

- *Economic activity peaked 11.7 percent (yoy) in May, bringing January-May growth to 8 percent (yoy).*
- *Inflation rose to 5.1 percent in June from 4.2 percent in May, driven by rising food prices.*
- *Exports and imports contracted in May as re-exports of precious and semi-precious stones fell.*
- *Budget recorded a deficit of 0.2 percent of projected annual GDP in May, while remaining in a 0.8 percent surplus for the January-May period.*

Economic activity soared 11.7 percent (yoy) in May from 7.1 percent (yoy) in April. This hike was driven by an increase in non-tradeable services (up 14.7 percent, yoy), especially tourism-related activities, hospitality, transport, and IT. According to preliminary data, tourist arrivals in H1 2026 increased by 14.8 percent (yoy) with over 1 million persons, 40 percent of which came from Russia. Strong activity preceding the June parliamentary elections may have also supported services. Construction and mining continued to register double-digit growth rates at 27.1 and 21.6 percent (yoy) respectively. Mining continued to benefit from the recovery that started in late 2025 following a downturn, as well as higher copper prices. Manufacturing grew 7.4 percent (yoy) driven by higher production of food and beverages, which along with cigarettes, contributed 60 percent of the sector's production. Economic activities expanded by 8 percent in the first five months of 2026 (yoy) overperforming projections.

Inflation remained elevated, rising 5.1 percent (yoy) in June. This followed a slowdown in May (4.2 percent), bringing the average inflation for H1 2026 to 4.6 percent. The only driver of the increase in June inflation compared to May was food and non-alcoholic beverage prices, which climbed from 6.4 percent to 8.6 percent (yoy) and accounted for nearly two-thirds of overall inflation. Alcoholic beverages and education also continued to have high inflation at 7.5 and 8.3 percent (yoy). On 16 June 2026, the CBA Board decided to keep the policy rate unchanged at 6.5 percent, to balance two opposite pressures, one from excess demand and higher inflationary expectations and on the other hand, possible deflationary pressures, in particular, as challenges emerge on exports to Russia.

The trade deficit deteriorated further. Both exports and imports continued to contract in May, with exports deteriorating more than imports (11.5 vs 1.6 percent, yoy, respectively). In particular, the pace of decline for both slowed relative to the previous month. This decrease was due to a continued decline in re-exports of precious and semi-precious stones whose exports and imports shrank by 61.7 and 82 percent (yoy), respectively. Excluding this re-export item, total exports expanded 18 percent (yoy), mostly driven by minerals (up 89 percent, yoy). The other items had either negative or minor positive contributions to total export growth. Notably, exports to Russia declined by 15 percent (yoy) in May. Over the January-May period, exports fell 3.7 percent (yoy) whereas imports

increased 2.2 percent (yoy), widening the trade deficit, which accounted for 7 percent of projected annual GDP.

While Armenia's economy continues to overperform, recent political developments with Russia continue to raise concerns, prompting government intervention to support exporters. From late April, Russia has gradually increased its export ban on Armenian agricultural and food products. Should the ban continue and widen without mitigation measures, the negative impacts could spill beyond trade and affect growth, prices and social conditions. To mitigate this potential impact, the government has introduced subsidy measures to support Armenian exporters offset transport and customs costs when shipping their goods to alternative markets, including the EU.

Net non-commercial money transfers continued strong double digit growth in May. Total net inflows expanded 30.2 percent (yoy) from a low base in 2025, with around 61 percent of them coming from Russia (up 42.2 percent, yoy). These inflows have helped to strengthen the dram, boost banking-sector liquidity and support domestic demand.

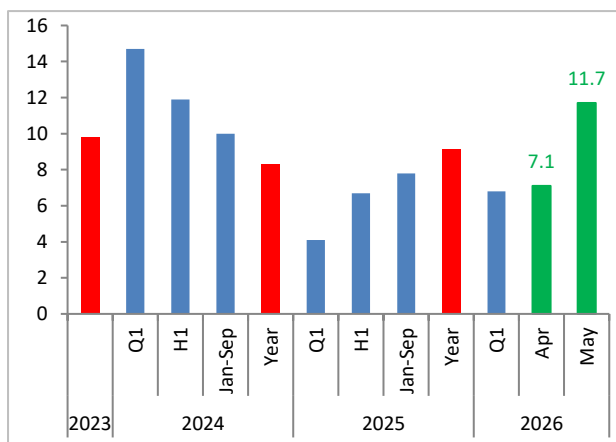
The Armenian dram continued to strengthen against the USD. In June, the AMD appreciated against the USD by 0.1 percent (mom) and by 1.4 percent (mom) against the EUR. Compared to June last year, the AMD appreciated against the USD by 4.2 percent (yoy), although it depreciated 2 percent (yoy) against the RUB.

Financial system indicators continued to remain sound in May. The Capital Adequacy Ratio slightly fell to 20.5 percent, and non-performing loans grew marginally to 1.4 percent. Commercial bank deposits rose 2.4 percent (mom) while credit increased 3.7 percent (mom), keeping outward pressure on the loan-to-deposit ratio.

A budget deficit of 0.2 percent of projected annual GDP was recorded in May, while a year-to-date surplus was registered. Tax revenues in May grew 15.3 percent (yoy), led by personal income tax (up 22.5 percent, yoy, supported by a 4 percent increase in the number of employees and a 10.8 percent increase in nominal average wages) and VAT (up 14.6 percent, yoy), reflecting robust activity and continued gains from tax administration. Total expenditure fell 6.1 percent (yoy) due to a 54.5 percent (yoy) contraction in capital expenditures, due to a halting of defense spending, as a lower defense budget was planned for 2026. On the other hand, current expenditures grew 17.3 percent (yoy) mostly driven by social spending (up 27.5 percent, yoy), largely tied to the rollout of the Universal Health Insurance scheme, in effect since January 2026, under which the state fully subsidizes premiums for children, the elderly, and vulnerable groups. This drove health functional spending up 75.9 percent (yoy). The cumulative January-May surplus amounted to 0.8 percent of estimated annual GDP, while a deficit of around 4.3 percent of GDP was planned for 2026.

Figure 1. Economic activity soared to 11.7 percent in May

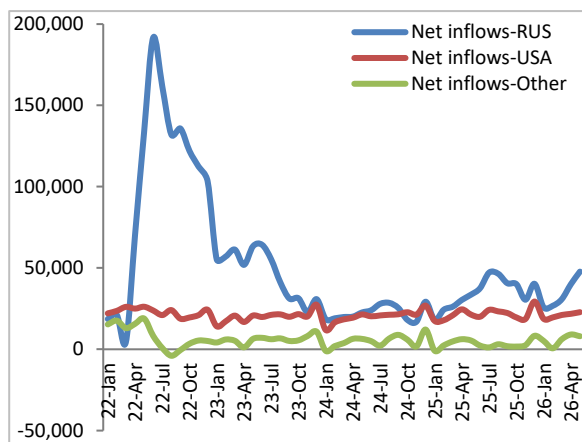
(Armenia Economic Activity Index, yoy change, %)



Source: Statistical Committee of Republic of Armenia

Figure 2. Net non-commercial money transfers rose in May (yoy)

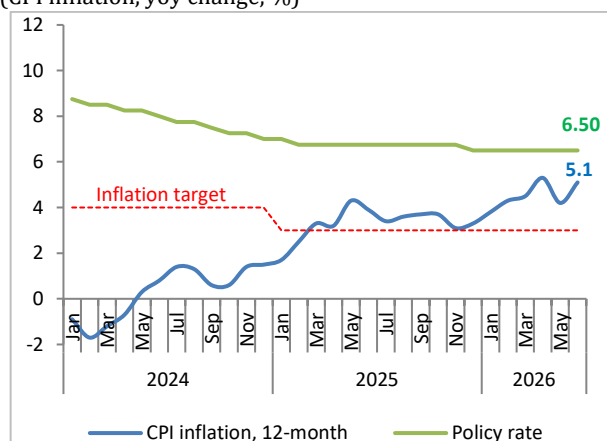
(USD thousand)



Source: CBA

Figure 3. Inflation accelerated in June driven by food prices

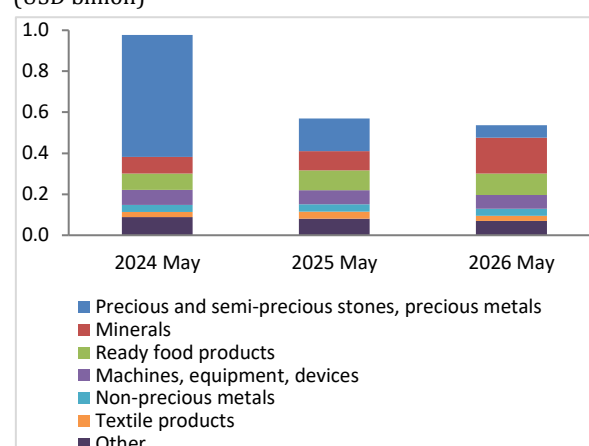
(CPI inflation, yoy change, %)



Source: CBA

Figure 4. Exports contracted in May as re-exports fell, although minerals showed high growth

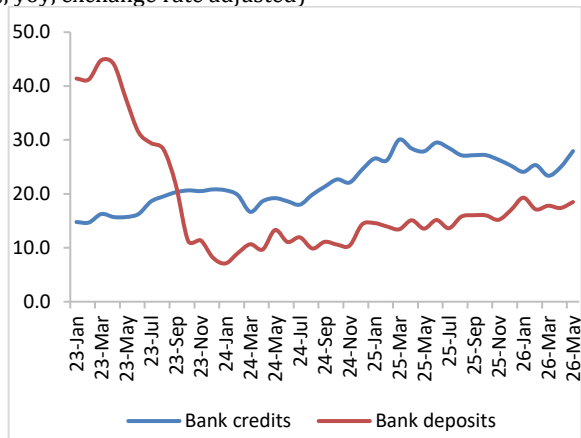
(USD billion)



Source: Statistical Committee of Republic of Armenia

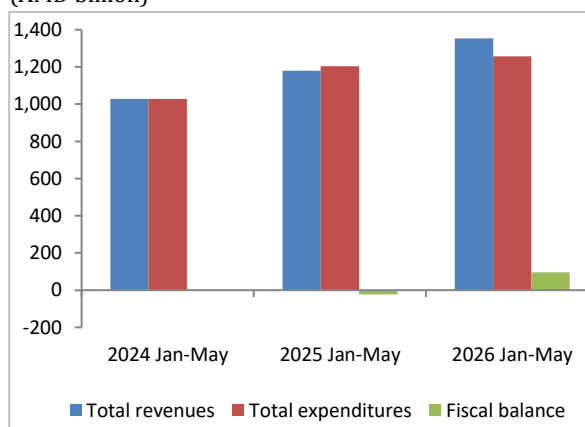
Figure 5. Deposit and credit growth edged upwards in May

(%, yoy, exchange rate adjusted)



Source: CBA

Figure 6. A surplus equivalent to 0.8 percent of estimated annual GDP was seen in Jan-May 2026 (AMD billion)



Source: Ministry of Finance