



Central Bank
of Armenia

2026 Q3

Monetary Policy Report

Monetary Policy Program

Published September 15, 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 September 11, 2026.

01 |

Executive Summary

A. Executive Monetary Policy Statement

The Board of the CBA decided today to increase the policy rate by 0.25 percentage points to 6.75%.

At its meeting on September 15, 2026, the Board of the Central Bank of Armenia decided to increase the policy rate by 0.25 percentage points, setting it at 6.75%.

In the third quarter of 2026, 12-month inflation continued to run above target, reaching 4.4% in August, while 12-month core inflation stood at 4.8%.

Amid prolonged persistence and some broadening of regional conflicts, the risks of a further weakening in global demand conditions and, at the same time, intensifying inflationary pressures are gradually becoming more tangible. In the US, strong investment activity and growing concerns over fiscal sustainability have contributed to upside risks to long-term neutral interest rates, with corresponding implications for neutral rates and capital flows in emerging market economies. In the Eurozone and Russia, despite a modest recovery in economic growth in the second quarter, structural challenges continue to deepen, weighing on the medium-term growth outlook. Amid rising tensions in the Middle East, energy prices have remained elevated, while the gradual drawdown of accumulated inventories is increasing market vulnerability to potential new supply shocks. In this context, the risks that central banks in major economies may raise policy rates further or keep them at elevated levels for an extended period have become more tangible.

In Q2 2026, economic growth in Armenia accelerated, running above its long-term sustainable level. Growth continued to be driven largely by the construction and services sectors, pointing to the presence of excess demand conditions. This is also reflected in strong growth in final consumption goods imports and retail trade. Moreover, there are signs of expanding external demand, reflected primarily in a significant increase in visits to Armenia, which also poses material upside risks to wage growth and services inflation in the relevant sectors. On the other hand, restrictions on exports to Russia continue to pose risks of excess supply forming in the domestic market, as well as of weakening consumer and investment confidence.

In the context of current macroeconomic developments, financial market participants in Armenia generally expect the Central Bank to maintain the policy rate at its current level over the next year, followed by a reduction to 6.25% over the medium-term horizon.

Amid the discussed risks and prevailing uncertainty, the Board considered, on the one hand, Case A-type scenarios related to stronger demand conditions in the domestic economy, a further expansion in external demand, and risks of rising inflation expectations, all of 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 prospect of slowing global economic growth, the emergence of disinflationary risks stemming from restrictions on exports to Russia, and a fundamental decline in Armenia's country risk premium, which would imply a lower policy rate path relative to market expectations.

As a result, emphasizing the need to manage the macroeconomic implications stemming from Case A-type scenarios, the Board of the Central Bank of Armenia decided to raise the policy rate by 0.25 percentage points, setting it at 6.75%. The Board will continue to monitor the scenarios for economic developments and stands ready to take appropriate actions to ensure the 3% inflation target and price stability in the medium term.

Approved by the Board of the Central Bank of Armenia.
September 15, 2026

Governor

Martin Galstyan

Deputy Governors

Armen Nurbekyan

Hovhannes Khachatryan

Board Members

Davit Nahapetyan

Artak Manukyan

Levon Sahakyan

Narek Ghazaryan

Armen Ktoyan

B. Summary of Economic Conditions

Global Economy

In Q3 2026, uncertainty surrounding the global growth outlook remains elevated. On the one hand, persistent geopolitical tensions in the Middle East, some broadening of their scope, and continued disruptions to trade routes sustain risks of elevated and volatile energy prices, as well as a further weakening in economic growth. On the other hand, increased investment activity driven by optimistic expectations surrounding developments in artificial intelligence, particularly in the US, somewhat offsets these adverse effects.

Amid elevated geopolitical uncertainty and ongoing shifts in economic policy, particularly trade policy, US economic growth has exhibited significant volatility in recent quarters, slowing somewhat most recently to an annualized Q-o-Q rate of 1.5% in Q2 2026. Nonetheless, domestic demand has remained relatively strong, with private consumption and fixed investment—particularly AI-related technology and infrastructure investment—continuing to serve as key drivers of economic growth. At the same time, uncertainty surrounding the persistence of the AI investment cycle and the efficiency of its deployment, as well as potential corrections in financial asset prices, pose downside risks to the outlook for economic growth and demand.

Risks surrounding US fiscal sustainability are gradually being priced into financial markets. Refunds associated with the rollback of some tariffs, particularly if accompanied by the need for additional defense spending, could pose additional risks of a wider fiscal deficit over the medium term. According to estimates by the US Congressional Budget Office, the federal budget deficit is expected to remain at around 6% of GDP in 2026, broadly in line with recent years and well above historical levels, particularly those observed during relatively stable periods. Although these risks have largely been priced into financial markets, they continue to pose upside risks to long-term neutral interest rates in the US, with corresponding implications for neutral rates and capital flows in emerging market economies.

In the US, both headline and core inflation continue to run above target. At the same time, amid considerable volatility in global energy prices, their persistence at elevated levels, and high uncertainty surrounding their outlook, material risks of a further worsening in the inflationary environment persist. Against this backdrop, financial markets expect the policy rate to rise gradually by around 75 basis points over the next year.

In the Eurozone, economic growth has generally remained stable at low levels in recent quarters, while uncertainty surrounding the medium-term outlook remains elevated. On the one hand, this reflects the accumulation of structural challenges and the adverse effects of the conflict in the Middle East; on the other, a pickup in investment activity in AI, defense-related industries, and infrastructure provides some support to the outlook. At the same time, amid persistently high energy prices and significant vulnerability to energy supply disruptions, particularly given low gas storage levels, risks of a further broadening of the inflationary environment are also increasing. As a result, financial markets are pricing in a gradual increase of around 50 basis points in the ECB policy rate over the course of the year.

Amid escalating tensions in the Middle East, global oil prices have risen again, standing at levels significantly above those observed at the beginning of the year. Moreover, substantial drawdowns of strategic oil reserves, particularly in major economies, have increased the global economy's vulnerability to renewed oil supply shocks. On the other hand, the continued expansion of supply by non-OPEC+ producers could mitigate the impact of such developments. High energy prices, together with disruptions to trade routes and supply chains amid escalating regional conflicts, could also contribute to further increases in food prices, particularly for grains, oils, and sugar.

In Q2 2026, economic growth in Russia recovered somewhat, standing at 1.3% Y-o-Y. Growth was driven mainly by the trade and services sectors, also reflecting the impact of stimulative fiscal policy. At the same time, the prolonged persistence of oil prices at elevated levels is supporting higher oil and gas revenues and some expansion in fiscal space, creating additional scope to support economic activity in

the short term. On the other hand, structural challenges in certain parts of the economy, as well as risks of a deterioration in the security situation, persist.

Labor market conditions remain tight, while migration policy carries risks of further constraining labor supply. Inflationary pressures have intensified again, including amid disruptions to fuel production and damage to storage facilities, while inflation expectations remain elevated. Against this backdrop, elevated inflationary pressures on the one hand, and weakening economic growth and risks of deepening structural challenges in certain sectors on the other, complicate the Central Bank of Russia's management of the inflation-output trade-off.

Domestic Demand Conditions

In the second quarter of 2026, economic growth in Armenia accelerated somewhat, reaching 6.7% year-on-year, above its long-term sustainable level. However, the composition of growth has become somewhat divergent. Amid both a delay in the agricultural season due to adverse weather conditions and export restrictions to Russia, agricultural output declined by 15.3% year-on-year, subtracting around 1.0 percentage point from economic growth. These restrictions also pose risks to the medium-term growth and export prospects of the manufacturing sector, which have weakened somewhat recently due to disruptions to trade routes in the Middle East.

On the other hand, alongside investment in AI and the gradual, deeper integration into global IT infrastructure, growth in the ICT sector accelerated in the second quarter, reaching 15%. It should also be noted that several AI factories have been commissioned in recent months, with the aim of significantly expanding output and exports in the coming years. While these developments are expected to have a limited effect on domestic value added during the construction phase due to their high capital intensity, once operational, they could make a significant positive contribution to increasing the productive potential of the Armenian economy, depending on how effectively these opportunities are utilized.

Nevertheless, the services and construction sectors have continued to make the largest contributions to economic growth. In particular, the rapid growth of the construction sector in recent months has been accompanied by a sharp increase in real estate prices, while growth in the services sector has been more broad-based. These developments likely largely reflect the significant increase in visits from Russia to Armenia. In particular, despite the recent weakening of tourism flows, a significant increase in visits to Armenia by Russian citizens has been observed amid heightened uncertainty surrounding Russia's security and economic outlook. Meanwhile, elevated uncertainty surrounding Russia's medium-term economic outlook, together with tighter migration policies, may constrain seasonal labor migration from Armenia to Russia and reduce remittances, thereby posing risks to domestic demand.

During 2026, strong economic growth, the widening inflationary environment, and some improvement in tax administration have contributed to strong tax revenue performance. On the other hand, capital expenditure has recorded significantly lower execution compared with historical trends. In particular, during January-July 2026, capital expenditures declined by around 26.6% year-on-year, mainly due to a reduction in defense-related spending, while the planned reduction in spending in this area creates uncertainty regarding the future execution of capital expenditures and their impact on the economy. At the same time, the risks of overexecution of social spending, particularly expenditures planned under the universal health insurance system, have increased. In January-June 2026, expenditures under this item amounted to around 80% of the amount planned for the full year, while the number of insured persons has also expanded.

Labor Market & Inflation

Despite the continued high level of uncertainty, a number of indicators may point to relatively more balanced conditions in the labor market. The unemployment rate continues to fluctuate within the 12–14% range, while the number of officially registered employees continues to grow at a steady pace, possibly indicating also a shift of labor from informal to formal employment.

Private nominal wage growth, excluding the financial sector, continues to show signs of stabilization, remaining within the 6–7% year-on-year range. Nevertheless, the declining concentration of wage growth in the sector, in line with the recent acceleration of growth in certain service subsectors, may indicate an expansion in demand conditions. The recent increase in the number of non-resident workers may also indicate the presence of excess demand, potentially masking, to some extent, the resulting inflationary pressures. On the other hand, the tightening of Russia's migration policy and uncertainty surrounding its economic outlook may, in the period ahead, not only constrain labor outflows to Russia but also create conditions for increased labor inflows from Russia.

In the third quarter of 2026, 12-month inflation in Armenia slowed somewhat, reaching 4.4% year-on-year in August, mainly reflecting more pronounced deflationary developments in the prices of certain goods following Russia's export restrictions. Nevertheless, certain government support programs and poor harvests of some products may limit the full manifestation of these trends. Core inflation accelerated somewhat, reaching 4.8% year-on-year in August, mainly reflecting inflation in locally produced non-seasonal food products. On the other hand, the effects of volatility in global commodity and energy prices, as well as disruptions to trade routes, may continue to be transmitted to domestic prices. At the same time, the recent acceleration in core inflation has become more broad-based, which, in addition to supply-side factors, likely points to prevailing strong demand conditions. Growth in the non-traded sticky prices also accelerated somewhat in August, mainly due to higher housing rents, consistent with stronger external demand. It should also be noted that these developments are gradually being transmitted to services characterized by relatively stickier prices. Nevertheless, the share of items recording price increases in both the overall inflation and non-traded sticky price inflation baskets remains around historical average levels, likely indicating that inflation expectations are stabilizing.

Financial Markets & Monetary Policy

According to the results of the survey conducted by the Central Bank of Armenia among financial market participants on September 9, 2026, expectations regarding the CBA policy rate path have not changed since the previous policy decision and imply that the policy rate will remain at 6.5% over the next eight policy decisions. It should be noted that the risk map of market participants has also remained largely unchanged,

reflecting, on the one hand, risks arising from geopolitical developments, particularly concerns surrounding aggregate demand and the inflationary environment in the Armenian economy, and, on the other hand, risks of excess supply arising from export restrictions and a further weakening of demand.

Since the CBA Council's June 2026 decision, the yield curve has shifted slightly downward, likely reflecting both a decline in the supply of government bonds and, in particular, increased interest in Armenian government bonds among non-residents, potentially also driven by factors underlying the fundamental decline in Armenia's country risk premium.

Armenia's short-term country risk premium has continued to decline, remaining at historically low levels. This reflects both the broader downward trend in risk premia across emerging markets, including amid abundant global liquidity and increased investor appetite for riskier assets, and Armenia-specific factors, including improvements in fundamentals and perceptions of reduced security risks surrounding Armenia.

To prudently manage the potential risks arising from prevailing uncertainties, the CBA considers a range of scenarios for economic developments. The Case A-type scenario presented in the MPR, which requires a higher interest rate path relative to market expectations, captures the risks associated with an expansion in external demand. This is driven by the significant increase in visits by Russian citizens to regional countries, including Armenia, and the longer duration of their stays amid the deterioration in Russia's economic and, particularly, security outlook in recent months. Effective management of the risks arising from this scenario requires a higher policy rate path relative to financial market expectations, alongside some appreciation of the nominal effective exchange rate.

The Case B-type scenario presented in the MPR relates to risks arising from restrictions imposed on a number of Armenian-origin products exported to Russia. A prolonged persistence of these restrictions, together with uncertainty surrounding their outlook and scope, could lead to some decline in export revenues and, given the broad employment base in agriculture, could also adversely affect overall consumer and investment activity in the economy. Effective management of the risks arising from this scenario requires a policy rate path below current financial 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.

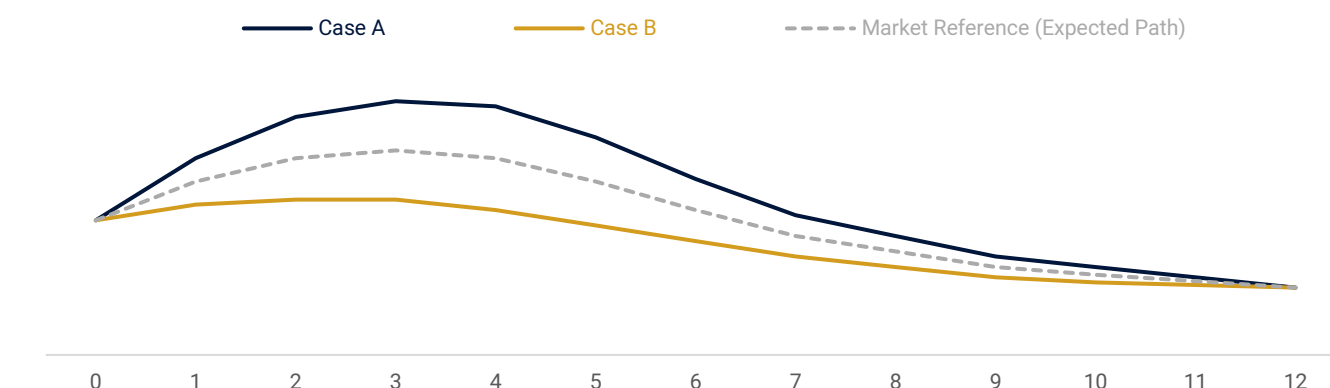
Elevated uncertainty is a reality that central banks must manage, and we do this by explicitly incorporating it into our framework and communication. We develop and analyze multiple scenarios that would imply a higher or lower path for interest rates than is currently priced in financial markets.

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 Price Stability: Theory and Practice at the Central Bank of Armenia](#), edited by Douglas Laxton, Hayk Avetisyan, and Vahe Avagyan (2026)

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 September 11, 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.

This report is published on the day the monetary policy decision is made, in order to ensure the timely communication of the assessments and the decision. After publication, limited editorial changes may be made to the report, including typographical, formatting, or other non-substantive corrections. Such changes may not pertain to the monetary policy assessments or conclusions. The final version of the report will be published within 3 business days following the policy decision.

03 |

Monetary Policy Outlook

A. Global Economic Developments

United States Economy

Amid persistently high geopolitical uncertainty, US economic growth remains volatile, slowing somewhat recently to an annualized Q-o-Q rate of around 1.5% in Q2 2026 (Figure 3.A.1). Despite the slowdown, growth in private consumption and investment, particularly in AI, has accelerated. High financial asset prices continue to underpin steady consumption growth, especially among higher-income households. At the same time, wage growth stabilizing at lower levels, slower consumer credit growth, and the rising share of overdue loans at historically high levels may signal weakening demand and emerging structural challenges.

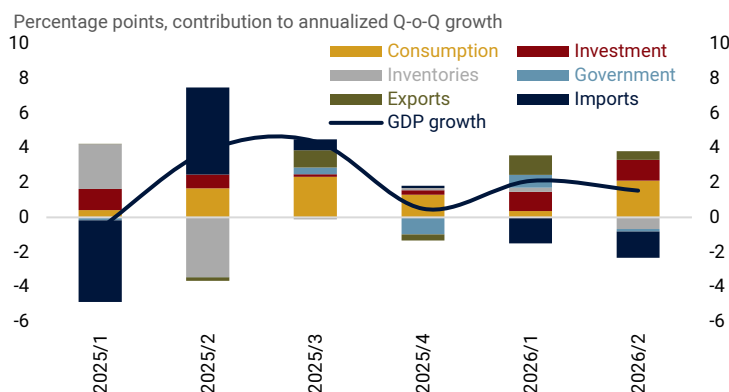
Risks of overvaluation in financial assets, particularly in the technology sector and AI-related industries, remain elevated. On the one hand, large-scale investment in AI infrastructure could raise the economy's potential growth over the long term. On the other hand, if current optimistic expectations fail to materialize, a significant correction in financial asset prices could weaken the outlook for US consumption and economic growth, in turn adversely affecting global demand conditions. Nevertheless, high and rising profits and profitability in these sectors may also indicate that asset price gains are supported by fundamentals.

Risks surrounding US fiscal policy sustainability have become more tangible. According to the US Congressional Budget Office, the federal budget deficit is expected to remain around 6% of GDP in 2026, broadly in line with recent years and significantly above its historical average. Over the medium term, the deficit could widen further due to lower tariff revenues and additional defense spending needs, including in the event of a prolonged conflict in the Middle East. Under these conditions, long-term interest rates in the US have risen significantly, further raising concerns over debt sustainability. Although financial markets appear to have largely priced in these risks, these developments could still contribute to higher long-term neutral interest rates in the US and, consequently, in emerging market economies.

The Middle East conflict continues to pose risks of an acceleration in inflation or its persistence at elevated levels, particularly amid persistently high sticky-price inflation. At the same time, unemployment has continued to decline, reaching 4.1% in July 2026. With labor market conditions still tight and inflation persistently above target, financial markets are currently pricing in a higher policy rate path, with a gradual increase of around 50 basis points expected by the end of this year.

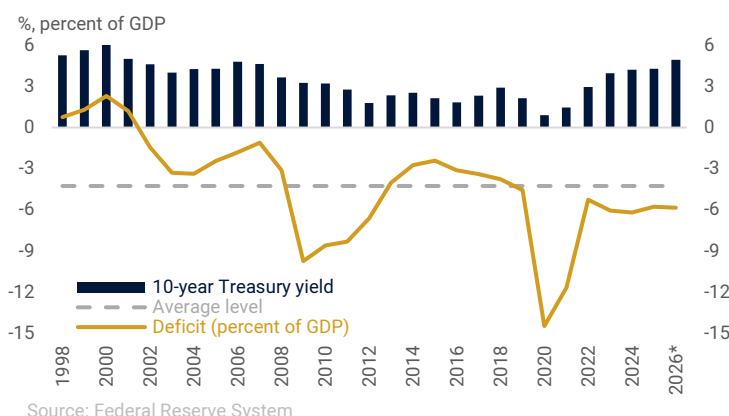
Economic growth continues to be largely driven by rising investment activity in the AI sector and steady growth in private consumption

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



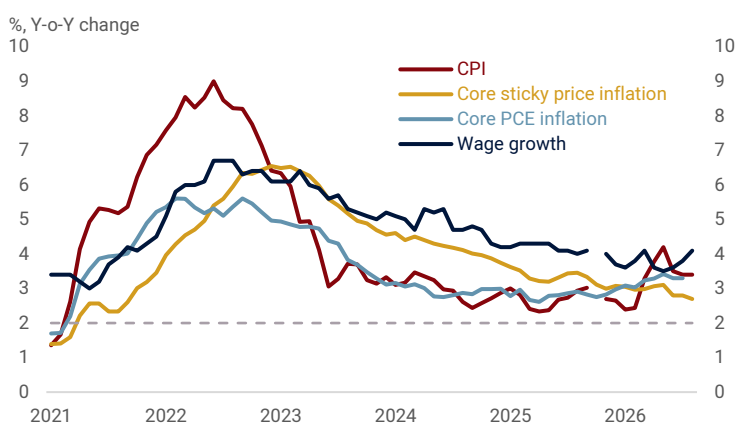
US long-term interest rates continue to rise, partly reflecting heightened risks around debt sustainability

Figure 3.A.2: US Budget Deficit and Treasury Yields



A prolonged conflict in the Middle East could further intensify inflationary pressures

Figure 3.A.3: Underlying Inflation Measures



Eurozone Economy

Despite some acceleration in Q2 2026, economic growth in the Eurozone remains low overall, while significant uncertainty around the medium-term growth outlook persists. On the one hand, high uncertainty surrounding the Middle East conflict, elevated volatility in energy prices and risks of supply disruptions, as well as persistent structural challenges in industry, continue to constrain the growth outlook. On the other hand, some increase in investment activity in the AI sector, together with the gradual expansion of public investment in the defense industry and infrastructure, could support an improvement in potential growth.

Alongside persistent structural challenges, some positive expectations are emerging for a gradual recovery in Eurozone economic activity. This could be supported, in particular, by public investment in Germany aimed at expanding infrastructure and defense-industrial capacity, whose impact is gradually becoming visible in economic activity. The significant improvement in manufacturing PMI in recent months points to some recovery in activity in the sector, also supported by stronger external demand. At the same time, the recovery in demand and business activity in the services sector continues. Nevertheless, uncertainty over the sustainability of the recovery in economic growth persists.

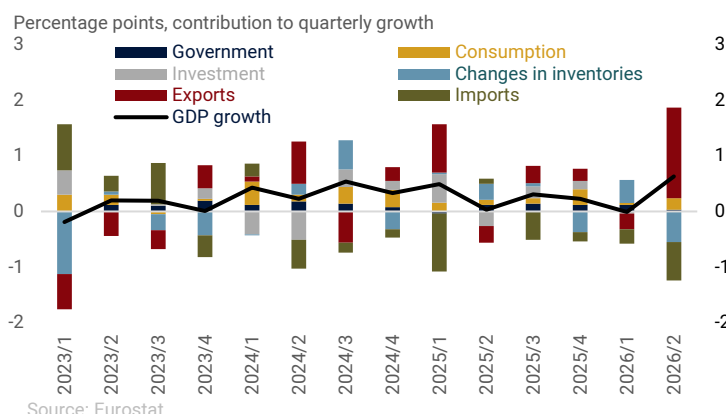
With natural gas reserves declining and remaining at historically low levels, alongside growing dependence on liquefied natural gas, the Eurozone economy is becoming increasingly vulnerable to supply disruptions from the Middle East. European natural gas storage levels stood at around 65% in August, well below the levels considered necessary for the winter season. Under these conditions, a prolonged conflict in the Middle East poses significant risks of weaker Eurozone economic growth, particularly in energy-intensive industries, while also intensifying inflationary pressures.

In August 2026, 12-month inflation in the Eurozone accelerated to 3.3%, largely driven by a significant acceleration in energy inflation to 14.3%. At the same time, services inflation, despite some easing, remains above target at 3.0%. Labor market conditions remain relatively tight, with unemployment at historically lows and employment still growing. On the other hand, the relative stabilization in job vacancies and wage growth may point to some easing of labor market imbalances.

Under these conditions, on September 10, 2026, the ECB raised its policy rate by a further 25 basis points to 2.65%, reflecting significant uncertainty surrounding the duration and magnitude of the energy shock and, in particular, its second-round effects.

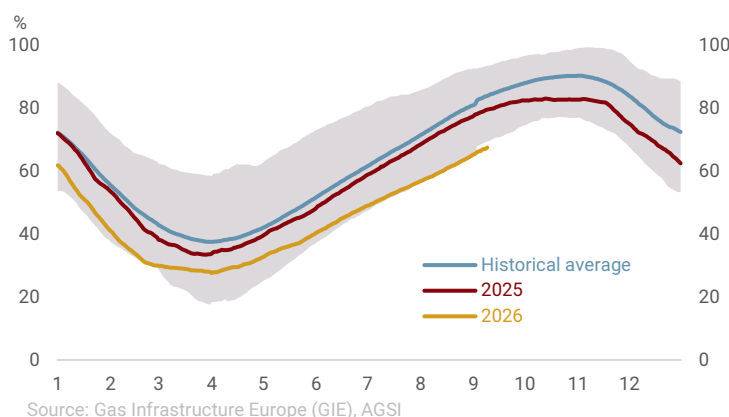
Uncertainty around the Eurozone growth outlook persists amid geopolitical uncertainty and deepening structural challenges

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



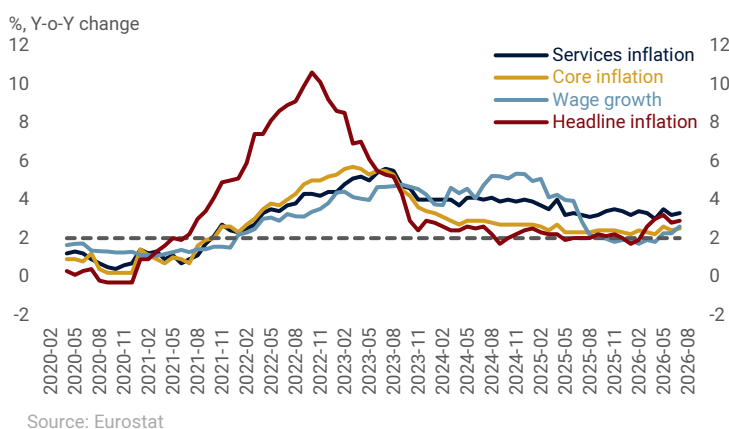
Gas storage levels in Europe are at their lowest levels since 2011, increasing vulnerability to supply disruptions

Figure 3.A.5: EU gas storage level



A prolonged conflict in the Middle East poses significant risks of intensifying inflationary pressures in the Eurozone

Figure 3.A.6: Underlying Inflation Measures



Russian Economy

In Q2 2026, economic growth in Russia recovered somewhat, reaching 1.3% compared with the same period of the previous year (Figure 3.A.7). With fiscal policy maintaining a significantly expansionary stance, activity has accelerated particularly in demand-driven sectors, reflected in relatively strong growth in retail trade and services. Accelerating growth in imports and consumer credit may also point to high demand, while persistently high global oil prices could support its further expansion. On the other hand, structural challenges in the economy are deepening, reflected in weak growth or contraction in some sectors, slower growth in real estate prices, alongside a significant rise in the share of non-performing loans.

The scale of the Russia-Ukraine conflict has expanded somewhat recently. In this context, heightened security concerns in Russia have created additional incentives for increased travel and capital outflows, particularly to countries in the region, including Armenia. Under these conditions, demand for cash rubles has also increased significantly. On the one hand, this may reflect the impact of temporary, non-structural factors and a possible increase in capital outflows, while on the other hand, it may also point to weakening confidence in the banking system. In this context, growing concerns over financial stability could further increase the risks of weakening demand in the economy.

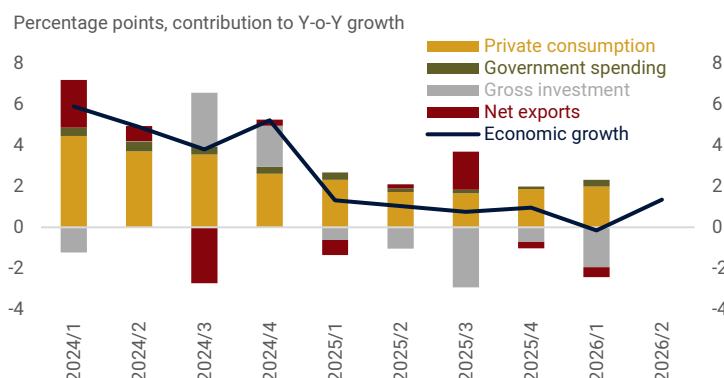
At the same time, with the Middle East conflict persisting, energy prices remain elevated, contributing to higher oil and gas revenues in Russia's state budget (Figure 3.A.8). At least in the short term, this could expand fiscal space somewhat, increasing the scope for stimulating economic growth.

In July 2026, 12-month inflation in Russia accelerated somewhat to 6.0%, reversing the slowing trend of recent months (Figure 3.A.9), largely reflecting higher domestic fuel prices due to disruptions in fuel production. In this context, risks of a further intensification of inflationary pressures have become more tangible. Core and services inflation also remain above target, at 5.2% and 7.8%, respectively. At the same time, labor market conditions remain tight, with unemployment at a historical low of 2.1% and labor shortages remaining one of the main challenges for businesses. Moreover, continued tightening of migration policies could further constrain labor supply, adding to inflationary pressures.

The gradual build-up of the above structural imbalances in some sectors of the economy, together with persistently tight labor market conditions and elevated inflation expectations, poses challenges for the Bank of Russia in effectively managing the short-term inflation-economic growth trade-off.

Economic growth in Russia has recovered somewhat under a strongly expansionary fiscal stance

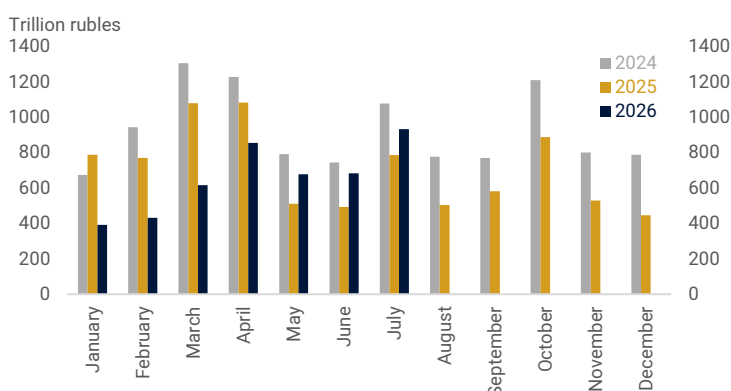
Figure 3.A.7: Contributions to Russia's Real GDP Growth



Source: Rosstat

A prolonged conflict in the Middle East contributes to an expansion of fiscal space in Russia

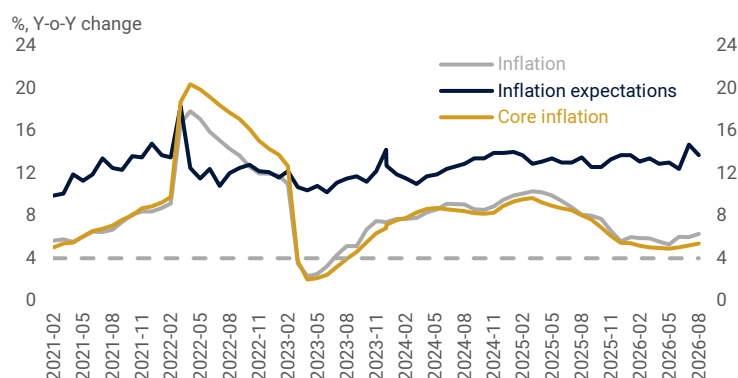
Figure 3.A.8: Russia's oil and gas revenues



Source: Ministry of Finance of the Russian Federation

Persistently high inflation expectations make it more difficult for the Bank of Russia to achieve its price stability objective

Figure 3.A.9: Underlying Inflation Measures, Russian



Source: Rosstat

Commodity Markets

Copper: In Q3 2026, global copper prices continued to rise despite some volatility amid growing uncertainty around the global demand outlook, averaging around USD 14.4 thousand per ton in the first ten days of September. Uncertainty around the copper price outlook reflects, on the one hand, the pace of the green transition, rising demand from AI and data center expansion, and growing investment in global defense and other infrastructure. On the other hand, heightened geopolitical uncertainty poses risks of weaker global demand, putting downward pressure on prices.

Oil: Global oil prices have risen amid some expansion in the scale of the conflict in the Middle East, exceeding USD 100 per barrel in recent days. Since the onset of the conflict, oil market balances have deteriorated significantly, while lower inventories and spare production capacity have made the market more vulnerable to further supply shocks or prolonged disruptions. In response, several OPEC+ members have continued since April to gradually unwind the voluntary production cuts announced in 2023 to support market stability. In the latest stage, production quotas are set to increase by a further 188 thousand b/d from September 2026. Nevertheless, most of the additional supply is expected from Gulf producers, where trade routes remain significantly constrained. Thus, near-term upside risks to oil prices mainly depend on the duration of the conflict and the pace of decline in strategic oil reserves in major economies. At the same time, gradually rising US oil production and weaker global demand, particularly in China and the Eurozone, could put downward pressure on global oil prices over the medium term.

Food: Since the onset of the Middle East conflict, global food prices have risen by around 6%, mainly due to disruptions in supply routes and elevated energy prices. Nevertheless, price developments continue to vary across product groups. In particular, vegetable oil, cereal, and sugar prices have risen significantly, also reflecting some escalation in the Russia-Ukraine conflict, while dairy prices have declined somewhat and meat price growth has remained relatively moderate. Under these conditions, a prolonged conflict could pose risks of further increases in global food prices. On the other hand, the decline in dairy prices and relatively weaker growth in meat prices may point to current and further weakening in global demand.

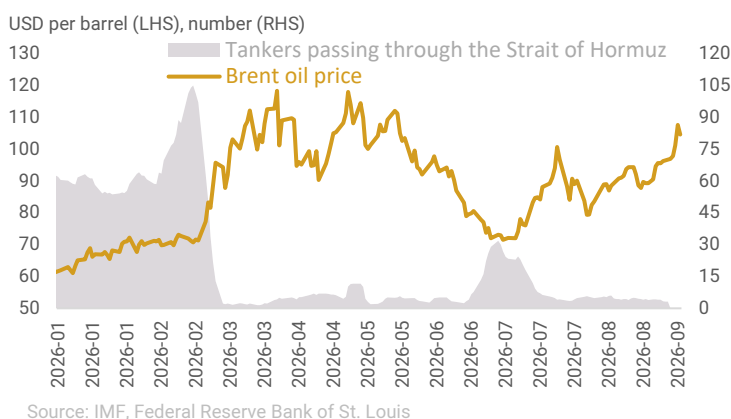
Long-term fundamental drivers of higher copper prices continue to dominate

Figure 3.A.10: Copper Prices



Uncertainty around the global oil price outlook remains significantly elevated amid the ongoing Middle East conflict

Figure 3.A.11: Strait of Hormuz transit and global oil prices



Global food prices are rising amid tensions in the Middle East and disruptions to trade routes

Figure 3.A.12: FAO Food Price Index

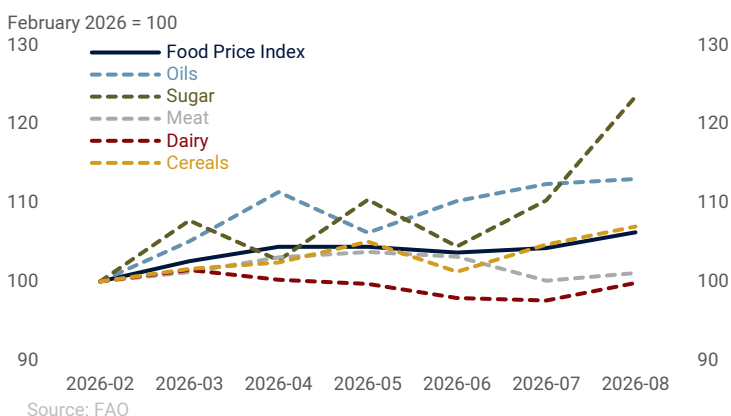


Table 3.A.1: Third-Party Projections for Commodity Prices

Source/ Topic	Oil (Brent, Dollars per Barrel)			Copper (LME \$/t)			World Bank Food Price Forecasts (Ann. Growth)		
	EIA	WB	Consensus	WB	REQ	Consensus	Oils and Meals	Grains	Other Food
Date	Sep-26	Apr-26	Aug-26	Apr-26	Jun-25	Aug-26	Apr-26	Apr-26	Apr-26
2026	91	86	88	12000	12699	13654	4.3	2.4	0.3
2027	74	70	77	11000	12277	14050	0.3	2.2	1.7

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	Jul	Jun	Jun	Jun	Sep	Jul	Jun	Jun	May	Jun	Sep	Jul	Jun	Jun	Jul	Sep
	26	26	26	26	26	26	26	26	26	26	26	26	26	26	26	26
GDP Growth (Annual Rate, %)																
2025				2.1 (Actual)					1.4 (Actual)						1.0 (Actual)	
2026	2.3	2.2	2.0	2.2	2.1	0.9	0.8	0.8	0.9	0.8	0.8	1.1	0.8	0.6	0.5	0.7
2027	2.2	2.1	1.8	2.3	2.1	1.2	1.3	1.2	1.2	1.2	1.2	1.1	0.7	0.8	1.2	1.2
2028	2.1	2.0	-	2.2	2.1	-	1.3	-	-	1.5	1.4	-	0.7	-	1.7	1.3
Inflation (Annual Rate, %)																
2025				2.7 (Actual)					2.1 (Actual)						8.7 (Actual)	
2026	3.2	-	3.7	3.6	3.3	2.6	-	2.8	3.0	3.0	2.8	5.6	-	6.4	6.1	6.0
2027	2.1	-	2.1	2.3	2.4	2.2	-	2.4	2.3	2.3	2.2	4.3	-	4.5	5.2	5.0
2028	2.2	-	-	2.0	2.3	2.1	-	-	-	2.0	2.0	4.0	-	-	4.2	4.4

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

B. Domestic Demand Conditions

Gross Domestic Product

In Q2 2026, economic growth in Armenia accelerated somewhat and stood above its long-term sustainable level, at 6.7% Y-o-Y (Figure 3.B.1). At the same time, amid both the delay in the agricultural season due to adverse weather conditions and restrictions on exports to Russia, the agricultural sector contracted by 15.3%, subtracting around 1.0 pp from economic growth. These restrictions also pose risks to the medium-term growth and export outlook for manufacturing, which have weakened somewhat in recent months amid disruptions to trade routes in the Middle East.

On the other hand, alongside investment in AI and the gradual, deeper integration into global technology supply chains, growth in the ICT sector accelerated in the second quarter, reaching 15% Y-o-Y. It is also worth noting that large AI infrastructure projects have been commissioned in recent months, with plans to significantly expand production and exports over the coming years. Depending on how effectively the Armenian economy is able to capitalize on these opportunities, these developments could make a significant positive contribution to the economy's potential (see Box 1).

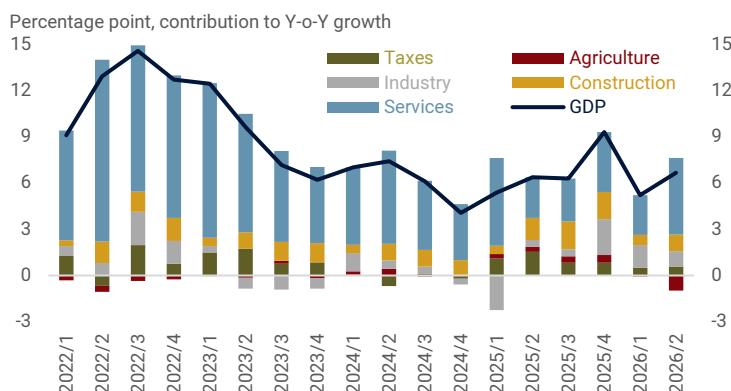
Despite positive developments in ICT and industry, particularly mining, the current acceleration in economic growth has been driven mainly by demand-led sectors, including services and construction. In particular, the strong growth in construction output in recent months has been accompanied by a sharp rise in real estate prices, which likely signals that demand is growing faster. Meanwhile, growth in services, especially over the latest quarters, has gradually become more broad-based.

Although tourist flows to Armenia have remained above historical levels during 2026, their growth has slowed in recent months, with arrivals declining by around 25% Y-o-Y in July. On the other hand, in the first half of the year, the net inflow of nonresidents to Armenia, primarily Russian citizens, increased considerably. Taken together with high economic activity in certain services subsectors, accelerating wage and price growth in those sectors, and an increase in foreign exchange conversions by non-residents, there is likely not a decline in tourist flows, but rather a change in the duration and/or nature of visits. These flows appear to be driven mainly by a deterioration in the security and business environment in Russia and could make a significant contribution to the broadening of demand conditions in Armenia.

Thus, strong growth in lending and retail trade, high growth in imports for domestic use, and persistently high activity in the services sector may point to strong demand conditions in the economy and their further broadening in recent months (Figure 3.B.3). Nevertheless, owing to the structural features of growth and uneven developments across sectors, considerable uncertainty over the economy's position persists, while risks surrounding the outlook have intensified in both directions.

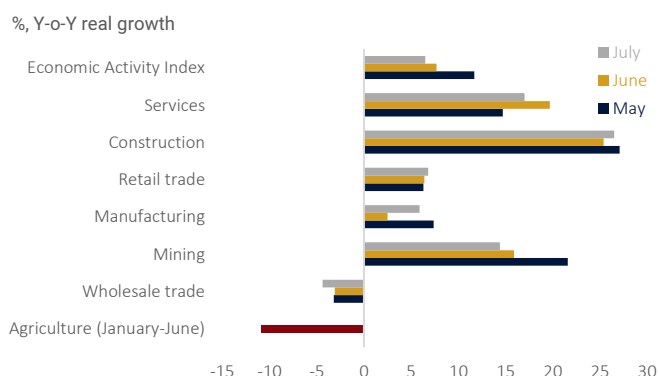
In Q2 2026, the acceleration in economic growth was driven mainly by developments in demand-driven sectors

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



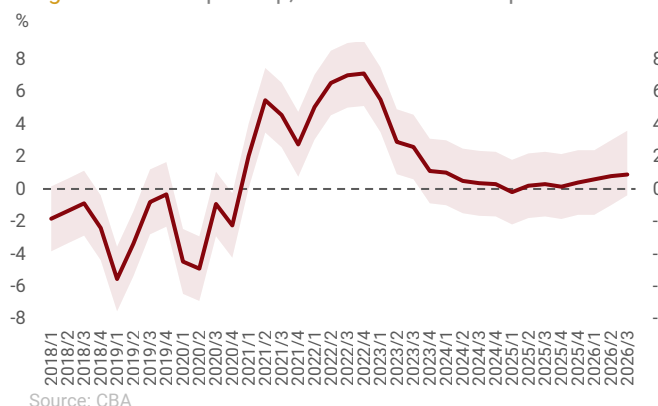
Growth in economic activity continues to show divergences across sectors, reflected in a contraction in agriculture and strong growth in demand-driven sectors

Figure 3.B.2: Economic Activity by Sector



Persistently high activity in demand-driven sectors may point to the presence of excess demand and its recent expansion

Figure 3.B.3: Output Gap, Financial Market Expectations



Box 1. Potential Macroeconomic Effects of AI Data Factories in Armenia

The development of large-scale AI computing infrastructure in Armenia could have a significant impact on investment, external trade, electricity demand, and the economy's productive capacity in the coming years. The first AI factories have already been launched in Armenia in recent months, with total investment associated with these projects amounting to around USD 500 million, while exports during the operational phase could reach around 0.6–1.0% of GDP. However, under the announced expansion plans for these projects¹, installed computing capacity could increase from the current level of around 6,000 GPUs to 50,000–70,000 GPUs or more, while continuous power demand could rise from around 15–18 MW to 300–400 MW, implying potentially much larger macroeconomic effects.

The macroeconomic impact of the project differs between the **construction and operational phases**. During the construction phase, highly capital-intensive projects of this kind differ from more traditional investment projects in that a significant share of capital expenditure is directed toward imported high-value technological equipment. Consequently, an increase in investment is largely accompanied by an increase in imports and translates only to a limited extent into value added generated in Armenia. The latter is generated mainly through construction, professional services, wages, and local supplies. The front-loaded increase in imports may also temporarily widen the current account deficit, particularly in the initial phase, when the corresponding service-export flows have not yet fully materialized. The external impact of higher imports also depends on the source of financing. In the case of foreign equity financing, including foreign direct investment, or external debt financing, equipment imports are accompanied by a corresponding capital inflow through the financial account, while investment-income outflows may arise at later stages².

During the operational phase, the project's main effects gradually materialize through service exports, foreign-exchange flows, and higher electricity demand. Uncertainty surrounding the volume of computing-service exports is substantial and depends on the number of installed GPUs, their utilization rate, and the realized selling price. Under an illustrative scenario of 70,000 GPUs, a 70% utilization rate, a price of USD 6 per GPU-hour, and a 90% export share, service exports could amount to around **USD 2.3 billion**, equivalent to around **40% of Armenia's total services exports in 2025**. This estimate should, however, be interpreted as an indication of the potential scale rather than as a forecast. For the same 70,000 GPUs and a price range of USD 4–8 per GPU-hour, the illustrative export estimate could range between approximately **USD 1.3 billion and USD 3.5 billion (Chart B.1.1)**³. Thus, the project's external impact depends not only on installed physical capacity, but also on the intensity of its utilization and the actual selling price. The illustrative path of the combined additional impact of these factors on the current account is presented in Chart B.1.2.

Figure B.1.1. Illustrative volume of Firebird service exports by computing capacity

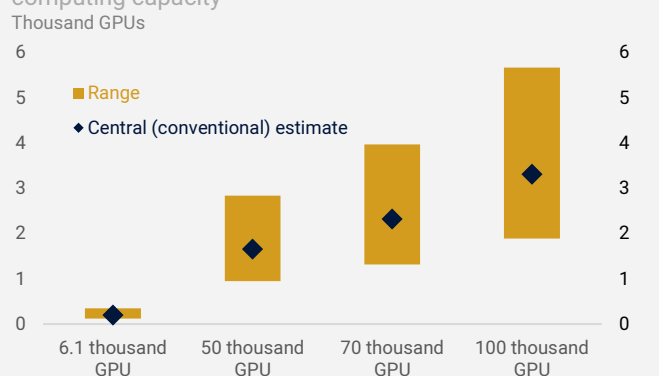
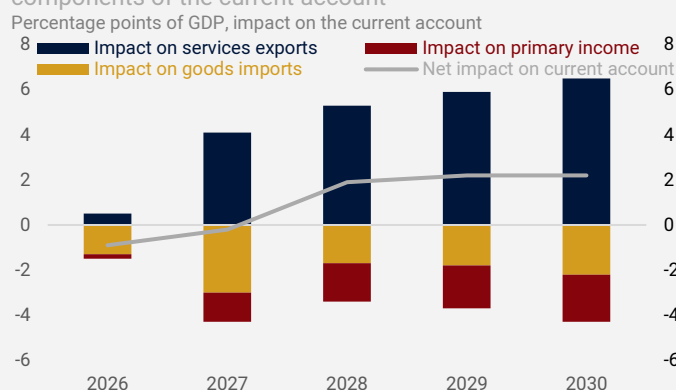


Figure B.1.2. Illustrative additional impact of Firebird on the components of the current account



Nevertheless, despite the scale described above, the specific characteristics of this activity also need to be taken into account. In particular, high volumes of service exports do not imply an **equivalent increase in national income**. If production takes place in Armenia, the value added generated is included in Armenian GDP regardless of the company's ownership structure. At the same time, profits and other investment income accruing to non-resident owners are recorded in the balance of payments as primary-

¹ Memorandum signed between Firebird and the Government of the Republic of Armenia.

² According to published information on Phase 1, a significant share of financing was raised from Armenia's domestic financial system, including around USD 300 million in syndicated financing and a separate USD 60 million bank loan (Ameriabank), while the financing structure of subsequent phases remains uncertain.

³ Calculations assume a 90% export share. The lower and upper bounds assume GPU utilization rates of 60% and 80%, respectively, and a price range of USD 4–8 per GPU-hour. The "range" represents the difference between the upper and lower bounds. The central estimate assumes 70% utilization and a price of USD 6 per GPU-hour.

income outflows. Consequently, growth in Gross National Income (GNI) may be significantly lower than growth in GDP⁴. Income retained in Armenia is generated mainly through resident wages, value added created by local suppliers and the electricity sector, tax revenues, and profits accruing to residents. At the same time, imported operating services and, where necessary, energy imports reduce the net value added generated in Armenia, while periodic equipment replacement and primary-income payments to non-residents limit the size of the net positive impact on the current account.

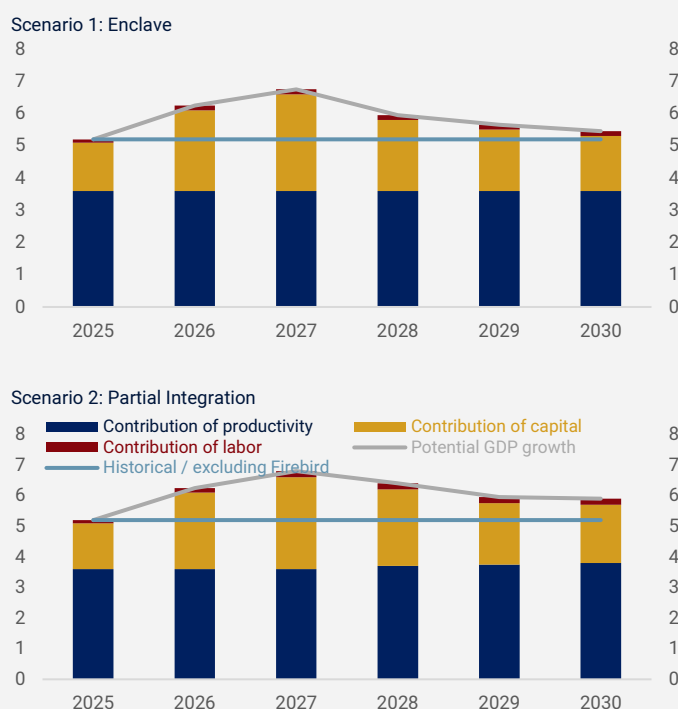
From the perspective of the amount of value added generated in Armenia, the **supply response of the energy system** is also particularly important, namely its ability to accommodate the additional demand and develop the corresponding capacity. At the announced full scale, continuous power demand of 300–400 MW would be equivalent to around **27–36% of Armenia's current annual electricity generation**. If new generation capacity, grid infrastructure, and storage solutions are developed in response to this demand, the project could also stimulate additional investment and the creation of domestic value added in the energy sector. Conversely, under limited supply flexibility, broader inflationary pressures related to the sector could intensify, alongside the risk of crowding out other electricity consumers. At the same time, depending on how the additional electricity is generated, particularly if it relies on thermal generation, part of the positive effect of service exports could be offset by an increase in energy imports.

Tax revenues could also constitute an important component of the income retained in Armenia. With 70,000 GPUs, illustrative annual gross revenue of around **USD 2.6 billion** (of which around **USD 2.3 billion would represent service exports** under a 90% export-share assumption) and assuming an illustrative 40% profit margin and a 20% corporate income tax rate, corporate income tax revenues could amount to around **AMD 75 billion**, equivalent to approximately **3% of 2025 tax revenues or around 0.7% of GDP**. This estimate, however, depends significantly on operating costs, depreciation, financing costs, and the actual taxable base. At the same time, given the highly capital-intensive nature of the project, additional tax revenues generated through employment and wages may be comparatively limited. From a fiscal perspective, the main uncertainty therefore relates to the project's actual profitability, the taxable base, the amount of tax revenues generated, and the impact on domestic demand arising from the use of those revenues.

Nevertheless, the longer-term impact of creating these capacities could be considerably more significant, depending on how much additional capital, specialized services, skills, and productive capabilities are generated as a result of the project and the extent to which they spread to other sectors of the economy. From this perspective, three illustrative scenarios for the economy's long-run potential growth can be considered.

- **Export-enclave scenario.** The project could operate as a highly capital-intensive, export-oriented production "enclave", with limited employment effects and limited interaction with other sectors of the economy. In this case, the additional effect on potential growth is driven mainly by capital investment undertaken within the project itself and gradually weakens after the investment phase is completed, while the broader productivity effect remains limited. Consequently, during the period of intensive capital accumulation, higher GDP growth may reflect an expansion in the economy's productive capacity, in which case its inflationary effects may be comparatively more limited (Chart B1.3, Scenario 1).
- **Partial-integration scenario.** Firebird's activities could stimulate investment in related sectors, particularly electricity, grid, and digital infrastructure, as well as the development of local technical, data-management, cybersecurity, and other specialized services. In this case, the impact extends beyond the project's own capital stock, although productivity gains remain concentrated mainly in sectors directly linked to Firebird (Chart B.1.3, Scenario 2).

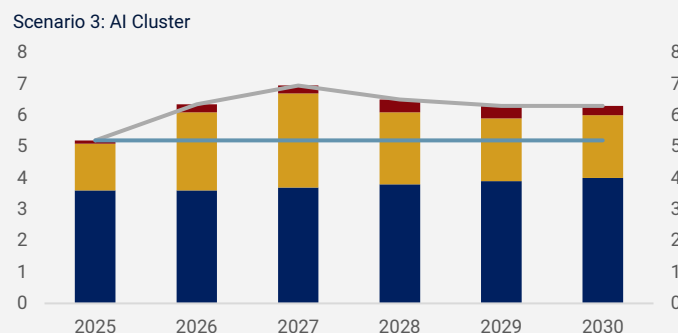
Figure B.1.3. Potential impact of Firebird on the long-term potential GDP growth⁵
Percentage points, contribution to potential GDP growth



⁴ Gross National Income (GNI) measures primary income received by a country's residents, including wages, profits, investment income, and property income, irrespective of its geographical source, whereas GDP measures value added generated within the country's economic territory irrespective of the residency of the owners of the factors of production.

⁵ The scenario estimates are illustrative and do not constitute a CBA forecast. In the enclave scenario, the impact is driven mainly by Firebird's own capital accumulation; in the partial-integration scenario, also by investment in related sectors and the development of local services; and in the AI-cluster scenario, by broader productivity gains across the economy.

- AI-cluster scenario.** Infrastructure, skills, and specialized capabilities developed around Firebird gradually spread to broader segments of the economy, supporting the development of new technology firms and an AI ecosystem, deeper research and educational linkages, and broader adoption of AI applications. In this case, the project's impact is not limited to capital accumulation in related sectors; broader and more persistent growth in total factor productivity also emerges, resulting in a more durable impact on potential growth (Chart B.1.3, Scenario 3).



In summary, Firebird's potential macroeconomic impact will depend not only on the project's announced scale, but also on its sources of financing, import intensity, ownership structure, the capacity of the energy system, and the depth of its integration into the Armenian economy. In the short term, the project may primarily take the form of an investment–import shock; during the operational phase, as a service-export and electricity-demand shock; while over the longer term, the main uncertainty relates to the extent to which capital accumulation translates into productivity gains and higher potential growth. In this context, as implementation progresses, it will be important from a monetary policy perspective to monitor the potential effects on domestic demand, external imbalances, and the economy's productive capacity, in order to appropriately interpret the resulting macroeconomic developments.

Consumption and Investment

In Q2 2026, private consumption growth remained strong, continuing to outpace overall economic growth and reaching 7.8% Y-o-Y. Private consumption contributed 5.4 percentage points to economic growth in Q2 2026 (Figure 3.B.4). Strong consumer activity has been supported by rising incomes, including due to the Government's significant increase in social spending, the continued rise in financial and non-financial asset prices and their persistence at elevated levels, and likely, more optimistic expectations about the future. The latter has been reflected in the drawdown of savings accumulated in previous periods and persistently strong growth in lending.

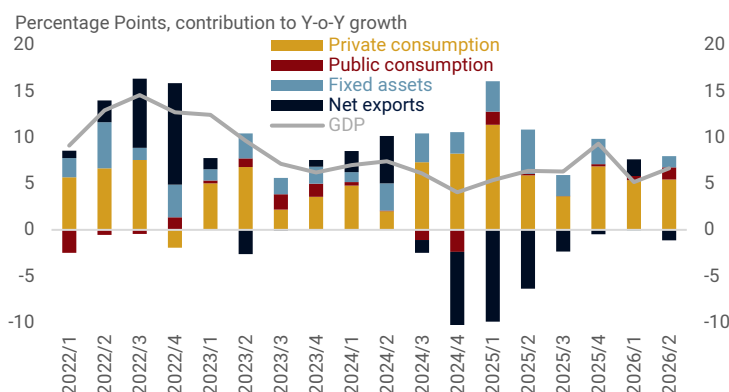
In Q2 2026, gross investment growth accelerated considerably, reaching 9.0% Y-o-Y. The strong growth in construction continued to make a sizable contribution to investment growth. At the same time, recent months have also seen a sharp acceleration in imports of capital goods, partly reflecting imports of equipment needed for the construction of AI factories.

Uncertainty over the outlook for domestic demand persists. On the one hand, domestic demand and the inflationary pressures it generates could broaden, driven by rising incomes, higher asset prices, and the persistence of current lending trends, particularly given the gradual easing of credit conditions. At the same time, should geopolitical developments around Armenia prove favorable, a possible unblocking of regional transport links could improve the investment climate and support economic activity.

On the other hand, geopolitical and regional factors, including restrictions on exports to Russia and heightened uncertainty over their outlook, could weigh on sentiment toward both consumption and investment. Moreover, significant uncertainty over the current position and medium-term outlook of the Russian economy, together with the gradual tightening of migration policy, could restrain seasonal labor flows to Russia and reduce remittance inflows, while also adding to labor supply in Armenia and creating largely disinflationary risks.

Private consumption remains the main driver of economic growth

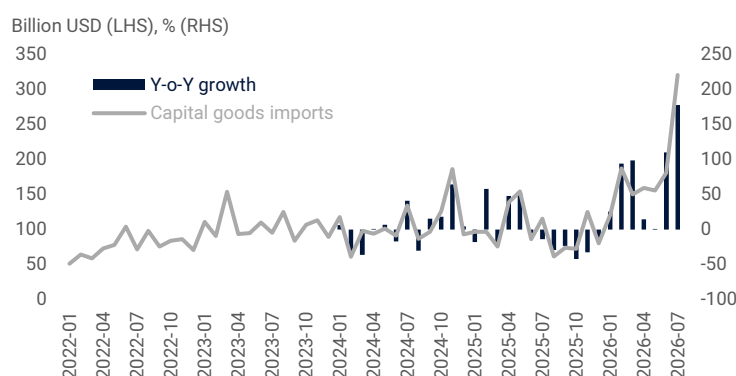
Figure 3.B.4: Contribution to Real GDP Growth by Expenditure Approach



Note: The chart does not include the contributions from changes in inventories.
Source: Statistical Committee of the Republic of Armenia; CBA

The sharp increase in imports of capital goods also reflects equipment imports needed to build AI facilities

Figure 3.B.5: Capital goods imports

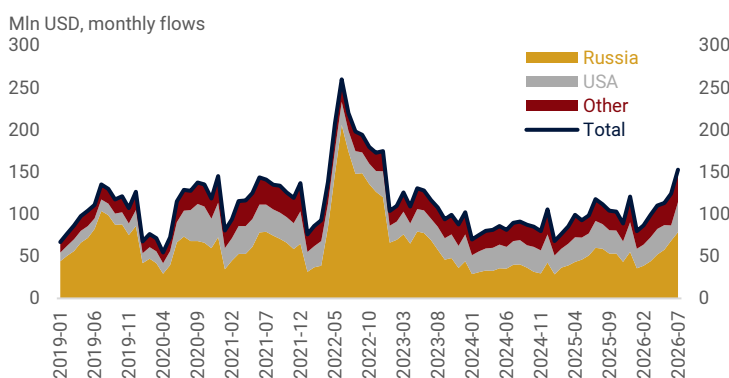


Source: CBA

Note: In the chart, the figures for capital goods imports are adjusted to exclude goods/equipment that were subsequently exported.

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

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



Source: CBA

External Trade and Demand

In the first quarter of 2026, alongside the continued unwinding of non-structural factors and significant capital inflows, the expansion of domestic demand led to a further widening of the current account (CA) deficit, standing below its estimated long-term sustainable level. Goods imports increased despite an around 25% decline in imports of intermediate goods, reflecting a significant expansion in imports of both consumer and capital goods. At the same time, a significant expansion in external demand for Armenia's services has been observed in recent periods, primarily reflected in an increase in both the number and duration of visits to Armenia by Russian citizens, thereby contributing predominantly to a temporary improvement in the CA in the short term. Looking ahead, an improvement in the current account may also be expected, reflecting a significant expansion in export capacity associated with the increase in computing capacity in the ICT sector.

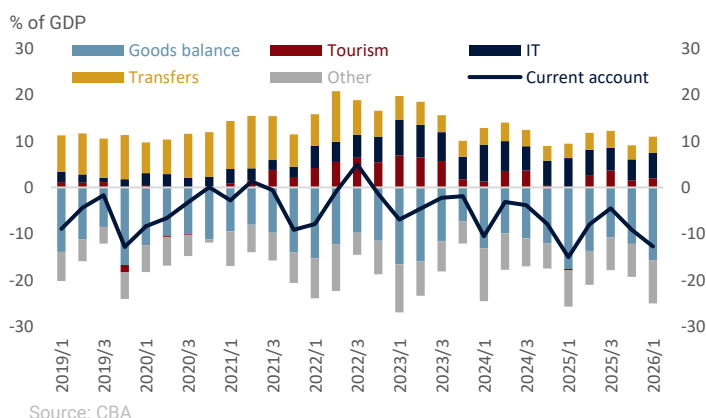
The risks of weakening external demand are primarily associated with geopolitical developments and the potential softening of demand in the global economy, particularly in Russia. Given Russia's significant role in Armenia's foreign trade, the latter could adversely affect both trade and tourism flows. At the same time, Russia's export restrictions in recent periods have already been reflected to some extent in Armenia's export of plant- and animal-origin products (Figure 3.B.8). A prolonged period of such restrictions, combined with difficulties in establishing a sustained shift toward alternative markets, could lead to a reduction in capacity in the respective sectors.

In recent quarters, the preference for Armenian financial assets has also increased, as reflected in large capital inflows. Against this backdrop, uncertainty surrounding the equilibrium level of the CA deficit-to-GDP ratio remains elevated. On the one hand, the increased openness of the economy, deeper integration into international capital markets, and improvements in economic fundamentals in recent years may have contributed to a lower equilibrium level of the country risk premium, allowing for a larger CA deficit and additional fundamental appreciation of the real exchange rate. On the other hand, the size of the current account deficit may also signal strong and expanding domestic demand.

In this context, there are differing interpretations of the cyclical position of the real exchange rate, closely tied to the discussion over the equilibrium level of the current account deficit. It should be noted that the recent depreciation of the Armenian dram's real effective exchange rate likely largely reflects the cyclical appreciation of the Russian ruble amid the Bank of Russia's tight monetary policy stance and elevated oil prices, and therefore does not materially change the assessments discussed previously regarding the long-term real exchange rate appreciation trends.

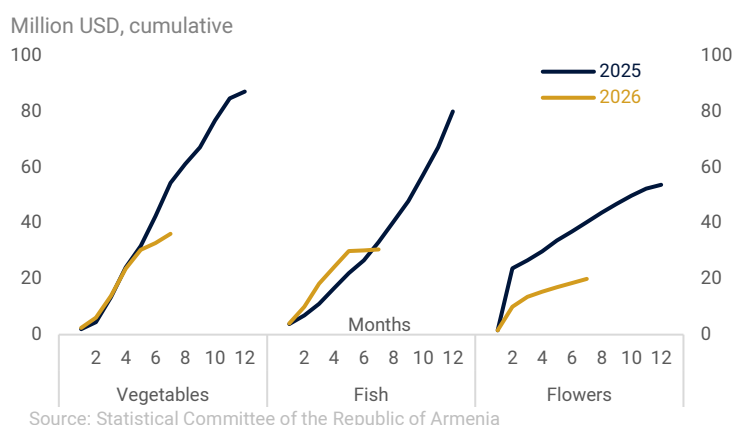
The current account deteriorated amid some expansion in domestic demand

Figure 3.B.7: Current Account



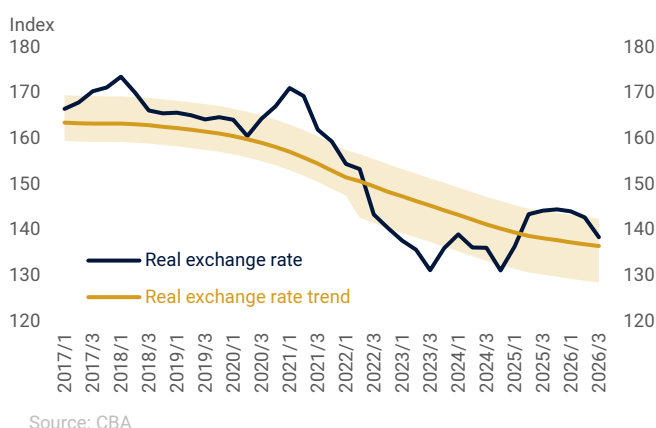
Russia's tighter import restrictions are reflected in the export performance of the respective sectors

Figure 3.B.8: Exports of Selected Plant- and Animal-Origin Product Groups in 2025–2026



Uncertainty surrounding the cyclical position of the real exchange rate persists

Figure 3.B.9: Real Effective Exchange Rate Against the US Dollar, Euro, and Ruble (decrease implies appreciation of AMD)



Fiscal Policy

State budget tax revenues have continued to grow at a strong pace, recording an increase of around 14.9% in July compared with the same period of the previous year. The strong performance of tax revenues is broadly consistent with high economic activity and has also been supported by the broadening of the inflationary environment in recent months. That said, the increase in the tax-to-GDP ratio observed since the start of the year likely also points to improvements in tax administration. The current over-performance of tax revenues, including relative to the revised budget targets, eases the risks of a widening deficit stemming from higher pension and social spending.

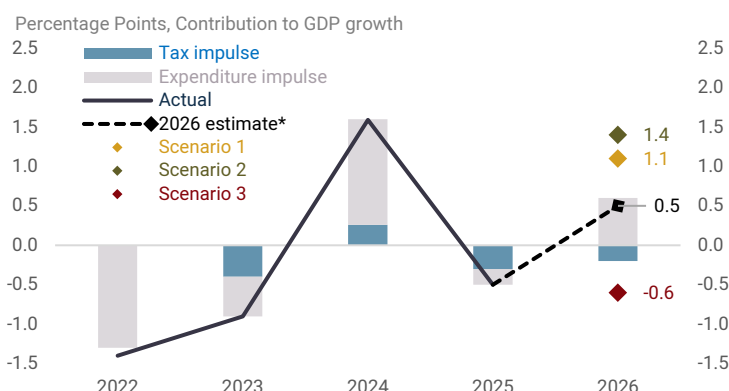
State budget expenditure, in line with historical trends, are being under-executed, mainly reflecting weak performance on capital spending. Current expenditures are also being under-executed to some extent, though this largely reflects lower-than-planned interest payments, while social and healthcare spending continues to grow at a strong pace. In particular, around 80% of the annual spending planned for the universal health insurance system has already been executed. Despite the increase in the number of beneficiaries, even if the current pace of spending is maintained, there are tangible risks that planned allocations will be exceeded and, consequently, that current expenditures will come in higher than expected (Figure 3.B.10, Scenario 1). The significant increase in social spending this year, given its direct and rapid impact on consumption, carries risks of fiscal policy taking on a more expansionary stance (Figure 3.B.10, Scenario 2).

At the same time, amid the significant tightening of import conditions by Russia, programs to support the most affected parts of the economy are already being implemented. Their scale, however, remains limited at present, while the availability of additional financing sources, including grants for budget support, mitigates their impact on the budget. Nevertheless, should the restrictions prove more prolonged or broad-based, they could exert pressure in the context of a higher budget deficit and public debt, weighing somewhat on the country's risk premium given the limited fiscal space.

On the other hand, due to a significant shift in the structure of capital expenditures, high uncertainty persists over their execution and their impact on the economy. Despite increased spending on Armenia's economic infrastructure and a gradual improvement in execution, limited capacity to implement large-scale capital projects continues to pose risks of under-execution and a weaker-than-expected impact on demand (Figure 3.B.10, Scenario 3).

Risks surrounding the impact of fiscal policy on aggregate demand have intensified in both directions

Figure 3.B.10: Scenarios for the impact of fiscal policy on aggregate demand in 2026



Source: Ministry of Finance; CBA staff calculations

*Note: The estimate is based on data from the 2027–2029 Medium-Term Expenditure Framework (MTEF)

Notes to Figure 3.B.10:

Scenario 1. Overexecution of healthcare spending, with the tax revenue plan fully met.

Scenario 2. A significant increase in social spending, also taking into account beneficiaries' relatively high propensity to consume.

Scenario 3. A substantially larger-than-historical underexecution of capital spending amid constraints on the capacity to implement large-scale projects.

C. Labor Market and Inflation

Labor Supply and Demand

In the first quarter of 2026, the unemployment rate in Armenia rose to 13.7%, mainly due to seasonal factors, and remained slightly below the level recorded in the same quarter of 2025. It should be noted that, according to the results of the Labour Force Survey, labour resources increased in the first quarter of 2026 compared with the same quarter of the previous year. However, this increase was mainly reflected in a rise in the economically inactive population, while the number of employed persons declined. On the other hand, according to State Revenue Committee data, the number of officially registered employees continues to grow at a steady pace, which, in line with economic activity, also reflects increasing demand for labour.

Overall, despite some volatility and seasonal factors, the unemployment rate has remained within the 12–14% range in recent years. Together with the stabilization of wage growth at around 5–6%, as well as the formation of inflation in services and non-traded sticky prices around the target, this may indicate that the labour market has reached an equilibrium. Nevertheless, average private-sector nominal wage growth accelerated somewhat in the second quarter of 2026, reaching 7.1% year-on-year (Figure 3.C.1). In addition, the declining concentration of wage growth and the acceleration of wage growth in the services sector, excluding financial and ICT services, to 9.6% year-on-year in the second quarter (Figure 3.C.2) may indicate an expansion of demand conditions in the economy.

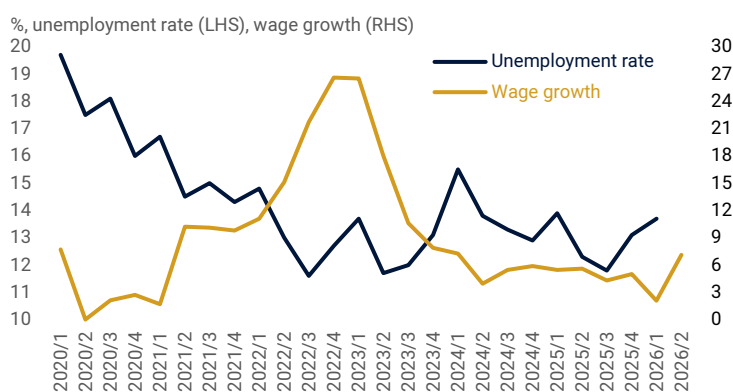
Uncertainty surrounding the outlook for labour supply is primarily related to labour flows to and from Russia. On the one hand, uncertainty surrounding Russia's economic growth prospects, together with the continued tightening of migration regulations, may restrain outbound labour migration, leading to an increase in labour supply in the Armenian economy and the emergence of deflationary risks. Moreover, a deterioration in the security situation in Russia may create incentives for increased labour inflows from Russia to Armenia.

Inflation

In Q3 2026, 12-month inflation slowed somewhat, reaching 4.4% Y-o-Y in August (Figure 3.C.3). Amid restrictions on exports to Russia, stronger disinflationary effects are emerging for certain product groups with a relatively high share of exports to Russia. These effects have so far been partly masked by some delay in the agricultural season due to adverse weather conditions, most notably for fruit, as well as by government support programs (Figure 3.C.5). Nevertheless, the persistence of above-target inflation has been driven mainly by the elevated level of core inflation, which stood at 4.8% Y-o-Y in August. This largely reflects inflationary trends passing through from local non-seasonal food products, partly driven by certain supply-side factors in the domestic economy.

In the first quarter of 2026, the unemployment rate in Armenia increased to 13.7%, primarily reflecting seasonal developments

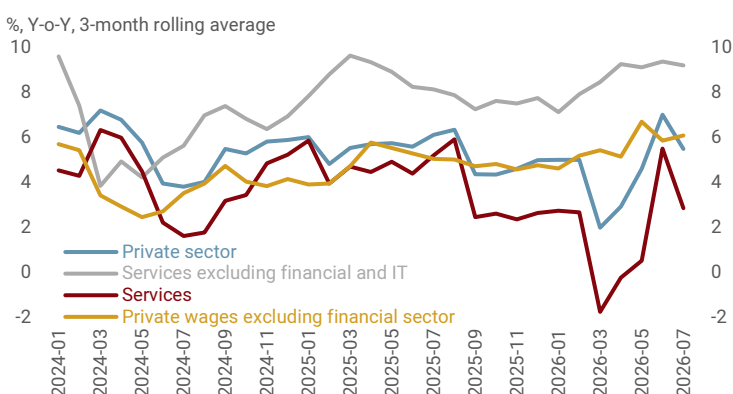
Figure 3.C.1: Unemployment Rate and Private-Sector Wage Growth



Source: Statistical Committee of the Republic of Armenia

More broad-based wage growth may signal an expansion of demand conditions in the economy

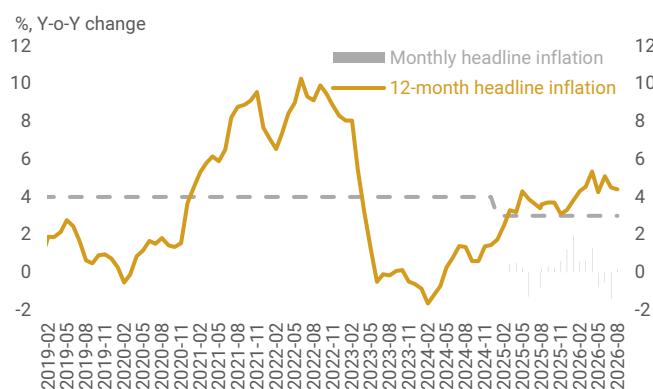
Figure 3.C.2: Wage Growth by Sector



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

With supply-side factors easing, 12-month inflation declined somewhat, still remaining above target

Figure 3.C.3: Headline inflation



Source: Statistical Committee of the Republic of Armenia, CBA

At the same time, amid persistently high uncertainty in the global economy, rising energy prices, and disruptions to supply chains, the continued increase in production costs, despite some easing recently, could still pass through to prices of local non-food products, with the impact partly absorbed by the appreciation of the dram's nominal exchange rate. For example, gasoline prices in Armenia rose by around 4.1% M-o-M in August 2026. Given the significant rise in international food prices in recent months, some acceleration in local food price inflation can also be expected going forward.

That said, despite the presence of supply-side factors, the acceleration of core inflation in recent months has gradually become more broad-based, likely also pointing to strong demand conditions and their gradual broadening. Core inflation has also been pushed up by faster services inflation, driven mainly by price developments in sectors moving on the back of expanding demand. Inflation in non-traded goods and services with sticky prices, which mainly captures price behavior driven by the demand environment and inflation expectations, continued to accelerate, rising above target and reaching 4.3% Y-o-Y in August (Figure 3.C.5). Moreover, this indicator rose by 0.5% M-o-M, largely reflecting higher housing rents and highlighting, in particular, the expansion of external demand. The acceleration in price growth for hotels, restaurants, cafés, and transportation also points in this direction.

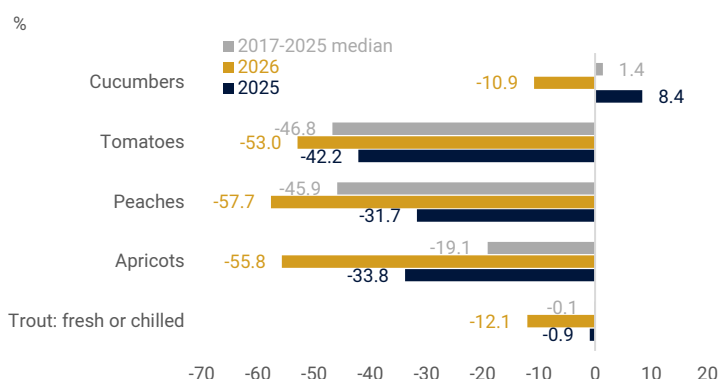
Looking ahead, the main uncertainties over the inflation outlook relate, on the one hand, to disinflationary risks from the emergence of excess supply in certain agricultural and food product groups amid Russia's export restrictions and, on the other, to the effects stemming from greater volatility in commodity prices and disruptions to trade routes amid persistent uncertainty surrounding the Middle East.

Inflation Expectations

According to CBA survey results on household inflation expectations, uncertainty around expected inflation increased somewhat in Q3 2026 amid persistently high global uncertainty and the prolongation and escalation of regional conflicts. At the same time, the share of households expecting relatively high inflation increased slightly, alongside a decline in the share expecting inflation to stabilize or decrease. These developments may reflect both the above factors and the faster increase in prices of basic goods, including food, which may have a more noticeable impact on household inflation perceptions and expectations (Figure 3.C.6).

Deflationary effects of restrictions on exports to Russia are intensifying for certain product groups

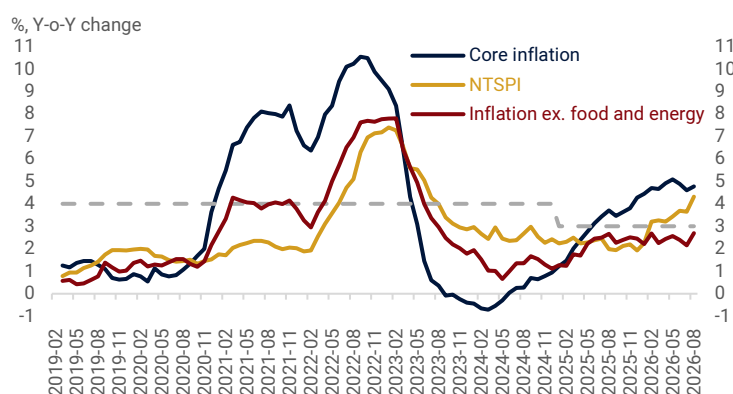
Figure 3.C.4: Cumulative Inflation in July–August for Selected Products



Source: Statistical Committee of the Republic of Armenia, CBA

The divergence in underlying inflation indicators sends mixed signals about the relative position of supply and demand in the economy

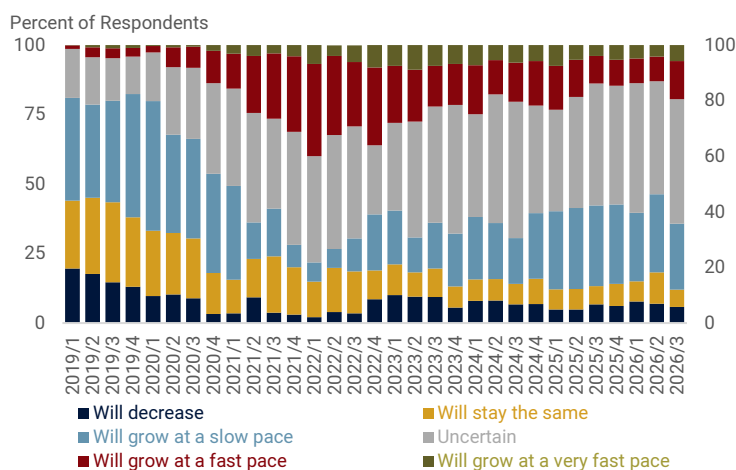
Figure 3.C.5: Underlying Inflation Measures



Source: Statistical Committee of the Republic of Armenia, CBA

Uncertainty and relatively high inflation expectations among households have increased, reflecting risks from prolonged regional conflicts and structural characteristics of inflation

Figure 3.C.6: Survey on Households' Inflation Expectations



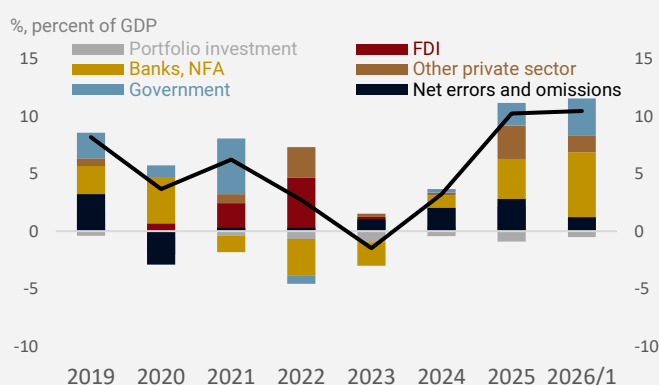
Source: CBA

Box 2. Macro-Financial Policy Challenges Amid Capital Inflow

In recent years, Armenia has experienced a significant increase in capital inflows, which, on the one hand, has contributed to a widening current account deficit and, on the other hand, exerted appreciation pressures on the national currency. In this context, taking into account also the environment of continuous expansion of domestic demand and credit volumes, the challenge of constructing and coordinating macro-financial policies becomes significantly more complicated. Consequently, a detailed analysis of the sources of these capital inflows and their macroeconomic implications becomes more crucial.

During 2022–26, against the backdrop of several fundamental and favorable environmental factors, a substantial inflow of capital into the RA has been observed. While in the initial period, amid prevailing uncertainties, capital was predominantly invested in foreign assets, post-2024 capital inflows gradually began to foster the expansion of domestic demand, as well as credit and financial conditions (Figure B.2.1 and Figure B.2.2). The latter is also reflected in stronger economic activity and a widening current account deficit. In particular, the widening of the current account deficit has been driven by a deterioration in the saving-investment balance of both the private and public sectors (Figure B.2.3).

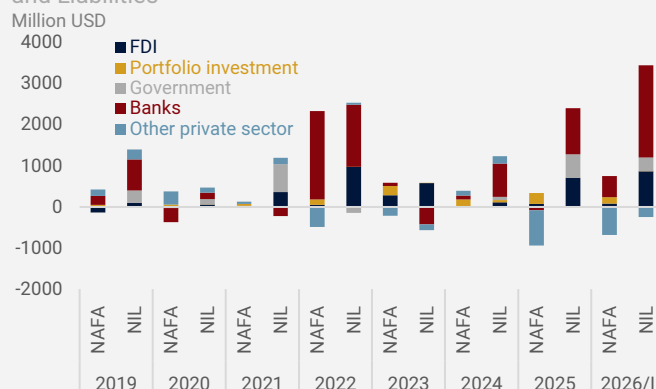
Figure B.2.1. Financial Account/GDP (+ inflow)



Note: 2026 Q1 is calculated as the ratio of the four-quarter sum of the financial account to GDP.

Source: CBA, CBA staff calculations

Figure B.2.2. Financial Account Structure by Financial Assets and Liabilities



Note: The indicators are presented in accordance with BPM6 sign conventions.

NAFA – Net acquisition of financial assets

NIL – Net incurrence of liabilities

Q1 2026 is calculated as the sum of the latest four quarters.

Source: CBA, CBA staff calculations

Under these conditions, key uncertainty relates to the potential fundamental factors driving the aforementioned capital inflows, namely: a decline in the country's sovereign risk, higher long-term productivity growth, and an increase in short-term preference for domestic assets. Notably, signals of all three main drivers affecting capital inflows, which may have been potential factors underlying recent developments, are also observed.

Decline in sovereign risk: The decline in Armenia's risk premium observed in recent quarters and its settling at historically low levels may reflect not only global factors, but also an improvement in perceptions regarding the reduction in risks specific to Armenia, including security-related risks. The latter could have been an important factor in improving Armenia's external financing conditions and enhancing the attractiveness of Armenian assets, thereby stimulating capital inflows. From a monetary policy perspective, this scenario implies a lower level of the neutral interest rate and, therefore, may also require a gradual adjustment of policy interest rates towards that level (see the Monetary Policy Report, 2026 Q2, Scenario B).

Long-term productivity growth and expectations of long-term real exchange rate appreciation: In recent years, the continuous growth of Armenia's economic potential, particularly the expansion of production and service capacities in tradable sectors, has been an important factor in improving Armenia's relative productivity. Naturally, this creates conditions for a potential long-term trend of real exchange rate appreciation. In such an environment, productivity growth and appreciation expectations could act as significant drivers ensuring sustained capital inflows. In the context of monetary policy, the materialization of this scenario implies a gradual adjustment of policy rates downward, consistent with the gradual appreciation of the exchange rate alongside Armenia's economic growth and a corresponding decline in the neutral interest rate (Figure 3.B.9).

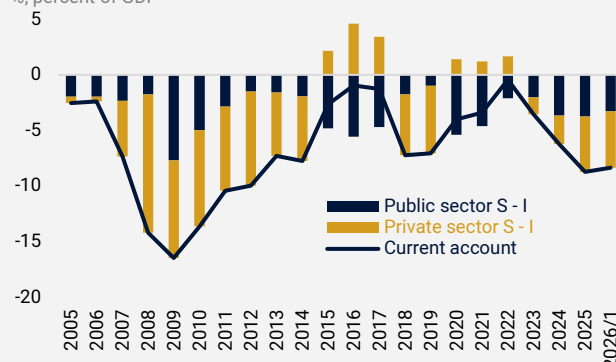
Increase in short-term preference for domestic assets: Amid domestic and external capital restrictions applied in the Russian Federation, as well as relatively favorable global financial conditions, substantial capital flows toward emerging economies are observed, including Armenia (Figure 3.D.6). The key challenges associated with such flows stem from their potential short-term and cyclical nature, as well as their potential macroeconomic and financial implications for the domestic economy, including the possible easing of domestic financial conditions, balance sheet and liquidity risks in the real and financial sectors, and the

potential emergence of excessive expansion in domestic demand. In such a scenario, the main directions of CBA policy relate to mitigating financial risks within the macroprudential policy framework by establishing adequate buffers,⁶ ensuring an appropriate monetary policy response aimed at managing demand and inflation, as well as conducting targeted foreign exchange interventions to support the orderly functioning of foreign exchange and financial markets and manage market liquidity. At the same time, it is crucial that interventions continue to be guided by key principles of tactical neutrality regarding the level of international reserves, as well as avoiding counteraction to fundamental exchange rate trends.

Notably, in recent periods, the public sector has also been one of the primary destinations for capital inflows. Therefore, taking into account the above considerations and the potentially unstable outlook of the favorable environment shaped by capital inflows under this scenario, fiscal policy assumes a pivotal role in regulating the overall macro-financial environment and in managing associated risks, implying the need for strong fiscal consolidation and, in essence, a target of a low deficit or even a surplus. Given the uncertainties surrounding the potential materialization of the aforementioned scenarios, from the perspective of macro-financial policy design, it is expedient to be guided by conceptual risk management approaches—specifically, the principle of minimizing policy "errors" under different scenarios and the resulting potential undesirable macro-financial implications (see Laxton, Avetisyan and Avagyan (eds.), 2026).

Figure B.2.3. Private and Public Saving-Investment Balances and Current Account

%, percent of GDP



Note: Data for 2026Q1 is calculated as the ratio of the 4-quarter rolling sum of the current account to the 4-quarter rolling sum of GDP.

Source: CBA, CBA staff calculations

⁶ Essentially, the Central Bank's gradual tightening of the countercyclical buffer rate in recent years was partially aimed at managing these risks. The new countercyclical capital buffer (CCyB) rate was set at 2.00% in the latest decision, which will enter into force in February 2027 (latest decision: 050.0202N, July 28, 2026), alongside significant tightening actions on the Liquidity Coverage Ratio (LCR) requirement, with the latest change in effect since May 2026 (latest decision: 168-N, September 23, 2025; publication date: October 6, 2025).

D. Financial Markets

Market Expectations of Policy Rates

According to the most recent survey of financial market participants conducted by the Central Bank of Armenia on September 9, 2026, participants on average expect the policy rate to remain unchanged over the next one-year horizon. This is broadly consistent with the results of the medium-term macroeconomic survey of market participants (see Box 4). Market participants' short- and medium-term expectations largely reflect a normalization of monetary policy amid expectations of some moderation in economic growth, a gradual easing of external inflationary pressures, and a fundamental decline in Armenia's country risk premium.

In recent months, the government bond yield curve has shifted somewhat downward across all maturities, likely reflecting a lower-than-planned supply of government bonds amid the over-performance of tax revenues. As a result, yields have stabilized at around 8.1% at the long end of the curve and around 6.5–7% in the shorter 1–2-year segment. Stronger demand for government bonds may also partly reflect the decline in Armenia's risk premium, which, in turn, has been driven both by Armenia-specific factors and by an improvement in global investor sentiment toward emerging market assets.

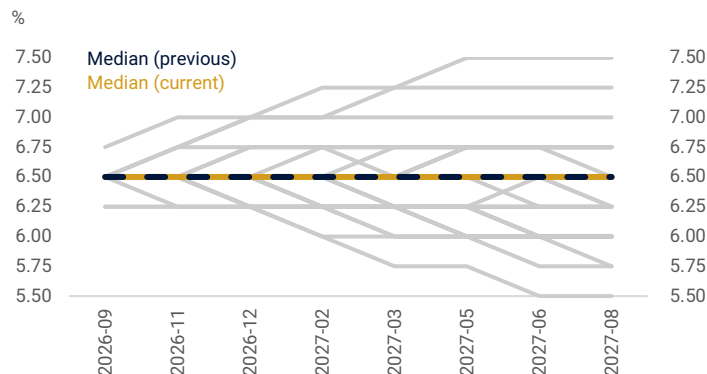
Neutral Interest Rate

Demand and labor market conditions in the economy, along with developments in core inflation, point to a policy stance close to neutral, with a mildly accommodative orientation. Overall, the estimate of Armenia's neutral interest rate has remained broadly unchanged recently, as the increase in global risk-free interest rates (the U.S. neutral rate) has been offset by a fundamental decline in Armenia's country risk premium. That said, uncertainty over all components of the neutral interest rate is high, which underscores the importance of scenario analysis and discussion for assessing and communicating this uncertainty, as overlooking or underestimating shifts in economic fundamentals could lead to costly policy errors. In this context, the key uncertainty at the current juncture relates to the extent of the decline in the equilibrium level of Armenia's country risk premium.

Spreads on Armenia's foreign-currency sovereign bonds have continued to decline, reflecting both Armenia-specific fundamental factors and improved sentiment toward emerging markets, as well as ample liquidity in the global economy. Moreover, the expansion of Armenia's export and production capacity and the improvement in its outlook, particularly given the development of computing capacity in the ICT sector, could contribute to expectations of stronger fundamental appreciation of the dram. On the other hand, high inflation in essential and more "visible" goods in Armenia could contribute to an increase in inflation expectations.

Market participants expect an unchanged policy rate path

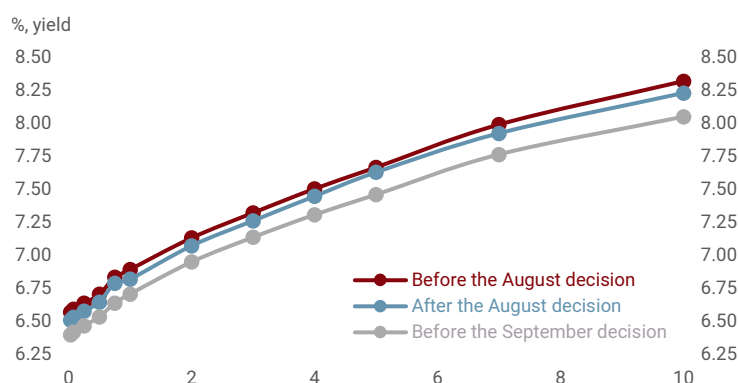
Figure 3.D.1: Financial Market expectations regarding the interest rate (September 9, 2026 survey), commercial banks



Source: CBA

The yield curve shifted somewhat downward, likely reflecting significantly lower issuance of new bonds than planned

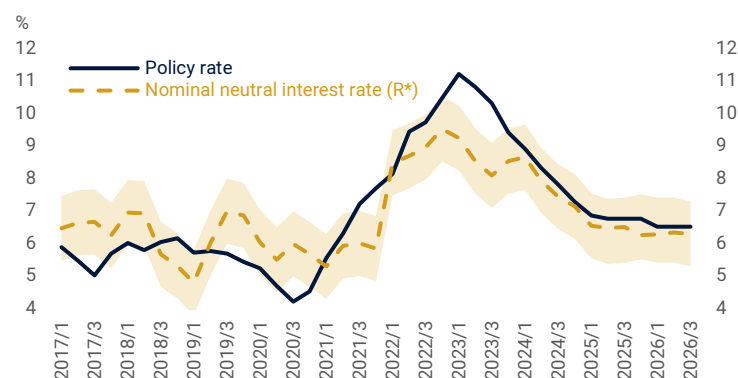
Figure 3.D.2: Yield Curves



Source: CBA

How Tight are Monetary Conditions?

Figure 3.D.3: CBA Policy Rate and Underlying Equilibrium Rate, Market Reference Scenario



Source: CBA

Bank Lending Conditions

In Q3 2026, credit growth ran at a high level, reaching 25.9% Y-o-Y in July. The CBA's Q2 surveys indicate that strong lending activity has been accompanied by both strong demand for credit and an easing of credit conditions. In particular, business lending standards have eased somewhat, especially for SMEs, while the easing of consumer and mortgage lending conditions has been accompanied by stronger demand. The increased demand for mortgage loans has been supported by positive expectations regarding economic activity and recent developments in the real estate market. The persistence of high levels of profitability and liquidity in the banking system could support a further expansion in the supply of credit going forward, which could contribute to a further broadening of domestic demand.

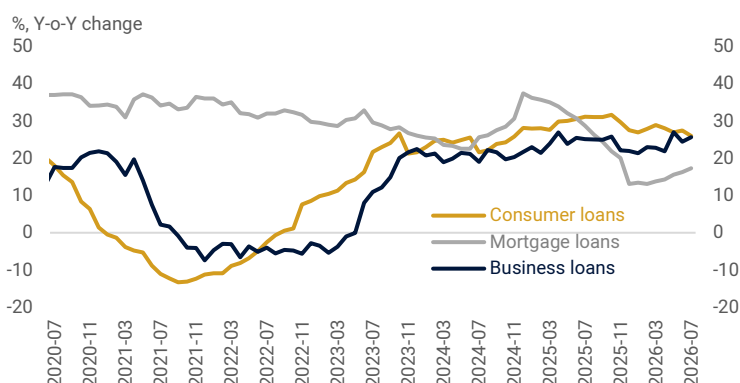
Nominal Exchange Rate

In the third quarter of 2026, the Armenian dram appreciated against the currencies of its three main trading partners (Figure 3.D.5). This may reflect both a deterioration in the global economic outlook, particularly in Russia, and strong external demand for Armenian goods, services, and domestic assets, driven by improved investor sentiment. On the one hand, increased investment activity, particularly related to the construction of AI factories, may enhance production and export capacity. On the other hand, prolonged export restrictions to Russia, coupled with a slow redirection of exports toward alternative markets, could lead to further declines in revenues and weaker investment activity in some sectors, thereby constraining the expansion of production and export capacity.

The spread of Armenian government Eurobond yields over the risk-free rate (SOFR) has declined in recent quarters, reflecting the combined influence of global and Armenia-specific factors, and has continued to stand at historically low levels. Investor sentiment toward emerging markets has improved significantly in recent years, particularly toward countries that have strengthened their macroeconomic policy frameworks and enhanced their resilience to shocks, thereby supporting greater fiscal and monetary stability and more favorable and sustainable growth prospects⁷. Meanwhile, heightened geopolitical tensions and their increasing frequency have exacerbated debt vulnerabilities in advanced economies, weighing on their economic prospects. According to estimates by A. Damodaran (Figure 3.D.6), for example, long-term sovereign default spreads for the group corresponding to Moody's Ba3 rating have declined by around 150 basis points in total in recent years. Given the relative stability of volatility in securities markets, this implies a somewhat larger, approximately 180-basis-point, decline in the country risk premium, bringing it to around 4.5%. Nevertheless, risks regarding the persistence of these developments remain.

High credit growth persists, likely reflecting excess demand in the economy

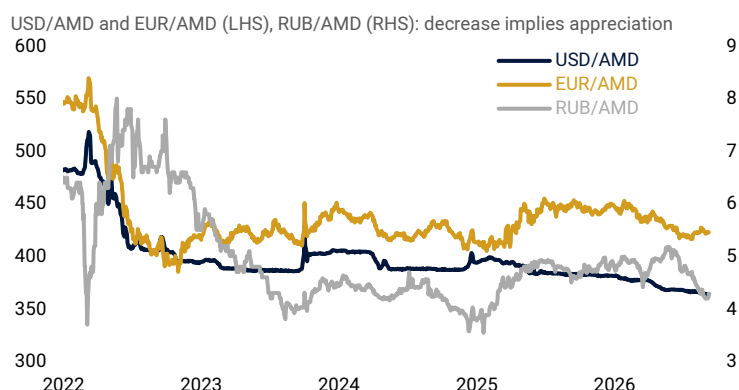
Figure 3.D.4: Change in Total Loans Provided by Commercial Banks to Households and Businesses



Source: CBA

Developments in the nominal exchange rate reflect the combined influence of various external and domestic factors

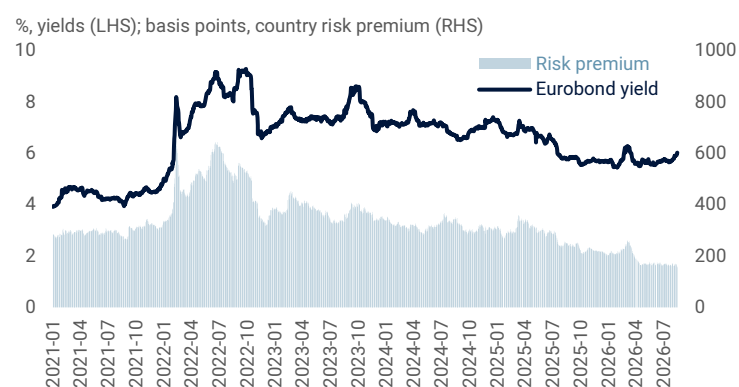
Figure 3.D.5: Nominal Exchange Rate for AMD against USD, EUR and RUB



Source: CBA

Armenia's country risk premium has continued to decline, driven by both global and Armenia-specific factors

Figure 3.D.6: Yield on Armenian Eurobonds Maturing in 2031 and Estimated Country Risk Premium



Source: Ministry of Finance, CBA staff calculations

⁷ For a more detailed discussion of improvements in the macroeconomic policy framework, see International Monetary Fund (IMF), *World Economic Outlook: Global Economy in Flux, Prospects Remain Dim* (Washington, DC: International Monetary Fund, 2025).

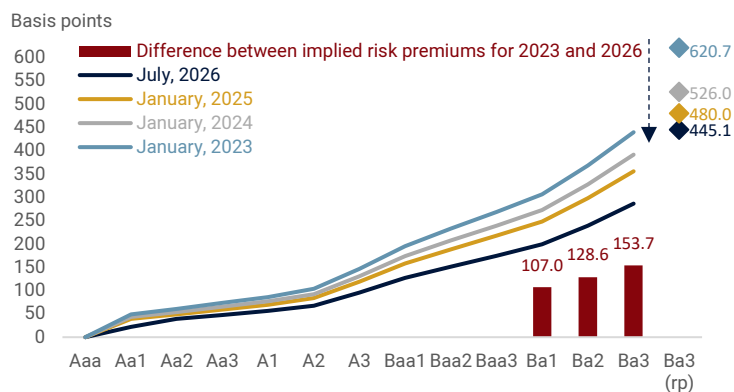
At the same time, although Armenia's country risk premium has broadly moved in line with overall emerging-market developments, signals are gradually strengthening that the current low level of the country risk premium may largely reflect improvements in fundamentals and Armenia-specific factors, including perceptions of reduced security risks surrounding the country. With security risks gradually easing, the yields on Armenian foreign-currency bonds declined by more than those of the emerging-market group during 2025–2026. Thus, in the first half of 2025, the spread between the yields on Armenian foreign-currency bonds and those of the emerging-market group relative to relatively risk-free benchmark assets (SOFR) averaged around 10 basis points, implying that investors required, on average, a higher premium for Armenian government Eurobonds than for those of emerging markets as a whole (Figure 3.D.7). This gap began to narrow in August 2025 and subsequently turned negative, averaging around -60 basis points in August 2026.

It should also be noted that the decline in short-term risk premia in emerging markets has been supported by abundant global liquidity and, more broadly, an increased propensity to invest in riskier assets.

Against this backdrop, the key uncertainties relate to the extent to which the current trends observed in emerging markets, as well as in Armenia, are structural and long-term in nature. This, in turn, creates significant uncertainty regarding the long-term sustainable level of Armenia's country risk premium and the interpretation of the neutral interest rate.

Improved risk appetite and stronger country fundamentals have contributed to an improvement in investor sentiment toward emerging markets

Figure. 3.D.7: Default Spreads by Moody's Ratings and Country Risk Premiums for Ba3-Rated Countries

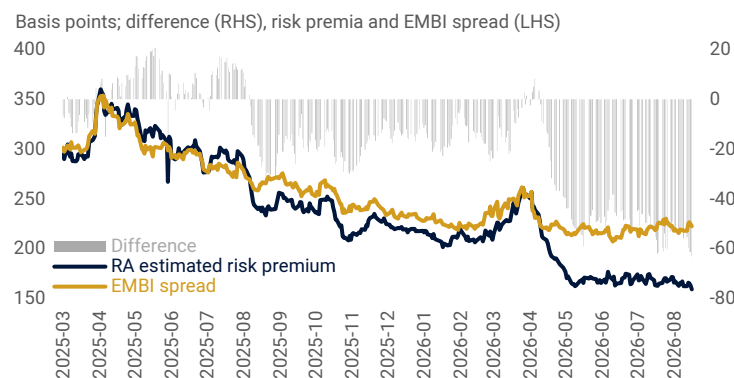


Source: Aswath Damodaran estimates, New York University, CBA staff calculations

Note: The default spread is the additional yield required on government bonds relative to relatively risk-free assets. The country risk premium is the additional return required on equities in a given country relative to a developed market, also incorporating broader market risks.

Armenia's country risk premium has improved more than that of emerging markets overall, likely reflecting a reduction in security risks

Figure. 3.D.8: Spreads of Emerging Market Countries and Armenian Eurobonds Maturing in 2031 over SOFR



Source: Bloomberg, CBA staff calculations

*Risk premium estimated based on the Armenian Eurobond maturing in 2031 (left axis)

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: 2026 Q3

Table E.2: Taxonomy of Scenarios: 2026 Q3

Case A-Type Considerations Expansionary Demand	Case B-Type Considerations Contractionary Demand
Uncertainty over aggregate demand conditions in the domestic economy; the prevailing excess-demand environment, its persistence or further expansion. - The continued recording of economic growth and high economic activity above the estimated long-term sustainable level, driven mainly by services and construction and accompanied by strong growth in consumption and lending, could point to excess demand conditions in the Armenian economy. - A more expansionary fiscal policy stance in the context of a possible overrun in current expenditures, including spending on universal health insurance. - Amid a prolonged Russia-Ukraine conflict and an expansion in its scope, together with a deterioration in the security environment and economic outlook: - a significant increase in visits to countries in the region, including Armenia, with risks of a substantial broadening of demand and inflationary pressures in the short term; - a significant increase in demand for real estate in Armenia from Russian citizens, contributing to higher real estate prices and, through the wealth channel, stimulating investment and consumption in the Armenian economy. - The persistence or acceleration of significant capital inflows to Armenia, driven by growing interest in Armenian assets and, in particular, external push factors, which in the short term would mainly contribute to an expansion in demand conditions in the domestic economy. - Rising energy and food prices stemming from geopolitical tensions and disruptions to trade routes, combined with the persistently high inflation in essential, sensitive goods in Armenia, could lead to an acceleration in inflation expectations.	Risks of weak demand conditions in the global economy or individual partner economies and/or of their further weakening. - A possible downward correction in US financial asset prices, particularly securities, given the risks of overvaluation, could lead to a sharp weakening in consumer and investment activity in the US and, more broadly, in the global economy. - Given the accumulation of structural problems in certain sectors of the Russian economy, a further weakening in economic activity and domestic demand, with corresponding effects on Armenia's exports of goods and services and on remittance inflows to Armenia. Uncertainty over aggregate demand conditions in the domestic economy; the prevailing weak-demand environment, its persistence or further weakening. - A decline in incomes amid restrictions on exports of certain goods to Russia and high uncertainty over their outlook, particularly given the large-scale employment in the agricultural sector, together with a broader weakening in investment and consumer activity in the economy. Uncertainty over Armenia's neutral interest rate; risks of it settling at a lower level. - A lower equilibrium level of Armenia's country risk premium and neutral interest rate amid easing security risks around Armenia and a gradual improvement in fundamentals.
Case A-Type Considerations Contractionary Supply	Case B-Type Considerations Expansionary Supply
Persistent geopolitical risks, particularly prolonged tensions in the Middle East and disruptions to trade routes, could lead energy and food prices to remain elevated for a prolonged period or rise further, while also increasing logistics and other production costs, with corresponding inflationary effects on the Armenian economy.	- An increase in labor supply in the Armenian economy, driven by a deterioration in Russia's economic growth outlook, reduced seasonal migration from Armenia to Russia amid tighter migration policies in Russia, and the possible return of Armenian labor migrants to Armenia. - Prolonged Russian restrictions on imports of goods produced in Armenia could create excess supply of certain products and generate deflationary pressures. - A fundamental resolution of geopolitical tensions in the Middle East, combined with the current expansion in production by non-OPEC+ countries, could lead to a decline in energy prices and their settling below pre-conflict levels, with predominantly deflationary effects.

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.

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 Q3 2026 survey was carried out in July–August 2026. The survey included 18 commercial banks, 20 investment companies, 8 insurance companies, and 27 credit organizations.

Figure B.4.1: CPI Inflation

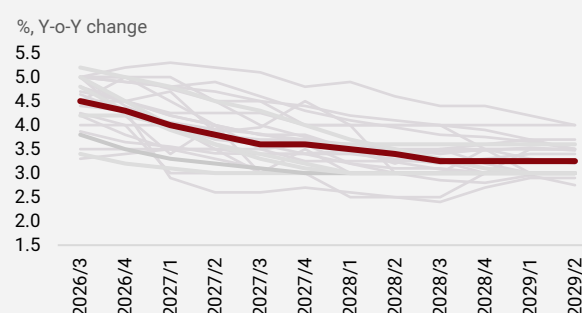


Figure B.4.3: Real GDP Growth Rate

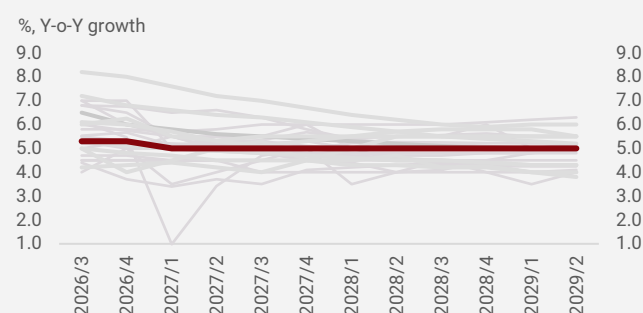


Figure B.4.2: CBA Policy Rate

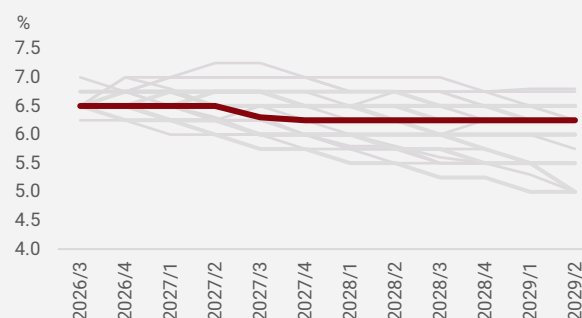
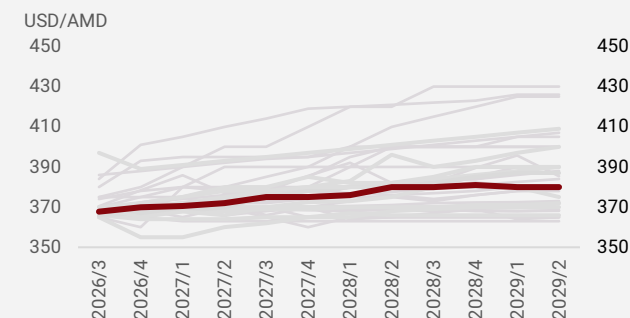


Figure B.4.4: Nominal USD/AMD Exchange Rate



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

Table B.4.1: Summary of Third-Party Projections

Source Date	IMF Apr-26	CBA Macro Survey Q3 26	Consensus Sep-26
GDP Growth (Annual Rate, %)			
2025 (Actual)		7.2	
2026	5.3	5.6	5.3
2027	5.5	5.0	5.1
2028	5.0	5.0	4.3
Inflation (Annual Rate, %)			
2025 (Actual)		3.3	
2026	3.6	4.4	4.7
2027	3.4	3.8	4.1
2028	3.3	3.4	3.7

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

F. Monetary Policy Outlook

Case A: An expansion in external demand, implying a policy rate path above market expectations

A significant increase in visits to Armenia amid a deterioration in Russia's economic and security outlook, with risks of a substantial broadening of demand and inflationary pressures.

During 2026, the scale of the Russia-Ukraine conflict has expanded, while the prospects for a comprehensive resolution have weakened somewhat. In particular, recent months have seen a significant increase in attacks on civilian infrastructure, especially energy and logistics infrastructure as well as storage facilities, contributing to shortages across various commodity markets. Against the backdrop of these developments, expectations of a further escalation and expansion of the conflict have gradually emerged, leading to some changes in the behavior of Russian citizens. Notably, these developments have coincided with an expansion of the conflict in the Middle East and heightened security risks, significantly reducing the possibility of visits by Russian citizens to countries in the region.

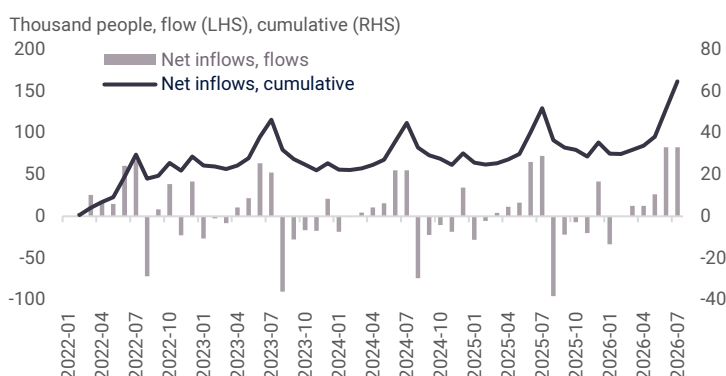
Against this backdrop, a significant increase in visits by Russian citizens to Armenia has been recorded in recent months (Figure 3.F.1). In March–July 2026, the net inflow of Russian citizens, measured as the difference between entries into and exits from Armenia, amounted to around 87 thousand, exceeding the corresponding figure for 2025 by approximately 20 thousand. The persistence of these trends, or their acceleration should the underlying factors intensify, could have significant macroeconomic implications for the Armenian economy. It should be noted that these developments are already reflected in elevated activity in certain service sectors, particularly those driven by expanding demand, accompanied by a marked acceleration in price growth for hotel, restaurant, and transportation services. Furthermore, certain indicators, especially the growing interest in Armenian real estate (Figure 3.F.2), may indicate a planned longer duration of visits.

The experience of 2022 may provide an important benchmark for assessing the potential macroeconomic effects of such developments, while acknowledging that the current developments may primarily manifest as an external demand shock, with a macroeconomic impact substantially smaller than that observed in 2022. On the one hand, possible differences in the composition of the flows and in per capita spending behavior, together with the larger size of the Armenian economy relative to 2022, may constrain their relative effects on economic growth and demand.

Under the described scenario, although the nominal exchange rate acts as the primary shock absorber, mitigating the medium- and long-term effects of the expansion in external demand on the real economy, a higher-than-expected policy rate path would be required to contain aggregate demand and mitigate the risks of an acceleration in inflation expectations.

Amid a deterioration in Russia's economic and security outlook, visits to Armenia have increased significantly

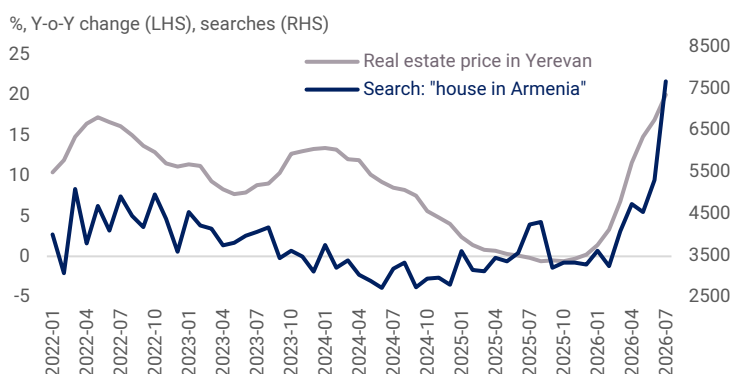
Figure 3.F.1: Net Inflows to Armenia, Border registrations



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

Growing interest in Armenia's real estate market may indicate plans for a long-term stay in Armenia

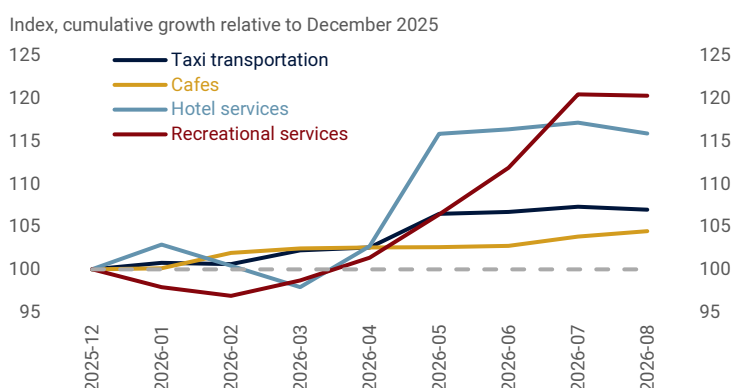
Figure 3.F.2: Growth in interest toward RA real estate and the rise in real estate prices in Yerevan



Source: Yandex search engine, Cadastre Committee of RA

This is also reflected in the acceleration of inflation in certain services

Figure 3.F.3: Demand-driven services inflation



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

Case B: A weakening of export revenues and domestic demand, implying a lower policy rate path relative to market expectations

A decline in incomes amid restrictions on exports to Russia and high uncertainty over their outlook, together with weaker investment and consumer activity in the economy.

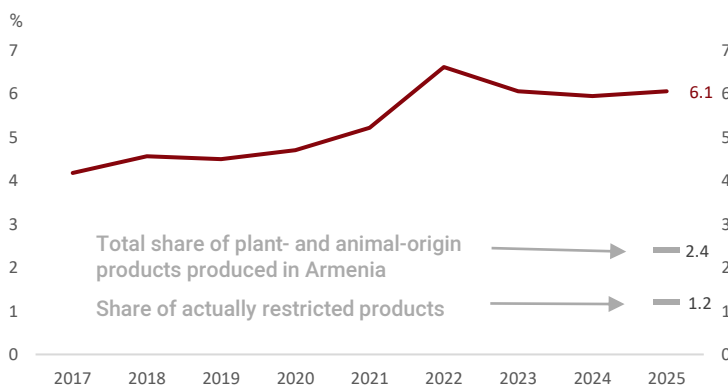
Although the structure of Armenia's foreign trade has undergone some favorable changes in recent years, the role of individual countries, particularly Russia, remains significant. Against this backdrop, the restrictions imposed by Russia since June 2026 on exports of plant- and animal-origin products from Armenia could, if prolonged, have a substantial negative impact on agriculture and, given the sector's significant employment base, could also weaken investment and consumer confidence in the economy.

Currently, the above-mentioned restrictions mainly apply to plant- and animal-origin products in the agricultural sector, as well as a limited number of industrial products, whose combined exports amounted to around 1.2% of GDP in 2025. While the overall value at risk is relatively limited, a large share of the production of certain products, including flowers, fish products, and stone fruits, is exported to Russia, complicating the absorption of these products in the domestic market. On the other hand, despite some positive developments, opportunities to redirect exports toward alternative markets remain limited in the short term.

Alongside the relatively lower levels of wages and, more broadly, incomes in the agricultural sector, the sector's large employment base should also be taken into account, as it is likely not fully captured in official statistics due to the high level of informal employment. Consequently, the aforementioned restrictions could result in a significant decline in both export revenues and domestic incomes associated with potential price declines for the affected products. At the same time, debt burdens in the sector have also increased significantly in recent years, reaching around 52% of output as of the third quarter of 2026, increasing the sector's vulnerability to a decline in income and creating additional risks to consumer and investment confidence in the Armenian economy.

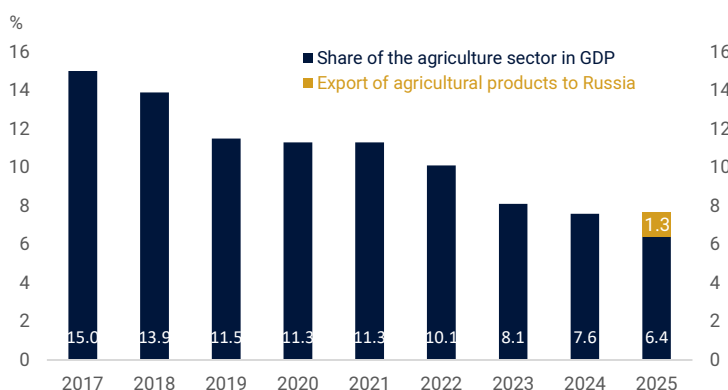
Therefore, should this scenario materialize, monetary policy should be geared toward supporting demand and absorbing deflationary pressures, requiring a policy rate path lower than currently expected by financial markets.

Figure 3.F.4: Exports to Russia as a share of GDP



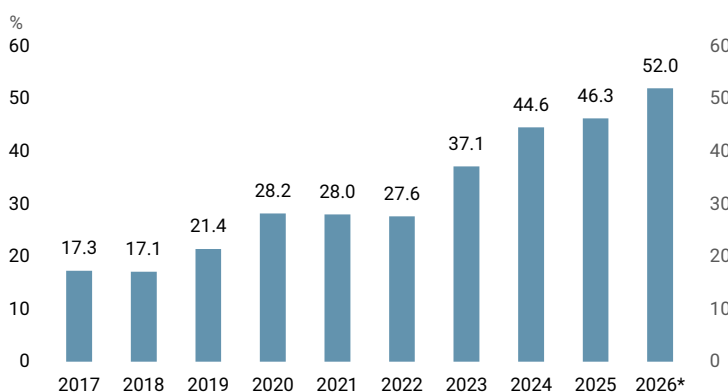
Source: CBA, CBA staff calculations

Figure 3.F.5: Share of the agriculture sector and exports in GDP



Source: Statistical Committee of the Republic of Armenia

Figure 3.F.6: Agricultural sector debt burden



Source: CBA staff calculations

Note: Share of Agricultural Sector Loans in Sector Output. For 2026, output over the latest four quarters is used.

Summary of Illustrative Case A & Case B Macroeconomic Projections

Figure 3.F.7: Endogenous Interest Rate Path, %

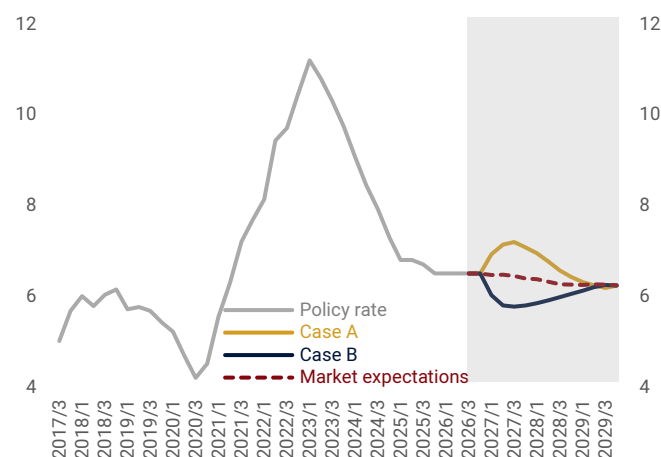


Figure 3.F.10: Non-Traded Sticky Price Inflation, Y-o-Y, %

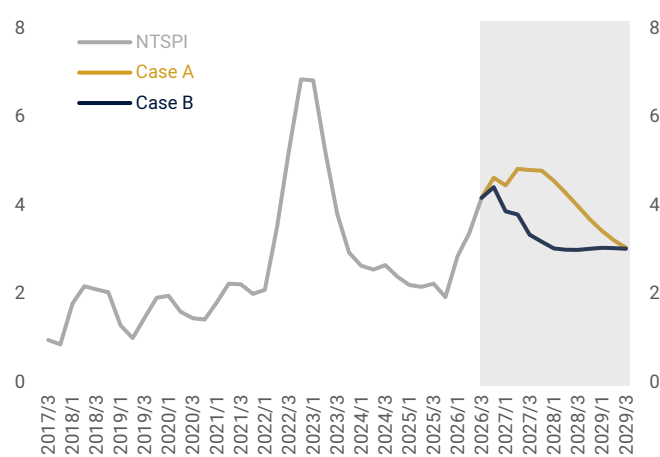


Figure 3.F.8: Real GDP Growth, Y-o-Y, %

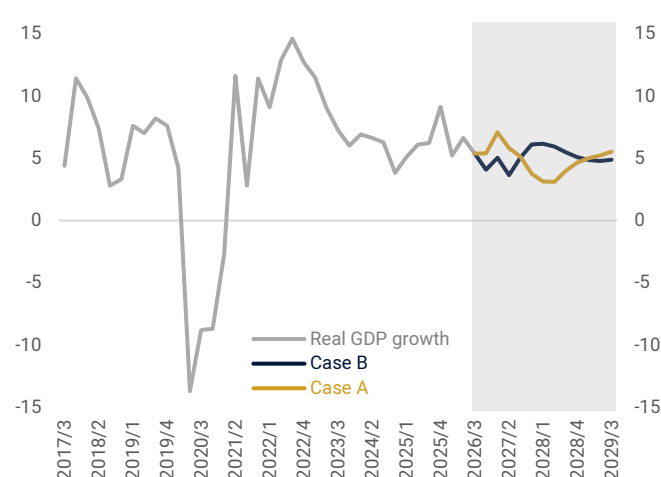


Figure 3.F.11: Output Gap, %

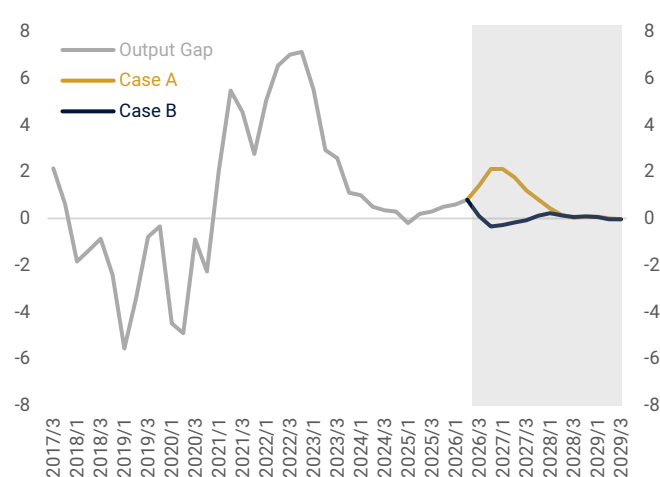


Figure 3.F.9: Headline CPI Inflation, Y-o-Y, %

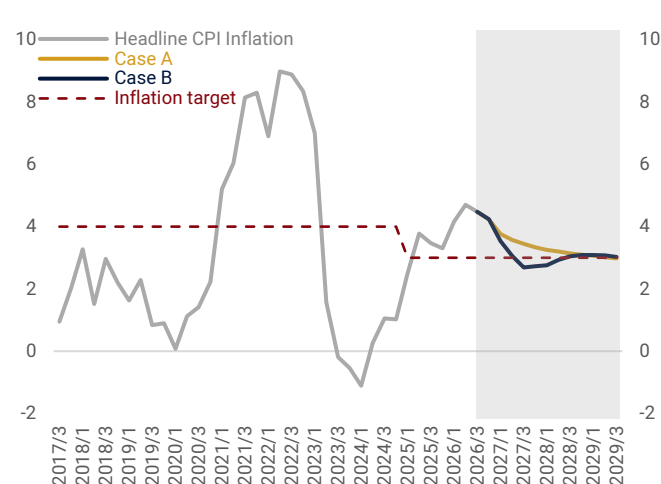


Figure 3.F.12: Real Interest Rate, %

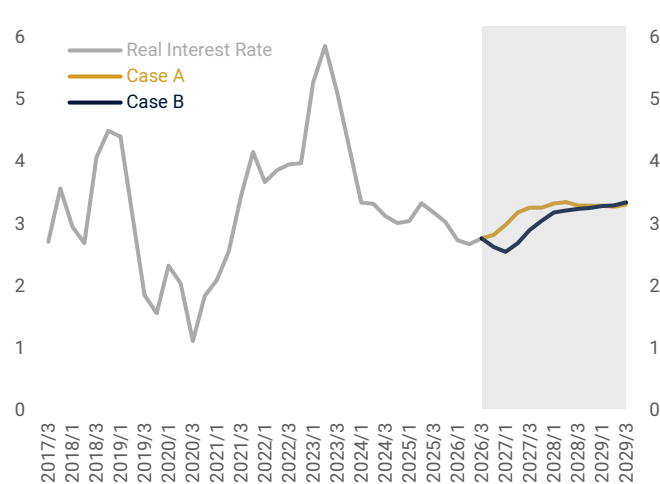


Figure 3.F.13: Nominal Effective Exchange Rate, Index

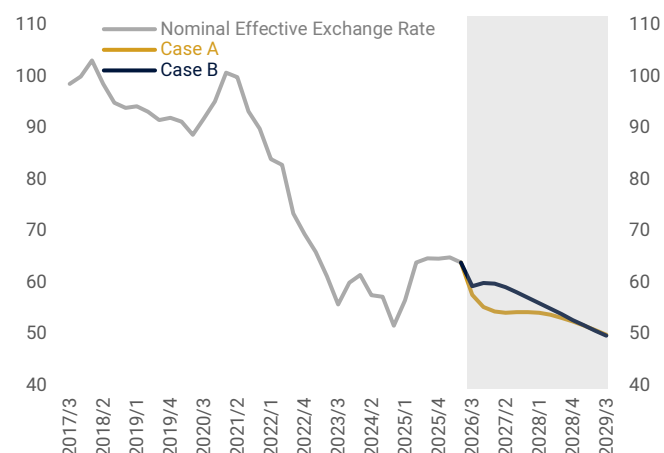


Figure 3.F.15: Model-Based 1-Year Ahead Inflation Expectations, Y-o-Y, %

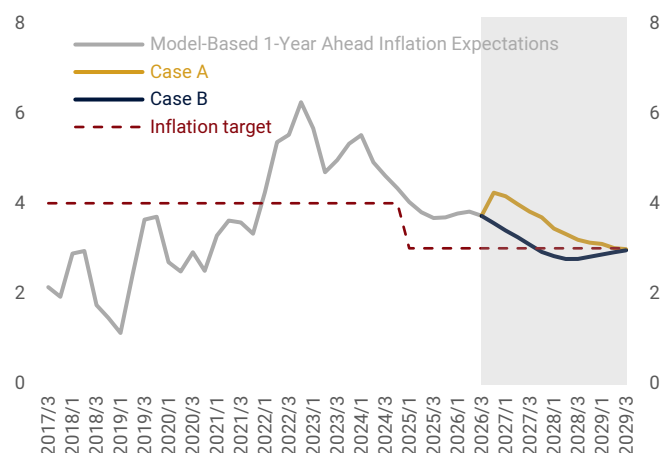


Figure 3.F.14: Real Effective Exchange Rate, Index

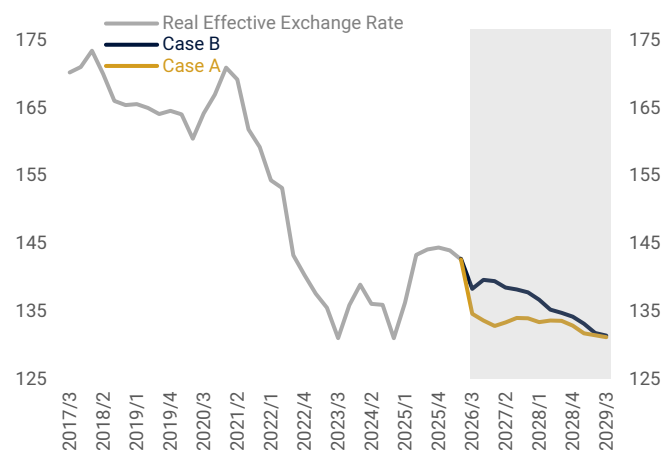


Table 3.F.1: Summary of Illustrative Macroeconomic Projections
Historical Data and Illustrative Case A & B Scenario Projections

		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	2.2	2.2	2.0	2.0	1.8	1.8	1.8	1.8
Eurozone economic growth	real growth, %	0.9	1.4	1.0	1.0	1.3	1.3	1.3	1.3	1.2	1.2
Russia economic growth	real growth, %	4.1	1.0	0.9	0.9	1.3	1.3	0.7	0.7	1.2	1.2
USA inflation	average, %	3.0	2.7	3.2	3.2	2.6	2.6	2.4	2.4	2.1	2.1
EU inflation	average, %	2.6	2.4	2.7	2.7	2.6	2.6	2.2	2.2	2.1	2.1
Russia inflation	average, %	8.4	9.0	5.8	5.8	5.2	5.2	4.1	4.1	3.9	3.9
Oil price	dollar/barrel	80.5	69.1	87.8	87.8	74.1	74.1	71.6	71.6	71.3	71.3
Copper price	dollar/mt	9142.0	9947.0	14211.0	14211.0	14200.3	14200.3	14143.0	14143.0	14116.5	14116.5
FAO food price index	index	122.0	127.2	132.1	132.1	135.8	135.8	139.3	139.3	143.0	143.0
Domestic Economy											
Inflation											
Inflation	Y-o-Y, %, EOP	1.5	3.3	4.5	4.2	3.4	2.7	3.1	3.1	3.0	3.0
CPI inflation	Y-o-Y, %, avg.	0.3	3.3	4.5	4.4	3.7	3.0	3.2	3.0	3.0	3.0
Non-traded sticky price inflation	Y-o-Y, %, avg.	2.6	2.2	3.8	3.7	4.7	3.5	4.1	3.0	3.0	3.0
Gross Income											
GDP	billion dram	10250.0	11343.0	12440.8	12401.1	13499.3	13368.4	14419.0	14491.4	15549.8	15549.3
GDP	real growth, %	5.9	7.2	5.7	5.3	5.2	5.2	3.7	5.7	5.3	4.9

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, %	6.7	5.1	7.8	6.7	5.3	4.4	4.4	4.8	5.1	5.1
Public consumption	real growth, %	-8.2	3.7	11.2	11.3	2.5	2.5	2.7	2.7	1.8	1.8
Private consumption	real growth, %	9.3	5.4	7.3	6.0	5.7	4.7	4.7	5.1	5.6	5.5
Gross accum. of fixed assets*	real growth, %	11.9	14.9	10.5	9.8	8.5	8.4	8.2	9.0	4.2	4.2
Public investment**	real growth, %	11.8	15.5	3.3	3.4	7.0	7.0	10.0	10.0	8.0	8.0
Gross accumulation of private fixed assets	real growth, %	12.0	14.6	13.6	12.4	9.1	9.0	7.5	8.7	2.6	2.6
Export of goods and services	real growth, %	-11.0	-30.1	-29.9	-37.6	5.5	7.7	4.5	7.5	2.4	5.1
Import of goods and services	real growth, %	-3.2	-27.2	-25.8	-30.2	1.8	2.0	1.3	2.8	1.3	3.1
Current Account											
Balance of trade	million USD	-3001.0	-3845.7	-3982.7	-4280.0	-3993.4	-4228.0	-3865.0	-3928.0	-3747.7	-3827.9
Balance of services	million USD	1742.2	1790.2	2165.5	1922.6	2384.5	2063.2	2444.8	2212.7	2433.6	2371.5
Money transfers	million USD	918.8	166.8	1161.2	1105.9	1300.5	1212.0	1383.7	1270.2	1450.1	1331.2
Current account	million USD	-1615.2	-2553.6	-2152.4	-2747.9	-1879.6	-2523.9	-1686.1	-2094.7	-1596.1	-1857.3
Balance of trade	share of GDP, %	-11.5	-13.1	-11.8	-13.0	-11.6	-12.9	-11.0	-11.1	-9.8	-9.8
Balance of services	share of GDP, %	6.7	6.1	6.4	5.8	6.9	6.3	6.9	6.2	6.4	6.1
Money transfers	share of GDP, %	3.5	0.6	3.4	3.4	3.8	3.7	3.9	3.6	3.8	3.4
Current account	share of GDP, %	-6.2	-8.7	-6.4	-8.3	-5.5	-7.7	-4.8	-5.9	-4.2	-4.8
Public sector***											
Revenues and grants	billion dram	2579.2	2886.0	3140.7	3140.7	3475.3	3475.3	3794.2	3794.2	4174.5	4174.5
Tax revenue	billion dram	2390.9	2725.2	3016.2	3016.2	3349.9	3349.9	3685.9	3685.9	4063.6	4063.6
Expenditures	billion dram	2955.3	3305.3	3636.0	3636.0	3917.2	3917.2	4201.0	4201.0	4461.0	4461.0
Deficit	billion dram	-376.1	-419.3	-495.3	-495.3	-441.9	-441.9	-406.8	-406.8	-286.5	-286.5
Revenues and grants	share of GDP, %	25.3	25.5	25.2	25.3	25.7	26.0	26.3	26.2	26.8	26.8
Tax revenue	share of GDP, %	23.5	24.1	24.2	24.3	24.8	25.1	25.6	25.4	26.1	26.1
Expenditures	share of GDP, %	23.7	23.1	29.2	29.3	29.0	29.3	29.1	29.0	28.7	28.7
Deficit	share of GDP, %	-3.7	-3.7	-4.0	-4.0	-3.3	-3.3	-2.8	-2.8	-1.8	-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, 2026-2029, available at the time.

*** The 2026–2029 figures are drawn from the State Medium-Term Expenditure Framework.

