

# Estonia

The Estonian banking sector consists of 14 banks of which nine are licensed credit institutions in Estonia and five are operating as branches of foreign credit institutions. Banking sector assets constitute €38 billion equivalent to 105% of Estonian GDP (2021). The Estonian banking sector is dominated by foreign capital holding >80% of banking sector assets.

The market is chiefly divided between Swedbank, SEB Bank, LHV Bank and Luminor Bank. Banks are serving two million private and 0.3 million corporate customers through 70 bank branches. Estonian customers are operating 1.5 active current accounts per inhabitant and 0,25 corporate accounts per inhabitant.

Estonian banks have issued 1.40 bank cards per inhabitant, 80% of issued cards are debit cards, and 20% credit cards. 65% of retail payments are initiated by bank cards and more than 99% of payment orders have been initiated electronically since 2009. Only 4% of the population receives income entirely or partially in cash.

Banks hold almost €27,8 billion worth of deposits and operate loan portfolio in the value of €22,4 billion. The banking sector is mainly funded through the deposits of resident clients, though financing from equity market and parent companies plays an important role in the funding of some banks.

We are witnessing an upward trend in the average interest rates of new loans. The average rate for long-term corporate loans issued in 10.2022 was 4,45% compared to 2,33% in 10.2021. Average interest rate for new housing loans was 3,9% in October 2022 compared to the 2,3% in same period last year. The average interest margin has decreased 0,1 percentage points to 1,9% in the same period. The quality of the loan portfolio remained good. Value of loans overdue by more than 60 days has remained at 0,5% of the loan portfolio for several years.

Housing loans account for about 40% of the loans to the non-financial sector and 80% of the loans granted to households, which is slightly above the average for the countries in the EU, but as a share of total assets, the volume of these loans is one of the largest in the EU. This reflects the universal banking model used by banks in Estonia, the concentration of the domestic market and the preference of households for homeownership over renting. It also indicates that the operations of banks in Estonia are less diversified than the average for the EU.

The profitability of the Estonian banking sector has been among the strongest in the EU countries. The Estonian banking sector is relatively cost-efficient, which may partly be because the expenses of the local units of foreign banking groups can be reflected at group level rather than local level. Profitability is also aided by smaller loan losses than in other countries and quite large spreads between interest income and interest expenses. Net profit earned in 2021 was €405 million.