

Annual report 2010

2011-04-26

Chairman's message

Dear Reader,

The year 2010 was full of challenges and trials but also prominent with achievements and structural reforms. The world financial and economic crisis in the last twothree years was a test to many governments, central banks and even some renowned scientists in terms of making revision in their approaches and decisions, redefining priorities and goals which were set before them. Armenia's economy, too, could not stay immune to the fallouts of the crisis, and it learned the lessons from it. Strengths and weaknesses of the economy were cleared up, and one thing was certain that preventing negative influence of external shocks and maintaining sustainable growth and low inflation would not be possible without structural changes in the economy and significant productivity growth.

The consequences of the crisis also made themselves felt in implementing a macroeconomic policy in 2010. The anti-crisis measures developed in 2009 in cooperation with the Government helped the Central Bank mitigate, as much as possible, adverse consequences of the global economic downturn. Yet, early in the year, the Central Bank had to face another problem deriving from the crisis – high inflation – which has been predicted by many macroeconomic policy makers worldwide. The main factors determining the formation of an inflationary environment in our country included price increases in world markets as well as expansionary monetary and fiscal policies implemented in the previous year.

The tightening of monetary conditions and the de-dollarization measures since the beginning of the year made it possible to bring the 12-month inflation back to the target band in the first half of the year. Yet, the second half of the year saw new challenges associated, by and large, with steep rise in international prices of food products and a dramatic decline in agricultural output.

Though inflation was attributable to supply shocks, a reason beyond the Central Bank's aptitude, our efforts are continuously spent to cope with such shocks and prevent the importing of inflationary pressures to other segments of the market. In charge of the development of the financial sector, the Central Bank further carried out a policy for a

broader scope of financial market participants, more enhanced accessibility to financial services and diversity of products. The launching of the compulsory third party motor liability insurance scheme was momentous for the year both in terms of having an insurance culture in place and further developing the financial sector in Armenia. The passing of the package of laws pertinent to the pension system reforms was an important achievement as well. The voluntary pension component will be introduced since 2011 and the compulsory cumulative pension component, since 2014. These reforms are of great social significance and serve to maintain a proper level of living after retirement.

Work was further done to protect consumer interest as well as large-scale measures were taken up to increase awareness of target groups on financial and economic aspects. The policy implemented was reflected in the developments of the financial sector. Financial markets bounced back to their pre-crisis levels: competitiveness in the financial sector has improved notably and interest rates of loans have fallen steadily. Nevertheless, much remains to be done for the overall growth of the system. To sum-up, I would like to note that the year 2011 will also be going to face inflationary pressures and challenges, the Central Bank however will take action to bring inflation back to the target band. We will continue implementing reforms in pension and insurance sectors and in the securities market and non-bank financial institutions.

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Chairman
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