

Financial Stability Report (2010 1st half)

2010-11-23

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

Summarizing the developments of the first half of the 2010 it can be constituted that Armenia managed to cope the adverse impact of the crisis albeit the economic recovery is still vulnerable and it is rather unlikely to reach pre-crisis double-digit growth rates. The last crisis clearly exposed the structural shortcomings of the Armenian economy. Struggle against those shortcomings is of the top priority for the state economic policy. Coordinated policy shifts throughout different countries abated the risks affecting world economy and financial system. In developed and in number of developing countries pockets of vulnerability still remain, particularly regarding the strengthening household income and creditworthiness, stabilizing and shrinking of sovereign debt and reforming financial systems. In main partner countries of Armenia a rather slow economic recovery is predicted (for more detail see "Developments in world economy" section). In the first half of 2010 6.2 percent economic growth was observed, which didn't meet the targeted level mainly due to the low level of agricultural output affected by unfavorable weather conditions. The level of foreign trade and private remittances recovered but still lag behind pre-crisis indicators. Recovery of world and domestic economies parallel to monetary and fiscal easing policy spillovers, and also negative expectations created depreciation pressure on dram. Under those circumstances during the first half of 2010 the CBA increased the refinancing interest rate for 2.25 percentage points and limited volume of quantitative easing instruments.

As a result, 12-month inflation rate gradually dropped and by the end of second quarter came close to upper bound of inflation target range. The decrease of inflation pressure was also driven by reduction of budget deficit. In the light of considerable drop of agricultural output and termination of major construction projects, it is expected that starting the third quarter the economic growth will slow down and will be less than the

forecasted 3-4 percent target (for more detail see "Financial Stability in Armenia's Macroeconomic Environment" section). During the first half of 2010 Armenian commercial banks while preserving excess capital adequacy, liquidity and manageable level of risks recorded growth for main banking indicators. Banks and credit organizations continued to loosen lending standards and the growth rate of lending persisted (for more detail see "Stability of Armenian Financial Institutions" section).

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