Eesti Pank

ESTONIA'S BALANCE OF PAYMENTS FOR 2013

2014

Address
Estonia pst 13
15095 Tallinn

Telephone
372 668 0719
Fax
372 668 0836
Email
info@eestipank.ee
Website
www.eestipank.ee

Subscriptions to Eesti Pank publications
telephone: 372 668 0998
fax: 372 668 0954
email: trykis@eestipank.ee

Layout: Urmas Raidma

CONTENTS

I. ESTONIA'S BALANCE OF PAYMENTS FOR 2013

INTRODUCTION

Despite intermittent bouts of weakness, the global economy was generally on an upward trend in 2013. In the euro area as a whole, economic growth also showed the expected signs of recovery and returned increasingly steadily to a growth path, while activity on Estonia's various important export markets was more sluggish than expected and the growth of import demand was poorer. The growth of demand by Estonia's important trade partners such as Russia and Finland halted due to internal structural problems and imbalances, and also the cheapening of the exchange rate of the Russian rouble and a fall in oil prices.

Because of the modest growth of Estonia's external demand, the country's economic growth also slowed in 2013 and continued below its long-term growth potential. This meant that the GDP gap remained negative and the economy operated below its potential. However, the decrease in export income and slowing of economic growth have not significantly deteriorated external balance. Quite on the contrary, although Estonia had a current account deficit in 2013, the position of its balance improved over the year both in absolute terms and in relation to GDP.

Subdued external demand, which was also very uneven across individual export markets, especially inhibited the growth potential of goods exports and required companies to be exceptionally flexible in the diversification and replace-ability of products and markets. However, the halted investment activity inhibited the imports of capital goods even more. The investment activity of companies decreased mainly due to uncertainty of demand, but also on the back of available implementation reserves on production capacity. Exports and imports of services continued to grow though, and the services balance remained positive in current prices. The positive development of net export in current prices was considerably influenced in 2013 by favourable trade conditions: the export prices of goods and services rose over the year, while import prices fell.

The current account deficit shrank mainly due to a reduction in the deficit on the labour and investment income account, as residents' income from abroad increased and non-residents income from Estonia decreased mainly owing to the changed investment position. The growth of investments in Estonia was partly reduced by the fact that Estonian residents bought back some of their companies from foreign direct investors.

Because of moderated investment activity, the ratio of external debt to GDP decreased somewhat faster than expected by the end of 2013. Gross external debt, i.e. the external debt of all economic sectors of the country in relation to GDP, decreased by about 8 percentage points of GDP over the year, mainly due to the decreased indebtedness of credit institutions and other private sectors. At the same time, the debt claims of Estonian economic sectors on foreign countries increased and in net terms (liabilities less assets), the external assets of Estonian economic sectors surpassed their external liabilities for the second consecutive year. Estonia thus continued to be a net external lender. Unfortunately, this was due to a lack of interest in investing in Estonia rather than an increase in income. 'Loan-free' economic growth is expected to continue in the forthcoming years. Estonia's gross external debt may increase, but at a slower pace than the nominal growth of GDP, and the ratio of external debt to GDP will decrease.

In summary, despite the deceleration of economic growth, the development of Estonia's economy was much more balanced in 2013. The debt burden of households continued to decrease and their savings increased. Estonia's general government debt was still the lowest in the European Union despite a small increase. The private sector's savings still exceeded investments in fixed capital and expenses on increases in inventories, while Estonia's external debt assets exceeded liabilities by 4.9% of GDP.

Tables 1.1 and 1.2 show Estonia's balance of payments and key international indicators of the balance of payments.

Table 1.1. Estonia’s balance of payments (EUR million)*

	2007	2008	2009	2010	2011	2012	2013
Current account	**-2,437.5**	**-1,438.3**	**360.3**	**265.2**	**-6.0**	**-363.9**	**-261.4**
Goods and services	-1,441.8	-648.9	701.5	935.5	726.2	250.6	219.3
Goods	-2,554.5	-2,096.1	-725.6	-405.6	-610.2	-1,073.6	-1,006.6
credit (f.o.b.)	6,838.9	7,157.9	5,295.1	7,481.8	10,228.3	11,340.1	11,459.6
debit (f.o.b.)	9,393.4	9,254.0	6,020.7	7,887.4	10,838.5	12,413.7	12,466.2
Services	1,112.7	1,447.2	1,427.1	1,341.1	1,336.4	1,324.2	1,225.9
credit	3,428.1	3,875.2	3,306.2	3,567.1	4,082.6	4,461.3	4,745.5
debit	2,315.4	2,428.0	1,879.1	2,225.9	2,746.2	3,137.1	3,519.6
Primary income	-1,061.3	-866.6	-430.1	-778.7	-850.1	-721.0	-529.9
credit	1,243.8	1,171.4	747.2	844.7	1,010.7	1,005.0	1,084.1
debit	2,305.1	2,038.0	1,177.3	1,623.4	1,860.8	1,726.1	1,614.0
Secondary income	65.5	77.1	88.9	108.3	118.0	106.5	49.3
credit	390.0	336.3	336.4	395.2	434.4	435.6	418.3
debit	324.5	259.2	247.5	286.9	316.4	329.1	369.1
Capital account	**203.1**	**207.2**	**484.4**	**512.0**	**676.5**	**611.5**	**525.4**
credit	211.6	215.6	489.2	518.5	680.4	624.9	618.0
debit	8.5	8.4	4.8	6.5	3.9	13.4	92.6
Financial account	**-2,362.6**	**-1,246.4**	**857.8**	**830.8**	**1,008.4**	**479.2**	**389.3**
Direct investments	-458.0	-469.2	-334.1	-1,150.5	-1,840.7	-288.5	-165.9
Assets	1,741.2	852.0	960.1	436.6	-900.1	1,004.5	507.7
Liabilities	2,199.2	1,321.2	1,294.2	1,587.1	940.6	1,293.0	673.6
Portfolio investments	352.5	-526.0	1,434.1	431.6	-1,190.5	87.9	501.3
Assets	565.3	-673.7	495.6	330.9	-1,010.1	279.3	686.7
Equity securities and investment fund shares	498.6	-254.8	55.8	317.0	-82.6	175.6	317.3
Debt securities	66.7	-418.9	439.8	13.9	-927.5	103.7	369.5
Liabilities	212.8	-147.7	-938.5	-100.7	180.4	191.4	185.5
Equity securities and investment fund shares	254.1	-186.2	-70.0	74.4	-20.5	-94.0	40.0
Debt securities	-41.3	38.5	-868.5	-175.1	200.9	285.4	145.4
Financial derivatives	51.0	-53.2	-16.2	-32.5	48.0	-61.8	-84.9
Assets	56.5	-43.1	-18.4	1.2	25.4	-88.2	-145.7
Liabilities	5.5	9.8	-2.4	33.7	-22.7	-26.5	-60.8
Other investments	-2,397.7	-701.0	-162.3	2,413.5	3,978.7	671.3	130.8
Assets	1,531.5	344.8	-823.1	1,292.1	1,940.8	1,564.2	-203.9
Currency and deposits	743.1	44.3	-697.0	485.6	1,558.3	868.5	-384.3
Loans	691.1	108.7	-5.9	260.4	32.3	459.8	233.8
Other assets	97.3	191.8	-120.2	546.1	350.1	235.9	-53.5
Liabilities	3,929.2	1,045.8	-660.7	-1,121.4	-2,037.9	892.9	-334.8
Currency and deposits	3,601.9	880.8	-478.6	-1,532.4	-1,944.6	-649.5	-562.4
Loans	344.4	73.3	144.0	-140.3	69.1	1,427.9	221.3
Other liabilities	-17.1	91.7	-326.1	551.3	-162.4	113.8	6.3
Reserve assets	89.6	503.0	-63.6	-831.3	12.9	70.3	7.9
Statistical discrepancy	-128.1	-15.3	13.1	53.6	337.8	231.5	125.2

* The data for previous periods have been adjusted following the collection of additional data.

Table 1.2. Key indicators for the Estonian balance of payments

	2009	2010	2011	2012	2013
Current account balance (EUR m)	360.3	265.2	-6.0	-363.9	-261.4
Current account (% of GDP)	2.5	1.8	0.0	-2.1	-1.4
Goods and services balance (% of GDP)	5.0	6.4	4.4	1.4	1.2
Foreign trade turnover (% of GDP)	80.0	104.5	128.4	134.7	127.7
Goods exports as a ratio to imports (%)	87.9	94.9	94.4	91.4	91.9
Reinvested earnings (net, % of GDP)	-2.2	-5.6	-6.0	-5.0	-3.9
Current account balance without reinvested earnings (% of GDP)	4.7	7.4	6.0	2.9	2.5
Harmonised competitiveness index (based on CPI*)	125.5	116.3	117.1	114.8	119.2
Gross external debt (% of GDP)	122.2	112.1	101.9	101.9	93.6
Net external debt (% of GDP)	53.4	35.8	6.1	-0.9	-4.9
General government external debt (% of GDP)	5.3	5.2	3.1	7.1	7.7
Direct investment liabilities position (% of GDP)	89.1	90.5	88.5	92.6	95.4
Share of debt in the foreign liabilities position (%)	61.6	58.4	57.1	55.3	52.9
GDP (EUR m)	14,138.2	14,707.5	16,403.8	17,636.7	18738.8
Real GDP growth (%)	-14.7	2.5	8.3	4.7	1.6

* Calculations by the ECB

NEW STANDARDS FOR BALANCE OF PAYMENTS STATISTICS AND THE CHANGES ARISING FROM THEM

In compiling balance of payments statistics, Eesti Pank follows the standard set out in the IMF Balance of Payments Manual (BPM6), and thus ensures the international comparability of data. Based on this standard, the European Commission (Eurostat) and European Central Bank have issued legislation that all Member States of the European Union have to follow when compiling their balance of payments and international investment position and forwarding information. Direct investment statistics are additionally based on the OECD manual on direct investment statistics, 4th edition.

The previous edition of the balance of payments manual (BPM5) was published in 1993. The world economy has increasingly globalised since then, and the volumes of international trade and capital movements are now much greater. In addition, increasingly complex financial instruments are being adopted. These changes are the main reasons why the balance of payments manual was reviewed. The changes in the balance of payments and international investment position statistics are in line with the renewal of another important international statistical standard, the European System of Accounts (ESA 2010).

Transition to the new methodology for balance of payments statistics influences the current account sub-accounts for goods and services the most. The goods account, which used to include the cost of both goods for manufacturing and manufacturing services, no longer covers the import and export of goods for manufacturing. Instead, the services account includes manufacturing as a new type of service, which only covers the cost of the service. As opposed to the manufacture of goods, the services account no longer includes trade-related services, which used to reflect the difference between the purchase and sale of goods in third countries, under other business services. These flows of goods are added to the goods account (purchase and sale of goods under merchanting). As items are relocated between accounts, the effect of these changes on the current account as a whole is insignificant.

The most important change in the financial account concerns direct investment. While under BPM5, the assets and liabilities of direct investments were presented according to the direction of the investment (in Estonia and abroad), or as a net amount according to the holding relationship, then under the new methodology, they are presented as a gross amount like all the other assets and liabilities on the financial account. Added to direct investments are intra-group transactions with fellow enterprises (enterprises of the same direct investment group that have no control or influences over each other), which were formerly recorded under portfolio and other investments. These changes have a significant effect on the net amounts of direct investment and other investments, but a negligible effect on the financial account as a whole.

There are also changes in the presentation of the balance of payment statistics: all the credit and debit entries of the current and capital accounts have a plus sign, with only a few exceptions (under BPM5 debit entries had a minus sign); net entries are calculated by deducting debit entries from credit entries. The net entries of the financial account are assets less liabilities (under BPM5 they were assets plus liabilities). This change results in a change in the sign of net entries: increases in both assets and liabilities have a plus sign, and decreases have a minus sign.

European Union countries will transfer to the new framework for preparing the balance of payments in 2014. On 9 June 2014 Eesti Pank published the first statistical data (for Q12014) according to the new standard. Eesti Pank published the retrospective time series for the balance of payments, international investment position and external debt according to the new standard on 8 September 2014. All the statistics to be published in the future will be compiled according to BPM6.

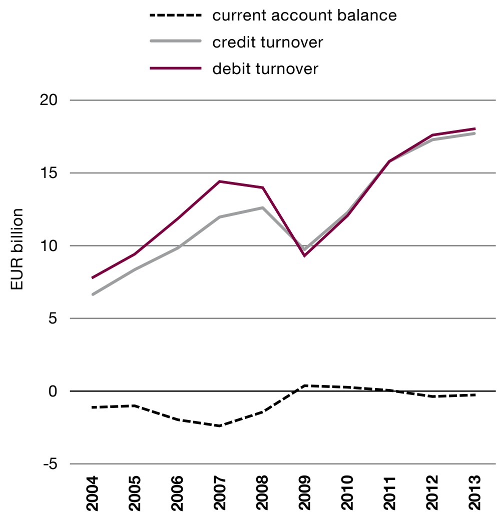
For detailed information on the preparation of the balance of payments, international investment position and external debt see: New balance of payments methodology (BPM6).

BRIEF OVERVIEW

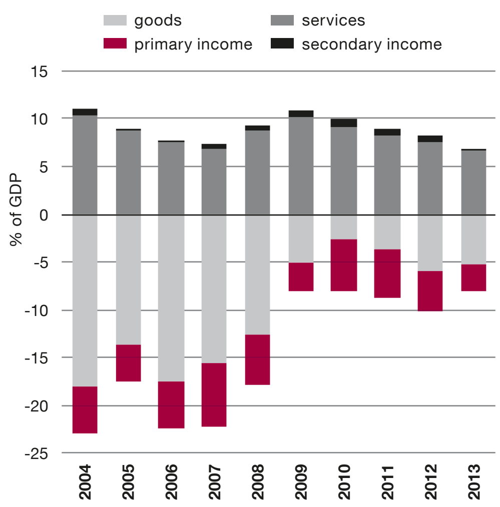
Current account

Estonia's balance of payments deficit decreased by nearly 30% in 2013 and was 261 million euros or 1.4% of GDP. The deficit decreased mainly due to a decrease in the primary income account deficit (labour and investment income and others) – while the primary income earned by residents abroad increased, the primary income earned by non-residents in Estonia decreased. The credit and debit turnovers of the current account increased by 3% and 2%, respectively, over the year. The surplus on exports/imports of goods and services was 219 million euros or 1.1% of GDP. This indicator has been constantly declining over recent years. Estonia's foreign economic relations were mainly with European Union (EU-28) countries, which accounted for 71% of credit turnover and 83% of debit turnover. The relative shares of euro area countries (EU-18) were 41% in credit turnover and 47% in debit turnover.

Current account turnover and balance



Components of the current account

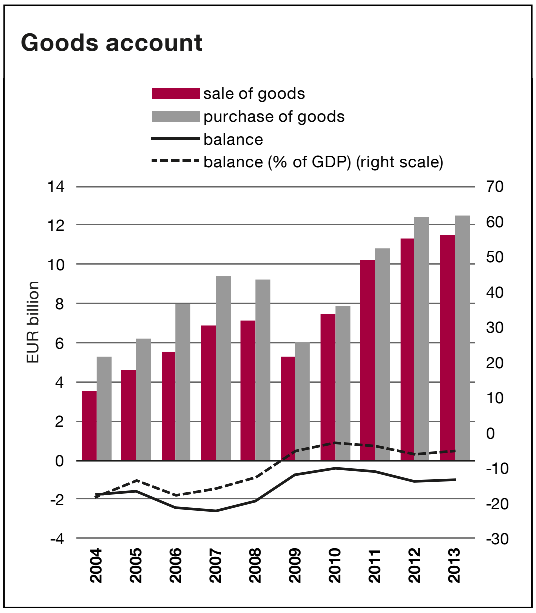


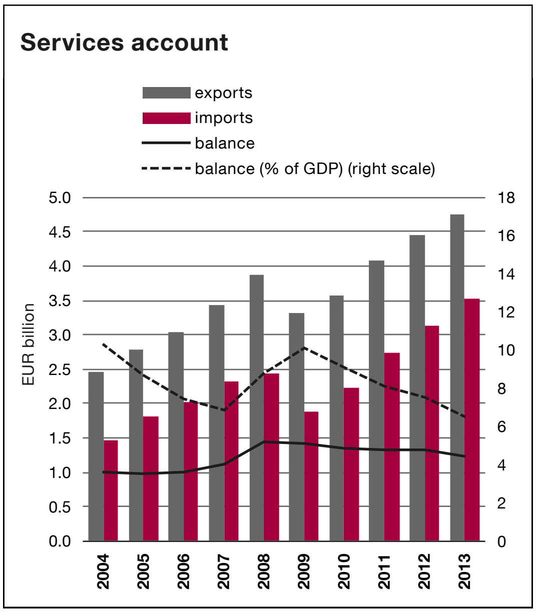
Goods

The growth in turnover for the goods account was modest in 2013: the credit turnover for goods grew by 1.1% and amounted to 11.5 billion euros, while the debit turnover grew by only 0.4% and amounted to 12.5 billion euros. The goods account deficit was on the same level with the previous year and amounted to 1 billion euros or 5.4% of GDP year-on-year. Estonia's main trading partner, the European Union, accounted for 71% of the credit turnover and 84% of the debit turnover of goods.

Services

The surplus on exports/imports decreased slightly to 1.2 billion euros. The reason for the decline was the slower growth of exports compared to imports – 6% compared to 12%. Nevertheless, the services account surplus has been stable ranging between 1.2–1.4 billion euros over the past six years. Exports were higher than imports for most services. The largest surplus was in transport services, followed by travel and other business services, which contributed nearly 80% of the surplus in the services account. The European Union accounted for 67% in the exports and 77% in the imports of services.





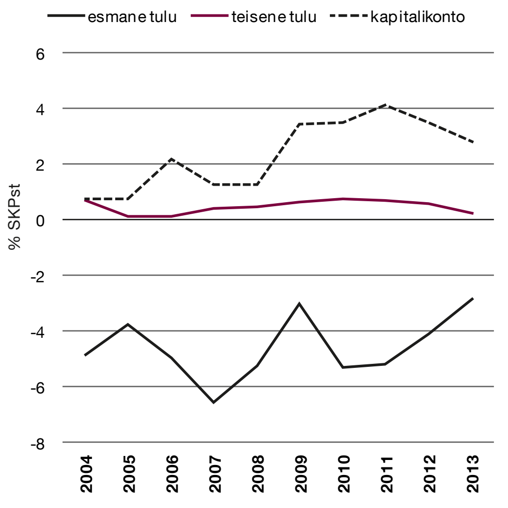
Primary income

Net outflows of primary income decreased markedly in 2013 amounting to 530 million euros. The net inflow of labour income increased, while the net outflow of investment income decreased. The decrease in the net outflow of investment income (income from direct, portfolio and other investments) was mostly driven by a decrease in the net outflow of reinvested earnings. The net outflow of income from direct investment was 881 billion euros, and the net outflow of interest income from other investments (loans, deposits) amounted to 10 million euros. The portfolio investment inflow was 27 million euros greater than the outflow. Other income was a positive 107 million euros.

Secondary income and capital account

The surplus on secondary income more than halved in 2013 compared to the previous year and amounted to 49 million euros. The inflow of secondary income was 418 million euros and its outflow was 369 million euros. Capital account surplus also decreased and amounted to 525 million euros, due to the increase in the outflow of capital transfers.

Esmase ja teisese tulu ning kapitalikonto saldo SKPsse



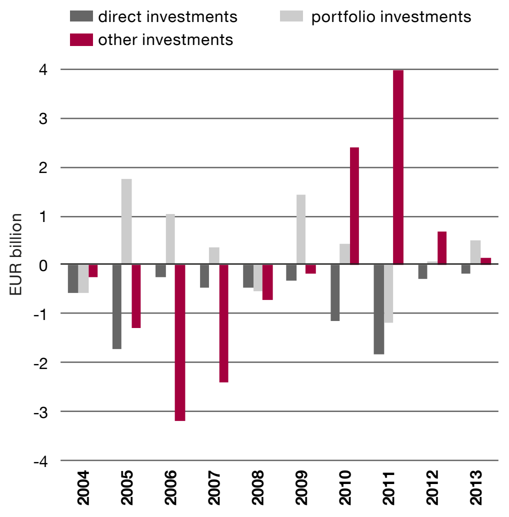
Financial account

Capital outflows from the financial account (excluding reserve assets) surpassed inflows by 381 million euros. The main channel for capital outflows was portfolio investments and for inflows, direct investments. While credit institutions[1] (504 million euros) and other financial intermediaries (183 million euros) were the main net lenders, the general government was the largest net borrower (344 million euros). Non-financial companies were net borrowers with 38 million euros.

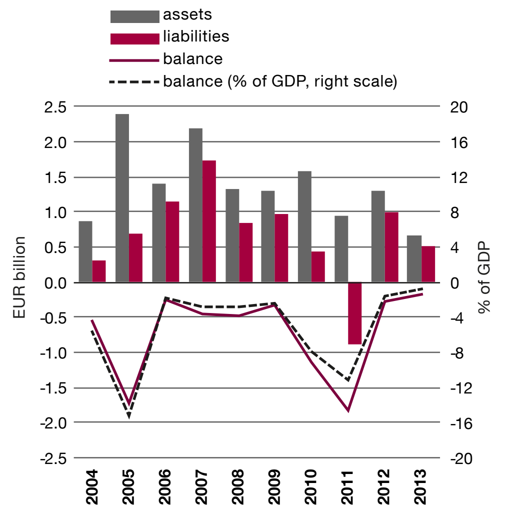
Direct investment

The increase in direct investment liabilities surpassed the increase in direct investment assets by 0.2 billion euros. Direct investment assets and liabilities increased by 0.5 billion euros and 0.7 billion euros in 2013, respectively. Investments in equity capital accounted for more than half of the increase in direct investment assets. Reinvested earnings continued to be the main component of direct investment liabilities (which exceeded the total of the increase in liabilities by 0.1 billion euros) and decreased nearly 15% over the year due to the payment of dividends.

Financial account



Direct investments



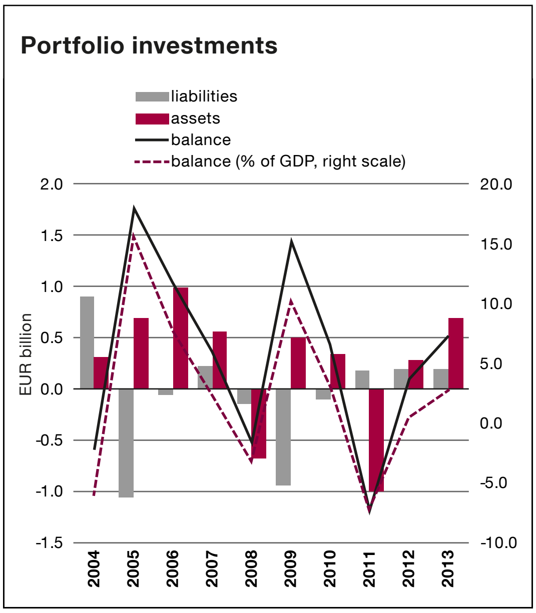
1 In the institutional sectors classification of external sector statistics, credit institutions are included in 'monetary financial institutions except the central bank', which covers credit institutions, savings and loan associations and money market funds. As Estonian savings and loan associations have no external transactions, and there are no money market funds in Estonia at the present time, the analysis only refers to credit institutions.

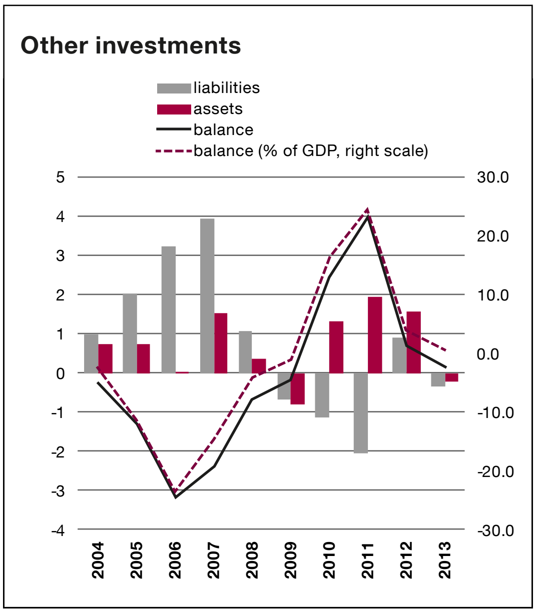
Portfolio investment

The net outflow of portfolio investment capital increased in 2013 and reached 501 million euros. This was mainly driven by the investments of credit institutions in foreign debt securities. The net inflow of financial derivatives reached 85 million euros year-on-year.

Other investment

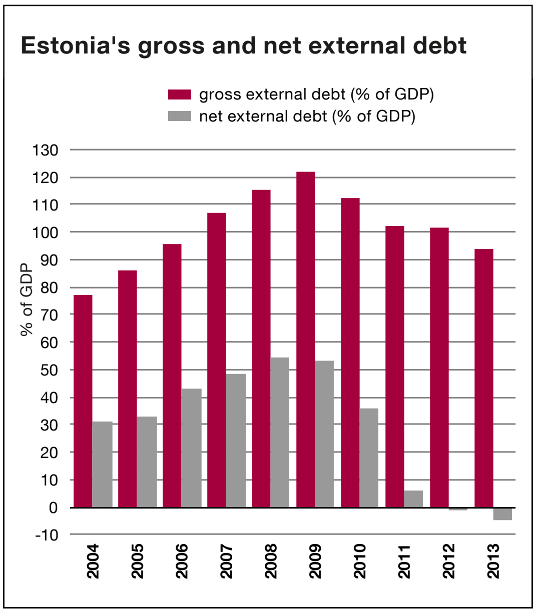
Capital outflow continued in 2013, but slowed compared to previous years and amounted to 131 million euros. The outflow was caused by investments of other financial intermediaries and non-financial companies in short-term deposits.





Gross external debt

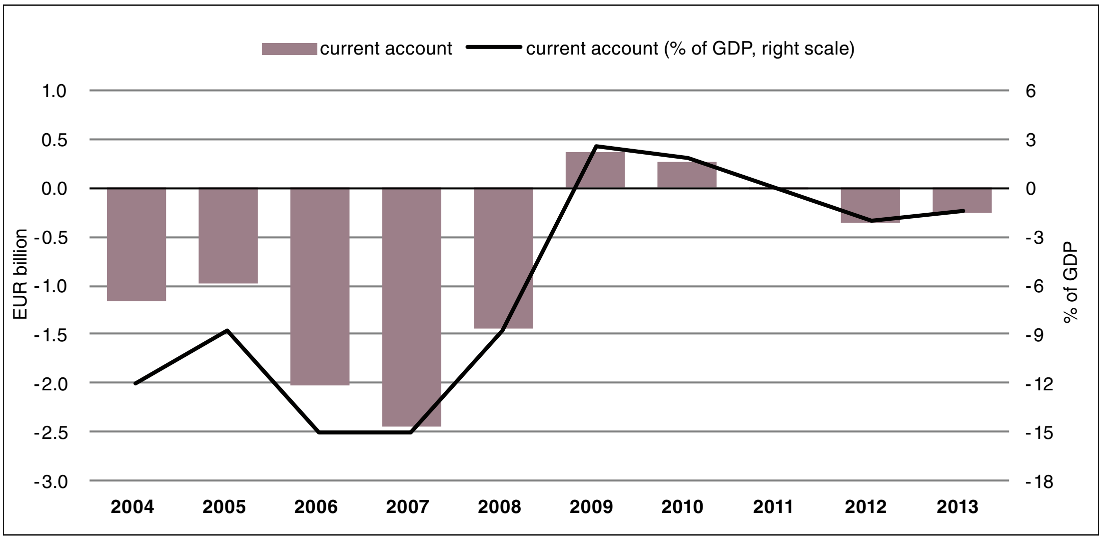
At the end of 2013, the external debt of all of Estonia's institutional sectors stood at 17.5 billion euros, which was 6% less than the GDP for the same year. Gross external debt grew by 2% over the year. The external debt of other sectors and monetary financial institutions (except the central bank) accounted for nearly 50% and 30%, respectively, of the gross external debt. The external debt of the general government was nearly 8% of the gross external debt, having increased over the past two years. Both in 2012 and 2013 Estonia's external debt assets exceeded its external debt liabilities (gross external debt), meaning that the world owes to Estonia more than Estonia owes the world – by about 1 billion euros in 2013.



CURRENT ACCOUNT

The balance of payments current account deficit decreased by nearly 30% in 2013 and was 261 million euros or 1.4% of GDP (see Figure 1.1). The current account deficit decreased mainly due to a decrease in the primary income account deficit (labour and investment income and other income) – while the income earned by residents abroad increased, the income earned by non-residents in Estonia decreased. The goods account deficit and services account surplus decreased somewhat. The surplus on exports/imports of goods and services was 219 million euros or 1.2% of GDP. Excluding the net outflow of reinvested earnings as a book value from the current account balance, the current account was not in deficit in 2013, but recorded a surplus of 2.5% of GDP.

Figure 1.1. Estonia's current account



The growth rates of the credit and debit turnovers of the current account have continuously decreased over the past years and were modest in 2013: credit turnover grew by 3% and debit turnover by 2%. Estonia's foreign economic relations were once again mainly with European Union Member States, which accounted for 71% of credit turnover and 83% of debit turnover. The shares of euro area countries (EU-18) in credit and debit turnovers were much smaller: 41% and 47%, respectively. Five of the most important trade partners accounted for 58% and 52% of credit and debit turnovers, respectively. Finland and Sweden were the first two and Latvia and Lithuania the fourth and fifth, respectively, in both turnovers. Russia took third place in credit turnover and Germany was third in debit turnover. Estonia had the largest current account surplus in relation to Russia (856 million euros, see Table 1.3) and Norway, while its deficit was the largest in relation to Germany (986 million euros) and Poland (913 million euros).

Table 1.3. Current account balance by groups of countries (EUR million)

	2013
EU-28	**-2,308.4**
Germany*	-986.4
Poland	-912.7
Finland	351.5
The Netherlands	-316.8
Sweden	229.5
CIS	**1,009.9**
Russia	856.3
Kazakhstan	103.9
Uzbekistan	35.8
Other countries	**1,037.1**
China	-370.3
Norway	361.8
British Virgin Islands	336.3
United States of America	294.8
Total	**-261.4**

* Countries are ranked by the absolute value of the current account balance.

Goods

The growth in the goods account turnover was modest in 2013: credit turnover of goods grew by 1.1% and amounted to 11.5 billion euros, while debit turnover grew only 0.4% and amounted to 12.5 billion euros (see Table 1.4). The goods account deficit was on the same level with the previous year and amounted to 5.4% of GDP year-on-year.

Table 1.4. Sale (credit) and purchase (debit) of goods

	Goods – credit (f.o.b.)			Goods – debit (f.o.b.)			Balance (EUR m)	
	Volume* (EUR m)"	Change from previous period (%)	Share in total exports of goods and services (%)	Volume* (EUR m)	Change from previous period (%)	Share in total imports of goods and services (%)	Volume (EUR m)	Change from previous period (%)
2004	3,521.8	20.9	59.0	5,281.5	17.7	78.4	-1,759.7	11.7
2005	4,627.1	31.4	62.3	6,177.8	17.0	77.2	-1,550.7	-11.9
2006	5,546.2	19.9	64.6	7,928.0	28.3	79.6	-2,381.8	53.6
2007	6,838.9	23.3	66.6	9,393.4	18.5	80.2	-2,554.5	7.3
2008	7,157.9	4.7	64.9	9,254.0	-1.5	79.2	-2,096.1	-17.9
2009	5,295.1	-26.0	61.6	6,020.7	-34.9	76.2	-725.6	-65.4
2010	7,481.8	41.3	67.7	7,887.3	31.0	78.0	-405.6	-44.1
2011	10,228.3	36.7	71.5	10,838.5	37.4	79.8	-610.2	50.5
2012	11,340.1	10.9	71.8	12,413.7	14.5	79.8	-1,073.6	75.9
2013	11,459.6	1.1	70.7	12,466.2	0.4	78.0	-1,006.6	-6.2

* Data from the goods account of the balance of payments.

According to the new methodology, the goods account has three sub-entries: general merchandise, containing the normal exports and imports[2] of foreign trade and additions arising from the balance of payments methodology; net export of goods under merchanting,[3] showing the balance of goods purchased and sold abroad for resale; and non-monetary gold, the share of which is insignificant in Estonia. According to the methodology, the purchase and sale of goods under merchanting are recorded as negative and positive credit, respectively.

The balance of general merchandise was in deficit by about 1.2 billion euros in 2013. Exports and imports of general merchandise amounted to 11.2 and 12.4 billion euros, respectively, which were both on the same level as in 2012. The net export of goods under merchanting increased by 43% over the year and reached 123 million euros. Purchase and sale of goods under merchanting amounted to 1,760 million euros and 1,883 million euros, respectively.

Sale of goods to European Union countries reached 8.2 billion euros and accounted for 71% of credit turnover (see Table 1.5). The largest trade partners Sweden, Finland, Latvia, Lithuania and Germany accounted for 76% of credit turnover with the European Union, and 54% of the total amount. The sale of goods to Russia amounted to 1.1 billion euros and formed 10% of credit turnover. Norway, the USA and the British Virgin Islands were the other major trade partners. Goods under merchanting were sold primarily to Russia, the British Virgin Islands, Lithuania, Latvia and the UK (see Figure 1.2).

Table 1.5. Sale and purchase of goods[1] by groups of countries

	Sale of goods (credit)			Purchase of goods (debit)	
	Volume (EUR m)	Share (%)		Volume (EUR m)	Share (%)
EU countries	**8,175.5**	**71.3**	**EU countries**	**10,475.8**	**84.0**
ow Sweden	1,962.9	17.1	ow Finland	1,687.4	13.5
Finland	1,554.4	13.6	Germany	1,359.5	10.9
Latvia	1,345.7	11.7	Sweden	1,322.1	10.6
Lithuania	884.3	7.7	Latvia	1,266.2	10.2
Germany	438.3	3.8	Lithuania	1,110.3	8.9
CIS	**1,392.9**	**12.2**	**CIS**	**808.2**	**6.5**
ow Russia	1,142.3	10.0	ow Russia	646.8	5.2
Belarus	67.6	0.6	Ukraine	78.8	0.6
Ukraine	62.9	0.5	Belarus	67.3	0.5
Other countries	**1,891.2**	**16.5**	**Other countries**	**1,182.2**	**9.5**
ow Norway	432.4	3.8	ow China	415.4	3.3
USA	300.8	2.6	USA	129.4	1.0
British Virgin Islands	231.4	2.0	Switzerland	120.8	1.0
Total	**11,459.6**	**100.0**	**Total**	**12,466.2**	**100.0**

[1] Sale of goods (credit) also includes net exports of goods under merchanting.

2 Exports and imports of goods, not including goods that cross the border for manufacturing and the ownership of which does not change. Normal imports are recorded in the balance of payments at FOB prices (free on board).

3 Goods purchased by resident merchants from third countries and resold to non-residents without the goods entering the territory of Estonia.

Figure 1.2. Sale of goods under merchanting by country

Purchase of goods from European Union countries reached 10.5 billion euros or 84% of the debit turnover. The top five major partners were the same, but in a different order: Finland was in first place. Russia had a slightly smaller role with 5% of the debit turnover of goods. China, the USA and Switzerland were the first three of the remaining countries. Goods under merchanting were purchased primarily from Russia, Germany, the UK, Belize and the Ukraine.

The goods account balance was negative in relation to the European Union, but positive in relation to the CIS and other countries. Of European Union countries, Estonia's trade deficit was the largest with respect to Germany, Poland and Lithuania, while the surplus was the largest with respect to Sweden, Denmark and Latvia. The trade balance with Russia had a surplus of nearly 500 million euros. Of other countries, the trade balance with Norway, the USA and Turkey was positive, and that with China was negative. The largest positive balances of goods under merchanting concerned Russia, Belize and Germany, while the largest deficit was recorded with the British Virgin Islands and Lithuania.

Normal exports of goods[4] amounted to 11.4 billion euros in 2013, having increased by 1.6% during the year (see Table 1.6). Machinery and equipment continued to be in first place, although these exports decreased a little over the year. The main export articles in this category of goods were means of mobile communication and cables, which were sold to Sweden for nearly 1 billion euros, and in smaller volumes also to Mexico, the USA and Spain. In addition, road building machines were supplied to Russia and various parts for the electronics and machine-building industry to many countries. The export of wood and wood products thrived. Prefabricated wooden structures were exported to Norway, Germany and Sweden; wooden construction details and various furniture articles were exported to Finland, Norway, Sweden and Japan; and unprocessed and little processed timber was exported mainly to Denmark and Sweden. Spirits continued to lead the exports of food products: they were imported from the UK, France and Finland and sold on to Russia. Various dairy, meat and fish

4 The following analysis is based on the foreign trade statistics collected and compiled by Statistics Estonia; this does not include any additions or adjustments arising from the balance of payments methodology or the imports and exports of goods being manufactured. Exports are presented in FOB prices (free on board) and imports are in CIF prices (cost, insurance, freight).

products were supplied to Russia, Finland, Latvia and Lithuania. The main destinations for products of the chemical industry were Russia, Latvia, Lithuania and Finland, to which building materials, plastic products, medicines and nitrogen fertilizers were exported. Exports of mineral products decreased by 9%, mainly due to the shrinking of motor fuel exports to the USA. The sale of electricity to Latvia doubled. Exports of metal products also decreased, mainly due to a decrease in the supply of scrap metal to Turkey. Trade in transport vehicles grew the fastest, both as regards exports and imports. This was driven by a single large transaction: two large RO-RO ferries crossed the border in the first quarter of 2013: one was exported to and the other was imported from Finland[5]. Other transport vehicles (mainly passenger cars and their parts) were sold to Latvia, Lithuania, Sweden and Russia. Light industry products (footwear, men's and women's clothing, furs, sport clothes, etc.) and various other industrial products (gold items, medical equipment, safety glass) were exported mainly to Finland, Sweden, Russia and Latvia.

Table 1.6. Normal exports by major groups of goods

	Volume (EUR m)		Share (%)		Change (%)
	2012	2013	2012	2013	2013/2012
Food	1,185.7	1,239.8	10.5	10.8	4.6
Mineral products	985.5	902.3	8.8	7.9	-8.5
Chemical products	1,017.3	1,076.5	9.0	9.4	5.8
Clothing, footwear and headgear	400.4	437.7	3.6	3.8	9.3
Timber, paper and products	1,237.2	1,361.6	11.0	11.9	10.1
Metals and metal products	995.9	848.9	8.8	7.4	-14.8
Machinery and equipment	3,408.3	3,266.8	30.3	28.5	-4.2
Transport vehicles	598.2	787.3	5.3	6.9	31.6
Furniture, toys, sporting goods	799.5	842.6	7.1	7.4	5.4
Other	631.5	681.3	5.6	6.0	7.9
Total	**11,259.7**	**11,444.8**	**100.0**	**100.0**	**1.6**

Normal imports of goods in CIF prices amounted to 13 billion euros (see Table 1.7) and the growth rate in this area was comparable to that of exports. Machinery and equipment was the leading category also in imports; the main articles related to the electronics industry and the importer countries were Sweden, Germany, Finland, Poland and China. The main items in chemical products were pharmaceuticals from Lithuania, Latvia and Poland, while spirits from the UK and France lead the imports

Table 1.7. Normal imports (c.i.f. prices) by major groups of goods

	Volume (EUR m)		Share (%)		Change (%)
	2012	2013	2012	2013	2013/2012
Food	1,373.5	1,497.8	10.7	11.5	9.0
Mineral products	1,417.1	1,406.4	11.1	10.8	-0.8
Chemical products	1,712.1	1,697.6	13.4	13.1	-0.8
Clothing, footwear and headgear	680.7	718.8	5.3	5.5	5.6
Timber, paper and products	569.2	616.4	4.4	4.7	8.3
Metals and metal products	1,052.4	1,000.2	8.2	7.7	-5.0
Machinery and equipment	3,811.0	3,664.7	29.8	28.2	-3.8
Transport vehicles	1,290.2	1,431.9	10.1	11.0	11.0
Furniture, toys, sporting goods	262.0	288.7	2.0	2.2	10.2
Other	632.7	671.9	4.9	5.2	6.2
Total	**12,800.9**	**12,994.5**	**100.0**	**100.0**	**1.5**

5 According to the balance of payments methodology, these were transactions between two non-residents that did not change the external assets or liabilities of residents. Therefore, these transactions are not reflected in the goods account of the balance of payments.

of food products, followed by fish and fish products from Latvia and coffee from Finland. The leap in the imports of transport vehicles was driven by the import of rolling stock from Poland and the import of the aforementioned ferry from Finland. Imports of mineral products were unchanged from the previous year. Motor fuel was imported from Lithuania and Finland, natural gas from Russia, and small volumes of electricity from Finland and Latvia. Various metal products were imported mainly from Finland, Germany, Sweden and Poland; footwear, raw hides for tanning, and clothing were imported from Latvia, Finland, Germany and Italy, and wood and wood products (undressed timber, plywood, paper and cardboard products) from Finland, Russia and Latvia.

The normal export and import balance recorded a deficit of 1.5 billion euros, which did not increase during the year (see Table 1.8). The largest negative balances were related to transport vehicles, chemical products and mineral products, while positive balances were recorded for wood and wood products, furniture and other industrial goods.

Table 1.8. Balance of normal exports and imports by major groups of goods (EUR m)

	2012	2013
Food	-187.8	-257.9
Mineral products	-431.6	-504.1
Chemical products	-694.8	-621.1
Clothing, footwear and headgear	-280.3	-281.1
Timber, paper and products	668.0	745.2
Metals and metal products	-56.5	-151.3
Machinery and equipment	-402.6	-397.9
Transport vehicles	-692.0	-644.7
Furniture, toys, sporting goods	537.5	553.8
Other	-1.1	9.4
Total	**-1,541.2**	**-1,549.7**

Services

The surplus on exports and imports of services was somewhat smaller in 2013 than in 2012 and amounted to 1.2 billion euros (see Table 1.9). The surplus decreased because imports of services grew faster than exports – their growth rates were 12% and 6%, respectively. The services surplus accounted

Table 1.9. Exports and imports of services

	Exports			Imports			Balance	
	Volume (EUR m)	Change from previous period (%)	Share in total exports of goods and services (%)	Volume (EUR m)	Change from previous period (%)	Share in total imports of goods and services (%)	Volume (EUR m)	Change from previous period (%)
2004	2,450.2	17.5	41.0	1,455.1	16.5	21.6	995.1	19.1
2005	2,795.4	14.1	37.7	1,819.6	25.0	22.8	975.7	-1.9
2006	3,038.4	8.7	35.4	2,028.4	11.5	20.4	1,010.0	3.5
2007	3,428.1	12.8	33.4	2,315.4	14.1	19.8	1,112.7	10.2
2008	3,875.2	13.0	35.1	2,428.0	4.9	20.8	1,447.2	30.1
2009	3,306.2	-14.7	38.4	1,879.1	-22.6	23.8	1,427.1	-1.4
2010	3,567.1	7.9	32.3	2,225.9	18.5	22.0	1,341.1	-6.0
2011	4,082.6	14.5	28.5	2,746.2	23.4	20.2	1,336.4	-0.4
2012	4,461.3	9.3	28.2	3,137.1	14.2	20.2	1,324.2	-0.9
2013	4,745.5	6.4	29.3	3,519.6	12.2	22.0	1,225.9	-7.4

for 6.5% of GDP, having decreased by 1 percentage point over the year. Services accounted for 29% and 22%, respectively, of total exports and imports of goods and services. The services account surplus has remained in the range of 1.2–1.4 billion euros for the past six years. European Union countries were the partners for 67% of the exports and 77% of the imports of services (see Table 1.10).

Table 1.10. Exports and imports of services by groups of countries in 2013

Exports	Volume (EUR m)	Share (%)	Imports	Volume (EUR m)	Share (%)
EU countries	**3,172.9**	**66.9**	**EU countries**	**2,723.9**	**77.4**
ow Finland	1254.6	26.4	ow Finland	547.3	15.6
Sweden	395.3	8.3	Sweden	304.2	8.6
Latvia	260.0	5.5	Latvia	278.0	7.9
United Kingdom	228.3	4.8	Germany	256.3	7.3
Germany	225.7	4.8	United Kingdom	210.9	6.0
CIS	**655.5**	**13.8**	**CIS**	**251.2**	**7.1**
ow Russia	510.2	10.8	ow Russia	168.9	4.8
Kazakhstan	65.0	1.4	Ukraine	34.8	1.0
Ukraine	43.4	0.9	Belarus	32.6	0.9
Other countries	**917.1**	**19.3**	**Other countries**	**544.5**	**15.5**
ow Switzerland	182.8	3.9	ow Norway	162.0	4.6
Norway	181.1	3.8	USA	68.9	2.0
USA	169.2	3.6	China	56.8	1.6
Total exports of services	**4,745.5**	**100.0**	**Total imports of services**	**3,519.6**	**100.0**

The services account surplus was contributed to by most types of services (see Table 1.11). The largest share (36%) was attributable to transport services, whose surplus decreased by 12% compared to the previous year (see Figure 1.3). The transport of passengers and other transport services[6] recorded a surplus, while transport of goods recorded a modest deficit. Across types of transport, maritime, rail and road transport services recorded a surplus, while the imports of air transport exceeded exports in this area (see Figure 1.4). The surplus on travel services was 25% of the total services

Table 1.11. Exports and imports of services by major categories in 2013

	Exports		Imports		Balance	
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)
Manufacturing services	189.5	4.0	27.1	0.8	162.4	13.2
Maintenance and repair services	106.7	2.2	34.4	1.0	72.3	5.9
Transport	1,700.8	35.8	1,259.9	35.8	440.9	36.0
transport of passengers	297.4	6.3	133.4	3.8	164.0	13.4
transport of goods	846.7	17.8	886.8	25.2	-40.1	-3.3
other transport services	506.5	10.7	191.6	5.4	314.9	25.7
other*	50.3	1.1	48.0	1.4	2.3	0.2
Travel	1,052.9	22.2	747.8	21.2	305.1	24.9
Construction	289.2	6.1	328.2	9.3	-39.0	-3.2
Telecommunications, computer and information services	403.4	8.5	315.5	9.0	87.9	7.2
Other business services	832.1	17.5	614.9	17.5	217.2	17.7
Government services	36.7	0.8	20.1	0.6	16.6	1.4
Other	134.3	2.8	171.8	4.9	-37.5	-3.1
Total	**4,745.5**	**100.0**	**3,519.6**	**100.0**	**1,225.9**	**100.0**

* Pipeline transport, transmission of electricity and postal and courier services.

6 Warehousing, packaging, navigation fees, rescue, etc.

Figure 1.3. Transport services

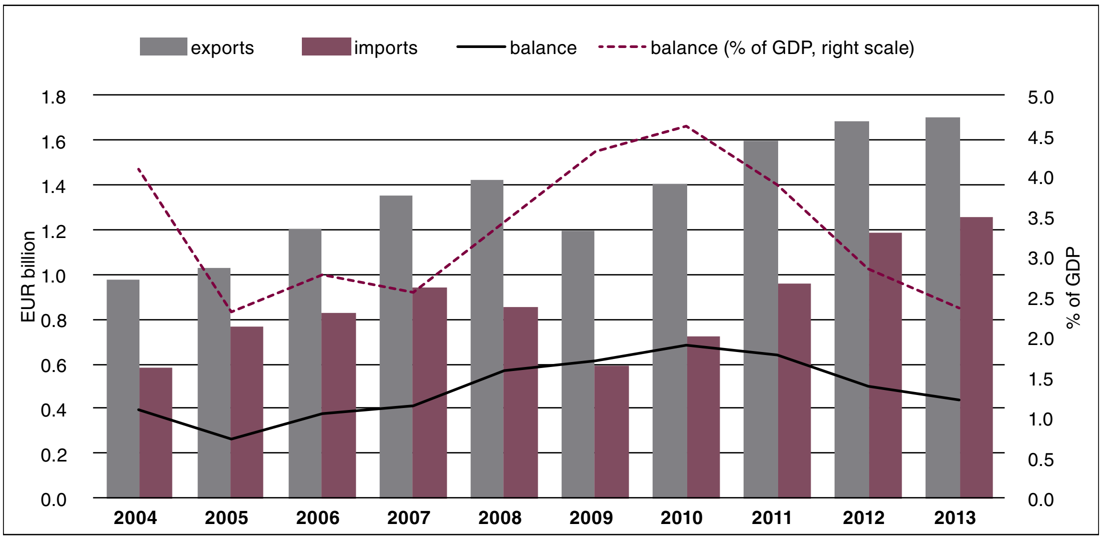
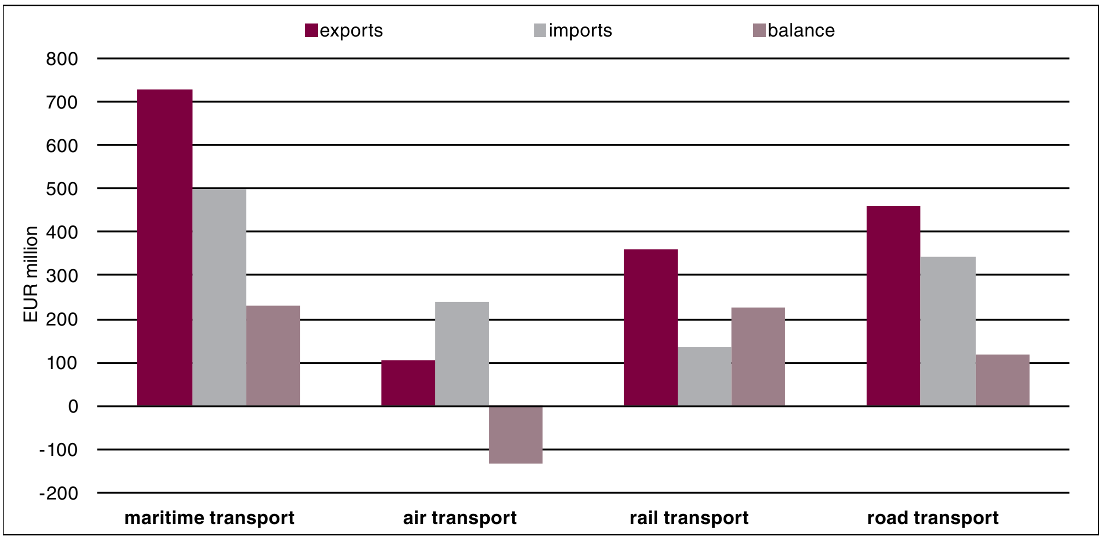


Figure 1.4. Transport services structure in 2013 by transport type



surplus, having decreased slightly over the year. The surplus on other business services was 18%, and that on manufacturing services was 13%[7]. Generally, the various types of services recorded a surplus, with the exception of the aforementioned transport of goods, and also construction, insurance and pension services and charges for the use of intellectual property. Construction has been in deficit for the past few years, mainly due to construction services imported for a large-scale reconstruction of the Estonian energy sector. The foreign trade balance of services was positive for most of the major trade partners. The surplus was the largest for Finland (707 million euros) and Russia (341 million euros), while the deficit was the largest with Cyprus (82 million euros), Poland and France (76 million euros each).

7 Manufacturing services were formerly (under BPM5) recorded on the goods account together with the cost of the goods being manufactured.

Exports of services increased by 6% compared to 2012. Services were provided to foreign countries for a total of 4.7 billion euros. Transport services (36%) took first place in the structure of services exports, followed by travel services (22%) and other business services (18%). The latter category includes commercial, legal, accounting, management consultancy, research, technical, and other professional services, including operating leases. Exports of the main categories of services grew; the growth was fastest for construction (18%), travel (10%), and telecommunications, computer and information services (9%). Exports of transport services were more or less unchanged from the previous year. Transport of goods accounted for a half, other transport services for 30% and transport of passengers for 17%. Most of the transport services exported were maritime transport (43%), followed by road (27%), rail (21%) and air (6%) transport. Exports of other business services broke down as follows: technical and various business services 60%, professional and management consultancy 32%, and research and development services 8%.

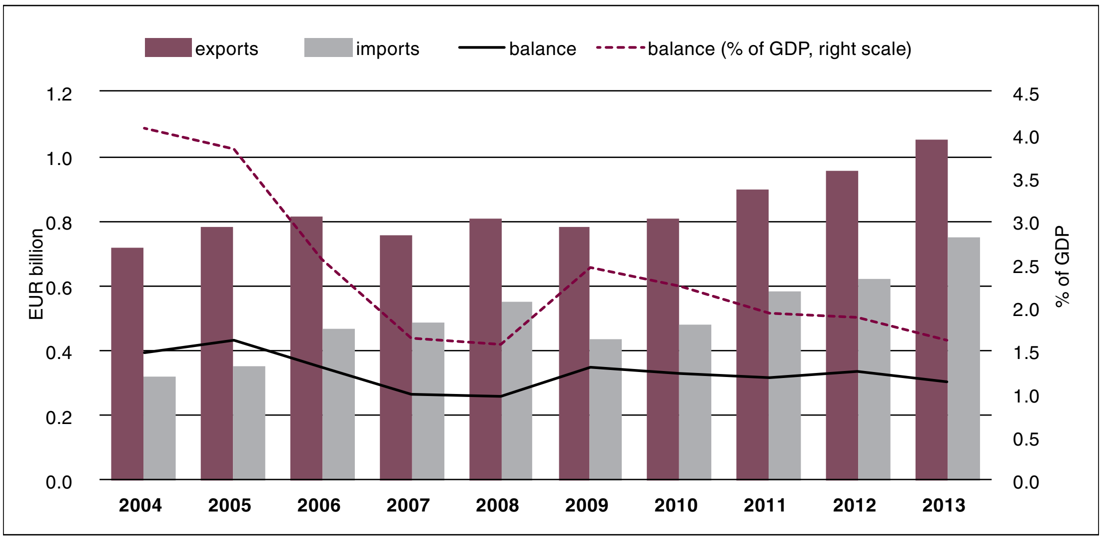
Finland was by far the largest purchaser of Estonian services, being the destination for a little over one quarter of the total exports of services. As expected, travel services were in first place (37%) among exports to Finland, followed by transport services (26%), other business services (14%) and construction (10%). Manufacturing services, telecommunications, computer and information services and maintenance and repair services were provided to Finland in smaller volumes. The second-largest export destination was Russia, accounting for 11% of services exports. Exports to Russia were dominated by two categories of services – one half were transport services and one-third were travel services. Sweden was the destination for 8% of services exports and the structure of the services was broad-based. Transport services were again in first place (38%), followed by other business services and travel services (15% each), and construction, manufacturing services, and telecommunications, computer and information services (8–9% each). Latvia was the destination for transport services (35%), other business services (24%), travel services, and telecommunications, computer and information services (15% each). Exports to the fifth main partner, the UK, mainly consisted of transport services, other business services, travel services, financial services, telecommunications, computer and information services, personal, cultural and recreational services, manufacturing services, and maintenance and repair services.

Imports of services increased by 12% over the year and amounted to 3.5 billion euros. Transport services amounted to 36% of all imports of services, followed by travel services (25%) and other business services (18%). The growth in the imports of services was mainly driven by large-scale transport and travel services, the volume of which increased by 6% and 20%, respectively. The volume of construction services purchased from abroad grew the fastest (nearly 30%) and was related to extensive reconstruction work in the energy sector. Imports of telecommunications, computer and information services increased by 17%. In the imports of transport services, the transport of goods had the largest share (70%), followed by other transport services (15%) and transport of passengers (11%). Transport services were provided by sea for 39% of the total, 27% by road, 19% by air and 11% by rail.

The largest share of services (16% of total imports of services) was imported from Finland. Transport and travel services were in first place with 29% shares each. Other business services and construction also had equal shares of 14% each. Other services imported from Finland consisted of telecommunications, computer and information services and financial services. Primarily transport services were imported from the second-largest import partner, Sweden; these formed nearly half of all the services imported from there. Telecommunications, computer and information services formed nearly one-fifth, travel services 14%, other business services 13%, and financial services a smaller share of the imports. Of services imported from Latvia, other business services took first place (35% of the import of services from Latvia). This included operating leases, advertising services and market surveys, and various business and management consultations and public relations. Also imported from Latvia were transport services (30% of imports), travel services, and telecommunications, computer and information services. Among services imported from Germany, transport services were also in first place, accounting for 40% of all imports of services from Germany, followed by travel services, construction and other business services (13–16%). Telecommunications, computer and information services, financial services and insurance and pension services were also imported from Germany. Among services imported from the fifth most important services import partner, the UK, transport was again on the first place (one-third), followed by travel services (one-fifth), telecommunications, computer and information services, and other business services (15% each). The shares of financial services, charges for the use of intellectual property, and personal, cultural and recreational services were smaller.

The sale of travel services amounted to 1 billion euros in 2013, which was 10% more than in 2012 (see Figure 1.5 and Table 1.12). Imports of travel services increased by 21% over the year and amounted to 748 billion euros. The positive balance of travel services at 305 million euros was equivalent to nearly 2% of GDP.

Figure 1.5. Travel services



Estonia was visited more than 6 million times in 2013, which is 14% more than in 2012. Visitors from the European Union accounted for 73% of all visits and their total number of visits increased by 10% compared to the previous year. The large 15% increase in visits from the largest travel partner Finland is partly attributable to the home visits of Estonians who have permanently emigrated to Finland (in 2012 more than 10,000 Estonians emigrated to Finland). The total number of visits was considerably boosted by visitors from Russia (growth 40% from last year). As in 2012, the number of visitors from Japan and China increased faster than the average (50% and 35%, respectively), while their relative

Table 1.12. Travel services by groups of countries in 2013

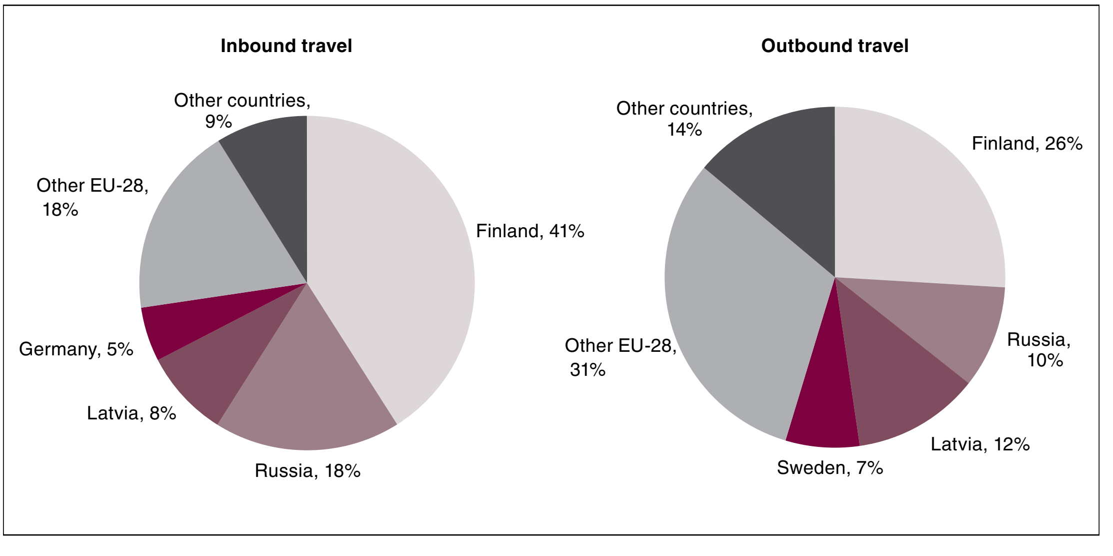
	Exports			Imports	
	Volume (EUR m)	Share (%)		Volume (EUR m)	Share (%)
EU countries	**773.8**	**73.5**	**EU countries**	**543.2**	**72.6**
ow Finland	458.7	43.6	ow Finland	159.1	21.3
Sweden	59.6	5.7	Latvia	52.6	7.0
Germany	58.3	5.5	United Kingdom	46.7	6.2
Latvia	40.1	3.8	Sweden	42.2	5.6
United Kingdom	29.7	2.8	Germany	41.0	5.5
CIS	**184.1**	**17.5**	**CIS**	**64.0**	**8.6**
ow Russia	171.2	16.3	ow Russia	53.2	7.1
Ukraine	6.8	0.6	Belarus	5.8	0.8
Belarus	5.0	0.5	Ukraine	4.0	0.5
Other countries	**95.0**	**9.0**	**Other countries**	**140.6**	**18.8**
ow USA	25.2	2.4	ow Norway	34.5	4.6
Norway	20.1	1.9	Turkey	23.8	3.2
Japan	6.0	0.6	USA	17.9	2.4
Total exports	**1,052.9**	**100.0**	**Total imports**	**747.8**	**100.0**

share is still small. The opening of a new direct flight increased the number of visitors from Turkey by 26% already in the first year of operation.

The number of one-day visits was 3.2 million or 25% more than in the previous year. One-day visits accounted for 53% of all visits. The average visit lasting longer than one day was similar to last year's 4.2 days.

While Finland accounted for 41% of all visits to Estonia (see Figure 1.6), its share in the total export of travel services (in monetary terms) was 44%. The export of travel services to Russia formed 16% of the total. As the turn of the year is the preferred time for Russian visitors, their visits help alleviate the seasonal low in the Estonian tourism sector.

Figure 1.6. International travel statistics by country in 2013



Estonian residents visited foreign countries on 3.7 million occasions in 2013, or 4% less than in 2012. As one trip can cover several countries, the actual number of trips was smaller. Neighbouring countries were the destination for more than a half of the visits – Finland 26%, Latvia 12%, Russia 10% and Sweden 7%.

Although Estonian residents visited European Union countries 2% less than in the previous year, the growth trend in visits to Bulgaria (26% more visits), Croatia (18%), Spain (17%) and Greece (13%) continued. Some formerly popular holiday destinations have been neglected. Compared to 2012, considerably less visits were made to Egypt (–32%), India (–49%), the United Arab Emirates (–17%) and Thailand (–16%). However, the number of travel days spent in India, Thailand and the United Arab Emirates increased compared to the previous year.

One-day visits accounted for 30% of total visits and their number decreased by 7% compared to the previous year. Although the total number of visits was smaller, their duration was longer. Visits longer than one day usually lasted 4.8 days (4.3 days in 2012).

Primary income (excluding investment income), secondary income and capital account

The main source of primary income (except investment income), secondary income and the capital account inflow was European Union grants (see Figure 1.7). These are recorded on all three accounts depending on whether they are subsidies, consumption expenses or capital expenses. From 2009, European Union grants have remained stable at over 4% of GDP, making Estonia one of the relatively larger recipients of EU grants. In 2013, Estonia received 850 million euros in EU grants, which was equivalent to 4.6% of GDP. The general government used about 40% of the total, while the rest was used as agricultural subsidies (nearly 20%) and to finance other sectors, mainly infrastructure projects.

The net outflow of primary income decreased considerably in 2013, driven by an increase in the net inflow of labour income and a decrease in the net outflow of investment income (see Table 1.13). The

Figure 1.7. Total primary income (excluding investment income), secondary income and capital account by groups of countries (EUR million)

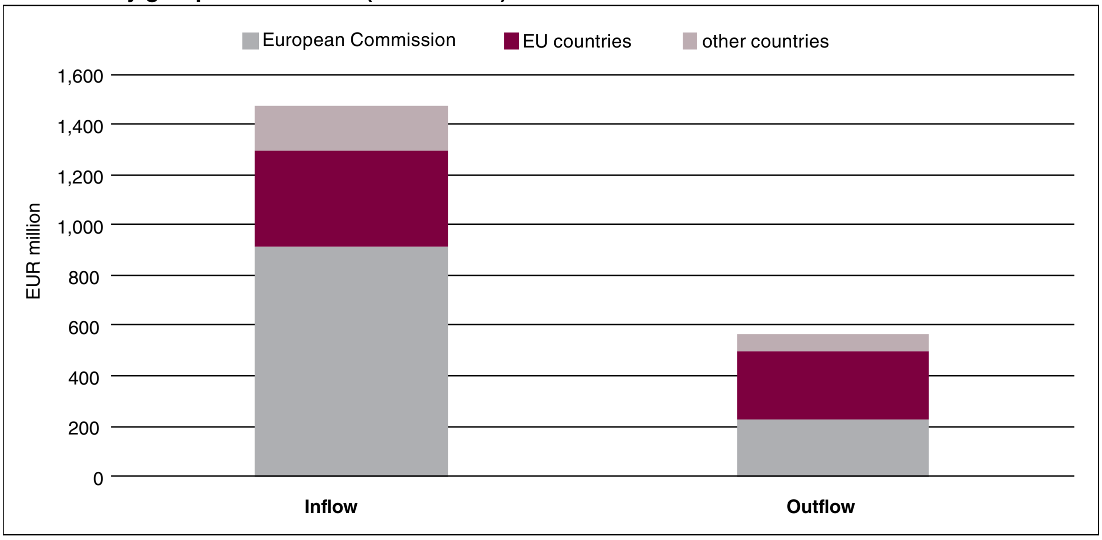


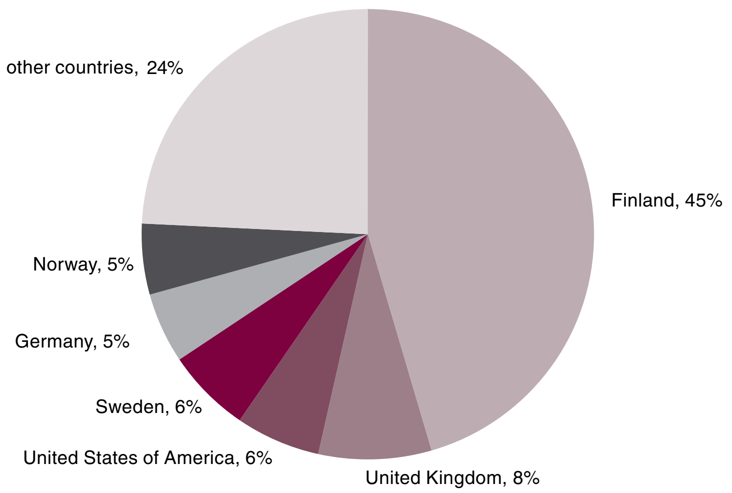
Table 1.13. Components of primary income

	Inflow (EUR m)		Change (%)	Outflow (EUR m)		Change (%)	Balance (EUR m)	
	2012	2013		2012	2013		2012	2013
Primary income	**1,005.0**	**1,084.1**	**7.9**	**1,726.1**	**1,614.0**	**-6.5**	**-721.1**	**-529.9**
Labour income	273.3	277.1	1.4	64.1	50.5	-21.2	209.2	226.6
Investment income	548.6	646.7	17.9	1632.5	1509.7	-7.5	-1083.9	-863.0
Income on direct investment	357.5	480.5	34.4	1439.2	1361.2	-5.4	-1081.7	-880.7
Income on portfolio investment	117.7	97.2	-17.4	84.3	70.2	-16.7	33.4	27.0
Income on other investment	73.4	69.0	-6.0	108.9	78.2	-28.2	-35.5	-9.2
Other primary income	183.1	160.3	-12.5	29.5	53.8	82.4	153.6	106.5

components of investment income are analysed in greater detail under direct, portfolio and other investment; this section only covers labour income and other income.

The inflow of labour income increased by 1.4% over the year and stood at 277 million euros. Estonian residents earned the most from working in Finland (48% of the inflow of labour income), followed by the UK, the USA and Sweden (6–8%), Germany and Norway (4–6%, see Figure 1.8).

Figure 1.8. Labour income inflow by country (%)



One-third of the inflow of primary income (except investment income) was attributable to agricultural subsidies received from the European Union, which are recorded under other primary income. These reached 160 million in 2013, which was somewhat less than in 2012.

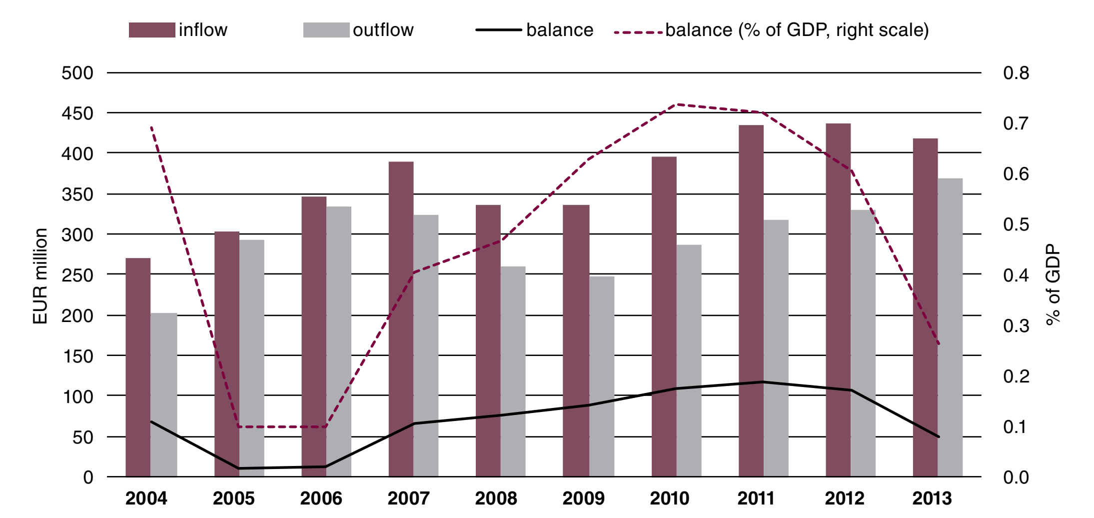
Labour income accounts for only a small share – 3% (51 million euros) of the total outflow of primary income. Labour income was earned in Estonia primarily by Finnish and Latvian residents. The outflow of other income consisted of European Union taxes on production and on imports.

The secondary income surplus decreased markedly and stood at 49 million euros (see Table 1.14 and Figure 1.9). The inflow of secondary income was 418 million euros, of which 38% was recei-

Table 1.14. Secondary income and capital account in 2013 (EUR m)

	Inflow	Outflow	Balance
Secondary income	**418.3**	**369.1**	**49.2**
General government	157.4	206.0	-48.6
Other sectors	260.8	163.1	97.7
Current taxes and subsidies	58.9	80.4	-21.5
Other current transfers	202.0	82.7	119.3
including personal remittances	111.3	24.9	86.4
including workers' remittances	46.3	3.9	42.4
Capital account	**618.0**	**92.6**	**525.4**

Figure 1.9. Inflow and outflow and balance of secondary income (EUR m)



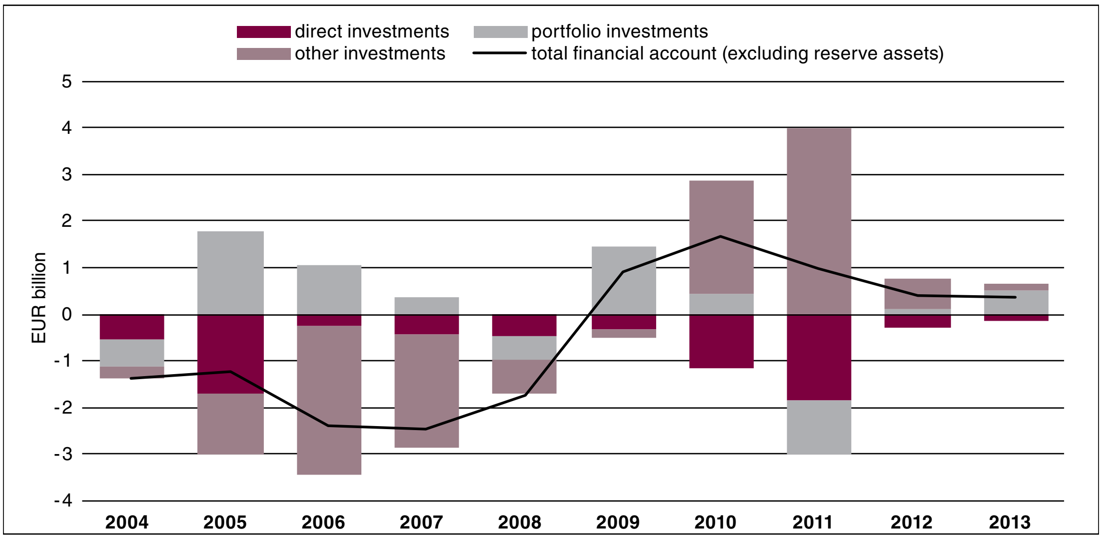
ved by the general government and the rest by other sectors. Of transfers received by the general government, 88% was external aid by European Union structural units and the rest consisted mostly of tax payments by non-resident workers. Of the amounts received by other sectors, European Union external assistance accounted for three-thirds and the transfers of workers from abroad formed 18% or 46 million euros. The outflow of secondary income was 369 million euros, of which the general government accounted for 56% or 206 million euros. Most of this was Estonia's payments to the European Union. Owing to an increase in national income, Estonia's payments to the EU budget have increased every year. The outflow of secondary income from other sectors was 163 million euros, covering taxes on labour income earned abroad, indemnity insurance payments by companies, money remittances and other transfers.

The capital account surplus decreased markedly over the year and stood at 525 million euros (612 million euros in 2012). Capital transfers into Estonia, which mainly consisted of European Union grants to the general government and other sectors for establishing infrastructure objects, were modest compared to previous years. At the same time, companies bought CO2 pollution quotas from foreign markets, which increased the capital account debit from the marginal level of previous years to 91 million euros.

FINANCIAL ACCOUNT

As in the previous four years, Estonia continued to be a net provider of finances in 2013 – the outflow of capital via the financial account exceeded the inflow by 389 million euros. While the general government was the main net borrower (344 million euros), the rest of the world was financed by credit institutions (504 million euros), the enterprise sector (171 million euros) and the central bank (58 million euros). The inflow of direct investment exceeded the outflow, while the situation was the opposite for portfolio and other investments. The structure of the financial account on the basis of components is presented in Figure 1.10.

Figure 1.10. The structure of foreign investment capital flows



Direct investment

The direct investment balance (assets less liabilities) was negative at 166 million euros in 2013 and accounted for 0.9% of GDP for the same year and nearly 60% of that of 2012. Direct investment assets and liabilities increased by 508 and 674 million euros, respectively, in 2013. Residents' direct investments abroad increased by 278 million euros and non-residents' direct investments in Estonia increased by 443 million euros (see Table 1.15 and Figure 1.11).

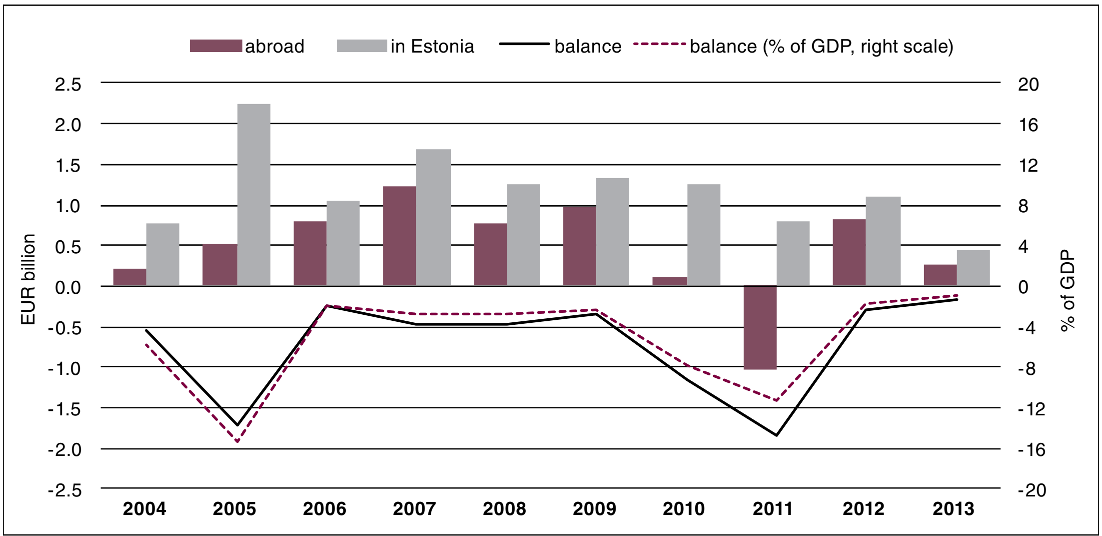
Direct investments in Estonia decreased two and a half fold compared to the previous year and stood at a level comparable to that of ten and more years ago. The structure of investment shows that reinvested earnings of 779 million euros exceeded the total of non-residents' direct investment by 75%. The amount could have been even larger, but foreign investors chose to withdraw 532 million euros in dividends. Compared to 2012, reinvested earnings decreased by 194 million euros or 20% and distributed earnings increased by 64 million euros or 13%. Capital reinvestments were the largest in companies involved in financial intermediation (173 million euros), wholesale (157 million euros) and real estate (72 million euros). Direct investments in the equity capital of Estonian companies decrea-

Table 1.15. Direct investment in 2013, broken down into assets and liabilities and to Estonia and abroad

Standard presentation: assets and liabilities		Flow	As of 31/12/2013	Income
Direct investment assets		**507.7**	**7,534.0**	**480.5**
A1.	Direct investor's claim to foreign direct investment enterprise	354.7	5,058.1	443.2
A2.	Direct investment enterprise's claim to foreign direct investor	-76.9	1,295.0	20.1
A3.1.	Claim to the rest of a group (group controlled from Estonia)	-0.6	50.8	1.2
A3.2.	Claim to the rest of a group (group controlled from abroad)	230.4	1,130.1	16.0
Direct investment liabilities		**673.6**	**17,879.1**	**1,361.2**
L1.	Direct investment enterprise's liability to foreign direct investor	654.2	17,156.4	1,356.4
L2.	Direct investor's liability to foreign direct investment enterprise	74.0	223.5	0.6
L3.1.	Liability to the rest of a group (group controlled from Estonia)	-57.2	485.2	3.8
L3.2.	Liability to the rest of a group (group controlled from abroad)	2.7	14.0	0.4
Direct investments (assets – liabilities)		**-165.9**	**-10,345.1**	**-880.7**

Analytical presentation: abroad and in Estonia		Flow	As of 31/12/2013	Income
Direct investments abroad		**277.5**	**4,871.4**	**443.4**
A1.	Direct investor's claim to foreign direct investment enterprise	354.7	5,058.1	443.2
– L2.	Direct investor's liability to foreign direct investment enterprise	-74.0	-223.5	-0.6
A3.1.	Claim to the rest of a group (group controlled from Estonia)	-0.6	50.8	1.2
– L3.2.	Liability to the rest of a group (group controlled from abroad)	-2.7	-14.0	-0.4
Direct investments in Estonia		**443.4**	**15,216.5**	**1,324.1**
L1.	Direct investment enterprise's liability to foreign direct investor	654.2	17,156.4	1,356.4
– L2.	Direct investment enterprise's claim to foreign direct investor	76.9	-1,295.0	-20.1
L3.1.	Liability to the rest of a group (group controlled from Estonia)	-57.2	485.2	3.8
– L3.2.	Claim to the rest of a group (group controlled from abroad)	-230.4	-1,130.1	-16.0
Direct investments (abroad – in Estonia)		**-165.9**	**-10,345.1**	**-880.7**

Figure 1.11. Direct investments flows



sed by 122 million euros in 2013 (see Table 1.16). However, there was little withdrawal of funds – the total was mainly driven by structural changes in groups, in the course of which equity capital was transferred to another form of capital. Companies were also bought back from foreign investors. The increase in assets in direct investment groups took 154 million euros out of Estonia and the decrease in liabilities added 60 million euros.

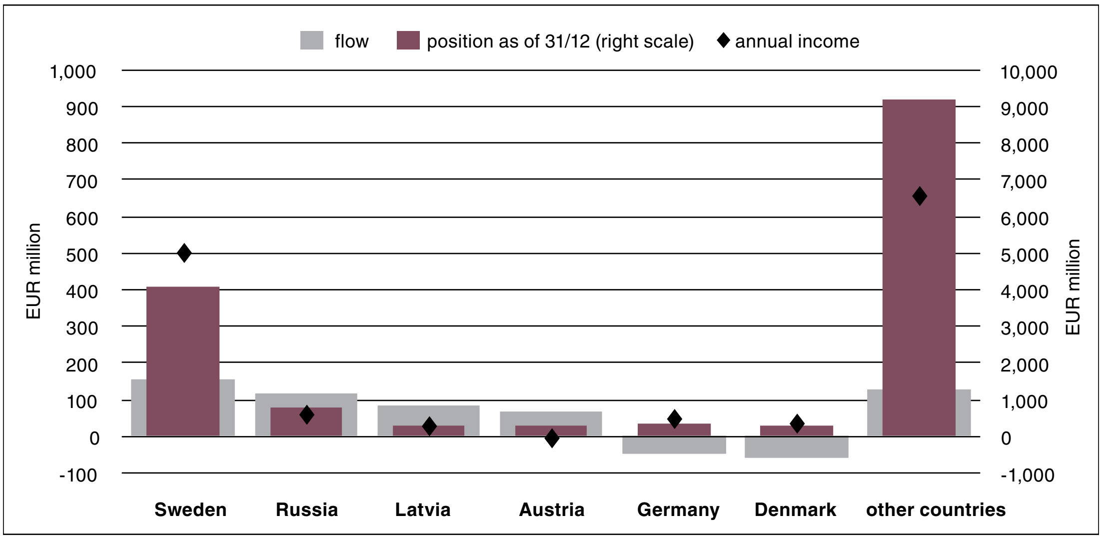
Table 1.16. Structure of direct investment flows in Estonia

	Equity capital		Reinvested earnings		Other capital				Total direct investment in Estonia[2] (EUR m)
					Assets[1]		Liabilities		
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	
2004	296.5	38.4	510.2	66.2	92.7	12.0	57.2	7.4	771.2
2005	1,788.2	79.4	568.1	25.2	128.5	5.7	23.0	1.0	2,250.8
2006	143.0	13.4	1,000.5	94.1	285.2	26.8	205.3	19.3	1,063.6
2007	273.2	16.2	1,366.9	81.0	417.8	24.7	465.9	27.6	1,688.2
2008	195.1	15.6	870.6	69.7	125.5	10.1	308.5	24.7	1,248.7
2009	1,219.1	92.1	408.5	30.9	50.2	3.8	-253.5	-19.1	1,323.9
2010	312.5	24.9	1,014.1	80.7	232.2	18.5	163.0	13.0	1,257.4
2011	-535.9	-66.7	1,208.5	150.3	84.3	10.5	215.5	26.8	803.8
2012	309.7	28.1	919.5	83.5	255.7	23.2	128.1	11.6	1,101.6
2013	-121.7	-27.4	778.6	175.6	153.6	34.6	-60.0	-13.5	443.4

1 Increase in assets (positive figure in the Table) reduces the total direct investments in Estonia
2 Liabilities less assets

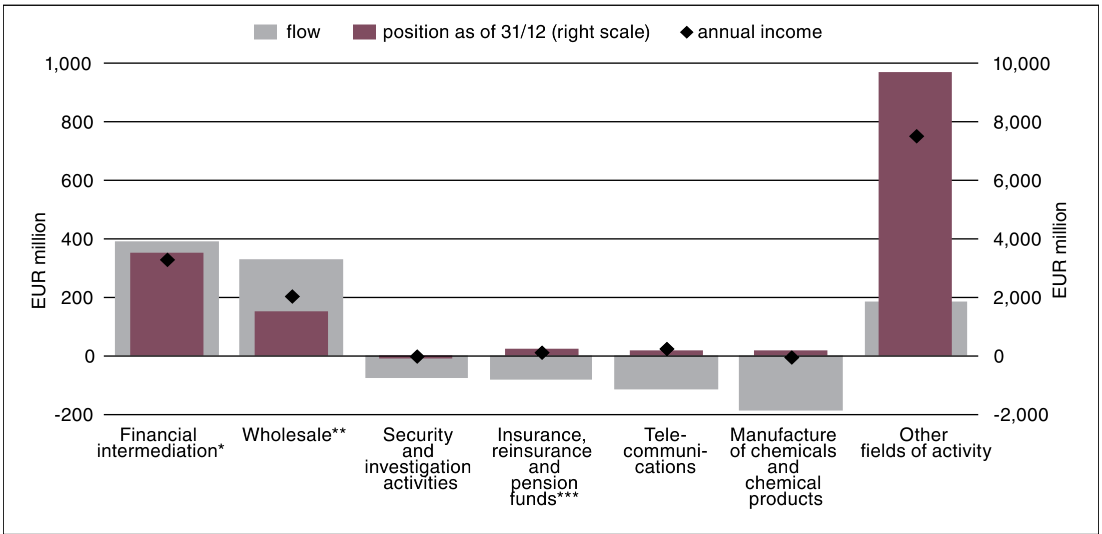
The partners for larger direct investment transactions were Sweden (155 million euros), Russia (115 million euros) and Latvia (82 million euros, see Figure 1.12). The inflow of foreign investments was the largest in companies providing financial services (see Figure 1.13). Direct investments by European Union Member States in Estonia increased by 305 million euros and stood at 12 billion euros as at 31 December 2013, which is four-fifths of all the direct investments made in Estonia (see Table 1.17).

Figure 1.12. Direct investments in Estonia and income on them by country in 2013



Direct investments abroad increased by 278 million euros. The largest share of foreign investment was made in equity capital: Estonia's investment in the equity capital of foreign subsidiaries increased by 276 million euros. Reinvested earnings from direct investment abroad reached 48 million euros in 2013. This relatively modest result was due to the extensive payment of dividends. Distributed earnings amounted to an all-time peak of 371 million euros in 2013. An increase in assets in subsidiaries took 30 million euros out of Estonia, while the increase in intra-group liabilities brought in 77 million euros (see Table 1.18).

Figure 1.13. Direct investments in Estonia and income on them by field of activity in 2013



* Excluding insurance and pension funds. ** Excluding motor vehicles and motorcycles. *** Excluding compulsory social security.

Table 1.17. Direct investment in Estonia and income on them by groups of countries in 2013

	Volume (EUR m)			Share (%)		
	Flow	Position as of 31/12/ 2013	Income	Flow	Position as of 31/12/ 2013	Income
EU countries	305.0	12,292.6	1,175.4	68.8	80.8	88.8
CIS	135.7	881.5	74.5	30.6	5.8	5.6
Other countries	2.7	2,042.4	74.3	0.6	13.4	5.6
Total	**443.4**	**15,216.5**	**1,324.1**	**100.0**	**100.0**	**100.0**

Table 1.18. Structure of direct investment flows abroad

	Equity capital		Reinvested earnings		Other capital				Total direct investments abroad[2] (EUR m)
					Assets		Liabilities[1]		
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	
2004	138.9	64.1	58.7	27.1	27.9	12.9	8.9	4.1	216.6
2005	329.3	61.8	172.2	32.3	49.9	9.4	18.6	3.5	532.8
2006	376.9	46.5	309.6	38.2	172.9	21.3	48.6	6.0	810.8
2007	660.0	53.6	324.7	26.4	338.7	27.5	93.2	7.6	1,230.2
2008	150.7	19.3	136.8	17.5	439.0	56.3	-53.0	-6.8	779.5
2009	772.2	78.0	98.9	10.0	38.8	3.9	-79.9	-8.1	989.8
2010	77.3	72.3	197.3	184.5	-70.2	-65.6	97.5	91.2	106.9
2011	-1,341.1	129.3	225.2	-21.7	131.5	-12.7	52.5	-5.1	-1,036.9
2012	179.4	22.1	46.1	5.7	523.3	64.4	-64.3	-7.9	813.1
2013	276.0	99.5	48.0	17.3	30.2	10.9	76.7	27.6	277.5

1 An increase in liabilities (positive figure in the Table) reduces, and a reduction in liabilities (negative figure) increases the total direct investments abroad
2 Assets less liabilities

The largest increase in Estonian direct investors' investments concerned Cyprus, where 114 million euros was invested (see Figure 1.14). Amounts invested in neighbouring countries were half of that (57 million euros to Lithuania and Latvia each). Money was invested abroad in connection with rent and operational leases (107 million euros) and companies in the business of electricity, gas, steam and conditioned air supply (76 million euros). Companies in the insurance sector reduced their foreign investment by 47 million euros (see Figure 1.15). By countries and groups of countries, 96% of the investments were made in the European Union, and to a lesser extent also the CIS and other countries (see Table 1.19).

Figure 1.14. Direct investments abroad and income on them by country in 2013

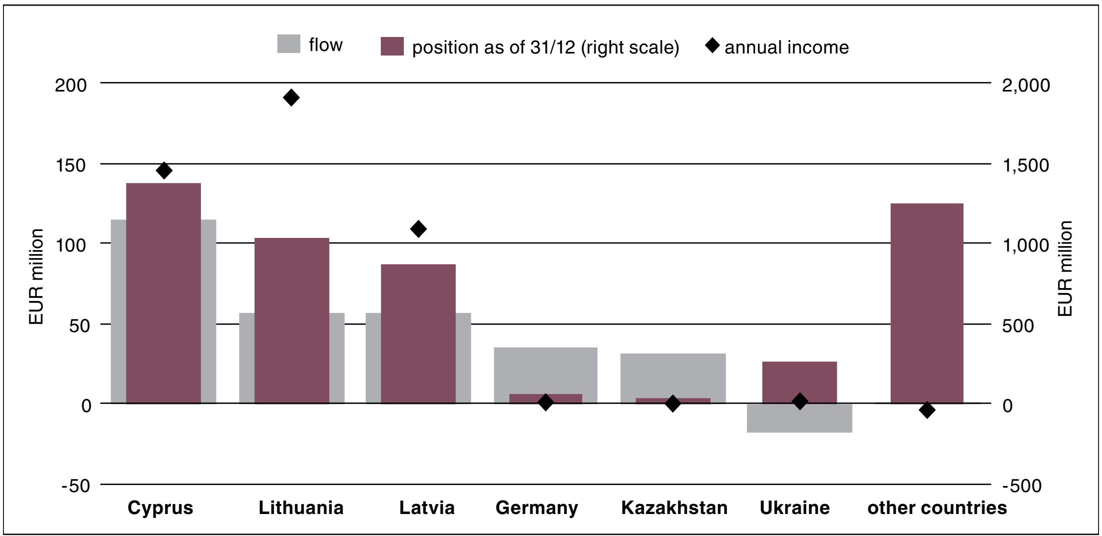
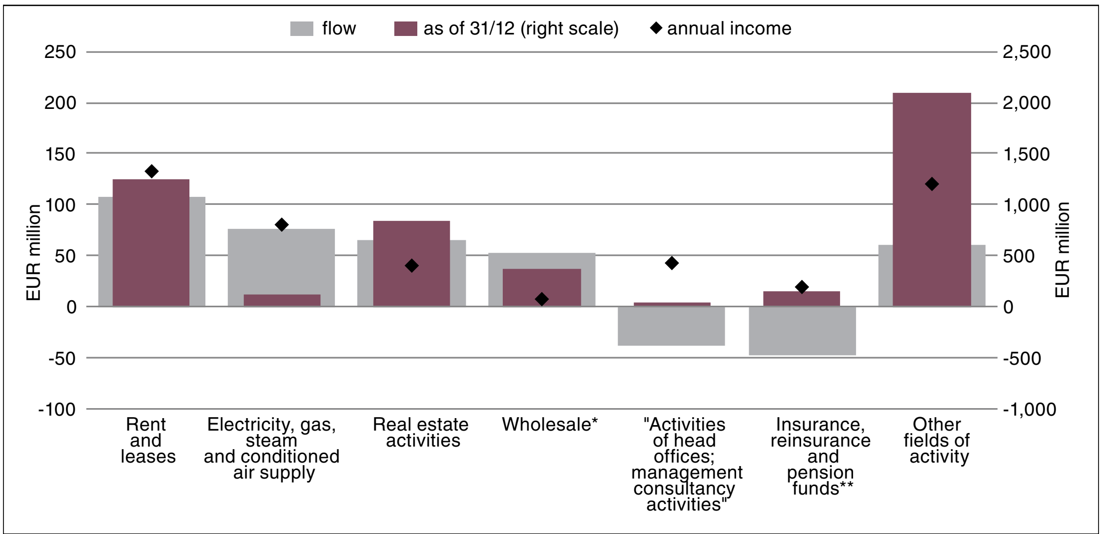


Figure 1.15. Direct investments abroad and income on them by field of activity in 2013



* excluding motor vehicles and motorcycles.
** Excluding compulsory social security.

Table 1.19. Direct investments abroad and income on it by groups of countries in 2013

	Volume (EUR m)			Share (%)		
	Flow	Position as of 31/12/2013	Income	Flow	Position as of 31/12/2013	Income
EU countries	265.0	4,085.1	420.9	95.5	83.9	94.9
CIS	8.0	613.0	31.7	2.9	12.6	7.1
Other countries	4.5	173.3	-9.2	1.6	3.6	-2.1
Total	**277.5**	**4,871.4**	**443.4**	**100.0**	**100.0**	**100.0**

Portfolio investment

The portfolio investment outflow was 501 million euros in 2013 (see Figure 1.16). Investments of other financial intermediaries in foreign equity and fund shares, and the investments of credit institutions (monetary financial institutions except the central bank) in debt securities increased over the year (see Table 1.20). The general government's investments in foreign debt securities decreased. As a result of investments in foreign debt securities, the inflow of portfolio investment income exceeded the outflow by 27 million euros. At the end of 2013, the position of portfolio investment liabilities totalled

Figure 1.16. Portfolio investment flows

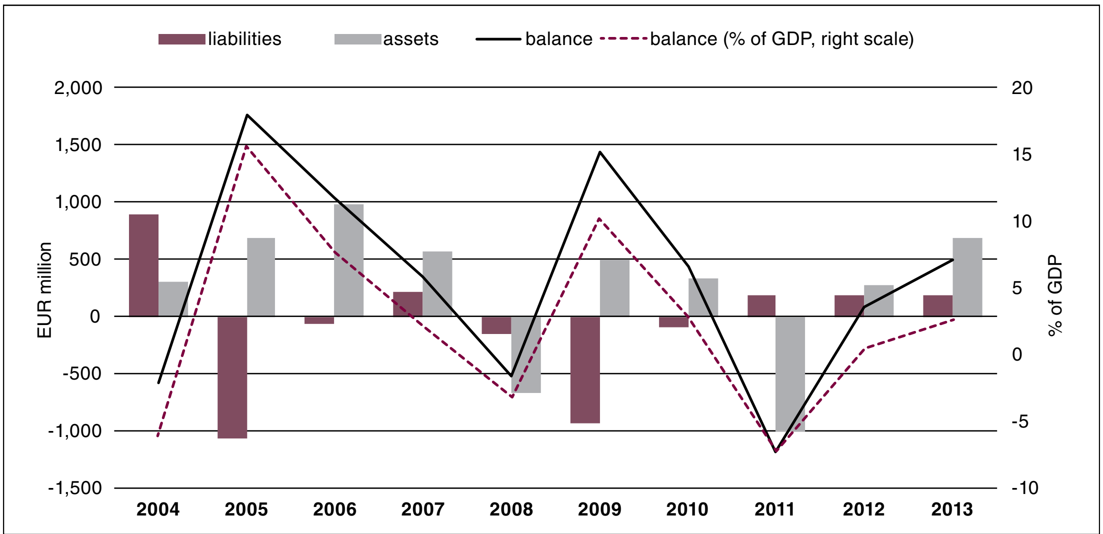


Table 1.20. Portfolio investment flows by types of securities and institutional sectors in 2013 (EUR m)

	Equity securities and investment fund shares			Debt securities			Total		
	Assets	Liabilities	Balance	Assets	Liabilities	Balance	Assets	Liabilities	Balance
Non-financial corporations	3.6	-15.9	19.5	4.8	120.8	-116.0	8.4	104.9	-96.5
Central bank	15.0		15.0	-66.4		-66.4	-51.4	0.0	-51.4
Monetary financial institutions except the central bank	-1.1	-2.4	1.3	618.4	-1.7	620.1	617.3	-4.1	621.4
Other financial intermediaries	278.5	58.3	220.2	11.8	30.6	-18.9	290.3	88.9	201.4
General government				-197.5	-4.3	-193.2	-197.5	-4.3	-193.2
Households and NPISHs	21.3		21.3	-1.7		-1.7	19.6	0.0	19.6
Total	**317.3**	**40.0**	**277.2**	**369.5**	**145.4**	**224.0**	**686.7**	**185.5**	**501.3**

2 billion euros, having increased by 11% during the year. Portfolio investment assets position stood at 5.5 billion euros at the end of 2013, having increased by 17%.

Portfolio investment liabilities increased by 186 million euros in 2013. As in previous years, Estonian companies continued to issue long-term debt securities, although in a smaller volume than in 2012. The equity investments of foreign investors continued to decrease (see Figure 1.17). By institutional sectors, the liabilities of non-financial companies and other financial intermediaries increased. The liabilities of other financial intermediaries related to equity securities and investment fund shares increased by 58 million euros and their debt security liabilities increased by 31 million euros. The debt securities liabilities of non-financial companies increased by 121 million euros. The share of other sectors was modest in 2013. By country, portfolio investment liabilities increased the most with respect to

Figure 1.17. Structure of flows of portfolio investment liabilities

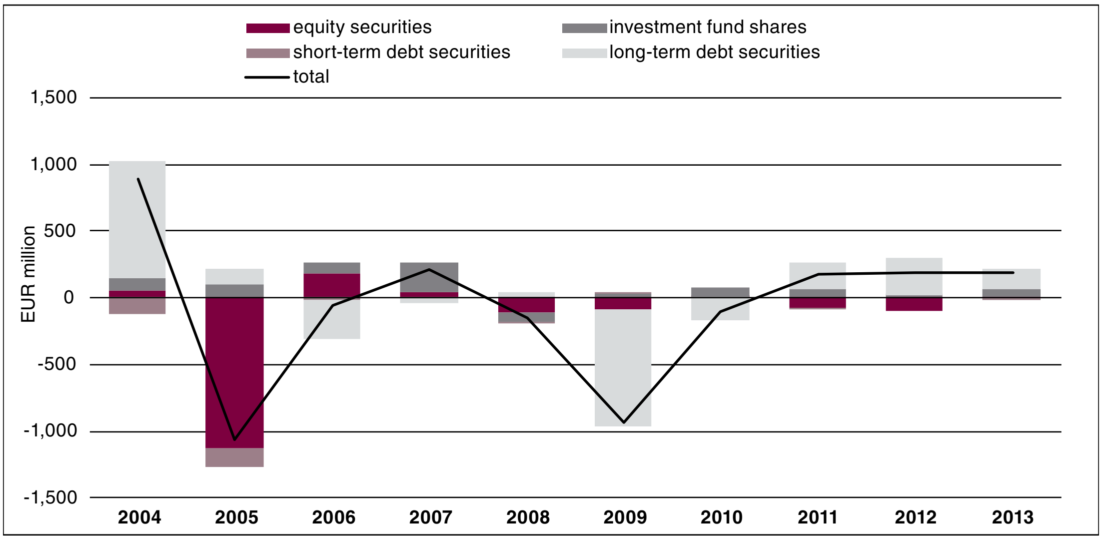
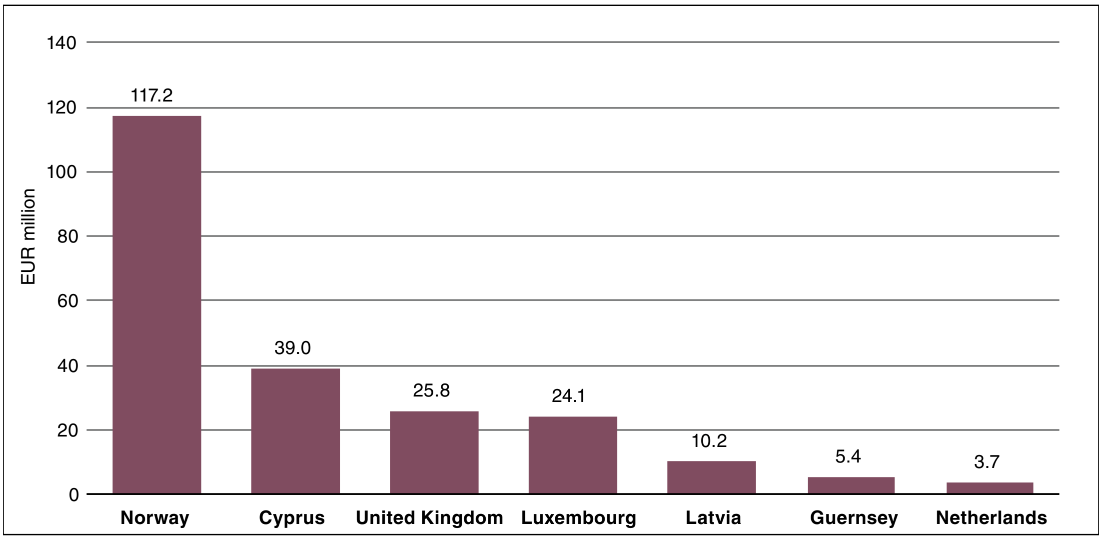


Figure 1.18. Increase in portfolio investment liabilities by country in 2013

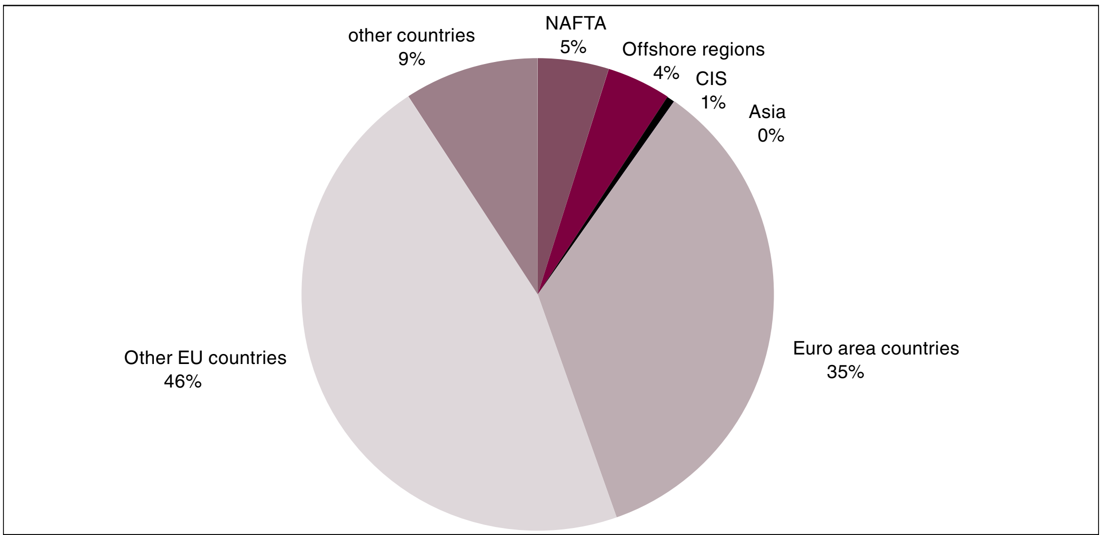


Norway, followed by Cyprus, the UK and Luxembourg (see Figure 1.18). By groups of countries, liabilities to countries outside the EU increased the most (see Table 1.21), although EU Member States continued to account for the bulk of the portfolio investment position at the end of 2013 (see Figure 1.19).

Table 1.21. Structure of portfolio investment flows by groups of countries in 2013

	Assets		Liabilities	
	Volume (EUR m)	**Share (%)**	**Volume (EUR m)**	**Share (%)**
NAFTA	-0.3	0.0	-1.0	-0.5
Offshore regions	7.2	1.0	1.1	0.6
CIS	-8.3	-1.2	-9.5	-5.1
Asia	15.4	2.2	0.1	0.1
Euro area countries	529.9	77.1	62.0	33.4
Other EU countries	16.6	2.4	14.2	7.7
EU institutions	137.1	20.0		
Other countries	-10.8	-1.6	118.5	63.9
TOTAL	**686.9**	**100.0**	**185.5**	**100.0**

Figure 1.19. Position of portfolio investment liabilities by groups of countries, 31/12/2013



Portfolio investment assets increased by 687 million euros in 2013. Investments in short-term debt securities were the largest, totalling 291 million euros. As in 2012, the assets of investment fund shares and long-term debt securities increased by 212 and 78 million euros, respectively (see Figure 1.20). The increase in portfolio investment assets was mainly due to investments by credit institutions and other financial intermediaries. Credit institutions invested 618 million euros in debt securities. The investments of other financial intermediaries in equity securities and investment fund shares increased

Figure 1.20. Structure of flows of portfolio investment assets

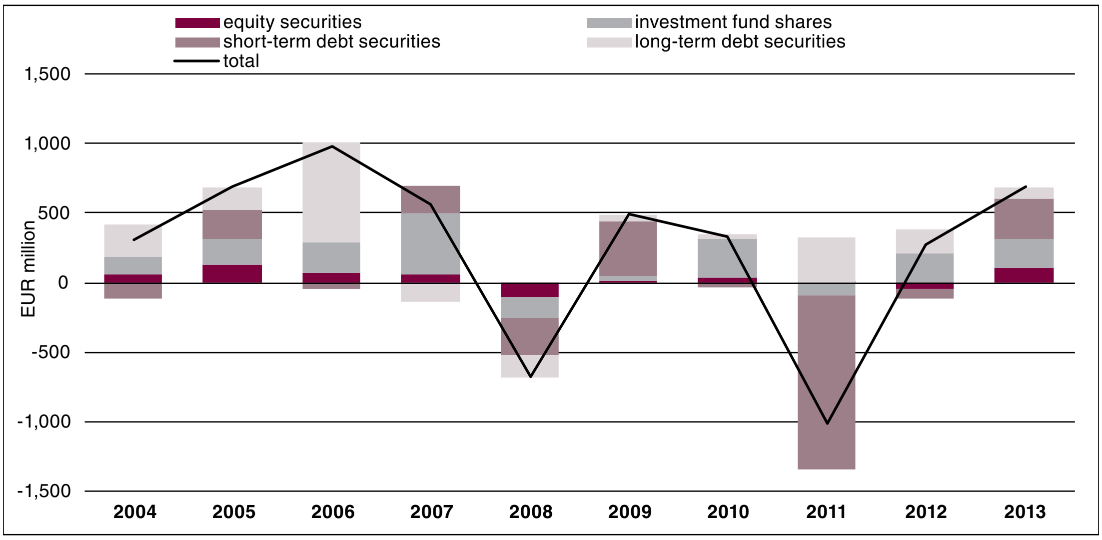
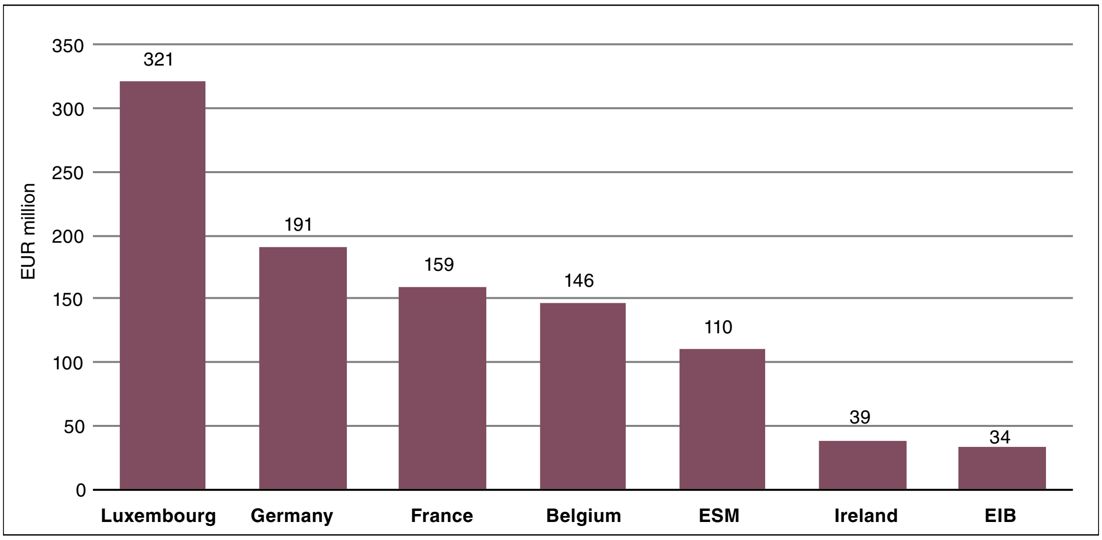
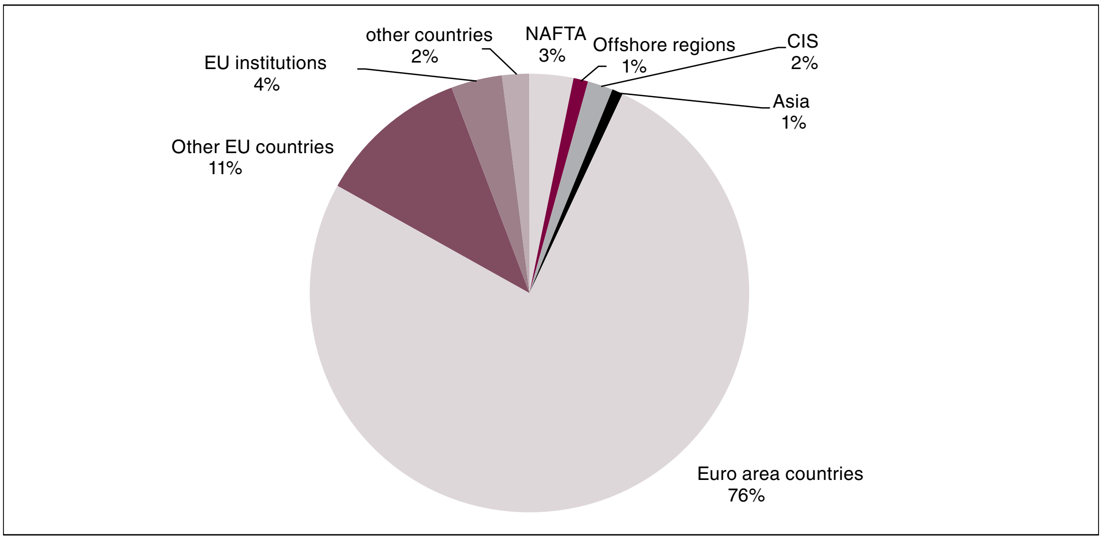


Figure 1.21. Increase in portfolio investment assets by country in 2013 (EUR m)



by a total of 279 million euros. The portfolio investments of the general government and the central bank decreased. Although the central bank's investments in fund shares increased by 15 million euros over the year, its investments in debt securities decreased by 66 million euros. The general government also reduced its investments in debt securities by 198 million euros. By countries, portfolio investment assets increased the most with respect to Luxembourg, Germany, France and Belgium (see Figure 1.21). In addition to euro area countries, investments in securities issued by EU institutions also increased (see Table 1.21). At the end of 2013, euro area countries and other EU countries accounted for 76% and 11%, respectively, of the portfolio investment assets position (see Figure 1.22).

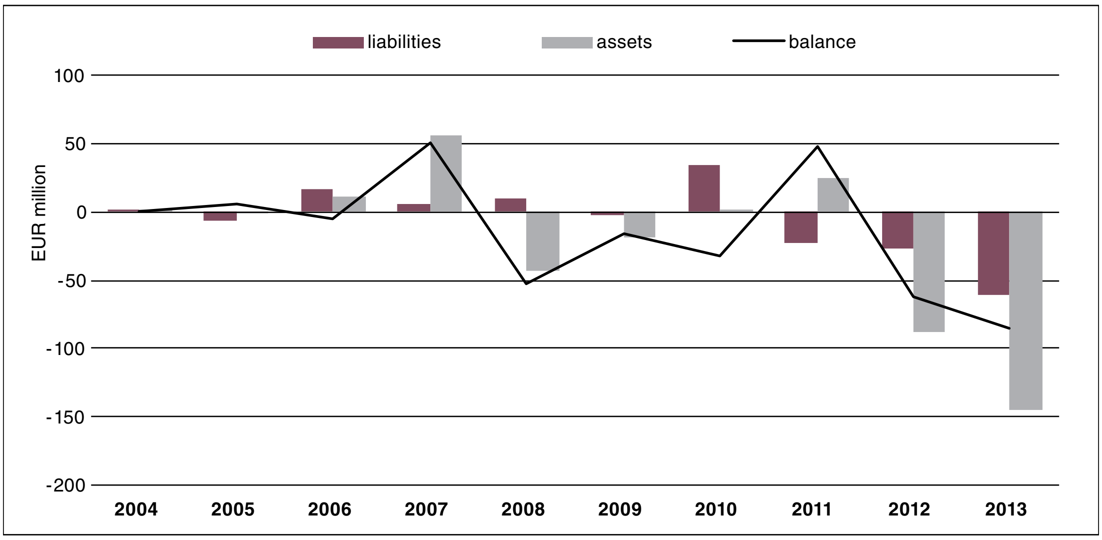
Figure 1.22. Position of portfolio investment liabilities by groups of countries, 31/12/2013



Financial derivatives (other than reserves) and employee stock options

The net inflow of financial derivatives was 85 million euros in 2013 (see Figure 1.23). Assets related to financial derivatives decreased by 146 million euros in 2013, mainly owing to a decrease in the financial derivative investments of non-financial companies and credit institutions. By countries, assets decreased the most with respect to the UK. Financial derivative liabilities decreased by 61 million euros in 2013, also relating to non-financial companies and credit institutions. By countries, financial derivatives assets decreased with respect to Cyprus and Sweden. At the end of 2013, the position of financial derivatives assets totalled 75 million euros and that of liabilities was 89 million euros.

Figure 1.23. Flows of financial derivatives



Other investments

The net outflow of other investments amounted to 131 million euros in 2013 (see Figure 1.24). This was driven by the investments of other financial intermediaries and non-financial companies in short-term capital (see Table 1.22). Because of external loan liabilities, the outflow of other investment income exceeded the inflow by 18 million euros. At the end of 2013, the position of other investment liabilities was 13.2 billion euros, having decreased by 7% over the year. The asset position was 11 billion euros at the end of the year, having increased by 10%. As regards loans, external liabilities exceeded assets by 2.7 billion euros.

Figure 1.24. Other investment flows (EUR billion)

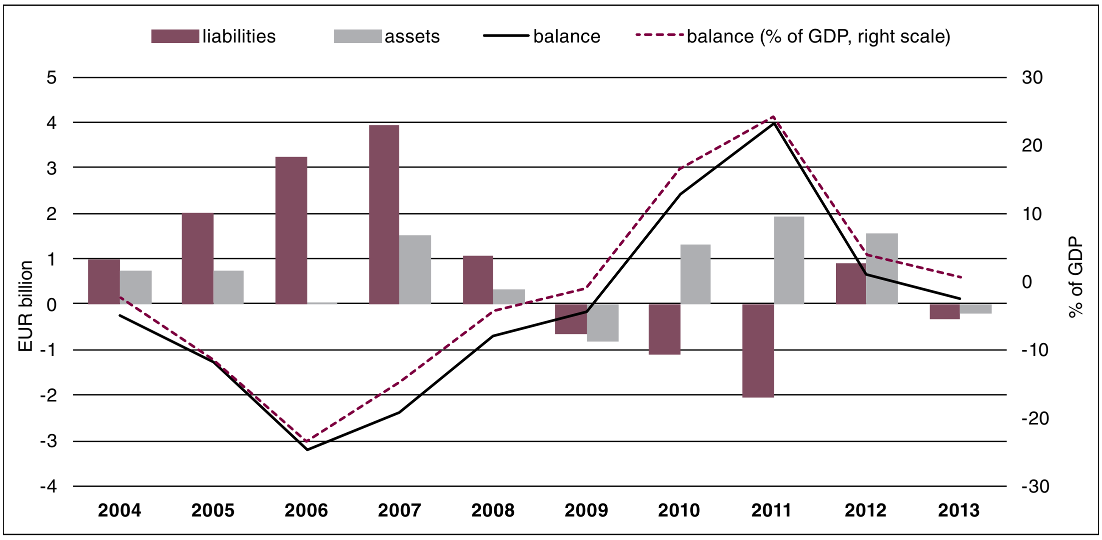
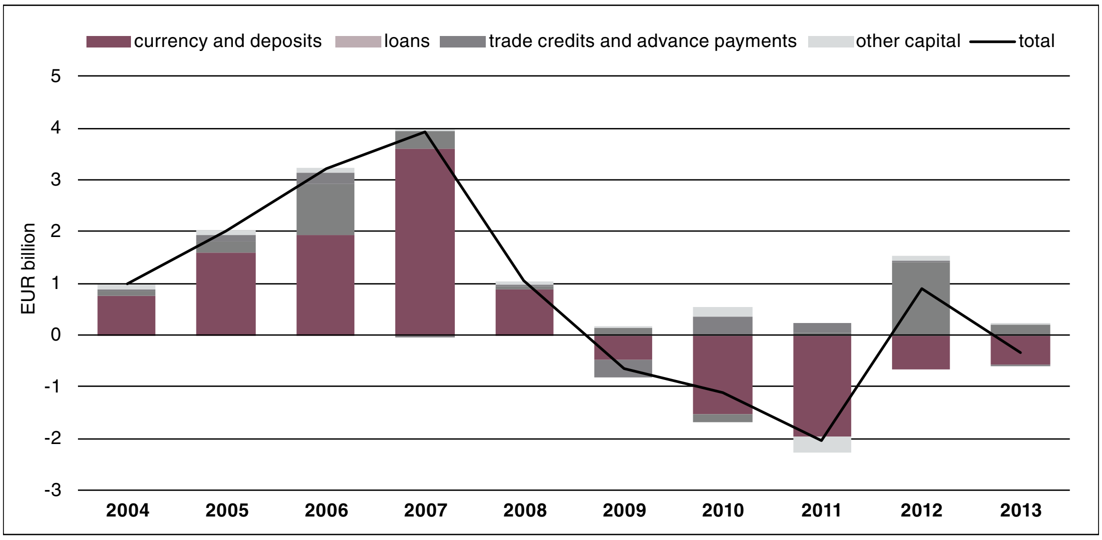


Table 1.22. Flows of other investment by maturity in 2013 (EUR m)

	Assets		Liabilities		Balance		Total		
	Short-term capital	Long-term capital	Short-term capital	Long-term capital	Short-term capital	Long-term capital	Assets	Liabili-ties	Balance
Non-financial corporations	104.0	62.0	18.4	100.1	85.6	-38.1	166.1	118.5	47.5
Central bank	51.8	-0.6	-51.7	0.2	103.5	-0.7	51.2	-51.5	102.7
Monetary financial institutions except the central bank	-501.5	-26.2	-218.7	-321.4	-282.8	295.2	-527.7	-540.1	12.4
Other financial intermediaries	58.7	3.7	-46.2	-2.0	104.9	5.7	62.4	-48.2	110.6
General government	-132.0	171.9	1.4	189.3	-133.4	-17.4	39.9	190.7	-150.8
Households and NPISHs	1.8	2.4	-1.8	-2.4	3.6	4.8	4.2	-4.2	8.4
Total	**-417.2**	**213.3**	**-298.7**	**-36.1**	**-118.6**	**249.4**	**-203.9**	**-334.8**	**130.8**

Other investment liabilities decreased by 335 million euros in 2013. The bulk of this was a reduction of deposit liabilities by 562 million euros (see Figure 1.25). As in previous years, the liabilities of credit institutions to their foreign parent companies decreased. Trade credit and advance payment liabilities decreased by 7 million euros. Loan liabilities increased by a total of 221 million euros, of which 114 million euros was attributable to the general government and 132 million euros to non-financial companies. Of the loan liabilities of the general government, 104 million euros is related to the Euro-

Figure 1.25. Structure of flows of other investment liabilities



pean Financial Stability Facility, which is recorded as a loan liability of a guarantor country. Liabilities relating to other capital increased by 13 million euros, largely reflecting external assistance amounts received by the general government from European Union funds, but not yet used. By countries, other investment liabilities to Finland decreased the most, followed by Sweden, Latvia and Austria (see Figure 1.26). By groups of countries, liabilities to euro area countries decreased by 348 million euros and liabilities to offshore regions by 132 million euros (see Table 1.23). In terms of the position for other investment liabilities for 2013, euro area countries accounted for 50%, other EU countries 20% and offshore regions 11% (see Figure 1.27).

Figure 1.26. Decrease in other investment liabilities by country in 2013

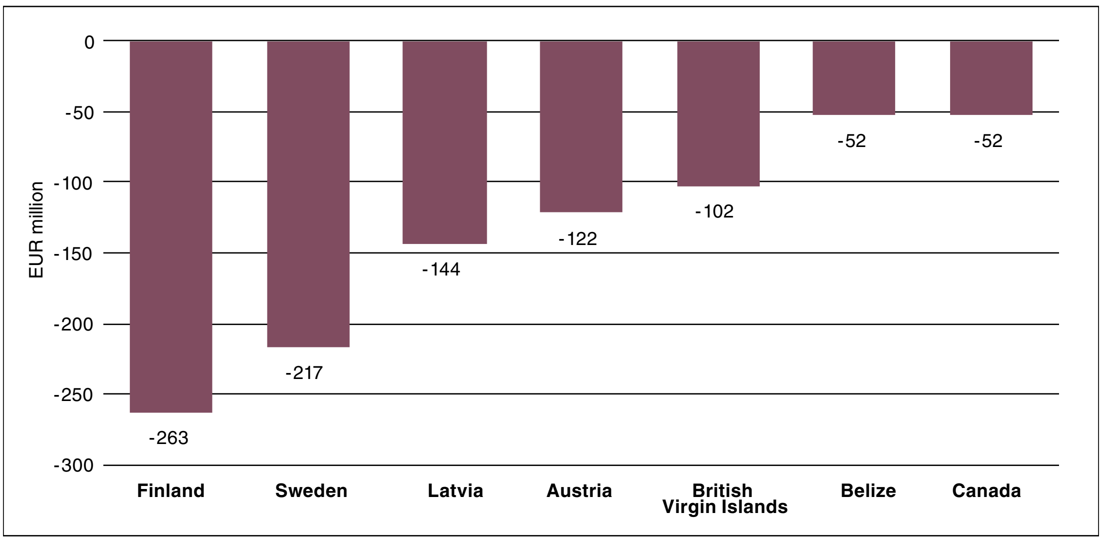


Table 1.23. Structure of other investment flows by groups of countries in 2013

	Assets		Liabilities	
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)
NAFTA	55.0	-26.9	-71.0	21.2
Offshore regions	-19.6	9.6	-131.7	39.3
CIS	21.1	-10.3	55.7	-16.6
Asia	22.2	-10.9	-19.4	5.8
Euro area countries	28.3	-13.9	-347.9	103.9
Other EU countries	-296.6	145.5	51.0	-15.2
EU institutions	125.3	-61.5	160.5	-47.9
Other countries	-139.6	68.5	-32.0	9.6
TOTAL	**-203.9**	**100.0**	**-334.8**	**100.0**

Figure 1.27. Position of other investment liabilities by groups of countries, 31/12/2013

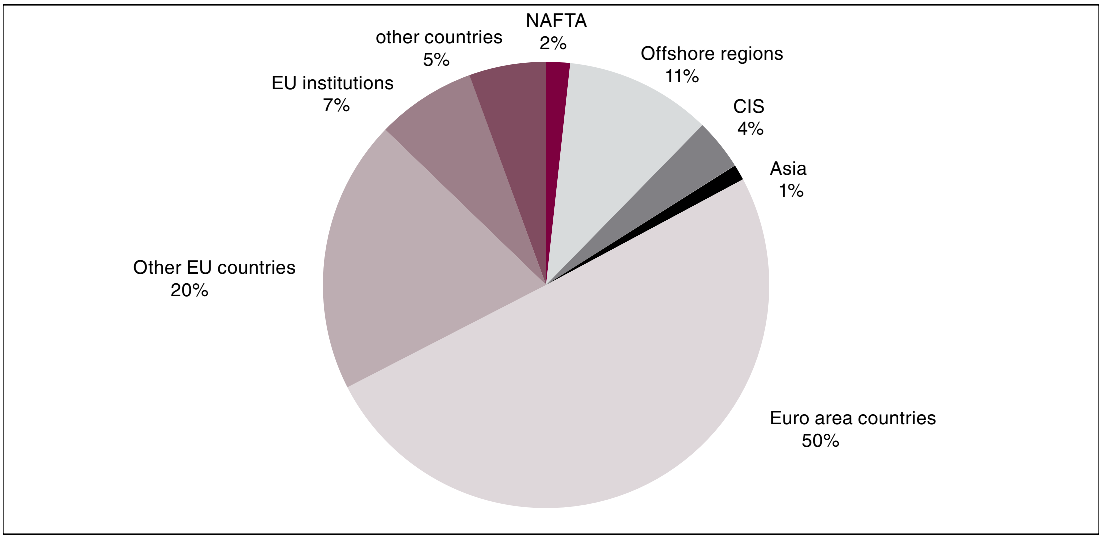
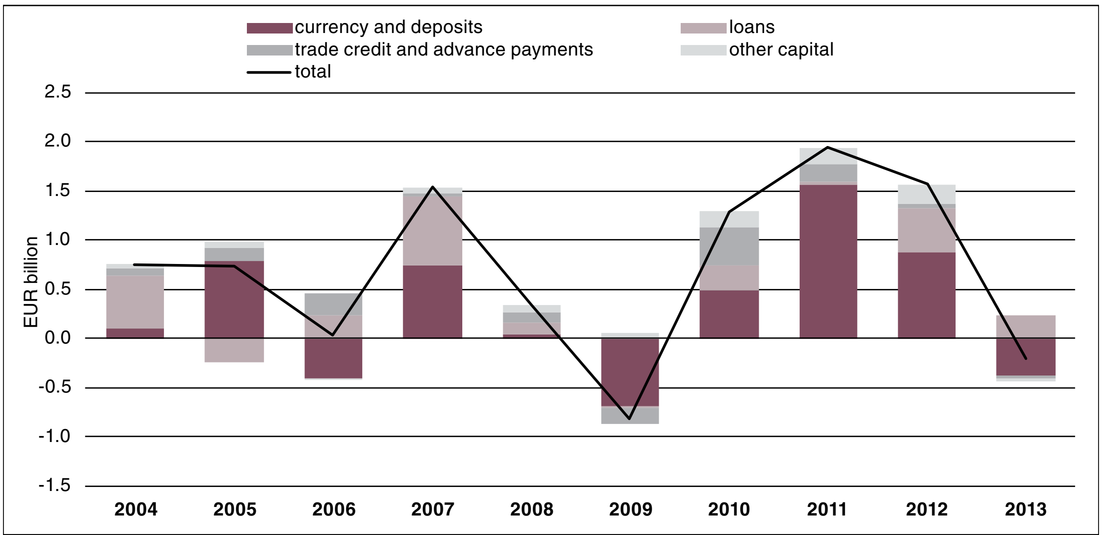


Figure 1.28. Structure of flows of other investment assets



Other investment assets decreased by 204 million euros in 2013. Only loan assets increased by 234 million euros (see Figure 1.28). Non-financial companies increased their loan assets by 81 million euros. The increase in the loan assets of the general government by 104 million euros is related to assets in countries in need of aid via the EFSF. As in 2012, credit institutions reduced their external deposit assets by 469 million euros in total. Trade credit assets decreased by 17 million euros in 2013 and other capital assets decreased by 36 million euros. By country, other investment assets in Sweden decreased the most, followed by Finland, Luxembourg and Switzerland (see Figure 1.29). By groups of countries, assets in non-euro area EU countries decreased (see Table 1.23). In terms of the position of other investment assets at the end of 2013, euro area countries accounted for 43%, other

Joonis 1.29. Muude investeeringute nõuete vähenemine riigiti 2013. aastal

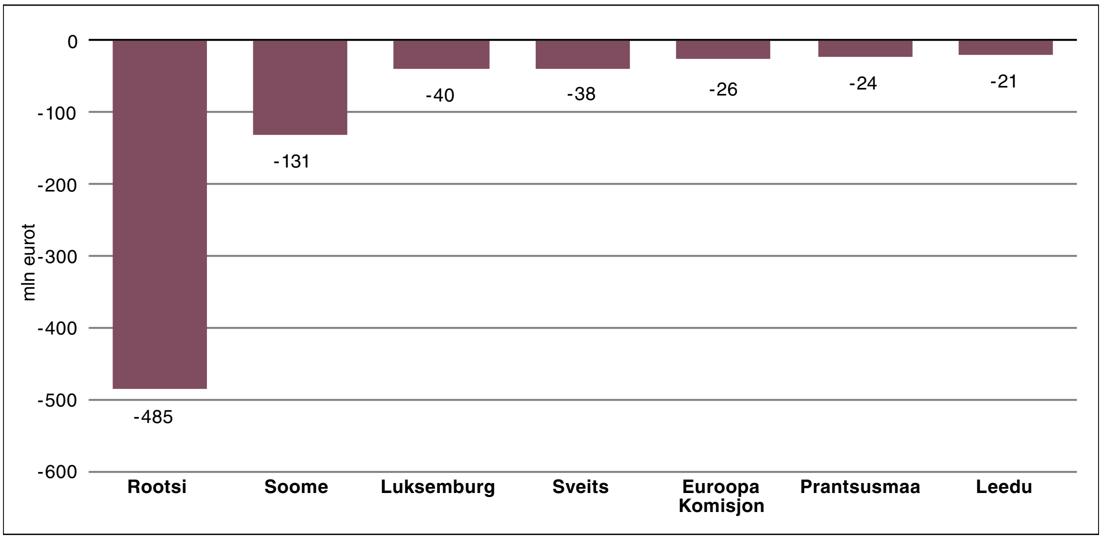
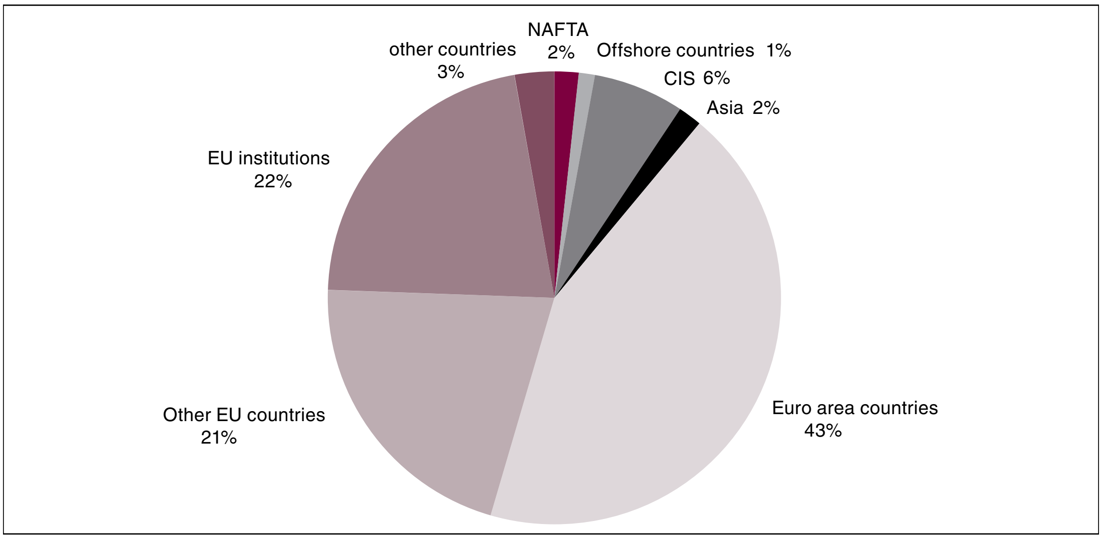


Figure 1.30. Position of other investment assets by groups of countries, 31/12/2013



EU countries for 21% and EU institutions for 22% (see Figure 1.30). Loan capital assets of 949 million euros were generated in 2013, and assets worth 715 million euros were returned. Loan liabilities of 10.4 billion euros were assumed during the period and 10.1 billion euros were repaid.

Reserve assets

The balance of payments reserve assets increased by 8 million euros in 2013 (see Table 1.24) and totalled 229 million euros at the end of the year.

Table 1.24. Structure of change in reserve assets in 2013

	Volume (EUR m)	Share (%)
Gold	0.0	0.0
SDRs	0.0	0.1
Reserve position in the IMF	5.5	69.7
Currency and deposits	-17.4	-218.4
Securities	19.7	248.0
debt securities	20.4	256.6
money market instruments	-0.7	-8.6
Financial derivatives	0.0	0.6
Total	**7.9**	**100.0**

II. ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND GROSS EXTERNAL DEBT as at 31 December 2013

Foreign investment in Estonia or external liabilities amounted to 33.1 billion euros at the end of 2013 (see Table 2.1). External liabilities increased by 2% over the year and exceeded GDP for 2013 by 77%. Direct investment accounted for 54% of external liabilities, followed by other investments (40%). The remainder was portfolio investments and financial derivatives (except reserves) and employee stock options. Foreign investors have invested in Estonia mainly in the provision of financial services[8] (36% of the total position), and to a lesser extent in real estate activities (9%), wholesale (7%) and the activities of head offices (5%; see Table 2.2). Of Estonia's foreign investment position, Finland and Sweden account for a total of 39%, followed by Germany, the Netherlands and UK with 5–7%.

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

	31/12/2013	Share (%)
EXTERNAL ASSETS	**24,323.3**	**100.0**
Direct investments	**7,534.0**	**31.0**
Equity capital	3,154.2	13.0
Debt assets	4,379.7	18.0
Portfolio investments	**5,473.3**	**22.5**
Equity securities and investment fund shares	2,366.3	9.7
Debt securities	3,107.0	12.8
Financial derivatives (other than reserves) and employee stock options	**75.0**	**0.3**
Other investments	**11,012.1**	**45.3**
Other equity capital	254.0	1.0
Currency and deposits	7,167.8	29.5
Loans	1,826.5	7.5
Short-term	507.7	2.1
Long-term	1,318.8	5.4
Trade credit and advance payments	1,344.0	5.5
Other assets	419.8	1.7
Reserve assets	**228.9**	**0.9**
EXTERNAL LIABILITIES	**33,149.6**	**100.0**
Direct investments	**17,879.1**	**53.9**
Equity capital	14,697.4	44.3
Debt liabilities	3,181.7	9.6
Portfolio investments	**2,018.4**	**6.1**
Equity securities and investment fund shares	823.1	2.5
Debt securities	1,195.3	3.6
Financial derivatives (other than reserves) and employee stock options	**88.7**	**0.3**
Other investments	**13,163.4**	**39.7**
Other equity capital	0.9	0.0
Currency and deposits	6,914.8	20.9
Loans	4,507.8	13.6
Short-term	824.2	2.5
Long-term	3,683.6	11.1
Trade credit and advance payments	1,260.9	3.8
Other liabilities	479.0	1.4
NET INVESTMENT POSITION (assets less liabilities)	**-8,826.3**	
GROSS EXTERNAL DEBT	**17,539.5**	
NET EXTERNAL DEBT (liabilities less assets)	**-925.7**	
Government sector	**-1,276.7**	

8 Hereinafter excluding insurance and pension funds.

Table 2.2. Estonia's international investment position by field of activity and by country (%)

Assets		Liabilities	
Fields of activity			
	31/12/2013		**31/12/2013**
Financial intermediation*	39.4	Financial intermediation*	36.4
Insurance, reinsurance and pension funds**	8.6	Real estate activities	9.2
Public administration and defence; compulsory social insurance	6.1	Wholesale***	6.9
Maritime transport	5.6	"Activities of head offices; management consultancy activities"	5.1
Wholesale***	5.3	Public administration and defence; compulsory social insurance	4.1
Other	35.0	Other	38.3
Total	100.0	Total	100.0
Countries			
	31/12/2013		**31/12/2013**
Germany	10.2	Finland	21.4
Finland	9.8	Sweden	18.1
European Central Bank	8.4	Germany	7.4
Cyprus	7.2	Netherlands	5.7
Latvia	6.9	United Kingdom	5.0
Other countries	57.5	Other countries	42.4
Total	100.0	Total	100.0

* Excluding insurance and pension funds.
** Excluding compulsory social security.
*** Excluding motor vehicles and motorcycles.

Of all the investments by Finnish investors in Estonia, 35% was made in the provision of financial services, 14% in real estate activities and 6% in maritime transport and wholesale. Two per cent (2%) of the Finnish investment position in Estonia covers a range of activities: retail, wood processing, warehousing and support activities for transportation, production of food and beverages, crop and livestock farming, telecommunications, production of electrical equipment and energy supply. Swedish investors have mainly invested in Estonia in the area of financial services, which accounts for 61% of their total position, followed by the activities of head offices (6%), real estate activities (5%), and the production of electronic equipment (4%). Investments have also been made in the production of non-metal mineral products, wholesale, insurance and pension funds, and telecommunications (2–3% each). Germany's investments are even more concentrated in a single area, the provision of financial services (66% of all investments). Investments in wholesale account for 7% of the position and those in real estate activities for 5%. Finally, 2–3% of investments were made in areas such as energy supply, lease, and insurance and pension funds. Dutch investors have diversified their investments more broadly than the countries listed above, with 26% of their investments in real estate activities, 18% in warehousing and support activities for transportation, 12% in the activities of head offices and 5% in lease, wholesale and energy supply each, 4% in water supply and electronics each, 3% in special building operations and retail each, etc. The provision of financial services accounts for only 1% of Dutch investments in Estonia. Of the UK investment position in Estonia, 39% and 29% were investments in the provision of financial services and energy supply, respectively. Wholesale, real estate activities and the activities of head offices accounted for 5–6% each and wood processing for 3%.

The foreign investment of Estonian residents increased by 4% over the year and reached 24.3 billion euros at the end of the year. The largest share (45%) of this was other investments, followed by direct investments (31%) and portfolio investments (23%). The rest was reserve assets and financial derivatives (other than reserves) and employee stock options. Investors in the provision of financial services were the most active; their investments accounted for 39% of the foreign investment position. Investments in insurance and pension funds, the public sector, maritime transport and wholesale followed (see Table 2.2). The geographical scope of the foreign investments of Estonian investors is very broad. Assets in Germany were in first place in the foreign investment position (slightly over 10% of the total), followed by assets in Finland (slightly under 10%), the European Central Bank, Cyprus and Latvia (6–7% each).

Investments in Germany were mostly made by investors in the provision of financial services, whose assets accounted for 76% of all financial assets in Germany. They were followed by investors in insurance and pension funds (4%) and the production of chemical products (3%). In regard to investments made in Finland, investors in the provision of financial services took first place (26%), followed by a number of areas: insurance and pension funds (8%), real estate activities (6%), retail (5%), the public sector, wholesale, wood processing, telecommunications and the activities of head offices (4% each), food production and the production of motor vehicles and trailers (3% each). Assets in the European Central Bank were owned entirely by investors in the provision of financial services. Investments in Cyprus were dominated by maritime transport (74%), production of chemical products (8%), warehousing and support activities for transportation and the activities of head offices. Of investments made in Latvia, 22% were made in the provision of financial services, 18% in the activities of head offices, 11% in real estate activities and 9% in insurance and wholesale each. Smaller investments in Latvia were made in wood processing, retail and food production.

Estonia's international net investment position (external assets less external liabilities) was negative in an amount of 8.8 billion euros at the end of 2013 because external investments in Estonia exceeded the investments of Estonian residents abroad and had decreased by 4% over the year.

Estonia's gross external debt or the external debt of the entire country's institutional sectors decreased by 2% over the year and stood at 17.5 billion euros at the end of 2013 (see Table 2.3 and Figures 2.2 and 2.3). Gross external debt was 53% of the volume of foreign investments in Estonia and 94% of GDP. Gross external debt was mainly reduced by credit institutions, the central bank and other sectors. Gross external debt increased, however, owing to general government debts and the intra-group debts of companies in direct investment relationships. As the latter mostly belong to other sectors, their external debt combined with that of other sectors increased by 1.5%. Of gross external debt, 52% was the debt of other sectors (including intra-group debts), 32% was the debt of monetary financial institutions, and 8% was the debt of the general government and the central bank. The external debt of the general government increased by 15% over the year, mainly due to financial aid given in the framework of the European Financial Stability Facility (EFSF)[9].

9 Under the methodology used for the balance of payments, financial assistance under the EFSF is reflected as an item of other investments on both the asset and liability sides, meaning it has no impact on the financial account. However, only loan liabilities are recorded under external debt, which is why financial assistance given under the EFSF has an impact on gross external debt.

Table 2.4. Estonia's external debt (EUR million)*

	31/12/2012	Share (%)	31/12/2013	Share (%)	Change (%)
LIABILITIES					
I. General government	**1,260.4**	**7.0**	**1,446.1**	**8.2**	**14.7**
Short-term	10.9	0.1	23.4	0.1	114.7
Long-term	1,249.5	7.0	1,422.7	8.1	13.9
II. Monetary authorities (NCB)	**1,537.5**	**8.6**	**1,482.9**	**8.5**	**-3.6**
Short-term	1,465.3	8.2	1,413.6	8.1	-3.5
Long-term	72.2	0.4	69.3	0.4	-4.0
III. Monetary financial institutions except the central bank	**6,309.4**	**35.1**	**5,618.4**	**32.0**	**-11.0**
Short-term	4,826.4	26.9	4,518.1	25.8	-6.4
Long-term	1,483.0	8.3	1,100.3	6.3	-25.8
IV. Other sectors	**6,169.0**	**34.3**	**5,810.4**	**33.1**	**-5.8**
Short-term	2,558.0	14.2	2,131.0	12.1	-16.7
Long-term	3,611.0	20.1	3,679.4	21.0	1.9
V. Direct investments: intra-group lending	**2,689.4**	**15.0**	**3,181.7**	**18.1**	**18.3**
TOTAL LIABILITIES (GROSS EXTERNAL DEBT)	**17,965.8**	**100.0**	**17,539.5**	**100.0**	**-2.4**
ASSETS					
I. General government	**1,558.9**	**8.6**	**2,722.8**	**14.7**	**74.7**
Short-term	745.0	4.1	982.5	5.3	31.9
Long-term	813.9	4.5	1,740.3	9.4	113.8
II. Monetary authorities (NCB)	**3,926.7**	**21.7**	**3,606.0**	**19.5**	**-8.2**
Short-term	3,230.2	17.8	3,312.5	17.9	2.5
Long-term	696.5	3.8	293.5	1.6	-57.9
III. Monetary financial institutions except the central bank	**3,690.0**	**20.4**	**3,188.4**	**17.3**	**-13.6**
Short-term	2,847.6	15.7	2,299.8	12.5	-19.2
Long-term	842.4	4.6	888.7	4.8	5.5
IV. Other sectors	**5,565.5**	**30.7**	**4,568.2**	**24.7**	**-17.9**
Short-term	3,881.4	21.4	3,419.4	18.5	-11.9
Long-term	1,684.1	9.3	1,148.9	6.2	-31.8
V. Direct investments: intra-group lending	**3,390.7**	**18.7**	**4,379.7**	**23.7**	**29.2**
TOTAL ASSETS	**18,131.8**	**100.0**	**18,465.2**	**100.0**	**1.8**
NET EXTERNAL DEBT (liabilities less assets)					
I. General government	**-298.5**		**-1,276.7**		**327.7**
Short-term	-734.1		-959.1		30.6
Long-term	435.6		-317.6		-172.9
II. Monetary authorities (NCB)	**-2,389.2**		**-2,123.1**		**-11.1**
Short-term	-1,764.9		-1,898.9		7.6
Long-term	-624.3		-224.2		-64.1
III. Monetary financial institutions except the central bank	**2,619.4**		**2,430.0**		**-7.2**
Short-term	1,978.8		2,218.4		12.1
Long-term	640.6		211.6		-67.0
IV. Other sectors	**603.5**		**1,242.2**		**105.8**
Short-term	-1,323.4		-1,288.4		-2.6
Long-term	1,926.9		2,530.5		31.3
V. Direct investments: intra-group lending	**-701.3**		**-1,198.1**		**70.8**
TOTAL NET EXTERNAL DEBT	**-166.1**		**-925.7**		**457.3**

Figure 2.1. Estonia's gross and net external debt

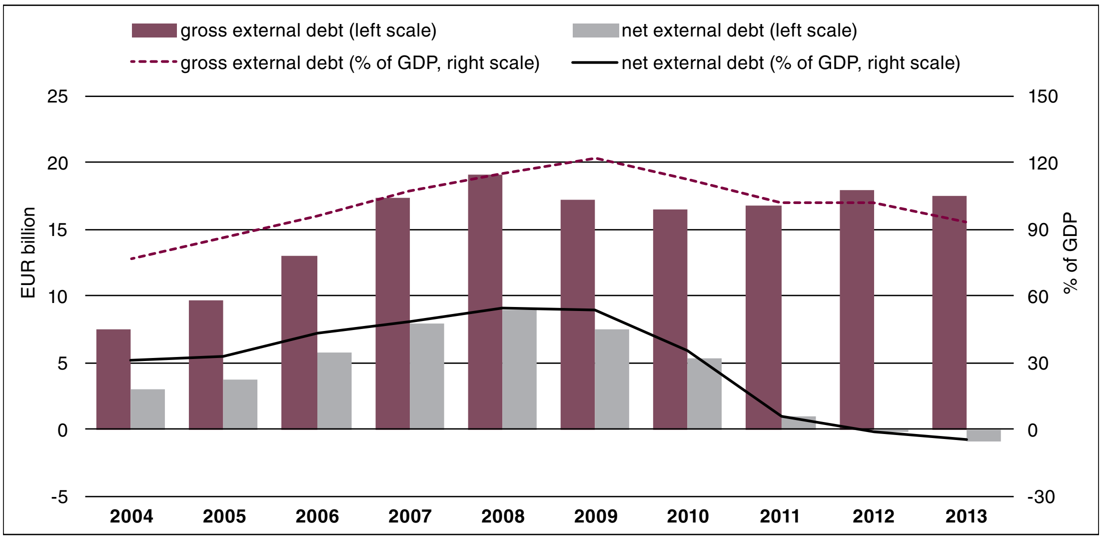


Figure 2.2. Estonia's gross external debt by economic sector

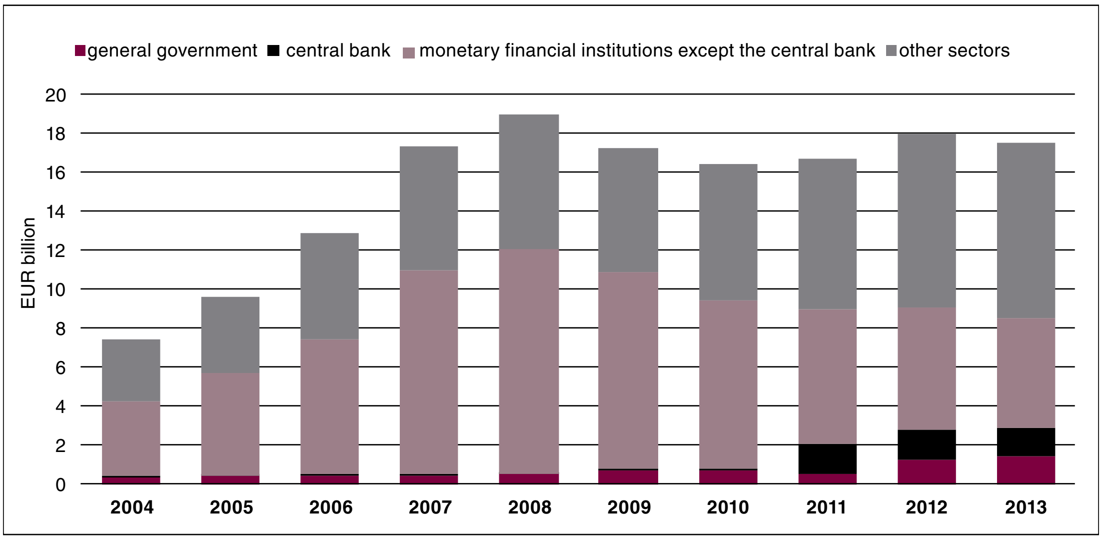
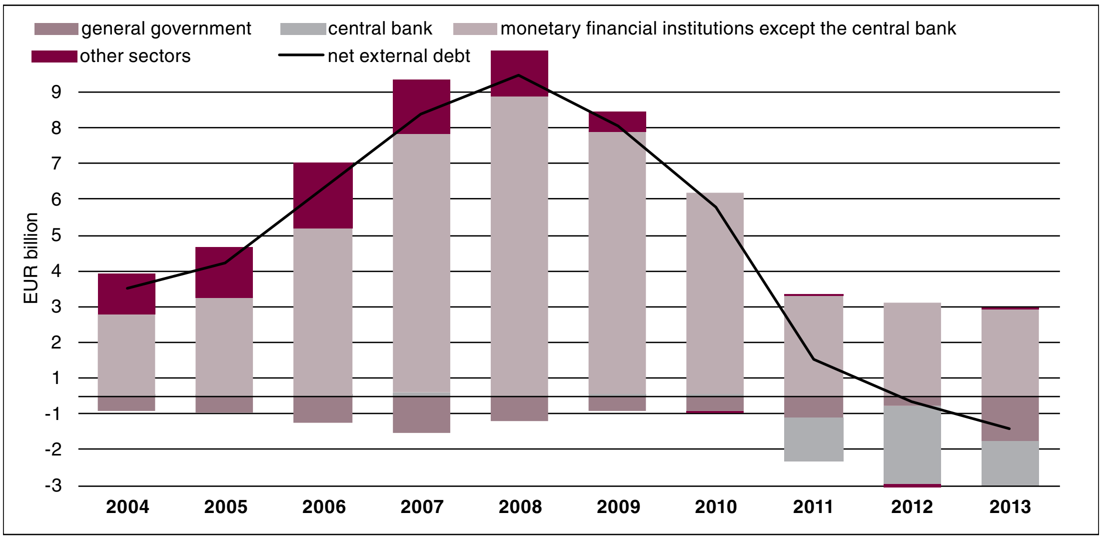


Figure 2.3. Estonia's net external debt by economic sector



For the second consecutive year, Estonia's external debt assets exceeded its external debt liabilities – at the end of 2013 by nearly 1 billion euros[10] (see Table 2.3) – this is the amount by which the world owes Estonia more than Estonia owes the world. Debt assets surpassed debt liabilities for the central bank and general government, while the situation was the opposite in regard to credit institutions; for other sectors (including intra-group loans), debt assets and liabilities were more or less equal.

10 Net external debt.

III THEORETICAL CONCEPTS, METHODOLOGY AND COMPILATION PRACTISES

The IMF Balance of Payments and International Investment Position Manual, 6th Edition, is the methodological basis for external sector statistics and the Estonian model of balance of payments statistics. The following is an introduction to three basic documents – the balance of payments, the international investment position, and the external debt – and their key definitions, dissemination policy, and compilation practices.

BALANCE OF PAYMENTS

The balance of payments is the consolidated income statement of all the institutional sectors of the economy and of their consolidated balance sheet. Corporate financial statements reflect the relations of a company with the external environment. In theory, the balance of payments has the same function, the company being the national economy and the rest of the world its environment.

The balance of payments is a statistical statement that systematically summarizes the economic transactions of a country with the rest of the world in a certain period. The period is usually a month, a quarter or a year.

The balance of payments

- describes the formation of gross domestic product (GDP), gross national product (GNP) and gross domestic income (GDI) on the *current account*[11];
- reflects the structure of external financial resources on the capital account and *financial account;*
- helps assess the external trade position of a country in comparison with other countries;
- serves as a source document for the monetary and economic policy decisions of a country.

The current account is divided into four sub-accounts: *goods, services, primary income* and *secondary income*. The goods and services accounts cover all sums receivable from selling goods and services, and the sums payable for purchases. The primary income account reflects primary income from the use and granting for use of resources (capital, labour and natural resources), such as labour and investment income, and primary income relating to production processes (taxes on production and on imports, subsidies, and renting of natural resources). The secondary income account reflects the further redistribution of income as current transfers and is related to the formation of gross disposable income of residents.

The *capital account* records capital transfers due and outgoing between residents and non-residents and the acquisitions and disposals of non-produced non-financial assets (intangible assets such as trademarks, franchises and emission quotas). The capital account of the balance of payments of Estonia mainly contains investment grants from the European Union structural funds.

The financial account (including reserve assets) reflects foreign investment in five main categories: *direct investment, portfolio investment, financial derivatives (except reserve assets) and employee*

11 GNP equals GDP plus the primary income balance of the balance of payments. GDI equals GNP plus the secondary income balance of the balance of payments.

stock options, other investment, and *reserve assets*. The reserve assets reflect changes in the gold and foreign exchange reserves of the central bank[12].

The compilation of the balance of payments is based not on the territory of a country, but on the economic territory administered by the government of that country, within which persons, goods, services and capital move freely. The economic territory includes the national air-space, territorial waters and territorial enclaves abroad such as embassies, military bases and special zones.

A balance of payments transaction is a monetary or non-monetary transaction between a *resident* and *a non-resident.*

As the balance of payments reflects transactions in a specific period, the values of the balance of payments items are *flow indicators.*

The balance of payments is compiled on an *accrual basis:* the transaction is recorded at the time the transaction was concluded between parties or when a change of ownership took place, regardless of whether the amount of money involved has actually been received or paid. All balance of payments transactions are recorded at *market prices.*

The balance of payments is compiled using the *double entry system*. Every recorded transaction is represented by two entries with equal values but under different items and with opposite signs for credit and debit. Credit reflects an increase in the financial resources available, while debit reflects the use of those resources (see Table 3.1). On the current account and capital account, both credit and debit entries are positive. The only exception is goods under merchanting, which is recorded as negative credit under the methodology used. Direct investment income credit and debit can also be negative if losses exceed profits. On the net entries of the financial account, a plus sign indicates an increase in assets or liabilities, and a minus sign indicates a decrease. Balancing items (net entries) such as the current account and financial account are always the differences between credit and debit or between assets (net acquisition) and liabilities (net disposals).

Table 3.1. Credit and debit

	Increase in resources	**Use of resources**
	CREDIT	**DEBIT**
Current account	Exports of goods	Imports of goods
	Sale of services	Purchase of services
	Primary income inflow	Primary income outflow
	Secondary income inflow	Secondary income outflow
Capital account	Inflow of capital transfers	Outflow of capital transfers
	Increase in intangible assets	Decrease in intangible assets
Financial account	Decrease in external assets	Increase in external assets
	Increase in external liabilities	Decrease in external liabilities
Reserve assets	Decrease in reserve assets	Increase in reserve assets

12 As Estonia has been a part of the euro area since 1 January 2011, euro denominated external assets or those emitted by euro area countries are no longer part of the gold and foreign exchange reserves of Eesti Pank and are recorded in the balance of payments statistics under Portfolio investment or Other investment depending on the type of asset.

In the ideal case, the net balance of all entries in the balance of payments is zero. However, the collection of statistics always involves inaccuracies due to the complexity and scope of the balance of payments. In order to balance the accounts, these inaccuracies are reflected under the entry 'Statistical discrepancy, net'. The total balance of the current and capital accounts is titled 'Net lending / net borrowing', which in the ideal case where there are no statistical errors equals the net entry of the financial account, though this is seldom the case in reality. The current and capital accounts show non-financial transactions and the need for net borrowing or lending, while the financial account shows how this need is financed.

In accordance with the standard presentation of the balance of payments, the current account and the capital account record the debit and credit turnovers of all entries separately. Only net entries are recorded on the financial account and the reserve assets account.

INTERNATIONAL INVESTMENT POSITION

The international investment position is a consolidated balance sheet of the external assets and liabilities of all the institutional sectors of a country as at a certain date (at the end of a quarter) at the market prices of that date.

As the accounts are fully consolidated, the financial assets and liabilities of domestic sectors cancel each other out and the international investment position refers to *the external assets and external liabilities* of a country as a whole.

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

The net investment position is *positive* when external assets exceed external liabilities, reflecting the net debt (debt assets less debt liabilities) of the rest of the world to the country. A *negative* net investment position reflects the debt of the country to the rest of the world. The net investment position is divided into a long-term and a short-term position. The long-term net investment position is calculated from long-term assets and liabilities with a contractual maturity of over one year. The short-term position contains capital with a maturity of one year or less.

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

However, the market prices of unlisted securities are not always available and therefore they are recorded at book value (equity capital divided by the number of shares). For listed companies, market prices are used. Market value is applied to the share price for the quarter when a company is delisted, after which the market value is translated into book value during the following four quarters.

The international investment position indicators are period-end indicators. The value of the international investment position at the end of a period results from positions at the end of the previous period, transactions in the current period, and other changes that arise from reasons other than transactions between residents and non-residents, that may be attributed to changes in exchange rates, prices or volume.

EXTERNAL DEBT

External debt statistics are based on the external assets and liabilities recorded in the international investment position, which are debts by nature as they have to be repaid.

Direct, portfolio and other investment in equity capital, reinvested earnings (retained earnings or losses from previous periods and the current period and equity capital reserves), financial derivatives (other than reserves) and empoyees stock options and the gold reserves of the central bank are excluded from the accounting of debt. Debt claims and liabilities of companies in direct investment relations are included in external debt.

The key external debt indicators are:

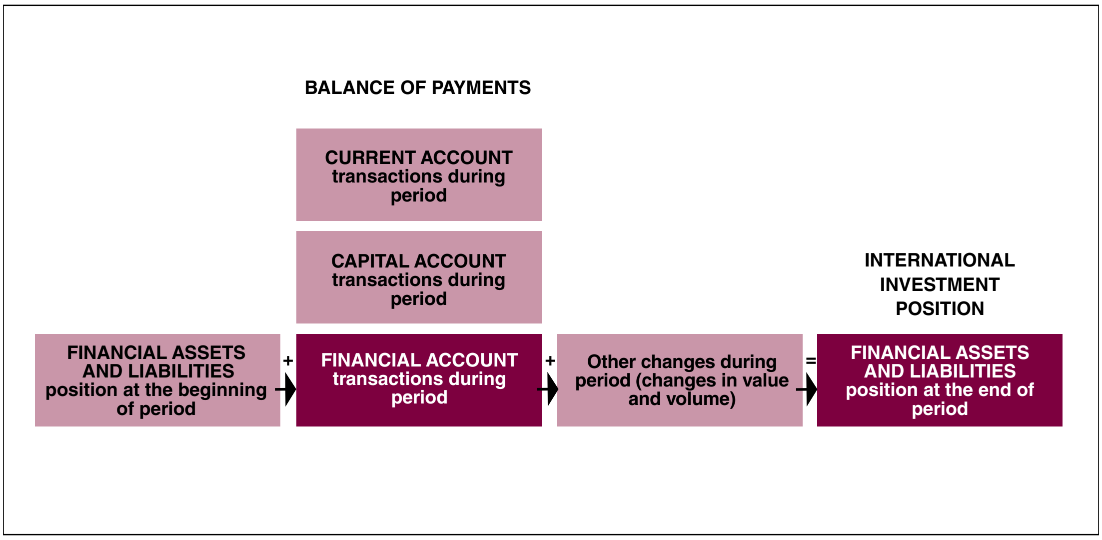
- **gross external debt** – the total of all external debt liabilities of all institutional sectors;
- **net external debt** – external liabilities less assets , repayable by all institutional sectors.

The external debt is divided into long-term and short-term debt. The long-term external debt is calculated from long-term debt-like assets and liabilities with a contractual maturity of over one year. The short-term debt contains debt capital with a maturity of one year or less.

The external debt indicators are period-end indicators.

The **methodological** basis for the compilation of external debt statistics is the International Monetary Fund's *Balance of Payments and International Investment Position Manual, 6th Edition,* (BPM6), and the manual prepared by international institutions (External Debt Statistics: Guide for Compilers and Users, IMF 2013, EDS).

THE RELATION BETWEEN THE BALANCE OF PAYMENTS AND THE INTERNATIONAL INVESTMENT POSITION



EXTERNAL SECTOR STATISTICS DEFINITIONS AND EXPLANATIONS

A balance of payments transaction is a monetary or non-monetary transaction between a resident and a non-resident.

Residents are:

1. state authorities or agencies of the Republic of Estonia in the broadest sense (legislative, executive and judicial bodies or their agencies, and constitutional institutions), and local governments or their agencies;
2. Estonian diplomatic, consular or other official representations in foreign countries, and representative offices of other Estonian institutions or organisations abroad which are not engaged in any economic or commercial activity;
3. legal persons in public law and their agencies formed under the laws of the Republic of Estonia;
4. legal persons in private law registered in the Republic of Estonia, or their representative offices (including cross-border service providers);
5. companies (Societas Europaea, SE) or cooperatives (Societas Cooperativa Europaea, SCE) registered in the Republic of Estonia under the statute for a European company, or their representative offices;
6. branches of foreign legal persons registered in the Republic of Estonia;
7. Estonian citizens residing in the Republic of Estonia;
8. aliens residing in the Republic of Estonia who hold a permanent residence permit or a temporary residence permit for at least one year;
9. persons specified in clauses 7 or 8, studying or undergoing medical treatment abroad, irrespective of the duration of their studies or medical treatment;
10. persons specified in clauses 7 or 8 who are members of a ship crew, seasonal or cross-border workers abroad, irrespective of the duration of their stay abroad;
11. diplomats, military personnel, staff of consular or other official representations of the Republic of Estonia and their family members abroad who enjoy immunity and diplomatic privileges.

Non-residents are all persons who are not included in the definition of residents.

Institutional sectors

Some balance of payments entries, the international investment position and the external debt are compiled and published by institutional sector as follows:

- central bank (S.121) - the central bank is a financial institution whose principal function is to issue currency and maintain its value, and to hold part or all of the international reserves of the country. Eesti Pank is the central bank in Estonia;
- general government (S.13) - the general government consists of legal entities whose main function is to produce non-market services and/or redistribute national income and wealth, and which are more than 50% financed from the government budget. In Estonia the general government consists of central government (S.1311), local governments (S.1313) and state social security funds (S.1314, Health Insurance Fund and Unemployment Insurance Fund). The complete list of government entities is available on the website of Statistics Estonia;

- monetary financial institutions except central bank (S.122+S.123) - includes credit institutions and all other financing institutions (including saving and loan associations) which take in deposits and other similar instruments from the public and grant loans or other financing from their own account (S.122). This also covers money market funds (S.123);
- other financial intermediaries (S.124 up to S.129) - includes the following financial entities: investment funds other than money market funds (S.124); other financial intermediaries other than insurance and pension funds (S.125, for example leasing corporations, other lending); financial auxiliaries (S.126, for example currency exchange, financial consultation, management of funds); captive financial institutions and money lenders (S.127, for example holding companies and pawnshops); insurance corporations (S.128) and pension funds (S.129);
- non-financial corporations (S.11) - covers legal entities and individuals engaged in the production of goods and/or non-financial services and employing at least 10 people and not controlled by government institutions;
- households (S.14) - a household is a small group of people who share the same living accommodation, who pool their income and wealth, and who consume goods and services collectively (mainly accommodation and food). In Estonia households also include producers of goods for their own final use and individuals as entrepreneurs who employ no more than 9 employees;
- non-profit institutions serving households (NPISHs, S.15) - non-profit institutions serving households are separate legal entities which are non-market producers and which serve households without the intention of earning a profit. In Estonia this covers housing associations, trade unions, churches, political parties, charities and other non-profit institutions and foundations which are not under the control of government institutions;
- non-financial corporations except general government (S.11+S.14+S.15) - covers non-financial corporations (S.11), households (S.14) and non-profit institutions serving households (S.15);

other sectors (S.11+(S.124 up to S.129)+S.14+S.15) - includes non-financial corporations (S.11), other financial intermediaries (S.124 – S.129), households (S.14) and non-profit institutions serving households (S.15).

Content of entries:

The current account reflects the formation of income from foreign economic activities and is divided into four sub-accounts for goods, services, primary income and secondary income.

The goods account covers transactions with goods for which a change of ownership occurs between residents and non-residents.

The goods account is based on the special trade system of official foreign trade statistics, where goods are recorded when they leave the free circulation area. The official foreign trade statistics, as published by Statistics Estonia, are not entirely compatible with the principles used in compiling the goods account in the balance of payments. First, official foreign trade statistics cover not only goods for the free circulation area, but also the export and import of goods for the purpose of processing, even though those goods are not actually purchased or sold, meaning their ownership does not change and the entity engaged in processing does not become the owner of the goods. Goods for processing are not covered by the goods account of the balance of payments, and the services account only includes the charge for the processing service. Second, in official foreign trade statistics the import of goods is recorded in CIF prices (cost, insurance, freight) that include the costs of transport and insurance of goods up to the customs border of the purchaser's country. Third, purchase and sale transactions of goods abroad are added to the official foreign trade statistics. Given these and other circumstances, changes and adjustments are made to official foreign trade data when the balance of payments is compiled, the most important of which are the following:

a. goods for processing are eliminated from foreign trade statistics;
b. the purchase and sale of goods under merchanting are added (these are goods that resident merchants purchase from one foreign country and sell on to the residents of another foreign country without the goods entering the territory of Estonia);
c. goods not declared in customs, which are those not leaving the free circulation area but which have been balance of payments transactions (such as ships purchased or sold in foreign ports), are added;
d. goods purchased for means of transport abroad, such as fuel, provisions and merchandise are added;
e. import is translated into FOB prices (free on board), meaning transportation and insurance costs are subtracted from the total cost of goods and included in the services account;
f. price distortions from the export of goods through customs warehouses and free zones are taken into account;
g. estimates of the black economy are added.

The services account reflects the services sold to and purchased from non-residents by Estonian residents:

a. *Manufacturing services* – the manufacture, assembly, labelling, packaging, etc of goods, where the provider of the service is not the owner of the goods for processing and is paid for the service by the owner of the goods; excluded are the assembly of prefabricated construction, which comes under Construction, and labelling and packaging incidental to transport, which comes under Transport;
b. *Maintenance and repair services* – maintenance and repair of machines, equipment, means of transport and other goods; this includes any parts or materials supplied by the repairer and included in the charges; parts and materials charged separately are recorded on the goods account; excluded are the cleaning of transport equipment (Transport), construction maintenance and repairs (Construction) and maintenance and repair of computers (Telecommunications, computer and information services);
c. *Transport* – passenger, freight and other transport services across the major types of transport (sea, air, rail, road, and other transport); this includes postal and courier services as well as pipeline transport and transmission of electricity; electricity transmission means international transmission of electricity by high voltage power lines and includes transfer charges if they can be distinguished from the cost of the production and distribution of electricity; excluded is the cost of the electricity being transmitted (Goods) and of distribution services to consumers (Other business services);
d. *Travel* – includes goods and services for own use or to give away, acquired from an economy by non-residents during visits to that economy, including the use of local transport; excluded are international transport (Passenger transport), goods purchased for resale and valuable goods like jewellery, works of art and cars, which come under Goods;

e. *Construction* – the cost of residents' construction activities abroad, and the cost of non-residents' construction activities in Estonia; this includes goods and services purchased in the country of the construction for the purpose of the construction; construction contracts for international trade in services are usually short-term, and a large-scale construction project contracted by a non-resident enterprise that takes a year or more to be completed is usually considered to be a resident project;
f. *Insurance and pension services* – service charges received and paid upon entry into life and non-life insurance contracts (policies), reinsurance, and claim handling costs, insurance evaluations, pension services and standardised guarantee services (export credit and tuition loans); excluded are insurance premiums under non-life insurance contracts and insurance benefits paid (Secondary income) or contributions and benefits paid under life insurance contracts (financial account, under other long-term capital);
g. *Financial services* – financial intermediation services and auxiliary services other than insurance and pension fund services related to commissions and fees for banking and securities brokerage or to custodial services, clearing, depository services, financial consulting and similar; financial services for which a direct fee is charged for service provision are recorded in the sub-entry for directly measured financial services; financial services indirectly measured (FISIM) are also recorded in a separate sub-entry. Interest from loans and deposits includes an income element and a service fee, with the latter recorded under FISIM and the former on the primary income account;
h. *Charges for the use of intellectual property covers:*
   - charges for the use of proprietary rights (patents, trademarks, copyright, and industrial technologies and designs, including trade secrets and franchises); these rights may arise from research and development or marketing;
   - charges for licences to reproduce and distribute originals or prototypes (copyrights on books and manuscripts, computer software, cinematographic works and sound recordings) and related rights (live performances, television, cable or satellite broadcast);
i. *Telecommunications, computer and information services covers:*
   - *Telecommunications services* – the transmission of sound, images or other information by means of telecommunication; excluded is the cost of the information being transmitted; it also covers mobile telecommunication services and internet backbone services, including access fees; excluded are installation services for telephone network equipment (Construction) and database services (Information services);
   - *Computer services* – hardware and/or software related services and data processing services (consultancy, repair and maintenance, disaster recovery services, licences to use non-customised software, development of customised software, web page hosting and similar); excluded are charges for licences to reproduce or distribute software (charges for the use of intellectual property);
   - *Information services* are news agency services, database services (database conception, search portals and search engines), and direct, non-bulk subscriptions to periodicals (bulk periodicals are recorded on the goods account);
j. *Research and development services* – services associated with basic and applied research and the experimental development of new products and processes; in principle, activities in the physical sciences, social sciences, and humanities that represent technological advances are covered within this category; also included is commercial research related to electronics,

pharmaceuticals, and biotechnology, and the purchase or sale of proprietary rights arising from research and development (patents, copyrights arising from research and development, and industrial designs, including trade secrets);

k. *Professional and management consulting services* – legal, accounting, auditing, management consulting, public relations and advertising services, and market research and public opinion polling;

l. *Technical, trade-related and other business services* – architectural, engineering and other technical services, merchanting (commissions and service charges of commodity brokers and dealers), waste treatment and de-pollution, services incidental to agriculture and mining, and operating leases; an operating lease is where assets are rented out (buildings, equipment or means of transport without crew) without any transfer of ownership and risks to the lessee; operating lease contracts usually have a term of less than two years (see also Financial lease below);

m. *Personal, cultural, and recreational services* – audio-visual services relating to radio, television and cinematography (including purchase and sale of original manuscripts, films, sound recordings and other works, fees for downloadable products, and TV channel access fees), organisation of concerts and other events, performance fees and royalties, intermediation of exhibition and museum expositions, producer's services, and other sports, cultural and recreational services; this also includes fees for health and education services rendered remotely over the internet or similar or at the site of a service provider abroad; personal, cultural and recreational services (including health and education services) received by people outside their home country are recorded under Travel; excluded are charges or licences for reproduction or distribution of audio-visual products (Charges for the use of intellectual property) and sales transactions of exclusive rights (capital account, non-produced non-financial assets); non-financial assets are divided into produced and non-produced assets: produced assets are assets that have come into existence as outputs from production processes, non-produced non-financial assets are economic assets that have come into existence by means other than production processes (natural resources, contracts, licences, permits, goodwill and marketing assets);

n. *Government goods and services not included elsewhere* – other goods and services provided by the general government and relating to embassies and consulates and military units, and other goods and services provided by the public sector, and also state fees and external assistance received or provided in the form of goods and services (for external assistance see also Secondary income); excluded are transactions by enclaves with residents of the home economies (not balance of payments transactions).

The primary income account reflects primary income from the use and granting for use of production factors (capital and labour) and other primary income (taxes on production and on imports, subsidies, and rent of natural resources). In consequence, income falls into three categories:

a. *Compensation of employees* – gross wages earned abroad by Estonian residents or in Estonia by non-residents together with social transfers made by the employer under a labour contract with a duration of up to a year; it is important to establish whether an employer-employee relationship exists, because if it does not, the payment constitutes a purchase of services;

b. *Investment income* – interests and dividends receivable on foreign investment assets (direct, portfolio and other investments, and reserve assets) and payable on foreign investment liabilities, and investment income attributable to policyholders in insurance, pension schemes, and standardised guarantee schemes; since the period between the emergence of operating profit and the payment of dividends may be long, the concept of reinvested earnings has been applied to record this profit in the balance of payments; reinvested earnings is a change in the operating profit or loss of the investment company proportional to the size of the investment of the individual investor, which is recorded on the income account and also on the financial account as an additional investment in the company; as reinvested earnings decrease when dividends are paid, the concept of reinvested earnings can be regarded as accounting of dividends on an accrual basis; income from portfolio investments also includes income earned from investment fund shares and reinvested earnings; as an exception, income from financial derivatives is not recorded under investment income, but on the financial account with financial derivatives;

c. *Other primary income* – includes production and import taxes on cross-border production or trade, and on subsidies and rent of natural resources; other primary income is divided into two across institutional sectors: other primary income of the general government and other primary income of other sectors.

The secondary income account shows current transfers between residents and non-residents. A transfer is an entry that corresponds to the provision of a good, service, financial asset, or other non-produced asset by an institutional unit to another institutional unit where there is no corresponding return of an item of economic value (unilateral transfer). Current transfers are all transfers that are not capital transfers. Current transfers are usually related to taxes (income, ownership and other taxes, and social benefits and taxes), fines, subsidies, donations, membership fees, insurance premiums, and indemnities. The secondary income account also includes personal remittances between resident and non-resident households, including remittances by workers who have lived and worked abroad for more than a year. People who work and stay in another economy for less than a year are considered non-residents and their remuneration is recorded under Compensation of employees. Also recorded under secondary income as offsetting entries is the cost of services and goods received and provided as external assistance. Like the primary income account, the secondary income account distinguishes between transfers of the general government and those of other sectors:

a. *Secondary income of general government* includes current taxes on income and wealth, social contributions and benefits, international cooperation, including external assistance used by the general government, and Estonia's contribution to the budget of the European Union;
b. *Secondary income of other sectors* mainly includes cash flows related to insurance contracts, external assistance used by other sectors (including external assistance intermediated by the general government), current taxes on income and wealth, social contributions and benefits and personal transfers, including workers' remittances.

The capital account consists of two parts:

a. *non-produced non-financial assets (intangible assets);*
b. *capital transfers.*

Intangible assets include only the acquisitions or disposals of non-produced non-financial assets; charges for their use are entered on the service account. The objects of acquisitions or disposals can be franchises, brand names, goodwill, selling rights, trademarks, CO_2 quotas, natural resources and similar. An exception concerns the acquisition or disposal of research-related patents and copyrights, which are considered to be produced assets and recorded under research and development services.

Capital transfers are unilateral, like current transfers, but the amounts received or paid have no direct impact on residents' gross disposable income. Capital transfers related to the use of international structural funds, primarily from the EU, to finance the construction of infrastructure are the most common. This entry also includes debt forgiveness, which is mainly inter-governmental, and major non-recurrent payments in compensation for extensive damage such as natural disasters not covered by insurance policies, and also gifts, legacies and donations.

The financial account reflects the financial resources of the current account in the form of foreign investments, which are divided into five categories: *direct investment, portfolio investment, financial derivatives (except reserve assets) and employee stock options, other investment, and reserve assets.* The financial account shows transactions in net terms: net acquisitions of financial assets correspond to acquisitions of assets less reductions in assets. Market prices are taken as the basis for the valuation of transactions. Nominal valuation is used for positions in non-negotiable instruments (loans, deposits, and other accounts receivable or payable). However, any transactions in these instruments are valued at market prices. The financial account items are recorded by institutional sector.

Direct investment is an investment made to gain a lasting holding in a foreign country's economy. A lasting holding means a long-term relationship and considerable influence over decision-making. Under international standards, the direct or indirect ownership of 10% or more of the voting power of an enterprise resident in one economy by an investor resident in another economy constitutes such a relationship. In addition to the direct investor's subsidiaries, sub-subsidiaries and associates, the framework of direct investment relationships also covers fellow enterprises (see below). Once the direct investment is established, all subsequent financial flows between the related entities are recorded as direct investment transactions.

Equity capital comprises equity in branches as well as all shares in subsidiaries and associates. *Reinvested earnings* consist of the offsetting entry to the direct investor's share of earnings not distributed as dividends by subsidiaries or associates, and earnings of branches not remitted to the direct investor and which are recorded under *Investment income*. Reinvested earnings do not cover profit or loss arising from changes in the valuation of assets.

Transactions between companies in direct investment relationships are recorded in the balance of payments under the *principle of assets and liabilities* and divided into three groups according to the type of relationship between entities and the direction of the investment:

1. *Direct investors' investment in direct investment enterprises* – this category covers investment flows and positions from the direct investor to its direct investment enterprises regardless of whether they are directly or indirectly controlled or influenced;
2. *Reverse investment* – this covers investment flows and positions from the direct investment enterprises to the direct investor;
3. *Between fellow enterprises* – this covers flows and positions between enterprises that do not control or influence each other, but that are both under the control or influence of the same direct investor.

The portfolio investment account reflects the assets and liabilities of securities investments other than those under direct investment or reserve assets, which are divided into equity securities, investment fund shares and debt securities:

a. *Equity securities* – securities investment in equity capital not comprising a qualifying holding by remaining below 10% of the equity capital of a company; unlike debt liabilities, equity securities do not entitle their holder to a part of the company's assets upon its liquidation; equity securities are divided into listed securities traded on a stock exchange and unlisted equity securities;
b. *Investment fund shares* – shares emitted by investment funds through which investors can pool funds for investment in assets; investment fund shares have a specialised role in financial intermediation as a kind of collective investment in other assets, so they are identified separately from other equity shares; also recorded separately is reinvestment of investment fund earnings;
c. *Debt securities* – negotiable instruments serving as evidence of a debt (bills, bonds, notes, negotiable certificates of deposit, commercial paper, and money market instruments).

Transactions in debt securities are divided by original maturity into short-term and long-term:

1. *Short-term debt securities* – payable on demand or issued with an initial maturity of one year or less. They generally give the holder the unconditional right to receive a stated, fixed sum of money on a specified date;
2. *Long-term debt securities* – issued with an initial maturity of more than one year or with no stated maturity (other than on demand, which is included in short-term). They generally give the holder (i) the unconditional right to a fixed monetary income or contractually-determined variable monetary income where payment of interest is independent of the earnings of the debtor and (ii) the unconditional right to a fixed sum as repayment of the principal on a specified date or dates.

Portfolio investment transactions are recorded at the effective price received or paid, less commission and expenses.

Financial derivatives (other than reserves) and employee stock options. A financial derivative contract is a financial instrument that is linked to another specific financial instrument or indicator or commodity (the underlying instrument) and through which specific financial risks such as interest rate risk, equity and commodity price risks, credit risk, and so on can be traded in their own right in financial markets. Financial derivatives are identified separately from other categories because they are related to risk transfer, rather than to supply of funds or other resources. Unlike other functional categories (direct, portfolio and other investment, and reserve assets), no primary income accrues on financial derivatives. For example, net flows associated with managing interest rate risk are recorded together as financial derivatives, not as investment income. Transactions in financial derivatives are treated separately from the values of any underlying items. The most common financial derivatives are options, forwards, futures and swaps.

Employee stock options are options to buy the equity of a company offered to employees of the company as a form of remuneration. If a stock option granted to employees can be traded on financial markets without restriction, it is classified as a financial derivative.

Financial derivatives are regarded as short-term capital.

Other investment covers all financial transactions other than those included in direct investment, portfolio investment, financial derivatives and employee stock options, or reserve assets. As the following classes of financial assets and liabilities are not included under direct investment or reserve assets, they appear under other investment.

a. *Other equity* – equity not in the form of securities, therefore not included in portfolio investment; this includes participation in the capital of international organisations;
b. *Currency and deposits* – foreign currency held by residents and their deposits in foreign credit institutions are recorded as assets; non-residents' deposits in Estonian credit institutions are recorded as liabilities; under the methodology of the European Central Bank, this item also includes the sectoral loan assets and liabilities of credit institutions and the central bank; deposits may be short-term or long-term, depending on the terms of depositing;
c. *Loans* – short-term (maturity of up to one year) and long-term (maturity of over one year) lending of institutional sectors not related to direct investment; loans also include financial leases (loan or lease transactions 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) and *repurchase transactions* (borrowings against securities as collateral);
d. *Insurance, pension and other standardised guarantee schemes* – this includes non-life insurance technical reserves, life insurance and annuity entitlements, pension entitlements, claims of pension funds on pension managers, and entitlements to non-pension funds (entitlements to benefits other than pension benefits) and provisions for calls under standardised guarantees;
e. *Trade credits and advances* – outstanding or unpaid amounts for goods and services sold or purchased and advance payments, recorded on an accrual basis in the balance of payments and in the international investment position; trade credit and advances arise when payment for goods or services is not made at the same time as the change in ownership of a good or provision of a service; trade credit is considered to be short-term;
f. *Other accounts receivable/payable* – other sums overdue recorded on an accrual basis, such as accounts receivable and accounts payable or accrued expenses recorded on an accrual basis, and other assets and liabilities not related to other items, such as the purchase and sale of securities, securities lending fees, or gold loan fees;
g. *SDR allocations* (for definition see Reserve assets (b)) to IMF members is shown as a liability incurred by the recipient under SDRs in Other investment, with a corresponding entry under SDRs in Reserve assets.

Reserve assets – the gold and foreign exchange reserves of a country, which are considered to be short-term capital. Reserve assets are usually highly liquid tradable external assets of the central bank, immediately available for meeting balance of payments financing needs, for managing currency exchange rates and for other related purposes. Reserve assets must be foreign currency assets, claims on non-residents and other assets that actually exist. Underlying the concept of reserve assets are the notions of "control" and "availability for use" by the monetary authorities. The reserve assets of the euro area consist of the reserve assets of the Eurosystem, which are the reserve assets of the European Central Bank (ECB) and the central banks of the euro area countries, including Estonia. As Estonia has been a part of the euro area since 1 January 2011, euro denominated external assets or those emitted by euro area countries are no longer part of Eesti Pank's gold and foreign exchange reserves and are recorded under Portfolio investment or Other investment depending on the type of asset.

Reserve assets are entered as:

a. *Monetary gold* – gold to which the monetary authorities (central banks) have title and which is held as a reserve asset; it includes Gold bullion and Unallocated gold accounts with non-residents:
   - *Gold bullion* takes the form of coins, ingots, or bars, including such gold bullion held in allocated gold accounts;
   - *Unallocated gold accounts* represent a claim against the account operator to deliver gold; for these accounts, the claims of account holders are covered by the gold reserves of the account provider; unallocated gold accounts not classified as monetary gold are included as Currency and deposits in Other investment;

b. *SDRs – special drawing rights* or units of account created by the International Monetary Fund (IMF). Their value is based on a basket of four currencies, USD, EUR, JPY, and GBP. An SDR account is generated for each IMF Member State for conducting loan transactions and several other related operations between Member States and the IMF; SDRs are held only by the central banks of IMF members and by a limited number of international financial institutions.

c. *Reserve position in the IMF* – is the sum of a) the reserve tranche, which is the foreign currency amounts, including SDRs, that a member country may draw from the IMF at short notice, and b) any claims on the IMF under a loan agreement in the General Resources Account that are readily available to the member country;

d. *Foreign exchange* – foreign exchange or equivalent reserve assets (foreign currency and deposits, equity securities, bonds, money market instruments, and financial derivatives);

e. *Other assets* – other liquid external assets.

Concepts and explanations for international travel statistics

International travel – the stay of a resident of an economy in another economy, with a duration of up to one year, for a purpose other than paid activity or long-term study in the country of destination.

- **Visit lasting longer than one day** – a traveller stays in another economy for at least one night.
- **One-day visit** – a traveller arrives in another economy and leaves it on the same day, but stays for at least four hours.

Resident – a person whose permanent residence is in Estonia.

Non-resident – a person whose permanent residence is outside Estonia.

Total number of visits – total number of one-day visits and visits lasting longer than one day.

Total duration of visits in days – total duration in days of visits lasting longer than one day and one-day visits.

THE BALANCE OF PAYMENTS COMPILATION SYSTEMS

Three fundamentally different systems are used around the world to compile the balance of payments:

1. the survey system or transaction-based system;
2. the settlements system or cash-based system;
3. the administrative system.

In addition, a variety of combinations of these systems are used.

The survey system draws on information from various statistical surveys and studies. Both sampling and censuses are used, depending on the requirements, the area being studied and the peculiarities of a specific country. The structure of a questionnaire follows the structure of the balance of payments or financial statements, and accounting principles. The advantage of the survey system lies in its flexibility but statistical surveys are expensive to conduct, they have a low response rate and they take time. The survey system has been more successfully used by English-speaking countries such as Australia, New Zealand, the United Kingdom, Ireland, the United States and Canada.

The settlements system is based on the collection, coding and processing of international payments made through resident banks. Clients, credit institutions or the central bank attribute a transaction code to each incoming or outgoing payment based on the description of the transaction; the code has to comply with the structure of the balance of payments. The settlements system allows collection of detailed and prompt information, but the system is limited, as cash flows do not reflect the accrual approach; the description of a transaction or the balance of payments code is often missing; netting sometimes occurs; and cash flows do not allow the positions to be estimated. Many countries in continental Europe have replaced the settlements system with a combination of systems.

The administrative system *draws information from the data collected beforehand by various administrative agencies. Use of this system requires the public sector to have full control over external transactions. There are only a few countries that solely use administrative information for their balance of payments but to a greater or lesser extent, almost all countries apply it in addition to survey and settlement systems. The greatest shortcoming of the administrative system lies in weak data quality control.*

COMPILATION PRACTICES IN ESTONIA

Estonia started to compile its national balance of payments in 1992. First, the survey system was introduced owing to the weakness of the banking system back then. However, as this system is not flexible enough for a constantly changing economic environment, ways of applying the settlements system were studied. Consequently, the settlements system was launched in parallel to the survey system in 1994. Since the start of the compilation of the international investment position in 1996, surveys have gained more and more importance. Above all, surveys facilitate the collection of information on an accrual basis and other indicators not reflected in cash flows such as trade credit or reinvested earnings.

Today, Estonia uses a **combined system** to compile the balance of payments. Two parallel databases complement each other and facilitate the identification of errors. The databases are used in combination with administrative information to ensure higher quality for the balance of payments statistics (the balance of payments, the international investment position and external debt), which is usually quite difficult to achieve in highly open economies with low concentration.

For other quarterly statistics on the balance of payments and the external sector, the survey system supplemented with information collected through the settlements system is of great importance. In addition to the monthly reports of the central bank, credit institutions and the general government, official foreign trade statistics and mobile positioning information on the movement of tourists, the settlements system is used together with various econometric models to compile the flash estimates of the monthly balances of payments. Eesti Pank started to release the flash estimate of the balance of payments in 1999 to meet EU requirements.

From 2014, three different surveys are used to collect quarterly data from more than 3,200 companies. The settlements system involves approximately 150,000 transactions a year that are significant for the compilation of the balance of payments. Data on these transactions are received through an 'open system' where the central bank gets information only on the debit or credit side of the foreign payment order. Only the payments of bank customers are submitted. Banking sector transactions recorded in the balance of payments are based on the banks' balance sheets, income statements and other financial reports.

In addition, information is obtained from multiple other channels: official trade statistics, the Central Register of Securities, the Financial Supervision Authority, surveys conducted by Statistics Estonia, the Ministry of Justice Centre of Registers, real property price statistics from the Estonian Land Board, accounting registers in Eesti Pank, government institutions, the Centralised Securities Database of the ESCB and so forth. Moreover, statistical surveys are conducted, assessments made and econometric models applied.

Several other national central banks, including the central banks of Latvia, Lithuania, Sweden, and the Czech Republic, apply the combined system described above (cash flows, surveys and administrative sources). With the approval of European Union institutions this model has recently also gained popularity in other European countries that so far had obtained information only from the cash-based system established at a time of tight capital controls.

THE LEGAL BASIS FOR BALANCE OF PAYMENTS STATISTICS AND DATA PROTECTION

Under Clause 2 (2) 6) of the **Eesti Pank Act**, Eesti Pank is responsible for compiling the balance of payments of Estonia, and this is one of the key tasks of the central bank.

Subsection 34 (1) of the Act entitles Eesti Pank to obtain, free of charge, the information necessary for drawing up Estonia's balance of payments from all state and local government agencies and legal persons that conduct cross-border economic transactions on the territory of Estonia.

In addition to the Eesti Pank Act, the **Official Statistics Act** (10.06.2010) also sets out the compilation of the balance of payments, and under Subsection 8 (1), Eesti Pank must collect official statistics for the purpose of the balance of payments. Eesti Pank and the respondents are to follow all the provisions of the Official Statistics Act related to conducting surveys and submitting, protecting and disseminating data, and to the parties' responsibilities. Under Subsections 39 (1) and (3), Eesti Pank has the right to demand data or to impose a penalty payment on companies that fail to submit data on time or that submit distorted data.

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

By law, Eesti Pank must ensure the full organizational, technological and physical protection of individual data related to all balance of payments transactions. Data are used for statistical purposes only and disseminated in aggregate form without identifying features.

PRINCIPLES FOR THE DISSEMINATION AND REVISION OF DATA

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

Data dissemination. Balance of payments statistics, press releases, analyses and statistics tables are published on the Eesti Pank website (see Statistics). For the publication of foreign sector statistics see the Release Calendar.

Data revision principles. Following the collection of additional information or changes in methodology, the data of previous periods are revised as follows:

- *Regular revision:*
    a. when the balance of payments and investment position data for Q1, Q3 and Q4 are first released, the data for the previous quarter are regularly revised;
    b. when data for Q2 are first released, Q1 is revised and data for all the previous quarters are also revised if additional data have been received on those quarters. The data are considered final after their integration into the input/output tables of the national accounts system, which can take up to five years;
    c. after the completion of the quarterly balance of payments, the monthly balances of payments for the three months of that quarter are revised so that the total of the entries of the three monthly balances of payments is equal to the total of the same entries in that quarter's balance of payments.
- *Extraordinary revision:*
    a. in exceptional cases, when significant errors or omissions have occurred, the data for previous periods may be revised extraordinarily upon the release of data for the new period;
    b. if changes are made in the methodology or the data collection system, then upon the release of data for the new period data for the previous periods can be revised retrospectively as far back as necessary;

c. the general public is notified of extraordinary revision via press releases on the balance of payments and the international investment position.

Dissemination month / Reporting period	Year T-1				Year T			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
December (T-1)								
March (T)								
June (T)								
September (T)								
December (T)								

First data release	
Regular revision	

Unit of account. As of 1 January 2011, the euro is the unit of account in the balance of payments, the international investment position and external debt. All retrospective time series of the external sector have been converted into euros at 1 EUR = 15.6466 EEK.