

Financial Stability Report (2017 annual report)

2018-05-15

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 2017, given the rebounding economic activity and the outlook for more stable income from abroad, the financial system stability of Armenia was strengthened, while credit expansion policy was maintained. The pickup of global growth was higher than expected and will remain on track, according to the IMF's forecasts. A speed-up of global trade and improvements in overall expectations and confidence were recorded, parallel to stronger industrial production levels. In the near term, the trade protectionism by advanced countries may lead to a weaker trade worldwide and slower growth rates of the global economy. In the medium term, a slower-than-anticipated economic recovery of developing countries, abrupt fluctuations in the financial markets, as well as geopolitical stance will be highlighted.

The monetary authorities of some countries readjusted their expansionary monetary policy, given the positive macroeconomic trends, announcing a gradual pace of monetary policy tightening. In emerging countries, the capital inflow grew, contributing to the economic recovery. Meanwhile, the monetary authorities maintained their low-rates policies. The positive pace of economic activity was maintained in the European Union countries and Russia; Armenia's main trade partners. The latter contributed to the growth of external demand, capital investment and money transfers to Armenia (for details, see section "Developments in the global economy").

In 2017, the economic growth in Armenia was 7.5%. The latter was mainly contributed by manufacturing and service sectors, due to faster-than-expected recovery of domestic and foreign demand. A mere growth was observed in the construction sector, while agricultural sector reported a fall (for details, see section "Macroeconomic environment developments

in Armenia”). In 2017, the Central Bank of Armenia continued to implement an accommodative monetary policy, aimed to recover the private demand and inflation. In the near term, the abovementioned direction of the policy will be maintained, given the necessity to strengthen the domestic demand.

The Central Bank’s reduction of the refinancing rate had its effect on the drop of the interbank, loan and deposit markets’ interest rates. The commercial banks have been profitable and increased their loan and deposit portfolios. Parallel to the more active lending, the credit risk stabilized, while the share of non-performing loans decreased. The capital adequacy and liquidity ratios declined slightly, in line with the expansion of loan market, still remaining higher than the minimum regulatory requirements. The financial system risks had a declining trend and remained manageable, not entailing any financial stability issues (for details see section “Stability of financial institutions”).

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