

Financial Stability Report (2012 annual report)

2013-04-30

This Financial Stability Report presents an assessment of potential risks that could threaten the stability of financial system of the Republic of Armenia as well as the capacity of the financial system to absorb such risks. More detailed information on Armenia's macroeconomic environment and financial system analyses is available in the Central Bank's periodicals, such as Annual Report of the Central Bank, Status Report on Monetary Policy Implementation and Armenian Financial System: Development, Regulation, Supervision.

ABSTRACT

Major risks deriving from the external sector and affecting the financial stability as well as the uncertainties associated with further developments persisted this year, too. The world prices of industrial commodities and the continuous inflow of remittances and growing domestic demand have contributed to the growth of GDP, exports and incomes, which positively affected the financial stability. At the same time, the banking system continued the practice of active lending, keeping the existing risks at a manageable level. The global economic recovery continued in spite of more downside risks to the economic growth. In advanced economies the sovereign and private debt burden persisted at high levels, limiting the states ability to intervene and hindering the growth of demand and preventing the economy from reviving further.

Growth in commodity prices was observed mainly at the beginning of the year. Then the rising of prices, in fact, slowed down due to weak private demand and a slow recovery in world economic growth. Compared with the previous year, the highest level of prices was observed in the wheat market owing to the expected volume of the crop. During the year, the suppression of inflation went off the agenda of the monetary authorities in developed and developing countries, giving way to the core task of recovery and future growth of the economy. Both the developed and developing countries kept on implementing moderate monetary policy almost throughout the year.

The U.S. Federal Reserve System has launched the third phase of the program quantitative easing, the European Central Bank has carried out bond purchases in the secondary market, and the Bank of Japan had its own program of quantitative easing at the end of the year. These measures paved a way to further accelerate economic growth,

although a breakthrough is not expected yet.

The economic recovery in main trade partners of Armenia – Russia and some EU countries has not slowed down expressively, and this has positively affected foreign trade and household incomes of the Armenian economy (for details, see the section "Development of World Economy"). Economic growth in Armenia in 2012 reached 7.2 percent. Growth was reported in all sectors of the economy, including construction which saw increased volumes of household-financed construction. Despite diverse patterns of developments in the global economy, Armenia posted bigger volumes in private transfers, factor income, and foreign trade turnover. This has contributed to the growth of incomes in the economy, and thus strengthening the financial stability of companies and households (for details, see the section "Developments in the Macroeconomic Environment in Armenia")

During 2012, while maintaining low inflation environment, the Central Bank left the monetary policy rate unchanged. Weak external inflationary environment as well as lower prices of agricultural products on the back of growth trends in agriculture prompted the annual inflation rate to rest within the target level. According to December data, the 12-month inflation was 3.2 percent (for more details, see the section Development in the Macroeconomic Environment in Armenia). With strong credit growth reported during the year, the capital adequacy ratio has dropped. However, the banking system of Armenia has maintained the capital adequacy and liquidity levels above the regulatory requirements, whilst keeping market risks manageable. The financial system performed at a profit plus a reported increase in profitability of the banking system during the year.

The risks in the financial system remained manageable throughout the year, without creating a threat in the financial stability point of view (for details, see the sections Financial Institution Stability in Armenia and Financial Market Infrastructures Stability in Armenia).

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