

## Credit growth continued to slow in June as expected

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In June, the corporate and household loan and leasing stock increased by 2.2 billion kroons, i.e., 0.8%. Year-on-year growth fell to 19% from the previous month's 21%. The credit volume added during the first six months of the year was nearly 50% smaller year-on-year and below the first half-year growth indicators for both 2005 and 2006. Credit growth slowed across all loan segments, but it was especially evident in the real estate sector, which was most affected by the earlier period of rapid growth.

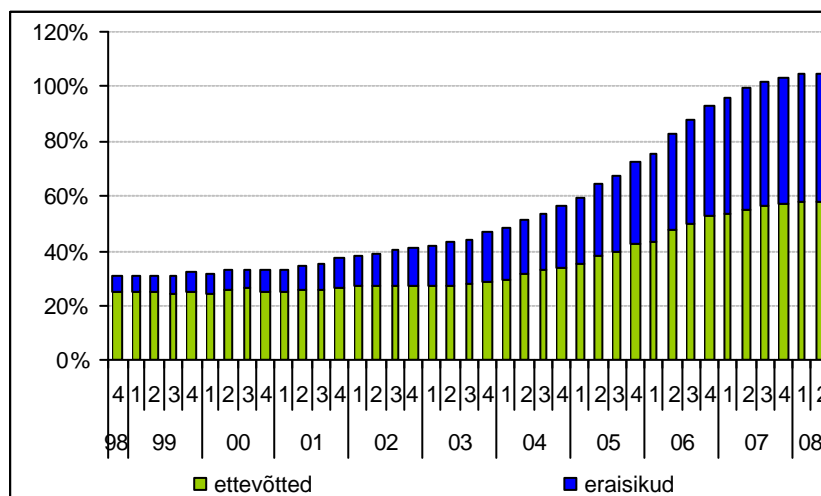
Loan demand is normally less active in summer, but this year it is also inhibited by the tighter lending conditions due to rising international interest rates and the more careful attitude of potential borrowers to the near-term growth outlook. This results in a more balanced development of the indebtedness with credit growth in keeping with the nominal income level growth.

Like in previous months, the volume of overdue loans continued to increase. The share of loans overdue for more than 60 days in the loan portfolio increased from 1.6% in May to 1.8% in June. About a third of the share of overdue loans is credit granted to real estate sector enterprises. We can expect a further deterioration of the loan quality in the next months, but a year and a half projection does not show signs of this taking place in the extent that would either hinder the smooth economic adjustment or cause serious problems in the financial sector.

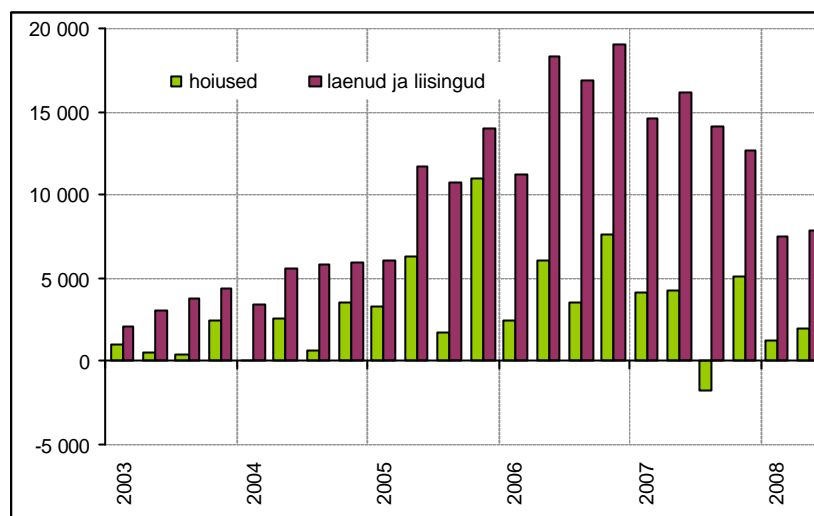
The total volume of corporate and household deposits in Estonia decreased by 1.2 billion kroons and the annual growth of deposits dropped to 7% in June. As the stock of corporate deposits declined, the demand deposits of households demonstrated strong growth. This can be partly attributed to the payouts made in conjunction with the vacation period.

Affected by the EURIBOR; the average interest rates of new housing loans and long-term loans to enterprises increased to 5.8% and 6.3%, respectively, in June. Year-on-year, credit was 0.5 pp more expensive for new borrowers.

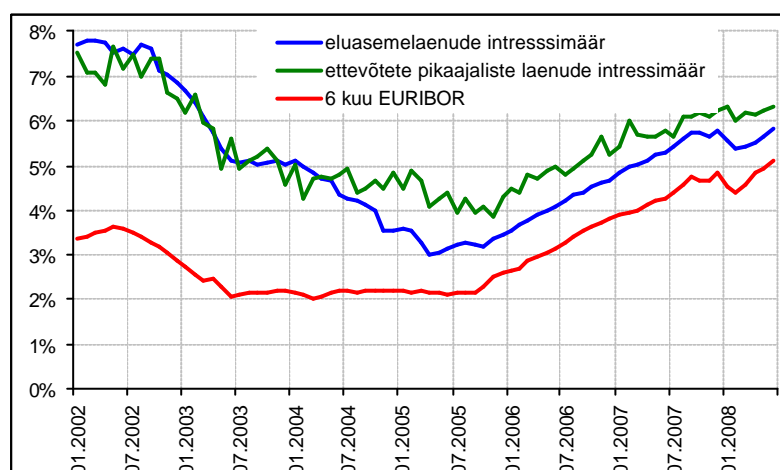
In the second quarter of 2008, the net profit of banks amounted to 1.6 billion kroons, which was 80% more than the net profit of the previous quarter, but involved several one-off earnings. . The factors having a negative impact on banks' profitability are the growing funding cost and the increase in the provisions.



**Figure 1. The domestic debt burden of enterprises and households in Estonia (the ratio of the loan and leasing stock to GDP)**



**Figure 2. Quarterly growth of corporate and household deposit and loan stock in Estonia (EEK million)**



**Figure 3. The weighted average interest rate and 6-month EURIBOR of housing loans and long-term corporate loans issued within a month**

Eesti Pank publishes a monthly statement on the most relevant financial sector indicators. The respective statistics and publication calendar are available on the web site of Eesti Pank at <http://www.eestipank.info/pub/et/dokumendid/statistika/pangandusstatistika/tabelid/>

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