



THE BOARD OF THE CENTRAL BANK OF ARMENIA

DECISION

CODE

050.0175 N. 15.10.24

15 October 2024 175-N

ON APPROVING THE SIZE OF THE COUNTERCYCLICAL CAPITAL BUFFER (3rd quarter of 2024)

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. Set the counter-cyclical capital buffer for banks at 1.75% of risk-weighted assets.
2. This decision enters into force (is mandatory) from May 1 2025.

Republic of Armenia
Deputy governor
of the Central Bank of Armenia

Hovhannes Khachatryan

Yerevan

RATIONALE

For setting the Counter-Cyclical Capital Buffer (third quarter of 2024)

At the meeting of October 15, 2024, the Board of the Central Bank decided to set banks' countercyclical capital buffer at 1.75% of risk-weighted assets¹.

The countercyclical rate is effective from May 1, 2025.

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 has risen compared to previous quarter, which was accompanied by high growth rates in some areas of credit market. The credit-to-GDD ratio² also grew during the quarter totaling at 68%. Its deviation from its long-term trend (credit-to-GDP gap) has shrunk, still being at the negative area (approximately -6.5 p.p.).
2. The yearly growth rate of total credit portfolio remained high during the year. The main contributors to this high growth rate were the loans granted to households and to construction sector. High growth rates of consumer loans have also remained unchanged. Despite some decline, the growth rate of mortgage loans also remained rather high. Moreover, during the year the volumes of newly granted mortgage loans were comparable to high levels of previous years.
3. There are some signs of slowdown in the growth rates of real estate prices. Compared to relatively stable growth rates in mortgage sector the loan portfolio in construction sector has growth very rapidly, which can signal about the risks of possible excessive supply in real estate market, increasing debt burden of real estate developers and the rise of credit losses due to it.
4. According to the macro stress-testing results, the amount of additional capital needed to absorb the unexpected losses caused by the supposed shock at the current phase of the financial cycle amounted at 1.79% of risk-weighted assets.
5. Currently, the banking system is characterized by a high level of profitability and capital adequacy. In this case, the costs of CCyB accumulation are low, and the current level of capitalization is sufficient to maintain a normal rates of lending to the economy.

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 (including leasing and factoring) provided by the financial sector to the economy in the GDP (in %).

Based on the comprehensive analysis of the above-mentioned facts, the Central Bank considers it appropriate to increase the CCyB rate to 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.