

Financial System of Armenia. Development, Regulation, Supervision 2010

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Introduction

Challenges of world economic crisis in 2009-2010 did not result in significant shocks threatening stability of Armenian financial system. In 2010 Armenian financial system almost recovered to the precrisis profitability level. Armenian Government and Central Bank lending programs, which were initiated already in the second half of 2009, persisted also in 2010. The mentioned programs, anti-crisis expansionary monetary and fiscal policies in 2009, dram depreciation and inflation in international markets led to the formation of inflation environment in the beginning of 2010. And though from the start of 2010 the Central Bank of Armenia (hereinafter CBA) tightened monetary policy, nevertheless as a result of increasing supply of lending resources the lending interest rates of banking system showed declining trend throughout the year.

The largest participant of Armenian financial system is the banking system, which holds 91 percent of total assets of financial system. Armenian banking system withstanding crisis challenges inherited from previous year, already in 2010 reviewed and loosened lending standards. The financial intermediation level of the banking system increased in 2010, but still lags the same indicator in many other CIS countries. Parallel to the growth of assets, decrease of nominal GDP was registered. As a result, the ratio of banking system assets to GDP increased by 2.6 percentage points and reached 44.5 percent. The ratio of loans issued by the banking system to GDP increased by 3.3 percentage points and totaled 25.3 percent. In 2010 Armenian banking system preserved growth and development tendencies and despite adverse impacts of financial crisis demonstrated high level of flexibility. The banking system ensured 17.7 percent growth of assets, 14.6 percent growth of capital and high level of profitability (Return on Assets 2.2 percent, Return on Equity 10.7 percent).

The CBA proceeded with reforms to ensure sustainable development of the banking, securities and insurance markets aimed at assuring financial stability and sustainable development of Armenian financial system and improvement of clearing and settlement system. In the context of the above mentioned the most important reform of 2010 was the implementation of Motor Third Party Liability Insurance system. The injured parties of motor vehicle accident would receive appropriate compensation. The system would also

stimulate the development of overall insurance market broadening insurance product lines, enhancing the quality of provided services and increasing the process efficiency.

In 2010, pension system reform legislative package was adopted, which would ensure operation of volunteer pension system in 2011 and operation of mandatory pension system in 2014. Those reforms have a great social importance and are aimed at providing appropriate welfare level for the population after pension age. In 2010 the CBA proceeded with large scale actions aimed at modernization of financial sector regulation framework, financial supervision, consumer right protection and financial education of various target groups of the society.

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