

Financial Stability Report (2013 annual report)

2014-03-25

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 2013, the financial system of Armenia continued to expand, while maintaining its stability and robustness to cope with potential risks. Key risks deriving from the external sector and affecting the domestic economy and financial stability persisted in 2013. The low level of industrial commodity prices in international markets, low growth of industrial sector of Armenia and the drop in construction contributed negatively to the economic growth of Armenia. Simultaneously, the growth of export volumes had a positive impact on the creditworthiness of exporting enterprises. On the other front, the increase in net factor incomes and remittances fuelled the creditworthiness of households receiving remittances.

Recovery of the global economy gained momentum in the second half of the year, mainly due to positive macroeconomic developments in developed countries, especially the USA. In Eurozone countries, as opposed to negative developments of the first half of the year, some trend of overcoming the economic downturn was observed already at the end of the year. In developing countries, the economic growth slowdown trend was maintained, contributing to a low level of stock commodity demand and prices. The economic growth elevation and strengthening were still considered as priority policies for the monetary authorities in developed and developing countries. Both the developed and emerging countries kept on implementing easy monetary policy, linking the probable changes with a certain target level of main macroeconomic indicators.

The economic growth in Russia and EU countries, Armenia's main trade partners, were lower-than-expected; though it did not influence significantly the domestic economy of Armenia. (for details, please see the section "Developments in the Global Economy").

Economic growth of Armenia reached 3.5% in 2013, according to National Statistics Service data (7.2% economic growth in 2012). This slowdown was mainly due to low growth of industry sector and the decrease in construction. Armenia posted better performance of indicators on private transfers, factor income and foreign trade turnover. This has positively contributed to the incomes of exporting companies and households, thus strengthening their financial stability (for details, please see the section “Macroeconomic Environment Developments in Armenia”).

During 2013, a slowdown in capital adequacy decline was recorded as loan portfolio growth of banking sector decelerated. In parallel with the lending growth decrease, deposits posted accelerated growth resulting in the augmentation of banking system liquidity. During the year, the banking system of Armenia maintained its capital adequacy and liquidity ratios above the regulatory requirements, while keeping the market risks manageable. Net interest margin declined, thus causing a reduction of banking system profitability.

According to the results of stress tests, the banking system of Armenia is liquid and capitalized enough to absorb the impact of adverse shocks (for details, please see the sections “Stability of Financial Institutions of Armenia” and “Stability of Financial Market Infrastructures”).

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