

# Financial Stability Report (2013 1st half)

2013-10-01

*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

*Key risks deriving from the external sector and affecting the domestic economy and financial stability, as well as the uncertainties associated with further developments persisted this year, too. The deflation of industrial commodity prices in international markets, low growth of industrial sector and poor weather conditions somehow contributed to the slowing of growth of domestic economy. Parallel to these adverse developments, some positive trends were recorded in the economy. In particular, 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. The global economic recovery continued during the reporting period in spite of outweighing downside risks. There is still no ultimate solution for debt problems of developed countries, and those problems in some countries caused international financial market volatilities. It seems that the slowdown trend of economic growth entrenched in emerging countries, which consequently affected deflation of main commodities. Growth in stock commodity prices was observed mainly at the beginning of the year. Later, the upward trend was opposed by adverse course due to economic growth slowdown of advanced economies and the current uncertainties of world economy. 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 moderate monetary policy and kept interest rates on the same levels, linking the probable changes with a certain level of main macroeconomic indicators.*

*The economic developments in Russia and EU countries, Armenia's main trade partners were worse-than-expected; though it did not significantly influence the domestic A set of risks threatening financial stability has not changed notably compared to the previous*

year, though the key risks have increased Global economy challenges still persisted in the first half of 2013 Monetary authorities further implemented moderate monetary policies Economic developments in partner countries cannot be attributed as positive, though they had little influence on domestic economy. During the half of the year an increase was recorded both in exports and private remittances (for details, please see the section "Developments in Global Economy"). Economic growth of Armenia in the first six months of 2013 reached 3.5% (compared to 6.5% of the first half of 2012). This slowdown was mainly due to low growth of industry sector and decrease in the construction. Despite diverse patterns of global economy developments, Armenia posted better performance of indicators on private transfers, factor income, and foreign trade turnover. This has contributed to the growth of incomes in the economy, thus strengthening the financial stability of companies and households (for details, please see the section "Macroeconomic Environment Developments in Armenia"). During the first half of 2013 the capital adequacy declined as loan portfolio growth slowed down. During the observed period, the banking system of Armenia maintained its capital adequacy and liquidity ratios above the regulatory requirements while keeping the market risks comfortably manageable. Net interest margin declined, thus contributing to the reduction in banking system profitability. The risks in the financial system in some instances displayed ascending trends but remained manageable overall, without creating a threat for the financial stability (for details, please see the sections "Stability of Financial Institutions of Armenia" and "Financial Market Infrastructures Stability").

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