THE COUNTERCYCLICAL CAPITAL BUFFER RATE

Eesti Pank's assessment of the countercyclical capital buffer rate (Q2 2026)

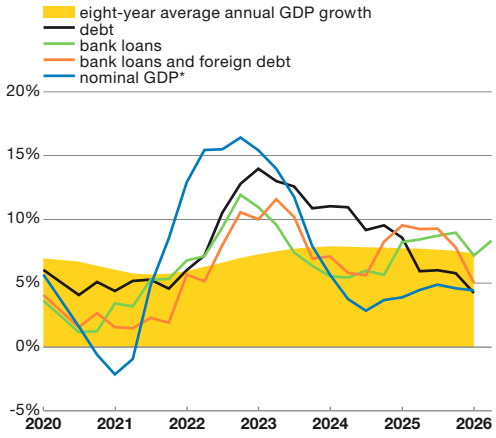
Eesti Pank is maintaining the countercyclical capital buffer for the banks at the level of 1.5%.

Reasoning for the buffer rate: although growth in debt has slowed, the portfolio of bank loans to the non-financial sector continues to grow fast and so the cyclical risks to the banks remain. There also currently remains uncertainty around geopolitical developments, meaning the banks still need to hold larger capital buffers to ensure their resilience. Eesti Pank is however considering reducing the cyclical component of the countercyclical capital buffer this year if growth in debt slows further and the risks from increased lending diminish.

- The applicable countercyclical capital buffer rate: **1.5%**
- The gap between the growth in debt and the growth in long-term nominal GDP: **–3.1 pp**; the gap between the combined growth in bank loans and foreign debt and the growth in long-term nominal GDP: **–2.3 pp**
- The debt-to-GDP ratio: **122%** (change in the quarter **–0.4 pp**, change over the year **–0.2 pp**)
- The buffer benchmark rate: **1%**

Although the growth in lending by banks remained fast, the growth in the total debt of the non-financial sector slowed in the fourth quarter of 2025 as growth diminished in other components of debt. This figure was affected by a statistical revision though[1], and so Eesti Pank also used a narrower credit aggregate to assess the cyclical risks. Growth in this narrower aggregate of bank loans and external debt also slowed in the fourth quarter, and the yearly growth in it was 5% at the end of the quarter (see Figure 1). Lending by banks continues to grow fast even so, and the yearly growth in the portfolio of bank loans to the non-financial sector was 8.6% in April, which was more than current or long-term average economic growth[2].

Figure 1. Annual growth of credit aggregates and nominal GDP



* Four-quarter moving average yearly GDP growth
Source: Eesti Pank, Statistics Estonia

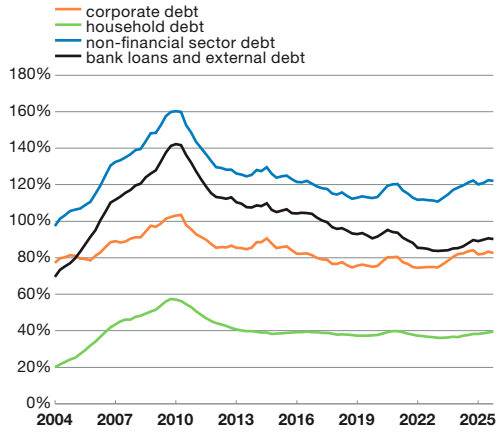
Corporate debt is growing more slowly, but household debt continues to grow fast. Growth in total corporate debt slowed to 2.5% in the fourth quarter, but growth in corporate borrowing from banks remained fast and was 8% in April. Total household debt has continued to increase quickly, growing at a rate of 8% in the fourth quarter. The growth in housing loans has been particularly fast, as the yearly growth in the portfolio of them had risen to 10.4% by the end of April.

The indebtedness of the non-financial sector had declined for some time, but has increased again in recent years and returned to where it was a decade ago. The indebtedness of the non-financial sector, or the debt-to-GDP ratio, was 122% at the end of 2025 (see Figure 2). Non-financial debt grew faster in 2023 and 2024 than current nominal GDP, increasing the indebtedness of the non-financial sector, but the quarterly growth in total non-financial sector debt was the same by the end of 2025 as current nominal GDP growth.

1 The statistics for the financial account were revised in the fourth quarter of 2025, which changed substantially the debt between companies and their debt to the domestic financial sector.

2 In assessing the countercyclical capital buffer requirement, Eesti Pank uses average nominal GDP growth over the past eight years as long-term GDP growth.

Figure 2. Non-financial sector debt aggregates as a ratio to current four-quarter GDP



Source: Eesti Pank

Growth in non-financial sector debt is forecast to increase again in the next two years. The Eesti Pank March forecast 2026 expects that non-financial sector debt will start to grow faster as the recovery in the economy picks up pace. Growth in debt, current nominal GDP growth, and long-term GDP growth will have become almost fully aligned by the end of 2026, and growth in debt will again exceed long-term nominal GDP growth by the end of 2027.

The outcome of this is that Eesti Pank currently considers it necessary to maintain the countercyclical buffer rate at 1.5%. Although non-financial sector debt is growing more slowly and indebtedness has stopped growing, the portfolio of bank loans to the non-financial sector continues to grow fast against both current and long-term GDP. This means that the banks still face cyclical risks from the rapid growth in lending. There also currently remains uncertainty around geopolitical developments, meaning the banks still need to hold larger capital buffers to ensure their resilience. Eesti Pank is however considering reducing the cyclical component of the countercyclical capital buffer this year if growth in debt slows further and the risks from increased lending diminish.