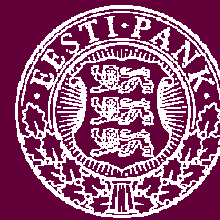


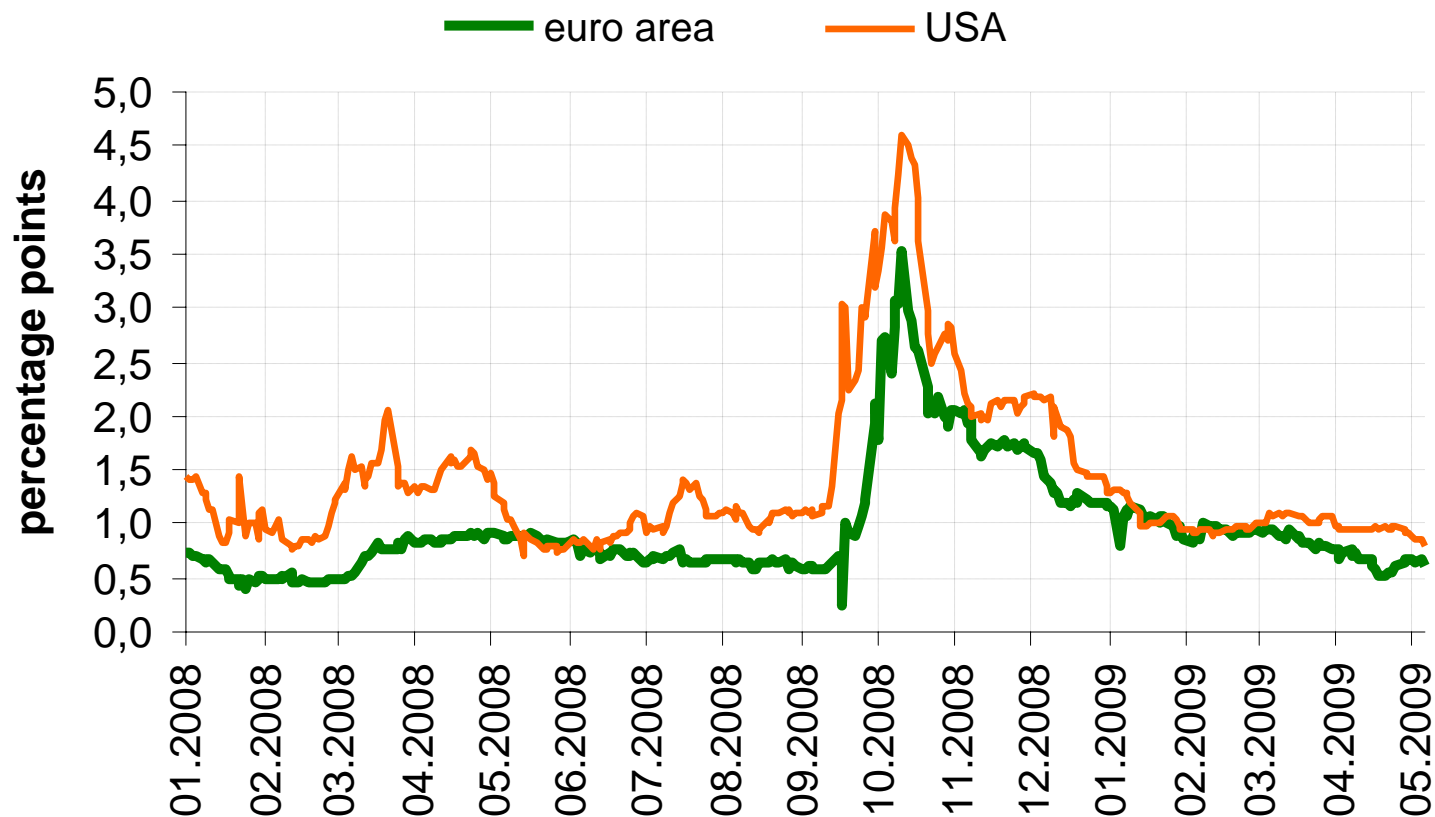
16 June 2009

Overview of the Estonian economy and financial sector

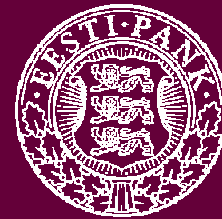
Financial-crisis driven liquidity tensions in international markets have eased



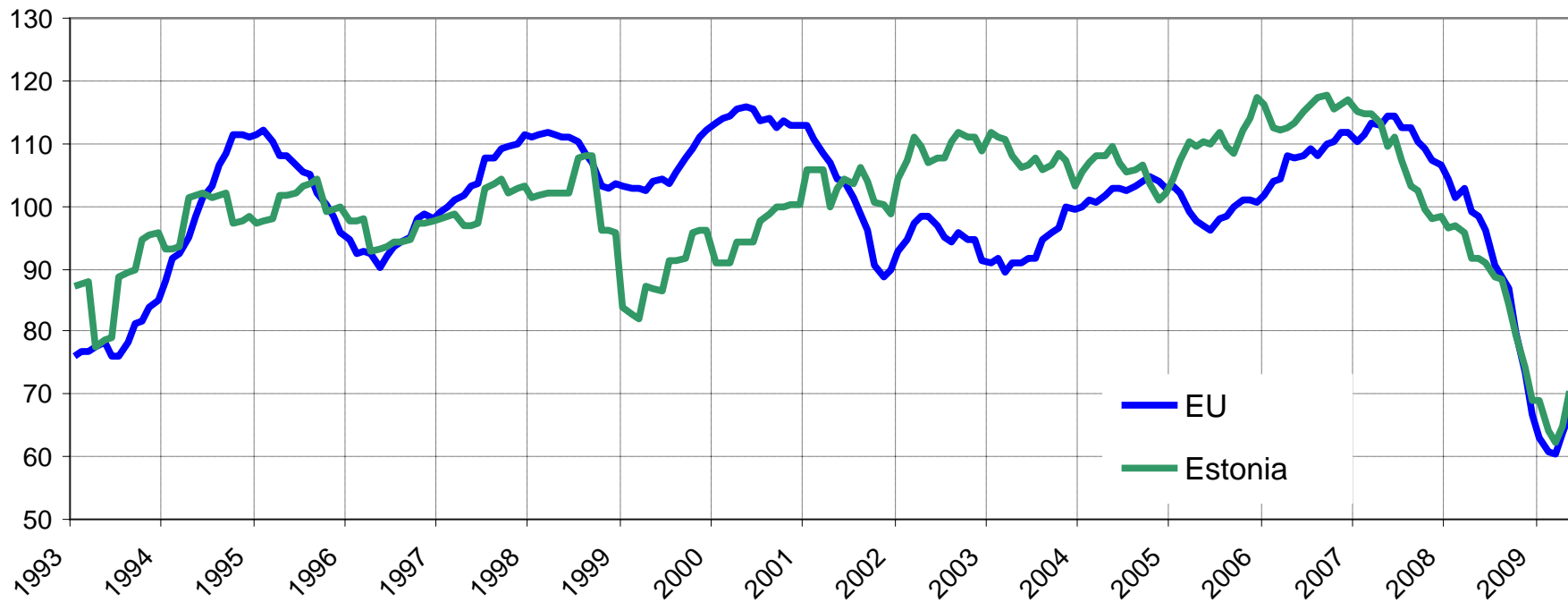
Three months' interest rates spread (Libor – government bond)



Various confidence indices show that pessimism is decreasing

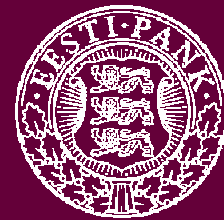


**Economic confidence indicator in Estonia and EU
(seasonally adjusted)**

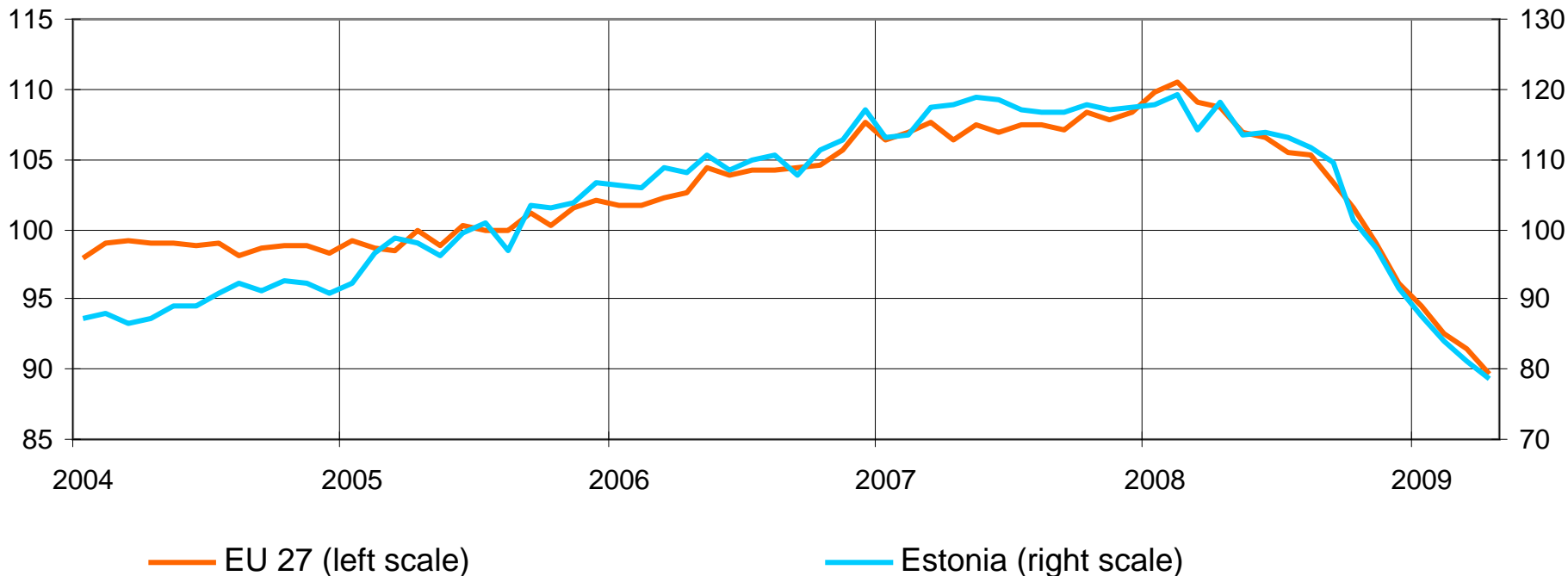


The real economy has not yet started to show notable improvement signs

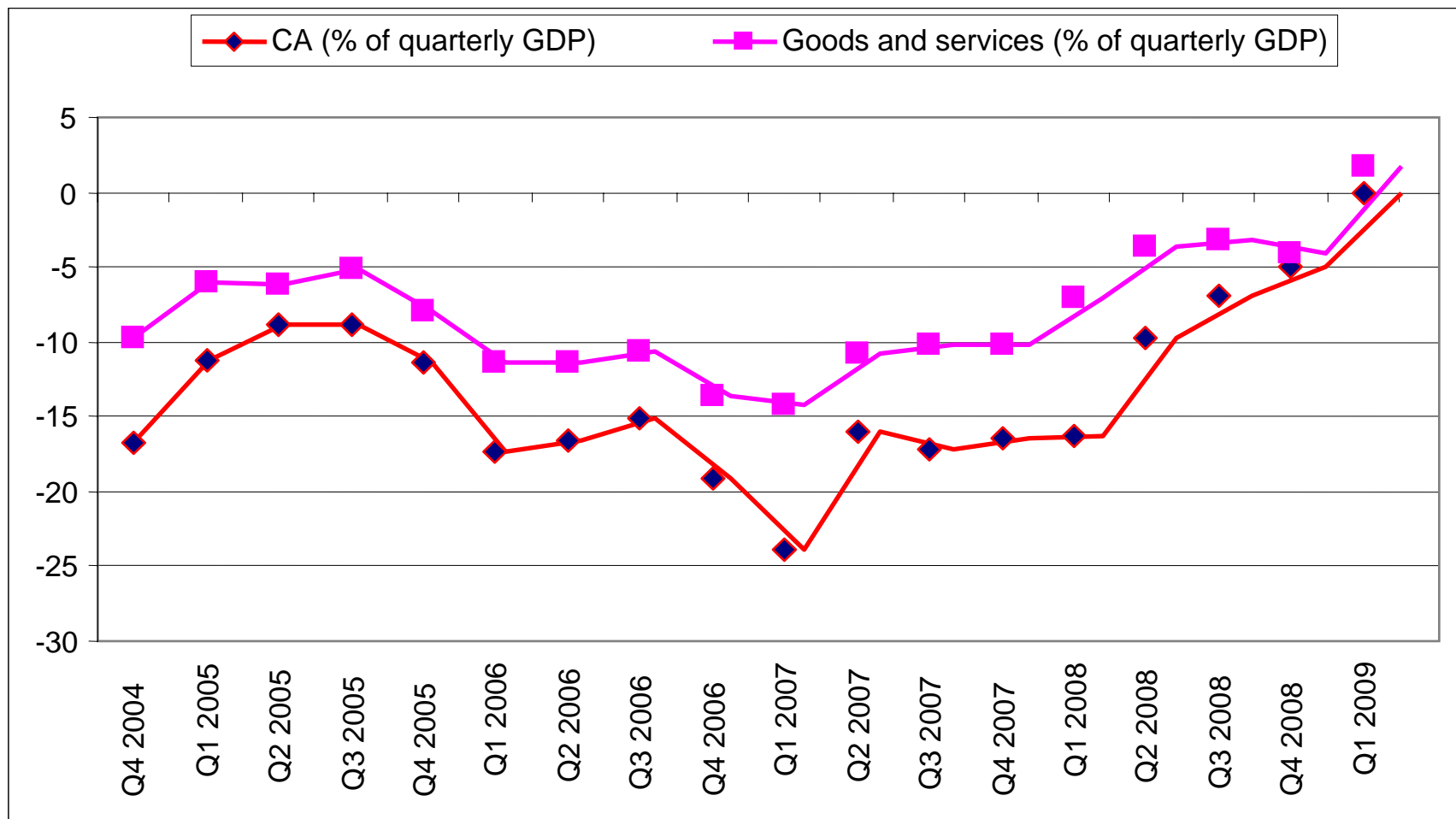
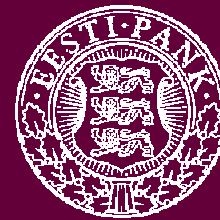
Economic activity is weak in entire Europe



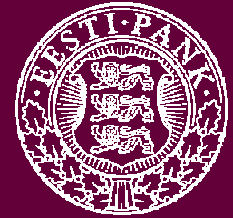
Industrial production (2005=100)



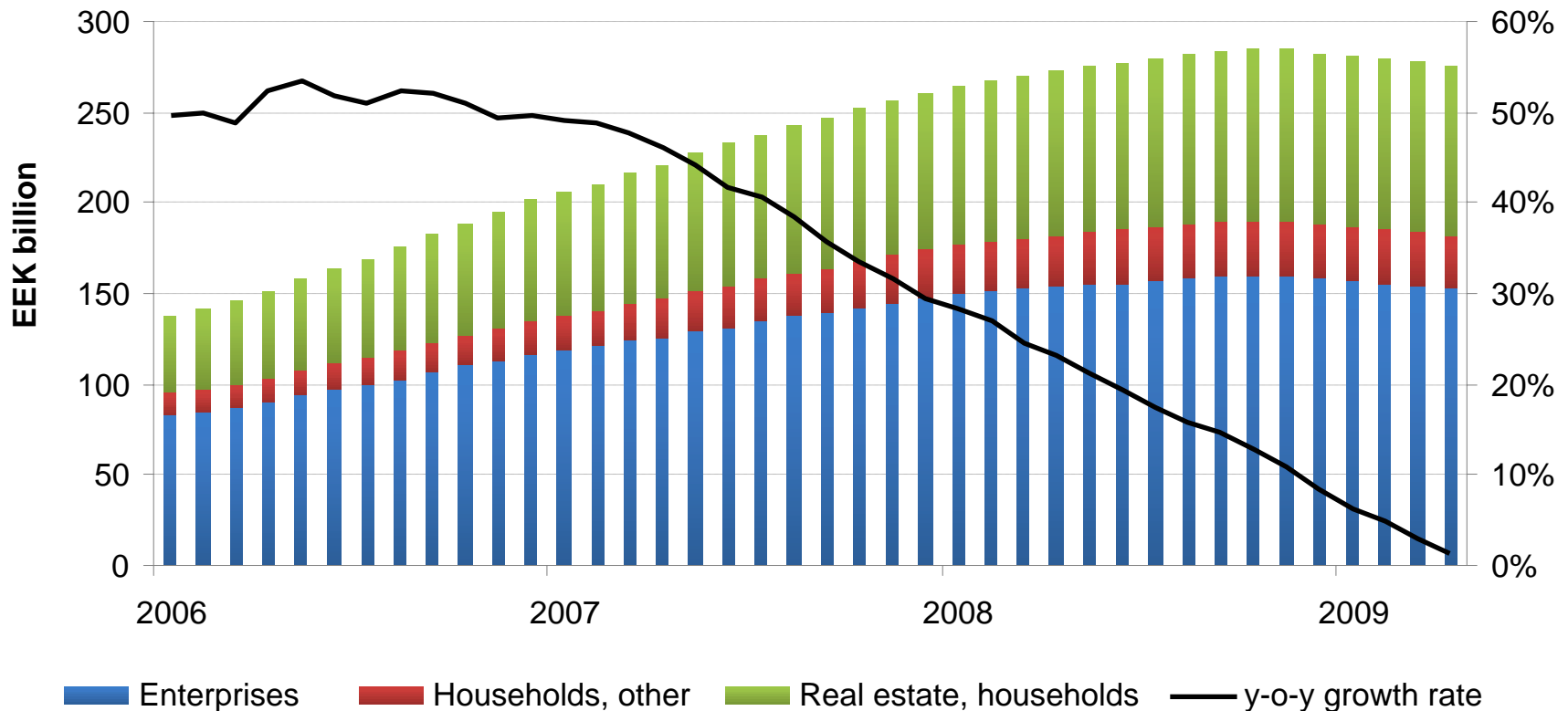
The external vulnerability of Estonia's economy has decreased



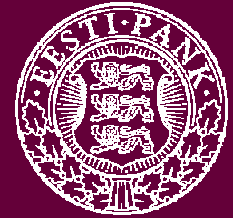
The current economic environment has reduced the consumption and investment intentions of enterprises and households



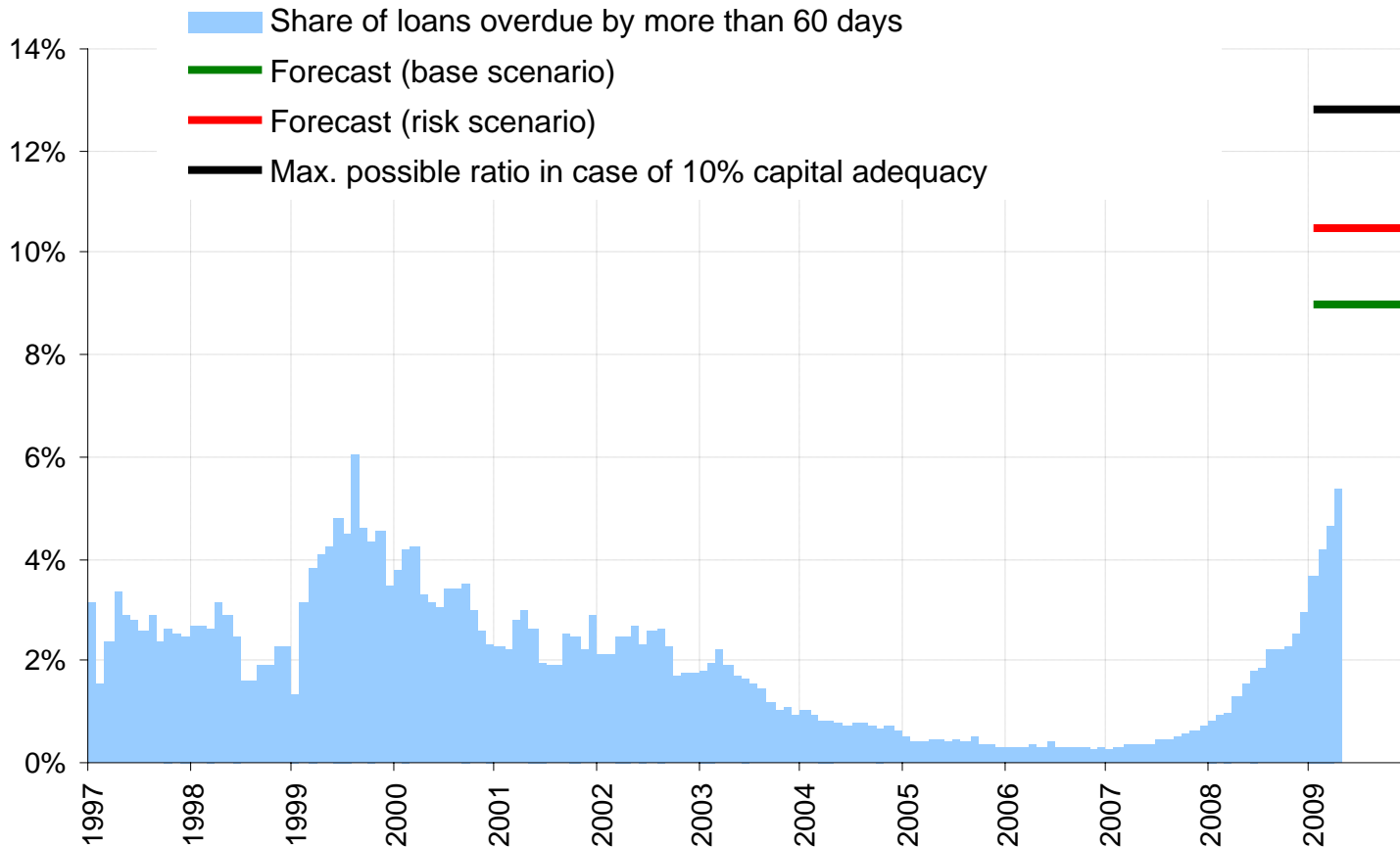
Balance and annual growth of banks' loan and leasing portfolio



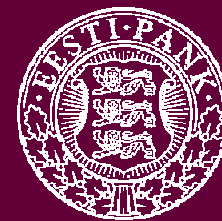
According to Eesti Pank's forecast, the volume of loans overdue by more than 60 days will make up 9% by end-2009



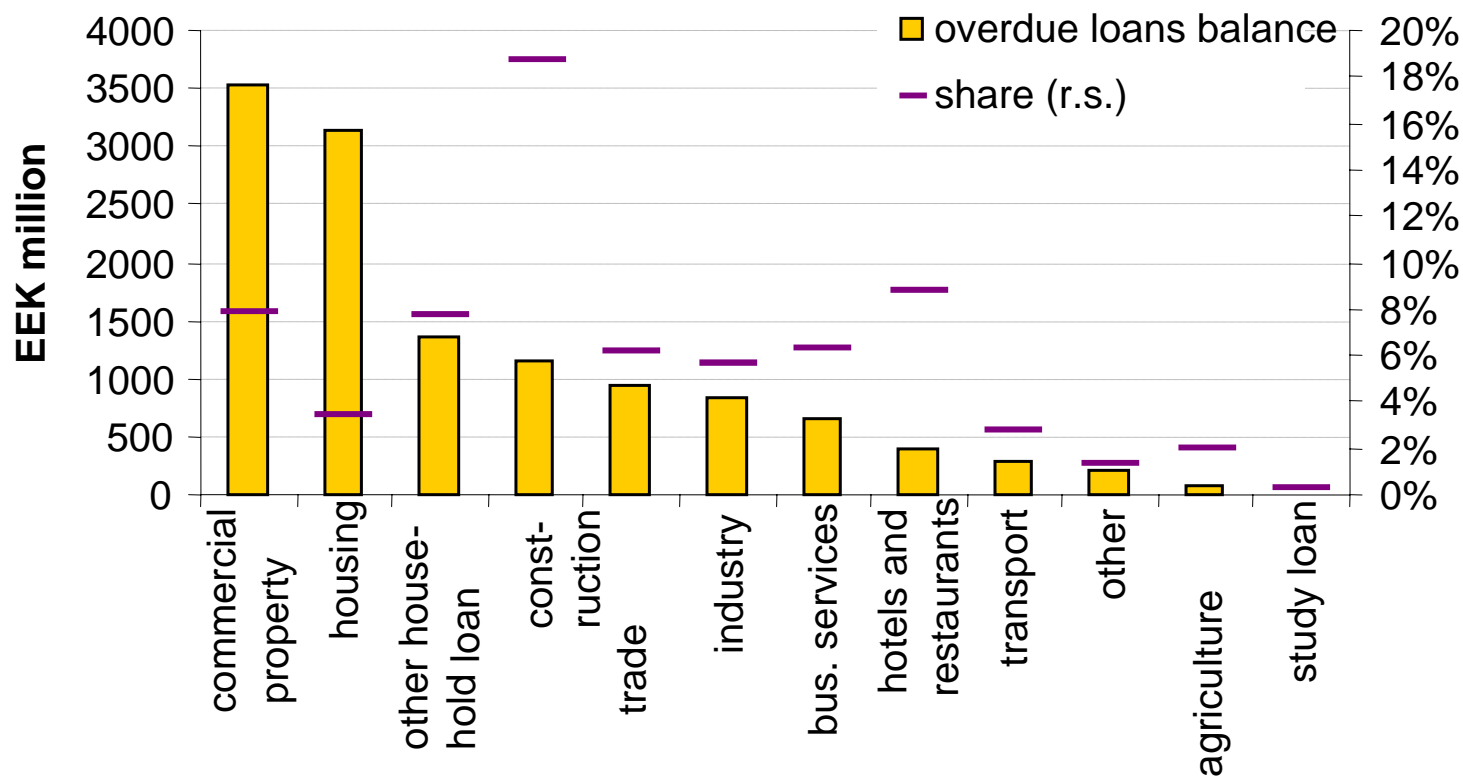
Share of loans overdue by more than 60 days in the loan portfolio



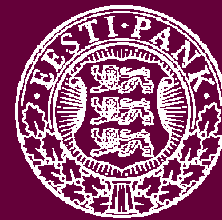
The share of problem loans is the largest in construction and commercial property sectors and lower as regards housing loans



Balance and share of loans overdue by more than 60 days in the respective loan portfolio (30.04.2009)

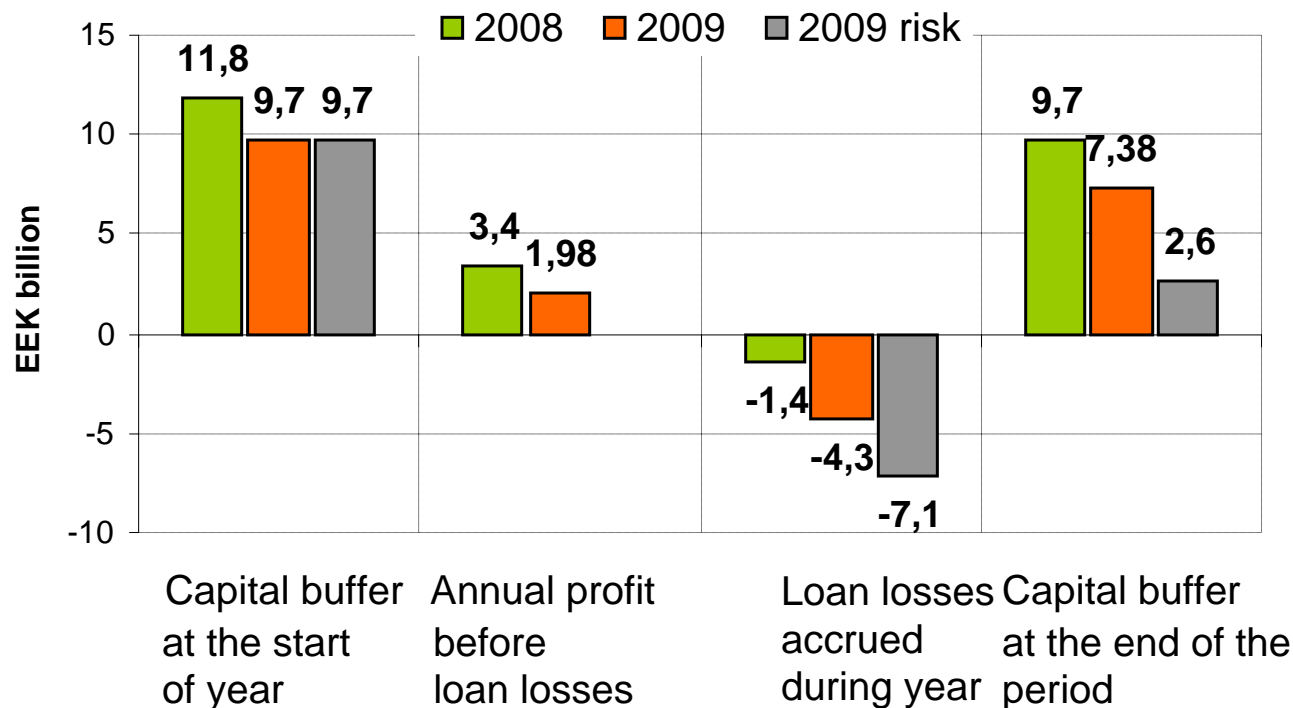


Banks have enough capital to cope with loan losses

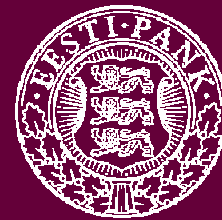


This year the banks' loan losses will amount to 3-5% of the loan portfolio

Factors that shape capital buffers

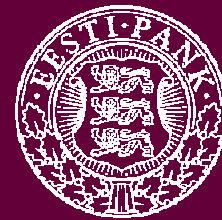


- 2009 base scenario: 45% of the loans overdue by more than 60 days will be written off
- 2009 risk scenario: 60% of the overdue loans will be written off and banks will not earn profit due to loan losses



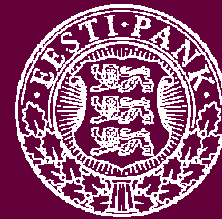
Economic policy conclusions of Eesti Pank

The Estonian financial sector is well prepared for harder times

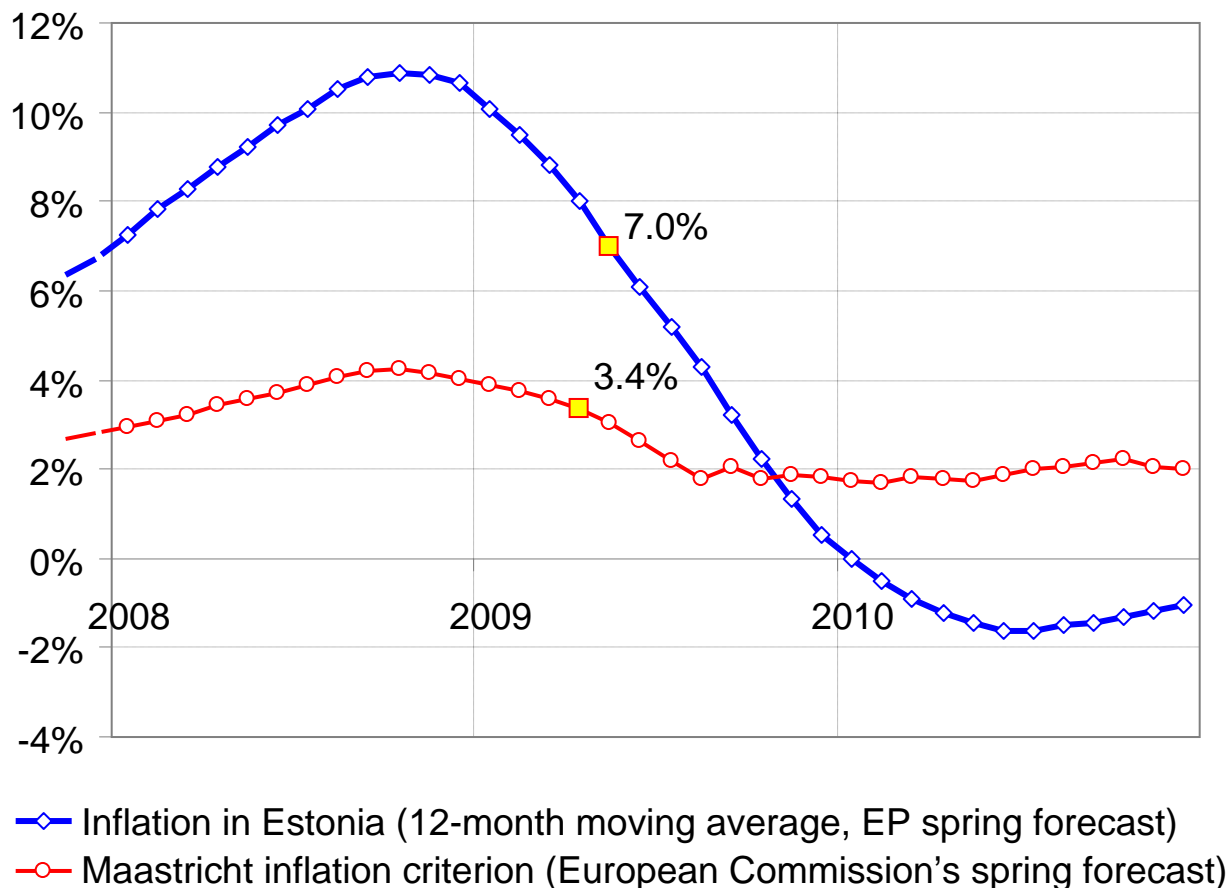


- Analyses confirm the capital buffers of banks are sufficient to cover the forecasted losses on loans
 - Banks have at their disposal capital buffers created as a result of tighter requirements established during the upward phase of the economic cycle
- Banks have high liquidity buffers owing to the reserve requirement
- The international liquidity situation has improved and it is supplemented by support schemes of parent banks' home countries
- Cross-border cooperation has become even stronger

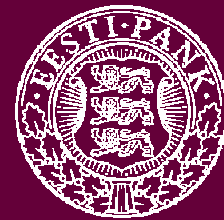
The inflation criterion necessary for euro adoption can certainly be met



- The 2009 annual average price fall will be 0.5%
- The outlook for meeting the inflation criterion is strong irrespective of rising oil prices

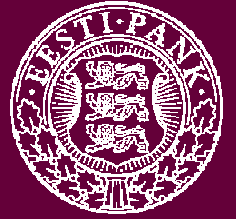


Consolidation of the national budget must continue

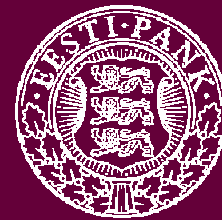


- The supplementary budget and related legal instruments considerably improve the fiscal position
- The planned changes must be implemented and it is necessary to be prepared for further changes
 - some measures agreed upon earlier need to be completed (e.g., adjustment of the health insurance fund budget)
 - the forecast for non-tax income could be too optimistic (e.g., owner income and asset sale)
- It is important the government continue working on measures improving the consolidated budget to keep the 2009 and 2010 deficit within the limits of 3% of GDP and ensure the credibility of the economy
- All the economic policy measures must be designed considering the perspective of adopting the euro

Long-term fiscal sustainability is very important



- Budget sustainability needs to be ensured also in the next years
- The justified goal of the budget strategy approved at the end of May is consolidated budget surplus once the crisis is over
- Fiscal balance needs to be further improved in the course of preparing the 2010 national budget



Thank you!

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