Banking on deposits in a dollarized economy: Maturity Transformation and Interest Rate Risk in Armenia

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Maturity Transformation and Interest Rate Risk in Armenia

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Abstract

This paper examines how Armenian banks manage interest rate risk while engaging in maturity transformation, using a quarterly bank-level dataset covering all commercial banks from 2014 to 2024. We document significant maturity mismatch in the Armenian banking sector, with an average duration gap of about 2 years. Despite this mismatch, net interest margins show little systematic sensitivity to changes in Central Bank of Armenia's (CBA) policy rate. This suggests that Armenian banks' interest income and expense move together, consistent with sensitivity matching in realized cash flows over the sample period. This matching is strongest for local-currency (AMD) positions, while for foreign-currency positions it is considerably weaker, highlighting the importance of currency composition in a
highly dollarized banking system.