# Recent Economic Developments in Estonia

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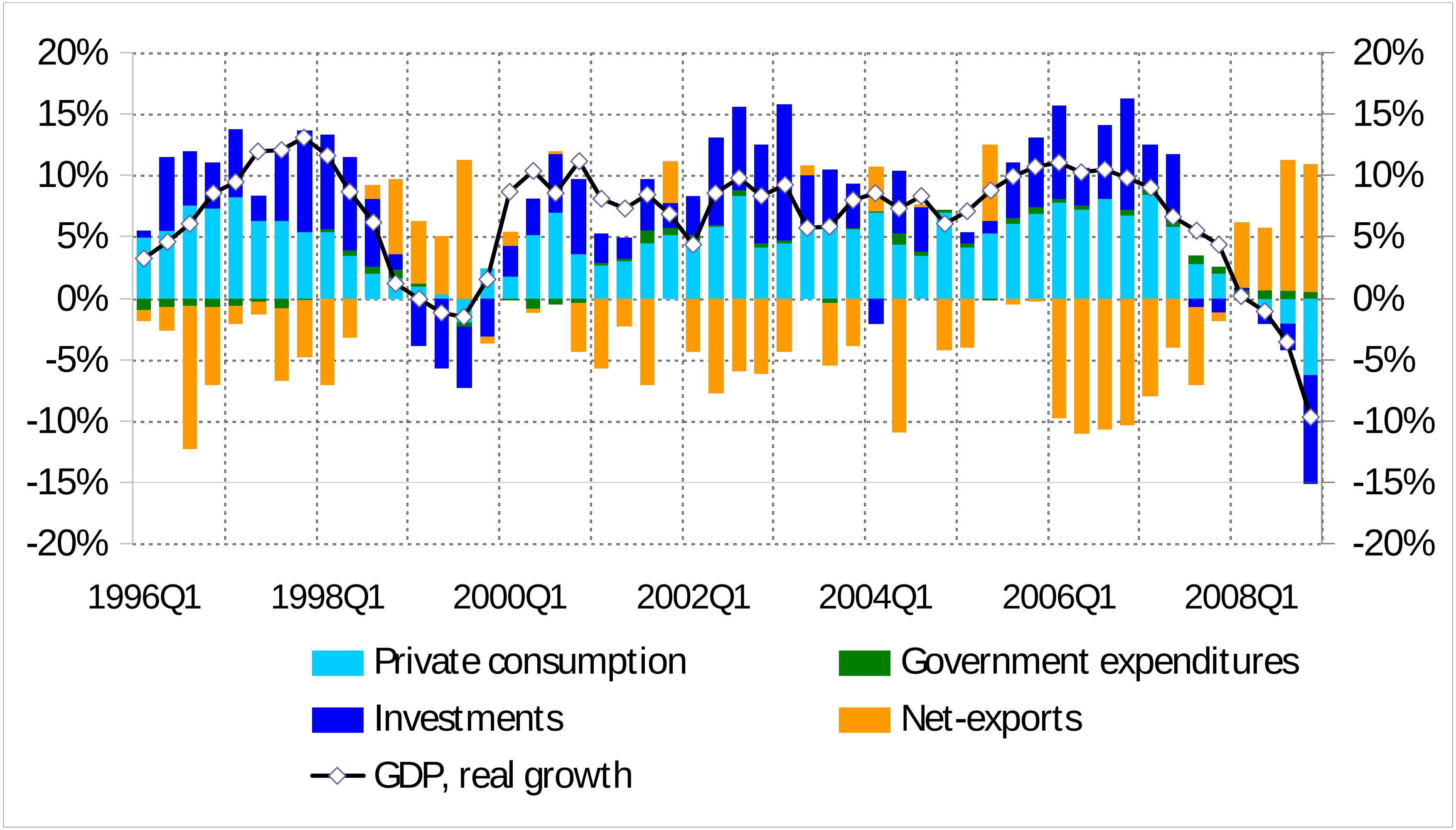
# Estonian economic development has been very rapid until 2007.

Correction in domestic demand was the main driver of slowdown until IIIQ 2008



# Why is Estonian economy in recession?

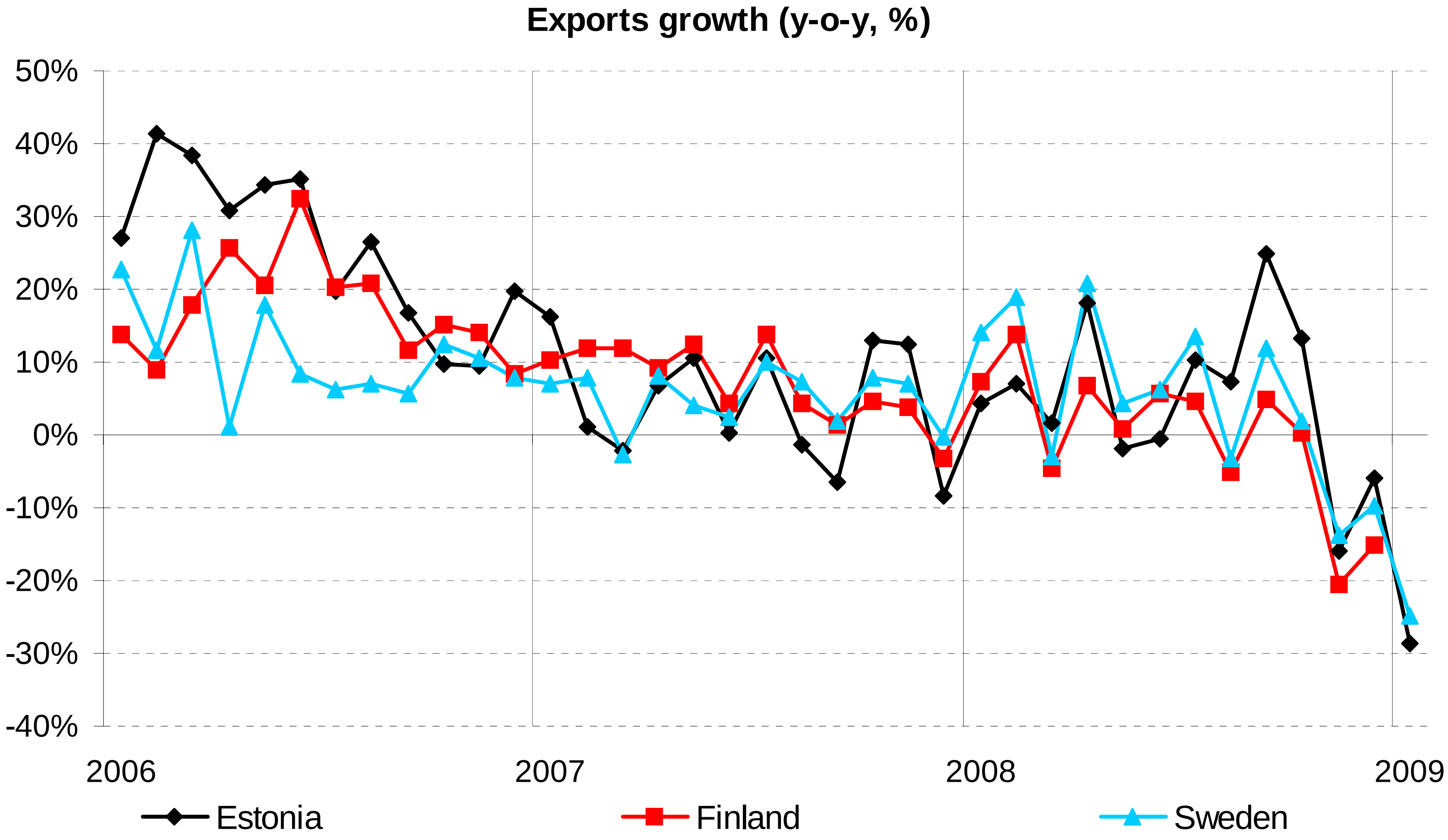
## Positive shocks have ended…

- Benefits from joining the EU
- Pace of financial deepening started to decrease in 2007

## And negative shocks appeared

- External environment deteriorated
  - Oil and food price shock in the 1st half of 2008
  - Global financial crisis (higher interest rates and credit conditions are tougher)
  - Falling external demand

# The common global external demand shock: Estonian exports has fallen quite a few years back, like at our main trade partners

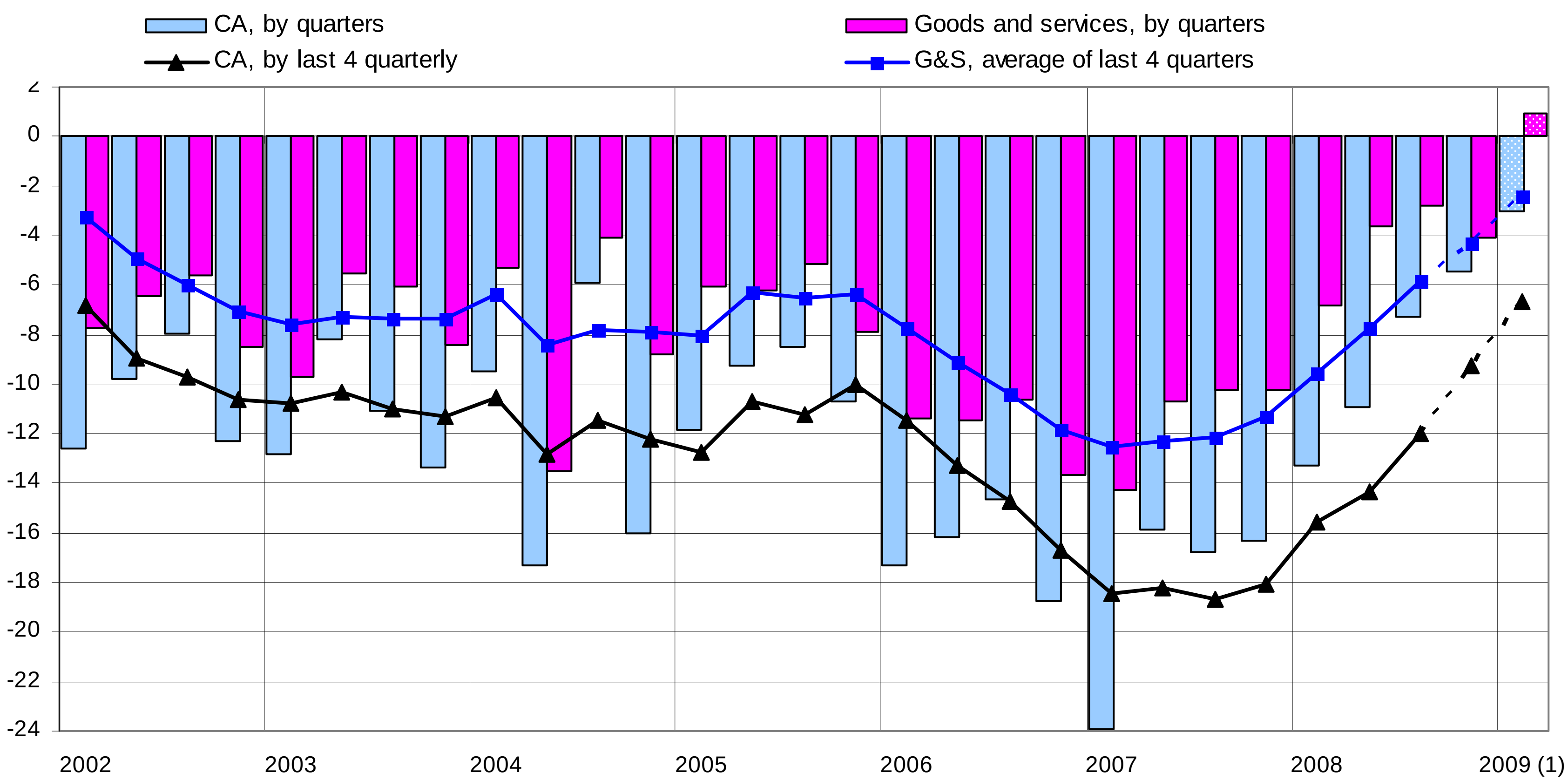


# Imbalances have started to disappear

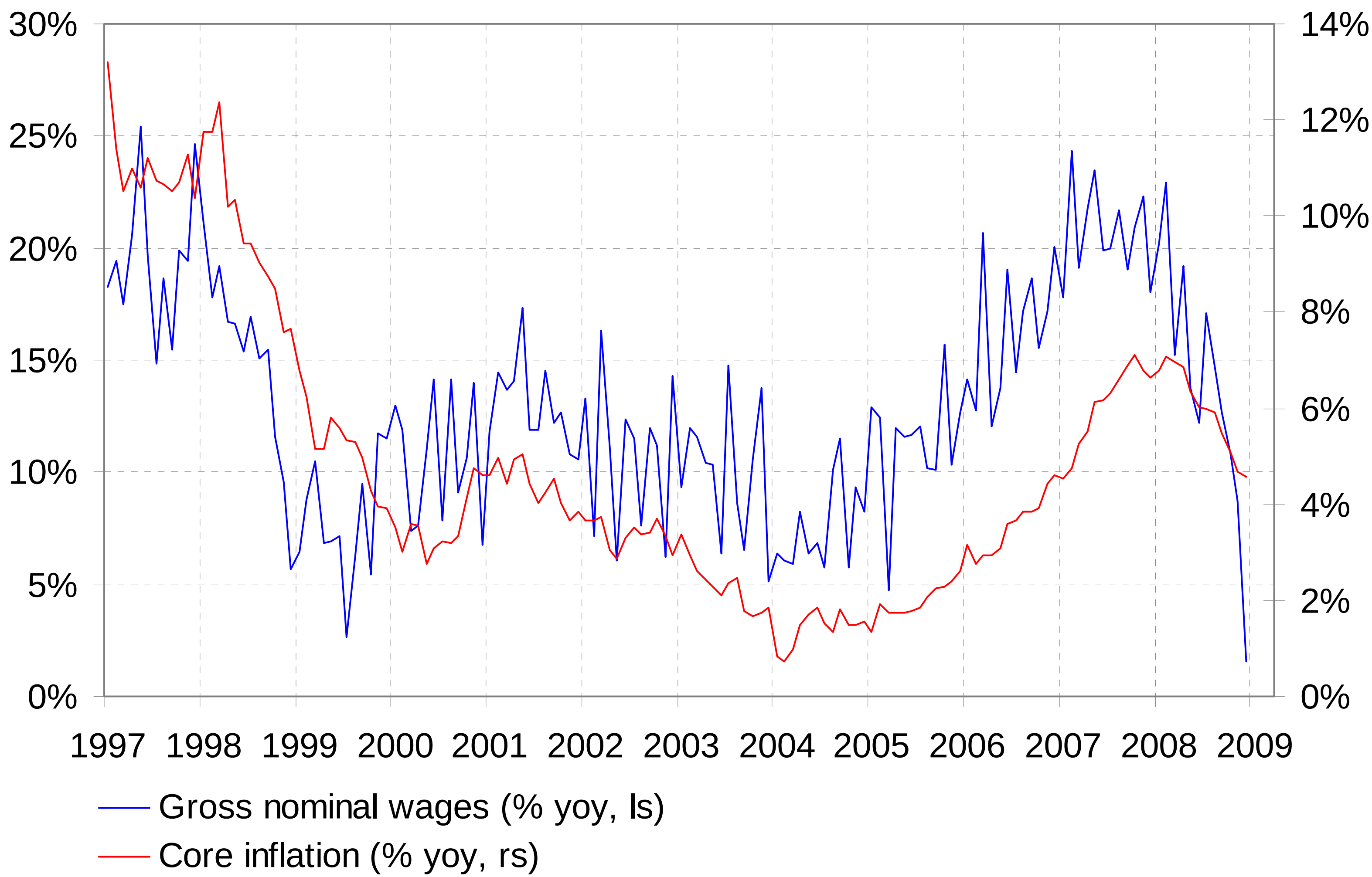
- Correction in the economy was needed, because of the imbalances piled up during 2005-2007

- Imbalances started to disappear quickly in 2008

# Current account deficit has diminished



# Dropping wage growth dragging down core inflation



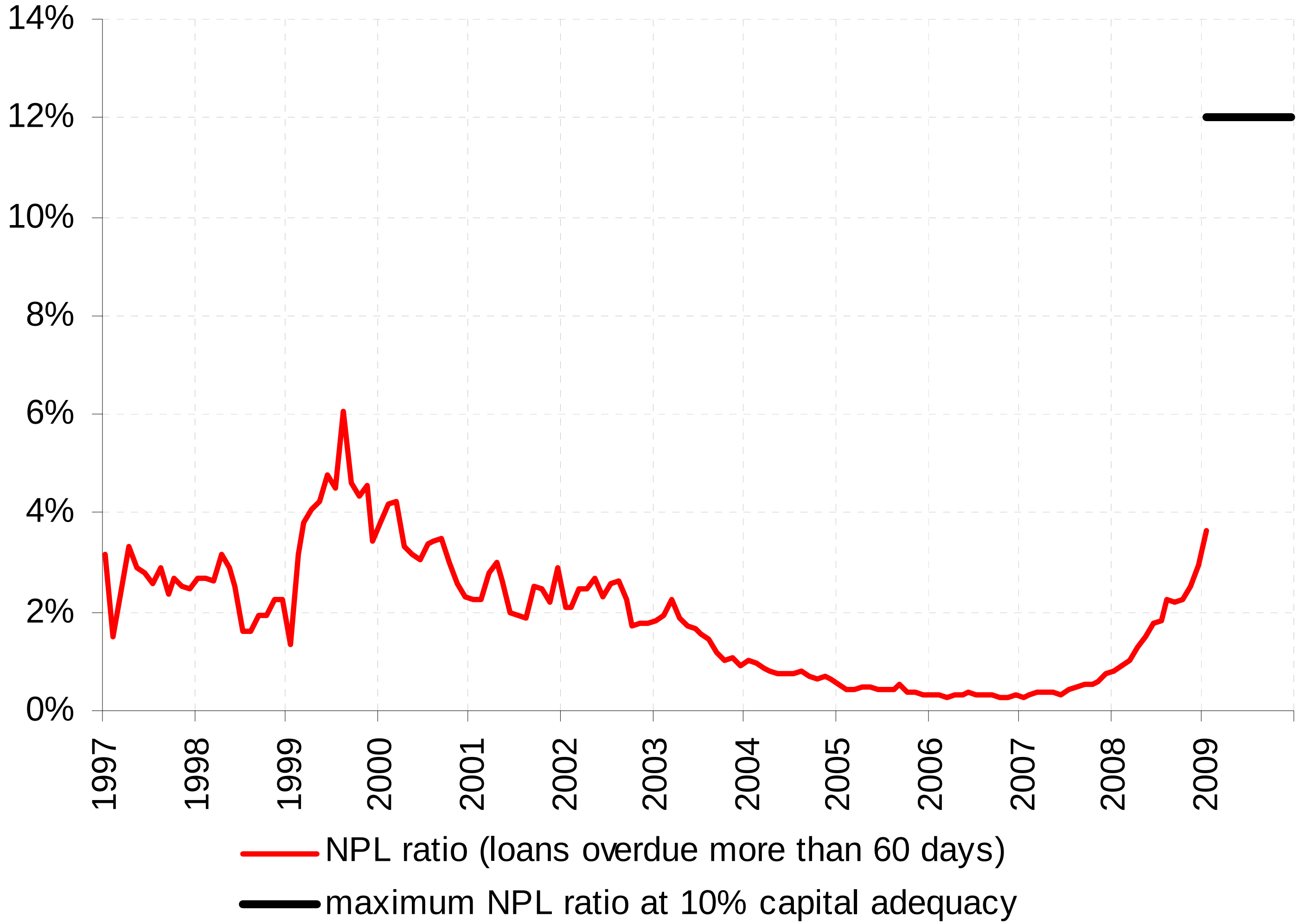
# Banks' capital and liquidity management is centralized at the group level and has proved to work well during the crisis

- 85% of banks' all non-resident liabilities are accounted for by intra-group liabilities

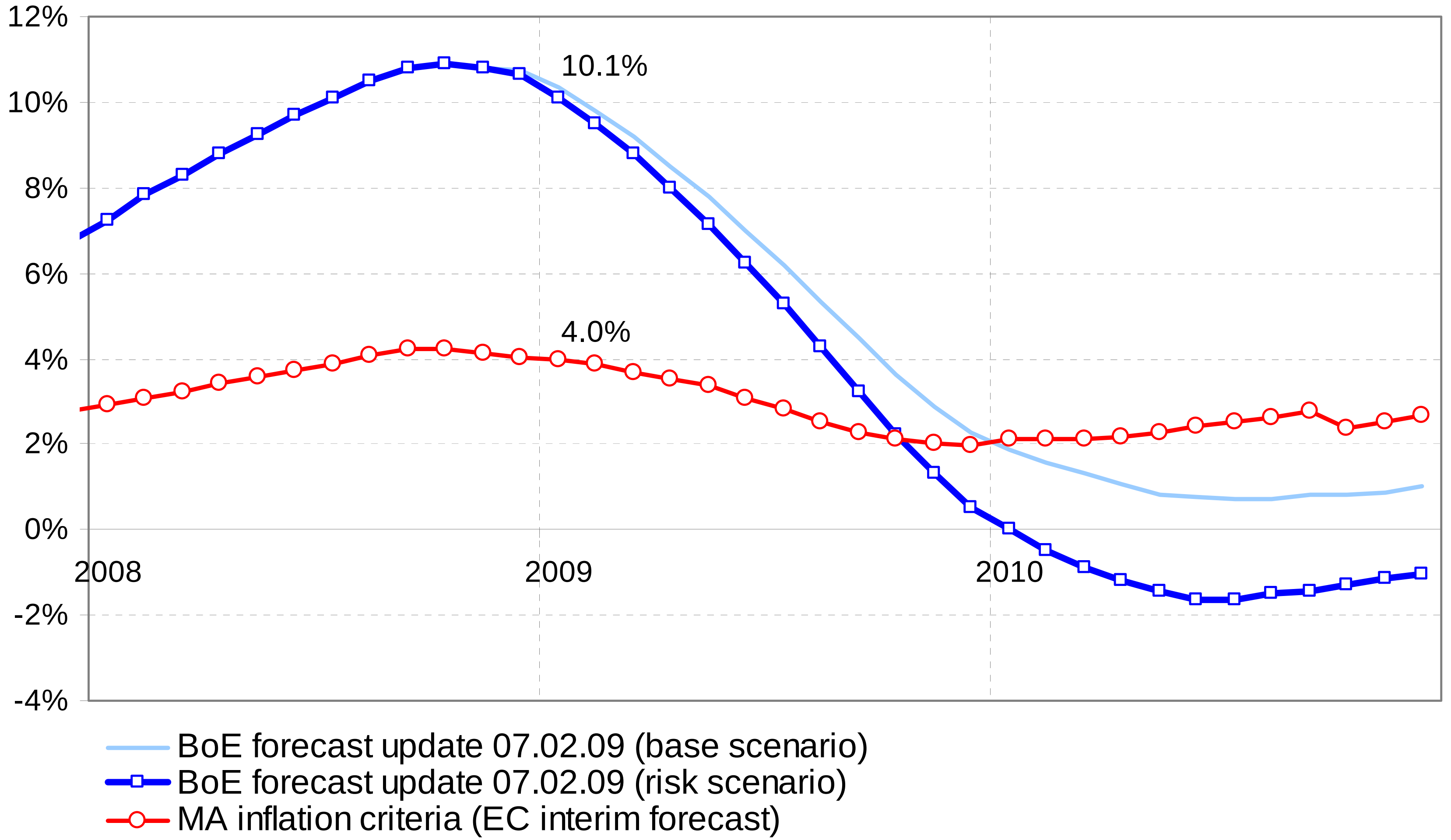
- Our recent experience has provided the evidence that intra-group financial flows have been stable and reliable source of liquidity for Estonian banking market during stress period

- On the asset side, more than two third of short term assets constitute reserve requirement (RR ratio is 15% of all liabilities)

# Banks' capital buffer is high enough to resist even substantial increase in the NPL ratio



# Successful efforts to adopt the euro will bolster the recovery



**Thank you!**

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