

RATIONALE

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

At the meeting of July 29, 2025, the Board of the Central Bank decided to leave the countercyclical capital buffer unchanged — at the level of 1.75% of risk-weighted assets¹.

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 has remained almost unchanged. The credit-to-GDP ratio² rose by 1.8 percentage points, reaching 77.2% by the end of the first quarter. As a result, it has slightly exceeded its long-term trend, with the credit-to-GDP gap widening to approximately +0.8 percentage points.
2. The previously observed high annual growth rate of total loans remained largely unchanged from the previous quarter. However, the growth dynamics in different sectors have been largely different. As expected, the growth rate of mortgage loans has decreased, meanwhile the decline of newly granted mortgage loan volumes during January-May of this year is not significant compared to the corresponding period of the previous year.

Activity in consumer credit market has remained elevated. During January-May 2025, the volume of newly issued consumer loans have considerably exceeded the indicator for the same period of the previous year. In the recent few years, the strong income growth in the economy have significantly counterbalanced the increase in consumer credit burden of borrowers (consumer loans-to-GDP ratio), as a result of which the latter does not exceed the same indicator observed in 2019-2020. Nevertheless, structural shifts have been observed in the consumer loan growth dynamics (increase in maturities, as well as growth of consumer loans with real estate collateral), which may indicate risky build-up of borrower overall credit burden or an underestimation of credit risk.

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 share of the credit portfolio provided to the economy (including leasing and factoring) in GDP (as a percentage).

3. During the observed period, the declining trends of real estate prices and rental fees have persisted. As mentioned in the previous CCyB decision rationale, given the gradual phase-out of the income tax refund program in Yerevan and the saturation of demand in the mortgage market, a further slowdown in market activity appears likely.
4. Credit risks stemming from the geopolitically uncertain environment and potential adjustments in the real estate market continue to remain primary concerns in the financial stability agenda. These factors, among others, have been considered in the previous decisions to increase the countercyclical capital buffer by the Central Bank.

Based on the comprehensive analysis of the above-mentioned facts, the Central Bank 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.