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**APPROVING THE SIZE OF BANKS' COUNTERCYCLICAL CAPITAL BUFFER
(QIII, 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 on the day following its promulgation.

Republic of Armenia
Central Bank Governor
October 23, 2019
Yerevan

Artur Javadyan

RATIONALE
COUNTERCYCLICAL CAPITAL BUFFER (Q III, 2019)

At the meeting of October 15, 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 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/GDP ratio in the third quarter of 2019, amounted to 62.4%¹. While the gap calculated for this indicator (credit to GDP shift from its long-term trend) has widened compared to the previous quarter, however, according to the Basel Committee methodology, it is still not sufficient to apply a positive CCyB rate.
2. During the second quarter of 2019, the high growth rates of lending to consumer and mortgage sectors observed at the beginning of the year continued. Compared to the same quarter of the previous year, the high growth rate of prices in the real estate market continued as well.

Central Bank of the Republic of Armenia constantly monitors the regularities of lending both in the whole credit market and in some of its segments, and if necessary, may use tools aimed to curb risky developments in certain areas of lending.

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

¹ The size of the loan portfolio provided to the economy by the financial sector, including leasing and factoring.

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 possibility of upward revision of the required level of CCyB.