



Central Bank
of Armenia

2026 Q1

Monetary Policy Report

Monetary Policy Program

Published March 17, 2026

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In addition to the Monetary Policy Report, the CBA concurrently publishes additional materials on its website, which the reader is encouraged to reference. These include the [MPR Chart Pack](#) (containing statistical charts and tables for global and domestic economic developments as well as the illustrative scenario projections) and the [Transparency Report](#) (providing transparency into how the Board of the CBA arrived at its decision).

DISCLAIMER The data presented in this report is current as of March 13, 2026.

01 |

Executive Summary

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 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 Governor
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.

02 |

Monetary Policy Objectives & Framework

Statement of Long-Run Monetary Policy Objectives

Adopted effective March 17, 2026

As enshrined in “The Law of the Republic of Armenia on the Central Bank of Armenia,” the primary objectives of the Central Bank of Armenia are to ensure price stability and financial stability. The Board of the CBA is committed to using its full suite of monetary policy instruments to achieve its price stability mandate and provide a nominal anchor for the economy.

We emphasize that the primary objectives of price stability and financial stability are a means to an end. The ultimate purpose of the CBA as an accountable public-sector institution is improving the welfare of our nation. A commitment to achieving low and stable inflation provides a credible nominal anchor for the economy and thereby anchors inflation expectations, helps to avoid inefficient boom-bust cycles, stimulates investment, supports the economic development of the country, and improves living standards over time.

The CBA develops and implements monetary policy to achieve its price stability objective. The fundamental role of monetary policy is to provide an anchor for inflation and inflation expectations. The Board believes that a three percent inflation target is consistent with its price stability mandate. The inflation target is expressed in terms of the Consumer Price Index (CPI), since it is the best measure of the cost of living and final consumption expenditures, and is the primary reference point for market participants when making planning decisions and setting contracts. Nevertheless, the overall CPI basket of goods and services includes several items that are subject to seasonal fluctuations and global economic developments, which are not directly influenced by monetary policy. We therefore consider alternative measures of inflation, such as core and non-traded sticky prices, which can provide useful information on the underlying inflationary environment.

The CBA’s primary means of adjusting the stance and path of monetary policy is through changes in the expected path of short-term interest rates. If interest rates were to be constrained by the effective lower bound, the Bank would be prepared to use its full range of policy tools.

While emphasizing the primacy of achieving the price stability and financial stability mandates over the medium term, the CBA recognizes that it is also responsible for managing the short-run tradeoff between inflation and output. In an open market economy, periodic economic and financial shocks cause economic activity and inflation to fluctuate over time. In this context, the CBA does not target CPI inflation on a period-by-period basis and does not attempt to bring CPI inflation back to the target in the short term if it would result in undue economic and financial instability. In any economic situation, the CBA seeks to develop and implement monetary policy in a manner that brings inflation to the target in the medium-term (12 quarter) horizon, while minimizing associated social costs through a “least regrets” approach.

Effective monetary policy improves welfare by anchoring long-term inflation expectations and reducing the volatility of output and unemployment. Avoiding excessive volatility in the economy can result in substantial improvements in welfare by reducing average levels of unemployment and raising the productive capacity of the Armenian economy. The Bank emphasizes that placing weight on other near-term objectives must not be inconsistent with its primary responsibilities of achieving its three percent target in the medium term and maintaining price and financial stability.

The Board places great emphasis on the importance of communicating its policy and decision-making framework to the public in a clear and comprehensible manner. Clear and effective communication helps make policy more effective, and encourages financial markets, businesses, and the general public to better understand and manage risks and uncertainties. Moreover, this communications approach plays an important role in enhancing the transparency of monetary policy and central bank accountability, which is a key priority for the CBA as an independent public sector institution.

The Board will review and renew the Statement of Long-Run Monetary Policy Objectives during the first decision-making round of each year.

Framework for Monetary Policy as Risk Management

The CBA conducts monetary policy within a risk management framework to analyze and communicate the uncertainty surrounding the economic outlook more effectively. Our approach is to consider alternative scenarios for the evolution of the Armenian economy that have important implications for monetary policy.

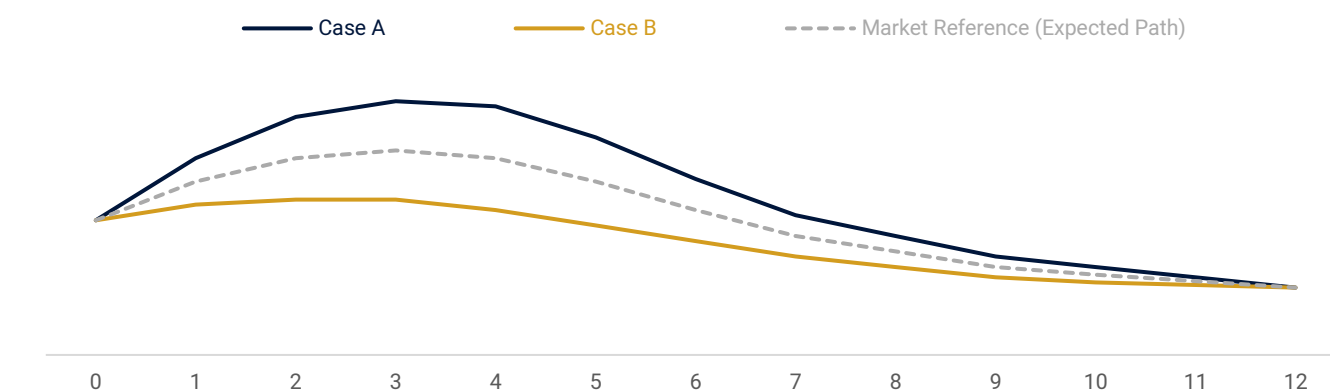
Elevated uncertainty is a reality that central banks must manage, and we do this by explicitly incorporating it into our framework and communication. We develop and analyze multiple scenarios that would imply a higher or lower path for interest rates than is currently priced in financial markets.

At the same time, to steer the policy discussion and communication, we develop two or more illustrative scenarios. These scenarios should not be interpreted as pure risk scenarios, but are meant to represent plausible paths for the policy rate that could be consistent with managing monetary policy risks and concerns in an individual's economic scenario.

The aforementioned scenarios are constructed based on the following rationale:

- Market Reference is the expected path of the policy rate that is currently priced in financial markets. Ideally, if financial markets in Armenia were more developed, and there existed a derivative market for the policy rate, then we could construct an expected path based solely on market information. We therefore use the 1-year government bond yield, which should reflect the expected average policy rate over the next 12 months, plus some compensation for term premium. In addition, we conduct high- and medium-frequency surveys of market participants before, during, and following each decision-making cycle as another reference point for expectations of the policy rate.
- **Case A** reflects scenarios that incorporate economic and financial developments that would require a higher interest rate path than what is currently priced in financial markets that is consistent with guiding the economy back to its long-run equilibrium and to achieve price stability objective. These scenarios incorporate risks and uncertainties that could, for instance, give rise to a higher inflationary environment in the economy.
- **Case B** reflects scenarios that incorporate economic and financial developments that would require a lower interest rate path than what is currently priced in financial markets that is consistent with guiding the economy back to its long-run equilibrium and to achieve price stability objective. These scenarios capture downside risks and uncertainties that could, for example, lead to a more disinflationary environment or generally weaker inflationary pressures in the economy.

Figure 2.1: Alternative Paths for the Policy Rate



Source: CBA

Note: For Illustrative Purposes Only

To learn more about the Central Bank of Armenia's approach to monetary policy, refer to the book, [Prudent Risk Management Approach to Monetary Policy: Theory and Practice of FPAS Mark II at the Central Bank of Armenia](#), edited by Douglas Laxton, Hayk Avetisyan, and Vahe Avagyan (2025)

Report Structure

The MPR begins with the Executive Summary, which provides the Statement by the Board of the CBA as well as a high-level assessment of economic conditions and underlying forces. The Executive Summary is also issued as a standalone document, known as the Executive Monetary Policy Statement.

Section III presents in greater detail the CBA's implementation of this policymaking framework. It begins with an assessment of the first two ingredients essential for economic analysis: where is the economy now, and what are the underlying forces driving the economy. This section also communicates how the CBA is managing current risks through a framework of "least regrets." This includes a taxonomy of different types of scenarios that may be relevant in the current policy round, reflecting a summary of the universe of major issues that the Board are concerned about. Against this context, the MPR presents two (or more) illustrative case scenarios, which incorporate the appropriate monetary policy rate response required to ensure price stability under the conditions implied by the factors considered in the scenarios.

The statistical appendix is published as a separate file, known as the MPR Chart Pack, which contains charts and tables for relevant economic variables, as well as key projections from the illustrative case scenarios.

Importantly, the MPR of the CBA is published on the same day as the policy decision is made by the Board of the CBA. This is intended to provide the public with sufficient detail and narratives that describe the framework and analysis that led to the decision in a near-real-time manner. Following the decision and press conference, a separate Transparency Report is released, containing more detailed information about how the Board came to the specific decision during the Board meeting.

Disclaimer

The information presented in this report is based on actual data available by March 13, 2026 as well as the results of the surveys conducted by the CBA and judgments made pursuant to the information on future developments of the macroeconomic environment.

The Monetary Policy Report serves as the chief monetary policy communications vehicle for the Central Bank of Armenia, and is published on a quarterly basis. The MPR has been designed to be a user-friendly document that covers key policy-relevant issues but remains accessible to technical and non-technical audiences alike. The report is structured to follow a narrative format that helps illustrate the key issues, risks, and uncertainties that drove the Board's thinking in the current decision-making round and how it arrived at its policy decision. Not all data, analysis, or issues can be reasonably included in the MPR in every quarter without overwhelming the reader or overshadowing key messages. For this reason, the MPR is supplemented with a Chart Pack that provides a complete and comprehensive overview of the current and underlying economic environment.

A decision made by the CBA Board today will affect inflation with a lag. The illustrative scenarios are chosen and designed by our Monetary Policy Department's economists to describe plausible paths of the economy under different risks. Importantly, the selected illustrative scenarios are two of many possible scenarios that the Board considers when making its decisions, which are represented in the Taxonomy of Scenarios in Section III. During each policymaking cycle, the Board is engaged in dynamic discussions and information-sharing with the Staff related to understanding the current position of the economy, its underlying drivers, and key sources of policy-relevant risk and uncertainty. These discussions, including the process through which the Taxonomy of Scenarios is developed and the illustrative scenarios are selected and quantified, are an important input for Board deliberations. The Taxonomy of Scenarios and the selected illustrative scenarios are produced four times a year and are a key, but not the only, input to the CBA Board's monetary policy decisions.

All monetary policy reports which have been published to date are available on the CBA's website (www.cba.am), which also contains all press releases, working papers, and other monetary policy-related publications.



Central Bank
of Armenia

03 |

Monetary Policy
Outlook

A. Global Economic Developments

United States Economy

Amid profound transformations in economic policy, US economic growth during 2025 exhibited considerable volatility, slowing sharply in the fourth quarter to an annualized rate of 0.7%. Private consumption remains the main driver of this trend, slowing somewhat but still maintaining relatively high growth. Despite some recent adjustments, elevated prices of financial assets are supporting stable consumption, particularly among higher-income households. Conversely, the rapid slowdown in wage growth for lower-income households, the moderation in consumer credit expansion, and the rising share of delinquent loans toward historically high levels signal the emergence of weak demand conditions. The real estate market is likewise beginning to slow.

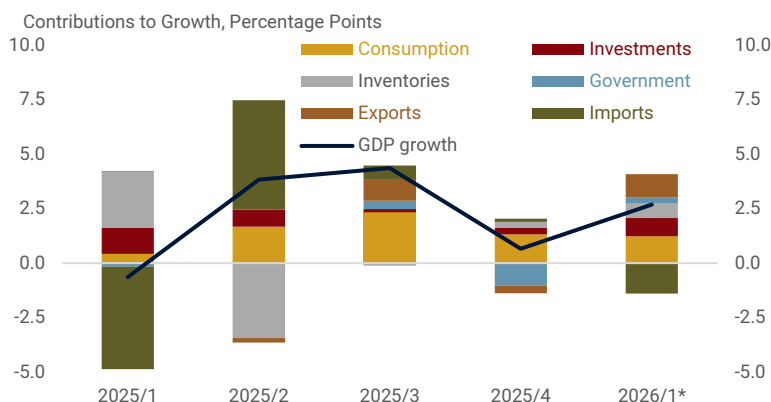
In the current environment of heightened uncertainty, potential further corrections in financial asset prices could weigh on consumption and growth prospects in the US, which may then have adverse implications for global demand conditions. While investment in the AI sector continues to outpace overall market investment, recent data point to a modest slowdown, potentially reflecting a less optimistic investor outlook (Figure 3.A.2).

Uncertainty surrounding the outlook for US fiscal policy has increased. As some tariffs have been lifted, further possible developments in US trade policy, particularly the introduction of additional tariffs together with expansionary fiscal measures could, over the medium term, push the budget deficit and public debt onto a higher path, thereby raising the risk of further increases in long-term real interest rates. Such developments could influence the Federal Reserve's monetary policy outlook as well as the neutral interest rate and capital flows in emerging economies.

Uncertainty surrounding US trade policy, along with pressures from potential additional tariffs, continues to pose risks of a heightened inflationary environment, even as inflation continued to moderate during Q1 2026, reaching 2.4% Y-o-Y in February (Figure 3.A.3). Nevertheless, inflation in sticky-price goods and services remains persistently above the target. Financial market participants remain cautious in their expectations regarding the timing and pace of policy rate cuts. Although wage growth in the labor market has shown signs of moderation, the relatively stable levels of unemployment and layoffs do not yet point to a pronounced weakening in demand conditions. Against a backdrop of elevated uncertainty and above-target inflation, the Federal Reserve faces growing challenges in fulfilling its dual mandate of price stability and maximum employment. The prolonged conflict in the Middle East adds further inflationary risk to the US economy.

Private consumption remains the main driver of the economy

Figure 3.A.1: Contributions to US Real GDP Growth

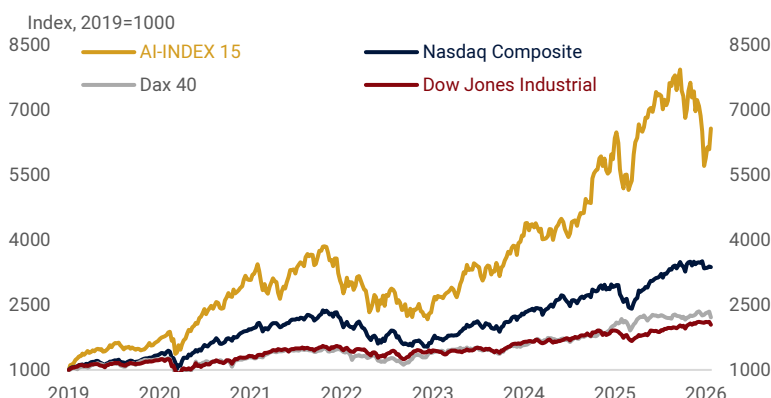


Source: US BEA; Atlanta Fed

Note: 2026 Q1 based on AtlantaFed's March 2, 2026 GDPNow Estimate

Overvalued asset prices raise uncertainty about medium-term demand and the neutral interest rate

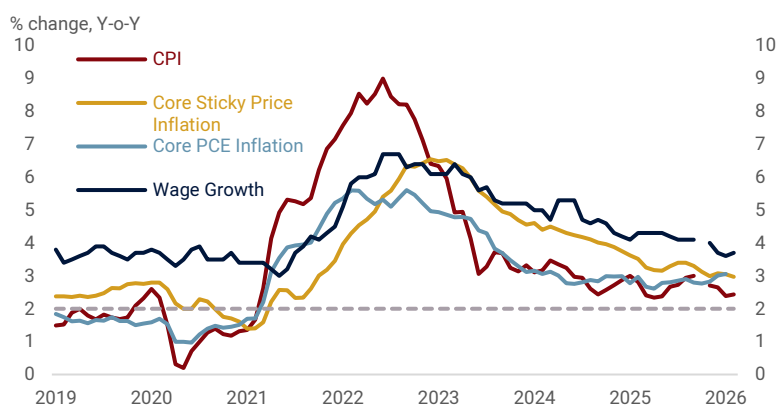
Figure 3.A.2: AI sector companies and major stock market indices



Source: AI-Index info

Uncertainty over trade policy and supply chain disruptions in the Middle East could further intensify inflationary pressures

Figure 3.A.3: Underlying Inflation Measures



Source: Atlanta FED, BLS

Note: CPI inflation and wage data for October 2025 are unavailable due to the partial shutdown of the US federal government.

Eurozone Economy

In the fourth quarter of 2025, economic growth in the euro area remained relatively low, at 0.2% Q-o-Q (Figure 3.A.4). During the first three quarters of 2025, growth was largely driven by an expansion in exports. The gradual deceleration in growth in 2025 relative to the previous year reflects underlying structural challenges in the euro area economy, increasing economic polarization, and likely subdued domestic demand. At the same time, amid geopolitical and policy uncertainties, household savings continued to rise. Economic growth remains uneven, both across sectors and regions, with the services sector continuing to be the main driver, partly supported by external demand. Despite some modest positive developments in the previous quarter, industrial activity continues to be shaped by uncertainties in the external environment—particularly changes in US trade policy and China's restrictions on rare earth exports to Europe. Leading indicators of economic activity, such as the PMI, suggest only weak signs of potential recovery in manufacturing in recent months (Figure 3.A.5). In addition, measures to strengthen defense and infrastructure in Europe are beginning to have a visible impact, for example in Germany, where domestic industrial orders have shown stable growth. However, it remains uncertain whether expansionary fiscal policy will be sufficient to sustain a recovery in growth amid the accumulated structural challenges.

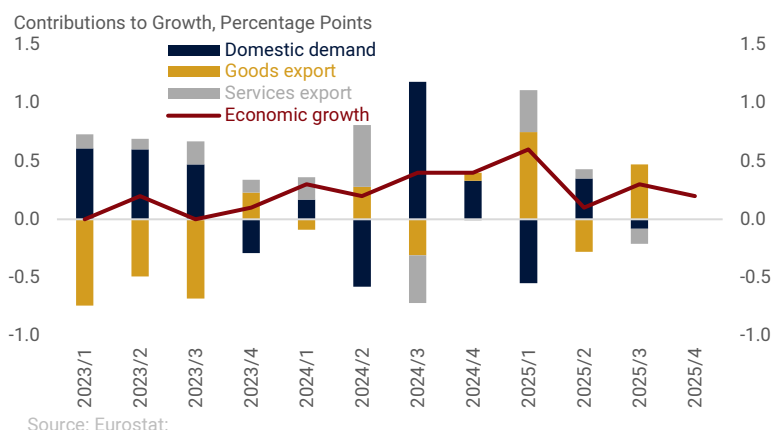
In February 2026, inflation was near the target, at 1.9% (Figure 3.A.6). Underlying indicators, however, present a mixed picture of demand conditions: core inflation stands close to the target at 2.4%, while services inflation remains elevated at 3.4%. Unemployment continues to hold at a historically low level, yet the ongoing slowdown in wage growth points to a gradual easing of labor market conditions.

At its February 2026 monetary policy meeting, the ECB left policy rates unchanged. The bank noted that uncertainty surrounding the inflation outlook remains unusually high, reflecting volatility in the international policy environment, driven in particular by global trade risks and geopolitical tensions.

Importantly, the euro area economy remains highly vulnerable to disruptions in trade routes and energy supplies from the Middle East. As such, a sharp escalation or prolonged conflict in the region could further weaken economic activity in the euro area while also adding upward pressure on inflation.

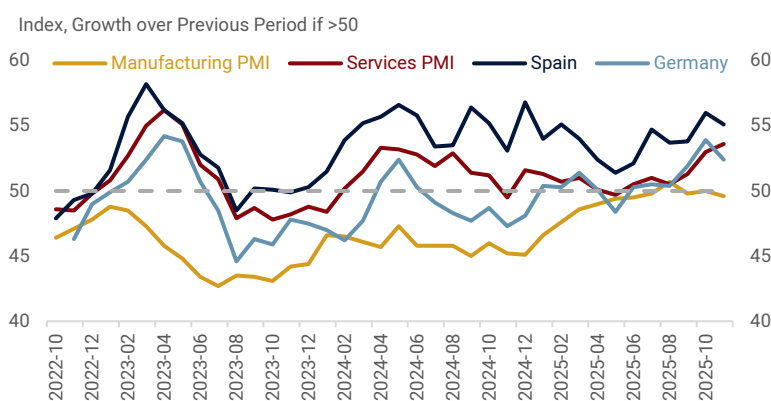
The growth outlook remains clouded by persistent structural challenges as well as sectoral and geographic disparities in growth

Figure 3.A.4: Contributions to Euro Area Real GDP Growth



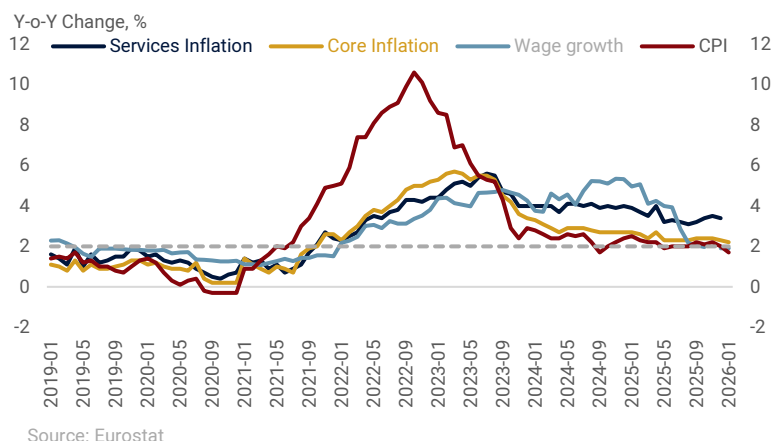
In the presence of structural challenges, the outlook for a recovery in the industrial sector remains uncertain

Figure 3.A.5: Composite Purchasing Managers Index (PMI), Euro Area



Underlying inflation indicators suggest differing interpretations of the state of aggregate supply and demand conditions

Figure 3.A.6: Underlying Inflation Measures, Euro Area



Russian Economy

In Q4 2025, Russia's economic growth showed some recovery, reaching 1% Y-o-Y, though it remained well below levels observed in previous years (Figure 3.A.7). Growth was primarily supported by expansion in manufacturing and a rebound in construction. Moreover, the services and retail sectors continued to register steady growth. Household consumption remained a significant contributor to overall economic growth, suggesting that domestic demand is still relatively strong. On the other hand, the decline in consumer credit and the continued rise in the share of non-performing loans point to weakening demand and the accumulation of structural problems in certain parts of the economy. Overall, the main uncertainty regarding the current state and outlook for the Russian economy is whether the recent slowdown in growth reflects structural weaknesses in economic fundamentals that have worsened over recent years, or whether it is still largely the result of a tight monetary policy under conditions of fiscal normalization.

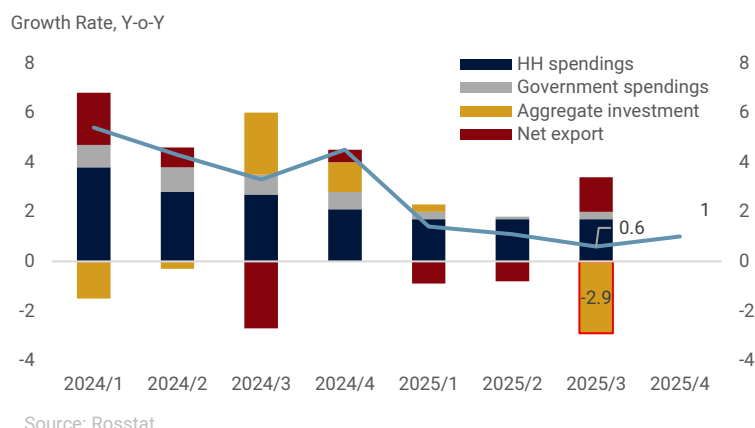
Sanctions imposed by Western countries, along with their continued tightening, pose risks to Russia's medium-term growth and the sustainability of budgetary flows. Conversely, a deterioration of the situation in the Middle East could, at least in the short term, provide a modest boost to the Russian economy, reflected in a notable rise in demand for and prices of Russian oil.

Labor market conditions in Russia remain tight, continuing to exert some inflationary pressure on the economy. However, the fourth quarter showed signs of easing, reflected in a decline in the number of workers sought and a reduction in the share of firms citing labor shortages as a major constraint. Real wage growth has slowed, but wages remain elevated, and unemployment continues to hold at a historically low level, at 2.2% (Figure 3.A.8).

Despite the slowdown in inflation, it remained above the target, at around 5.9% Y-o-Y in February (Figure 3.A.9). Inflation expectations have declined but remain elevated in both the short and medium term. In this context, the combination of weakening demand, persistently tight labor market conditions, and high inflation expectations poses challenges for the Bank of Russia in effectively managing the short-term trade-off between inflation and economic growth.

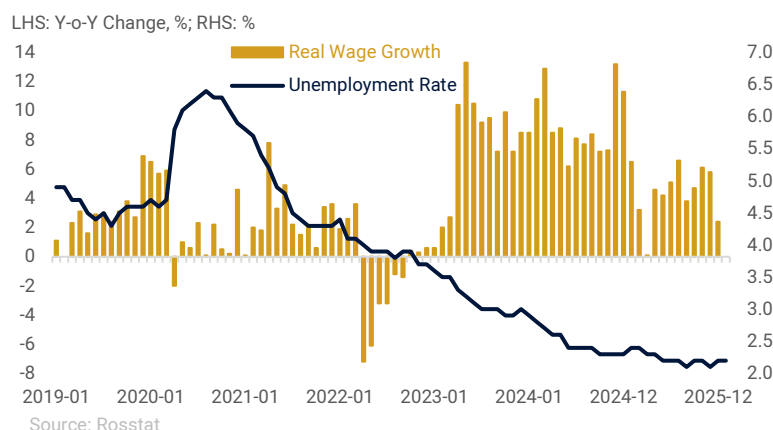
To what extent do current growth levels reflect the deterioration in underlying economic conditions observed in recent years?

Figure 3.A.7: Russia Real GDP Growth



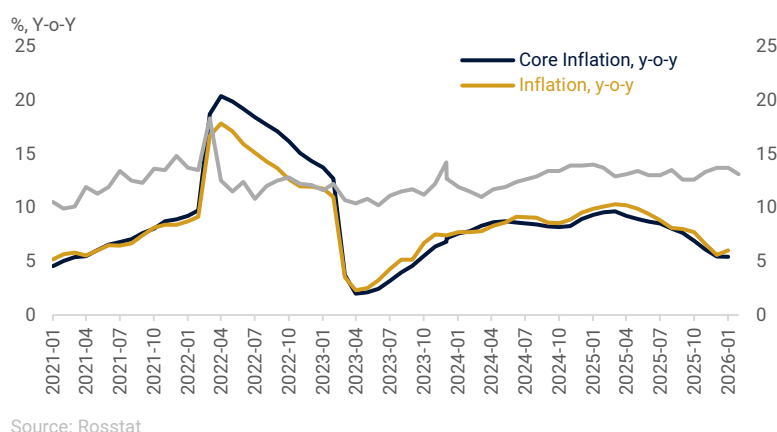
Labor market conditions remain tight, exerting additional inflationary pressures on the economy

Figure 3.A.8: Unemployment Rate and Real Wage Growth, Russia



Despite some slowdown in inflation, it remains above the target, while the persistence of elevated inflation expectations complicates the Bank of Russia's task of ensuring price stability

Figure 3.A.9: Russian inflation indicators



Commodity Markets

Copper: After strong growth in Q4 2025, the global price of copper stabilized in the first quarter of 2026 at around USD 13,000 per ton. Nevertheless, price volatility and high uncertainty about the outlook persist. On the one hand, rising demand driven by the transition to green energy, the expansion of data centers and AI applications, as well as increased global spending on military and infrastructure projects, pose upside risks to prices. On the other hand, a sharp increase in geopolitical uncertainties could weaken global demand and exert downward pressure on prices.

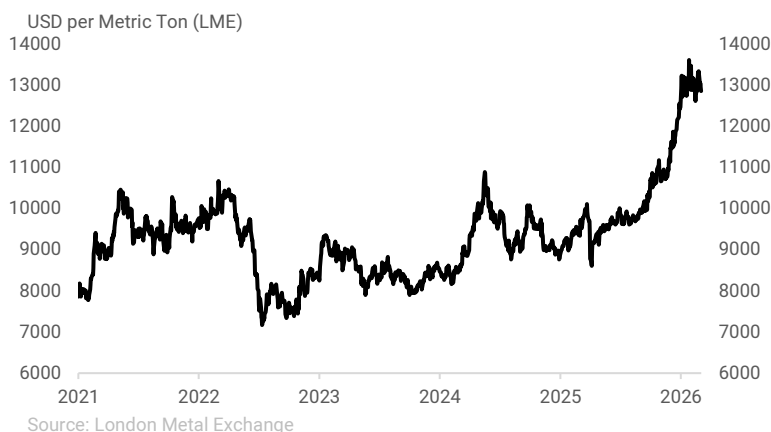
Oil: Global oil prices have surged in recent weeks due to the sharp escalation of tensions in the Middle East, reaching around USD 90–100 per barrel, up from USD 60–65 per barrel at the start of 2026. In this context, OPEC+ plans to gradually increase production by up to 1.65 million barrels per day, starting with around 200,000 b/d from April, in an effort to stabilize global supply. However, the bulk of these additional volumes would need to come from Persian Gulf states, where trade routes remain significantly constrained. Consequently, both price volatility and uncertainty surrounding the oil outlook have risen sharply and, in the short term, will largely depend on the duration and scale of the Middle East conflict (see Box 2). Over the medium term, the potential imposition of additional sanctions on Russia or the effective enforcement of existing measures adds further uncertainty for supply chains and global oil availability. At the same time, risks of a slowdown in global economic activity—particularly in China, which accounts for a substantial share of global oil demand—also weigh on the outlook.

Food: In recent months, global food prices have continued to show a downward trend, falling 0.7% Y-o-Y in January, although inflationary trends vary significantly across different product categories. Prices for grains, sugar, and dairy products have declined somewhat, largely reflecting supply-side factors. By contrast, global meat prices remain elevated, reflecting continued strong demand for this category.

Looking ahead, the main uncertainties relate to global demand conditions and outlook, as well as the potential impact of weather conditions in terms of their nature and magnitude.

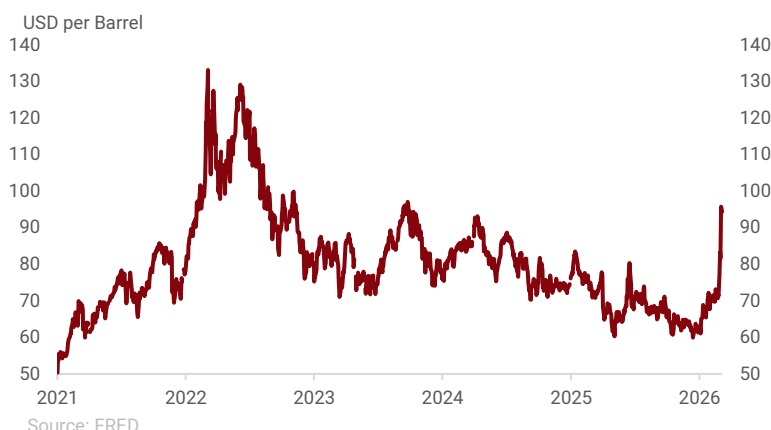
In the first quarter of 2026, the global price of copper settled near USD 13,000 per ton

Figure 3.A.10: Copper Prices



The sharp escalation of tensions in the Middle East has driven a marked increase in both the volatility of global oil prices and uncertainty over their outlook

Figure 3.A.11: Brent Crude Oil Prices



Global food prices continue to decline, largely driven by supply-side factors

Figure 3.A.12: FAO Food Price Index

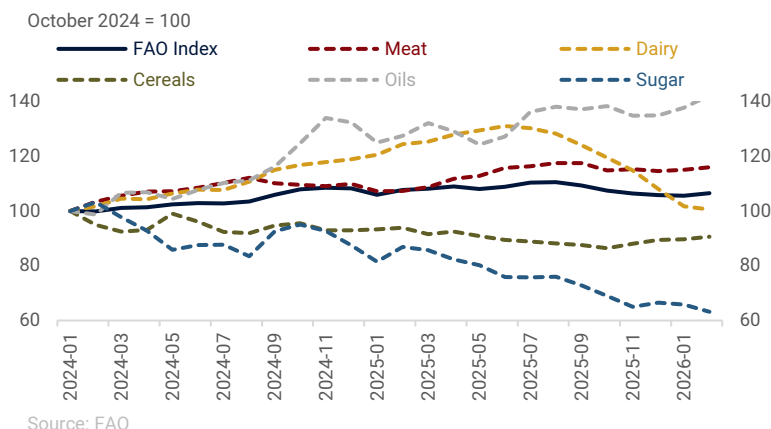


Table 3.A.1: Third-Party Projections for Commodity Prices

Source/ Topic	Oil (Brent, Dollars per Barrel)			Copper (LME \$/t)			World Bank Food Price Forecasts (Ann. Growth)		
	EAI	WB	Consensus	WB	REQ	Consensus	Oils and Meals	Grains	Other Food
Date	Mar-26	Oct-26	Mar-26	Oct-25	Sept-25	Mar-25	Oct-25	Oct-25	Oct-25
2026	70	60	75	9800	9554	12920	-0.4	0.1	-0.6
2027	64	65	69	10000	9763	13015	0.3	2.0	0.5

Source: US Energy Information Administration; World Bank; Australia Resources and Energy Quarterly (REQ); Bloomberg

Table 3.A.2: Third-Party Projections for GDP Growth and Inflation in Key Trading Partner Countries

Source	United States					Euro Area						Russia				
	IMF	WB	OECD	Fed	Consensus	IMF	WB	OECD	EC	ECB	Consensus	IMF	WB	OECD	CBR	Consensus
Date	Oct	Jan	Dec	Dec	Dec	Oct	Jan	Dec	Nov	Dec	Mar	Jan	Jan	Dec	Dec	Dec
	26	25	25	25	25	26	26	25	25	25	25	26	26	25	25	25
GDP Growth (Annual Rate, %)																
2025			2.2 (Actual)					0.8 (Actual)						1.0 (Actual)		
2026	2.4	2.2	1.7	2.3	2.5	1.3	0.9	1.2	1.2	1.2	1.2	0.8	0.8	0.5	1.0	0.9
2027	2.0	1.9	1.9	2.0	2.0	1.4	1.2	1.4	1.4	1.4	1.5	1.0	1.0	0.6	1.6	1.3
2028	-	-	-	1.9	2.0	-	-	-	-	1.4	1.3	-	-	-	1.8	1.7
Inflation (Annual Rate, %)																
2025			2.7 (Actual)					2.1 (Actual)						8.7 (Actual)		
2026	2.5	-	3.0	2.4	2.7	1.9	-	1.9	2.1	2.1	1.8	5.2	-	5.4	5.3	5.5
2027	-	-	2.3	2.1	2.5	-	-	2.0	1.9	1.7	1.9	-	-	4.3	4.4	4.5
2028	-	-	-	2.0	2.4	-	-	-	2.0	1.9	2.2	-	-	-	4.0	4.1

Source: IMF; World Bank (WB); OECD; Fed; ECB; CBR; European Commission (EC); Bloomberg

B. Domestic Demand Conditions

Gross Domestic Product

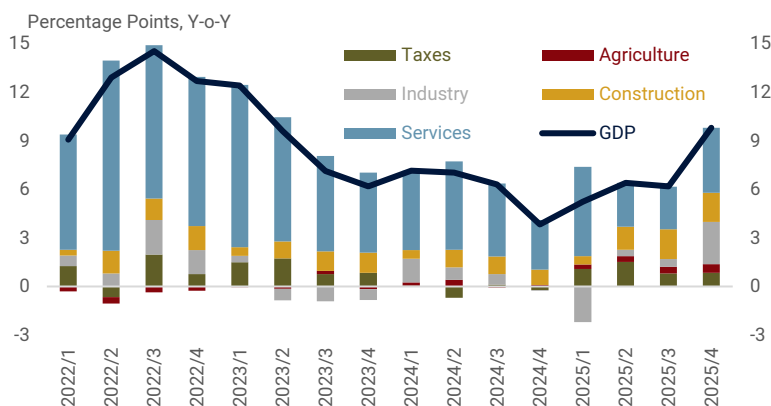
In Q4 2025, Armenia's economic growth accelerated markedly to 9.8% Y-o-Y, partly reflecting a rebound in certain non-structural factors and significantly exceeding estimates of the economy's sustainable growth rate. Growth continued to be largely supported by the services and construction sectors. The construction sector continued to expand rapidly, with rising demand in recent months contributing to a moderate acceleration in real estate prices. While the IT sector remains a key driver of growth in services, recent gains across other subsectors may signal broader expansion in demand conditions. At the same time, while the acceleration of growth in the manufacturing sector has been driven largely by non-structural factors, robust growth is also being observed across its traditional subsectors. In addition, the expansion of exports, credit demand, and production capacity within the sector provide encouraging signals regarding its long-term development prospects.

In this context, various indicators suggest that a modest positive output gap relative to the neutral level may have emerged in Q1 2026 (Figure 3.B.3). Nonetheless, the structural characteristics of economic growth, along with uneven and ambiguous developments across sectors, continue to amplify uncertainty regarding the relative positions of aggregate demand and supply in the economy: On one hand, high levels of private consumption, accompanied by robust credit growth, together with strong expansion in sectors driven primarily by demand amid accelerating inflation, may point to the presence of excess demand in the economy. On the other hand, the concentration of growth, together with developments in non-traded sticky prices and wage dynamics, is not consistent with conditions of economy-wide excess demand.

Uncertainty surrounding the short- and medium-term outlook for Armenia's economic growth has risen sharply, driven by escalating tensions in the Middle East. Although economic and financial linkages with Iran are limited, the conflict could still affect the economy through weaker global demand and through its impact on Russia, Armenia's main trading partner, thereby influencing both growth and inflation. As such, the net impact on Armenia's economy remains ambiguous. At the same time, heightened geopolitical uncertainty and potential disruptions to trade flows via Iran may prompt greater caution among economic agents and could affect tourism inflows, which are currently at historically high levels. Overall, the impact will depend largely on the duration and scale of the conflict.

In the fourth quarter of 2025, economic growth in Armenia accelerated significantly, although uncertainties regarding its sustainability remain

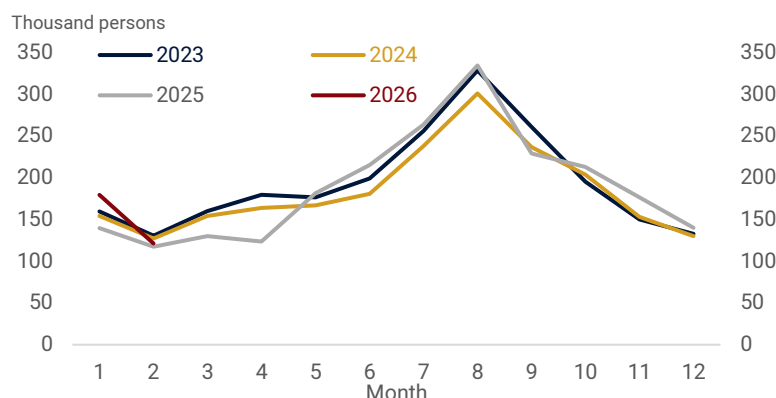
Figure 3.B.1: Contribution to Real GDP Growth by Production Approach



Source: Statistical Committee of the Republic of Armenia; CBA

The outlook for Armenia's tourism flows remains uncertain, largely reflecting ongoing geopolitical tensions in the Middle East

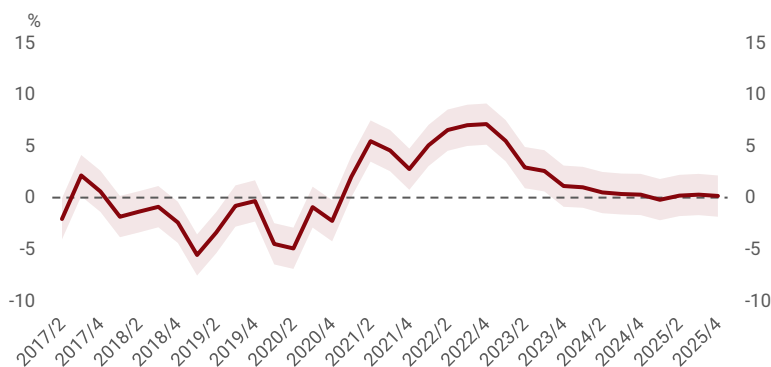
Figure 3.B.2: Inbound Tourists Number



Source: Statistical Committee of the Republic of Armenia; CBA

The structure of economic growth and uneven sectoral developments heighten uncertainty about the relative balance between aggregate demand and supply

Figure 3.B.3: The Output Gap



Source: CBA

Consumption and Investment

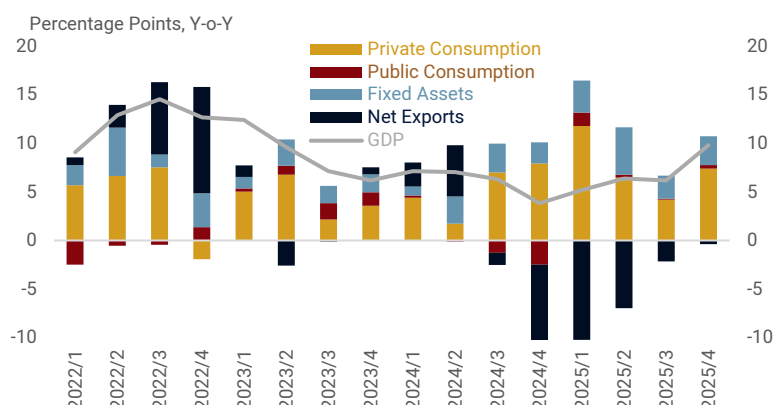
Private consumption remained at a high level, recording a Y-o-Y increase of 11.6% in Q4 2025 and contributing 7.4 percentage points to overall economic growth (Figure 3.B.4). The sustained strength of private consumption is underpinned by robust income growth in the private sector and persistently elevated household credit demand. Gross investment grew by 10.1% Y-o-Y in Q4 2025, supported by both private (real estate) and public (infrastructure) investment (Figure 3.B.5). Given the significant role of the construction sector in capital accumulation, its strong performance may point to a broader revival of investment activity. At the same time, persistent declines in imports of capital goods may suggest that investment in other sectors remains relatively subdued.

Uncertainty regarding the outlook for domestic demand remains. On the one hand, demand may expand, supported by the drawdown of household savings accumulated in recent years and continued credit growth, alongside the gradual easing of lending conditions: These factors could further stimulate demand and amplify inflationary pressures. On the other hand, relatively weak growth in certain sectors, declining imports of capital goods, and a stabilization in labor market conditions point to a more subdued demand environment. In addition, rising geopolitical and regional uncertainties, if prolonged, could restrain private spending, affecting both consumption and investment. Conversely, continued improvements in Armenia–Azerbaijan relations and the potential reopening of regional transport links could bolster the investment climate and support overall economic activity.

Uncertainty remains regarding the number of Armenian labor migrants in Russia and the real volume of remittances to Armenia. Although the growth of remittances has moderated somewhat in recent months, it remains close to historical average levels (Figure 3.B.6). At the same time, given the strong economic growth in Armenia in recent years and the substantial rise in household incomes, the role of non-commercial remittances in supporting private demand has diminished significantly. High uncertainty surrounding Russia's medium-term economic outlook, coupled with tighter migration policies, could further restrain seasonal migration flows and reduce remittance inflows, potentially affecting labor supply in Armenia and contributing to deflationary pressures. Conversely, the recent appreciation of the ruble and the resulting increase in relative wages could support a renewed expansion of these flows.

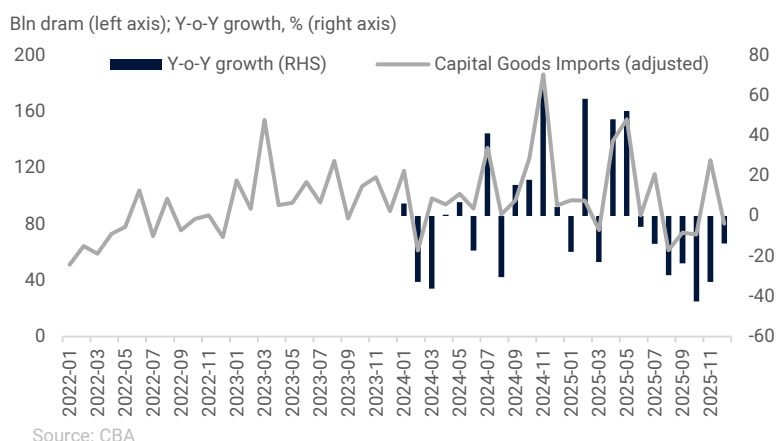
Strong growth in private consumption may indicate the presence of excess demand in the economy

Figure 3.B.4: Contribution to Real GDP Growth by Expenditure Approach



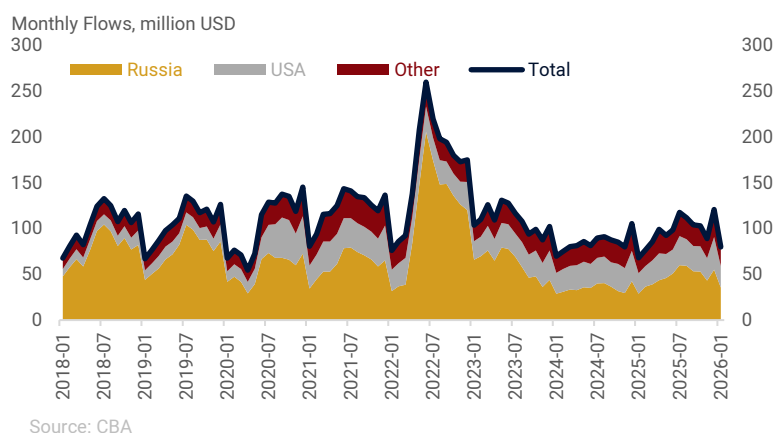
Strong investment growth alongside a slowdown in capital goods imports creates uncertainty regarding the investment climate, activity interpretation, and their medium-term outlook

Figure 3.B.5: Capital goods imports



The outlook for remittances to Armenia remains uncertain, given developments in the Russian economy and migration policies

Figure 3.B.6: Inflow of Non-Commercial Transfers to Armenia by Source Country



External Trade and Demand

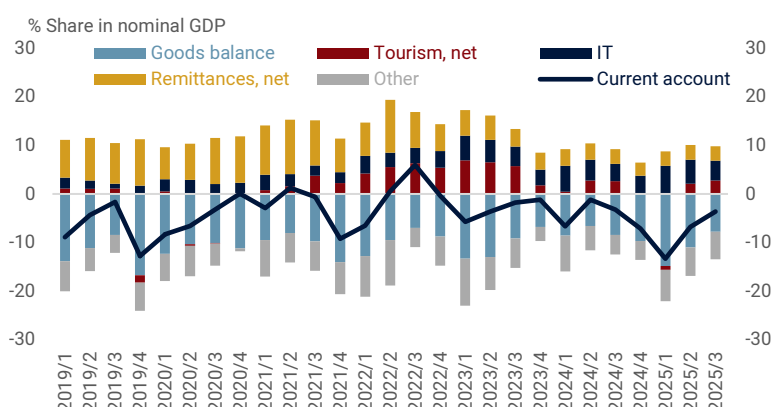
During January–September 2025, the current account deficit widened relative to the same period in the previous year, primarily reflecting the gradual neutralization of non-structural factors, even as these factors continued to contribute positively. At the same time, external demand for Armenia’s traditional export goods remained robust. The strength of external demand was reflected in the accelerated growth of tourism inflows and in higher exports of domestically produced goods and services. Exports of IT services remained elevated, accounting for 4.1% of GDP in Q3 2025, while financial services exports reached 2.0% of GDP. Nevertheless, uncertainty surrounding the outlook for external demand is shaped by geopolitical developments and risks related to Russia’s economic prospects. Given Russia’s substantial role in Armenia’s trade (approximately 40% of exports), a further weakening of demand in the Russian economy could negatively affect both trade and tourism inflows over the medium term.

The current account deficit-to-GDP ratio continued to deteriorate in 2025, while uncertainty around its equilibrium level has increased significantly. In particular, amid the recent expansion in economic openness, deeper integration with international capital markets, and a potential decline in the country risk premium, the equilibrium level of the current account deficit may have increased further. Strong capital inflows, alongside associated pressures for currency appreciation amid a widening current account deficit, further support this observation. On the other hand, the observed deficit may also reflect strong domestic demand, driven by the rapid spending of household savings accumulated in previous years. In this scenario, the current account deficit could exceed its equilibrium level. Conversely, as domestic demand gradually normalizes, the current account-to-GDP ratio is expected to improve, moving closer to pre-COVID levels.

Views differ regarding the fundamental level of the real exchange rate. One perspective holds that, since 2022, the appreciation of the real effective exchange rate reflects substantial gains in productivity and potential output, indicating a structurally stronger economy with expanded long-term export and production capacity. This implies a higher fundamental real exchange rate and a relatively lower equilibrium current account deficit. Conversely, if recent growth has been largely cyclical, the real exchange rate may be temporarily overvalued, with any adjustment likely reflected in a correction of the current account deficit. At the same time, if recent capital inflows are considered stable, the equilibrium deficit could be higher, suggesting that current developments point to only a minimal deviation from equilibrium.

The current account deficit-to-GDP ratio continued to deteriorate in 2025, while uncertainty regarding its equilibrium level increased significantly

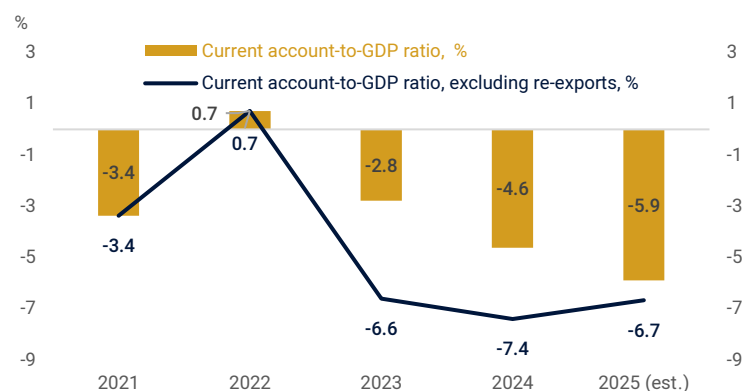
Figure 3.B.7: Current Account



Source: Statistical Committee of the Republic of Armenia; CBA

The widening of the current account deficit may reflect both a shift in its equilibrium level, amid capital inflows, and an expansion of domestic demand.

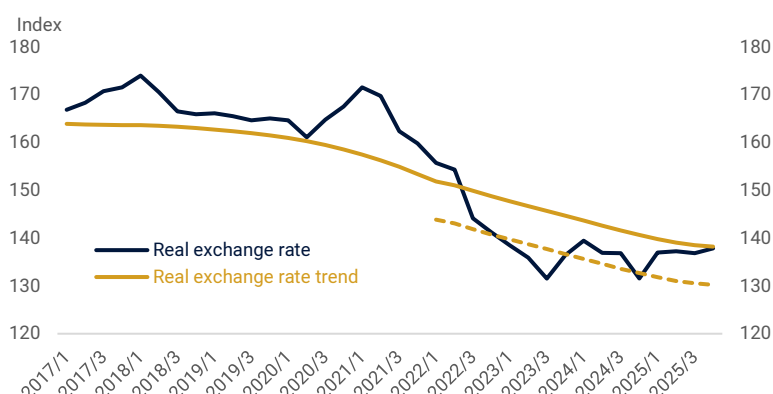
Figure 3.B.7.1: Current account-to-GDP ratio



Source: CBA

Uncertainty regarding the cyclical position of the real exchange rate persists

Figure 3.B.8: Real Effective Exchange Rate and Trend for AMD weighted against USD, EUR and RUB



Source: CBA

Fiscal Policy

Government tax revenues in 2025 increased by about 14.0% compared with the previous year, achieving roughly 100.2% of the target established in the 2025 budget law, in part due to higher-than-anticipated economic growth. As a result, the tax revenue-to-GDP ratio stood at 24.1%, slightly below the planned 25%. On the expenditure side, government spending was undershot, amounting to 96.4% of the annual program, while capital expenditures reached around 89.3%, or 6.1% of GDP, compared with the planned 6.7%. Consequently, in 2025, fiscal policy exerted a significantly weaker, and slightly restraining, impact on aggregate demand than previously estimated.

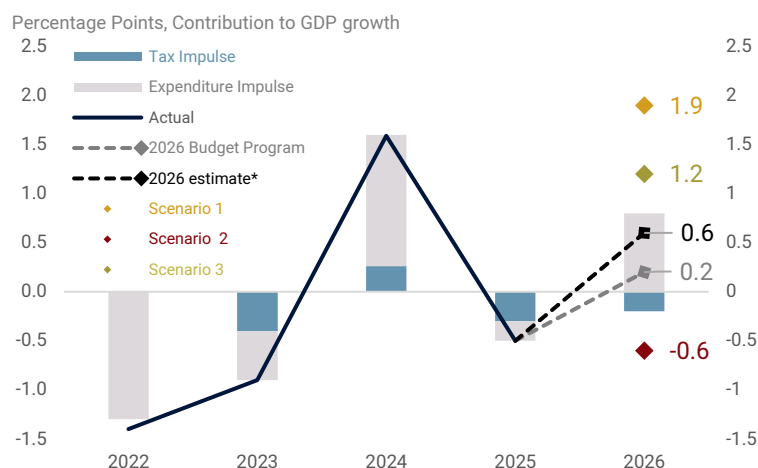
Following strong tax revenue growth last year, uncertainty over fiscal policy's influence on demand largely reflects potential tightening in tax administration during growth stabilization. (Figure 3.B.9, Scenario 1). Under this scenario, any shortfall in tax revenues, assuming full execution of planned expenditures, could contribute to a more expansionary fiscal stance.

In 2025, due to underspending in the government budget and significantly higher-than-expected economic growth, the budget deficit stood at 3.7% of GDP, compared with the planned 5.5%, while government debt as a share of GDP declined to 47.3%. While underspending on capital expenditures can ease the public debt burden and help lower the country risk premium, it may also limit the medium-term growth of the economy's potential. In this context, given the composition of capital expenditures this year, past execution performance, and limited implementation capacity, risks persist of underperformance in capital spending and, consequently, a weaker fiscal policy impact on aggregate demand (Figure 3.B.9, Scenario 2).

On the other hand, a new and significant source of uncertainty is the increase in social spending this year. This reflects both the unplanned rise in pensions and benefits since early April, and the financing required for the introduction of the universal health insurance system, primarily due to restrained demand for certain health services (for further details, see Box 1).

Taking into account the increase in pensions and other social payments, the impact of fiscal policy on aggregate demand in 2026 is expected to be more expansionary

Figure 3.B.9: Scenarios for the Impact of Fiscal Policy on Aggregate Demand in 2025-26



Source: Ministry of Finance; CBA calculations

*Includes pension and benefit increases from April 2026

Scenario 1. Limited capacity in tax administration in the context of a possible adjustment in economic growth.

Scenario 2. Full execution of the tax revenue program, but under constraints on the capacity to implement large-scale capital expenditures, resulting in underperformance in capital spending in line with past trends.

Scenario 3. Overspending on healthcare, assuming full execution of the tax revenue program.

Box 1. Short-Term Inflationary Impacts of Universal Health Insurance and Higher Social Spending in Armenia

The introduction of a universal health insurance system in January 2026, together with unanticipated increases in pensions and social benefits from April 2026, have significantly increased the inflationary risks associated with fiscal policy. These programs imply a substantial fiscal commitment, extending through the current year and into subsequent years. Nevertheless, there is considerable uncertainty regarding the overall macroeconomic impact of these measures, driven by both the mechanisms of expenditure financing and the behavioral responses of households and businesses. In this context, to ensure the commitment to price stability, it is important to assess potential scenarios regarding the channels and magnitude of possible acceleration in aggregate demand, inflation, and inflation expectations from the perspective of a potential monetary policy response.

Thus, the increase in pensions, benefits, and other social expenditures adopted by the Government on March 5, 2026, implies spending of approximately AMD 80 billion in 2026, equivalent to about 0.6–0.8% of GDP. Nevertheless, in terms of the impact on aggregate demand, it is important to assess the potential sources of financing for these expenditures. Overall, two main financing channels can be identified (Table B.1.1).

Indeed, on the one hand, considering the higher-than-expected economic growth recorded in 2025, the potential overperformance of the 2026 tax revenue program, and the availability of reserve funds, it is likely that implementing the above-mentioned expenditures will not lead to a widening of the deficit or a higher trajectory of government debt. In this case, the additional impact of these expenditures on aggregate demand and inflation would be relatively modest, estimated at approximately 0.5 and 0.1 percentage points, respectively.

Conversely, considering that 2025 growth was concentrated in relatively low-taxable subsectors, along with the strong revenue growth already planned under the 2026 Budget Law, fiscal deficit risks are present. In this scenario, the additional expenditures would be financed through new debt issuance. Consequently, the increase in spending would have a more expansionary effect on aggregate demand. Overall, according to the Central Bank's estimates, the impact on inflation could amount to around 0.1–0.2 percentage points. However, this would also depend on prevailing demand conditions and the general inflationary environment in the economy. Additionally, depending on how market participants may price the trajectory of rising debt, moderate effects on risk premiums and term spreads could emerge, reflected in higher interest rates over the medium to long term.

From January 2026, the practical phase of the Universal Health Insurance (UHI) system was launched. The program is being implemented gradually, expanding the population covered and the scope of insurance while correspondingly increasing financing from the state budget. According to the 2026 Budget Program, the first phase will cover children under 18, individuals aged 65 and older, employed persons earning more than AMD 200,000, as well as individual entrepreneurs and notaries with turnovers of AMD 2.4 million or more. Overall, approximately 1.6 million people—or more than 50% of Armenia's population—will be included in the insurance system during the initial phase. The introduction of the program entails an increase in public health expenditures, rising from AMD 168.1 billion in 2025 to AMD 213.1 billion in 2026, and reaching around AMD 250 billion¹ in subsequent years. As a result, the share of health expenditures in GDP, according to estimates by the Ministry of Finance of Armenia, is expected to increase from 1.5% to approximately 1.8% in the coming years.

International experience shows that countries adopt various financing and price-regulation mechanisms when implementing universal health insurance systems, aiming to ensure stable funding and to limit the rapid growth of healthcare expenditures. In some countries, insurance is financed through dedicated taxes or mandatory contributions (Lithuania, South Korea, Estonia), while in others it is funded by raising general contribution rates (Georgia, Latvia, Thailand). The latter approach can enhance the flexibility of public expenditure management and, to some extent, constrain potential excess demand for healthcare services.²

Table B.1.1. Impact of the Increase in Pensions, Benefits, and Other Social Expenditures on Government Debt

AMD Billion		2026*	2027	2028
Additional Annual Expenditure, billion AMD		~80	~110	~110
New Debt Issuance	Deficit Increase	50-90	114	114
	Debt/GDP**, %	51.0 (+0.5-0.9)	52.3 (+0.9)	52.3 (+0.8)
Financing through revenue growth and other expenditure items	Deficit Increase	0.0	0.0	0.0
	Debt/GDP**, %	50.6 (0.0)	51.4 (0.0)	51.5 (0.0)

Source: RA Ministry of Finance, CBA calculations

Notes:

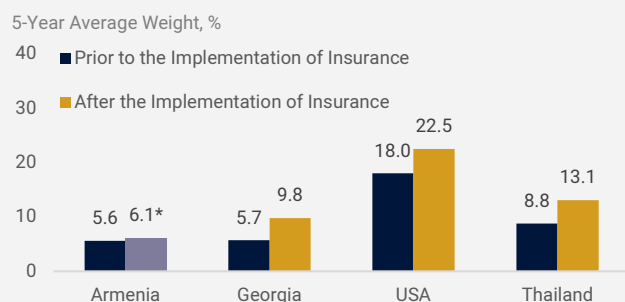
*The increase in pensions is expected to take effect in April 2026; therefore, the additional expenditure is estimated for nine months.

**The figures in parentheses indicate the deviation from the budget plan, based on actual economic growth in 2025.

¹ Of which approximately 130 billion AMD is allocated specifically to the implementation of universal health insurance (UHI)

² European Observatory on Health Systems and Policies, *Health Systems in Action: Insights*, 2024, 2025 (international experience was studied based on several countries, including Georgia, the United States, Estonia, Latvia, and Lithuania)

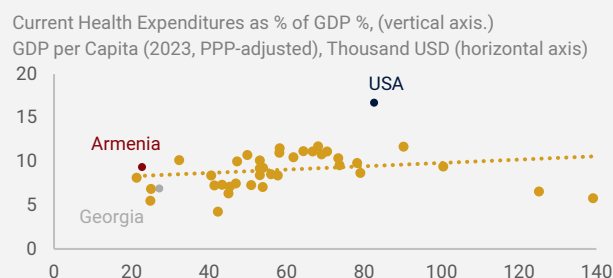
Figure B.1.1. Health Expenditures in the State Budget as a Share of Total Public Spending



Source: World Bank, Peterson-KFF Health System Tracker

*According to the 2026 budget plan

Figure B.1.2. Comparison of Total Healthcare Spending Across Countries



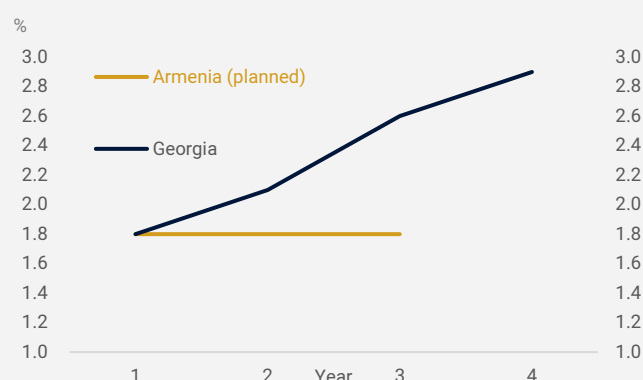
At the same time, price-regulation mechanisms for healthcare services also play an important role. In some countries, reference prices or service price caps are used to control the growth of healthcare expenditures. However, under price-capping conditions, informal payments may occasionally rise, driven by individuals' desire to avoid lengthy paperwork, access higher-quality care, or bypass queues, as well as by relative price gaps not only between the public and private healthcare sectors but also across certain goods and services. Conversely, in countries with limited or no state price regulation, healthcare expenditure growth is often higher (e.g., the United States), which, unlike the previously discussed cases, can result in larger increases in public spending. Thus, international experience demonstrates that the macroeconomic impacts of introducing a universal health insurance system depend heavily both on the chosen financing model and on the mechanisms for regulating healthcare service prices.

To understand the macroeconomic implications of implementing the UHI system in Armenia, it is important to assess the potential transmission channels through which this measure could affect aggregate demand and the overall inflationary environment in the economy.

Although the UHI program is being implemented gradually, the population covered in the first phase is already substantial—around 1.6 million people, or 53% of the total population. While most groups included have previously received state-financed healthcare services, the expansion of the insured population and, in particular, of coverage is considerable compared with experiences in other countries that have introduced similar systems, whereas the planned additional financing is relatively modest. Under these conditions, and taking into account several other factors, there are risks of exceeding the planned levels of healthcare expenditures.

Of course, in different countries, the outcomes in terms of increases in public spending can vary significantly depending on the chosen model. Nevertheless, experiences from several countries that have adopted different healthcare financing mechanisms show that, on average, the introduction of universal health insurance increases the share of healthcare expenditures in total public spending by about 4–5 percentage points (Figure B.2.1). Considering also that per capita healthcare spending relative to income in Armenia is generally higher not only compared with countries at similar income levels but also with certain developed countries (Figure B.1.2), it can be concluded that the increase in the share of public healthcare spending may be even higher in Armenia following the introduction of the UHI system. Georgia's experience is also noteworthy, given potential similarities in the structure and size of the economies, as well as possible behavioral parallels across the populations. In Georgia, health insurance was introduced more gradually and covered a smaller population than planned in Armenia. Even under these conditions, public healthcare spending in Georgia increased significantly, reaching around 3% of GDP. In other words, despite a more limited coverage scope and population inclusion, and a gradual implementation plan, the share of public healthcare spending in GDP increased more than what is currently envisaged for Armenia (Figure B.1.3).³

Figure B.1.3. Actual Growth of Public Health Expenditure-to-GDP in Georgia Following the Introduction of Universal Health Insurance, and the Targeted Level in Armenia



³ World Bank, *Georgia Public Expenditure Review: Building a Sustainable Future*, 2017

In summary, it can be concluded that there are significant risks of exceeding the planned expenditures in implementing universal health insurance (Figure 3.B.9, Scenario 3). Given the limited capacity to expand the healthcare system, this could lead to a substantial increase in healthcare service prices. It should also be noted that, since the launch of the insurance program, a noticeable rise in healthcare service prices has already been observed. Specifically, healthcare inflation was 0.7% M-o-M in January 2026, 2.0% in February, and in cumulative terms, 2.7% in February compared with December 2025 (Table B.1.2). It should be noted that the monetary policy stance of central banks in such situations is not straightforward. The appropriate response depends heavily on initial economic conditions, the extent to which reforms expand aggregate demand and affect inflation, and particularly on the degree to which rising healthcare service prices may spill over into higher wages and prices in other sectors (see Figure B.2.4).

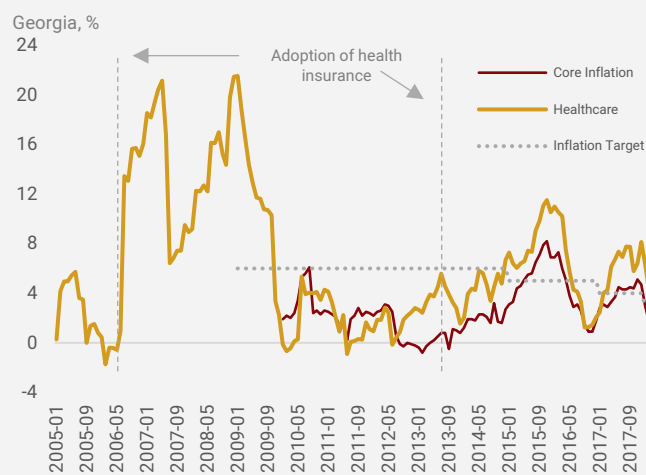
Table B.1.2. Recent Rise in Prices for Certain Healthcare Services

Healthcare services:	Jan		Feb	
	M-o-M	Y-o-Y	M-o-M	Y-o-Y
Physicians	1.2	1.5	4.3	5.2
Medical Support Staff	0.9	2.8	5.7	7.7
Hospitals	1.2	2.9	2.8	5.2
Medical services	1.2	2.8	3.4	5.6
Endocrinological	3.8	5.7	5.9	10.2
Cardiological	1.7	3	1.1	3.1

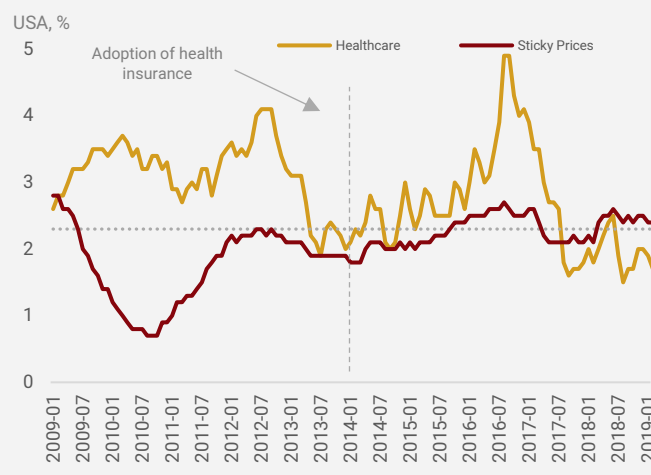
Source: Statistical Committee of the Republic of Armenia

For instance, when structural shifts occur or one-off price adjustments from the supply side take place, the response from the central bank is typically limited. On the other hand, if the increase in healthcare service prices is substantial and persistent, there may be risks of upward de-anchoring of inflation expectations. In such a scenario, a forward-looking monetary policy should respond decisively and appropriately to contain secondary effects and ensure the achievement of price stability over the medium term.

Figure B.1.4. Inflation and Policy Interest Rates in Georgia and the United States



Source: National Statistics Office of Georgia, National Bank of Georgia, IMF



Source: Federal Reserve Bank of St. Louis, Federal Reserve Bank of Atlanta

It should also be noted that, in addition to the fiscal channels discussed above, the introduction of the UHI system can affect aggregate demand through changes in households' disposable income. Specifically, for households that previously made out-of-pocket payments for healthcare services, part of their disposable resources may become available for other consumption after the implementation of insurance. In Armenia, out-of-pocket payments for healthcare are relatively high—accounting for about 80% of total health expenditures—and, according to Central Bank estimates, amount to around AMD 480 billion, or approximately AMD 155,000 per capita. Under the UHI system, changes in the tax burden for different population groups—particularly due to the reduction of stamp duty payments alongside the introduction of health insurance contributions—could generate additional spending potential of about AMD 63 billion, equivalent to roughly 0.5–0.6% of GDP. These additional resources could be directed toward the consumption of other goods and services, thereby supporting an expansion of aggregate demand.

Nevertheless, the uncertainties surrounding the assessments of these impacts are considerably high, particularly due to the speed of the implementation and rollout of the UHI, the flexibility of healthcare service supply, as well as the potential behavioral responses of households.

C. Labor Market and Inflation

Labor Supply and Demand

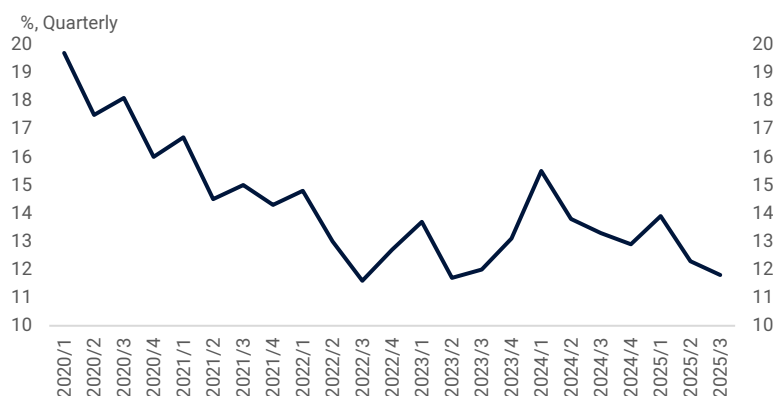
The unemployment rate in Armenia gradually declined over 2025, remaining at a historically low level, standing at 11.8% in Q3. According to labor force survey results, in Q3 2025 the labor force increased compared with the same quarter of the previous year; however, the additional labor was mostly classified as economically inactive, while the number of employed persons declined slightly. Although this may suggest subdued labor demand in the economy, it seems at odds with the robust economic growth and stable wage gains recorded in the second half of the year. On the other hand, official data from the State Revenue Committee indicate that the number of registered employees continued to grow at a steady pace, signaling that the demand for labor remains strong. Nevertheless, it should be noted that the increase in registered employment may also reflect structural shifts in the economy, representing a transition of labor from informal to formal employment.

Wage growth stabilized at around 5–6% Y-o-Y, accompanied by a notable reduction in its concentration across sectors. The current level of unemployment may partially reflect excess demand in the labor market, particularly as the decline in unemployment during the second half of 2025 may have temporarily pushed it below the estimated natural rate, creating potential pressures on wages and inflation 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, currently estimated at 11–13%. Contributing factors may include the expansion of productivity and export capacity since 2022, the integration and long-term retention of highly skilled labor, improvements in the matching of jobs and workers through the development of digital platforms, and structural characteristics of recent economic growth.

Tighter migration policies in Russia are influencing seasonal migration trends, participation in the Armenian labor market, and the integration of the economically inactive population into the workforce. On one hand, heightened uncertainty regarding Russia's economic growth outlook, coupled with stricter migration regulations, may restrain outward labor flows, increasing domestic labor supply and potentially generating downward wage pressures.

Despite the continued decline in the unemployment rate, certain developments suggest that significant imbalances in the labor market no longer persist.

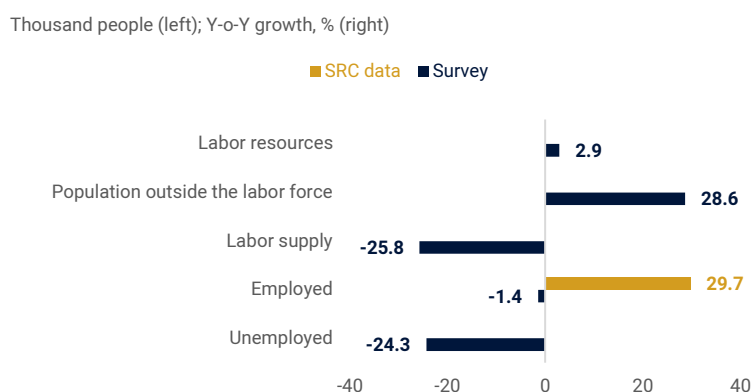
Figure 3.C.1: Unemployment Rate, Armenia



Source: Statistical Committee of the Republic of Armenia

The labor force survey findings diverge from official State Revenue Committee data, giving rise to multiple interpretations

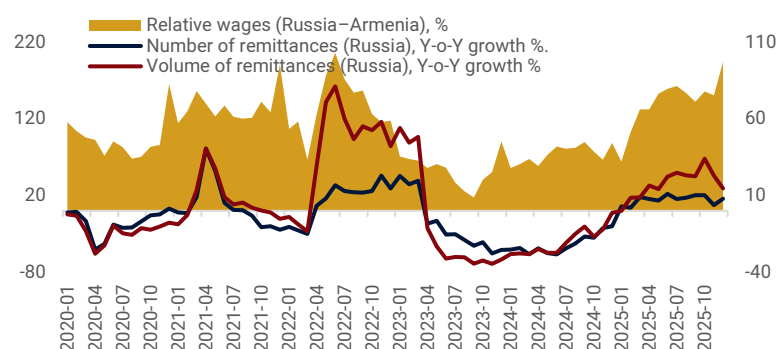
Figure 3.C.2: Change in Labor Resources, 2025Q3/2024Q3



Source: State Revenue Committee (SRC) of Armenia

The current level of labor migration to Russia and its outlook remain a key source of uncertainty for the future trajectory of labor supply in Armenia

Figure 3.C.3: Non-commercial remittances from Russia and the wage gap between Russia and Armenia in the construction sector



Source: CBA

On the other hand, remittances from Russia to Armenia for non-commercial purposes have increased somewhat in recent months (Figure 3.G.3), suggesting that the ongoing ruble appreciation and persistent labor shortages in Russia have outweighed factors constraining migration flows, thereby supporting the growth of labor movements.

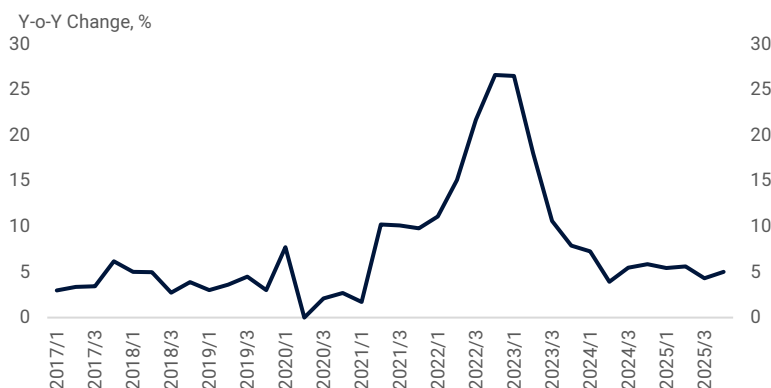
In summary, despite mixed signals from the labor market, certain developments suggest that imbalances in the labor market have eased considerably in recent quarters. Looking ahead, the main uncertainty concerns the future trajectory of labor supply, particularly in the context of expanding demand conditions. At the same time, a potential increase in outward labor flows could tighten labor market conditions, thereby creating inflationary risks.

Wage Growth

Private nominal wage growth accelerated slightly in Q4 2025, reaching 5.0% Y-o-Y (Figure 3.C.4). In this context, recent developments in wage growth allow for differing interpretations. On one hand, the stabilization of quarterly wage growth at around 5% in December 2025 may signal some moderation in demand conditions in the economy. On the other hand, the decline in sectoral concentration of wage growth and the acceleration of wages in the services sector (excluding financial and ICT sectors) in Q4—rising to 7.7% Y-o-Y in December—may indicate relatively strong demand conditions in the economy.

The stabilization of wage growth at 5–6% may indicate more balanced conditions in the labor market and the absence of excessive inflationary pressures.

Figure 3.C.4: Nominal Private Wage Growth, Armenia



Source: Central Bank of Armenia

Inflation

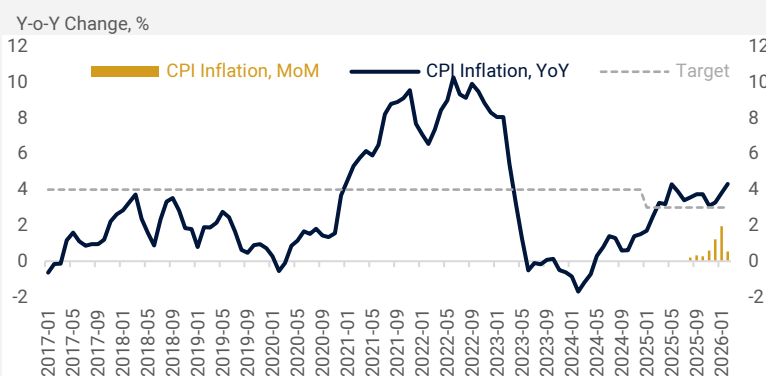
In the first quarter of 2026, inflation in Armenia continued to rise moderately, reaching around 0.5% M-o-M in February and 4.3% Y-o-Y. This increase was mainly driven by core inflation, which accelerated to 4.7% Y-o-Y. Core inflation reflects price pressures transmitted from both imported and domestically produced non-seasonal food products, driven in recent quarters by global inflationary pressures and certain domestic supply-side factors. Looking ahead, the main uncertainties relate to the persistence of recent price declines in global food markets and, in this context, the pace and magnitude of domestic price adjustments. In Armenia, rising inflation could be further influenced by significant increases in energy prices amid heightened tensions in the Middle East, as well as disruptions in supply chains and changes in trade routes. The extent of these effects will depend on the duration and scale of the conflict. It should also be noted that, despite identifiable supply-side factors, the acceleration in core inflation in recent months has been relatively broad-based across product groups, indicating the presence of elevated demand conditions. The acceleration in core inflation has also been supported by rising service prices, which, however, were largely driven by increases in healthcare services. Excluding healthcare, service price inflation neared the target, at 2.9% Y-o-Y in February. Non-traded sticky price inflation, which largely reflects demand conditions and inflation expectations, also remained below the target, reaching 2.6% Y-o-Y in February, excluding healthcare. Nonetheless, it should be noted that sticky prices typically respond more slowly to expansions or contractions in demand, while, for example, core inflation has recently accelerated significantly, reaching an annualized Q-o-Q rate of 5.9% in February 2026.

Inflation Expectations

According to the CBA's household inflation expectations survey, uncertainty increased slightly in Q1 2026, with 47% of respondents expressing uncertainty, up from 43% in the previous quarter. This rise partly reflects a decline in low inflation expectations. On one hand, these developments capture public perceptions of elevated price growth for certain food products over the past year and heightened geopolitical uncertainty. On the other hand, despite some acceleration in February, non-traded goods with sticky prices and private sector wages have continued to evolve around long-term stable levels, indicating that inflation expectations remain broadly aligned with the target.

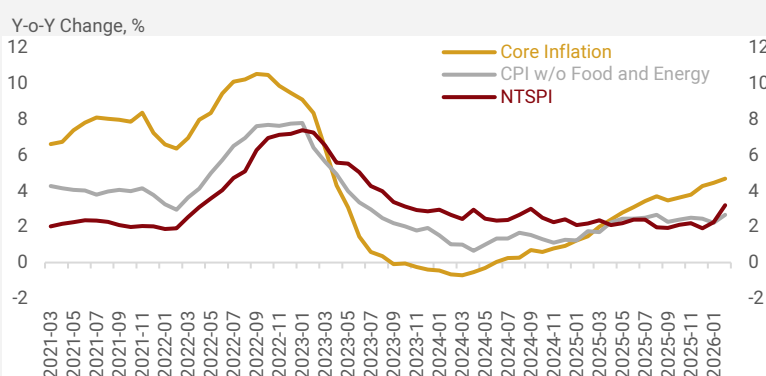
Inflation continued to accelerate, primarily driven by pressures transmitted from the global economy and certain domestic supply-side factors

Figure 3.C.5: Y-o-Y CPI Inflation and the Target, Armenia



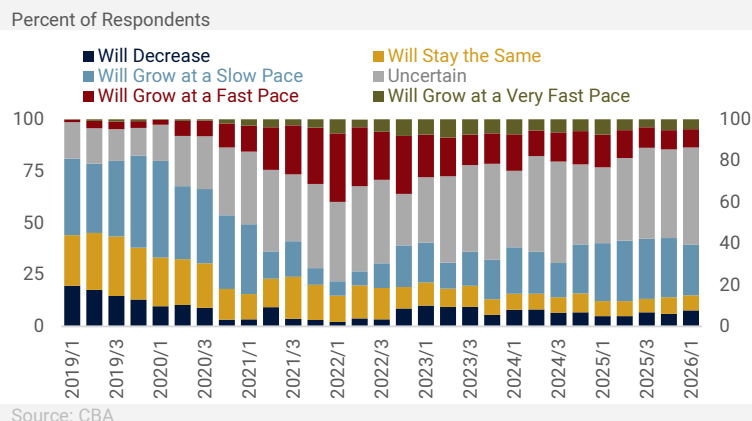
The year-on-year dynamics of core inflation indicators send mixed signals regarding demand conditions and inflation expectations in the economy

Figure 3.C.6: Underlying Inflation Measures, Armenia



Uncertainty in household inflation expectations has risen, reflecting recent public perceptions of price developments for certain food products

Figure 3.C.7: Survey on Households' Inflation Expectations, Armenia



Box 2. Potential Impacts of the Escalating Situation in the Middle East on Armenia's Economy

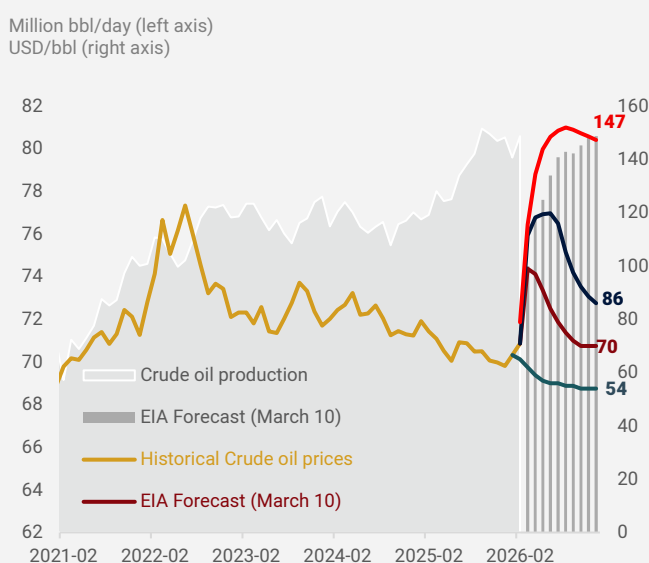
The potential economic impact of rising tensions in the Middle East on Armenia is primarily assessed through several external transmission channels, notably possible disruptions in international commodity—particularly oil—markets, trade and logistics chains, and the broader effects of heightened global and regional geopolitical uncertainty. It should be noted that there is considerable uncertainty regarding the magnitude and speed of these impacts, which largely depend on the duration of the conflict, its potential geographical scope, and the extent of its effects on value chains and regional trade routes.

Although the risks of potential disruptions in fuel supply are limited due to Armenia's minimal direct dependence on Iran, prolonged maintenance of international oil prices at their current elevated levels might transmit to domestic prices. Since the onset of the conflict, its impact has significantly expanded beyond the directly involved parties, affecting regional civil infrastructure, air and land freight transport, and, most importantly, causing disruptions in global fuel supply and trade.

It should be noted that countries in the Middle East account for approximately 20–25% of global oil and petroleum product supplies, of which around 15% passes through the Strait of Hormuz, whose current accessibility is significantly restricted.⁴ In response to these developments, on March 11, the International Energy Agency (IEA) announced the planned release of roughly 400 million barrels of oil from member countries' reserves in the near term, an unprecedented volume in the agency's history. Nevertheless, oil prices remain elevated at around \$95–105 per barrel, roughly 50–60% above the start-of-year level. It should also be noted that in its monthly report published on March 12, the IEA significantly raised its oil price forecast for 2026. According to these projections, after a short-term increase, oil prices are expected to decline by year-end to around \$70 per barrel (see Figure B.2.1). This implies an approximate 40% increase in the average oil price for 2026 compared with previous forecasts. Under this scenario, according to current assessments by the Central Bank of Armenia, the direct transmission of oil price increases—primarily driven by rising fuel costs—would contribute roughly 0.6–0.8 percentage points to overall inflation in the Armenian economy. Nevertheless, under scenarios involving a prolonged conflict (Figure B.2.1, Scenario 1) and/or, in particular, damage to energy infrastructure in regional countries (Figure B.2.1, Scenario 2), both the magnitude of oil price increases and the speed of their post-conflict normalization could differ significantly (Figure B.2.1).

Iran also serves as an important transit route for goods to Armenia. Currently, there have been no clear manifestations of systemic disruptions in Armenian-Iranian trade and logistics chains; however, the associated risks have evidently increased. Various estimates suggest that around 30–40% of Armenia's goods trade is conducted with Middle Eastern and several Asian countries, for which this route is often the shortest and most cost-efficient. In the event of an escalation of the conflict, potential rerouting of freight transport could lead to a significant rise in costs. Based on current assessments by the Central Bank of Armenia, in scenarios involving logistical rerouting—such as using the port of Poti in Georgia instead of Iranian ports—the resulting import price pressures are estimated at an additional 0.5–0.8 percentage points. It should also be noted that some Armenian goods (foodstuffs, tobacco, etc.) have final consumption markets in Middle Eastern countries (Iran, Iraq, UAE, etc.), and limitations on land connectivity and export challenges with these countries could, conversely, produce mild disinflationary effects within the domestic economy.

Figure B.2.1. Oil Market Outlook Scenarios



Source: Energy Information Administration (EIA), Federal Reserve Bank of St. Louis

Note: In constructing the scenarios, the authors relied on the elasticity estimates from Aretzki, Jakab, Laxton, Matsumoto, Nurbekyan, and Wang (2017), taking into account current market conditions and certain structural changes that have occurred over the past decade.

⁴ <https://www.iea.org/reports/oil-market-report-march-2026#overview>

On the other hand, Iran also holds a notable share in Armenia's import structure, accounting for approximately 7–8% in recent years (Iran's share in imports excluding re-exports). A significant portion of this, however, consists of natural gas under the electricity transmission agreement. Nevertheless, the main consumer goods imported from Iran include primarily agricultural products (fruits, vegetables) as well as household and consumer items. Due to current export restrictions on food products from Iran, importers will need to find alternative supply sources, which could exert some upward pressure on prices—particularly in the fruits and vegetables category. Nevertheless, these import markets are fairly diversified, and according to the CBA's estimates, changing supply sources is expected to have only a minor inflationary effect of around 0.1 percentage points. Of course, for certain food and agricultural products, the impact could be more significant. In summary, the combined impact of the three primary channels on Armenia's overall inflation is estimated at an additional 1.2–1.7 percentage points (Table B.2.1).

Table B.2.1. Potential Primary Impact of Escalating Middle East Conflict on Domestic Prices in Armenia

Impact channel	Impact on annual inflation, percentage points
A 40% average rise in oil prices in 2026	0.6-0.8
Utilization of an alternative import route	0.5-0.8
Substitution of Iran-sourced food imports	0.1
Total impact	1.2 – 1.7

Source: CBA estimates

It should be noted that the CBA assesses the regional situation from the perspective of multiple scenario developments. If the conflict remains limited in scope (current situation) and short in duration, its impact on Armenia's economy is likely to manifest mainly through moderate increases in international commodity prices and temporary rises in logistics costs. In the case of a prolonged conflict and/or expanded scope, several risk scenarios could materialize, including a reassessment of regional risks in financial markets, full disruptions of trade and transit chains, changes in tourism and migration flows, and other developments. At the same time, developments in Armenia's key partner economies, as well as the global economy and international food markets, remain important. In this context, it should be acknowledged that inflationary pressures transmitted from the external sector to Armenia could increase significantly in the near term. Nevertheless, their magnitude will depend both on conditions in partner countries and on the response of the Central Bank of Armenia through monetary policy measures and appropriate adjustments in monetary conditions.

D. Financial Markets

Market Expectations of Policy Rates

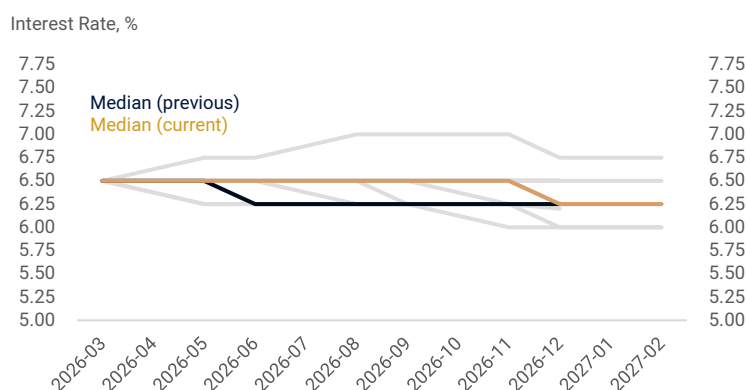
According to the latest survey of financial market participants conducted by the Central Bank of Armenia on March 11, 2026, respondents on average expect the policy rate to remain at its current level for a slightly extended period, followed by a moderate reduction. This aligns with the Q1 macro survey, where participants also anticipate a gradual decline in the policy rate over the medium term (around 6.25%; see Insert 4). Market expectations suggest that economic growth and inflation will stabilize around long-term sustainable levels and the inflation target over the medium term. In recent months, yields across the curve have declined significantly, reflecting several factors: a) Improved risk sentiment toward emerging markets and Armenia-specific factors that have lowered the country risk premium; b) Structural, long-term factors, including reduced long-term inflation expectations following the lower inflation target, improved perceptions of the government debt trajectory, expanded export-oriented capacities, and formation of fundamental exchange rate expectations; c) Gradual transmission of monetary policy; and d) Non-structural factors, such as increased domestic liquidity, notably after the reduction of the required reserve ratio.

Neutral Interest Rate

Considering the general neutrality of economic demand, labor market conditions, and the inflationary environment, the current stance of the monetary policy can be assessed to be close to neutral. However, significant uncertainty remains regarding the underlying components of the neutral interest rate. In this context, a significant expansion of US debt and deficit levels could result in a higher neutral rate there, exerting upward pressure on neutral rates in emerging markets including Armenia. Recently, spreads on Armenian foreign currency-denominated sovereign bonds have continued to decline (Figure 3.D.6), reflecting both global and Armenia-specific factors. Key uncertainty concerns the extent to which trends in emerging markets are fundamentally driven. In recent years, Armenia's export volumes and production capacity have grown faster than those of its trading partners, supporting a higher fundamental valuation of the real effective exchange rate. Moreover, the reduction of the inflation target to 3% in January 2025, combined with the prolonged stability of non-traded sticky prices, suggests a gradual decline in long-term inflation expectations, anchoring them around the target and supporting a neutral policy rate at a relatively lower level.

Most market participants expect a more prolonged maintenance of the policy rate at its current level

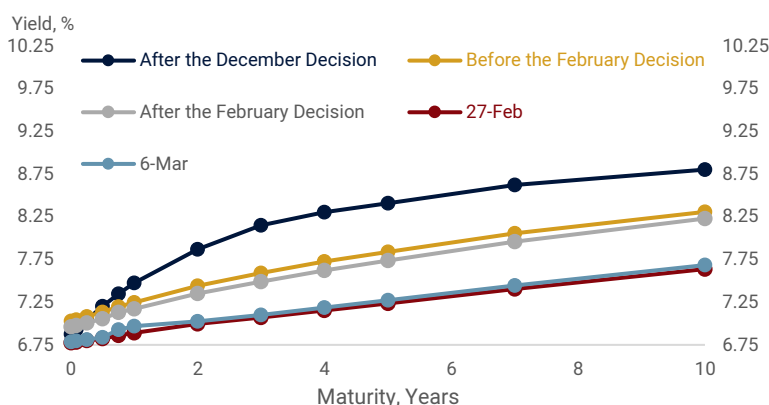
Figure 3.D.1: Financial Market Participants' Expectations of the CBA Policy Rate According to March 11, 2026 CBA Survey



Source: CBA

Yield curve has declined across all segments

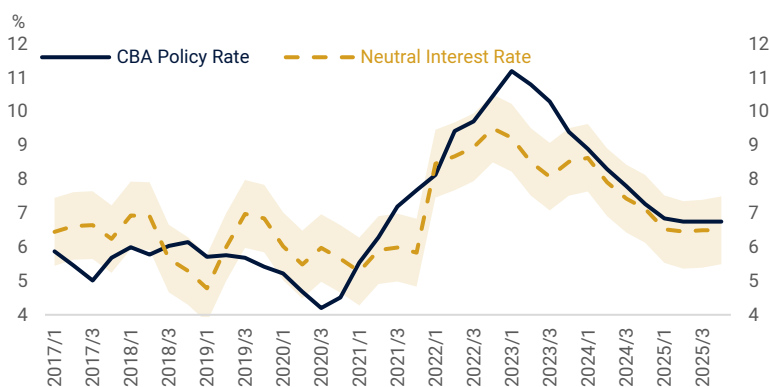
Figure 3.D.2: Yield Curve Dynamics, Armenia



Source: CBA

How Tight are Monetary Conditions?

Figure 3.D.3: CBA Policy Rate and Underlying Equilibrium Rate



Source: CBA

Bank Lending Conditions

In Q1 2026, bank lending remained at a relatively high level, with Y-o-Y growth reaching 22.0% in January, reflecting sustained high demand for credit in the economy. The continued high growth of consumer loans to households points to the potential for further expansion of domestic demand conditions. In contrast, mortgage growth has softened somewhat, the recent acceleration in real estate prices signals increased uncertainty regarding the sector's outlook. At the same time, Q4 surveys conducted by the CBA indicate that banks' expectations regarding the growth of consumer and business loan demand have moderated somewhat. Overall, business lending conditions have remained stable, while consumer lending conditions have eased slightly. In this environment, the persistence of credit growth could support sustained consumption and broader demand conditions, potentially contributing to an increase in inflationary pressures.

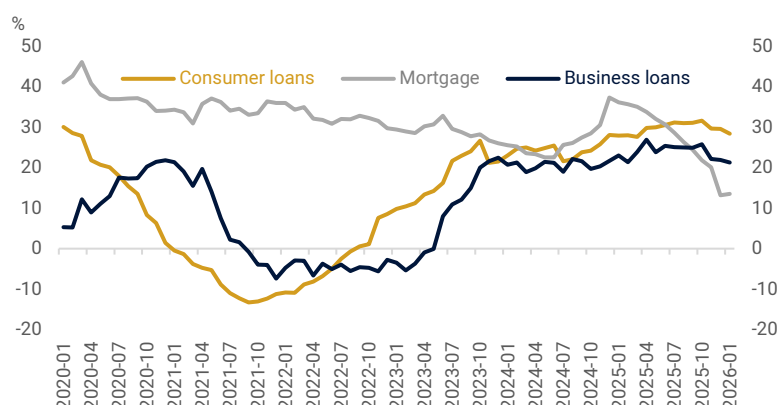
Nominal Exchange Rate

In January–February 2026, the nominal exchange rate of the Armenian dram remained relatively stable against the euro and the ruble, while also showing appreciation trends against the US dollar (Figure 3.B.5). This reflects both developments in the domestic economy and the external environment, with the resulting pressures for depreciation and appreciation being largely balanced. Looking ahead, the main risks and uncertainties are related to the trajectory of monetary policy rates in major economies, the potential for stable growth in the export and trade of goods and services from Armenia, and the continuity of capital inflows. At the same time, persistent regional uncertainties, as well as the possible presence of stronger domestic demand conditions, could lead to higher import growth and exert modest depreciation pressures.

Armenia's sovereign risk premium has declined in recent quarters in tandem with broader improvements across emerging markets as well as country-specific factors. On one hand, uncertainty related to fiscal and trade policies in developed economies has remained elevated, while on the other, structural reforms in emerging markets have contributed to improved risk sentiment toward these economies. At the same time, although developments in Armenia's risk premium have broadly followed trends observed in emerging markets, recent months have reflected the influence of domestic factors, including improved expectations regarding country security risks. In this context, the main uncertainties relate to the extent to which current trends in emerging markets are driven by long-term, fundamental factors. This, in turn, creates significant uncertainty regarding the long-term, stable level of Armenia's country risk premium and the interpretation of the neutral interest rate.

Strong and sustained credit expansion could signal heightened demand pressures within the economy

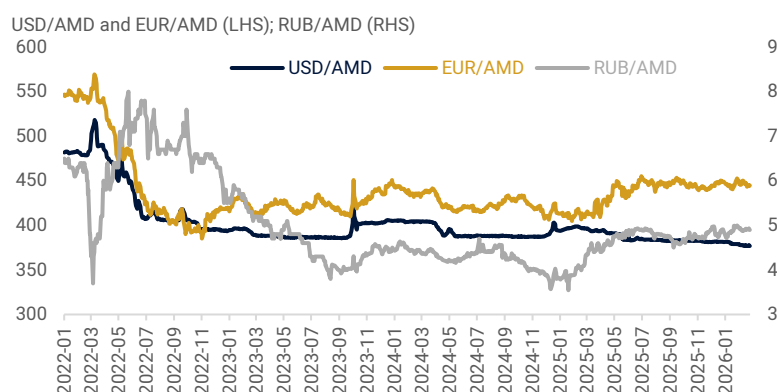
Figure. 3.D.4: Change in Total Loans Provided by Commercial Banks to Households and Businesses, Armenia



Source: CBA

Nominal exchange rate developments have reflected, on one hand, strong capital inflows and a weakening of the US dollar, and on the other hand, appreciation pressures on the euro and the ruble

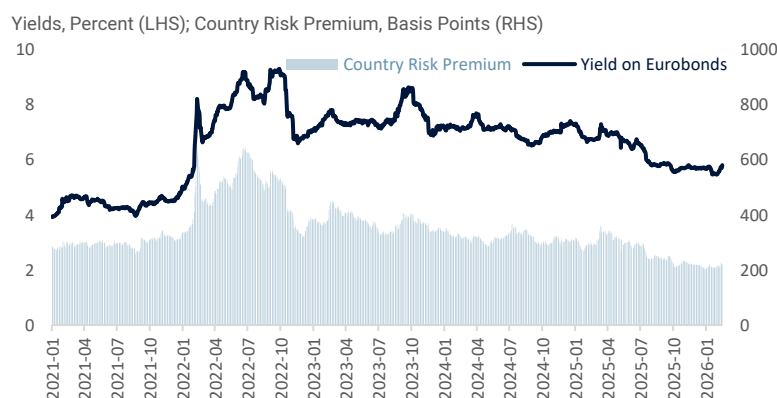
Figure. 3.D.4: Nominal Exchange Rate for AMD against USD, EUR and RUB (Lower Value means Stronger Dram)



Source: CBA

While the country risk premium continues to decline, uncertainty regarding its fundamental, sustainable level persists

Figure. 3.D.4: Yield on Armenian Eurobonds Maturing in 2031 and Estimated Country Risk Premium



Source: CBA

Box 3. Scenarios-Based Forward Guidance: The Role of Market Expectations

Approaching monetary policy through the lens of risk management under FPAS Mark II requires a different approach to the scenario-building process. Rather than treating its own central projections as the best piece of information and forcing market participants to coalesce around this singular view of unfolding economic conditions, the CBA instead utilizes market expectations for the central bank policy rate as a starting point for policy deliberations. Market expectations, by design, contain significant information about market views on current economic developments and possible behavior of monetary policy in the future economic environment.

Before the development of flexible-inflation-targeting approaches, monetary policy communication predominantly focused on direct actions like the setting of short-term policy rates. However, short-term rates are not particularly relevant for most people; longer-term interest rates tend to hold greater significance as these are the types of maturities at which households and businesses typically borrow and lend. The two principal components that make up longer-term rates are the term and risk premiums and the expected path of the policy rate. Of these two components, the expected path of the policy rate is most significant. As inflation targeting regimes were adopted, transparency in communicating a central bank's perspective and rationale became a necessary precondition for the regime's efficacy. With greater central bank clarity, financial markets gain the agility to recalibrate efficiently between policy decisions. Importantly, on decision dates, policymakers do not merely set the current policy rate; they also provide insights into their monetary policy decisions, including how the policy rate may change in the future based on different narratives, scenarios, and assumptions.

In advanced economies with well-developed financial markets (including secondary bond markets), gleaned market expectations of the future path of the policy rate is a relatively straightforward task. For countries with less developed financial markets that lack options markets, such as Armenia, the task is less straightforward. It requires synthesizing multiple approaches, without resorting to "over-modeling" and attempting to ascribe a false degree of precision that is based on unreliable or incomplete information.

Market Expectations of the Policy Rate: We synthesize three approaches. First, we take as a starting point information from the spot market for shorter-term bonds (one year and less) and perfect foresight-based inferences about the term structure of the yield curve. We recognize that data from the spot market is imperfect and cannot paint a complete (or always accurate) picture about market expectations of the policy rate. For example, bond markets experience high term premium volatility, face frequent liquidity and other shocks, and so on, making it difficult to perfectly assess which price movements result from changes in expectations versus other factors. Second, considering this issue, we therefore also conduct a quarterly macro survey of financial markets (including commercial banks, institutional investors, asset managers, and others), who provide a macro-consistent projection of inflation, growth, policy rate, and exchange rate over the medium-term horizon, along with accompanying narratives supporting these scenarios. Recognizing that economists' projections may deviate from how financial participants actually behave, we finally dovetail this approach with a high-frequency survey of policy rate expectations among dealers in commercial banks and credit organizations.

Scenarios-Based Forward Guidance: To graphically illustrate our case scenarios relative to market expectations, we rely on the following approach (see the figure below). The grey line represents the CBA's refinancing rate historically. Market expectations are depicted with a red dashed line, representing the market's assessment of the most probable trajectory of the average policy rate over the course of the next 3 years. This provides a reference point around which the illustrative Case A (orange line) and Case B (blue line) scenarios for the policy rate are constructed.

Figure B.3.1: Hypothetical Example of Case Scenarios and Market Expectations under the Prudent Risk Management Framework

Interest Rate, %



Source: CBA

E. Taxonomy of Scenarios

Purpose and Structure of the Taxonomy

The Taxonomy of Scenarios provides a comprehensive, structured assessment of the different types of risks, shocks, and sources of uncertainty that can affect the Armenian economy. It describes their potential impacts on inflation and economic environment in Armenia, as well as loosely illustrates implied monetary policy reactions by the CBA. As a structured summary of the various policy-relevant scenarios considered by the Board of the CBA, the Taxonomy presents the key issues that can impact policy decisions over a medium-term horizon in the context of a least regrets decision-making framework. The evolving Taxonomy of Scenarios is published in each quarterly MPR.

Table E.1: Taxonomy Structure

Case A-Type Considerations	Case B-Type Considerations
Expansionary Demand: Shocks result in aggregate demand rising more than aggregate supply, increasing underlying inflation. This requires an increase in the policy rate path that is sufficiently aggressive to anchor inflation and inflation expectations. Complications: credibility is fragile Output + Inflation +	Contractionary Demand: Shocks result in aggregate demand rising less than aggregate supply, decreasing underlying inflation. This requires a decrease in the policy rate path that is sufficiently aggressive to anchor inflation and inflation expectations. Complications: ELB, stuck in low inflation trap Output - Inflation -
Contractionary Supply: Nasty stagflationary shocks that require an aggressive upward adjustment in the expected path of the policy rate, resulting in a significant short-run tradeoff between inflation and other real objectives (e.g., unemployment) Complications: Hard to hit the wounded economy Output - Inflation +	Expansionary Supply: Favorable supply shock(s) reduce inflation toward the target and results in higher growth as well as lower interest rates; is a policymaker's dream. Complications: can be risky if this environment is extrapolated into the future Output + Inflation -

The taxonomy is classified into those that can have Case A-type (expansionary demand, contractionary supply) and Case B-type (contractionary demand, expansionary supply) considerations. Although the classification of shocks can be done in different ways across different features, the one presented here is based on a typical distinction between supply and demand side forces and is particularly useful from policymakers' point of view as it provides a framework for analyzing the source of inflationary pressures and potential risks to the economy. By understanding the nature and magnitude of different types of shocks, policymakers can then design appropriate monetary policy responses to mitigate the negative impact of adverse shocks and leverage the benefits of positive shocks.

Taxonomy of Scenarios: Q1 2026

Table E.2: Taxonomy of Scenarios: Q1 2026

Case A-Type Considerations Expansionary Demand	Case B-Type Considerations Contractionary Demand
• Uncertainty around Armenia's neutral policy rate: Following the US's re-evaluation of fiscal adjustments, uncertainty has increased regarding the magnitude of stimulus and, particularly, the long-term debt burden, including uncertainties around future customs revenue collection. This could contribute to a rise in the neutral policy rate in the US, which in turn affects the neutral rate in emerging markets, including Armenia. • In the event of a sharp escalation in the Middle East, deeper regional geopolitical risks could translate into an increase in Armenia's country risk premium. • Significant growth in social spending may lead to an increase in Armenia's budget deficit and debt, affecting the fundamental level of the country risk premium. • Uncertainty regarding aggregate demand conditions in the domestic economy, including an environment of excess demand and its persistence. • Sustained economic growth above the estimated long-term potential—mainly driven by accelerated household consumption and accompanied by rising inflation—may indicate the presence of excess demand in the Armenian economy. • Accumulated savings and wealth in the private sector, continued strong credit growth, and income derived from positive export developments could further expand demand conditions in the medium term. • Budgetary expenditures related to the introduction of universal health insurance and increases in pensions may exceed planned levels, further expanding aggregate demand. • Continued strong external demand for Armenian goods and services (including tourism, financial services, etc.) can generate additional demand and inflationary pressures in the economy. • Under uncertainty regarding the resolution of the Russia–Ukraine conflict, the prolonged maintenance or further tightening of sanctions on Russia could additionally strengthen capital inflows into Armenia, primarily supporting demand and inflationary pressures. • Amid global imbalances and high uncertainty, capital flows to emerging economies, including Armenia, pose inflationary risks by stimulating consumption, credit growth, and investment. • Sustained core inflation above target, particularly given its broad-based nature in food products, could trigger an upward adjustment in inflation expectations. • A potential easing of regional geopolitical tensions carries risks of accelerated capital inflows, which could further expand demand conditions in the economy. • Potential capital outflows from emerging markets and a global US dollar appreciation against the backdrop of heightened Middle East tensions and uncertainty. • Increased liquidity supply in financial markets could facilitate easier credit conditions, thereby stimulating demand in the economy.	• Weak domestic in the global economy—particularly in the Eurozone and China—amid persistent structural challenges may remain prolonged, leading to a sustained low-inflation environment in international commodity and raw material markets. • Considering the deterioration of economic activity and labor market conditions in the United States, as well as risks of asset overvaluation, a potential rapid correction in asset prices could create disinflationary pressures both globally and in the Armenian economy. • The prolonged persistence of low inflation in services and other non-traded goods sectors, stabilizing wage growth, weak retail trade activity, and structural characteristics of economic growth may indicate an already weak demand environment, the persistence of which could generate risks of a prolonged disinflationary environment. • Under conditions of a gradual and orderly correction in the construction sector and real estate prices, related sectors may also experience slower growth, weakening demand, and disinflationary effects. • The concentration of economic growth and the uneven accumulation of debt burdens in certain sectors of the economy may pose risks of a slowdown in economic growth. • In the event of escalating geopolitical conflicts, the potential imposition of sanctions on third countries could create significant constraints on trade and capital flows, negatively affecting aggregate demand conditions in Armenia. • A weakening of demand in the Russian economy and slower growth in real incomes could lead to reduced external demand—particularly for tourism services—creating disinflationary pressures. • In the event of a resolution of the Russia–Ukraine conflict and the full or partial removal of sanctions, there is a possibility of significant outflows of capital and labor from Armenia, which could substantially weaken overall demand and, in particular, the inflationary environment. • A potential easing of regional geopolitical tensions around Armenia could contribute to a downward reassessment of the country risk premium and the long-term neutral interest rate based on fundamentals.

Case A-Type Considerations Contractionary Supply	Case B-Type Considerations Expansionary Supply
• In the event of a sharp escalation in the Middle East and its prolonged persistence, disruptions in regional value chains may emerge, generating additional inflationary pressures. • Given Russia's role in Armenia's import structure, as well as the low level of diversification of logistics routes, inflationary risks transmitted from the Russian economy may increase. • The prolonged persistence and/or further escalation of geopolitical tensions could exert additional pressure on oil prices and increase their volatility.	• Continued growth in the labor supply in Armenia's economy, driven by uncertainties surrounding the medium-term outlook of the Russian economy and, in particular, by the tightening of migration policies in Russia, leading to a continued decline in seasonal migration from Armenia to Russia. • Risks of a disinflationary environment in global markets amid intensifying trade policies in the global economy, while China continues to pursue export-supporting policies, potentially leading to sharp reconfigurations of global trade flows.

Box 4. Market Reference Scenario

Under the CBA's Prudent Risk Management Framework, the CBA does not prepare baseline projections. Instead, we rely on information from financial market participants (including commercial banks, fund managers, institutional investors, and so on)—compiled through quarterly surveys—to develop a macro-consistent “market reference scenario (MRS).” This MRS, in many ways, serves a similar purpose as a traditional baseline projection, in the sense that it represents the market’s rough estimation of the “most likely future,” given the information available to market participants at a particular point in time. The MRS can serve as a substitute for the baseline for those external stakeholders (e.g. IFIs, fiscal authorities, and others) who rely on exogenously-provided projections when making their own planning decisions. Through the use of the MRS, the CBA provides the opportunity to markets to not only understand third-party forecasts of the “most likely” future, but also pay attention to those types of risks, uncertainties, and scenarios that can pose risks from the perspective of monetary policy and price stability (which are presented in the preceding Taxonomy). At the same time, this provides an opportunity to effectively communicate the logic and rationale behind CBA’s policy decisions under the prudent risk management approach.

Note: The CBA Macro Survey is conducted on a quarterly basis by the CBA. For the purposes of informing the Market Reference Scenario, participants are each asked to provide a macro-consistent scenario, including a qualitative description of the narrative underlying the scenario and associated Case A- and B-type risks, as well as accompanying quantitative 12-quarter-ahead projections for CPI inflation, real GDP growth, the CBA policy rate, and the nominal AMD/USD exchange rate. The Q1 2026 survey was carried out in February 2026.

Figure B.4.1: CPI Inflation

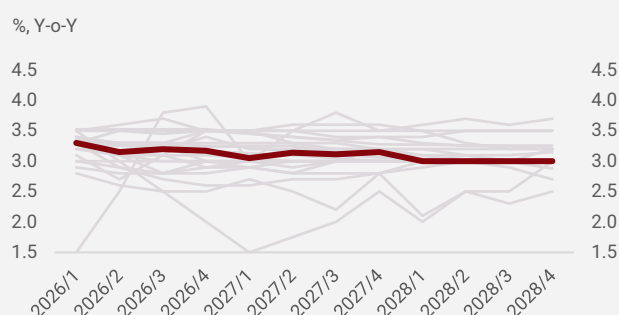


Figure B.4.3: Real GDP Growth Rate

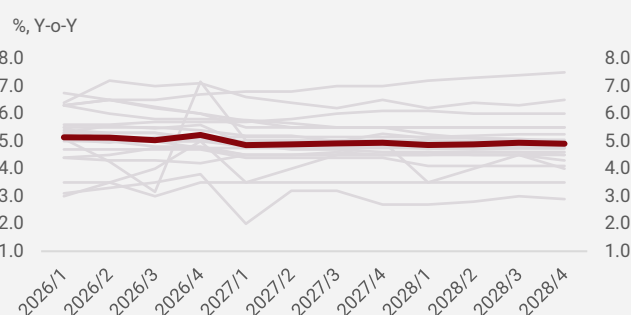


Figure B.4.2: CBA Policy Rate

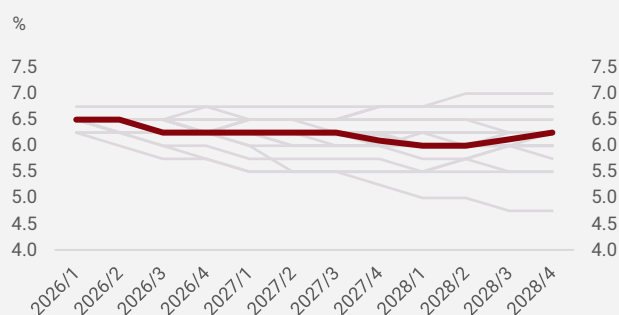
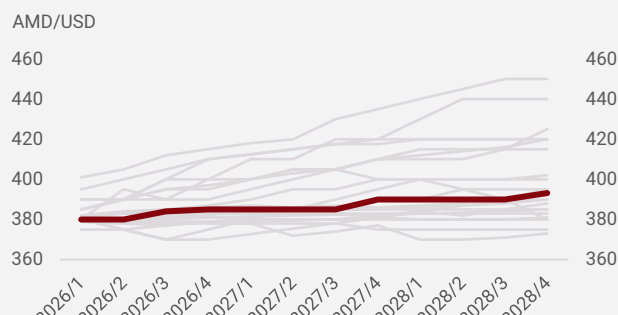


Figure B.4.4: Nominal AMD/USD Exchange Rate



* Note: CBA Macro Survey shown as average of survey responses (line) and individual responses (grey lines).

Table B.3.1: Summary of Third-Party Projections

Source Date	IMF Oct-25	CBA Macro Survey Q1 26	Consensus Mar-26
GDP Growth (Annual Rate, %)			
2025 (Actual)		7.2	
2026	4.9	5.0	4.8
2027	5.5	4.9	4.3
2028	4.8	4.9	
Inflation (Annual Rate, %)			
2025 (Actual)		3.3	
2026	2.8	3.0	3.2
2027	2.9	3.0	3.0
2028	3.2	3.0	

Source: IMF, World Bank, ADB, CBA Macro Survey

F. Monetary Policy Outlook

Case A: Excess demand conditions could require interest rates above market expectations

Economic growth that is above estimated long-term potential and concentrated in primarily demand-driven sectors could point to excess demand conditions in the Armenian economy.

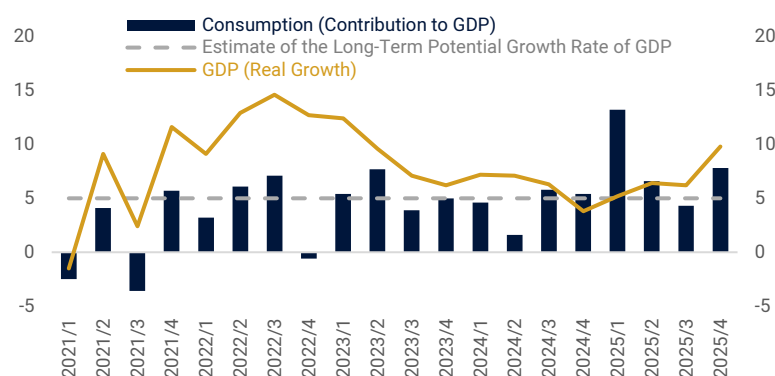
During 2025, and particularly in the second half of the year, economic growth in Armenia accelerated, reaching 9.8% Y-o-Y in the fourth quarter. The strong growth performance was largely driven by robust expansion in household consumption. Specifically, real private consumption rose by 10.7% in 2025, surpassing the average growth observed in previous years of elevated economic activity, such as 2022 and 2023. In Q4 2025 alone, private consumption contributed approximately 8 percentage points to overall economic growth. Amid this consumption-driven surge, the current account deficit has increased significantly. According to estimates by the CBA, the deficit may have reached around 6.0–7.0% of GDP in 2025.

The persistently high consumption growth likely signals that substantial excess demand has already emerged in the economy. High and potentially accelerating consumption growth is evident in the pronounced wage increases in specific sectors. More recently, the acceleration of non-commercial transfers, the spending of savings accumulated in previous years, and the gradual easing of lending conditions may further support the expansion of consumption. Notably, in an environment of reduced policy rates, the persistence of relatively high lending rates may itself indicate the presence of excess demand in the economy. It is also worth noting that the volume of consumer lending continues to record double-digit growth across nearly all subcategories. In this context, the increase in non-financial asset prices observed in recent years, together with the moderate easing of credit conditions, may further stimulate credit expansion and strengthen aggregate demand going forward.

At the same time, core inflation—which excludes seasonal food products and regulated services—has accelerated markedly in recent months, reaching 4.7% year-on-year in February and around 5.9% in three-month annualized terms. The increase has been broad-based across product groups, likely reflecting excess demand in the economy. In this context, a possible underestimation of demand pressures by financial markets could further loosen demand conditions and accelerate the buildup of inflation expectations. Addressing these risks requires a monetary policy rate path higher than currently anticipated by markets, in order to restrain excess demand, limit the expansion of inflationary pressures, and prevent a potential upward de-anchoring of inflation expectations.

Figure 3.F.1: Economic Growth and Household Private Consumption

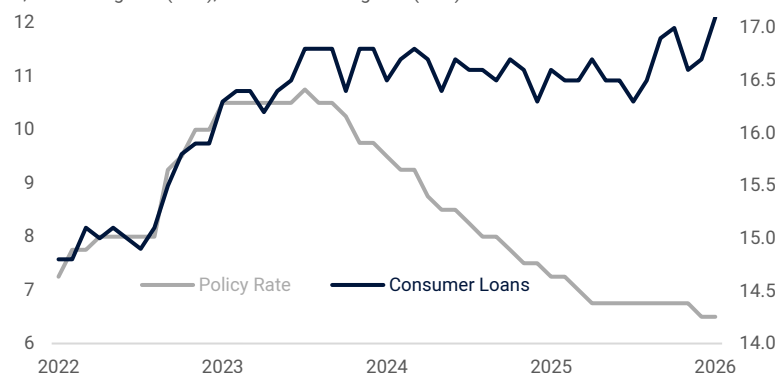
Percentage points; growth relative to the same quarter of the previous year



Source: Statistical Committee of the Republic of Armenia; CBA

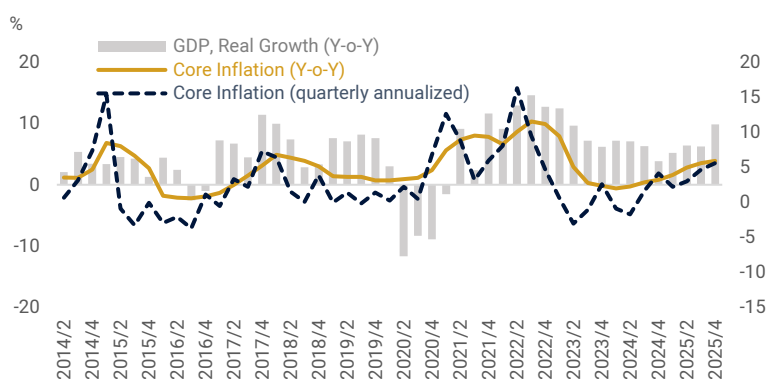
Figure 3.F.2: Consumer Lending and Monetary Policy Interest Rates

%, refinancing rate (LHS); consumer lending rate (RHS)



Source: CBA

Figure 3.F.3: Core Inflation and Economic Growth



Source: CBA calculations, Statistical Committee of the Republic of Armenia

Case B: Weakening domestic demand conditions could require interest rates below market expectations

The reduction in security risks surrounding Armenia, coupled with expectations of their continued improvement, has contributed to a sustained decline in both the country risk premium and the neutral interest rate.

In recent years, economic prospects in advanced economies have deteriorated, driven by the escalation of geopolitical conflicts and, in particular, by the reassessment of US economic policies, which has also manifested in worsening debt-related challenges. In contrast, in several emerging economies, improving macroeconomic fundamentals, supported by prudent economic policy management, have contributed to declining risk premia and stronger investor confidence. Adding to these developments, security risks surrounding Armenia have gradually eased, which is a trend that became particularly evident following the August 8, 2025 agreements, which shaped expectations of a tangible improvement in Armenia-Azerbaijan relations. Consequently, since August 8, the decline in spreads on Armenian foreign currency bonds—reflecting the factors outlined above—has outpaced that of other emerging economies, totaling around 25 basis points, according to CBA estimates (see Figure 3.F.4).

Credit rating agencies have also revised Armenia's outlook—with Fitch Ratings on January 16, 2026, and S&P Global on February 20, 2026, changing it from “stable” to “positive”, thereby laying the groundwork for a potential future upgrade of the country's sovereign rating. The revision of the outlook was driven by strengthened macroeconomic fundamentals and the potential improvement of the regional geopolitical and security environment, notably through possible further progress in the normalization of diplomatic and trade relations between Armenia and Azerbaijan⁵. According to estimates by A. Damodaran, a one-step upgrade of the sovereign rating typically translates into a reduction of about 0.8% in the fundamental level of the country risk premium (see Table 3.F.1⁶), which also supports a corresponding decline in the neutral interest rate.

The significant increase in capital inflows in recent quarters, including investments in domestic government bonds (see Figure 3.F.5), likely reflects the developments described above and the improved sentiment toward Armenia. These trends may signal the emergence of tight monetary conditions, which, if sustained over an extended period, could increase the risk of a deflationary environment. Consequently, managing these risks requires a monetary policy rate path that declines more rapidly than currently anticipated by market expectations.

Figure 3.F.4: Spreads on Foreign Currency Bonds of Armenia and Emerging Markets Relative to Low-Risk Benchmark Assets (SOFR)

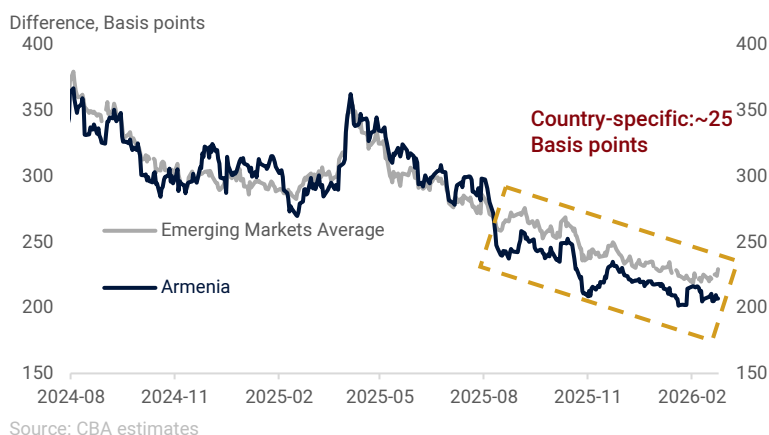


Figure 3.F.5: Non-Resident Investments in Armenian Domestic Currency Bonds

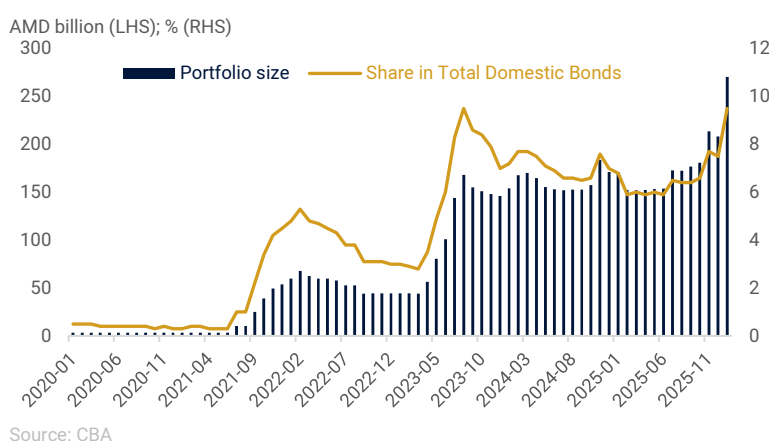


Table 3.F.1 Current Estimates by A. Damodaran: Sovereign Spreads and Risk Premia by Credit Rating

Ratings (Moody's)	Sovereign Spread	Risk Premium
Ba3 group average	3.06%	4.66%
Ba3 group average	2.56%	3.90%
Difference	0.5%	0.76%

Source: CBA calculations

⁵ <https://www.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3520693>

⁶ Aswath Damodaran, New York University, January 2026 estimates: <https://pages.stern.nyu.edu/~adamodar/>

Summary of Illustrative Case A & Case B Macroeconomic Projections

Figure 3.F.6: Endogenous Interest Rate Path, %

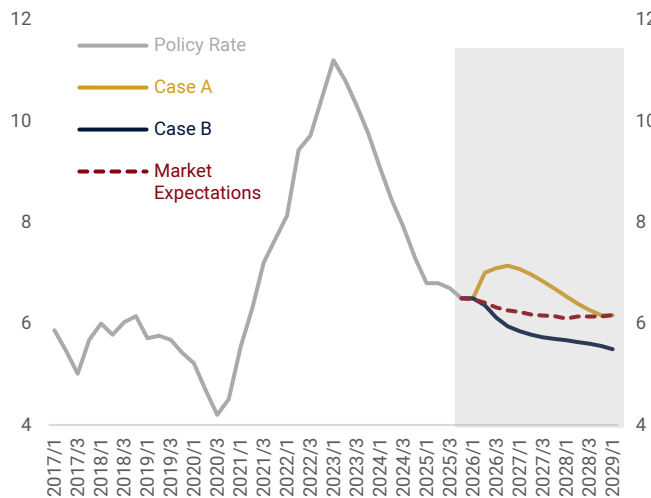


Figure 3.F.9: Non-Traded Sticky Price Inflation, Y-o-Y %

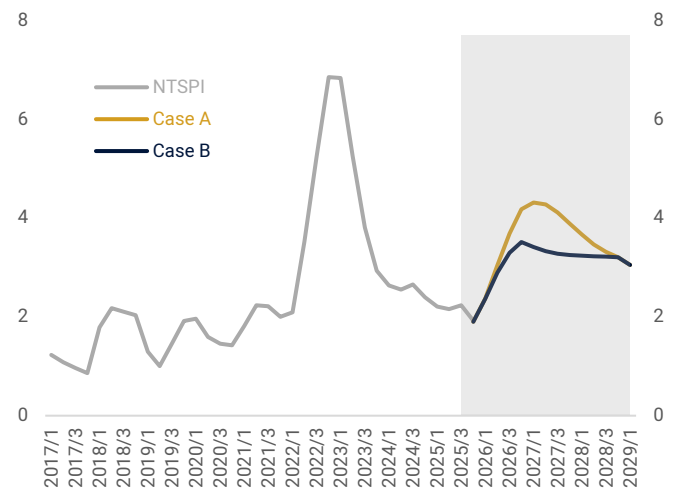


Figure 3.F.7: Real GDP Growth, Y-o-Y %

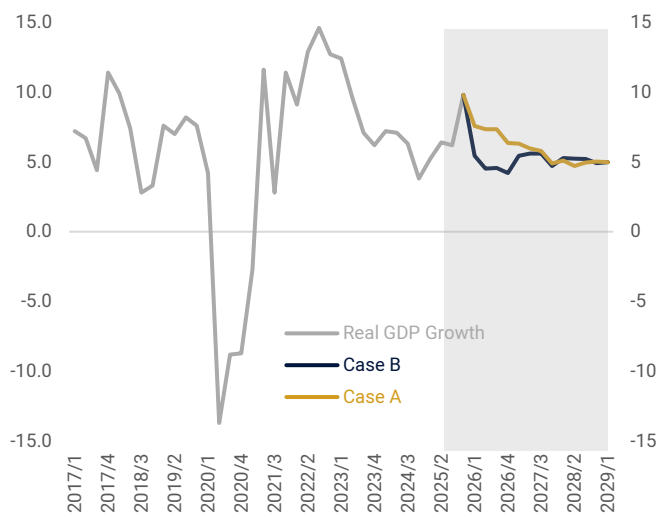


Figure 3.F.10: Output Gap, %

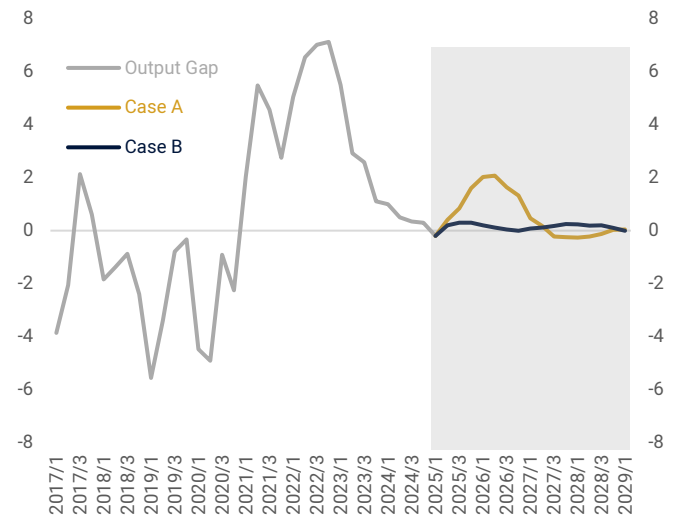


Figure 3.F.8: Headline CPI Inflation, Y-o-Y %

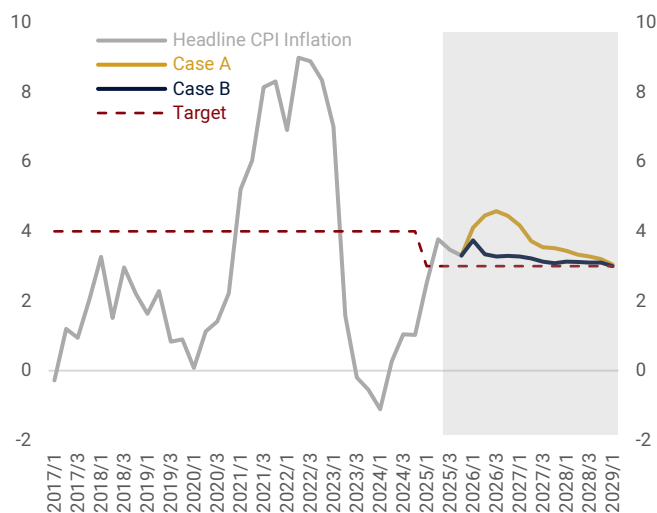


Figure 3.F.11: Real Interest Rate, %

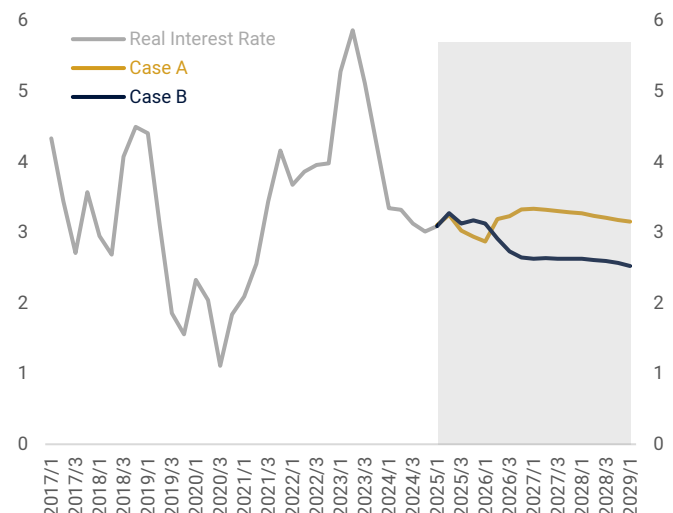


Figure 3.F.12: Nominal Effective Exchange Rate, Index

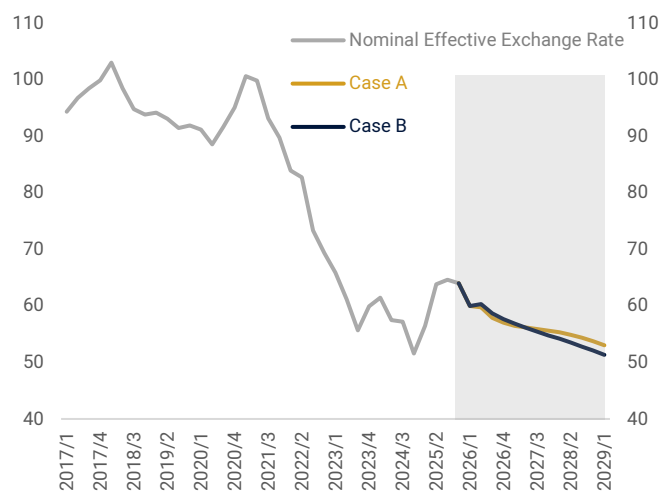


Figure 3.F.14: Model-Based 1-Year Ahead Inflation Expectations, Y-o-Y %

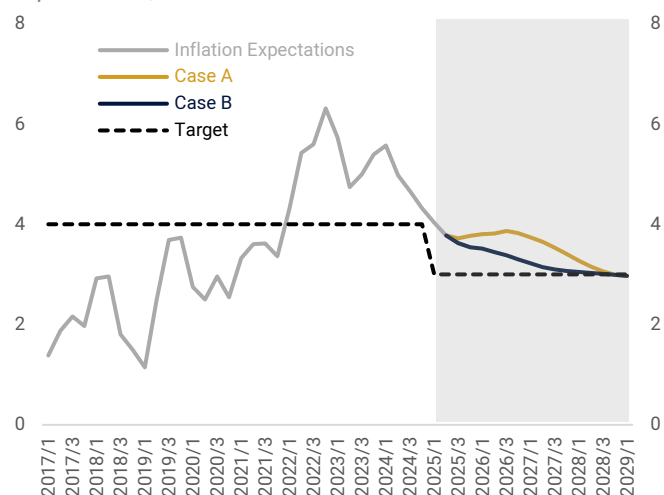


Figure 3.F.13: Real Effective Exchange Rate, Index

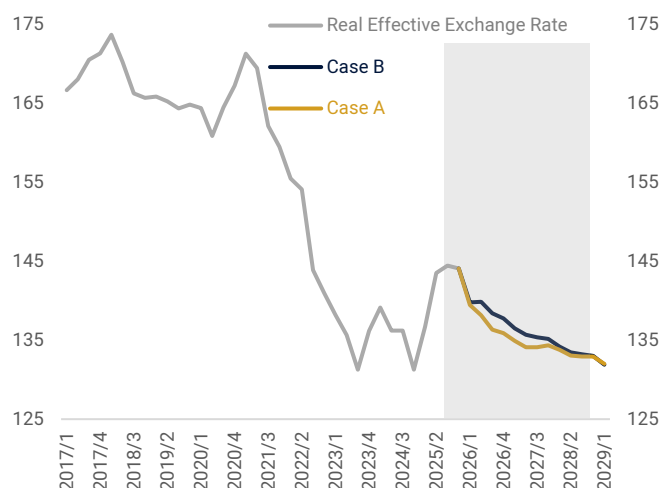


Table 3.F.2: Summary of Illustrative Macroeconomic Projections
Historical Data and Illustrative Case A & B Scenario Projections

		2024	2025	2026		2027		2028		2029	
		Actual	Actual	Case A	Case B	Case A	Case B	Case A	Case B	Case A	Case B
Global Economy											
USA economic growth	real growth, %	2.8	2.2	2.6	2.6	2.4	2.4	2.5	2.5	2.5	2.5
Eurozone economic growth	real growth, %	0.9	1.4	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Russia economic growth	real growth, %	4.1	1.0	0.9	0.9	1.5	1.5	1.7	1.7	1.8	1.8
USA inflation	average, %	3.0	2.7	2.5	2.5	2.3	2.3	2.1	2.1	2.1	2.1
EU inflation	average, %	2.6	2.4	1.8	1.8	1.8	1.8	1.9	1.9	2.0	2.0
Russia inflation	average, %	8.4	9.0	5.8	5.8	4.4	4.4	4.1	4.1	4.0	4.0
Oil price	dollar/barrel	80.5	69.1	78.6	78.6	64.4	64.4	62.3	62.3	59.9	59.9
Copper price	dollar/mt	9142	9947	12029.5	12029.5	12623.9	12623.9	12915.9	12915.9	12955.5	12955.5
FAO food price index	index	122.00	127.2	125.9	125.9	125.0	125.0	122.5	122.5	119.6	119.6
Domestic Economy											
Inflation											
Inflation	Y-o-Y, %, EOP	1.5	3.3	4.4	3.3	3.5	3.1	3.2	3.1	3.0	3.0
CPI inflation	Y-o-Y, %, avg.	0.3	3.3	4.4	3.4	3.7	3.2	3.3	3.1	3.0	3.0
Non-traded sticky price inflation	Y-o-Y, %, avg.	2.6	2.2	3.3	3.0	4.1	3.3	3.4	3.2	3.0	3.0
Gross Income											
GDP	billion dram	10193.4	11317.5	12623.3	12232.5	13818.7	13272.8	14960.5	14370.9	16175.3	15532.7
GDP	real growth, %	5.9	7.2	7.1	4.7	5.7	5.3	4.9	5.2	5.0	5.0

Table continued on the following page.

Historical Data and Illustrative Case A & B Scenario Projections (continued from previous page)

		2024	2025	2026		2027		2028		2029	
		Actual	Actual	Case A	Case B	Case A	Case B	Case A	Case B	Case A	Case B
Demand											
Consumption	real growth, %	5.9	9.9	7.9	5.2	5.3	4.5	4.6	4.7	4.0	4.2
Public consumption	real growth, %	-9.5	4.7	5.7	4.3	2.6	0.6	0.8	0.8	1.3	1.1
Private consumption	real growth, %	8.8	10.7	7.4	6.6	5.4	5.2	4.9	5.1	4.5	4.5
Gross accum. of fixed assets*	real growth, %	11.2	15.6	20.3	25.7	8.8	12.7	7.2	5.7	5.7	4.9
Public investment**	real growth, %	11.8	10.4	6.2	6.2	4.3	4.3	2.1	2.1	1.8	1.8
Gross accumulation of private fixed assets	real growth, %	11.0	13.6	17.5	23.5	12.3	12.1	6.8	5.3	5.1	4.7
Export of goods and services	real growth, %	30.9	-30.5	25.5	28.5	16.0	19.0	10.5	14.5	8.4	11.4
Import of goods and services	real growth, %	32.7	-23.7	36.7	34.9	11.0	14.3	5.6	8.9	6.3	8.2
Current Account											
Balance of trade	million USD	-2195.0	-2928.4	-3423.9	-3064.9	-3463.8	-3007.4	-3301.1	-3105.4	-3395.1	-3316.9
Balance of services	million USD	1463.3	1509.0	1555.8	1555.8	1602.3	1602.3	1648.3	1648.3	1693.5	1693.5
Money transfers	million USD	803.6	934.6	957.5	957.5	984.9	984.9	1013.2	1013.2	1042.4	1042.4
Current account	million USD	-1194.5	-1713.7	-2066.3	-1707.3	-2042.4	-1586.0	-1810.4	-1614.7	-1829.0	-1750.7
Balance of trade	share of GDP, %	-8.4	-4.8	-10.5	-9.8	-10.3	-9.3	-9.2	-8.9	-8.7	-8.8
Balance of services	share of GDP, %	5.6	5.1	4.8	5.0	4.8	4.9	4.6	4.7	4.3	4.5
Money transfers	share of GDP, %	3.1	3.2	2.9	3.1	2.9	3.0	2.8	2.9	2.7	2.8
Current account	share of GDP, %	-4.6	-5.8	-6.4	-5.4	-6.1	-4.9	-5.0	-4.6	-4.7	-4.6
Public sector***											
Revenues and grants	billion dram	2579.2	2886	3090.9	3090.9	3352.6	3352.6	3638.2	3638.2	3939.5	3939.5
Tax revenue	billion dram	2390.9	2725.2	2972.9	2972.9	3244.9	3244.9	3533.9	3533.9	3835.5	3835.5
Expenditures	billion dram	2413.6	2612.6	3627.6	3627.6	3801.1	3801.1	4030.7	4030.7	4213.1	4213.1
Deficit	billion dram	-376.1	-419.3	-536.7	-536.7	-448.5	-448.5	-392.5	-392.5	-273.6	-273.6
Revenues and grants	share of GDP, %	25.3	25.5	24.5	25.3	24.3	25.3	24.3	25.3	24.4	25.4
Tax revenue	share of GDP, %	23.5	24.1	23.6	24.3	23.5	24.4	23.6	24.6	23.7	24.7
Expenditures	share of GDP, %	23.7	23.1	28.7	29.7	27.5	28.6	26.9	28.0	26.0	27.1
Deficit	share of GDP, %	-3.7	-3.7	-4.3	-4.4	-3.2	-3.4	-2.6	-2.7	-1.7	-1.8

* The Central Bank only presents the indicator of gross fixed asset accumulation instead of gross accumulation, since the change in tangible working capital inventories is calculated by Armenia's Statistics Committee as a balancing item and it does not show the true level of gross accumulation. See https://www.armstat.am/file/article/sv_04_19a_112.pdf.

** Actual indicators of public investment are the capital expenditures of the consolidated budget, and the estimates are based on a revised macro-framework, 2026-2028, available at the time.

*** The 2026-2028 figures are drawn from the State Medium-Term Expenditure Framework and the 2026 Law on the State Budget.

