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Estonia's Balance of Payments Yearbook 2008

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INTRODUCTION

In 2005-2006, Estonia's economic growth was too strong in terms of sustainability and thus, in the summer of 2007, growth started to slow owing to shrinking domestic demand. In the first half of 2007 GDP growth stood at 9%, whereas in the second half it declined below 5% and in the first quarter of 2008 to nearly zero.

Private consumption witnessed a regular slowdown in growth, being 0.4% lower at the beginning of 2008 compared to the year-ago period. Consumption was constrained mainly by reduced confidence, regardless of continuous rapid wage growth and low unemployment rate. Household purchasing power was further reduced by stronger than expected consumer price growth.

Along with the declining private consumption growth also investment activity moderated. Investment growth eased primarily in real estate development. Compared to private consumption, the growth rate of investment was much more volatile. In the second half of 2007 the amount of fixed investment remained virtually unchanged compared to the previous year, whereas the figure for the first quarter of 2008 exceeded the year-ago level by 5%. The continuation of the ongoing major development projects has considerably supported investment. Furthermore, general government's infrastructure investment increased notably in the first quarter of 2008.

In a small open economy, growth largely depends on external demand. As regards Estonia's main trading partners, the growth figures for 2007 as well as the beginning of 2008 can be considered higher than Europe's average. Thus, the export sector is the primary stabiliser of economy in times of slower growth. Over the last year and a half, the exports of both the goods and services have increased relatively rapidly. The growth figures for the first months of 2008 were similar to the average figures of 2007, or even slightly better.

It is difficult to analyse the export sector owing to the large share of processed goods and the volatility of the trade flows of such goods. The imports and exports of goods picked up considerably after Estonia's accession to the European Union. The growth rate of processed goods has been slowing since 2006, reaching a substantial decline in the first months of 2008. The exports of other goods, on the other hand, have been posting quite stable growth rates. Thus, it may be said that the competitiveness of Estonian entrepreneurs in external markets has been strong so far and that a decrease in the exports of one or another goods group or service has been offset by higher export growth figures of some other goods or services.

As expected, the slowdown in domestic demand growth triggered the improvement of external balance, driven by lower import demand. The average figures for 2007 did not yet fully reflect the decrease in the current account deficit. Owing to further adjustment in domestic demand, foreign trade deficit was nearly 25% lower in the first quarter of 2008 compared to the first quarter of 2007.

The easing in domestic demand also diminished the need for foreign capital. At the same time, the structure of capital inflow changed little compared to earlier periods. The inflow of foreign direct investment in the non-financial sector was even slightly higher than in the past few years. The general government was still a net lender owing to the fiscal policy targeting a surplus, and the monetary reserves continued to grow.

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

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

	2002	2003	2004	2005	2006	2007	2008
Current account	**-12,908.0**	**-15,418.2**	**-17,134.1**	**-17,461.8**	**-35,010.1**	**-43,538.7**	**-23,439.5**
Goods and services	-8,564.6	-10,046.8	-10,615.8	-11,122.5	-25,005.4	-28,586.2	-10,745.8
Goods**	-18,455.3	-21,522.3	-24,551.7	-24,254.5	-37,366.1	-43,581.0	-29,332.4
credit (f.o.b.)	57,948.7	63,443.7	74,543.0	99,322.3	121,430.6	126,534.2	133,609.6
debit (f.o.b.)	-76,404.0	-84,966.0	-99,094.7	-123,576.9	-158,796.7	-170,115.3	-162,942.0
Services	9,890.7	11,475.5	13,936.0	13,132.0	12,360.7	14,994.8	18,586.6
credit	28,164.3	30,674.0	35,888.9	40,868.5	43,610.5	50,065.4	55,225.8
debit	-18,273.6	-19,198.5	-21,952.9	-27,736.5	-31,249.8	-35,070.6	-36,639.2
Income	-5,391.1	-7,240.7	-7,965.3	-7,124.4	-10,766.2	-16,575.0	-15,723.6
credit	3,371.3	3,584.1	5,487.0	9,225.6	13,558.1	19,093.3	17,570.7
debit	-8,762.4	-10,824.8	-13,452.3	-16,349.9	-24,324.3	-35,668.4	-33,294.3
Transfers	1,047.7	1,869.4	1,447.0	785.2	761.5	1,622.5	3,029.8
credit	2,065.6	3,380.8	5,242.6	5,876.8	6,568.5	7,610.8	8,220.7
debit	-1,017.9	-1,511.5	-3,795.6	-5,091.6	-5,806.9	-5,988.3	-5,190.8
Capital and financial account (reserve assets excluded)	**13,055.3**	**18,552.9**	**22,670.6**	**20,513.3**	**41,431.3**	**42,261.0**	**32,108.6**
Capital account	636.4	977.8	1,076.6	1,325.9	4,515.8	2,561.0	2,511.9
Financial account	12,418.9	17,575.1	21,594.0	19,187.3	36,915.4	39,700.0	29,596.6
Direct investment	2,611.8	10,716.0	8,672.2	27,401.5	8,613.1	11,344.1	9,362.8
Abroad	-2,188.4	-2,149.2	-3,388.6	-8,699.5	-13,790.4	-19,912.0	-11,516.8
In Estonia	4,800.2	12,865.3	12,060.9	36,101.0	22,403.6	31,256.1	20,879.6
Portfolio investment	2,442.4	2,431.6	9,102.5	-27,688.4	-16,476.5	-5,558.2	7,854.5
Assets	-3,182.9	-5,351.6	-4,775.7	-10,818.4	-15,206.7	-8,440.6	10,639.9
Equity securities	9.1	-1,028.9	-2,893.5	-4,848.9	-4,569.2	-7,688.8	4,102.5
Debt securities	-3,192.0	-4,322.7	-1,882.2	-5,969.5	-10,637.5	-751.8	6,537.4
Liabilities	5,625.3	7,783.2	13,878.2	-16,870.0	-1,269.8	2,882.4	-2,785.4
Equity securities	912.2	1,527.0	2,205.2	-16,352.3	3,731.8	3,533.3	-3,415.3
Debt securities	4,713.1	6,256.2	11,673.0	-517.8	-5,001.6	-650.9	629.9
Financial derivatives	-63.7	-19.3	-8.3	-97.6	78.5	-797.8	828.5
Assets	-43.2	-139.2	-35.1	13.5	-180.9	-883.4	674.6
Liabilities	-20.5	120.0	26.8	-111.1	259.4	85.6	153.9
Other investment	7,428.4	4,446.8	3,827.7	19,571.8	44,700.3	34,711.9	11,550.9
Assets	695.1	-2,284.6	-11,749.5	-11,143.5	562.4	-22,289.4	-6,155.8
Long-term	-1,083.0	-565.7	-6,052.6	-4,199.6	5,406.7	-3,288.4	-274.2
Short-term	1,778.1	-1,718.9	-5,696.9	-6,943.9	-4,844.3	-19,001.1	-5,881.6
Liabilities	6,733.3	6,731.4	15,577.2	30,715.3	44,137.9	57,001.3	17,706.7
Long-term	1,829.0	4,309.1	5,602.6	10,905.4	24,727.1	46,534.1	-9,518.7
Short-term	4,904.3	2,422.3	9,974.7	19,809.9	19,410.8	10,467.2	27,225.5
Errors and omissions	779.5	-822.7	-2,111.2	1,832.4	1,106.1	2,679.6	-789.4
Overall balance	**926.8**	**2,312.1**	**3,425.4**	**4,883.9**	**7,527.3**	**1,401.9**	**7,879.7**
Reserve assets	**-926.8**	**-2,312.1**	**-3,425.4**	**-4,883.9**	**-7,527.3**	**-1,401.9**	**-7,879.7**

* After additional information is received, data of the earlier periods have been updated accordingly.
** Due to Estonia's accession to the EU on 1 May 2004, the accounting system of the movement of goods between Estonia and other Member States changed considerably, which is why pre- and post-accession time series of foreign trade statistics are not directly comparable.

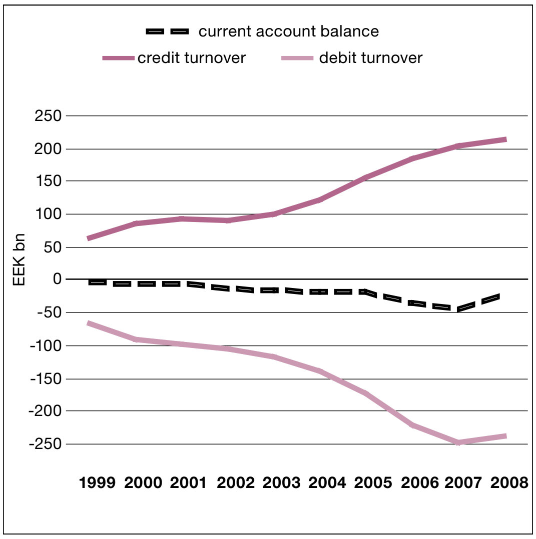
Table 1.2. Internationally comparable key balance of payments indicators

	2001	2002	2003	2004	2005	2006	2007	2008
Foreign trade turnover (% of GDP)	121.2	110.7	109.1	115.0	128.4	136.7	124.2	119.5
Goods exports/imports (%)	81.3	75.8	74.7	75.4	80.5	76.6	74.4	82.0
Nominal effective exchange rate (% compared to previous period)	101.3	102.1	103.6	101.0	100.3	99.5	100.9	101.6
Real effective exchange rate (% compared to previous period)	102.0	101.9	101.7	101.3	101.1	100.4	102.9	104.7
Terms of trade (ratio of exports and imports price indices)	118.4	112.2	121.6	122.4	119.6	119.4	124.2	129.1
Overall balance of balance of payments (change of external reserves; EEK m)	-730.2	926.8	2,312.1	3,425.4	4,883.9	7,527.0	8,027.3	7,879.7
Change in external reserves (% of GDP)	-0.7	0.8	1.7	2.3	2.8	3.7	3.4	3.2
Current account balance (EEK m)	-5,643.6	-12,908.0	-15,418.2	-17,134.1	-17,461.8	-35,010.1	-43,538.7	-23,439.5
Current account balance without government transfers (EEK m)	-6,639.9	-13,628.4	-16,638.8	-17,574.3	-17,062.0	-34,903.2	-43,286.6	-23,151.0
Current account balance without government transfers (% of GDP)	6.1	11.2	12.2	11.6	9.8	17.0	18.1	9.3
Government transfers (net; EEK m)	996.3	720.4	1,220.6	440.2	-399.8	-106.9	-252.1	-497.4
Government transfers (% of GNP)	1.0	0.6	0.9	0.3	-0.2	-0.1	-0.1	-0.1
Gross external debt (% of GDP)	53.6	57.9	64.5	76.1	86.1	97.7	112.4	120.2
External debt servicing (% of total exports)	1.0	1.7	0.3	0.2	0.6	0.2	1.0	0.3

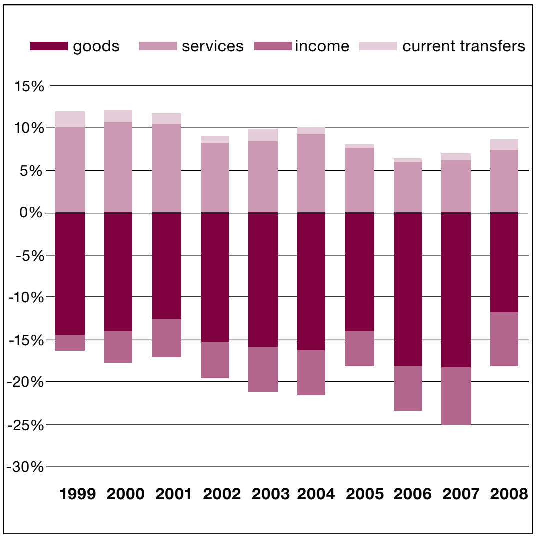
SHORT OVERVIEW

Current account

The sudden deepening of global economic crisis and rapid easing in domestic demand brought about a more than 50% decrease in the current account deficit, which accounted for 9.4% of GDP in 2008. In absolute value, the deficit amounted to 23.4 billion kroons. The current account deficit has declined across all current account components, particularly on account of a decrease in the deficit on the goods account. The deficit on goods and services (the direct components of GDP) as a ratio to GDP was 4.3%. The current account deficit without reinvested earnings, which include no actual movement of funds, constituted 3.8% of GDP. The share of the EU in the credit as well as the debit turnover was the same as in 2007: 72% and 81%, respectively. Estonia's current account deficit was the biggest with Sweden, Germany and Poland, whereas the highest surplus was registered with Finland, Russia and the United States.



Current account turnover and balance



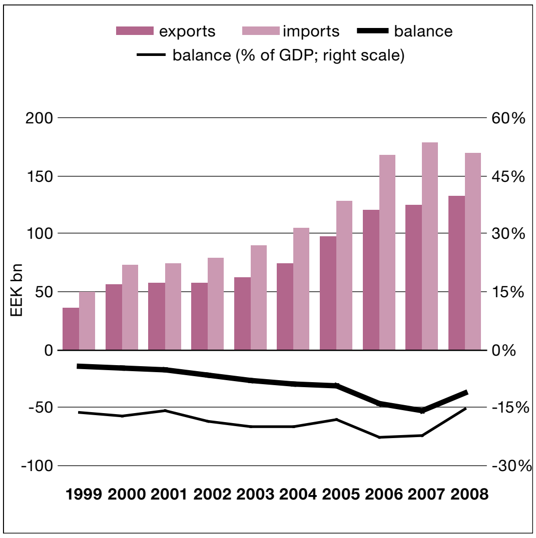
Current account components (% of GDP)

Goods

The deficit on the goods account of the balance of payments for 2008 stood at 29.3 billion kroons and comprised 11.8% of GDP. Compared to 2007, the foreign trade deficit shrank by a third; that is, by 14.2 billion kroons. Goods exports grew 6% year-on-year and totalled 133.6 billion kroons in current prices; imports declined 4% and amounted to 162.9 billion kroons. The decease in trade deficit can largely be attributed to the goods groups of transport vehicles, machinery and equipment, and metals, as their deficits declined by nearly 15 billion kroons in total.

The main groups of export goods included machinery and equipment (20%; mostly electronic products), mineral and metal products, and timber and timber products (all 12%). Year-on-year, the exports of metals and metal products as well as chemical products increased the most (24% and 16%, respectively). Machinery and equipment was also the largest import item (22%), followed by mineral products (16%), and chemical products (13%). The exports of transport vehicles and timber and timber products declined the most (27% and 23%, respectively). Mineral products and chemical products had the largest deficits on the goods account. Timber and timber products as well as various industrial goods posted surpluses.

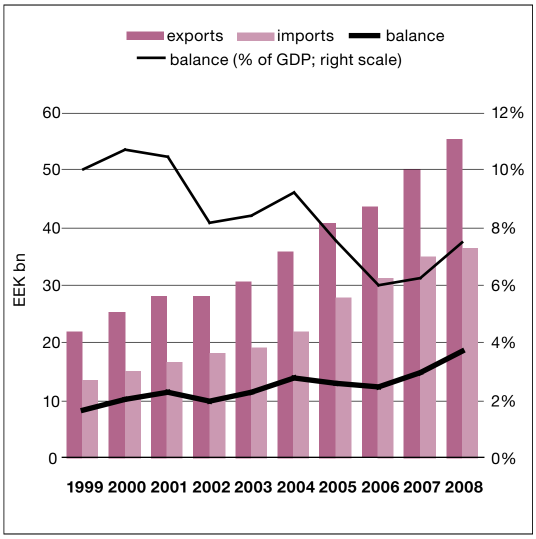
Estonia's main trading partner – the European Union – contributed 70% of the exports and 80% of the imports of goods. Finland, Sweden, Russia and Latvia were the largest export partners, and Finland, Germany, Sweden, Latvia and Lithuania the major import partners.



Estonia's external trade

Services

Although the economic situation deteriorated further in the second half of 2008, the surplus on the services account kept growing. Year-on-year, it increased nearly 25% and stood at 18.6 billion kroons. Services exports grew 10% and imports 4%. The total share of transport, travel and other business services accounted for 82–83% of both the imports and exports of services. Growth in the surplus on transport services – the largest type of services – increased 25%. Growth was mainly driven by the surplus on other transport services and to a lesser extent by the passenger transport surplus. The services surplus was significantly boosted by other business services and construction services, but also travel, computer and information, financial and insurance services.



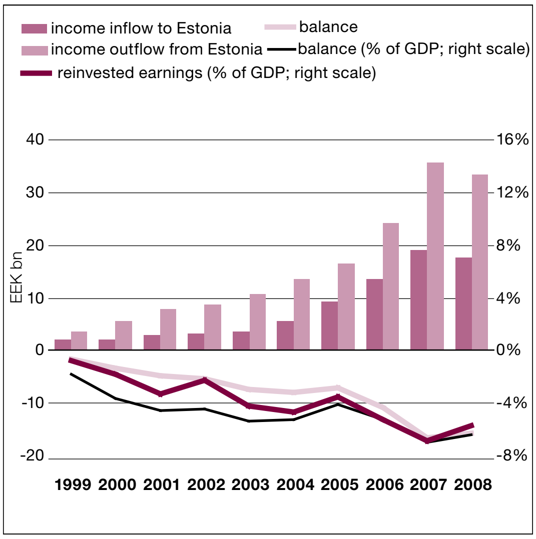
Services account

The share of EU countries totalled 69% in the exports and 75% in the imports of services. Estonia had the biggest surplus with Finland (10.4 billion kroons) and the biggest deficit with Cyprus (1.1 billion kroons).

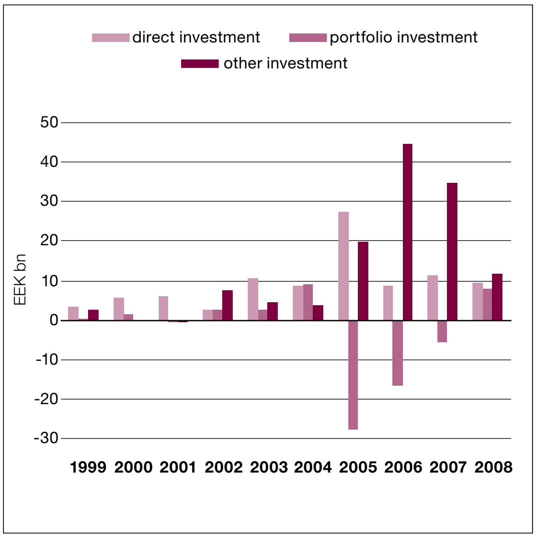
Income

The net outflow of income declined 5% in 2008 and totalled 15.7 billion kroons. The first half of the year witnessed active income outflow, but the trend turned in the second half, particularly in the fourth quarter. This resulted from a considerable decrease in reinvested earnings on direct investment, which in turn stemmed from falling profits, growing losses and withdrawal of dividends by residents.

The income earned by Estonian residents abroad declined 8% and the income earned by non-residents in Estonia decreased 7%. Labour income comprised 20% of Estonian residents' income earned abroad. The rest was investment income. Non-residents earned income in Estonia primarily on investment. Direct investment accounted for the majority of both the residents' and non-residents' investment income – 58% and 67%, respectively. Non-residents' direct investment income contained a considerable amount of reinvested earnings; residents drew large dividends on their foreign direct investment. Non-residents' income on other investment (loans and deposits) increased further and reached 28% of total investment income (16% in 2007). The income of both the residents and non-residents was almost entirely related to EU countries. Non-residents earned income in Estonia primarily on financial intermediation (63%) and somewhat less on other business activities, production of chemical products, and wholesale. Resident investors earned income abroad mostly in the field of financial intermediation (51%) as well as other business activities, but also water transport and public sector.



Income account



Sub-accounts of capital and financial account

Capital and financial account

The surplus on the capital and financial account was 32.1 billion kroons in 2008. Foreign capital inflow occurred primarily in the form of direct and other investment.

Direct investment

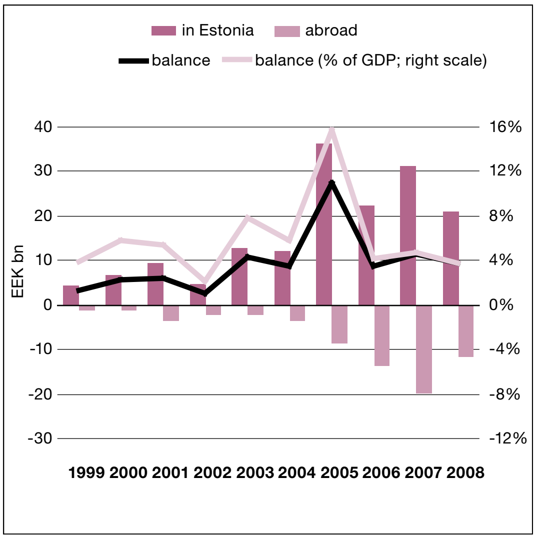
Direct investment inflow was 9.3 billion kroons bigger than outflow in 2008. Foreign direct investment in Estonia amounted to 20.9 billion and Estonia's direct investment abroad to 11.5 billion kroons.

In 2007 equity capital investment constituted most of Estonian residents' direct investment abroad, whereas in 2008 intercompany lending prevailed (65%) and the share of reinvested earnings dropped to 13%. Nearly two thirds of direct investment abroad went to Lithuania and Latvia. Direct investment in Russia decreased by 2 billion kroons. The most active foreign direct investors were those of financial intermediation, other business activities and water transport.

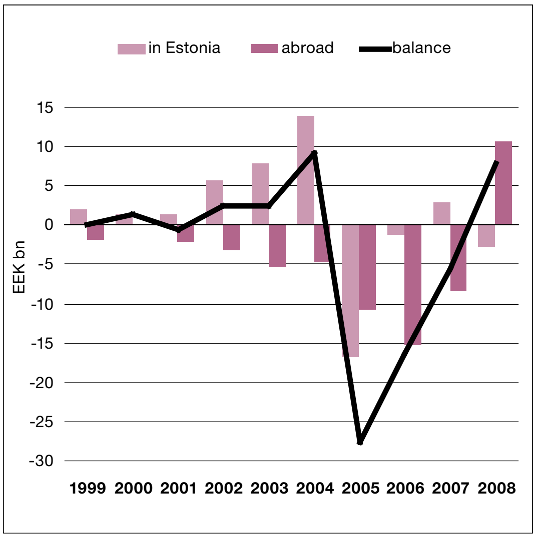
74% of non-residents' direct investment in Estonia were reinvested earnings. Most of the investment came from Sweden (59%) and the Netherlands (25%). Finnish direct investment in Estonia shrank by 2.2 billion kroons. Half of direct investment in Estonia was invested in financial intermediation and less in other business activities and transport.

Portfolio investment

The balance of portfolio investment totalled 7.8 billion kroons in 2008. Portfolio investment assets decreased by 10.6 billion and liabilities by 2.8 billion kroons. The decrease in assets resulted primarily from a decline in general government's and credit institutions' investment in debt securities. Liabilities diminished owing to lower investment in the equity securities of enterprises in other sectors.



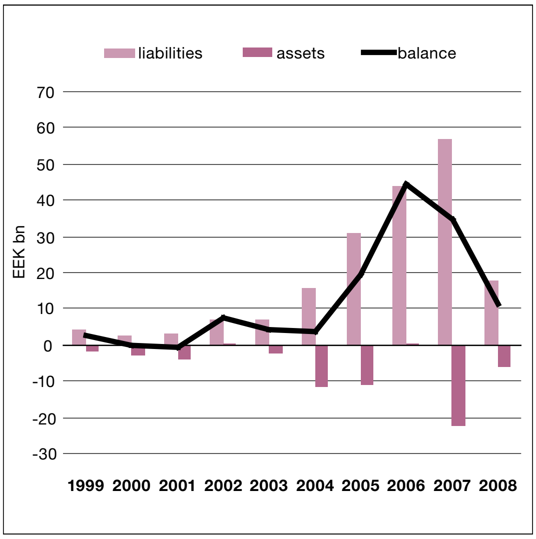
Direct investment



Portfolio investment

Other investment

The net inflow of other investment amounted to 11.6 billion kroons in 2008. Assets grew by 6.2 billion kroons and liabilities by 17.7 billion kroons. Liabilities increased in the form of short-term capital and primarily in the case of credit institutions. The increase could be mainly attributed to loans/currency and deposits, including interbank loans. Other investment assets increased owing to growth in trade credit assets and loan assets.



Other investment

CURRENT ACCOUNT

The sudden deepening of global economic crisis and rapid easing in domestic demand brought about a more than 50% decrease in the current account deficit, which accounted for 9.4% of GDP in 2008 (see Figure 1.1). In absolute value, the deficit amounted to 23.4 billion kroons. The current account deficit has declined across all current account components, particularly on account of a decrease in the deficit on the goods account. The deficit on goods and services (the direct components of GDP) as a ratio to GDP was 4.3%. Total exports of goods and services grew 7%, whereas imports shrank 3%. Consequently, the deficit on goods and services decreased 60%. The current account deficit without reinvested earnings, which include no actual movement of funds, constituted 3.8% of GDP.

The share of the EU in the credit as well as the debit turnover was the same as in 2007: 72% and 81%, respectively. Four out of the five most important partners were the same in both turnovers: Finland, Sweden, Latvia and Lithuania. Russia was the fifth major partner in terms of exports and Germany in imports. The five largest trade partners accounted for 62% of both the credit and the debit turnover. Estonia's current account deficit was the biggest with Sweden, Germany and Poland, whereas the highest surplus was registered with Finland, Russia and the United States (see Table 1.3). In 2007, the current account was in deficit with Finland and Russia.

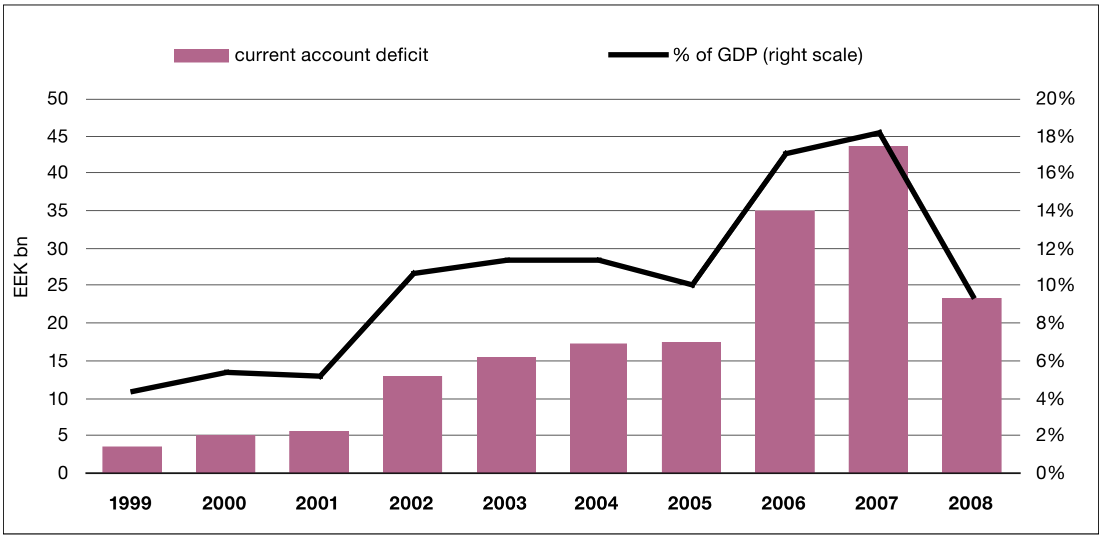


Figure 1.1. Estonia's current account deficit

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

	2007	2008
EU-27	**-52,659.3**	**-39,093.9**
Sweden*	-15,603.6	-15,495.4
Germany	-15,780.3	-14,428.6
Finland	-805.0	10,196.8
Poland	-6,045.0	-4,826.9
Lithuania	-2,100.0	-4,393.2
CIS	**-3,168.1**	**3,165.2**
Russia	-1,808.0	6,361.2
Belarus	-1,905.8	-4,195.7
Ukraine	182.5	484.9
Other	**12,288.7**	**12,489.2**
USA	3,990.2	4,985.8
Norway	3,437.7	4,012.9
China	-2,572.3	-2,595.2
Turkey	618.8	1,672.9
Switzerland	1,533.9	1,367.6
Total	**-43,538.7**	**-23,439.5**

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

Table 1.4. Imports and exports of goods

	Goods – credit (f.o.b.)			Goods – debit (f.o.b.)			Balance (EEK m)
	Volume* (EEK m)	Change compared to the previous period (%)	Share in total exports of goods and services (%)	Volume* (EEK m)	Change compared to the previous period (%)	Share in total exports of goods and services (%)	
1999	36,995.2		62.8	49,092.1		78.3	-12,096.9
2000	56,118.1	51.7	69.0	69,489.5	41.5	82.2	-13,371.4
2001	58,798.5	4.8	67.6	72,340.9	4.1	81.1	-13,542.4
2002	57,948.7	-1.4	67.3	76,404.0	5.6	80.7	-18,455.3
2003	63,443.7	9.5	67.4	84,966.0	11.2	81.6	-21,522.3
2004	74,543.0	17.5	67.5	99,094.7	16.6	81.9	-24,551.7
2005	99,322.3	33.2	70.8	123,576.9	24.7	81.7	-24,254.5
2006	121,430.6	22.3	73.6	158,796.7	28.5	83.6	-37,366.1
2007	126,534.2	4.2	71.7	170,115.3	7.1	82.9	-43,581.0
2008	133,609.6	5.6	70.8	162,942.0	-4.2	81.6	-29,332.4

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

Goods

The deficit on the goods account for 2008 decreased 33%, i.e. by 14 billion kroons, from 2007 and stood at 29 billion kroons and comprised 12% of GDP (see Table 1.4). The exports of goods grew 6% year-on-year and amounted to 134 billion kroons. Imports, on the other hand, declined 4% and totalled 163 billion kroons.

According to preliminary **foreign trade statistics**[1], goods exports stood at 132.5 billion and imports in c.i.f. prices at 169.9 billion kroons in 2008. Exports rose in the first three quarters of 2008 compared to the same period in 2007 and contracted slightly only in the fourth quarter. Annual export growth reached 5%. Imports declined in the first, second and fourth quarter in particular (12%) – by 5% in total. The foreign trade deficit decreased by 16 billion kroons in total.

Goods export growth was boosted by several goods groups, particularly metals and metal products, machinery and equipment as well as chemical and food products (see Table 1.5). The exports of metals posted even 24% annual growth and comprised mainly waste metals, hot-rolled steel products and metal constructions sent to Finland, Turkey, Latvia, Sweden and Poland. The exports of machinery and equipment grew 9% and over 50% of that went to Finland and Sweden (mostly mobile communication devices and components, cables, electric motors and transformers). The exports of chemical products increased 16%. Various construction materials (mastics, putties) were exported to Russia and Ukraine, nitrogen fertilizers to the United States, the United Kingdom and France, and plastic products to Sweden, Latvia and Finland.

The exports of food products picked up considerably too. The primary export items were spirits to Russia and Finland, dairy products to Finland, Latvia, Russia and Germany, and canned fish to Finland and Ukraine. The exports of mineral products grew marginally. 70% of that consisted of motor fuels imported from Lithuania, Russia and Belarus, and re-exported to the United States, Nigeria, Finland and various other countries. Electricity was exported to Finland and Latvia. The exports of transport vehicles decreased 4%, largely owing to a considerable fall in motor car imports. Motor cars and spare parts were exported to Latvia, Lithuania, Russia and Sweden.

Table 1.5. Exports by main groups of goods

	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
Food	11,130.9	12,049.5	8.9	9.1	8.3
Mineral products	15,671.3	16,043.7	12.5	12.1	2.4
Chemical products	9,714.8	11,230.4	7.7	8.5	15.6
Clothing, footwear and headgear	7,576.9	7,181.7	6.0	5.4	-5.2
Timber, paper and products	16,561.9	15,228.8	13.2	11.5	-8.0
Metals and metal products	12,942.9	16,014.9	10.3	12.1	23.7
Machinery and equipment	26,388.2	28,815.3	21.0	21.8	9.2
Transport vehicles	10,788.0	10,322.5	8.6	7.8	-4.3
Furniture, toys, sporting goods	9,824.7	9,579.7	7.8	7.2	-2.5
Other	5,102.7	5,989.5	4.1	4.5	17.4
Total	**125,702.3**	**132,456.1**	**100.0**	**100.0**	**5.4**

[1] The following analysis does not include the adjustments made to the goods account (repair of capital goods, provisions purchased from abroad, etc.) made by the Balance of Payments and Economic Statistics Department of Eesti Pank. Imports are in c.i.f. prices and analysed by the trading country. As of the moment of accession, the terms “exports” and “imports” are only applicable in reference to trading with third countries, while the Intrastat reporting system uses the terms “dispatch of goods” and “arrival of goods”. Since the following analysis covers both intra-Community and non-Community trade, the terms “exports” and “imports” have still been used for the sake of simplicity and clarity.

The exports of timber and timber products declined 8% year-on-year. The main export items were wooden construction components, processed or little processed timber and firewood, which were sent to Finland, Sweden, Germany, Denmark, Norway and the United Kingdom. Textile products and footwear were exported primarily to Finland, Sweden, Latvia, Russia and Lithuania. Prefabricated wooden buildings were delivered to Norway, Germany and Denmark; furniture and furniture components went to Finland, Sweden and Denmark.

Goods imports decreased across seven goods groups out of ten – only the imports of food, chemical and mineral products posted growth (see Table 1.6). The decrease was largely caused by a significant drop in the imports of transport vehicles, timber, and machinery and equipment. The imports of motor cars from Finland, Sweden and Germany decreased by a third; that is, by 4.4 billion kroons. The imports of trucks (mostly from Germany and Sweden) decreased by a billion kroons year-on-year. Spare parts of motor cars and tractors were purchased form Sweden, Germany and Finland.

Table 1.6. Imports by main groups of goods

	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
Food	16,582.9	17,622.1	9.3	10.4	6.3
Mineral products	25,173.0	27,251.8	14.1	16.0	8.3
Chemical products	20,704.4	21,654.2	11.6	12.7	4.6
Clothing, footwear and headgear	11,215.9	11,113.0	6.3	6.5	-0.9
Timber, paper and products	10,262.6	7,920.5	5.7	4.7	-22.8
Metals and metal products	18,955.6	18,109.3	10.6	10.7	-4.5
Machinery and equipment	38,604.9	36,700.9	21.6	21.6	-4.9
Transport vehicles	25,389.4	18,600.2	14.2	10.9	-26.7
Furniture, toys, sporting goods	4,474.7	4,024.8	2.5	2.4	-10.1
Other	7,627.0	6,921.9	4.3	4.1	-9.2
Total	**178,990.4**	**169,918.7**	**100.0**	**100.0**	**-5.1**

The 23% decline in timber imports was caused by reduced deliveries of raw timber from Russia. The imports of machinery and equipment shrank 5%, i.e. by 2 billion kroons. The main import items were mobile communication devices and components of electronic equipment (imported both for processing and internal supply) as well as cables, computers and TV sets. The major trade partners were Finland, Germany, Sweden and Latvia. The imports of mineral products increased 8%; 78% of the imports consisted of motor fuels from Lithuania, Russia and Belarus. The imports of chemical products grew 5%. Medicines were purchased from Latvia, Germany and Lithuania, and hydrocarbons that are used for fuel processing from Russia.

The imports of food products increased 6%. Similar to the exports of food products, spirits were also the largest import item, purchased from the United Kingdom, France, Ireland and Finland. Wines were imported from France, Italy and Spain; pork from Denmark and Finland; fish products from Latvia and Lithuania; pet food from Sweden, Poland and Germany, and coffee from Finland and Sweden. The imports of metals and metal products contained iron and steel products from Finland, Germany, Sweden, Latvia, Russia, Poland and Ukraine. Footwear, underwear, ready-made men's and women's clothes, knitwear etc. were imported from Latvia, Finland, Germany, China, Italy and Sweden. Various industrial products (furniture, lamps) were purchased primarily from Finland, Poland, China, Germany and Italy.

The **foreign trade deficit** decreased 30%, i.e. by 16 billion kroons, and totalled 37.5 billion kroons (see Table 1.7). Two groups of goods posted a surplus: timber and timber products as well as furniture and other industrial goods. The transport vehicles, machinery and equipment, and metal products contributed to a decrease in the deficit. However, mineral and food products, and clothing, footwear and headgear boosted the deficit.

By **groups of countries, goods exports** to the European Union picked up 5% and the EU accounted for around 70% of total goods exports (see Table 1.8). The main export partners in the EU were Finland, Sweden, Latvia, Lithuania and Germany. 25% of the exports to the EU consisted of machinery and equipment (primarily electronic products), followed by timber and timber products, and metal and food products. Exports to the CIS increased 23%. Russia's share in exports to the CIS was 78% (25% growth), Ukraine and Belarus followed. Exports to Russia included machinery and equipment, food products and motor cars; metal products were delivered to Ukraine, and Belarus purchased machinery and equipment as well as chemical products. The top three among other countries were the United States, Norway and Turkey. 74% of the exports to the United States comprised motor fuel; timber products (furniture and log cabins) were sent to Norway, and waste metal to Turkey.

Imports of goods decreased across all groups of countries (see Table 1.9). The top five of EU countries included Finland, Germany, Sweden, Latvia and Lithuania. Imports from the EU consisted of machinery and equipment, chemical and food products, and transport vehicles (mostly motor cars). Imports from Russia comprised mainly mineral products (motor fuel and natural gas for processing) and chemical products (for fuel processing). Other major import partners were Belarus and Ukraine: Belarus sold motor fuel to Estonia and Ukraine delivered metal products. The top three among other countries were China, the United States and Norway. China exported electronic components, the United States sold transport vehicles and machinery, and Norway delivered motor fuel to Estonia.

Foreign trade was in deficit with the EU as well as the CIS (see Table 1.10). As regards the EU Member States, Estonia had the biggest trade deficit with Germany (almost 16 billion kroons) and the biggest surplus with Sweden, Denmark and Finland. From among the CIS countries, Estonia had a trade deficit of 4 billion kroons with Belarus, and a 0.8 billion kroon surplus with Russia. As for other countries, Estonia had the largest trade surplus with the United States, Norway and Turkey.

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

	2007	2008
Food	-5,452.0	-5,572.6
Mineral products	-9,501.7	-11,208.1
Chemical products	-10,989.6	-10,423.8
Clothing, footwear and headgear	-3,639.0	-3,931.3
Timber, paper and products	6,299.3	7,308.3
Metals and metal products	-6,012.7	-2,094.4
Machinery and equipment	-12,216.7	-7,885.5
Transport vehicles	-14,601.4	-8,277.7
Furniture, toys, sporting goods	5,349.9	5,555.0
Other	-2,524.3	-932.4
Total	**-53,288.2**	**-37,462.6**

Table 1.8. Exports of goods by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
EU-27	**87,907.2**	**92,262.0**	**69.9**	**69.7**	**5.0**
Finland	22,257.3	24,286.9	17.7	18.3	9.1
Sweden	16,677.2	18,325.7	13.3	13.8	9.9
Latvia	14,525.0	13,207.7	11.6	10.0	-9.1
Lithuania	7,432.9	7,546.7	5.9	5.7	1.5
Germany	6,544.5	6,671.2	5.2	5.0	1.9
CIS	**14,345.7**	**17,688.3**	**11.4**	**13.4**	**23.3**
Russia	11,103.1	13,777.0	8.8	10.4	24.1
Ukraine	1,859.7	2,206.0	1.5	1.7	18.6
Belarus	564.9	850.2	0.4	0.6	50.5
Other	**23,449.4**	**22,505.7**	**18.7**	**17.0**	**-4.0**
USA	5,238.9	6,374.2	4.2	4.8	21.7
Norway	4,239.1	4,380.3	3.4	3.3	3.3
Turkey	1,606.5	2,410.9	1.3	1.8	50.1
Total	**125,702.3**	**132,456.1**	**100.0**	**100.0**	**5.4**

Table 1.9. Imports of goods by groups of countries*

	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
EU-27	**140,726.8**	**135,441.2**	**78.6,**	**79.7,**	**-3.8,**
Finland	27,749.8	24,148.2	15.5,	14.2,	-13.0,
Germany	23,127.4	22,596.2	12.9,	13.3,	-2.3,
Sweden	19,004.6	17,002.8	10.6,	10.0,	-10.5,
Latvia	13,310.7	15,225.5	7.4,	9.0,	14.4,
Lithuania	12,515.2	15,158.5	7.0,	8.9,	21.1,
CIS	**23,252.9**	**20,700.2**	**13.0,**	**12.2,**	**-11.0,**
Russia	18,112.0	13,024.4	10.1,	7.7,	-28.1,
Belarus	2,542.0	4,979.5	1.4,	2.9,	95.9,
Ukraine	1,740.9	1,829.3	1.0,	1.1,	5.1,
Other	**15,010.7**	**13,777.3**	**8.4,**	**8.1,**	**-8.2,**
China	3,715.7	3,634.8	2.1,	2.1,	-2.2,
USA	2,204.4	2,011.4	1.2,	1.2,	-8.8,
Norway	1,090.3	1,157.7	0.6,	0.7,	6.2,
Total	**178,990.4**	**169,918.7**	**100.0,**	**100.0,**	**-5.1,**

* Analysed by trading country.

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

	2007	2008
EU-27	-52,819.7	-43,179.2
CIS	-8,907.2	-3,011.8
Other	8,438.7	8,728.4
Total	**-53,288.2**	**-37,462.6**

Services

The surplus on the **services account** amounted to 18.6 billion kroons in 2008, increasing 24% year-on-year (see Table 1.11). The deepening of economic downturn in the second half of 2008 had relatively little impact on the import and export figures for 2008. Although the growth of imports as well as exports slowed, exports posted higher annual growth figures than imports (10% and 5%, respectively). The share of services in the total turnover of goods and services slightly increased. The surplus on the services account offset 80% of the foreign trade deficit.

Year 2008 brought about a significant change in the structure of the net exports of services (see Table 1.12). About half of the improvement of the services balance resulted from the 2.5 times growth in the surplus on construction services. The net exports of transport services – the type of services with the biggest turnover – increased 25%. The surplus on government services turned into a deficit in 2008.

The **exports of services** was largely boosted by a 75% growth in the surplus on construction services, but also growth in the exports of travel, transport and business services (9%, 5% and 9%, respectively; see Table 1.13). The exports of government services shrank 10%.

Table 1.11. Exports and imports of services

	Exports			Imports			Balance	
	Volume (EEK m)	Change compared to the previous period (%)	Share in total turnover of goods and services (%)	Volume (EEK m)	Change compared to the previous period (%)	Share in total turnover of goods and services (%)	Volume (EEK m)	Change compared to the previous period (%)
1999	21,951.9	5.5	37.2	13,610.4	6.7	21.7	8,341.5	3.6
2000	25,263.4	15.1	31.0	15,059.6	10.6	17.8	10,203.8	22.3
2001	28,135.4	11.4	32.4	16,840.6	11.8	18.9	11,294.8	10.7
2002	28,164.3	0.1	32.7	18,273.6	8.5	19.3	9,890.7	-12.4
2003	30,674.0	8.9	32.6	19,198.5	5.1	18.4	11,475.5	16.0
2004	35,888.9	17.0	32.7	21,952.9	14.3	18.1	13,936.0	21.4
2005	40,868.5	13.9	29.5	27,736.5	26.3	18.5	13,132.0	-5.8
2006	43,610.5	6.7	26.4	31,249.8	12.7	16.5	12,360.7	-5.9
2007	50,065.4	14.8	28.4	35,070.6	12.2	17.2	14,994.8	21.3
2008	55,225.8	10.3	31.3	36,639.2	4.5	18.0	18,586.6	24.0

Table 1.12. Services balance by major categories

	Balance (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
Transportation	5,918.1	7,414.2	39.5	39.9	25.3
Travel	4,174.1	4,228.2	27.8	22.7	1.3
Construction services	1,159.4	2,759.1	7.7	14.8	138.0
Computer and information services	776.8	819.9	5.2	4.4	5.5
Business services	2,434.8	3,172.2	16.2	17.1	30.3
Government services	82.0	-44.1	0.5	-0.2	-153.8
Other	449.6	237.1	3.1	1.3	-47.3
Total	**14,994.8**	**18,586.6**	**100.0**	**100.0**	**24.0**

Table 1.13. Services exports by major categories

	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
Transportation	20,468.2	21,437.2	40.9	38.8	4.7
freight	10,718.6	10,179.0	21.4	18.4	-5.0
passenger	4,328.8	4,756.9	8.6	8.6	9.9
other transport services	5,420.8	6,501.3	10.8	11.8	19.9
Travel	11,791.7	12,835.1	23.6	23.2	8.8
Construction services	2,253.1	3,942.0	4.5	7.1	75.0
Computer and information services	1,583.4	1,859.5	3.2	3.4	17.4
Business services	9,992.2	10,888.8	20.0	19.7	9.0
Government services	658.4	589.9	1.3	1.1	-10.4
Other	3,318.4	3,673.3	6.6	6.7	10.7
Total	**50,065.4**	**55,225.8**	**100.0**	**100.0**	**10.3**

Table 1.14. Services exports by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
EU-27	**35,462.3**	**38,290.7**	**70.8**	**69.3**	**8.0**
Finland	14,803.0	15,855.7	29.6	28.7	7.1
Sweden	4,168.9	4,574.0	8.3	8.3	9.7
Latvia	2,687.3	2,903.8	5.4	5.3	8.1
United Kingdom	3,112.8	2,748.8	6.2	5.0	-11.7
CIS	**6,406.7**	**8,556.3**	**12.8**	**15.5**	**33.6**
Russia	5,368.2	7,129.8	10.7	12.9	32.8
Ukraine	480.4	683.7	1.0	1.2	42.3
Kazakhstan	355.1	454.7	0.7	0.8	28.0
Other	**8,196.4**	**8,378.8**	**16.4**	**15.2**	**2.2**
Switzerland	2,057.6	2,032.5	4.1	3.7	-1.2
offshore regions	1,994.1	1,717.8	4.0	3.1	-13.9
USA	1,518.3	1,649.9	3.0	3.0	8.7
Total	**50,065.4**	**55,225.8**	**100.0**	**100.0**	**10.3**

As regards the geographical breakdown of services exports, 2008 was comparable to 2007 (see Table 1.14). Exports grew across all groups of countries, in particular the CIS (primarily Russia). 70% of the services exports went to EU countries and 40% of that to Finland. Other major partners besides Finland and Russia included Sweden, Latvia, the United Kingdom and Switzerland.

The modest growth in **services imports** primarily stemmed from weaker transport services imports, which decreased 4% in 2008 from 2007 (see Table 1.15). Total imports of services increased mainly owing to the 13% annual growth in travel services imports.

Similar to services exports, also the structure of imports remained virtually unchanged in 2008 in terms of groups of countries. EU countries accounted for 76% of the services imports (see Table 1.16); imports from Estonia's biggest import partner Finland declined 8% year-on-year. As regards the CIS, services imports from Ukraine and Belarus posted the strongest growth, but the majority of imports still came from Russia.

Table 1.15. Services imports by major categories

	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
Transportation	14,550.2	14,023.0	41.5	38.3	-3.6
freight	9,526.4	9,342.7	27.2	25.5	-1.9
passenger	1,539.1	1,375.8	4.4	3.8	-10.6
other transport services	3,484.7	3,304.5	9.9	9.0	-5.2
Travel	7,617.7	8,606.9	21.7	23.5	13.0
Construction services	1,093.7	1,182.8	3.1	3.2	8.1
Computer and information services	806.6	1,039.6	2.3	2.8	28.9
Business services	7,557.4	7,716.6	21.6	21.1	2.1
Government services	576.4	634.0	1.6	1.7	10.0
Other	2,868.6	3,436.3	8.2	9.4	19.8
Total	**35,070.6**	**36,639.2**	**100.0**	**100.0**	**4.5**

Table 1.16. Services imports by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
EU-27	**26,998,9**	**27,658,1**	**77,0**	**75,5**	**2,4**
Finland	5,950,3	5,502,0	17,0	15,0	-7,5
Sweden	2,580,0	2,939,7	7,4	8,0	13,9
Latvia	2,396,3	2,862,2	6,8	7,8	19,4
Germany	2,677,8	2,752,9	7,6	7,5	2,8
CIS	**3,153,4**	**3,652,0**	**9,0**	**10,0**	**15,8**
Russia	2,362,7	2,652,8	6,7	7,2	12,3
Ukraine	422,6	510,8	1,2	1,4	20,9
Belarus	236,2	329,7	0,7	0,9	39,6
Other	**4,918,3**	**5,329,1**	**14,0**	**14,5**	**8,4**
USA	1,086,8	1,283,1	3,1	3,5	18,1
Egypt	647,4	723,8	1,8	2,0	11,8
offshore regions	642,9	612,3	1,8	1,7	-4,8
Total	**35,070,6**	**36,639,2**	**100,0**	**100,0**	**4,5**

In terms of other countries imports to the United States and Egypt grew the most, largely owing to increased imports of travel services. In the former's case, the establishment of a visa waiver agreement between Estonia and the US contributed to import growth.

The surplus on **transport services** grew in 2008, regardless of the general deterioration of the global economy. The main driving force was the increased sale of passenger transport by sea and other supporting and auxiliary transport services by road, which were primarily related to storage, logistics and provision of forwarding services (see Figures 1.2 and 1.3, and Table 1.12). The surplus on freight transport declined, whereas the surplus on other supporting and auxiliary transport services in the rail and air transport sector increased.

The total exports of transport services grew 5% year-on-year. Nearly 75% of the transport services were exported to the European Union, annual growth being 2% (see Table 1.17). Finland was the biggest importer of transport services also in 2008. Exports to the CIS (mainly Russia) increased 22%. Switzerland was the largest trade partner among other countries, although the share of the United States in transport services exports witnessed strongest annual growth.

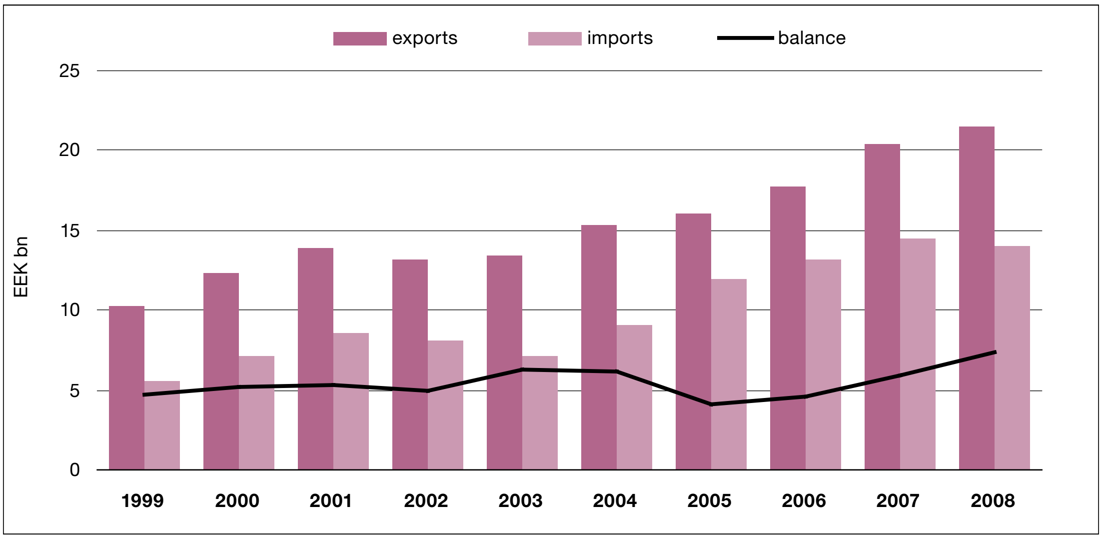


Figure 1.2. Transport services

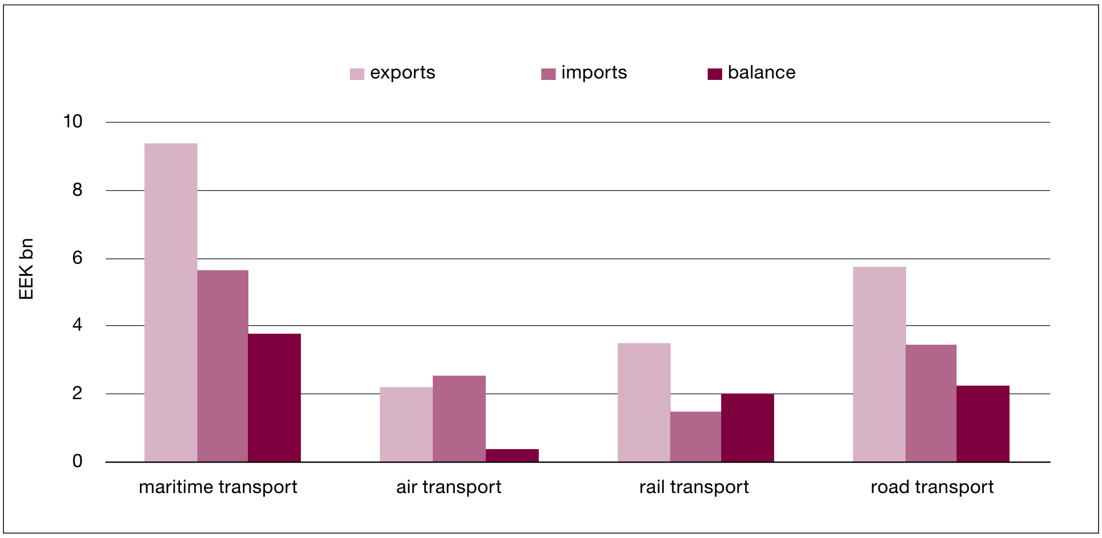


Figure 1.3. Structure of transport services in 2008 by type

The imports of transport services declined 4% (see Tables 1.15 and 1.17). The imports of transport services decreased across all types of services, especially passenger transport. The majority of transport services in 2008 were purchased from EU countries, in particular Germany. Imports from the CIS went up 6%. Imports from other countries grew 3%, largely owing to the increased procurement of transport services from the United States, offshore regions and China.

The surplus on **travel services** increased 1% in 2008; exports grew 9% and imports 13% (see Figure 1.4). The number of visitors from Finland, Sweden, Russia and Latvia who used the services of travel agencies has dropped 40–50% but the number of visits from these countries has risen (see Table 1.18).

Table 1.17. Transport services by groups of countries in 2008

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%), 2008/2007		Volume (EEK m)	Share (%)	Change (%), 2008/2007
EU-27	**14,107.4**	**65.8**	**2.0**	**EU-27**	**10,021.1**	**71.5**	**-7.2**
Finland	5,081.1	23.7	-3.1	Germany	1,669.0	11.9	9.4
Sweden	1,871.9	8.7	14.1	Finland	1,449.2	10.3	-32.0
United Kingdom	1,491.0	7.0	-14.9	Sweden	1,093.2	7.8	10.6
Germany	1,174.5	5.5	15.5	Latvia	1,009.8	7.2	9.4
Latvia	761.0	3.5	31.6	Lithuania	724.2	5.2	21.7
CIS	**3,030.8**	**14.1**	**21.7**	**CIS**	**1,853.3**	**13.2**	**13.5**
Russia	2,786.8	13.0	22.0	Russia	1,432.8	10.2	9.9
Ukraine	117.8	0.5	-7.8	Belarus	244.0	1.7	38.6
Other	**4,299.0**	**20.1**	**3.6**	**Other**	**2,148.6**	**15.3**	**1.6**
Switzerland	1,447.2	6.8	-0.3	USA	468.1	3.3	29.5
offshore regions	1,009.5	4.7	-17.6	offshore regions	422.9	3.0	-24.0
USA	578.9	2.7	21.6	China	362.4	2.6	7.4
Total	**21,437.2**	**100.0**	**4.7**	**Total**	**14,023.0**	**100.0**	**-3.6**

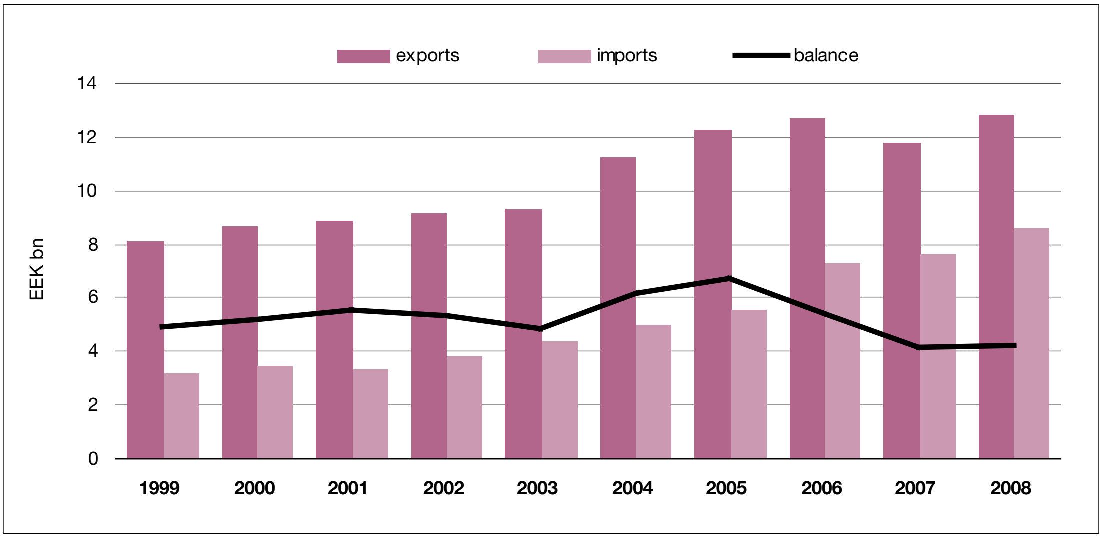


Figure 1.4. Travel services

The growing popularity of independent travel planning via the Internet probably plays a role here. The number of cruise travellers increased in 2008. Finns again held the largest share (45%) among Estonia's visitors, with the number of visits growing 4% year-on-year. Even though the number of Estonians' trips abroad did not rise in 2008, their expenses increased, since more trips were made to distant countries. The use of services of travel agencies decreased also in the case of trips to neighbouring countries, but the number of Estonians using travel agencies increased 4% in total. The most common destinations were still the neighbouring countries Russia (12% growth), Latvia (2%) and Finland (4% decline). The most popular remote destinations were the United States (41% more visits compared to 2007), Egypt (15%), France (15%) and Turkey (12%).

Table 1.18. Travel services by groups of countries in 2008

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%), 2008/2007		Volume (EEK m)	Share (%)	Change (%), 2008/2007
EU-27	**10,010.9**	**78.0**	**11.5**	**EU-27**	**5,937.0**	**69.0**	**8.6**
Finland	6,229.6	48.5	8.7	Finland	1,465.5	17.0	0.7
Sweden	981.5	7.6	5.8	Latvia	497.5	5.8	4.0
Latvia	588.0	4.6	41.2	Spain	435.1	5.1	24.1
Germany	550.6	4.3	31.6	Italy	405.9	4.7	45.7
CIS	**1,833.1**	**14.3**	**-6.8**	**CIS**	**807.6**	**9.4**	**21.4**
Russia	1,685.4	13.1	-7.5	Russia	575.4	6.7	14.0
Ukraine	95.3	0.7	-7.9	Ukraine	132.5	1.5	17.9
Other	**991.1**	**7.7**	**16.6**	**Other**	**1,862.3**	**21.6**	**25.2**
USA	306.8	2.4	36.4	Egypt	599.8	7.0	24.6
Norway	304.8	2.4	0.1	USA	360.1	4.2	52.2
Japan	54.3	0.4	15.0	Turkey	195.8	2.3	7.9
Total	**12,835.1**	**100.0**	**8.8**	**Total**	**8,606.9**	**100.0**	**13.0**

Income

The strong growth in the **net outflow of income** witnessed in previous years went into a decline in 2008. The first half of the year still saw active net outflow, whereas the second half recorded a considerable decrease. In total, the net outflow of income decreased 5% and totalled 15.7 billion kroons, i.e. 6.3% of GDP (see Table 1.19). The net outflow of income without reinvested earnings, which include no actual movement of funds, constituted 0.7% of GDP.

The decrease in the income account deficit was driven by the 7–8% decline of both the non-residents' income earned in Estonia and the residents' income earned abroad. As regards the two main components of income – labour income and investment income – the former posted net inflow and the latter net outflow. The net inflow of labour income as well as the net outflow of investment income decreased. The income account of Estonia's balance of payments is largely affected by reinvested earnings, which

Table 1.19. Income

	Inflow		Outflow		Balance	
	Volume (EEK m)	Change compared to previous period (%)	Volume (EEK m)	Change compared to previous period (%)	Volume (EEK m)	Change compared to previous period (%)
1999	1,964.3	4.9	3,470.1	14.3	-1,505.8	29.4
2000	2,032.5	3.5	5,491.4	58.2	-3,458.9	129.7
2001	3,022.2	48.7	7,920.8	44.2	-4,898.6	41.6
2002	3,371.3	11.6	8,762.4	10.6	-5,391.1	10.1
2003	3,584.1	6.3	10,824.8	23.5	-7,240.7	34.3
2004	5,487.0	53.1	13,452.3	24.3	-7,965.3	10.0
2005	9,225.6	68.1	16,349.9	21.5	-7,124.4	-10.6
2006	13,558.1	47.0	24,324.3	48.8	-10,766.2	51.1
2007	19,093.3	40.8	35,668.4	46.6	-16,575.0	54.0
2008	17,570.7	-8.0	33,294.3	-6.7	-15,723.6	-5.1

are not subject to taxation in Estonia. Reinvested earnings include no actual movement of funds. The decrease in reinvested earnings was namely the reason for smaller net outflow of investment income. Lower reinvested earnings, in turn, stemmed from the falling profits and growing losses of direct investment companies as well as withdrawal of dividends by residents. The net outflow of reinvested earnings declined 15% year-on-year and totalled 14.1 billion kroons (see Table 1.20). The net inflow of income on portfolio investment increased by three times and the net outflow of income on other investment (loans and deposits) by two times compared to 2007.

Income inflow decreased 8% in 2008 and amounted to 17.6 billion kroons (see Table 1.21). The inflow increased in the first three quarters but decreased nearly 40% in the fourth quarter from the previous quarter. Over 90% of residents' income earned abroad was related to EU countries (see Table 1.22). The share of labour income in income inflow decreased both in relative and absolute terms. One of the reasons was the fact that people working abroad for a longer period (more than one year) become residents of the country of employment and their remittances to the country of origin are reflected under current transfers in the balance of payments. The second reason is the rise in the number of residents who lost their jobs abroad. Labour income accounted for 20% (3.6 billion kroons) of the income inflow. Estonian residents were employed mostly in Finland (43% of labour income inflow), the United Kingdom (11%), Ireland, Latvia and Sweden.

Table 1.20. Structure of income account

	Balance (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
Labour income	3,461.6	2,495.0	-20.9	-15.9	-27.9
Investment income	-20,036.6	-18,218.6	120.9	115.9	-9.1
Income on direct investment	-17,386.7	-13,348.7	104.9	84.9	-23.2
income on equity	-16,303.6	-12,947.6	98.4	82.3	-20.6
reinvested earnings	158.0	1,107.9	-1.0	-7.0	601.0
dividends	-16,461.7	-14,055.5	99.3	89.4	-14.6
income on debt (interests)	-1,083.1	-401.1	6.5	2.6	-63.0
Income on portfolio investment	466.1	1,489.1	-2.8	-9.5	219.5
Income on other investment	-3,116.0	-6,359.1	18.8	40.4	104.1
Total	**-16,575.0**	**-15,723.6**	**100.0**	**100.0**	**-5.1**

Table 1.21. Income inflow to Estonia

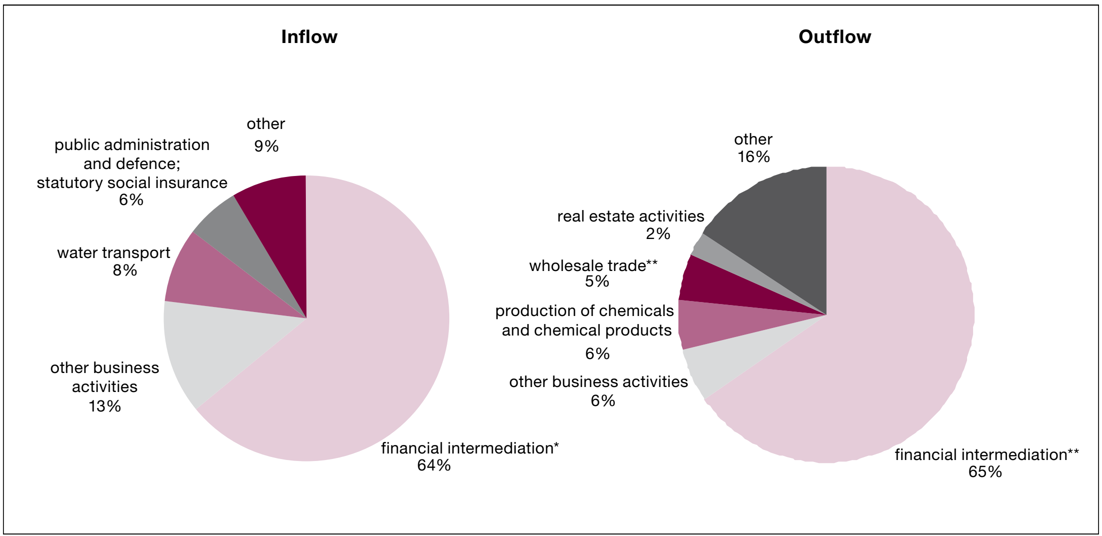
	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
Labour income	4,527.8	3,591.3	23.7	20.4	-20.7
Investment income	14,565.6	13,979.4	76.3	79.6	-4.0
Income on direct investment	9,172.1	8,075.7	48.0	46.0	-12.0
income on equity	8,433.3	6,766.2	44.2	38.5	-19.8
reinvested earnings	3,392.0	5,320.4	17.8	30.3	56.9
dividends	5,041.3	1,445.8	26.4	8.2	-71.3
income on debt (interests)	738.8	1,309.5	3.9	7.5	77.3
Income on portfolio investment	2,994.1	3,161.5	15.7	18.0	5.6
Income on other investment	2,399.3	2,742.3	12.6	15.6	14.3
Total	**19,093.3**	**17,570.7**	**100.0**	**100.0**	**-8.0**

Table 1.22. Income by groups of countries in 2008

	Inflow				Outflow		
	Volume (EEK m)	Share (%)	Change (%), 2008/2007		Volume (EEK m)	Share (%)	Change (%), 2008/2007
EU-27	**16,522.5**	**94.0**	**-3.5**	**EU-27**	**30,729.7**	**92.3**	**-5.4**
Latvia	3,528.4	20.1	-15.3	Sweden	19,176.9	57.6	18.6
Finland	2,871.9	16.3	25.4	Finland	4,500.0	13.5	-40.5
Lithuania	2,361.4	13.4	-2.2	Cyprus	1,748.5	5.3	256.1
United Kingdom	1,627.7	9.3	-16.4	Denmark	1,587.6	4.8	18.5
Cyprus	1,114.3	6.3	23.1	United Kingdom	1,424.0	4.3	-25.0
CIS	**230.4**	**1.3**	**-75.7**	**CIS**	**491.1**	**1.5**	**-8.1**
Russia	363.0	2.1	-55.8	Russia	336.1	1.0	-16.3
Belarus	-177.4	-1.0	-376.2	Ukraine	95.2	0.3	-13.7
Other	**817.8**	**4.7**	**-19.4**	**Other**	**2,073.5**	**6.2**	**-21.8**
USA	341.8	1.9	-30.9	offshore regions	878.6	2.6	40.4
Norway	167.2	1.0	52.7	Norway	531.9	1.6	-4.1
offshore regions	88.2	0.5	-64.1	USA	325.9	1.0	-52.1
Total	**17,570.7**	**100.0**	**-8.0**	**Total**	**33,294.3**	**100.0**	**-6.7**

Residents' income on foreign investment decreased 4%. Direct investment income accounted for 57%, portfolio investment income for 23% and income on other investment for 20% of total investment income. Residents' income on foreign direct investment shrank 12%. The structure of direct investment income changed considerably: the share of dividends grew and that of reinvested earnings fell as a result of the extensive amount of dividends paid. Residents' portfolio and other investment income increased 6% and 14%, respectively. 95% of the inflow of investment income was related to EU countries, nearly half of it with Latvia and Lithuania. 65% of the investment income inflow belonged to financial intermediaries (except insurance and pension funds). Somewhat less investment went to other business activities, water transport and the public sector (see Figure 1.5).

Income outflow declined 7% in 2008 and totalled 33.3 billion kroons (see Table 1.23). Over 90% of the income belonged to EU investors, in particular to Swedish residents (see Table 1.22). Labour income comprised nearly 3% of the outflow. Direct investment income comprised 67%, portfolio investment income 5% and other investment income 28% of non-residents' investment income earned in Estonia (16% in 2007). The net outflow of other investment income increased 65% year-on-year. Like in several previous years, non-residents' direct investment income largely consisted of reinvested earnings (72%) also in 2008 (70% on average in 2000–2008). Swedish investors earned 59% and Finnish investors 14% of the investment income. Almost two thirds of non-residents' investment income was earned on financial intermediation (except insurance and pension funds) and less on other business activities, production of chemical products and wholesale (see Figure 1.5).



* Except insurance and pension funding
** Except motor vehicles and motorcycles

Figure 1.5. Inflow and outflow of investment income by fields of activity in 2008

Table 1.23. Income outflow from Estonia

	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
Labour income	1066.2	1096.264	3.0	3.3	2.8
Investment income	34,602.2	32,198.1	97.0	96.7	-6.9
Income on direct investment	26,558.8	21,424.3	74.5	64.3	-19.3
income on equity	24,737.0	19,713.8	69.4	59.2	-20.3
reinvested earnings	3,234.0	4,212.4	9.1	12.7	30.3
dividends	21,503.0	15,501.3	60.3	46.6	-27.9
income on debt (interests)	1,821.8	1,710.6	5.1	5.1	-6.1
Income on portfolio investment	2,528.0	1,672.4	7.1	5.0	-33.8
Income on other investment	5,515.4	9,101.4	15.5	27.3	65.0
Total	**35,668.4**	**33,294.3**	**100.0**	**100.0**	**-6.7**

Current and capital transfers[2]

The surplus on **current transfers** account stood at 3 billion kroons in 2008, having increased by 1.4 billion kroons from 2007 (see Table 1.24). The inflow of current transfers amounted to 8.2 billion kroons. Government transfers comprised 35% (2.9 billion kroons) of the current transfers and contained allocations from the EU structural funds (47%) as well as VAT, income and social tax receipts from non-residents. Transfers to other sectors totalled 5.3 billion kroons. 45% of that accounted for external aid from the European Commission and 12% for transfers by migrants employed abroad. The outflow of current transfers was 5.2 billion kroons, having decreased by 0.8 billion kroons from 2007. Government transfers constituted 61% of the outflow, the rest being transfers of other sectors. 87% of government transfers were compulsory payments into the EU budget. The rest were mostly refunds of VAT and some

[2] Although capital transfers are reflected under the capital and financial account in the IMF methodology, the present analysis treats them together with current transfers. The distribution of European Union structural funds available for Estonia into current and capital transfers is not clearly distinguishable and is, therefore, based on the expert estimates of the Ministry of Financial Affairs, the Ministry of Agriculture, and Eesti Pank (according to the purpose of structural funds).

also external aid provided by Estonia. 25% of other sectors' transfers went to Finland and the rest primarily to Germany, the United Kingdom, Sweden, Latvia and Russia.

Capital transfers posted a surplus of 2.6 billion kroons, which was only 0.1 billion kroons bigger compared to the surplus for 2007. Capital transfers into Estonia mainly comprised EU subsidies to the general government as well as to other sectors for various infrastructure objects.

Table 1.24. Current and capital transfers by groups of countries

	Received (EEK m)		Paid (EEK m)		Balance (EEK m)	
	2007	2008	2007	2008	2007	2008
Current transfers	**7,610.8**	**8,220.7**	**5,988.3**	**5,190.8**	**1,622.5**	**3,029.8**
government transfers	**3,140.6**	**2,886.6**	**3,392.7**	**3,175.1**	**-252.1**	**-288.5**
EU-27	2,869.1	2,584.7	3,291.5	3,105.5	-422.4	-520.9
CIS	83.1	69.4	7.9	10.3	75.2	59.1
other	188.4	232.6	93.3	59.3	95.1	173.3
private transfers	**4,470.1**	**5,334.0**	**2,595.6**	**2,015.8**	**1,874.6**	**3,318.3**
EU-27	2,944.7	4,149.9	2,158.4	1,597.1	786.2	2,552.8
CIS	601.1	736.0	163.2	182.1	437.8	553.8
other	924.4	448.2	273.9	236.6	650.5	211.6
Capital transfers	**3,017.9**	**2,718.8**	**540.8**	**143.4**	**2,477.1**	**2,575.3**
government transfers	1,893.3	1,090.5	245.3	0.4	1,648.0	1,090.1
private transfers	1,124.6	1,628.3	295.5	143.0	829.1	1,485.2

FINANCIAL ACCOUNT

The surplus on the financial account[3] totalled 29.6 billion kroons and was 25% lower than in 2007. Foreign capital inflow occurred primarily in the form of direct and other investment. Figures 1.6 and 1.7 show the structure of the financial account by categories and maturities.

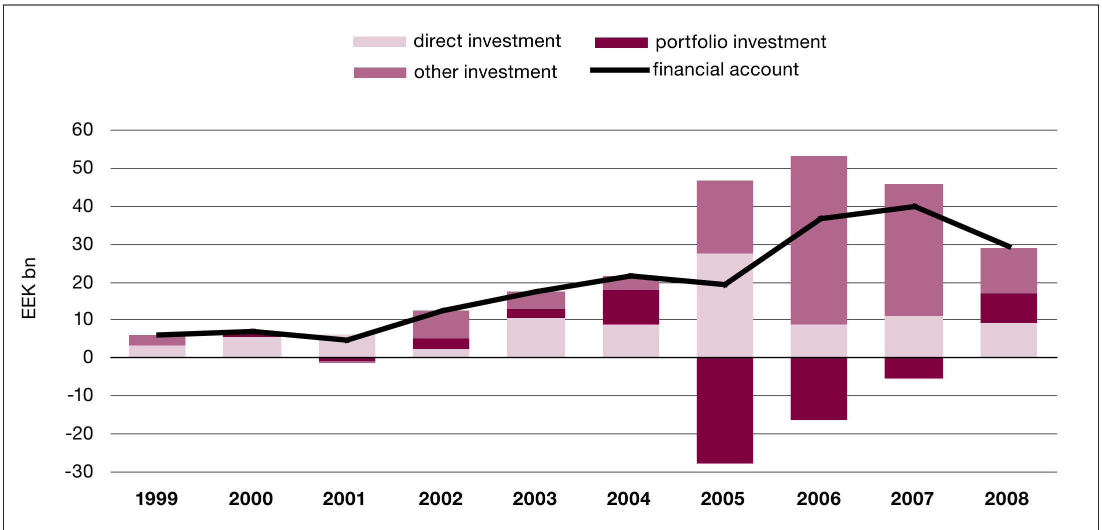


Figure 1.6. Structure of foreign investment capital flows

[3] Without reserve assets.

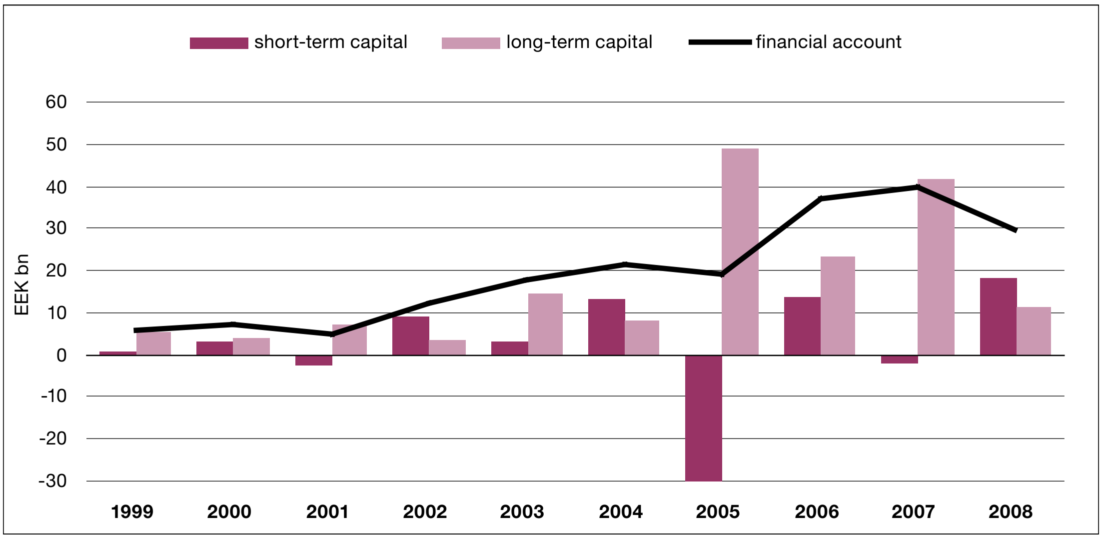


Figure 1.7. Maturity structure of the financial account

Direct investment

The inflow and outflow of **direct investment** decreased 30% and 40%, respectively, compared to the record highs of 2007. The surplus on direct investment amounted to 9 billion kroons and formed almost a third of the surplus on the financial account. Non-residents' direct investment in Estonia totalled 20.9 billion and residents' direct investment abroad reached 11.5 billion kroons (see Figure 1.8).

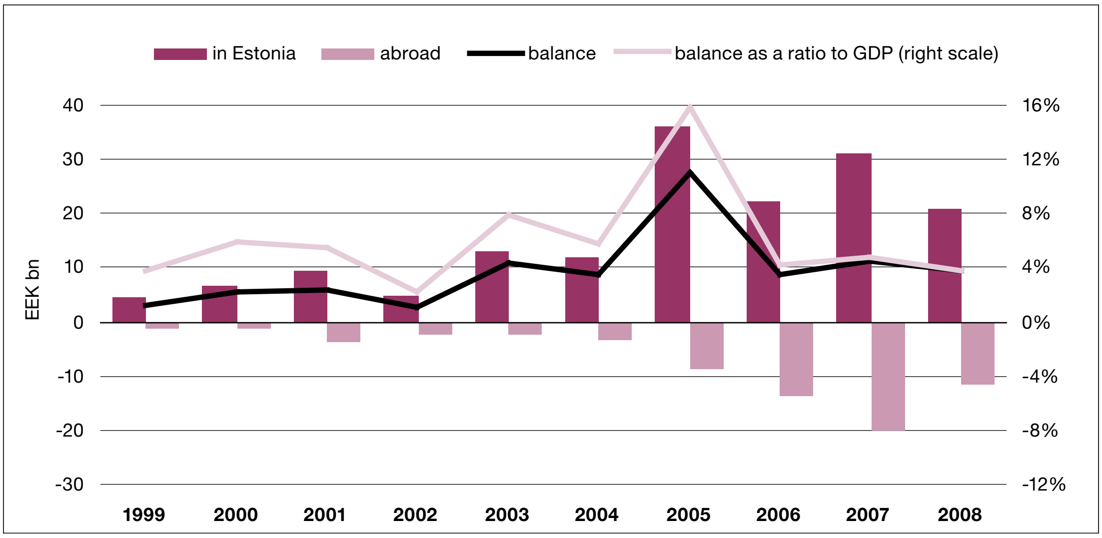


Figure 1.8. Direct investment

The inflow of **direct investment in Estonia** decreased, year-on-year, to the level of 2006. The structure of direct investment inflow has been stable for the past three years, indicating Estonia's economic achievements. Estonia has been a favourable environment for investment, as reinvested earnings are not subject to taxation here. This, in turn, has encouraged foreign investors to reinvest their direct investment income. This is revealed by the large share of reinvested earnings (over 70%) in the inflow of direct investment in 2008. Profits of credit institutions accounted for almost 75% and profits of chemical companies for 10% of total reinvested earnings; the shares of other fields of activity were lower. Equity capital investment formed less than 15% and other capital nearly 10% of total direct investment. Compared to 2007, lending to direct investors decreased by 3.7 times and borrowing from them by 2.2 times (see Tables 1.25 and 1.26).

The biggest direct investors were from Sweden (59%) and the Netherlands (25%). Investors from Russia and Norway invested to a lesser extent (see Figure 1.9). Finland's direct investment decreased owing to the sale of one company. Over half of direct investment was made in financial intermediation, 18% in transport and travel agencies and 16% in business service companies (see Figure 1.10). 80% of direct investment came from EU countries (see Table 1.27).

Table 1.25. Structure of direct investment in Estonia

	Equity capital		Reinvested earnings		Other capital				Total	
					Assets		Liabilities			
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1999	2,551.8	57.4	721.8	16.2	-265.0	-6.0	1,439.2	32.4	4,447.8	100.0
2000	3,925.2	59.1	1,815.2	27.3	-397.2	-6.0	1,301.3	19.6	6,644.5	100.0
2001	3,641.4	38.6	3,878.9	41.1	-950.7	-10.1	2,860.3	30.3	9,429.9	100.0
2002	821.0	17.1	3,370.3	70.2	-772.5	-16.1	1,381.5	28.8	4,800.3	100.0
2003	5,329.9	41.4	6,406.7	49.8	-1,334.0	-10.4	2,462.7	19.1	12,865.3	100.0
2004	4,638.6	38.5	7,982.1	66.2	-1,454.0	-12.1	894.2	7.4	12,060.9	100.0
2005	27,979.5	77.5	8,885.8	24.6	-2,014.0	-5.6	1,249.7	3.5	36,101.0	100.0
2006	2,238.6	10.0	15,652.5	69.9	-4,463.5	-19.9	8,975.9	40.1	22,403.6	100.0
2007	4,275.0	13.7	21,503.0	68.8	-6,506.2	-20.8	11,984.3	38.3	31,256.1	100.0
2008	3,183.3	15.2	15,501.3	74.2	-1,872.2	-9.0	4,067.2	19.5	20,879.6	100.0

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

	Assets				Liabilities			
	Long-term		Short-term		Long-term		Short-term	
	Grantings	Repay-ments	Grantings	Repay-ments	Drawings	Repay-ments	Drawings	Repay-ments
2003	408.4	246.4	1,010.7	498.7	5,155.6	2,667.1	3,020.9	3,726.9
2004	492.7	371.2	1,774.1	862.1	4,601.5	4,882.2	3,024.5	2,197.2
2005	1,274.3	502.5	2,290.6	1,413.4	7,889.0	6,892.3	5,011.4	4,575.5
2006	2,120.5	609.3	3,723.7	2,589.2	13,317.0	6,139.9	4,119.0	3,393.4
2007	3,851.7	1,225.7	7,973.2	3,890.1	18,030.7	9,173.8	8,138.6	6,368.5
2008	3,481.9	2,530.1	8,977.8	8,126.0	13,659.7	12,002.7	12,379.0	9,272.0

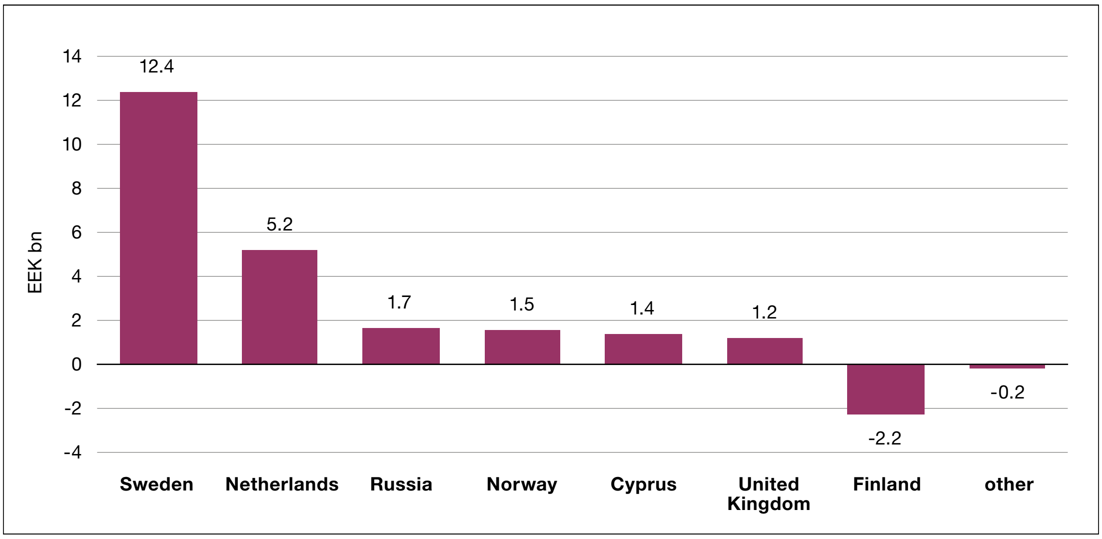


Figure 1.9. Direct investment in Estonia by countries in 2008

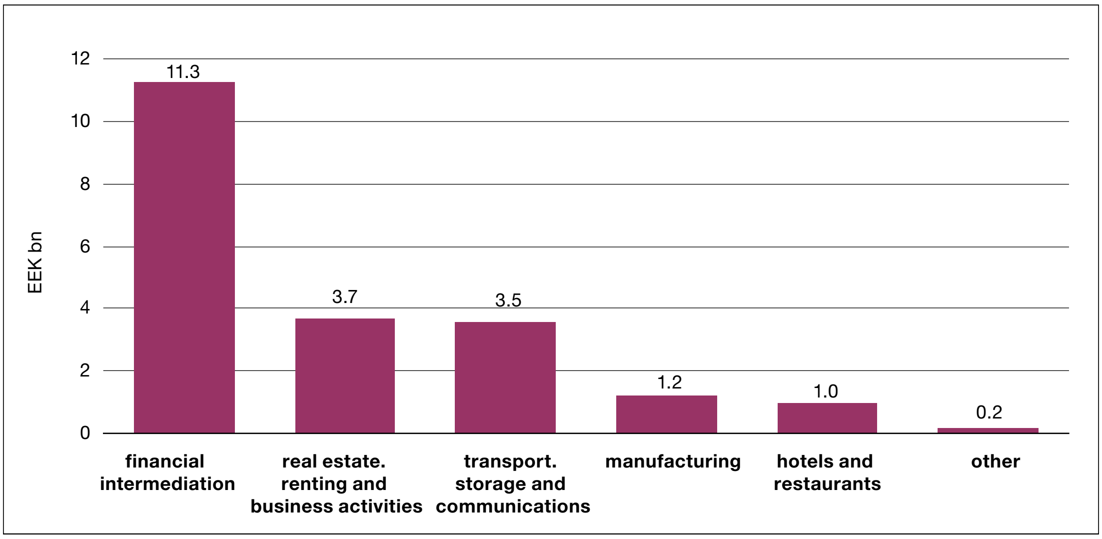


Figure 1.10. Direct investment in Estonia by fields of activities in 2008

Table 1.27. Direct investment in Estonia by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
EU-27	31,304.5	16,976.8	100.2	81.3	-45.8
CIS	-306.0	1,879.3	-1.0	9.0	-714.1
Other	257.6	2,023.6	0.8	9.7	685.6
Total	**31,256.1**	**20,879.6**	**100.0**	**100.0**	**-33.2**

Table 1.28. Structure of direct investment abroad

	Equity capital		Reinvested earnings		Other capital				Total	
					Assets		Liabilities			
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1999	-525.7	42.4	-115.8	9.3	-641.3	51.7	42.9	-3.5	-1,239.8	100.0
2000	-579.6	55.5	-65.9	6.3	-481.0	46.1	83.1	-8.0	-1,043.4	100.0
2001	-1,897.1	53.8	-305.2	8.7	-1,242.7	35.2	-83.0	2.4	-3,528.1	100.0
2002	-903.9	41.3	-665.5	30.4	-727.2	33.2	108.0	-4.9	-2,188.6	100.0
2003	-1,060.0	49.3	-741.4	34.5	-645.8	30.0	297.9	-13.9	-2,149.2	100.0
2004	-2,175.2	64.2	-919.6	27.1	-434.2	12.8	140.3	-4.1	-3,388.6	100.0
2005	-5,155.3	59.3	-2,694.6	31.0	-1,141.6	13.1	292.0	-3.4	-8,699.5	100.0
2006	-5,895.5	42.8	-4,844.9	35.1	-3,810.3	27.6	760.3	-5.5	-13,790.4	100.0
2007	-10,324.1	51.8	-5,041.3	25.3	-6,003.8	30.2	1,457.2	-7.3	-19,912.0	100.0
2008	-2,589.2	22.5	-1,445.8	12.6	-6,546.4	56.8	-935.4	8.1	-11,516.8	100.0

Direct investment abroad decreased faster than investment in Estonia and totalled 11.5 billion kroons, which is lower than in 2006 (see Table 1.28). Nevertheless, the large outflow of direct investment continued for the fourth year in row. Unlike direct investment in Estonia, which has mostly consisted of retained earnings in recent years, residents' foreign direct investment mostly consisted of loans and trade credit granted to subsidiaries in 2008. The low share (13%) of reinvested earnings stemmed from the drawing of dividends. The share of equity capital investment has fallen to 23% – the lowest of the past ten years. In absolute terms, however, investment remained at the 2004 level.

Estonian direct investors preferred to invest in Latvia and Lithuania who received 31% and 30% of direct investment, respectively (see Figure 1.11). Other investment destinations included Cyprus, Ukraine and Finland. Direct investment in Russia shrank. Financial intermediaries accounted for 34% and investors in the field of other business activities for 26% of foreign investment outflow (see Figure 1.12). By groups of countries, nearly all direct investment was channelled to the EU (see Table 1.30).

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

	Assets				Liabilities			
	Long-term		Short-term		Long-term		Short-term	
	Grantings	Repay-ments	Grantings	Repay-ments	Drawings	Repay-ments	Drawings	Repay-ments
2003	1,107.1	716.6	472.1	503.8	4.0	11.6	84.2	98.8
2004	934.8	1,232.5	952.4	368.9	17.9	61.2	27.9	37.1
2005	2,141.8	1,488.6	1,710.6	1,107.4	109.6	60.7	104.9	25.0
2006	5,361.8	2,372.7	1,563.4	1,626.1	118.6	112.7	147.0	20.5
2007	6,371.1	2,047.0	2,087.8	1,493.4	100.4	114.6	1,678.5	109.3
2008	5,395.5	3,654.9	2,902.2	2,011.9	254.3	280.2	594.6	1,179.1

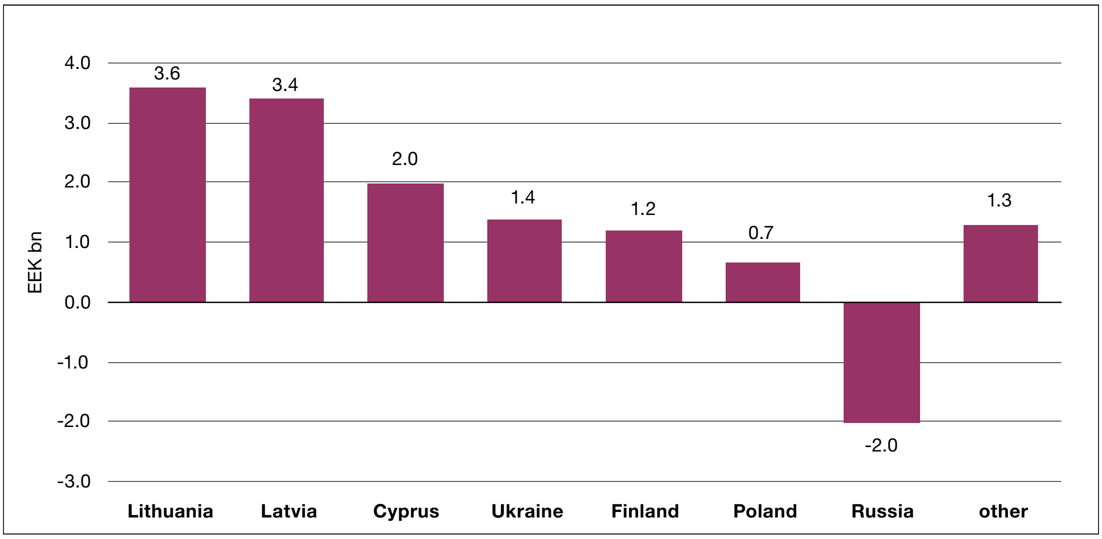


Figure 1.11. Direct investment abroad by countries in 2008

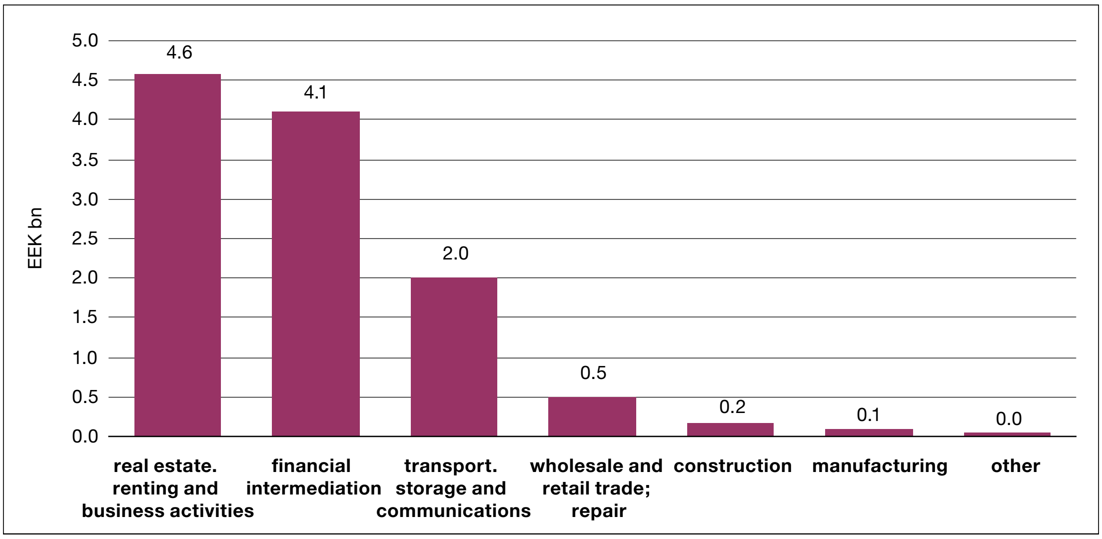


Figure 1.12. Direct investment abroad by fields of activity in 2008

Table 1.30. Direct investment abroad by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
EU-27	-16,712.2	-11,847.2	83.9	102.9	-29.1
CIS	-2,306.5	737.5	11.6	-6.4	-132.0
Other	-893.3	-407.1	4.5	3.5	-54.4
Total	**-19,912.0**	**-11,516.8**	**100.0**	**100.0**	**-42.2**

Portfolio investment

The net inflow of **portfolio investment** totalled 7.8 billion kroons in 2008. This resulted primarily from a decrease in the debt security investment of the general government and credit institutions, as well as a decline in foreign investors' investment in the equity securities of enterprises in other sectors (see Figure 1.13 and Table 1.31).

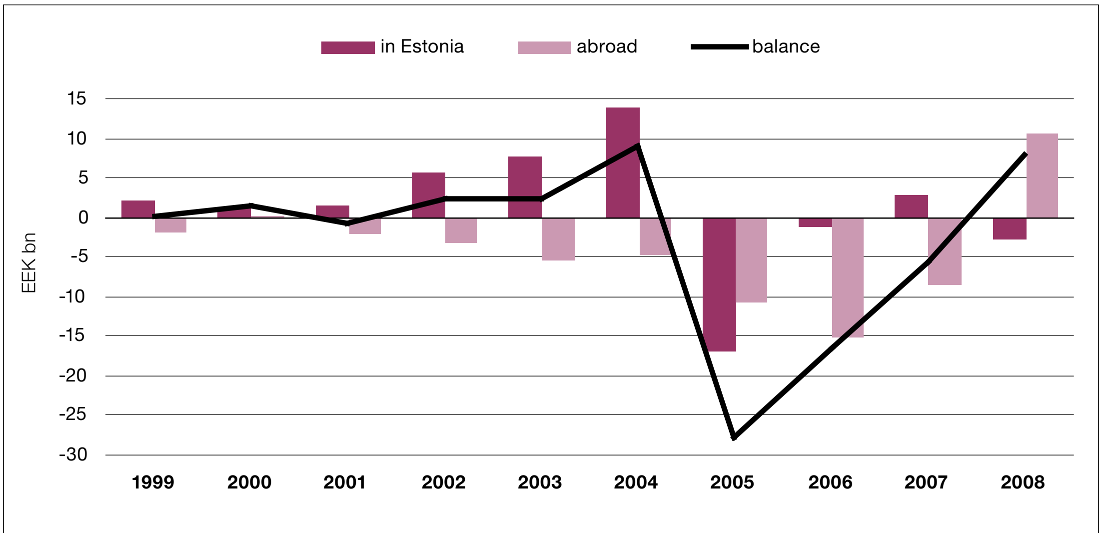


Figure 1.13. Portfolio investment

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

	Assets		Liabilities		Balance	
	2007	2008	2007	2008	2007	2008
Equity securities	**-7,688.8**	**4,102.5**	**3,533.3**	**-3,415.3**	**-4,155.5**	**687.2**
central bank	0.0	0.0	0.0	0.0	0.0	0.0
general government	-111.2	2.8	0.0	0.0	-111.2	2.8
credit institutions	68.6	131.4	21.7	-40.2	90.3	91.2
other sectors	-7,646.2	3,968.2	3,511.5	-3,375.2	-4,134.7	593.0
Debt securities	**-751.8**	**6,537.4**	**-650.9**	**629.9**	**-1,402.7**	**7,167.3**
central bank	0.0	0.0	0.0	0.0	0.0	0.0
general government	-3,510.6	4,710.1	-1,026.6	572.6	-4,537.2	5,282.7
credit institutions	1,985.6	2,410.9	-674.5	-330.0	1,311.1	2,080.9
other sectors	773.0	-583.5	1,050.1	387.3	1,823.1	-196.2
Total	**-8,440.6**	**10,639.9**	**2,882.4**	**-2,785.4**	**-5,558.2**	**7,854.5**

Portfolio investment liabilities decreased by 2.8 billion kroons in 2008 as a result of lower investment in Estonian equity securities (see Table 1.32). The equity security liabilities of enterprises in other sectors decreased by as much as 1.7 billion kroons in the fourth quarter, of which 1 billion kroons belonged to investment funds. Debt security liabilities increased by 630 million kroons in 2008, mostly as a result of a bond issue of a public sector enterprise. Investment in enterprises in other sectors grew by 387 million kroons and the debt security liabilities of credit institutions decreased by 330 million kroons. By countries, portfolio investment liabilities to EU countries, in particular Latvia, the United Kingdom, Austria, Cyprus and Luxembourg, increased the most (see Figure 1.14 and Table 1.33).

Table 1.32. Structure of portfolio investment liabilities

	Equity securities		Debt securities		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1999	3,292.3	160.5	-1,241.4	-60.5	2,050.9	100.0
2000	-538.8	-42.0	1,820.7	142.0	1,281.9	100.0
2001	568.4	40.6	832.1	59.4	1,400.5	100.0
2002	912.2	16.4	4,649.4	83.6	5,561.6	100.0
2003	1,527.0	19.6	6,256.2	80.4	7,783.2	100.0
2004	2,205.2	15.9	11,673.0	84.1	13,878.2	100.0
2005	-16,352.3	96.9	-517.8	3.1	-16,870.0	100.0
2006	3,731.8	-293.9	-5,001.6	393.9	-1,269.8	100.0
2007	3,533.3	122.6	-650.9	-22.6	2,882.4	100.0
2008	-3,415.3	122.6	629.9	-22.6	-2,785.4	100.0

Figure 1.14. Decrease in portfolio investment liabilities by countries in 2008

Table 1.33. Structure of portfolio investment by groups of countries

	Volume (EEK m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2007	2008	2007	2008	2007	2008	2007	2008
EU-27	-8,328.3	9,379.5	2,501.2	-2,515.8	98.7	88.2	86.8	90.3
CIS	-1,565.2	1,320.9	22.6	-59.0	18.5	12.4	0.8	2.1
Other	1,452.9	-60.5	358.6	-210.6	-17.2	-0.6	12.4	7.6
Total	**-8,440.6**	**10,639.9**	**2,882.4**	**-2,785.4**	**100.0**	**100.0**	**100.0**	**100.0**

Portfolio investment assets diminished by 10.6 billion kroons year-on-year; equity security investment comprised 4.1 billion and debt security assets 6.5 billion kroons of that (see Table 1.34).

The investment of other sectors' enterprises in equity securities issued by non-residents declined by 4 billion kroons, of which assets of investment funds constituted 1.6 billion kroons. The debt secu-

Table 1.34. Structure of portfolio investment assets

	Equity securities		Debt securities		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1999	187.0	-9.9	-2,081.9	109.9	-1,894.9	100.0
2000	53.3	34.8	99.8	65.2	153.1	100.0
2001	236.5	-11.3	-2,336.7	111.3	-2,100.2	100.0
2002	9.1	-0.3	-3,192.0	100.3	-3,182.9	100.0
2003	-1,028.9	19.2	-4,322.7	80.8	-5,351.6	100.0
2004	-2,893.5	60.6	-1,882.2	39.4	-4,775.7	100.0
2005	-4,848.9	44.8	-5,969.5	55.2	-10,818.4	100.0
2006	-4,569.2	30.0	-10,637.5	70.0	-15,206.7	100.0
2007	-7,688.8	91.1	-751.8	8.9	-8,440.6	100.0
2008	4,102.5	38.6	6,537.4	61.4	10,639.9	100.0

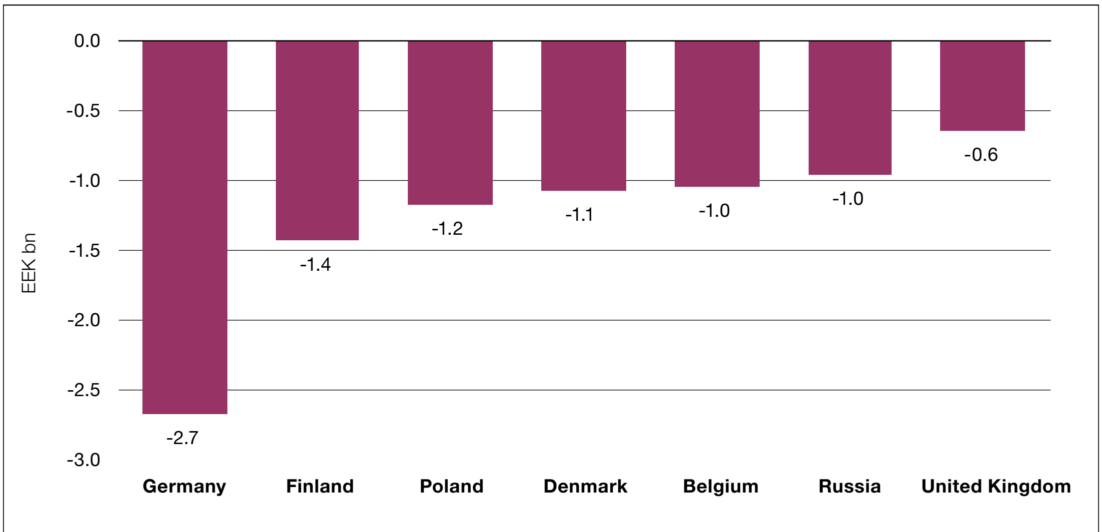


Figure 1.15. Decrease in portfolio investment assets by countries in 2008

rity investment of credit institutions decreased by 2.4 billion kroons; the debt security assets of the general government declined by 4.7 billion kroons owing to the decrease in Estonia's reserve assets. By countries, primarily portfolio investment assets to Germany, Finland, Poland, Denmark and Belgium decreased (see Figure 1.15).

Financial derivatives

Financial derivative assets decreased by 675 million kroons in 2008 (see Figure 1.16). This was mainly caused by a decline in credit institutions' investment in derivatives. By countries, assets to Austria, the United Kingdom, Sweden and Germany shrank the most. **Financial derivative liabilities** increased by 154 million kroons in 2008, largely owing to the liabilities of credit institutions acquired in the fourth quarter. By countries, liabilities to Denmark and Sweden increased the most.

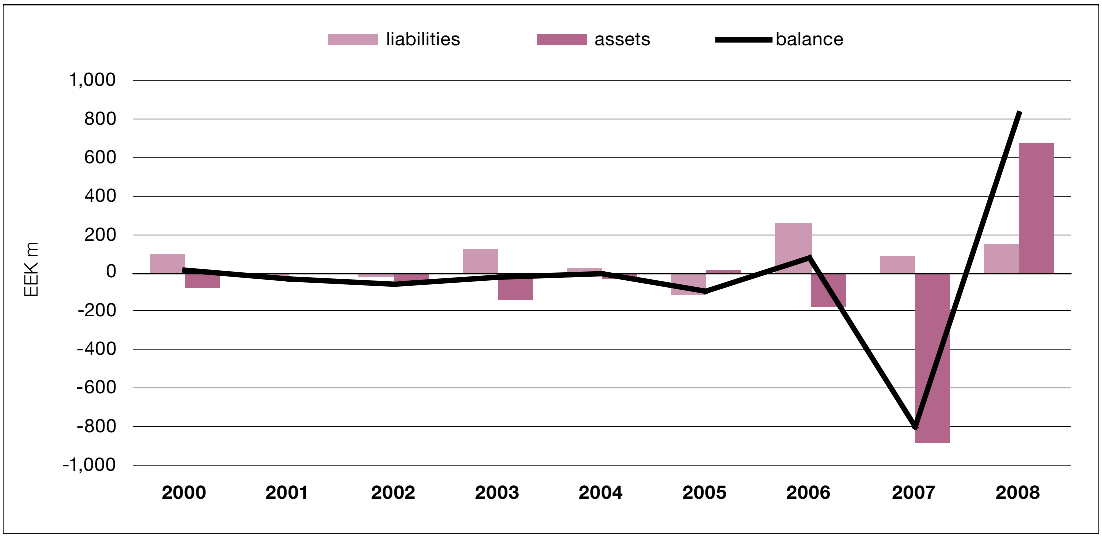


Figure 1.16. Financial derivatives

Other investment

The **net inflow of other investment** reached 11.6 billion kroons in 2008, with other investment liabilities increasing by 17.7 billion kroons (see Figure 1.17). The net inflow comprised primarily short-term capital (see Table 1.35).

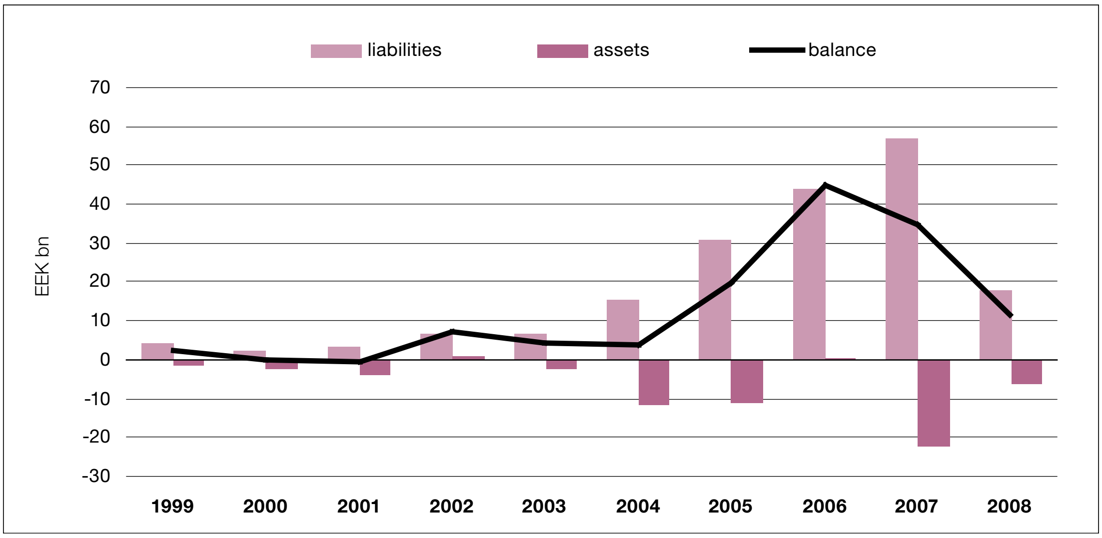


Figure 1.17. Other investment

Table 1.35. Other investment by maturity (EEK m)

	Assets		Liabilities		Balance	
	2007	2008	2007	2008	2007	2008
Long-term capital	**-3,288.2**	**-274.2**	**46,534.2**	**-9,518.6**	**43,246.0**	**-9,792.8**
central bank	0.8	3.5	0.0	0.0	0.8	3.5
general government	-97.1	-128.6	-144.5	1,323.3	-241.6	1,194.7
credit institutions	-2,058.5	720.8	44,722.1	-12,726.0	42,663.6	-12,005.2
other sectors	-1,133.4	-869.9	1,956.6	1,884.1	823.2	1,014.2
Short-term capital	**-19,001.1**	**-5,881.7**	**10,467.2**	**27,225.5**	**-8,533.9**	**21,343.8**
central bank	0.0	0.0	967.9	-1,733.6	967.9	-1,733.6
general government	145.7	-1,326.3	0.0	-1.4	145.7	-1,327.7
credit institutions	-15,603.8	-3,175.7	7,090.0	28,294.2	-8,513.8	25,118.5
other sectors	-3,543.0	-1,379.7	2,409.3	666.3	-1,133.7	-713.4
Total	**-22,289.4**	**-6,155.8**	**57,001.3**	**17,706.7**	**34,711.9**	**11,550.9**

Table 1.36. Structure of other investment liabilities

	Trade credit		Loans		Deposits		Other capital		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1999	119.1	2.8	2,399.7	57.3	1,462.7	34.9	204.3	4.9	4,185.8	100.0
2000	1,080.9	41.6	-785.3	-30.2	1,955.4	75.3	345.6	13.3	2,596.6	100.0
2001	102.9	3.1	2,570.4	78.2	81.4	2.5	533.5	16.2	3,288.2	100.0
2002	781.1	11.6	1,963.3	29.2	3,763.5	55.9	225.4	3.3	6,733.3	100.0
2003	-115.7	-1.7	3,219.5	47.8	4,587.9	68.2	-960.3	-14.3	6,731.4	100.0
2004	625.2	4.0	4,565.3	29.3	8,804.7	56.5	1,582.0	10.2	15,577.2	100.0
2005	1,633.6	5.3	24,676.0	80.3	2,953.3	9.6	1,452.4	4.7	30,715.3	100.0
2006	3,185.6	7.2	19,233.3	43.6	21,081.1	47.8	637.9	1.4	44,137.9	100.0
2007	-343.1	-0.6	38,232.4	67.1	18,875.5	33.1	236.6	0.4	57,001.3	100.0
2008	45.8	0.3	1,131.0	6.4	14,881.8	84.0	1,648.0	9.3	17,706.7	100.0

Other investment liabilities increased by 17.7 billion kroons year-on-year; credit institutions' liabilities related to loans/currency and deposits (incl. interbank loans) accounted for 14.9 billion kroons of that (see Table 1.36).[4] In the fourth quarter, the liabilities of credit institutions grew by 7.4 billion kroons, which stemmed from a decrease in domestic deposits at the height of the financial crisis in autumn. Consequently, banks lost depositors and had to acquire additional funds from their parent banks. Enterprises in other sectors increased both the short-term and long-term liabilities. This resulted from an increase in the liabilities – by 1.9 billion and 771 million kroons, respectively. By countries, other investment liabilities to Finland grew the most – by 10.6 billion kroons. Sweden and Russia followed with 4.9 and 1.8 billion kroons, respectively (see Figure 1.18 and Table 1.37).

[4] Interbank loans have been recorded under *Other investment – Loans/currency and deposits* since the data for the first quarter of 2008 (formerly under long- and short-term loans). The ECB's guideline for euro area countries and recommendation for non-euro area countries provide for the distinction between *loans* and *currency and deposits* based on the nature of the borrower. This implies that loans granted by banks to non-banks and loans between non-banks are still recorded under loans, whereas interbank loans are recorded under deposits. As at end-2008, long-term liabilities comprised 45.8% and assets 5.1% of the liabilities related to loans/currency and deposits under other investment.

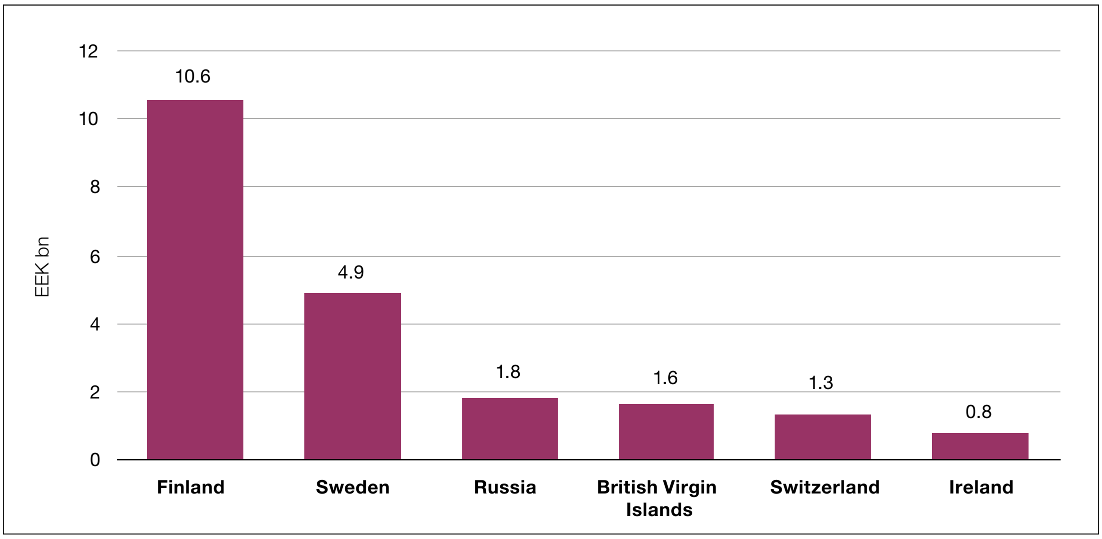


Figure 1.18. Increase in other investment liabilities by countries in 2008

Table 1.37. Structure of other investment by groups of countries

	Volume (EEK m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2007	2008	2007	2008	2007	2008	2007	2008
EU-27	-21,052.8	-8,143.8	52,218.8	13,716.1	94.5	132.3	91.6	77.5
CIS	-175.2	2,063.2	554.0	2,615.7	0.8	-33.5	1.0	14.8
Other	-1,061.4	-75.2	4,228.5	1,374.9	4.8	1.2	7.4	7.8
Total	**-22,289.4**	**-6,155.8**	**57,001.3**	**17,706.7**	**100.0**	**100.0**	**100.0**	**100.0**

Other investment assets increased by 6.2 billion kroons in 2008 (see Table 1.38). This was caused by an increase in trade credit and loan assets by 1.8 and 2 billion kroons, respectively. Other capital and deposit assets grew by 1.3 and 1.1 billion kroons, respectively. By countries, other investment capital was mainly channelled to Germany, Lithuania, Latvia and Denmark (see Figure 1.19). Table 1.39 provides an overview of loan assets and liabilities.

Table 1.38. Structure of other investment assets

	Trade credit		Loans		Deposits		Other capital		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1999	-401.8	24.3	-57.4	3.5	-887.9	53.8	-304.1	18.4	-1,651.2	100.0
2000	-78.0	3.0	-2,814.0	106.7	-103.0	3.9	356.7	-13.5	-2,638.3	100.0
2001	-584.8	15.7	-2,278.9	61.3	-738.0	19.9	-115.0	3.1	-3,716.7	100.0
2002	1,047.6	150.7	-1,324.5	-190.5	742.6	106.8	229.4	33.0	695.1	100.0
2003	-1,028.2	45.0	-3,520.3	154.1	2,209.3	-96.7	54.6	-2.4	-2,284.6	100.0
2004	-1,032.0	8.8	-8,455.5	72.0	-1,545.1	13.2	-716.9	6.1	-11,749.5	100.0
2005	-1,957.1	17.6	4,148.4	-37.2	-12,332.3	110.7	-1,002.5	9.0	-11,143.5	100.0
2006	-3,529.0	-627.5	-2,531.9	-450.2	6,284.4	1,117.4	338.8	60.2	562.4	100.0
2007	-641.5	2.9	-10,093.3	45.3	-11,114.4	49.9	-440.2	2.0	-22,289.4	100.0
2008	-1,822.6	29.6	-1,953.0	31.7	-1,068.1	17.4	-1,312.2	21.3	-6,155.8	100.0

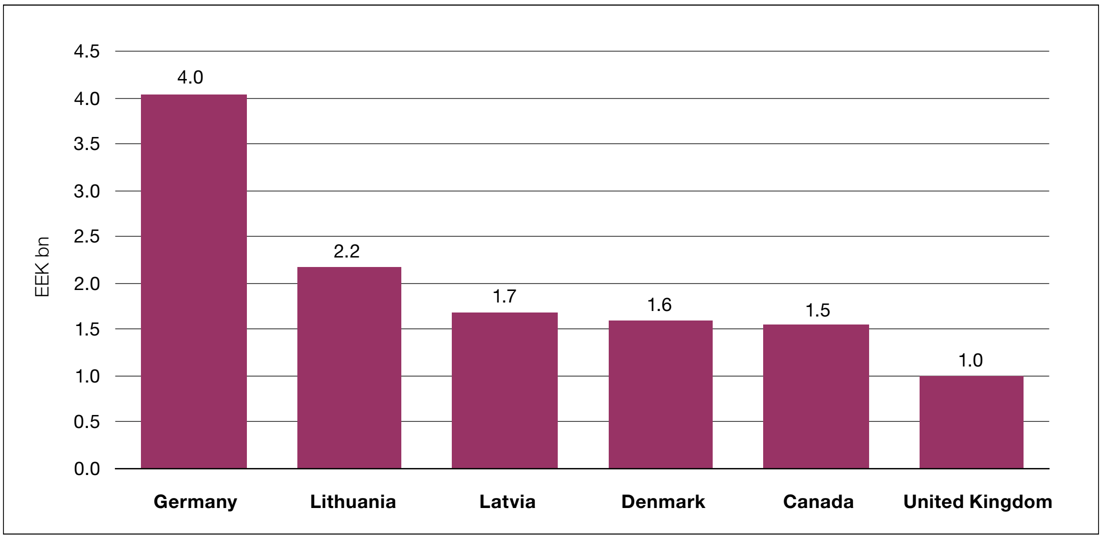


Figure 1.19. Increase in other investment assets by countries in 2008

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

	Assets			Liabilities		
	Grantings	**Repayments**	**Total**	**Drawings**	**Repayments**	**Total**
2003	-34,919.2	31,398.9	-3,520.3	30,076.6	-26,857.1	3,219.5
2004	-29,782.7	21,327.1	-8,455.5	45,447.4	-40,882.1	4,565.3
2005	-77,557.0	81,705.4	4,148.4	125,439.3	-100,763.3	24,676.0
2006	-76,012.5	73,480.6	-2,531.9	182,869.5	-163,636.2	19,233.3
2007	-396,483.6	386,390.3	-10,093.3	364,037.0	-325,804.6	38,232.4
2008	-47,926.2	45,973.3	-1,953.0	103,835.6	-102,704.6	1,131.0

Reserve assets

The balance of payments reserves increased by 7.9 billion kroons in 2008 (see Table 1.40). Figure 1.20 provides an overview of the imports covered by reserve assets.

Table 1.40. Structure of reserve assets

	Volume (EEK m)		Share (%)	
	2007	**2008**	**2007**	**2008**
Gold	0.0	0.0	0.0	0.0
Currency and deposits	2,589.9	-2,722.4	-184.7	34.5
Securities	-3,984.3	-5,710.2	284.2	72.5
equity securities	0.0	0.0	0.0	0.0
bonds and notes	-5,089.5	243.9	363.0	-3.1
money market instruments	1,105.2	-5,954.1	-78.8	75.6
Financial derivatives	0.3	0.7	-3.8	0.1
Other assets	-7.8	552.2	0.6	-7.0
Total	**-1,401.9**	**-7,879.7**	**100.0**	**100.0**

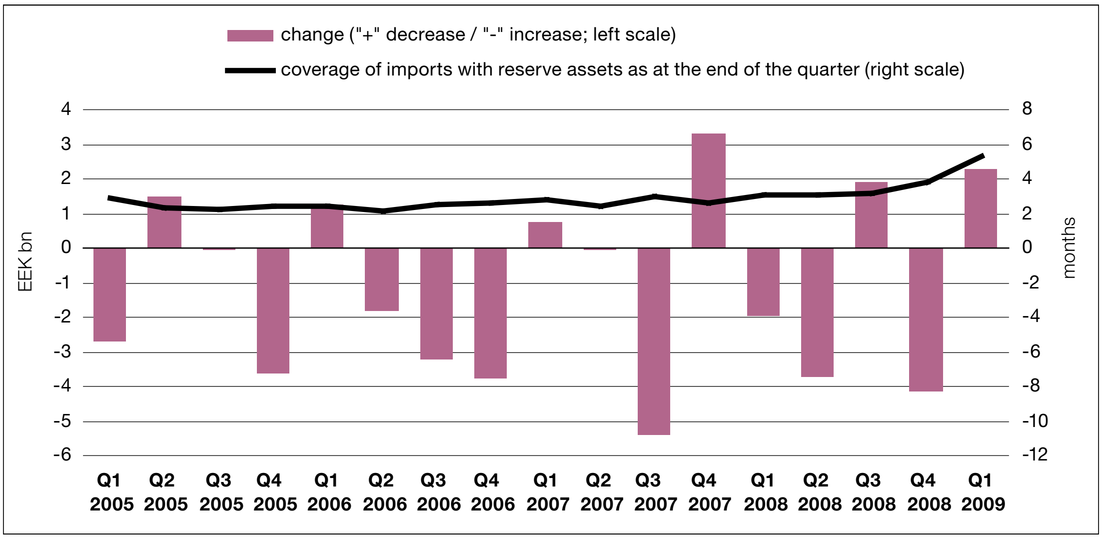


Figure 1.20. Changes in Estonia's gold and foreign exchange reserves and coverage of imports with reserve assets

II. ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND EXTERNAL DEBT as at 31 December 2008

In 2008, foreign investment in Estonia increased 1% and amounted to 430 billion kroons (see Table 2.1). Nearly 60% thereof was invested in financial intermediation (except insurance and pension funding), 6% in real estate activities, 6% in wholesale and 5% in other business activities (see Table 2.2). Most of the investment came from Sweden (39%) and Finland (20%). Foreign investment in Estonia increased until the third quarter of 2008 but decreased then in the fourth quarter.

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

	31/12/2007	Share (%)	31/12/2008	Share (%)	Change (%)
EXTERNAL ASSETS	**244,532.5**	**100.0**	**241,804.7**	**100.0**	**-1.1**
Direct investment abroad	**65,681.4**	**26.9**	**74,245.6**	**30.7**	**13.0**
Equity capital and reinvested earnings	52,211.1	21.4	52,923.7	21.9	1.4
Other direct investment capital	13,470.3	5.5	21,321.9	8.8	58.3
Portfolio investment	**68,233.6**	**27.9**	**42,490.6**	**17.6**	**-37.7**
Equity securities	31,283.8	12.8	12,733.0	5.3	-59.3
Debt securities	36,949.8	15.1	29,757.6	12.3	-19.5
Bonds and notes	23,894.7	9.8	20,636.0	8.5	-13.6
Money market instruments	13,055.1	5.3	9,121.6	3.8	-30.1
Financial derivatives	**1,466.5**	**0.6**	**835.3**	**0.3**	**-43.0**
Other investment	**74,098.5**	**30.3**	**80,057.3**	**33.1**	**8.0**
Trade credit	14,647.9	6.0	17,053.7	7.1	16.4
Loans	31,671.6	13.0	18,109.0	7.5	-42.8
Long-term	9,724.4	4.0	9,953.0	4.1	2.4
Short-term	21,947.2	9.0	8,156.0	3.4	-62.8
Currency and deposits	25,219.5	10.3	41,062.2	17.0	62.8
Other assets	2,559.5	1.0	3,832.4	1.6	49.7
Reserve assets	**35,052.6**	**14.3**	**44,175.9**	**18.3**	**26.0**
EXTERNAL LIABILITIES	**426,180.6**	**100.0**	**430,415.7**	**100.0**	**1.0**
Direct investment in Estonia	**178,880.9**	**42.0**	**177,261.7**	**41.2**	**-0.9**
Equity capital and reinvested earnings	152,130.4	35.7	149,024.6	34.6	-2.0
Other direct investment capital	26,750.5	6.3	28,237.0	6.6	5.6
Portfolio investment	**48,778.5**	**11.4**	**32,373.7**	**7.5**	**-33.6**
Equity securities	25,986.2	6.1	7,965.5	1.9	-69.3
Debt securities	22,792.3	5.3	24,408.2	5.7	7.1
Bonds and notes	22,727.6	5.3	24,326.7	5.7	7.0
Money market instruments	64.7	0.0	81.5	0.0	25.9
Financial derivatives	**502.9**	**0.1**	**767.4**	**0.2**	**52.6**
Other investment	**198,018.4**	**46.5**	**220,013.0**	**51.1**	**11.1**
Trade credit	13,482.2	3.2	13,857.4	3.2	2.8
Loans	111,263.8	26.1	46,976.3	10.9	-57.8
Long-term	90,223.1	21.2	34,921.7	8.1	-61.3
Short-term	21,040.7	4.9	12,054.6	2.8	-42.7
Currency and deposits	68,358.3	16.0	152,637.9	35.5	123.3
Other liabilities	4,914.0	1.2	6,541.5	1.5	33.1
NET INVESTMENT POSITION	**-181,648.1**		**-188,611.0**		**3.8**
Long-term	**-171,897.3**		**-110,383.6**		**-35.8**
Short-term	**-9,750.8**		**-78,227.4**		**702.3**
GROSS EXTERNAL DEBT	**271,303.9**		**297,851.7**		**9.8**
NET EXTERNAL DEBT	**-88,097.5**		**-97,497.1**		**10.7**
General government	16,824.2		11,846.1		-29.6

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

Assets			Liabilities		
Fields of activity					
	31/12/2007	31/12/2008		31/12/2007	31/12/2008
Financial intermediation*	53.5	52.3	Financial intermediation*	57.5	59.7
Other business activities	6.1	8.5	Real estate activities	6.3	6.4
Public administration and defence; statutory social insurance	9.3	8.1	Wholesale and retail trade**	5.3	5.5
Wholesale and retail trade**	5.7	6.1	Other business activities	6.6	5.1
Insurance and pension funding***	6.7	5.9	Supporting transport activities. activities of travel agencies	1.7	2.8
Other	18.8	19.0	Other	22.6	20.5
Total	100.0	100.0	Total	100.0	100.0
Countries					
	31/12/2007	31/12/2008		31/12/2007	31/12/2008
Latvia	11.7	13.2	Sweden	38.0	38.7
Germany	11.1	12.1	Finland	19.6	19.6
Lithuania	9.8	11.2	United Kingdom	7.1	6.3
United Kingdom	7.5	5.6	Denmark	5.7	5.9
Finland	5.9	5.4	Netherlands	2.6	3.3
Other	54.0	52.3	Other	27.1	26.2
Total	100.0	100.0	Total	100.0	100.0

* Except insurance and pension funding
** Except motor vehicles and motorcycles
*** Except compulsory social security

Year-on-year, the share of portfolio investment in the structure of **foreign investment in Estonia** declined, whereas the share of other investment grew to the same extent. Other investment comprised 51% of the investment position, followed by direct and portfolio investment with 41% and 8%, respectively. Growth in foreign investment in Estonia was primarily inhibited by portfolio investment, which declined 10% as a result of a fall in market prices. The most preferred fields of activity for **foreign direct investment in Estonia** were financial intermediation (except insurance and pension funding – 33%), real estate activities (13%), other business activities (10%) and wholesale (8%; see Table 2.3). 40% of total direct investment in Estonia has been made by Swedish and nearly 25% by Finnish investors. Investors from the Netherlands, Denmark and Russia have invested to a lesser extent.

Estonian investment abroad posted similar growth figures in the first three quarters, but decreased in the fourth quarter to 241 billion kroons. Financial intermediaries (except insurance and pension funding) comprised the largest share (52%) of Estonian investment abroad. Somewhat less investment went to other business activities, the public sector, wholesale, and insurance and pension funding. Estonian investors have invested in many different countries, Latvia, Germany and Lithuania being the most preferred destinations.

Compared to the end of 2007, the share of direct and other investment as well as reserve assets in the investment position increased, comprising 31%, 33% and 18%, respectively. The share of portfolio investment decreased by 10 percentage points for the above-mentioned reason. The position of **foreign direct investment** grew 13%. The most active foreign direct investors were those of financial intermediation (except insurance and pension funding – 37%) and other business activities (25%; see Table 2.3).

Table 2.3. Direct investment position by fields of activity and countries (%)

Abroad			In Estonia		
Fields of activity					
	31/12/2007	**31/12/2008**		**31/12/2007**	**31/12/2008**
Financial intermediation*	38.1	37.0	Financial intermediation*	30.9	32.9
Other business activities	19.2	25.0	Real estate activities	13.6	12.6
Water transport	7.9	9.8	Other business activities	12.3	9.5
Real estate activities	13.0	8.6	Wholesale and retail trade**	7.8	8.2
Wholesale and retail trade**	6.6	5.6	Supporting transport activities. activities of travel agencies	2.8	4.8
Other	15.2	14.0	Other	32.6	32.1
Total	100.0	100.0	Total	100.0	100.0
Countries					
	31/12/2007	**31/12/2008**		**31/12/2007**	**31/12/2008**
Latvia	33.7	32.0	Sweden	38.9	40.1
Lithuania	29.3	28.1	Finland	24.7	22.2
Cyprus	7.6	9.8	Netherlands	5.6	7.2
Finland	4.1	5.4	Denmark	4.4	3.7
Russia	8.1	4.5	Russia	2.6	3.3
Other	17.1	20.2	Other	23.7	23.5
Total	100.0	100.0	Total	100.0	100.0

* Except insurance and pension funding
** Except motor vehicles and motorcycles

The majority (60%) of Estonian direct investment abroad had been channelled to the Baltic States, and some also to Cyprus, Finland and Russia. The position of Estonian direct investment in Russia shrank 40% year-on-year.

Due to the prevalence of external liabilities, **Estonia's net investment position** was negative by 189 billion kroons at the end of 2008. 59% of the net investment position was long-term capital.[5]

Estonia's **gross external debt** increased 10% year-on-year and amounted to 298 billion kroons at the end of 2008, exceeding GDP by 20%. Credit institutions and other sectors contributed the most to the increase, comprising 57% and 23% of the debt, respectively. The general government debt constituted only 2.6% of the gross debt.[6] Estonia's net external debt (assets less liabilities) increased 11% and totalled 97 billion kroons (see Table 2.4 and Figure 2.1). The net external debt accounted for approximately 39% of GDP. The gross external debt comprised 69% of total external liabilities. Leaving aside the intercompany lending of direct investment companies, long-term debt liabilities accounted for 54% of the gross external debt. The share of long-term debt claims formed 31% of total debt claims. Figures 2.2 and 2.3 give an overview of Estonia's gross and net external debt by sectors.

[5] Following the recommendations of the European Central Bank, interbank loans as at end-2008 are recorded under currency and deposits in Table 2.1 (formerly under long- and short-term loans). Currency and deposits are treated as short-term capital, which is why the share of long-term capital in the net investment position has fallen considerably.
[6] The increased share of the general government debt, compared to earlier figures, arises from changes in the methodology. Now also transfers from EU funds are recorded under the general government debt on an accrual basis.

Table 2.4. External debt (EEK m)

	31/12/2007	Share (%)	31/12/2008	Share (%)	Change (%)
LIABILITIES					
I. General government	**5,774.3**	**2.1**	**7,671.1**	**2.6**	**32.8**
Short-term	,		0.7	0.0	
Long-term	5,774.3	2.1	7,670.4	2.6	32.8
II. Monetary authorities (NCB)	**1,337.1**	**0.5**	**139.5**	**0.0**	**-89.6**
Short-term	1,324.6	0.5	100.7	0.0	-92.4
Long-term	12.5	0.0	38.8	0.0	210.2
III. Credit institutions	**152,813.2**	**56.3**	**169,715.6**	**57.0**	**11.1**
Short-term	55,628.6	20.5	85,547.4	28.7	53.8
Long-term	97,184.6	35.8	84,168.2	28.3	-13.4
IV. Other sectors	**60,886.0**	**22.4**	**66,895.0**	**22.5**	**9.9**
Short-term	24,939.6	9.2	26,024.1	8.7	4.3
Long-term	35,946.5	13.2	40,870.9	13.7	13.7
V. Direct investment: intercompany lending	**50,493.3**	**18.6**	**53,430.5**	**17.9**	**5.8**
GROSS EXTERNAL DEBT	**271,303.9**	**100.0**	**297,851.7**	**100.0**	**9.8**
ASSETS					
I. General government	**22,598.5**	**12.3**	**19,517.3**	**9.7**	**-13.6**
Short-term	8,118.4	4.4	6,898.0	3.4	-15.0
Long-term	14,480.1	7.9	12,619.3	6.3	-12.9
II. Monetary authorities (NCB)	**34,915.1**	**19.1**	**44,019.9**	**22.0**	**26.1**
Short-term	21,170.0	11.6	29,755.2	14.9	40.6
Long-term	13,745.1	7.5	14,264.7	7.1	3.8
III. Credit institutions	**46,548.2**	**25.4**	**46,340.8**	**23.1**	**-0.4**
Short-term	36,711.6	20.0	38,044.4	19.0	3.6
Long-term	9,836.6	5.4	8,296.4	4.1	-15.7
IV. Other sectors	**41,931.6**	**22.9**	**43,961.3**	**21.9**	**4.8**
Short-term	30,071.5	16.4	31,711.4	15.8	5.5
Long-term	11,860.1	6.5	12,249.9	6.1	3.3
V. Direct investment: intercompany lending	**37,213.1**	**20.3**	**46,515.4**	**23.2**	**25.0**
TOTAL ASSETS	**183,206.4**	**100.0**	**200,354.6**	**100.0**	**9.4**
NET EXTERNAL DEBT (assets less liabilities)					
I. General government	**16,824.2**		**11,846.1**		**-29.6**
Short-term	5,795.6		3,517.6		-39.3
Long-term	11,028.6		8,328.5		-24.5
II. Monetary authorities (NCB)	**33,578.0**		**43,880.4**		**30.7**
Short-term	19,845.4		29,654.5		49.4
Long-term	13,732.6		14,225.9		3.6
III. Credit institutions	**-106,265.0**		**-123,374.8**		**16.1**
Short-term	-18,917.0		-47,503.0		151.1
Long-term	-87,348.0		-75,871.8		-13.1
IV. Other sectors	**-18,954.4**		**-22,933.7**		**21.0**
Short-term	5,131.9		5,687.3		10.8
Long-term	-24,086.4		-28,621.0		18.8
V. Direct investment: intercompany lending	**-13,280.2**		**-6,915.1**		**-47.9**
TOTAL NET EXTERNAL DEBT	**-88,097.5**		**-97,497.1**		**10.7**

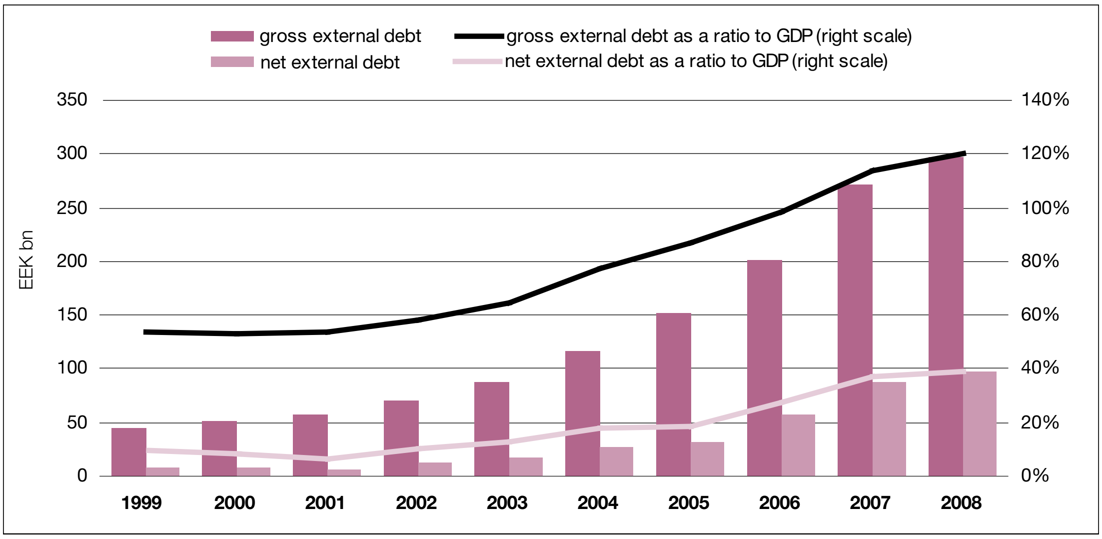


Figure 2.1. Estonia's gross and net external debt

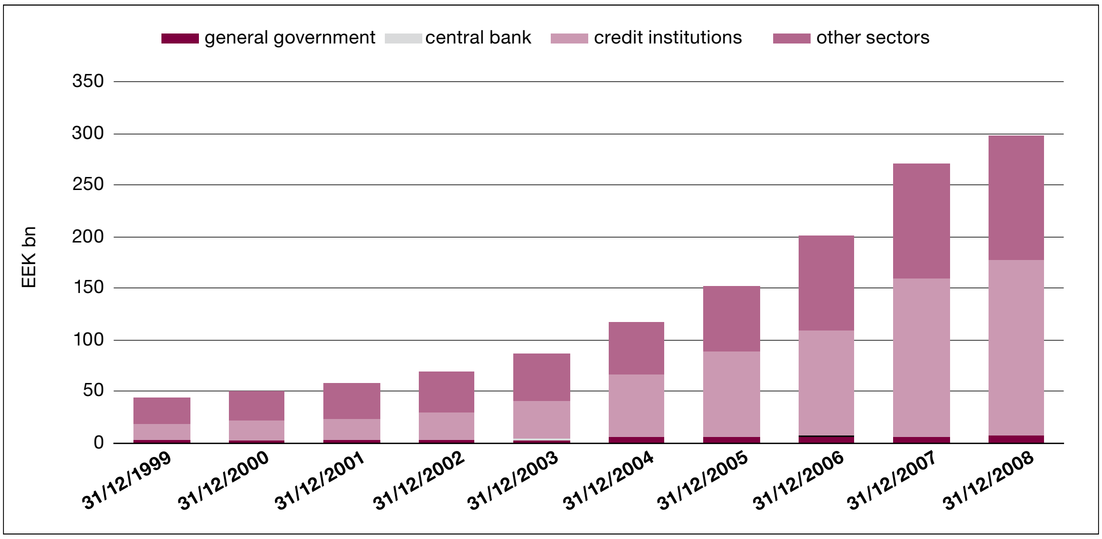


Figure 2.2. Estonia's gross external debt by sectors

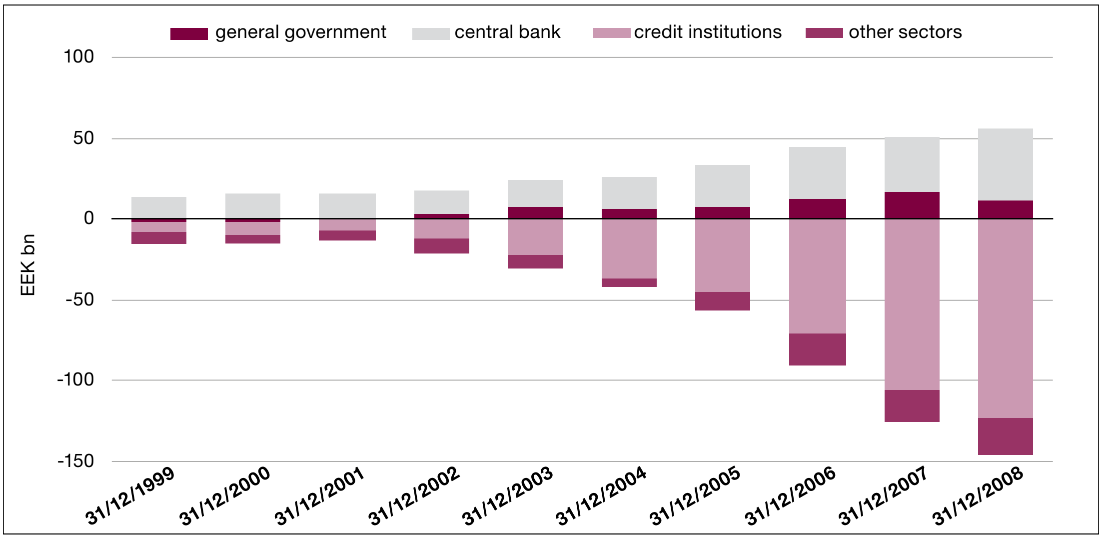


Figure 2.3. Estonia's net external debt by sectors

III. THEORETICAL CONCEPT, METHODOLOGY AND COMPILATION PRACTICES

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

BALANCE SHEET

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

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

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

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

The current account is divided into four accounts[7]: *goods, services, income* and *current transfers*. The goods and services accounts include all sums receivable from selling goods and services as well as the sums payable for purchases. The income account reflects revenues related to the use and render for use of production factors (capital and labour). Transfers are all the remaining transactions related to the formation of gross disposable income of residents and are distinguishable from capital transfers.

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

The compilation of the balance of payments is not based on the territory of the compiling country. As a rule, a balance of payment transaction is a monetary or non-monetary transaction between a *resident* and a *non-resident*. The balance of payments is compiled on an *accrual basis*, i.e. the transaction is recorded at the time the transaction was concluded between parties or a change of ownership took place, regard-

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[4] For the key terms and entries related to the balance of payments statistics see also other sections of the current overview.

less of whether the respective amount has actually been received or paid. All balance of payments transactions are recorded at *market prices*.

The *double entry system* serves as the basis for compiling the balance of payments. Every recorded transaction is represented by two entries with equal values, but under different items and with opposite signs: *credit* (+) and *debit* (–). Credit reflects an increase in the financial resources available while debit reflects their utilisation (see Table 3.1).
In the ideal case, the net balance of all entries in the statement is zero. The complicity and scope of the balance of payments make the collection of statistics always inaccurate. In order to balance the accounts, the inaccuracy is reflected under the entry *errors and omissions*.

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

Table 3.1. Credit and debit

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

INTERNATIONAL INVESTMENT POSITION

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

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

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

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

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

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

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

However, market prices of unquoted shares are not always available and indirect evaluation of market prices is complicated. Until 2006, Eesti Pank used the information in the Estonian Central Register of Securities for evaluating the liabilities of Estonian residents in case of unquoted shares. Since the respective information is generally not available in the investment position of the partner country, statistical asymmetries between countries may occur. Therefore, in order to achieve statistical consistency, the EU working groups on statistics reached a consensus with regard to using only the own funds at book value (own capital divided by the number of shares) in case of unquoted shares. As a rule, own funds at book value tend to be lower than market prices. Eesti Pank started to use that method at the beginning of 2007.

For listed companies, market prices are used. For unlisted companies, market value is applied to the quarter when the delisting occurs and then converged towards the own funds at book value during the following four quarters.

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

EXTERNAL DEBT

External debt statistics is based on the external claims and liabilities recorded in the international investment position, which are debts in their nature, meaning that they have to be repaid. Direct and portfolio investment in equity capital, reinvested earnings (retained earnings/losses of previous periods and equity capital reserves) and financial derivatives are excluded from debt accounting. Moreover, neither the gold reserves of the central bank nor the International Monetary Fund's *special drawing rights*[8] are included in the external debt.

The key external debt indicators are the following:

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

[8] See *Entries*: reserves.

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

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

KEY TERMS

- **C.i.f. (cost, insurance, freight) price** – an international delivery clause of goods, including the value of goods and the cost of insurance and transportation to the customs frontier of the importing country.

- **Financial leasing** – loan (lease transaction) for the acquisition of assets on the condition that the leased property remains in the ownership of the lessor until the amortisation of the loan and interests.

- **F.o.b. (free on board) price** – an international delivery clause of goods, including the value of goods and the cost of insurance and transportation to the customs frontier of the exporting country.

- **Institutional sectors** are divided into the following groups in the external sector statistics:

  - *Central Bank* – Eesti Pank as the national central bank;
  - *General government* – state government and defence authorities under the authority of central and local governments; scientific, research, health, social care, educational, cultural and sports institutions, and state funds and foundations financed from a central or a local government budget;
  - *Credit institutions* – companies as private bodies licensed by Eesti Pank the principal and permanent activities of which are to receive cash deposits and other repayable funds from the public and to grant loans for their own account and perform other operations listed in the Credit Institutions Act;
  - *Other sectors* – the remaining private sector (companies and households).

- **Long-term capital** – assets or liabilities with the contractual maturity of over one year.

- **Long-term position** – net investment position based on long-term external assets and liabilities. Conventionally, direct investment is considered long-term.

- **Non-resident** – all other persons not covered by the term resident.

- **Repurchase agreement** – borrowing against securities as collateral.

- **Resident:**
  1) state authorities and agencies of the Republic of Estonia in the broadest sense (legislative, executive and judicial power and their agencies, constitutional institutions), also local government units and their agencies;
  2) Estonia's diplomatic, consular and other official representative offices abroad, as well as other representative offices of Estonian agencies and organisations abroad not involved in economic or commercial activities;
  3) legal persons in public law and their agencies established by the laws of the Republic of Estonia;
  4) legal persons registered in Estonia governed by private law;
  5) organisations and associations of persons established and operating in Estonia and enjoying partial legal capacity that are not legal persons;
  6) branches and agencies of foreign legal persons registered in Estonia;
  7) Estonian citizens residing in Estonia;
  8) foreigners residing in Estonia holding a permanent residence permit;
  9) foreigners residing in Estonia holding a temporary residence permit for at least one year;
  10) Estonian citizens studying or receiving medical treatment abroad, regardless of the length of studies or medical treatment;
  11) diplomats, military personnel, employees of consulates and other official representative offices of the Republic of Estonia abroad that have been granted with immunity and diplomatic privileges, and their family members;
  12) ship crews, seasonal and border workers, regardless of the duration of their residence on the territory of a foreign country;
  13) conventional business entities representing real estate located on Estonian territory (land together with its essential parts).

- **Short-term capital** – assets or liabilities with the maturity of up to one year (included).

- **Short-term position** – net investment position based on short-term external assets and liabilities. Conventionally, reserves of the central bank are considered short-term.

ENTRIES

- **Trade account** – includes imports and exports of goods that contribute to the gross domestic product. Such imports and exports include:
  - imports for national consumption – imported goods paid for by residents;
  - national exports – revenues from exported goods belongs to residents;
  - imports of goods for processing and exports of processed goods.

Estonia's trade account is based on the *special trade system* of official trade statistics, registering goods exceeding free circulation[9]. Exports exclude the re-exports of imported goods previously stored in customs warehouses or provisions for sea and air transport. Imports exclude customs warehousing of imported

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

goods, yet reflect deliveries of goods from customs warehouses into free circulation and processing. As the official trade statistics and customs statistics do not comply with the balance of payments compilation principles (imports in c.i.f. prices, residency principle vs. territorial principle etc.), necessary supplements are added to the balance of payments. The most significant of them include:

a) goods not declared in customs and not crossing frontiers but which are balance of payments transactions (e.g. marine products caught in foreign waters; ships purchased or sold in foreign ports, etc.);
b) goods purchased for carriers abroad: fuel, provisions, merchandise, etc.;
c) purchase and sale of repair services for capital goods;
d) translation of imports into f.o.b. prices, i.e. subtraction of transportation and insurance costs from the total cost of a good and recording of these costs on the services account;
e) inclusion of price distortions upon exports of goods through customs warehouses and free zone;
f) estimates of black economy.

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

- **Services account** – reflects the services sold to and purchased from non-residents by Estonian residents:
  - *transportation* – passenger, freight and other transportation services by major modes of transport (marine, air, rail, road and other transport modes);
  - *travel services* – include expenditure on package tours of tourists and one-day visitors, as well as on goods and services in the country of destination. Besides the above items, travel services also include education and health costs in the country of destination. While generally residence abroad up to one year accounts as tourism, with students and those receiving health care in the country of destination there is no time limit. Tourism is distinguished from travel services by the fact that international passenger transport services that are regarded as tourism services according to international practice are recorded in the balance of payments under transportation services entries;
  - *communications services* – comprise charges for telecommunications services (TV and radio transmission, telegraph, telex and facsimile communications, satellite and cable television, e-mail etc.), postal and courier services (packaging, mailing, transportation, delivery of items, lease of letter boxes etc.);

- *construction services* – generally cover the cost of construction activities abroad by resident companies or of construction activities in Estonia by non-residents. Construction services, as a rule, include sites or installation to be completed within one year;
- *insurance services* – charges collected and paid upon conclusion of life and non-life insurance contracts, loss adjustment expenses, insurance expert assessments, etc. Non-life insurance premiums and claims payable are recorded under current transfers while life insurance premiums and payments are recorded in the financial account under other long-term capital;
- *financial services* – financial intermediation services and auxiliary services (other than insurance) related to commissions and fees of banking and securities brokerage or to custodial services, clearing, depository services, financial consulting, etc.;
- *computer and information services* – cover transactions related to fees for the use and development of databases, data processing and programming, software and hardware consultations, software implementation etc. as well as services of news agencies;
- *royalties and licence fees* – receipts and payments for the use of copyrights, licenses, franchises, patents, industrial processes or other intellectual property;
- *merchanting* – commissions and fees of commodity brokers and dealers. Trade services is the difference between the value of goods purchased by residents abroad and the value of these goods resold abroad during the same period. The goods must never cross the Estonian border;
- *operational lease* – payments where the lessee uses the assets during the contract period and returns the assets to the lessor upon the expiry of the contract (*capital lease* – see below);
- *miscellaneous business services* – services related to consulting (legal assistance, accounting, audit, management consulting, etc.), public relations and marketing (advertising, opinion polls, market research, etc.) or other technical services (waste management, environmental protection, architectural and engineering solutions, printing services, etc.);
- *personal, cultural and recreational services* – audio-visual services related to radio, television and production of motion pictures, organising concerts and other events, fees to performers, organising exhibitions and museum exhibits, producer services and other sports, cultural and recreational services;
- *government services not included elsewhere* – other services rendered by government institutions related to embassies and consular services, military and other public sector services, state fees and foreign aid received and provided as a service (for foreign aid see also *current transfers*).

- **Income account** – reflects income related to the use and render for use of production factors (capital and labour). Income falls into two categories:
  a) *compensation of employees* – gross wages earned abroad together with social transfers made by the employer under a labour contract with a duration of up to a year and paid to foreigners in Estonia;
  b) *investment income* – income on foreign (direct, portfolio and other) investment assets and payable from foreign investment liabilities (interests and dividends). Since the period between the emergence of operating profit and payment of dividends may be long, the concept of *reinvested earnings* has been applied to record that profit in the balance of payments. *Reinvested earnings* – a proportional change equal to investment in the undistributed operating profit or loss of the investment company, which is recorded on the income account but also on the financial account as additional investment in the company. As reinvested earnings decrease when paying dividends, the concept of reinvested earnings can be regarded as accounting of dividends on an

accrual basis. Such a method of calculation is statistically complicated and necessary data are not always available. Therefore, for the sake of simplicity, it has been agreed to use it only in case of direct investment relations, not portfolio investment.

Accounting income on realised and unrealised exchange rates and spreads are not recorded as income, because the balance of payments records movement of financial instruments at market prices. For accounting purposes, the latter comprises the acquisition cost and the realised exchange rate and/or price profit/loss. Neither waivers and write-offs of uncollectible loans nor exceptional profit/loss are recorded under reinvested earnings.

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

General government transfers are the amounts related to the transfers received from and paid by the Estonian general government (see Institutional sectors), including the foreign aid used by the general government and Estonia's contribution to the EU budget. Other sectors' transfers include mostly cash flows related to insurance contracts, foreign aid used by other sectors (including the aid coming through the general government), and workers' remittances indicating remittances to the home country of outside workers (also migrants – persons who have lived and worked in a foreign country more than a year) in case they have been hired by a company in a foreign country.

- **Capital transfers** are unilateral, similarly to current transfers, but amounts received or paid have no direct impact on residents' gross disposable income. Common capital transfers include:
  a) use of international (primarily EU) funds to finance the construction of infrastructure objects;
  b) acquisition of non-produced, non-financial intangible assets (intellectual property) and disposal thereof (franchises, patents, trademarks, industrial processes, etc.);

The capital account records cash flows by two sectors:
  a) *general government*;
  b) *other sectors*.

- **Direct investment** in Estonia's balance of payments refers to investment amounting to 10% or more of the equity capital of the investment company.[10] This is an investment that entails a qualifying holding for the investor in the direct investment company. According to international standards, lending and other investment between a company and an investor with a qualifying holding are also reflected as direct investment (except with financial intermediaries in case of whom only subordinated debt is recorded as direct investment).

[10] Direct investment is an investment that entails a qualifying holding and a casting vote of an investor in the management of a direct investment company, regardless of the actual holding. However, as such a definition does not ensure similar treatment of the investment in the investor and recipient country, the 10% criterion is recommended to avoid statistical errors (OECD Benchmark Definition of Foreign Direct Investment, 1996).

- *Direct investment company* – a company in which an investor or direct investor has a qualifying holding.
- *Direct investor* – an investor who has a qualifying holding in a direct investment company.

The direct investment account includes the following items:

a) *equity capital* of direct investment companies;
b) *reinvested earnings* – proportional share of the direct investor in the operating profit or loss of a direct investment company;
c) *other direct investment capital* – assets and liabilities related to lending, debt securities and trade credit between a direct investment company and a direct investor.

- **Portfolio investment** account records, under assets and liabilities, securities investment that fall into the following categories:
  a) *equity security* – securities investment in equity capital not comprising a qualifying holding, i.e. remaining below 10% of the equity capital of a company;
  b) *debt security* – bond or money market instrument that proves the debt claim:
     - *bond* – a security proving the right of claim of its holder and containing the borrower's commitment to repay the loan to the creditor on the agreed date and pay the interests. As a rule, bonds are long-term instruments (with the maturity of over one year);
     - *money market instrument* – a highly liquid debt liability that is tradable in the money market, has a low interest and credit risk, and a maturity of up to one year.

  Portfolio investment is recorded in the balance of payments by institutional sectors.

- **Financial derivative** – a security related to a financial instrument, index or commodity allowing trading in financial risks on markets, i.e. the right or obligation to buy, sell or exchange a financial asset in the future in an agreed amount and at an agreed price. Common financial derivatives include *options, forwards, futures,* and *swaps.* Financial derivatives are recorded in the balance of payments by institutional sectors, assets and liabilities separately.

- **Other investment** cover all other investments that are neither direct investment nor portfolio investment, nor related to financial derivatives:
  - *trade credit* – outstanding or unpaid amounts for goods and services and advance payments, recorded on an accrual basis in the balance of payments as well as in the international investment position;
  - *loans* – short-term and long-term lending of institutional sectors not related to direct investment. Loans also *cover capital lease* and *repurchase agreements*;
  - *currency and deposits* – foreign currency held by residents and their deposits in foreign credit institutions are recorded as assets. Estonian kroons held by non-residents and their deposits in Estonian credit institutions are recorded as liabilities;
  - *other assets and liabilities* – other overdue sums (accounts receivable and accounts payable, accrued expenses, etc.) recorded on an accrual basis, as well as other assets and liabilities unrelated to other entries. In addition, life insurance premiums collected and disbursements made by insurance companies are recorded here.

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

BALANCE OF PAYMENTS COMPILATION SYSTEM

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

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

The *survey system* draws on information from various statistical surveys and studies. Both sampling and census are used, depending on the requirements, field of study and peculiarities of a specific country. The structure of the questionnaire follows either the balance of payments structure or the structure of financial statements and accounting principles. The advantage of the survey system lies in its flexibility but, on the other hand, statistical surveys are expensive to conduct, they have a low response rate and are not very operational. The survey system has been successfully introduced by Anglo-American countries like 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 through resident banks. Based on the description of the transaction, clients, commercial institutions or the central bank attribute a transaction code to each incoming or outgoing payment in compliance with the balance of payments structure. The settlements system allows to collect detailed and operational information but is still limited, as cash flows do not reflect accrual approach, the description of a transaction or balance of payments code is often missing, sometimes netting occurs, and cash flows do not allow to estimate the positions. Owing to new EU legislation and economic globalisation, most countries of continental Europe are forced to replace the settlements system with a combined one.

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

COMPILATION PRACTICES IN ESTONIA

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

By now, Estonia has developed a *combined system* of compiling the balance of payments. Two parallel databases are complementary and simplify the identification of errors. The databases in combination with administrative information ensure higher quality of the external sector statistics (balance of payments, international investment position, etc.), which is usually quite difficult to achieve in highly open economies of low concentration.

As regards other quarterly statistics on balance of payments and the external sector, the survey system supplemented with the 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, the settlements system supplemented by various econometric models is applied for the compilation of monthly balances of payment. In order to meet the European Union requirements, Eesti Pank started to publish monthly balance of payment flash estimates in 2002.

Currently, ten different surveys are in use. In 2008, quarterly data from approximately 3,300 entrepreneurs was collected through these surveys. The quarterly settlements system involves approximately 130,000 transactions significant for the compilation of the balance of payments. Data on these transactions are received through the so-called *open system*: the central bank gets information only on the debit or credit side of the foreign payment order. Only bank customers' payments are communicated. Banking sector transactions are recorded in the balance of payments based on banks' balance sheets, income statements and other financial reports.

In addition, information is obtained from multiple other channels: official trade statistics, the Central Register for Securities, Financial Supervision Authority, surveys conducted by Statistics Estonia, Ministry of Justice Centre of Registers, Real Property Price Statistics from the Estonian Land Board, accounting registers in Eesti Pank, government institutions, etc. Moreover, statistical surveys are conducted, assessments made and econometric models applied. Table 3.2 provides an overview of the sources of information applied to compile balance of payments statistics.

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

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

Name of statement/report	Target group / content of statement/report	Frequency	Due date after accounting period	Sample size / No of data sources in 2008
SURVEY SYSTEM				
Forms 2 and 2F	Companies with foreign ownership	quarter	20 days	1,799
Form 3	Transport companies without foreign ownership	quarter	20 days	213
Form 4	Transport companies with foreign ownership	quarter	20 days	191
Form 5	Investment funds (management companies)	quarter	20 days	74
Forms 6 and 6F	Companies without foreign ownership	quarter	20 days	1,111
Form 7	Companies with foreign ownership and not engaged in foreign economic activities	quarter	20 days	55
Form 9	Insurance companies and intermediaries	quarter	20 days	19
Form 10	Other financial intermediaries	quarter	20 days	32
SETTLEMENTS SYSTEM				
Settlements system reporting according to the procedure for declaring international payments	Incoming international payments declared in credit institutions	15 days	7 days	15
	Outgoing international payments declared in credit institutions	15 days	21 days	15
	Consolidated report on international payments	month	7 days	15
ADMINISTRATIVE INFORMATION				
CREDIT INSTITUTIONS				
Report on the balance and turnovers of resources	Data on resources deposited in credit institutions and loans granted to credit institutions by residence and other characteristic details	month	5 days	15
Report on the balance and turnovers of loans	Loans issued by credit institutions by residence and other characteristic details	month	5 days	15
Income statement	Breakdown of income and expenditure of credit institutions by residence	quarter	10 days	15
Services provided to and purchased from non-residents	Selected income and expenditure entries of credit institutions in the form of presentation extended to non-residents	quarter	10 days	15
Statement of securities	Detailed statement of securities portfolios of credit institutions by residence	month	5 days	15
Statement of off-balance-sheet items	Statement of off-balance-sheet activities of credit institutions	quarter	30 days	15
Statement of asset management and investment services	Statement of asset management and investment activities of credit institutions	quarter	5 days	15
Report on non-transactional financial flows	Non-transactional financial flows of credit institutions during the reporting period, excl. revaluations caused by exchange rate fluctuations	month	12 days	15
EESTI PANK				
Balance of payments statement of Eesti Pank	Accounting Department's statement of Eesti Pank's non-residents' balances of and changes in balance sheet entries, and changes in income statement entries of non-residents	month	5 days	1
STATISTICS ESTONIA				
Official trade statistics	Processed, supplemented and categorised customs declaration data (Extrastat)	month	50 days	1
	Intra-Community trade report (Intrastat)			
Tour operators' statement	Imports and exports of travel agencies (incl. intermediation of passenger transport services); number of tourists received and sent by countries	quarter	50 days	1
Assets and liabilities related to general government's external aid	Accrual accounting of external aid	quarter	58 days	1
Accommodation establishments' statement	Data on turnover and number of tourists serviced by accommodation establishments	quarter	2 months	1

MINISTRY OF JUSTICE CENTRE OF REGISTERS AND INFOSYSTEMS				
Central Business Register, Non-Profit Associations and Foundations Register	Data on legal persons registered in Estonia and their owners	month	1 month	1
Land register database	Data on real estate objects belonging to non-residents	year	by agreement	1
LAND BOARD				
Land Board's database of real estate transactions	Transactions with real estate purchased by or transferred to non-residents by countries	quarter	by agreement	1
ESTONIAN CENTRAL REGISTER OF SECURITIES				
Central Register of Securities	Statistics on securities issues registered in Estonian Central Register of Securities	month	10 days	1
BORDER GUARD ADMINISTRATION				
Border crossing statistics	Report on crossers of Estonian border by citizenship	month	25 days	1
MINISTRY OF FOREIGN AFFAIRS				
Statistics on diplomatic missions abroad	Data on income, expenditure and assets of Estonian embassies and missions	quarter	1 month	1
TAX AND CUSTOMS BOARD				
Tax statistics	Data on taxes withheld from non-residents in Estonia and from residents abroad	year	as necessary	1
CITY OFFICES OF TALLINN AND TARTU				
Statement of external assets and liabilities	Statement of external loans, external assets, financial income and expenditure of Tallinn and Tartu	quarter	1 month	2
MINISTRY OF FINANCE				
Statement of external loans	Statement of use and servicing of state loans	month	10 days	1
Statement of external assets	Statement of balance and changes of assets of the State Treasury	month	1 month	1
OTHER				
Migration Foundation, Unemployment Insurance Fund, Health Insurance Fund, etc.				5–10

Legal basis for balance of payments statistics

Pursuant to Subsection 2(8) of the **Eesti Pank Act**, Eesti Pank is responsible for compiling the balance of payments of Estonia, the compilation being one of the basic functions of the central bank established by law.
Section 34 of this 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 conducting cross-border economic transactions in the territory of Estonia.

Besides the Eesti Pank Act, also the **Official Statistics Act** provides for the compilation of the balance of payments. Pursuant to subsection 4(2), Eesti Pank is the other primary agency conducting official statistical surveys besides Statistics Estonia. Eesti Pank and the respondents are to follow all the provisions of the Official Statistics Act related to conducting surveys, the obligation to submit data, data protection, data dissemination, and responsibilities of parties. In autumn 2007, an amendment to the Official Statistics Act, providing for the right of Eesti Pank to apply penalty payments to companies failing to submit data on time or submit distorted data, entered into force.

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

Confidentiality of data

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

Dissemination and adjustment policy

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

- **Data dissemination.** Balance of payments statistics together with press releases, analyses and statistical tables are published on Eesti Pank's web site (http://www.bankofestonia.info).
- **Revision policy.** Upon collection of additional information and changes in methodology, the data of previous periods are revised as follows:
  - *Regular revisions:*
  a) data are regularly revised due to availability of more comprehensive information and better survey system coverage after first data dissemination (first data release);
  b) when quarterly data for Q2, Q3 and Q4 are first released, only previous quarter is revised;
  c) when Q1 is first released and Q4 is revised, the previous quarters are revised as far as changes occurred. Data are considered final when external account is integrated into the input-output framework of the system of national accounts (up to 5 years later).
  - *Extraordinary revisions:*
  a) in exceptional cases, when significant errors or omissions have occurred, necessary quarters may be revised outside regular revision policy;
  b) if changes in methodology or data collection system render results incomparably, data can be adjusted retrospectively back so far the methodology change is concerned, if possible;
  c) extraordinary revisions are always disseminated at the same time with new data release;
  d) extraordinary changes and their major reasons are announced and highlighted to the general public in quarterly press release of BOP and IIP statistics.
- **Unit of account and conversion.** The unit of account for the balance of payments and the international investment position is the Estonian kroon (EEK). Statistics released in other currencies (USD, EUR) is based on the following conversion:
  - *balance of payments flash estimate* – the monthly average exchange rate of the respective currency against the Estonian kroon;
  - *quarterly balance of payments* – the quarterly average exchange rate of the currency against the Estonian kroon;
  - *annual balance of payments* – the average exchange rates of four quarters (i.e. the annual balance of payments is the sum of quarterly balances converted into foreign currency);
  - *investment position* – the exchange rate on the compilation date or on the closest banking day.

Rounding. Due to rounding, the total of sub-items is not always equal to the total of the consolidated entry.