

1. Notifying national authority	
1.1 Name of the notifying authority	Eesti Pank
2. Buffer levels and the institution to which they apply	
2.1 Type of measure intended	Activation of a new systemic risk buffer.
2.2 Buffer level	<p>The systemic risk buffer of Common Equity Tier 1 capital is to be set at 2% of the total risk exposure amount calculated in accordance with Article 92(3) of Regulation (EU) No 575/2013.</p> <p>The measure is subject to the “notification only procedure” under Article 133(11) of Directive (EU) 36/2013.</p>
2.3 Institutions covered by the intended SRB	<p>The measure is to apply to all credit institutions authorised in Estonia.</p> <p>The measure is to be set at 2% of the total risk exposure amount calculated in accordance with Article 92(3) of Regulation (EU) No 575/2013. The measure is to apply to exposures in third countries.</p>
3. Reasons for the intended SRB	
3.1 Description of the structural systemic risk (Article 133(1) of the CRD)	<p>The structural vulnerabilities of the financial sector include the high concentration of the banking sector and the exposure of the institutions in it to the same set of economies and economic sectors. The economy of Estonia is more volatile than those of most other countries in the European Union due to its structural characteristics. Under these circumstances it is important that the banking sector operating in Estonia is sufficiently capitalised.</p>

<p>3.2 Analysis of the potential to have serious negative consequences for the financial system and the real economy in your Member State</p>	<p>The structural vulnerabilities of the economy stem primarily from the small size and the openness of the Estonian economy. The on-going convergence and build-up of capital stock mean that the economy remains more volatile than those of most other EU countries. In addition, the Estonian labour market is highly sensitive to changes in economic conditions. Although the financial buffers available in the economy are growing, they are still relatively low and provide limited resistance against sudden shocks, particularly external shocks.</p> <p>Estonian experience has shown that any unexpected deterioration in the economic environment can lead to rapid increase in debt servicing problems in the non-financial sector.</p> <p>Although the direct exposure of the credit institutions in Estonia to each other may be considered fairly limited, their credit portfolio structures indicate that either they have direct significant exposures to the domestic real sector or they are likely to be significantly affected through second round effects should a bank with significant market share fail to provide services.</p>
<p>3.3 Indicators used for activation of the measure</p>	<ul style="list-style-type: none"> * The importance of the banking sector to the financing of the real economy * The concentration of the banking sector * The concentration of the exposures of the banking sector * The size and the openness of the economy * The volatility of real GDP growth * The trade openness of the economy * The geographical distribution and concentration of exports * Wealth indicators * Other reasons contributing to the volatility of GDP (the share of investment in GDP) * Labour market dynamics

	Measure	Limitations
<p>3.4 Justification of the scope of the SRB</p> <p>(Explanation why other macroprudential measures cannot address adequately the systemic risk identified)</p>	<p>Requirement to maintain additional capital by global and other systemically important institutions buffer (Art 131 of the CRD)</p>	<p>The measure is intended to be applied to all credit institutions licensed in Estonia.</p> <p>Available from 1 January 2016.</p>
	<p>Requirement to maintain an institution-specific countercyclical capital buffer (Art 130 of the CRD)</p>	<p>Addresses cyclical systemic risk.</p>
	<p>Application of supervisory measures to institutions with similar risk profiles (Art 104 of the CRD)</p>	<p>Addresses institution specific vulnerabilities.</p>
	<p>Capital conservation buffer (Art 129 of the CRD)</p>	<p>2.5% effective from 19 May 2014.</p>
<p>3.5 Suitability, effectiveness and proportionality of the measure</p>	<p>All credit institutions licensed in Estonia have been subject to a 10% capital requirement from 1 October 1997 to 31 December 2013. In recent periods credit institutions have fulfilled this requirement with voluntary excess using CET1 capital. Thus the impact of the application of this measure is expected to be neutral, reinforcing the capitalisation of the banking sector under Regulation 575/2013.</p>	
<p>3.6 Assessment of the likely impact of the measure</p>	<p>The intended requirement is expected to reinforce the resilience of the Estonian banking sector.</p> <p>Given the limited cross-border activity and exposures of credit institutions licensed in Estonia and given that credit institutions licensed in Estonia have been required to meet a 10% capital requirement from 1 October 1997 to 31 December 2013, which they have fulfilled in recent periods using CET1 own funds, the potential adverse effects on the whole of the financial system of the European Union or on parts of it stemming from the application of the measure are expected to remain small.</p>	

4. Combination of the SRB with other buffers and timing of the measure	
4.1 Combination with G-SII buffers (Articles 133(4) and (5) of the CRD)	In Estonia there are currently no G-SIIs that have been identified.
4.2 Combination with O-SII buffers (Articles 133(4) and (5) of the CRD)	In Estonia there are currently no O-SIIs that have been identified.
4.3 Combined buffer requirement (Article 133(6) and (5) of the CRD)	N/A
4.4 Timing of the measure	The intended date of entry into force of the measure is 1 August 2014.
4.5 Review of the measure	The measure will be reconsidered at least once every two years. The measure will be adjusted or deactivated when the reasons for its application change or cease to exist.
5. Miscellaneous	
5.1 Publication (Article 133(16) of the CRD)	The notification and justification of the measure will be published by Eesti Pank. The decree of the Governor of Eesti Pank will be published in <i>Riigi Teataja</i> , which is the official gazette of the Republic of Estonia.
5.2 Contact person(s) at notifying authority	Jaak Tõrs, Head of Financial Stability Department jaak.tors@eestipank.ee