



Central Bank
of Armenia

2026 August

**Executive Monetary
Policy Statement**

Published August 4, 2026

A. Executive Monetary Policy Statement

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

At its meeting on August 4, 2026, 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 5.1% in June, while 12-month core inflation stood at 4.9%.

In Q2 2026, amid geopolitical uncertainty and high energy prices, demand in the global economy continued to weaken, and its outlook deteriorated. Economic growth in the United States has slowed somewhat in recent quarters, although consumer activity remains solid. 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—remain tangible. In the Eurozone and Russia, despite the modest recovery in economic growth recorded in the second quarter, structural problems are gradually deepening, contributing to a worsening of the medium-term growth outlook. In parallel, energy and commodity prices remain volatile, and high uncertainty persists over their outlook. In this context, given the currently elevated inflationary environment and high uncertainty surrounding its outlook, the risks have increased that central banks in major economies will keep policy rates at their current levels for an extended period or raise them.

In Q2 2026, economic activity in Armenia remained strong, supported largely by construction and services. High activity in services points to strong demand conditions in the economy. Moreover, there are signs of expanding external demand, reflected primarily in the increase in visits to Armenia. This is also reflected by the acceleration of wages and inflation in the corresponding sectors. In this situation, the impact of aggregate demand on inflation is assessed as expansionary, and supply-side factors also continue to make a sizable contribution to inflation dynamics. On the other hand, private wage growth and inflation expectations continue to show broadly stabilizing trends. Furthermore, the difficulties that have emerged in certain export markets have increased the risks of lower incomes in the Armenian economy and excess supply of certain goods, carrying largely disinflationary implications.

Given current macroeconomic developments, Armenia's financial market participants on average expect the Central Bank to keep the policy rate at 6.5% over the medium-term horizon.

Amid the risks discussed and prevailing uncertainties, the Board considered, on the one hand, Case A-type scenarios related to a possible rise in global neutral interest rates and to the presence and risk of expansion of excess demand conditions in the domestic economy, which would require a higher policy rate path relative to market expectations. On the other hand, the Board highlighted Case B-type scenarios related to the risk of slowing global economic growth, declining incomes and the emergence of disinflationary risks as a result of difficulties in certain export markets, and a fundamental decline in Armenia's country risk premium, which would imply a lower policy rate path relative to market expectations.

As a result, recognizing the high probability of the materialization of Case A-type scenarios, while emphasizing the need to manage the macroeconomic implications arising from Case B-type scenarios, the Board of the Central Bank of Armenia decided to keep the policy rate unchanged. The Board will continue to monitor the scenarios for economic developments and stands ready to take appropriate actions to ensure the 3% inflation target and price stability in the medium term.

Approved by the Board of the Central Bank of Armenia.
August 4, 2026

Deputy Governor
Hovhannes Khachatryan

Board Members
Davit Nahapetyan
Artak Manukyan
Levon Sahakyan
Armen Ktoyan

B. Summary of Economic Conditions

Global Economy

In Q2 2026, the outlook for global economic growth deteriorated, driven by geopolitical uncertainty surrounding the conflict in the Middle East and elevated energy prices and volatility. Against a backdrop of geopolitical developments and substantial shifts in economic policies, economic growth in the United States exhibited considerable volatility over recent quarters—weakening on the whole and coming in at around 1.5% Q-o-Q annualized in Q2 2026. Nevertheless, private consumption and fixed capital investment, particularly in AI infrastructure, continued to grow at robust rates and remained the main drivers of economic growth. At the same time, a prolonged period of geopolitical tension in the Middle East and disruptions to trade routes carry the risk of further worsening the growth outlook while broadening the inflationary environment.

Risks to fiscal sustainability in the United States continue to rise. In particular, following the cancellation of some of the tariffs imposed during 2025, the US Government's obligations to provide refunds on those duties have increased. Under these conditions, the implementation of a more expansionary fiscal spending policy—including due to the need for higher defense spending—could push public debt onto a higher trajectory, contributing to a further rise in long-term real interest rates or their remaining elevated for an extended period. Such developments could affect the outlook for US Federal Reserve monetary policy, the level of the neutral interest rate, and capital flows in emerging economies.

Both headline and core inflation in the United States continue to run significantly above target. In this environment, the significant rise in global energy prices in recent months and high uncertainty over their outlook pose material risks of a further deterioration in the inflationary environment. On the other hand, the combination of various labor market indicators points to a gradual easing of conditions. In this context, financial markets expect the policy rate to rise gradually by around 50 basis points in the period ahead.

Following a minor contraction recorded in Q1 2026, Eurozone economic growth accelerated somewhat in the second quarter, to 0.4% Q-o-Q. Nevertheless, uncertainty over the growth outlook remains high, reflecting the accumulation of structural problems, weak productivity growth, and the adverse effects of the Middle East conflict. With energy prices remaining elevated and the economy highly vulnerable to energy supply conditions, the risks of a deterioration in the inflationary environment are also intensifying: 12-month inflation accelerated to 2.9% in July. At the same time, core inflation indicators send mixed signals about demand conditions: core inflation is close to target at 2.5% Y-o-Y, while services inflation remains significantly above target at 3.3% Y-o-Y, perhaps reflecting still-tight labor market conditions. As a result, financial markets are pricing in further gradual policy rate increases of around 50 basis points by the ECB in the near future.

Oil prices have eased somewhat amid the gradual adjustment of global demand, increases in supply by certain countries, and a relative easing of tensions in the Middle East but remain significantly above levels seen at the start of the year. High energy prices and disruptions to trade routes are already being reflected in production costs in certain economies. It should also be noted that, with spare production capacity in oil-producing countries declining and global oil inventories having been drawn down considerably, the global economy has become more vulnerable to fluctuations in oil supply. Disruptions to trade routes through the Strait of Hormuz affect not only energy products but also goods of significant importance to agriculture, creating inflationary risks for certain food products.

In Q2 2026, economic growth in Russia accelerated following the contraction recorded in the previous quarter, reaching 0.9% Y-o-Y. This

was driven largely by demand-led sectors and likely reflects the impact of stimulative fiscal policy. Nevertheless, structural problems continue to deepen and gradually become visible in specific parts of the economy, particularly the real estate market and the financial sector. On the other hand, a prolonged period of high oil prices could support the expansion of demand and create fiscal space. At the same time, labor market conditions remain tight: unemployment remains near historic lows, while real wage growth, despite some moderation, remains high. Although headline and core inflation have slowed, services inflation and inflation expectations remain significantly above target, complicating the Bank of Russia's task of effectively managing the inflation-growth trade-off.

Domestic Demand Conditions

In Q2 2026, economic activity in Armenia continued to run above its long-run sustainable level, reaching 7.7% in June. Construction and services continued to make a sizable contribution to strong economic activity. This was accompanied by a marked pickup in retail trade and imports. These developments may point to strong demand conditions and their recent expansion.

The significant pickup in tourist flows to Armenia has also supported the broadening of demand conditions. In January-June 2026, flows increased by around 15% over the previous year, reaching historically high levels. On the one hand, this increase may partly reflect restrictions on tourist travel from Russia to the Middle East. On the other hand, the rise in arrivals is gradually becoming more broad-based across countries, with some changes in the composition and structure of visitors. It should also be noted that, amid high uncertainty over the outlook for the Russian economy and the resolution of the Russia-Ukraine conflict, inflows of Russian citizens to Armenia have increased recently, also reflected in higher demand for real estate, including rental housing.

On the other hand, difficulties in certain export destinations have worsened the outlook for output and export growth in some tradable sectors. Growth in manufacturing has slowed somewhat, partly reflecting constraints on trade routes amid persistent tensions in the Middle East. These developments are particularly visible in tobacco output and exports. Russia's restrictions on imports of several agricultural and processed food product groups, together with adverse weather conditions, have already been reflected in a significant decline in output and exports in these sectors. Moreover, if the difficulties in these export destinations persist, given the limited availability of alternative export markets, they could lead to lower incomes in the Armenian economy and a deterioration in the consumption and investment environment.

Uncertainty persists over trends in seasonal migration to Russia and the channels used to transfer money. On the one hand, the widening wage differential between the construction sectors of Russia and Armenia could strengthen incentives for labor migration from Armenia to Russia. On the other hand, the significant weakening of economic growth, 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 the labor supply in Armenia and creating disinflationary risks.

In the first half of 2026, tax revenues were over-collected, in line with strong economic activity and the inflationary environment. On the other hand, state budget expenditures were under-executed, mainly reflecting capital spending performance significantly below historical trends. Nevertheless, the risks of fiscal policy taking on a more expansionary stance have increased, driven by the risk of substantially higher-than-planned spending under the universal health insurance system, as well as the need to provide support to certain tradable sectors and promote export diversification. At the same time,

implementation of these programs amid "limited fiscal space" could also exert pressure on the country risk premium.

Labor Market & Inflation

Despite the high uncertainty surrounding them, several key indicators may point to more balanced conditions in the labor market. The unemployment rate continues to fluctuate in the 12-14% range, while the number of officially registered employees continues to grow at a steady pace. The increase in registered employment may also reflect structural changes in the economy, including a shift of labor from informal to formal employment.

Growth in private nominal wages excluding the financial sector, despite the acceleration recorded recently, has generally continued to show signs of stabilization, running in the 6-7% Y-o-Y range. Nevertheless, in recent months—in line with stronger growth in certain services subsectors—wage growth has also accelerated in those sectors.

At the same time, the current unemployment rate may also reflect a degree of excess demand in the labor market—especially given that, since the second half of 2025 and taking seasonal developments into account, unemployment was likely below its estimated natural level, and the resulting wage and inflation risks could still materialize owing to wage rigidities. The recent increase in the number of non-resident workers may also point to possible excess demand, partly masking the inflationary pressures arising from it.

On the other hand, both the volume and number of non-commercial remittances from Russia to Armenia have increased in recent months, which may suggest that the ruble's appreciation and labor shortages in Russia have continued to outweigh the factors constraining migration flows, supporting an increase in labor flows. Nevertheless, the gradual and continued tightening of Russia's migration policy poses risks of an easing in Armenia's labor market conditions.

In Q2 2026, 12-month inflation in Armenia continued to run at elevated levels, reaching 5.1% Y-o-Y in June. The acceleration in inflation was supported by unusually inflationary developments in seasonal food prices for this time of year, reflecting, among other things, the effects of adverse weather conditions. Core inflation also remains elevated, reaching 4.9% Y-o-Y in June. It still largely reflects inflationary effects transmitted from imported and local non-seasonal food products, driven by inflationary pressures from the global economy in recent quarters and by certain supply-side factors in the domestic economy. At the same time, the recent acceleration in core inflation 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 inflation outlook in Armenia continue to relate to the persistence of inflationary trends in global food and energy markets and, in that context, to the speed and scale of the adjustment in domestic prices. In particular, inflation could be pushed higher by persistently elevated commodity prices amid continued or escalating geopolitical tensions in the Middle East, possible disruptions to energy supply, and constraints on international trade routes. On the other hand, the difficulties that have emerged in certain export markets (the Middle East, Russia, and so on), given the challenges of diversifying export destinations particularly in the short term, could lead to excess supply of certain goods in the domestic market, carrying disinflationary pressures. It should be noted that the initial effects of these factors are already visible.

Growth in services prices and the non-traded sticky price index continues to run around the target level, showing some signs of acceleration. Together with private wage growth in the 5-6% range, this may indicate that inflation expectations are stabilizing around the target.

Financial Markets & Monetary Policy

According to the survey of financial market participants conducted by the Central Bank of Armenia on July 29, 2026, expectations for the path of the CBA refinancing rate have been revised somewhat upward since the previous policy decision and now point to the rate remaining unchanged at 6.5% over the next eight decisions. The upward revision in policy rate path expectations reflects market participants' concerns about risks stemming from geopolitical developments and, in particular, about aggregate demand and the inflationary environment in the Armenian economy.

Following the June 2026 decision of the CBA Board, the medium- and long-term segments of the yield curve shifted slightly downward, likely reflecting the relative stabilization of the situation surrounding the conflict in the Middle East. Armenia's country risk premium continued to remain at historically low levels. This may reflect both broader emerging-market trends and Armenia-specific factors, including a gradual easing of security risks, the continued strengthening of macroeconomic stability, Armenia's relatively lower vulnerability to various geopolitical events, the availability of comparatively stable sources of energy supply and pricing, and other factors.

To prudently manage possible risks arising from prevailing uncertainties, the Central Bank of Armenia considers various scenarios for how the economic situation may develop. The key Case A-type scenarios (requiring a policy rate path above market expectations) relate to the possible rise in global neutral interest rates and to the presence and risk of expansion of excess demand conditions in the domestic economy. The key Case B-type scenarios (requiring a policy rate path below market expectations) are primarily associated with the prospect of slowing global economic growth, lower incomes and the emergence of disinflationary risks as a result of difficulties in certain export destinations, and the risk that a fundamental decline in Armenia's country risk premium has caused the neutral interest rate to settle at a relatively low level.