

# Financial Stability Report (2014 1st half)

2014-10-07

*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

*The main risks affecting financial stability of Armenia persisted during the first half of the year while uncertainties over the future developments added. Developed countries saw their economic growth recovering further at an unsteady pace though, while economic growth outlook in developing countries is mostly unfavorable. Decreased prices of base metals in international markets, a sluggish growth of the Armenian industry and bad weather conditions contributed to lower domestic economic growth. Geopolitical developments created additional obstacles to Russia's economic growth, which in turn can affect the inflow of private transfers to Armenia and export volumes to Russia. Global economic recovery continued during the first half of the year, although suspended quantitative easing policy in the U.S.A. as well as geopolitical developments added to downside risks. Adverse climatic conditions in developed countries and the Ukrainian crisis-related events resulted in lower than expected economic growth. Developing countries saw an even more persistent trend of slowing economic growth, which in turn has contributed to dropped prices of some exchange traded commodities. Monetary authorities of developing and developed countries continued pursuing an expansionary monetary policy to shore up economic growth. In the period under review, interest rates of monetary instruments remained at extraordinarily low levels, while the U.S. Federal Reserve kept on tapering the volumes of quantitative stimulus program as was announced.*

*Economic developments in Armenia's main trade partners – some countries of the European Union and Russia – have been unexpectedly unfavorable, although their impact on the domestic economy is still weak. In particular, in the period under review growth rates of both commodity The set of risks threatening financial stability has not changed in relation to the previous year, although some risks go an upside track. The first half of*

2014 was prominent with downside risks to the global economic growth. Monetary authorities kept on implementing expansionary policies for economic growth stimulation. Economic developments in trade partners cannot be described as positive, though their adverse impact on the domestic economy is still negligible. Exports and private remittances have been slower (see details in section Developments in the global economy). According to the first six months' data, economic growth in Armenia was 3.4% (3.5% in the first half of 2013).

The slower growth rate was mainly due to the decline in industry and decreases reported in other sectors of the economy (see details in section Developments in macroeconomic environment in Armenia). During the first half of the year, capital adequacy reduced at somewhat a slower pace along with slowing growth rates in the credit portfolio. In the period under review, Armenian banking system had capital adequacy and liquidity ratios above the regulatory requirements, and manageable market risks. Though in some cases on an upside track, risks in the financial system remain manageable in terms of financial stability (see details in sections Stability of financial institutions of Armenia and Financial stability in market infrastructures of Armenia).

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