

Estonia

Estonia is well served by both domestic and foreign banks, with the surveyed banks accounting for 96 per cent of the country's total banking assets.¹ Approximately one-fifth of their branches are concentrated in the capital, Tallinn (Chart 1). In line with the average of the EBRD economies as a whole, half of the Estonian banks surveyed expect their branch network to shrink over the next five years, while the remaining 50 per cent expect no change. This is much lower than the average in central Europe and the Baltic States (CEB), where nearly 75 per cent of banks expect their branch network to decline (Chart 2).²

Although 75 percent of Estonian banks surveyed say climate change is an economic risk factor considered in their internal stress-testing for capital adequacy assessment purposes, only a small minority of the surveyed banks have their own policies on climate change (Chart 3). Furthermore, even on environmental and social-related policies and targets, the Estonian banks surveyed tend to lag their counterparts in CEB.

When lending to small and medium-sized enterprises (SMEs), 75 per cent or more of Estonian banks undertake social, environmental and climate-change related impact assessments, putting them on par with or ahead of the CEB and EBRD regions, on average (Chart 4). When lending to commercial real estate, however, only around one in four Estonian banks offers loans to improve energy efficiency, compared with 40 per cent of CEB banks and 53 per cent of EBRD peers, on average.

When it comes to the use of digital technologies, Estonia is leading the way in the application of digital wallet solutions. It is one of two EBRD economies in which all of the banks surveyed report the commercial uptake of the technology (Chart 5). The share of Estonian banks citing the commercial use of cloud computing and algorithms to

Chart 1 Branch presence of surveyed banks

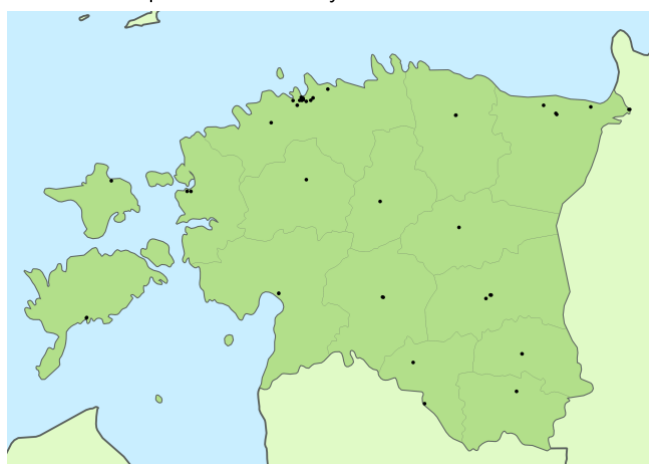


Chart 2 Branch network expectations, next five years

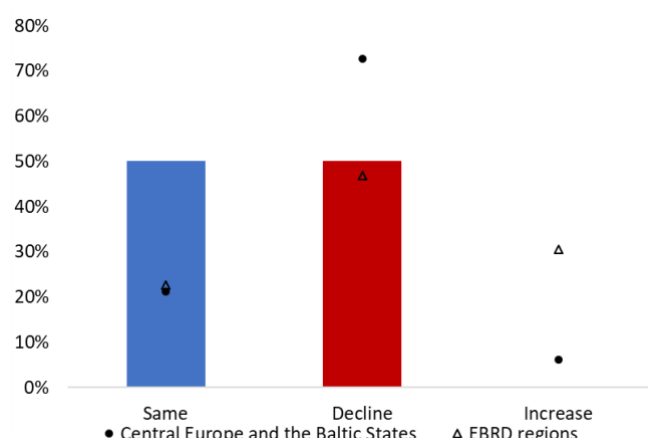


Chart 3 ESG policies and targets

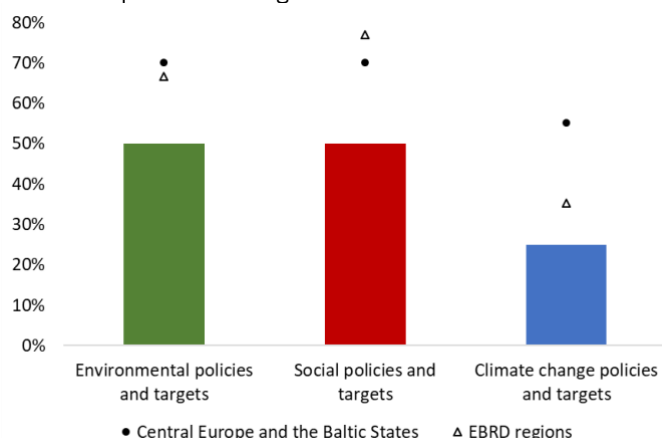
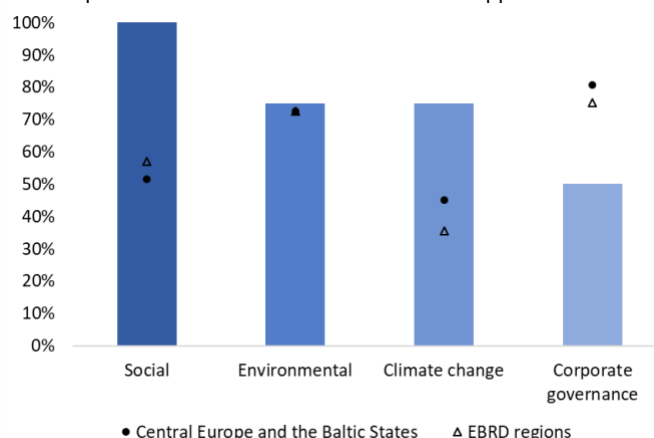


Chart 4 Impact assessment of SMEs before loan approval



¹ Based on the banks surveyed in Estonia, total banking assets are almost evenly distributed between foreign and domestic banks. Some banks in Estonia only responded to the Head of Credit questionnaire and did not respond to the CEO questionnaire. For all charts and numbers presented in the Estonian country profile, the share of the country's total banking assets owned by the banks responding to the corresponding question is at least 33 per cent.

² Bars in Charts 2, 3, 4, and 7 correspond to the percentage share of banks in Estonia.

improve credit decision-making is also higher than the CEB and EBRD regions, on average. However, the economy lags when it comes to the adoption of biometric authentication; more than 50 per cent of CEB economies report commercial use of the technology, while in Estonia, there are none as yet.

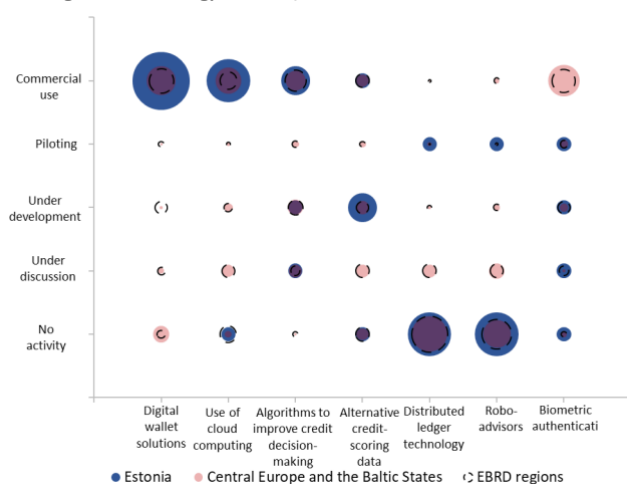
The shift towards digital technologies is also evident in the proportion of banks accepting online applications for lending to SMEs. While 75 per cent of Estonian banks accept online applications, just under half of banks in the CEB and EBRD economies do so. In a similar vein, only half of banks surveyed in Estonia are concerned about information technology (IT) security and regulatory uncertainty in the fintech space. This is lower than in the other CEB and EBRD economies, where just under 80 per cent of banks have such concerns.

Estonian banks still have few hierarchical layers when processing SME loan applications (Chart 6). With an average of 1.3 layers prior to loan approval – the lowest number in the EBRD economies surveyed – down from 1.6 layers in the BEPS II survey, Estonian banks remain at the forefront of streamlined decision-making.

Estonian banks cite equally a lack of sufficient collateral, a dearth of loan officer skills in evaluating credit risks and a lack of creditworthy customers (Chart 7) as hindrances to lending to innovative research and development-intensive industries such as IT, chemicals and pharmaceuticals.

Estonian banks view their court system as fair, but inefficient, more than the other CEB countries, on average. While all of the banks surveyed in Estonia believe the court system to resolve business disputes in a fair and impartial manner, no bank deems it quick and efficient. This is 16 percentage points below the CEB average (Chart 8).

Chart 5 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 6 Typical number of decision layers, SME lending

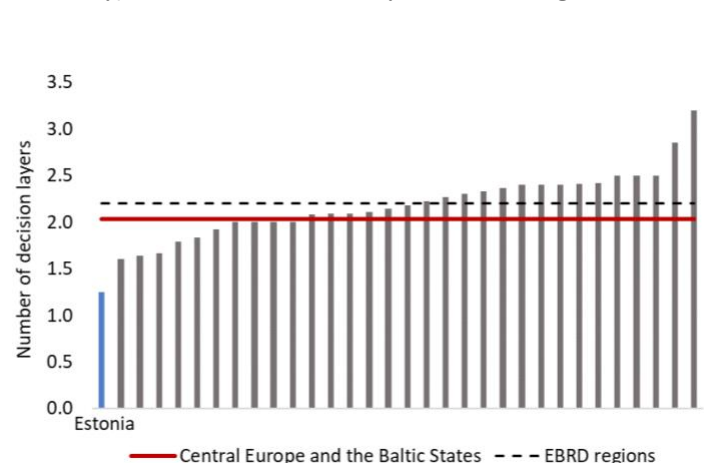


Chart 7 Constraints on lending to innovative industries

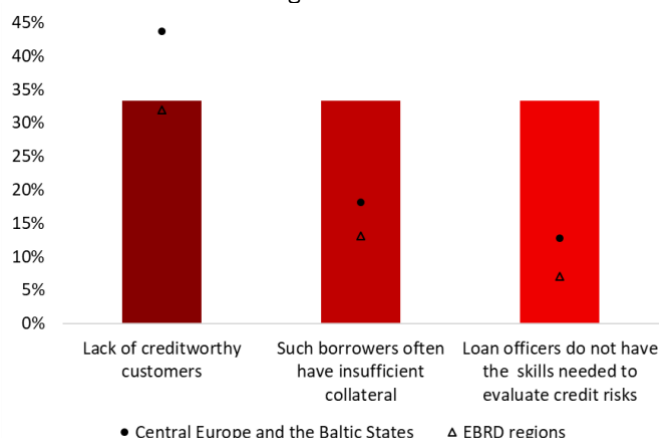


Chart 8 How the court system resolves business disputes

