ARMENIA:

FINANCIAL INCLUSION

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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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FUNDAMENTAL FINANCIAL CONCEPTS: INTERCONNECTIONS

- At present, “financial inclusion” is widely used in parallel with the terms “financial stability” and “financial development”. In terms of methodological bases it is crucial to change the Constitution of the Republic of Armenia on the main goals and functions of the natioanl bank of the Republic of Armenia, “The main goal of the Central Bank is price and financial stability provision”[1].
- At the same time the main objective of the Central Bank of the Republic of Armenia is to ensure price stability in the Republic of Armenia In order to implement its main objective, the function of the Central Bank is to take measures to ensure price stability. In order to implement its main task, the Central Bank process, approves and implements monetary policy programs"[2]. And one of the problems of the Central Bank of Armenia is “to maintain the stability and normal activity of the financial system of the Republic of Armenia, including creating conditions necessary for stability, liquidity, solvency and functionality of the banking system of the Republic of Armenia”. [3]
- At first the conjunctions show that instead of the “main objective” the Central Bank will henceforth provide “basic goals”. It is already a noticeable the change of the “objective” to the “goal”. This clarification requires a different level of lifting, which removes from the issue of determining the methodological basis of the main financial concepts. Therefore, it be proceeded from the general precedent that the “objective” is solved, it is actual and continuous, and after setting the “goal”, they try to get it in some horizons. In all cases, the principal contradiction between the “problem” and the “purpose” is absent generally.
- Primary is that the “Financial stability indicators. The compilation guide” were prepared in response to the requirement for the strength and vulnerability assessment tools of the financial system. In case of national income statistics, started up in the 1930s, the demand for financial sustainability indicators emerged from crises and from a general opinion that policymakers needed new types of information based on which decisions can be made”.[4]
- It emphasizes the source and significance of the requirement for the development of financial sector stability indicators along with the macroeconomic indices.
- In 2006, it was also mentioned: “With the liberalization of financial markets and the

[1] Source: Amendments to the Constitution of the Republic of Armenia: Date of acception 6.12.2015. Chapter 14: Article 200, p. 2.

[2] Source: The Law of the Republic of Armenia on the Central Bank of Armenia Chapter: 30.06.1996, Article. 4, p. 1.

[3] See the same place: Article. 5, p. 1, a).

[4] Source: Показатели финансовой устойчивости. Руководство по составлению – Вашингтон, округ Колумбия, США: Международный Валютный Фонд, 2007 год. Издание подготовлено Службой переводов МВФ. Стр. xi.

greater recognition of the importance of systemic effects of financial sector weakness, policymakers and others are paying increasing attention to the stability of national financial systems. Thus the long established surveillance of individual institutions is being supplemented by the monitoring of risks to the stability of national financial systems arising from the collective behavior of individual institutions. This work is known as macroprudential analysis".[5] The International Monetary Fund's "Financial stability indicators. The compilation guide" is the theoretical-methodological source, as a result of which, in chronological terms, the task of the Central Bank of Armenia was supplemented by the demand for stability of the financial system, and then the relevant constitutional amendment was also included. The issue of "financial stability" definition is crucial. "Does financial stability require the soundness of institutions, the stability of markets, the absence of turbulence, low volatility, or something more fundamental? Can it be achieved and maintained through individual private actions and unfettered market forces alone? If not, what is the role of the public sector in fostering financial stability, as opposed to private collective action: is it just to make way for the private sector to achieve an optimum on its own, or is a more proactive role necessary for achieving the full private and social benefits of finance? Is there a consensus on how to achieve and maintain financial stability?"[6] As a result of the answers to the questions, the following definition is given: "A financial system is in a range of stability whenever it is capable of facilitating (rather than impeding) the performance of an economy, and of dissipating financial imbalances that arise endogenously or as a result of significant adverse and unanticipated events".[7]:

- At the same time, the Central Bank has already given the following definition: "Financial stability can be characterized as the concurrence of financial and macroeconomic conditions at a time when the financial system, i.e. financial institutions, markets and market infrastructures, is capable of withstanding probable shocks and instability, minimizing the probability of interruption of intermediation function".[8] In general, "financial stability" the definition of the Central Bank of Armenia in terms of content corresponds to the earlier definition and answers to the questions raised in the same source. The key is that in the first place there is a requirement for the ability to withstand financial institues, particularly commercial banks' shocks and imbalances, which is expected

[5] Source: Financial Soundness Indicators: Compilation Guide – Washington, D.C., International Monetary Fund. 2006. P. 1-2.

[6] Source: Defining Financial Stability. Prapared by Garry J. Shinasi. IMF Working Paper. International Capital Markets Department. October 2004. P. 3.

[7] Source: Defining Financial Stability. Prapared by Garry J. Shinasi. IMF Working Paper. International Capital Markets Department. October 2004. P. 8:

[8] Source: "Financial Stability Report" 2016, RA CB, 2017, Introduction: www.cba.am

to reduce the likelihood of interruption of the functions of financial intermediation.

- The main activity of financial intermediation of commercial banks operating in the country is the target of ensuring financial stability. Finally, financial intermediation is banking activity, and such is "... is considered to be accepting deposits or offering deposits and depositing by depositor and placing them at risk through loans, deposits, providing deposits and / or making investments".[9]
- A certain intermediate point is formed, where without the calculation of external macroeconomic impulses, the chain of formation of the "financial system stability" requires identification. When the term "financial system in the range of stability" is used in the earlier definition of stability, it is obvious that it can be found outside of it. First of all it can be "unstable". It is not excluded that the degree of instability can also receive other characteristics. But the starting point is what is finally seen as "stable or unstable". Obviously, it is about the "financial status" of the commercial bank, which carries out financial intermediary activity.
- It is "financial status" of financial institutions that receives "stable", "unstable" or other possible assessments. The chain of "financial system stability" starts from the "financial status" of the individual commercial bank. The same approach applies to other financial sector participants as well. Therefore, the separate activity of each commercial bank operating in the country is summarized in the total financial status of 17 commercial banks, which ultimately does not shape the financial stability of the banking system and thus ends the chain of "financial stability" for commercial banks.
- As for participants and mediation in financial sector, especially after the recent global financial-economic crisis, there are concepts that directly relate to financial sector participants and their functions parallel to "financial stability". It is necessary to note about "financial inclusion" and "financial development" among them. There is a requirement for clarification of the relationships between them and "financial inclusion".
- Representing "Financial inclusion and inclusive growth. An overview of recent evidence" in particular, the authors make the following question: "What do we know about the reationship between financial inclusion and inclusive growth?"[10]: Then the following is mentioned particularly: "Financial inclusion means that adults have access to and can use a range of appropriate financial services. At its most basic level, formal financial inclusion starts with having a deposit or transaction

[9] Source: The Law of the Republic of Armenia on banks and banking activity, Date of acception 30.06.1996, Article 4, p. 2.

[10] Source: What do we now about the link between financial inclusion and inclusive growth? Asli Demirguc-Kunt, Loera Klapper, and Dorothe Singer. http://blogs.worldbank.org/allaboutfinance/what-do-we-know-about-link-between-financial-inclusion-and-inclusive-growth

account at a bank or other financial institution or through a mobile money service provider”.[11] At the same time, it is about the basic financial services, payments, savings, loans and insurance. In this case the relation between “financial inclusion” and “financial stability” refers to the directions of financial intermediation, which are account opening, payment and settlement services, savings formation and lending. That is, the change in the degree of “financial inclusion” directly shapes and affects the overall framework of intermediary executives “financial stability”.

- And about “fnancial development” it must be noted: “Financial development involves improvements in such functions provided by the financial systems as: (i) pooling of savings; (ii) allocating capital to productive investments; (iii) monitoring those investments; (iv) risk diversification; and (v) exchange of goods and services”.[12]
- Obviously, in the case of “financial development”, first of all, it is about saving and allocation of savings, which can be caused by a change in the degree of “financial inclusion”, which at the same time implies intermediary activity in the acceptable range of “financial stability” (see Figure 1).

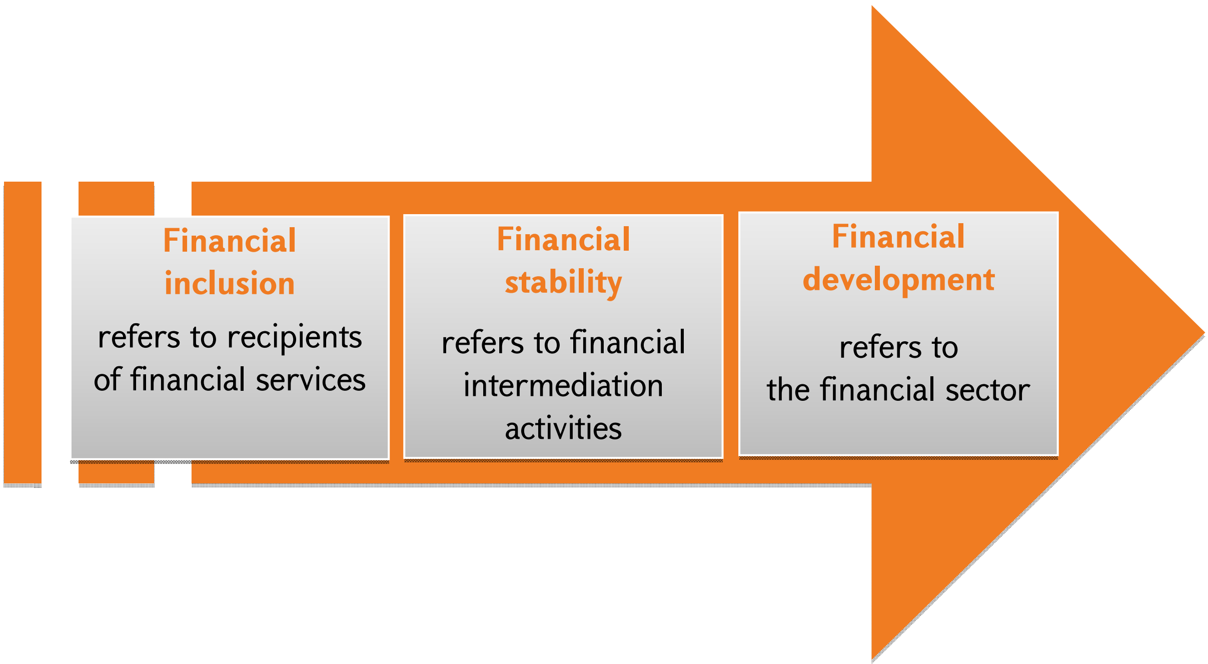

FIGURE 1. ***General relationships between “financial inclusion”, “financial stability” and “financial development”***

[11] See the same place.
[12] Source: Introdusing a New Board-based Index of Financial development. Prepared by Tatsiarina Sviridzenka. Strategy, policy, and Review Department. IMF Working Paper. January 2016. P. 4: http://www.imf.org/