

CODE
050.0008 N. 25.01.22

January 25, 2022 No. 8-N

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

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

January 27, 2021
Yerevan

Martin Galstyan

RATIONALE

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

At the meeting of January 25, 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 “[Defining 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 fourth quarter of 2021, has declined and amounted to 68.96%¹. The gap calculated for this indicator (the difference of credit to GDP ratio from its long-term trend) was -0.72 percentage points, which, according to the methodology of the Basel Committee implies the application of a zero CCyB rate.
2. The credit market recorded some improvements in the fourth quarter of 2021. The growth rate of newly issued consumer and business loans was positive. As in previous quarters, the growth rates of mortgage loans continued to remain elevated², which was accompanied by rising prices in the real estate market³.
3. Despite some growth, during the fourth quarter of 2021, the Financial Cycle index continued to remain below the historical median. Compared to the previous quarter,

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

² As mentioned in previous CCyB rationales, in order to effectively respond to the development of mortgage credit risks, the Central Bank decided to introduce an instrument that sets a maximum loan-to-value ratio. This instrument will enter into force in April 2022. The decision of the CBA Board is available at: <https://www.arlis.am/DocumentView.aspx?docid=156545>

³ The median value (per m²) of multi-apartment buildings in Yerevan, is calculated with the data published by the Real Estate Cadastre Committee.

the Financial Cycle index increased, which was mainly attributable to mortgage credit lending and real estate prices.

4. Although the development of the financial cycle show that Armenian economy is in the recovery stage of credit cycle, however, the analysis of individual lending trends shows that the abovementioned recovery trends are incomplete and are not proportionally reflected in some lending sectors.

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