

## THE COUNTERCYCLICAL CAPITAL BUFFER RATE

Eesti Pank's assessment of the countercyclical capital buffer rate (Q1 2020)<sup>1</sup>

**Eesti Pank decided on 23 March 2020 to keep the countercyclical capital buffer rate at 0%.**

- The applicable countercyclical capital buffer rate: **0%**
- The standardised credit-to-GDP ratio: **110%**; its deviation from the long-term trend: **–17 percentage points**
- The buffer rate: **0%**
- **Reasoning for the buffer rate:** given the widespread negative impact the spread of the COVID-19 virus will have on the Estonian economy and banking sector, Eesti Pank finds that it is appropriate to hold the countercyclical capital buffer for the banks at the rate of 0%. Eesti Pank does not expect to raise the buffer rate during the coming year.

Eesti Pank assesses the need for the countercyclical buffer once a quarter. The decision is mainly based on the growth of debt in the non-financial sector, but the growth has not been particularly fast in Estonia in recent years. Although borrowing by households was quite strong in the first months of 2020, corporate borrowing remained quite modest next to the growth in the economy. The banks have been quite conservative in setting the conditions for loans, and they have not loosened their lending standards.

Given the growth in credit and the factors that affect it, Eesti Pank has kept the countercyclical capital buffer rate at 0% since the buffer was introduced on 1 January 2016. Other capital buffer requirements, which have also been introduced for macroprudential purposes, the systemic risk buffer and additional buffers for systemically important institutions, have helped support the capitalisation of the banks.

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<sup>1</sup> The assessment methodology is described in more detail in the Eesti Pank document "Countercyclical Capital Buffer. The principles and indicators for setting the buffer rate in Estonia". October 2015. [http://www.eestipank.ee/sites/eestipank.ee/files/files/Finantsstabiilsus/ccb\\_est.pdf](http://www.eestipank.ee/sites/eestipank.ee/files/files/Finantsstabiilsus/ccb_est.pdf)