

Financial Stability Report (2017 1st half)

2017-10-13

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 2017, given the positive foreign and domestic economic developments, a tendency for risk reduction in the financial system of Armenia was observed, while the financial stability was strengthened. Owing to the favorable macroeconomic environment as well as the Central Bank actions, the stability of financial markets was maintained, lending and fund-attraction grew slightly, while the banking system reported profit and financial stability indicators improved. The growth tendency of base metal prices in international markets and the expanding economic activity in partner countries had a positive impact on the export volumes of Armenia. The economic recovery in the Russian Federation favorably affected the flow of private remittances to Armenia and, consequently, the recovery of domestic consumption. The pickup of global growth, which was in line with the IMF's forecasts, remains on track. During the first half of the year, a recovery of global trade and overall expectations and confidence has been recorded, parallel to stronger industrial production levels. The positive developments, however, have been accompanied by risks skewed to the downside. In the medium term, slower-than-anticipated economic recovery of developing countries will be highlighted, including China's economic slowing, as well as geopolitical tensions. The monetary authorities of both developing and developed countries carried out expansionary monetary policy to support economic growth, while the US Fed Reserve maintained the path of interest rate rise. In emerging countries, the capital outflow was revised to resilient inflow, contributing to the economic recovery. Meanwhile, the monetary authorities maintained their low-rates policies. Significant improvements in European Union countries and Russia; Armenia's main trade partners were observed, contributed to the growth of external demand, capital investments and money transfers to Armenia (for details, see box "Economic developments in Russian Federation" and section "Developments in the global economy").

In the first half of 2017, the economic growth in Armenia was 6.0% (0.2% in 2016), contributed by manufacturing and service sectors, while the construction and agricultural sectors reported a fall (for details, see section “Macroeconomic environment developments in Armenia”). Given the recent deflationary environment, the Central Bank of Armenia continued easing its monetary conditions, which had a positive impact on the private consumption. The Central Bank’s reduction of the refinancing rate had its effect on the drop of the interbank, loan and deposit markets’ interest rates. The commercial banks have been profitable and increased their loan and deposit portfolios. The capital adequacy and liquidity ratios declined slightly, in line with the expansion of loan market, still remaining higher than the minimum regulatory requirements. The financial system risks had a declining trend and remained manageable, not entailing any financial stability issues (for details see sections “Stability of financial institutions” and “Stability of financial market infrastructures”).

[Financial Stability Report \(2017 1st half\)](#)