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In two advisory guidelines issued on 20 April, Finantsinspektsioon is directing banks to consider payment moratoriums to manage the coronavirus impact and has announced temporary flexibility in how the liquidity requirements and capital buffers of banks and the state's corona guarantee will be handled.

“The spread of the coronavirus is causing difficulties for people and companies, and this in turn affects the financial sector. In these circumstances it is the job of Finantsinspektsioon to offer the banks greater clarity that can help them meet their function in society of circulating the lifeblood of the economy”, said Chair of the Finantsinspektsioon Management Board Kilvar Kessler. “We have set clearer conditions for how payment moratoriums, which are general postponements of compliance with loan contract conditions, should be reflected in the capital management of the banks. The framework we have set with our European colleagues encourages banks to consider payment moratoriums for borrowers first and foremost, but also to consider their risk management and the interests of depositors”.

The advisory guidelines allow a payment moratorium to be set in law, but states that this should be done at the decision of the private sector taken by all the banks together or by a major part of the banks operating in the market. In this case the moratorium must apply under similar conditions to differently defined and sufficiently wide client groups and may change only the payment schedule of debtors while leaving the other loan conditions the same. The advisory guideline allows for a moratorium on payments to be announced until 30 June this year. If the general conditions of the moratorium have been met, banks do not have to assess each loan individually under this framework and handle them as loans restructured or overdue because of payment difficulties. This approach alleviates the capital positions of the banks.

The advisory guidelines also state that Finantsinspektsioon is ready to reduce to a limited degree the individual buffers built up by the banks during the good times to counter a crisis, so that they can support the economy with credit, as long as they do so while respecting the principles of reasonable risk management. The attitude of Finantsinspektsioon towards the corona state guarantees that meet the conditions of the directly applicable European Union capital regulation may also improve the capital position of the banks. Finantsinspektsioon has announced temporary flexibility towards liquidity coverage and is allowing sufficient time for it to be restored.

The advisory guidelines of Finantsinspektsioon came into force on 21 April and apply to all the banks operating in Estonia and under the supervision of Finantsinspektsioon.

Finantsinspektsioon advisory guidelines:

Temporary relief for credit institutions in relation to the possible effects of the COVID-19 virus on financial sector

Issue of the European Banking Authority guidelines “Guidelines on legislative and non-legislative moratoriums

on loan repayments applied in the light of the COVID-19 crisis” (EBA/GL/2020/02) as Finantsinspeksioon advisory guidelines.

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