Q3 2021 overview of the banking sector

Increasing economic activity was also reflected in the indicators for the Estonian banking sector in the third quarter. Annual loan growth in the sector reached where it had been immediately before the Covid-19 pandemic started, posting 7.0% and bringing the loan stock up to 29.8 billion euros. Businesses contributed increasingly to long growth alongside households. The smaller banks again stood out for particularly fast growth in lending, as their loan stock increased by 39% over the year.

Key indicators	Q2 2021
Yearly growth in the loan stock	5,8%
Yearly growth in the stock of deposits	13,2%
Loan-to-deposit ratio	84%
Share of long-term overdue loans in the portfolio	0,55%
Liquidity coverage ratio	160%
Core Equity Tier 1 ratio	26,4%

The amount in loans subject to payment holidays declined. At the end of September, 3.2% of the value of loans issued to companies had payment holidays, while 0.5% of the value of loans to households did.

The quality of loans improved further in the third quarter. The share of non-performing loans in the total portfolio to households and businesses fell to 1.4% by the end of September, having been 1.6% in the previous quarter and 1.9% a year earlier. Despite the general improvement in the quality of credit, the impact of the Covid-19 pandemic continued to be felt in the accommodation and food service sector. The share of non-performing loans in the sector stood at 14% at the end of the third quarter, having been 16% in the previous quarter and 5% a year earlier.

As loans to companies in accommodation and food service make up only 0.8% of the loan portfolio of the banking sector to households and businesses, the impact of the pandemic on the whole portfolio was very small. The share of loans that were long-term overdue by 90 days or more also continued to decline in the third quarter and fell to 0.49%, which is 0.06 percentage point less than in the previous quarter, and 0.2 percentage point less than a year earlier. The share of long-term overdue loans was smaller for businesses at 0.48% than for households at 0.65%, which was a reverse of the situation from a year previously.

Liquidity risk remained low in the banking sector in the third quarter. The stock of deposits actually grew faster than the stock of loans, reducing the loan-to-deposit ratio from 84% at the end of June to 82% by the end of September. The liquidity coverage ratio of the banking sector was 7 percentage points higher than in the previous quarter at 169%, and all the banks exceeded the requirement of 100%.

The third wave of the Covid-19 virus started to have some impact on the banks in the third quarter. The banks reacted to the new wave of the virus by increasing the share of their staff working remotely. At the end of October, almost two thirds of staff were doing so.

Quarterly reviews of the banking sector

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