



CENTRAL BANK
OF ARMENIA

Monetary Policy Outlook

2026 Q3 Policy Round

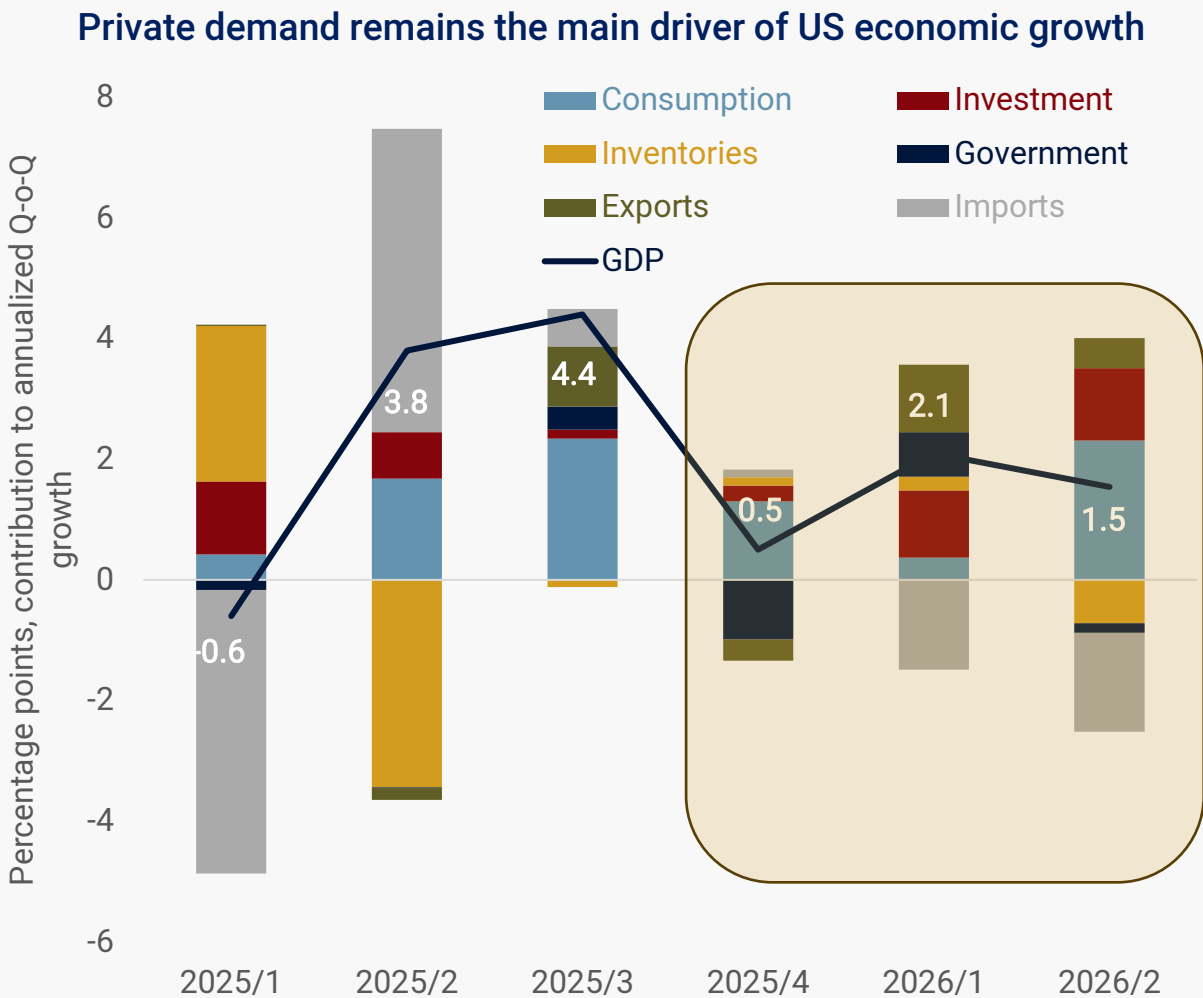
15 September 2026



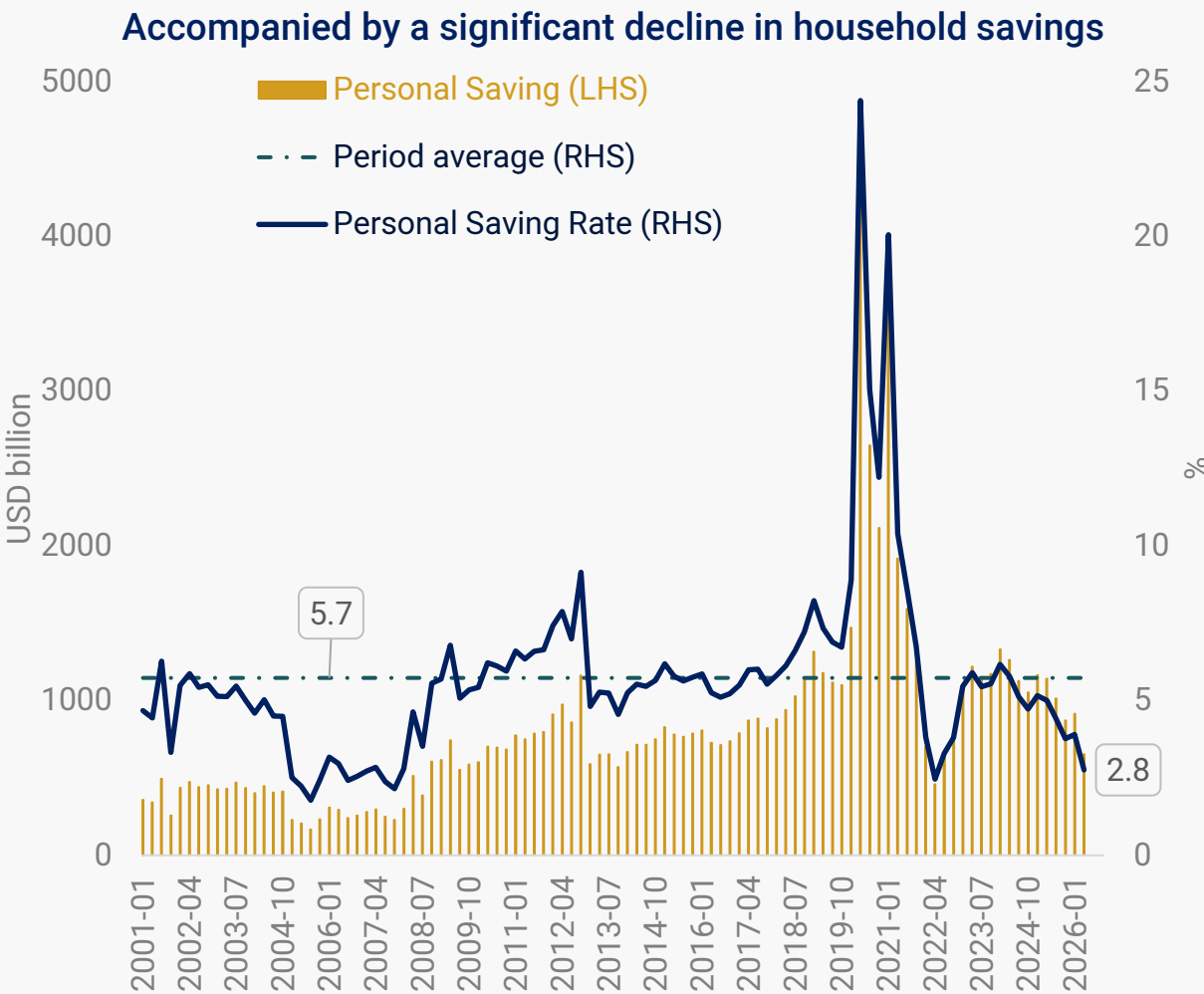
What are the underlying forces driving the economy?

Global economic developments
in the context of key uncertainties

US: Despite slowing economic growth, private consumption and investment have strengthened, with particularly strong investment in the AI sector

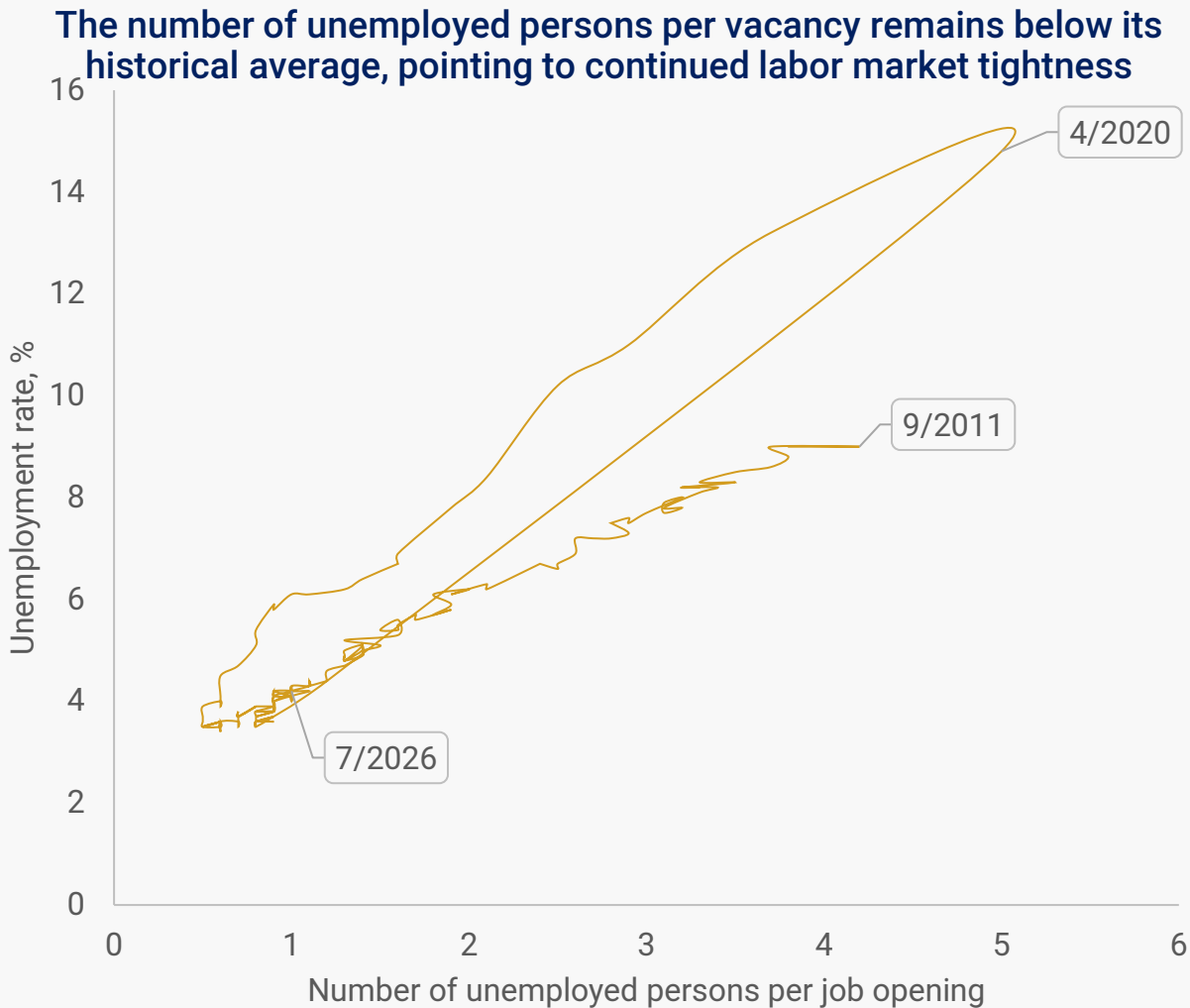


Source: US Bureau of Economic Analysis

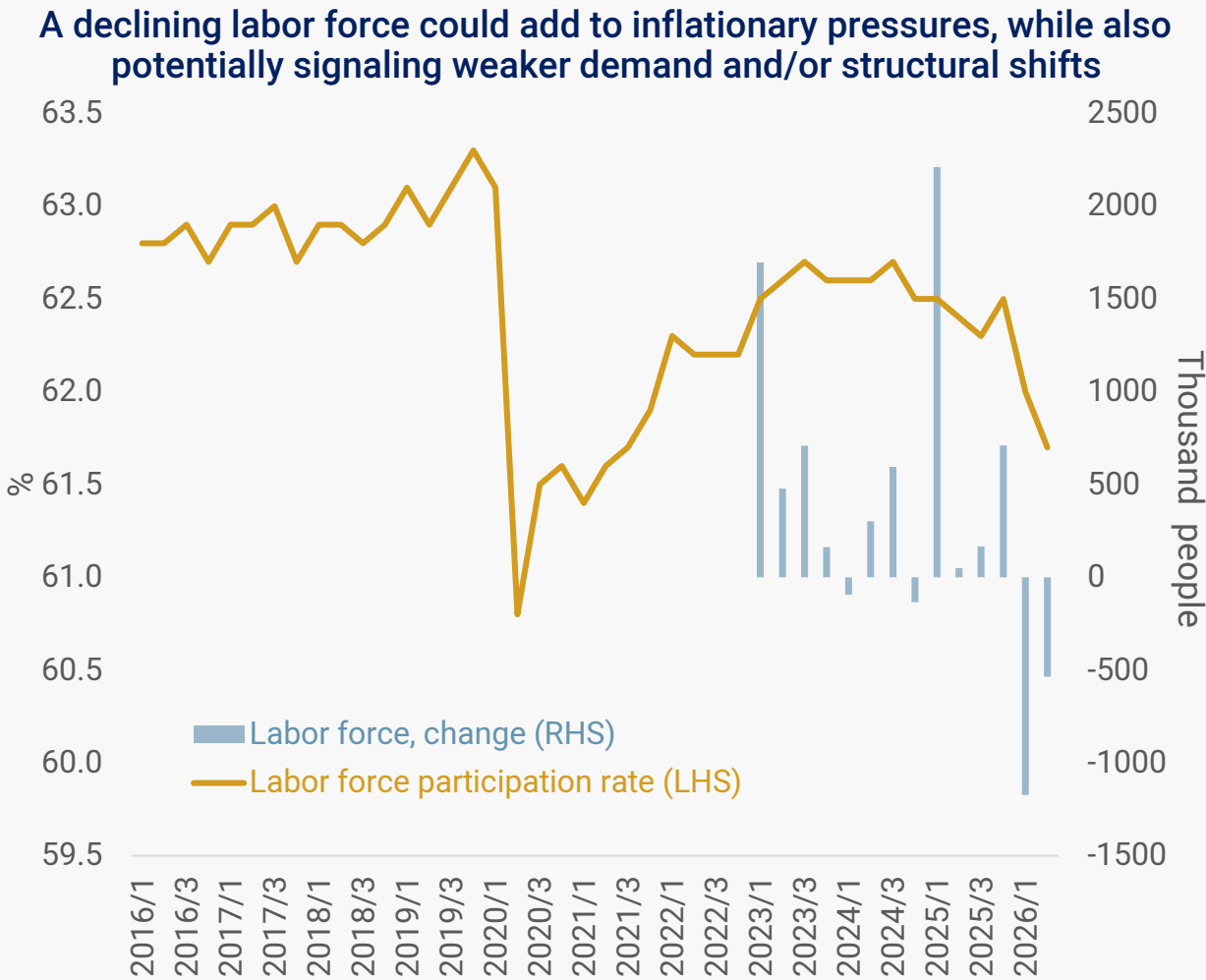


Source: US Bureau of Economic Analysis

US. Consistent with these developments, the US labor market continues to show signs of tightness



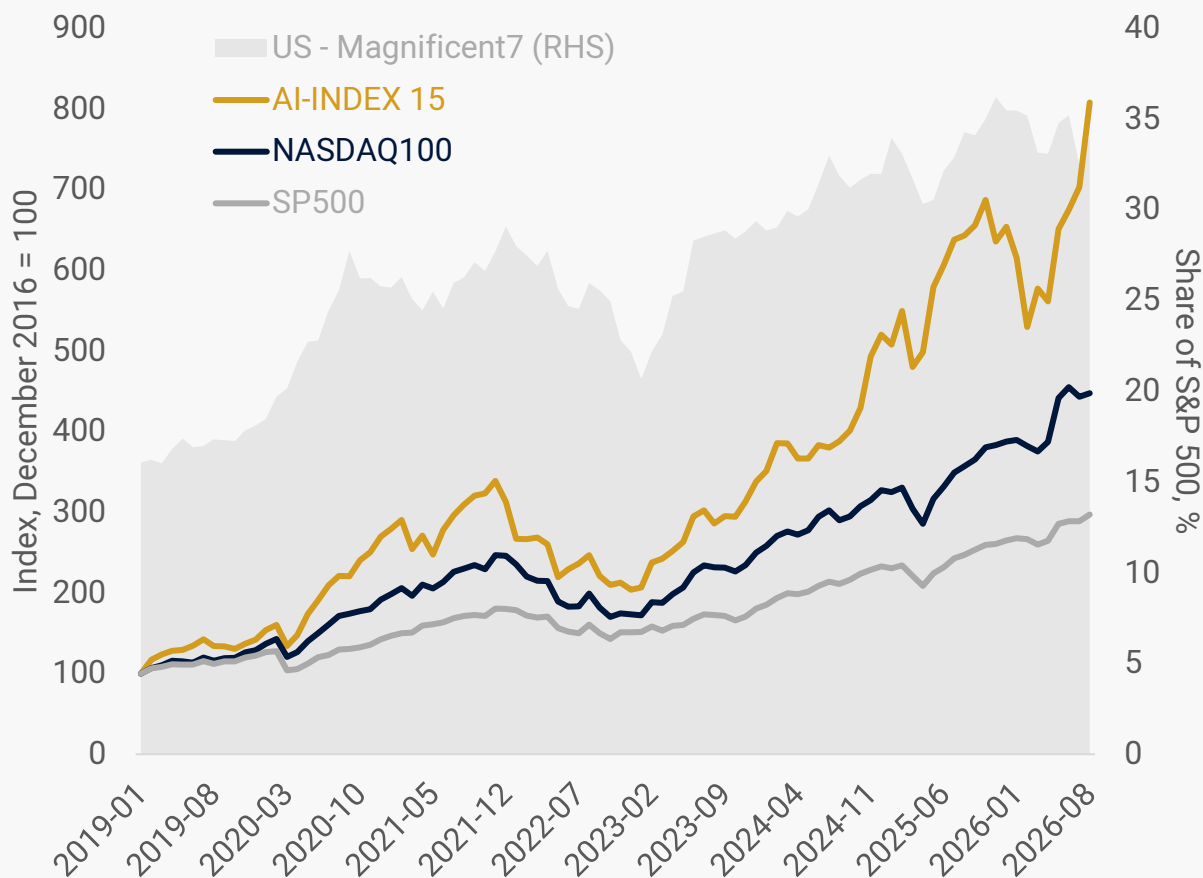
Source: Federal Reserve Bank of St. Louis (FRED)



Source: Federal Reserve Bank of St. Louis (FRED)

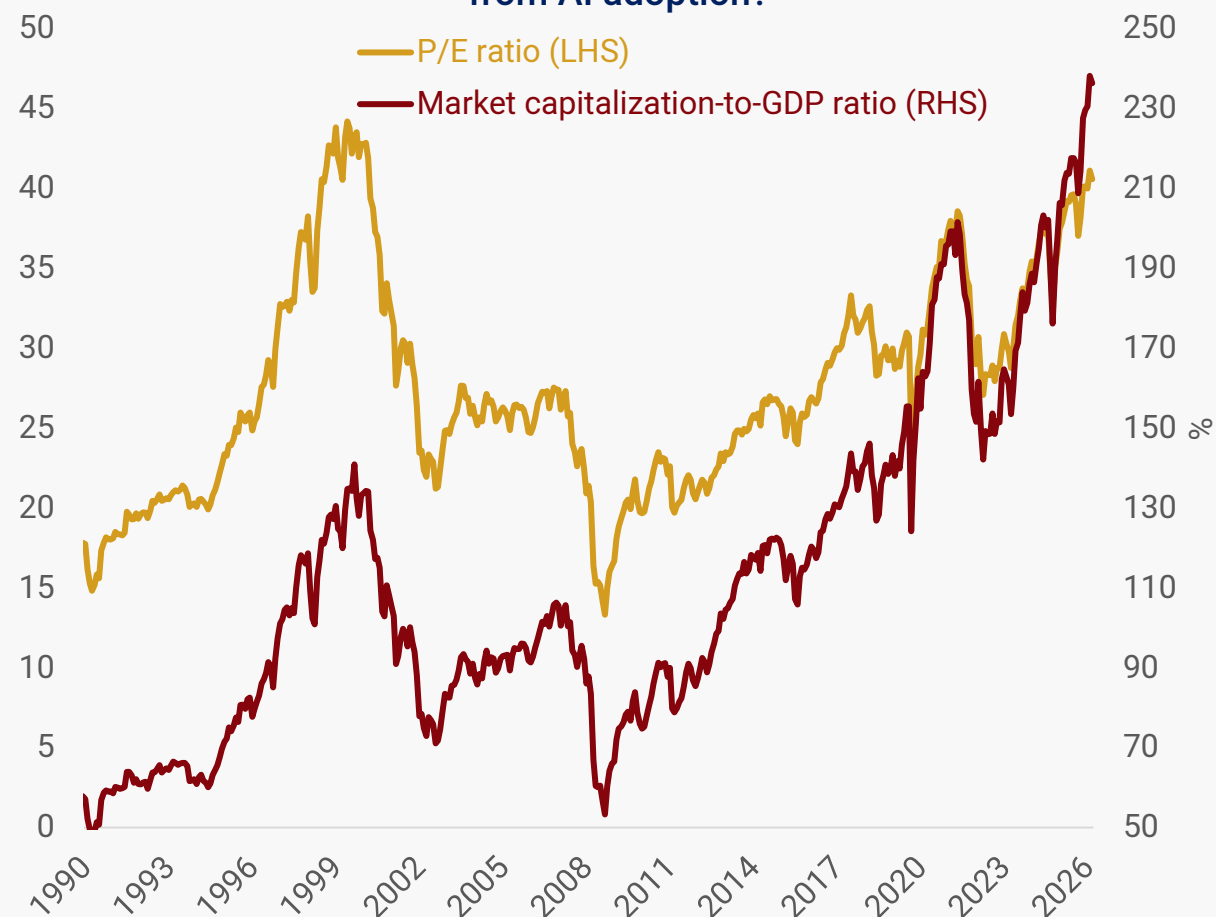
US. Optimism about the outlook for the AI sector has become an important driver of US economic activity

Market concentration among AI-related firms remains exceptionally high



Source(s): Federal Reserve Bank of St. Louis (FRED); AI-Index

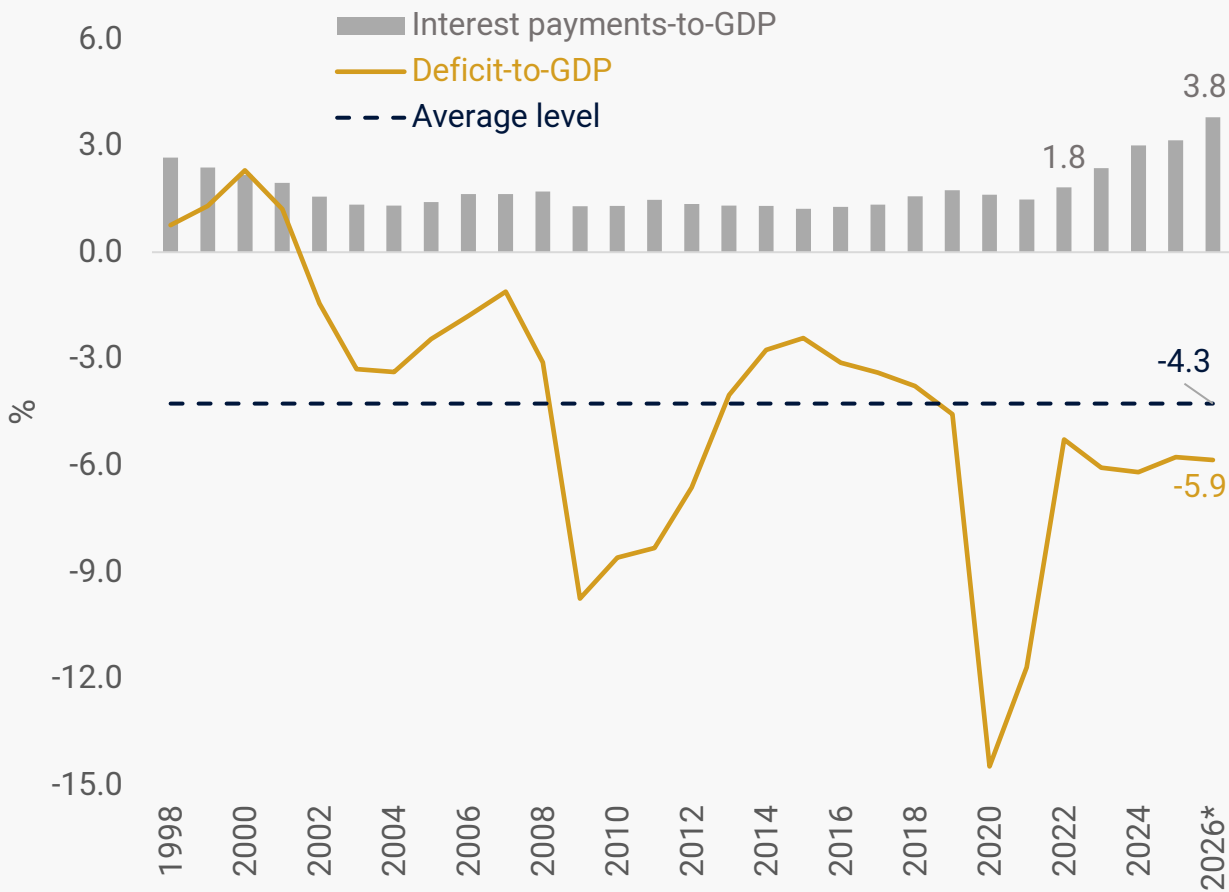
Are financial markets overestimating the potential productivity gains from AI adoption?



Source(s): Robert Shiller, Bloomberg

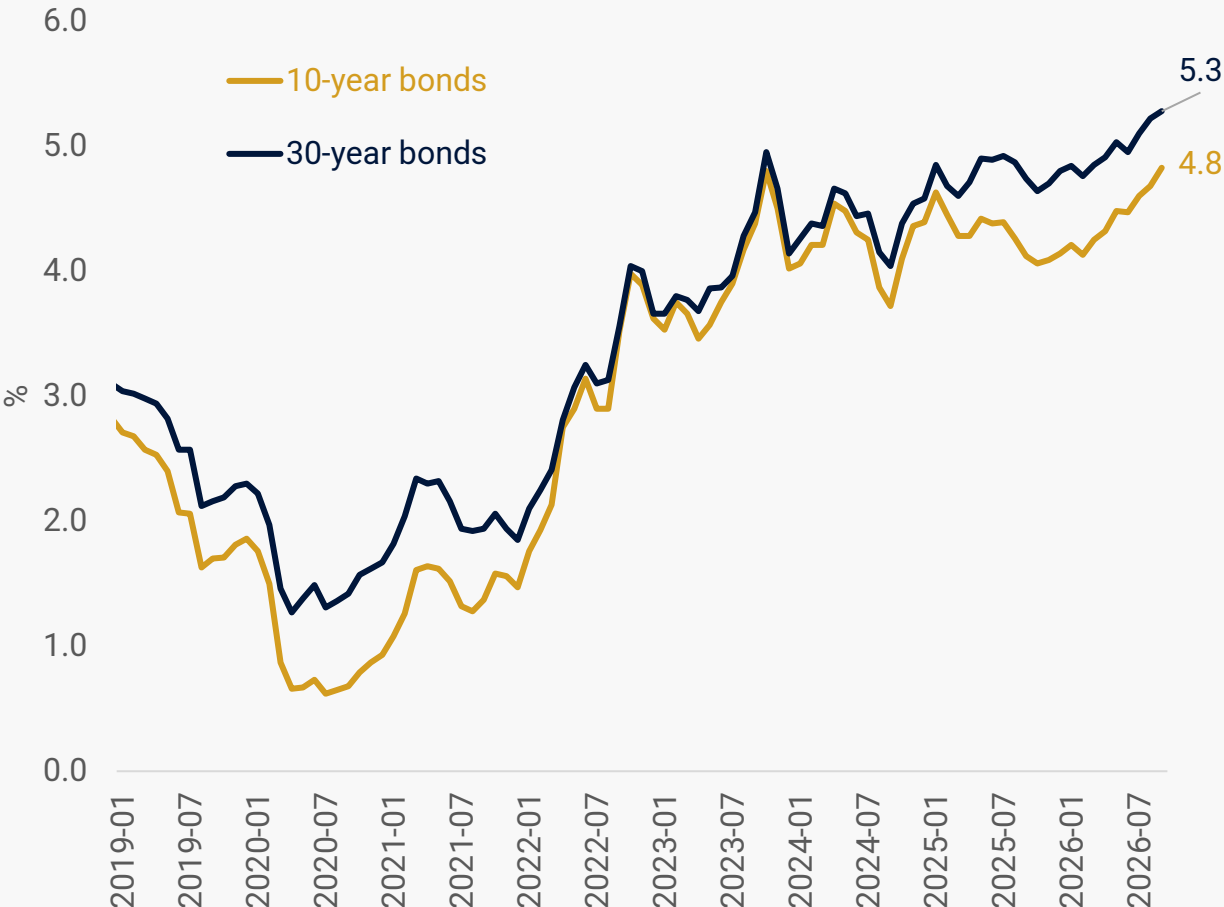
US. Rising concerns over fiscal sustainability, alongside developments in the AI sector, are contributing to higher long-term interest rates
Have financial markets fully priced in these risks?

The budget deficit remains well above its historical average, heightening fiscal sustainability risks



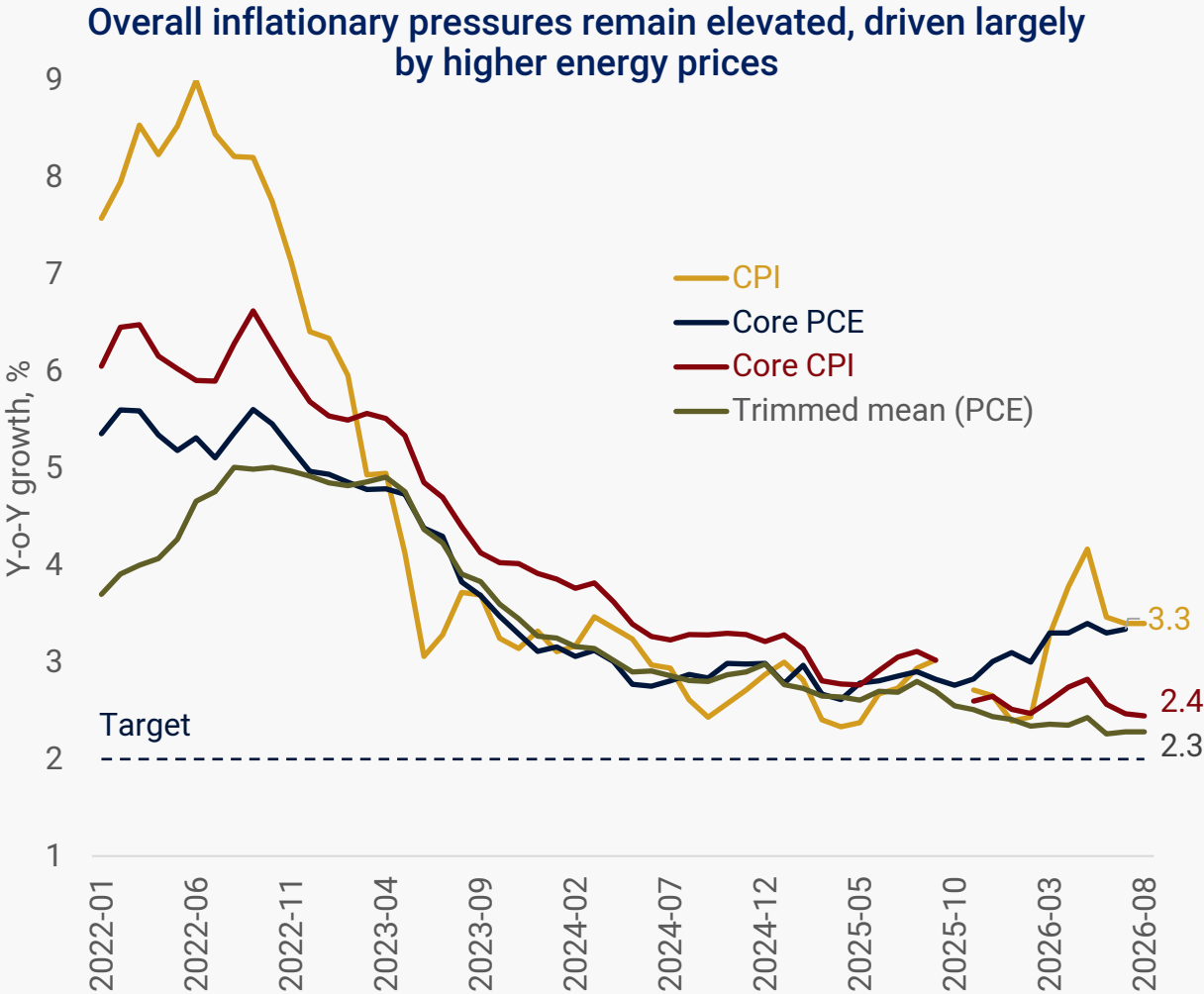
Source(s): Federal Reserve Bank of St. Louis (FRED); CBA calculations and estimates

US long-term interest rates continue to rise, partly reflecting growing concerns over debt sustainability

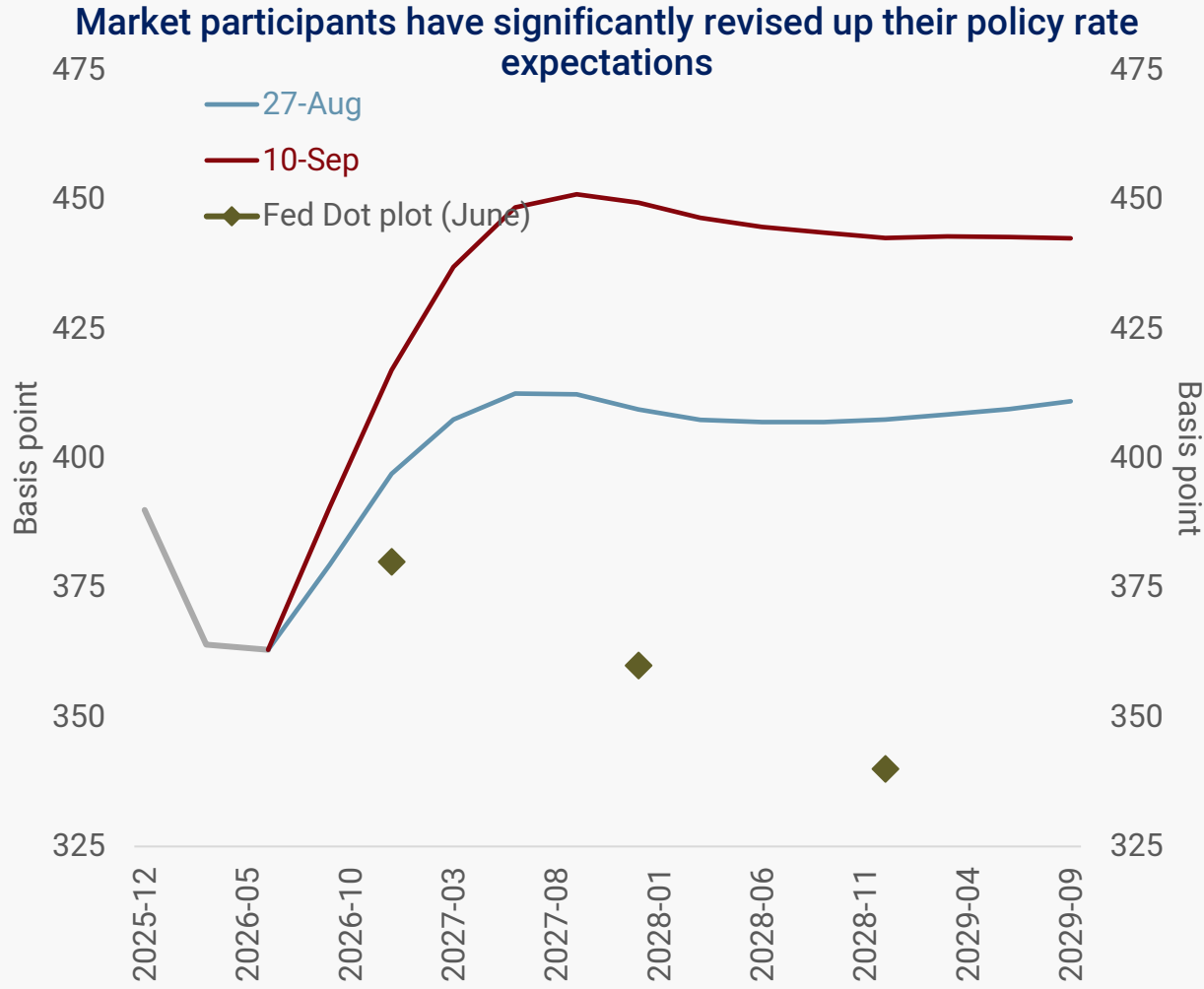


Source: Federal Reserve Bank of St. Louis (FRED)

US. Against this backdrop, together with continued inflationary pressures stemming from tensions in the Middle East, the risk of a further deterioration in the inflation outlook has become more pronounced



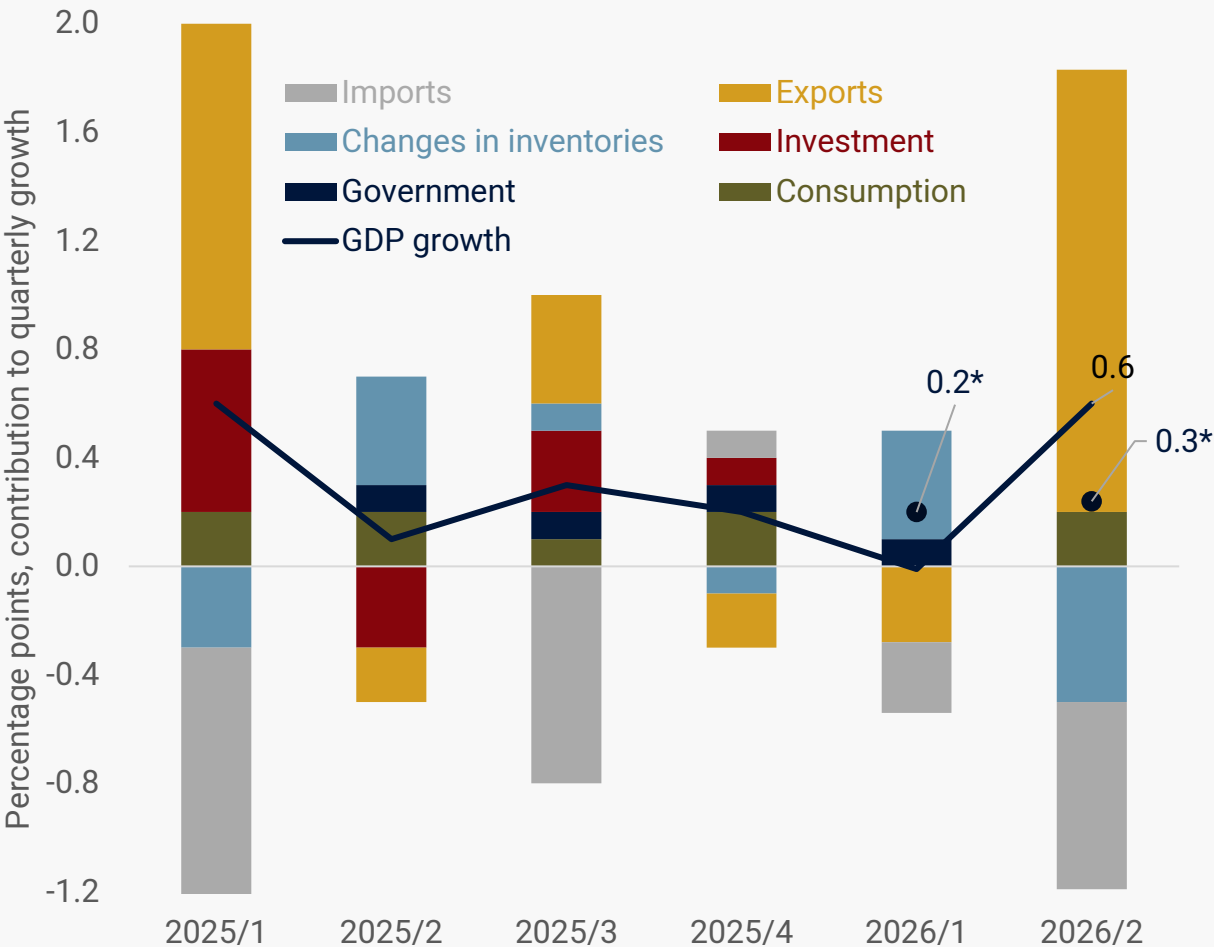
Source(s): Federal Reserve Banks of Atlanta and Dallas



Source: Federal Reserve Bank of Atlanta, Market Probability Tracker

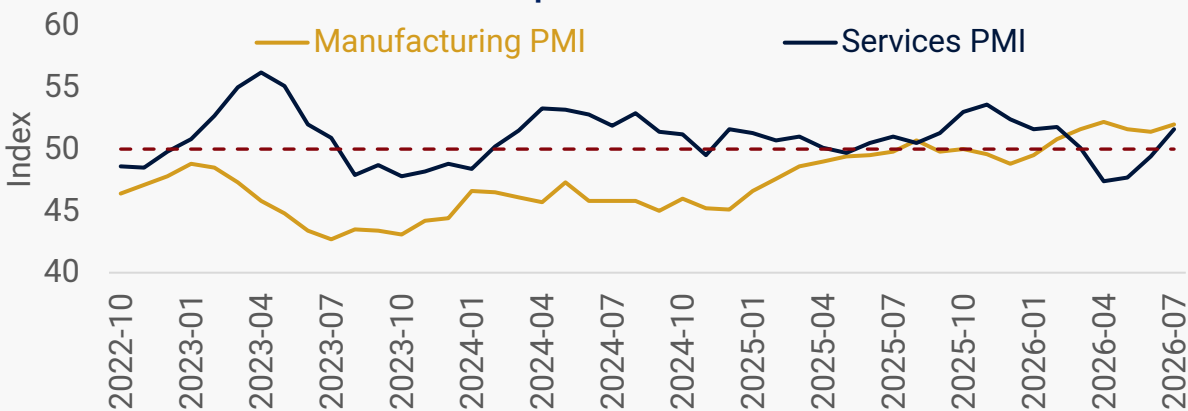
EA. Despite a more positive outlook for infrastructure and defense investment, structural challenges continue to weigh on growth prospects

Economic growth remains subdued overall

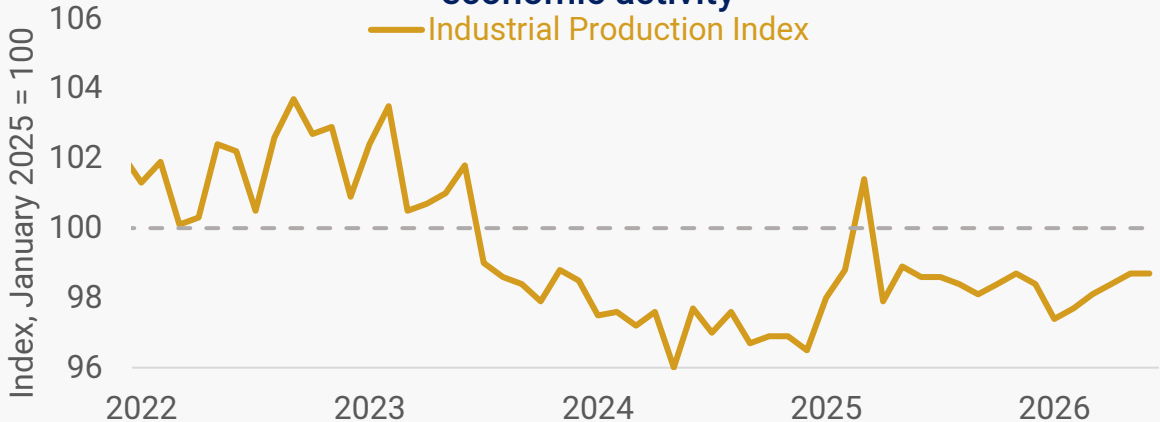


Source: Eurostat
* Euro area economic growth excluding Ireland (estimate)

Although PMI indicators point to improving sentiment and expectations...

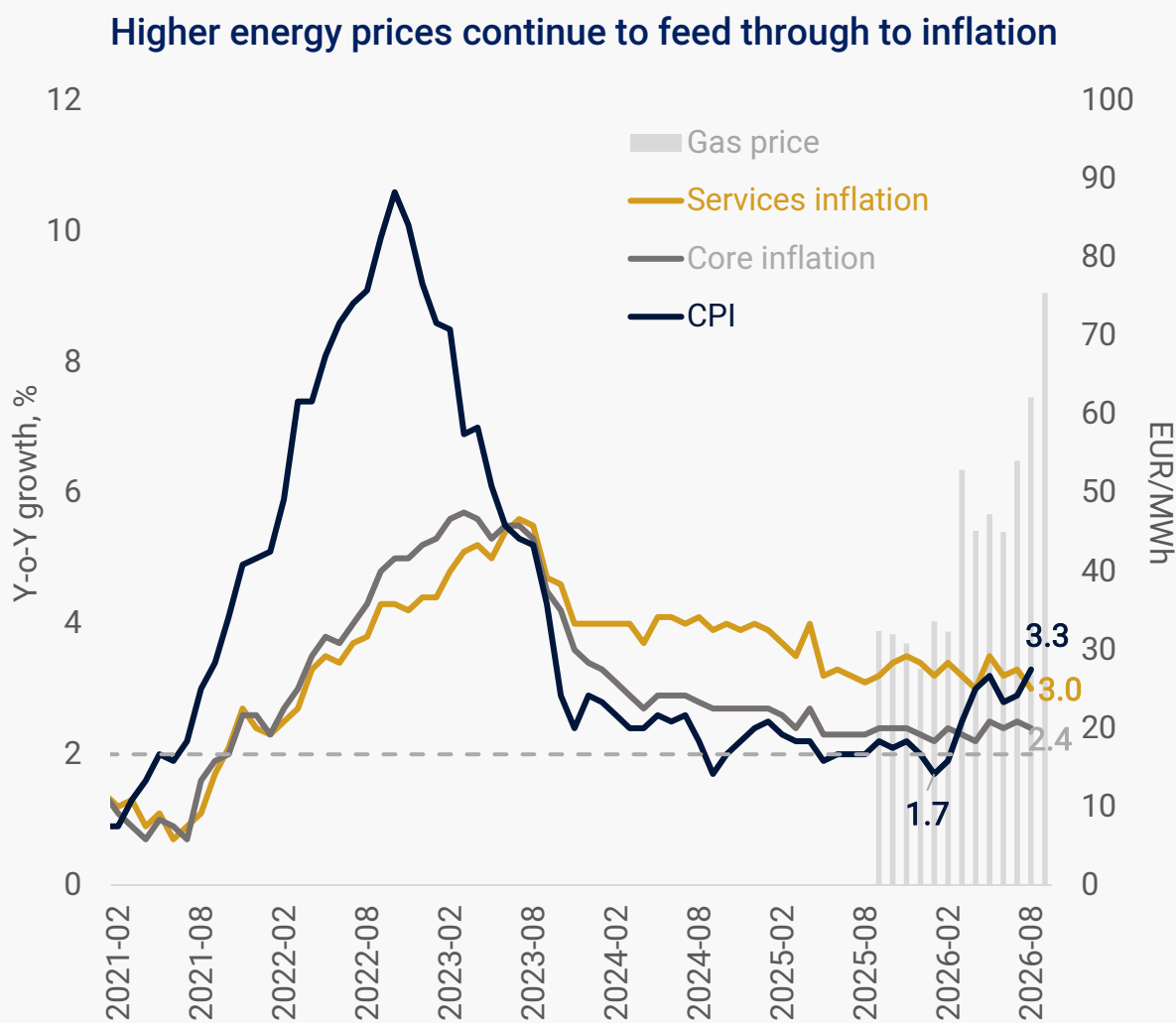


... no clear signs of this improvement translating into stronger economic activity

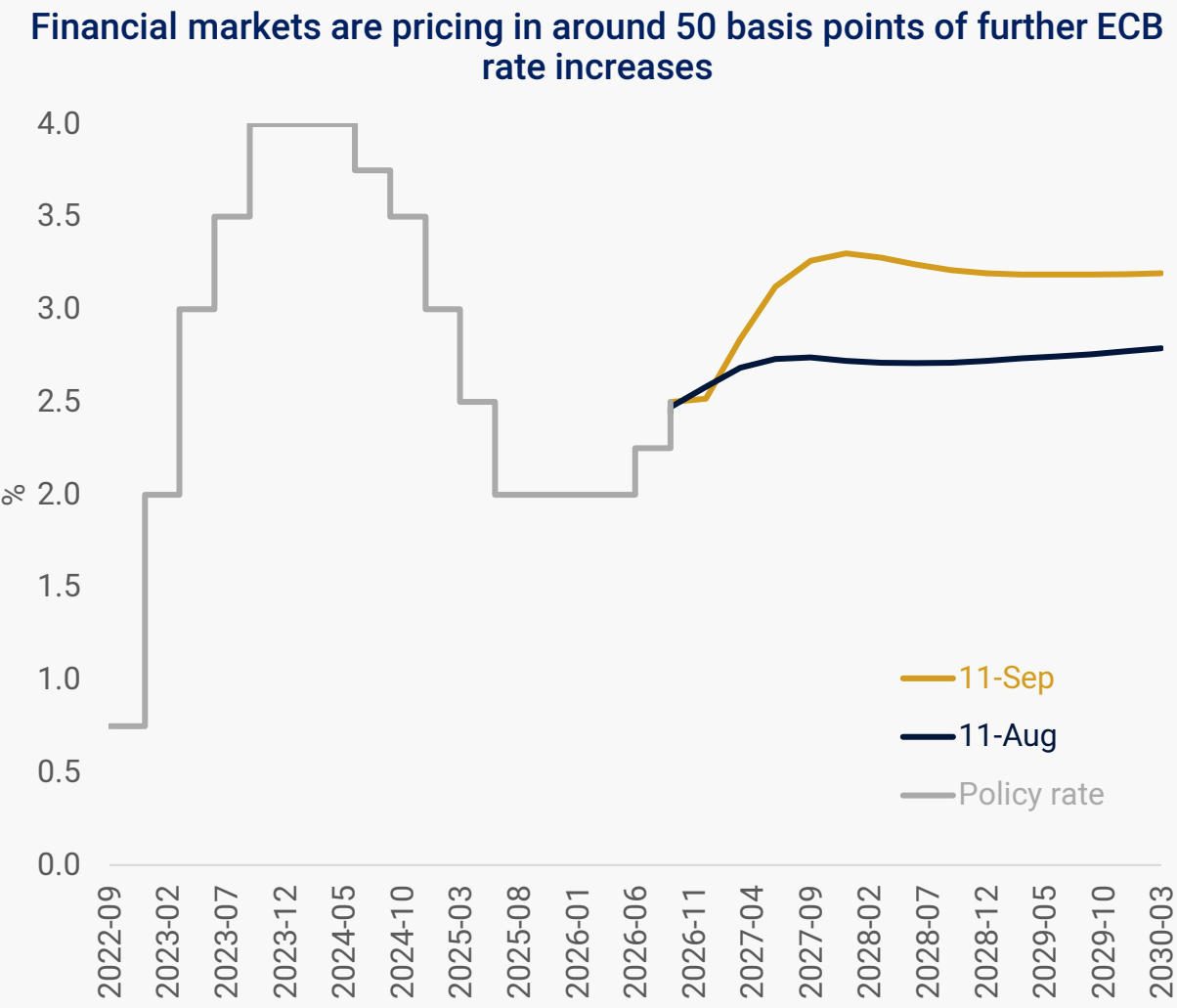


Source: ECB Data Portal

EA. At the same time, persistently rising fuel prices have increased the risk of second-round inflationary effects



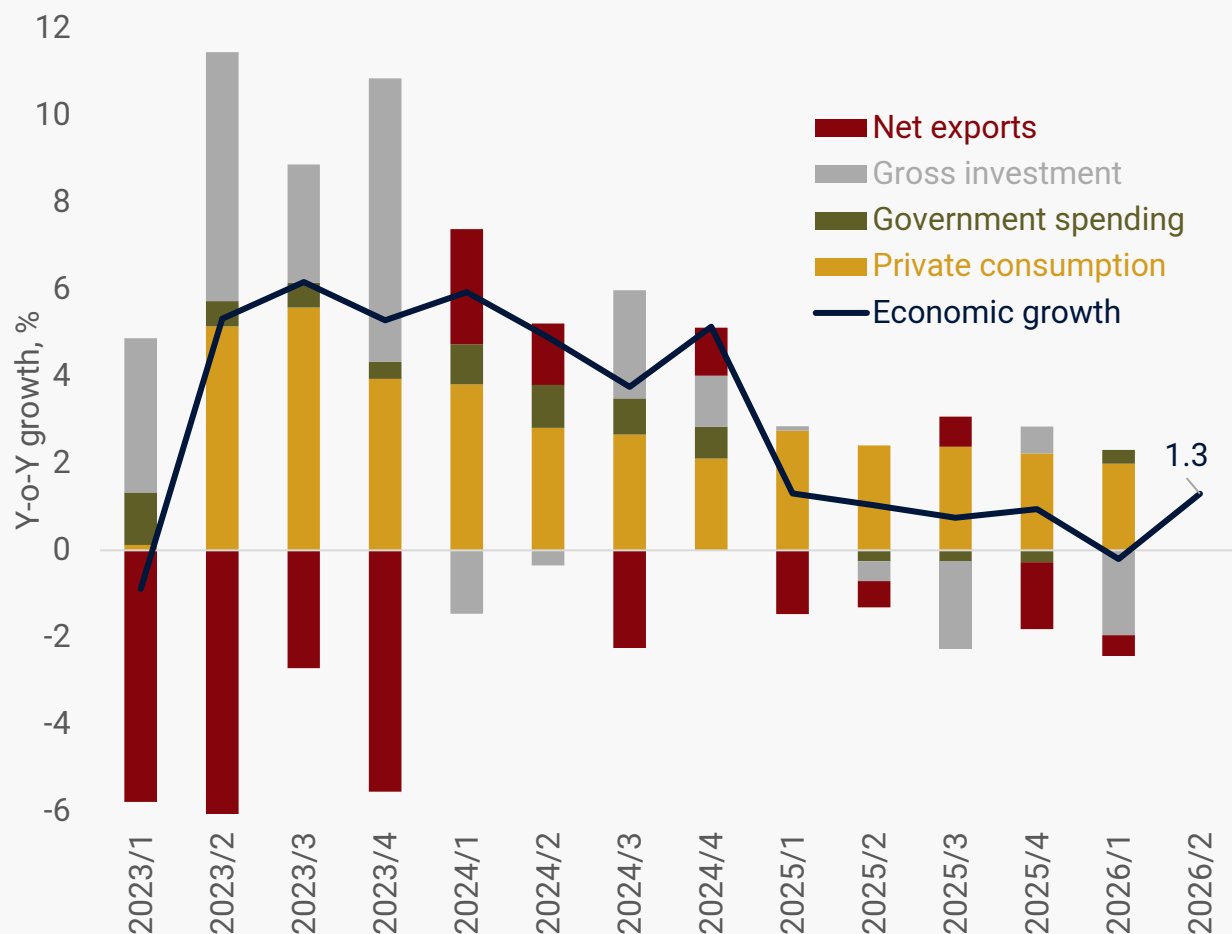
Source: Eurostat



Source(s): ECB; Financial Times; Monetary Policy Radar

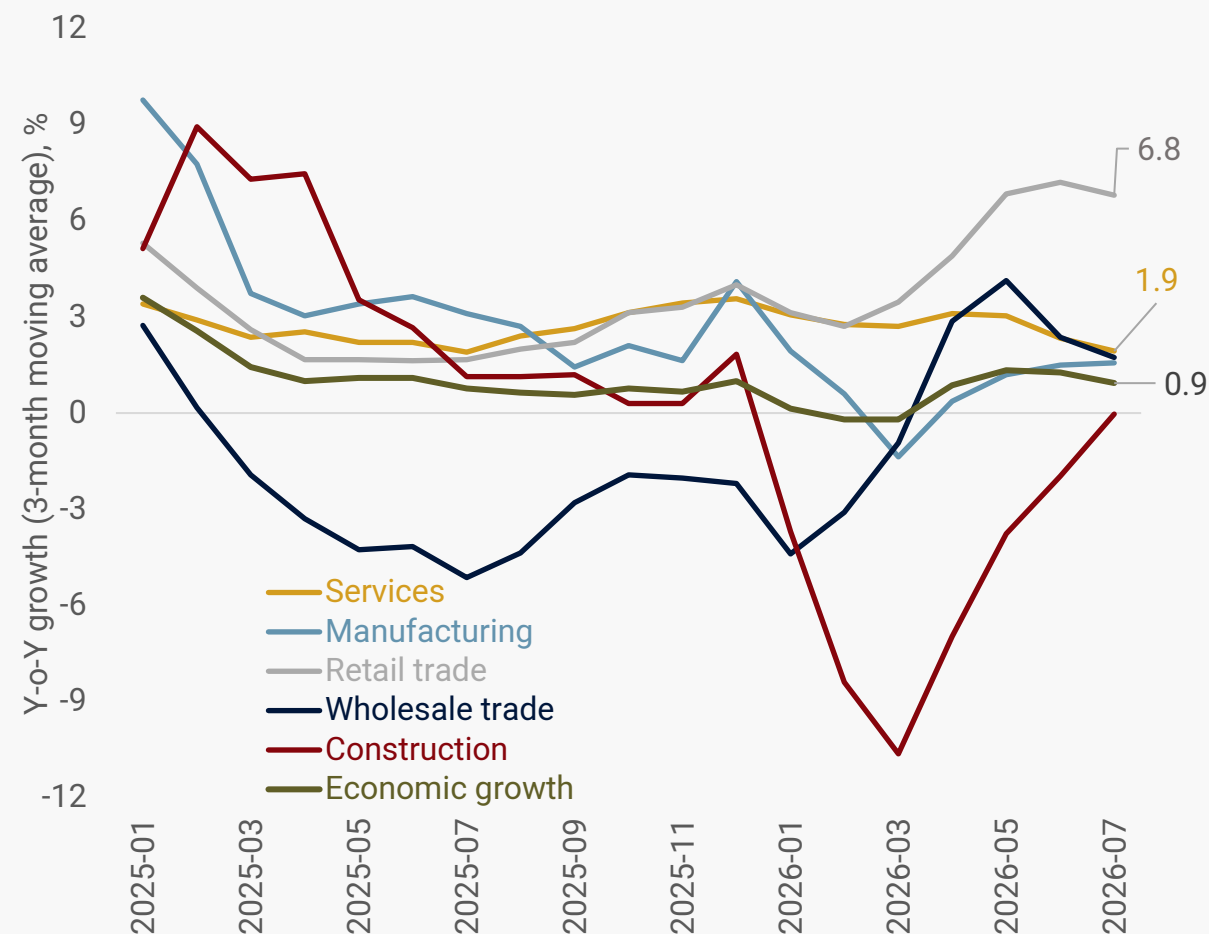
Russia: Despite some recovery in economic growth, structural challenges continue to weigh on the outlook, keeping uncertainty elevated

In Q2 2026, economic growth in Russia recovered somewhat...



Source: Federal State Statistics Service of Russia (Rosstat)

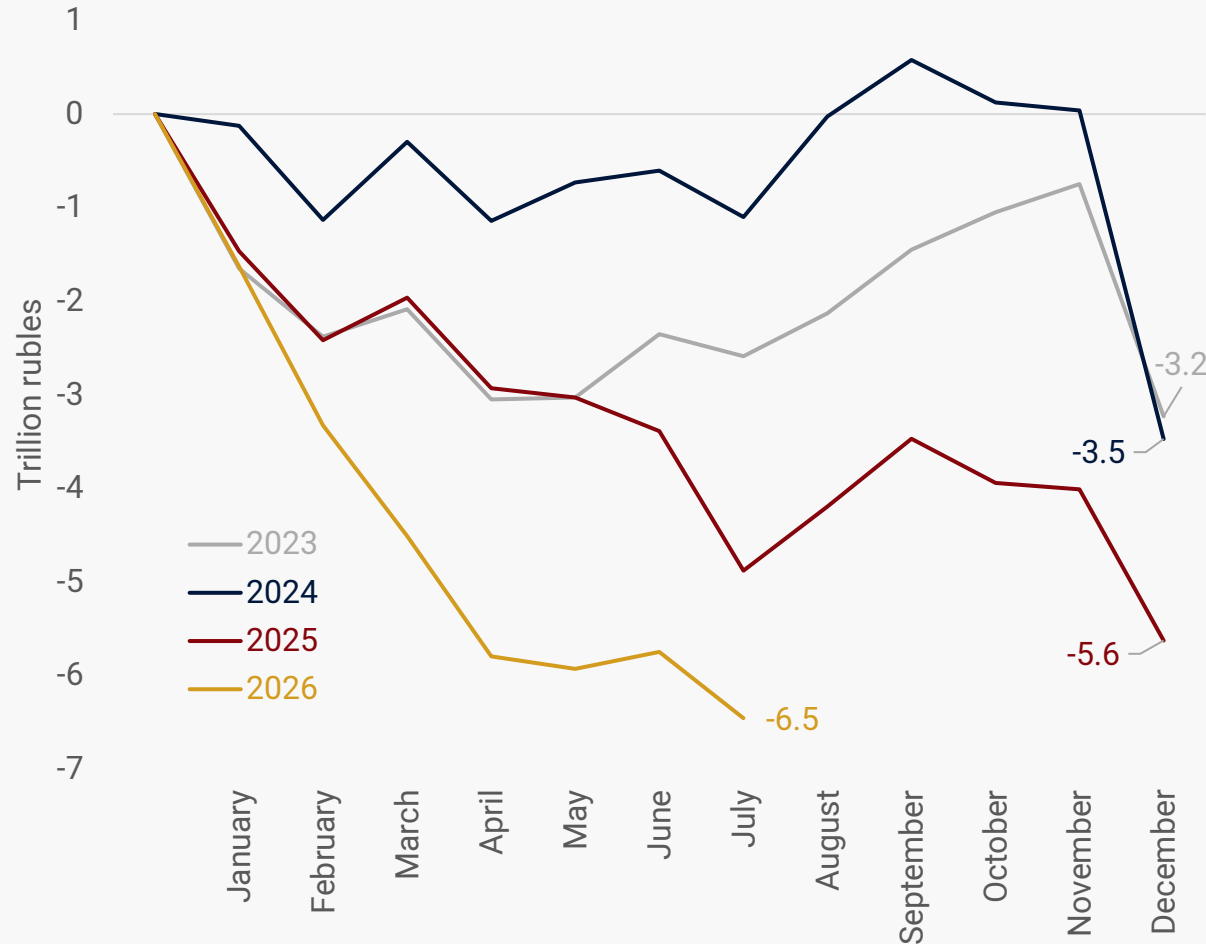
driven mainly by stronger activity in demand-sensitive sectors



Ministry of Economic Development of Russia

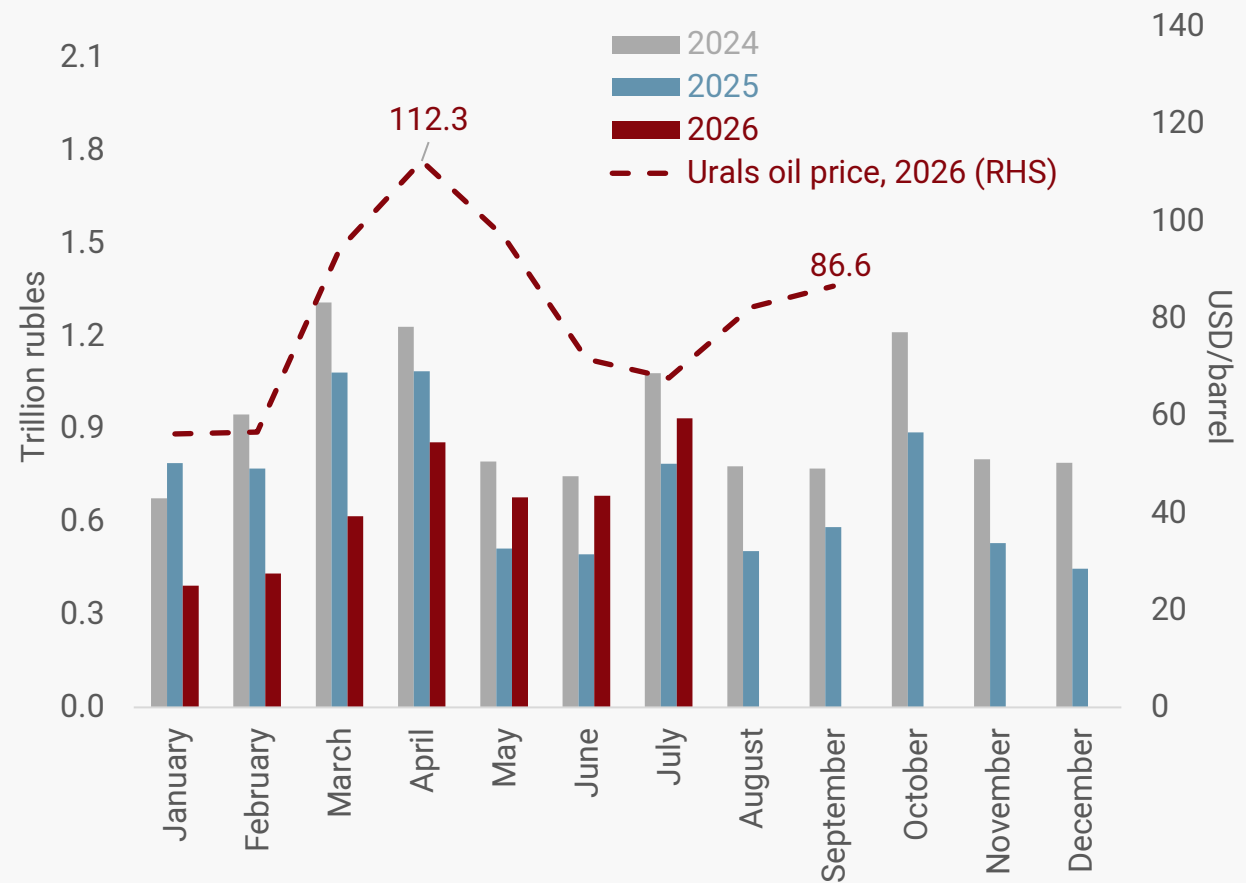
Russia: Expansionary fiscal policy continues to provide significant support to domestic demand

Cumulative budget deficit



Source: Ministry of Finance of Russia

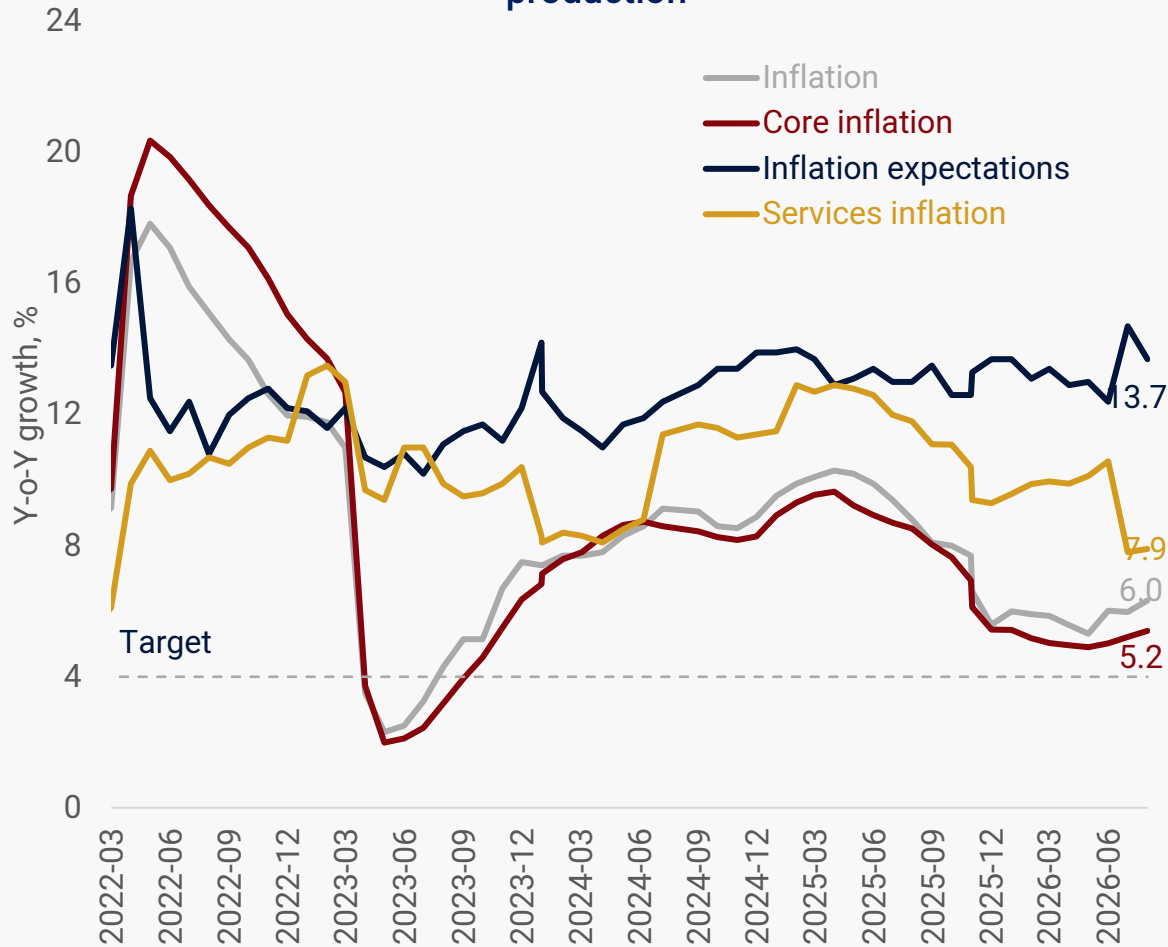
High energy prices contribute to an expansion of fiscal space



Source: Ministry of Finance of Russia

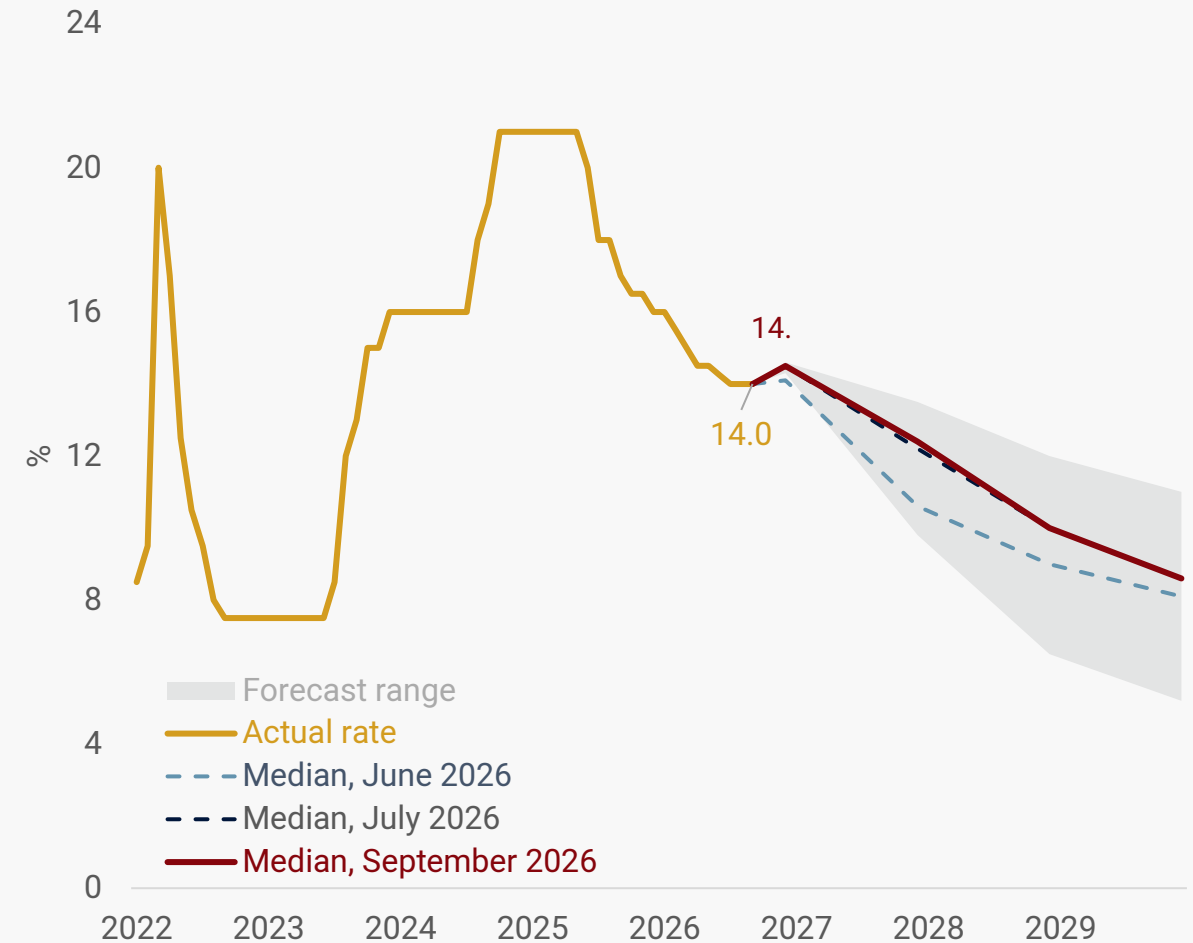
Russia: Against this backdrop, and partly reflecting supply-side pressures, inflation and inflation expectations have increased, implying a higher policy rate path than previously expected

Headline inflation has accelerated driven mainly by disruptions to fuel production



Source: Central Bank of Russia

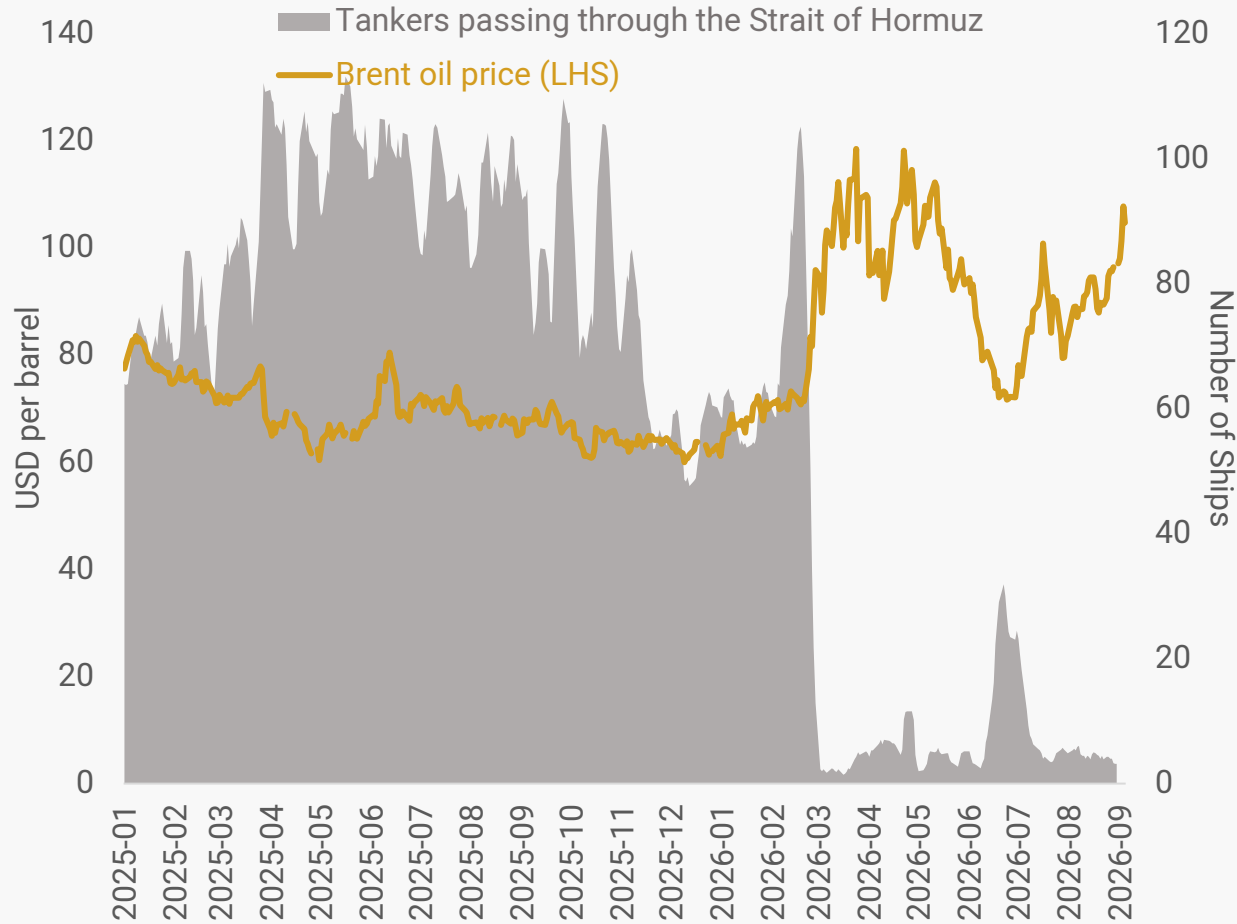
Market participants expect a more gradual path of policy rate cuts



Source: Central Bank of Russia

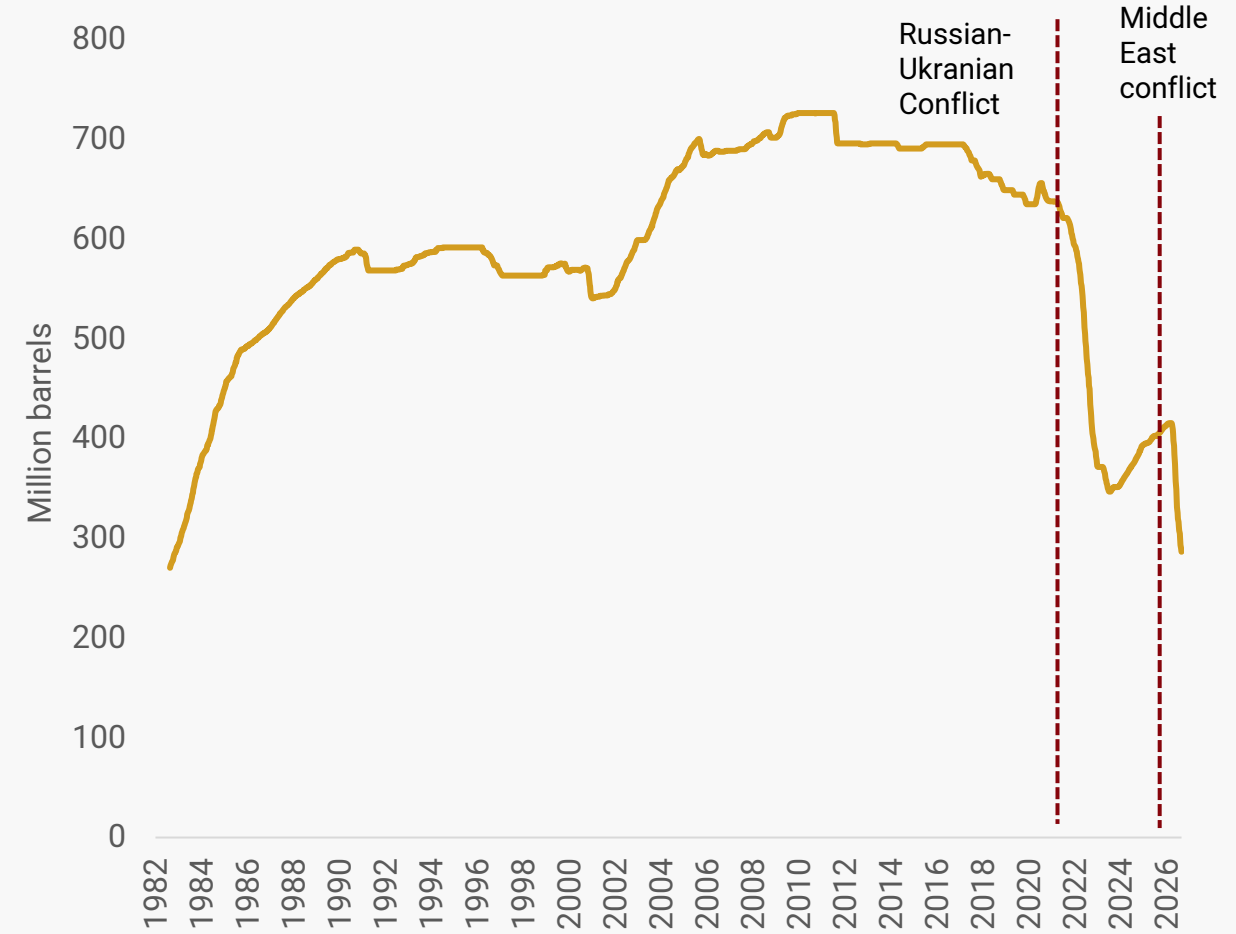
Commodity markets: Lower global oil inventories and reduced spare capacity have increased vulnerability to supply shocks

Oil Transit through the Strait of Hormuz and Global Oil Prices



Source: Bloomberg, IMF

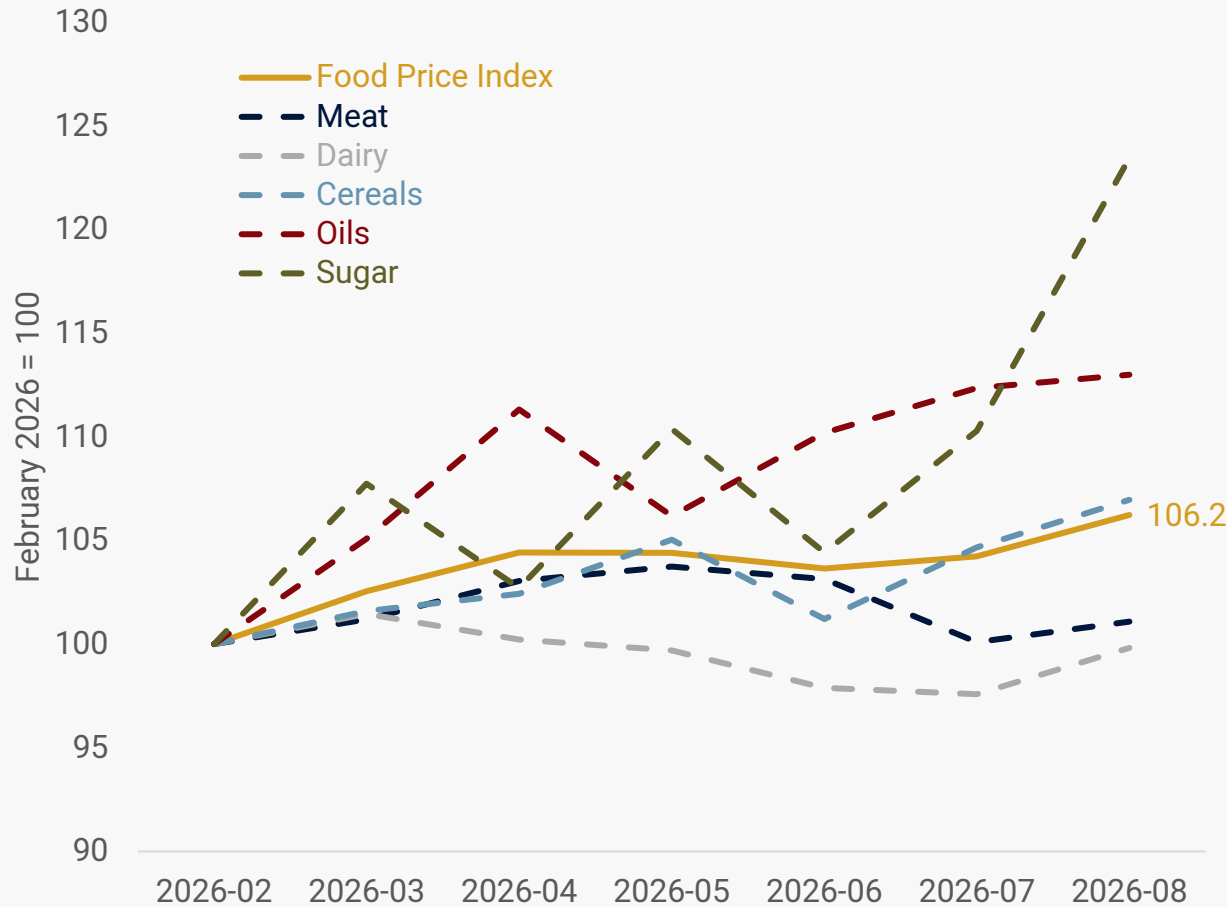
US strategic crude oil inventories



Source: EIA

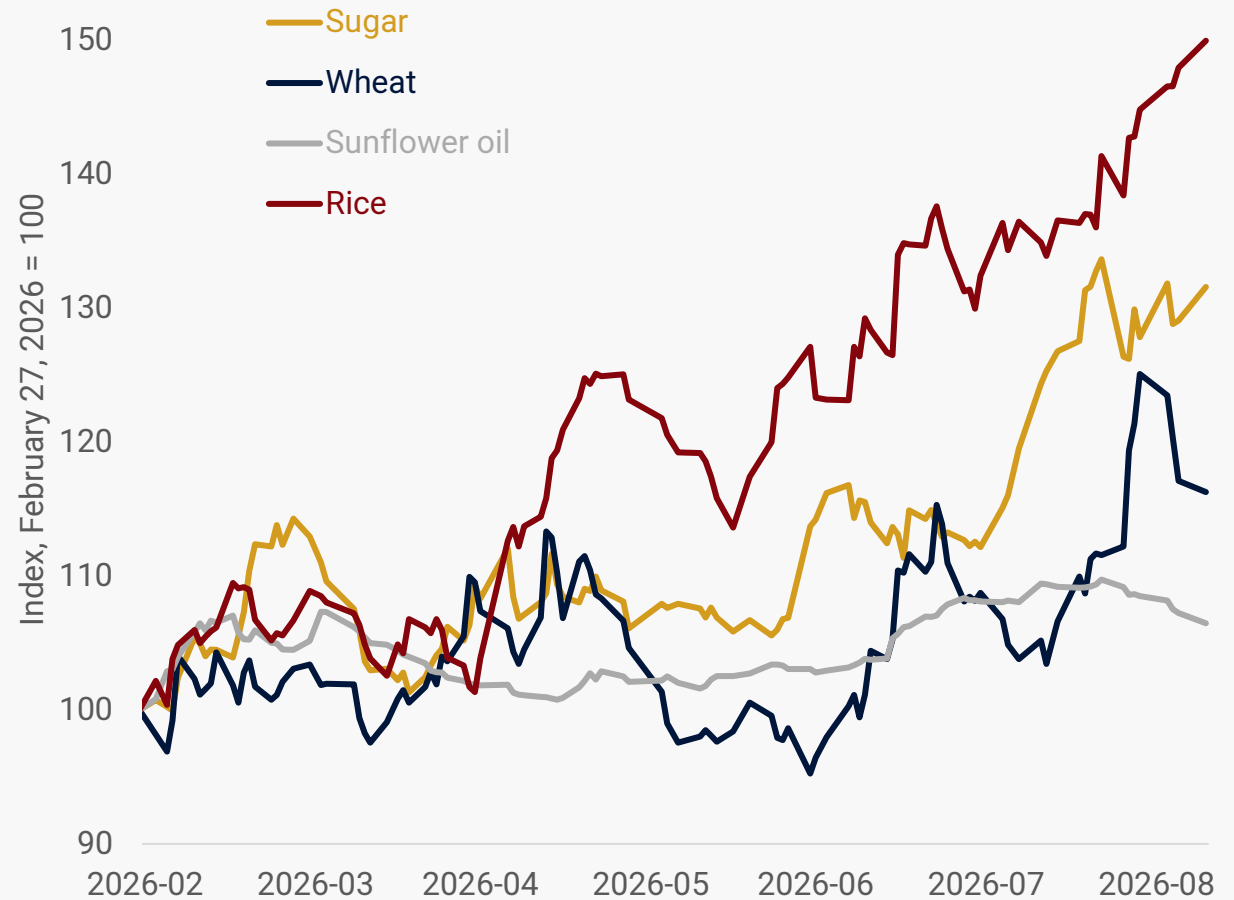
Commodity markets: High energy and fertilizer prices, adverse weather conditions, and supply chain disruptions could add to food price pressures

The increase in the FAO Food Price Index partly reflects heightened geopolitical tensions



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

Daily Futures Prices for Selected Food Commodities



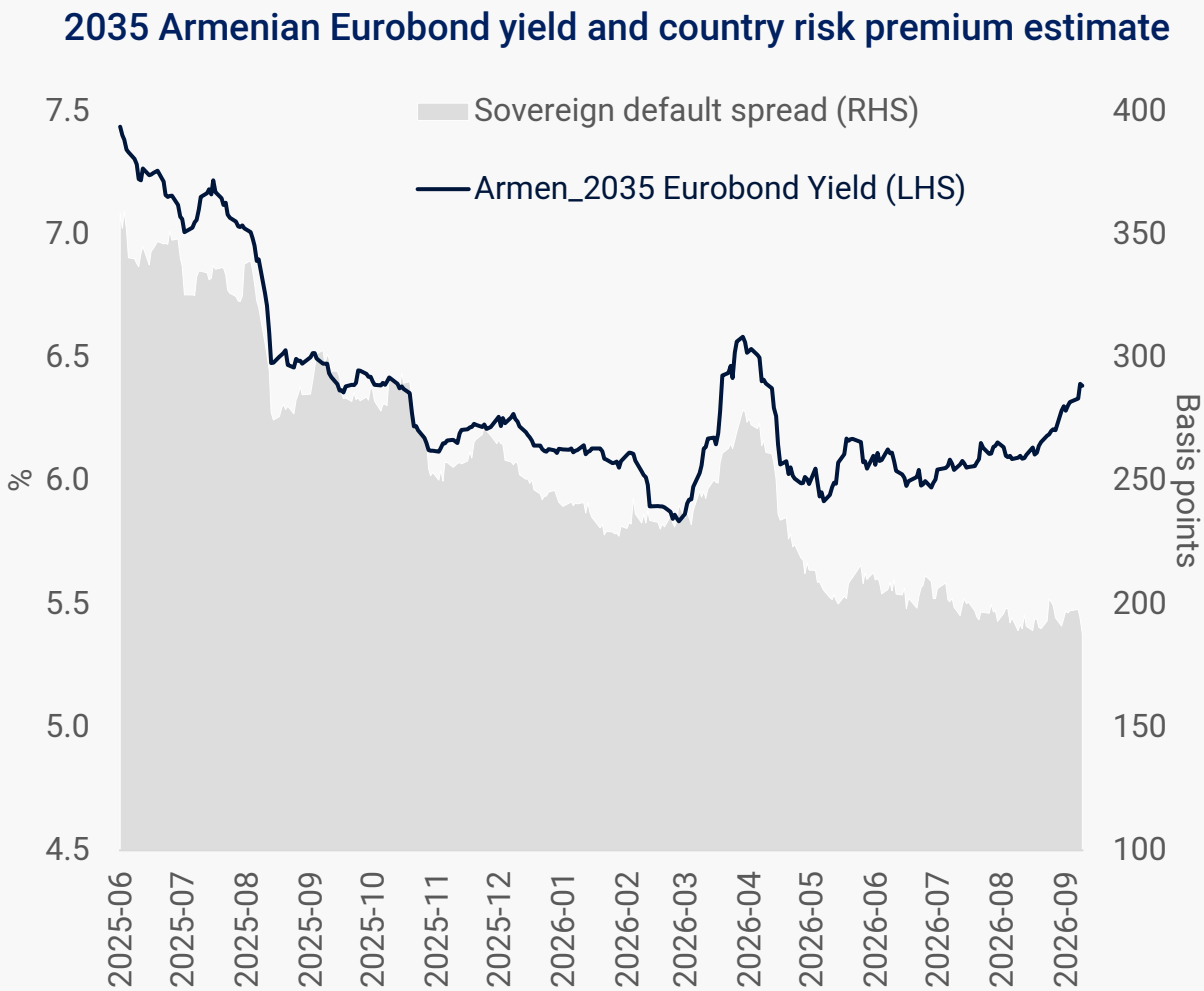
Source: Bloomberg



What are the underlying forces driving the economy?

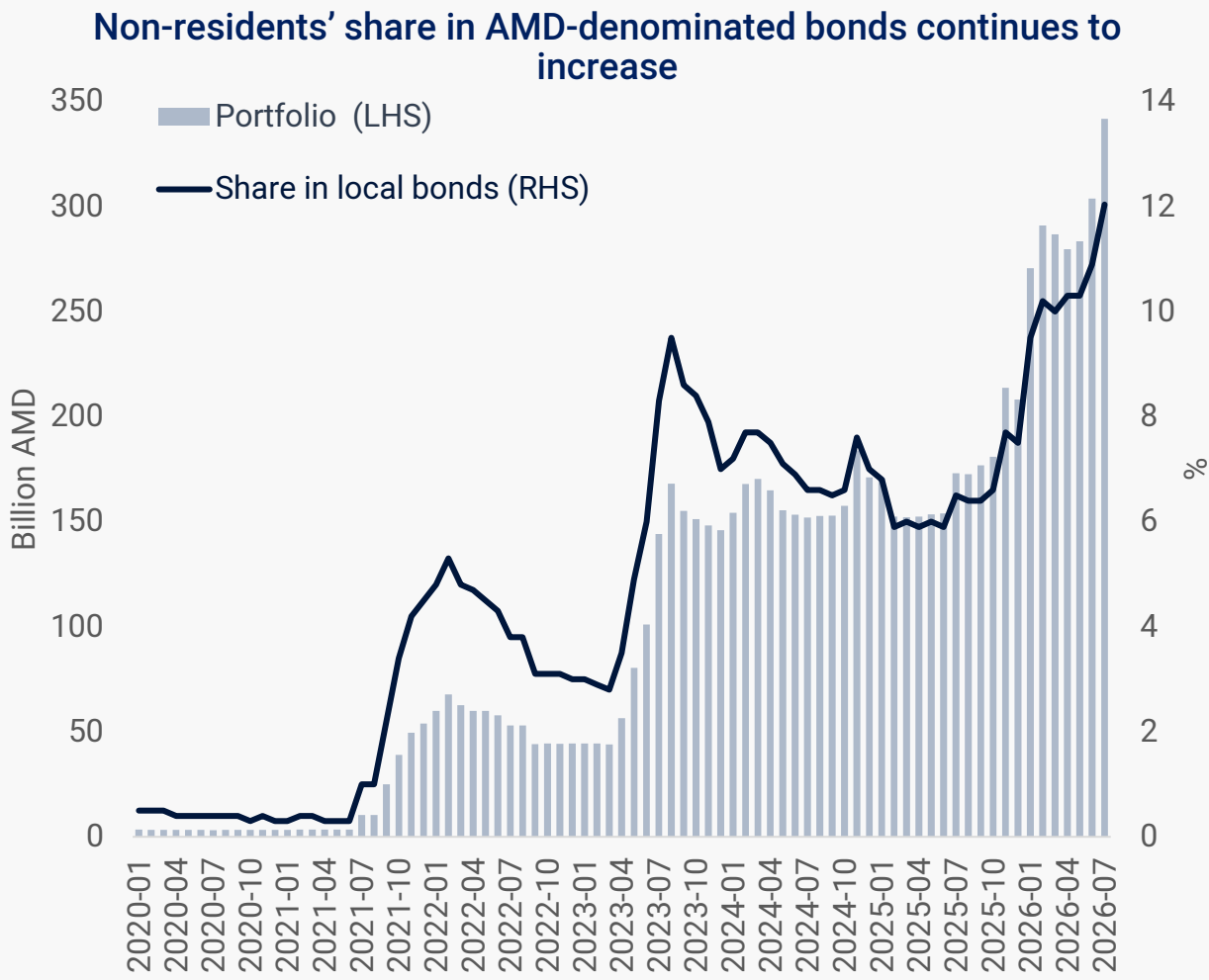
Domestic economic developments
in the context of key uncertainties

Armenia's sovereign risk spreads have continued to decline, supported by both global and country-specific factors



Source: Bloomberg

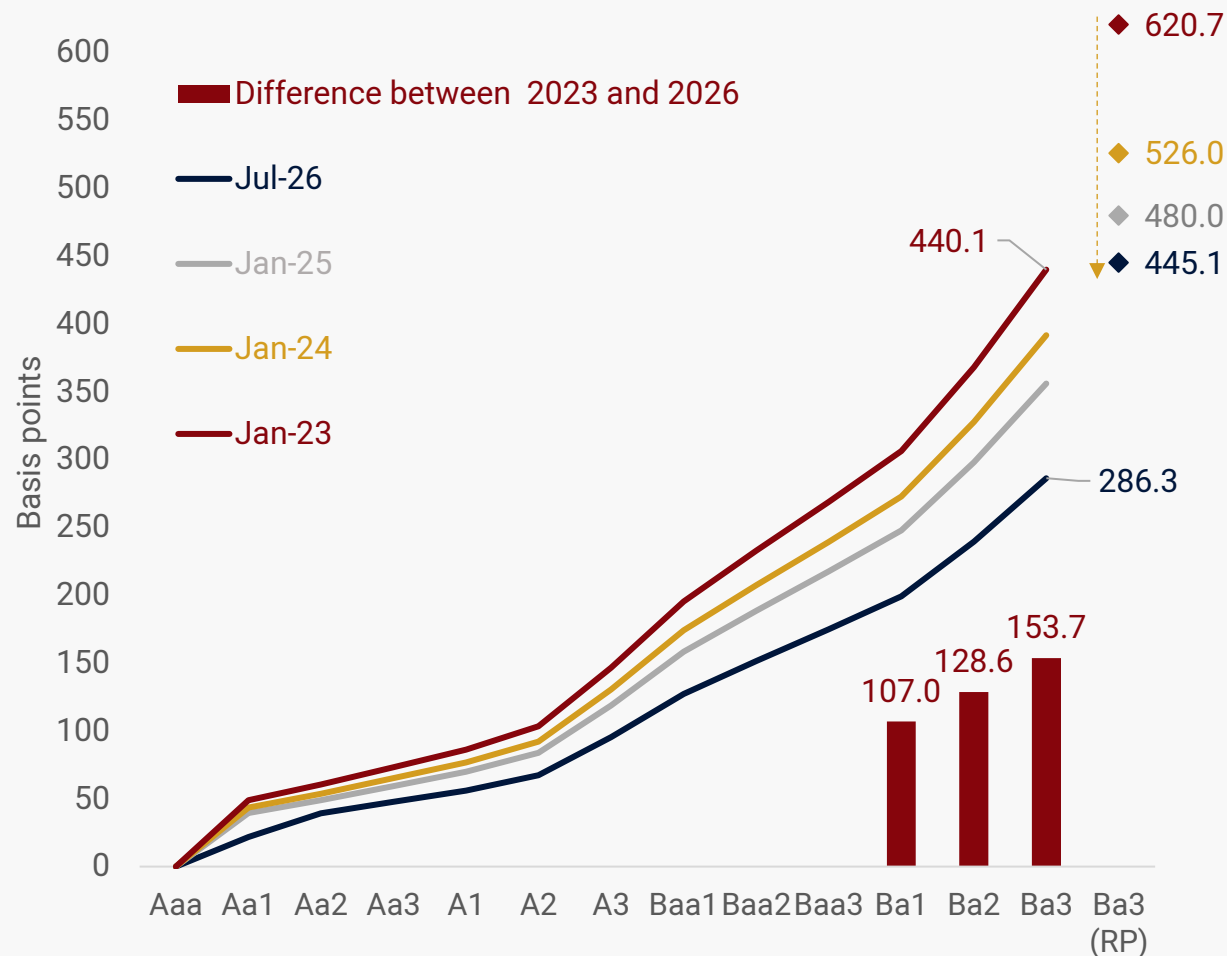
Note: Going forward, the yield on bonds maturing in 2035 will be presented as the benchmark.



Source: Ministry of Finance of the Republic of Armenia

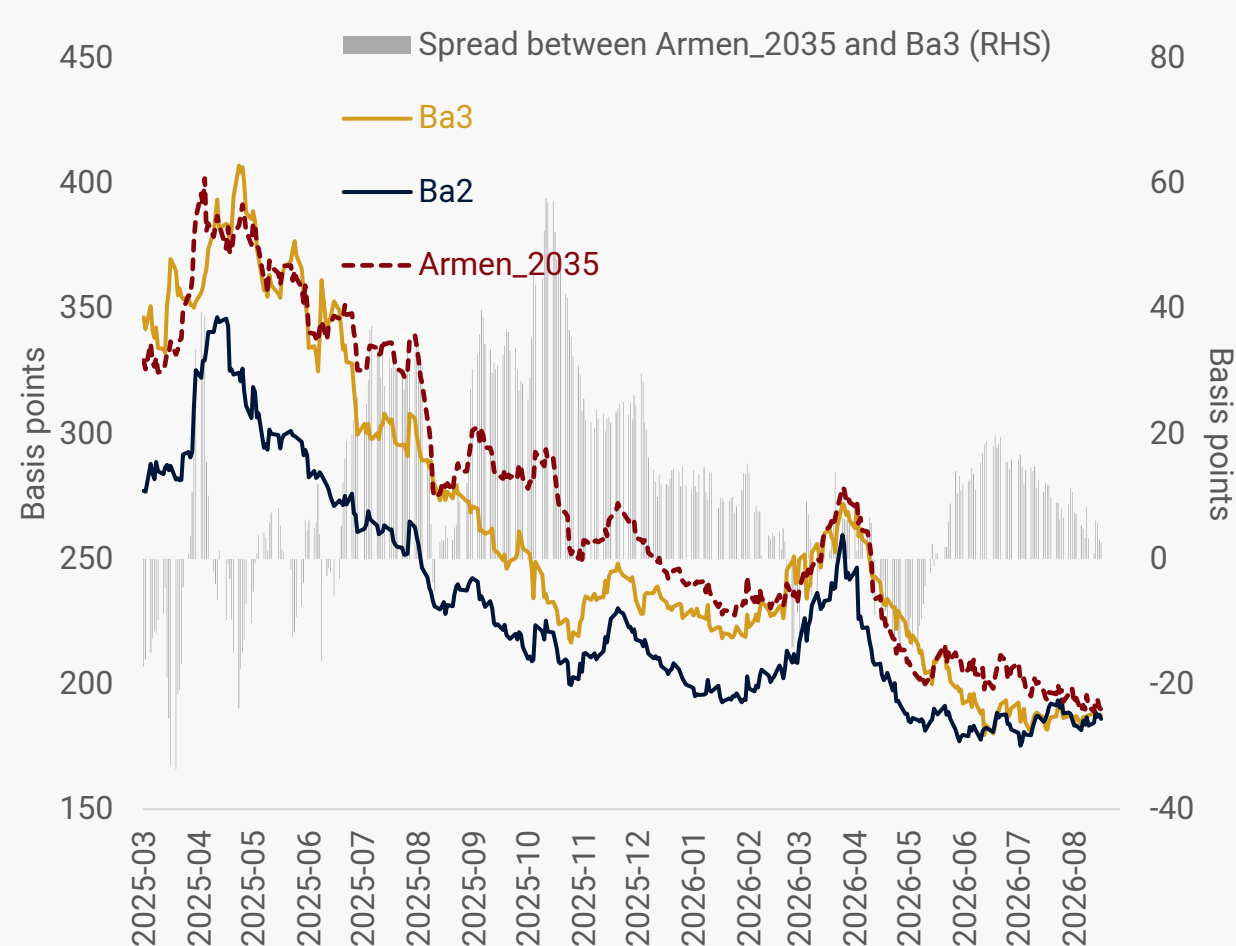
Armenia's sovereign risk premium has declined more markedly than the EM average, likely supported by easing security risks

Bond spreads have continued to narrow in emerging markets



Source: Aswath Damodaran's estimates, New York University, <https://pages.stern.nyu.edu/>, CBA calculations.

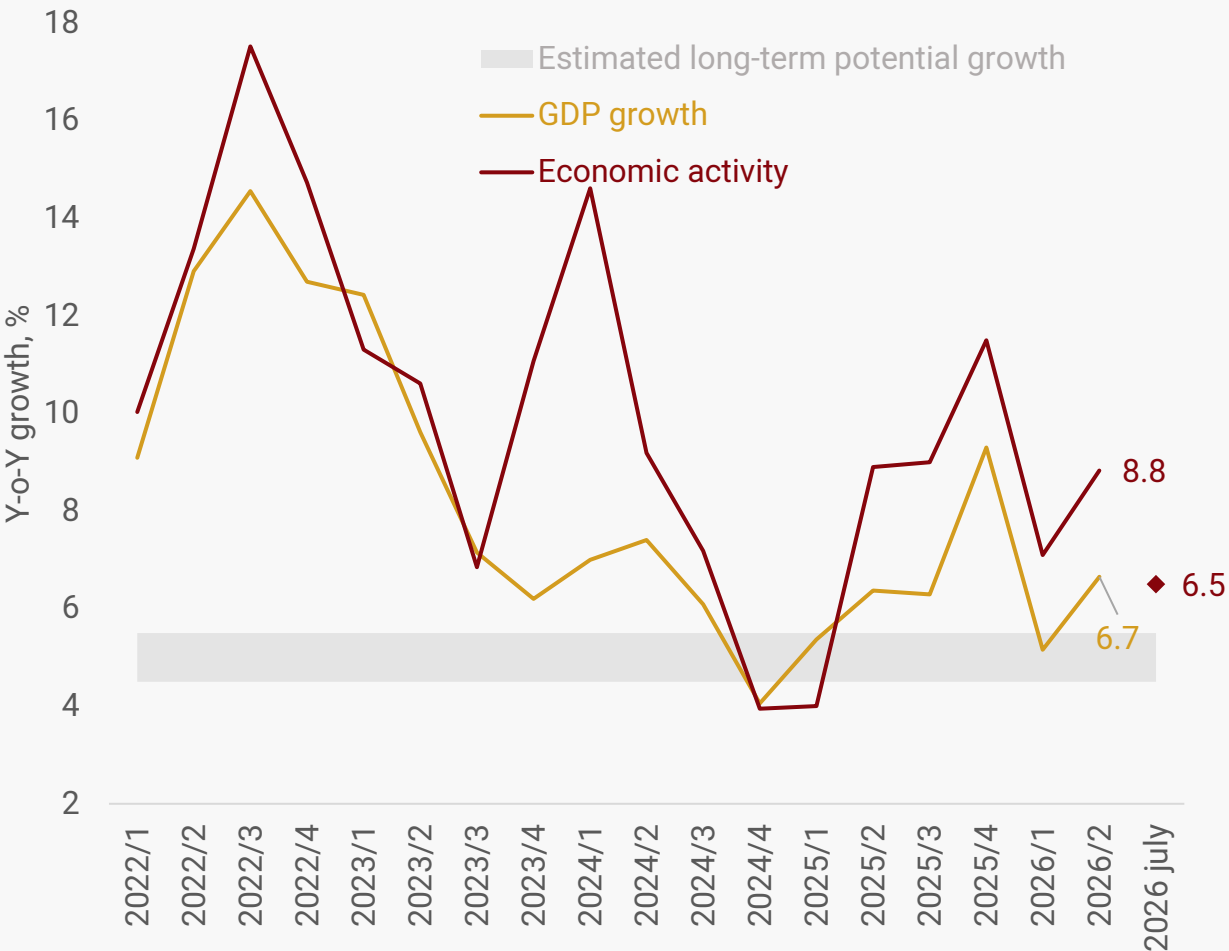
Ample global liquidity story ?



Source: Bloomberg, CBA calculations

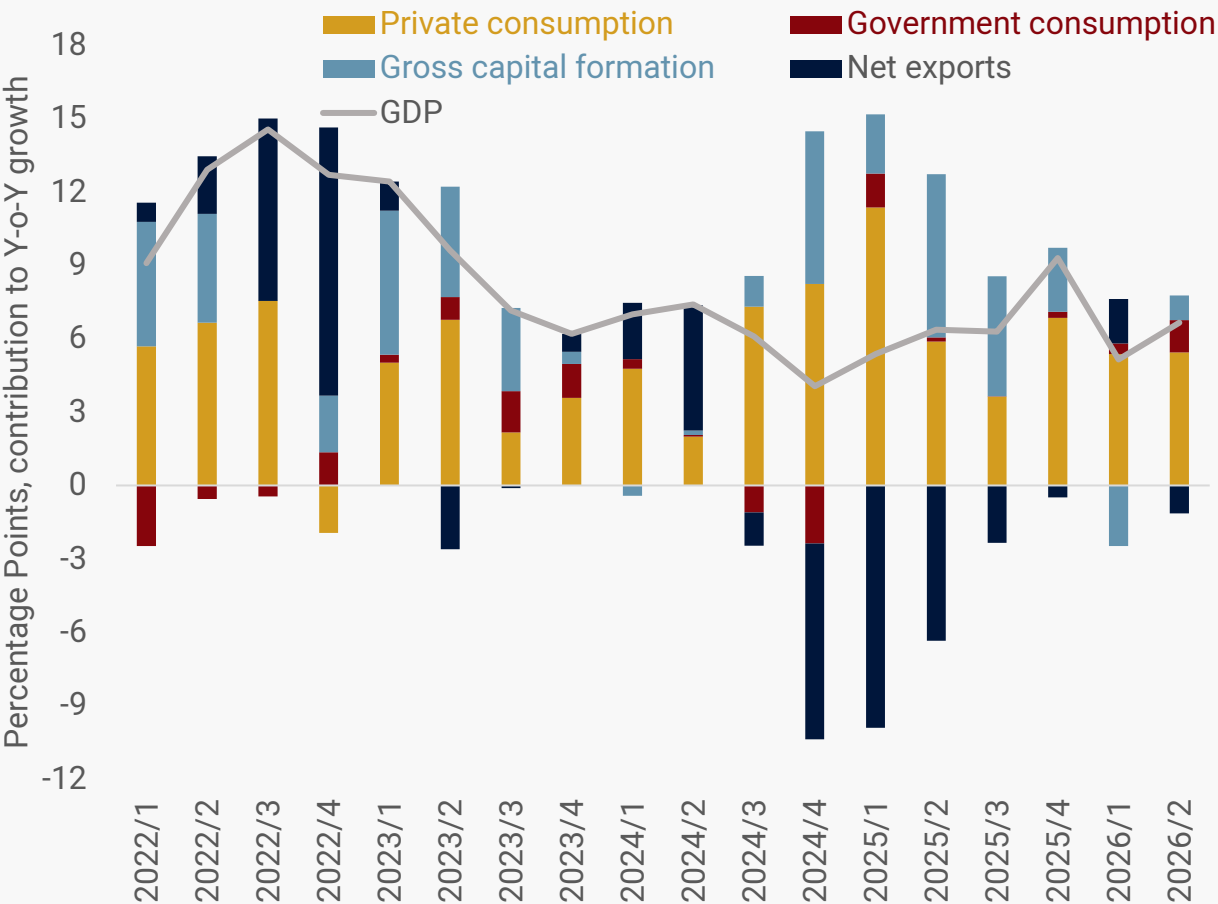
Economic activity remains well above its long-term sustainable level

Economic Activity and GDP Growth



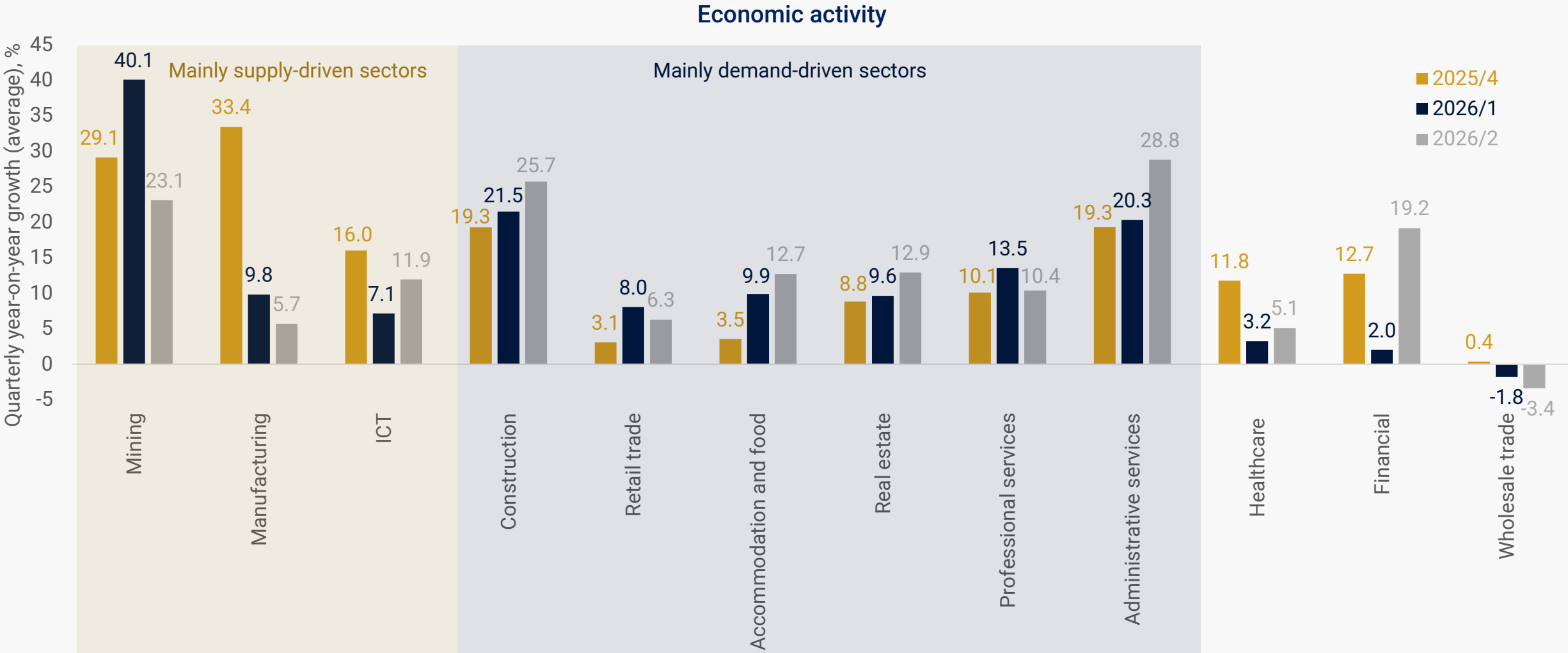
Source: Statistical Committee of the Republic of Armenia, CBA staff calculation

Private consumption is the main driver of economic growth



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

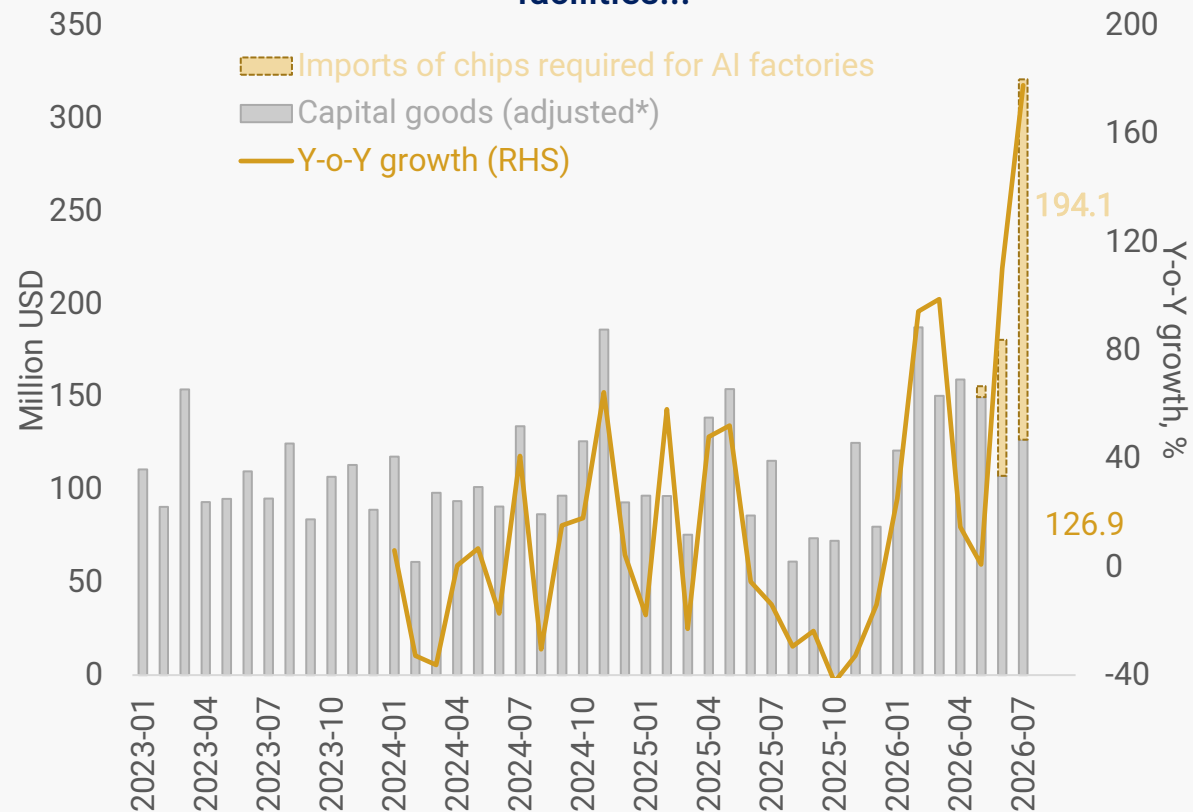
Despite some strengthening in productive and export-oriented sectors, economic activity remains predominantly services-driven



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

Higher investment activity in Q2 is mostly driven by the construction of new AI factories. The value added is not expected to be significant during the construction phase

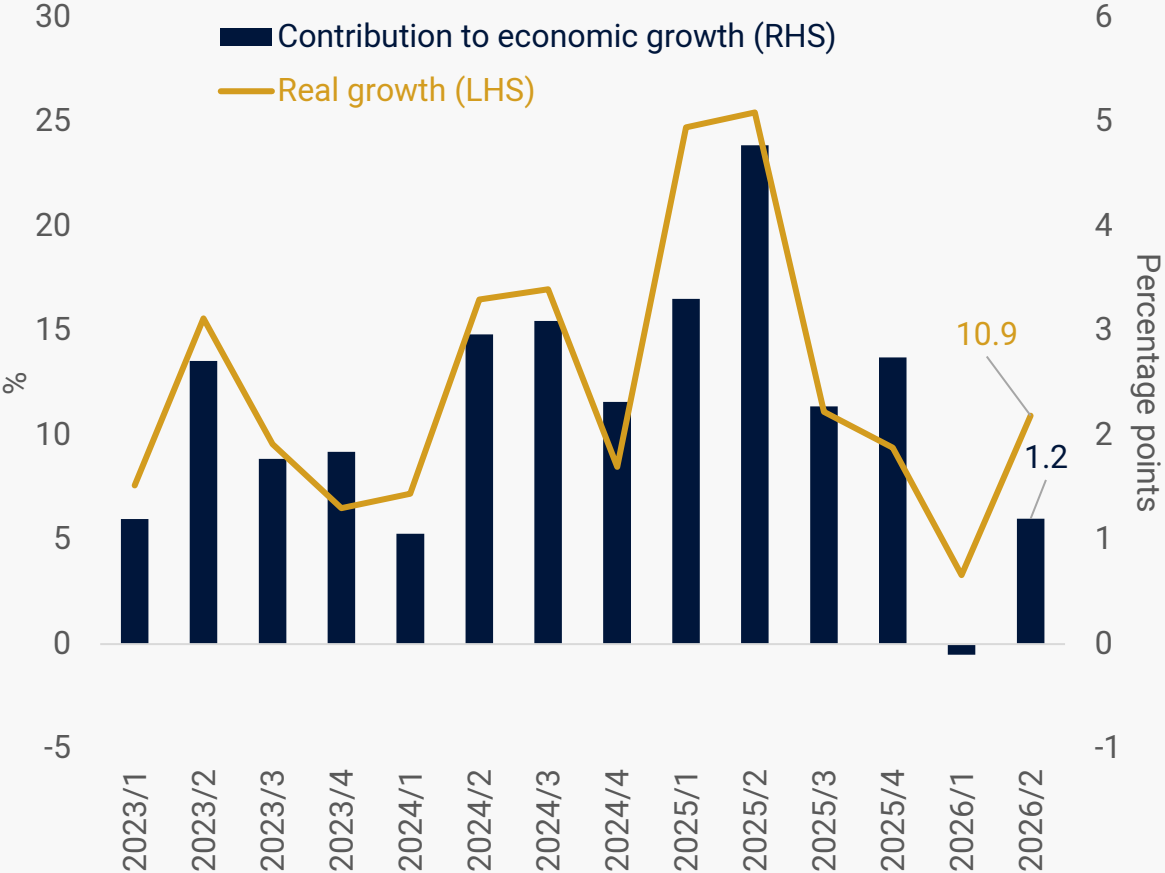
The sharp increase in capital goods imports largely reflects imports of chips and associated equipment needed for the construction of AI facilities...



Source: Statistical Committee of the Republic of Armenia

Note: The capital goods import data are adjusted by excluding goods and equipment that were subsequently re-exported.

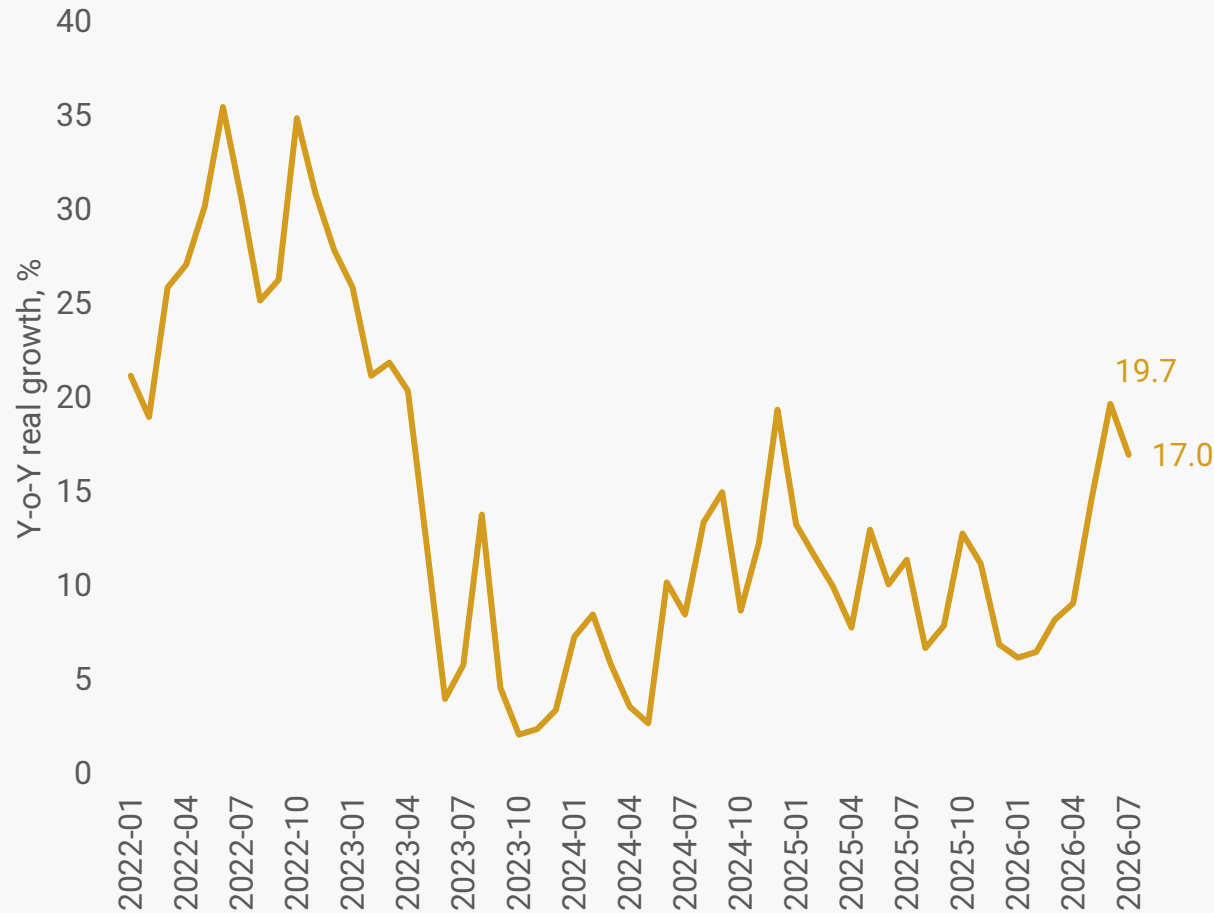
Investments grew solidly in 2026 Q2



Source: Statistical Committee of the Republic of Armenia, CBA

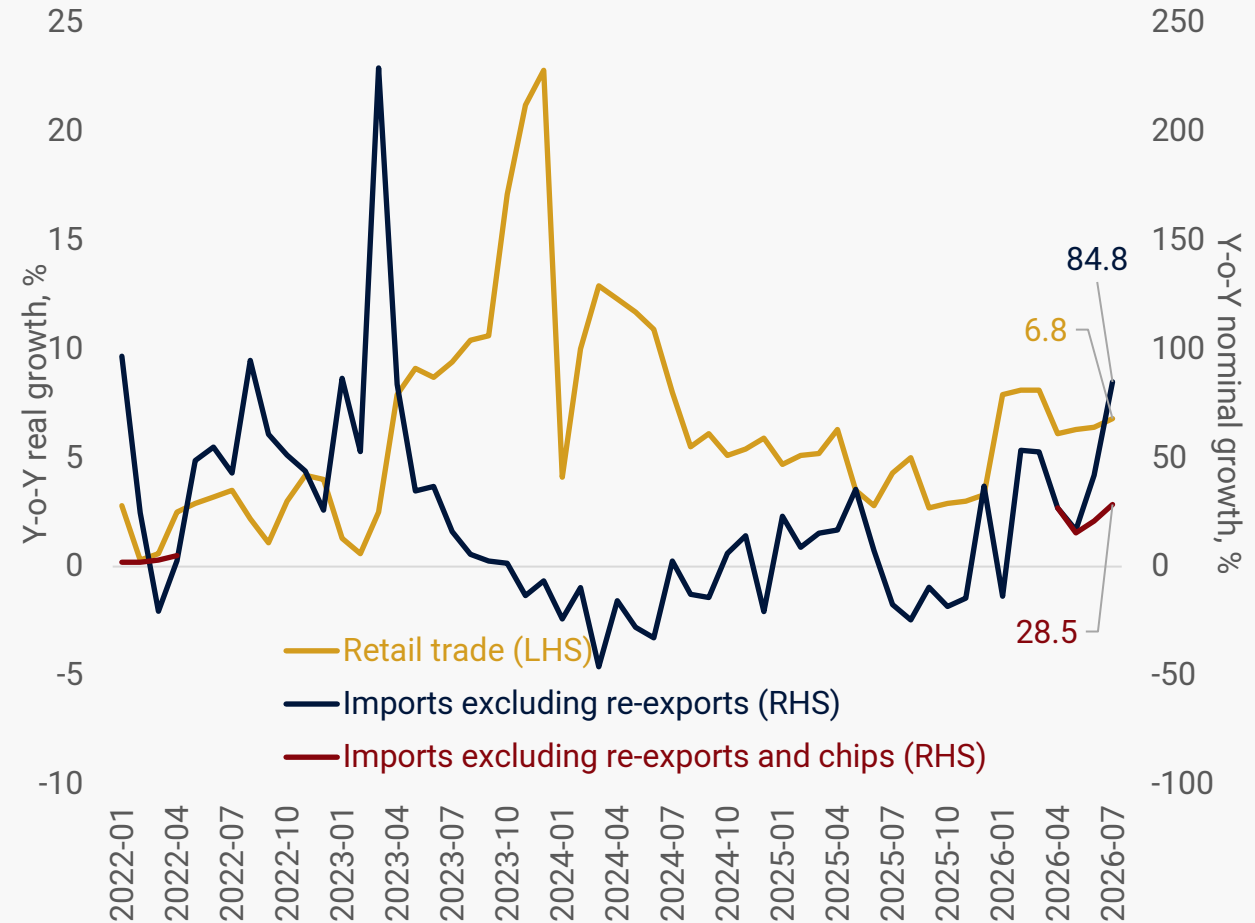
Broad-based strength in services, alongside other indicators, points to robust and strengthening demand conditions

Economic activity in the services sector



Source: Statistical Committee of the Republic of Armenia

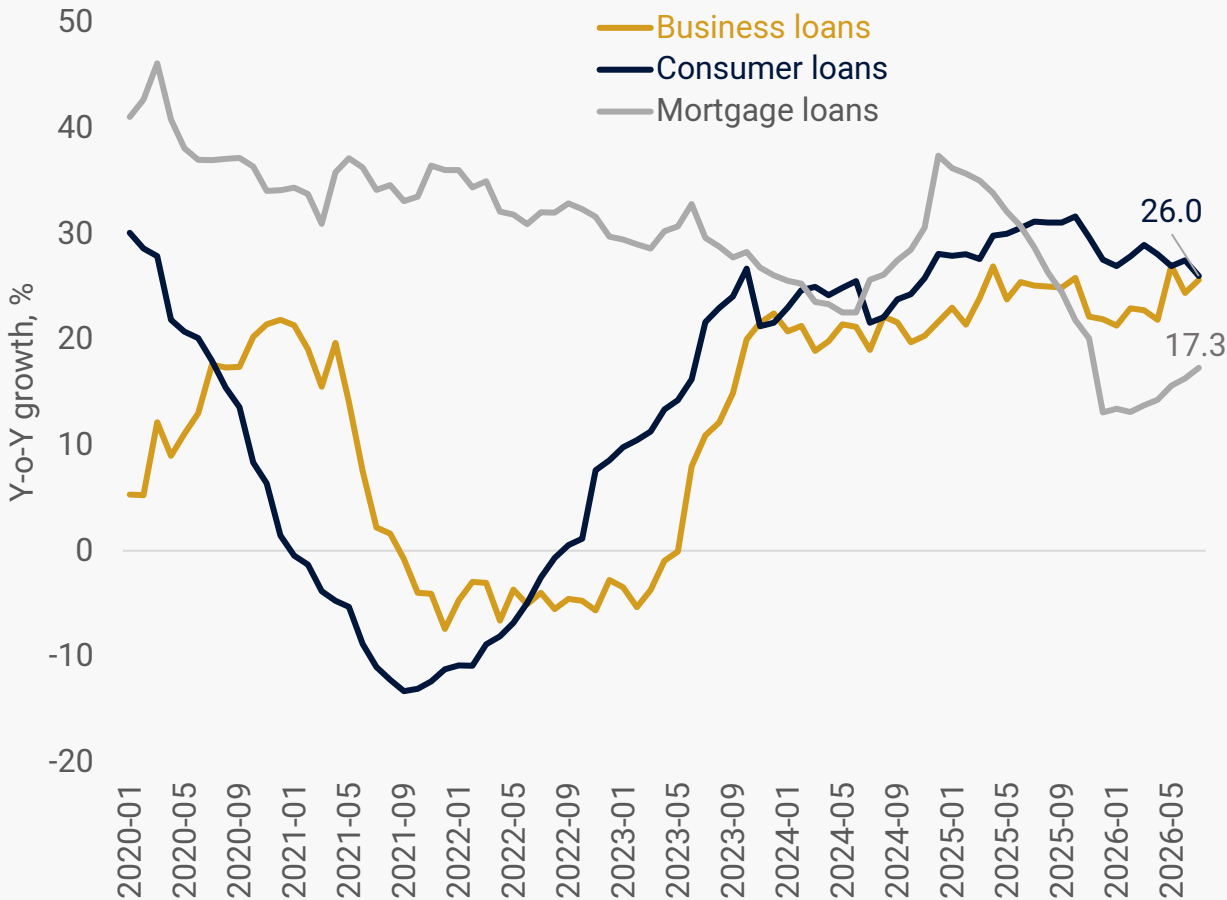
Retail trade and imports (for domestic needs)



Source: Statistical Committee of RA, CBA estimates

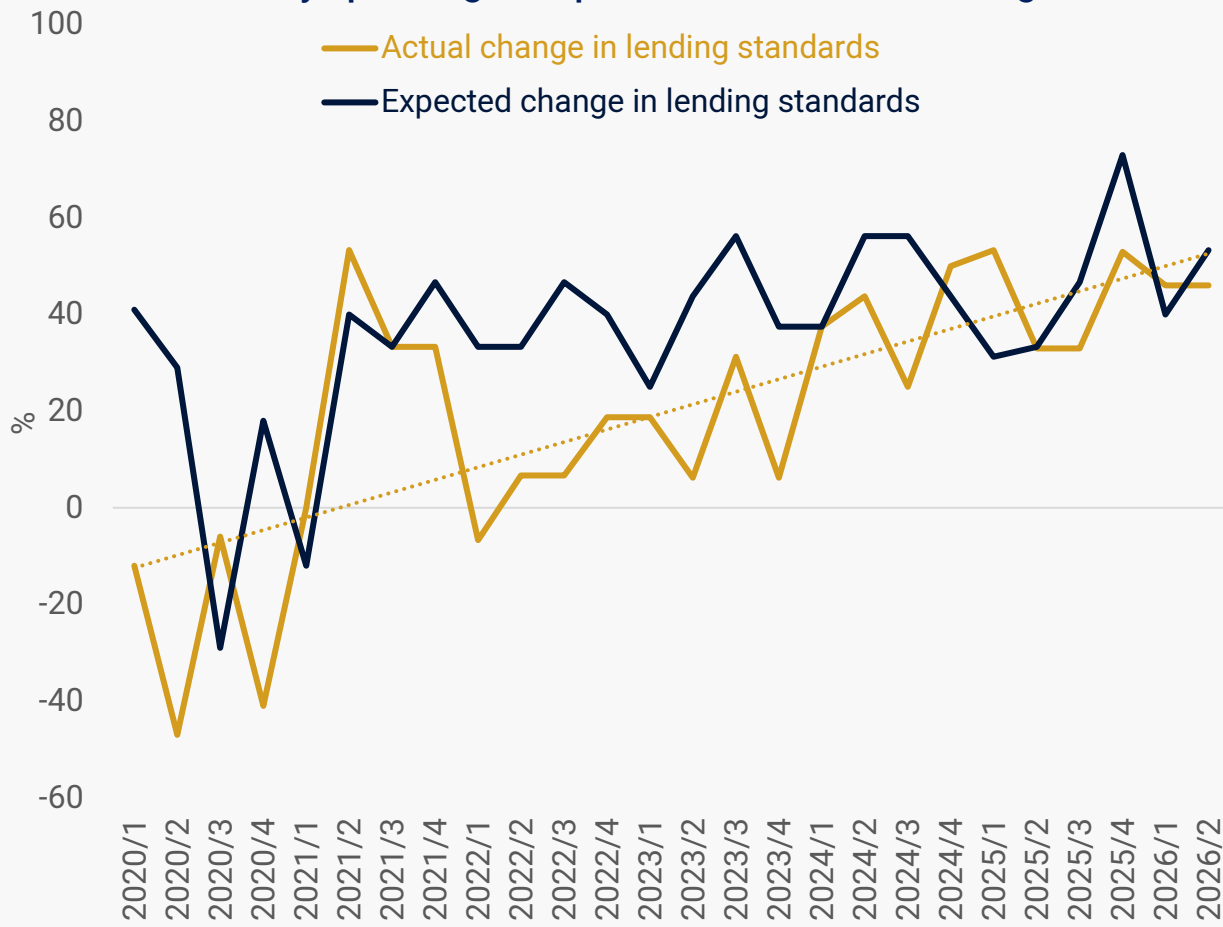
High credit growth may persist, reflecting, on the one hand, strong demand conditions and, on the other hand, the effects of easing supply conditions

High credit growth has continued, likely reflecting strong demand in the economy



Source: CBA

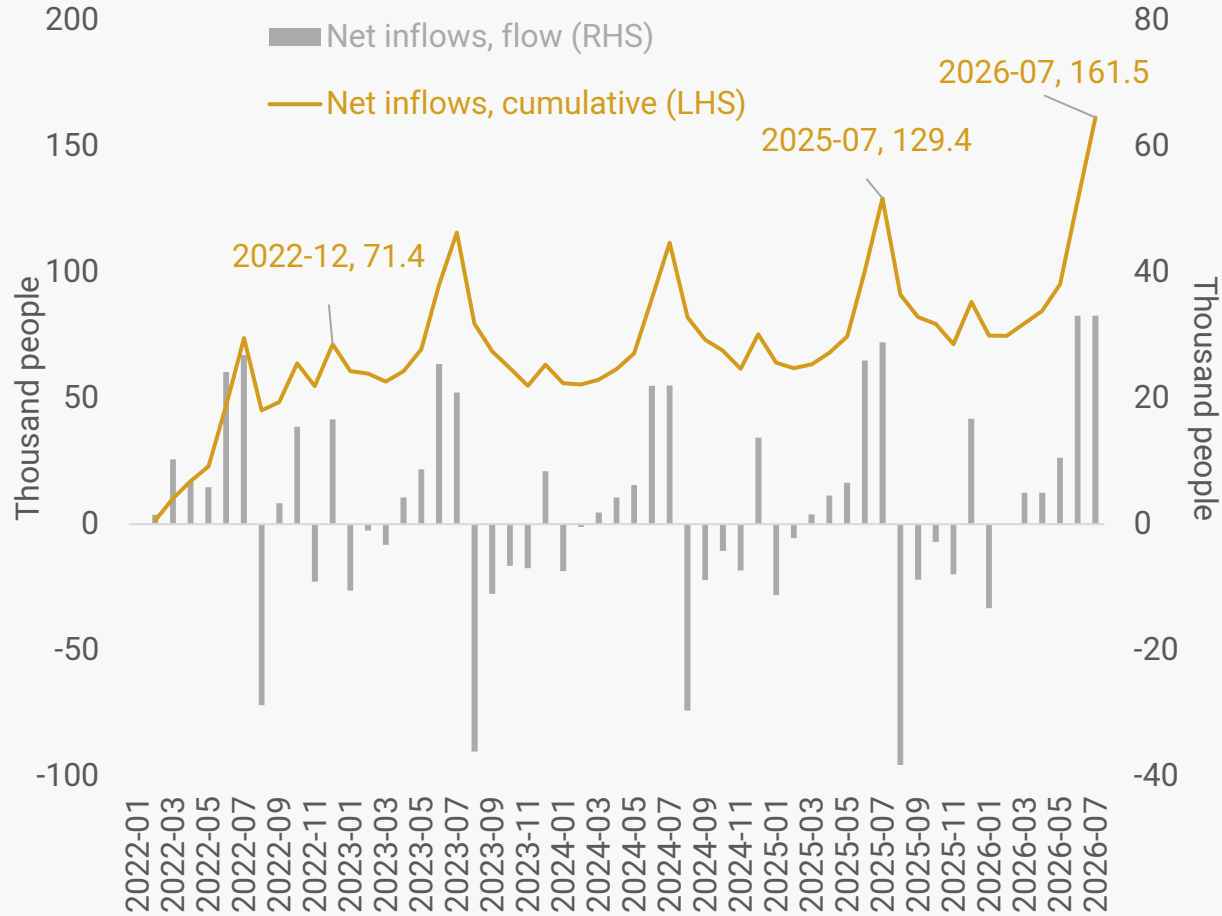
Meanwhile, banks have continued to ease lending conditions, with surveys pointing to expectations of further easing



Source: CBA Credit Conditions Survey results

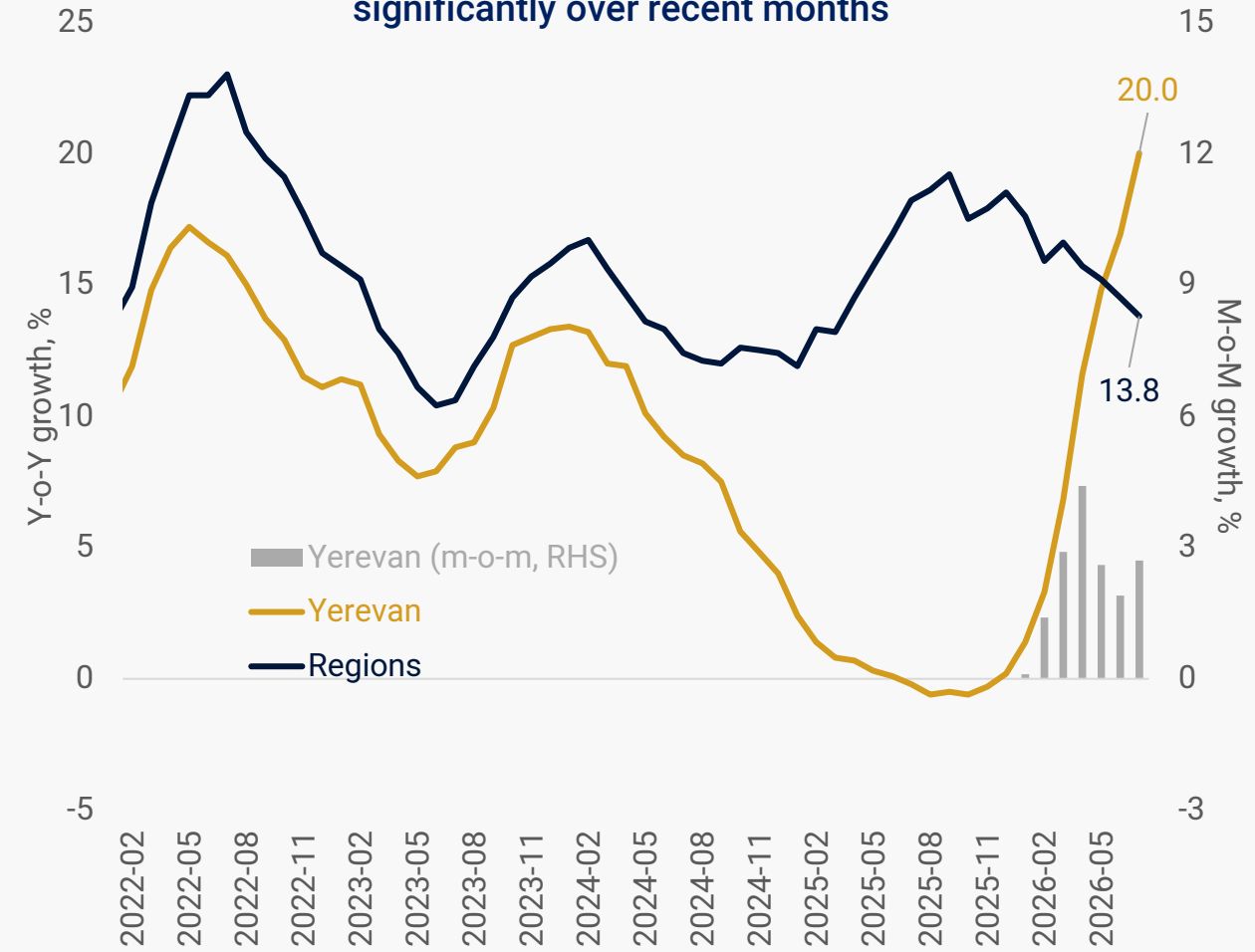
Increased arrivals from Russia and longer stays in Armenia amid heightened economic and security concerns point to a more persistent demand pressures

Net inflow of Russian citizens, cumulative



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

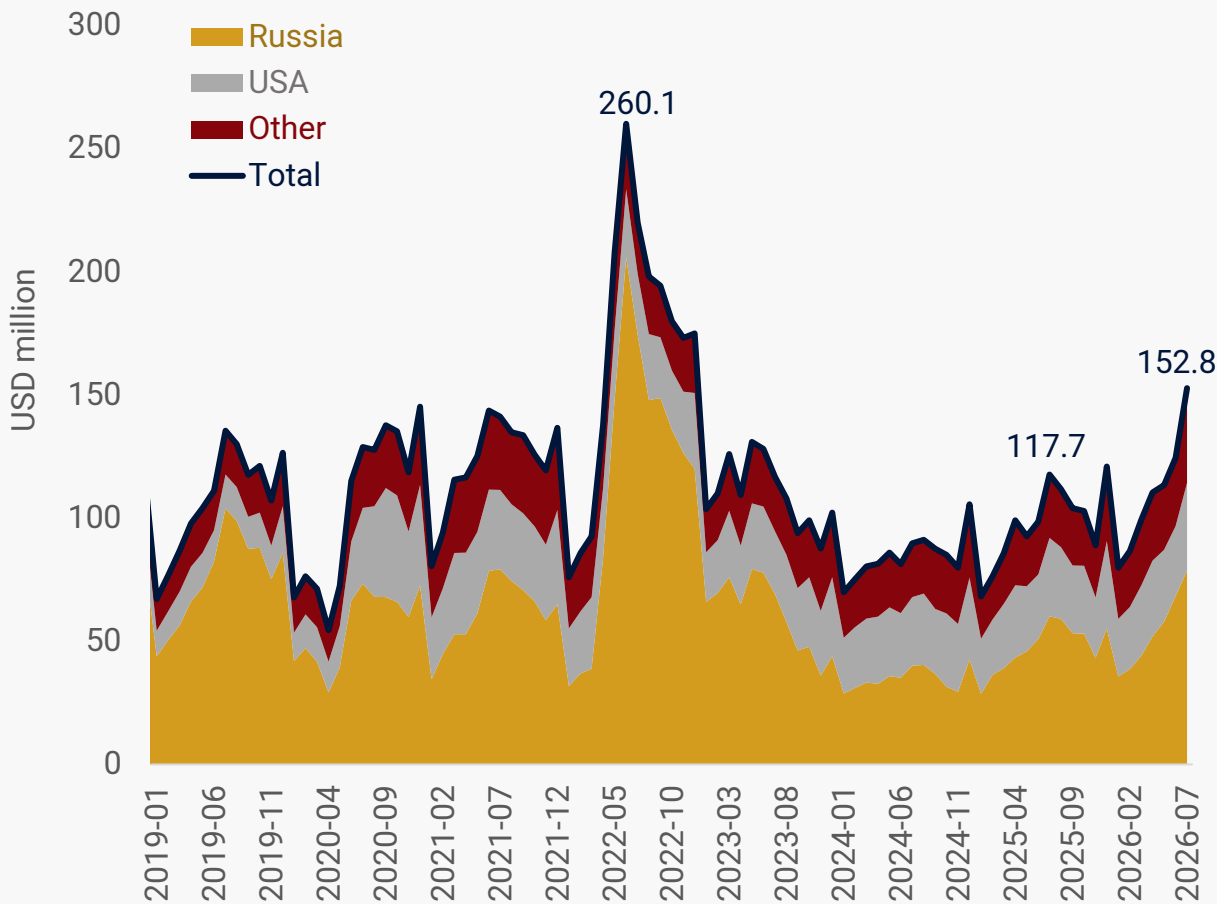
Growth in real estate prices in Armenia has accelerated significantly over recent months



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

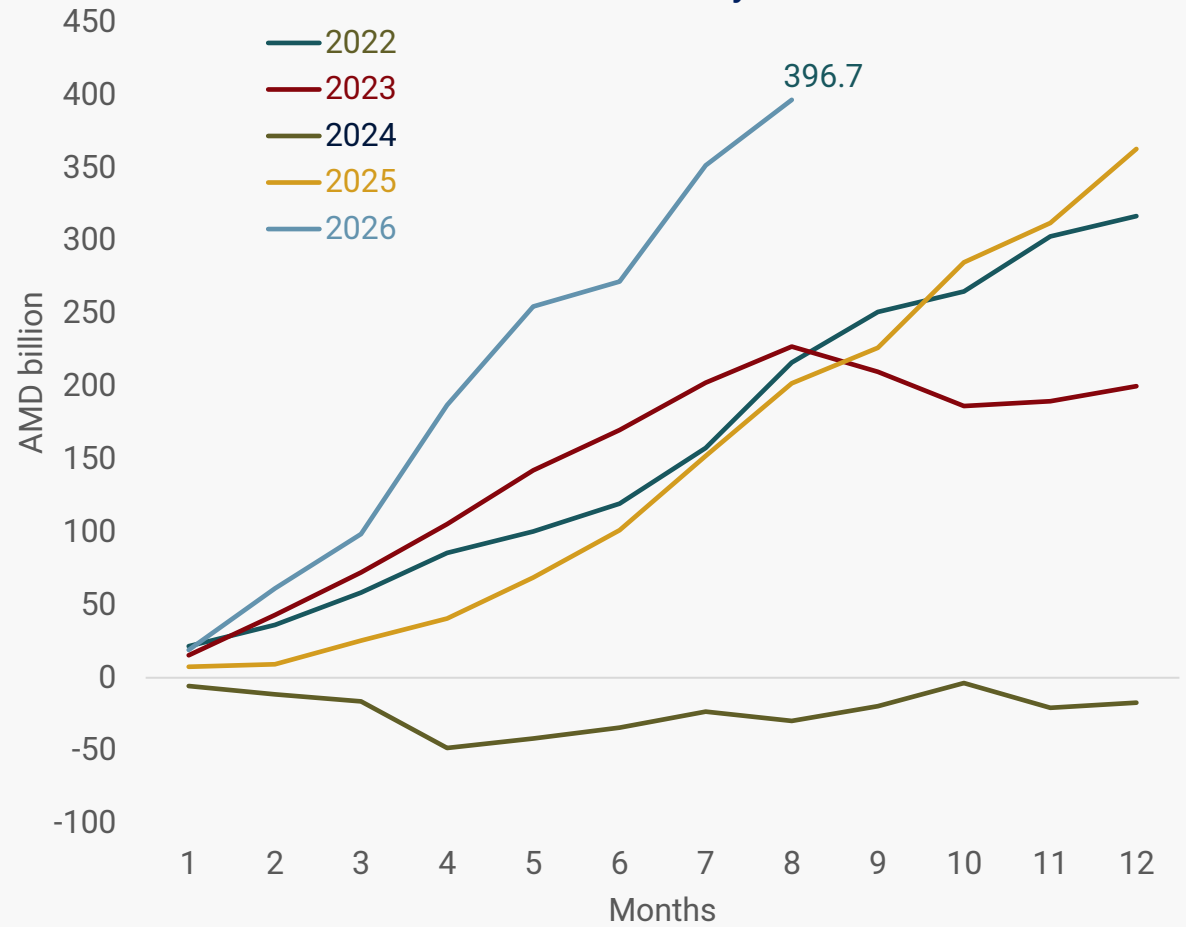
In addition, rising remittance inflows could contribute to a further strengthening of domestic demand

The acceleration in non-commercial remittance inflows may partly reflect a rise in capital transfers to Armenia



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

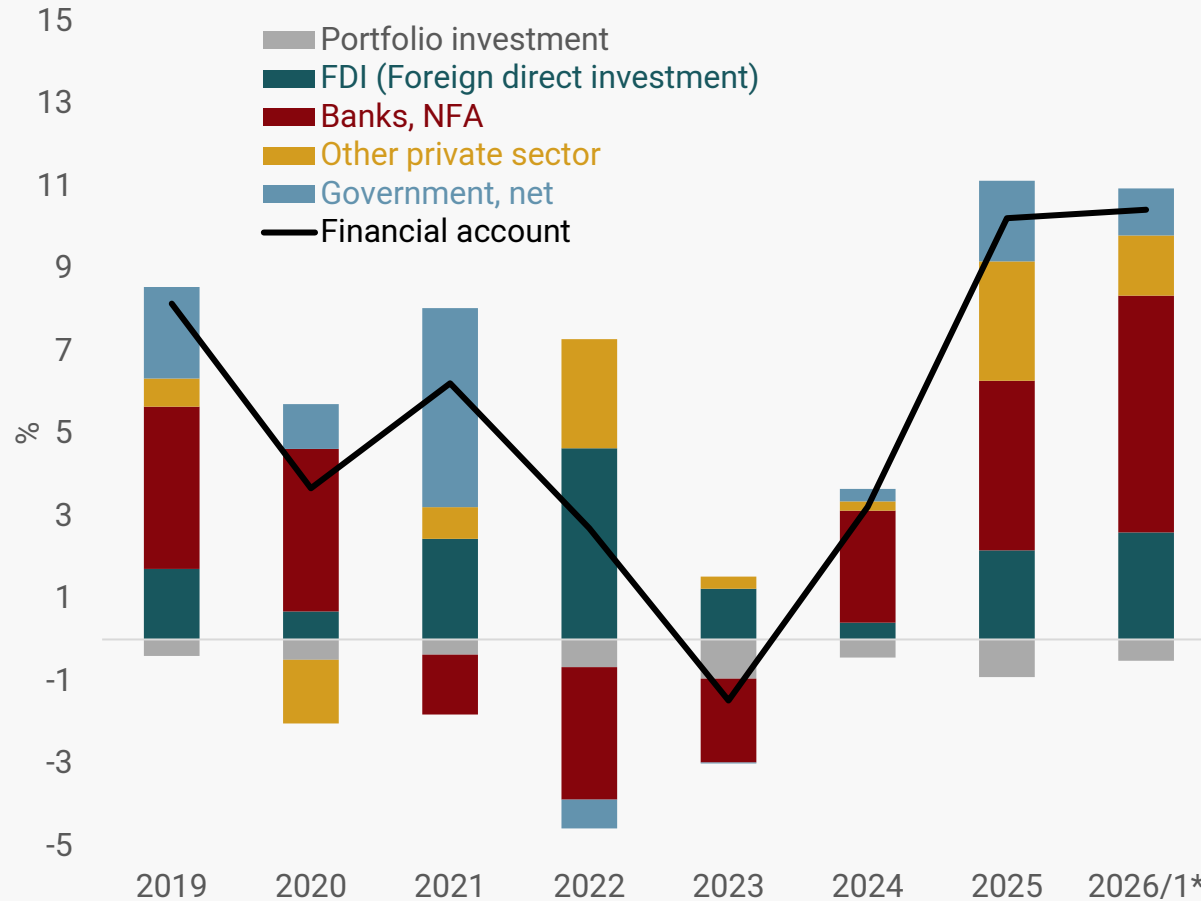
These developments are also reflected in individuals' foreign exchange conversion activity



Source: CBA

Amid ample global liquidity, strong investor appetite for emerging markets, and improving domestic fundamentals, capital inflows to Armenia could remain strong

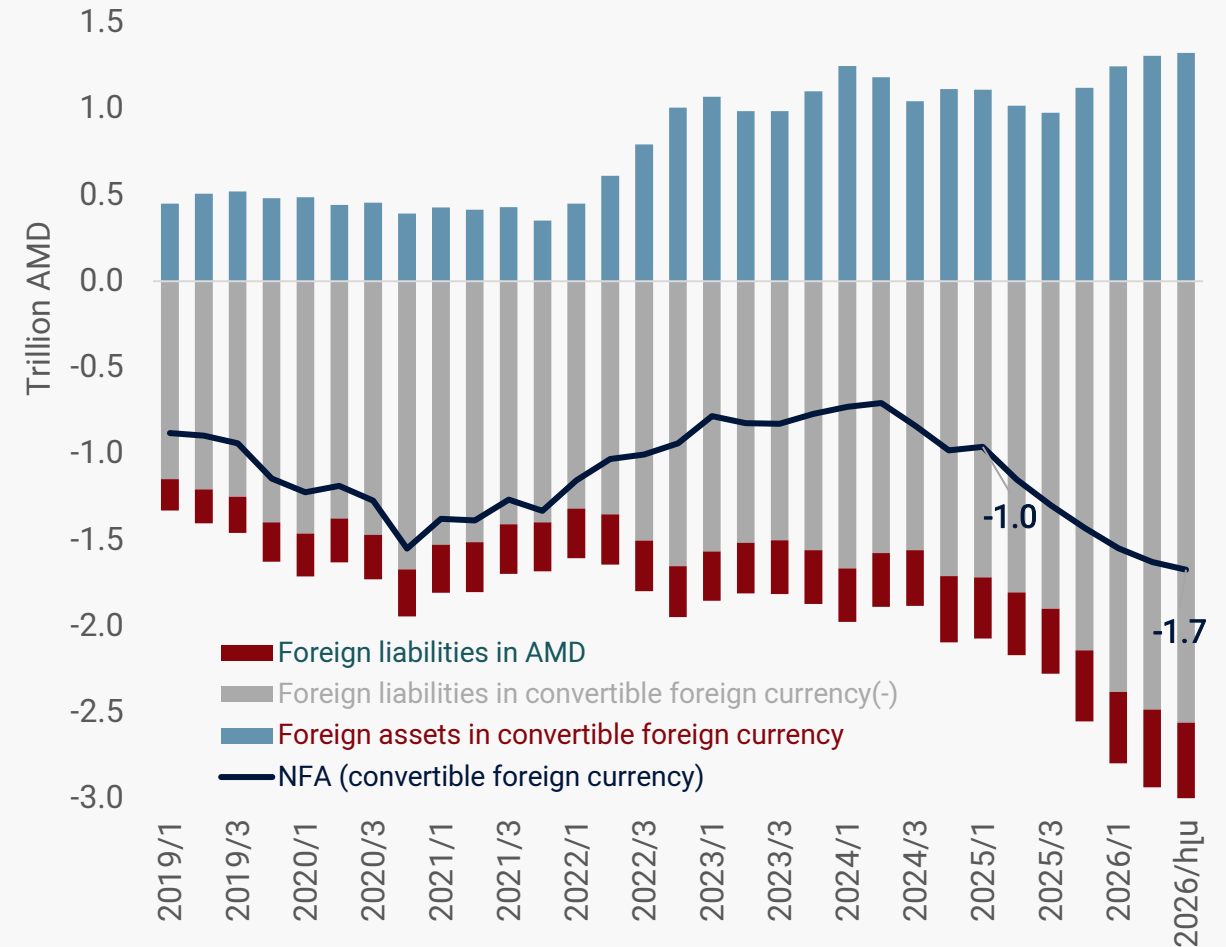
Financial account/GDP (+ inflow)



Source: Central Bank of Armenia

* Note: The Q1 2026 figure is calculated as a 4Q rolling window

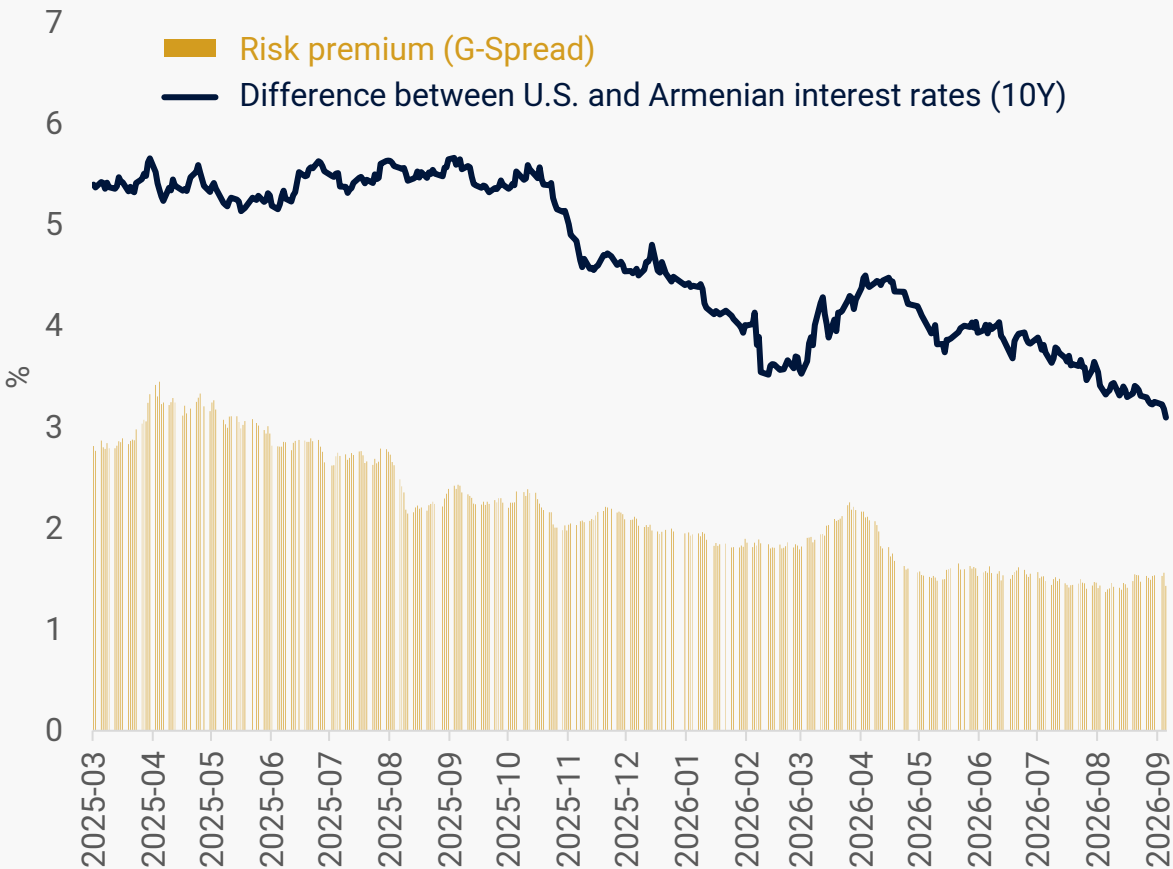
Net foreign assets (NFA) and its composition



Source: CBA

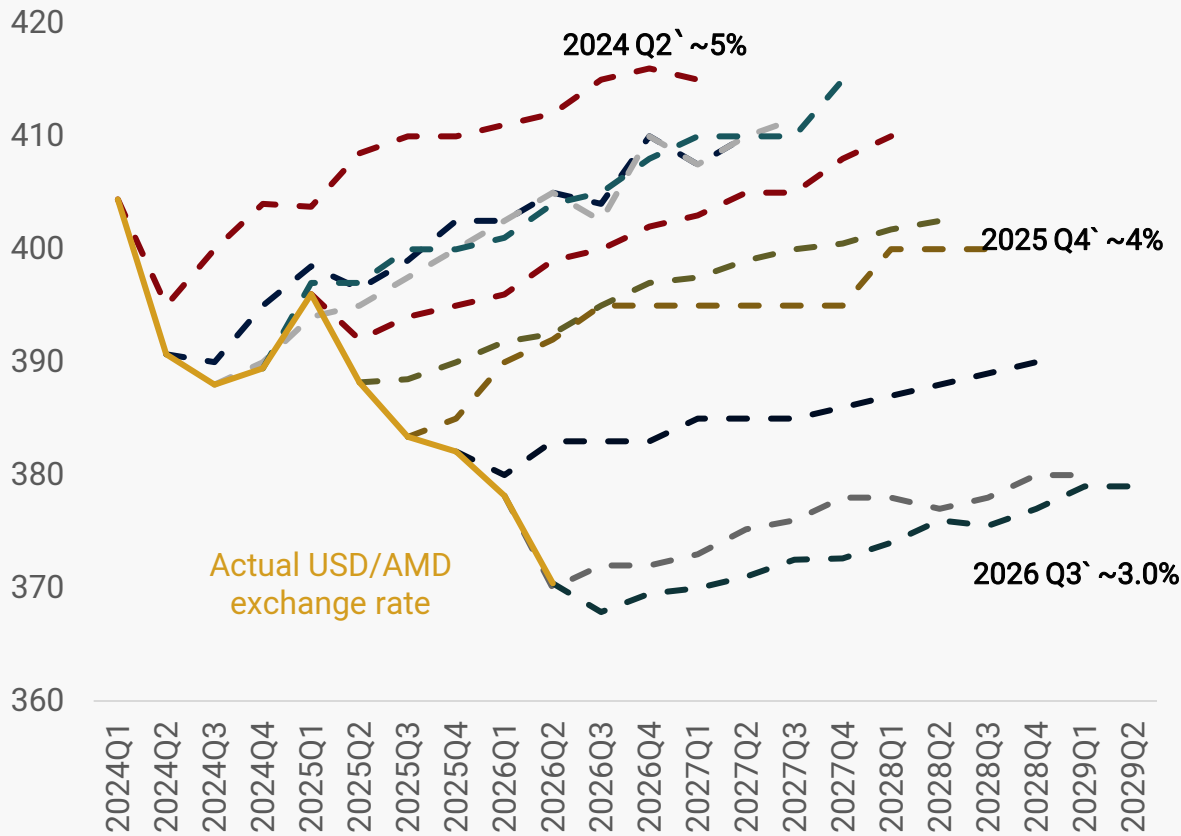
Against this backdrop, was the monetary policy stance tighter than warranted by underlying economic conditions?

The differential between long-term interest rates in Armenia and the US has gradually narrowed, at a faster pace than the country risk premium



Source: Ministry of Finance of the Republic of Armenia, CBA, Federal Reserve Bank of St. Louis.

Despite the appreciation of the nominal exchange rate under these conditions, financial markets continue to expect depreciation over the medium term ... albeit at a gradually smaller magnitude.

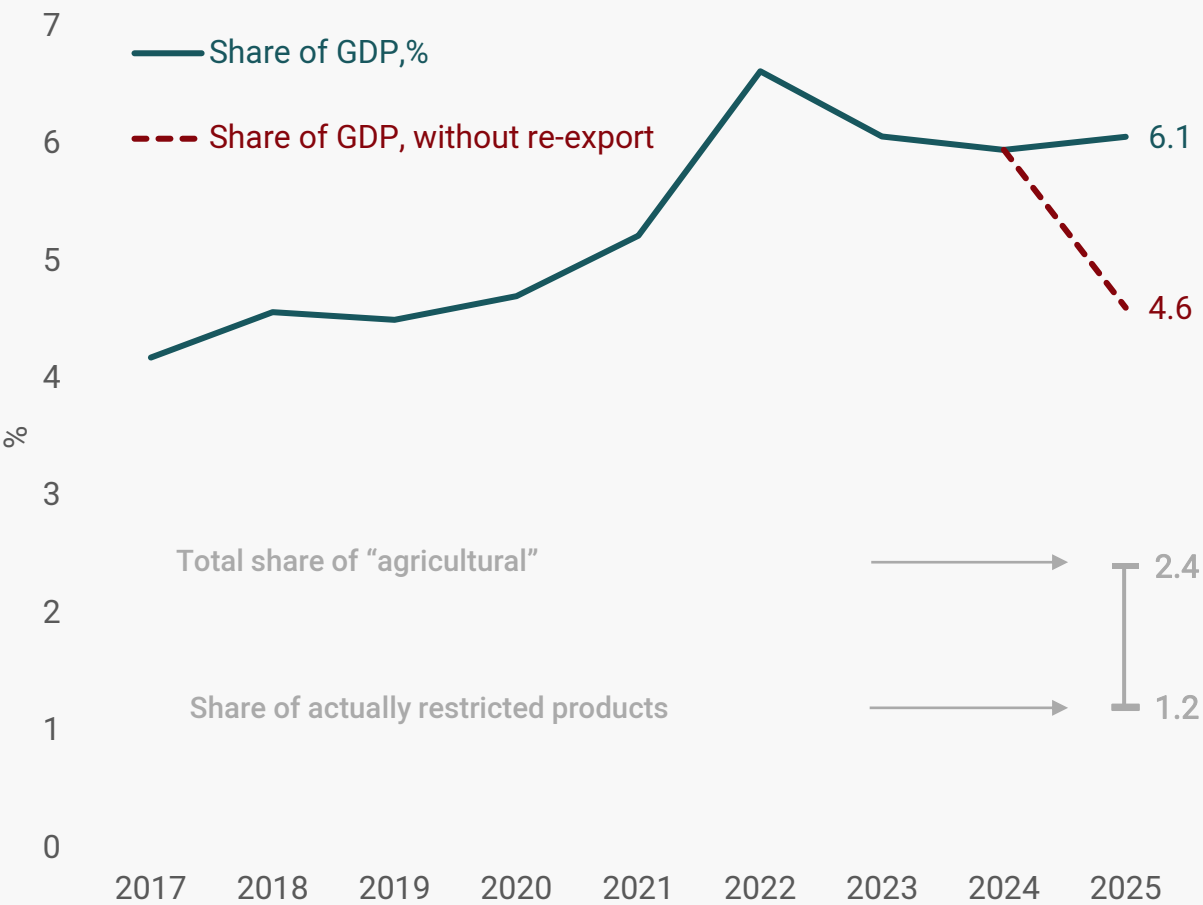


Source: CBA Macroeconomic Surveys

On the other hand, *export restrictions to Russia and uncertainty over their outlook* could weaken consumer and investment confidence, with potential spillovers from affected sectors to the broader economy

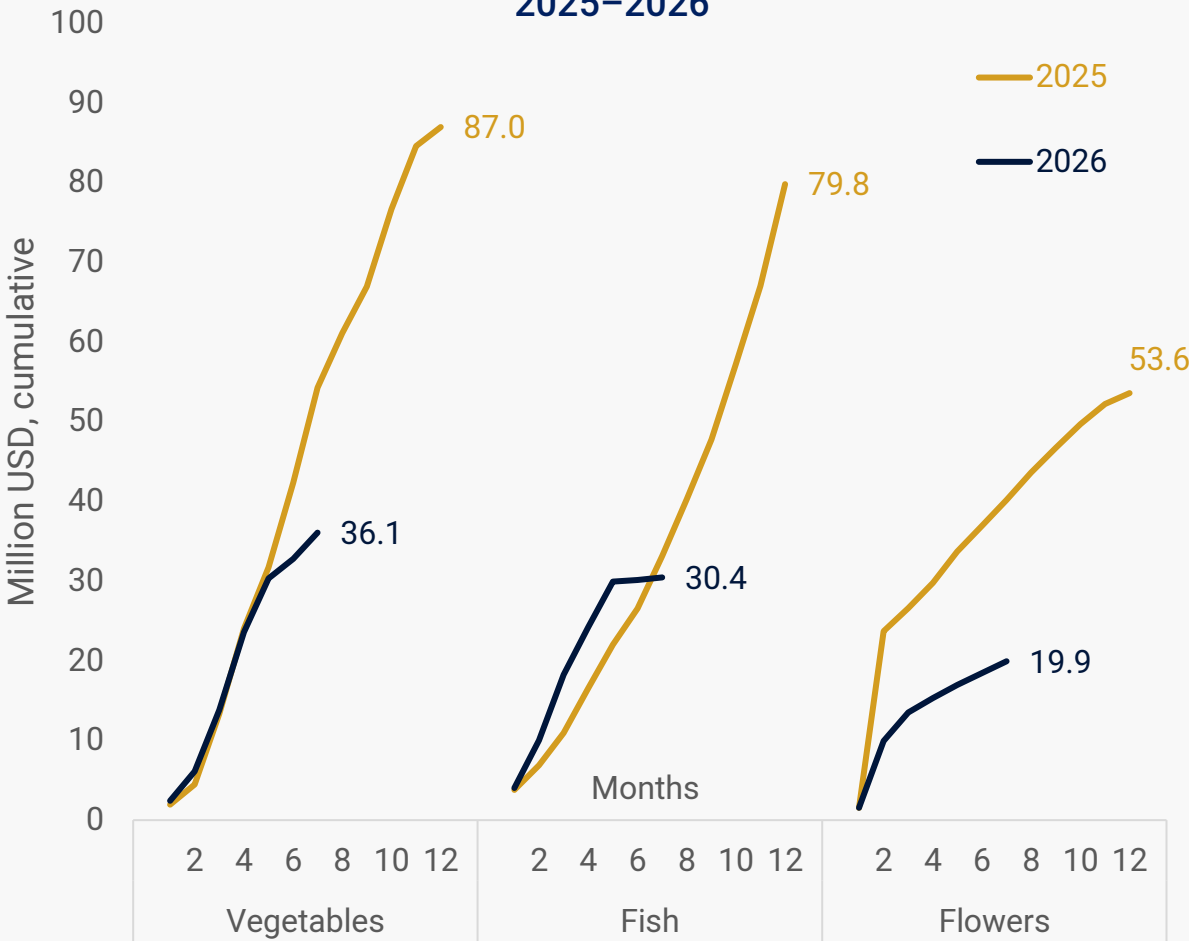


Exports to Russia as a share of GDP



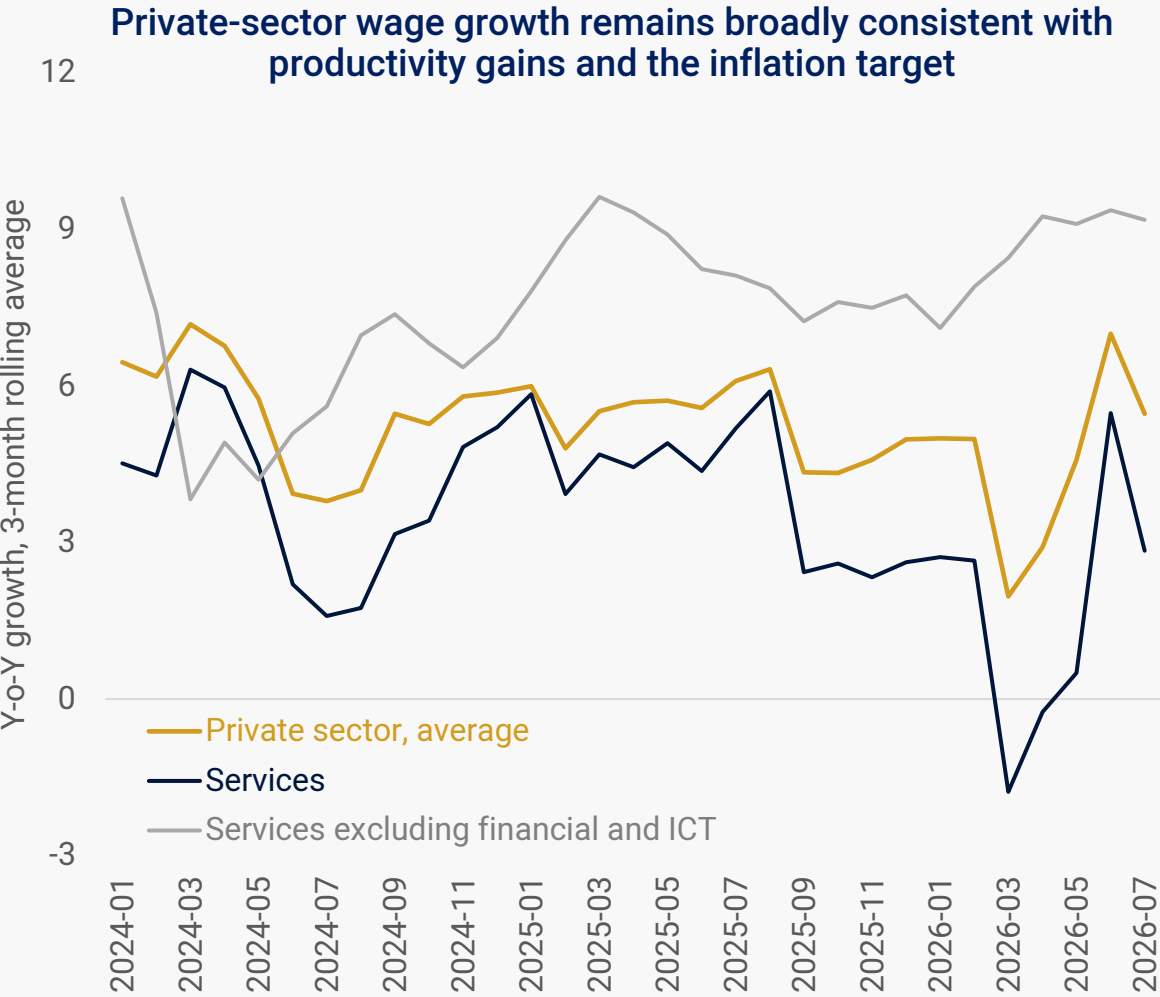
Source: Statistical Committee of the Republic of Armenia, CBA staff calculations

Exports of Selected Plant- and Animal-Origin Product Groups in 2025–2026

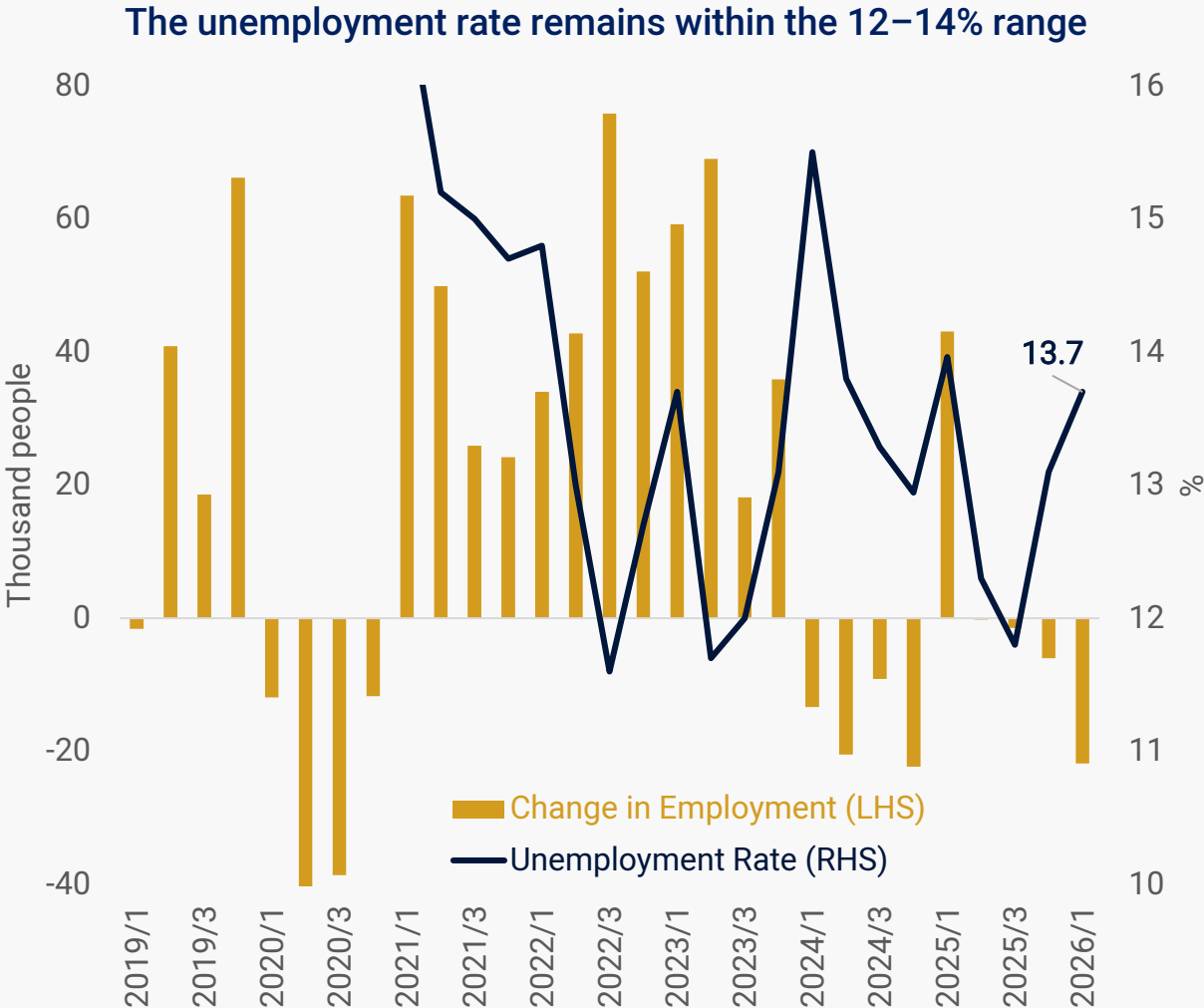


Source: Statistical Committee of the Republic of Armenia, CBA staff calculations

Labor market developments remain uneven across sectors, but overall show no clear signs of significant imbalances



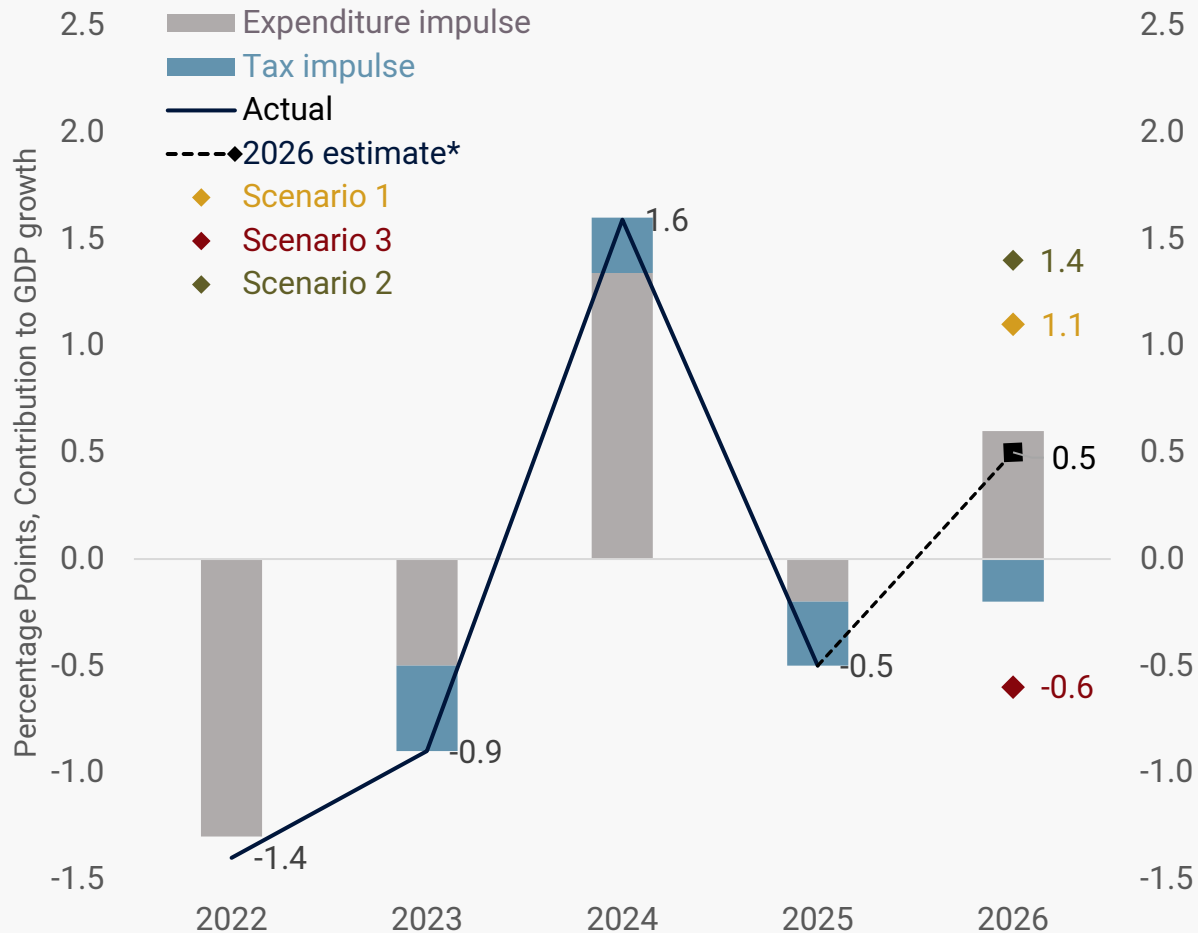
Source: Statistical Committee of the Republic of Armenia; CBA staff calculations



Source: Statistical Committee of the Republic of Armenia

Despite strong tax revenue performance, risks of a more expansionary fiscal stance remain

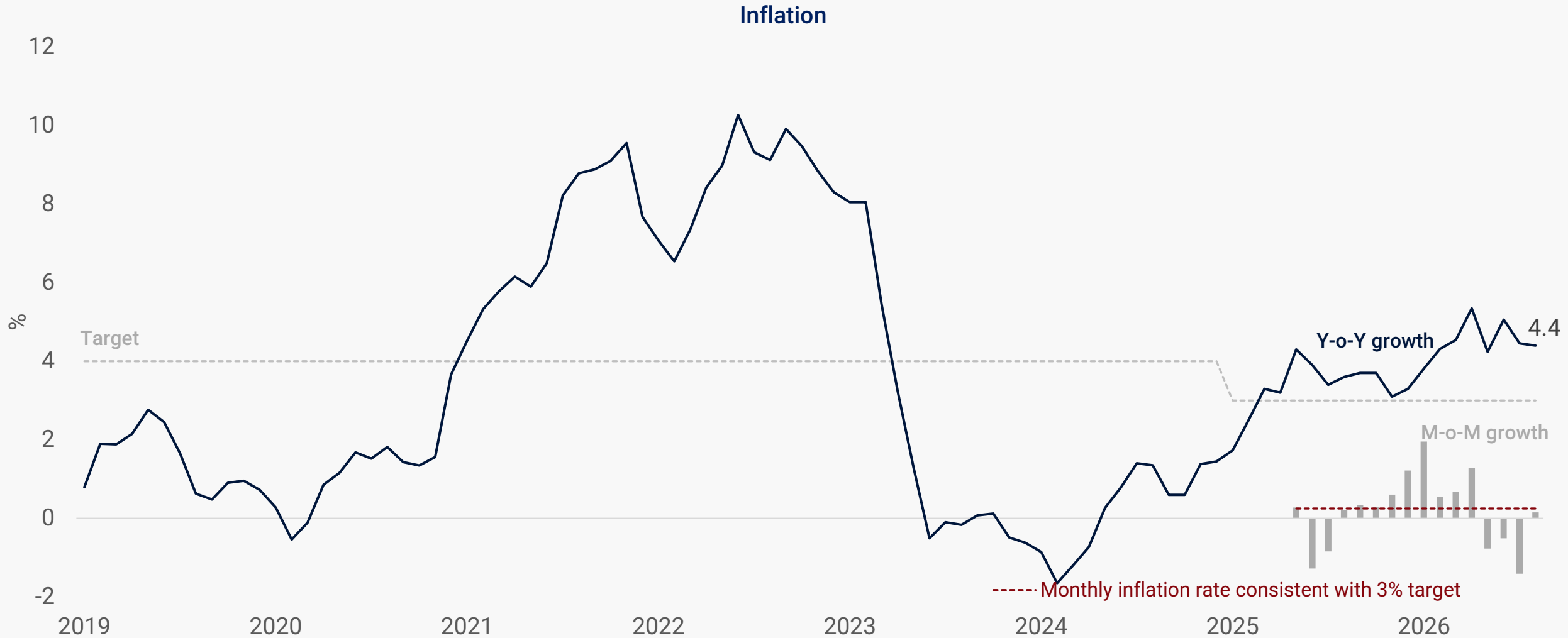
Scenarios for the impact of fiscal policy on aggregate demand



- **Scenario 1.** Healthcare spending exceeds the budgeted amount, while tax revenues are fully realized as planned.
- **Scenario 2.** A significant increase in social spending (Healthcare, pensions) could have a stronger impact on aggregate demand, given beneficiaries' relatively high propensity to consume.
- **Scenario 3.** Capital spending falls substantially further below budget than in previous years, amid capacity constraints in implementing large-scale projects.

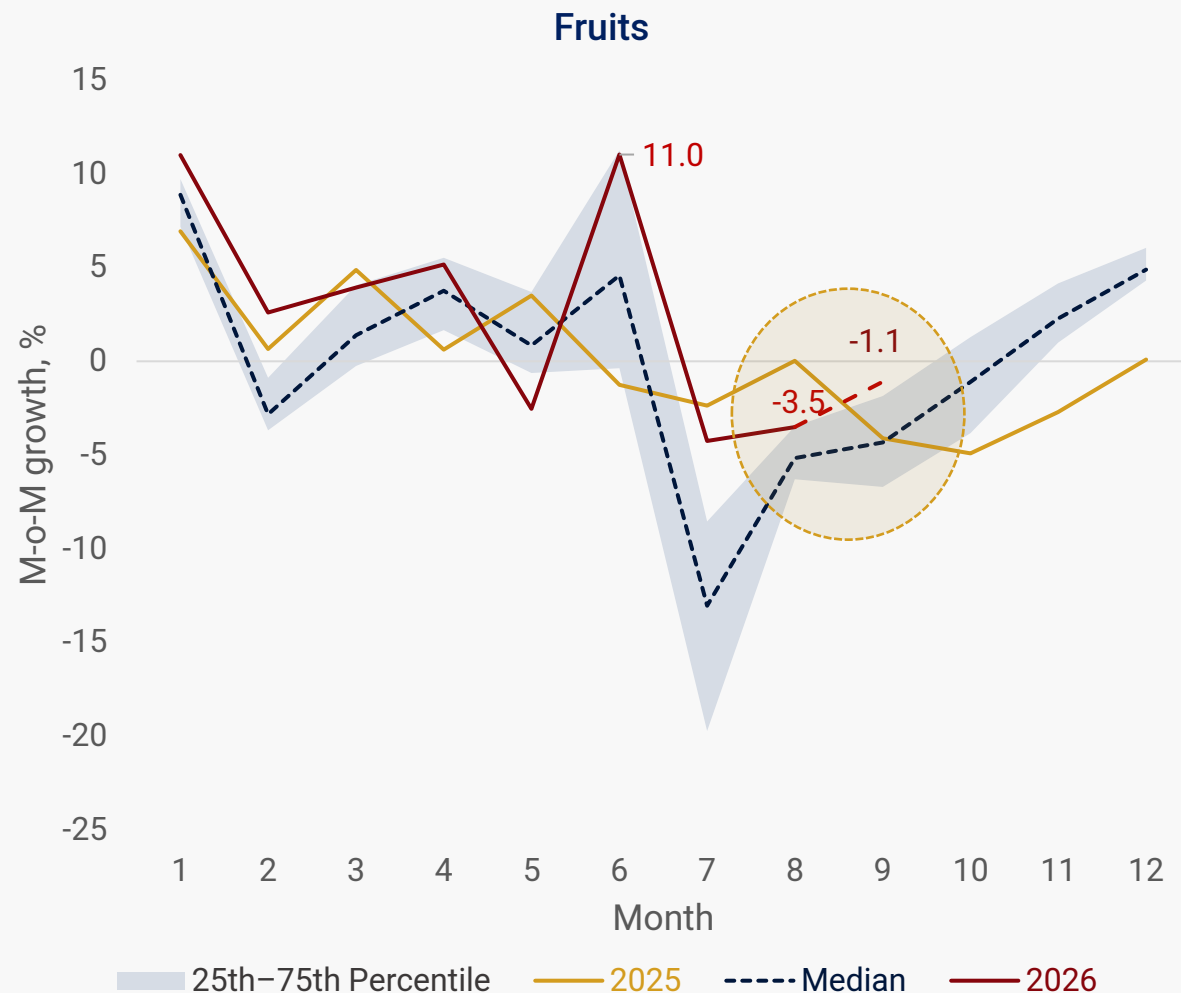
Note: The estimate is based on data from the 2027–2029 Medium-Term Expenditure Framework (MTEF)
Source: Ministry of Finance of the Republic of Armenia; CBA staff calculations

Against this backdrop, despite volatility from various supply-side factors, *headline inflation* remains elevated at 4.4% in August

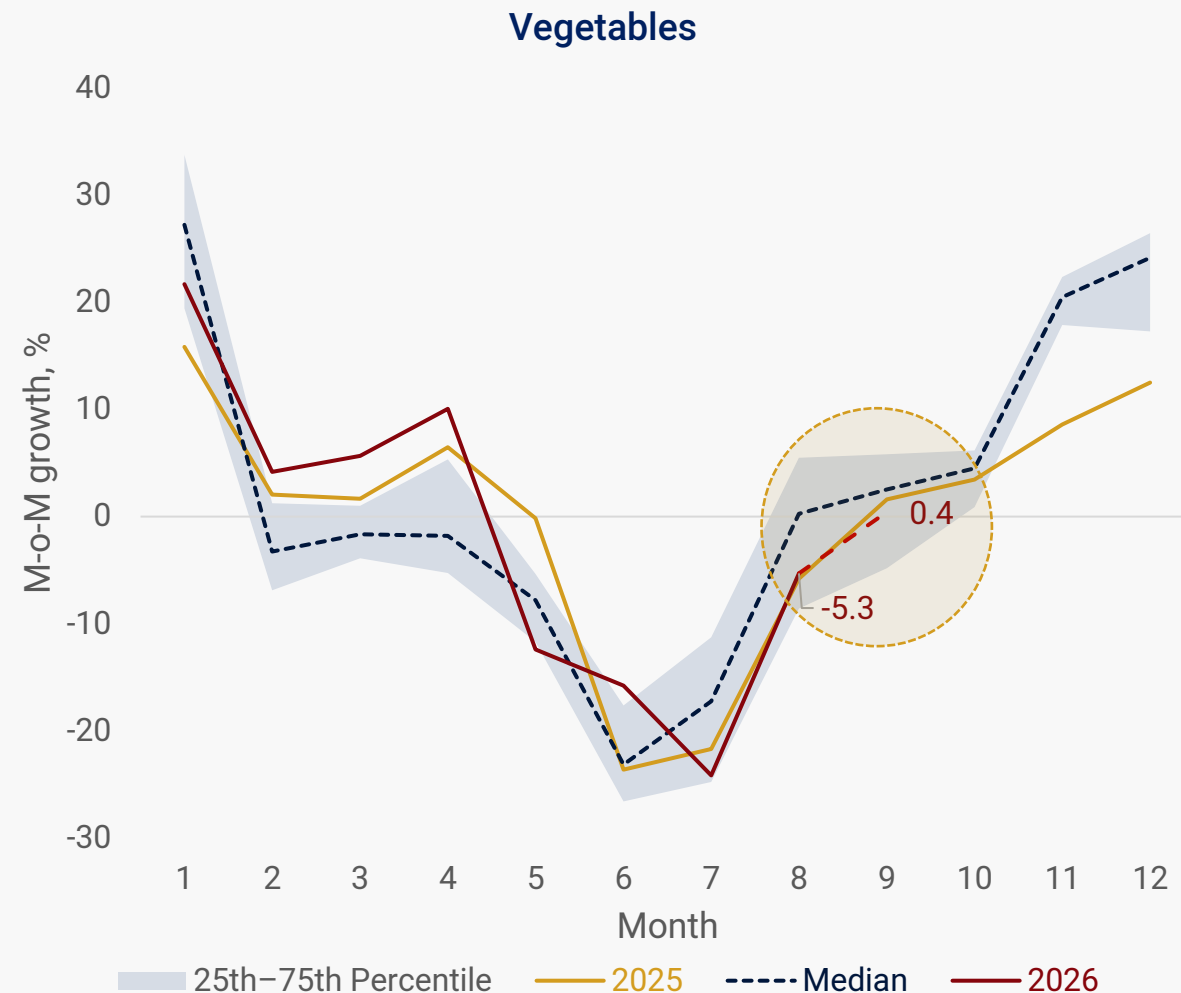


Source: Statistical Committee of the Republic of Armenia

Expected deflationary pressures from fruit and vegetables have so far materialized only partially, likely reflecting a weaker harvest and the effects of government support programs

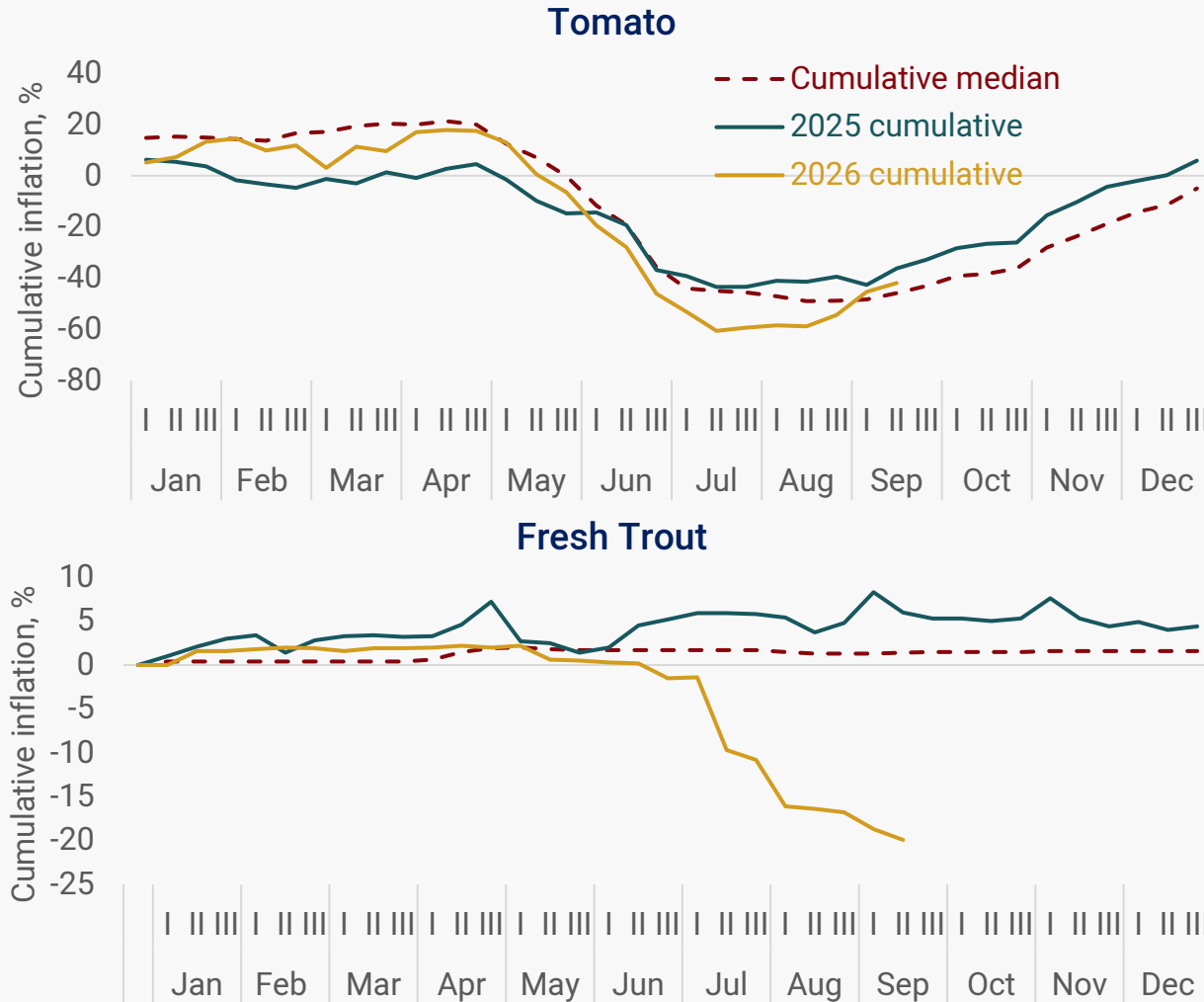


Source: Statistical Committee of the Republic of Armenia; CBA; CBA inflation monitoring

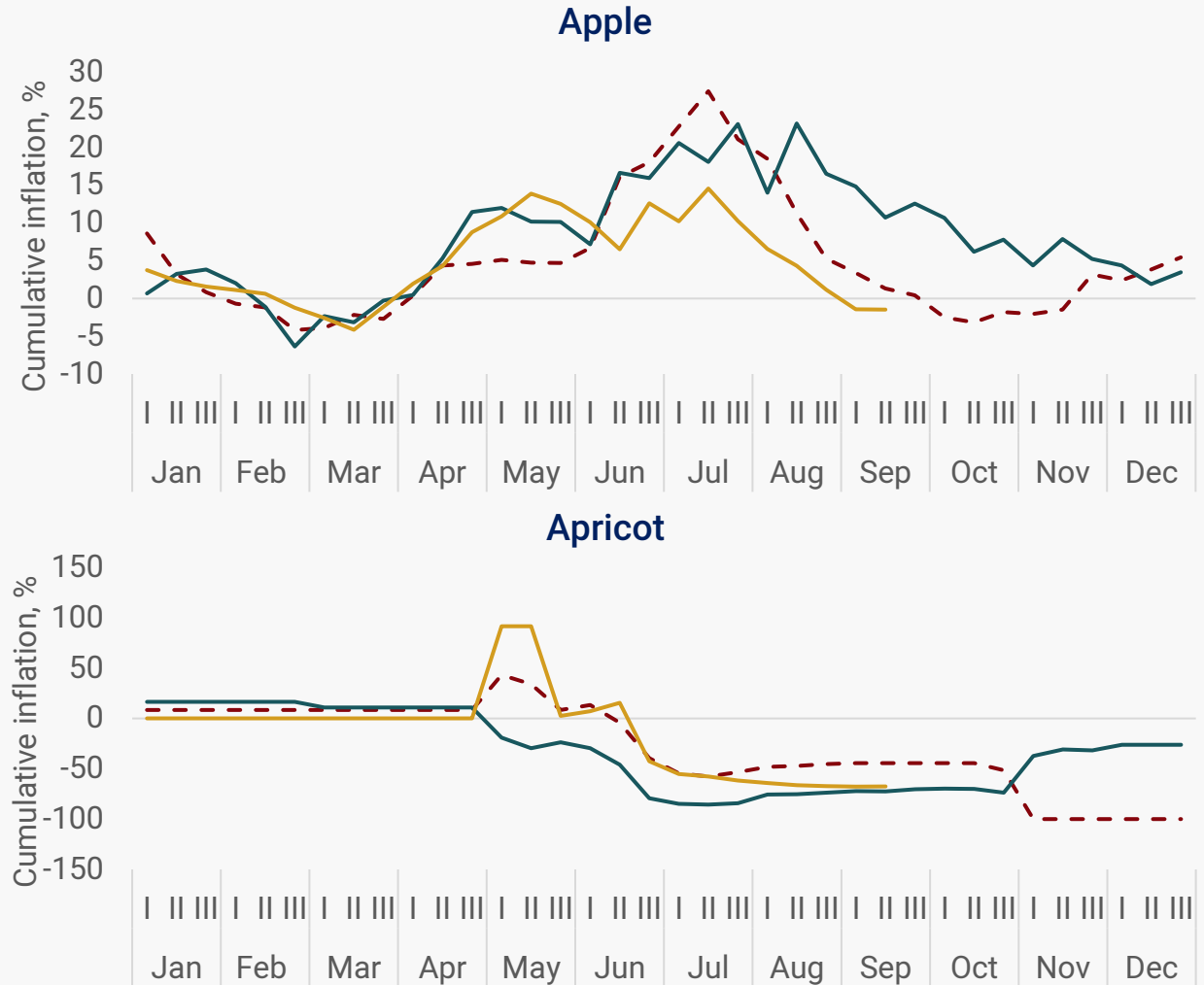


Source: Statistical Committee of the Republic of Armenia; CBA; CBA inflation monitoring

The deflationary effects of Russia's import restrictions vary across product markets, but overall gradually fading



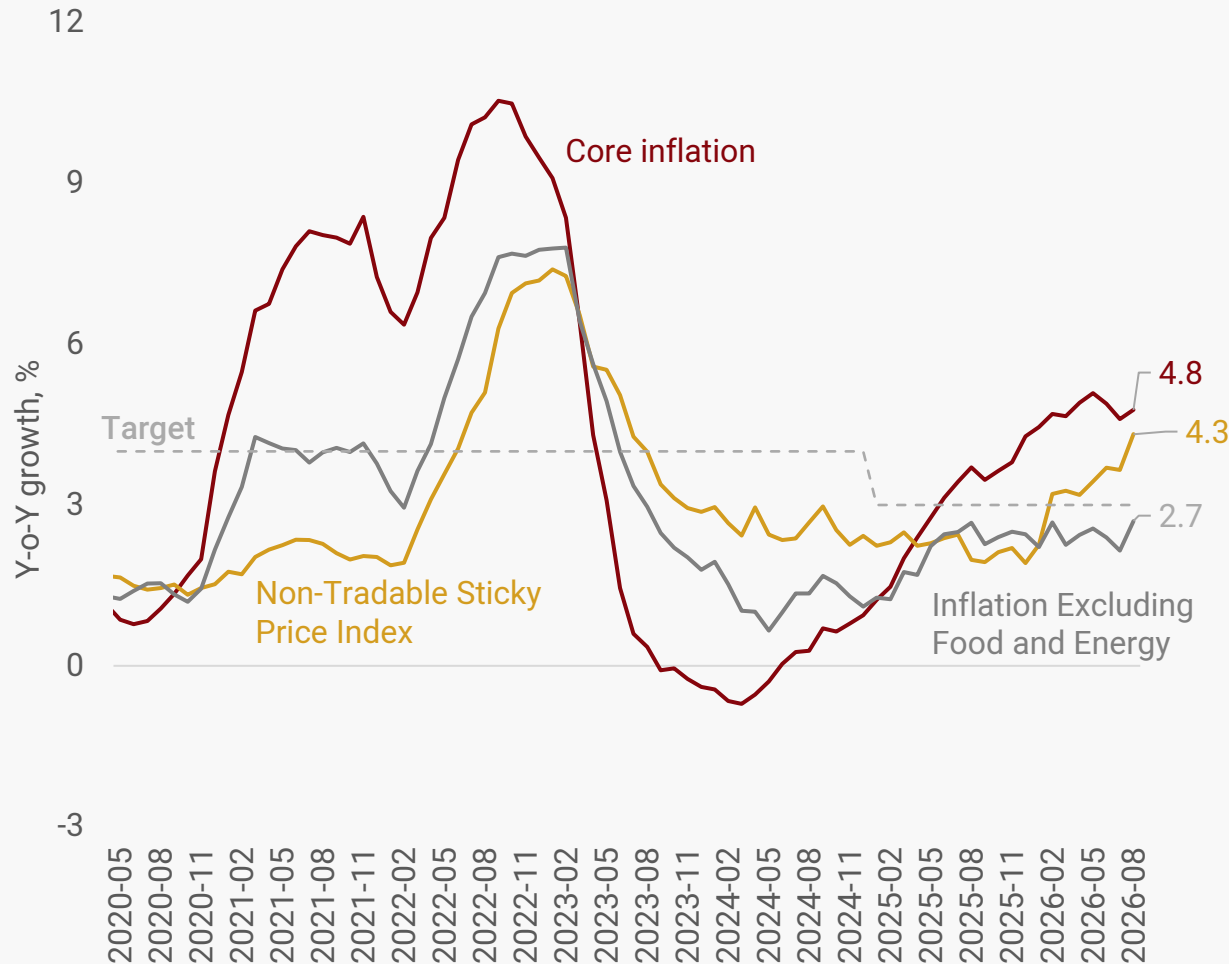
Source: CBA inflation monitoring



Source: CBA inflation monitoring

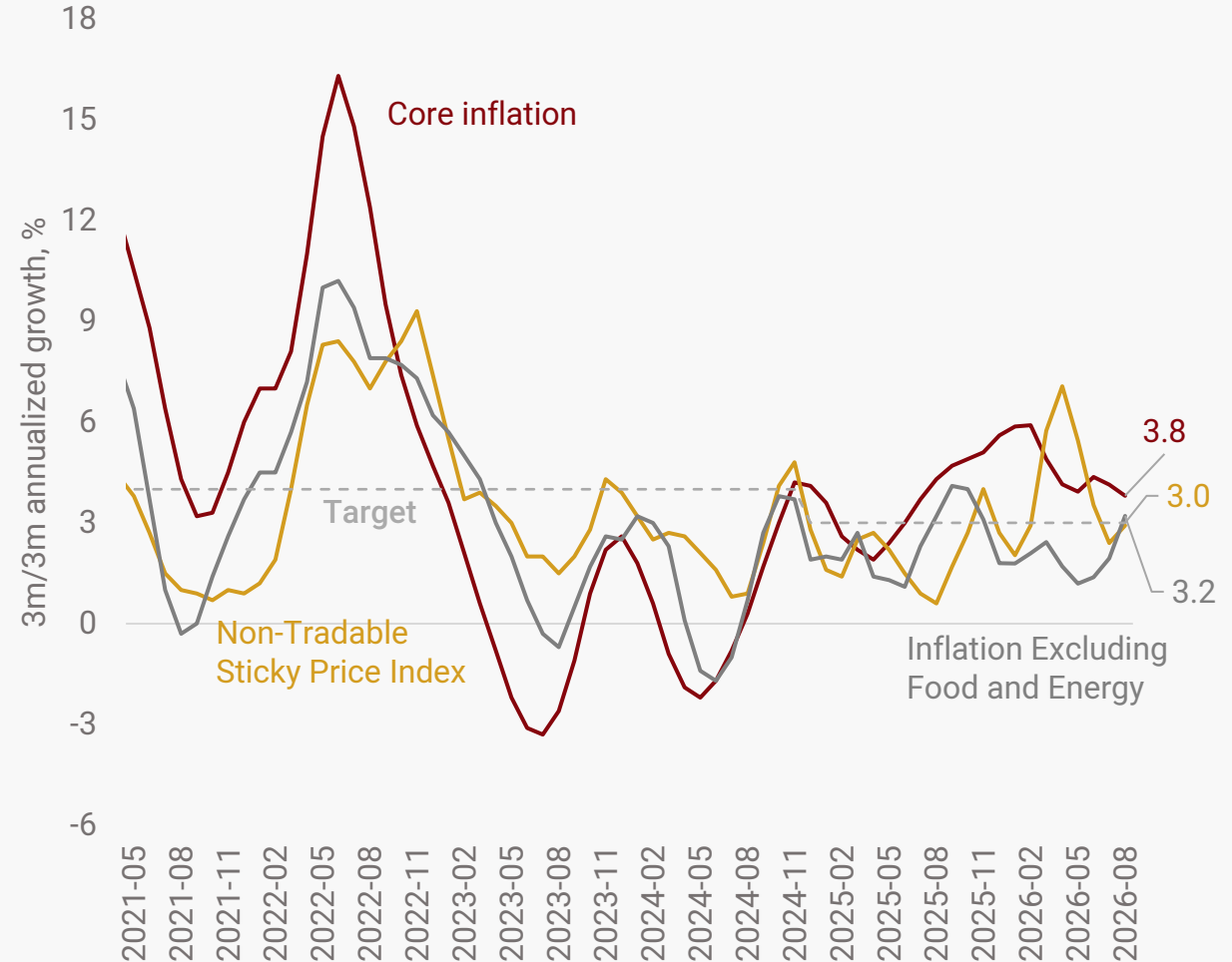
At the same time, underlying inflation remains elevated and continues to accelerate, likely reflecting strengthening demand pressures

Underlying inflation indicators



Source: Statistical Committee of the Republic of Armenia, CBA

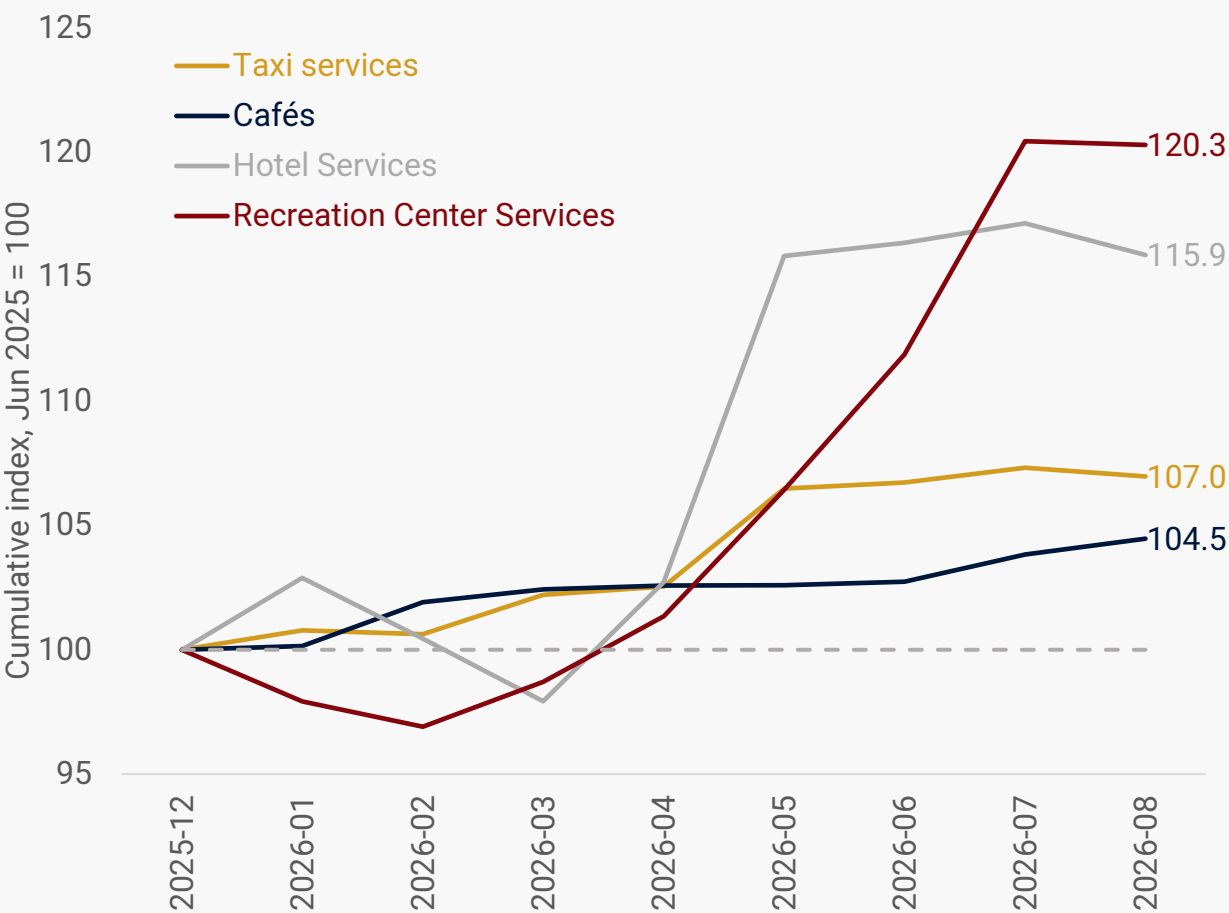
Underlying inflation indicators



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

The recent acceleration in services inflation points to strong external and domestic demand pressures, with signs of spillovers to stickier service prices

With tourist inflows remaining high, inflationary pressures continue to build in services that are more sensitive to demand



Source: Statistical Committee of the Republic of Armenia

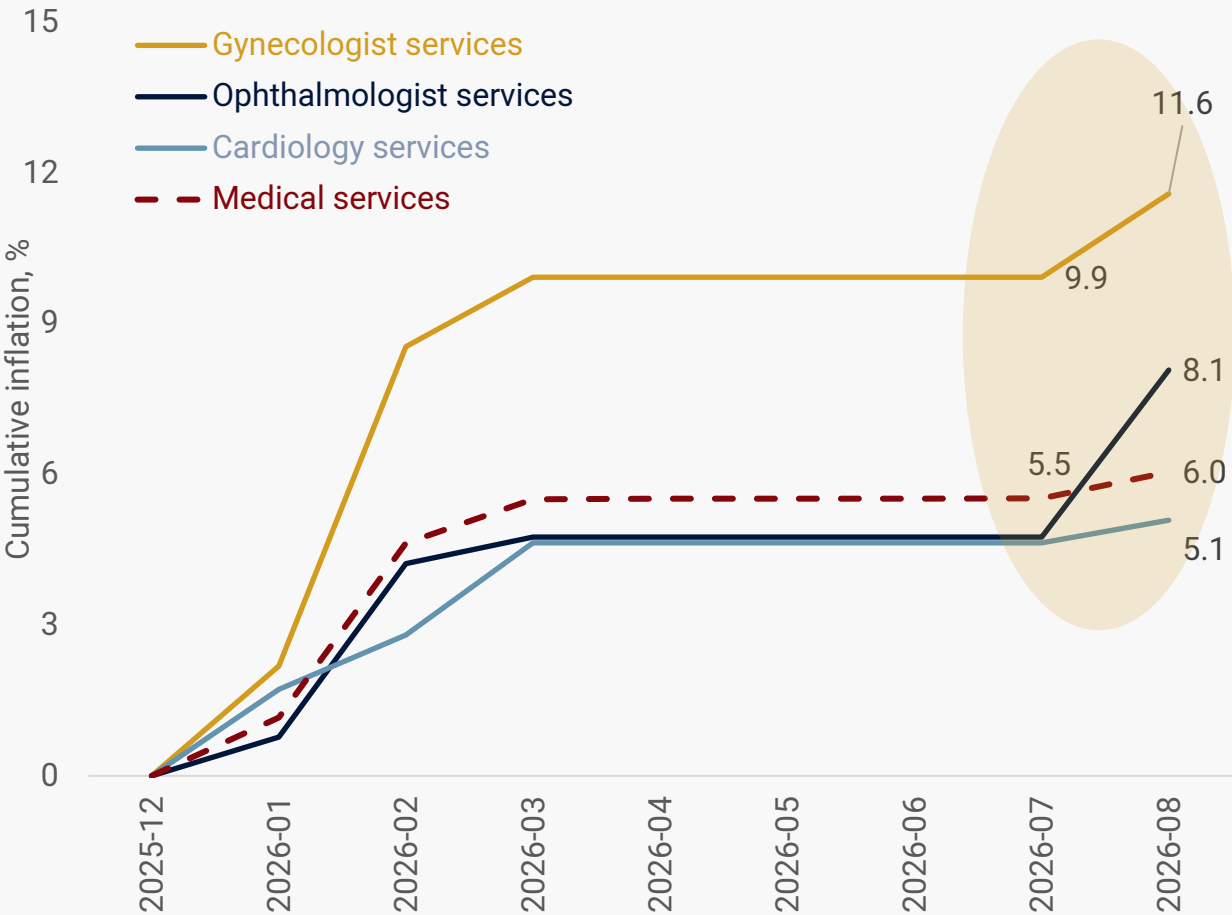
Y-o-Y Inflation of Selected NTSPI Services, %

	Feb	Mar	Apr	May	Jun	Jul	Aug
Apartment rent	-2.5	-2.4	-2.5	-0.9	1.4	0.9	3.9
Car wash	9.3	10.1	10.1	10.1	10.0	10.6	12.1
Swimming pool services	3.7	3.7	3.3	3.3	5.1	5.1	5.1
Cinema	7.6	9.0	8.2	5.8	4.4	0.6	6.4
Fast-food outlets	5.0	4.8	4.6	3.7	4.2	4.3	4.8
Women’s haircuts	2.7	0.4	1.3	1.4	1.9	4.5	4.9
Banking and postal services	9.7	9.7	7.2	7.2	13.6	13.6	13.6

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

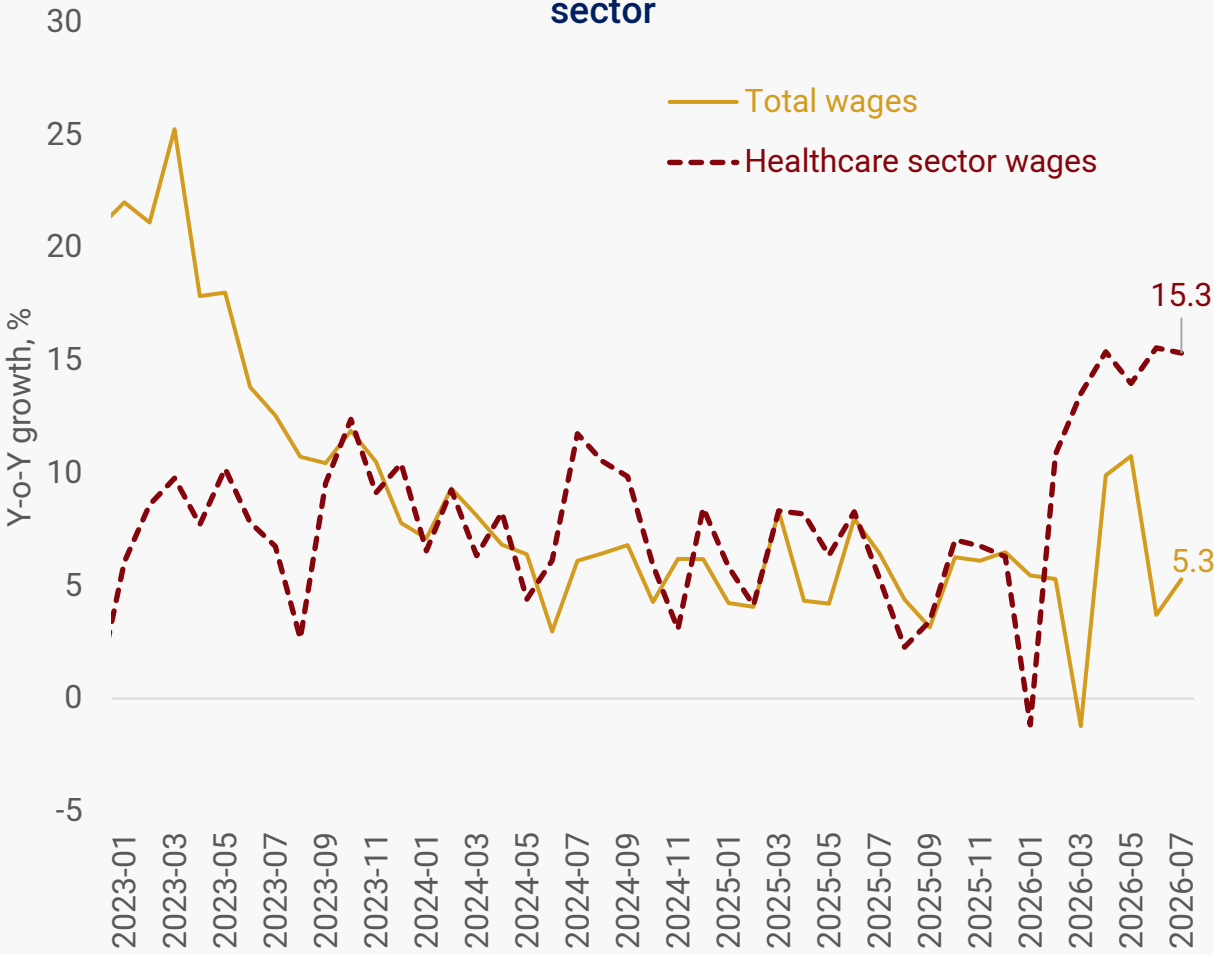
On the other hand, with supply constrained, continued expansion in demand is intensifying wage-related inflationary pressures in Healthcare

A second wave of inflation in Healthcare?



Source: Statistical Committee of the Republic of Armenia

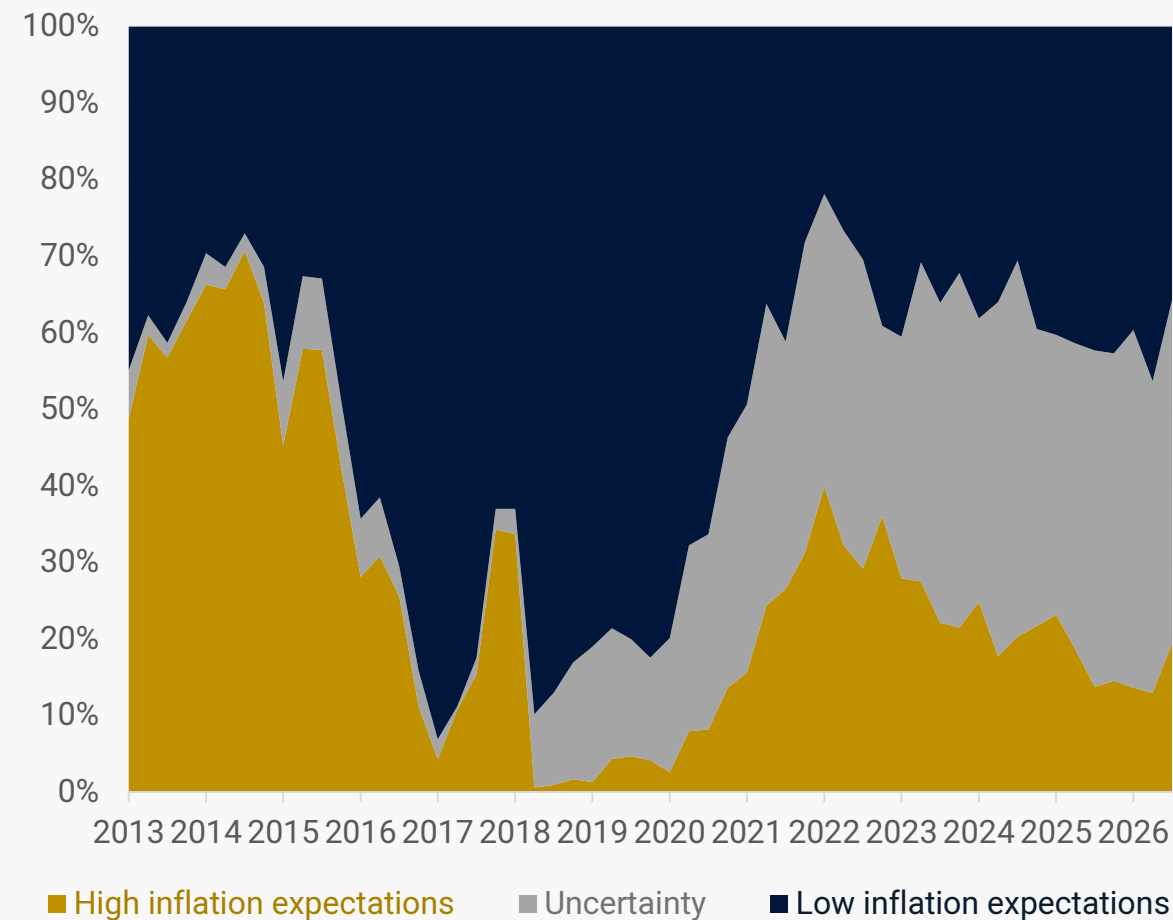
This is also reflected in relatively strong wage growth in the healthcare sector



Source: Statistical Committee of the Republic of Armenia

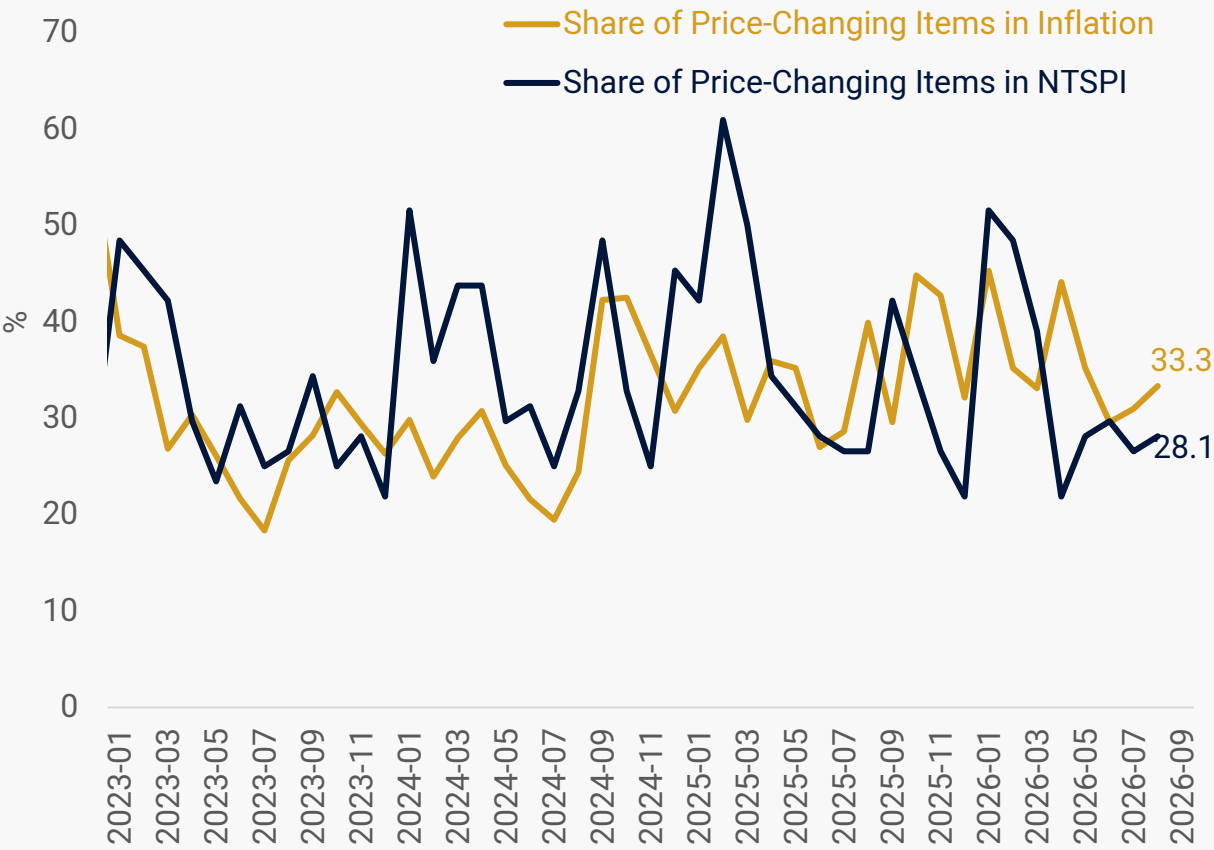
Despite some increase in household inflation expectations, other indicators point to expectations remaining broadly stable

Inflation expectations survey results, Q3 2026



Source: CBA Household Surveys

The share of items undergoing price changes remains close to its historical average



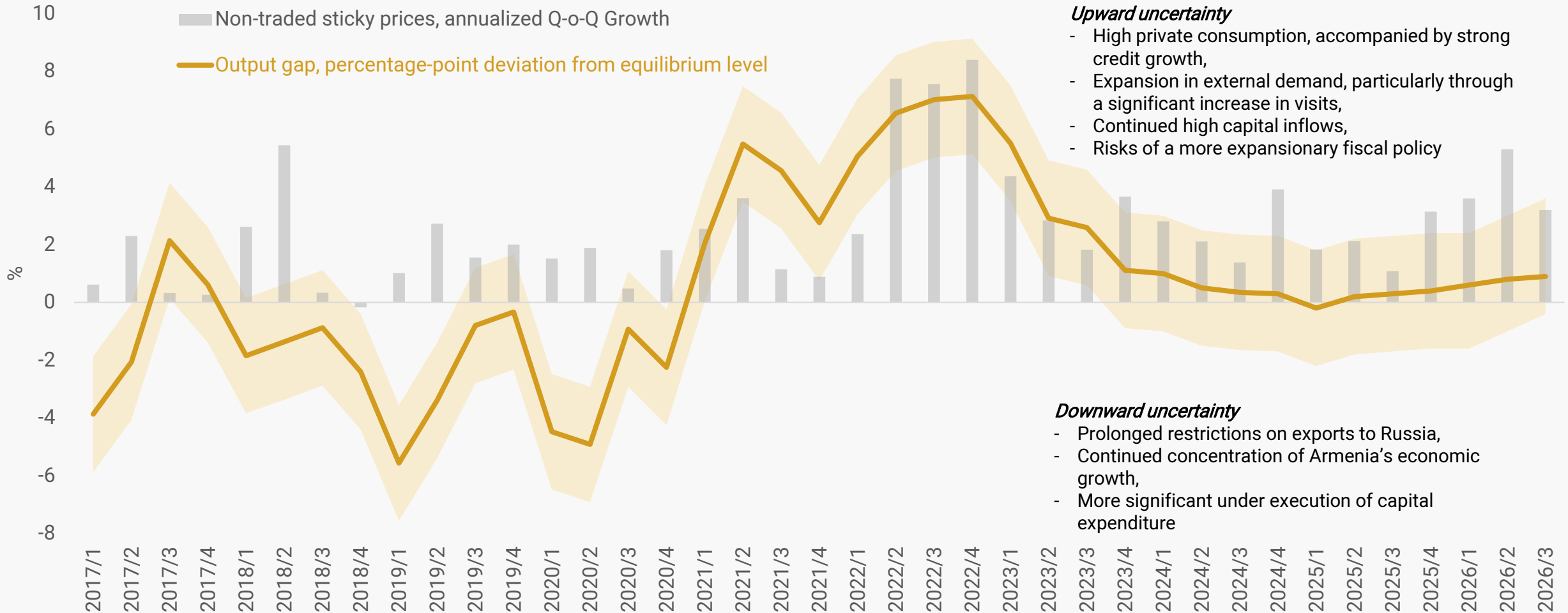
Source: Statistical Committee of the Republic of Armenia, CBA staff calculations



Where is the economy now?

A range of indicators point to strong demand conditions, with signs of strengthening recently

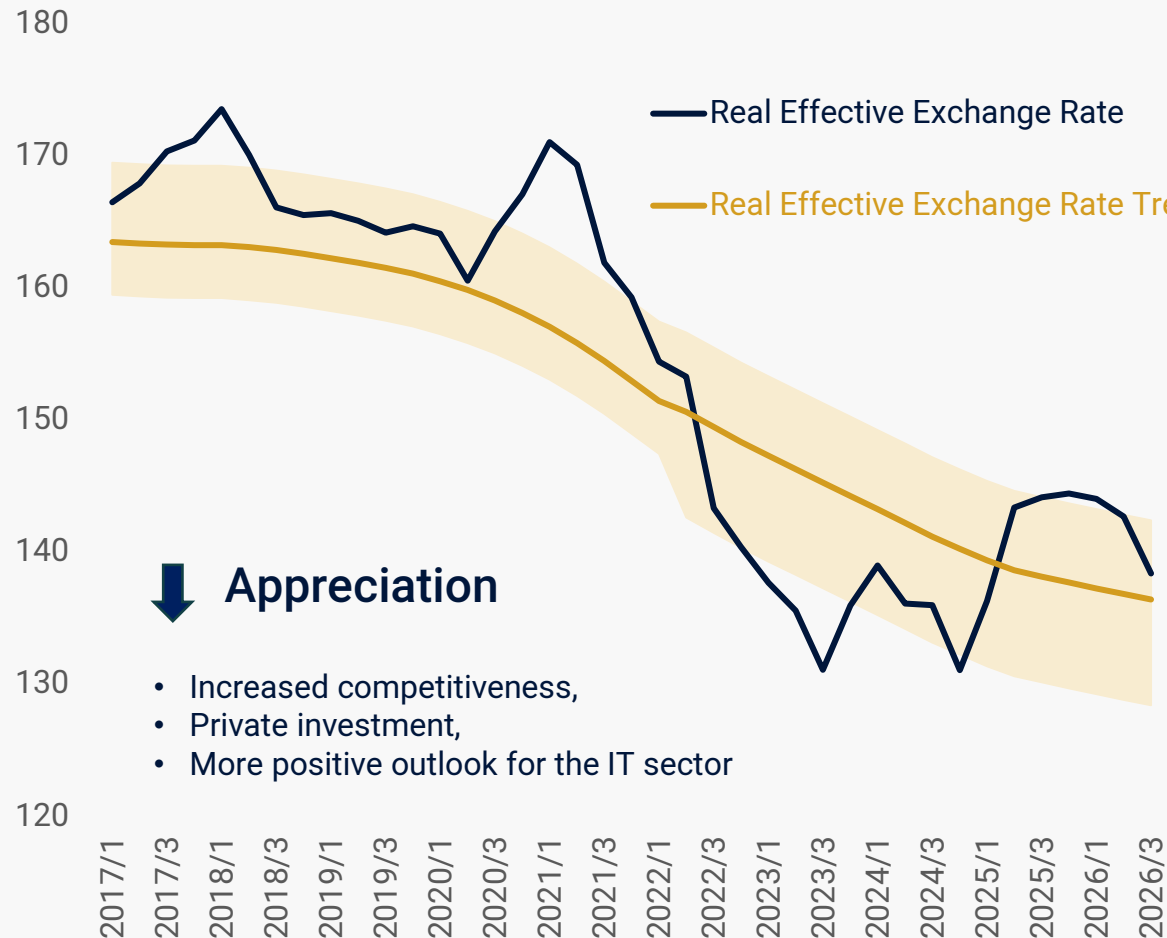
Output gap and inflation, financial market expectations scenario



Source: CBA staff calculations

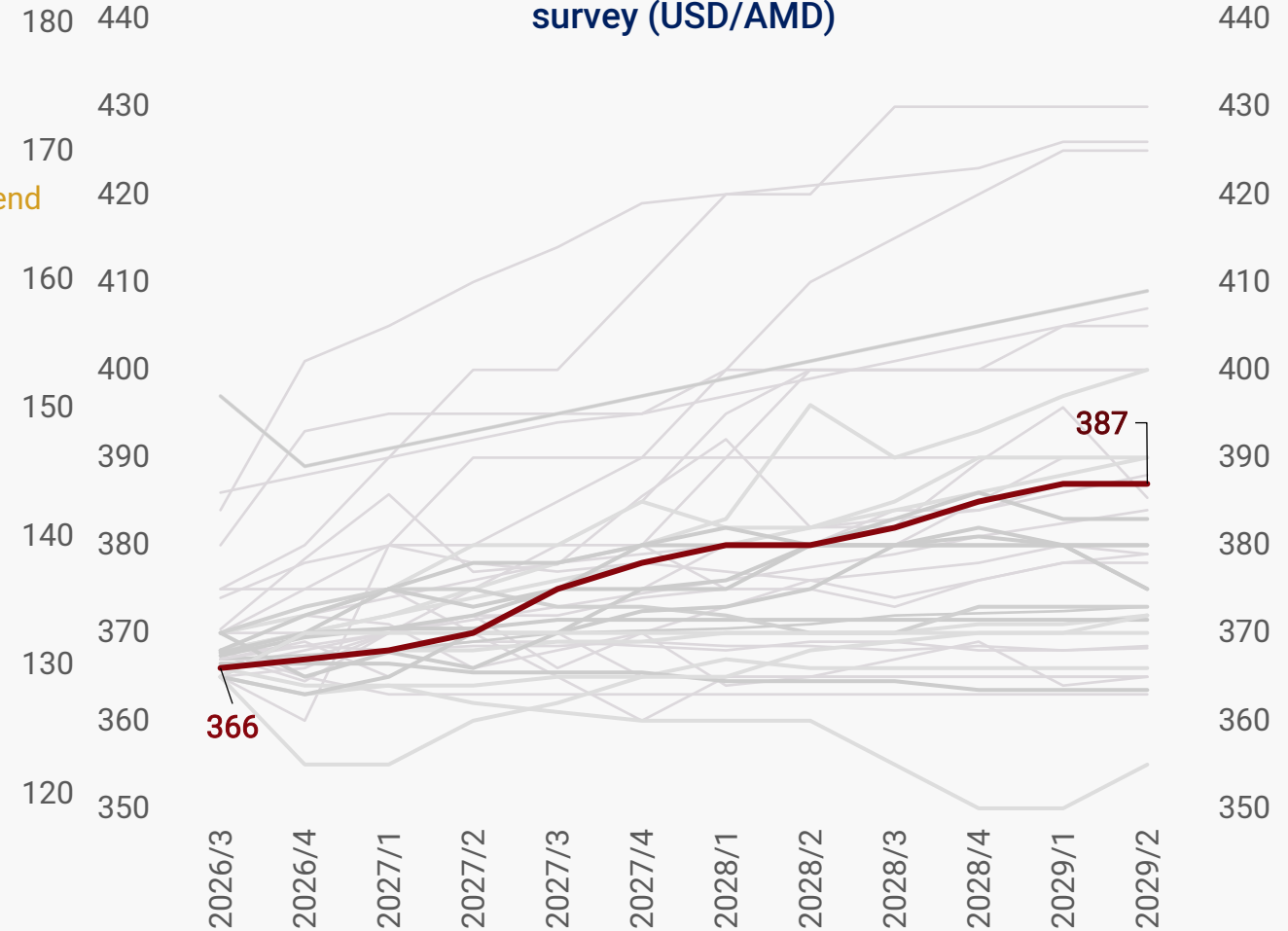
Uncertainty around the equilibrium real exchange rate persists: to what extent have productivity and competitiveness gains in tradable sectors shifted its underlying trend?

Real effective exchange rate



Source: CBA staff calculations

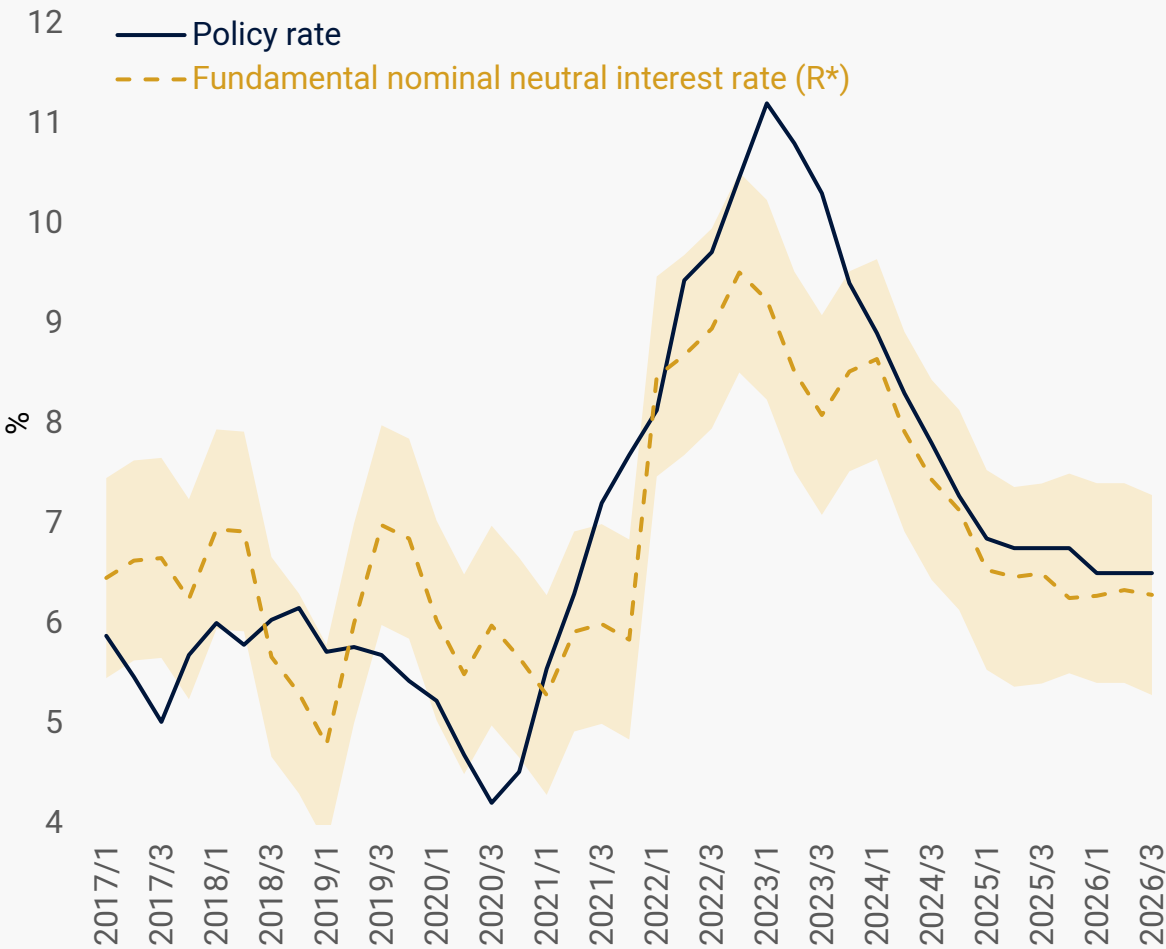
Nominal exchange rate expectations from the Q3 2026 CBA macro survey (USD/AMD)



Source: CBA macro surveys

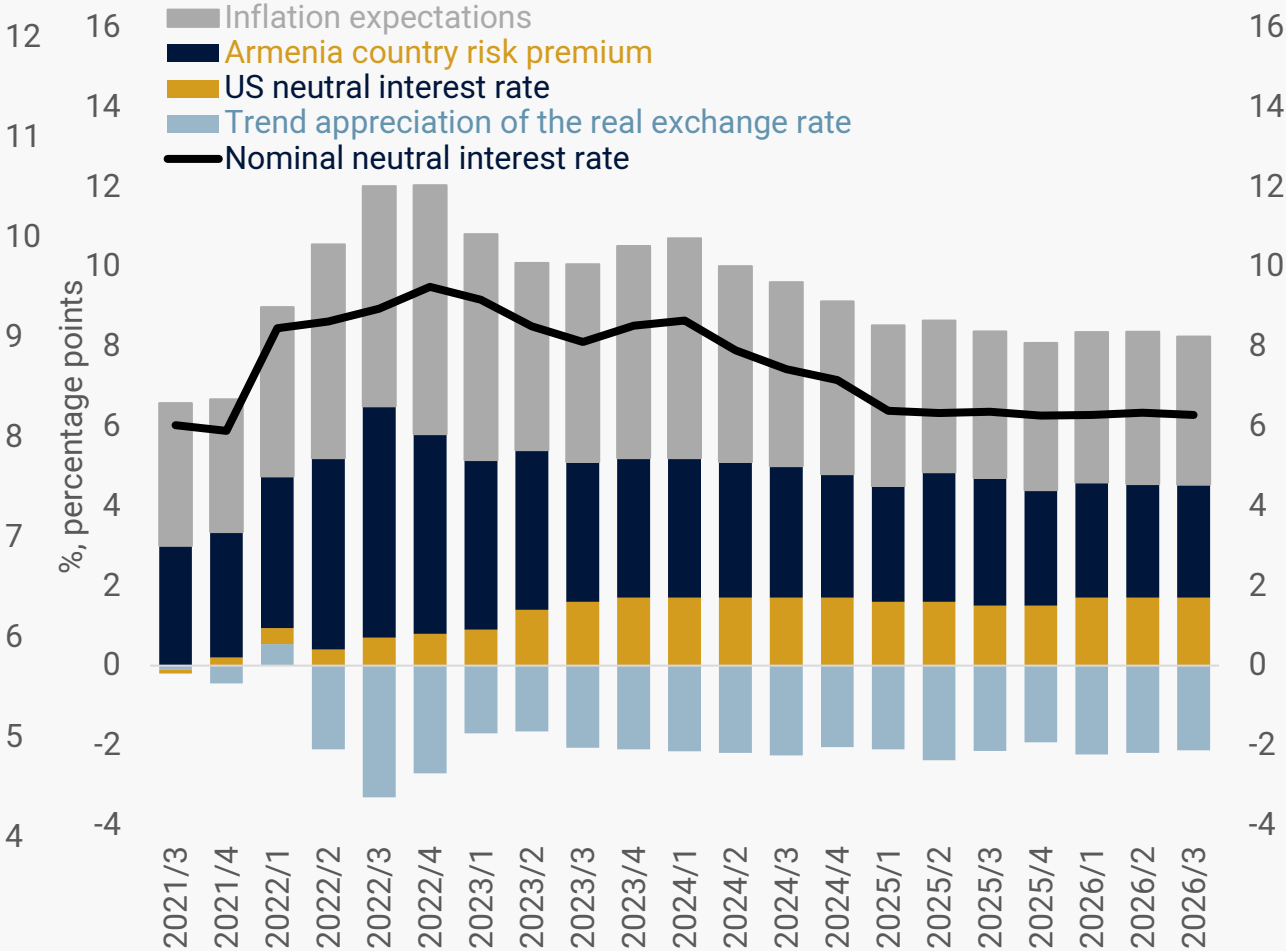
The decline in Armenia's risk premium, supported in part by improving domestic fundamentals, may imply a lower neutral interest rate

Policy Rate and Nominal Neutral Interest Rate



Source: CBA staff calculations

Nominal Neutral Interest Rate

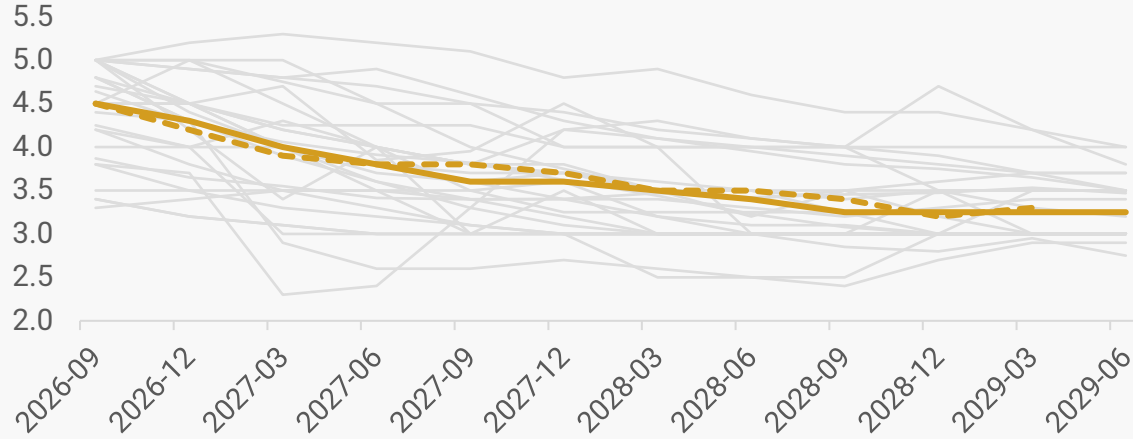




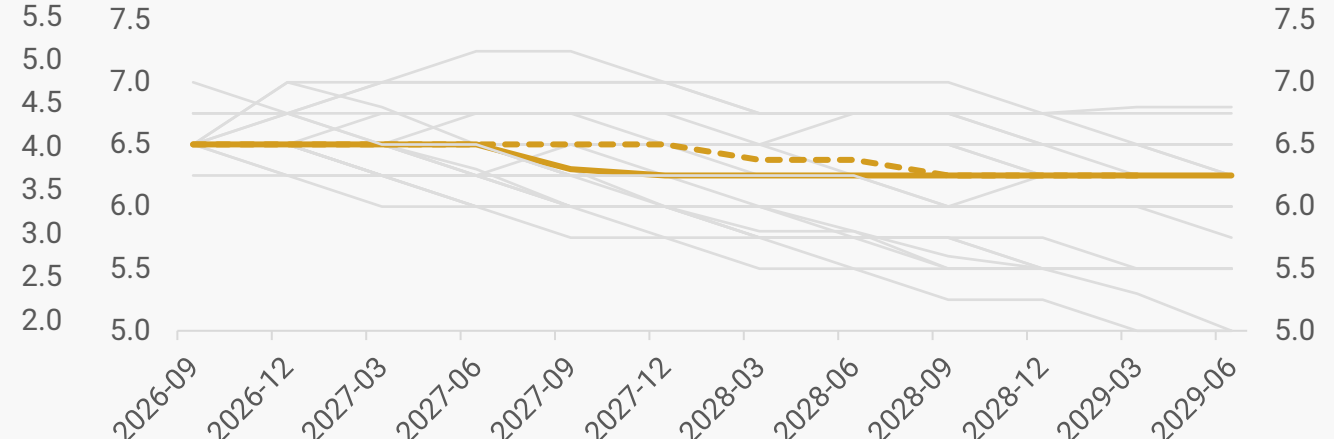
Market reference scenario and expectations

Macroeconomic surveys: Market participants' expected policy rate path has shifted slightly lower amid stabilizing growth and predominantly external inflationary pressures

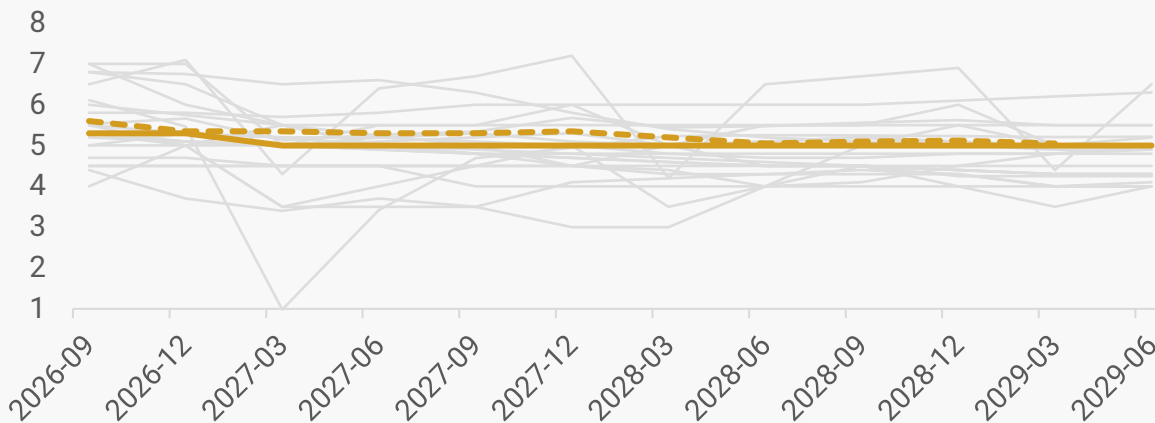
Inflation, Y-o-Y, %



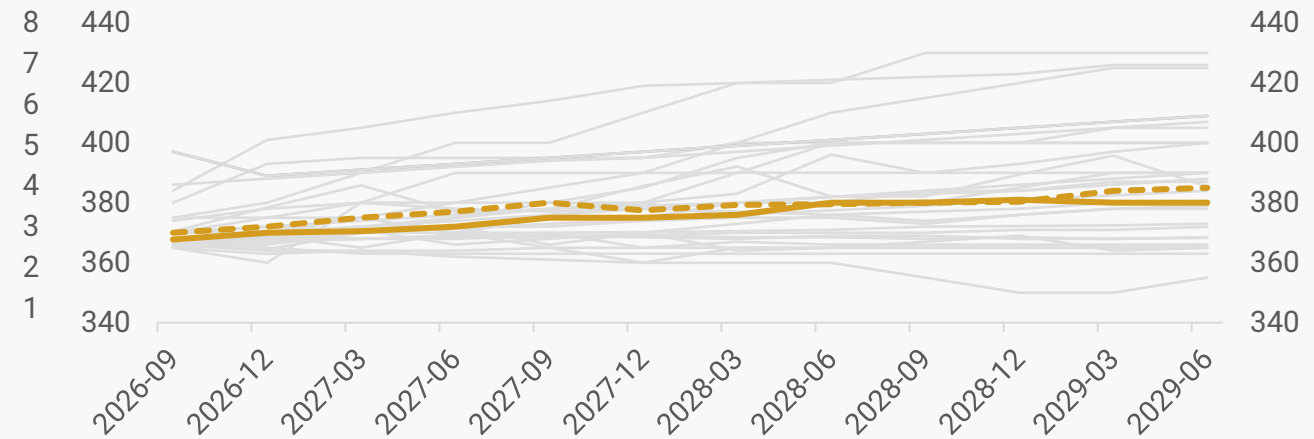
Policy interest rate, %



Economic growth, Y-o-Y, %



Nominal exchange rate (USD/AMD)

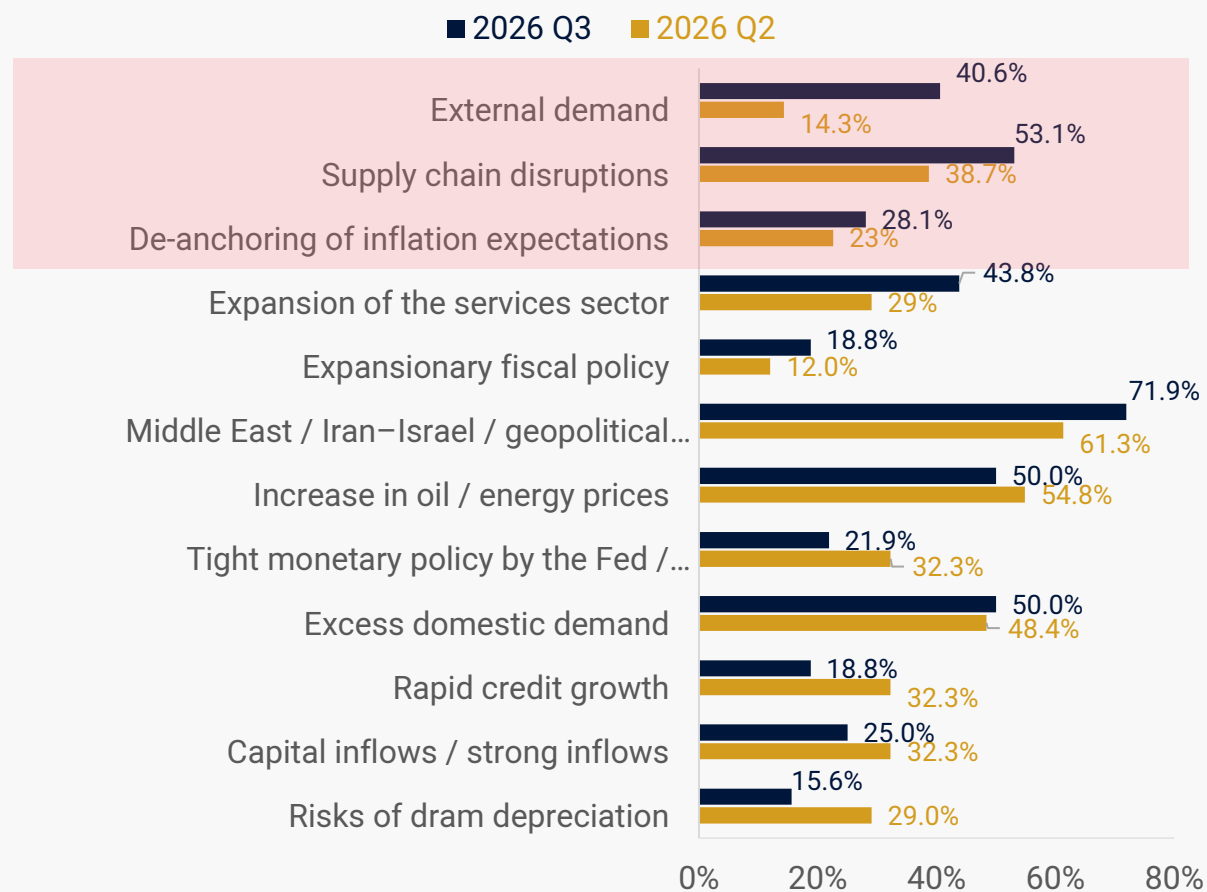


Note: Number of respondents: n=41.

Source: CBA Macroeconomic Survey

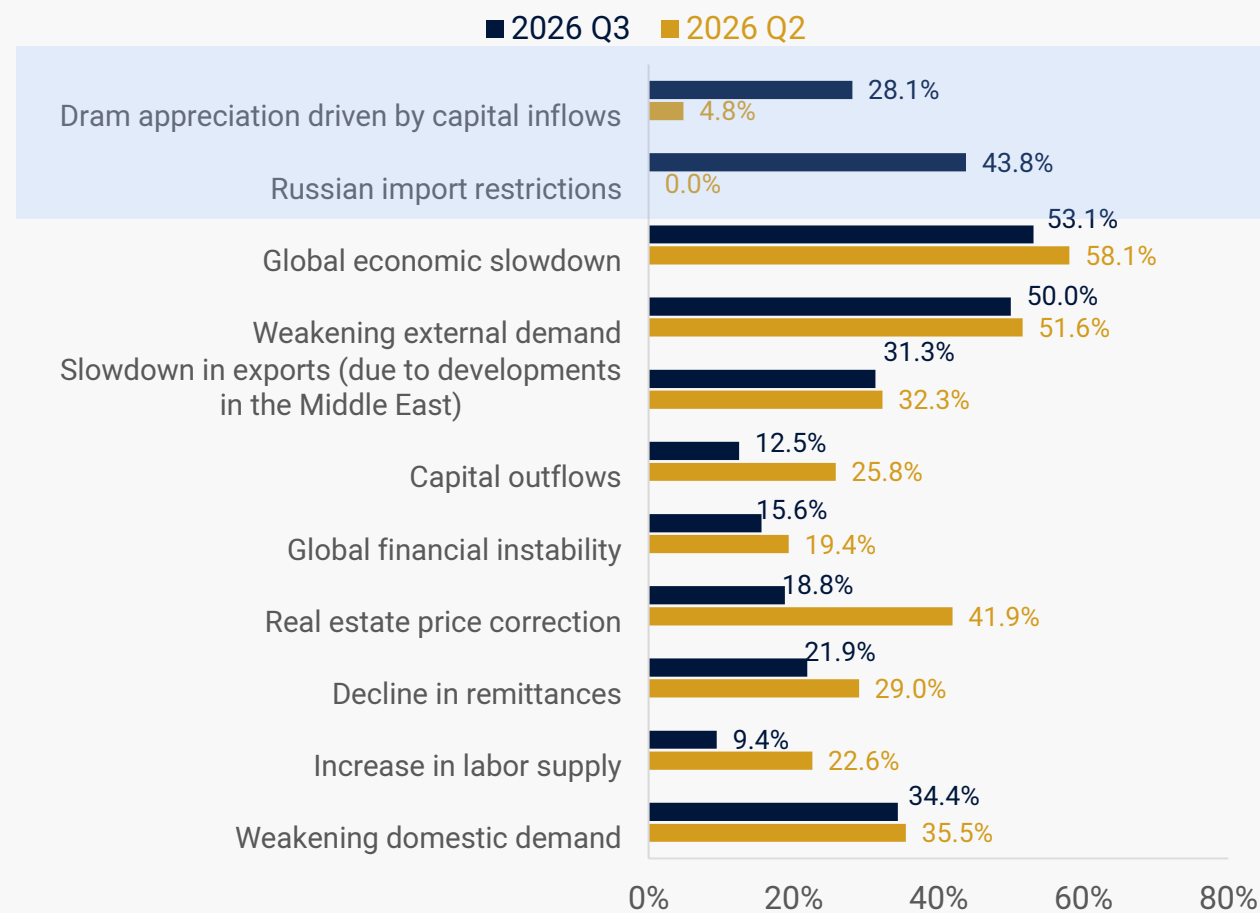
Inflationary risks from geopolitical tensions and stronger domestic demand persist, while disinflationary risks from Russia's export restrictions and resulting domestic excess supply have increased

Predominantly Case A-type risks identified by financial institutions



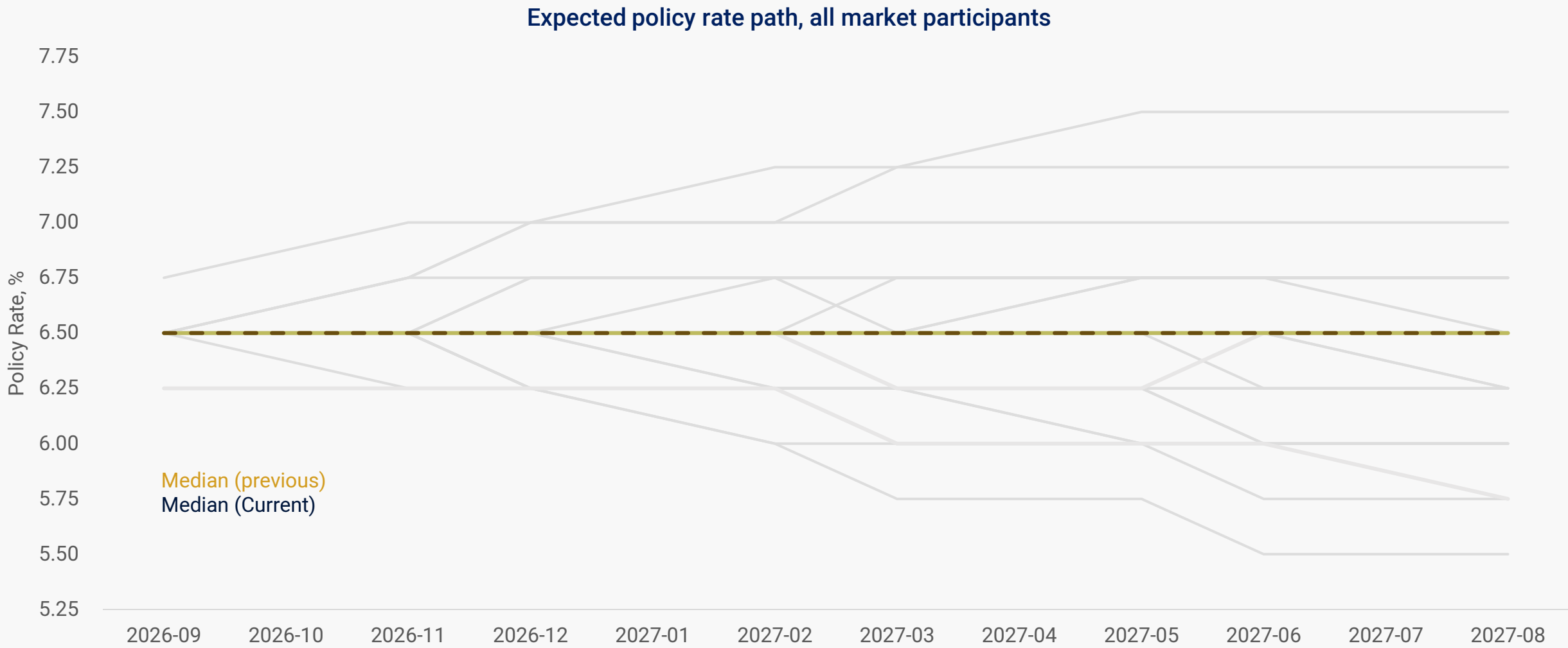
Source: CBA Macroeconomic Survey

Predominantly Case B-type risks identified by financial institutions



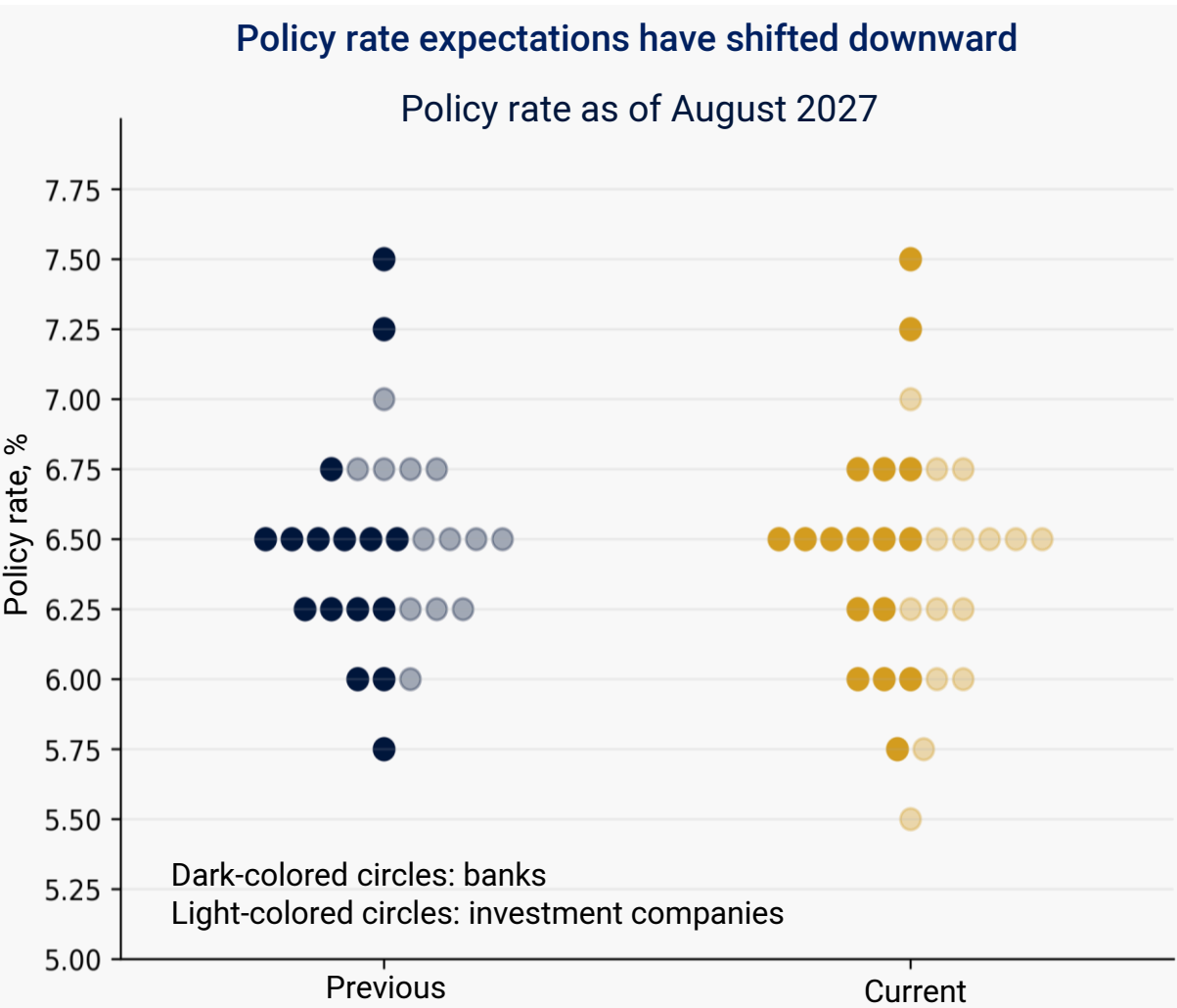
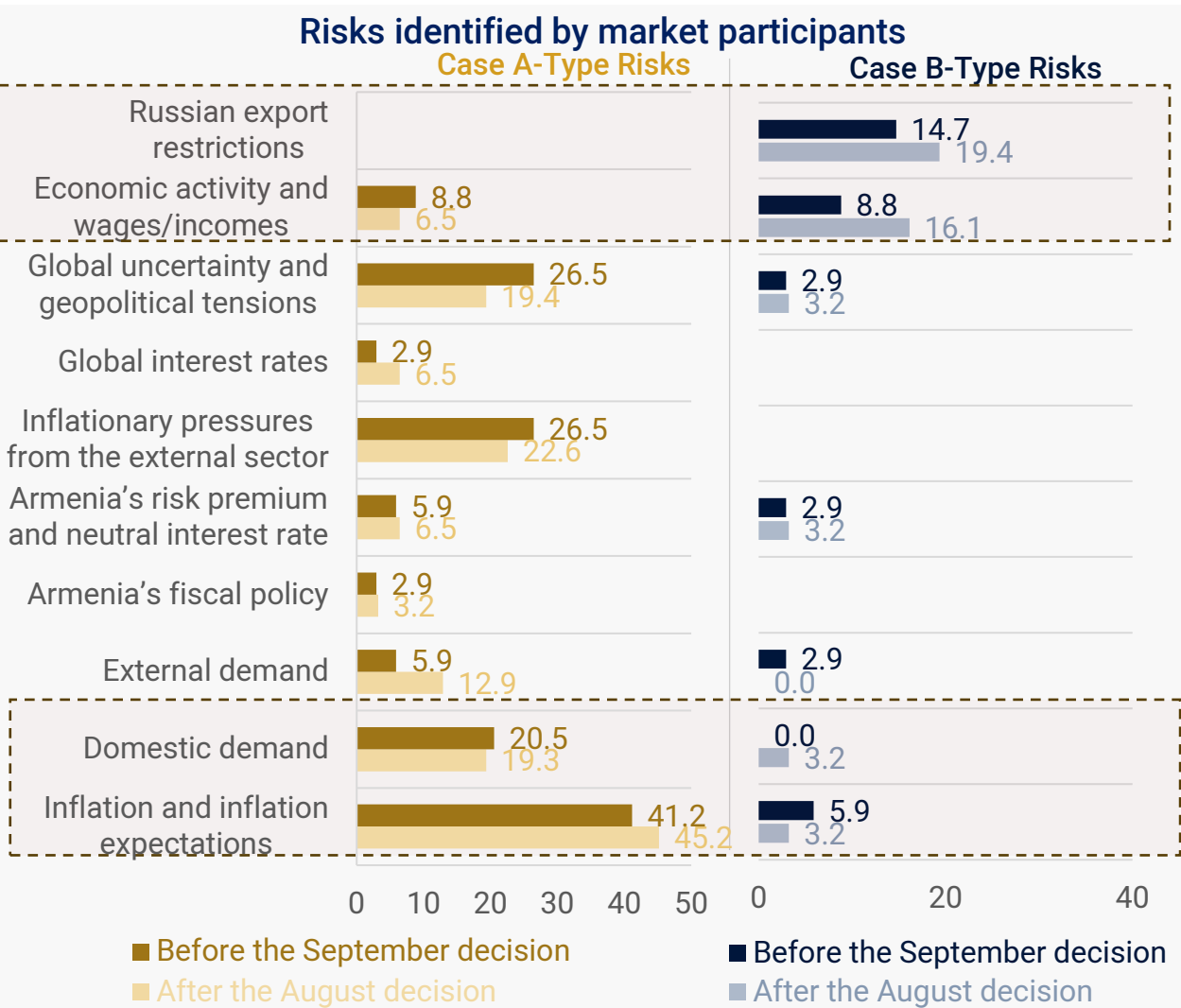
Source: CBA Macroeconomic Survey

According to the September 9 survey, market participants expect the policy rate to remain unchanged over the next year



Source: CBA July 29 short surveys; financial institutions: n=29, previous survey: n=31.

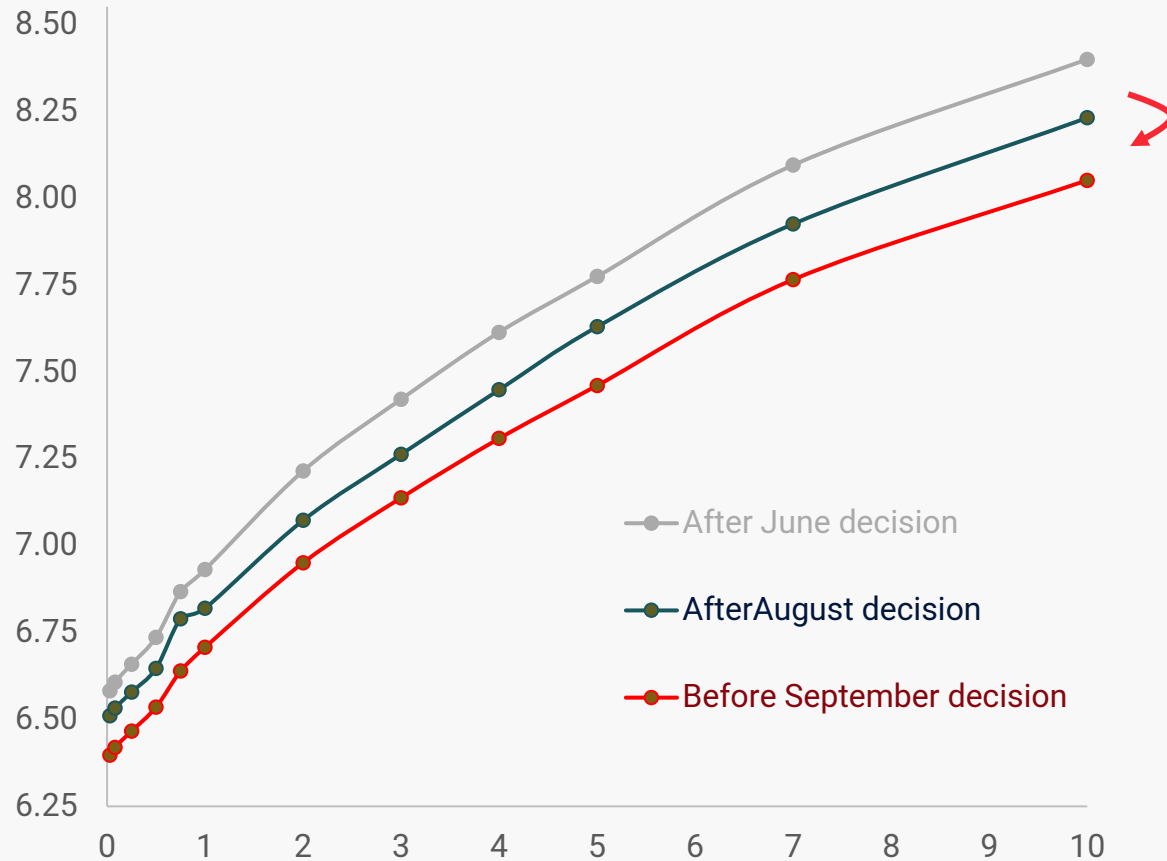
Market participants' risk map remains broadly unchanged, reflecting both external supply-side risks and strong domestic demand conditions



Source: CBA September 9 survey; current: n=29, previous: n=31.

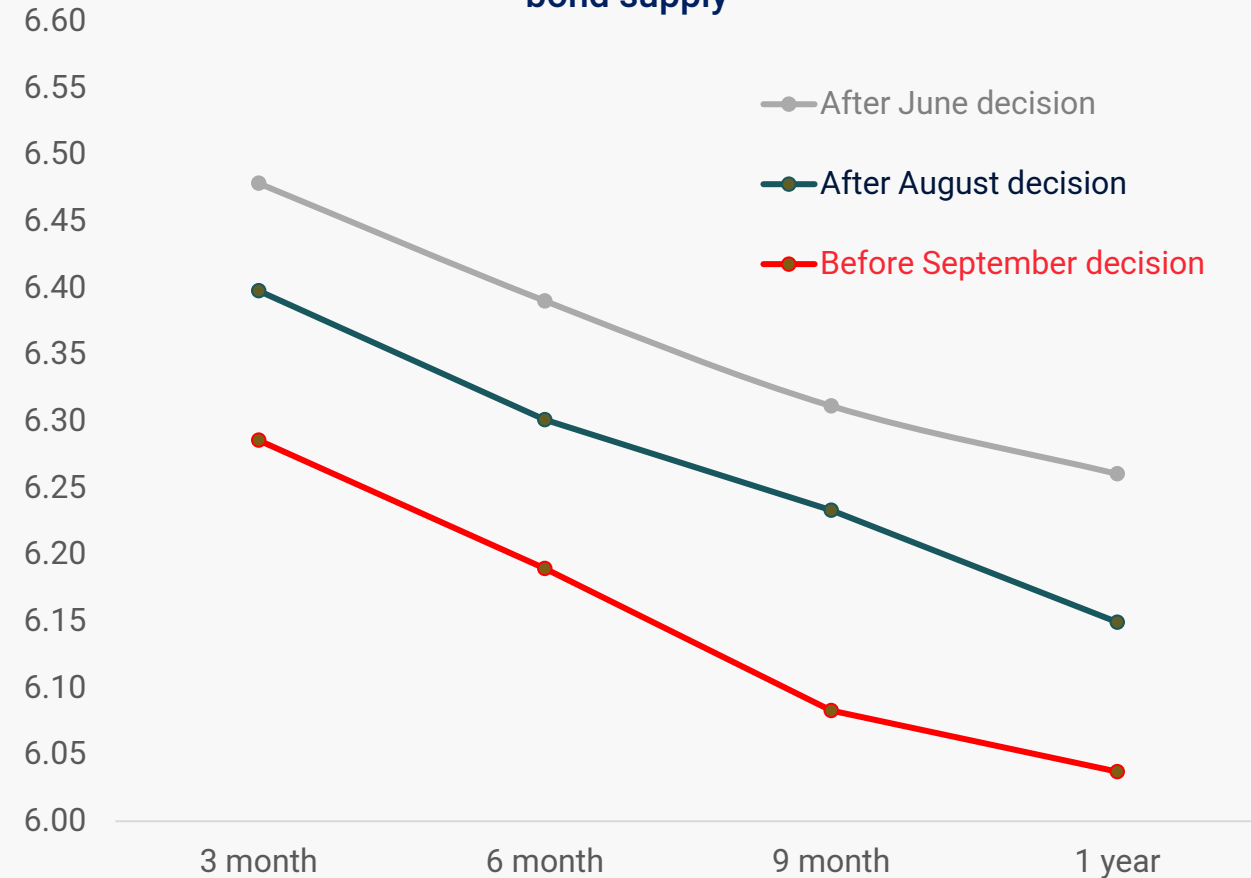
At the same time, the yield curve continues to provide mixed signals.

On the one hand, financial markets may be pricing in weaker growth and increased disinflationary risks from export restrictions



Source: CBA

On the other hand, signals from the short end of the yield curve differ from survey results, potentially reflecting a recent decline in government bond supply



Source: CBA



Taxonomy of **Scenarios**

Taxonomy of Scenarios.

Case A-Type Considerations

Expansionary Demand

Output + | Inflation +

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.

Taxonomy of Scenarios.

Case A-Type Considerations

Contractionary Supply

Output - | Inflation +

- 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.

Taxonomy of Scenarios.

Case B-Type Considerations

Contractionary Demand

Output - | Inflation -

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.

Taxonomy of Scenarios.

Case B-Type Considerations

Expansionary Supply

Output + | Inflation -

- 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.



Illustrative Case A Scenario

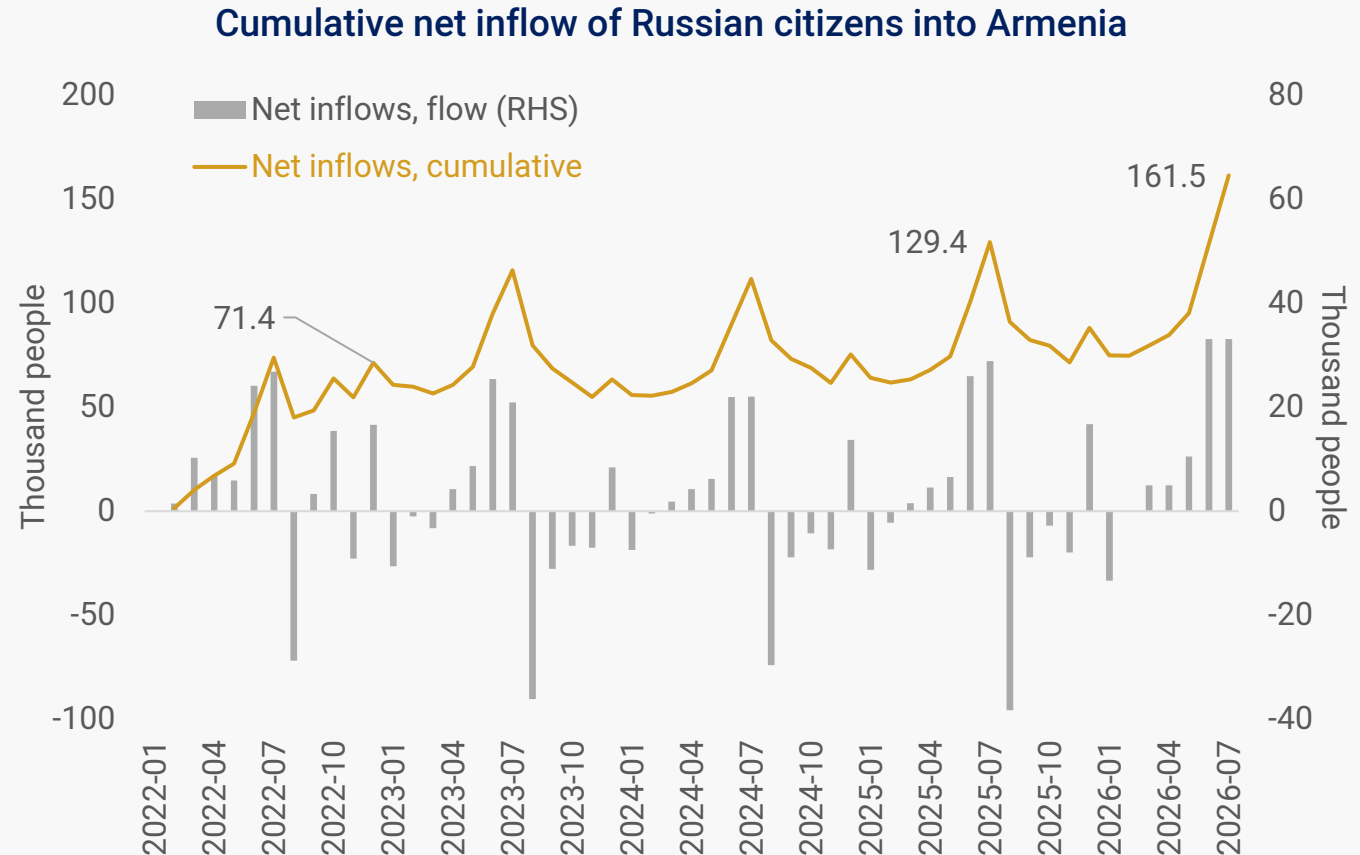
A significant increase in visits to Armenia amid heightened economic and security concerns in Russia could further strengthen domestic demand and inflationary pressures.

Illustrative Case A scenario. A higher path for the policy rate relative to current market expectations

A significant increase in visits to Armenia amid heightened economic and security concerns in Russia could further strengthen domestic demand and inflationary pressures

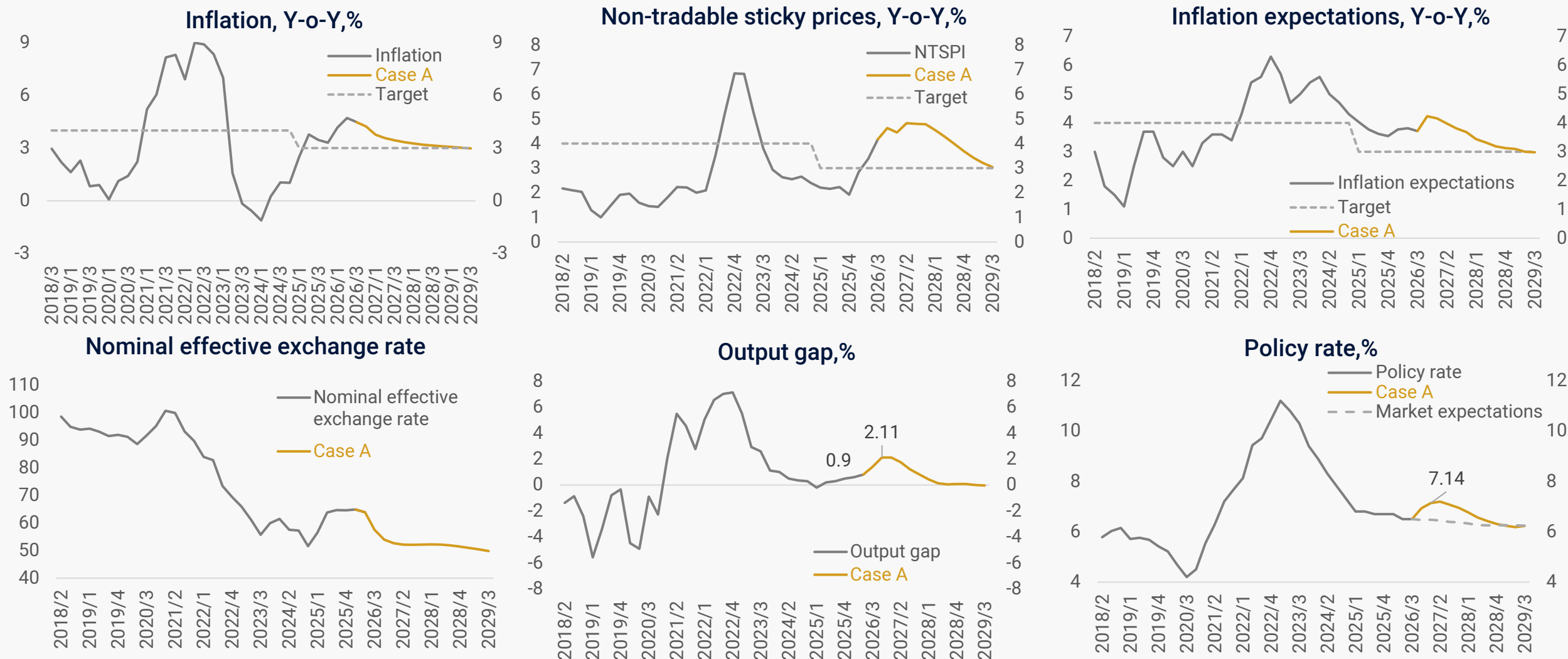
Brief Description of the Scenario

- During 2026, the Russia–Ukraine conflict has intensified, while prospects for a comprehensive resolution have weakened.
- Against this backdrop, visits by Russian citizens to countries in the region, including Armenia, have increased significantly in recent months, alongside strong signs of longer stays.
- These developments are already being reflected in strong activity in demand-sensitive service sectors, accompanied by a marked acceleration in prices for accommodation, restaurant, and transportation services.



Source: Statistical Committee of the Republic of Armenia; CBA calculations.

Case A-type scenario. A higher path of the policy rate compared to market expectations





Illustrative Case B Scenario

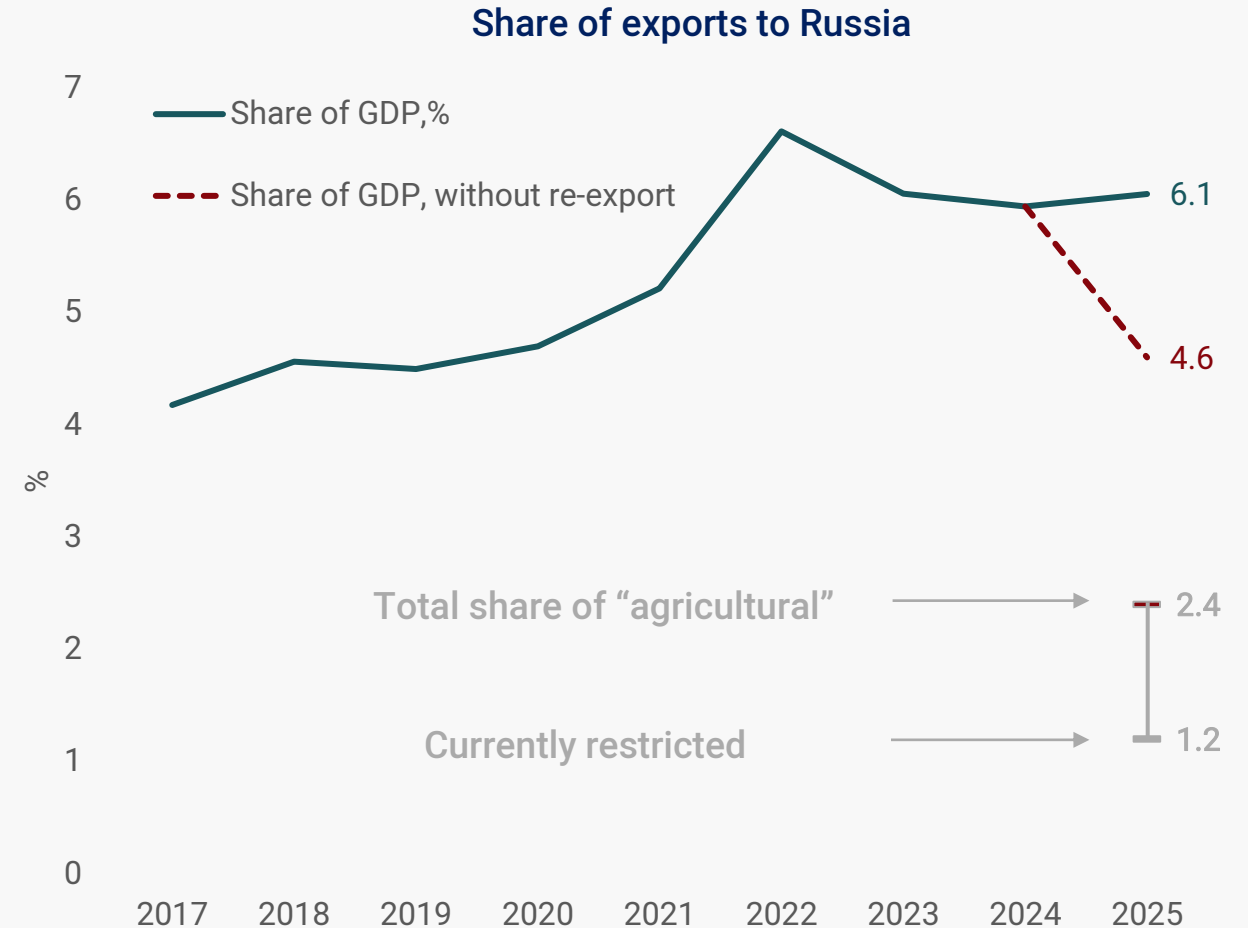
Lower incomes and heightened uncertainty stemming from restrictions on exports to Russia weigh on investment and consumer activity.

Illustrative Case B scenario. A lower path of the policy interest rate compared to market expectations.

Lower incomes and heightened uncertainty stemming from restrictions on exports to Russia weigh on investment and consumer activity.

Brief Description of the Scenario

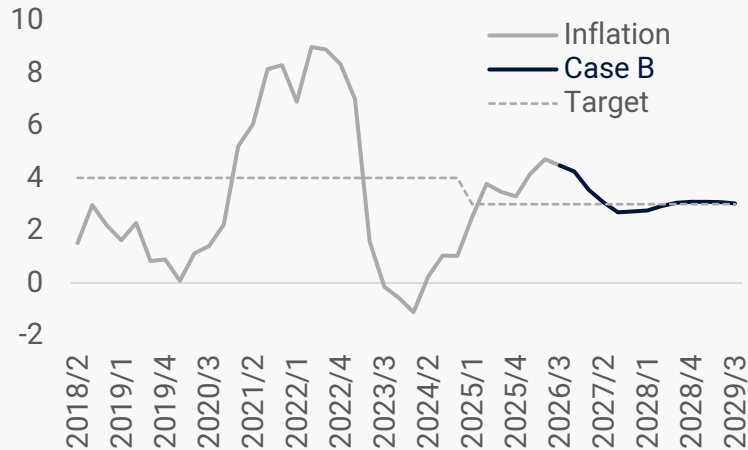
- Since May 2026, Russia has imposed restrictions on imports of a number of agricultural products from Armenia, as well as certain industrial goods, while uncertainty over the future scope and duration of these restrictions remains high.
- In the short term, limited opportunities to redirect exports to alternative markets, combined with the small size of the domestic market—particularly for some products—have resulted in a significant decline in incomes in agriculture and related sectors.
- Given the agricultural sector's large share of employment and its rising debt burden in recent years, lower incomes and persistent uncertainty over the restrictions could disproportionately weigh on consumer and investment confidence, with potential spillovers to the broader economy.



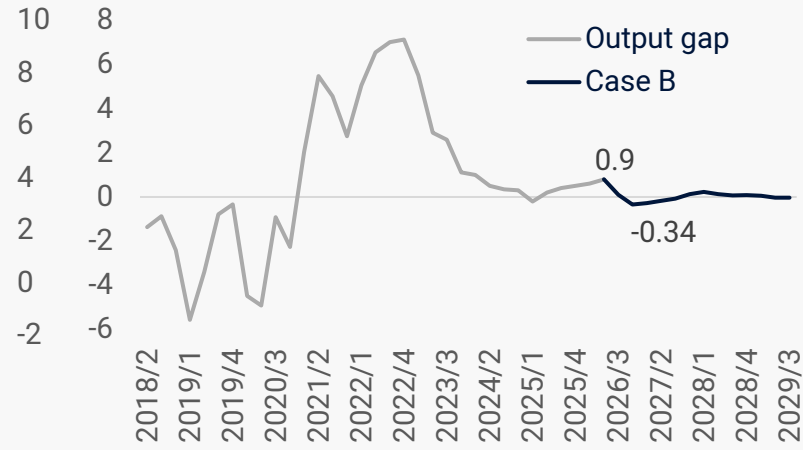
Source: Statistical Committee of the Republic of Armenia; CBA staff calculations.

Case B-type scenario. A lower path of the policy rate compared to market expectations

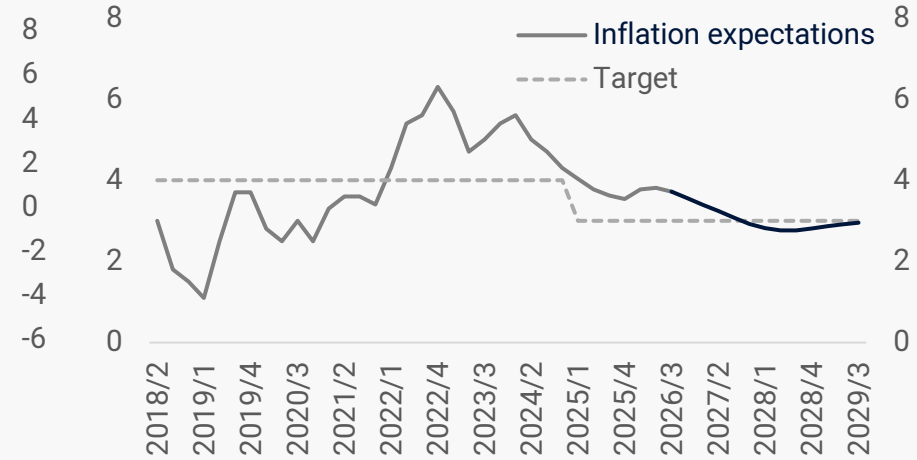
Inflation, Y-o-Y, %



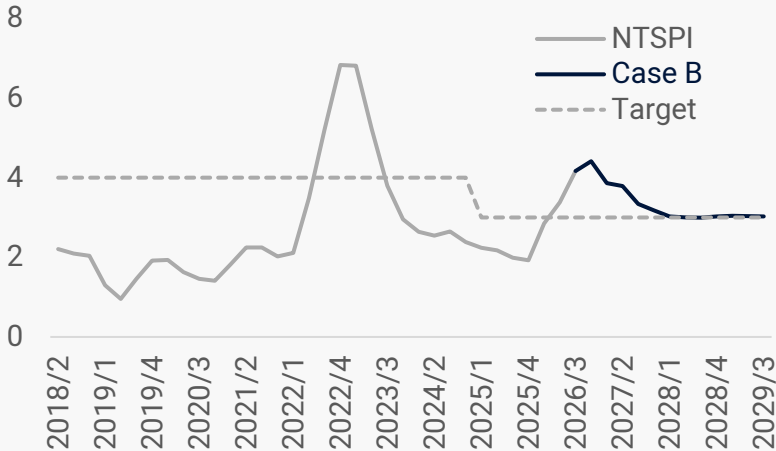
Output gap, %



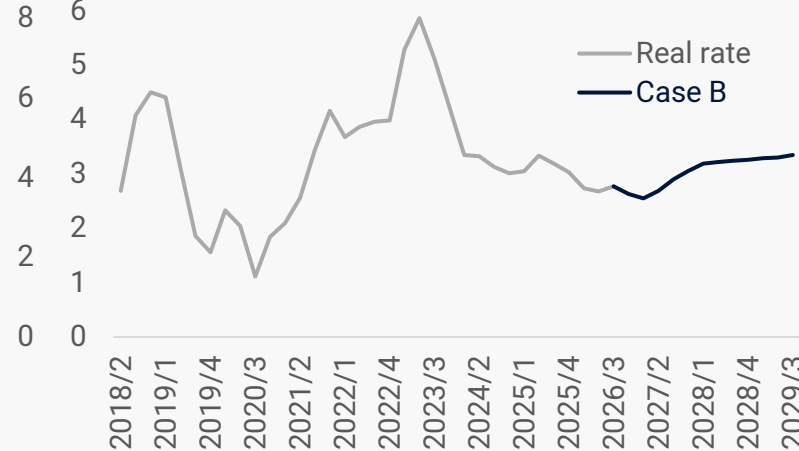
Inflation expectations, Y-o-Y, %



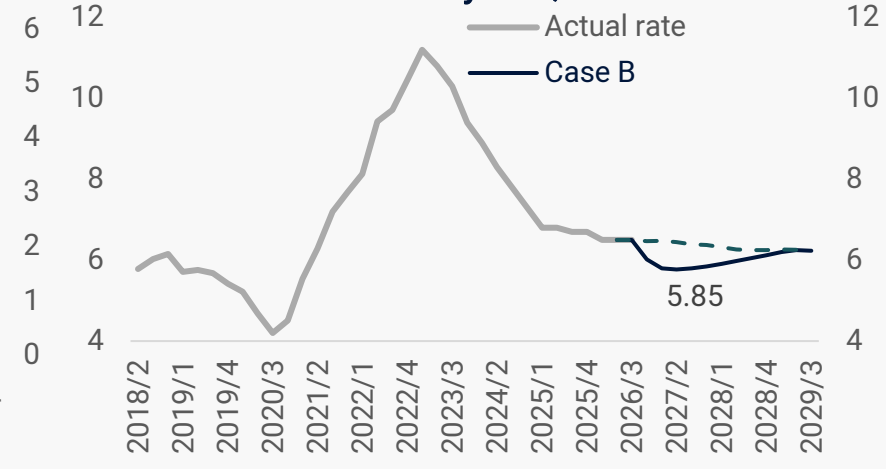
Non-tradable sticky prices, Y-o-Y, %



Real rate, %



Policy rate, %

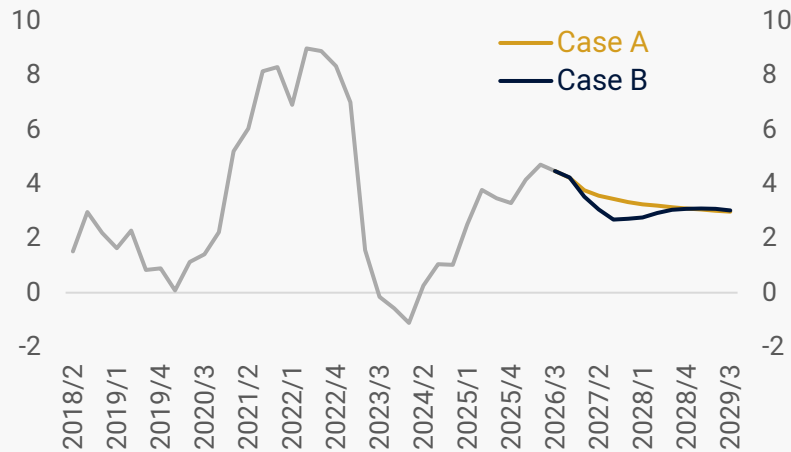




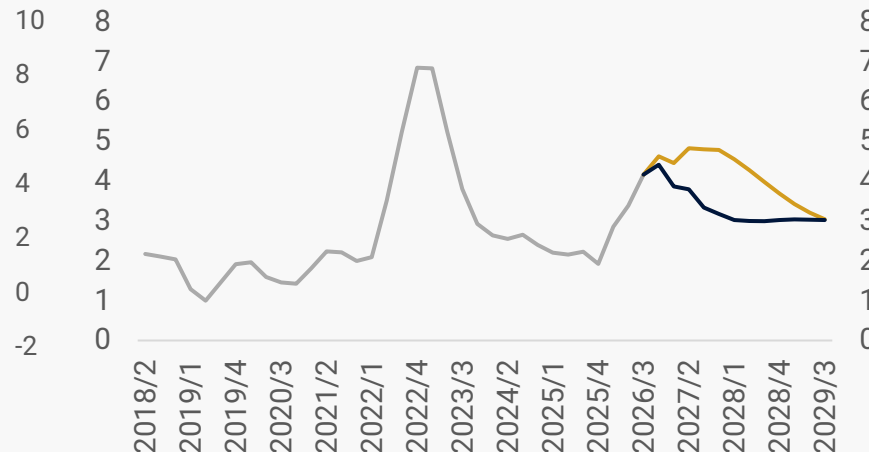
Policy discussion

Illustrative Case A and Case B Scenarios

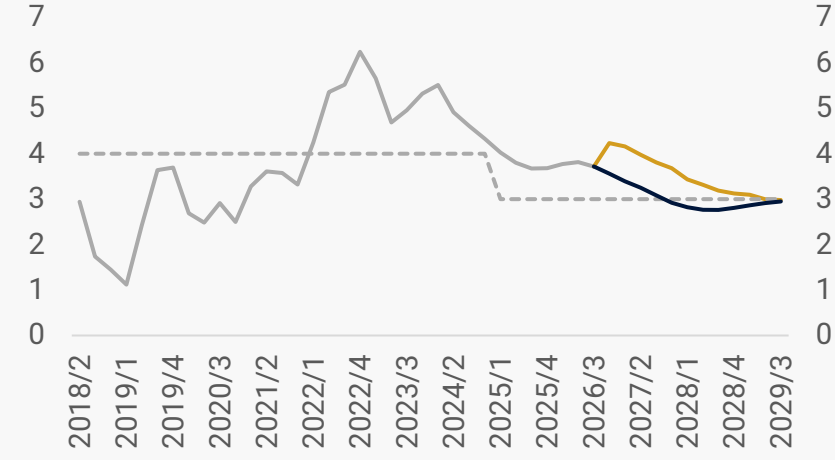
Inflation, Y-o-Y, %



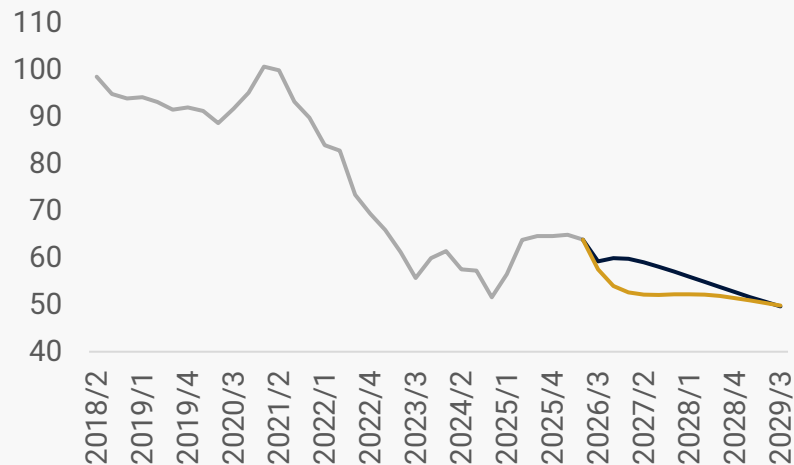
Non-tradable sticky prices, Y-o-Y, %



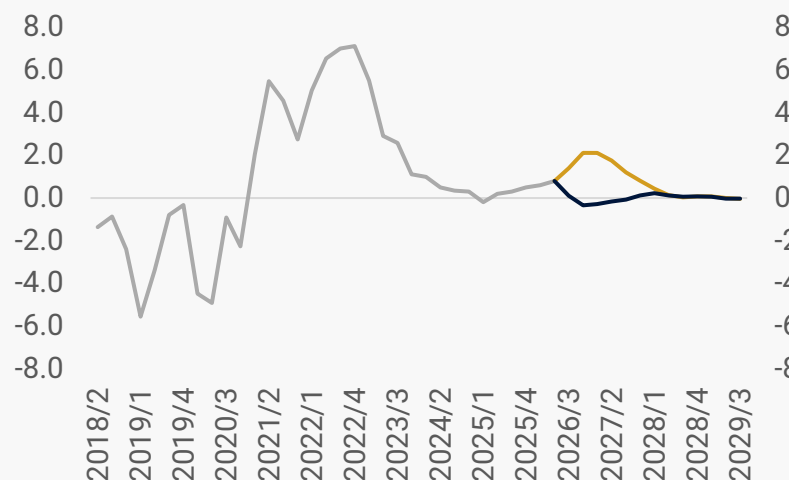
Inflation expectations, Y-o-Y, %



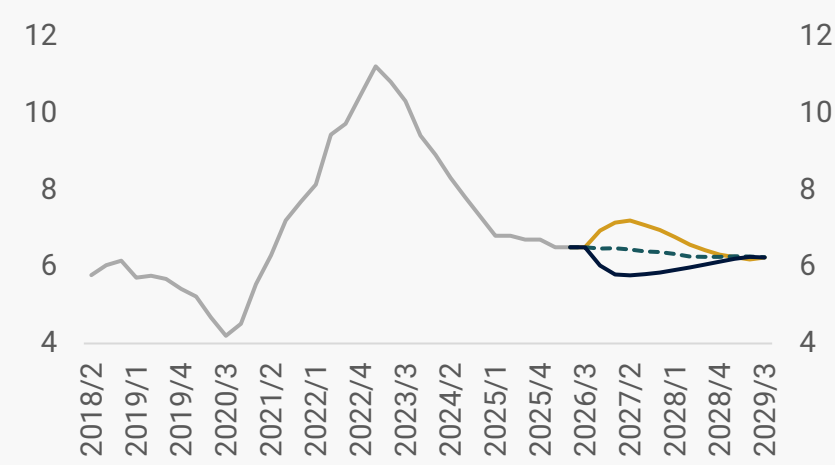
Nominal effective exchange rate



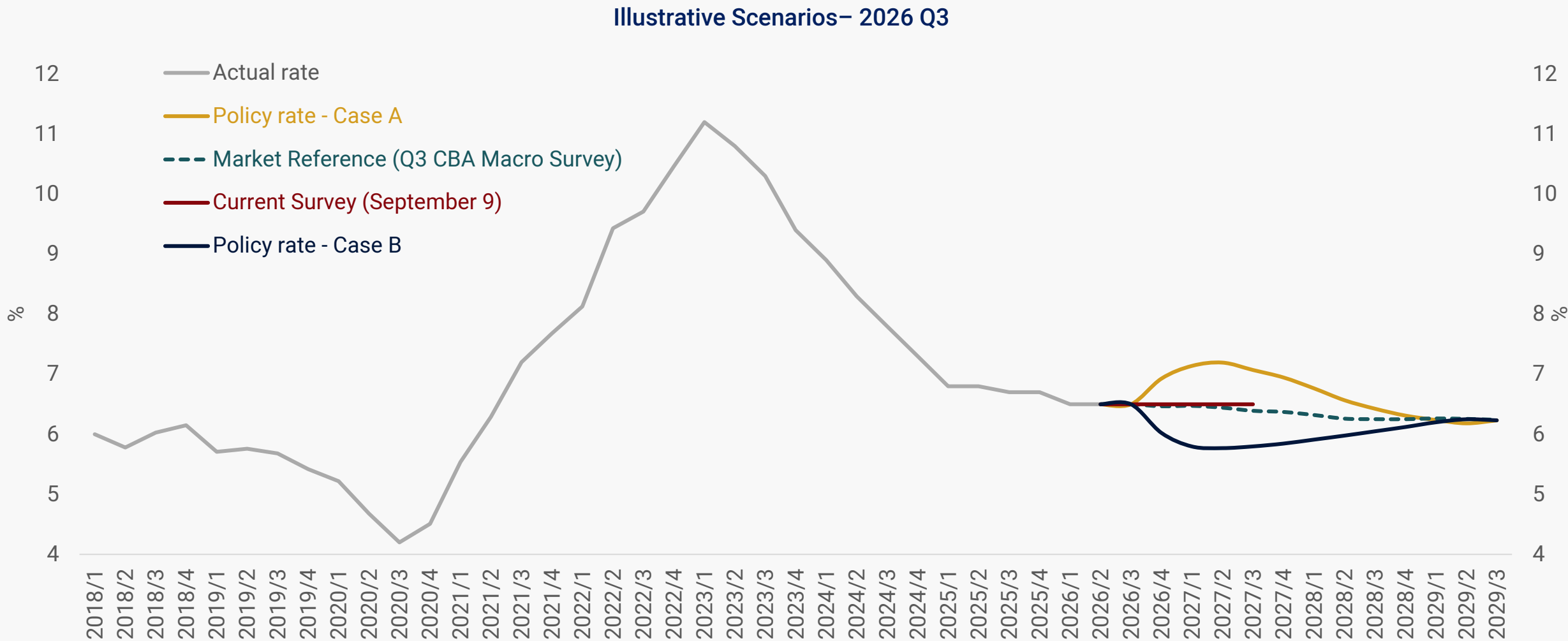
Output gap, %



Policy rate, %



Policy Discussion



Source: CBA



Thank you