

## **Best Option for Countercyclical Capital Buffer Implementation: Scenarios for Baltic States**

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**Abstract :** The objective of countercyclical capital buffer is to encourage banks to build up buffers in good times that can be drawn down in bad times. The aim of the report is to assess such decisions by banks derived from three approaches. The approaches are the aggregate credit-to-GDP ratio, credit growth as well as banking sector profits. The approaches are implemented for Estonia, Latvia and Lithuania for the time period 2000-2012. The report compares three approaches and analyses their relevance to the Baltic states by testing the correlation between a growth in studied variables and a growth of corresponding gaps. Methods used in the empirical part of the report are econometric analysis as well as economic analysis, development indicators, relative and absolute indicators and other methods. The research outcome is a cross-Baltic comparison of two alternative approaches to establish or release a countercyclical capital buffer by banks and their implications for each Baltic country.

**Keywords :** basel III, countercyclical capital buffer, banks, credit growth, baltic states

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