

Financial Stability Report (2015 1st half)

2015-10-06

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

In the first half of 2015, the financial system of Armenia faced a number of challenges transmitted from foreign economy. This has affected the volatility of financial markets. Due to mutually agreed actions of the Central bank of Armenia and Armenian government, the situation was quickly stabilized and measures were taken in order to subsequently mitigate risks. In the first half of the year, the decline of base metals' prices in international markets, dollar value of the export from Armenia, as well as foreign investments continued. Given the geopolitical developments, the economic growth of Russia weakened, which in turn negatively affected the volumes of inflow of private remittances to Armenia and export to Russia. In the first half of 2015, the recovery of global economic growth was slower than assessed before, resulting in continuous downturns of economic growth overviews. Though high economic growth was registered in the US, the economic growth in the euro area countries was lower-than-expected, while the declining trend of economic growth rate in emerging market economies was maintained. The abovementioned changes resulted in a cut of world trade and lower prices of some stock commodities. Monetary authorities of developing and developed countries carried out expansionary monetary policy to support economic growth.

The capital outflow from developing countries continued causing domestic currency depreciations. During the first half of the year, interest rates of monetary instruments remained at low levels, while international market participants expect increase in Federal Reserve interest rates no sooner than in the fourth quarter of 2015. Economic developments in Armenia's main trade partners, some countries of the European Union and Russia (for details, please see box "Economic developments in Russian Federation"), have been unfavorable, and their negative impact on the domestic economy persists (for details, please see section "Developments in the global economy"). In the first half of

2015, economic growth in Armenia was 4.0% (2.6% in 2014). The main contributors to the growth were increases of agriculture and industry, which were higher than forecasted (for details, please see section “Macroeconomic environment developments in Armenia”). The relatively expansionary fiscal policy by the Armenian government and considerable easing of monetary conditions by the Central bank of Armenia contributed to economic activity, thus mitigating the negative effect of the decline of private spending and private investments.

The lending by banking sector reduced caused by persistent risks to economic growth stabilization and fall in private remittances. In the period under review, the regulatory requirement of total capital adequacy has grown, due to decline of risk weighted assets and growth of capital. Though on an upside track, risks in the financial system remain manageable in terms of financial stability (for details please see sections “Stability of financial institutions of Armenia” and “Financial market infrastructures stability”).

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