Q4 2021 overview of the banking sector

The rapid growth in the Estonian economy in the fourth quarter of 2021 of 8.6% over the quarter and 8.3% over the year was also reflected in the figures for the banking sector. Loan growth last year exceeded its level from immediately before the Covid-19 pandemic started, posting 9.6% over the year and bringing the loan stock in the sector up to 31.0 billion euros.

Key indicators	Q3 2021	Change	Q4 2021
Yearly growth in the loan stock	7.0%	?	9.6%
Yearly growth in the stock of deposits	14.9%	?	9.7%
Loan-to-deposit ratio	82%	?	83%
Share of long-term overdue loans in the portfolio	0.49%	?	0.38%
Liquidity coverage ratio	169%	?	149%
Core Equity Tier 1 ratio	25.4%	?	23.3%

The share of loans with a payment holiday declined and the other indicators for loan quality improved. At the end of the year, 1.6% of loans had a payment holiday, and a month later it was only 1.3% of the loan stock of the banking sector, having been 1.8% at the end of the third quarter of 2021. Non-performing loans accounted for 1.1% of the loan stock of the sector at the end of December, which was 0.2 percentage point less than three months earlier, and 0.6 percentage point less than a year earlier. It should be noted though that the impact of the Covid-19 pandemic still continued to be felt in the accommodation and food service sector even though the credit quality of the overall loan portfolio had improved, as 14% of loans in the sector were non-performing.

The share of loans that were long-term overdue by 90 days or more also continued to decline in the fourth quarter, moving from 0.5% at the end of the previous quarter to 0.4%, having been 0.6% a year earlier. The share of long-term overdue loans was smaller for businesses at 0.36% than it was for households at 0.52%, which was a reverse of the situation from a year previously. This does not directly mean that the risks in the corporate loan portfolio are smaller, as the share of non-performing loans there remained larger at the end of the year at 1.4% than the share of household loans at 0.9%. The share of corporate loans with higher risk, stage II loans was 12.4% at the end of December, while the equivalent figure for households was 7.8%.

The volume of deposits increased by 9.7% in the fourth quarter, which was essentially the same rate of growth as in loans in 2021, and below 10% for the first time since the third quarter of 2019. This means that the loan-to-deposit ratio remains effectively unchanged at 83%. The liquidity coverage ratio of the sector fell by 20 percentage points from the previous quarter to 149%. 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 33.5%, having been 34.0% in the previous quarter.

The rapid growth in risk assets has put some pressure on capital buffers. The consolidated CET1 ratio of the banking sector continued to fall in the fourth quarter, reaching 23.3% at the end of the year from 25.6% three months earlier and 27.1% a year earlier. The ratio in the European Union at the end of the third quarter was 15.4%.

Although various indicators show that the Estonian banking sector was in good shape at the end of 2021, the war that started in Ukraine in February 2022 has increased uncertainty and with that has increased risks. Analysis of the direct loan positions of the banks shows that loans to Russia account for 0.01% of the total loan portfolio, while loans to Belarus and Ukraine account for even less. Information from the banks though shows that the indirect positions of Estonian businesses with connections to those three countries account for 3.5% of the loan stock in the sector. The war in Ukraine has clearly increased the general risks in the economy, and any realisation of them could harm the indicators for the Estonian banking sector.

Quarterly reviews of the banking sector

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