Central Bank of Armenia

2026 May

Executive Monetary Policy Statement

Published May 5, 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%.

Annual CPI inflation increased in Q1 2026, standing at 4.5% in March. Meanwhile, annual core inflation accelerated, standing at 4.7% Y-o-Y.

In the first quarter of 2026, amid heightened geopolitical uncertainty and a significant increase in energy prices and their volatility, risks of weakening demand in the global economy and in Armenia's main partner countries increased substantially. Economic growth in the United States accelerated somewhat in Q1, but the slowdown in consumer demand persists. At the same time, due to certain constraints in tariff revenue collection and the potential need for increased defense spending, risks related to the US public debt—and, consequently, the prolonged persistence of elevated long-term interest rates—have increased. In Armenia's other key partner economies, medium-term risks of weakening growth and demand have become more pronounced. Particularly, in the euro area, amid persistent structural issues and high vulnerability to energy prices and supply disruptions, economic growth has continued to weaken. Meanwhile, in Russia, leading indicators of economic activity point to a an economic slowdown and a significant weakening of domestic demand in the first quarter. At the same time, continued tensions in the Middle East are amplifying risks associated with the outlook for rising prices in energy and other commodity markets. In this context, given both the risk of a weakening demand environment and the risk of a notable increase in inflationary pressures, the likelihood is rising that major central banks will maintain policy rates at their present levels for longer, or in some cases even tighten them.

In the first quarter of 2026, economic activity in Armenia remained strong. This performance has been largely driven by robust growth in the construction and services sectors. Notably, in recent months, high activity in the services sector has been accompanied by a visible structural shift toward subsectors primarily driven by demand expansion, pointing to relatively strong domestic demand conditions in the economy. At the same time, there are emerging signs of a modest strengthening in external demand, most evident in increased tourist inflows to Armenia amid ongoing tensions in the Middle East. In this context, the overall impact of aggregate demand on inflation is assessed as expansionary, although risks stemming from supply-side factors remain significant in shaping inflation dynamics. It is also noteworthy that risks associated with a more expansionary fiscal stance have somewhat eased, while private sector wage growth and inflation expectations continue to show broadly stabilizing trends.

In the context of current macroeconomic developments, financial market participants in Armenia generally expect the Central Bank of Armenia to gradually lower the policy rate in the medium term to 6.25%.

Amid high uncertainty, the Board discussed, on the one hand, Case A-type scenarios related to a possible rise in global neutral interest rates, the emergence of excess demand conditions in the domestic economy, and risks of fiscal expansion, 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 associated with a prospective slowdown in global economic growth and a fundamental decline in Armenia's risk premium, 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
May 5, 2026

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 the first quarter of 2026, the outlook for global economic growth deteriorated, driven by geopolitical uncertainty and elevated and volatile energy prices amid persistent tensions surrounding the conflict in the Middle East. Under conditions of geopolitical developments and substantial shifts in economic policies, economic growth in the United States has exhibited considerable volatility in recent quarters, standing at an annualized rate of 2.0% during the first quarter of 2026. The current growth indicator includes a significant contribution, of around 0.7 percentage points, from the recovery in government spending, mainly reflecting the "shutdown" of US Government operations in the previous quarter, while private consumption is gradually slowing. The assessment of various labor market indicators also points to an adjustment in domestic demand conditions. Although asset prices have continued to increase in recent periods, remaining at elevated levels, risks of a potential correction in their prices persist amid uncertainty regarding the economic outlook and, in particular, the effective application of artificial intelligence in other sectors. At the same time, the persistence of geopolitical tensions in the Middle East and constraints on trade routes pose risks of a further deterioration in the outlook for economic growth and, at the same time, a significant expansion of the inflationary environment.

On the other hand, under conditions of the cancellation of part of the tariffs and accumulated refund obligations, uncertainty regarding the capacity to collect tax revenues has increased. Under these conditions, the implementation of a more expansionary fiscal expenditure policy, which also includes the need to increase defense-related spending, could in the medium-term lead to a significantly higher public debt trajectory, generating risks of a further increase in long-term real interest rates or their remaining at elevated levels for a prolonged period. Such developments could 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 accelerated significantly, standing at 3.3% Y-o-Y in March. Inflation in goods and services characterized by sticky prices remained relatively stable, continuing to stay significantly above the target. Uncertainties surrounding US foreign and trade policy, the increase in oil prices, and the additional pressures transmitted from it to other sectors of the economy continue to pose risks of an expansion in the inflationary environment. On the other hand, labor market conditions have been relatively stabilizing in recent quarters, while the sharp increase in energy prices contains risks of their 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.

In the first quarter of 2026, economic growth in the euro area continued to weaken, standing at a low level of 0.1% Q-o-Q, reflecting persistent structural problems in industry, as well as the negative effects of the conflict in the Middle East. Given the euro area's high vulnerability to energy prices and energy supply conditions, inflationary pressures also continue to materialize rapidly: in April 2026, 12-month inflation stood at 3.0% Y-o-Y, compared to 1.9% in February. At the same time, core inflation indicators send mixed signals regarding demand conditions: core inflation is close to the target level, standing at 2.2% Y-o-Y, while services inflation remains above the target, at 3.0% Y-o-Y, likely reflecting still tight labor market conditions.

Global oil prices, amid persistent tensions surrounding the conflict in the Middle East, continue to exhibit high volatility and remain at elevated levels. In recent weeks, oil prices deviate in the range of USD 100–120, compared to USD 60–65 at the beginning of 2026, while according to current forecasts by the International Energy Agency (IEA), international oil prices in 2026 are expected to be around 65% higher than projected before the start of the conflict. Nonetheless, under different scenarios involving the prolonged persistence of the conflict and/or, in particular, damage to energy infrastructure in countries of the region, both the magnitude of the increase in oil prices and the speed of their recovery after the end of the conflict could differ significantly. On the other hand, disruptions in the Strait of Hormuz affect not only energy products, but also goods that are of significant importance for agriculture. Under these conditions, there are also risks of an increase in food prices, which have already begun to materialize to some extent.

Significant uncertainty persists regarding the current position of the Russian economy and its growth outlook. Leading indicators characterizing economic developments point to a slight contraction in the economy in the first quarter of 2026. Although this is largely driven by a significant decline in output in the manufacturing sector, trends of slowing growth are also evident in demand-driven sectors. 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 problems in certain segments of the economy. Labor market conditions remain tight: the unemployment rate remains at a historically low level, while real wage growth accelerated significantly at the beginning of the year. Under these conditions, although headline and core inflation rates slowed in the first quarter of 2026, services inflation and inflation expectations continue to remain above the target. These developments pose significant challenges for the Central Bank of Russia in terms of effectively managing the inflation–output trade-off in the short term.

Looking ahead, one of the main sources of uncertainty surrounding the outlook for the Russian economy is the duration of the persistence of high oil prices, from the perspective of demand and, especially, the expansion of fiscal space.

Domestic Demand Conditions

In Q1 2026, high economic activity in Armenia continues to persist, reflecting both the impact of certain non-structural and one-off factors, standing at around 6.6% in March. Economic growth continued to be largely supported by the services and construction sectors. Despite the maintenance of high growth rates in the services sector, significant changes have occurred in its structure. Alongside a slowdown in financial sector growth, particularly in recent months, a

notable acceleration has been observed in subsectors predominantly driven by demand expansion, including culture and entertainment, accommodation and food services, professional, scientific and technical activities, and other subsectors. This may indicate an expansion in domestic demand conditions. The latter is also accompanied by a significant activation of imports and retail trade.

On the other hand, growth acceleration in the manufacturing sector is mainly driven by non-structural factors, while certain traditional subsectors, particularly tobacco production, are already being negatively affected by the Middle East conflict, reflected in a decline in output and exports to countries in the region.

Tourism flows to Armenia in January–March 2026 increased, standing at historically high levels. It is noteworthy that in March 2026, the number of tourists arriving from Iran slightly declined, while arrivals from Russia increased significantly, by around 40% y-o-y, likely reflecting substitution effects away from Middle Eastern destinations. At the same time, strong external demand for domestic goods and especially IT and financial services remains elevated. In the medium term, the outlook for external demand will largely depend on risks of weakening demand conditions globally and in Russia, as well as future geopolitical developments.

Uncertainty regarding trends in seasonal migration to Russia and the channels through which remittances are transferred remains elevated. On the one hand, the prolonged persistence of the ruble exchange rate at current levels could increase incentives for labor migration from Armenia to Russia. On the other hand, a significant slowdown in economic growth, elevated uncertainty regarding the medium-term outlook for the Russian economy, and tightening migration policies could somewhat restrain migration flows to Russia, supporting labor supply growth in Armenia and contributing to the formation of deflationary risks.

In this context, various signals may indicate the formation of a close-to-neutral, slightly positive output gap in Q1 2026. Nonetheless, the structural characteristics of economic growth and uneven, ambiguous developments across sectors increase uncertainty regarding the relative position of aggregate demand and aggregate supply in the economy. On the one hand, high levels of private consumption, accompanied by strong lending growth, as well as high economic activity in sectors largely driven by demand expansion amid accelerating inflation, could point to the presence of excess demand conditions in the economy. On the other hand, the concentration of growth, the stabilization of wage growth and prices of non-exportable goods with sticky prices around target or stable levels, are consistent with a more balanced position between aggregate demand and supply.

State budget revenues in Q1 2026 were over-executed, which may mitigate risks of deficit expansion amid increases in pensions and social expenditures. Nonetheless, risks of under-collection of tax revenues persist, given limited scope for further improvements in tax administration and a potential stabilization of economic growth. Both current and capital expenditures of the state budget, in line with trends observed in previous years, were under-executed. Amid the introduction of the universal health insurance system, as well as increases in pensions and benefits, risks of a more expansionary fiscal policy stance persist, although they have somewhat weakened as a result of the current overperformance in tax revenues.

Going forward, key uncertainties are related to the prospects for further revenue growth and, in particular, the execution of capital expenditures under conditions of significant structural changes. This, in turn, entails uncertainties both in terms of the short-term impact on demand and the medium-term expansion of potential growth.

Labor Market & Inflation

In the fourth quarter of 2025, the unemployment rate in Armenia increased slightly to 13.1%. It should be noted that, despite recent volatility, as well as discrepancies between the results of the labor force survey conducted by the Statistical Committee of Armenia and administrative data from the State Revenue Committee of Armenia, a combination of key indicators suggests a relatively balanced labor market. In particular, the unemployment rate has been fluctuating within the 12–13% range, while growth in registered employment and wages has moderated and is showing signs of stabilization. At the same time, in recent months, in line with stronger growth in certain service subsectors, wage growth in those sectors has also accelerated.

Nominal private wage growth remained steady at the beginning of 2026, hovering at around 5% Y-o-Y. On the one hand, the current level of unemployment may partly reflect some degree of excess demand in the labor market, particularly given that the decline in unemployment in the second half of 2025 may have fallen below its estimated natural rate, with associated wage and inflation risks still potentially materializing due to wage rigidities. At the same time, it cannot be ruled out that the natural rate of unemployment has gradually declined in recent years, settling within the 11–13% range. This may have been supported by factors such as productivity gains and the expansion of export capacity since 2022, the integration and longer-term retention of highly skilled labor in the Armenia economy, improved job matching efficiency driven by the development of digital platforms, as well as structural characteristics of economic growth and other related factors.

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

In summary, despite mixed signals from the labor market, certain developments may point to a relatively more balanced position of the economy. Looking ahead, the main uncertainty relates to the potential for growth in labor supply, particularly if demand conditions continue to expand. At the same time, a possible increase in outward labor migration could tighten labor market conditions, creating additional inflationary risks.

During the first quarter of 2026, inflation in Armenia continued to accelerate, reaching around 0.7% M-o-M in March and 4.5% Y-o-Y. This was largely driven by an increase in core inflation, which remained above the target at 4.7% Y-o-Y. In turn, this mainly reflects both rising import prices—particularly for food and energy—as well as the impact of certain supply-side factors within the domestic economy. At the same time, in recent months there has also been some acceleration in inflation for domestically produced food products, which, in addition to supply-side influences, may also indicate the

presence of excess demand in the economy. Moreover, the broad-based nature of core inflation across product groups, combined with accelerating inflation in certain non-tradable services, further supports this assessment.

Looking ahead, inflationary pressures in Armenia may be further driven by significant increases in energy prices, as well as disruptions in supply chains and potential shifts in trade routes. Moreover, amid ongoing tensions in the Middle East and rising global food prices, key uncertainties will also relate to the persistence of these pressures and the extent of their pass-through to Armenia. The magnitude of these effects will largely depend on the duration and scale of the conflict.

On the other hand, growth in service prices and in the non-traded sticky price index (NTSPI), excluding healthcare services inflation—continues to remain around the target level, showing some signs of acceleration. Taken together with the stabilization of private wage growth in the 5–6% range and the results of direct surveys conducted by the Central Bank of Armenia, this suggests that inflation expectations continue to anchor around the target level.

Financial Markets & Monetary Policy

According to the latest survey of financial market participants conducted by the Central Bank of Armenia on April 29, 2026, expectations regarding the path of the policy (refinancing) rate have remained broadly unchanged following the previous policy decision, pointing to a gradual decline in the rate toward 6.25% over the next eight decisions. This is broadly consistent with expectations derived from the short end of the yield curve. At the same time, after notable declines in recent months, the medium- and long-term segments of the yield curve have edged up somewhat, likely reflecting, among other factors, the pricing of risks related to developments in the Middle East and increased uncertainty surrounding the monetary policy outlook.

In April 2026, amid some easing of tensions surrounding the Middle East conflict, Armenia's country risk premium declined, reaching historically low levels. This may reflect both broader trends observed across emerging markets and Armenia-specific factors, including the continued strengthening of macroeconomic stability, the country's relatively lower vulnerability to energy price shocks, the availability of comparatively stable sources of energy supply, and other related factors.

Considering the persistence of numerous types of uncertainty, the CBA builds and evaluates several different scenarios for future economic developments in order to manage possible risks stemming from these key areas of uncertainty. The key Case A scenarios (policy rate path above market expectations) relate to risks of higher global neutral rates, as well as with an environment of excess demand in the domestic economy. The key Case B scenarios (policy rate path below market expectations) relate to uncertainties regarding a potential slowdown in the global economy, as well as risks that, due to a fundamental decline in Armenia's risk premium, the neutral interest rate may settle at a relatively lower level.