Annex : Notification for the Countercyclical Capital Buffer

Notifying national authority		
1.1	Name of the notifying authority.	Financial and Capital Market Commission of Latvia (FCMC)
1.2	Name of the macroprudential measure that is notified.	Countercyclical Capital Buffer (CCB)
1.3	Date when the decision referred to in Article 5 of the SSMR shall be taken.	July 29, 2015
Description of the measure		
2.1	Please provide a detailed description of the measure, including calibration and the main parameters.	CCB for Latvia is set at 0% of the total risk exposure
2.2	Please specify the legal basis and process of implementation of the measure.	In accordance with paragraph 1 of Article 35^5 of Credit Institution Law, the FCMC sets the CCB rate on a quarterly basis applicable to exposures to the residents of the Republic of Latvia, taking into account: 1) the CCB guide calculated for appropriate quarter; 2) variables that the FCMC considers relevant for assessing cyclical systemic risk; 3) effective recommendations issued by the European Systemic Risk Board (ESRB) on the setting of the CCB rate.
2.3	Please describe in detail which institutions/exposures will be covered by the measure, including whether the measure would be applied at consolidated or solo level and possible exemptions.	Institutions headquartered domestically, Subsidiaries of institutions headquartered abroad, Exposures to non-financial corporations, Exposures to households, Consolidated basis, Solo basis

2.4	On what date does the measure come into force?	August 1, 2016
2.5	Until when will the measure presumably be in place or when would it be reviewed?	Reviewed on a quarterly basis
Reason for the activation of the measure		
3.1	Please give the description of the macroprudential risk in the financial system to be addressed by the proposed macroprudential measure. Please specify the reasons why changes in the intensity of systemic risk could have serious negative consequences for financial stability at national level.	In general, the CCB guide and additional indicators show that the national financial cycle is at the stage of moderate recovery. Notwithstanding the GDP growth and low interest rates, the credit growth rates remain below zero for the sixth consecutive year, and the borrowers' vision of the future is not rather optimistic. At the current stage of the cycle, excessive crediting risk is low.
3.2	Please describe the indicators on the basis of which the measure is to be activated. Please provide the data the decision is based on (preferably an Excel-file).	According to the "broad credit"[1] definition, standardised credit-to-GDP ratio in 4Q 2014 was 100%, and its standard deviation from the trend was -43%. According to the "narrow credit" definition, credit-to-GDP ratio in 1Q 2015 was 46%, and its deviation from the trend was -35%. Lending activity in Latvia remains weak, and the total loan balance in the domestic private non-financial sector continues to decline. Annual rate of reduction slowed down, but still remains above 4%. The balance of loans granted to the domestic private non-financial sector by credit institutions has decreased by 40% as from Q4 2008 (when loan portfolio reached maximum). Along with reduction in lending activity, credit-to-GDP ratio over the last year (Q1 2015 over Q1 2015) declined from 51 to 46%. Following a 40% decrease in 2009, housing prices slowly continue to recover, but still are considerably lower compared to their level before the crisis. Latvia's economy starts to experience the negative impact of unfavorable external conditions with GDP growth slowing down (2% in Q1 2015). Inflation is below 1%. None of the other additional ratios indicates that there would be the necessity to set a higher CCB

[1] Definition in the attached data files

		rate as well. The current account balance, after major fluctuations (-25% in Q1 2007 and 13% in Q2 2009), since the beginning of 2011 has become stable ranging from 0% to -5%. Annual interest payments by the private sector to GDP have shrunk from 5% to less than 2% from the beginning of 2010 (to a great extent it is due to the historically low level of EURIBOR interbank rates). See attached data file
3.3	If applying a measure under Article 133 CRD or 458 CRR, please explain why the measures mentioned in Article 133(11)e and Article 458(2)c are not sufficient to adequately address the macroprudential risks identified and why the measure is deemed to be suitable, effective and proportionate to address the situation.	N/A
Impact of the measure		
4.1	Please provide your assessment of the effects of the measure on the domestic banking system, the real economy and financial stability in your country.	There are no grounds for the increase of the CCB at this cyclical stage, therefore no tightening effect is expected with regard to lending activity
4.2	Referring to your country's specific characteristics, what is the scope for "leakages" (i.e., circumvention of the measure, leakages to other financial sectors or to non-domestic institutions)?	N/A
4.3	Please asses the scope for cross-border spill-overs of the applied measure (including a likely impact on the EU internal market pursuant to Article 133(12) CRD or 458(2) CRR).	N/A

4.4	When recognition is not mandatory, please specify whether or not it is intended to ask for recognition of the measure by other Member States and provide the reasons.	N/A
4.5	Any other relevant information, including interaction with other measures/policies.	No
Miscellaneous		
5.1	Contact person(s) at notifying authority.	Jelena Zubkova, phone +371 67774934, jelena.zubkova@fktk.lv
5.2	Intended date of publication of the measure and information about the communication strategy of the notified measure to the market.	July 29, 2015
5.3	Any other relevant information.	No