II. ESTONIAN REAL ECONOMY AND FINANCIAL SECTOR

REAL SECTOR

Regardless of the economic slowdown in the majority of Estonia's trade partners, Estonia's economic growth turned out relatively high in 2001 – 5.4% according to preliminary estimations. The growth rate exceeded the respective indicator of the euro area by nearly 4 percentage points. The growth can be attributed to higher productivity and the fact that internal risks did not increase in the Estonian economy. The economy remained balanced. The current account deficit was unchanged at 6.5% of the GDP and a budget surplus of 0.4% was achieved. The temporary acceleration of the inflation rate to 5.8% mostly resulted from external price pressures.

The year 2001 proved that the foundations of Estonian economy are strong enough to maintain balanced development also in the conditions of weakening world economy. Due to the solid financial sector and balanced fiscal policy aimed at long-term goals, the 11 September terrorist attack against the USA and Argentina's deep economic crisis had no impact on the Estonian financial system. **The increased reliability of the economy is best characterised by the high credit rating (A-) assigned to Estonia by the rating agencies Standard & Poor's and Fitch in autumn 2001.**

Monetary Environment

Due to the balanced annual average development of the Estonian economy, the monetary policy environment of Estonia was mainly influenced by external factors, and development was expansive regarding interest rates. Throughout the year interest rates of the Estonian money market followed the movement of the rates in the euro area, with a slight time lag (see Figure 2.1). As a result of the reliable economic policy the spread between interest rates in Estonia and the euro area dropped to the lowest level of all times. Tight competition between banks for widening their credit basis resulted in historically low rates for credit granted to the Estonian real sector.

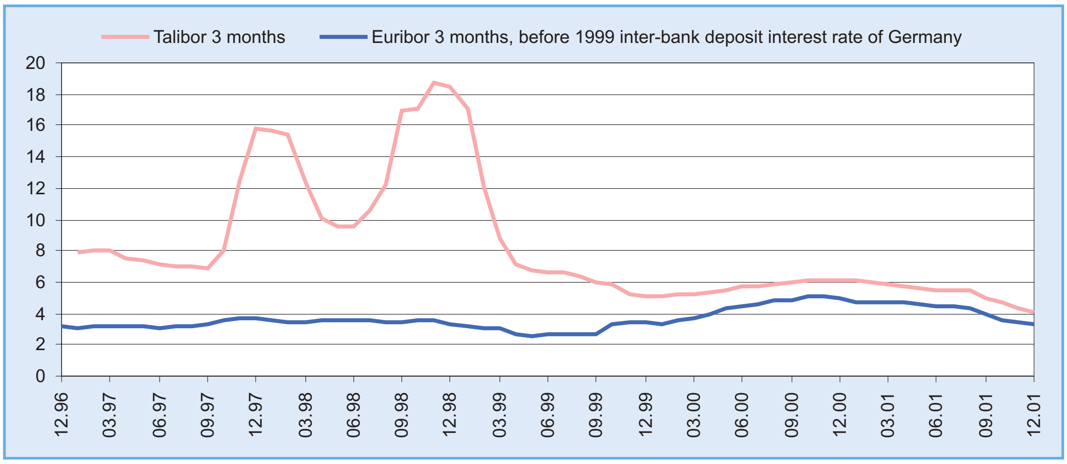

Figure 2.1. Estonian and euro money market interest rates (%)

Following the slowdown of economic growth, the growth rate of money supply decreased by 7.3 percentage points – to 24.2%. The volume of time deposits of private individuals and foreign currency deposits increased at a relatively slower rate. The growth of money supply was sustained by corporate deposits and demand deposits of private individuals. The domestic credit sources were sufficient for financing credits mediated by the financial sector to the real sector. External resources were used for repayment of foreign debts and expanding the financial sector's activity in Latvia and Lithuania.

External and Domestic Demand

The slowdown of world economic growth and decline of international goods flows brought about a considerable slowdown in the growth of Estonia's export in 2001. The nominal growth of goods export was down to 3.6%. The worsening of the external demand environment was most distinctly reflected in the declining volume of subcontracting for machinery and equipment with lower value added – the re-export of machinery and equipment fell by 7% in 2001. This was a direct result of the decline in the Nordic precise electronics industry. Although the growth rate of export slowed down, on average Estonian companies were, however, able to improve their competitiveness on the weakening foreign markets.

Although export growth slowed down in most industries, the development differed greatly across groups of goods. The food industry, for example, managed to increase export even faster than in previous years. Favourable external demand in this sector resulted mainly from restored demand on the eastern market. Export of food products to Russia increased by 87% and the share of export in the overall production volume of the food industry grew by 1.2 percentage points in 2001 – to 28.6%. The increase of export quotas to the European Union continued in 2001 and some quotas even tripled. However, the general worsening of the European demand environment did not allow meeting the quotas fully.

Despite the considerable decline of production in all major timber exporting countries, the share of timber products with higher value added (mostly furniture) increased remarkably in Estonia's export (see Figure 2.2). This indicates that extensive investments of earlier periods are yielding results.

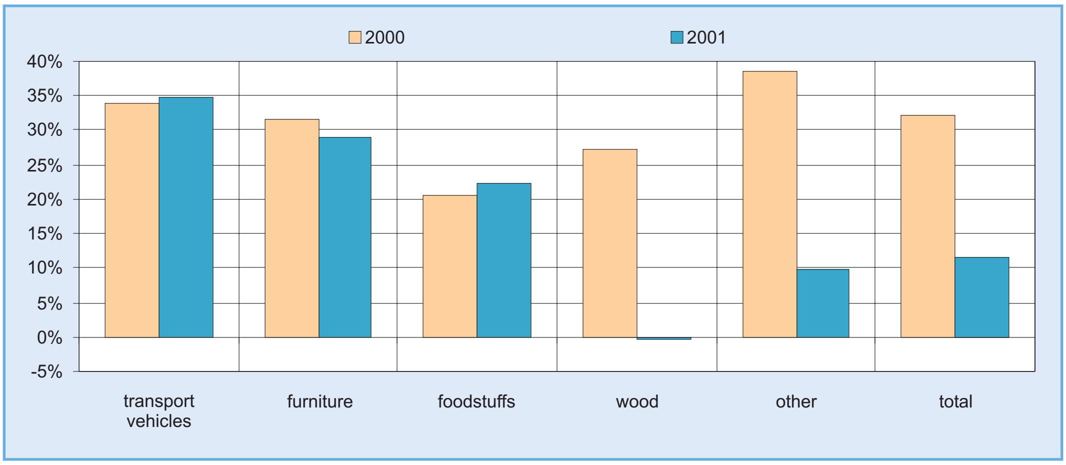

Figure 2.2. Nominal growth of direct export by groups of goods

While foreign trade activity declined, the growth of the services export continued at a stable rate. Export of services increased by nearly 10% against 2000. This can mostly be attributed to the growth of construction and business services export by more than one third. In transit trade, Russia's administrative measures aimed at favouring oil export through Russian ports (rail tariffs for export through local ports were lowered in 2001) and completion of new ports in the north-western part of Russia failed to produce the anticipated setback.

Although the number of tourists visiting Estonia dropped somewhat in 2001 (to approximately 3.7 million) the growth of travel services export continued at a rate similar to that of the previous two years. This was achieved through the lengthening of the average stay of tourists, which was first of all seen in the rapid growth in the turnover of accommodation facilities – the value added of hotels and restaurants increased by 8.8% year-on-year.

Internal demand reacted adequately to the slowdown of the growth rate of external demand, the nine-month growth dropping by more than one percentage point against the respective period of 2000. A considerable structural change took place as well – the growth of internal demand was mostly based on the growth of investment activity. This was encouraged by the exhaustion of the companies' free production resources and favourable loan conditions. **The share of investments again exceeded 25% of the GDP.** The growth of private and public consumption slowed down. Private consumption was held back first of all by the acceleration of inflation, fuelled by external pressures at the beginning of the year, and relatively slow increase of wages and benefits paid from the state budget.

The growth of investment activity and loan demand was reflected in the production side of the GDP throughout the year. The growth of financial intermediation surpassed the GDP growth by 3.6 percentage points in 2001. Manufacturing grew by 3.5 percentage points faster than the GDP, indicating that the competitiveness of direct export has been maintained (see Table 2.1).

Table 2.1. Value added by spheres of activity in 2001

Agriculture and hunting	5.3%
Forestry	1.8%
Fishing	5.0%
Mining	6.0%
Manufacturing	7.9%
Energy, gas and water supply	0.3%
Construction	5.5%
Wholesale and retail trade	6.5%
Hotels and restaurants	8.8%
Transport, storage and communication	6.8%
Real estate, leasing and business services	5.5%
Financial intermediation	9.0%
Public administration	0.8%
Education	1.1%
Health care and social maintenance	-2.8%
Other services	2.9%
GDP total	**5.4%**

On the labour market, the year 2001 probably denoted moving closer to the end of the transition process that has lasted more than ten years. This could be seen in the level of employment as well as the general volume of unemployment. Practically for the first time since the restoration of independence the employment level increased and unemployment dropped by an estimated 1.1 percentage points, to 12.6%. In future, the unemployment figures should more clearly follow the cyclic development of the economy.

Financing and Its Sources

Despite the growth of investment activity, the need to attract foreign financial resources into Estonian economy was just as high as it had been in 2000, because the deficit of saving and investment remained unchanged, ie the current account deficit remained at 6.5% of the GDP (see Figure 2.3).

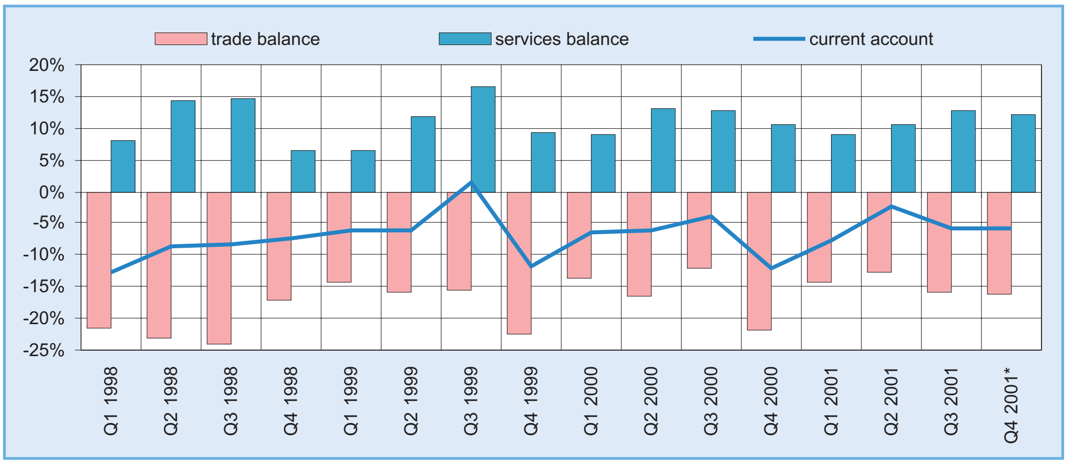

Figure 2.3. Current account and sub-balances

* estimated data

Saving increased mostly on the government sector level (1.2 percentage points of GDP) and for the first time since 1997 a surplus of the state budget was registered. Unlike the government sector, private individuals increased their spending in 2001 faster than their income. An additional source of private spending was, first of all, bank loans that were cheaper than ever before since the restoration of independence.

In addition to the government sector the business sector increased saving in 2001, as well. Despite the narrowing of export opportunities, businesses managed to keep costs under control and increase profitability through higher efficiency. The clearest indication of this is the growing outflow of investment income through the current account – 7.8 billion kroons in 2001, of which nearly a half was reinvested into the Estonian economy.

Besides credits from the domestic financial sector, the main source of financial resources for the business sector was direct investments. Direct borrowing that continued actively throughout 2000 and in the first half of 2001 slowed down in the second half of the year. The gross inflow of direct investments surpassed 9 billion kroons for the first time since the restoration of independence. The net inflow of direct investments (6.11 billion kroons) covered practically the entire current account deficit, which stood at 6.16 billion kroons.

The banking sector continued expansion in Latvia and Lithuania and; therefore, part of capital attracted from abroad was again taken out of Estonia. Because of the improved financial situation and availability of external resources, industry too expanded its activity outside Estonia. As a result, Estonian businesses' direct investments abroad reached the highest level ever, exceeding 3 billion kroons.

As the expansion of Estonian businesses in Latvia and Lithuania mostly rested on external funds, the foreign debt burden of the economy increased as well in 2001. The foreign debt increased by 7.4 billion kroons (to 60.7% of the GDP) year-on-year. At the same time, net foreign debt ratio to the GDP remained practically unchanged.

Government Sector

In 2001, the government achieved its main fiscal policy goal – for the first time since 1997 the general government budget had a surplus, which amounted to 0.4% of the GDP. The surplus resulted from the better than expected collection of taxes and strict expenditure management policy on the central government level. The tax revenue of the government sector budget was 2% higher than projected. However, the nominal economic growth was also estimated one percentage point higher than predicted at the time the budget was drawn up. Thus, besides more efficient collection of excise taxes, higher revenue can also be attributed to faster than expected growth of the general tax basis.

Unlike the central government, the deficit of local budgets increased to 0.6% of the GDP, with spending growing nearly 40% over the year. Expenditure exceeding current income was mostly financed from one-time capital income earned from privatisation. Therefore, no significant increase of the government sector debt burden took place and as a ratio to the GDP it even dropped by 0.3 percentage points – to 4.8%.

Inflation

In Estonia, prices are influenced by two major factors – changes in the price of imported goods and faster price increase in the sheltered sector due to productivity differences with the open sector. The year 2001 can be divided into two as far as changes in the prices of imported goods are concerned: at the beginning of the year, the price increase accelerated considerably, driven by external factors (food became more expensive), but as external pressure began to subside in the third quarter, inflation rate in Estonia slowed down accordingly. Estonian price surge followed the respective indicator of the anchor currency region (euro area) with an approximately one-month delay, peaking in June and then falling relatively quickly by the end of the year. **Such development of inflation confirms that the Estonian economy is extremely tightly linked with the rest of Europe through trade and financial ties.** The average annual consumer prices grew by 5.8%, by December the year-on-year inflation had fallen to 4.2%.

Besides external price pressure, internal economic development and various administrative actions helped to boost prices in Estonia in 2001. After two years, the price of electricity increased by 26%. Heating and public transport also became more expensive. The price of domestic dairy products increased due to lower supply, adding to the external pressure on food. The fall in the supply of local diary products resulted from greater export opportunities to both eastern and western markets, which at times exceeded domestic production capacities. As a result of all the above, the difference of price increases between Estonia and the euro area was the biggest of recent years – 3.9 percentage points. However, thanks to sustained internal balance, this difference narrowed again to 2.1 percentage points, which is considered close to the estimated balance level (see Figure 2.4).

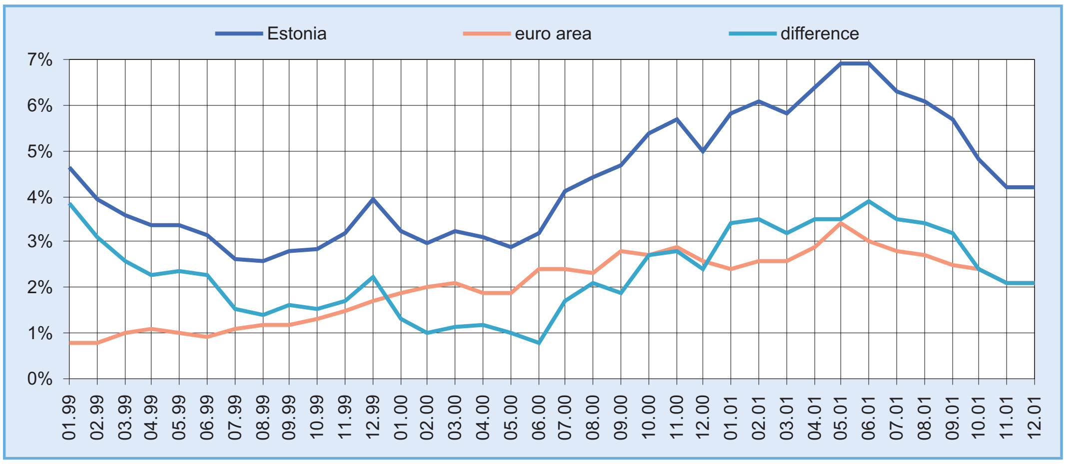

Figure 2.4. Twelve-month change of consumer prices in Estonia and euro area

FINANCIAL SECTOR

The financial sector continued on stable foundations in 2001. Stability has constantly increased over the past four years. This has been achieved first of all through the consolidation of banking and involvement of strategic core investors. **In banking**, this can be seen in the growing profitability of banks, achieved through improved management and risk management. The banking sector is also characterised by high capitalisation and liquidity. The key words in the strengthening of the **insurance sector** are also consolidation and involvement of strategic core investors, which have increased profitability and efficiency. The development of the **stock market** has been facilitated by improved legislative framework and rearrangement of supervision.

The structure of Estonian financial sector is characterised by the domination of large financial groups centred around commercial banks. The services provided by the bank groups cover, besides classical banking services, also leasing financing, life insurance, stock brokering and management of investment funds. 2001 was characterised by the acceleration of financial deepening in financial intermediation outside the banks, mostly in the affiliates of the groups. While the growth of bank assets outstripped nominal economic growth by 4%, then the respective indicator for leasing and factoring portfolios was nearly 27% and that of the investment fund assets over 92% (see Figure 2.5). Optimisation of intra-group division of labour can be seen in the use of certain banking products in leasing firms. The faster development of financial intermediation outside the banks has been supported by the wide use of various financial services by businesses and more favourable loan conditions for private individuals.

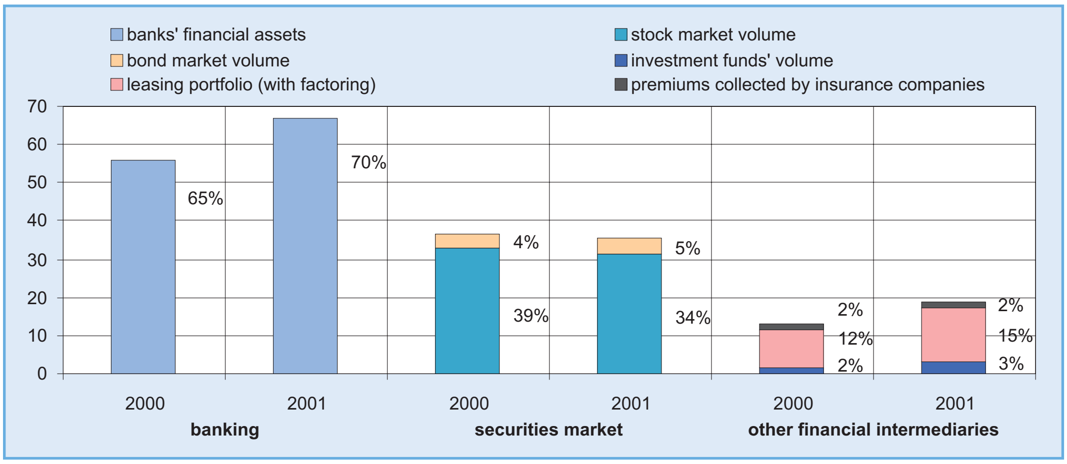

Figure 2.5. Estonian financial intermediaries (EEK billion and % of GDP)

Banking

Institutional Development

The number of banks did not change in the reporting period, there are still six credit institutions operating in Estonia – AS Eesti Ühispank (Union Bank of Estonia), AS Eesti Krediidipank (Estonian Credit Bank), AS Hansapank (Hansabank), AS Preatoni Pank (Preatoni Bank), AS Sampo Pank (Sampo Bank) and Tallinna Äripanga AS (Tallinn Business Bank Ltd). The only branch of a foreign credit institution in Estonia is Nordea Bank Finland Plc Estonian Branch. At the end of 2001, over 85% of the share capital of banks belonged to foreign owners (see Table 2.2).

The number of representative offices of foreign credit institutions doubled in 2001. Besides Landesbank Schleswig-Holstein Girozentrale (Germany), Osuuspankkien Keskuspankki (OKOBANK; Finland) and Svenska Handelsbanken (Sweden) three new representative offices were opened – Norddeutsche Landesbank Girozentrale (Nord LB; Germany), Vereins- und Westbank (Germany) and Parekss Banka (Latvia). In February 2002, the International Bank of St Petersburg (Russia) also set up a representative office in Estonia.

Table 2.2. ***Owners of Estonian credit institutions (%)***

	31.12.98	31.12.99	31.12.00	31.12.01
Central government and county governments	0.45	0.27	0.01	0.00
Eesti Pank	13.14	11.37	0.00	0.00
Credit institutions registered abroad	45.50	52.58	66.99	63.28
Investment funds/financial institutions registered abroad[1]	2.18	1.94	0.51	17.18
Other non-resident legal persons	7.32	7.03	16.21	5.15
Credit institutions registered in Estonia	1.46	4.62	0.63	0.09
Financial institutions registered in Estonia	0.74	0.34	0.15	0.36
Undertakings registered in Estonia	20.05	10.12	5.99	5.08
Non-profit institutions registered in Estonia	0.04	0.07	0.02	0.03
Estonian natural persons	8.39	10.84	9.06	8.53
Foreign natural persons	0.49	0.68	0.20	0.14
Owners of other (preferential) shares	0.24	0.13	0.23	0.16

[1] As of end of 2001, in addition to foreign investment funds the item also comprises holdings of insurance and investment companies, which in previous years were recorded under other non-resident legal persons.

No significant changes occurred in the division of the banking market. The share of Hansapank and Eesti Ühispank amounted to 83% of the sector's total assets. Considerable competition to the two leading banks in several fields of activity was offered by Sampo Pank and the branch of Nordea, which both strengthened their positions, providing a more personal approach to the clients (see Figure 2.6).

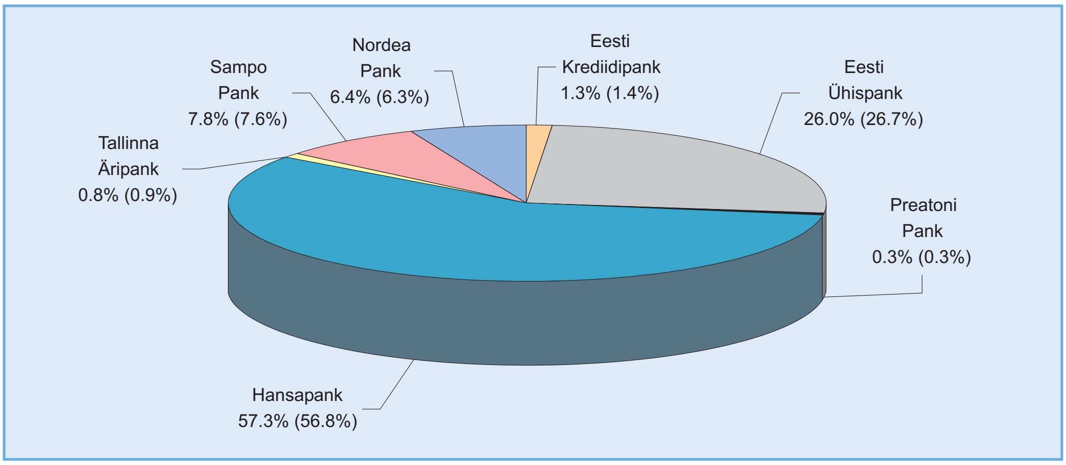

Figure 2.6. ***Banks' market shares as of end of 2001 (in brackets as of end of 2000)***

While the local banking market remained stable, market share was increased in the neighbouring countries. In May, Hansapank acquired Lietuvos Taupomasis Bankas in Lithuania and increased its share capital. In December, Hansa Capital sold its Latvian leasing subsidiary Hansa Lizings to Hansapank's Latvian daughter bank Hansabanka.

Upgraded ratings of international rating agencies meant further acknowledgement for the Estonian banking in 2001. In February, Standard & Poor's upgraded Eesti Ühispank's Public Information-based (pi) long-term local currency credit rating to the level of BBBpi. This reflected the increased shareholding of Skandinaviska Enskilda Banken in Ühispank, extensive restructuring and purging of the loan portfolio. In April, Moody's Investors Service adjusted the financial strength ratings of Eesti Ühispank, Hansapank and Sampo Pank, in line with the specification of methodology and definition. The new rating is C. In January 2002, Moody's upgraded Hansapank's senior unsecured debt rating to A2 from Baa1.

Assets and Liabilities of Banks

Active lending boosted the assets of banks in 2001 by more than 10.5 billion kroons. By the end of December, total assets of credit institutions amounted to 68.4 billion kroons, of which two thirds or 41 billion kroons were loans. On an average, the loan portfolio increased by 25%, although the slowdown of the loan growth of financial institutions from the second quarter onward reduced the annual increase to 19% in December (see Figure 2.7).

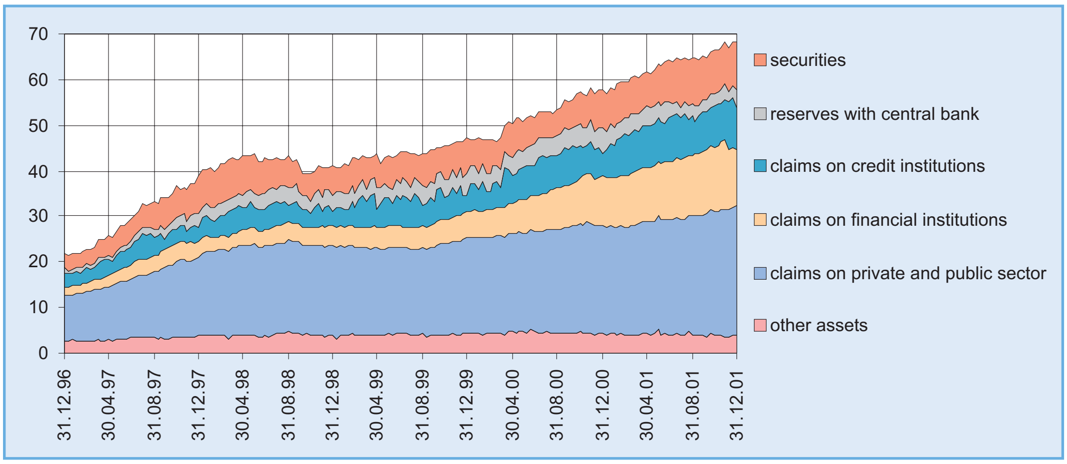

Figure 2.7. Banks' total assets (EEK billion)

In 2001 the formation of the loan portfolio was characterised by long-term loans related to real estate purchases and development. By the end of the year, real estate loans accounted for 40% of the 28 billion kroons loan portfolio of the public and real sector. Real estate loans to legal entities stood at 5.6 billion kroons and those to private individuals made up 6 billion kroons. Despite the rapid surge of the loan burden of private individuals in recent years, it is still low in Estonia, estimated at one sixth of the available income. In developed industrial countries this indicator is, on an average, four times higher. Therefore, private borrowing that accelerated in 2001 did not pose any direct threat to the balance of the economy. Of economic sectors, industry, trade and transit trade received the most financing in 2001. Funds granted to the sheltered sectors – construction, energy, hotels and restaurant services – decreased as compared to earlier years.

The quality of the loan portfolio was stably good throughout the year, despite growing uncertainty of the external environment after the 11 September tragedy in the USA. Loans overdue more than 60 days accounted for about 3% of the loan volume of the public and the real sector. Provisioned loan claims were stable at just 2% of the loan portfolio.

As a normative factor, the **securities portfolio** was affected by the introduction of limits to foreign assets that could be applied to the reserve requirement. Since the introduction of the liquidity portfolio option (reserve requirement met with foreign debt securities and reverse repurchase agreements) banks have used it actively and the share of debt securities in the security portfolios of credit institutions increased on the account of stocks kept for the purpose of trading.

The structure of the securities portfolio of the banking sector was also clearly influenced by the expansion of Hansapank into Lithuania through the acquisition of Lietuvos Taupomasis Bankas (LTB) in May 2001. As a result of this deal, the share portfolio of the daughter companies doubled and even quadrupled against the year 2000, due to the increase of the share capital of LTB in August.

Although the growth of **deposits** slowed down in the first nine months of 2001, a temporary acceleration occurred from November. In the structure of resources, the share of local private individuals' deposits is constantly increasing and crossed the 30% line in 2001. Although the share of time deposits increased at the beginning of the year, the lowering of their interest rates boosted the share of demand deposits to 48%. The share of institutional foreign liabilities shrank to 20% of the external assets. While in the first half of the year a considerable part of external assets consisted of bonds, then in the second half of the year loans became dominant (see Figure 2.8). The ability to attract resources regardless of the growing risks of the external environment testifies to the reliability and strength of the Estonian banking sector.

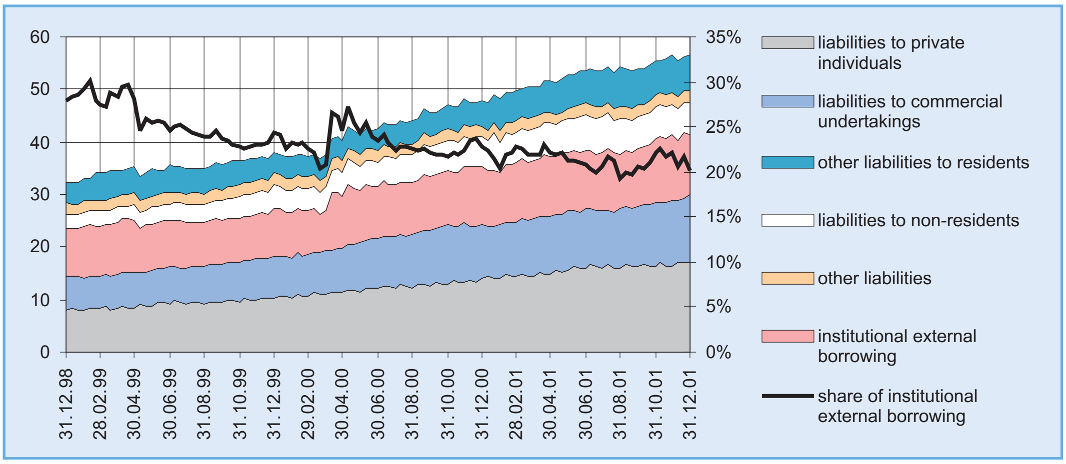

Figure 2.8. ***Banks' external liabilities (EEK billion, the left scale) and share of institutional external borrowing (the right scale)***

Profitability and Risks

According to non-audited data, the banking sector earned a record profit of 1.69 billion kroons in 2001, of which half was gained in the fourth quarter from the exceptional income of Hansapank's deal. Net profitability exceeded the respective indicator of the year 2000 by more than two times as income grew faster than costs – by 35% and 46%, respectively. Even without the exceptional income, net profitability of the banking sector was the highest of the past three years, reaching approximately 15%. The general decline of interest rates on the whole supported banks' profits, with interest expense falling 20% more than interest income. However, the price difference narrowed, first of all due to the considerable increase of interest-bearing assets, which outstripped the growth of interest-bearing liabilities.

Although the liquid assets of banks have decreased and positions by terms have tightened, the banking sector risks have fallen, as can be seen from the improved capital adequacy. The relatively large share of liquid assets in earlier periods was more of a problem, creating situations when high-yielding and riskier loan and investment projects were preferred in order to guarantee capital productivity. In addition to improvements in banks' risk management, the stability of the economic environment has also had a positive impact on the profits of banks and reduced their risks.

Capital adequacy increased from 13.2% in December 2000 to 14.3% in December 2001 (see Figure 2.9). The reason for this was the fact that the growth of net own funds outstripped by more than a half the growth of risk-weighted assets. The banks' capital and reserves were boosted by subordinated loans, higher share capital and profits from earlier periods. By the categories of assets, the biggest increase occurred in the 50% risk weight group, which points to active issuing of secured real estate loans.

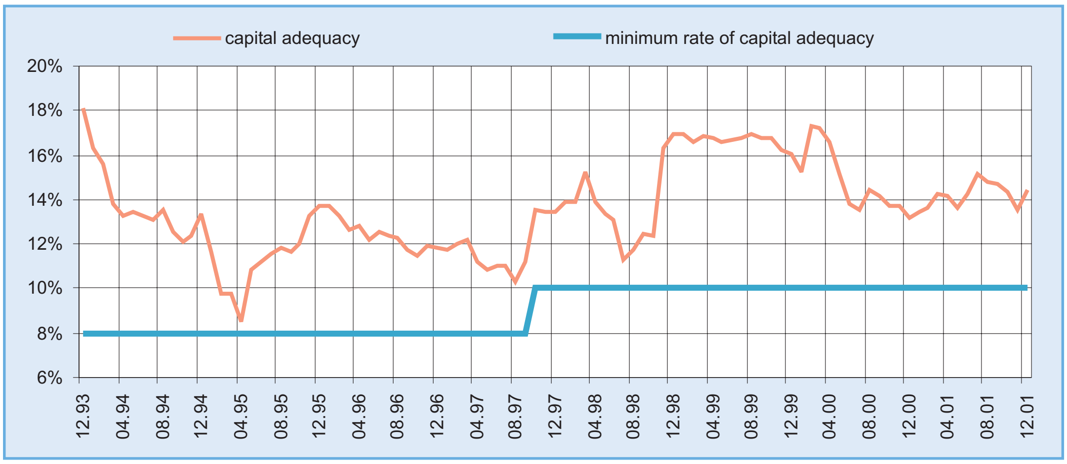

Figure 2.9. ***Banks' capital adequacy***

Due to the introduction of the possibility to include foreign assets in the reserve requirement, **the structure of liquidity** changed in 2001. The means of credit institutions deposited at Eesti Pank decreased in favour of foreign reverse repurchase agreements and bonds. The liquidity of banks was high in the first half of the year and liquid assets made up an average of 22% of total assets. In the second half of the year, liquidity fell below 20% of total assets but stabilised at 19% in November-December.

On the assets' side, the share of long-term loan portfolio increased, mostly in relation to real estate loans. On the liabilities' side, the demand deposits of the real sector continued to grow in the context of positive economic development and financial deepening. Therefore, demand liabilities exceeded claims by 30% of the balance sheet volume, whereas in 2000 this indicator had been 23%. However, regarding the over two-year category, the share of claims in total assets increased from 32% to 37%.

The open foreign currency position increased mostly on the account of loans, of which the overwhelming majority was tied to the euro. The share of foreign currency deposits decreased in favour of kroon deposits, which means that in connection with the switchover to the euro cash more foreign currency deposits were translated into kroons than into euro. Thus, the increase of foreign currency deposits was smaller than the increase of foreign currency loans. The role of off-balance sheet transactions – mostly swaps and forwards – has increased in hedging exchange risks, although their volume cannot be fully compared to the balance sheet transactions.

Securities Market

The **bond market** capitalisation was higher in 2001 than the average of 2000 (see Table 2.3). The volume of new issues nearly doubled – while 3.96 billion kroons worth of bonds were issued in 2000, then the respective sum for 2001 was 6.56 billion kroons. The volume increased because of non-residents who issued 82% of all bonds. A clear shift could be seen in 2001 from three-month bonds towards 12-month bonds. The average interest rate fell from 5.3% to 4.0%.

The **stock market** began the year 2001 with a decline, followed by a rise in April, which peaked out at the end of May when the stock market index Talse reached its highest level of 2001 at 150.6 points. In summer the turnover of the stock market diminished and in August weakness of the world economy dragged the stock prices down. The aftermath of the September terrorist attacks in the USA took the Talse index to its lowest for the year. However, the continuing recession in the USA and Europe increased the popularity of emerging markets in the fourth quarter in expectation of higher yields. As a result, the Tallinn Stock Exchange saw a new rise in November, which continued at the beginning of 2002 (see Figure 2.10).

Table 2.3. Most important indicators of stock market (EEK billion)

	1995	1996	1997	1998	1999	2000	2001
Capitalisation of stock market	**3.2**	**13.4**	**24.5**	**15.1**	**34.3**	**37.0**	**36.8**
o/w non-resident investors	31%	35%	39%	37%	63%	66%	62%
Instruments							
Shares	2.2	10.5	18.9	10.8	29.9	32.8	31.3
Bonds	0.9	2.3	4.0	3.7	3.2	3.7	4.4
Investment fund stocks and shares	0.1	0.5	1.5	0.4	1.2	0.4	0.9
Subscription rights	–	–	0.1	0.2	0.1	0.2	0.2
Turnover of all market	**0.01**	**4.1**	**34.1**	**33.7**	**15.2**	**14.1**	**12.1**
Capitalisation of Tallinn Stock Exchange	–	9.0	16.4	8.3	28.3	31.0	26.4
Turnover of Tallinn Stock Exchange	–	2.3	22.0	13.4	4.5	5.5	4.1
Capitalisation of all market/GDP	8%	26%	39%	20%	45%	44%	39%
Turnover of all market/capitalisation	3%	31%	139%	223%	44%	38%	33%
Turnover of Tallinn Stock Exchange/capitalisation	–	26%	134%	161%	16%	18%	16%

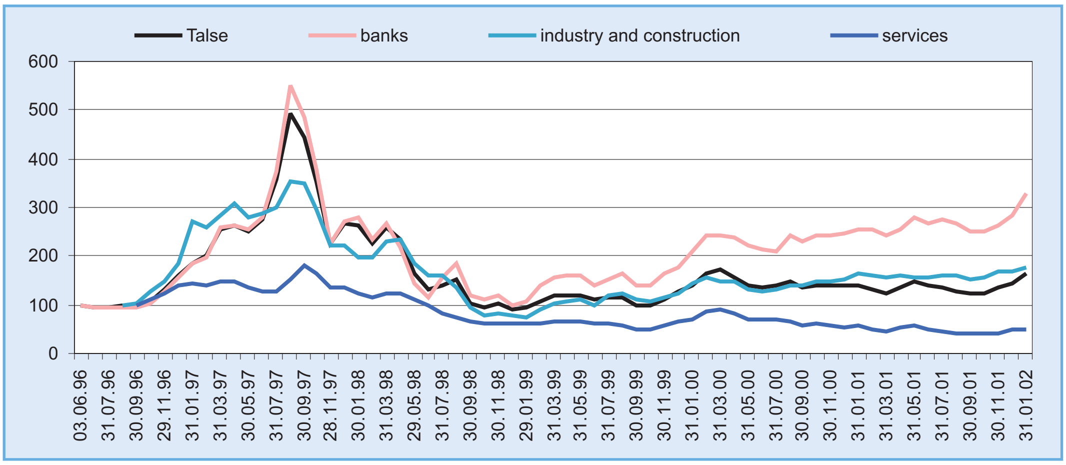

Figure 2.10. Talse and indices of stocks traded on the Tallinn Stock Exchange by sectors of economy (points)

In February 2001 the Finnish stock exchange Helsinki Exchange Group (HEX) acquired a strategic holding in the Tallinn Stock Exchange with the aim of starting trading with Estonian securities in the HEX system and thus make trading with securities quoted at the Estonian stock market easier for foreign investors. Trading with Estonian securities in the HEX system began on 25 February 2002. The most important change lies in the fact that quoting and trading is now done in both Estonian kroons and euro, whereas financial settling is still carried out in Estonian kroons. Switchover to the HEX trading system brings along thorough changes in the rules of the Tallinn Stock Exchange, aimed at increasing the transparency and reliability of the stock market.

Investment Funds

The investment funds' market entered the phase of rapid growth in 2001, which boosted the volume of the funds by more than 1.5 billion kroons over the year (see Figure 2.11). The share of interest rate funds in the total volume of the funds increased from 17% to 25%, mostly at the expense of money market and stock funds, which accounted for 70 and 4%, respectively, of the total volume of funds. The preferential development of interest rate funds can be attributed to their higher-than-average yield as compared to the money market and stock funds.

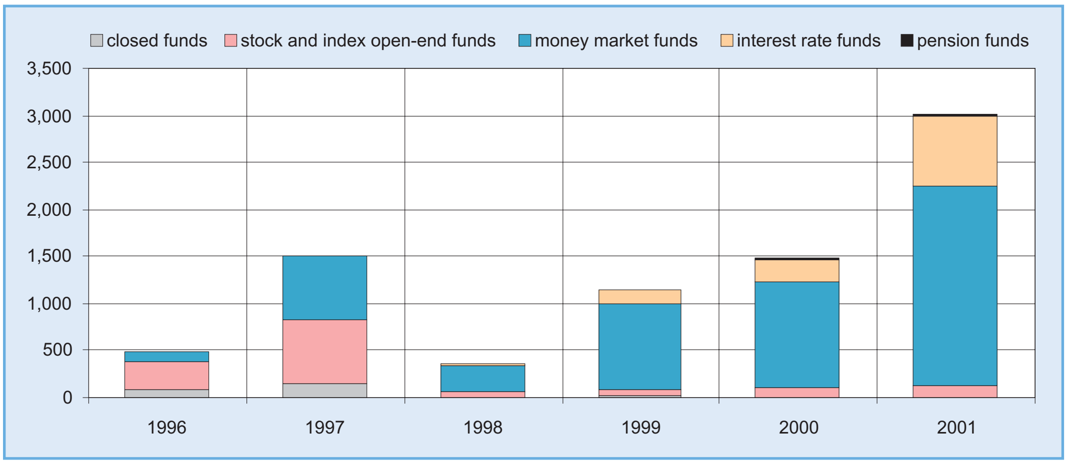

Figure 2.11. Volume and structure of investment funds (EEK m)

The growth of investment funds has been accompanied by the creation of new funds and this process received a new boost from the adoption of the Pension Plan Act, which clarified the future of pension funds. In 2001, six new investment funds were established, one of which, however, closed down before the end of the year. Two of the new funds were based on the US dollar instruments, two were voluntary pension funds and one was based on the stock markets operating in the Baltic Sea area. However, the creation of voluntary pension funds has not increased the share of pension funds in the total volume of funds, which is slightly over 1%.

Insurance

Restructuring continued in the non-life insurance market and as a result one insurer that so far belonged to mostly Estonian investors got a new strategic foreign owner. The common feature of the changes concerned the strategic separation of non-life insurance divisions from life insurance companies, which so far operated together. As a result of changes in ownership, non-life insurance companies with non-residents as strategic owners now control over 85% of the non-life insurance market.

In 2001, non-life insurance companies collected 1.39 billion kroons of premiums, ie 14% more than in 2000. The biggest increase was recorded in voluntary corporate motor vehicle insurance, which accounted for 35% of total premiums. Despite the growth of the real estate and loan market, there occurred no increase in the volume of property insurance premiums.

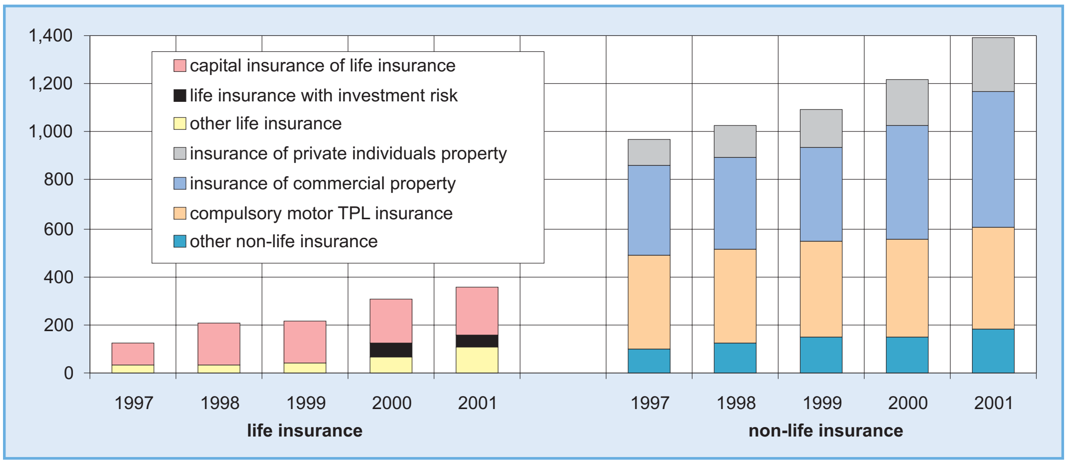

Figure 2.12. Gross premiums collected by insurance companies (EEK m)

The life insurance market has stabilised. The volume of premiums increased at a stable rate throughout the year. Life insurance companies collected 360 million kroons of premiums, which is 17% more than in 2000. The main increase of premiums took place in pension insurance, the share of which grew from 13% to 20% in the total volume of life insurance premiums. Other more common categories of insurance included capital insurance and investment risk life insurance, which, respectively, collected 55% and 15% of the total life insurance premiums (see Figure 2.12).

Leasing

Leasing financing displayed strong growth in 2001, based mainly on the increase of passenger car and real estate leasing. As a result, the leasing portfolio increased by 3.2 billion kroons year-on-year, bringing the total volume to more than 12.4 billion kroons. Due to the rapid development of real estate leasing and the introduction of special instalment plan products the share of instalment sale continued to grow, while the share of capital rent diminished. Alongside the growth of leasing financing the factoring portfolio increased considerably as well, from 900 million kroons to 1.7 billion kroons.

The most popular leasing objects are still passenger cars, the share of which exceeds 30% of the total leasing portfolio. The share of real estate increased, too, amounting to slightly under 30%. Of economic sectors, real estate, renting and business services contributed the most to the leasing portfolio, accounting for 22%. The share of industry and transport was also considerable. A large portion of financing into real estate leasing has been granted to private individuals who increased their real estate portfolio by more than 400 million kroons – to 1.2 billion kroons. The share of it in the portfolio was, however, considerably smaller than the share of private individuals' real estate loans in the banking portfolio.