

**CODE**  
**050.0117 N. 12.07.22**

**July 12, 2022 No. 117-N**

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

**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 0% of risk-weighted assets.
2. This decision enters into force on the day following its promulgation.

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

July 13, 2022  
Yerevan

***Martin Galstyan***

## RATIONALE

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

**At the meeting of July 12, 2022, 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 Calculating Buffers Above the Banks' Capital Adequacy Ratio”](#), the Central Bank of the Republic of Armenia sets a counter-cyclical capital buffer (hereinafter, also (CCyB)) on a quarterly basis. In setting the CCyB, the Central Bank is guided by provisions of [“General Methodology Underlying the Definition of the Counter-cyclical Capital Buffers”](#), according to which, the Central Bank of the Republic of Armenia shall set the size of the CCyB based on credit to loans/GDP gap assessed by Basel methodology, the Financial Cycle index describing the systemic risk developments and other early warning indicators.

Decision of the Central Bank on the counter-cyclical capital buffer was based on a comprehensive analysis of the following facts:

1. Estimated credit to GDP ratio for the second quarter of 2022 increased compared to the previous quarter, and amounted to 70.5%<sup>1</sup>. For this indicator, the long-term trend calculated by the methodology of the Basel Committee decreased and reached -2.5 percentage points. This indicator (credit/GDP gap) serves as a starting point for the CCyB decision-making process, and for final decision, the Central Bank also considers other early warning indicators such as the Financial Cycle index, credit growth trends in various sectors, indicators characterizing the real estate market, etc.
2. The credit growth trends recorded since the beginning of 2022 continued in all lending sectors. As a result of that developments, the Financial Cycle index increased compared to the previous quarter and exceeded its median value, which was driven by strong growth in mortgage lending and the development of the real estate market. Without these developments, the Financial Cycle index, improved, however is still below its median value, which does not indicate excessive lending or significant risk exposures in terms of the overall credit portfolio.

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<sup>1</sup> The share of the loan portfolio (including leasing and factoring) provided to the economy by the financial sector in GDP (in %). The estimate for the second quarter of 2022 is preliminary, as it may change depending on the recalculation based on actual GDP data.

3. For mortgage lending, the high growth rates recorded in previous periods were maintained, which were accompanied by a rapid increase in real estate prices. Given that the above-mentioned increases are considered to be complementary and mutually reinforcing, the Central Bank observes the potential overheating<sup>2</sup> risks<sup>3</sup> in the real estate market.

Based on the comprehensive analysis of the above-mentioned facts, the **Central Bank considers it appropriate to leave the CCyB rate unchanged at 0%. At the same time, the Central Bank emphasizes the application of reasonable and cautious approaches to providing mortgage loans, assessing the risks arising from financial organizations.**

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<sup>2</sup> The methodology of price assessment determined by the fundamentals of real estate is presented in the RA CBA 2021 Financial Stability Report Note 3, which is available at the following link [https://www.cba.am/AM/periodicals/Stability%20report\\_2022.pdf](https://www.cba.am/AM/periodicals/Stability%20report_2022.pdf)

<sup>3</sup> In order to address the developments in this field, the Central Bank as of April applies the macroprudential tool limiting the maximum loan/value level