

# Financial Stability Report (2012 1st half)

2012-08-21

*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.*

## PREFACE

*During the first half of the year financial stability of Armenia was sufficient enough although the risks observable in the financial sector in the previous year persisted while uncertainties over further developments have become more pronounced. An admitted level of prices of raw materials as well as recovering inflow of transfers and domestic demand contributed to the growth of GDP. At the same time, the banking sector further posted increased lending. The global economic growth continued in spite of more downside risks to the economic growth. In advanced economies the sovereign and private debt burden persisted at high levels, limiting the state's ability to intervene and hindering the growth of demand and preventing the economy from reviving further. In a complicated situation like this, implementing exceptionally coordinated policies and taking unified approaches to regulation and supervision reforms in the financial system is equally important to all countries. The reported fall in prices of manufacturing goods and food products in the second quarter of the year somehow brought the advanced and emerging countries' attention off the issue of curbing of inflation, making further economic growth outlook a key priority instead. Economic recovery in Armenia's main trade partners in Russia, some Euro-area countries and has not slowed down and this has positively contributed to the growth of the Armenian economy. In view of skepticism over global economic growth outlook and other developments in the international arena, Armenia saw growth of private transfers, factor income and external trade turnover. These developments contributed to the enhancement of financial stability (see details in "Developments in world economy" section). In the first half of 2012 Armenia posted an estimated economic growth in the region 5.4 and 5.7 percent, according to the Central Bank. Growth was reported in all sectors of the economy, including construction which saw increased volumes of privately funded construction.*

*In the first six months of 2012, the Central Bank has left the monetary policy rate unchanged amid a minor inflationary environment. At the end of the reporting period inflation was within the confidence band as a result of neutralized external inflationary pressures and slowing growth rate of agricultural product prices owing to high growth reported in that sector. Based on June data, the 12-month inflation was 0.7 percent (see details in "Developments in macroeconomic environment in Armenia" section). Throughout the first half of the year commercial banks maintained their capital adequacy and liquidity ratios above normative requirements and further kept market risks manageable. Based on semiannual estimations, profitability of the banking sector amounted to AMD 15.4 billion, with return on assets reaching 1.5 percent and return on equity, 8.4 percent. In the course of the reporting period risks existing in the financial sector were within a comfortable territory of manageability, not binging about vulnerabilities in terms of financial stability. Overall, the developments in the domestic economy were also favorable in the financial stability point of view (see details in sections "Stability of financial institutions in Armenia" and "Stability of financial infrastructures of Armenia").*

[Financial Stability Report \(2012 1st half\)](#)