



Central Bank
of Armenia

Monetary Policy **Outlook**

May 5, 2026

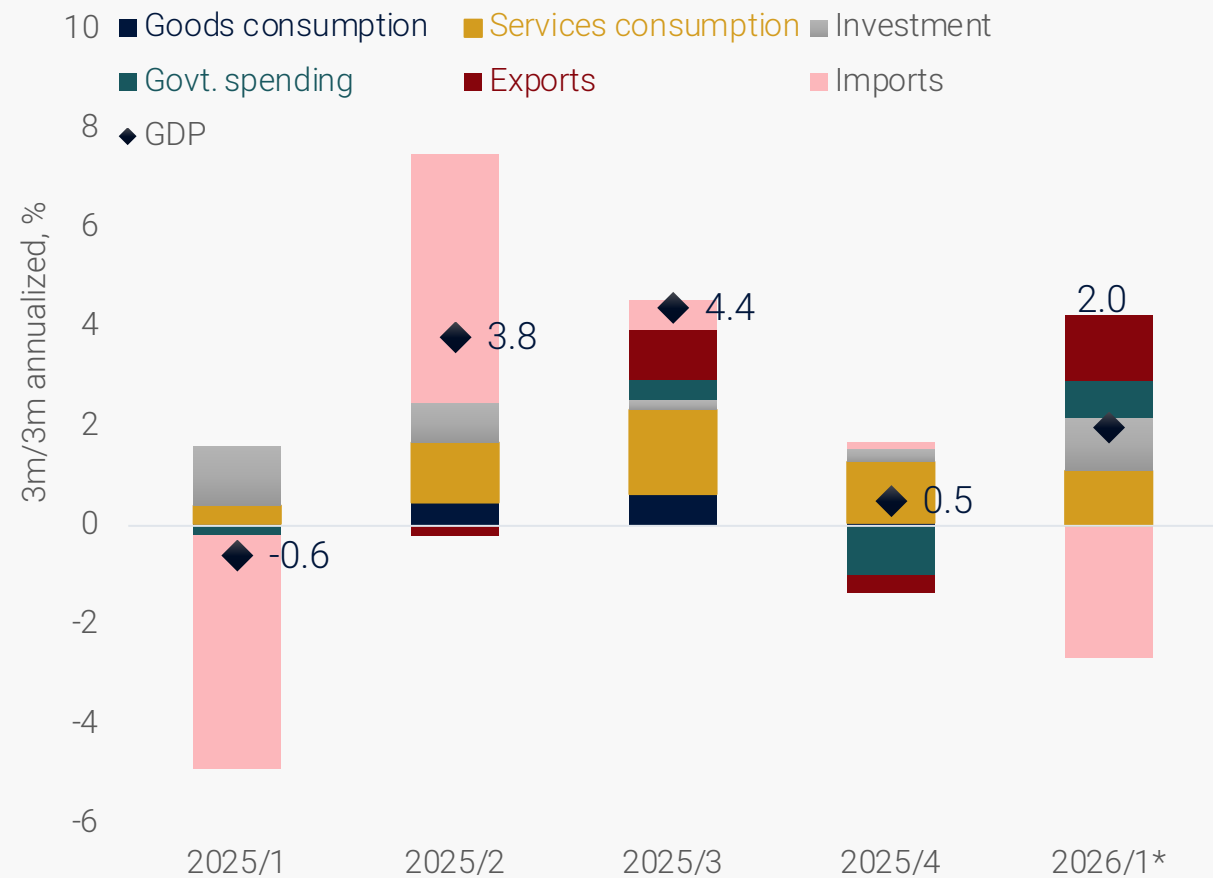


What are the underlying forces driving the economy?

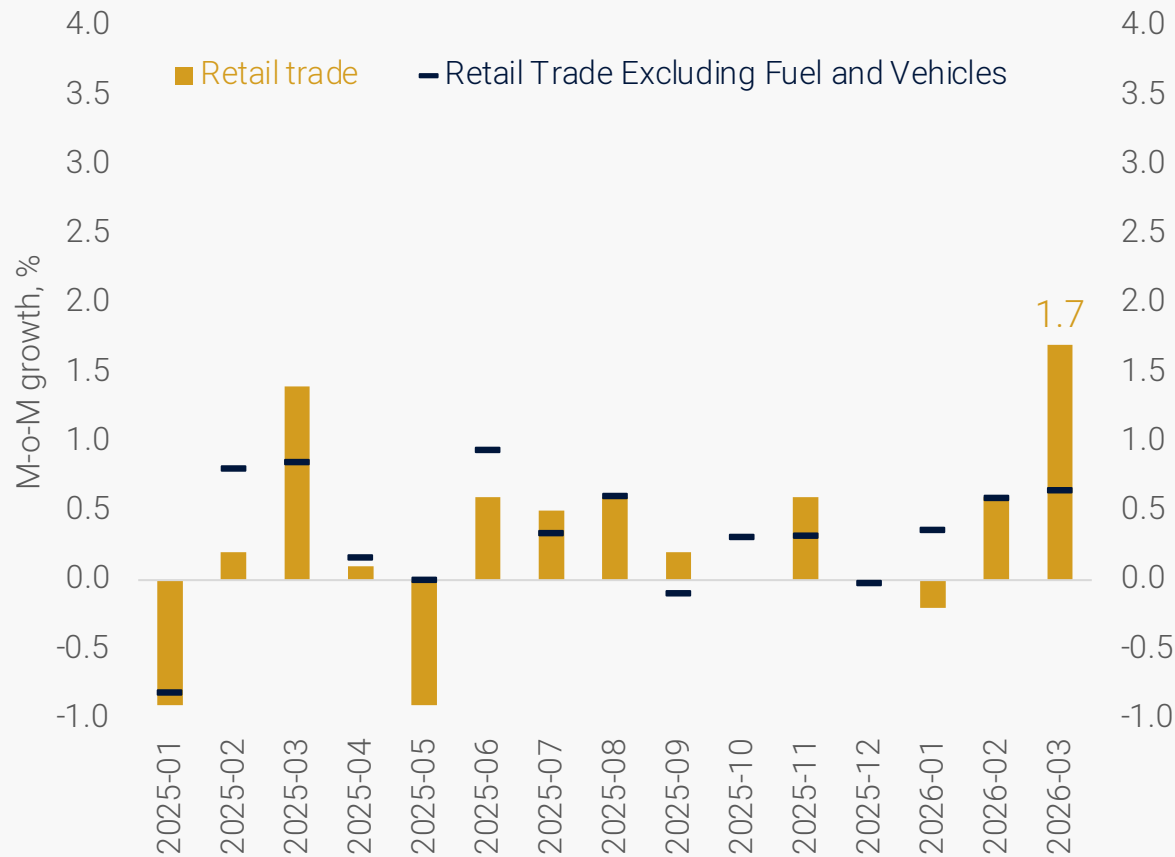
Global economic developments
in the context of key uncertainties

US. Amid major shifts in economic policy, U.S. economic growth has become increasingly volatile and has recently decelerated.

Economic growth accelerated in the first quarter of 2026, partly driven by certain temporary factors



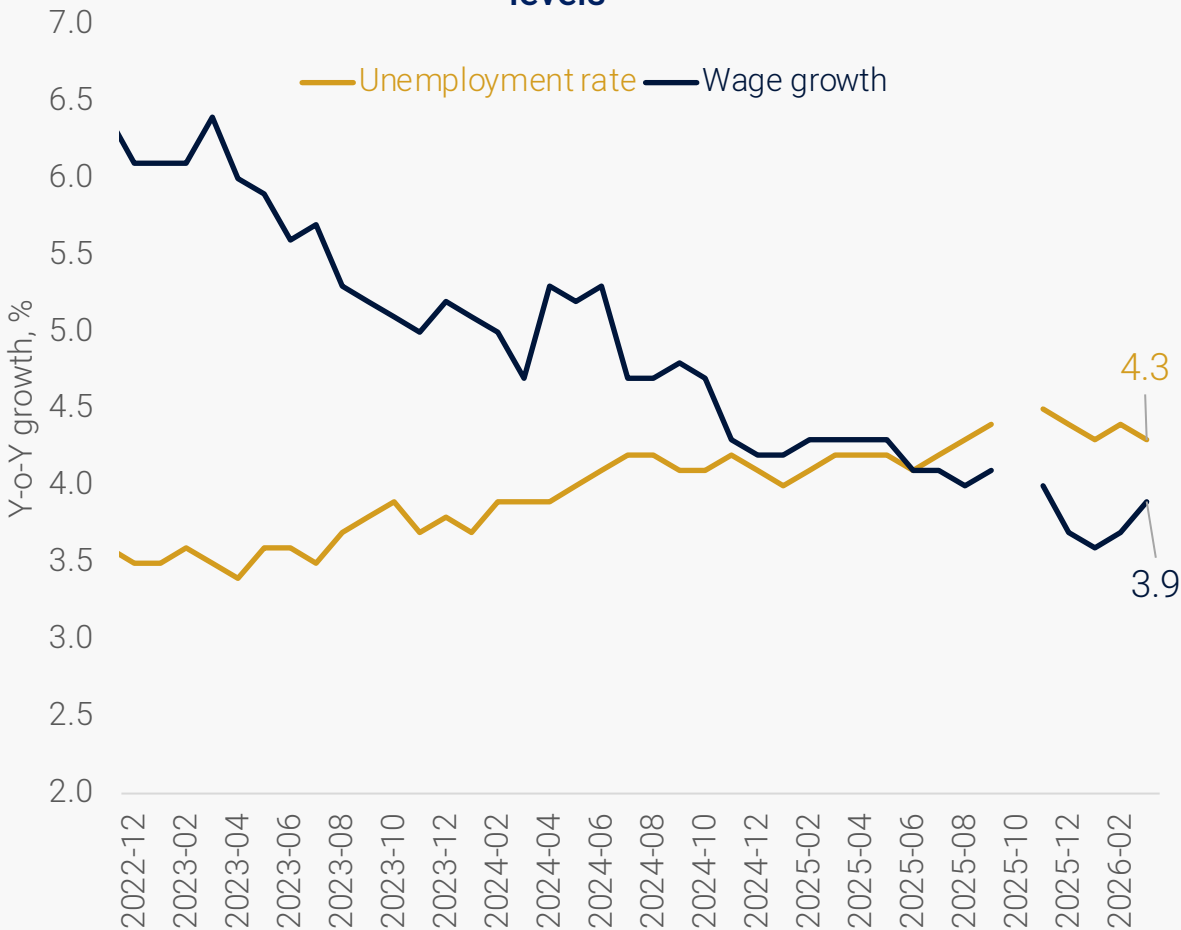
Nevertheless, retail trade dynamics indicate a certain acceleration in consumption in the first quarter of 2026



Source: U.S. Bureau of Economic Analysis, Federal Reserve Bank of Atlanta

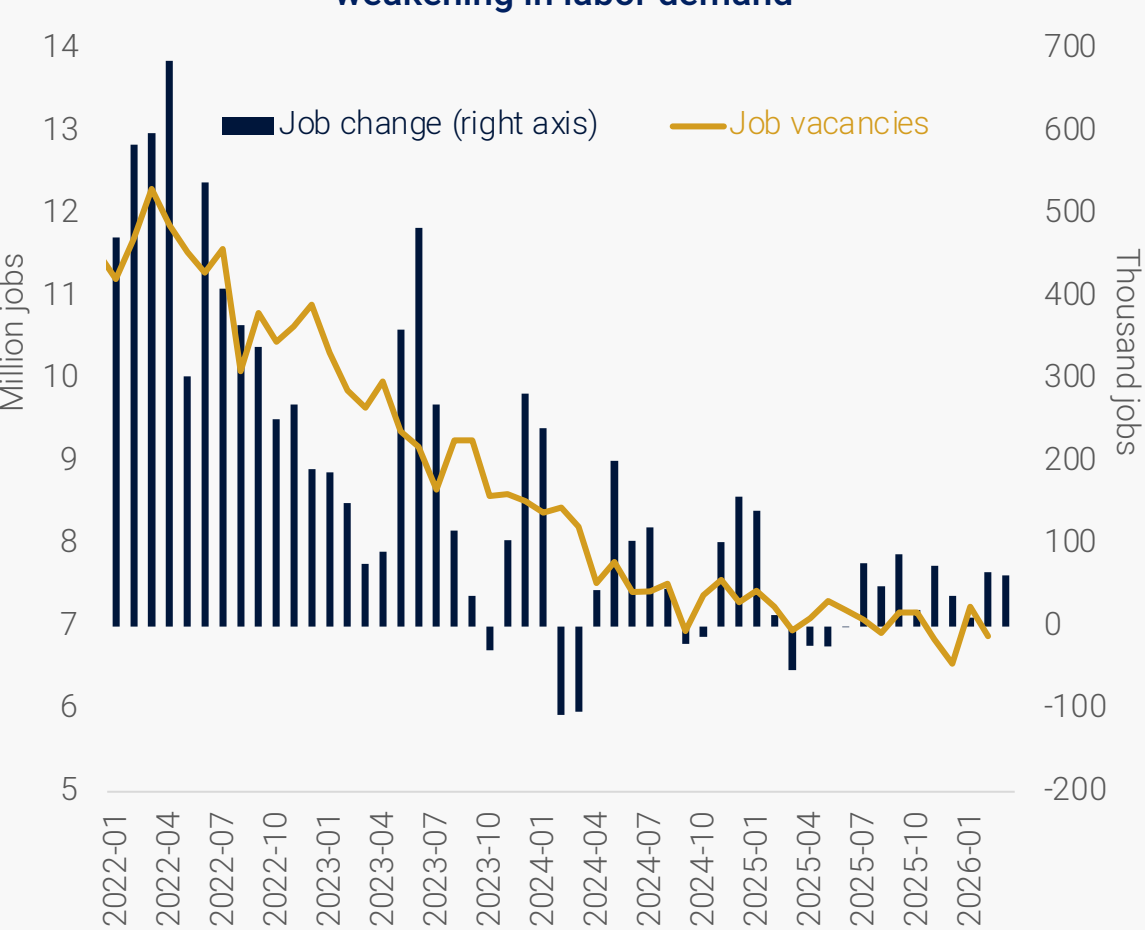
US. Labor market conditions have also weakened, likely reflecting a more balanced position of the economy

Wage growth has gradually slowed, stabilizing at more sustainable levels



Source: U.S. Bureau of Labor Statistics; Federal Reserve Bank of Atlanta

The number of job vacancies has declined significantly, indicating a weakening in labor demand

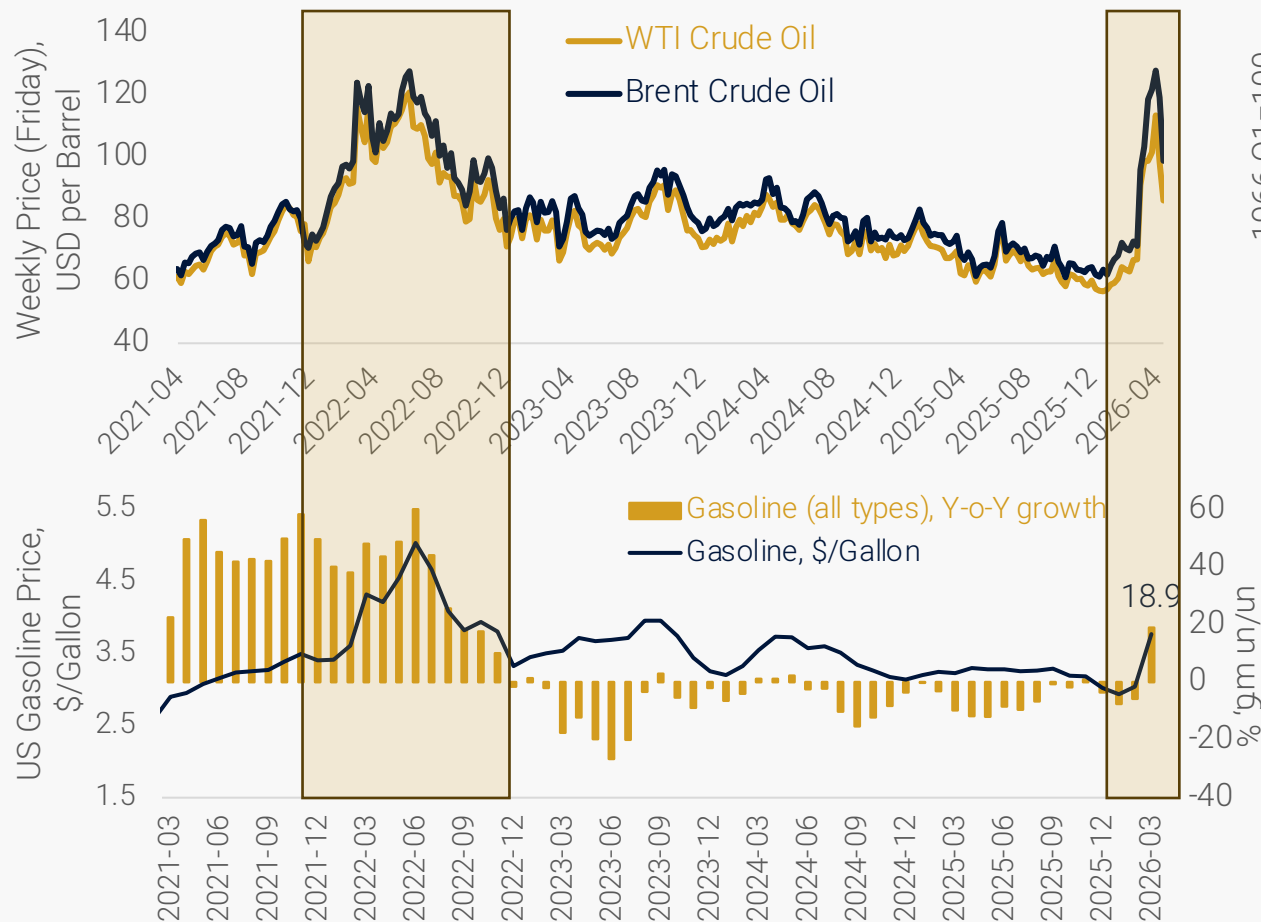


Source: Federal Reserve Economic Data (FRED)

US. The prolonged continuation of the Middle East conflict significantly increases uncertainty surrounding the economic growth outlook, primarily posing risks of further demand slowdown, while at the same time increasing the risk of faster inflation



Despite some increase in gasoline prices, their level remains significantly below the high levels observed in 2022

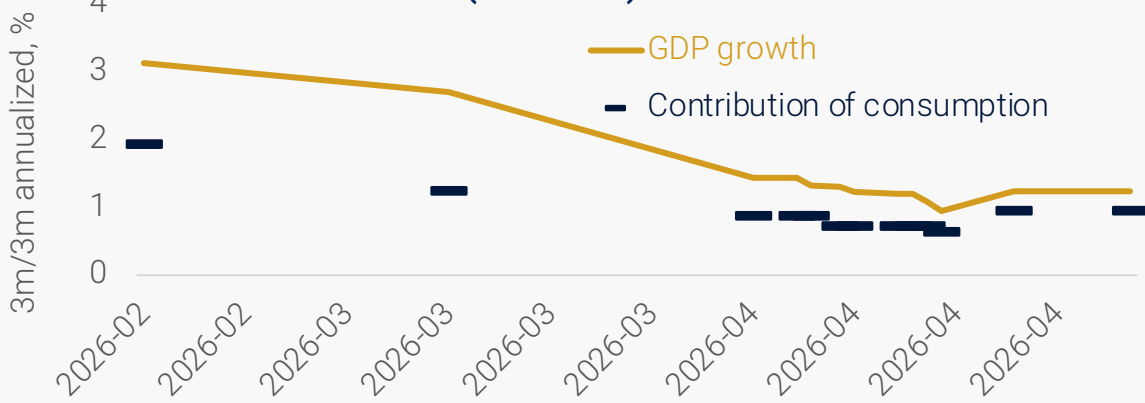


Source: Federal Reserve Economic Data (FRED)

At the same time, the slowdown in consumer confidence points to cautious behavior among households



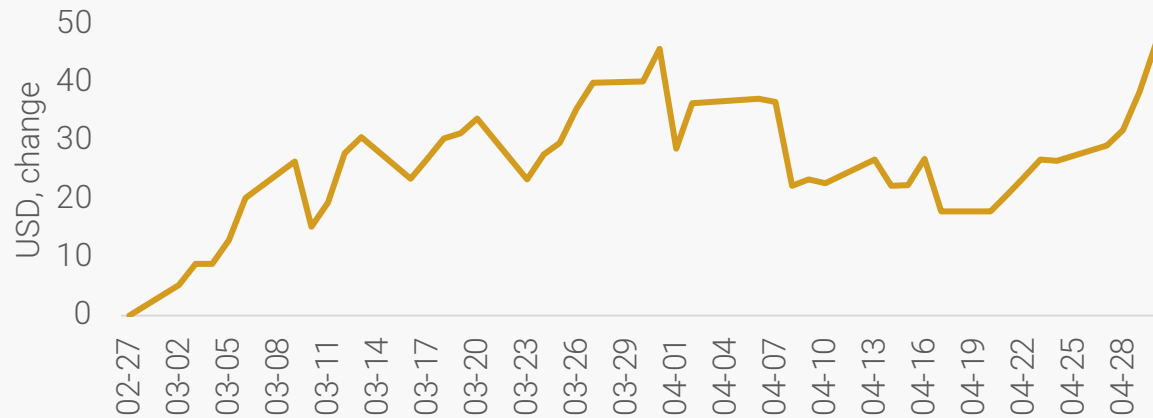
Revisions to US Q1 2026 Growth Estimates Over Recent Months (GDPNow)



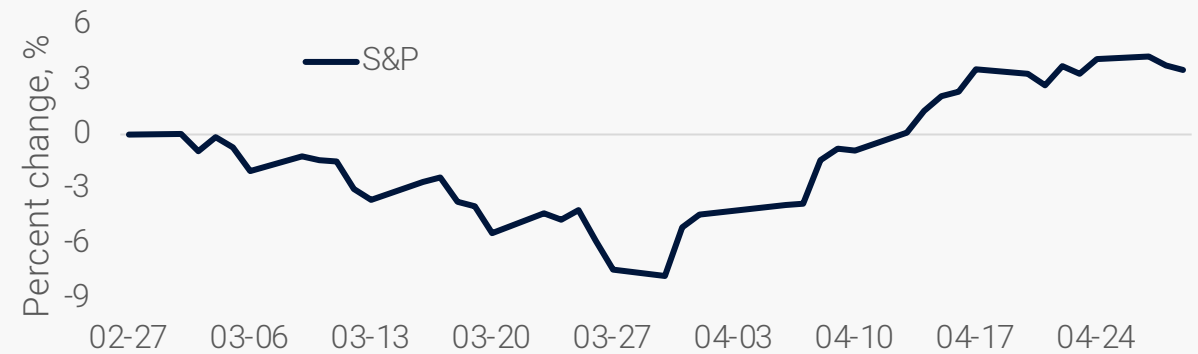
Source(s): Federal Reserve Economic Data (FRED), Federal Reserve Bank of Atlanta

US. Are financial markets overly optimistic about the imminent end of the conflict and its implications?

Change in Brent Price Relative to 27 February



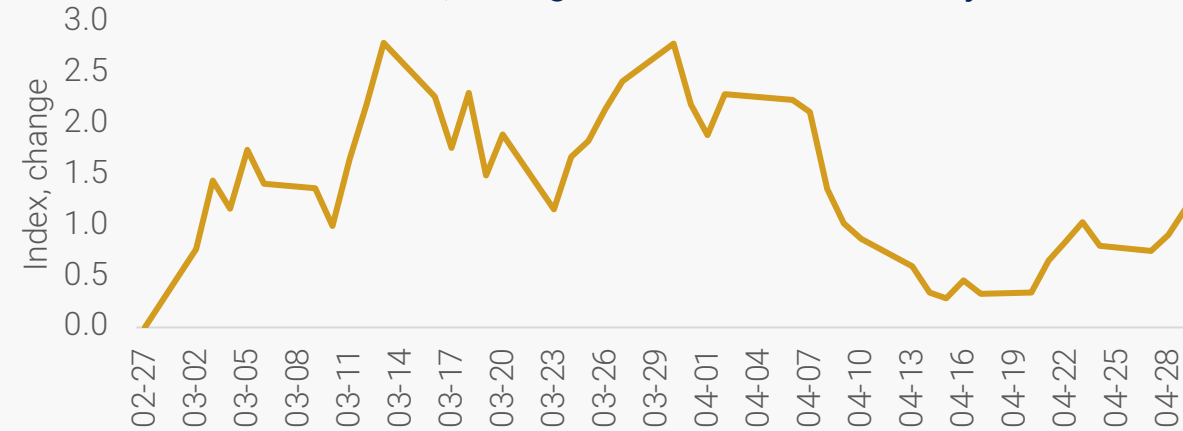
S&P 500 Change Relative to the 27th



US 10-Year Treasury Yield, Change Relative to 27 February



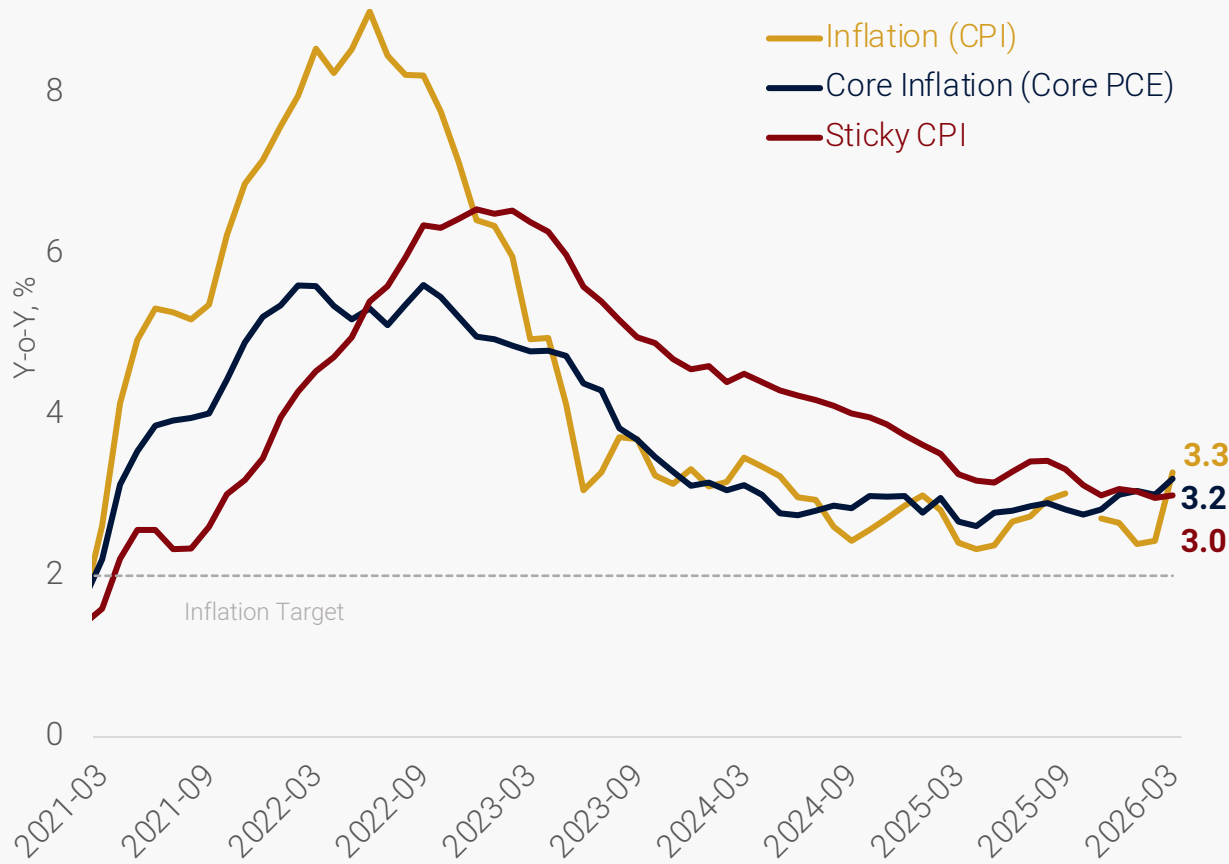
US Dollar Index, Change Relative to 27 February



Source: Federal Reserve Economic Data (FRED)

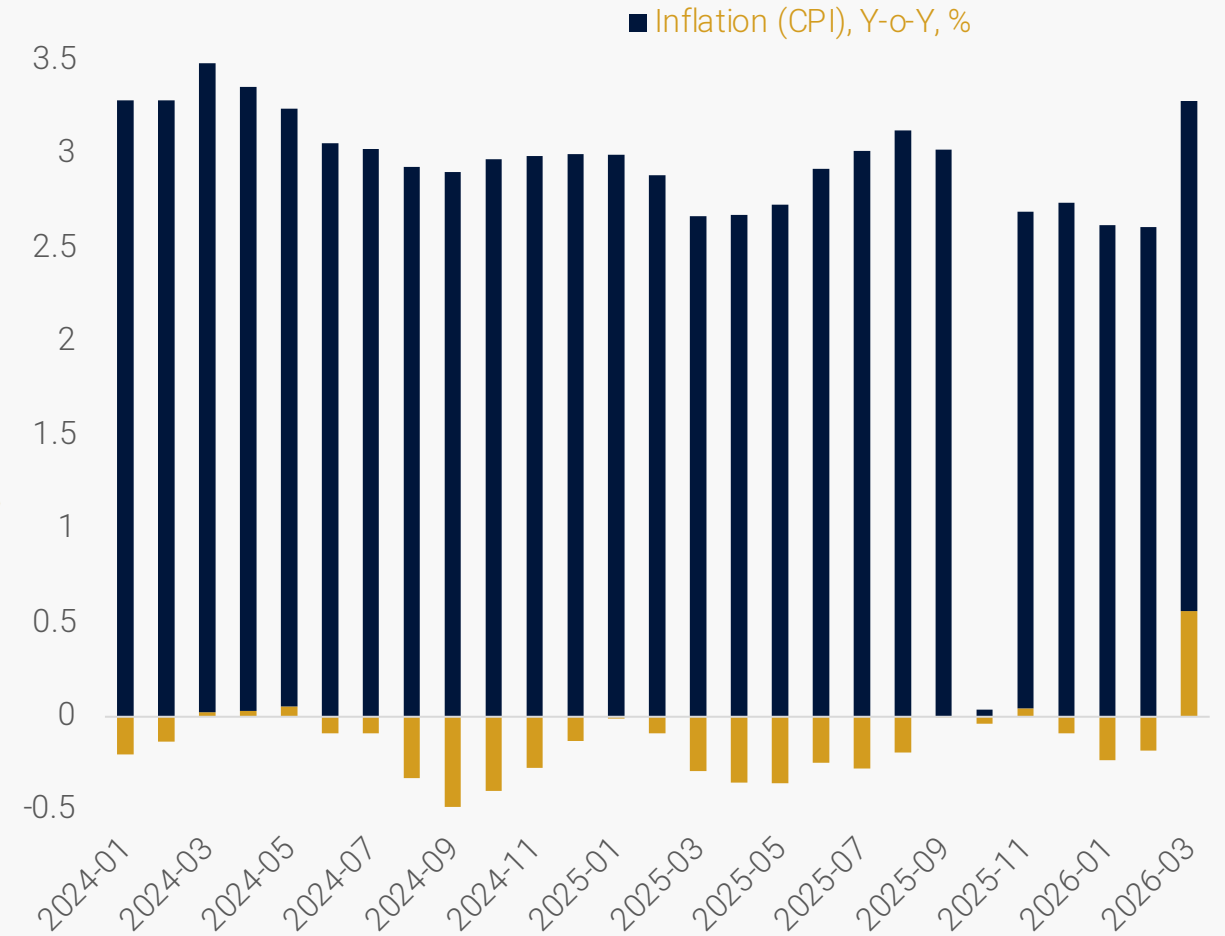
US. In the context of persistently elevated levels of goods and services with sticky prices remaining well above target, rising energy prices may further complicate the task of ensuring price stability in the United States

As a result of the Middle East conflict, inflation has accelerated significantly, driven by both first-round and second-round effects transmitted through rising energy prices



Source: U.S. Bureau of Labor Statistics; Federal Reserve Bank of Atlanta

The increase in gasoline prices has significantly contributed to the acceleration of inflation...



Source: Federal Reserve Economic Data (FRED)

US. In this context, market participants expect a much more gradual reduction in policy interest rates

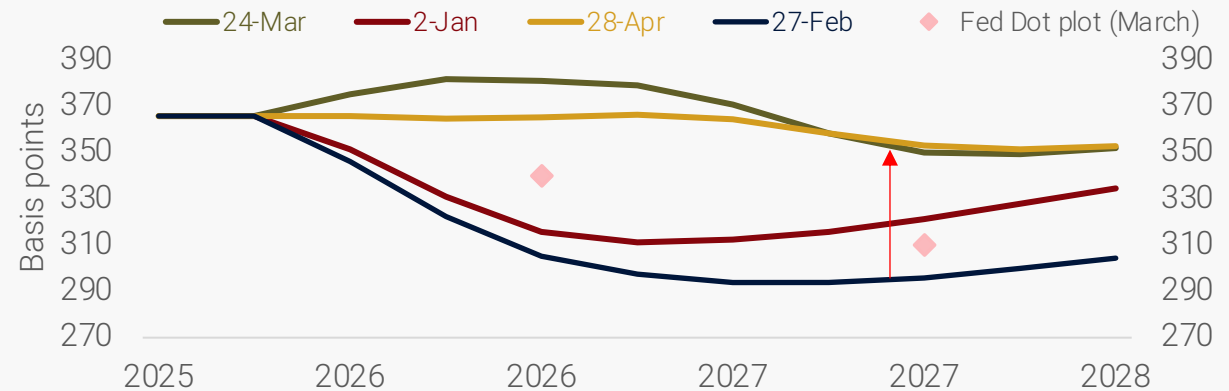
Case A-type Risks:

- Inflation in energy prices resulting from a conflict involving Iran, and the associated inflationary risks transmitted to other sectors of the economy
- Potential risks of a broadening inflationary environment, particularly stemming from the compensation of abolished tariffs, uncertainties arising from trade and economic policy, and planned expansionary fiscal measures
- Risks of an increase in neutral interest rates driven by rising investment in artificial intelligence
- Risks to debt sustainability, which create uncertainties regarding the level of the neutral interest rate.

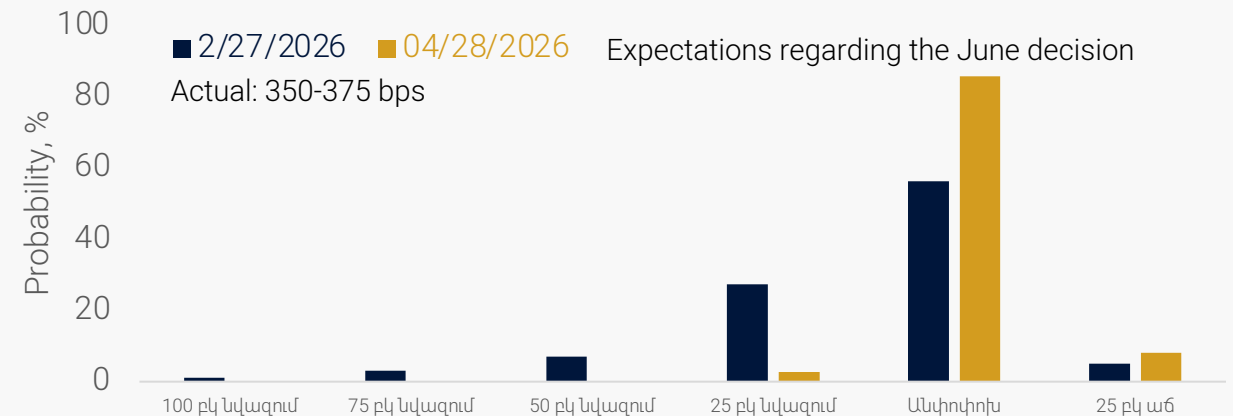
Case B-type Risks:

- Risks of overvaluation of financial assets associated with strong growth in AI investment, and the potential for subsequent corrections, with resulting deflationary pressures
- Risks of financial asset overvaluation and a potential sharp correction could lead to a rapid tightening of financial conditions, resulting in reduced investment and consumption and generating recessionary pressures

Financial Market Expectations of the Fed Policy Rate Path



Has uncertainty regarding the Fed's future policy increased?

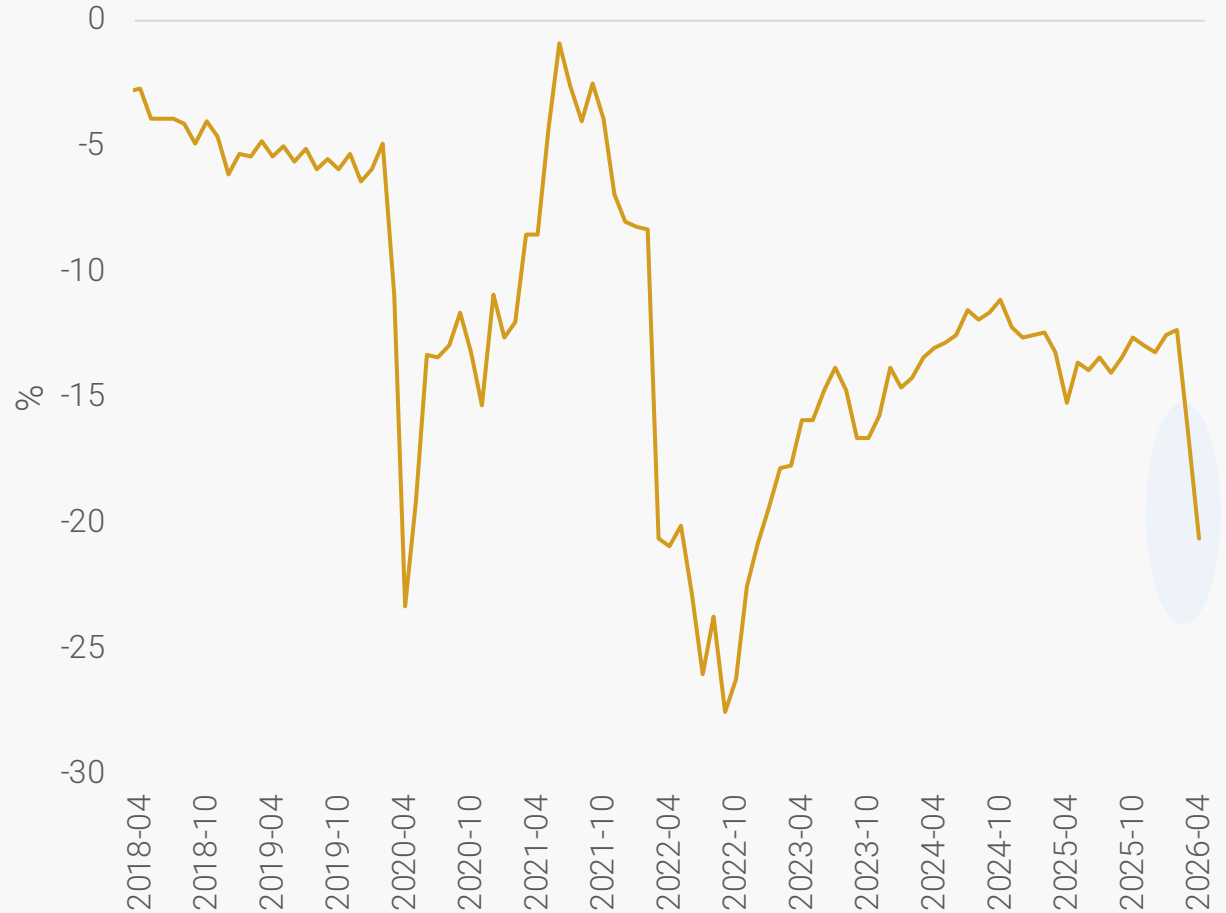
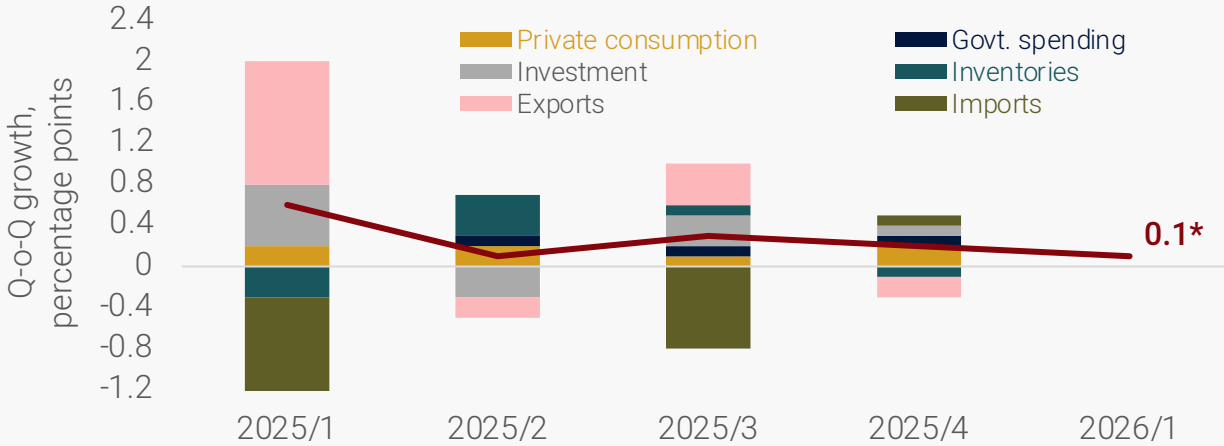


Source(s): Federal Reserve Bank of Atlanta, FED Dot Plot

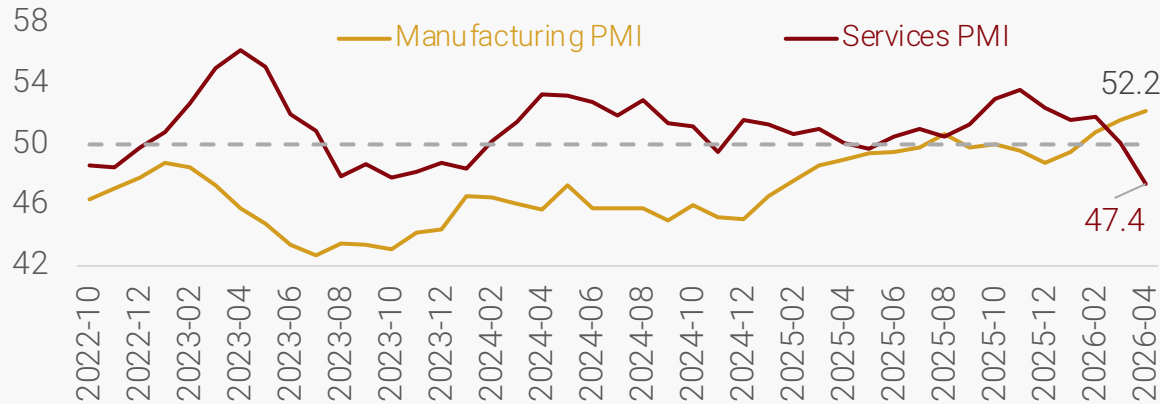
Euro area. On the one hand, structural challenges and growth polarization, and on the other, significant vulnerability to energy supply disruptions and price fluctuations, have substantially increased the risks of further weakening in the euro area's economic growth

Economic growth in the euro area has stabilized at a low level

In the context of geopolitical developments, consumer confidence declined sharply in April



The services PMI reflects a deterioration in sentiment

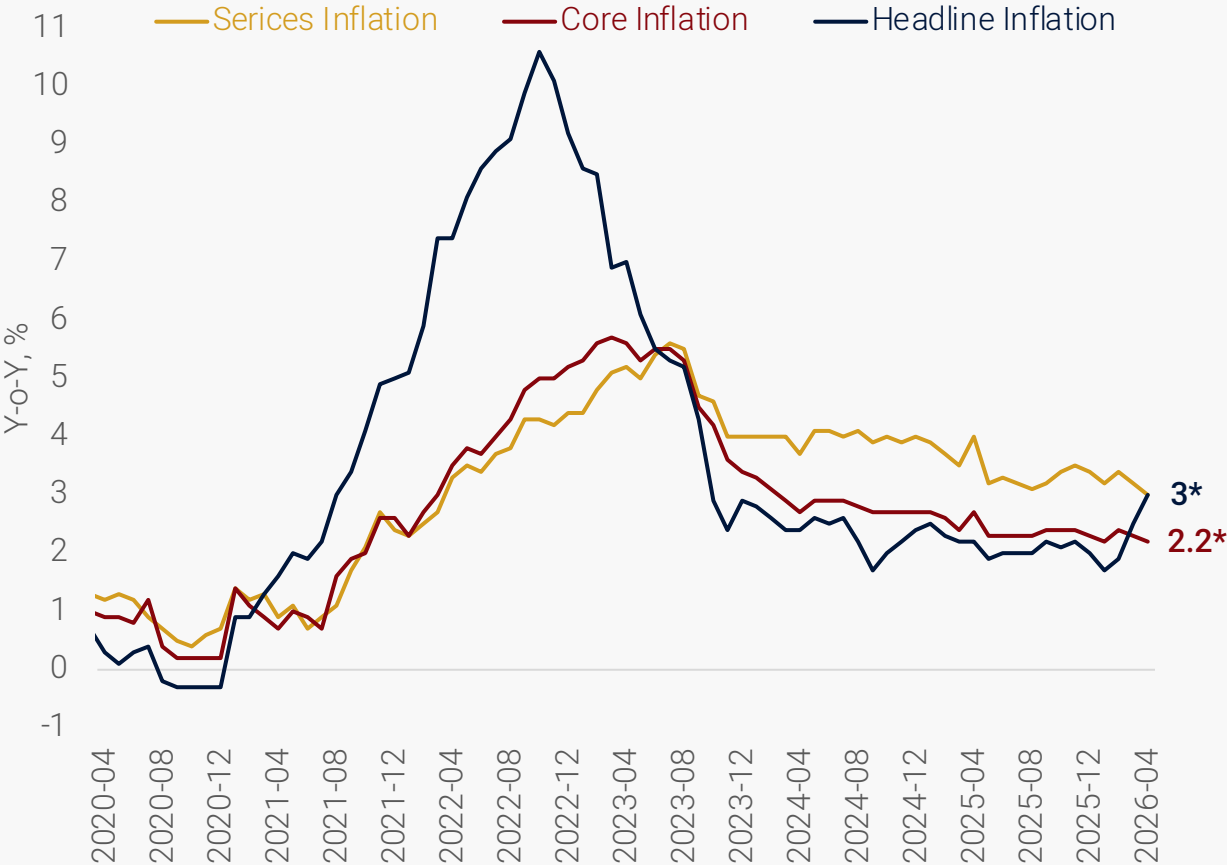


*Eurostat Flash Estimate

Source(s): Eurostat, S&P Global

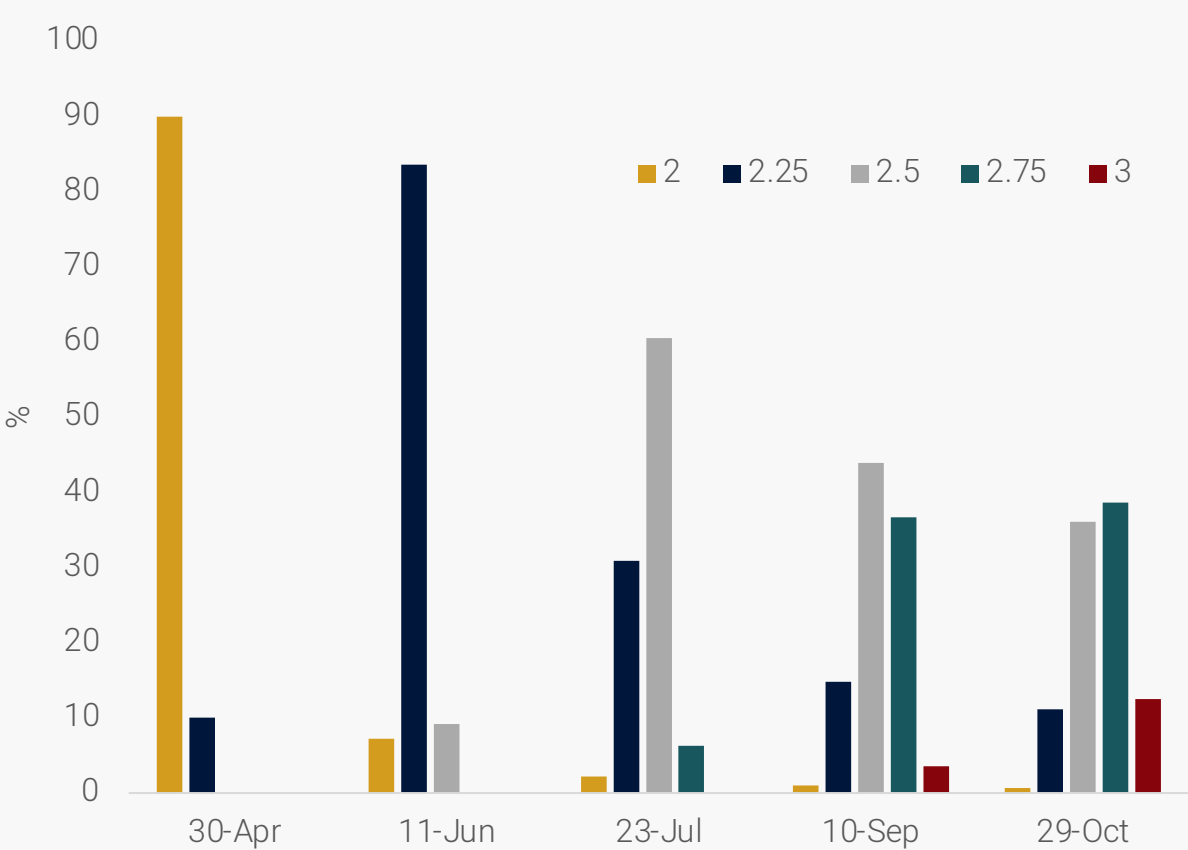
Euro area. Under these conditions, financial markets expect the European Central Bank to raise policy interest rates in the near term. However, this will depend on the extent and speed of adjustment in demand conditions amid rising prices

The increase in fuel prices has contributed to the acceleration of overall inflation



*Eurostat Flash Estimate
Source(s): Eurostat, S&P Global

Financial market expectations regarding the European Central Bank's interest rate

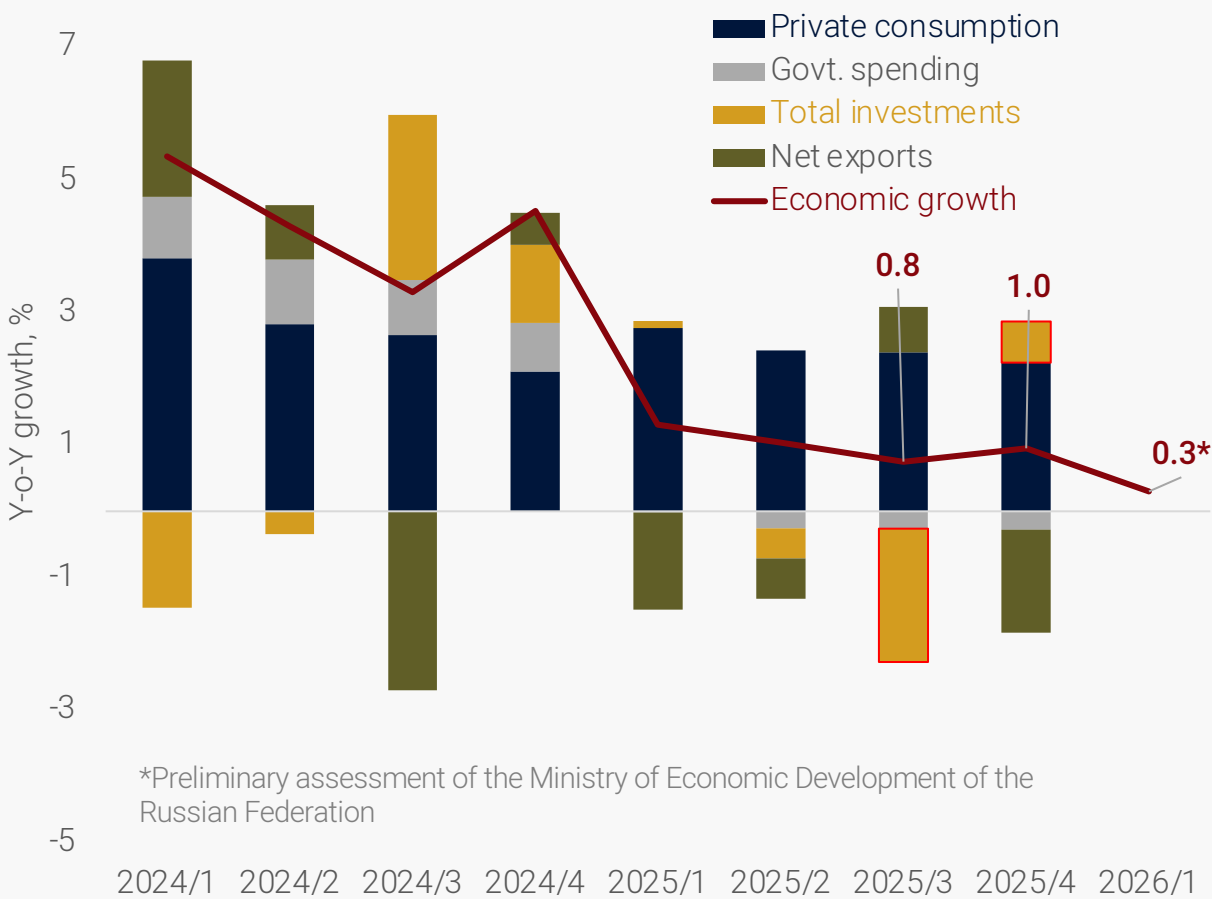


Source: ECB watch

Russia. Significant uncertainties persist regarding the current state of the Russian economy, its potential growth, and its growth outlook

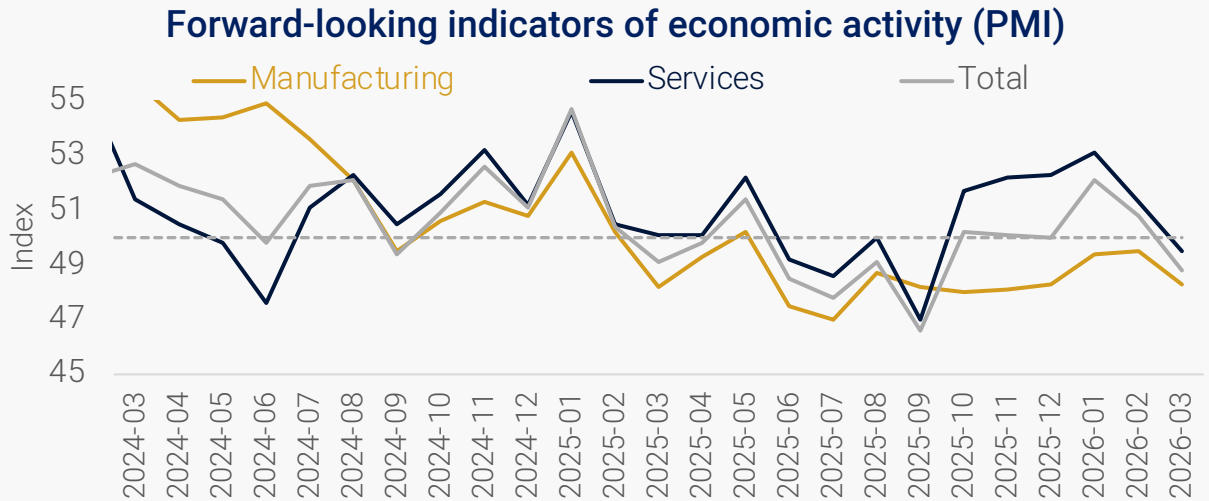
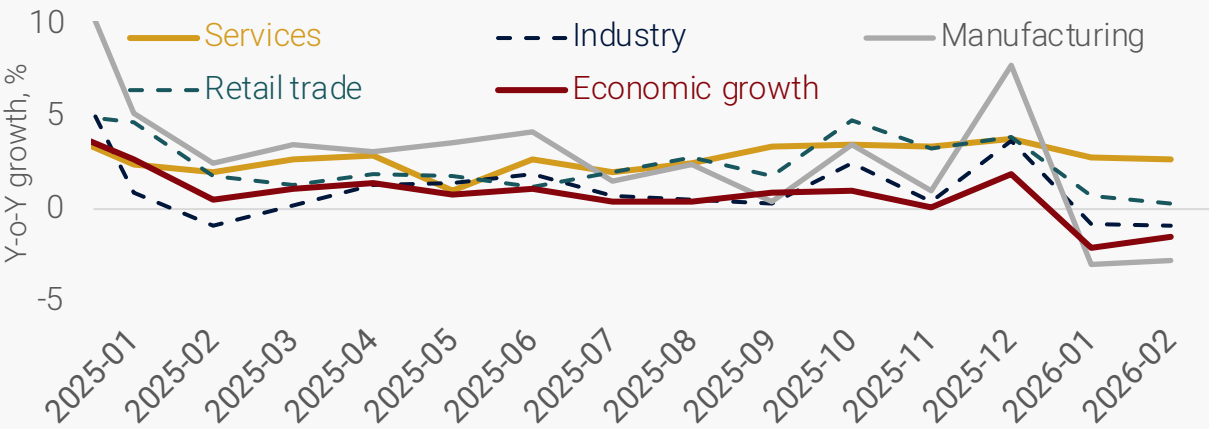
Cyclical slowdown or demand adjustment?

Private consumption remains the main driver of economic growth



Source: Federal State Statistics Service (Rosstat)

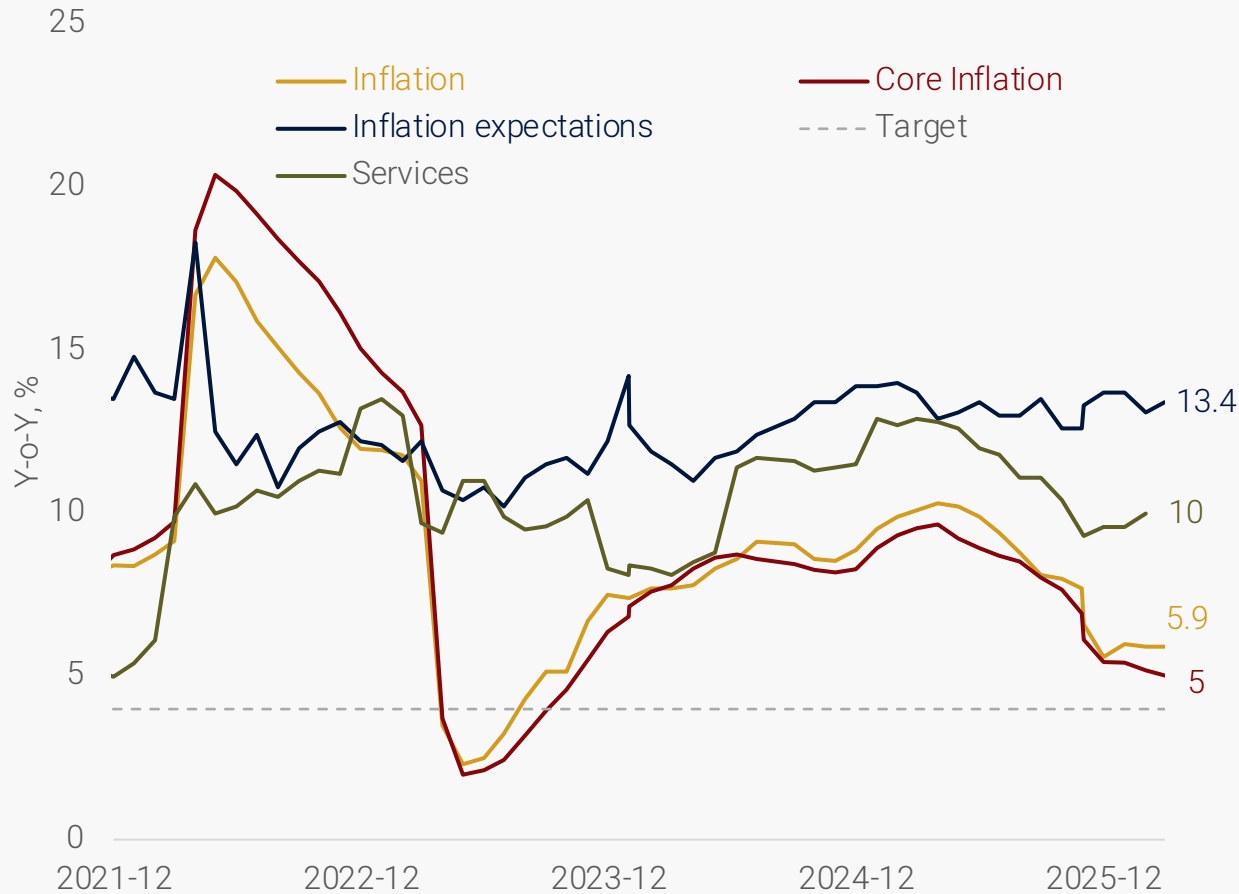
Economic growth continues to be largely driven by demand-driven sectors



Source(s): Federal State Statistics Service (Rosstat), S&P Global

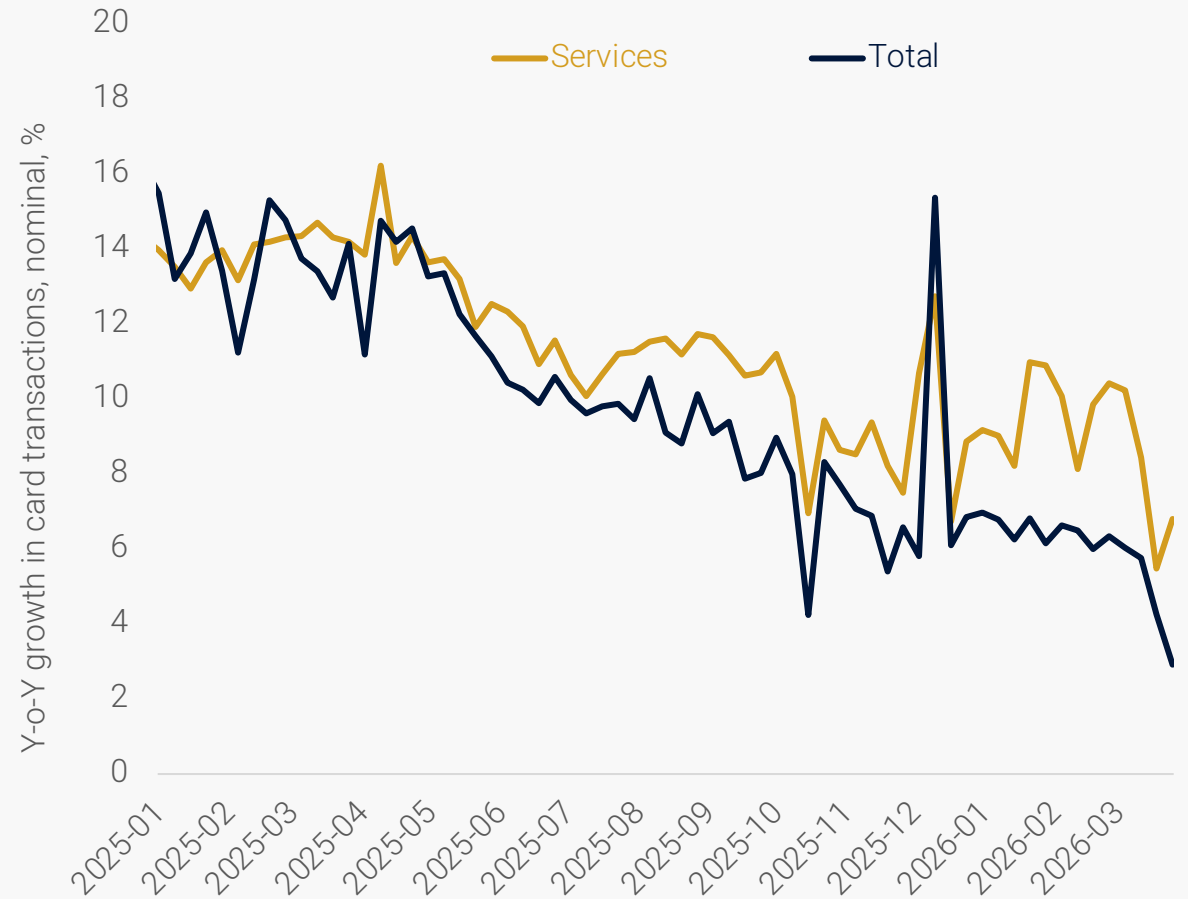
Russia. In this context, the inflationary environment continues to gradually ease, while remaining elevated

Despite a moderation in headline inflation, underlying inflation measures remain above the target level



Source: Federal State Statistics Service (Rosstat)

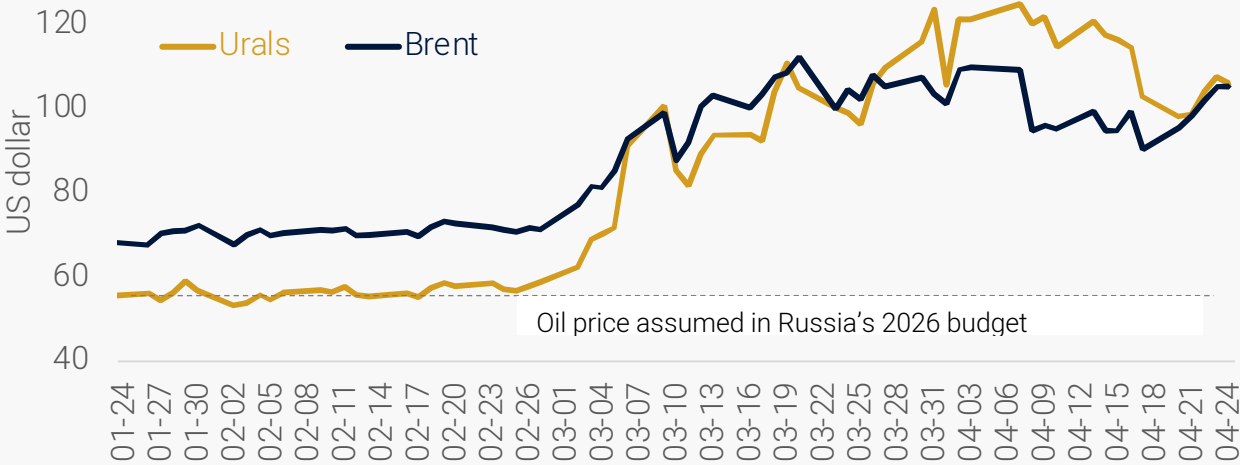
On the other hand, SberIndex signals continued signs of weakening demand



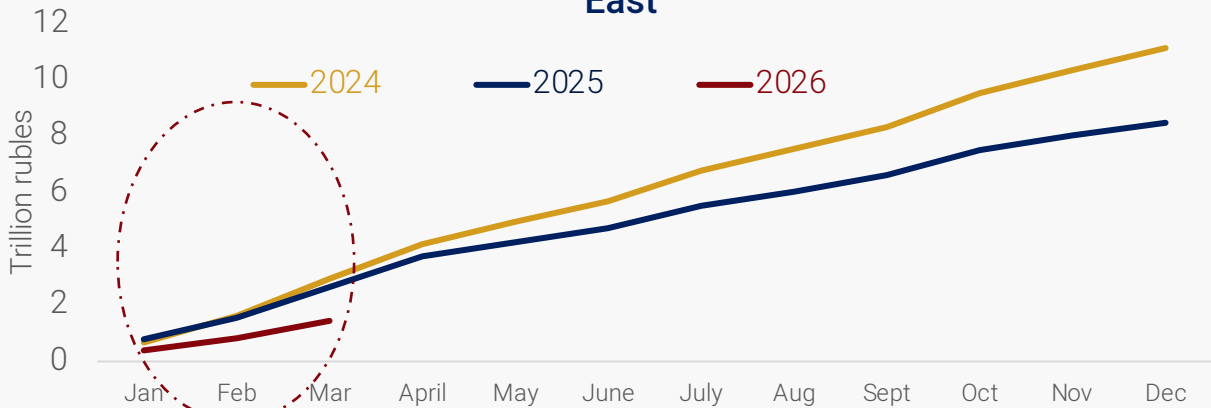
Source: Sberbank

Russia. In the near term, one of the main sources of uncertainty surrounding the Russian economy is the magnitude and duration of the increase in oil prices

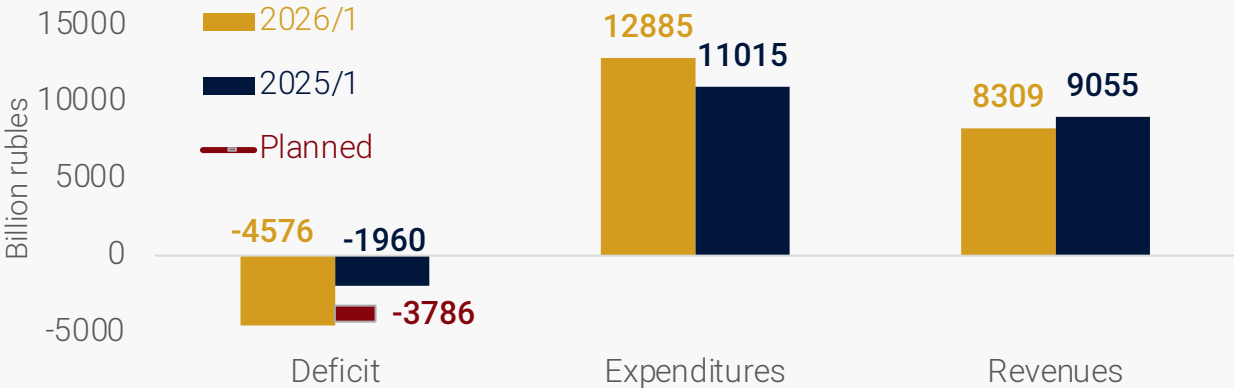
To what extent will this contribute to fiscal space and demand expansion?



Oil and gas revenues have been significantly lower than in the previous year, still largely failing to reflect the impact of the conflict in the Middle East

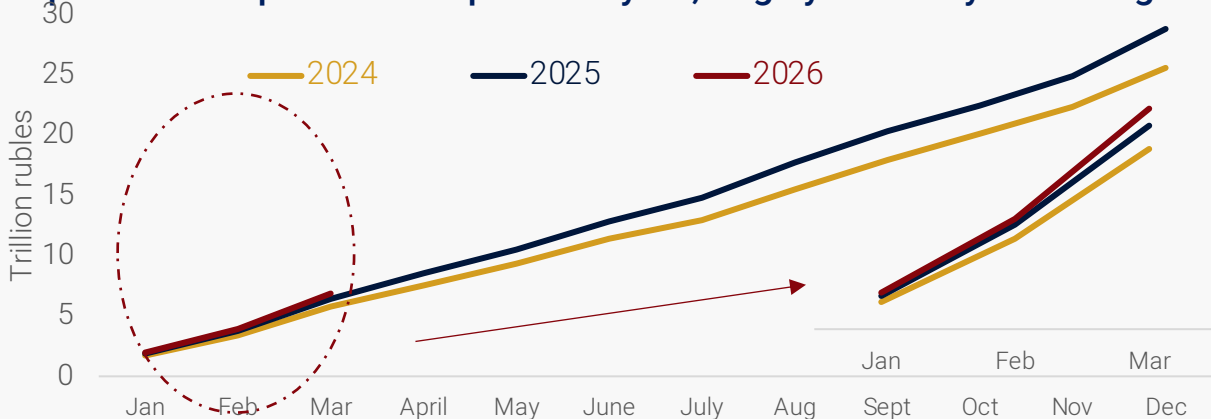


Against the backdrop of relatively weak revenue collection, budget expenditures have increased further, thereby widening the deficit



Source: Ministry of Finance of the Russian Federation

At the same time, non-oil and gas revenues have increased by around 7 percent compared to the previous year, largely driven by tax changes



Source: Ministry of Finance of the Russian Federation

Russia. Under these conditions, financial markets expect a gradual reduction in policy interest rates

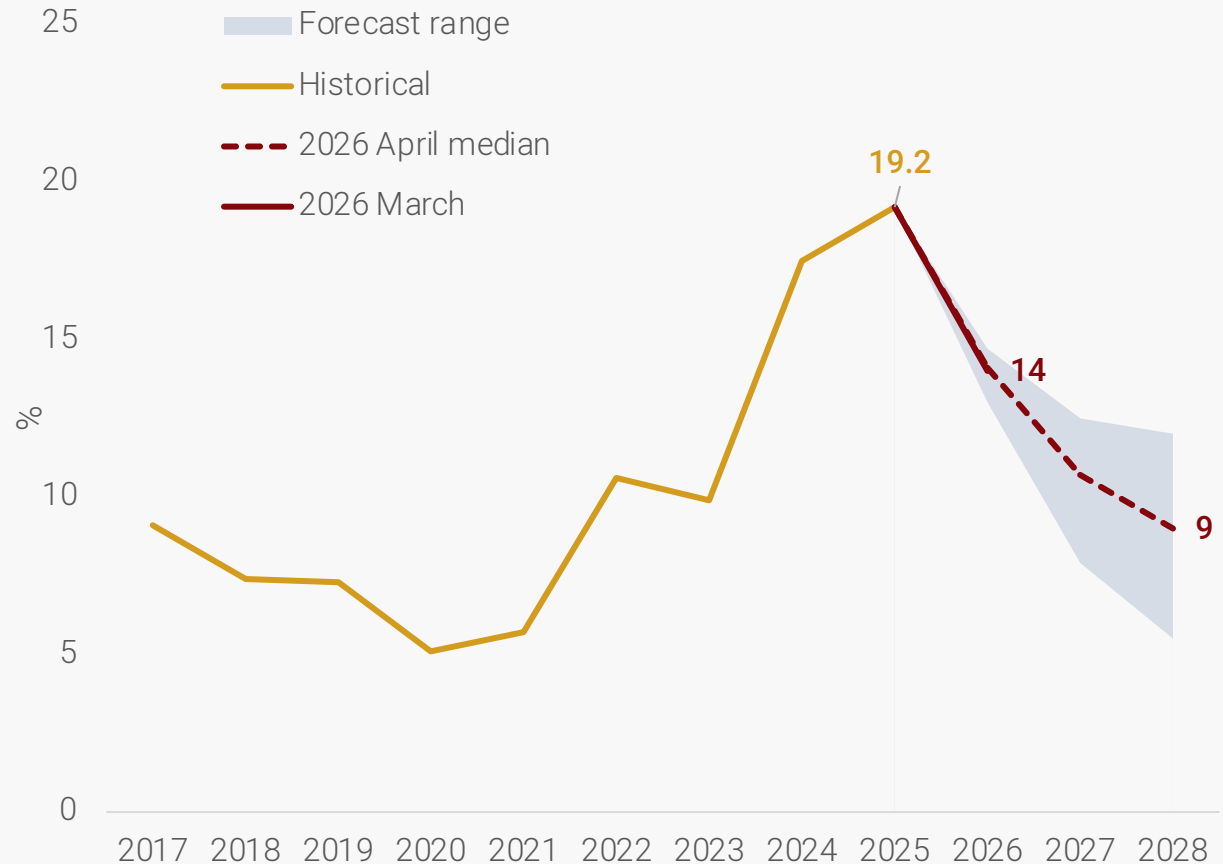
Case A-type Risks:

- Persistently tight labor market conditions and the resulting inflationary pressures, particularly in the services sector.
- Acceleration of inflationary pressures in the context of expansionary fiscal policy
- Expansion of fiscal space amid sustained elevated oil prices.

Case B-type Risks:

- Further slowdown in demand conditions, weak economic activity, and deteriorating sentiment
- A further weakening of the business environment as a result of changes in tax legislation

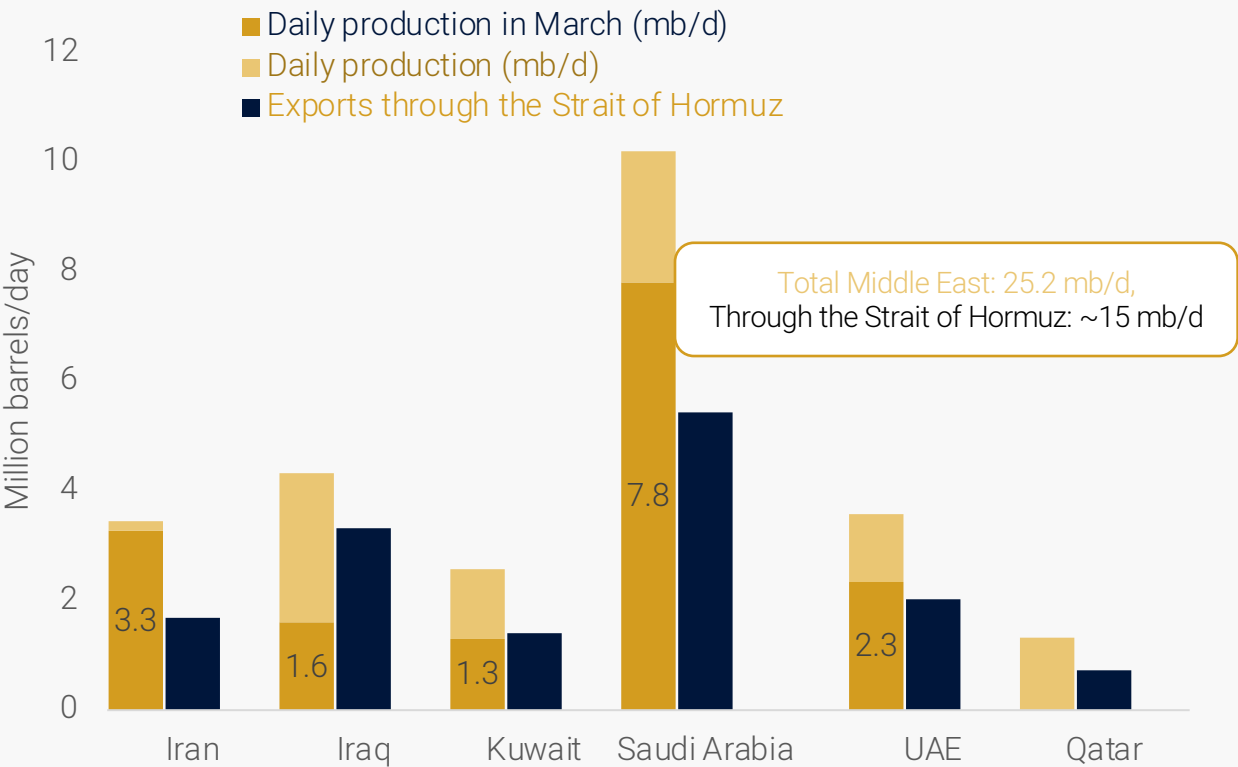
Market expectations regarding the policy interest rate



Source: Bank of Russia

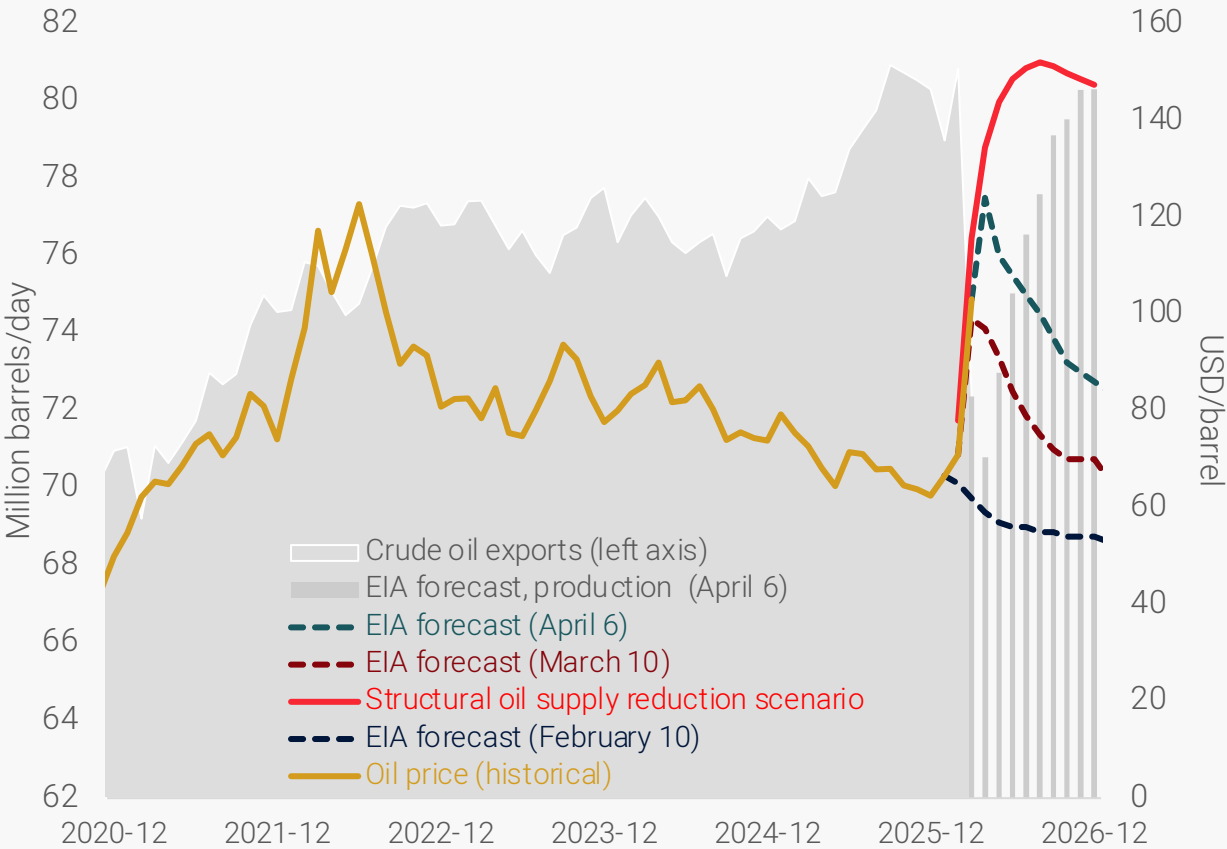
Oil market. The large volume of oil exported through the Strait of Hormuz, coupled with limited alternatives for bypassing it, is contributing to heightened volatility and significant price increases in global energy markets.

Volume of crude oil and petroleum products transported through the Strait of Hormuz, by country of origin



Note: The U.S. Energy Information Administration (EIA) did not publish Qatar's crude oil production for March; however, it reported that total production of oil and other liquid fuels decreased from 1.9 to 0.6 million barrels per day.
Source: U.S. Energy Information Administration (EIA)

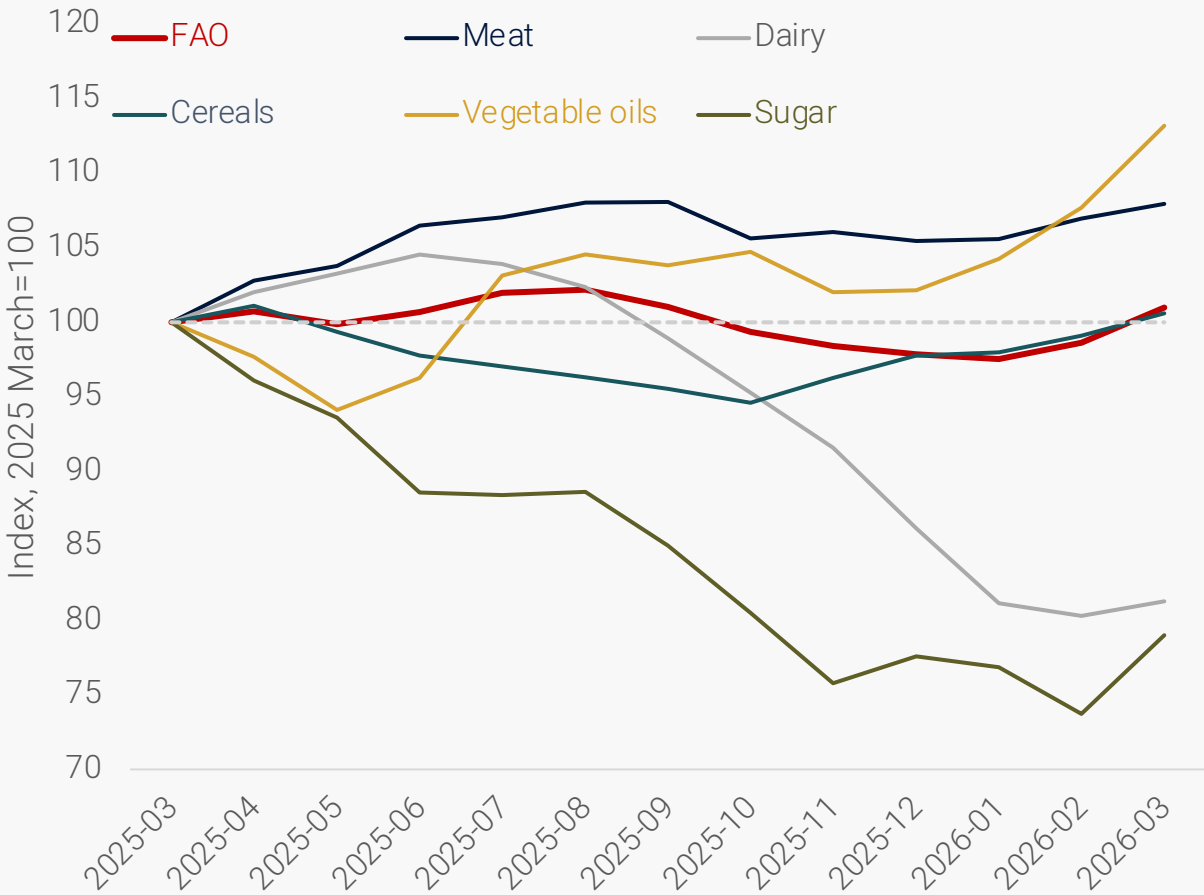
Under scenarios of prolonged conflict and/or damage to energy infrastructure in countries across the region, the magnitude of the increase in oil prices and the pace of their normalization after the conflict ends may vary significantly



Source(s): Federal Reserve Bank of St. Louis (FRED), International Energy Agency (IEA), CBA estimates

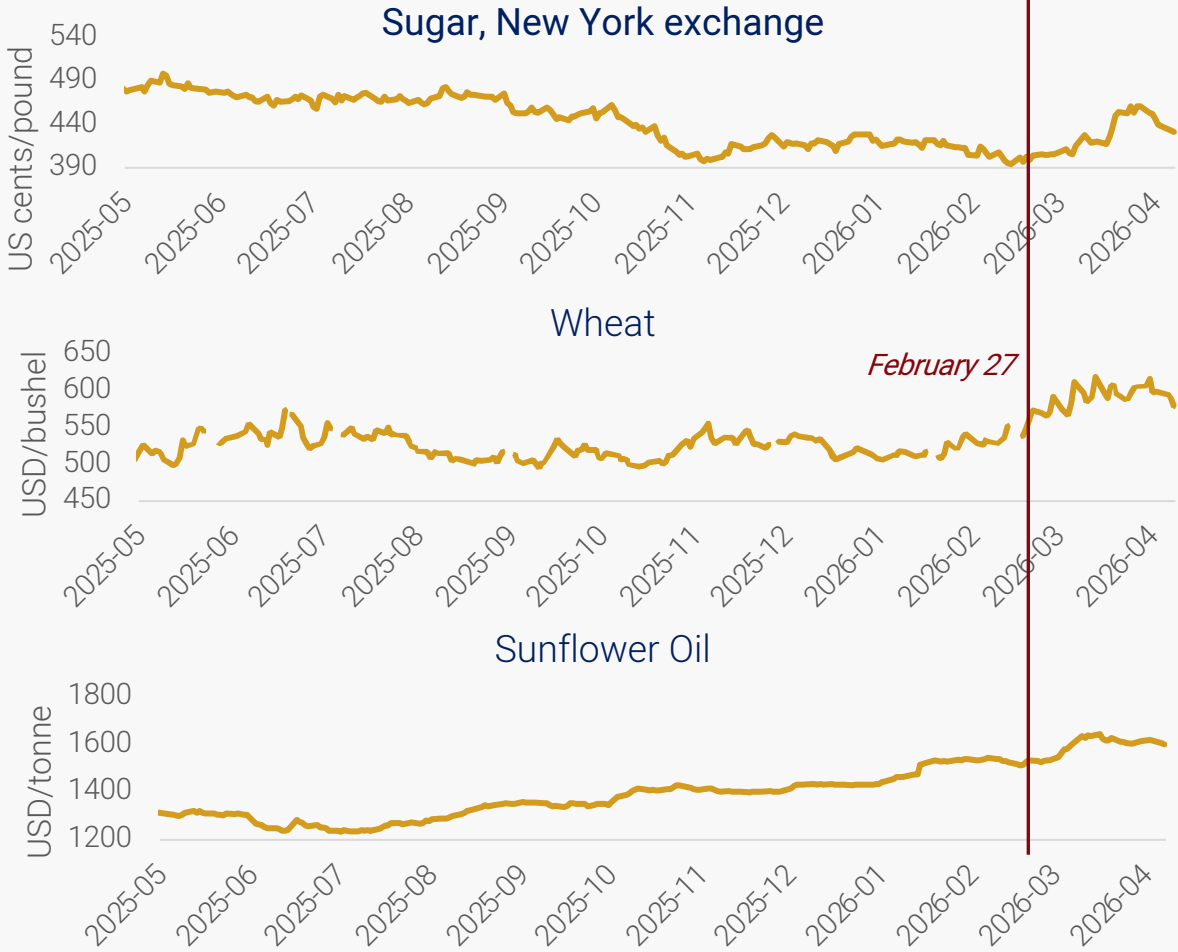
Disruptions in supplies through the Strait of Hormuz and rising energy prices are already being transmitted to commodity markets

The increase in the FAO index reflects the impact of geopolitical developments

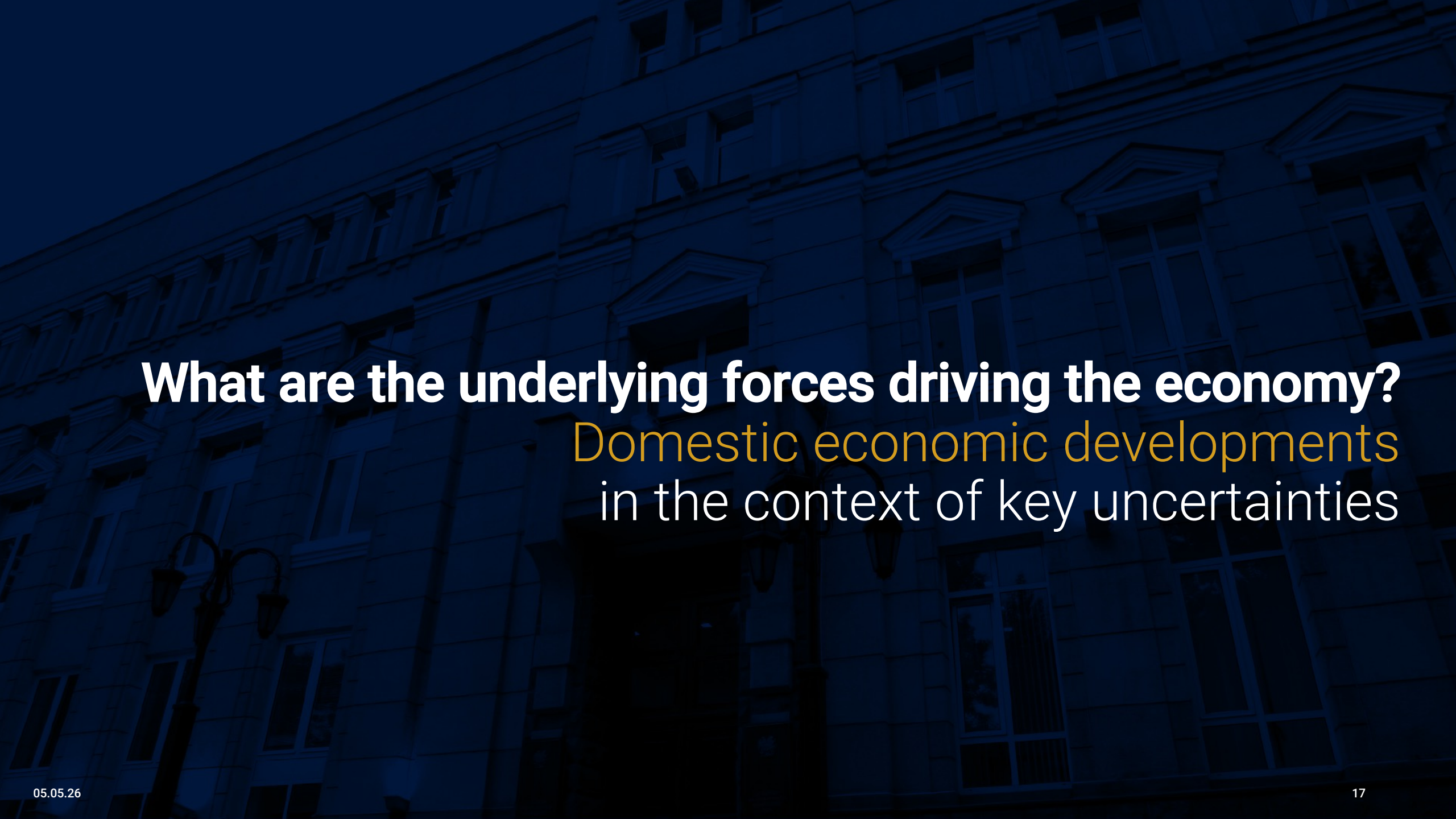


Source: Food and Agriculture Organization of the United Nations (FAO)

Daily futures prices for selected food commodities in the food market



Source: Bloomberg

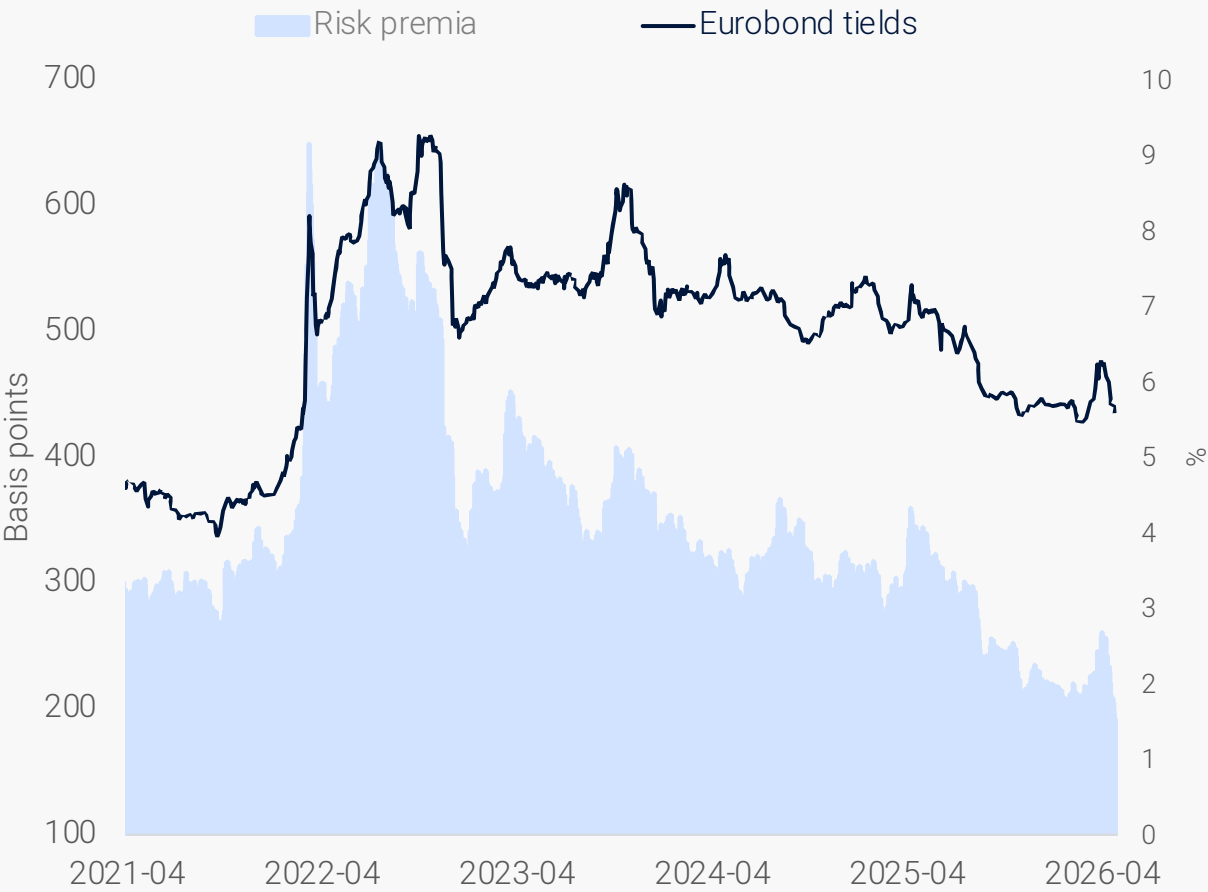


What are the underlying forces driving the economy?

Domestic economic developments
in the context of key uncertainties

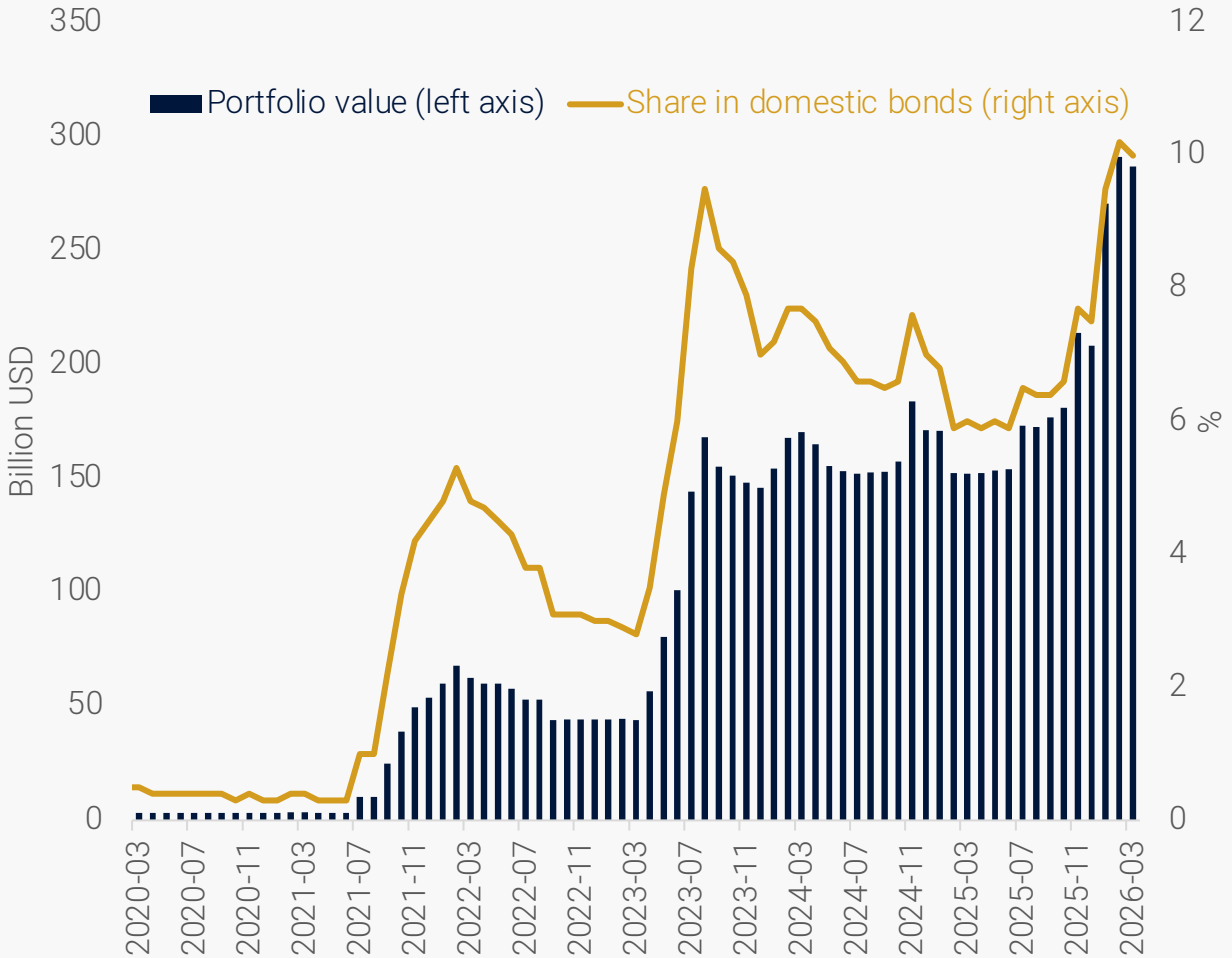
Following the establishment of a ceasefire in the Middle East conflict, Armenia's country risk premia have declined, reaching historically low levels...

Armenia's country risk premia



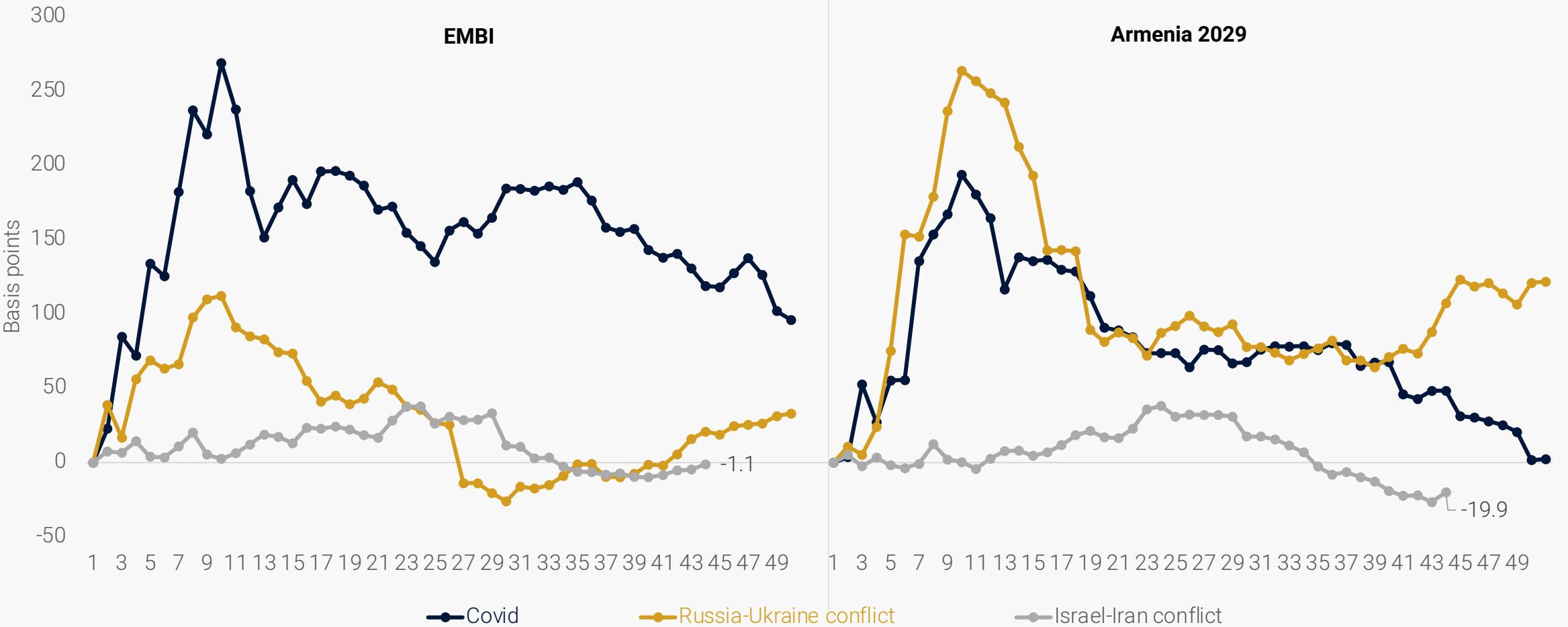
Source: Bloomberg

Share of non-residents in AMD-denominated bonds



Improved fundamentals or reduced vulnerability of Armenia to conflict-related developments?

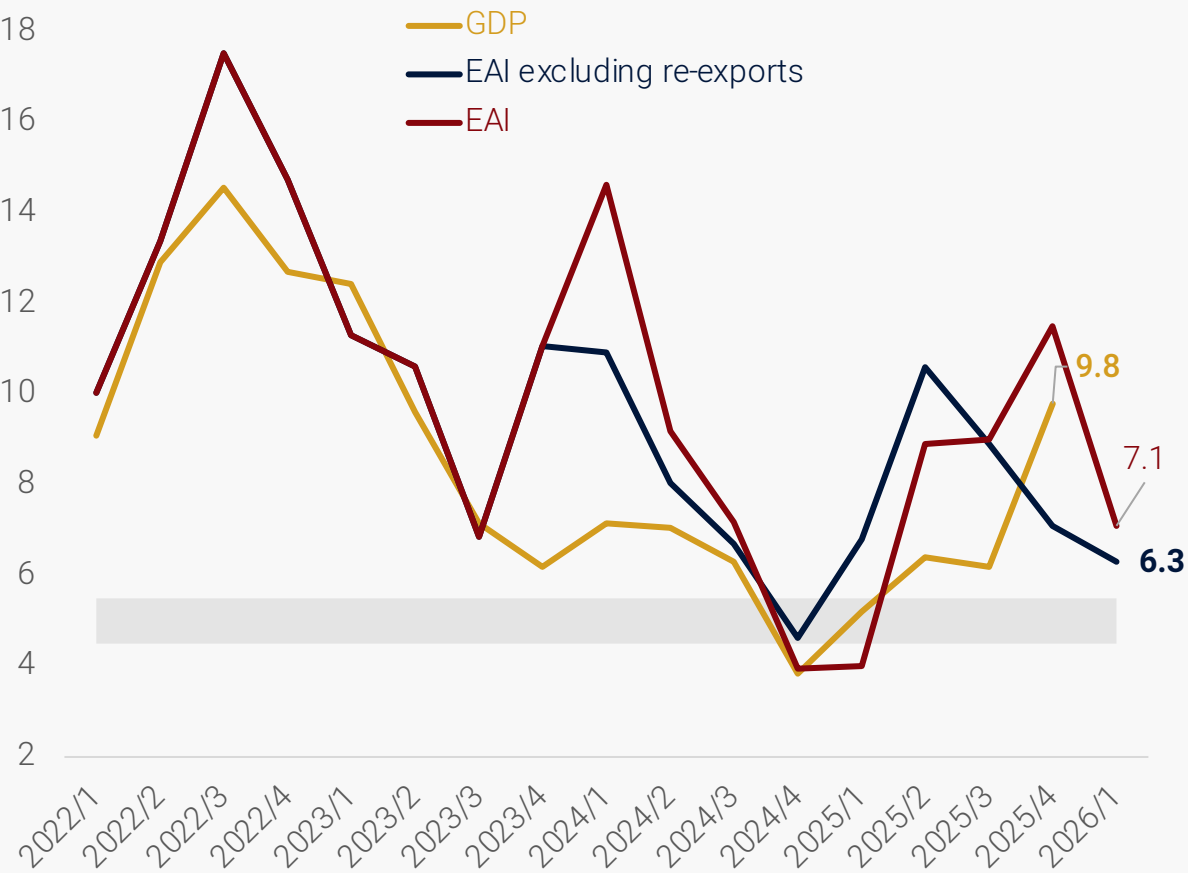
Response of risk premia in emerging markets and Armenia to various events



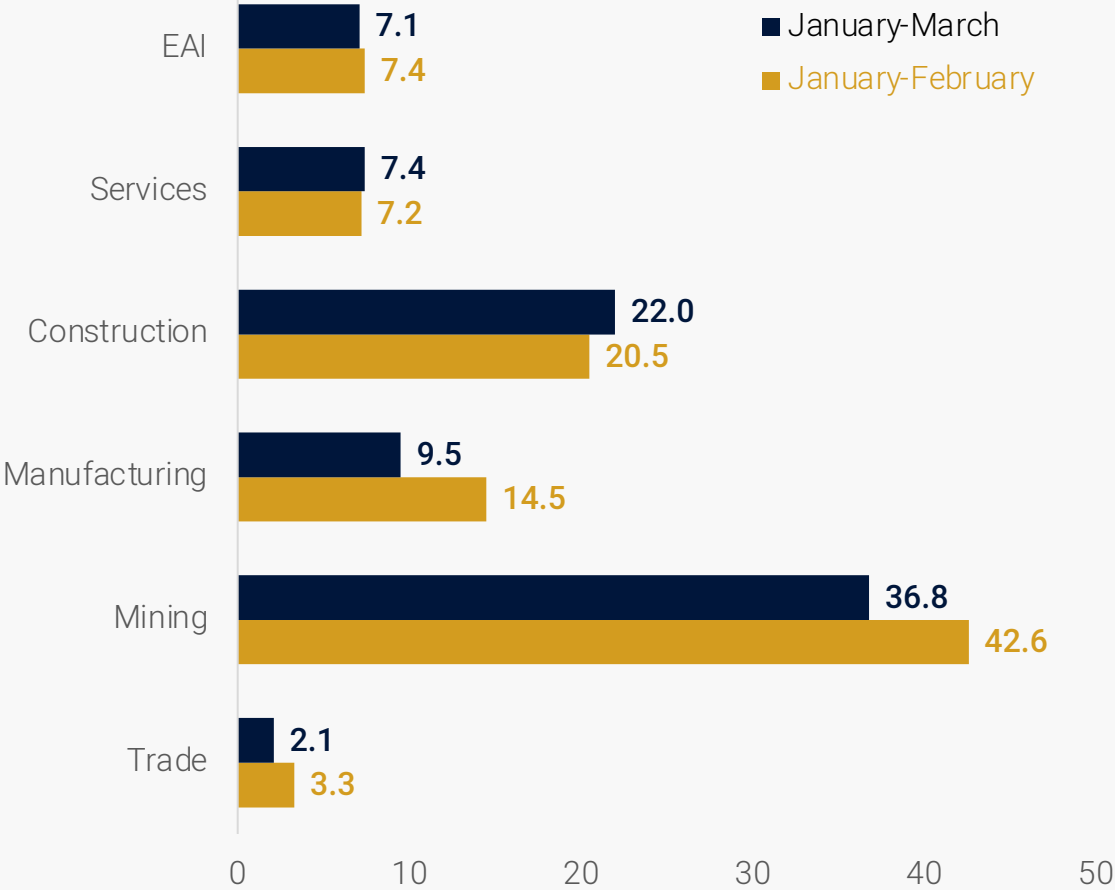
Source: Bloomberg

Economic activity. In Q1 2026, economic activity remains strong, partly reflecting the impact of certain non-structural and one-off factors

Economic growth and Economic Activity Index, real growth, Y-o-Y, %

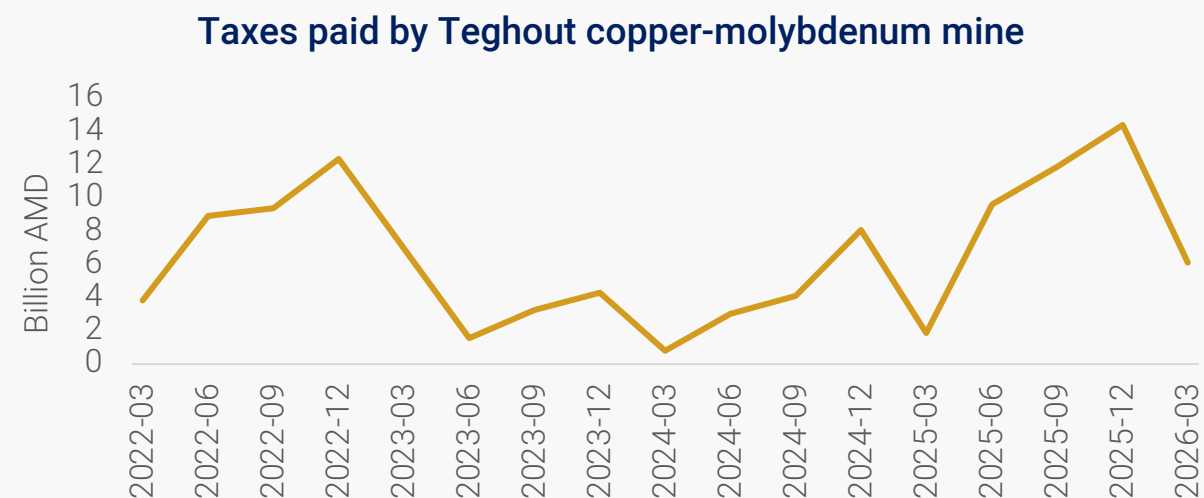
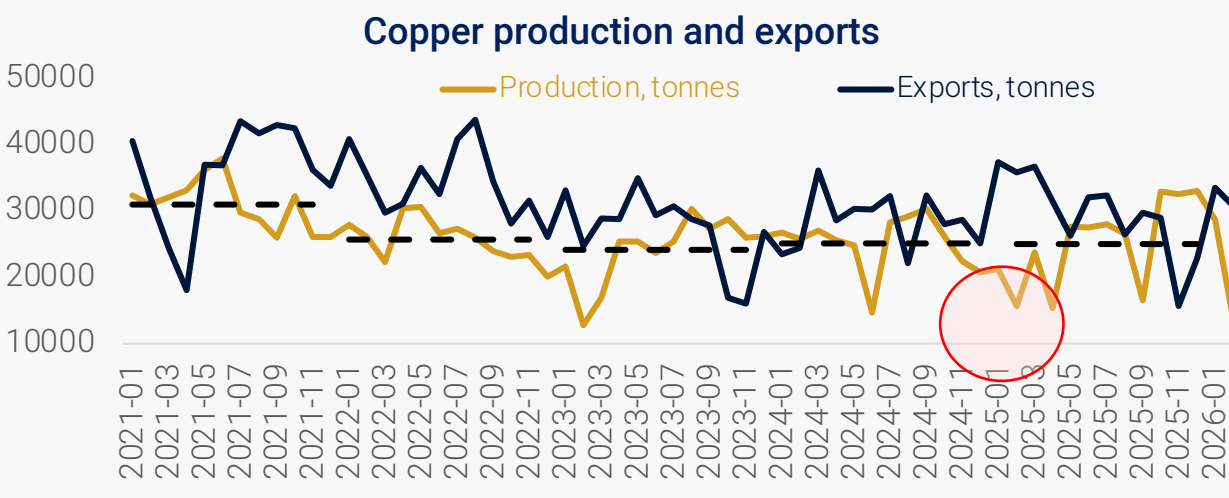
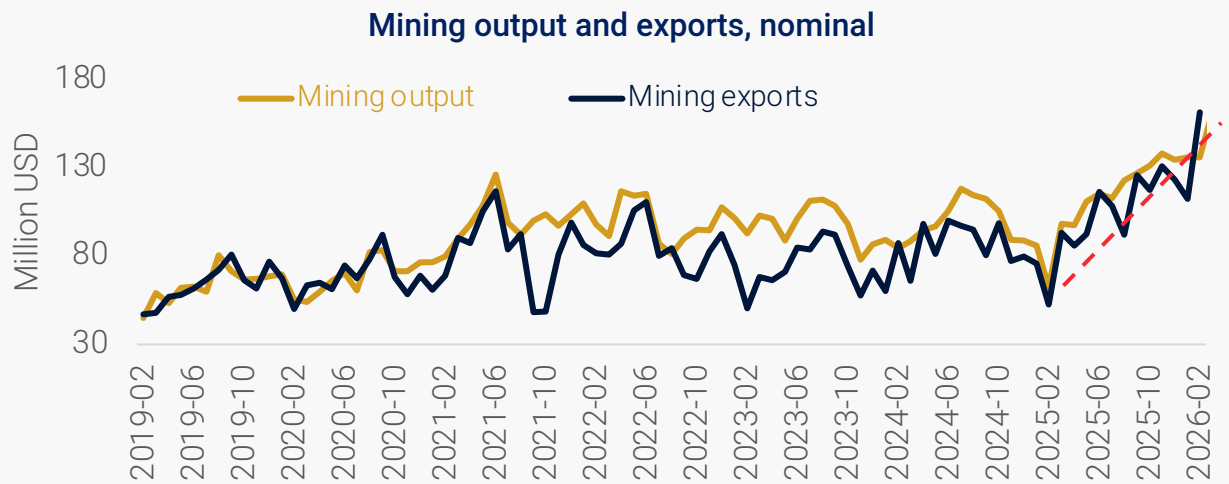


Cumulative growth of key sectors, %



Source(s): Statistical Committee Republic of Armenia, CBA estimates

The significant increase in output in the mining sector mainly reflects the recovery of production capacity in the industry

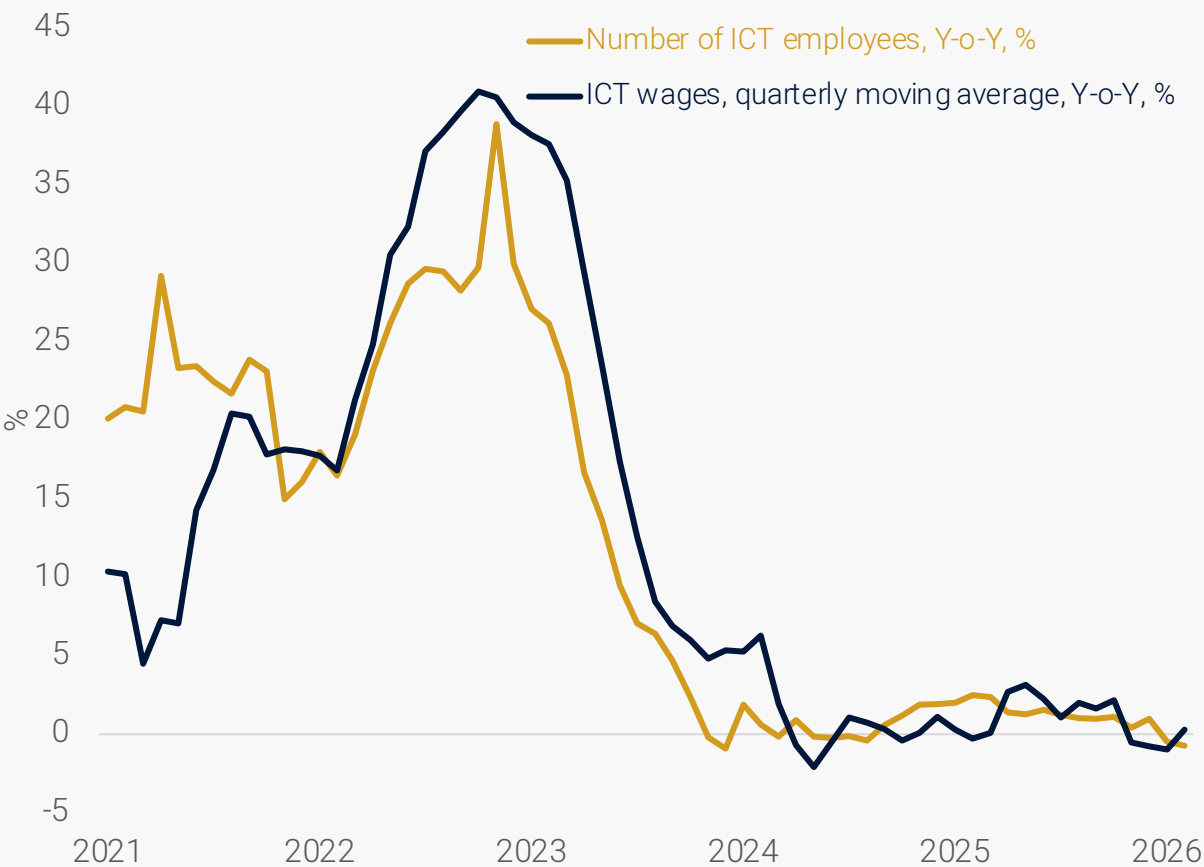


Source: Statistical Committee Republic of Armenia

Source(s): CBA, State Revenue Committee of the RA

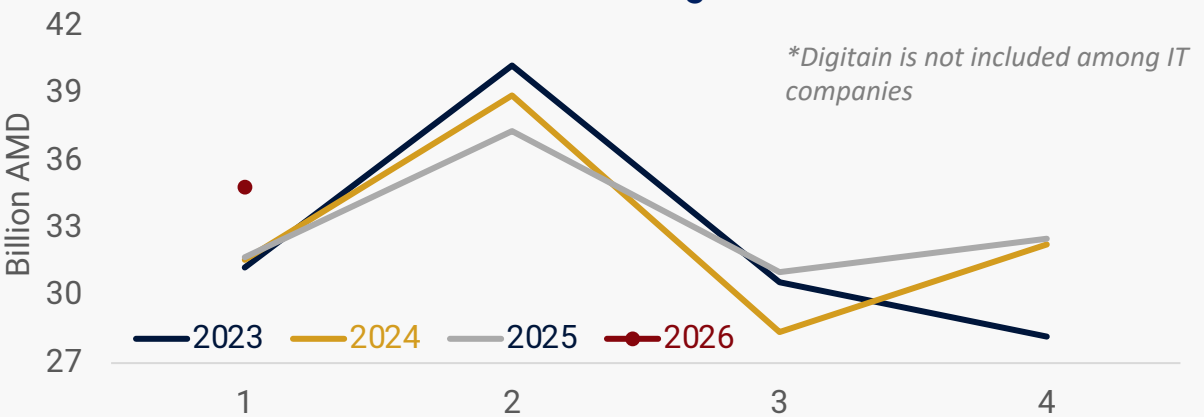
Mixed signals regarding growth in the ICT sector and its outlook persist

On the one hand, the slowdown in wage and employment growth in the ICT sector continues

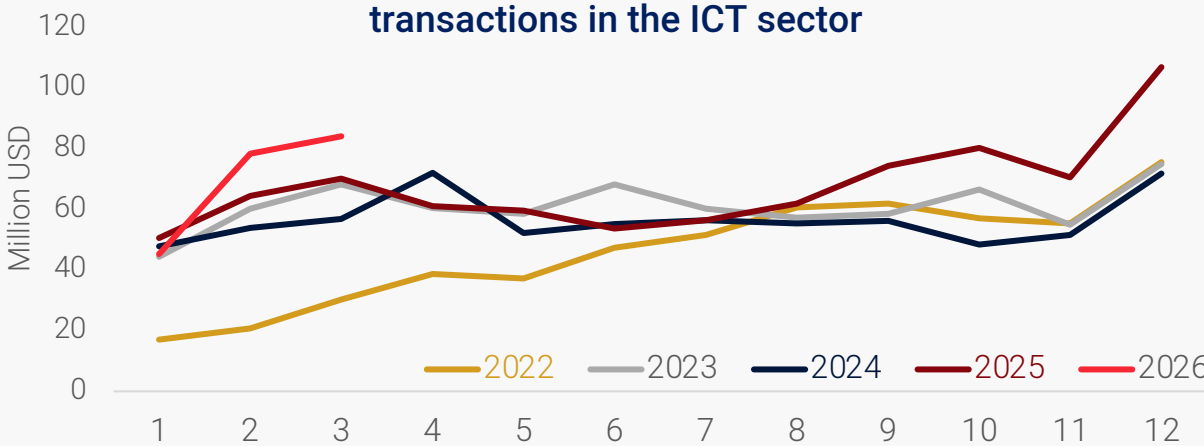


Source(s): Statistical Committee Republic of Armenia, CBA

On the other hand, the growth in tax revenues paid by the ICT sector is accelerating...



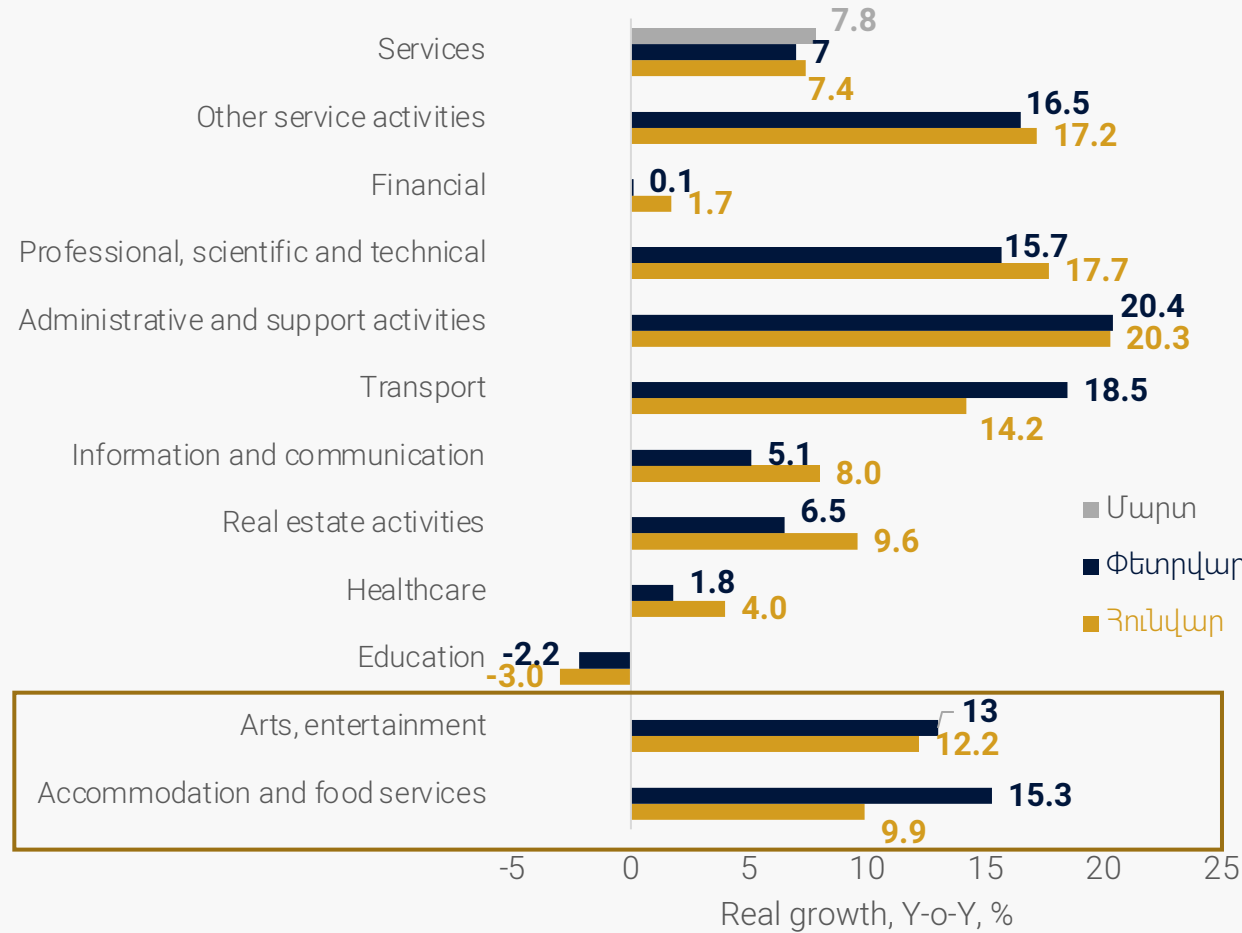
...which is consistent with a significant increase in foreign currency transactions in the ICT sector



Source(s): CBA, State Revenue Committee of the RA

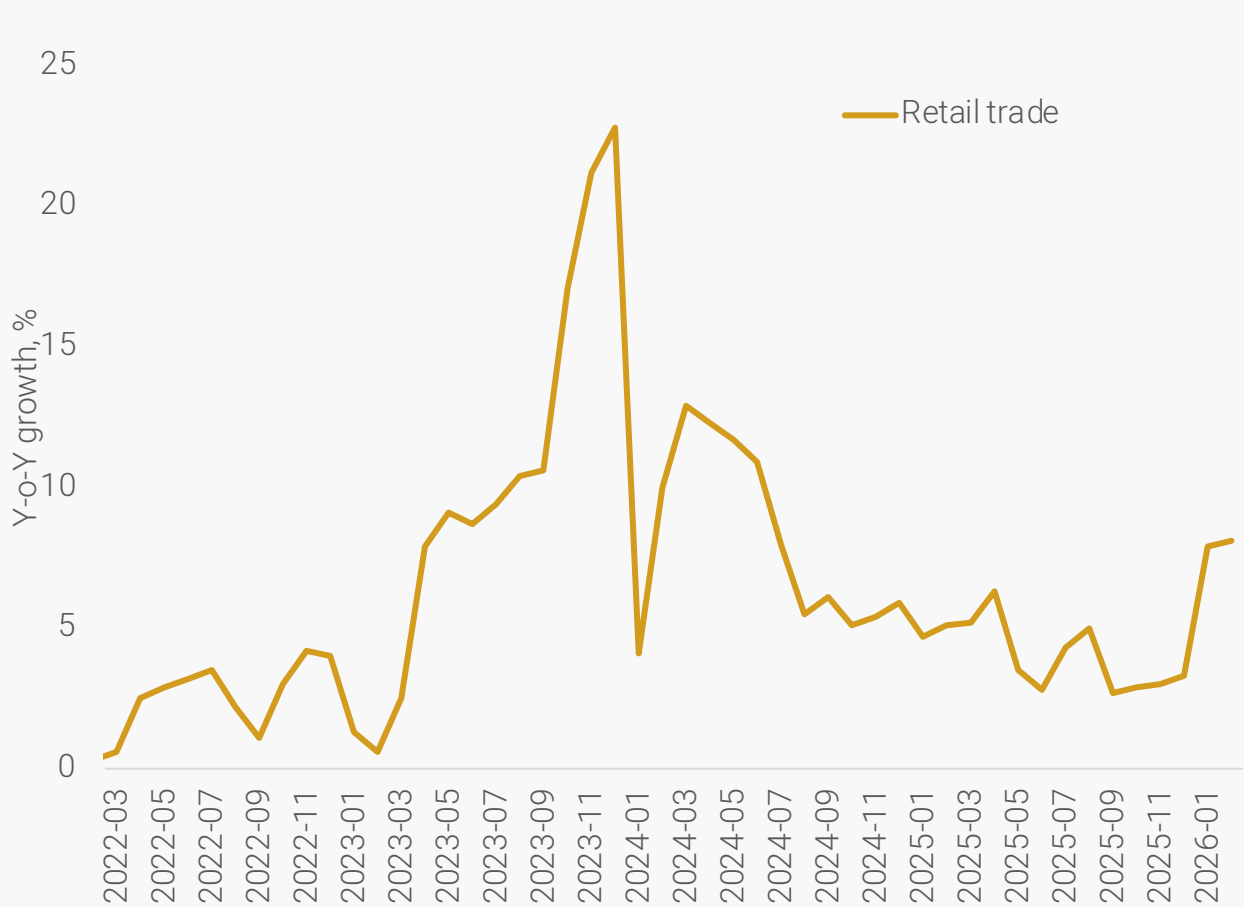
Elevated economic activity in the **services sector** persists, accompanied by noticeable structural shifts toward subsectors driven mostly by demand expansion

Growth in the services sector is broad-based



Source(s): Statistical Committee Republic of Armenia, CBA

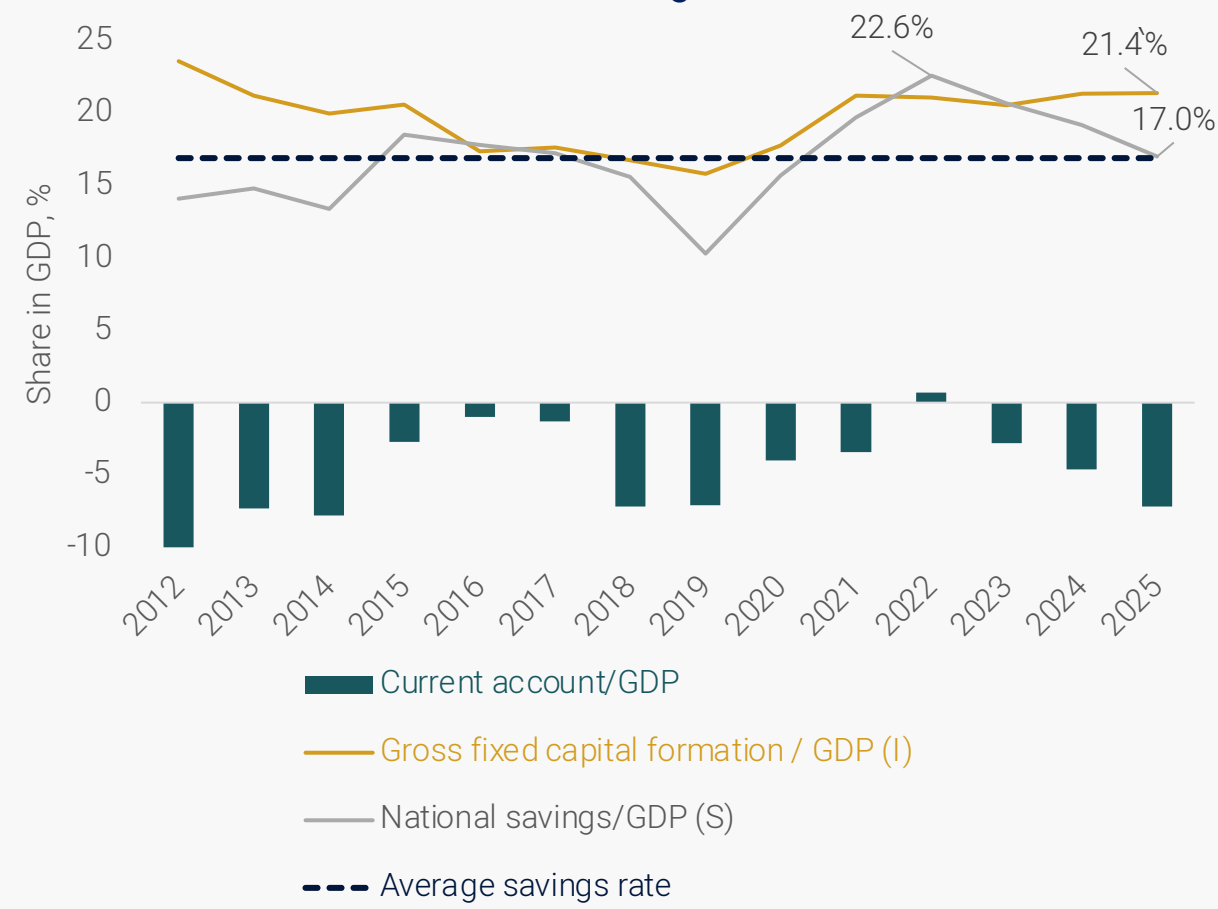
Retail trade, Real growth, %



Source: Statistical Committee Republic of Armenia

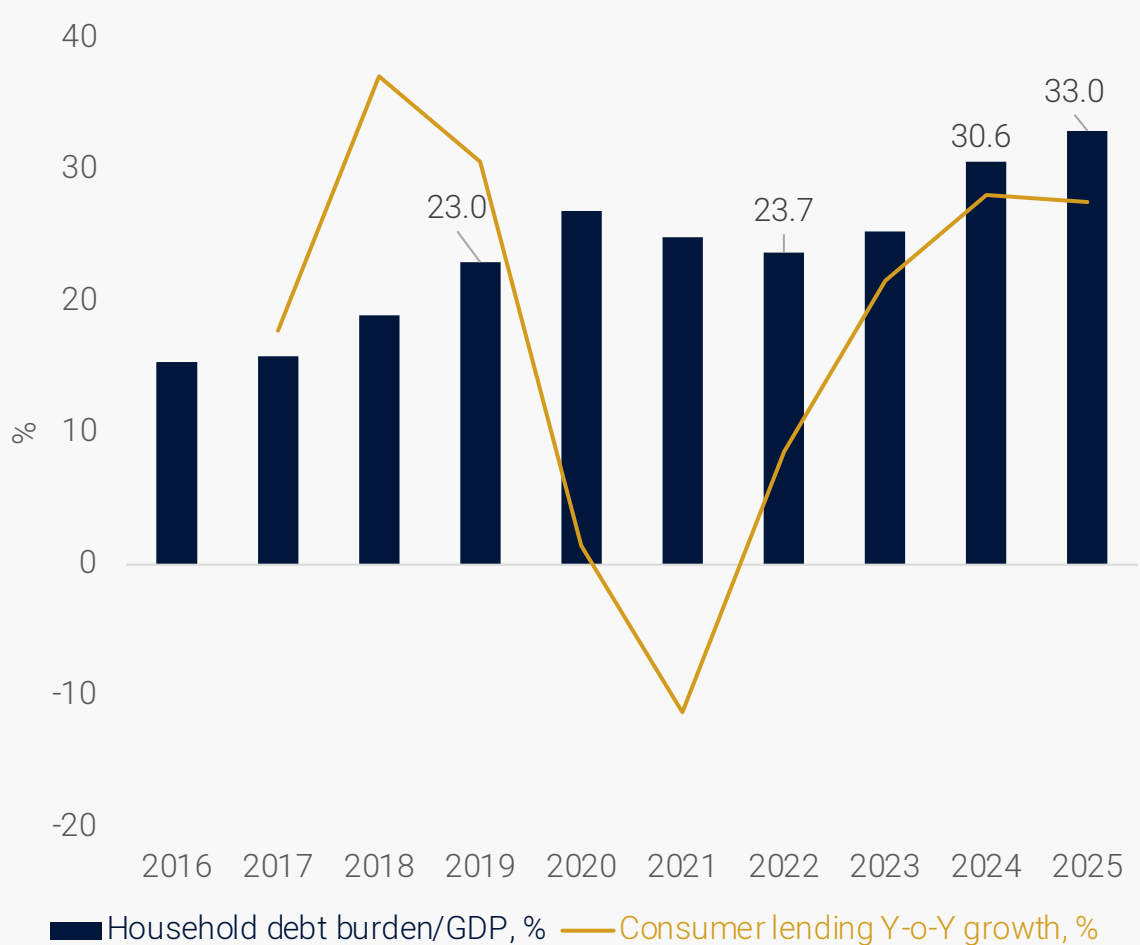
The significant widening of the current account deficit may also indicate an expansion in **domestic demand**, driven by a substantial increase in private and public consumption in recent years

The savings rate has declined in recent years, converging toward its historical average level



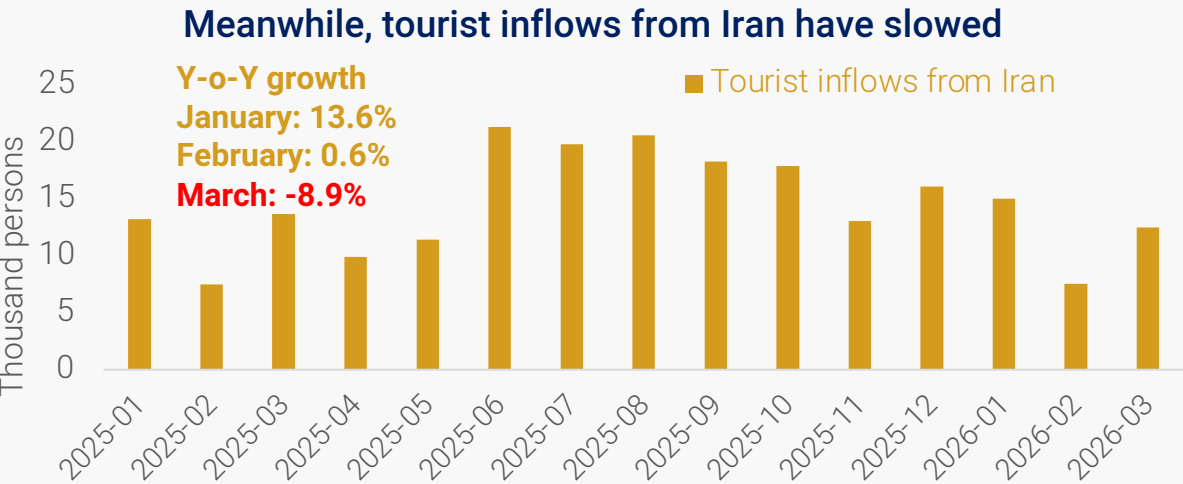
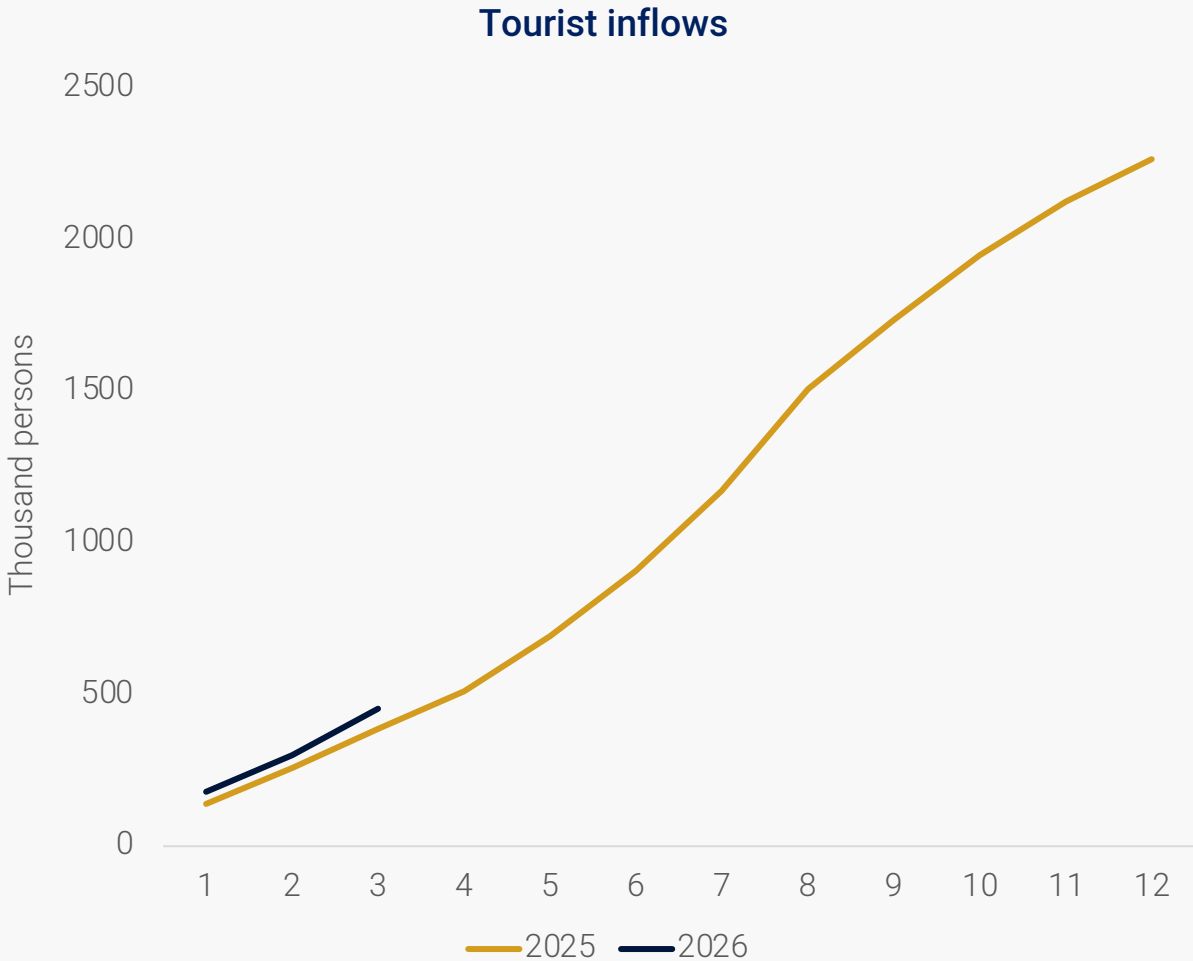
Source(s): Statistical Committee Republic of Armenia, CBA calculations

Growth in consumer lending and household debt burden



Source(s): CBA, CBA calculations

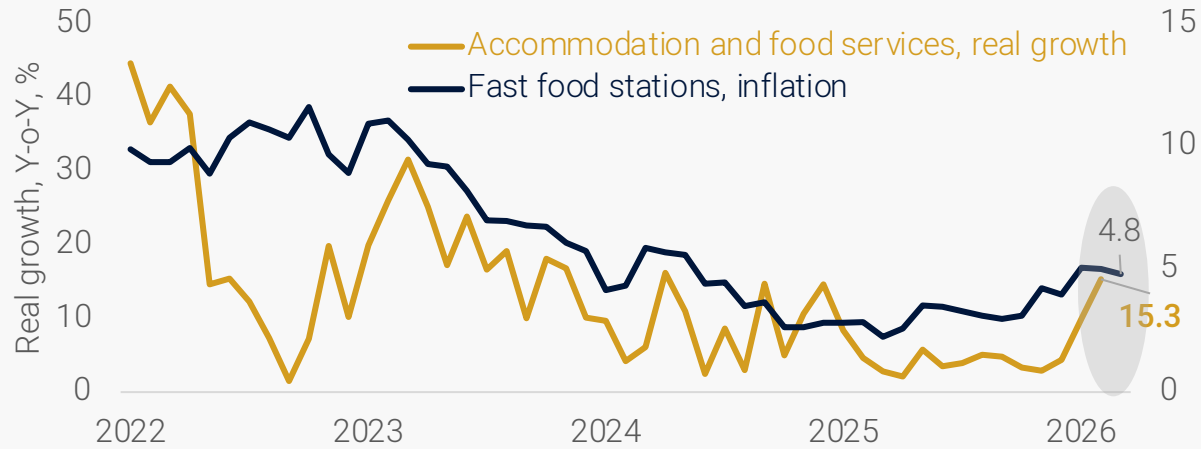
On the other hand, developments in the Middle East have led to a certain acceleration in tourist inflows, accompanied by changes in their composition



Source: Tourism Committee of the RA

...which is accompanied by an acceleration of inflation in the respective segments

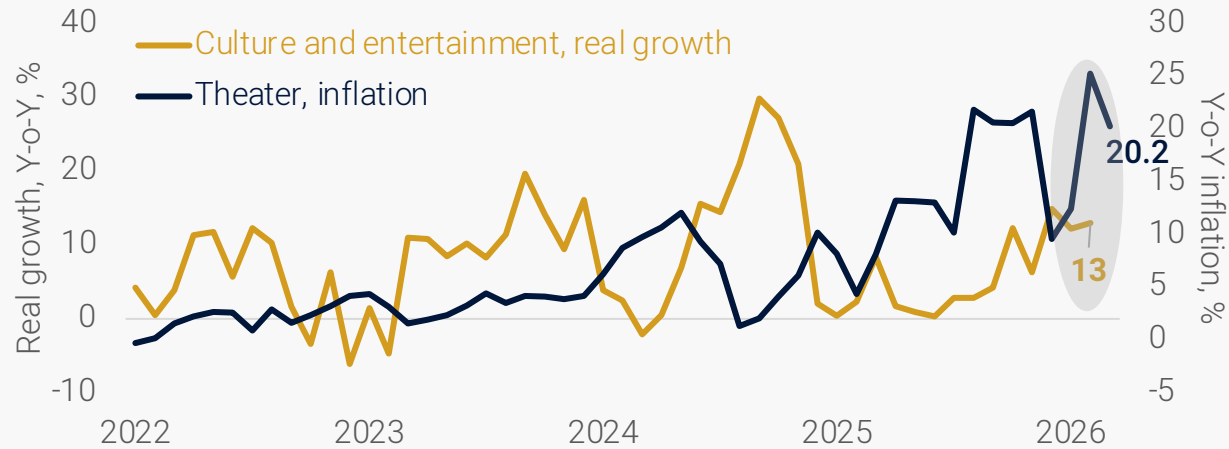
Accommodation and food service activities



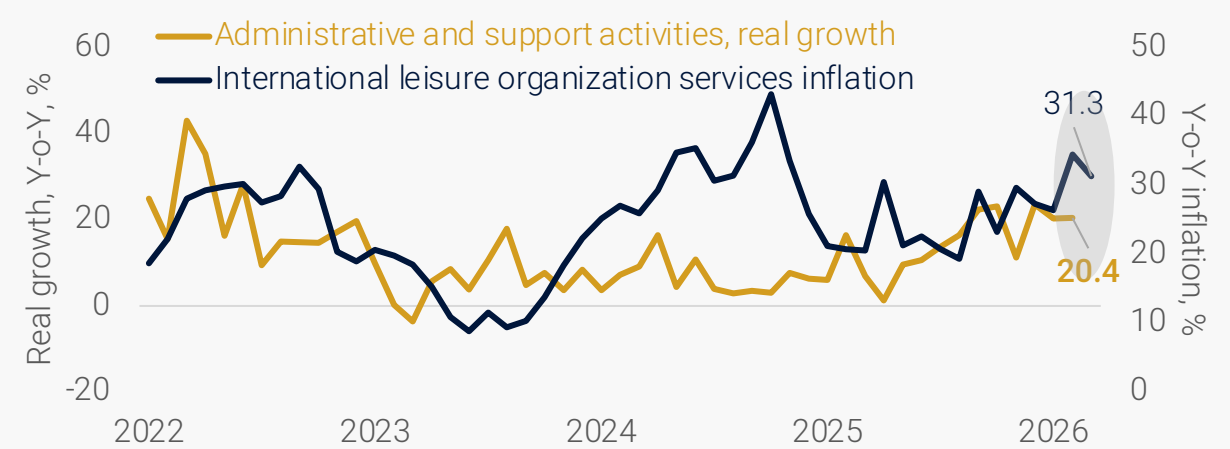
Professional, scientific and technical activities



Culture, entertainment and recreation



Administrative and support service activities

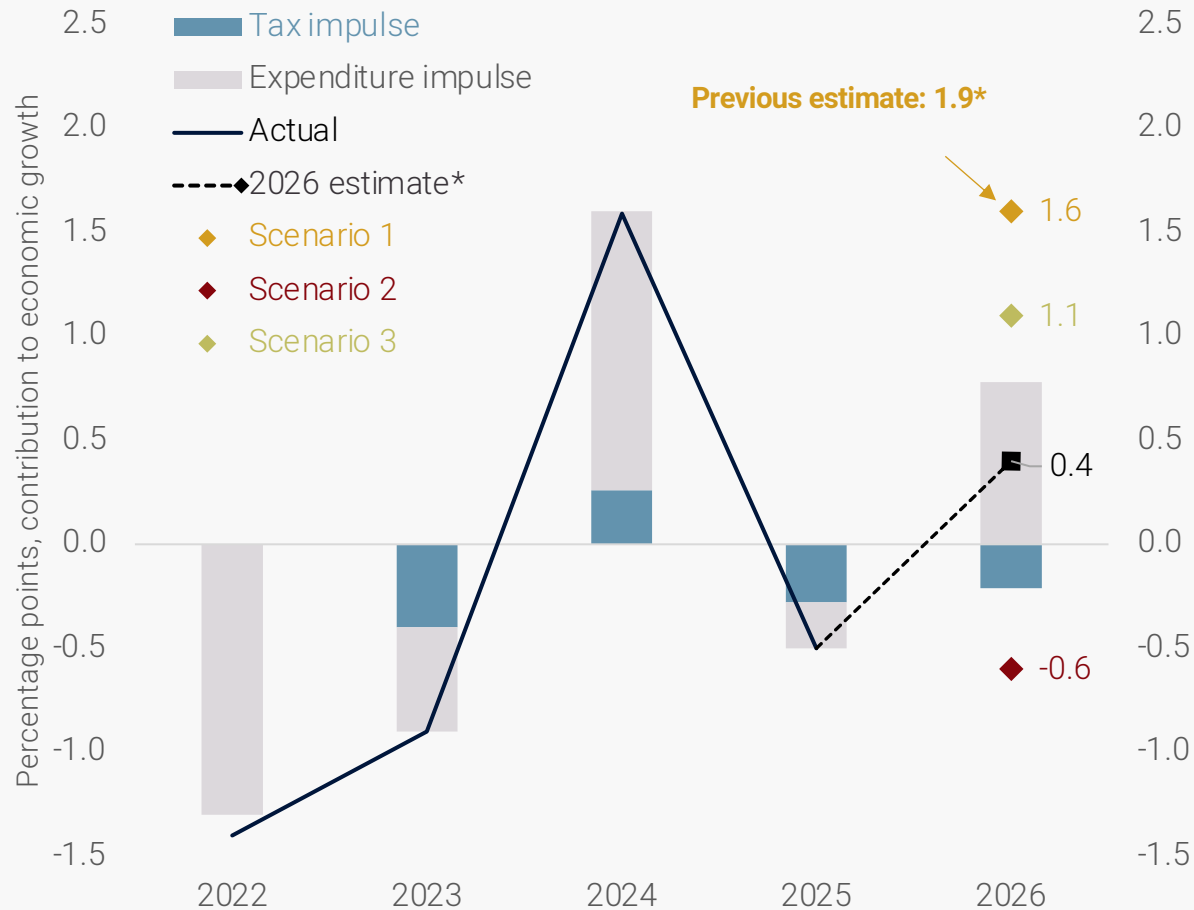


Source: Statistical Committee Republic of Armenia

Source: Statistical Committee Republic of Armenia

Fiscal policy. the risks of fiscal policy becoming more expansionary have slightly eased

Scenarios of the impact of fiscal policy on aggregate demand

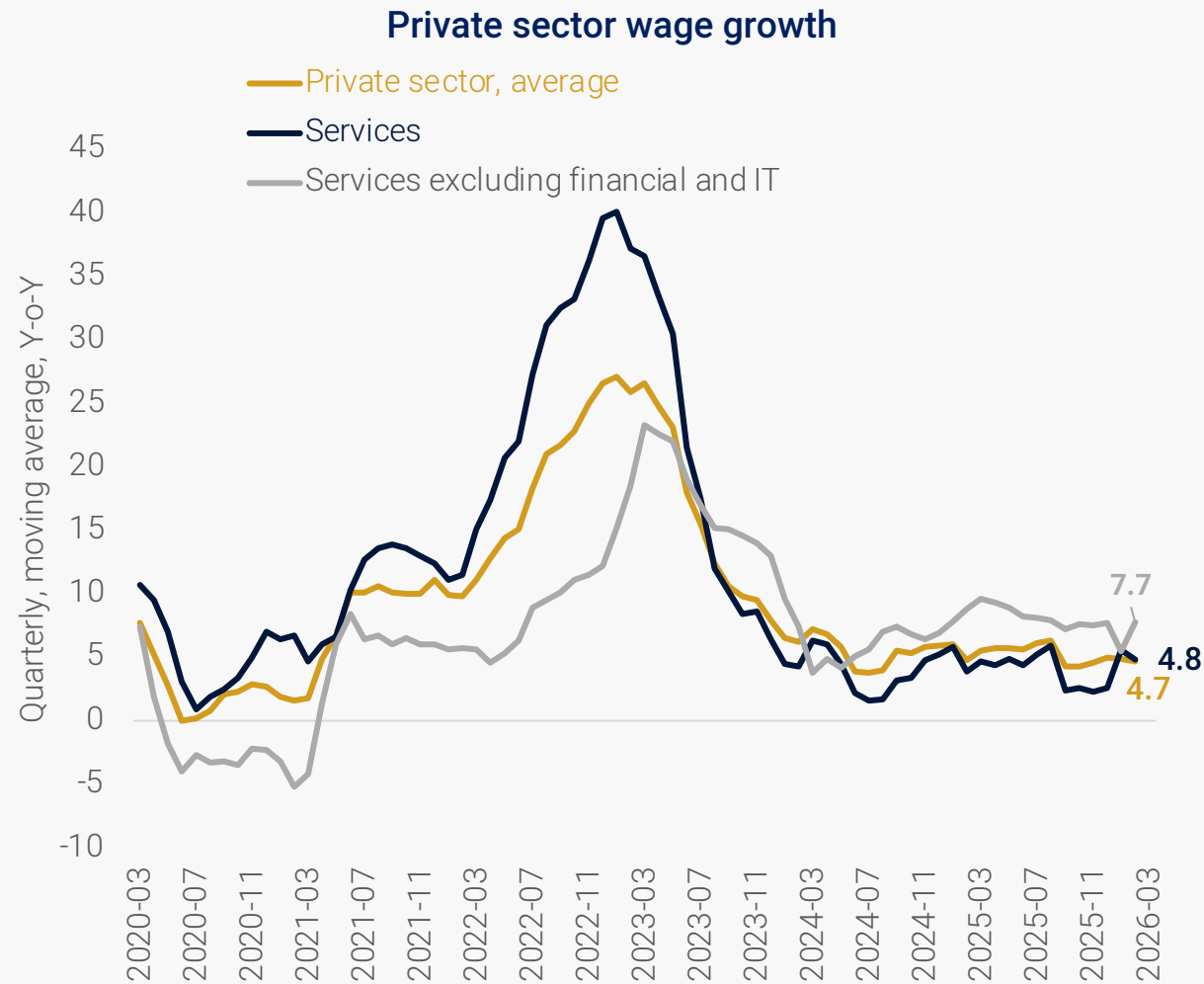


- **Scenario 1.** Limited capacity of tax administration.
- **Scenario 2.** Full execution of the tax revenue plan, but under conditions of limited capacity to carry out large-scale capital expenditures, resulting in an underperformance of capital spending, in line with trends observed in previous years.
- **Scenario 3.** Overexecution of health-related expenditures amid full execution of the tax revenue plan.

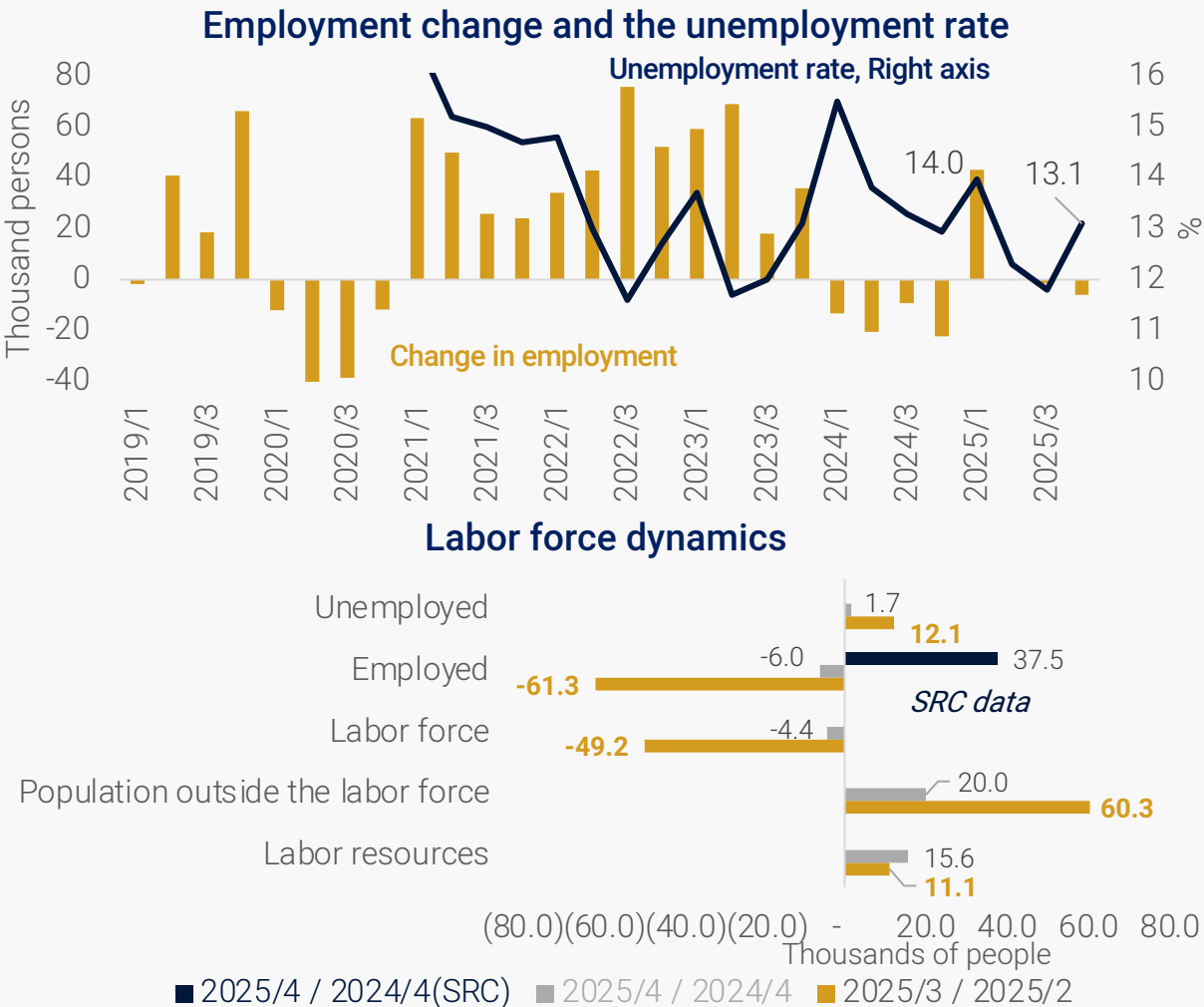
*Note: The estimate includes the increase in pensions and benefits from April 2026.

Source: Ministry of Finance of the Republic of Armenia, CBA calculations

On the other hand, developments in the **labor market** may indicate a relatively more balanced position of the economy



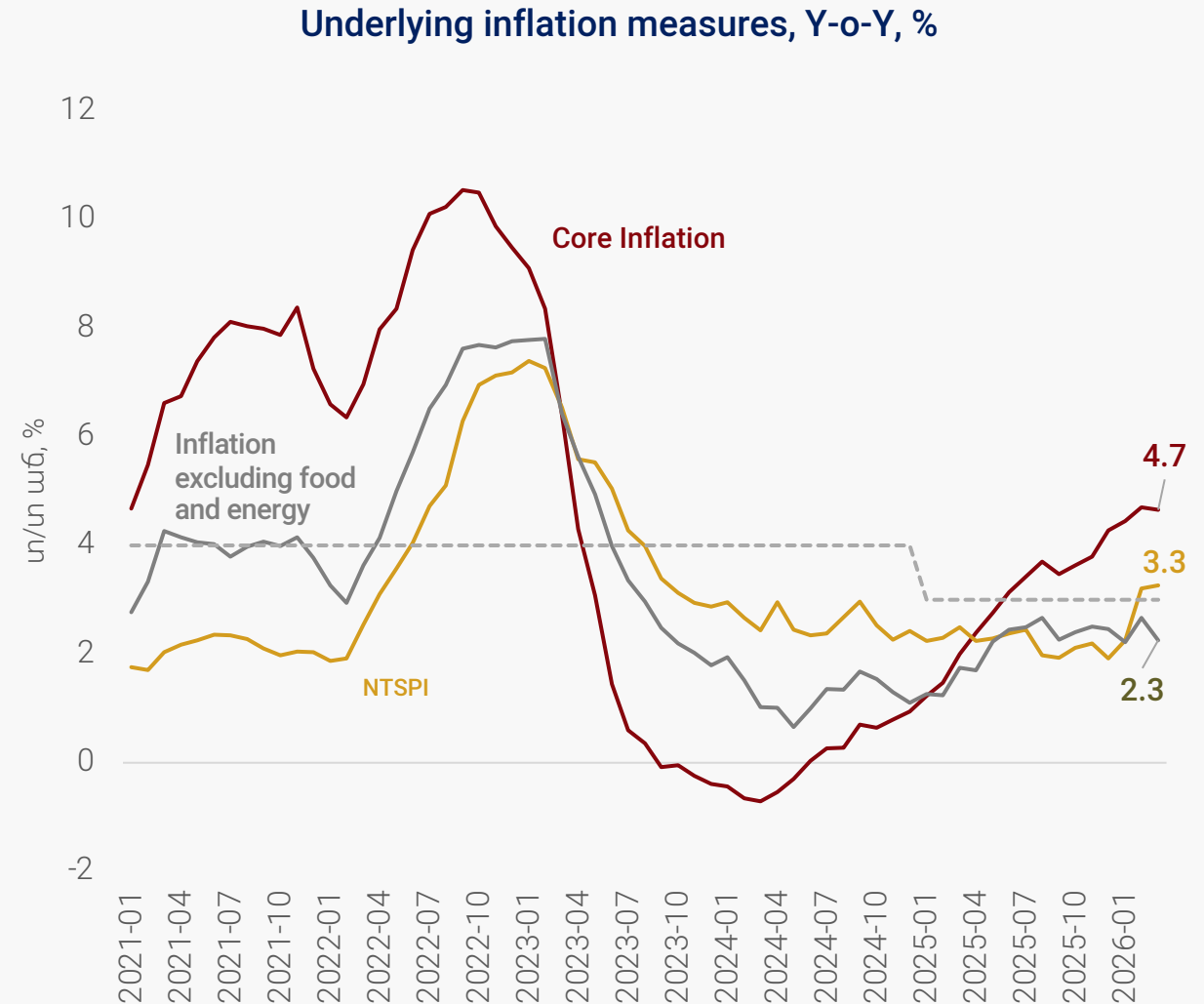
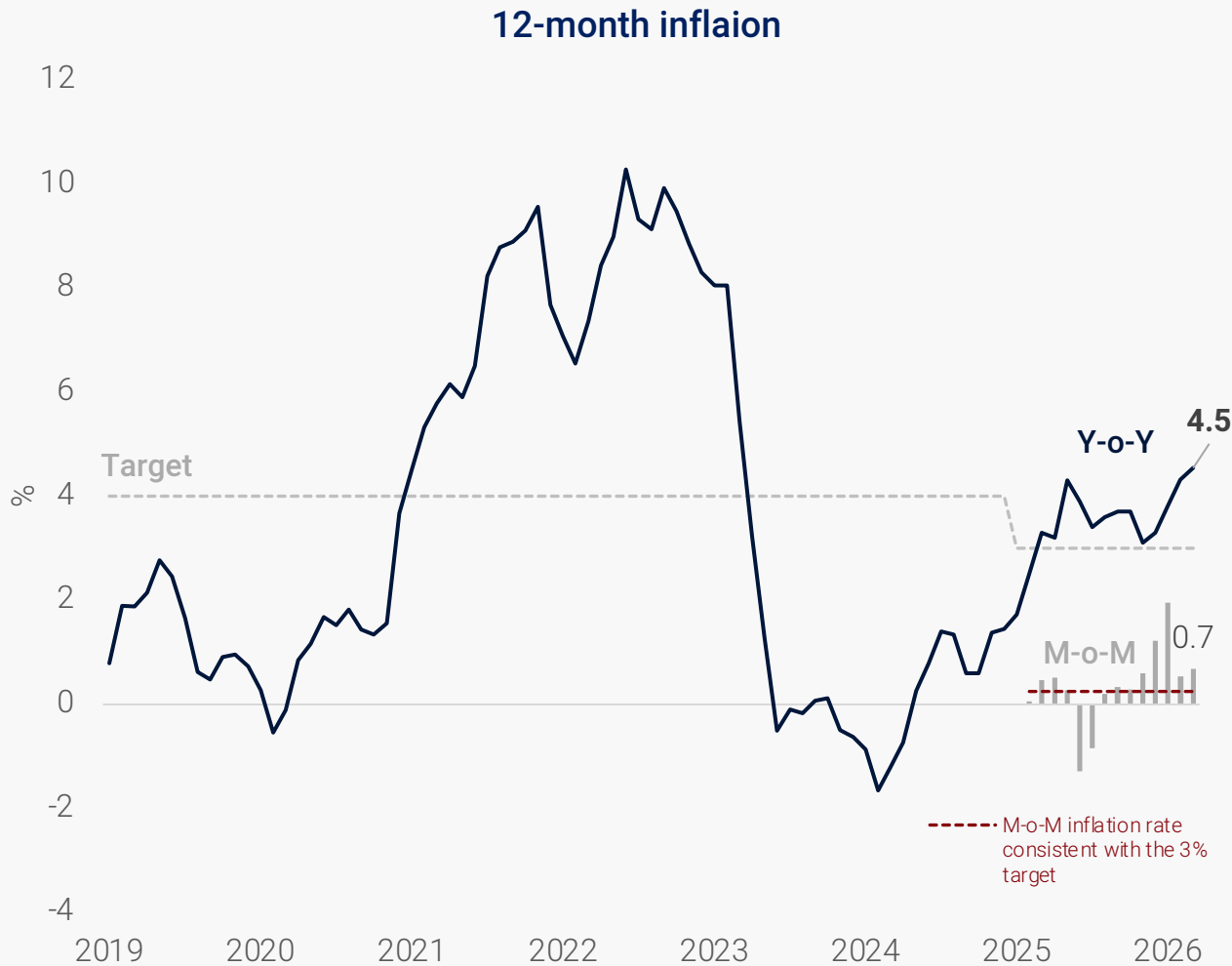
Source: Statistical Committee Republic of Armenia



Source: Statistical Committee of the RA, State Revenue Committee of the RA

In March 2026, **12-month inflation**, largely mainly driven by food products, continued to accelerate, remaining above the target level

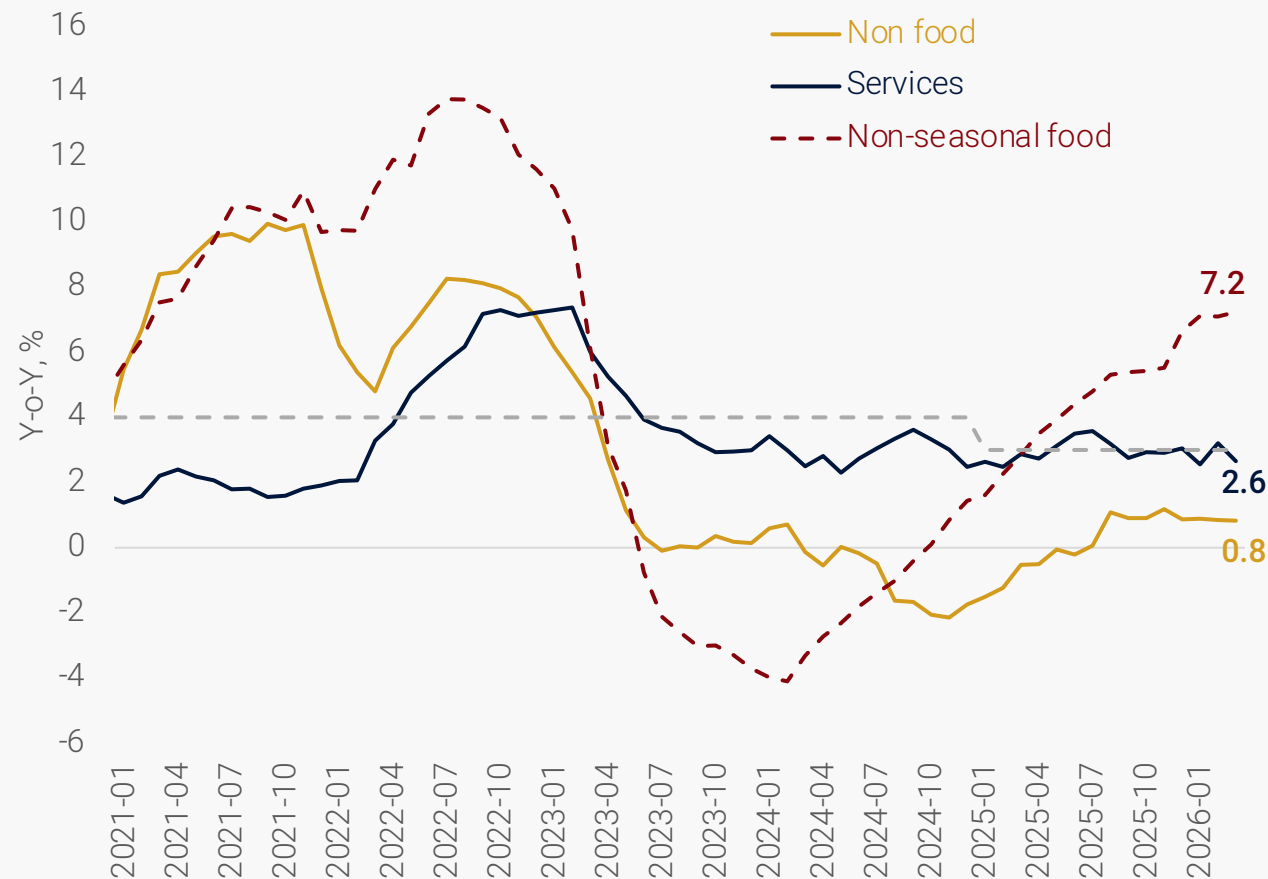
In the near term, risks of inflation broadening persist



Source: Statistical Committee of the RA

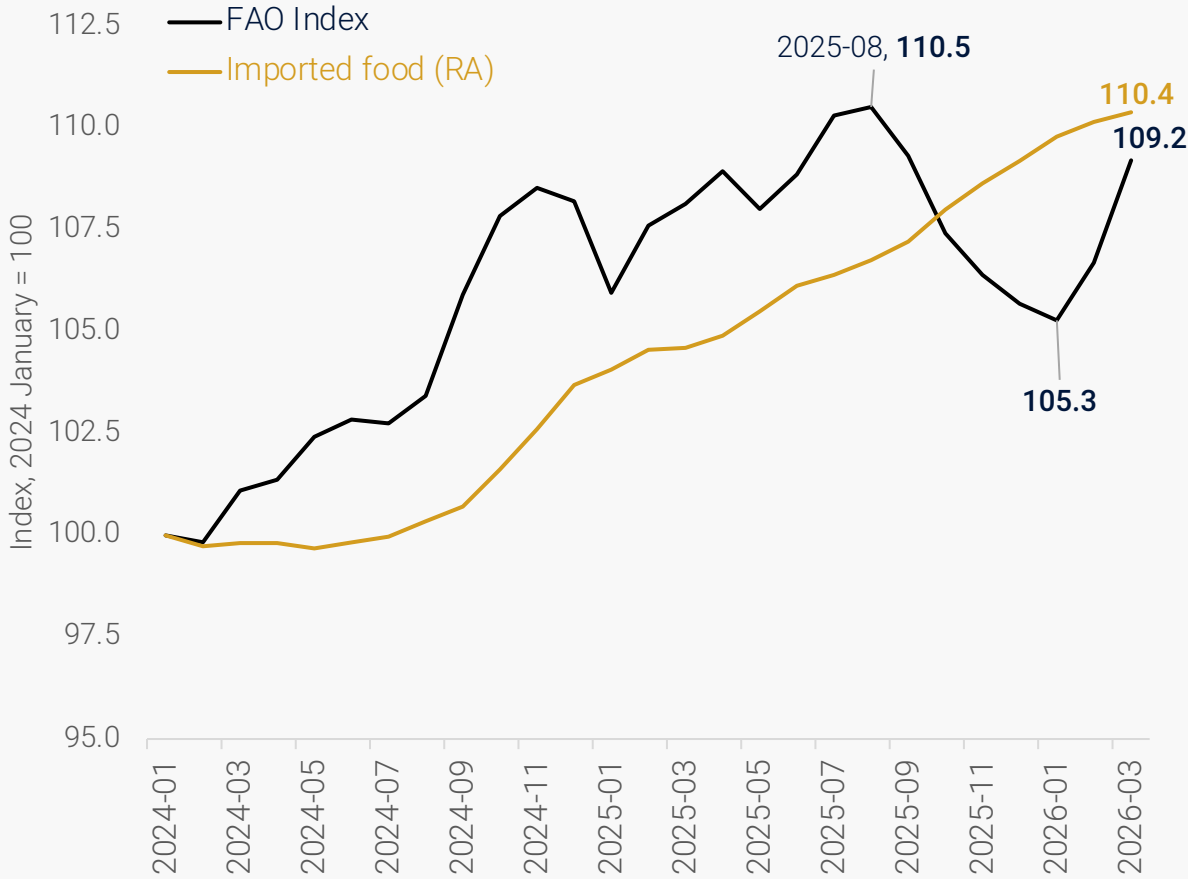
Although the acceleration in inflation is largely driven by rising food prices...

The acceleration of inflation has been largely driven by the increase in prices of non-seasonal food items



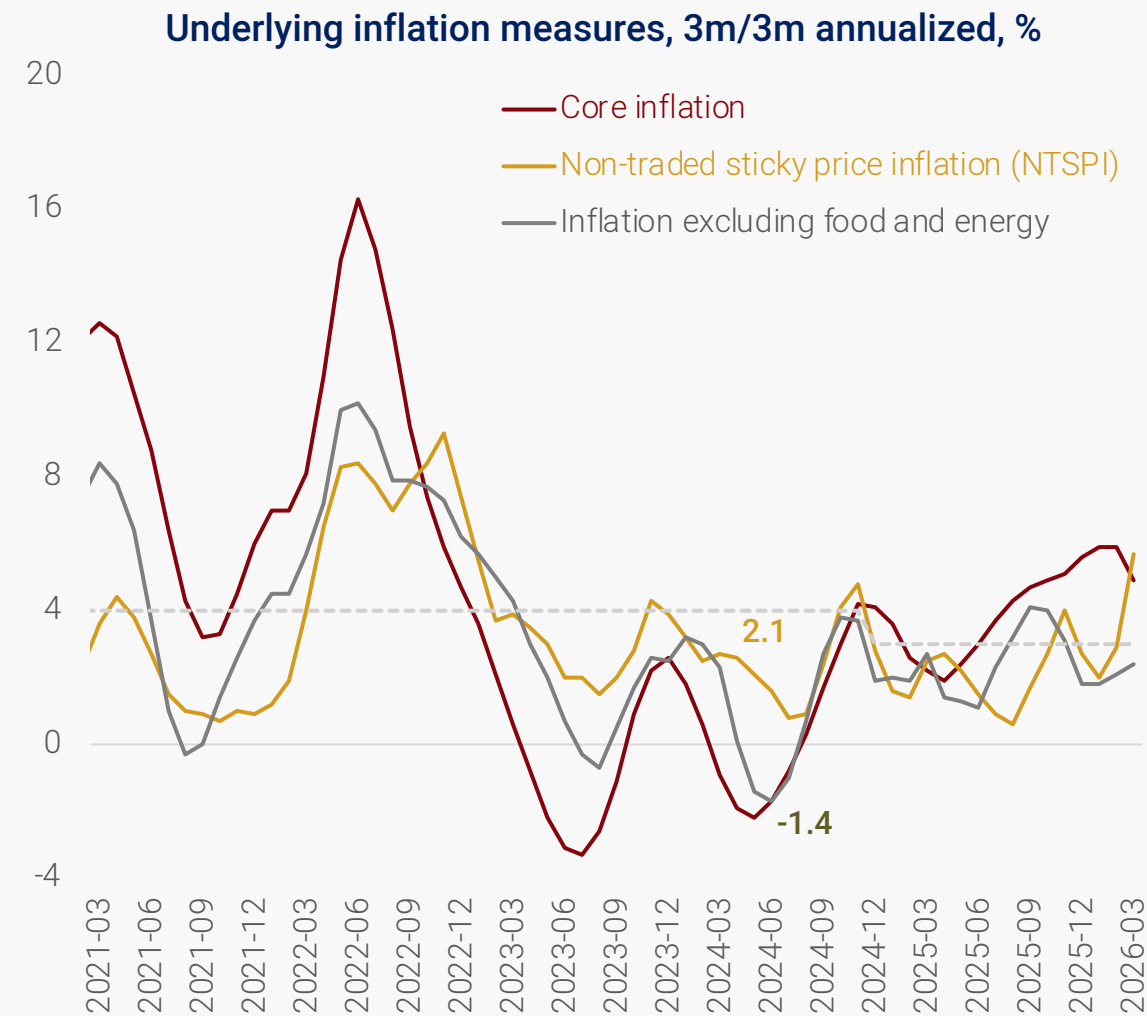
Source(s): Statistical Committee of the RA, CBA

Inflationary pressures in global food markets are broadening



Source(s): Food and Agriculture Organization of the United Nations (FAO), CBA

Nevertheless, inflation has become more broad-based across product groups. In combination with the acceleration of inflation in certain non-tradable services, this may also indicate the presence of strong domestic demand conditions



Source(s): CBA, CBA calculations

The acceleration of inflation is noticeable in several NTSPI services.

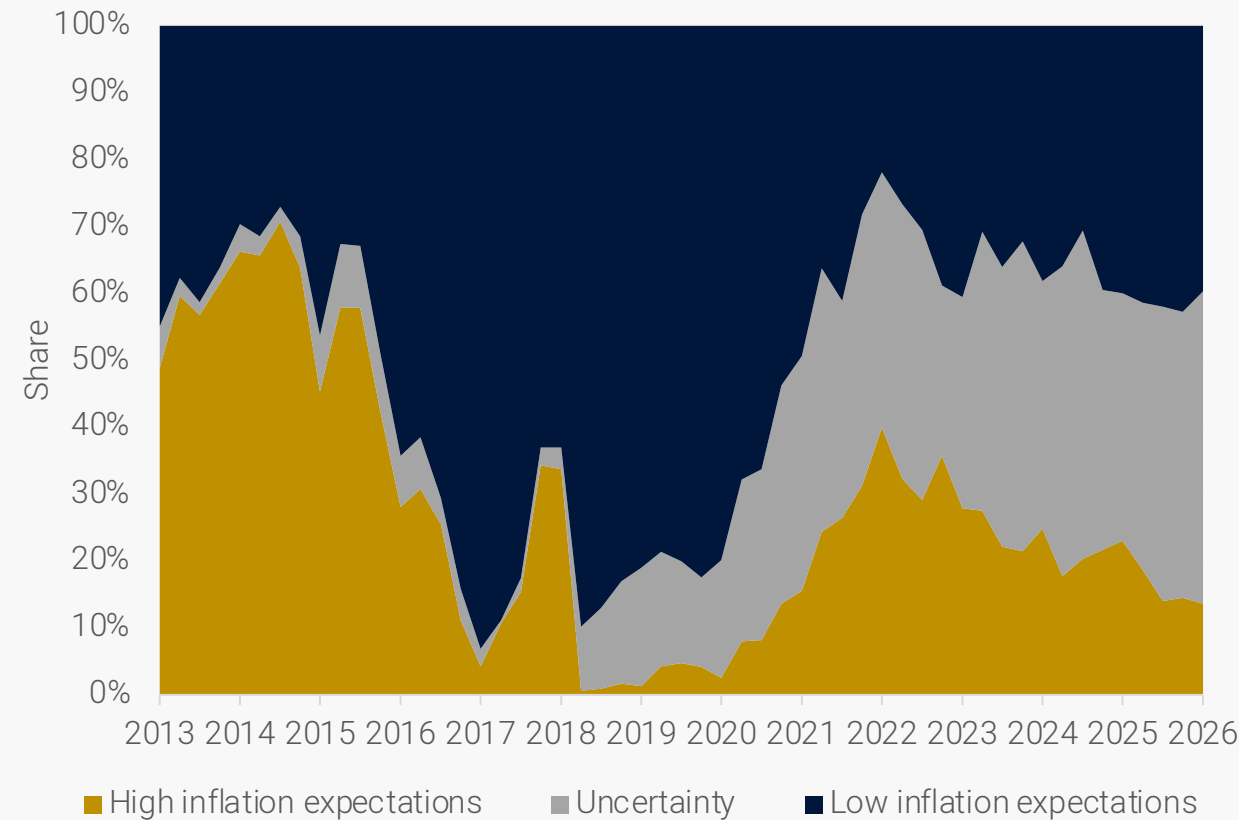
	Nov-2025	Dec-2025	Jan-2026	Feb-2026	March-2026
Car washing	2.5	3.2	9.2	9.3	10.1
Banks, post offices	2.3	2.3	9.7	9.7	9.7
Preschool fees	9.6	9.6	9.6	9.6	9.6
Cinema	16.6	9.3	6.8	7.6	9.0
Taxi transport	3.1	2.5	4.8	5.4	8.1
Dry cleaning of clothing	6.6	6.0	6.7	5.6	7.3
Primary school	7.3	7.3	7.3	7.3	7.3
Men’s hairdressing services	8.1	8.8	9.3	8.8	5.7
Driving courses	16.9	16.9	8.3	8.3	5.3
Prepared food at fast food outlets	4.2	4.0	5.1	5.0	4.8
Computer courses	6.2	5.6	5.6	4.5	4.5
Swimming pool services	2.6	2.6	3.3	3.7	3.7

Source(s): Statistical Committee of the RA, CBA

At the same time, despite some increase in uncertainty, the combination of various indicators may suggest that inflation expectations are stabilizing around the target level

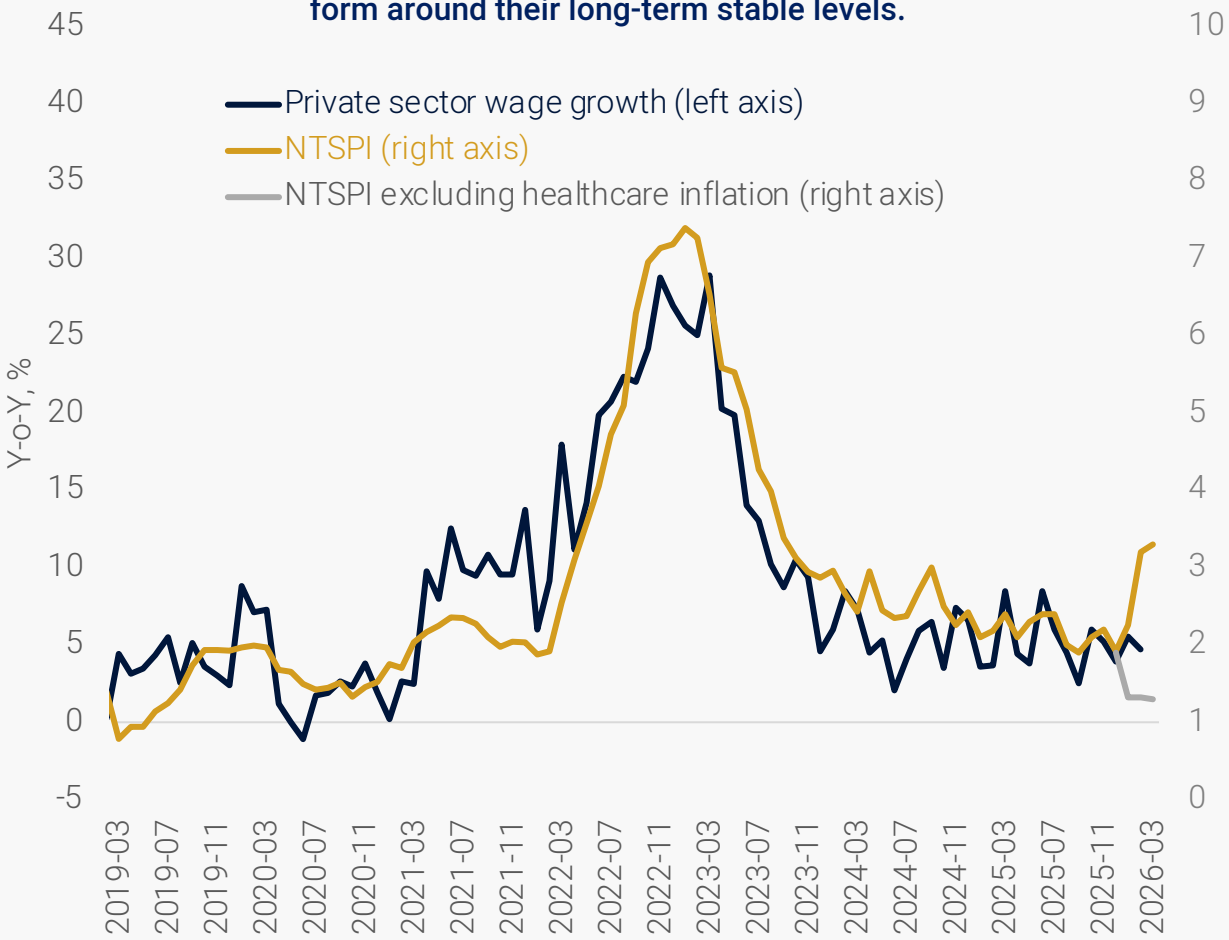
In Q1 2026, uncertainties increased slightly, partly driven by a decline in low inflation expectations

Inflation expectations according to CBA surveys



Source: CBA

Nevertheless, non-traded sticky prices and private sector wages have continued to form around their long-term stable levels.

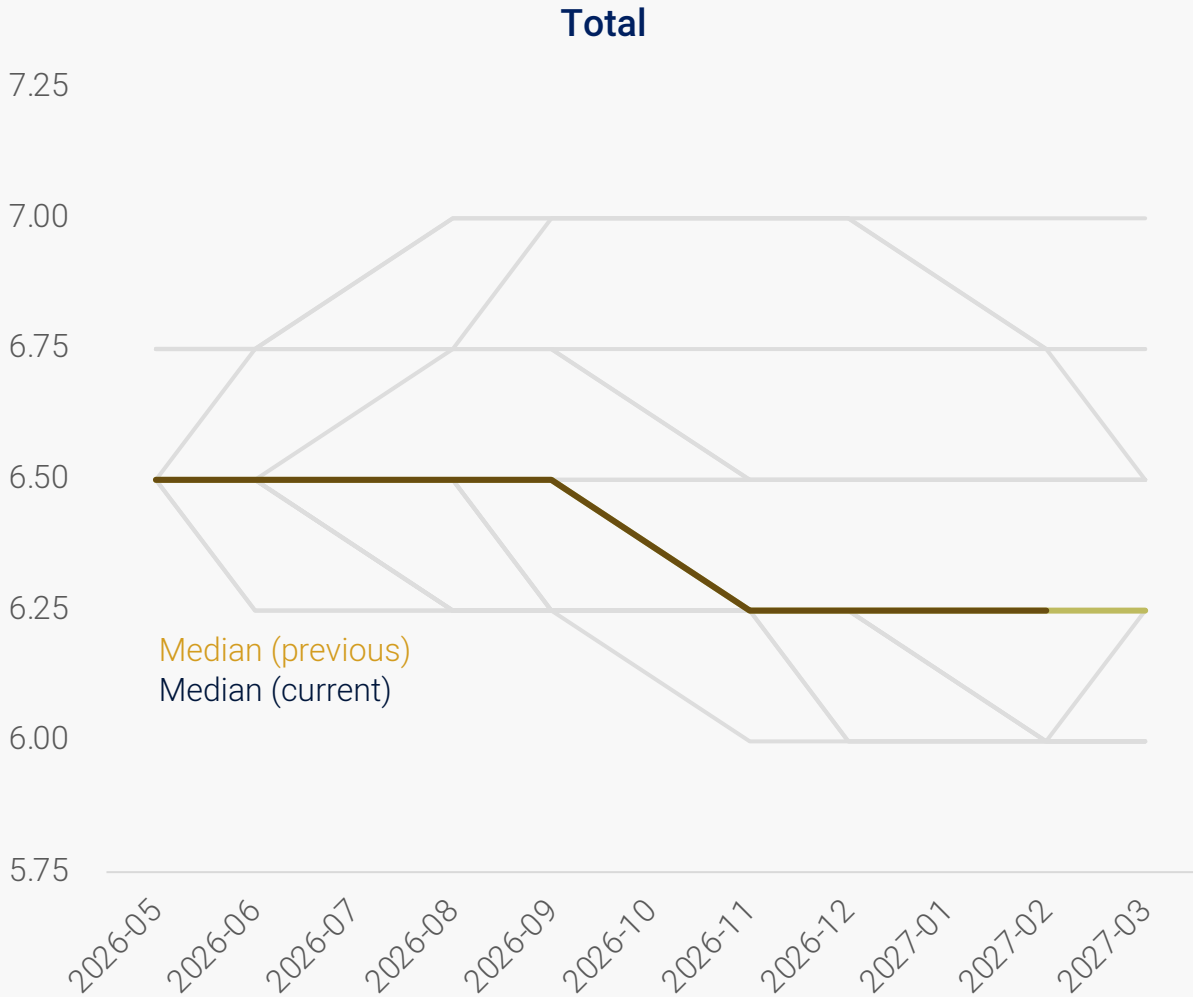


Source(s): Statistical Committee of the RA, CBA

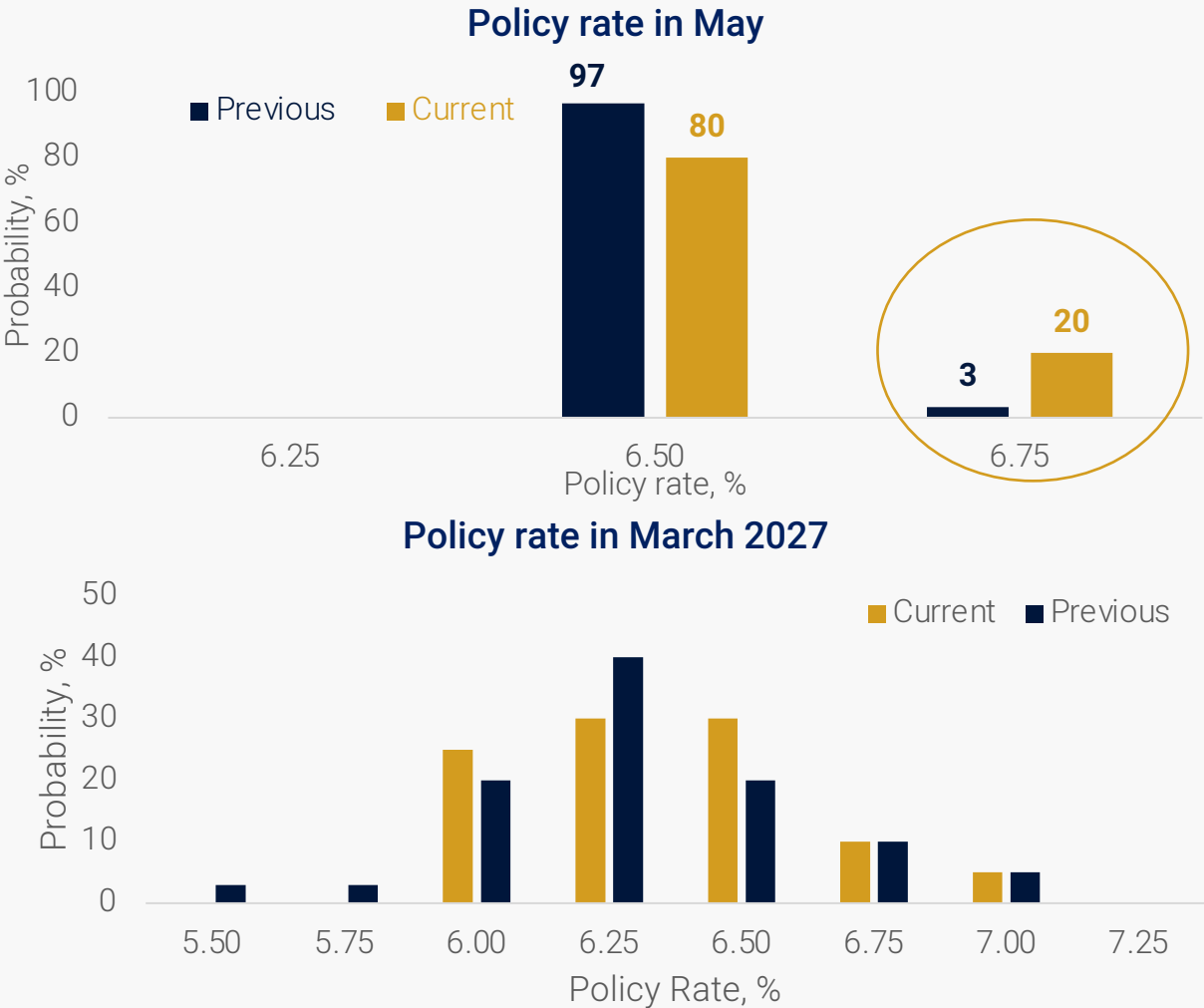


Market reference scenario and expectations

On average, financial market participants in Armenia, consistent with the previous survey, expect the Central Bank to reduce the policy interest rate to 6.25%

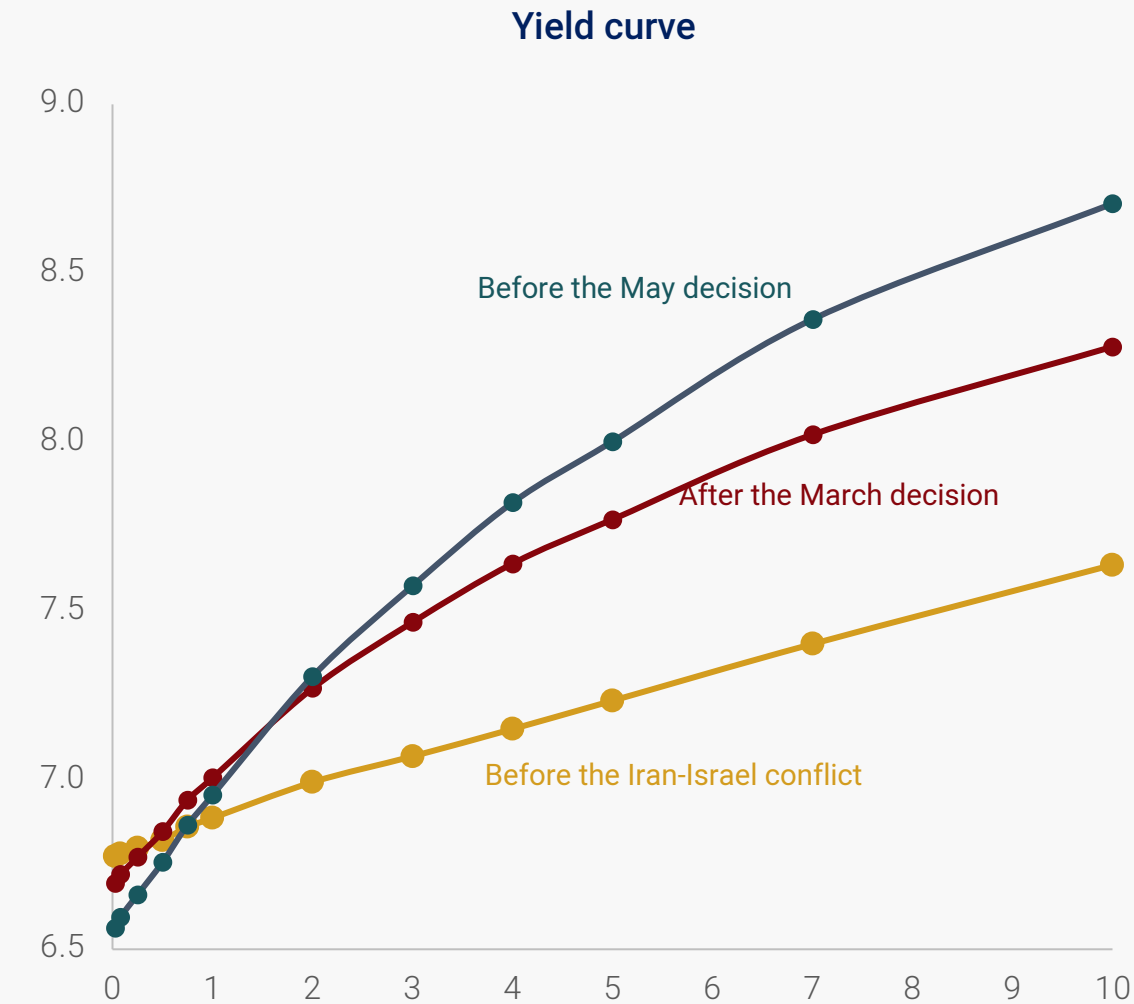


Source: CBA survey of April 29th

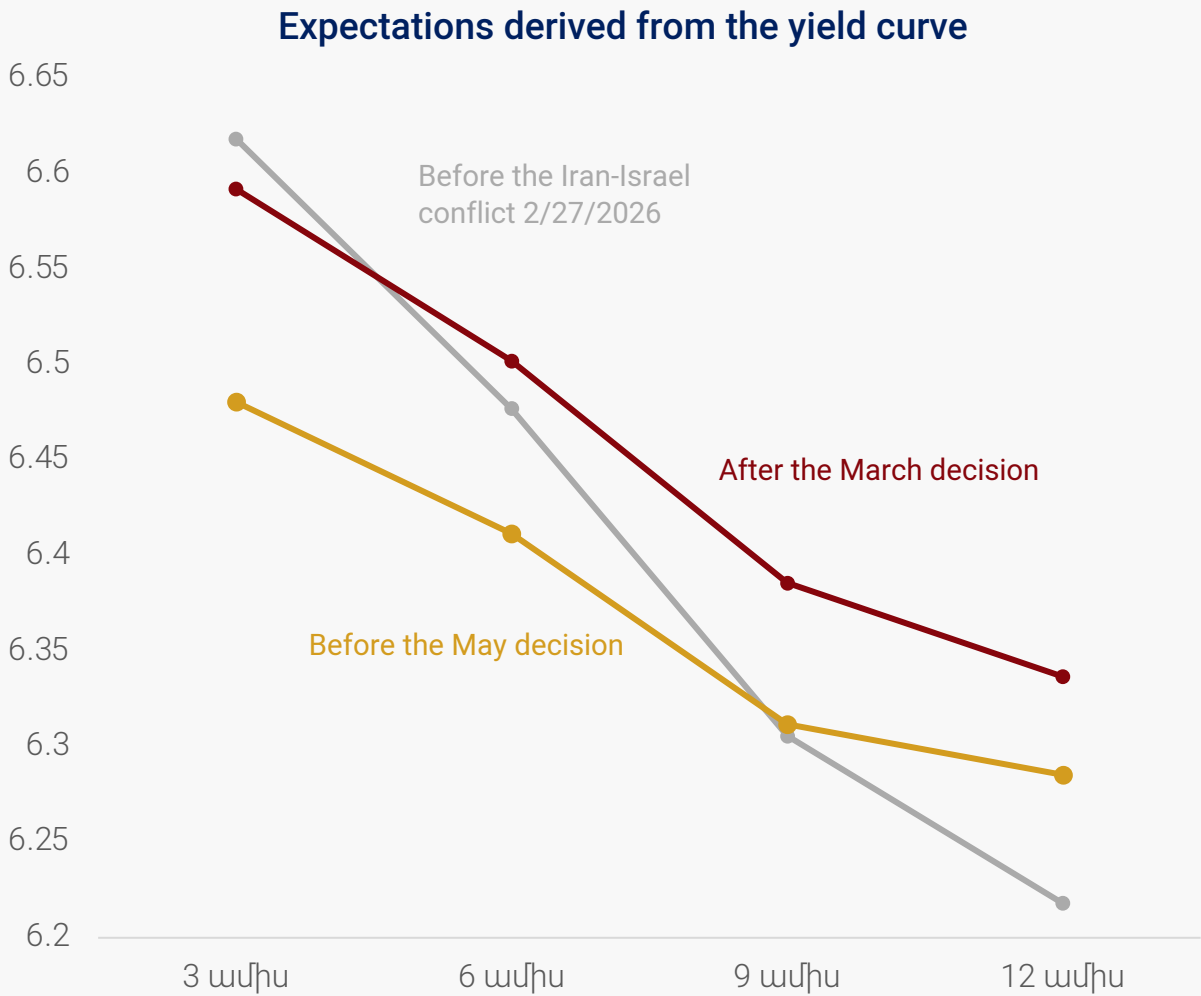


Source: CBA survey of April 29th

Developments in the **yield curve** also point to expectations of a further single-step reduction in the policy interest rate in the near term



Source: CBA



Source: CBA



Taxonomy of **Scenarios**

Taxonomy of Scenarios.

Case A-Type Considerations

Expansionary Demand

Uncertainty around Armenia's neutral policy rate:

- Following the US's re-evaluation of fiscal adjustments, uncertainty has increased regarding the magnitude of stimulus and, particularly, the long-term debt burden, including uncertainties around future customs revenue collection. This could contribute to a rise in the neutral policy rate in the US, which in turn affects the neutral rate in emerging markets, including Armenia.
- In the event of a sharp escalation in the Middle East, deeper regional geopolitical risks could translate into an increase in Armenia's country risk premium.
- Significant growth in social spending may lead to an increase in Armenia's budget deficit and debt, affecting the fundamental level of the country risk premium.
- Under uncertainty regarding the resolution of the Russia–Ukraine conflict, the prolonged maintenance or further tightening of sanctions on Russia could additionally strengthen capital inflows into Armenia, primarily supporting demand and inflationary pressures.
- Amid global imbalances and high uncertainty, capital flows to emerging economies, including Armenia, pose inflationary risks by stimulating consumption, credit growth, and investment.

Expansionary Demand

- Uncertainty regarding aggregate demand conditions in the domestic economy, including an environment of excess demand and its persistence.
 - Sustained economic growth above the estimated long-term potential—mainly driven by accelerated household consumption and accompanied by rising inflation—may indicate the presence of excess demand in the Armenian economy.
 - Accumulated savings and wealth in the private sector, continued strong credit growth, and income derived from positive export developments could further expand demand conditions in the medium term.
 - Budgetary expenditures related to the introduction of universal health insurance and increases in pensions may exceed planned levels, further expanding aggregate demand.
 - Continued strong external demand for Armenian goods and services (including tourism, financial services, etc.) can generate additional demand and inflationary pressures in the economy.

Taxonomy of Scenarios.

Case A-Type Considerations

Expansionary Demand

- Sustained core inflation above target, particularly given its broad-based nature in food products, could trigger an upward adjustment in inflation expectations.
- A potential easing of regional geopolitical tensions carries risks of accelerated capital inflows, which could further expand demand conditions in the economy.
- Increased liquidity supply in financial markets could facilitate easier credit conditions, thereby stimulating demand in the economy

Contractionary Supply

- ***In the event of a sharp escalation in the Middle East and its prolonged persistence, disruptions in regional value chains may emerge, generating additional inflationary pressures.***
- Given Russia's role in Armenia's import structure, as well as the low level of diversification of logistics routes, inflationary risks transmitted from the Russian economy may increase.
- The prolonged persistence and/or further escalation of geopolitical tensions could exert additional pressure on oil prices and increase their volatility.

Taxonomy of Scenarios.

Case B-Type Considerations

Contractionary Demand

- Weak domestic in the global economy—particularly in the Eurozone and China—amid persistent structural challenges may remain prolonged, leading to a sustained low-inflation environment in international commodity and raw material markets.
- Considering the deterioration of economic activity and labor market conditions in the United States, as well as risks of asset overvaluation, a potential rapid correction in asset prices could create disinflationary pressures both globally and in the Armenian economy.
- The prolonged persistence of low inflation in services and other non-traded goods sectors, stabilizing wage growth, weak retail trade activity, and structural characteristics of economic growth may indicate an already weak demand environment, the persistence of which could generate risks of a prolonged disinflationary environment.

Contractionary Demand

- Under conditions of a gradual and orderly correction in the construction sector and real estate prices, related sectors may also experience slower growth, weakening demand, and disinflationary effects.
- The concentration of economic growth and the uneven accumulation of debt burdens in certain sectors of the economy may pose risks of a slowdown in economic growth.
- In the event of escalating geopolitical conflicts, the potential imposition of sanctions on third countries could create significant constraints on trade and capital flows, negatively affecting aggregate demand conditions in Armenia.
- A weakening of demand in the Russian economy and slower growth in real incomes could lead to reduced external demand—particularly for tourism services—creating disinflationary pressures.

Taxonomy of Scenarios.

Case B-Type Considerations

Contractionary Demand

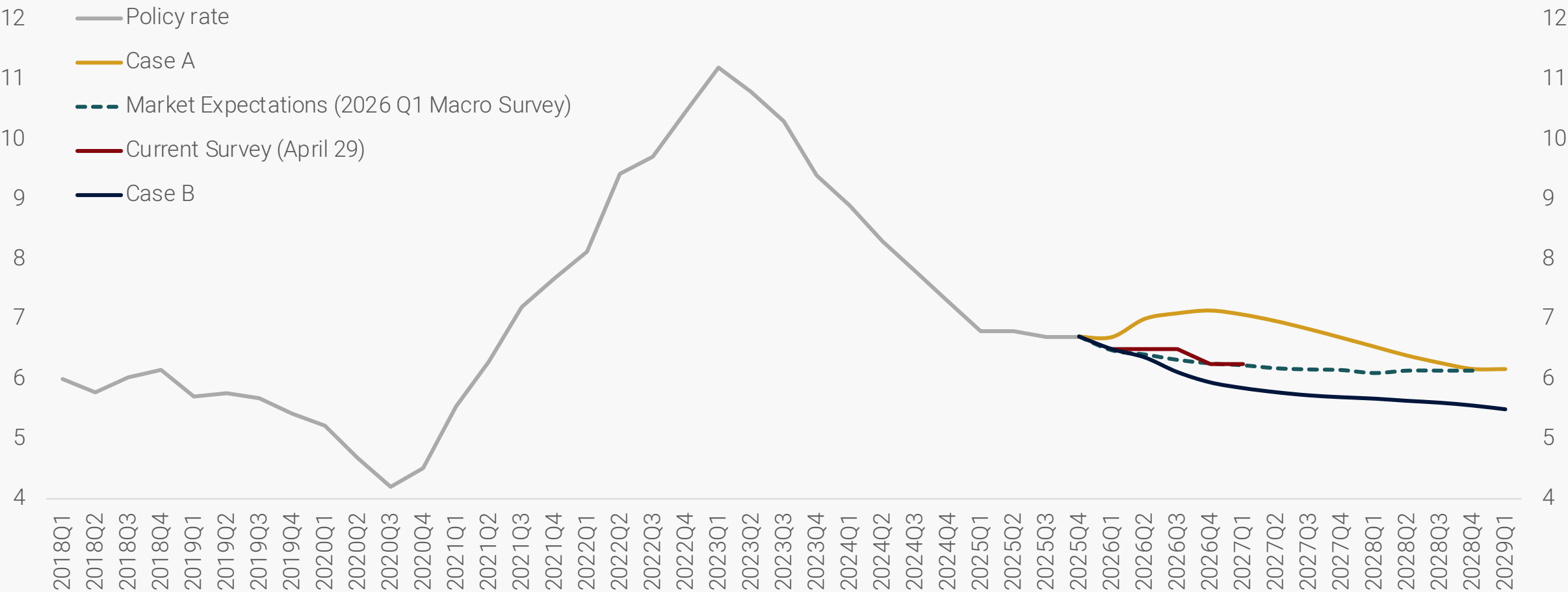
- In the event of a resolution of the Russia–Ukraine conflict and a full or substantial lifting of sanctions, there is a possibility of significant outflows of capital and labor from Armenia, which could entail risks of a notable weakening in aggregate demand and, in particular, the inflationary environment.
- A possible easing of regional geopolitical tensions around Armenia could contribute to a downward reassessment of the country risk premium and the long-term level of the neutral interest rate, driven by fundamentals.

Expansionary Supply

- Continued growth in the labor supply in Armenia's economy, driven by uncertainties surrounding the medium-term outlook of the Russian economy and, in particular, by the tightening of migration policies in Russia, leading to a continued decline in seasonal migration from Armenia to Russia.
- Risks of a disinflationary environment in global markets amid intensifying trade policies in the global economy, while China continues to pursue export-supporting policies, potentially leading to sharp reconfigurations of global trade flows.

Policy deliberation

Illustrative scenarios – Q1 2026



Source: CBA