

Quo Vadis Estonian Capital Markets?

Aare Tammemäe

FinanceEstonia - Member of Management Board

FinanceEstonia International Forum 2013

Tallinn, Swissotel

Content

- SME sector as the growth driver
- Capital markets situation in Estonia
- Recommendations by FinanceEstonia

- Key question:
 - **How can Estonia move to a more diversified financial market, with greater involvement of institutional/non-bank investors and higher shares of direct capital market financing?**

SMEs – Engine for Growth

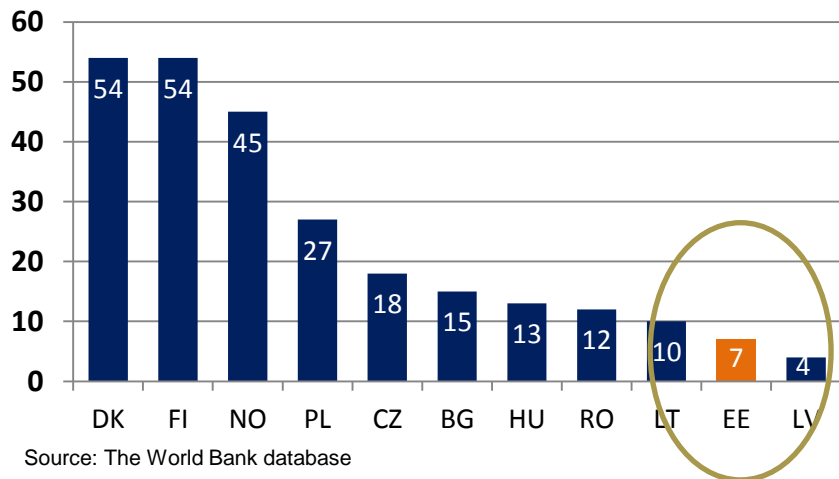
- SMEs form 99.9% of all Estonian enterprises, employing 78% of all employees and generating 75% of the total value added
- SMEs creating jobs and leading innovation
 - 85% new net jobs in EU between 2002 – 2008
- SME growth rates 2% pa (2006 – 2010)
 - with private equity 7%¹
- SME financing:
 - bank centered
 - private equity and own financing important source of capital
 - access to public equity and debt financing is limited

Definition of SMEs (EU)
<250 employees
<€50m turnover
<€43m assets

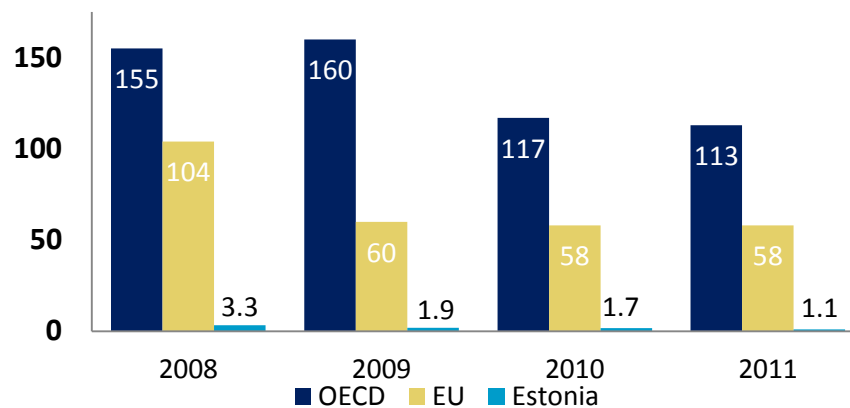
European capital markets remain underdeveloped compared to other economies and non-bank financing remains largely inaccessible to SMEs²

Non-existent Capital Markets in EE

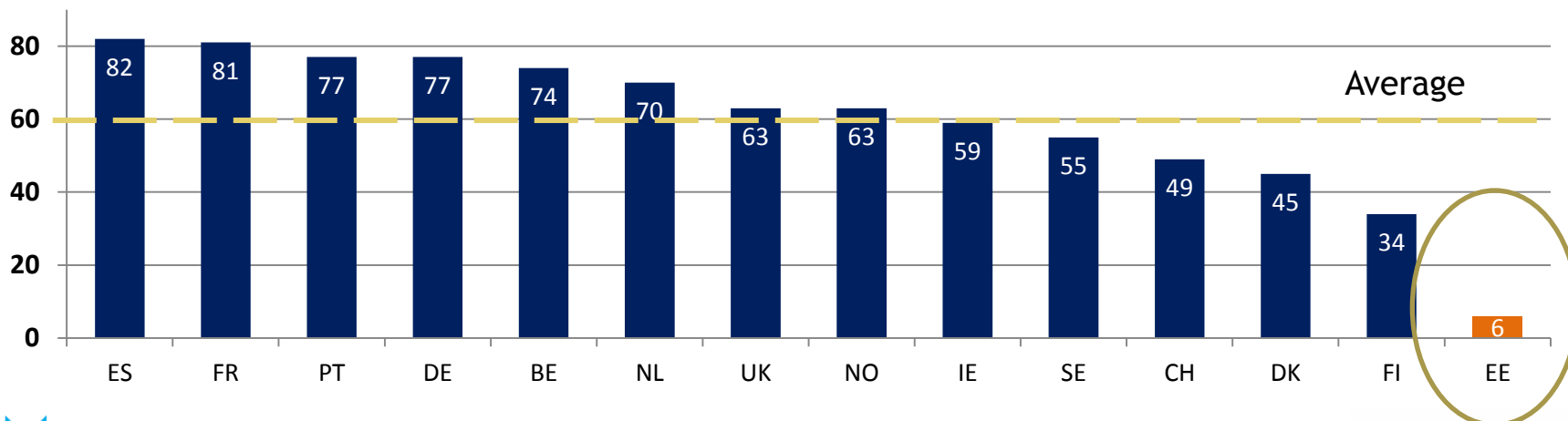
Stock Exchange capitalization per GDP, % 2011



Stock Exchange turnover, % from GDP

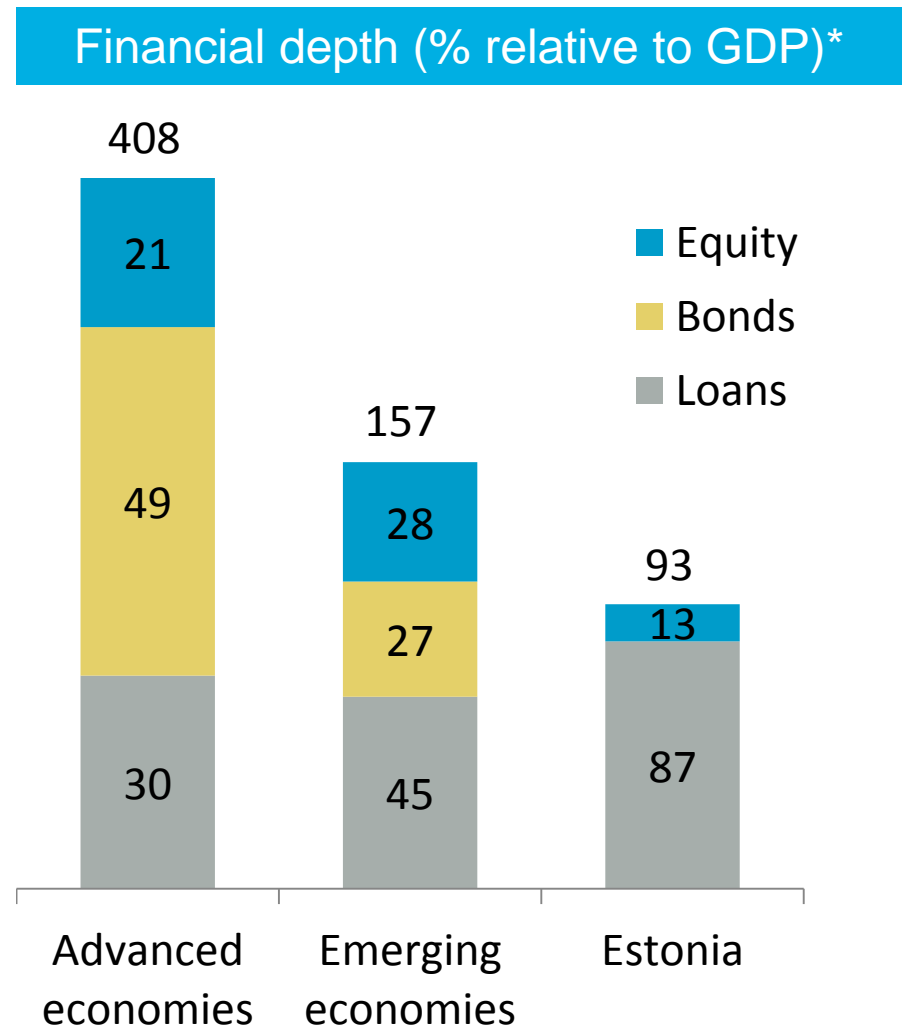


Pension fund allocation, share of home market, 2011 May (%)



Equity and Bond Gap in Estonia

Local capital base	
Equity and debt market	€2 billion under management by local fund managers (incl. pension funds €1,5 billion)
Private equity	€180 million under management by local Private Equity fund managers
Bank deposits	<ul style="list-style-type: none"> • €5 billion private deposits • €6 billion corporate deposits



FinanceEstonia Recommendations

Improve offering

IPO's for state owned companies

- IPO's and listings of state companies on the Tallinn Stock Exchange

Re-launch debt capital markets

- Estonian Government bond issue
- State-owned company bond issues
- Centralized municipal lending vehicle

Improve demand

More active approach by pension funds

- Lift certain investment restrictions for (i.e. 10% investment rule)
- Direct equity investments in the companies and private equity funds

Fiscal-political initiatives

- Tax exemption for bond interest
- Covered bond regulations
- Easier access to bond markets for private persons

New Capital Offering Initiatives

Today...

Local pension funds
invested just 6% from
€1,5 billion

Local private equity
€180 million

Institutional and retail
investors. Tallinn Stock
Exchange capitalization
€1,7 billion

2020

Baltic Innovation Fund
I €200 m

Local pension funds
investing actively in
local economy

Local private equity
funds increased to €1
billion

Venture Capital
offering. Funds of
funds €60 m

Estonian Capital
Markets



Thank you

Contact details

Aare Tammemäe
Senior Partner
Redgate Capital

aare.tammemae@redgatecapital.eu