

Annual report 2016

2017-04-14

Chairman's message

Dear reader,

This is the annual report of the Central Bank of the Republic of Armenia for 2016. It provides an overview of the activities carried out for fulfillment of the objectives of the Bank and the results achieved during the year. In the reporting year the price and financial stability in Armenia was further maintained. On the back of public confidence in the Bank the inflation expectations have fallen significantly, reflecting the decrease in long-term interest rates in the financial market. This has created a ground for recovery of domestic demand and further economic growth. In a low inflation environment, the Bank gradually reduced the refinancing rate by a total 2.5 percentage points during the year, and we saw its effect transmitted on to the government bond market - in terms of fallen yields - and in the field of economy lending by the financial system as lending rates reduced. Price stability further contributed to tackling a number of problems that are of top priority for our society and business, such as maintaining consumers' living standard of consumers by sustaining the purchasing power of wages and other income, restoring the competitiveness of enterprises and ensuring positive developments in the tradable sector.

The reporting year was also prominent in terms of strengthening the financial stability - another ultimate objective of the Bank. The banks were able to smoothly meet the new capital threshold requirement, which is aimed at enhancing financial stability of the banking system, improving competitiveness among banks and increasing the role of the banking sector in the economy in the long run.

Consolidation in the banking system brought in 4 bank merger transactions, resulting in expanded opportunities for financing large-scale business projects by banks, a new ground to improve accessibility and affordability to financial services and enhanced ability of banks to absorb financial risks at the expense of their own resources. The financial system boasts more than sufficient liquidity and capital adequacy to finance various prospective projects in the economy without detriment to the financial stability. The policy the Bank is conducting contributes to the creation of long-term monetary resources. Successful implementation of mortgage, renewable energy and small and medium size

enterprise lending programs in key areas of the economy secured the sustainability of such projects and created a basis to start new ones. In 2016, the Bank signed three new agreements with the European Investment Bank and the KFW Bank, two of which steered to the small and medium size enterprise, and the other one for the housing finance development.

In 2016 farming households continued benefiting subsidized credit programs. Other credit programs designed for various social groups under government subsidy, such as "Affordable Housing for Young Families", "Loans to Students for Education", "Consumer Loans to Military and Police Officers for Acquiring Household Appliances" were also in pipeline. All financial system participants performed to ensure growth in key financial indicators. Insurance companies have demonstrated sufficient activity and secured a 13.5% growth in assets. In 2016, some changes were made in the field of third party liability insurance contracts, the most noteworthy of which included the introduction of the mechanism of self-regulation of accidents and modifications in the bonus-malus system in the MTPL compulsory insurance contracts.

In the year under review the pension funds have doubled, reflecting increased confidence in the system and proof of an effective resource management. The legislative changes introduced during the year will, no doubt, facilitate international cooperation in the capital market in the forthcoming years as well as help promote and develop derivative financial instruments. In 2016 the Bank remained proactive in defending consumer rights and lawful interests in the financial system and continued activities in the framework of the national strategy for financial education - another area of priority. In the end, let me sound especially articulate by saying that the results we have would not be achieved without concerted and effective work of the Bank personnel which always seeks to meet high corporate governance and professional standards.

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Chairman
ARTHUR JAVADYAN