
[Finantsinspektsioon yearbook 2021](#)

At the time that the foreword to the Finantsinspektsioon 2021 annual report is being written, a war is raging in Ukraine of a sort that has not been seen in Europe since the Second World War. The armed conflict is having a global economic impact and so also impacts financial intermediaries. In this foreword we will consider the readiness of the Estonian financial market to withstand the consequences of the war, discuss the main trends in the Estonian financial market in 2021, and summarise our updated strategy.

The war in Ukraine put the Estonian financial sector in the frontline for applying financial sanctions

Countries and international organisations have reacted to the war in Ukraine by applying numerous wide-ranging international sanctions. The weight of applying the financial sanctions is currently primarily falling on financial sector. Since 2021 the law has required Finantsinspektsioon to assess the capacity of the subjects of financial supervision to apply international financial sanctions. Previously only the Financial Intelligence Unit had this responsibility, but it is now shared with Finantsinspektsioon so that the FIU handles the application of specific, individual sanctions, while financial supervision looks at the business model of the subject of supervision and at the risk environment given the mechanisms for applying the sanctions. The earlier demand by Finantsinspektsioon for risk controls to be strengthened has helped financial intermediaries very much in applying international sanctions.

The military conflict in Ukraine has sharply raised the question of possible cyber attacks, especially given how digital our society is. Finantsinspektsioon considers that the larger financial intermediaries are well prepared and have the capacity to cope with cyber risks. The capacity of those financial intermediaries depends a lot though on the digital capabilities of their partners, and on the nature and scope of any cyber attack. Financial supervision of cyber resilience remains demanding of subjects of supervision and Finantsinspektsioon is taking the lead in this in the euro area banking supervision system.

Finantsinspektsioon considers that the direct impact of the war on the financial position of the subjects of financial supervision is currently small. The indirect impact of changes in the economic environment is large though. The banks and other major financial intermediaries have sufficient buffers to alleviate the impact, and are ready to adapt to risk-taking and risk management. Finantsinspektsioon is continuously assessing the situation together with Eesti Pank and the European Central Bank, and if needed is ready to apply appropriate supervisory measures to manage financial risks.

PDF-version of the yearbook

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