Central Bank of Armenia

2026 Q1

Executive Monetary Policy Statement

Published March 17, 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 today, the Board of the Central Bank of Armenia decided to keep the key policy rate (refinancing rate) unchanged at 6.50%.

In the first quarter of 2026, annual inflation accelerated, reaching 4.3% in February. During the same period, annual core inflation increased to 4.7% Y-o-Y.

In the first quarter of 2026, risks of a further slowdown in demand conditions in the global economy and in Armenia's key partner economies significantly increased. In the United States, the structural characteristics of economic growth, reflecting developments in the technology sector, as well as risks of a further correction in financial asset prices, a weakening labor market, and the sharp increase in global oil prices may negatively affect the medium-term growth outlook. The macroeconomic implications stemming from US trade policy have somewhat weakened, but continue to remain one of the main sources of uncertainty. In the medium term, uncertainty regarding long-term interest rates has increased amid expectations of rising US public debt, partly due to uncertainty over the possibilities of tariff collections. In Armenia's other main partner economies, risks of weakening medium-term growth and demand are gradually materializing. At the same time, geopolitical uncertainty, tensions in international trade relations, and concerns regarding potential disruptions in global supply chains continue to remain a key source of elevated price volatility in the global economy. Global oil prices have increased sharply amid escalating tensions in the Middle East, while uncertainty regarding their outlook has increased significantly. Food prices have also exhibited some volatility amid concerns regarding potential disruptions in global supply chains. In this context, taking into account, on the one hand, the formation of a weak demand environment, and on the other hand, the increase in inflationary risks, it is likely that central banks in major economies will maintain or delay the easing of monetary conditions in the near term.

In the fourth quarter of 2025, economic growth in Armenia significantly accelerated. High economic growth continued to be driven by the construction and services sectors, as well as by manufacturing. Uncertainty regarding current demand conditions and future developments has sharply increased, particularly due to structural issues in economic growth and risks related to fiscal expansion. In this context, the impact of aggregate demand on inflation is assessed as expansionary. There are also inflationary risks driven by supply-side factors. At the same time, private wage growth, services inflation characterized by sticky prices, and inflation expectations continue to show signs of stabilization.

In the context of current macroeconomic developments, financial market participants in Armenia generally expect the Central Bank to maintain the current level of the policy rate for a somewhat longer period, followed by a l reduction toward **6.25%** in the medium term.

Amid the discussed risks and prevailing uncertainty, the Board considered, on the one hand, Case A-type scenarios related to a possible increase in global neutral interest rates driven by fiscal policy, as well as risks of the formation of excess demand conditions and fiscal expansion in the domestic economy, which would require a higher policy rate path relative to market expectations. On the other hand, the Board discussed Case B-type scenarios related to the outlook for a slowdown in global economic growth and a possible decline in Armenia's country risk premium, implying the formation and deepening of a weak demand environment, which would require 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 in the current phase. The Board will continue to monitor developments in the economy 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
March 17, 2026

Governor
Martin Galstyan

Deputy Governors
Armen Nurbekyan
Hovhannes Khachatryan

Board Members
Artak Manukyan
Levon Sahakyan
Narek Ghazaryan
Armen Ktoyan

B. Summary of Economic Conditions

Global Economy

In the first quarter of 2026, the outlook for global economic growth has somewhat deteriorated. Under conditions of significant shifts in economic policies, economic growth in the United States exhibited considerable volatility during 2025 and slowed significantly in the fourth quarter, standing at an annualized rate of 0.7%. Growth continues to be largely driven by private consumption, which, although weakening, remains relatively strong. On the other hand, the continued weakening of labor market conditions, as well as developments in credit growth and the significant increase in the share of overdue loans in certain sectors of the economy, may indicate a notable weakening in demand conditions. In the context of uncertainty regarding the outlook of the economy, particularly with respect to the effective application of artificial intelligence in other sectors, a potential further correction in financial asset prices may lead to an additional deterioration in consumption and growth prospects in the United States, which in turn may have negative implications for global demand conditions. At the same time, the escalation of geopolitical tensions in the Middle East and constraints in supply routes have led to a sharp increase in oil prices, posing additional risks of a deterioration in growth prospects and, at the same time, an expansion of the inflationary environment.

Under conditions of the cancellation of certain tariffs, possible further developments in US external trade policy—particularly the introduction of additional tariffs, as well as the implementation of expansionary fiscal policy—may lead in the medium term to a higher trajectory of the budget deficit and public debt, generating risks of a further increase in long-term real interest rates. Such developments may affect both the outlook for the monetary policy of the US Federal Reserve System and the level of the neutral interest rate and capital flows in emerging economies.

During the first quarter of 2026, inflation has continued to slow, standing at 2.4% Y-o-Y in February; however, inflation in goods and services characterized by sticky prices continues to remain significantly above the target. Uncertainty surrounding US trade policy and pressures stemming from additional tariffs have somewhat weakened, but continue to pose risks of an expansion in the inflationary environment. On the other hand, labor market conditions have continued to weaken in recent quarters, while the sharp increase in oil prices contains risks of further, undesirable weakening and, at the same time, an expansion of the inflationary environment. Under these conditions, the task of ensuring price stability and full employment by the US Federal Reserve System becomes significantly more challenging.

In the fourth quarter of 2025, economic growth in the euro area stabilized at a low level, standing at 0.2% quarter-on-quarter, reflecting existing structural challenges. In February 2026, inflation was close to the target level, standing at 1.9%. At the same time, core inflation indicators send mixed signals regarding demand conditions: core inflation is close to the target level, standing at 2.4%, while services inflation remains above the target at 3.4% Y-o-Y. The medium- and long-term growth outlook remains uncertain. On the one hand, structural challenges and growth polarization may hinder the recovery of industrial production and improvements in economic sentiment. On the other hand, measures aimed at strengthening the defense industry and infrastructure in Europe are beginning to provide some positive signals. In this context, uncertainty remains as to whether expansionary fiscal policy will be sufficient to ensure a sustainable recovery in economic growth in the presence of accumulated structural problems. At the same time, a sharp escalation of the situation in the Middle East and the prolonged persistence of the conflict, given the euro area's high dependence on energy imports and prices, may significantly contribute to a further deepening of structural challenges in the euro area, while at the same time expanding the inflationary environment.

Global oil prices have increased significantly in recent weeks due to the sharp escalation of the situation in the Middle East, rising from the range of 60–65 USD at the beginning of 2026 to around 90–100 USD. Under these conditions, the International Energy Agency (IEA) announced the release of an unprecedented 400 million barrels of oil from member states' reserves, which, in effect, contained further increases in oil prices. Nonetheless, volatility in oil prices and uncertainty regarding their outlook have increased significantly and will depend in the near term on the duration and scale of the conflict in the Middle East. On the other hand, under these conditions, there are also risks of a further slowdown in global economic activity and demand.

In the fourth quarter of 2025, economic growth in Russia recovered slightly, standing at 1% Y-o-Y, which remains relatively low compared to previous years. Economic growth was mainly supported by growth in manufacturing and a recovery in construction. At the same time, the services and retail trade sectors continue to record stable growth, providing weak signals of a recovery in domestic demand. On the other hand, the decline in consumer lending and the continued increase in the share of non-performing loans likely point to the formation of weak demand conditions and the accumulation of structural issues in certain sectors of the economy. In the first quarter of 2026, headline and core inflation have slowed significantly, while services inflation and inflation expectations remain above the target. Labor market conditions remain tight; however, in the fourth quarter, some signs of easing have been observed, reflected in a decrease in labor demand and a slowdown in real wage growth. The imposition and continued tightening of additional targeted sanctions by Western countries pose risks to Russia's medium-term economic growth and the sustainability of budget revenues. On the other hand, the escalation of the situation in the Middle East, at least in the short term, may have a somewhat positive impact on the Russian economy, driven by a significant increase in demand for and prices of Russian oil. Under these conditions, on the one hand, the weakening of economic activity, and on the other hand, still high inflation and inflation expectations pose challenges for the Central Bank of Russia in effectively managing the inflation–output trade-off in the short term.

Domestic Demand Conditions

In the fourth quarter of 2025, economic growth in Armenia, including the impact of the recovery of certain non-structural factors, accelerated significantly, standing at 9.8% Y-o-Y, which is substantially above estimates of the sustainable level. Economic growth continued to be largely driven by the services and construction sectors. The construction sector continues to grow at a rapid pace, in recent months accompanied by increased demand and, consequently, some recovery in real estate prices. Although the high growth in services is largely driven by the IT sector, in recent months, accelerated growth in other subsectors—particularly culture and entertainment, accommodation and food services, professional, scientific and technical activities, and other subsectors—may indicate an expansion in demand conditions. On the other hand, although the acceleration of growth in manufacturing is largely driven by non-structural factors, strong growth is also observed in traditional subsectors, while increases in exports, demand for credit, and production capacities in the sector provide positive signals for the long-term outlook. Nonetheless, growth in output in traditional manufacturing subsectors slowed significantly in January 2026.

Tourism inflows to Armenia in January–February 2026 remained above historical levels. However, uncertainty regarding the outlook for tourism flows has increased, particularly due to the significant escalation of geopolitical tensions in the Middle East and related developments.

Uncertainties remain elevated about seasonal migration to Russia and the channels through which remittances are transferred. On the one hand, a persistently stable ruble at current levels could increase incentives for labor migration from Armenia to Russia. On the other hand, elevated uncertainty regarding the medium-term outlook for the Russian economy and tightening migration policies could limit migration flows to Russia, supporting labor supply growth in Armenia and contributing to the formation of deflationary risks.

In this context, various indicators may suggest that a small positive output gap close to neutral has formed in the first quarter of 2026. Nonetheless, the structural characteristics of economic growth, uneven and mixed developments across sectors increase uncertainty regarding the relative position of aggregate demand and supply in the economy.

On the one hand, the high level of private consumption, accompanied by strong credit growth and high growth in demand-driven sectors, in the context of accelerating inflation, may indicate the presence of excess demand in the economy. On the other hand, the concentration of growth, as well as the stabilization of wages and inflation in non-exportable goods with sticky prices around target or stable levels, are not consistent with the formation of an excess demand environment.

Uncertainty regarding the future impact of fiscal policy on aggregate demand is mainly driven by the potential for further tightening of tax administration following a period of high economic growth and subsequent stabilization. On the other hand, a new and significant source of uncertainty is the increase in social spending in the current year, driven both by unplanned increases in pensions and benefits from April of the current year, as well as the introduction of the universal health insurance system.

Labor Market & Inflation

Uncertainty surrounding labor market conditions persists. The unemployment rate continued to decline, standing at around 11.8% in the third quarter of 2025. It should be noted that, according to the labor force survey, labor resources increased in the third quarter of 2025 compared to the same quarter of the previous year; however, these increases were primarily reflected in the economically inactive population, while the number of employed persons declined. This may indicate weakening labor demand in the economy. At the same time, according to SRC data, the number of registered employees continues to grow at a stable pace, pointing to persistently high labor demand. The increase in the number of registered employees may also reflect structural changes in the economy, including a gradual shift of labor from informal to formal employment.

Private nominal wage growth slightly accelerated in the fourth quarter of 2025, standing at 5.0% year-on-year, while the concentration of growth declined. At the same time, the current level of unemployment may partly reflect some excess demand conditions in the labor market, particularly given that the decline in unemployment in the second half of 2025 may have fallen below the estimated natural rate. In this context, risks stemming from wages and inflation may still materialize, given wage rigidities. At the same time, it cannot be ruled out that the natural rate of unemployment has gradually declined in recent years, forming within the range of 11–13%. This may have been supported by factors such as the expansion of productivity and export capacities since 2022, the integration and longer-term settlement of high-skilled labor in Armenia's economy, improvements in matching efficiency between jobs and labor driven by the development of various digital platforms, structural characteristics of economic growth, and other factors.

On the other hand, in recent months, both the volume and number of non-commercial remittances from Russia to Armenia have increased somewhat. This may suggest that the appreciation of the ruble and the persistent labor shortages in Russia have outweighed factors constraining migration flows, thereby contributing to an increase in labor migration.

In summary, despite mixed signals from the labor market, certain developments suggest that labor market imbalances have eased meaningfully in recent quarters. Looking ahead, the main uncertainty relates to the future path of labor supply, particularly if demand conditions expand further. At the same

time, a potential increase in outward labor migration flows could lead to tighter labor market conditions, generating inflationary risks.

In the first quarter of 2026, inflation in Armenia continued to increase, standing at around 0.5% month-on-month in February and 4.3% year-on-year. This was mainly driven by an acceleration in underlying inflation, which stood at a higher level of 4.7% year-on-year. The latter largely reflects inflationary trends transmitted from imported and domestically produced non-seasonal food products, driven by inflationary pressures from the global economy in recent quarters, as well as certain supply-side factors in the domestic economy. Nonetheless, despite the presence of clear supply-side factors, the recent acceleration in underlying inflation has become more broad-based across product groups, which may also indicate the formation of elevated demand conditions. Looking ahead, the main uncertainties relate to the persistence of recent disinflationary trends observed in global food markets and, in this context, the speed and magnitude of domestic price adjustments. At the same time, a significant increase in oil prices, as well as disruptions in supply chains and shifts in trade routes in the context of conflict in the Middle East, could contribute to higher inflation in Armenia. The magnitude of these effects will depend on the duration and scale of the conflict.

On the other hand, inflation in services and in non-exportable goods with sticky prices remains around the target level. In this context, combined with the stabilization of private wage growth within the range of 5–6% and the results of the Central Bank's surveys, it can be argued that inflation expectations continue to decline gradually, approaching the target.

Financial Markets & Monetary Policy

According to the latest survey conducted by the Central Bank of Armenia among financial market participants on March 11, 2026, participants on average expect that the Central Bank will maintain the current level of the policy rate for a somewhat longer period, after which it will implement a moderate reduction in the policy rate. This is generally consistent with the results of the first quarter macro survey, where participants expect a reduction in the policy rate toward the estimated neutral level (around 6.25%) in the medium term.

Following a significant decline in recent months, the yield curve has slightly increased across all maturities in recent weeks, likely reflecting the pricing of risks related to developments in the Middle East. Similarly, Armenia's short-term country risk premium, after a significant decline in recent quarters driven by both general trends in emerging markets and country-specific factors (including a reduction in security risks), has recorded a slight increase, largely in line with trends observed in the broader region, including Eastern Europe and Central Asia.

The Central Bank of Armenia, in order to manage possible risks arising from existing uncertainties in a prudent manner, considers various scenarios for the development of the economic situation. The baseline Case A scenario presented in the Monetary Policy Report, which requires a higher policy rate path relative to market expectations, stems from the excess demand environment formed in the economy.

This interpretation of the current position of the economy is supported by the continued recording of economic growth above the estimated long-term potential level, largely driven by strong household consumption, which is also accompanied by accelerating inflation. Effective management of the risks stemming from this scenario requires a higher policy rate path.

The baseline Case B scenario presented in the Monetary Policy Report relates to the risks of a lower level of Armenia's country risk premium, and consequently the neutral interest rate, driven by fundamentals. This interpretation is associated with the reduction in security risks surrounding Armenia and expectations of their further improvement, which is reflected both in market pricing by investors and in improved outlooks for Armenia's sovereign credit rating by rating agencies. The improved sentiment toward Armenia is also reflected in the significant increase in capital inflows in recent quarters, including investments in AMD-denominated government bonds. These developments may indicate that monetary conditions are currently tight, and their prolonged maintenance may pose risks of the formation of a disinflationary environment. Therefore, managing these risks implies a faster reduction in the policy rate relative to market expectations.

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.