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October 12, 2021 No. 150-N

**ON APPROVAL OF THE COUNTER-CYCLICAL CAPITAL BUFFER
(2021, 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 0% of risk-weighted assets.
2. This decision enters into force on the day following its promulgation.

Republic of Armenia
Central Bank Governor

October 18, 2021
Yerevan

Martin Galstyan

RATIONALE

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

At the meeting of October 12, 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 credits to GDP ratio for the second quarter of 2021, amounted to 69.37%¹, shrinking by nearly 4.2 percentage points compared to the previous quarter. This is caused by a decrease in stock of total credit portfolio, which in turn was due to observed conservative behavior of credit market participants (both borrowers and lenders). The gap calculated for this indicator (the difference of credit to GDP ratio from its long-term trend) reached -0.72 percentage points, which, according to the methodology of the Basel Committee does not imply application of a positive counter-cyclical capital buffer rate.
2. As of the second quarter of 2021, lending continued to follow a downward trend, which especially affected new consumer and business loans. At the same time, the annual growth rate of newly issued mortgage loans increased, due to which the growth rate of mortgage stock has remained at sufficiently high level. Residential real estate prices² also raised during the quarter. In order to effectively address risky developments in

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

² The median value (per m²) of multi-apartment buildings in Yerevan, is calculated with the data published by the Real Estate Cadastre Committee.

mortgage lending, the Central Bank has decided to introduce a cap for loan to value ratio of newly issued mortgage loans.

3. During the second quarter of 2021, the Financial Cycle index continued to be below its median level. In spite of the decline in total credit portfolio, no further decrease in the Financial Cycle index was observed, which is mainly due to high growth rates of mortgage loans. In the context of current trends in Armenian economy and the continuous process of vaccinations against the coronavirus, it is possible that the Financial Cycle index is around its lower turning point and may enter the recovery phase in the coming periods.

Based on the comprehensive analysis of the above-mentioned facts, the **Central Bank considers it appropriate to leave the CCyB rate unchanged at 0%.**