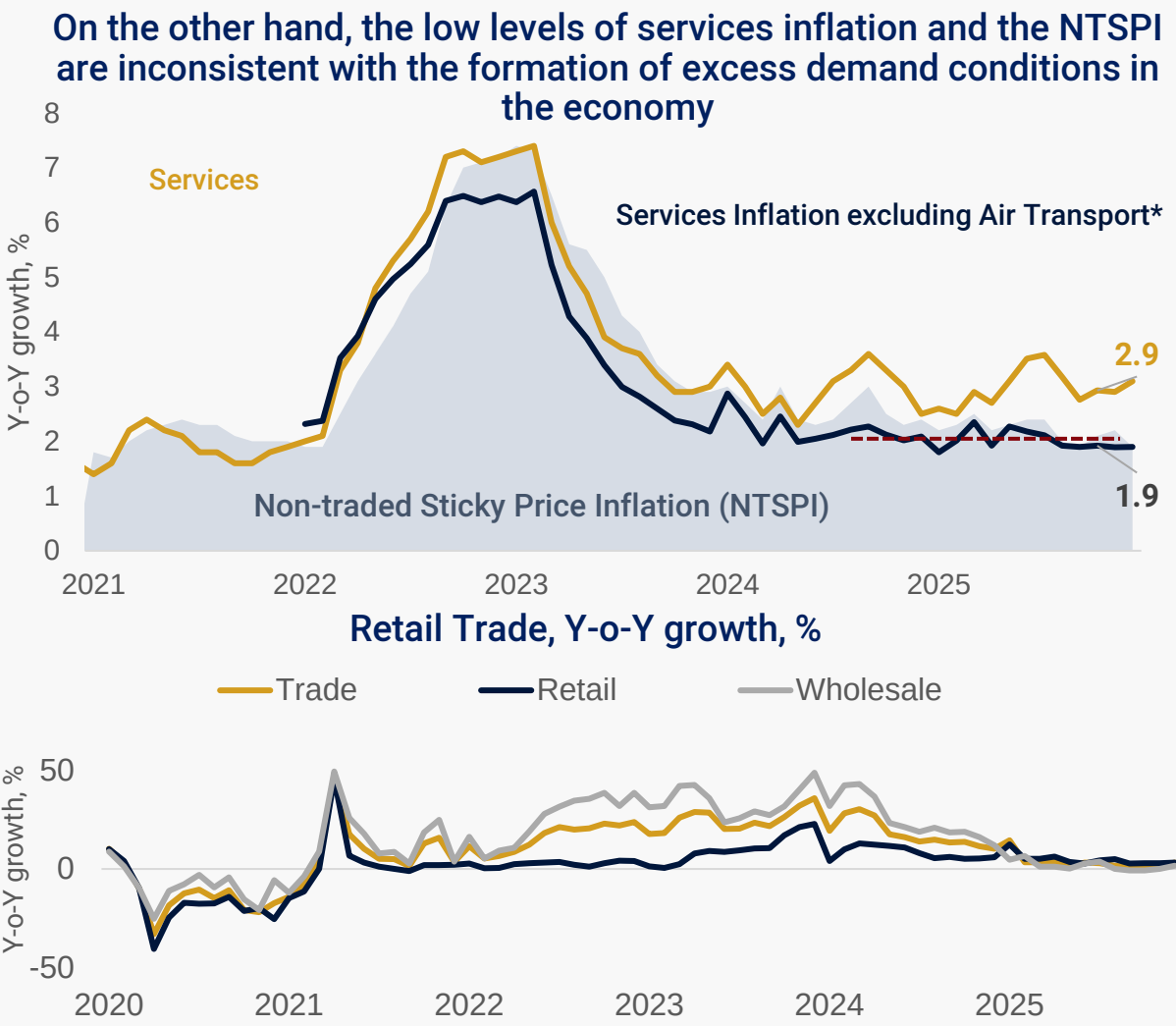


Domestic demand. Commentary on Conditions and Outlooks (1/2)



Source(s): Statistical Committee Republic of Armenia, CBA

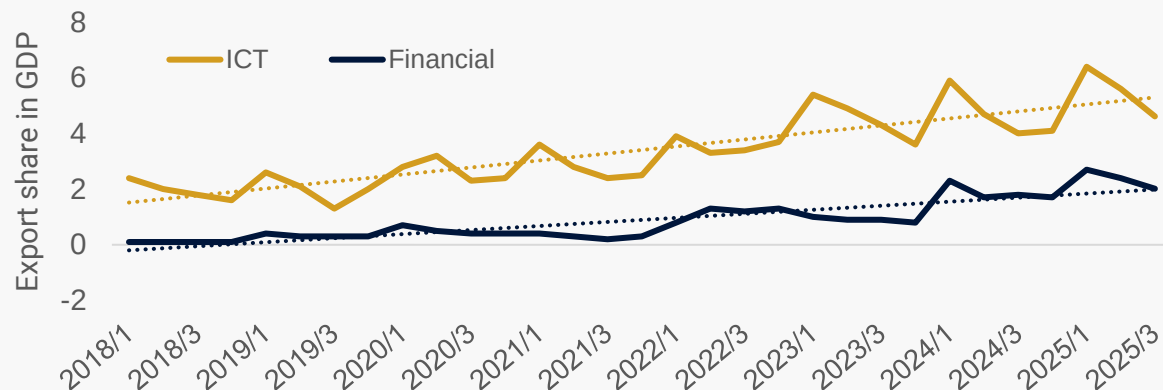
Uncertainty remains about the current strength and future prospects of domestic demand (2/2)



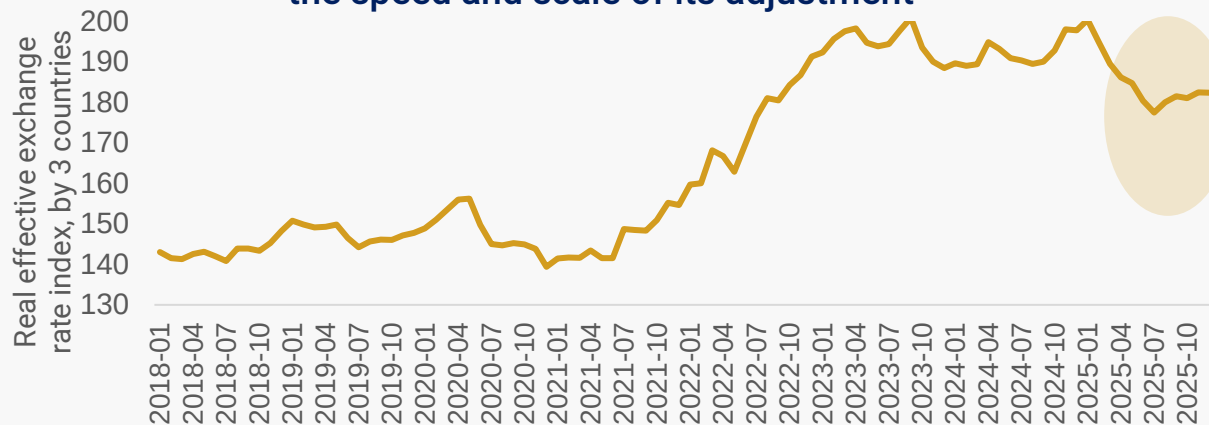
Source(s): Statistical Committee Republic of Armenia, CBA

External demand. Uncertainty regarding the outlook for external demand persists in the context of trading partners' demand conditions and further geopolitical developments

Exports of productive services remain at high levels, however, exports of financial services are dependent on geopolitical developments

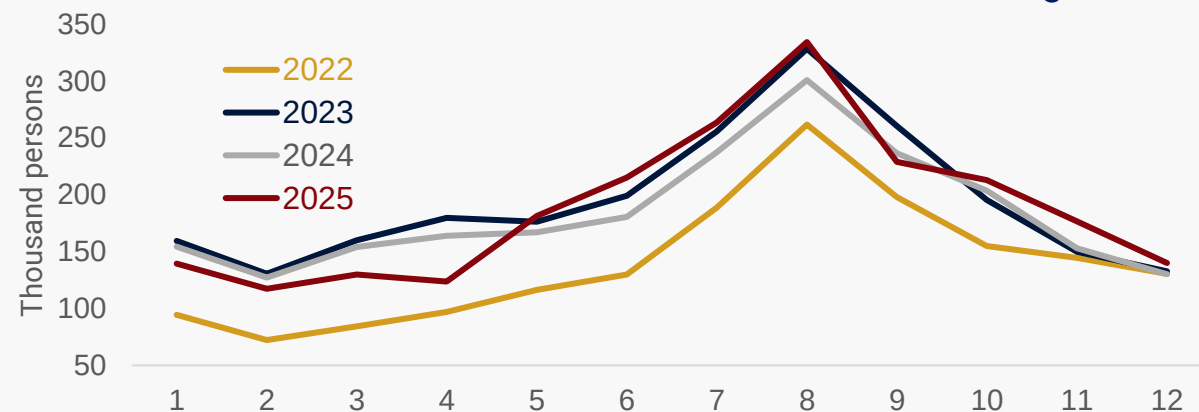


There is heightened uncertainty regarding the ruble exchange rate and the speed and scale of its adjustment

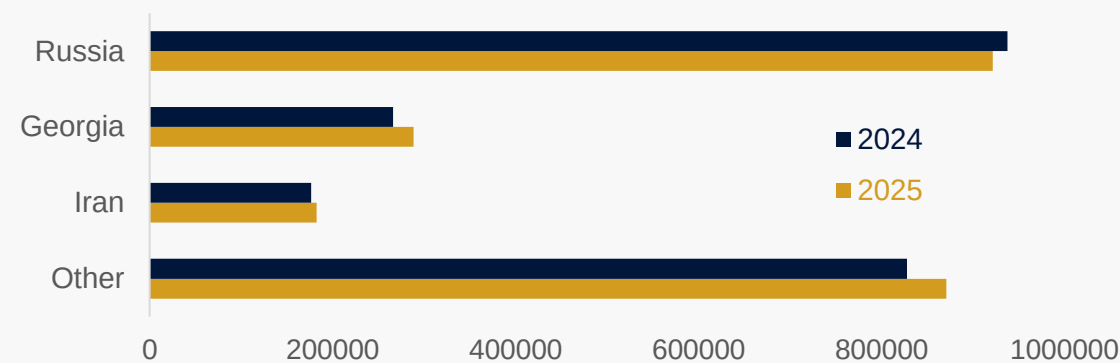


Source: CBA calculations

Following the slowdown in September, tourist flows in recent months have reached levels above historical averages



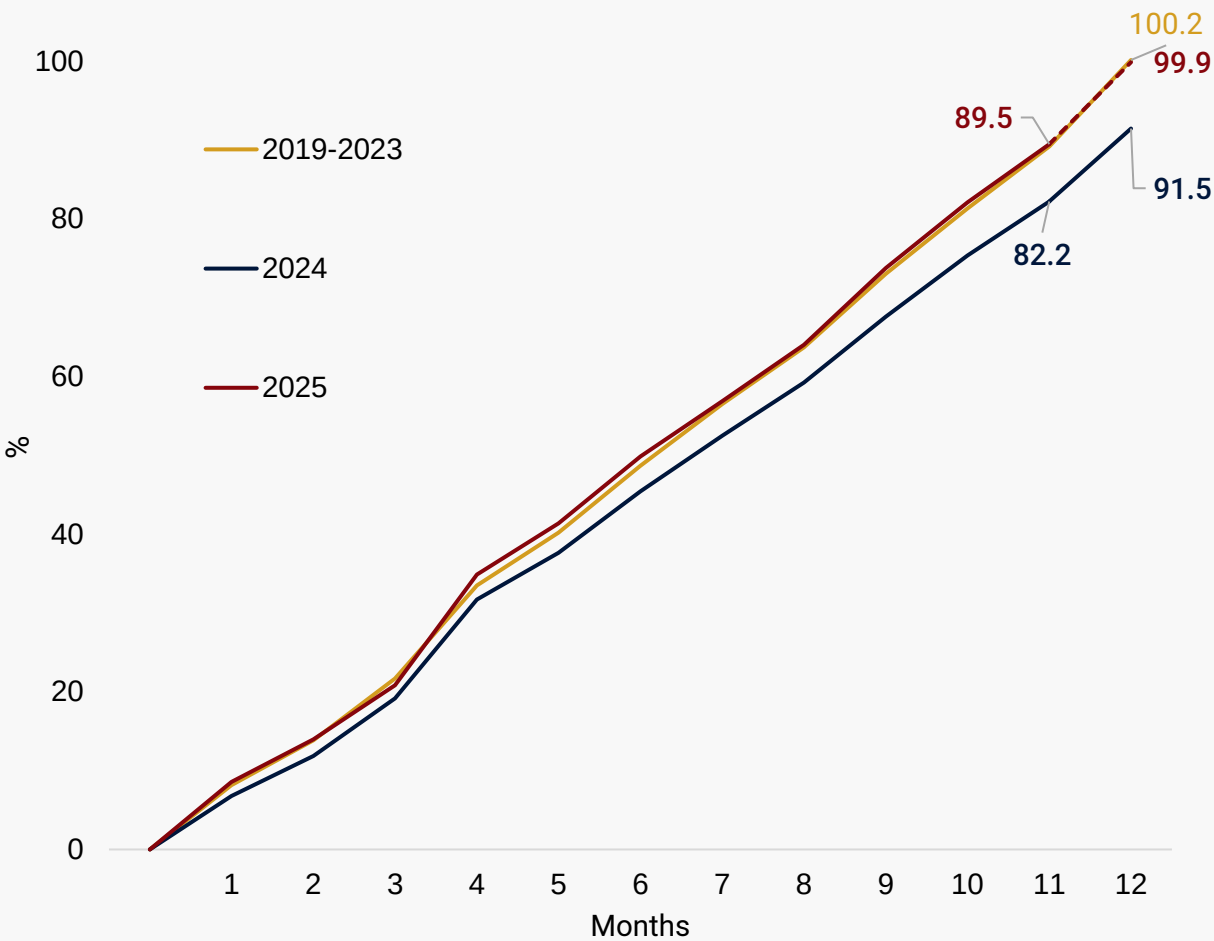
While tourist flows from countries other than Russia grew significantly in 2025, Russia's contribution to tourism export revenues remains large



Source: Tourism Committee of RA

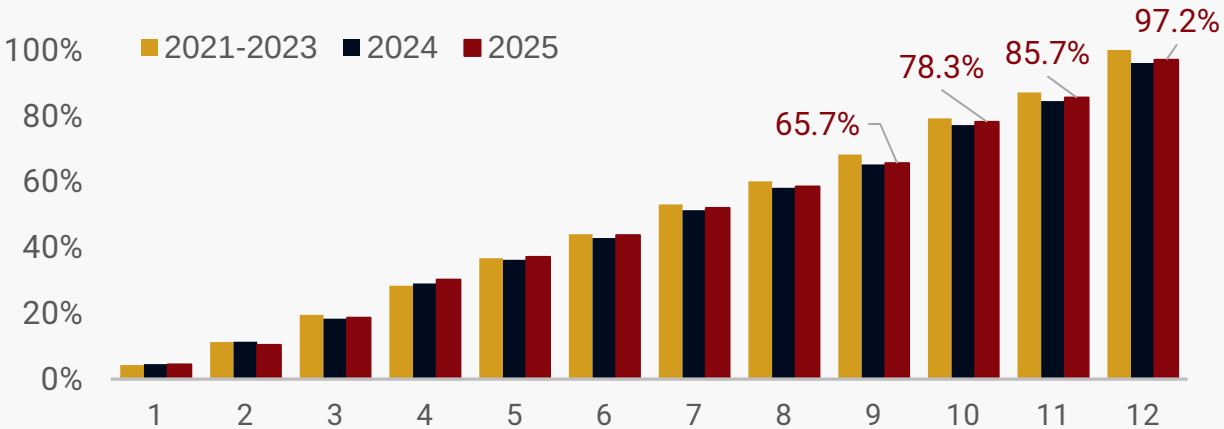
2025 execution. While revenue collection performed well, certain capital expenditures were under-executed

2025 Tax Revenue Execution

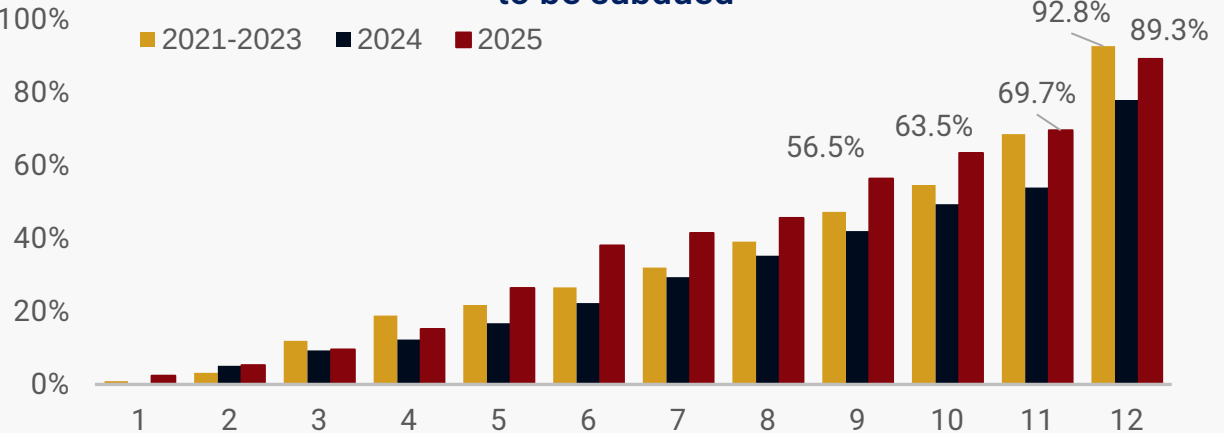


Source: Ministry of Finance of Armenia

Current expenditure performance is in line with historical trends

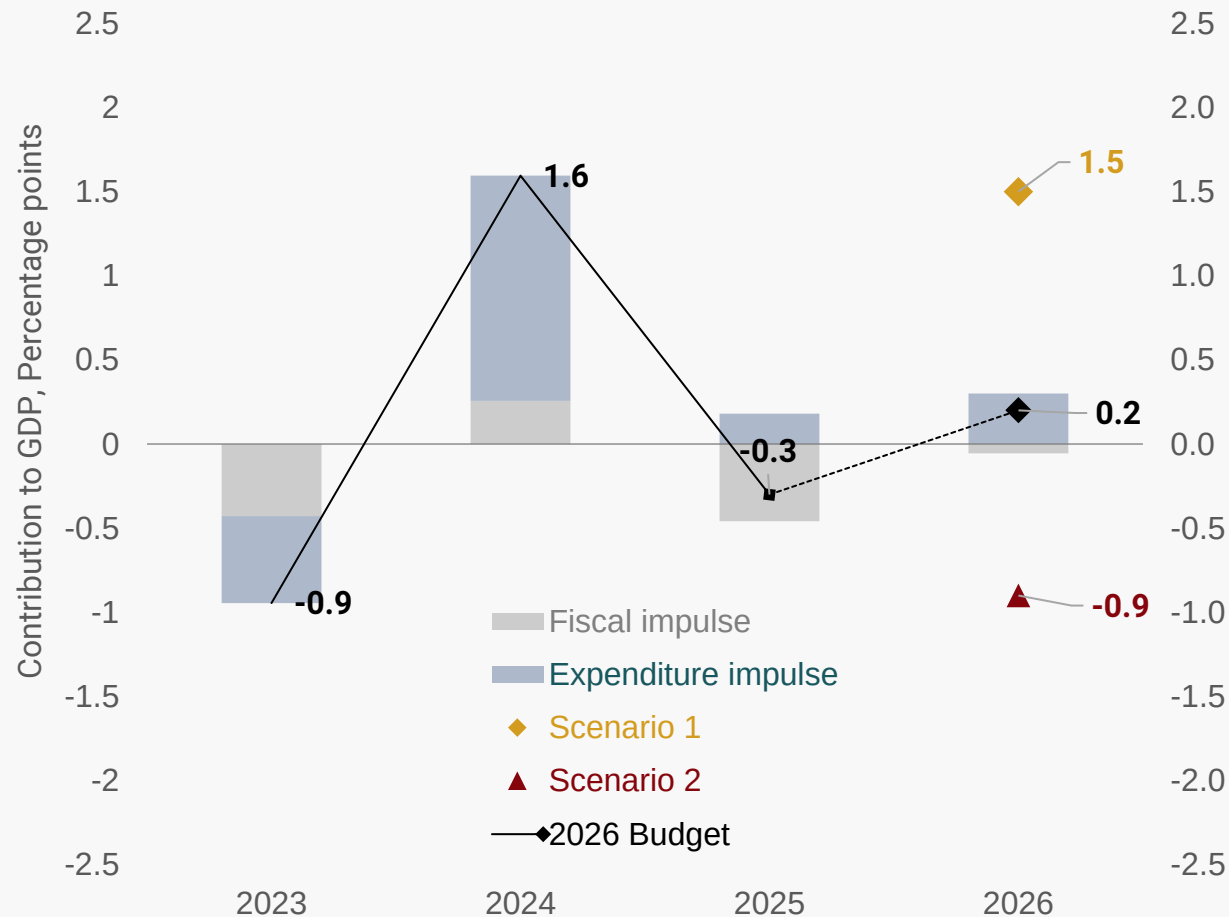


Capital spending performance has moderately improved, yet continues to be subdued



Fiscal policy. In the context of the planned consolidation in 2026, the impact of fiscal policy on aggregate demand is likely to be mildly expansionary, due to the deficit being lower than anticipated in 2025

Illustrative scenarios of fiscal policy impact on aggregate demand

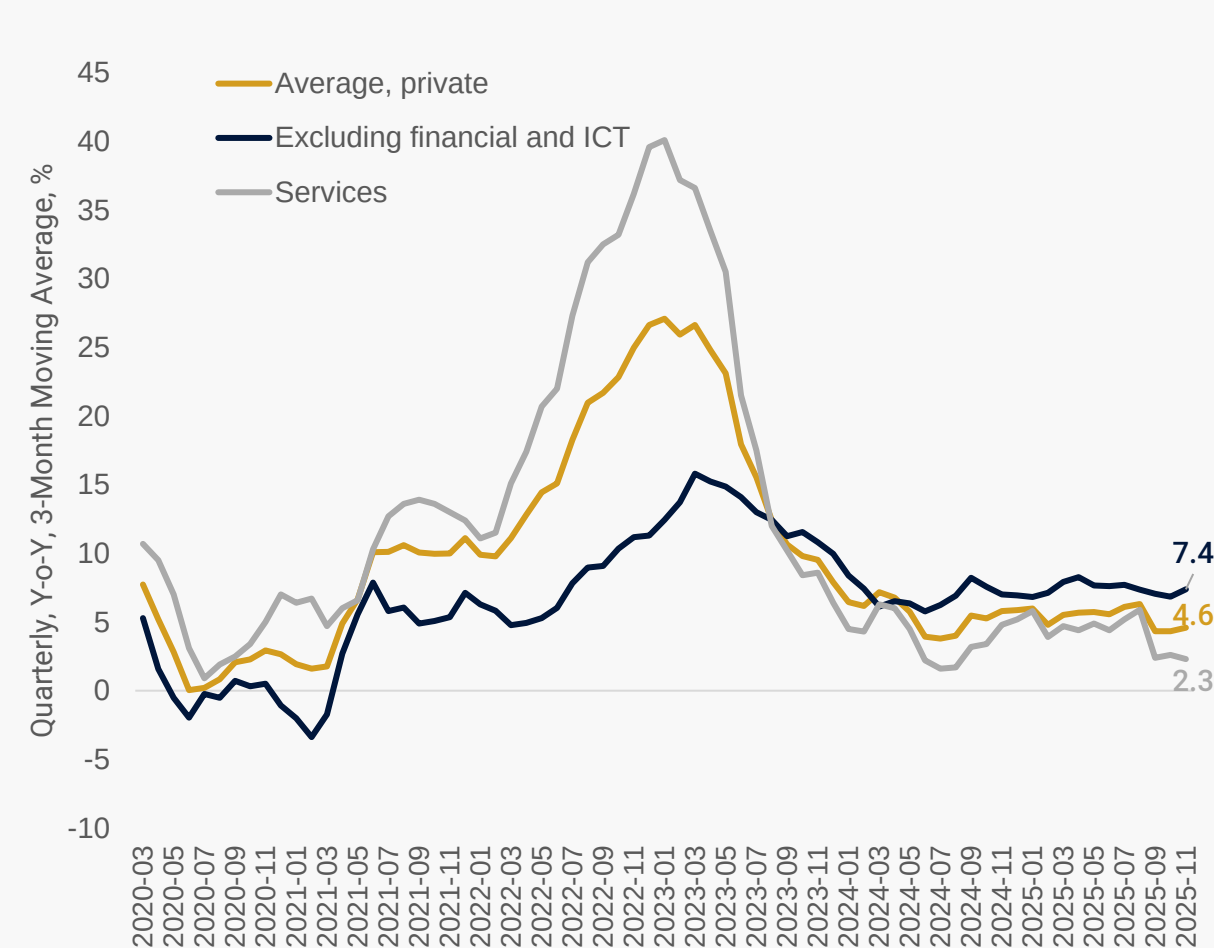


- **Scenario 1.** Tax administration with limited capacity
- **Scenario 2.** Full implementation of the tax revenue program; however, under limited capacity to carry out large-scale capital expenditures, capital spending underperformance in line with trends of previous years

Source: Ministry of Finance of Armenia, CBA calculations

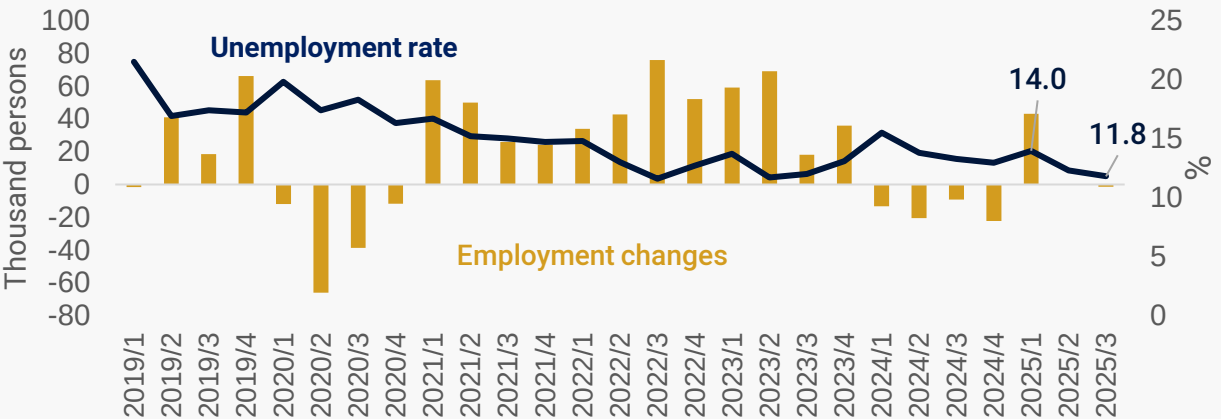
Labor market. Wages have stabilized at approximately 5–6% growth, with reduced concentration, suggesting that labor market conditions are predominantly balanced

Average private-sector wage growth remains stable

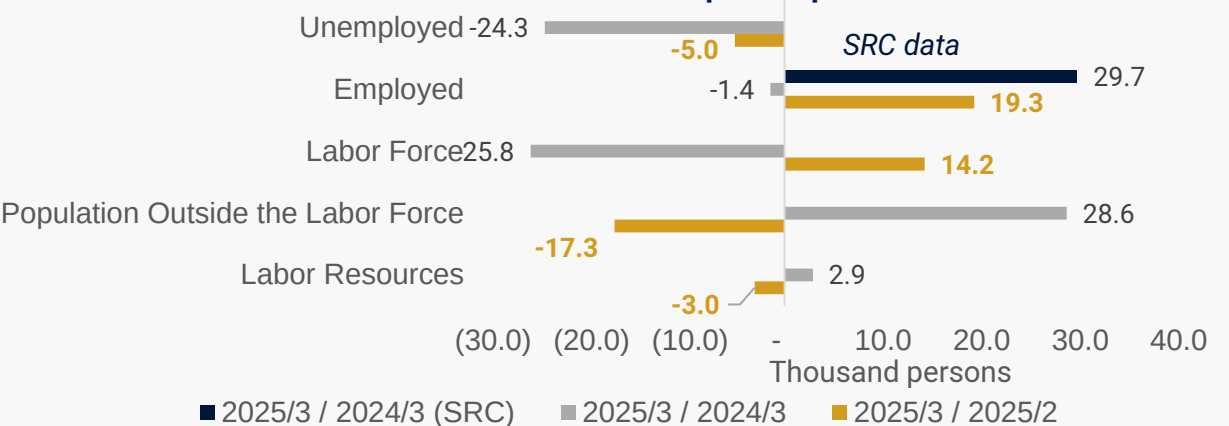


Source: Statistical Committee Republic of Armenia

The unemployment rate remains at a historically low level



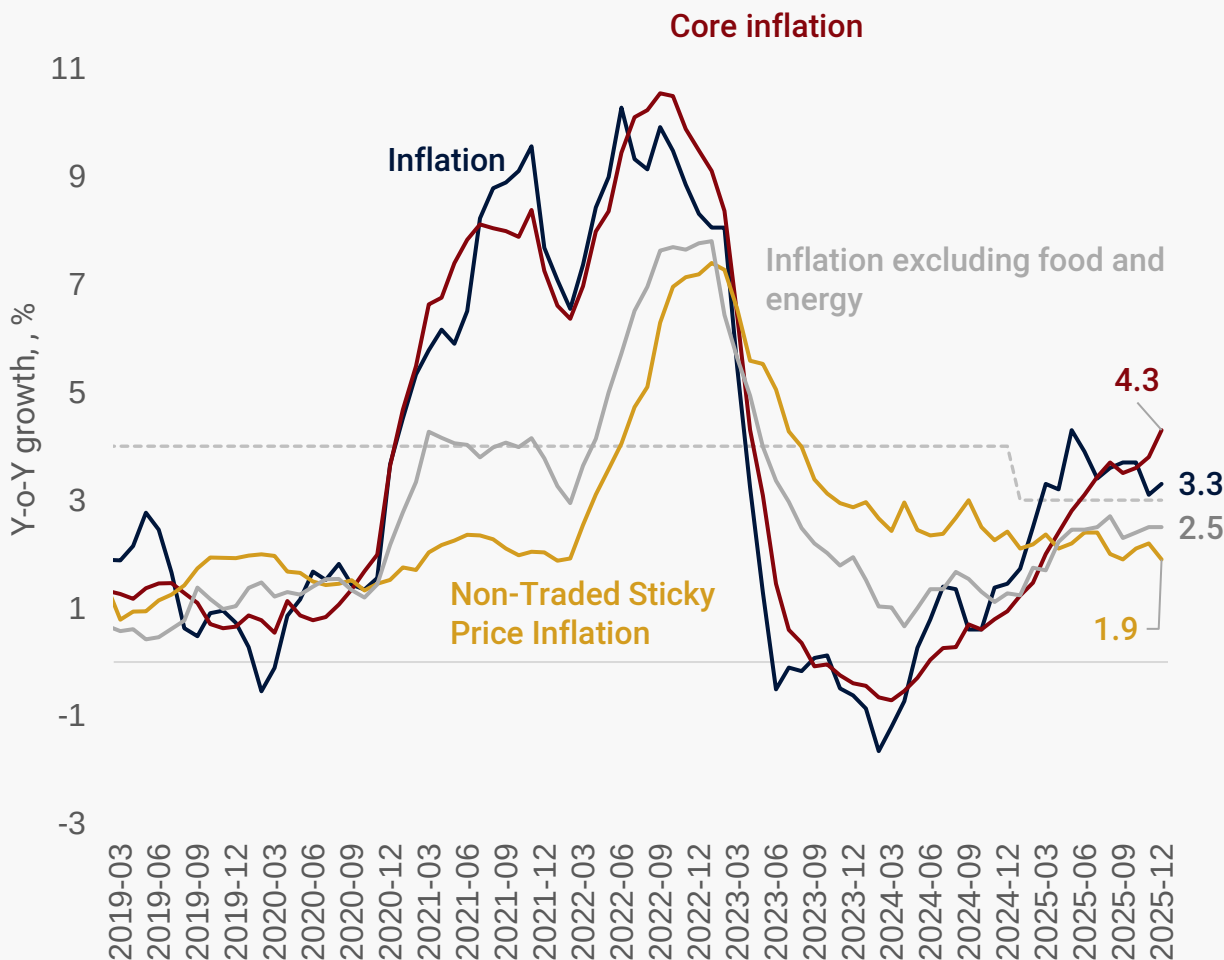
The decline in the unemployment rate has been accompanied by a reduction in labor force participation



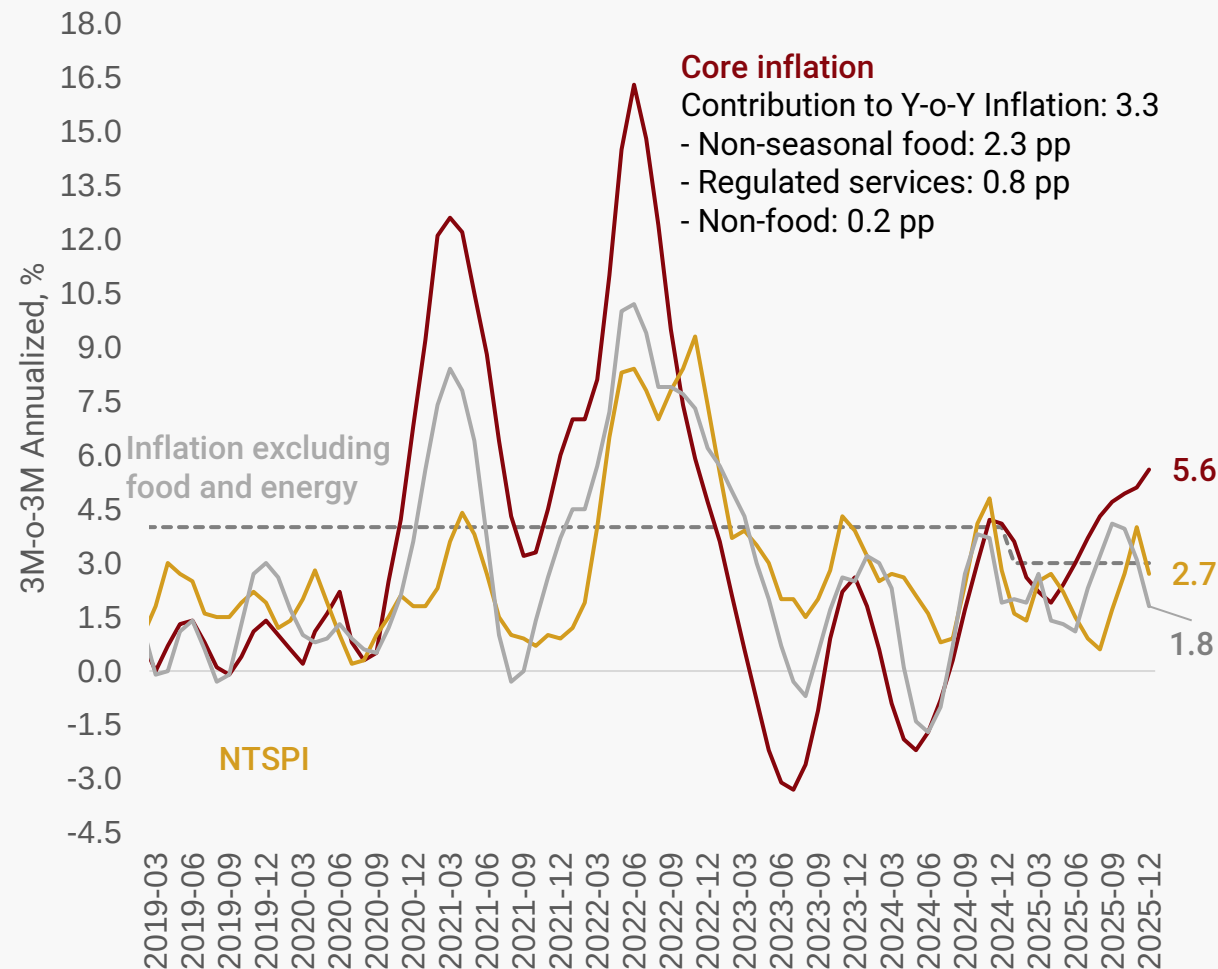
Source(s): Statistical Committee Republic of Armenia, State Revenue Committee of the RA

Inflation. In December, annual inflation remained close to the target. The acceleration of core inflation was mainly driven by supply-side factors, including excise taxes and labeling on certain product categories

Headline and Underlying Inflation Indicators, Y-o-Y, %



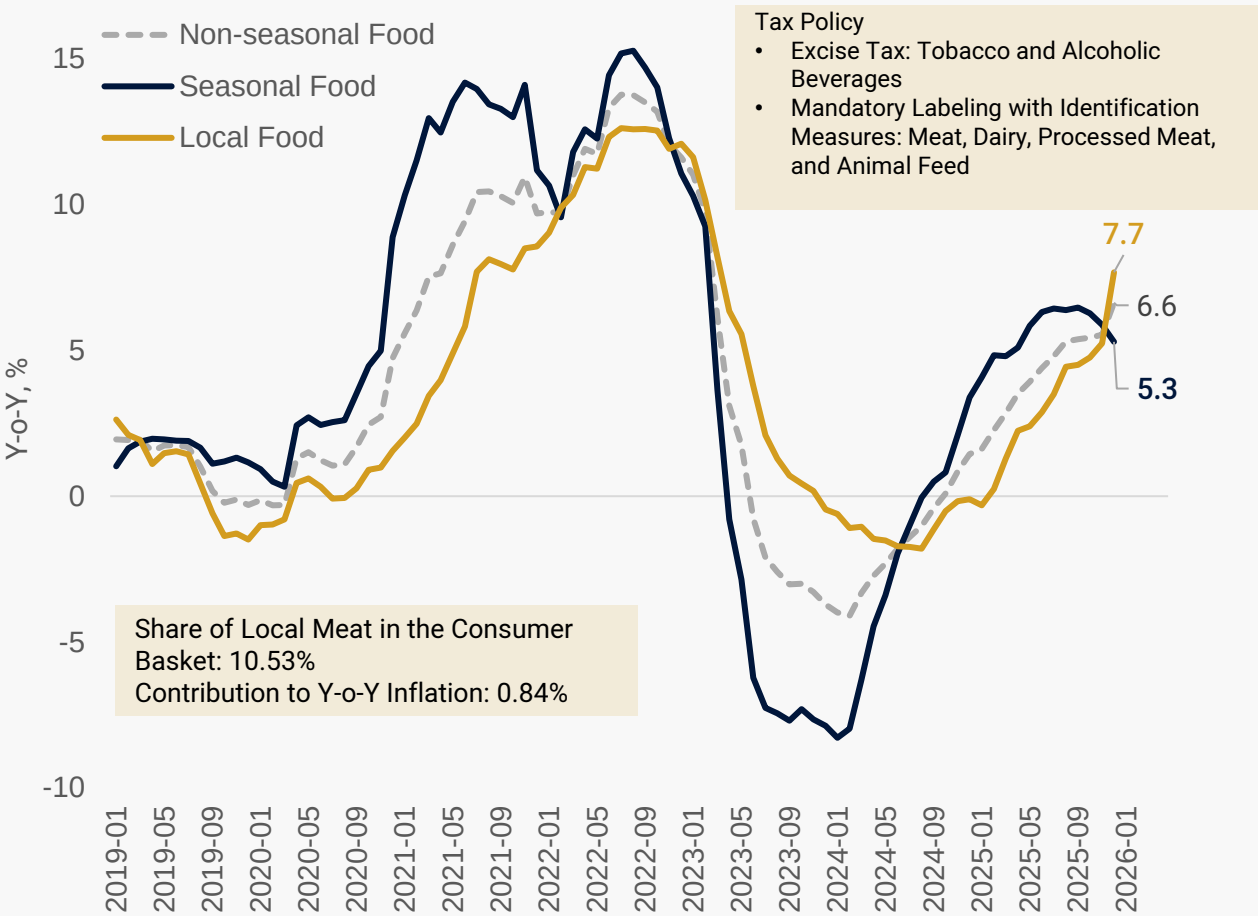
Underlying Inflation Indicators, 3M-o-3M Annualized, %



Source(s): Statistical Committee Republic of Armenia, CBA calculations

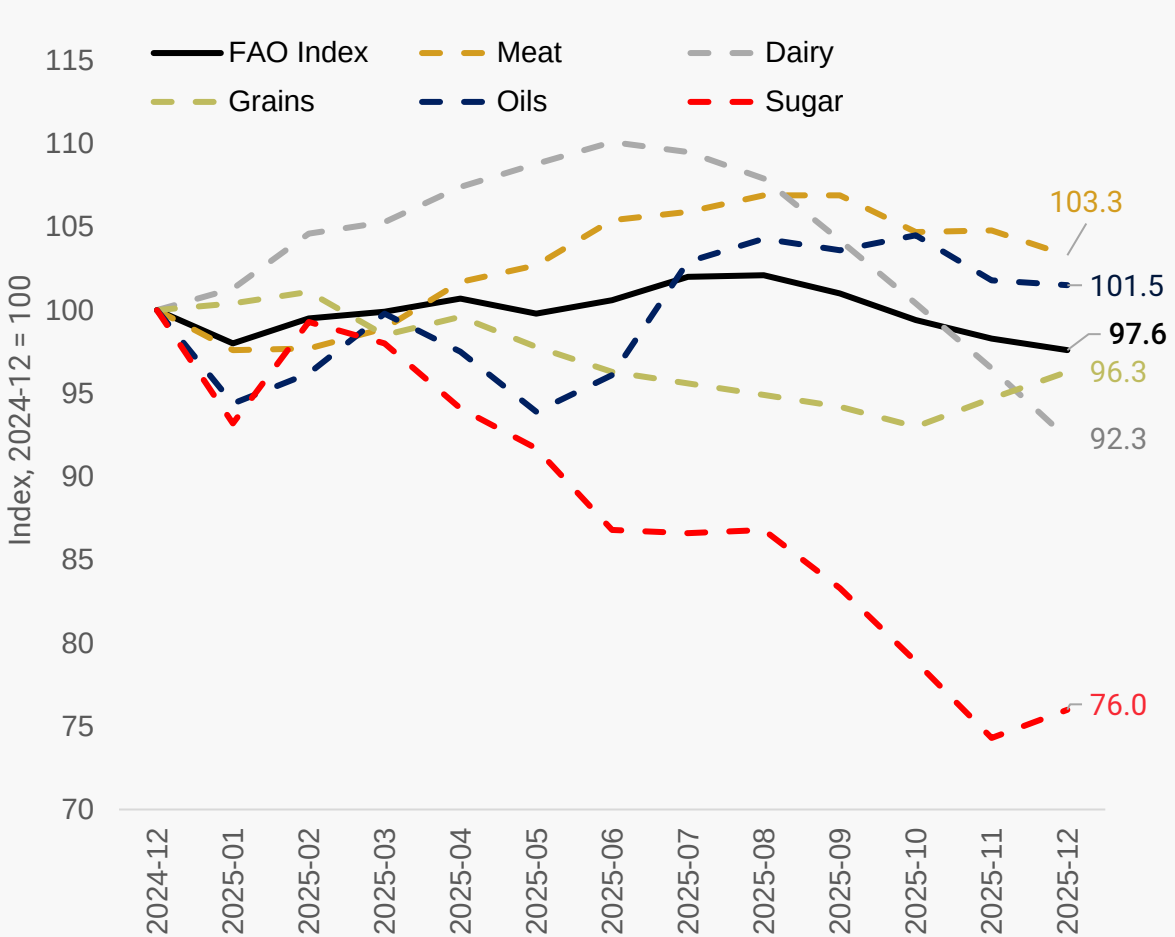
The inflation of non-seasonal food products partly reflects a recent easing of the disinflationary environment transmitted from the global economy, while local food price increases are only partly driven by the effects of product labeling

Inflation of Imported and Locally Produced Food Products, Y-o-Y, %



Source(s): Statistical Committee Republic of Armenia, CBA calculations

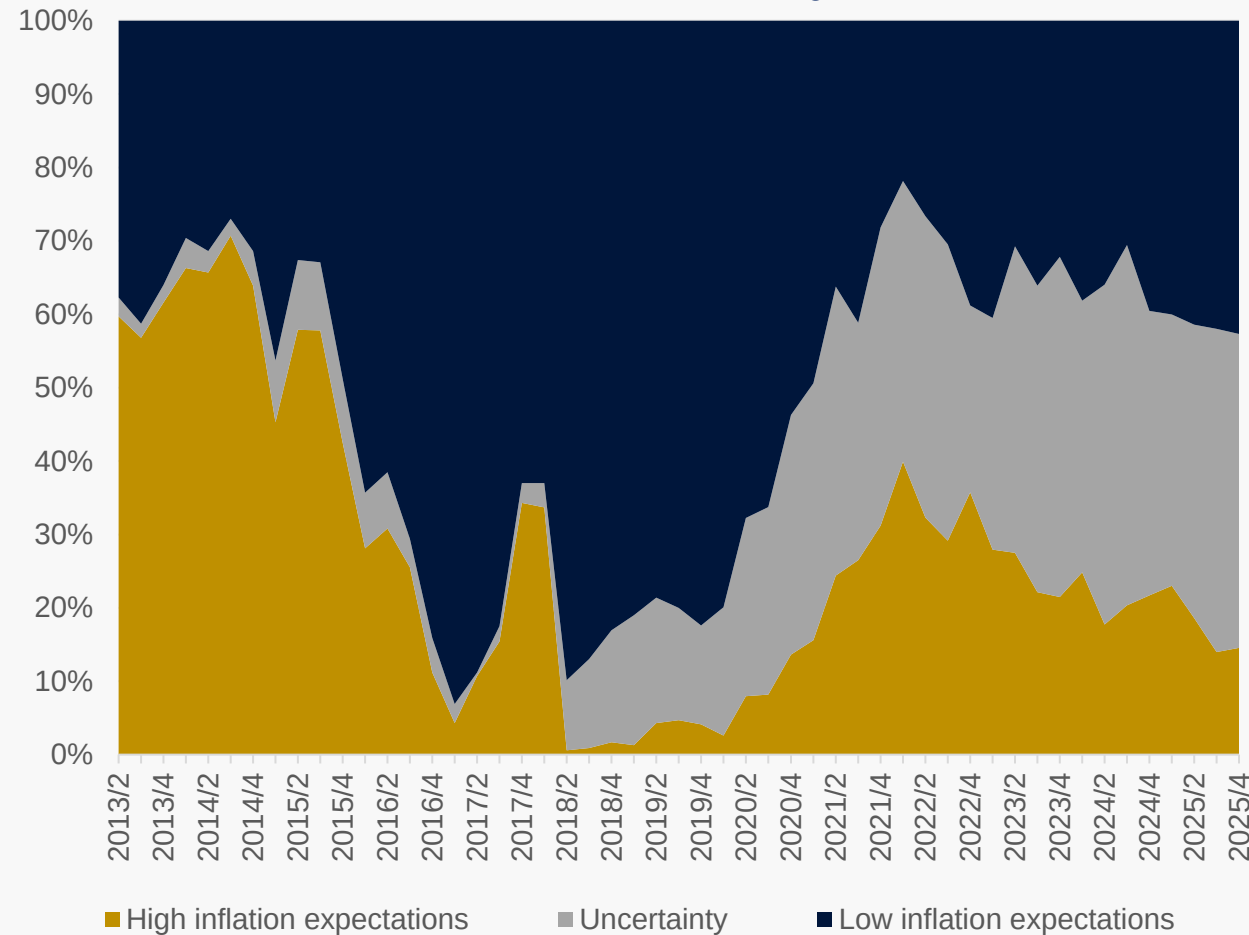
Global Prices



Source: UN FAO food price Index

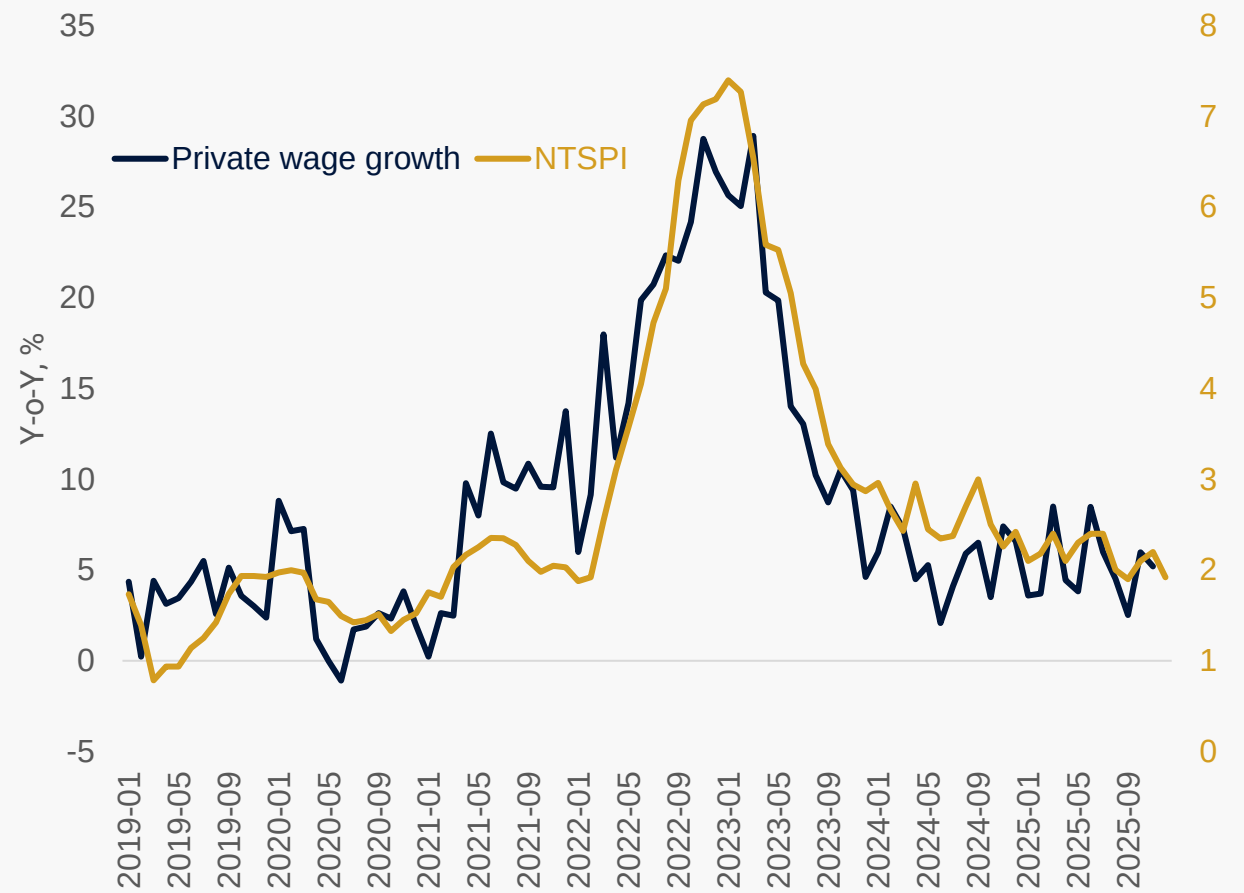
In Q4 2025, the decline in the share of respondents reporting uncertainty may indicate that inflation expectations have become more clearly formed. Nevertheless, the remaining high level of uncertainty among respondents poses potential risks of inflation de-anchoring

On one hand, elevated inflation expectations continue to decline, while uncertainties remain high



Source: CBA

On the other hand, developments in the NTSPI and private-sector wages may indicate stable, low inflation expectations

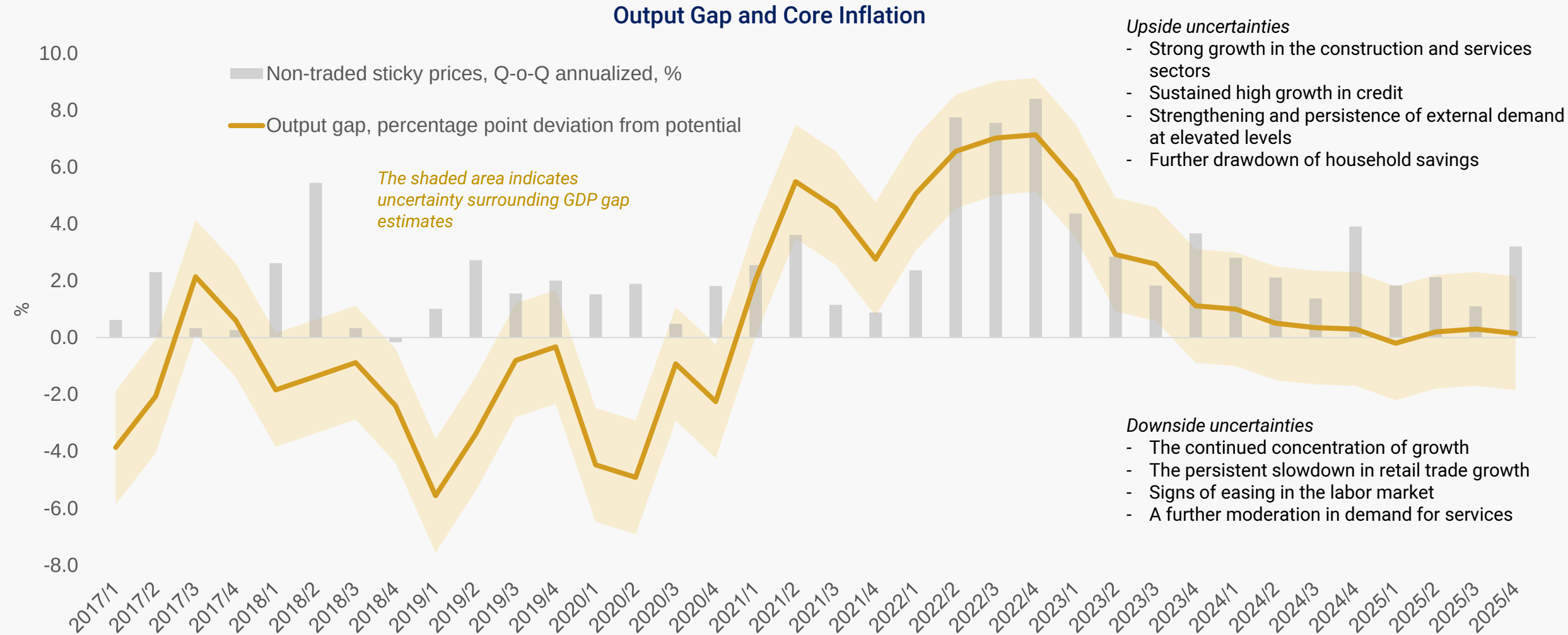


Source: Statistical Committee of the Republic of Armenia, CBA



Where is the economy now?

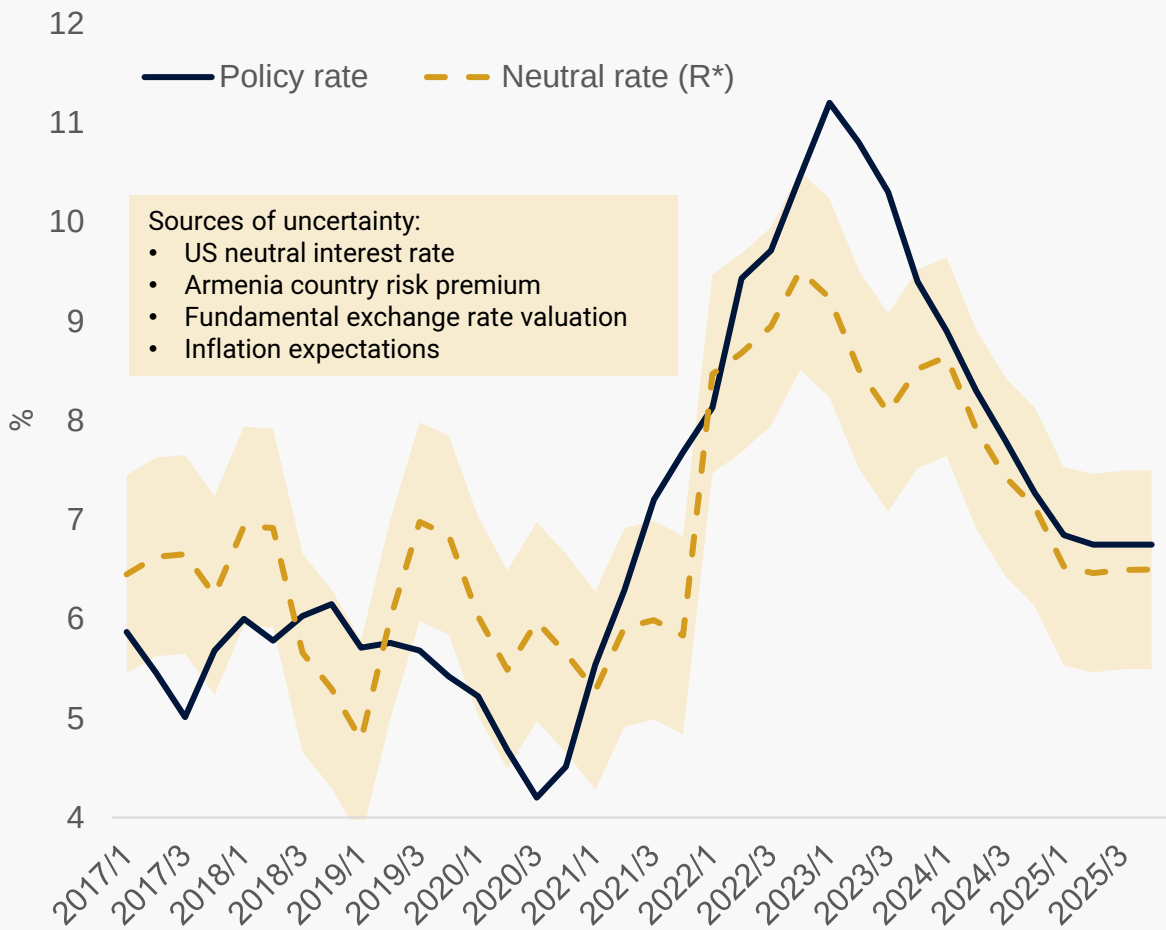
Structural features of economic growth, sectoral disparities, and differing assumptions from other indicators increase the uncertainty regarding the current economic situation



Source: CBA estimates

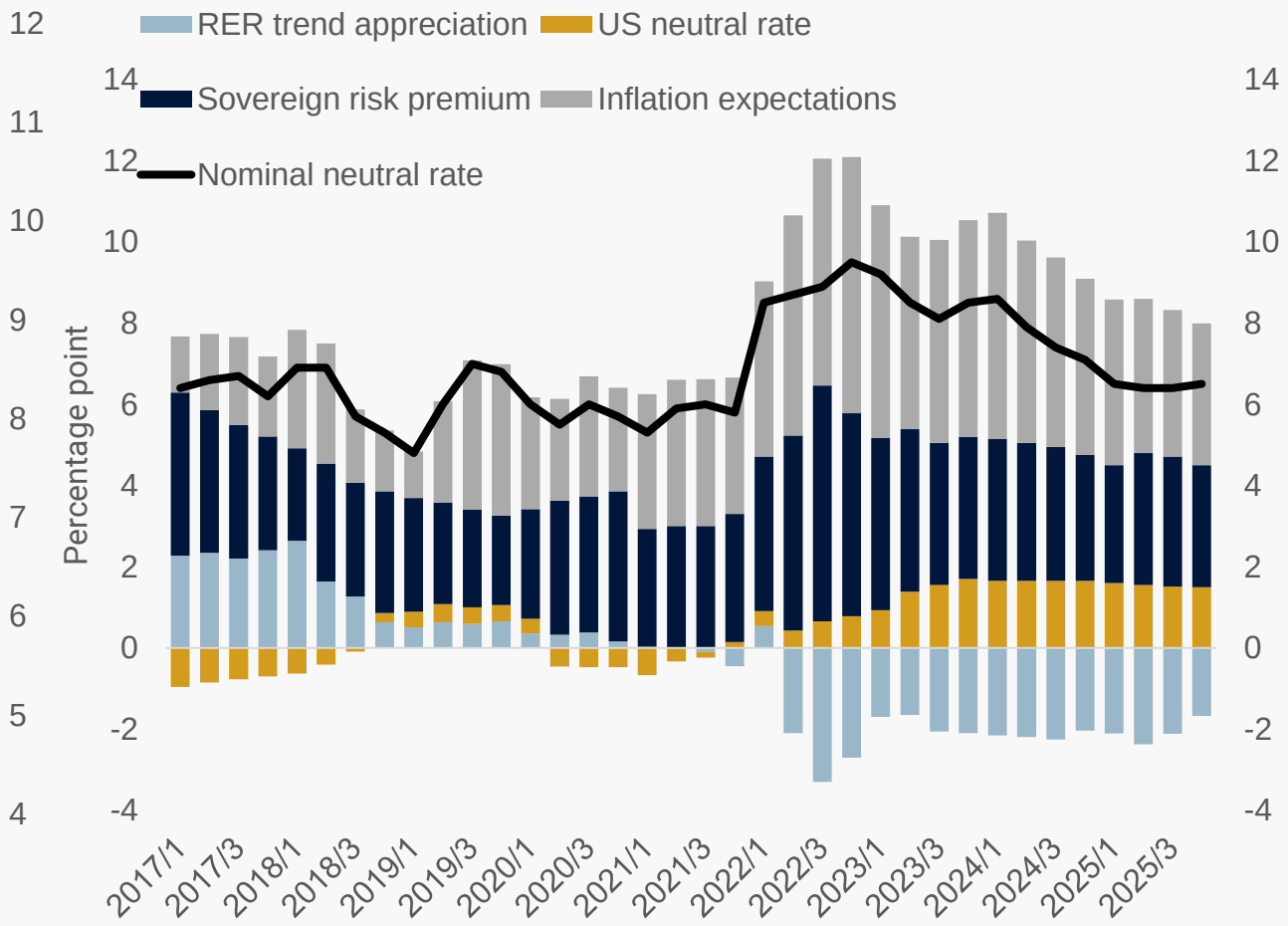
The broadly neutral stance of demand conditions in the economy, labor market conditions, and the inflation environment may suggest that the policy stance is close to neutral. At the same time, a high degree of uncertainty remains surrounding the components of the neutral interest rate

Policy Rate and Nominal Neutral Interest Rate



Source: CBA estimates

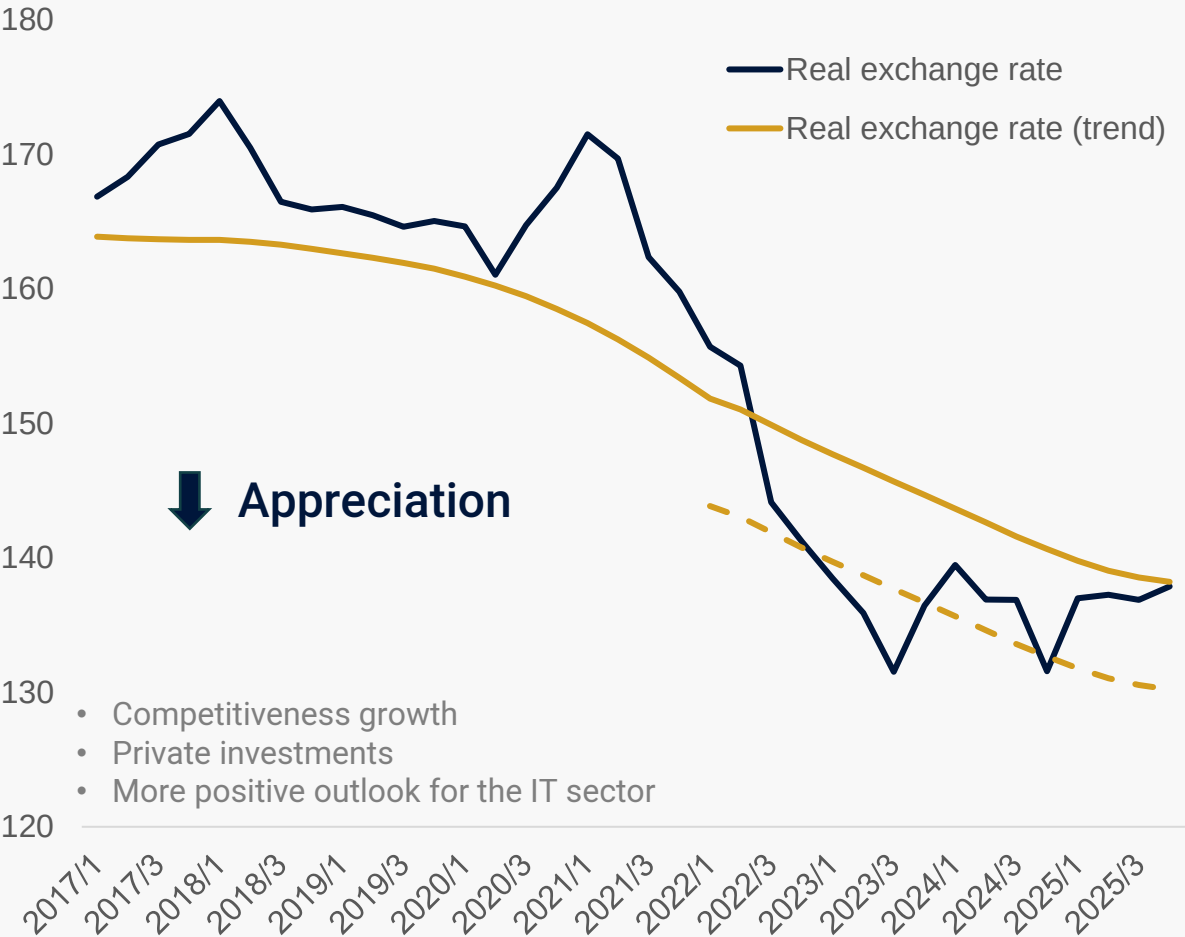
Contributions to the Nominal Neutral Interest Rate



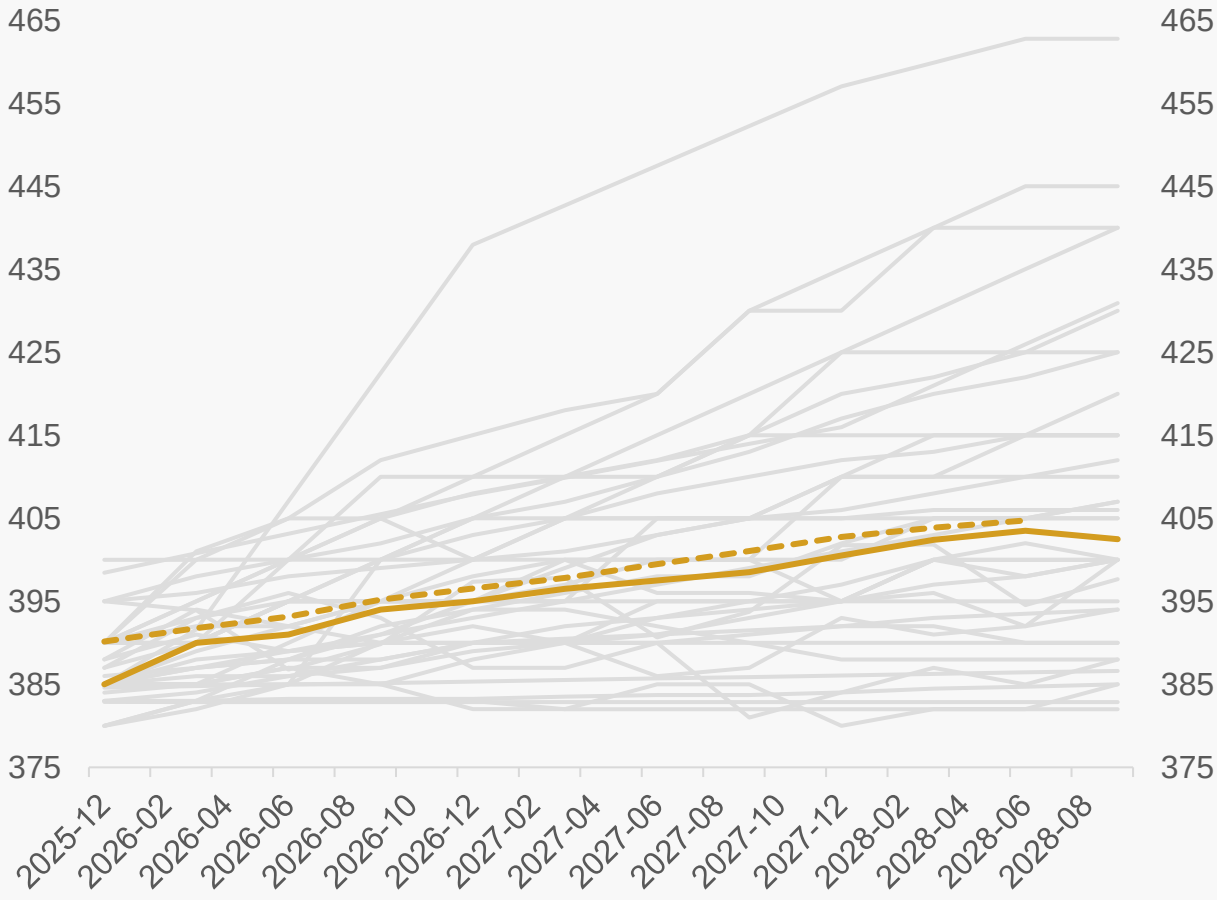
Source: CBA estimates

Uncertainty surrounding the fundamental level of the real exchange rate persists.
To what extent have productivity and competitiveness growth in the tradable
sectors contributed to the formation of the “new trend”?

Real Effective Exchange Rate, index



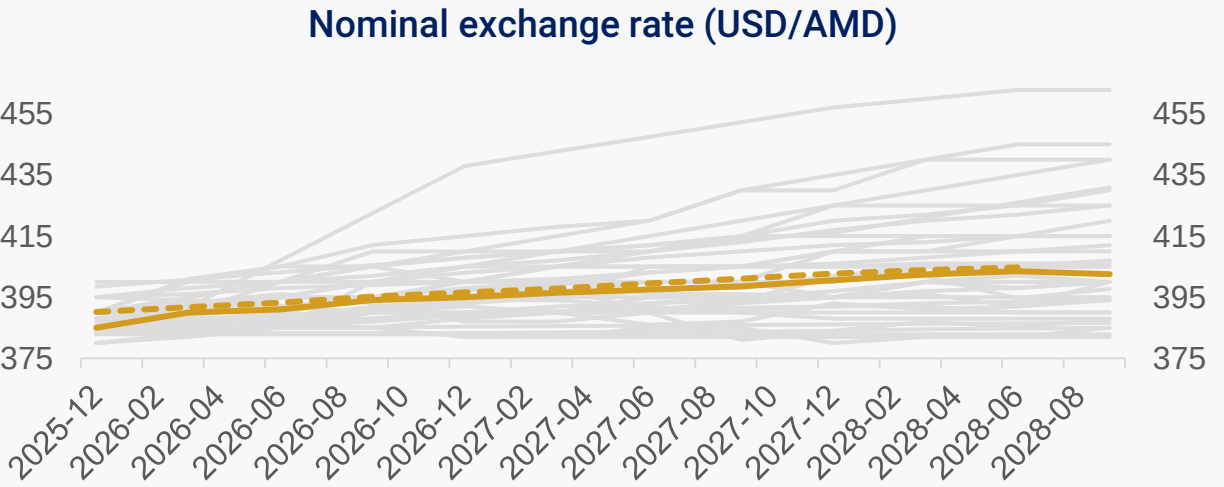
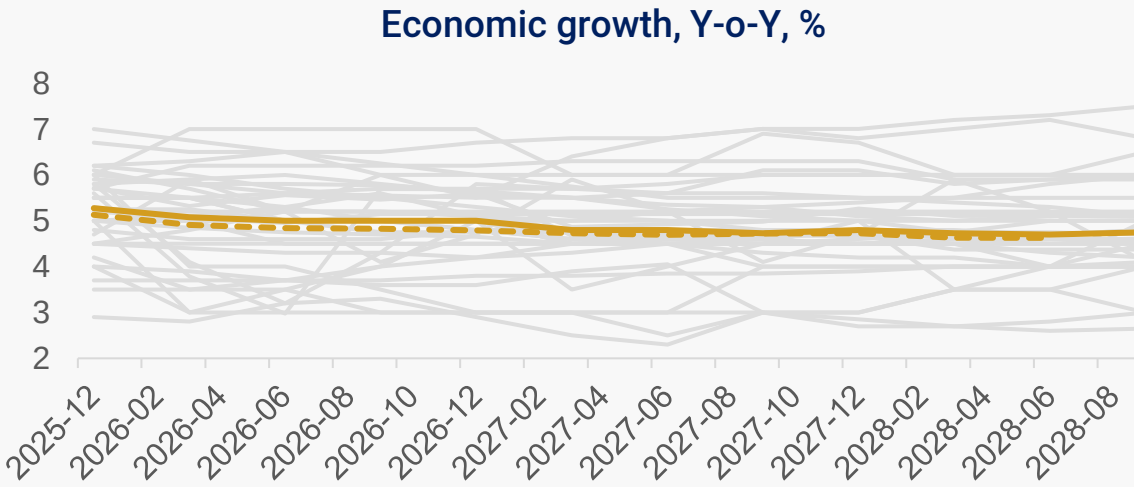
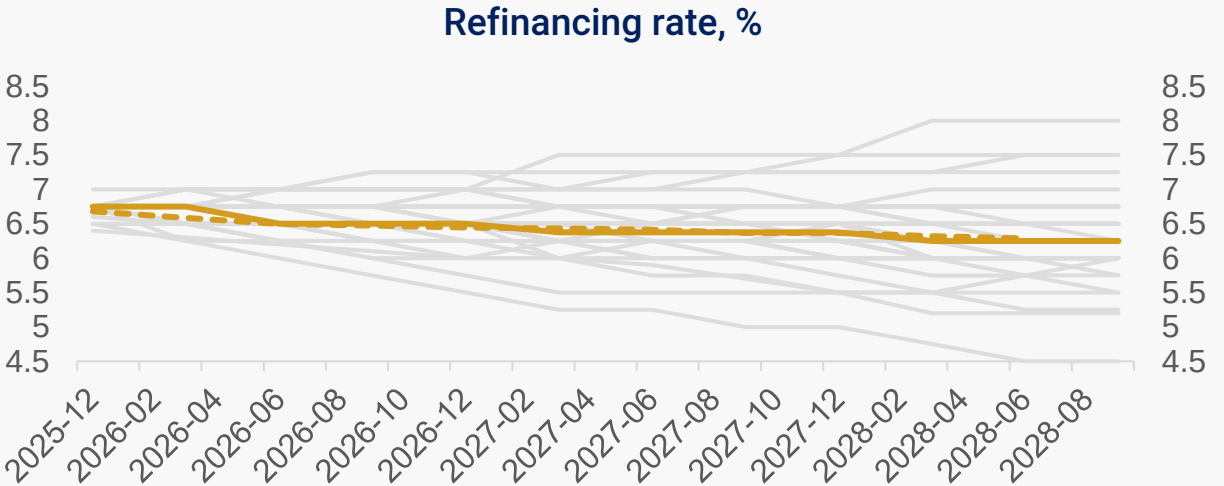
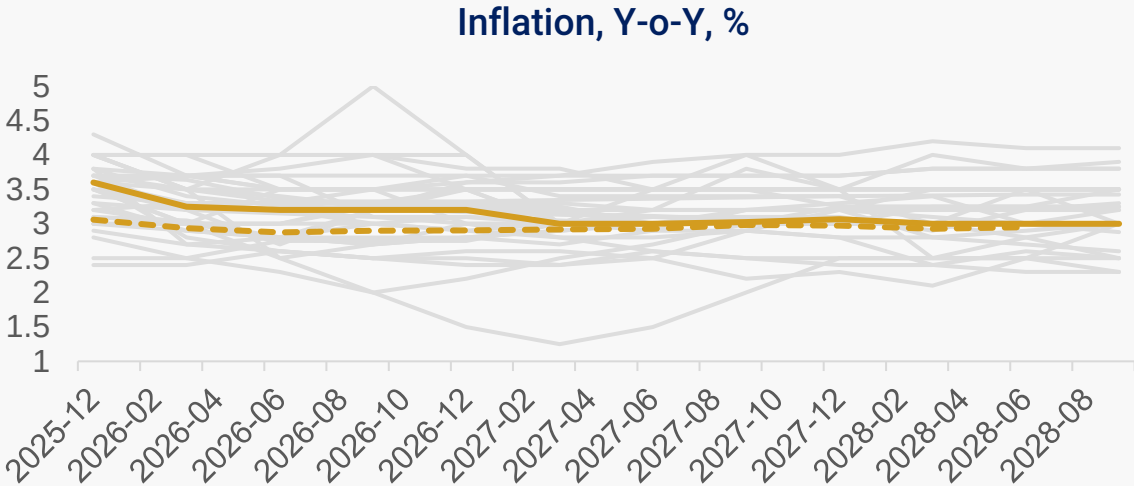
Nominal Exchange Rate Expectations According to the CBA Macro Survey for Q4 2025 (USD/AMD)





Market reference scenario and expectations

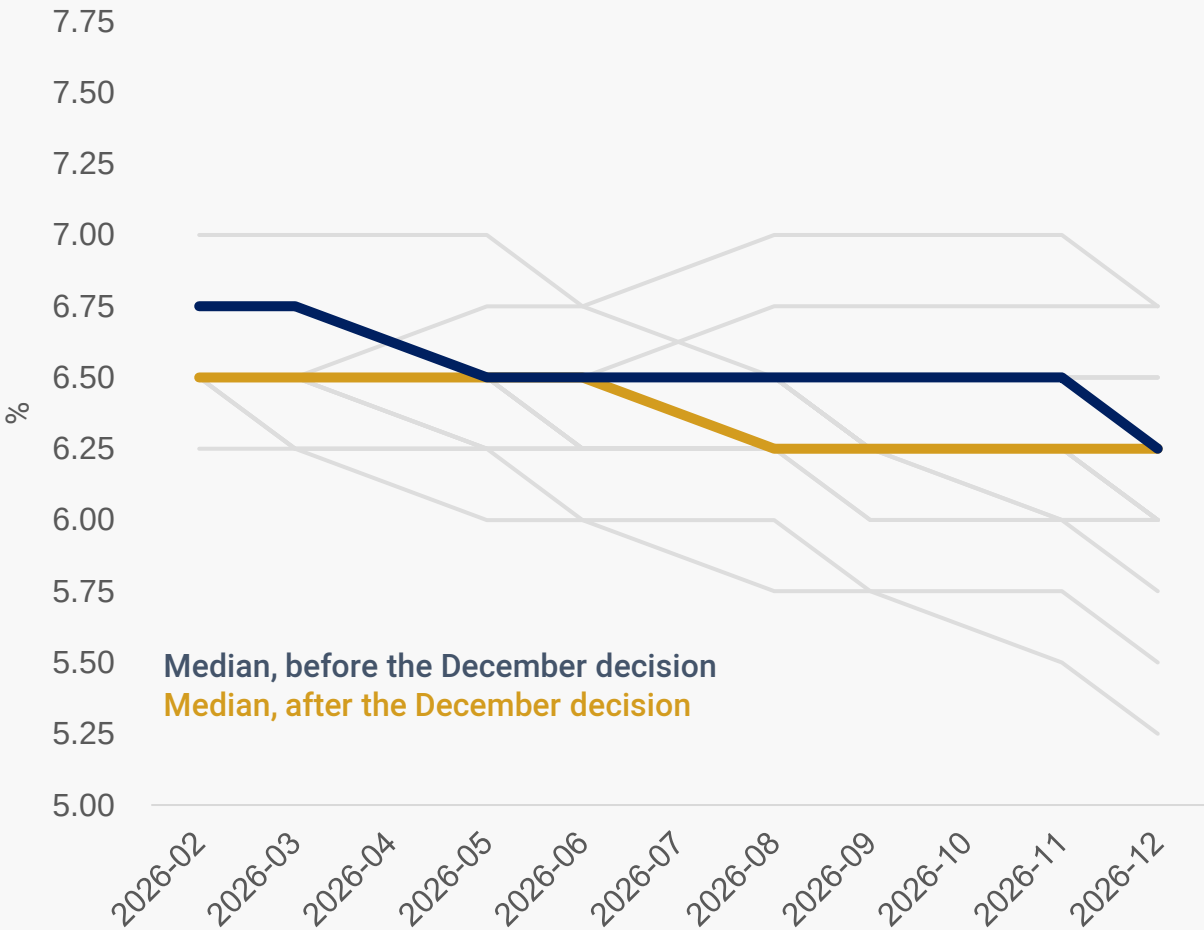
Market reference scenario. Financial markets expect further stabilization of economic growth and inflation around their balanced levels. In this context, markets anticipate a gradual decline in interest rates



Source: Source: CBA Macro Survey, Q4 2025, n=41

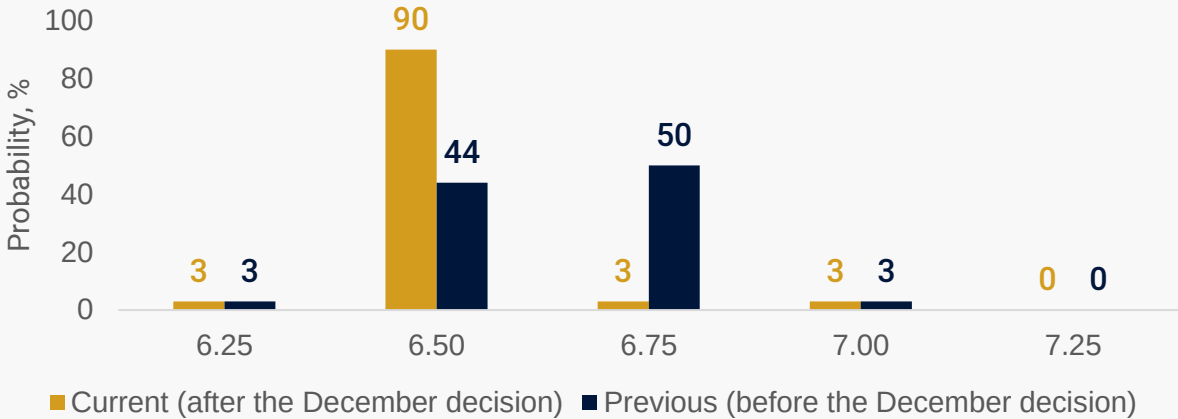
High-frequency survey. Market expectations show little change following the December decision

Market Expectations on the Policy Rate (Survey of 17 December 2025)

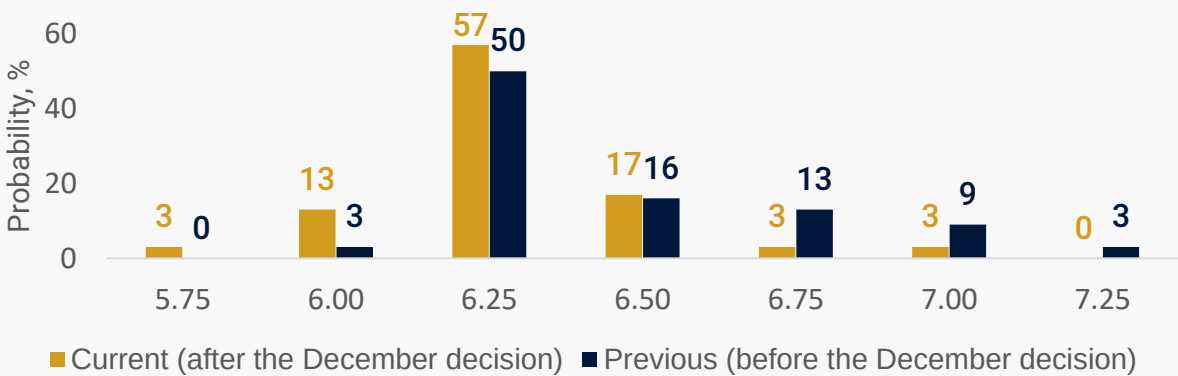


Source: December 11th CBA survey, n=33

Policy Rate Expectations, February 2026

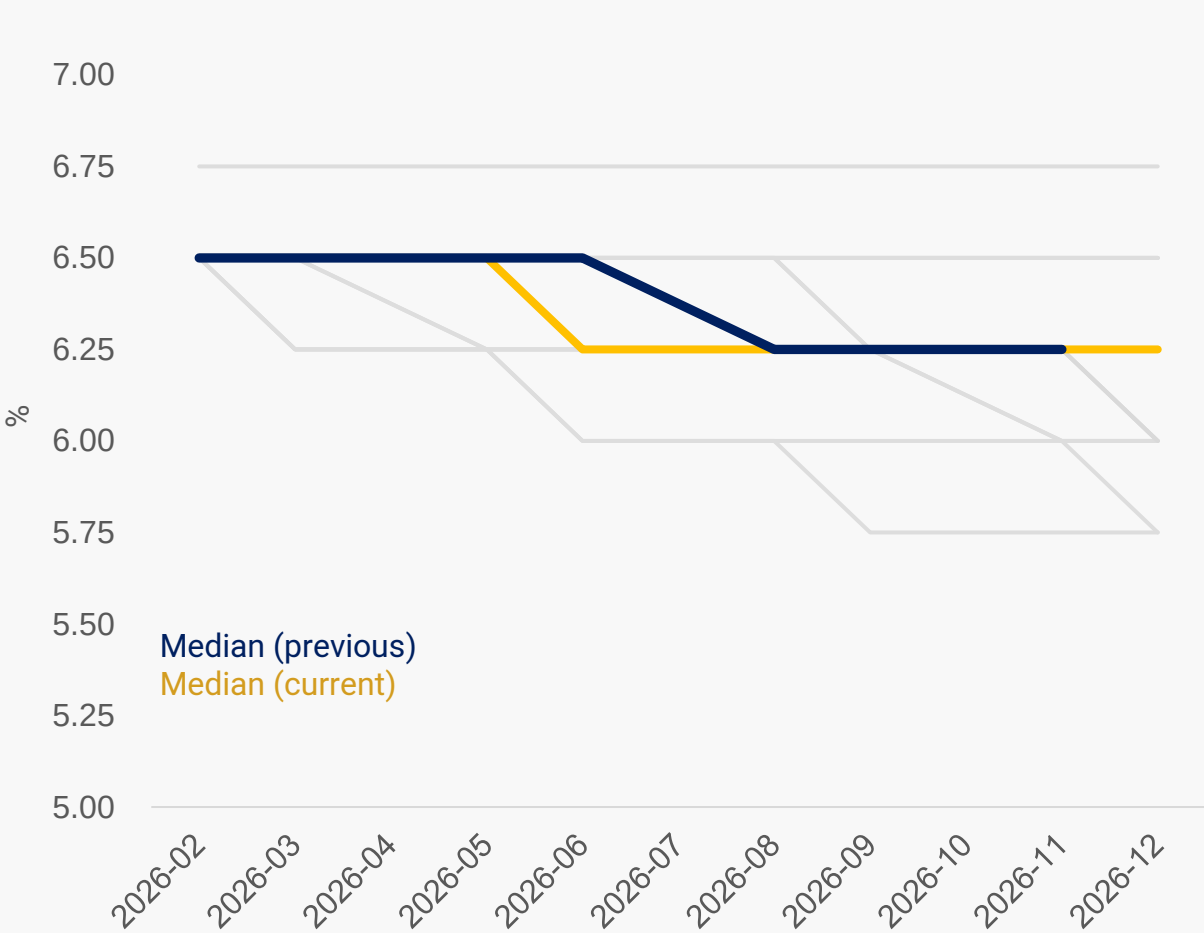


Market Expectations on the Policy Rate (Level of the Policy Rate in November 2026)

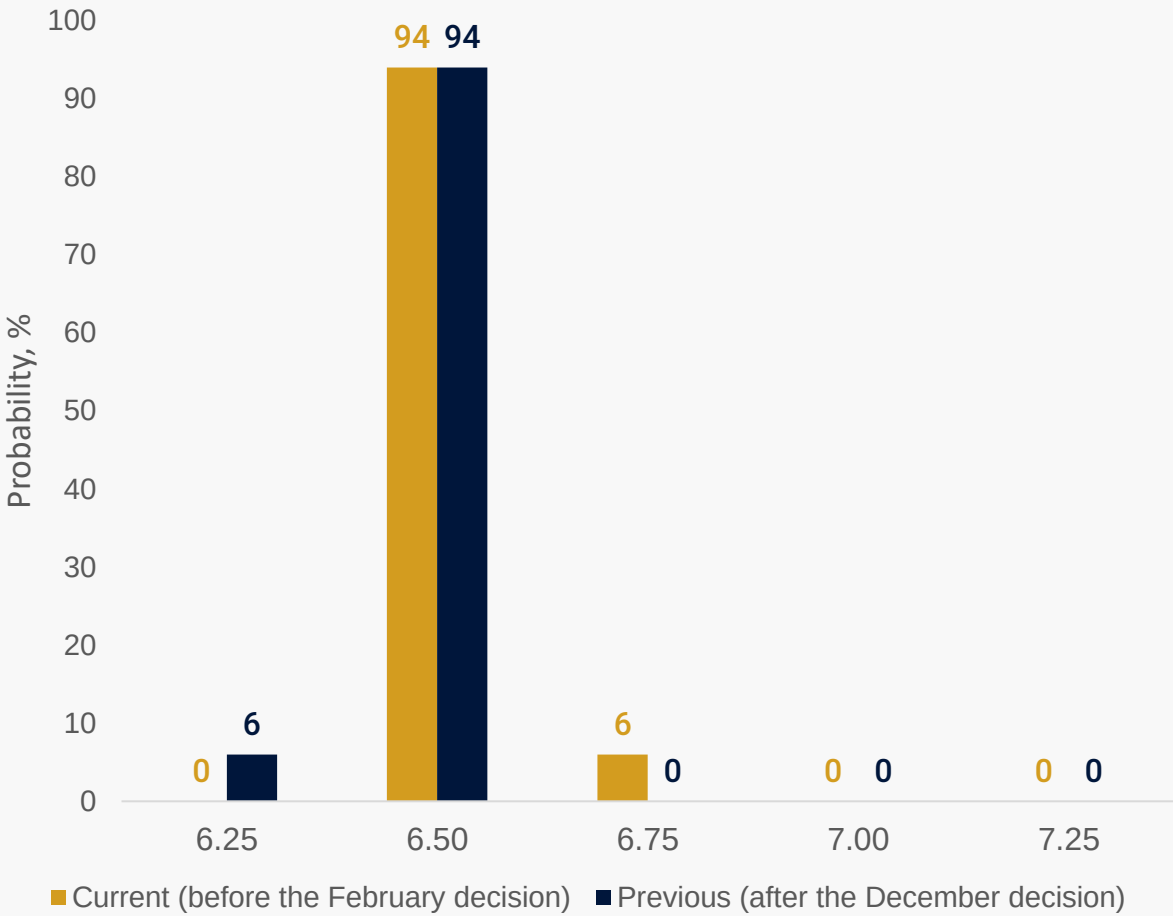


High-frequency survey. Market expectations show little change preceding the February decision

Market Expectations of the Policy Rate (Survey of 29 January 2026)

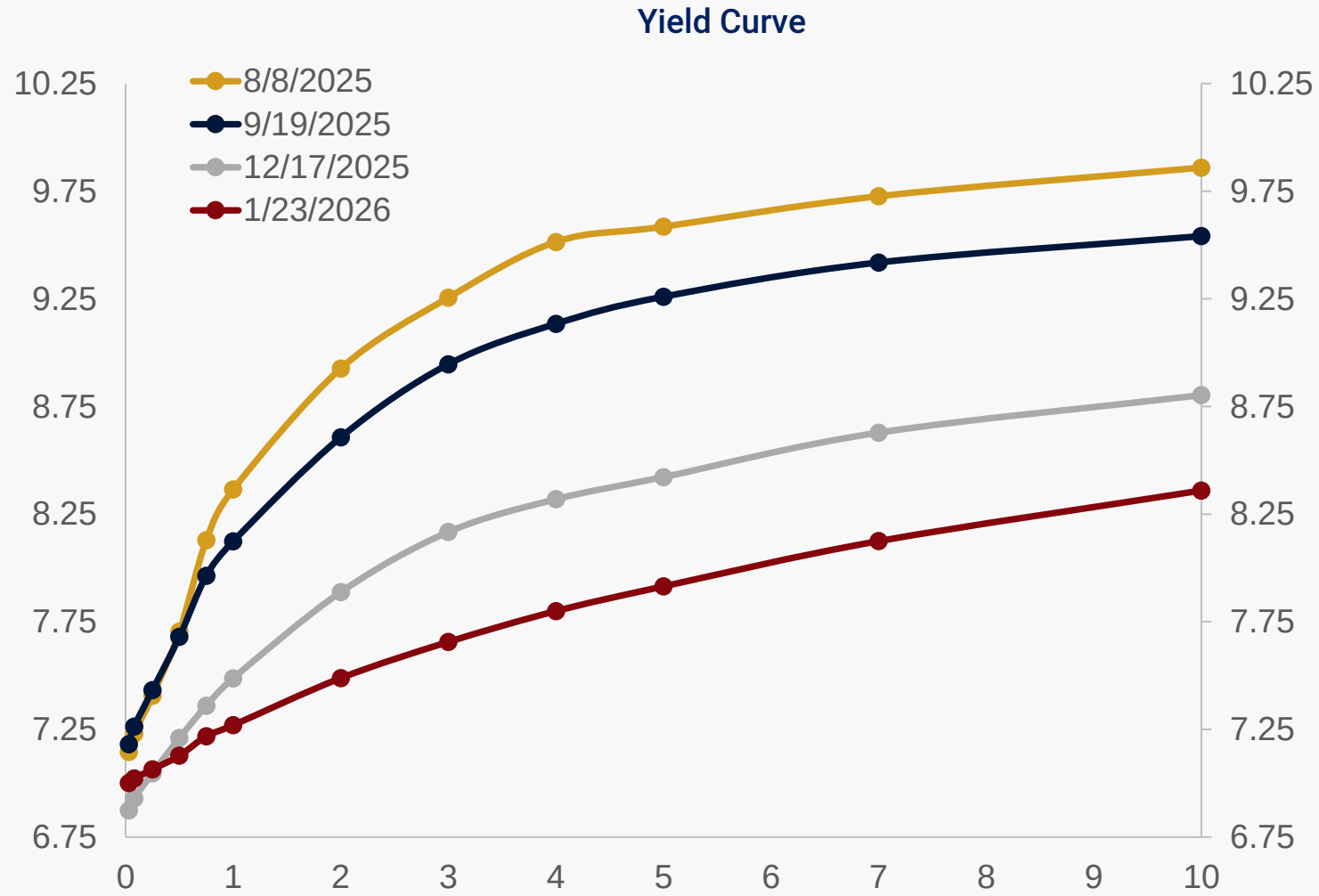


Policy Rate Expectations, February 2026



Source: December 11th CBA survey, n=33

The yield curve has declined significantly across the entire spectrum in recent months



- The improvement in **overall sentiment** toward emerging markets, as well as certain **Armenia-specific factors**, may have contributed to a downward reassessment of Armenia's country risk premium by the markets
- Gradual effects of structural and long-term factors, including the reduction in long-term inflation expectations following the early-year **lowering of the inflation target**, and the improved outlook for the **government debt trajectory**
- The impact of government debt policy
- **The gradual transmission of monetary policy**, etc.
- Non-structural factors, such as **higher liquidity** in the domestic financial market resulting from a lower required reserve ratio, among other factors

Source: CBA



Taxonomy of **Scenarios**

Taxonomy of Scenarios.

Case A-Type Considerations

Expansionary demand

- In the United States, the reassessment of fiscal policy measures has increased uncertainty regarding the size of stimulus and, in particular, the **growth of debt** over the longer term. This may contribute to **an increase in the US neutral interest rate**, thereby also affecting the neutral rate in emerging economies, including Armenia.
 - In the context of uncertainty over the Russo–Ukrainian conflict, the continued application and **possible tightening of sanctions on Russia** may boost **capital inflows** to Armenia, thereby supporting demand growth and the inflationary environment.
 - Price increases for food and certain essential goods transmitted from the global economy may lead to **an undesirably rapid rise in inflation expectations in Armenia**.
 - **A potential easing of regional geopolitical tensions** carries risks of accelerated capital inflows, which could support an expansion of demand conditions in the economy.
- Uncertainties over **domestic aggregate demand conditions**, the existence of excess demand, and its persistence:
- Economic growth exceeding the estimated long-term potential level has been mainly driven by **demand-side factors** (reflected in strong growth in construction and services), indicating **the presence of excess demand conditions in the Armenian economy**.
 - Private sector **savings and wealth accumulation**, continued strong **credit growth**, and income derived from positive export developments may contribute to expanding demand conditions in the medium term.
 - The formation of a more expansionary **fiscal policy** stance than expected, with risks toward further domestic demand expansion.
 - The persistence of **strong external demand** for Armenia's goods and services (including tourism and financial services) could contribute to higher demand and inflationary pressures.

Taxonomy of Scenarios.

Case A-Type Considerations

Contractionary supply

- In the context of **tightening trade policies** among advanced economies toward each other and the rest of the world (deglobalization), disruptions in global supply chains over the short-to-medium term may lead to higher production costs and a broadening of **inflationary pressures in the global economy**.
- The build-up of stagflation risks globally, amid a still **unanchored inflation environment** in advanced economies, could necessitate a higher path for global interest rates than market expectations suggest.

Taxonomy of Scenarios.

Case B-Type Considerations

Contractionary demand

- Structural challenges in the global economy, notably in the **Euro Area and China**, have led to **weak domestic demand** that may endure, sustaining a prolonged low-inflation environment in international commodity and raw material markets.
- Considering the **deterioration in economic activity and labor market conditions in the United States**, as well as risks of overvaluation in financial assets, a potential rapid correction in asset prices could generate deflationary pressures both globally and in the Armenian economy.
- A slowdown in demand and slower real income growth in the **Russian economy** may lead to weaker **external demand**, particularly for tourism services, creating downward pressure on prices.
- In the event of a resolution of the Russo–Ukraine conflict and the full or substantial lifting of sanctions, there is a potential for significant **capital and labor outflows from Armenia**, which could entail notable risks of weakening overall demand and, particularly, the inflationary environment.
- The prolonged low levels of services and non-traded sticky price inflation, weak trends in retail trade and imports of final consumption goods, as well as the structural characteristics of economic growth, may indicate an already weak demand environment, the persistence of which could entail risks of a sustained low-inflation environment.
- The risk of disinflationary pressures and weakening demand emerging in related sectors of the economy amid a gradual and orderly adjustment in **real estate prices**.
- During periods of high external demand in past years, the Armenian private sector took on **significant credit** in expectation of future income. **Against the backdrop of a weaker global outlook and possible corrections in external demand**, this may further restrain the economy, particularly limiting income and expenditure growth in services.
- Enhanced tax administration, together with downward revisions in current and capital spending, could further restrain the economy by weakening demand.

Taxonomy of Scenarios.

Case B-Type Considerations

Contractionary demand

- Uncertainties surrounding the fundamentals of Armenia's neutral interest rate.
 - In recent years, **capacity and productivity growth in export-oriented sectors** have contributed to a faster expansion of potential GDP, accompanied by an improved investment environment, significant capital inflows, and a **rapid actual and expected fundamental appreciation of the real exchange rate**. This, in turn, implies a relatively low level of Armenia's neutral interest rate.
 - A potential easing of regional geopolitical tensions could contribute to a downward reassessment of **the country risk premium** and the long-term level of the neutral interest rate.

Expansionary supply

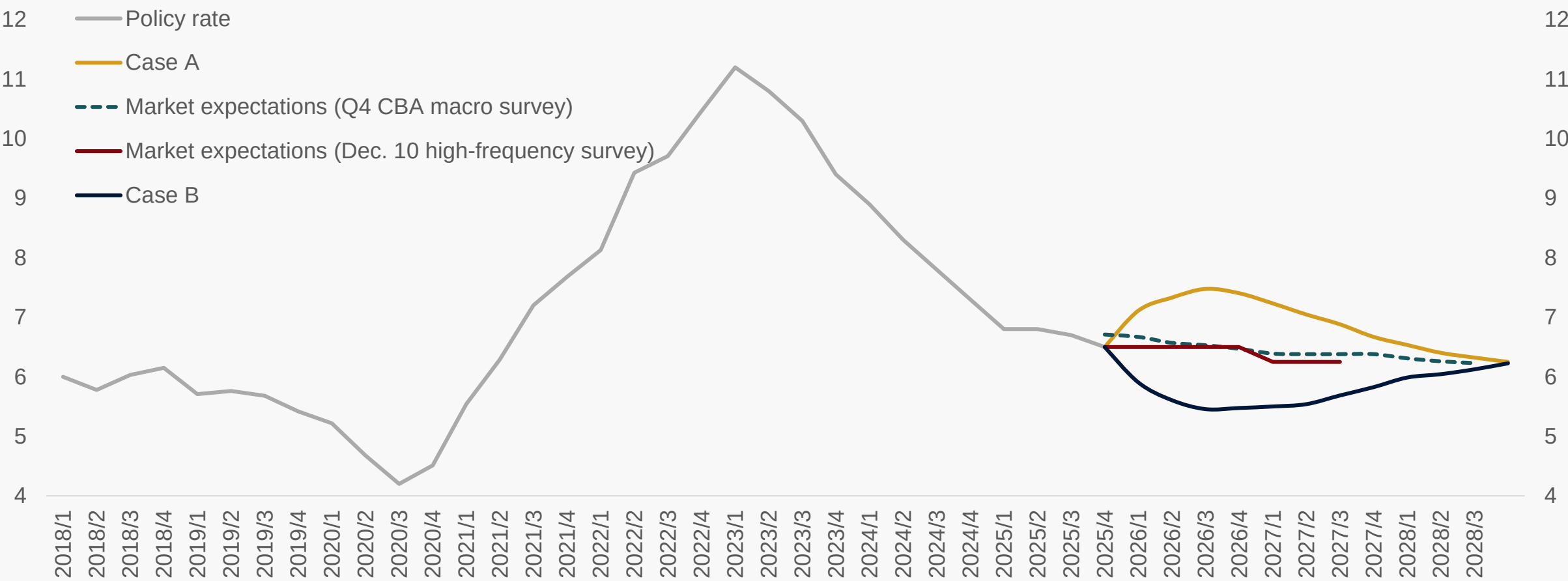
- The continued growth of labor supply in the Armenian economy, driven by uncertainties related to the medium-term developments in the Russian economy and, in particular, by a sustained decline in seasonal migration from Armenia to Russia due to tighter migration policies in Russia.
- A sudden weakening of demand in Russia may **negatively affect external demand for Armenian products**, resulting in excess domestic supply of some goods and broader deflationary pressures.



Policy deliberations

Policy deliberations

Illustrative scenarios – 2025 Q4



Source: CBA surveys



Thank you