T H E B O A R D O F T H E C E N T R A L B A N K O F A R M E N I A

D E C I S I O N

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050.0068 N. 22.04.2025

22 April 2025 68-N

ON APPROVING THE SIZE OF THE COUNTERCYCLICAL CAPITAL BUFFER
(1st quarter of 2025)

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”, Article 53, 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 1.75% 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
Deputy governor
of the Central Bank of Armenia ***Hovhannes Khachatryan***

Yerevan

RATIONALE

For setting the Counter-Cyclical Capital Buffer (first quarter of 2025)

At the meeting of April 22, 2025, the Board of the Central Bank decided to leave the countercyclical capital buffer unchanged — at the level of 1.75% of risk-weighted assets[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. Compared to the previous quarter, the Financial Cycle Index increased, primarily driven by heightened lending activity across all sectors. The credit-to-GDP ratio rose by 3.3 percentage points, reaching 75.3% by year-end. As a result, it is now nearly aligned with its long-term trend, with the credit-to-GDP gap narrowing to approximately -0.1 percentage points..
2. The annual growth rate of total loans remained largely unchanged from the previous quarter. In the first two months of 2025, the volume of newly issued mortgage loans was nearly equivalent to that of the same period in 2024. During this time, both average real estate prices and rental payments declined relative to the end of the previous year, accompanied by relatively low annual growth in construction sector loans. Given the gradual phase-out of the income tax refund program and the saturation of demand in the mortgage market, a further slowdown in market activity appears likely.

   Activity in consumer credit market has remained elevated. The sustained growth in consumer lending over the past two years may be attributed to several factors: income rise of borrowers, lengthening loan maturities, a catch-up effect following a period of subdued growth (convergence), and increased demand for furnishing newly purchased homes—an indirect consequence of recent high mortgage market activity.
3. At present, the primary risks to financial stability arise from the geopolitical environment and the real estate market. These risk factors, among others, have been considered in the Central Bank of Armenia's recent decisions to raise the Countercyclical Capital Buffer (CCyB)..

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[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.

Based on the comprehensive analysis of the above-mentioned facts, the CentralBank considers it appropriate to leave the CCyB rate unchanged at 1.75%. Future changes in the CCyB rate (both upward and downward) will depend on the further development of macro-financial conditions, uncertainties, and systemic risks.