

**CODE**  
**050.0012 N. 04.02.20**

**February 4, 2020, 12-N**

**APPROVING THE SIZE OF BANKS' COUNTERCYCLICAL CAPITAL BUFFER  
(QIV, 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**  
February 10, 2020  
Yerevan

**Artur Javadyan**

## RATIONALE

### COUNTERCYCLICAL CAPITAL BUFFER (Q.IV, 2019)

**At the meeting of February 4, 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. to Private sector credit to GDP ratio in the third quarter of 2019, amounted to 63.3%<sup>1</sup>: Compared to the previous quarter, the gap calculated for this indicator (credit to GDP ratio difference from its long-term trend) almost has not changed, and, according to the Basel Committee methodology, it is still not sufficient for the CBA to apply a positive CCyB rate.
2. During the third quarter of 2019, the high growth rates of lending to consumer and mortgage sectors observed in the second quarter continued. Compared to the same quarter of the previous year, the high growth rate of prices in the real estate market continued as well. In order to address the trend of such growth in lending in the above-mentioned sectors, the Central Bank of Armenia plans to introduce the relevant tools from its toolkit. In particular, during the first half of 2020, the Central Bank plans to initiate the collection of reports on debt service/income and loan to value ratios. The information collected through them will serve as a basis for more accurate and effective addressing of possible risky developments in certain areas of lending (mortgage, consumer).
3. According to “Procedure on Setting and Calculation of Buffers Above Capital Adequacy Threshold for Banks”, effective from January 1, 2020, capital conservation buffer of commercial banks will be introduced at the rate of 0.5% of risk-weighted assets. At the same time, an additional 0.5% systemic risk buffer is set for systemically important banks. The

---

<sup>1</sup> The size of the credit portfolio provided to the economy by the financial sector, including leasing and factoring.

tools described above are essentially additional capital requirements that, while contributing to the resilience of the banking system, can at the same time curb the possibility of risky expansion of the lending market.

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%.**

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.