

Eesti Pank
Bank of Estonia

Estonian Balance of Payments Yearbook 2005

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I ESTONIA'S BALANCE OF PAYMENTS

INTRODUCTION

As regards economic growth, external environment was favourable for the Estonian economy in 2005. In line with the recovering global economy, the goods exports from Estonia increased at a rate that outpaced that of earlier years. The average annual real GDP growth accelerated to 9.8%, which can be regarded as faster than the potential level.

GDP growth was broad-based and comprised nearly all fields of activity and branches of manufacturing. Owing to rapid economic growth also the increase in employment, which stood at approximately 2% as an annual average, was one of the fastest in recent years. Meanwhile unemployment decreased and the rate of participation in the labour market started to increase. Regardless of strong external demand, the year 2005 was characterised by the creation of new jobs, particularly in the services sector.

As of summer, the growth in mainly investment-based domestic demand accelerated again while the rate of GDP growth in the construction and real estate sectors went up to nearly 10%. Even though the European Central Bank (ECB) kept monetary policy interest rates at an earlier level throughout the year and a rise of 25 basis points occurred only in December, the interest rates on loans issued in Estonia continued to decline until autumn. Hence also credit growth remained robust and the increase in loan interest rates based on the expectations of an ECB interest rate rise reached Estonia as late as during the final months of the year. The average annual interest rates were record low in 2005.

Traditionally, Estonia's economic development has been underpinned by balanced fiscal policy, which at the time of rapid economic growth has led to a consolidated budget surplus. In 2005, general government savings again remained at the usual level and the fiscal year ended with a surplus for the fifth consecutive year. Besides general government savings also household savings started to grow fast in 2005. A large part of the savings was channelled into residential construction and thus the growth in household savings had a smaller than expected positive impact on the external balance. Compared to the year before, the current account to GDP ratio improved by nearly 2 percentage points, declining to 11%.

Like earlier, foreign direct investment played a key role in covering the gap between savings and investment. Since these did not cover the entire need for financing, the external debt continued to increase. By the end of the year, the gross external debt increased to 90% of GDP.

While the increase in global oil prices led to a 4.1% growth in annual average consumer prices in Estonia, the price of fuel produced from local oil shale became competitive. All in all, the adverse effect of more expensive oil on the trade balance remained small.

Although the estimates of overall domestic economic equilibrium did not indicate deviations from the development track considered sustainable in the long term, an analysis of the real estate market indicated possible imbalances. This was reflected in the fast growth of housing loans and real estate prices, constraints on the supply side, and the faster than average rise in labour costs in the construction sector. From the aspect of external balance, this translated into a relatively large current account deficit, even though it decreased as a ratio to GDP. Thus, reducing the current account deficit remains one of the main economic policy objectives of the government.

Tables 1.1 and 1.2 provide an overview of Estonia's balance of payments and its key indicators.

Table 1.1. Estonia's balance of payments (EEK m)*

	1999	2000	2001	2002	2003	2004	2005
Current account	-3,607.7	-5,178.1	-5,643.6	-12,908.0	-15,415.7	-18,351.6	-18,138.4
Goods and services	-3,755.4	-3,167.6	-2,247.6	-8,564.6	-10,199.6	-11,918.7	-10,667.8
Goods	-12,096.9	-13,371.4	-13,542.4	-18,455.3	-21,666.7	-25,499.0	-23,295.9
credit (f.o.b.)	36,995.2	56,118.1	58,798.5	57,948.7	63,443.7	75,199.5	98,148.1
debit (f.o.b.)	-49,092.1	-69,489.5	-72,340.9	-76,404.0	-85,110.4	-100,698.5	-121,444.1
Services	8,341.5	10,203.8	11,294.8	9,890.7	11,467.1	13,580.3	12,628.1
credit	21,951.9	25,263.4	28,135.4	28,164.3	30,674.0	35,666.3	39,836.2
debit	-13,610.4	-15,059.6	-16,840.6	-18,273.6	-19,206.8	-22,086.1	-27,208.1
Income	-1,505.8	-3,458.9	-4,898.6	-5,391.1	-7,375.3	-7,951.0	-8,729.4
credit	1,964.3	2,032.5	3,022.2	3,371.3	3,449.5	5,484.5	8,463.0
debit	-3,470.1	-5,491.4	-7,920.8	-8,762.4	-10,824.8	-13,435.3	-17,192.3
Transfers	1,653.5	1,448.4	1,502.6	1,047.7	2,159.4	1,518.0	1,258.6
credit	2,257.5	1,944.2	2,016.4	2,065.6	3,670.8	5,276.7	6,267.4
debit	-604.0	-495.8	-513.8	-1,017.9	-1,511.4	-3,758.6	-5,008.7
Capital and financial account (reserve assets excluded)	5,916.6	7,433.8	5,026.3	13,055.3	18,260.4	21,532.8	23,235.2
Capital account	17.8	439.1	253.2	636.4	685.2	1,145.3	1,767.5
Financial account	5,898.8	6,994.7	4,773.1	12,418.9	17,575.2	20,387.6	21,467.7
Direct investment	3,208.2	5,601.4	5,901.3	2,611.8	10,716.0	8,746.8	29,019.2
Abroad	-1,239.8	-1,043.1	-3,528.3	-2,188.4	-2,149.3	-3,388.6	-7,727.3
In Estonia	4,448.0	6,644.5	9,429.6	4,800.2	12,865.3	12,135.5	36,746.4
Portfolio investment	156.0	1,417.5	-665.0	2,442.4	2,431.6	9,102.6	-27,412.6
Assets	-1,894.9	153.1	-2,100.2	-3,182.9	-5,351.5	-4,775.7	-10,818.3
Equity securities	187.0	53.3	236.5	9.1	-1,028.9	-2,893.5	-4,848.9
Debt securities	-2,081.9	99.8	-2,336.7	-3,192.0	-4,322.7	-1,882.3	-5,969.4
Liabilities	2,050.9	1,264.4	1,435.2	5,625.3	7,783.2	13,878.3	-16,594.2
Equity securities	3,292.3	-538.8	568.4	912.2	1,526.9	2,205.3	-16,179.7
Debt securities	-1,241.4	1,803.2	866.8	4,713.1	6,256.2	11,673.0	-414.6
Financial derivatives	0.0	17.5	-34.7	-63.7	-19.3	-8.4	-97.6
Assets	0.0	-77.8	-0.3	-43.2	-139.1	-35.1	13.6
Liabilities	0.0	95.3	-34.4	-20.5	119.9	26.8	-111.1
Other investment	2,534.6	-41.7	-428.5	7,428.4	4,446.8	2,546.4	19,958.8
Assets	-1,651.2	-2,638.3	-3,716.7	695.1	-2,284.6	-11,168.8	-10,707.0
Long-term	421.8	-1,108.7	-322.7	-1,083.0	-565.6	-6,052.6	5,432.0
Short-term	-2,073.0	-1,529.6	-3,394.0	1,778.1	-1,719.0	-5,116.2	-16,138.9
Liabilities	4,185.8	2,596.6	3,288.2	6,733.3	6,731.4	13,715.2	30,665.7
Long-term	1,691.5	-549.9	1,814.4	1,829.0	4,309.0	3,740.5	16,085.7
Short-term	2,494.3	3,146.5	1,473.8	4,904.3	2,422.4	9,974.6	14,580.0
Errors and omissions	-511.3	14.8	-112.9	779.5	-532.6	244.2	-212.8
Overall balance	1,797.6	2,270.5	-730.2	926.8	2,312.0	3,425.4	4,883.8
Reserve assets	-1,797.6	-2,270.5	730.2	-926.8	-2,312.0	-3,425.4	-4,883.8

* After additional information is received, data of the earlier periods have been updated accordingly.

Table 1.2. Internationally comparable key balance of payments indicators

	1999	2000	2001	2002	2003	2004	2005
Foreign trade turnover (% of GDP)	105.3	135.2	125.5	114.9	116.7	124.3	133.2
Exports and imports ratio (%)	75.4	81.1	81.1	75.9	74.5	74.9	77.3
Nominal effective exchange rate (% compared to the previous period)	117.1	97.3	101.3	102.0	103.6	101.0	100.3
Real effective exchange rate (% compared to the previous period)	107.3	96.2	102.0	101.9	101.7	101.3	101.1
Terms of trade (ratio of exports and imports price indices)	107.9	112.6	118.4	112.2	121.6	122.4	119.6
Overall balance of the balance of payments (change of external reserves; EEK m)	1,797.6	2,270.5	-730.2	926.8	2,312.0	3,425.4	4,883.8
Change of external reserves in ratio to GDP (%)	2.2	2.4	-0.7	0.8	1.8	2.4	3.0
Current account balance (EEK m)	-3,607.7	-5,178.1	-5,643.6	-12,908.0	-15,415.7	-18,351.6	-18,138.4
Current account balance without government transfers (EEK m)	-5,022.8	-6,154.3	-6,639.9	-13,628.4	-17,198.3	-18,878.5	-18,611.2
Current account balance without government transfers (% of GDP)	6.1	6.6	6.4	11.7	13.5	13.3	11.3
Government transfers (net; EEK m)	1,415.1	976.2	996.3	720.4	1,782.6	526.9	472.8
Government transfers (% of GDP)	1.8	1.1	1.0	0.6	1.5	0.4	0.3
Gross external debt (% of GDP)	54.8	54.4	55.6	60.1	68.9	81.2	90.2
External debt servicing (% of total exports)	1.1	1.3	1.0	1.7	0.3	0.2	0.7

ADJUSTMENT OF TIME SERIES OF BALANCE OF PAYMENTS STATISTICS

When Estonia's preliminary balance of payments for the first quarter of 2006 was published on 26 June, the time series published so far were adjusted retroactively up to the year 2000. The main underlying reasons for the adjustment were as follows:

- Adjustment of the time series of the balance of payments statistics in connection with the integration of the time series into the input-output tables of the national accounts system (2000–2002). As a result, the initial data on freight services in the transport sector were revised, which also affected the respective balance sheet item. The items related to foreign aid services and transfers were revised as well in line with adjusting the initial data and harmonising the calculation methodology used in the Statistical Office of Estonia and Eesti Pank. The changes affected the services account as well as the current and capital transfers accounts.
- Regular adjustment of foreign trade data by the Statistical Office and the Customs Board. The data on foreign trade exports and imports as well as on the imports of transport services were revised.
- Adjustment of reinvested earnings – the changeover to the methodically more correct Current Operating Performance Concept (COPC) in 2005 led to an adjustment of the reinvested earnings indicator initially calculated on the basis of retained profit after the actual annual reports indicators became available. The adjustments concern the years 2004 and 2005 and affect the current account income and the financial account direct investment items.

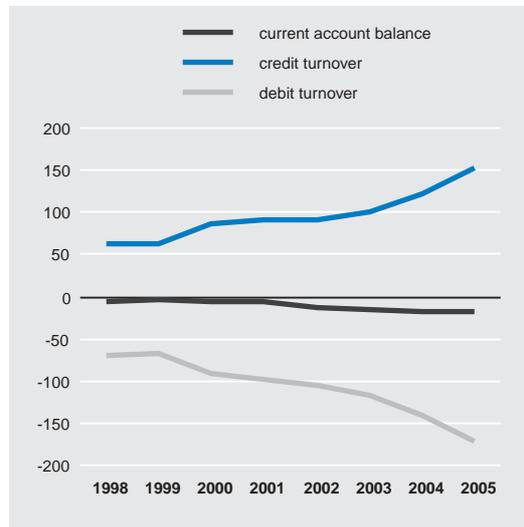
The extent of the adjustment of the balance of payments time series and the underlying key determinants:

Balance of Payments item		2000	2001	2002	2003	2004	2005
Current account	Before (EEK m)	- 5,093.4	-5,889.5	-11,882.9	-15,401.9	-17,963.0	-17,285.8
	Now (EEK m)	-5,178.1	-5,643.6	-12,908.0	-15,415.6	-18,351.6	-18,138.4
	Change (EEK m)	-84.7	245.9	-1,025.1	-13.7	-388.6	-852.6
	Change (% of GDP)	-0,1	0.2	-0.9	0.0	-0.3	-0.5
	Of which:						
	external trade	-0,2	0.3	-0.3	-0.1	-0.7	-0.2
	freight services	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
	business services	-0.5	-0.5	-0.4	-0.1	-0.1	0.0
	government services	1.4	1.7	0.7	0.0	0.0	0.0
	reinvested earnings	0.0	0.0	0.0	0.0	0.0	-0.3
government current transfers	-0.6	-1.1	-0.7	0.3	-1.1	-0.1	
Capital and financial account	Before (EEK m)	5,002.7	5,593.3	11,812.8	15,920.9	19,021.9	17,060.1
	Now (EEK m)	5,163.3	5,756.5	12,128.5	15,948.3	18,107.4	18,351.3
	Change (EEK m)	160.6	163.2	315.7	27.4	-914.5	1,291.2
	Change (% GDP)	0.2	0.2	0.3	0.0	-0.6	0.8
	Of which:						
	capital transfers	0.2	0.2	0.3	0.0	0.1	0.0
reinvested earnings on direct investment	0.0	0.0	0.0	0.0	-0.7	0.3	

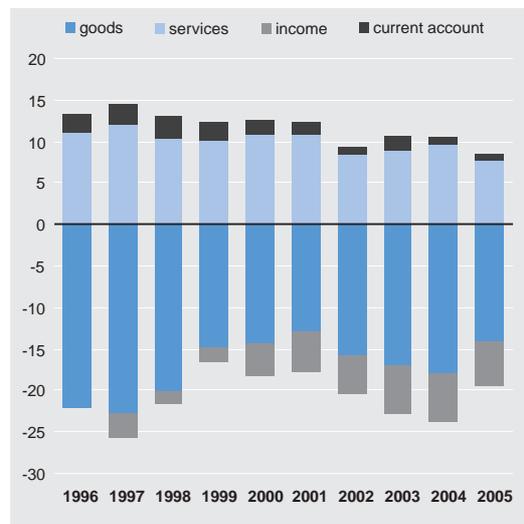
SHORT OVERVIEW

Current account

Estonia's fast economic growth and a slight recovery of global economy in 2005 led to improved external balance in Estonia – the balance of payments current account deficit accounted for 11% of the gross domestic product (13% in 2004). In absolute terms, the deficit remained at nearly the same level as the year before, amounting to 18.1 billion kroons. External balance was affected by fast growth in goods exports as well as by the large imports of capital goods arising from high investment activity. The deficit in the goods and services accounts amounted to 6.5% of GDP (8.4% in 2004). The credit turnover of the current account increased 26% and debit turnover 22%. The EU-25 countries accounted for 76% of the credit turnover and for 78% of the debit turnover. Estonia had the biggest current account surplus with Finland and the largest deficit with Germany.



Current account turnover and balance (EEK bn)



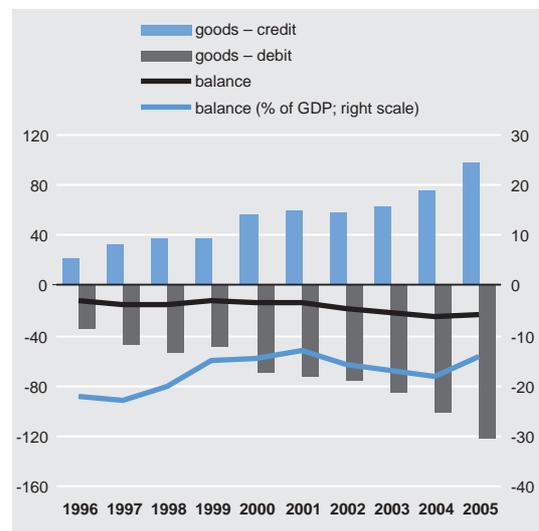
Current account components (% of GDP)

Goods

The deficit in the goods account – the largest component in the current account deficit – decreased by 2.2 billion kroons over the year, amounting to 23 billion kroons and accounting for 14% of GDP in 2005. The exports of goods increased 31% from 2004, i.e. by 23 billion kroons, amounting to 98 billion kroons. Compared to 2004, the growth of goods imports was outpaced by that of exports, accounting for 21%, i.e. 21 billion kroons. Thus, the debit turnover of the goods stood at 121 billion kroons. Compared to 2004, the robust increase in the goods turnover can be attributed to the EU accession as well as to changes in the reporting system effective during the first months of 2004 (transition to Intrastat reporting in declaring intra-Community trade)¹.

The largest groups of export goods were machinery and equipment, timber and timber products, furniture, metal and textile products. Machinery and equipment dominated also in imports, followed by chemical and metal products, and transport vehicles.

Estonia's main trading partner was the European Union that accounted for 78% of the goods exports and for 76% of imports. The partner states from the EU with the largest goods turnover were Finland, Sweden, Germany, Latvia and Lithuania; from the CIS countries Russia, Belarus and Ukraine, and from other countries the United States and Norway regarding exports and China and Japan regarding imports.

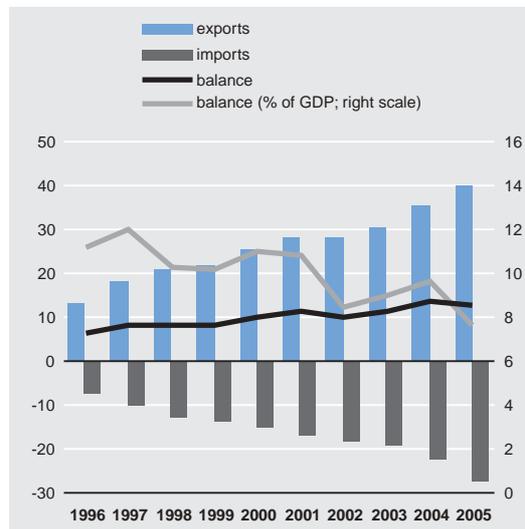


Estonia's external trade balance (EEK bn)

¹ As of 1 May 2004, foreign trade statistics is based on the combination of two reporting systems: trade with non-EU countries is still calculated on the basis of customs declarations submitted to the Tax and Customs Board (the so-called Extrastat), whereas intra-Community trade is registered through the so-called Intrastat survey organised by the Statistical Office (see www.stat.ee/125965). While Extrastat still enables to apply the special trade system, which excludes trade through customs warehouses, then Intrastat does not allow filtering out goods that have moved through intermediate warehouses and that have not really entered Estonia's internal market, thus rather reflecting the principles of the general trade system. Therefore, the general level of both imports and exports of goods is higher than in earlier periods and that peculiarity has to be taken into account when comparing time series. Besides official foreign trade statistics the credit and debit of the balance of payments goods account include several supplements arising from the methodology and estimates of possible under-coverage of the Intrastat data.

Services

The surplus on the services account was 12.6 billion kroons, having decreased by around 1 billion kroons, i.e. 7%, year-on-year. The dynamics of the services turnover was mainly driven by transport services, whereas the imports of services grew much faster than the exports. The share of transport services in the total services turnover remained more or less the same as last year, i.e. 41%. The shares of travel and other business services decreased slightly and accounted for 26% and 17%, respectively, in the total services turnover. The turnover of construction services grew considerably – the volume of both the imports and exports of construction services more than doubled. The share of construction services in the services turnover increased from 4% to 7%, year-on-year.

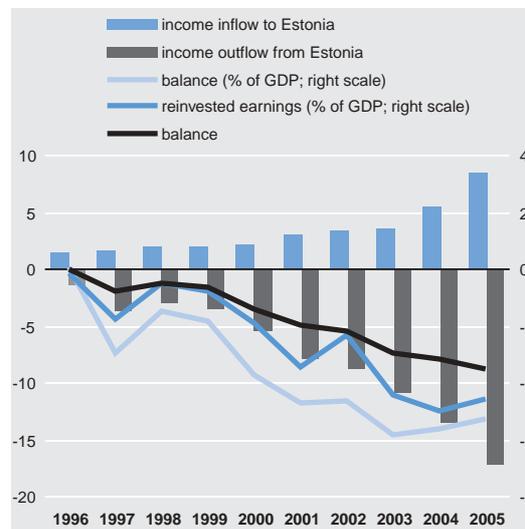


Services account (EEK bn)

Income

The income account deficit decreased 10%, amounting to 8.7 billion kroons. The income earned by Estonian investors abroad (credit turnover) grew by a half and reached a record 8.5 billion kroons. The income earned by non-residents on the capital invested in Estonia and on compensations of employees (debit turnover) increased 28% and stood at 17.2 billion kroons. Labour income formed 38% of the total income earned by residents abroad and 4% of the total income earned by non-residents in Estonia. The rest was investment income.

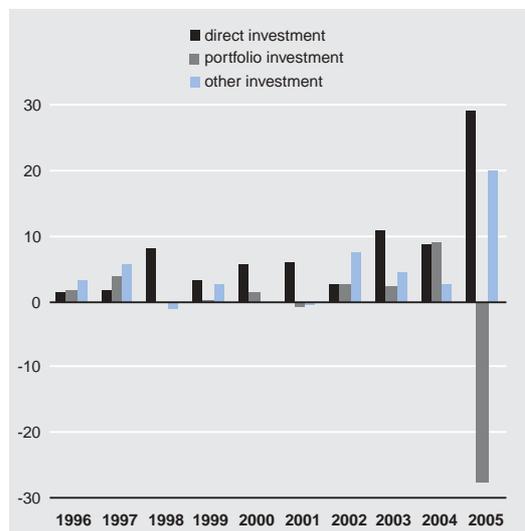
Direct investment income accounted for 62%, portfolio investment income and other investment income both for a fifth of residents' investment income from abroad. As to the investment income earned by non-residents in Estonia, 81% was direct investment income, 9% portfolio investment income, and 10% other investment income. Reinvested earnings accounted for 59% of residents' and for 73% of non-residents' direct investment income. Excluding from the income account reinvested earnings, which involve no actual movement of funds, the income account deficit stood at 0.9 billion kroons.



Income account (EEK bn)

Capital and financial account

The surplus on the capital and financial account in 2005 was record high at 23.2 billion kroons. Other investment capital accounted for most of the foreign capital inflow. The large inter-account turnovers were mainly related to the buying up of the shares in Hansapank, which reflected in increased direct investment and decreased portfolio investment.



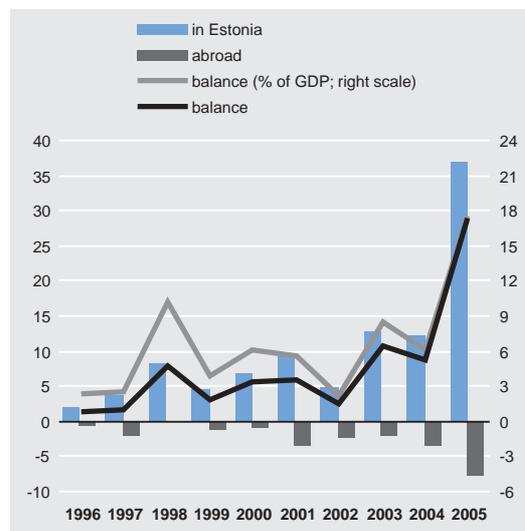
Subaccounts of capital and financial account (EEK bn)

Direct investment

As a result of the takeover of Hansapank, the surplus on direct investment reached a record 29 billion kroons. Excluding the takeover of Hansapank, foreign direct investment in Estonia amounted to 9.8 billion and Estonian residents' direct investment abroad to 7.7 billion kroons.

Equity capital investment accounted for 78% of the direct investment inflow to Estonia, the rest being reinvested earnings and other direct investment capital. Excluding the takeover of Hansapank, foreign direct investment mainly included reinvested earnings.

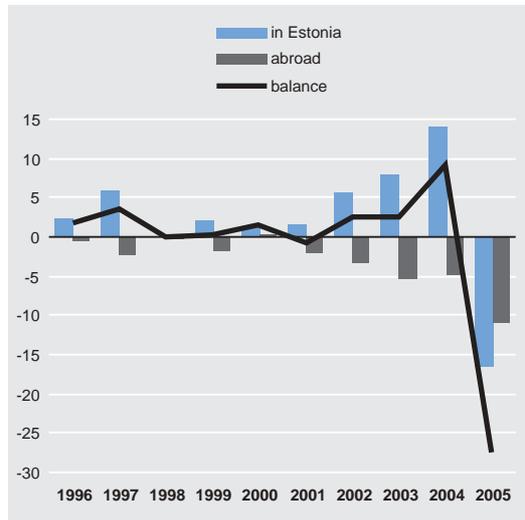
Like in the structure of non-residents' direct investment, equity capital investment also formed a considerable share (67%) of residents' foreign direct investment. Reinvested earnings accounted for 25% and other investment capital for 8%.



Direct investment (EEK bn)

Portfolio investment

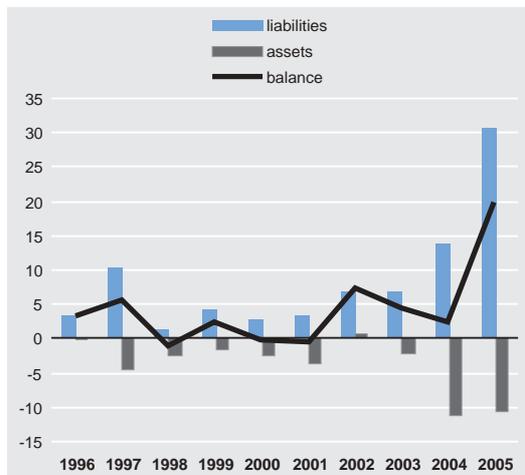
The deficit on portfolio investment also posted a record of 27.4 billion kroons. Portfolio investment claims increased by 10.8 billion while liabilities decreased by 16.6 billion kroons. Excluding the takeover of Hansapank, the net outflow of portfolio investment stood at 4.8 billion kroons. Claims increased mainly due to other sectors' investment in foreign equity and debt securities and the general government's investment in money market instruments. Liabilities decreased primarily because of a decline in credit institutions' liabilities related to equity securities (the takeover of Hansapank).



Portfolio investment (EEK bn)

Other investment

The net inflow of other investment amounted to 20 billion kroons. Claims increased by 10.7 billion kroons. Long-term claims decreased by 5.4 billion kroons, whereas short-term claims increased by 16.1 billion kroons mainly owing to currency and deposits of credit institutions and trade credit claims of other sectors. Other investment liabilities grew by 30.7 billion kroons mainly as a result of an increase in long-term and short-term debt liabilities of credit institutions.



Other investment (EEK bn)

CURRENT ACCOUNT

Estonia's fast economic growth and global economic recovery led to improved external balance of Estonia in 2005 – the current account deficit decreased from 13% of GDP in 2004 to 11% in 2005 (see Figure 1.1). In absolute terms, the deficit declined slightly year-on-year and amounted to 18.1 billion kroons. The current account deficit without reinvested earnings, which include no actual movement of funds, stood at 6.3% of GDP.

Estonia's foreign trade activities were mainly limited to the EU countries (76% of the credit turnover and 78% of the debit turnover; see Table 1.3). Estonia had the biggest surplus with Finland and the biggest deficit with Germany.

Goods

The balance of payments goods account deficit stood at 23 billion kroons in 2005, having decreased by 2.2 billion kroons year-on-year (see Table 1.4). This arose mainly from the faster growth in goods exports compared to imports. Goods exports amounted to 98.1 billion kroons, having increased 31% year-on-year. Goods imports reached 121.4 billion kroons and the growth rate to 21%. Compared to 2004, the robust increase in the goods turnover can be attributed to the EU accession as well as to changes in the reporting system effective during the first months of 2004 (transition to Intrastat reporting in declaring intra-Community trade; see also Footnote 1 on page 10).

According to preliminary **foreign trade statistics**², goods exports stood at 96.9 billion and imports in c.i.f. prices at 127.8 billion kroons. The foreign trade deficit amounted to 30.9 billion kroons, having slightly increased from the 2004 level.

The 30% growth in **goods exports** was most affected by an increase in the exports of machinery and equipment, mineral products, metals and metal products. Exports in all the other groups of goods also grew considerably (see Table 1.5). 55% of the machinery group were mobile phones and their parts, whose exports increased 25% year-on-year and went to Finland, Sweden, Hungary, and Germany. Cables were exported to Finland, Sweden, the United Kingdom and Latvia, and components of electrical equipment to Finland and Sweden. 75% of the exports of mineral products accounted for the re-exports of motor fuel imported from Russia, Lithuania and Belarus to Gibraltar, the United States, Canada and EU Member States. The sales of electricity to Latvia slightly increased, whereas sales to Russia decreased significantly. The main export articles in the metal products group were hot-rolled steel products (to the United Kingdom, Belgium, Ukraine, and Latvia), iron constructions (to Denmark and Finland), and scrap metal (to Turkey, the Republic of Korea, and India). In the timber, timber products and furniture group, timber sleepers were exported to the United Kingdom, construction components and ligneous material to Denmark, Finland, Sweden and Norway, and wooden furniture and prefabricated structures to the Nordic countries, Germany and Latvia. The main articles

² The following analysis is based on the foreign trade statistics compiled by the Statistical Office and does not include either estimates added to the balance of payments goods account arising from lower than expected receipt of data or methodical supplements (repair of capital goods, provisions purchased from abroad, etc.). Imports are in c.i.f. prices and have been analysed by the country of consignment. As of the moment of accession, the terms "exports" and "imports" are only applicable to trading with third countries, while the Intrastat reporting system uses the terms "dispatch of goods" and "arrival of goods". Since the following analysis covers both intra-Community and non-Community trade, the terms "exports" and "imports" have still been used for the sake of simplicity and clarity.

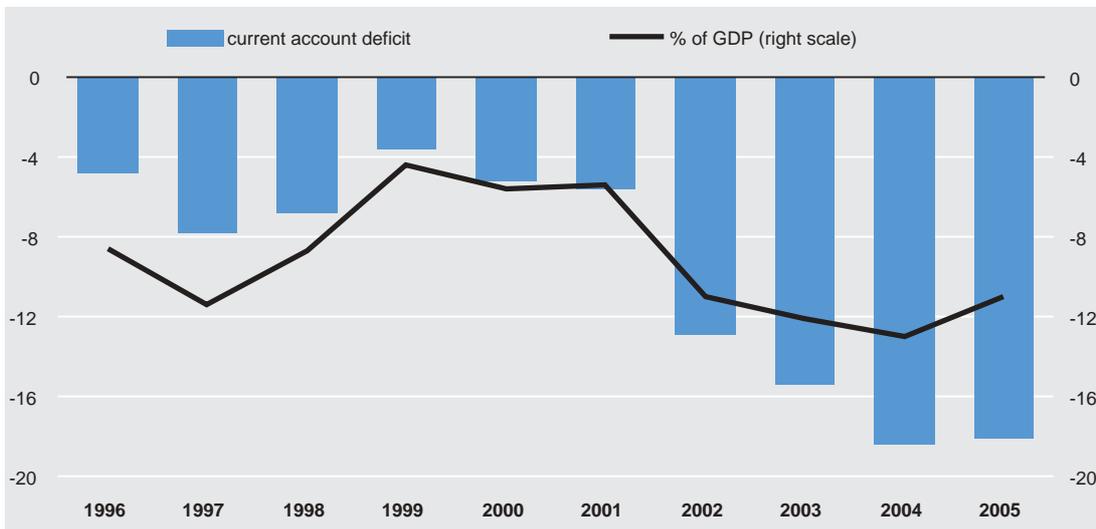


Figure 1.1. Estonia's current account balance (EEK bn)

Table 1.3. Current account balance by groups of countries (EEK m)

	2004	2005
EU-25*	-17,061.1	-16,445.9
Germany**	-7,207.8	-12,672.3
Finland	-1,161.4	5,985.9
Latvia	2,334.4	3,903.2
Poland	-2,485.4	-3,275.8
Netherlands	-1,132.9	-2,613.4
EU-15	-16,409.1	-16,811.7
CIS	-3,767.3	-2,752.2
Russia	-2,855.6	-2,198.5
Belarus	-1,125.0	-1,464.9
Kazakhstan	-7.6	575.8
Other	2,476.8	1,059.7
Hong Kong	-962.3	-2,302.7
Norway	1,313.2	2,066.2
Japan	-1,084.6	-2,099.8
United States	2,165.3	2,018.6
China	-1,451.3	-2,057.3
Total	-18,351.6	-18,138.4

* Here and below 15 EU Member States and 10 acceding countries have been analysed before 1 May 2004.

** Countries are ranked by the absolute value of last period's current account balance.

Table 1.4. Imports and exports of goods

	Special exports			Special imports			Balance (EEK m)
	Volume* (EEK m)	Change compared to the previous period (%)	Share in total exports of goods and services (%)	Volume* (EEK m)	Change compared to the previous period (%)	Share in total imports of goods and services (%)	
1996	21,833.4	12.4	62.1	34,121.6	26.2	82.8	-12,288.2
1997	31,846.5	45.9	63.4	47,499.3	39.2	82.4	-15,652.8
1998	37,786.3	18.7	64.5	53,511.8	12.7	80.8	-15,725.5
1999	36,995.2	-2.1	62.8	49,092.1	-8.3	78.3	-12,096.9
2000	56,118.1	51.7	69.0	69,489.5	41.5	82.2	-13,371.4
2001	58,798.5	4.8	67.6	72,340.9	4.1	81.1	-13,542.4
2002	57,948.7	-1.4	67.3	76,404.0	5.6	80.7	-18,455.3
2003	63,443.7	9.5	67.4	85,110.4	11.4	81.6	-21,666.7
2004	75,199.5	18.5	67.8	100,698.5	18.3	82.0	-25,499.0
2005	98,148.2	30.5	71.1	121,444.0	20.6	81.7	-23,295.8

* Data of the foreign trade account in the balance of payments.

Table 1.5. Exports by main groups of goods

	Volume (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
Food	5,592.6	6,950.1	7.5	7.2	24.3
Mineral products	3,388.8	7,354.3	4.5	7.6	117.0
Chemical products	5,343.3	6,967.4	7.2	7.2	30.4
Clothing, footwear and headgear	8,037.3	8,312.5	10.8	8.6	3.4
Timber, paper and products	11,200.9	12,774.5	15.0	13.2	14.0
Metals and metal products	6,405.8	8,629.6	8.6	8.9	34.7
Machinery and equipment	20,313.0	27,325.5	27.2	28.2	34.5
Transport vehicles	4,535.0	6,537.5	6.1	6.7	44.2
Furniture, toys, sporting goods	6,927.3	8,036.0	9.3	8.3	16.0
Other	2,870.2	4,036.7	3.8	4.2	40.6
Total	74,614.3	96,924.1	100.0	100.0	29.9

of clothing, footwear and headgear were men's suits and shirts, women's costumes and sportswear exported to Finland, Sweden and Russia, fur to Turkey and leather footwear to Finland, Latvia and Lithuania. In the chemical goods group, mastics, putties, paints and varnishes were exported to Russia and Latvia, plastics products to Sweden, Latvia and Finland, nitrogen fertilizers to the United States, and medicines to Lithuania and Latvia. In the food group, mainly fish and canned fish were exported to the Netherlands, Switzerland, Russia and Ukraine, alcohol to Russia and Finland, and dairy products to Germany, Italy, Finland and the Netherlands. 38% of the exports of transport vehicles accounted for the exports to Latvia, Lithuania, Belgium, Spain and Germany of motor cars imported mainly from Finland and Germany. Parts of motor vehicles, including safety belts, were sent mostly to Sweden and Russia. As regards other goods, automatic equipment was exported to Finland, the United States and Sweden, toughened-glass panes and glass packaging to Belgium, Latvia and Lithuania, and cement products also to Latvia and Lithuania.

The **goods imports** also increased year-on-year across all main groups of goods (see Table 1.6). This mainly arose from an increase in the imports of machinery and equipment, mineral and chemical products. In the machinery and equipment group, mostly mobile communication devices and components of electronic industry

Table 1.6. Imports by main groups of goods

	Volume (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
Food	9,581.2	10,985.9	9.1	8.6	14.7
Mineral products	7,244.2	11,898.7	6.9	9.3	64.3
Chemical products	12,328.2	14,964.3	11.8	11.7	21.4
Clothing, footwear and headgear	8,928.8	9,390.7	8.5	7.3	5.2
Timber, paper and products	5,837.9	7,003.8	5.6	5.5	20.0
Metals and metal products	11,534.4	13,066.4	11.0	10.2	13.3
Machinery and equipment	30,250.8	39,535.1	28.8	30.9	30.7
Transport vehicles	12,528.9	13,166.7	11.9	10.3	5.1
Furniture, toys, sporting goods	2,403.2	2,819.1	2.3	2.2	17.3
Other	4,239.4	4,964.9	4.0	3.9	17.1
Total	104,877.0	127,795.5	100.0	100.0	21.9

were imported both for processing and for internal supply. Besides, also computers, roadwork machinery and other mechanisms were brought in. The major partner countries were Finland, Sweden, Germany, Hong Kong, Japan and Singapore. In the mineral products group, mainly motor fuel was imported from Russia, Lithuania and Belarus, and natural gas from Russia. Chemical products were imported from Finland (paints, polishes, medicines), Germany (medicines, various industrial chemicals), Poland (medicines, car tyres) and Latvia (medicines). The imports of metal products included steel products from Finland, Russia, the United States and Taiwan, transport vehicles (mainly motor cars) from Finland, Germany and France, vans from Germany and Finland, and spare parts from Sweden. In the food products group, the leading import articles were coffee, sugar and spirits from Finland, cigarettes and fish products from Lithuania, fresh fish from Russia, and pork from Finland and Denmark. As to clothing, footwear and headgear, the principal goods were raw furskins from Finland, synthetic fibre from the Republic of Korea, and underwear from Latvia. Raw wood and plywood from Russia prevailed in the timber products group.

Foreign trade deficit increased by nearly 600 million kroons year-on-year (see Table 1.7). Two groups of goods posted a surplus: timber and timber products, and furniture and other industrial goods.

By **groups of countries**, the exports of goods to the European Union as well as to other groups of countries increased (see Table 1.8). The enlarged European Union has become the major partner: compared to 2004

Table 1.7. Foreign trade balance by main groups of goods (EEK m)

	2004	2005
Food	-3,988.6	-4,035.8
Mineral products	-3,855.4	-4,544.3
Chemical products	-6,984.9	-7,996.9
Clothing, footwear and headgear	-891.5	-1,078.2
Timber, paper and products	5,363.0	5,770.8
Metals and metal products	-5,128.6	-4,436.8
Machinery and equipment	-9,937.8	-12,209.7
Transport vehicles	-7,993.9	-6,629.2
Furniture, toys, sporting goods	4,524.1	5,216.9
Other	-1,369.1	-928.1
Total	-30,262.7	-30,871.4

Table 1.8. Exports of goods by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
EU-25	59,751.5	75,316.4	80.1	77.7	26.0
Finland	17,167.2	25,796.9	23.0	26.6	50.3
Sweden	11,410.2	12,747.1	15.3	13.2	11.7
Latvia	5,981.5	8,441.3	8.0	8.7	41.1
Germany	6,190.7	6,010.8	8.3	6.2	-2.9
Lithuania	3,306.9	4,492.4	4.4	4.6	35.8
EU-15	46,444.5	58,537.7	62.2	60.4	26.0
CIS	5,795.9	8,381.1	7.8	8.6	44.6
Russia	4,178.4	6,284.2	5.6	6.5	50.4
Ukraine	1,257.0	1,335.2	1.7	1.4	6.2
Kazakhstan	71.8	293.6	0.1	0.3	309.2
Other	9,066.9	13,226.6	12.2	13.6	45.9
USA	2,376.1	2,994.6	3.2	3.1	26.0
Norway	2,429.7	2,789.1	3.3	2.9	14.8
Gibraltar	123.0	1,496.6	0.2	1.5	1,116.6
Total	74,614.3	96,924.1	100.0	100.0	29.9

Estonia's exports to the EU grew 26% and accounted for 78% of the total exports in the period under analysis. The main partner states were Finland, Sweden, Latvia, Germany and Lithuania. Exports to CIS countries increased 45%, including 50% (2.1 billion kroons) to Russia. The top three among other countries were the United States, Norway and Gibraltar.

Goods imports also increased across all groups of countries (see Table 1.9). The share of the enlarged European Union was 76%; the top five import partners were Finland, Germany, Sweden, Lithuania and Latvia.

Table 1.9. Imports of goods by groups of countries*

	Volume (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
EU-25	81,407.5	97,081.6	77.6	76.0	19.3
Finland	23,164.6	25,060.5	22.1	19.6	8.2
Germany	13,443.2	17,823.7	12.8	13.9	32.6
Sweden	10,184.2	11,207.1	9.7	8.8	10.0
Lithuania	5,612.2	7,676.7	5.4	6.0	36.8
Latvia	4,861.8	6,018.1	4.6	4.7	23.8
EU-15	64,500.1	75,774.4	61.5	59.3	17.5
CIS	12,688.0	14,954.6	12.1	11.7	17.9
Russia	9,657.6	11,807.5	9.2	9.2	22.3
Belarus	1,277.3	1,623.8	1.2	1.3	27.1
Ukraine	1,414.4	1,156.7	1.3	0.9	-18.2
Other	10,781.5	15,759.3	10.3	12.3	46.2
China	2,000.9	2,696.5	1.9	2.1	34.8
Japan	1,439.9	2,502.6	1.4	2.0	73.8
Hong Kong	1,031.5	2,414.3	1.0	1.9	134.1
Total	104,877.0	127,795.5	100.0	100.0	21.9

* Analysed by the country of consignment.

Imports from Russia increased in line with exports, i.e. by 2.1 billion kroons; Russia was followed by Belarus and Ukraine. China, Japan and Hong Kong dominated among other countries.

Foreign trade balance was negative for all groups of countries (see Table 1.10).

Table 1.10. Foreign trade balance by groups of countries (EEK m)

	2004	2005
EU-25	-21,656.0	-21,765.2
EU-15	-18,055.6	-17,236.7
CIS	-6,892.2	-6,573.5
Other	-1,714.6	-2,532.7
Total	-30,262.7	-30,871.4

Services

The surplus on the **services account** was 12.6 billion kroons in 2005, having decreased 7% year-on-year (see Table 1.11). While the annual growth in exports slowed down to 12%, import growth accelerated to 23%. Services imports slightly outpaced goods imports (the share in total imports rose to 18%), whereas the growth rate of services exports was outpaced by that of goods exports. The surplus on the services account offset the foreign trade deficit by 54%, which remained close to the previous year's level.

The year 2005 brought about a significant change in the structure of services (see Table 1.12): the share of transport services declined considerably (to 30% of the surplus on the services account), whereas that of business services increased. The surplus on travel services changed little compared to the year before, its share growing to a half of the surplus on the services account. The surplus on transport services declined 36% year-on-year. This was offset by the 2004 deficit on construction services turning into a surplus and the doubling of the surplus on government services in 2005.

Services exports increased 12% year-on-year; the exports of the two principal groups of services, namely transport and travel services, rose 4% and 7%, respectively (see Table 1.13). The exports of business and construction services increased faster than average.

Table 1.11. Exports and imports of services

	Exports			Imports			Balance	
	Volume (EEK m)	Change compared to the previous period (%)	Share in total turnover of goods and services (%)	Volume (EEK m)	Change compared to the previous period (%)	Share in total turnover of goods and services (%)	Volume (EEK m)	Change compared to the previous period (%)
1996	13,352.8	33.2	37.9	7,107.8	24.9	17.2	6,245.0	44.2
1997	18,366.7	37.5	36.6	10,134.0	42.6	17.6	8,232.7	31.8
1998	20,804.0	13.3	35.5	12,754.8	25.9	19.2	8,049.2	-2.2
1999	21,951.9	5.5	37.2	13,610.4	6.7	21.7	8,341.5	3.6
2000	25,263.4	15.1	31.0	15,059.6	10.6	17.8	10,203.8	22.3
2001	28,135.4	11.4	32.4	16,840.6	11.8	18.9	11,294.8	10.7
2002	28,164.3	0.1	32.7	18,273.6	8.5	19.3	9,890.7	-12.4
2003	30,674.0	8.9	32.6	19,206.9	5.1	18.4	11,467.1	15.9
2004	35,666.4	16.3	32.2	22,086.1	15.0	18.0	13,580.3	18.4
2005	39,836.2	11.7	28.9	27,208.2	23.2	18.3	12,628.0	-7.0

Table 1.12. Services balance by major categories

	Balance (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
Transportation	5,874.4	3,747.8	43.3	29.7	-36.2
Travel	6,180.0	6,335.1	45.5	50.2	2.5
Construction services	-43.8	52.0	-0.3	0.4	-218.7
Business services	1,466.9	2,373.4	10.8	18.8	61.8
Government services	91.7	184.3	0.7	1.5	101.0
Other	11.1	-64.5	0.1	-0.5	-681.1
Total	13,580.3	12,628.1	100.0	100.0	-7.0

Table 1.13. Services exports by major categories

	Balance (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
Transportation	15,137.4	15,679.5	42.4	39.4	3.6
freight	8,754.1	8,367.9	24.5	21.0	-4.4
passenger	2,827.8	3,263.5	7.9	8.2	15.4
other transport services	3,555.6	4,048.1	10.0	10.2	13.9
Travel	11,220.3	11,968.0	31.5	30.0	6.7
Construction services	1,104.5	2,398.9	3.1	6.0	117.2
Business services	5,877.2	6,922.2	16.5	17.4	17.8
Government services	477.0	492.4	1.3	1.2	3.2
Other	1,849.9	2,375.2	5.2	6.0	28.4
Total	35,666.4	39,836.2	100.0	100.0	11.7

Two thirds of the services exports went to EU countries and the share of these countries has even slightly increased year-on-year (see Table 1.14). The larger share of CIS countries can be attributed to the 20% rise in the exports to Russia and the addition of a new partner state, namely Kazakhstan (services exports to

Table 1.14. Services exports by groups of countries

	Balance (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
EU-25	23,882.7	27,345.3	67.0	68.6	14.5
Finland	10,779.4	12,790.3	30.2	32.1	18.7
Sweden	2,437.6	3,097.1	6.8	7.8	27.1
United Kingdom	2,577.6	2,371.2	7.2	6.0	-8.0
Germany	1,956.0	2,220.1	5.5	5.6	13.5
EU-15	20,766.1	23,749.5	58.2	59.6	14.4
CIS	4,585.6	5,782.6	12.9	14.5	26.1
Russia	4,012.4	4,809.9	11.2	12.1	19.9
Kazakhstan	127.7	504.2	0.4	1.3	294.8
Ukraine	370.0	354.4	1.0	0.9	-4.2
Other	7,198.1	6,708.3	20.2	16.8	-6.8
offshore regions	2,790.8	1,790.2	7.8	4.5	-35.9
United States	1,620.6	1,768.8	4.5	4.4	9.1
Switzerland	1,530.1	1,580.1	4.3	4.0	3.3
Total	35,666.4	39,836.2	100.0	100.0	11.7

that country increased fourfold year-on-year). EU membership has facilitated growth in Estonia's services exports above all to neighbouring Finland and Sweden (19% and 27%, respectively). It should also be noted that services exports to offshore countries declined by 36%.

Services imports grew 23% in 2005 (see Table 1.15) with the imports of transport and construction services increasing faster than average (29% and two times, respectively).

EU countries accounted for 75% of services imports, while imports from other countries posted the fastest growth (see Table 1.16).

The surplus on **transport services** decreased in 2005 as a result of faster growth of imported transport services, in particular freight services (see Figure 1.2 and Tables 1.12 and 1.13). Oil and coal transit between other countries picked up pace. New infrastructure built in Russia and the subsequent increase in loading capacities did not positively affect freight transport growth in Estonia. Large investments in Estonian oil, coal and fertiliser terminals were made mainly in relation to Russia's economic growth.

Table 1.15. Services imports by major categories

	Balance (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
Transportation	9,263.0	11,931.7	41.9	43.9	28.8
freight	6,044.9	7,935.2	27.4	29.2	31.3
passenger	1,025.3	1,134.6	4.6	4.2	10.7
other transport services	2,192.8	2,861.9	9.9	10.5	30.5
Travel	5,040.3	5,633.0	22.8	20.7	11.8
Construction services	1,148.3	2,346.8	5.2	8.6	104.4
Business services	4,410.3	4,548.8	20.0	16.7	3.1
Government services	385.3	308.1	1.7	1.1	-20.0
Other	1,838.9	2,439.8	8.3	9.0	32.7
Total	22,086.1	27,208.2	100.0	100.0	23.2

Table 1.16. Services imports by groups of countries

	Balance (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
EU-25	-16,869.0	-20,310.1	76.4	74.6	20.4
Finland	-4,216.7	-5,080.4	19.1	18.7	20.5
Germany	-2,599.8	-3,632.3	11.8	13.4	39.7
Sweden	-1,585.1	-2,115.4	7.2	7.8	33.5
Latvia	1,204.9	-1,704.8	-5.5	6.3	-241.5
EU-15	-13,924.2	-16,773.0	63.0	61.6	20.5
CIS	-2,483.6	-3,031.7	11.2	11.1	22.1
Russia	-2,111.1	-2,439.2	9.6	9.0	15.5
Belarus	-138.0	-258.2	0.6	0.9	87.1
Ukraine	-178.5	-228.9	0.8	0.8	28.2
Other	-2,733.5	-3,866.4	12.4	14.2	41.4
USA	-801.6	-909.2	3.6	3.3	13.4
Egypt	-256.9	-390.1	1.2	1.4	51.8
Norway	-277.4	-281.5	1.3	1.0	1.5
Total	-22,086.1	-27,208.2	100.0	100.0	23.2

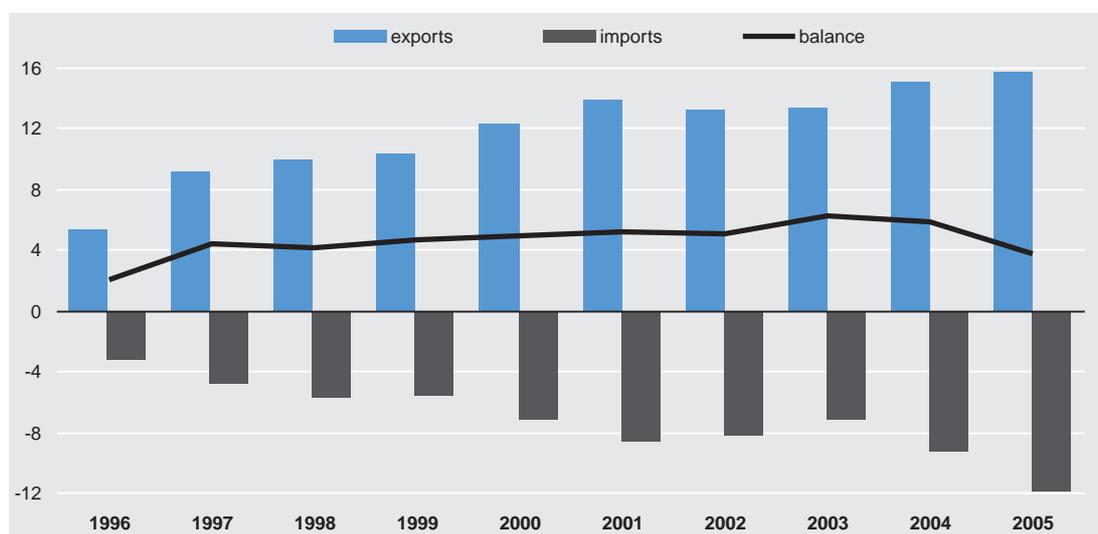


Figure 1.2. Transport services (EEK bn)

The exports of transport services to EU Member States increased 16% year-on-year (see Table 1.17). Finland remained the major purchaser of transport services. Compared to 2004, exports to Cyprus increased most. Sales of transport services to CIS countries and other countries decreased year-on-year, and thus total exports of transport services exports grew only 4%.

Freight transport still accounted for the majority of transport services, although exports decreased a few per cent year-on-year. By transport types, the exports of sea transport services posted the largest volume (see Figure 1.3).

Table 1.17. Transport services by groups of countries in 2005

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%) 2005/2004		Volume (EEK m)	Share (%)	Change (%) 2005/2004
EU-25	10,201.0	65.0	16.2	EU-25	8,403.7	70.4	26.9
Finland	3,729.6	23.8	26.2	Finland	2,126.3	17.8	18.2
United Kingdom	1,295.6	8.3	-17.0	Germany	1,259.8	10.6	24.0
Sweden	1,246.0	7.9	15.5	Latvia	741.9	6.2	104.8
Germany	978.0	6.2	2.8	Sweden	728.3	6.1	15.5
Cyprus	529.9	3.4	197.2	United Kingdom	704.8	5.9	86.1
EU-15	8,931.5	57.0	11.3	EU-15	6,648.6	55.7	21.5
CIS	1,858.7	11.9	-3.7	CIS	1,643.0	13.8	22.5
Russia	1,649.1	10.5	-2.4	Russia	1,313.8	11.0	18.2
Ukraine	99.7	0.6	-54.3	Belarus	206.8	1.7	86.6
Other	3,619.8	23.1	-18.3	Other	1,885.0	15.8	45.4
offshore regions	1,193.4	7.6	-48.0	offshore regions	393.0	3.3	125.3
Switzerland	902.0	5.8	-5.1	USA	377.9	3.2	19.5
USA	885.3	5.6	9.4	China	261.2	2.2	52.0
Total	15,679.5	100.0	3.6	Total	11,931.7	100.0	28.8

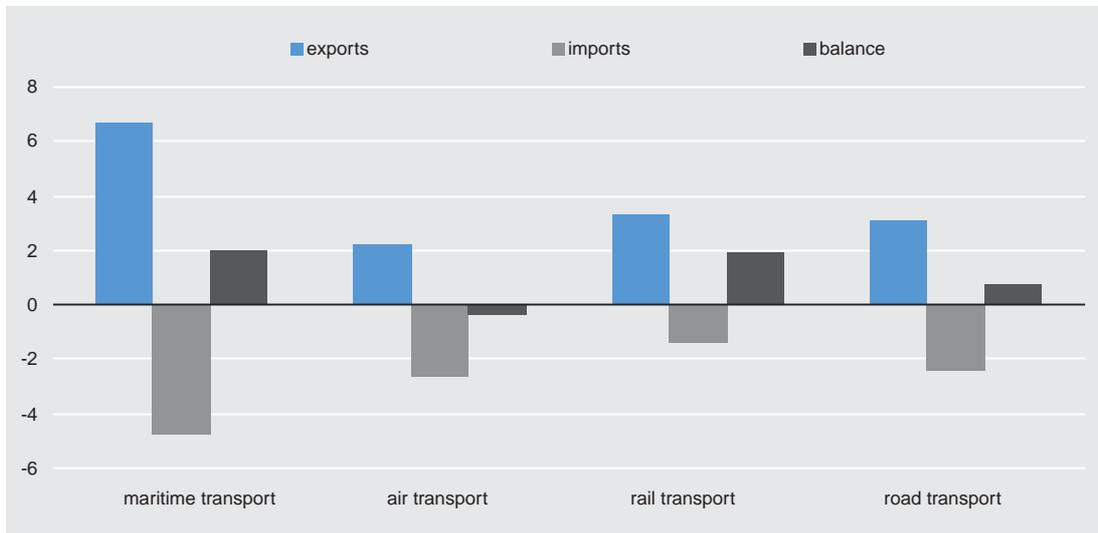


Figure 1.3. Transport services structure in 2005 by transport type (EEK bn)

Growth in transport services imports considerably outpaced exports, resulting in a decline in the transport services surplus. Purchases of freight and other transport services increased. The imports of passenger transportation grew slightly slower than that of exports. Year-on-year, the imports of transport services primarily from EU countries, particularly Finland, grew 29%. As for other countries, imports from offshore regions increased.

The surplus on **travel services** increased 3% in 2005, with exports growing 7% and imports 12% (see Figure 1.4). The growth in travel services exports subsided towards the end of the year because of a decline in the number of shopping trips to Estonia and spending per person.

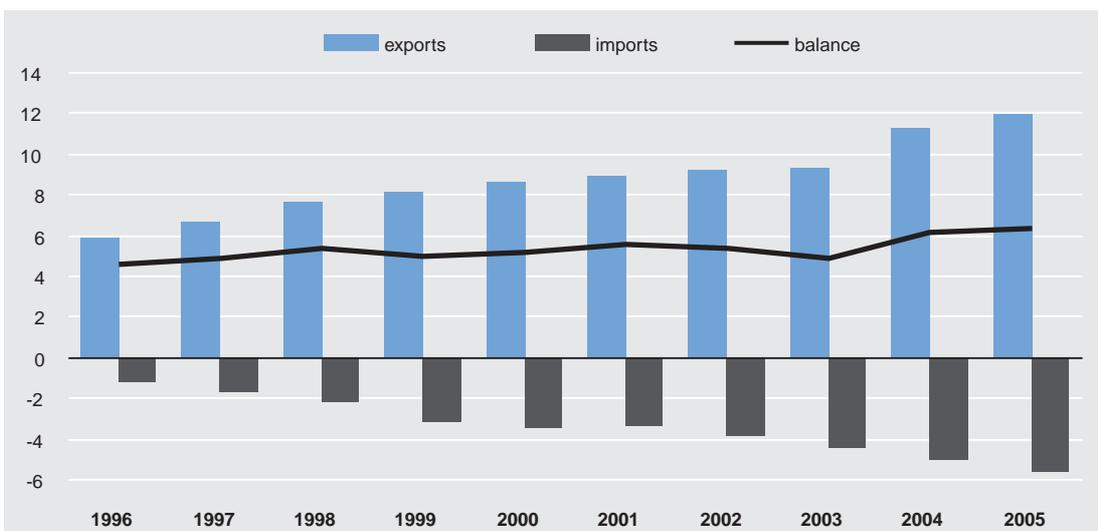


Figure 1.4. Travel services (EEK bn)

The imports of travel services grew faster than the exports, which resulted from a rise in the number of residents taking up short-term employment abroad. According to the balance of payments methodology, daily spending in the target country during short-term working periods is also recorded under travel services. Geographically, the imports of travel services from EU countries increased slower than average (see Table 1.18). Across the most popular countries of destination, the spending of Estonians grew 68% in Egypt and 2.5 times in Turkey, whereas spending in the United States decreased 13%. Spending in Finland increased faster than average.

Table 1.18. Travel services by groups of countries in 2005

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%) 2005/2004		Volume (EEK m)	Share (%)	Change (%) 2005/2004
EU-25	9,246.3	77.3	3.5	EU-25	-3,854.4	68.4	3.3
Finland	6,253.4	52.3	8.6	Finland	-881.5	15.6	38.6
Sweden	785.8	6.6	0.0	Germany	-417.5	7.4	-34.8
Latvia	461.6	3.9	-19.6	Sweden	-400.5	7.1	7.2
Germany	320.2	2.7	-16.8	United Kingdom	-344.3	6.1	-7.5
EU-15	8,459.5	70.7	7.0	EU-15	-3,185.7	56.6	4.1
CIS	2,051.8	17.1	27.4	CIS	-683.2	12.1	30.3
Russia	1,960.5	16.4	28.3	Russia	-541.5	9.6	11.3
Ukraine	64.2	0.5	59.4	Ukraine	-70.6	1.3	244.4
Other	669.9	5.6	-3.5	Other	-1,095.4	19.4	39.8
USA	239.4	2.0	-6.8	Egypt	-282.3	5.0	67.5
Norway	175.3	1.5	-6.2	USA	-174.6	3.1	-12.7
Switzerland	35.2	0.3	-1.4	Turkey	-154.1	2.7	148.7
Total	11,968.0	100.0	6.7	Total	-5,633.0	100.0	11.8

Income

The deficit on the **income account** was 8.7 billion kroons in 2005, having grown 10% year-on-year (see Table 1.19). Income inflow increased 54% and outflow 28% year-on-year. The major factor contributing to deficit growth was the 14% increase in the deficit on direct investment income (see Table 1.20). It was further boosted by the deficit on portfolio and other investment income which grew by 2 times and 47%.

Table 1.19. Income

	Inflow		Outflow		Balance	
	Volume (EEK m)	Change compared to previous period (%)	Volume (EEK m)	Change compared to previous period (%)	Volume (EEK m)	Change compared to previous period (%)
1996	1,352.5	85.9	1,326.3	89.6	26.2	-7.1
1997	1,594.1	17.9	3,604.6	171.8	-2,010.5	-7,773.7
1998	1,871.8	17.4	3,035.8	-15.8	-1,164.0	-42.1
1999	1,964.3	4.9	3,470.1	14.3	-1,505.8	29.4
2000	2,032.5	3.5	5,491.4	58.2	-3,458.9	131.3
2001	3,022.2	48.7	7,920.8	44.2	-4,898.6	41.4
2002	3,371.3	11.6	8,762.4	10.6	-5,391.1	10.1
2003	3,449.5	2.3	10,824.8	23.5	-7,375.3	46.3
2004	5,484.4	59.0	13,435.3	24.1	-7,950.9	7.8
2005	8,463.0	54.3	17,192.3	28.0	-8,729.3	9.8

Table 1.20. Structure of income account

	Volume (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
Income on direct investment	-8,862.6	-10,128.1	111.5	116.0	14.3
income on equity	-8,512.4	-9,874.3	107.1	113.1	16.0
reinvested earnings	-7,069.9	-7,792.9	88.9	89.3	10.2
dividends	-1,442.4	-2,081.3	18.1	23.8	44.3
income on debt (interests)	-350.2	-253.9	4.4	2.9	-27.5
Income on portfolio investment	-181.7	-395.2	2.3	4.5	117.5
Income on other investment	-542.1	-798.8	6.8	9.2	47.4
Other income	1,635.4	2,592.8	-20.6	-29.7	58.5
Total	-7,950.9	-8,729.3	100.0	100.0	9.8

respectively. The 59% growth in the surplus on labour income considerably reduced the rise in the income account deficit.

The largest component of the inflow and outflow of income was direct investment income, most of which was reinvested earnings (57% of the inflow and 71% of the outflow). The specifics of reinvested earnings is that they are reflected in an increase in a company's market value, thus not crossing the borders of the country while also being a component of direct investment in the financial account. Excluding reinvested earnings from the balance of the income account, the income account deficit in 2005 was just 0.9 billion kroons.

Income inflow to Estonia increased 54% year-on-year, with direct investment income growing 69% and labour income 65% (under "Other income" in Table 1.21).

86% of the income inflow came from EU countries (see Table 1.22). The largest income inflow came from Latvia (18%), followed by Finland and Lithuania (17% and 14%, respectively). The income growth rates did not vary substantially across regions. Also the distribution of income inflow by fields of activity was similar to the preceding year (see Figure 1.5): the largest share (37%) of income inflow went to financial intermediation.

Income outflow from Estonia increased 28% year-on-year, whereas the outflow of direct investment income grew less than total income outflow (24%; see Table 1.23). Looking at the structure of direct investment income, the outflow of dividends has risen faster (37%) while income on debt remained at previous year's level.

Table 1.21. Income inflow to Estonia

	Volume (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
Income on direct investment	1,918.5	3,248.4	35.0	38.4	69.3
income on equity	1,748.3	2,967.6	31.9	35.1	69.7
reinvested earnings	919.6	1,930.8	16.8	22.8	110.0
dividends	828.7	1,036.8	15.1	12.3	25.1
income on debt (interests)	170.2	280.8	3.1	3.3	65.0
Income on portfolio investment	868.4	1,019.6	15.8	12.0	17.4
Income on other investment	748.8	981.2	13.7	11.6	31.0
Other income	1,948.7	3,213.8	35.5	38.0	64.9
Total	5,484.4	8,463.0	100.0	100.0	54.3

87% of income outflow went to EU countries (see Table 1.22). The main target countries were Sweden and Finland (32% and 26%, respectively). Income outflow to the United States and Sweden grew at the fastest rate (2.3 times and 45%, respectively). By fields of activity, the leading areas regarding income outflow were financial intermediation (32%), real estate, renting and business activities (20%), and manufacturing (15%; see Figure 1.5).

Table 1.22. Income by groups of countries in 2005

	Inflow				Outflow		
	Volume (EEK m)	Share (%)	Change (%) 2005/2004		Volume (EEK m)	Share (%)	Change (%) 2005/2004
EU-25	7,304.3	86.3	55.8	EU-25	-14,873.8	86.5	34.4
Latvia	1,504.5	17.8	33.1	Sweden	-5,454.4	31.7	45.4
Finland	1,412.7	16.7	34.2	Finland	-4,506.0	26.2	19.9
Lithuania	1,173.0	13.9	95.6	United Kingdom	-1,350.9	7.9	-24.1
Cyprus	800.5	9.5	34.6	Netherlands	-1,020.2	5.9	
EU-15	3,752.7	44.3	60.1	EU-15	-14,539.3	84.6	38.7
CIS	290.7	3.4	42.8	CIS	-574.6	3.3	13.6
Russia	269.9	3.2	61.4	Russia	-505.1	2.9	11.6
Ukraine	13.0	0.2	-62.1	Ukraine	-36.1	0.2	138.3
Other	868.0	10.3	46.2	Other	-1,743.9	10.1	-6.5
USA	529.1	6.3	32.4	USA	-842.7	4.9	116.7
offshore regions	216.2	2.6	66.1	offshore regions	-293.1	1.7	-33.0
				Canada	-157.1	0.9	54.5
Total	8,463.0	100.0	54.3	Total	-17,192.3	100.0	28.0

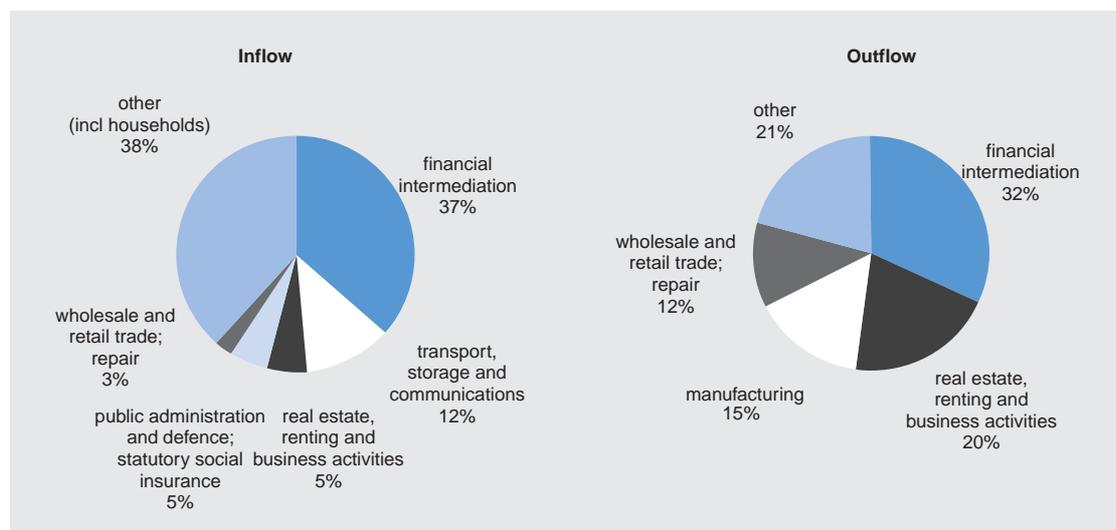


Figure 1.5. Inflow and outflow of income by fields of activity in 2005

Table 1.23. Income outflow from Estonia

	Volume (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
Income on direct investment	-10,781.1	-13,376.5	80.2	77.8	24.1
income on equity	-10,260.6	-12,841.9	76.4	74.7	25.2
reinvested earnings	-7,989.5	-9,723.7	59.5	56.6	21.7
dividends	-2,271.1	-3,118.2	16.9	18.1	37.3
income on debt (interests)	-520.4	-534.7	3.9	3.1	2.7
Income on portfolio investment	-1,050.1	-1,414.9	7.8	8.2	34.7
Income on other investment	-1,290.8	-1,779.9	9.6	10.4	37.9
Other income	-313.3	-621.0	2.3	3.6	98.2
Total	-13,435.3	-17,192.3	100.0	100.0	28.0

Current and capital transfers

The surplus on **current transfers account** stood at 1.3 billion kroons in 2005, having decreased by 0.3 billion kroons from 2004 (see Table 1.24). The inflow of current transfers increased 19% year-on-year and totalled 6.3 billion kroons. 58% of that accounted for the funds channelled into the Estonian economy via the general government (primarily allocations from the EU structural funds as well as VAT, income and social tax receipts). The inflow of other sectors' transfers amounted to 2.6 billion kroons. 82% of the transfers were made from EU Member States (agricultural subsidies from the European Commission, transfers from Germany, Finland, Belgium and the United Kingdom). The outflow of current transfers increased 33% and amounted to 5 billion kroons. Payments into the EU budget and VAT refunds by the general government accounted for 63% of the outflow. Other sectors' transfers were also mainly made to the EU, namely Finland, Germany, the United Kingdom, and Sweden.

The surplus on **capital transfers** account was 1.6 billion kroons. Capital transfers into Estonia mainly comprised EU subsidies to the general government for various infrastructure objects.

Table 1.24. Current and capital transfers by groups of countries (EEK m)

	Received		Paid		Balance	
	2004	2005	2004	2005	2004	2005
Current transfers	5,276.7	6,267.4	3,758.7	5,008.7	1,518.0	1,258.7
government transfers	2,399.0	3,646.4	1,872.1	3,173.6	526.9	472.8
EU-25	1,954.6	3,127.8	1,799.4	3,135.3	155.2	-7.5
EU-15	1,885.4	3,003.6	1,778.2	3,110.0	107.2	-106.4
CIS	405.9	370.9	3.3	3.8	402.6	367.1
other	38.4	147.8	69.5	34.5	-31.0	113.3
private transfers	2,877.7	2,620.9	1,886.5	1,835.0	991.1	785.9
EU-25	2,313.8	2,151.7	1,610.8	1,470.2	703.0	681.5
EU-15	2,251.7	2,088.3	1,544.4	1,389.8	707.3	698.5
CIS	208.2	61.7	70.6	113.5	137.6	-51.9
other	355.6	407.6	205.1	251.3	150.5	156.3
Capital transfers	1,201.1	1,650.7	26.5	47.3	1,174.6	1,603.4
government transfers	695.4	1,609.1	0.0	0.0	695.4	1,609.1
private transfers	505.7	41.7	26.5	47.3	479.3	-5.7

FINANCIAL ACCOUNT

The financial account³ surplus stood at 21.5 billion kroons in 2005. Foreign capital inflow mainly occurred in the form of direct investment. As a result of the takeover of Hansapank by a foreign investor, a large turnover between direct and portfolio investment accounts occurred: direct investment increased while portfolio investment decreased. Figures 1.6 and 1.7 show the structure of the financial account by categories and maturities.

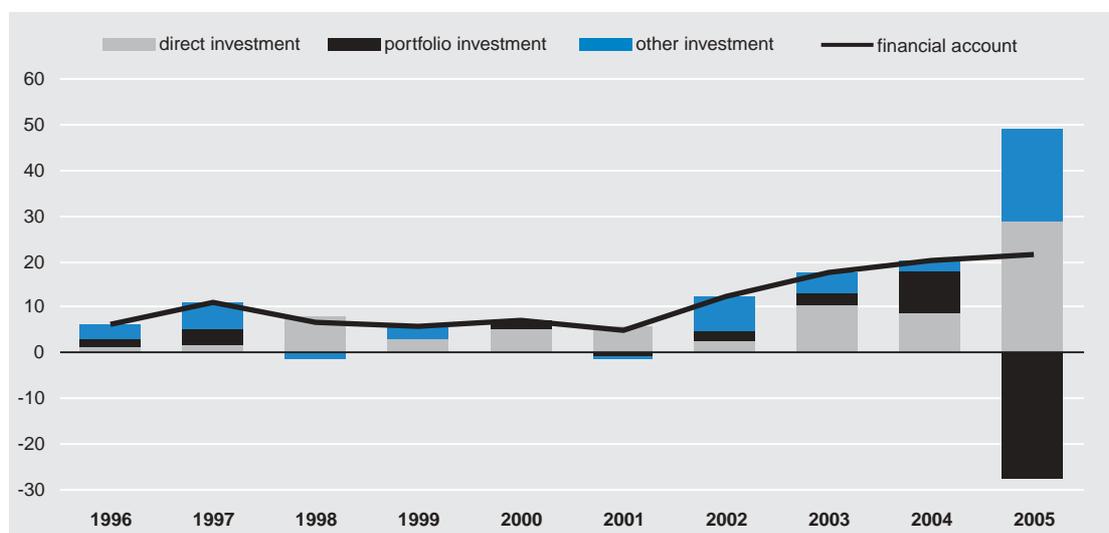


Figure 1.6. Structure of foreign investment capital flows (EEK bn)

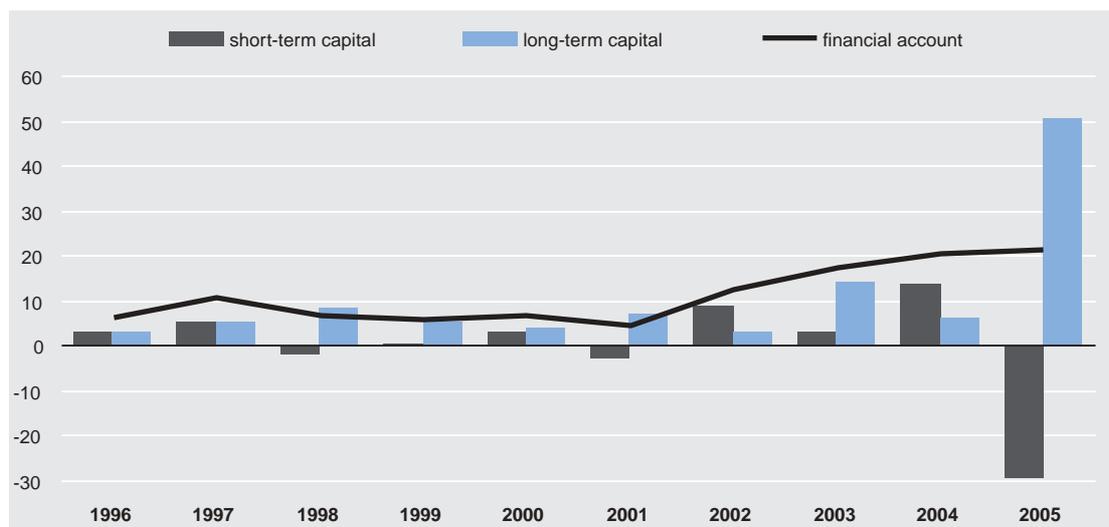


Figure 1.7. Maturity structure of the financial account (EEK bn)

³ Without reserve assets.

Direct investment

The **balance of direct investment** turned positive by 29 billion kroons, exceeding the financial account surplus by a third. Non-residents invested 36.7 billion kroons into Estonia while Estonia's direct investment abroad grew by 7.7 billion kroons (see Figure 1.8).

In 2005, the volume of **direct investment in Estonia** reached its highest level in the history of compiling the balance of payments. The majority of that accounted for the buying up of shares from minority shareholders by Hansapank's core investor in the first half of the year. Consequently, portfolio investment witnessed a 22.7 billion kroons decrease in equity security liabilities. Net inflow was 9.7 billion kroons. Equity capital investment accounted for 78% of total direct investment growth. Reinvested earnings increased 22% year-on-year, amounting to 9.7 billion kroons. 25% of that was income of non-resident owners of credit institutions. Excluding transactions related to Hansapank from the equity capital of direct investment, equity capital increased by 11.4 billion kroons. Compared to 2004, net claims to direct investors related to long-term and short-term loans grew considerably, i.e. 1.6 billion kroons. Although investment inflow in the form of loans was considerably larger than in 2004, total loan commitments did not grow much (see Tables 1.25 and 1.26).

The largest investors were Sweden (80%), Finland (16%) and Germany (3%). Luxembourg's investment decreased by nearly a billion kroons. The share of EU Member States was 98% (see Figure 1.9). Direct investment went mainly to financial intermediation (83%) but the manufacturing sector is also worth highlighting (8%; see Figure 1.10 and Table 1.27).

Direct investment abroad outpaced the volume of 2004 by more than two times. Similarly to direct investment inflow, such a large outflow has not been registered before and here too the outflow mainly comprised credit institutions' direct investment. Two thirds of direct investment outflow accounted for equity capital investment and the share of net profit (reinvested earnings) of Estonian companies increased by a fourth.

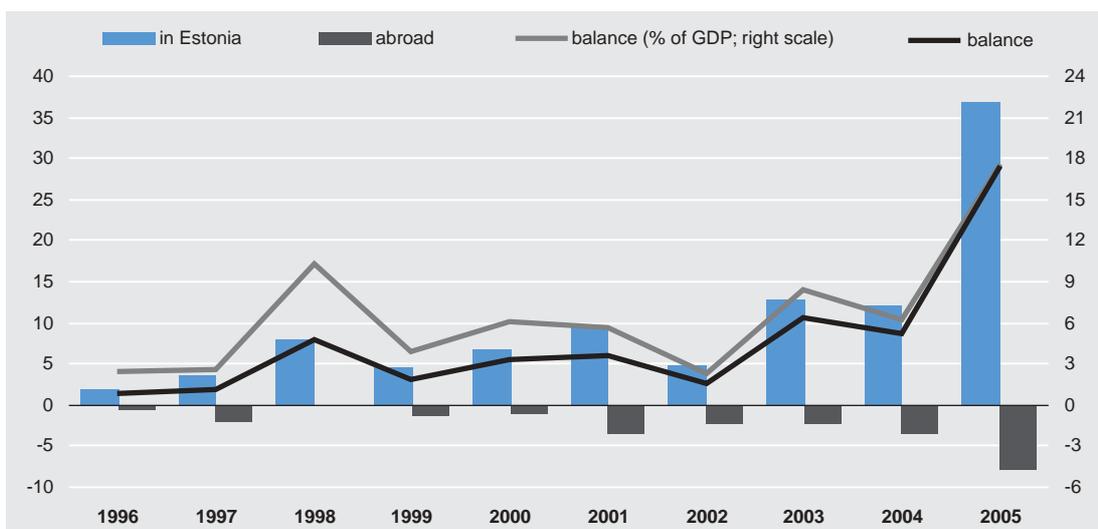


Figure 1.8. Direct investment (EEK bn)

Table 1.25. Structure of direct investment in Estonia

	Equity capital		Reinvested earnings		Other capital				Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Assets		Liabilities		Volume (EEK m)	Share (%)
					Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)		
1996	215.8	11.9	216.3	11.9	-157.9	-8.7	1,540.2	84.9	1,814.4	100.0
1997	1,360.8	36.8	1,303.8	35.3	-97.4	-2.6	1,126.9	30.5	3,694.1	100.0
1998	5,661.9	70.1	389.4	4.8	-203.9	-2.5	2,224.0	27.6	8,071.4	100.0
1999	2,551.9	57.4	721.9	16.2	-265.0	-6.0	1,439.2	32.4	4,448.0	100.0
2000	3,925.3	59.1	1,815.2	27.3	-397.3	-6.0	1,301.3	19.6	6,644.5	100.0
2001	3,641.2	38.6	3,878.9	41.1	-950.7	-10.1	2,860.2	30.3	9,429.6	100.0
2002	821.0	17.1	3,370.3	70.2	-772.6	-16.1	1,381.5	28.8	4,800.2	100.0
2003	5,329.9	41.4	6,406.7	49.8	-1,334.0	-10.4	2,462.7	19.1	12,865.3	100.0
2004	4,638.6	38.2	7,989.5	65.8	-1,454.0	-12.0	961.5	7.9	12,135.5	100.0
2005	28,681.8	78.1	9,723.7	26.5	-2,002.4	-5.4	343.4	0.9	36,746.4	100.0

Table 1.26. Loan capital assets and liabilities to foreign direct investors (EEK m)

	Assets				Liabilities			
	Long-term		Short-term		Long-term		Short-term	
	Grantings	Repayments	Grantings	Repayments	Drawings	Repayments	Drawings	Repayments
2003	408.4	246.4	1,010.7	498.7	5,155.6	2,667.1	3,020.9	3,726.9
2004	492.7	371.2	1,774.1	862.1	4,601.5	4,882.2	3,091.7	2,197.2
2005	1,276.3	501.3	2,255.5	1,413.4	7,106.6	6,977.6	5,014.9	4,617.7

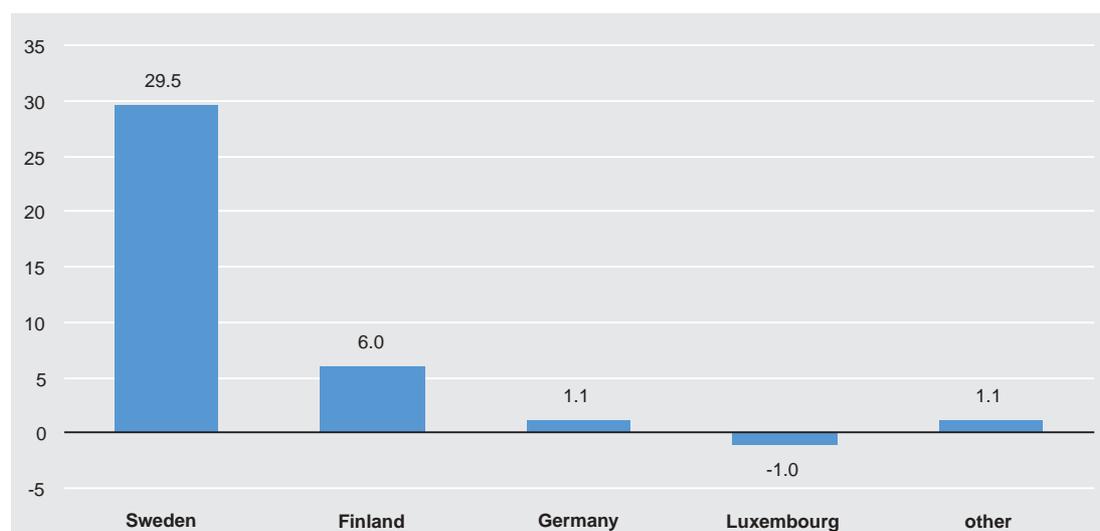


Figure 1.9. Direct investment in Estonia by countries in 2005 (EEK bn)

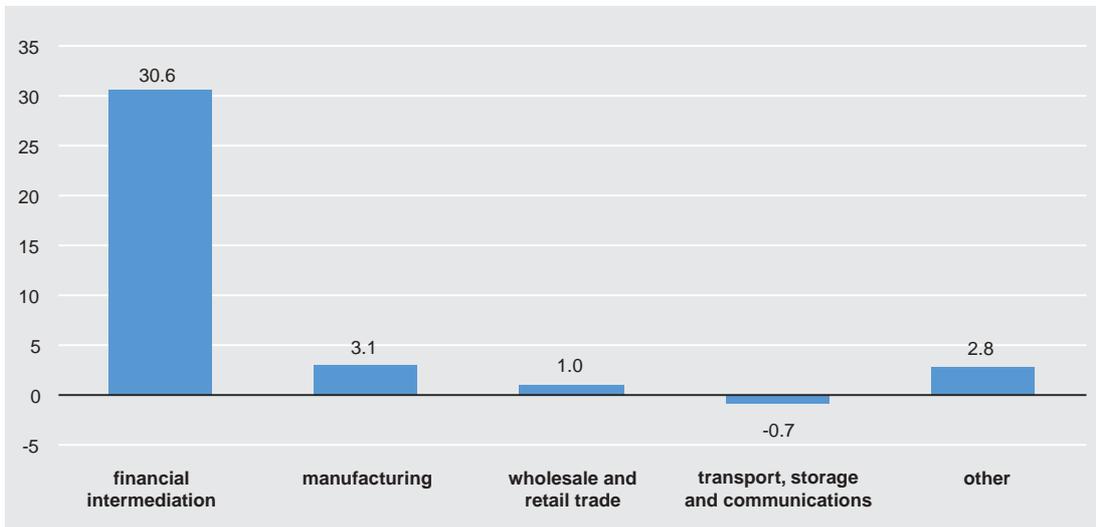


Figure 1.10. Direct investment in Estonia by fields of activities in 2005 (EEK bn)

Table 1.27. Direct investment in Estonia by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
EU-25	9,328.3	36,170.5	76.9	98.4	287.8
EU-15	8,598.6	36,109.8	70.9	98.3	319.9
CIS	757.3	890.0	6.2	2.4	17.5
Other	2,049.9	-314.1	16.9	-0.9	-115.3
Total	12,135.5	36,746.4	100.0	100.0	202.8

The volume of long-term and short-term loans doubled year-on-year. Foreign subsidiaries and associated companies were granted credit in the amount 3.9 billion kroons while repayments amounted to 2.8 billion kroons (see Tables 1.28 and 1.29).

Table 1.28. Structure of direct investment abroad

	Equity capital		Reinvested earnings		Other capital				Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Assets		Liabilities		Volume (EEK m)	Share (%)
					Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)		
1996	-107.1	22.1	-147.2	30.4	-261.3	53.9	31.1	-6.4	-484.5	100.0
1997	-539.2	28.2	-88.5	4.6	-1,303.2	68.1	18.0	-0.9	-1,912.9	100.0
1998	-472.7	578.6	-2.7	3.3	386.7	-473.3	7.0	-8.6	-81.7	100.0
1999	-525.7	42.4	-115.7	9.3	-641.3	51.7	42.9	-3.5	-1,239.8	100.0
2000	-579.7	55.6	-65.9	6.3	-480.8	46.1	83.3	-8.0	-1,043.1	100.0
2001	-1,897.1	53.8	-305.2	8.7	-1,242.8	35.2	-83.2	2.4	-3,528.3	100.0
2002	-903.9	41.3	-665.5	30.4	-727.2	33.2	108.2	-4.9	-2,188.4	100.0
2003	-1,060.0	49.3	-741.4	34.5	-645.8	30.0	297.9	-13.9	-2,149.2	100.0
2004	-2,175.2	64.2	-919.6	27.1	-434.2	12.8	140.3	-4.1	-3,388.6	100.0
2005	-5,214.5	67.5	-1,930.8	25.0	-933.5	12.1	351.5	-4.5	-7,727.3	100.0

Table 1.29. Loan capital assets and liabilities to foreign subsidiaries and associated companies (EEK m)

	Assets				Liabilities			
	Long-term		Short-term		Long-term		Short-term	
	Grantings	Repayments	Grantings	Repayments	Drawings	Repayments	Drawings	Repayments
2003	1,107.1	716.6	472.1	503.8	4.0	11.6	84.2	98.8
2004	934.8	1,232.5	952.4	368.9	17.9	61.2	27.9	37.1
2005	2,144.0	1,698.8	1,710.6	1,107.4	109.6	60.7	104.9	25.0

The largest investments went in Latvia (27%), Russia and Lithuania (22%; see Figure 1.11). The biggest investor was the financial intermediation sector (56%), followed by real estate, renting and business activities (14%), wholesale and retail trade (9%), and transport, storage and communications (7%). 66% of the outflow went to the European Union. 85% of that was channelled into the economies of the new Member States (see Table 1.30 and Figure 1.12).

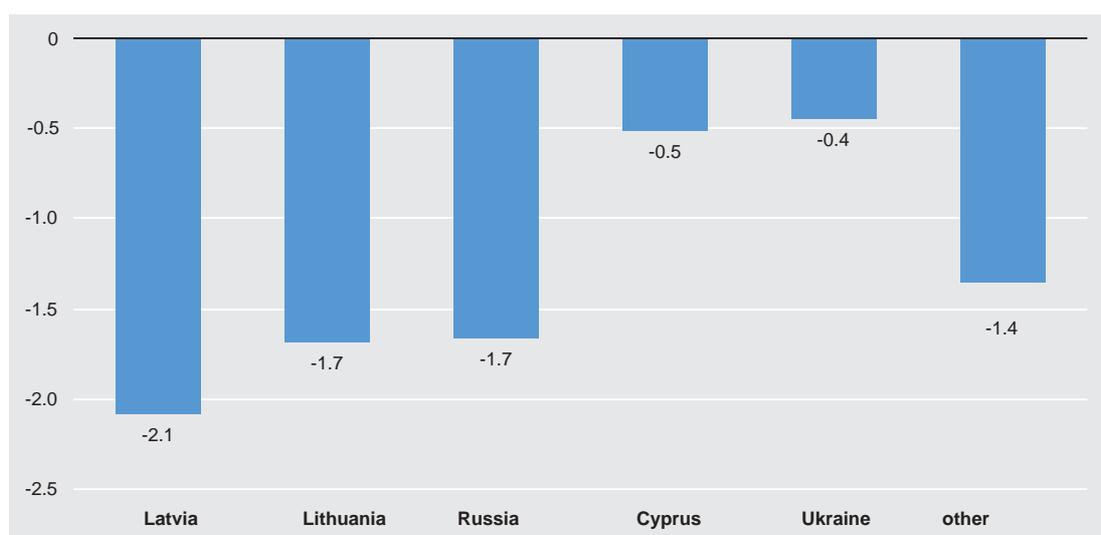


Figure 1.11. Direct investment abroad by countries in 2005 (EEK bn)

Table 1.30. Direct investment abroad by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
EU-25	-3,011.1	-5,062.5	88.9	65.5	68.1
EU-15	-650.7	-745.5	19.2	9.6	14.6
CIS	-356.7	-2,404.0	10.5	31.1	574.0
Other	-20.8	-260.8	0.6	3.4	1,153.8
Total	-3,388.6	-7,727.3	100.0	100.0	128.0

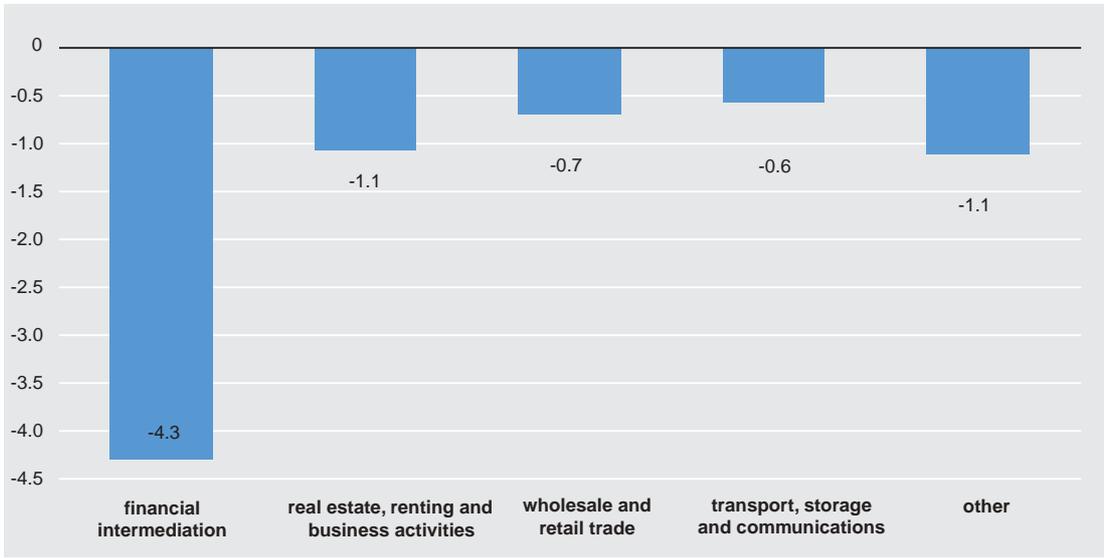


Figure 1.12. Direct investment abroad by fields of activity in 2005 (EEK bn)

Portfolio investment

The net outflow of **portfolio investment**⁴ reached a record 27 billion kroons in 2005. Assets increased by 10.8 billion and liabilities decreased by 16.6 billion kroons (see Figure 1.13 and Table 1.31). By sectors, the outflow was most affected by transactions with credit institutions' equity securities, resulting in a net capital outflow of 22 billion kroons.

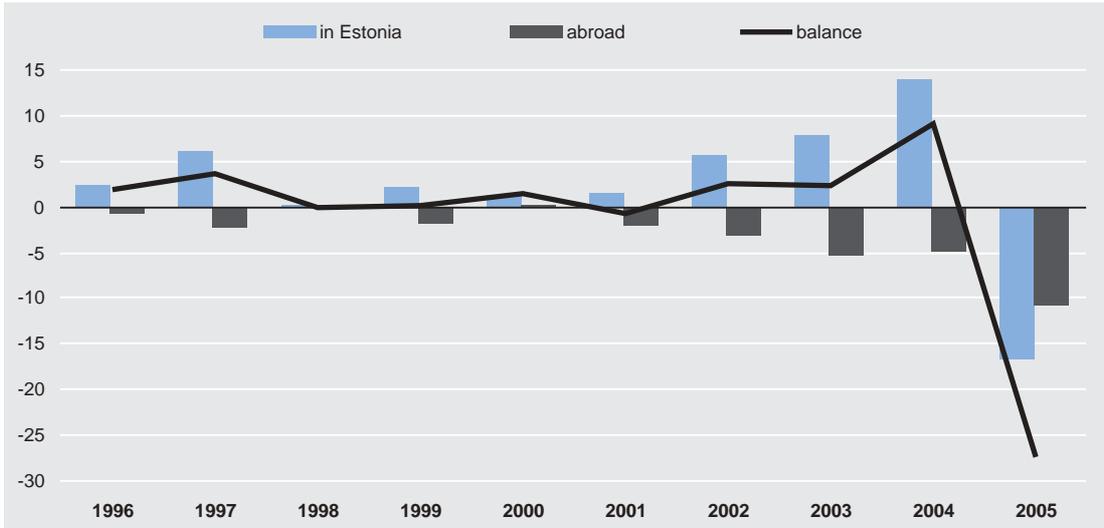


Figure 1.13. Portfolio investment (EEK bn)

⁴ Except derivatives.

Table 1.31. Portfolio investment by types of securities and sectors (EEK m)

	Assets		Liabilities		Balance	
	2004	2005	2004	2005	2004	2005
Equity securities	-2,893.5	-4,848.9	2,205.3	-16,179.6	-688.2	-21,028.5
central bank		-3.4			0.0	-3.4
general government	-44.4	-8.7			-44.4	-8.7
credit institutions	-23.6	-124.4	144.5	-22,600.3	120.9	-22,724.7
other sectors	-2,825.5	-4,712.4	2,060.8	6,420.7	-764.7	1,708.3
Debt securities	-1,882.2	-5,969.5	11,673.0	-414.6	9,790.8	-6,384.1
central bank						0.0
general government	-612.1	-1,292.9	343.1	135.3	-269.0	-1,157.6
credit institutions	-469.0	-766.7	10,910.8	-3,192.2	10,441.8	-3,958.9
other sectors	-801.1	-3,909.9	419.1	2,642.3	-382.0	-1,267.6
Total	-4,775.7	-10,818.4	13,878.3	-16,594.2	9,102.6	-27,412.6

Portfolio investment liabilities decreased by 16.6 billion kroons in 2005, whereas 16.2 billion of that accounted for equity security liabilities and 0.4 billion kroons for debt security liabilities (see Table 1.32). Equity security liabilities decreased above all due to a decline in the liabilities of credit institutions (the takeover of Hansapank). The total net outflow of debt security liabilities was 0.4 billion kroons. The inflow of debt security liabilities was approximately 1.9 billion kroons and the outflow of money market instruments was 2.3 billion kroons. By countries, portfolio investment liabilities to EU Member States and the United States decreased the most (see Figure 1.14 and Table 1.33).

Portfolio investment assets increased by 10.8 billion kroons year-on-year in terms of both equity and debt securities (4.8 and 6 billion kroons, respectively; see Table 1.34). The most active investors in equity securities issued by non-residents were companies in other sectors, who invested the total of 4.7 billion kroons. Companies in other sectors also invested most in debt securities and money market instruments. The resulting capital outflow totalled 3.9 billion kroons; the general government followed with 1.3 billion kroons. By countries, portfolio investment went mainly to Austria, the United States and Belgium. By groups of countries, 72% of investment went to EU Member States (see Figure 1.15).

Table 1.32. Structure of portfolio investment liabilities

	Equity securities		Debt securities		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1996	2,093.8	86.8	319.0	13.2	2,412.8	100.0
1997	1,763.6	29.5	4,210.8	70.5	5,974.4	100.0
1998	401.1	383.8	-296.6	-283.8	104.5	100.0
1999	3,292.3	160.5	-1,241.4	-60.5	2,050.9	100.0
2000	-538.8	-42.6	1,803.2	142.6	1,264.4	100.0
2001	568.4	39.6	866.8	60.4	1,435.2	100.0
2002	912.2	16.2	4,713.1	83.8	5,625.3	100.0
2003	1,526.9	19.6	6,256.2	80.4	7,783.1	100.0
2004	2,205.3	15.9	11,673.0	84.1	13,878.3	100.0
2005	-16,179.6	97.5	-414.6	2.5	-16,594.2	100.0



Figure 1.14. Decrease in portfolio investment liabilities by countries in 2005 (EEK bn)

Table 1.33. Structure of portfolio investment by groups of countries

	Volume (EEK m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2004	2005	2004	2005	2004	2005	2004	2005
EU-25	-2,484.8	-7,750.8	13,117.4	-12,526.2	52.0	71.6	94.5	75.5
EU-15	-1,160.1	-4,941.2	13,554.6	-13,131.3	24.3	45.7	97.7	79.1
CIS	-184.4	-589.5	224.6	105.8	3.9	5.4	1.6	-0.6
Other	-2,106.5	-2,478.1	536.3	-4,173.8	44.1	22.9	3.9	25.2
Total	-4,775.7	-10,818.4	13,878.3	-16,594.2	100.0	100.0	100.0	100.0

Table 1.34. Structure of portfolio investment assets

	Equity securities		Debt securities		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1996	-181.0	28.8	-447.4	71.2	-628.4	100.0
1997	-1,238.5	53.4	-1,080.8	46.6	-2,319.3	100.0
1998	500.8	-391.6	-628.7	491.6	-127.9	100.0
1999	187.0	-9.9	-2,081.9	109.9	-1,894.9	100.0
2000	53.3	34.8	99.8	65.2	153.1	100.0
2001	236.5	-11.3	-2,336.7	111.3	-2,100.2	100.0
2002	9.1	-0.3	-3,192.0	100.3	-3,182.9	100.0
2003	-1,028.9	19.2	-4,322.7	80.8	-5,351.6	100.0
2004	-2,893.5	60.6	-1,882.2	39.4	-4,775.7	100.0
2005	-4,848.9	44.8	-5,969.5	55.2	-10,818.4	100.0

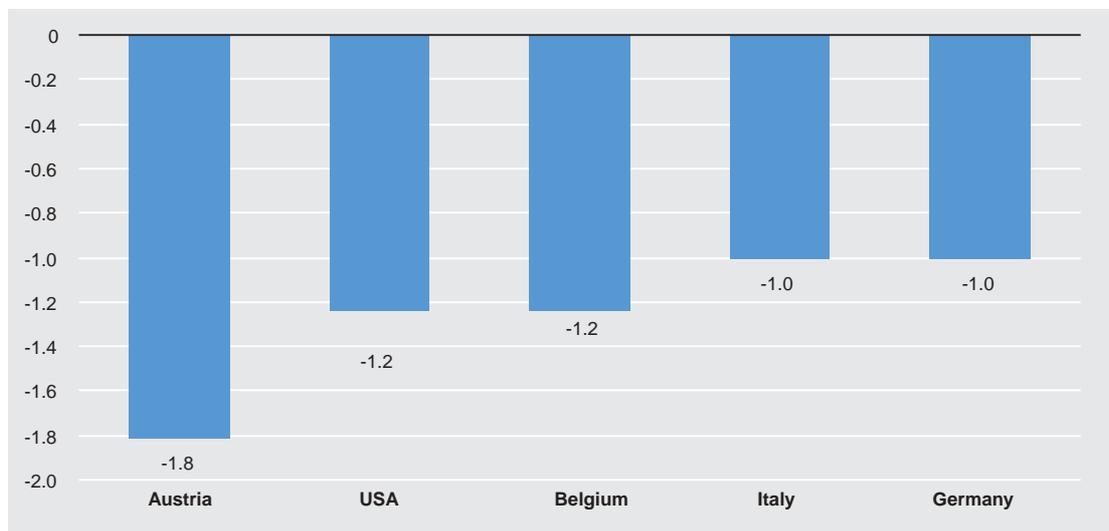


Figure 1.15. Increase in portfolio investment assets by countries in 2005 (EEK bn)

Other investment

The net inflow of **other investment** totalled nearly 20 billion kroons in 2005. Other investment liabilities increased by 30.6 billion and assets by 10.7 billion kroons (see Figure 1.16). Looking at the structure of other investment by maturity, the inflow of long-term capital stood at approximately 22 billion kroons (see Table 1.35), whereas the outflow of short-term other investment capital stood at 1.6 billion kroons. While in previous years the current account deficit had generally been financed on the account of direct or portfolio investment, then in 2005 the main source of financing was other investment capital.

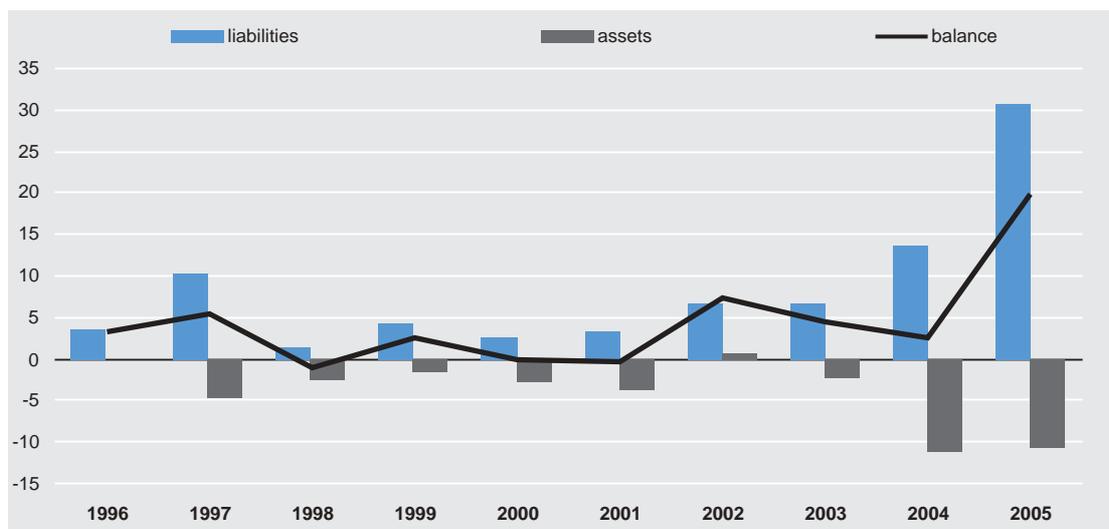


Figure 1.16. Other investment (EEK bn)

Table 1.35. Other investment by maturity (EEK m)

	Assets		Liabilities		Balance	
	2004	2005	2004	2005	2004	2005
Long-term capital	-6,052.7	5,432.1	3,740.4	16,085.6	-2,312.3	21,517.7
central bank	-10.5	-0.7			-10.5	-0.7
general government	-45.0	-60.9	-195.0	-178.3	-240.0	-239.2
credit institutions	-5,016.0	2,953.7	2,475.0	12,094.8	-2,541.0	15,048.5
other sectors	-981.2	2,540.0	1,460.4	4,169.1	479.2	6,709.1
Short-term capital	-5,116.1	-16,139.0	9,974.7	14,580.1	4,858.6	-1,558.9
central bank			189.6	-693.2	189.6	-693.2
general government	-119.3	-60.2			-119.3	-60.2
credit institutions	-3,347.2	-15,572.3	9,481.5	13,643.3	6,134.3	-1,929.0
other sectors	-1,649.6	-506.5	303.6	1,630.0	-1,346.0	1,123.5
Total	-11,168.8	-10,706.9	13,715.1	30,665.7	2,546.3	19,958.8

Other investment liabilities increased by 30.7 billion kroons year-on-year. The share of loan capital was 83% and that of deposits was nearly 10% (see Table 1.36). Liabilities grew across all sub-accounts. The inflow of other investment capital occurred mainly in the form of loans and deposits (25.5 and 2.9 billion kroons, respectively). The growth in trade credit and other investment liabilities contributed to capital inflow with 2.3 billion kroons. By groups of countries, other investment liabilities to the European Union grew the most, totalling 30.6 billion kroons. By countries, liabilities to Sweden, Finland and Germany increased the most (see Figure 1.17 and Table 1.37).

Other investment assets increased in 2005 and, as a result, capital outflow amounted to 10.7 billion kroons (see Table 1.38). Other investment assets grew mainly owing to deposits and trade credit, totalling 14 billion kroons. Loan assets decreased by 3.8 billion kroons. By countries, other investment assets to Lithuania, Sweden and Germany increased the most (see Figure 1.18). Table 1.39 provides a more detailed overview of loan capital assets and liabilities.

Table 1.36. Structure of other investment liabilities

	Trade credit		Loans		Deposits		Other capital		Total	
	Volume (EEK m)	Share (%)								
1996	426.7	12.6	1,723.7	50.7	1,232.3	36.3	14.8	0.4	3,397.5	100.0
1997	367.0	3.6	6,399.7	63.0	2,426.0	23.9	961.8	9.5	10,154.5	100.0
1998	-221.2	-16.3	290.0	21.3	365.5	26.9	924.2	68.0	1,358.5	100.0
1999	119.1	2.8	2,399.7	57.3	1,462.7	34.9	204.3	4.9	4,185.8	100.0
2000	1,080.9	41.6	-785.3	-30.2	1,955.4	75.3	345.6	13.3	2,596.6	100.0
2001	102.9	3.1	2,570.4	78.2	81.4	2.5	533.5	16.2	3,288.2	100.0
2002	781.1	11.6	1,963.3	29.2	3,763.5	55.9	225.4	3.3	6,733.3	100.0
2003	-115.7	-1.7	3,219.5	47.8	4,587.9	68.2	-960.3	-14.3	6,731.4	100.0
2004	625.2	4.6	4,564.6	33.3	8,804.7	64.2	-279.4	-2.0	13,715.1	100.0
2005	1,616.7	5.3	25,453.6	83.0	2,953.3	9.6	642.0	2.1	30,665.6	100.0

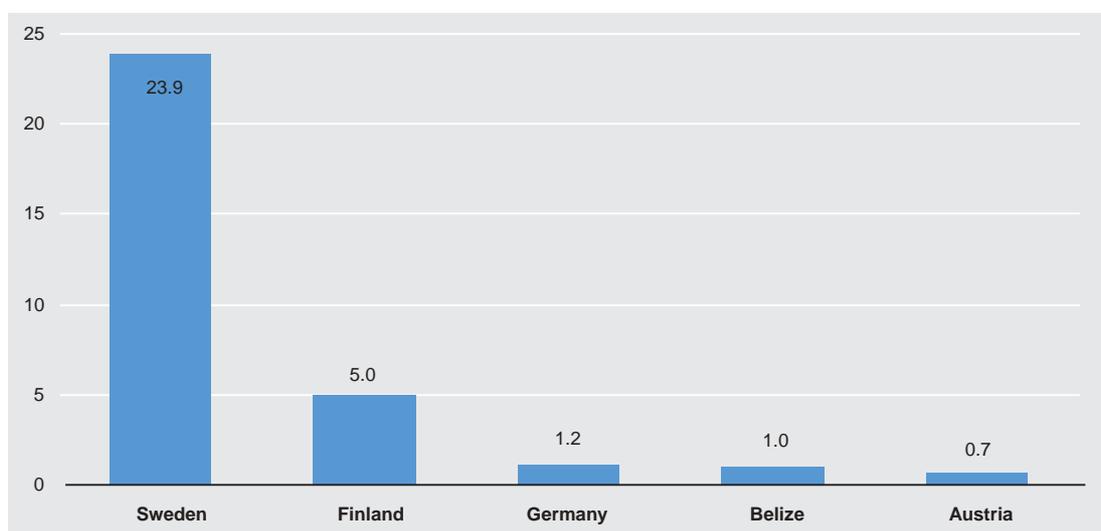


Figure 1.17. Increase in other investment liabilities by countries in 2005 (EEK bn)

Table 1.37. Structure of other investment by groups of countries

	Volume (EEK m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2004	2005	2004	2005	2004	2005	2004	2005
EU-25	-9,117.3	-8,947.0	11,581.0	29,081.6	81.6	83.6	84.4	94.8
EU-15	-3,960.7	-4,377.7	9,695.4	29,738.7	35.5	40.9	70.7	97.0
CIS	-1,637.1	-518.0	955.1	541.1	14.7	4.8	7.0	1.8
Other	-414.4	-1,241.9	1,179.0	1,043.0	3.7	11.6	8.6	3.4
Total	-11,168.8	-10,706.9	13,715.1	30,665.7	100.0	100.0	100.0	100.0

Table 1.38. Structure of other investment assets

	Trade credit		Loans		Deposits		Other capital		Total	
	Volume (EEK m)	Share (%)								
1996	-565.6	525.7	-16.5	15.3	590.3	-548.6	-115.8	107.6	-107.6	100.0
1997	-851.4	18.4	-1,633.3	35.2	-1,820.5	39.3	-330.3	7.1	-4,635.5	100.0
1998	-993.7	40.1	-542.2	21.9	-1,049.9	42.3	105.6	-4.3	-2,480.2	100.0
1999	-401.8	24.3	-57.4	3.5	-887.9	53.8	-304.1	18.4	-1,651.2	100.0
2000	-78.0	3.0	-2,814.0	106.7	-103.0	3.9	356.7	-13.5	-2,638.3	100.0
2001	-584.8	15.7	-2,278.9	61.3	-738.0	19.9	-115.0	3.1	-3,716.7	100.0
2002	1,047.6	150.7	-1,324.5	-190.5	742.6	106.8	229.4	33.0	695.1	100.0
2003	-1,028.2	45.0	-3,520.4	154.1	2,209.4	-96.7	54.6	-2.4	-2,284.6	100.0
2004	-1,032.0	9.2	-8,455.5	75.7	-1,545.1	13.8	-136.2	1.2	-11,168.8	100.0
2005	-1,977.4	18.5	3,835.2	-35.8	-12,251.5	114.4	-313.3	2.9	-10,707.0	100.0

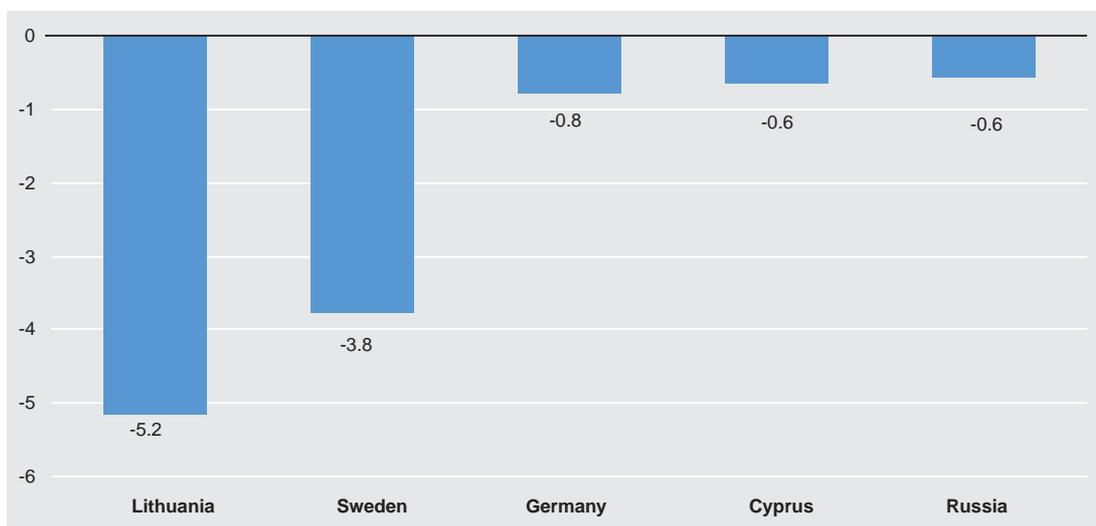


Figure 1.18. Increase in other investment assets by countries in 2005 (EEK bn)

Table 1.39. Assets and liabilities of loan capital (EEK m)

	Assets			Liabilities		
	Grantings	Repayments	Balance	Drawings	Repayments	Balance
2003	-34,919.2	31,398.9	-3,520.3	30,076.6	-26,857.1	3,219.5
2004	-29,782.7	21,327.1	-8,455.5	45,446.7	-40,882.1	4,564.6
2005	-77,660.1	81,495.3	3,835.2	126,231.3	-100,777.7	25,453.6

Reserve assets

The balance of payments reserves increased by 4.9 billion kroons in 2005 (see Table 1.40). Figure 1.19 gives an overview of the imports covered by reserve assets.

Table 1.40. Structure of reserve assets

	Volume (EEK m)		Change (%)	
	2004	2005	2004	2005
Gold	0.0	0.0	0.0	0.0
Currency and deposits	875.3	-389.5	-25.6	8.0
Securities	-4,272.7	-4,470.3	124.7	91.5
equity securities				
bonds and notes	-837.5	-1,870.6	24.4	38.3
money market instruments	-3,435.2	-2,599.7	100.3	53.2
Other assets	-28.0	-24.1	0.8	0.5
Total	-3,425.4	-4,883.9	100.0	100.0

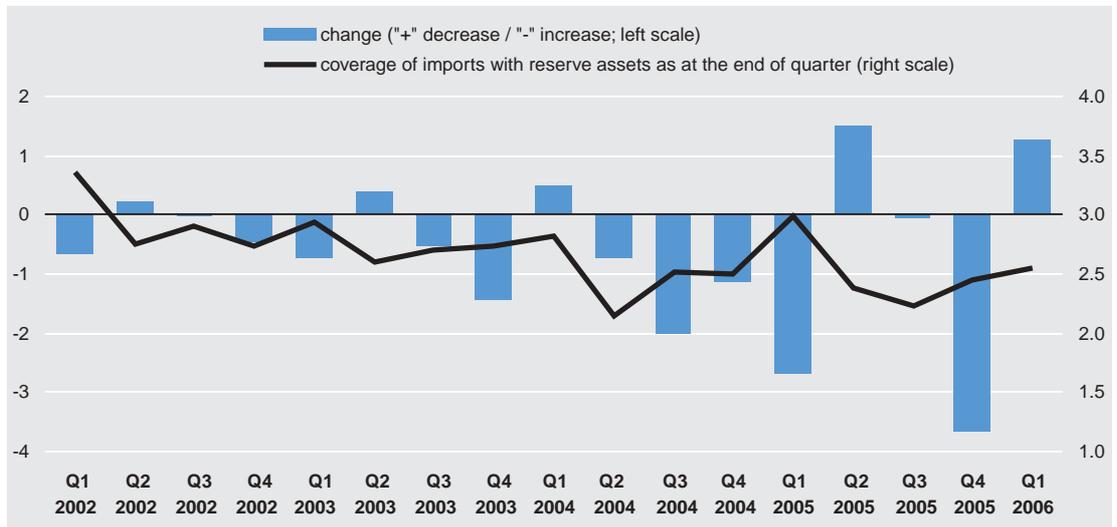


Figure 1.19. Changes in Estonia's gold and foreign exchange reserves (EEK bn) and coverage of goods imports (except goods for processing and processed goods) with reserve assets (by months)

II ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND EXTERNAL DEBT as at 31 December 2005

During 2005, foreign investment in Estonia increased by a third, amounting to 308.9 billion kroons at the end of the year (see Table 2.1). 56% thereof was invested in financial intermediation and to a lesser extent also in real estate, renting and business activities, manufacturing and wholesale and retail trade (see Table 2.2). Most of investment came from Sweden (42%), Finland (19%), and the United Kingdom (11%).

Table 2.1. Estonia's international investment position (EEK m)

	31/12/2004	Share (%)	31/12/2005	Share (%)	Change (%)
EXTERNAL ASSETS	100,759.0	100.0	141,588.1	100.0	40.5
Direct investment abroad	16,275.0	16.2	26,119.2	18.4	60.5
Equity capital and reinvested earnings	12,128.7	12.0	20,210.4	14.3	66.6
Other direct investment capital	4,146.4	4.1	5,908.8	4.2	42.5
Portfolio investment	25,741.1	25.5	39,180.7	27.7	52.2
Equity securities	6,136.0	6.1	13,425.9	9.5	118.8
Debt securities	19,605.1	19.5	25,754.8	18.2	31.4
Bonds and notes	12,376.7	12.3	15,062.6	10.6	21.7
Money market instruments	7,228.4	7.2	10,692.2	7.6	47.9
Financial derivatives	368.6	0.4	360.1	0.3	-2.3
Other investment	37,769.9	37.5	50,155.2	35.4	32.8
Trade credit	6,986.7	6.9	8,996.3	6.4	28.8
Loans	22,359.2	22.2	20,151.1	14.2	-9.9
Long-term	11,408.2	11.3	5,357.6	3.8	-53.0
Short-term	10,951.0	10.9	14,793.5	10.4	35.1
Currency and deposits	7,664.6	7.6	20,038.9	14.2	161.4
Other assets	759.4	0.8	969.0	0.7	27.6
Reserve assets	20,604.3	20.4	25,773.0	18.2	25.1
EXTERNAL LIABILITIES	230,567.2	100.0	308,880.4	100.0	34.0
Direct investment in Estonia	115,447.8	50.1	168,174.2	54.4	45.7
Equity capital and reinvested earnings	100,558.5	43.6	154,608.5	50.1	53.7
Other direct investment capital	14,889.3	6.5	13,565.7	4.4	-8.9
Portfolio investment	51,674.2	22.4	44,795.6	14.5	-13.3
Equity securities	22,276.7	9.7	15,805.9	5.1	-29.0
Debt securities	29,397.5	12.8	28,989.7	9.4	-1.4
Bonds and notes	26,624.2	11.5	28,512.8	9.2	7.1
Money market instruments	2,773.3	1.2	477.0	0.2	-82.8
Financial derivatives	238.0	0.1	132.3	0.0	-44.4
Other investment	63,207.2	27.4	95,778.3	31.0	51.5
Trade credit	8,273.3	3.6	10,590.1	3.4	28.0
Loans	28,662.6	12.4	55,264.4	17.9	92.8
Long-term	25,095.2	10.9	42,042.9	13.6	67.5
Short-term	3,567.4	1.5	13,221.5	4.3	270.6
Currency and deposits	25,251.9	11.0	28,205.6	9.1	11.7
Other liabilities	1,019.4	0.4	1,718.3	0.6	68.6
NET INVESTMENT POSITION	-129,808.1		-167,282.3		28.9
Long-term	-100,326.2		-163,468.1		62.9
Short-term	-29,481.9		-3,824.2		-87.0
GROSS EXTERNAL DEBT	114,903.7		148,754.8		29.5
NET EXTERNAL DEBT	-25,412.3		-30,801.8		21.2
General government	7,545.1		9,067.5		20.2

Table 2.2. Estonia's international investment position by fields of activity and countries (%) as at 31 December 2005

Assets		Liabilities	
Fields of activity			
Financial intermediation	70.9	Financial intermediation	56.1
Public administration and defence; statutory social insurance	9.3	Real estate, renting and business activities	10.1
Real estate, renting and business activities	6.3	Manufacturing	9.4
Wholesale and retail trade; repair	5.4	Wholesale and retail trade; repair	6.9
Manufacturing	3.8	Transport, storage and communications	4.5
Other	4.3	Other	13.0
Total	100.0	Total	100.0
Countries			
Lithuania	15.7	Sweden	42.0
Germany	11.0	Finland	19.2
Latvia	9.8	United Kingdom	11.1
Russia	7.6	Germany	3.6
United Kingdom	6.5	USA	3.0
Other	49.4	Other	21.0
Total	100.0	Total	100.0

Compared to the end of 2004, the structure of **foreign investment in Estonia** had changed considerably by the end of 2005: the shares of direct and other investment had increased while that of portfolio investment had decreased. The changes in the shares of direct and portfolio investment stemmed from the takeover of Hansapank by a foreign investor. In 2005, direct investment accounted for 54% (168.2 billion kroons) of total investment. The share of portfolio investment fell from 22% to 15% and that of other investment rose from 27% to 31%. The volume of other investment increased by a half mainly owing to the rise in both long-term and short-term loans. The most preferred fields of activity for **foreign direct investment in Estonia** were financial intermediation (46%), real estate, renting and business activities (15%), manufacturing (13%), and wholesale and retail trade (8%; see Table 2.3). Swedish investors made 53% and Finnish investors 21% of the direct investment.

Estonian investment abroad increased nearly 40%, amounting to 141.6 billion kroons. Financial intermediaries made 70% of the investment abroad. Investors of the public sector, real estate, renting and business activities, and wholesale and retail trade also invested abroad. Estonian investors mainly preferred to invest in the Baltic States and Germany, and somewhat less in Russia and the United Kingdom.

Compared to the end of 2004, the shares of direct and portfolio investment in the structure of **investment abroad** slightly increased, while the shares of other investment and reserve assets decreased. Loans, deposits and the central bank's gold and foreign exchange reserves covered 54% of the external assets. **Foreign direct investment** formed nearly 18%. The most active foreign direct investors were those of financial intermediation (45%), real estate, renting and business activities (23%), and transport, storage and communications (see Table 2.3). Approximately a third of direct investment went both in Latvia and Lithuania. The volume of direct investment in Russia continued to grow, comprising 15% of total foreign direct investment (4% at the end of 2004).

Due to the prevalence of external liabilities, Estonia's net investment position was negative by 167.3 billion kroons at the end of 2005, outpacing the volume of GDP in 2005 by 1%. The share of long-time capital in the net investment position continued growth, accounting for 98%.

Table 2.3. Direct investment position by fields of activity and countries (%) as at 31 December 2005

In Estonia		Abroad	
Fields of activity			
Financial intermediation	45.7	Financial intermediation	45.1
Real estate, renting and business activities	15.2	Real estate, renting and business activities	22.8
Manufacturing	13.3	Transport, storage and communications	10.8
Wholesale and retail trade; repair	7.8	Wholesale and retail trade; repair	7.3
Transport, storage and communications	3.0	Manufacturing	4.1
Other	15.0	Other	9.9
Total	100.0	Total	100.0
Countries			
Sweden	53.3	Lithuania	31.1
Finland	20.6	Latvia	29.5
Netherlands	3.0	Russia	14.8
USA	2.9	Cyprus	8.9
United Kingdom	1.9	Finland	3.5
Other	18.3	Other	12.2
Total	100.0	Total	100.0

Estonia's gross external debt increased by approximately a third year-on-year, totalling 148.8 billion kroons (90% of GDP) on 31 December 2005. The growth in gross external debt mainly stemmed from a rise in the short-term liabilities of credit institutions and long-term liabilities of other sectors. Estonia's net external debt (assets less liabilities) constituted 30.8 billion kroons (18.7% of GDP; see Figure 2.1 and Table 2.4). The gross external debt amounted to 48% of the external liabilities. Leaving aside the intercompany lending of direct investment companies, long-term debt liabilities accounted for 59% of the gross external debt. The share of long-term debt assets formed 36% of total debt assets. Figures 2.2 and 2.3 give an overview of Estonia's gross and net external debt by sectors.

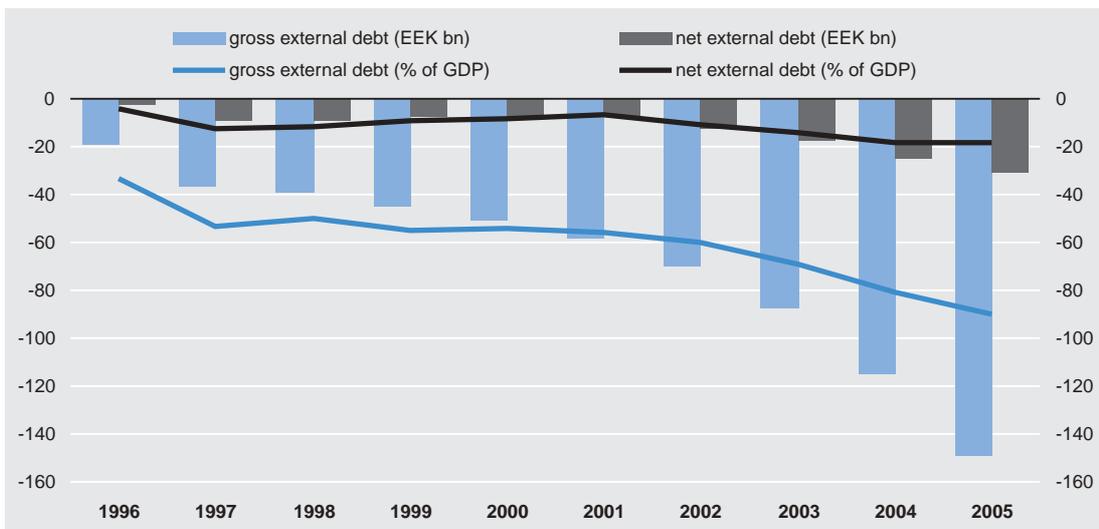


Figure 2.1. Estonia's gross and net external debt

Table 2.4. External debt (EEK m)

	31/12/2004	Share (%)	31/12/2005	Share (%)	Change (%)
LIABILITIES					
I. General government	4,031.0	3.5	3,928.2	2.6	-2.6
Short-term					
Long-term	4,031.0	3.5	3,928.2	2.6	-2.6
II. Monetary authorities (NCB)	507.7	0.4	48.4	0.0	-90.5
Short-term	507.7	0.4	48.4	0.0	-90.5
Long-term					
III. Credit institutions	59,932.8	52.2	82,529.9	55.5	37.7
Short-term	21,982.8	19.1	38,512.5	25.9	75.2
Long-term	37,950.0	33.0	44,017.4	29.6	16.0
IV. Other sectors	28,133.3	24.5	38,261.6	25.7	36.0
Short-term	10,548.4	9.2	12,967.5	8.7	22.9
Long-term	17,584.9	15.3	25,294.1	17.0	43.8
V. Direct investment: intercompany lending	22,298.9	19.4	23,986.7	16.1	7.6
GROSS EXTERNAL DEBT	114,903.7	100.0	148,754.8	100.0	29.5
ASSETS					
I. General government	11,576.1	12.9	12,995.7	11.0	12.3
Short-term	5,818.6	6.5	7,902.4	6.7	35.8
Long-term	5,757.5	6.4	5,093.3	4.3	-11.5
II. Monetary authorities (NCB)	20,582.0	23.0	25,735.6	21.8	25.0
Short-term	16,879.4	18.9	20,046.9	17.0	18.8
Long-term	3,702.6	4.1	5,688.7	4.8	53.6
III. Credit institutions	23,030.2	25.7	36,254.8	30.7	57.4
Short-term	14,970.9	16.7	21,322.0	18.1	42.4
Long-term	8,059.3	9.0	14,932.8	12.7	85.3
IV. Other sectors	22,747.1	25.4	26,637.1	22.6	17.1
Short-term	12,598.8	14.1	16,165.8	13.7	28.3
Long-term	10,148.3	11.3	10,471.3	8.9	3.2
V. Direct investment: intercompany lending	11,556.0	12.9	16,329.8	13.8	41.3
TOTAL ASSETS	89,491.4	100.0	117,952.9	100.0	31.8
NET EXTERNAL DEBT (assets less liabilities)					
I. General government	7,545.1		9,067.5		20.2
Short-term	5,818.6		7,902.4		35.8
Long-term	1,726.5		1,165.1		-32.5
II. Monetary authorities (NCB)	20,074.3		25,687.2		28.0
Short-term	16,371.7		19,998.5		22.2
Long-term	3,702.6		5,688.7		53.6
III. Credit institutions	-36,902.6		-46,275.1		25.4
Short-term	-7,011.9		-17,190.5		145.2
Long-term	-29,890.7		-29,084.6		-2.7
IV. Other sectors	-5,386.2		-11,624.5		115.8
Short-term	2,050.4		3,198.3		56.0
Long-term	-7,436.6		-14,822.8		99.3
V. Direct investment: intercompany lending	-10,742.9		-7,656.9		-28.7
TOTAL NET EXTERNAL DEBT	-25,412.3		-30,801.8		21.2

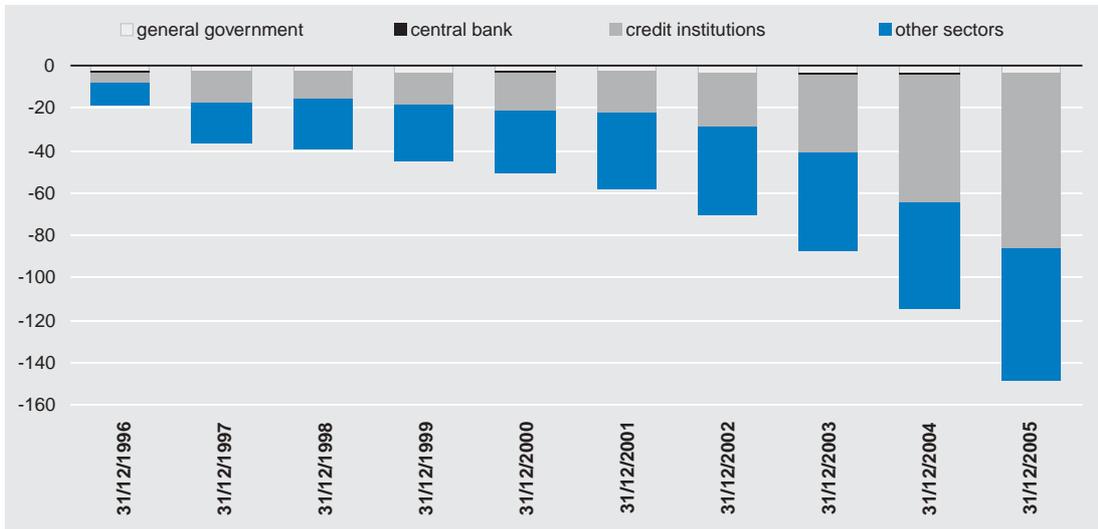


Figure 2.2. Estonia's gross external debt by sectors (EEK bn)

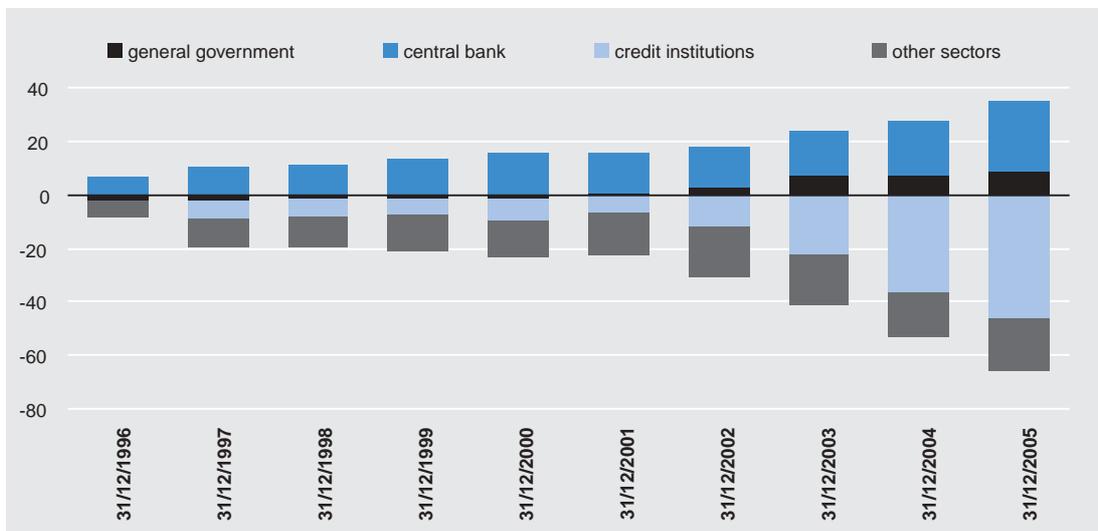


Figure 2.3. Estonia's net external debt by sectors (EEK bn)

III THEORETICAL CONCEPT, METHODOLOGY AND COMPILATION PRACTICES

The IMF Balance of Payments Manual, 5th Edition, serves as a methodological basis for external sector statistics as well as for the Estonian model of balance of payments statistics. The following is an introduction to three basic documents (balance of payments, international investment position, and external debt) along with their main principles, content of entries, dissemination policy, and compilation practices.

BALANCE OF PAYMENTS

The balance of payments is by nature the consolidated income statement as well as the consolidated balance sheet of all the institutional sectors of the economy. Corporate financial statements reflect the relations of a company with the external environment. Theoretically, the balance of payments has the same functions, the company being the national economy in its entirety and the rest of the world as its environment.

The balance of payments is a statistical statement that systematically summarises economic transactions of a country conducted over a specific time period with the rest of the world. The period is usually a month, a quarter or a year.

Since the balance of payments reflects transactions over a specific time period, the values of the balance of payments items are *flow indicators*.

The balance of payments includes the *current account*, reflecting income on foreign trade, and the *capital account*, *financial account* and *reserve assets*, reflecting current account financing, i.e. the structure of *external financing sources*.

The current account is divided into four accounts⁵: *goods*, *services*, *income*, and *transfers*. The goods and services accounts include all sums receivable from selling goods and services as well as the sums payable for purchases. The income account reflects revenues related to the use and render for use of production factors (capital and labour). Transfers are all the remaining transactions related to the formation of gross disposable income of residents and are distinguishable from capital transfers.

Sources of financing are divided between three accounts: the *capital account*, *financial account* and *reserve assets*. The *capital account* records mainly transactions related to intangible assets (e.g. the acquisition/disposal of intellectual property), debt forgiveness, and international capital transfers not related to the formation of gross disposable income. The *financial account* records foreign investment classified into four major categories: *direct investment*, *portfolio investment*, *financial derivatives*, and *other investment*. In Estonia, reserve assets reflect changes in the gold and foreign exchange reserves of the central bank.

The compilation of the balance of payments is not based on the territory of the compiling country. A balance of payments transaction is for the most part a transaction between a *resident* and a *non-resident*, not only movement of funds. The balance of payments is compiled on an *accrual basis*, i.e. the transaction is recorded at the time the transaction was concluded between parties or a change of ownership took place, regardless of whether the respective amount has actually been received or paid. All balance of payments transactions are recorded at *market prices*.

⁵ Separate chapters provide an overview of the definitions and entries related to the balance of payments statistics.

The *double entry system* serves as the basis for compiling the balance of payments. Every recorded transaction is represented by two entries with equal values, but with different arithmetic signs: *credit* (+) and *debit* (-). Credit reflects an increase in the financial resources available while debit reflects their utilisation (see Table 3.1):

Table 3.1. Credit and debit

	Increase in resources	Decrease in resources
	CREDIT "+"	DEBIT "-"
Current account	Exports of goods	Imports of goods
	Exports of services	Imports of services
	Income inflow	Income outflow
	Transfers inflow	Transfers outflow
Capital account	Inflow of capital transfers	Outflow of capital transfers
Financial account	Decrease in external claims	Increase in external claims
	Increase in external liabilities	Decrease in external liabilities
Reserve assets	Decrease in reserve assets	Increase in reserve assets

In the ideal case, the net balance of all entries in the statement is zero. The complicity and scope of the balance of payments make the collection of statistics always inaccurate. In order to balance the accounts, the inaccuracy is reflected under the entry *errors and omissions*.

Pursuant to the Special Data Dissemination Standard the current account and the capital account record debit and credit turnovers separately. Only *net entries* (sums of debit and credit entries) are recorded on the financial account and the reserves account.

INTERNATIONAL INVESTMENT POSITION

International investment position is a consolidated balance sheet of the financial assets and liabilities of all institutional sectors of a country as at the balance sheet date at market prices.

Since accounts are fully consolidated, the financial assets and liabilities of domestic sectors cancel each other and the international investment position refers to the *external claims* and *external liabilities* of a country as a whole. The investment position differs from the traditional balance sheet in not considering the real assets and equity of Estonian residents. Therefore the investment position is not balanced.

Net investment position is the difference between the external assets and external liabilities of all institutional sectors of a country.

The net investment position is positive when external claims exceed external liabilities, reflecting the net debt of the rest of the world to the country. The negative net investment position reflects the debt of the country to the rest of the world.

It has been agreed to record claims and liabilities between the direct investment company and the direct investor in the balance of payments according to the directional principle:

- all direct investment company's claims to direct investors are deducted from direct investment in Estonia (liabilities);
- all direct investors' liabilities to foreign direct investment companies are deducted from direct investment from Estonia (claims).

The same concepts and definitions as in the balance of payments are used in compiling the investment position. The basic principles are *accounting on an accrual basis* and *valuation at market prices* on the day of compiling the position.

As international investment position reflects assets and resources as at a certain date, the values of investment position entries are *stock indicators*.

EXTERNAL DEBT

External debt statistics is based on the external claims and liabilities recorded in the international investment position, which are debts in their nature, i.e. they have to be repaid. Direct and portfolio investment into equity capital, reinvested earnings (retained earnings/loss of previous periods and equity capital reserves) and financial derivatives are excluded from debt accounting. In addition, neither the gold reserves of the central bank nor the International Monetary Fund's *special drawing rights*⁶ are included in the external debt.

The key external debt indicators are the following:

- **gross external debt – the amount of all debt-related external liabilities of all institutional sectors;**
- **net external debt – assets less liabilities, repayable by all institutional sectors.**

Unlike the international investment position that reflects direct investment according to the *directional principle*, loans granted by resident direct investment companies to direct investors do not reduce direct investment liabilities, but are entered under the liabilities' side of the balance sheet in debt accounting. Similarly, Estonian residents' loans granted by non-resident direct investment companies are not subtracted from Estonia's direct investment claims abroad but are added to debt liabilities instead.

Similarly to the international investment position, the indicators reflecting the external debt are *stock indicators*.

DEFINITIONS

- **C.i.f.** (cost, insurance, freight) price – an international delivery clause of goods, including the value of goods and the cost of insurance and transportation to the customs frontier of the importing country.
- **F.o.b.** (free on board) price – an international delivery clause of goods, including the value of goods and the cost of insurance and transportation to the customs frontier of the exporting country.
- **Institutional sectors** are divided into the following groups in the external sector statistics:

⁶ See Entries, Reserves.

- *General government* – state government and defence authorities under the authority of central and local governments; scientific, research, healthcare, social care, educational, cultural and sports institutions, and state funds and foundations financed from a central or a local government budget;
 - *Central Bank* – Eesti Pank as the national central bank;
 - *Credit institutions* – companies as private bodies licensed by Eesti Pank the principal and permanent activities which are to receive cash deposits and other repayable funds from the public and to grant loans for their own account and perform other operations listed in the Credit Institutions Act;
 - *Other sectors* – the remaining private sector (companies and households).
- **Financial leasing** – loan (lease transaction) for the acquisition of assets on the condition that the leased property remains in the ownership of the lessor until the amortisation of the loan and interests.
 - **Short-term capital** – claims or liabilities with the maturity of up to one year (inclusive).
 - **Short-term position** – net investment position based on short-term external claims and liabilities. Conventionally, reserves of the central bank are considered short-term due to their nature.
 - **Non-resident** – all other persons not covered by the definition resident.
 - **Long-term capital** – claims or liabilities with the contractual maturity of over one year.
 - **Long-term position** – net investment position based on long-term external claims and liabilities. Conventionally, direct investment are considered long-term due to their nature.
 - **Repurchase agreement** – borrowing against securities as collateral.
 - **Resident:**
 - 1) state bodies and agencies of the Republic of Estonia in the broadest sense (legislative, executive and judicial power, and their agencies, constitutional institutions), as well as local governments and their agencies;
 - 2) Estonia's diplomatic, consular and other official representative offices abroad, as well as other representative offices of Estonian agencies and organisations abroad not involved in economic or commercial activities;
 - 3) legal persons in public law and their agencies established by the laws of the Republic of Estonia;
 - 4) legal persons in private law registered in Estonia;
 - 5) organisations and associations of persons established and operating in Estonia and enjoying partial legal capacity that are not legal persons;
 - 6) branches and representations of foreign legal persons registered in Estonia;
 - 7) Estonian citizens residing in Estonia;
 - 8) aliens residing in Estonia with a permanent residence permit;
 - 9) aliens residing in Estonia with a temporary residence permit for at least one year;
 - 10) Estonian citizens studying or receiving medical treatment abroad, regardless of the length of studies or medical treatment;
 - 11) diplomats, military personnel, staff of consular and other representative offices as well as their family members staying abroad and enjoying immunity and diplomatic privileges;

- 12) ship crews, seasonal and border workers, regardless of the duration of their residence on the territory of a foreign country;
- 13) conventional business entities representing real estate located on Estonian territory (land together with its essential parts).

ENTRIES

- **Trade account** – includes imports and exports of goods that contribute to the gross domestic product. Such imports and exports include:
 - imports for national consumption – goods imported for free circulation and paid by residents;
 - national exports – exports the sale of which provides receipts to residents;
 - imports of goods for processing and exports of processed goods.

Estonia's trade account is based on the special trade system of official trade statistics, registering goods exceeding free circulation⁷. Exports exclude re-exports of imported goods previously stored in customs warehouses or provisions for sea and air transport. Imports exclude customs warehousing of imported goods, yet reflect deliveries of goods from customs warehouses into free circulation and processing. As the official trade statistics and customs statistics do not comply with the balance of payments compilation principles (imports in c.i.f. prices, residency principle vs. territorial principle etc.), necessary supplements are added to the balance of payments. The most significant of them include:

- a) goods not declared in customs and not crossing frontiers but which are balance of payments transactions (e.g. fish caught in foreign waters);
- b) goods purchased for carriers abroad: fuel, provisions, merchandise, etc.;
- c) repair of capital goods purchased and sold;
- d) translation of imports into f.o.b. prices, i.e. separation of transportation and insurance costs;
- e) taking into account price distortions upon exports of goods through customs warehouses and free zone;
- f) estimates of black economy.

As of 1 May 2004, foreign trade statistics is based on the combination of two reporting systems: trade with non-EU countries is still calculated on the basis of customs declarations submitted to the Tax and Customs Board (the so-called Extrastat), whereas intra-Community trade is registered through the so-called Intrastat survey organised by the Statistical Office (see www.stat.ee/125965). While Extrastat still enables to apply the special trade system, which excludes trade through customs warehouses, then Intrastat does not allow filtering out goods that have moved through intermediate warehouses and that have not really entered Estonia's internal market, thus rather reflecting the principles of the general trade system. Therefore, the general level of both imports and exports of goods is higher than in earlier periods and that peculiarity has to be taken into account when comparing time series. Moreover, due to the structural differences between Intrastat reports and customs declarations it is no longer possible to distinguish

⁷ General trade system is also used, which registers movements of goods across customs frontiers. This system is not suitable for the compilation of the balance of payments, as it also includes the movement of goods of non-residents through Estonian customs warehouses.

sufficiently accurately the so-called normal exports and imports from the imports of goods for processing and from the exports of processed goods.

- **Services account** reflects the services sold to and purchased from non-residents by Estonian residents:
 - *transportation* – passenger, freight and other transportation services by significant modes of transport (marine, air and other transport modes);
 - *travel services* – include expenditure on package tours of tourists and one-day visitors, as well as on goods and services in the country of destination. Besides the above items, travel services also include education and health care costs in the country of destination. While generally residence abroad up to one year accounts as tourism, with students and those receiving health care in the country of destination there is no time limit. Tourism is distinguished from travel services by the fact that international passenger transport services that are regarded as tourism services according to international practice are recorded in the balance of payments under transportation services entries;
 - *communications services* – comprise charges for telecommunications services (TV and radio transmission, telegraph, telex and facsimile communications, satellite and cable television, e-mail etc.), postal and courier services (packaging, mailing, transportation, delivery of items, lease of letter boxes etc.);
 - *construction services* – generally cover the cost of construction activities abroad by resident companies or of construction activities in Estonia by non-residents. Construction services, as a rule, include sites or installation to be completed within one year;
 - *insurance services* – charges collected and paid upon conclusion of life and non-life insurance contracts, loss adjustment expenses, insurance expert assessments, etc. Non-life insurance premiums and claims payable are recorded under current transfers while life insurance premiums and payments are recorded in the financial account under other long-term capital;
 - *financial services* – financial intermediation services and auxiliary services (other than insurance) related to commissions and fees of banking and securities brokerage or to custodial services, clearing, depository services, financial consulting etc.;
 - *computer and information services* – cover transactions related to fees for the use and development of databases, data processing and programming, hardware consultations, software implementation etc. as well as services of news agencies;
 - *royalties and licence fees* – receipts and payments for the use of copyrights, licenses, franchises, patents, industrial processes or other intellectual property;
 - *merchandise* – commissions and fees of commodity brokers and dealers. The value of trade services is the difference between the value of goods purchased by residents abroad and the value of these goods resold abroad during the same period. The goods must never cross the Estonian border;
 - *operational lease* – payments where the lessee uses the assets during the contract period and returns the assets to the lessor upon the expiry of the contract (Capital lease – see below);
 - *miscellaneous business services* – services related to consulting (legal assistance, accounting, audit, management consulting etc.), public relations and marketing (advertising, opinion polls, market research etc.) or other technical services (waste management, environmental protection, architectural and engineering solutions, printing services etc.);
 - *personal, cultural and recreational services* – audio-visual services related to radio, television and production of motion pictures, organising concerts and other events, fees to performers, organising

exhibitions and museum exhibits, producer services and other sports, cultural and recreational services;

- *government services not included elsewhere* – other services rendered by government institutions related to embassies and consular services, military and other public sector services, state fees and foreign aid received and provided as a service (for foreign aid see also current transfers).

- **Income account** reflects income related to the use and render for use of production factors (capital and labour). Income falls into two categories:

- a) *compensation of employees* – gross wages earned abroad together with social transfers made by the employer under a labour contract with a duration of up to a year and paid to foreigners in Estonia;
- b) *investment income* – generally reflecting income on foreign (direct, portfolio and other) investment claims and payable from foreign investment liabilities (interests, dividends and other proprietary income). Investment income also includes reinvested earnings reflected as direct investment, being a proportional change equal to investment in the undistributed operating profit or loss of the investment company. Accounting income on realised and unrealised exchange rates and spreads are not recorded as income, because the balance of payments records movement of financial instruments at market prices. For accounting purposes the latter comprises acquisition cost and realised exchange rate and/or price profit/loss.

- **Current transfers account** includes all remaining transactions related to the accumulation of residents' disposable income but not recorded elsewhere under the current account. Current transfers are unilateral, i.e. there is no consignment or service following (or preceding) the transfer and neither is it income for the use of production factors. Current transfers are usually related to taxes, fines, subsidies, donations, inheritance, membership fees, insurance premiums, and indemnities. Current transfers include also the cost of goods and services received or provided as foreign aid as offsetting entries. The current transfers account records money flows by two institutional sectors:

- a) *general government*;
- b) *other sectors*.

General government transfers are the amounts related to the transfers received from and paid by the Estonian public sector. Workers' remittances recorded under other sectors indicate remittances to the home country of outside workers (also migrants – persons who have lived and worked in a foreign country more than a year) in case they have been hired by a company in a foreign country.

- **Capital transfers** are unilateral, similarly to current transfers, but amounts received or paid have no direct impact on residents' gross disposable income. Major capital transfers include:

- a) various grants from international funds to finance building infrastructure objects;
- b) transfers of migrants;
- c) acquisition of non-produced, non-financial intangible assets (intellectual property) and disposal thereof (franchises, patents, trademarks, industrial processes etc.);
- d) debt forgiveness or write-offs.

The capital account records money flows by two sectors:

- a) *general government capital transfers*;
- b) *capital transfers by other sectors*.

- **Direct investment** in Estonia's balance of payments refers to investment involving a qualifying holding, which amounts to 10% or more of the equity capital of the investment company⁸. According to international standards, lending and other investments between a company and an investor with a qualifying holding are also reflected as direct investment (except with financial intermediaries in case of whom only subordinated debt is recorded as direct investment).
 - *Direct investment company* – a company in which an investor or direct investor has a qualifying holding.
 - *Direct investor* – an investor who has a qualifying holding in a direct investment company.

The direct investment account falls into the following categories:

- equity capital of direct investment companies;
 - reinvested earnings – direct investor's proportional share in the operating profit or loss of a direct investment company;
 - other direct investment capital – claims and liabilities related to lending, debt securities and trade credit between a direct investment company and a direct investor.
- **Portfolio investment account** records, under claims and liabilities, securities investments that fall into the following categories:
 - equity securities* – securities investment into equity capital not comprising a qualifying holding, i.e. remaining below 10% of the equity capital of a company;
 - debt securities* – bonds and money market instruments that prove the debt claim:
 - *bonds* – securities proving the right of claim of their holders containing the borrower's commitment to repay the loan to the creditor on the agreed date and pay interest. As a rule, bonds are long-term instruments (date of redemption is in more than one year);
 - *money-market instruments* – debt instruments with high liquidity and low interest and credit risk that are traded in the money market and whose redemption date is in less than a year. As a rule, money market instruments are short-term.

Portfolio investments are recorded by institutional sectors in the balance of payments.

- **Financial derivatives** are securities related to a financial instrument, index or commodity allowing trading in financial risks on markets, i.e. the right or obligation to buy, sell or exchange a financial asset in the future in an agreed amount and at an agreed price. Major financial derivatives are *options*, *forwards*, *futures*, and *swaps*. Financial derivatives are recorded in the balance of payments by institutional sectors, assets and liabilities separately.
- **Other investment** cover all other investments that are neither direct investment nor portfolio investment, nor related to financial derivatives:
 - *trade credit* – outstanding or unpaid amounts for goods and services and advance payments, recorded

⁸ The concept describes direct investment as financial resources applied leading to a qualifying holding and a casting vote of the investor in managing the direct investment enterprise, regardless of the actual holding. As such an approach does not ensure similar treatment of the investment in the investor and recipient country, the 10% criterion is recommended to avoid statistical errors (OECD Benchmark Definition of Foreign Direct Investment, 1996).

- on an accrual basis in the balance of payments as well as in the international investment position;
- *loans* – short-term and long-term lending of institutional sectors not related to direct investment. Loans also cover capital lease and repurchase agreements;
- *currency and deposits* – foreign currency held by residents and their deposits in foreign credit institutions are recorded as assets. Estonian kroons held by non-residents and their deposits in Estonian credit institutions are recorded as liabilities;
- *other assets and liabilities* – other overdue sums (accounts receivable and accounts payable) recorded on an accrual basis, as well as other assets and liabilities unrelated to other entries. In addition, life insurance premiums collected and disbursements made by insurance companies are recorded here.

- **Reserves** – gold and foreign exchange reserves of the central bank comprising assets backing the kroon in Estonia's monetary system. Reserves are usually highly liquid tradable external assets of the central bank, entered as:
 - a) *monetary gold* – gold held as reserve assets;
 - b) *SDRs* (special drawing rights) – units of account created by the International Monetary Fund. Their value is based on a basket of four currencies (USD, EUR, JPY, and GBP). Each IMF member has a SDR account for borrowing and other related operations between the member state and the IMF;
 - c) *International Monetary Fund (IMF) reserve position* – contribution to the IMF that is a loan in character available to the member state, if necessary;
 - d) *foreign exchange* – foreign exchange or equal reserve assets: foreign currency and deposits, equity securities, bonds, money market instruments, and financial derivatives;
 - e) *other claims* – other liquid external assets (also financial derivatives).

BALANCE OF PAYMENTS COMPILATION SYSTEM

Three very different systems and their combinations are used in the world for the compilation of balance of payments:

- **survey system, transaction-based system;**
- **settlements system, cash-based system;**
- **administrative system.**

The survey system draws upon information from various statistical surveys and studies. Both sampling and census are used, depending on the requirements, field of study and peculiarities of a specific country. The structure of the questionnaire follows either the balance of payments structure or the structure of financial statements and accounting principles. The advantage of the survey system lies in its flexibility but, on the other hand, statistical surveys are expensive to conduct, they have a low response rate and are not very operational. Anglo-American countries Australia, New Zealand, the United Kingdom, Ireland, the USA, and Canada are among successful users of the survey system.

The settlements system is based on collection, coding and processing of international payments through resident banks. Based on the description of the transaction, clients, commercial institutions or the central bank attribute a transaction code to each incoming or outgoing payment in compliance with the balance of

payments structure. The settlements system allows to collect detailed and operational information but is still limited: money flows do not reflect accrual approach, the description of a transaction or balance of payments code is often missing, netting appears, and money flows do not allow to estimate positions. Pure settlements system is being pushed out by the mixed system in most countries of continental Europe.

The administrative system draws information from the data collected beforehand by various agencies. The use of this system requires full control over external transactions by the public sector. There are few countries using solely administrative information for balance of payments purposes but almost all countries apply it to a larger or smaller extent. The major shortcoming of the administrative system lies in weak data quality control.

COMPILATION PRACTICES IN ESTONIA

Estonia started compiling national balance of payments in 1992. Due to the weakness of the banking system at that time, the survey system was introduced. However, as this system is not sufficiently flexible in the changing economic environment, the possibilities to apply the settlements system upon compiling the balance of payments were studied. The settlements system was launched in parallel to the survey system in 1994. Arising from the compilation of international investment position as of 1996, surveys have become more significant. Above all, surveys facilitate collecting information on an accrual basis and other indicators not reflected in money flows (e.g. trade credit, reinvested earnings).

By now Estonia has developed its own mixed system of compiling balance of payments. Two parallel databases are complementary and simplify error identification. The databases in combination with administrative information provide the documents (balance of payments, international investment position etc.) with better quality, the latter usually being quite complicated in very open economies of low concentration (see Figure 3.1).

Regarding other quarterly statistics on balance of payments and the external sector, the survey system supplemented with the information collected through the settlements system is significant. Besides monthly reports by the central bank, credit institutions and the general government, the settlements system supplemented by various econometric models is applied upon compiling monthly balances of payment. In order to meet the European Union requirements, Eesti Pank started to release initial monthly balance of payment indicators in 2002.

Currently, ten different surveys are in use, collecting quarterly information from more than 3,200 enterprises. The quarterly settlements system involves approximately 100,000 transactions significant for the compilation of the balance of payments, the information on which is received through the so-called open system: the central bank gets information only on the debit or credit side of the foreign payment order. Only bank clients' payments are communicated. Banking sector transactions are recorded in the balance of payments based on banks' balance sheets, income statements and other financial reports.

Apart from the above, information is obtained from multiple other channels: official trade statistics, the Central Register for Securities, Financial Supervision Authority, surveys conducted by the Statistical Office of Estonia, Ministry of Justice Centre of Registers, accounting registers in Eesti Pank, public sector institutions etc. In addition, statistical surveys are conducted, assessments made and econometric methods applied. Table 3.2 provides an overview of the sources of information applied to compile balance of payments statistics.

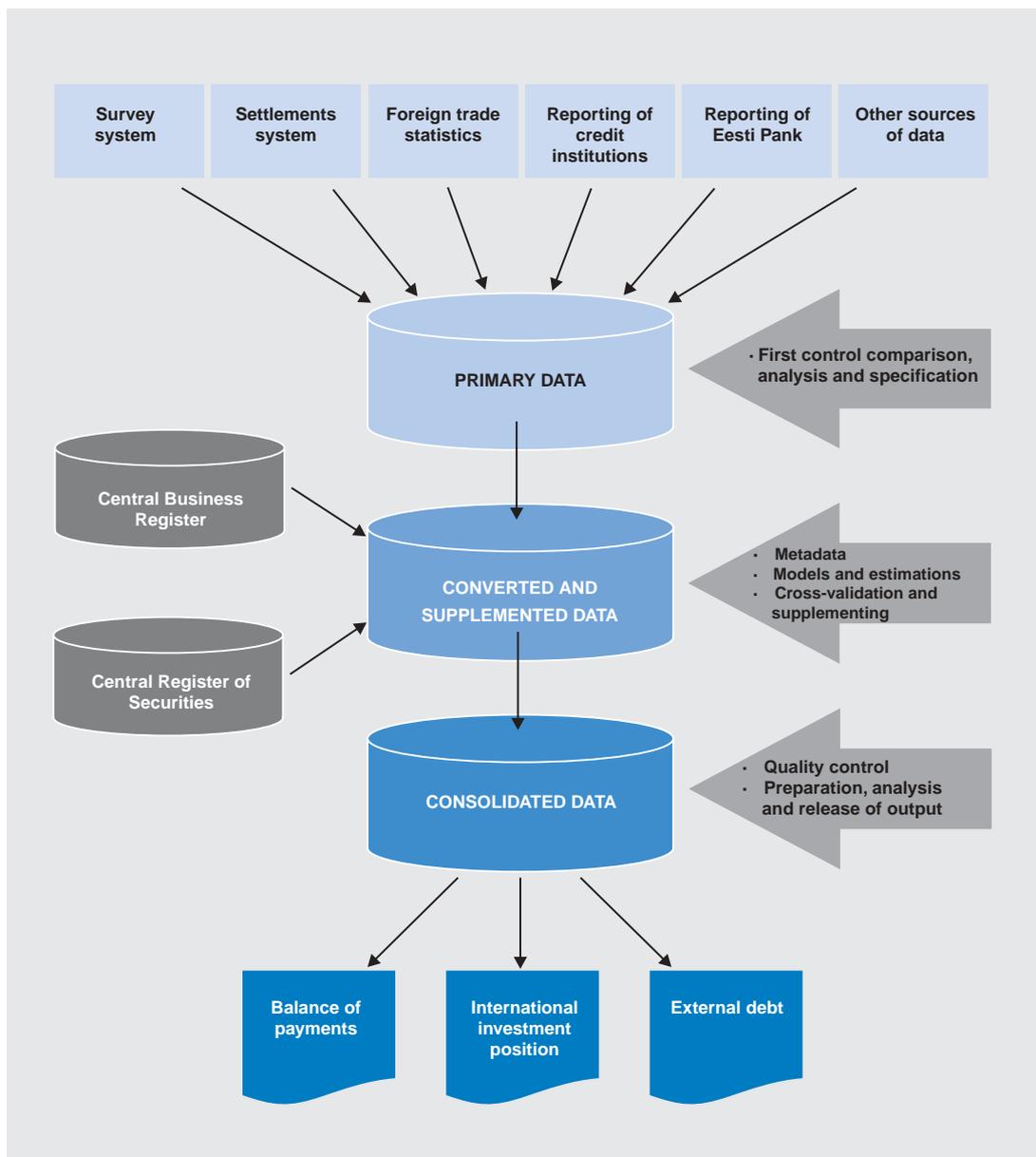


Figure 3.1. Balance of payments compilation system

Besides Estonia, several other central banks (including the central banks of Latvia, Lithuania, Sweden, and the Czech Republic) have started to apply the mixed system above (cash flows + surveys + administrative sources). With the approval of European Union institutions this model has recently been gaining popularity also in other European countries that so far had been obtaining information only from the cash-based system, established under tight capital control.

Table 3.2. Scope of primary and consolidated data used for the compilation of the balance of payments and data receipt frequency

Name of report	Target group / content of the report	Frequency	Due date after accounting period	Sample size / No of data sources
SURVEY SYSTEM				
Form 2	Companies with foreign ownership	quarter	20 days	1,640
Form 3	Transport companies without foreign ownership	quarter	20 days	223
Form 4	Transport companies with foreign ownership	quarter	20 days	165
Form 5	Investment funds (management companies)	quarter	20 days	43
Form 6	Companies without foreign ownership	quarter	20 days	1,080
Form 7	Companies with foreign ownership and not engaged in foreign economic activities	quarter	20 days	52
Form 9	Insurance companies and intermediaries	quarter	20 days	19
Form 10	Other financial intermediaries	quarter	20 days	27
SETTLEMENTS SYSTEM				
Settlements system reporting according to the procedure for declaring international payments	Incoming international payments declared in credit institutions	15 days	7 days	10
	Outgoing international payments declared in credit institutions	15 days	21 days	10
	Consolidated report on international payments	month	7 days	10
ADMINISTRATIVE INFORMATION				
CREDIT INSTITUTIONS				
Balances of resources report	Data on resources deposited in credit institutions and loans granted to credit institutions by residence and other characteristic details	month	5 days	10
Balances of loans report	Loans issued by credit institutions by residence and other characteristic details	month	5 days	10
Income statement	Distribution of income and expenditure of credit institutions by residence	quarter	10 days	10
Services rendered to and purchased from non-residents	Selected income and expenditure entries of credit institutions in presentation extended to non-residents	quarter	10 days	10
Securities report	Detailed report on the securities portfolios of credit institutions by residence	month	5 days	10
Off-balance-sheet items report	Report on the off-balance-sheet activities of credit institutions	quarter	7 days	10
Custodial and investment services report	Report on the custodial and investment activities of credit institutions	quarter	7 days	10
Transactional financial flow report	Transactions carried out by credit institutions with non-residents by principal balance sheet items	quarter	10 days	10
EESTI PANK				
Balance of payments statement of Eesti Pank	Accounting Department's statement of Eesti Pank's non-residents' balances of and changes in the balance sheet entries, and changes in the income statement entries of non-residents	month	5 days	1
STATISTICAL OFFICE OF ESTONIA				
Official foreign trade statistics	Processed, supplemented and categorised customs declaration data of the Customs Board by customs procedures and different features	month	56 days	1
	Intra-Community trade report INTRASTAT			

Name of report	Target group / content of the report	Frequency	Due date after accounting period	Sample size / No of data sources
Tour operators' report	Exports and imports of travel agencies (intermediation of passenger transport services included); tourists received and sent by countries	quarter	2 months	1
Accommodation establishments' report	Data on the turnover and number of tourists serviced in accommodation establishments	quarter	2 months	1
MINISTRY OF JUSTICE CENTRE OF REGISTERS AND INFOSYSTEMS				
Central Business Register, Non-Profit Associations and Foundations Register	Data on legal persons registered in Estonia and their owners	month	1 month	1
Land register database	Statistics on real estate transactions related to non-residents	year	by agreement	1
ESTONIAN CENTRAL REGISTER OF SECURITIES				
Central Register of Securities	Statistics of securities issues registered in the Estonian Central Register of Securities	month	10 days	1
BORDER GUARD ADMINISTRATION				
Border crossing statistics	Report on the crossers of the Estonian border by their citizenship	month	25 days	1
MINISTRY OF FOREIGN AFFAIRS				
Statistics on diplomatic missions abroad	Data on the income, expenditure and assets of the Estonian embassies and missions	quarter	1 month	1
TAX AND CUSTOMS BOARD				
Tax statistics	Data on taxes withheld from non-residents in Estonia and from residents abroad	year	as necessary	1
TALLINN CITY OFFICE				
Foreign claims and liabilities statement	Statement of the external loans, external assets, financial income and expenditure of Tallinn City	quarter	1 month	1
MINISTRY OF FINANCE				
External loans report	Report on the usage and servicing of state loans	month	10 days	1
External assets report	Report on the balance of assets of the State Treasury and changes occurred	month	1 month	1
External aid report	Report on external aid granted to Estonia through structural funds of the European Union	month	1 month	1
OTHER				
Open Estonian Foundation, Estonian Migration Foundation, Estonian Authors' Society, Estonian Unemployment Insurance Fund, Estonian Health Insurance Fund, Land Board etc.				5-10

Legal base for balance of payments statistics

In accordance with subsection 2(8) of the **Eesti Pank Act**, Eesti Pank is responsible for compiling the balance of payments of Estonia, the compilation being one of the basic functions of the central bank pursuant to the law.

Section 34 of this Act entitles Eesti Pank to obtain, free of charge, the information necessary for drawing up the balance of payments of Estonia from all state and local government agencies and legal persons conducting cross-border economic transactions in the territory of Estonia.

Apart from the Eesti Pank Act, also the **Official Statistics Act** provides for the compilation of the balance of payments. Pursuant to subsection 4(2), Eesti Pank is the other main agency conducting official statistical

surveys besides the Statistical Office. Eesti Pank and the respondents are to follow all the provisions of the Official Statistics Act related to conducting surveys, the obligation to submit data, data protection, data dissemination, and responsibilities of the parties.

Balance of payments reporting by Estonian credit institutions is also regulated by respective regulations issued by the Governor of Eesti Pank.

Confidentiality of data

Pursuant to the existing legal order, Eesti Pank ensures full organisational, information technological and physical protection of individual data related to all balance of payments transactions. All data is used for statistical purposes only and disseminated in aggregate form without identifiable features.

Dissemination and adjustment policy

The **Special Data Dissemination Standard (SDDS) of the International Monetary Fund**, which Estonia joined in October 1998, serves as a basis for disseminating statistical data. The standard sets minimum requirements for the content of the data, dissemination periodicity, and timeliness across statistics categories.

- **Data dissemination.** Balance of payments statistics together with press releases, analyses and statistical tables for 2006–2007 will be published on Eesti Pank's web site (<http://www.bankofestonia.info>) at noon on the dates specified in Table 3.3.
- **Adjustment policy.** Upon collection of additional information and changes in methodology, the data of previous periods is adjusted as follows:
 - a) *regular adjustment* – the data released on dates provided in Table 3.3 is preliminary and revised upon the release of preliminary statistics of the next periods. As a rule, adjusted annual data is published upon the release of the statistics of the first quarter of the following year and is considered final;
 - b) *extraordinary adjustment* – in exceptional cases, when significant errors and omissions have occurred or methodology changes render results incomparably, data can be adjusted retrospectively for more than a year, of which the public will be notified by a respective reference.
- **Unit of account and conversion.** The unit of account for the balance of payments and the international investment position is the Estonian kroon (EEK). Statistics released in other currencies (USD, EUR) is based on the following conversion:
 - *balance of payments flash estimate* – the monthly average exchange rate of the respective currency against the Estonian kroon;
 - *quarterly balance of payments* – the quarterly average exchange rate of the currency against the Estonian kroon;
 - *annual balance of payments* – the average exchange rates of four quarters (i.e. the annual balance of payments is the sum of quarterly balances converted into foreign currency);
 - *investment position* – the exchange rate on the compilation date or on the closest banking day.
- **Rounding.** Due to rounding, the total of sub-items is not always equal to the total of the consolidated entry.

Table 3.3. Calendar of data publication

Balance of payments flash estimates			
Year 2006		Year 2007	
January	15/03/06	January	14/03/07
February	11/04/06	February	13/04/07
March	16/05/06	March	15/05/07
April	12/06/06	April	12/06/07
May	13/07/06	May	12/07/07
June	14/08/06	June	13/08/07
July	12/09/06	July	12/09/07
August	13/10/06	August	12/10/07
September	13/11/06	September	09/11/07
October	13/12/06	October	12/12/07
November	16/01/07	November	January 2008
December	12/02/07	December	February 2008
Quarterly balance of payments			
Year 2006		Year 2007	
Quarter 1	26/06/06	Quarter 1	26/06/07
Quarter 2	25/09/06	Quarter 2	24/09/07
Quarter 3	27/12/06	Quarter 3	27/12/07
Quarter 4	26/03/07	Quarter 4	March 2008
International investment position			
Year 2006		Year 2007	
As at 31/03/06	26/06/06	As at 31/03/07	26/06/07
As at 30/06/06	25/09/06	As at 30/06/07	24/09/07
As at 30/09/06	27/12/06	As at 30/09/07	27/12/07
As at 31/12/06	26/03/07	As at 31/12/07	March 2008
External debt			
Year 2006		Year 2007	
As at 31/03/06	26/06/06	As at 31/03/07	26/06/07
As at 30/06/06	25/09/06	As at 30/06/07	24/09/07
As at 30/09/06	27/12/06	As at 30/09/07	27/12/07
As at 31/12/06	26/03/07	As at 31/12/07	March 2008
Publication calendar			
Year 2007	30/09/06	Year 2008	30/09/07