

Financial System of Armenia. Development, Regulation, Supervision 2008

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Introduction

In 2008, the Armenian financial system development and growth continued, and displayed high flexibility in spite of the difficulties observed at the end of the year. Despite the turbulences in the global financial market, the financial system development in the first three quarters continued at the same rate as in the previous year. The negative impacts of the global recession penetrated into the Armenian financial system only in the fourth quarter of the year, as the economic growth significantly slowed down throughout the real sector.

Macroeconomic development patterns varied in the course of the year, while in the first three quarters the double-digit growth manifested in the previous years still continued, household income growth, foreign trade volumes and the economic growth in the fourth quarter slowed down. Subsequently, economic growth in 2008 totaled 6.8 percent, which was twice lower compared to the double-digit 13.7 percent growth of the previous year. Sharp drop down was observed in construction sector, which was mainly caused by contained private financing and contraction of the state budget allocations. In 2008, the growth of remittances (particularly in the fourth quarter) and household income decreased and uncertainties in terms of the future economic outlook were increased. The fall in the household income growth contributed to the drop in the growth of the services sector.

In 2008, trends of financial intermediation expansion manifested in the previous year have slowed down. The share of the banking system assets and loans within GDP grew by 3.6 and 3.9 percentage points totaling 28.0 and 16.9 percents respectively. Banking system deposits/GDP ratio fell by 0.4 percentage points and totaled 12.3 percent. Further expansion of financial intermediation was hindered by negative expectations and impacts of the crisis starting from the last quarter of the year. Banking system continues to play a predominant role within the financial system, with the share of banking assets within the financial system totaling around 92 percent

The major indicators of the banking system in 2008 are as follows:

Compared to the previous year, the lending growth rate fell, however it remains at a high level of 51 percent. Given the growth of lending, net foreign assets of the banking system continued to decrease and by yearend were equal to AMD -147 million.

The level of dollarization surged (in the fourth quarter solely), driven by the expectations of dram depreciation, as a result of which the share of the AMD denominated assets and liabilities fell by 3.4 and 6.8 percentage points, totaling 60.6 and 44.9 percent respectively.

Because of the global financial and economic crisis, and given the existing uncertainties regarding outlooks, commercial banks have tightened credit terms, which in turn contributed to a further decrease of credit growth.

Compared to the end of the previous year, the share of non-performing loans within the total loans grew by 2.0 percentage points and totaled 4.4 percent.

Due to the statutory capital replenishments and high annual profits, Armenian banking system has increased the capital.

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