Q2 2022 overview of the banking sector

The indicators for the banking sector in the second quarter do not yet show the economy cooling. The rate of growth in lending picked up further to 12.5% over the year, taking the loan stock of the sector to 32.8 billion euros. The loan stock to both households and businesses stood out for relatively rapid growth, loans to businesses slightly more so. The amount of lending at the small banks was 32% more in the second quarter than it was in the second quarter of last year.

Key indicators	Q1 2022	Change	Q2 2022
Yearly growth in the loan stock	10.6%	?	12.5%
Yearly growth in the stock of deposits	7.6%	?	9.5%
Loan-to-deposit ratio	84%	?	87%
Share of long-term overdue loans in the portfolio	0.36%	?	0.35%
Liquidity coverage ratio	157%	?	162%
Core Equity Tier 1 ratio	23.6%	?	22.9%

The share of loans with a payment holiday fell to 1% by the end of July, having been 1.5% of all loans a year earlier, and the share of non-performing loans fell from 1% in the previous quarter to 0.9% at the end of June. Non-performing loans were 1.4% of the corporate loan portfolio at the end of the second quarter, and 0.7% of the volume of loans to households. The share of non-performing corporate loans was however 0.03 percentage point more than in the previous quarter. A similar pattern for non-performing loans could be observed for loans that were long-term overdue by more than 90 days. Despite the minimal growth in the share of corporate loans that were long-term overdue, the share of overdue loans in the banking sector fell from 0.36% in the previous quarter to 0.35% by the end of June, having been 0.55% a year earlier. This meant that household loans contributed to the fall.

These changes helped the banking sector maintain its strong profitability in the second quarter as the return on equity reached 10.6%, having been 9.3% in the same quarter of last year. Moving forward the rise in interest rates will have a positive effect on the profits of the banks, though the changing economic climate may cause the banks to make large provisions, which will hurt profits. The amounts of provisions in the sector have increased somewhat this year. The banks made provisions of 20 million euros in the first six months of 2022, having made total provisions of 32 million euros in the whole of 2021, though faced with the Covid-19 pandemic they made provisions of 124 million euros in 2020.

The rate of growth over the year in deposits was 9.5% in the second quarter, having been 7.6% in the first quarter. This was slower than the rate of growth in loans, meaning that the loan-to-deposit ratio rose a little from 84% to 87%.

The liquidity coverage ratio of the sector rose by 5 percentage points from the previous quarter to 162%. 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 26.4%, having been 27.7% in the previous quarter. The decline came mainly from funds held at the central bank.

The capitalisation of the Estonian banking sector is among the strongest in the European Union.

Quarterly reviews of the banking sector

Page last edited on 30/11/2022