

Financial Stability Report (2011 annual report)

2012-04-03

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

During the year, financial stability of Armenia was sufficient enough although the financial sector posted some increase of risk levels, compared to the previous year, and uncertainties over further developments have become more pronounced. Increased prices of raw materials as well as recovering inflow of transfers and domestic demand contributed to the growth of GDP. Also, the banking sector further saw increased lending. The global economic growth continued albeit downside risks to the economic growth increased. In advanced economies the sovereign and private debt burden persisted at high levels, which limits the states ability to intervene and hinder the growth of demand and prevent the economy from reviving further.

In a complicated situation like this, implementing exceptionally coordinated policies and taking unified approaches to regulation and supervision reforms in the financial system is equally important to all countries. In the face of continued rise in manufacturing goods and food prices, curbing inflation has been a priority, particularly in the first half of the year, for developed countries, too, bringing forward risks to the slowing of economic growth. The recovery was slower-than-forecast in Armenia's main partner countries Russia, some Euro-area countries, which may create negative impact on the Armenian economy.

In view of global economic growth slowdown and other developments in the international arena, Armenia saw growth of its private transfers, factor income and external trade turnover. Commercial banks posted net inflow of funds attracted from external sources. These developments contributed to the enhancement of financial stability (see details in

Developments in world economy section).

According to the Armenian National Statistics Service data, growth of the Armenian economy in 2011 was estimated to be 4.6 percent. Growth was reported in all sectors of the economy, except for construction where volumes of privately funded construction are still small.

In 2011, especially in its first half, amid persisted high inflationary environment the Central Bank gradually tightened the monetary policy conditions by thrice raising the refinancing rate a total of 1.25 pp. Starting the second half of the year, inflation has been within the confidence band at the end of the year as a result of neutralized external inflationary pressures and slowing growth rate of agricultural product prices owing to high growth reported in that sector. Under such conditions, in the period May-August, the Central Bank left the refinancing rate unchanged and only in September it was lowered by 0.5 pp to an 8 percent level. The Central Bank continued implementing a neutral policy during the fourth quarter, too. Based on December data, the 12-month inflation was 4.7 percent (see details in Financial stability in macroeconomic environment in Armenia section).

Throughout the year Armenian commercial banks posted growth indicators while maintaining their capital adequacy and liquidity ratios above normative requirements and keeping market risks manageable. Based on annual estimations, profitability of the banking sector grew, with return on assets reaching 1.8 percent and return on equity, 9.8 percent.

In the course of the entire year risks existing in the financial sector were within a comfortable territory of manageability, not binging about vulnerabilities in terms of financial stability. Overall, the developments in the domestic economy were also favorable in the financial stability point of view (see details in sections Stability of financial institutions in Armenia section and Stability of financial infrastructures of Armenia).

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