



THE BOARD OF THE CENTRAL BANK OF ARMENIA

DECISION

CODE

050.0181 N. 17.10.23

17 October 2023 181-N

**ON APPROVING THE SIZE OF THE COUNTERCYCLICAL CAPITAL BUFFER
(Third 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 the 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.
2. This Decision shall enter into force on the day following its official promulgation.

Governor of the Central Bank of Armenia
Yerevan

M. Galstyan

RATIONALE

For setting the Counter-Cyclical Capital Buffer (Third Quarter of 2023)

The Board of the Central Bank decided at the session of 17 October 2023 to leave the countercyclical capital buffer unchanged - at the level of 1.5%.¹

When rendering the decision on the counter-cyclical 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 is almost unchanged compared with the previous quarter. The credit-to-GDP ratio² estimated for the third quarter of 2023 increased slightly to constitute approximately 65%. Although this ratio continues to remain below its long-term trend (about -9.5 percentage points), the credit-to-GDP gap decreased by about 0.5 percentage points from the previous quarter. At the same time, it should be noted that the normal process of lending to the economy by the financial system has been preserved.
2. The annual growth rate of mortgage loans remains high despite gradual reduction. At the same time, annual flows of newly issued mortgage loans are stabilizing and annual growth rates of real estate prices are somewhat softening, suggesting that the cyclical developments of the real estate and mortgage markets are most likely close to an upper turning point. According to our estimates, the deviation of real estate prices from their fundamental levels has hardly changed since the previous quarter³, and there remains a high risk of overheating in the real estate and mortgage markets.
3. Uncertainties stemming from the geopolitical environment and related risks continue to be the primary sources of risks threatening financial stability in the current period. At the same time, despite trends of increasing lending growth rates, developments in the lending market are generally balanced and do not contain obvious signs of excessive (risky) lending.

As a result of the comprehensive analysis of the facts described above, the Central Bank finds it appropriate to leave the CCyB rate unchanged, maintaining it at the rate of 1.5%. Future changes in the CCyB rate (both upward and downward) will depend on further developments of macro-financial conditions, uncertainties, and systemic risks.

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 This is 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 third quarter of 2023 is preliminary and may be later changed depending on the results of recalculation based on actual GDP data.

³ Overheating in the real estate market is estimated at around 28%. It should be noted that this assessment is based on the assumption that the unprecedentedly high growth rates of real estate rental payments recorded since last year are temporary and may not persist in the long term. Without this assumption, the estimated risk of real estate overvaluation is smaller — approximately 19%.