

Financial System of Armenia. Development, Regulation, Supervision 2015

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Introduction

Amidst uncertainties caused by the regional economic developments and. lower domestic demand for credit, in 2015 the financial intermediation slightly declined Financial system asset-to-GDP and loan-to GDP ratios shrunk by 7 and 5.7 percentage points, respectively, to 76.8% and 43.4%. In line with the expectations of the financial institutions, external sector risks increased, but the impact was timely mitigated through both banks' rapid reaction to reduce the impact of higher risks and the maintenance of sufficient capital adequacy and liquidity buffers. Therefore, risks undermining financial stability did not emerge in the course of 2015.

In the first half of 2015, over this transition period of adapting to the new economic situation borrower financial difficulties somewhat lowered the banking system loan portfolio quality; however, an improvement trend was noted in the second half. On the background of these developments, statutory capital replenishment by banks ensured a significant increase in the banking sector capital adequacy. The deposit growth pace, was sustained in 2015 as well, which, together with credit contraction, improved the banking system liquidity and the stability of loan portfolio financing sources.

Non-bank financial institutions considerably expanded their activities, whilst meeting the prudential standards.

In the area of financial system regulation and supervision, the Central Bank of RA continued efforts aimed at achieving more effective regulation and supervision of financial institutions, as well as protecting consumer rights and improving the financial literacy of various target groups in society. In 2015, the Central Bank initiated the implementation of the liquidity requirements under Basel III and continued the comprehensive transition from the rule-based supervision framework to a risk-based one.

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