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April 19 2022, No 65-N

ON APPROVAL OF THE COUNTER-CYCLICAL CAPITAL BUFFER FOR BANKS
(2022 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 for setting and calculating buffers above the capital adequacy ratio of banks" 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.

Central Bank Deputy Governor
Nerses Yeritsyan

April 21, 2022
Yerevan

RATIONALE

For setting the Counter-Cyclical Capital Buffer (2022, Q1)

At its meeting on April 19, 2022, the CB Board decided to set the counter-cyclical capital buffer at 0% of risk-weighted assets.

Pursuant to paragraph 12 of the Procedure for 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, the Central Bank is guided by provisions of "General methodology underlying the definition of the counter-cyclical capital buffers", according to which, when determining the size of the CCB, the basis for the Central Bank of the Republic of Armenia is the loans/GDP gap estimated by the Basel methodology, the Financial cycle index characterizing the systemic risk developments, and other early warning.

Decision of the Central Bank on the counter-cyclical capital buffer was based on a comprehensive analysis of lending and financial market developments. In particular:

1. Estimated loans/GDP ratio for the first quarter of 2022 grew slightly compared to the previous quarter totaling around 70.6%¹. For this indicator, the deviation from the long-term trend calculated by the Basel Committee methodology declined by about -1.6 percentage points, which does not assume application of a positive threshold of the counter-cyclical capital buffer. It should be noted however, that the Central Bank also considers other early warning indicators that characterize the credit cycle, such as growth trends in stock and flow indicators of credit, the Financial Cycle Index², indicators characterizing real estate market, etc.
2. The trends of recovery of credit growth observed in the fourth quarter of 2021 also continued in the current period, and that recovery was observed in all sectors of lending. Growth rate of mortgage loans remained high, accompanied by high annual growth of prices in real estate market. As a result of mutually reinforcing effects, that process may lead to possible accumulations of risks in mortgage lending. To effectively address these risks, the CBA has adopted the maximum limit of loan-to-value ratio for mortgage loans, which will be in force starting April 2022.

¹ 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 first quarter of 2022 is preliminary; it may change later depending on the results of the recalculation based on actual GDP data.

² A brief description of the financial cycle index methodology is provided in Box 5.1 of the 2020 Annual Financial Stability Report.

3. According to estimations for the first quarter of 2022, the Financial Cycle Index continued to increase, approaching its median value. However, this growth, as in the previous quarter, is mainly due to the high growth rates of mortgage lending and real estate prices. As a result of the adjustment of these factors, the value of the financial cycle is below the median value and does not indicate risks of excessive lending.
4. The facts described above indicate that the Armenian economy is still in the early recovery phase of financial cycle, and there are no real signs of systemic risk accumulation in the lending market. It should also be noted that further developments in the lending market may bear the potential impact of high uncertainties stemming from current escalation of the geopolitical tensions.

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