

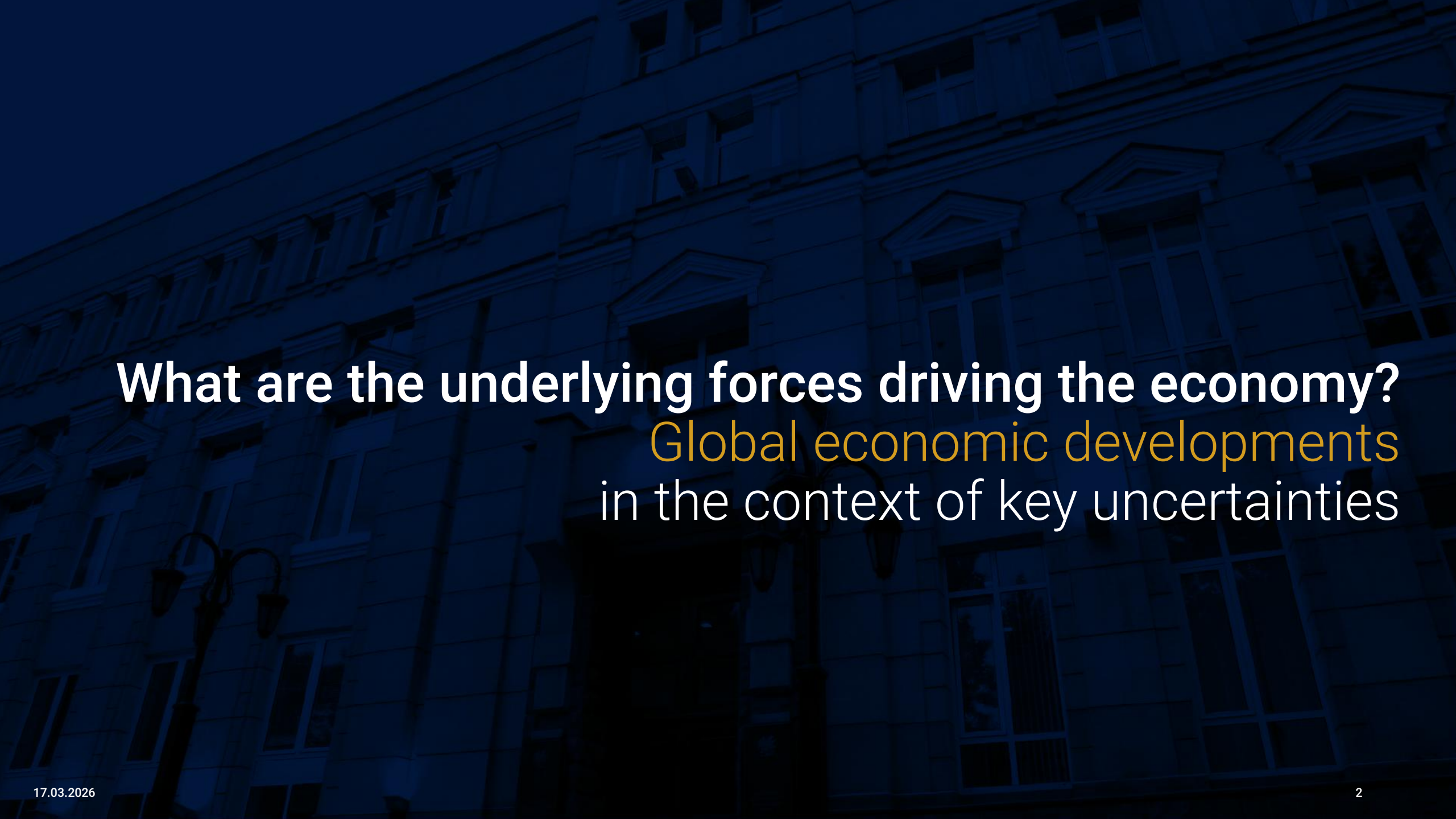


Central Bank
of Armenia

Monetary Policy **Outlook**

2026 Q1 Policymaking Round

March 17, 2026

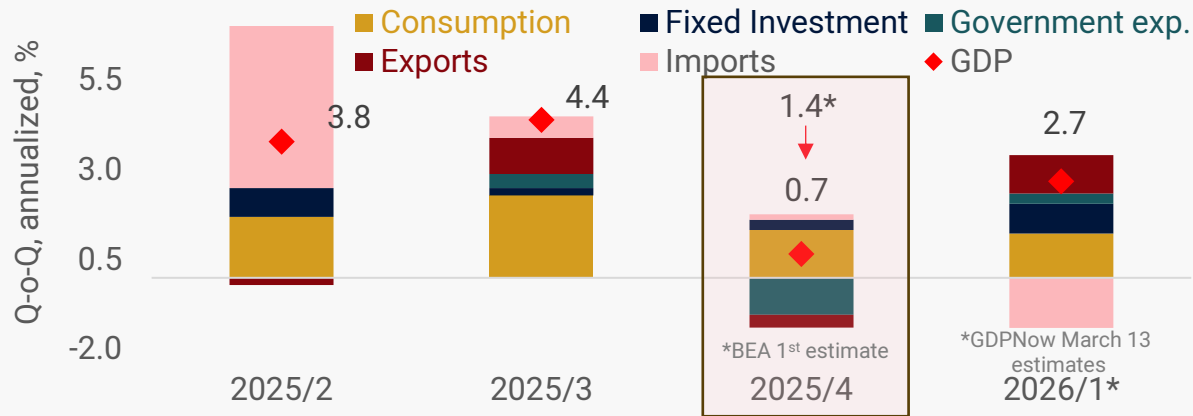


What are the underlying forces driving the economy?

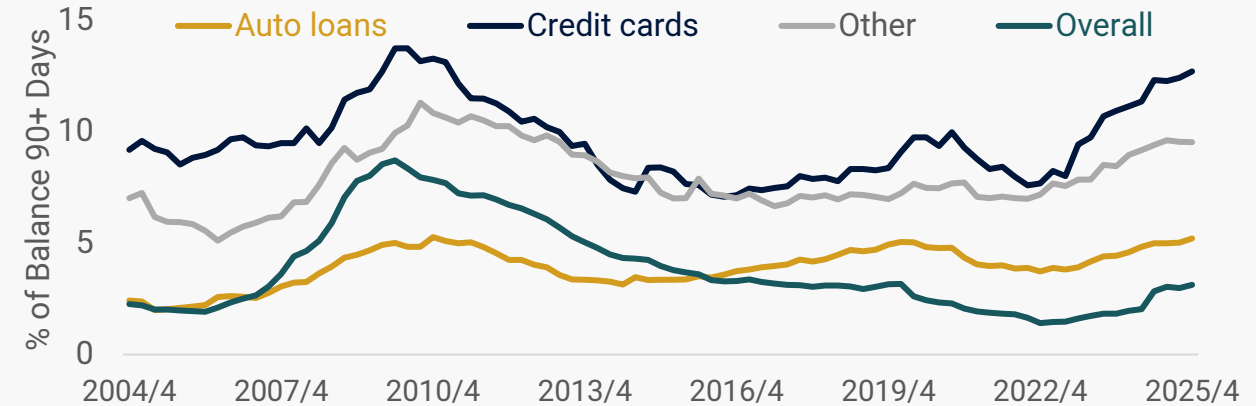
Global economic developments in the context of key uncertainties

US. How strong are demand conditions in the US economy in the context of existing uncertainties?

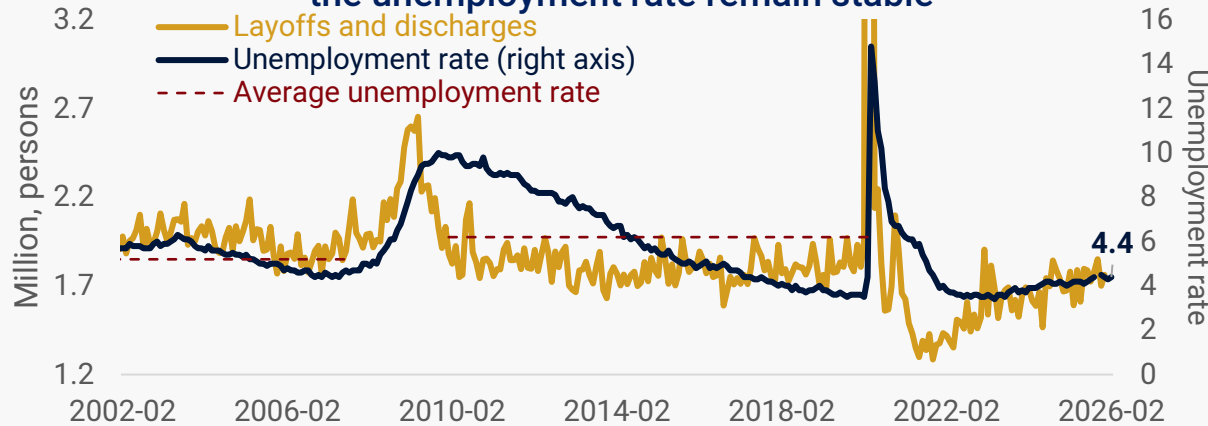
Economic growth slowed in Q4 2025; consumption continues to be the main driver of the economy



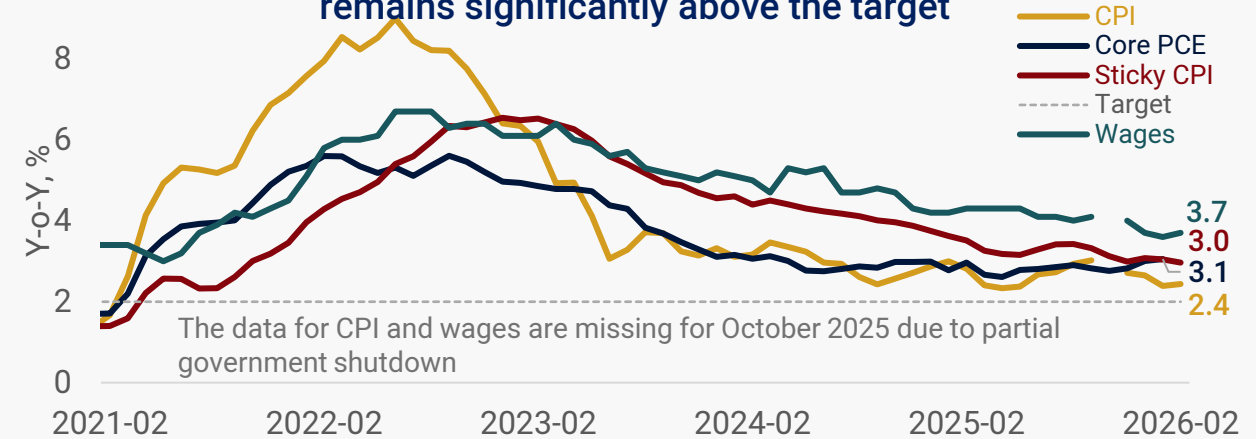
The share of nonperforming loans continues to increase, reaching the highest level since 2010



At the same time, despite a certain increase, the number of layoffs and the unemployment rate remain stable



Despite the gradual slowdown of overall inflation, sticky price growth remains significantly above the target

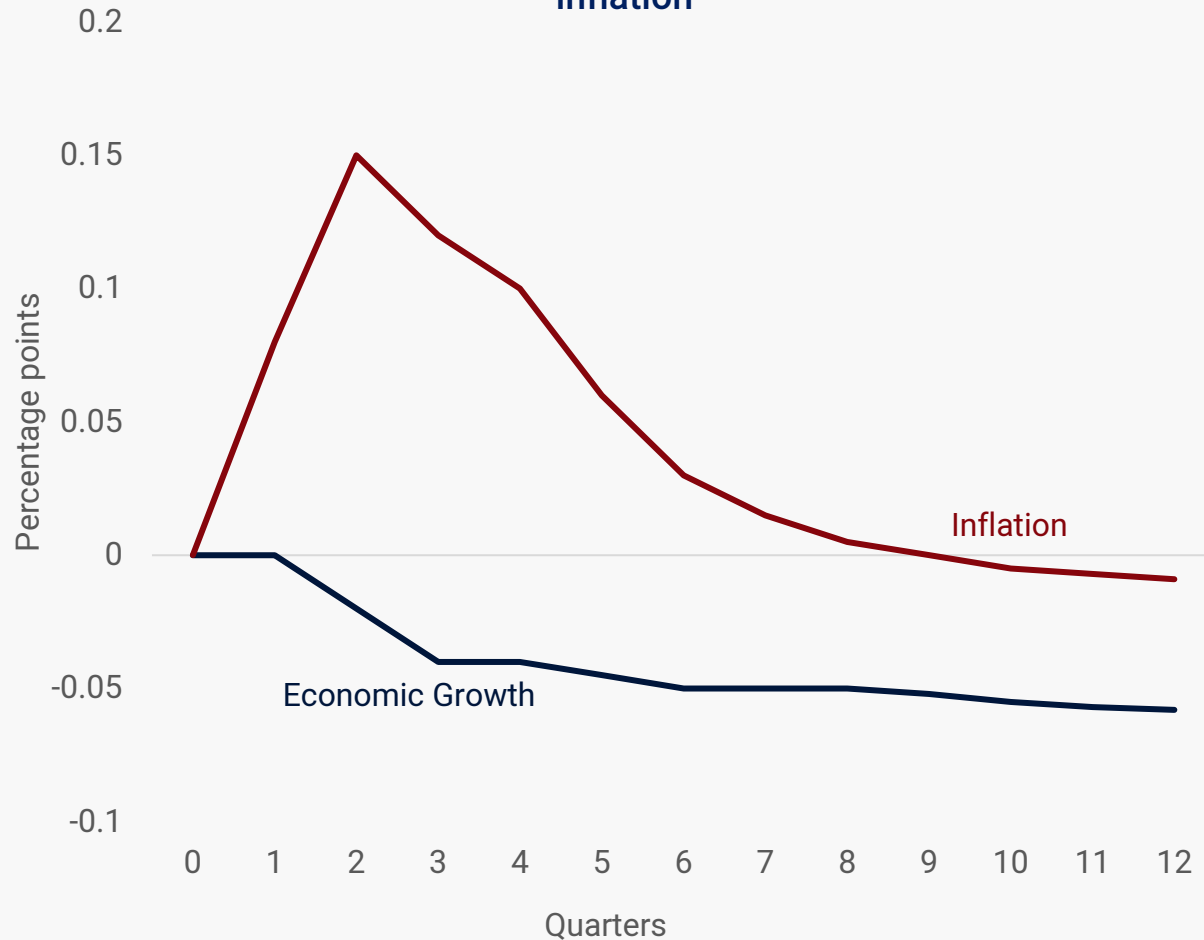


Source(s): U.S. Bureau of Economic Analysis, Atlanta Fed, U.S. Bureau of Labor Statistics (BLS)

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

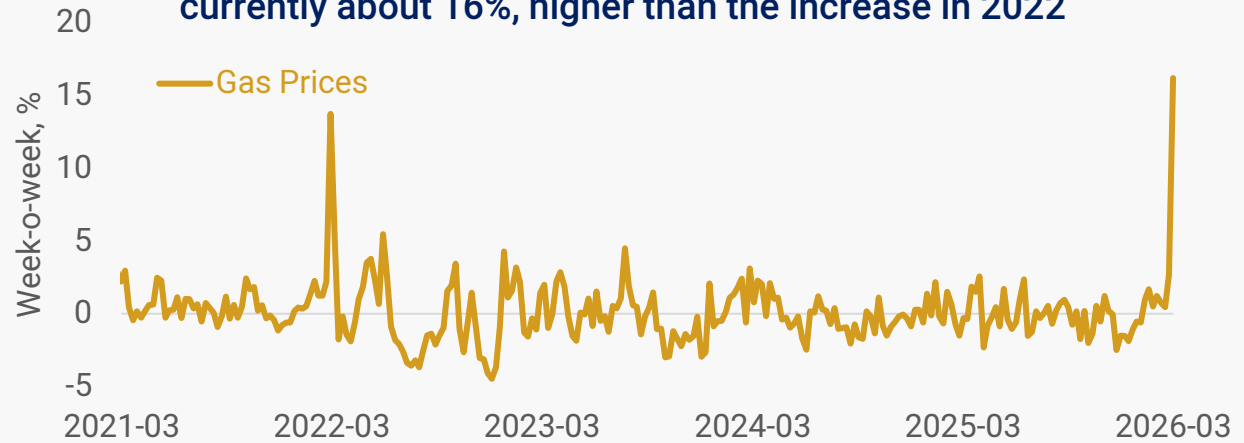
US. Under these conditions, a sharp increase in global oil prices may pose risks of further slowing economic growth and, at the same time, accelerating inflation

The impact of a 10% increase in oil prices on U.S. economic growth and inflation



Source: Presno and Prestipino (2024), FRB

The impact of the increase in oil prices on fuel prices in the U.S. is currently about 16%, higher than the increase in 2022

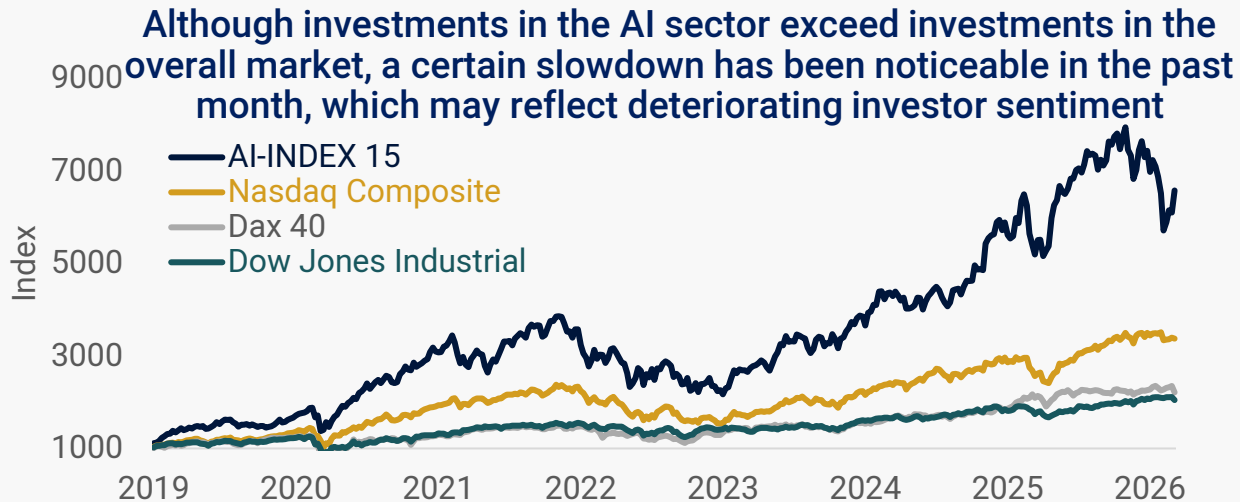


On the other hand, the share of expenditures on fuel in households' disposable income is currently at historically low levels



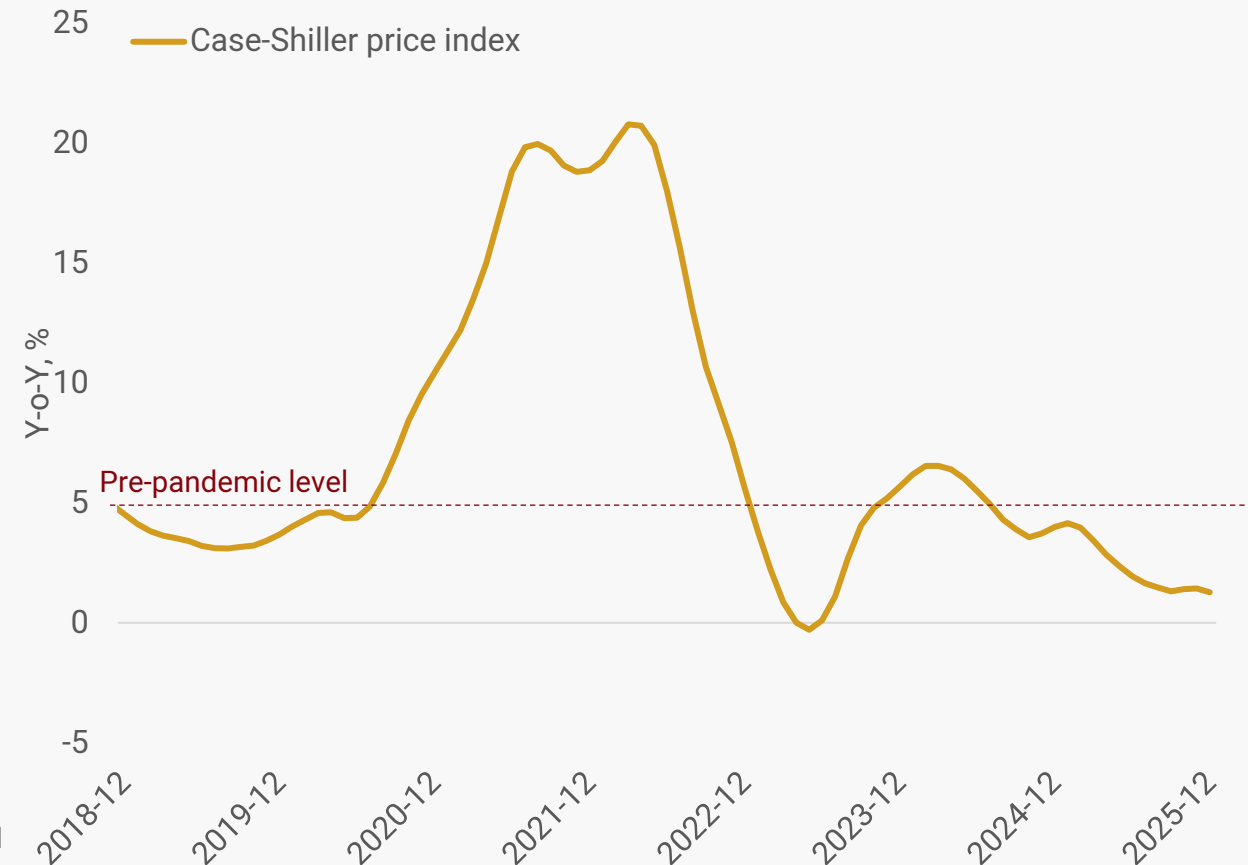
Source: Energy Information Administration, Bureau of Economic Analysis (BEA)

US. On the other hand, the risk of a possible further correction in financial asset prices remains tangible in the context of uncertainty around the outlook for the AI sector and the risks of financial asset overvaluation



Source: AI-index 15, RedFin

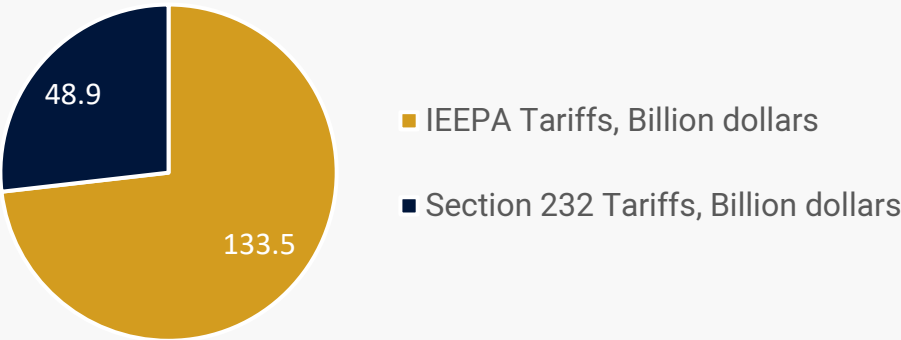
Real estate price growth has slowed significantly since 2025, reaching levels below those during the pandemic, which may reflect the current weakening demand conditions



Source: S&P 500

US. Uncertainties around the long-term trajectory of public debt, and in that context the level of the neutral interest rate, have increased, particularly due to the risks of possible refunds of the tariffs currently applied

More than \$160 billion in tariff payments may be refunded

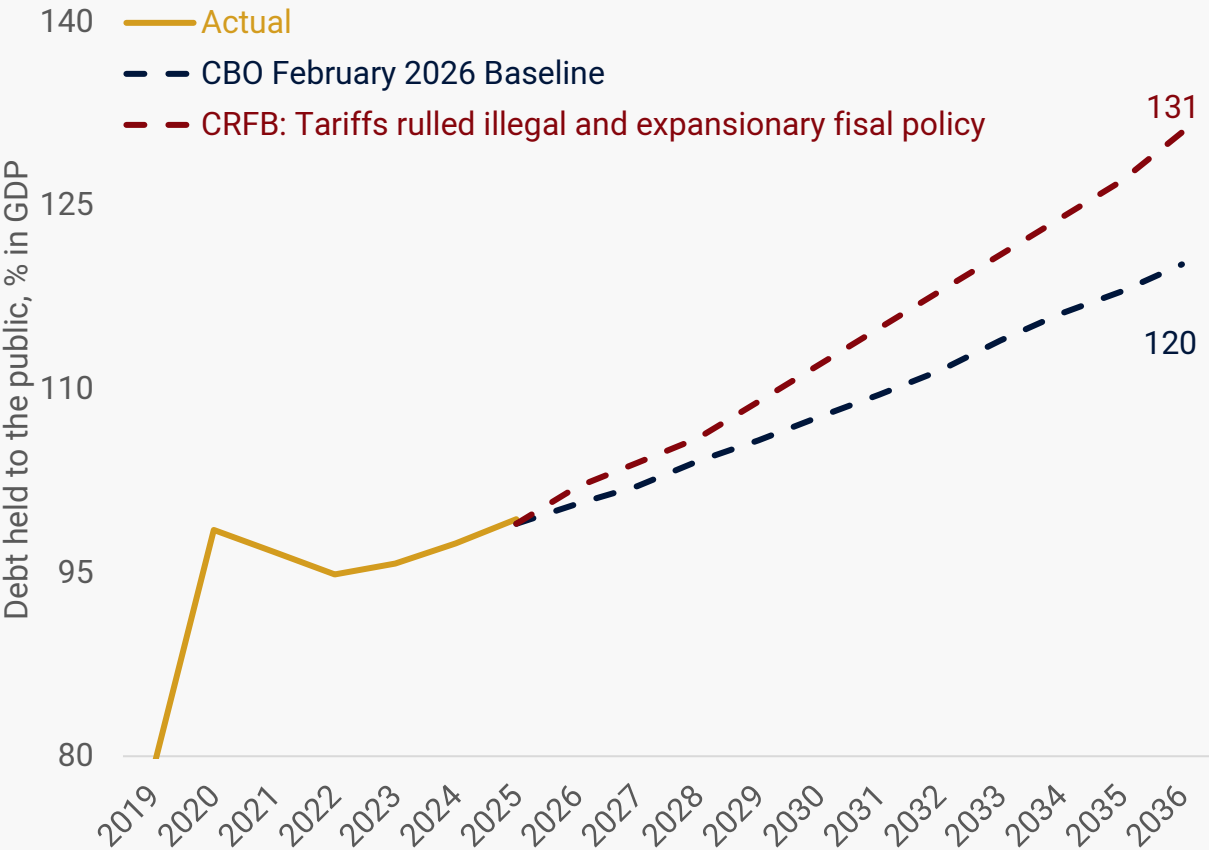


If the conflict in the Middle East persists and/or escalates further, unbudgeted expenditures could further increase the state budget deficit

Costs incurred during the first 100 hours	Total	Budgeted	Unbudgeted
Operations and support costs	\$196.3 mln	\$178.1 mln	\$18.3 mln
Munitions	\$3.1 bln	\$0	\$3.1 bln
Combat losses and infrastructure damage	\$359 mln	\$0	\$359 mln
Total	\$3.71 bln	\$178.1 mln	\$3.54 bln

Source: Tax Foundation, Center for Strategic and International Studies (CSIS)

If compensation for the tariffs ruled illegal is paid and fiscal stimulus is further expanded, U.S. public debt could further increase to 131% of GDP



Source: Center for Responsible Federal Budget (CRFB), CBO

US. Under these conditions, market participants expect a much more gradual reduction in policy rates

From the central bank's perspective, risks in both directions have increased significantly...

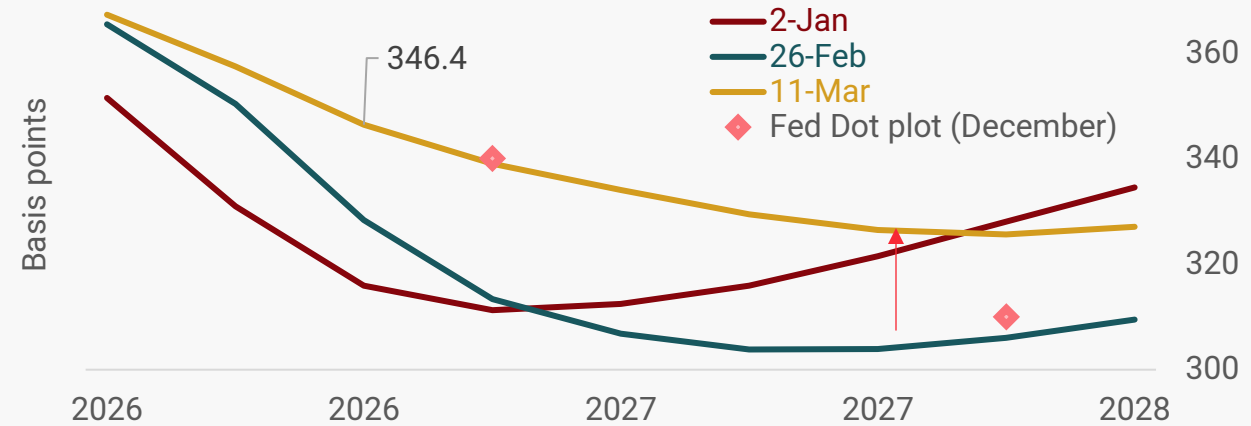
B-type risks

- Further weakening of the labor market
- Risks of financial asset overvaluation associated with the high growth of investments in AI and the potential correction of these assets, with possible disinflationary pressures stemming from them

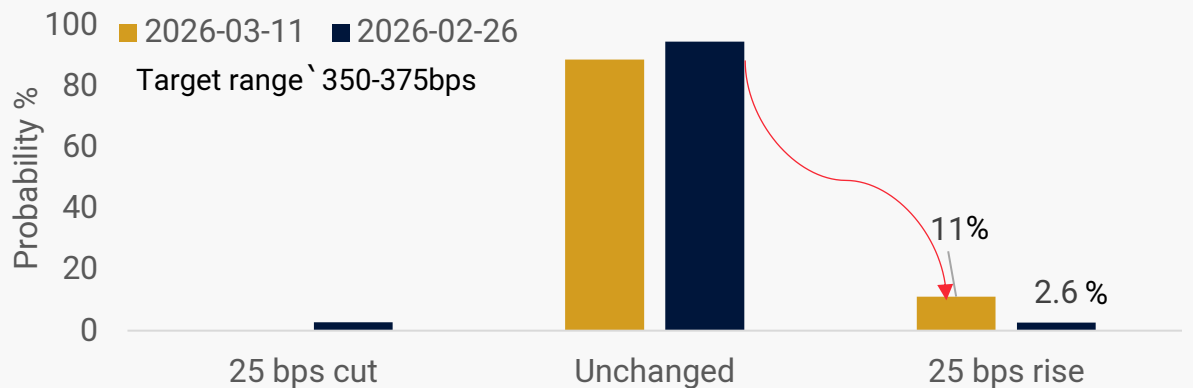
A-type risks

- Energy price inflation resulting from a war against Iran and the inflationary risks transmitted from it to other sectors of the economy
- Possible risks of an expansion of the inflationary environment, particularly due to compensation for cancelled tariffs, uncertainty stemming from trade and economic policy, and planned stimulating processes related to fiscal regulations
- Persistently high consumption, accumulation of wealth, still unresolved inflation, inflationary pressures driven by migration policy
- Uncertainties regarding the neutral interest rate driven by the growth of AI investments
- Risks related to debt sustainability, which create uncertainties from the perspective of the neutral interest rate
- Risks of weakening central bank independence and the resulting de-anchoring of inflation expectations

Market expectations about the future path of the Fed Funds Rate



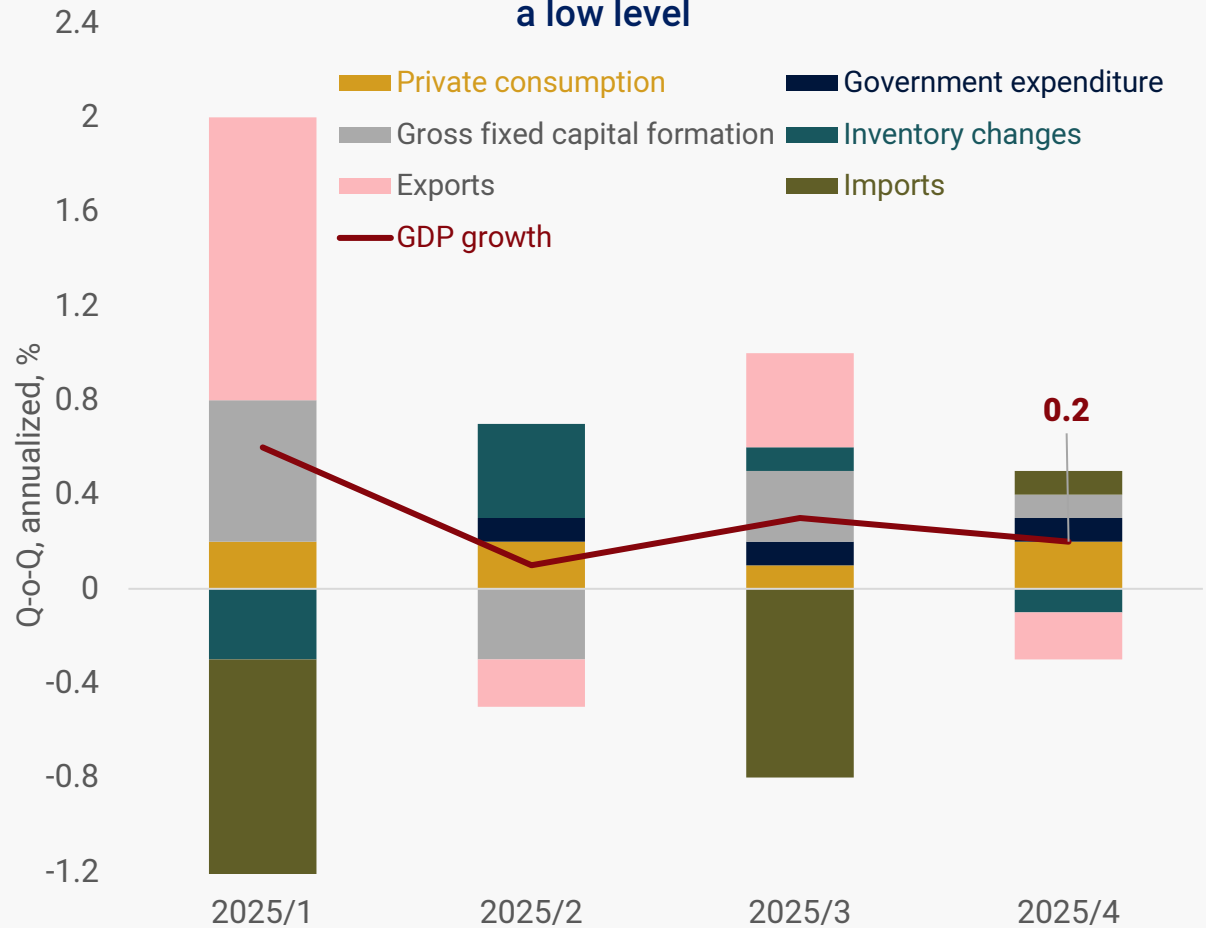
Has uncertainty regarding the future policy of the FRB increased?



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

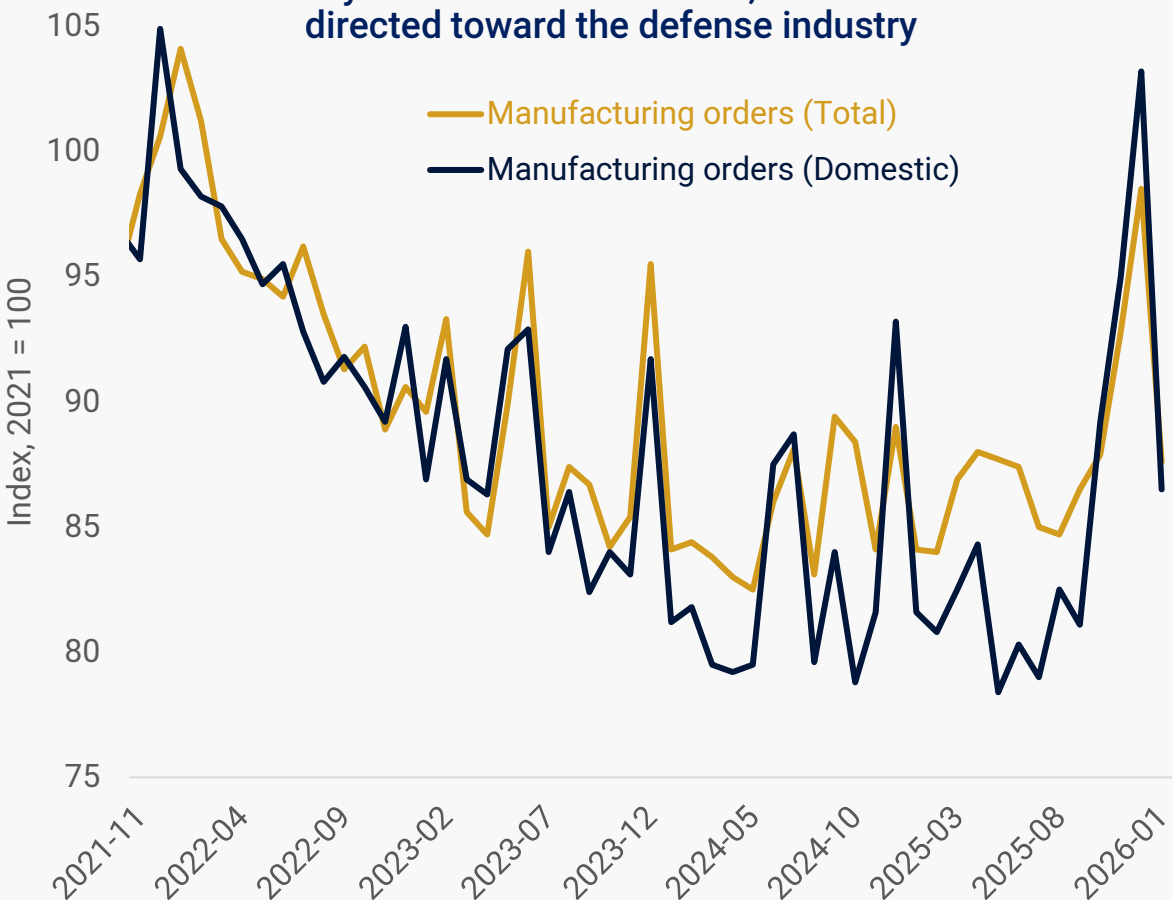
EA. Escalation of the conflict in the Middle East and its prolonged persistence may further deepen structural problems in the Euro area

In the context of structural problems, economic growth has stabilized at a low level



Source: Eurostat

The sharp decline in industrial orders in Germany makes the prospects for a stable recovery of the sector uncertain, even under fiscal stimulus directed toward the defense industry

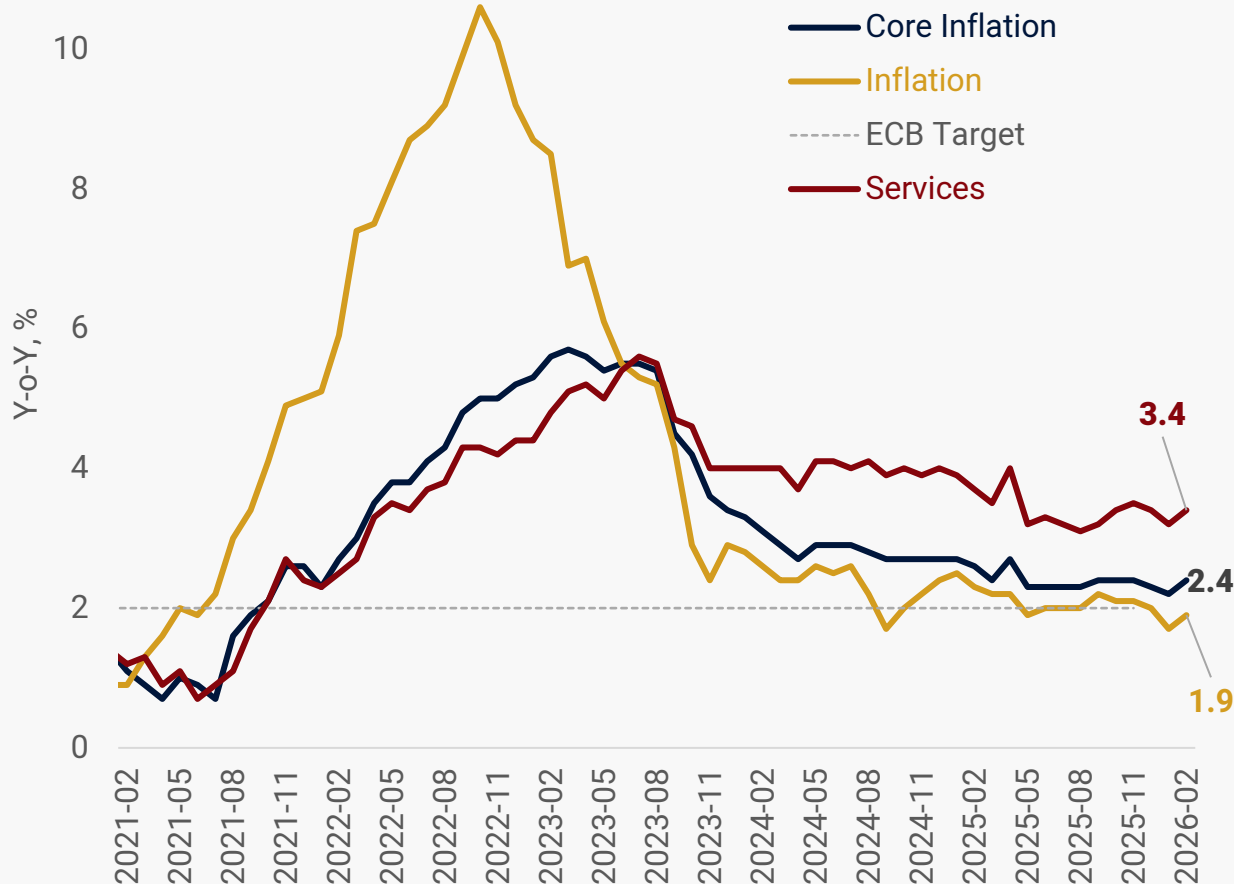


Source: German Federal Statistics Office

EA. On the other hand, these developments may further deepen the not yet fully resolved inflation problem

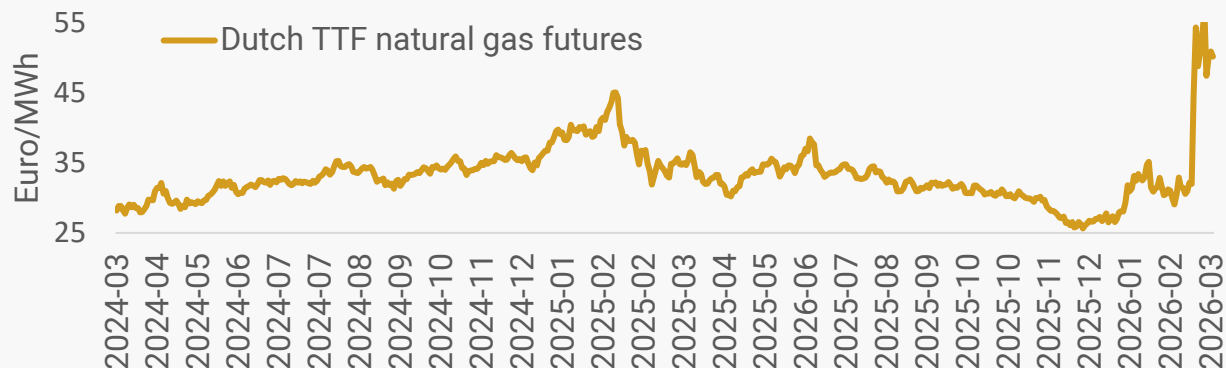
The already low reserves of natural gas make the Euro area more vulnerable from the perspective of inflationary pressures arising from disruptions in trade routes

In the context of current geopolitical developments, the inflation outlook remains uncertain

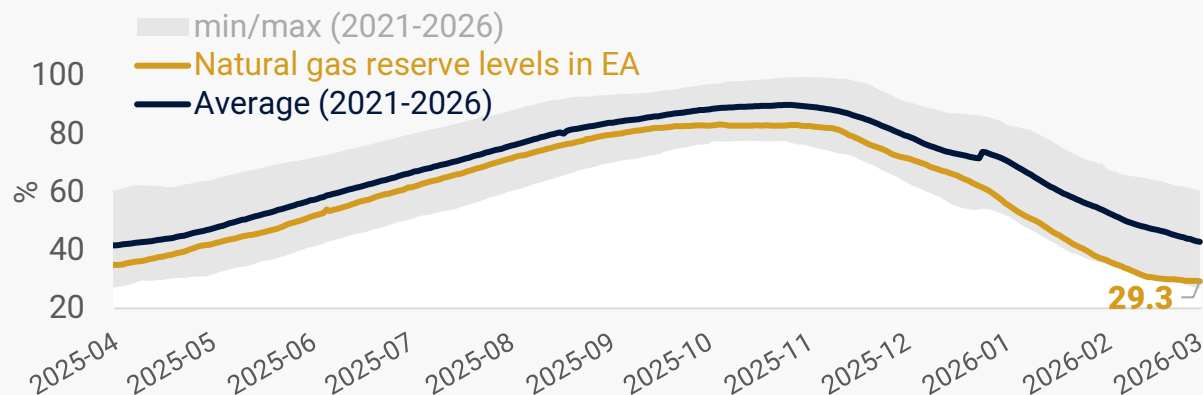


Source: Eurostat

Although natural gas prices have recorded a sharp increase, their impact on the inflation environment in the Euro area is uncertain and depends on the duration of tensions in the Middle East



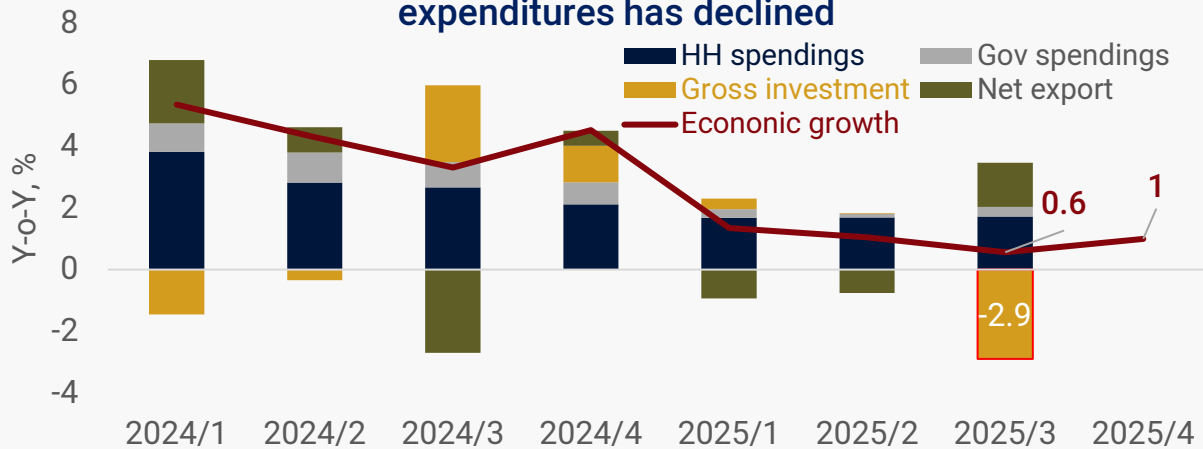
The lowest level of gas reserves in recent years has been recorded in the Euro area



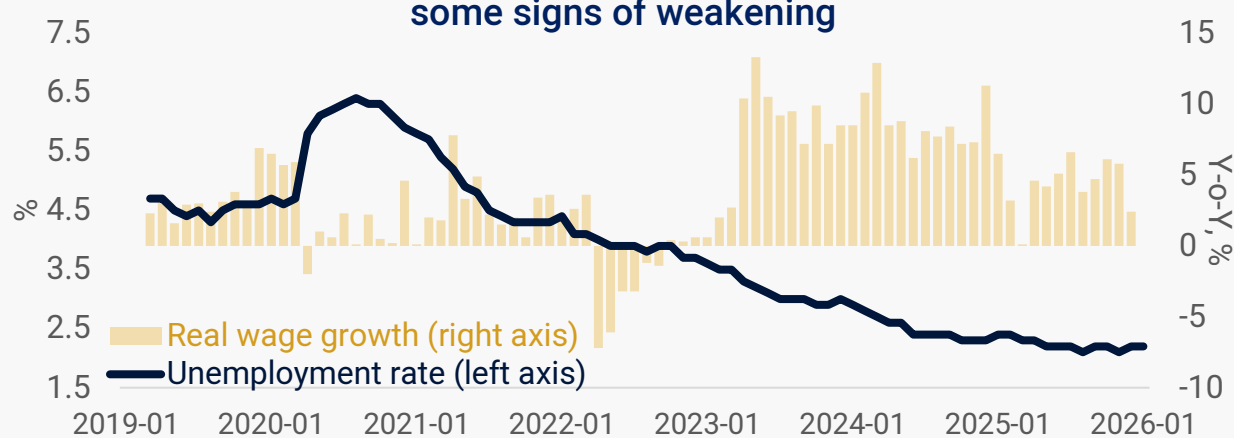
Source(s): Eurostat, GIE AGSI

Russia. Do the recent GDP developments reveal weak economic fundamentals, or are they cyclical developments driven by CBR policy?

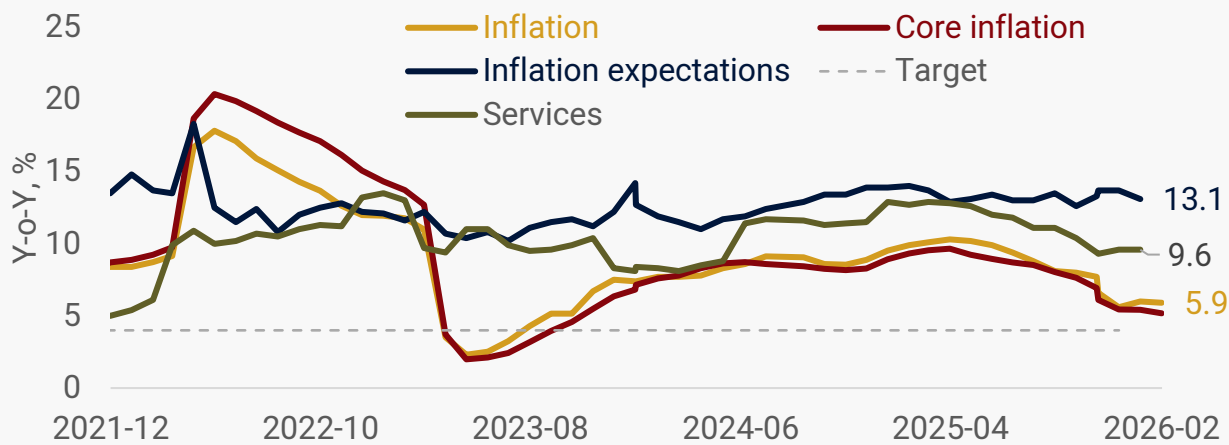
Compared to previous years, the role of public and especially private expenditures has declined



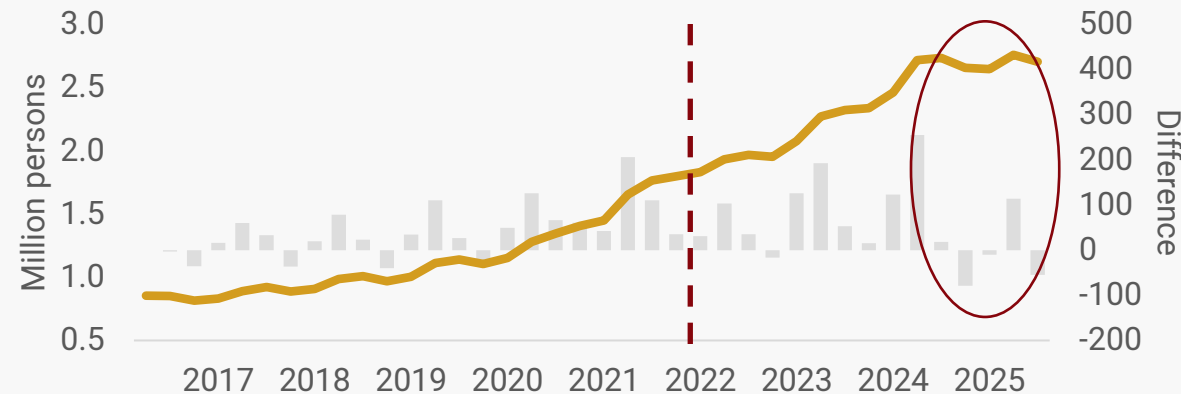
Labor market conditions continue to remain tight, although there are some signs of weakening



Inflation continues to remain above the target level



The number of required workers has stopped growing. Does this indicate weakening demand?



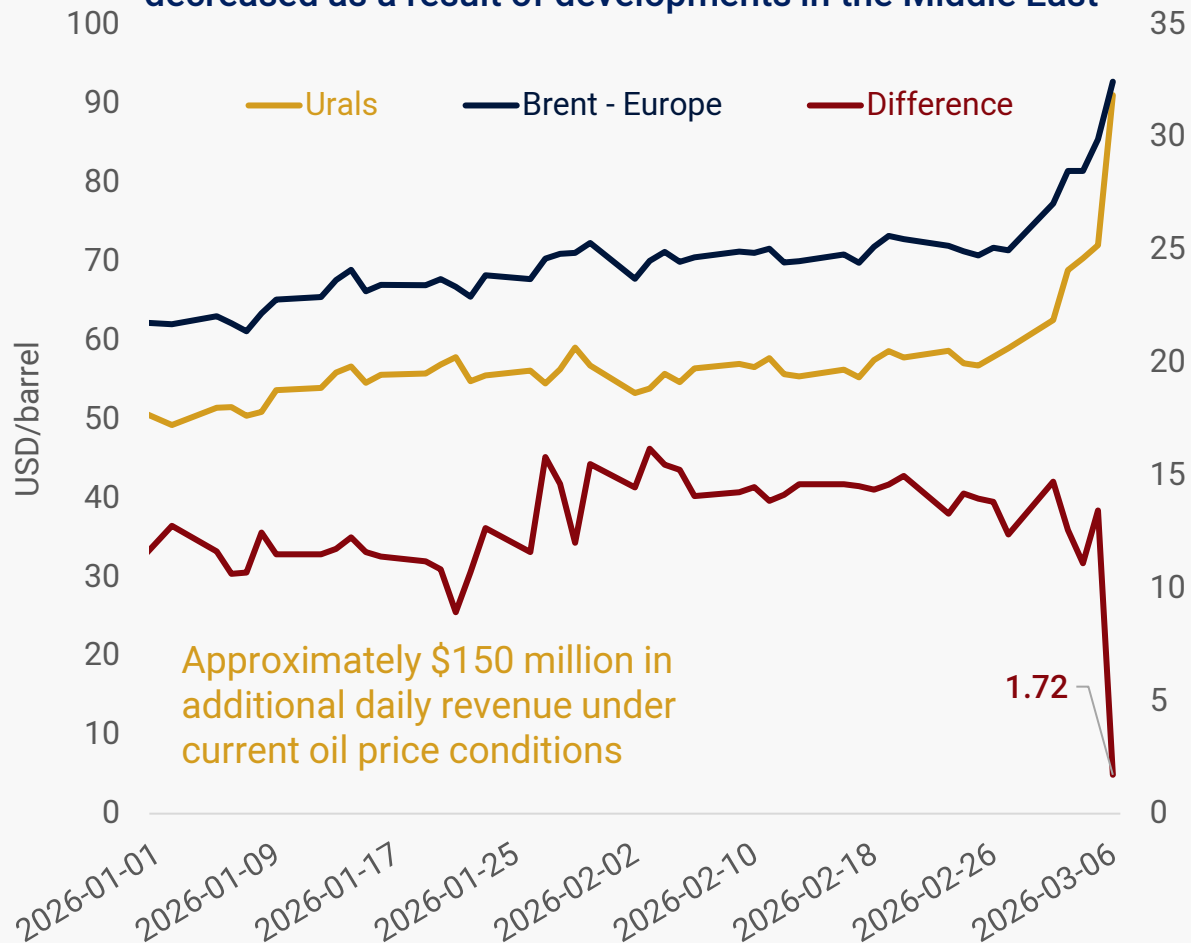
Source: Federal State Statistics Service of Russia

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

Russia. A significant increase in oil prices may contribute both to the expansion of activity and demand and to the recovery of budget revenues, as well as to a certain neutralization of inflationary risks through exchange rate appreciation

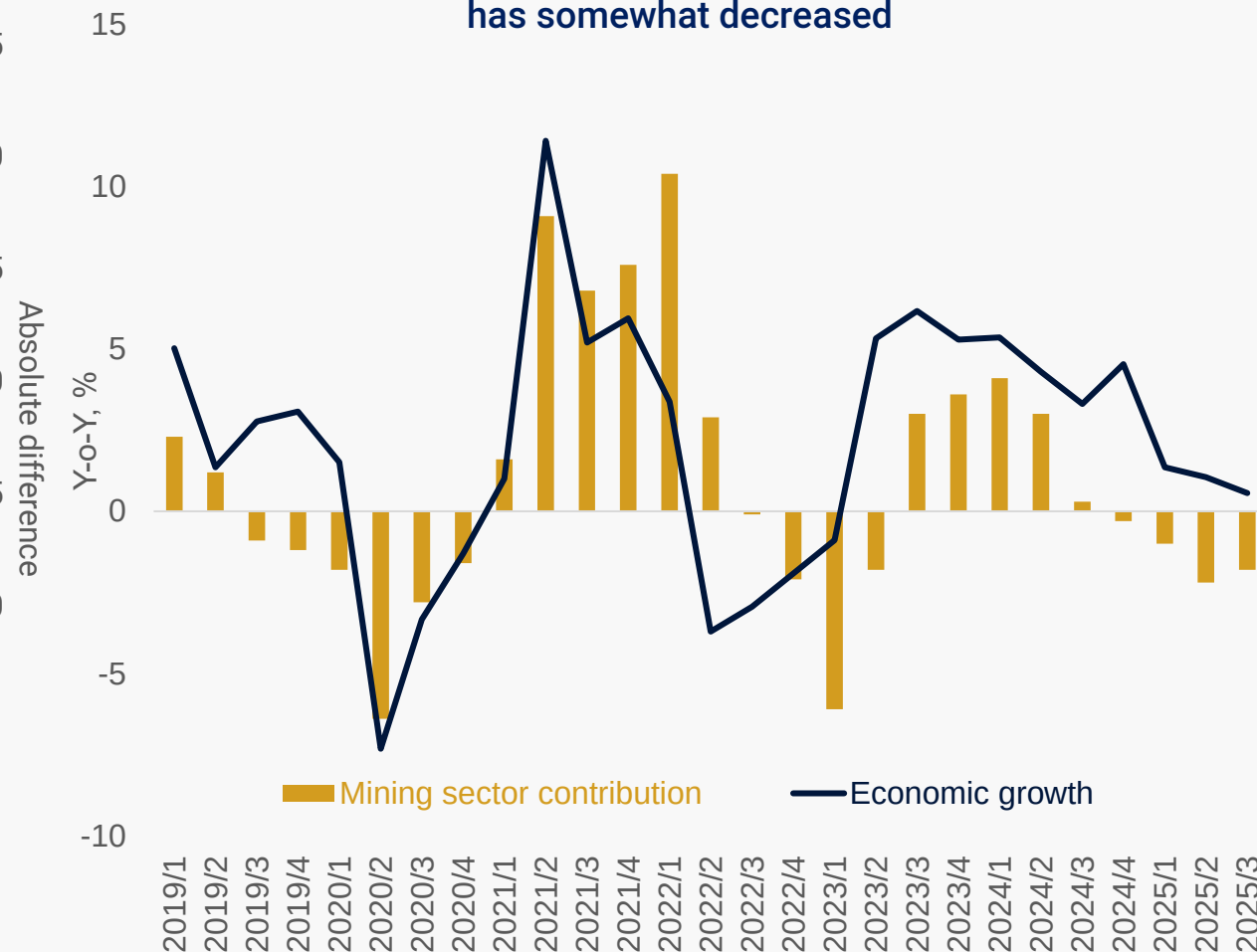
Will the increase in oil prices and the easing of sanctions against Russia have a relatively long-term nature?

The difference between Brent and Russian Urals oil prices has sharply decreased as a result of developments in the Middle East



Source: Federal reserve bank of Saint Louis, Bloomberg

Nevertheless, recently the role of the oil and gas sector in the economy has somewhat decreased



Source: Federal State Statistics Service of Russia

Russia. Key risks and market expectations regarding the Russian economy

B-type risks

- Further weakening of demand, low economic activity
- Demand restraint as a result of fiscal consolidation, as well as changes in budget rules

A-type risks

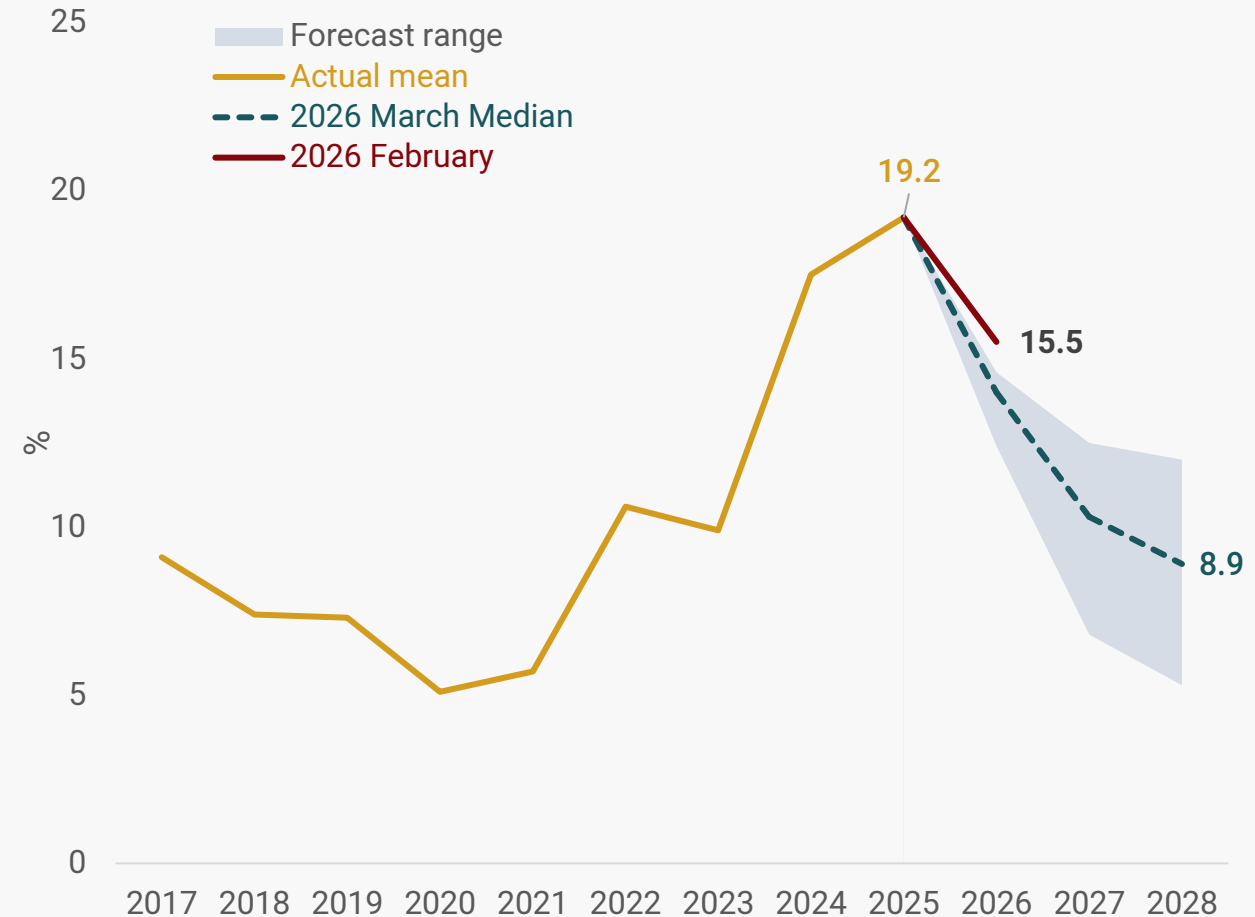
- Persistence of tight labor market conditions, especially under a shortage of labor supply
- Risks related to the further use of accumulated savings Increase in revenues and acceleration of economic activity as a result of rising oil prices

Other uncertainties:

Uncertainty around the potential level of GDP due to possible structural problems

Geopolitical uncertainties and the duration of developments in the Middle East make the outlook for Russia's budget deficit particularly uncertain

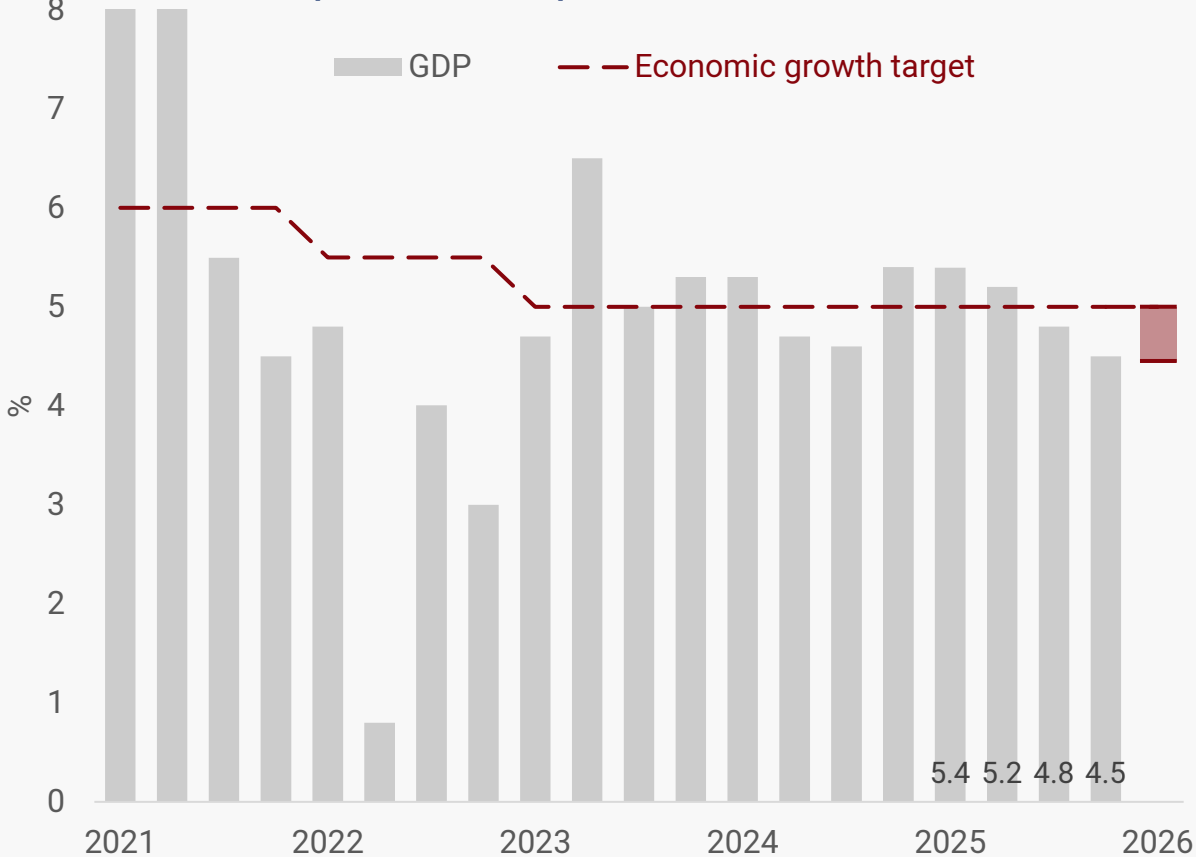
Market expectations regarding the policy rate



Source: Bank of Russia

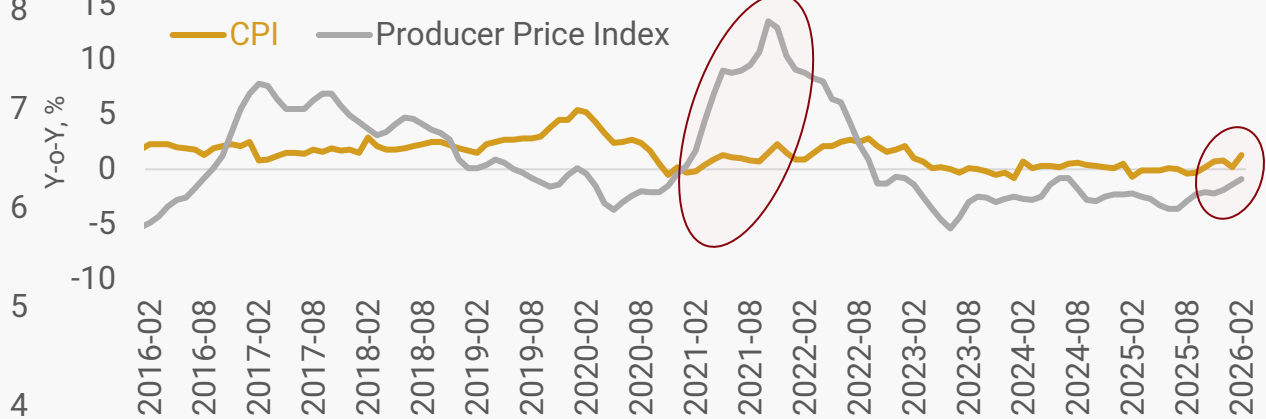
China. Structural problems in China's economy persist, also reflected in a certain reduction of the economic growth target, while it is relatively less vulnerable to a sharp increase in oil prices

The economic growth target has been reduced, particularly due to the structural problems that persist in the real estate market

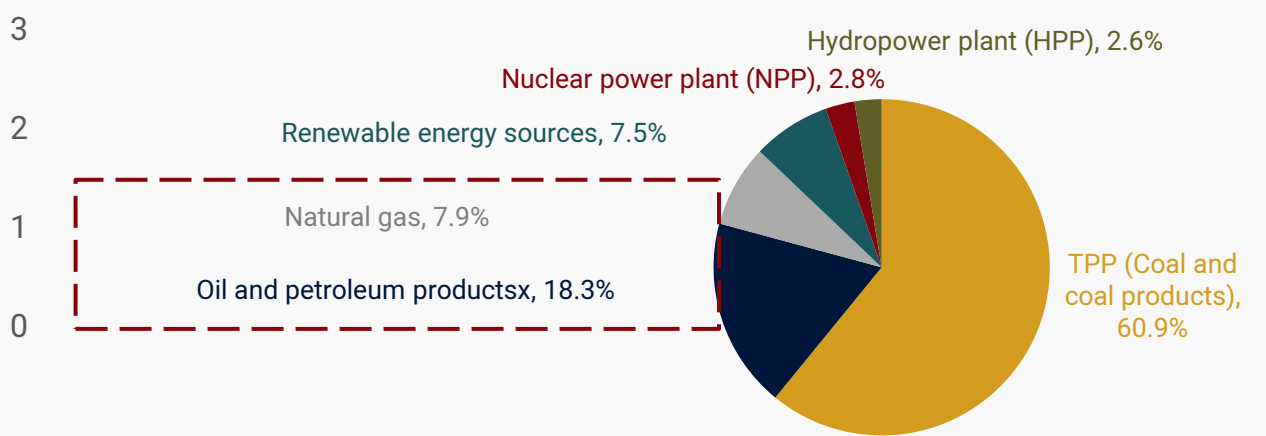


Source(s): National Bureau of Statistics of China, China Government Work Report, China Statistical Yearbook, Financial Times

Inflation continues to remain at low levels, possibly reflecting weak domestic demand



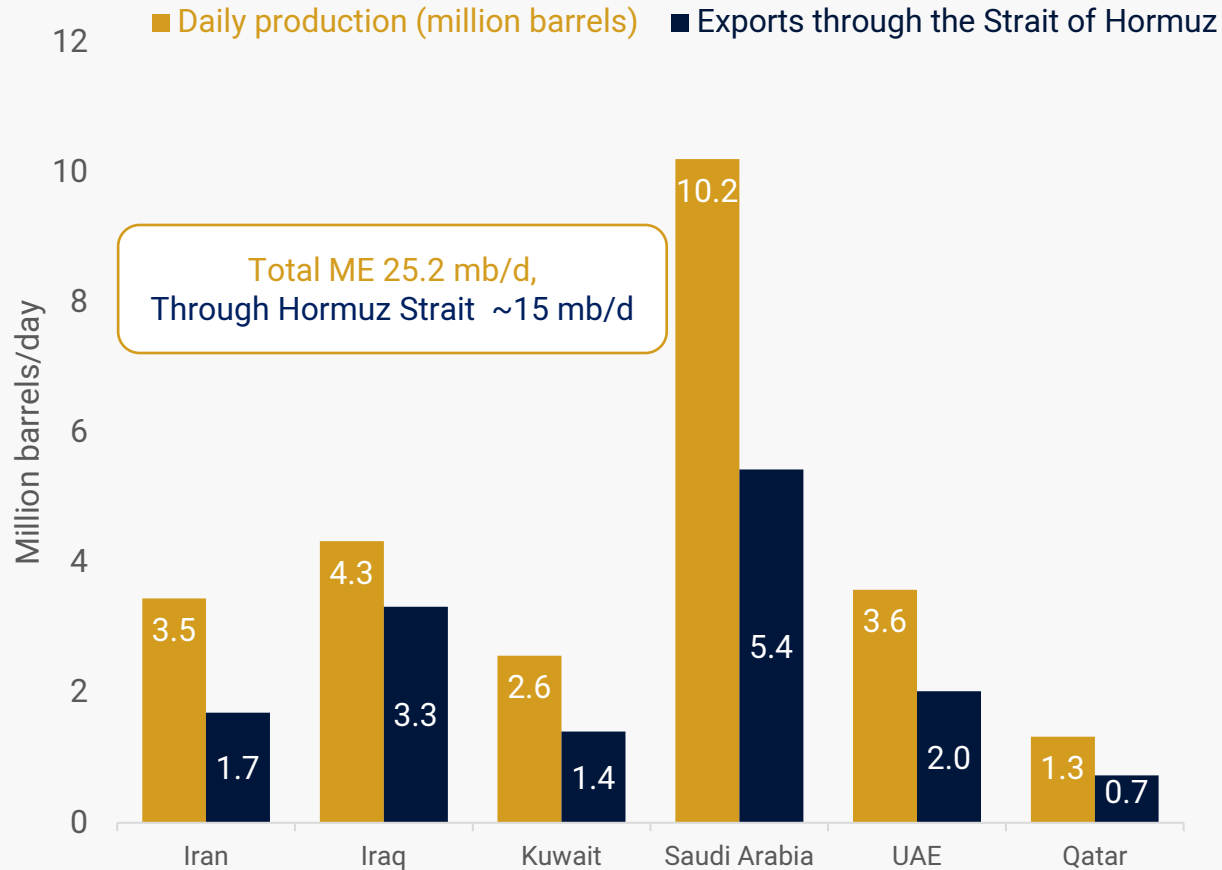
Oil and gas account for less than one-third of China's energy supply



Source: IEA, 2023

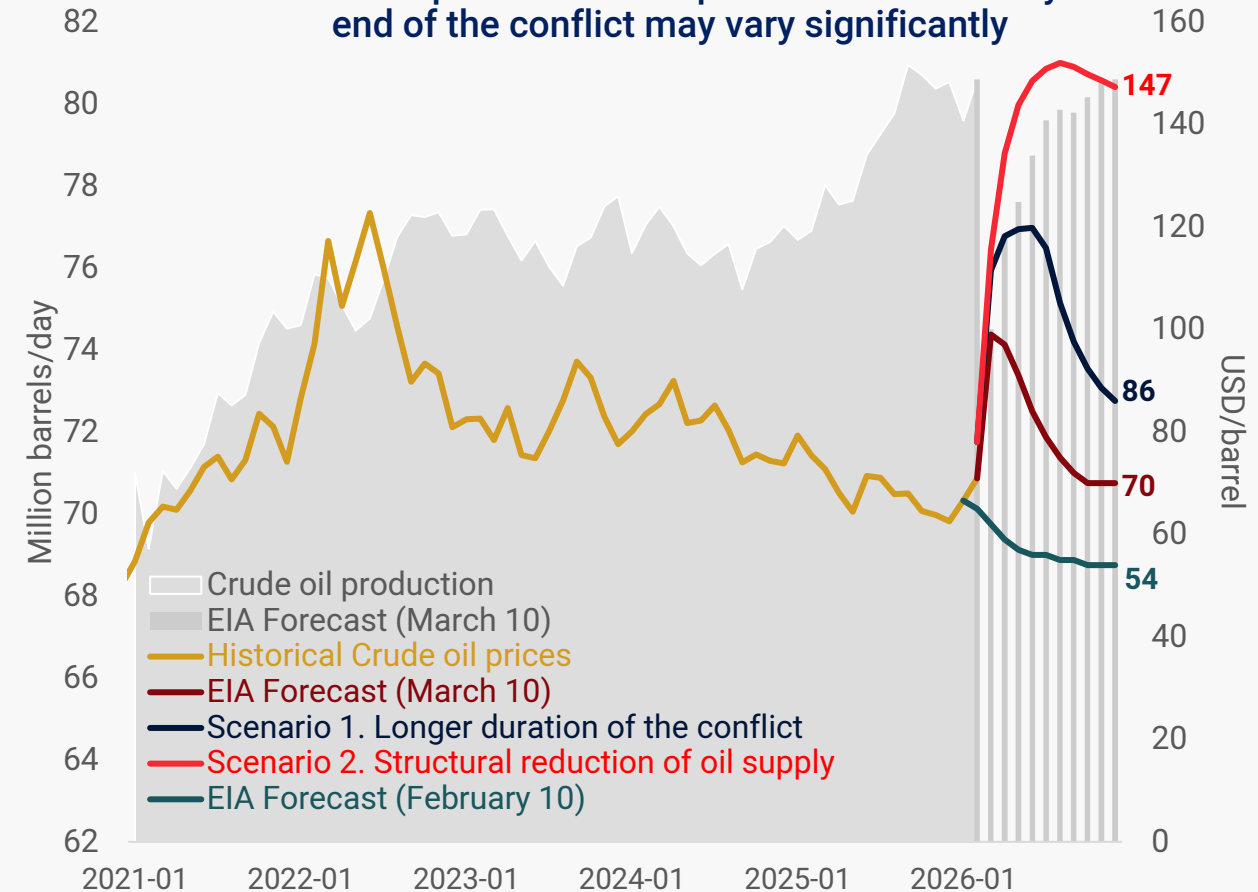
Oil Market. The large volume of oil exported through the Strait of Hormuz and the limited possibilities of bypassing it are causing volatility and a significant increase in prices in global energy markets

Volume of crude oil and petroleum products transported through the Strait of Hormuz, by country of origin



Source: Energy Information Administration

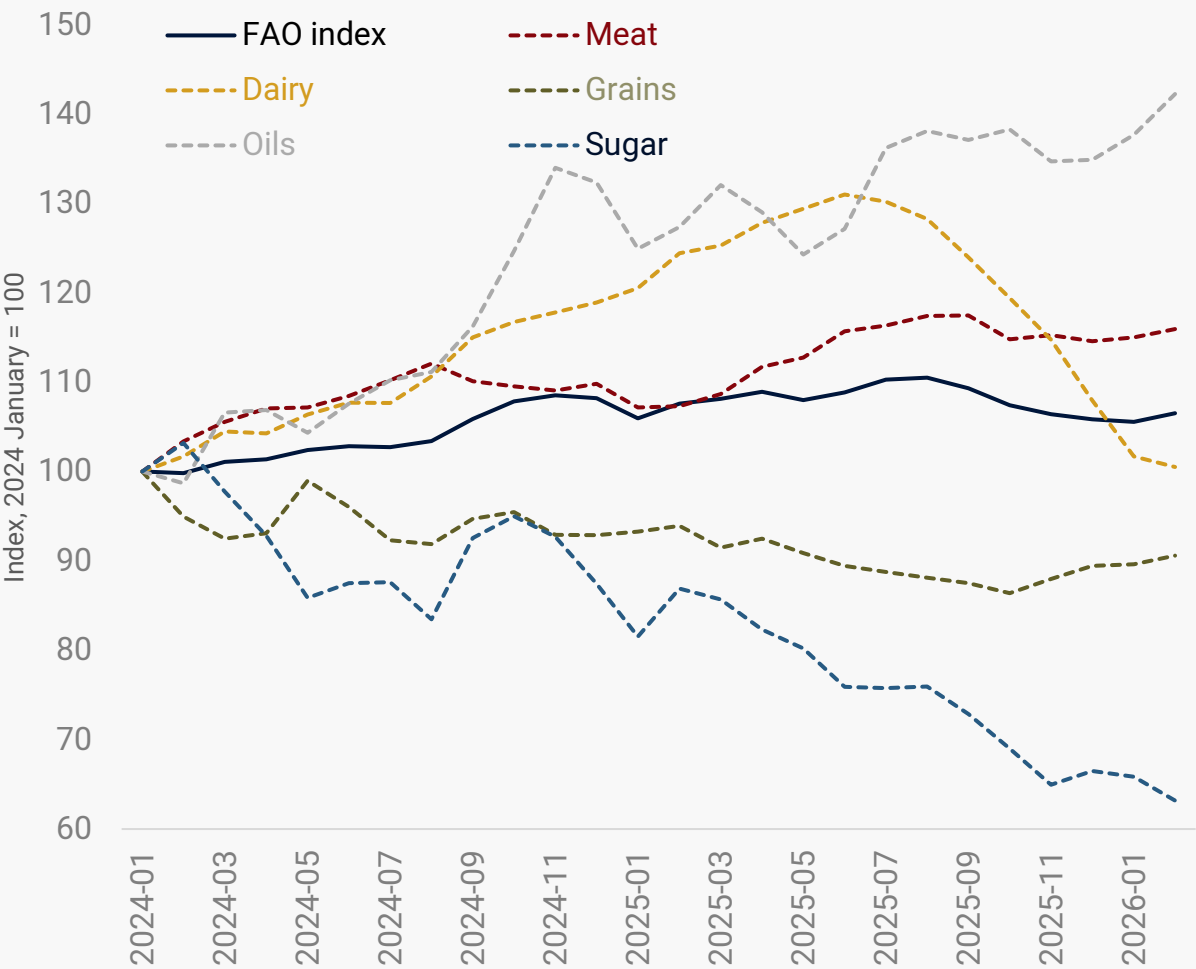
Under scenarios of a prolonged conflict and/or especially damage to energy infrastructure in countries of the region, the magnitude of the increase in oil prices and the speed of their recovery after the end of the conflict may vary significantly



Source (s): Federal reserve bank of St Louis, Energy Information Administration, CBA estimates

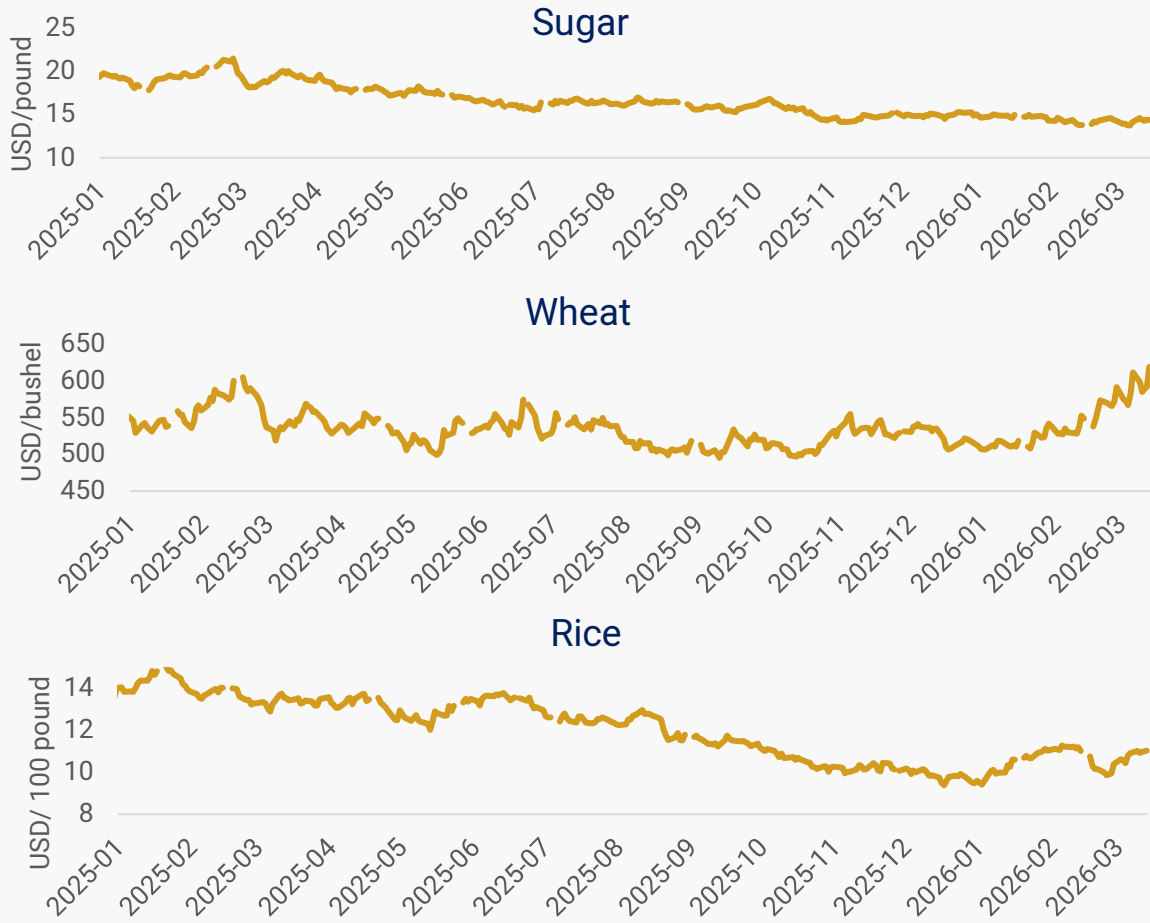
Commodity markets. Although food commodity prices have recorded some fluctuations recently amid concerns about possible disruptions in global value chains, the overall trend has remained relatively stable

Global food commodity prices, FAO

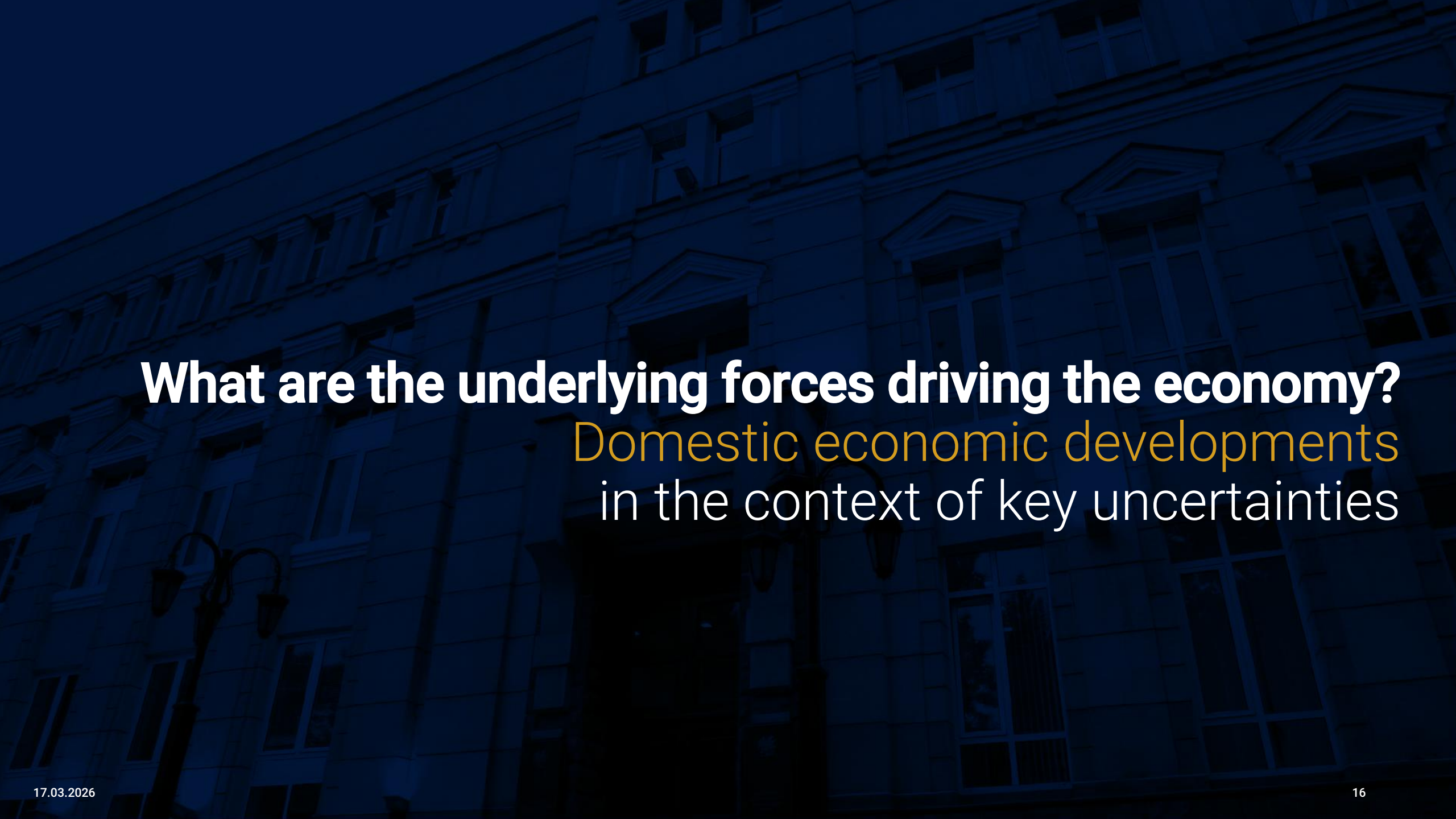


Source: Food and Agriculture Organization of the United Nations (FAO)

Futures prices of selected food products in the food market, daily



Source: Bloomberg

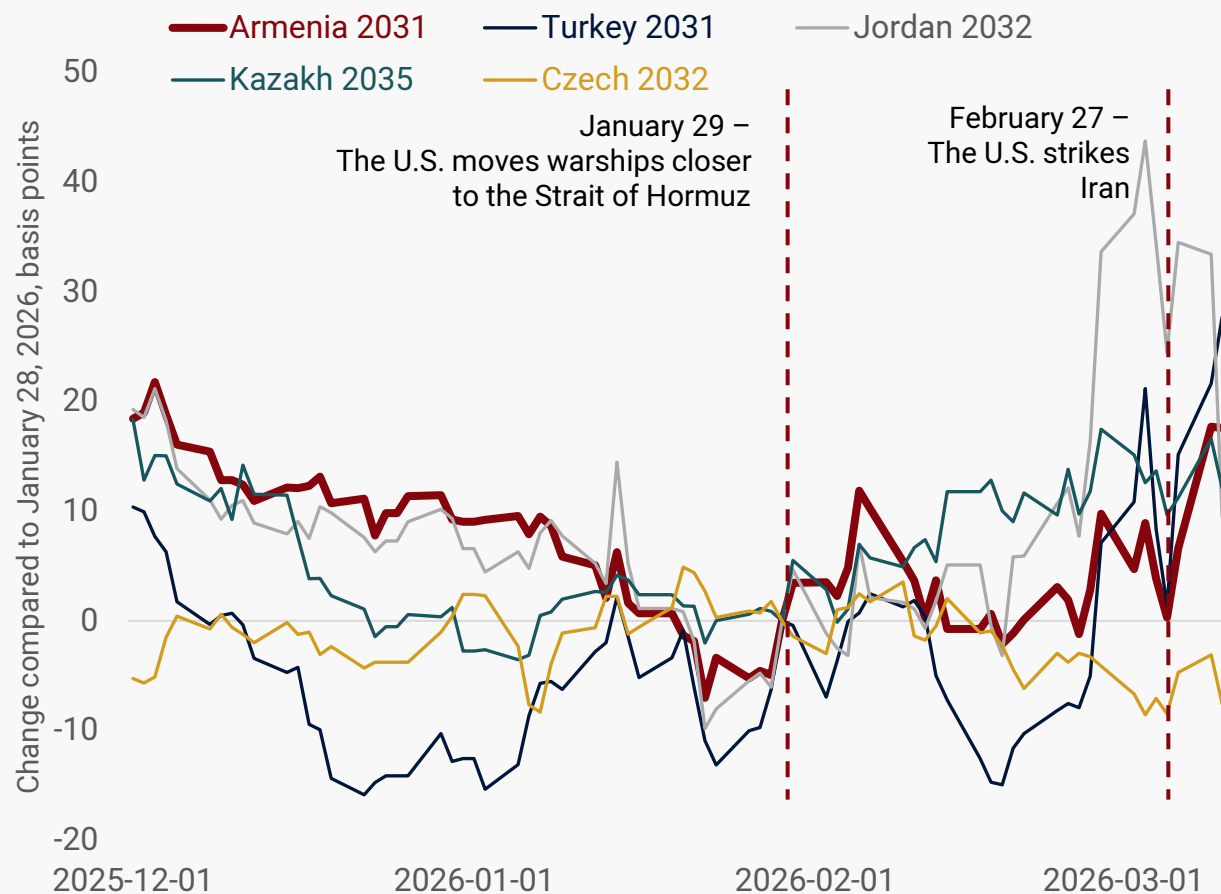
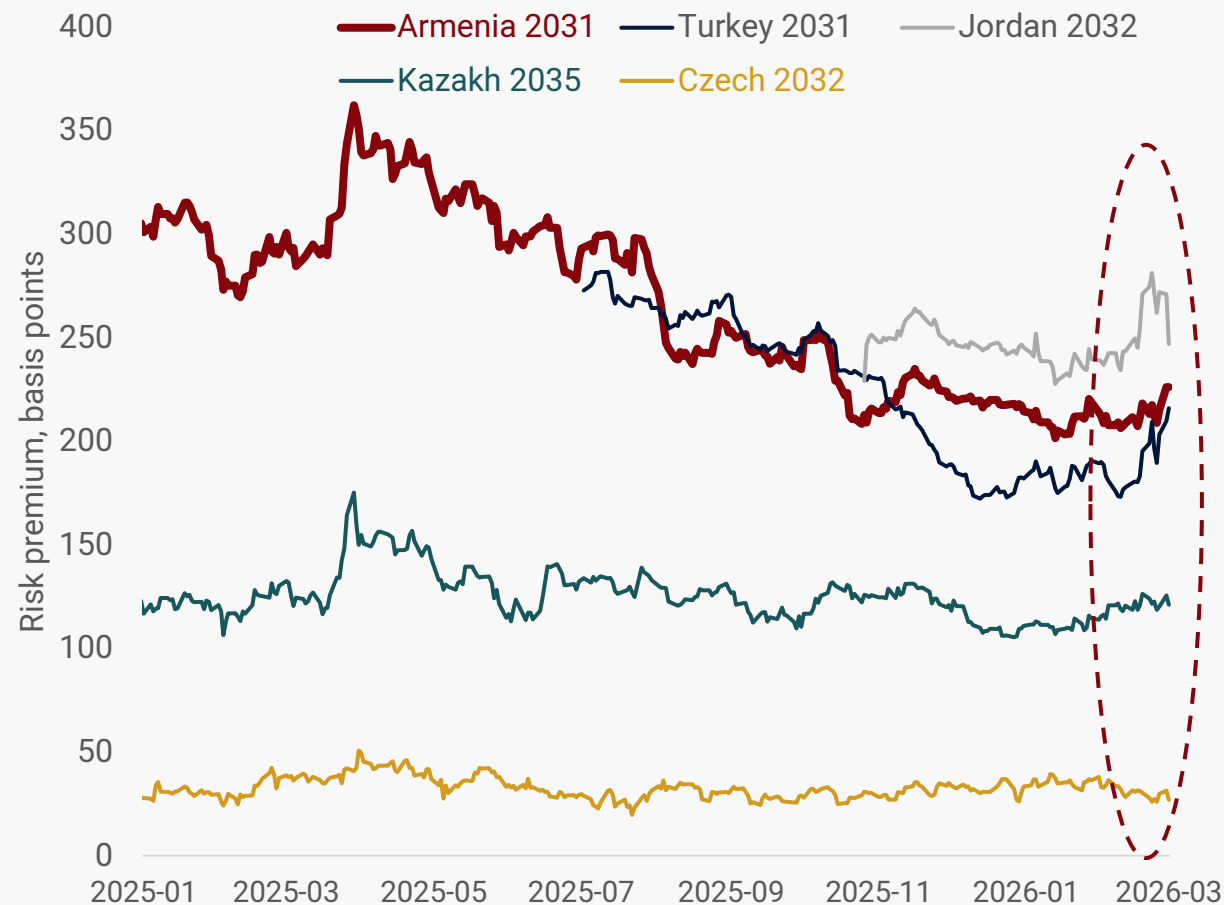


What are the underlying forces driving the economy?

Domestic economic developments
in the context of key uncertainties

The RA risk premium remains at low levels, reflecting the impact of both global and Armenia-specific factors

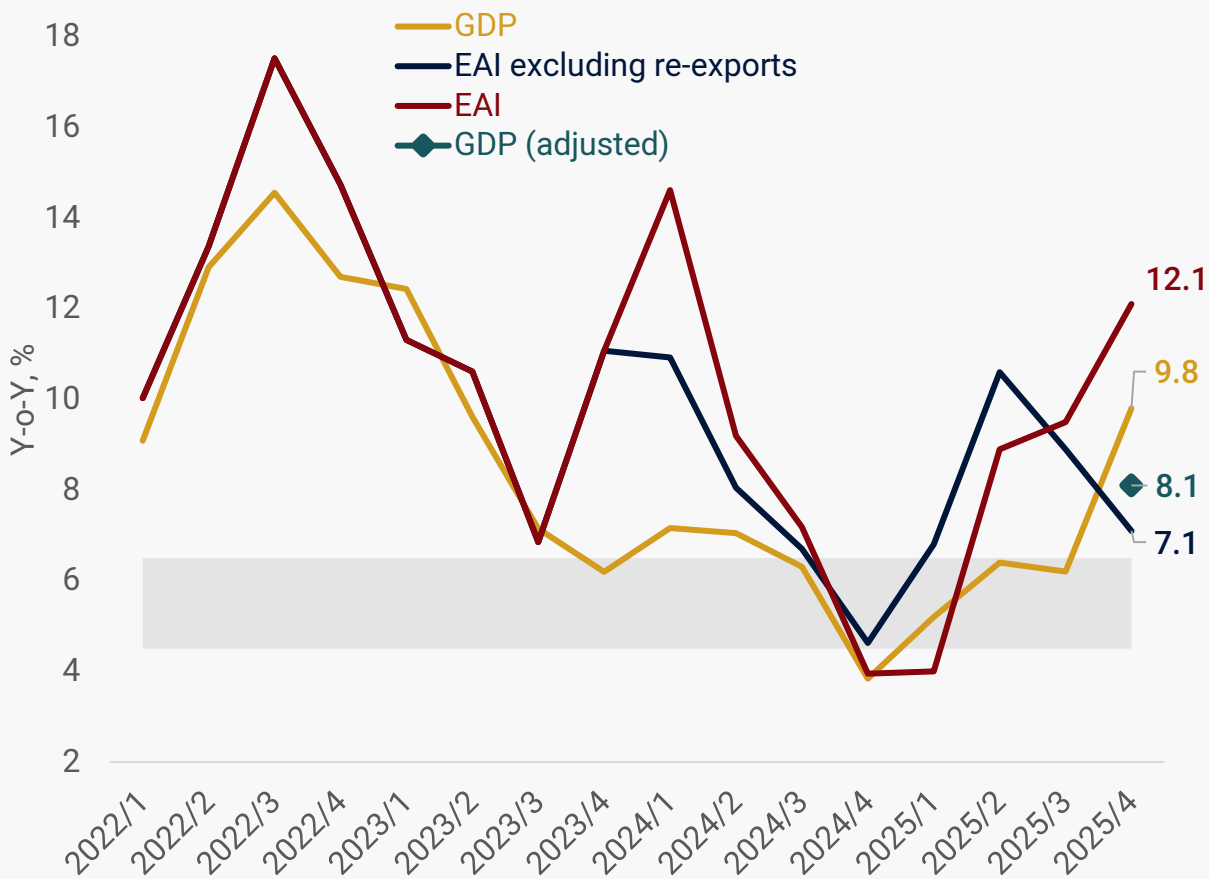
The impact of the conflict in the Middle East on the yields of Armenia's foreign-currency bonds is small. However, if the conflict becomes more prolonged and/or expands in scope, sentiment and risk assessments toward countries in the region may change



Source: Bloomberg

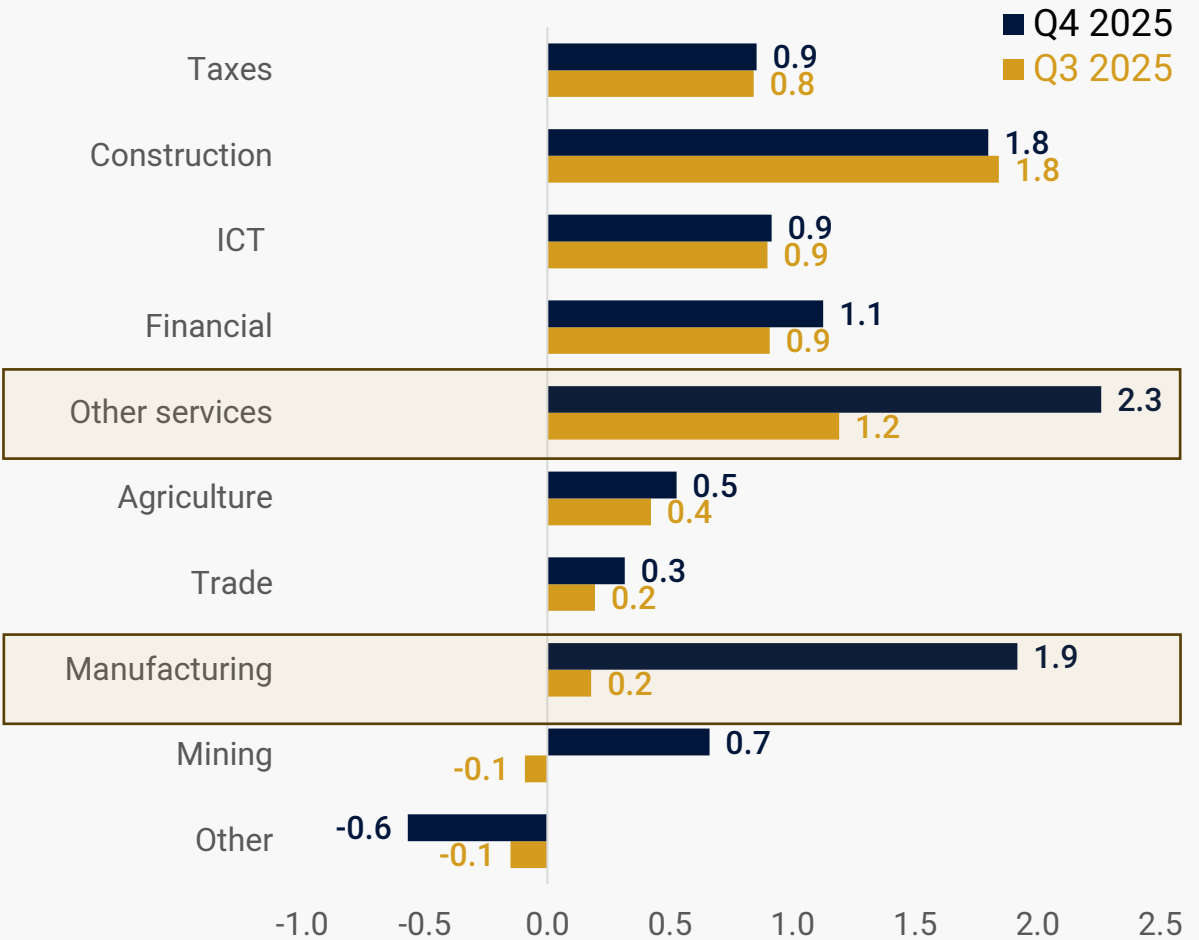
Economic growth in Q4 2025 accelerated significantly, partly reflecting the influence of some non-structural factors, increasing uncertainty around the current position of the economy (1/2)

Should the recovery of certain short-term factors have had a noticeable impact on value added as well?



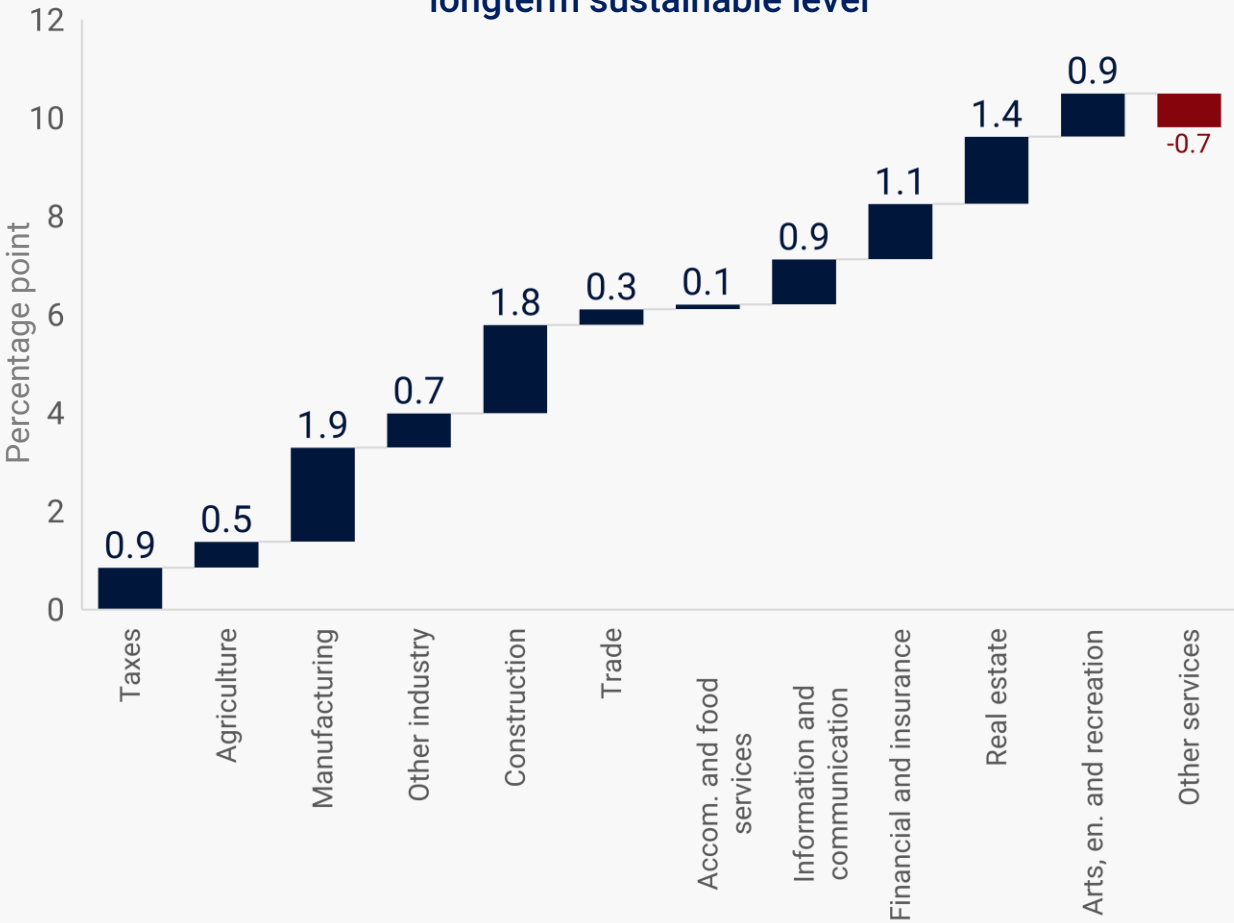
Source: Statistical Committee of RA, CBA estimates

Contribution of main sectors to GDP growth, p.p.



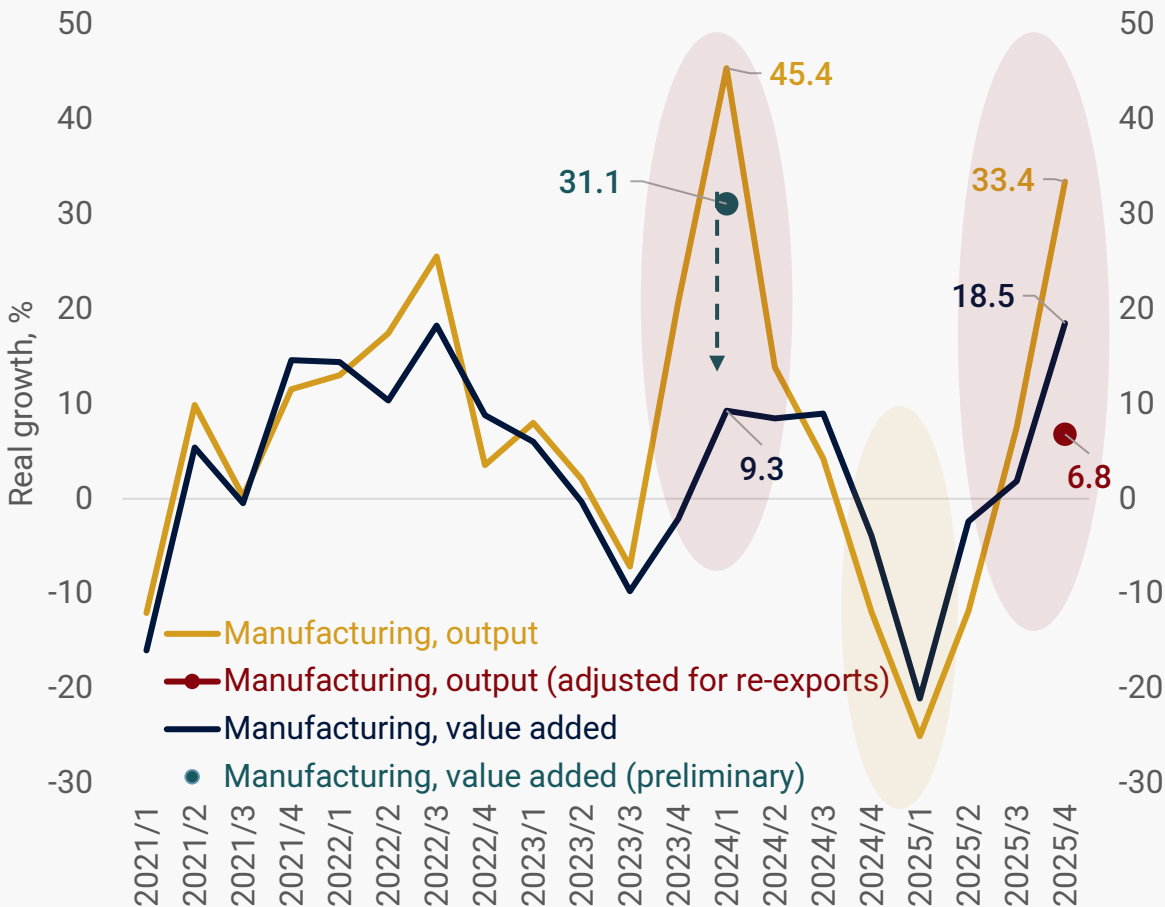
Economic growth in Q4 2025 accelerated significantly, partly reflecting the influence of some non-structural factors, increasing uncertainty around the current position of the economy (2/2)

In Q4 2025 economic growth is significantly higher than the estimated longterm sustainable level



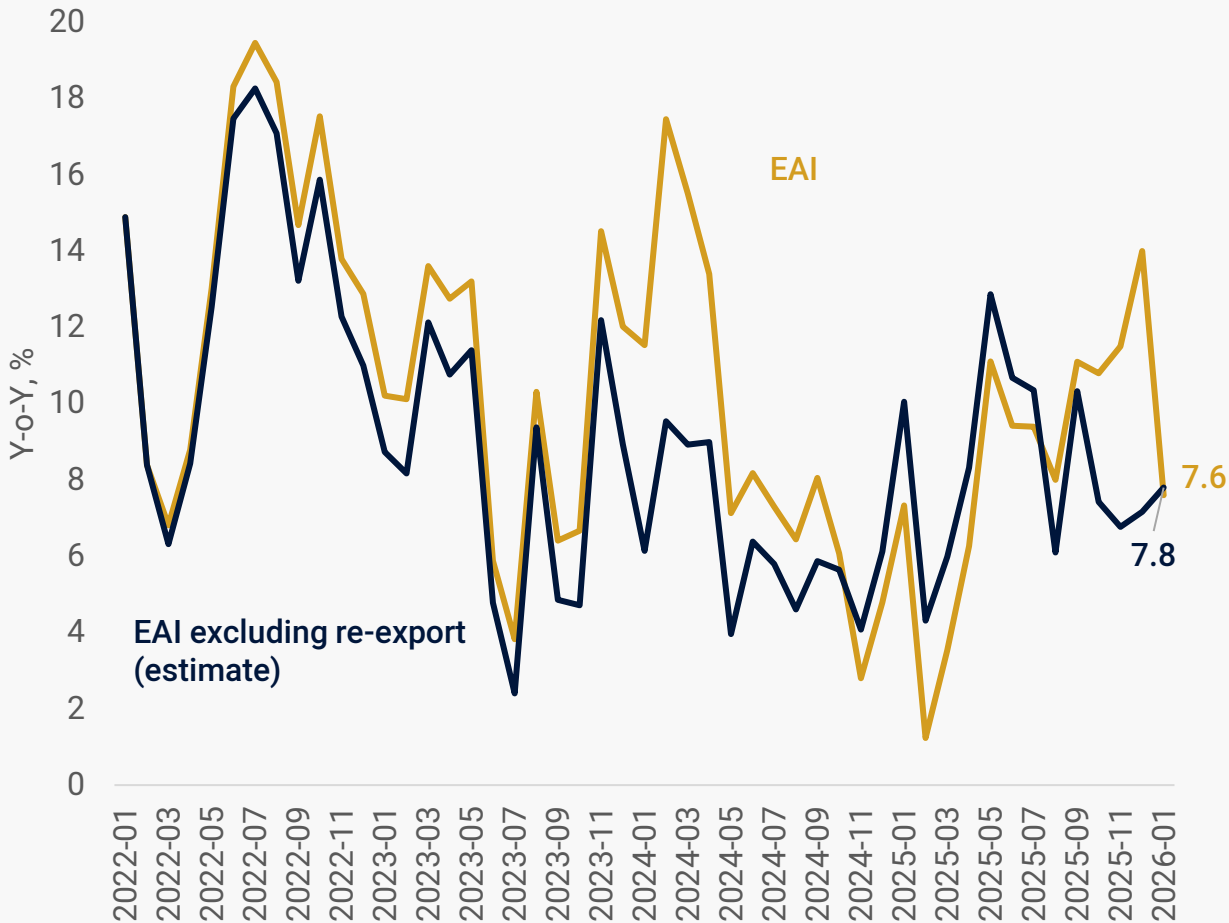
Source: Statistical Committee of RA, CBA estimates

In manufacturing, as is currently the case, significant growth was also observed in the first quarter of 2024, which was later revised

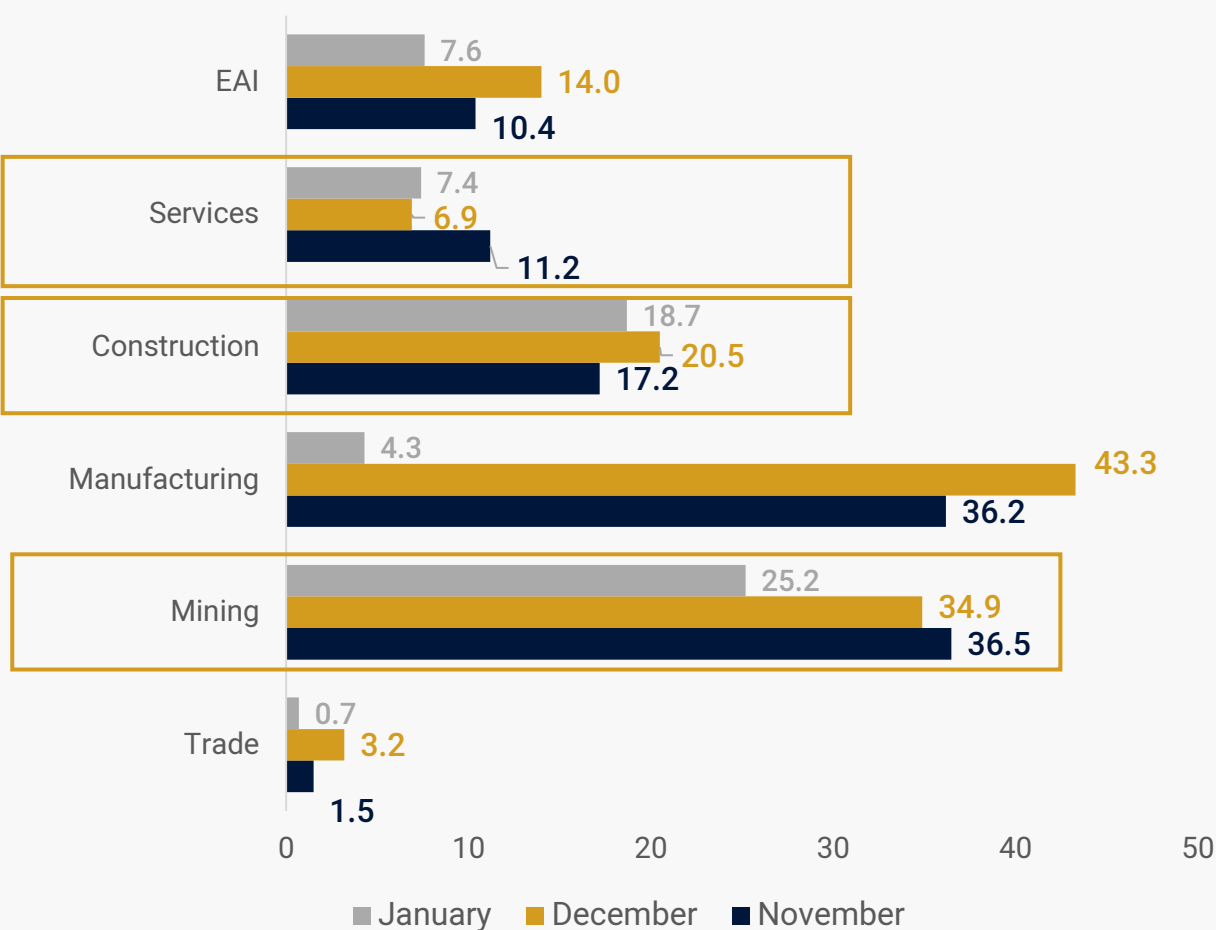


Economic activity remains high in 2026 as well, although weak signals of slowing growth are observed in some sectors

Economic Activity Index, real growth, Y-o-Y, %



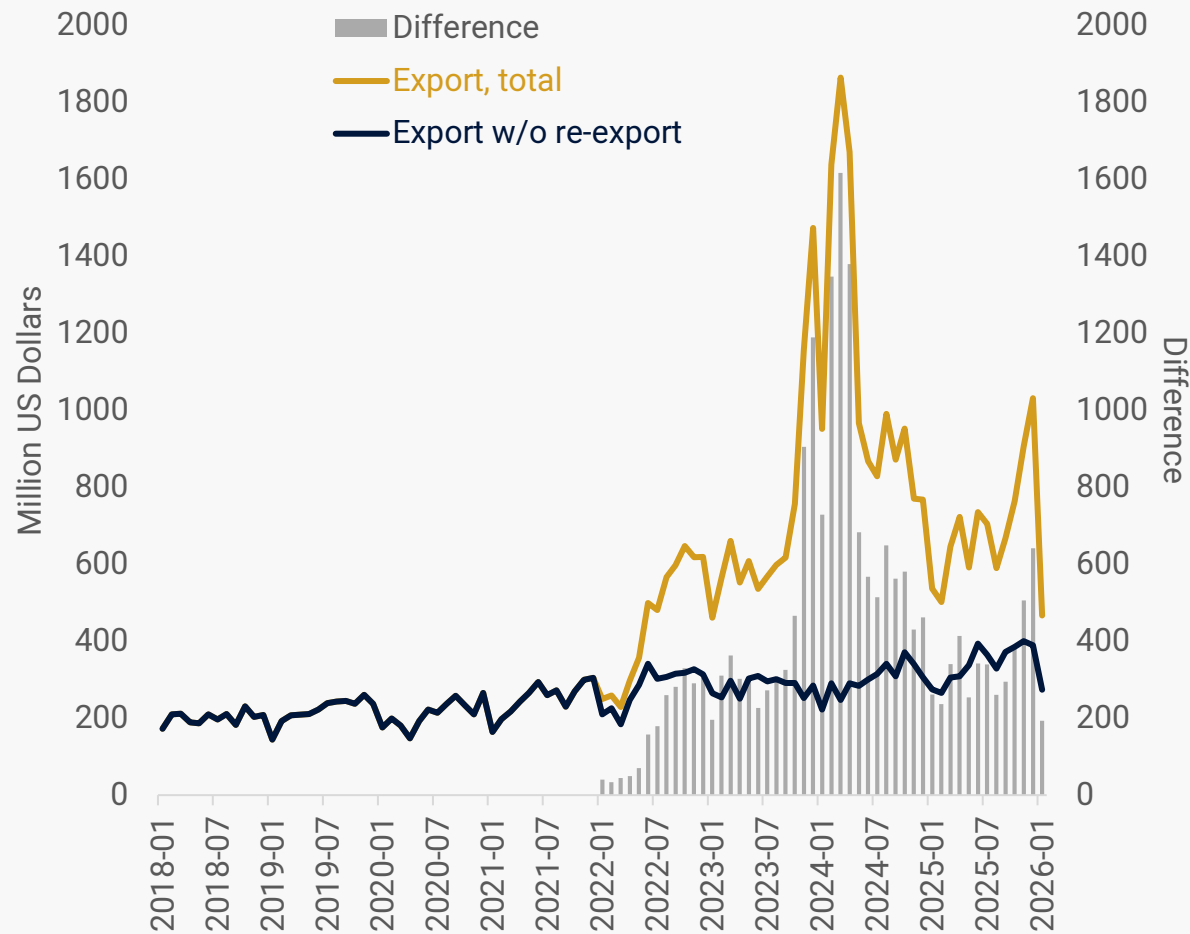
Economic Activity Index by sectors, real growth, Y-o-Y, %



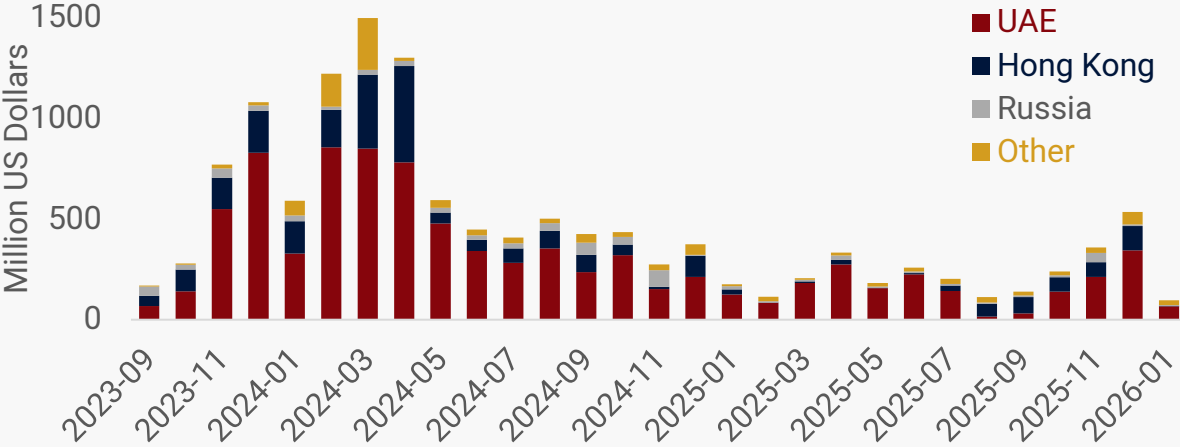
Source: Statistical Committee of RA, CBA estimates

A significant slowdown in activity has been observed in the **manufacturing sector**, driven both by the weakening of non-structural factors and by slower growth in “traditional” subsectors (1/2)

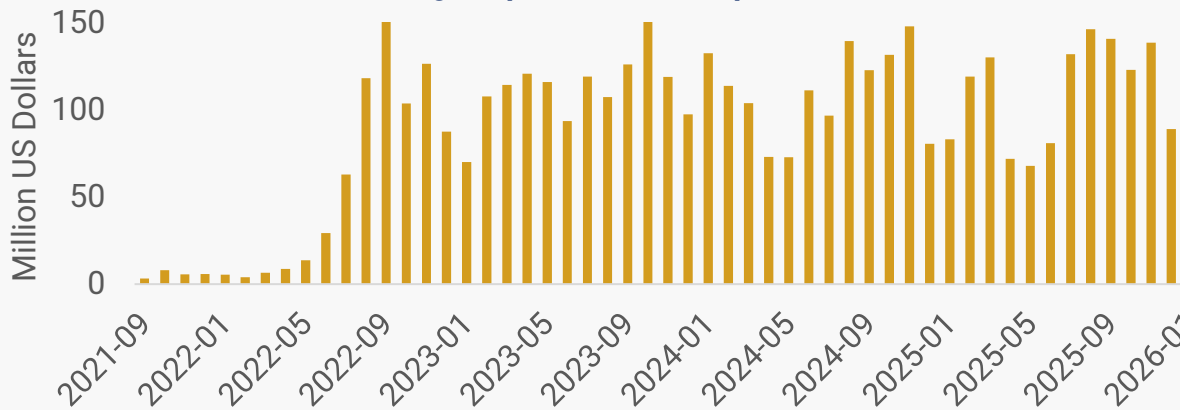
Exports excluding re-exports, USD million



Exports of precious metals have sharply declined



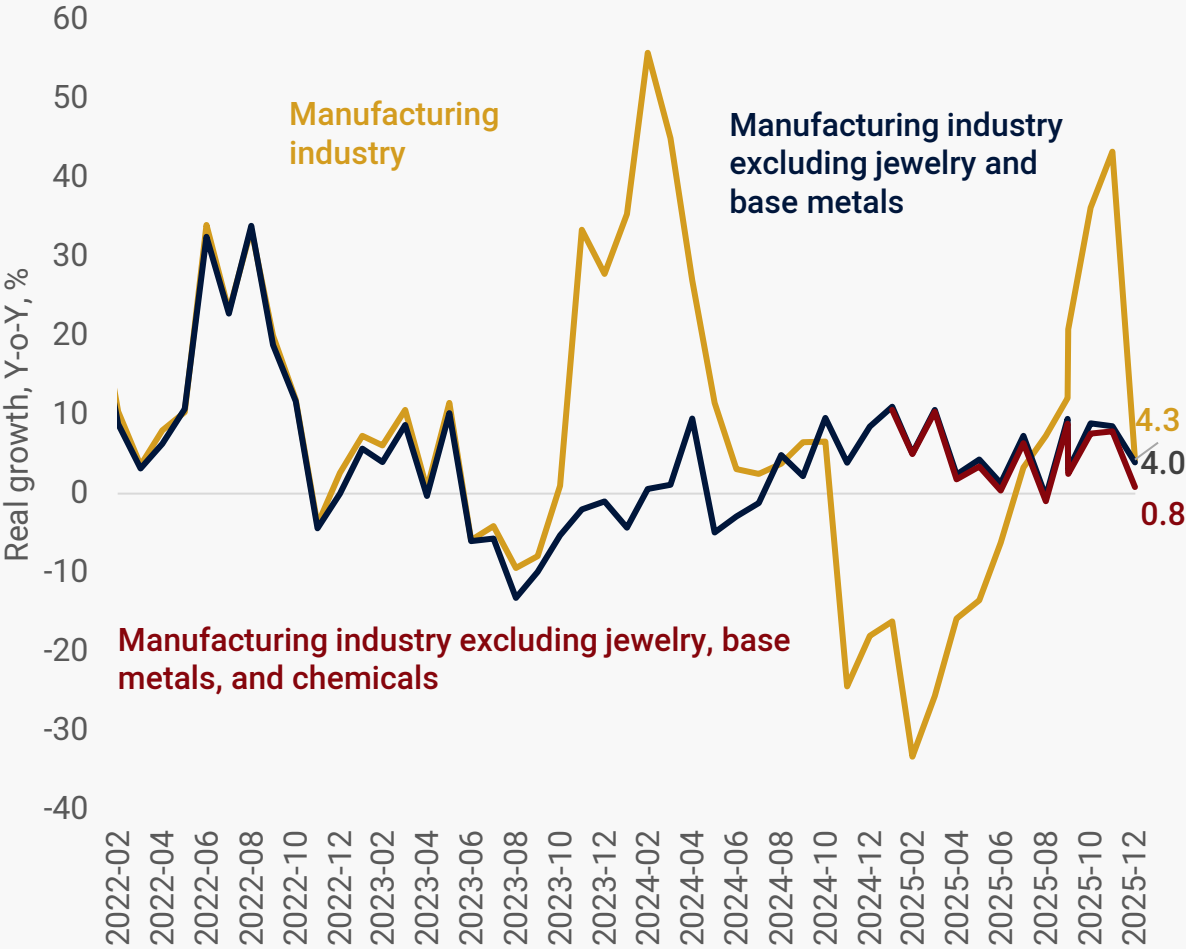
Meanwhile, re-export processes in the machinery and equipment subgroup continue to persist.



Source: Statistical Committee of RA, CBA calculations

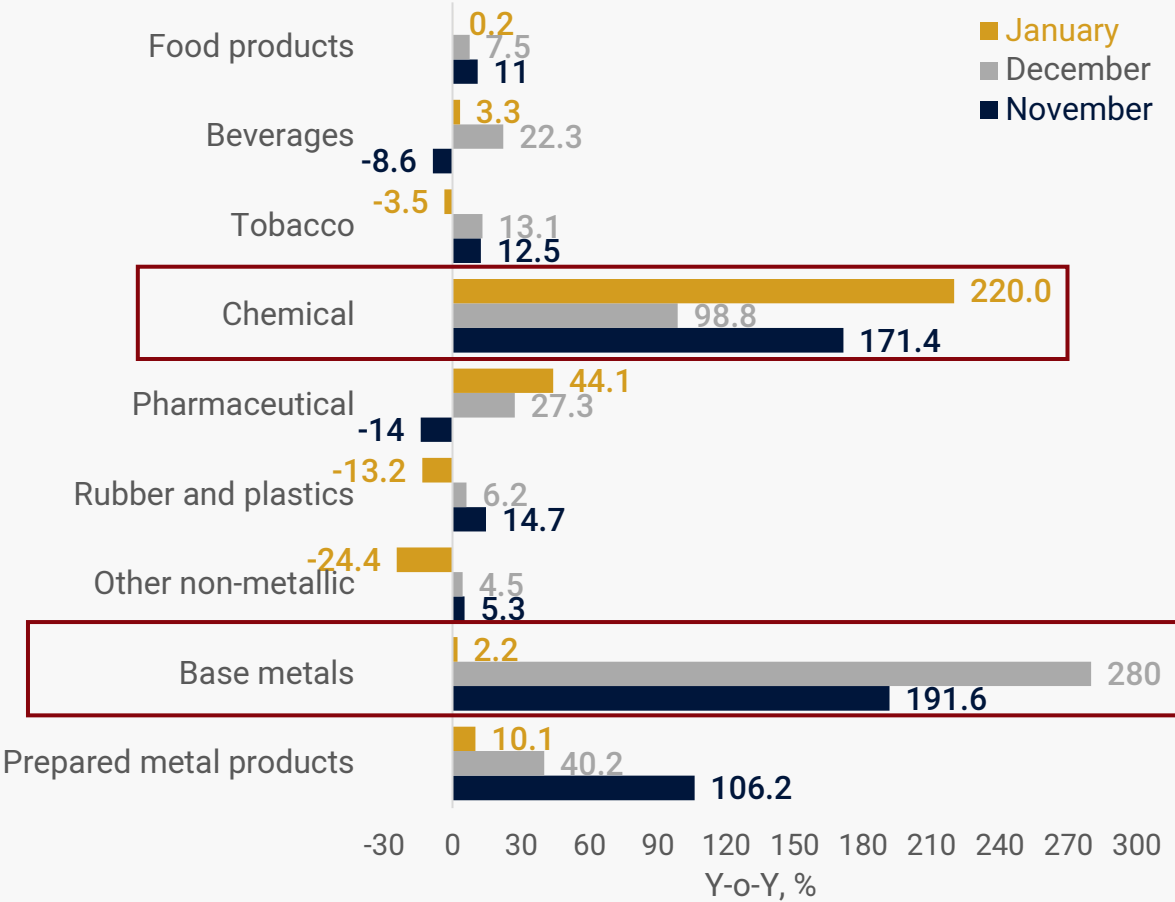
A significant slowdown in activity has been observed in the **manufacturing sector**, driven both by the weakening of non-structural factors and by slower growth in “traditional” subsectors (2/2)

Real growth in manufacturing, Y-o-Y, %

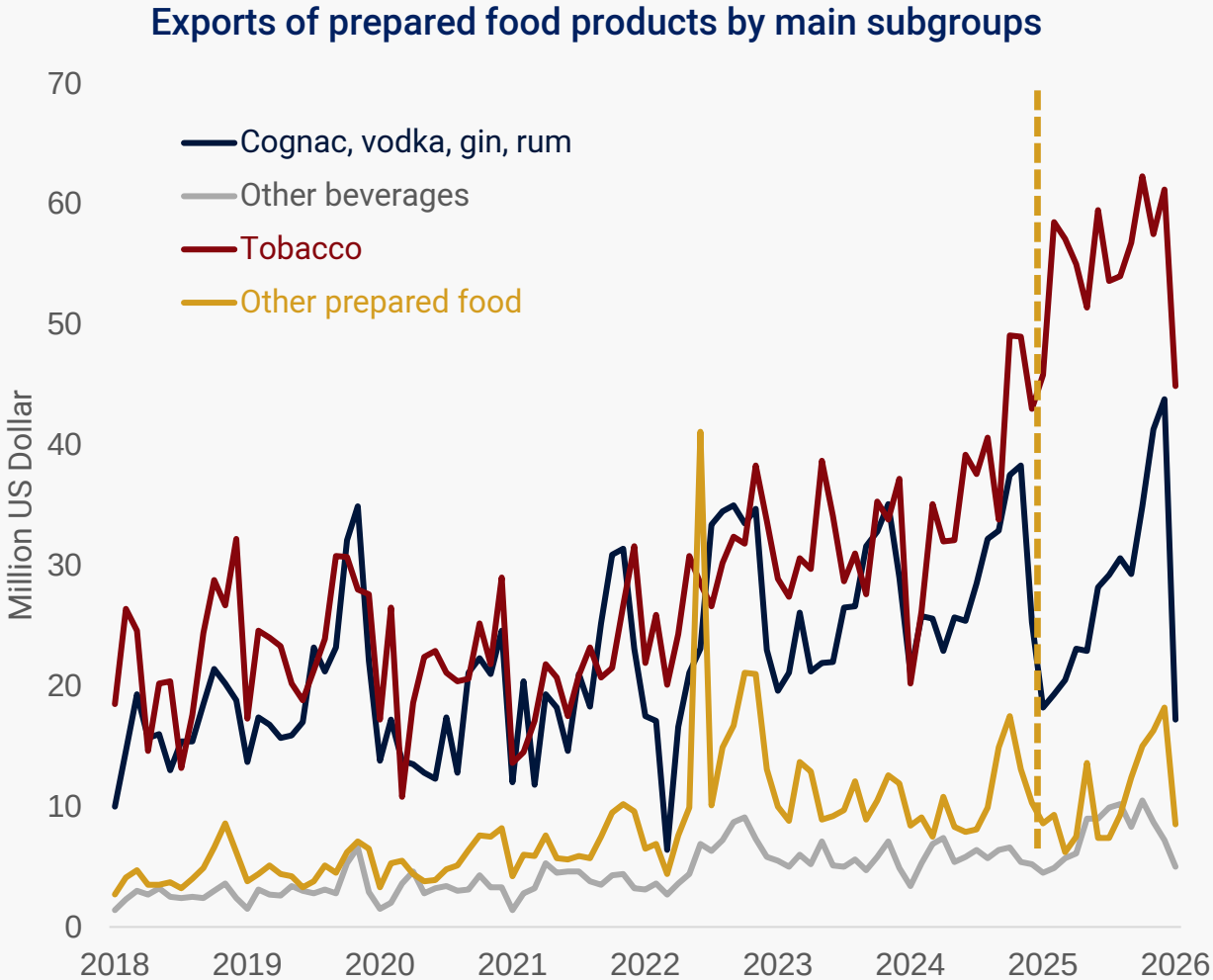


Source: Statistical Committee of RA, CBA calculations

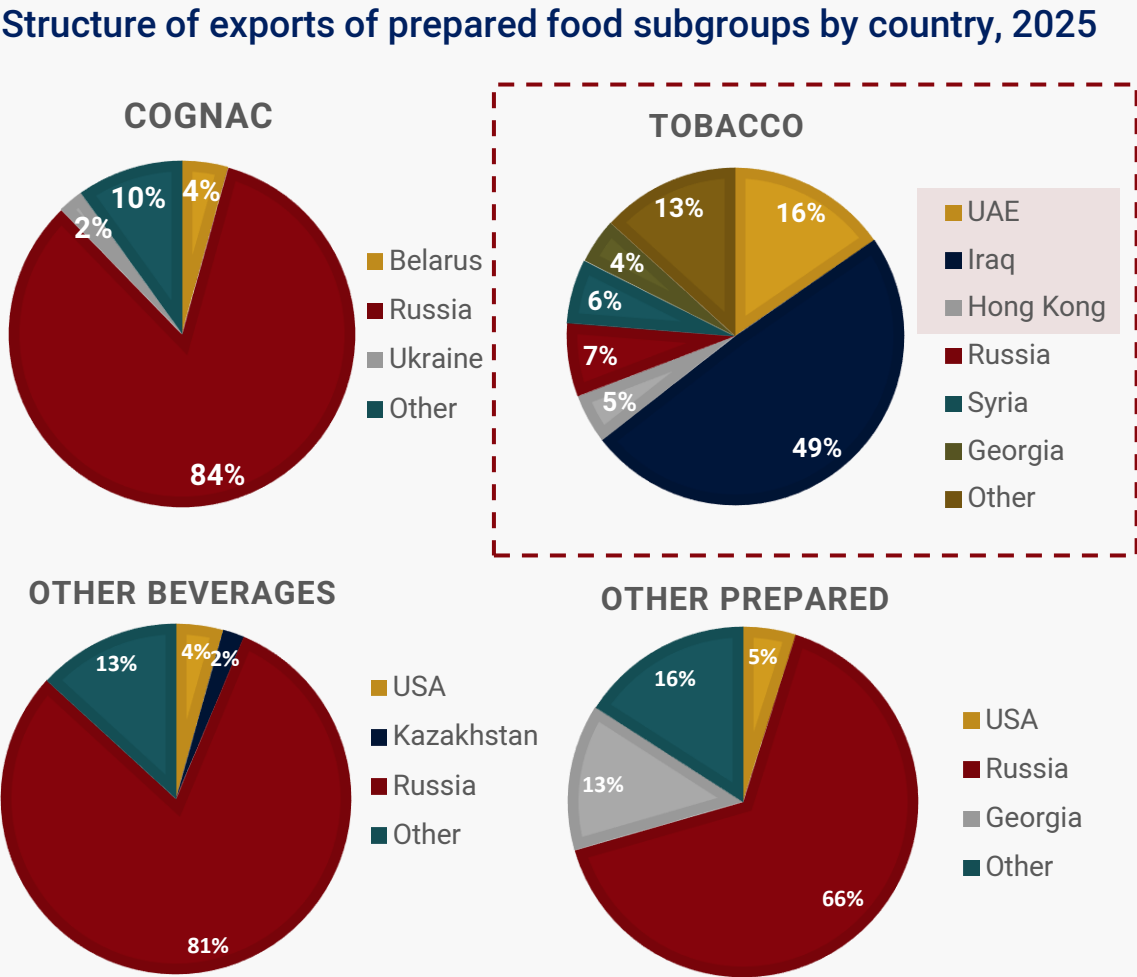
In January 2026, the impact of non-structural factors weakened significantly



Manufacturing. The escalation of the situation in the Middle East entails additional, though limited, risks around the growth and export prospects of “traditional” subsectors

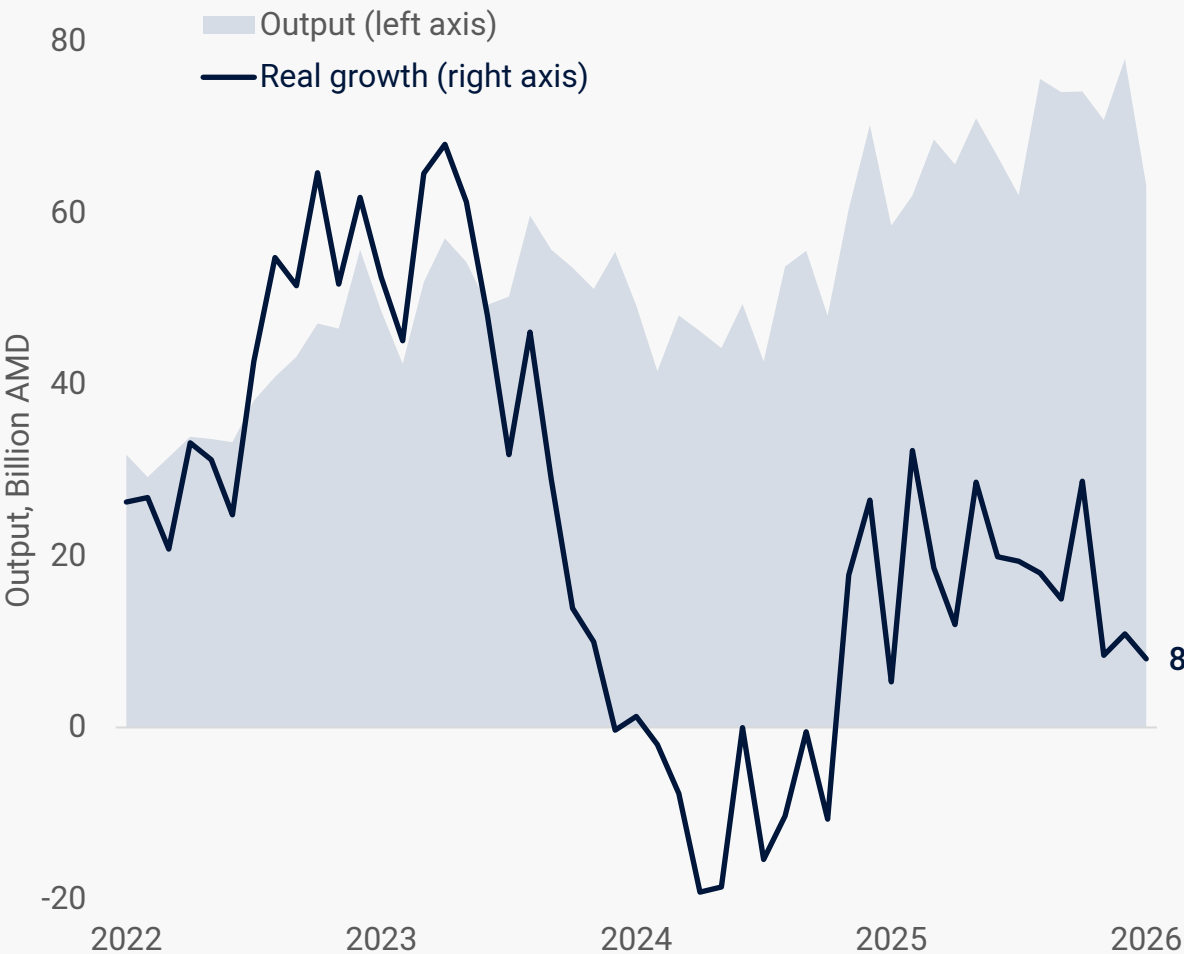


Source: Statistical Committee of RA



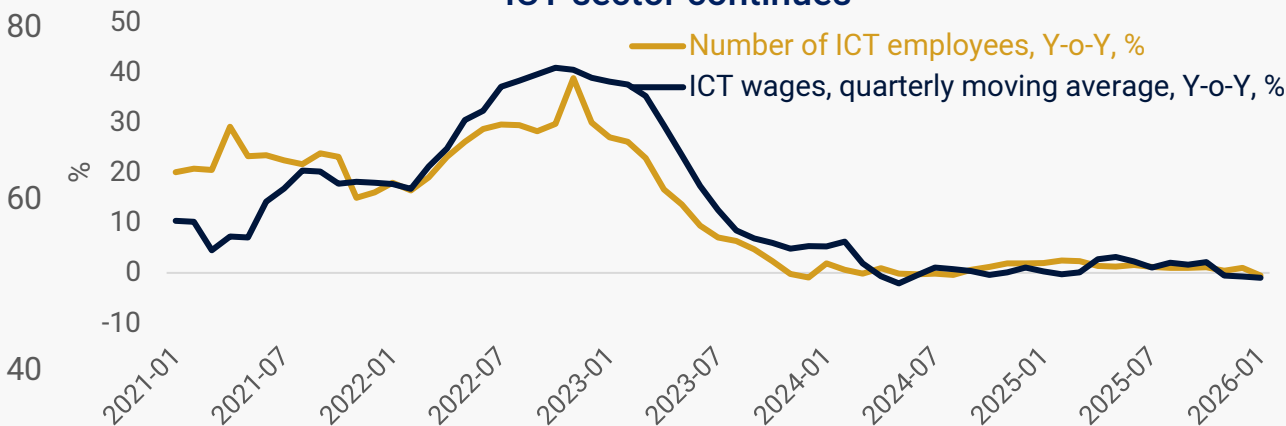
Dual signals regarding the growth of the information and communication sector and its outlook persist

Output and real growth of the ICT sector

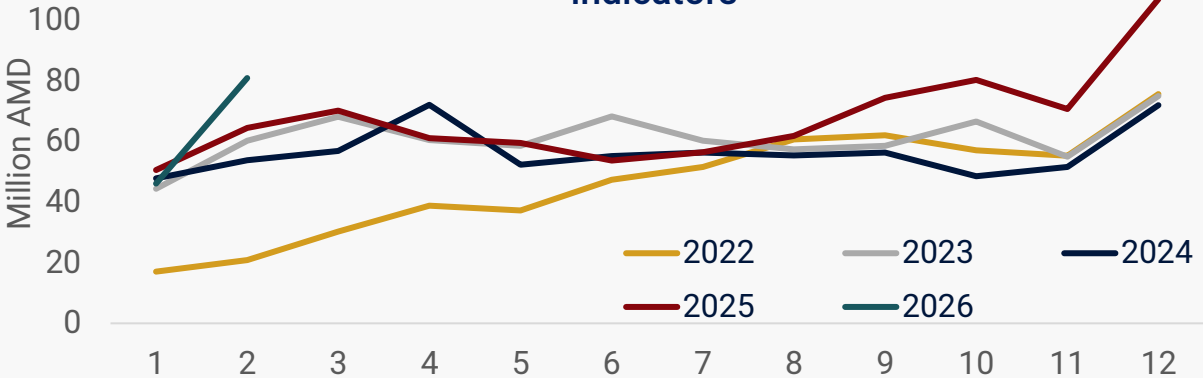


Source: Statistical Committee of RA

On the one hand, the slowdown in wage and employment growth in the ICT sector continues



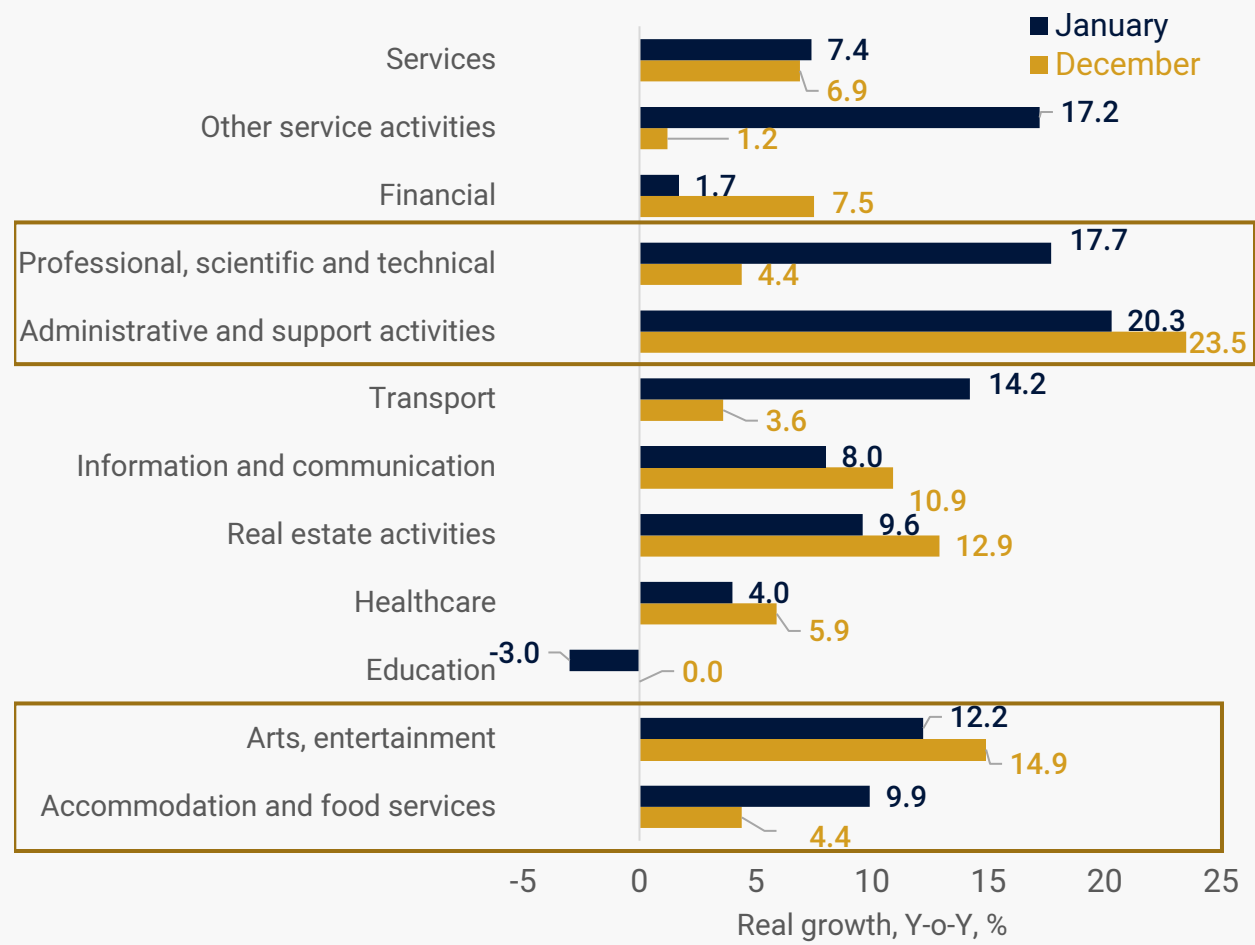
On the other hand, foreign exchange transactions in the IT sector have recovered significantly and are at levels above historical indicators



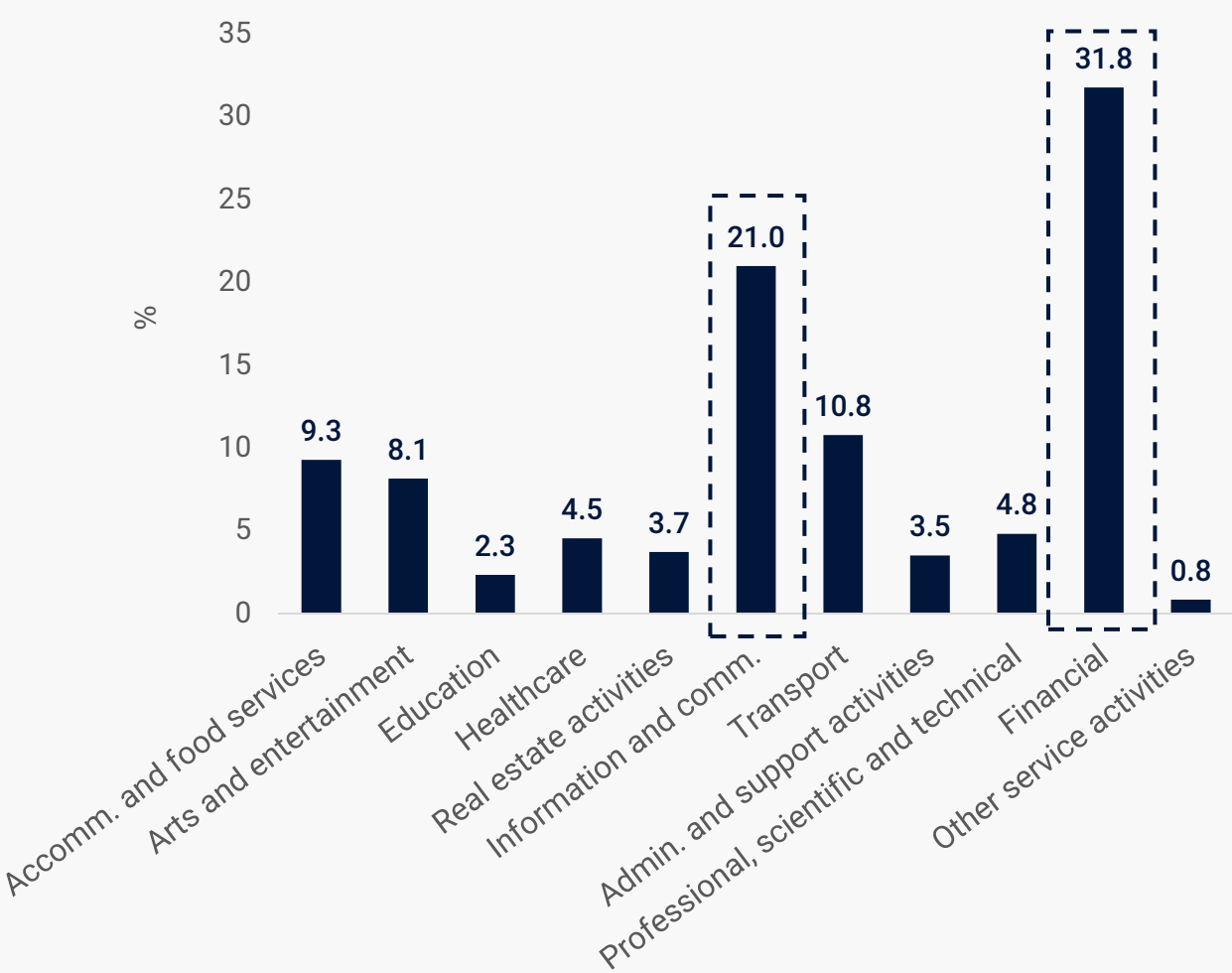
Source: Central Bank of Armenia

Growth in the **services sector** is broad-based. In particular, the acceleration of growth in certain subsectors may also indicate conditions of expanded demand conditions

Growth in the services sector is broad-based

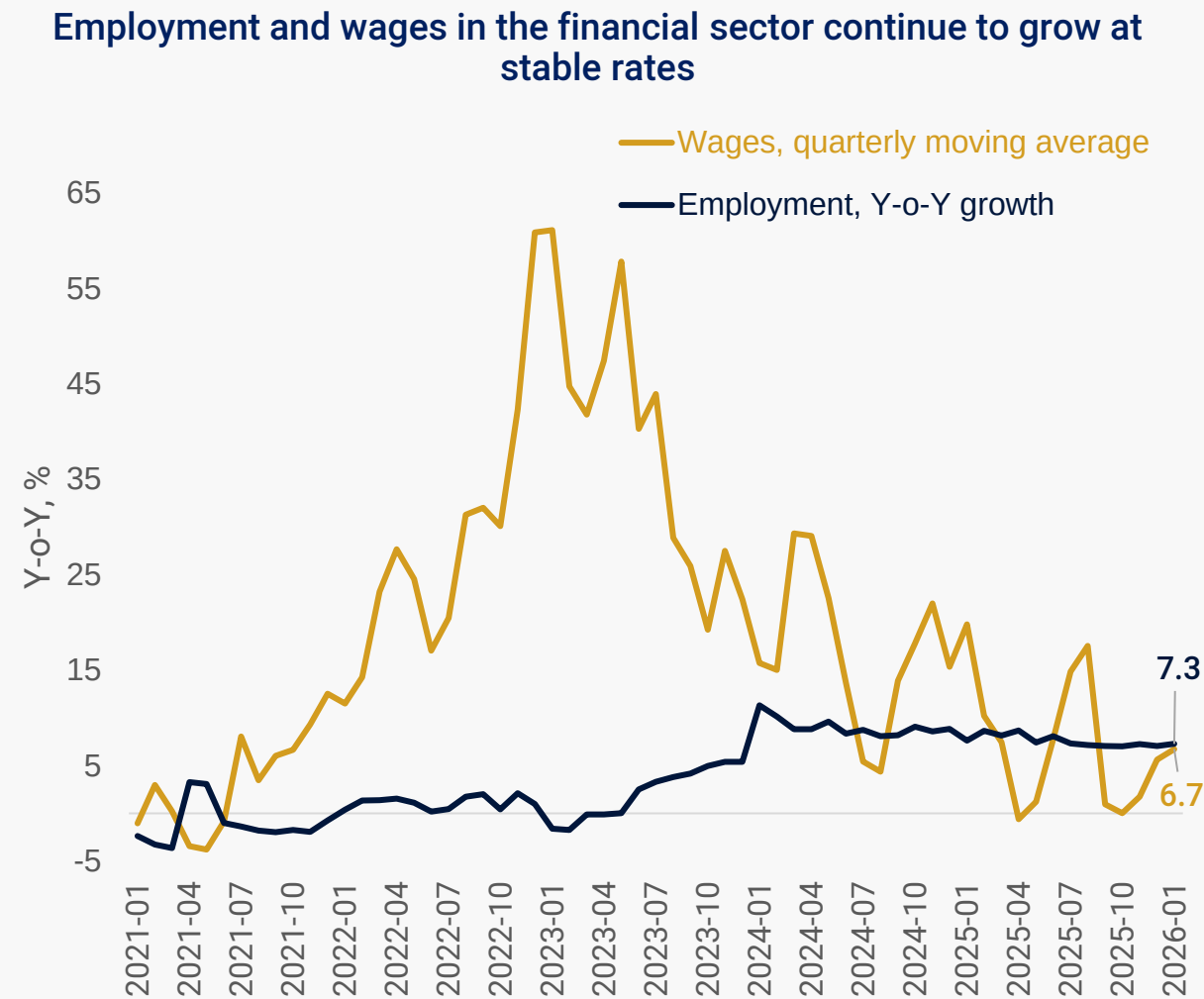


Share of subsectors in services output (2025)

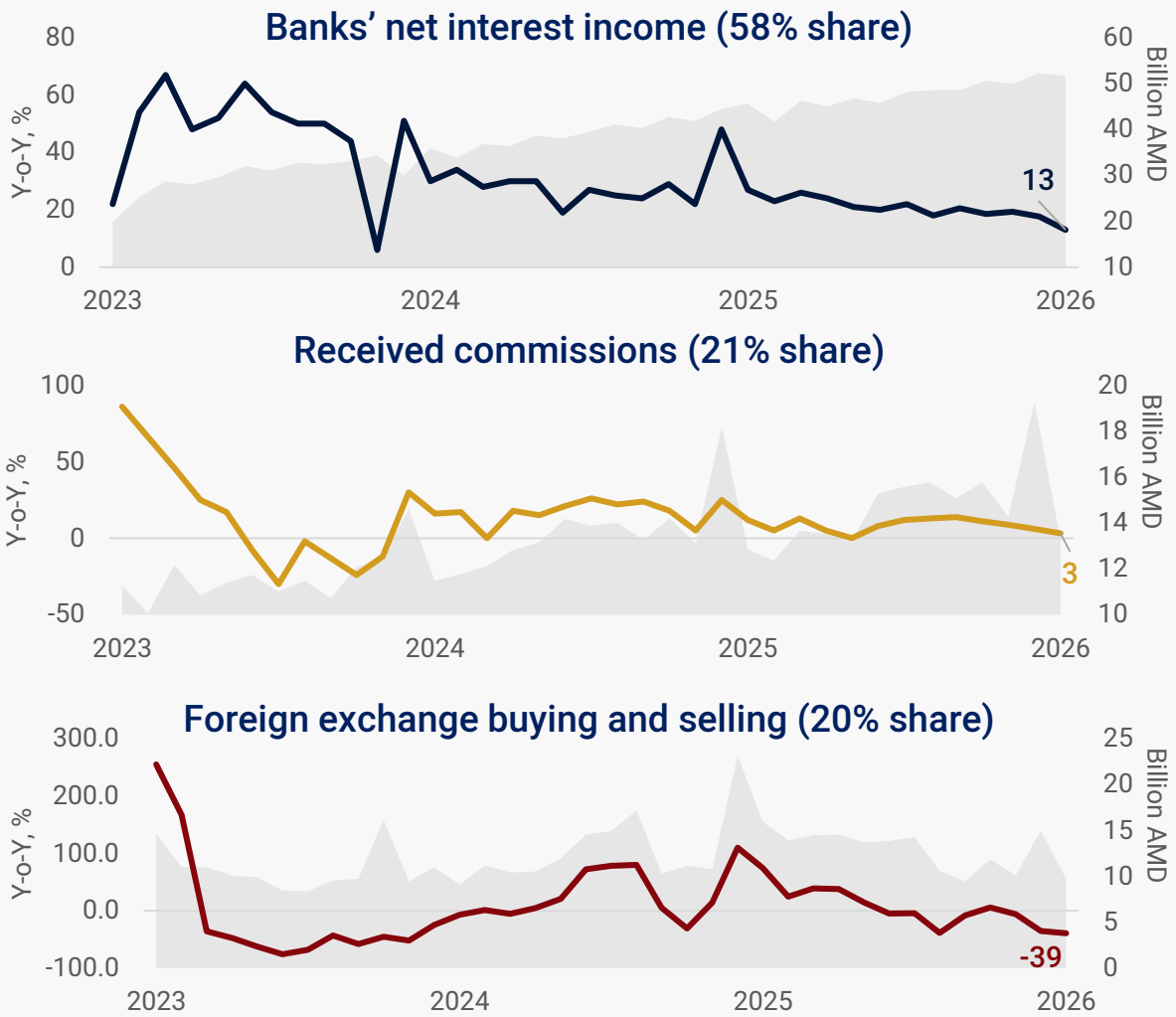


Source: Statistical Committee of RA

Financial sector growth has slowed somewhat; nevertheless, employment and wages in the sector continue to grow at stable rates

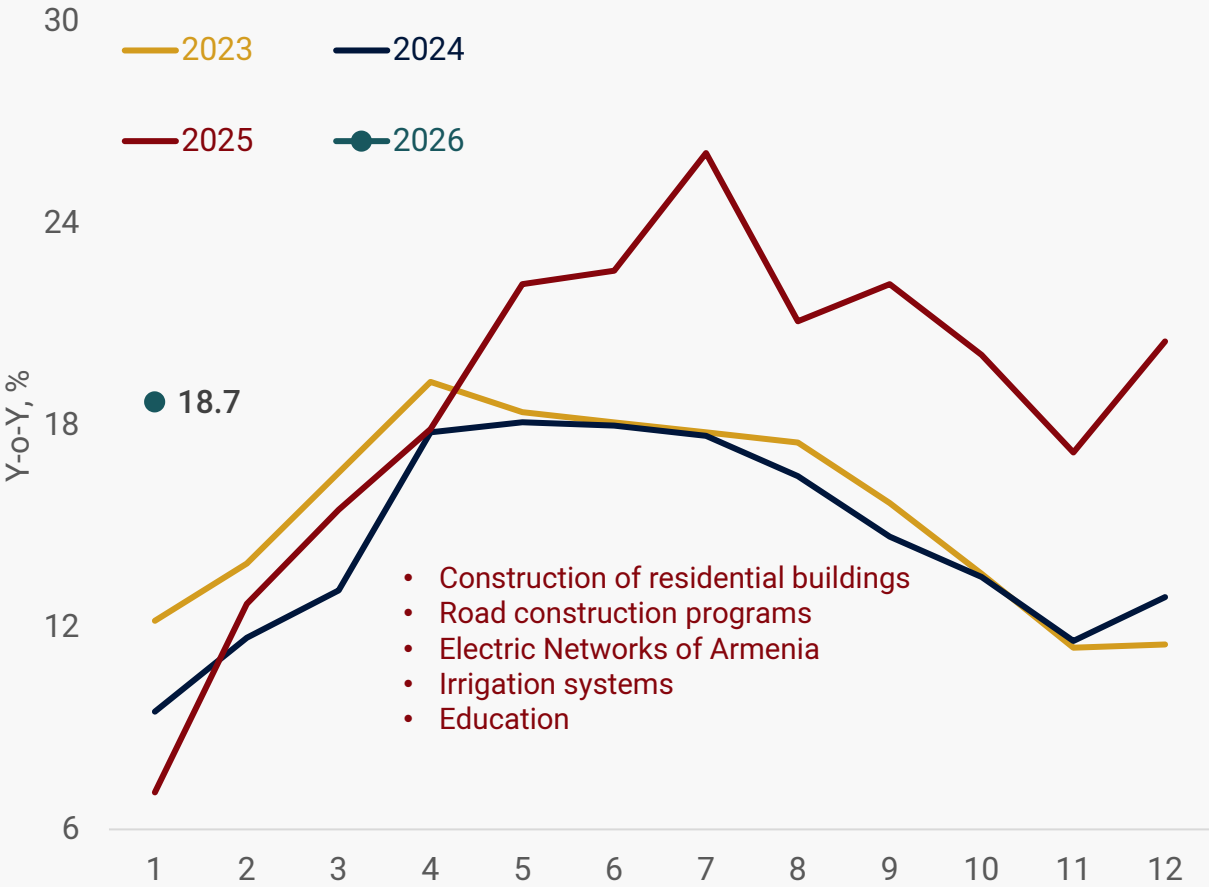


Source: CBA

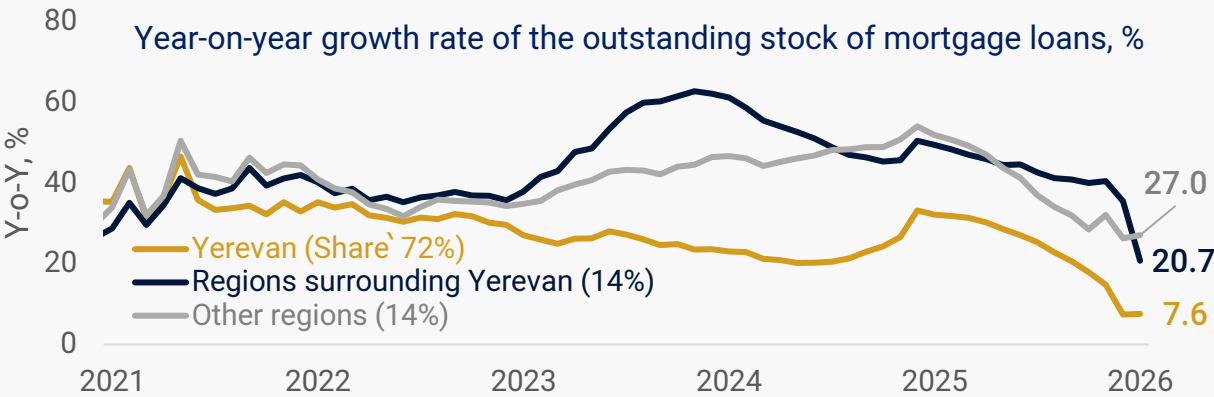


The construction sector continues to grow at high rates, while signals of an expansion of the inflationary environment in the real estate market persist, reflecting the possible redirection of disproportionately high incomes formed in certain sectors of the economy toward the real estate market

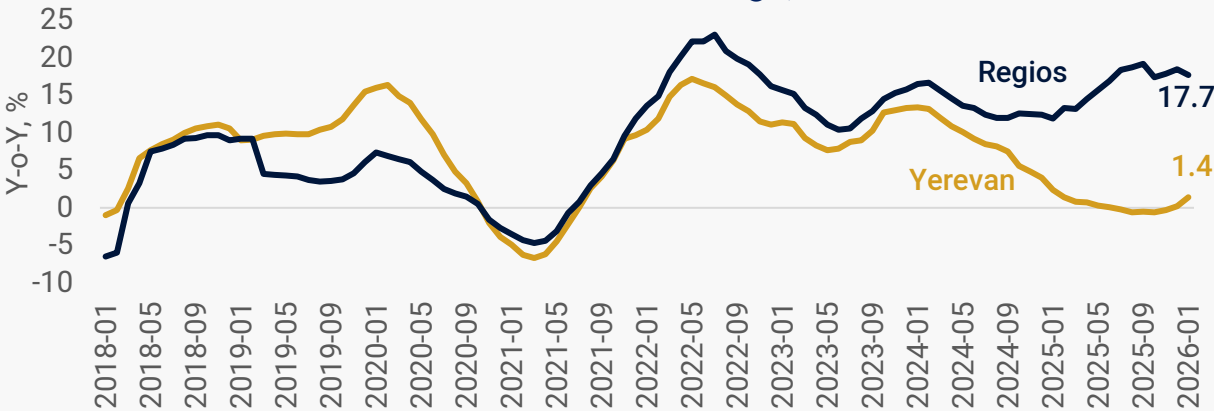
High growth in the construction sector persists



Despite shifts in demand and supply from Yerevan to the regions, risks of saturation in the real estate market persist



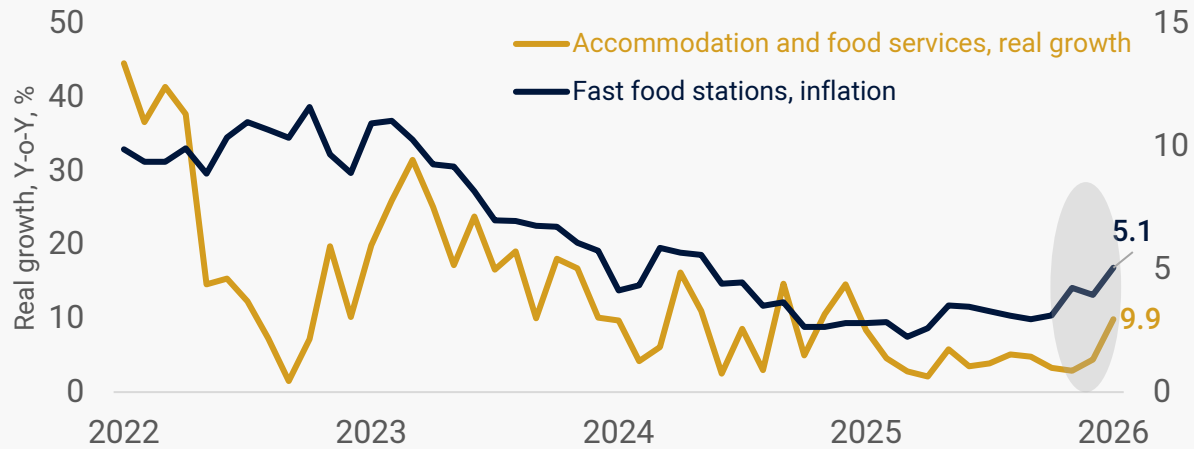
Year-on-year change in prices per 1 sq. m of multi-apartment residential buildings, %



Source: Statistical Committee of the Republic of Armenia, Cadastre Committee

Uncertainty around the strength of **domestic demand** conditions and their outlook persists. On the one hand, the broad-based growth in services, also driven by accelerating inflation, may indicate the presence of strong demand conditions

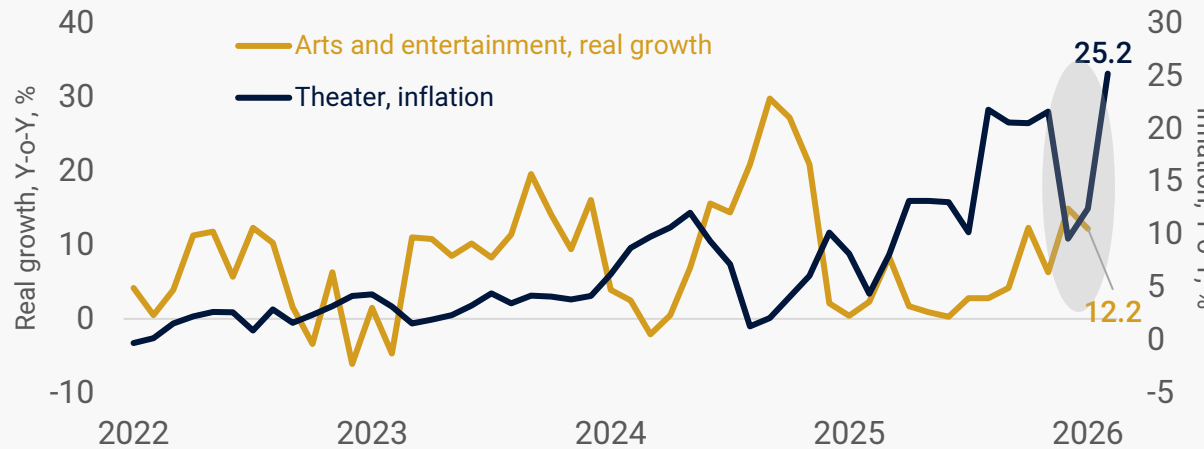
Accommodation and food service activities



Professional, scientific and technical activities



Arts, entertainment and recreation



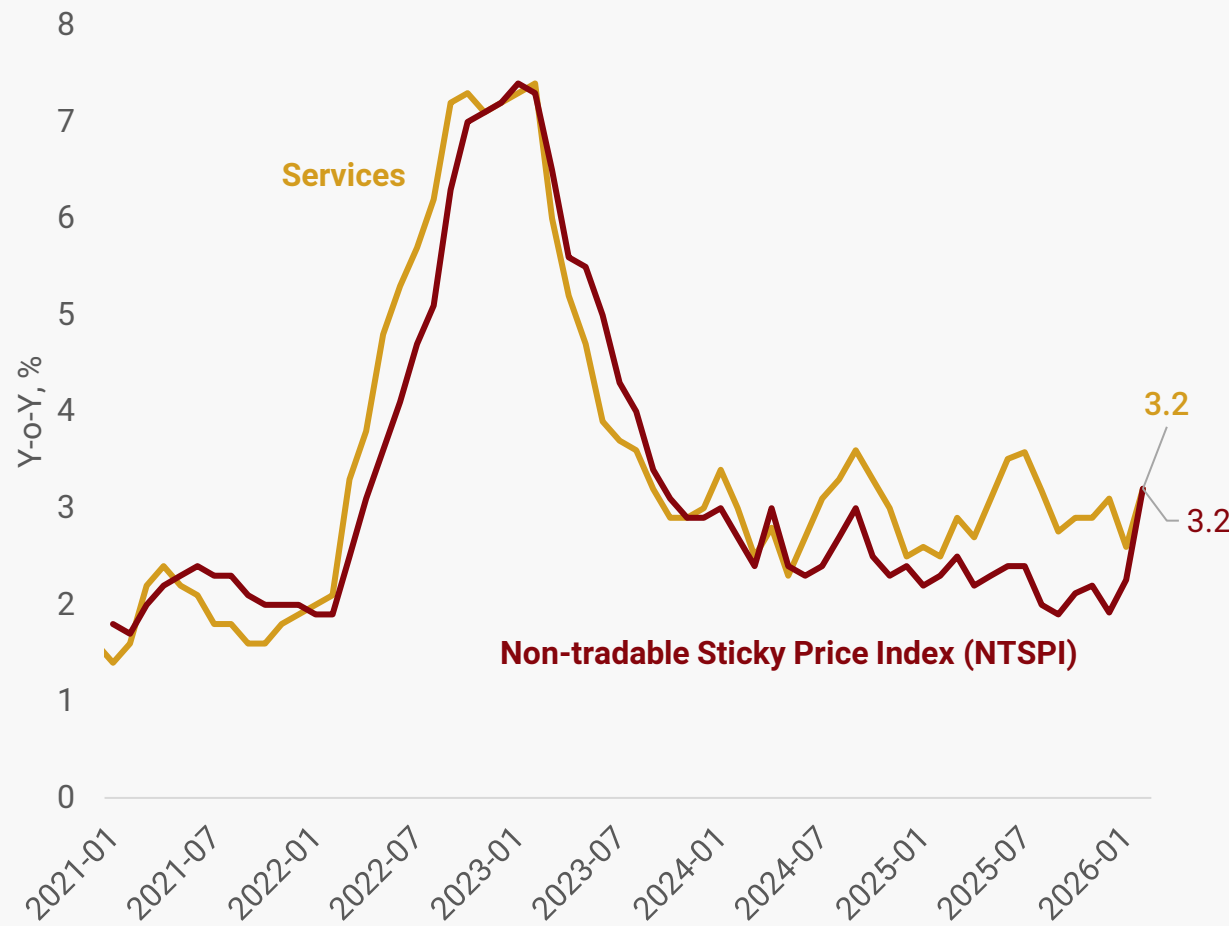
Administrative and support service activities



Source: Statistical Committee of RA

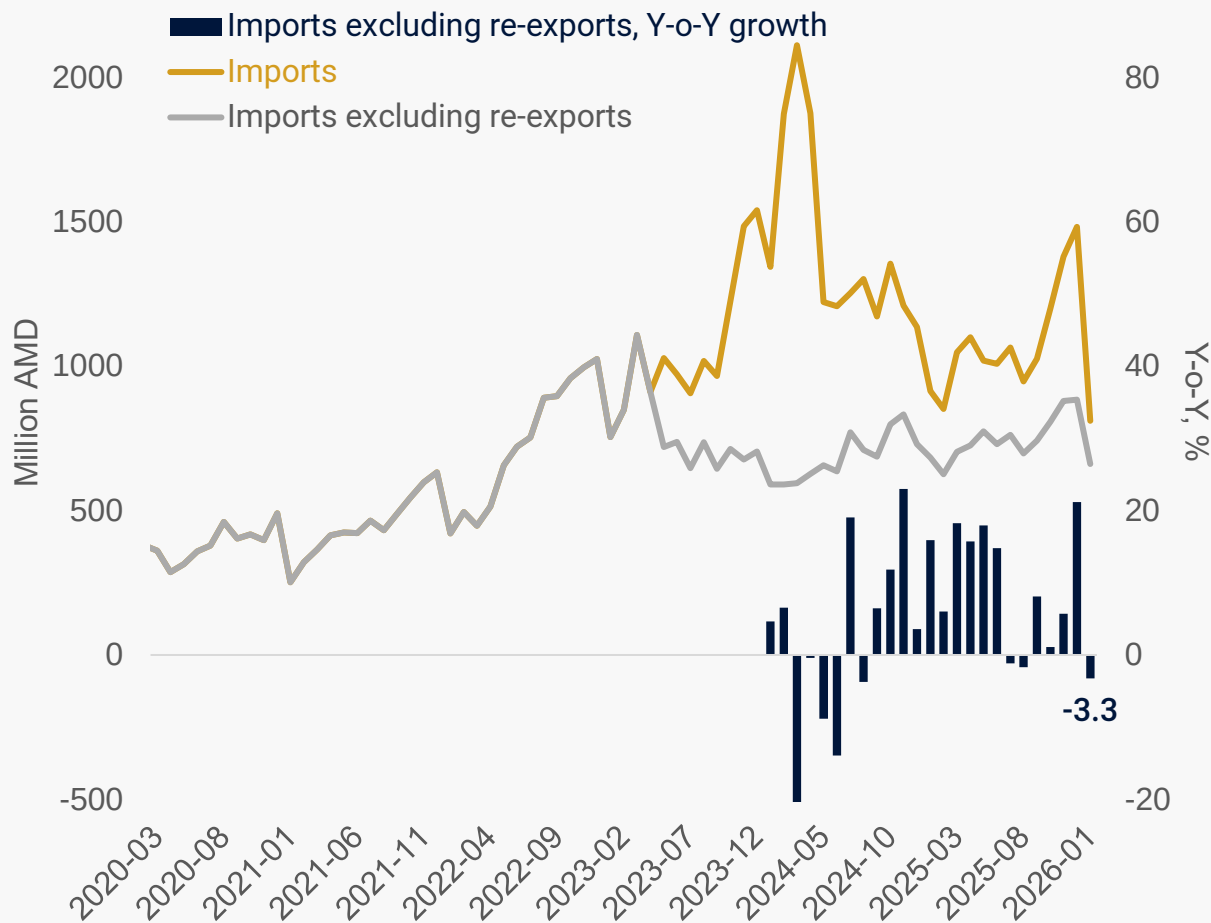
On the other hand, the services inflation and the NTSPI are evolving around the inflation target which is not consistent with the formation of excess demand conditions in the economy

Services inflation and non-tradable sticky price index



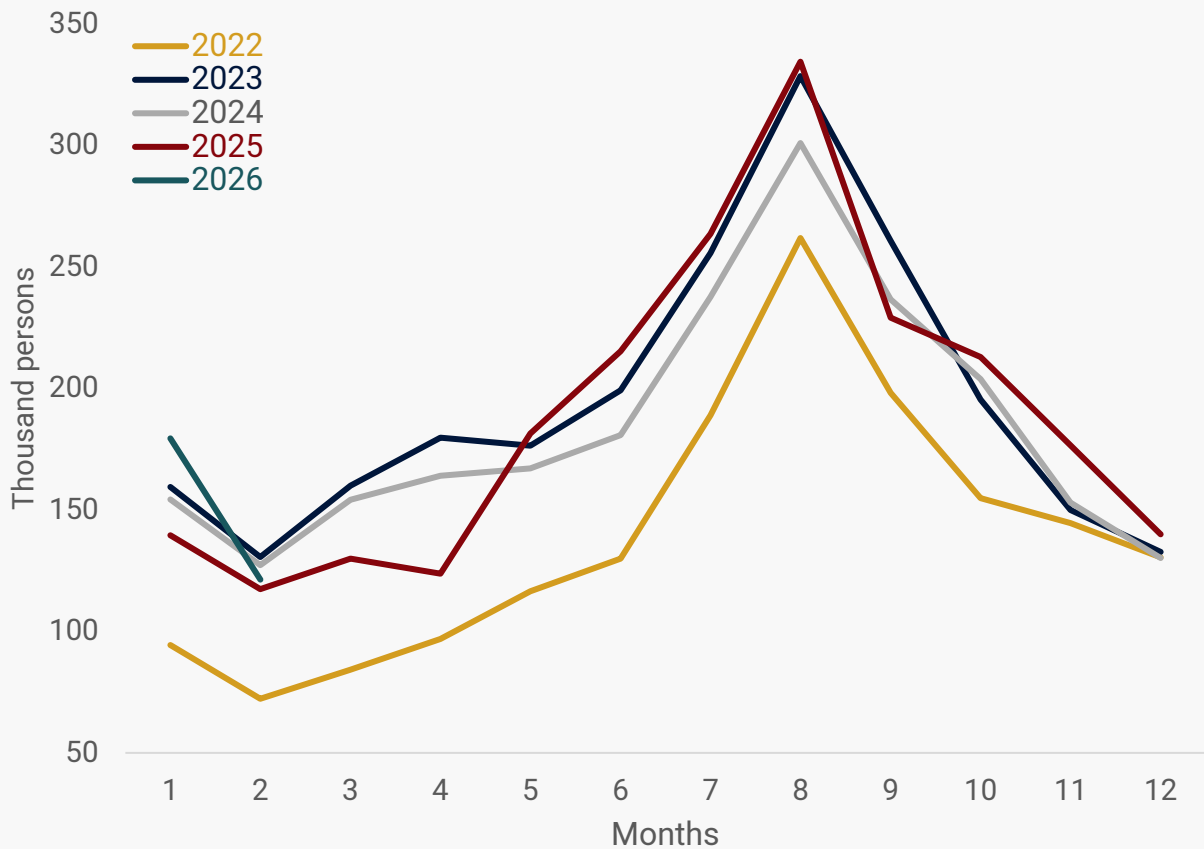
Source: Statistical Committee of RA, CBA calculations

In January, imports slowed sharply, creating uncertainty around the outlook for domestic demand



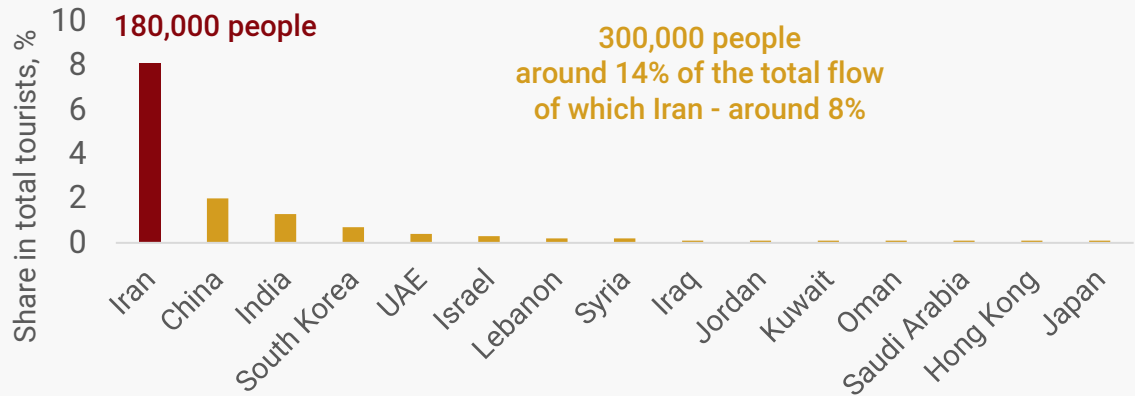
External demand. Tourism flows in the first two months of 2026 have been at historically high levels, however, uncertainties around these flows have increased due to developments in the Middle East

In February, tourism flows slowed somewhat, nevertheless recording around 3% year-on-year growth

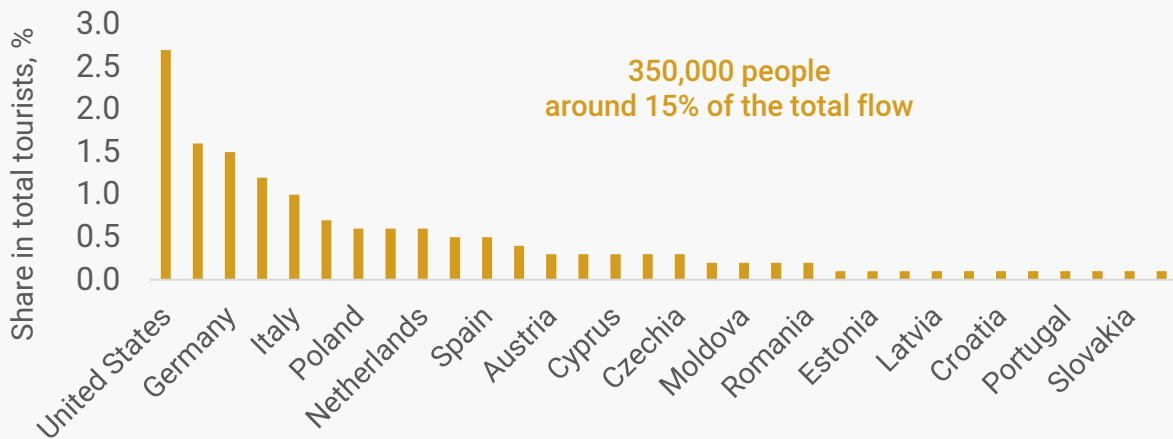


Source: Tourism Committee of the RA

Share of tourists in Armenia from Asian and Middle Eastern countries



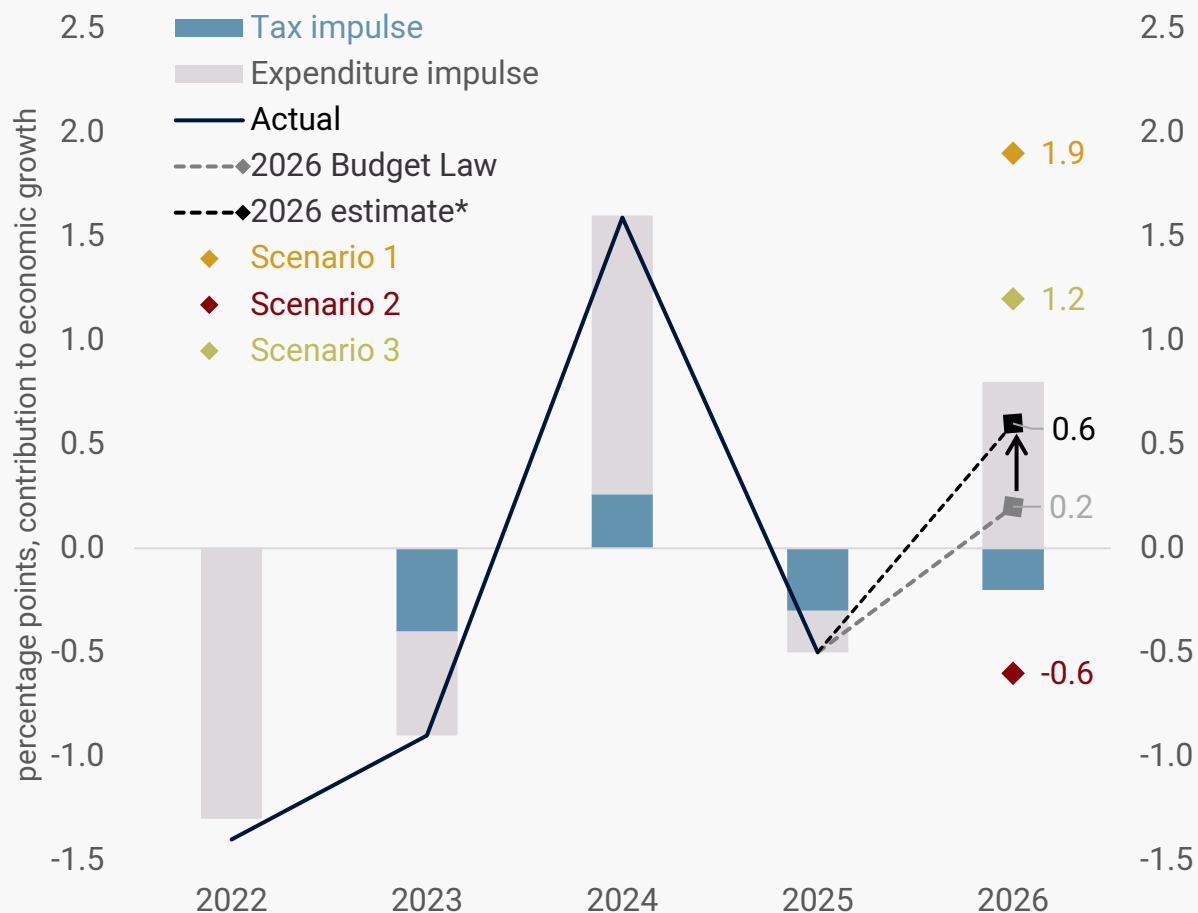
Share of tourists in Armenia from the U.S. and European countries



Source: Statistical Committee of RA

Fiscal policy. Due to the introduction of UHI and the increase in social expenditures, the risks of a more expansionary stance of fiscal policy in 2026 have increased

Scenarios of the impact of fiscal policy on aggregate demand

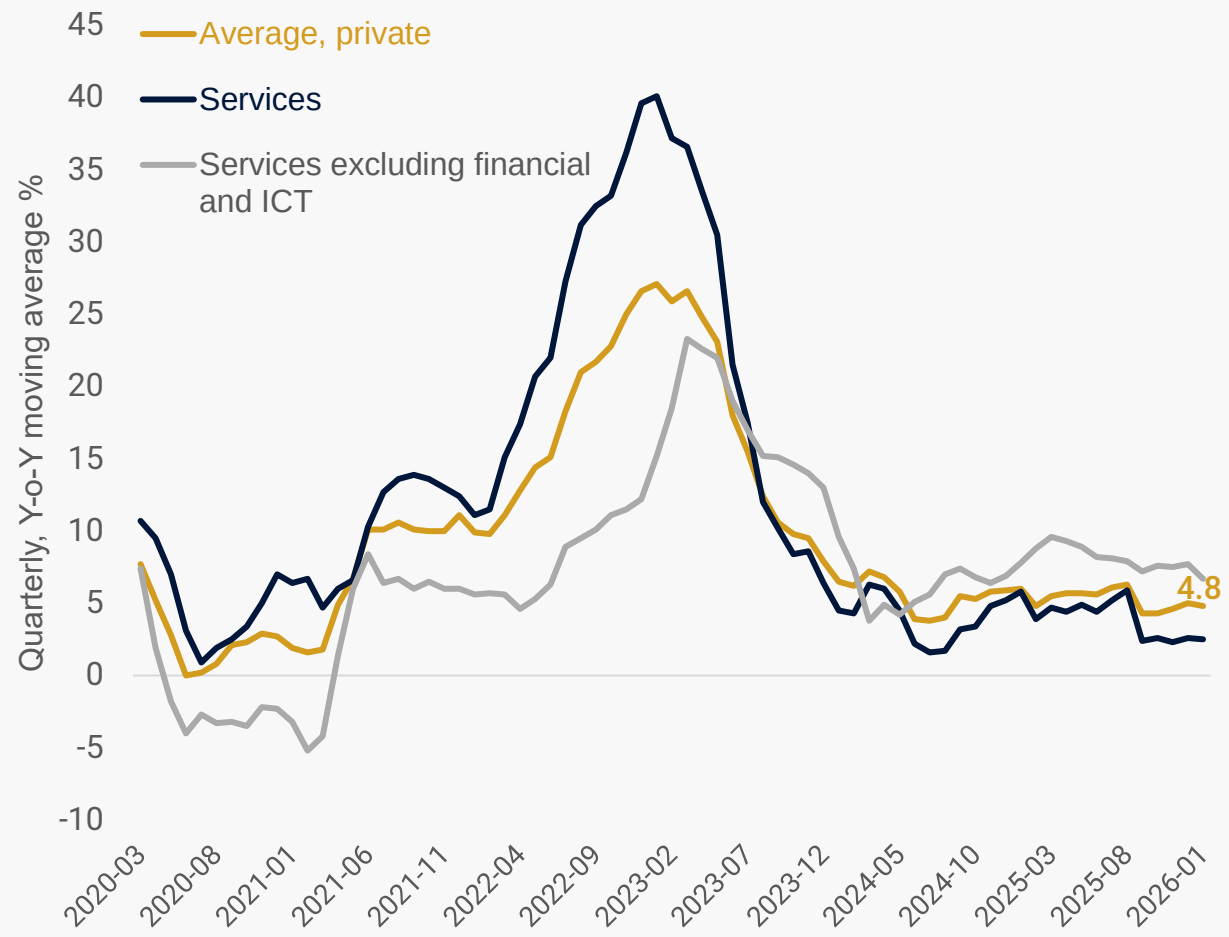


- **Scenario 1.** Limited tax administration capacity in the context of a possible adjustment in economic growth.
- **Scenario 2.** Full execution of the tax revenue plan. However, under limited capacity to implement large-scale capital expenditures, underexecution of capital expenditures in line with the trends of previous years.
- **Scenario 3.** Overexecution of healthcare-related expenditures under conditions of full execution of the tax revenue plan.

*Note: The estimate includes the increase in pensions and benefits starting from April 2026.
Source: Ministry of Finance of the RA, CBA calculations

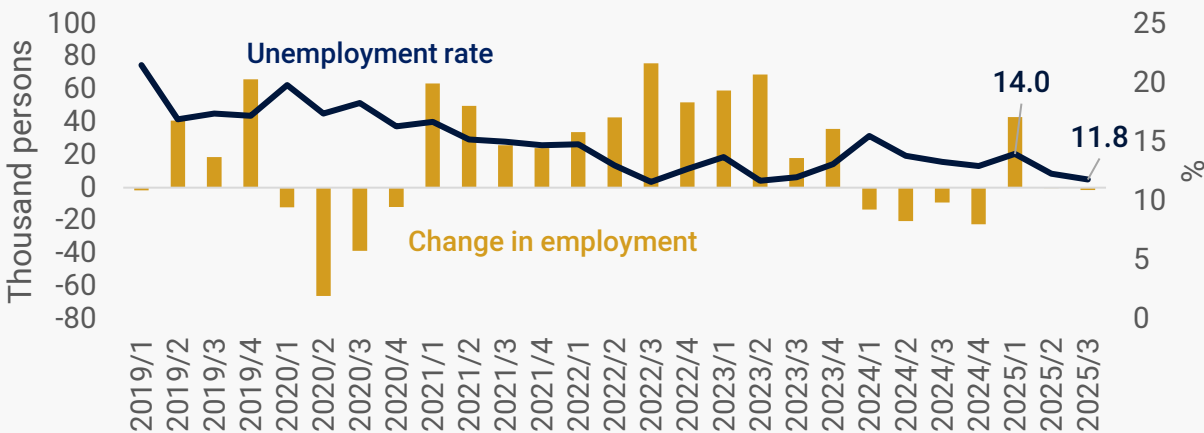
Labor market. Wage growth has stabilized at around 5%, while concentration has declined, which may indicate more balanced conditions in the labor market

Stable growth rates of average private wages are being maintained

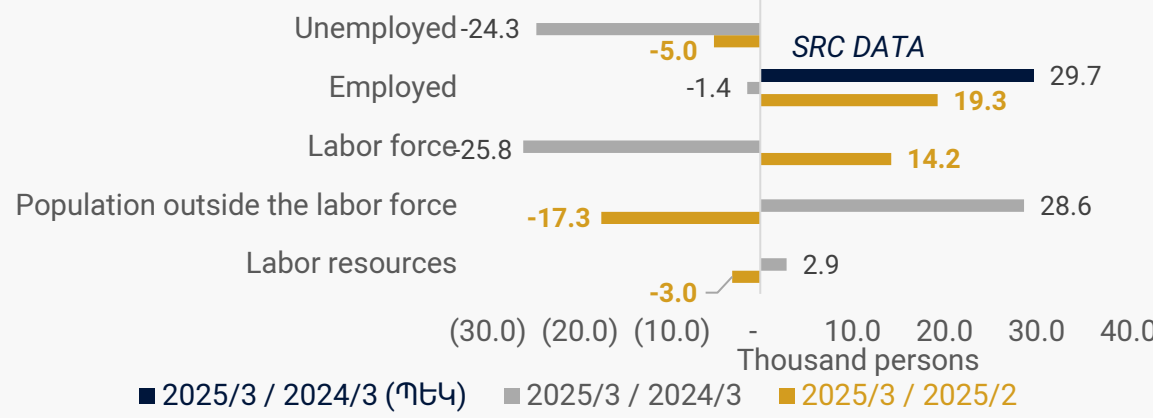


Source: Statistical Committee of the RA

The unemployment rate continues to remain at historically low levels



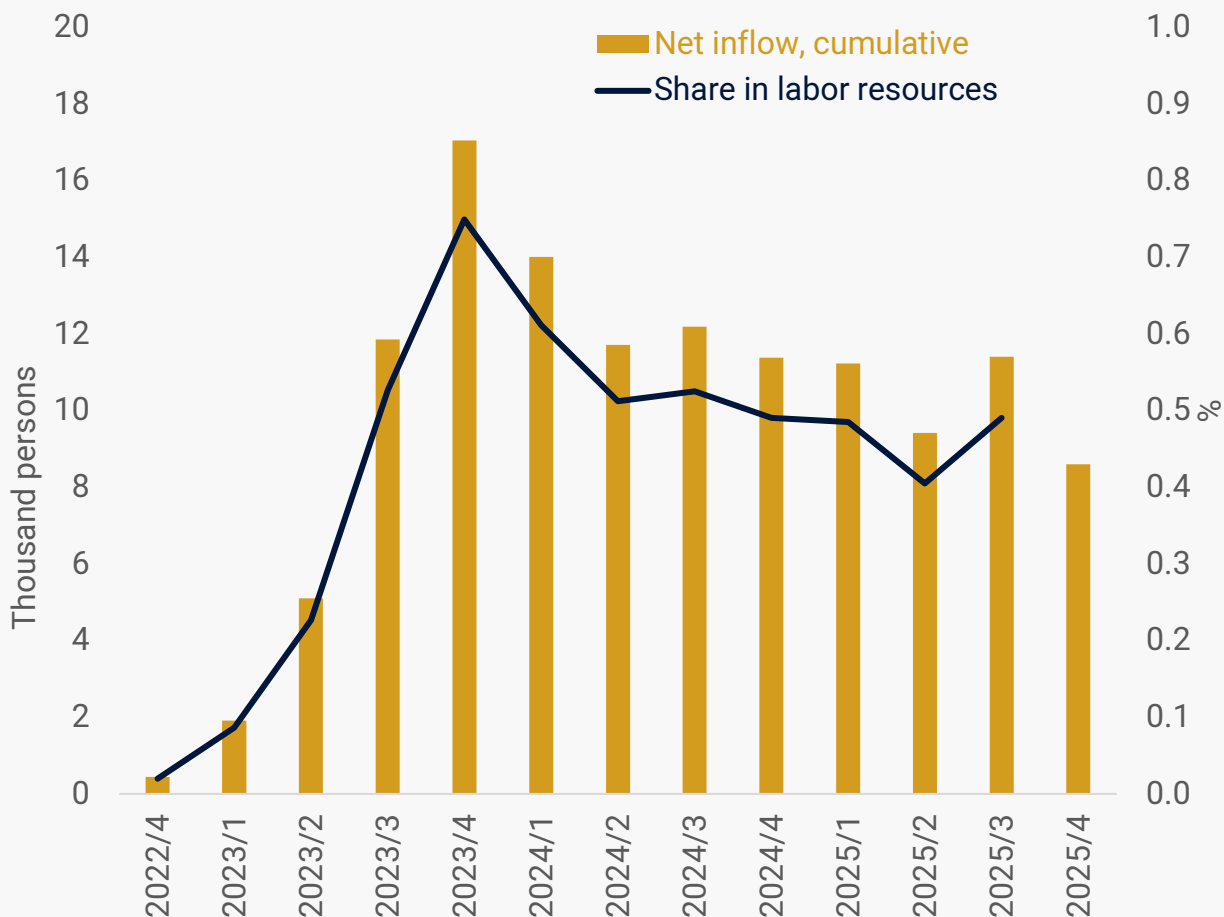
The decline in the unemployment rate is accompanied by a decrease in labor force participation



Source: Statistical Committee of the RA, State Revenue Committee

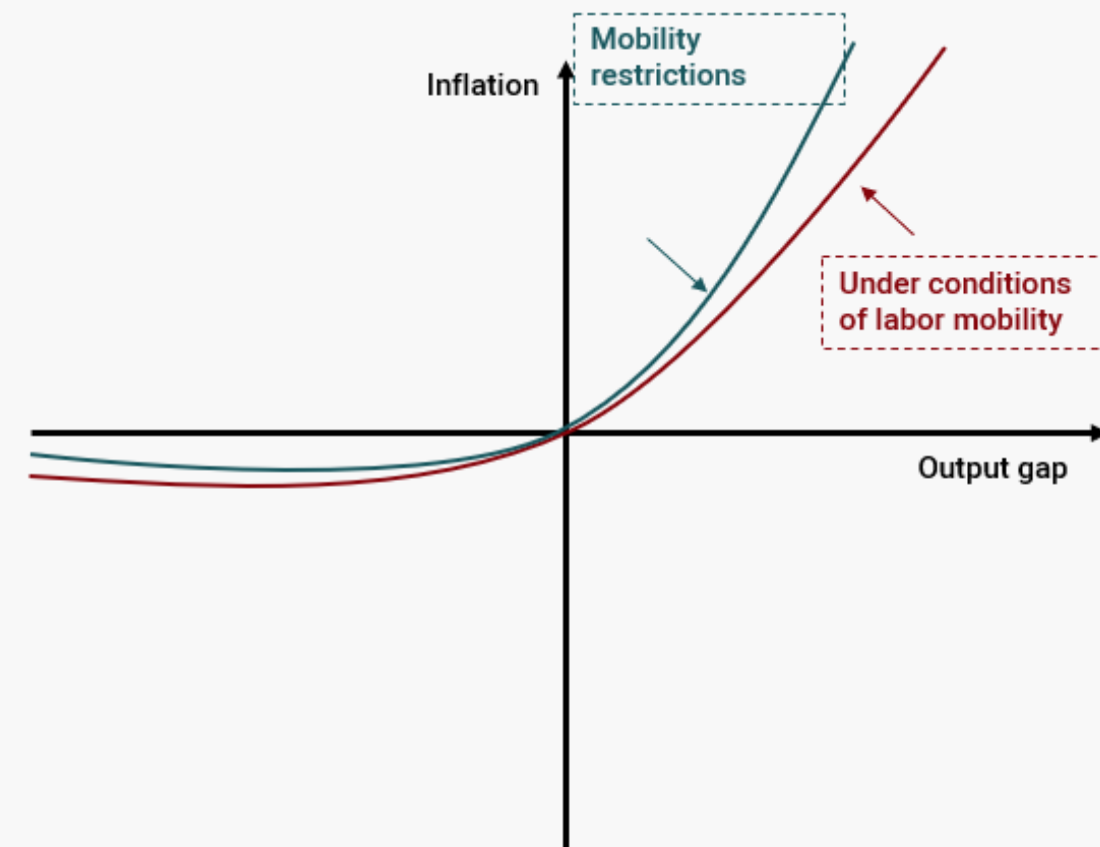
Labor market. On the other hand, under conditions of escalating conflict in the Middle East, regional labor flows have become somewhat constrained, creating potential inflationary risks

Although the share of Indian citizens in Armenia's labor resources is relatively small



Source: Statistical Committee of the RA

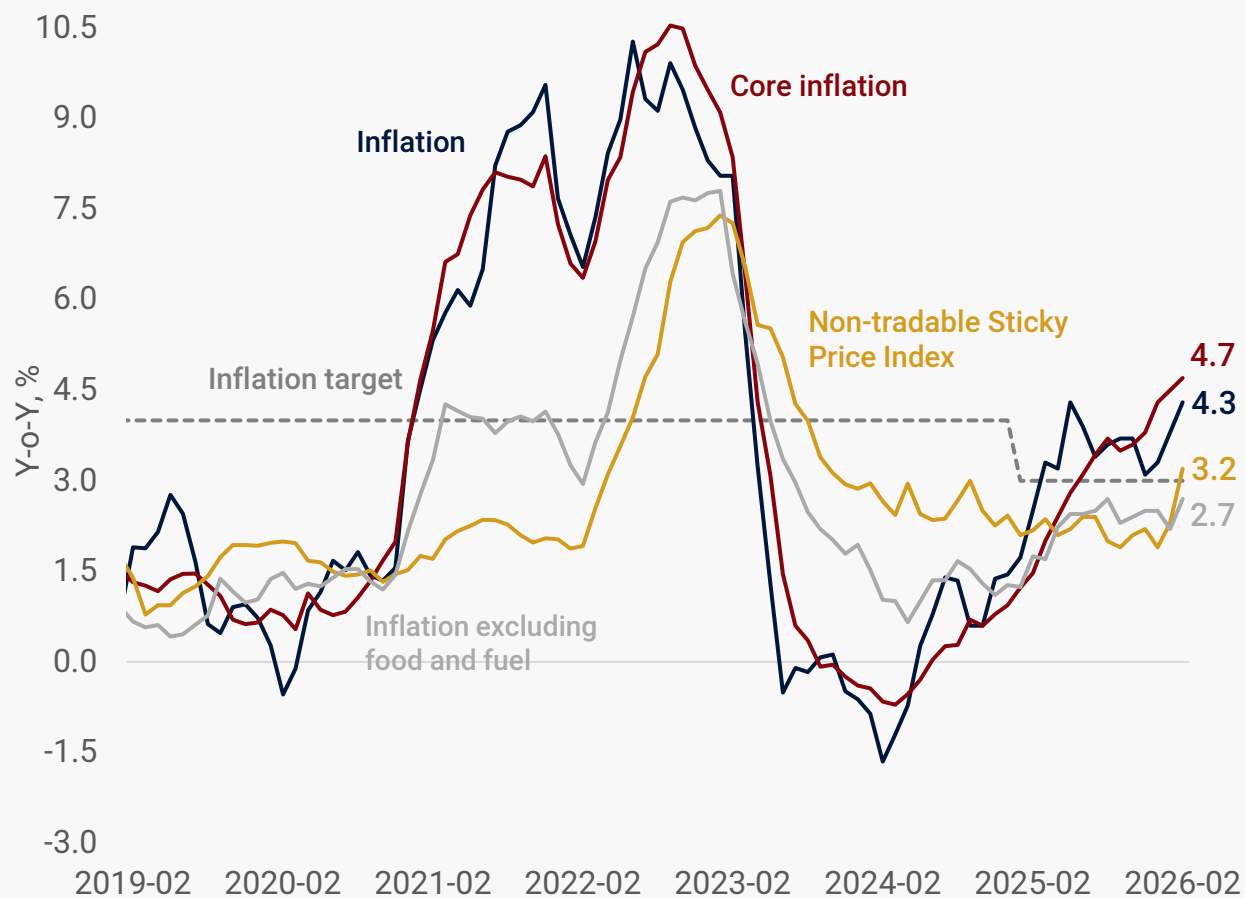
Nevertheless, possible restrictions in these flows may strengthen the demand–inflation link in Armenia, requiring a stronger policy response if needed to manage demand conditions



Source: CBA

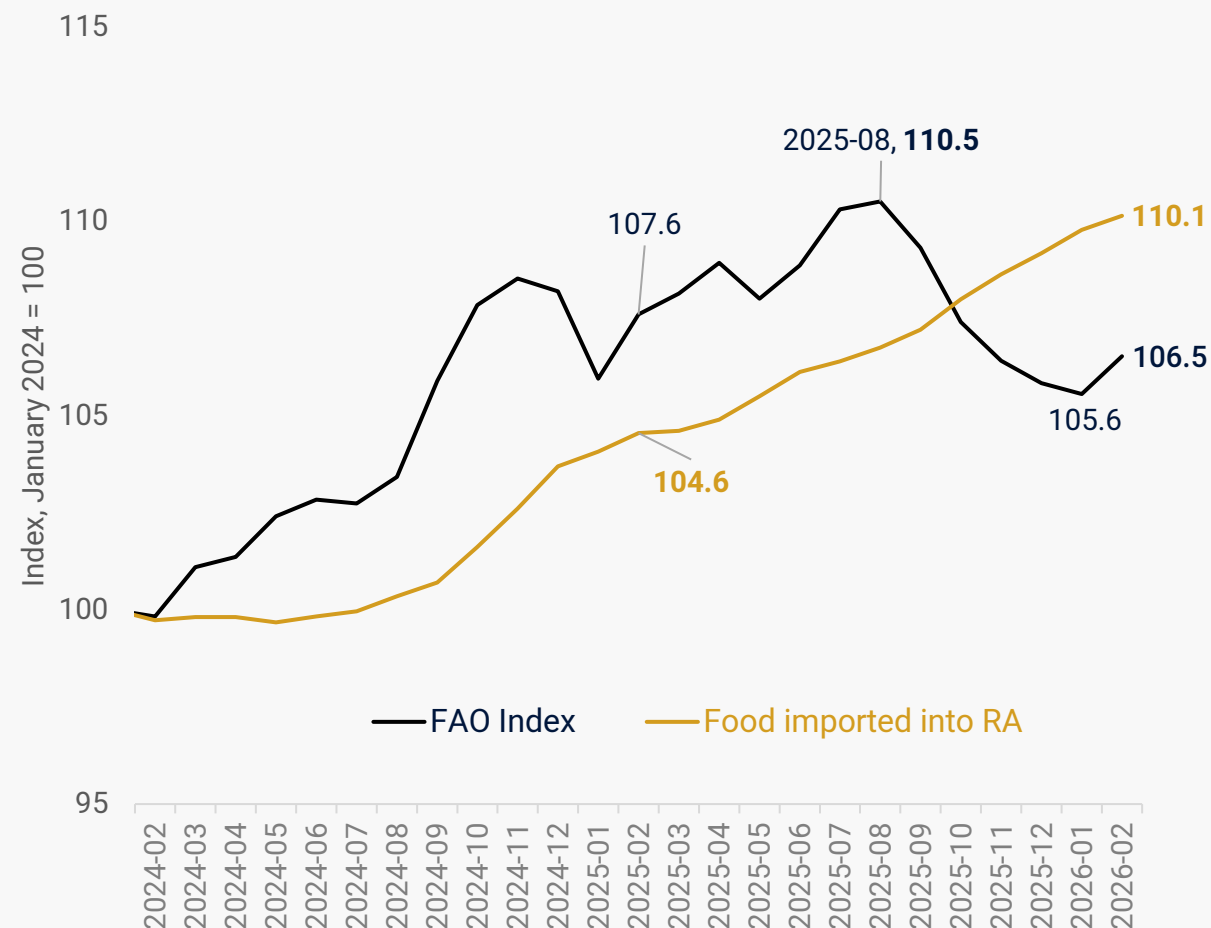
Inflation. In February 2026, 12-month inflation continued to accelerate, largely driven by high inflation in imported food products, reaching 4.3%, above the target

Inflation and core inflation indicators, Y-o-Y growth, %



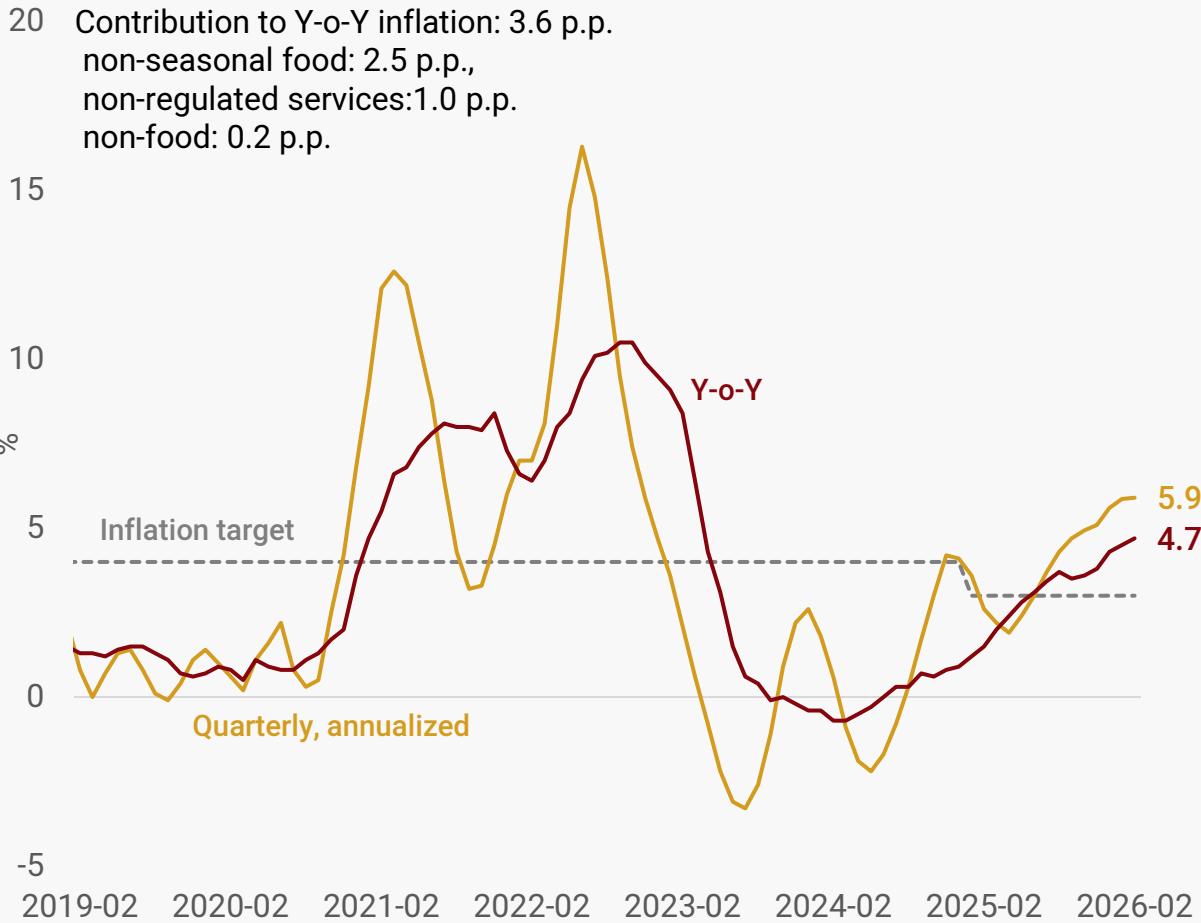
Source: Statistical Committee of the RA, CBA calculations

The easing of inflationary conditions in international food markets has not yet been reflected in Armenia



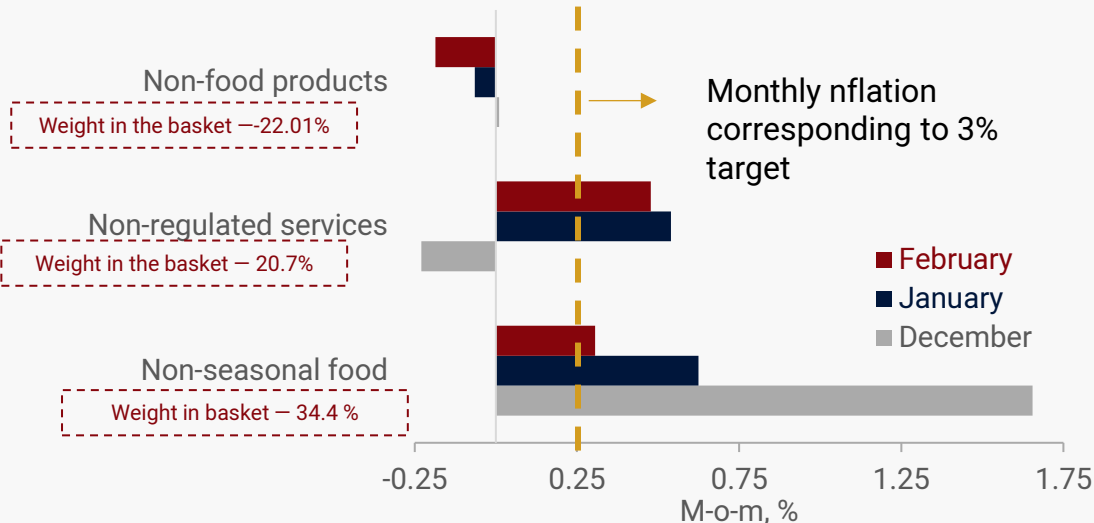
Inflation. Despite the presence of clear supply-side factors, including within the domestic economy (e.g., the increase in the excise tax), the acceleration of underlying inflation in recent months has been more broad-based, possibly indicating the formation of strong demand conditions

Core inflation



Source: Statistical Committee of the RA, CBA calculations

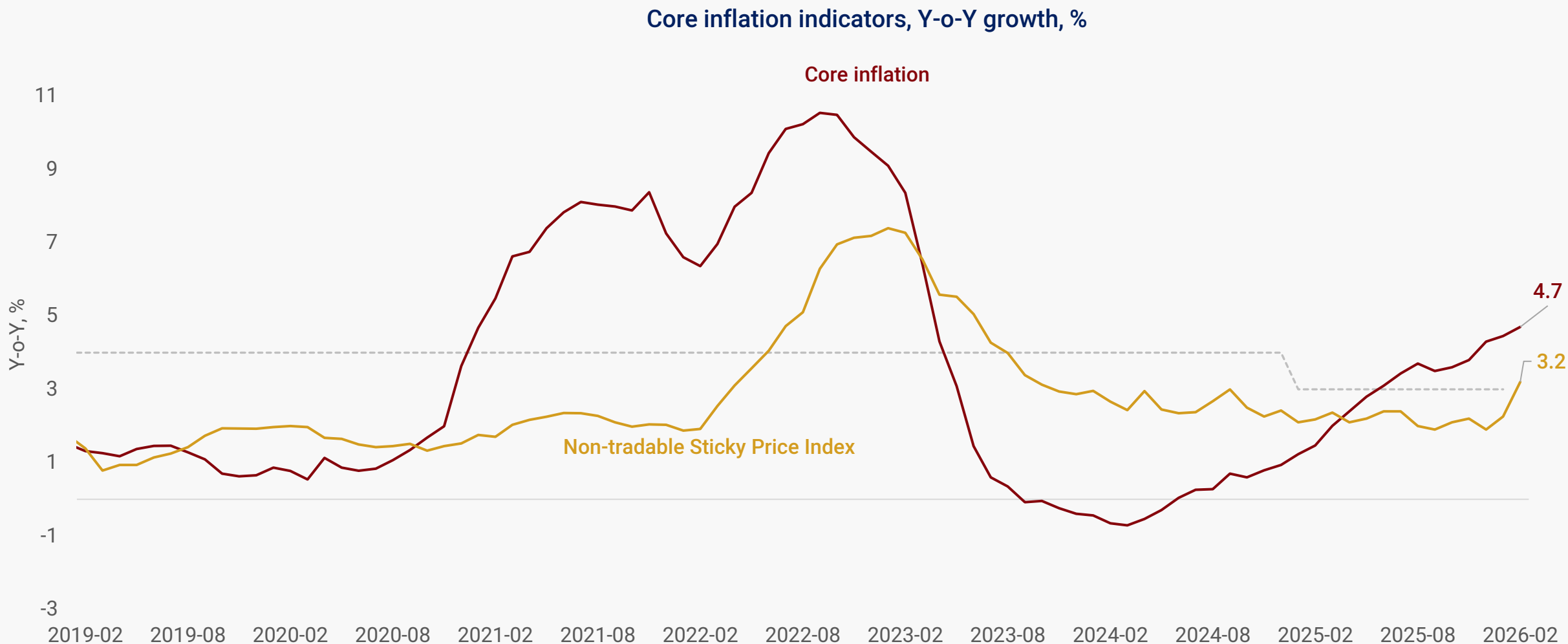
Main product groups included in core inflation, inflation



The transmission of possible inflationary pressures to Armenia's economy as a result of the escalation of the conflict in the Middle East may further contribute to an increase in inflation.

Impact channel	Impact on 12-month inflation, p.p.
An average 40% increase in oil prices in 2026	0.6 - 0.8
Use of an alternative import route	0.5 - 0.8
Replacement of food products imported from Iran	0.1
Overall impact	1.2 - 1.7

Inflation. The main risk here is the acceleration of actual inflation due to the underestimates of potentially strong demand conditions in the economy and/or its transmission to households' inflation expectations

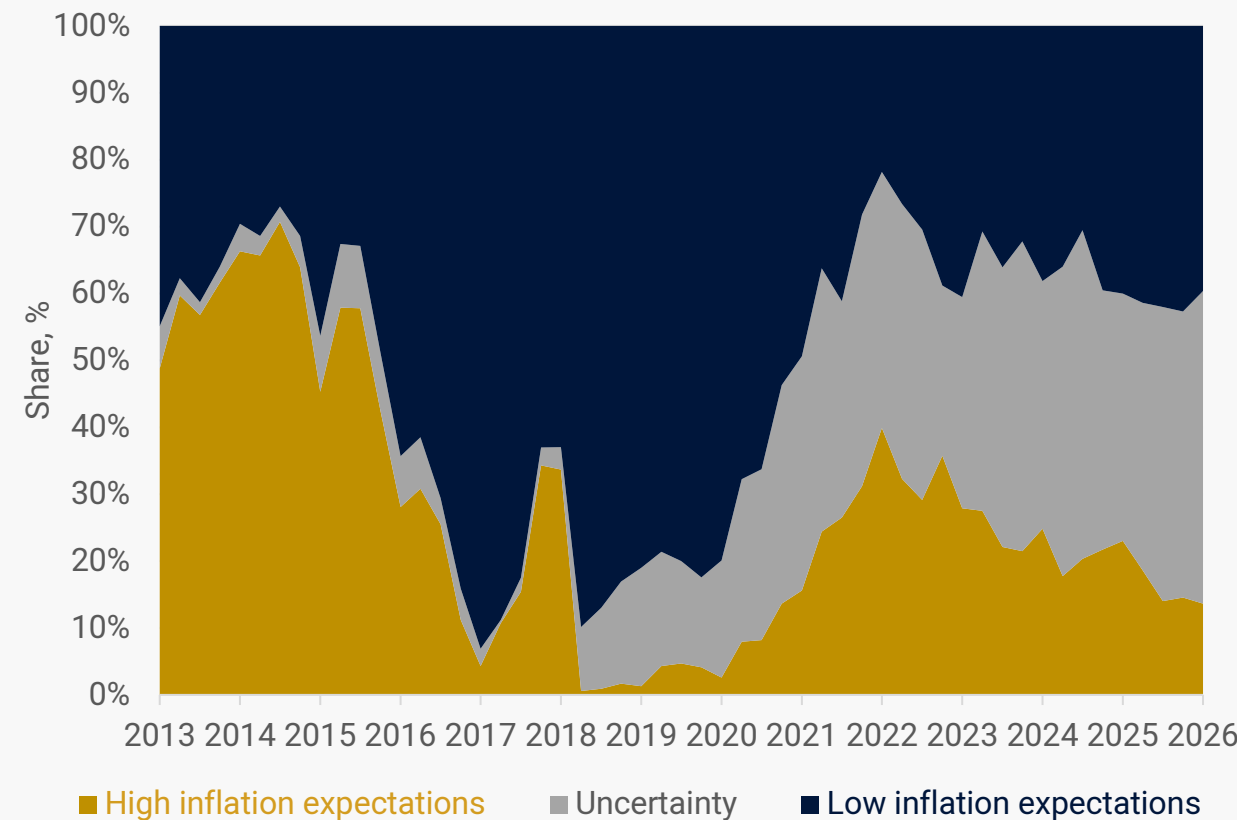


Source: Statistical Committee of the RA, CBA calculations

At the same time, private wage growth, inflation in services characterized by sticky prices, and inflation expectations continue to show stabilization trends

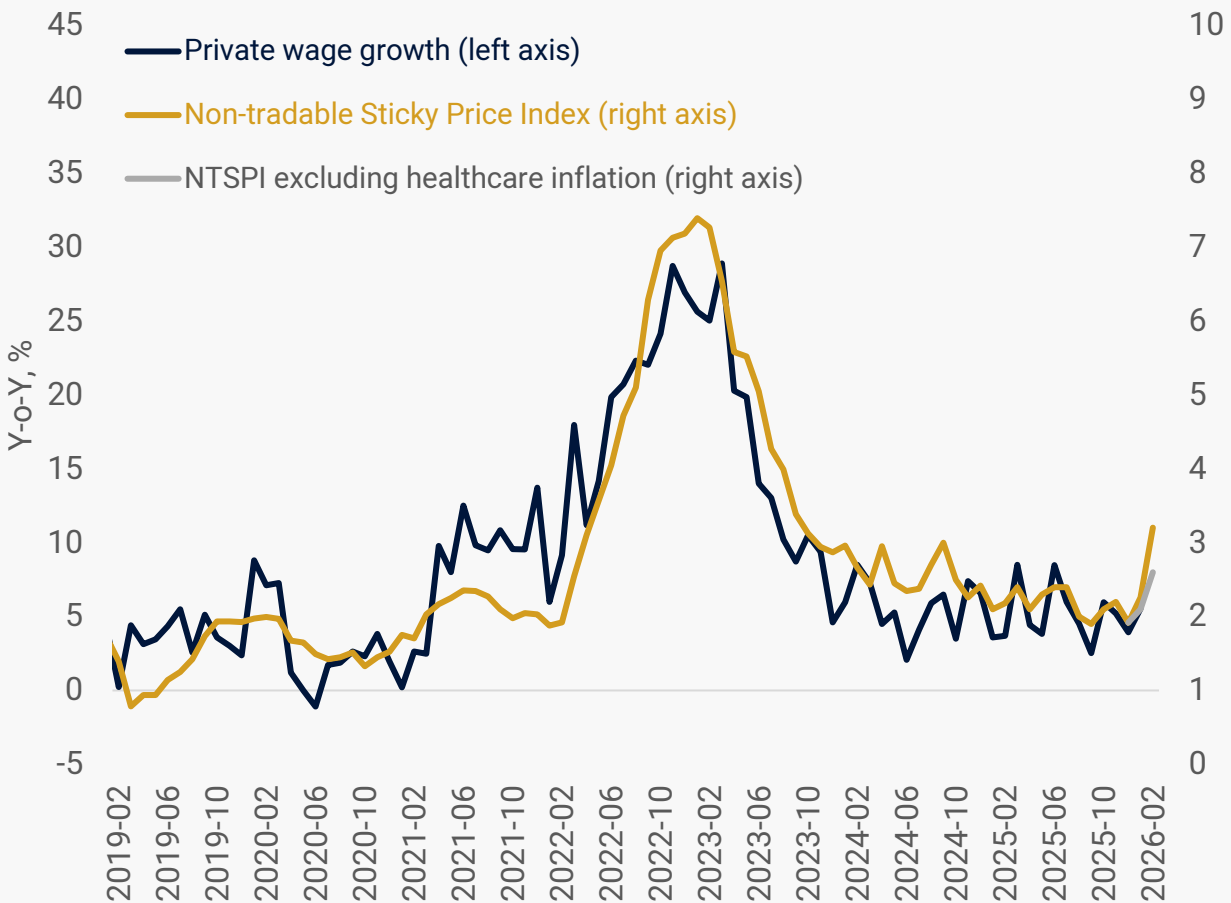
In Q1 2026, uncertainties increased somewhat, partly due to a decline in previously low inflation expectations

Inflation expectations according to CBA surveys



Source: CBA

Nevertheless, non-tradable sticky prices and private sector wages have continued to form around long-term stable levels



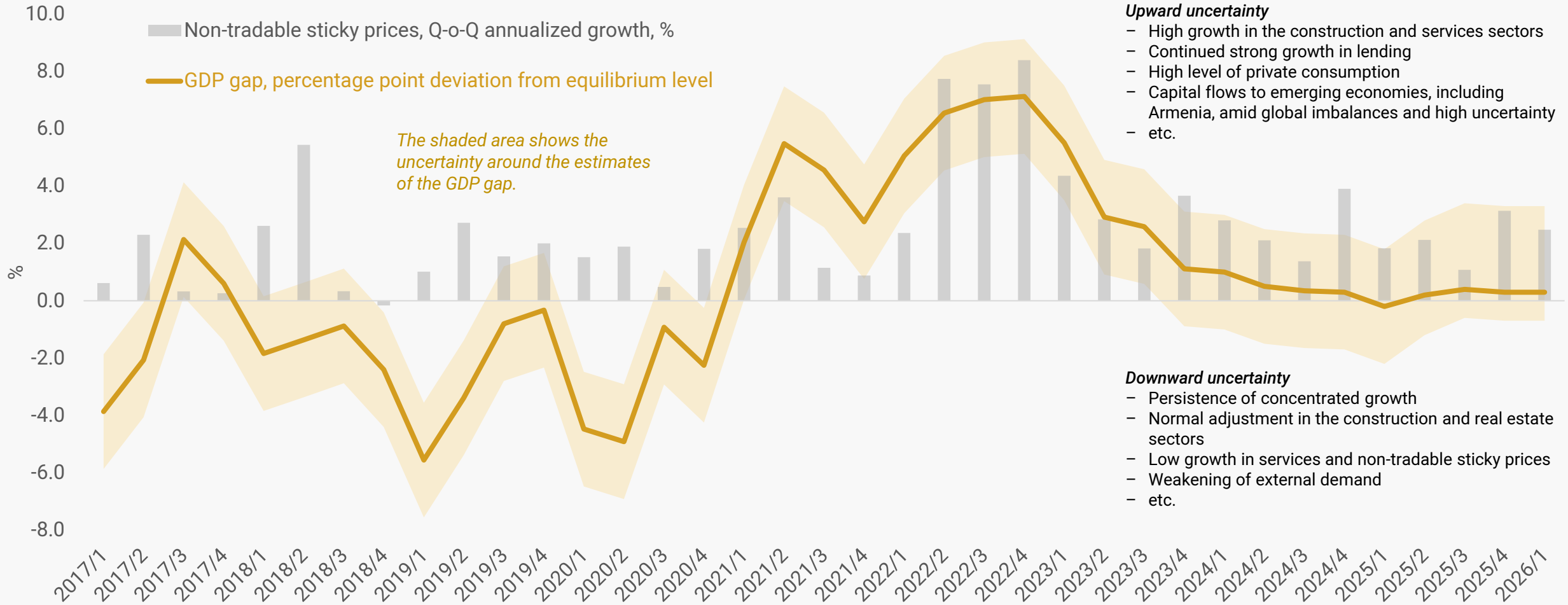
Source: Statistical Committee of RA, CBA



Where is the economy now?

The structural characteristics of economic growth, uneven developments across different sectors, as well as various assumptions stemming from developments in the global economy increase the uncertainties around the current position of the economy and its outlook

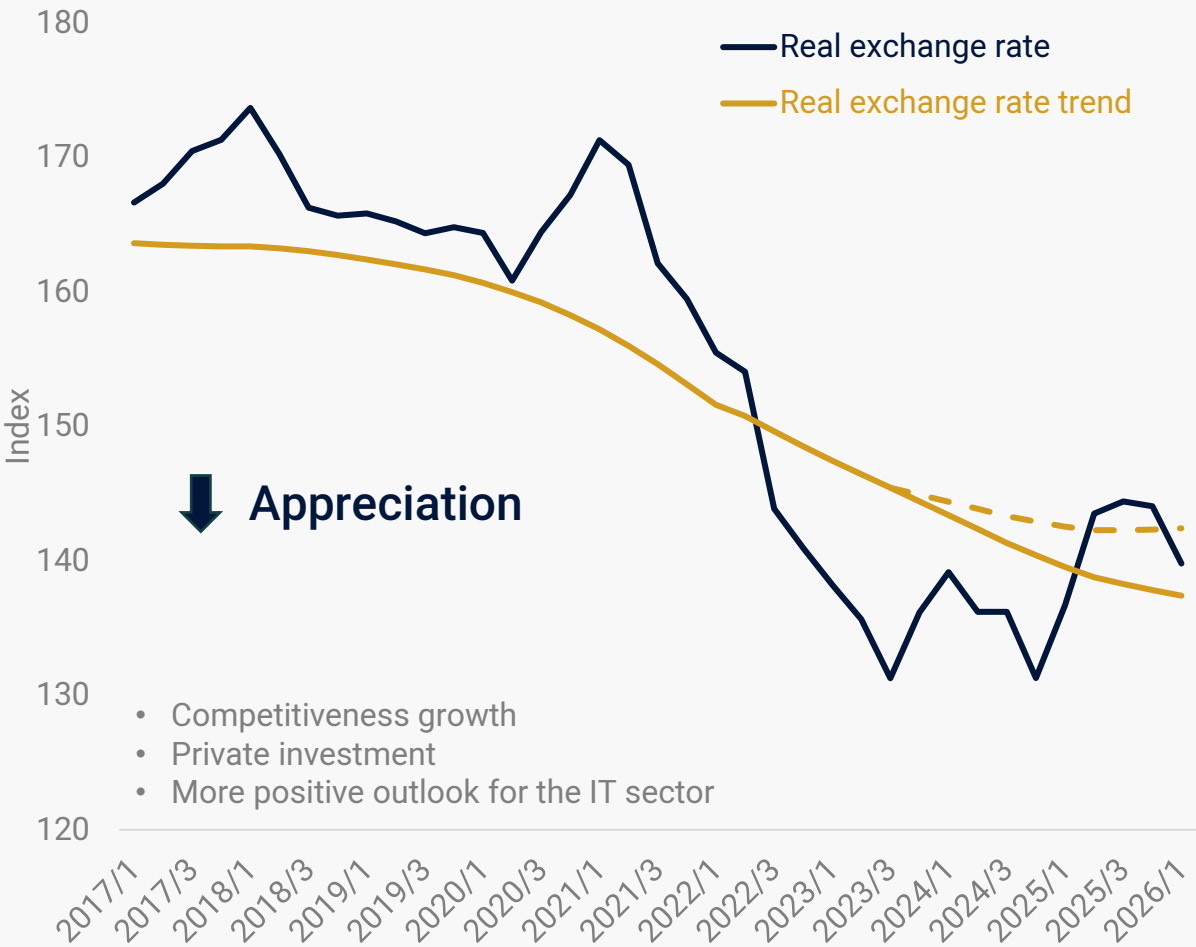
GDP gap and inflation, financial market expectations scenario



Source: CBA estimates

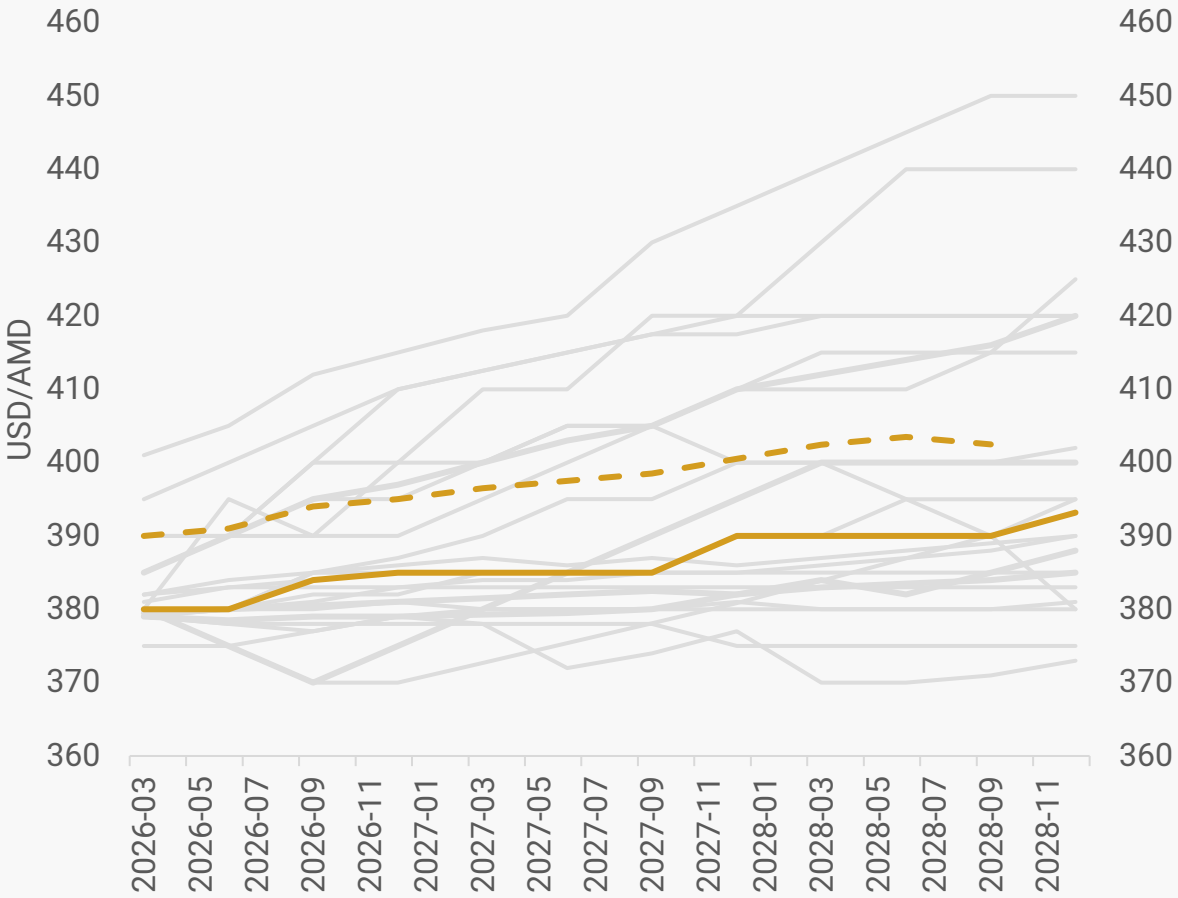
Uncertainty around the fundamental level of the real exchange rate persists. To what extent has the increase in productivity and competitiveness in tradable sectors contributed to the formation of a “new trend”?

Real effective exchange rate, index



Source: CBA estimates

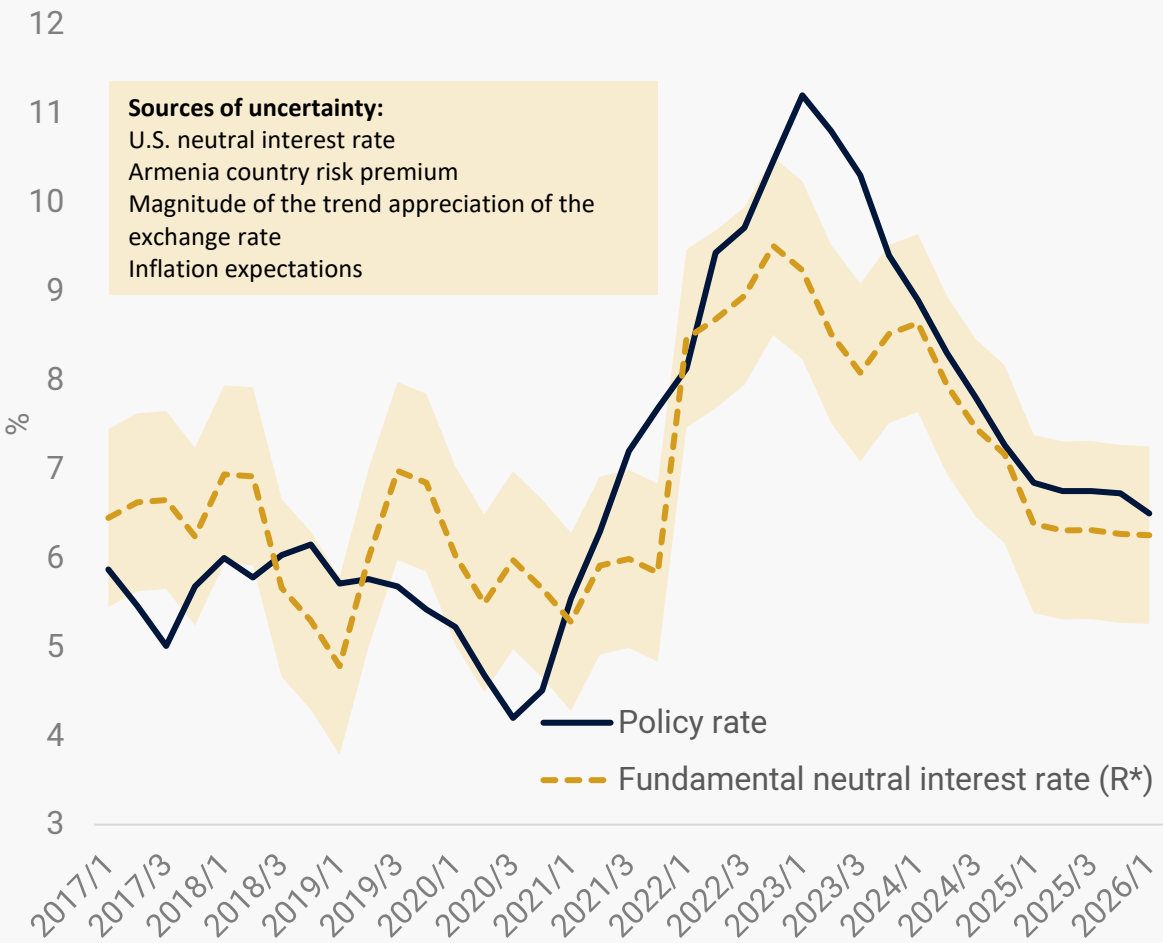
Nominal exchange rate expectations according to the CBA macro survey for Q1 2026 (USD/AMD)



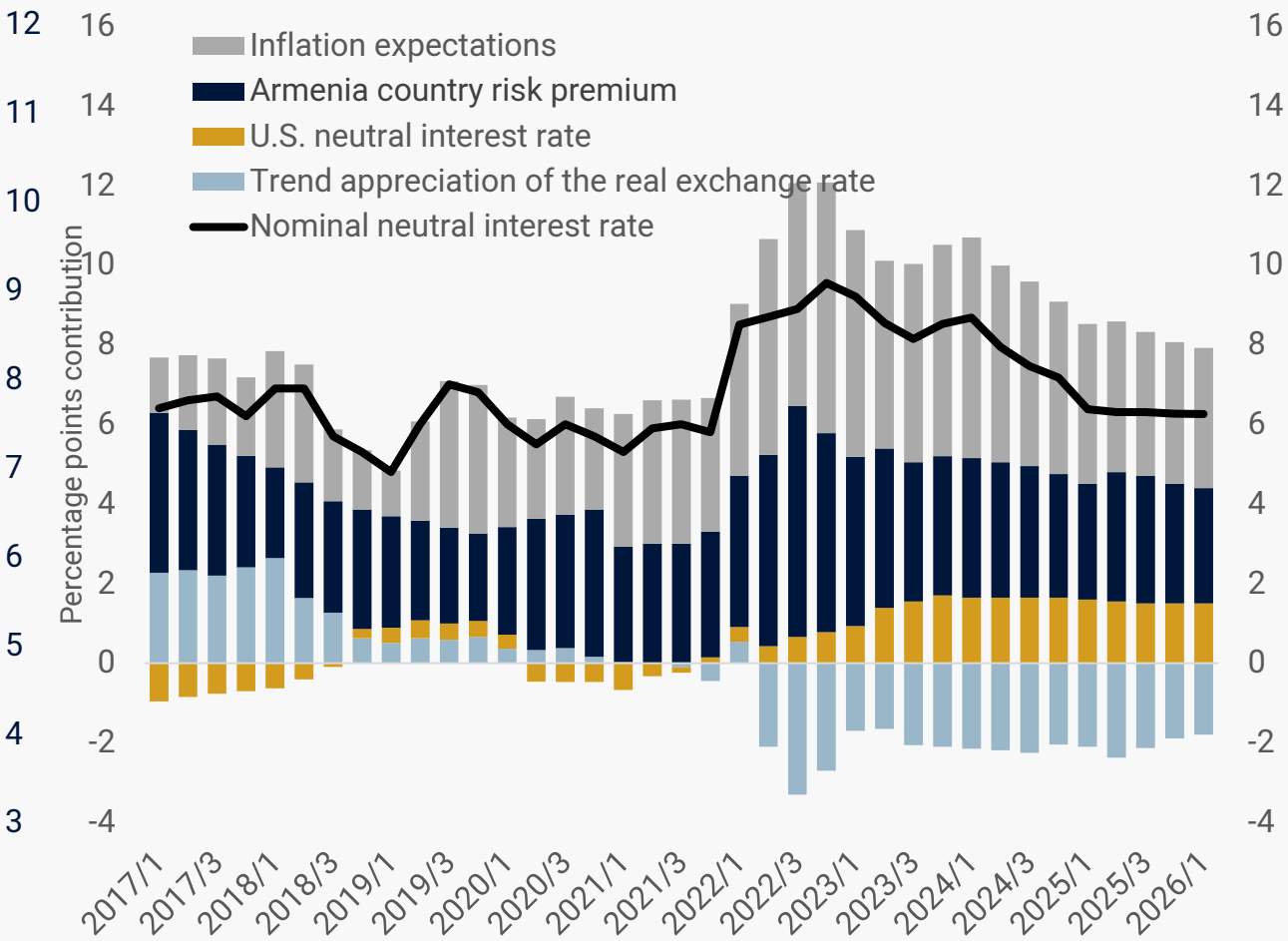
Source: CBA Macro survey

Overall neutral demand conditions in the economy, labor market conditions, and the inflation environment may indicate that the policy stance is close to neutral.
At the same time, high uncertainty around the components of the neutral rate persists

Policy rate and nominal neutral rate



Nominal neutral rate, %



Source: CBA estimates

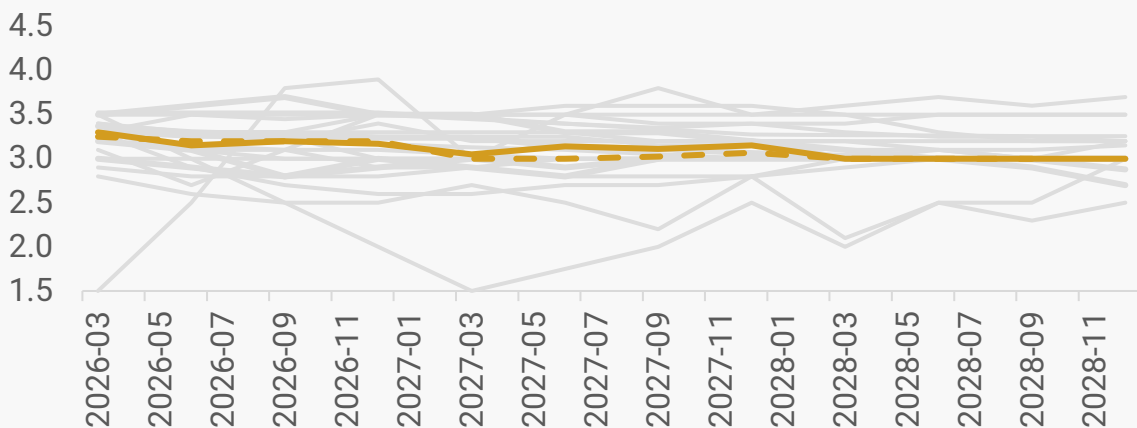


Market reference scenario and expectations

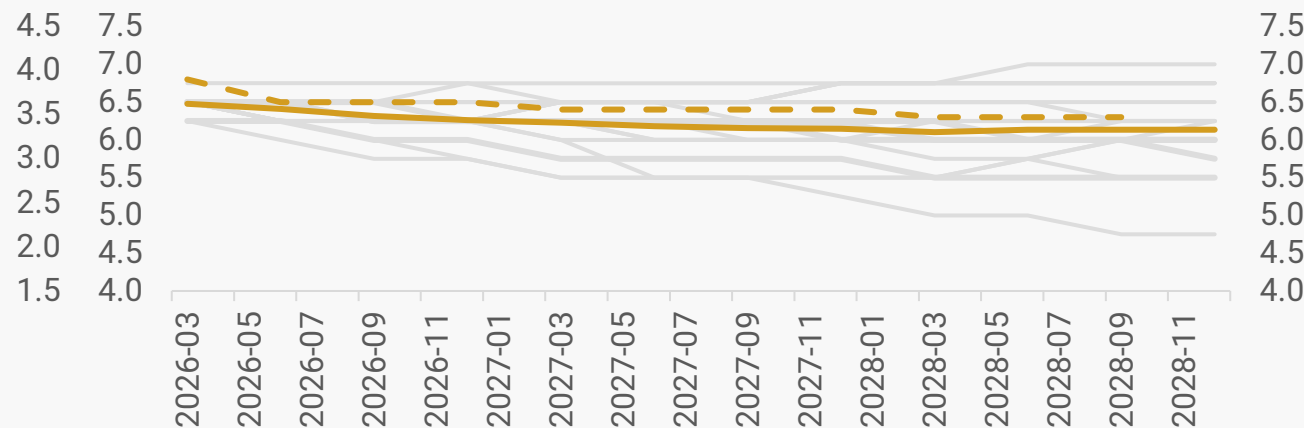
Market-guiding scenario. Financial markets expect the economy to maintain its equilibrium state over the medium-term horizon. At the same time, weak signals are observed of a downward reassessment of the risk premium and the neutral rate



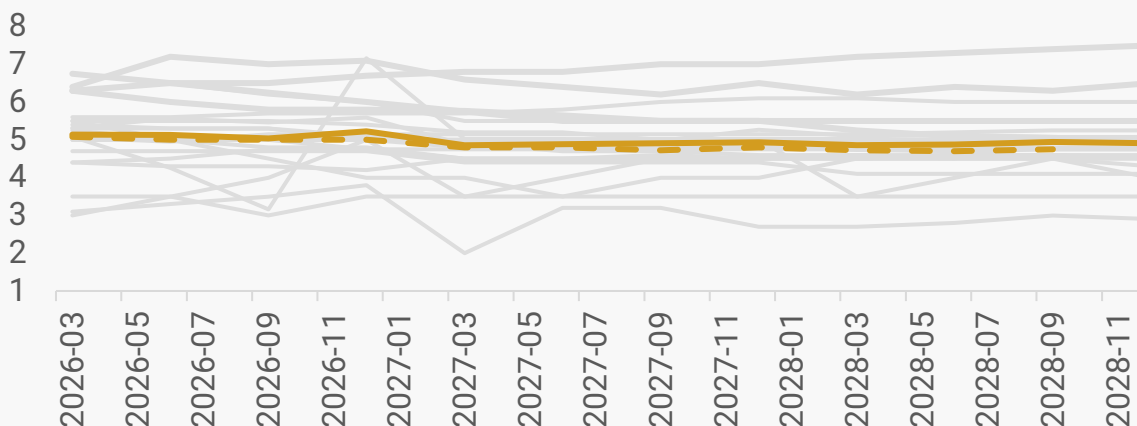
Inflation, Y-o-Y, %



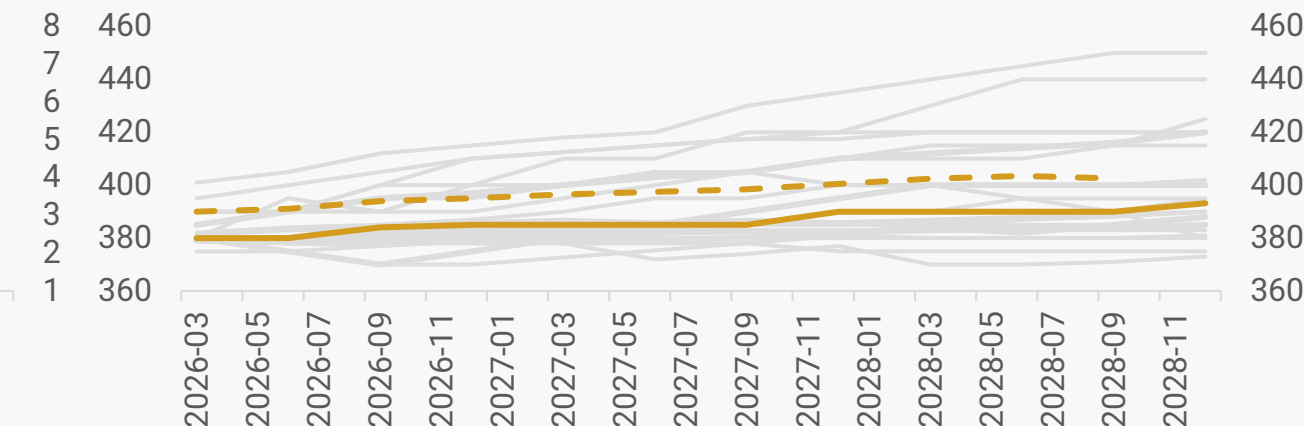
Refinancing interest rate, %



Economic growth, Y-o-Y, %



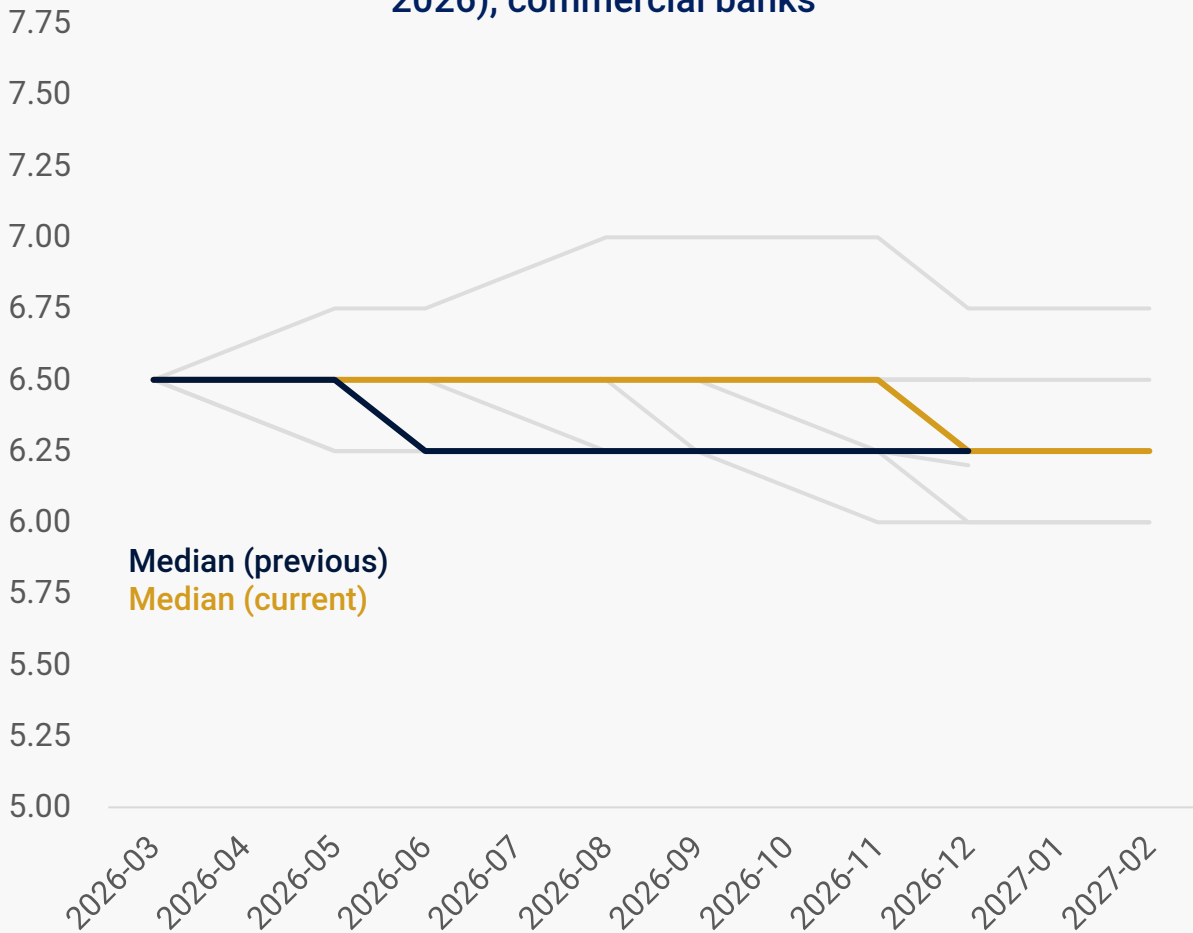
Nominal exchange rate (USD/AMD)



Source: CBA Macroeconomic Survey, Q4 2025, n=23, previous survey n=41

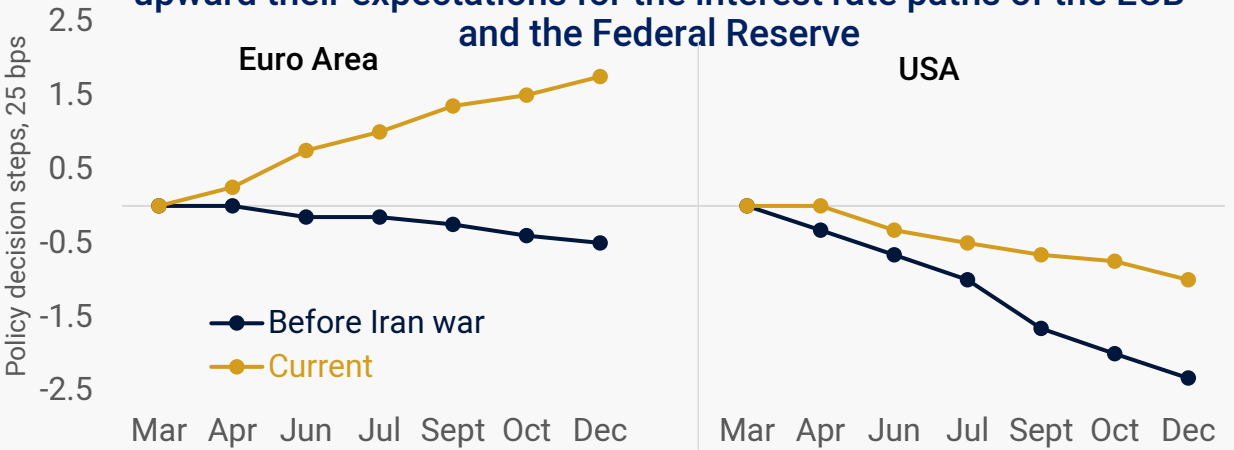
Short survey. According to the survey results, market participants' expectations indicate a path of keeping the policy rate at the current level for a longer period

Market expectations regarding the interest rate (survey of March 11, 2026), commercial banks

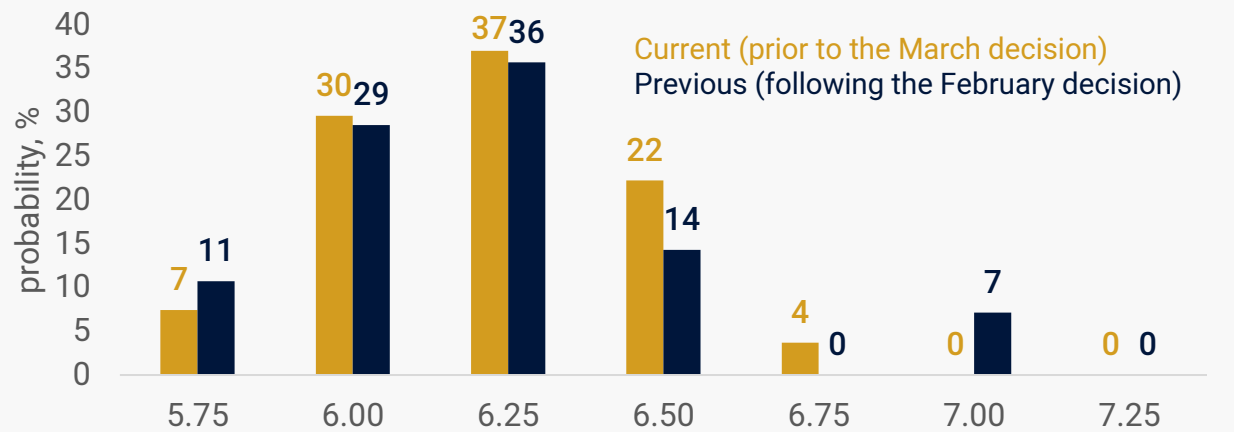


Source: CBA survey of March 11st

Under the new geopolitical environment, markets have revised upward their expectations for the interest rate paths of the ECB and the Federal Reserve

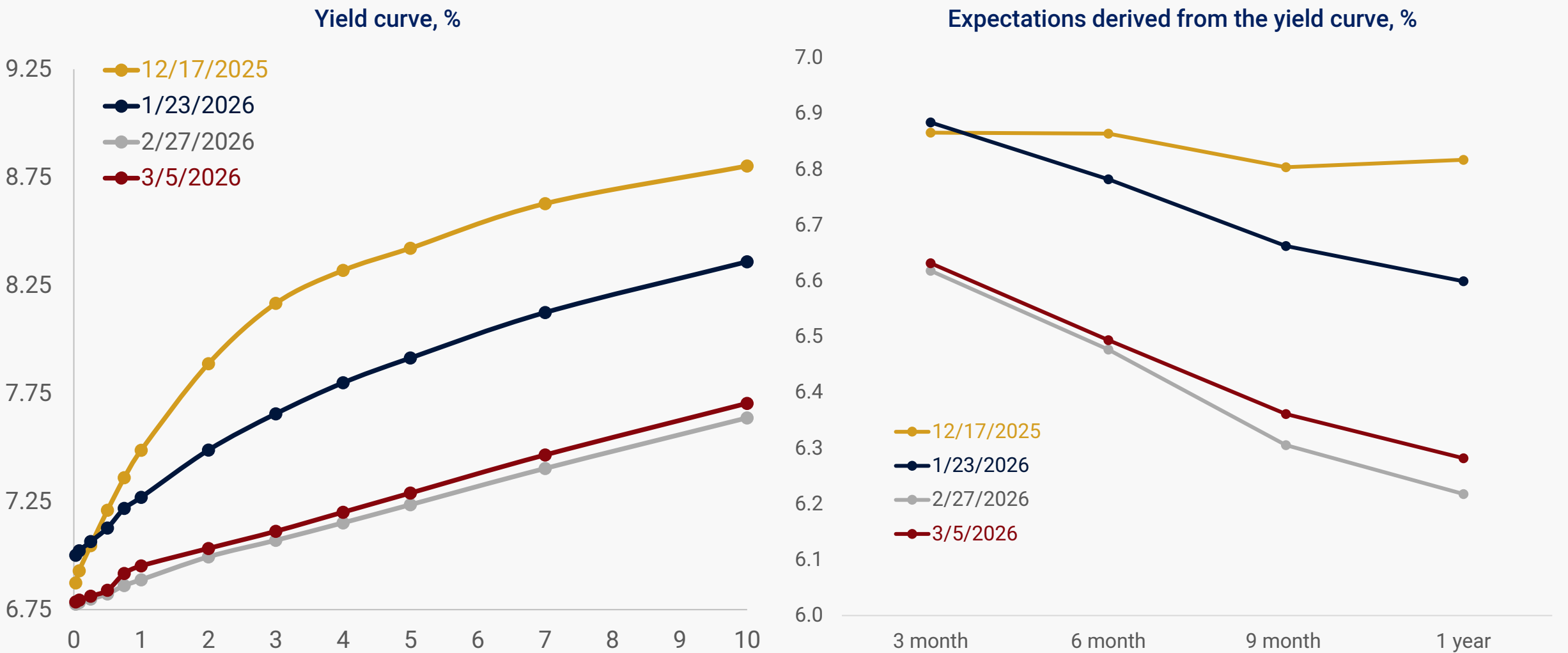


Policy interest rate in February 2027



Source: Bloomberg, CBA survey of March 11st

The yield curve has risen slightly in recent weeks alongside developments in the Middle East



Source: CBA, CBA calculations



Taxonomy of **Scenarios**

Taxonomy of Scenarios.

Case A-Type Considerations

Expansionary Demand

Uncertainty around Armenia's neutral policy rate:

- Following the US's re-evaluation of fiscal adjustments, uncertainty has increased regarding the magnitude of stimulus and, particularly, the long-term debt burden, including uncertainties around future customs revenue collection. This could contribute to a rise in the neutral policy rate in the US, which in turn affects the neutral rate in emerging markets, including Armenia.
- In the event of a sharp escalation in the Middle East, deeper regional geopolitical risks could translate into an increase in Armenia's country risk premium.
- Significant growth in social spending may lead to an increase in Armenia's budget deficit and debt, affecting the fundamental level of the country risk premium.
- Under uncertainty regarding the resolution of the Russia–Ukraine conflict, the prolonged maintenance or further tightening of sanctions on Russia could additionally strengthen capital inflows into Armenia, primarily supporting demand and inflationary pressures.
- Amid global imbalances and high uncertainty, capital flows to emerging economies, including Armenia, pose inflationary risks by stimulating consumption, credit growth, and investment.

Expansionary Demand

- Uncertainty regarding aggregate demand conditions in the domestic economy, including an environment of excess demand and its persistence.
 - Sustained economic growth above the estimated long-term potential—mainly driven by accelerated household consumption and accompanied by rising inflation—may indicate the presence of excess demand in the Armenian economy.
 - Accumulated savings and wealth in the private sector, continued strong credit growth, and income derived from positive export developments could further expand demand conditions in the medium term.
 - Budgetary expenditures related to the introduction of universal health insurance and increases in pensions may exceed planned levels, further expanding aggregate demand.
 - Continued strong external demand for Armenian goods and services (including tourism, financial services, etc.) can generate additional demand and inflationary pressures in the economy.

Taxonomy of Scenarios.

Case A-Type Considerations

Expansionary Demand

- Sustained core inflation above target, particularly given its broad-based nature in food products, could trigger an upward adjustment in inflation expectations.
- A potential easing of regional geopolitical tensions carries risks of accelerated capital inflows, which could further expand demand conditions in the economy.
- Potential capital outflows from emerging markets and a global US dollar appreciation against the backdrop of heightened Middle East tensions and uncertainty.
- Increased liquidity supply in financial markets could facilitate easier credit conditions, thereby stimulating demand in the economy

Contractionary Supply

- ***In the event of a sharp escalation in the Middle East and its prolonged persistence, disruptions in regional value chains may emerge, generating additional inflationary pressures.***
- Given Russia's role in Armenia's import structure, as well as the low level of diversification of logistics routes, inflationary risks transmitted from the Russian economy may increase.
- The prolonged persistence and/or further escalation of geopolitical tensions could exert additional pressure on oil prices and increase their volatility.

Taxonomy of Scenarios.

Case B-Type Considerations

Contractionary Demand

- Weak domestic in the global economy—particularly in the Eurozone and China—amid persistent structural challenges may remain prolonged, leading to a sustained low-inflation environment in international commodity and raw material markets.
- Considering the deterioration of economic activity and labor market conditions in the United States, as well as risks of asset overvaluation, a potential rapid correction in asset prices could create disinflationary pressures both globally and in the Armenian economy.
- The prolonged persistence of low inflation in services and other non-traded goods sectors, stabilizing wage growth, weak retail trade activity, and structural characteristics of economic growth may indicate an already weak demand environment, the persistence of which could generate risks of a prolonged disinflationary environment.

Contractionary Demand

- Under conditions of a gradual and orderly correction in the construction sector and real estate prices, related sectors may also experience slower growth, weakening demand, and disinflationary effects.
- The concentration of economic growth and the uneven accumulation of debt burdens in certain sectors of the economy may pose risks of a slowdown in economic growth.
- In the event of escalating geopolitical conflicts, the potential imposition of sanctions on third countries could create significant constraints on trade and capital flows, negatively affecting aggregate demand conditions in Armenia.
- A weakening of demand in the Russian economy and slower growth in real incomes could lead to reduced external demand—particularly for tourism services—creating disinflationary pressures.

Taxonomy of Scenarios.

Case B-Type Considerations

Contractionary Demand

- Given Russia's role in Armenia's import structure, as well as the low level of diversification of logistics routes, inflationary risks transmitted from the Russian economy may increase.
- The prolonged persistence and/or further escalation of geopolitical tensions could exert additional pressure on oil prices and increase their volatility.

Expansionary Supply

- Continued growth in the labor supply in Armenia's economy, driven by uncertainties surrounding the medium-term outlook of the Russian economy and, in particular, by the tightening of migration policies in Russia, leading to a continued decline in seasonal migration from Armenia to Russia.
- Risks of a disinflationary environment in global markets amid intensifying trade policies in the global economy, while China continues to pursue export-supporting policies, potentially leading to sharp reconfigurations of global trade flows.



Illustrative Case A scenario

Economic growth that is above estimated long-term potential and concentrated in primarily demand-driven sectors could point to excess demand conditions in the Armenian economy.

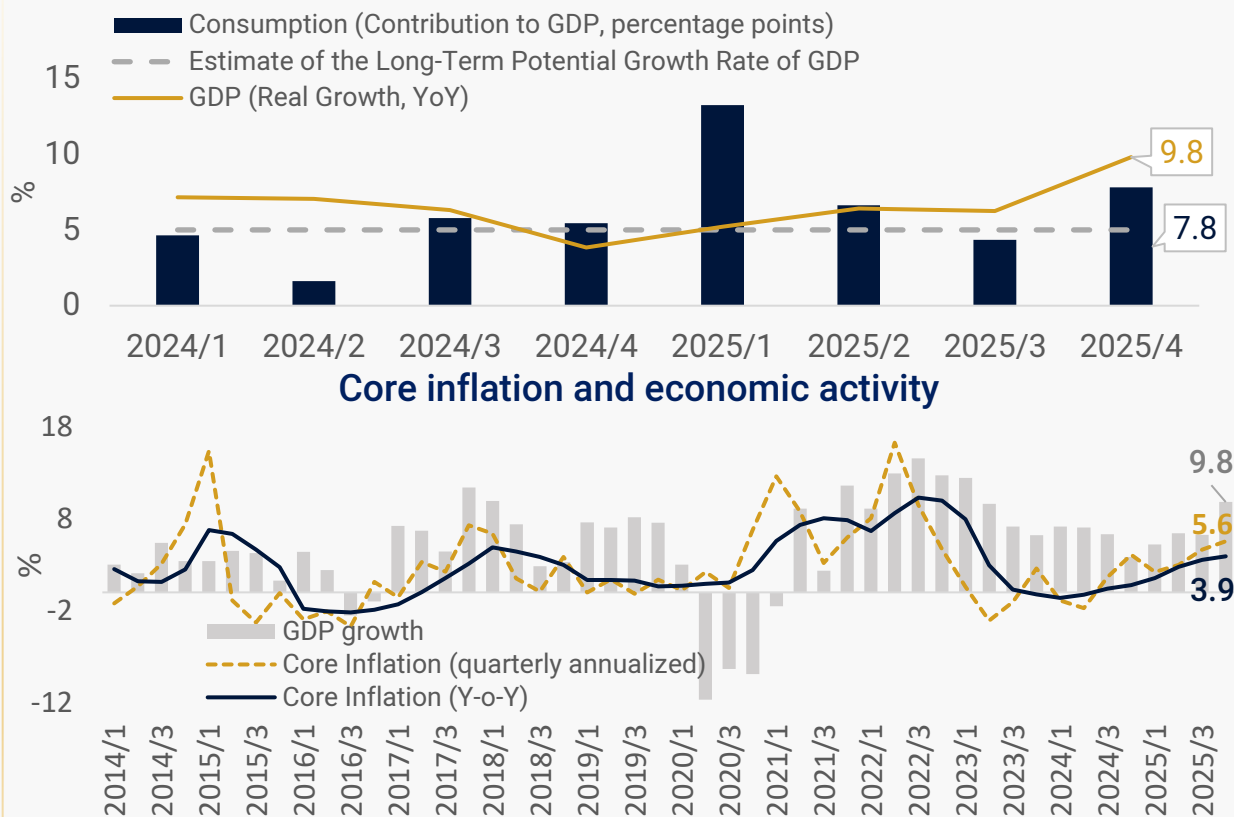
Case A-type scenario. A higher path for the policy rate relative to current market expectations

Economic growth that is above estimated long-term potential and concentrated in primarily demand-driven sectors could point to excess demand conditions in the Armenian economy.

Summary

- ❖ In 2025, economic growth was characterized by robust household consumption alongside expansion in demand-driven sectors, particularly services and construction.
- ❖ Elevated consumption levels have been supported by improvements in household purchasing power, notably reflected in strong wage growth across specific sectors of the economy. More recently, faster growth in non-commercial transfers, the drawdown of savings accumulated in previous years, and the easing of credit conditions may contribute to further expansion in consumption.
- ❖ At the same time, core inflation has accelerated notably in recent months, possibly reflecting the presence of excess demand in the economy.
- ❖ In this context, a potential underestimates by financial markets of the current position of the output gap may lead to a further expansion in demand conditions, thereby contributing to a rise in inflation expectations.

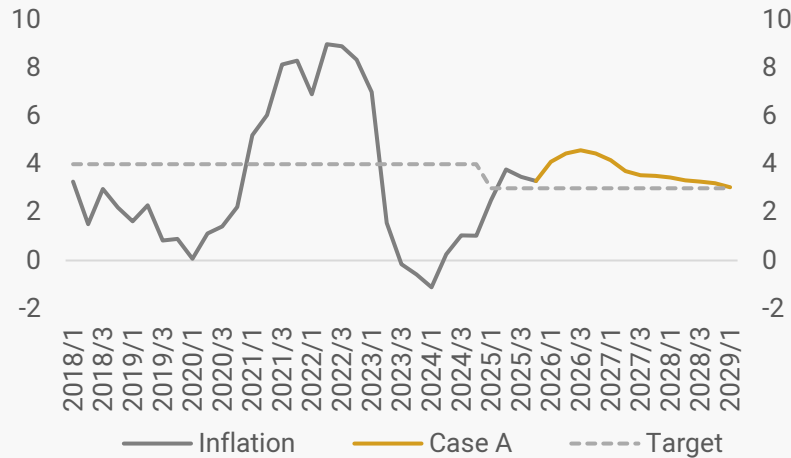
In Q4 2025, economic growth accelerated significantly, possibly reflecting strong demand conditions in the economy.



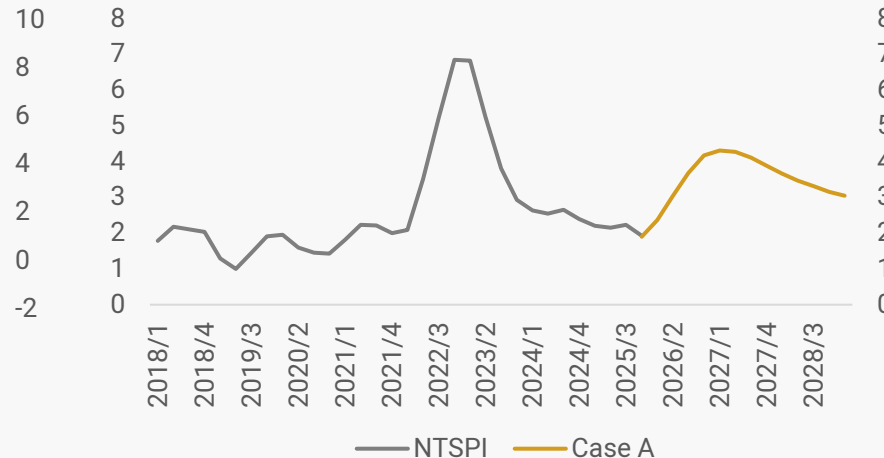
Source: CBA, CBA calculations

Case A-type scenario. A higher path of the policy rate compared to market expectations

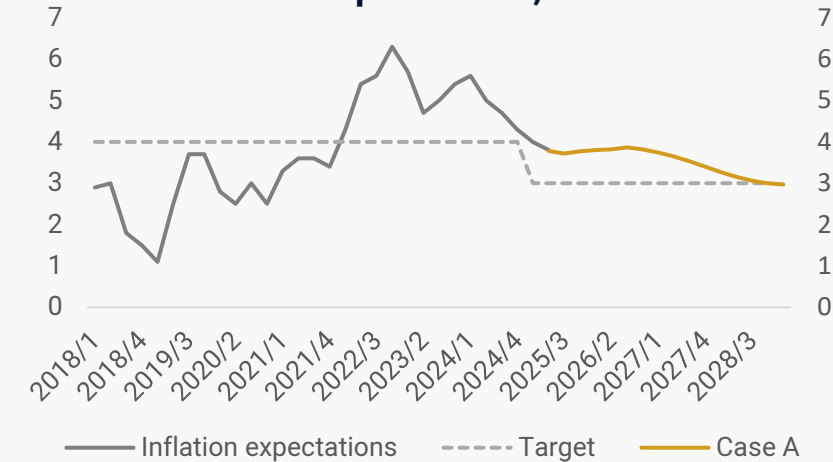
Inflation, Y-o-Y



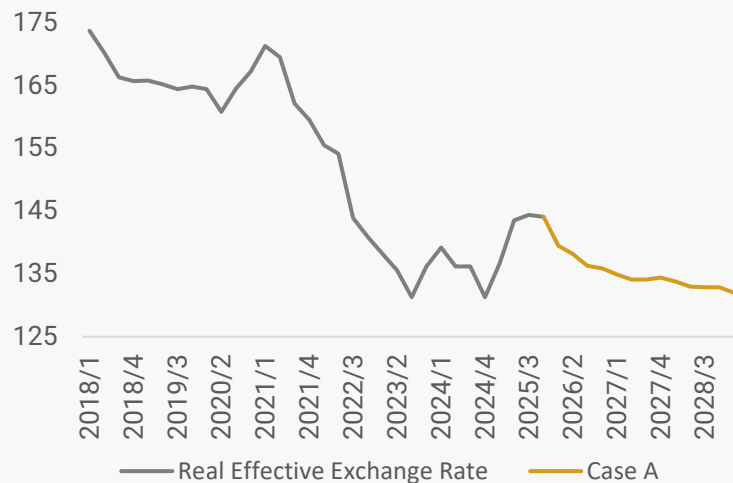
Non-tradable sticky prices, Y-o-Y



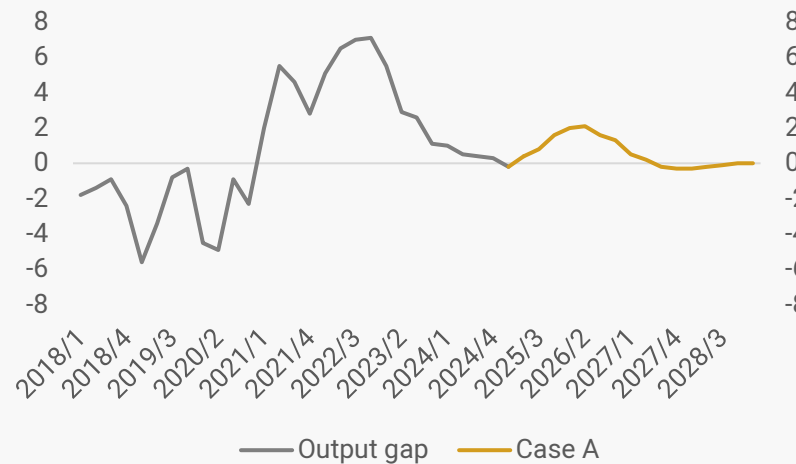
Inflation expectations, Y-o-Y



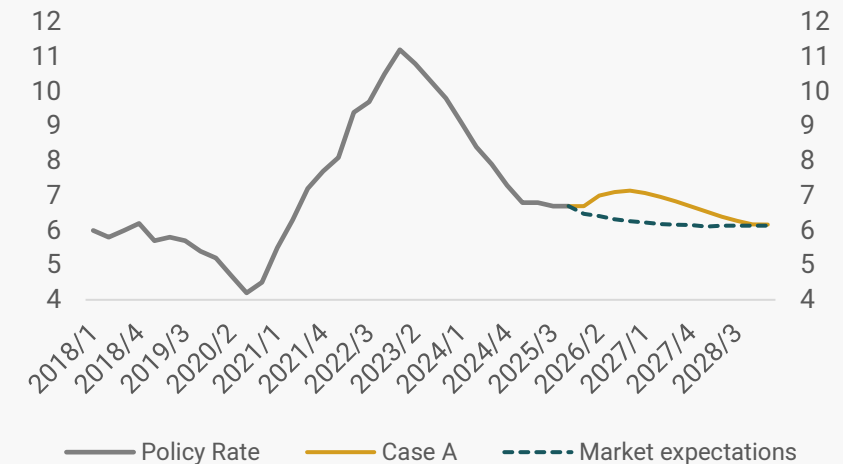
Real effective exchange rate



Output gap



Policy rate





Illustrative Case B scenario

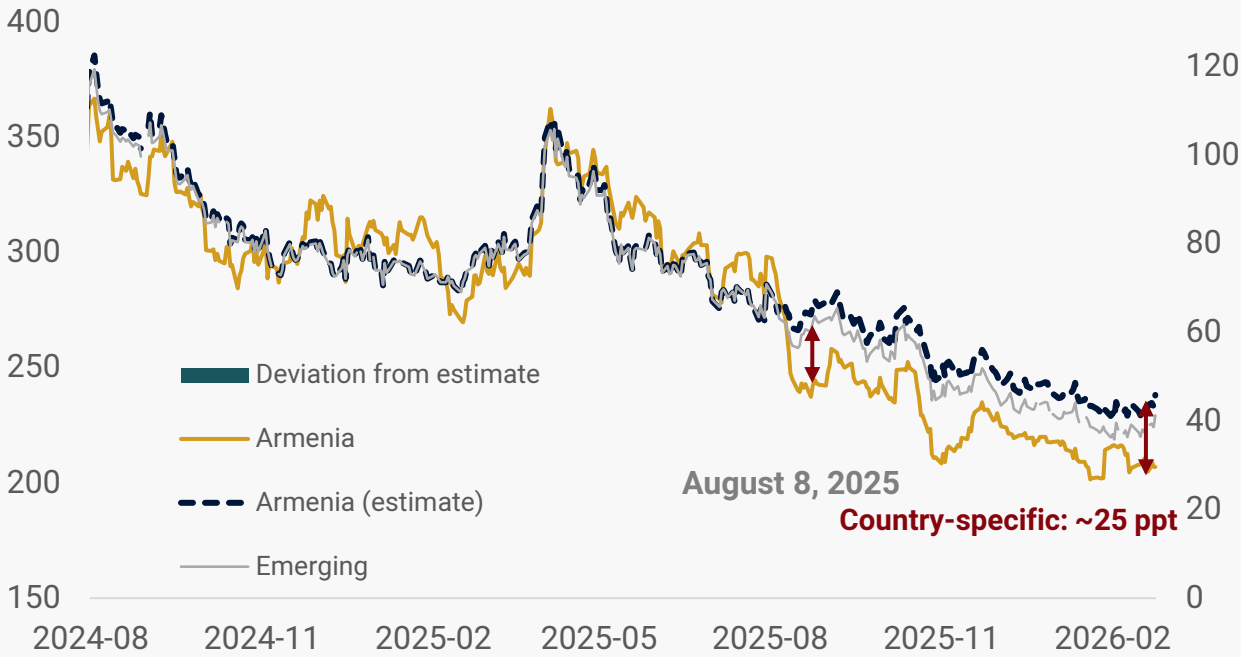
The easing of security risks surrounding Armenia and expectations of their further improvement have contributed to a sustained decline in the fundamental level of the country risk premium and the neutral rate.

Case B-type scenario. A lower path of the policy interest rate compared to market expectations.

The reduction in security risks surrounding Armenia, coupled with expectations of their continued improvement, has contributed to a sustained decline in both the country risk premium and the neutral interest rate.

Summary

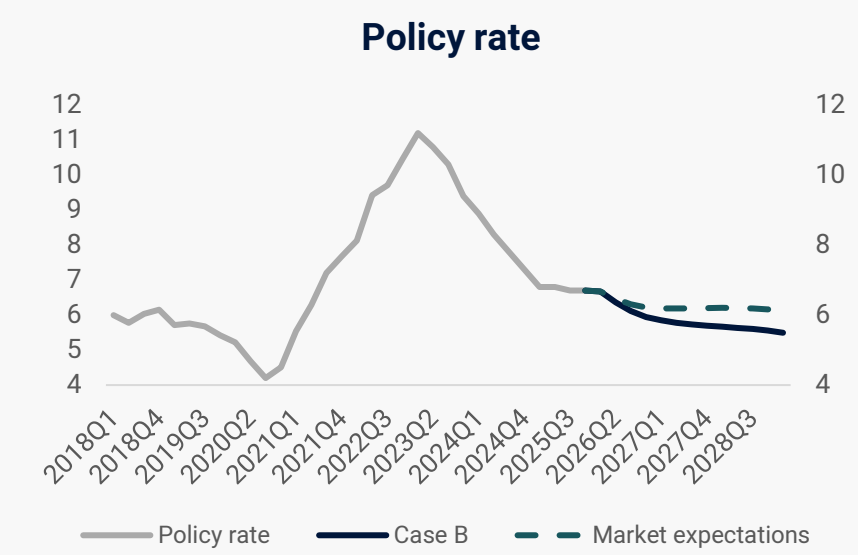
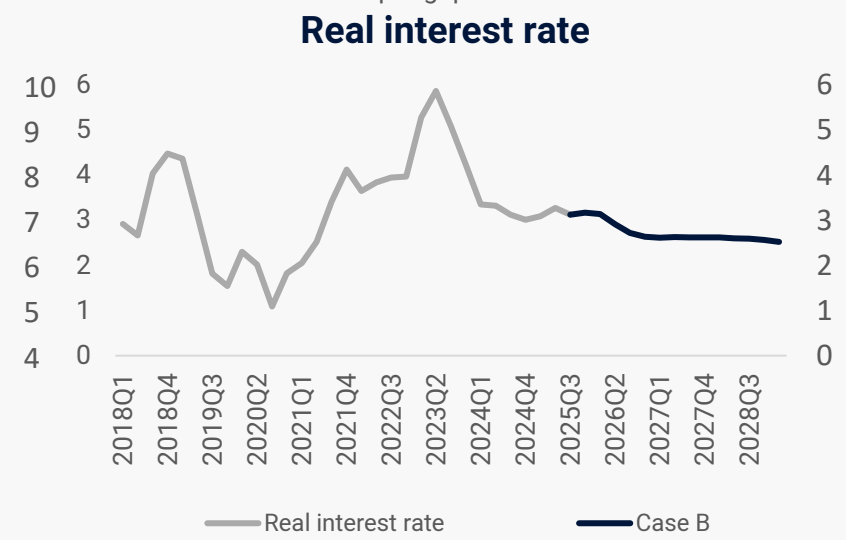
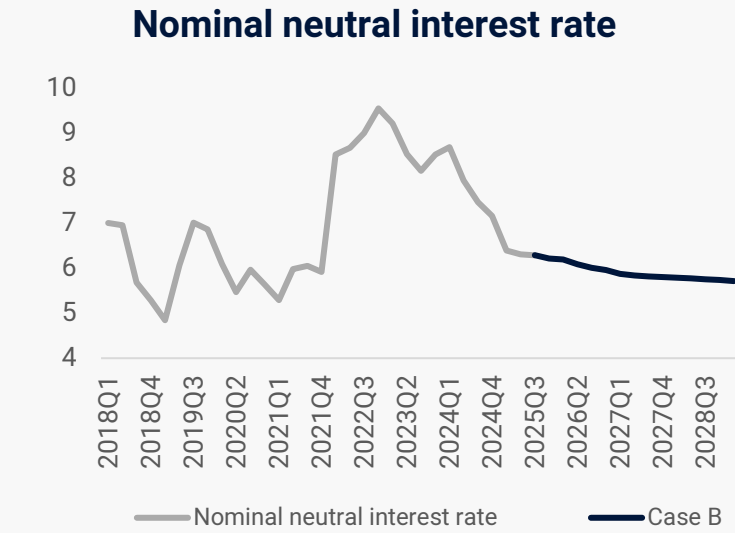
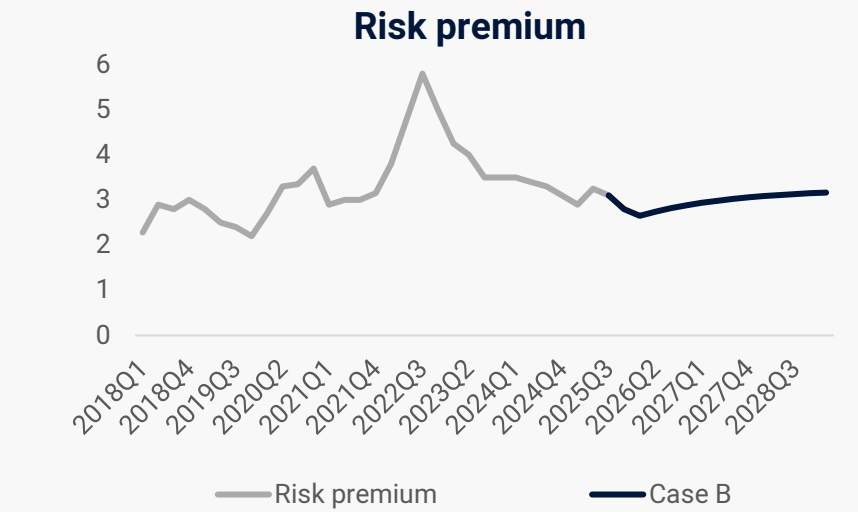
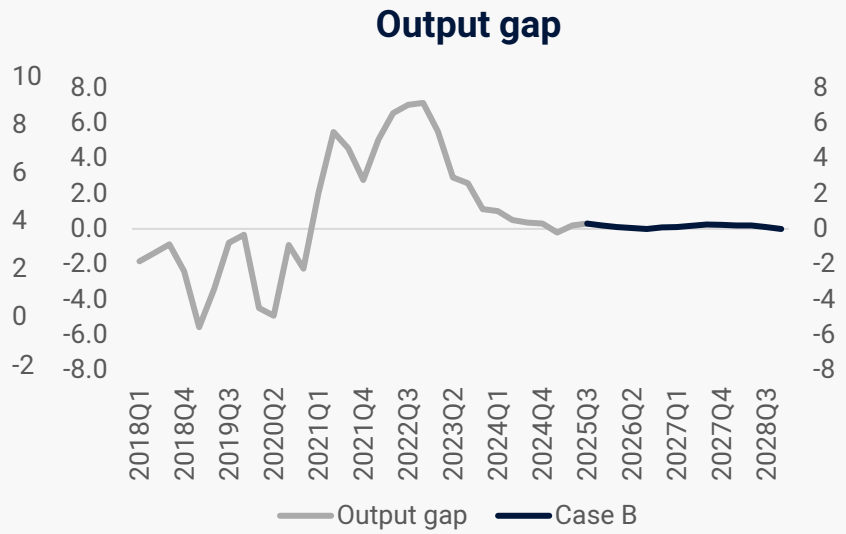
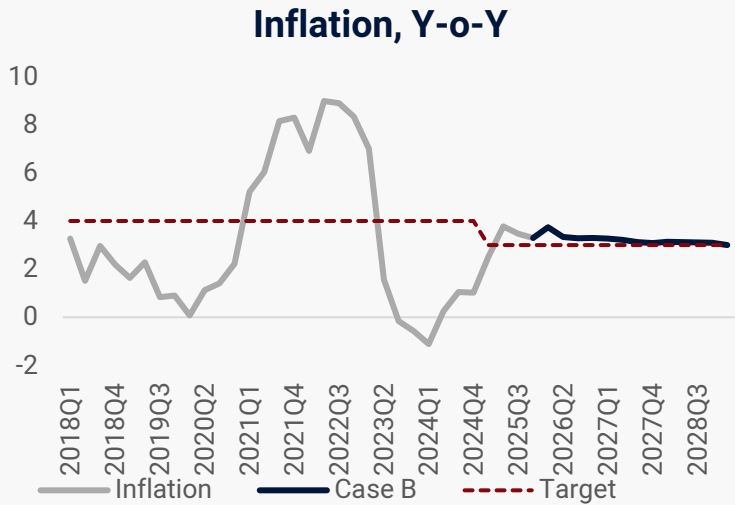
- Across several emerging economies, sustained improvements in macroeconomic fundamentals, under prudent economic policy management, have contributed to lower risk premia and stronger investor confidence.
- In addition to these developments, security risks surrounding Armenia have gradually eased, becoming more pronounced following the agreements reached on August 8, 2025.
- Credit rating agencies have also revised Armenia’s outlook from “stable” to “positive,” creating conditions for a potential upgrade of the sovereign rating in the future.
- These trends may indicate that tight monetary conditions are currently in place.



Rating (Moody's)	Sovereign Spread	Risk Premium
Ba3	3.06%	4.66%
Ba2	2.56%	3.90%
Difference	0.5%	0.76%

Source: Damodaran, Bloomberg

Case B-type scenario. A lower path of the policy rate compared to market expectations

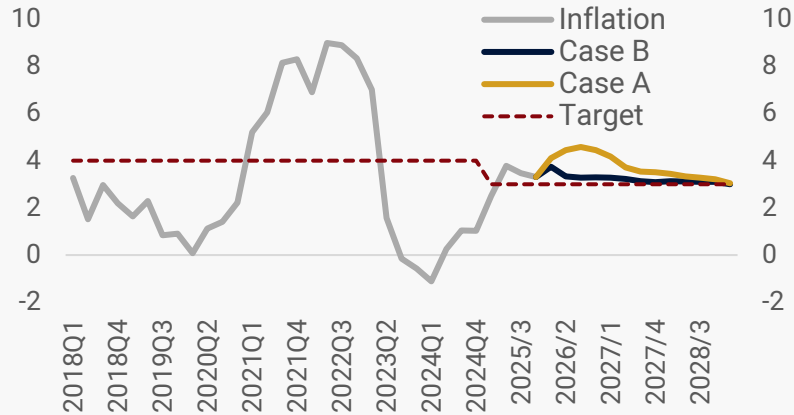




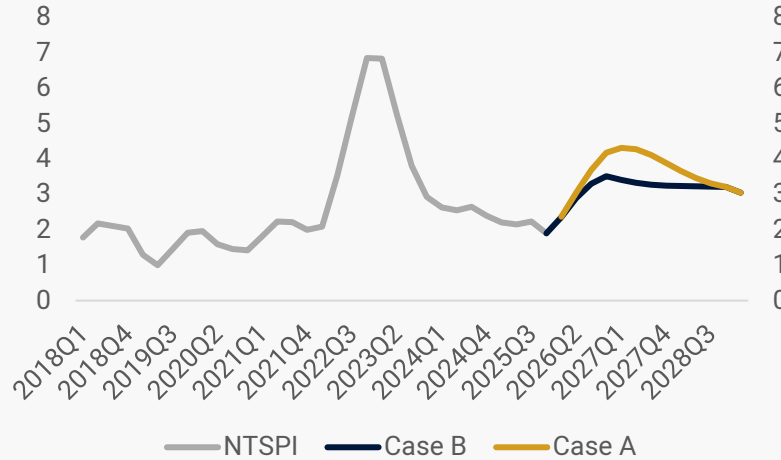
Policy deliberations

Type A and B scenarios

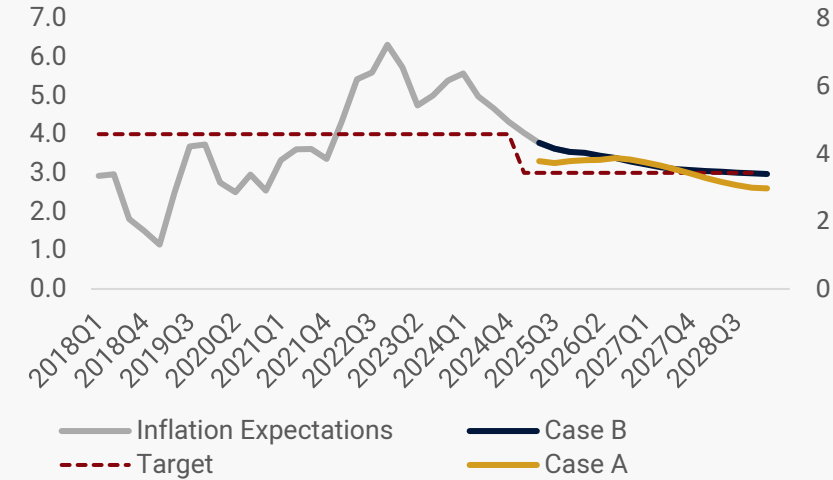
Inflation, Y-o-Y



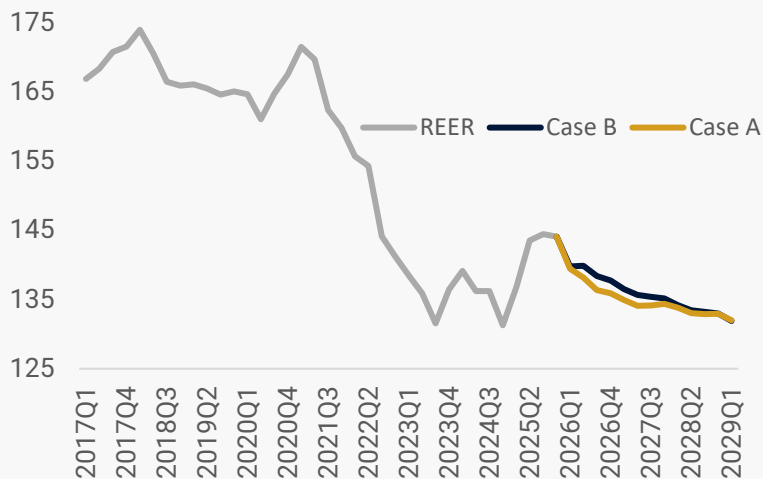
Non-tradable sticky prices, Y-o-Y



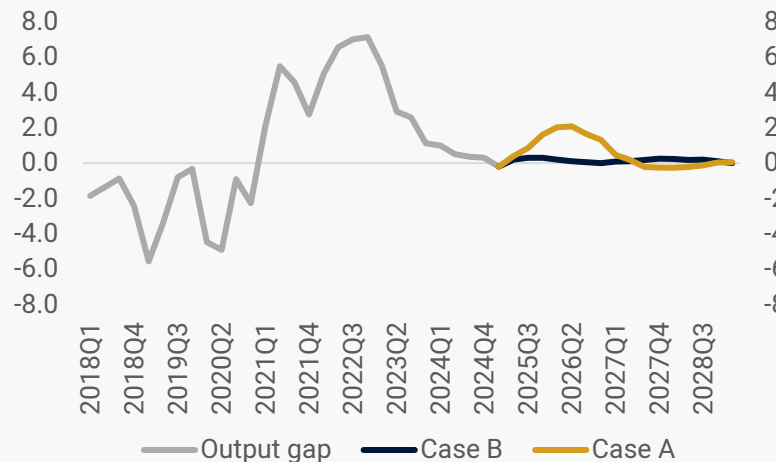
Inflation expectation, Y-o-Y



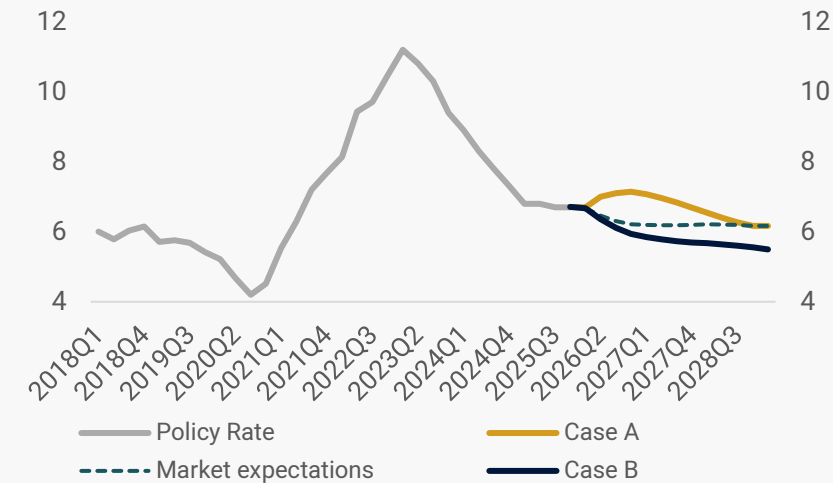
Real effective exchange rate



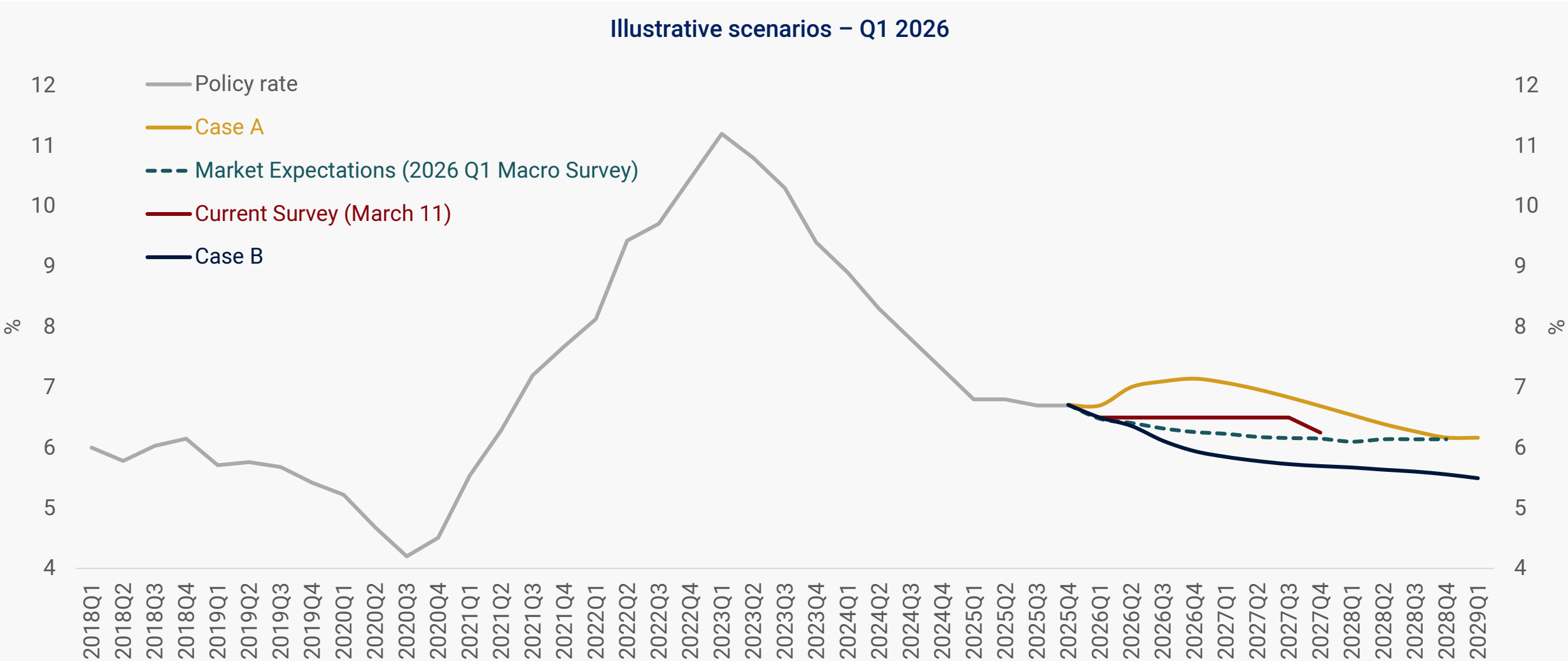
Output gap



Policy rate



Policy deliberation



Source: CBA



Thank you