

CONTENTS

SUMMARY	5
Macroeconomic and External Environment	5
Corporate Financial Behaviour and Related Risks	5
Financial Behaviour of Households and Related Risks	5
Banking Sector	6
Securities Market and Other Financial Intermediaries	6
Payment Systems	7
Summary and Financial Stability Risks	7
I GLOBAL ECONOMY AND ESTONIAN ECONOMY	9
External Environment	9
Global Economic Cycle	9
International Financial Markets	11
Estonian Economy and Macroeconomic Risks	13
Economic Growth, External Balance and Inflation	13
Corporate Business Situation	15
Confidence	15
New Companies and Bankruptcies	16
Industrial Sales	16
Corporate Profitability	17
Economic Situation of Households	18
Labour Market	18
Wages	18
Consumer Confidence	19
Structure of Financial Intermediation and Financial Deepening	20
II FINANCIAL BEHAVIOUR OF COMPANIES AND HOUSEHOLDS AND THEIR RISKS	22
Companies	22
Financial Position and Saving	22
Corporate Debt	22
Debt Intermediated by Domestic Financial Sector	24
Households	25
Financial Position and Saving	25
Household Debt and Loan-Servicing Ability	27
Level and Growth of Debt	27
Housing Loans	28
BACKGROUND INFORMATION	
Factors Influencing the Growth of Deposits in Estonia	34
Structure and Development of Estonian Housing Market	37
III BANKING SECTOR STABILITY AND RISKS	43
Strategic Development in the Banking Market	43
Quality of Assets	44
Capital Adequacy	47
Liquidity	49
Funding of Banks	49
Liquid Assets	50
Efficiency and Profitability	51
Efficiency and Profitability of Banks on a Solo Basis	51
Efficiency and Profitability of Banks and Banking Groups on a Consolidated Basis	53

IV SECURITIES AND MONEY MARKET	54
Money Market	54
<i>BACKGROUND INFORMATION</i>	
Structure of the Estonian Kroon Money Market.....	56
Bond Market.....	58
Stock Market	60
V OTHER FINANCIAL MARKETS	64
Investment Funds.....	64
Pension Funds and Insurance	66
Pension Fund Assets	66
Yield of Pension Funds.....	67
Insurance Companies	68
Institutional Changes	68
Life Insurance	68
Non-life Insurance.....	69
VI PAYMENT SYSTEMS	71
Settlement System of Interbank Payments.....	71
Payment Intermediation	72
Payment Environment	72
Payments via Credit Institutions	73
Use of Payments Cards.....	75
Assessment by the Overseer of Payment Systems	76
<i>BACKGROUND INFORMATION</i>	
Performance of the Role of Payment Systems Oversight in Different Countries.....	77