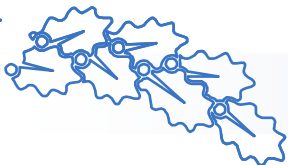


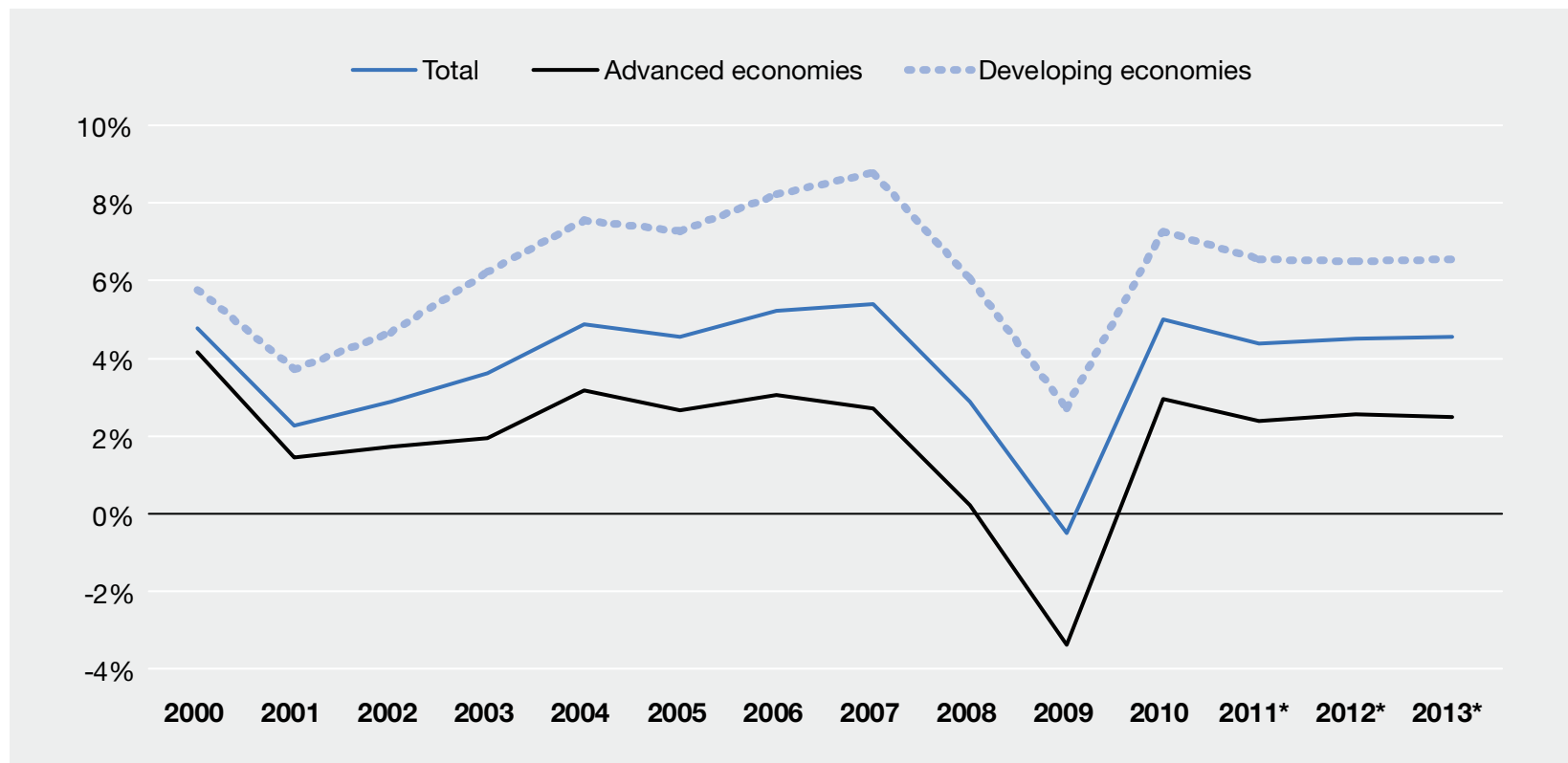
Overview of the Estonian economy and financial sector

27 April 2011

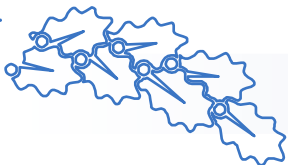


The global economic environment recovered faster than anticipated

GDP growth (%)

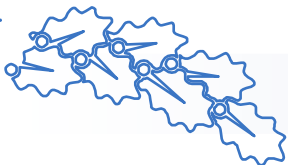
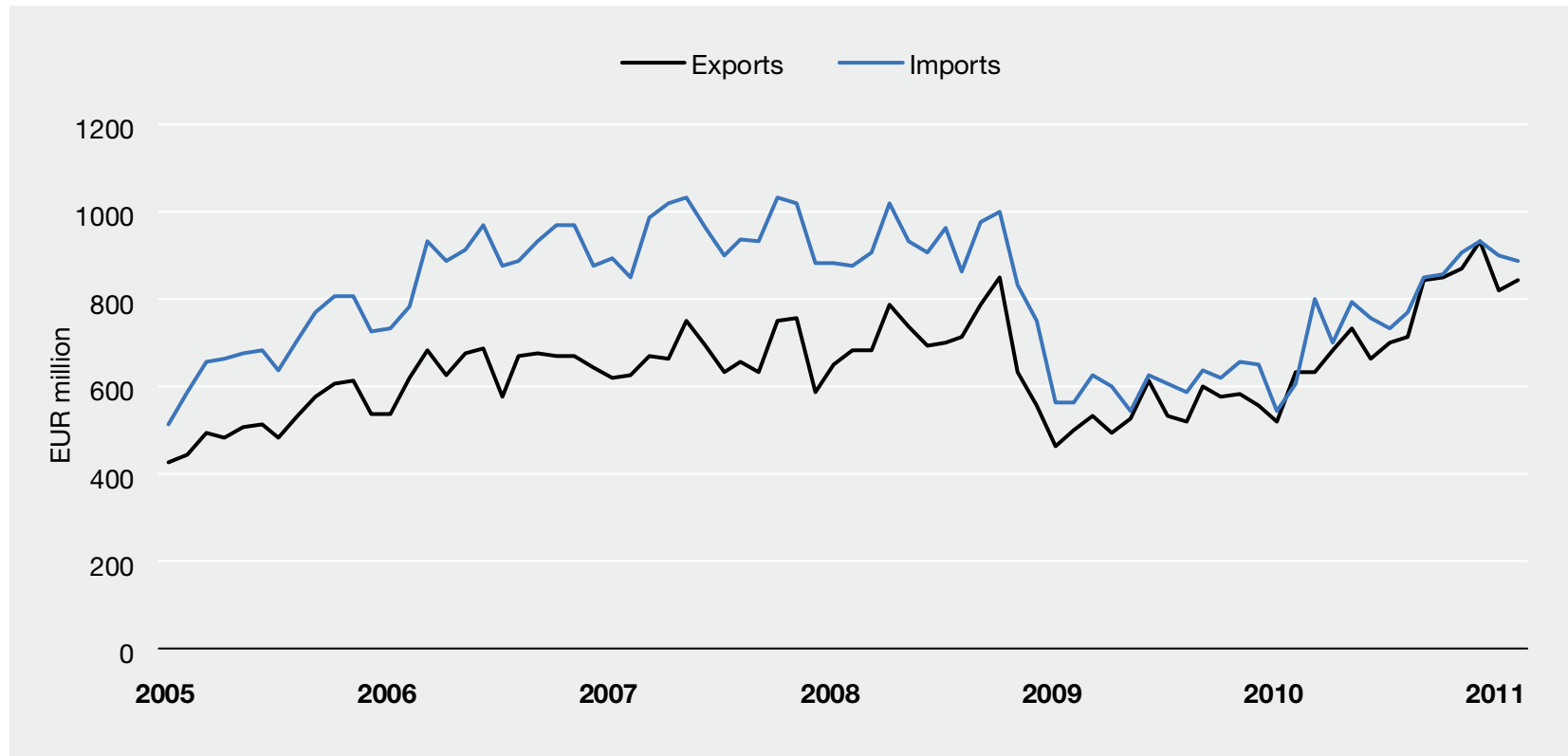


Source: IMF

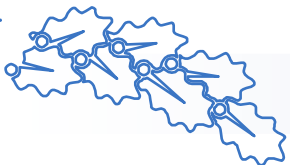
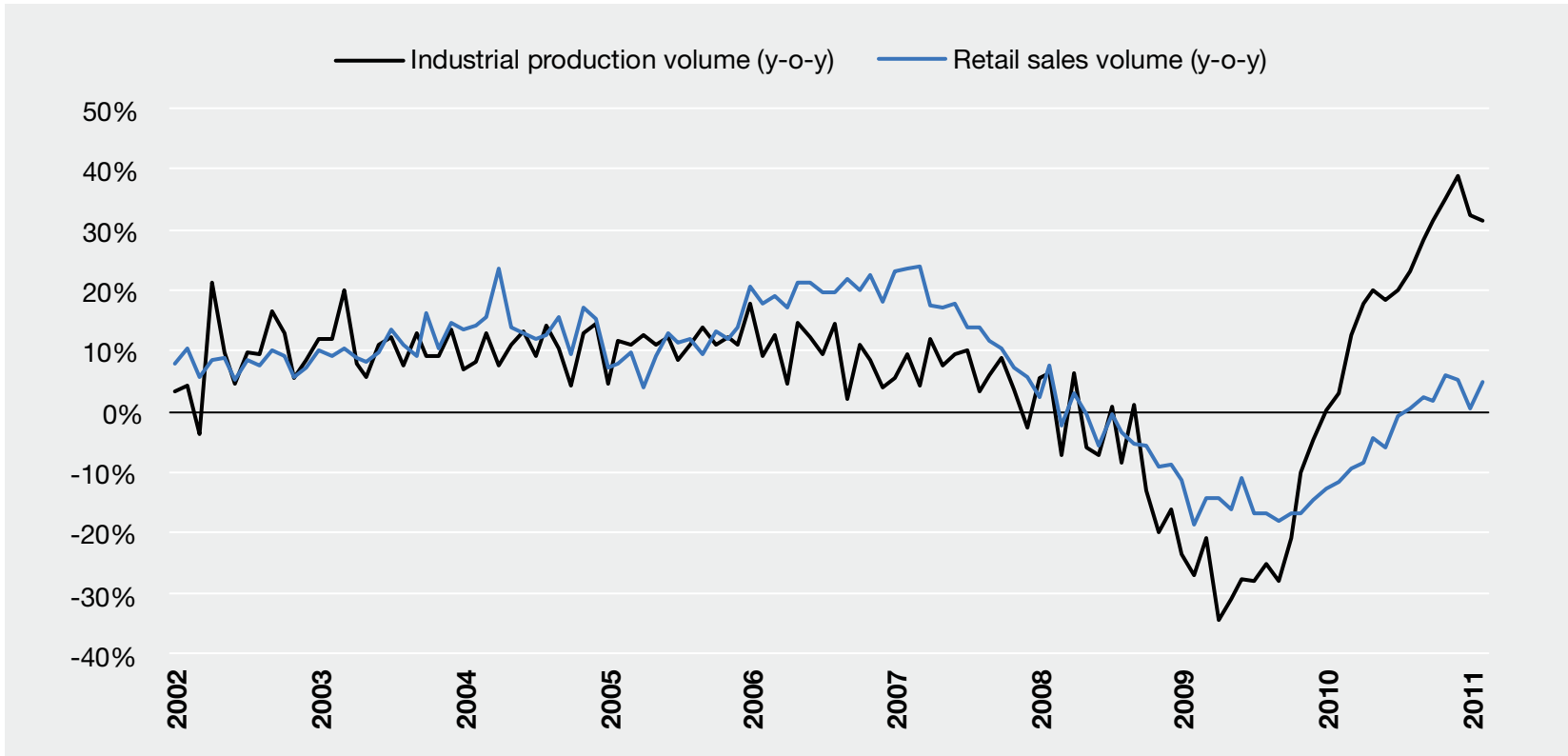


Estonia's exports have exceeded pre-crisis levels

Exports and imports in current prices

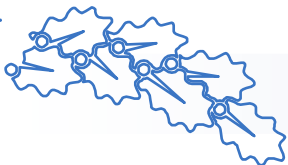
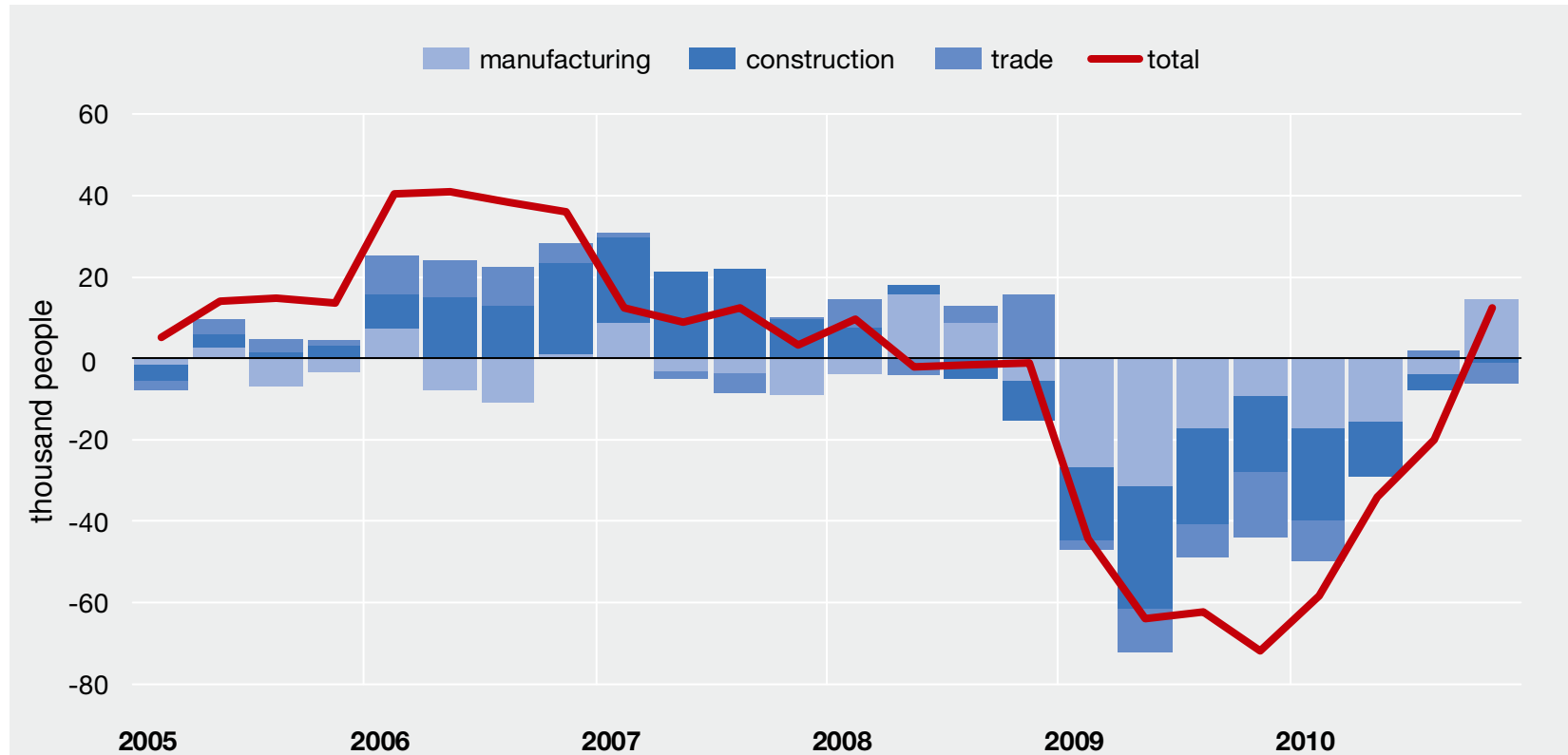


Domestic demand is rebounding and supporting growth

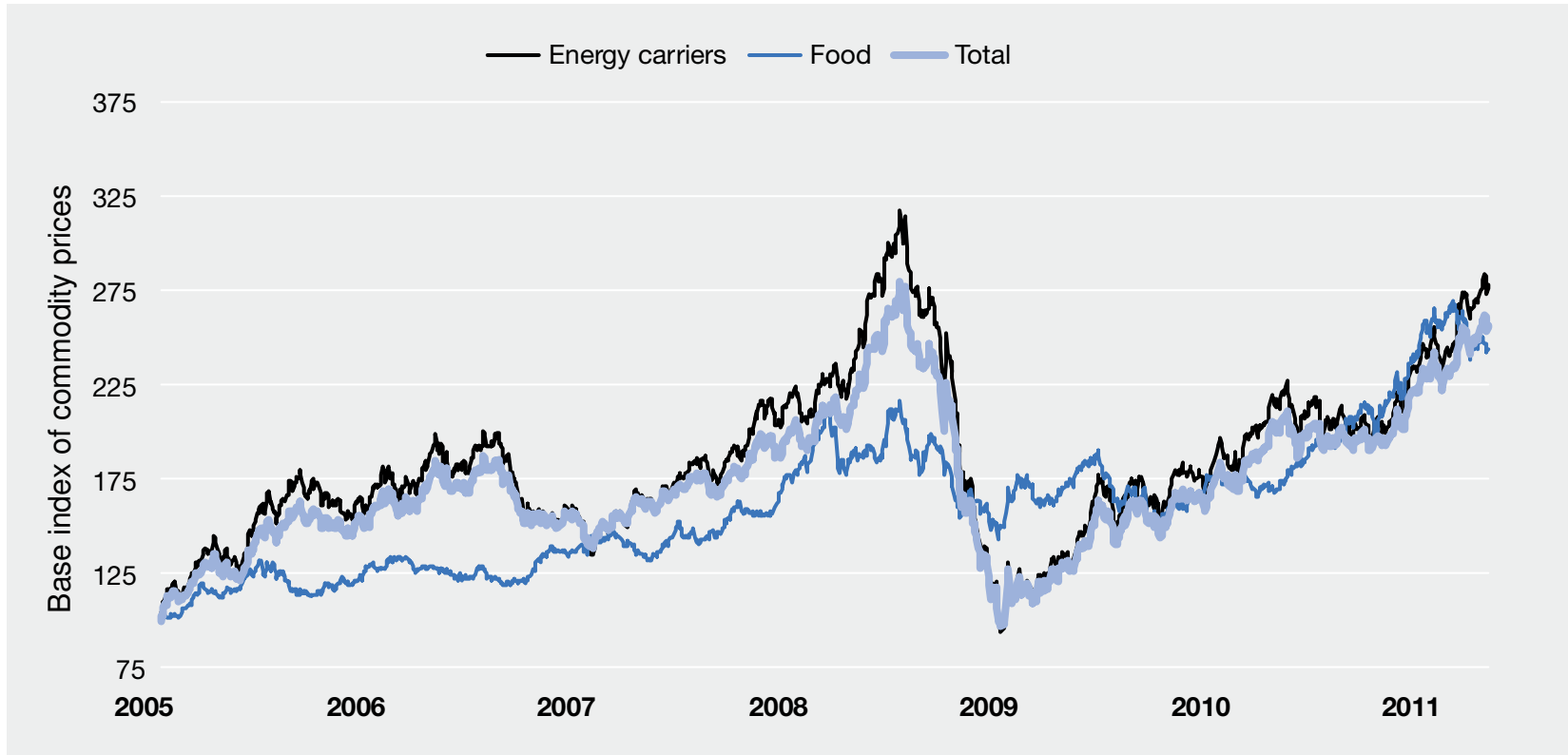


Owing to manufacturing, the number of the employed started to increase at the end of 2010

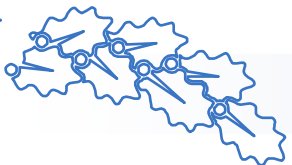
Employment across fields of activity, y-o-y change



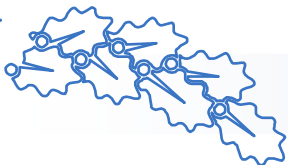
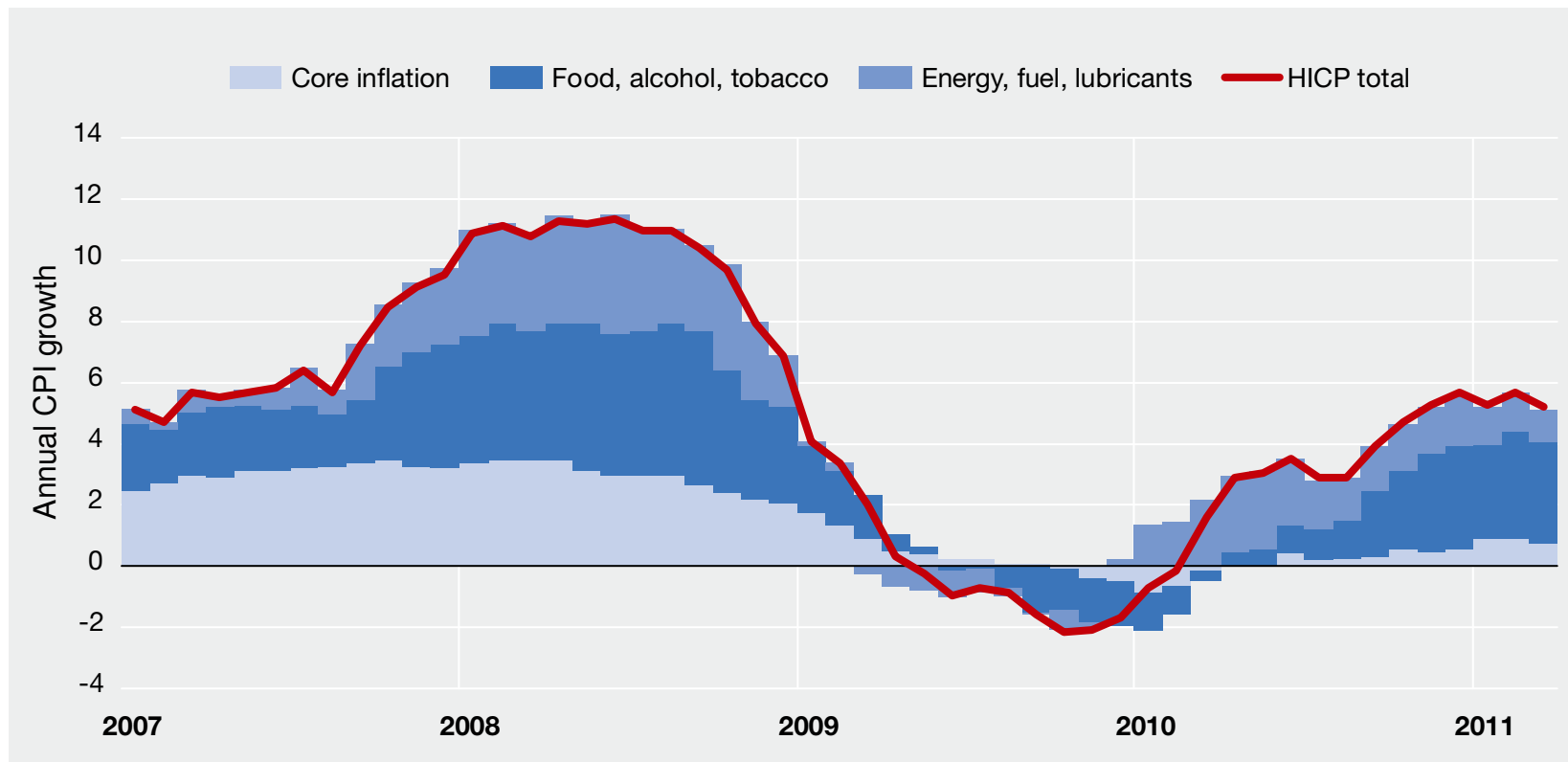
Commodity prices are growing due to the recovery from the crisis, speculations and rapidly expanding developing markets



Source: HWWI

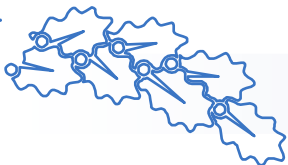
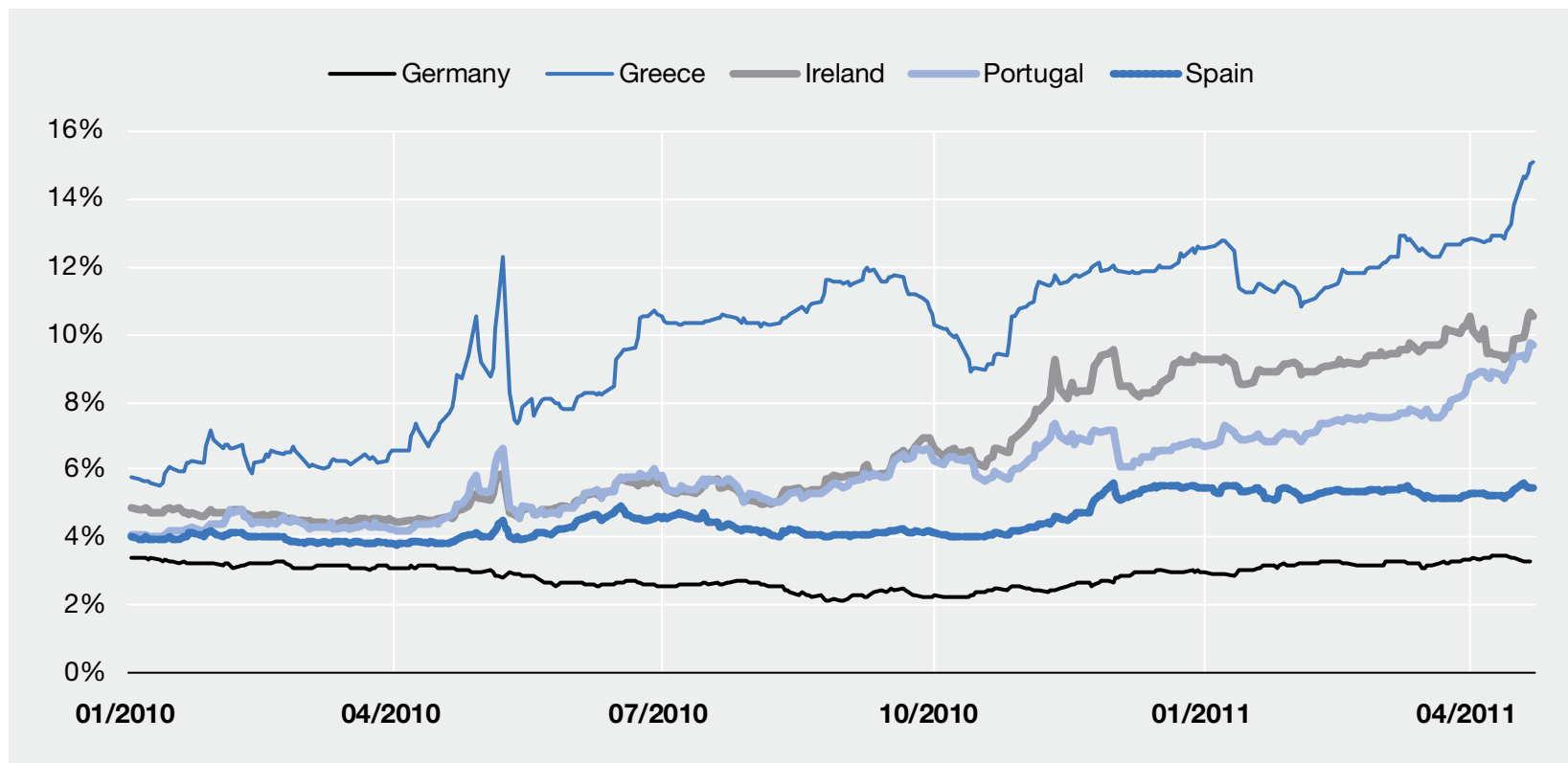


Food and fuel are the main factors behind the pickup in consumer price growth in Estonia



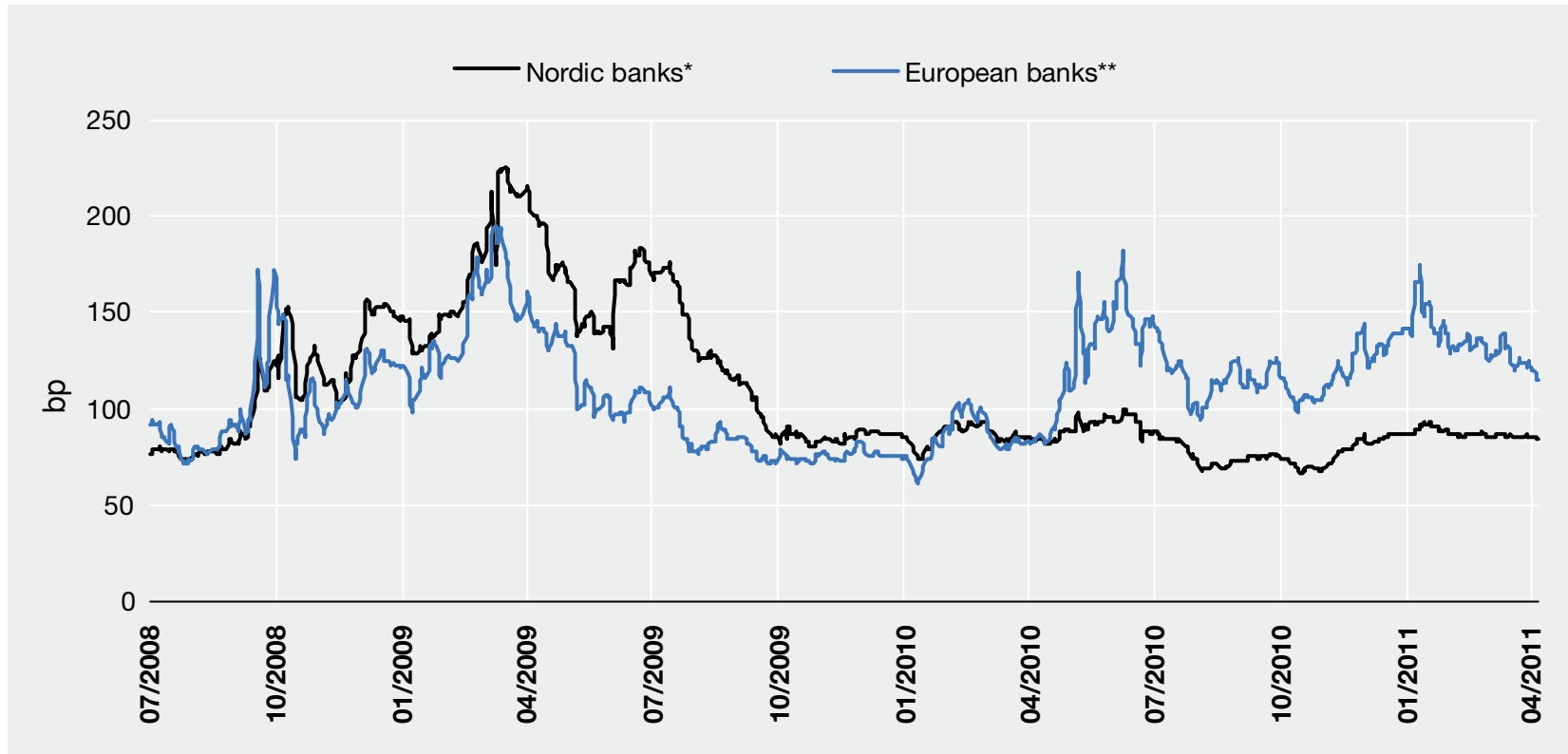
General risk aversion in external markets has decreased, but the situation is still volatile due to the debt crisis

Interest rate of 10-year government bonds



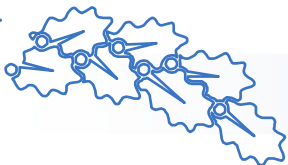
Compared to other European banks, the cost of financing of Nordic banks has been more favourable

CDS premia of Nordic and European banks



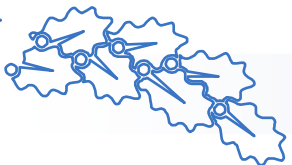
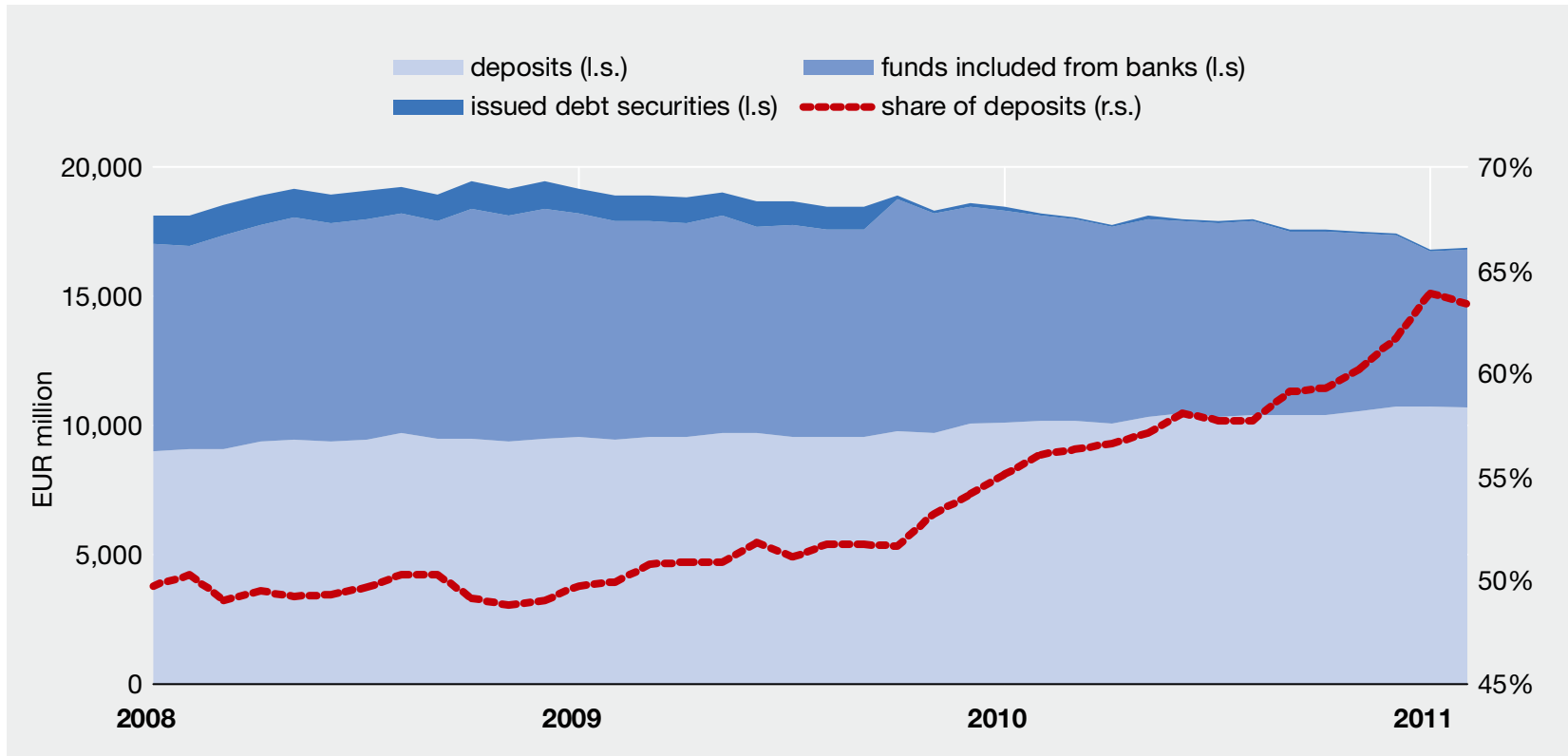
* Nordic banks - Swedbank, SEB, Nordea, Handelsbanken, Danske Bank

** European banks - UBS, Société Générale, HSBC, Deutsche Bank, ING, Barclays, BNP Paribas



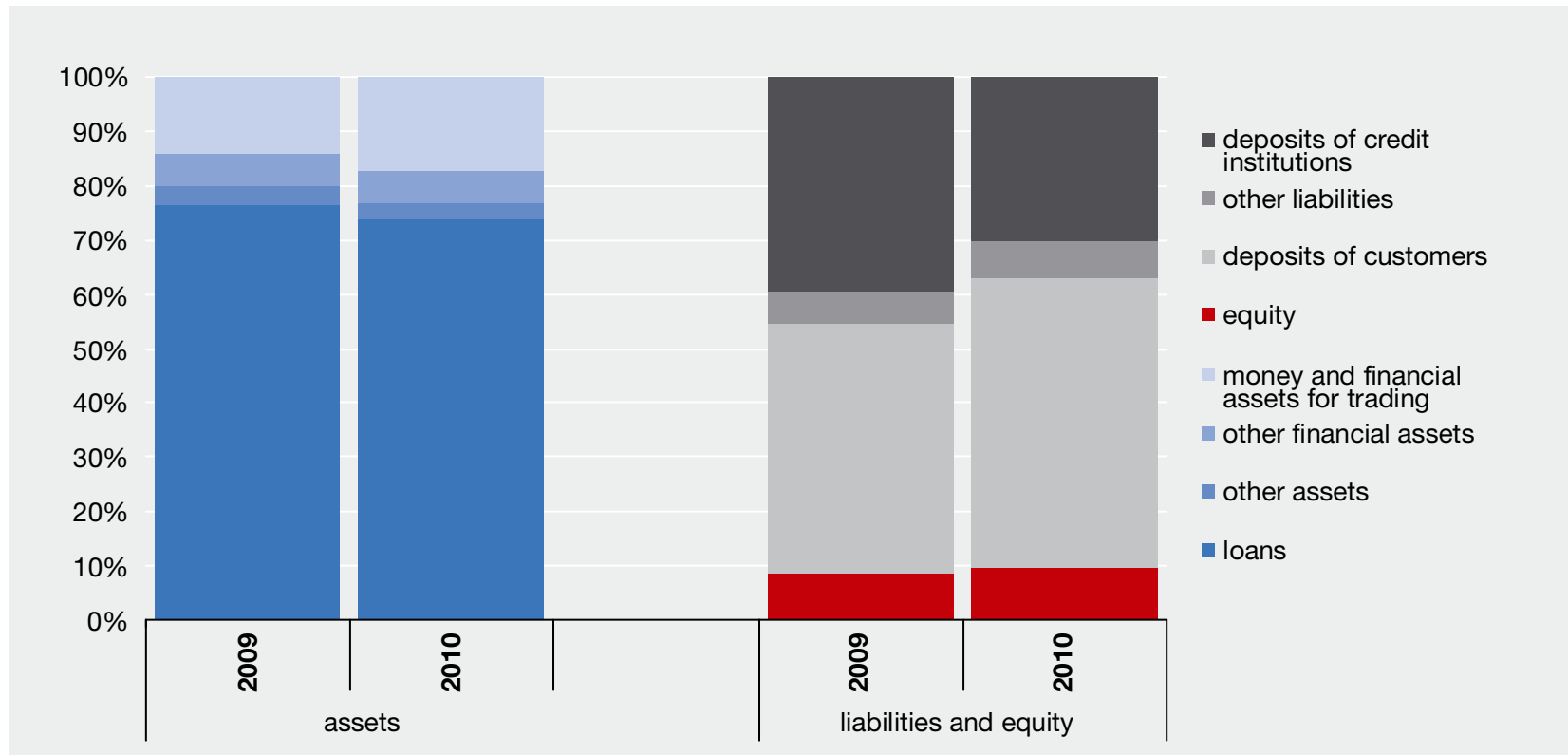
Banks operating in Estonia have increased deposit-based financing

Liabilities structure of banks

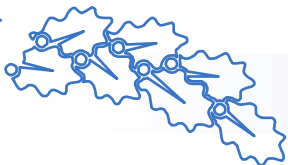


The share of liquid assets and capital of the Estonian banking sector has increased

Consolidated balance sheet (end-year)

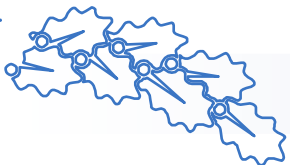
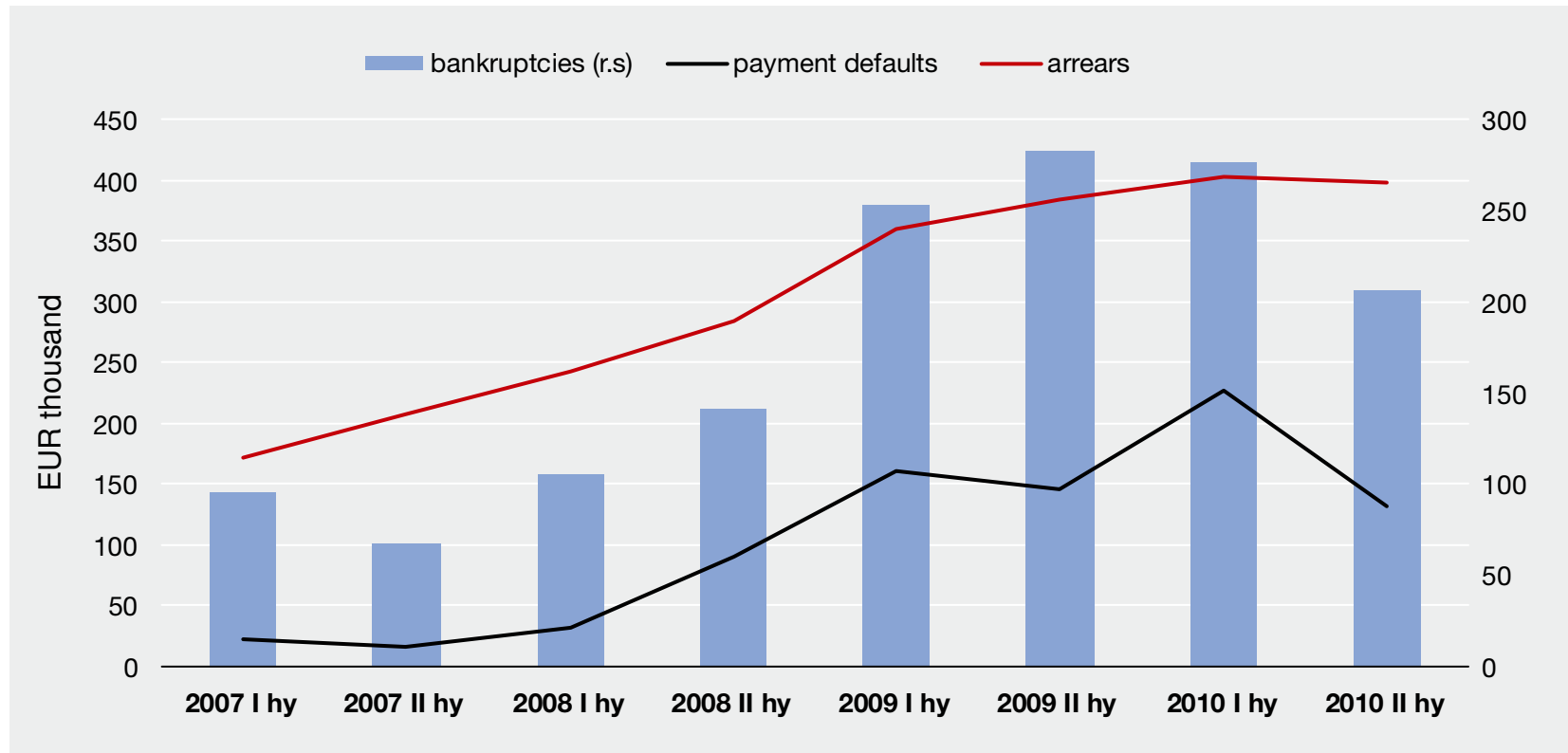


The capital adequacy of banks was 16.2% at the end of the year



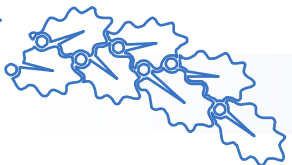
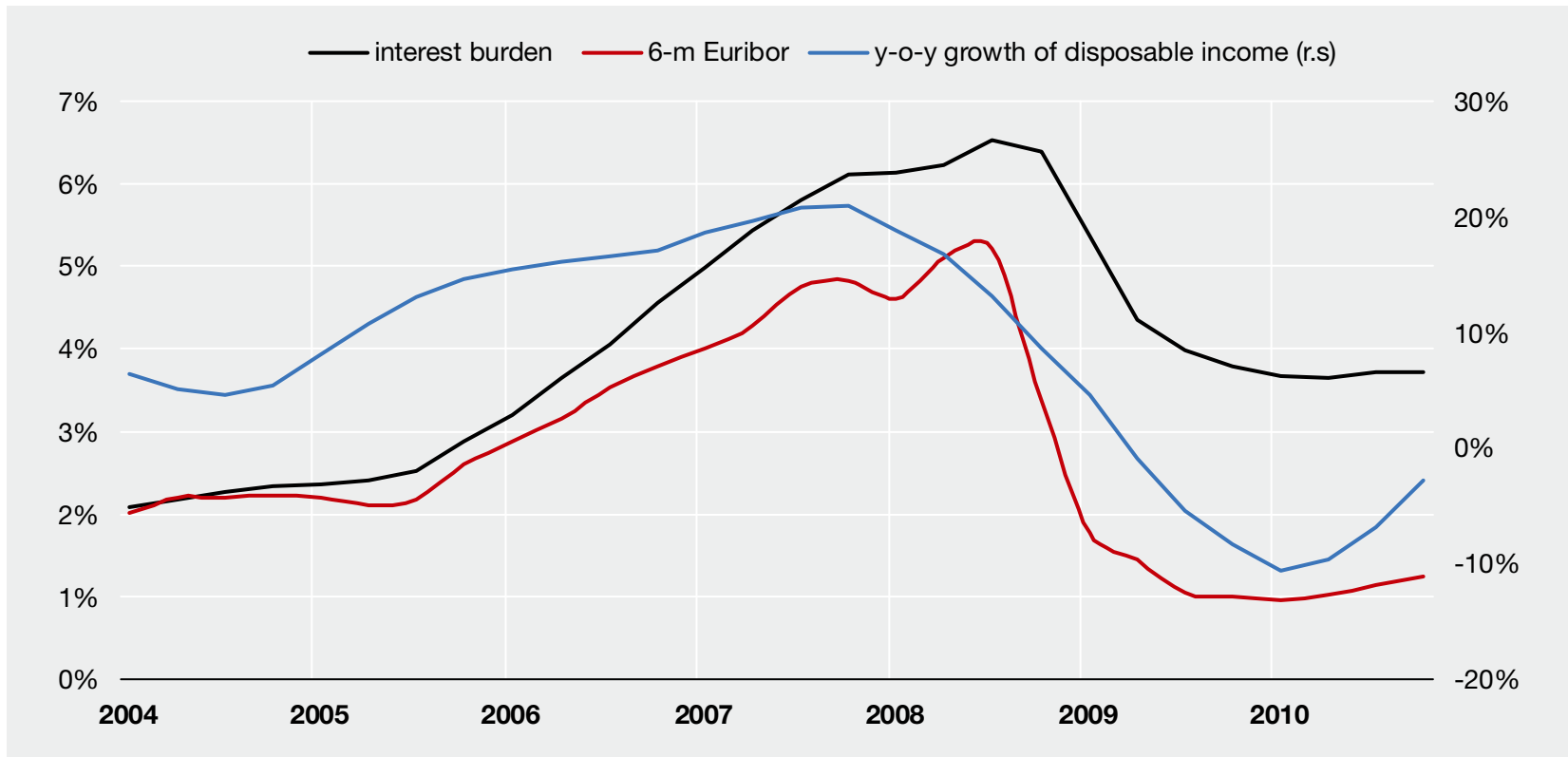
Companies' payment defaults are decreasing, because the economic environment has improved

Payment defaults, arrears and bankruptcies



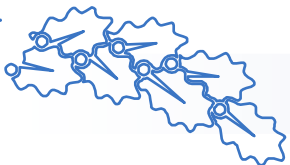
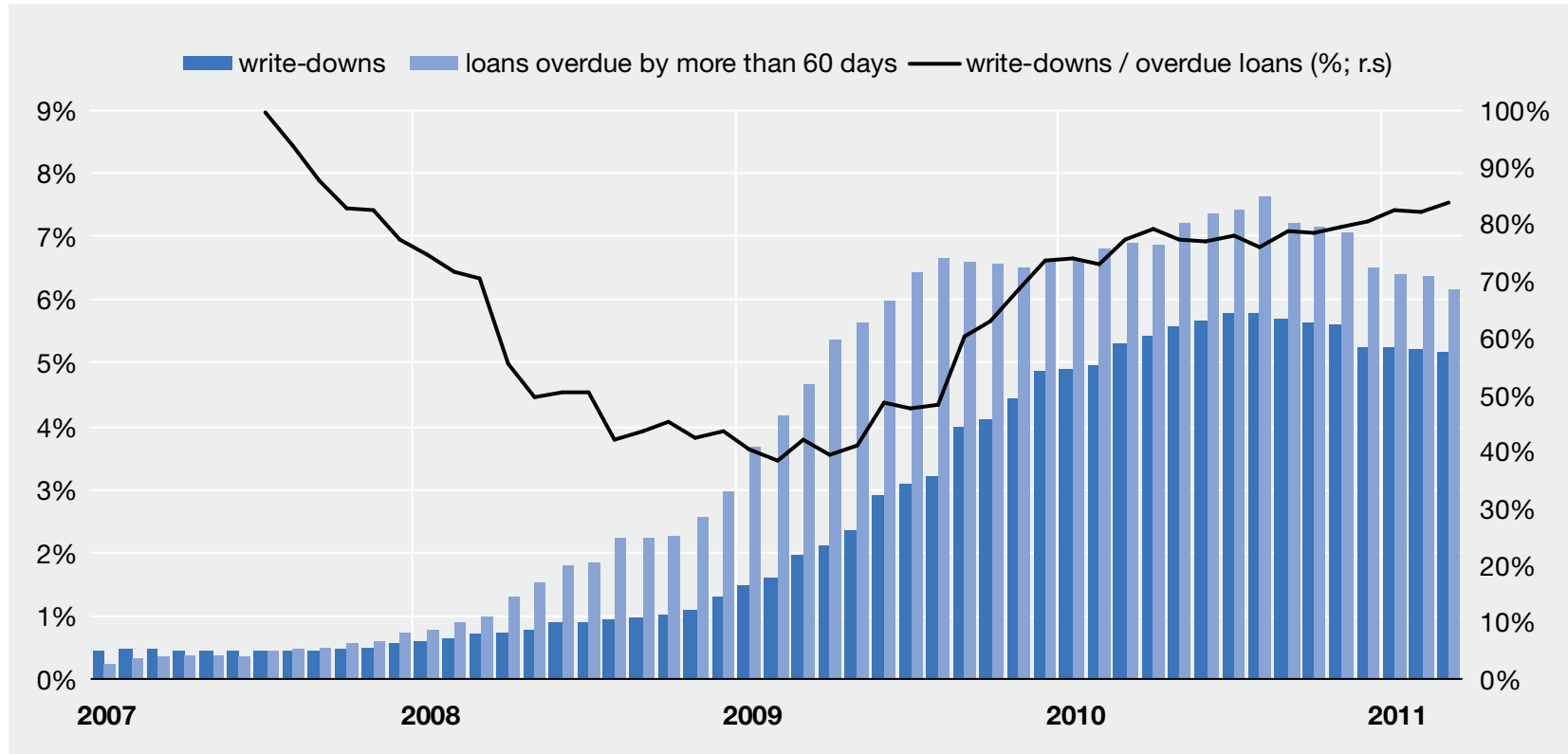
The growing income of households helps even key interest rate increases

Interest burden and disposable income of households

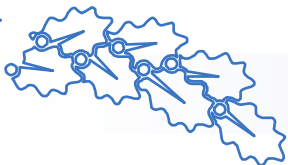


Our forecast is that overdue loans continue to decrease as economic growth proceeds

Loans overdue by more than 60 days and write-downs

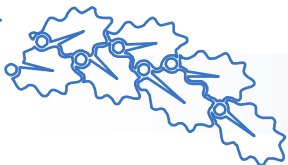


Conclusions



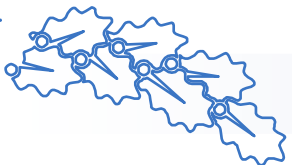
Risks to financial stability have slightly eased (1)

- The greatest risk to financial stability in Estonia is the deepening of the debt crisis in any of the euro-area countries suffering from it. If this materialises, it will have an adverse impact on the financing conditions of Europe and it may inhibit growth
 - The disclosure of banks' stress tests carried out by the European Banking Authority and back-stop measures should help reduce the financing risks of banks
- The liquidity risk of the Estonian banking sector mostly depends on the parent banks' financing possibilities: Here one of the risks is the development of the Swedish property market
 - The risks related to the Swedish property market are contained by the actions of the Swedish Financial Supervision Authority and Sveriges Riksbank
 - Banks operating in Estonia have increased the share of liquid assets



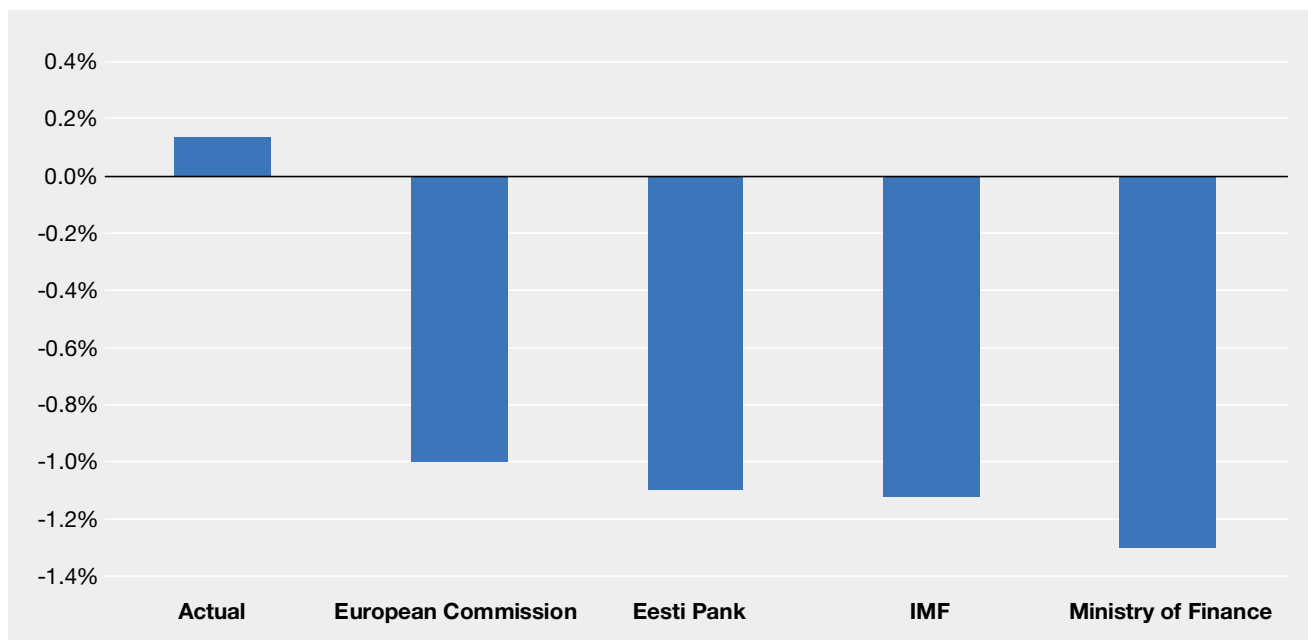
Risks to financial stability have slightly eased (2)

- The loan repayment ability of borrowers may not improve, because interest rates are increasing, whereas the real income is growing rather modestly
 - The Estonian economy has recovered faster than expected, and the analysis prepared on the basis of the economic forecast shows that the loan quality of banks continues to improve
- Basel III sets additional requirements to the volume and quality of equity
 - Estonia's policy and the behaviour of banks have proceeded from higher capitalisation
 - The proposal made by the Swedish Financial Supervision Authority to establish higher capital requirements to banks even before the adoption of the new framework should be supported



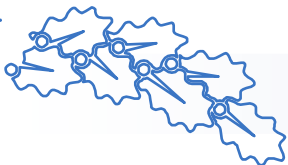
The government's last year's budget balance was better than forecasted

2010 budget balance and forecasts (% of GDP)



This happened owing to:

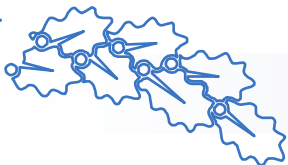
- the sale of emission allowances
- smaller than anticipated investment
- smaller than anticipated unemployment benefits



From the viewpoint of public finances, it is essential to continue with conservative fiscal policy



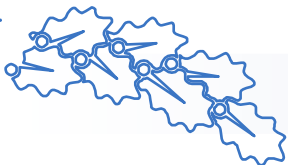
- According to the budget strategy adopted last spring, the budget should reach a surplus in 2013 at the latest
- The main reasons why the goal should be supported:
 - The economy has recovered faster than expected, that is, increased revenue must be used to achieve budget balance
 - Global uncertainty in financial markets shows how important it is to accumulate reserves



Price growth has been rapid in both Estonia and the euro area due to food and commodity price growth in the global market



- The impact of wage pressures and core inflation on consumer price growth has been subdued, but looking ahead, the pass-through of commodity prices should be reduced by:
 - focusing on raising competitiveness in the domestic market
 - focusing on the setting of administered prices
 - preventing wage growth from exceeding productivity growth (to protect the competitiveness of companies)



Thank you!

