THE COUNTERCYCLICAL CAPITAL BUFFER RATE

EESTI PANK'S ASSESSMENT OF THE COUNTERCYCLICAL CAPITAL BUFFER RATE (Q4 2025)

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

The reasoning for the buffer rate. The debt liabilities of companies and households have been growing fast since the second half of 2024 given the long-term rate of growth in the economy. The growth in lending by banks has accelerated further this year, which shows that demand for loans is strong. On top of the risks from the growth in credit, geopolitical risks are increasing the need for the banks to maintain their current large capital buffers to ensure their resilience.

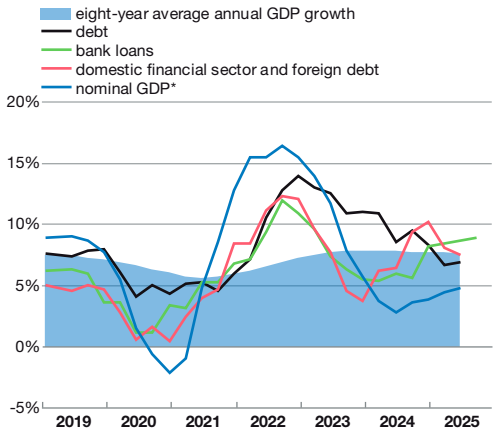
- The applicable countercyclical capital buffer rate: **1.5%**
- The gap between the growth in debt and the growth in long-term nominal GDP: **–0.8 pp**
- The debt-to-GDP ratio: **121%** (change in the quarter **+0.5 pp**, change over the year **+2.4 pp**)
- The buffer benchmark rate: **1%**

The gross debt of the non-financial sector increased by almost 7% in the second 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 from the domestic financial sector and abroad slowed in the first half of 2025 but remained high at 7.5% at the end of June. This means that the growth in the main debt instruments, which had been notably faster than the growth in the economy in the preceding three quarters, came into line with the long-term rate of growth in the economy in the middle of 2025. The rate of growth in lending by banks remains high, and it was almost 9% at the end of October. The rapid growth in loans to the non-financial sector has been driven by both corporate loans and housing loans to households. Yearly growth in the corporate loan portfolio stood at 8.5% at the end of October, while growth in the housing loan portfolio approached 10% (see Figure 2).

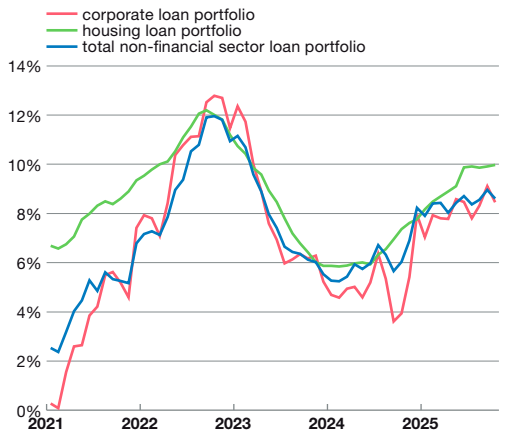
The rate of growth in lending by banks is forecast to be quite high in the next couple of years. It will be supported by the increase in

Figure 1. Annual growth of credit aggregates and nominal GDP



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

Figure 2. Growth in the loan portfolio to the non-financial sector



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 pp25-26.

economic activity. The lending environment is also favourable, as interest rates have come down a long way from their peak of 2023, the capitalisation and financing of the banks are good, and competition between the banks has increased. The September forecast 2025 from Eesti Pank expects that the yearly growth in loans granted to Estonian companies and households will be 7% in 2026, which is the same as the average growth in nominal GDP over the past eight years. Lending may grow faster than forecast though if demand for exports improves and an expansive fiscal policy has a stronger impact on investment and consumption than forecast while sentiment improves among companies and households.

As a result, Eesti Pank 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 has been faster than the long-term growth in the economy since the second half of 2024. Growth in bank loans has picked up even further this year, 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.