

V OTHER FINANCIAL MARKETS

■ Investment Funds

Arising from consistently low money market interest rates and spurred by delayed interest rise expectations the **yields** of money market and interest funds declined in the first three quarters of 2004. Growth in the assets of investment funds that had started in the second half of 2003 continued to slow down hand in hand with a rather modest increase in the total savings of the non-financial sector (see Figures 5.1 and 5.2). Because of soaring real estate prices companies and households alike preferred real estate investments offering higher yields. Households' savings behaviour was also affected by payments into the pension insurance system.

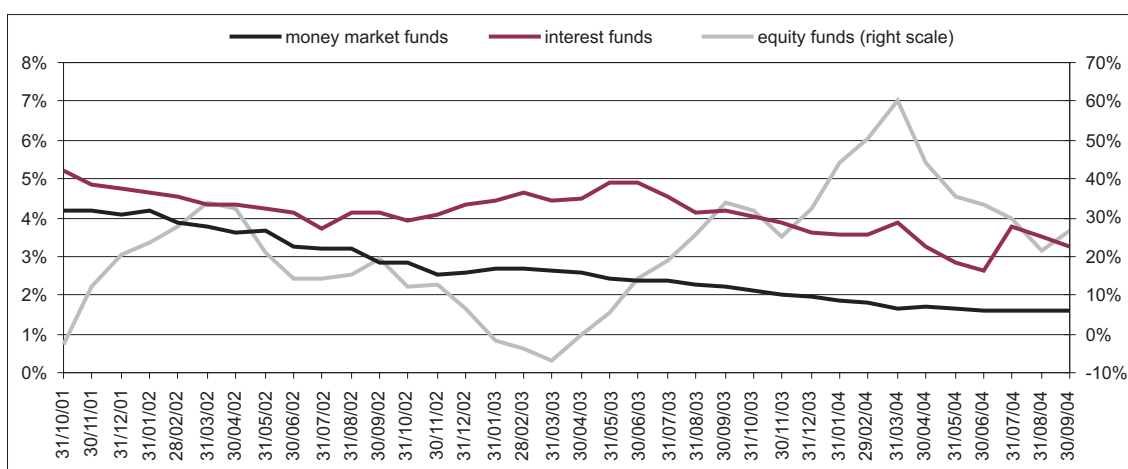


Figure 5.1. Average yield of investment funds

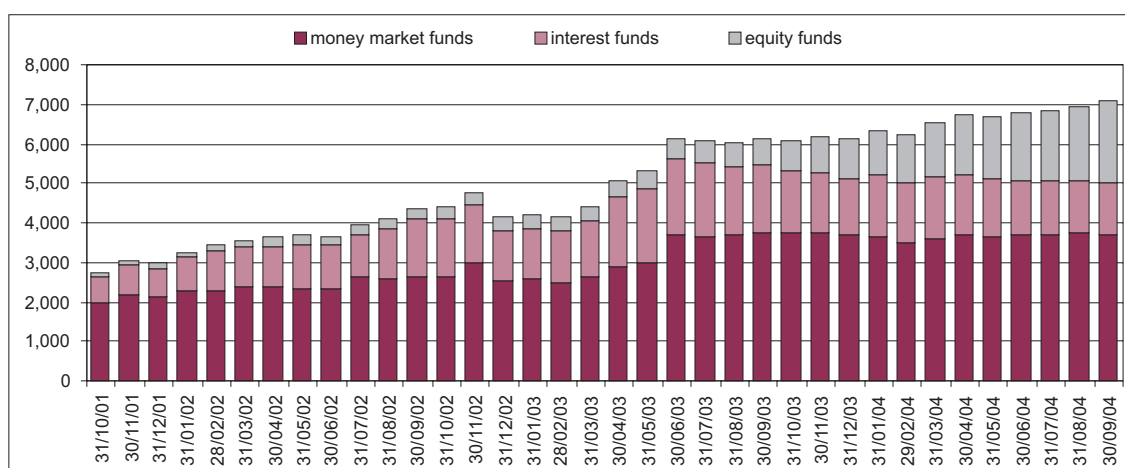


Figure 5.2. Volume of investment funds' assets (EEK m)

Units in more liquid **money market funds** that offer more stable yields still account for a major part of the volumes of investment funds. Until mid-2003 **interest funds** also posted substantial rises, but afterwards the fast growth that continued in the stock exchanges in Central and Eastern European countries and the recovery in world stock markets increased the yields of **stock funds** and spurred interest in stock investments. An evidence of such developments is the decline in the assets of interest funds and multiple

growth in the assets of stock funds, which reached two billion kroons. With another billion kroons added since the beginning of 2004 stock funds outpace interest funds 1.5 times in volume.

Since September 2003 **the share of foreign assets** in the assets of funds has increased, amounting to 62% in September 2004 (see Figure 5.3). The funds channelled 73% of foreign assets into the securities markets of the European Union, meanwhile investments into the United States and other markets outside the European Union have increased (see Figure 5.4). Fund managers are positive about further rises in the markets, in particular in stock markets, of the new EU member states. This in turn might further increase the share of investments into these markets in the future. Investments in domestic stock and bond markets and domestically issued units of investment funds amounted to 1.69 billion kroons at the end of September, i.e. 20% of the assets of the funds.

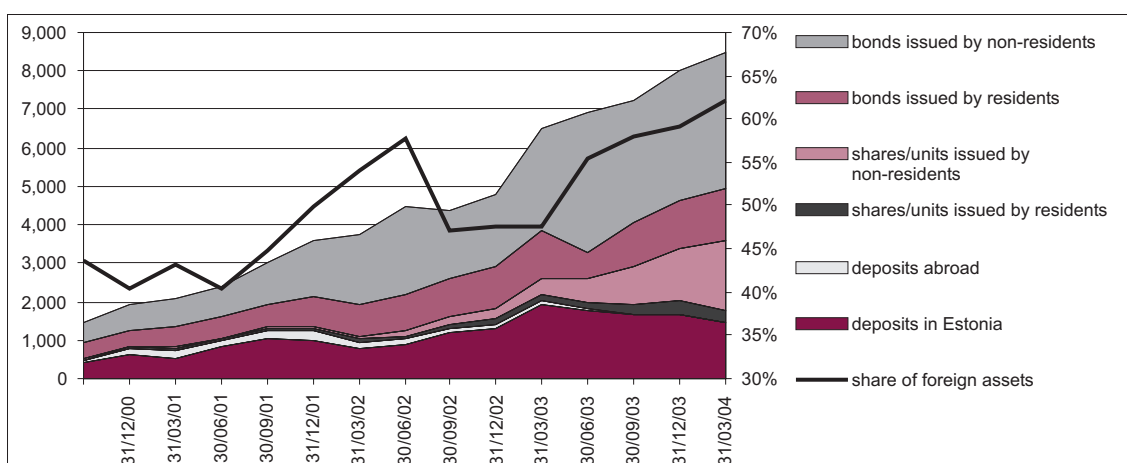


Figure 5.3. Structure of investment and pension funds' assets (EEK m; left scale) and share of foreign assets (%; right scale)

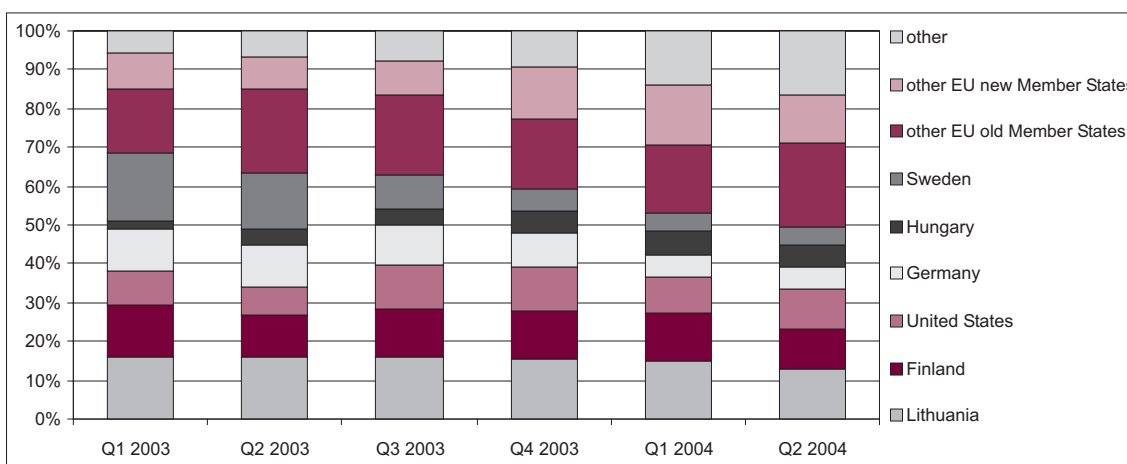


Figure 5.4. Foreign investments of investment and pension funds by residency

■ Pension Funds and Insurance

The number of people who had joined **the second pillar of the pension system** rose above 400,000 in the third week of September (in September 2003 the level of 300,000 was passed) while the assets of the funds crossed the threshold of two billion kroons (see Figure 5.5). By the end of October, when the fourth wave of subscriptions ended, the total number of subscribers rose above 423,000, which means that 71% of the employed (64% of the labour force) would make payments into the system at the beginning of 2005.

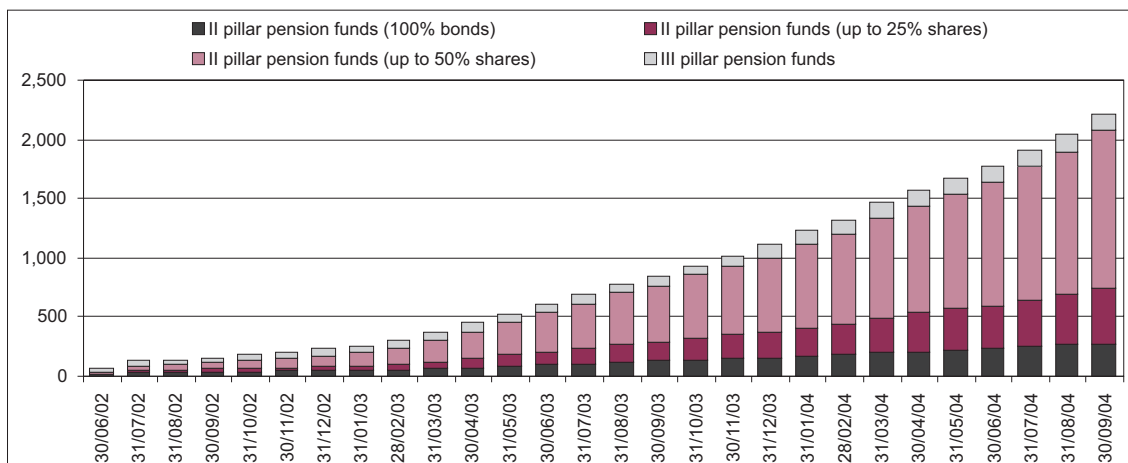


Figure 5.5. Value of pension funds' assets (EEK m)

According to the data released by Pensionikeskus (Pension Centre), subscription activity was spread more evenly over the period compared to earlier subscription periods and further on increasing activity of changing fund choices can be expected. Given the average monthly growth in second pillar pension funds, which has been 130 million kroons, the volume is expected to rise to some 2.5 billion kroons, i.e. 1.9% of GDP by the end of 2004. Since monthly payments into second pillar pension funds are predicted to rise to 160–200 million kroons by the year 2005, the 3.0 billion kroon level will be exceeded in the spring of 2005 and the threshold of 4.0 billion kroons at the end of 2005.

80% of the assets in the second pillar pension funds have been placed into the most liquid foreign markets and the volume of local stocks stands at just 104 million kroons (see Figure 5.6). Given also the insignificant share of pension funds among the investors into the Estonian stock market, the contribution of second pillar pension funds upon supporting price rises in the local stock market appears to be modest.

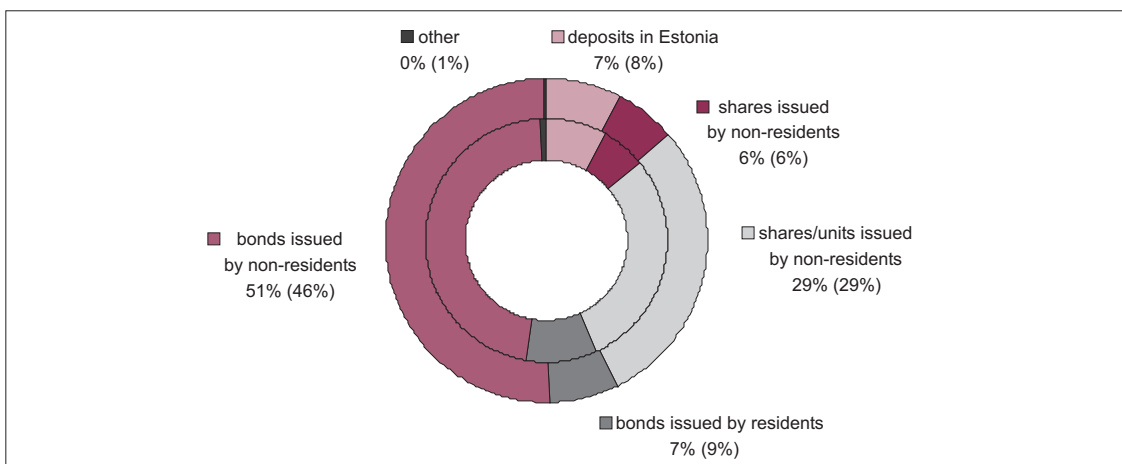


Figure 5.6. Structure of II pillar pension funds' assets as at 30 June 2004 (position on 31 December 2003 indicated in brackets)

At the end of the third quarter of 2004 the number of subscribers to the third pillar of the pension system was nearly 68,400, i.e. 11.5% of the labour force. The assets amounted to nearly 870 million kroons of which the insurance contracts reserve accounted for 725 million kroons, i.e. 83%¹.

¹ Source: Pensionikeskus.

Even though third pillar investments have mostly taken the form of insurance contracts, the share of funds in voluntary pension insurance investments has increased from 11% to 17% in the past six months, boosting the assets of third-pillar funds to 140 million kroons by the end of September. The investments of third-pillar funds into foreign markets have increased from 53% to 70% in six months (see Figure 5.7). Investments into foreign markets have primarily been carried out at the expense of domestic low-yield deposits and to a lesser extent at the expense of bonds and stocks issued by local companies. Therefore the total volume of stocks, units and bonds issued by residents was very modest at the end of June, amounting to 33 million kroons.

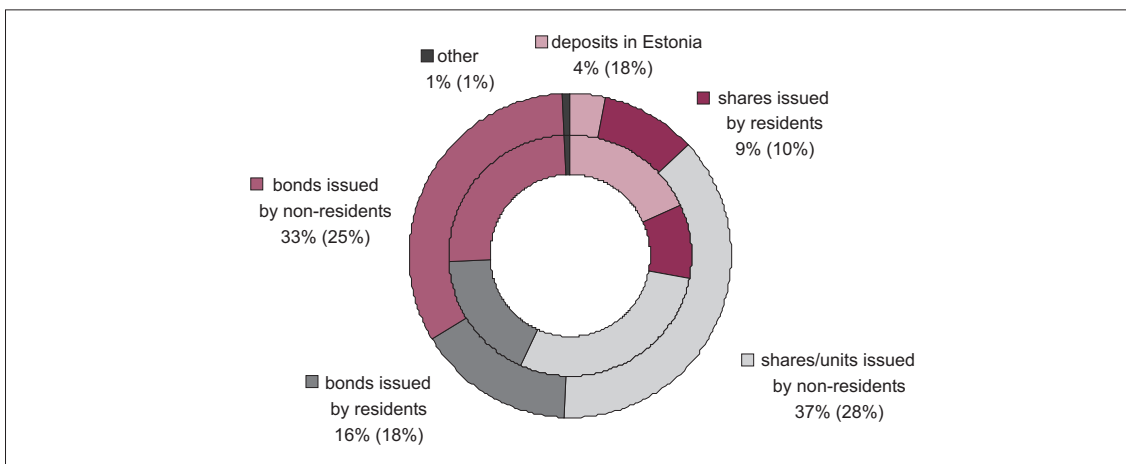


Figure 5.7. Structure of III pillar pension funds' assets as at 30 June 2004 (position on 31 December 2003 indicated in brackets)

Insurance Companies

The increasing domestic demand and the spread of voluntary pension insurance have continued to accelerate the development of the insurance market. The pace of **life insurance market** growth has accelerated in the past year compared to the year before, reaching an average of 40% (21% at the same time in 2003). The growth was the fastest in the second quarter of 2004, amounting to 50%, year-on-year (see Figure 5.8). Insurance companies collected 750 million kroons in gross premiums, which is 41% more compared to the same period in 2003. The total volume was mainly boosted by premiums collected under unit-linked life insurance contracts, which also included third-pillar pension system products sold in the course of active marketing campaigns. Consequently, insurance companies related to banks have increased their market share most.

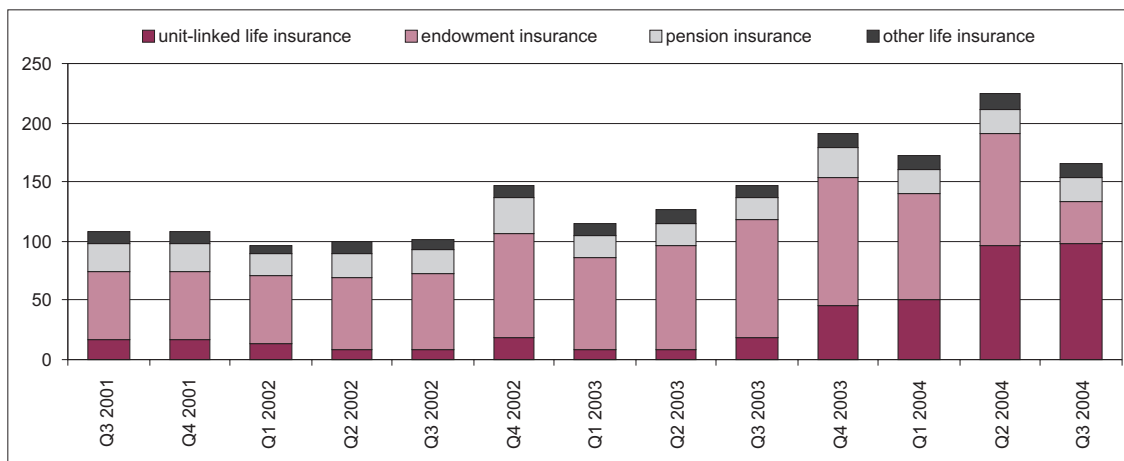


Figure 5.8. Gross premiums collected by life insurance companies (EEK m)

Life insurance liabilities to the policy holders/insurants amounted to 1.6 billion kroons at the end of June 2004 (approximately 6% of households' financial assets²), around a half of which were insurance reserves of supplementary funded pension.

A certain redistribution of market shares continued in the **non-life insurance** market. Non-life insurance companies collected 2.3 billion kroons in gross premiums in the past year, which is 22% more year-on-year (the growth was 18% in the same period of 2003; see Figure 5.9). The growth in premiums collected arises from successful car sales as well as from the fact that the real estate market has become more active.

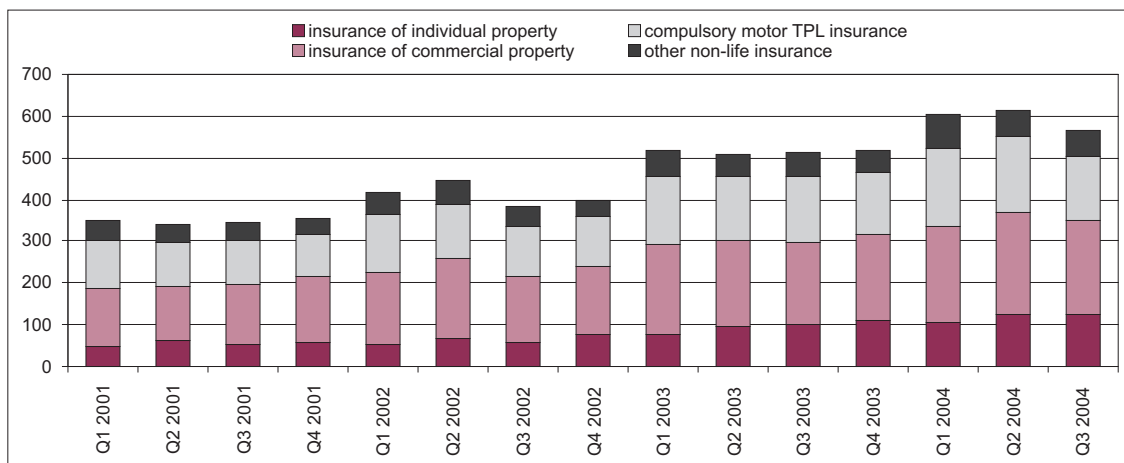


Figure 5.9. Gross premiums collected by non-life insurance companies (EEK m)

² Households' financial assets include deposits, units of pension funds and life insurance.