

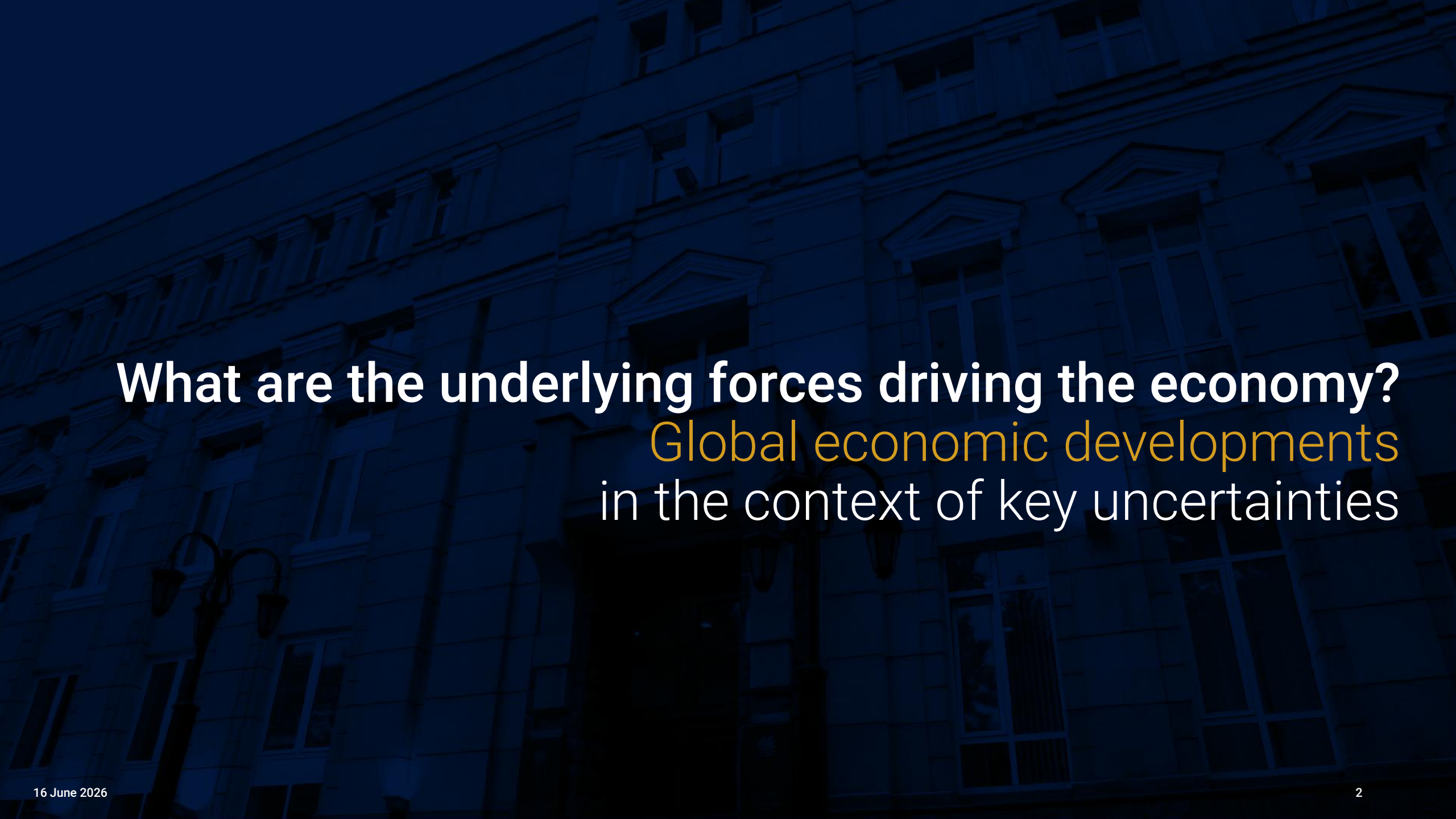


Central Bank
of Armenia

Monetary Policy **Outlook**

Q2 Policymaking Round

June 16, 2026

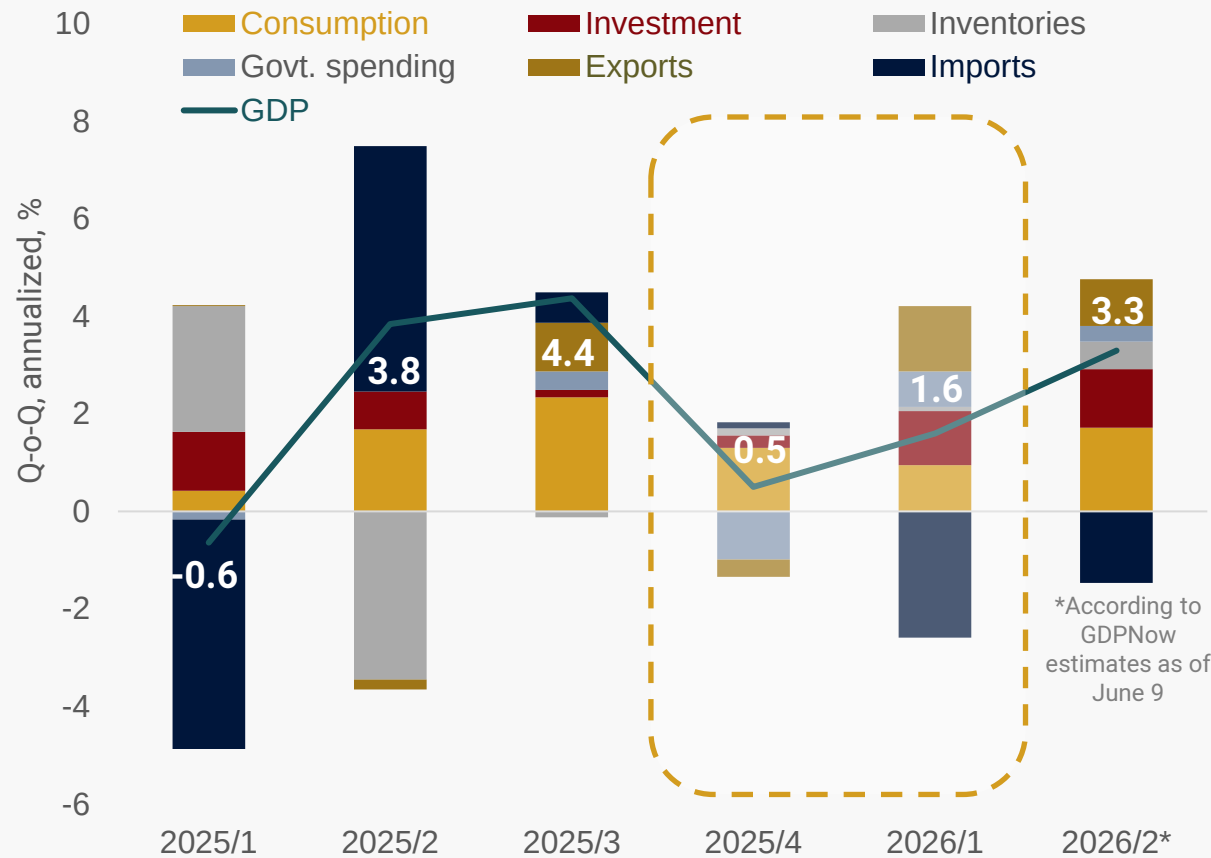


What are the underlying forces driving the economy?

Global economic developments
in the context of key uncertainties

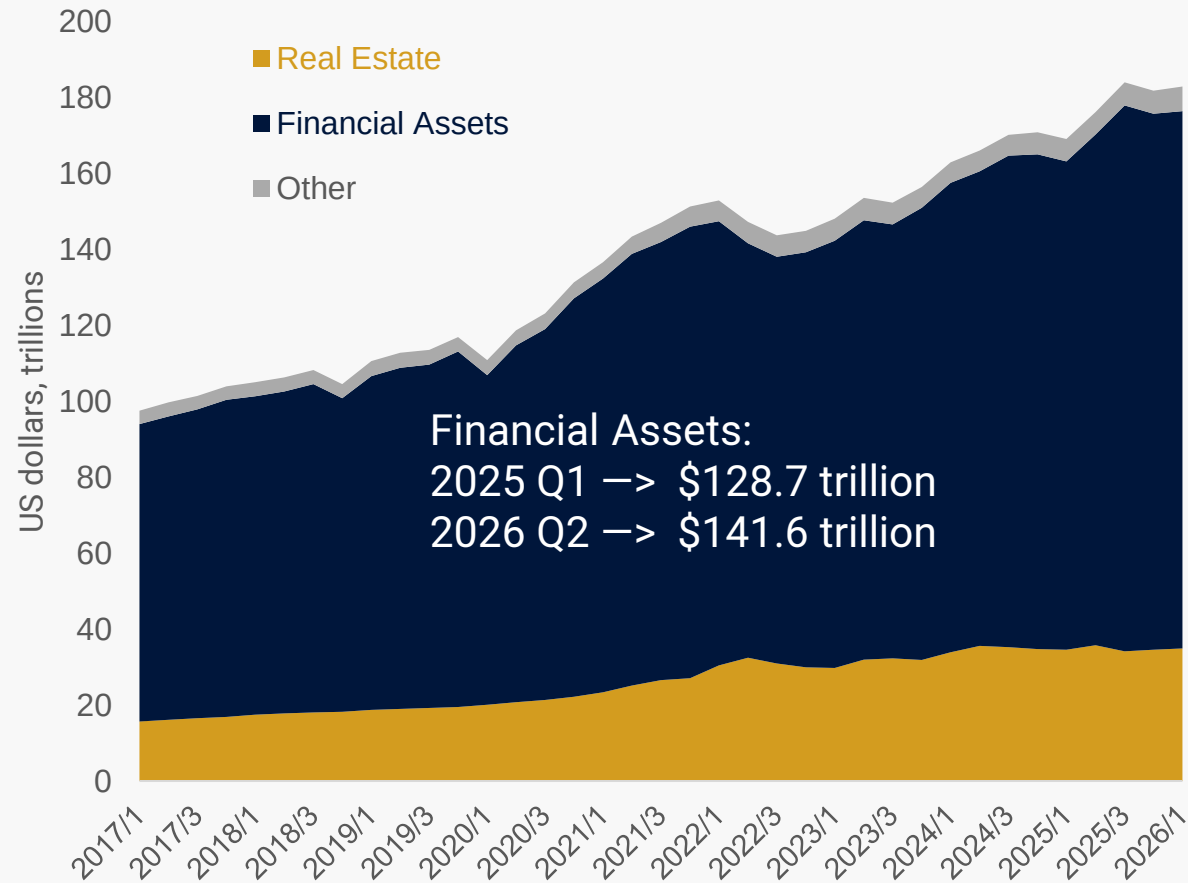
US. Amid policy shifts, elevated uncertainty, and the effects of certain one-off factors, economic growth in the United States has moderated, exhibiting significant volatility

The growth rate of private consumption continues to decelerate and is now below overall economic growth



Source: U.S. Bureau of Economic Analysis, Federal Reserve Bank of Atlanta

Despite some recent corrections, elevated financial asset prices continue to support household consumption

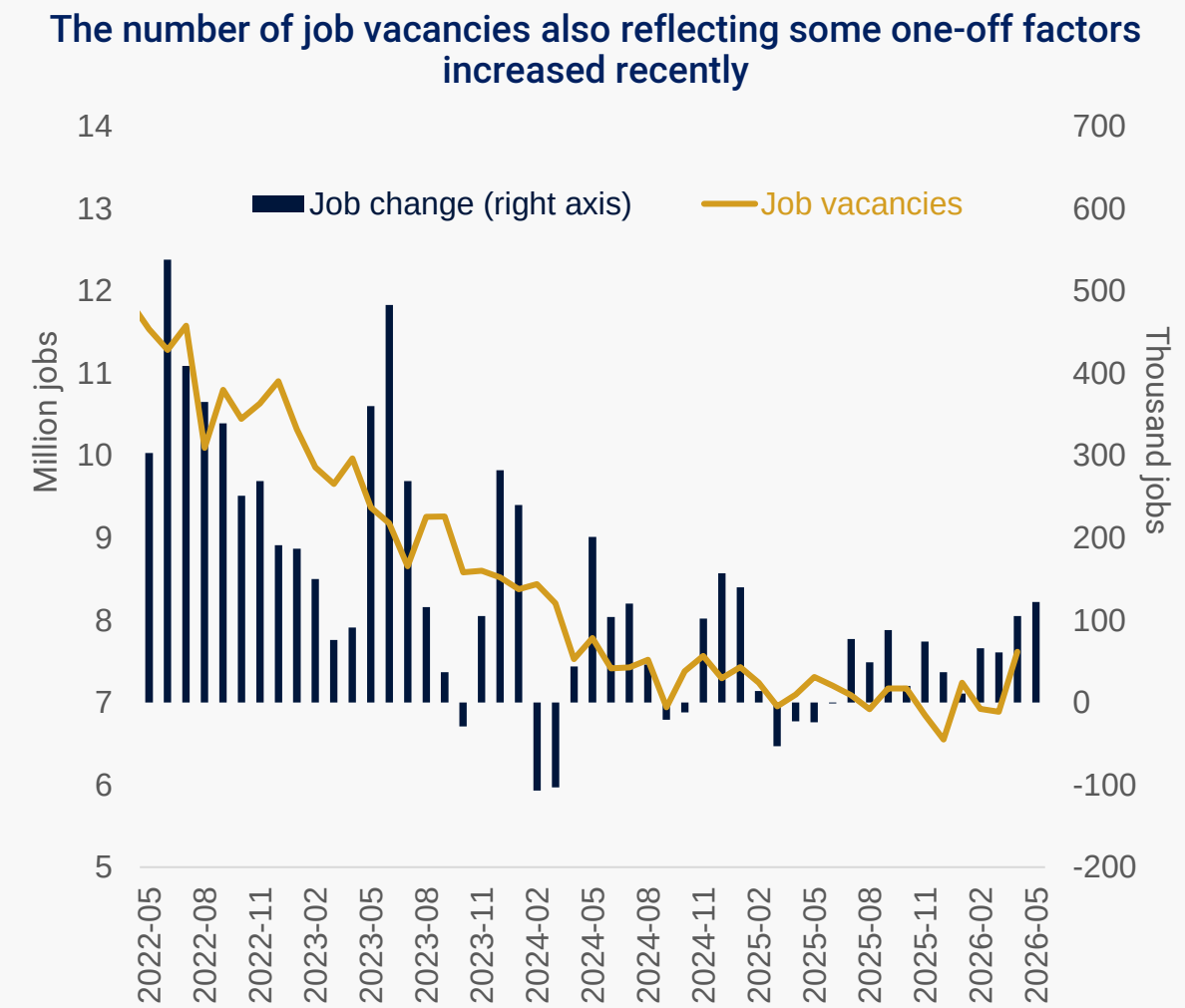


Source: US FED, Household Balance Sheet

US. Labor market conditions continue to gradually soften, signaling a transition toward a more balanced conditions



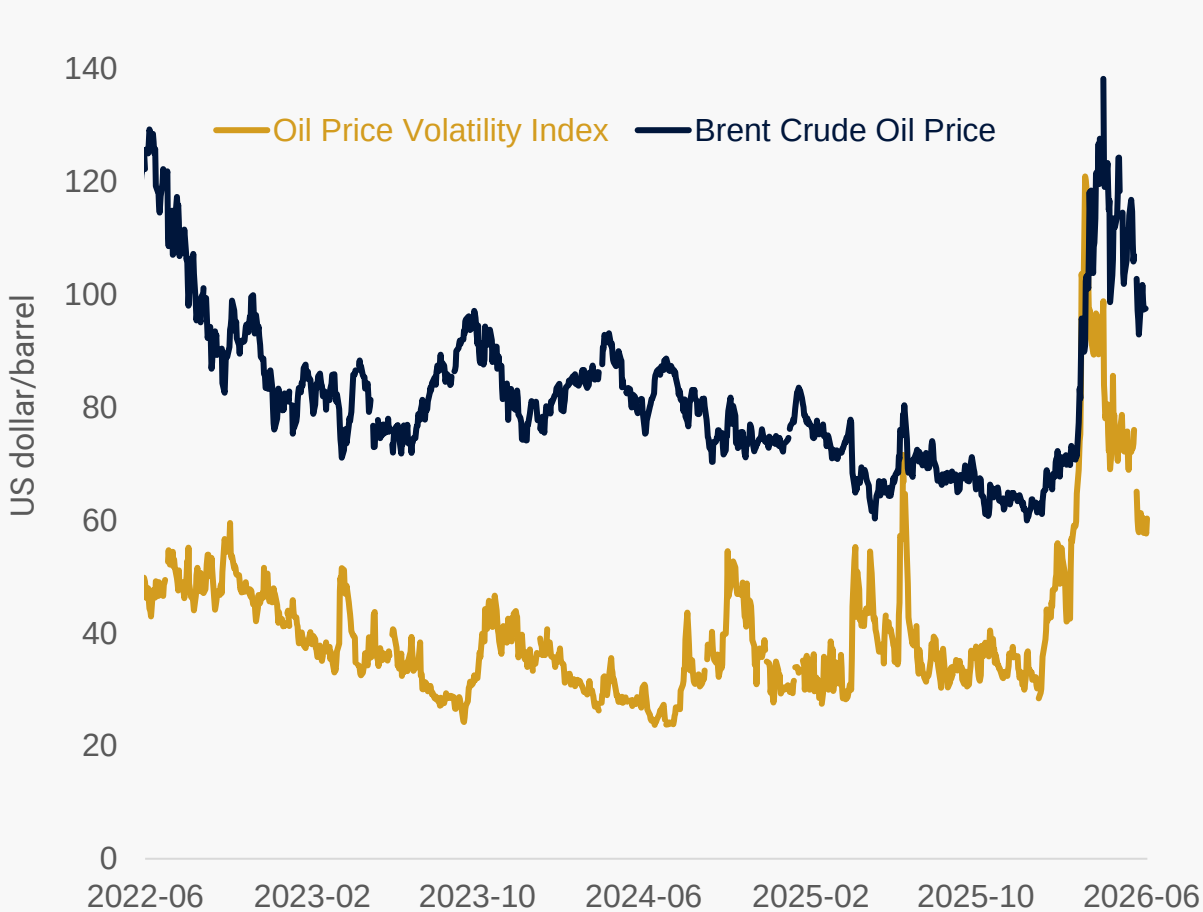
Source: U.S. Bureau of Labor Statistics; Federal Reserve Bank of Atlanta



Source: Federal Reserve Economic Data (FRED), BLS

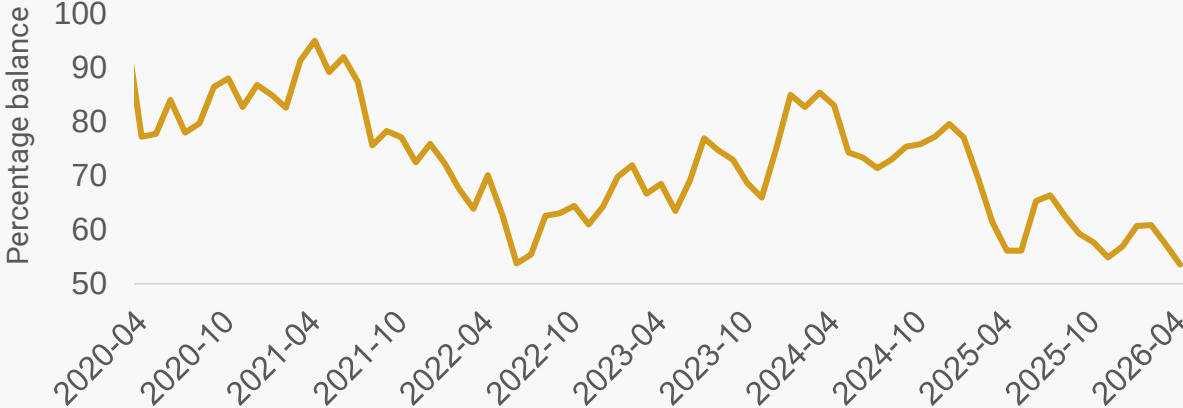
US. On the other hand, the prolonged tensions in the Middle East have weighed on economic agents' confidence, increasing the risks of a further weakening in demand

While oil prices and related uncertainty have declined somewhat, they remain elevated

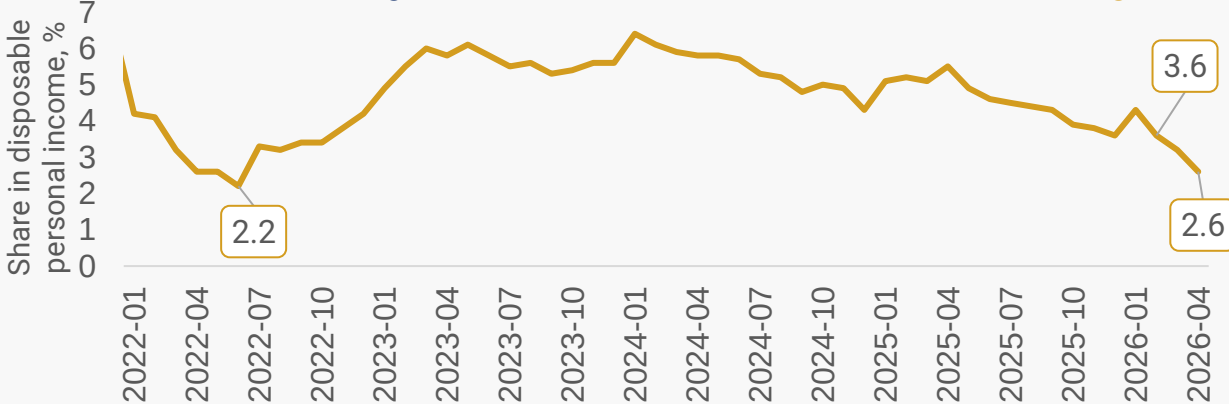


Source: Federal Reserve Economic Data (FRED)

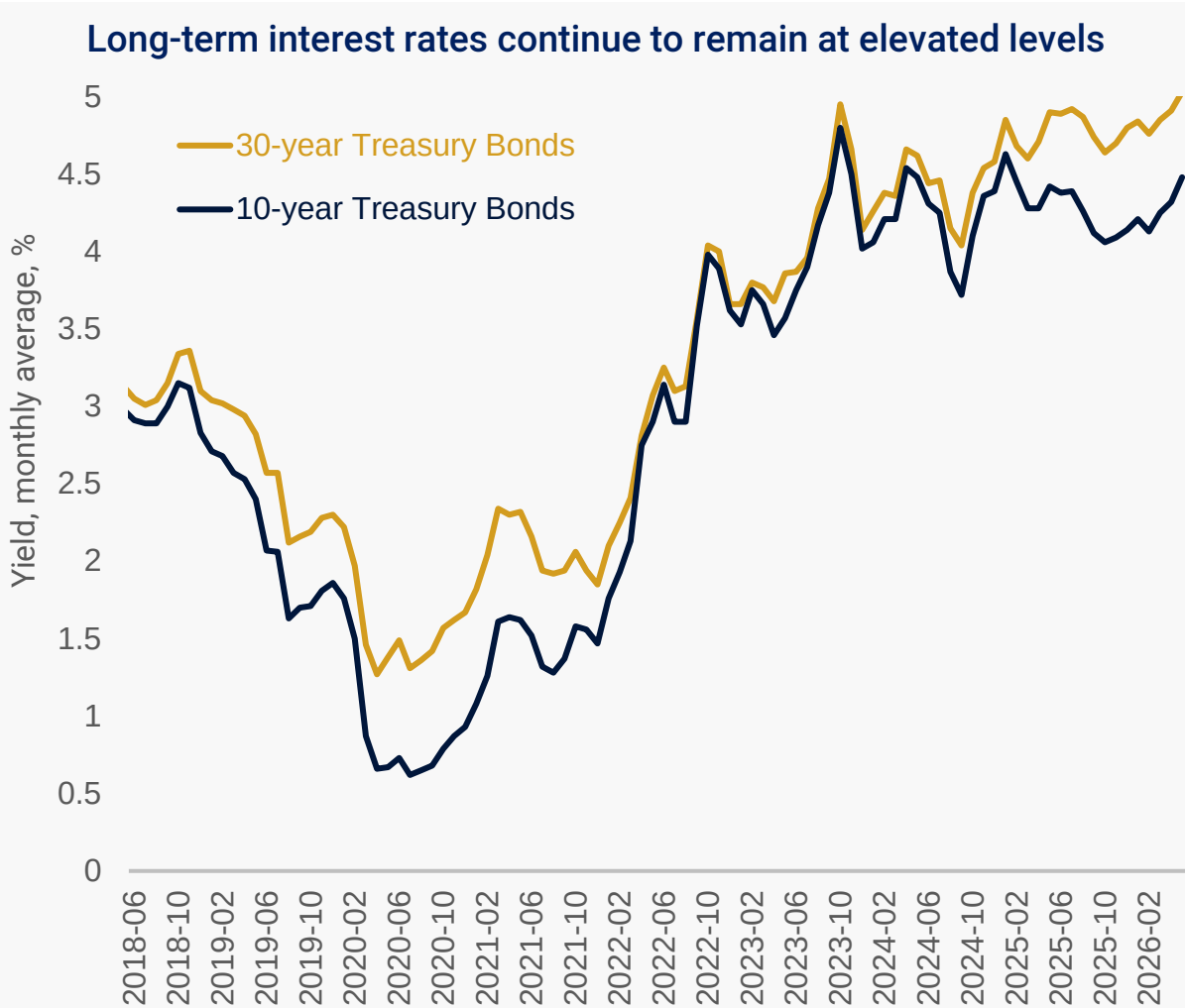
Consumer confidence in the United States remains at historically low levels, signaling a further weakening in economic activity



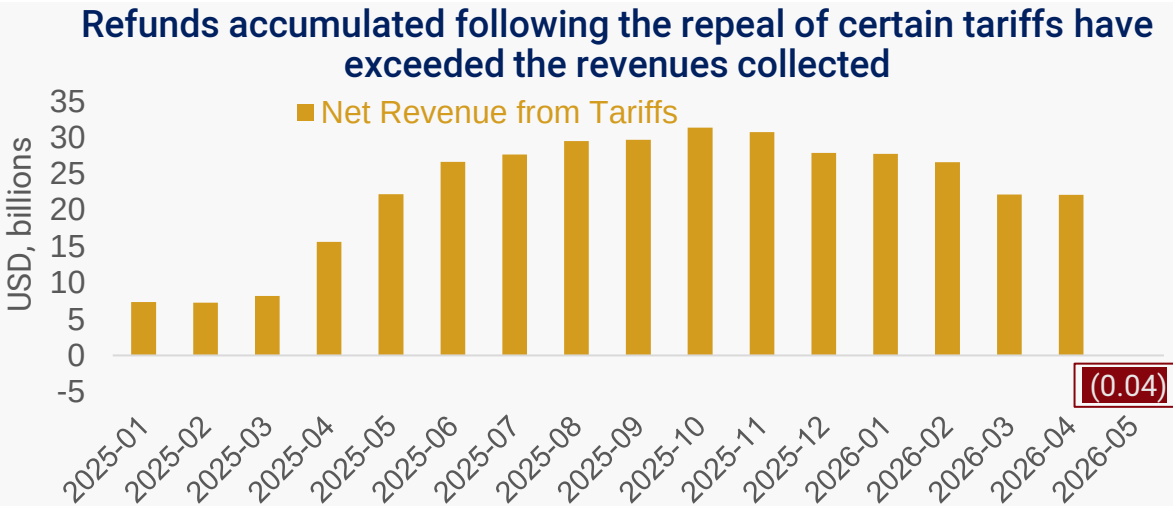
The increase in energy and food prices has likely continued to be absorbed through the use of accumulated household savings



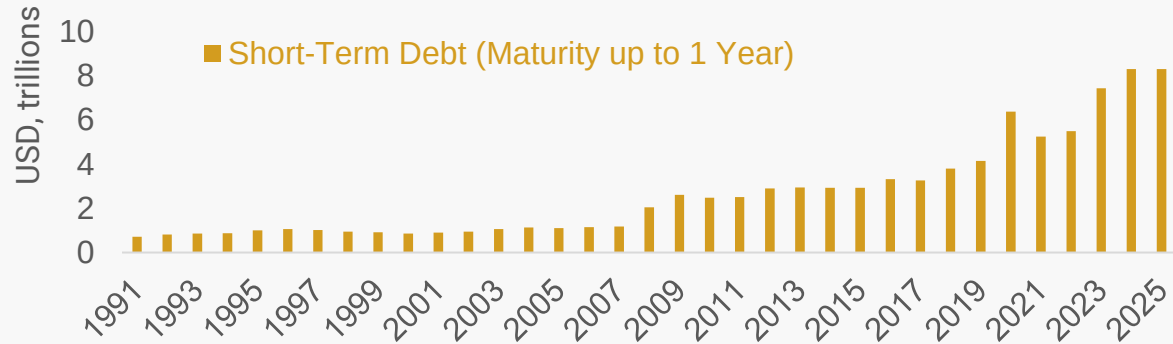
US. Concerns over the sustainability of U.S. fiscal policy continue to rise, with implications for higher long-term interest rates



Source: U.S. Treasury Monthly Statements



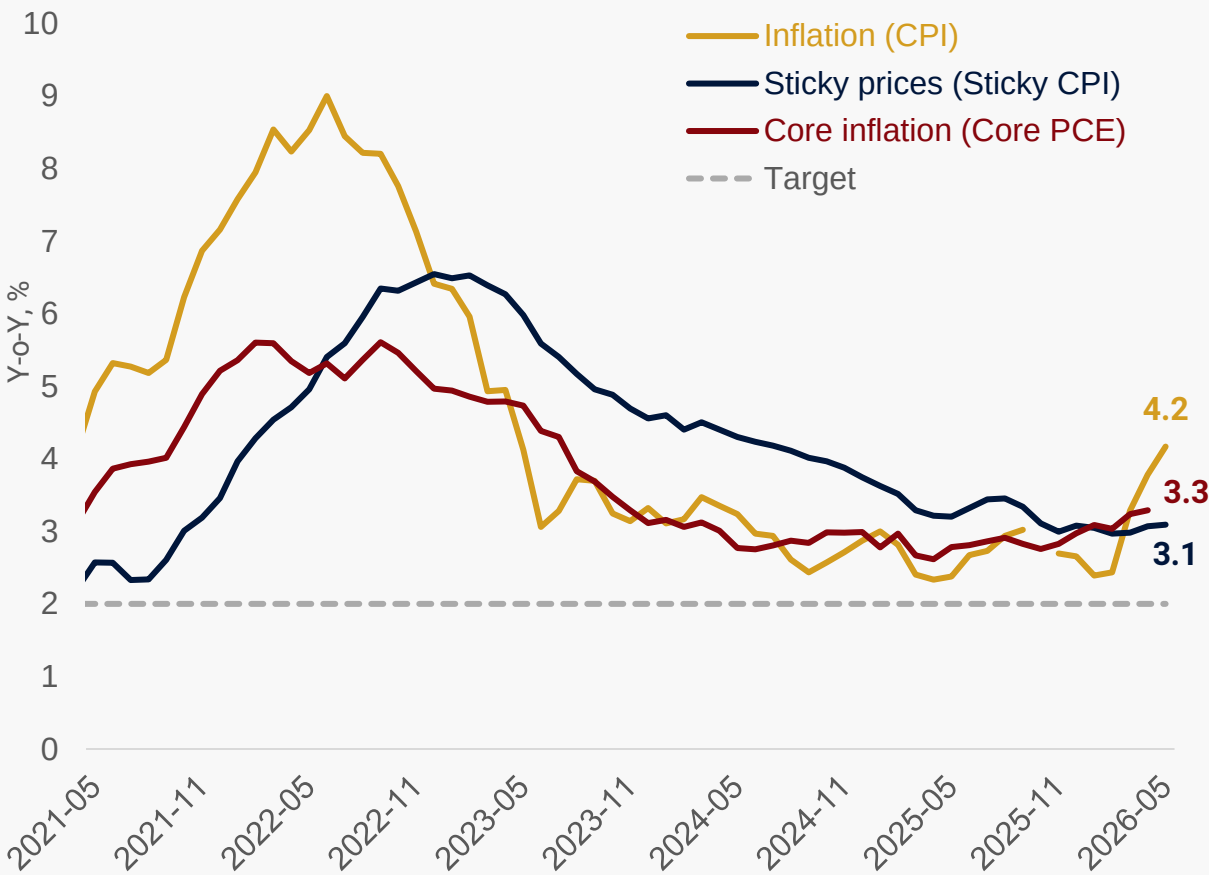
The growing stock of short-term debt could accelerate the increase in public debt servicing costs if interest rates remain elevated for a prolonged period



Source: U.S. Treasury Monthly Statements, FRED

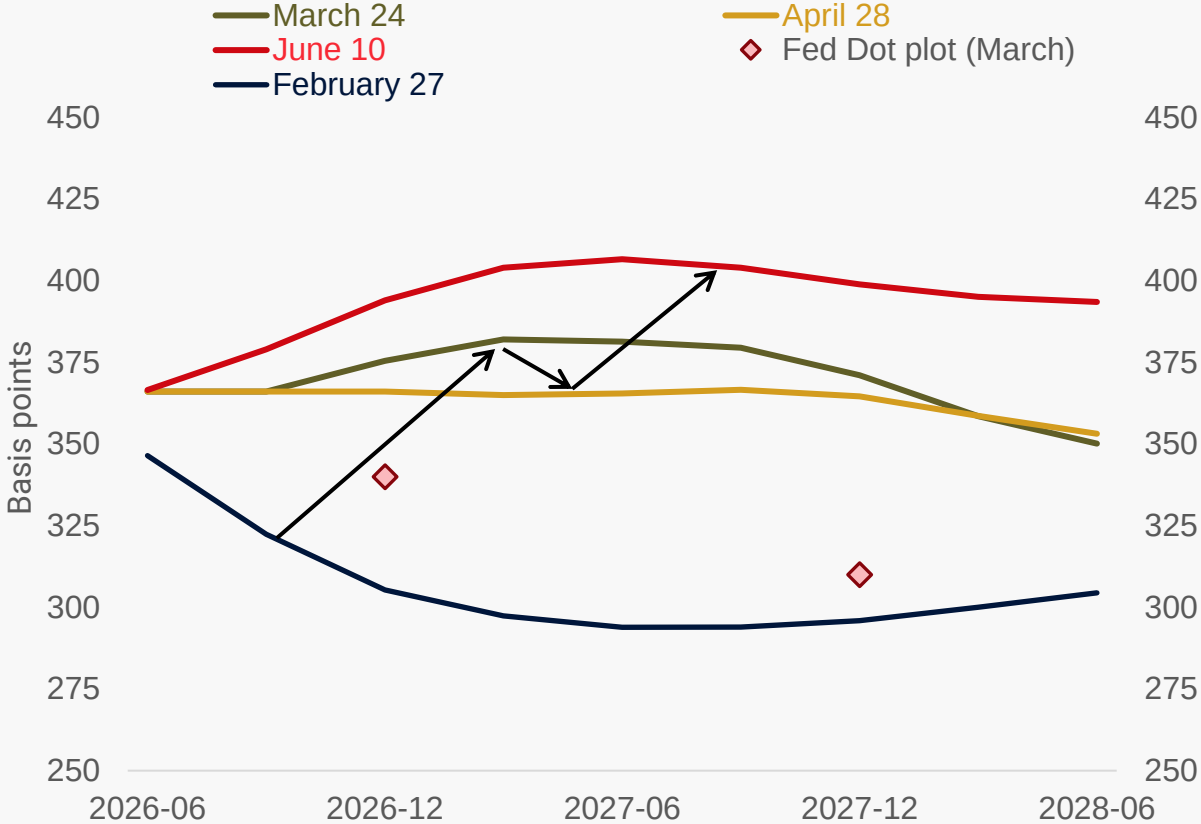
US. In this context, the Federal Reserve faces greater challenges in fulfilling its dual mandate of price stability and maximum employment

The conflict in the Middle East continues to pose risks of broader inflationary pressures



Source: U.S. Bureau of Labor Statistics; Federal Reserve Bank of Atlanta

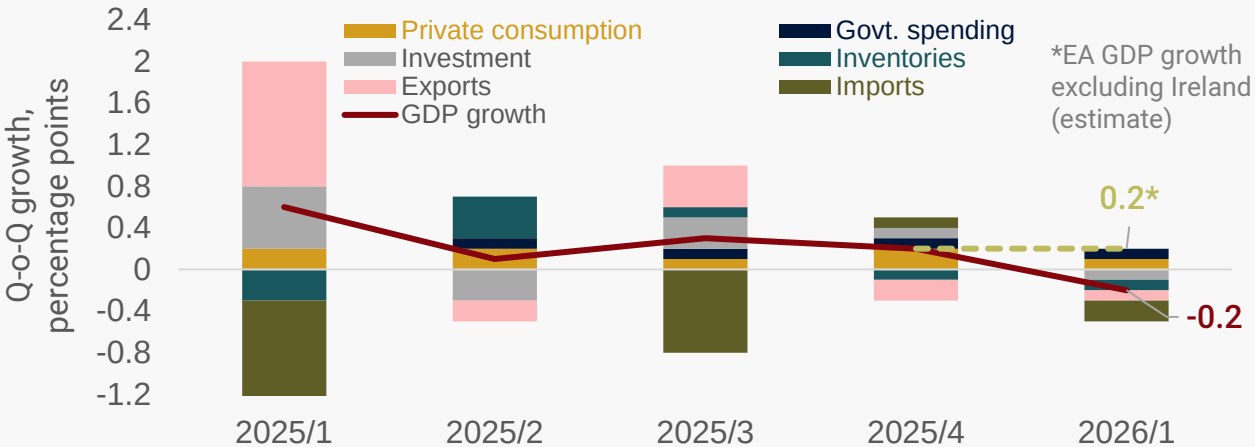
Under these conditions, market participants expect a significant increase in policy rates



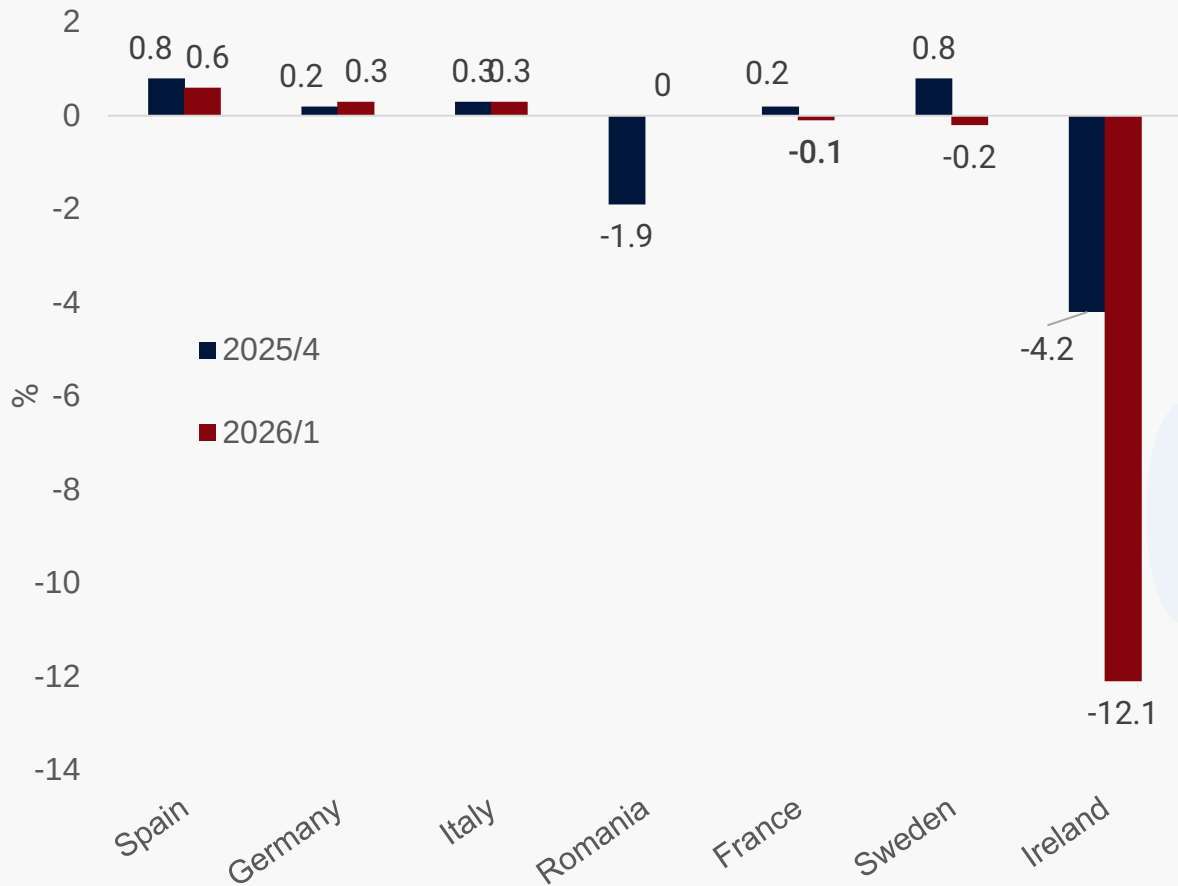
Source: Federal Reserve Bank of Atlanta, FED Dot Plot

Euro area. On the one hand, structural challenges and growth polarization, and on the other, significant vulnerability to energy supply disruptions and price fluctuations, have substantially increased the risks of further weakening in the euro area's economic growth

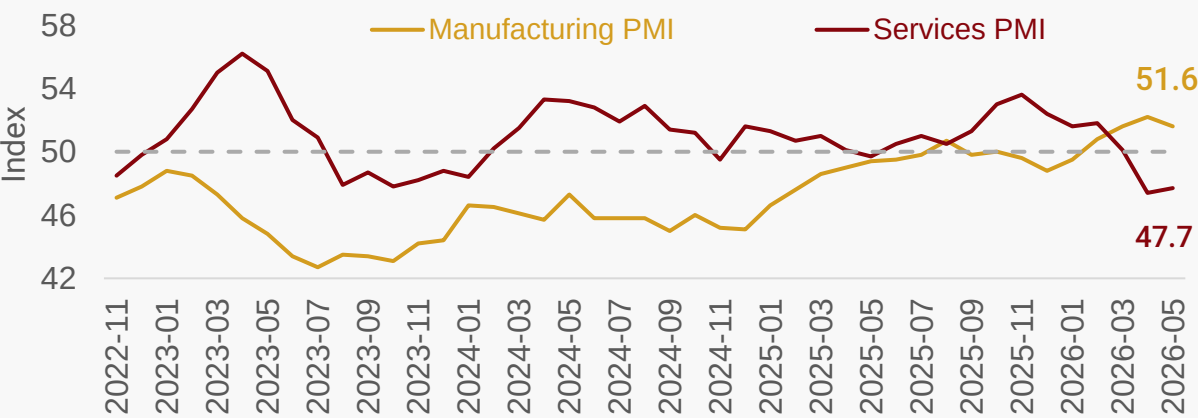
Economic growth in the Euro Area stabilizes at low levels



The slowdown in growth is gradually becoming more broad-based



The services PMI reflects a deterioration in sentiment

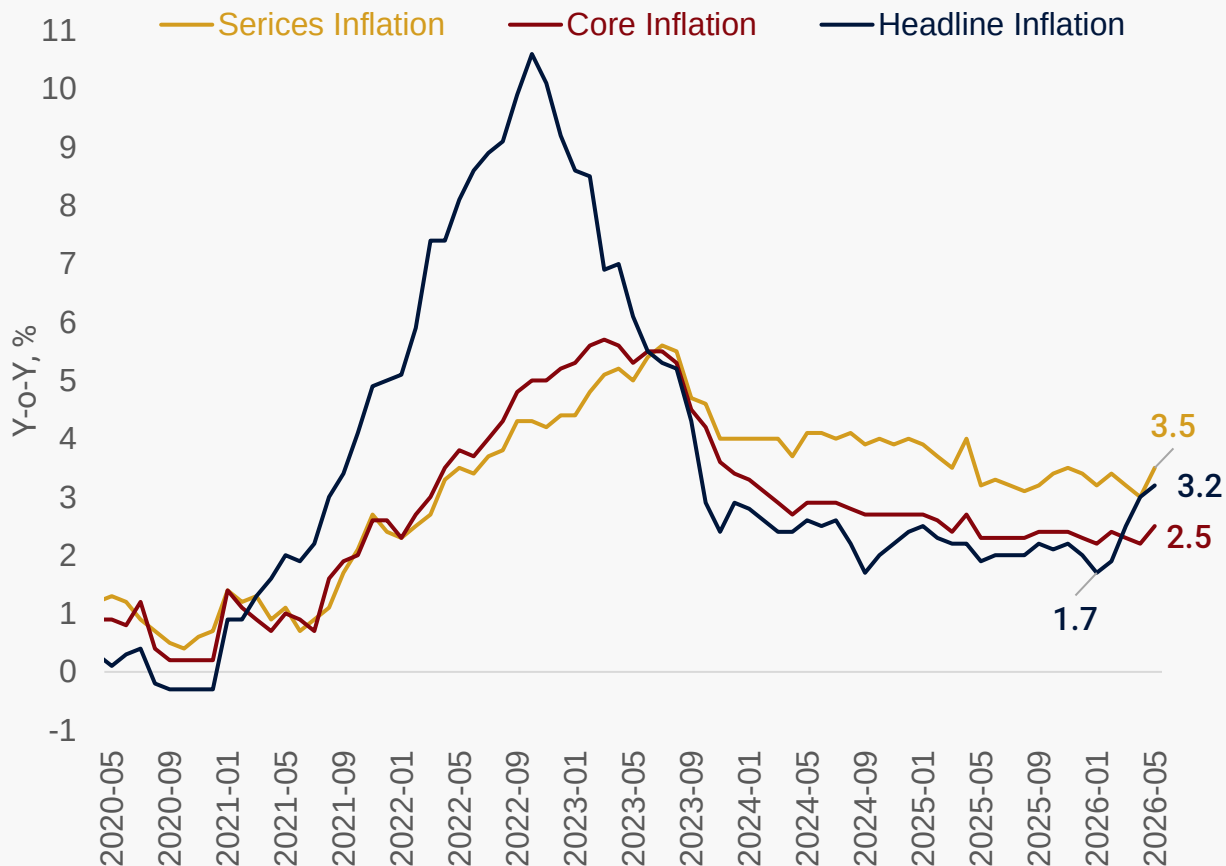


Source(s): Eurostat, S&P Global, CBA calculations

Source: Eurostat

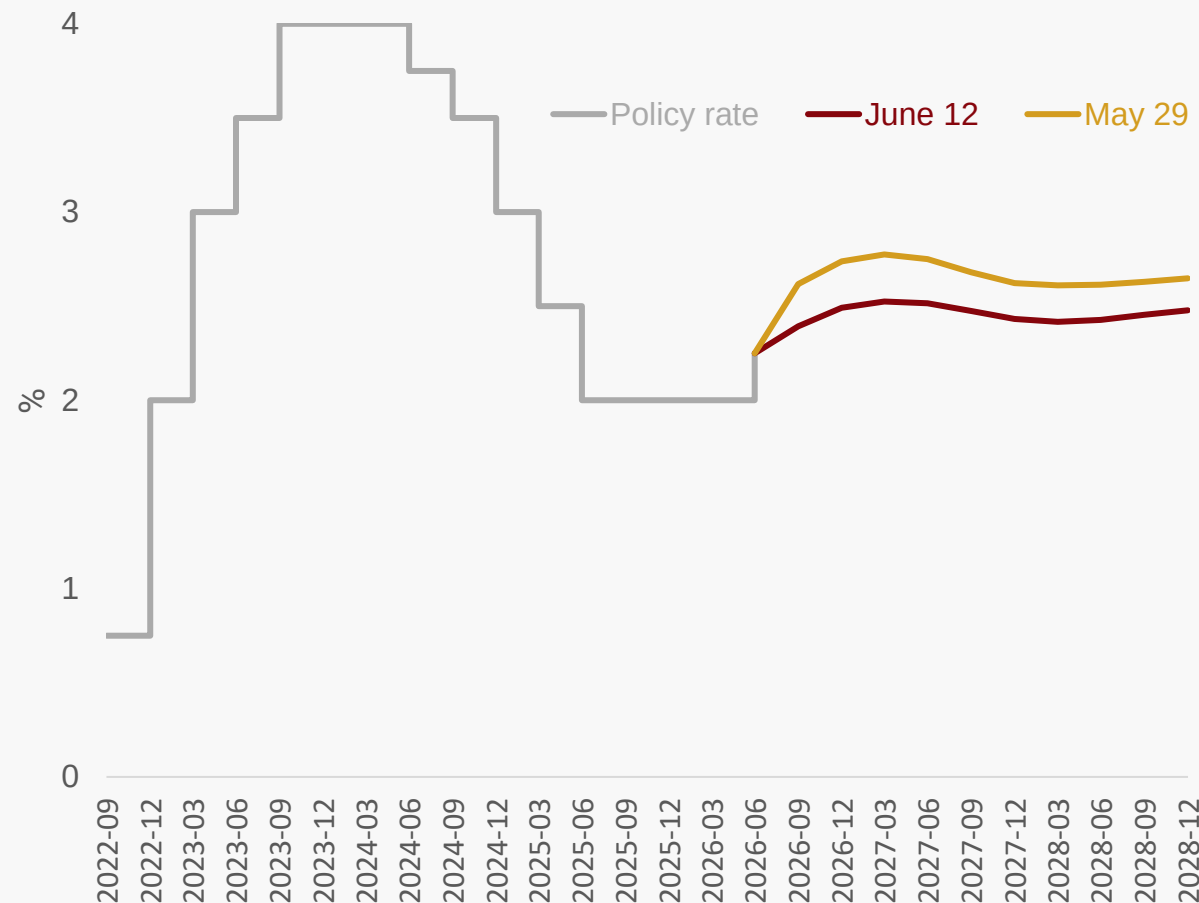
Euro area. At the same time, the inflationary environment has been expanding rapidly. Against this backdrop, financial markets anticipate further increases in policy rates

Higher energy prices continue to contribute to the acceleration of both headline and core inflation



Source: Eurostat

Financial markets expect two policy rate hikes over the course of the current year

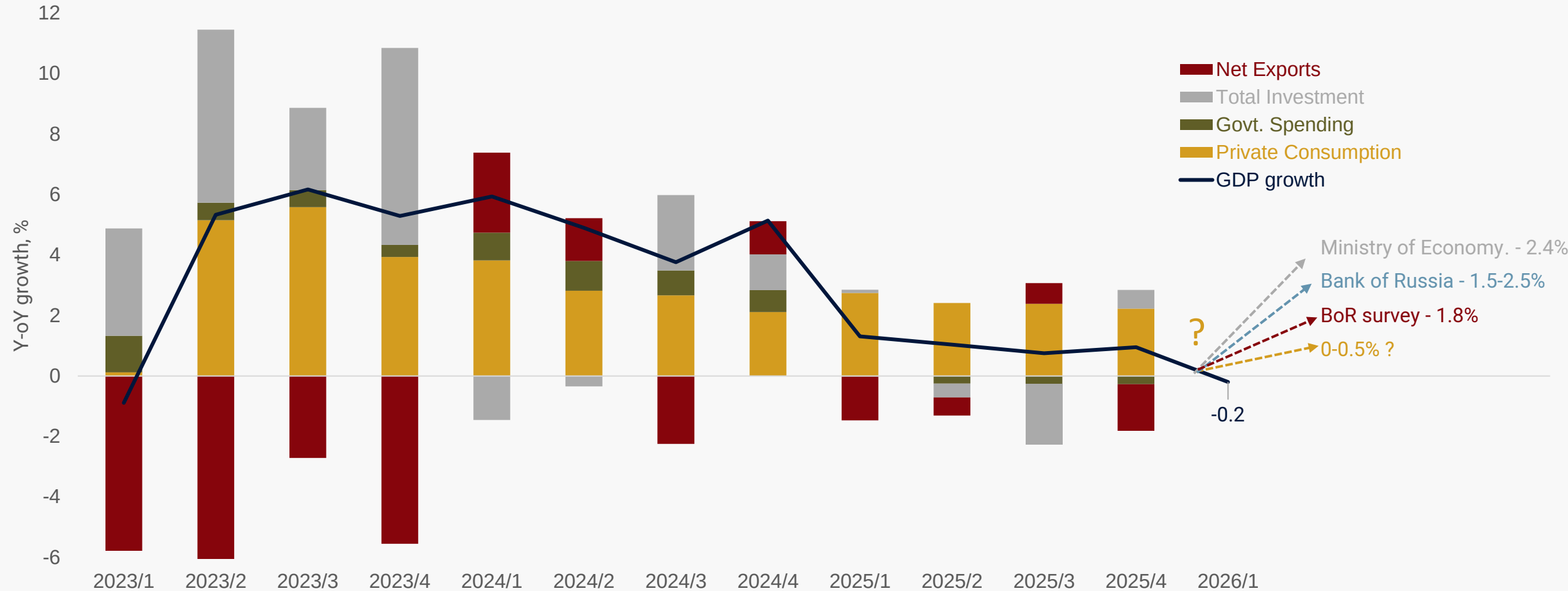


Source: Financial Times

Russia. Significant uncertainty regarding the Russian economy's long-term sustainable growth path persists:

Does the current slowdown in economic growth reflect cyclical factors?

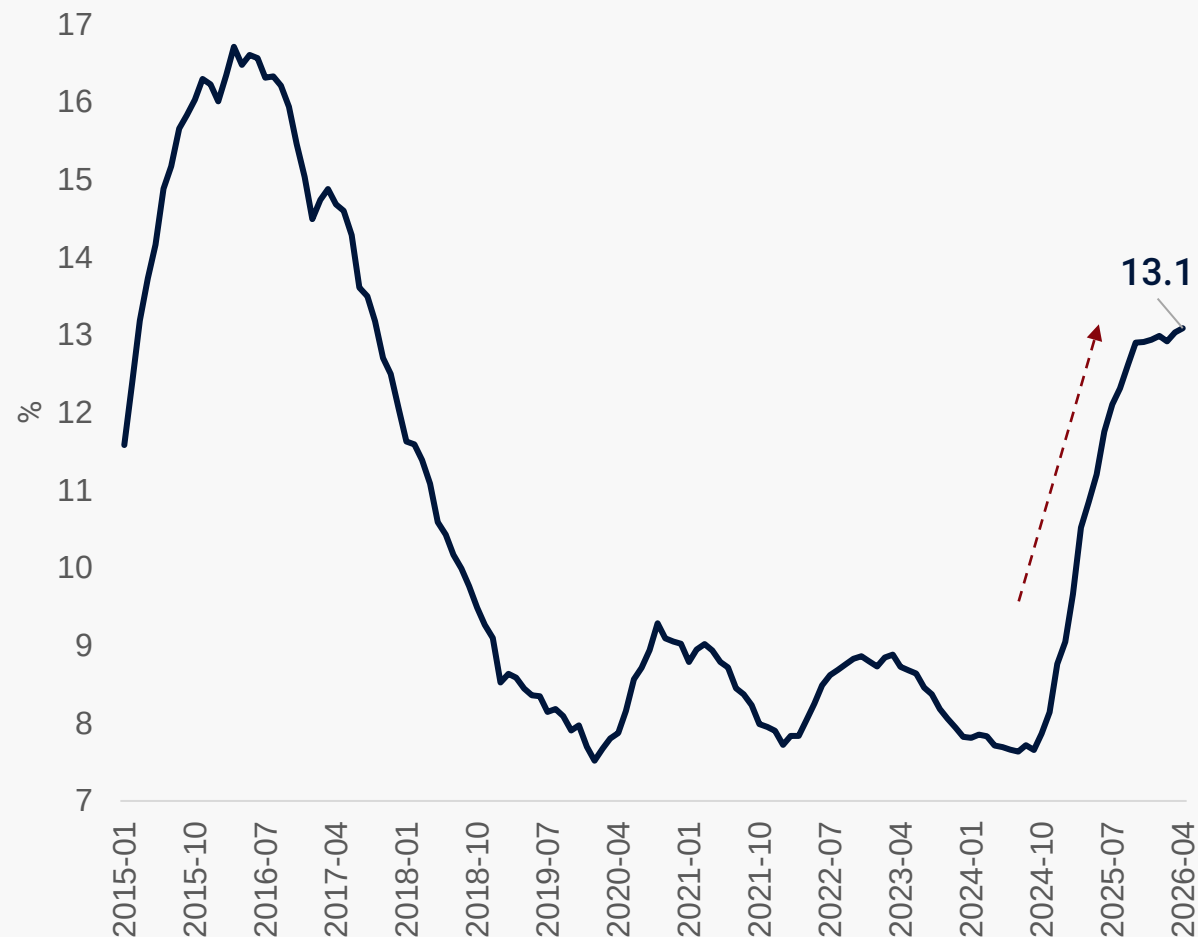
Economic growth has slowed significantly, partly reflecting the effects of certain temporary factors.



Source: Federal State Statistics Service (Rosstat), Bank of Russia, Ministry of Economic Development

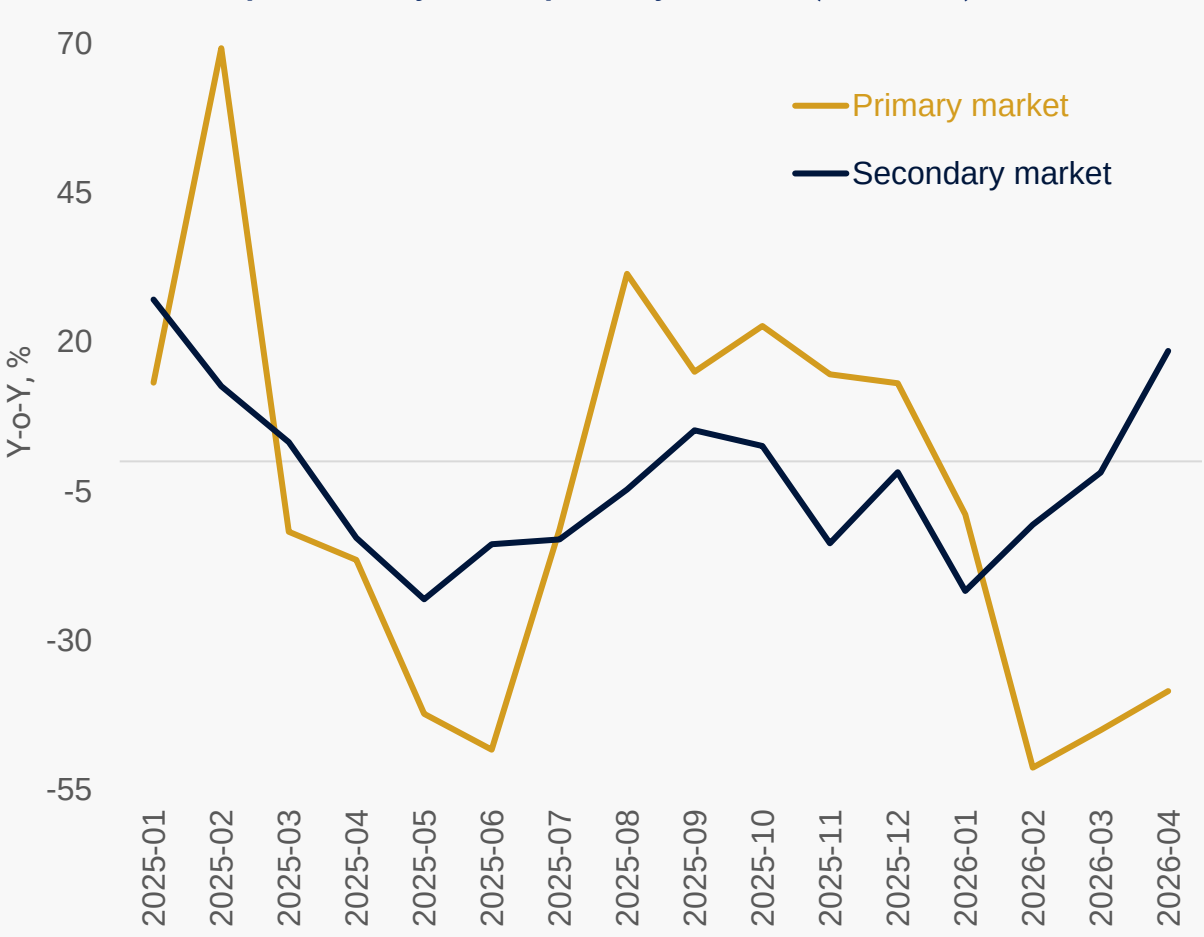
Russia. At the same time, signals of accumulating structural challenges are also intensifying

The share of non-performing loans in the unsecured consumer loan portfolio continues to increase

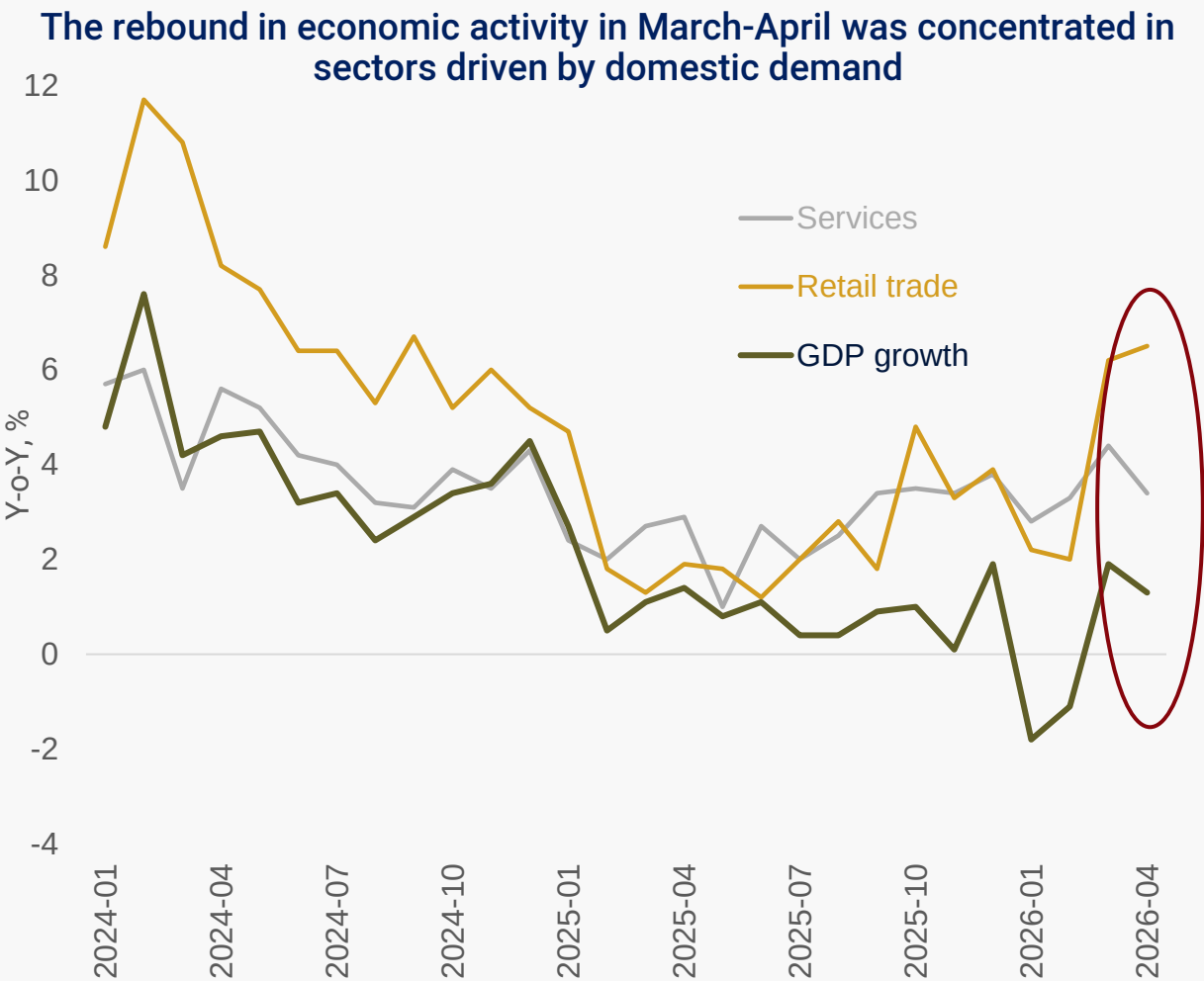


Source: Bank of Russia

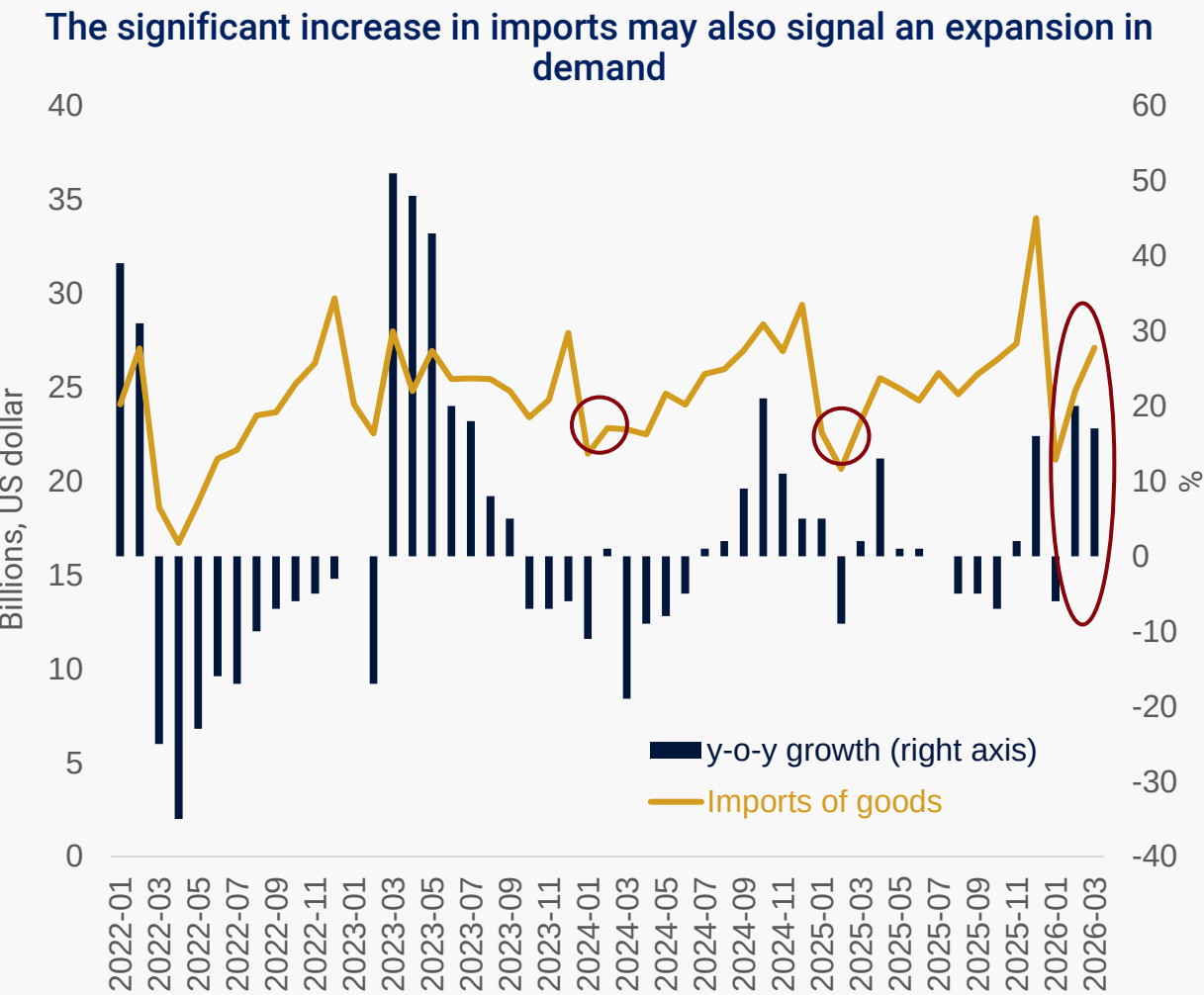
The number of residential real estate transactions is declining, particularly in the primary market (Moscow)



Russia. On the other hand, recent developments in Russia indicate some recovery in economic activity, driven primarily by demand-led sectors

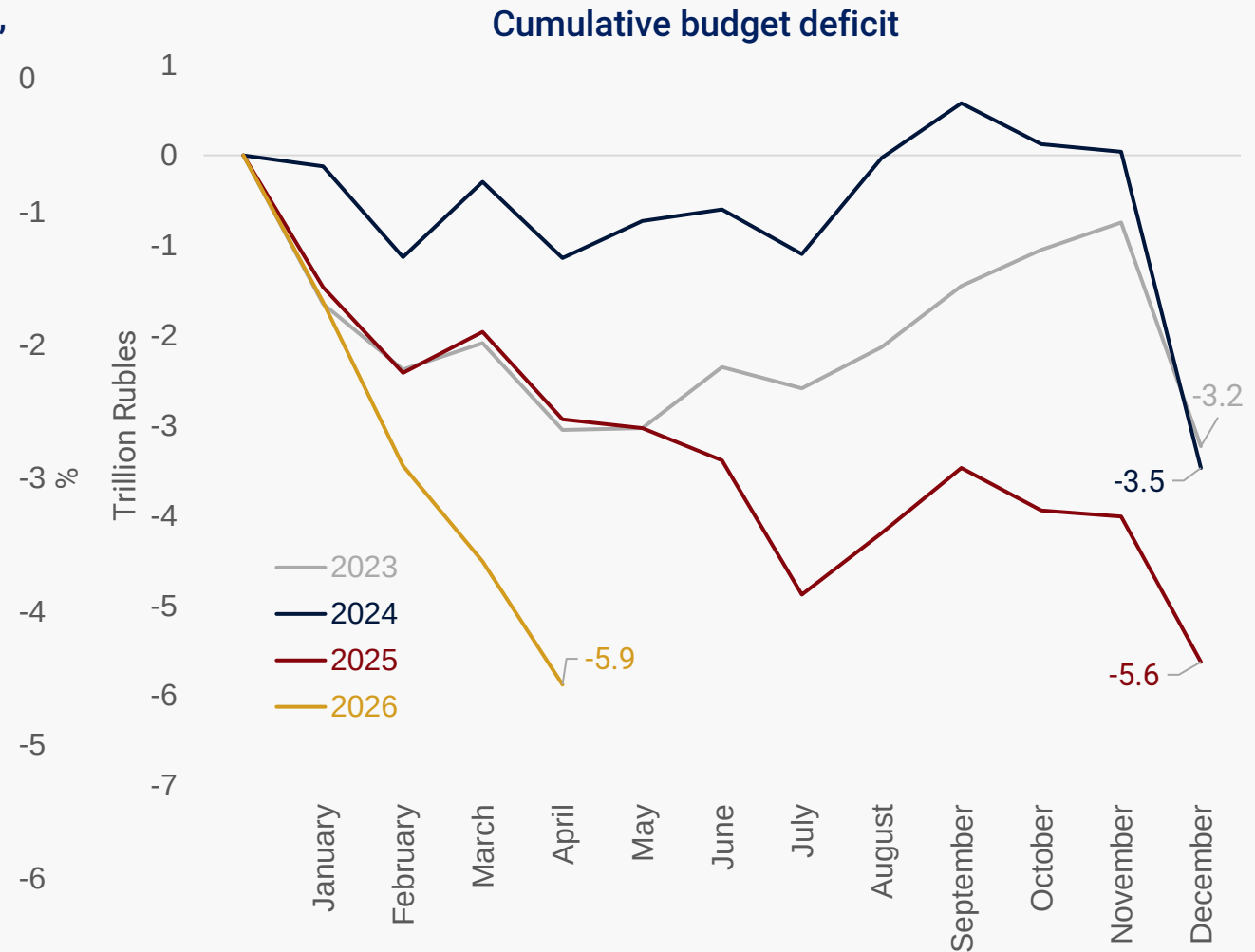
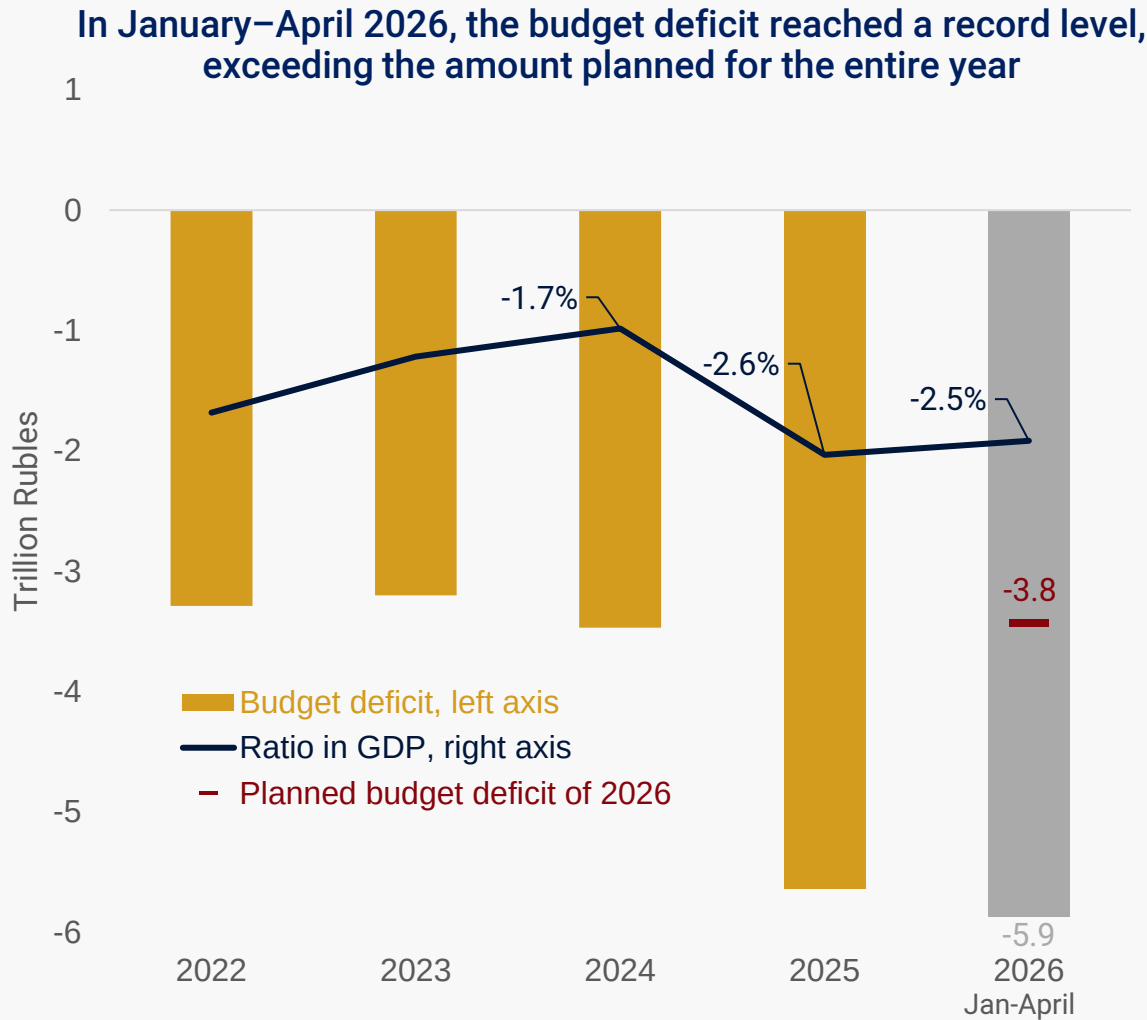


Source: Ministry of Economic Development of Russia



Source: Bank of Russia

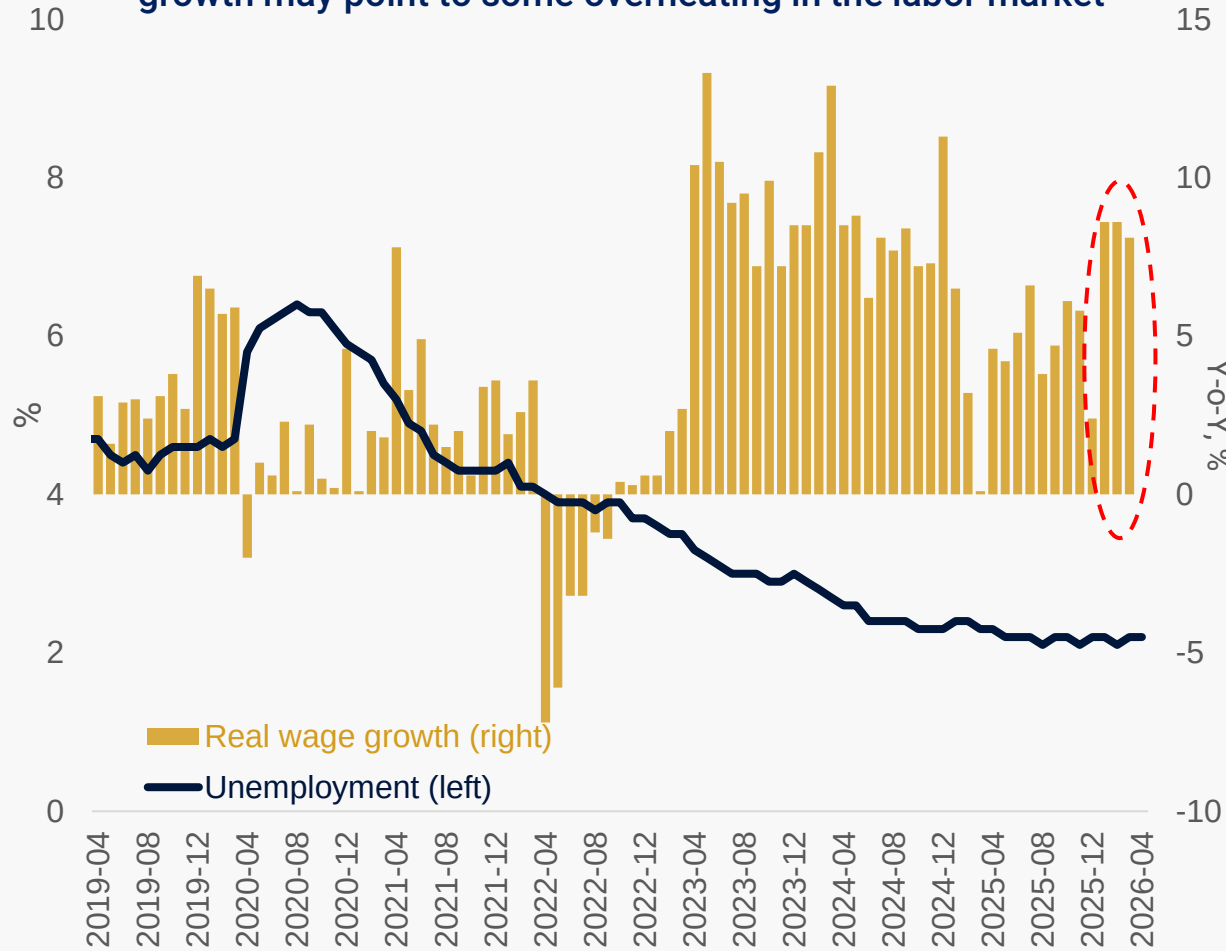
Russia. Fiscal policy continues to make a significant contribution to it



Source: Ministry of Finance of Russia

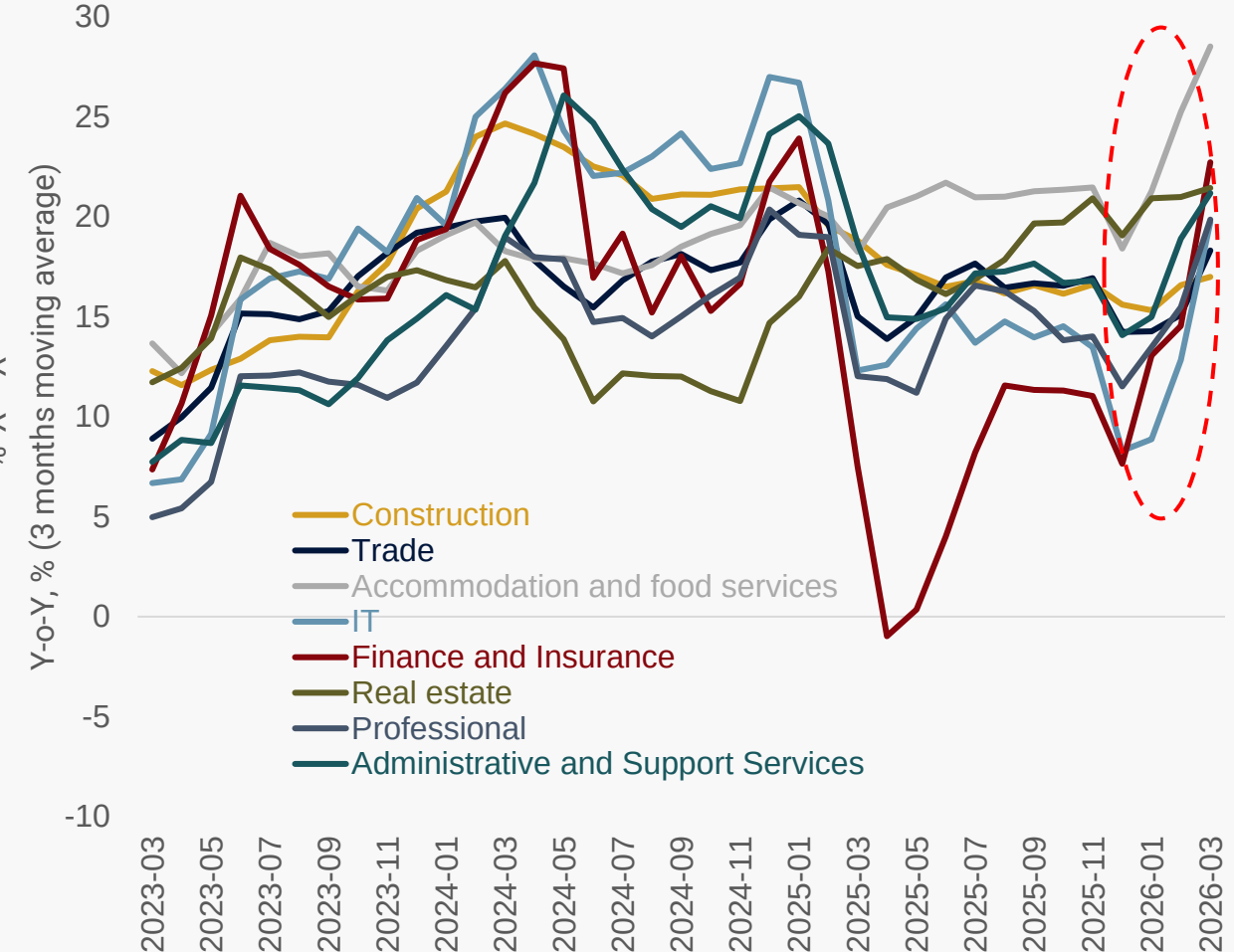
Russia. The labor market also reflects recent acceleration in economic activity

Alongside the low unemployment rate, the acceleration in real wage growth may point to some overheating in the labor market



Source: Ministry of Economic Development of Russia

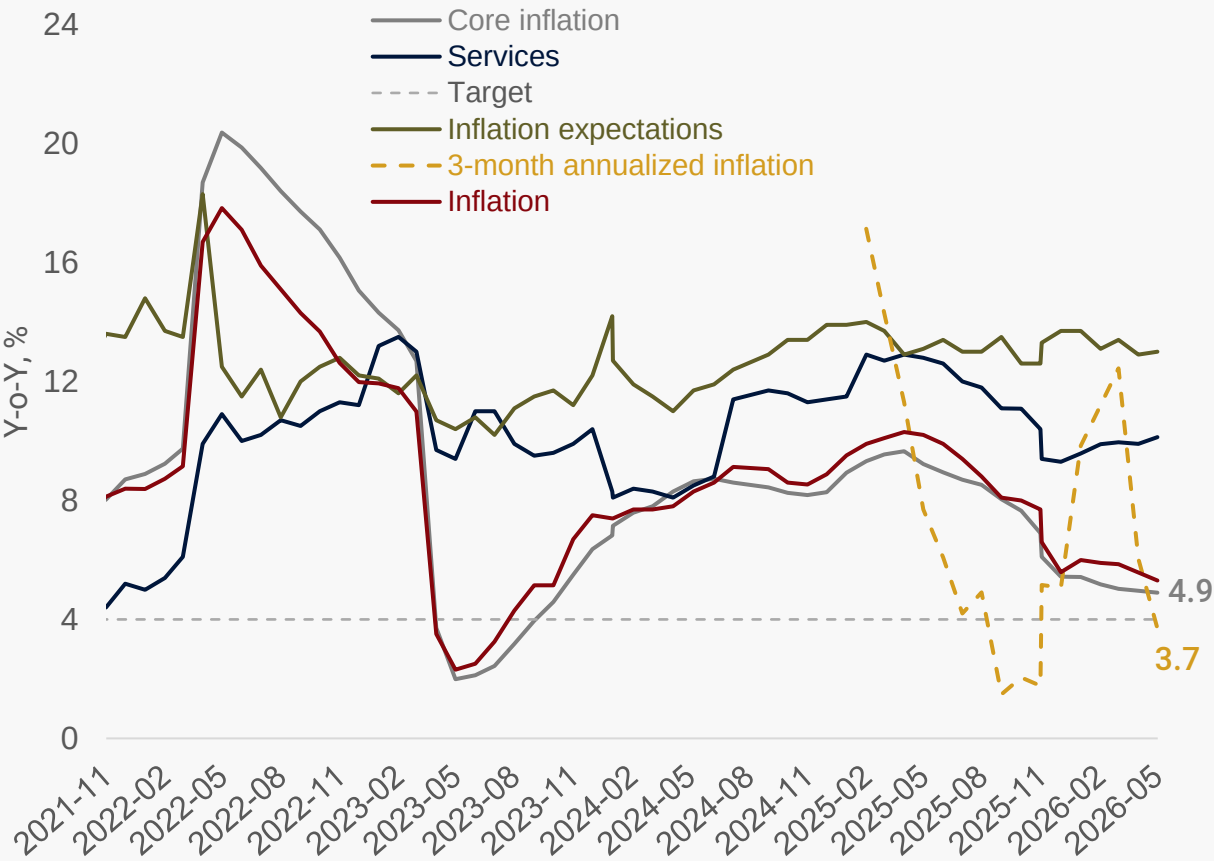
The acceleration in wage growth has become broad-based



Source: Federal State Statistics Service (Rosstat)

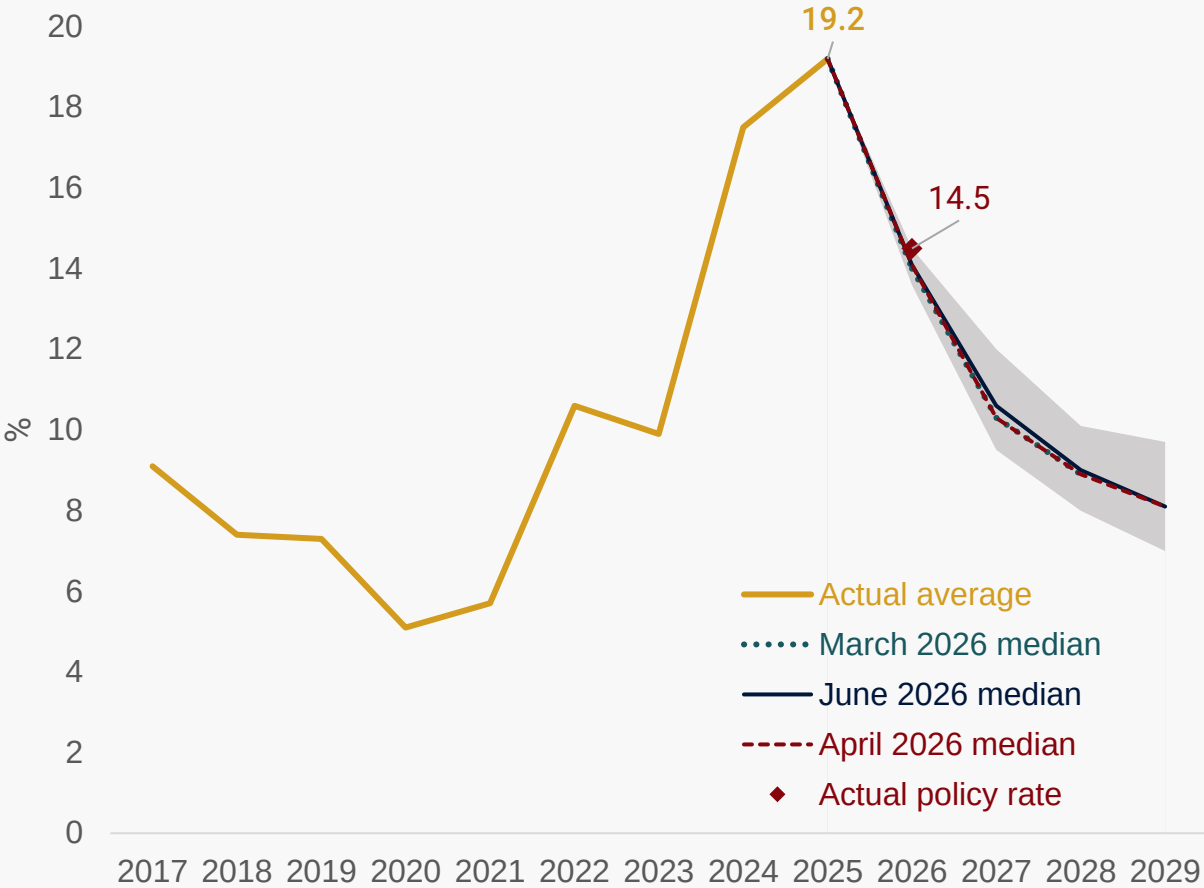
Russia. Despite some easing in overall inflationary pressures, services inflation and inflation expectations remain elevated

Although headline inflation is declining and approaching the target level, inflation expectations and some measures of underlying inflation continue to remain significantly elevated



Source: Federal State Statistics Service (Rosstat)

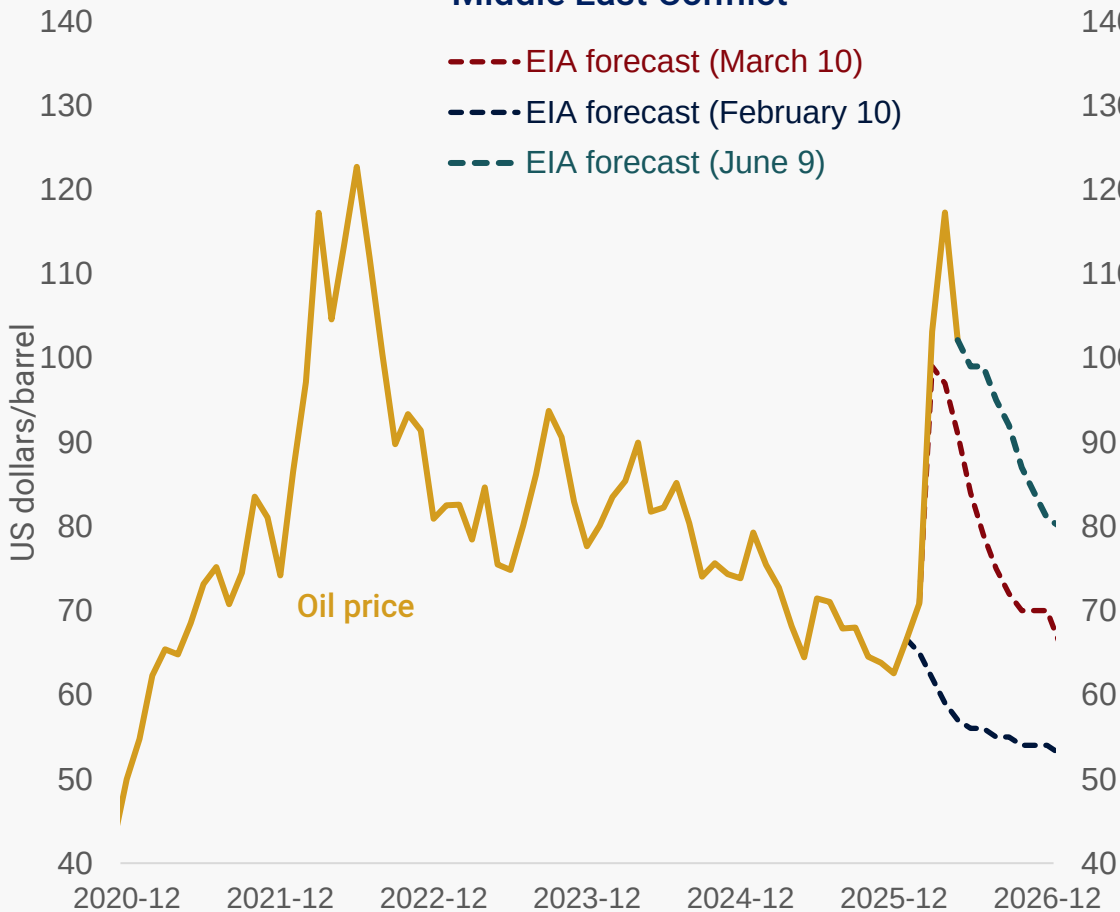
Market Expectations for the Policy Rate Path



Source: Bank of Russia

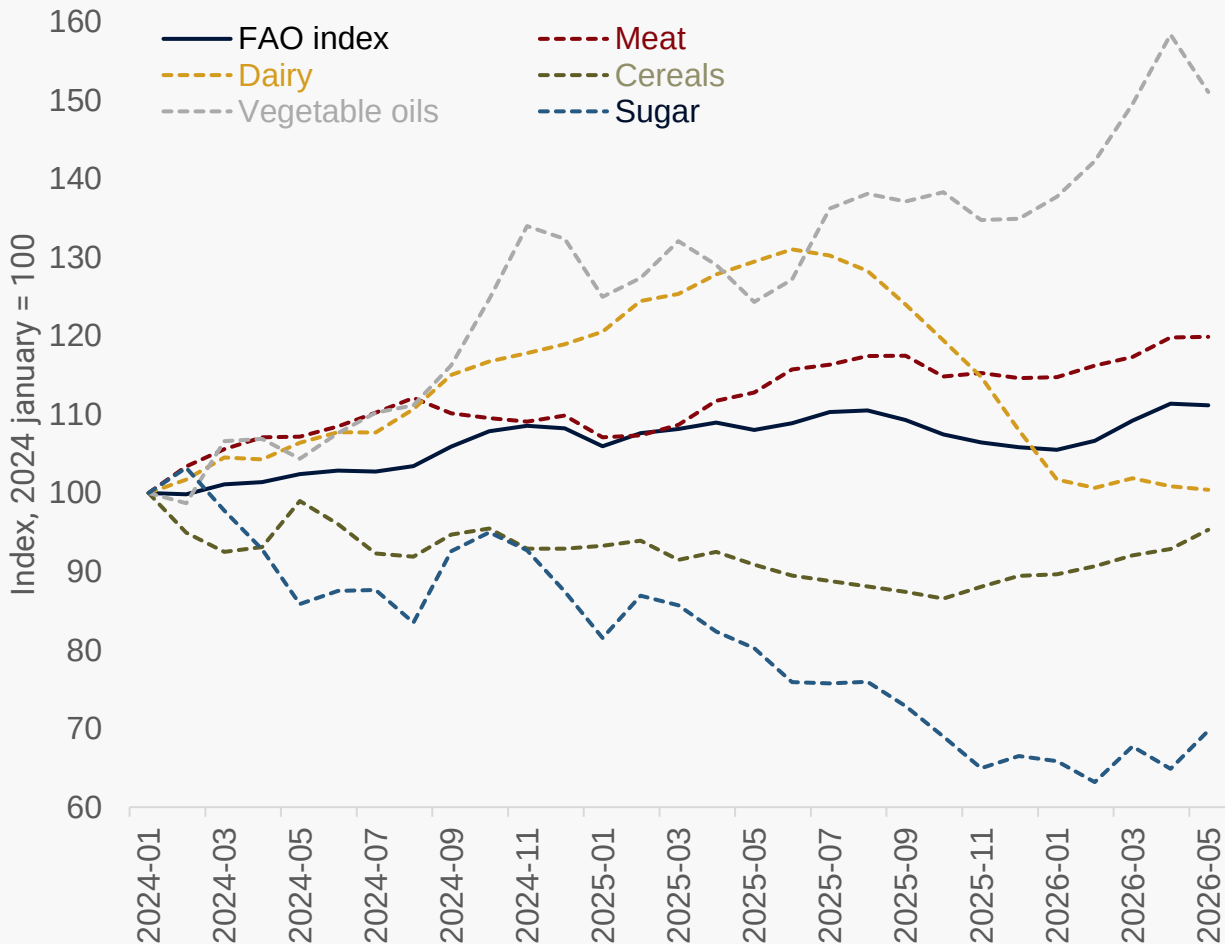
Commodity Markets: Amid trade routes disruptions in the Middle East, energy and food prices remain elevated

Change in Oil Price Expectations Before and After the Outbreak of the Middle East Conflict

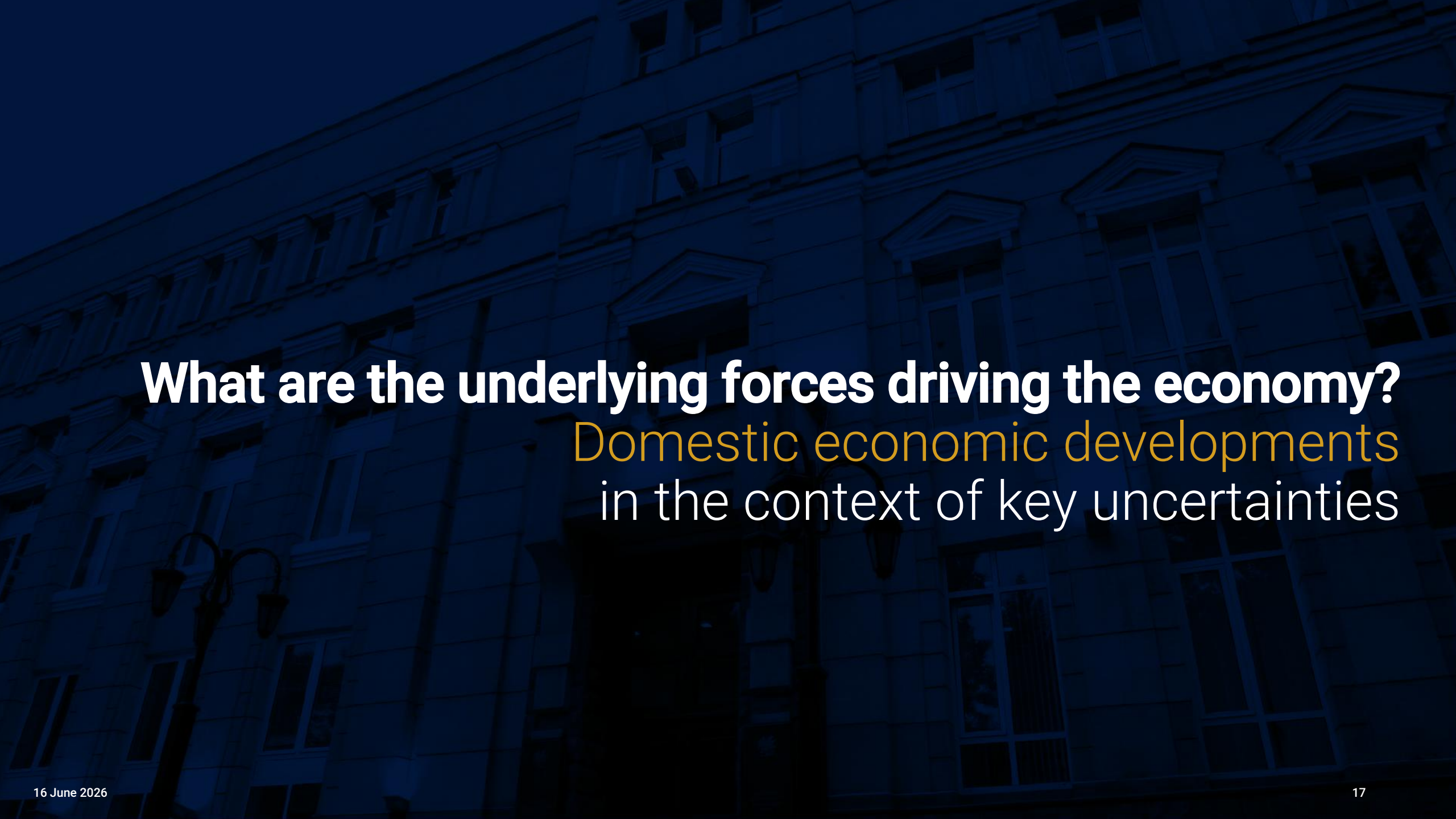


Source(s): Federal Reserve Bank of St. Louis (FRED), International Energy Agency (IEA), CBA estimates

FAO Global Food Price Index



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

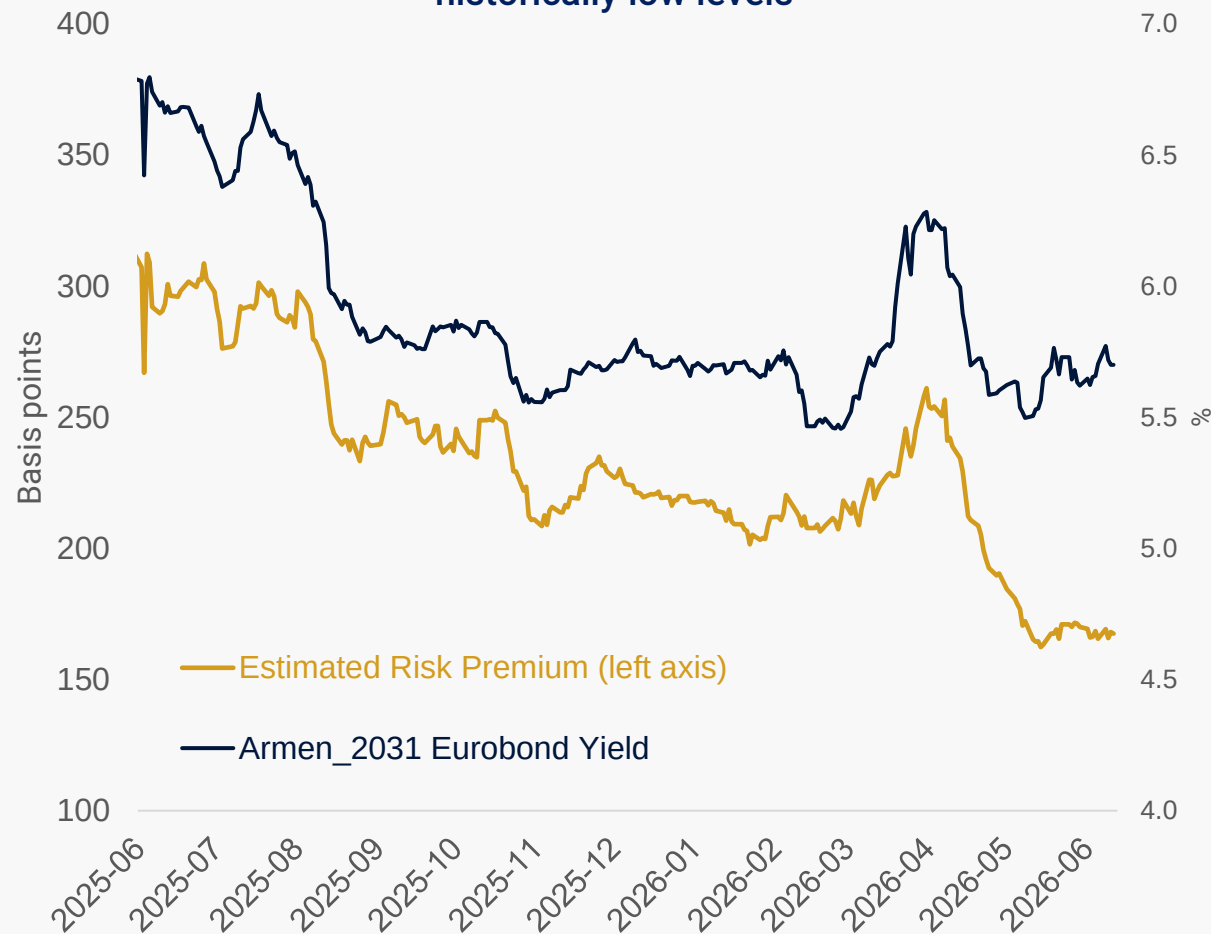


What are the underlying forces driving the economy?

Domestic economic developments
in the context of key uncertainties

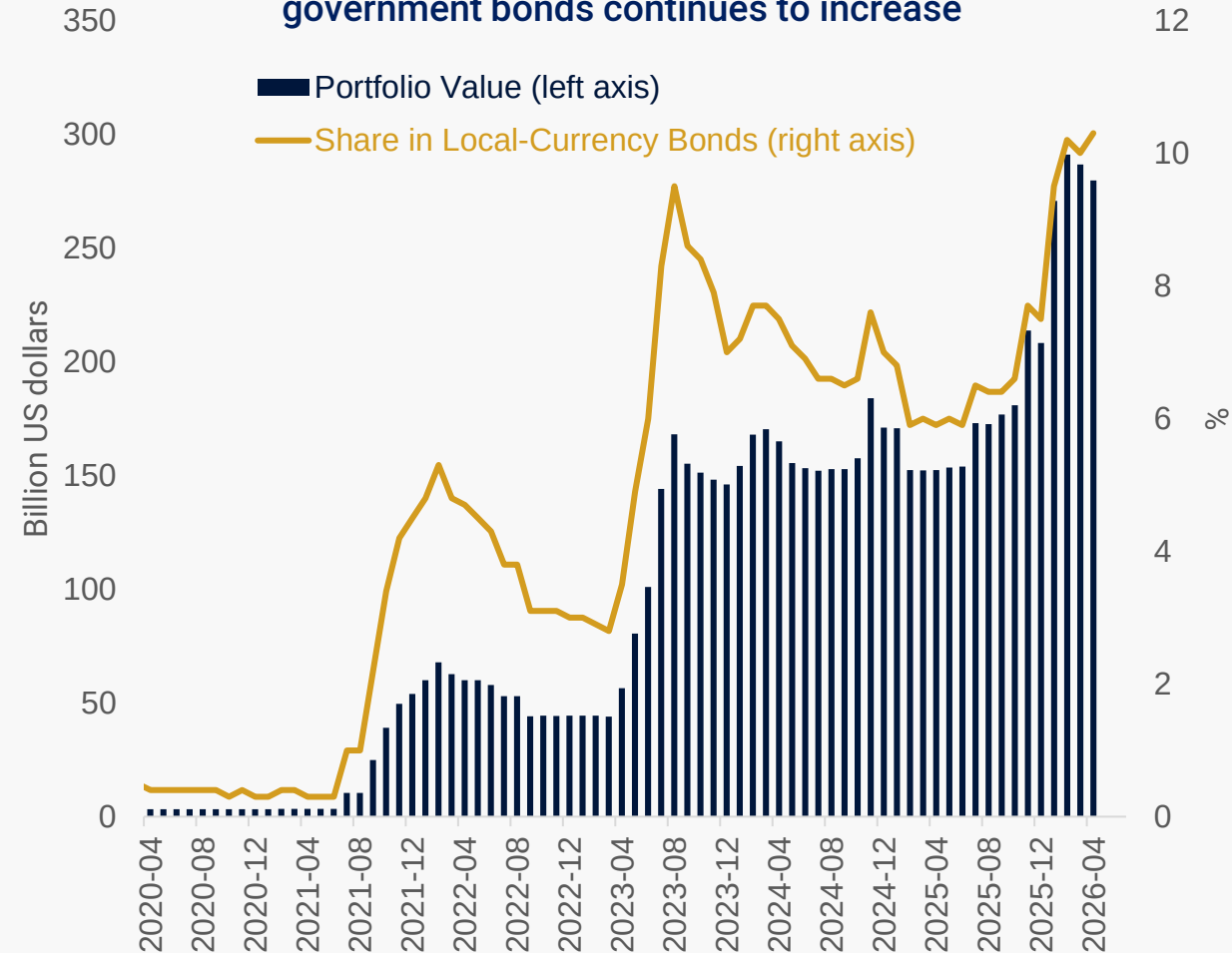
There is increasing evidence that the current low level of Armenia's risk premium largely reflects improvements in fundamentals and the impact of Armenia-specific factors (1/2)

Armenia's country risk premium continues to decline, reaching historically low levels



Source: Bloomberg, CBA estimates

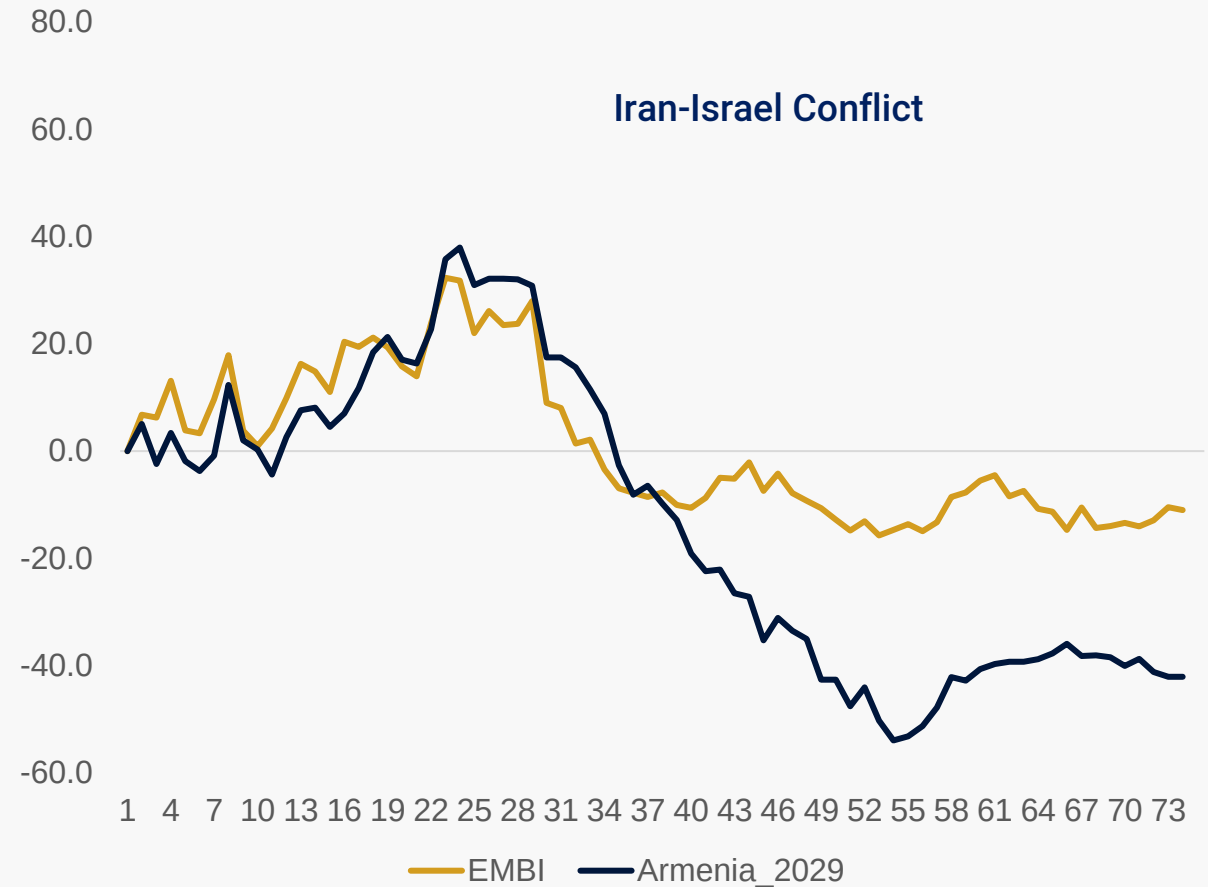
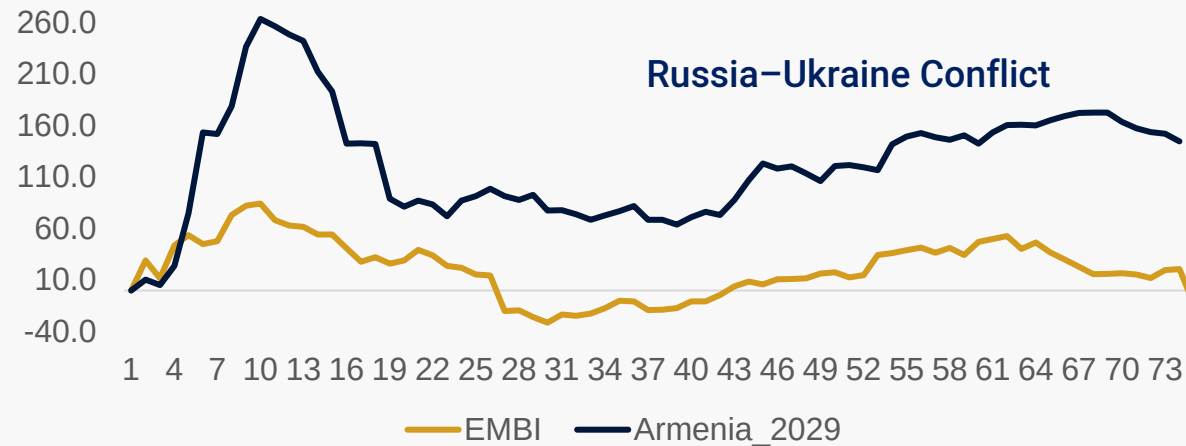
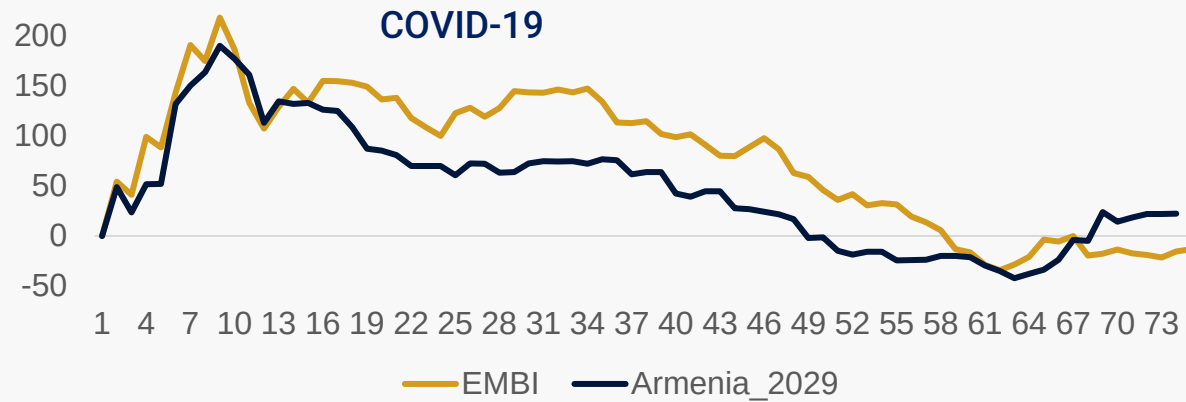
At the same time, the share of non-residents in AMD-denominated government bonds continues to increase



Source: CBA

There is increasing evidence that the current low level of Armenia's risk premium largely reflects improvements in fundamentals and the impact of Armenia-specific factors (2/2)

The changes in Eurobond spreads in Emerging Markets and Armenia During different recent events

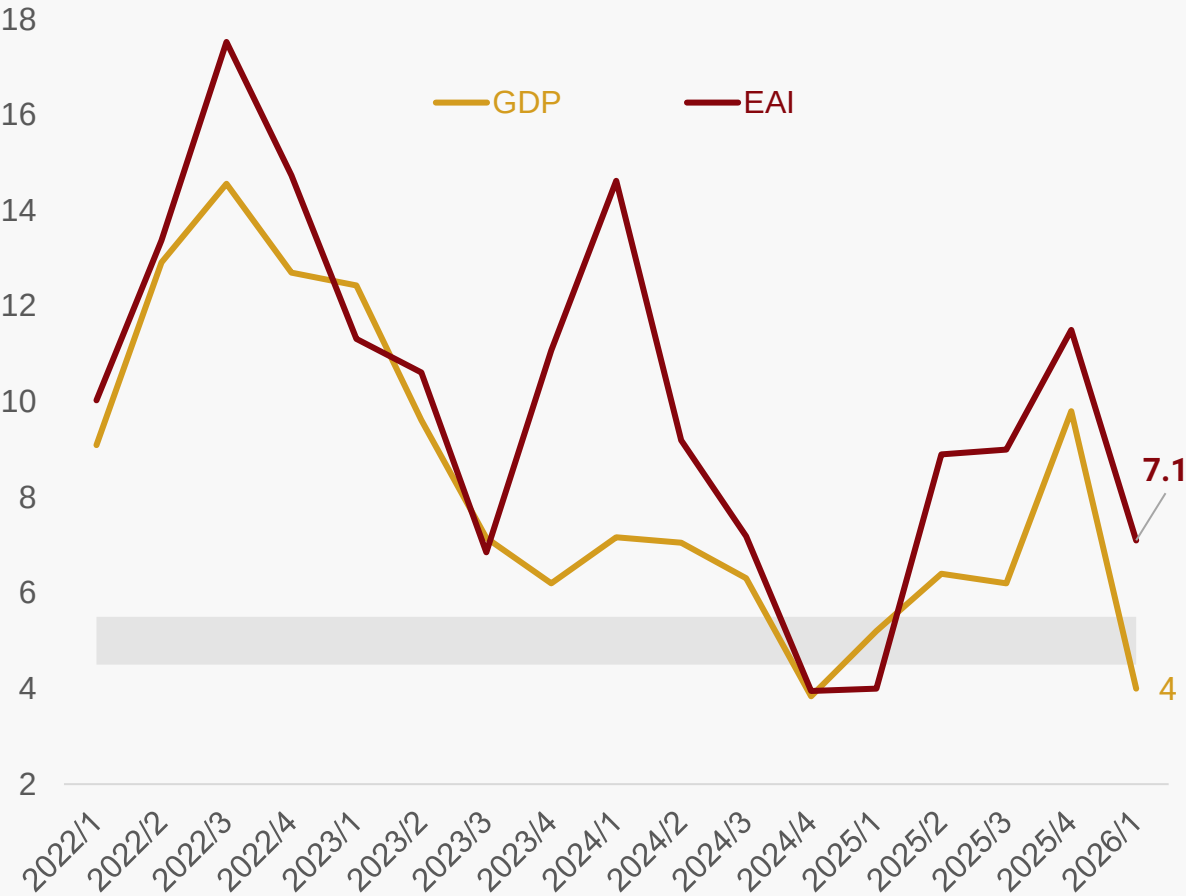


Source: Bloomberg

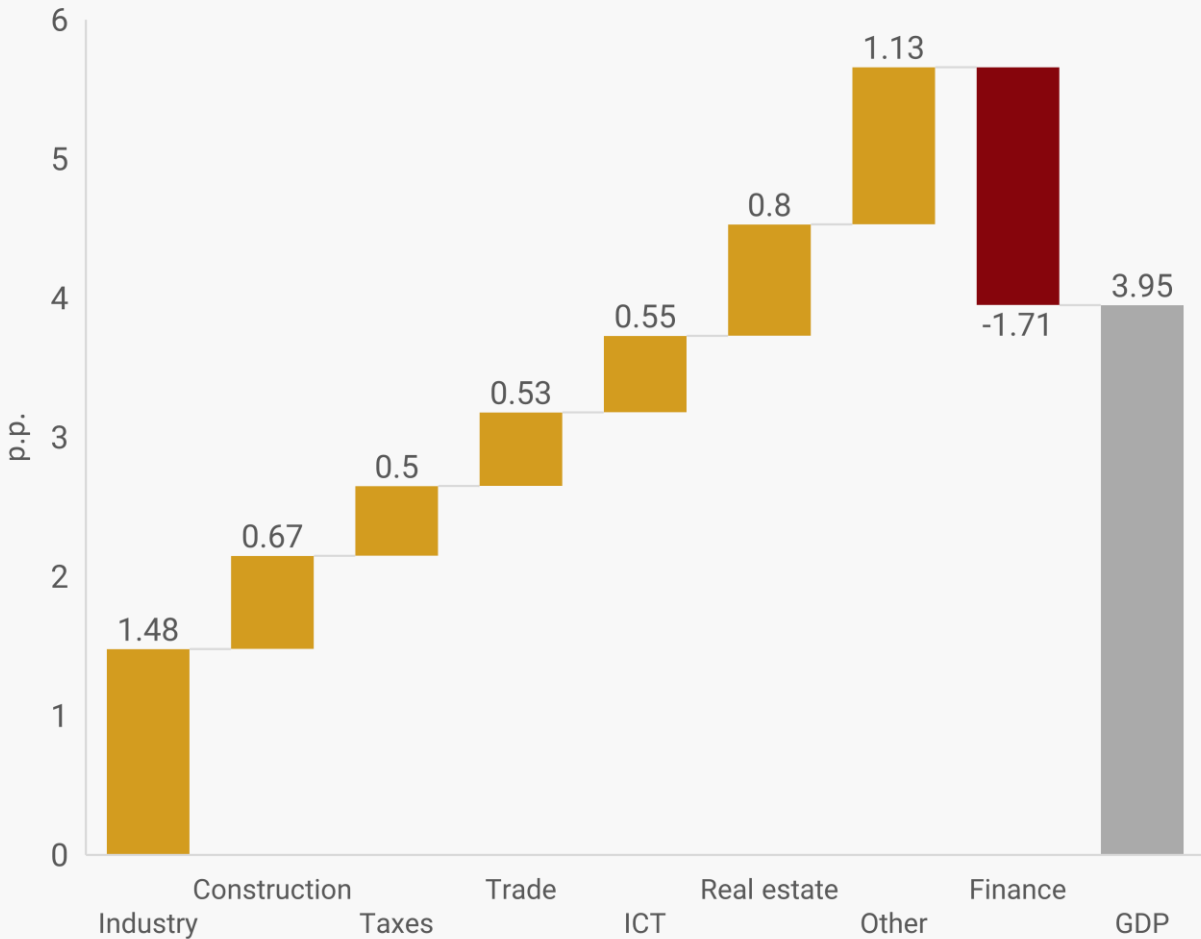
Economic growth in Armenia decelerated in Q1 2026, largely reflecting one-off factors.

Does the reported growth rate accurately reflect underlying economic conditions?

Economic Growth and Economic Activity Index, Real Growth, y-o-y, %



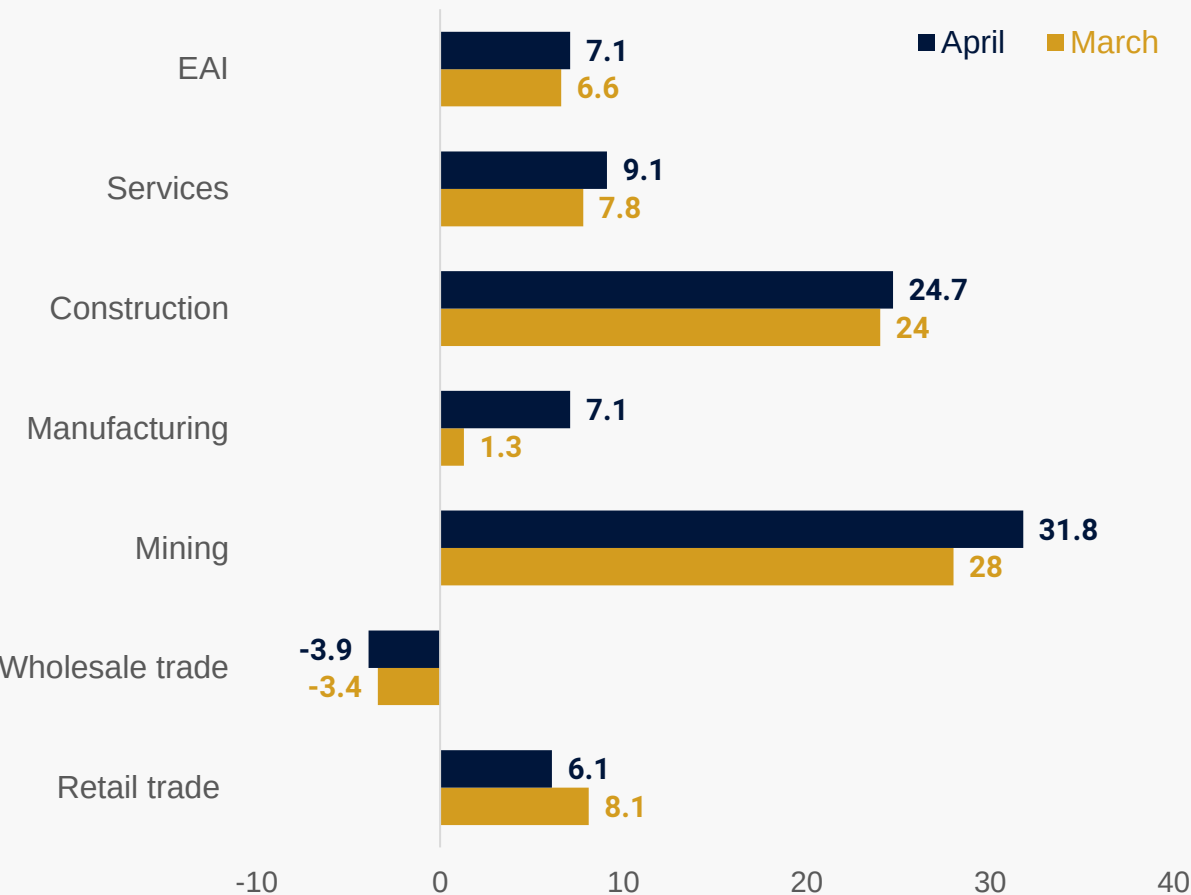
Sectoral Contributions to GDP Growth



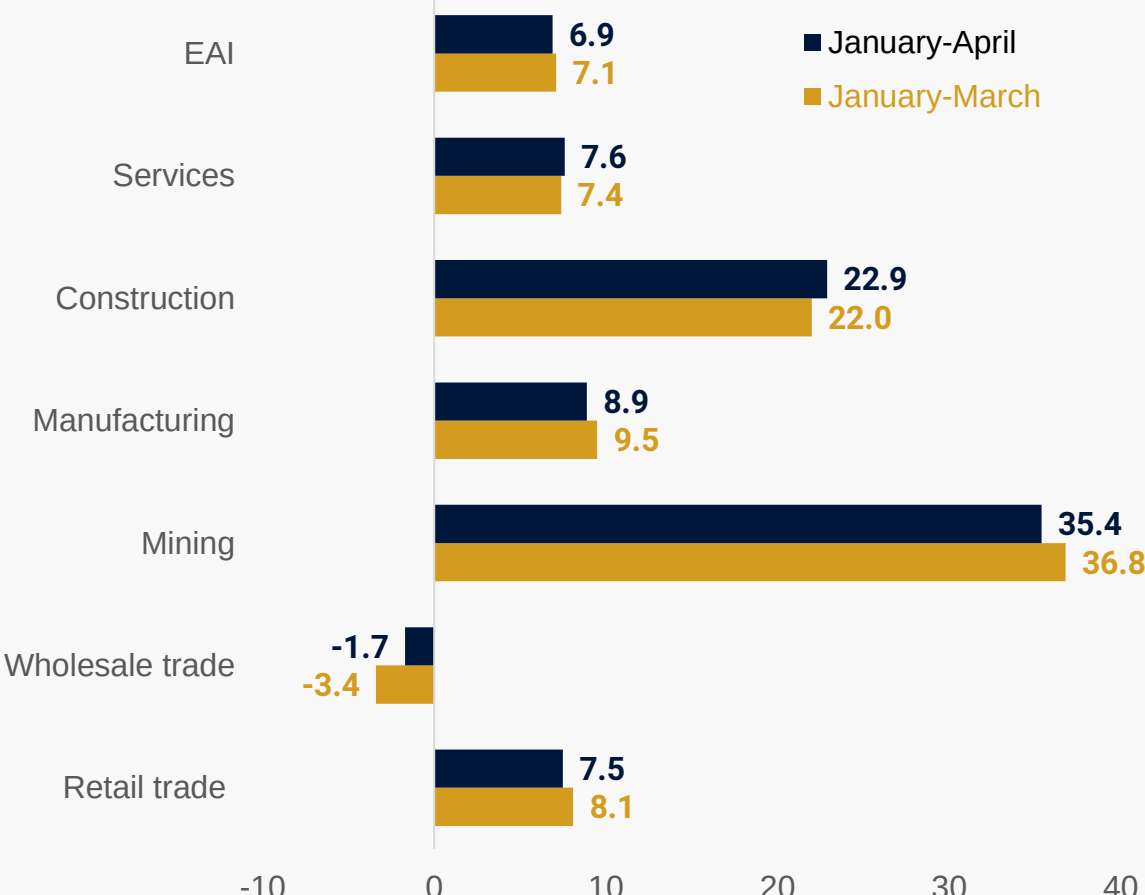
Source: Statistical Committee of RA, CBA estimates

Economic activity continues to remain above its long-term sustainable growth rate

Economic activity indicator, real growth, y-o-y, %



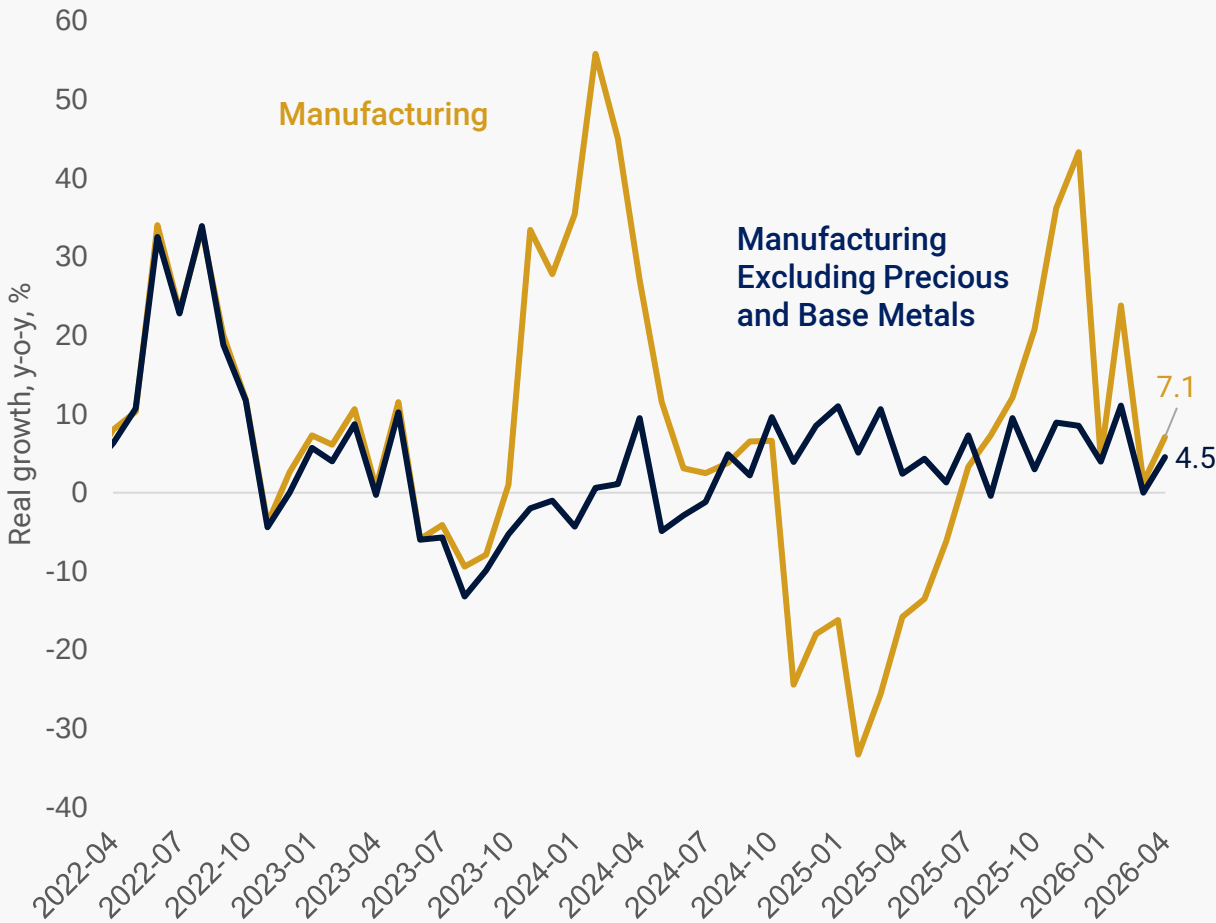
Cumulative Growth of Key Sectors, %



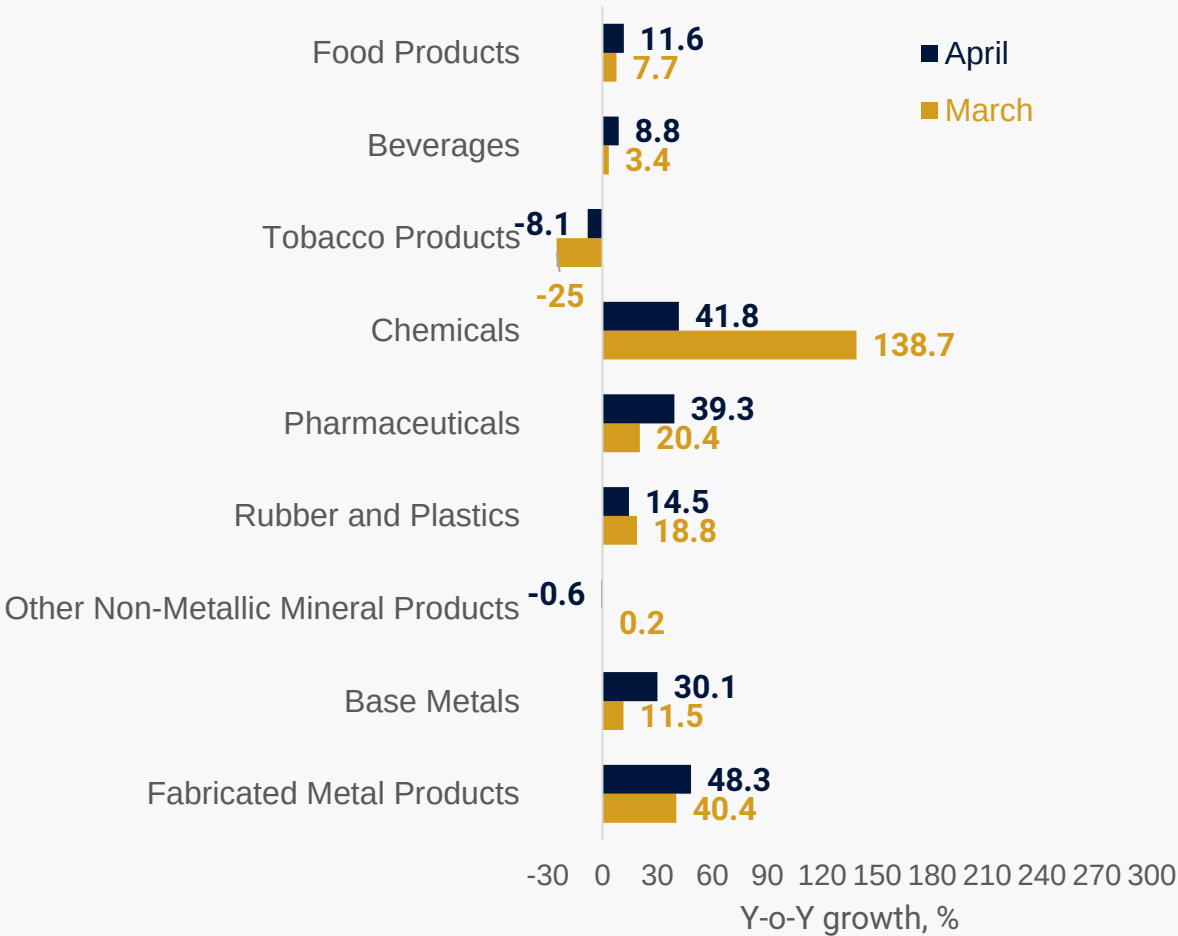
Source: Statistical Committee of RA, CBA estimates

Uncertainty surrounding the growth prospects of the manufacturing sector has increased significantly, reflecting challenges in certain export markets (1/2)

Manufacturing sector growth, y-o-y, %



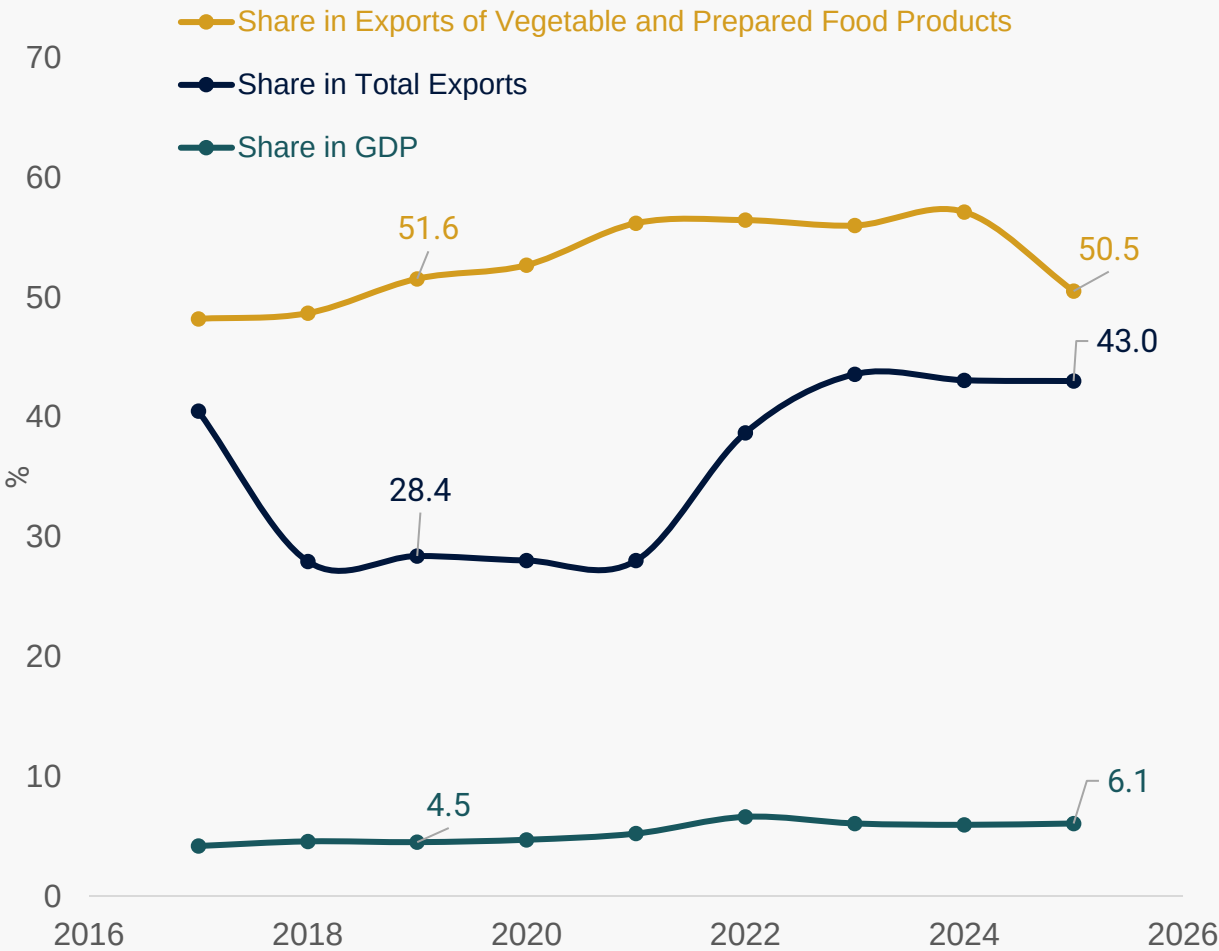
Subsectors of Manufacturing, growth, y-o-y, %



Source: Statistical Committee of RA, CBA estimates

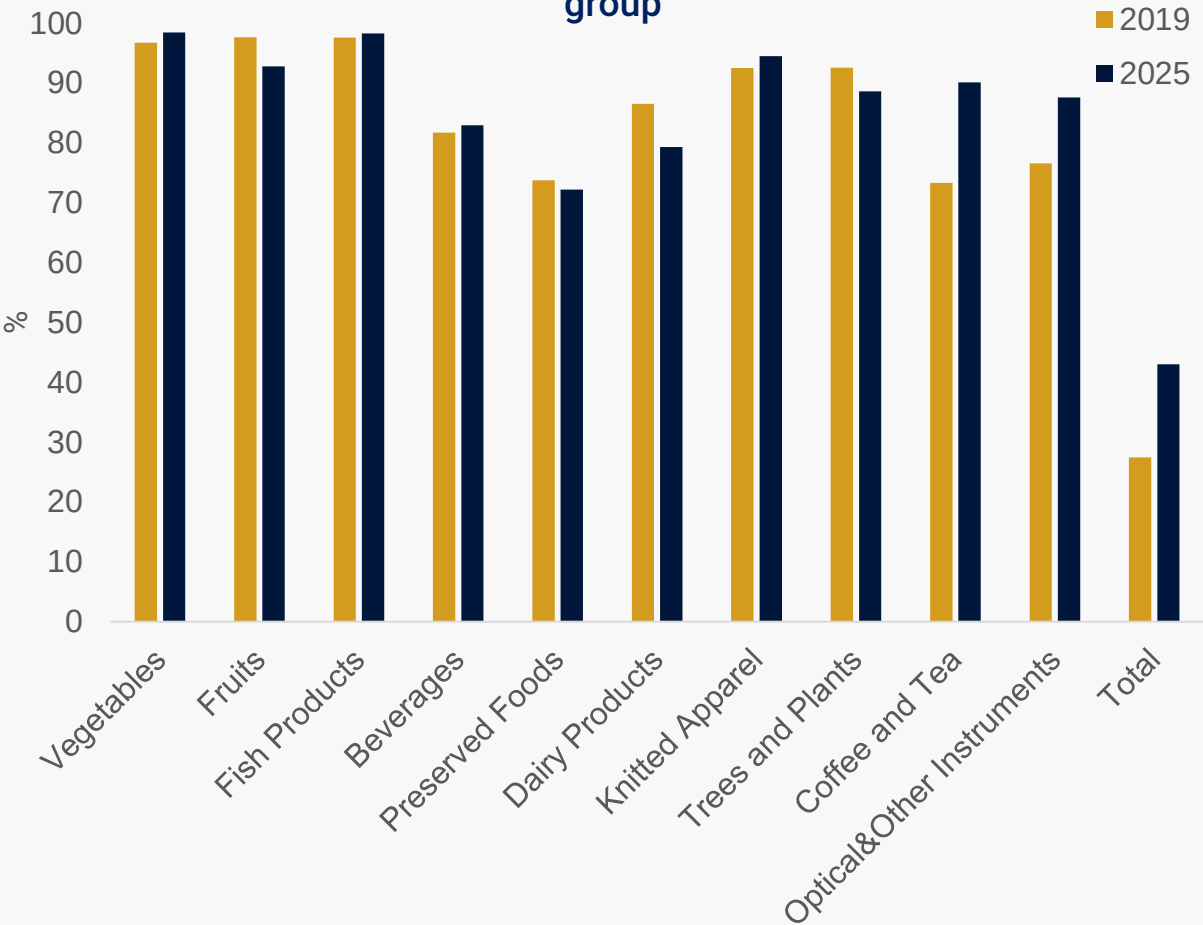
Uncertainty surrounding the growth prospects of the manufacturing sector has increased significantly, reflecting challenges in certain export markets (2/2)

Share of Exports to Russia



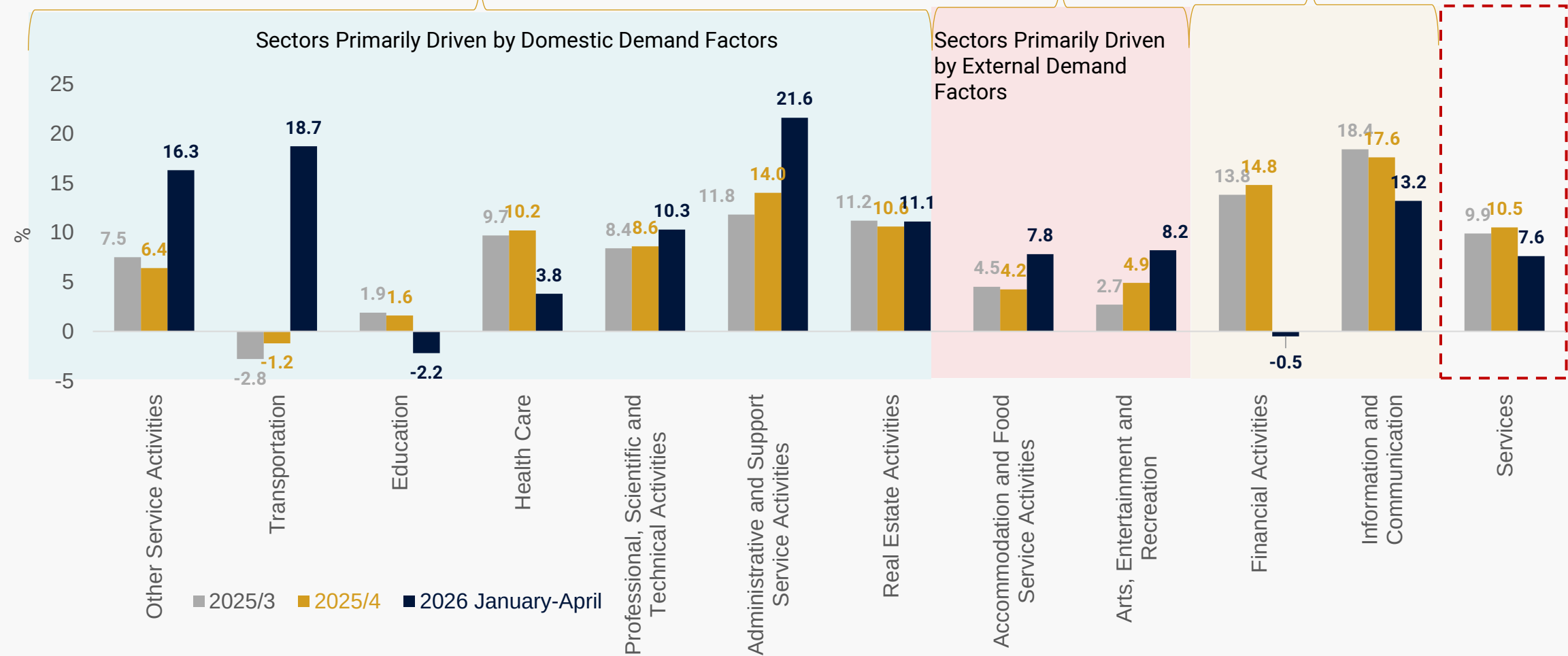
Source: Statistical Committee of RA, CBA estimates

Share of exports to Russia in total exports of the following product group



Strong Economic activity continues to be driven primarily by demand-led sectors

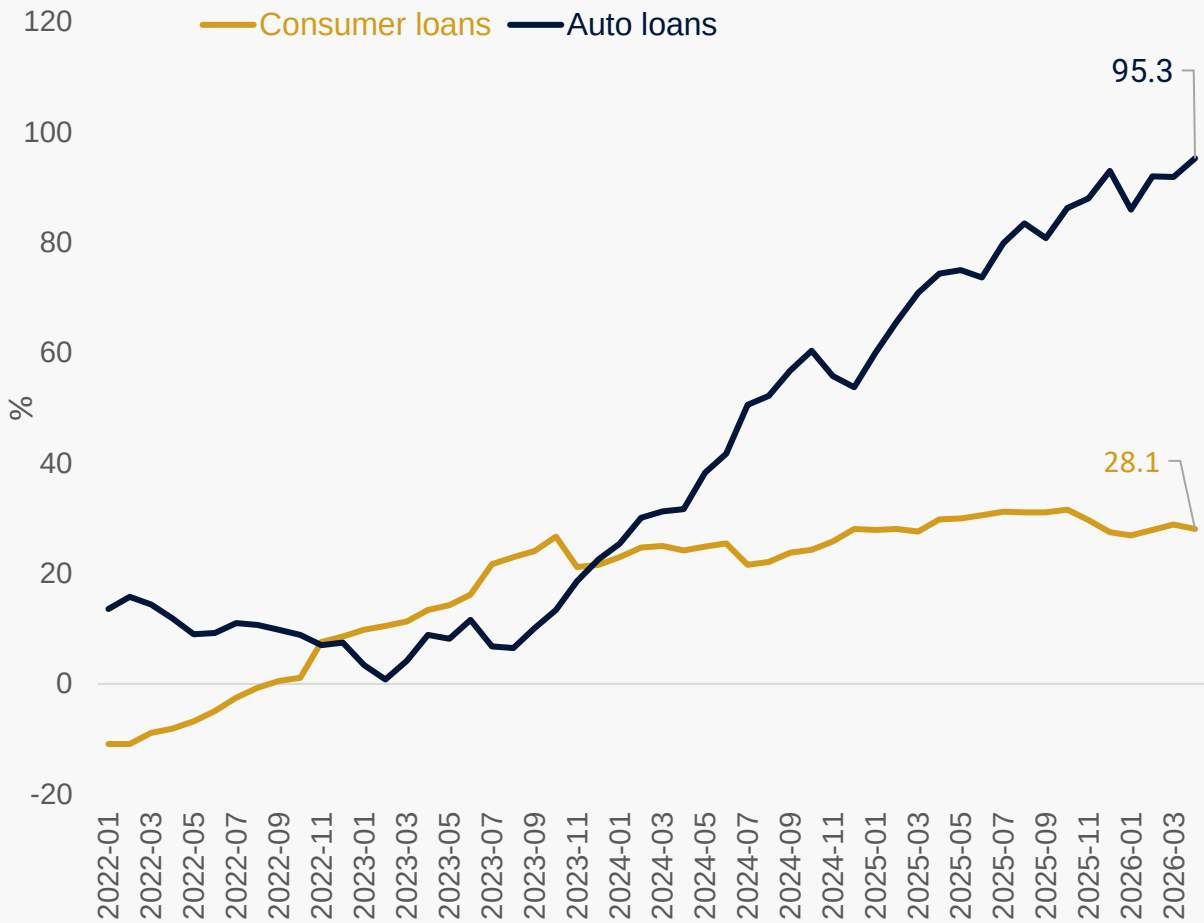
Cumulative Growth of Services Sub-Sectors, quarterly y-o-y, %



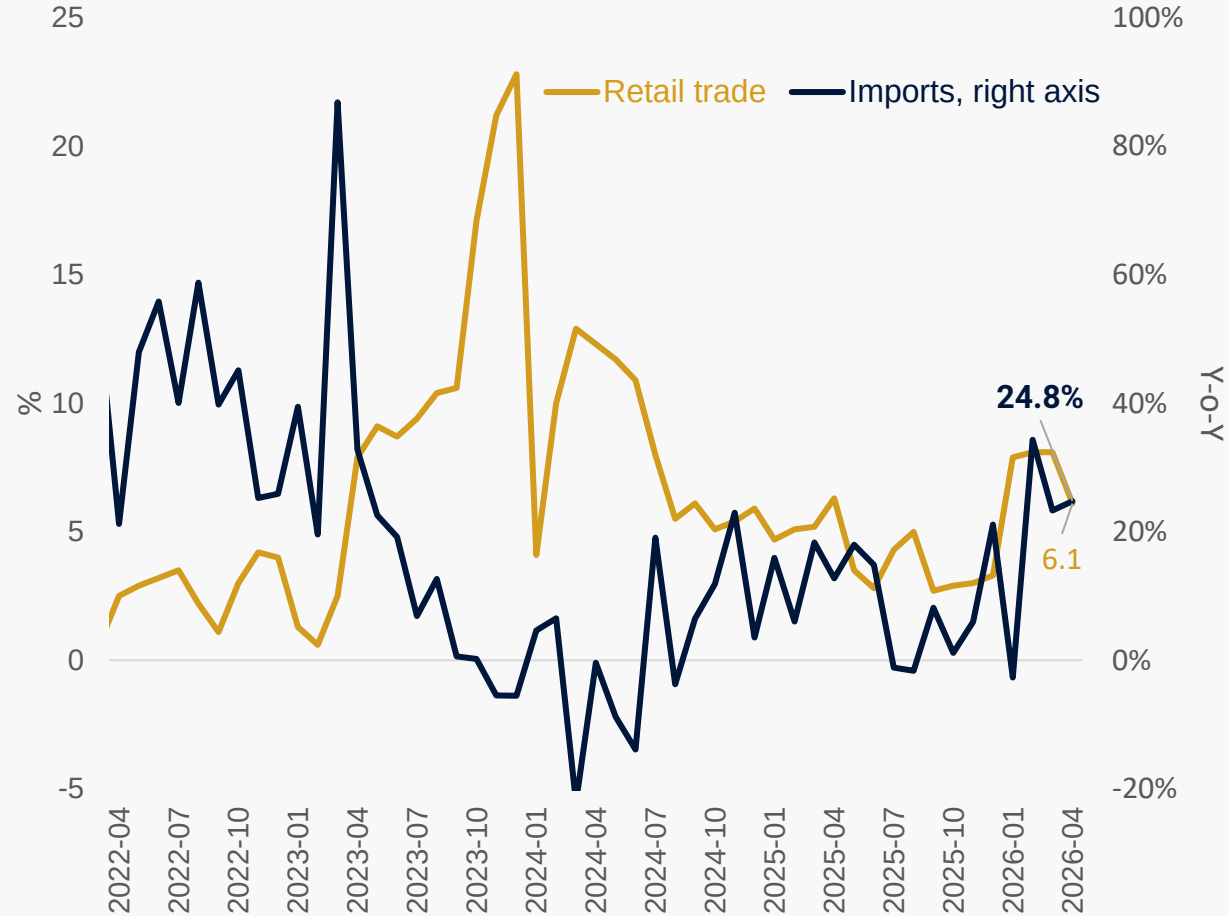
Source: Statistical Committee of RA

Several factors suggest that demand conditions are stronger than implied by market expectations and point to risks of further demand expansion (1/3)

Consumer lending continues to grow at a rapid pace



Strong growth in retail trade and imports also points to strong domestic demand

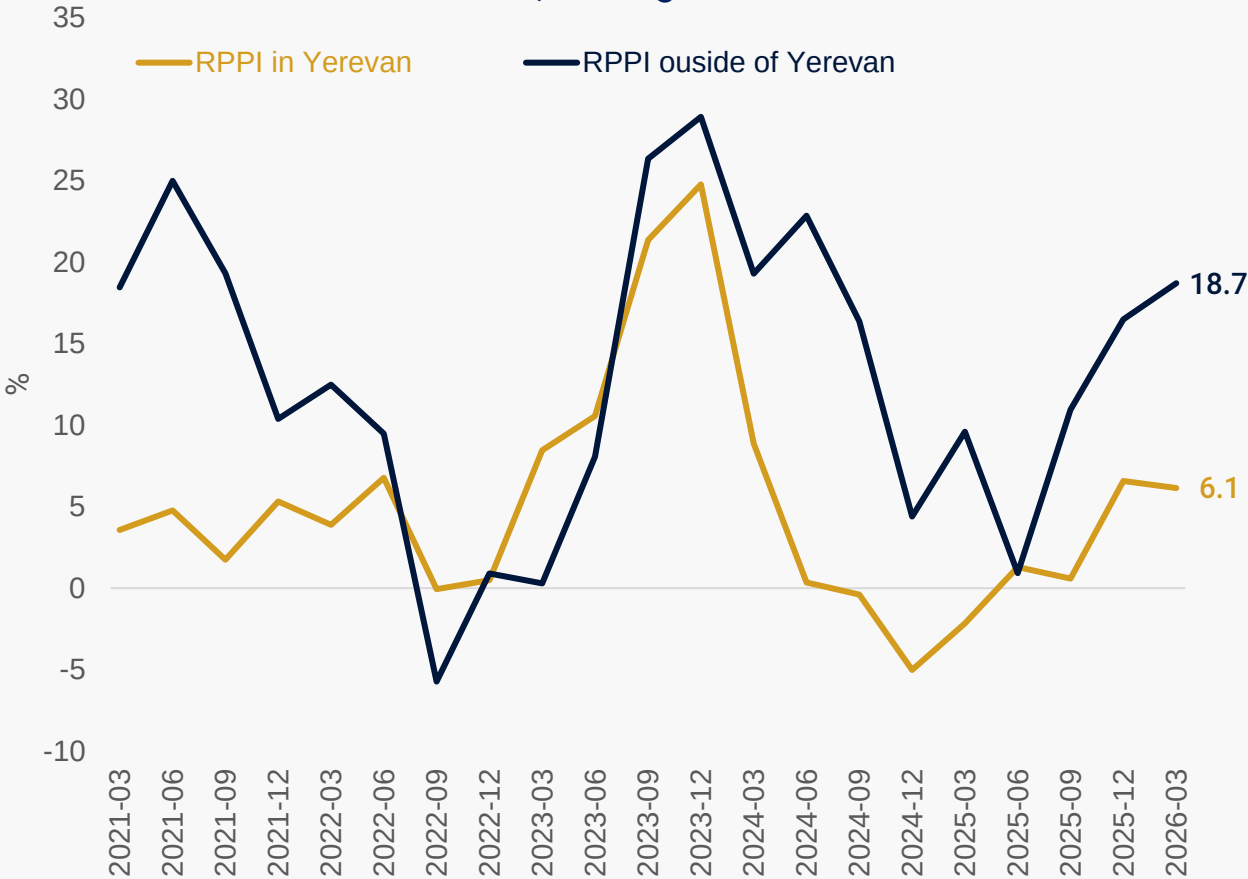


Source: CBA

Several factors suggest that demand conditions are stronger than implied by market expectations and point to risks of further demand expansion (2/3)

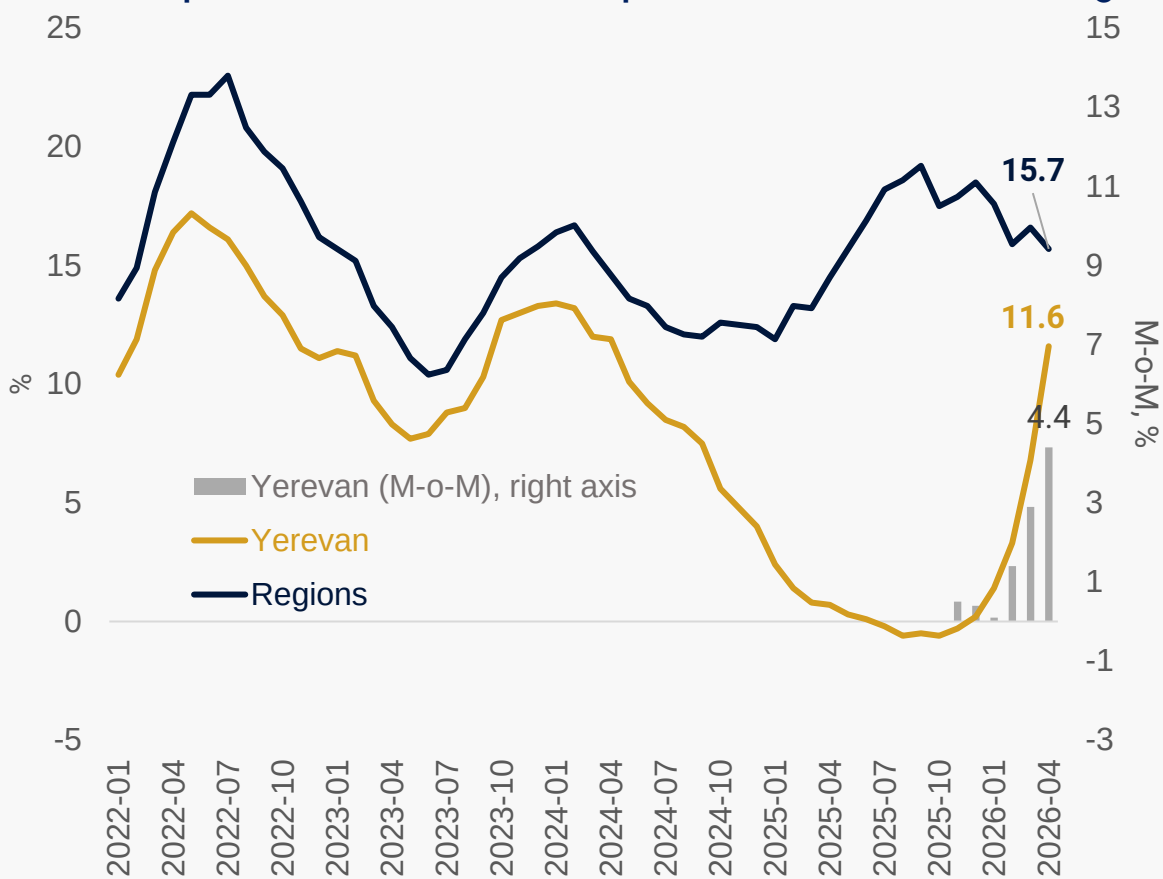
The pace of growth in residential real estate prices has accelerated significantly in recent months

RPPI, Y-o-Y growth



Source: Statistical Committee of RA

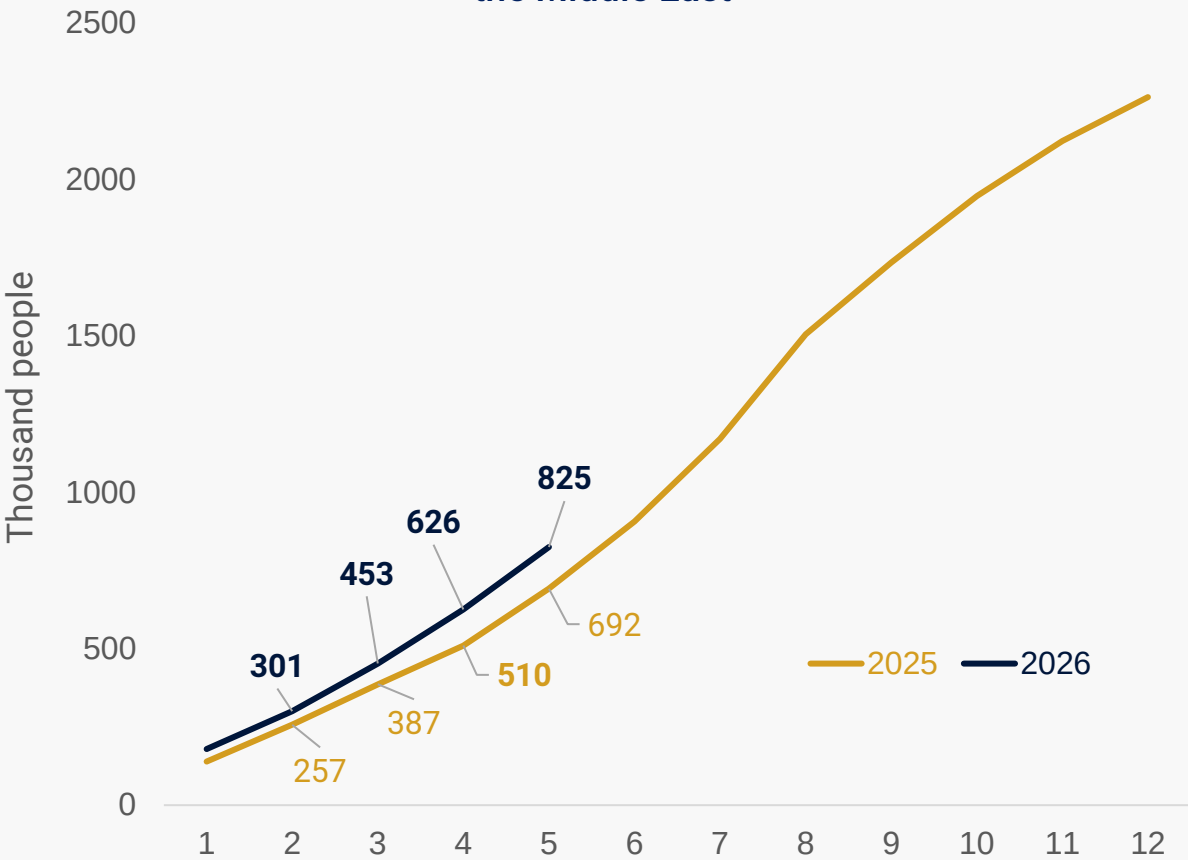
Inflation in Apartment Prices in Multi-Apartment Residential Buildings



Source: Cadastre Committee of the Republic of Armenia

Several factors suggest that demand conditions are stronger than implied by market expectations and point to risks of further demand expansion (3/3)

Tourism inflows have risen substantially, although uncertainty regarding the outlook remains elevated, especially amid the conflict in the Middle East



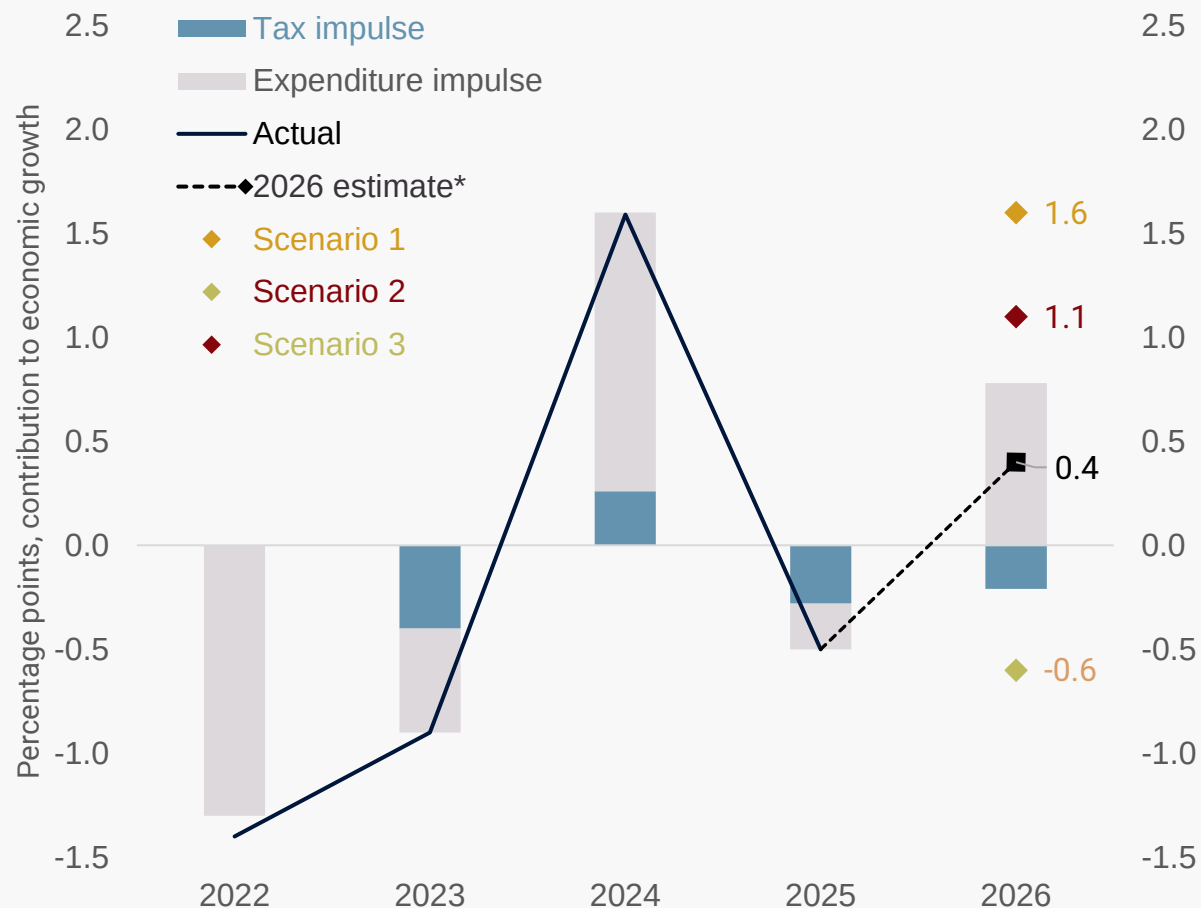
Source: Tourism Committee of Armenia

Tourists Arriving from Russia



Given the expansion of social and healthcare spending, as well as the potential need for additional support measures for certain sectors of the economy, the risks of a more expansionary **fiscal policy** stance have increased

Scenarios of the impact of fiscal policy on aggregate demand



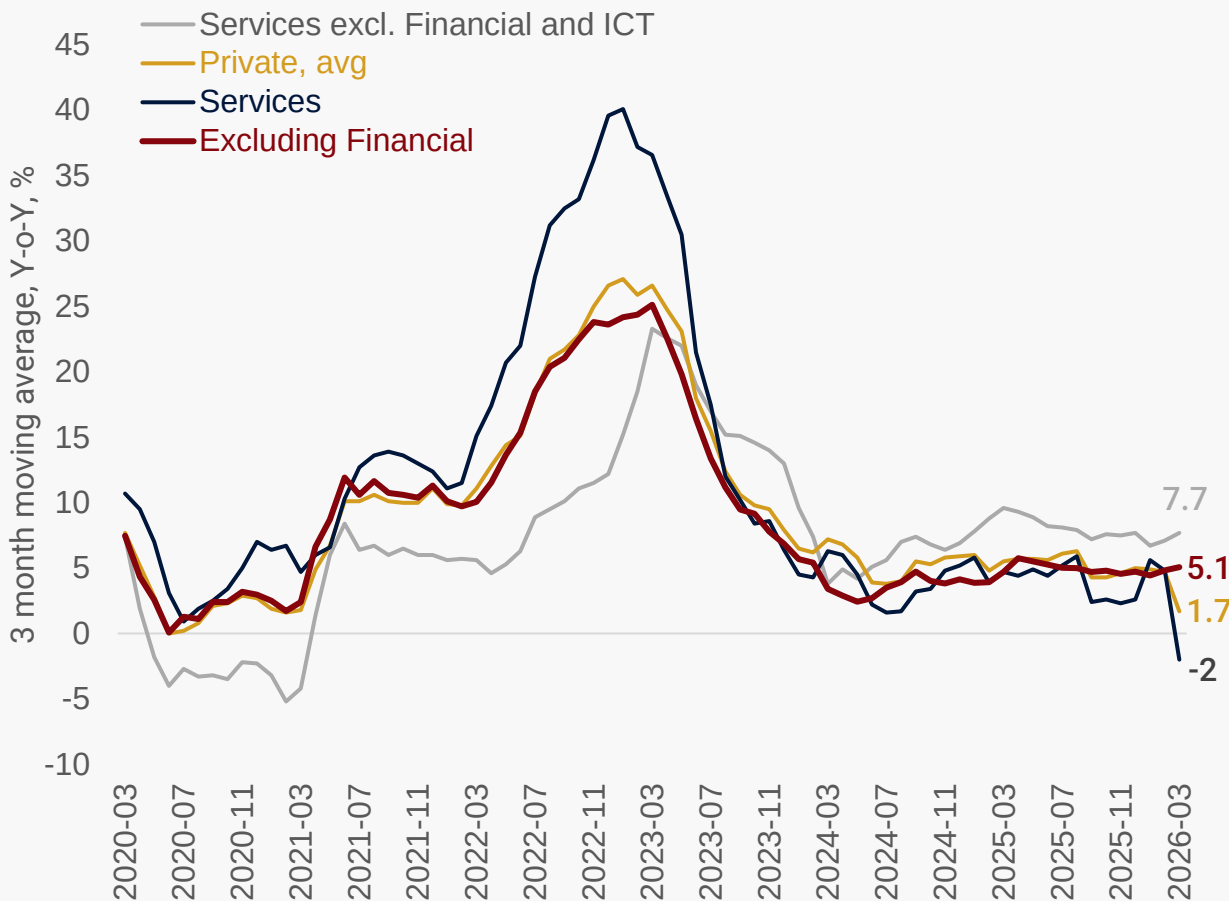
*Note: The estimate includes the increase in pensions and benefits from April 2026.

Source: Ministry of Finance of the Republic of Armenia, CBA calculations

- **Scenario 1.** Limited tax administration capacity in the context of a potential correction in economic growth.
- **Scenario 2.** Overspending on healthcare expenditures under the assumption of full execution of the tax revenue plan.
- **Scenario 3.** Full execution of the tax revenue plan, but under-execution of capital expenditures due to limited capacity to implement large-scale capital projects, in line with the trends observed in previous years.

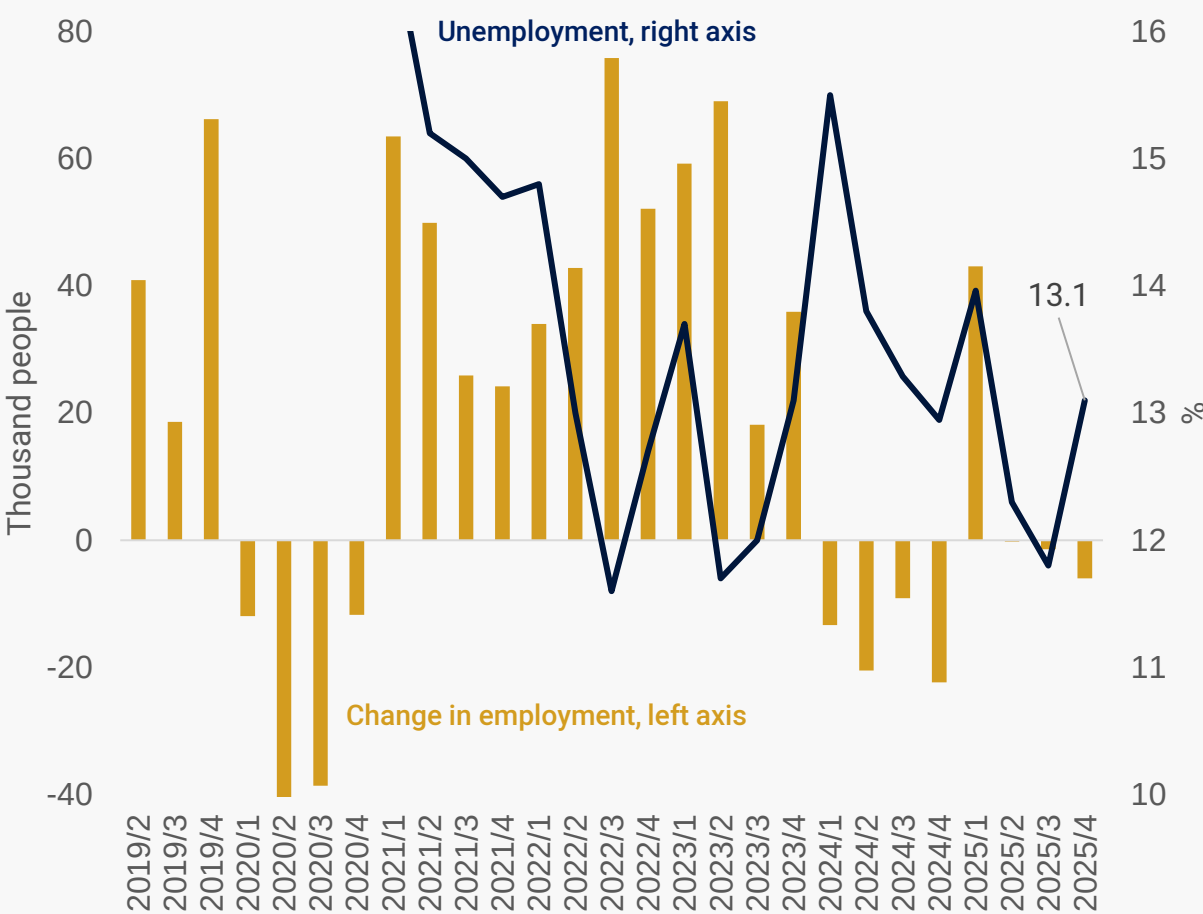
On the other hand, developments in the labor market may point to a more balanced position of the economy

The slowdown in wage growth is concentrated in the financial sector rather than being broad-based



Source: Statistical Committee of RA

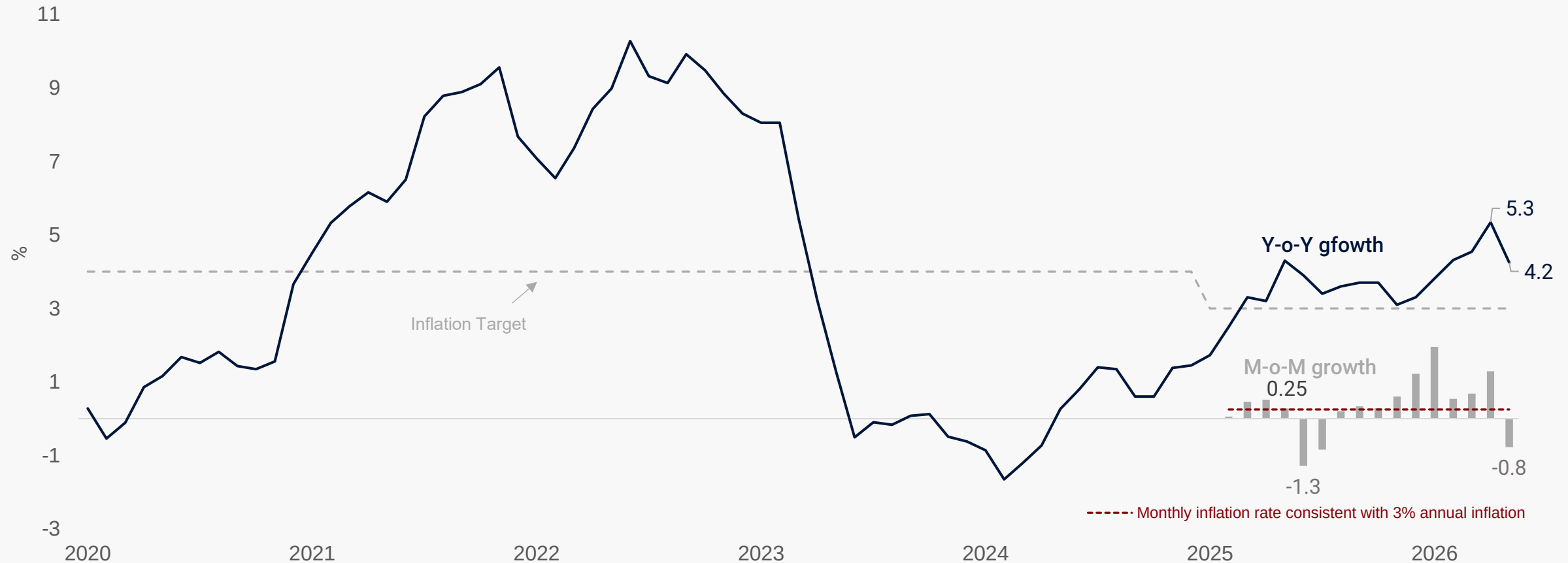
Labor market imbalances have eased significantly over recent quarters



Source: Statistical Committee of RA , SRC

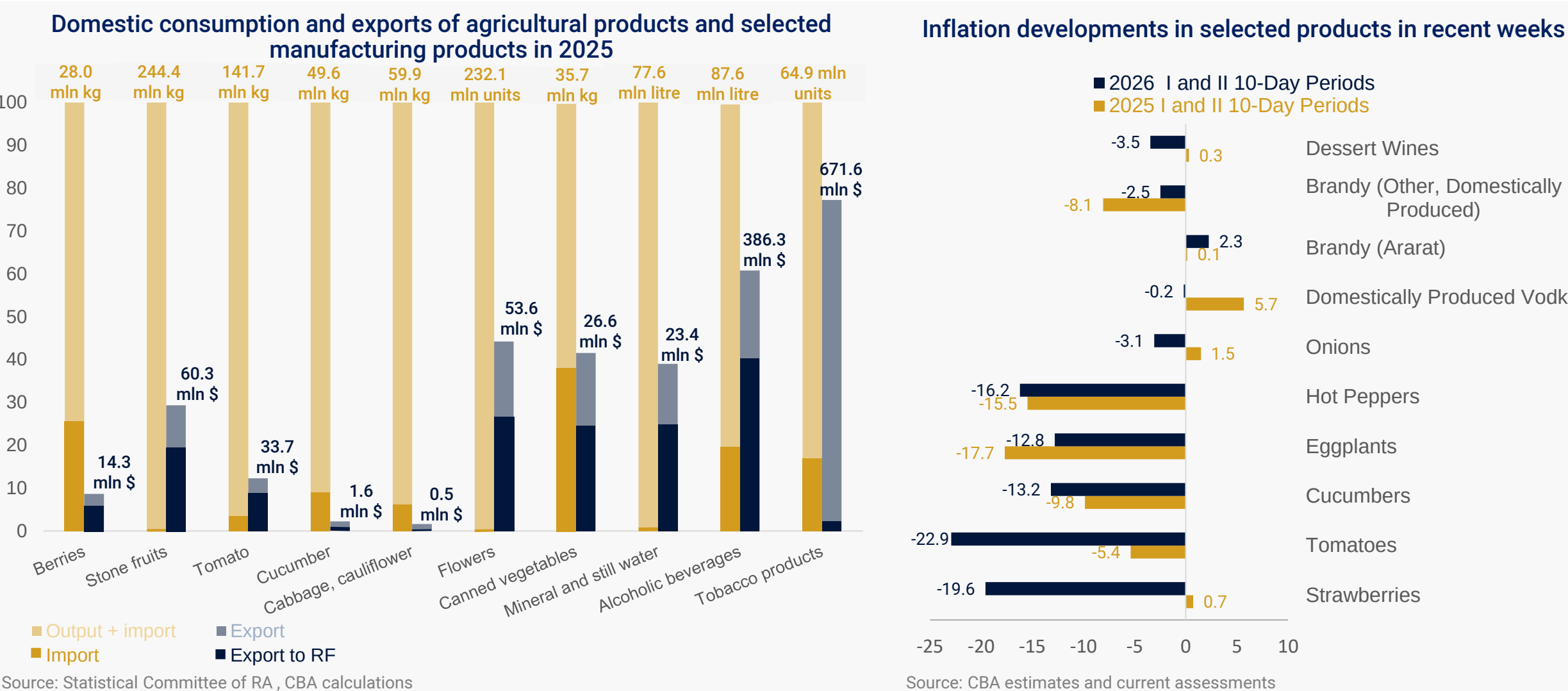
In May 2026, **Headline inflation** eased somewhat, primarily due to a more rapid adjustment in seasonal food prices

Inflation continues to remain above the target



Source: Statistical Committee of RA, CBA

Challenges in certain export markets may result in excess supply in some product categories, generating corresponding disinflationary pressures

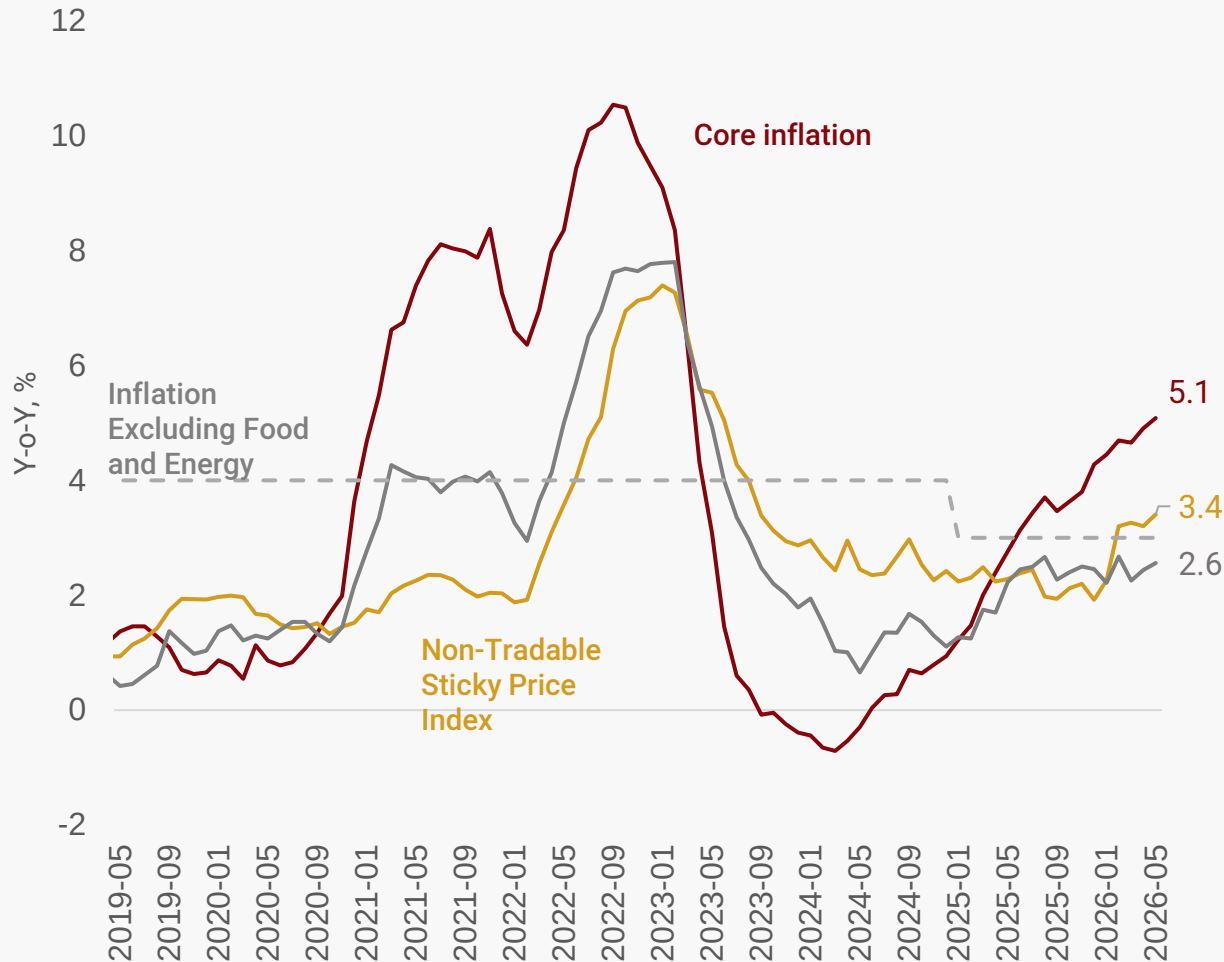


At the same time, developments in measures of **core inflation** provide mixed signals regarding the position of the economy



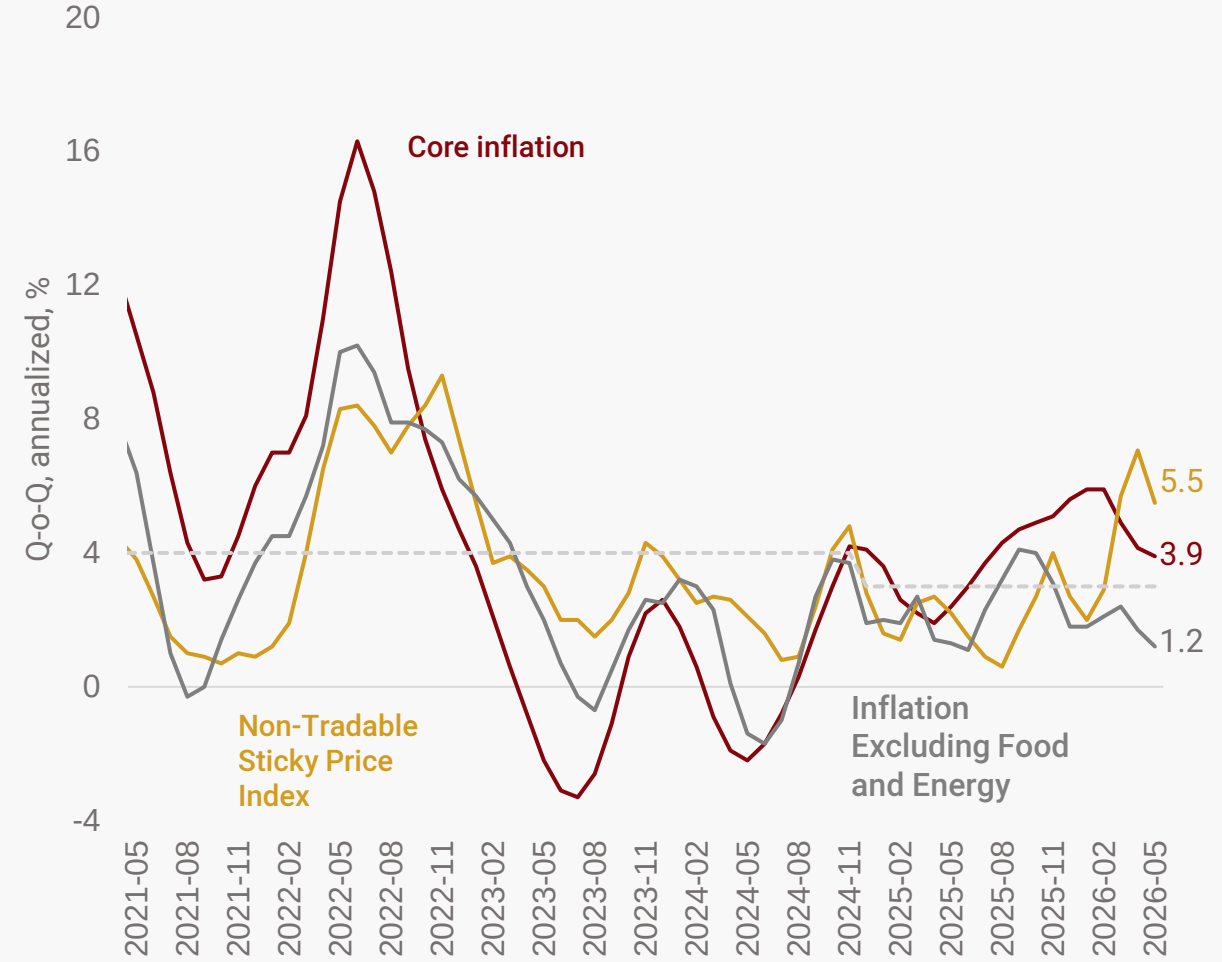
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Core inflation indicators, Y-o-Y



Source: Statistical Committee of RA

Core inflation indicators, Q-o-Q

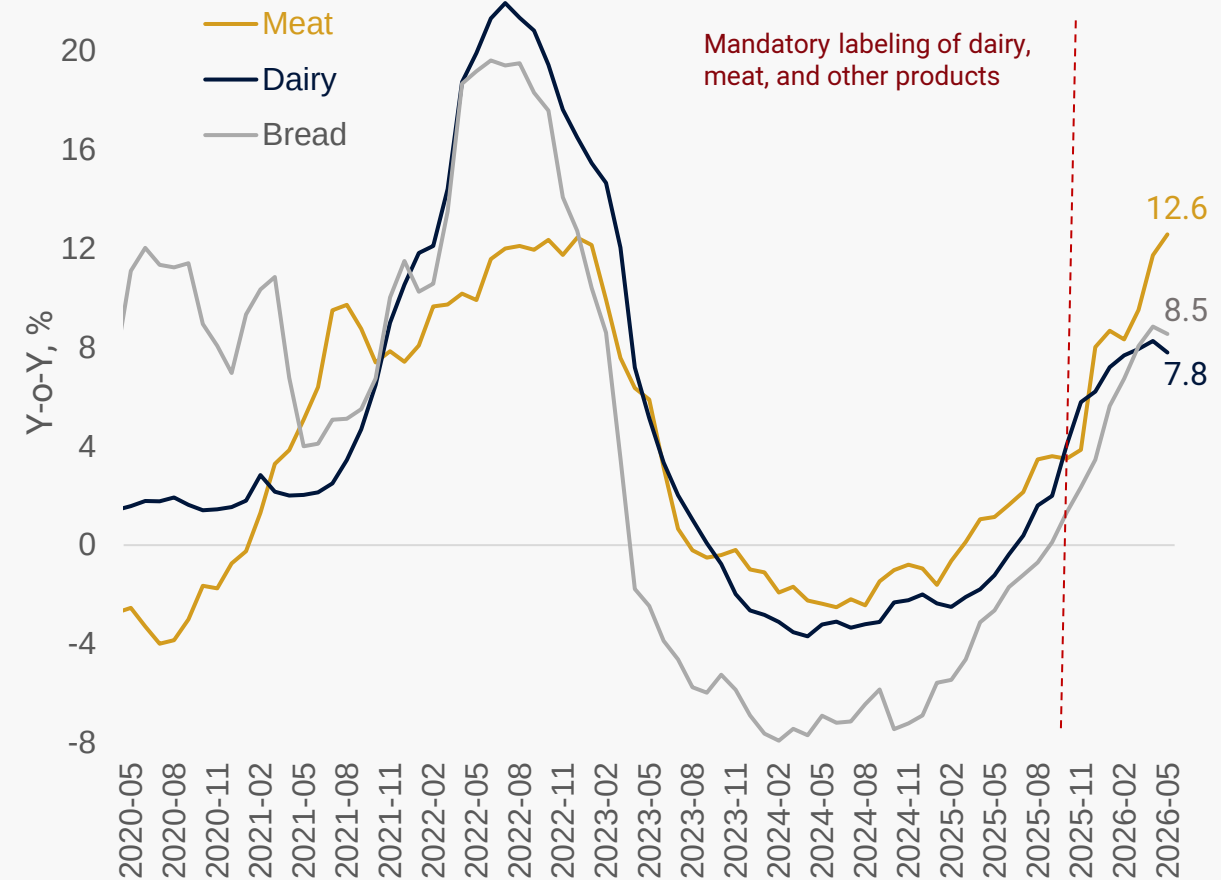
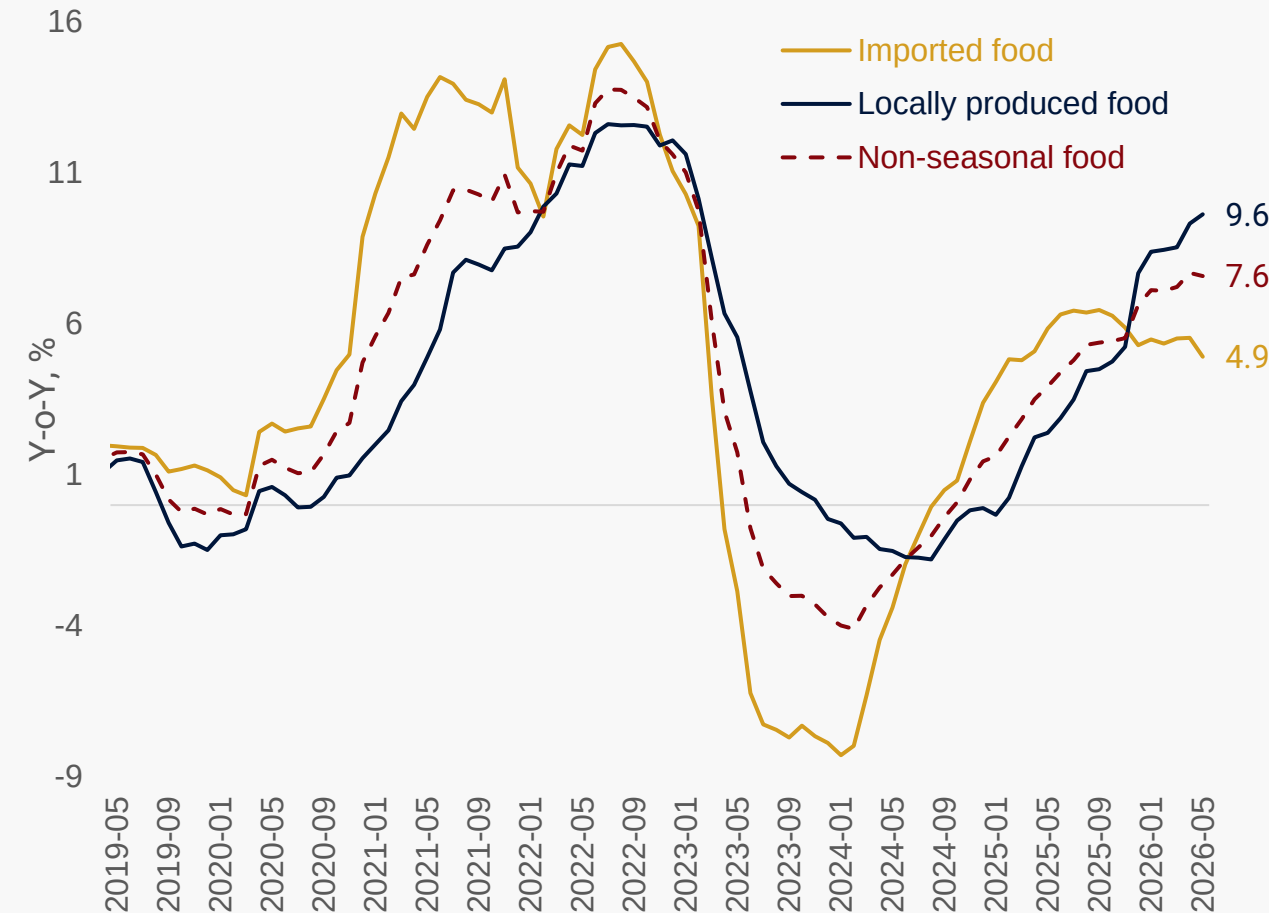


Source: Statistical Committee of RA, CBA calculations

High inflation in non-seasonal food products persists, reflecting both supply-side factors and, possibly, demand pressures

The acceleration in core inflation was largely driven by rising inflation in non-seasonal food products...

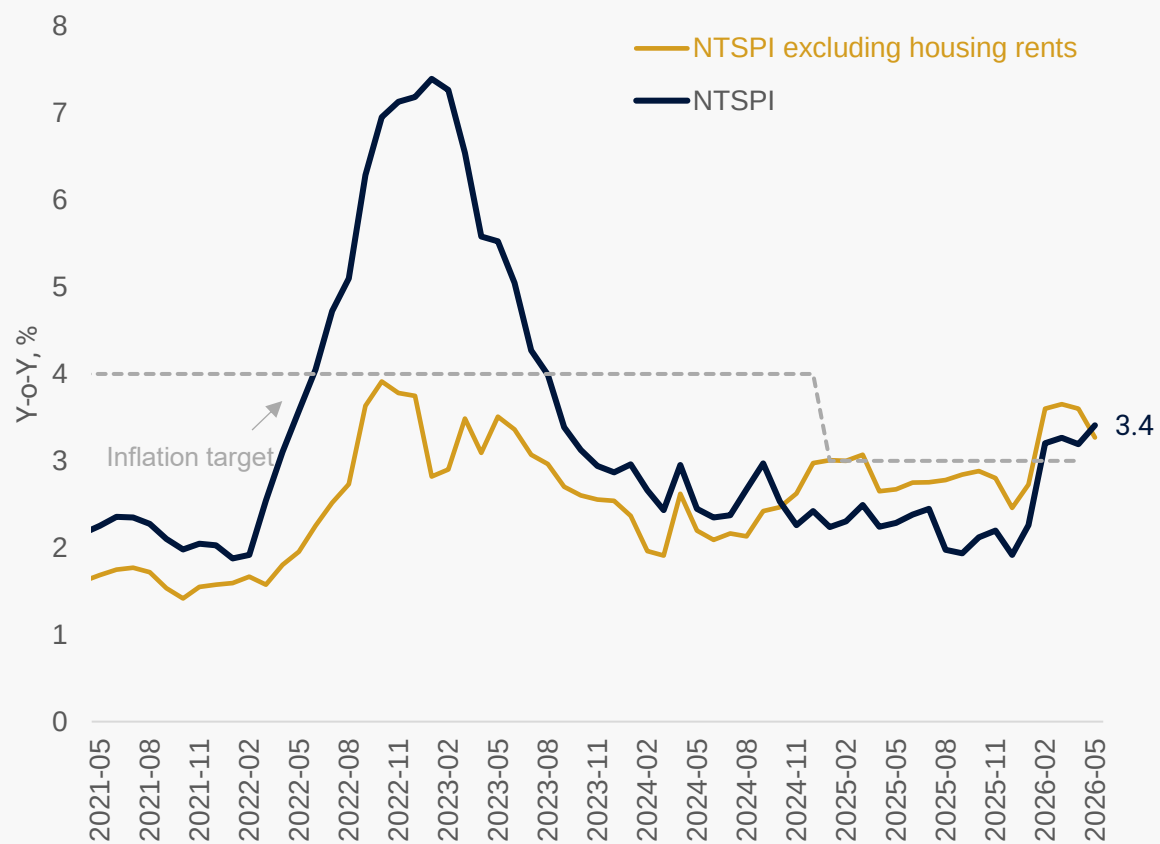
...reflecting both demand- and supply-side factors.



Source: Statistical Committee of RA, CBA

The sticky price inflation remains around the target, though accelerated recently

The acceleration in NTSPI in May was driven primarily by inflation in housing rents, which in turn reflects activity in the real estate market



Source: Statistical Committee of RA, CBA calculations

Inflation has accelerated noticeably across several services within NTSPI

	June-2026	February-2026	March-2026	April-2026	May-2026
Car washing	9.2	9.3	10.1	10.1	10.1
Banks, post offices	9.7	9.7	9.7	7.3	7.2
Preschool fees	9.6	9.6	9.6	9.6	9.6
Cinema	6.8	7.6	9	8.2	5.8
Taxi transport	4.8	5.4	8.1	7.2	11.2
Dry cleaning of clothing	6.7	5.6	7.3	6.5	6.5
Primary school	7.3	7.3	7.3	7.3	7.3
Men’s hairdressing services	9.3	8.8	5.7	5.6	3.8
Driving courses	8.3	8.3	5.3	4.3	3.2
Prepared food at fast food outlets	5.1	5	4.8	4.6	3.7
Computer courses	5.6	4.5	4.5	4.5	4.5
Swimming pool services	3.3	3.7	3.7	3.3	3.3

Source: Statistical Committee of RA, CBA calculations

On the other hand, the inflationary impact of **healthcare services** observed at the beginning of the year has diminished sharply in recent months, ...

Since the beginning of the year, inflation in healthcare services has been a key driver of the rapid increase in the non-tradable sticky price index...



Source: Statistical Committee of RA, CBA calculations

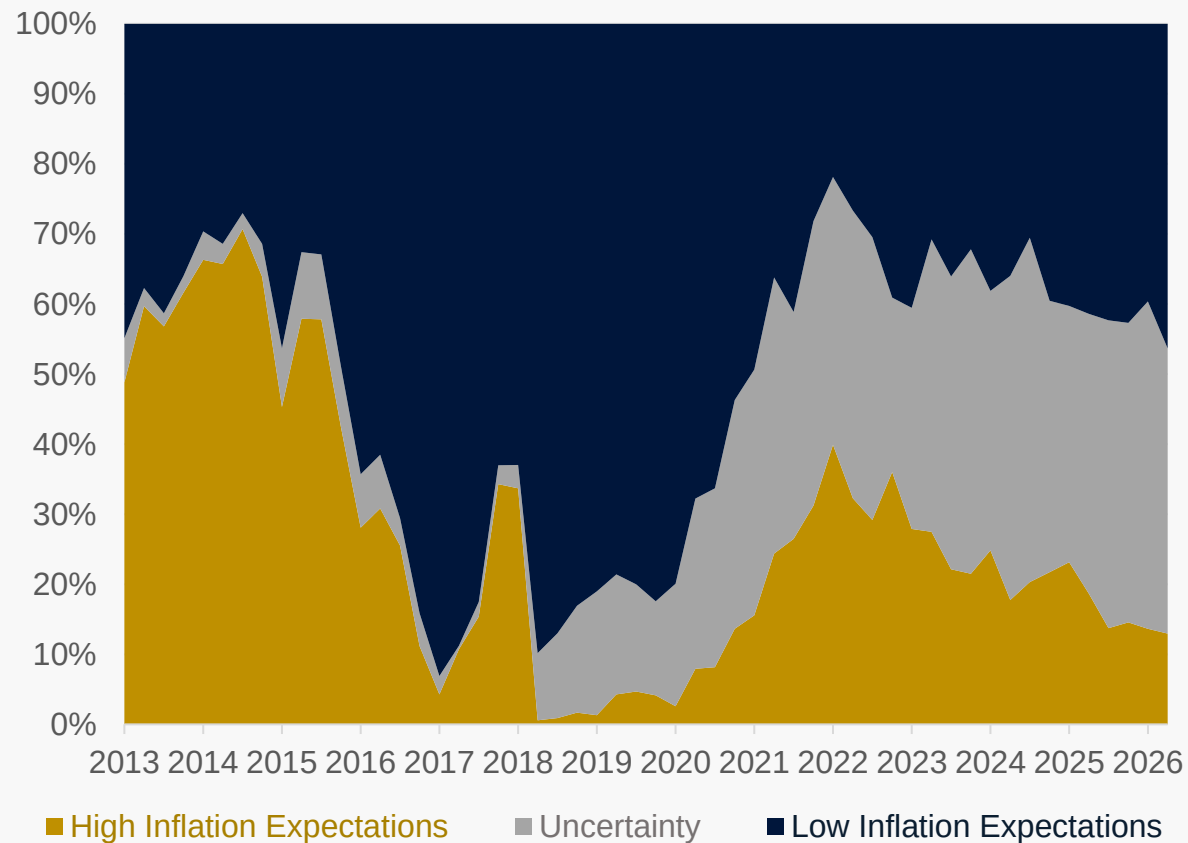
However, the pace of price adjustments in key healthcare services has slowed somewhat in recent months

	Cumulative Inflation, %		
	Jan-March, 2026	Jan-April, 2026	Jan-May, 2026
Medical services (Weights in Basket 5.7%)	5.5	5.5	5.5
Gynecologist services	9.9	9.9	9.9
Ophthalmologist services	4.7	4.7	4.7
Dental treatment	1.9	1.9	1.9
Dental prosthetics, crown installation	1.6	1.6	1.6
Medical ultrasound examination	10.7	10.9	10.9
Computed tomography (CT scan)	2.2	2.2	2.2
X-ray examination	5.1	5.1	5.1
Complete blood test	6.6	6.9	6.9
Urine laboratory test	5	5	5.0
Other diagnostic services (e.g., mammography)	9.7	9.7	9.7
Cardiology services	4.6	4.6	4.6
Endocrinology services	13.4	13.4	13.4
Surgical services	2.2	2.2	2.2

... while private-sector wage growth, inflation in sticky-price services, and inflation expectations continue to show signs of stabilization.

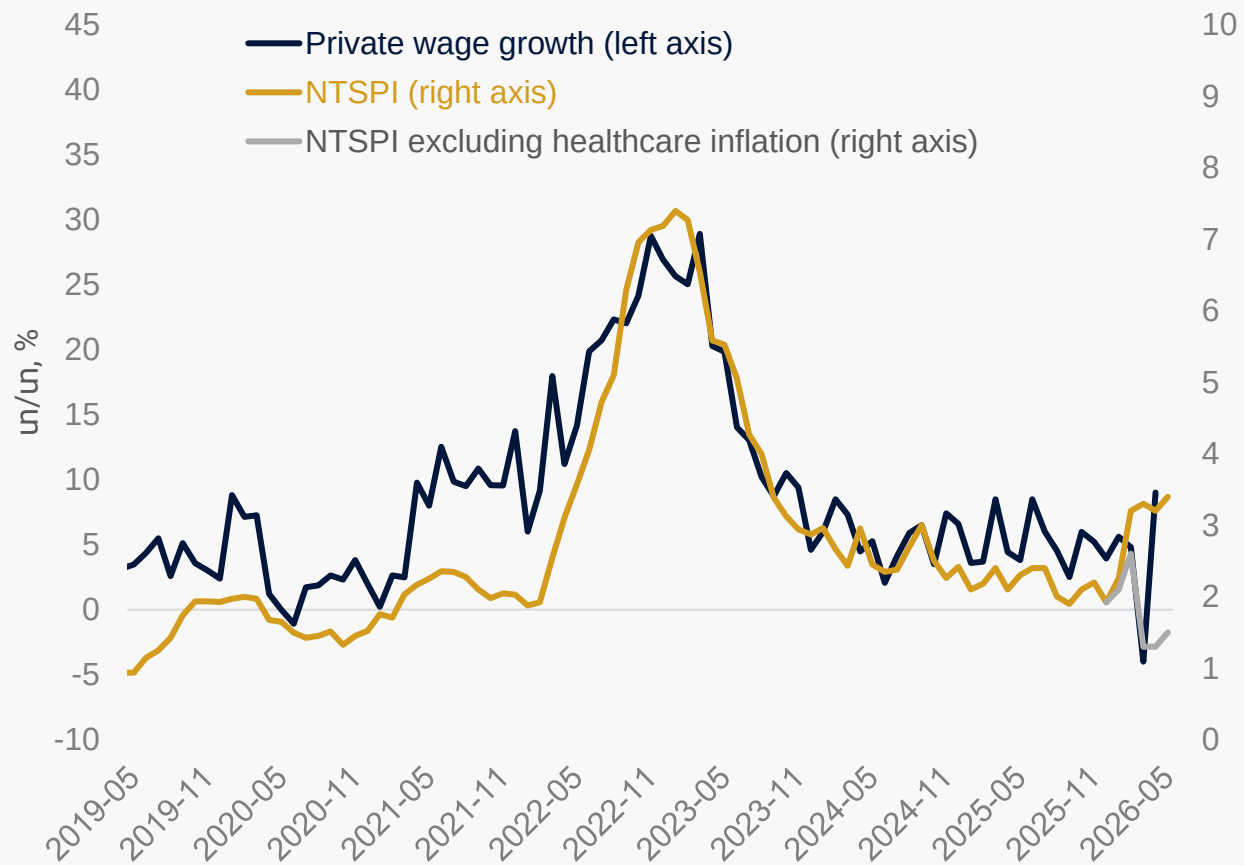
Uncertainty increased somewhat in Q2 2026, partly reflecting a decline in previously low inflation expectations.

Inflation expectations according to CBA surveys



Source: CBA

Nevertheless, non-tradable sticky prices and private-sector wages stabilize around their long-term sustainable levels



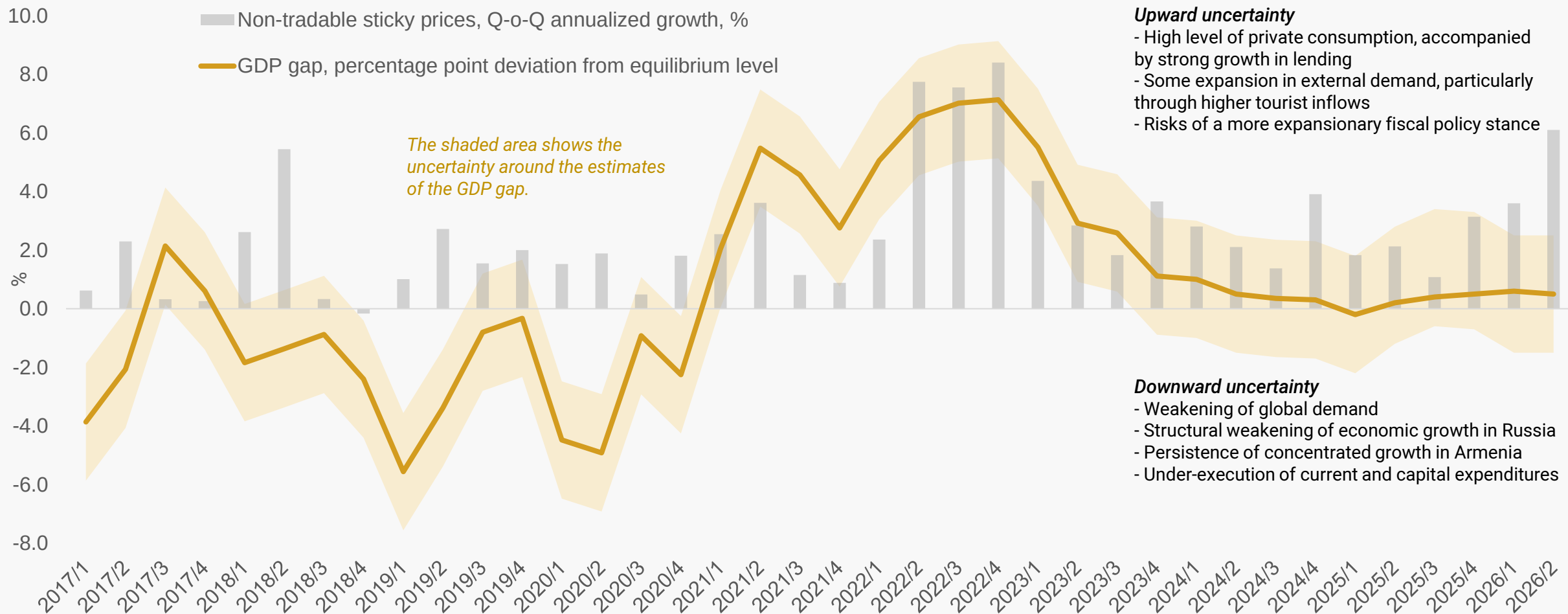
Source: Statistical Committee of RA, CBA



Where is the economy now?

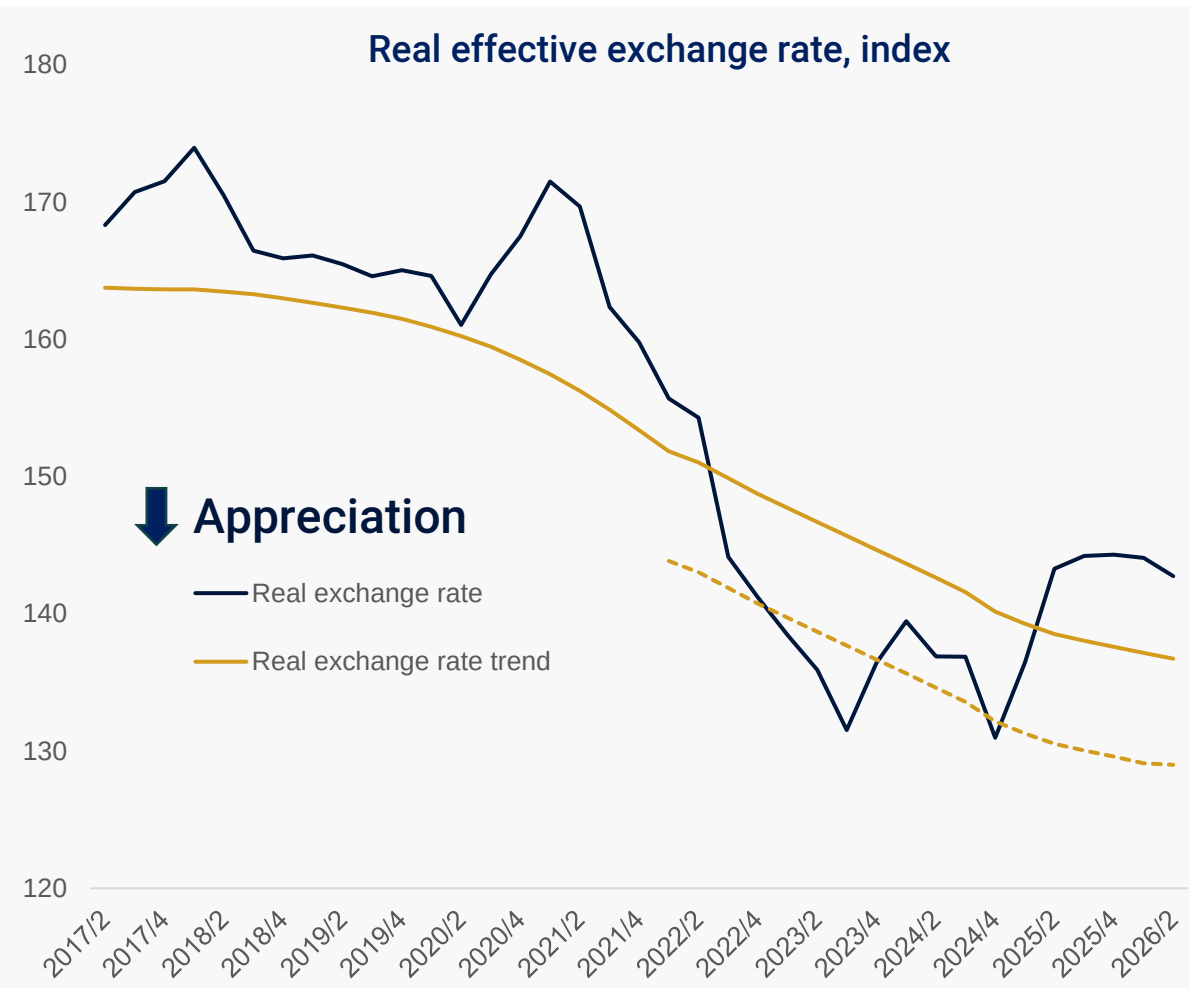
The structural characteristics of economic growth and uneven, mixed developments across different sectors increase the uncertainties around the relative position of aggregate demand and supply in the economy and the growth outlook.

GDP gap and inflation, financial market expectations scenario

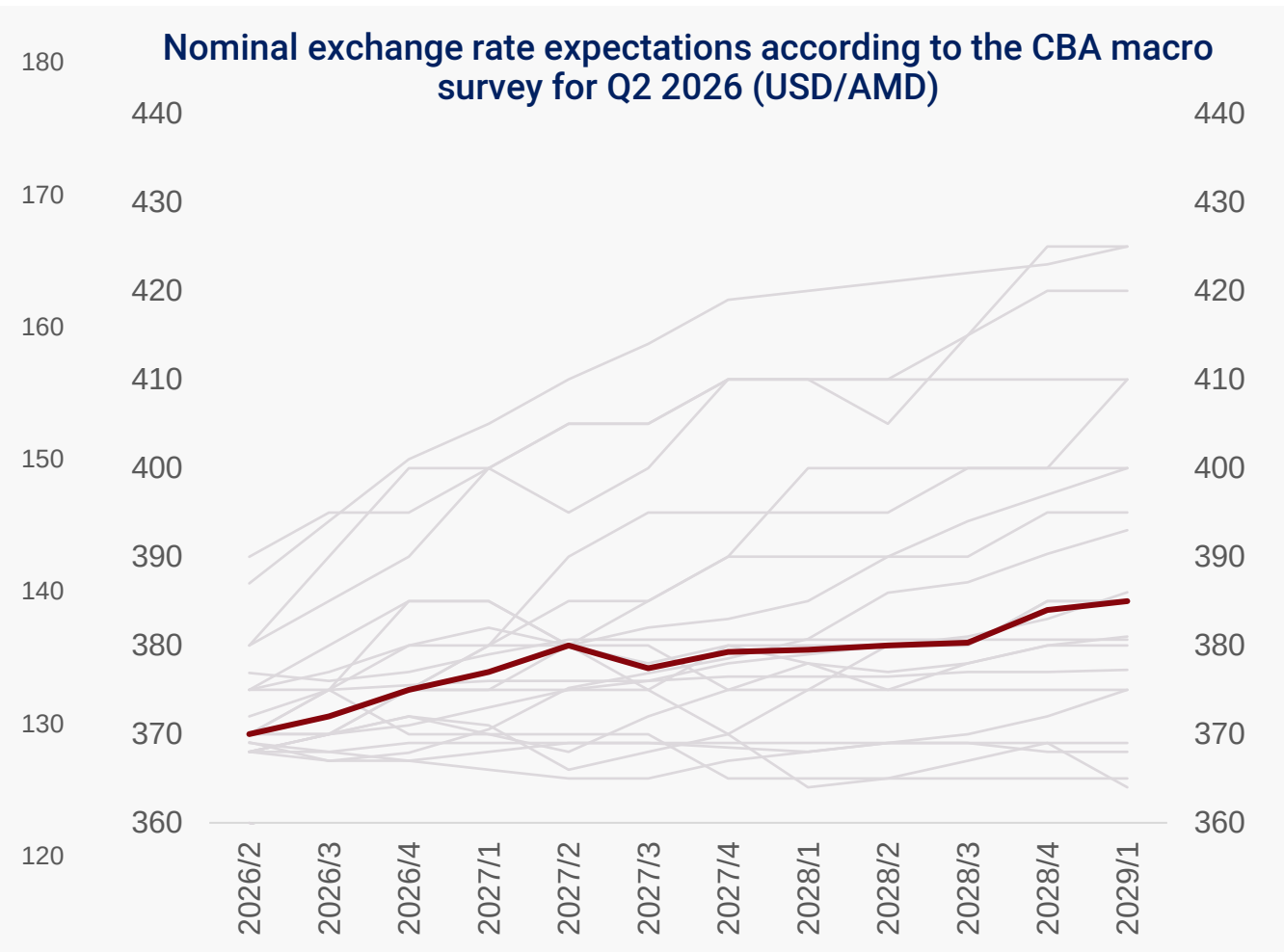


Source: CBA estimates

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”?



Source: CBA estimates

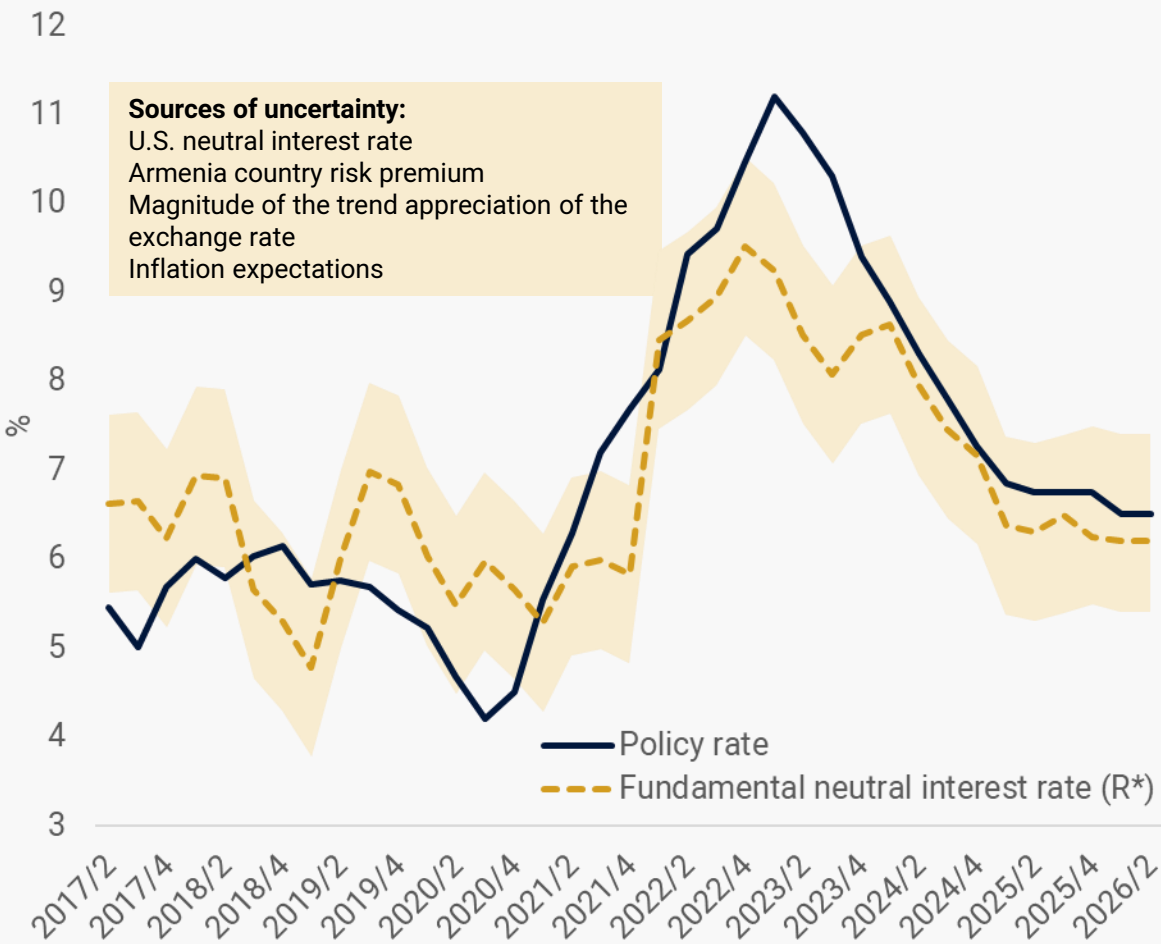


Source: CBA Macro survey

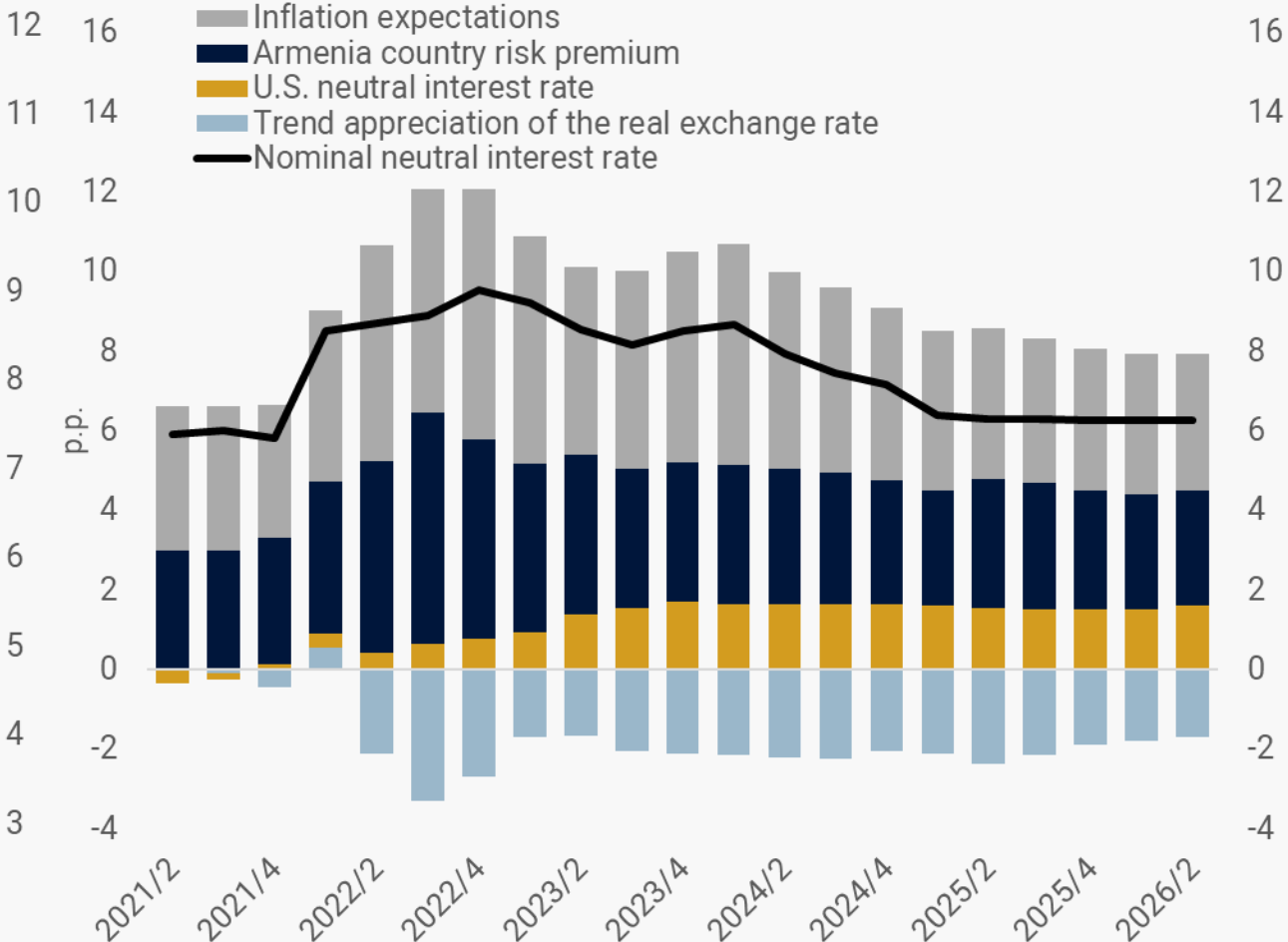
The close to neutral position of demand conditions in the economy, labor market developments, and the inflation environment may indicate that the policy stance is close to neutral.

At the same time, high uncertainty around the components of the neutral interest rate persists.

Policy rate and nominal neutral rate



Nominal neutral rate, %

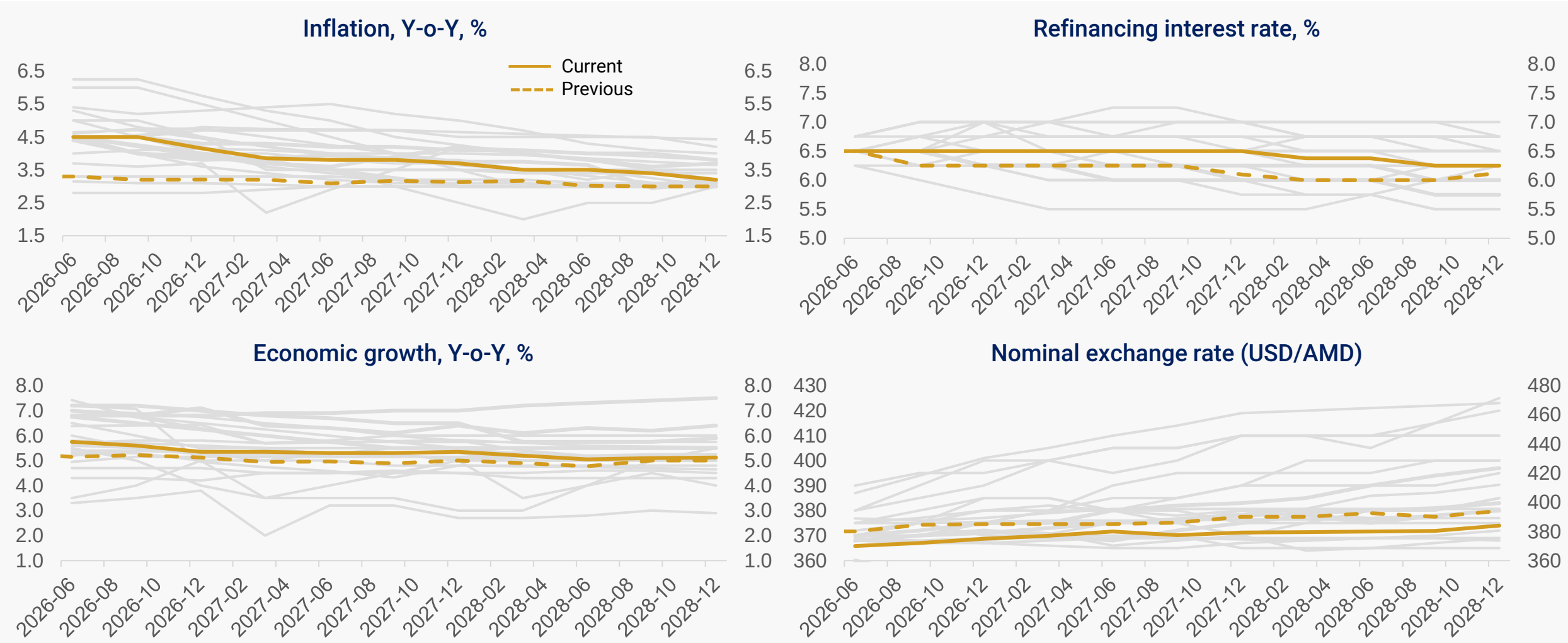


Source: CBA estimates



Market reference scenario and expectations

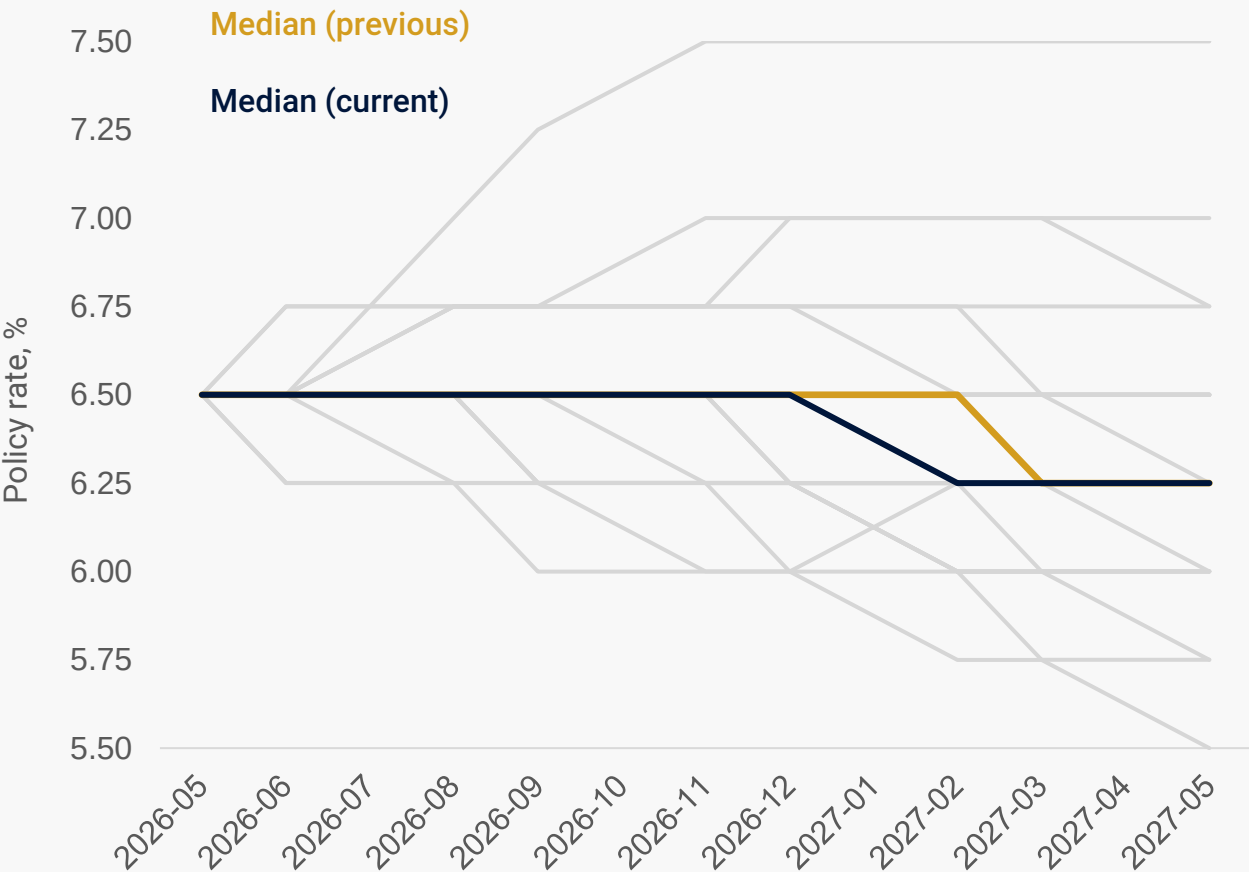
Macroeconomic surveys. Amid persistently strong economic activity and inflationary pressures transmitted from the external environment, market participants expect a somewhat higher policy rate path than in previous assessments.



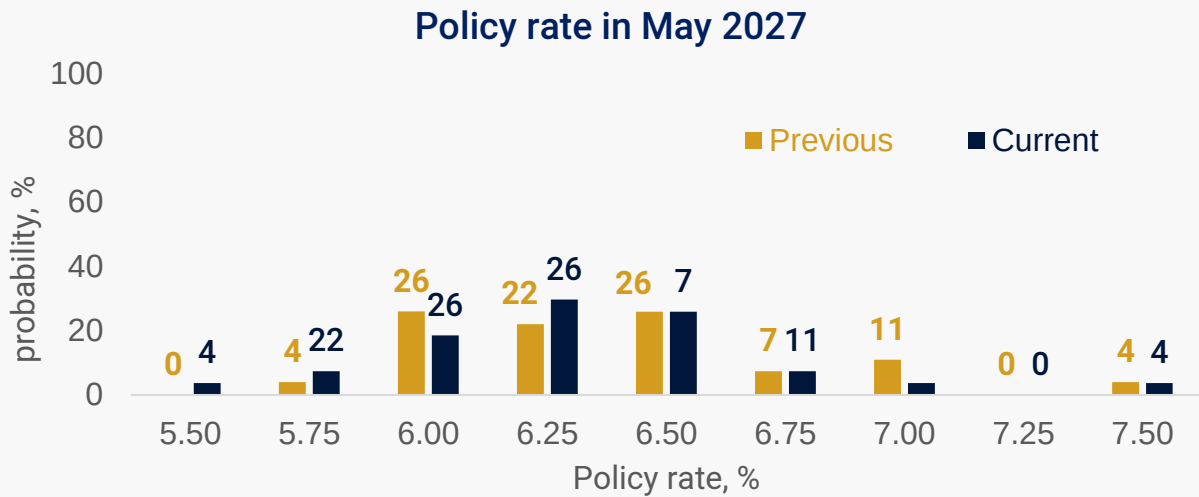
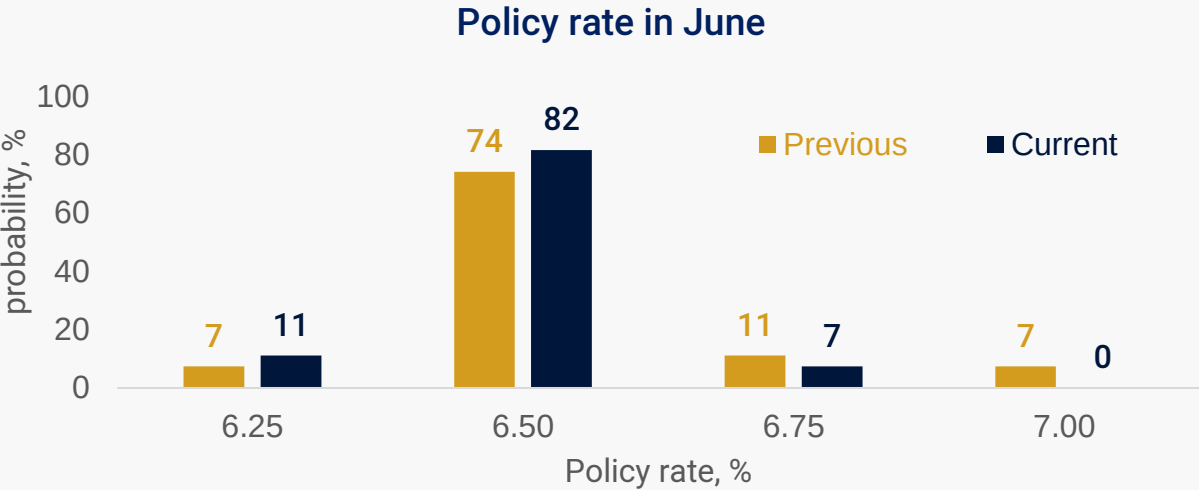
Source: CBA Macroeconomic Survey

“Real-time” survey. According to the latest survey, financial market participants, on average, consistent with the macroeconomic survey, expect the Central Bank to reduce the policy rate to 6.25%.

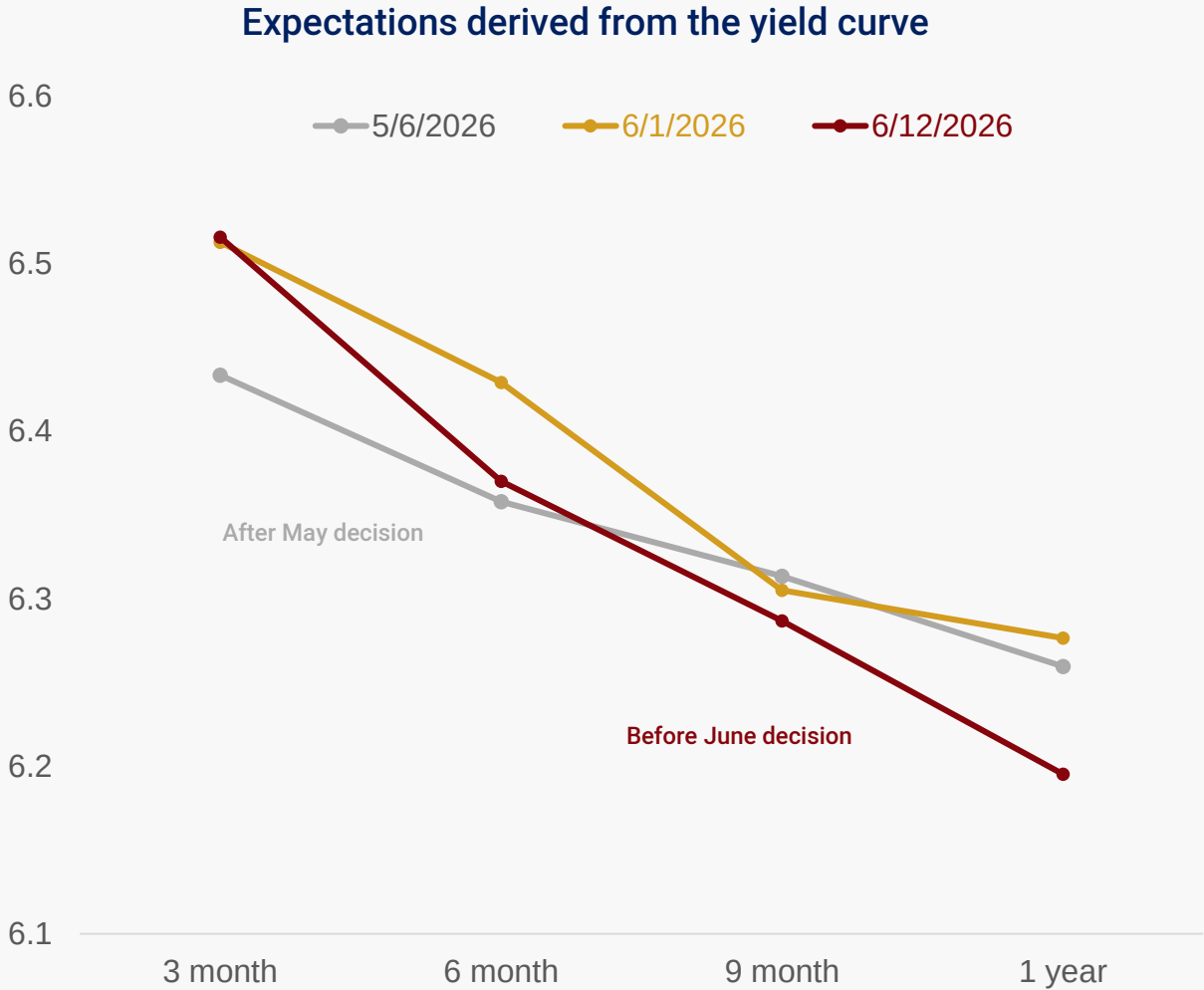
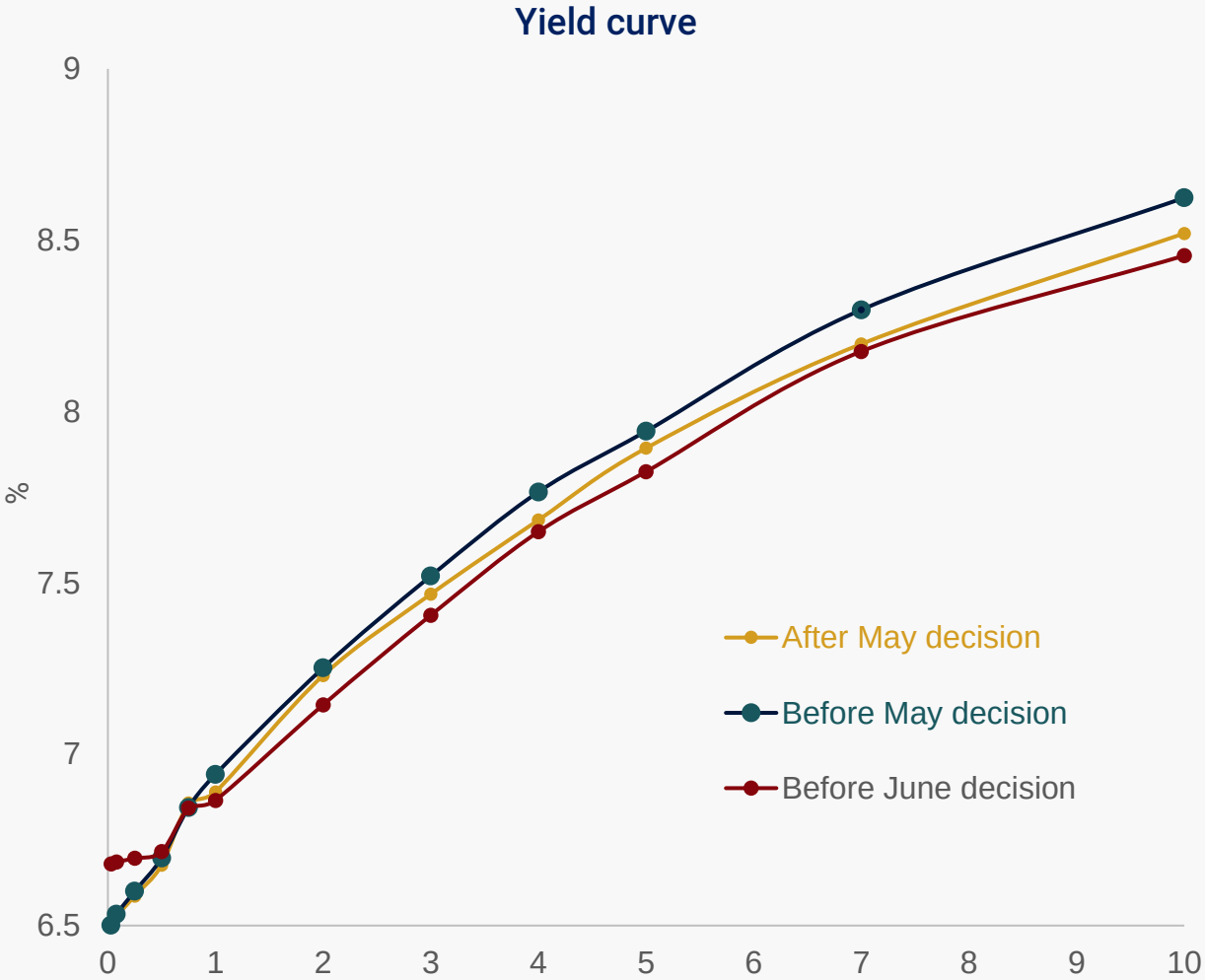
Expectations have remained broadly unchanged relative to the previous survey



Source: CBA survey of June 10



Developments in the short-term segment of the yield curve are also consistent with the survey results



Source: CBA



Taxonomy of **Scenarios**

Taxonomy of Scenarios.

Case A-Type Considerations

Expansionary Demand

- Uncertainty over Armenia's neutral interest rate; risks of it settling at a higher level.
 - In the US, given the limited scope for further revenue collection from tariffs and the uncertainty over the possible return of part of the previously collected revenue, together with the need to expand government spending, the risks of a higher debt-burden trajectory over the long term have increased. This could push up the neutral interest rate in the US, directly affecting the neutral rate in developing countries, including Armenia.
 - The implementation of fiscal support programs in response to Russia's tightening of import standards, under conditions of limited fiscal space, could lead to a rise in Armenia's risk premium.
- A prolonged period of high core inflation in Armenia—especially given that it is largely driven by essential, sensitive goods—could contribute to rising inflation expectations.

Expansionary Demand

- Uncertainty over aggregate demand conditions in the domestic economy; an excess-demand environment, its persistence or further expansion.
 - The continued recording of economic growth and high economic activity above the estimated long-term, sustainable level—driven mainly by services and construction and accompanied by strong growth in consumer lending—could point to excess demand conditions in the Armenian economy.
 - Additional stimulus to demand from fiscal policy in the context of a possible overrun in planned spending on universal health insurance, under conditions of limited scope for expanding capacity in the sector.
 - An acceleration of tourist flows to Armenia amid a prolonged period of geopolitical tension in the Middle East, which could generate additional demand and inflationary pressures in the economy.
 - A rise in the supply of liquidity in Armenia's financial system could support further easing of lending conditions, which in turn could stimulate demand in the economy.

Taxonomy of Scenarios.

Case A-Type Considerations

Expansionary Demand

- Amid a prolonged Russia–Ukraine conflict, the gradual tightening of sanctions against Russia, growing uncertainty over the economic outlook, and a deteriorating business environment, additional inflows of capital and labor to Armenia—with risks, in the short term, of broadening demand and inflationary pressures in particular.
- Capital flows to developing economies, including Armenia, amid global imbalances, which would initially pose Case A-Type risks to the economy by stimulating consumption, credit growth, and investment.
- Amid the continuity of favorable geopolitical developments around Armenia, additional incentives for investment and economic activity have emerged, which could broaden the domestic inflationary environment.

Expansionary Demand

- Amid geopolitical risks—particularly a prolonged period of tension in the Middle East—energy and food prices, as well as freight costs, could remain elevated for an extended period or rise further, with corresponding inflationary effects on the Armenian economy.

Taxonomy of Scenarios.

Case B-Type Considerations

Contractionary Demand

- Risks of weak demand conditions in the global economy or in individual partner economies, and/or their further weakening.
 - A significant weakening of demand in the global economy amid geopolitical uncertainty and a prolonged period of high energy prices.
 - A possible downward correction in the prices of financial assets in the US—particularly securities, given the risks that they are overvalued—could reduce household wealth, contributing to a slowdown in economic growth and affecting global demand conditions.
 - Given the buildup of structural problems in certain parts of the Russian economy, a further weakening of economic activity and domestic demand, with corresponding effects on Armenia's exports of goods and services as well as on remittance flows.

Contractionary Demand

- Uncertainty over aggregate demand conditions in the domestic economy; a weak-demand environment, its persistence or further expansion.
 - The relatively weak pace of wage growth and the stable level of services inflation in the Armenian economy could point to relatively weak domestic demand conditions.
 - A decline in revenues and a weakening of demand conditions in the economy, amid Russia's tightening of import standards and the limited scope for redirecting to other markets.

Taxonomy of Scenarios.

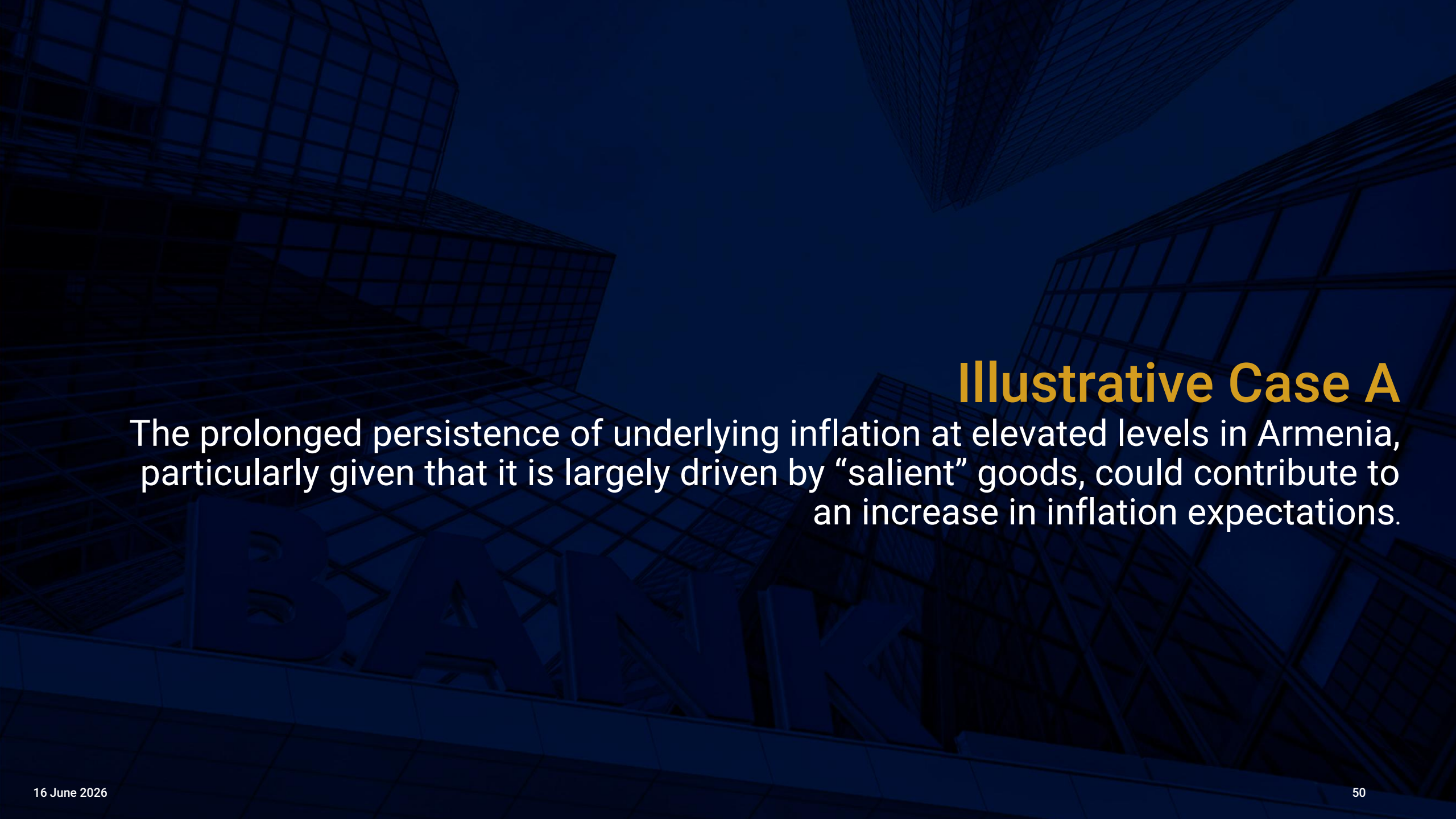
Case B-Type Considerations

Contractionary Demand

- Uncertainty over Armenia's neutral interest rate; risks of it settling at a lower level.
 - Amid easing security risks around Armenia and a gradual improvement in fundamentals, the formation of a lower long-term level for the country's risk premium and neutral interest rate.

Expansionary Supply

- A continued rise in labor supply in the Armenian economy, driven by uncertainties over the medium-term outlook for the Russian economy and, in particular, by the ongoing decline in seasonal migration from Armenia to Russia amid tighter migration policy there.
- Russia's tightening of import conditions could lead to excess supply of certain goods, exerting disinflationary pressure on the economy.
- A full resolution of the Middle East conflict in the period ahead, as a result of which energy prices would fall sharply, settling at the levels recorded before the conflict began.



Illustrative Case A

The prolonged persistence of underlying inflation at elevated levels in Armenia, particularly given that it is largely driven by “salient” goods, could contribute to an increase in inflation expectations.

Illustrative Case A scenario. A higher policy rate path relative to current market expectations

The prolonged persistence of underlying inflation above the target, particularly given the higher growth in the prices of everyday consumer (salient) goods, could lead to an increase in inflation expectations.

Brief Description of the Scenario

- Developments observed in individual components of the consumer basket may contain important information regarding the persistence of inflationary pressures and, in particular, the formation of inflation expectations.
- In recent months, headline inflation in Armenia has moderately exceeded the target, mainly reflecting pressures transmitted from the external environment. At the same time, price growth in certain frequently purchased and highly visible (salient) product categories has been significantly higher, which tends to have a greater influence on consumers' inflation perceptions and expectations.
- At the same time, surveys conducted by the CBA among households and financial institutions also contain weak signals of rising inflation expectations and uncertainty surrounding them.
- Underestimating the developments assumed under this scenario could lead to a loss of central bank credibility, thereby increasing the future costs of maintaining price stability.

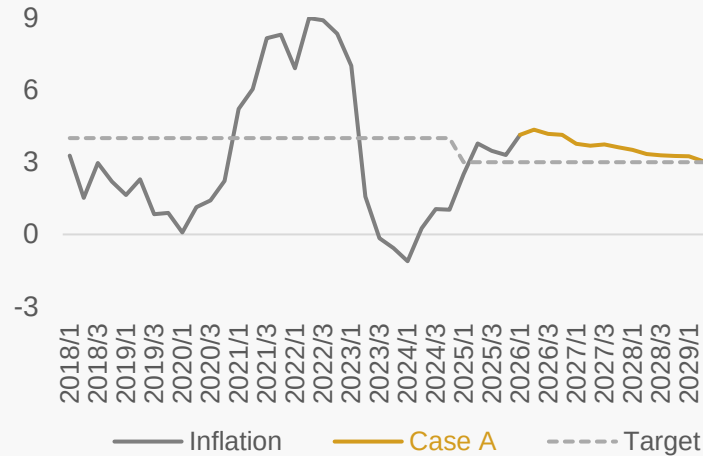
Inflation in staple goods has recently been significantly higher than headline inflation.



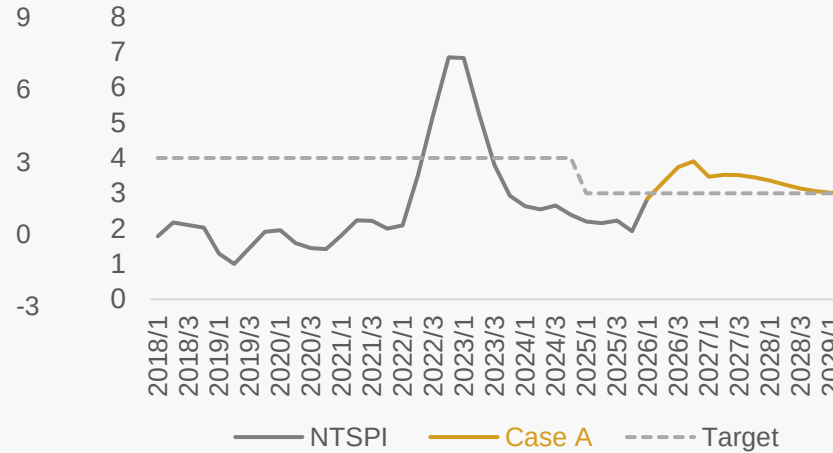
Source: Statistical Committee of RA, CBA calculations

Case A. A higher policy rate path relative to current market expectations

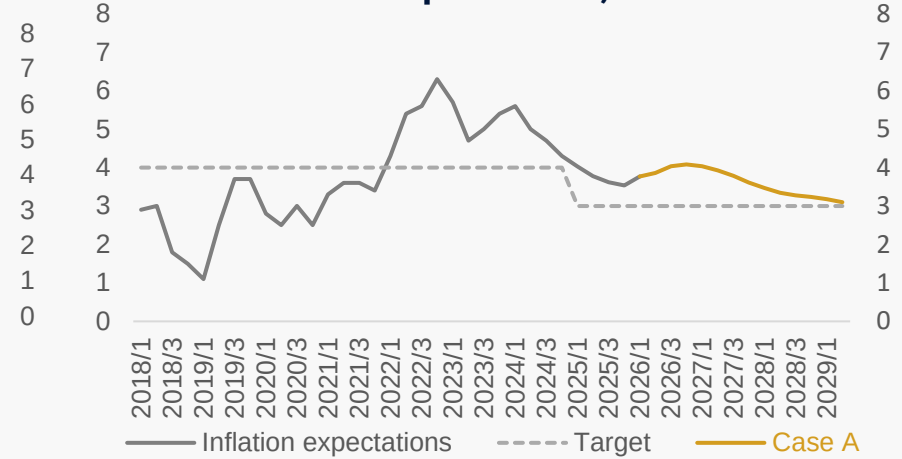
Inflation, Y-o-Y



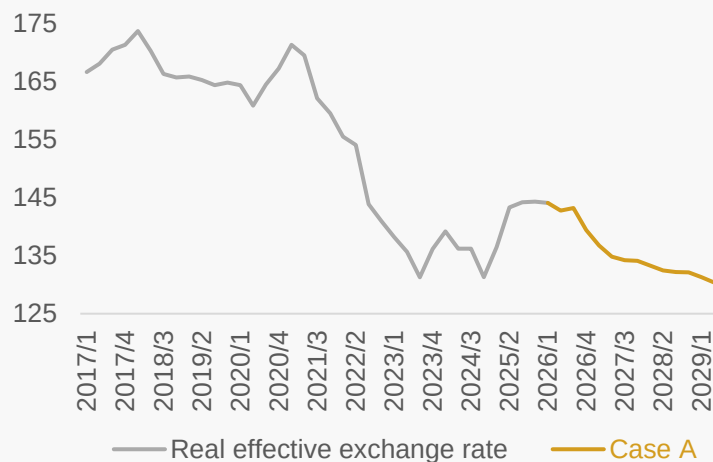
Non-tradable sticky prices, Y-o-Y



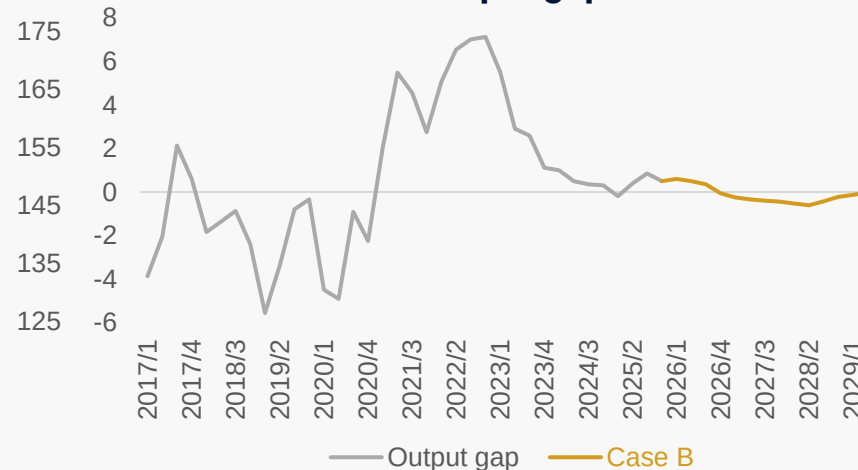
Inflation expectations, Y-o-Y



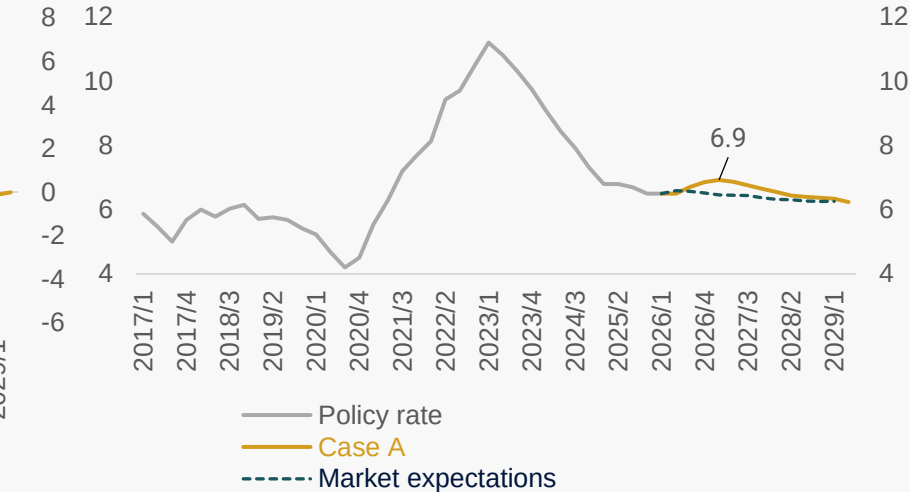
Real effective exchange rate



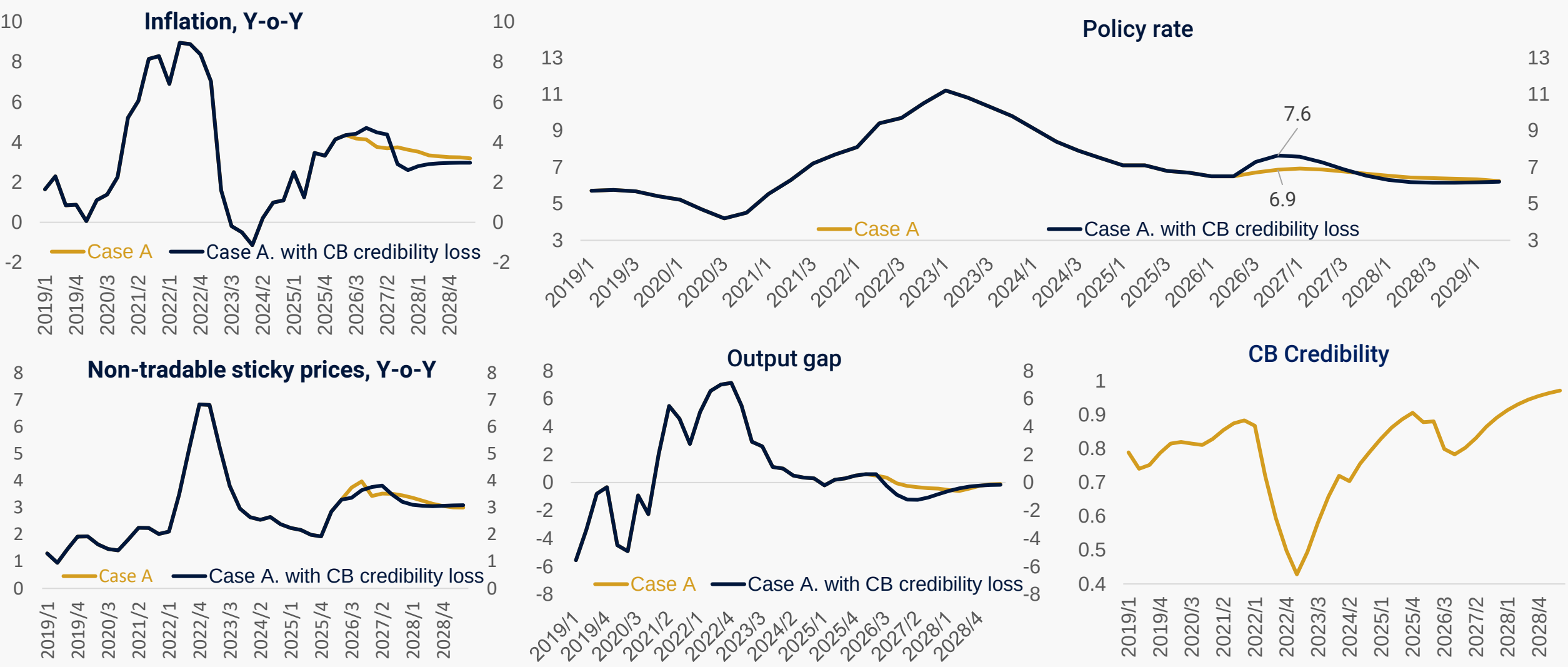
Output gap

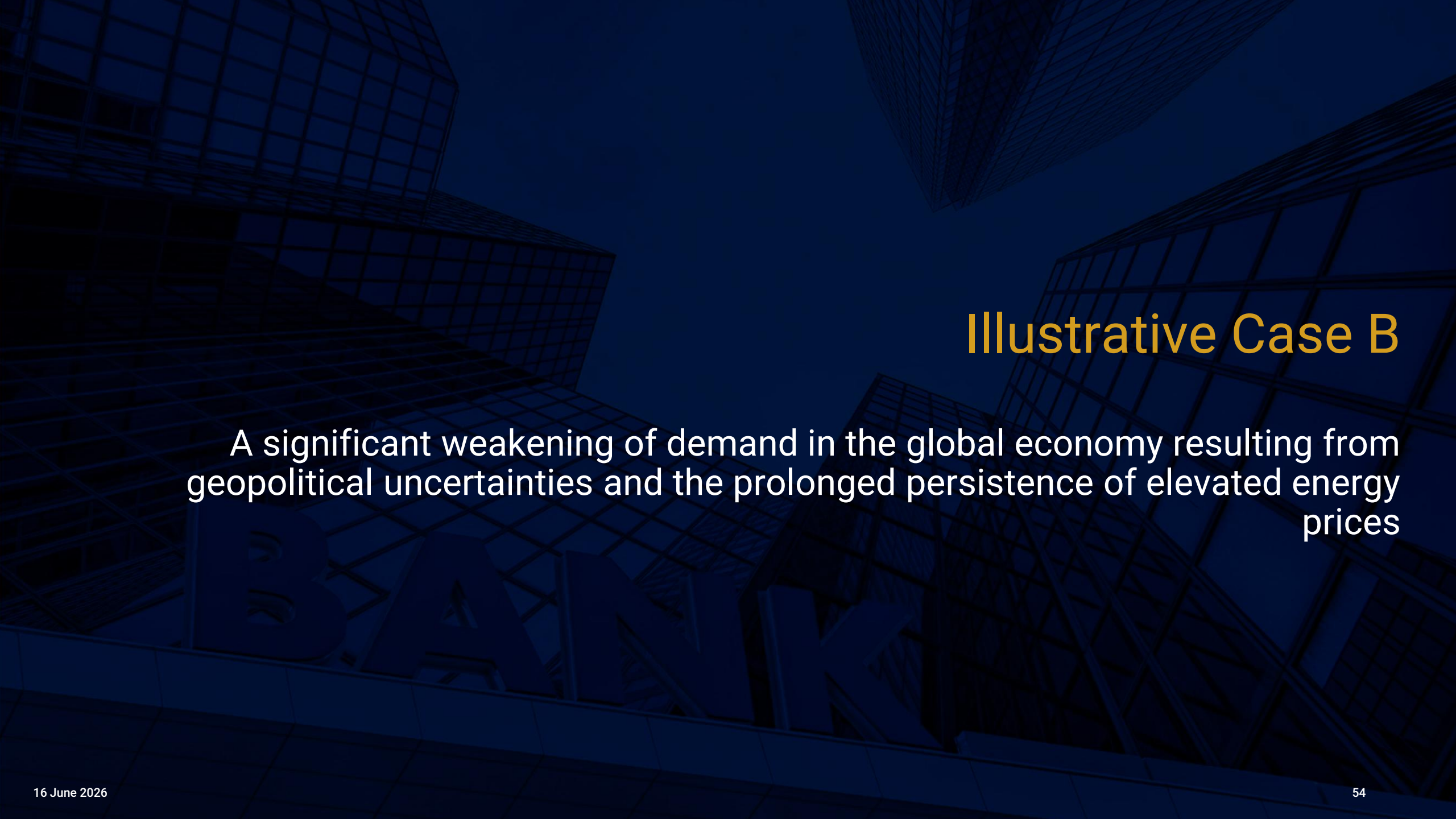


Policy rate



Case A. Central bank **Credibility loss** would require a sharper policy rate response





Illustrative Case B

A significant weakening of demand in the global economy resulting from geopolitical uncertainties and the prolonged persistence of elevated energy prices

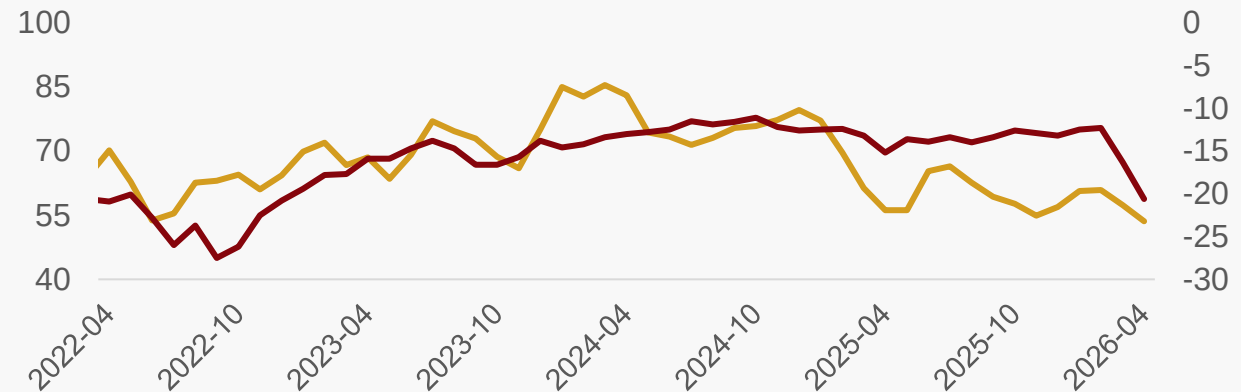
Typical B scenario. A lower policy rate path relative to current market expectations.

The outlook for the global economy continues to deteriorate amid elevated geopolitical uncertainty and the prolonged persistence of high energy prices

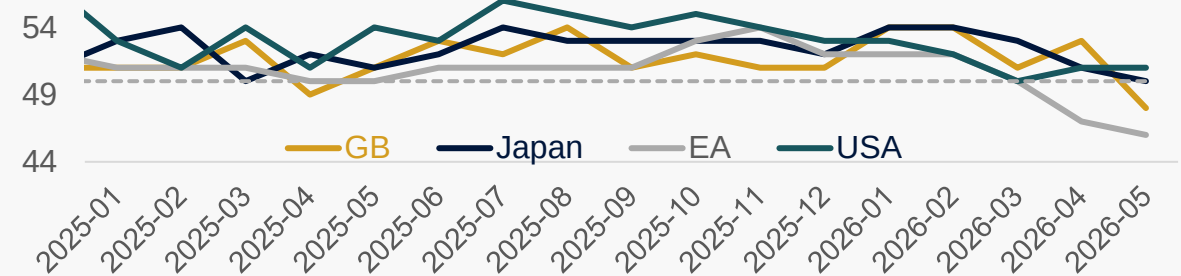
Brief Description of Scenario

- Signals of weakening global demand are gradually intensifying amid elevated uncertainty and the prolonged persistence of high and volatile energy prices.
- A growing body of research suggests that uncertainty shocks can lead to significant declines in output, employment, and investment, as economic agents tend to postpone spending and investment decisions under conditions of elevated uncertainty. At the same time, persistently high oil prices reduce households' real incomes, thereby constraining economic activity.
- While such developments could initially generate additional inflationary pressures for Armenia, in the event of a significant weakening of global demand, their macroeconomic impact would become predominantly disinflationary over the medium term.

Signals of weakening consumer sentiment are emerging in the **U.S.** and the **euro area**

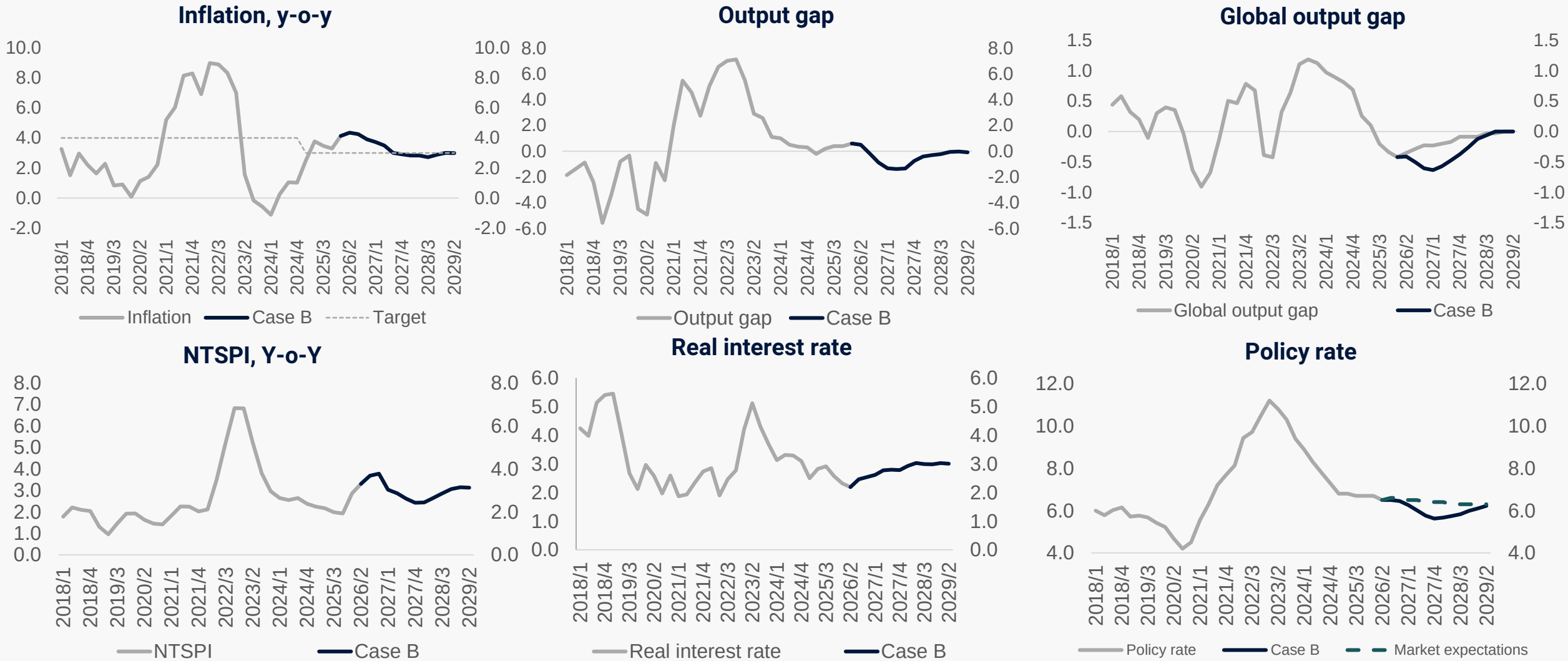


The decline in the services PMI also reflects weakening consumer sentiment.



Source: FRED, Eurostat, Bloomberg

Case B. A lower policy rate path relative to current market expectations

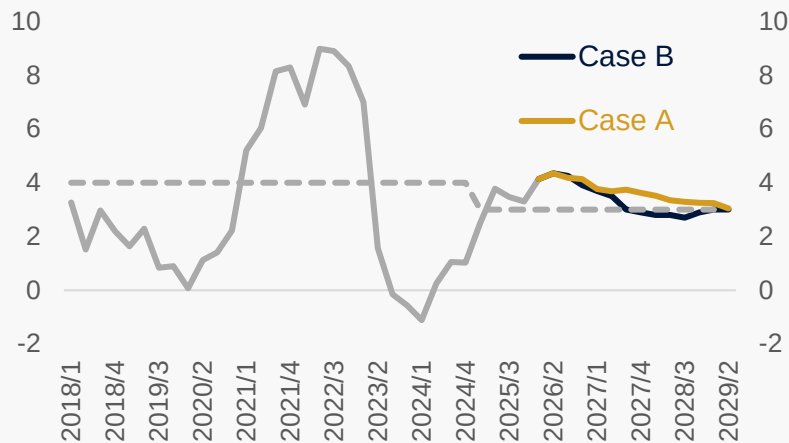




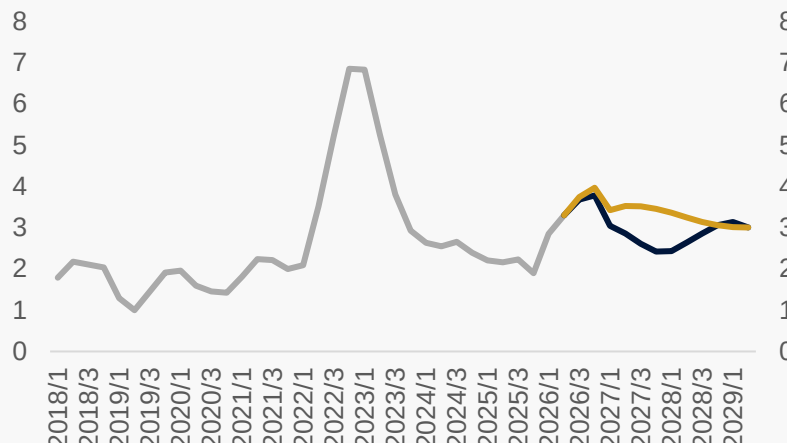
Policy deliberations

Case A / B scenarios

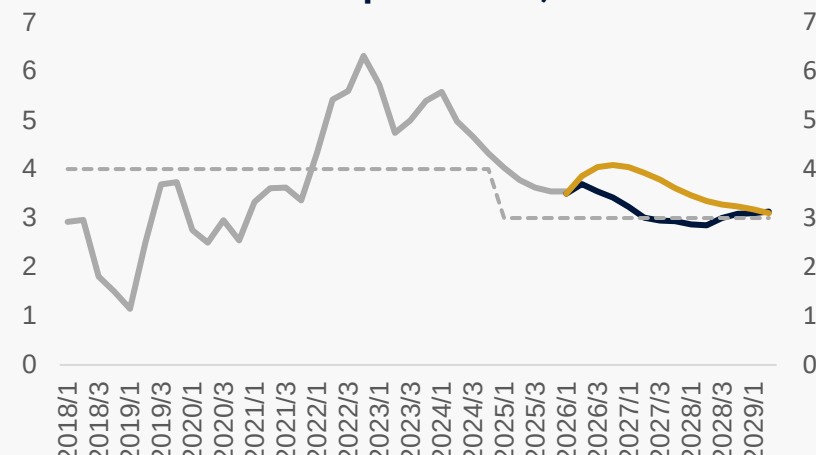
Inflation, Y-o-Y



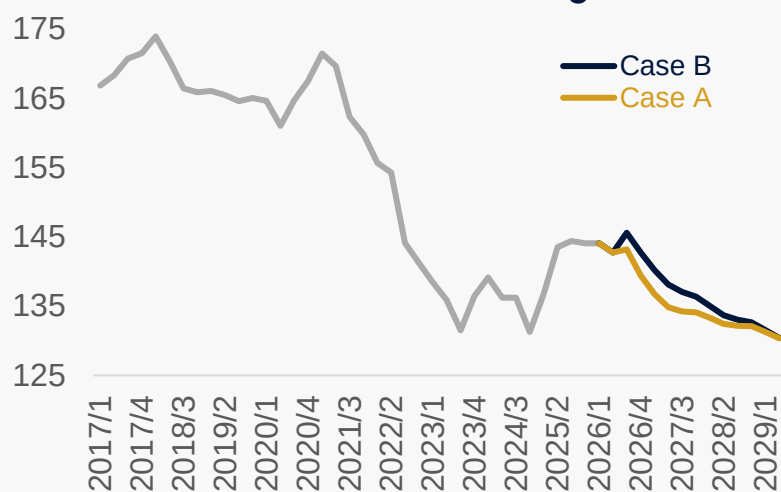
NTSPI, Y-o-Y



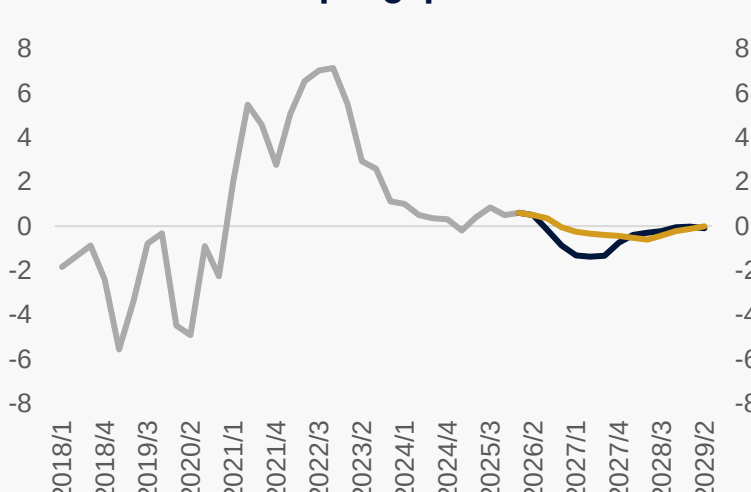
Inflation expectations, Y-o-Y



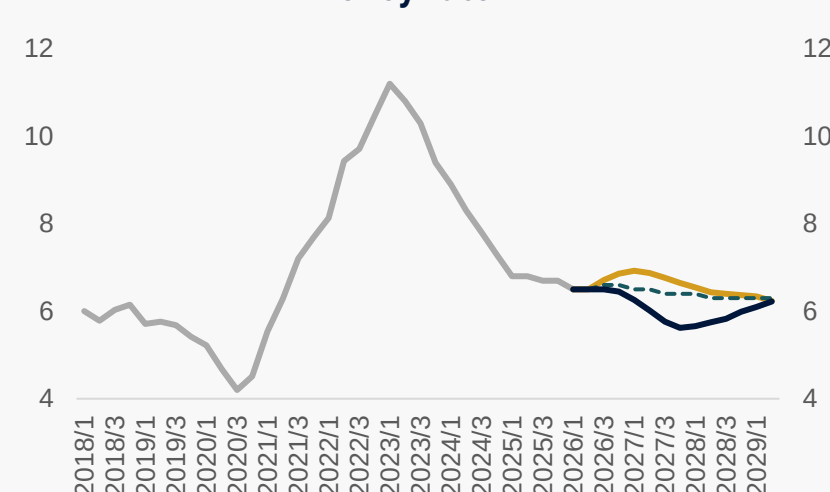
Real effective exchange rate



Output gap

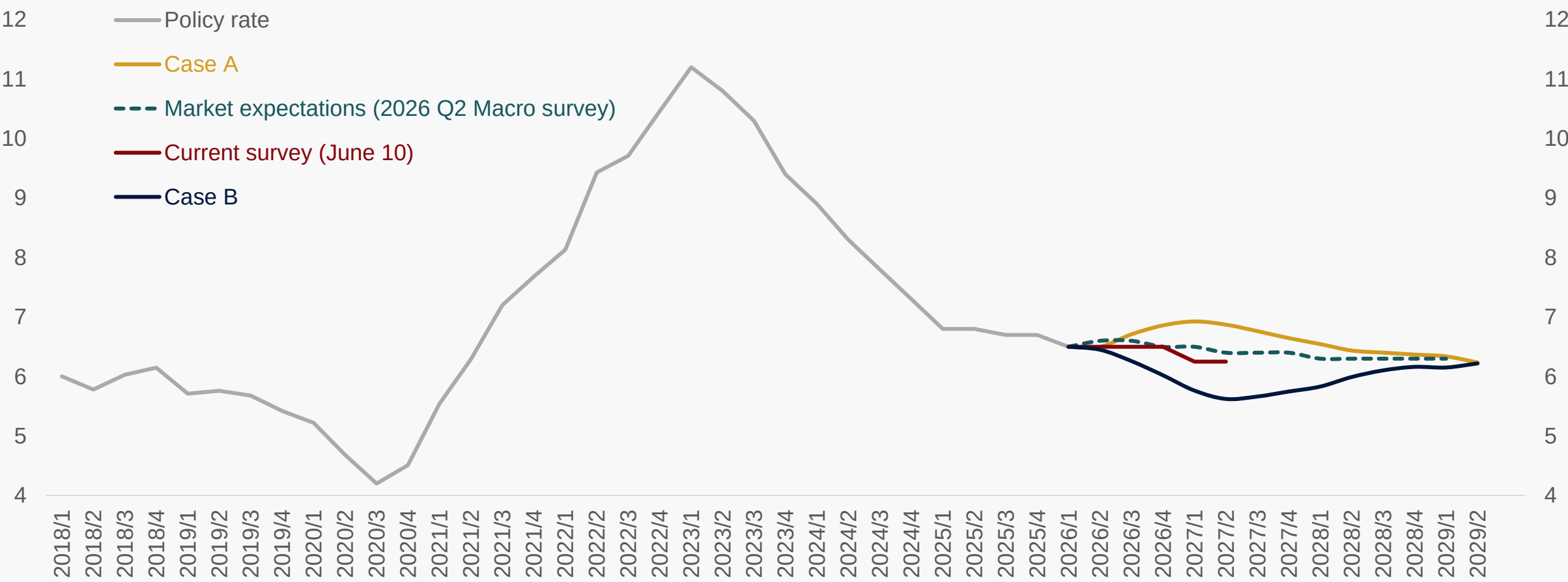


Policy rate



Policy deliberation

Typical scenarios – Q2 2026



Source: CBA



Thank you