

Financial Stability Report (2018 1st half)

2018-10-26

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 2018, given the rallying economic activity and the stabilisation of income from external and internal economies, more stable income from abroad, the financial system stability of Armenia was strengthened, while credit expansion policy was maintained. The pickup of global growth remained on track but with lower pace of expansion, with risks tilted to downside, according to the IMF's forecasts. The projected growth has become less synchronized among countries, and several developments and trends continue to cloud the optimistic expectations. In the near term, the possibilities of escalating and sustained trade protectionism by advanced economies may lead to a weaker trade worldwide and slower growth rates of the global economy overall. In the medium term, a slower-than-anticipated economic recovery of emerging markets and developing countries, a quicker-than-expected tightening of the financial conditions in the financial markets and their possible abrupt fluctuations, as well as geopolitical stance will be highlighted. Given the current changes in the world economy, some countries kept on the ongoing withdrawal of monetary policy accommodation, while a feasible end of accommodative policies has been announced. In emerging countries, the capital inflow declined, causing slower economic growth rates and depreciations of domestic currencies. The positive pace of economic activity was maintained in the European Union countries and Russia; Armenia's main trade partners. The latter contributed to the growth of external demand, and money transfers to Armenia (for details, see section "Developments in the global economy"). However, the expectations for economic growth are on a declining pace in the aforementioned countries. In the first half of 2018, the economic growth in Armenia was 8.3%. The latter was mainly contributed by manufacturing and service sectors, fuelled by high growth of domestic and foreign demand (for details, see section "Macroeconomic environment developments in Armenia").

In the first half of 2018, the Central Bank of Armenia kept its monetary policy direction unchanged, given both the domestic and foreign macroeconomic developments. The refinancing rate remained 6.0%. The interest rates for loans and deposits of both individuals and legal entities declined. The same trace was recorded for interbank and securities' markets. The commercial banks have been profitable and increased their loan and deposit portfolios. There has been some deterioration in loan quality and the share of non-performing loans has slightly increased. Parallel to more active lending by commercial banks in the credit market, a tendency of decreasing liquidity was observed. The capital adequacy ratio of the banking sector has also slightly decreased, as a result of the expansion of the loan portfolio and the implementation of the capital structure requirements of the Basel III accord. These indicators, however, continue to remain higher than the minimum regulatory requirements. The financial system risks have not increased in the reporting period and remained manageable, not entailing any financial stability issues (for details see section "Financial institutions Stability").

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