

Estonia

Dominant foreign banks supported by a strong legal system

As foreign banks have taken over most systemic banks in Estonia, almost all cities and villages in the country are served by at least one foreign bank branch (Chart 1). While these banks dominate corporate and retail banking, the few small domestic banks remaining are still seen as competitors in both small and medium-sized enterprise (SME) lending and deposit taking (Chart 2).

Estonia is quite exceptional in terms of the low number of hierarchical layers that are involved when banks consider SME and corporate loan applications (Chart 3). The streamlining and de-centralisation of their loan decision-making processes are such that very few organisational hurdles need to be overcome for loan approval.

The financial crisis brought about a distinct change in the parent-subsidiary relationship experienced by Estonian banks. Of the foreign-owned banks surveyed, almost all viewed parent bank funding as a relatively cheap funding source in 2007 but not in 2011.

Chart 4 displays the share of surveyed banks who think the Estonian banking regulator requires too much capital. The percentage of banks that agree with this statement has gone up persistently over the last decade. Estonia is now one of the few EBRD countries of operations where a clear majority of banks think capital regulation is too strict. When asked whether uncertainty over future laws and regulations disposes their bank towards holding more liquid assets, 40 per cent of surveyed banks in Estonia, the most in the region, agreed or strongly agreed.

Estonian banks rank their legal environment very well compared to their regional counterparts. The majority agreed or strongly agreed that the legal system is efficient and adequate with regards to the creation and enforcement of security rights. While legal enforcement through the courts is the weakest area identified by Estonian banks, it is still rated much better than in other EBRD countries of operations.

Chart 1 Bank localities by ownership

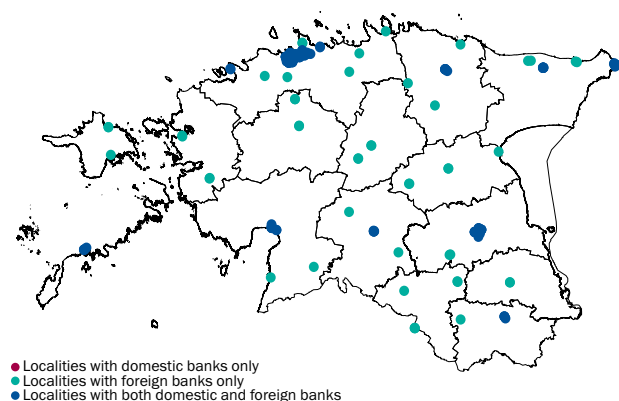


Chart 2 Bank types identified as main competitor

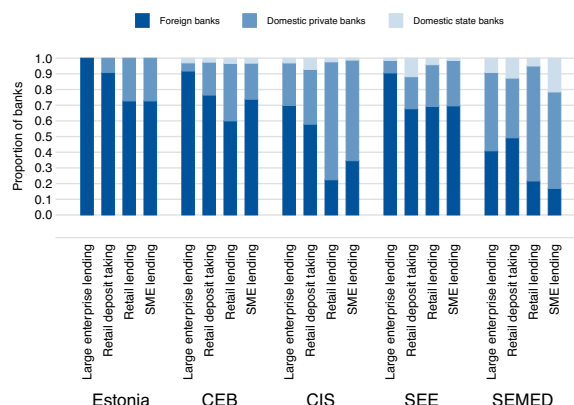


Chart 3 Average hierarchical layers for loan approval

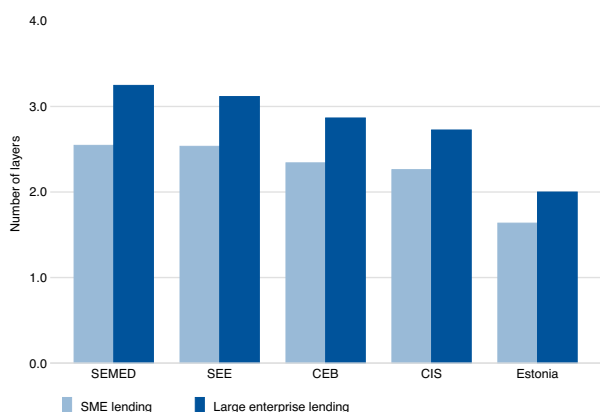


Chart 4 Agree or "strongly agree" that regulators require too much capital

