

Financial System of Armenia. Development, Regulation, Supervision 2007

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Introduction

In 2007, positive developments continued in the financial system of Armenia. Bank assets accounted for about 92% of total financial system assets. The strong macroeconomic performance of recent years was sustained in 2007, positively influencing the banking system. Bank lending to all the sectors of the economy grew, despite lending seasonality patterns of recent years. As in 2006, mortgage lending grew faster (125%) than other types of lending in 2007. Consumer lending grew the fastest in terms of volume, facilitated by a 17.4% increase in net disposable household income in 2007.

The real GDP grew by 13.7% in 2007 driven mainly by construction (contributing 4.5 percentage points to the growth). Although construction growth was mainly due to higher volumes of privately financed construction, rather than bank lending (only 5% of bank lending was directed to construction sector), the real growth of construction output amounted to 27%, while bank lending to construction grew by 91%.

During 2007, the level of financial intermediation in the economy grew: the ratio of banking system assets to GDP grew by 4.6 percentage points to 24.4%, while the bank lending to GDP ratio grew by 4.4 percentage points to 13.0%. Although the level of financial intermediation still remains low in Armenia, sustainable economic growth and higher household income provide a strong foundation for Armenia's financial system to expand.

Below are some of the main trends of the banking system in 2007:

Lending to the economy grew at an unprecedented rate of 78%.

Net foreign assets (NFA) declined by AMD 87 billion to reach -76 billion: that much amount of financing from non-residents (mainly foreign banks) was mostly lent to the domestic economy. Prior to 2007, NFA of the Armenian banking system was always positive.

Further dramization: the shares of dram assets and liabilities grew by 6.1 and 7.7

percentage points to reach 63.0% of total assets and 51.7% of total liabilities, respectively (before 2007, foreign currency liabilities outweighed dram liabilities in the structure of total liabilities).

On the overall background of a sharp increase in lending, the quality of assets did not deteriorate: "Standard" assets were 97.6% of total at yearend 2007 (unchanged from yearend 2006), while net provisioning during 2007 accounted for only 0.6% of total assets (compared to 0.4% at yearend 2006).

The "cleansing" of the insurance market from "unhealthy" companies continued in 2007: the licenses of six more insurance companies were revoked. Nevertheless, total assets of insurance companies grew by 1.3% relative to 2006, while their profits increased by 113.3%, and the number of contracts by 39.5%. The significant event in capital markets was the acquisition of 100 percent of the shares of the Armenian Stock Exchange and Armenian Central Depository by the famous Swedish stock exchange operator "OMX AB publ.". The groundwork for the acquisition had been laid by the new Law on the Securities Market, under which the Armenian Stock Exchange and Central Depository were reorganized into open joint-stock companies, i.e. they were reorganized from non-for-profit organizations into profit companies. Moreover, six companies issued bonds during 2007, and one company even made an initial public offering (IPO) of shares. Thus, the expectations of capital market development became more realistic in 2007.

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