THE COUNTERCYCLICAL CAPITAL BUFFER RATE

EESTI PANK'S ASSESSMENT OF THE COUNTERCYCLICAL CAPITAL BUFFER RATE (Q3 2025)

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

The reasoning for the buffer rate. Growth in the main debt liabilities of companies and households remains faster than the rate of long-term growth in the economy, and borrowing activity in the non-financial sector has increased. Geopolitical risks also need to be considered, as they make it necessary for the banks to maintain their current large capital buffers to ensure their resilience.

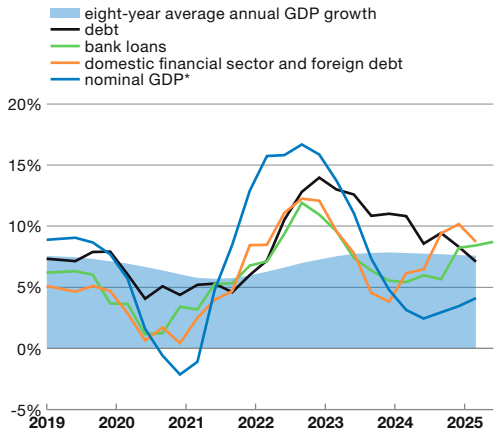
- The applicable countercyclical capital buffer rate: **1.5%**
- The gap between the growth in debt and the growth in long-term nominal GDP: **–0.5 pp**
- The debt-to-GDP ratio: **123%** (change in the quarter **–0.5 pp**, change over the year **+3.4 pp**)
- The buffer benchmark rate: **1%**

The gross debt of the non-financial sector increased by 7% in the first quarter of 2025. This yearly growth in debt was a little slower than the average GDP growth of 7.6% over the past eight years (see Figure 1). The figure for the rate of growth in gross debt does not however properly reflect the dynamics of the credit cycle, as an extensive revision of the statistics caused a large structural increase in debt in 2023[1]. It is consequently more accurate to use data on bank loans or more broadly on borrowing from the Estonian financial sector and abroad when estimating the growth trend in cyclical risks.

Growth in the debt liabilities taken from the domestic financial sector and abroad was 8.7% in the first quarter of 2025. Growth in those debt liabilities has been faster than the long-term average for nominal GDP for three consecutive quarters now, which indicates that the risk from the credit cycle has increased since the second half of 2024.

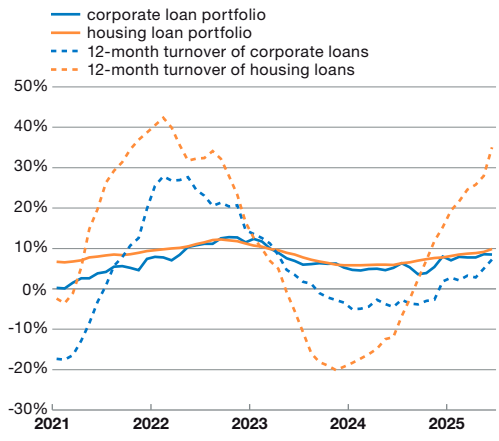
The rate of growth in bank loans to companies and housing loans to households continued to accelerate in the second quarter of 2025. Yearly growth in the corporate loan portfolio increased to 8.5% at the end of June, while growth in the housing loan portfolio approached 10% (see Figure 2). The increase in borrowing activity is reflected particularly in the increase in the turnover of loans, and the growth in housing loans has been particularly fast. The turnover of housing loans exceeded a billion euros in the first half of 2025, which is about 40% more than in the first half of last year.

Figure 1. Annual growth of credit aggregates and nominal GDP



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

Figure 2. Annual growth in corporate loans and housing loans to households



Source: Eesti Pank

1 See *The revision of statistics raised the debt level of 2022-2023 substantially from its earlier estimate* in Financial Stability Review 1/2025.

In summary, Eesti Pank currently considers it necessary to maintain the countercyclical buffer rate at 1.5%. This is because the growth in the debt liabilities of companies and households to the domestic financial sector and to lenders abroad remains faster than the long-term growth in the economy. Growth in bank loans remained strong during the summer months, indicating that demand from both companies and households for loans remains at a high level. Geopolitical risks also need to be considered alongside the risks from the growth in credit, as they make it necessary for the banks to maintain their current large capital buffers to ensure their resilience.