

CODE

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**APPROVING THE SIZE OF BANKS' COUNTERCYCLICAL CAPITAL BUFFER
(Q II, 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**

July 31, 2020

Martin Galstyan

RATIONALE

COUNTERCYCLICAL CAPITAL BUFFER (Q II, 2020)

At the meeting of July 31, 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 first quarter of 2020, amounted to 66.12%¹. The gap calculated for this indicator (credit to GDP ratio difference from its long-term trend) was 1.96 percentage points, which, according to the Basel Committee methodology, is not sufficient to apply a positive CCyB rate². It should be noted that when making a decision on the CCyB, the Central Bank is also guided by other early warning indicators describing the systemic risk such as stock and flow indicators of lending, lending trends in certain sectors, etc.
2. As a result of the negative impact of the coronavirus pandemic on the economic growth prospects since March 2020 and its impact on the financial system, some declining trends of new credits were recorded in the credit market. These trends were reflected in declining growth rates of both in overall credit portfolio and lending in certain sectors (consumer credits, mortgage credits).
3. Given the negative impact of the coronavirus pandemic on the economic activity outlook and the existing uncertainties, the Central Bank considers it possible that declining lending may persist in the near future as well.

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

² According to the Basel Committee methodology, it is proposed to use the 2 percentage point credit/GDP gap as a starting point for defining a positive CCyB.

As a result of the comprehensive analysis of the abovementioned facts, aiming to mitigate the possible negative effects on the financial system due to the spread of the coronavirus, as well as to contribute to maintaining the continuity of the lending process to Armenian economy , **the Central Bank finds it feasible to leave the rate of the countercyclical capital buffer unchanged at 0%.**