

*Approved:*  
*under the Central Bank of the Republic of Armenia*  
*Board Resolution No. 142A, dated May 19, 2026*

**STATUS REPORT ON IMPLEMENTATION OF THE  
MONETARY POLICY PROGRAM**  
*(Quarter 2, 2025 to Quarter 1, 2026)*

*In the time between the second quarter of 2025 and the first quarter of 2026 inclusive, the 12-month inflation in the Republic of Armenia has gradually accelerated. This was mainly driven by inflationary pressures transmitted from the global economy, particularly through imported food products, as well as through prices of domestic food products risen in part due to the introduction of the marking process. The acceleration of inflation in the first quarter of 2026 was also driven by a certain increase in healthcare service prices following the introduction of a comprehensive health insurance system, as well as a significant rise in energy prices amid the escalation of the conflict in the Middle East, the impact of which was only partially reflected during the quarter. During the period under review, underlying inflation also accelerated, gradually becoming more broad-based across product groups, which may also be indicative of some excess demand in the economy.*

*Overall, in the period under review, economic growth and activity remained strong, showing signs of acceleration in recent quarters. However, the process of easing labor market imbalances continued, as reflected in wage growth and the stabilizing inflation in services with sticky prices. Under these conditions, inflation expectations gradually declined and began to stabilize from the second half of the period onward. Given the situation prevailing at the time, the Central Bank of Armenia continued to adjust monetary conditions, reducing the policy rate by a cumulative 0.25 percentage points.*

*As a result, amid the gradual normalization of monetary policy and the influence of predominantly supply-side factors, the 12-month inflation increased from 3.3% in March of 2025 to 4.5% in March of 2026. Over the same period, the 12-month underlying inflation rose at a faster pace, increasing from 2.0% to 4.7%.*

## 1. MONETARY POLICY IN THE PERIOD UNDER REVIEW

In the period under review, with a notable amount of uncertainties accumulated in the macroeconomic environment, a range of scenarios were deliberated in the monetary policy formulation and decision-making process. On the one hand, Case A scenarios, which envisaged a policy rate path above market expectations, incorporated risks stemming from the evolving geopolitical situation, a possible increase in global and Armenia's neutral interest rates driven by fiscal policy developments in the United States and the Republic of Armenia, the emergence of a persistently elevated risk premium for Armenia, as well as the risk of sustained excess demand in the domestic economy. On the other hand, Case B scenarios, which assumed a policy rate path below market expectations, addressed risks associated with the developments in construction and related sectors of the economy amid gradual and natural adjustment of real estate prices, weakening demand and deflationary pressures, a rapid easing of domestic and external demand and labor market conditions, as well as a slowdown in global economic growth outlook, and the fundamental decrease in the risk premium for Armenia. In view of these uncertainties, the monetary policy implemented with prudent risk management was aimed at stabilizing the 12-month inflation and inflation expectations around the target over the medium-term horizon.

In the period under review, against the backdrop of significant geopolitical and economic policy realignments, elevated uncertainty, and heightened risks, global economic growth and its outlook gradually deteriorated. In particular, GDP growth in the United States exhibited considerable volatility; overall, the growth slowed down, moderating at a steadier pace. At the same time, the continued easing of labor market conditions – primarily reflected in slower wage growth – alongside weaker lending dynamics and a marked increase in the share of overdue loans in certain sectors of the economy, points to a notable easing of demand conditions. The continued slowdown in economic growth in the Eurozone and China reflects persistent structural challenges, economic polarization, and weak domestic demand, in which case serious challenges remain in the medium and long term. It should also be noted that geopolitical uncertainty and the sharp increase in energy prices resulting from the escalation of the conflict in the Middle East may exert additional adverse effects on demand conditions in Armenia's partner economies, although these effects had not yet materialized during the reporting period. Economic activity in Russia weakened significantly, which, together with the marked slowdown in underlying inflation observed in recent periods, may signal a gradual normalization of overheated economic conditions. At the same time, the contraction in consumer lending and the continued increase in the share of non-performing loans may point to the accumulation of structural vulnerabilities in certain sectors of the economy. On the other hand, the escalation of tensions in the Middle East may, at least in the short term, have a somewhat positive effect on the Russian economy through a significant increase in demand for, and prices of, Russian oil.

Global inflation gradually slowed for most of the reporting period and increased only toward the end, in March of 2026, largely reflecting the sharp rise in energy prices. Yet,

although the 12-month inflation in all main partner countries approached target levels, inflation in goods and services with sticky prices remained significantly above target. In international commodity markets, risks related to price increases and potential disruptions to supply chains proved material, driven by geopolitical developments in the Middle East and rising tensions in international trade relations. During the first half of the period under review, global food prices exhibited an upward trend, followed by some decline and stabilization. In March of 2026, prices and volatility in international commodity markets increased considerably and in the near future will continue to depend on the duration and scale of the conflict in the Middle East. Against this backdrop, primarily inflationary pressures were transmitted from the external sector to the Armenian economy during the reporting period.

In the period under review, economic growth in Armenia accelerated significantly, reaching a level above the estimated long-term sustainable rate. It should be noted that, toward the end of 2025, the acceleration in economic activity was also determined by certain short-term, non-structural factors. Strong economic growth continued to be largely supported by robust expansion in the construction and services sectors. At the same time, although growth acceleration in the manufacturing sector largely owed to non-structural factors, high growth was also recorded in “traditional” sub-sectors. Moreover, developments in exports, credit demand, and production capacity in the sector also signal positive long-term prospects. In this context, various indicators may point to the existence of a small positive output gap, close to neutral, during the reporting period. However, the structural features of economic growth, together with 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 lending growth and mainly robust activity in demand-driven sectors – amid accelerating inflation may be indicative of elevated excess demand in the economy. On the other hand, the concentration of growth, the stabilization of non-tradable sticky prices, and wage growth around target-consistent or stable levels are more in line with an estimate of a relatively balanced economic position. The continued easing of labor market imbalances may also support this assessment. Under these conditions, the impact of aggregate demand on inflation during the latter part of the reporting period is assessed as expansionary.

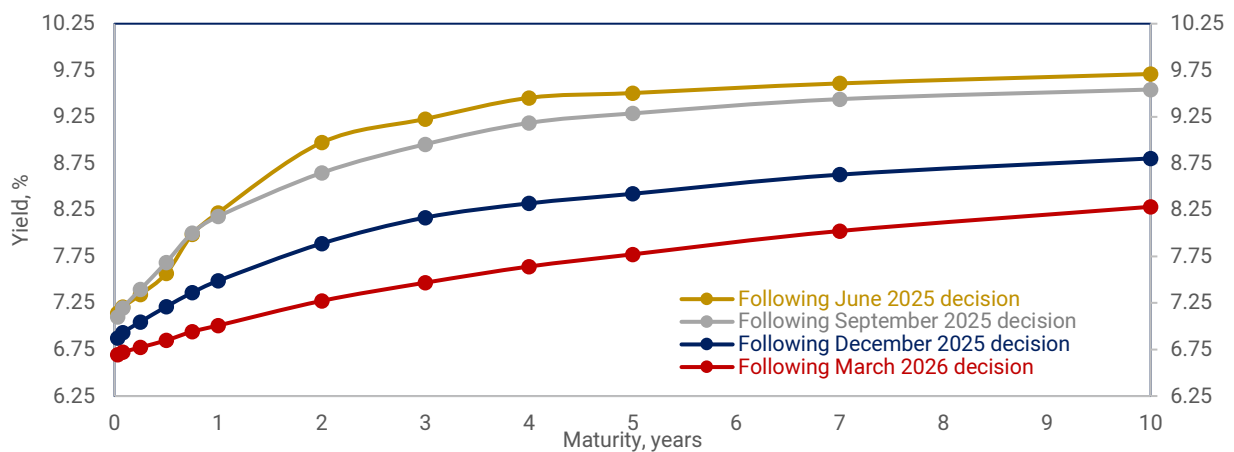
In view of the aforementioned developments and a further focus on prudent management of potential risks stemming from uncertainties prevailing at the time, the Central Bank of Armenia continued to adjust monetary conditions in the course of the reporting period, reducing the policy rate by a cumulative 0.25 percentage points. Moreover, in the period from April to November 2025, taking into account the elevated Case A risks and emphasizing the need to contain the associated macroeconomic implications, the Central Bank left the policy rate unchanged, while communicating the suitability of maintaining a higher policy rate path relative to financial market expectations in the medium term. In the period from December 2025 to March 2026, amid the gradual easing of the aforementioned risks, the Board of the Central Bank of Armenia communicated the need to contain risks in both

directions and signaled the relevance of pursuing a policy path consistent with market expectations, reducing the policy rate by 0.25 percentage points in December of 2025.

In the period under review, market interest rates came in largely around the operational target, i.e. the policy rate. In the government bonds market, the yield curve primarily reflected the logic of the gradual adjustment of long-term inflation expectations as a result of the normalization of monetary policy, the reduction of the inflation target, a partial easing of geopolitical risks surrounding Armenia, the lower-than-expected level of public debt, and other contributing factors. At the end of Q1 2026, the yield curve shifted slightly upward across maturities, likely reflecting the repricing of risks associated with developments in the Middle East, while remaining significantly below the levels observed in the previous year.

**Figure 1**

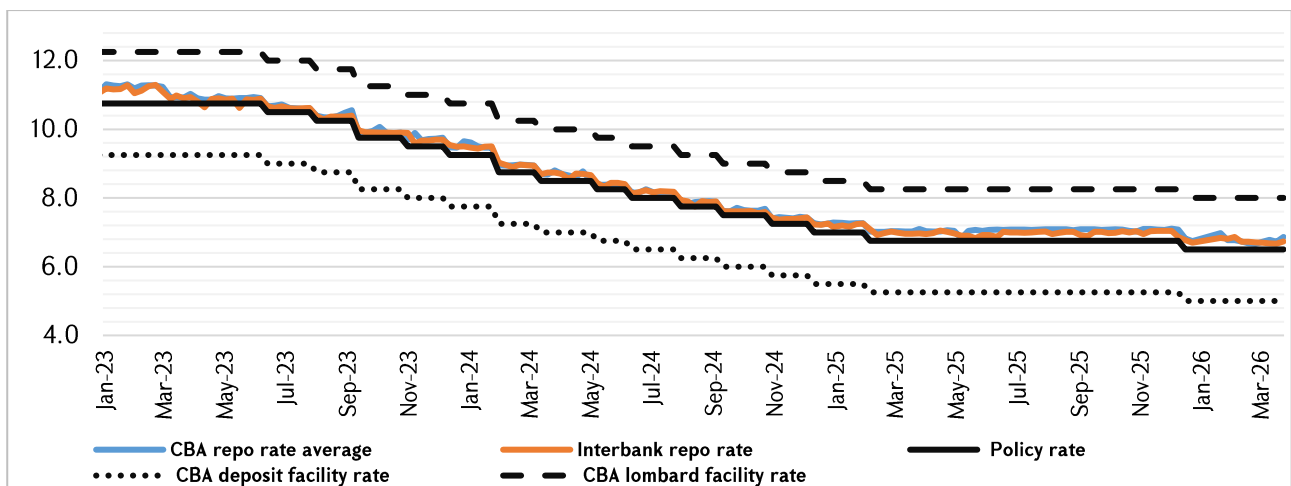
***Yield curve of Armenian government bonds following the Central Bank interest rate decisions***



Source: Central Bank of Armenia

**Figure 2**

***The Central Bank instruments and short-term market interest rates dynamics***



Source: Central Bank of Armenia

In the period under review, amid strong activity in certain sectors of the Armenian economy, demand for lending remained elevated. This was particularly reflected in the steady growth of consumer lending to households. At the same time, the growth rate of mortgage lending moderated to some extent due to the notable narrowing of the income tax refund program, although it remained high. Under these conditions, despite the continued decline in the Central Bank's policy rate and short-term market interest rates, banking system interest rates adjusted only gradually.

In the foreign exchange market, the dram appreciated moderately against the US dollar, mainly reflecting increased capital inflows to the Republic of Armenia and the depreciation of the US dollar against the currencies of both developed and emerging economies. In certain episodes, the Central Bank of Armenia conducted foreign exchange purchase operations to neutralize risks to the smooth functioning of the financial market.

As a result, in view of the aforementioned developments and the monetary policy implementation, in the period under review **the 12-month inflation accelerated to 4.5 percent as of end-March of 2026. The 12-month underlying inflation notably increased as well, amounting to 4.7 percent.**

## 2. INFLATION COMPONENTS IN THE PERIOD UNDER REVIEW

Over the past year, inflation continued to accelerate, mainly driven by inflationary pressures transmitted to Armenia from the external sector, a certain expansion of domestic demand alongside the normalization of monetary conditions by the Central Bank of Armenia, as well as the impact of several temporary factors.

Thus, in the period under review, adverse weather conditions in several key global food-supplying countries, coupled with increased global demand for specific commodities, led to significant price increases for selected commodities. These developments were largely reflected also in imported food prices (with imported food price inflation reaching 5.5% year-on-year in March 2026). In this context, inflationary pressures transmitted from international food markets intensified especially in the product groups, such as “Oils and fats”, “Coffee, tea, cocoa”, and “Alcohol and tobacco”. However, since September 2025, the impact of global supply factors on food prices moderated considerably, although this was only partially reflected in imported food product prices.

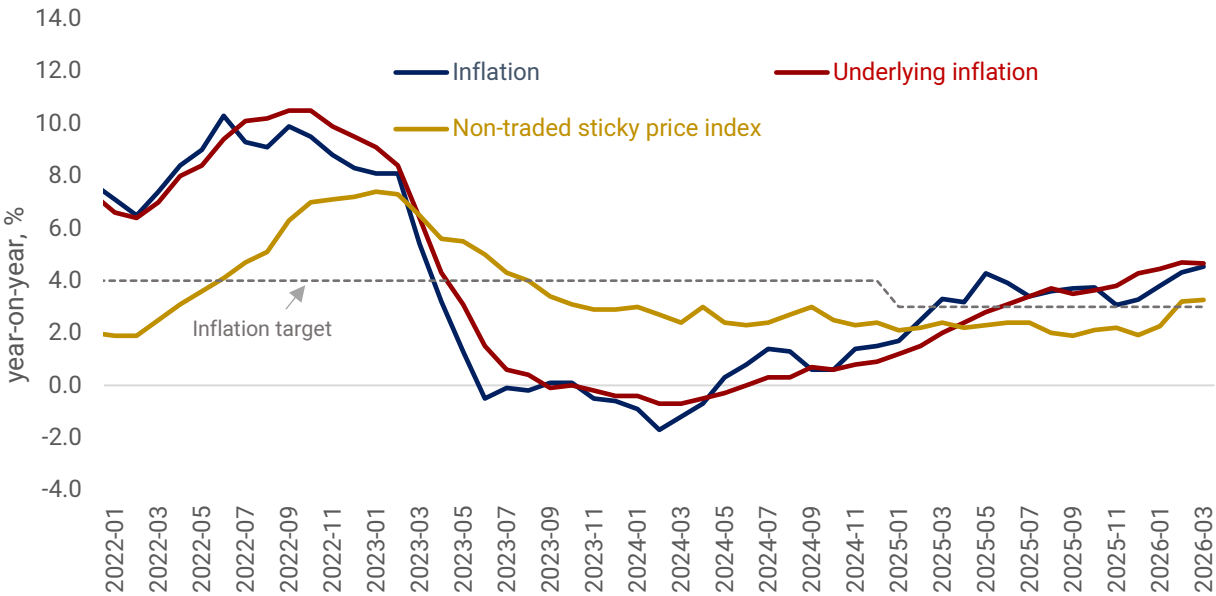
In the period under review, inflation in services accelerated to some extent as well; this was largely caused by higher air transport prices, on the one hand, and price increases for some medical services starting from January 2026, on the other. In addition, since May 2025, inflation has accelerated in certain services that are highly sensitive to external demand, particularly hotels and restaurants, etc., which is consistent with the increase in tourist inflows. Nevertheless, services inflation excluding air transport still floated below the target, within a 2.0-2.5% range.

Underlying inflation, which excludes seasonal food products and regulated services, further trended up; as of March 2026, it has been 4.7 percent year-on-year, above the target. In the structure of underlying inflation, a notable increase was recorded mainly in non-seasonal food product prices and non-regulated service fees. In particular, in recent months, inflation in the product groups “Bread and cereals”, “Meat,” and “Dairy products” has accelerated, largely reflecting both inflationary pressures transmitted from external markets and certain domestic supply-side factors. At the same time, the increase in prices of product groups “Tobacco products” and “Alcoholic beverage” out of *Underlying Inflation* components during the period under review has incurred the inflationary impact from the change in excise tax rates in 2025, remaining within the Central Bank’s estimates. It should also be noted that the inflationary impact of the increase in public transport tariffs in Yerevan in the first quarter of 2025 had gradually faded by the end of the reporting period.

In the period under review, the non-tradable sticky price index – an important indicator characterizing domestic economic conditions – remained broadly aligned with the target, while showing moderate signs of acceleration (see Figure 3).

Figure 3

*In the period under review, headline inflation has accelerated primarily owing to an increase in prices of non-seasonal food products*



Source: RA Statistics Committee,  
Central Bank estimates

Table 1

| Product/Item                                            | Weight in basket,<br>%, 2026 | 12-month<br>inflation, % | Contribution to<br>inflation, y/y |
|---------------------------------------------------------|------------------------------|--------------------------|-----------------------------------|
|                                                         |                              | March 2026               | March 2026                        |
| <b>Underlying inflation</b>                             | <b>77.2</b>                  | <b>4.7</b>               | <b>3.6</b>                        |
| Bread and cereals                                       | 7.4                          | 3.6                      | 0.3                               |
| Meat                                                    | 10.7                         | 9.4                      | 1.0                               |
| Oils and fats                                           | 2.0                          | 7.5                      | 0.2                               |
| Sugar                                                   | 0.5                          | 2.8                      | 0.0                               |
| Dairy products                                          | 4.2                          | 7.9                      | 0.3                               |
| Alcoholic beverage                                      | 2.0                          | 6.9                      | 0.1                               |
| Tobacco products                                        | 3.0                          | 9.7                      | 0.3                               |
| Clothing                                                | 2.1                          | 1.7                      | 0.0                               |
| Footwear                                                | 1.1                          | -0.4                     | 0.0                               |
| Household appliances                                    | 0.7                          | -1.3                     | 0.0                               |
| Fuel                                                    | 4.9                          | -1.2                     | -0.1                              |
| Air passenger transportation services                   | 1.5                          | 13.9                     | 0.2                               |
| Outpatient care services                                | 2.6                          | 6.1                      | 0.2                               |
| Actual rent paid by tenant for additional accommodation | 2.7                          | -2.4                     | -0.1                              |
| Restaurants and hotels                                  | 2.4                          | 4.3                      | 0.1                               |
| <b>Seasonal food products</b>                           | <b>9.8</b>                   | <b>7.3</b>               | <b>0.7</b>                        |
| Eggs                                                    | 1.3                          | 30.1                     | 0.4                               |
| Fruits                                                  | 3.3                          | 5.6                      | 0.2                               |
| Vegetables                                              | 5.3                          | 3.1                      | 0.2                               |
| <b>Regulated services</b>                               | <b>13</b>                    | <b>0.1</b>               | <b>0.0</b>                        |
| Other product and service groups                        |                              |                          |                                   |
| <b>Imported food products</b>                           | <b>14.5</b>                  | <b>5.5</b>               | <b>0.8</b>                        |
| <b>Food products of domestic produce</b>                | <b>20.0</b>                  | <b>8.5</b>               | <b>1.7</b>                        |
| <b>Non-regulated services</b>                           | <b>20.7</b>                  | <b>4.3</b>               | <b>0.9</b>                        |

Table 2

| Product/Item                                            | Weight in basket, %, 2025 | 12-month inflation, % |                |               |            |
|---------------------------------------------------------|---------------------------|-----------------------|----------------|---------------|------------|
|                                                         |                           | June 2025             | September 2025 | December 2025 | March 2026 |
| <b>Underlying inflation</b>                             | <b>77.2</b>               | <b>3.1</b>            | <b>3.5</b>     | <b>4.3</b>    | <b>4.7</b> |
| Bread and cereals                                       | 8.2                       | 3.5                   | 4.6            | 3.9           | 3.6        |
| Meat                                                    | 10.8                      | 1.6                   | 3.6            | 7.9           | 9.4        |
| Oils and fats                                           | 2.3                       | 14.2                  | 12.8           | 6.8           | 7.5        |
| Sugar                                                   | 0.5                       | -2.8                  | -8.9           | 1.1           | 2.8        |
| Dairy products                                          | 4.3                       | -0.4                  | 2.0            | 6.1           | 7.9        |
| Alcoholic beverage                                      | 1.9                       | 4.5                   | 4.7            | 5.0           | 6.9        |
| Tobacco products                                        | 2.5                       | 7.4                   | 8.3            | 8.7           | 9.7        |
| Clothing                                                | 2.0                       | -2.7                  | -1.9           | -0.1          | 1.7        |
| Footwear                                                | 1.0                       | -0.8                  | -0.1           | 1.0           | -0.4       |
| Household appliances                                    | 0.6                       | 3.1                   | 2.8            | -0.2          | -1.3       |
| Fuel                                                    | 5.1                       | -1.9                  | -0.4           | -0.3          | -1.2       |
| Air passenger transportation services                   | 1.5                       | 29.9                  | 19.4           | 26.6          | 13.9       |
| Outpatient care services                                | 2.6                       | 4.4                   | 4.3            | 3.8           | 6.1        |
| Actual rent paid by tenant for additional accommodation | 2.6                       | -1.6                  | -2.8           | -3.5          | -2.4       |
| Restaurants and hotels                                  | 2.2                       | 2.3                   | 2.0            | 2.9           | 4.3        |
| <b>Seasonal food products</b>                           | <b>9.6</b>                | <b>12.7</b>           | <b>6.3</b>     | <b>-2.8</b>   | <b>7.3</b> |
| Eggs                                                    | 1.3                       | -6.2                  | -3.0           | 7.2           | 30.1       |
| Fruits                                                  | 3.1                       | 3.7                   | 12.4           | 0.7           | 5.6        |
| Vegetables                                              | 5.1                       | 25.0                  | 2.4            | -7.5          | 3.1        |
| <b>Regulated services</b>                               | <b>13.2</b>               | <b>2.0</b>            | <b>2.5</b>     | <b>1.9</b>    | <b>0.1</b> |
| Other product and service groups                        |                           |                       |                |               |            |
| <b>Imported food products</b>                           | <b>15.4</b>               | <b>6.3</b>            | <b>6.5</b>     | <b>5.3</b>    | <b>5.5</b> |
| <b>Food products of domestic produce</b>                | <b>19.8</b>               | <b>2.9</b>            | <b>4.5</b>     | <b>7.7</b>    | <b>8.5</b> |
| <b>Non-regulated services</b>                           | <b>20.6</b>               | <b>4.5</b>            | <b>2.8</b>     | <b>3.8</b>    | <b>4.3</b> |