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Finantsinspektsioon has sent a memo to the banks recommending that they pay increased attention to assessing and managing credit risk, given the spread of the coronavirus. The credit risk in the loan portfolios of the banks has so far been realised less than was feared, but the trend in the level of risk is upwards. Identifying risks early and assessing them adequately helps the banks to offer suitable solutions in good time to borrowers who have fallen into difficulties.

Chair of the Management Board of Finantsinspektsioon **Kilvar Kessler** said that credit risk had been managed well by the banks in Estonia. “The looser measures and other steps taken by the government, the central bank and the financial supervisor have helped in this. It should be remembered though that the support measures are not fully comprehensive nor permanent. This means that risks should be managed in a sensible and conservative way”, he said.

The quality of the loan portfolio of the banks has so far been good and overdue loans have been kept under control, which has been helped by the general payment moratorium that the banks introduced in the spring following the recommendatory guidelines of Finantsinspektsioon. Only 4% of the stock of loans to private individuals was overdue at the end of November, and 3.2% of the stock of loans to private companies. The share of overdue loans and their value increased at the end of the year, but mainly because of loans that were short-term overdue. At the same time the share of loans that were overdue more than 60 days actually fell. Write downs of 239 million euros had been made at the end of November, which is 38% more than the value of long-term overdue loans. There remains a lot of uncertainty in the financial market because of the spread of the coronavirus, and its ultimate impact on the quality of the loan portfolio remains unclear.

As a consequence of the Covid-19 crisis, Finantsinspektsioon is directing the banks to pay more attention than usual to various aspects of monitoring credit risk and has repeatedly highlighted this to them since the crisis erupted.