

Financial Stability Report (2024 annual report)

2025-06-10

In 2024, the financial system of the Republic of Armenia ensured the continuity of financial intermediation, guaranteeing the uninterrupted provision of financial services to households and businesses. Throughout the year, the loan and deposit portfolios of the banking system expanded. Lending to both households and businesses increased, with growth observed across nearly all major lending categories. High growth rates were recorded particularly in loans extended for consumption, mortgage lending, and the construction sector. The increase in deposits was largely driven by the growth of resident deposits.

Amid high lending activity to households, their debt burden increased; however, due to the extension of loan maturities, no significant rise was observed in the debt service burden. The robust growth in household lending was almost equally supported by increases in both consumer and mortgage loans. In recent years, the growth in household income has been accompanied by an increase in loan maturities, allowing households to maintain a relatively stable level of debt service burden. In 2023–2024, a strong demand and growth rate were observed in consumer lending. This can be explained by rising incomes in the economy, a convergence effect following previous years of moderate or declining growth in consumer loans, and the need to purchase durable goods for newly acquired housing amid heightened real estate market activity.

In the mortgage lending segment, a significant surge in lending flows was recorded toward the end of 2024. This was the result of a behavioral shift aimed at accelerating real estate purchase decisions, driven by the gradual phase-out of the income tax refund mechanism in Yerevan. The Central Bank has regularly communicated, through its publications and press briefings, the risks of overheating in the real estate market and the potential accumulation of associated credit risks.

There have been signs of a slowdown in the pace of real estate price increases. In light of the gradual termination of the income tax refund mechanism and the potential saturation of real estate demand, a further deceleration of market activity is considered likely. In recent years, the rapid growth in construction permits and residential development, combined with the potential saturation and possible future decline in real estate demand, could lead to the formation of excess supply in the market. At the same time, the robust increase in lending to the construction sector may reflect a possible substitution of financing sources for construction projects and signal an accumulation of debt burden and

related credit risks.

Geopolitical uncertainties and rising trade tensions have continued to pose major risks to global economic growth and financial stability. As a result of the lagged effects of tight monetary policy conditions in previous years, global inflation has moderated reaching or approaching target levels in most of the countries. In the current environment of heightened geopolitical uncertainty and trade tensions, risks to the global economic growth outlook are also assessed to be elevated. In particular, the risk of global economic growth falling short of expectations is considered more prominent than the risk of sustained high inflation.

The materialization of these risks may also affect Armenia's domestic macro-financial environment by increasing the likelihood of slower economic growth, a rising debt burden in the private sector, and the realization of credit losses stemming therefrom.

The banking system remains characterized by high levels of capitalization and liquidity. In the end of the year, the banking sector recorded strong profitability. This profitable performance was supported by the growth in net interest income as well as low credit losses. The increase in net interest income was primarily driven by structural changes in banks' balance sheets, including robust growth in consumer lending, the dramization of the loan portfolio, and a gradual increase in the share of demand deposits in the structure of resident deposits. The maintained relatively high interest rate environment, both in external and domestic markets, also had a certain positive impact. Amid economic growth and increased activity in the credit market, the quality of the loan portfolio has improved. Nevertheless, in the current environment of elevated uncertainty and the potential accumulation of risks in certain lending segments, credit risk remains a prevailing concern.

The results of macro stress testing indicate the RA banking system's strong capacity to absorb risks. Under the market reference scenario, the capital adequacy of the banking system remains at a high level throughout the projected horizon. In the case of a stress scenario involving severe and highly adverse hypothetical developments, losses stemming from credit and market risks increase sharply. However, the banking system remains adequately capitalized over the entire assessment horizon. Moreover, the capital buffers of the banking system are sufficient to ensure the uninterrupted financing of the economy. However, it should be noted that under current conditions of elevated uncertainty, significant ambiguity remains around the probability, duration, and magnitude of the stress scenario.

The Board of the Central Bank of Armenia has raised the countercyclical capital buffer (hereinafter CCyB) rate by 0.25 percentage points, bringing the effective CCyB rate to 1.75% as of May 1, 2025. During 2024, the financial cycle index increased, while the negative credit-to-GDP gap narrowed significantly. In this context, the Central Bank's macroprudential policy decisions have been aimed at addressing potential risk developments deriving from the accelerated expansion of lending. In raising the CCyB rate, the Central Bank also considered the current level of risk accumulation on banks' balance sheets, the cost implications of additional capital formation by banks, the results of the stress tests conducted, and the potential impact of the rate increase on the continuity of credit provision to the economy.