



CENTRAL BANK
OF ARMENIA

Monetary Policy Outlook

August 4, 2026

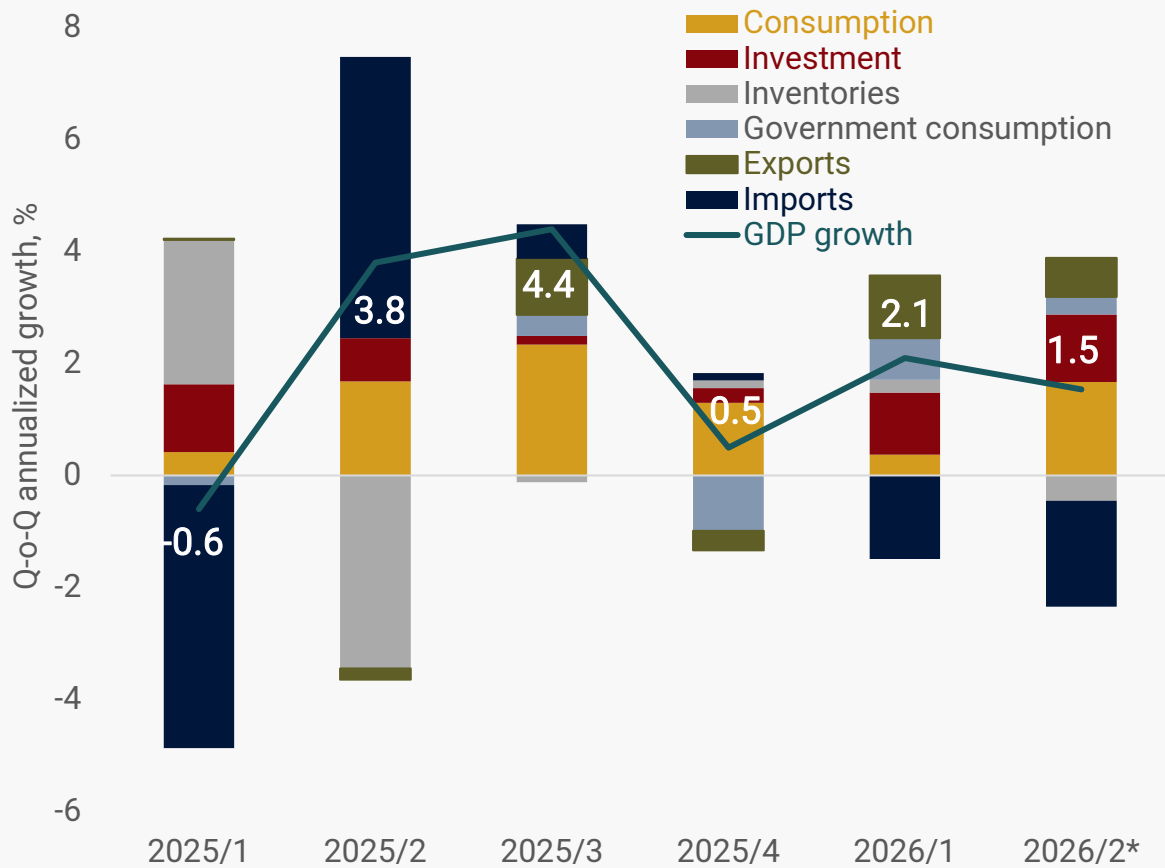


What are the underlying forces driving the economy?

Global economic developments
in the context of key uncertainties

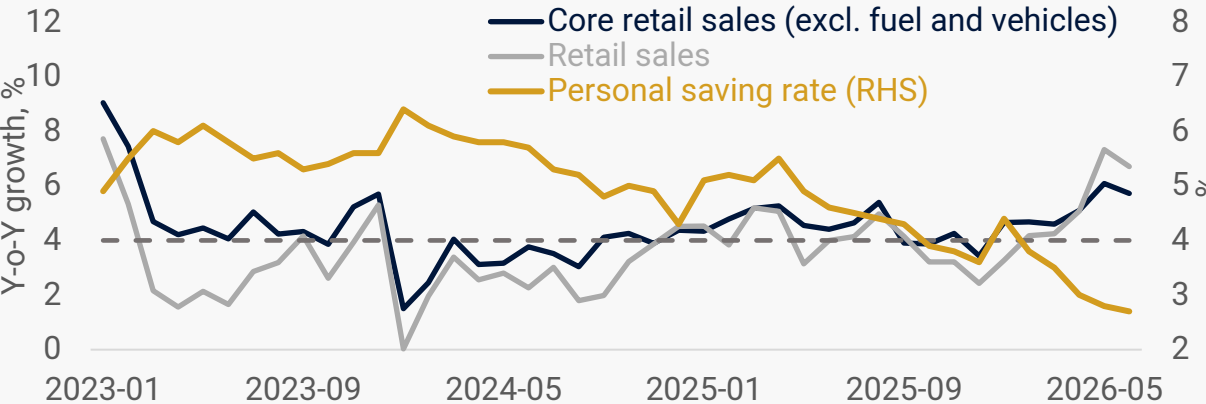
US: Despite some slowdown in economic growth, strong growth in private consumption and investment has been maintained in the US

Despite elevated uncertainty and the significant increase in fuel prices, private consumption growth accelerated markedly, becoming the main driver of the economy

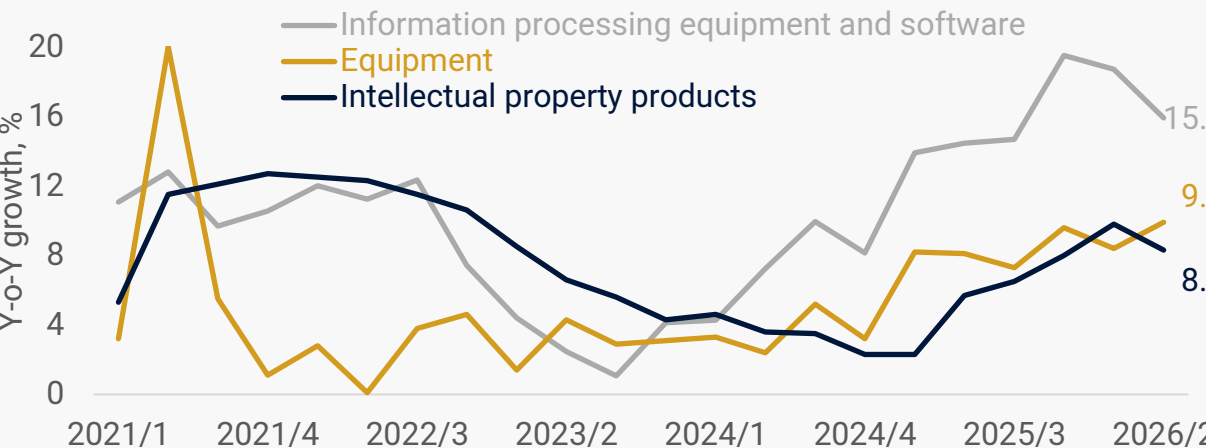


Source: US Bureau of Economic Analysis, Federal Reserve Bank of Atlanta

This was accompanied by a significant decline in the personal saving rate

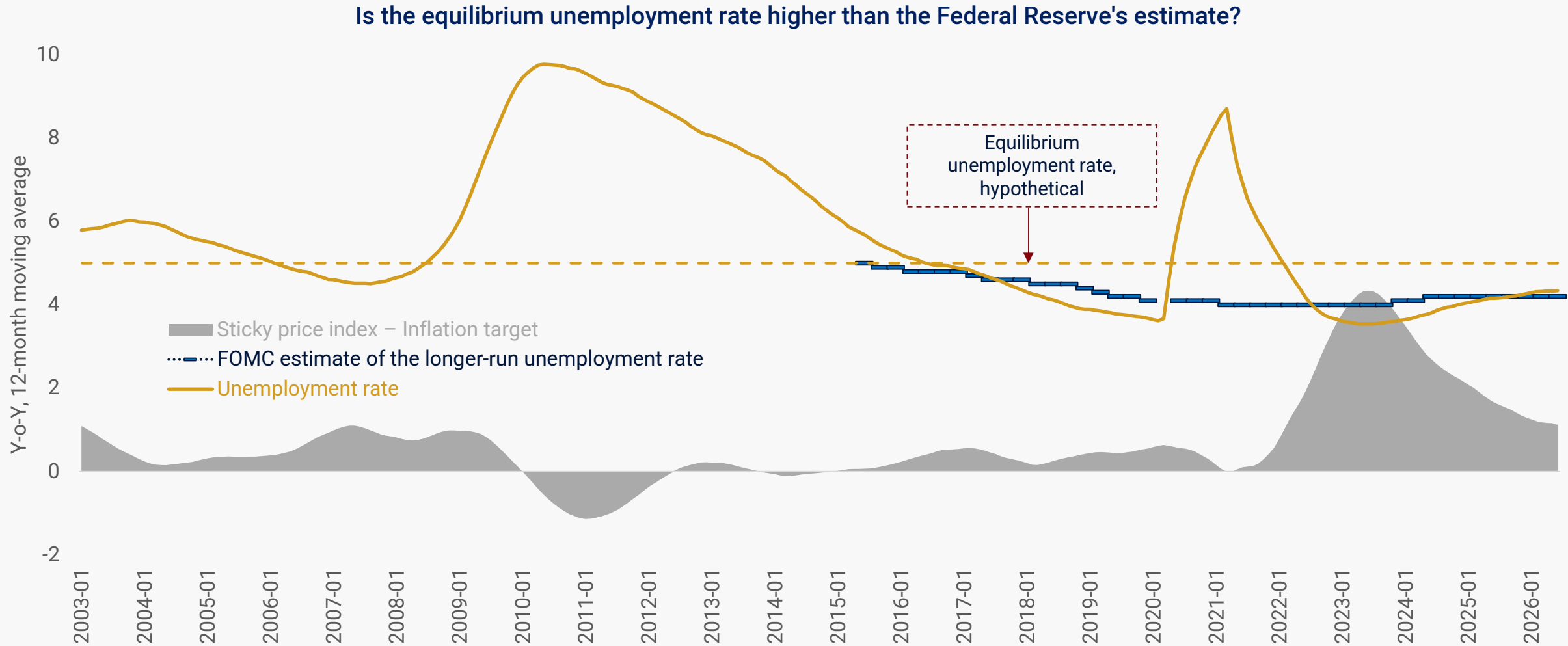


Investment in artificial intelligence continues to expand



Source: US Bureau of Economic Analysis; US Census Bureau

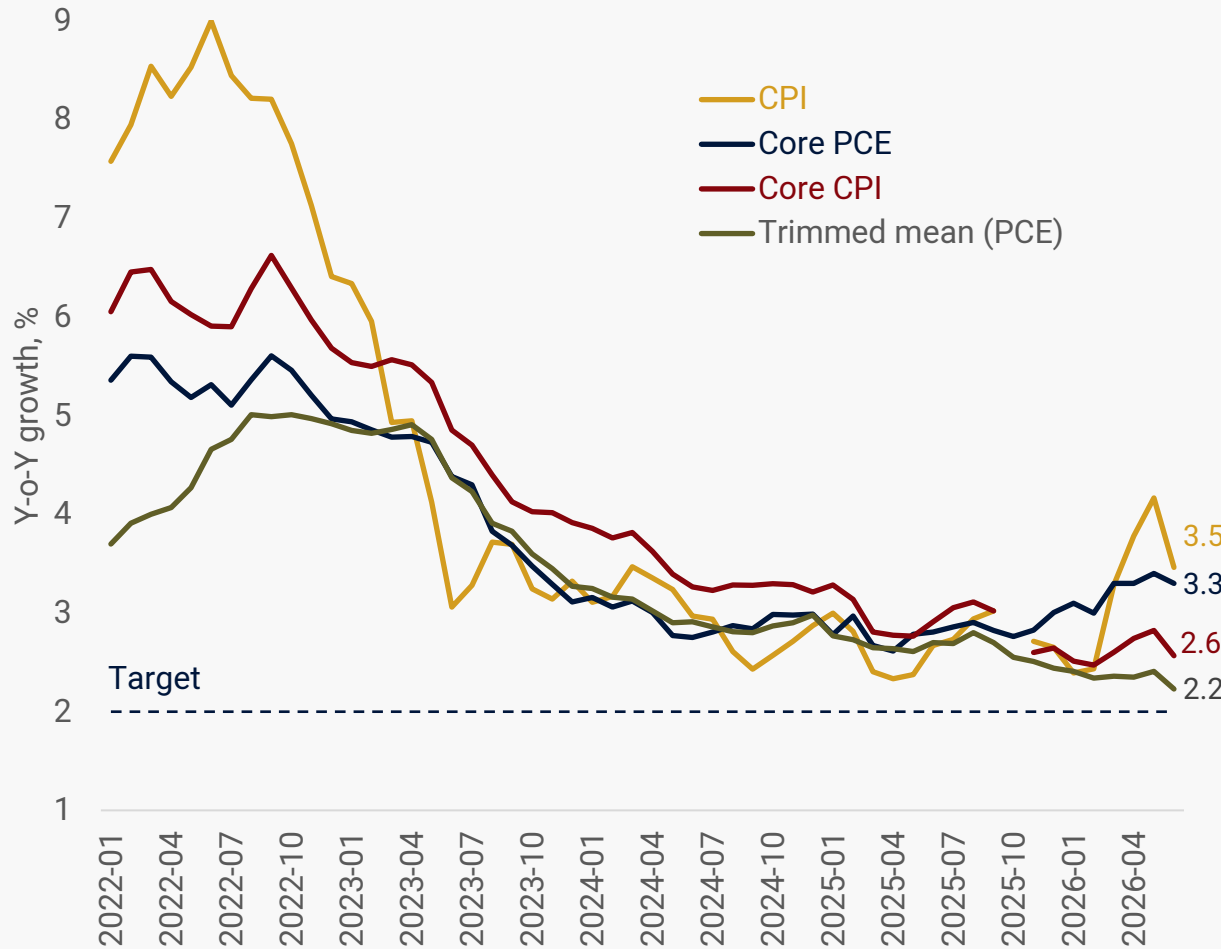
US: Despite some weakening signals, labor market developments also likely point to the continued presence of strong demand



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

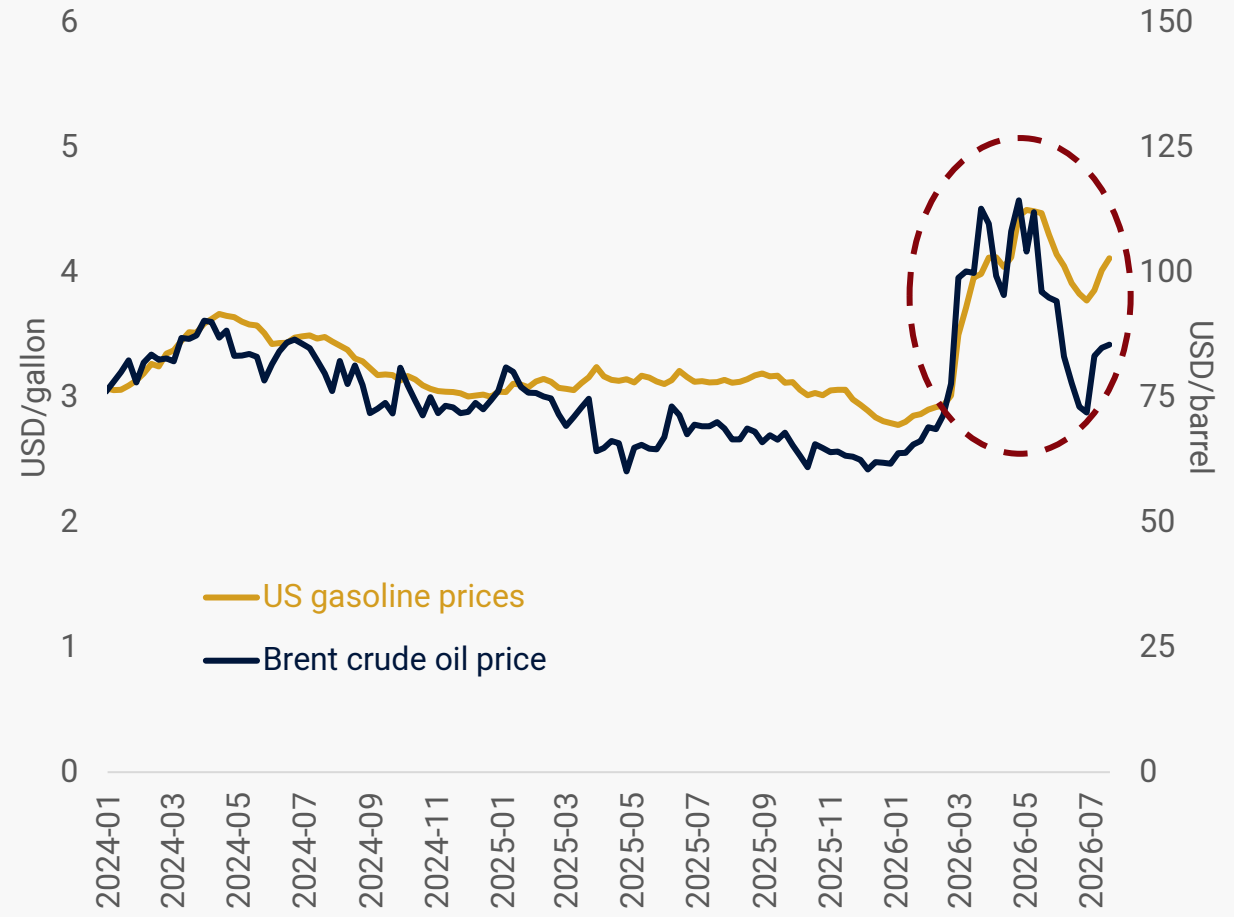
US: Under conditions of high uncertainty surrounding the prospects of the Middle East conflict, the significant increase in fuel prices is additionally contributing to the expansion of the inflationary environment

Underlying inflation remains significantly above the target



Source: US Bureau of Labor Statistics; Federal Reserve Bank of Atlanta

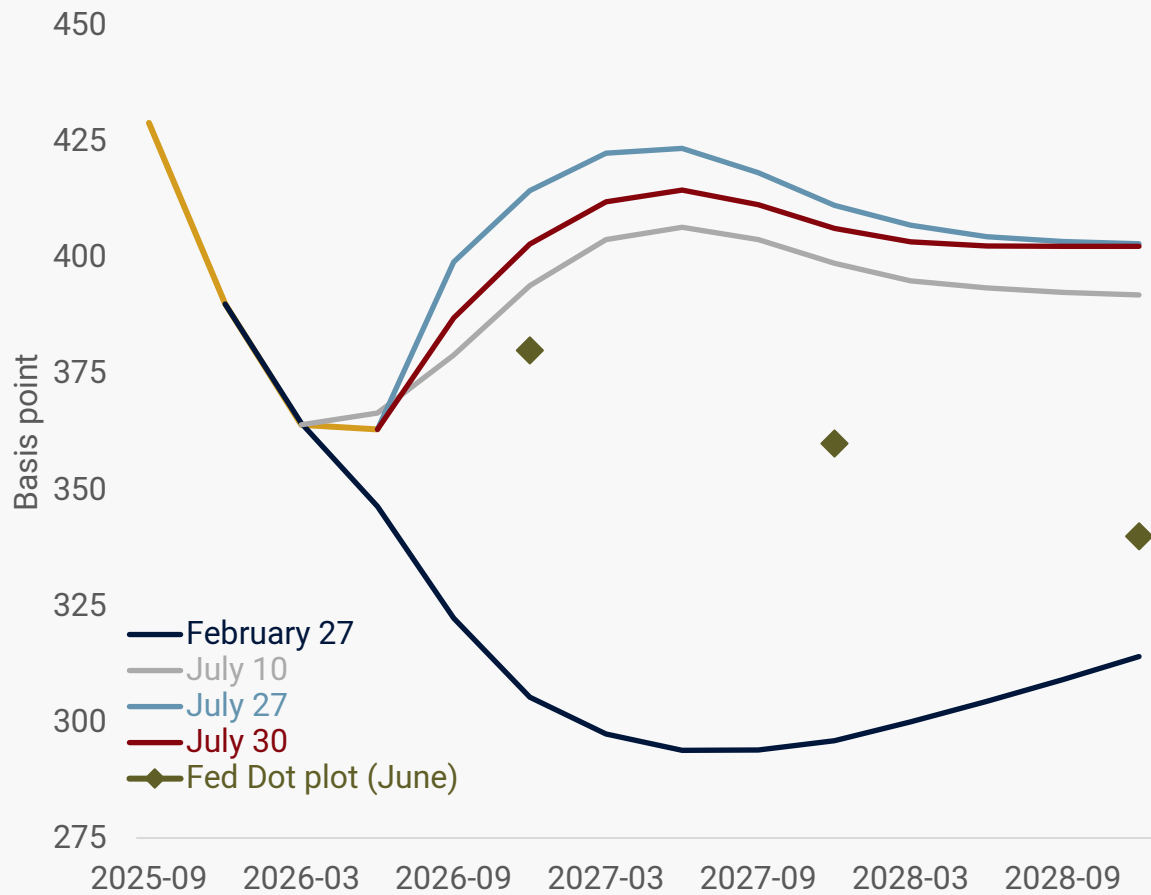
US fuel prices remain elevated relative to their levels at the start of the conflict



Source: US Energy Information Administration (EIA)

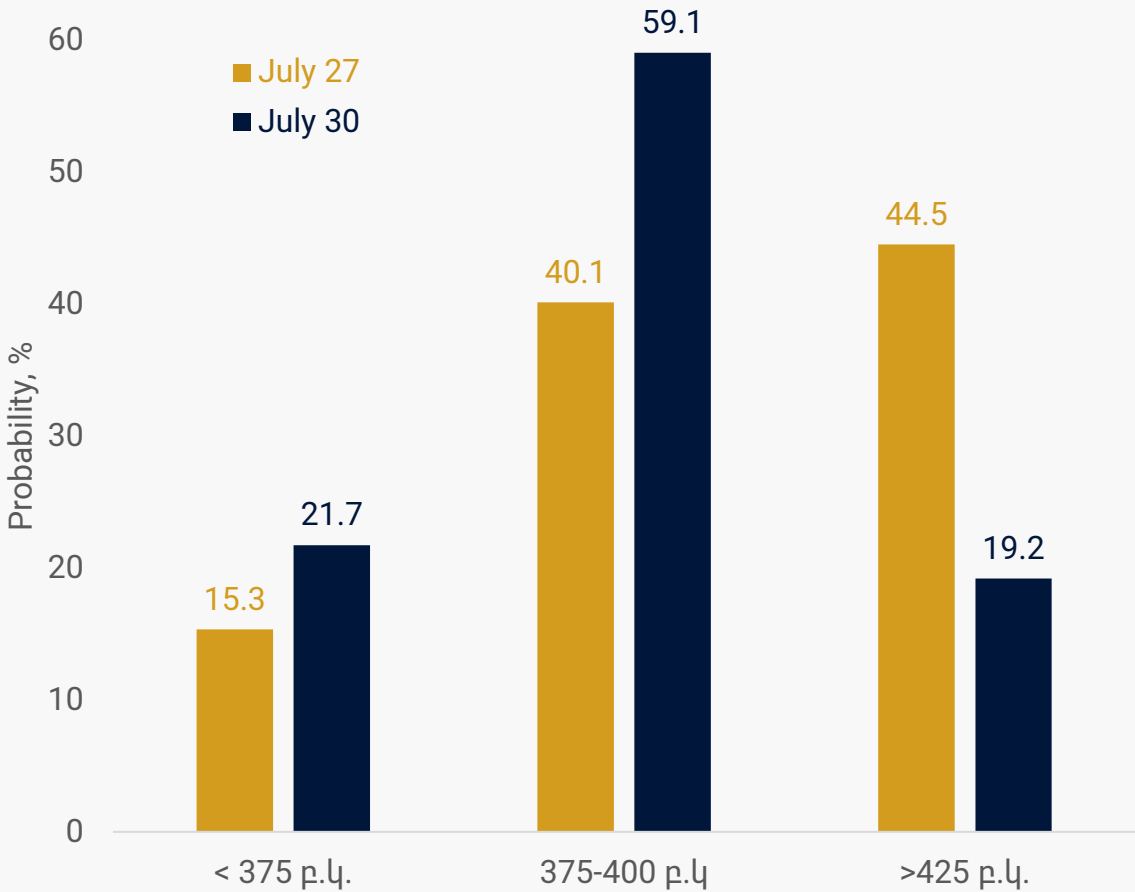
US: Under these conditions, financial markets continue to expect a higher path for policy interest rates

Market participants are pricing in around 50 bps of policy rate increases over the coming year



Source: Federal Reserve Bank of Atlanta, Market Probability Tracker

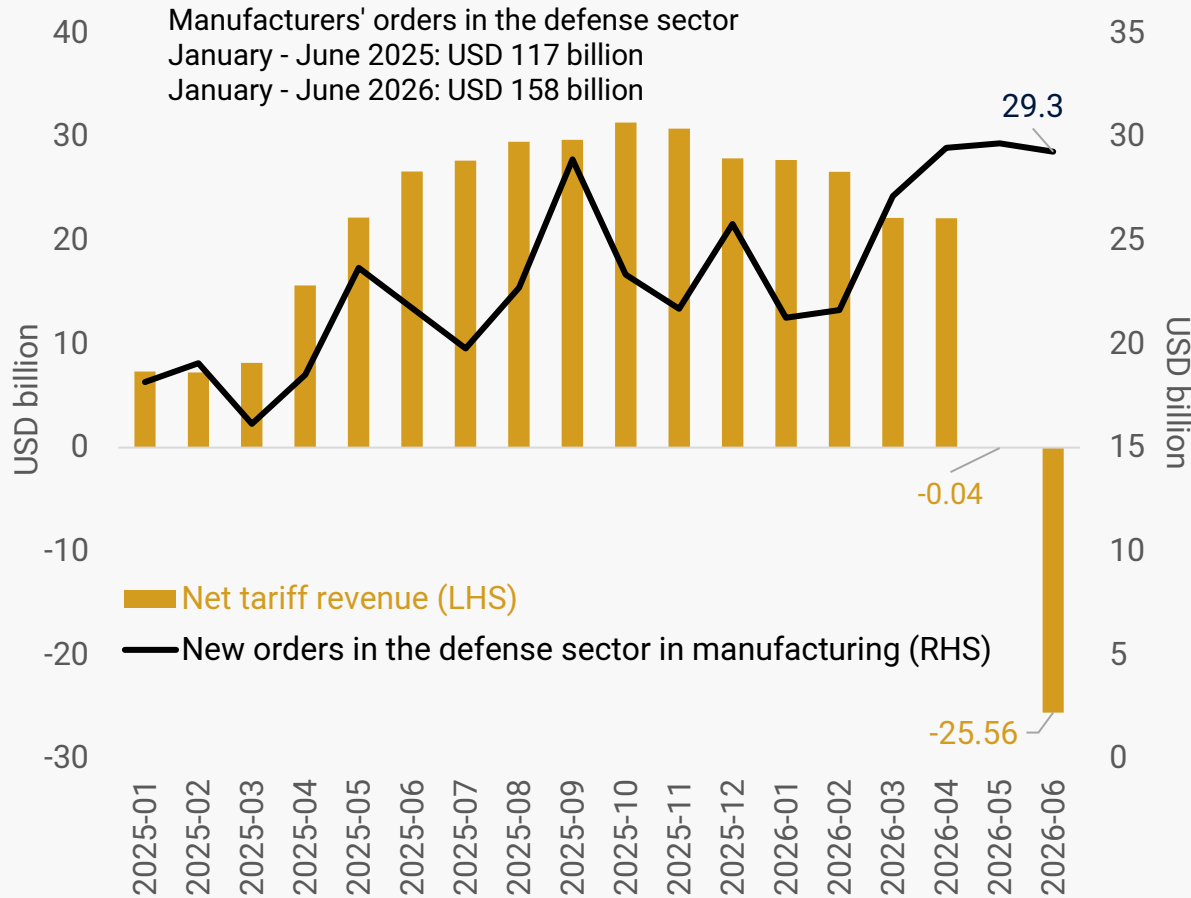
...with the first increase already expected in September 2026



Source: Federal Reserve Bank of Atlanta, Market Probability Tracker
Note: Current policy rate range: 350–375 bps

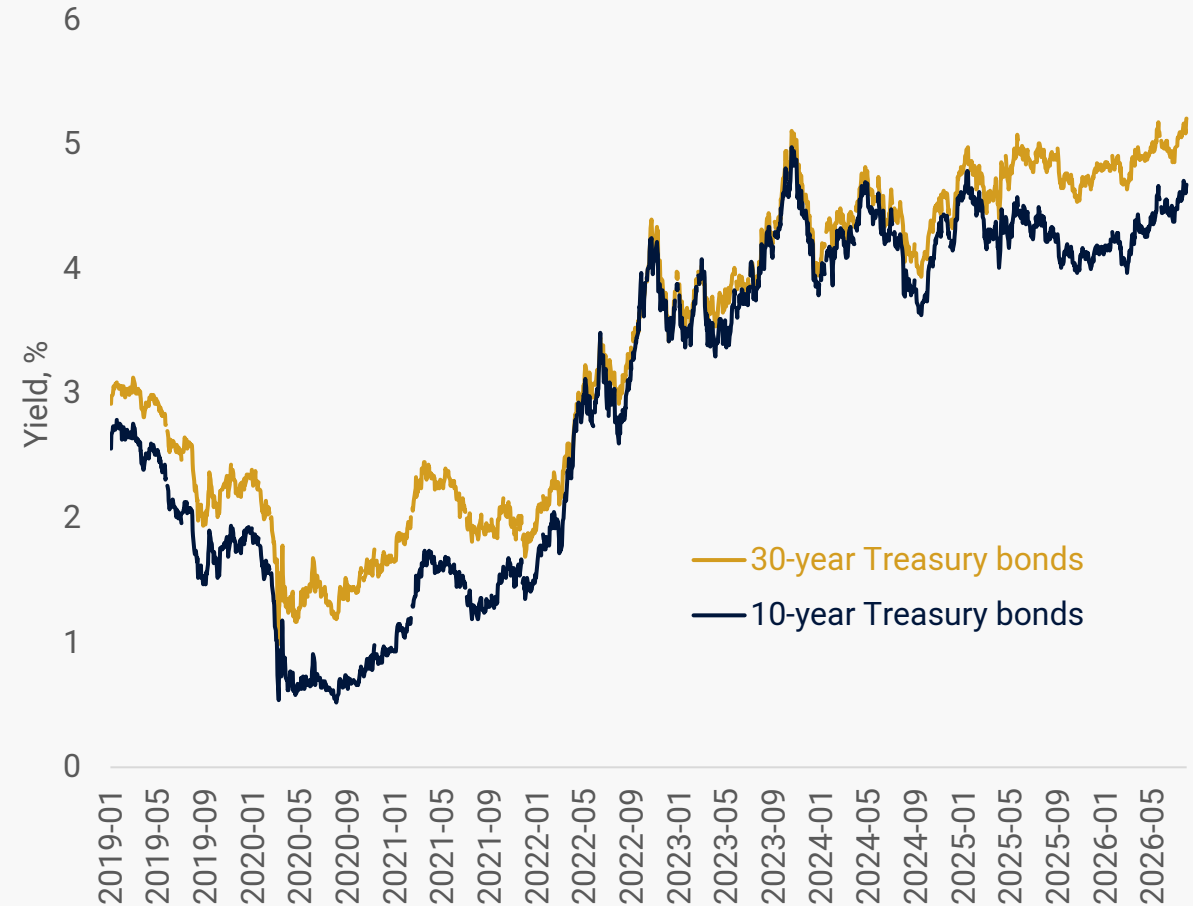
US: On the other hand, risks to fiscal policy sustainability have increased, potentially contributing to the prolonged persistence of long-term interest rates at current levels

On the one hand, a significant increase in tariff refund payments and, on the other hand, higher new orders in the defense sector could further intensify fiscal sustainability risks



Source: US Treasury monthly reports

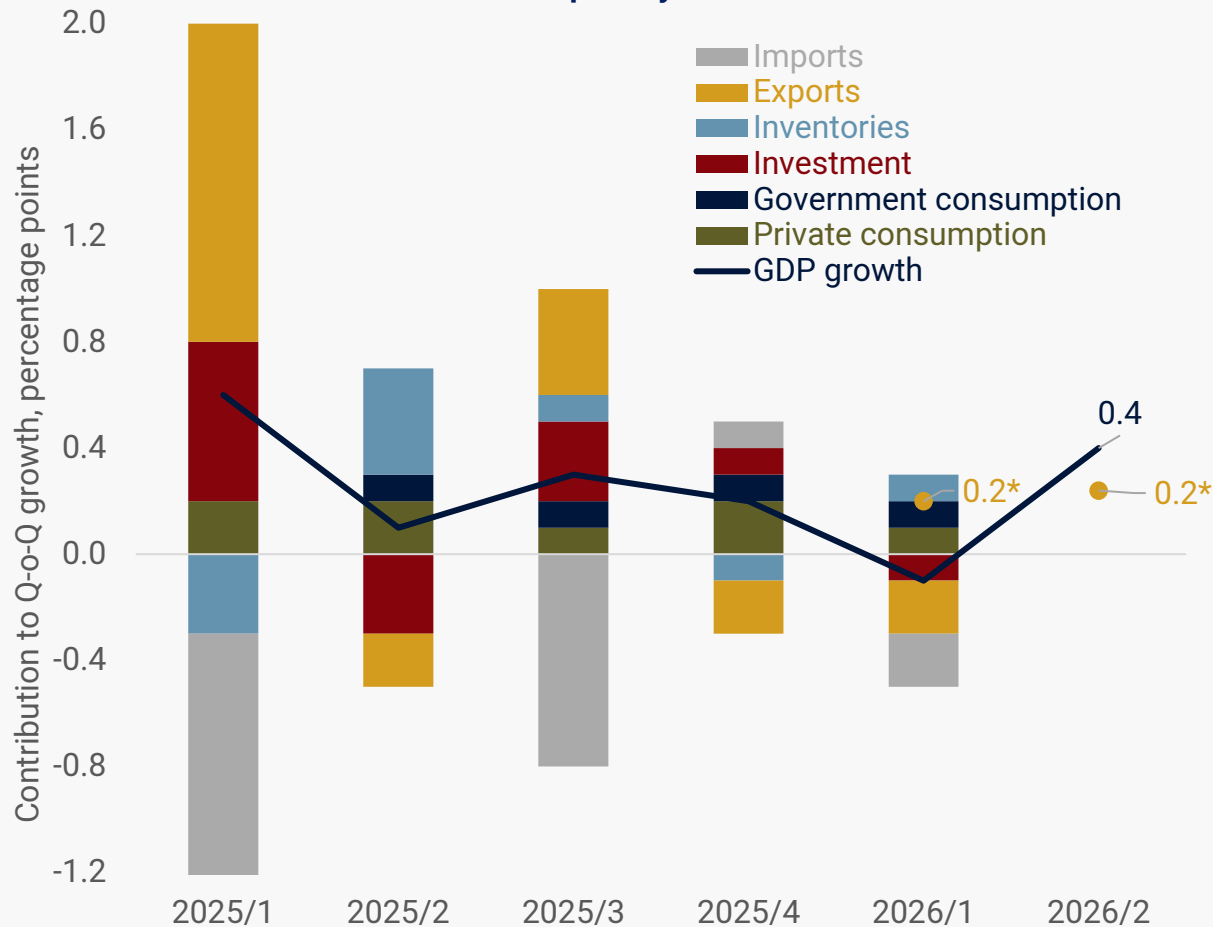
Long-term interest rates continue to rise, remaining at elevated levels



Source: US Treasury monthly reports

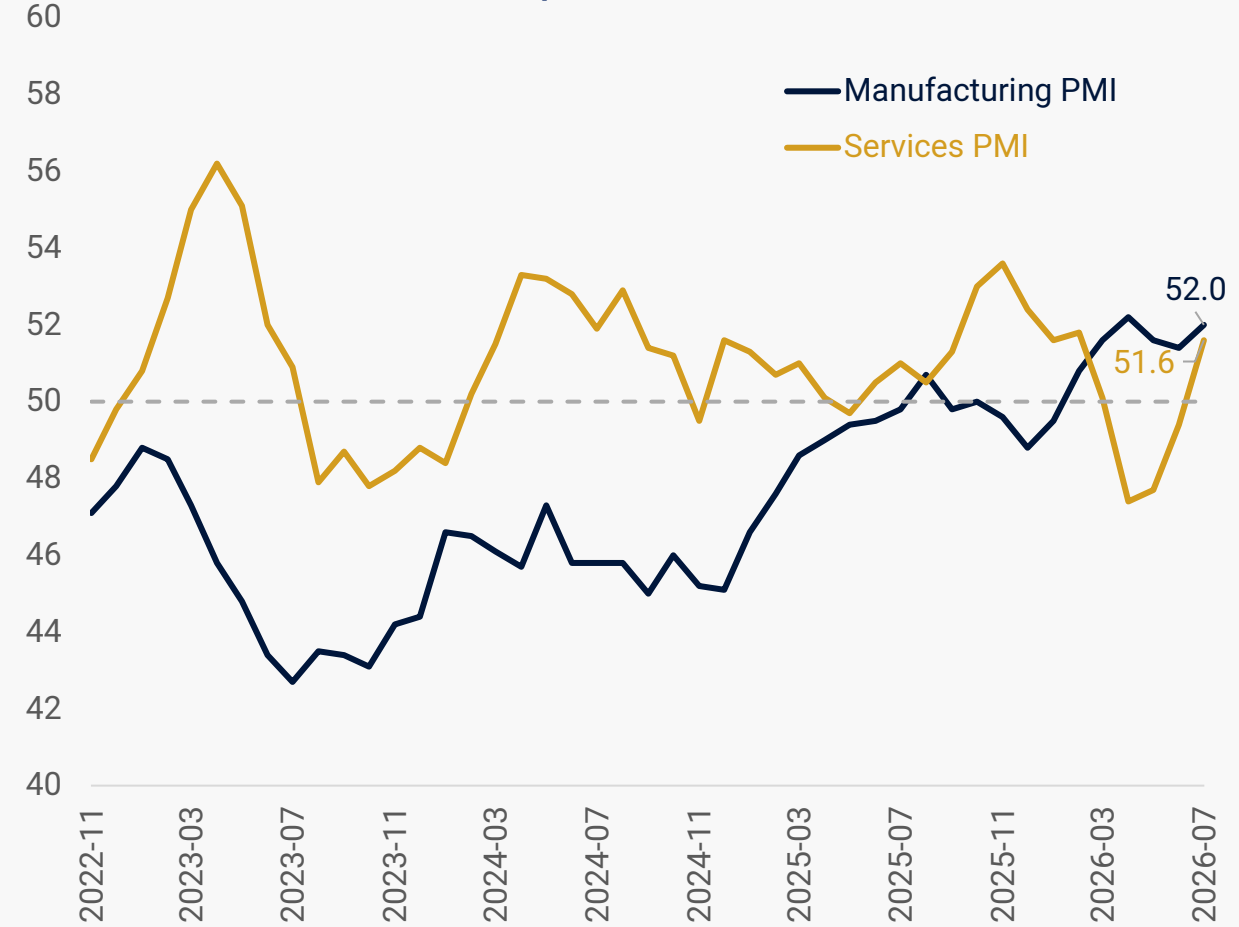
EA: High uncertainty around the euro area's economic growth outlook persists amid structural challenges, elevated energy prices, and risks to the stability of energy supplies

Economic growth accelerated due to the impact of some one-off/temporary factors



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

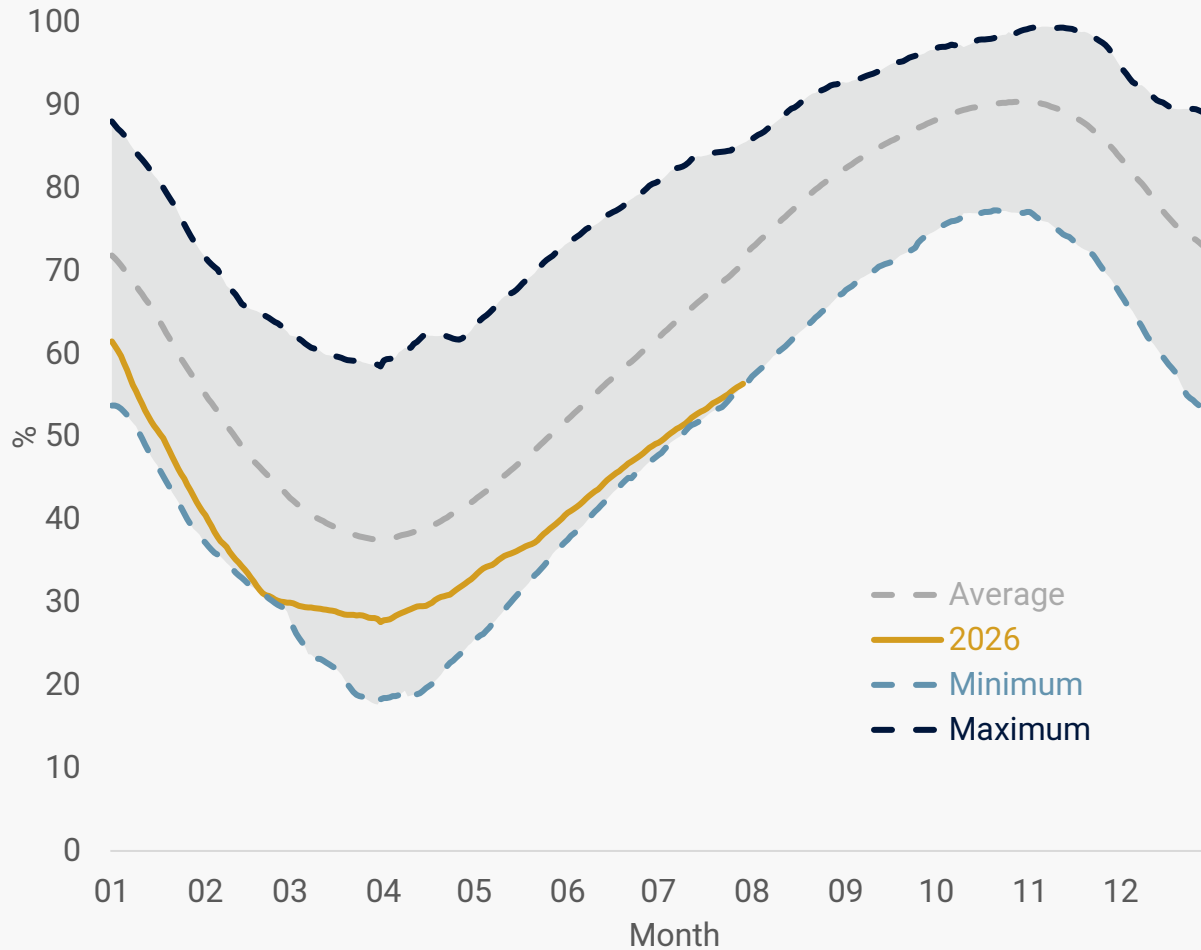
Do improvements in some leading indicators suggest a shift toward more positive trends



Source: S&P Global

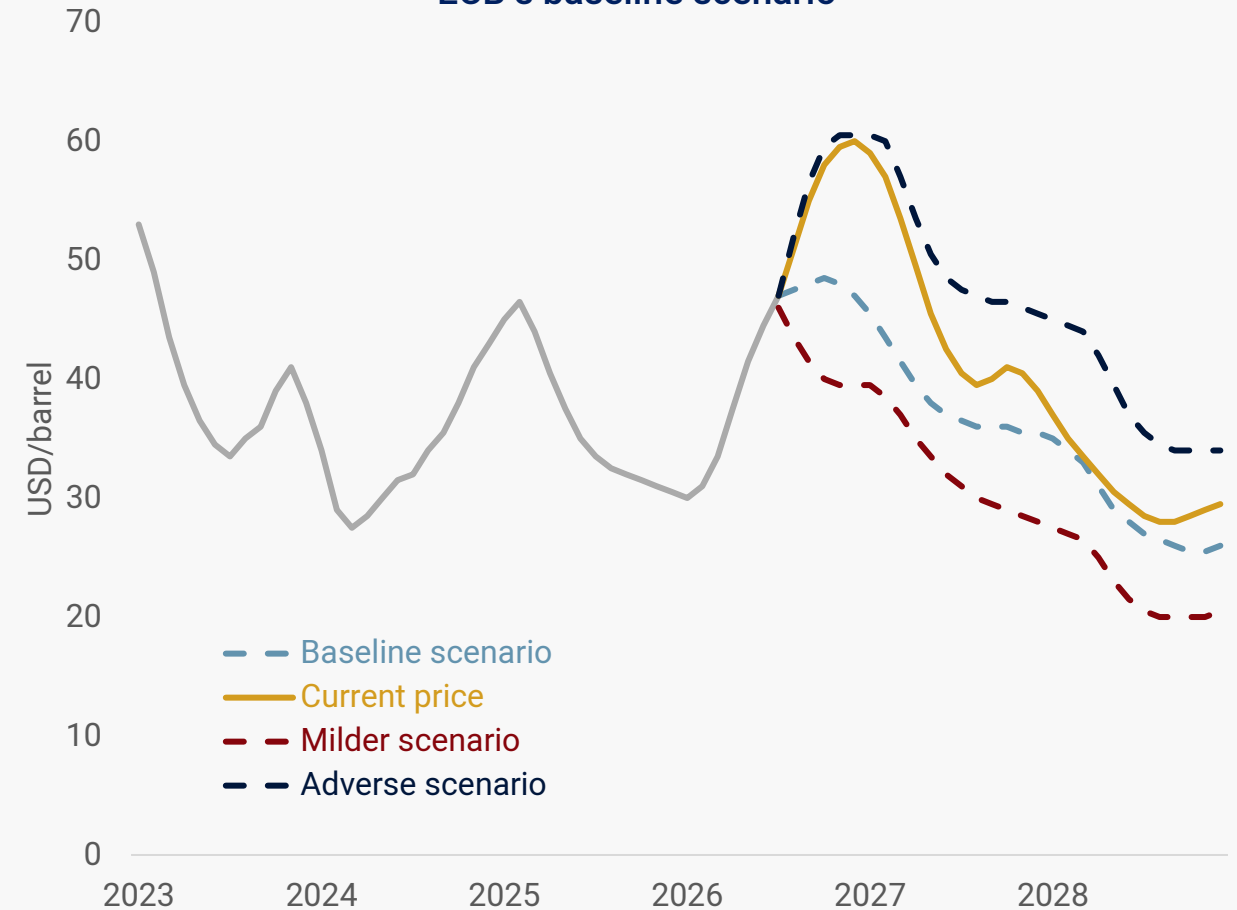
EA: On the other hand, elevated fuel prices and low inventories increase the risks of a further intensification of structural challenges and a worsening inflation environment

European gas storage is near its lowest level since 2011



Source: Financial Times; Gas Infrastructure Europe (GIE) – AGSI

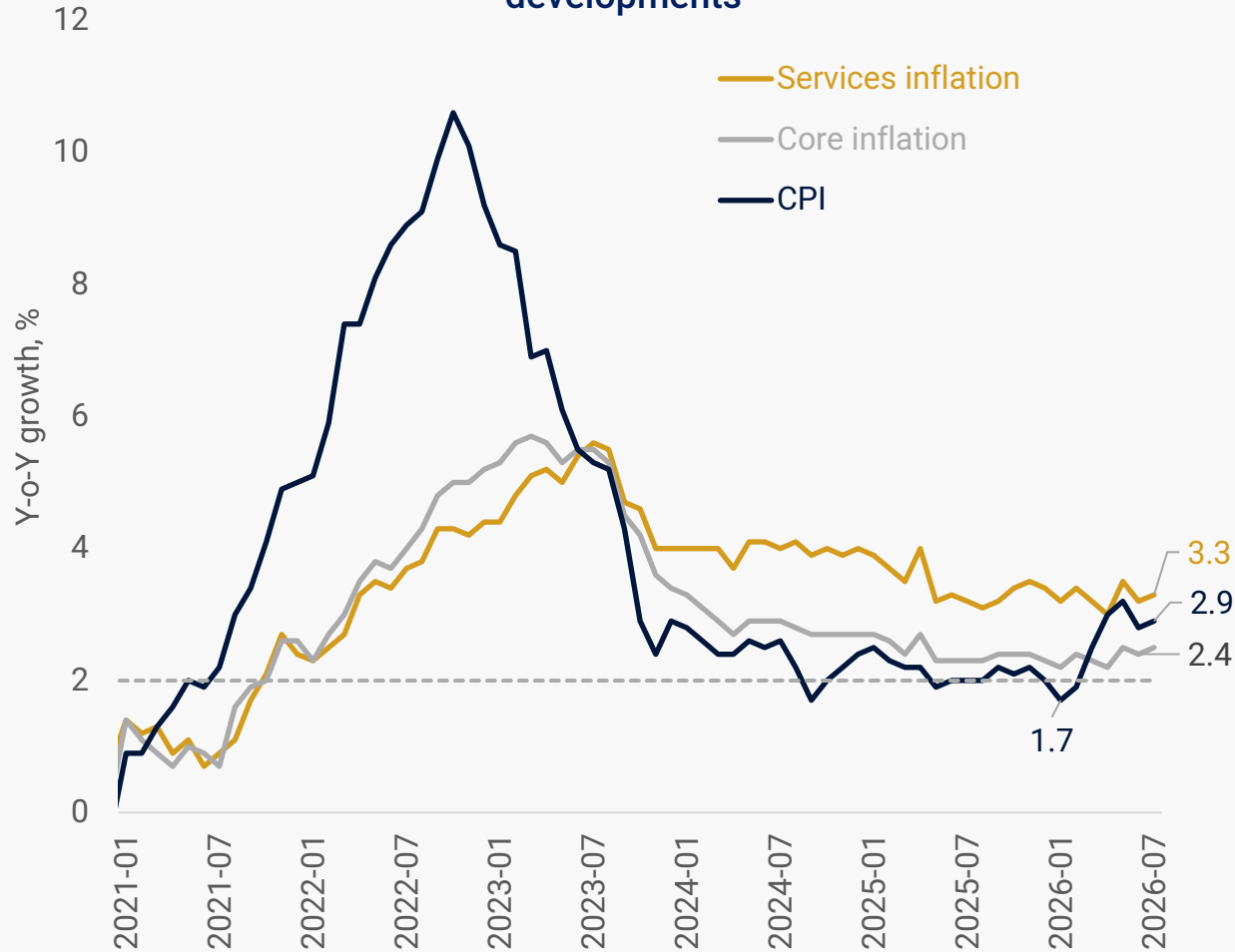
Gas futures prices are significantly above the levels projected under the ECB's baseline scenario



Source: Financial Times; European Central Bank (ECB)

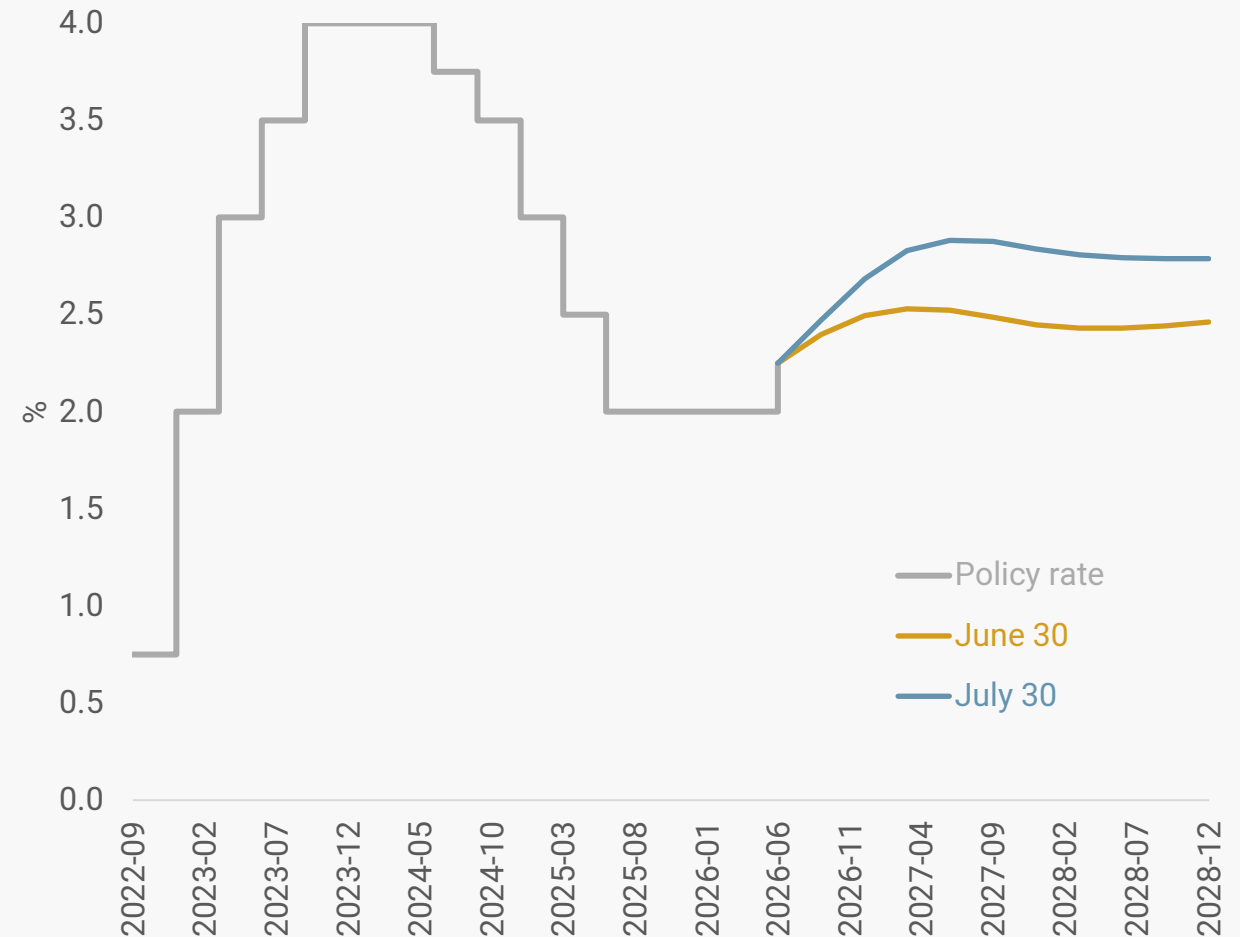
EA: As a result, financial markets expect a higher policy rate path than previously anticipated

The increase in energy prices continues to be reflected in inflation developments



Source: Eurostat

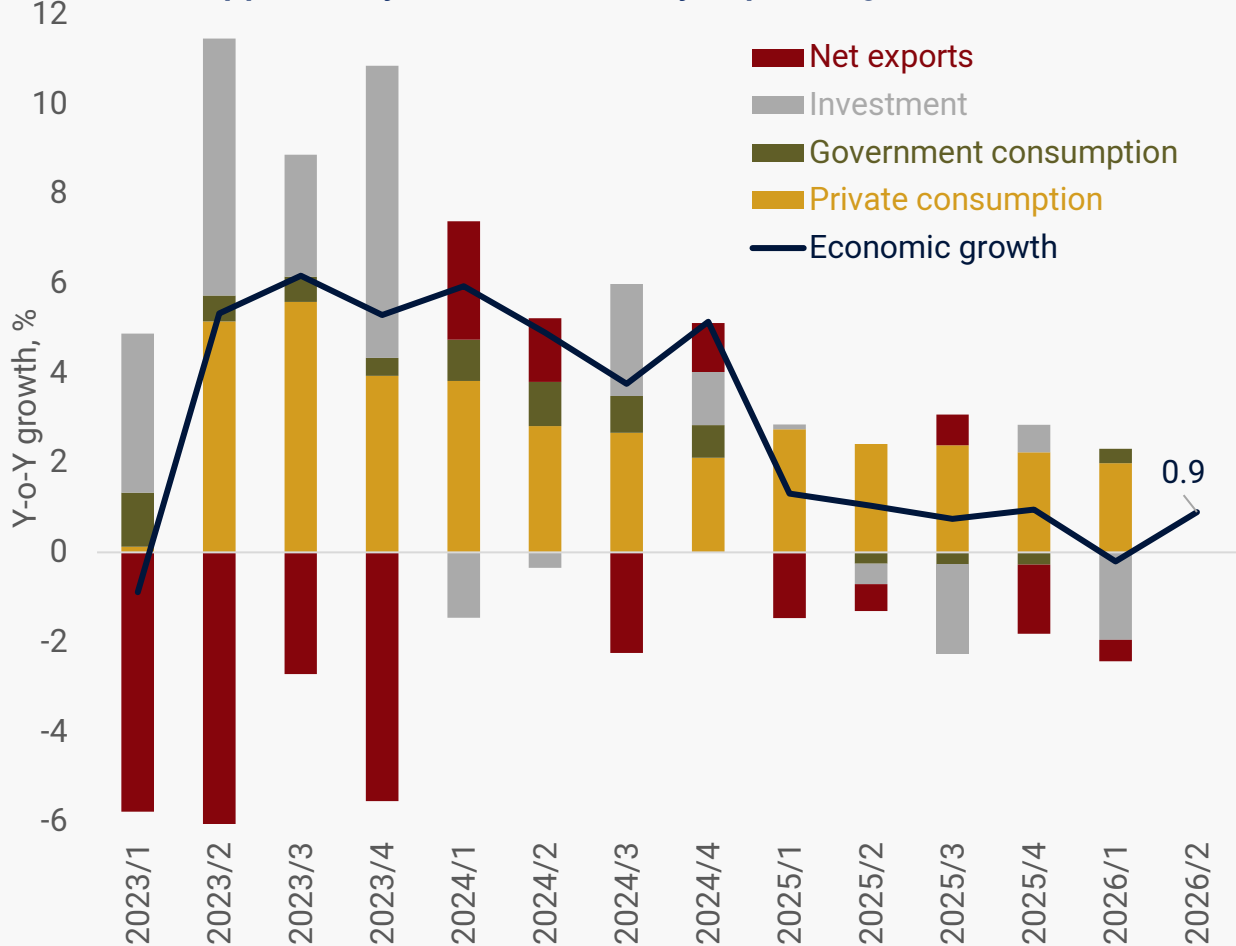
Financial markets expect one additional ECB rate hike this year



Source: ECB; Financial Times; Monetary Policy Radar

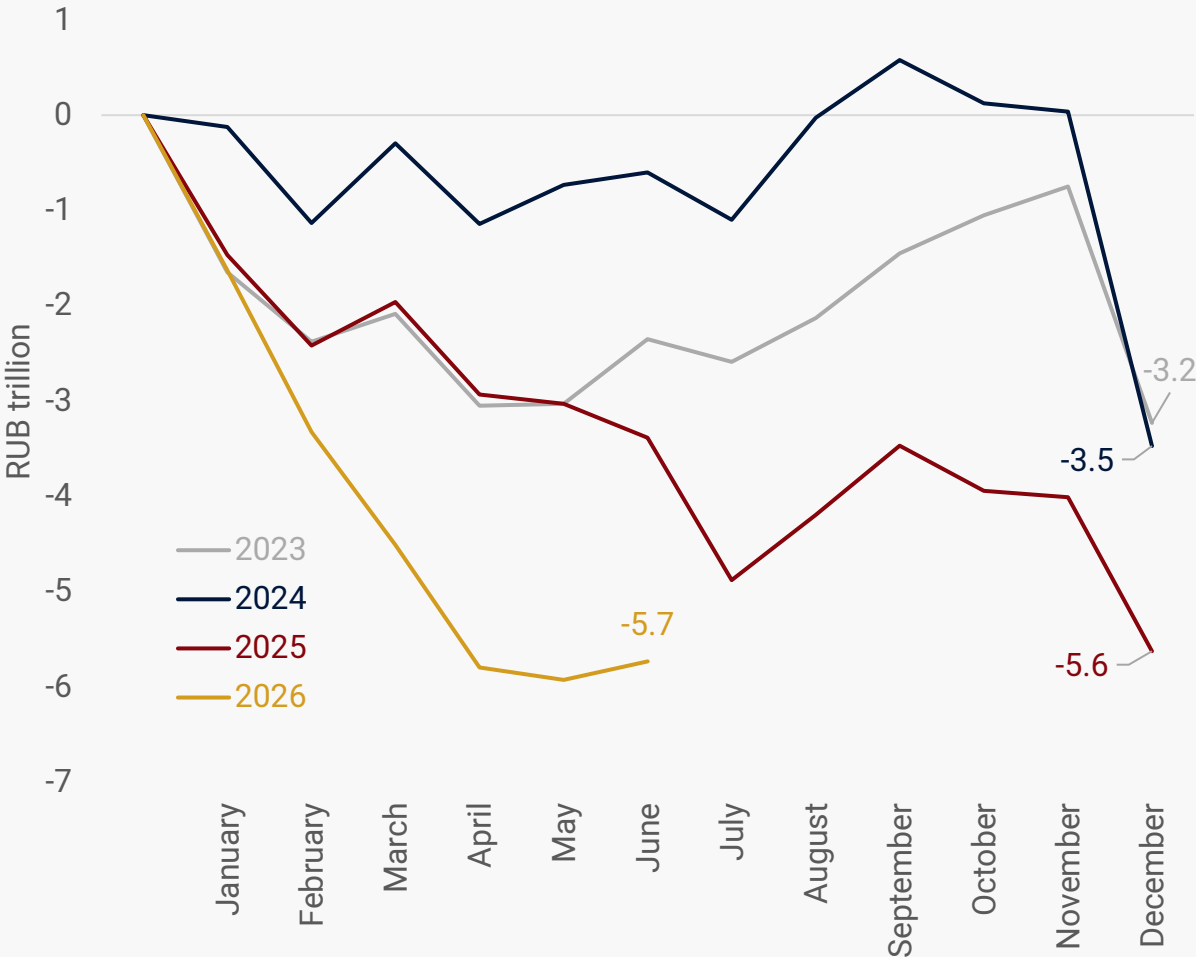
Russia: Despite some recovery, amid high uncertainty about the outlook and accumulating structural challenges, economic growth continues to stabilize at lower levels

In Q2 2026, economic growth in Russia accelerated moderately, largely supported by sectors driven by expanding demand ...



Source: Federal State Statistics Service of Russia (Rosstat)

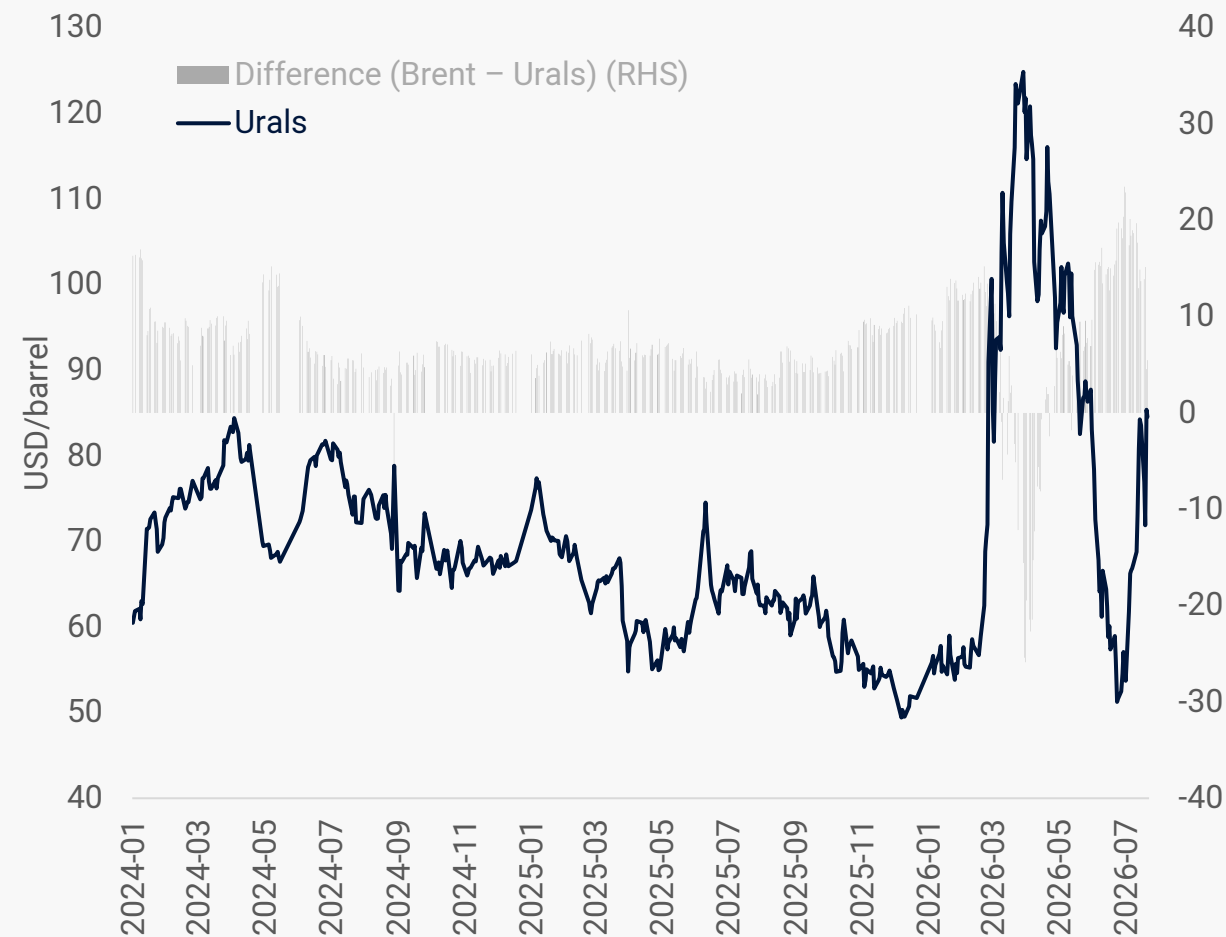
... including reflecting the impact of fiscal policy



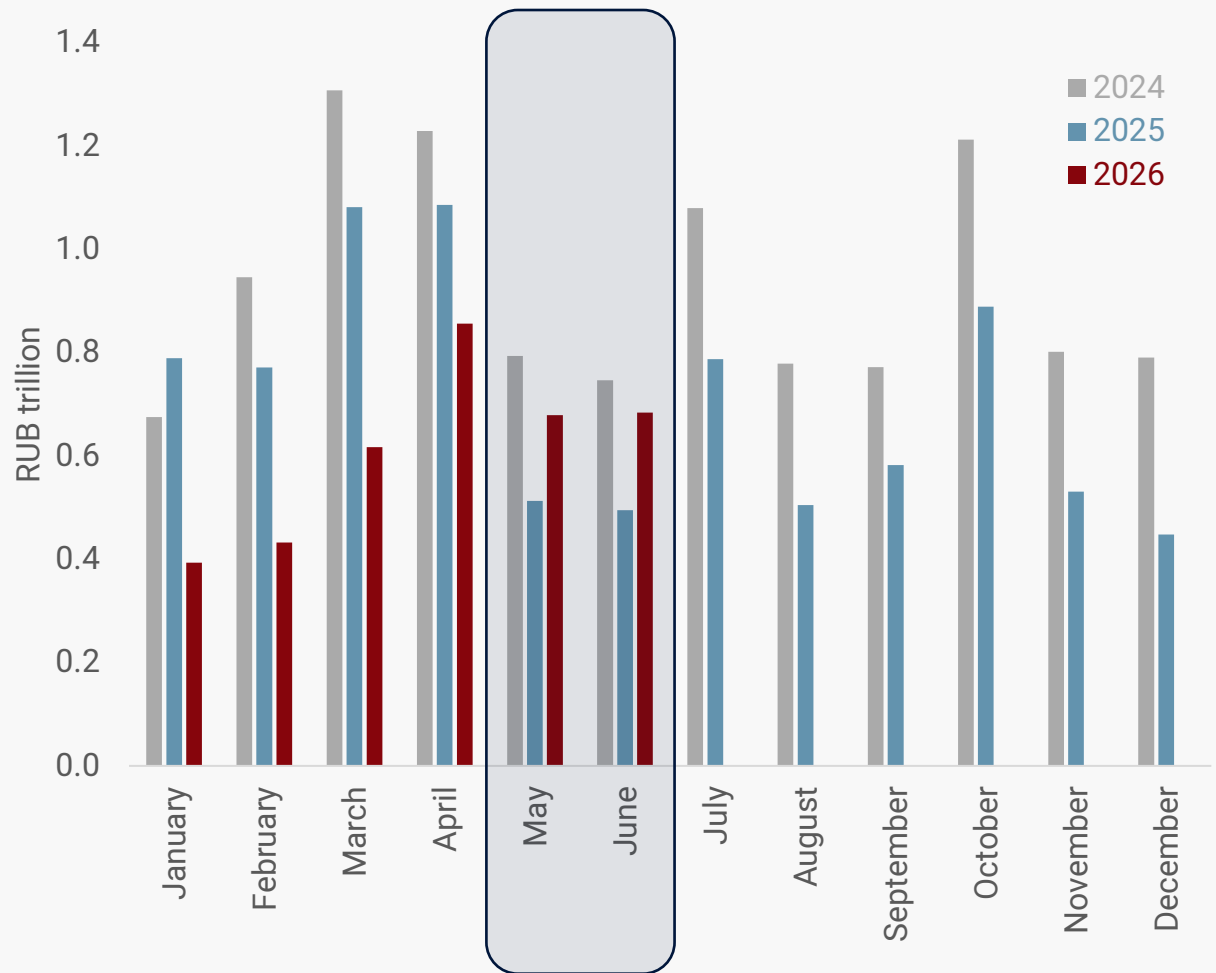
Source: Ministry of Finance of Russia

Russia: A prolonged Middle East conflict could provide additional fiscal space for Russia

Urals prices have increased significantly and remain at elevated levels

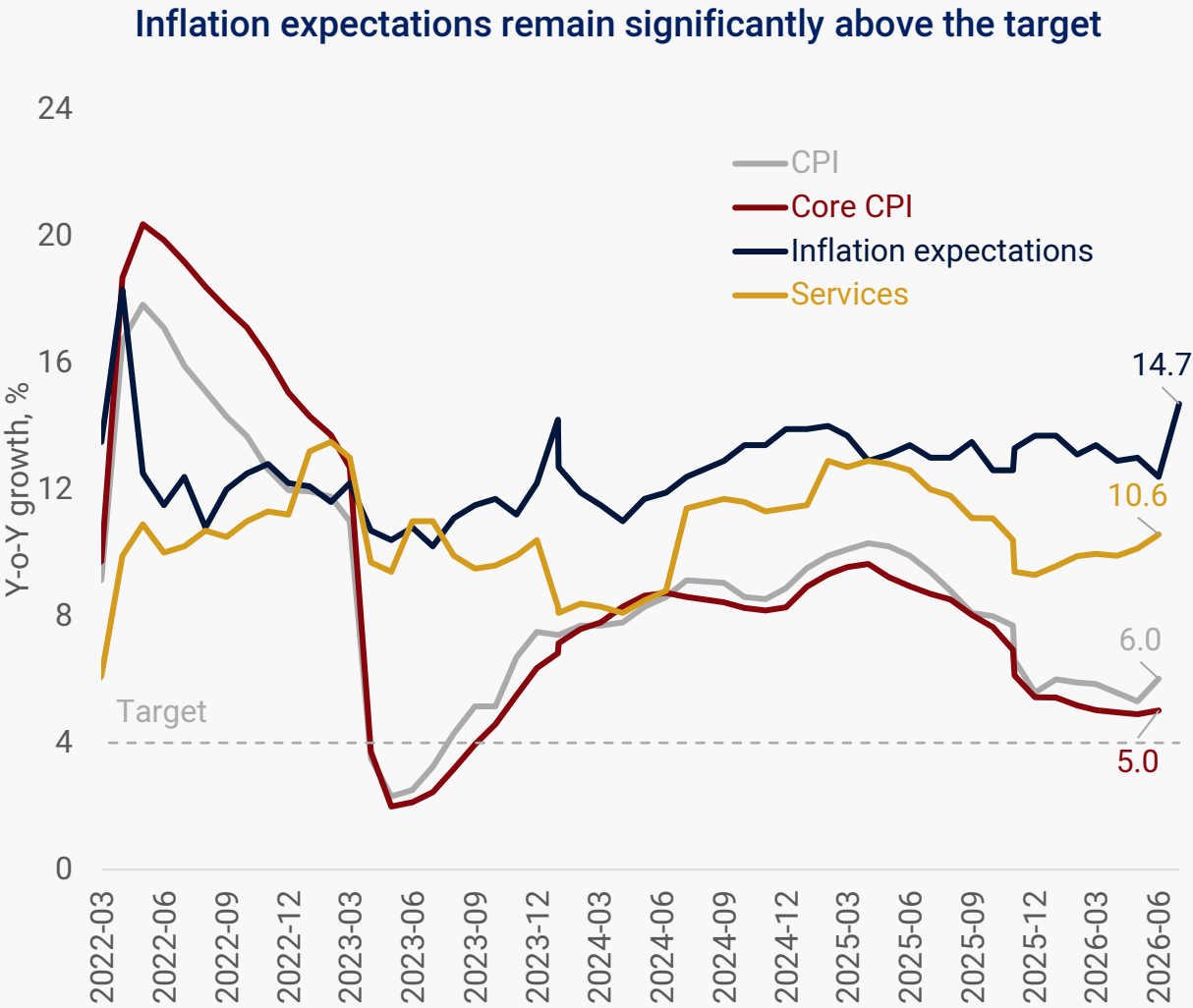


...being reflected in oil and gas revenues

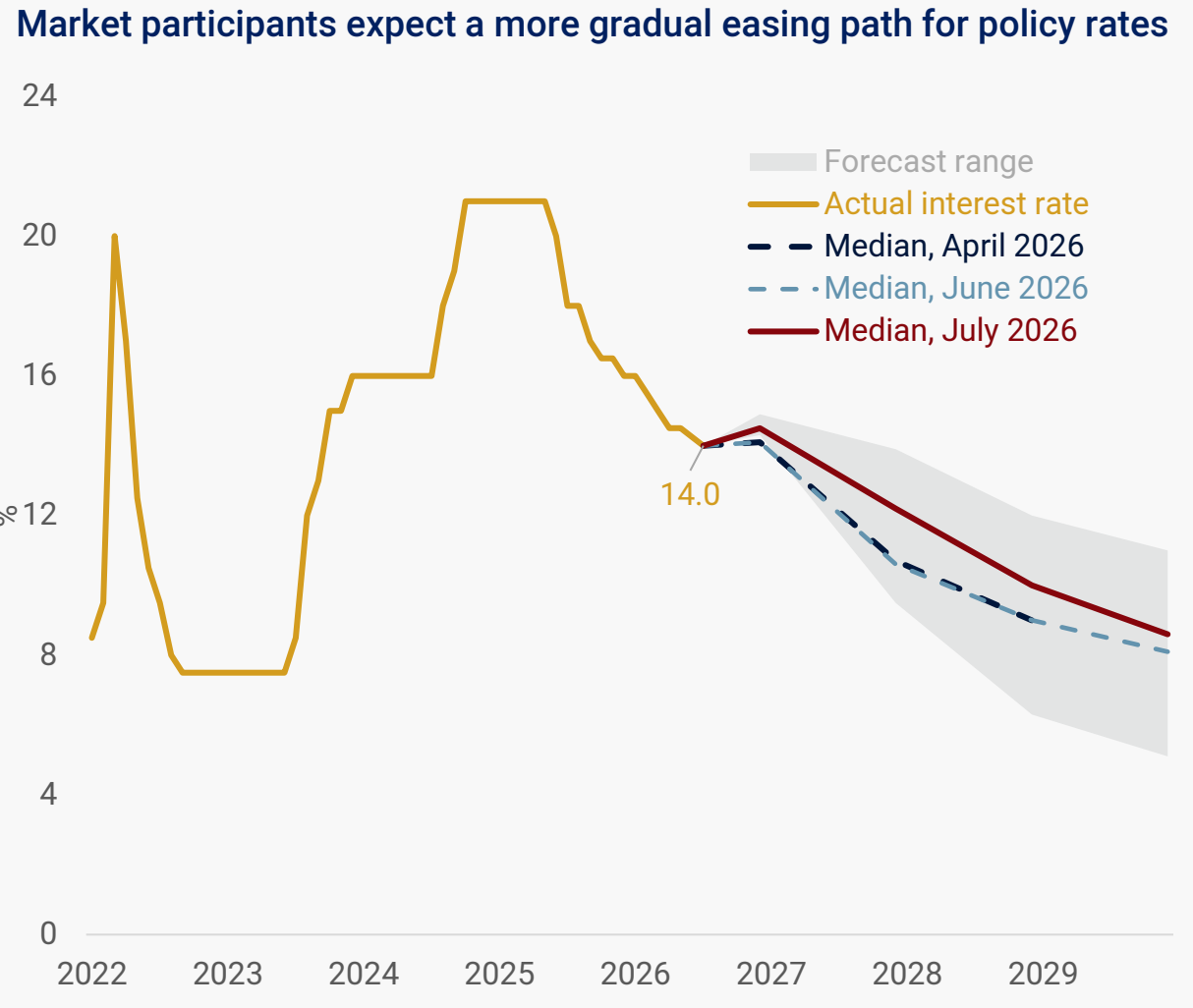


Source: Ministry of Finance of Russia

Russia: On the other hand, fuel supply shortages and related inflationary effects could make the Bank of Russia’s policy decisions more challenging



Source: Bank of Russia



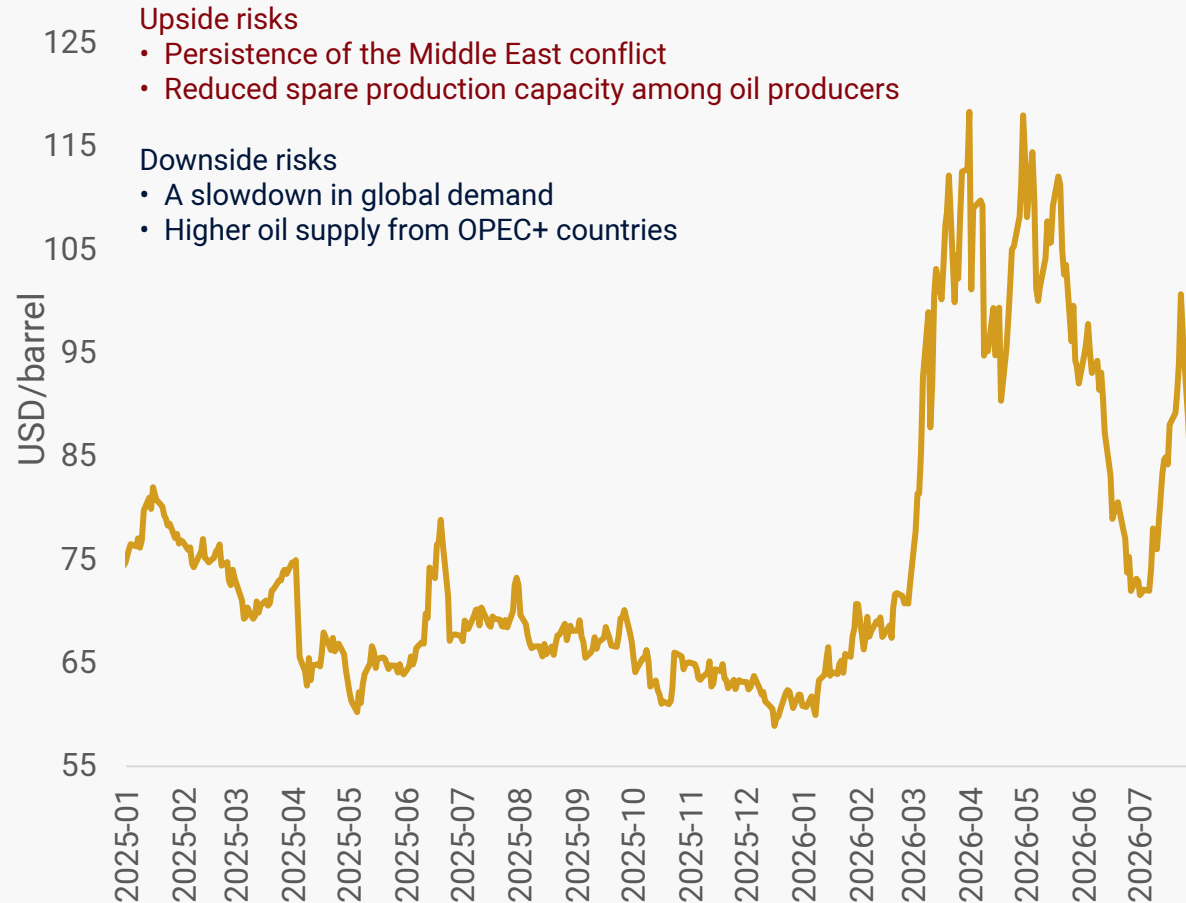
Source: Bank of Russia

Commodity markets: The global economy is currently more vulnerable to potential oil supply disruptions



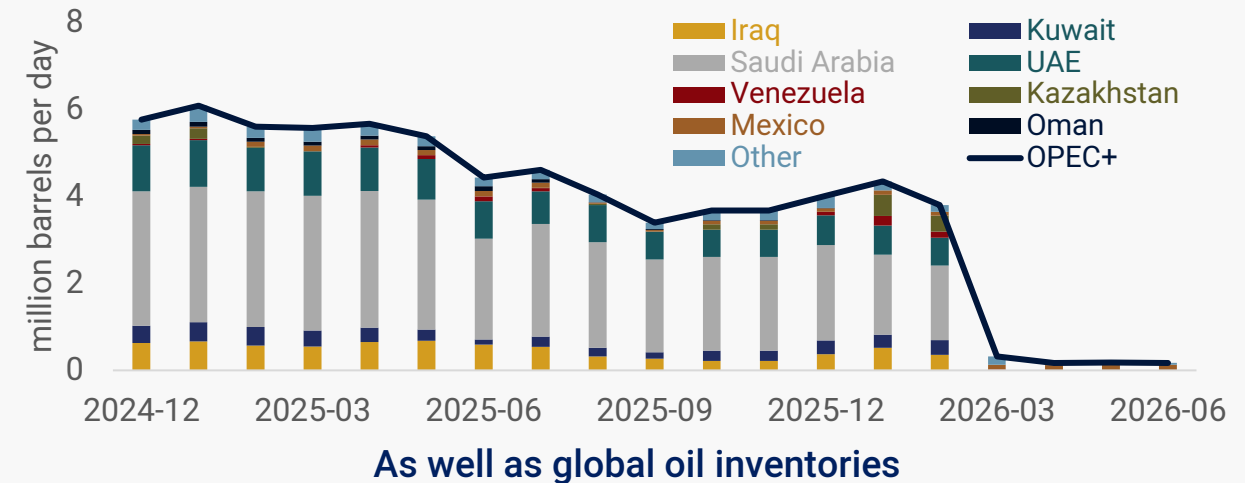
CENTRAL BANK OF
ARMENIA

Global oil prices remain highly sensitive to developments in the Middle East

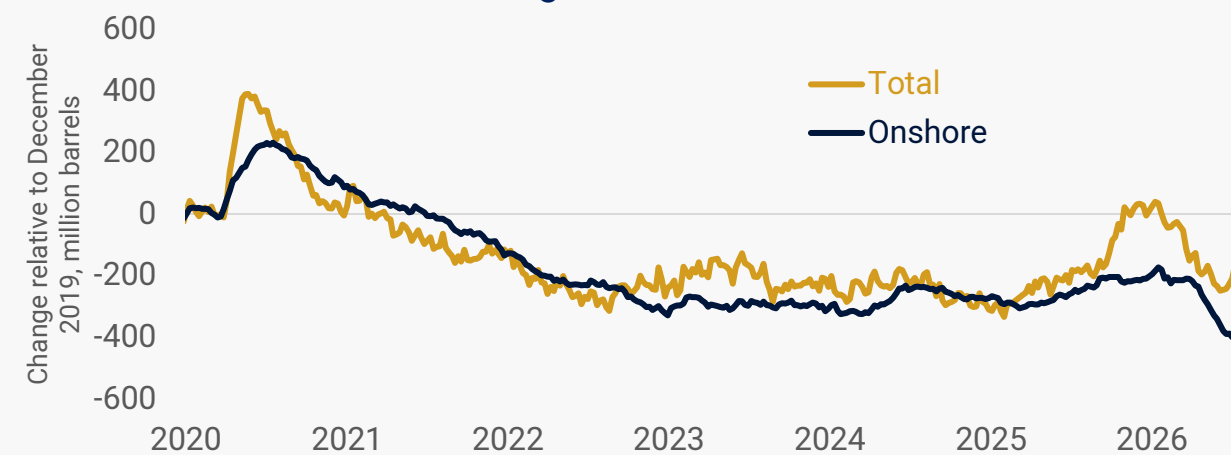


Source: Bloomberg

OPEC+ spare production capacity has declined significantly since the onset of the conflict



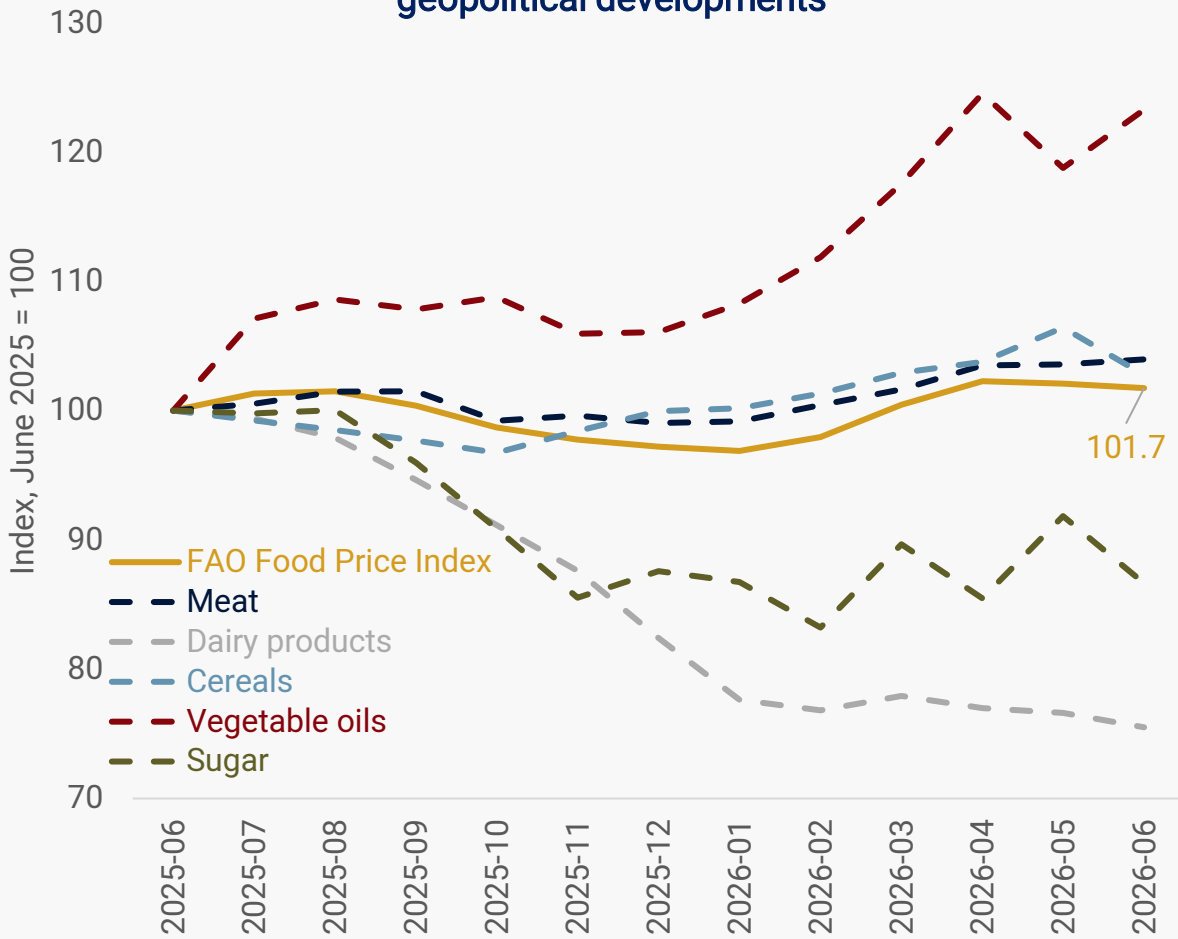
As well as global oil inventories



Source: International Energy Agency (IEA), Vortexa

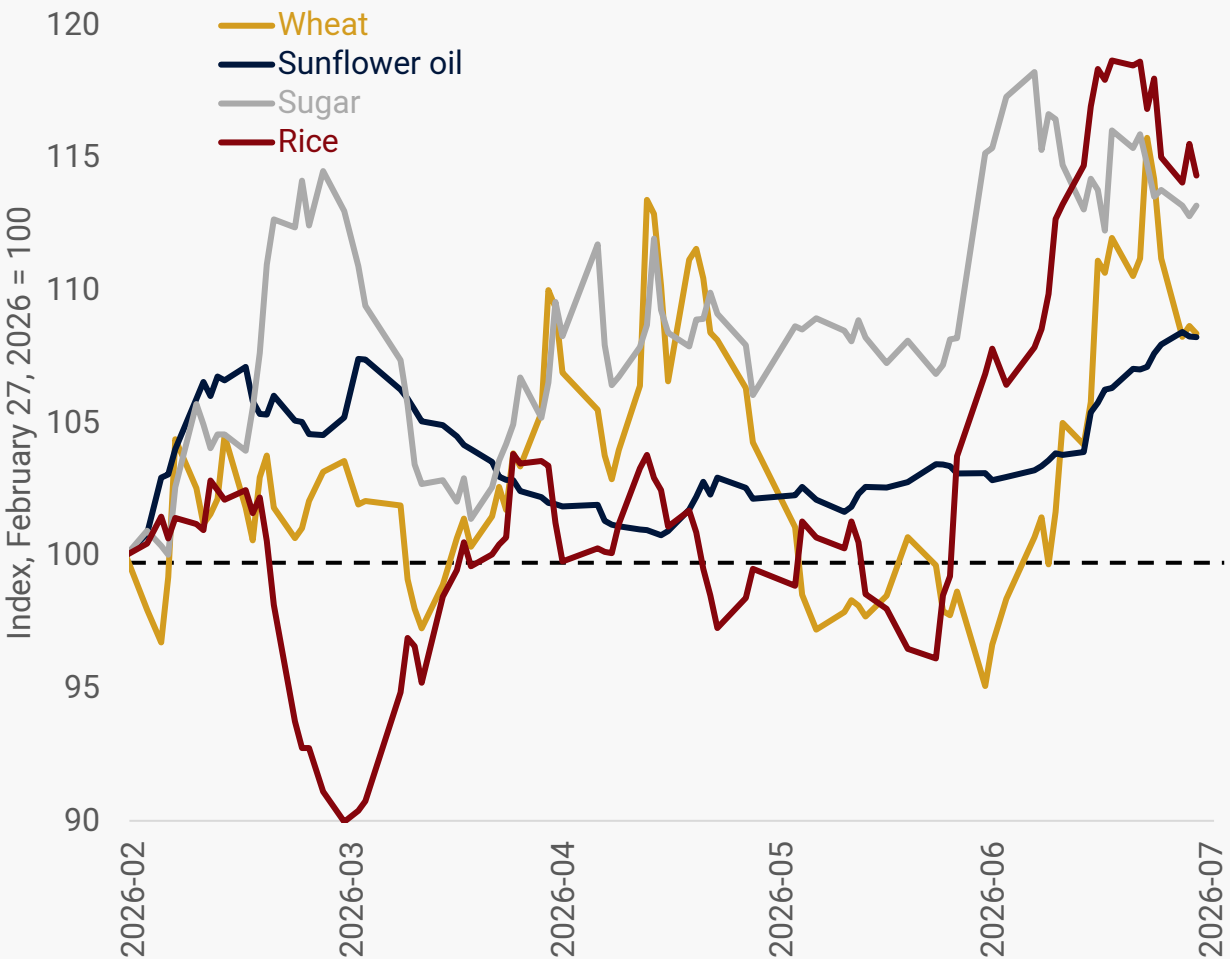
Commodity markets: Higher energy prices have spillover effects on other commodity markets, contributing to a rise in global inflation

The increase in the FAO Food Price Index reflects the impact of geopolitical developments



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

Futures prices of selected food commodities, daily



Source: Bloomberg

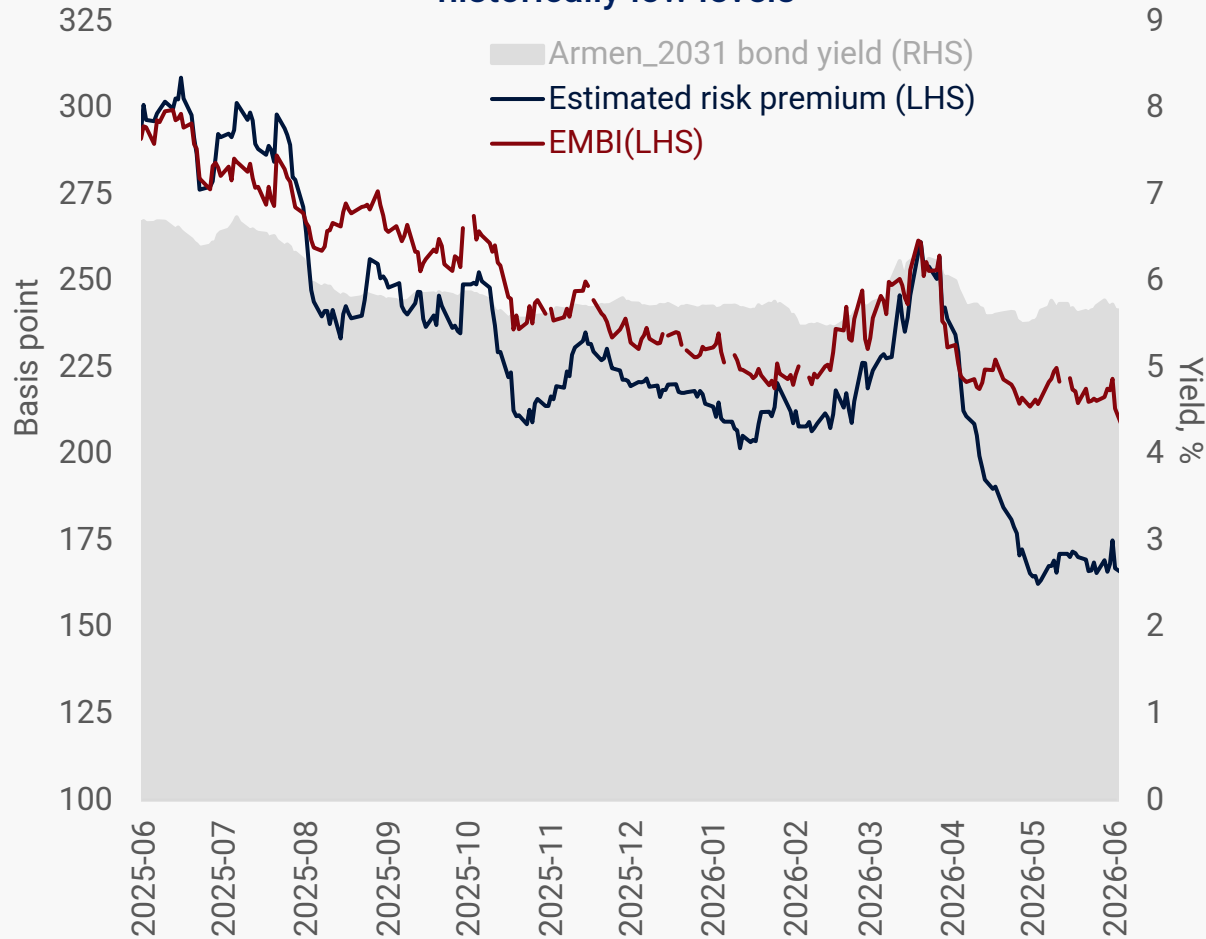


What are the underlying forces driving the economy?

Domestic economic developments
in the context of key uncertainties

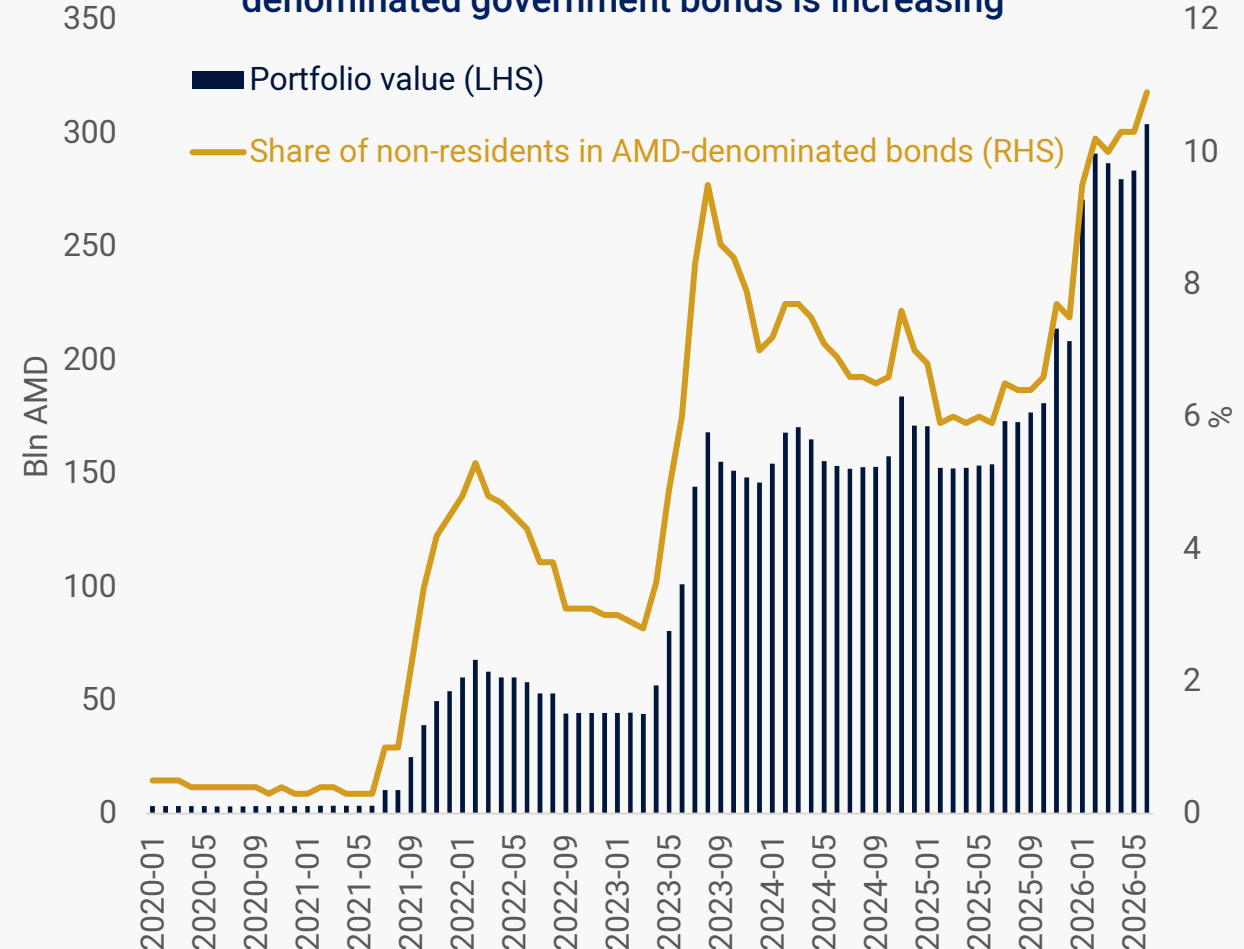
Risk premium: Signals are gradually strengthening that the current low levels of Armenia's risk premium largely reflect improvements in fundamentals and the country-specific factors

On the one hand, Armenia's risk premium continues to remain at historically low levels



Source: Bloomberg, CBA estimates

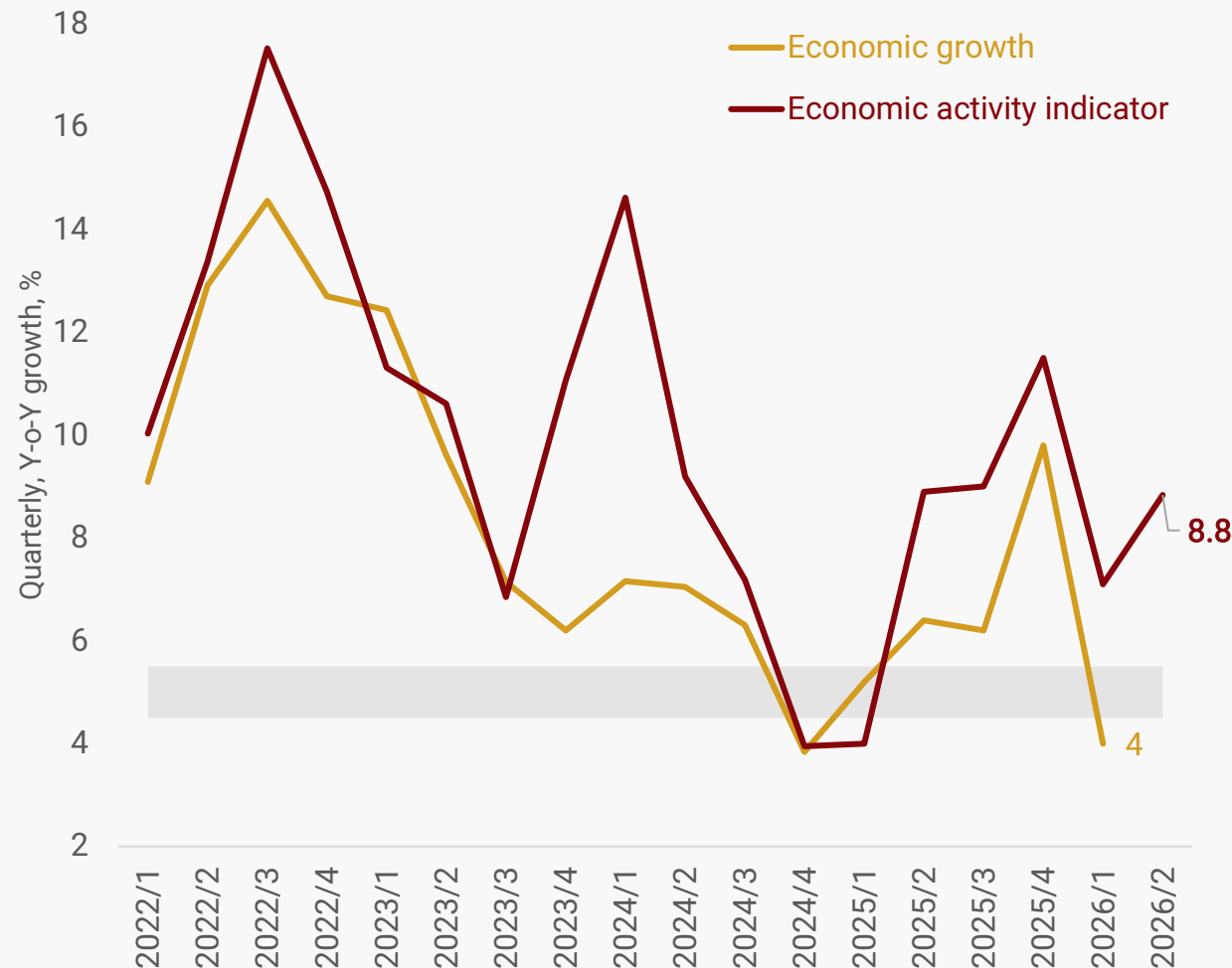
On the other hand, the share of non-residents in Armenia's dram-denominated government bonds is increasing



Source: Ministry of Finance of RA

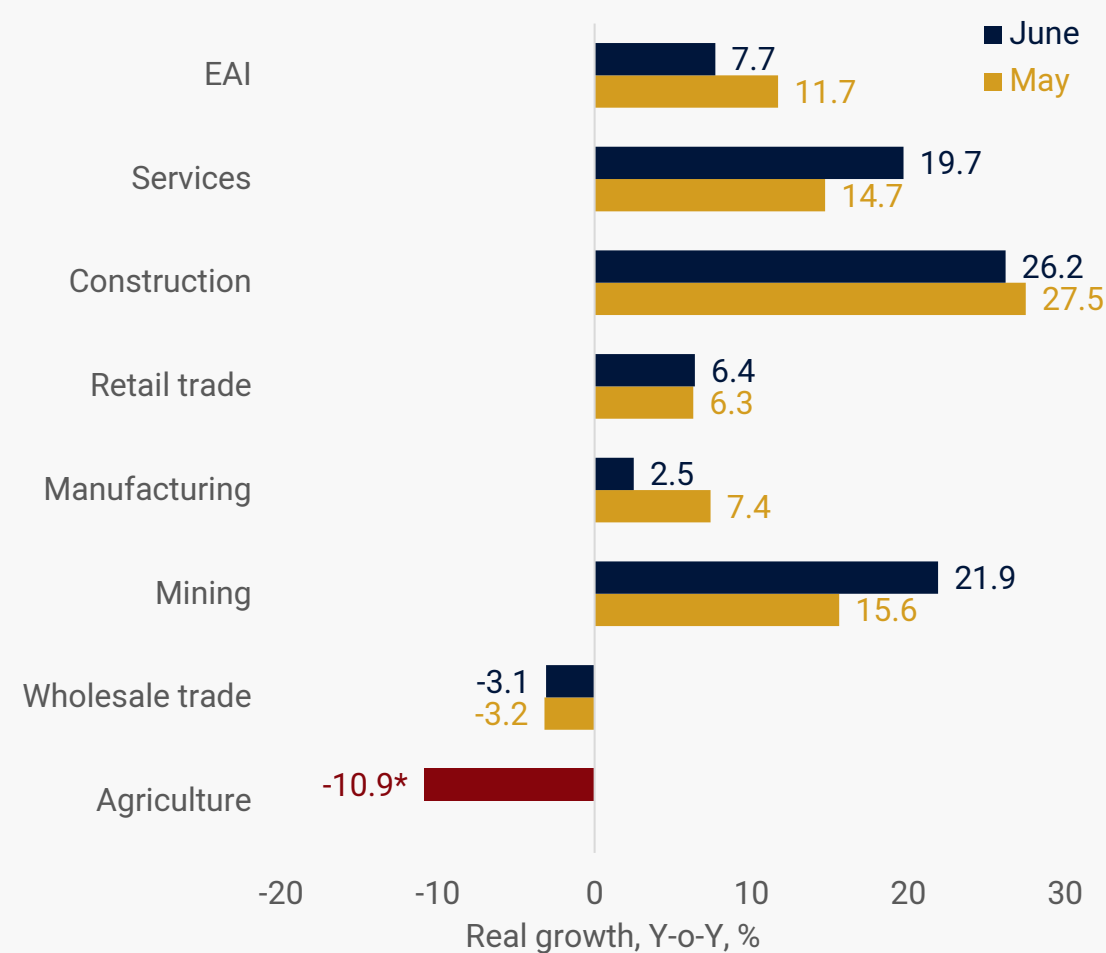
Economic activity in Armenia remains well above levels consistent with long-run sustainable growth

Economic activity and economic growth



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

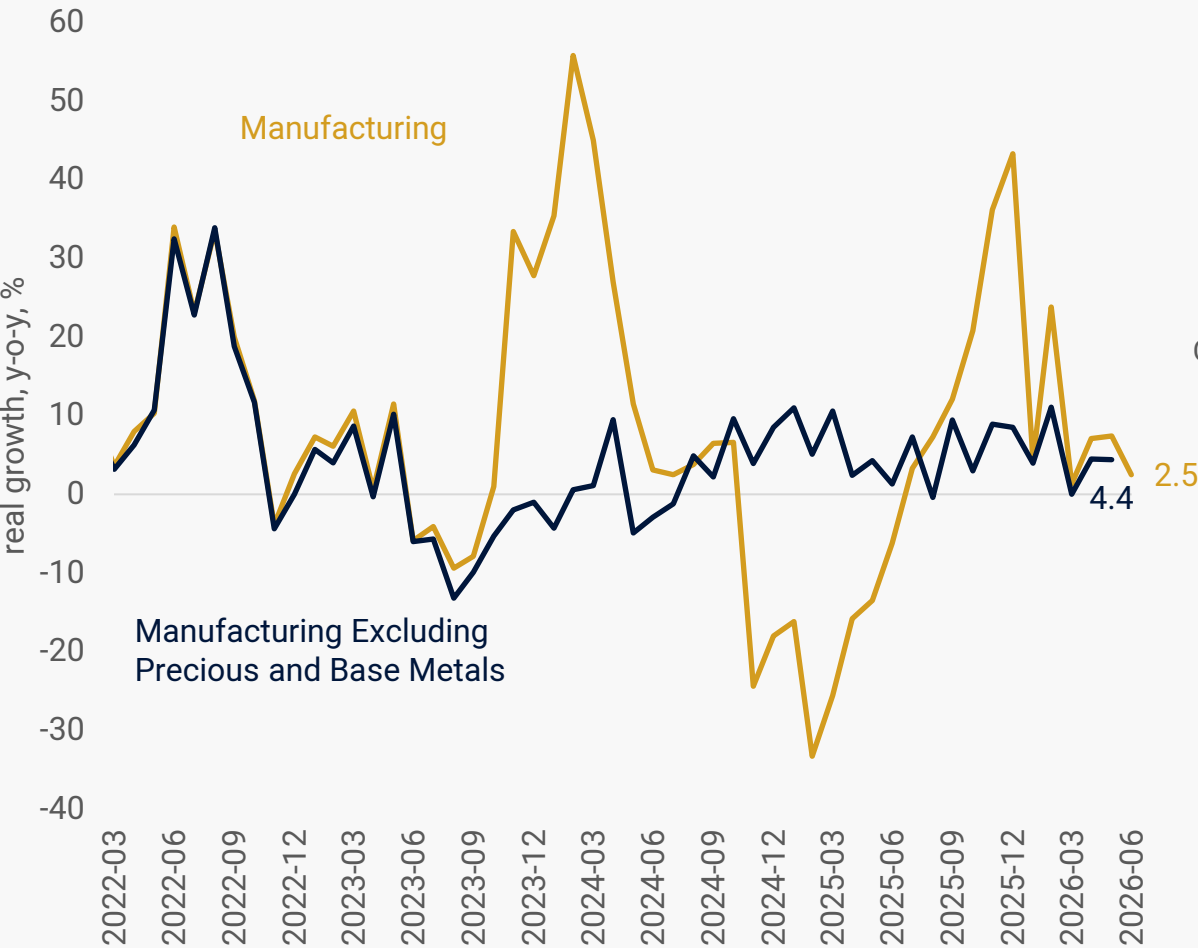
Demand-driven sectors have been the main contributors to growth



Source: Statistical Committee of the RA
*Cumulative growth, January–June 2026

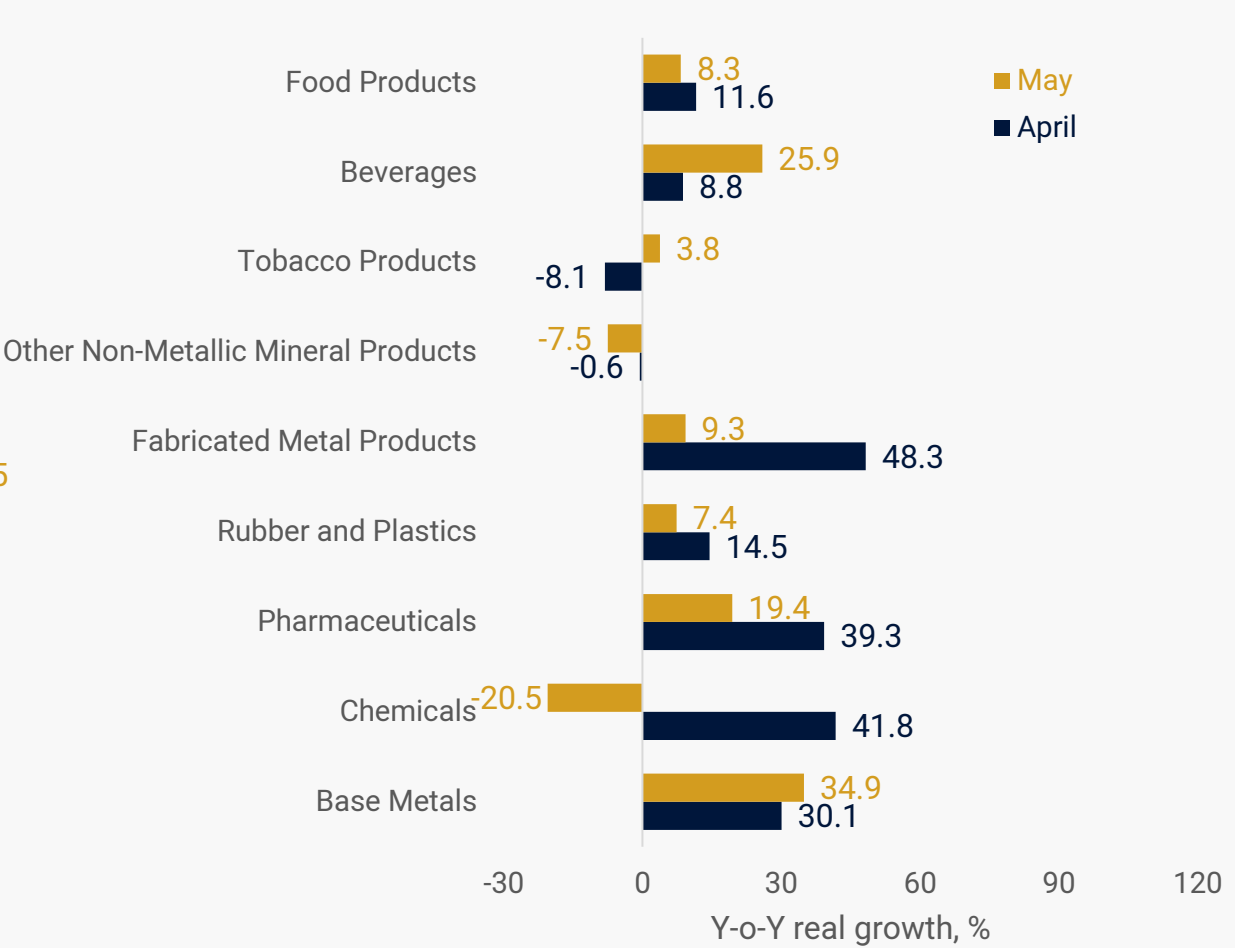
Challenges in certain export markets further heighten the risks and uncertainties associated with the medium-term growth and export outlook for some sectors of the economy

Manufacturing sector real growth



Source: Statistical Committee of RA, CBA estimates

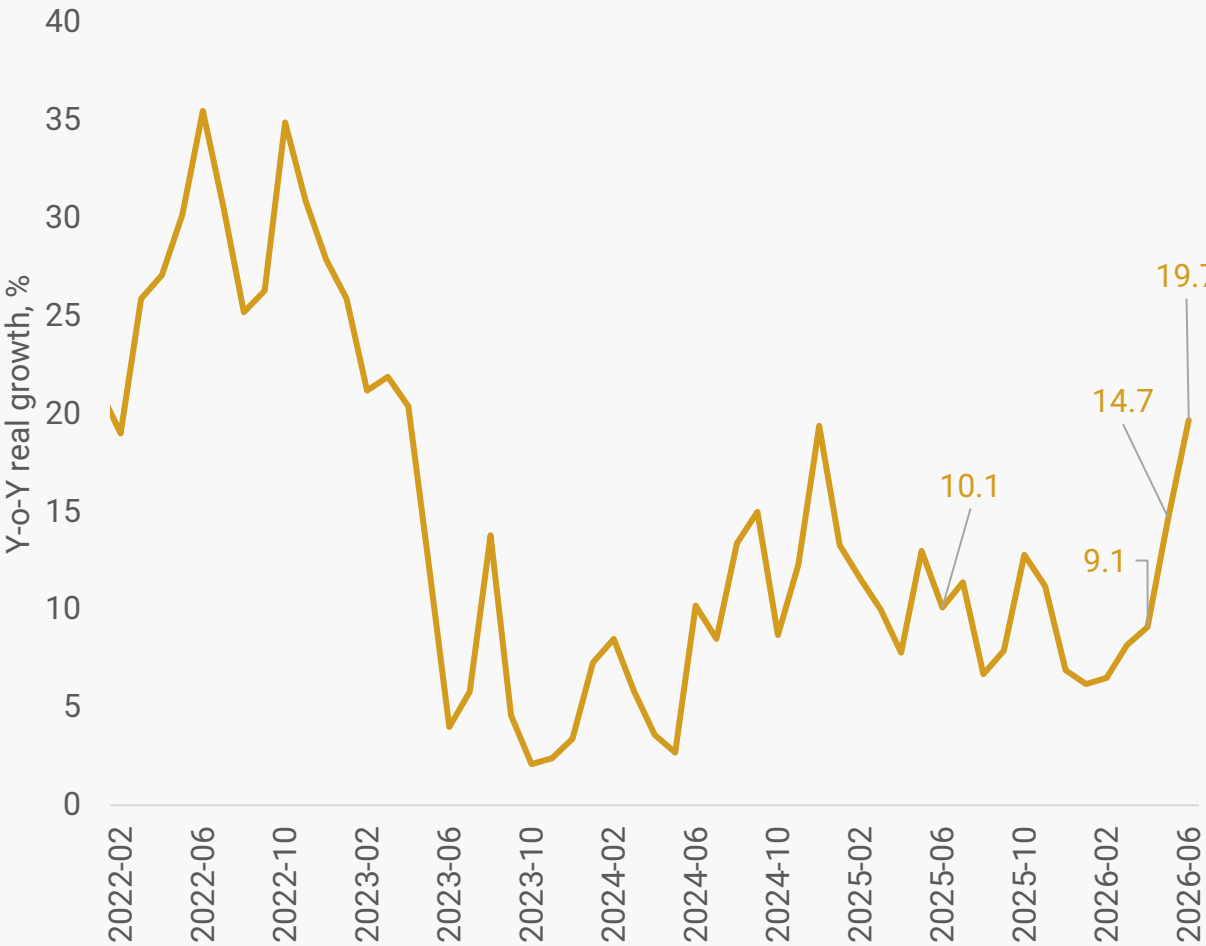
Subsectors of Manufacturing, real growth



Source: Statistical Committee of RA

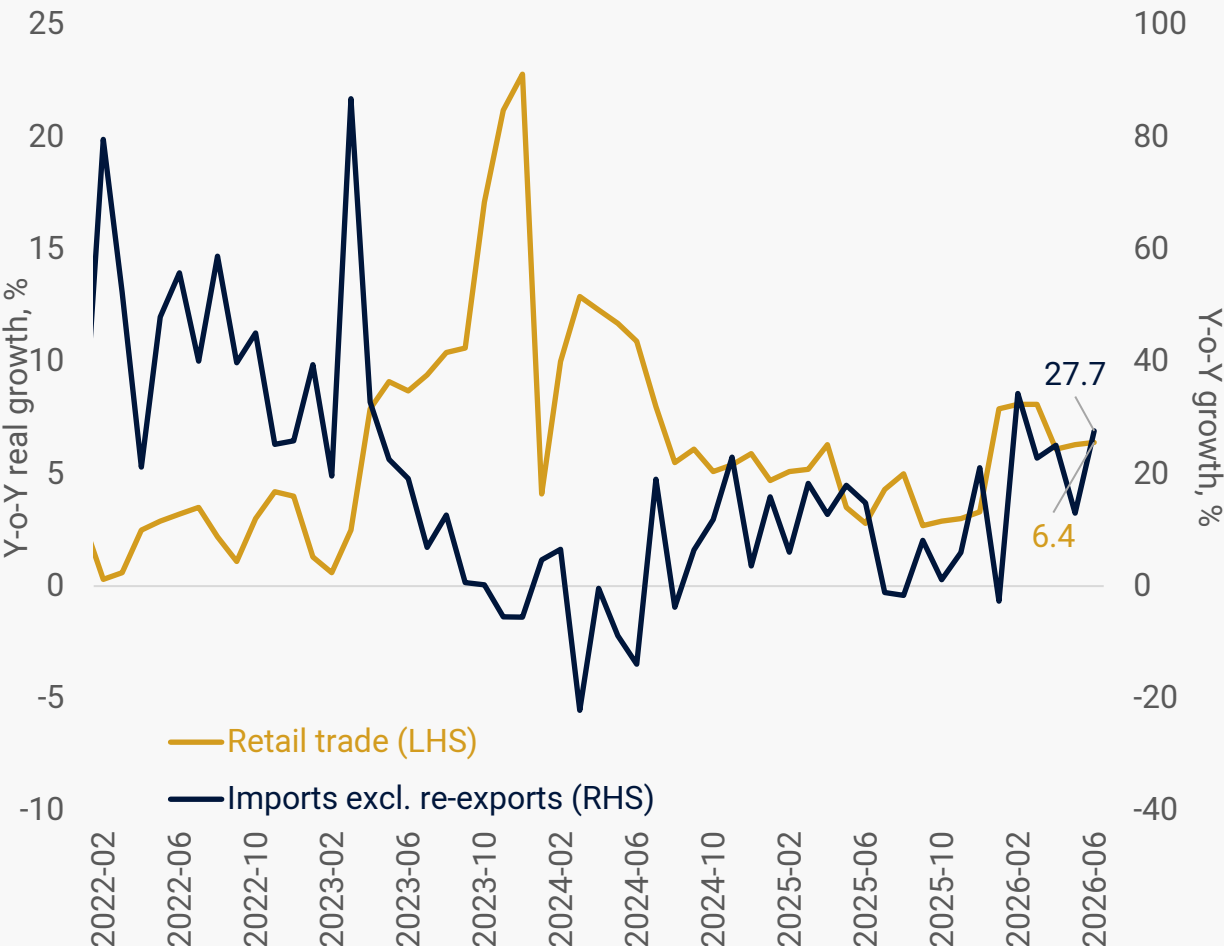
Economic activity, however, remains largely supported by the services sector, possibly indicating sustained strong demand and its recent expansion

Services sector real growth



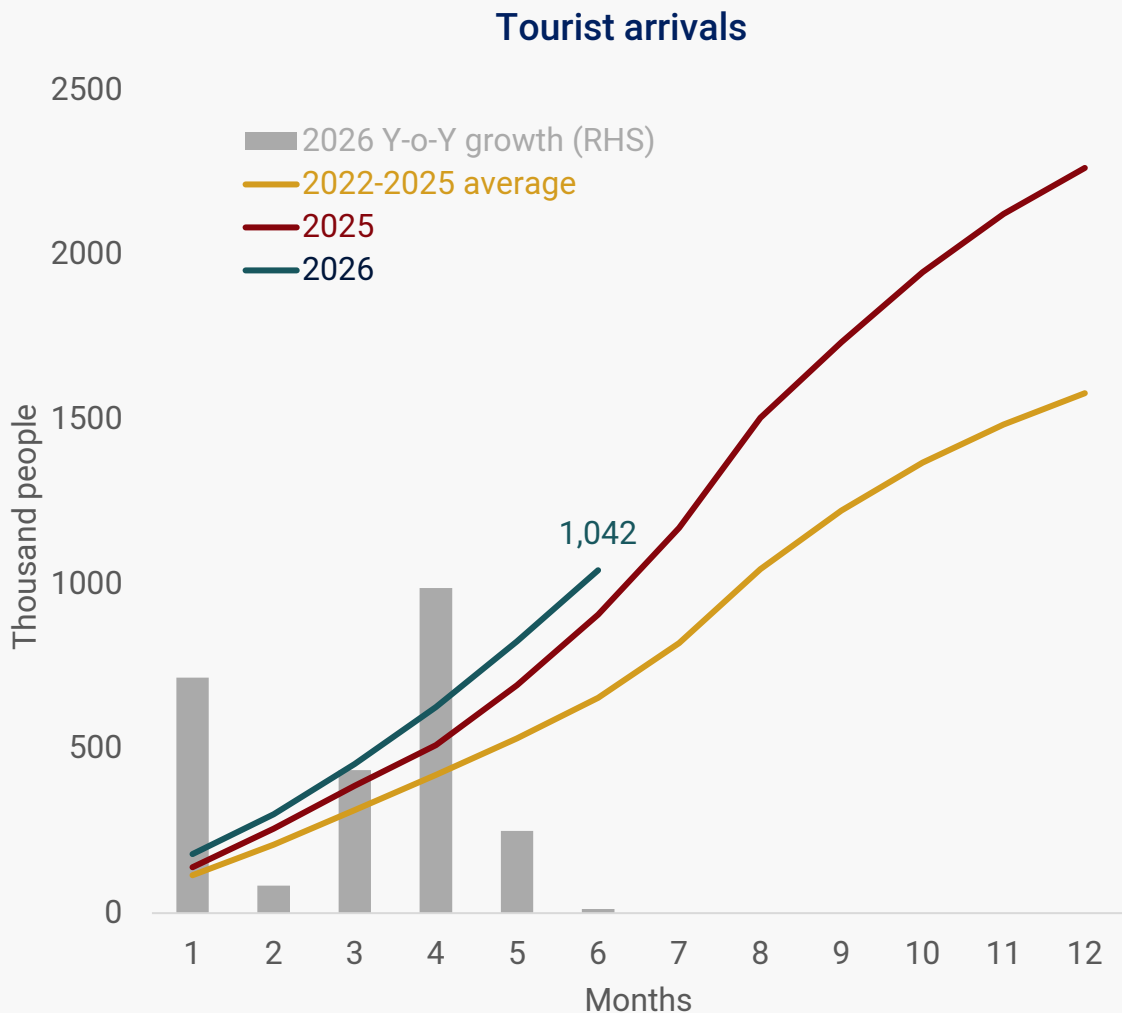
Source: Statistical Committee of RA

Retail trade and imports (for domestic needs)



Source: Statistical Committee of RA, CBA estimates

On the other hand, signs of expanding external demand persist...



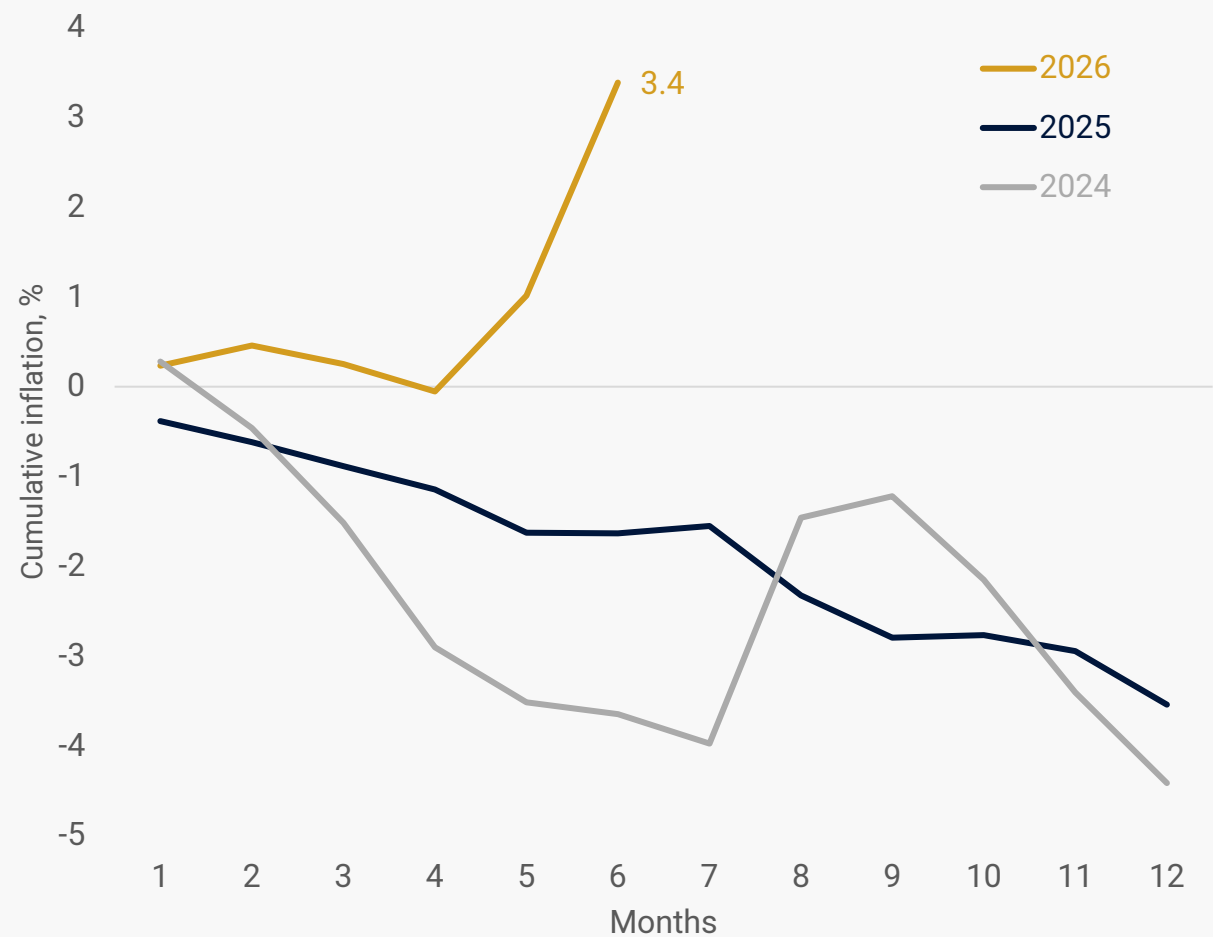
Source: Tourism Committee of Armenia



Source: Tourism Committee of Armenia

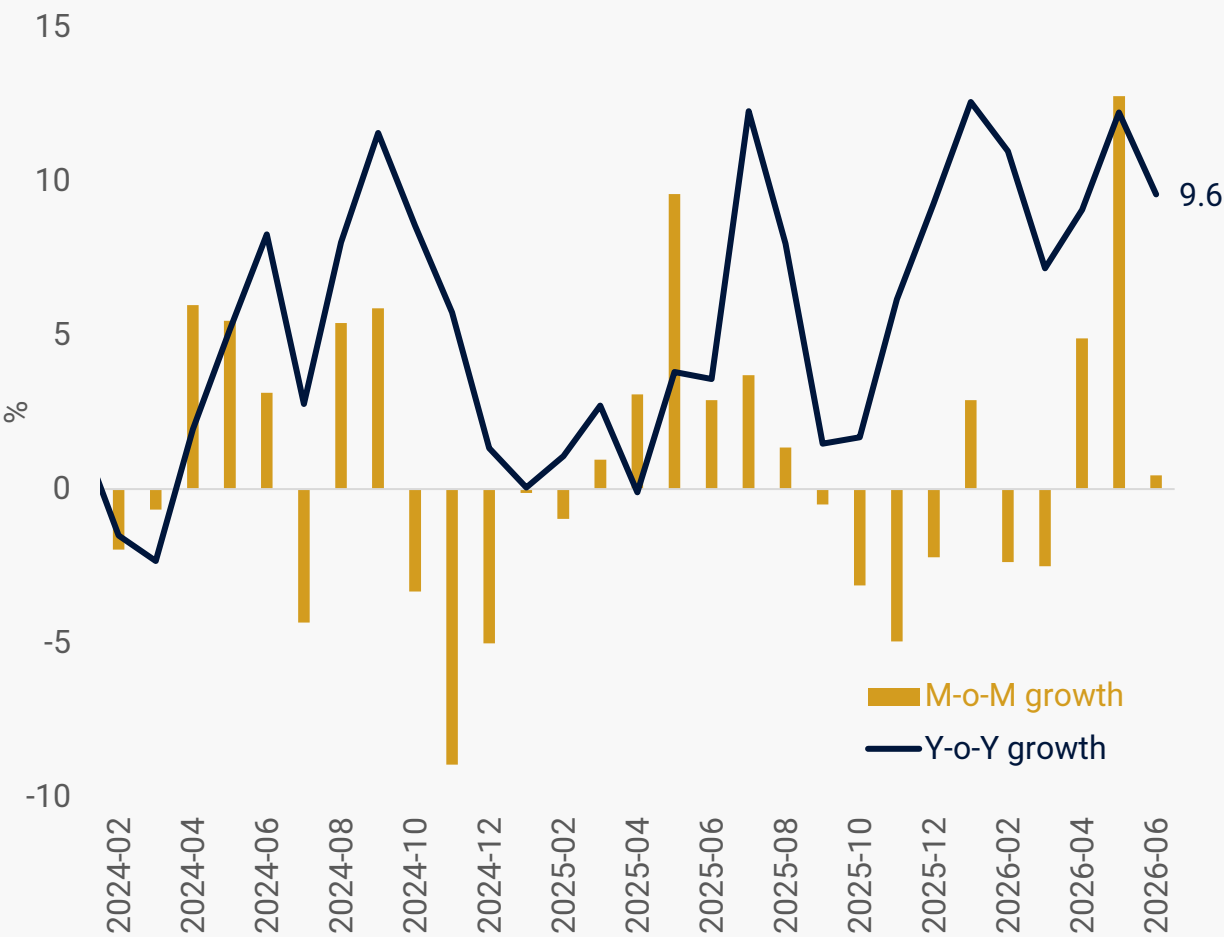
..as reflected in the inflation dynamics of the related services

Actual rentals paid by tenants for secondary residences



Source: Statistical Committee of RA

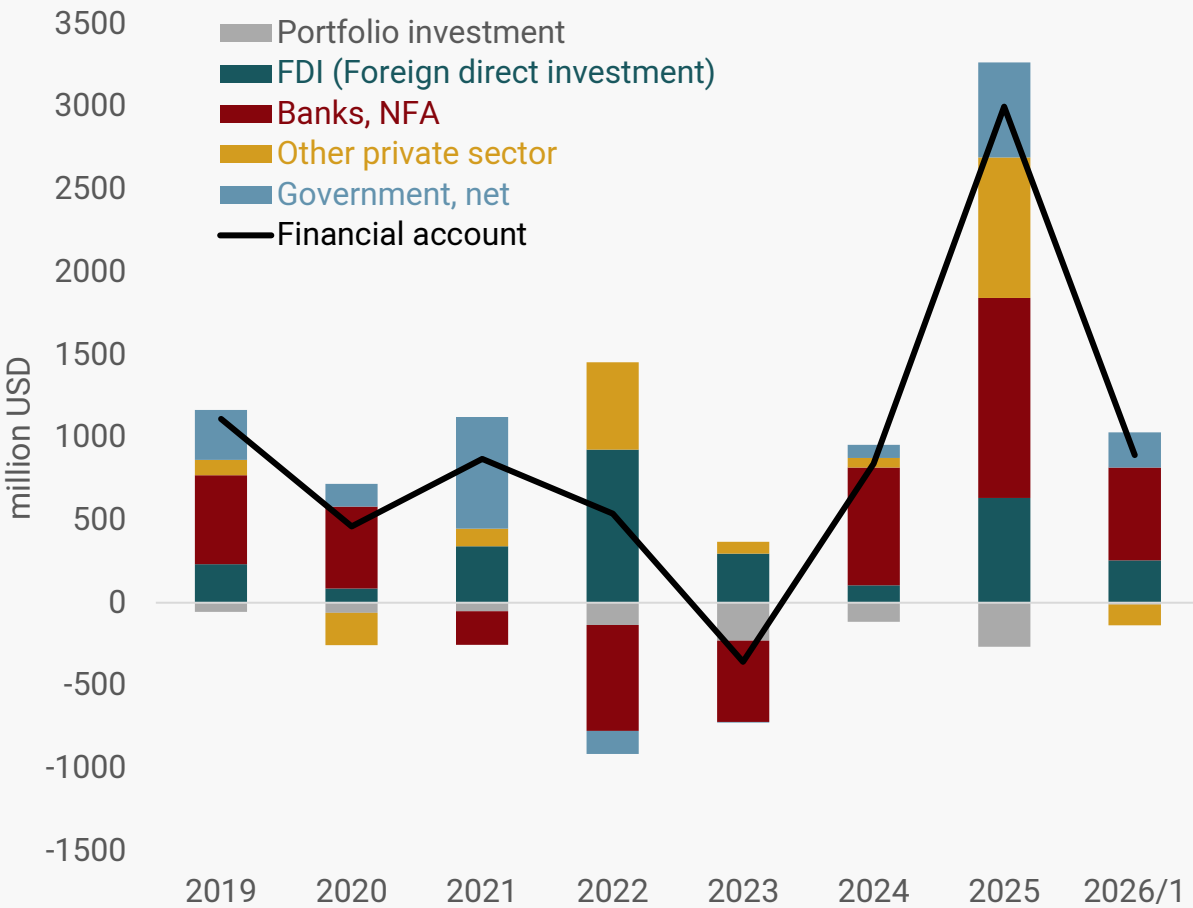
Hotels, motels, inns and similar accommodation services, inflation



Source: Statistical Committee of RA

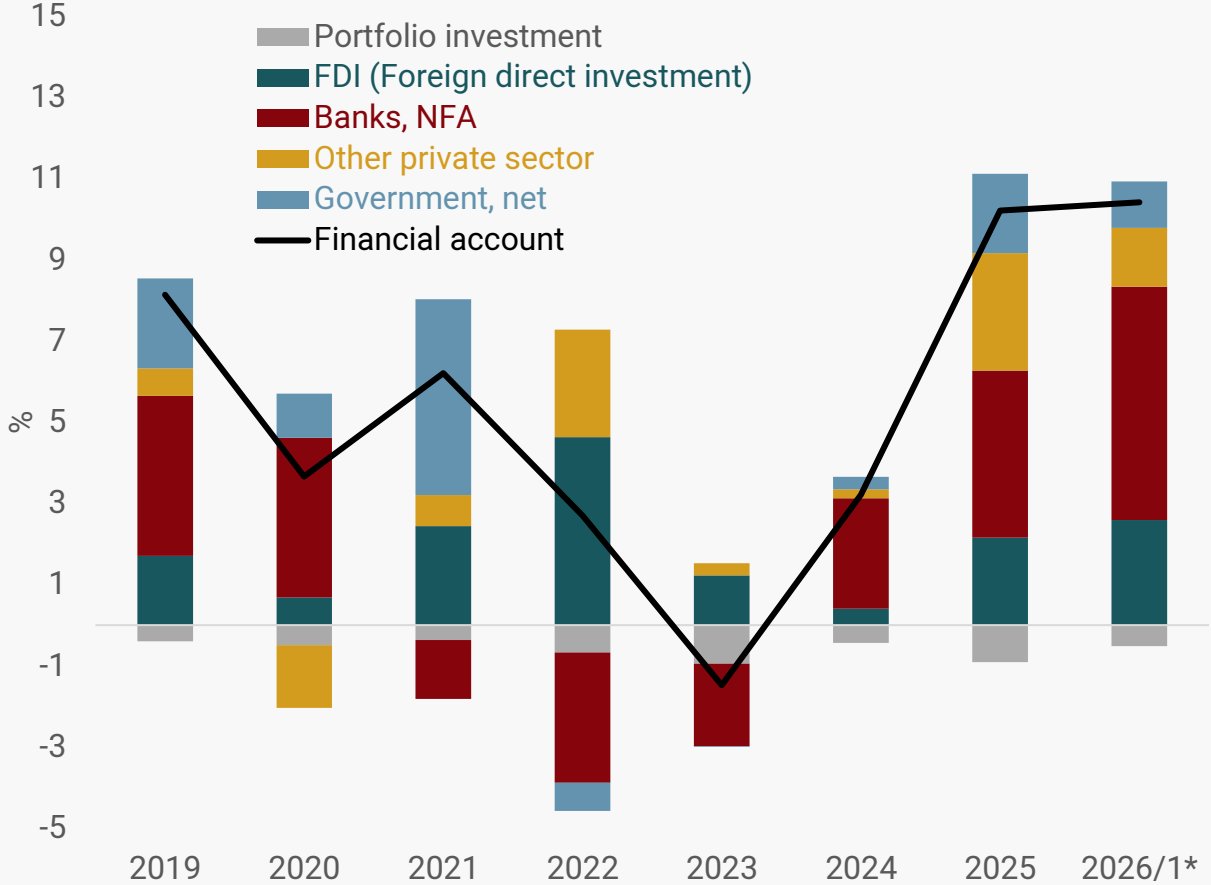
At the same time, demand is also being supported by substantial capital inflows into Armenia, which have increased significantly during 2025 and 2026 Q1

Financial account (+ inflow)



Source: Central Bank of Armenia

Financial account/GDP (+ inflow)

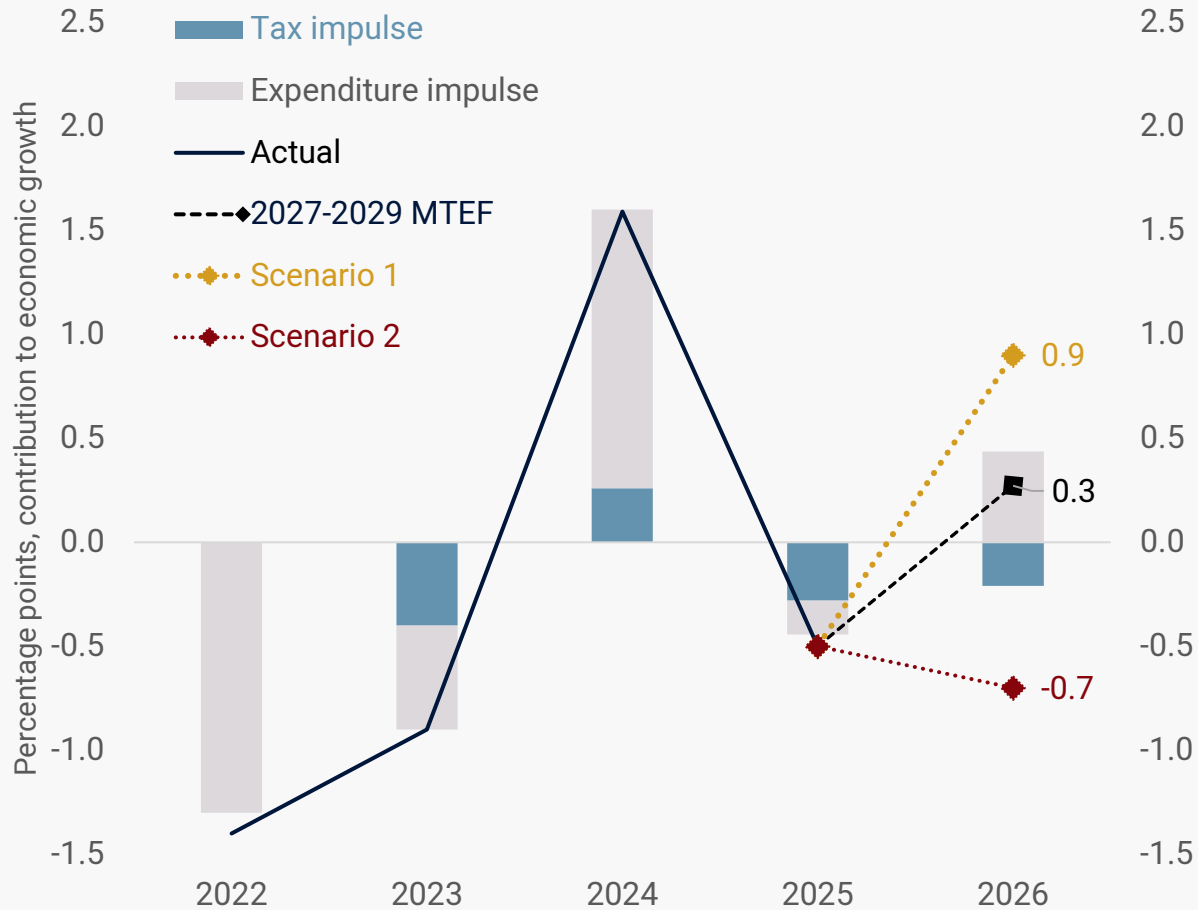


Source: Central Bank of Armenia

* Note: The Q1 2026 figure is calculated on a four-quarter rolling basis as the ratio of the cumulative financial account balance to cumulative GDP.

Risks of a more expansionary fiscal stance persist, particularly due to the possibility of overspending on healthcare

Scenarios of the impact of fiscal policy on aggregate demand

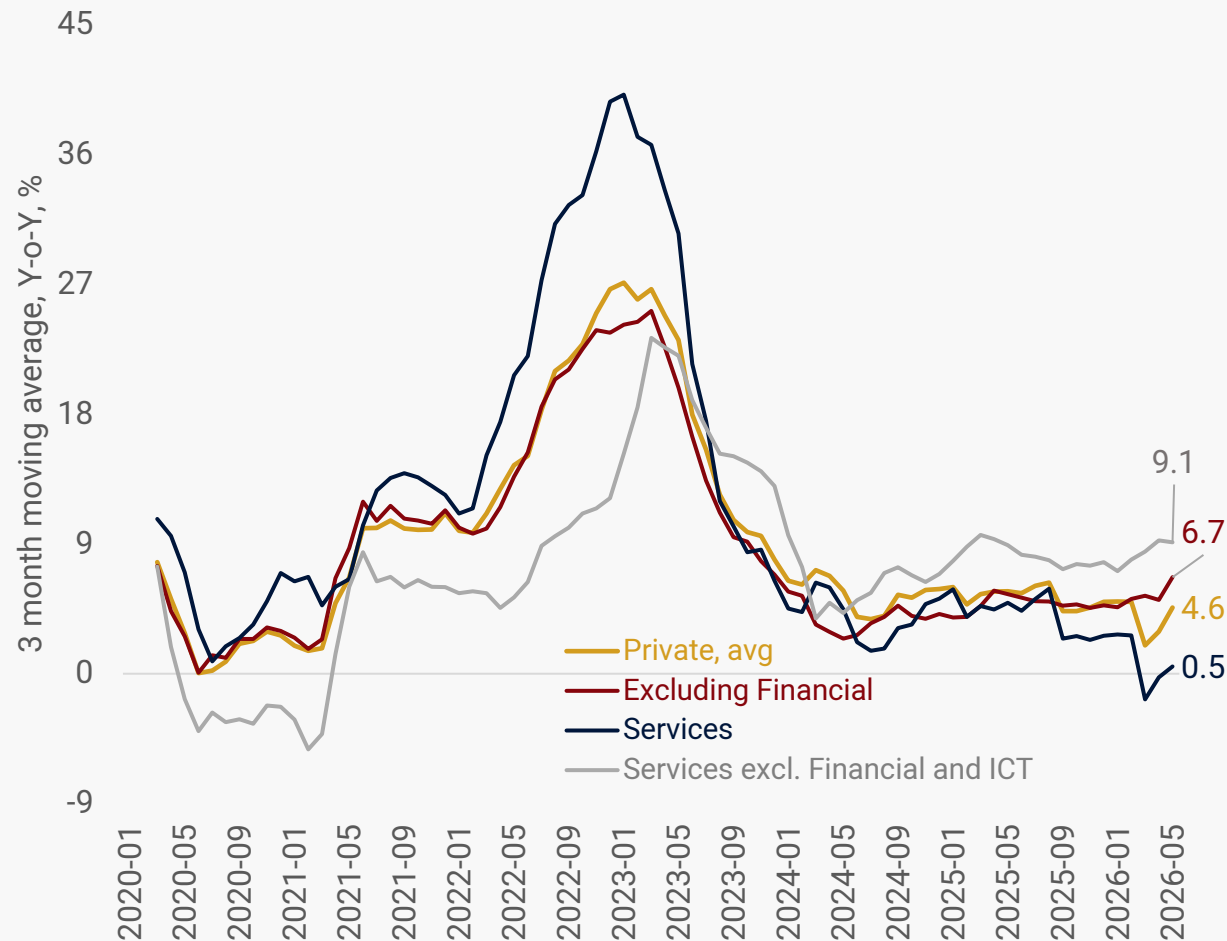


- **Scenario 1.** Overspending on healthcare expenditures under the assumption of full execution of the tax revenue plan.
- **Scenario 2.** Full execution of the tax revenue plan, but under-execution of capital expenditures due to limited capacity to implement large-scale capital projects, in line with the trends observed in previous years.

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

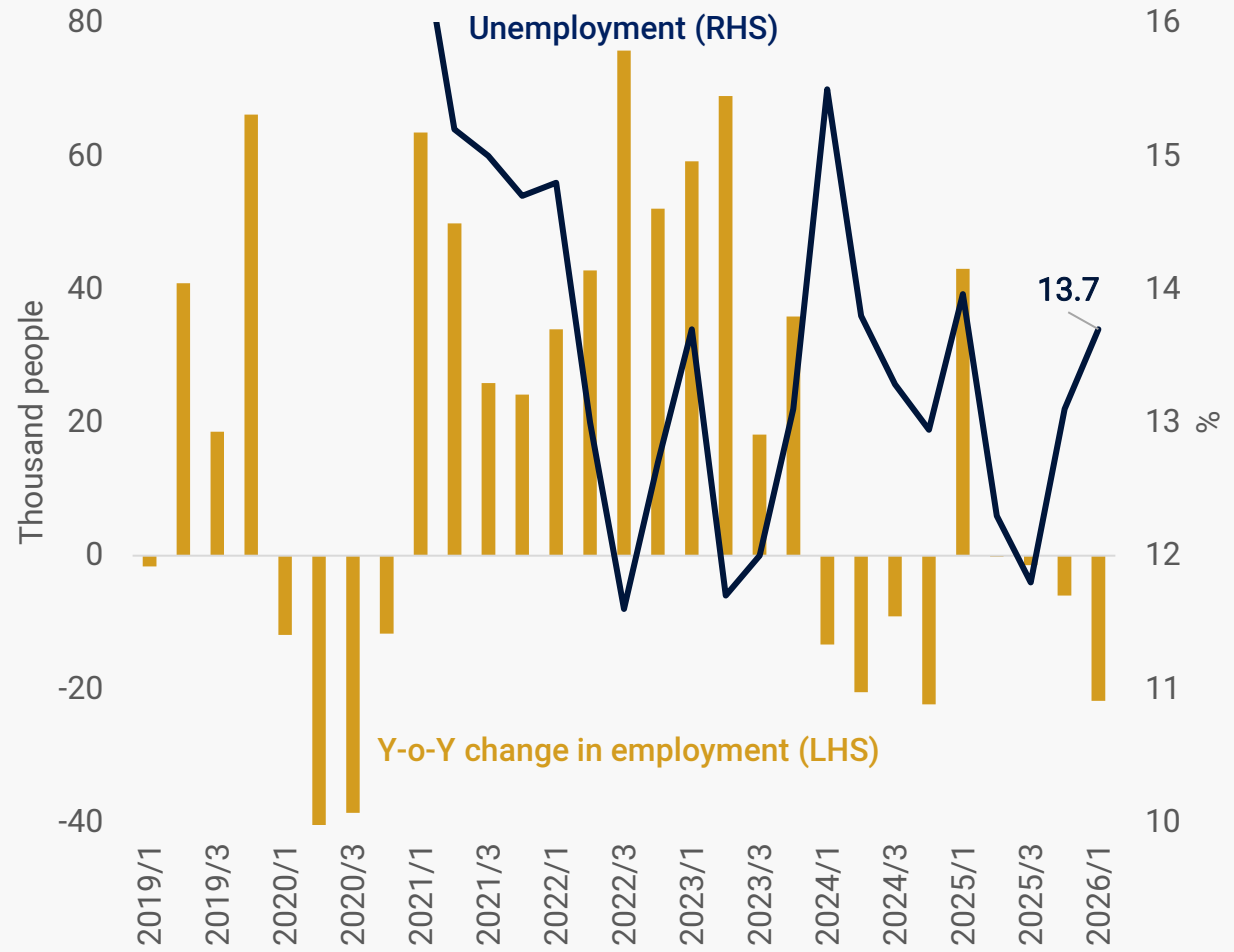
On the other hand, developments in the **labor market** may point to a relatively more balanced position of the economy (a smaller but still positive output gap)

Private-sector wage growth remains broadly aligned with productivity growth and the inflation target



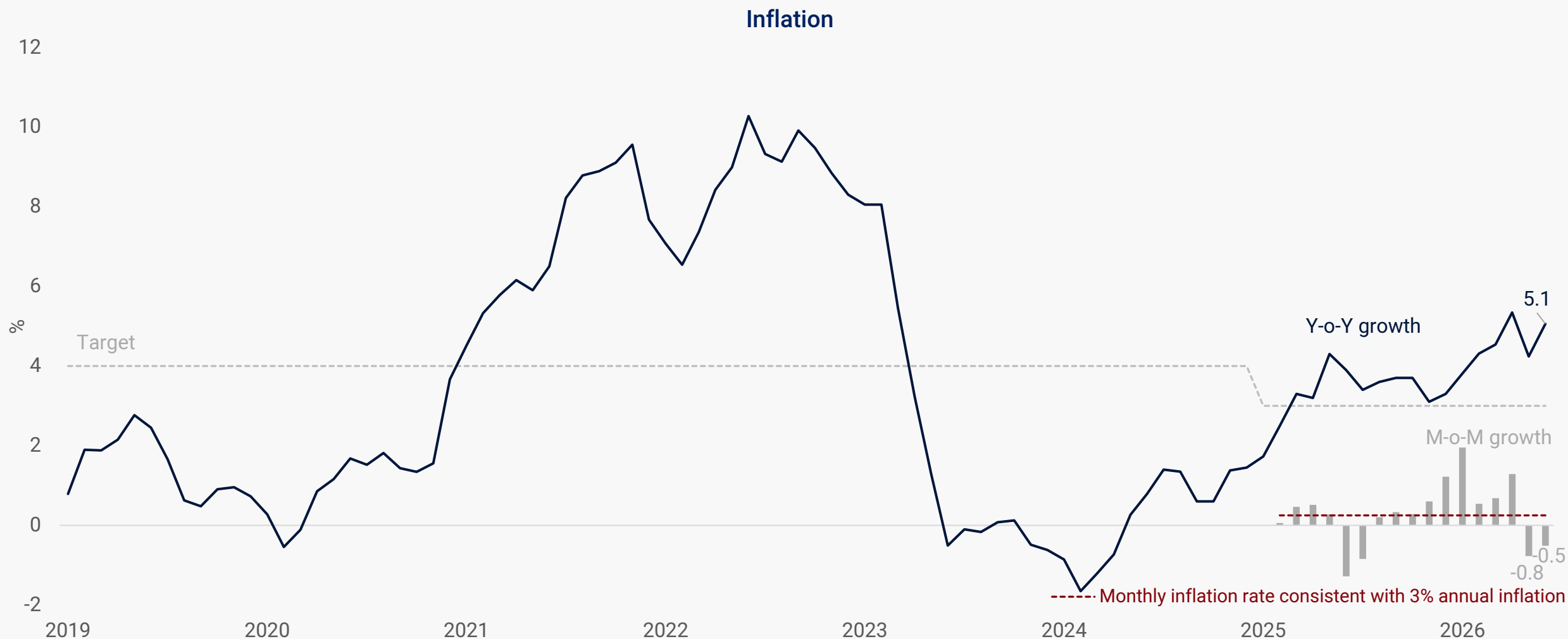
Source: Statistical Committee of RA

The unemployment rate remains within the 12–14% range



Source: Statistical Committee of RA

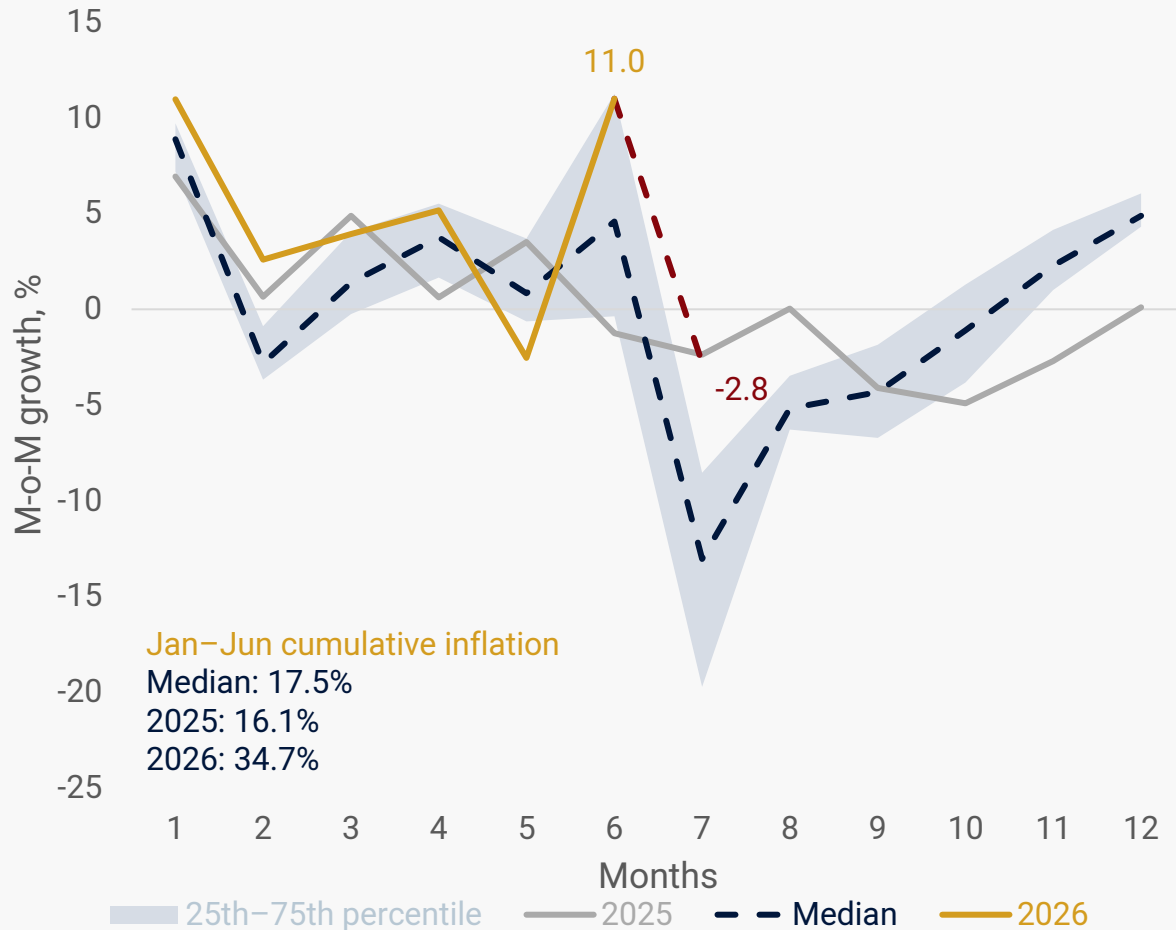
With seasonal deflation less pronounced than usual in recent months, 12-month inflation continues to run well above the target, reaching 5.1% in June



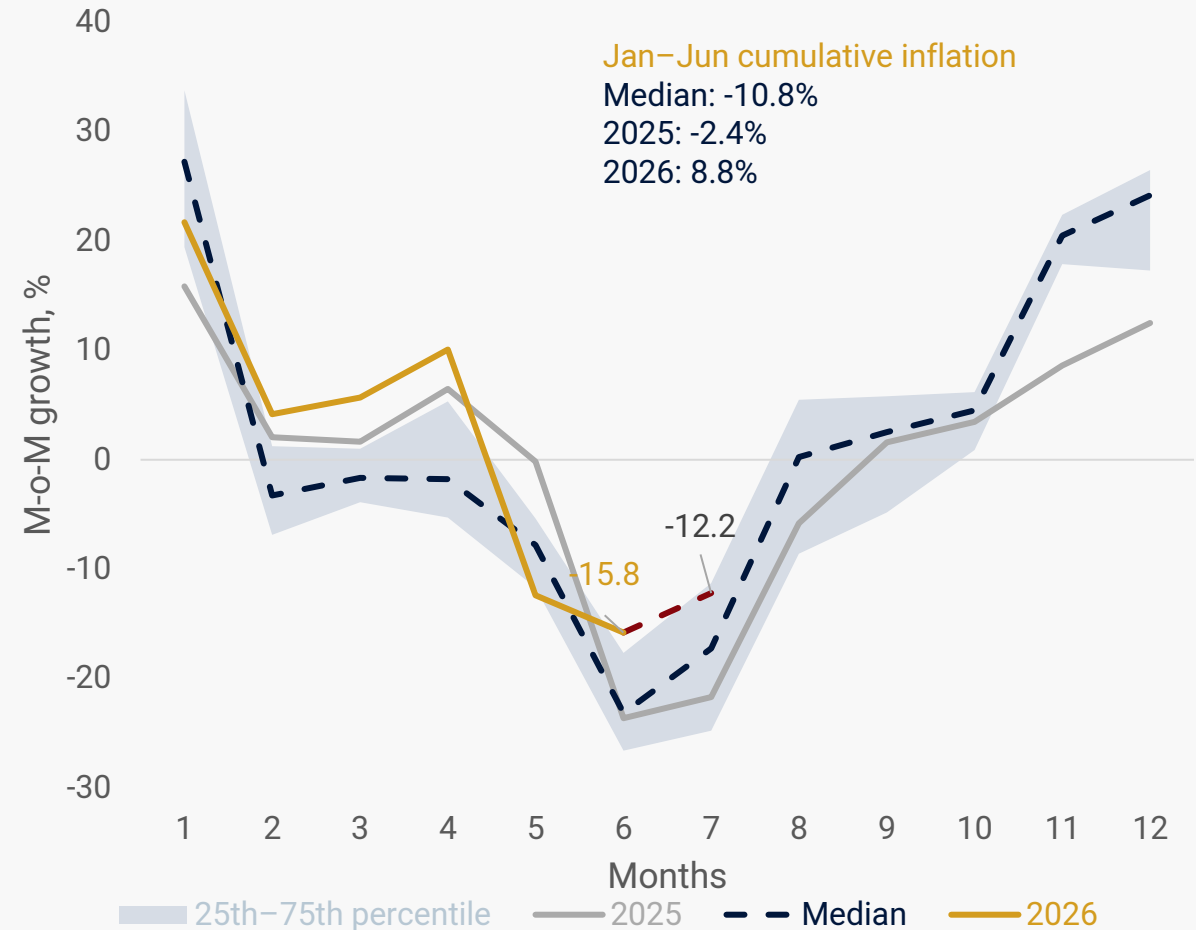
Source: Statistical Committee of RA

Fruit and vegetable inflation remains high, driven by unfavorable weather conditions, seasonal shifts, and disruptions in import supply chains, which may contribute to additional inflation volatility in the coming months

Fruits, inflation



Vegetables, inflation

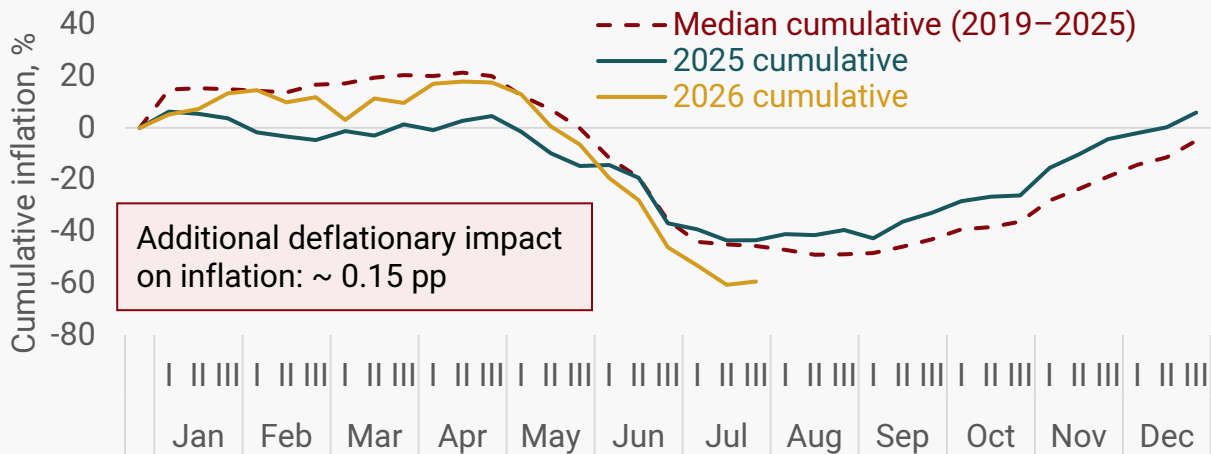


Source: Statistical Committee of RA, Central Bank of Armenia, Central Bank of Armenia observations

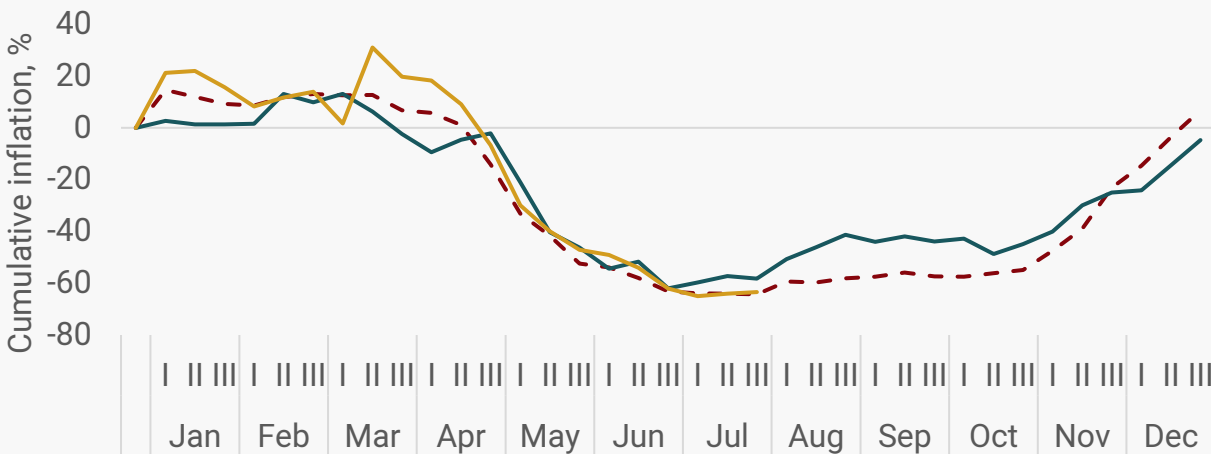
Note: CBA estimates based on high-frequency operational data

Moreover, export restrictions affecting trade with Russia have had a modest negative impact

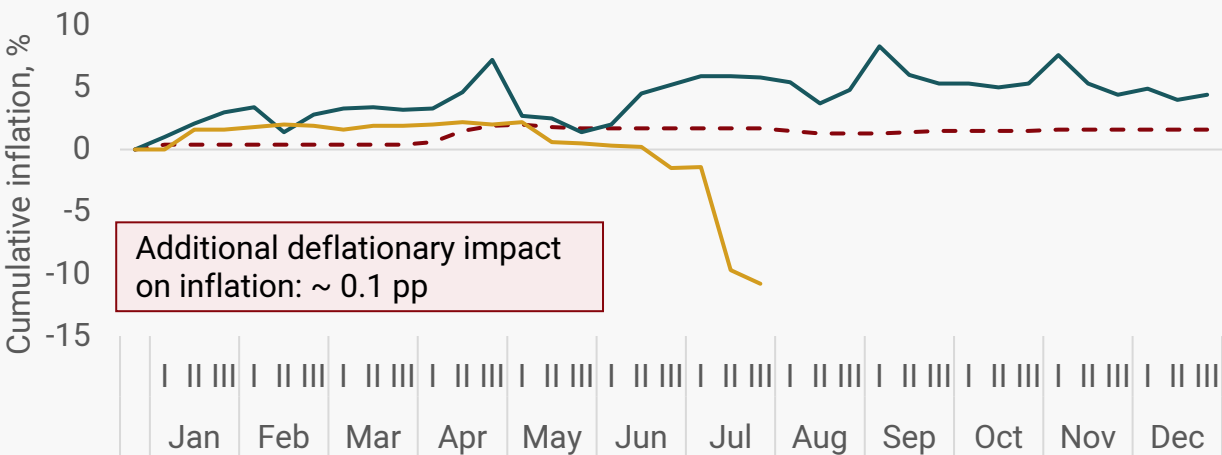
Tomatoes



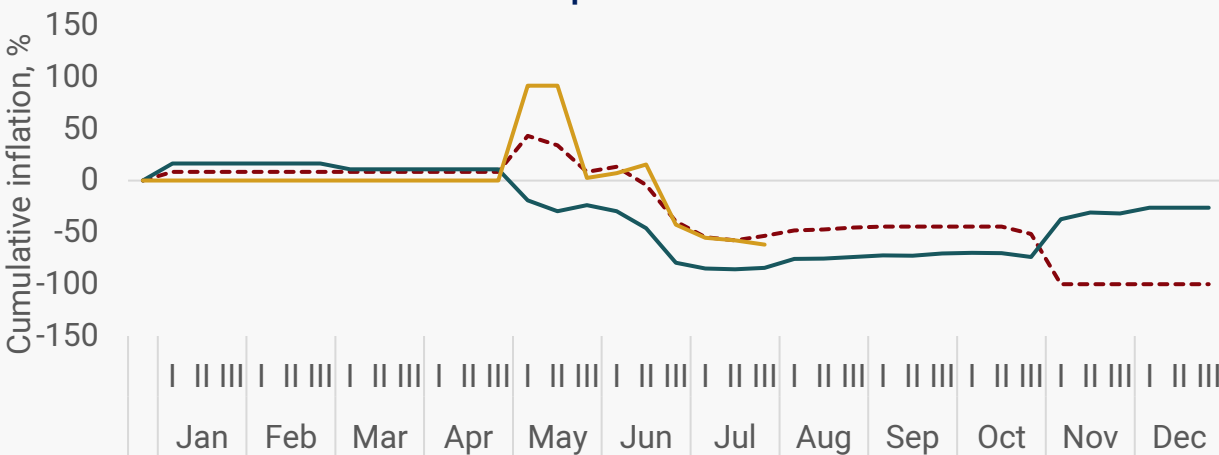
Cucumbers



Fresh trout



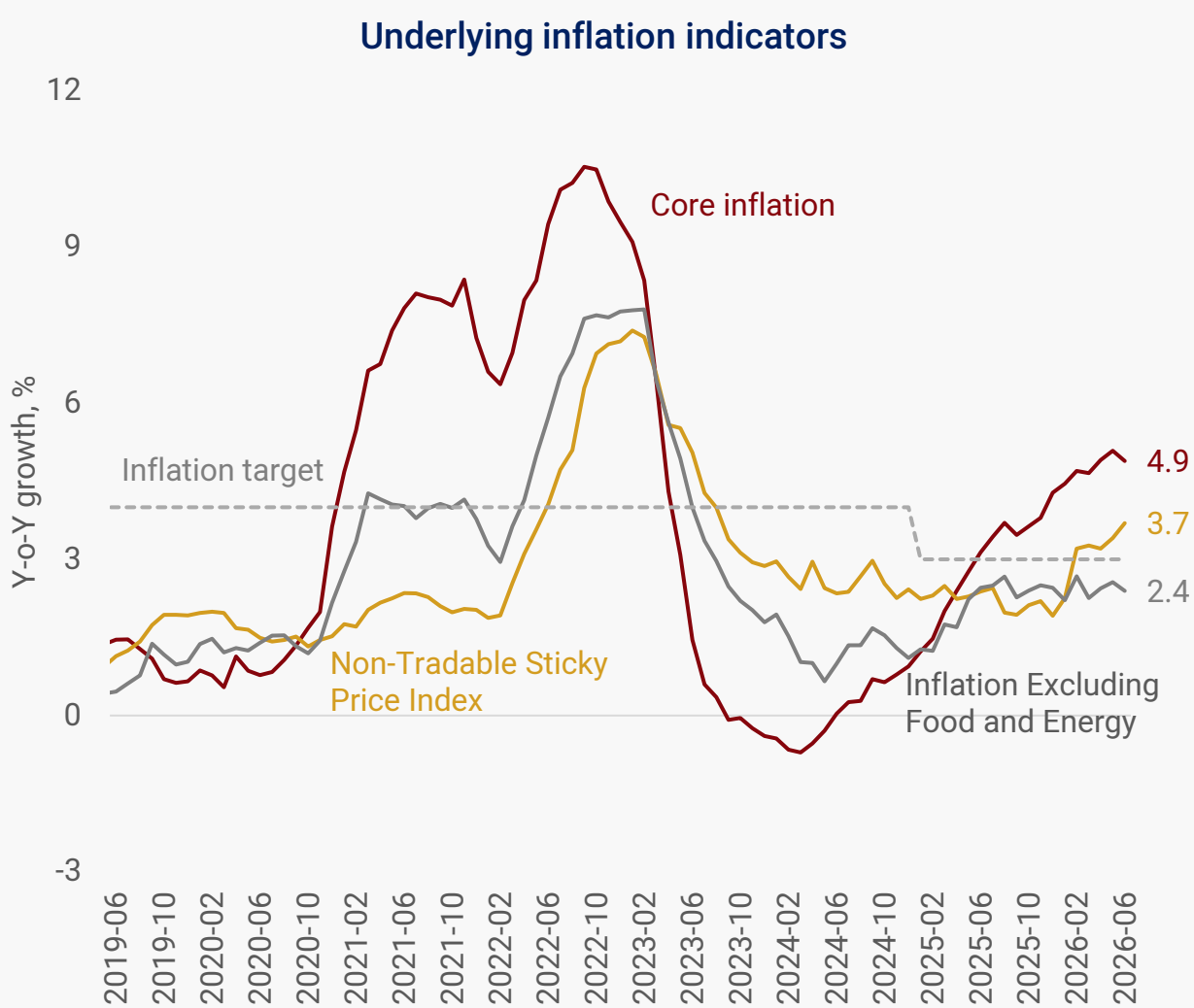
Apricots



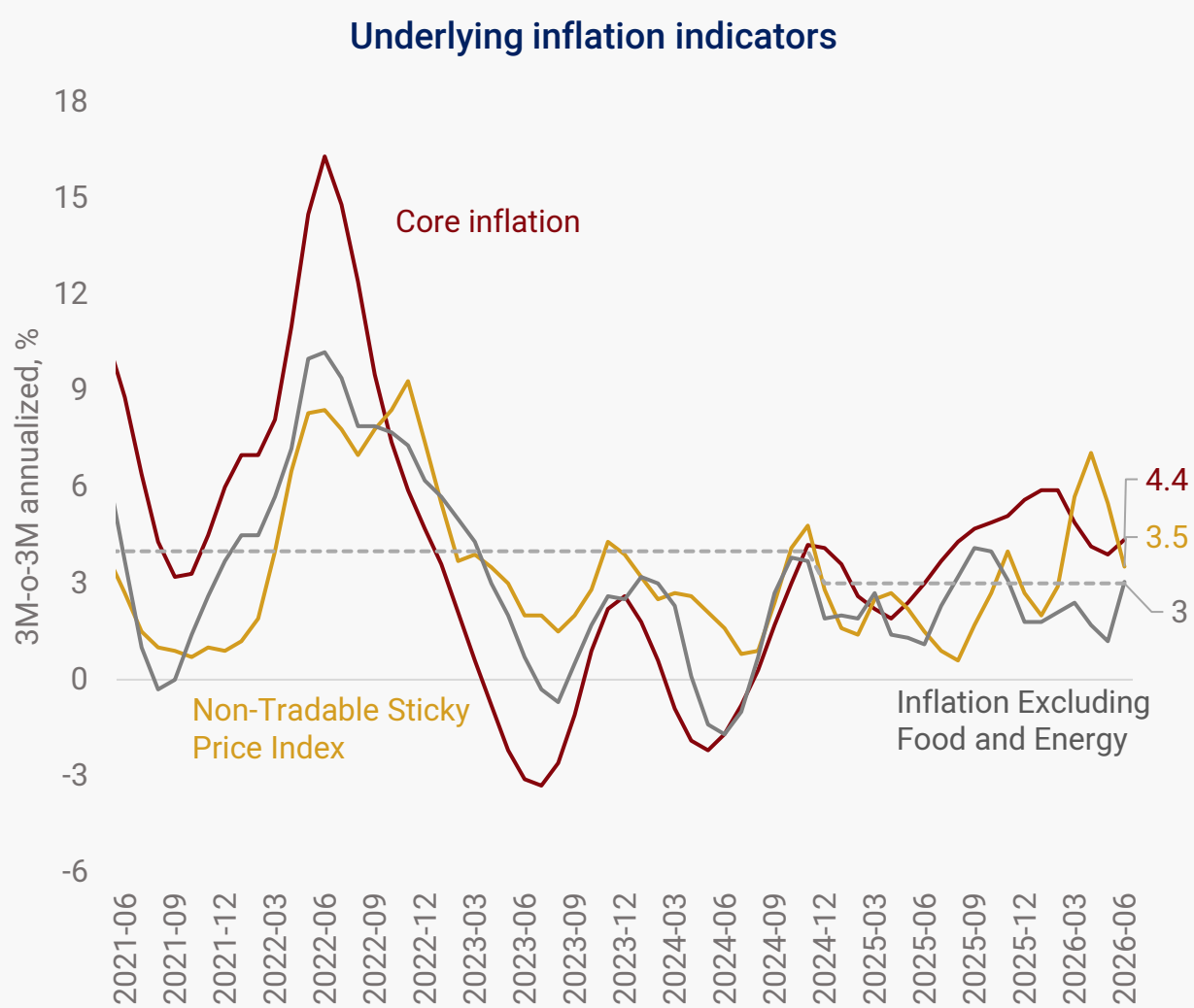
Source: Central Bank of Armenia observations

Source: Central Bank of Armenia observations

At the same time, developments in measures of underlying inflation provide mixed signals regarding the position of the economy



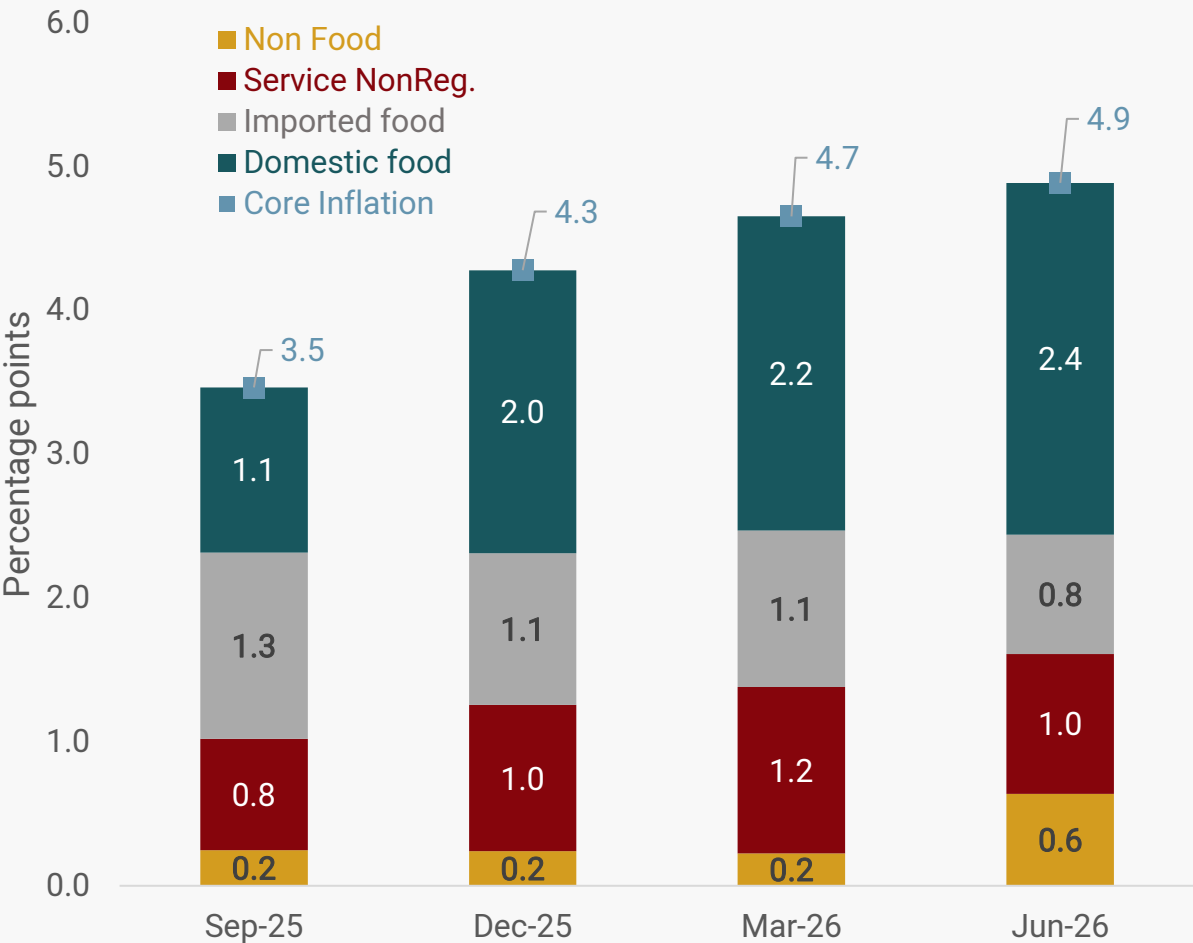
Source: Statistical Committee of RA



Source: Statistical Committee of RA, CBA calculations

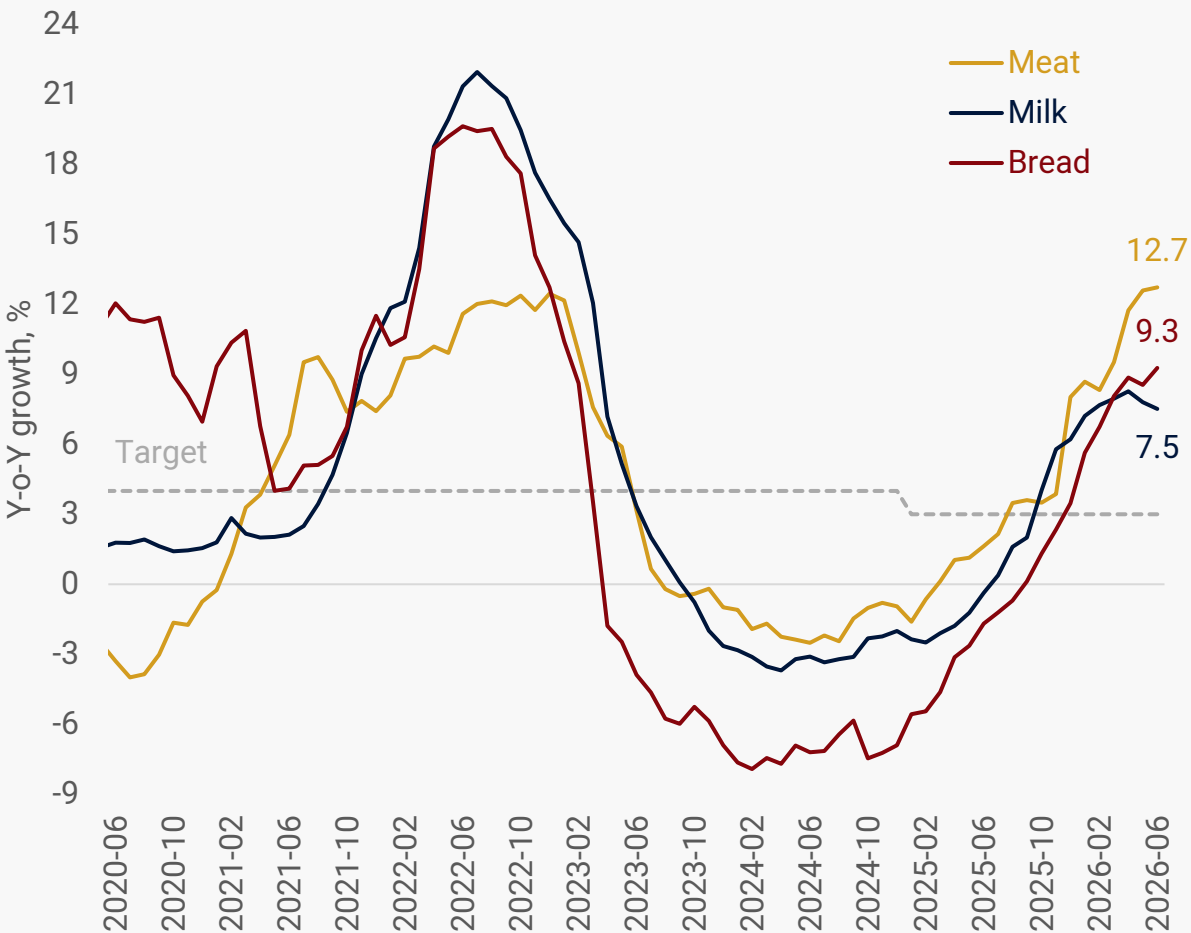
Core inflation continues to run at elevated levels, with domestically produced food making a growing contribution, possibly pointing to strong demand

Contributions to core inflation



Source: Statistical Committee of RA, Central Bank of Armenia

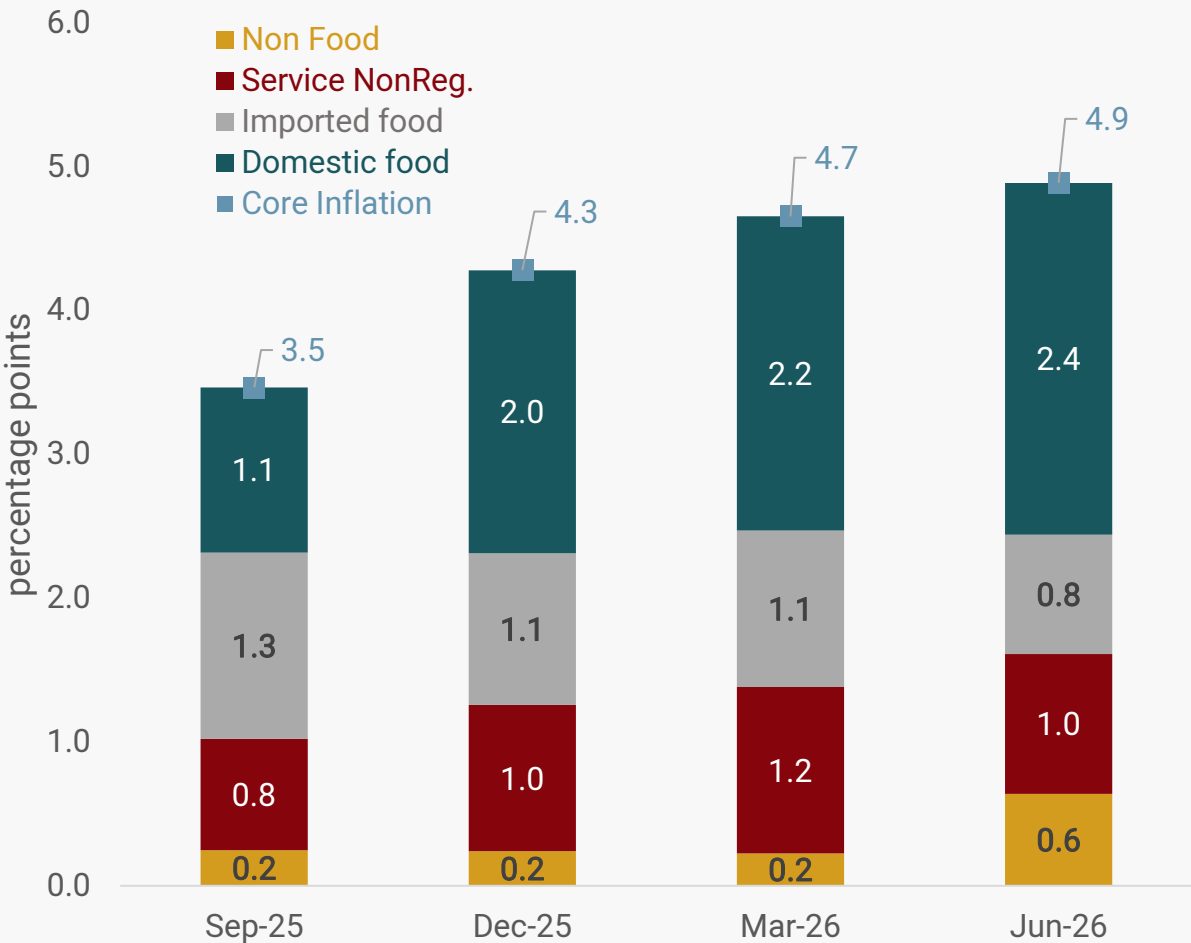
Food price inflation remains elevated



Source: Statistical Committee of RA, Central Bank of Armenia

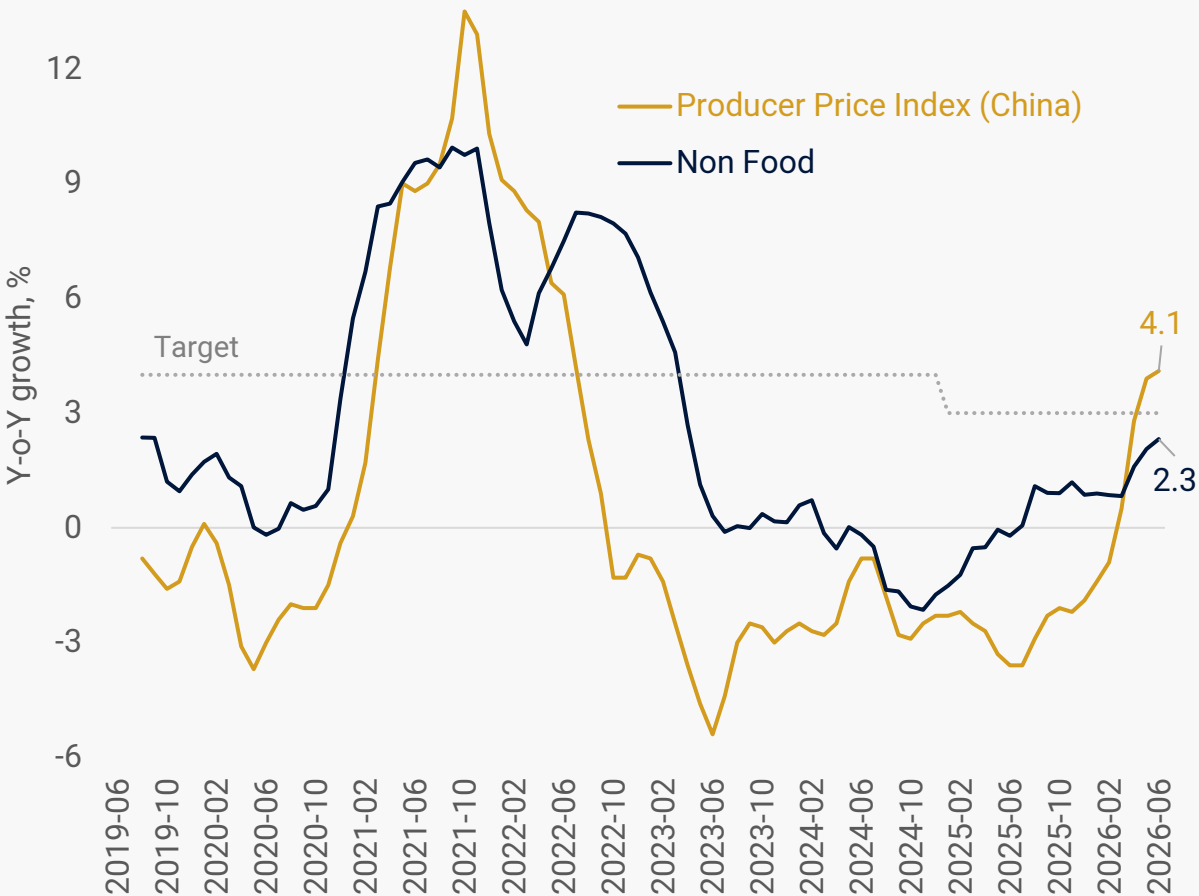
...as well as imported non-food goods, reflecting the substantial increase in global production costs

Contributions to core inflation



Source: Statistical Committee of RA, Central Bank of Armenia

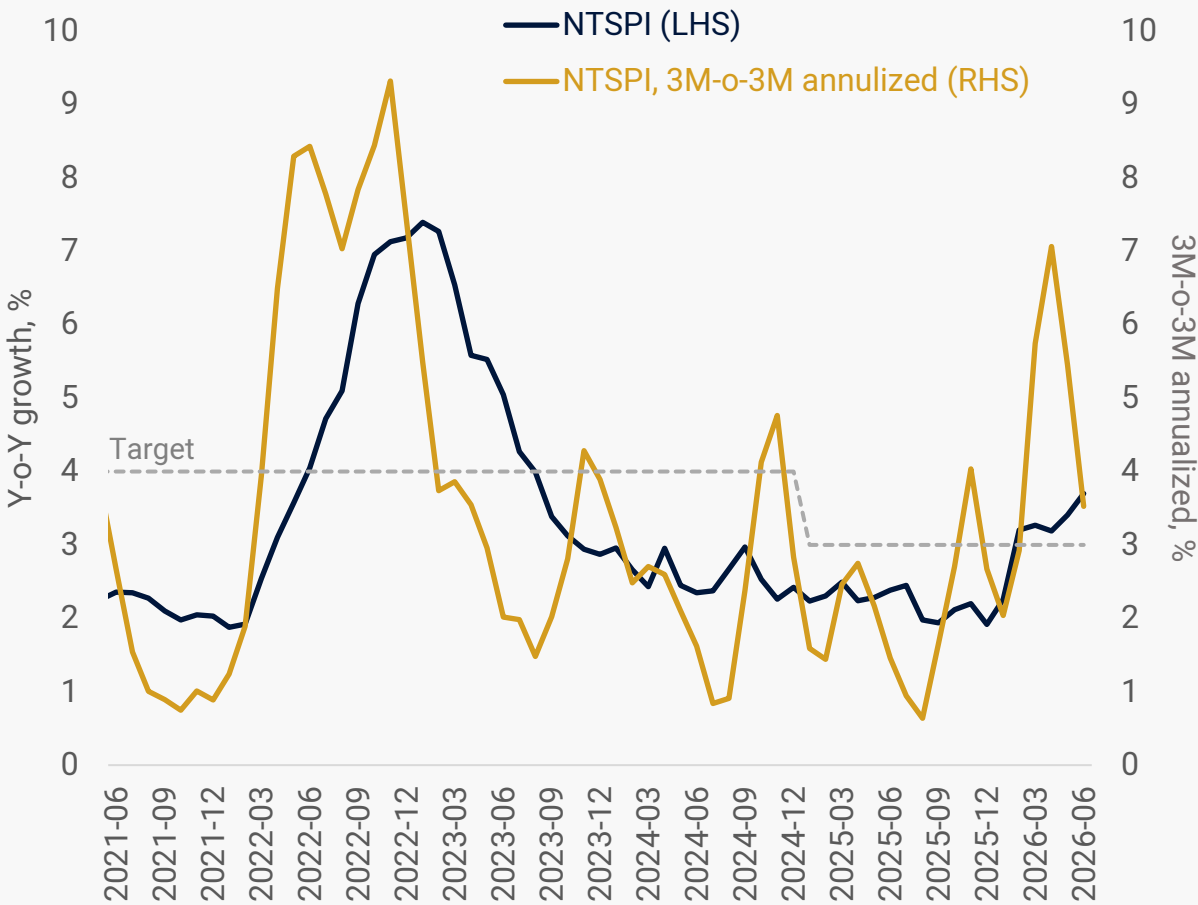
Against the backdrop of rising producer prices in China, uncertainty remains regarding the outlook for non-food inflation in Armenia



Source: Statistical Committee of RA, CBA calculations, National Bureau of Statistics of China

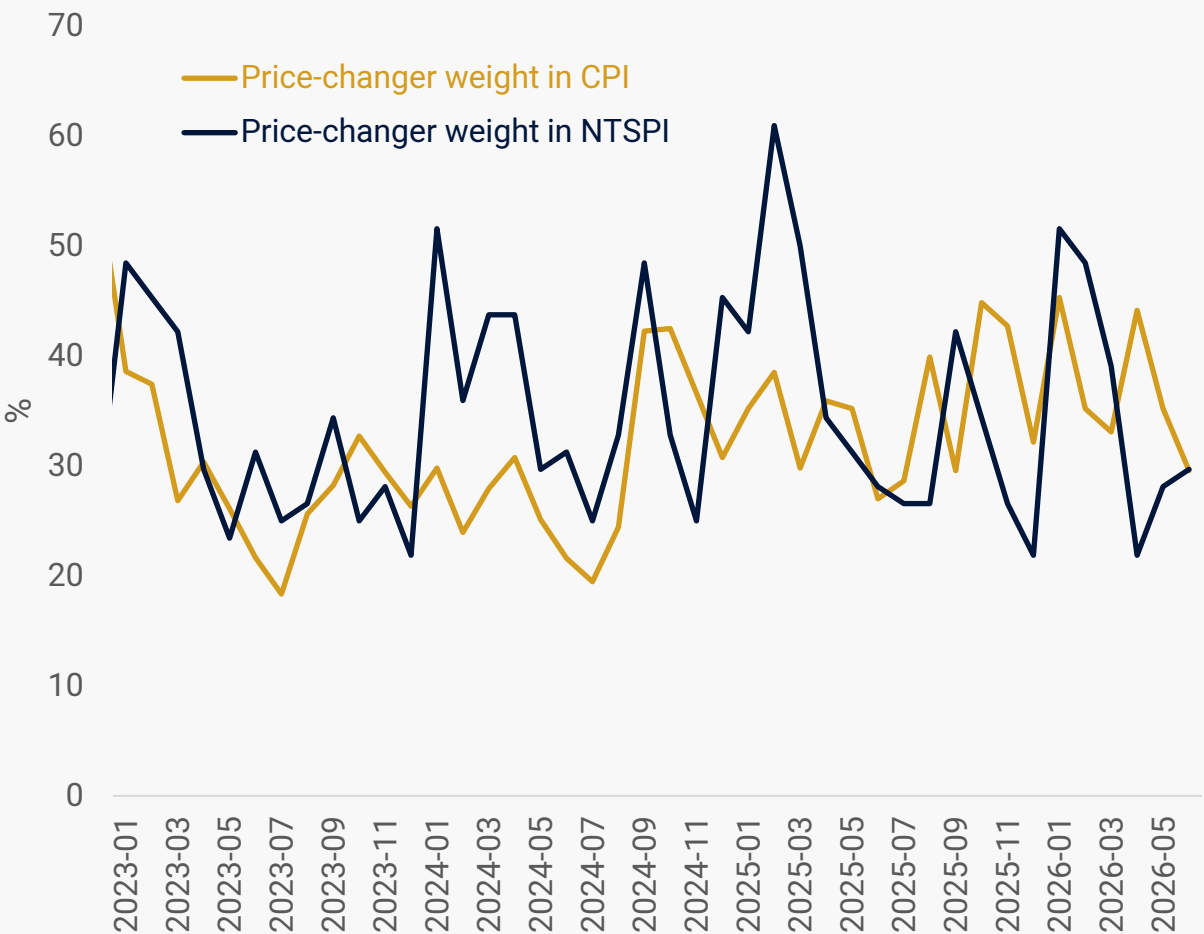
On the other hand, although growth in the NTSPI has accelerated somewhat in recent months, it remains close to the target level

The acceleration in NTSPI in June was driven primarily by inflation in housing rents, which in turn reflects activity in the real estate market



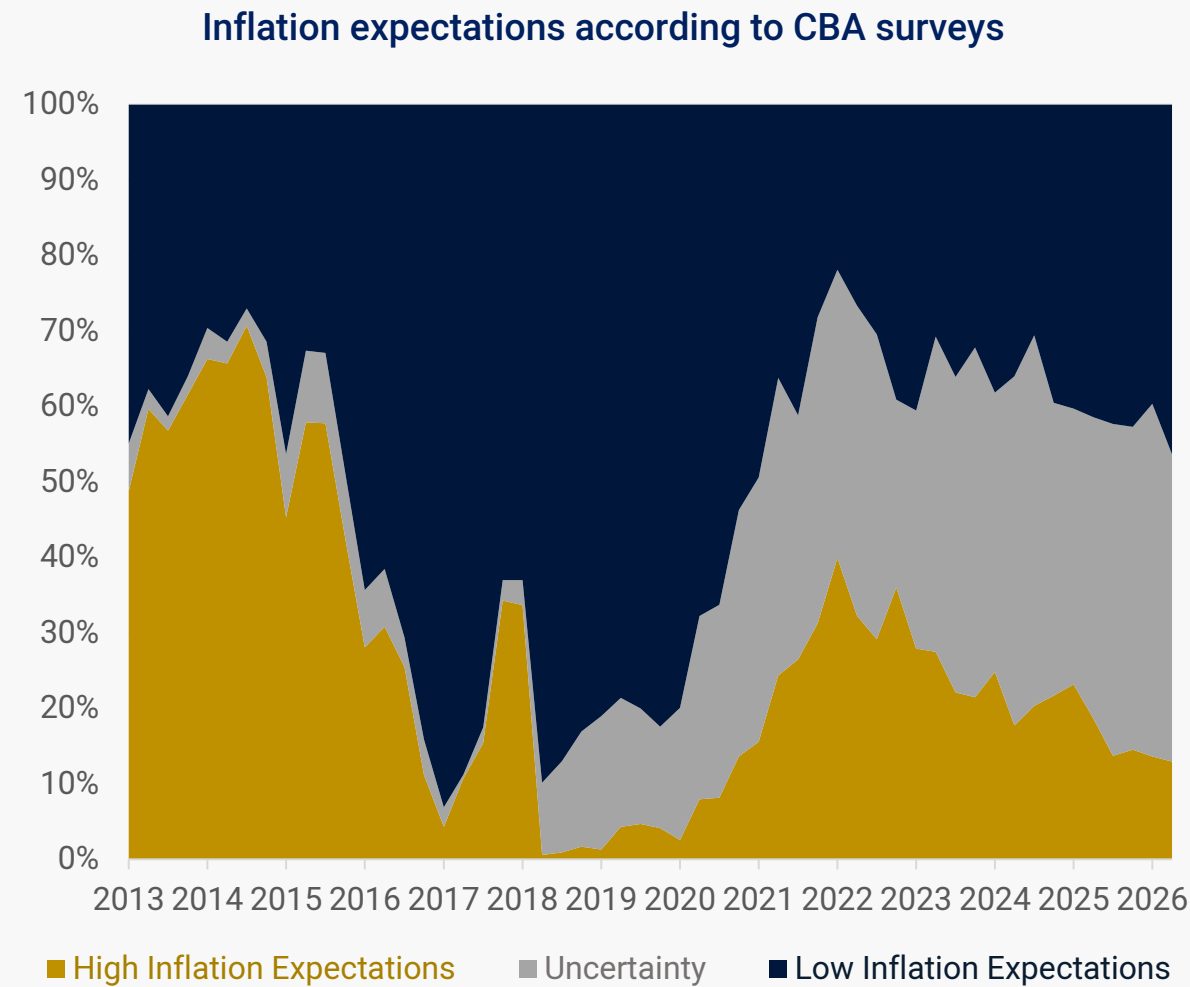
Source: Statistical Committee of RA, CBA calculations

The share of price-changers remains near its historical average

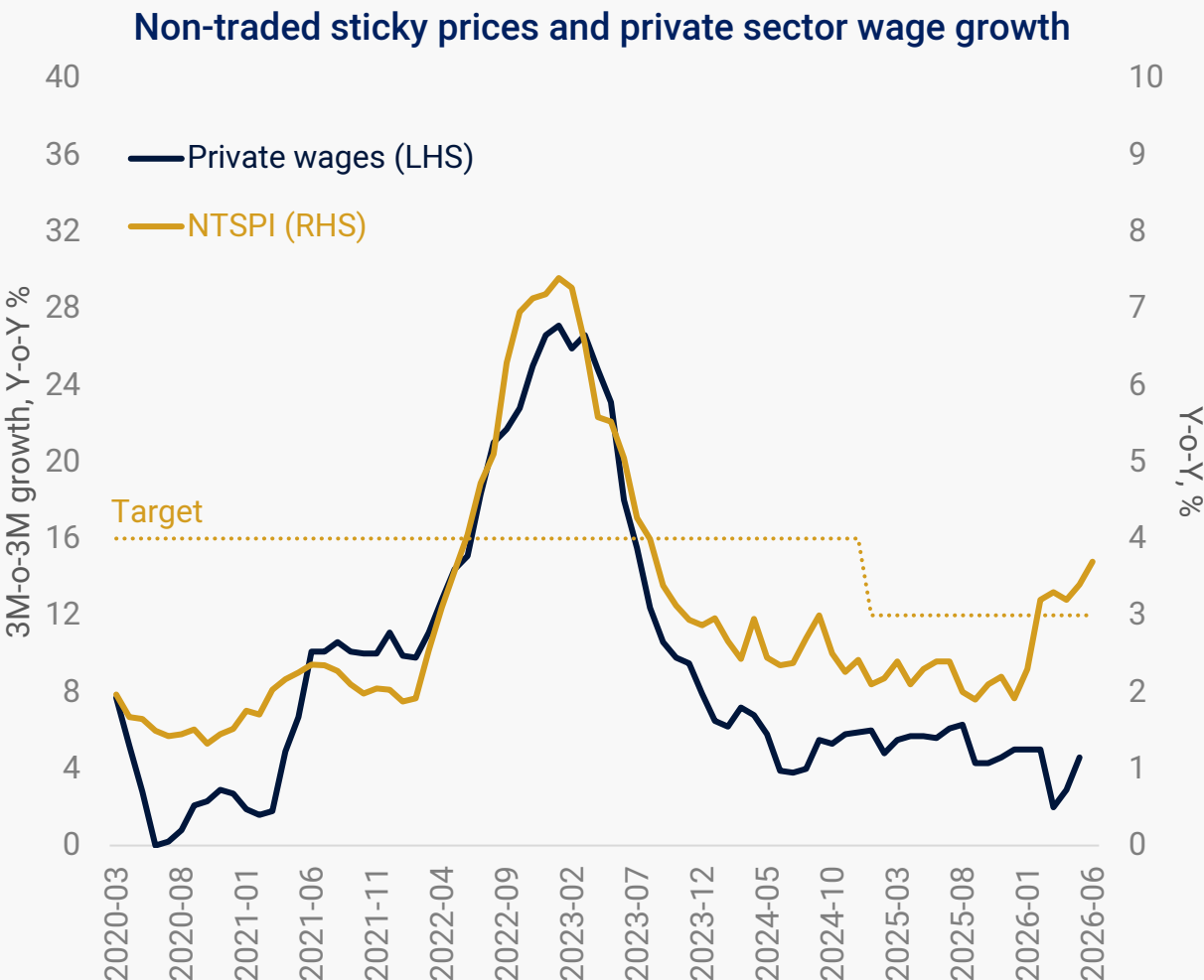


Source: Statistical Committee of RA, CBA calculations

At the same time, inflation expectations continue to show signs of stabilization



Source: Central Bank of Armenia

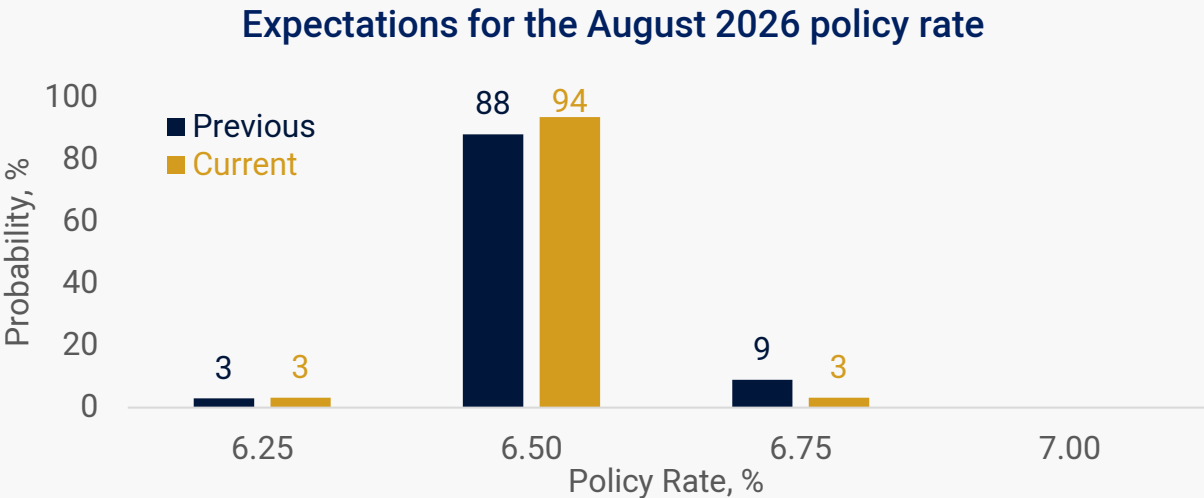
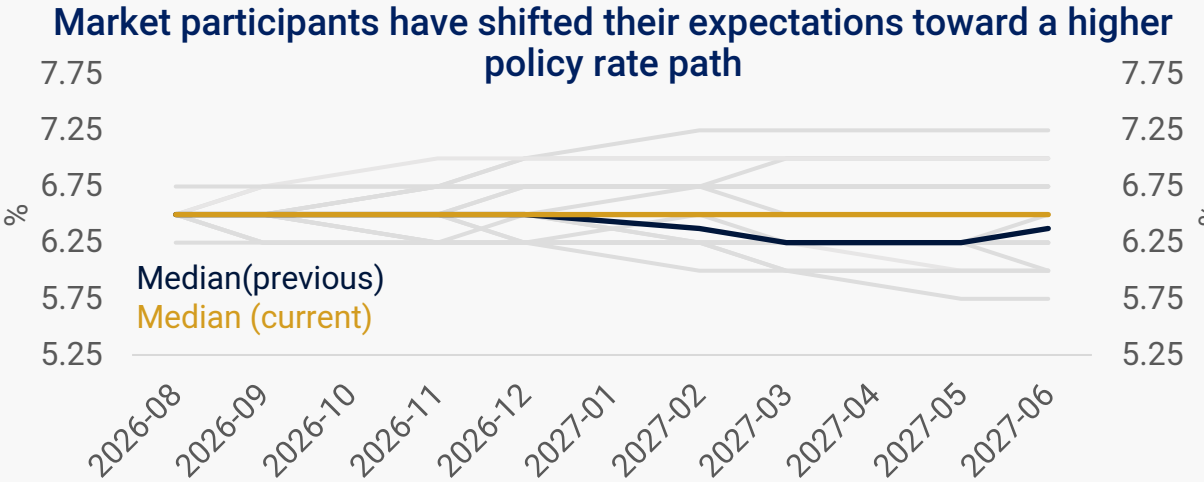


Source: Statistical Committee of RA, CBA calculations



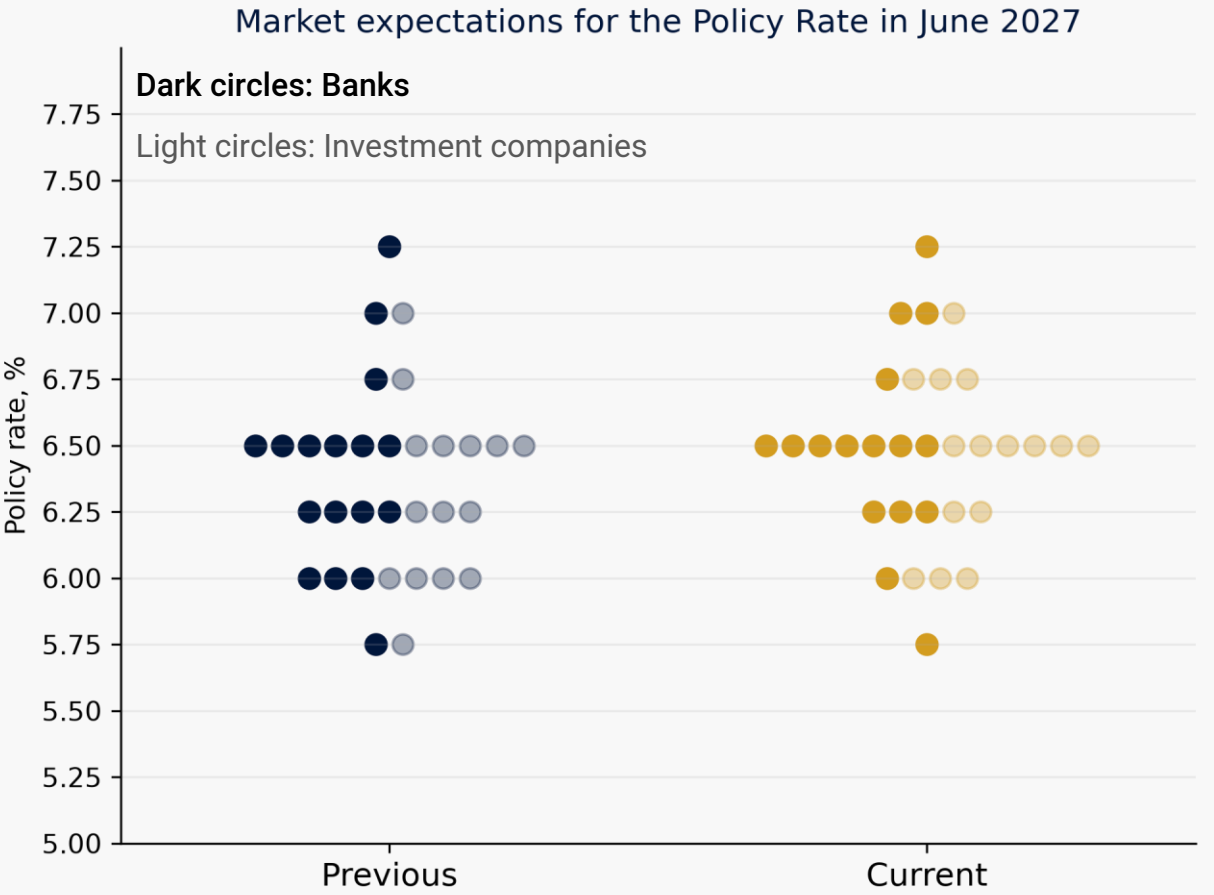
Market reference scenario and expectations

Against the backdrop of current macroeconomic developments, financial market participants, on average, expect the CBA to keep the policy rate unchanged at 6.5% over the coming year



Source: CBA short survey of July 29; n=31

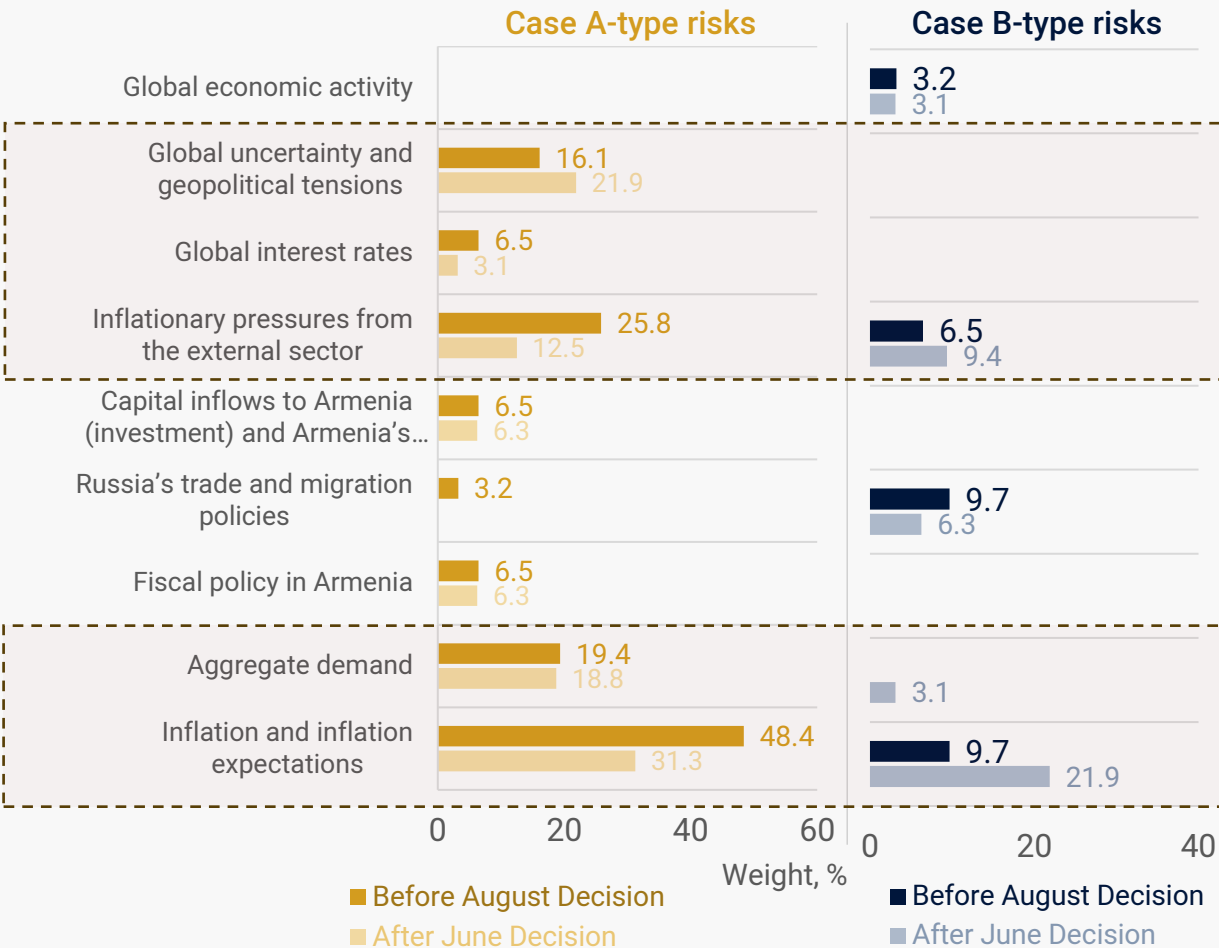
Expectations for the policy rate path have become more concentrated, with fewer participants anticipating a policy rate reduction



Source: CBA short survey of July 29; current: n=31, previous: n=32

Although risks stemming from the external sector remain relevant, financial market expectations reflect concerns primarily related to domestic economic developments (1/2)

Risks priced by market participants



Source: CBA short survey of July 29; current: n=31, previous: n=32"

Bank 1

... Rising interest rate trends in the macroeconomic environment and the persistence of significant inflationary pressures in the domestic economy give grounds to expect an increase in the interest rate level by year-end. In view of the above, we consider a scenario in which the Central Bank keeps the monetary policy rate unchanged in the short run, with a tendency toward raising it at year-end.

Bank 2

Taking into account the current level of inflation, the presence of excess demand, and the possible expansion of government spending, we believe that the refinancing rate will rise in the fourth quarter.

Investment company 1

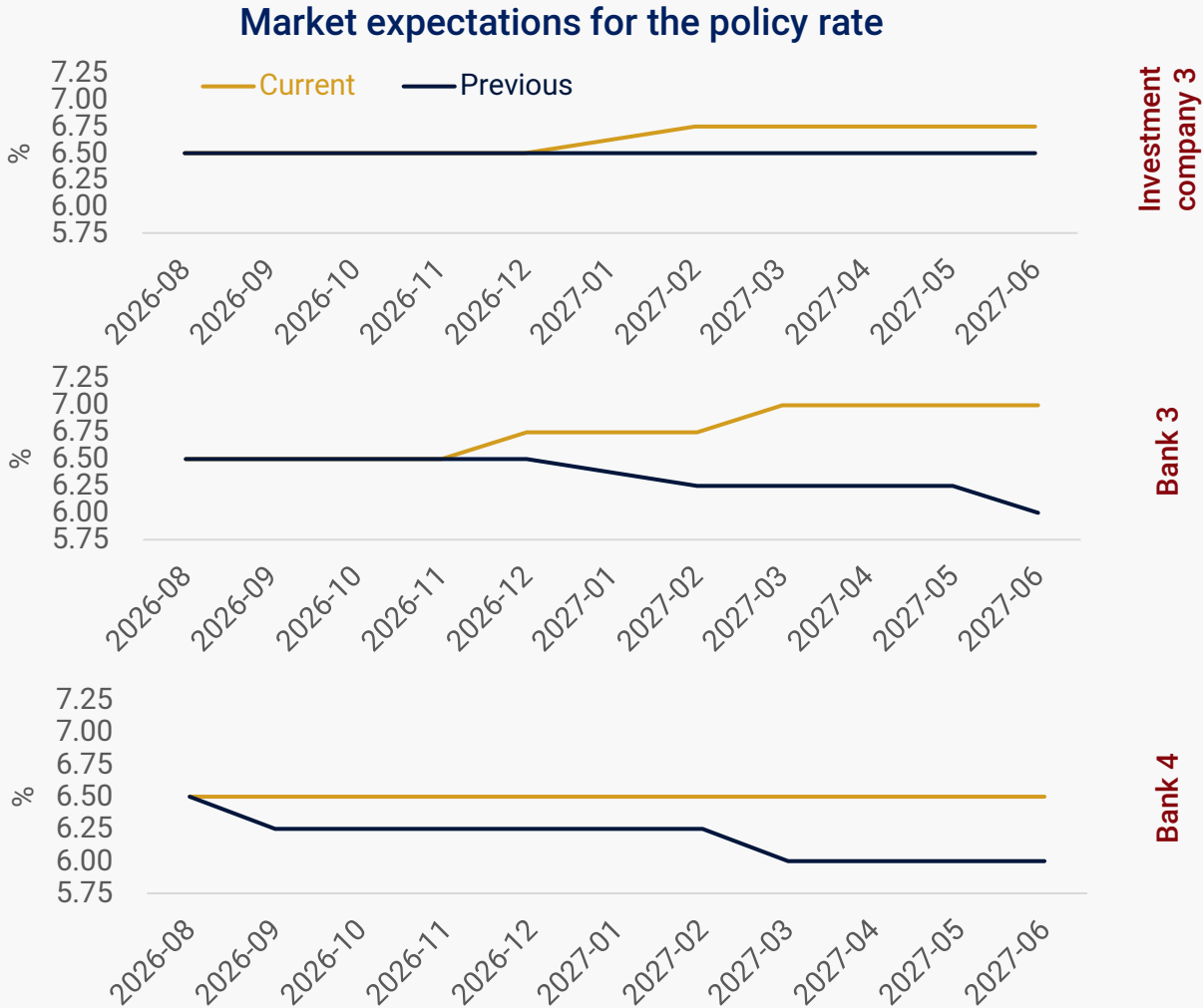
We expect that ... the refinancing rate will be kept at its current level, since inflationary pressures remain elevated, while domestic demand and credit activity continue to contribute to price growth ...

Investment company 2

According to our assessment, in the upcoming period the Central Bank of Armenia will keep the refinancing rate at 6.5%. ... Inflation is mainly driven by rising food prices; however, its potential spillover into inflation expectations, as well as into the prices of other goods and services, substantially limits the scope for easing monetary policy. ... Geopolitical tensions, uncertainty surrounding energy and food prices, trade restrictions, as well as existing and potential supply chain disruptions could transmit new inflationary pressures to the Armenian economy. ... If inflationary pressures spread, inflation expectations rise, or domestic demand remains strong, the CB may not only postpone a rate cut but also consider the possibility of a rate hike.

Source: CBA short survey of July 29

Although risks stemming from the external sector remain relevant, financial market expectations primarily reflect concerns surrounding domestic economic developments (2/2)



Source: CBA short surveys, July 29

A potential agreement between the U.S. and Iran on ending hostilities would eliminate inflationary risks stemming from external sources; however, it would take time for conditions to return to the levels observed in February 2026.

In the coming months, inflation is expected to remain close to the CBA’s target range, while domestic demand and economic activity will be maintained at moderate levels. At the same time, persistent external uncertainties and potential inflationary risks will require a modest increase in the policy rate to ensure price stability.

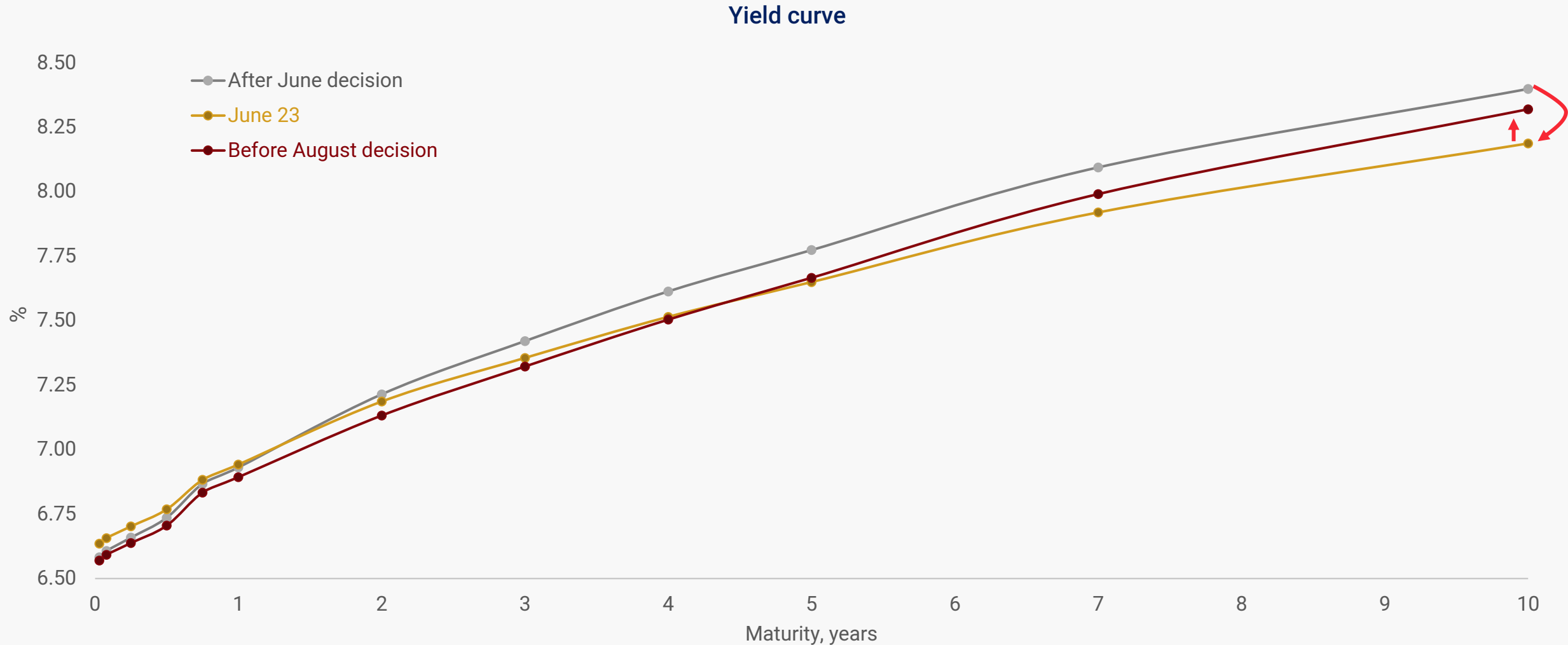
This is mainly driven by geopolitical developments, particularly the military conflict between the U.S. and Iran, which has contributed to elevated inflation in commodity markets both globally and in Armenia. Towards the end of the year, we expect a gradual reduction in the policy rate, reflecting the expectation that inflation in Armenia will remain close to the target level.

This is mainly driven by inflation in Armenia remaining above the target level, the expected increase in the US Federal Reserve’s (Fed) policy rate by year-end, as well as a number of geopolitical uncertainties that are generating direct inflationary pressures for the Armenian economy.

Although ... inflation has exceeded the target level, taking into account the risks of an upward adjustment in the country risk premium, as well as uncertainties related to foreign trade, which may contribute to deflationary pressures, expectations of additional demand support from fiscal policy in the near term suggest that, according to our current assessment, the CBA refinancing rate will remain at the same level for now, followed by a gradual downward trend.

Given that inflation has exceeded the target level, and considering the risks of an upward adjustment in the country risk premium, alongside expectations of additional demand support from fiscal policy in the near term, our current assessment suggests that the CBA policy rate will remain at the same level for now.

The yield curve has remained broadly unchanged, while minor fluctuations in the medium- and long-term segments have been driven by developments related to the Middle East conflict



Source: CBA



Taxonomy of **Scenarios**

Taxonomy of Scenarios.

Case A-Type Considerations

Expansionary Demand

- Uncertainty over Armenia's neutral interest rate; risks of it settling at a higher level.
 - In the US, given the limited scope for further revenue collection from tariffs and the uncertainty over the possible return of part of the previously collected revenue, together with the need to expand government spending, the risks of a higher debt-burden trajectory over the long term have increased. This could push up the neutral interest rate in the US, directly affecting the neutral rate in developing countries, including Armenia.
 - The implementation of fiscal support programs in response to Russia's tightening of import standards, under conditions of limited fiscal space, could lead to a rise in Armenia's risk premium.
 - A prolonged period of high core inflation in Armenia—especially given that it is largely driven by essential, sensitive goods—could contribute to rising inflation expectations.

Expansionary Demand

- Uncertainty over aggregate demand conditions in the domestic economy; an 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 consumer lending—could point to excess demand conditions in the Armenian economy.
 - Additional stimulus to demand from fiscal policy in the context of a possible overrun in planned spending on universal health insurance, under conditions of limited scope for expanding capacity in the sector.
 - An acceleration of tourist flows to Armenia amid a prolonged period of geopolitical tension in the Middle East, which could generate additional demand and inflationary pressures in the economy.
 - A rise in the supply of liquidity in Armenia's financial system could support further easing of lending conditions, which in turn could stimulate demand in the economy.

Taxonomy of Scenarios.

Case A-Type Considerations

Expansionary Demand

- Amid a prolonged Russia–Ukraine conflict, the gradual tightening of sanctions against Russia, growing uncertainty over the economic outlook, and a deteriorating business environment, additional inflows of capital and labor to Armenia—with risks, in the short term, of broadening demand and inflationary pressures in particular.
- Capital flows to developing economies, including Armenia, amid global imbalances, which would initially pose Case A-Type risks to the economy by stimulating consumption, credit growth, and investment.
- Amid the continuity of favorable geopolitical developments around Armenia, additional incentives for investment and economic activity have emerged, which could broaden the domestic inflationary environment.

Contractionary Supply

- Amid geopolitical risks—particularly a prolonged period of tension in the Middle East—energy and food prices, as well as freight costs, could remain elevated for an extended period or rise further, with corresponding inflationary effects on the Armenian economy.

Taxonomy of Scenarios.

Case B-Type Considerations

Contractionary Demand

- Risks of weak demand conditions in the global economy or in individual partner economies, and/or their further weakening.
 - A significant weakening of demand in the global economy amid geopolitical uncertainty and a prolonged period of high energy prices.
 - A possible downward correction in the prices of financial assets in the US - particularly securities, given the risks that they are overvalued - could reduce household wealth, contributing to a slowdown in economic growth and affecting global demand conditions.
 - Given the buildup of structural problems in certain parts of the Russian economy, a further weakening of economic activity and domestic demand, with corresponding effects on Armenia's exports of goods and services as well as on remittance flows.

Contractionary Demand

- Uncertainty over aggregate demand conditions in the domestic economy; a weak-demand environment, its persistence or further expansion.
 - The relatively weak pace of wage growth and the stable level of services inflation in the Armenian economy could point to relatively weak domestic demand conditions.
 - A decline in revenues and a weakening of demand conditions in the economy, amid Russia's tightening of import standards and the limited scope for redirecting to other markets.

Taxonomy of Scenarios.

Case B-Type Considerations

Contractionary Demand

- Uncertainty over Armenia's neutral interest rate; risks of it settling at a lower level.
 - Amid easing security risks around Armenia and a gradual improvement in fundamentals, the formation of a lower long-term level for the country's risk premium and neutral interest rate.

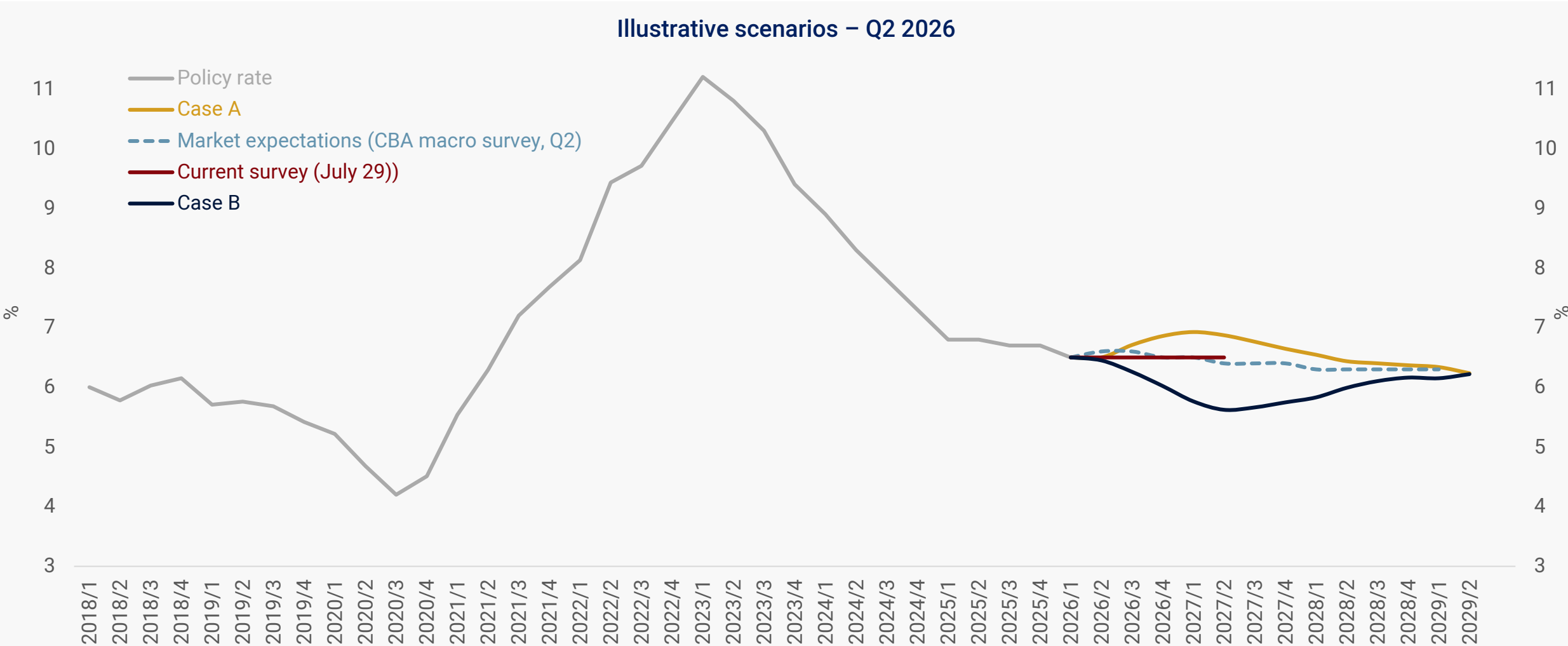
Expansionary Supply

- A continued rise in labor supply in the Armenian economy, driven by uncertainties over the medium-term outlook for the Russian economy and, in particular, by the ongoing decline in seasonal migration from Armenia to Russia amid tighter migration policy there.
- Russia's tightening of import conditions could lead to excess supply of certain goods, exerting disinflationary pressure on the economy.
- A full resolution of the Middle East conflict in the period ahead, as a result of which energy prices would fall sharply, settling at the levels recorded before the conflict began.



Policy discussion

Policy discussion



Source: CBA



Thank you