

Financial Stability Report (2016 1st half)

2016-10-14

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 2016, the financial system of Armenia was adversely affected by a number of risks coming from the previous year. Owing to the actions taken by the Central Bank, the stability of the financial markets was maintained, as well as some growth in lending and attracting deposits was observed. In the first half of 2016, the decline in the international prices of base metals, domestic consumption, as well as foreign investment was maintained. Given the geopolitical developments, Russia faced an economic downturn, which, in turn, negatively affected the inflow of private remittances to Armenia and the export to Russia. The recovery of global economic growth was slower than assessed before. The geopolitical disputes resulted in a decline in world trade volumes and lower prices for some commodities. The monetary authorities of both developing and developed countries carried out expansionary monetary policy to support economic growth. During the year, monetary policy interest rates remained low. In the emerging countries, the capital outflow continued in parallel with the domestic currency depreciations. The economic developments in Armenia's main trade partners, some countries of the European Union and Russia have been unfavorable, and their negative impact on the domestic economy still persists (for details, please see the box “Economic developments in Russian Federation” and the section “Developments in the global economy”). In the first quarter of 2016 economic growth was 4.4% in Armenia.

However, the overall growth rate for the first half of the year was only 2.8% (3.0% in 2015) due to sluggish growth in the second quarter. The main contributor to the growth was the higherthan-forecasted growth in manufacturing (for details, please see the section “Macroeconomic environment developments in Armenia”). Given the recent deflationary environment, the Central Bank significantly weakened the monetary conditions, which extenuated the downward impact of the private consumption and the private investment.

In an environment depicted with persistent risks associated with slow economic and aggregate real disposable income growth, the profitability indicators of the banking sector declined. At the same time, the commercial banks managed to increase their loan and deposit portfolios and improve their capital adequacy and liquidity. These developments were mainly due to the capital replenishments as the banks were required to comply with the new minimum total capital threshold. No additional significant risks to the financial system were observed: they remained manageable and did not entail any financial stability issues (for details please see the sections “Stability of financial institutions” and “Stability of financial market infrastructures”).

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