

# Financial Stability Report (2019 annual report)

2020-05-08

*This Financial Stability Report presents an assessment of potential risks that could threaten the stability of the Republic of Armenia's financial system as well as the capacity of the financial system to absorb such risks. More detailed information on Armenia's macroeconomic environment is available in the Status Report on Monetary Policy Implementation. Previous publications of the Financial Stability Report are available on the official website of the Central Bank of Armenia: .*

## ABSTRACT

*During the year of 2019, given the high economic growth in Armenia, the financial system of Armenia remained stable. Meanwhile, financial intermediation continued to deepen, and the credit and deposit portfolios got increased. The Republic of Armenia's economic growth was partially due to the accelerated growth of domestic consumption, which was boosted by bank lending. The banking system is profitable, capitalized, and liquid. Credit, liquidity, and market risks are manageable. Given the decreasing circumstances of de-dollarization tendencies, the system is less vulnerable to foreign exchange risk.*

*During the year, the lending growth was primarily ensured through lending to households, while the growth of corporate loans was comparably lower. The high growth trends in household lending were conditioned by the growth of consumer and mortgage loans due to the replenishment of the statutory capital of banks, the availability of liquidity, and the increase in affordability of credits due to the mitigation of lending conditions. The continuity of household credit growth makes households more sensitive to adverse changes in economic conditions. The CBA has initiated certain measures to promote responsible lending among households through the execution of macroprudential tools and the protection of consumer interests, as well as the execution of activities for increasing financial education.*

*In the year of 2019, the Central Bank executed the primary tools of macroprudential policy. The countercyclical capital buffer, which is intended to mitigate the possible risk developments of the total credit portfolio remained unchanged in the year of 2019, at 0 % by the CBA. From January 1, 2020, the capital conservation and systemic risk buffers came to force, each with 0.5 % of risk-weighted assets. The execution of the tools mentioned above will facilitate the reinforcement of the banking system's solvency and*

*can be applied to ensure the smoothness and continuity of the lending under situations of economic shock. The CBA developed an approach of calculating debt-service-to-income and loan-to-value indicators (DSTI, LTV) and a draft on regulations that define their implementation.*

*The reduction in macro risks was due to higher than the expected annual economic growth. The accelerated growth of exports in comparison with the imports has led to certain improvements in the current account deficit sub-index. At the same time, the decline in remittances from abroad, as well as the high level of government debt, continued to have a negative impact on the aggregate indicator of macro risks.*

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