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APPROVING THE SIZE OF BANKS' COUNTERCYCLICAL CAPITAL BUFFER
(Q III, 2020)

With the view to ensuring financial system resilience;

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 27, 2020
Yerevan

Martin Galstyan

RATIONALE

COUNTERCYCLICAL CAPITAL BUFFER (Q III, 2020)

At the meeting of October 26, 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. Private sector credit to GDP ratio in the second quarter of 2020, amounted to 70.6%¹: The gap calculated for this indicator (credit to GDP difference from its long-term trend) was 5.24 percentage points, which, all other things equal, implies the application of a positive CCyB rate²³. Higher growth of credit to GDP ratio as compared to the previous quarter was mostly conditioned by the deep economic decline observed in the second quarter of the current year³. However, it should be noted that when making a decision on the CCyB, the Central Bank is also guided by other early warning indicators, the comprehensive analysis of which allows to identify and assess the general patterns of the lending market and the position of the economy in the financial cycle⁴.
2. As a result of the negative impact of the coronavirus pandemic on the economic growth prospects since March 2020 and the spread of that impact on the financial system, some declining trends of new credit volumes were observed in the credit market (deleveraging). In particular, compared to the same periods of the previous year, a decrease or slowdown

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.

³ The real YoY GDP decline in the second quarter of 2000 was 13.7% (nominal YoY GDP decline was 14.7%).

⁴ See the paper "General Methodology Underlying Setting of the Countercyclical Capital Buffer", <https://www.cba.am/Storage/AM/downloads/finstability/Capital.pdf>

in growth rates was observed both in terms of total lending flows to the economy and lending in certain sectors (consumer, mortgage and business lending).

3. Given the negative impact of the coronavirus pandemic on the economic activity outlook, the intensification of its second wave since September, as well as the declared martial law and the persisting uncertainties, the Central Bank considers it possible that slowdown of lending rates may continue in the near future as well.

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 and martial law, as well as to contribute to maintaining the continuity of lending process to Armenian economy, **the Central Bank finds it feasible to leave the rate of the countercyclical capital buffer unchanged at 0%.**