

**CODE**  
**050.0179 N. 24.10.22**

**October 24, 2022 No. 179-N**

**ON APPROVAL OF THE COUNTER-CYCLICAL CAPITAL BUFFER  
(2022, QIII)**

**With the view** to ensuring sustainability of the banking system;

**Pursuant to** Article 2 (3) and Article 20 (e) of the Republic of Armenia Central Bank Law, Article 54.1 (1) and of the Law on Banks and Banking and “Procedure on Setting and Calculating Buffers Above the Banks' Capital Adequacy Ratio” approved by Central Bank Board Decision No 16-N of February 4, 2019, the Republic of Armenia Central Bank Board

**D e c i d e s :**

1. Set the counter-cyclical capital buffer for banks at 1% of risk-weighted assets. The rate is effective (mandatory) from May 1, 2023.
2. This decision enters into force on the day following its promulgation.

***Republic of Armenia***  
***Central Bank Governor***

October 24, 2022  
Yerevan

***Martin Galstyan***

## RATIONALE

For setting the Counter-Cyclical Capital Buffer (2022, QIII)

**At the meeting of October 24, 2022, the Board of the Central Bank decided to set banks' countercyclical capital buffer at 1% of risk-weighted assets<sup>1</sup>.**

**The countercyclical rate is effective from May 1, 2023.**

The Central Bank of the Republic of Armenia establishes a countercyclical capital buffer (hereinafter referred to as (CCyB)) based on a comprehensive analysis of macro-financial and credit market developments. In particular:

1. The growth trends, observed in lending market from the beginning of 2022, continued<sup>2</sup> in current quarter. Loans for both individuals and legal entities have increased also compared to the previous quarter. Nevertheless, estimated credits to GDP ratio for the third quarter of 2022 decreased, amounted to 67%<sup>3</sup>. The decline of this indicator is mainly caused by the progressive growth of GDP in relation to loans. For this indicator, the long-term trend (credit/GDP gap) calculated by the methodology of the Basel Committee decreased and reached -6.7 percentage points.

As it was noted in the previous rationales, while making a final decision on the CCyB, the Central Bank relies on the results of a comprehensive analysis of systemic risk developments and is not guided solely by the size of the credit/GDP gap calculated by the Basel Committee methodology.

2. The Financial Cycle index continued to grow on annual and quarterly basis. The growth of the financial cycle was mainly contributed by the high growth rate of mortgage lending, which was simultaneously accompanied by the rapid growth of real estate prices. Taking into account that the growth of debt financing volumes and real estate prices for purchasing real estate are considered complementary and mutually reinforcing, the Central Bank estimates, that potential overheating risks are still present in the real estate market.
3. Currently, the banking system is characterized with a high level of profitability and capital adequacy. As a result, the costs for the banks to comply with the proposed CCyB rate are

---

<sup>1</sup> According to paragraph 12 of "[Determination and calculation of thresholds above the regulatory capital adequacy limit for banks](#)" the Central Bank of the Republic of Armenia sets the countercyclical capital threshold (hereinafter referred to as (CCyB)) on a quarterly basis. The Central Bank is guided by the provisions of "[General methodology for determining the countercyclical capital threshold](#)" document while determining the CCyB rate.

<sup>2</sup> The increase in legal entities' loans calculated at constant exchange rate was about 6.3% since the beginning of the year.

<sup>3</sup> The weight of the credit portfolio provided to the economy by the financial sector (including leasing and factoring) in GDP (in %). The estimate for the third quarter of 2022 is preliminary, as it may change depending on the recalculation based on actual GDP data

minimal, and the current high level of bank capitalization is more than sufficient to maintain the normal lending to the economy.

4. In the context of the ongoing Russian-Ukrainian conflict and growing geopolitical uncertainty, the likelihood of materializing systemic (cyclical) risks remains high both in terms of impact and speed. Under the current conditions, the Central Bank of the Republic of Armenia attaches particular importance to improve the resilience of the RA banking system and accumulate capital buffers for future possible shocks. While strengthening the ability to absorb losses, capital buffers also increase the lending abilities of banking system in case of materialization of cyclical risks.

Based on the comprehensive analysis of the above-mentioned facts, the **Central Bank considers it appropriate to increase the CCyB rate at 1%. Future changes in the CCyB rate (both upward and downward) will depend on the further development of macro-financial conditions, uncertainties, and systemic risks.**