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April 13, 2021 No. 41-N

**ON APPROVAL OF THE COUNTER-CYCLICAL CAPITAL BUFFER
(2021, QI)**

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

April 16, 2021
Yerevan

Martin Galstyan

RATIONALE

For setting the Counter-Cyclical Capital Buffer (2021, Q1)

At the meeting of April 13, 2021, 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 fourth quarter of 2020, amounted to 74.25%¹. The gap calculated for this indicator (the difference of credit to GDP from its long-term trend) was 6.3 percentage points, which, according to the methodology of the Basel Committee² implies the application of a positive rate of the counter-cyclical capital buffer. However, it should be noted that such a large gap is not the result of excessive lending, but rather due to the decline in GDP recorded in 2020. Under these circumstances, other early warning indicators characterizing the credit cycle, as well as expert judgments are a priority for setting the CCyB.
2. As of the fourth quarter of 2020, the Financial Cycle index continued to decline due to increased uncertainty, which reduced the risk appetite of market participants and contributed to conservative lending behavior. In particular, a decrease in the volume of new credit flows was recorded in almost all areas of lending. The decline was particularly significant in terms of consumer loans. Mortgage loans recorded only a

¹ The share of the loan portfolio (including leasing and factoring) provided to the economy by the financial sector in GDP (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.

slight decrease in the volume of newly issued loans, as a result of which the annual growth rate of the mortgage portfolio remained at a sufficiently high level.

3. In the context of a continued slowdown in the growth rate of the total loan portfolio, the Central Bank will closely monitor possible risky lending developments in separate sectors. To effectively address this issue, the Central Bank is discussing the possibility of introducing more targeted instruments.

Based on the comprehensive analysis of the credit market, the above-noted trends, uncertainties, and the negative impact of the coronavirus disease on the economy and financial sectors, the **Central Bank underlines the continuity of bank lending and considers it appropriate to leave the CCyB rate unchanged at 0%.**