

CODE
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April 10, 2020, 48-N

**APPROVING THE SIZE OF BANKS' COUNTERCYCLICAL CAPITAL BUFFER
(Q.I, 2020)**

With the view to ensuring financial system resilience;

Pursuant to Article 2.3 and Article 20 (e) of the Republic of Armenia law “On Central Bank of the Republic of Armenia”, Article 54.1 (1) of the Republic of Armenia law “On Banks and Banking” and “Procedure on Setting and Calculation of Buffers Above Capital Adequacy Threshold for Banks” approved by the Republic of Armenia Central Bank Board Resolution No 16, dated February 4, 2019;

Republic of Armenia Central Bank Board, herewith

Resolves:

1. Set the countercyclical buffer of banks' capital at 0% of risk-weighted assets;
2. This Resolution shall enter into force on the day following its promulgation.

**Republic of Armenia
Central Bank Governor**

April 13, 2020
Yerevan

Artur Javadyan

RATIONALE

COUNTERCYCLICAL CAPITAL BUFFER (Q I, 2020)

At the meeting of April 10, 2020, the Board of the Central Bank decided to set banks' countercyclical capital buffer at 0% of risk-weighted assets.

Pursuant to paragraph 12 of “Procedure on Setting and Calculation of Buffers Above Capital Adequacy Threshold for Banks”, the Central Bank of the Republic of Armenia shall set the countercyclical capital buffer (hereinafter, CCyB) on a quarterly basis. When setting the CCyB, the Central Bank shall be guided by the provisions of the document "General Methodology Underlying Setting of the Countercyclical Capital Buffer", according to which, the Central Bank of the Republic of Armenia shall set the size of the CCyB based on credit to GDP ratio gap assessed by Basel methodology, the financial cycle index describing the systemic risk developments and other early warning indicators.

When making the decision on the countercyclical capital buffer, the Central Bank of the Republic of Armenia was guided by a comprehensive analysis of the following facts:

1. Credit to private sector to GDP ratio in the fourth quarter of 2019, amounted to 65.6%¹: The gap calculated for this indicator (credit to GDP ratio difference from its long-term trend) has somewhat widened compared to the previous quarter, and according to the Basel Committee methodology it assumes the application of a positive CCyB rate.
2. However, the abovementioned indicator and the data underlying its calculation reflect the economic situation as of the end of 2019, are not representative for the current rapidly changing situation any longer. Expansion of the geography of coronavirus and implementation of preventive measures by different countries will have a negative impact on economic activity. Driven by the priority of mitigating the negative effects of COVID-19 on economic activity and its future prospects, as well as emphasizing and aiming to support the smoothness and continuity of lending to the economy by the financial system, the Central Bank finds it feasible to leave the rate of the countercyclical capital buffer unchanged at 0%.

¹ The share in GDP of the credit portfolio (including leasing and factoring) provided to the economy by the financial sector (in %).