

Financial Stability Report (2007 annual report)

2008-05-05

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.

PREFACE

In the recent decade, central banks of developed countries have considered a country's financial stability as another area of primary concern in addition to stable prices. The Central Bank of Armenia, too, has taken on a function to ensure financial stability, and since 2006 it has been conducting regular financial stability assessment and monitoring. In 2006, the first review of Armenia's financial stability was included in Annual Report of the Central Bank. According to the amended Republic of Armenia Law on the Central Bank, the Central Bank has undertaken to release, since 2007, a report on financial stability, too.

The purpose of the report on financial stability is to keep financial market participants and general public informed about risks that may undermine Armenia's financial stability and possible directions of their expansion. The report is called to assess flexibility and capability of Armenia's financial stability in order to absorb existing and potential risks that jeopardize financial stability, trying not to weaken effective performance of financial markets and institutions and efficient redistribution of financial resources of companies and households.

Risks that affect Armenia's financial stability may arise in the Armenian economy, as well as such may emerge outside the country, in external environment, and in financial system in particular. In this regard, key preconditions for ensuring financial stability are:

A sustainable domestic and external macroeconomic environment in which households and enterprises would be sufficiently credible.

A sound and efficient financial system in which risks would be reasonable and controllable.

Well-organized financial infrastructures that would help the financial system to function properly.

In view of the aforementioned, the report identifies 5 main areas of risks that may pose threats to Armenia's financial stability:

Risks deriving from developments in global economy.

Risks deriving from developments in domestic macro-environment.

Risks deriving from developments in Armenian financial market.

Risks deriving from financial institutions in Armenia.

Risks deriving from financial infrastructures of Armenia

The report presents the risks that exist in these areas and their likely impact on all sector developments of the economy and financial system. A principal emphasis has been on the likely impact on the Armenian banking system because assets of domestic commercial banks account for more than 90 percent of assets of all financial institutions. The other two components of the Armenian financial system financial markets and financial infrastructures and have a small share in the financial system, on the one hand, and are not developed enough to have a significant influence on financial stability, on the other.

[Financial Stability Report \(2007 annual report\)](#)