

CODE

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**APPROVING THE SIZE OF BANKS' COUNTERCYCLICAL CAPITAL BUFFER
(QII, 2019)**

Pursuant to 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 in the manner prescribed by law.

**Republic of Armenia
Central Bank Deputy Governor**

Nerses Yeritsyan

July 30, 2019

Yerevan

RATIONALE

COUNTERCYCLICAL CAPITAL BUFFER (Q II, 2019)

At the meeting of July 30, 2019, 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 GDP ratio calculated by the methodology recommended by the Basel Committee on Banking Supervision totaled around 60%, and while its gap from the long-term trend is positive, but insufficient to set a positive CCyB rate.
2. Continuing high growth rates of lending to certain sectors of the economy (particularly households), current trends in mortgage and real estate market developments, together with the signals from other early warning indicators, point to some expansion in the lending market, and, consequently, are a signal of possible accumulation of systemic risks. However, these signals are still limited and do not currently necessitate setting a positive CCyB rate.

Given the results of a comprehensive analysis of the above facts, **the Central Bank finds it feasible to set the rate of the countercyclical capital buffer at 0%.**

In the future, in case of possible accumulation of risks in the financial system, the Board of the Central Bank of the Republic of Armenia does not rule out the upward revision of the required level of CCyB.

