Eesti Pank

Estonia's Balance of Payments Yearbook 2010

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INTRODUCTION

Followed by a steep decline in 2009, Estonia's economy started to recover in the middle of 2010. The annual average real GDP growth was 3.1%.

The recovery in Estonia was mainly driven by global economic revival. Goods exports gained momentum throughout the year and several major exporters improved their competitive position in the market. Export indicators improved in all goods groups, and the exports of goods increased by over a third from 2009, exceeding the previous record high in the final months of 2010.

Domestic demand started to recover in the second half of 2010 and was only a few per cent higher than in 2009 in annual terms. Household saving, on the other hand, increased further and corporate profitability also improved considerably. The surplus on goods and services increased from 2009, as private domestic savings grew faster than investment.

Among others, also foreign-owned companies increased their profits. As a result, the investment income outflow increased significantly (calculated on an accrual basis), just as much as the surplus on goods and services.

In total, the recovery of growth did not entail any major changes on the current account of the balance of payments for 2010, and the current account surplus was almost as large as in 2009.

In terms of capital flows, especially those of the banking sector, external liabilities prevailed. Banks reduced their additional liquidity and capital buffers, which their parent banks had raised from abroad during the most turbulent times of the financial crisis. Savings grew rapidly too, while investment remained modest. Banks' debt liabilities decreased also due to the gradual lowering of the minimum reserve requirement for banks in the second half of 2010, as part of the preparations for the euro changeover.

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

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

	2004	2005	2006	2007	2008	2009	2010
Current account	**-1,095.1**	**-1,116.0**	**-2,053.0**	**-2,562.5**	**-1,577.8**	**512.3**	**513.1**
Goods and services	-678.5	-710.9	-1,413.8	-1,598.6	-878.8	799.1	1,062.1
Goods	-1,569.1	-1,550.1	-2,304.1	-2,640.8	-2,122.7	-559.1	-250.2
credit (f.o.b.)	4,764.2	6,347.9	7,774.0	8,132.2	8,541.5	6,550.4	8,777.7
debit (f.o.b.)	-6,333.3	-7,898.0	-10,078.1	-10,772.9	-10,664.2	-7,109.5	-9,027.9
Services	890.7	839.3	890.3	1,042.1	1,243.9	1,358.2	1,312.3
credit	2,293.7	2,612.0	2,870.9	3,289.2	3,536.8	3,173.8	3,421.6
debit	-1,403.0	-1,772.7	-1,980.6	-2,247.1	-2,292.9	-1,815.6	-2,109.3
Income	-509.1	-455.3	-687.9	-1,058.9	-878.4	-502.1	-805.4
credit	350.7	589.6	866.4	1,210.3	1,147.7	660.1	685.9
debit	-859.8	-1,045.0	-1,554.3	-2,269.2	-2,026.1	-1,162.2	-1,491.3
Transfers	92.5	50.2	48.7	95.1	179.4	215.4	256.4
credit	335.1	375.6	419.8	471.1	502.3	502.1	592.0
debit	-242.6	-325.4	-371.1	-376.1	-322.9	-286.7	-335.6
Capital and financial account (reserve assets excluded)	**1,448.9**	**1,311.0**	**2,679.4**	**2,614.1**	**1,937.2**	**-450.6**	**-1,128.8**
Capital account	68.8	84.7	288.6	173.8	201.7	483.4	518.6
Financial account	1,380.1	1,226.3	2,390.7	2,440.4	1,735.5	-934.1	-1,647.4
Direct investment	554.3	1,751.3	550.3	708.5	421.6	208.4	1,062.1
Abroad	-216.6	-556.0	-881.6	-1,276.5	-760.2	-1,114.7	-100.2
In Estonia	770.8	2,307.3	1,431.9	1,985.0	1,181.8	1,323.1	1,162.3
Portfolio investment	581.8	-1,769.6	-1,055.7	-368.0	507.5	-1,448.3	-440.6
Assets	-305.2	-691.4	-974.5	-552.2	680.5	-486.1	-291.4
Equity securities	-184.9	-309.9	-292.0	-491.4	261.8	-47.9	-301.8
Debt securities	-120.3	-381.5	-682.5	-60.8	418.8	-438.2	10.4
Liabilities	887.0	-1,078.2	-81.2	184.2	-173.0	-962.2	-149.3
Equity securities	140.9	-1,045.1	238.5	225.8	-212.7	-93.6	10.8
Debt securities	746.0	-33.1	-319.7	-41.6	39.6	-868.7	-160.1
Financial derivatives	-0.5	-6.2	5.0	-51.0	52.9	14.1	31.6
Assets	-2.2	0.9	-11.6	-56.5	43.1	17.4	-1.8
Liabilities	1.7	-7.1	16.6	5.5	9.8	-3.3	33.4
Other investment	244.6	1,250.9	2,891.1	2,150.8	753.5	291.7	-2,300.5
Assets	-750.9	-712.2	35.9	-1,485.2	-362.8	954.6	-1,296.9
Long-term	-386.8	-268.4	345.6	-210.2	-17.7	-39.8	-321.6
Short-term	-364.1	-443.8	-309.6	-1,275.1	-345.1	994.4	-975.4
Liabilities	995.6	1,963.1	2,855.2	3,636.0	1,116.3	-662.8	-1,003.5
Long-term	358.1	697.0	1,614.6	2,967.1	-640.2	271.6	-1,287.2
Short-term	637.5	1,266.1	1,240.6	669.0	1,756.5	-934.4	283.6
Errors and omissions	-134.9	117.1	-145.2	38.0	143.5	-59.6	-215.6
Overall balance	**218.9**	**312.1**	**481.1**	**89.6**	**503.0**	**2.1**	**-831.3**
Reserve assets	**-218.9**	**-312.1**	**-481.1**	**-89.6**	**-503.0**	**-2.1**	**831.3**

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

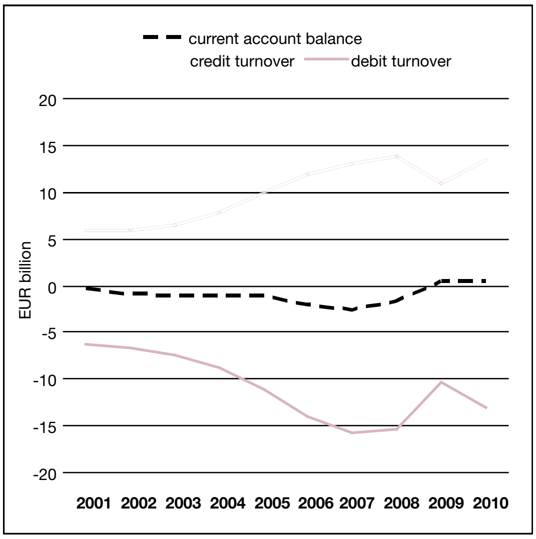
Table 1.2. Internationally comparable key balance of payments indicators

	2006	2007	2008	2009	2010
Foreign trade turnover (% of GDP)	133.3	119.4	119.2	98.5	122.8
Goods exports/imports (%)	77.3	75.5	80.1	92.1	97.2
Nominal effective exchange rate (% compared to previous period)	99.5	100.9	101.6	104.7	96.9
Real effective exchange rate (% compared to previous period)	100.4	102.9	104.7	101.6	97.7
Terms of trade (ratio of exports and imports price indices)	119.4	124.2	122.4	124.5	120.9
Overall balance of balance of payments (change of external reserves; EUR million)	481.1	89.6	503.0	2.1	-831.3
Change in external reserves (% of GDP)	3.6	0.6	3.1	0.0	-5.7
Current account balance (EUR million)	-2,053.0	-2,562.5	-1,577.8	512.3	513.1
Current account balance without government transfers (EUR million)	-2,046.2	-2,553.0	-1,567.6	492.0	451.1
Current account balance without government transfers (% of GDP)	-15.3	-16.1	-9.7	3.5	3.1
Government transfers (net; EUR million)	-6.8	-9.5	-10.2	20.3	62.0
Government transfers (% of GNP)	-0.1	-0.1	-0.1	0.2	0.5
Gross external debt (% of GDP)	96.7	110.0	118.2	124.5	113.7
External debt servicing (% of total exports)	0.2	1.0	0.3	0.1	0.1

OVERVIEW

Current account

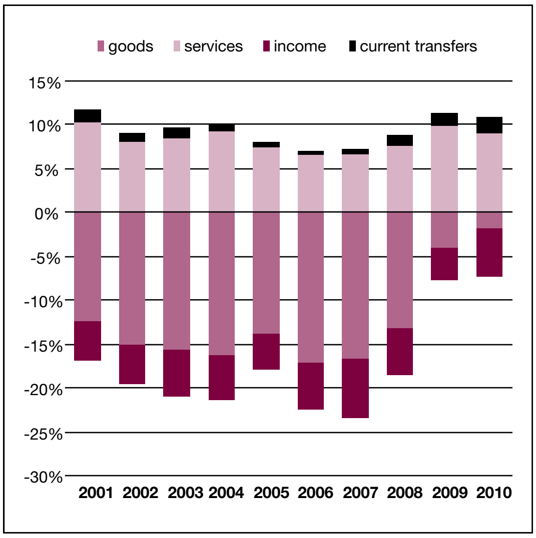
The current account remained in surplus in 2010, for a second year in row, with 513 million euros or 3.5% of GDP. The recovery of external demand facilitated the exports of goods and services, and the yield of foreign investment in Estonia. Goods exports grew by more than a third. The net outflow of income, which largely consisted of reinvested earnings, grew by two times. The surplus on the imports and exports of goods and services, direct components of GDP, increased by a third to 7.3% of GDP. The EU accounted for 70% of the credit turnover and for 82% of the debit turnover of the current account. The respective indicators for the monetary union were 35% and 38%.



Current account turnover and balance

Goods

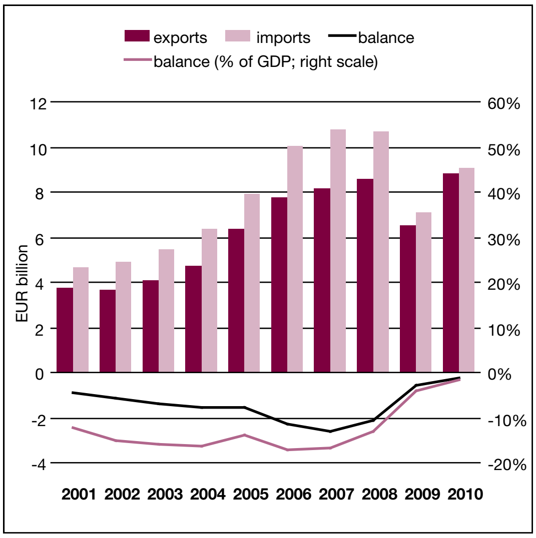
The deficit on the goods account shrank by 55% to 250 million euros from 2009, which is only 1.7% of the GDP for the year. The last time the deficit was as low was in 1994. Goods exports grew by a third to 8.8 billion euros. Imports picked up by 27% and totalled 9 billion euros. Imports and exports were both driven mainly by machinery and equipment. Foreign trade deficit contracted mostly because the surplus on timber, paper and products made thereof and furniture increased, while the deficit on mineral products decreased. Estonia's main trading partner, the European Union, comprised 68% of the exports and 80% of the imports of goods.



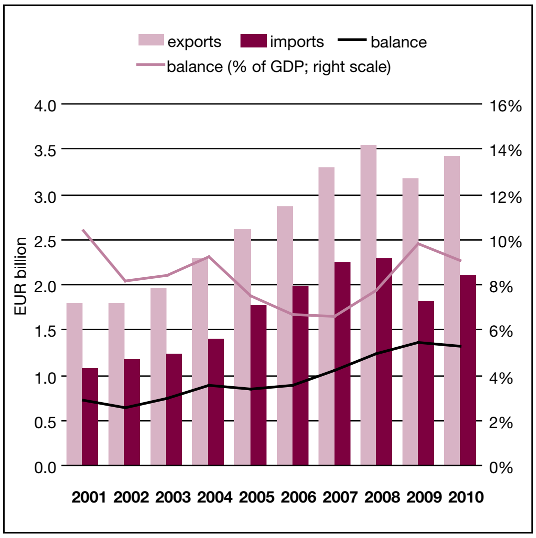
Current account components (% of GDP)

Services

The surplus on services was only 3% lower than the record high witnessed in 2009, and amounted to 1.3 billion euros. The exports of services grew by 8% and imports by 16%. The surplus was boosted by transport, travel and other business services, with their surpluses being 47%, 26% and 14%, respectively. The share of EU countries totalled 71% in the exports and 81% in the imports of services.



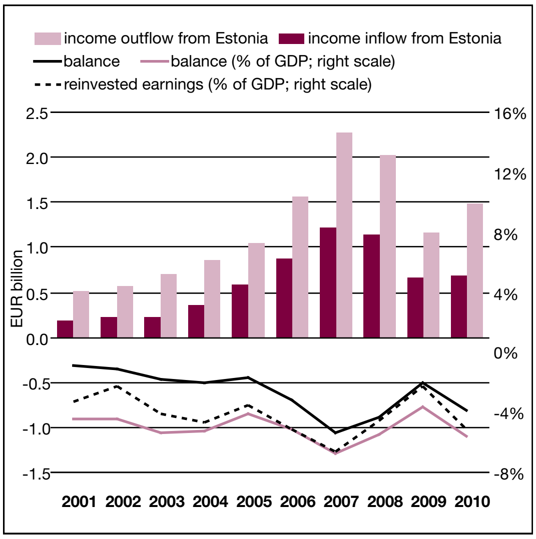
Estonia's external trade



Services account

Income

The net outflow of labour and capital income grew by 60% over the year to 805 million euros. The surplus on compensations of employees (labour income) increased 5% over the year to 133 million euros. Capital income (investment income) accounted for the majority of the income account; non-residents' income earned in Estonia exceeded residents' income earned abroad by 939 million euros. The net outflow of investment income increased 50% with the year. Direct investment income accounted for 64% of the investment income inflow and 82% of the outflow. The majority of residents' and non-residents' income was related to EU countries.



Income account

Current transfers and the capital account

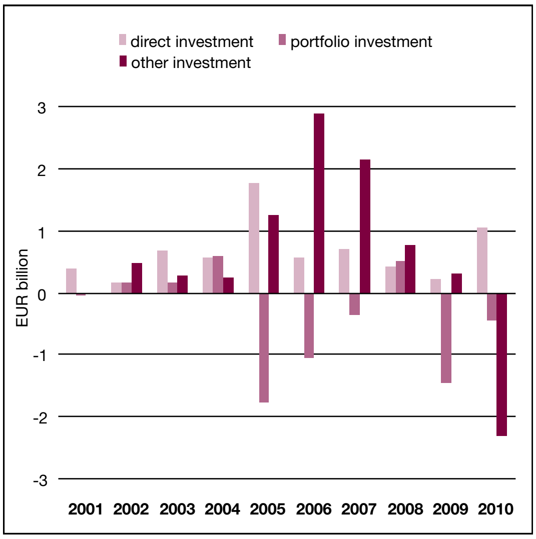
The surplus on current transfers increased 20% from 2009 to 256 million euros in 2010. The surplus on capital transfers, on the other hand, decreased 20% to 384 million euros. The sales of CO2 emission quotas, which are recorded under intangible assets, provided Estonia with 135 million euros in 2010.

Financial account

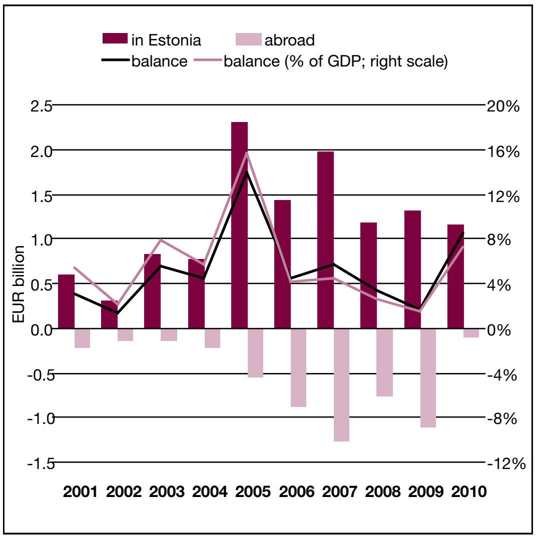
The net outflow of capital increased in 2010, primarily owing to the preparations for the adoption of the euro. The minimum reserve requirement for banks was gradually lowered in the second half of the year and banks used their free funds to invest abroad. The net outflow of capital totalled 1.6 billion euros and mainly consisted of other investment and to some extent also portfolio investment. Direct investment recorded a net inflow, the largest since 2005.

Direct investment

Direct investment inflow was 1.1 billion euros bigger than outflow in 2010, which is almost twice as much as the average for the last ten years.[1] Investment in Estonia did not change much in terms of volume in 2010 and totalled 1,162 million euros; investment abroad remained at the level of the first half of the 2000s at 100 million euros due to inter-company lending.



Sub-accounts of capital and financial accounts

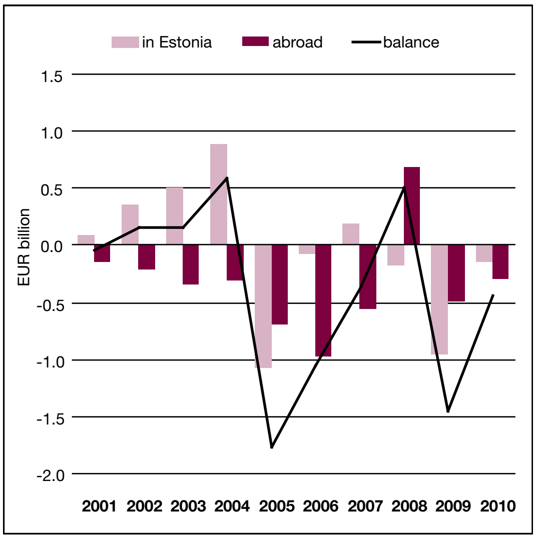


Direct investment

[1] The average direct investment balance during 2000–2009 was 578 million euros.

Portfolio investment

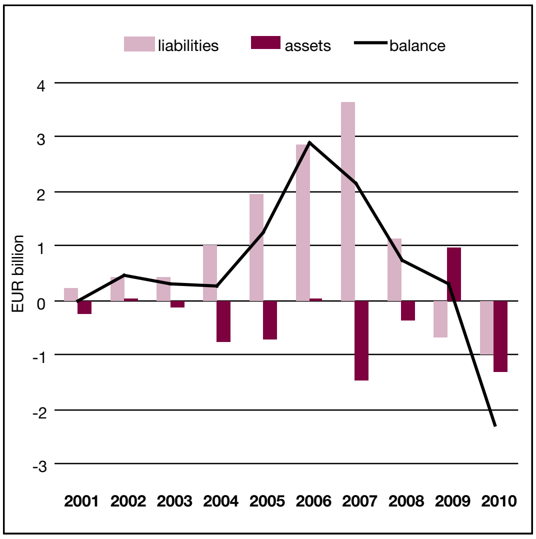
The net outflow of portfolio investment continued in 2010 and totalled 441 million euros. Investments were made mainly in foreign equity securities, unlike in 2009 when considerable amounts of bonds were redeemed. The net inflow of financial derivatives amounted to 32 million euros in 2010.



Portfolio investment

Other investment

Unlike previous years, when there was capital inflow, 2010 witnessed a significant capital outflow of 2.3 billion euros. The lowering of the minimum reserve requirement in the second half of 2010 helped credit institutions to reduce their liabilities to parent banks in the total amount of 1.6 billion euros. Investment abroad (trade credit, loans) were primarily made by enterprises in other sectors and credit institutions, who channelled their investment to short-term foreign accounts in the second half of the year.



Other investment

CURRENT ACCOUNT

The recovery of external demand facilitated export growth, which resulted in trade deficit declining by over 50%. On the other hand, the recovery boosted the profitability of foreign-owned companies operating in Estonia, and so the net outflow of income (mostly reinvested earnings) increased 60%. Consequently, the current account remained in surplus in 2010, remaining at the level of the previous year. The surplus totalled 513 million euros, or 3.5% of GDP (see Figure 1.1).

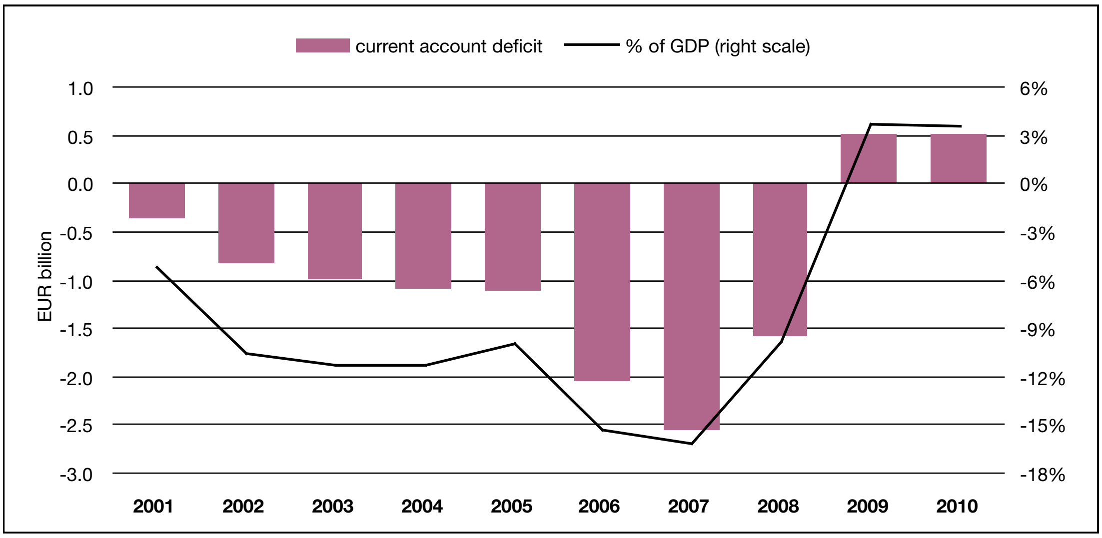


Figure 1.1. Estonia's current account deficit

The credit turnover on the current account increased 24% and debit turnover 25%. Estonia mainly traded with EU countries, which constituted 70% of the credit turnover and 82% of the debit turnover (in 2009, 72% and 81% respectively). The respective indicators with regard to the monetary union were 35% and 38% (38% and 36% in 2009). Finland and Sweden were the major partners both in terms of credit and debit turnovers. The top five partners included also Latvia and Russia, in both turnovers, Lithuania in credit turnover and Germany in debit turnover. All in all, the top five accounted for 56% of the total turnover. Estonia had the largest current account surpluses with Finland and Russia; and the highest deficits with Germany and Poland (see Table 1.3).

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

	2009	2010
EU-27	**-562.5**	**-1,089.3**
Finland*	781.8	576.8
Germany	-313.5	-564.5
Poland	-263.6	-420.3
Sweden	-398.1	-336.5
European Commission	98.0	163.4
CIS	**181.2**	**500.8**
Russia	174.4	346.3
Kazakhstan	59.3	106.7
Belarus	-80.9	-36.3
Other	**893.6**	**1,101.6**
USA	208.6	260.2
Norway	161.4	232.5
China	-88.7	-166.6
Nigeria	188.1	160.3
Canada	121.6	82.9
Total	**512.3**	**513.1**

* 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 (EUR m)
	Volume* (EUR m)	Change compared to the previous period (%)	Share in total exports of goods and services (%)	Volume* (EUR m)	Change compared to the previous period (%)	Share in total exports of goods and services (%)	
2001	3,757.9	4.8	67.6	4,623.4	4.1	81.1	-865.5
2002	3,703.6	-1.4	67.3	4,883.1	5.6	80.7	-1,179.5
2003	4,054.8	9.5	67.4	5,430.3	11.2	-81.6	-1,375.5
2004	4,764.2	17.5	67.5	6,333.3	16.6	-81.9	-1,569.1
2005	6,347.9	33.2	70.8	7,898.0	24.7	-81.7	-1,550.1
2006	7,774.0	22.5	73.0	10,078.1	27.6	-83.6	-2,304.1
2007	8,132.2	4.6	71.2	10,772.9	6.9	-82.7	-2,640.8
2008	8,541.5	5.0	70.7	10,664.2	-1.0	-82.3	-2,122.7
2009	6,550.4	-23.3	67.4	7,109.5	-33.3	-79.7	-559.1
2010	8,777.7	34.0	72.0	9,027.9	27.0	-81.1	-250.2

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

Goods

The recovery of external demand facilitated the turnover of the **goods account**: the exports of goods picked up by 34% to 8.8 billion euros, while imports grew by 27% to 9 billion euros (see Table 1.4). The deficit on the goods account decreased 55% from 2009 owing to the rapid increase in goods exports, and stood at 250 million euros, or 1.7% of annual GDP.

According to preliminary **foreign trade statistics**[2], goods exports totalled 8.8 billion and imports in c.i.f. prices was 9.2 billion kroons in 2010. Both exports and imports expanded considerably, especially in the second and fourth quarters of 2010. For instance, in the fourth quarter exports increased 55% and imports 40% from a year-ago level. Annual foreign trade deficit was around 488 million euros, while the deficit for the fourth quarter was only 46 million euros.

The **exports of goods** picked up considerably in all groups of goods (see Table 1.5). Growth was mainly boosted by the exports of machinery and equipment, which increased by 1.5 times over the year and traditionally consisted of mostly electrical and electronic products. The exports of mobile communication devices (base stations, equipment and spare parts) even increased by 2.5 times and were channelled to Sweden, Finland and Russia. The next biggest export group was mineral products, in particular motor fuel, which was imported from Russia, Latvia and Lithuania for processing in Estonia and then exported mostly outside the EU (the United States, Nigeria and Canada). The timber and furniture industry did well too: the exports of timber and timber products increased around 40%, the target countries being Sweden, Finland, Norway and Denmark. The most popular export items were unprocessed or little processed timber, construction components, prefabricated buildings and furniture.

Table 1.5. Exports by main groups of goods

	Volume (EUR m)		Share (%)		Change (%)
	2009	2010	2009	2010	2010/2009
Food	659.9	835.5	10.2	9.5	26.6
Mineral products	1,083.3	1,376.9	16.7	15.7	27.1
Chemical products	562.8	674.9	8.7	7.7	19.9
Clothing, footwear and headgear	329.6	395.6	5.1	4.5	20.0
Timber, paper and products	777.8	1,077.7	12.0	12.3	38.6
Metals and metal products	559.6	795.8	8.6	9.1	42.2
Machinery and equipment	1,269.7	1,977.2	19.6	22.6	55.7
Transport vehicles	423.7	572.3	6.5	6.5	35.1
Furniture, toys, sporting goods	537.3	668.5	8.3	7.6	24.4
Other	285.6	379.0	4.4	4.3	32.7
Total	**6,489.4**	**8,753.5**	**100.0**	**100.0**	**34.9**

The main export item in the food group was spirits, which was delivered to Russia and Finland. Other food products (dairy, fish and meat products, semi-finished products, etc.) were exported to Russia, Finland, Latvia, Lithuania and Germany. The exports of metal products (iron constructions, scrap metal, hot-rolled steel products) grew by 42% over the year, with Finland, Turkey, Sweden, Latvia and Russia as the biggest purchasers. Construction materials (putties, mastics, paints, varnishes, etc.) were the main export item in the group of chemical products, being sold to Russia. Plastic products were delivered to Sweden and Finland, and medicines to Lithuania and Latvia. The exports of transport vehicles were boosted by one major transaction in the fourth quarter: the sale of wagons to Kazakhstan. Estonia imported also motor cars imported from Sweden, Germany and Poland and re-exported them to Latvia and Lithuania. In addition, car parts were sold to Russia and Sweden. Textile goods were exported to Finland, Russia and Sweden, and other industrial products (toughened-glass panes and glass products, and medical equipment) to Belgium, Russia, Finland and Sweden.

[2] 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 accession with the EU, 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.

Table 1.6. Imports by main groups of goods

	Volume (EUR m)		Share (%)		Change (%)
	2009	2010	2009	2010	2010/2009
Food	939.4	1,022.1	12.9	11.1	8.8
Mineral products	1,420.7	1,613.2	19.5	17.5	13.6
Chemical products	1,085.9	1,256.1	14.9	13.6	15.7
Clothing, footwear and headgear	498.8	587.1	6.9	6.4	17.7
Timber, paper and products	391.9	485.9	5.4	5.3	24.0
Metals and metal products	560.7	827.5	7.7	9.0	47.6
Machinery and equipment	1,398.9	2,171.4	19.2	23.5	55.2
Transport vehicles	451.6	656.5	6.2	7.1	45.4
Furniture, toys, sporting goods	184.5	207.8	2.5	2.2	12.7
Other	339.8	414.2	4.7	4.5	21.9
Total	**7,272.1**	**9,241.8**	**100.0**	**100.0**	**27.1**

The **imports of goods** increased significantly across all groups of goods (see Table 1.6). Machinery and equipment (components, leads, cables, etc. for the electronics industry) was also the largest import item with imports growing by 1.5 times and coming from Sweden, Finland, Germany, Latvia, Poland and China. Mineral products (motor fuel for processing and domestic supply, natural gas and electricity) were purchased from Russia, Lithuania, Finland and Latvia. Medicines accounted for 15% of the chemical products imported from Lithuania, Latvia, Poland and the Netherlands. In addition, plastic products and pneumatic tyres were imported.

The imports of good grew by only 9%. Spirits were imported from the United Kingdom, France and Finland; coffee from Finland; pork from Denmark, Finland and Germany. After a decline in 2009 the imports of transport vehicles picked up in 2010, while the imports of motor cars and their spare parts from Sweden, Germany and Poland increased by a third. Imports were boosted also by the purchase of two ferryboats from Norway. Iron and steel products were imported from Finland, Germany and Sweden; clothing and footwear from Latvia, Finland, Germany and China; timber and timber products (mostly sawn timber, paper and cardboard products) from Finland, Russia and Latvia.

The **foreign trade deficit** decreased by almost 300 million euros (38%) from 2009 and totalled around 488 million euros (see Table 1.7). The decrease stemmed from a considerable increase in the surpluses

Table 1.7. Foreign trade balance by main groups of goods (EUR million)

	2009	2010
Food	-279.5	-186.6
Mineral products	-337.3	-236.2
Chemical products	-523.1	-581.1
Clothing, footwear and headgear	-169.2	-191.5
Timber, paper and products	385.9	591.7
Metals and metal products	-1.1	-31.7
Machinery and equipment	-129.2	-194.2
Transport vehicles	-27.9	-84.1
Furniture, toys, sporting goods	352.9	460.6
Other	-54.2	-35.2
Total	**-782.7**	**-488.3**

Table 1.8. Exports of goods by groups of countries

	Volume (EUR m)		Share (%)		Change (%)
	2009	2010	2009	2010	2010/2009
EU-27	**4,487.2**	**5,917.8**	**69.1**	**67.6**	**31.9**
Finland	1,202.0	1,489.4	18.5	17.0	23.9
Sweden	816.6	1,369.1	12.6	15.6	67.7
Latvia	613.7	788.3	9.5	9.0	28.5
Germany	395.6	456.7	6.1	5.2	15.4
Lithuania	309.2	429.3	4.8	4.9	38.9
CIS	**760.8**	**1,143.9**	**11.7**	**13.1**	**50.3**
Russia	601.1	846.8	9.3	9.7	40.9
Kazakhstan	21.6	95.6	0.3	1.1	342.3
Ukraine	72.3	88.4	1.1	1.0	22.4
Other	**1,241.3**	**1,691.8**	**19.1**	**19.3**	**36.3**
USA	274.0	330.9	4.2	3.8	20.8
Norway	205.8	300.0	3.2	3.4	45.8
Nigeria	188.8	165.0	2.9	1.9	-12.6
Total	**6,489.4**	**8,753.5**	**100.0**	**100.0**	**34.9**

on timber and timber products, furniture and other industrial products, and a decrease in the deficits on mineral products and food.

The **exports of goods** increased in terms of all **groups of countries** (see Table 1.8). The main export partners in the EU were Finland, Sweden, Latvia, Germany and Lithuania. Machinery and equipment (primarily electronic products) comprised 27% of the exports to the EU, followed by timber and timber products, furniture, mineral products (motor fuels), food and metal products. 20% of the exports to the CIS consisted of machinery and equipment and food, followed by chemical products and transport vehicles. Major partners included Russia, Kazakhstan and Ukraine. The top three among other countries were the United States, Norway and Nigeria. The majority of the exports to the United States and Nigeria consisted of motor fuels; Norway purchased timber products (furniture and log cabins) from Estonia.

The **imports of goods** increased also significantly in terms of all groups of goods (see Table 1.9). The top five of EU countries were Finland, Germany, Sweden, Latvia and Lithuania. 25% of the exports of goods to EU countries consisted of machinery and equipment, followed by chemical products, food and fuels. From the CIS, mainly motor fuels, natural gas and timber were imported to Estonia. The top three among other countries were China, Norway and the United States, who mainly sold machinery and equipment (components for the electronics industry), textile goods and transport vehicles to Estonia.

Foreign trade was in deficit with the EU (see Table 1.10). As regards EU countries, Estonia had the largest trade deficits with Germany, Poland and Lithuania, and the largest surpluses with Sweden, Finland, France and Denmark. Among the CIS countries, Estonia had a trade deficit with Belarus only. In terms of other countries, Estonia had trade surpluses with the United States, Norway and Nigeria, and the largest deficit with China.

Table 1.9. Imports of goods by groups of countries*

	Volume (EUR m)		Share (%)		Change (%)
	2009	2010	2009	2010	2010/2009
EU-27	**5,845.1**	**7,367.1**	**80.4**	**79.7**	**26.0**
Finland	1,046.6	1,376.9	14.4	14.9	31.6
Germany	774.6	1,041.8	10.7	11.3	34.5
Sweden	610.9	1,011.2	8.4	10.9	65.5
Latvia	764.9	1,002.4	10.5	10.8	31.1
Lithuania	792.9	715.2	10.9	7.7	-9.8
SRÜ	**780.7**	**1,006.5**	**10.7**	**10.9**	**28.9**
Russia	597.4	762.8	8.2	8.3	27.7
Belarus	118.1	118.4	1.6	1.3	0.2
Ukraine	45.5	71.7	0.6	0.8	57.4
Other	**646.4**	**868.2**	**8.9**	**9.4**	**34.3**
China	145.3	281.6	2.0	3.0	93.8
Norway	94.4	128.5	1.3	1.4	36.1
USA	100.7	92.8	1.4	1.0	-7.8
Total	**7,272.1**	**9,241.8**	**100.0**	**100.0**	**27.1**

* Analysed by trading country.

Table 1.10. Foreign trade balance by groups of countries (EUR million)

	2009	2010
EU-27	-1,357.9	-1,449.3
CIS	-19.8	137.4
Other	595.0	823.6
Total	**-782.7**	**-488.3**

Services

The surplus on the **services account** amounted to 1.3 billion euros in 2010, which is 3% down on the year earlier. The recovery of the economy facilitated both the exports and imports of goods and services, while the imports of services grew at a more rapid pace (see Table 1.11). The share of services in the total turnover of goods and services shrank somewhat from 2009 and posted 24%. Services accounted for 9% of GDP.

Table 1.11. Imports and exports of services

	Exports			Imports			Balance	
	Volume (EUR m)	Change compa-red to the previous period (%)	Share in total turnover of goods and services (%)	Volume (EUR m)	Change compa-red to the previous period (%)	Share in total turnover of goods and services (%)	Volume (EUR m)	Change compa-red to the previous period (%)
2001	1,798.2	11.4	32.4	1,076.3	11.8	18.9	721.9	10.7
2002	1,800.0	0.1	32.7	1,167.9	8.5	19.3	632.1	-12.4
2003	1,960.4	8.9	32.6	1,227.0	5.1	18.4	733.4	16.0
2004	2,293.7	17.0	32.5	1,403.0	14.3	18.1	890.7	21.4
2005	2,612.0	13.9	29.2	1,772.7	26.3	18.3	839.3	-5.8
2006	2,870.9	9.9	27.0	1,980.6	11.7	16.4	890.3	6.1
2007	3,289.2	14.6	29.0	2,247.1	13.5	17.1	1,042.1	17.0
2008	3,536.8	7.5	29.3	2,292.9	2.0	17.7	1,243.9	19.4
2009	3,173.8	-10.3	32.7	1,815.6	-20.8	20.4	1,358.2	9.2
2010	3,421.6	7.8	28.0	2,109.3	16.2	19.0	1,312.3	-3.4

Table 1.12. Services balance by major categories

	Balance (EUR m)		Share (%)		Change (%)
	2009	2010	2009	2010	2010/2009
Transportation	581.0	613.4	42.8	46.7	5.6
Travel services	347.3	334.0	25.6	25.5	-3.8
Construction services	74.9	79.7	5.5	6.1	6.4
Computer and information services	68.7	82.1	5.1	6.3	19.5
Business services	246.3	181.0	18.1	13.8	-26.5
Government services	7.1	10.5	0.5	0.8	47.9
Other	32.9	11.6	2.4	0.8	-64.7
Total	**1,358.2**	**1,312.3**	**100.0**	**100.0**	**-3.4**

As in 2009, transport, travel and other business services comprised 86% of the total net exports of services in 2010 (see Table 1.12). The net exports of other business services contracted by 27% from 2009. The surplus on transport services grew slightly and accounted for about 50% of the total surplus on services. The surpluses on minor types of services, that is computer and information services, construction services and government services, increased too.

The **exports of services** picked up in terms of most services, by 8% in total (see Table 1.13). The exports of computer and information services and transport services showed the highest growth rates at 16% and 15%, respectively. The exports of transport services and total services exports were both driven by the increased exports of freight transport services, which grew by 26% in 2010. Only government services and other business services remained more or less unchanged from 2009.

Table 1.13. Services exports by major categories

	Volume (EUR m)		Share (%)		Change (%)
	2009	2010	2009	2010	2010/2009
Transportation	1,167.6	1,344.8	36.8	39.3	15.2
freight	507.0	639.1	16.0	18.7	26.1
passenger	253.9	263.0	8.0	7.7	3.6
other transport services	406.7	442.7	12.8	12.9	8.9
Travel services	780.3	809.2	24.6	23.6	3.7
Construction services	152.6	161.5	4.8	4.7	5.8
Computer and information services	132.7	154.0	4.2	4.5	16.1
Business services	683.8	665.8	21.5	19.5	-2.6
Government services	32.6	32.2	1.0	0.9	-1.2
Other	224.2	254.1	7.1	7.5	13.4
Total	**3,173.8**	**3,421.6**	**100.0**	**100.0**	**7.8**

The geographical distribution of services exports was similar to that in 2009: exports to EU countries picked up by 8% and exports to the CIS increased 15% (see Table 1.14). 71% of the services were exported to EU countries. Finland, Russia and Sweden were the main export partners in 2010, just as in previous years. The Netherlands became the fourth biggest partner in the group of EU countries (in 2009: Germany). As regards other countries, total exports grew by a few per cent, mainly in the group of offshore regions, while the exports of services to Switzerland and the United States contracted.

The **imports of services** grew by 16% in 2010, which is two times faster than exports. Growth concerned almost all types of services, except for the imports of government services (see Table 1.15).

Table 1.14. Services exports by groups of countries

	Volume (EUR m)		Share (%)		Change (%)
	2009	2010	2009	2010	2010/2009
EU-27	**2,239.4**	**2,417.5**	**70.6**	**70.7**	**8.0**
Finland	918.1	959.6	28.9	28.0	4.5
Sweden	258.7	272.0	8.2	7.9	5.1
Latvia	179.0	198.3	5.6	5.8	10.8
Netherlands	89.0	146.9	2.8	4.3	65.1
CIS	**425.9**	**487.6**	**13.4**	**14.2**	**14.5**
Russia	318.2	371.5	10.0	10.9	16.8
Kazakhstan	55.0	62.4	1.7	1.8	13.5
Ukraine	33.3	24.1	1.0	0.7	-27.6
Other	**508.5**	**516.5**	**16.0**	**15.1**	**1.6**
offshore regions	142.7	169.5	4.5	5.0	18.8
Switzerland	119.6	101.0	3.8	3.0	-15.6
USA	90.6	85.5	2.9	2.5	-5.6
Total	**3,173.8**	**3,421.6**	**100.0**	**100.0**	**7.8**

Table 1.15. Services imports by major categories

	Volume (EUR m)		Share (%)		Change (%)
	2009	2010	2009	2010	2010/2009
Transportation	587.0	731.3	32.3	34.7	24.6
freight	355.4	459.6	19.5	21.8	29.3
passenger	64.9	66.8	3.6	3.2	2.9
other transport services	166.7	204.9	9.2	9.7	22.9
Travel services	433.0	475.2	23.9	22.5	9.7
Construction services	77.6	81.8	4.3	3.9	5.4
Computer and information services	64.0	72.0	3.5	3.4	12.5
Business services	437.5	484.7	24.1	23.0	10.8
Government services	25.4	21.7	1.4	1.0	-14.6
Other	191.1	242.6	10.5	11.5	27.0
Total	**1,815.6**	**2,109.3**	**100.0**	**100.0**	**16.2**

The imports of transport services increased more rapidly at 25%, being driven by higher imports of freight transport and other transport services. The imports of computer and information services, and other business services went up 10%.

The main partners in services imports were more or less the same as in 2009. EU countries accounted for 81% of the import partners, having grown their share over the year, and sold 20% more services to Estonia in 2010 compared to 2009 (see Table 1.16). Finland remained the biggest partner, with the imports of services from there growing by around a third. The imports of services (in particular transport and travel services) from Sweden, the second biggest import partner, posted the strongest growth at about 70%. Imports from Germany and Latvia went up considerably too. Imports from the CIS mainly concerned Russia, having decreased 10% over the year. Imports from other countries picked up by 7%, but the ranking of trade partners changed. Year-on-year, the United States sold 9% fewer services to Estonia, while services imports from China and offshore regions grew. The recession lowered households' incomes, which in turn decreased the imports of services from Egypt, a popular winter holiday destination among Estonians that used to rank second after the United States in terms of services imports in 2009.

Table 1.16. Services imports by groups of countries

	Volume (EUR m)		Share (%)		Change (%)
	2009	2010	2009	2010	2010/2009
EU-27	**1,406.8**	**1,700.8**	**77.5**	**80.6**	**20.9**
Finland	271.9	373.2	15.0	17.7	37.3
Sweden	150.5	250.2	8.3	11.9	66.2
Latvia	182.9	214.6	10.1	10.2	17.3
Germany	109.7	140.4	6.0	6.7	28.0
CIS	**160.4**	**143.9**	**8.8**	**6.8**	**-10.3**
Russia	115.4	110.9	6.4	5.3	-3.9
Belarus	13.8	15.3	0.8	0.7	10.9
Ukraine	13.3	11.7	0.7	0.6	-12.0
Other	**248.4**	**262.6**	**13.7**	**12.6**	**6.5**
USA	62.0	56.2	3.4	2.7	-9.4
China	17.4	33.1	1.0	1.6	90.2
offshore regions	20.8	32.0	1.1	1.5	53.8
Total	**1,815.6**	**2,109.3**	**100.0**	**100.0**	**16.2**

The surplus on **transport services** increased 6% in 2010, constituting around 50% of the net exports of services (see Figures 1.2-1.3 and Table 1.17). Maritime transport constituted the largest share of the net exports of transport services, followed by rail and road transport. Air transport remained in deficit.

The exports of transport services went up 15% from 2009 to 39% of the total services exports. Freight transport comprised over 50% of the exports, followed by other supporting and auxiliary services, and passenger transport at 33% and 20% respectively (see Tables 1.13 and 1.17). The exports of transport services to EU and CIS countries increased 20% and 22% respectively in 2010. The top five of major partner countries from the EU were again Finland, the Netherlands, Sweden, Latvia and Germany, but in a different ranking. As regards the CIS, Belarus ranked ahead of Ukraine, which held the second place in 2009. Exports to other countries shrank by 6% from 2009, while exports to offshore regions picked up by more than 30%; exports to Switzerland and the United States contracted.

The imports of transport services grew by 25% in 2010 from 2009. As with exports, imports increased in terms of all groups of countries and the majority of countries, being driven mostly by the imports of freight transport (see Tables 1.15 and 1.17). Imports from the EU mainly originated from Sweden, Germany, Finland, Latvia and Lithuania. Russia and Belarus remained the largest import partners from the CIS. China, offshore regions and the United States were the main import partners from among other countries.

The turnover of **travel services** gained momentum in 2010: exports grew by 4% and imports by 10% from 2009 (see Figure 1.4 and Table 1.18). Consequently, the surplus on travel services shrank by 4% to 334 million euros.

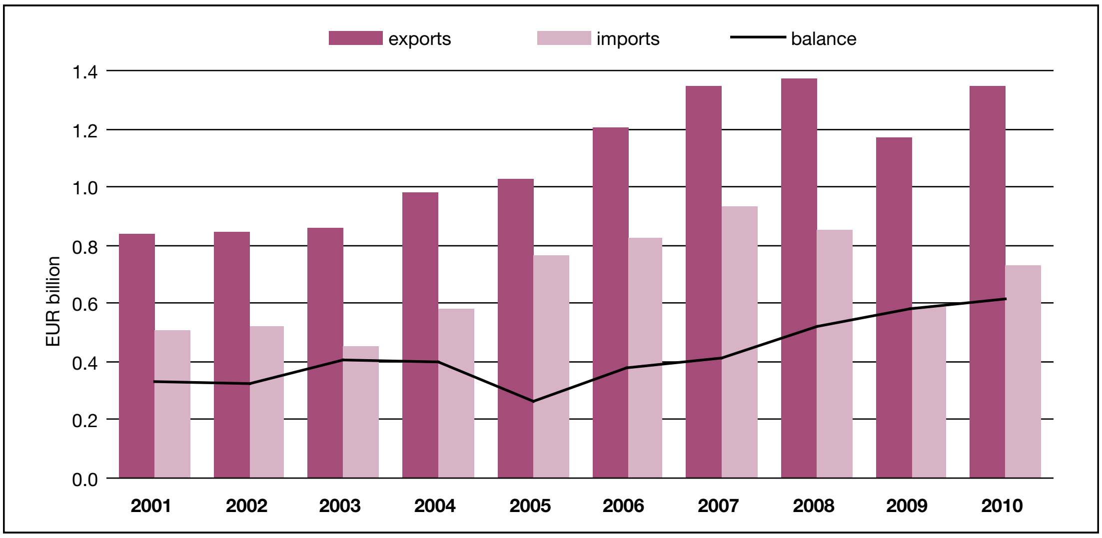


Figure 1.2. Transport services

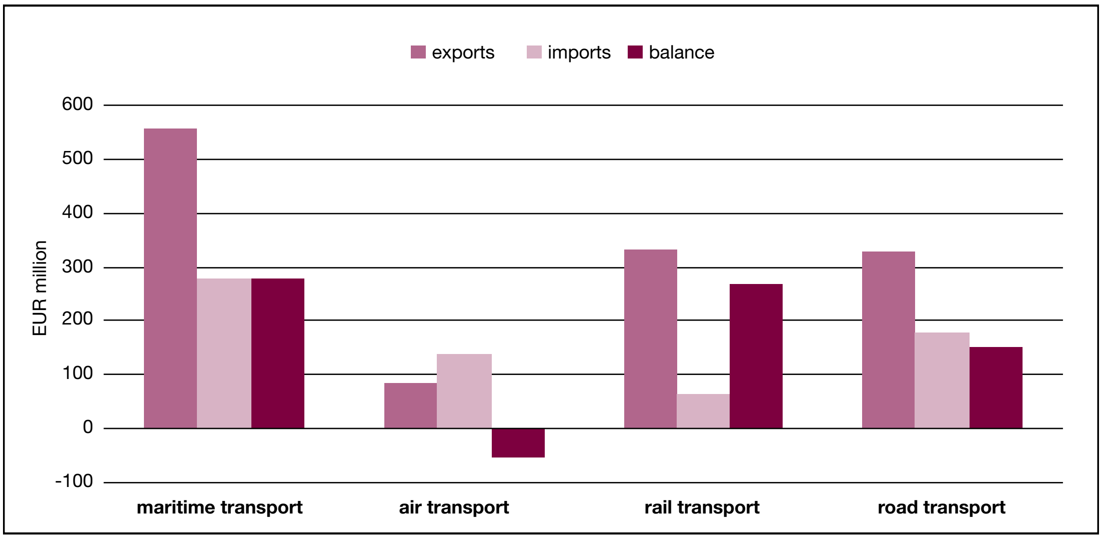


Figure 1.3. Transport services structure in 2010 by transport type

Table 1.17. Transport services by groups of countries in 2010

	Exports				Imports		
	Volume (EUR m)	Share (%)	Change (%), 2010/2009		Volume (EUR m)	Share (%)	Change (%), 2010/2009
EU-27	**899.2**	**66.9**	**20.1**	**EU-27**	**575.3**	**78.7**	**27.4**
Finland	282.7	21.0	7.4	Sweden	86.4	11.8	82.3
Netherlands	117.2	8.7	78.4	Germany	80.5	11.0	34.4
Sweden	112.9	8.4	9.0	Finland	79.0	10.8	18.4
Latvia	68.0	5.1	41.7	Latvia	56.9	7.8	18.5
Germany	57.6	4.3	10.3	Lithuania	47.3	6.5	8.2
CIS	**217.3**	**16.2**	**22.2**	**CIS**	**47.3**	**6.5**	**-3.1**
Russia	189.6	14.1	15.2	Russia	28.9	4.0	-6.2
Belarus	11.3	0.8	169.0	Belarus	9.8	1.3	44.1
Other	**228.3**	**17.0**	**-5.6**	**Other**	**108.7**	**14.8**	**25.2**
offshore regions	84.0	6.2	31.5	China	27.2	3.7	81.3
Switzerland	60.0	4.5	-25.9	offshore regions	22.8	3.1	57.2
USA	34.8	2.6	-3.1	USA	13.0	1.8	-11.6
Total	**1,344.8**	**100.0**	**15.2**	**Total**	**731.3**	**100.0**	**24.6**

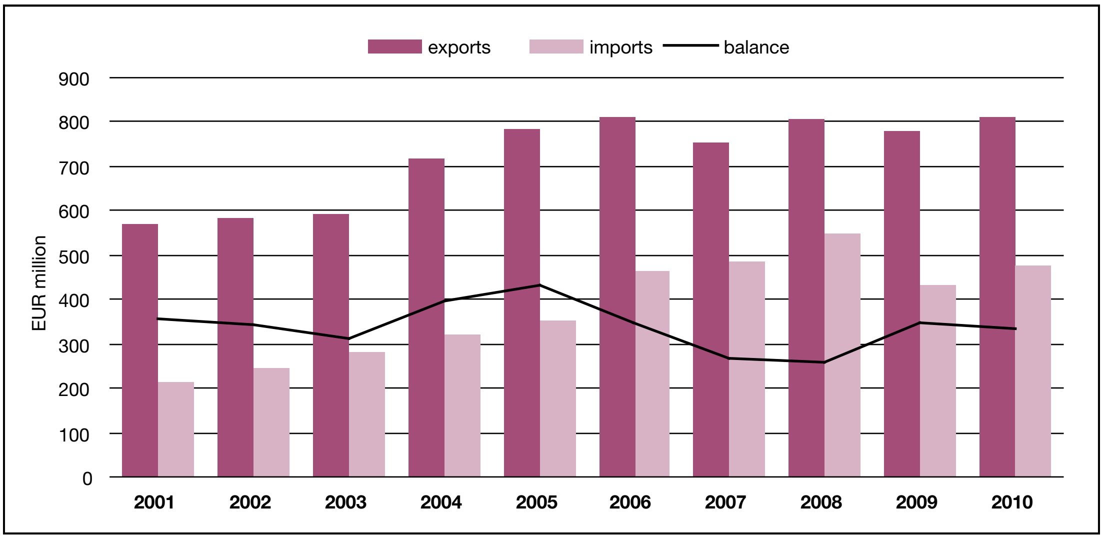


Figure 1.4. Travel services

Over 50% of the travel services were sold to Finnish tourists and 11% to Russian tourists. The number of non-resident visitors increased 2%, and the number of days spent in Estonia rose too. The amount of visitors from Finland grew by only 1%, but the amount of tourists from Sweden, Russia, Poland and the United Kingdom increased 17%, 14%, 30% and 5% respectively. However, the number of visitors from Latvia and Lithuania dropped by 19% and 11% respectively.

Table 1.18. Travel services by groups of countries in 2010

	Exports				Imports		
	Volume (EUR m)	Share (%)	Change (%), 2010/2009		Volume (EUR m)	Share (%)	Change (%), 2010/2009
EU-27	**664.6**	**82.1**	**3.0**	**EU-27**	**365.4**	**76.9**	**29.2**
Finland	411.9	50.9	3.8	Finland	155.1	32.6	89.0
Sweden	64.8	8.0	18.9	Sweden	41.7	8.8	104.4
Latvia	41.2	5.1	-8.6	Latvia	41.0	8.6	-1.9
Germany	32.4	4.0	16.8	United Kingdom	20.7	4.4	37.6
CIS	**94.6**	**11.7**	**12.8**	**CIS**	**46.1**	**9.7**	**-31.6**
Russia	90.2	11.1	15.3	Russia	40.9	8.6	-17.5
Ukraine	2.4	0.3	-17.4	Ukraine	2.7	0.6	-44.3
Other	**50.0**	**6.2**	**-2.2**	**Other**	**63.7**	**13.4**	**-23.1**
Norway	13.4	1.7	-7.0	Norway	10.6	2.2	144.3
USA	10.3	1.3	-4.3	Egypt	9.4	2.0	-58.2
Korea	3.1	0.4	-24.7	USA	8.8	1.9	-37.4
Total	**809.2**	**100.0**	**3.7**	**Total**	**475.2**	**100.0**	**9.7**

Estonian residents purchased more travel services in 2010 compared to 2009, the most popular destinations being Finland, Sweden, Norway and the United Kingdom. These are also the primary work places of Estonians abroad, so the number of travel services probably rose partly because of work-related trips and visits by family members of people working abroad. The number of visits to Egypt, which used to be the most popular holiday destination, fell by two times owing to the recession.

Income

The recovery of the Estonian economy entailed a robust hike in the net outflow of **income**. Year-on-year, the net outflow of income increased 60% to 805 million euros, or 5.6% of GDP (see Table 1.19). Over 90% of the net outflow was reinvested earnings, which is a book value and does not involve any actual movement of funds, as the income earned was reinvested instead of drawing dividends. Reinvested earnings excluded, the net outflow of income shrank to 57 million euros, or 0.4% of GDP.

The net inflow of labour income totalled 133 million euros in 2010, which is 5% more than in 2009 (see Table 1.20). The net outflow of investment income, the main income component, stood at 939 million euros, having increased 50% from 2009 close to the 2006 level, yet remaining below the peak levels in 2007–2008. Direct and other investment incomes posted a net outflow, while portfolio investment recorded a small net inflow. The majority of the net outflow of investment income was comprised of direct investment income, which grew by two times over the year. The net outflow of direct investment income was primarily driven by the 2.4-times increase in the net outflow of reinvested earnings, which accounted for around 80% of the total net outflow of investment income (around 50% in 2009). The net outflow of other investment income, that is interest income, decreased 41% over the year.

Table 1.19. Income

	Inflow		Outflow		Balance	
	Volume (EUR m)	Change compared to previous period (%)	Volume (EUR m)	Change compared to previous period (%)	Volume (EUR m)	Change compared to previous period (%)
2001	193.2	48.7	506.2	44.2	-313.1	41.6
2002	215.5	11.5	560.0	10.6	-344.6	10.1
2003	229.1	6.3	691.8	23.5	-462.8	34.3
2004	350.7	53.1	859.8	24.3	-509.1	10.0
2005	589.6	68.1	1,045.0	21.5	-455.3	-10.6
2006	866.4	46.9	1,554.3	48.7	-687.9	51.1
2007	1,210.3	39.7	2,269.2	46.0	-1,058.9	53.9
2008	1,147.7	-5.2	2,026.1	-10.7	-878.4	-17.0
2009	660.1	-42.5	1,162.2	-42.6	-502.1	-42.8
2010	685.9	3.9	1,491.3	28.3	-805.4	60.4

Table 1.20. Structure of income account

	Volume (EUR m)		Share (%)		Change (%)
	2009	2010	2009	2010	2010/2009
Labour income	126.6	133.1	-25.2	-16.5	5.1
Investment income	-628.8	-938.5	125.2	116.5	49.3
Income on direct investment	-438.8	-863.4	87.4	107.2	96.7
income on equity	-430.7	-853.9	85.8	106.0	98.2
dividends	-123.6	-105.9	24.6	13.1	-14.3
reinvested earnings	-307.1	-748.0	61.2	92.9	143.6
income on debt (interests)	-8.1	-9.5	1.6	1.2	16.8
Income on portfolio investment	47.9	65.5	-9.5	-8.1	36.9
Income on other investment	-237.8	-140.6	47.4	17.5	-40.9
Total	**-502.1**	**-805.4**	**100.0**	**100.0**	**60.4**

Income inflow grew by 4% from 2009 and totalled 686 million euros (see Table 1.21). 94% of the investment inflow came from EU countries (see Table 1.22). Labour income accounted for about 30% of the income inflow, having grown by 12% to 202 million euros year-on-year. Half of the labour income was earned in Finland and 11% in the United Kingdom. Somewhat less labour income was earned in Sweden, Latvia, the United States and Ireland. Labour income earned in Finland, the United States and the United Kingdom increased year-on-year, while income earned in Ireland and Latvia decreased. The inflow of investment income remained close to the 2009 level at 484 million euros. The majority (64%) of the investment income inflow was comprised of direct investment income, which increased 4%. Other investment income (interest income) grew by 8%, while portfolio investment income shrank 11%. The net inflow of direct investment income was boosted only by reinvested earnings, which increased 80%, while dividend and interest income declined. Reinvested earnings accounted for 37% of the total inflow of investment income in 2010 (21% in 2009).

73% of the investment income inflow was related to three countries: Lithuania (27%), Latvia (24%) and Cyprus (22%). The inflow of income from these countries contracted somewhat. Financial intermediaries earned 73% and 88% of the investment income from Lithuania and Latvia respectively. Around 90% of the investment income from Cyprus belonged to water transport investors. The investment losses recorded in Ukraine and Finland in 2009 were replaced by profits in 2010. 54% of the investment income went to financial intermediaries (except insurance and pension funds) and 20% to water transport investors (see Figure 1.5).

Table 1.21. Income inflow to Estonia

	Volume (EUR m)		Share (%)		Change (%)
	2009	2010	2009	2010	2010/2009
Labour income	180.9	201.7	27.4	29.4	11.5
Investment income	479.2	484.2	72.6	70.6	1.1
Income on direct investment	295.3	307.6	44.7	44.8	4.2
income on equity	199.9	242.6	30.3	35.4	21.4
dividends	100.1	62.5	15.2	9.1	-37.6
reinvested earnings	99.8	180.1	15.1	26.3	80.6
income on debt (interests)	95.4	64.9	14.5	9.5	-31.9
Income on portfolio investment	115.5	102.9	17.5	15.0	-10.9
Income on other investment	68.4	73.8	10.4	10.8	7.9
Total	**660.1**	**685.9**	**100.0**	**100.0**	**3.9**

Table 1.22. Income by groups of countries in 2010

	Inflow				Outflow		
	Volume (EUR m)	Share (%)	Change (%) 2010/2009		Volume (EUR m)	Share (%)	Change (%) 2010/2009
EU-27	**641.7**	**93.6**	**-4.4**	**EU-27**	**1,374.7**	**92.2**	**33.4**
Lithuania	132.9	19.4	-9.1	Sweden	749.4	50.3	1.0
Latvia	127.3	18.6	-10.0	Finland	67.7	17.9	115.3
Finland	119.6	17.4	98.8	Netherlands	157.6	10.6	274.7
Cyprus	109.5	16.0	-15.8	Denmark	55.4	3.7	15.3
United Kingdom	29.4	4.3	-6.1	Germany	46.8	3.1	29.5
CIS	**19.9**	**2.9**	**-150.6**	**CIS**	**40.6**	**2.7**	**-44.3**
Belarus	6.6	1.0	358.5	Russia	36.9	2.5	-42.9
Russia	6.2	0.9	-272.8	Belarus	1.6	0.1	-61.0
Other	**24.4**	**3.6**	**-13.5**	**Other**	**76.0**	**5.1**	**29.3**
USA	9.8	1.4	-12.4	offshore regions	40.0	2.7	85.2
Norway	8.6	1.3	16.0	USA	17.2	1.2	8.5
offshore regions	2.4	0.3	-14.3	Norway	11.2	0.8	-31.8
Total	**685.9**	**100.0**	**-42.4**	**Total**	**1,491.3**	**100.0**	**-48.0**

Income outflow from Estonia increased 28% to 1.5 billion euros year-on-year (see Table 1.23). Labour income constituted only 5% of the income outflow, the rest being investment income. The net outflow of labour income grew by 25%. The majority (65%) of the labour income earned in Estonia went to Sweden, Finland and Latvia, with Sweden's share increasing by approximately 2.5 times. The outflow of investment income grew by 28% to 1.4 billion euros over the year. The outflow was boosted only by direct investment income, which gained 60% from 2009 and constituted 82% of the total outflow of investment income. Portfolio and other investment income declined in 2010. Both the inflow and outflow of direct investment was caused by reinvested earnings, which more than doubled and totalled over 0.9 billion euros. Reinvested earnings accounted for 65% of the total outflow of investment income in 2010 (37% in 2009), which means that there was no actual movement of funds in that extent.

80% of the investment income earned in Estonia belonged to three countries: Sweden (51%), Finland (18%) and the Netherlands (11%). Year-on-year, the outflow of investment income to Sweden remained more or less unchanged, while outflows to Finland and the Netherlands soared by as much as over two

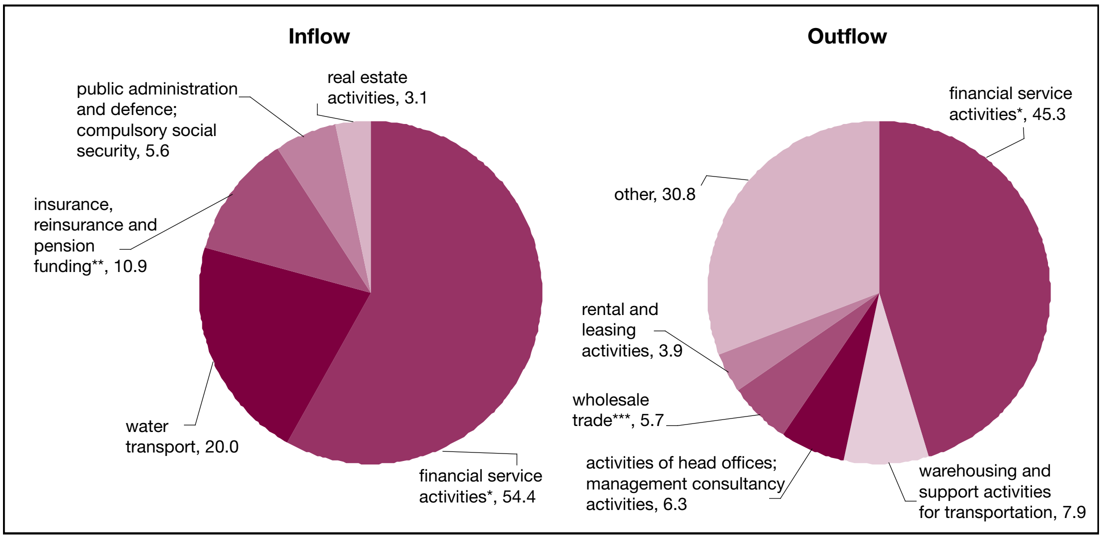


Figure 1.5. Inflow and outflow of investment income by fields of activity in 2010

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

Table 1.23. Income outflow from Estonia

	Volume (EUR m)		Share (%)		Change (%)
	2009	**2010**	**2009**	**2010**	**2010/2009**
Labour income	-54.3	-68.6	4.7	4.6	26.3
Investment income	-1,107.9	-1,422.7	95.3	95.4	28.4
Income on direct investment	-734.1	-1,171.0	63.2	78.5	59.5
income on equity	-630.6	-1,096.6	54.3	73.5	73.9
dividends	-223.7	-168.4	19.2	11.3	-24.7
reinvested earnings	-406.9	-928.2	35.0	62.2	128.1
income on debt (interests)	-103.5	-74.4	8.9	5.0	-28.1
Income on portfolio investment	-67.6	-37.4	5.8	2.5	-44.8
Income on other investment	-306.2	-214.4	26.3	14.4	-30.0
Total	**-1,162.2**	**-1,491.3**	**100.0**	**100.0**	**28.3**

and three times respectively. 74% of the income of Swedish investors was earned on financial intermediation, having decreased 13% from 2009. However, Swedes increased their investment income on the electronics industry by ten times. Finnish investors earned investment income in various fields of activity, such as financial intermediation, wholesale, timber processing, real estate and production of beverages. Dutch investors earned income on storage and auxiliary transport services (58% of the total investment income) and on the activities of head offices (13%). Investors from Denmark, Lithuania, Cyprus and Germany also increased their investment income in Estonia significantly, while the investment income of Russian investors shrank by two times.

Table 1.24. Current and capital transfers by groups of countries (EUR million)

	Incoming		Outgoing		Balance	
	2009	2010	2009	2010	2009	2010
Current transfers	**502.1**	**592.0**	**286.7**	**335.6**	**215.4**	**256.4**
government transfers	**198.8**	**239.1**	**178.5**	**177.1**	**20.3**	**62.0**
EU-27	181.0	221.2	167.6	166.0	13.3	55.2
CIS	3.1	2.6	0.7	0.8	2.4	1.8
other	14.7	15.2	10.1	10.3	4.6	4.9
private transfers	**303.3**	**353.0**	**108.3**	**158.6**	**195.0**	**194.4**
EU-27	235.9	271.4	89.4	127.7	146.5	143.7
CIS	47.0	46.6	4.5	4.3	42.5	42.3
other	20.4	35.0	14.4	26.6	6.0	8.4
Capital transfers	**484.0**	**389.4**	**1.0**	**6.0**	**482.9**	**383.5**
government transfers	235.7	198.2	0.1	0.2	235.6	198.1
private transfers	248.2	191.2	1.0	5.8	247.3	185.4
Intangible assets	**3.5**	**135.3**	**3.0**	**0.2**	**0.5**	**135.2**

Current transfers and the capital account

The surplus on the **current transfers** account increased 20% in 2010 to 256 million euros (see Table 1.24). Current transfers to Estonia totalled 592 million euros, of which 40% went to the general government. 58% of that, or 139 million euros, were allocations from EU structural funds and the rest were VAT, income and social tax receipts from non-residents. Transfers to other sectors amounted to 353 million euros, of which 46% were structural funds and 12% transfers by migrants employed abroad. The outflow of current transfers totalled 336 million euros, of which 43% were payments into the EU budget.

Capital transfers had a surplus of 384 million euros, having contracted by 20% over the year. The capital transfers into Estonia mainly comprised EU subsidies to the general government and also to other sectors for infrastructure objects.

The sales of CO2 emission quotas, which are recorded under **intangible assets**, provided Estonia with 135 million euros in 2010. Emission quotas were sold to Japan, Spain, Austria and Luxembourg.

FINANCIAL ACCOUNT

The net outflow of capital increased in 2010, primarily owing to the preparations for the adoption of the euro. The minimum reserve requirement for banks was gradually lowered in the second half of the year and banks channelled their free funds to abroad. The net outflow of capital totalled 1.6 billion euros and mainly consisted of other investment and to some extent also portfolio investment. Direct investment recorded a net inflow, the largest since 2005. Figures 1.6 and 1.7 show the structure of the financial account by categories and maturities.

Direct investment

Non-residents' **direct investment** in Estonia totalled 1.2 billion and residents' direct investment abroad amounted to 0.1 billion euros. This means that direct investment had a surplus of 1.1 billion euros. Year-on-year, the inflow of direct investment shrank by 10%, while the outflow contracted by as much as 90% (see Figure 1.8).

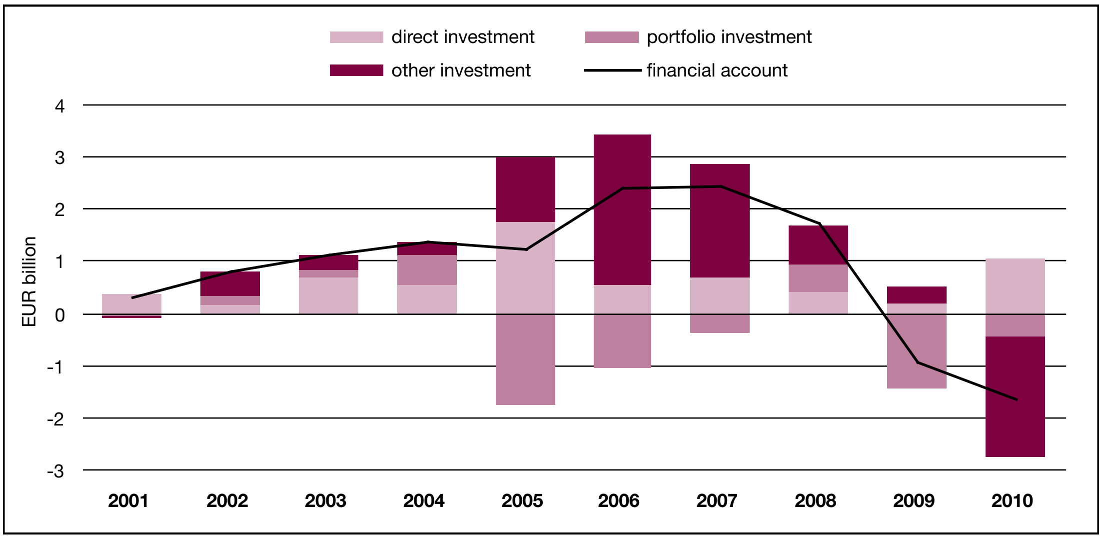


Figure 1.6. Structure of foreign investment capital flows

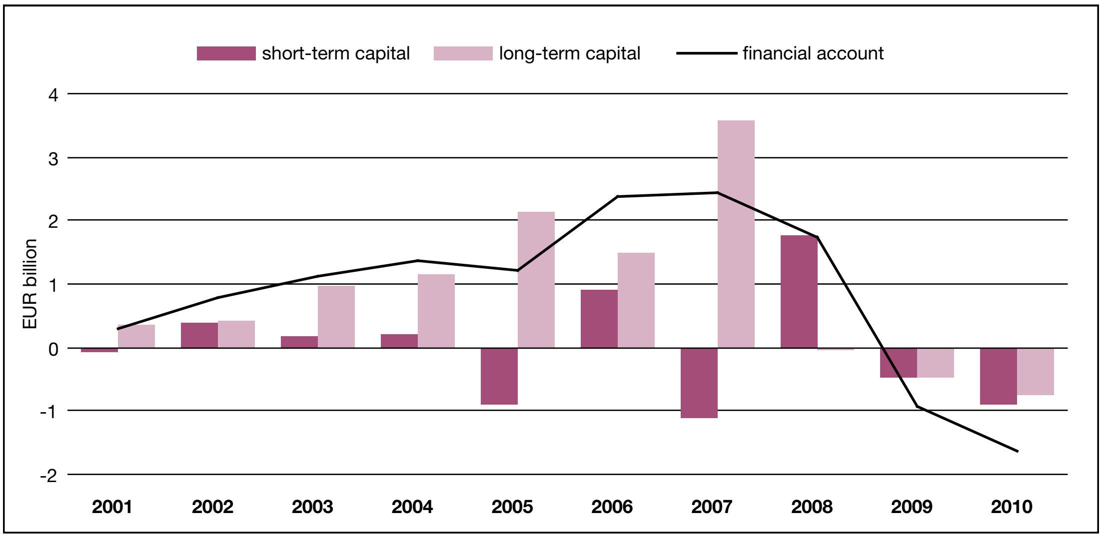


Figure 1.7. Maturity structure of the financial account

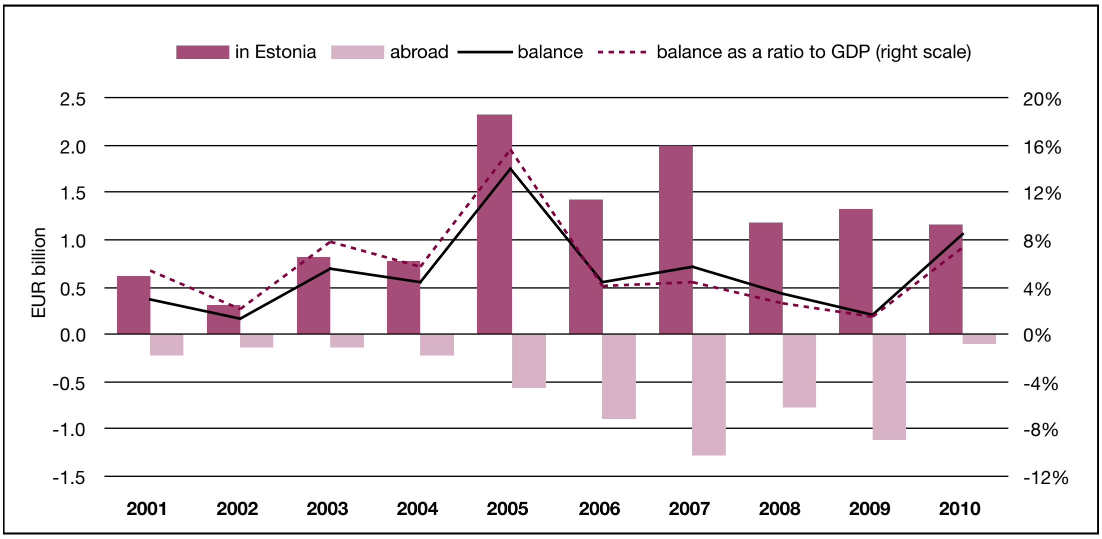


Figure 1.8. Direct investment

The inflow of **direct investment in Estonia** remained more or less at the 2009 level. The structure of investment indicated the recovery of corporate profitability and a lower need for additional finances: the share of reinvested earnings rose to 80% of the total direct investment, the highest level of the past ten years. In 2010, 349 million euros of equity capital was invested; the largest investments went to retail and financial intermediation companies. Reinvested earnings totalled around billion euros, which is over two times more than in 2009 and close to the pre-boom level in 2006. The largest contributions came from wholesale, storage and transport companies, and head offices. The reinvested earnings of financial intermediaries, which account for the largest share of total reinvested earnings, did not change much from 2009 and amounted to 0.4 billion euros. The increase in claims to direct investment companies led to an outflow of 212 million euros from Estonian companies, while the increase in liabilities (especially long-term loans) resulted in an inflow of 98 million euros (see Tables 1.25-1.26).

Table 1.25 Structure of direct investment in Estonia

	Equity capital		Reinvested earnings		Other capital				Total	
					Assets		Liabilities			
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)
2001	232.7	38.6	247.9	41.1	-60.8	-10.1	182.8	30.3	602.7	100.0
2002	52.5	17.1	215.4	70.2	-49.4	-16.1	88.3	28.8	306.8	100.0
2003	340.6	41.4	409.5	49.8	-85.3	-10.4	157.4	19.1	822.2	100.0
2004	296.5	38.5	510.1	66.2	-92.9	-12.1	57.2	7.4	770.8	100.0
2005	1,788.2	77.5	567.9	24.6	-128.7	-5.6	79.9	3.5	2,307.3	100.0
2006	143.1	10.0	1,000.4	69.9	-285.3	-19.9	573.7	40.1	1,431.9	100.0
2007	273.2	13.8	1,366.9	68.9	-417.7	-21.0	762.5	38.4	1,985.0	100.0
2008	195.2	16.5	870.6	73.7	-125.3	-10.6	241.4	20.4	1,181.8	100.0
2009	1,219.2	92.2	406.9	30.8	-50.0	-3.8	-253.0	-19.1	1,323.1	100.0
2010	348.6	30.0	928.2	79.9	-212.3	-18.3	97.8	8.4	1,162.3	100.0

Table 1.26. Loan capital assets and liabilities to foreign direct investors (EUR million)

	Assets				Liabilities			
	Long-term		Short-term		Long-term		Short-term	
	Grantings	Repay-ments	Grantings	Repay-ments	Drawings	Repay-ments	Drawings	Repay-ments
2003	26.1	15.7	64.6	31.9	329.5	170.5	193.1	238.2
2004	31.5	23.7	113.4	55.1	294.1	312.0	193.3	140.4
2005	81.4	32.1	146.4	90.3	504.2	440.5	320.3	292.4
2006	135.5	38.9	238.0	165.5	851.1	392.4	263.3	216.9
2007	246.7	78.3	510.8	248.6	1,152.7	586.4	516.5	406.9
2008	224.3	161.7	576.8	521.8	876.1	770.2	783.2	600.2
2009	170.2	131.2	388.4	372.8	567.3	734.5	631.2	611.5
2010	83.4	210.4	738.9	446.2	743.4	448.2	424.0	653.7

The primary sources of direct investment were Sweden (50%) and Finland (25%), but also Denmark, the Netherlands and the United States (see Figure 1.9). Direct investment from Norway decreased as a result of issuing new short-term loans and making loan repayments. Almost two thirds of direct investment went to financial intermediation and 10% to the electronics industry (see Figure 1.10). 98% of direct investment came from EU countries (see Table 1.27).

Direct investment abroad totalled 100 million euros in 2010, constituting 10% of the 2009 level (see Table 1.28). Just as with investment in Estonia, reinvested earnings also accounted for the largest share of investment abroad with 180 million euros, which even exceeds the total of foreign direct investment. Most of it, that is 163 million euros, came from financial intermediaries. Changes in loans and trade credit granted to subsidiaries reduced foreign investment, as there was an inflow of capital to Estonia: 63 million euros came from a decline in intercompany assets and 93 million euros from a rise in liabilities (see Table 1.29).

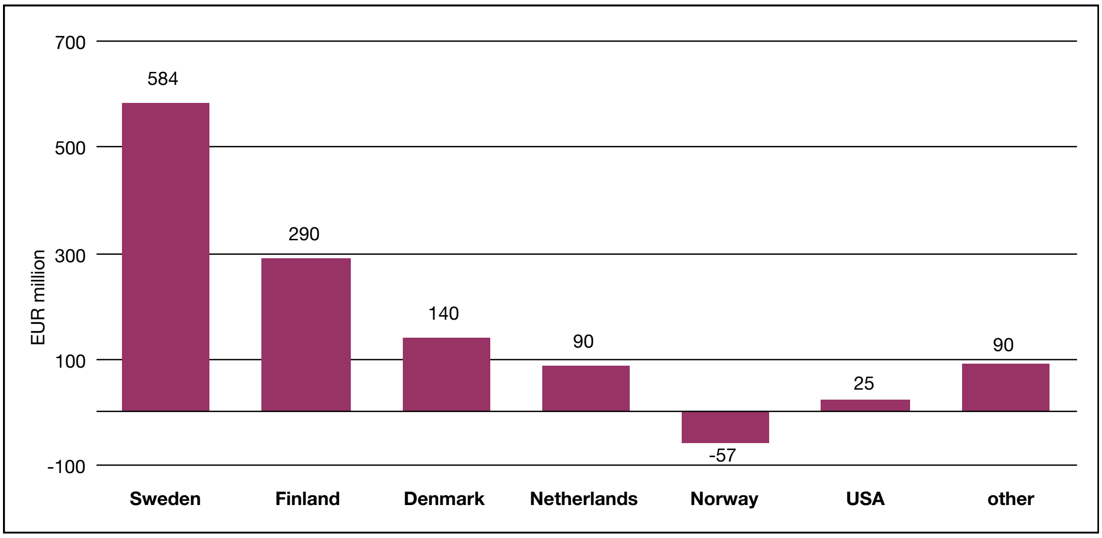


Figure 1.9. Direct investment in Estonia by countries in 2010

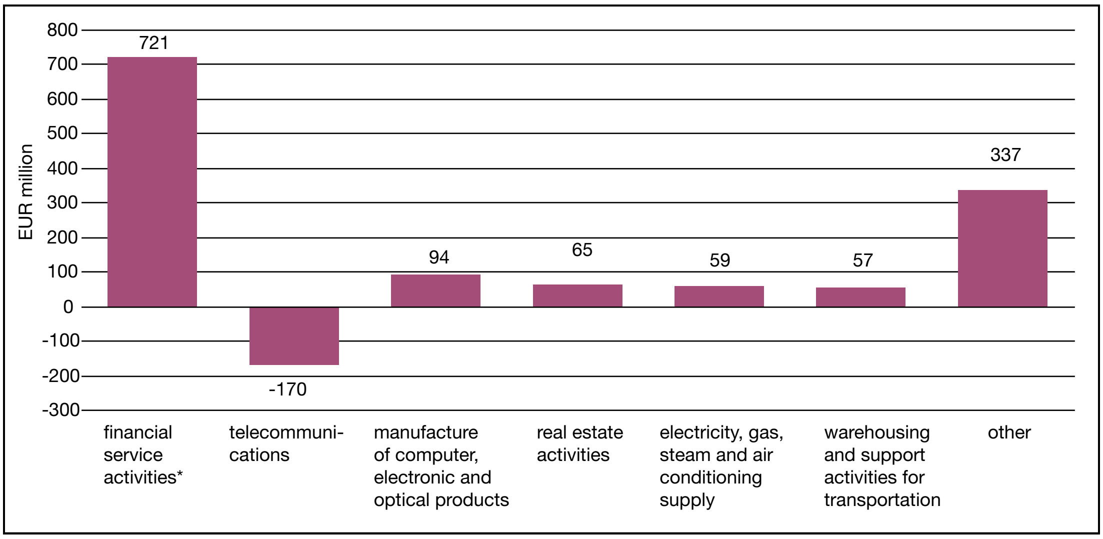


Figure 1.10. Direct investment in Estonia by fields of activity in 2010

* Except insurance and pension funding.

Table 1.27. Direct investment in Estonia by groups of countries

	Volume (EUR m)		Share (%)		Change (%)
	2009	2010	2009	2010	2010/2009
EU-27	1,212.4	1,137.9	91.6	97.9	-6.1
CIS	97.5	4.8	7.4	0.4	-95.1
Other	13.3	19.5	1.0	1.7	47.4
Total	**1,323.1**	**1,162.3**	**100.0**	**100.0**	**-12.2**

Table 1.28. Structure of direct investment abroad

	Equity capital		Reinvested earnings		Other capital				Total	
					Assets		Liabilities			
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)
2001	-121.2	53.8	-19.5	8.7	-79.4	35.2	-5.3	2.4	-225.5	100.0
2002	-57.8	41.3	-42.5	30.4	-46.5	33.2	6.9	-4.9	-139.9	100.0
2003	-67.7	49.3	-47.4	34.5	-41.3	30.0	19.0	-13.9	-137.4	100.0
2004	-139.0	64.2	-58.8	27.1	-27.7	12.8	9.0	-4.1	-216.6	100.0
2005	-329.5	59.3	-172.2	31.0	-73.0	13.1	18.7	-3.4	-556.0	100.0
2006	-376.8	42.7	-309.6	35.1	-243.8	27.7	48.6	-5.5	-881.6	100.0
2007	-660.0	51.7	-324.8	25.4	-384.8	30.1	93.1	-7.3	-1,276.5	100.0
2008	-150.7	19.8	-136.7	18.0	-419.7	55.2	-53.1	7.0	-760.2	100.0
2009	-772.0	69.3	-99.8	8.9	-162.9	14.6	-80.0	7.2	-1,114.7	100.0
2010	-82.0	81.8	-180.1	179.9	69.0	-68.9	93.0	-92.8	-100.2	100.0

Table 1.29. Loan capital assets and liabilities to foreign subsidiaries and associated companies (EUR million)

	Assets				Liabilities			
	Long-term		Short-term		Long-term		Short-term	
	Grantings	Repayments	Grantings	Repayments	Drawings	Repayments	Drawings	Repayments
2003	70.8	45.8	30.2	32.2	0.3	0.7	5.4	6.3
2004	59.7	78.8	60.9	23.6	1.1	3.9	1.8	2.4
2005	136.9	95.1	109.3	70.8	7.0	3.9	6.7	1.6
2006	342.9	151.6	99.9	103.9	7.6	7.2	9.4	1.3
2007	408.3	130.8	133.5	95.4	6.4	7.3	107.3	7.0
2008	347.1	234.1	185.3	129.0	16.3	11.8	38.0	75.4
2009	397.6	197.5	226.7	158.4	11.1	5.6	10.0	72.3
2010	141.6	170.2	116.9	80.2	4.5	7.5	31.0	10.4

Estonian direct investors preferred to invest in Lithuania and Latvia who received 76 and 66 million euros of direct investment respectively (see Figure 1.11). Somewhat less was invested in Norway, and direct investment in Ukraine and Bulgaria contracted. Financial intermediaries and wholesale trade investors made the most direct investment in 2010 (see Figure 1.12). By groups of countries, nearly all direct investment was channelled to the EU, while investment in CIS countries shrank (see Table 1.30).

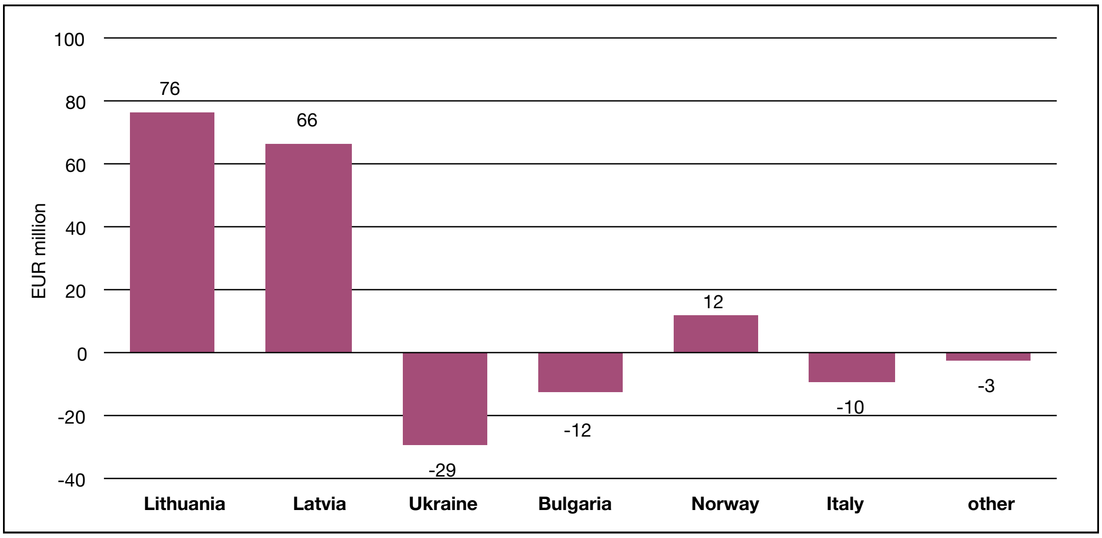


Figure 1.11. Direct investment abroad by countries in 2010

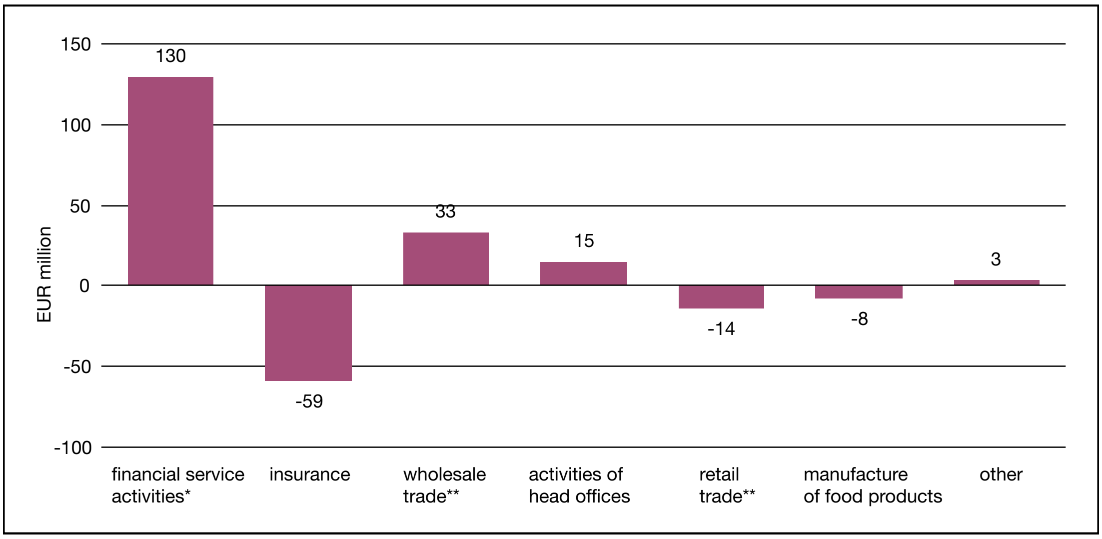


Figure 1.12. Direct investment abroad by fields of activity in 2010

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

Table 1.30. Direct investment abroad by groups of countries

	Volume (EUR m)		Share (%)		Change (%)
	2009	2010	2009	2010	2010/2009
EU-27	-1,197.1	-122.9	107.4	122.7	-89.7
CIS	58.4	27.3	-5.2	-27.3	-53.3
Other	24.0	-4.5	-2.2	4.5	-118.9
Total	**-1,114.7**	**-100.2**	**100.0**	**100.0**	**-91.0**

Portfolio investment

The **net outflow of portfolio investment** totalled 441 million euros in 2010 and mainly consisted of equity security assets and debt security liabilities. Foreign equity security investment of other sectors increased, while debt security liabilities of the general government decreased in 2010 (see Figure 1.13 and Table 1.31).

Portfolio investment liabilities contracted by 149 million euros in 2010 (see Table 1.32). The decline in general government debt security liabilities, which were largely replaced by liabilities to a domestic investor, accounted for 90 million euros of the contraction. Credit institutions redeemed altogether 42 million euros of debt securities. The debt security liabilities of enterprises in other sectors decreased by 28 million euros. The equity security liabilities of investment funds increased by 26 million euros. By countries, portfolio investment liabilities to Finland decreased the most, followed by liabilities to Sweden, the United States, the Netherlands and Luxembourg (see Figure 1.14 and Table 1.33).

Portfolio investment assets grew by 291 million euros in 2010 (see Table 1.34). While equity security assets increased by 302 million euros, then debt security liabilities decreased by 10 million euros. As regards enterprises in other sectors, investment and pension funds increased their investment in equity securities by 247 million euros, over half of which stemmed from the replacement of debt securities.

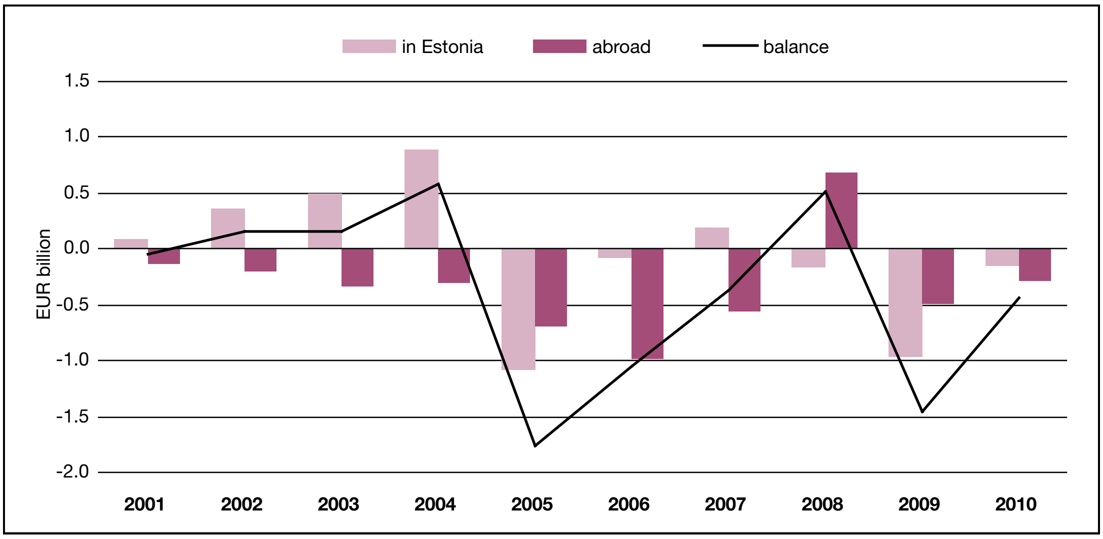


Figure 1.13. Portfolio investment

Table 1.31. Portfolio investment by types of securities and sectors (EUR million)

	Assets		Liabilities		Balance	
	2009	2010	2009	2010	2009	2010
Equity securities	**-47.9**	**-301.8**	**-93.5**	**10.8**	**-141.4**	**-291.0**
central bank	-	-	-	-	-	-
general government	18.5	8.8	-	-	18.5	8.8
credit institutions	0.6	-0.4	0.2	2.1	0.8	1.7
other sectors	-67.1	-310.2	-93.7	8.7	-160.8	-301.5
Debt securities	**-438.2**	**10.4**	**-868.7**	**-160.1**	**-1,306.9**	**-149.7**
central bank	-	-	-	-	-	-
general government	140.6	9.9	26.8	-90.2	167.4	-80.3
credit institutions	-482.9	-79.5	-848.3	-42.1	-1,331.2	-121.6
other sectors	-95.9	80.0	-47.2	-27.8	-143.1	52.2
Total	**-486.1**	**-291.4**	**-962.2**	**-149.3**	**-1,448.3**	**-440.7**

Table 1.32. Structure of portfolio investment liabilities

	Equity securities		Debt securities		Total	
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)
2001	36.3	40.6	53.2	59.4	89.5	100.0
2002	58.3	16.4	297.2	83.6	355.5	100.0
2003	97.6	19.6	399.8	80.4	497.4	100.0
2004	140.9	15.9	746.0	84.1	887.0	100.0
2005	-1,045.1	96.9	-33.1	3.1	-1,078.2	100.0
2006	238.5	-293.7	-319.7	393.7	-81.2	100.0
2007	225.8	122.6	-41.6	-22.6	184.2	100.0
2008	-212.7	122.9	39.6	-22.9	-173.0	100.0
2009	-93.5	9.7	-868.7	90.3	-962.2	100.0
2010	10.8	-7.2	-160.1	107.2	-149.3	100.0

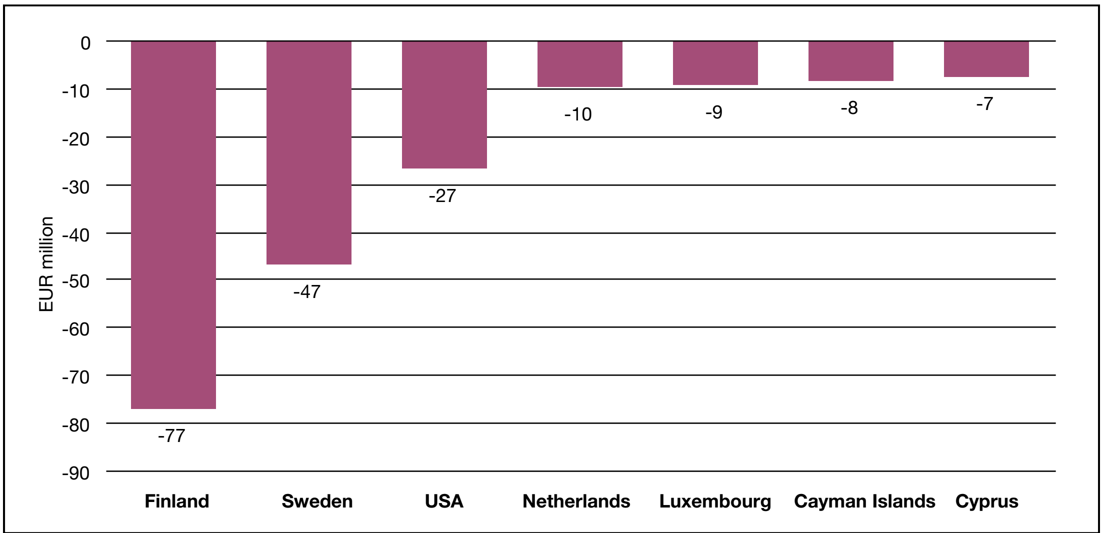


Figure 1.14. Decrease in portfolio investment liabilities by countries in 2010

Table 1.33. Structure of portfolio investment by groups of countries

	Volume (EUR m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2009	2010	2009	2010	2009	2010	2009	2010
EU-27	-584.0	-264.5	-925.9	-121.4	120.1	90.8	96.2	81.3
CIS	33.5	-1.2	-0.1	3.2	-6.9	0.4	0.0	-2.1
Other	64.4	-25.7	-36.2	-31.1	-13.2	8.8	3.8	20.8
Total	**-486.1**	**-291.4**	**-962.2**	**-149.3**	**100.0**	**100.0**	**100.0**	**100.0**

Table 1.34. Structure of portfolio investment assets

	Equity securities		Debt securities		Total	
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)
2001	15.1	-11.3	-149.3	111.3	-134.2	100.0
2002	0.6	-0.3	-204.0	100.3	-203.4	100.0
2003	-65.8	19.2	-276.3	80.8	-342.0	100.0
2004	-184.9	60.6	-120.3	39.4	-305.2	100.0
2005	-309.9	44.8	-381.5	55.2	-691.4	100.0
2006	-292.0	30.0	-682.5	70.0	-974.5	100.0
2007	-491.4	89.0	-60.8	11.0	-552.2	100.0
2008	261.8	38.5	418.8	61.5	680.5	100.0
2009	-47.9	9.9	-438.2	90.1	-486.1	100.0
2010	-301.8	103.6	10.4	-3.6	-291.4	100.0

Insurance companies increased their equity security investment by 38 million euros and debt security investment by 61 million euros. Unlike the investment of enterprises in other sectors, credit institutions channelled their investment mainly in foreign debt securities, 80 million euros in total. The general government decreased both its equity and debt securities. By countries, primarily portfolio investment assets to Luxembourg, France, Germany and Belgium grew in 2010 (see Figure 1.15).

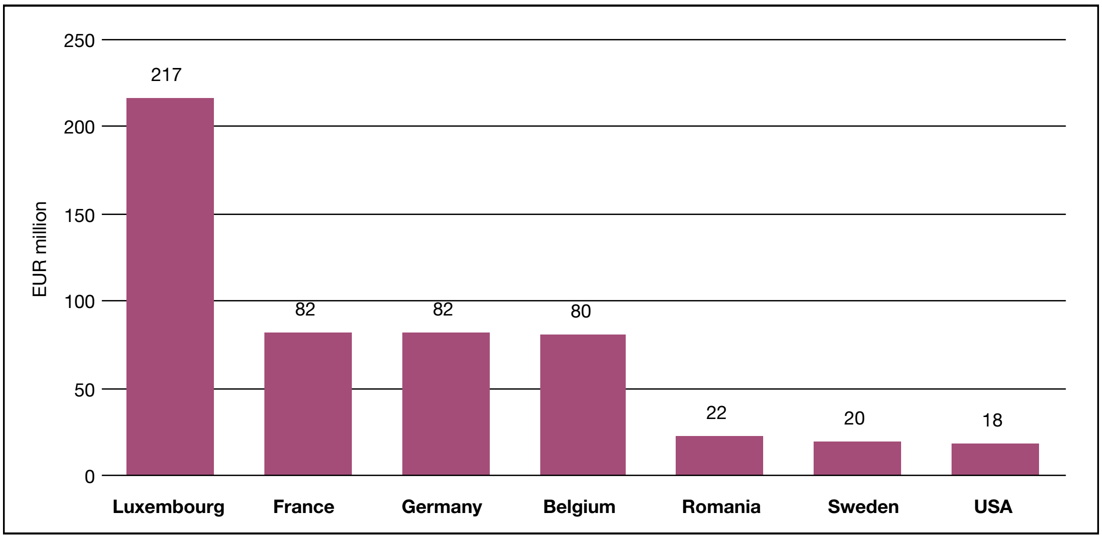


Figure 1.15. Increase in portfolio investment assets by countries in 2010

Financial derivatives

The **net inflow of financial derivatives** totalled 31 million euros in 2010 (see Figure 1.16). Financial derivative **assets** increased by 2 million euros in 2010 owing to an increase in non-financial companies' investment in financial derivatives. By countries, assets to Germany and Finland grew the most. Financial derivative **liabilities** increased by 33 million euros and were related to non-financial companies. By countries, liabilities to the United Kingdom increased the most.

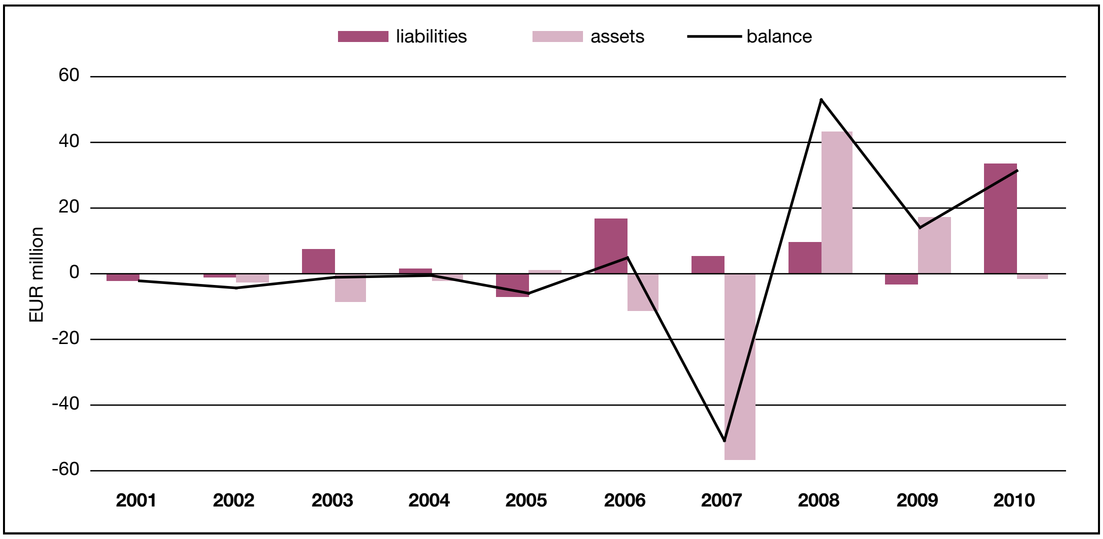


Figure 1.16. Financial derivatives

Other investment

The **net outflow of other investment** totalled 2.3 billion euros in 2010. The outflow of investment related to credit institutions constituted 1.6 billion euros of that (see Figure 1.17). The majority of the net outflow was long-term capital (see Table 1.35).

Other investment liabilities declined by 1 billion euros from 2009. The loan/currency and deposit liabilities (including interbank loans) of credit institutions shrank by 1.6 billion euros[3] (see Table 1.36). Credit institutions' liabilities to their parent banks decreased also owing to the lowering of the minimum reserve requirement in the second half of 2010 in connection with the preparations for the euro changeover. The long-term loan liabilities of leasing companies contracted, while the short-term loan liabilities of enterprises in other sectors grew. In total, the loan liabilities increased by 35 million euros in 2010. Enterprises in other sectors also expanded their short-term trade credit liabilities by 374 million euros. Other liabilities grew by 179 million euros in 2010. Long-term general government liabilities comprised 107 million euros of that and consisted of EU funds not yet used and liabilities arising from the sale of unused emission quotas. By countries, other investment liabilities to Sweden recorded the strongest decline of 1.2 billion euros, followed by liabilities to Denmark, Latvia and British Virgin Islands (see Figure 1.18 and Table 1.37).

Other investment assets increased by 1.3 billion euros in 2010 (see Table 1.38). Deposit assets posted strongest growth with 485 million euros; loan assets and trade credit assets increased by 260 and 386 million euros respectively. Long-term capital was mainly related to the increase in the loan assets of enterprises in other sectors. Short-term capital grew by 975 million euros over the year and concerned investment related to trade credit, deposits and other assets.

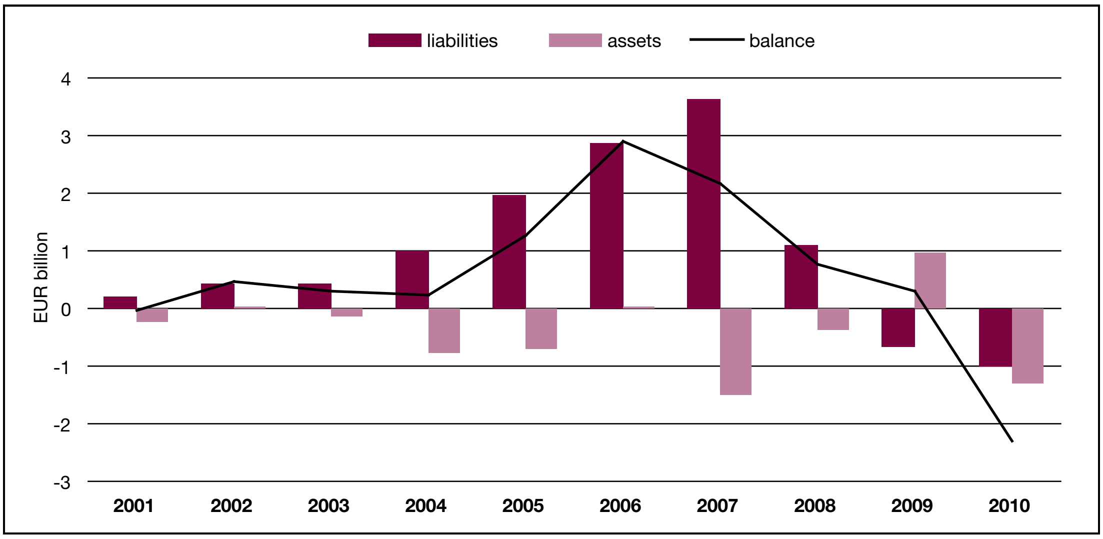


Figure 1.17. Other investment

[3] 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.

Table 1.35. Other investment by maturity (EUR million)

	Assets		Liabilities		Balance	
	2009	2010	2009	2010	2009	2010
Long-term capital	**-39.6**	**-321.5**	**271.6**	**-1,287.2**	**232.0**	**-1,608.7**
central bank	0.0	0.0	66.7	0.0	66.7	0.0
general government	-5.6	-3.0	192.5	95.4	186.9	92.4
credit institutions	27.4	6.7	92.2	-1,100.4	119.6	-1,093.7
other sectors	-61.4	-325.2	-79.8	-282.2	-141.2	-607.4
Short-term capital	**994.3**	**-975.3**	**-934.7**	**283.7**	**59.6**	**-691.6**
central bank	-	-	7.3	7.2	7.3	7.2
general government	-14.5	-14.4	0.1	0.0	-14.4	-14.4
credit institutions	969.3	-200.1	-672.5	-342.5	296.8	-542.6
other sectors	39.5	-760.8	-269.6	619.0	-230.1	-141.8
Total	**954.6**	**-1,296.9**	**-662.8**	**-1,003.5**	**291.8**	**-2,300.4**

Table 1.36. Structure of other investment liabilities

	Trade credit		Loans		Deposits		Other capital		Total	
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)
2001	6.6	3.1	164.3	78.2	5.2	2.5	34.1	16.2	210.2	100.0
2002	49.9	11.6	125.5	29.2	240.5	55.9	14.4	3.3	430.3	100.0
2003	-7.4	-1.7	205.8	47.8	293.2	68.2	-61.4	-14.3	430.2	100.0
2004	40.0	4.0	291.8	29.3	562.7	56.5	101.1	10.2	995.6	100.0
2005	104.4	5.3	1,577.1	80.3	188.8	9.6	92.8	4.7	1,963.1	100.0
2006	203.6	7.1	1,229.2	43.1	1,347.3	47.2	75.0	2.6	2,855.2	100.0
2007	-21.9	-0.6	2,443.3	67.2	1,206.4	33.2	8.3	0.2	3,636.0	100.0
2008	20.0	1.8	73.6	6.6	951.1	85.2	71.6	6.4	1,116.2	100.0
2009	-329.0	49.6	139.8	-21.1	-476.6	71.9	3.0	-0.5	-662.8	100.0
2010	370.8	-37.0	34.6	-3.4	-1,587.7	158.2	178.8	-17.8	-1,003.5	100.0

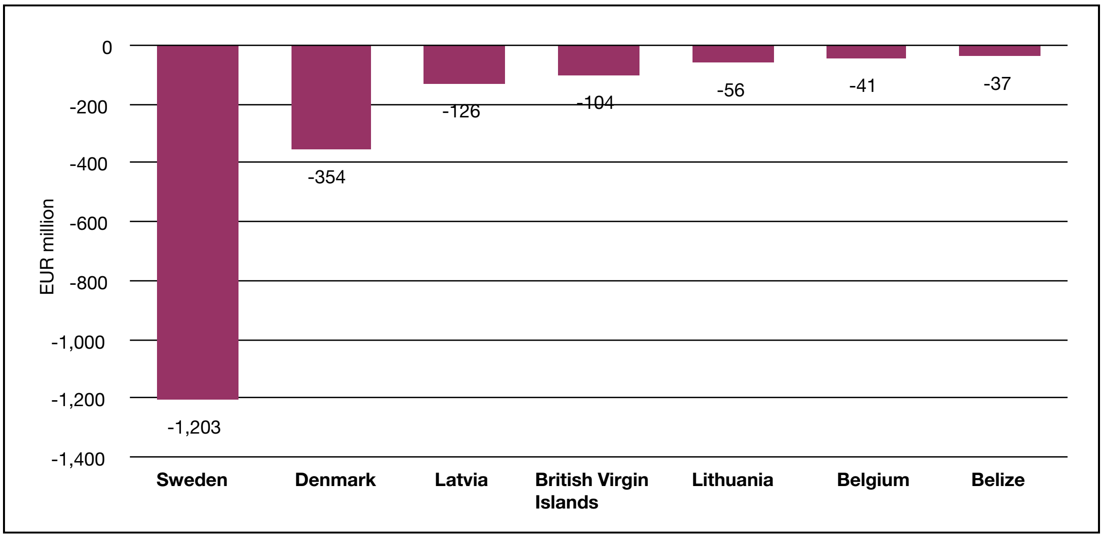


Figure 1.18. Decrease in other investment liabilities by countries in 2010

Table 1.37. Structure of other investment by groups of countries

	Volume (EEK m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2009	2010	2009	2010	2009	2010	2009	2010
EU-27	898.8	-1,076.3	-517.8	-1,165.2	94.2	83.0	78.1	116.1
CIS	-48.5	-77.9	-130.4	61.5	-5.1	6.0	19.7	-6.1
Other	104.3	-142.7	-14.6	100.2	10.9	11.0	2.2	-10.0
Total	**954.6**	**-1,296.9**	**-662.8**	**-1,003.5**	**100.0**	**100.0**	**100.0**	**100.0**

Table 1.38. Structure of other investment assets

	Trade credit		Loans		Deposits		Other capital		Total	
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)
2001	-37.4	15.7	-145.6	61.3	-47.2	19.9	-7.3	3.1	-237.5	100.0
2002	67.0	150.7	-84.7	-190.5	47.5	106.8	14.7	33.0	44.4	100.0
2003	-65.7	45.0	-225.0	154.1	141.2	-96.7	3.5	-2.4	-146.0	100.0
2004	-66.0	8.8	-540.4	72.0	-98.8	13.2	-45.8	6.1	-750.9	100.0
2005	-125.1	17.6	265.1	-37.2	-788.2	110.7	-64.1	9.0	-712.2	100.0
2006	-225.5	-628.1	-161.8	-450.7	401.6	1,118.7	21.7	60.4	35.9	100.0
2007	-41.0	2.8	-645.0	43.4	-743.0	50.0	-56.2	3.8	-1,485.2	100.0
2008	-110.2	30.4	-128.0	35.3	-43.3	11.9	-81.4	22.4	-362.8	100.0
2009	178.7	18.7	129.9	13.6	696.2	72.9	-50.2	-5.3	954.6	100.0
2010	-386.2	29.8	-260.1	20.1	-484.9	37.4	-165.8	12.8	-1,296.9	100.0

761 million euros of that belonged to enterprises in other sectors and 200 million euros to credit institutions. Credit institutions channelled their investment to short-term foreign accounts mainly in the second half of 2010. By countries, other investment assets to Sweden, Lithuania, Denmark and Finland increased (see Figure 1.19). Table 1.39 provides an overview of loan capital assets and liabilities.

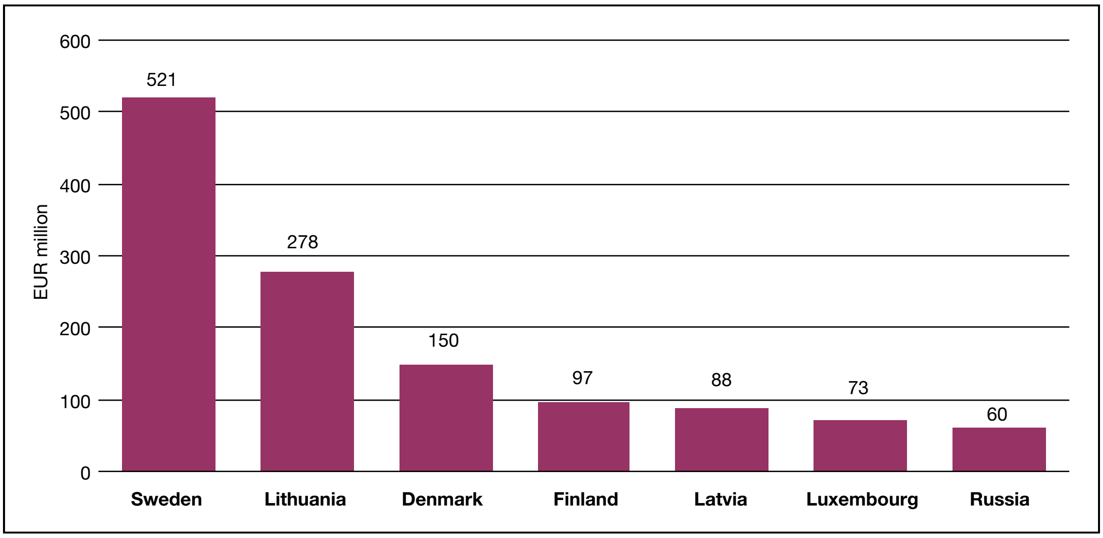


Figure 1.19. Decrease in other investment assets by countries in 2010

Table 1.39. Assets and liabilities of loan capital (EUR million)

	Assets			Liabilities		
	Grantings	Repayments	Total	Drawings	Repayments	Total
2003	-2,231.7	2,006.8	-225.0	1,922.2	-1,716.5	205.8
2004	-1,903.5	1,363.1	-540.4	2,904.6	-2,612.8	291.8
2005	-4,956.8	5,221.9	265.1	8,017.0	-6,439.9	1,577.1
2006	-4,858.1	4,696.3	-161.8	11,687.5	-10,458.3	1,229.2
2007	-25,339.9	24,694.8	-645.0	23,266.0	-20,822.7	2,443.3
2008	-3,066.8	2,938.9	-128.0	6,643.7	-6,570.1	73.6
2009	-1,495.5	1,625.4	129.9	3,418.1	-3,278.4	139.8
2010	-1,746.2	1,486.1	-260.1	2,668.6	-2,634.0	34.6

Reserve assets

The balance of payments reserves changed considerably in 2010. Reserve assets decreased by a total of 831 million euros in 2010, mostly because of the lowering of the minimum reserve requirement for banks in the second half of the year (see Table 1.40). Figure 1.20 gives an overview of the imports covered by reserve assets.

Table 40. Structure of reserve assets

	Volume (EUR m)		Share (%)	
	2009	2010	2009	2010
Gold	-	-	-	-
SDRs	-66.7	0.0	3,176.2	0.0
Currency and deposits	-121.6	5.8	5,790.5	0.7
Securities	185.7	878.0	-8,842.9	105.6
bonds and notes	524.5	133.5	-24,976.2	16.1
money market instruments	-338.8	744.6	16,133.3	89.6
Financial derivatives	-0.1	-12.7	4.8	-1.5
Other	0.6	-39.8	-28.6	-4.8
Total	**-2.1**	**831.3**	**100.0**	**100.0**

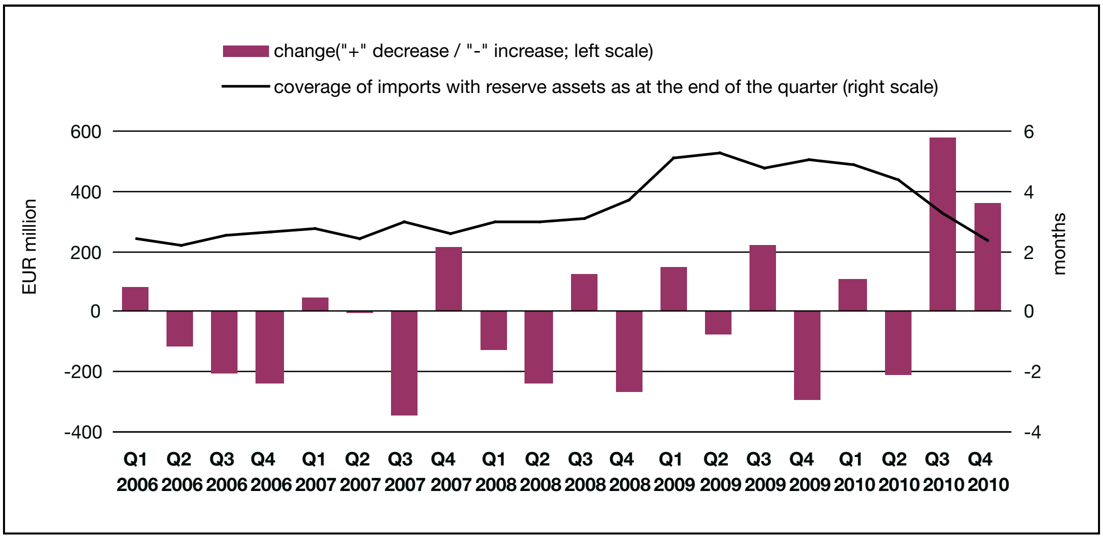


Figure 1.20. Changes in Estonia's gold and foreign exchange reserves and coverage of imports with reserve assets

II. ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND GROSS EXTERNAL DEBT AS AT 31 DECEMBER 2010

Foreign investment in Estonia totalled about 27 billion euros (184% of Estonia's GDP) at the end of 2010, having expanded 1% over the year (see Table 2.1).

Gross external debt stood at 62%, or 16.5 billion euros, of foreign investment in Estonia, having contracted 5% year-on-year. As a ratio of GDP, gross external debt decreased by over 11 percentage points and was about 14% larger than annual GDP (see Figure 2.1).

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

	31/12/2009	Share (%)	31/12/2010	Share (%)	Change (%)
EXTERNAL ASSETS	**15,076.3**	**100.0**	**16,278.5**	**100.0**	**8.0**
Direct investment abroad	**4,604.6**	**30.5**	**4,324.8**	**26.6**	**-6.1**
Equity capital and reinvested earnings	3,071.8	20.4	2,969.6	18.2	-3.3
Other direct investment capital	1,532.7	10.2	1,355.2	8.3	-11.6
Portfolio investment	**3,457.3**	**22.9**	**3,947.5**	**24.2**	**14.2**
Equity securities	1,104.4	7.3	1,594.3	9.8	44.4
Debt securities	2,352.9	15.6	2,353.2	14.5	0.0
Bonds and notes	1,377.3	9.1	1,457.4	9.0	5.8
Money market instruments	975.6	6.5	895.8	5.5	-8.2
Financial derivatives	**30.6**	**0.2**	**33.7**	**0.2**	**10.1**
Other investment	**4,219.7**	**28.0**	**6,063.7**	**37.2**	**43.7**
Trade credit	942.4	6.3	1,564.6	9.6	66.0
Loans	1,006.7	6.7	1,584.2	9.7	57.4
Long-term	692.0	4.6	1,089.9	6.7	57.5
Short-term	314.8	2.1	494.3	3.0	57.0
Currency and deposits	1,989.3	13.2	2,480.4	15.2	24.7
Other assets	281.3	1.9	434.5	2.7	54.5
Reserve assets	**2,764.2**	**18.3**	**1,908.8**	**11.7**	**-30.9**
EXTERNAL LIABILITIES	**26,424.2**	**100.0**	**26,694.5**	**100.0**	**1.0**
Direct investment in Estonia	**11,653.8**	**44.1**	**12,302.0**	**46.1**	**5.6**
Equity capital and reinvested earnings	10,117.6	38.3	10,658.7	39.9	5.3
Other direct investment capital	1,536.2	5.8	1,643.3	6.2	7.0
Portfolio investment	**1,300.2**	**4.9**	**1,432.9**	**5.4**	**10.2**
Equity securities	609.5	2.3	892.7	3.3	46.5
Debt securities	690.7	2.6	540.2	2.0	-21.8
Bonds and notes	683.8	2.6	536.3	2.0	-21.6
Money market instruments	6.9	0.0	3.9	0.0	-43.5
Financial derivatives	**47.7**	**0.2**	**90.5**	**0.3**	**89.7**
Other investment	**13,422.5**	**50.8**	**12,869.1**	**48.2**	**-4.1**
Trade credit	619.8	2.3	1,133.6	4.2	82.9
Loans	3,073.6	11.6	3,364.7	12.6	9.5
Long-term	2,448.8	9.3	2,392.5	9.0	-2.3
Short-term	624.8	2.4	972.2	3.6	55.6
Currency and deposits	9,265.3	35.1	7,738.7	29.0	-16.5
Other liabilities	463.8	1.8	632.2	2.4	36.3
NET INVESTMENT POSITION	**-11,347.9**		**-10,416.0**		**-8.2**
Long-term	**-12,867.4**		**-12,002.8**		**-6.7**
Short-term	**1,519.5**		**1,586.7**		**4.4**
GROSS EXTERNAL DEBT	**17,255.9**		**16,481.0**		**-4.5**
NET EXTERNAL DEBT	**-4,786.5**		**-3,380.9**		**-29.4**
General government	407.7		394.8		-3.2

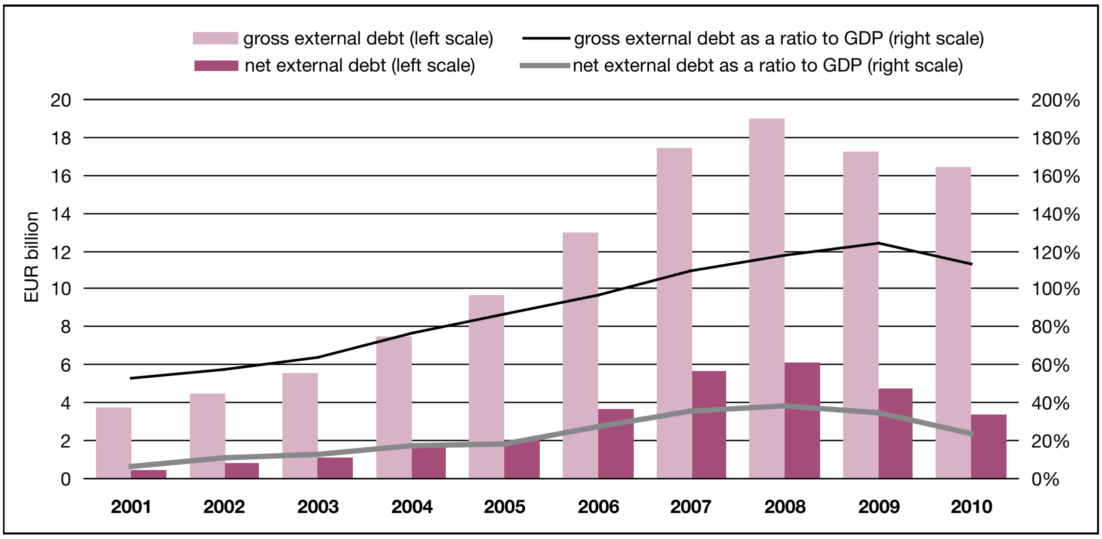


Figure 2.1. Estonia's gross and net external debt

Estonian residents' investment abroad amounted to 16.3 billion euros at the end of 2010, having increased 8% over the year.

Due to the prevalence of foreign investment in Estonia over residents' investment abroad, Estonia's net investment position was negative by 10.4 billion euros, having decreased 8% year-on-year. Estonia's net external debt (assets less liabilities) declined 29% from the previous year to 3.4 billion euros. The ratio of net external debt to GDP was 23%.

The structure of **foreign investment in Estonia** changed considerably in 2010: the percentage of other investment shrank, while that of direct investment grew. At the end of 2010, other investment (trade credit, loans, currency and deposits) accounted for 48% and direct investment for 46% of foreign investment in Estonia, the rest being portfolio investment and financial derivatives. The foreign direct investment position and the foreign portfolio investment position increased 6% and 10%, respectively, over the year. The position of other investment contracted 4%, mainly on account of currency and deposits owing to the lowering of the minimum reserve requirement, as banks used their free funds to reduce their debt liabilities.

Swedish and Finnish investors made the largest investment in Estonia: 32% and 22%, respectively, of the total investment position (see Table 2.2). Sweden's share dropped by over 5 percentage points over the year as a result of a decline in the provision of financial services, which comprised 76% of Sweden's total investment position in Estonia. However, Sweden's investment in the electronics industry soared ten times from 2009. Finland's investment position in Estonia was more broad-based, but the provision of financial services prevailed here too, constituting 43% of Finland's total position. The Netherlands, the United Kingdom and Germany invested somewhat less in Estonia. Other popular fields of investment besides financial services included real estate activities, wholesale, activities of head offices, and electricity and gas supply.

The position of direct investment in Estonia was relatively similar to the total investment position: the largest direct investors came from Sweden and Finland, accounting for around 60% of the direct investment position, and the main direct investment field was financial intermediation (see Table 2.3).

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

Assets			Liabilities		
Fields of activity					
	31/12/2009	**31/12/2010**		**31/12/2009**	**31/12/2010**
Financial service activities*	51.4	45.3	Financial service activities*	54.7	48.0
Insurance, reinsurance and pension funding**	8.8	9.4	Real estate activities	6.7	7.3
Public administration and defence; compulsory social security	7.7	7.1	Wholesale trade***	5.3	5.5
Wholesale trade***	5.4	5.4	Activities of head offices; management consultancy activities	6.1	4.8
Activities of head offices; management consultancy activities	5.0	4.9	Electricity, gas, steam and air conditioning supply	3.0	3.3
Other	21.7	28.0	Other	24.2	31.1
Total	100.0	100.0	Total	100.0	100.0
Countries					
	31/12/2009	**31/12/2010**		**31/12/2009**	**31/12/2010**
Lithuania	10.7	12.1	Sweden	37.6	32.3
Latvia	11.8	10.3	Finland	21.2	22.1
Sweden	4.9	8.3	Netherlands	4.3	4.6
Finland	6.1	6.7	United Kingdom	3.6	3.5
Germany	7.6	5.3	Germany	1.7	3.2
Other	58.8	57.3	Other	31.6	34.3
Total	100.0	100.0	Total	100.0	100.0

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

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

Abroad			In Estonia		
Fields of activity					
	31/12/2009	**31/12/2010**		**31/12/2009**	**31/12/2010**
Financial service activities*	38.6	39.7	Financial service activities*	29.3	28.3
Activities of head offices; management consultancy activities	14.4	15.0	Real estate activities	11.1	12.2
Water transport	11.0	12.4	Activities of head offices; management consultancy activities	11.7	7.8
Real estate activities	11.0	11.9	Wholesale trade**	7.9	7.2
Wholesale trade**	4.8	5.5	Warehousing and support activities for transportation	3.9	4.4
Other	20.1	15.7	Other	36.1	40.1
Total	100.0	100.0	Total	100.0	100.0
Countries					
	31/12/2009	**31/12/2010**		**31/12/2009**	**31/12/2010**
Lithuania	27.7	29.6	Sweden	38.6	35.0
Latvia	29.1	25.4	Finland	22.1	23.4
Cyprus	12.0	13.9	Netherlands	8.9	8.9
Finland	6.1	6.4	Russia	3.5	3.5
Russia	4.9	5.6	Norway	3.4	2.9
Other	20.2	19.0	Other	23.5	26.3
Total	100.0	100.0	Total	100.0	100.0

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

The structure of **Estonia's investment abroad** changed significantly from 2009, which was primarily due to the lowering of the minimum reserve requirement for banks. Consequently, reserve assets shrank by almost a third and their share in the external asset position dropped to 12% at the end of 2010 from 18% at the end of 2009. The percentage of direct investment decreased by 4 percentage points, while the percentage of other investment rose by around 9 percentage points. Direct investment accounted for 27%, portfolio investment for 24% and other investment for 37% of the external asset position. Growth in other investment can be attributed to an increase in trade credit and loan assets, and currency and deposit assets.

Estonia has invested in a number of countries, especially in Lithuania (12%), Latvia (10%), Sweden (8%), Finland (7%) and Germany (5%). Financial intermediaries made 45% of Estonia's investment abroad. Somewhat less was invested by the investors of insurance and pension funds (9%), the public sector (7%), wholesale trade (5%) and head offices' activities (5%).

Estonia's direct investment position abroad was slightly more concentrated than the total investment position abroad, as it concerned primarily three countries: Lithuania (30%), Latvia (25%) and Cyprus (14%). Financial intermediaries accounted for 40% of the direct investment position abroad, followed by the investors of head offices (15%), water transport (12%), real estate (12%) and wholesale trade (6%).

Estonia's **gross external debt** contracted largely because of a 15% decline in the debt liabilities of credit institutions, whose share in the gross debt dropped to 49%. The external debt of other sectors, on the other hand, increased almost 20% and constituted 28% of the gross external debt. The intercompany lending between direct investment companies constituted 19% of the gross external debt, while the general government debt accounted for only about 5% of the debt. 52% of the gross debt liabilities are related to Sweden and Finland, 62% being the debt liabilities of Swedish and Finnish credit institutions. The net external debt can mainly be attributed to credit institutions and somewhat less to enterprises in other sectors, whose debt liabilities exceeded their debt assets. At the same time, the debt assets of the general government and the central bank exceeded their debt liabilities. Figures 2.2 and 2.3 show the

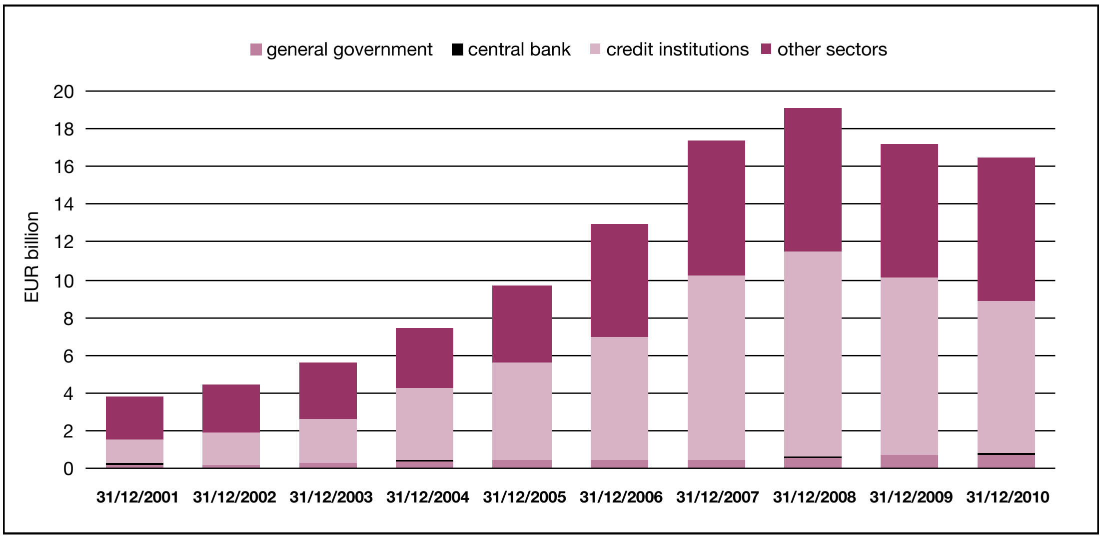


Figure 2.2. Estonia's gross external debt by sectors

Table 2.4. External debt (EUR million)

	31/12/2009	Share (%)	31/12/2010	Share (%)	Change (%)
LIABILITIES					
I. General government	**746.6**	**4.3**	**754.1**	**4.6**	**1.0**
Short-term	0.1	0.0	0.2	0.0	100.0
Long-term	746.5	4.3	753.9	4.6	1.0
II. Monetary authorities (NCB)	**79.0**	**0.5**	**80.4**	**0.5**	**1.8**
Short-term	11.5	0.1	8.3	0.1	-27.8
Long-term	67.4	0.4	72.1	0.4	7.0
III. Credit institutions	**9,404.9**	**54.5**	**8,003.7**	**48.6**	**-14.9**
Short-term	4,781.1	27.7	4,501.0	27.3	-5.9
Long-term	4,623.8	26.8	3,502.7	21.3	-24.2
IV. Other sectors	**3,882.7**	**22.5**	**4,571.1**	**27.7**	**17.7**
Short-term	1,269.2	7.4	2,145.7	13.0	69.1
Long-term	2,613.5	15.1	2,425.5	14.7	-7.2
V. Direct investment: intercompany lending	**3,142.7**	**18.2**	**3,071.7**	**18.6**	**-2.3**
GROSS EXTERNAL DEBT	**17,255.9**	**100.0**	**16,481.0**	**100.0**	**-4.5**
ASSETS					
I. General government	**1,154.3**	**9.3**	**1,148.9**	**8.8**	**-0.5**
Short-term	593.5	4.8	584.4	4.5	-1.5
Long-term	560.9	4.5	564.5	4.3	0.6
II. Monetary authorities (NCB)	**2,758.3**	**22.1**	**1,900.3**	**14.5**	**-31.1**
Short-term	2,353.0	18.9	1,654.8	12.6	-29.7
Long-term	405.3	3.3	245.5	1.9	-39.4
III. Credit institutions	**2,469.7**	**19.8**	**2,761.1**	**21.1**	**11.8**
Short-term	1,809.4	14.5	2,001.6	15.3	10.6
Long-term	660.3	5.3	759.5	5.8	15.0
IV. Other sectors	**2,948.0**	**23.6**	**4,506.3**	**34.4**	**52.9**
Short-term	1,936.7	15.5	3,102.2	23.7	60.2
Long-term	1,011.3	8.1	1,404.0	10.7	38.8
V. Direct investment: intercompany lending	**3,139.3**	**25.2**	**2,783.5**	**21.2**	**-11.3**
TOTAL ASSETS	**12,469.5**	**100.0**	**13,100.1**	**100.0**	**5.1**
NET EXTERNAL DEBT (assets less liabilities)					
I. General government	**407.7**		**394.8**		**-3.2**
Short-term	593.3		584.2		-1.5
Long-term	-185.7		-189.5		2.0
II. Monetary authorities (NCB)	**2,679.3**		**1,819.9**		**-32.1**
Short-term	2,341.4		1,646.5		-29.7
Long-term	337.9		173.4		-48.7
III. Credit institutions	**-6,935.2**		**-5,242.6**		**-24.4**
Short-term	-2,971.7		-2,499.4		-15.9
Long-term	-3,963.5		-2,743.2		-30.8
IV. Other sectors	**-934.7**		**-64.9**		**-93.1**
Short-term	667.5		956.6		43.3
Long-term	-1,602.2		-1,021.5		-36.2
V. Direct investment: intercompany lending	**-3.5**		**-288.2**		**8134.3**
TOTAL NET EXTERNAL DEBT	**-4,786.5**		**-3,380.9**		**-29.4**

structure of gross and net external debts by fields of activity. Figure 2.4 provides the breakdown of the gross external debt by its components. Over half (53%) of the gross external debt consisted of the inter-company debt liabilities of enterprises in other sectors and credit institutions.

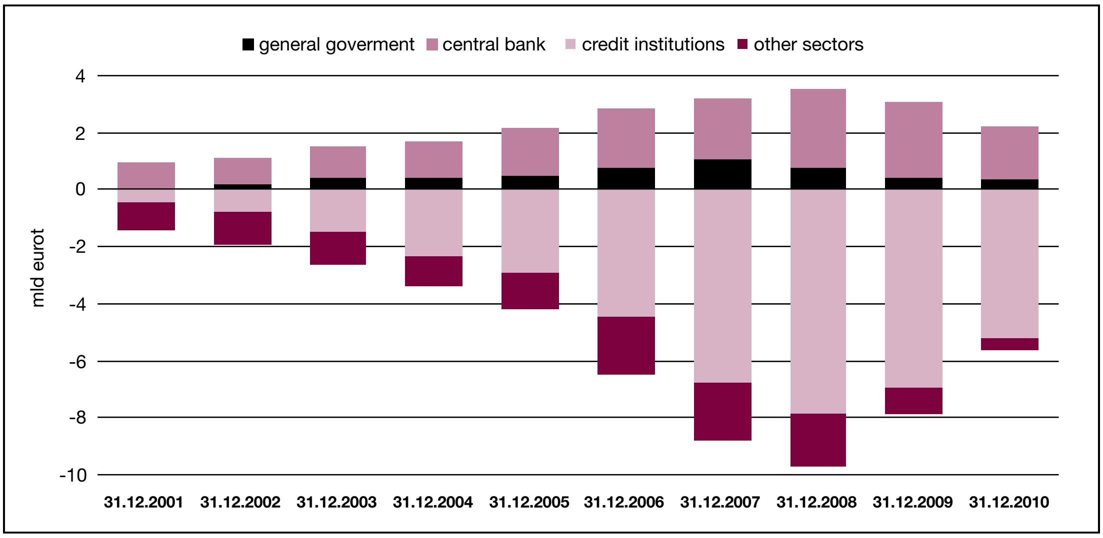


Figure 2.3. Estonia's net external debt by sectors

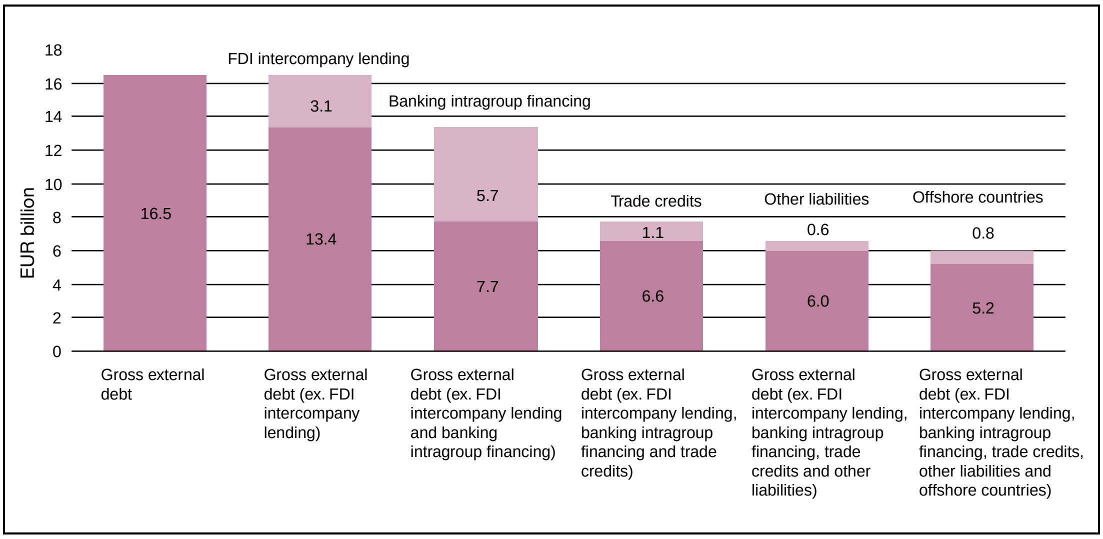


Figure 2.4. Structure of Estonia's gross external debt

III. THEORETICAL CONCEPT, METHODOLOGY AND COMPILATION PRACTICES

The IMF Balance of Payments Manual, 5th Edition, is the methodological basis for external sector statistics and the Estonian model of balance of payments statistics. The following is an introduction to three basic documents – the balance of payments, the international investment position, and the external debt – and their key definitions, dissemination policy, and compilation practices.

BALANCE OF PAYMENTS

The balance of payments is the consolidated income statement of all institutional sectors of the economy on the one hand, and their consolidated balance sheet on the other. 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 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 with the rest of the world in a certain period, usually a month, a quarter or a year.

The balance of payments

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

The current account is divided into four sub-accounts[4]: *goods, services, income* and *current transfer*s. The goods and services accounts include all sums receivable from selling goods and services, and 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.

The sources of financing are divided between three accounts: *the capital account, the financial account* and *the reserve assets*. The capital account records mainly transactions related to investment grants (e.g. the acquisition/disposal of intellectual property; sales of CO2 emission quotas), waiver of debt, and other international capital transfers not related to the formation of gross disposable income. The financial account records foreign investments that are 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 a country, but its economic territory, administered by the government of that country, within which persons, goods, services and capital move freely. The economic territory includes the national air-space, territorial waters and territorial

[4] Separate chapters give an overview of the entries of the balance of payments statistics.

enclaves abroad (embassies, military bases, special zones, etc.) As a rule, a balance of payment transaction is a monetary or non-monetary transaction between a *resident* and a *non-resident*. *Resident* is an Estonian inhabitant with a permanent residence or a natural person registered in Estonia. *Non-resident* is a legal entity or a natural person who is registered abroad and whose permanent residence is not Estonia.

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

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

The balance of payments is compiled on the basis of the *double entry system*. 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 the use of these resources (see Table 3.1).

Table 3.1. Credit and debit

	Increase in resources	**Use 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
	Increase in tangible assets	Decrease in tangible assets
Financial account	Decrease in external assets	Increase in external assets
	Increase in external liabilities	Decrease in external liabilities
Reserve assets	Decrease in reserve assets	Increase in reserve assets

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

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

INTERNATIONAL INVESTMENT POSITION

The 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.

As the 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. That is why the investment position is not balanced.

The 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. The net investment position is divided into a long-term and a short-term position. The long-term net investment position is calculated on the basis of long-term assets and liabilities with a contractual maturity of over one year. The short-term position includes capital with a maturity of less than one year.

The investment position is compiled using the same concepts and definitions as in the balance of payments. The basic principles are *accounting on an accrual basis* and *valuation at market prices* on the day 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 to evaluate the liabilities of Estonian residents in case of unquoted shares. As respective information is generally not available in the investment position of the partner country, statistical asymmetries between countries may occur. 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 has been using that method since 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 liabilities as at a certain date, the values of investment position entries are *stock indicators*.

EXTERNAL DEBT

External debt statistics is based on the external assets and liabilities recorded in the international investment position, which are debts in 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 the accounting of debt. The external debt excludes also the gold reserves of the central bank and the *special drawing rights*[5] of the International Monetary Fund.

[5] See *Entries, Reserves*.

The key external debt indicators are the following:

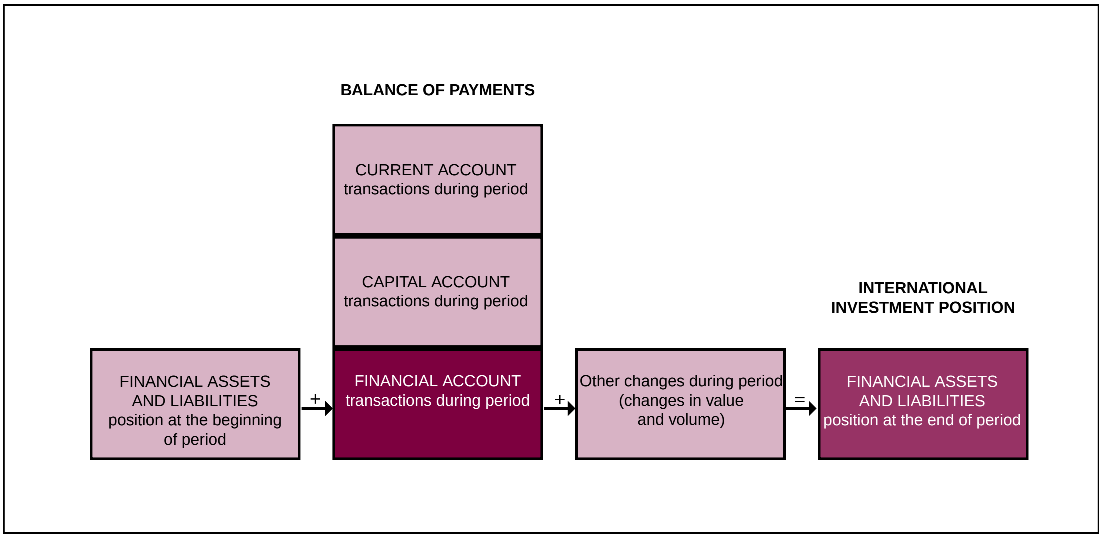
- **gross external debt – the total of external debt liabilities of all institutional sectors;**
- **net external debt – assets less liabilities, repayable by all institutional sectors.**

Unlike the international investment position where direct investment is recorded on the basis of the *directional principle*,[6] 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 the accounting of debt. 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.

The external debt is divided into a long-term and a short-term debt. The long-term external debt is calculated on the basis of long-term debt-like assets and liabilities with a contractual maturity of over one year. The short-term position includes debt capital with a maturity of less than one year.

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

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



INSTITUTIONAL SECTORS

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

- *the central bank* – Eesti Pank;
- *the 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;

[6] See *Entries, Direct investment*.

- *credit institutions* – companies as private bodies, licensed by Eesti Pank, whose principal and permanent activities 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, households and non-profit institutions serving households).

ENTRIES

The current account reflects the formation of income from foreign trade and is divided into four sub-accounts: goods, services, income and current transfers.

The goods account consists of goods exports and imports that contribute to the formation of GDP. 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 foreign trade account is based on the *special trade system* of official trade statistics, where goods are recorded when they leave the free circulation area.[7] 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 goods, but 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) consideration 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), while intra-Community trade is registered through the so-called Intrastat survey organised by Statistics Estonia (see http://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

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

entered Estonia's internal market, thus rather reflecting the principles of the general trade system. Owing to the large share of EU countries in Estonia's foreign trade, the general level of the exports and imports goods is higher than in earlier periods, which 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 "normal" exports and imports from the imports of goods for processing and from the exports of processed goods.

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

a) *transportation* – passenger, freight and other transportation services by major modes of transport (marine, air, rail, road and other transport modes);
b) *travel services* – include expenditure on package tours of tourists and one-day visitors, and on goods and services in the country of destination. Besides the above items, travel services 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;
c) *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.);
d) *construction services* – include the cost of resident companies' construction activities abroad and non-resident companies' construction activities in Estonia. Construction services concern objects or sites to be completed within one year;
e) *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;
f) *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.;
g) *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., and services of news agencies;
h) *royalties and licence fees* – receipts and payments for the use of copyrights, licenses, franchises, patents, industrial processes or other intellectual property;
i) *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 in the same period. The goods must never cross the Estonian border;
j) *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);
k) *miscellaneous business services* – services related to consulting (legal assistance, accounting, audit, management consulting, etc.), public relations and marketing (advertising, opinion polls, mar-

ket research, etc.) or other technical services (waste management, environmental protection, architectural and engineering solutions, printing services, etc.);

l) *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;

m) *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*).

The 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 (labour income)* – 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* – interests and dividends received on foreign (direct, portfolio and other) investment assets and payable on foreign investment liabilities. 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 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 the revaluation of financial assets and liabilities, including waivers and write-offs of uncollectible loans, are not recorded on the income account.

The current transfers account includes all remaining transactions related to the accumulation of residents' disposable income but not recorded under any other item of the current account. Current transfers are unilateral, which means that 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 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, including 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 (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.

The capital account consists of three parts:

a) *general government;*
b) *other sectors;*
c) *intangible assets.*

Capital transfers are unilateral, similarly to current transfers, but the amounts received or paid have no direct impact on residents' gross disposable income. Capital transfers related to the use of international (primarily EU) funds to finance the construction of infrastructure objects are the most common. Intangible assets are related to the acquisition of non-produced non-financial assets (intellectual property) and disposal thereof (franchises, patents, trademarks, industrial processes, CO2 quotas, etc.).

The financial account reflects the financial resources of the current account, that is foreign investment, which are divided into four categories:

a) *direct investment;*
b) *portfolio investment*;
c) *financial derivatives*;
d) *other investment*.

Direct investment in Estonia's balance of payments refers to investment that involves a qualifying holding, which amounts to at least 10% of the equity capital of the investment company. Based on 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).

- *Direct investment company* – a company controlled or influenced by an investor (with direct or indirect holding of at least 10%) that is a resident of another country.
- *Direct investor* – a natural or legal non-resident who has a direct or indirect holding of at least 10% of the voting shares or equity.

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

- On the consolidated row of direct investment in Estonia (liabilities), all direct investment company's claims to direct investors are deducted from direct investment in Estonia.
- On the consolidated row of Estonian direct investment abroad (assets), all direct investors' liabilities to foreign direct investment companies are deducted from Estonian direct investment abroad.

The direct investment account consists of the following items:

a) *equity capital* of direct investment companies;
b) reinvested *earnings* – a part of the operating profit or loss of a direct investment company in proportion to direct investor's equity holding. Reinvested earnings do not include the cost or expenditure

related to changes in the value of assets; *other direct investment capital* – assets and liabilities related to lending, debt securities and trade credit between a direct investment company and a direct investor.

Direct investment is considered to be long-term.

The 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 to pay the interests. As a rule, bonds are long-term instruments with the maturity of over one year;
   - *money market instrument* – a highly liquid short-term 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. The most common financial derivatives are *options, forwards, futures,* and *swaps*. Financial derivatives are recorded in the balance of payments by institutional sectors, with assets and liabilities shown separately. Financial derivatives are considered to be short-term.

Other investment covers all other investment 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 and in the international investment position. Trade credit is considered to be short-term.
- *Loans* – short-term (maturity up to one year) and long-term (maturity over one year) lending of institutional sectors not related to direct investment. Loans include also *financial lease* (loan or 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) and *repurchase transactions* (borrowing against securities as collateral).
- *Currency and deposits* – foreign currency held by residents and their deposits in foreign credit institutions are recorded as assets. Non-residents' deposits in Estonian credit institutions are recorded as liabilities. Based on the methodology of the European Central Bank, this item includes also the sectoral loan assets and liabilities of credit institutions and the central bank. Deposits may be short- or long-term, depending on the terms of depositing.
- O*ther assets and liabilities* – other sums overdue (accounts receivable and accounts payable, accrued expenses, etc.) recorded on an accrual basis, and other assets and liabilities not related to other items. In addition, life insurance premiums collected and disbursements made by *insurance companies* are recorded here.

Reserve assets – gold and foreign exchange reserves of a country that are considered to be short-term capital. Reserve assets 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 for conducting loan transactions and several other related operations between a Member State and IMF;
c) *reserve position in the IMF* – contribution of a Member State to the IMF and, if required, available to the Member State as a loan;
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*.

As Estonia adopted the euro on 1 January 2011, the external assets denominated in euros or external assets issued by euro area countries are no longer recorded under the gold and foreign exchange reserves of Eesti Pank. They are recorded either under portfolio or other investment, depending on the type of asset.

BALANCE OF PAYMENTS COMPILATION SYSTEM

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

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

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

The *survey system* draws on information from various statistical surveys and studies. Both sampling and 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 they are not very prompt. Anglo-American countries Australia, New Zealand, the United Kingdom, Ireland, the United States and Canada use the survey system successfully.

The *settlements system* is based on the collection, coding and processing of international payments through resident banks. Clients, commercial institutions or the central bank attribute a transaction code to each incoming or outgoing payment, based on the description of the transaction, that are in compliance with the balance of payments structure. The settlements system allows to collect detailed and prompt information, but the system is 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. Many countries in continental Europe have replaced the settlements system with a combination of systems.

The *administrative system* draws information from the data collected beforehand by different administrative agencies. The use of this system requires full control over external transactions by the public sector.

There are few countries that use solely administrative information for their balance of payments but almost all countries apply it to a greater or lesser extent in addition to the survey and settlement systems. The biggest shortcoming of the administrative system lies in weak data quality control.

COMPILATION PRACTICES IN ESTONIA

Estonia started to compile its national balance of payments in 1992. First, the survey system was introduced owing to the weakness of the banking system back then. However, as this system is not flexible enough in the changing economic environment, options to apply the settlements system 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).

Today, Estonia is using a *combined system* to compile the balance of payments. Two parallel databases complement each other and facilitate the identification of errors. The databases in combination with administrative information ensure higher quality of the balance of payments statistics (balance of payments, international investment position and external debt), 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 together with various econometric models are used to compile monthly balances of payments. Eesti Pank started to release the flash estimate of monthly balance of payments in 2002 to meet the EU requirements.

Currently, seven different surveys are used to collect quarterly data from more than 3,500 enterprises. The settlements system involves approximately 140,000 transactions over a year that are 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 submitted. Banking sector transactions are recorded in the balance of payments on the basis of banks' balance sheets, income statements and other financial reports.

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

Besides Eesti Pank, several other national central banks, including the central banks of Latvia, Lithuania, Sweden, and the Czech Republic, are using the above-described combined system (cash flows + surveys + administrative sources). With the approval of European Union institutions, this model has been gaining

Table 3.2. The 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 2010
SURVEY SYSTEM				
Forms 2 and 7	Companies with foreign ownership	quarter	20 days	1,967
Form 3	Transport companies without foreign ownership	quarter	20 days	243
Form 4	Transport companies with foreign ownership	quarter	20 days	207
Form 6	Companies without foreign ownership	quarter	20 days	1,075
Form 9	Insurance companies and intermediaries	quarter	20 days	23
Form 10	Other financial intermediaries	quarter	20 days	30
SETTLEMENTS SYSTEM				
Settlements system reporting according to the procedure for declaring international payments	Incoming international payments declared in credit institutions	15 days	25 days	11
	Outgoing international payments declared in credit institutions	15 days	8 days	11
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	16
Report on the balance and turnovers of loans	Loans issued by credit institutions by residence and other characteristic details	month	5 days	16
Income statement	Breakdown of income and expenditure of credit institutions by residence	quarter	10 days	16
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	16
Statement of securities	Detailed statement of securities portfolios of credit institutions by residence	month	5 days	16
Statement of off-balance-sheet items	Statement of off-balance-sheet activities of credit institutions	quarter	30 days	16
Statement of asset management and investment services	Statement of custodial and investment activities of credit institutions	quarter	5 days	16
Report on non-transactional financial flows	Non-transactional financial flows of credit institutions during the reporting period, excluding revaluations caused by exchange rate fluctuations	month	12 days	16
EESTI PANK				
Balance of payments statement of Eesti Pank	Financial 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)			
Household Budget Survey	Data on tourists' expenditure abroad	quarter	120 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 in accommodation establishments	month	40 days	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

Name of statement/report	Target group / content of statement/ report	Frequency	Due date after accounting period	Sample size / No of data sources in 2010
LAND BOARD				
Land Board's database of real estate transactions	Transactions with real estate purchased by or transferred to non-residents by countries	quarter	1 month	1
ESTONIAN CENTRAL REGISTER OF SECURITIES				
Central Register of Securities	Statistics on securities issues registered in the Estonian Central Register of Securities	month	20 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	45 days	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	45 days	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				
Unemployment Insurance Fund, Health Insurance Fund, etc.				5–10

popularity also in other European countries that had been obtaining information only from the cash-based system, established under tight capital control.

LEGAL BASIS FOR BALANCE OF PAYMENTS STATISTICS

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

Subsection 34 (1) 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 that conduct cross-border economic transactions in the territory of Estonia.

Besides the Eesti Pank Act, also the **Official Statistics Act** (10/06/2010) sets out the compilation of the balance of payments. Pursuant to Subsection 8 (1), Eesti Pank conducts official statistics for the purpose of the balance of payments. Eesti Pank and the respondents are to follow all the provisions of the Official Statistics Act related to conducting surveys and submitting, protecting and disseminating data, and parties' responsibilities. Pursuant to Subsections 39 (1) and (3), Eesti Pank has the right to issue a precept or to impose a penalty payment to companies who fail to submit data on time or submit distorted data.

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

PRINCIPLES FOR THE DISSEMINATION AND REVISION OF DATA

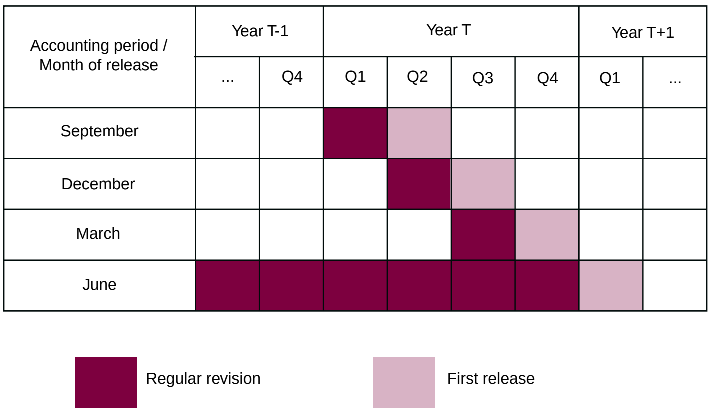
The dissemination of statistical data is based on the IMF's **Special Data Dissemination Standard (SDDS)**, which Estonia joined in October 1998. The standard sets minimum requirements for the content, frequency and time of data dissemination by statistics categories.

Data dissemination. Balance of payments statistics, press releases, analyses and statistics tables are published on Eesti Pank's website.

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

- *Regular revision*:
  a) when quarterly data for Q2, Q3 and Q4 are first released, only the data for the previous quarter are revised;
  b) when Q1 is first released and Q4 is revised, also data for all previous quarters are revised in case additional data have been received. The data are considered final after their integration into the input/output tables of the national accounts system (in up to five years).
  c) After the completion of quarterly balance of payments, the monthly balance of payments are revised so that the total of the items of three months' balance of payments would be equal to the total of the respective items of that quarterly balance of payments.

- *Extraordinary revision*:
  a) in exceptional cases, when significant errors or omissions have occurred, the data for previous quarters may be revised extraordinarily;
  b) if changes in methodology or data collection system render results incomparably, data can be revised retrospectively as far back as relevant in terms of the methodological change;
  c) the general public is notified of extraordinary changes and reasons in the press releases on the balance of payments and the international investment position.



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