

Financial Stability Report (2018 annual report)

2019-05-27

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 is available in "Status Report on Monetary Policy Implementation", as well as "Armenian Financial System: Development, Regulation, and Supervision" reports.

ABSTRACT

In 2018, given the economic activity, positive developments of the labour market and the easy monetary conditions, the financial system of Armenia remained stable, while credit and deposit portfolios grew.

The pickup of global growth remained on track in 2018, but with weakening expansion in the second half. This trend will be maintained in 2019 and the following year as well.

A slowdown in economic growth is expected in the European Union countries, USA and Russia, which are Armenia's main partner countries.

During the year, the risk of sustained trade protectionism by advanced economies was maintained, which had its negative impact on the global trade growth and will continue to weaken it, while slowing the growth rates of the global economy overall.

In the near and medium term, a slower-than-anticipated economic recovery of emerging markets and developing countries, the tightening of the financial conditions in the financial markets, as well as risks caused by geopolitical unfavourable developments will be highlighted.

Given the current economic developments, some countries continued to withdraw the monetary policy accommodation policy volumes, while announcing a feasible end of accommodative policies. In emerging countries, a capital outflow was recorded, causing slower economic growth rates and depreciation pressures on domestic currencies.

In the European Union countries and in Russia, which are the main trade partners of Armenia, a relatively slow economic growth was recorded during the reported period. The latter has not yet caused a fall in foreign demand, but has negatively impacted the inflow of money transfers to Armenia from abroad (for details, see section "Developments in the Global Economy").

In 2018, the economic growth in Armenia was 5.2%, which was mainly contributed by the growth in private spending and increased lending to economy. The latter, in turn, was

fuelled by the accommodative monetary policy of the Central bank of Armenia. (for details, see section “Macroeconomic developments”).

In 2018, the Central Bank of Armenia retained its monetary policy direction unchanged, given both the domestic and foreign macroeconomic developments. The refinancing rate remained 6.0%.

Given the persistent economic activity of 2018 and positive developments in the labour market, a lending growth was recorded in the financial system. Due to easy monetary policy, the interest rates for loans and deposits continued to decline. Parallel to more active lending by commercial banks, a credit risk stabilisation trend was recorded, and the share of non-performing loans decreased. As loan portfolios grew, the banking sector’s capital adequacy and liquidity ratios decreased. These indicators, however, continue to remain higher than the minimum regulatory requirements of the Central bank.

Non-bank financial institutions have recorded a large-scale expansion of their activities, while the prudential ratios have been maintained within the required limits. Even though the risks hindering the financial stability of Armenia, stemming from both foreign and domestic macroeconomic conditions grew, the financial system has demonstrated a high risk absorption capacity, safeguarding the necessary level of financial stability (for details see section “Stability of financial institutions”).

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