



**REPUBLIC OF ARMENIA
CENTRAL BANK BOARD
DECISION**

**CODE
050.0006 N. 24.01.23**

24 January, 2023 No 6-N

**ON APPROVAL OF THE COUNTER-CYCLICAL CAPITAL BUFFER
(2022, 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 1.5% of risk-weighted assets. The rate is effective (mandatory) from August 1, 2023.
2. This decision enters into force on the day following its promulgation.

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

Martin Galstyan

RATIONALE

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

At the meeting of January 24, 2023, the Board of the Central Bank decided to set banks' countercyclical capital buffer at 1.5% of risk-weighted assets¹.

The countercyclical rate is effective from August 1, 2023.

The Central Bank of the Republic of Armenia establishes a countercyclical capital buffer (hereinafter referred to as (CCyB)) based on a comprehensive analysis of macro-financial and credit market developments. In particular:

1. The Financial Cycle Index in comparison with the previous quarter continued to grow. In the 4th quarter of 2022, compared to the prior quarter, an increase in the credit market activities was recorded, which was noticeable in all lending directions. With the exception of mortgage lending (in which some overheating risks are present), current developments in other lending areas and the position of the financial cycle indicate that cyclical systemic risks in the financial system are generally balanced (neither elevated, nor subdued).

For the fourth quarter of 2022, estimated credit to GDP ratio² decreased, amounting to 64%, and continues to remain below (-9 percentage points) its long-term trend (credit/GDP gap). The mentioned developments are mainly due to the higher growth of GDP compared to the growth of loans.

2. For mortgage lending, the high growth rates were maintained, which were accompanied by a rapid increase in real estate prices. Given the growth of debt financing and real estate prices are considered to be mutually reinforcing, the Central Bank observes potential overheating risks in the real estate market.
3. According to the macro stress-testing results, the amount of additional capital needed to absorb the unexpected losses caused by the supposed shock at the current phase of the financial cycle amounted 84 billion AMD or 1.43% of risk-weighted assets.
4. Currently, the banking system is characterized by a high level of profitability and capital adequacy. In this case, the costs of CCyB accumulation are low, and the current

¹ According to paragraph 12 of [“Determination and calculation of thresholds above the regulatory capital adequacy limit for banks”](#) the Central Bank of the Republic of Armenia sets the countercyclical capital threshold (hereinafter referred to as (CCyB)) on a quarterly basis. The Central Bank is guided by the provisions of [“General methodology for determining the countercyclical capital threshold”](#) document while determining the CCyB rate.

² The weight of the credit portfolio provided to the economy by the financial sector (including leasing and factoring) in GDP (in %). The estimate for the fourth quarter of 2022 is preliminary, as it may change depending on the recalculation based on actual GDP data.

level of banks' capitalization is sufficient to maintain a normal rates of lending to the economy.

5. Given the high level ongoing geopolitical uncertainties, the probability of materialization of systemic (cyclical) risks remains high, both in terms of the size and the speed. Under the current conditions, the Central Bank of the Republic of Armenia attaches particular importance to the resilience of the RA banking system through the accumulation of capital buffers, as well as increasing its ability to provide uninterrupted credit to the economy in stress situations.

Based on the comprehensive analysis of the above-mentioned facts, the Central Bank considers it appropriate to increase the CCyB rate to 1.5%³. Future changes in the CCyB rate (both upward and downward) will depend on the further development of macro-financial conditions, uncertainties, and systemic risks.

³ This rate is effective from August 1, 2023. As of May 1, banks should meet the 1% rate requirement of the Central Bank of Armenia, according to the decision of the Central Bank of Armenia Council [050.0179 N](#):