

**PROMOTING SUSTAINABLE
GROWTH :
REAL CONVERGENCE AND
FINANCIAL STABILITY**

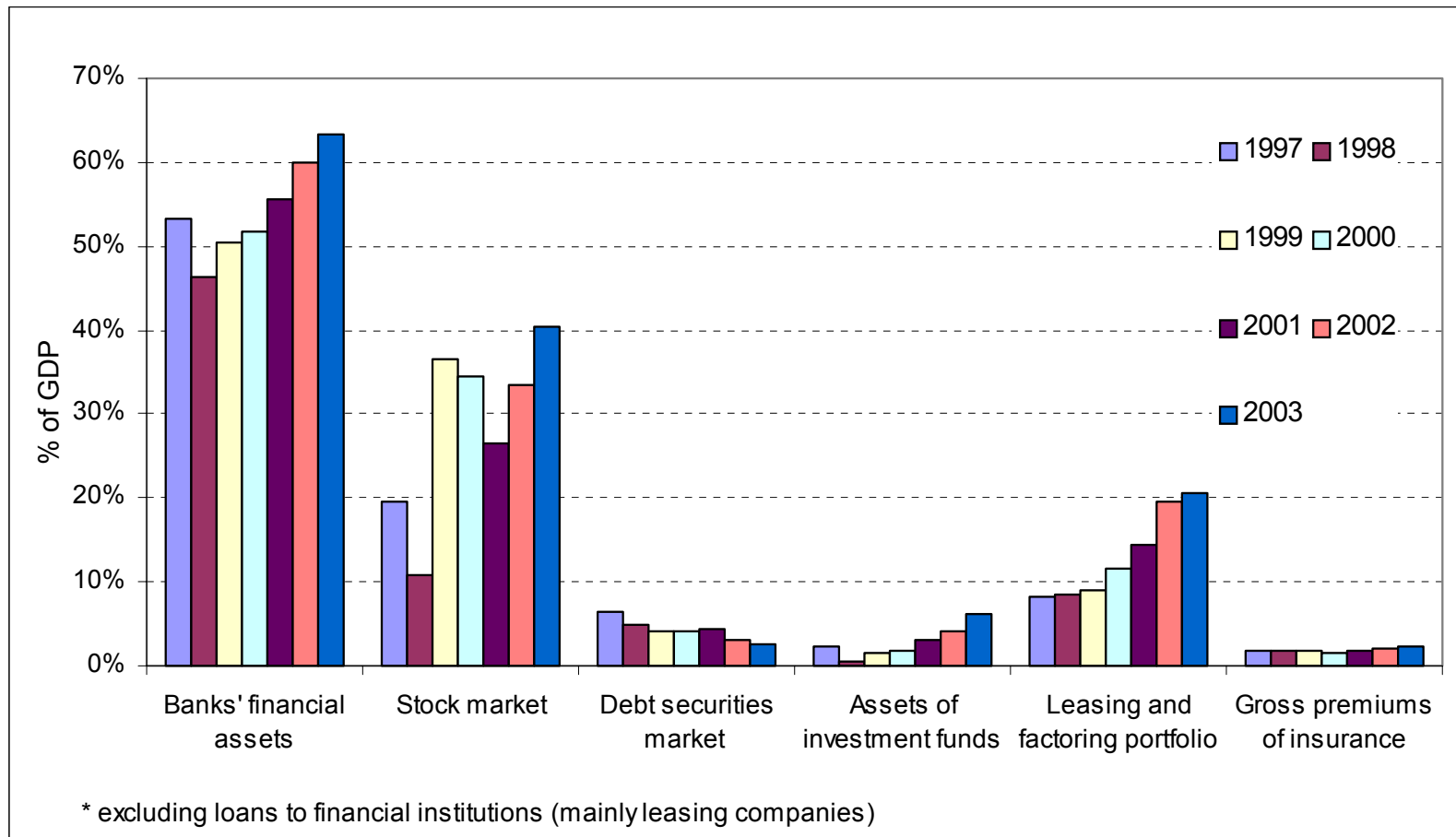
Vahur Kraft

Governor, Bank of Estonia

Number of financial intermediaries

	Commercial banks	Life insurance companies	Non-life insurance companies	Leasing companies	Investment funds	II pillar pension funds	III pillar pension funds
1992	40	6	14	n/a	n/a	-	-
1993	19	4	14	n/a	n/a	-	-
1994	22	5	15	5	n/a	-	-
1995	18	5	17	11	9	-	-
1996	13	7	16	13	12	-	-
1997	11	8	14	11	23	-	-
1998	6	8	12	6	14	-	-
1999	7	6	8	5	14	-	1
2000	7	6	7	5	13	-	2
2001	7	6	7	5	16	-	4
2002	7	5	7	5	17	15	4
2003	7	5	7	5	16	15	6

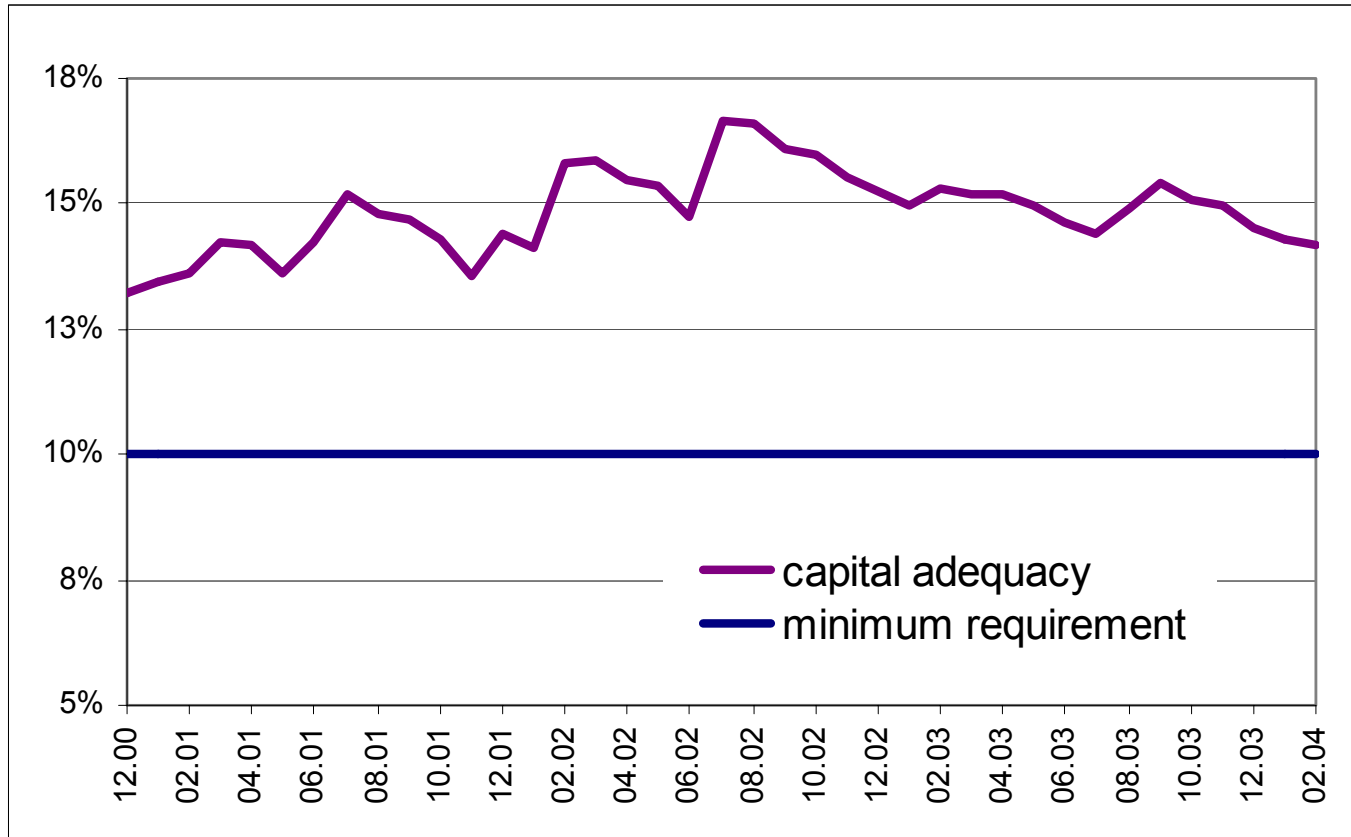
Structure of financial intermediation



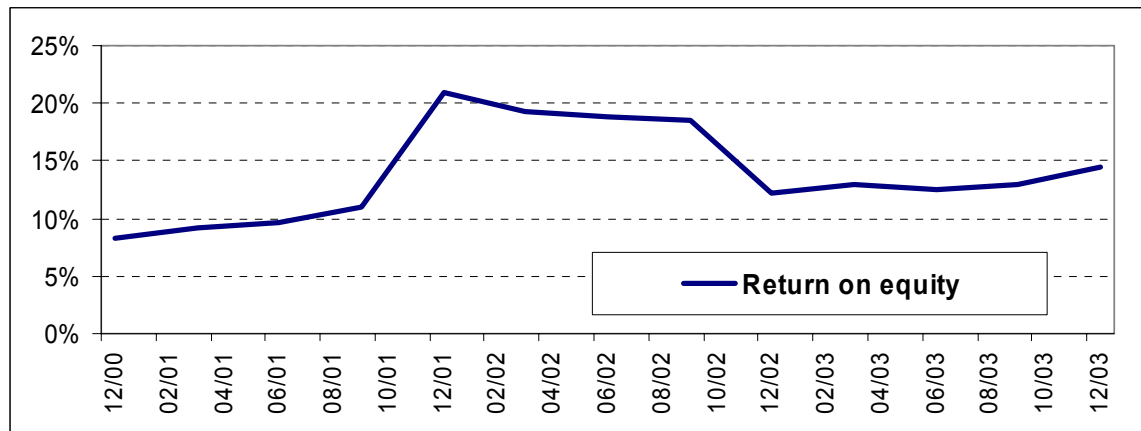
Dynamics of commercial banking

	1995	1996	1997	1998	1999	2000	2001	2002	2003
# of commercial banks	18	13	11	6	7	7	7	7	7
# of state-owned banks	1	1	0	1	1	0	0	0	0
concentration index C2, %	38.7	39.9	47	84.8	84	83	83.3	82.8	81.8
concentration index C4, %	65	68	77	98	98	97.4	97.6	97.5	97.5
total assets, EEK bn	15.5	22.9	40.6	41	47.1	57.8	68.4	81.7	98.8
annual growth of loan portfolio, %	54	74	82	12	12	28	19	22.7	38.4
capital adequacy, %	14.5	12.4	13.6	17	16.1	13.2	14.4	15.3	14.5
foreign ownership, %	29	33.4	44.2	60.7	61.6	83.6	85.4	86.7	85.7

Capital adequacy



Banks' quarterly ROE and other profitability indicators

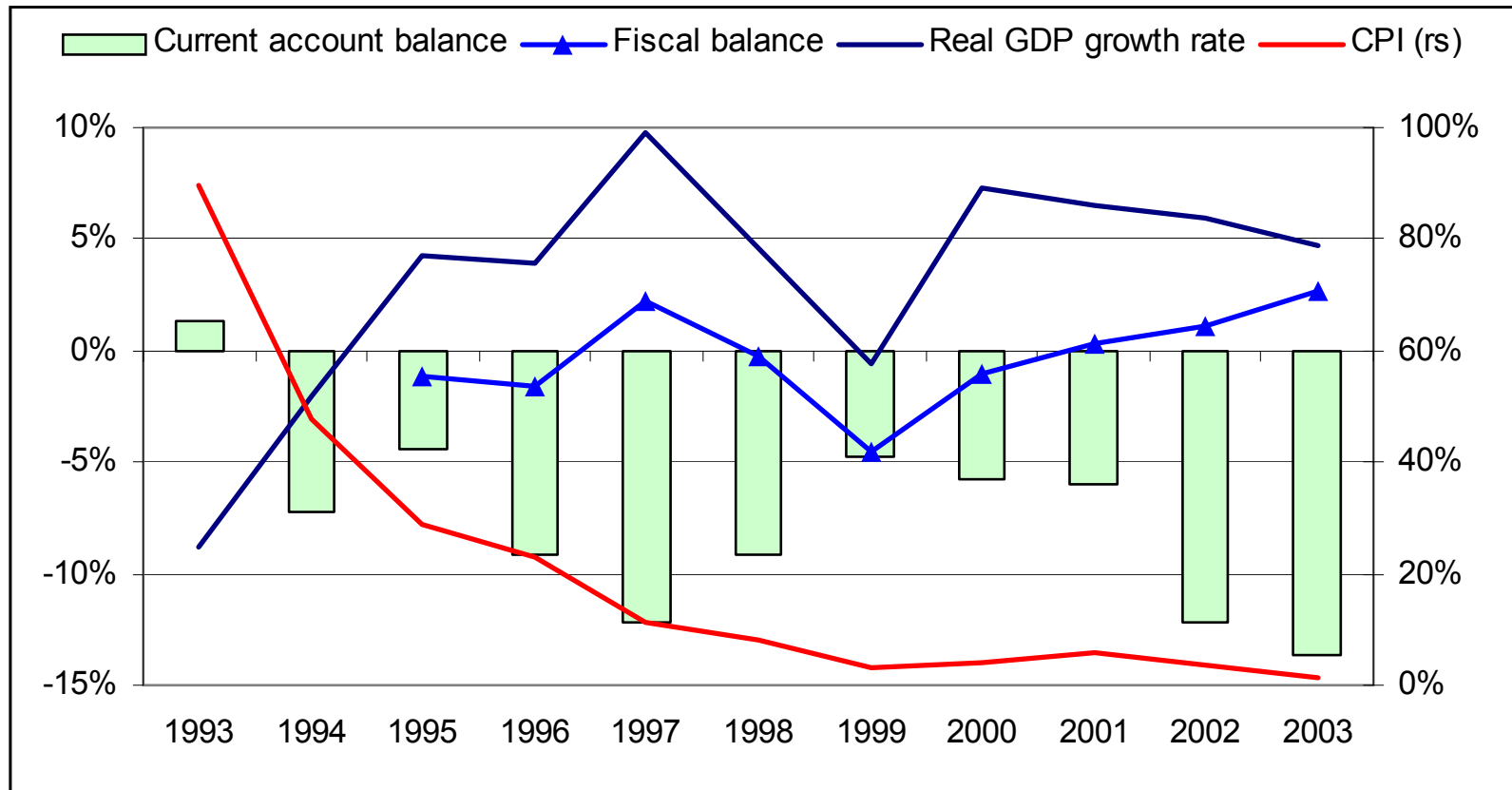


	IV '02	I '03	II '03	III '03	IV'03
Equity multiplier	7.8	8.0	8.1	9.1	8.5
Return on equity	12.2%	13.0%	12.5%	12.5%	14.4%
Return on assets	1.6%	1.6%	1.5%	1.5%	1.7%
NIM	3.8%	3.6%	3.5%	3.5%	3.1%
SPREAD	3.7%	3.6%	3.5%	3.5%	3.1%
Net profit (in the quarter)	287	369	246	418	480

Selected indicators of the Estonian economy

	1995	1997	1999	2000	2001	2002	2003
Nominal GDP (EUR mln)	2614	4093	4878	5584	6257	6904	7423
GDP real growth	4,3	9,8	-0,6	7,3	6,5	6	4,7
Growth of export (%)	31,0	42,7	0,6	38,8	7,0	-1,3	9,2
Growth of import (%)	27,2	39,8	-5,4	36,2	6,7	5,8	8,0
Current account balance (% of GDP)	-4,4	-12,2	-4,7	-5,8	-6,0	-12,2	-13,7
Fiscal surplus/deficit (% of GDP)	-1,2	2,2	-4,6	-1,0	0,3	1,1	2,6
CPI (%)	29,0	11,2	3,3	4,0	5,8	3,6	1,3
Export price index (%)	15,2	7,5	-0,4	7,8	32,9	-0,6	6,6
Balance of commercial banks (end of period, % of GDP)	38,0	63,4	61,7	66,2	69,9	75,6	84,9
Gross external debt (end of period, % of GDP)		57,3	57,4	57,9	59,3	65,0	74,8
FDI inflow (% of GDP)	5,7	5,8	5,8	7,6	9,6	4,4	10,2
Number of banks (end of period)	18	11	7	7	7	7	7

Või see? Selected economic indicators 1993-2003



Direct export by groups of countries of destination

	1996	1997	1998	1999	2000	2001	2002	2003
European Union	57%	57%	62%	69%	74%	69%	68%	68%
Countries from Central and Eastern Europe	15%	14%	13%	12%	11%	12%	14%	14%
Community of Independent States	20%	11%	7%	4%	4%	4%	5%	6%
other countries	8%	7%	8%	8%	8%	10%	11%	12%
Free zone				1%	3%	4%	2%	0%
unidentified		11%	10%	6%				
Total	100%	100%	100%	100%	100%	100%	100%	100%

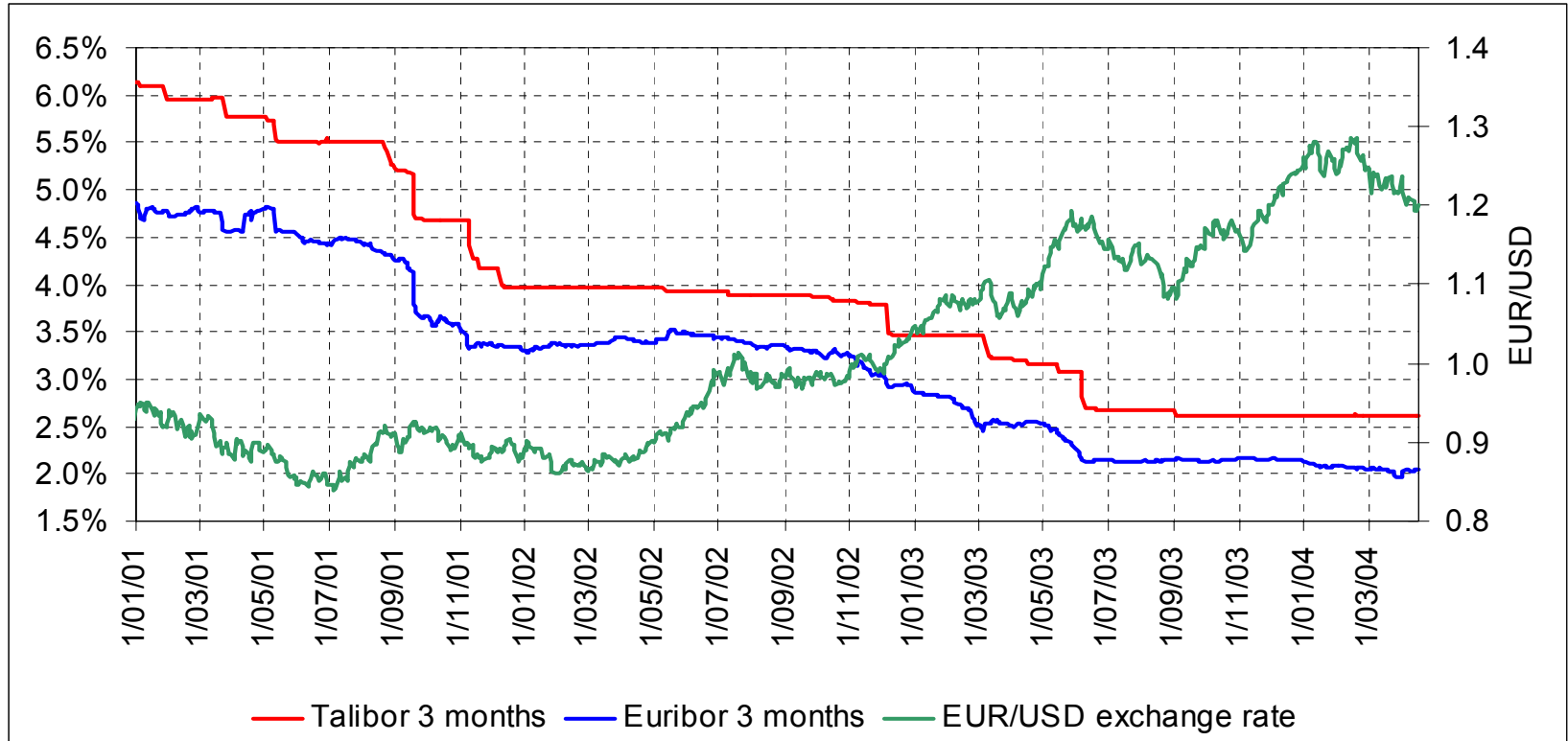
Estonia and EMU

- Eesti Pank considers the optimum strategy to continue the monetary policy based on fixed exchange rate to the euro and the currency board
- Selected monetary policy strategy takes into consideration that accession to the EMU as a full member encompasses three distinct phases:
 - (1) accession to EU, joining EMU as a country with derogation
 - (2) participating in ERM2
 - (3) full participation in the Eurosystem (final adoption of the euro)

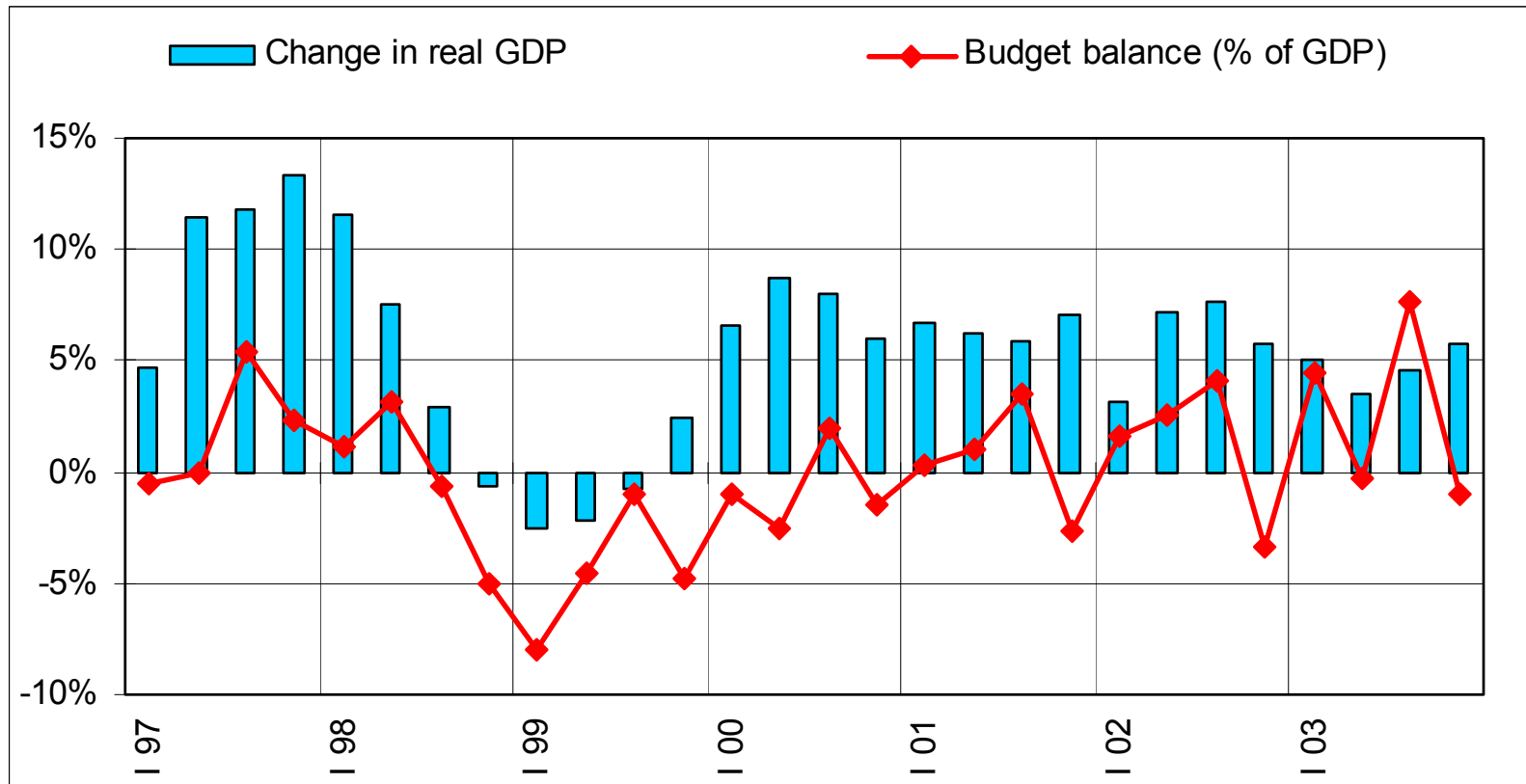
Estonia and EMU

- Estonia seeks to join with the ERM2 as soon as possible with the goal to join euro area as soon as possible :
 - high degree of integration in goods and financial markets
 - same macroeconomic adjustment mechanism with euro area
 - the functioning of Estonian CBA has been tested in time
- Estonia seeks to join ERM2 with present EUR/EEK exchange rate and with maintaining CBA

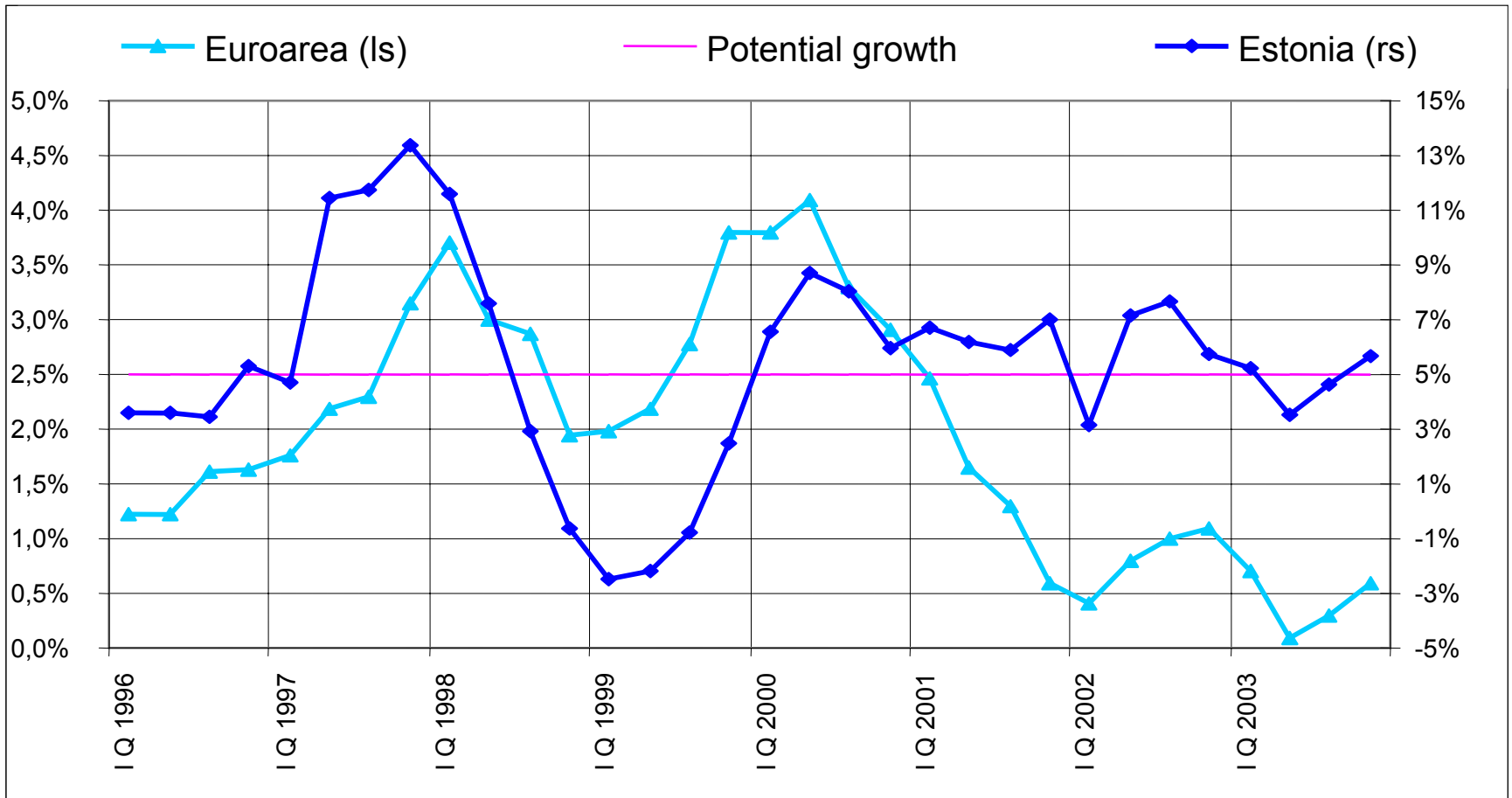
Monetary environment



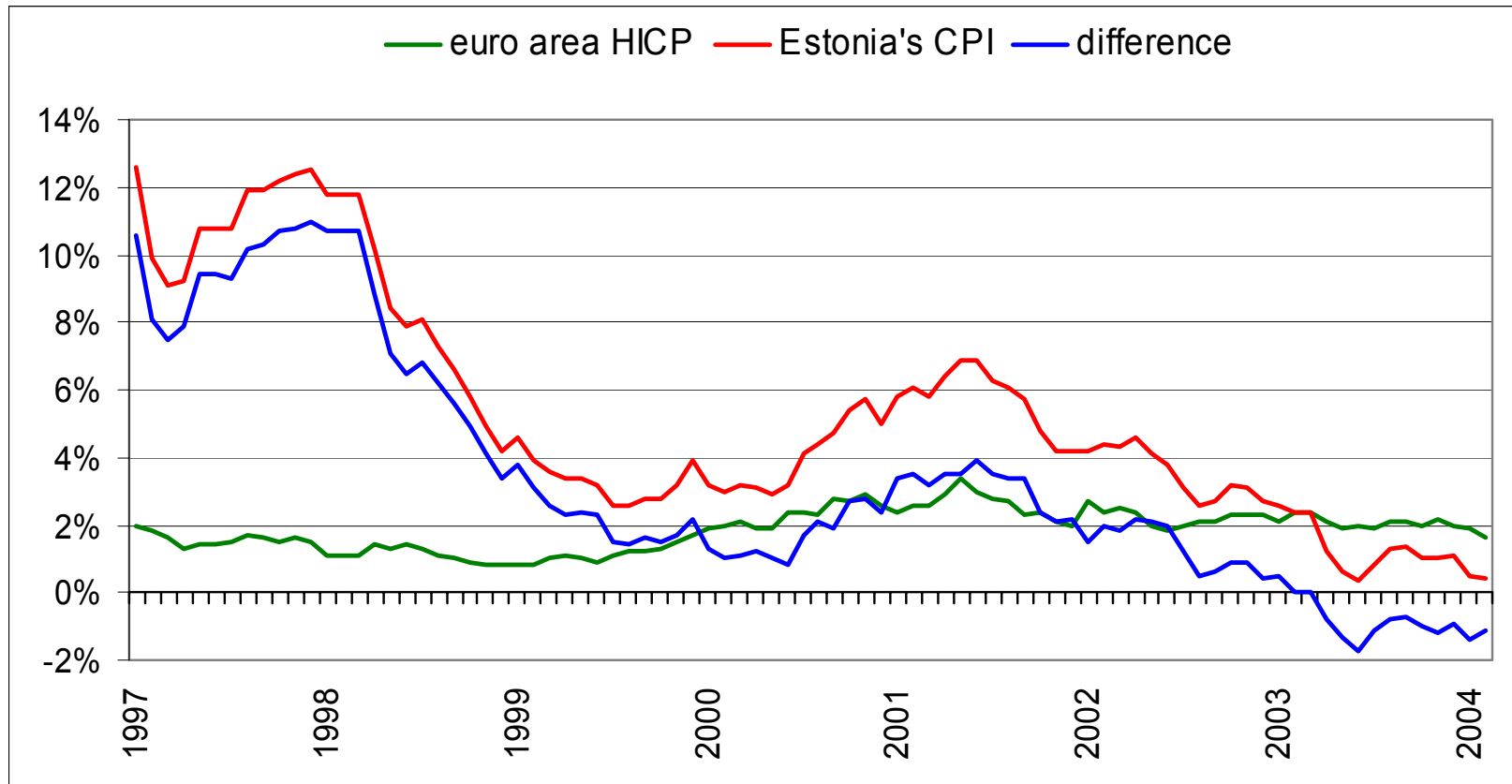
Fiscal balance and GDP growth



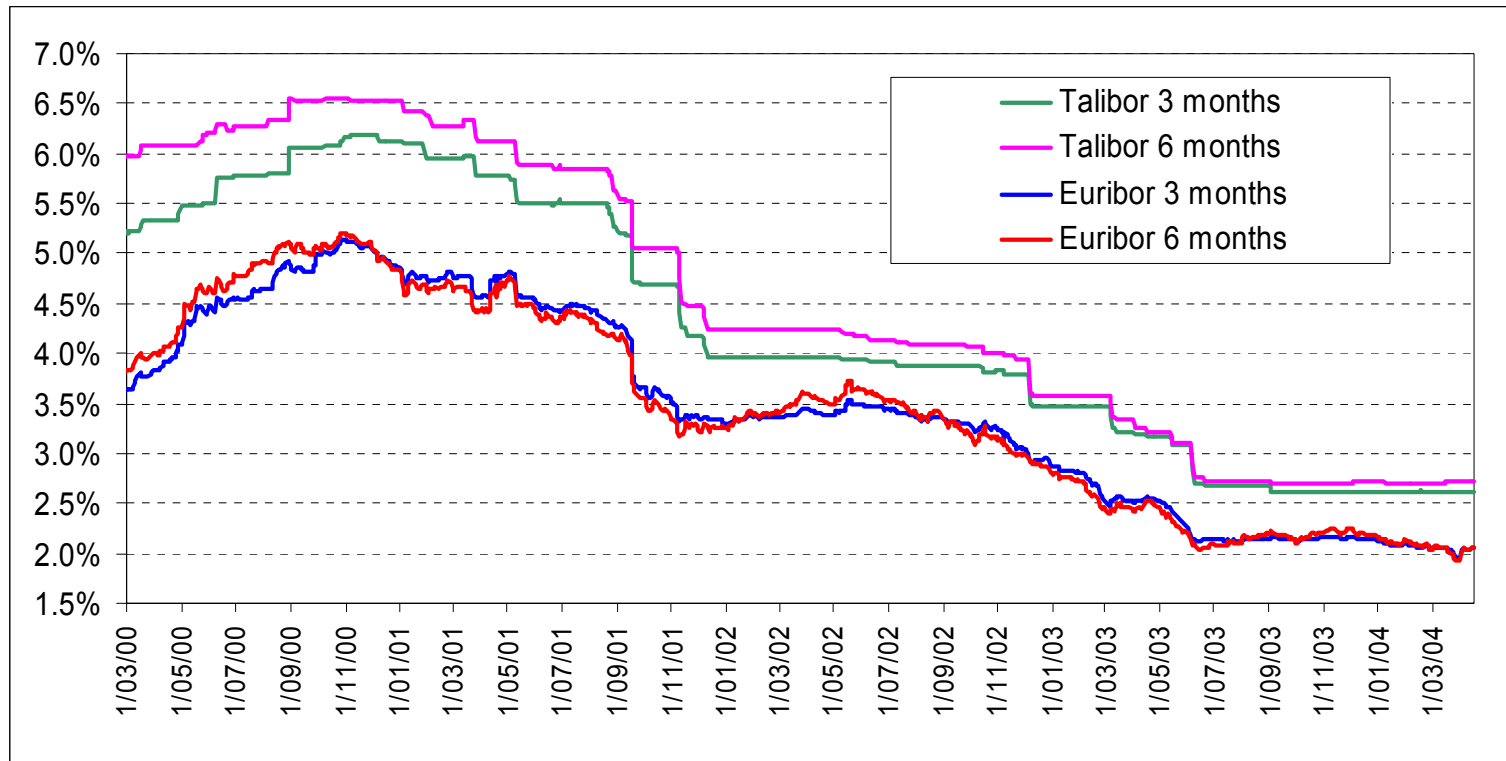
Annual GDP growth rates in Estonia and euro area



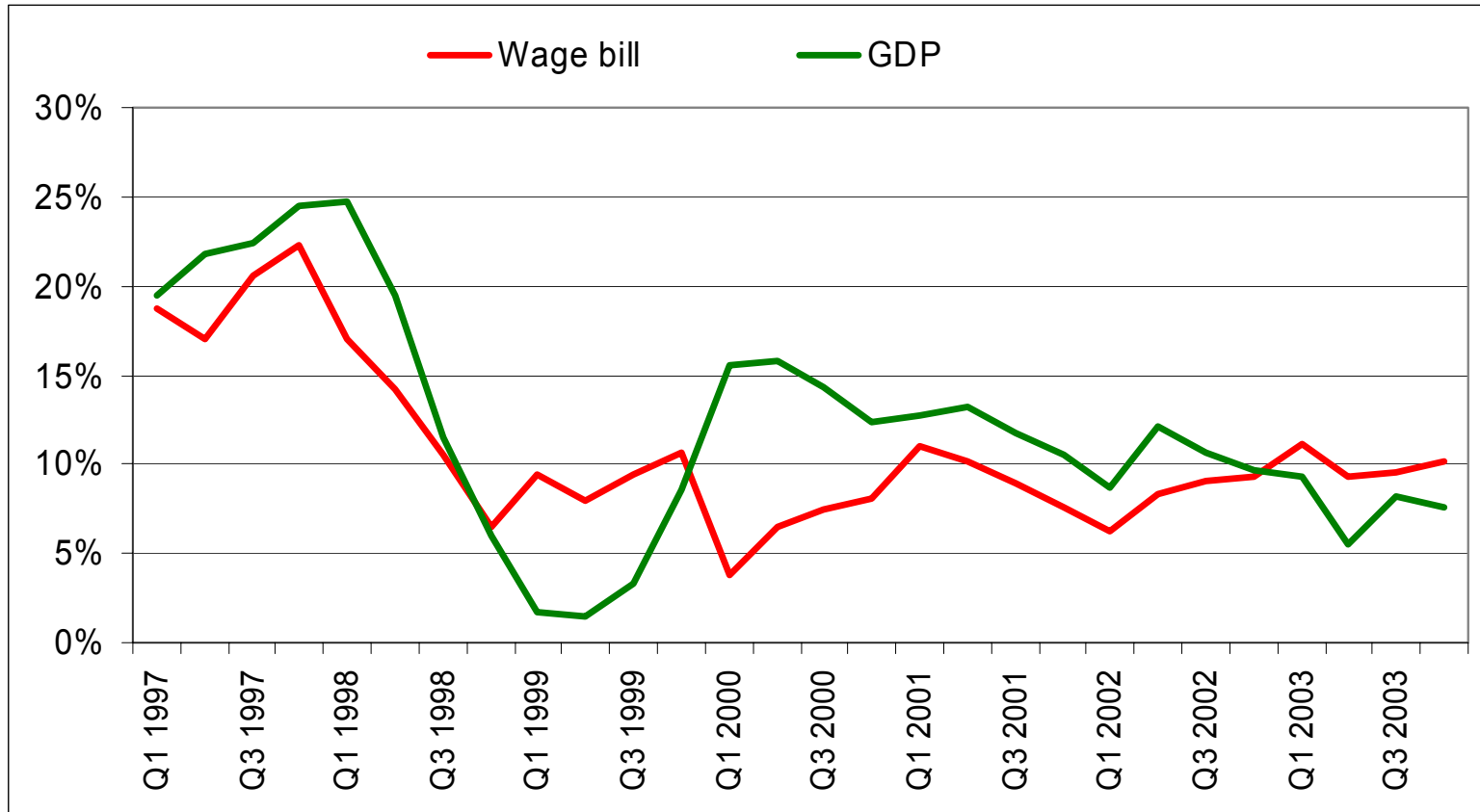
Annual CPI growth in Estonia and euro area



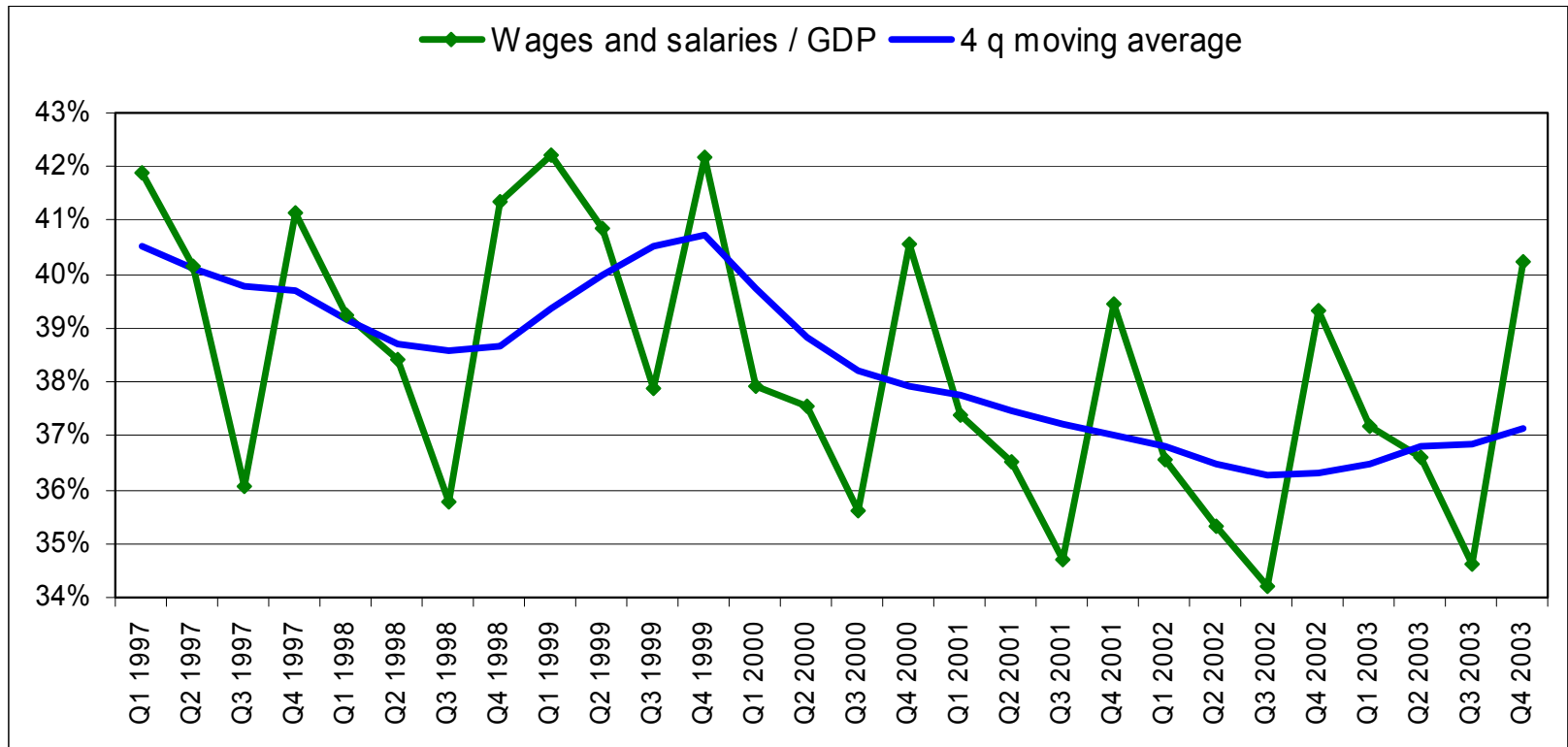
Estonian kroon and euro money market interest rates



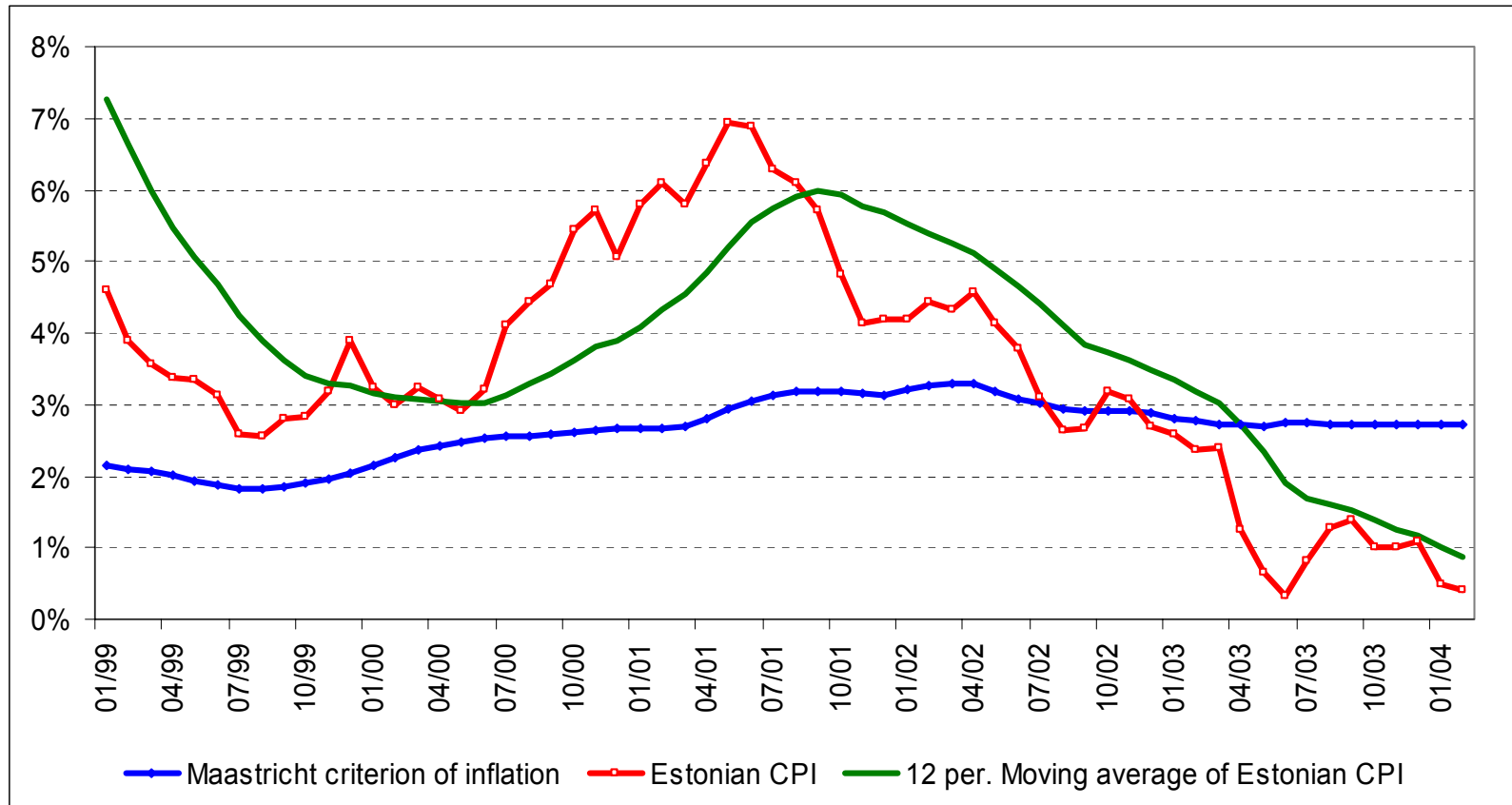
Annual nominal growth of wage bill and GDP



Wages and salaries / GDP (%)



Maastricht criterion of inflation



Maastricht criterion on long-term interest rate

