Recognising systemic risk buffer for all exposures located in Estonia

Eesti Pank (EP) set by Decree No 6 of the Governor of Eesti Pank of 30 May 2016 a 1% systemic risk buffer (SRB) of the total risk exposure located in Estonia as calculated in accordance with Article 92(3) of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR) for all banks and subsidiaries of foreign banking groups located in Estonia[1]. The decree entered into force on 1 August 2016.

EP reasoned the introduction of this buffer by the fact that Estonia's economy is vulnerable because it is small and open. The high proportion and concentration of exports and investment, the relatively large debt of the non-financial sector in relation to incomes, the comparatively modest level of household financial buffers and the very bank-centered financial sector creates an environment, where unexpected negative shocks may end up in systemic problems relatively quickly compared to other EU countries.

Consequently EP asked, in accordance with Article 134(4) of the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (CRD IV), the European Systemic Risk Board (ESRB) to issue a recommendation to other Members States to recognize the SRB.

ESRB in its Recommendation of the European Systemic Risk Board of 24 June 2016 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (Recommendation ESRB/2016/4) recommends to all Member States to reciprocate the SRB applied by EP. Where Member States have implemented Article 134 CRD IV in national law, relevant authorities are recommended to reciprocate the Estonian measure no later than three months following the publication of Recommendation ESRB/2016/4. Where Member States have not implemented Article 134 CRD IV in national law, relevant authorities are recommended to adopt equivalent measure within six months.

ESRB recommends reciprocating the Estonian measure even if the banking sector in a respective Member State has no significant exposures located (through branches or directly across borders) in Estonia. Member States can exempt individual institutions from their decision to recognize the SRB. In such cases, it is necessary to monitor Estonian exposures of these individual institutions, at least with an annual frequency.

In case of Slovakia Article 134 CRD IV was transposed as Article 33f(1) of the Banking Act (No 483/2001 Coll. on banks and amending certain laws, as amended). National bank of Slovakia (NBS) is therefore, based on Recommendation ESRB/2016/4, recognizing SRB for all exposures located in Estonia without exempting any individual institution.

Recognizing SRB for all exposures located in Estonia means that in case Slovak banks have exposures, where the borrower has its residence in Estonia, through their branches or directly across borders, they have to maintain a systemic risk buffer of Common Equity Tier 1 capital of 1% of the total risk exposure located in Estonia as calculated in accordance with Article 92(3) CRR (in line with the decree of the Governor of EP).

Reciprocation of the Estonian measure in accordance with Article 33f of the Banking Act has no impact on the Decision No 19/2016 of Národná banka Slovenska of 24 May 2016 on the setting of systemic risk buffer rates. As in this case NBS is not activating the systemic risk

[1] More information about the SRB introduced by EP can be found on the website of EP: https://www.eestipank.ee/en/financial-stability/systemic-risk-buffer

buffer in accordance with Article 33e of the Banking Act, there is no limitation on this buffer in case a respective bank has to maintain O-SII buffer as well. It means that the capital buffer that has to be maintained by the banks based on Article 33f of the Banking Act is additional to other capital buffers (capital buffer that has to be maintained by the banks based on Articles 33d and 33e of the Banking Act is additional to the capital buffer that has to be maintained by the banks based on Article 33f of the Banking Act).

Based on data as of 30 June 2016 Slovak banks had no significant exposures located in Estonia. Therefore, the reciprocation of the Estonian measure is not expected to have any significant impact on the banking sector.