Armenia

Increased foreign currency lending and a strong banking regulator

Bank branches are mainly clustered around Yerevan with higher concentrations in the north as compared to the sparsely serviced center and south of Armenia. Respondent banks cite both foreign and domestic banks as strong competitors for SME, retail and large enterprise lending. Since 2007 an increasing number of Armenian banks also consider cross-border lenders to be strong competitors, mostly for lending to large enterprises.

Armenian banks report insufficient credit demand, including the lack of creditworthy customers, as the main constraint that currently holds back their lending. On the loan application side, banks most frequently cite applicants' inadequate credit histories and a lack of cash flow as the main reasons for rejecting firms' loan applications.

Since the financial crisis banks are looking for new ways to attract customers (Chart 2). All of the banks interviewed reported that their participation in specialized lending programs that support micro, small and medium-sized enterprises has been (very) important in attracting new customers. Moreover, relatively many banks have been (re-) training their staff.

An interesting development is that Armenian banks appear to be looking more to foreign currency lending recently. From 2007 to 2011, 65 percent of the Armenian banks that participated in BEPS increased their foreign currency lending, the highest in the region, while only less than 5 percent decreased it, the lowest in the region (Chart 3). Almost all banks cited a decrease (increase) in the supply of local (foreign) currency deposits as the main reason for subsequently increasing the proportion of FX lending. This is partially driven by the increased inflow of foreign currency remittances and the currency devaluation of 2008-09.

Armenian banks hold the most positive views about their regulator across the CIS region, with nearly all banks (strongly) agreeing that the banking regulator is fair and impartial, and able to enforce its decisions. Only slightly fewer banks see the regulator also as quick and efficient (Chart 4). The trust in the regulator also means that only relatively few banks indicated that uncertainty over future laws and regulations disposes them towards holding more capital or liquidity.

Chart 1 Bank localities by ownership

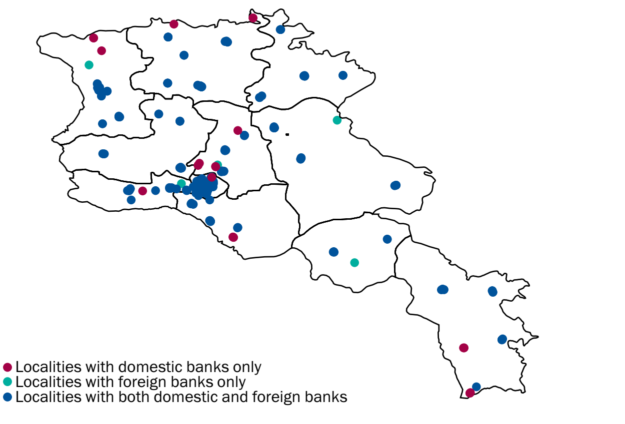

Chart 2 Attracting customers

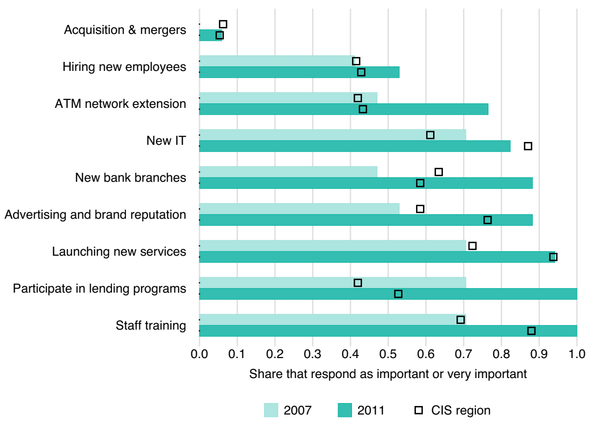

Chart 3 Change in FX lending since 2007

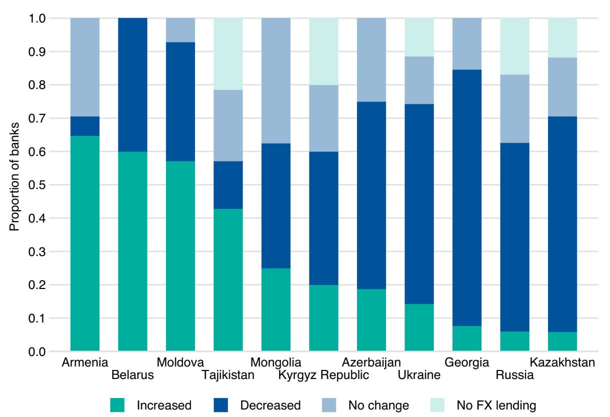

Chart 4 The banking regulator is…