



Central Bank
of Armenia

2026 Q2

Monetary Policy Report

Monetary Policy Program

Published June 16, 2026

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In addition to the Monetary Policy Report, the CBA concurrently publishes additional materials on its website, which the reader is encouraged to reference. These include the [MPR Chart Pack](#) (containing statistical charts and tables for global and domestic economic developments as well as the illustrative scenario projections) and the [Transparency Report](#) (providing transparency into how the Board of the CBA arrived at its decision).

DISCLAIMER The data presented in this report is current as of June 12, 2026.

01 |

Executive Summary

A. Executive Monetary Policy Statement

The Board of the CBA decided today to keep the refinancing rate unchanged at 6.50%.

At its meeting today, the Board of the Central Bank of Armenia decided to keep the key policy rate (refinancing rate) unchanged at 6.50%.

In the second quarter of 2026, 12-month inflation continued to run above target, reaching 4.2% in May. Over the same period, 12-month core inflation rose to 5.1%.

In Q2 2026, amid geopolitical uncertainty and a prolonged period of high energy prices, demand in the global economy continued to weaken, and its outlook deteriorated. At the same time, the risks of a higher trajectory for US public debt—and therefore of long-term interest rates remaining elevated for an extended period—have increased. In Armenia's other main partner countries, the risks of weakening medium-term growth and demand are more tangible. The Eurozone and Russia, in particular, recorded an economic downturn in the first quarter, while structural problems are gradually deepening, further weighing on these economies' growth capacity. At the same time, with the situation in the Middle East relatively stabilizing, energy prices have eased somewhat; even so, high uncertainty persists over the outlook for commodity and food prices. In this context, given the high uncertainty over developments in the inflationary environment, the risks remain that the central banks of leading countries will keep policy rates at their current levels for an extended period or raise them.

In Q1 2026, economic growth in Armenia slowed somewhat, driven in part by certain one-off factors, but remains relatively high. Construction and services continued to make a sizable contribution to growth. The high activity in services was driven mainly by subsectors moving on the back of expanding demand, pointing to strong demand conditions in the economy. Moreover, there are also signs of expanding external demand, reflected primarily in the rise in tourist flows to Armenia. In this situation, the effect of overall demand on inflation is assessed as expansionary, though supply-side factors still predominate in the behavior of inflation. On the other hand, the risks of fiscal policy taking on a more expansionary stance have eased, while private wage growth and inflation expectations continue to show mainly stabilizing tendencies. Furthermore, the difficulties that have emerged in certain export markets could lead to a decline in incomes in the Armenian economy, as well as to excess supply of certain goods—carrying largely disinflationary risks.

Given current macroeconomic developments, Armenia's financial market participants on average expect the Central Bank to hold the rate at its current level for slightly longer, lowering the policy rate to 6.25% over the medium-term horizon.

Amid high uncertainty, the Board discussed, on the one hand, Case A-type scenarios related to the possible rise in global neutral interest rates, the emergence of excess demand conditions in the domestic economy, and the risk of accelerating inflation expectations, all of which would require a higher policy rate path relative to market expectations. On the other hand, the Board also discussed Case B-type scenarios related to the prospect of slowing global economic growth, the emergence of disinflationary risks stemming from difficulties in certain export markets, and a fundamental decline in the risk premium of the Armenian economy, which would imply a lower policy rate path relative to market expectations.

As a result, balancing the need to manage risks in both directions, the Board of the Central Bank of Armenia decided to keep the policy rate unchanged. The Board resolutely affirms its commitment to adopting the appropriate policy actions and strategy to ensure the price stability objective of 3% inflation in the medium term.

Approved by the Board of the Central Bank of Armenia
June 16, 2026

Governor
Martin Galstyan

Deputy Governors
Armen Nurbekyan
Hovhannes Khachatryan

Board Members
Davit Nahapetyan
Artak Manukyan
Levon Sahakyan
Narek Ghazaryan
Armen Ktoyan

B. Summary of Economic Conditions

Global Economy

In Q2 2026, the outlook for global economic growth deteriorated, driven by geopolitical uncertainty and a significant rise in energy prices and their volatility amid persistent tensions over the Middle East conflict. Against a backdrop of geopolitical developments and substantial shifts in economic policy, economic growth in the US showed considerable volatility over recent quarters—weakening on the whole and coming in at around 1.6% Q-o-Q annualized in Q1 2026. Fixed capital investment, particularly in AI infrastructure, along with private consumption—despite its continued slowdown—remain the main drivers of growth. The combination of various labor market indicators likewise points to a more balanced position in the economy. At the same time, a prolonged period of geopolitical tension in the Middle East and the constraints on trade routes carry the risk of further worsening the growth outlook while also significantly broadening the inflationary environment.

On the other hand, uncertainty over the scope for tax revenue collection has risen, amid the cancellation of part of the tariffs and the fulfillment of obligations on accumulated refunds. Under these conditions, the implementation of a more expansionary fiscal spending policy—driven in part by the need for higher defense spending—could, over the medium term, push public debt onto a significantly higher trajectory, raising the risk that long-term real interest rates rise further or remain elevated for an extended period. Such developments could affect both the outlook for US Federal Reserve monetary policy and the level of the neutral interest rate and capital flows in developing countries.

In Q2 2026, inflation accelerated considerably, reaching 4.2% Y-o-Y in June. Inflation in sticky-priced goods and services also accelerated, remaining considerably above target. Under these conditions, the US Federal Reserve faces considerably greater difficulty in delivering on its mandate of price stability and full employment.

In Q1 2026, Eurozone economic growth continued to weaken, contracting by 0.2% Q-o-Q, reflecting persistent structural problems in industry as well as the adverse effects of the Middle East conflict. Amid high energy prices and a high vulnerability to their supply, inflationary pressures are materializing quickly: in May 2026, 12-month inflation stood at 3.2% Y-o-Y, up from 1.9% in February. At the same time, core inflation indicators send mixed signals about demand conditions: core inflation is close to its target level at 2.5% Y-o-Y, while services inflation remains considerably above target at 3.5% Y-o-Y, likely reflecting still-tight labor market conditions. As a result, on 11 June the ECB raised its policy rate by 0.25 percentage points, in line with market

expectations, and financial markets anticipate further rate hikes.

Oil prices declined somewhat, amid the gradual adjustment of global demand and the formation of optimistic expectations about an imminent resolution of the Middle East conflict, though they continue to run considerably higher than at the start of the year. Disruptions to trade routes through the Strait of Hormuz affect not only energy but also goods of significant importance to agriculture, which also poses risks of further increases in food prices.

In Q1 2026, the Russian economy continued to weaken amid the gradual emergence of structural problems and the influence of certain temporary factors, contracting by 0.2% Y-o-Y. The developments observed in some parts of the economy—particularly the real estate market and the financial sector—may also point to a deepening of structural problems. On the other hand, a prolonged period of high oil prices could support the expansion of demand and, especially, of fiscal space. At the same time, labor market conditions remain tight: the unemployment rate is holding at a historic low, and real wage growth has accelerated considerably since the start of the year. Under these conditions, although headline and core inflation slowed in Q1 2026, services inflation and inflation expectations remain considerably above target—significantly complicating the Bank of Russia's task of effectively managing the trade-off between inflation and growth.

Domestic Demand Conditions

In Q1 2026, economic growth slowed—following the strong growth recorded in previous quarters and driven in part by certain one-off factors—coming in at 4.0% Y-o-Y, while economic activity continues to run at high levels of 6–7%. Construction and a number of subsectors of services—mainly those moving on the back of expanding demand—continued to make a sizable contribution to growth and activity. This has also been accompanied by a marked pickup in imports and retail trade, which may point to strong and expanding demand conditions. The significant pickup in tourist flows to Armenia has also supported the broadening of demand conditions. In January–May 2026, these rose by around 20%, reaching a historic high. On the one hand, this increase may partly reflect the impact of restrictions on tourist travel from Russia to the Middle East and could prove temporary. On the other, the rise in arrivals is gradually becoming more broad-based across countries, with some shifts in the makeup of visitors.

On the other hand, growth in manufacturing has slowed somewhat, driven in part by certain constraints on trade routes amid Middle East tensions. These developments are visible in the figures for tobacco output and exports. Russia's tightening of import conditions for several agricultural and processed food product groups poses additional challenges for these sectors and, given the limited alternative export destinations,

could lead to some decline in incomes in the Armenian economy.

Uncertainty persists over the trends in seasonal migration to Russia and the channels used to transfer money. On the one hand, a prolonged period of the ruble's exchange rate at its current level could strengthen the incentives for labor migration from Armenia to Russia. On the other, the considerable weakening of economic growth, the high uncertainty over the medium-term outlook for the Russian economy, and the tightening of migration policy could restrain migration flows to Russia somewhat—adding to labor supply in Armenia and creating disinflationary risks.

These signals may point to a widening of the GDP gap in Q2 2026 and its forming at higher levels than previously estimated. Nonetheless, the structural features of growth, along with uneven and ambiguous developments across sectors, add to the existing uncertainty over the relative position of aggregate demand and supply in the economy. On the one hand, strong growth in lending and retail trade, together with high activity in sectors driven mainly by expanding demand, may point to significant excess demand in the economy. On the other, the concentration of growth, the more moderate rise in non-tradable sticky prices, and the more moderate pace of wage growth are consistent with a more balanced position in the economy.

State budget revenues were over-collected in the early months of 2026, amid higher-than-expected economic activity and inflation. On the other hand, state budget expenditures, in line with historical trends, are being under-executed, mainly reflecting weak performance on capital spending. That said, the risks of fiscal policy taking on a more expansionary stance persist, driven by the rollout of the universal health insurance system and by the increase in pensions and benefits. At the same time, Russia's tightening of import conditions could call for additional, significant fiscal support—exerting pressure on the country's risk premium amid the "limited fiscal space."

Labor Market & Inflation

Despite the volatility seen of late, the combination of a number of key indicators may point to a balance having formed in the labor market. The unemployment rate fluctuates in the 12–13% range, the number of registered jobs is growing steadily, and growth in private nominal wages excluding the financial sector has continued to stabilize, running at around 5% Y-o-Y in Q1 2026. That said, in recent months—in line with the faster growth of certain services subsectors—wage growth has also been accelerating in those sectors.

At the same time, the current unemployment rate may partly reflect a degree of excess demand that has formed in the labor market—especially given that, in the second half of 2025, unemployment was likely below its estimated natural level, and the resulting wage and inflation risks could still materialize owing to wage rigidities. It is also possible that the natural rate of unemployment has gradually declined in recent years, settling in the 11–13% range. This may have been

supported by the expansion of productivity and export capacity since 2022, the integration and long-term settlement of highly skilled labor in the economy, gains in the efficiency of matching jobs and workers driven by the development of various digital platforms in Armenia, the features of economic growth, and other factors.

On the other hand, the volume and number of non-commercial remittances from Russia to Armenia have risen in recent months, which may suggest that the ruble's appreciation and labor shortages in Russia have outweighed the factors limiting migration flows, boosting labor flows.

In sum, despite the mixed signals from the labor market, some developments may point to a relatively more balanced position in the economy. The main uncertainty ahead concerns the scope for labor supply to grow, especially if demand conditions broaden.

In Q2 2026, inflation in Armenia continued to run above target, reaching 4.2% in May compared with the same period a year earlier. This was mainly driven by the acceleration of core inflation, which is running above target at 5.1% Y-o-Y. That, in turn, largely reflects inflationary trends passing through from imported and local non-seasonal food products, driven by the inflationary pressures transmitted from the global economy in recent quarters and by the influence of certain supply-side factors in the domestic economy. At the same time, the acceleration of core inflation in recent months has become more broad-based across product groups, which—beyond supply-side factors—likely points to strong demand conditions.

Looking ahead, the main uncertainties over the path of inflation in Armenia relate to how long the inflationary trends in global food markets will persist and, in that context, to the speed and scale of the adjustment in domestic prices. In particular, inflation in Armenia could be pushed up by persistently high commodity prices and the effects of disrupted trade routes amid continued tensions in the Middle East. It should be noted that the rise in global oil and food prices is still only partly reflected in local prices. On the other hand, the difficulties that have emerged in certain export markets (the Middle East, Russia, and so on)—given the low diversification of export destinations, especially in agriculture and food production—could lead to excess supply of certain goods in the local market, carrying largely disinflationary pressures.

Growth in the non-traded sticky price index continues to run around the target level, showing some signs of acceleration. This, combined with the stabilization of private wage growth in the 5–6% range, indicates that inflation expectations continue to stabilize around the target level.

Financial Markets & Monetary Policy

According to the most recent survey of financial market participants conducted by the Central Bank of Armenia on 10 June 2026, expectations for the path of the Central Bank's refinancing rate have remained almost unchanged since the previous policy decision, pointing to a path of rate cuts toward 6.25% over the next eight decisions. This is broadly consistent with the results of the participants' first-quarter macro survey, according to which participants expect a reduction in the policy rate over the medium-term horizon toward the estimated neutral level (around 6.25%). Over this period, no significant shifts were recorded along the yield curve.

Armenia's short-term risk premium has declined over recent quarters, reflecting the influence of both global and Armenia-specific factors and settling at historic lows. At the same time, signals are gradually strengthening that the current low levels of Armenia's risk premium may largely reflect improving fundamentals and the influence of Armenia-specific factors—including perceptions of reduced security risks around Armenia.

To prudently manage the possible risks arising from the prevailing uncertainties, the Central Bank of Armenia considers various scenarios for how the economic situation may develop. The Case A-type scenario presented in the Monetary Policy Report, which calls for a higher rate path than market expectations imply, represents the risks of accelerating inflation expectations in Armenia. This stems from the faster price growth of essential, everyday consumption goods in recent months, which can have a disproportionately large impact on the formation of households' inflation perceptions and expectations. Effectively managing the risks stemming from this scenario calls for a higher policy path than current financial market expectations imply.

The Case B-type scenario presented in the Monetary Policy Report concerns the risks of a significant weakening of demand in the global economy. This interpretation stems from a decline in households' confidence in the future as a result of geopolitical uncertainty and the resulting prolonged period of high oil prices—reflecting the effects of reduced real disposable incomes and purchasing power, increased precautionary saving, and the postponement of investment projects. Effectively managing the risks stemming from this scenario calls for a lower policy path than current financial market expectations imply.

As part of its prudent risk management framework for monetary policy, the CBA builds and discusses various scenarios, summarized in the Taxonomy of Scenarios. These scenarios reflect key sources of risk and uncertainty that could lead to unwelcome policy errors (that might drive the economy into "dark corners"), which policymakers hope to minimize through a least-regrets decision-making model. For communications purposes, the MPR includes a deeper dive into two illustrative scenarios almost randomly selected from the Taxonomy, which reflect illustrative future paths of the economy that would require either a higher path for the policy rate (Case A) or a lower path of the policy rate (Case B) relative to current market expectations. These illustrative scenarios do not represent a most-likely future, assign weight or probability to outcomes, or reflect the Board's most-favored scenarios.

02 |

Monetary Policy Objectives & Framework

Statement of Long-Run Monetary Policy Objectives

Adopted effective March 17, 2026

As enshrined in “The Law of the Republic of Armenia on the Central Bank of Armenia,” the primary objectives of the Central Bank of Armenia are to ensure price stability and financial stability. The Board of the CBA is committed to using its full suite of monetary policy instruments to achieve its price stability mandate and provide a nominal anchor for the economy.

We emphasize that the primary objectives of price stability and financial stability are a means to an end. The ultimate purpose of the CBA as an accountable public-sector institution is improving the welfare of our nation. A commitment to achieving low and stable inflation provides a credible nominal anchor for the economy and thereby anchors inflation expectations, helps to avoid inefficient boom-bust cycles, stimulates investment, supports the economic development of the country, and improves living standards over time.

The CBA develops and implements monetary policy to achieve its price stability objective. The fundamental role of monetary policy is to provide an anchor for inflation and inflation expectations. The Board believes that a three percent inflation target is consistent with its price stability mandate. The inflation target is expressed in terms of the Consumer Price Index (CPI), since it is the best measure of the cost of living and final consumption expenditures, and is the primary reference point for market participants when making planning decisions and setting contracts. Nevertheless, the overall CPI basket of goods and services includes several items that are subject to seasonal fluctuations and global economic developments, which are not directly influenced by monetary policy. We therefore consider alternative measures of inflation, such as core and non-traded sticky prices, which can provide useful information on the underlying inflationary environment.

The CBA’s primary means of adjusting the stance and path of monetary policy is through changes in the expected path of short-term interest rates. If interest rates were to be constrained by the effective lower bound, the Bank would be prepared to use its full range of policy tools.

While emphasizing the primacy of achieving the price stability and financial stability mandates over the medium term, the CBA recognizes that it is also responsible for managing the short-run tradeoff between inflation and output. In an open market economy, periodic economic and financial shocks cause economic activity and inflation to fluctuate over time. In this context, the CBA does not target CPI inflation on a period-by-period basis and does not attempt to bring CPI inflation back to the target in the short term if it would result in undue economic and financial instability. In any economic situation, the CBA seeks to develop and implement monetary policy in a manner that brings inflation to the target in the medium-term (12 quarter) horizon, while minimizing associated social costs through a “least regrets” approach.

Effective monetary policy improves welfare by anchoring long-term inflation expectations and reducing the volatility of output and unemployment. Avoiding excessive volatility in the economy can result in substantial improvements in welfare by reducing average levels of unemployment and raising the productive capacity of the Armenian economy. The Bank emphasizes that placing weight on other near-term objectives must not be inconsistent with its primary responsibilities of achieving its three percent target in the medium term and maintaining price and financial stability.

The Board places great emphasis on the importance of communicating its policy and decision-making framework to the public in a clear and comprehensible manner. Clear and effective communication helps make policy more effective, and encourages financial markets, businesses, and the general public to better understand and manage risks and uncertainties. Moreover, this communications approach plays an important role in enhancing the transparency of monetary policy and central bank accountability, which is a key priority for the CBA as an independent public sector institution.

The Board will review and renew the Statement of Long-Run Monetary Policy Objectives during the first decision-making round of each year.

Framework for Monetary Policy as Risk Management

The CBA conducts monetary policy within a risk management framework to analyze and communicate the uncertainty surrounding the economic outlook more effectively. Our approach is to consider alternative scenarios for the evolution of the Armenian economy that have important implications for monetary policy.

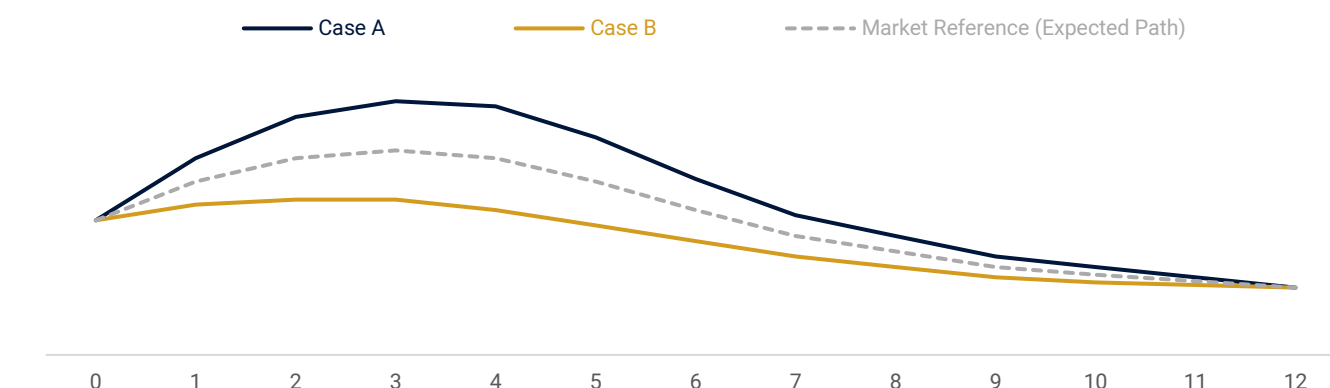
Elevated uncertainty is a reality that central banks must manage, and we do this by explicitly incorporating it into our framework and communication. We develop and analyze multiple scenarios that would imply a higher or lower path for interest rates than is currently priced in financial markets.

At the same time, to steer the policy discussion and communication, we develop two or more illustrative scenarios. These scenarios should not be interpreted as pure risk scenarios, but are meant to represent plausible paths for the policy rate that could be consistent with managing monetary policy risks and concerns in an individual's economic scenario.

The aforementioned scenarios are constructed based on the following rationale:

- Market Reference is the expected path of the policy rate that is currently priced in financial markets. Ideally, if financial markets in Armenia were more developed, and there existed a derivative market for the policy rate, then we could construct an expected path based solely on market information. We therefore use the 1-year government bond yield, which should reflect the expected average policy rate over the next 12 months, plus some compensation for term premium. In addition, we conduct high- and medium-frequency surveys of market participants before, during, and following each decision-making cycle as another reference point for expectations of the policy rate.
- **Case A** reflects scenarios that incorporate economic and financial developments that would require a higher interest rate path than what is currently priced in financial markets that is consistent with guiding the economy back to its long-run equilibrium and to achieve price stability objective. These scenarios incorporate risks and uncertainties that could, for instance, give rise to a higher inflationary environment in the economy.
- **Case B** reflects scenarios that incorporate economic and financial developments that would require a lower interest rate path than what is currently priced in financial markets that is consistent with guiding the economy back to its long-run equilibrium and to achieve price stability objective. These scenarios capture downside risks and uncertainties that could, for example, lead to a more disinflationary environment or generally weaker inflationary pressures in the economy.

Figure 2.1: Alternative Paths for the Policy Rate



Source: CBA

Note: For Illustrative Purposes Only

To learn more about the Central Bank of Armenia's approach to monetary policy, refer to the book [Prudent Risk Management Approach to Price Stability: Theory and Practice at the Central Bank of Armenia](#), edited by Douglas Laxton, Hayk Avetisyan, and Vahe Avagyan (2026)

Report Structure

The MPR begins with the Executive Summary, which provides the Statement by the Board of the CBA as well as a high-level assessment of economic conditions and underlying forces. The Executive Summary is also issued as a standalone document, known as the Executive Monetary Policy Statement.

Section III presents in greater detail the CBA's implementation of this policymaking framework. It begins with an assessment of the first two ingredients essential for economic analysis: where is the economy now, and what are the underlying forces driving the economy. This section also communicates how the CBA is managing current risks through a framework of "least regrets." This includes a taxonomy of different types of scenarios that may be relevant in the current policy round, reflecting a summary of the universe of major issues that the Board are concerned about. Against this context, the MPR presents two (or more) illustrative case scenarios, which incorporate the appropriate monetary policy rate response required to ensure price stability under the conditions implied by the factors considered in the scenarios.

The statistical appendix is published as a separate file, known as the MPR Chart Pack, which contains charts and tables for relevant economic variables, as well as key projections from the illustrative case scenarios.

Importantly, the MPR of the CBA is published on the same day as the policy decision is made by the Board of the CBA. This is intended to provide the public with sufficient detail and narratives that describe the framework and analysis that led to the decision in a near-real-time manner. Following the decision and press conference, a separate Transparency Report is released, containing more detailed information about how the Board came to the specific decision during the Board meeting.

Disclaimer

The information presented in this report is based on actual data available by March 13, 2026 as well as the results of the surveys conducted by the CBA and judgments made pursuant to the information on future developments of the macroeconomic environment.

The Monetary Policy Report serves as the chief monetary policy communications vehicle for the Central Bank of Armenia, and is published on a quarterly basis. The MPR has been designed to be a user-friendly document that covers key policy-relevant issues but remains accessible to technical and non-technical audiences alike. The report is structured to follow a narrative format that helps illustrate the key issues, risks, and uncertainties that drove the Board's thinking in the current decision-making round and how it arrived at its policy decision. Not all data, analysis, or issues can be reasonably included in the MPR in every quarter without overwhelming the reader or overshadowing key messages. For this reason, the MPR is supplemented with a Chart Pack that provides a complete and comprehensive overview of the current and underlying economic environment.

A decision made by the CBA Board today will affect inflation with a lag. The illustrative scenarios are chosen and designed by our Monetary Policy Department's economists to describe plausible paths of the economy under different risks. Importantly, the selected illustrative scenarios are two of many possible scenarios that the Board considers when making its decisions, which are represented in the Taxonomy of Scenarios in Section III. During each policymaking cycle, the Board is engaged in dynamic discussions and information-sharing with the Staff related to understanding the current position of the economy, its underlying drivers, and key sources of policy-relevant risk and uncertainty. These discussions, including the process through which the Taxonomy of Scenarios is developed and the illustrative scenarios are selected and quantified, are an important input for Board deliberations. The Taxonomy of Scenarios and the selected illustrative scenarios are produced four times a year and are a key, but not the only, input to the CBA Board's monetary policy decisions.

All monetary policy reports which have been published to date are available on the CBA's website (www.cba.am), which also contains all press releases, working papers, and other monetary policy-related publications.

This report is published on the day the monetary policy decision is made, in order to ensure the timely communication of the assessments and the decision. After publication, limited editorial changes may be made to the report, including typographical, formatting, or other non-substantive corrections. Such changes may not pertain to the monetary policy assessments or conclusions. The final version of the report will be published within 3 business days following the policy decision.



Central Bank
of Armenia

03 |

Monetary Policy
Outlook

A. Global Economic Developments

United States Economy

Amid shifts in economic policy, elevated uncertainty, and the influence of certain one-off factors, economic growth in the US has continued to display considerable volatility, weakening overall and registering annualized growth of 1.6% in Q1 2026 (Figure 3.A.1). Private consumption growth continues to decelerate, having already settled below the pace of overall economic growth. Despite recent corrections, high financial asset prices continue to underpin steady consumption growth, particularly among higher-income households. At the same time, the rapid slowdown in wage growth among lower-income households, the deceleration of consumer credit, and the rise in the share of overdue loans toward historically high levels all carry signs of emerging weak demand. The real estate market, too, is showing a decline in activity.

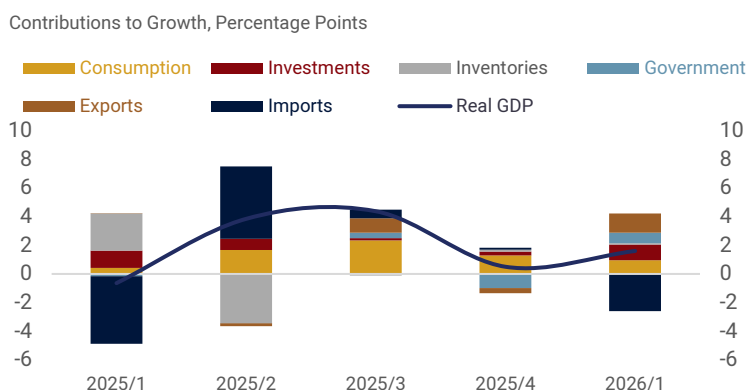
Amid uncertainty about the economic outlook—particularly AI's productive adoption across sectors—and a sharp rise in P/E ratios (Figure 3.A.2), concerns about overvaluation, especially in technology stocks, remain elevated. On the one hand, investment in AI infrastructure could help improve the country's long-term potential growth and give shape to a new economic reality; on the other, should optimism prove unwarranted, further potential corrections in asset prices could worsen the outlook for consumption and economic growth in the US, which could then weigh negatively on global demand conditions.

Uncertainty surrounding the outlook for US fiscal policy has risen. With the rollback of part of the tariffs and the imposition of refund obligations, further developments in US trade policy carry the risk of shortfalls in tax revenue collection. At the same time, the need for additional defense spending—including amid the protracted conflict in the Middle East—could, over the medium term, push the budget deficit and public debt onto a higher trajectory, raising the risk that long-term real interest rates climb further or remain elevated for an extended period. Such developments could affect both the outlook for US Federal Reserve monetary policy and the level of the neutral interest rate in developing economies.

Meanwhile, the effects of the Middle East conflict still risk pushing inflation higher. Against this backdrop, inflation rose sharply in May 2026 to 4.2% Y-o-Y, largely on the back of high energy prices (Figure 3.A.3). Inflation in goods and services with sticky prices also remains well above target. While wage growth is slowing, the fairly stable levels of unemployment and layoffs do not yet point to a sharp drop in demand. Nevertheless, given the uncertainty surrounding the outlook and the persistence of above-target inflation, the US Fed faces increasing challenges in fulfilling its dual mandate.

Investment activity has risen considerably, driven in part by positive expectations around the outlook for AI

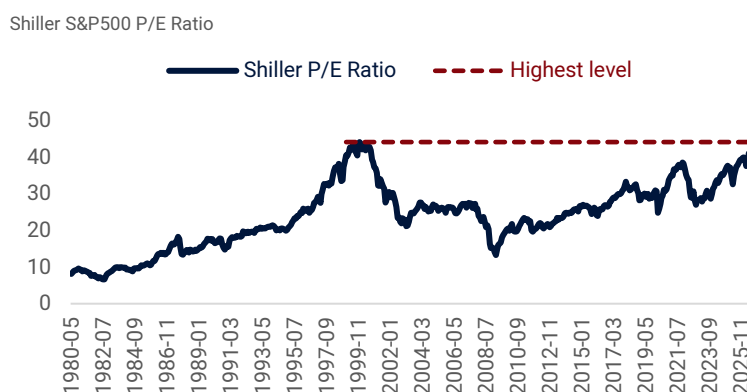
Figure 3.A.1: Contributions to US Real GDP Growth



Source: US BEA

The risks that asset prices are overvalued create uncertainty over the demand outlook

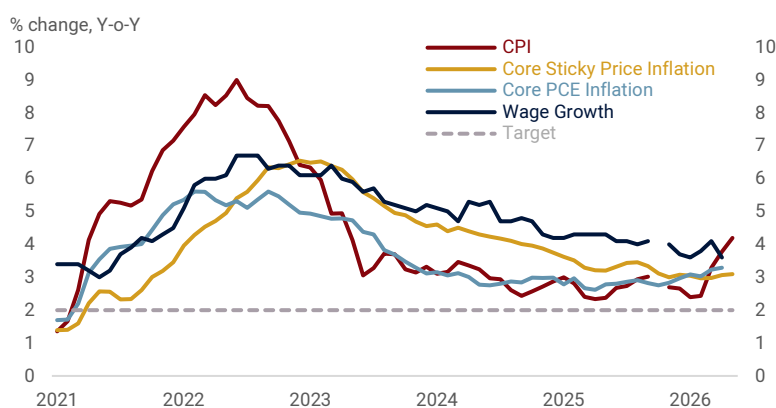
Figure 3.A.2: Shiller S&P 500 P/E Ratio



Source: Robert Shiller

A persistence of geopolitical uncertainty could further broaden the inflationary environment

Figure 3.A.3: Underlying Inflation Measures



Source: Atlanta FED, BLS

Eurozone Economy

Amid persistent uncertainty over the Middle East conflict, rising energy prices and volatility, and concerns about the stability of energy supplies, economic growth in the Eurozone continued to slow, contracting by 0.2% Q-o-Q in the first quarter of 2026 (Figure 3.A.4). Economic activity has also been weighed down by the recent tightening of monetary conditions. Although the downturn was largely driven by a single economy—a 12.1% Q-o-Q contraction in Ireland—the slowdown is gradually becoming more widespread.

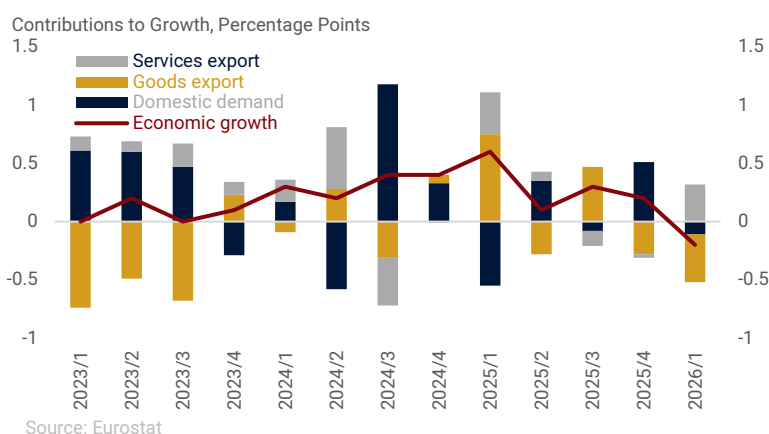
The gradual slowdown in growth continues to reflect the structural problems in the Eurozone economy and its polarization, marked by uneven development across both sectors and regions. After a long period of stagnation, industry continues to show signs of recovery, as reflected in the manufacturing PMI, which has held above the threshold mark for several months (Figure 3.A.5). This has been driven, on the one hand, by measures to strengthen defense industry and infrastructure in the Eurozone, and on the other, by precautionary purchases of industrial goods amid geopolitical uncertainty—a trend that may prove temporary. Against this backdrop, uncertainty persists over whether stimulative fiscal policy will be enough to ensure a sustained recovery in growth given the accumulated structural problems. At the same time, amid geopolitical uncertainty, economic sentiment and consumer confidence have fallen sharply, carrying the risk of a further weakening in demand. In this context, the services PMI has dropped sharply, signaling that the risks of weakening demand—both domestic and external—may be materializing.

In May 2026, inflation continued to accelerate, reaching 3.2% (Figure 3.A.6). The pickup in headline inflation mainly reflects high energy prices (up 10.9% Y-o-Y). Core inflation indicators send mixed signals about demand conditions: core inflation, despite the increase in May, is close to its target level (2.5%), while services inflation remains above target at 3.5%. Unemployment continues to hold at a historic low, but wage growth keeps slowing, pointing to a gradual easing of labor market conditions.

The Eurozone economy is especially vulnerable to disruptions in energy supplies and to their prices, given that natural gas reserves stand at historic lows. Under these conditions, geopolitical uncertainties could significantly add to the further weakening of Eurozone economic activity while also broadening the inflationary environment. Consequently, considering the risks stemming from persistent geopolitical tensions, the ECB, in line with market expectations, increased its policy rates by 25 basis points on 11 June 2026. Financial markets also continue to price in a high likelihood of further policy rate increases.

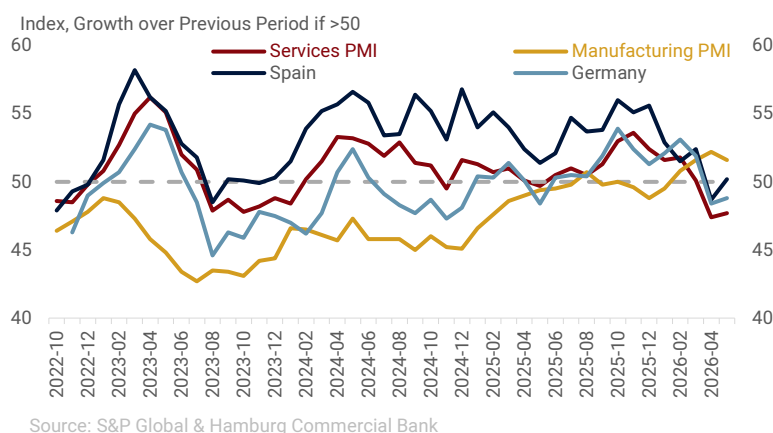
Amid the risk of prolonged geopolitical uncertainty and the deepening of structural challenges, economic growth in the euro area and its outlook are deteriorating

Figure 3.A.4: Contributions to Euro Area Real GDP Growth



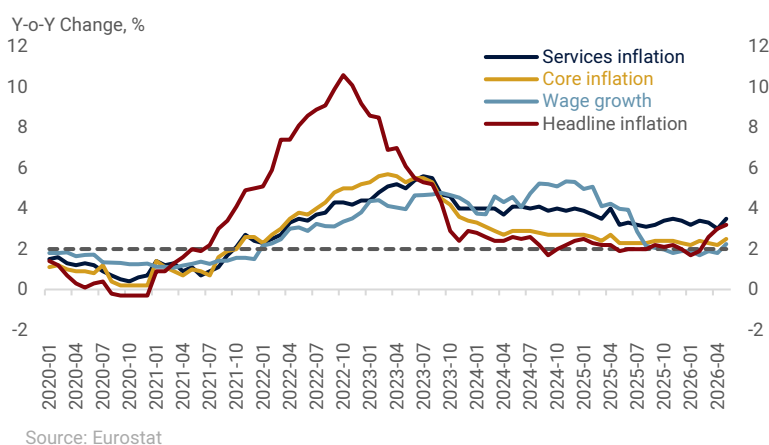
The decline in the services PMI carries signs of weakening domestic demand

Figure 3.A.5: Composite Purchasing Managers Index (PMI), Euro Area



Developments in core inflation indicators send mixed signals about demand conditions

Figure 3.A.6: Underlying Inflation Measures, Euro Area



Russian Economy

In Q1 2026, the Russian economy contracted by 0.2% Y-o-Y (Figure 3.A.7), reflecting the gradual deepening of structural problems and the influence of certain one-off factors. Notably, the slowdown in growth was broad-based across sectors, particularly in the early months of 2026. Even so, private consumption continued to make a sizable positive contribution to growth, reflected in positive developments in services, trade, and imports—a sign that the economy's position is more nuanced than headline indicators alone imply. At the same time, monthly activity indicators for the second quarter point to some signs of recovery, especially in industry and construction, while services continue to showcase steady growth. The pickup in real estate activity, particularly in the secondary market, together with the marked rise in consumer lending in recent months, also points to an expansion in domestic demand. This, together with substantially stimulative fiscal policy, may also point to an increasingly accommodative monetary stance, given that inflation expectations remain high.

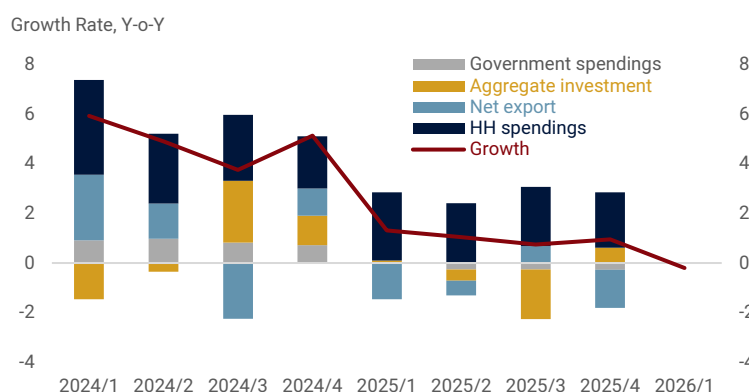
The continued tightening of targeted sanctions by Western countries poses risks to Russia's medium-term growth and to the security of its budget revenues. At the same time, high energy prices amid the Middle East conflict could, at least in the short term, widen fiscal space, expanding the scope to stimulate growth. Even so, uncertainty over the outlook for international oil prices remains considerably high.

Labor market conditions in Russia are tight. While labor shortages remain one of the main challenges for businesses, weak demand has also become a key concern. Nonetheless, the modest acceleration in real wage growth since the start of the year is putting inflationary pressure on the economy. Moreover, unemployment remains at a historic low of 2.2% (Figure 3.A.8).

Inflation in Russia continues to decelerate, while remaining above target, reaching around 5.3% Y-o-Y in May 2026, with core inflation standing at approximately 4.9% (Figure 3.A.9). At the same time, inflation expectations, both in the short and medium term, remain elevated, albeit showing a modest downward trend. Services inflation also remains significantly high at around 10.1% Y-o-Y, while real wage growth continues to be in the range of 8–9%. Under these conditions, the gradual accumulation of structural imbalances in certain sectors of the economy, together with persistently tight labor market conditions and elevated inflation expectations, poses challenges for the Bank of Russia in effectively managing the short-term inflation–economic growth trade-off.

Does the current level of economic growth reflect fundamentals that have deteriorated in recent years, or does it point to a cyclical weakening of the economy?

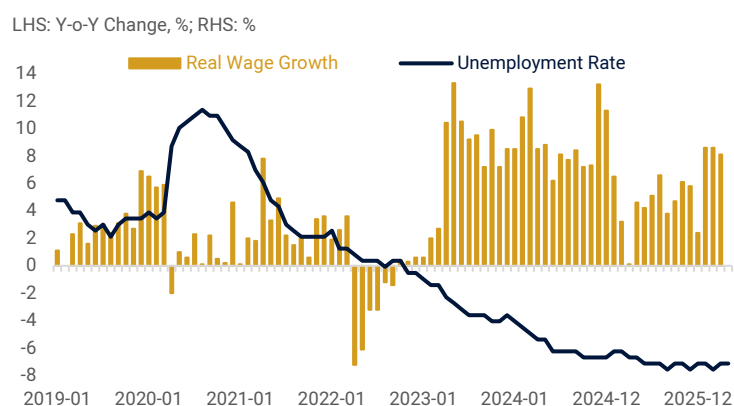
Figure 3.A.7: Russia Real GDP Growth



Source: Rosstat

Labor market conditions remain tight, still exerting inflationary pressure on the economy

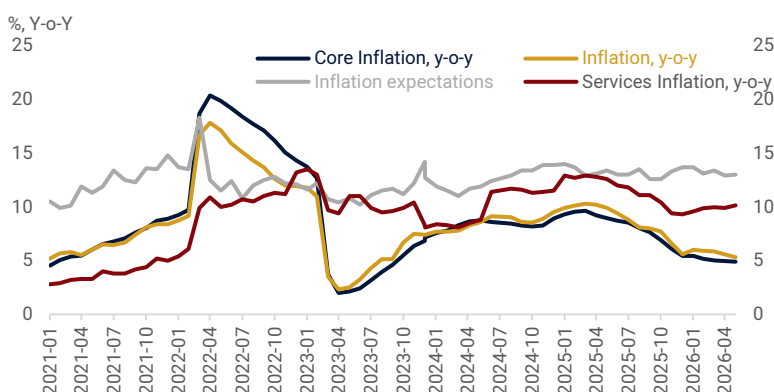
Figure 3.A.8: Unemployment Rate and Real Wage Growth, Russia



Source: Rosstat

Despite the slowdown in inflation, it remains above target, and persistently high inflation expectations complicate Bank of Russia's task of ensuring price stability

Figure 3.A.9: Russian inflation indicators



Source: Rosstat

Commodity Markets

Copper: During the first half of 2026, international copper prices maintained an upward trajectory despite fluctuations caused by uncertainty surrounding global demand prospects, averaging approximately USD 13,500 per tonne. Even so, the volatility in copper prices and the considerable uncertainty over their outlook persist. On the one hand, growing demand from the green energy transition and the expansion of AI and data centers, along with the scaling-up of global defense and other infrastructure programs, carries the risk of further price increases. On the other, a possible weakening in global demand amid the sharp rise in geopolitical uncertainty could put deflationary pressure on world prices.

Oil: Global oil prices remain elevated as uncertainty persist, trading in the 90–110 US dollar range, up from 60–65 US dollars at the start of 2026. In response, OPEC+ members plan to gradually raise output to support global oil production—by up to 1.65 million barrels per day, and from June of this year by around 188,000 b/d, on top of the additional 200,000 b/d announced in April. Yet most of these additional volumes were also to be supplied by Gulf states, where trade routes are currently significantly constrained. As a result, volatility in global oil prices and uncertainty surrounding their outlook have increased significantly and, in the short term, will depend on the further course of geopolitical developments in the Middle East. On the other hand, the gradual increase in oil production and exports in the US, and especially a possible weakening of global demand—particularly in China and the Eurozone—could put downward pressure on world oil prices over the medium term.

Food: Global food prices have risen steadily in recent months, mainly on the back of supply-chain disruptions caused by the Middle East conflict and high energy prices. Since the conflict began, international food prices have climbed by around 4%. Despite the broadly inflationary environment, price trends across product groups are somewhat uneven. Against this backdrop, the prices of oils, grains, and sugar have risen considerably. As a result, with tensions in the Middle East persisting, disruptions to trade routes could fuel further increases in food prices. On the other hand, the modest decline in dairy prices and the relatively weaker rise in meat prices may point to a current and expected softening in global demand.

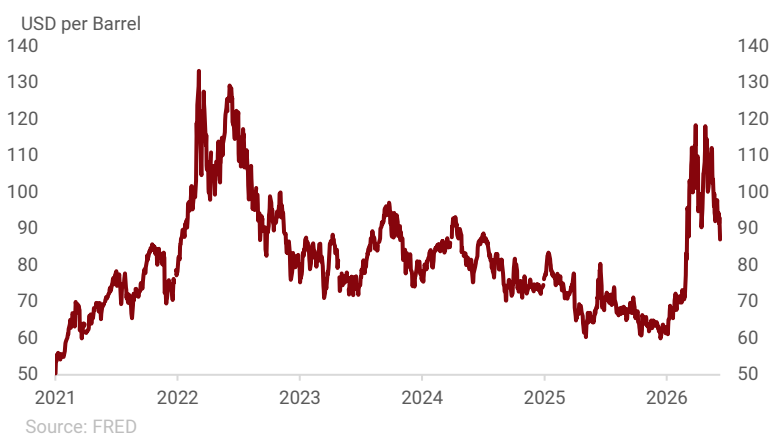
The long-term, fundamental factors driving copper price growth continue to prevail

Figure 3.A.10: Copper Prices



Amid persistent tensions over the Middle East conflict, the volatility of global oil prices and the uncertainty over their outlook remain considerably high

Figure 3.A.11: Brent Crude Oil Prices



Global food prices are rising amid Middle East tensions and disruptions to trade routes

Figure 3.A.12: FAO Food Price Index

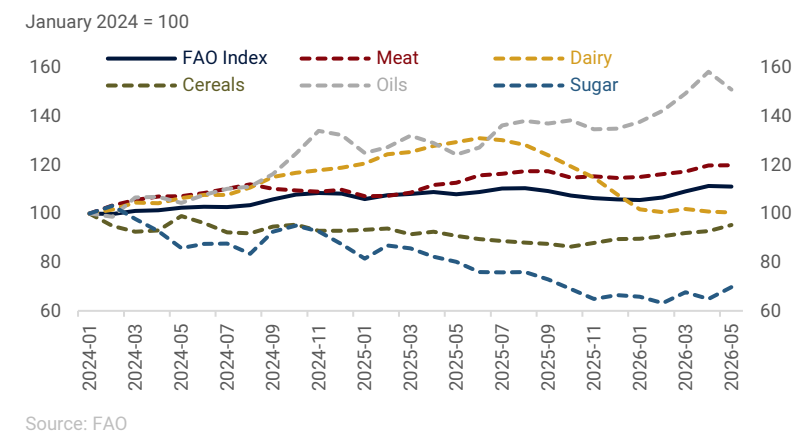


Table 3.A.1: Third-Party Projections for Commodity Prices

Source/ Topic	Oil (Brent, Dollars per Barrel)			Copper (LME \$/t)			World Bank Food Price Forecasts (Ann. Growth)		
	EAI	WB	Consensus	WB	REQ	Consensus	Oils and Meals	Grains	Other Food
Date	May-26	Apr-26	Jun-26	Apr-26	Dec-25	Jun-26	Apr-26	Apr-26	Apr-26
2026	95	86	84	12000	10966	12478	4.3	2.4	0.3
2027	79	70	75	11000	10781	12150	0.3	2.2	1.7

Source: US Energy Information Administration; World Bank; Australia Resources and Energy Quarterly (REQ); Bloomberg

Table 3.A.2: Third-Party Projections for GDP Growth and Inflation in Key Trading Partner Countries

Source	United States					Euro Area						Russia				
	IMF	WB	OECD	Fed	Consensus	IMF	WB	OECD	EC	ECB	Consensus	IMF	WB	OECD	CBR	Consensus
Date	Apr	Jun	Mar	Dec	Dec	Oct	Jan	Mar	May	Dec	Jun	Apr	Jun	Mar	Apr	Dec
	26	26	26	25	25	26	26	26	26	25	26	26	26	26	26	26
GDP Growth (Annual Rate, %)																
2025			2.1 (Actual)					1.4 (Actual)						1.0 (Actual)		
2026	2.3	2.2	2.0	2.4	2.2	1.1	0.8	0.8	0.9	0.9	0.8	1.1	0.8	0.6	1.0	1.0
2027	2.1	2.1	1.7	2.3	2.0	1.2	1.3	1.2	1.2	1.3	1.3	1.1	0.7	0.8	1.5	1.3
2028	-	2.0	-	2.1	2.1	-	1.3	-	-	1.4	1.4	-	0.7	-	1.8	1.6
Inflation (Annual Rate, %)																
2025			2.7 (Actual)					2.1 (Actual)						8.7 (Actual)		
2026	3.2	-	4.2	2.7	3.3	2.6	-	2.6	3.0	2.6	2.9	5.6	-	6.4	5.5	5.6
2027	2.1	-	1.6	2.2	2.4	2.2	-	2.1	2.3	2.0	2.1	4.3	-	4.5	4.4	4.5
2028	-	-	-	2.0	2.2	-	-	-	-	2.1	2.0	-	-	-	4.0	4.3

Source: IMF; World Bank (WB); OECD; Fed; ECB; CBR; European Commission (EC); Bloomberg

B. Domestic Demand Conditions

Gross Domestic Product

After the strong growth recorded in the previous quarter, economic growth in Armenia slowed considerably in Q1 2026, coming in at 4.0% Y-o-Y (Figure 3.B.1). It should be noted, however, that the slowdown was largely driven by a contraction of around 13% Y-o-Y in the financial sector (contributing about 1.7 percentage points to growth), which in turn stemmed from losses tied to the revaluation of asset prices in certain parts of the sector. Given this, the current slowdown in growth may not reflect the true picture of the economy. Indeed, underlying economic activity remains strong, running in the 6–7% range. This activity is driven largely by services and construction. Growth in construction has, in recent months, been accompanied by a faster rise in real estate prices, while in services, especially over the latest quarters, growth has become more broad-based.

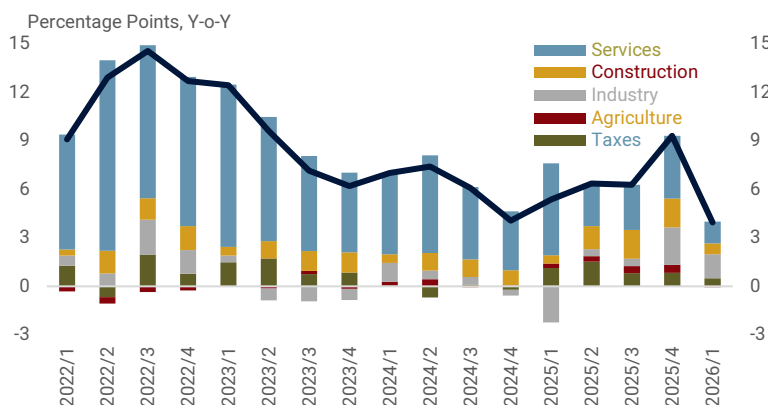
It should also be noted that growth in manufacturing has slowed somewhat, partly due to certain constraints on trade routes amid Middle East tensions, while tighter import conditions imposed by Russia could pose additional challenges. On the other hand, growing demand for credit in the sector, the expansion of exports and production capacity, and improved access to new markets all carry positive signals for the medium-term outlook.

Tourist arrivals to Armenia rose over the course of 2026, accelerating sharply in recent months to reach a historic high (Figure 3.B.2). On the one hand, this increase may partly reflect the impact of restrictions on tourist travel from Russia to the Middle East and could prove temporary. On the other hand, the rise in arrivals is more broad-based across countries, with some shifts in the makeup of visitors. Even so, uncertainty over the outlook for tourist flows remains considerably high, owing in particular to the heightened uncertainty surrounding tensions in the Middle East and the risks of weakening demand in the global economy and in certain partner countries.

In this context, various signals may point to a more positive output gap forming in Q2 2026 (Figure 3.B.3). Nonetheless, growth's structural features and uneven, ambiguous sectoral developments deepen the uncertainty over the relative position of aggregate demand and supply. On the one hand, strong growth in lending and retail trade, together with high activity in sectors driven mainly by expanding demand, may point to significant excess demand in the economy. On the other, the concentration of growth, the more moderate rise in non-traded sticky prices, and the more measured pace of the labor market are consistent with a more balanced position in the economy.

In Q1 2026, economic growth slowed, driven in part by certain one-off factors

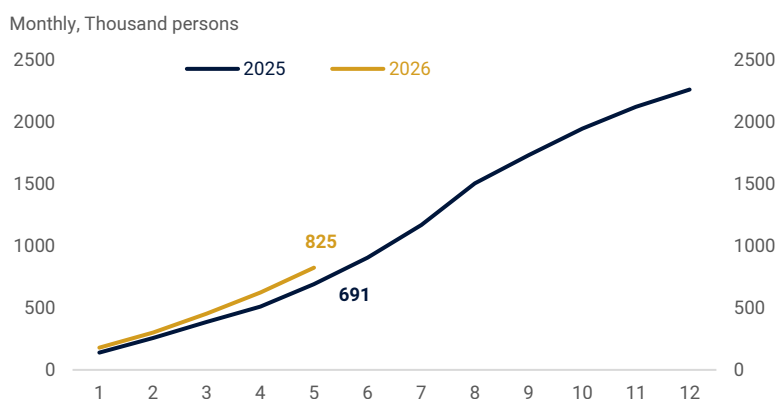
Figure 3.B.1: Contribution to Real GDP Growth by Production Approach



Source: Statistical Committee of the Republic of Armenia; CBA

Tourist flows have risen considerably, and uncertainty over the outlook is high—owing in particular to the Middle East conflict

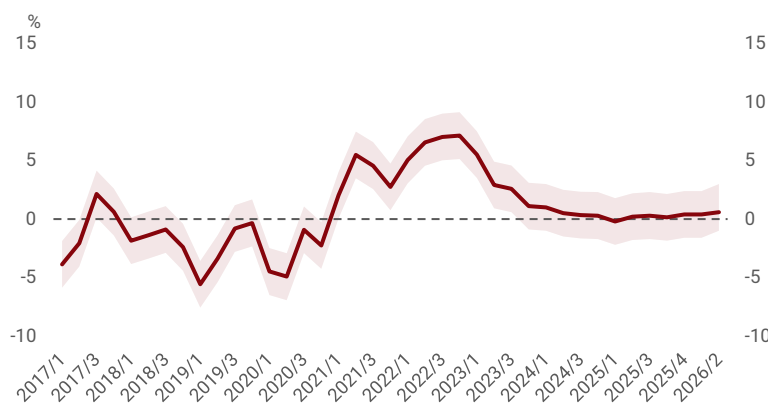
Figure 3.B.2: Inbound Tourists Number



Source: Statistical Committee of the Republic of Armenia; CBA

Current developments point to a stronger demand position than the financial market's earlier assessments had suggested

Figure 3.B.3: The Output Gap



Source: CBA

Consumption and Investment

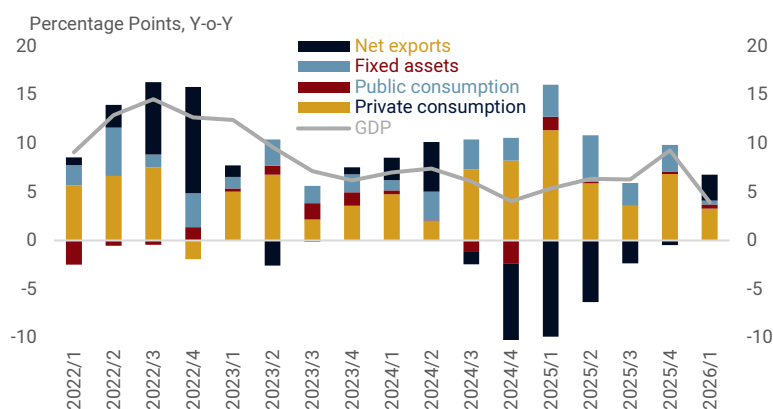
In Q1 2026, private consumption growth slowed to 3.8% Y-o-Y, contributing 3.3 percentage points to economic growth (Figure 3.B.4), which may point to a notable weakening in demand. On the other hand, strong growth in certain services, mainly those driven by expanding demand, along with developments in consumer lending and retail trade, signal the presence of excess demand. Over the same period, gross investment fell by 12.8% Y-o-Y, due to a roughly 21% Y-o-Y drop in inventories, while fixed capital investment rose by 7.2%. Construction continues to make a sizable contribution to fixed capital investment, though it is worth noting that recent months have also seen a sharp acceleration in imports of capital goods—possibly a sign that the investment climate is picking up. On the other hand, high geopolitical uncertainty, together with tighter import conditions imposed by Russia, poses risks of weakening investment activity.

Uncertainty over the outlook for domestic demand persists. On the one hand, domestic demand and the inflationary pressures it generates could broaden, driven by the drawdown of savings accumulated in the private sector in recent years and by the continued momentum in lending amid gradually easing credit conditions. On the other hand, relatively weak growth in some parts of the economy, along with the stabilization of labor market conditions, may signal a relatively soft demand environment. Moreover, rising and prolonged uncertainty driven by geopolitical and regional factors could weigh on both consumption and investment growth. At the same time, should geopolitical developments around Armenia prove favorable, a possible unblocking of regional transport links could improve the investment climate and support economic activity.

Uncertainty also persists over the number of Armenian labor migrants in Russia and the real volume of money flows to Armenia. Remittance growth has accelerated in recent months and stands near its historical average (Figure 3.B.6); however, given the strong economic growth in Armenia and the substantial rise in household incomes in recent years, the role of non-commercial remittances in shaping private demand has weakened considerably. Significant uncertainty over the current position and medium-term outlook of the Russian economy, together with tighter migration policy, could further restrain seasonal migration flows to Russia and reduce remittance inflows—adding to labor supply in Armenia and creating disinflationary risks. On the other hand, the recent appreciation of the ruble could help boost these flows by widening relative wage differences.

In Q1 2026, private consumption growth slowed considerably, yet remained the main driver of growth

Figure 3.B.4: Contribution to Real GDP Growth by Expenditure Approach

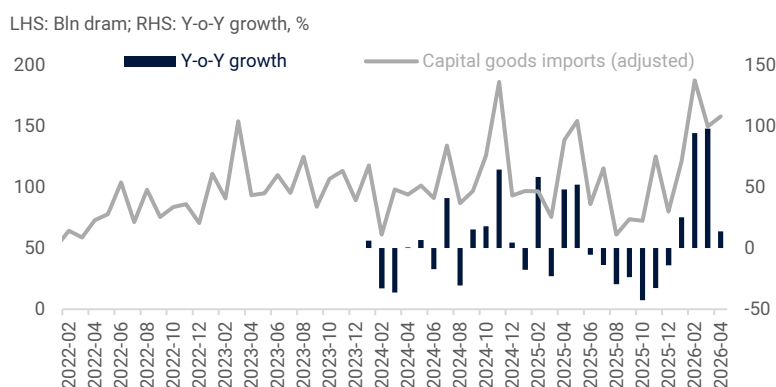


Note: The chart does not include the contributions from changes in inventories.

Source: Statistical Committee of the Republic of Armenia; CBA

In line with strong growth in imports of capital goods and in construction, fixed capital investment is rising

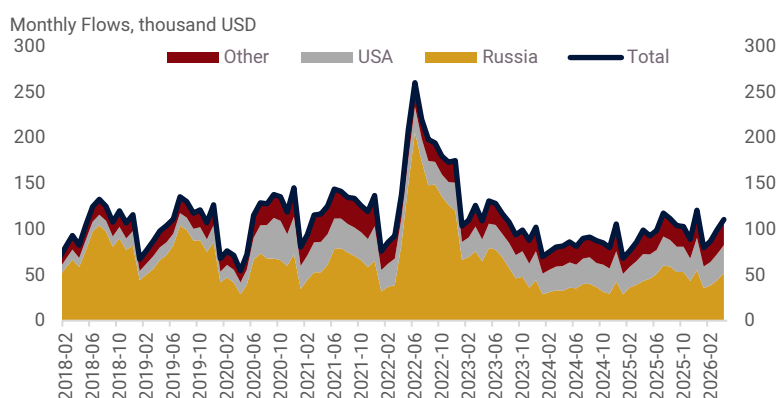
Figure 3.B.5: Capital goods imports



Source: CBA

The outlook for remittances to Armenia remains uncertain, amid Russia's economic developments and the tightening of migration policy

Figure 3.B.6: Inflow of Non-Commercial Transfers to Armenia by Source Country



Source: CBA

External Trade and Demand

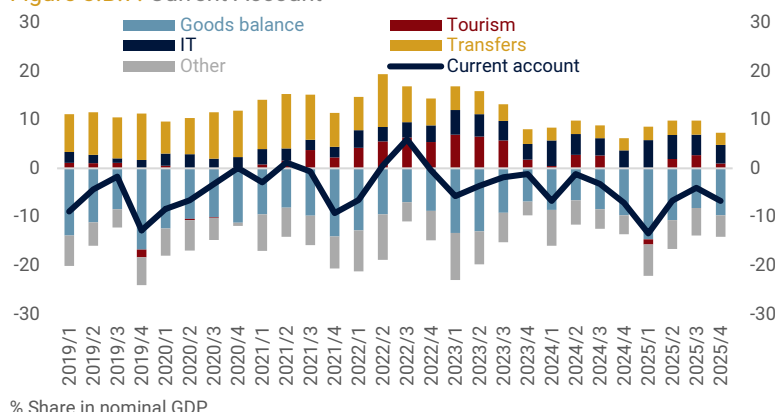
In Q4 2025, the current account deficit widened considerably, amid a partial correction of non-structural factors and the expansion of domestic demand (Figure 3.B.7). At the same time, external demand for Armenian goods remains high. This is reflected in rising tourist flows and in strong export growth in goods and, especially, services. IT services exports, in particular, remain high, amounting to 4.4% of GDP in Q4 2025, while financial services exports stood at 1.7%. That said, uncertainties over the outlook for external demand stem from geopolitical developments and the risks of a deteriorating Russian economy. In this context, given Russia's significant role in the structure of external trade, a further weakening of demand in the Russian economy could, over the medium term, weigh on both trade and tourist flows.

The current account deficit-to-GDP ratio continued to worsen in 2025, and uncertainty over its equilibrium level has risen considerably. In recent years, with the widening of economic openness, closer integration into international capital markets, and a possible decline in the country's risk premium, the equilibrium level of the current account deficit could have deepened. This is also evident in large capital flows (Figure 3.B.7.1) and, especially, in the appreciation pressures on the dram amid a widening current account deficit. On the other hand, the observed deficit may reflect high and expanding domestic demand. In this case, the current account deficit significantly exceeds its equilibrium level (see Box 1 for further detail), calling for an appropriate economic policy response.

In this context, there are also differing interpretations of the fundamental level of the real exchange rate, closely tied to the discussion over the equilibrium level of the current account deficit. One argument holds that the appreciation of the real effective exchange rate since 2022 reflects a significant rise in productivity and potential output growth, implying a structurally more productive economy with considerably greater long-term export potential and production capacity—which supports the case for a fundamental appreciation of the exchange rate and a relatively lower equilibrium level of the current account (Figure 3.B.8). Otherwise, if growth has been mainly cyclical in nature, this would point to a cyclical, non-fundamental appreciation of the real effective exchange rate, and its subsequent correction would likely be reflected in a larger adjustment of the current account deficit. It is also worth noting that the modest depreciation of the dram's real effective exchange rate over recent quarters has been driven mainly by the cyclical appreciation of the ruble amid high oil prices, and therefore does not materially change the assessments discussed above regarding the real exchange rate appreciation trends recorded in recent years.

Does the significant widening of the current account deficit-to-GDP ratio in 2025 indicate the presence of excess domestic demand?

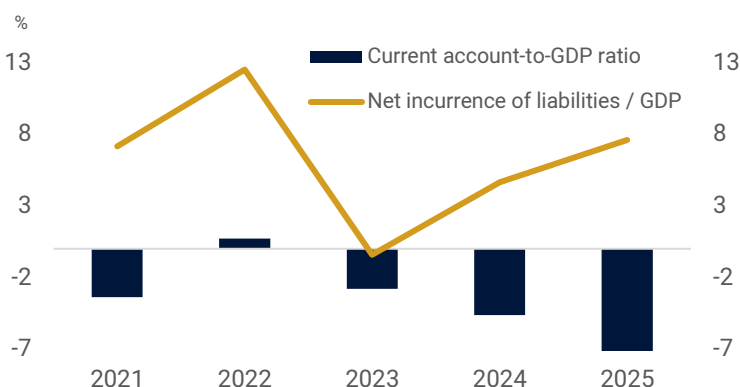
Figure 3.B.7: Current Account



Source: Statistical Committee of the Republic of Armenia; CBA

The significant capital inflows and the exchange rate appreciation pressures may signal a deepening of the current account's equilibrium level

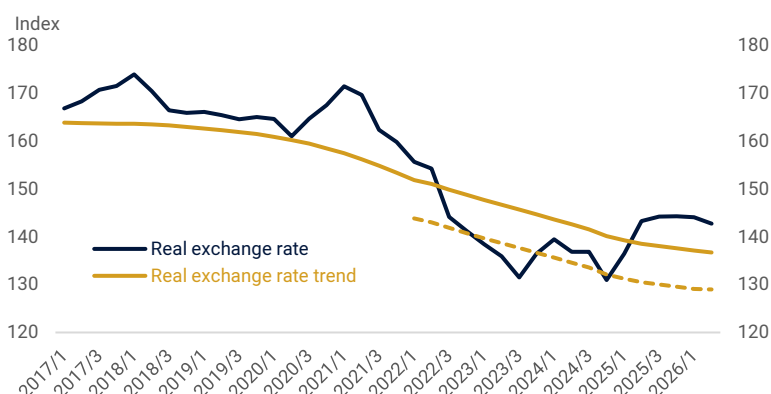
Figure 3.B.7.1: Current account-to-GDP ratio



Source: CBA

High uncertainty over the cyclical position of the real exchange rate persists

Figure 3.B.8: Real Effective Exchange Rate and Trend for AMD weighted against USD, EUR and RUB

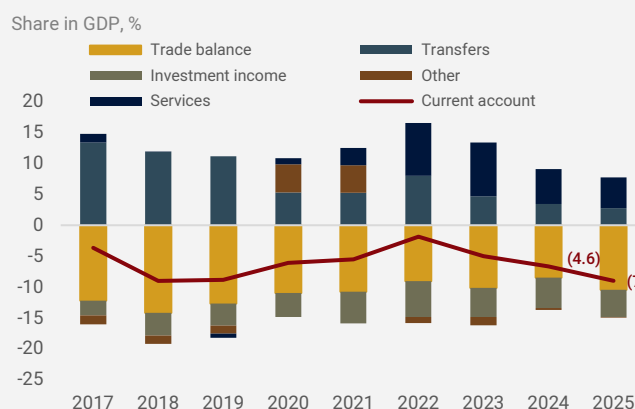


Source: CBA

Box 1. Main Factors Behind the Deepening of the Current Account Deficit in Armenia

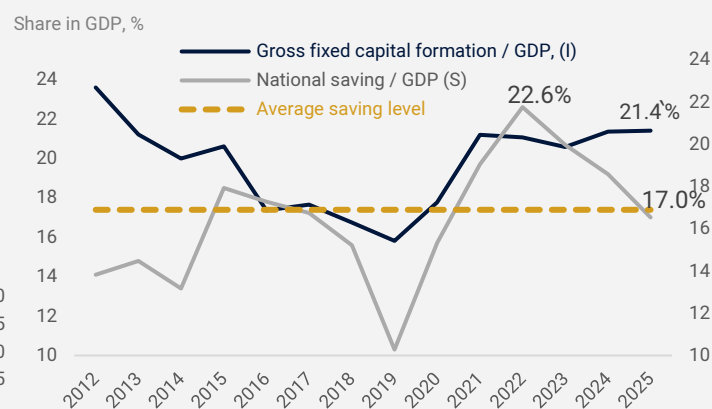
The current account reflects the relative position of saving (S) and investment (I) in the economy ($CA = S - I$), and its evolution over time offers valuable signals about demand conditions in the economy as a whole and about imbalances in its individual segments. It is worth noting that, since 2022—amid the gradual normalization of external demand, the significant waning of the role of certain temporary factors in the structure of external trade, and, especially during 2025, the expansion of domestic demand—the current account deficit in Armenia has deepened steadily, reaching around 7.2% of GDP by the end of 2025, compared with 4.6% a year earlier (Figure B.1.1). Although the considerable worsening of the current account might, at first glance, be read as the result of expanding aggregate demand, its interpretation can vary depending on shifts in the relative position of investment and saving in the economy, the sources financing the deficit, and the uses to which the resources raised are put.¹

Figure B.1.1. Current account, Armenia



Source: CBA

Figure B.1.2. National saving and investment



In this context, the current developments in the current account can be interpreted from two alternative, though not mutually exclusive, perspectives:

- **A shift in the equilibrium level of the current account.** As a result of deeper integration into global capital markets and a decline in the country's risk premium driven by fundamental factors, capital inflows to Armenia could rise steadily and substantially—which could deepen the norm (equilibrium level) of the current account deficit, establishing a new equilibrium level. In this case, investment in the economy typically rises while saving remains relatively stable. Notably, recent years have seen a marked increase in non-residents' preference for Armenian assets, reflected in considerable growth in demand for both the portfolio of Armenian government dram-denominated bonds and deposit and other debt instruments. These developments are evidenced by the continued appreciation pressures on the dram, despite the deepening of the current account deficit. From a monetary policy standpoint, underestimating the influence of these fundamental factors could lead to an unwarranted restraint of domestic demand while simultaneously fueling capital inflows. On the other hand, a rapid adjustment of the policy stance could have highly undesirable consequences, given the additional stimulus to demand—especially if demand is already high.² In sum, managing the macroeconomic effects stemming from this scenario through the monetary policy toolkit alone may not be effective, calling instead for a prudent combination of various macroeconomic policies.³ It should also be noted that if the significant capital inflows are driven not by an improvement in the fundamentals of the Armenian economy but, for example, by the global financial cycle or shifts in risk tolerance, this likewise constrains the flexibility of monetary policy to some degree—giving rise to trade-offs that are difficult to manage and underscoring the need to deploy other tools.⁴
- **A cyclical deterioration.** The widening of the current account deficit may reflect strong domestic demand conditions, driven by the expansion of both consumer and investment demand. National saving, for instance, has gradually declined from around 23% of GDP in 2022 to close to 17% in 2025 (Figure B.1.2), driven by some easing of uncertainties and improved expectations about the stability of future incomes, as well as the significant expansion of government—particularly social—spending and other factors.

¹ Blanchard, Olivier, and Gian Maria Milesi-Ferretti. 2011. "(Why) Should Current Account Balances Be Reduced?" IMF Staff Discussion Note SDN/11/03. Washington, DC: International Monetary Fund

² Blanchard, Olivier, Jonathan D. Ostry, Atish R. Ghosh, and Marcos Chamon. 2016. "Capital Flows: Expansionary or Contractionary?" American Economic Review

³ Ostry et al., "Capital Inflows: The Role of Controls", IMF (2010), Korinek & Sandri, "Capital Controls or Macroprudential Regulation?" IMF (2015)

⁴ Rey, "Dilemma not Trilemma", NBER (2015)

Figure B.1.3. Imports by end use

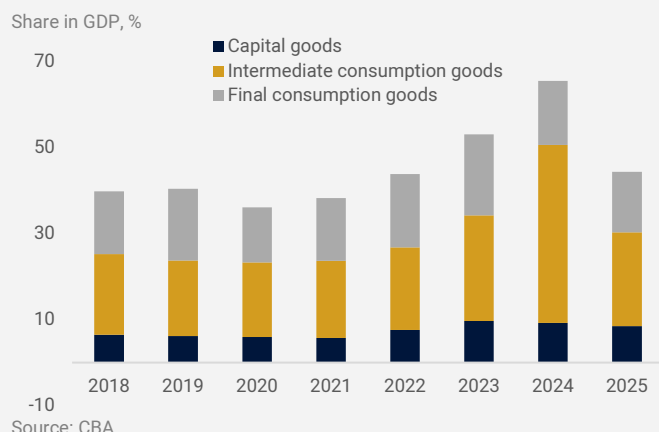
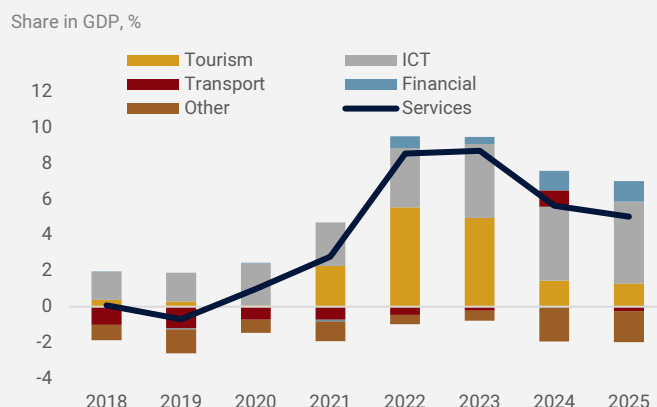


Figure B.1.4. The services balance in GDP



From a monetary policy standpoint, this carries important signals about a considerable strengthening of domestic demand conditions in the economy, the underestimation of which could lead to an undesirable broadening of the inflationary environment. That said, it should be noted that the level of national saving, despite its considerable decline, remains close to its historical average.

On the other hand, in recent years—amid improved expectations about the future, including the gradual easing of security risks, and the expansion of public investment—the share of investment in GDP has risen considerably compared with the pre-pandemic period, settling at around 21% (Figure N.1.2). This is also consistent with the continued strong growth in business lending, as well as the rise in imports of capital goods and their persistence at high levels (Figure N.1.3). As a result, Armenia's export capacity is gradually expanding, creating scope for the sustainable financing of future current account deficits. Moreover, alongside the expansion of merchandise export capacity, services exports have also grown considerably in recent years. Net IT exports, for instance, stood at around 1.6% of GDP in 2019 but had reached 4.5% by 2025, while financial services exports rose from 0% to 1.2% (Figure N.1.4). That said, it should also be noted that the capital flowing into Armenia is largely in the form of debt instruments and is intermediated by the banking system, which creates certain risks regarding its stability; moreover, part of the external resources raised is also channeled into relatively low-productivity and non-tradable sectors—notably construction—whose impact on the economy's future export capacity may be limited.

In sum, uncertainty over the position of the current account—and consequently of the real exchange rate—is considerably high, and underestimating the scenarios described above could pose significant challenges to ensuring price stability at minimal cost. In this regard, the continued monitoring of current account developments and the assessment of their likely effects remains an important imperative at the current stage of policy.

Fiscal Policy

In the early months of 2026, the state budget's tax revenues continued to grow at a fast pace, rising by around 14% compared with the same period in the previous year. With economic activity and inflation coming in higher than expected, tax revenues are being over-collected, easing the risk of a widening deficit driven by rising pension and social spending. However, given the structural features of growth and the risk of some slowdown, the scope for further improvements in tax administration may be limited (Figure 3.B.9, scenario 1).

State budget expenditure, in line with historical trends, are being under-executed, mainly reflecting weak performance on capital spending. Growth in current expenditures—driven in part by social and healthcare allocations—is significant. Specifically, current spending on social benefits and pensions rose by about 22% in January–April. On the other hand, given high demand, risks remain that planned allocations for universal health insurance will be exceeded and that fiscal policy will therefore take on a more expansionary stance—which could also drive additional inflation in healthcare services (Figure 3.B.9, scenario 2).

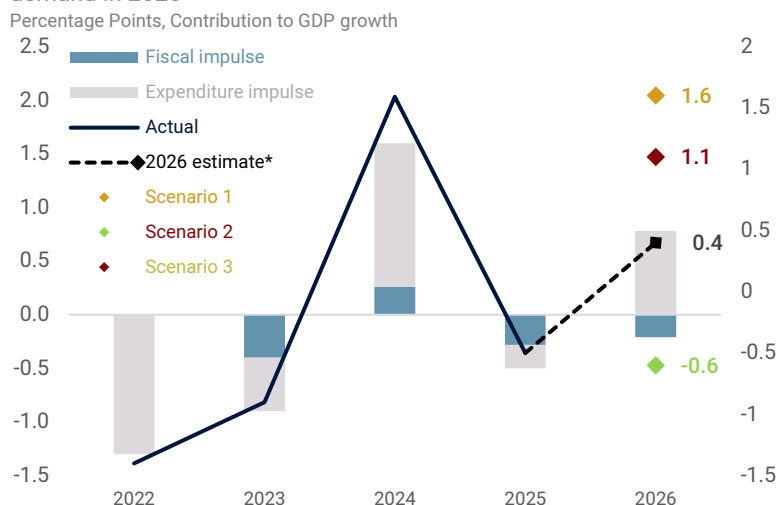
At the same time, developments in the external environment—particularly the significant tightening of import conditions by Russia—could call for an additional fiscal response, including measures to finance and support specific parts of the economy. Such developments could exert pressure in the context of a higher budget deficit and public debt, weighing somewhat on the country's risk premium given the limited fiscal space. That said, it should be noted that the support package approved along these lines is still small in scale.

On the other hand, due to a significant shift in the structure of capital expenditures, high uncertainty persists over their execution and their impact on the economy. Despite increased spending on Armenia's economic infrastructure and a gradual improvement in execution, limited capacity to implement large-scale capital projects continues to pose risks of under-execution and a weaker-than-expected impact on demand (Figure 3.B.9, sc. 3).

As a result, the main uncertainties ahead relate to the budget deficit and public debt trajectory, in the context of limited room for revenue growth and the performance of current and capital spending. This, in turn, carries uncertainty for the country's risk premium.

The high uncertainty over the impact of fiscal policy on aggregate demand persists.

Figure 3.B.9: Scenarios for the impact of fiscal policy on aggregate demand in 2026



Source: Ministry of Finance; CBA calculations

*Includes pension and benefit increases from April 2026

Scenario 1. Limited scope for tax administration amid a possible slowdown in economic growth.

Scenario 2. Overrun in healthcare spending amid the full execution of the tax revenue plan.

Scenario 3. Full execution of the tax revenue plan, but with under-execution of capital spending—in line with the trends of previous years—amid the limited capacity to carry out large-scale capital projects.

C. Labor Market and Inflation

Labor Supply and Demand

In Q4 2025, the unemployment rate in Armenia rose to 13.1%, remaining below its historical average. It should be noted that, according to the labor force survey, labor resources increased in Q4 2025 compared with the same quarter in the previous year; these, however, were largely recorded among the economically inactive population, while the number of employed declined. On the other hand, data from the State Revenue Committee show that the number of officially registered workers continues to grow steadily, signaling strong demand for labor in line with economic activity. That said, it should also be noted that the rise in registered workers partly reflects a shift of labor from informal to formal employment.

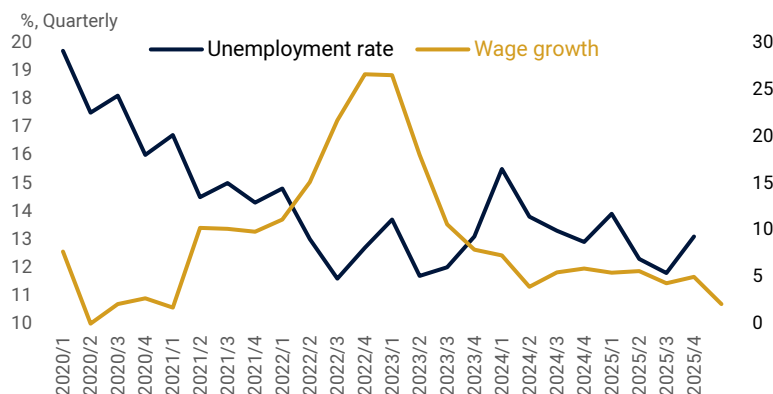
Average growth in private nominal wages slowed in Q1 2026 to 2.1% Y-o-Y (Figure 3.C.1). The slowdown was largely driven by the financial sector and was not broad-based. As a result, wage growth excluding the financial sector continued to stabilize at around 5% Y-o-Y, while its concentration declined considerably—which may signal a stabilization of demand conditions in the economy. Moreover, some indicators point to a gradual decline in the natural rate of unemployment in recent years, settling in the 11–13% range. This may have been supported by the expansion of productivity and export capacity since 2022, the integration and long-term settlement of highly skilled labor in the Armenian economy, gains in the efficiency of matching jobs and workers driven by the growth of digital platforms, and other factors. On the other hand, the weaker concentration of wage growth and the faster wage growth in services (excluding finance and ICT)—up to 7.7% Y-o-Y in the first quarter—may point to relatively strong demand conditions in the economy.

Uncertainties are high regarding trends in seasonal migration to Russia, the labor force participation rate in Armenia, and the pace at which the economically inactive population is integrated into the labor force. On the one hand, uncertainty over the outlook for Russian economic growth, together with tighter migration rules in Russia, could limit outbound labor flows, leading to an increase in labor supply in the Armenian economy and creating disinflationary risks. On the other hand, the appreciation of the ruble and the deepening labor shortage in Russia could give rise to different trends. In this context, the rise in non-commercial remittances from Russia to Armenia in recent months may suggest that these have largely outweighed the effect of the factors limiting migration flows.

In sum, despite the mixed signals from the labor market, the developments on the whole indicate that labor market imbalances have eased considerably over the latest quarters.

Imbalances in the labor market have eased considerably over the latest quarters

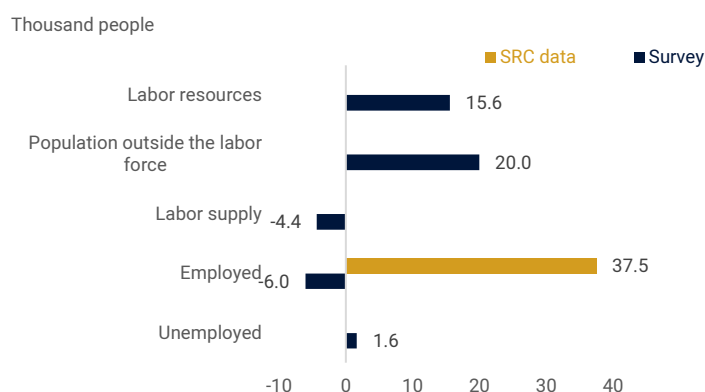
Figure 3.C.1: Unemployment Rate and Wage Growth, Armenia



Source: Statistical Committee of the Republic of Armenia, CBA calculations

The labor force survey results are not consistent with the State Revenue Committee's official data, which gives rise to differing interpretations

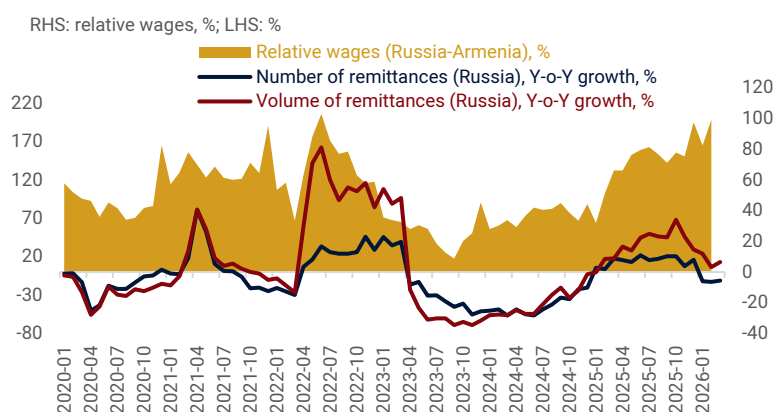
Figure 3.C.2: Change in Labor Resources, 2025Q4/2024Q4



Source: State Revenue Committee (SRC) of Armenia

The outlook for labor migration to Russia remains one of the main sources of uncertainty over the rise in labor supply in Armenia

Figure 3.C.3: Non-commercial remittances from Russia and the wage gap between Russia and Armenia in the construction sector



Source: CBA

Inflation

In Q2 2026, inflation in Armenia continued to run above target, reaching 4.2% in May compared with the same period a year earlier. This was mainly driven by the acceleration of core inflation, which came in higher at 5.1% Y-o-Y. That, in turn, largely reflects inflationary trends passing through from imported and local non-seasonal food products, driven by the inflationary pressures transmitted from the global economy in recent quarters and by the influence of certain supply-side factors in the domestic economy.

Despite the presence of clear supply-side factors, the acceleration of core inflation in recent months has become more broad-based across product groups, which may point to strong demand conditions. Core inflation has also been pushed up by faster growth in services prices, though this has largely been driven by inflation in healthcare services and reflects the rollout of the universal health insurance system. It is worth noting that, in recent months, inflation in this area has slowed considerably, and the risks of second-round effects have eased somewhat.

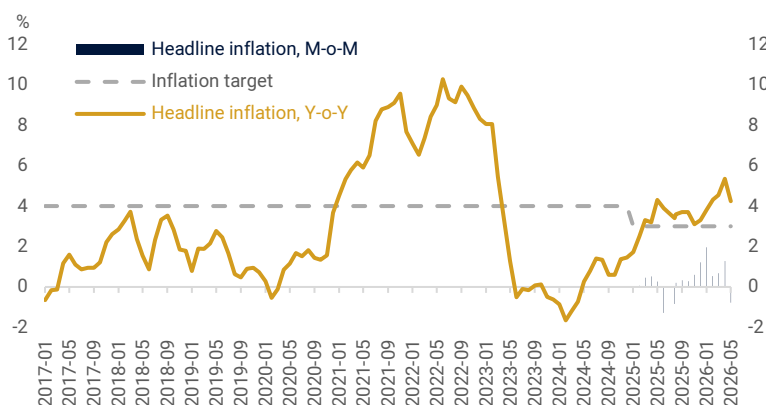
Inflation in non-traded goods with sticky prices—which mainly captures price behavior driven by the demand environment and inflation expectations—also rose slightly, continuing to run close to target at 3.4% Y-o-Y in May. That said, it should be borne in mind that prices of goods and services with sticky prices typically respond more slowly to the broadening or weakening of demand in the economy, whereas core inflation, for instance, has accelerated considerably of late, reaching an annualized 3.9% on a 3m/3m basis in May 2026.

The main uncertainties ahead relate to how long the inflationary trends in global food markets will persist and, in that context, to the speed and scale of the adjustment in domestic prices. Particularly, inflation in Armenia could be pushed up by rising commodity prices and the effects of disrupted trade routes amid persistent tensions in the Middle East, the scale of which will depend on the duration and scope of the conflict. It should be noted that the rise in global oil and food prices is still only partly reflected in local prices.

On the other hand, at least in the short term, headline inflation could also be affected by downward price adjustments in certain product groups driven by supply-side factors. In particular, given the low diversification of export destinations—especially in agriculture and food production—and the difficulties in accessing export markets and other issues (e.g., Middle East, Russia), an excess supply of these product groups could emerge in the local market (Box 2). Signs that these factors are materializing can already be seen in the behavior of inflation.

Inflation has continued to accelerate, driven mainly by supply-side factors

Figure 3.C.4: Y-o-Y CPI Inflation and the Target, Armenia



Source: Statistical Committee of the Republic of Armenia, CBA

After the high growth at the start of the year, inflation in healthcare services has eased considerably

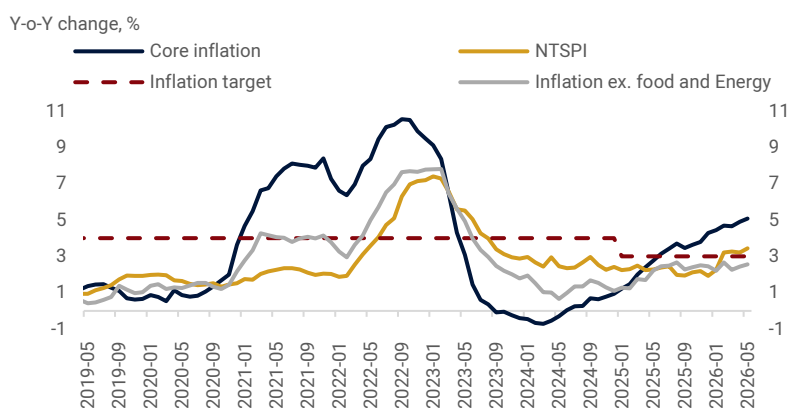
Figure 3.C.5: Inflation in the Healthcare Sector, Armenia



Source: Statistical Committee of the Republic of Armenia, CBA

The divergence in core inflation indicators sends mixed signals about the relative position of supply and demand in the economy

Figure 3.C.6: Underlying Inflation Measures, Armenia



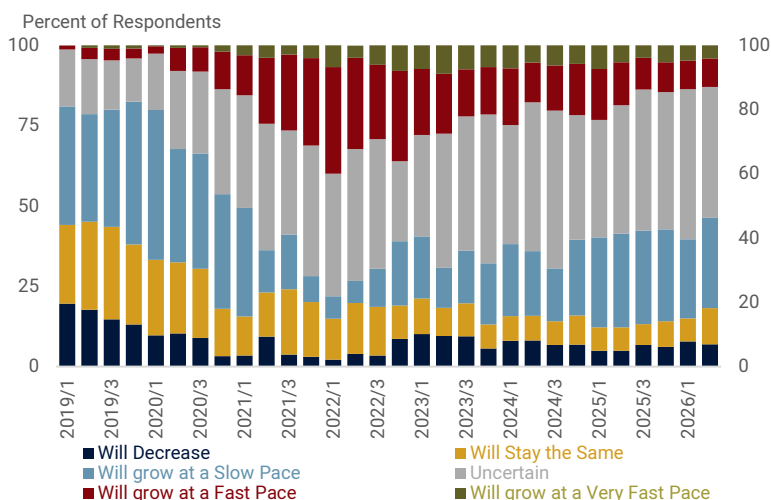
Source: Statistical Committee of the Republic of Armenia, CBA

Inflation Expectations

According to the results of the household inflation expectations survey conducted by the Central Bank of Armenia, in Q2 2026 expectations rose both for inflation stabilizing around its current level and for it growing modestly and slowly. This change was driven mainly by a decline in uncertainty (41% of respondents, compared with 47% in the previous quarter). On the other hand, the share of households expecting relatively high inflation also declined somewhat. These findings may indicate that, despite some broadening of the inflationary environment driven mainly by supply-side factors, inflation expectations continue to decline gradually, stabilizing around the target level. Consistent with this, non-tradable sticky prices and private sector wages continue to settle around their long-term sustainable levels. That said, uncertainty over the future level of inflation, while having eased somewhat, remains considerably high—carrying the risk of a possible acceleration in inflation expectations, especially given the persistently high inflation in food and more frequently consumed (salient) goods.

Uncertainty in household inflation expectations has risen, driven by recent public perceptions about the prices of certain food products

Figure 3.C.7: Survey on Households' Inflation Expectations, Armenia

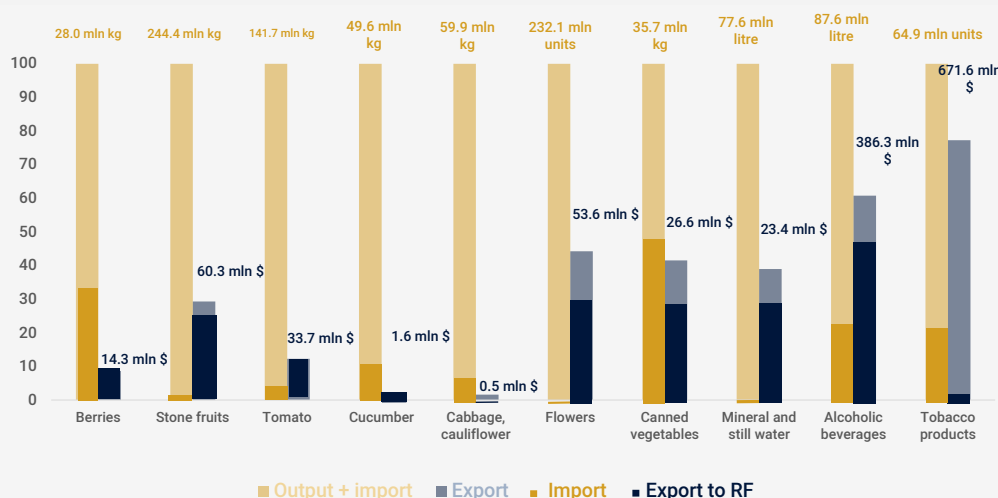


Source: CBA

Box 2. The possible emergence of excess supply amid difficulties in certain export markets and its disinflationary impact on the Armenian economy

Although Armenia's export structure has undergone some diversification in recent years—particularly in terms of export destinations—the level of concentration in certain product groups remains considerably high. In particular, a significant share of agricultural and manufacturing output is exported to one or two main destinations. Tobacco and tobacco products, for instance—one of the largest categories in manufacturing—are mostly exported to Middle Eastern countries: as of the end of 2025, Iraq and the UAE accounted for around 66% of tobacco exports, worth about 443 million dollars. On the other hand, the main destination for agricultural exports is Russia, accounting for more than 90% of exports in the case of certain goods (Figure B.2.1). As a result, the Armenian economy remains considerably vulnerable to regional shocks and events, to import conditions and tighter regulations in individual economies, and even to weather conditions, which from time to time can disrupt the operation of key roads or checkpoints. This, of course, also affects the volatility of headline inflation.

Figure B.2.1. Domestic consumption and exports of agricultural goods and selected manufacturing products

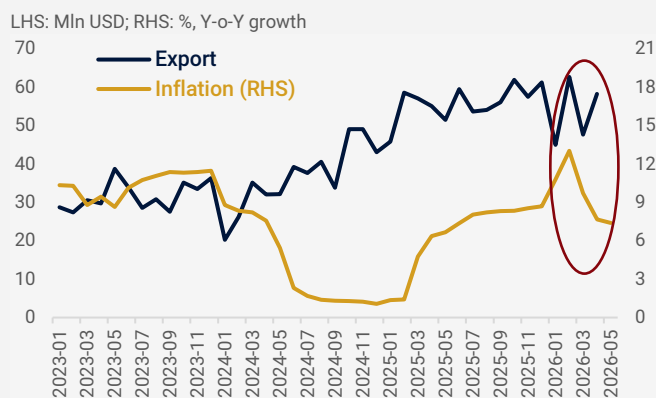


Source: Statistical Committee of the Republic of Armenia; CBA; CBA calculations

Under these conditions, in addition to the significant inflationary pressures transmitted to Armenia from the external sector of late, a prolonged Middle East conflict could also give rise to some disinflationary pressures. In particular, amid certain difficulties in exporting tobacco products to Middle Eastern markets, a considerable easing of inflation was recorded in March–May 2026 (Figure B.2.3). Russia's current tightening of import conditions could have a similar effect: as a result, from 12 June 2026 the export of products of plant origin and a number of other goods to Russia is being restricted. It can therefore be expected that, at least in the short term, an excess supply of these products could emerge in the domestic economy, with corresponding disinflationary effects. That said, given the expansion of the Armenian economy in recent years, the relatively small share of exports in the domestic consumption of a number of goods, and the new opportunities to export to other markets, the Central Bank of Armenia's current estimates suggest that this factor's impact on headline inflation will be modest—up to 0.5–0.6 percentage points. Uncertainty around this estimate is considerably high and will depend on the duration and scope of the restrictions, the pace of integration into new markets,

and developments in domestic demand. We would also add that, according to the Central Bank's current observations, no notable disinflation has yet been recorded for these products over recent weeks (adjusted for seasonal factors).

Figure B.2.2. Tobacco and Tobacco Product Exports and Inflation in Armenia



Source: Statistical Committee of the Republic of Armenia

D. Financial Markets

Market Expectations of Policy Rates

According to the most recent survey of financial market participants conducted by the Central Bank of Armenia on 10 June 2026, participants on average expect a slightly lower path for the policy rate. This is broadly consistent with the results of the participants' first-quarter macro survey (see Box 4), in which participants expect a reduction in the policy rate over the medium-term horizon (to around 6.25%). In this case, market participants expect economic growth and inflation to stabilize gradually around their long-term sustainable level and the target, respectively.

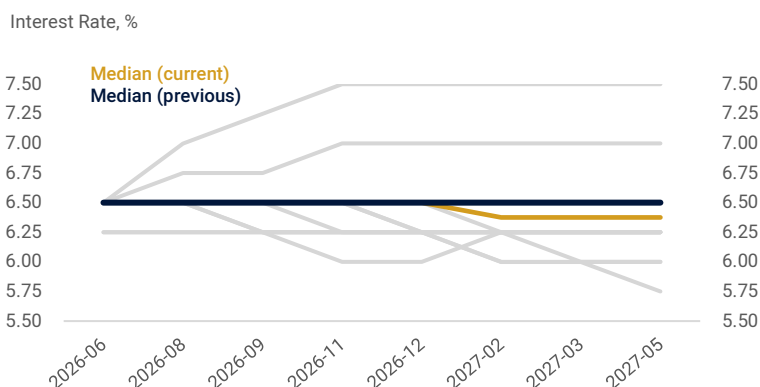
In recent months, the yield curve has not undergone significant shifts. The long end of the curve, amid some easing of uncertainty over the Middle East conflict, has continued to stabilize around 8.5%, while its short end (1–2 years) has held around 7%. Given the presence of a certain, stable-term premium, this is also consistent with the results of the financial market participant surveys, reflecting the market's pricing-in of a modest decline in the policy rate.

Neutral Interest Rate

Demand and labor market conditions in the economy, along with developments in core inflation, point to a policy stance close to neutral. That said, uncertainty over all components of the neutral interest rate is high. In this context, the elevated levels of the US budget deficit and a possible higher trajectory for public debt could push up the US neutral interest rate. Recently, the spreads on Armenia's foreign currency bonds have steadily declined (Figure 3.D.6), reflecting both global and Armenia-specific factors. In this regard, the main uncertainties concern the extent to which these trends are fundamental in nature. In recent years, the faster growth in Armenia's exports and production capacity relative to its partners has led to a higher fundamental appreciation of the real effective exchange rate and the formation of expectations to that effect. Moreover, the reduction in the inflation target, along with the relative stability of non-tradable sticky prices, likely points to a gradual decline in long-term inflation expectations and their anchoring around the target—which also supports the formation of the neutral interest rate at a lower level.

Market participants expect a slightly lower path for the policy rate

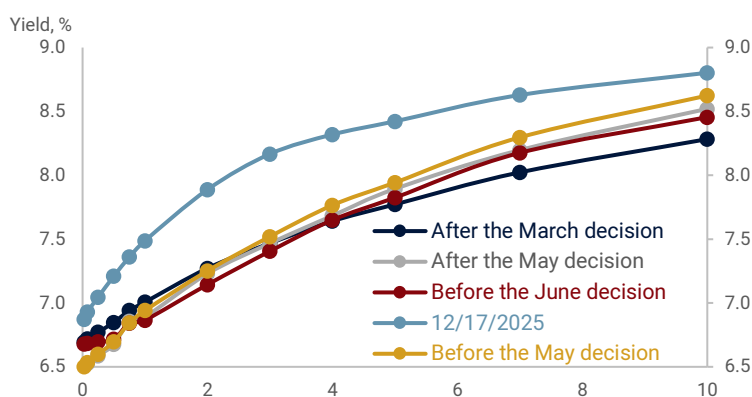
Figure 3.D.1: Financial Market Participants' Expectations of the CBA Policy Rate According to June 10, 2026 CBA Survey



Source: CBA

No significant shift in the yield curve has been recorded

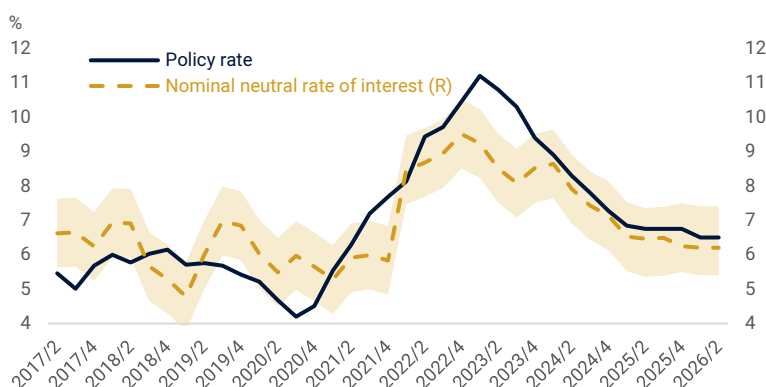
Figure 3.D.2: Yield Curve Dynamics, Armenia



Source: CBA

How Tight are Monetary Conditions?

Figure 3.D.3: CBA Policy Rate and Underlying Equilibrium Rate



Source: CBA

Bank Lending Conditions

In Q2 2026, credit growth ran at a high level, reaching 23.2% Y-o-Y in April, which likely reflects the persistently strong demand for credit in the economy. At the same time, the Central Bank of Armenia's Q1 surveys show that banks' expectations for growth in demand for consumer and business loans have risen. On the other hand, conditions for business lending have remained broadly stable, while those for consumer lending have eased somewhat. In this regard, given the high levels of profitability and liquidity recorded in the banking system, a possible further easing of lending conditions could provide an additional boost to credit and to the broadening of demand conditions in the economy.

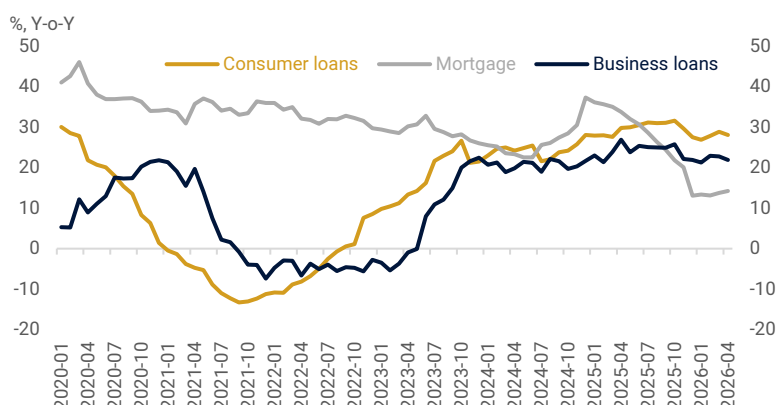
Nominal Exchange Rate

In April–June 2026, the nominal exchange rate of the Armenian dram appreciated somewhat against the US dollar and the euro, while depreciating against the ruble (Figure 3.B.5). This reflects the significant rise in exports in certain sectors of the Armenian economy, in tourist and capital inflows, and in more positive investor sentiment toward Armenia, as well as developments in partner economies. Looking ahead, the main sources of risk and uncertainty are the extent to which the factors described above prove persistent, as well as the trajectory of monetary policy rates in advanced economies, global demand conditions, and investor sentiment toward developing economies. Moreover, persistent uncertainty in the region, along with the possibility of stronger domestic demand in the economy, could give rise to some depreciation pressures.

Armenia's short-term risk premium has declined over recent quarters, reflecting the influence of both global and Armenia-specific factors, consistently settling at historic lows. On the one hand, uncertainty stemming from fiscal and trade policies in advanced economies, and on the other, structural reforms in developing countries, have improved sentiment toward developing countries. At the same time, while developments in Armenia's risk premium have tracked the broader trends among developing countries, signals are gradually strengthening that the current low levels of Armenia's risk premium may largely reflect improving fundamentals and the influence of Armenia-specific factors—including perceptions of reduced security risks around Armenia. In this context, the main uncertainties concern the extent to which the current trends in developing countries, as well as in Armenia, are long-term and fundamental in nature. This, in turn, creates significant uncertainty when it comes to interpreting the long-term, stable level of Armenia's risk premium and the neutral interest rate.

The continued strong growth in lending may reflect strong demand conditions

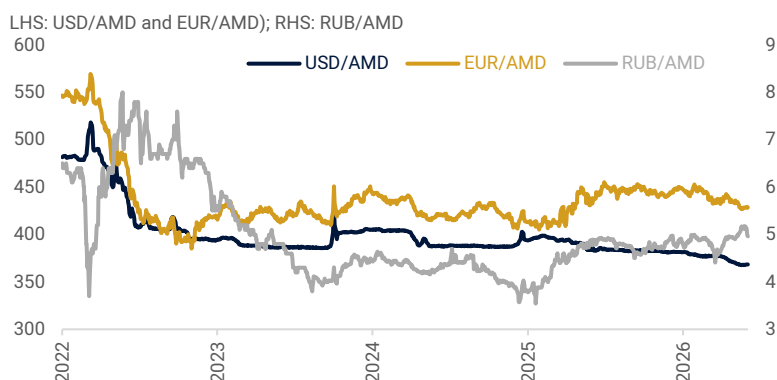
Figure. 3.D.4: Change in Total Loans Provided by Commercial Banks to Households and Businesses, Armenia



Source: CBA

Developments in the nominal exchange rate reflect the influence of a range of factors, both external and domestic

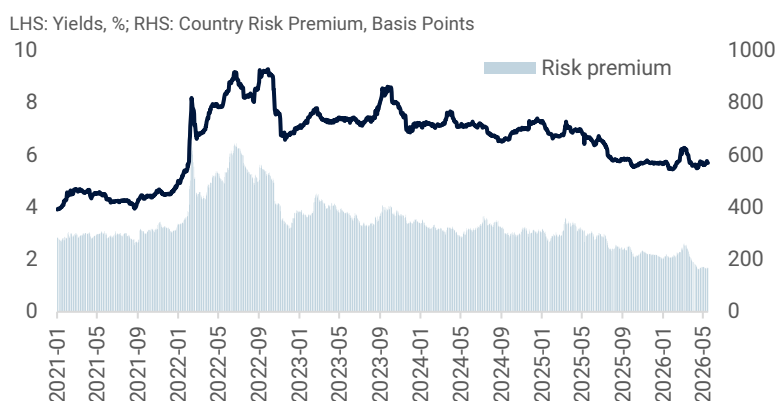
Figure. 3.D.5: Nominal Exchange Rate for AMD against USD, EUR and RUB (Lower Value means Stronger Dram)



Source: CBA

To what extent are the current downward trends in risk premia—in developing countries as well as in Armenia—long-term and fundamental in nature

Figure. 3.D.6: Yield on Armenian Eurobonds Maturing in 2031 and Estimated Country Risk Premium



Source: Ministry of Finance, CBA

Box 3. Scenarios-Based Forward Guidance: The Role of Market Expectations

Approaching monetary policy through the lens of risk management under FPAS Mark II requires a different approach to the scenario-building process. Rather than treating its own central projections as the best piece of information and forcing market participants to coalesce around this singular view of unfolding economic conditions, the CBA instead utilizes market expectations for the central bank policy rate as a starting point for policy deliberations. Market expectations, by design, contain significant information about market views on current economic developments and possible behavior of monetary policy in the future economic environment.

Before the development of flexible-inflation-targeting approaches, monetary policy communication predominantly focused on direct actions like the setting of short-term policy rates. However, short-term rates are not particularly relevant for most people; longer-term interest rates tend to hold greater significance as these are the types of maturities at which households and businesses typically borrow and lend. The two principal components that make up longer-term rates are the term and risk premiums and the expected path of the policy rate. Of these two components, the expected path of the policy rate is most significant. As inflation targeting regimes were adopted, transparency in communicating a central bank's perspective and rationale became a necessary precondition for the regime's efficacy. With greater central bank clarity, financial markets gain the agility to recalibrate efficiently between policy decisions. Importantly, on decision dates, policymakers do not merely set the current policy rate; they also provide insights into their monetary policy decisions, including how the policy rate may change in the future based on different narratives, scenarios, and assumptions.

In advanced economies with well-developed financial markets (including secondary bond markets), gleaned market expectations of the future path of the policy rate is a relatively straightforward task. For countries with less developed financial markets that lack options markets, such as Armenia, the task is less straightforward. It requires synthesizing multiple approaches, without resorting to "over-modeling" and attempting to ascribe a false degree of precision that is based on unreliable or incomplete information.

Market Expectations of the Policy Rate: We synthesize three approaches. First, we take as a starting point information from the spot market for shorter-term bonds (one year and less) and perfect foresight-based inferences about the term structure of the yield curve. We recognize that data from the spot market is imperfect and cannot paint a complete (or always accurate) picture about market expectations of the policy rate. For example, bond markets experience high term premium volatility, face frequent liquidity and other shocks, and so on, making it difficult to perfectly assess which price movements result from changes in expectations versus other factors. Second, considering this issue, we therefore also conduct a quarterly macro survey of financial markets (including commercial banks, institutional investors, asset managers, and others), who provide a macro-consistent projection of inflation, growth, policy rate, and exchange rate over the medium-term horizon, along with accompanying narratives supporting these scenarios. Recognizing that economists' projections may deviate from how financial participants actually behave, we finally dovetail this approach with a high-frequency survey of policy rate expectations among dealers in commercial banks and credit organizations.

Scenarios-Based Forward Guidance: To graphically illustrate our case scenarios relative to market expectations, we rely on the following approach (see the figure below). The grey line represents the CBA's refinancing rate historically. Market expectations are depicted with a red dashed line, representing the market's assessment of the most probable trajectory of the average policy rate over the course of the next 3 years. This provides a reference point around which the illustrative Case A (orange line) and Case B (blue line) scenarios for the policy rate are constructed.

Figure B.3.1: Hypothetical Example of Case Scenarios and Market Expectations under the Prudent Risk Management Framework

Interest Rate, %



Source: CBA

E. Taxonomy of Scenarios

Purpose and Structure of the Taxonomy

The Taxonomy of Scenarios provides a comprehensive, structured assessment of the different types of risks, shocks, and sources of uncertainty that can affect the Armenian economy. It describes their potential impacts on inflation and economic environment in Armenia, as well as loosely illustrates implied monetary policy reactions by the CBA. As a structured summary of the various policy-relevant scenarios considered by the Board of the CBA, the Taxonomy presents the key issues that can impact policy decisions over a medium-term horizon in the context of a least regrets decision-making framework. The evolving Taxonomy of Scenarios is published in each quarterly MPR.

Table E.1: Taxonomy Structure

Case A-Type Considerations	Case B-Type Considerations
Expansionary Demand: Shocks result in aggregate demand rising more than aggregate supply, increasing underlying inflation. This requires an increase in the policy rate path that is sufficiently aggressive to anchor inflation and inflation expectations. Complications: credibility is fragile Output + Inflation +	Contractionary Demand: Shocks result in aggregate demand rising less than aggregate supply, decreasing underlying inflation. This requires a decrease in the policy rate path that is sufficiently aggressive to anchor inflation and inflation expectations. Complications: ELB, stuck in low inflation trap Output - Inflation -
Contractionary Supply: Nasty stagflationary shocks that require an aggressive upward adjustment in the expected path of the policy rate, resulting in a significant short-run tradeoff between inflation and other real objectives (e.g., unemployment) Complications: Hard to hit the wounded economy Output - Inflation +	Expansionary Supply: Favorable supply shock(s) reduce inflation toward the target and results in higher growth as well as lower interest rates; is a policymaker's dream. Complications: can be risky if this environment is extrapolated into the future Output + Inflation -

The taxonomy is classified into those that can have Case A-type (expansionary demand, contractionary supply) and Case B-type (contractionary demand, expansionary supply) considerations. Although the classification of shocks can be done in different ways across different features, the one presented here is based on a typical distinction between supply and demand side forces and is particularly useful from policymakers' point of view as it provides a framework for analyzing the source of inflationary pressures and potential risks to the economy. By understanding the nature and magnitude of different types of shocks, policymakers can then design appropriate monetary policy responses to mitigate the negative impact of adverse shocks and leverage the benefits of positive shocks.

Taxonomy of Scenarios: Q2 2026

Table E.2: Taxonomy of Scenarios: Q2 2026

Case A-Type Considerations Expansionary Demand	Case B-Type Considerations Contractionary 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. • 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. • 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.	• 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. • 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. • 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.

Case A-Type Considerations Contractionary Supply	Case B-Type Considerations Expansionary Supply
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.	- 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.

Box 4. Market Reference Scenario

Under the CBA's Prudent Risk Management Framework, the CBA does not prepare baseline projections. Instead, we rely on information from financial market participants (including commercial banks, fund managers, institutional investors, and so on)—compiled through quarterly surveys—to develop a macro-consistent “market reference scenario (MRS).” This MRS, in many ways, serves a similar purpose as a traditional baseline projection, in the sense that it represents the market’s rough estimation of the “most likely future,” given the information available to market participants at a particular point in time. The MRS can serve as a substitute for the baseline for those external stakeholders (e.g. IFIs, fiscal authorities, and others) who rely on exogenously-provided projections when making their own planning decisions. Through the use of the MRS, the CBA provides the opportunity to markets to not only understand third-party forecasts of the “most likely” future, but also pay attention to those types of risks, uncertainties, and scenarios that can pose risks from the perspective of monetary policy and price stability (which are presented in the preceding Taxonomy). At the same time, this provides an opportunity to effectively communicate the logic and rationale behind CBA’s policy decisions under the prudent risk management approach.

Note: The CBA Macro Survey is conducted on a quarterly basis by the CBA. For the purposes of informing the Market Reference Scenario, participants are each asked to provide a macro-consistent scenario, including a qualitative description of the narrative underlying the scenario and associated Case A- and B-type risks, as well as accompanying quantitative 12-quarter-ahead projections for CPI inflation, real GDP growth, the CBA policy rate, and the nominal AMD/USD exchange rate. The Q2 2026 survey was carried out in April-May 2026.

Figure B.4.1: CPI Inflation

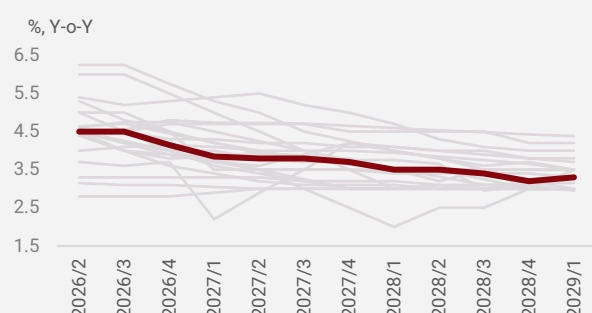


Figure B.4.3: Real GDP Growth Rate

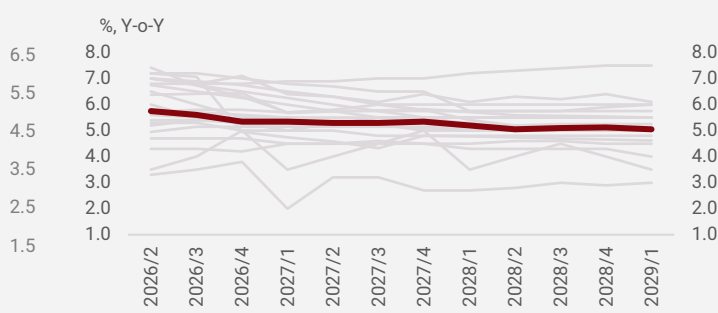


Figure B.4.2: CBA Policy Rate

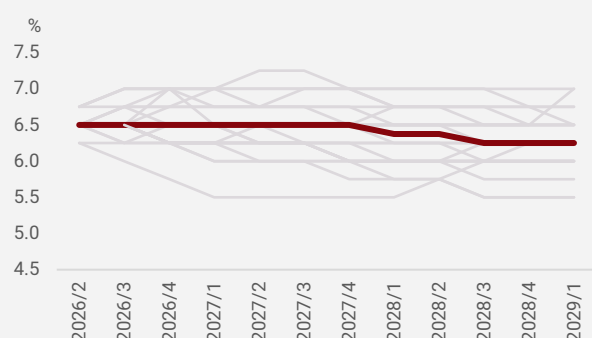
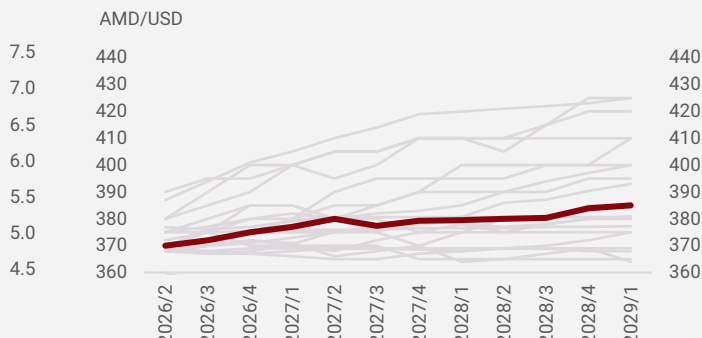


Figure B.4.4: Nominal AMD/USD Exchange Rate



* Note: CBA Macro Survey shown as average of survey responses (line) and individual responses (grey lines).

Table B.4.1: Summary of Third-Party Projections

Source Date	IMF Apr-26	CBA Macro Survey Q2 26	Consensus Jun-26
GDP Growth (Annual Rate, %)			
2025 (Actual)		7.2	
2026	5.3	5.6	5.1
2027	5.5	5.3	4.5
2028	5.0	5.1	
Inflation (Annual Rate, %)			
2025 (Actual)		3.3	
2026	3.6	4.4	3.9
2027	3.4	3.8	2.8
2028	3.3	3.4	

Source: IMF, World Bank, ADB, CBA Macro Survey

F. Monetary Policy Outlook

Case A: Excess demand conditions could require interest rates above market expectations

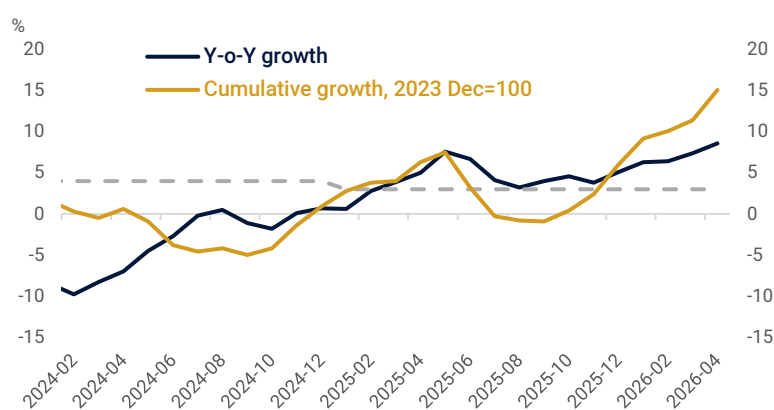
A prolonged period of above-target core inflation in Armenia—especially given the faster rise in the prices of everyday essential goods—could lead to higher inflation expectations.

From the standpoint of conducting effective monetary policy and managing risks prudently, assessing the inflationary environment requires attention not only to developments in headline and core inflation, but also to their distribution and structural features. From this perspective, developments in individual components of the consumer basket can offer important information about the persistence of inflationary pressures and, particularly, about the formation of inflation expectations. Several studies⁵ likewise show that, in forming inflation expectations, households place a disproportionately large weight on the prices of frequently consumed and more visible goods. This is especially pertinent under current conditions, when headline inflation in Armenia modestly exceeds the target level—mainly driven by pressures transmitted from abroad—while price growth in certain groups of frequently consumed and more visible (salient) goods is considerably higher.

Indeed, in recent months, despite the broadening of the overall inflationary environment, it is the prices of frequently consumed essential food products that have been rising fastest. In particular, the annual growth in the prices of essential food products reached 8.6% Y-o-Y in April (Figure 3.F.1). Moreover, these trends are more pronounced in certain product groups—notably eggs, beef, vegetable oil, dairy, and bread—where the figures are considerably higher than the overall trend. It should also be noted that energy and food prices continue to rise on international markets and have so far only partly passed through to the local market. From a monetary policy standpoint, then, the structural features of headline inflation and the effective management of the risks they pose are of considerable importance.

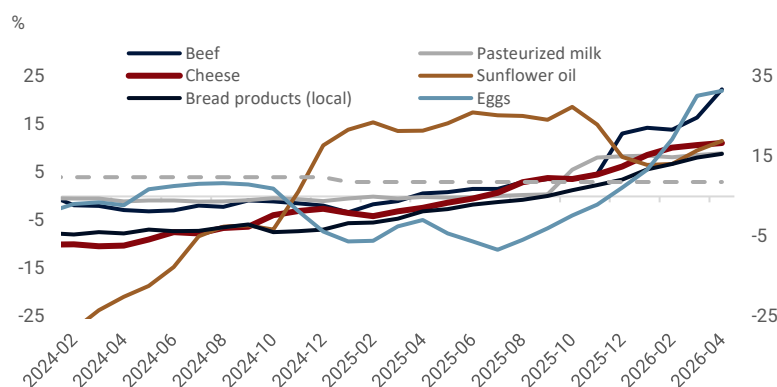
On the other hand, the surveys conducted by the Central Bank of Armenia among households and financial institutions likewise contain faint signs of rising inflation expectations and growing uncertainty around them. Underestimating the developments implied under this scenario could damage the Central Bank's credibility, raising the future cost of ensuring price stability. Under these conditions, effectively managing inflation expectations and anchoring them around the inflation target calls for a higher policy rate path than current financial market expectations imply.

Figure 3.F.1: Inflation in essential goods has recently outpaced headline inflation considerably



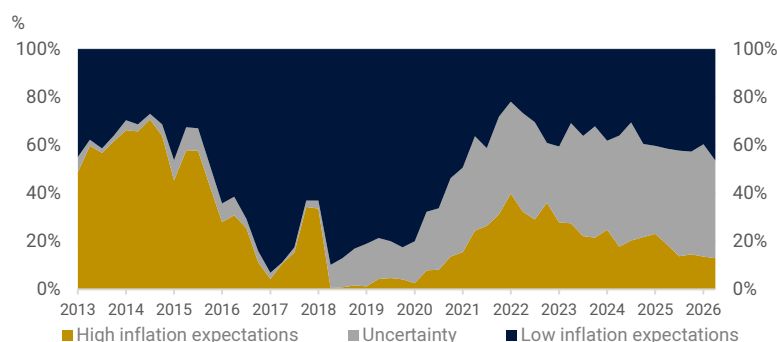
Source: CBA, CBA calculations

Figure 3.F.2: The high price growth of frequently consumed food products may have a greater influence on the formation of inflation perceptions and expectations



Source: CBA

Figure 3.F.3: CBA's surveys point to the persistence of high uncertainty



Source: CBA

⁵ D'Acunto, F., Malmendier, U., Ospina, J., & Weber, M. (2021). "Exposure to Grocery Prices and Inflation Expectations." Bonciani, D., Masolo, R. M., & Sarpietro, S. (2024). "How Food Prices Shape Inflation Expectations and the Monetary Policy Response."

Case B: Weakening domestic demand conditions could require interest rates below market expectations

The outlook for the global economy continues to deteriorate, driven by geopolitical tensions and the resulting prolonged period of high oil prices.

As a result of the Middle East conflict, geopolitical and economic uncertainty has risen substantially, contributing—through the constraints on trade routes—to a significant rise in energy and food prices and in their volatility. A prolonged continuation of this situation would keep eroding households' real disposable incomes and purchasing power, encouraging precautionary saving and leading to the postponement of investment projects.

The economic literature broadly confirms these transmission mechanisms. A number of studies show that uncertainty shocks can lead to significant reductions in output, employment, and investment, as economic agents tend to defer spending and investment decisions amid high uncertainty, while persistently high oil prices reduce households' real incomes, constraining economic activity. According to IMF estimates, every persistent 10% rise in oil prices adds around 0.4 percentage points to global prices and reduces economic growth by around 0.1–0.2 percentage points. Notably, energy prices have risen by around 80% since the start of the year, and the oil price volatility index has exceeded even the level recorded during 2022 (Figure 3.F.4).

These developments are, so far, only faintly reflected in the growth figures of leading economies—likely in part because, amid optimism about the conflict's duration, the rise in energy and food prices is largely being "absorbed" through personal savings. That said, some leading indicators point to a coming weakening of global demand (Figure 3.F.5 and Figure 3.F.6).

While such developments could create additional inflationary pressures for Armenia at first, a significant weakening of global demand would make their medium-term impact largely disinflationary. Managing the macroeconomic risks stemming from this scenario therefore calls for a lower monetary policy path than current financial market expectations imply.

Figure 3.F.4: Oil prices and volatility remain elevated.

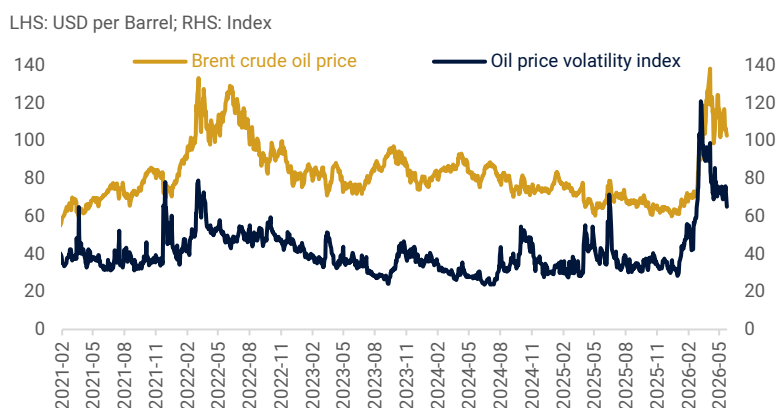


Figure 3.F.5: The state of consumer confidence in partner economies

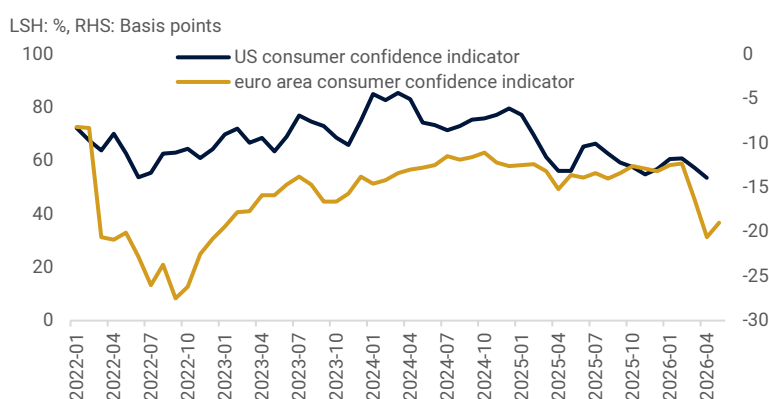
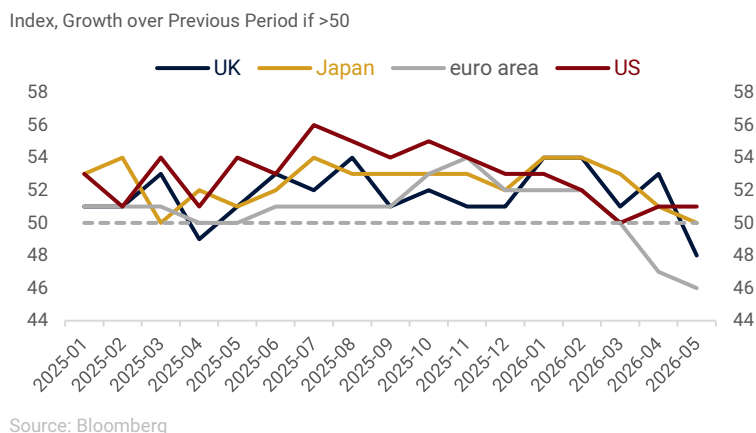


Figure 3.F.6: The decline in the services PMI reflects the weakening of global consumer sentiment



Summary of Illustrative Case A & Case B Macroeconomic Projections

Figure 3.F.7: Endogenous Interest Rate Path, %

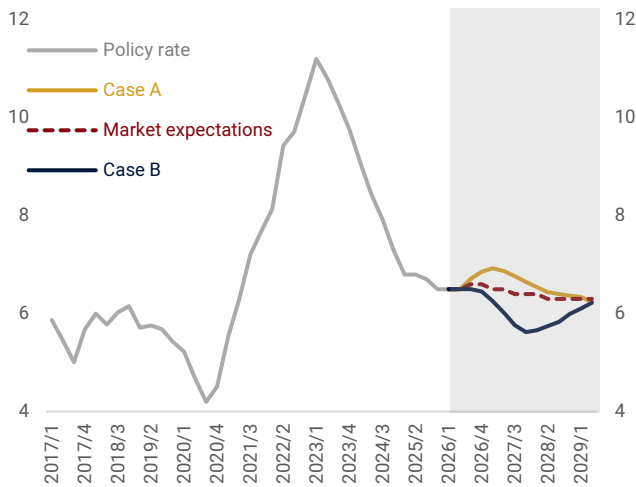


Figure 3.F.10: Non-Traded Sticky Price Inflation, Y-o-Y %

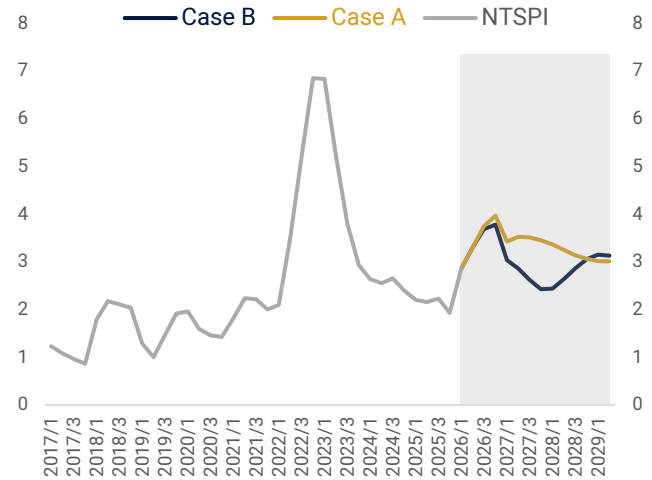


Figure 3.F.8: Real GDP Growth, Y-o-Y %

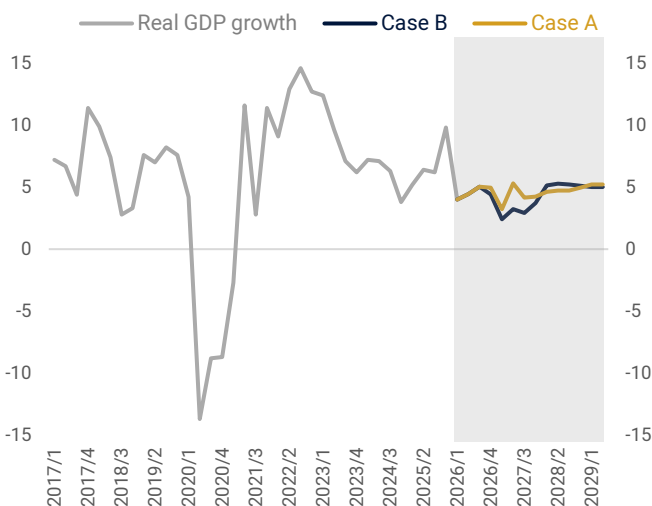


Figure 3.F.11: Output Gap, %

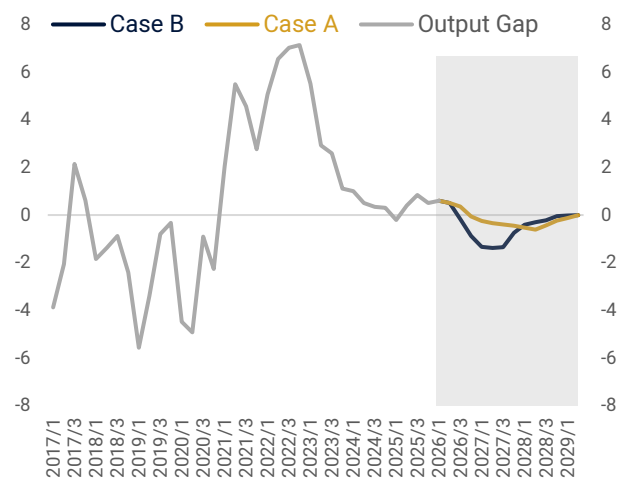


Figure 3.F.9: Headline CPI Inflation, Y-o-Y %

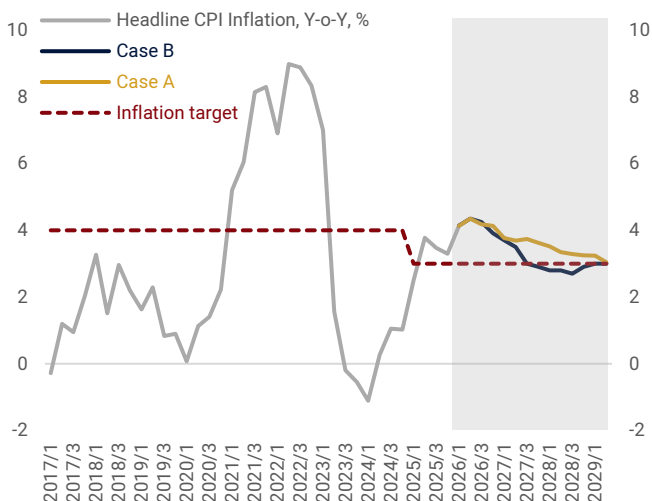


Figure 3.F.12: Real Interest Rate, %

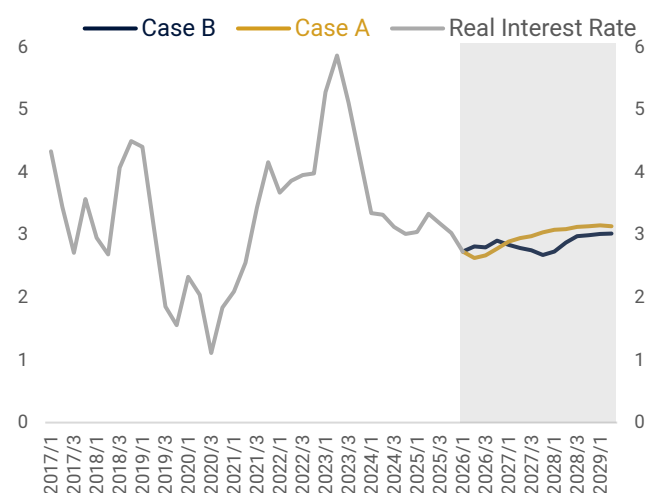


Figure 3.F.13: Nominal Effective Exchange Rate, Index

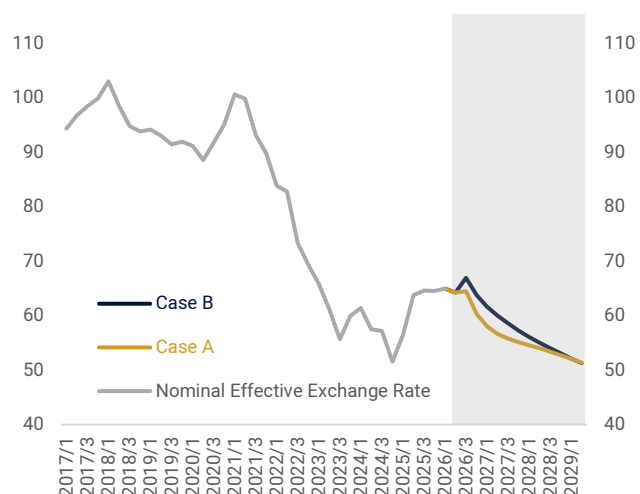


Figure 3.F.15: Model-Based 1-Year Ahead Inflation Expectations, Y-o-Y %

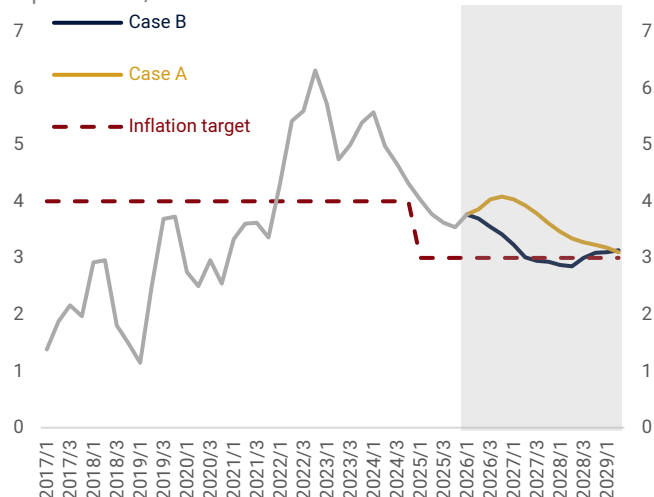


Figure 3.F.14: Real Effective Exchange Rate, Index

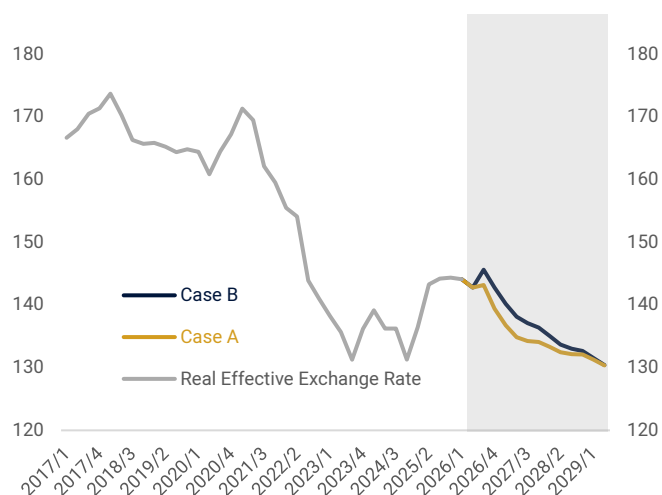


Table 3.F.1: Summary of Illustrative Macroeconomic Projections
Historical Data and Illustrative Case A & B Scenario Projections

		2024	2025	2026		2027		2028		2029	
		Actual	Actual	Case A	Case B	Case A	Case B	Case A	Case B	Case A	Case B
Global Economy											
USA economic growth	real growth, %	2.8	2.2	2.4	1.9	2.4	1.5	2.5	2.0	2.0	2.0
Eurozone economic growth	real growth, %	0.9	1.4	1.0	0.4	1.2	0.3	1.4	1.0	1.3	1.1
Russia economic growth	real growth, %	4.1	1.0	0.4	0.2	1.3	1.0	1.3	1.1	1.5	1.3
USA inflation	average, %	3.0	2.7	2.7	2.6	2.3	1.9	2.1	1.3	1.9	2.0
EU inflation	average, %	2.6	2.4	2.3	2.4	2.8	2.6	2.6	1.9	1.9	1.9
Russia inflation	average, %	8.4	9.0	5.2	5.3	4.8	5.0	4.1	4.2	3.8	3.8
Oil price	dollar/barrel	80.5	69.1	97.6	100.2	84.3	90.6	79.2	85.0	80.0	84.6
Copper price	dollar/mt	9142.0	9947.0	13560.3	13112.2	14736.8	14191.5	15449.0	15121.9	15717.0	15699.7
FAO food price index	index	122.0	127.2	126.8	133.2	127.0	133.8	125.1	135.7	122.3	137.5
Domestic Economy											
Inflation											
Inflation	Y-o-Y, %, EOP	1.5	3.3	4.1	3.9	3.6	2.9	3.3	2.9	3.0	3.0
CPI inflation	Y-o-Y, %, avg.	0.3	3.3	4.2	4.2	3.7	3.3	3.4	2.8	3.0	3.0
Non-traded sticky price inflation	Y-o-Y, %, avg.	2.6	2.2	3.5	3.4	3.5	2.7	3.2	2.7	3.0	3.0
Gross Income											
GDP	billion dram	10193.0	11318.0	10928.4	10890.9	11836.7	11729.2	12902.2	12929.3	14001.8	14067.1
GDP	real growth, %	5.9	7.2	4.5	4.1	4.7	3.7	5.0	6.2	5.1	5.0

Table continued on the following page.

Historical Data and Illustrative Case A & B Scenario Projections (continued from previous page)

		2024	2025	2026		2027		2028		2029	
		Actual	Actual	Case A	Case B	Case A	Case B	Case A	Case B	Case A	Case B
Demand											
Consumption	real growth, %	6.7	5.1	6.2	6.0	4.7	4.2	5.2	6.0	5.0	5.2
Public consumption	real growth, %	-8.2	3.7	8.2	8.2	-0.3	-0.3	2.5	2.5	1.1	1.1
Private consumption	real growth, %	9.3	5.4	5.9	5.7	5.5	4.9	5.6	6.5	6.1	6.0
Gross accum. of fixed assets*	real growth, %	11.9	2.1	16.0	16.0	4.4	4.0	5.2	5.2	5.2	5.2
Public investment**	real growth, %	11.8	-4.0	34.4	34.4	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9
Gross accumulation of private fixed assets	real growth, %	12.0	4.7	16.0	16.0	4.4	4.1	8.1	8.1	7.3	7.3
Export of goods and services	real growth, %	-11.0	-29.5	-5.9	-5.1	2.6	4.3	3.8	3.8	2.5	2.7
Import of goods and services	real growth, %	-3.2	-32.7	-4.2	-5.8	1.1	0.8	2.3	2.3	0.9	1.0
Current Account											
Balance of trade	million USD	-2195.0	-3059.3	-3086.5	-2798.0	-3006.1	2555.7	2905.2	-2312.2	3175.4	2912.3
Balance of services	million USD	1463.3	1471.2	1544.8	1559.5	1622.0	1653.0	1703.1	1752.2	1788.3	1857.4
Money transfers	million USD	803.6	158.6	918.8	918.8	962.9	962.9	1009.1	1009.1	1009.1	1009.1
Current account	million USD	-1194.5	-2110.9	-1881.5	-1622.3	-1634.3	1242.5	1359.2	-853.5	1496.0	1468.4
Balance of trade	share of GDP, %	-8.4	-10.4	-9.5	-8.8	-9.1	-8.0	-8.4	-7.4	-9.3	-8.6
Balance of services	share of GDP, %	5.6	5.0	5.3	5.5	5.4	5.7	5.4	5.6	5.2	5.4
Money transfers	share of GDP, %	3.1	0.5	2.8	2.9	2.9	3.0	3.0	2.9	2.9	2.8
Current account	share of GDP, %	-4.6	-7.2	-6.5	-5.7	-5.5	-4.3	-4.3	-2.7	-4.4	-4.3
Public sector***											
Revenues and grants	billion dram	2579.2	2886.0	3090.9	3090.9	3308.4	3308.4	3603.2	3603.2	3939.5	3939.5
Tax revenue	billion dram	2390.9	2725.2	2972.9	2972.9	3206.1	3206.1	3503.3	3503.3	3835.5	3835.5
Expenditures	billion dram	2413.6	2612.6	3516.4	3516.4	3755.4	3755.4	3994.5	3994.5	4213.1	4213.1
Deficit	billion dram	-376.1	-419.3	-540.4	-540.4	-447.0	-447.0	-391.3	-391.3	-273.6	-273.6
Revenues and grants	share of GDP, %	25.3	25.5	28.3	28.4	28.0	28.2	27.9	27.9	28.1	28.0
Tax revenue	share of GDP, %	23.5	24.1	27.2	27.3	27.1	27.3	27.2	27.1	27.4	27.3
Expenditures	share of GDP, %	23.7	23.1	32.2	32.3	31.7	32.0	31.0	30.9	30.1	30.0
Deficit	share of GDP, %	-3.7	-3.7	-4.9	-5.0	-3.8	-3.8	-3.0	-3.0	-2.0	-1.9

* The Central Bank only presents the indicator of gross fixed asset accumulation instead of gross accumulation, since the change in tangible working capital inventories is calculated by Armenia's Statistics Committee as a balancing item and it does not show the true level of gross accumulation. See https://www.armstat.am/file/article/sv_04_19a_112.pdf.

** Actual indicators of public investment are the capital expenditures of the consolidated budget, and the estimates are based on a revised macro-framework, 2026-2028, available at the time.

*** The 2026–2028 figures are drawn from the State Medium-Term Expenditure Framework and the 2026 Law on the State Budget.

