THE COUNTERCYCLICAL CAPITAL BUFFER RATE

Eesti Pank's assessment of the countercyclical capital buffer rate (Q3 2026)

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

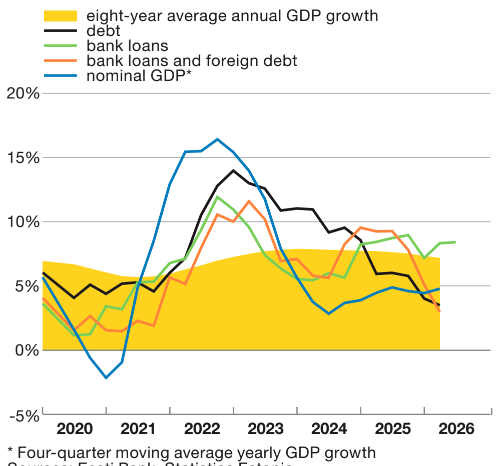
Reasoning for the buffer rate: there has been no additional broadly based increase in cyclical risks in recent quarters. The growth in debt in the non-financial sector has been slower than current nominal economic growth and than its long-term average. Developments in real estate prices do not indicate any further substantial increase in cyclical risks either. The growth in bank lending remains fast though, with housing loans to households and bank loans to real estate companies growing particularly fast. This indicates that cyclical risks have not diminished, but have become concentrated in real estate and related activities. Eesti Pank currently considers it appropriate to maintain the countercyclical buffer rate at 1.5%.

- The applicable countercyclical capital buffer rate: **1.5%**
- The gap between the growth in debt and the growth in long-term nominal GDP: **–3.7 pp**; the gap between the combined growth in bank loans and foreign debt and the growth in long-term nominal GDP: **–4.2 pp**
- The debt-to-GDP ratio: **119%** (change in the quarter **–3.2 pp**, change over the year **–1.5 pp**)
- The buffer benchmark rate: **1%**

Indebtedness has stopped growing in the non-financial sector. The yearly growth in the gross debt of the non-financial sector slowed to 3.5% in the first quarter of 2026 and the aggregate growth of bank loans and foreign debt was 3%. Both these figures are below the long-term average annual growth in nominal GDP (see Figure 1). The debt-to-GDP ratio fell by 3.2 percentage points over the quarter to 118.7% and was 1.5 percentage points lower than a year earlier. This indicates that the earlier growth in leverage has stopped.

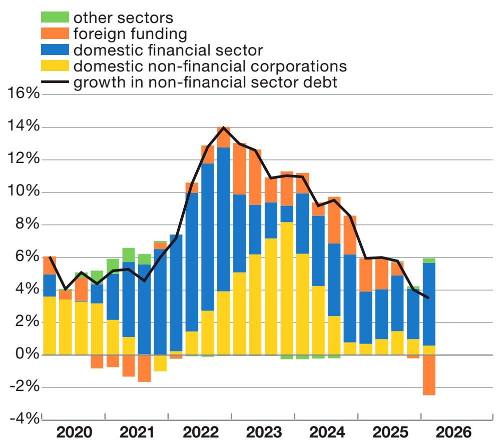
The growth in the debt of the non-financial sector slowed further in the first quarter of 2026, primarily because of weak borrowing from abroad. Borrowing from the domestic financial sector has remained strong in contrast, and its contribution to the growth in debt increased in the first quarter (see Figure 2). The growth in household debt remained fast, while that in corporate debt continued to slow. The debt of households grew by 8% over the year to the first quarter, while corporate debt grew by 1%.

Figure 1. Annual growth of credit aggregates and nominal GDP



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

Figure 2. Contributions to growth in non-financial sector debt by funding source

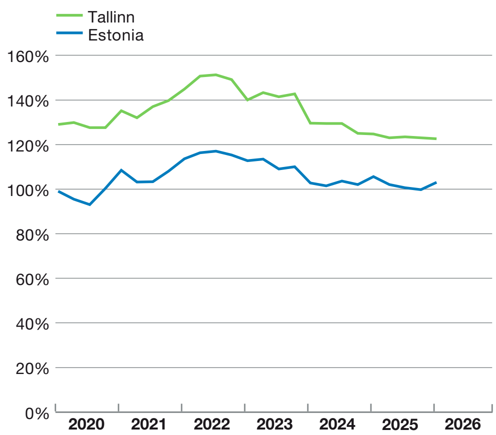


Source: Eesti Pank

The growth in bank loans is still fast, but it is led largely by activities related to real estate. The portfolio of bank loans to the non-financial sector was 8% larger in June than a year earlier, with the corporate loan portfolio growing by 8% and the household loan portfolio by 9%. The growth in corporate loans was made faster by the rapid growth in the volume of loans to construction and real estate. This volume was 12% larger in June than a year previously, while the portfolio of loans to other sectors grew by 5% in total. Loans for real estate were also the main driver of growth in the portfolio of loans to households. The yearly growth in housing loans has held at 10% for some time now, indicating that the cyclical risks are increasingly sector-based and are principally related to real estate.

Developments in real estate prices do not point to imbalances deepening. The housing loan portfolio continues to grow fast, but indicators for the real estate market do not show that rapid growth in borrowing has caused real estate prices to rise quickly. The average square metre price of apartments in Estonia was 3.6% higher in the first quarter than a year earlier. The relative level of real estate prices, shown as the ratio of the average square metre price to the average wage, has remained essentially unchanged in the past two years. The average price of a square metre in an apartment was 123% of the gross monthly wage in the first quarter of 2026 in Tallinn, and it was 103% in Estonia as a whole (see Figure 3).

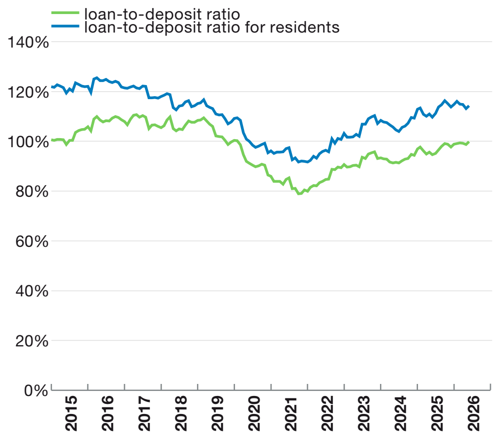
Figure 3. Ratio of the square metre price for apartments to monthly gross wages



Sources: Land and Spatial Development Board, Statistics Estonia, Eesti Pank calculations

The interest rates on new bank loans are not currently encouraging excessive growth in borrowing. The interest margins on new loans to companies have narrowed a little over the year, but the rise in base interest rates in recent months has raised the cost of borrowing for businesses. The risk premiums on housing loans have not notably changed over the year, and the rise in base interest rates has made borrowing more expensive for households in recent months as well.

Figure 4. Loan-to-deposit ratio



Source: Eesti Pank

The capacity of the banks to bear loan losses remains strong. The capitalisation indicators of the banks have improved in recent quarters, as both the capital adequacy ratio and the ratio of CET1 to assets have increased in the past two quarters. Strong capitalisation shows that the ability of the banks to cope with loan losses remains good.

Domestic deposits are not sufficient to fund the growth in domestic lending by the banks. Their loan portfolio continues to grow faster than their domestic deposits. The yearly growth in the portfolio of loans to residents was 10% at the end of June 2026, while the growth over the year in the deposits of residents was 5%. Domestic deposits have so far been accompanied by foreign deposits in funding the growth in the loan portfolios of the banks, but by the end of June the loan portfolio of the banks was almost the same in value as their deposits, including non-resident deposits. The loan-to-deposit ratio was approaching 100% (see Figure 4), meaning that for the loan portfolio to continue to grow, the banks will have to find more and more additional funds, making their funding structure less stable and so more vulnerable to stresses in funding.

In summary, Eesti Pank currently considers it necessary to maintain the countercyclical buffer rate at 1.5%. There has been no additional broadly based increase in cyclical risks in recent quarters. Growth in debt has slowed in the non-financial sector, indebtedness has stopped growing, and the growth in gross debt remains below the long-term growth in nominal GDP. Developments in real estate prices do not indicate any further substantial increase in cyclical risks either. The growth in bank lending remains fast though, with housing loans to households and bank loans to real estate companies growing particularly fast. This indicates that cyclical risks have not diminished, but have become concentrated in real estate and related activities.