



THE BOARD OF THE CENTRAL BANK OF ARMENIA

DECISION

CODE
050.0108 N. 25.07.23

25 July 2023 108-N

ON APPROVING THE SIZE OF THE COUNTERCYCLICAL CAPITAL BUFFER
(Second quarter of 2023)

Aimed at ensuring the stability of the financial system;

guided by part 3 of Article 2 and point "e" of Article 20 of the Law of Republic of Armenia "On the Central Bank of the Republic of Armenia", part 1 of Article 54.1 of the Law of the Republic of Armenia "On banks and banking" and the "Procedure for setting and calculating thresholds above the capital adequacy ratio of banks" approved by Decision of the Board of the Central Bank of the Republic of Armenia No 16 of February 4 2019, the Board of the Central Bank of the Republic of Armenia hereby:

D e c i d e s :

1. To leave the rate of countercyclical capital buffer of banks unchanged, at 1.5% of risk-weighted assets from 1 August 2023.
2. This Decision shall enter into force on the day following its official promulgation on the unified website of normative legal acts.

Republic of Armenia
Deputy Governor
of the Central Bank of Armenia

Armen Nurbekyan

Yerevan

RATIONALE

For setting the Counter-Cyclical Capital Buffer (second quarter of 2023)

The Board of the Central Bank decided at the session of 25 July 2023 to leave the countercyclical capital buffer unchanged — at the level of 1.5%¹.

This rate of the countercyclical capital buffer shall be in force from 1 August 2023².

When rendering the decision on the countercyclical capital buffer (hereinafter also referred to as “CCyB”), the Board of the Central Bank of the Republic of Armenia (CBA) was guided by the comprehensive analysis of the macro-financial and credit market developments. In particular:

1. The financial cycle index almost has not changed compared to the previous quarter, which was conditioned by the preservation of existing trends in the credit market. With the maintenance of activity growth in the credit market and high growth of nominal GDP, the estimated credit to GDP ratio and its long-term trend for the second quarter of 2023³ remained generally unchanged (64% and around -10 percentage points, respectively).
2. The growth rate of the mortgage stock remained at a high level, which was accompanied by the growth of prices in the real estate market. According to the CBA calculations, the risk of price overvaluation in the real estate market is unchanged, and is estimated at around 27%⁴. It should be noted however, that this assessment is based on the assumption that the unprecedented high growth rates of real estate rentals observed from the last year are temporary and may not be sustainable in the long term. Without this assumption, the estimated risk of price overvaluation in the real estate market is smaller, and is around 13%.
3. During the current period, the uncertainties of the geopolitical environment and risks stemming from it continue to be primary risk threatening to the financial stability.

¹ Pursuant to point 12 of the "[Procedure for setting and calculating thresholds above the capital adequacy ratio of banks](#)", the Central Bank of the Republic of Armenia shall set, each quarter, the countercyclical threshold of capital (hereinafter also referred to as "countercyclical capital buffer (CCyB)"). When setting the CCyB, the Central Bank shall be guided by the provisions of the document "[General Methodology Underlying the Setting of the Countercyclical Threshold of Capital](#)".

² As of 1 August 2023, banks must meet the requirement of 1.5% rate of CCyB, pursuant to Decision of the Board of the Central Bank of the Republic of Armenia [6 N](#).

³ The share of the credit portfolio (including leasing and factoring) provided by the financial sector to the economy in the GDP (in %). The estimation for the first quarter of 2023 is preliminary and may be further changed depending on the results of the recalculation based on actual GDP data.

⁴ The methodology of price assessment determination by the fundamentals of real estate is presented in CBA RA 2021, Note 3 of the Financial Stability Report, available at the following link: https://www.cba.am/AM/ppperiodicals/Stability%20report_2022.pdf

According to the CBA estimates, the estimated amount of losses from the materialization of this risk and the size of countercyclical buffer needed to cover these losses have not changed. It should also be noted, that the actual levels of capital and liquidity buffers of the banking system are sufficiently higher than the required minimum, which is enough to ensure the normal lending process to the economy.

As a result of the comprehensive analysis of the above-described facts, the Central Bank finds it appropriate to leave the CCyB rate unchanged, by keeping it at the level of 1.5%. Future changes of the CCyB rate (both for increasing and decreasing) will be derived from the further course of development of macro-financial conditions, uncertainties and systemic risks.