Q1 2022 overview of the banking sector

The economic climate in Estonia remained strong in the first quarter with yearly growth of 4.3%. The rate of growth in lending picked up in the first quarter to 10.6% over the year, from 9.6% over the year in 2021, and the loan stock of the sector stood at 31.6 billion euros. The loan volumes of small banks, or LSIs, increased by 33% in the first quarter.

Key indicators	Q42021	Change	Q1 2022
Yearly growth in the loan stock	9.6%	?	10.6%
Yearly growth in the stock of deposits	9.7%	?	7.6%
Loan-to-deposit ratio	83%	?	84%
Share of long-term overdue loans in the portfolio	0.38%	?	0.36%
Liquidity coverage ratio	149%	?	157%
Core Equity Tier 1 ratio	23.3%	?	23.6%

The share of loans with a payment holiday fell to 1.1% by the end of April, having been 1.6% of all loans at the end of last year, and the share of non-performing loans fell from 1.1% in the previous quarter to 1.0% at the end of March. Non-performing loans were 1.3% of the corporate loan portfolio at the end of the first quarter, and 0.8% of the volume of loans to households.

The share of loans that were long-term overdue by 90 days or more declined further in the first quarter, moving from 0.38% at the end of the previous quarter to 0.36% by the end of March, having been 0.6% a year earlier. The share of long-term overdue loans was smaller for businesses at 0.34% than it was for households at 0.48%.

The volume of stage 2 loans with higher risk in the sector increased as a share of the total portfolio. The growth in the share of stage 2 loans was driven primarily by loans to businesses, but the share of stage 2 loans to households also increased. At the peak of the Covid-19 crisis in the third quarter of 2020, stage 2 loans made up 9.5% of the total loan portfolio, but at the end of March 2022 this had risen to 9.8%.
The rate of growth of deposits continued to slow in the first quarter, falling to 7.6% having been 9.7% in 2021. This was slower than the rate of growth in loans, meaning that the loans-to-deposits ratio rose a little from 83% to 84%. The liquidity coverage ratio of the sector rose by 8 percentage points from the previous quarter to 157%. All the banks continued to meet the liquidity coverage requirement of 100%. Liquid assets as a share of the total assets in the sector, with the deposits of credit institutions included, were at 27.8%, having been 33.5% in the previous quarter.

The capitalisation of the banks did not particularly change in the first quarter. The consolidated CET1 ratio of the sector was 23.6% at the end of March, which was 0.3 percentage point higher than at the end of last year; CET1 on a solo basis fell by 0.2 percentage point though to 22.2%. The ratio in the European Union at the end of last year was 15.7%. The CET1 of the LSIs fell from 14.2% in the previous quarter to 14.0%. All the banks met the capital requirements at the end of the year.

In summary the various indicators show the Estonian banking sector to be in good health, but changes in the macro economy, forecasts by market participants and the risk assessments by the banks themselves also need to be considered.

Quarterly reviews of the banking sector

Page last edited on 20/10/2022