

Measuring systemic risk and macroprudential policy impact in Armenian financial system: A growth-at-risk approach

2025-08-28

WP 2025/01

Central Bank of Armenia
Working Paper 2025/01

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August 2025

Abstract

In recent years, macroprudential policy has gained importance as a tool to handle cyclical and structural vulnerabilities in the financial system. These vulnerabilities, if left unmonitored, can amplify during periods of financial stress and pose significant risks to economic growth. This paper attempts to quantify these vulnerabilities and the effects of macroprudential policy on them through the use of an empirical growth-at-risk (GaR) framework. Using Bayesian quantile regression, we assess how systemic risks impact GDP growth and explore the potential costs and benefits of macroprudential policy on its growth distribution. Our findings are consistent with earlier studies suggesting that any policy measure introduces a trade-off between mitigating systemic risks and preserving median GDP growth. We contribute to the existing literature by two main ways 1. we estimate the long term sustainable level of systemic risks relative to the resilience of the financial system using estimates of a panel model with 41 countries, 2. we offer improvements to existing macroprudential policy rule frameworks in the current literature to augment the decisionmaking process. Lastly, we check whether the outputs of some well-known papers in this field hold in a small open economy like Armenia.

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