



THE BOARD OF THE CENTRAL BANK OF ARMENIA

DECISION

CODE

050.0018 N. 23.01.24

23 January 2024 18-N

**ON APPROVING THE SIZE OF THE COUNTERCYCLICAL CAPITAL BUFFER
(Forth 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.
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
Governor
of the Central Bank of Armenia

Martin Galstyan

Yerevan

RATIONALE

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

The Board of the Central Bank decided at the session of 23 January 2024 to leave the countercyclical capital buffer unchanged — at the level of 1.5%¹:

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. The estimated value of the credit to GDP ratio² has increased slightly during the fourth quarter of 2023 and is currently at 65.3%. It remains below its long-term trend and its gap is around -9.3%. Compared to the previous quarter it has declined by around 0.1 percentage point.
2. Despite the increase of the credit volumes during 2023, there are no obvious signs of either risk accumulation or excessive crediting. The contribution of household and business loans have been generally comparable in overall credit growth. A rise in activity in consumer credit market has been observed during the year, due to which the growth rate of those loans has been relatively high compared to previous years. However, taking into account the fact that average growth rate for consumer loans for the last 3 years has been generally moderate, and consumer credit to GDP ratio has been declining at that period (which was due to relatively high growth of), there are no obvious signs of risk accumulation in this sector.
3. The growth rate of mortgage portfolio remains high, though it had declining pattern during recent years. During 2023 the volume of genuinely new mortgage loans has been comparable to high volumes of previous years. This fact, in parallel with continuously rising real estate prices during recent years, serves as a warning sign for elevated risk environment in this sector. According to our estimates, the possible

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 ["CBA's approach to the application of the countercyclical capital buffer"](#).

² 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 fourth quarter of 2023 is preliminary and may be further changed depending on the results of the recalculation based on actual GDP data.

positive deviation of real estate price from its long-term trend is still high³.

4. The risks threatening to financial stability have not materially changed from previous quarter. At the same time, the developments in general credit market do not contain obvious signs of excessive growth or overheating.

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.

³ As of 4-th quarter of 2023 the possible overvaluation of real estate prices is around 20%-35%. It is worth mentioning, that this estimate serves only as a warning sign for possible accumulated risks in this sector and should not be used as a forecast for future behavior of real estate prices.