

ARMENIA:

FINANCIAL INCLUSION

“FINANCIAL INCLUSION” SEL

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“ Armenia: Financial inclusion” is an electronic periodical which aims to analyse and briefly represent the changes of financial inclusion components in RA.

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THE TRENDS OF INTEREST RATES ON INVOLVEMENT AND DISTRIBUTION IN THE FINANCIAL MARKET OF ARMENIA

- In general, the degree of financial inclusion depends on the level of interest rates formed on financial services, especially on loans.
- As shown in Table 1, interest rates on all directions have decreased, except for loans offered to legal entities in AMD. The most visible decrease was in terms of deposits in US dollar (2.3% in July 2016 over 6.0% in December 2016).
- However, the ratios (by currencies) between interest rates of involved deposits and interest rates on loans are worth paying attention. In other equal conditions, they show the basis for profit formation in banks.
- If there are no questions about the relationship between individuals, then the same can not be said about involvement and distribution legal entities in AMD. In July of 2018, deposits involved by 10.4%, and loans were issued by 10.6%. The answer is, apparently, in the redistribution of other involved funds and, possibly, other sources of banks' resources.
- With regard to involvement and distribution rates, the issue of identifying the factors affecting their levels is of particular importance. Particularly, especially what is a result of the reduction of interest rates on loans.

CHANGES IN THE MONTHLY VOLUMES OF DEPOSITS AND LOANS EXTENDED BY ARMENIAN COMMERCIAL BANKS

- As shown in the Table 2, if in December of 2016, loans of 120.5 billion drams have been provided over 64.6 billion drams involvement., in December of 2017 -169.0 billion drams over 97.7 billion drams, then in July of 2018 there were 143.0 billion drams over 39.7 billion drams. In the case of US dollars, the gap between that involvement and distribution has been dramatically improved over the last period.
- Overall, in July 2018, as compared with the previous month (by currencies), both the involved and distribution volumes are decreased.
- However, the main issue concerns the extent to which local banks managed to organize lending at the expense of the sources.
- The first answer to the issue concerns the volumes of demand deposits involved by the same banks. That is to say, the involvement and allocation gap is, first of all, the existence of demand funds.
- However, in this case, the limit of current liquidity standards (60%) approved and applied by the Central

Bank of Armenia. This means that only 40% of the demand funds can be used in other equal installments, while allocating in profitable and particularly, loans, without violating the operating liquidity limit. At the same time, the remnants of demand funds are constantly changing,

so the profitable use of these funds can be problematic in general.

- At the same time, the issue of organizing the current allocation by local banks exclusively from local sources of involvement is of great importance.

TABLE 1. Interest rates on involvement and distribution in the financial market of RA ¹

<i>Indicators</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>		
	<i>December</i>	<i>December</i>	<i>May</i>	<i>June</i>	<i>July</i>
<i>Deposits up to 1 year</i>					
<i>Legal entities</i>					
by AMD	7,4	8,1	9,7	9,6	10,4
by USD	6,0	2,8	1,3	1,3	2,3
<i>Individuals</i>					
by AMD	11,4	8,6	7,9	8,2	7,9
by USD	4,7	3,3	2,7	3,1	2,9
<i>Loans up to 1 year</i>					
<i>Legal entities</i>					
by AMD	12,3	11,1	12,2	11,1	10,6
by USD	7,8	7,2	8,6	8,4	7,6
<i>Individuals</i>					
by AMD	19,4	16,0	15,5	15,2	14,5
by USD	14,4	11,2	11,9	9,4	11,2

¹ See: ՀՀ կենտրոնական բանկի տեղեկագիր: 2016: Դեկտեմբեր: ք. 56: ՀՀ կենտրոնական բանկի տեղեկագիր: 2017: Դեկտեմբեր: ք. 66: ՀՀ կենտրոնական բանկի տեղեկագիր: 2018: հուլիս: ք. 66:

TABLE 2. Involved deposits' and provided loans' volumes by commercial banks of RA (mln)²

<i>Indicators</i>	<i>2016</i>	<i>2017</i>	<i>2018թ</i>		
	<i>December</i>	<i>December</i>	<i>May</i>	<i>June</i>	<i>July</i>
<i>Loans to legal entities</i>					
by AMD	46.873,9	61.680,7	42.686,3	63.657,7	54.387,5
by USD	364,6	409,2	284,0	178,7	146,5
<i>Loans to individuals</i>					
by AMD	73.641,9	107.338,8	98.962,2	92.794,9	88.553,3
by USD	39,8	52,1	36,3	36,1	13,3
<i>Deposits from legal entities</i>					
by AMD	25.403,1	35.295,1	16.595,2	16.844,4	14.679,6
by USD	52,7	78,9	59,9	21,6	9,7
<i>Deposits from individuals</i>					
by AMD	39.160,5	62.359,0	31.181,0	35.339,1	25.015,5
by USD	156,5	216,8	146,3	139,5	135,6

² See: ՀՀ կենտրոնական բանկի տեղեկագիր: 2016: Դեկտեմբեր: ք.56: ՀՀ կենտրոնական բանկի տեղեկագիր: 2017: Դեկտեմբեր: ք. 66: ՀՀ կենտրոնական բանկի տեղեկագիր: 2018: հուլիս: ք. 66: