



**THE BOARD OF THE CENTRAL BANK OF ARMENIA
DECISION**

050.0049 N. 18.04.23

18 April 2023 49-N

**ON APPROVING THE SIZE OF THE COUNTERCYCLICAL CAPITAL BUFFER
(First quarter of 2023)**

Aimed at ensuring the stability of the financial system;

guided by part 3 of Article 2 and point "e" of Article 20 of the Law of Republic of Armenia "On the Central Bank of the Republic of Armenia", part 1 of Article 54.1 of the Law of the Republic of Armenia "On banks and banking" and the "Procedure for setting and calculating thresholds above the capital adequacy ratio of banks" approved by Decision of the Board of the Central Bank of the Republic of Armenia No 16 of February 4 2019, the Board of the Central Bank of the Republic of Armenia hereby:

D e c i d e s :

1. To leave the rate of countercyclical capital buffer of banks unchanged, at 1% of risk-weighted assets from 1 May 2023 and 1.5% from 1 August 2023.
2. This Decision shall enter into force on the day following its official promulgation.

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Governor of the Central Bank of Armenia
Yerevan

M. Galstyan

RATIONALE

For setting the Counter-Cyclical Capital Buffer (first quarter of 2023)

The Board of the Central Bank decided at the session of 18 April 2023 to leave the countercyclical capital buffer unchanged — at the level of 1.5%¹.

The set rate of the countercyclical capital buffer shall be in force from 1 August 2023².

When rendering the decision on the countercyclical threshold of capital (hereinafter also referred to as "countercyclical capital buffer (CCyB)"), the Board of the Central Bank of the Republic of Armenia (CBA) was guided by the comprehensive analysis of the macro-financial and credit market developments. In particular:

1. The financial cycle index has almost not changed as compared to the previous quarter. The growth of the financial cycle index in the recent years was mainly conditioned by the mortgage and real estate market developments. A moderate activity has been recorded in all directions of crediting in the 1st quarter of 2023 as compared to the previous quarter. The mortgage sector is an exception, where the high growth rates and risk build-up trends have been continued. In the other directions of sectoral lending, the cyclical systemic risks in the financial system continue to be at a balanced level (neither elevated nor subdued). The credit to GDP ratio estimated for the first quarter of 2023³ also has not been significantly changed and is around 64%. It continues to be at a level lower (around -9 percentage points) than its long-term trend (credit to GDP gap). These developments are mainly due to higher GDP growth as compared to credits.
2. The growth rate of the mortgage stock has been maintained at a high level, which was accompanied by the high growth of prices in the real estate market. According to the calculations of the CBA, the deviation of real estate price from its fundamental level has grown by 5 percentage points in average as compared to the previous quarter, and the overvaluation of real estate prices is estimated at around 25%. Taking into account that increase of debt financing volumes for real estate purchase

¹ Pursuant to point 12 of the "[Procedure for setting and calculating thresholds above the capital adequacy ratio of banks](#)", the Central Bank of the Republic of Armenia shall set, each quarter, the countercyclical threshold of capital (hereinafter also referred to as "countercyclical capital buffer (CCyB)"). When setting the CCyB, the Central Bank shall be guided by the provisions of the document "[General Methodology Underlying the Setting of the Countercyclical Threshold of Capital](#)".

² From 1 May 2023 to 31 July 2023, banks must meet the requirement of 1% rate of CCyB, pursuant to Decision of the Board of the Central Bank of the Republic of Armenia [179 N](#). As of 1 August 2023, banks must meet the requirement of 1.5% rate of CCyB, pursuant to Decision of the Board of the Central Bank of the Republic of Armenia [6 N](#).

³ The share of the credit portfolio (including leasing and factoring) provided by the financial sector to the economy in the GDP (in %). The estimation for the first quarter of 2023 is preliminary and may be further changed depending on the results of the recalculation based on actual GDP data.

and real estate prices are deemed to be mutually reinforcing in nature, the CB estimates that risks of overheating are maintained in the real estate market.

3. The uncertainties of the geopolitical environment and the probability of cyclical systemic risk materialisation derived from them continue to be maintained at a high level. According to the estimates of the CBA, the magnitude of additional unexpected losses arising from materialisation of cyclical risks has not been significantly changed as compared to the previous quarter.

As a result of the comprehensive analysis of the above-described facts, the Central Bank finds it appropriate to leave the CCyB rate unchanged, by maintaining it at the level of 1.5%. Future changes of the CCyB rate (both for increasing and decreasing) will be derived from the further course of development of macro-financial conditions, uncertainties and systemic risks.