

Financial Stability Report (2016 annual report)

2017-05-12

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

In 2016, the financial system of Armenia bore losses from the materialization of the previous years' risks. Owing to the actions taken by the Central Bank, the stability of the financial markets was maintained, lending and deposit-taking grew slightly, banking system reported profit and financial stability indicators improved. Low prices of base metals, slow recovery of domestic consumption, as well as fall in foreign investments were maintained. Russia faced an economic downturn, which, negatively affected the inflow of private remittances to Armenia and the stirring of the economic activity. The recovery of global growth was weaker than initially estimated. The geopolitical tensions skewed to the downside the global trade volumes and lower prices for some commodities persisted.

The monetary authorities of both developing and developed countries carried out expansionary monetary policy to support economic growth, while the long-awaited rise of the US Fed rate occurred only at the end of the year. In the emerging countries, the capital outflow continued in parallel with the slowdown of economic growth, and the monetary authorities favored low rates policies. No significant improvement was registered in Armenia's main trade partners; European Union countries and Russia, and therefore the growth of external demand, capital investments and money transfers to Armenia were limited (for details, please see the box "Economic developments in Russian Federation" and the section "Developments in the global economy"). In 2016, the economic growth reached only 0.2% in Armenia (3.0% in 2015), contributed by manufacturing and service sectors, while the construction and agricultural sectors reported a fall (for details, please see the section "Macroeconomic environment developments in Armenia").

Given the recent deflationary environment, the Central Bank of Armenia significantly loosened the monetary conditions, which had a positive impact on the private consumption. The Central Bank's reduction of the refinancing rate has had its effect on the drop of the interbank, as well as credit and deposit markets' interest rates. The commercial banks have been profitable enough and increased their loan and deposit portfolios. The capital adequacy and liquidity ratios improved, mainly due to the inflow of own resources, which occurred due to the capital replenishments of the banks to comply with the new minimum total capital threshold set by the CBA.

A declining trend of financial system risks was observed. The risks remain manageable and do not entail any financial stability issues (for details please see the sections "Stability of financial institutions" and "Stability of financial market infrastructures").

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