



Central Bank
of Armenia

2026 Q2

Executive
Monetary
Policy
Statement

Published June 16, 2026

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
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Deputy Governors
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Hovhannes Khachatryan

Board Members
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Artak Manukyan
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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.