Eesti Pank
Bank of Estonia

Estonian Balance of Payments Yearbook 2007

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I. ESTONIA'S BALANCE OF PAYMENTS IN 2007

INTRODUCTION

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

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

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

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

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

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

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

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

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

	2001	2002	2003	2004	2005	2006	2007
Current account	**-5,643.6**	**-12,908.0**	**-15,418.2**	**-17,681.1**	**-17,371.6**	**-34,303.4**	**-43,163.8**
Goods and services	-2,247.6	-8,564.6	-10,046.8	-11,163.5	-11,032.4	-24,231.4	-26,960.5
Goods	-13,542.4	-18,455.3	-21,522.3	-25,081.7	-24,134.8	-37,515.5	-42,021.7
credit (f.o.b.)	58,798.5	57,948.7	63,443.7	74,013.0	98,262.3	121,430.6	126,364.4
debit (f.o.b.)	-72,340.9	-76,404.0	-84,966.0	-99,094.7	-122,397.2	-158,946.1	-168,386.1
Services	11,294.8	9,890.7	11,475.5	13,918.2	13,102.4	13,284.1	15,061.2
credit	28,135.4	28,164.3	30,674.0	35,888.8	40,228.7	43,597.9	50,055.3
debit	-16,840.6	-18,273.6	-19,198.5	-21,970.6	-27,126.2	-30,313.8	-34,994.0
Income	-4,898.6	-5,391.1	-7,240.7	-7,964.6	-7,124.4	-10,768.2	-17,988.8
credit	3,022.2	3,371.3	3,584.1	5,487.0	9,225.5	13,551.5	17,288.6
debit	-7,920.8	-8,762.4	-10,824.8	-13,451.6	-16,349.9	-24,319.7	-35,277.3
Transfers	1,502.6	1,047.7	1,869.4	1,447.0	785.2	696.3	1,785.4
credit	2,016.4	2,065.6	3,380.8	5,242.6	5,876.7	6,503.2	8,018.3
debit	-513.8	-1,017.9	-1,511.5	-3,795.6	-5,091.6	-5,806.9	-6,232.9
Capital and financial account (reserve assets excluded)	**5,026.3**	**13,055.3**	**18,552.9**	**21,389.3**	**21,208.3**	**41,204.7**	**42,826.7**
Capital account	253.2	636.4	977.8	1,076.6	1,325.9	4,388.5	2,705.9
Financial account	4,773.1	12,418.9	17,575.1	20,312.7	19,882.3	36,816.2	40,120.8
Direct investment	5,901.3	2,611.8	10,716.0	8,672.2	27,321.7	8,577.5	12,669.1
Abroad	-3,528.3	-2,188.4	-2,149.2	-3,388.6	-8,699.5	-13,824.1	-18,032.9
In Estonia	9,429.6	4,800.2	12,865.2	12,060.8	36,021.2	22,401.5	30,702.0
Portfolio investment	-665.0	2,442.4	2,431.6	9,102.5	-27,688.4	-16,476.5	-5,760.1
Assets	-2,100.2	-3,182.9	-5,351.6	-4,775.7	-10,818.4	-15,205.2	-8,483.9
Equity securities	236.5	9.1	-1,028.9	-2,893.5	-4,848.9	-4,567.7	-7,597.2
Debt securities	-2,336.7	-3,192.0	-4,322.7	-1,882.2	-5,969.4	-10,637.5	-886.7
Liabilities	1,435.2	5,625.3	7,783.2	13,878.1	-16,870.0	-1,271.3	2,723.9
Equity securities	568.4	912.2	1,526.9	2,205.2	-16,352.2	3,730.3	3,215.7
Debt securities	866.8	4,713.1	6,256.2	11,673.0	-517.8	-5,001.6	-491.9
Financial derivatives	-34.7	-63.7	-19.2	-8.3	-97.6	78.5	-797.8
Assets	-0.3	-43.2	-139.2	-35.1	13.5	-180.9	-879.9
Liabilities	-34.4	-20.5	120.0	26.8	-111.0	259.3	82.1
Other investment	-428.5	7,428.4	4,446.8	2,546.4	20,346.6	44,636.8	34,009.6
Assets	-3,716.7	695.1	-2,284.6	-11,168.8	-10,454.2	275.3	-22,617.5
Long-term	-322.7	-1,083.0	-565.7	-6,052.6	5,636.5	-3,052.9	-2,509.4
Short-term	-3,394.0	1,778.1	-1,718.9	-5,116.1	-16,090.7	3,328.2	-20,108.1
Liabilities	3,288.2	6,733.3	6,731.4	13,715.1	30,800.8	44,361.5	56,627.1
Long-term	1,814.4	1,829.0	4,309.0	3,740.5	15,396.8	17,979.9	32,455.0
Short-term	1,473.8	4,904.3	2,422.4	9,974.6	15,404.0	26,381.6	24,172.1
Errors and omissions	-112.9	779.5	-822.7	-282.8	1,047.3	622.6	1,724.4
Overall balance	**-730.2**	**926.8**	**2,312.1**	**3,425.4**	**4,883.9**	**7,523.9**	**1,387.3**
Reserve assets	**730.2**	**-926.8**	**-2,312.1**	**-3,425.4**	**-4,883.9**	**-7,523.9**	**-1,387.3**

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

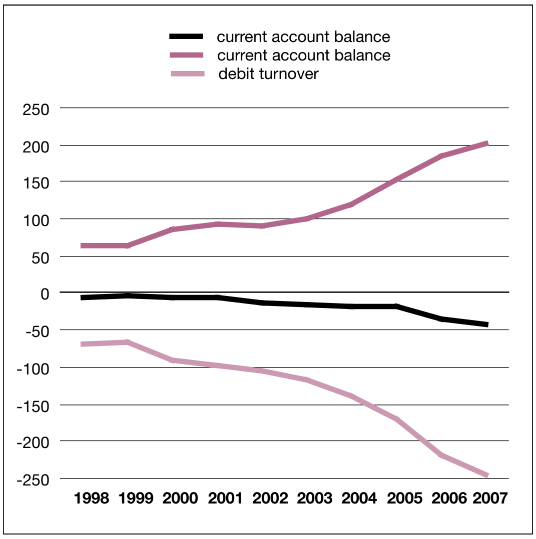
Table 1.2. Internationally comparable key balance of payments indicators

	2000	2001	2002	2003	2004	2005	2006	2007
Foreign trade turnover (% of GDP)	131.5	121.2	110.7	109.1	115.5	125.8	135.4	121.2
Exports and imports ratio (%)	80.8	81.3	75.8	74.7	74.7	80.3	76.4	75.0
Nominal effective exchange rate (% compared to previous period)	97.3	101.3	102.1	103.6	101.0	100.3	99.5	100.9
Real effective exchange rate (% compared to previous period)	96.2	102.0	101.9	101.7	101.3	101.1	100.4	102.9
Terms of trade (ratio of exports and imports price indices)	112.6	118.4	112.2	121.6	122.4	119.6	119.4	124.2
Overall balance of balance of payments (change of external reserves; EEK m)	2,270.5	-730.2	926.8	2,312.1	3,425.4	4,883.9	7,523.9	1,387.3
Change in external reserves (% of GDP)	2.4	-0.7	0.8	1.7	2.3	2.8	3.6	0.6
Current account balance (EEK m)	-5,178.1	-5,643.6	-12,908.0	-15,418.2	-17,681.2	-17,371.7	-34,303.4	-43,163.9
Current account balance without government transfers (EEK m)	-6,154.3	-6,639.9	-13,628.4	-16,638.8	-18,121.5	-16,971.9	-34,067.8	-42,386.4
Current account balance without government transfers (% of GDP)	6.4	6.1	11.2	12.2	12.1	9.7	16.5	17.4
Government transfers (net; EEK m)	976.2	996.3	720.4	1,220.6	440.3	-399.8	-235.6	-777.5
Government transfers (% of GNP)	1.1	1.0	0.6	0.9	0.3	-0.2	-0.1	-0.3
Gross external debt (% of GDP)	53.0	53.6	57.9	64.5	76.6	85.2	96.7	110.4
External debt servicing (% of total exports)	1.3	1.0	1.7	0.3	0.2	0.6	0.2	1.0

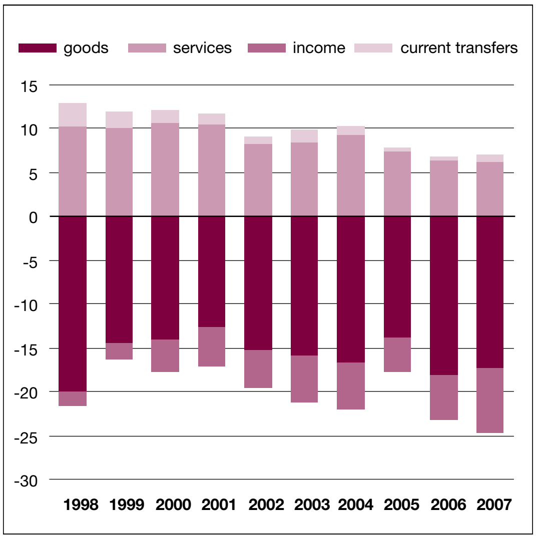
SHORT OVERVIEW

Current account

The decline in private consumption and investment activity in 2007 entailed a slight decrease in the deficit on goods and services (the direct components of GDP) as a ratio to GDP. The deficit declined from 11.7% in 2006 to 11.1% in 2007. In absolute terms, the deficit increased slightly. The deficit on the goods account and the surplus on the services account increased. The net outflow of income reached a record level owing to the favourable investment environment in Estonia. All in all, the current account deficit amounted to 43 billion kroons (17.7% of GDP). The current account deficit without reinvested earnings, which include no actual movement of funds, constituted 10.4% of GDP (11.3% in 2006). The share of the EU in both the credit and debit turnover of the current account increased – to 72% and 81%, respectively. Estonia's current account deficit was the biggest with Germany and Sweden, whereas the highest surplus was registered with Latvia, Togo and the United States.



Current account turnover and balance (EEK bn)



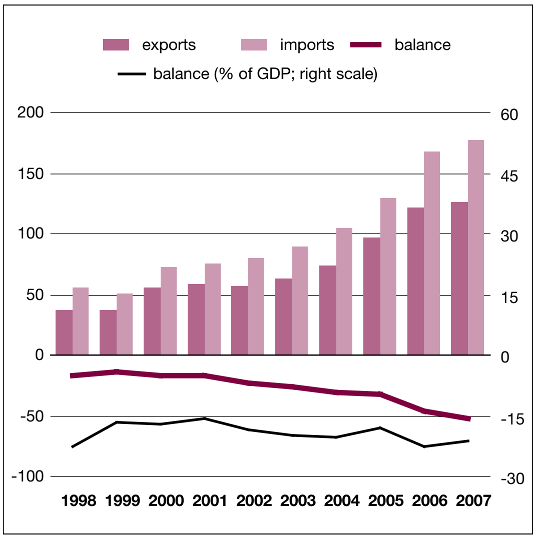
Current account components (% of GDP)

Goods

Although the growth of domestic demand started to slow in 2007, it did not have a considerable impact on Estonia's foreign trade balance yet. The deficit in the goods account – the largest component in the current account deficit – increased 12% year-on-year and was almost equal to the total current account deficit (42 billion kroons). The foreign trade deficit declined slightly as a ratio of GDP and constituted 17.3% of that. Exports amounted to 126 billion kroons, and imports of goods to 168 billion kroons. The foreign trade turnover was largely affected by processed goods, as both their imports and exports decreased considerably. Nearly 75% of processed goods were motor fuels. Excluding processed goods, the exports as well as imports of goods grew 9% in 2007. The foreign trade deficit was mainly boosted by transport vehicles and mineral products (motor fuels). The foreign trade turnover exceeded GDP by 25% (by over a third in 2006).

The primary groups of export goods included machinery and equipment (mostly electronic products), timber and timber products, and mineral products. Electronic products were also the largest import articles, followed by mineral products and transport vehicles. Excluding processed goods, the imports and exports of goods grew across all groups of goods, except machinery and equipment. Transport vehicles, machinery and equipment and chemical products posted the largest deficits on the goods account. Timber and timber products as well as furniture had a surplus.

The share of Estonia's main trading partner – the European Union – grew considerably, comprising 70% of the exports and nearly 80% of the imports of goods. The share of other countries declined in exports and that of the CIS in imports (owing to a drop in the turnover of motor fuels). Finland, Sweden, Latvia, Russia and Lithuania were the largest export partners, and Finland, Germany, Russia, Sweden and Lithuania the major import partners.

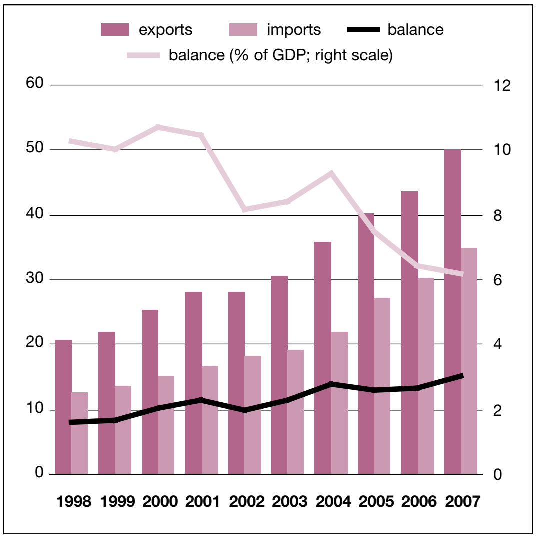


Estonia's external trade balance (EEK bn)

Services

The net exports of services amounted to 15.1 billion kroons in 2007, having increased 13% year-on-year. Both the imports and exports increased 15%. The surplus on transport services grew 30% year-on-year. The surplus on travel services decreased for the second year in row; the exports of travel services decreased for the first time, year-on-year. The net exports of business services have also declined but this is due to the rapidly growing imports of business services.

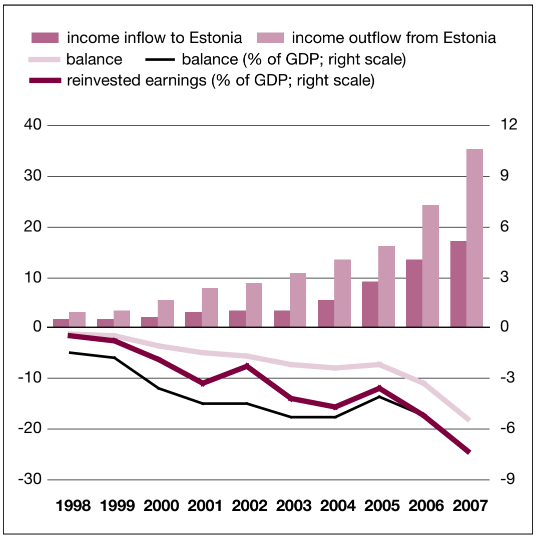
EU countries were Estonia's primary partners in the imports (71%) and exports (77%) of services.



Services account (EEK bn)

Income

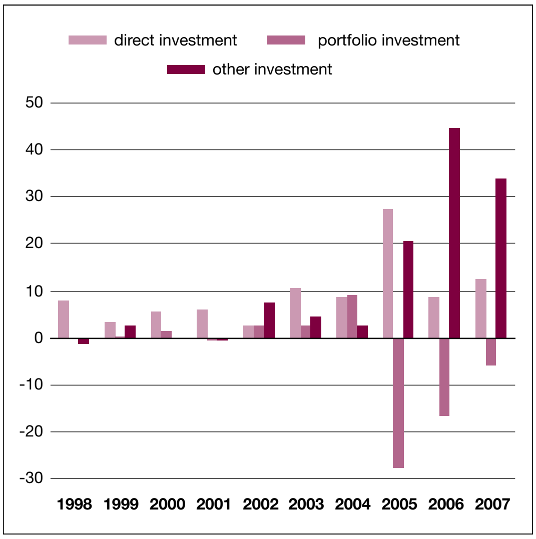
The profitability of non-residents' investment in Estonia, in particular direct investment, is reflected by the income account. The net outflow of income increased nearly 70%, year-on-year, and reached a record 18 billion kroons (7.4% of GDP). The income earned by Estonian investors abroad grew by over 25% and the income earned by non-residents in Estonia increased by nearly a half, reaching 17 and 35 billion kroons, respectively. A fourth of Estonian residents' income earned abroad comprised labour income and the rest was investment income. Nearly 60% of the latter was direct investment income. In 2007, residents received large dividends, unlike in 2006 when direct investment income mostly consisted of reinvested earnings. Residents' portfolio and other investment income increased significantly too. The majority of income earned by non-residents' in Estonia comprised investment income (97%), with reinvested earnings forming 62% of that. Non-residents' income on other investment in Estonia increased by almost two times and composed 16% of investment income. The investment income of both the residents and non-residents was mainly related to EU countries and financial intermediation.



Income account (EEK bn)

Capital and financial account

The surplus on the capital and financial account was 10.1 billion kroons in the first quarter of 2008. The large inflow of foreign capital occurred primarily through other investment capital via credit institutions as well as through direct investment.

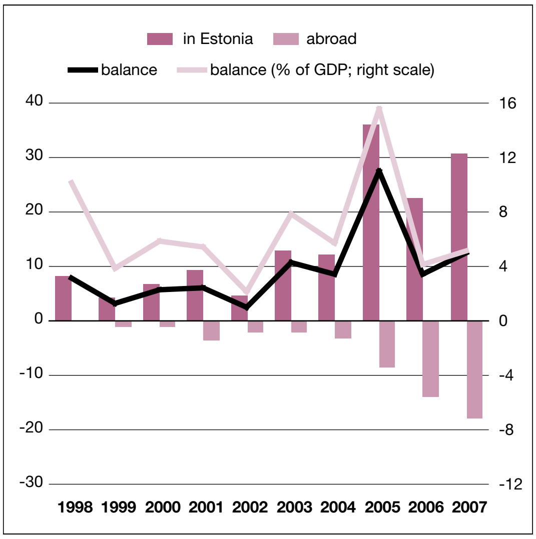


Sub-accounts of capital and financial account (EEK bn)

Direct investment

Direct investment inflow was 12.7 billion kroons bigger than outflow. Foreign direct investment in Estonia increased by 30.7 billion kroons. This is 8.3 billion kroons more than in 2006 but less than in 2005 when the volume of investment was boosted by the takeover of Hansapank. Estonian investment abroad reached record levels, amounting to 18 billion kroons.

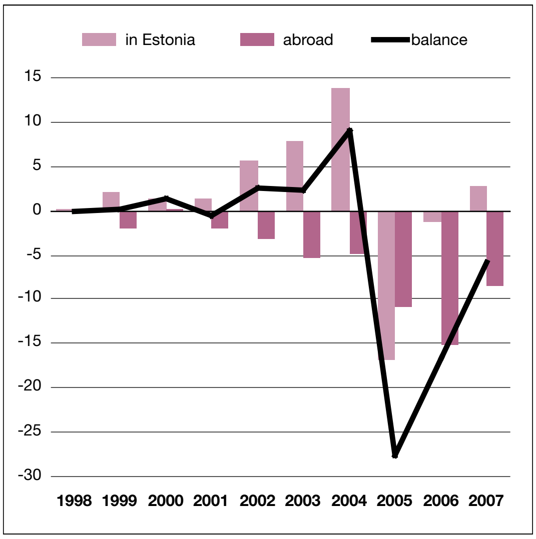
Two thirds of direct investment in Estonia included reinvested earnings, 14% accounted for equity capital and the rest was other investment capital. Equity capital investment accounted for 57%, reinvested earnings for 20% and other direct investment capital for 25% of residents' direct investment abroad. Virtually all direct investment in Estonia made in 2007 originated from EU countries, with about over a half coming from Sweden and a sixth from Finland. Over 90% of residents' direct investment went to EU countries, mainly to Latvia, Lithuania and Cyprus. Russia was the most significant non-EU investment target.



Direct investment (EEK bn)

Portfolio investment

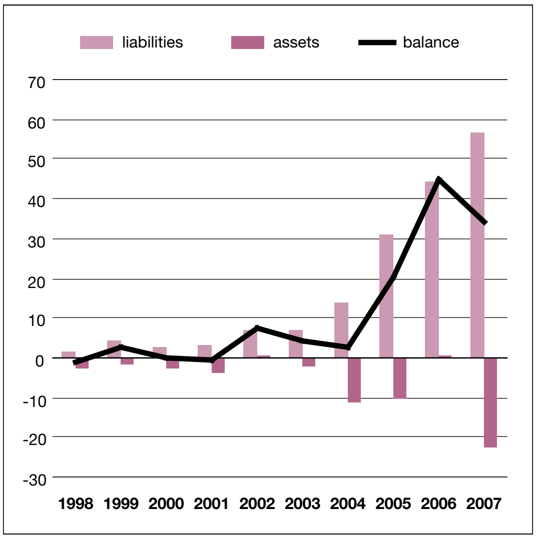
The balance of portfolio investment totalled 5.8 billion kroons in 2007. Portfolio investment assets increased by 8.5 billion and liabilities by 2.7 billion kroons. The increase mainly stemmed from investment in non-residents' equity securities, made by enterprises in other sectors, and general government's investment in debt securities and money market instruments. Liabilities grew primarily owing to equity security investment of enterprises in other sectors.



Portfolio investment (EEK bn)

Other investment

The net inflow of other investment amounted to 34 billion kroons in 2007. Assets grew by 22.6 billion kroons and liabilities by 56.6 billion kroons. As regards liabilities, both the short-term and long-term capital increased, primarily in the case of credit institutions and other sectors. Most of the growth in liabilities can be attributed to loans and deposits. Other investment assets also increased owing to growth in loan and deposit assets, although also trade credit and loan assets grew in that period.



Other investment (EEK bn)

CURRENT ACCOUNT

The decline in private consumption and investment activity in 2007 entailed a slight decrease in the deficit on goods and services (the direct components of GDP) as a ratio to GDP. The deficit declined from 11.7% in 2006 to 11.1% in 2007. In absolute terms, the deficit increased slightly. The deficit on the goods account and the surplus on the services account increased. The net outflow of income reached a record level owing to the favourable investment environment in Estonia. All in all, the current account deficit amounted to 43 billion kroons (17.7% of GDP; see Figure 1.1). The current account deficit without reinvested earnings, which include no actual movement of funds, constituted 10.4% of GDP (11.3% in 2006).

The share of the EU in both the credit and debit turnover of the current account increased – to 72% and 81%, respectively. Finland, Sweden, Latvia, Germany, Lithuania and Russia were the main partner countries, comprising approximately 60% of both turnovers. Estonia's current account deficit was the biggest with Germany and Sweden, whereas the highest surplus was registered with Latvia, Togo and the United States (see Table 1.3).

Goods

Although the growth of domestic demand started to slow in 2007, it did not have a considerable impact on Estonia's foreign trade balance yet. The deficit in the goods account – the largest component in the current account deficit – increased 12% year-on-year and was almost equal to the total current account deficit (42 billion kroons; see Table 1.4). The imports and exports of goods (in f.o.b. prices) totalled 126 and 168 billion kroons, respectively. Year-on-year, they increased 4% and 6%, respectively. The foreign trade turnover was largely affected by processed goods, as both their imports and exports decreased considerably. Mineral products (mostly motor fuels) accounted for two thirds of processed goods. Excluding processed goods, the exports as well as imports of goods grew 9% in 2007. The foreign trade turnover exceeded GDP by 25% (by over a third in 2006).

According to revised **foreign trade statistics**[1], goods exports stood at 126 billion and imports in c.i.f. prices at 177 billion kroons. The income account deficit increased 10% and totalled nearly 52 billion kroons.

Goods exports grew in nearly all the ten groups of goods analysed, except for mineral products and machinery and equipment. The exports of clothing, footwear and headgear remained at a similar level compared to 2006 (see Table 1.5). The primary groups of export goods included machinery and equipment (mostly electronic products), timber and timber products, and mineral products. However, both machinery and equipment and mineral products decreased in terms of share. The exports of food products and transport vehicles posted the strongest growth, increasing by a third. The biggest export item among food products was spirits, which was sent to Russia and some also to Finland. The exports of spir-

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

its as much as doubled year-on-year, being the main driver behind rapid food export growth. Moreover, also the exports of milk products (milk powder, cheese, milk fats) and cereals (barley) grew. Milk powder and cheese were sold mainly to Russia, Finland and Italy, and cereals to Saudi Arabia. Other export items included fish and fish products (to Ukraine, Finland and Lithuania), non-alcoholic beverages (Latvia and Lithuania), coffee (Russia, Latvia and Lithuania) and grape wines (Russia).

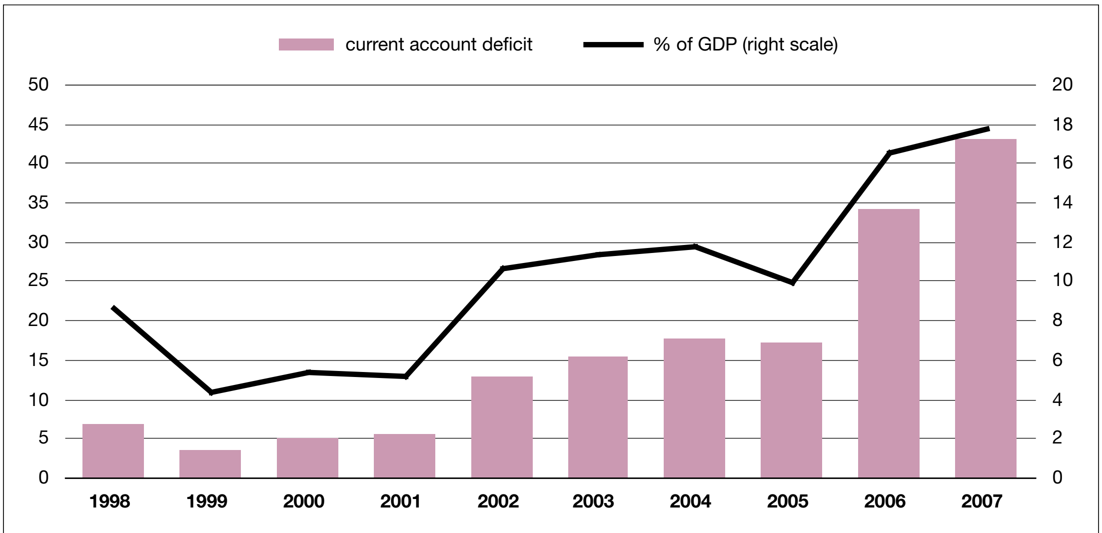


Figure 1.1. Estonia's current account balance (EEK bn)

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

	2006	2007
EU-27	**-40,729.6**	**-52,205.9**
Germany*	-14,627.8	-15,217.0
Sweden	-8,608.3	-14,973.4
Poland	-4,443.5	-5,936.5
Latvia	3,902.7	4,649.4
Italy	-3,195.7	-3,779.1
CIS	**-10,380.8**	**-3,249.0**
Russia	-9,206.6	-1,945.1
Belarus	-1,558.3	-1,906.1
Ukraine	575.8	160.9
Other	**16,807.1**	**12,291.0**
Togo	1,182.3	4,244.6
United States	6,943.1	3,706.8
Norway	2,799.9	3,573.7
China	-2.6	-2,573.2
Switzerland	931.2	1,503.6
Total	**-17,485.5**	**-32,095.0**

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

Table 1.4. Imports and exports of goods

	Goods – credit (f.o.b.)			Goods – debit (f.o.b.)			Balance (EEK m)
	Volume* (EEK m)	Change compared to the previous period (%)	Share in total exports of goods and services (%)	Volume* (EEK m)	Change compared to the previous period (%)	Share in total imports of goods and services (%)	
1998	37,786.3	45.9	63.4	53,511.8	39.2	82.4	-15,725.5
1999	36,995.2	18.7	64.5	49,092.1	12.7	80.8	-12,096.9
2000	56,118.1	-2.1	62.8	69,489.5	-8.3	78.3	-13,371.4
2001	58,798.5	51.7	69.0	72,340.9	41.5	82.2	-13,542.4
2002	57,948.7	4.8	67.6	76,404.0	4.1	81.1	-18,455.3
2003	63,443.7	-1.4	67.3	84,966.0	5.6	80.7	-21,522.3
2004	74,013.0	9.5	67.4	99,094.7	11.2	81.6	-25,081.8
2005	98,262.3	18.5	67.8	122,397.2	18.5	82.0	-24,134.8
2006	121,430.6	30.3	70.9	158,946.1	21.2	81.8	-37,515.5
2007	126,364.4	22.7	73.5	168,386.1	28.6	83.6	-42,021.7

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

Table 1.5. Exports by main groups of goods

	Volume (EEK m)		Share (%)		Change (%)
	2006	2007	2006	2007	2007/2006
Food	8,728.0	11,318.9	7.2	9.0	29.7
Mineral products	19,813.8	16,250.5	16.4	12.9	-18.0
Chemical products	8,413.1	9,765.3	7.0	7.8	16.1
Clothing, footwear and headgear	8,018.1	7,844.8	6.6	6.2	-2.2
Timber, paper and products	14,006.0	16,517.7	11.6	13.2	17.9
Metals and metal products	11,098.2	12,663.9	9.2	10.1	14.1
Machinery and equipment	29,789.3	26,269.9	24.7	20.9	-11.8
Transport vehicles	8,138.9	10,681.6	6.7	8.5	31.2
Furniture, toys, sporting goods	8,785.2	9,857.1	7.3	7.9	12.2
Other	3,993.9	4,362.9	3.3	3.5	9.2
Total	**120,784.5**	**125,532.4**	**100.0**	**100.0**	**3.9**

Half of the exports of transport vehicles comprised motor cars, most of which went to Latvia and Lithuania. The second biggest item in that group included components of motor cars, including safety belts, exported to Sweden and Russia. In addition, yachts were exported to Finland and Sweden, and trucks to Latvia. The exports of timber and timber products increased by a fifth. The items exported included processed timber (to the United Kingdom and Finland), construction components (Denmark, Sweden, Japan, Finland and Norway), unprocessed timber and firewood (Finland and Denmark). The main export items among chemical products were various construction and repair materials (mastics, putties, paints and varnishes), plastic products, fertilizers, medicines and tyres. These goods were mostly channelled to the neighbouring countries: Russia, Latvia, Lithuania, Finland and Sweden.

The exports of metals, furniture and other goods increased 12–16%. As regards metals and metal products, the primary export items were metal constructions (to Finland, Denmark and Norway), pipes (Turkey), flat-rolled products (Lithuania, Poland and Latvia) and various iron and steel products (Finland and Sweden). The leading export item in the category of furniture was prefabricated buildings which were sold to Norway, Germany and the United Kingdom. Various items of furniture (mattresses, pillows, seats, lamps) were exported to Finland, Sweden, Denmark, Germany and the United Kingdom.

In the category of other industrial goods, the major export items included cement and concrete products (to Latvia, Lithuania and Russia), safety glass (Belgium and Germany), measuring instruments (Finland), automatic equipment (Sweden), medical equipment and orthopaedic aids (Germany) and glass containers (Lithuania and Latvia). The exports of mineral products decreased by nearly a fifth. Motor fuel accounted for 80% of that, being also the main component of the decrease. Over 80% of motor fuel exports consisted of fuel processed in Estonia and then re-exported (mostly to Togo and the United States and some also to Canada, Finland and the Netherlands).

As a result of launching a cable between Finland and Estonia, the exports of electricity increased three times. The exports of peat increased 50%, being sold to the Netherlands and Sweden. The exports of cement grew by more than two times; most of it was sent to Russia and Latvia. However, the exports of machinery and equipment, currently still the largest export group, has been losing its share in exports, decreasing more than 10% year-on-year. Mechanical equipment and machinery accounted for about a third in that category, the rest being electrical equipment and machinery. The latter is also responsible for the abovementioned decrease. The biggest export items were mobile communication devices (to Sweden and Finland), insulated wires and cables (Sweden, Finland and the Netherlands) and components of various mechanical and electrical equipment (Finland, Sweden, Italy, Germany and Saudi Arabia). As regards clothing, footwear and headgear, men's and women's clothes were exported to Finland and Sweden, footwear to Finland and Latvia, linen to Sweden and Finland, and furs to Turkey and Sweden.

Machinery and equipment were the largest goods group also in the **imports of goods**. Mineral products and transport vehicles ranked next (see Table 1.6). The share of the first two groups of goods declined in imports too. Import developments were rather similar compared to exports in terms of goods groups: the same groups of goods that increased their export volumes also enlarged the volume of imports. This suggests that Estonia acted as a country of transit for these goods and provided either intermediation or processing services. Such goods groups comprised food products (33% growth), timber and timber products (22%) and transport vehicles (21%). The imports of other goods increased as well; only that of mineral products and machinery and equipment decreased (nearly 10%).

Table 1.6. Imports by main groups of goods

	Volume (EEK m)		Share (%)		Change (%)
	2006	2007	2006	2007	2007/2006
Food	12,363,3	16,495,8	7,4	9,3	33,4
Mineral products	26,968,6	24,757,5	16,1	14,0	-8,2
Chemical products	18,644,9	20,867,9	11,1	11,8	11,9
Clothing, footwear and headgear	10,840,0	11,729,1	6,5	6,6	8,2
Timber, paper and products	8,476,3	10,365,8	5,1	5,9	22,3
Metals and metal products	15,982,1	18,229,0	9,5	10,3	14,1
Machinery and equipment	42,602,3	38,141,6	25,4	21,5	-10,5
Transport vehicles	20,256,5	24,458,5	12,1	13,8	20,7
Furniture, toys, sporting goods	3,833,1	4,475,4	2,3	2,5	16,8
Other	7,498,1	7,618,9	4,5	4,3	1,6
Total	**167,465,0**	**177,139,4**	**100,0**	**100,0**	**5,8**

Half of the growth of food imports can be contributed to the increase in the imports of alcoholic beverages, which are the biggest import item in the food category. The primary countries of origin were the United Kingdom and France. The imports of spirits increased by 3.5 times. Other major import items in the food group were sugar (from Poland, Finland, Denmark and the United Kingdom), tobacco products (Latvia), grape wines (France, Italy and Chile), coffee (Finland) and ready-to-eat pet food (Poland and Germany). The imports of timber and timber products increased mainly owing to the stronger growth of timber and plywood imports. These goods and unprocessed timber were primarily imported from Russia.

Various kinds of paper and paper products, and wooden construction components were purchased from Finland. Motor cars and their spare parts drove the growth in imports of transport vehicles. In addition, also the imports of trucks, tractors, various trailers and special purpose vehicles (cranes, maintenance vehicles, concrete mixers) increased. Transport vehicles were purchased from Germany, Sweden, Finland and Japan as well as from the United Kingdom, the Netherlands, Italy, Austria and Denmark. The imports of furniture and toys grew nearly 20%. Furniture was imported from Finland, Poland, Italy and Latvia; prefabricated wooden buildings from Finland; toys from China, and equipment for recreational establishments (gambling tables and machines) from the Netherlands and Latvia.

The imports of metals and metal products increased 14%. A large share of the imports in this goods group comprised flat-rolled iron and steel products. Flat-rolled products at a more advanced stage of manufacture were imported from Finland, Sweden and the Netherlands; products at a less advanced stage of manufacture originated from Russia and Ukraine. Flat-rolled products were also purchased from Taiwan and the United States. Iron and steel pipes were imported from Russia, Finland and Ukraine; metal constructions from Finland and Germany.

The imports of chemical products grew slightly over 10%. A large part of the imported chemical products contained various plastic raw materials as well as finished goods (from Finland, Germany, the Netherlands etc.). Medicines formed another major group and originated from many different countries. New tyres from Germany, Poland, Latvia and Japan also made quite a big contribution to growth. In addition, mastics, putties, binders etc. were imported from Germany, Ireland, Belgium, Denmark and Poland. The imports of clothing, footwear and headgear increased approximately 10%. Ready-made clothes accounted for a majority of that and were imported from various countries. Footwear was purchased from Germany and Italy, and synthetic staple fibre from Korea. The imports of other industrial goods grew 6% and consisted of different kinds of medical and measuring instruments and automatic equipment (from Finland, Germany and Sweden) as well as plate glass, glass fibre etc.

The imports of mineral products decreased almost 10%. Motor fuel accounted for 80% of the imports in that category and originated primarily from Russia and Lithuania and to some extent also from Belarus and Latvia. The decrease in the imports of mineral products can be largely attributed to the twofold decrease of motor fuel imported from Russia for processing. At the same time, several new countries of origin (Poland, Sweden, Latvia, Italy and Kazakhstan) sent motor fuel to Estonia for processing. Moreover, gas was imported from Russia and Latvia; petroleum coke and bitumen from Sweden, and also some electricity from Lithuania, Finland and Latvia. The imports of machinery and equipment decreased just as much as the imports of mineral products – mostly on account of electrical machinery and equipment.

The imports of mechanical machinery and equipment increased 10% and constituted 45% of total imports in that goods group. More precisely, the items imported included computers (from Lithuania, Latvia and Finland), earthwork machinery (the United Kingdom, Belgium and Germany), hand instruments (Japan, Germany, China), printing machinery (Finland), special-purpose equipment and spare parts for the above goods. The major import items in the category of electrical machinery and equipment were mobile communication devices (from Finland, Sweden, China and Latvia), electrical cut-outs (Finland and Germany), insulated wire and cables (Finland and Sweden), electronic integrated switches (Germany, Sweden and Finland) and television receiving equipment (Germany and Sweden).

The **income account deficit** increased 10% and totalled nearly 52 billion kroons (see Table 1.7). Eight out of ten goods groups posted deficits. Year-on-year, transport vehicles, mineral products and clothing, footwear and headgear increased their deficit the most (by 1.1–1.7 billion kroons). The deficit in machinery and equipment as well as other industrial goods decreased. The exports of goods exceeded imports only in two groups – timber and timber products, and furniture, which both increased their surpluses.

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

	2006	2007
Food	-3,635.3	-5,176.9
Mineral products	-7,154.8	-8,506.9
Chemical products	-10,231.7	-11,102.6
Clothing, footwear and headgear	-2,821.9	-3,884.3
Timber, paper and products	5,529.7	6,151.8
Metals and metal products	-4,883.9	-5,565.2
Machinery and equipment	-12,813.0	-11,871.7
Transport vehicles	-12,117.6	-13,777.0
Furniture, toys, sporting goods	4,952.2	5,381.8
Other	-3,504.3	-3,256.0
Total	**-46,680.5**	**-51,607.0**

By **groups of countries**, the **exports of goods** to the European Union grew 12%. Consequently, the share of the EU in Estonia's exports increased by 5 percentage points and reached 70% (see Table 1.8). Estonia's five major partners from the EU were Finland, Sweden, Latvia, Lithuania and Germany. Exports to Latvia and Lithuania gained the most. Exports to the CIS increased 14%, whereas almost 80% of that went to Russia. Russia was also Estonia's fourth biggest export partner. Goods exports to other countries decreased by a fifth (by a third to the US, mostly on account of motor fuel).

Table 1.8. Exports of goods by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2006	2007	2006	2007	2007/2006
EU-27	**78,686.4**	**87,739.8**	**65.1**	**69.9**	**11.5**
Finland	22,020.8	22,459.3	18.2	17.9	2.0
Sweden	14,779.9	16,606.0	12.2	13.2	12.4
Latvia	10,939.7	14,316.9	9.1	11.4	30.9
Lithuania	5,802.1	7,251.2	4.8	5.8	25.0
Germany	6,039.8	6,576.6	5.0	5.2	8.9
CIS	**12,567.9**	**14,346.1**	**10.4**	**11.4**	**14.1**
Russia	9,470.6	11,103.5	7.8	8.8	17.2
Ukraine	1,847.5	1,859.7	1.5	1.5	0.7
Belarus	688.7	564.9	0.6	0.5	-18.0
Other	**29,530.1**	**23,446.5**	**24.4**	**18.7**	**-20.6**
United States	7,998.7	5,240.1	6.6	4.2	-34.5
Togo	1,182.3	4,244.6	1.0	3.4	259.0
Norway	3,198.5	4,238.1	2.6	3.4	32.5
Total	**120,784.5**	**125,532.4**	**100.0**	**100.0**	**3.9**

The **imports of goods** from EU countries grew 12% year-on-year (see Table 1.9). Deliveries from Finland, the biggest import partner, decreased slightly, whereas deliveries from Latvia and Sweden increased considerably. Imports from the CIS declined 13%, mostly on account of the motor fuel imported from Russia for processing. Goods imports from Ukraine grew by a third. Imports from other countries diminished 7%. China was the biggest partner in that group of countries, followed by the United States and Japan.

Foreign trade deficit with the European Union was almost equal to total deficit (see Table 1.10). Deficit with CIS members and surplus with other countries were more or less similar in size and decreased 40% year-on-year.

Table 1.9. Imports of goods by groups of countries*

	Volume (EEK m)		**Share (%)**		**Change (%)**
	2006	**2007**	**2006**	**2007**	**2007/2006**
EU-27	**124,690.2**	**138,980.1**	**74.5**	**78.5**	**11.5**
Finland	30,682.8	28,206.4	18.3	15.9	-8.1
Germany	20,728.5	22,643.0	12.4	12.8	9.2
Sweden	15,203.3	17,918.4	9.1	10.1	17.9
Latvia	9,772.8	13,413.7	5.8	7.6	37.3
Lithuania	10,828.7	12,124.2	6.5	6.8	12.0
CIS	**26,549.9**	**23,148.6**	**15.9**	**13.1**	**-12.8**
Russia	21,734.6	18,083.6	13.0	10.2	-16.8
Belarus	2,282.8	2,542.0	1.4	1.4	11.4
Ukraine	1,298.1	1,740.8	0.8	1.0	34.1
Other	**16,225.0**	**15,010.7**	**9.7**	**8.5**	**-7.5**
China	3,437.8	3,715.9	2.1	2.1	8.1
United States	1,919.1	2,205.7	1.1	1.2	14.9
Japan	1,734.2	1,399.3	1.0	0.8	-19.3
Total	**167,465.0**	**177,139.4**	**100.0**	**100.0**	**5.8**

* Analysed by trading country.

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

	2006	**2007**
EU-27	-46,003.8	-51,240.2
CIS	-13,981.9	-8,802.5
Other	13,305.2	8,435.8
Total	**-46,680.5**	**-51,607.0**

Services

The surplus on the **services account** amounted to 15.1 billion kroons in 2007, increasing 13% year-on-year (see Table 1.11). Year-on-year, the growth of services exports as well as imports increased (15% in both cases). Compared to 2006, the share of services in the total turnover of goods and services grew both in terms of exports and imports. The surplus on the services account offset the foreign trade deficit by 36%.

Year 2007 brought about a significant change in the structure of the net exports of services (see Table 1.12). The surplus on the services account grew mostly owing to the deficit on construction services turning into a surplus. The surplus on transport services grew faster (30%) than the total balance of services, increasing its share to 40%, whereas the surplus on travel and business services decreased 23% and 24%, respectively, year-on-year.

Table 1.11. Exports and imports of services

	Exports			Imports			Balance	
	Volume (EEK m)	Change compa-red to the previous period (%)	Share in total turnover of goods and services (%)	Volume (EEK m)	Change compa-red to the previous period (%)	Share in total turnover of goods and services (%)	Volume (EEK m)	Change compa-red to the previous period (%)
1998	20,804.0	13.3	35.5	12,754.8	25.9	19.2	8,049.2	-2.2
1999	21,951.9	5.5	37.2	13,610.4	6.7	21.7	8,341.5	3.6
2000	25,263.4	15.1	31.0	15,059.6	10.6	17.8	10,203.8	22.3
2001	28,135.4	11.4	32.4	16,840.6	11.8	18.9	11,294.8	10.7
2002	28,164.3	0.1	32.7	18,273.6	8.5	19.3	9,890.7	-12.4
2003	30,674.0	8.9	32.6	19,198.5	5.1	18.4	11,475.5	16.0
2004	35,888.8	17.0	32.7	21,970.6	14.4	18.1	13,918.2	21.3
2005	40,228.7	12.1	29.0	27,126.2	23.5	18.1	12,967.8	-6.8
2006	43,597.9	8.4	26.4	30,313.8	11.8	16.0	13,284.1	2.4
2007	50,055.3	14.8	28.4	34,994.0	15.4	17.2	15,061.3	13.4

Table 1.12. Services balance by major categories

	Balance (EEK m)		Share (%)		Change (%)
	2006	2007	2006	2007	2007/2006
Transportation	4,617.3	6,003.9	34.8	39.9	30.0
Travel	5,424.6	4,174.1	40.8	27.7	-23.1
Construction services	-591.6	1,159.1	-4.5	7.7	-295.9
Computer and information services	559.7	792.9	4.2	5.3	41.7
Business services	3,174.8	2,412.7	23.9	16.0	-24.0
Government services	155.1	82.0	1.2	0.5	-47.1
Other	-55.8	436.5	-0.4	2.9	-882.1
Total	**13,284.1**	**15,061.3**	**100.0**	**100.0**	**13.4**

Services exports increased 15% in 2007 (see Table 1.13). The exports of construction services grew the most – by 2.1 times. The growth of other major services was also relatively strong (15–40%); only the exports of travel services declined (7%).

Table 1.13. Services exports by major categories

	Balance (EEK m)		Share (%)		Change (%)
	2006	2007	2006	2007	2007/2006
Transportation	17,787.2	20,474.4	41.0	40.9	15.1
freight	9,442.7	10,735.3	21.8	21.4	13.7
passenger	4,186.3	4,318.3	9.6	8.6	3.2
other transport services	4,158.2	5,420.9	9.6	10.8	30.4
Travel	12,692.0	11,791.7	29.2	23.6	-7.1
Construction services	1,083.9	2,253.1	2.5	4.5	107.9
Computer and information services	1,143.4	1,599.5	2.6	3.2	39.9
Business services	8,131.1	9,971.6	18.7	19.9	22.6
Government services	569.0	658.4	1.3	1.3	15.7
Other	1,985.1	3,306.5	4.6	6.6	66.6
Total	**43,391.8**	**50,055.3**	**100.0**	**100.0**	**15.4**

The exports of services were more even in 2007 compared to 2006 – exports to major partner countries grew slower (see Table 1.14). EU countries accounted for 71% of the services exports. Compared to 2006, this ratio has fallen because the annual export growth rate of Finland and Sweden – Estonia's main trading partners – was lower than average. As regards other countries, exports to Russia and offshore regions sustained strong growth (26% and 31%, respectively).

Table 1.14. Services exports by groups of countries

	Balance (EEK m)		Share (%)		Change (%)
	2006	2007	2006	2007	2007/2006
EU-27	**31,647.9**	**35,460.4**	**72.9**	**70.8**	**12.0**
Finland	13,984.0	14,823.5	32.2	29.6	6.0
Sweden	3,626.5	4,145.3	8.4	8.3	14.3
United Kingdom	2,315.5	3,109.0	5.3	6.2	34.3
Latvia	1,837.5	2,693.1	4.2	5.4	46.6
CIS	**5,270.1**	**6,397.4**	**12.1**	**12.8**	**21.4**
Russia	4,265.0	5,369.1	9.8	10.7	25.9
Ukraine	392.5	470.0	0.9	0.9	19.7
Kazakhstan	444.8	355.1	1.0	0.7	-20.2
Other	**6,473.8**	**8,197.5**	**14.9**	**16.4**	**26.6**
Switzerland	1,649.7	2,057.6	3.8	4.1	24.7
offshore regions	1,519.0	1,995.2	3.5	4.0	31.3
United States	1,546.9	1,518.3	3.6	3.0	-1.8
Total	**43,391.8**	**50,055.3**	**100.0**	**100.0**	**15.4**

Services imports increased 15% in 2007 (see Table 1.15). Slower economic growth is reflected in the 35% decrease in construction services imports and the slowdown of travel services imports to 5%. At the same time, the imports of business, computer and information services have posted above-average results (35% and 38%, respectively).

EU countries accounted for 75% of services imports (see Table 1.16). Finland was the biggest import partner, holding a 17% share in services imports. Germany, Sweden, Latvia and Russia followed with around

Table 1.15. Services imports by major categories

	Balance (EEK m)		Share (%)		Change (%)
	2006	2007	2006	2007	2007/2006
Transportation	13,169.9	14,470.5	43.4	41.4	9.9
freight	8,798.5	9,448.0	29.0	27.0	7.4
passenger	1,489.9	1,537.5	4.9	4.4	3.2
other transport services	2,881.4	3,484.9	9.5	10.0	20.9
Travel	7,267.4	7,617.7	24.0	21.8	4.8
Construction services	1,675.6	1,094.0	5.5	3.1	-34.7
Computer and information services	583.7	806.6	1.9	2.3	38.2
Business services	4,956.3	7,558.9	16.3	21.6	52.5
Government services	413.9	576.4	1.4	1.6	39.3
Other	2,247.0	2,870.0	7.4	8.2	27.7
Total	**30,313.8**	**34,994.0**	**100.0**	**100.0**	**15.4**

Table 1.16. Services imports by groups of countries

	Balance (EEK m)		Share (%)		Change (%)
	2006	2007	2006	2007	2007/2006
EU-27	**22,620.3**	**26,927.3**	**74.6**	**76.9**	**19.0**
Finland	5,921.2	5,960.3	19.5	17.0	0.7
Germany	3,125.8	2,658.5	10.3	7.6	-14.9
Sweden	2,252.5	2,546.6	7.4	7.3	13.1
Latvia	1,837.2	2,397.3	6.1	6.9	30.5
CIS	**3,513.5**	**3,148.3**	**11.6**	**9.0**	**-10.4**
Russia	2,849.7	2,361.0	9.4	6.7	-17.1
Ukraine	336.1	422.2	1.1	1.2	25.6
Belarus	200.2	236.2	0.7	0.7	18.0
Other	**4,180.0**	**4,918.4**	**13.8**	**14.1**	**17.7**
United States	889.0	1,086.9	2.9	3.1	22.3
Egypt	474.5	647.4	1.6	1.9	36.4
Norway	378.4	503.6	1.2	1.4	33.1
Total	**30,313.8**	**34,994.0**	**100.0**	**100.0**	**15.4**

7–8% shares. As regards other countries, services imports from Russia decreased, whereas imports from the United States increased. The growing popularity of Egypt as a travel destination boosted services imports by 36% compared to 2006.

The surplus on **transport services** grew in 2007 despite the setbacks in transit trade and was mainly driven by the increased sale of sea and road transport services (see Figures 1.2 and 1.3 and Tables 1.12 and 1.13). In rail transport, other supporting and auxiliary transport services, related to storage, logistics and provision of forwarding services to non-residents, gained importance.

Total exports of transport services increased 15% year-on-year. Exports to EU countries grew slower than average (8%; see Table 1.17). Finland was the biggest importer of transport services also in 2007. Exports to the CIS increased 30%, while exports to Russia and Ukraine grew faster than average. The biggest partner among other countries was Switzerland which imported 40% more transport services compared to 2006.

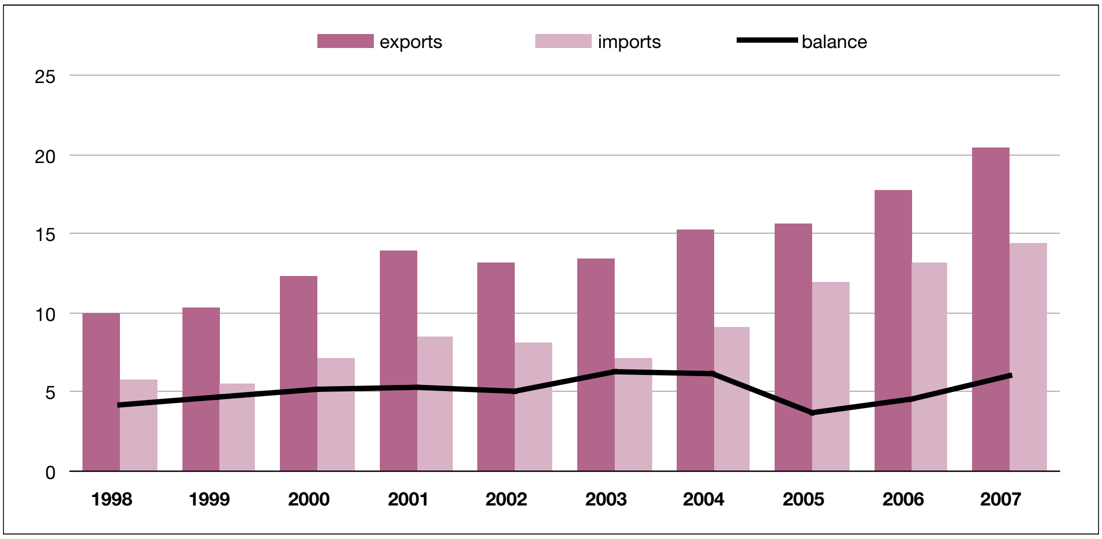


Figure 1.2. Transport services (EEK bn)

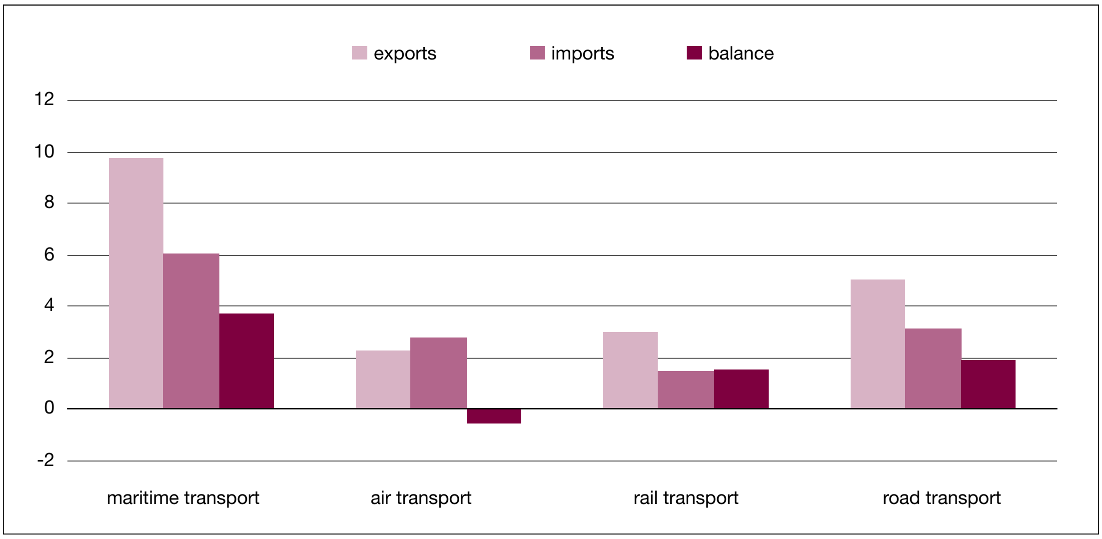


Figure 1.3. Structure of transport services in 2007 by type (EEK bn)

Annual growth in transport services imports was more modest compared to exports and stood at 10% (see Tables 1.15 and 1.17). Imports increased in all service categories, especially as regards other transport and auxiliary services – similar to the exports of transport services. The majority of transport services in 2007 were purchased from EU countries. The share of CIS members in imports slightly declined over the year. Imports from other countries grew 14% – mostly owing to the higher imports of transport services from offshore regions and the United States.

The surplus on **travel services** decreased 23% in 2007, as exports declined 7% and imports grew 5% (see Figure 1.4). Exports declined largely because of the decreasing number of visitors from major EU countries (see Table 1.17). The number of tourists from Sweden, Germany as well as Russia decreased.

Table 1.17. Transport services by groups of countries in 2007

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%) 2007/2006		Volume (EEK m)	Share (%)	Change (%) 2007/2006
EU-27	**13,832.8**	**67.6**	**8.3**	**EU-27**	**10,728.4**	**74.1**	**11.4**
Finland	5,241.4	25.6	-89.2	Finland	2,140.1	14.8	-11.5
United Kingdom	1,751.8	8.6	57.2	Germany	1,505.6	10.4	0.9
Sweden	1,625.4	7.9	4.6	Sweden	954.6	6.6	34.3
Germany	1,016.7	5.0	-16.8	Latvia	923.9	6.4	22.0
Denmark	704.2	3.4	18.0	United Kingdom	836.3	5.8	58.8
CIS	**2,491.8**	**12.2**	**29.6**	**CIS**	**1,627.8**	**11.2**	**-3.3**
Russia	2,284.8	11.2	32.9	Russia	1,301.6	9.0	-8.1
Ukraine	127.8	0.6	34.4	Belarus	176.1	1.2	64.6
Other	**4,149.8**	**20.2**	**34.4**	**Other**	**2,114.3**	**14.7**	**13.9**
Switzerland	1,451.9	7.1	40.3	offshore regions	556.2	3.8	34.2
offshore regions	1,226.9	6.0	55.3	United States	361.4	2.5	38.3
United States	476.2	2.3	-23.7	China	337.5	2.3	6.4
Total	**20,474.4**	**100.0**	**15.1**	**Total**	**14,470.5**	**100.0**	**9.9**

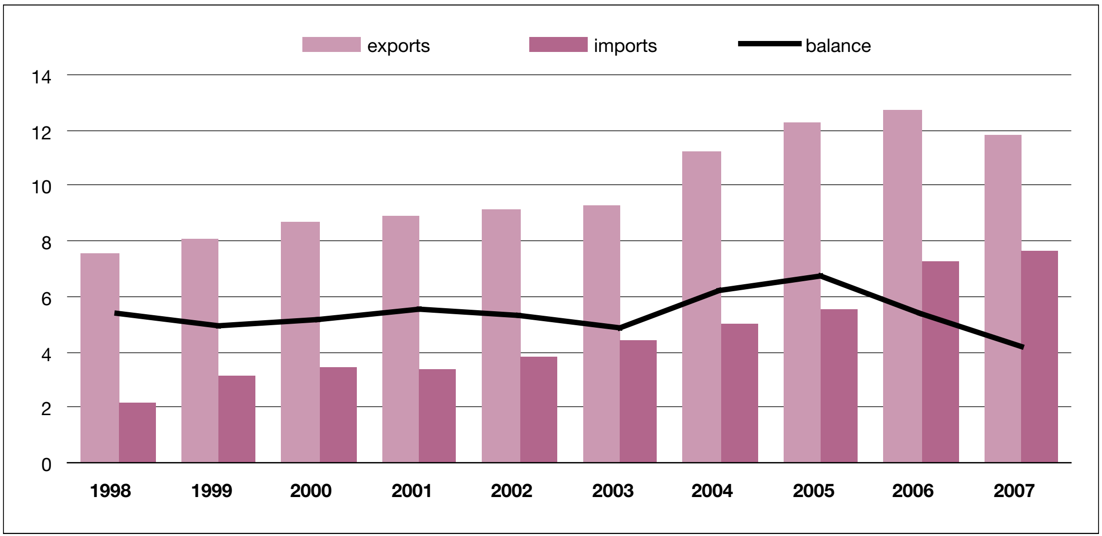


Figure 1.4. Travel services (EEK bn)

However, as the expenditure per Russian visitor increased, the total expenditure of Russians in Estonia changed little. The year 2006 witnessed the start of labour mobility in two directions. At first, labour outflow from Estonia to wealthier EU countries prevailed, whereas in 2007 the inflow and outflow of workers levelled off, while the inflow of migrant workers to more labour-intensive fields of activity in Estonia increased. Workers from Russia were issued the largest number of work permits was. The living costs of temporary labour during the working period are recorded under travel services.

The number of Estonians' trips abroad as well as the length and cost of trips increased in 2007. In 2007, the number of tourism trips purchased by Estonian travel agencies and sold to Estonians exceeded the cost of tourism trips sold to non-residents. As regards the most popular destinations for Estonians, the number of trips to Egypt, Turkey and Greece as well as new EU members like the Czech Republic, Latvia, Lithuania and Bulgaria grew the most (see Table 1.18). The relatively low growth rates of travel services imports may be explained by the permanent outflow of residents: some Estonians who have left the country to work abroad have stayed there for good and become migrants whose living costs are no longer recorded under travel services according to the balance of payments methodology.

Table 1.18. Travel services by groups of countries in 2007

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%), 2007/2006		Volume (EEK m)	Share (%)	Change (%), 2007/2006
EU-27	**8,975.0**	**76.1**	**-9.6**	**EU-27**	**5,464.7**	**71.7**	**7.8**
Finland	5,729.4	48.6	-11.3	Finland	1,454.7	19.1	12.4
Sweden	927.4	7.9	4.3	Latvia	478.4	6.3	22.6
Germany	418.5	3.5	-12.1	Germany	415.6	5.5	-31.0
Latvia	416.3	3.5	-7.4	Sweden	375.1	4.9	-6.5
CIS	**1,966.9**	**16.7**	**2.1**	**CIS**	**665.1**	**8.7**	**-30.3**
Russia	1,821.9	15.5	0.8	Russia	504.8	6.6	-33.0
Ukraine	103.5	0.9	12.3	Ukraine	112.4	1.5	7.1
Other	**849.8**	**7.2**	**1.3**	**Other**	**1,487.9**	**19.5**	**21.4**
Norway	304.5	2.6	-3.8	Egypt	481.2	6.3	36.1
United States	224.9	1.9	-8.6	United States	236.6	3.1	28.9
Japan	47.2	0.4	41.2	Turkey	181.4	2.4	72.7
Total	**11,791.7**	**100.0**	**-7.1**	**Total**	**7,617.7**	**100.0**	**4.8**

Income

The profitability of foreign investors' investment (especially direct investment) in Estonia is reflected by the record high net outflow of income in 2007, which increased 75% year-on-year and totalled 18 billion kroons, i.e. 7.4% of GDP (see Table 1.19).

Table 1.19. Income

	Inflow		Outflow		Balance	
	Volume (EEK m)	Change compared to previous period (%)	Volume (EEK m)	Change compared to previous period (%)	Volume (EEK m)	Change compared to previous period (%)
1998	1,871.8	17.4	3,035.8	-15.8	-1,164.0	-42.1
1999	1,964.3	4.9	3,470.1	14.3	-1,505.8	29.4
2000	2,032.5	3.5	5,491.4	58.2	-3,458.9	129.7
2001	3,022.2	48.7	7,920.8	44.2	-4,898.6	41.6
2002	3,371.3	11.6	8,762.4	10.6	-5,391.1	10.1
2003	3,584.1	6.3	10,824.8	23.5	-7,240.7	34.3
2004	5,487.0	53.1	13,451.6	24.3	-7,964.6	10.0
2005	9,225.5	68.1	16,349.9	21.5	-7,124.4	-10.5
2006	13,551.5	46.9	24,319.7	48.7	-10,768.3	51.1
2007	17,288.6	27.6	35,277.3	45.1	-17,988.8	67.1

Income account deficit was driven by the significantly stronger growth of non-residents' income compared to the income earned by residents abroad. Labour income witnessed net inflow, whereas investment income experienced net outflow. The income account of Estonia's balance of payments is largely affected by reinvested earnings, which are not subject to taxation in Estonia. Reinvested earnings include no actual movement of funds. The net outflow of reinvested earnings grew 65% year-on-year and was almost equal to the total income account deficit both in 2006 and 2007 (see Table 1.20). Excluding reinvested earnings from the income account, the inflows and outflows of income were virtually equal in the past two years.

Table 1.20. Structure of income account

	Volume (EEK m)		Share (%)		Change (%)
	2006	2007	2006	2007	2007/2006
Labour income	3,960.4	3,461.6	-36.8	-19.2	-12.6
Investment income	-14,728.6	-21,450.4	136.8	119.2	45.6
Income on direct investment	-13,619.3	-18,791.6	126.5	104.5	38.0
income on equity	-12,991.5	-17,709.0	120.6	98.4	36.3
reinvested earnings	-10,802.9	-17,852.1	100.3	99.2	65.3
dividends	-2,188.6	143.1	20.3	-0.8	-106.5
income on debt (interests)	-627.8	-1,082.6	5.8	6.0	72.4
Income on portfolio investment	817.9	461.2	-7.6	-2.6	-43.6
Income on other investment	-1,927.2	-3,120.0	17.9	17.3	61.9
Total	**-10,768.2**	**-17,988.8**	**100.0**	**100.0**	**67.1**

In 2004–2006, the annual growth of **income inflow** was 50% on average; in 2007, growth decelerated and totalled 25% (see Table 1.21). Regardless of the slowdown, income inflow was still record high with 17.3 billion kroons. The share of labour income in income inflow decreased both in relative and absolute terms. One of the reasons was the fact that people working abroad for a longer period (more than one year) become residents of the country of employment and their remittances to the country of origin are reflected under current transfers in the balance of payments. Labour income constituted over 25% (4.5 billion kroons) of income inflow. Estonian residents were employed mostly in Finland (nearly 40% of labour income inflow), the United Kingdom (17%), Ireland (10%), Sweden and Latvia.

Table 1.21. Income inflow to Estonia

	Volume (EEK m)		Share (%)		Change (%)
	2006	2007	2006	2007	2007/2006
Labour income	4,877.7	4,527.8	36.0	26.2	-7.2
Investment income	8,673.8	12,760.8	64.0	73.8	47.1
Income on direct investment	5,659.6	7,366.9	41.8	42.6	30.2
income on equity	5,310.1	6,629.3	39.2	38.3	24.8
reinvested earnings	4,845.1	3,252.2	35.8	18.8	-32.9
dividends	465.0	3,377.1	3.4	19.5	626.3
income on debt (interests)	349.5	737.7	2.6	4.3	111.1
Income on portfolio investment	1,921.5	2,994.9	14.2	17.3	55.9
Income on other investment	1,092.7	2,399.0	8.1	13.9	119.5
Total	**13,551.5**	**17,288.6**	**100.0**	**100.0**	**27.6**

Residents' income on foreign investment increased by approximately a half. Direct investment income accounted for 58%, portfolio investment income for 23% and income on other investment for 19% of total investment income. Compared to 2006, the structure of direct investment income changed considerably in 2007: the share of dividends grew and that of reinvested earnings fell significantly as a result of the extensive amount of dividends paid. Residents' portfolio and other investment income increased faster than average. 88% of the income inflow was related to EU countries (see Table 1.22). 69% of the investment income inflow belonged to the investors of financial intermediation. The investors of transport,

Table 1.22. Income by groups of countries in 2007

	Inflow				Outflow		
	Volume (EEK m)	Share (%)	Change (%), 2007/2006		Volume (EEK m)	Share (%)	Change (%), 2007/2006
EU-27	**15,238.9**	**88.1**	**23.1**	**EU-27**	**31,769.5**	**90.1**	**45.2**
Finland	3,528.4	20.4	36.2	Sweden	16,506.4	46.8	56.1
Latvia	2,871.9	16.6	67.2	Finland	7,500.0	21.3	25.0
Lithuania	2,361.4	13.7	-16.2	United Kingdom	1,913.0	5.4	18.6
United Kingdom	1,627.7	9.4	41.7	Germany	1,385.8	3.9	355.2
Germany	1,114.3	6.4	45.3	Netherlands	1,044.8	3.0	170.4
CIS	**933.8**	**5.4**	**351.0**	**CIS**	**668.3**	**1.9**	**-12.2**
Russia	820.8	4.7	425.5	Russia	542.4	1.5	-12.2
Belarus	63.8	0.4	291.5	Ukraine	107.2	0.3	-9.7
Other	**1,115.9**	**6.5**	**15.8**	**Other**	**2,839.6**	**8.0**	**69.3**
United States	495.0	2.9	18.6	United States	944.0	2.7	122.9
offshore regions	244	1.4	4.7	offshore regions	590.8	1.7	66.8
Norway	212.6	1.2	-7.2	Norway	517.9	1.5	84.2
Total	**17,288.6**	**100.0**	**27.6**	**Total**	**35,277.3**	**100.0**	**45.1**

storage and communications earned 10%, those of real estate, renting and business activities 9% and public sector investors 6% (see Figure 1.5).

Income outflow gained 45% in 2007 and totalled 35.3 billion kroons (see Table 1.23). Labour income comprised only 3% of income outflow. As regards non-residents' investment income earned in Estonia, 76% was direct investment income, 8% was portfolio investment income and other investment income formed 16%. The outflow of the two latter doubled with the year. Reinvested earnings accounted for 80% of non-residents' direct investment income for the second consecutive year. 90% of the income went to EU countries. Swedish investors earned 47% and Finnish investors 21% of the income (see Table 1.22). Half of non-residents' investment income was earned on financial intermediation, 15% on real estate, renting and business activities, 11% on manufacturing and 9% on wholesale and retail trade (see Figure 1.5).

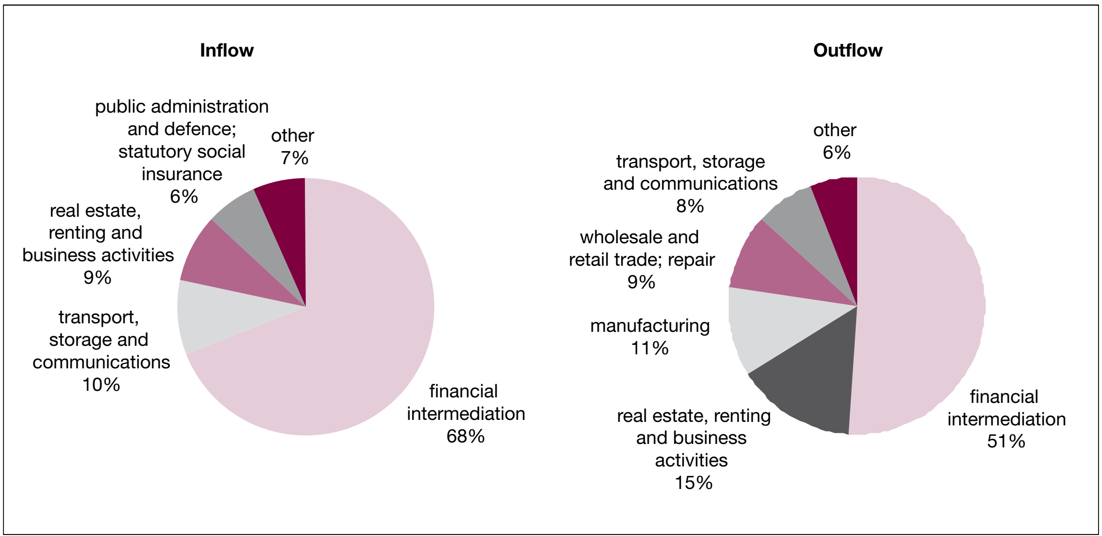


Figure 1.5. Inflow and outflow of investment income by fields of activity in 2007

Table 1.23. Income outflow from Estonia

	Volume (EEK m)		Share (%)		Change (%)
	2006	2007	2006	2007	2007/2006
Labour income	917.3	1,066.1	3.8	3.0	16.2
Investment income	23,402.4	34,211.2	96.2	97.0	46.2
Income on direct investment	19,278.9	26,158.5	79.3	74.2	35.7
income on equity	18,301.6	24,338.2	75.3	69.0	33.0
reinvested earnings	15,648.0	21,104.3	64.3	59.8	34.9
dividends	2,653.6	3,234.0	10.9	9.2	21.9
income on debt (interests)	977.3	1,820.3	4.0	5.2	86.3
Income on portfolio investment	1,103.6	2,533.7	4.5	7.2	129.6
Income on other investment	3,019.9	5,519.0	12.4	15.6	82.8
Total	**24,319.8**	**35,277.3**	**100.0**	**100.0**	**45.1**

Current and capital transfers[2]

The surplus on the **current transfers account** increased by about three times year-on-year and amounted to 1.8 million kroons (see Table 1.24). This resulted from a considerably stronger growth of incoming current transfers compared to that of outgoing current transfers. The inflow of current transfers grew nearly 25% and reached 8 billion kroons. 36% of that accounted for funds channelled into the Estonian economy through the general government (primarily allocations from the EU structural funds and revenues from taxes). The inflow of current transfers of other sectors increased by nearly a half year-on-year, totalling 5.2 billion kroons. 70% of that came from the EU (agricultural subsidies from the European Commission, transfers from the United States, Russia, Germany and Finland). The outflow of current transfers increased 7% and totalled 6.2 billion kroons. General government's payments into the EU budget and VAT refunds accounted for nearly 60% of the outflow. Other sectors' transfers were also mainly made to the EU (Finland, Germany, the United Kingdom and Sweden).

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

	Incoming (EEK m)		Outgoing (EEK m)		Balance (EEK m)	
	2006	2007	2006	2007	2006	2007
Current transfers	**6,503.2**	**8,018.3**	**5,806.9**	**6,232.9**	**696.3**	**1,785.4**
government transfers	**2,985.7**	**2,859.7**	**3,221.3**	**3,637.3**	**-235.6**	**-777.5**
EU-27	2,799.7	2,473.8	3,166.5	3,536.0	-366.8	-1,062.2
CIS	64.9	80.9	6.1	7.9	58.8	73.0
other	121.1	305.0	48.7	93.3	72.5	211.7
private transfers	**3,517.5**	**5,158.6**	**2,585.6**	**2,595.7**	**931.8**	**2,562.9**
EU-27	2,401.0	3,633.1	2,116.8	2,158.5	284.2	1,474.6
CIS	625.1	601.1	144.1	163.2	481.0	437.8
other	491.3	924.4	324.7	273.9	166.7	650.5
Capital transfers	**2,275.8**	**2,918.3**	**171.8**	**296.2**	**2,104.0**	**2,622.0**
government transfers	1,563.9	1,827.7	0.8	0.8	1,563.1	1,826.9
private transfers	711.8	1,090.6	170.9	295.5	540.9	795.1

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

The surplus on capital transfers grew 25% year-on-year and amounted to 2.6 billion kroons. Capital transfers into Estonia mainly comprised EU subsidies to the general government for various infrastructure objects and investments.

FINANCIAL ACCOUNT

The surplus on the financial account[3] reached a record high with 40.1 billion kroons. The large inflow of foreign capital occurred primarily through other investment capital via credit institutions as well as through direct investment. Figures 1.6 and 1.7 show the structure of the financial account by categories and maturities.

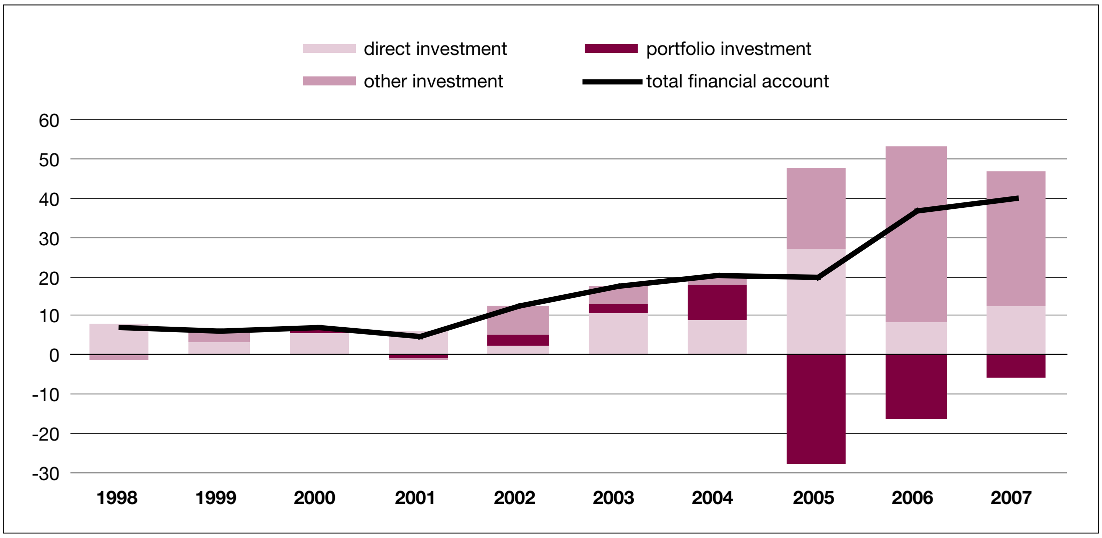


Figure 1.6. Structure of foreign investment capital flows (EEK bn)

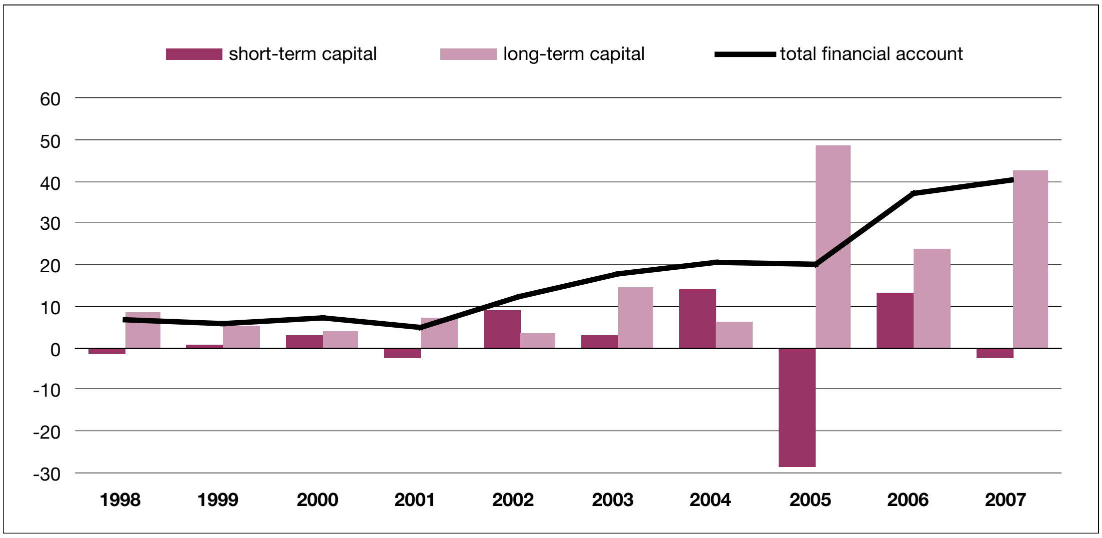


Figure 1.7. Maturity structure of the financial account (EEK bn)

[3] Without reserve assets.

Direct investment

Direct investment posted a surplus of 12.7 billion kroons in 2007, accounting for approximately a third of the financial account surplus. Non-residents invested 30.7 billion kroons in Estonia and Estonian residents' direct investment abroad grew by 18 billion kroons (see Figure 1.8).

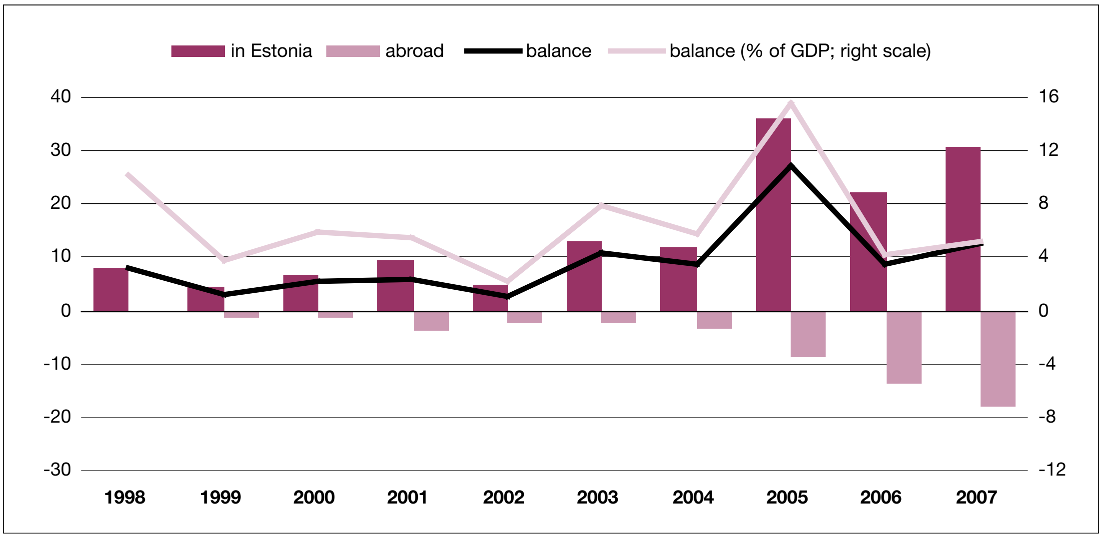


Figure 1.8. Direct investment (EEK bn)

The inflow of **direct investment in Estonia** increased by more than a third year-on-year. The structure of direct investment inflow has been stable in the past two years, indicating Estonia's economic achievements. Estonia has been a favourable investment environment, as reinvested earnings are not subject to taxation here. This, in turn, has encouraged foreign investors to reinvest their direct investment income. Consequently, the share of reinvested earnings in direct investment inflow has reached nearly 70% in the past two years, standing at 21.1 billion kroons in 2007. Profits of credit institutions accounted for more than a half of total reinvested earnings; manufacturing, real estate, renting and business activities, and wholesale and retail trade comprised 14–16%. Equity capital investment formed only 14% and other capital nearly a sixth of total direct investment. Compared to 2006, loan assets to foreign direct investors increased by 1.5 times and loan liabilities by a third (see Tables 1.25 and 1.26).

The major direct investors were, as usual, from Sweden (52%), Finland (17%), the Netherlands and Denmark (11%). Investors from Lithuania, Luxembourg and Cyprus invested to a lesser extent (see Figure 1.9). Over half (56%) of direct investment was made in financial intermediation, nearly a sixth in wholesale and retail trade, some also in real estate, renting and business activities, and 10% in manufacturing (see Figure 1.10). Direct investment from EU countries was equal to the total balance of direct investment (see Table 1.27).

Table 1.25. Structure of direct investment in Estonia

	Equity capital		Reinvested earnings		Other capital				Total	
					Assets		Liabilities			
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1998	5,661.9	70.1	389.4	4.8	-203.8	-2.5	2,223.9	27.6	8,071.3	100.0
1999	2,551.8	57.4	721.8	16.2	-265.0	-6.0	1,439.2	32.4	4,447.8	100.0
2000	3,925.2	59.1	1,815.2	27.3	-397.2	-6.0	1,301.3	19.6	6,644.5	100.0
2001	3,641.4	38.6	3,878.9	41.1	-950.7	-10.1	2,860.3	30.3	9,429.9	100.0
2002	821.0	17.1	3,370.3	70.2	-772.5	-16.1	1,381.5	28.8	4,800.3	100.0
2003	5,329.9	41.4	6,406.7	49.8	-1,334.0	-10.4	2,462.7	19.1	12,865.3	100.0
2004	4,638.6	38.5	7,982.1	66.2	-1,454.0	-12.1	894.2	7.4	12,060.9	100.0
2005	27,979.5	77.7	8,885.8	24.7	-2,014.0	-5.6	1,169.9	3.2	36,021.2	100.0
2006	2,241.5	10.0	15,648.0	69.9	-4,463.9	-19.9	8,975.9	40.1	22,401.5	100.0
2007	4,246.7	13.8	21,104.3	68.7	-6,388.8	-20.8	11,739.8	38.2	30,702.1	100.0

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

	Assets				Liabilities			
	Long-term		Short-term		Long-term		Short-term	
	Grantings	Repay-ments	Grantings	Repay-ments	Drawings	Repay-ments	Drawings	Repay-ments
2003	408.4	246.4	1,010.7	498.7	5,155.6	2,667.1	3,020.9	3,726.9
2004	492.7	371.2	1,774.1	862.1	4,601.5	4,882.2	3,024.5	2,197.2
2005	1,274.3	502.5	2,290.6	1,413.4	7,889.0	6,972.1	5,011.4	4,575.5
2006	2,120.5	609.3	3,723.7	2,589.2	13,317.0	6,139.9	4,119.0	3,393.4
2007	3,783.9	1,231.2	7,923.7	3,890.1	18,030.7	9,142.0	8,138.6	6,368.5

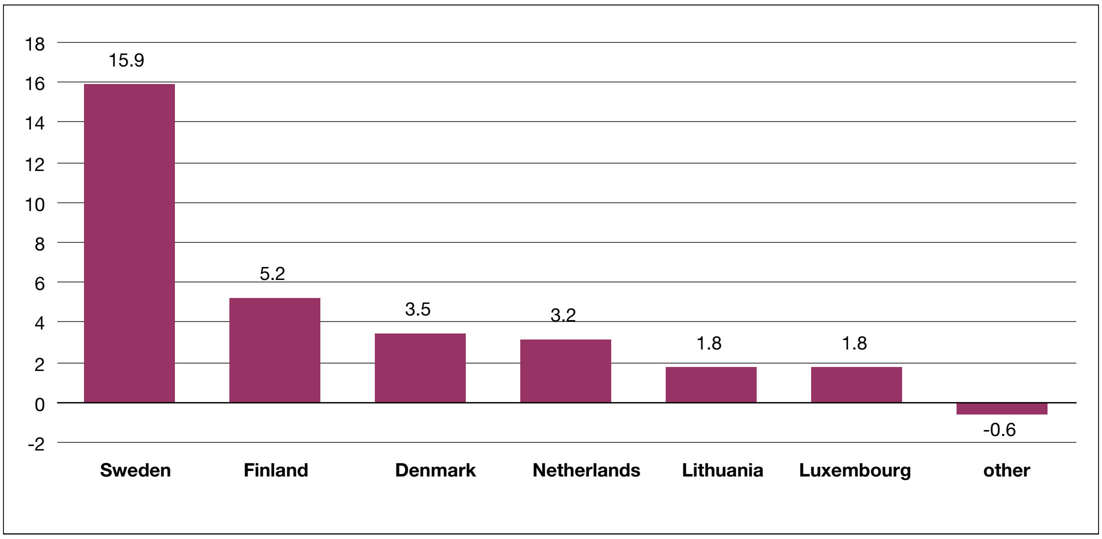


Figure 1.9. Direct investment in Estonia by countries in 2007 (EEK bn)

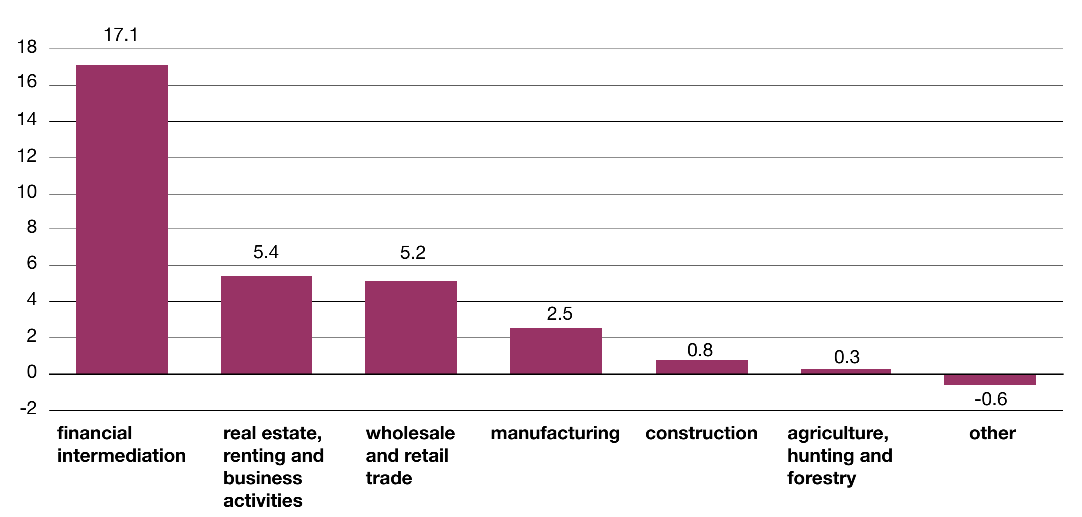


Figure 1.10. Direct investment in Estonia by fields of activity in 2007 (EEK bn)

Table 1.27. Direct investment in Estonia by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2006	2007	2006	2007	2007/2006
EU-27	22,017.1	30,736.5	98.3	100.1	39.6
CIS	926.4	-172.0	4.1	-0.6	-118.6
Other	-541.9	137.5	-2.4	0.4	-125.4
Total	**22,401.5**	**30,702.1**	**100.0**	**100.0**	**37.1**

Direct investment abroad exceeded the year-ago level by more than 30% and amounted to a record 18 billion kroons (see Table 1.28). Direct investment outflow has been intense during the past three years and one of the largest per capita in comparison with the other nine countries that joined the EU together with Estonia. Unlike direct investment in Estonia, which has mostly consisted of retained earnings in the past years, equity capital investment prevailed in residents' foreign direct investment in 2007. They increased by nearly two times with the year and constituted 57% of total direct investment. Since residents withdrew considerable amounts of dividends on foreign investment in 2007, the share of reinvested earnings in direct investment declined to 18%. Other direct investment capital comprised 25% of direct investment outflow. Loan capital assets and liabilities to foreign subsidiaries and associated companies increased slightly (see Table 1.29).

Estonian direct investors preferred to invest in Latvia and Lithuania who received 35% and 25% of direct investment, respectively (see Figure 1.11). Other investment destinations included Russia, Cyprus and Italy. Financial intermediaries accounted for 49% and investors in the field of real estate, renting and business activities for 29% of foreign investment outflow (see Figure 1.12). By groups of countries, slightly over 80% of direct investment was channelled to the EU (see Table 1.30). Direct investment to the CIS grew by nearly three times and comprised 13% of total investment. Direct investment in Russia increased the most; investment in Ukraine grew to a lesser extent.

Table 1.28. Structure of direct investment abroad

	Equity capital		Reinvested earnings		Other capital				Total	
					Assets		Liabilities			
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1998	-472.7	577.7	-2.8	3.4	386.6	-472.5	7.0	-8.6	-81.8	100.0
1999	-525.7	42.4	-115.8	9.3	-641.3	51.7	42.9	-3.5	-1,239.8	100.0
2000	-579.6	55.5	-65.9	6.3	-481.0	46.1	83.1	-8.0	-1,043.4	100.0
2001	-1,897.1	53.8	-305.2	8.7	-1,242.7	35.2	-83.0	2.4	-3,528.1	100.0
2002	-903.9	41.3	-665.5	30.4	-727.2	33.2	108.0	-4.9	-2,188.6	100.0
2003	-1,060.0	49.3	-741.4	34.5	-645.8	30.0	297.9	-13.9	-2,149.2	100.0
2004	-2,175.2	64.2	-919.6	27.1	-434.2	12.8	140.3	-4.1	-3,388.6	100.0
2005	-5,155.3	59.3	-2,694.6	31.0	-1,141.6	13.1	292.0	-3.4	-8,699.5	100.0
2006	-5,895.1	42.6	-4,845.1	35.0	-3,844.3	27.8	760.3	-5.5	-13,824.1	100.0
2007	-10,334.3	57.3	-3,252.2	18.0	-5,926.8	32.9	1,480.3	-8.2	-18,033.0	100.0

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

	Assets				Liabilities			
	Long-term		Short-term		Long-term		Short-term	
	Grantings	Repay-ments	Grantings	Repay-ments	Drawings	Repay-ments	Drawings	Repay-ments
2003	1,107.1	716.6	472.1	503.8	4.0	11.6	84.2	98.8
2004	934.8	1,232.5	952.4	368.9	17.9	61.2	27.9	37.1
2005	2,141.8	1,488.6	1,710.6	1,107.4	109.6	60.7	104.9	25.0
2006	5,395.8	2,372.4	1,563.4	1,626.1	118.6	112.7	147.0	20.5
2007	6,448.4	2,037.4	2,059.3	1,418.0	100.4	114.6	1,670.4	109.3

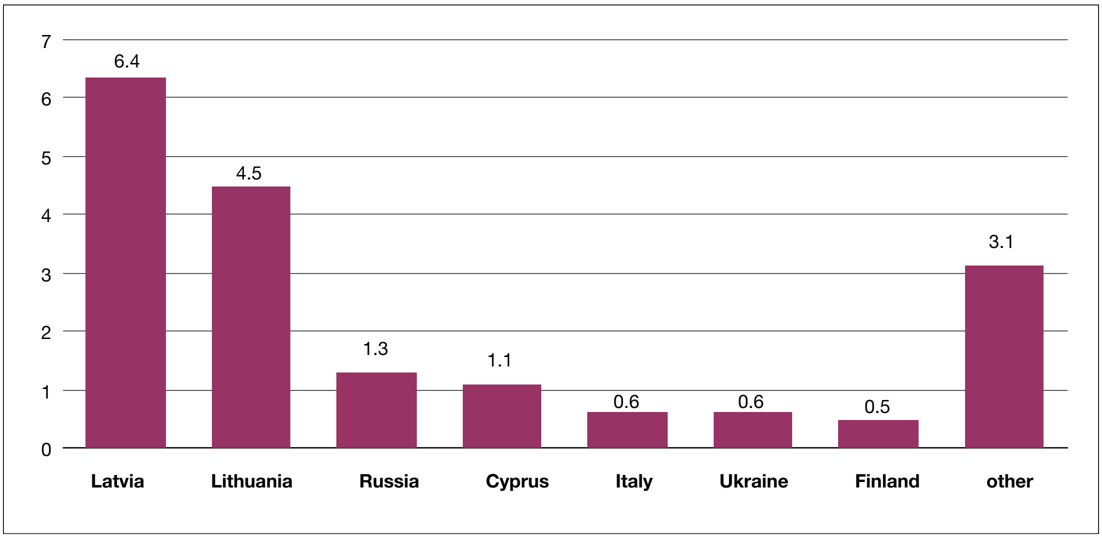


Figure 1.11. Direct investment abroad by countries in 2007 (EEK bn)

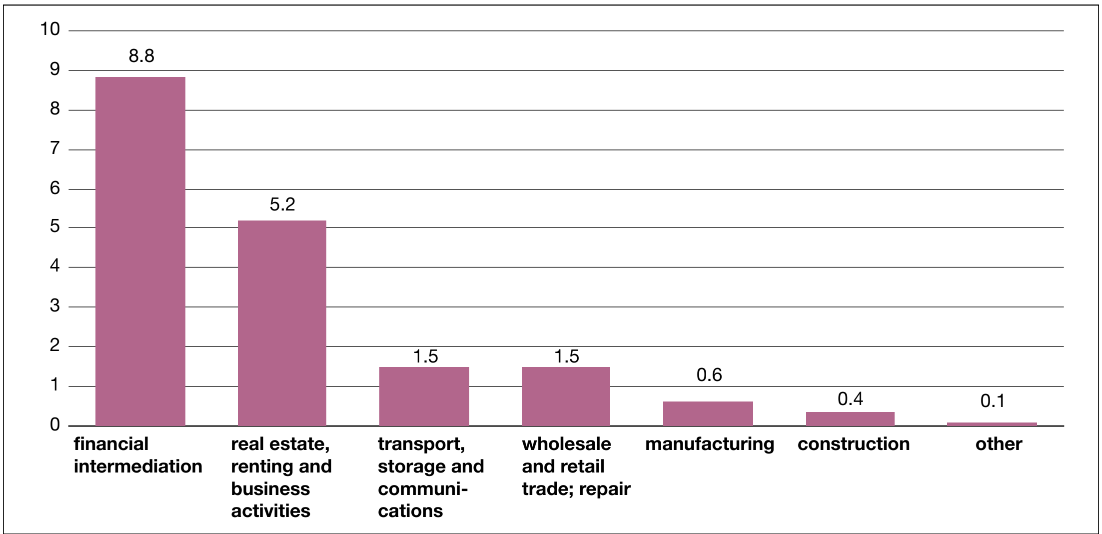


Figure 1.12. Direct investment abroad by fields of activity in 2007 (EEK bn)

Table 1.30. Direct investment abroad by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2006	2007	2006	2007	2007/2006
EU-27	-12,753.9	-14,763.2	92.3	81.9	15.8
CIS	-878.5	-2,275.3	6.4	12.6	159.0
Other	-191.7	-994.5	1.4	5.5	418.7
Total	**-13,824.1**	**-18,033.0**	**100.0**	**100.0**	**30.4**

Portfolio investment

The net outflow of **portfolio investment** was 5.8 billion kroons in 2007. This resulted mainly from debt security investment made by the general government and equity security investment made by enterprises in other sectors (see Figure 1.13 and Table 1.31).

Portfolio investment liabilities increased by 2.7 billion kroons in 2007 (see Table 1.32). Equity security liabilities grew by 3.2 billion kroons, whereas debt security liabilities decreased by approximately 500 million kroons. As regards equity securities, mainly transactions with enterprises in other sectors (primarily investment funds) were carried out. The decline in debt security liabilities stemmed from a decrease in bond liabilities, which concerned both the general government and credit institutions. By countries, portfolio investment liabilities to EU countries, in particular Finland, Lithuania, Poland and Austria, increased the most (see Figure 1.14 and Table 1.33).

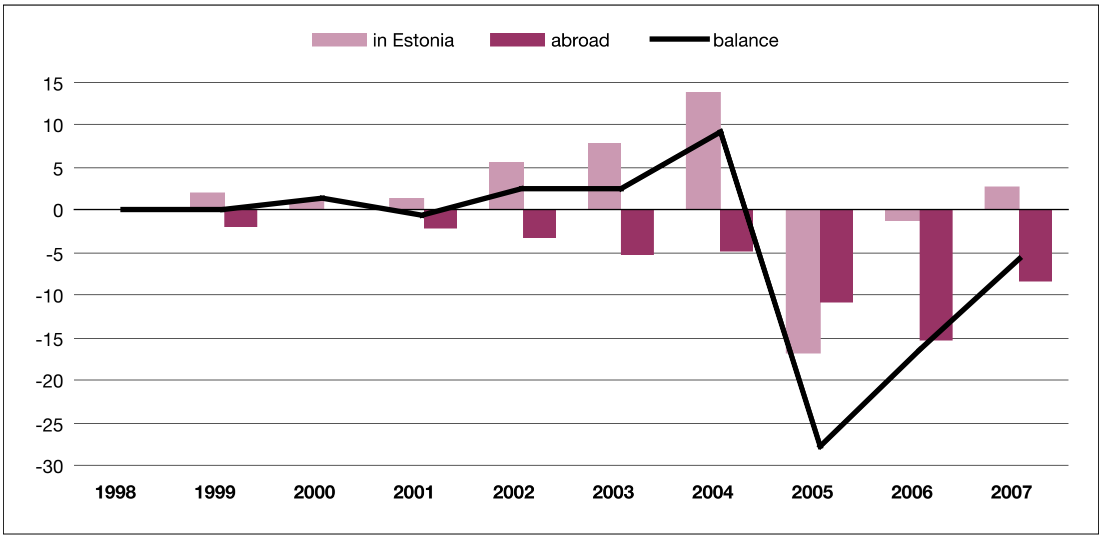


Figure 1.13. Portfolio investment (EEK bn)

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

	Assets		Liabilities		Balance	
	2006	2007	2006	2007	2006	2007
Equity securities	**-4,567.7**	**-7,597.2**	**3,730.3**	**3,215.7**	**-837.4**	**-4,381.5**
central bank	0.0	0.0	0.0	0.0	0.0	0.0
general government	-167.2	-111.2	0.0	0.0	-167.2	-111.2
credit institutions	-6.1	68.6	25.2	21.7	19.1	90.3
other sectors	-4,394.4	-7,554.7	3,705.1	3,193.9	-689.3	-4,360.8
Debt securities	**-10,637.5**	**-886.7**	**-5,001.6**	**-491.9**	**-15,639.1**	**-1,378.6**
central bank	0.0	0.0	0.0	0.0	0.0	0.0
general government	-5,675.8	-3,510.6	856.0	-1,026.6	-4,819.8	-4,537.2
credit institutions	-2,676.9	1,985.6	-5,506.7	-515.4	-8,183.6	1,470.2
other sectors	-2,284.7	638.1	-350.9	1,050.1	-2,635.6	1,688.2
Total	**-15,205.2**	**-8,483.9**	**-1,271.3**	**2,723.8**	**-16,476.5**	**-5,760.1**

Table 1.32. Structure of portfolio investment liabilities

	Equity securities		Debt securities		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1998	401.1	383.8	-296.6	-283.8	104.5	100.0
1999	3,292.3	160.5	-1,241.4	-60.5	2,050.9	100.0
2000	-538.8	-42.6	1,803.2	142.6	1,264.4	100.0
2001	568.4	39.6	866.8	60.4	1,435.2	100.0
2002	912.2	16.2	4,713.1	83.8	5,625.3	100.0
2003	1,527.0	19.6	6,256.2	80.4	7,783.2	100.0
2004	2,205.2	15.9	11,673.0	84.1	13,878.2	100.0
2005	-16,352.3	96.9	-517.8	3.1	-16,870.0	100.0
2006	3,730.3	-293.4	-5,001.6	393.4	-1,271.3	100.0
2007	3,215.7	118.1	-491.9	-18.1	2,723.8	100.0

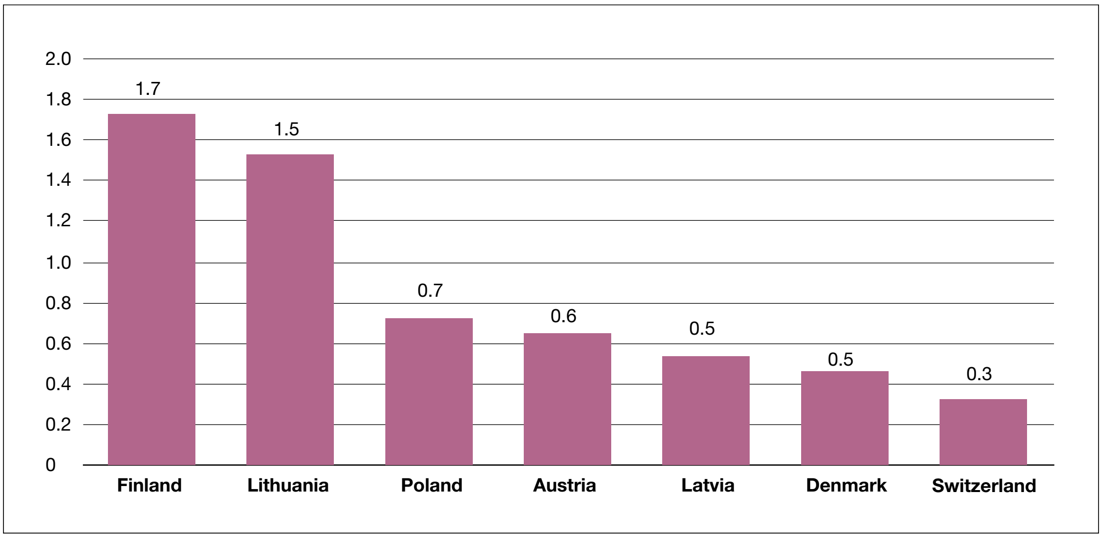


Figure 1.14. Increase in portfolio investment liabilities by countries in 2007 (EEK bn)

Table 1.33. Structure of portfolio investment by groups of countries

	Volume (EEK m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2006	2007	2006	2007	2006	2007	2006	2007
EU-27	-12,500.8	-8,374.6	-2,892.8	2,342.7	82.2	98.7	227.5	86.0
CIS	-1,117.1	-1,565.2	230.2	22.6	7.3	18.4	-18.1	0.8
Other	-1,587.3	1,455.9	1,391.3	358.5	10.4	-17.2	-109.4	13.2
Total	**-15,205.2**	**-8,483.9**	**-1,271.3**	**2,723.8**	**100.0**	**100.0**	**100.0**	**100.0**

Portfolio investment assets grew by 8.5 billion kroons year-on-year; equity security investment comprised 7.6 billion of that (see Table 1.34). Debt security assets gained nearly 900 million kroons in 2007. The most active investors in equity securities issued by non-residents were companies in other sectors, who invested 7.6 billion kroons in total. The general government invested the most in debt securities, namely 3.5 billion kroons. 531 million kroons were invested in bonds and 3 billion kroons in money market instruments. All in all, investment in bonds decreased. By countries, portfolio investment went mainly to Finland, Austria, Luxembourg and France (see Figure 1.15).

Other investment

The net inflow of **other investment** reached 34 billion kroons in 2007; with other investment liabilities increasing by 56.6 billion kroons (see Figure 1.16). Net inflow comprised mainly long-term capital (see Table 1.35).

Other investment liabilities increased by 56.6 billion kroons year-on-year; most of the growth can be attributed to loans and deposits (see Table 1.36). More precisely, loans constituted 67% and deposits 33% of other investment liabilities. As regards the institutional breakdown, the liabilities (both in the form of short-term and long-term capital) of credit institutions increased the most (by 51.8 billion kroons), followed by those of enterprises in other sectors (4.1 billion kroons). By countries, other investment capital liabilities to Sweden grew the most – by 28 billion kroons – followed by Finland and Denmark with 8.8 and 8.4 billion kroons, respectively (see Figure 1.17 and Table 1.37).

Table 1.34. Structure of portfolio investment assets

	Equity securities		Debt securities		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1998	500.8	-391.6	-628.7	491.6	-127.9	100.0
1999	187.0	-9.9	-2,081.9	109.9	-1,894.9	100.0
2000	53.3	34.8	99.8	65.2	153.1	100.0
2001	236.5	-11.3	-2,336.7	111.3	-2,100.2	100.0
2002	9.1	-0.3	-3,192.0	100.3	-3,182.9	100.0
2003	-1,028.9	19.2	-4,322.7	80.8	-5,351.6	100.0
2004	-2,893.5	60.6	-1,882.2	39.4	-4,775.7	100.0
2005	-4,848.9	44.8	-5,969.5	55.2	-10,818.4	100.0
2006	-4,567.7	30.0	-10,637.5	70.0	-15,205.2	100.0
2007	-7,597.2	89.5	-886.7	10.5	-8,483.9	100.0

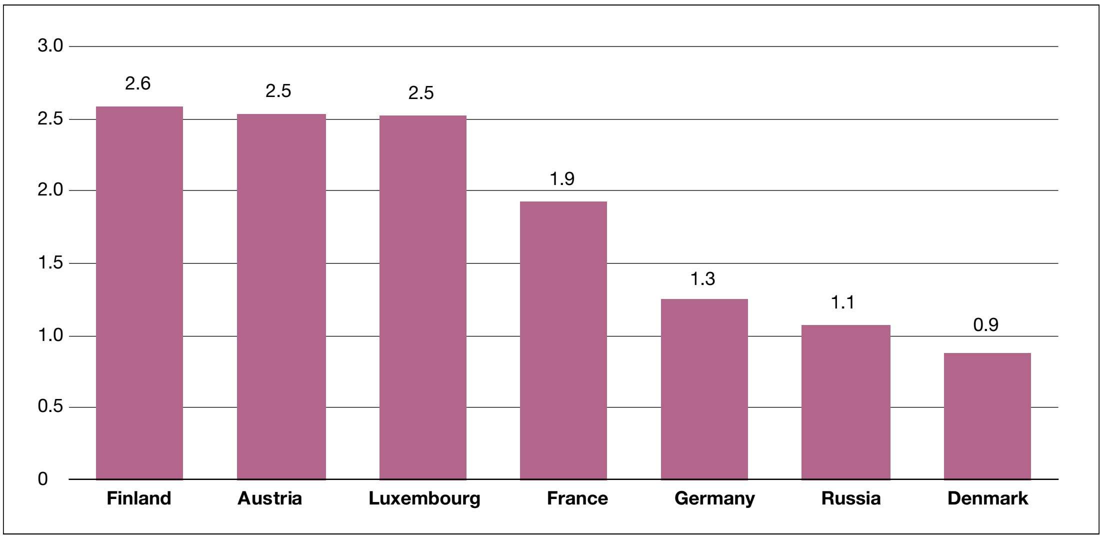


Figure 1.15. Increase in portfolio investment assets by countries in 2007 (EEK bn)

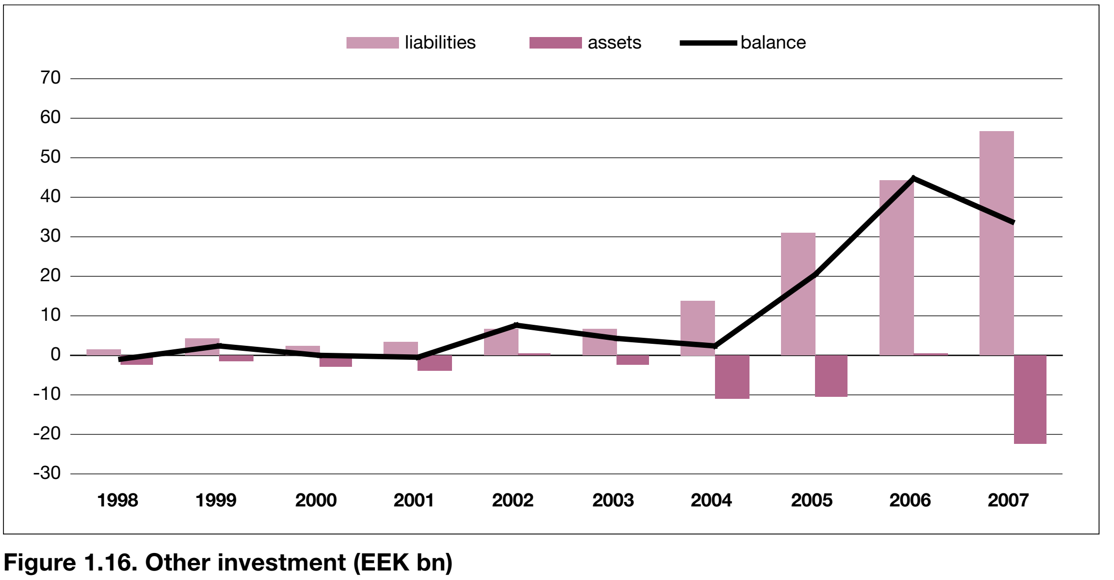


Figure 1.16. Other investment (EEK bn)

Table 1.35. Other investment by maturity (EEK m)

	Assets		Liabilities		Balance	
	2006	2007	2006	2007	2006	2007
Long-term capital	**-3,052.9**	**-2,509.3**	**17,979.7**	**32,455.1**	**14,926.8**	**29,945.8**
central bank	0.2	0.1	0.0	0.0	0.2	0.1
general government	-56.5	-97.1	-33.4	-230.9	-89.9	-328.0
credit institutions	-2,342.7	-1,279.4	8,900.2	31,057.7	6,557.5	29,778.3
other sectors	-653.9	-1,132.9	9,112.9	1,628.3	8,459.0	495.4
Short-term capital	**3,328.4**	**-20,108.0**	**26,381.6**	**24,172.1**	**29,710.0**	**4,064.1**
central bank	0.0	0.0	377.8	951.7	377.8	951.7
general government	428.5	38.2	-65.8	0.0	362.7	38.2
credit institutions	9,545.8	-16,382.9	16,651.6	20,754.4	26,197.4	4,371.5
other sectors	-6,645.9	-3,763.3	9,418.0	2,466.0	2,772.1	-1,297.3
Total	**275.3**	**-22,617.5**	**44,361.5**	**56,627.1**	**44,636.8**	**34,009.6**

Table 1.36. Structure of other investment liabilities

	Trade credit		Loans		Deposits		Other capital		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1998	-221.2	-16.3	290.0	21.3	365.5	26.9	924.2	68.0	1,358.5	100.0
1999	119.1	2.8	2,399.7	57.3	1,462.7	34.9	204.3	4.9	4,185.8	100.0
2000	1,080.9	41.6	-785.3	-30.2	1,955.4	75.3	345.6	13.3	2,596.6	100.0
2001	102.9	3.1	2,570.4	78.2	81.4	2.5	533.5	16.2	3,288.2	100.0
2002	781.1	11.6	1,963.3	29.2	3,763.5	55.9	225.4	3.3	6,733.3	100.0
2003	-115.7	-1.7	3,219.5	47.8	4,587.9	68.2	-960.3	-14.3	6,731.4	100.0
2004	625.2	4.6	4,564.6	33.3	8,804.7	64.2	-279.4	-2.0	13,715.1	100.0
2005	1,633.6	5.3	24,673.8	80.1	2,953.3	9.6	1,540.1	5.0	30,800.8	100.0
2006	3,185.6	7.2	19,231.2	43.4	21,081.1	47.5	863.7	1.9	44,361.5	100.0
2007	-284.0	-0.5	37,887.2	66.9	18,875.5	33.3	148.4	0.3	56,627.1	100.0

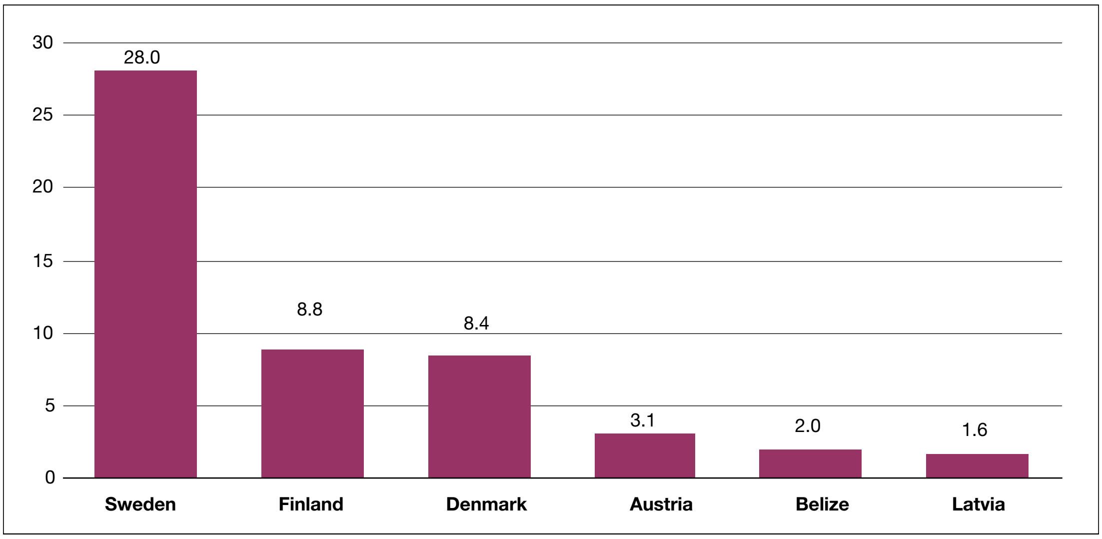


Figure 1.17. Increase in other investment liabilities by countries in 2007 (EEK bn)

Table 1.37. Structure of other investment by groups of countries

	Volume (EEK m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2006	2007	2006	2007	2006	2007	2006	2007
EU-27	6,472.1	-21,484.4	35,434.9	51,802.0	2,350.9	95.0	79.9	91.5
CIS	-2,836.6	-42.2	489.0	710.5	-1,030.4	0.2	1.1	1.3
Other	-3,360.2	-1,090.9	8,437.6	4,114.6	-1,220.6	4.8	19.0	7.3
Total	**275.3**	**-22,617.5**	**44,361.5**	**56,627.1**	**100.0**	**100.0**	**100.0**	**100.0**

Other investment assets increased by 22.6 billion kroons in 2007 (see Table 1.38). This stemmed from the 21.2 billion kroon growth in deposits and loan assets. Trade credit assets and other capital assets gained nearly 800 million and 600 million kroons, respectively. The deposit assets of credit institutions grew by 8.3 billion and loan assets by 9 billion kroons, with short-term loan assets accounting for 7.8 billion kroons. The latter are related to the reserve requirement applied to banks, according to which the requirement may be met also in the form of highly liquid foreign assets. By countries, other investment capital was mainly channelled to Sweden, Germany, the United Kingdom and Belgium (see Figure 1.18). Table 1.39 provides a more detailed overview of loan capital assets and liabilities.

Table 1.38. Structure of other investment assets

	Trade credit		Loans		Deposits		Other capital		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1998	-993.7	40.1	-542.2	21.9	-1,049.9	42.3	105.6	-4.3	-2,480.2	100.0
1999	-401.8	24.3	-57.4	3.5	-887.9	53.8	-304.1	18.4	-1,651.2	100.0
2000	-78.0	3.0	-2,814.0	106.7	-103.0	3.9	356.7	-13.5	-2,638.3	100.0
2001	-584.8	15.7	-2,278.9	61.3	-738.0	19.9	-115.0	3.1	-3,716.7	100.0
2002	1,047.6	150.7	-1,324.5	-190.5	742.6	106.8	229.4	33.0	695.1	100.0
2003	-1,028.2	45.0	-3,520.3	154.1	2,209.3	-96.7	54.6	-2.4	-2,284.6	100.0
2004	-1,032.0	9.2	-8,455.5	75.7	-1,545.1	13.8	-136.2	1.2	-11,168.8	100.0
2005	-1,957.1	18.7	4,148.4	-39.7	-12,332.3	118.0	-313.3	3.0	-10,454.2	100.0
2006	-3,528.9	-1,281.8	-2,495.9	-906.6	6,284.4	2,282.7	15.7	5.7	275.3	100.0
2007	-825.3	3.6	-10,090.0	44.6	-11,116.2	49.1	-586.0	2.6	-22,617.5	100.0

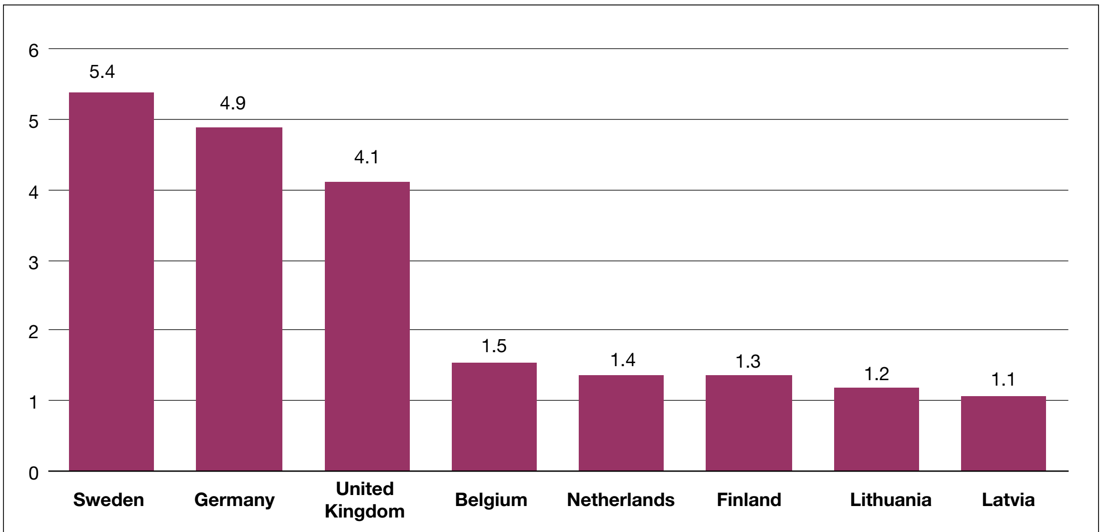


Figure 1.18. Increase in other investment assets by countries in 2007 (EEK bn)

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

	Assets			Liabilities		
	Grantings	Repayments	Balance	Drawings	Repayments	Balance
2003	-34,919.2	31,398.9	-3,520.3	30,076.6	-26,857.1	3,219.5
2004	-29,782.7	21,327.1	-8,455.6	45,446.7	-40,882.1	4,564.6
2005	-77,557.0	81,705.4	4,148.4	125,437.1	-100,763.3	24,673.8
2006	-75,976.5	73,480.6	-2,495.9	182,867.4	-163,636.2	19,231.2
2007	-396,478.2	386,388.2	-10,090.0	363,661.0	-325,773.9	37,887.1

Reserve assets

The balance of payments reserves increased by 1.4 billion kroons in 2007 (see Table 1.40). Figure 1.19 provides an overview of the imports covered by reserve assets.

Table 1.40. Structure of reserve assets

	Volume (EEK m)		Change (%)	
	2006	2007	2006	2007
Gold	0.0	0.0	0.0	0.0
Currency and deposits	-1,506.0	2,701.9	20.0	-194.8
Securities	-6,017.4	-3,984.5	80.0	287.2
equity securities	0.0	0.0	0.0	0.0
bonds and notes	-3,404.3	-5,089.7	45.2	366.9
money market instruments	-2,613.2	1,105.2	34.7	-79.7
Financial derivatives	-1.0	0.3	0.0	0.0
Other assets	0.5	-105.0	0.0	7.6
Total	**-7,523.9**	**-1,387.3**	**100.0**	**100.0**

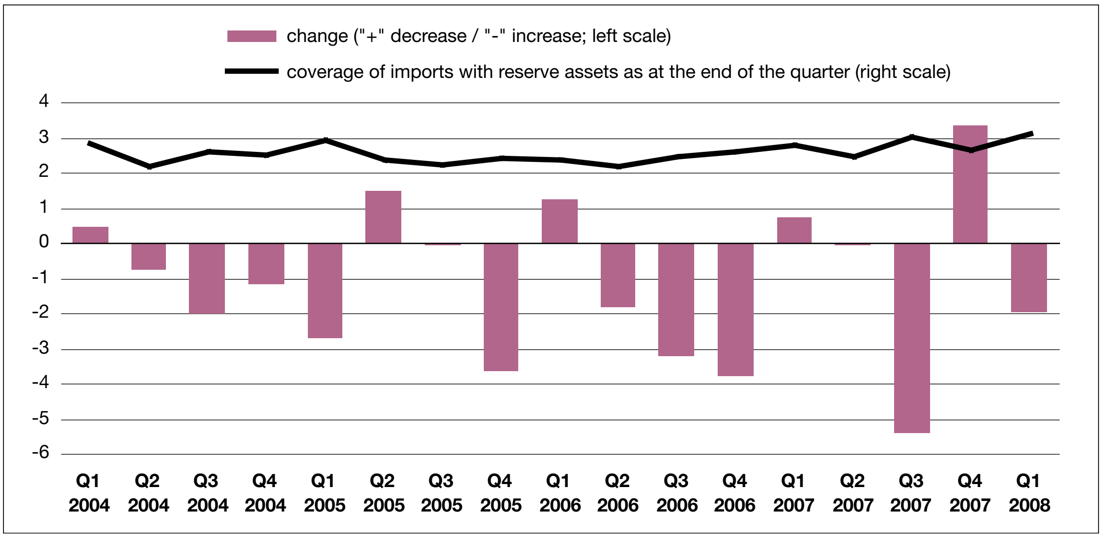


Figure 1.19. Changes in Estonia's gold and foreign exchange reserves (EEK bn) and coverage of imports of goods without further processing (by months)

II. ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND EXTERNAL DEBT as at 31 December 2007

Foreign investment in Estonia increased 16% in 2007 and amounted to 422 billion kroons at the end of the year (see Table 2.1). Nearly 60% thereof was invested in financial intermediation and to a lesser extent in real estate, renting and business activities, wholesale and retail trade, and manufacturing (see Table 2.2). Most of the investment came from Sweden (38%) and Finland (20%).

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

	31/12/2006	Share (%)	31/12/2007	Share (%)	Change (%)
EXTERNAL ASSETS	**184,382.3**	**100.0**	**242,452.3**	**100.0**	**31.5**
Direct investment abroad	**43,223.1**	**23.4**	**63,681.1**	**26.3**	**47.3**
Equity capital and reinvested earnings	34,173.1	18.5	50,291.7	20.7	47.2
Other direct investment capital	9,050.0	4.9	13,389.4	5.5	47.9
Portfolio investment	**57,313.9**	**31.1**	**68,787.1**	**28.4**	**20.0**
Equity securities	21,252.1	11.5	31,253.5	12.9	47.1
Debt securities	36,061.8	19.6	37,533.7	15.5	4.1
Bonds and notes	25,904.3	14.0	23,503.3	9.7	-9.3
Money market instruments	10,157.6	5.5	14,030.4	5.8	38.1
Financial derivatives	**546.3**	**0.3**	**1,466.5**	**0.6**	**168.4**
Other investment	**50,143.8**	**27.2**	**73,492.4**	**30.3**	**46.6**
Trade credit	12,837.9	7.0	14,831.4	6.1	15.5
Loans	22,098.2	12.0	31,632.3	13.0	43.1
Long-term	7,874.0	4.3	9,723.9	4.0	23.5
Short-term	14,224.2	7.7	21,908.3	9.0	54.0
Currency and deposits	14,055.8	7.6	25,271.9	10.4	79.8
Other assets	1,151.8	0.6	1,756.9	0.7	52.5
Reserve assets	**33,155.2**	**18.0**	**35,025.1**	**14.4**	**5.6**
EXTERNAL LIABILITIES	**337,744.5**	**100.0**	**422,011.3**	**100.0**	**24.9**
Direct investment in Estonia	**151,148.3**	**44.8**	**177,311.3**	**42.0**	**17.3**
Equity capital and reinvested earnings	130,276.5	38.6	150,657.2	35.7	15.6
Other direct investment capital	20,871.7	6.2	26,654.1	6.3	27.7
Portfolio investment	**46,255.7**	**13.7**	**48,809.5**	**11.6**	**5.5**
Equity securities	22,428.0	6.6	25,858.2	6.1	15.3
Debt securities	23,827.7	7.1	22,951.3	5.4	-3.7
Bonds and notes	23,703.1	7.0	22,886.6	5.4	-3.4
Money market instruments	124.6	0.0	64.7	0.0	-48.1
Financial derivatives	**394.3**	**0.1**	**502.9**	**0.1**	**27.5**
Other investment	**139,946.3**	**41.4**	**195,387.5**	**46.3**	**39.6**
Trade credit	13,773.1	4.1	13,541.4	3.2	-1.7
Loans	73,237.1	21.7	110,910.6	26.3	51.4
Long-term	58,843.1	17.4	89,889.6	21.3	52.8
Short-term	14,394.0	4.3	21,021.0	5.0	46.0
Currency and deposits	49,286.4	14.6	68,358.3	16.2	38.7
Other liabilities	3,649.7	1.1	2,577.2	0.6	-29.4
NET INVESTMENT POSITION	**-153,362.2**		**-179,559.0**		**17.1**
Long-term	**-132,767.3**		**-170,063.6**		**28.1**
Short-term	**-20,594.9**		**-9,495.4**		**-53.9**
GROSS EXTERNAL DEBT	**149,591.7**		**199,674.8**		**33.5**
NET EXTERNAL DEBT	**-31,750.2**		**-55,563.7**		**75.0**
General government	**8,196.1**		**13,826.8**		**68.7**

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

Assets			Liabilities		
Fields of activity					
	31/12/2006	**31/12/2007**		**31/12/2006**	**31/12/2007**
Financial intermediation	64.1	63.5	Financial intermediation	51.9	59.1
Real estate, renting and business activities	9.3	10.2	Real estate, renting and business activities	15.8	13.3
Public administration and defence; statutory social insurance	9.8	9.0	Wholesale and retail trade; repair	8.2	8.6
Wholesale and retail trade; repair	6.3	6.9	Manufacturing	10.1	8.0
Transport, storage and communications	3.8	3.7	Transport, storage and communications	5.9	4.5
Other	6.6	6.6	Other	8.1	6.6
Total	100.0	100.0	Total	100.0	100.0
Countries					
	31/12/2006	**31/12/2007**		**31/12/2006**	**31/12/2007**
Latvia	10.8	11.6	Sweden	37.0	38.4
Germany	10.8	11.4	Finland	21.8	19.8
Lithuania	9.6	9.9	United Kingdom	9.2	7.1
United Kingdom	7.6	7.6	Denmark	1.3	5.7
Russia	8.2	7.1	Netherlands	1.9	2.6
Other	53.1	52.3	Other	28.8	26.4
Total	100.0	100.0	Total	100.0	100.0

The large inflow of other capital (loans and deposits) continued in 2007 and changed also the structure of foreign investment in Estonia. Other investment increased 40% and accounted for 46% of total foreign investment at the end of the year. The direct investment position grew 17% year-on-year and constituted 42% (177 billion kroons) of total foreign investment. The modest growth of portfolio investment also decreased their share in total external liabilities. The most preferred fields of activity for **foreign direct investment in Estonia** were financial intermediation (33%), real estate, renting and business activities (27%), manufacturing (15%), and wholesale and retail trade (13%; see Table 2.3). Swedish and Finnish investors made approximately 40% and 25% of direct investment, respectively.

Estonian investment abroad increased by around a third year-on-year and totalled 242 billion kroons. Financial intermediaries made 64% of the investment abroad. Investors in the real estate, renting and business activities, and the public sector invested to a lesser extent. Estonian investors preferred to invest in the Baltic States, Germany, the United Kingdom and Russia.

Compared to 2006, the shares of direct and other investment in the structure of investment abroad increased, whereas those of portfolio investment and reserve assets decreased by the end of 2007. The position of **foreign direct investment** increased by approximately a half, year-on-year, and comprised 26% of the external assets. Other investment posted similar growth figures and accounted for nearly a third of the external assets. The most active foreign direct investors were those of financial intermediation (40%) and real estate, renting and business activities (32%; see Table 2.3). Estonian investors preferred to invest in the neighbouring countries: a third of direct investment went both to Latvia and Lithuania.

Due to the prevalence of external liabilities, **Estonia's net investment position** was negative by 180 billion kroons at the end of 2007. Long-term capital comprised 95% of the net investment position (87% at the end of 2006).

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

Abroad			In Estonia		
Fields of activity					
	31/12/2006	**31/12/2007**		**31/12/2006**	**31/12/2007**
Financial intermediation	38.4	40.0	Financial intermediation	28.3	33.2
Real estate, renting and business activities	31.6	31.6	Real estate, renting and business activities	29.7	26.8
Transport, storage and communications	10.2	9.6	Manufacturing	17.4	14.6
Wholesale and retail trade; repair	8.0	8.2	Wholesale and retail trade; repair	10.3	13.4
Manufacturing	3.8	4.4	Transport, storage and communications	7.0	4.2
Other	8.1	6.1	Other	7.3	7.8
Total	100.0	100.0	Total	100.0	100.0
Countries					
	31/12/2006	**31/12/2007**		**31/12/2006**	**31/12/2007**
Latvia	34.5	33.6	Sweden	39.6	39.3
Lithuania	32.1	30.0	Finland	26.3	24.9
Russia	8.8	8.3	Netherlands	3.4	5.6
Cyprus	8.4	7.9	Denmark	1.9	4.4
Finland	4.7	4.0	Russia	2.6	2.6
Other	11.4	16.3	Other	26.2	23.1
Total	100.0	100.0	Total	100.0	100.0

Estonia's gross external debt increased by a third with the year and totalled 268 billion kroons at the end of the year, exceeding GDP by 10%. The growth of gross external debt was mainly boosted by credit institutions, whose debt liabilities increased 50% and accounted for about 60% of the gross external debt. The general government decreased its debt and it constituted only 1% of the gross debt. Estonia's net external debt (assets less liabilities) increased by over a half and totalled almost 86 billion kroons (35% of GDP; see Figure 2.1 and Table 2.4).

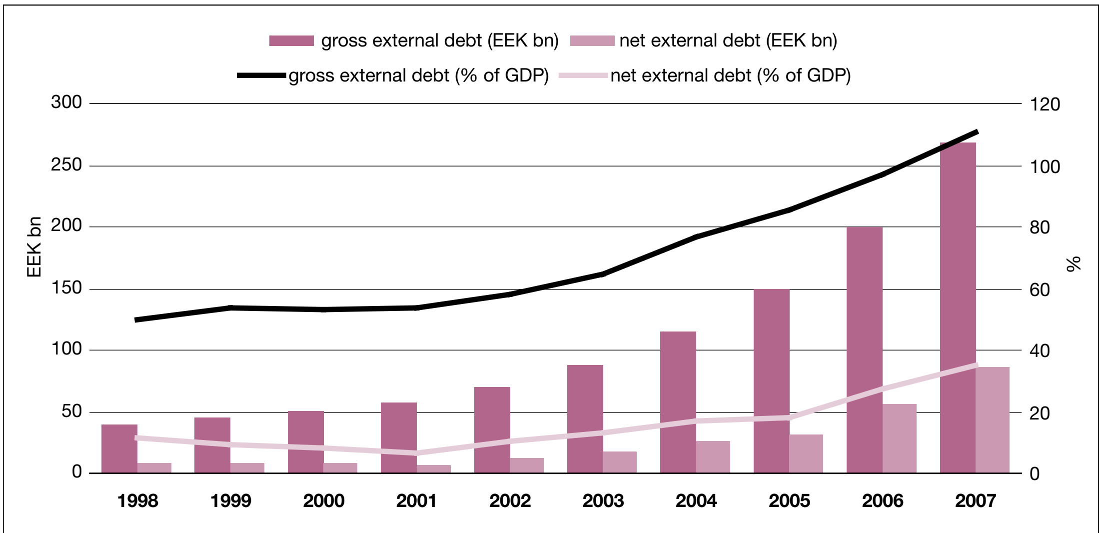


Figure 2.1. Estonia's gross and net external debt

Table 2.4. External debt (EEK m)

	31/12/2006	Share (%)	31/12/2007	Share (%)	Change (%)
LIABILITIES					
I. General government	**5,402.1**	**2.7**	**3,451.5**	**1.3**	**-36.1**
Short-term	688.7		,		
Long-term	4,713.4	2.4	3,451.5	1.3	-26.8
II. Monetary authorities (NCB)	**459.1**	**0.2**	**1,316.9**	**0.5**	**186.9**
Short-term	445.9	0.2	1,304.4	0.5	192.5
Long-term	13.2		12.5		
III. Credit institutions	**101,522.1**	**50.7**	**152,972.3**	**57.0**	**50.7**
Short-term	47,668.0	23.8	55,628.6	20.7	16.7
Long-term	53,854.1	26.9	97,343.6	36.2	80.8
IV. Other sectors	**56,390.6**	**28.2**	**60,598.2**	**22.6**	**7.5**
Short-term	22,648.5	11.3	24,985.3	9.3	10.3
Long-term	33,742.1	16.8	35,612.9	13.3	5.5
V. Direct investment: intercompany lending	**36,540.8**	**18.2**	**50,245.1**	**18.7**	**37.5**
GROSS EXTERNAL DEBT	**200,314.7**	**100.0**	**268,584.0**	**100.0**	**34.1**
ASSETS					
I. General government	**18,194.1**	**12.6**	**21,759.1**	**11.9**	**19.6**
Short-term	4,342.7	3.0	7,279.0	4.0	67.6
Long-term	13,851.4	9.6	14,480.1	7.9	4.5
II. Monetary authorities (NCB)	**33,079.8**	**23.0**	**34,889.5**	**19.1**	**5.5**
Short-term	24,123.5	16.8	21,144.4	11.6	-12.3
Long-term	8,956.4	6.2	13,745.1	7.5	53.5
III. Credit institutions	**31,148.9**	**21.6**	**46,548.2**	**25.5**	**49.4**
Short-term	22,445.7	15.6	36,711.6	20.1	63.6
Long-term	8,703.3	6.0	9,836.6	5.4	13.0
IV. Other sectors	**36,840.8**	**25.6**	**42,697.8**	**23.3**	**15.9**
Short-term	23,943.2	16.6	31,229.6	17.1	30.4
Long-term	12,897.7	9.0	11,468.2	6.3	-11.1
V. Direct investment: intercompany lending	**24,719.0**	**17.2**	**36,980.4**	**20.2**	**49.6**
TOTAL ASSETS	**143,982.7**	**100.0**	**182,874.9**	**100.0**	**27.0**
NET EXTERNAL DEBT (assets less liabilities)					
I. General government	**12,792.0**		**18,307.6**		**43.1**
Short-term	3,654.0		7,279.0		99.2
Long-term	9,138.0		11,028.6		20.7
II. Monetary authorities (NCB)	**32,620.8**		**33,572.5**		**2.9**
Short-term	23,677.6		19,839.9		-16.2
Long-term	8,943.2		13,732.6		53.6
III. Credit institutions	**-70,373.2**		**-106,424.1**		**51.2**
Short-term	-25,222.4		-18,917.0		-25.0
Long-term	-45,150.8		-87,507.1		93.8
IV. Other sectors	**-19,549.8**		**-17,900.4**		**-8.4**
Short-term	1,294.6		6,244.4		382.3
Long-term	-20,844.4		-24,144.8		15.8
V. Direct investment: intercompany lending	**-11,821.8**		**-13,264.7**		**12.2**
TOTAL NET EXTERNAL DEBT	**-56,332.0**		**-85,709.0**		**52.1**

The gross external debt accounted for 64% of total external liabilities. Leaving aside the intercompany lending of direct investment companies, long-term debt liabilities comprised 63% of the gross external debt. The share of long-term debt claims formed 34% of total debt claims. Figures 2.2 and 2.3 give an overview of Estonia's gross and net external debt by sectors.

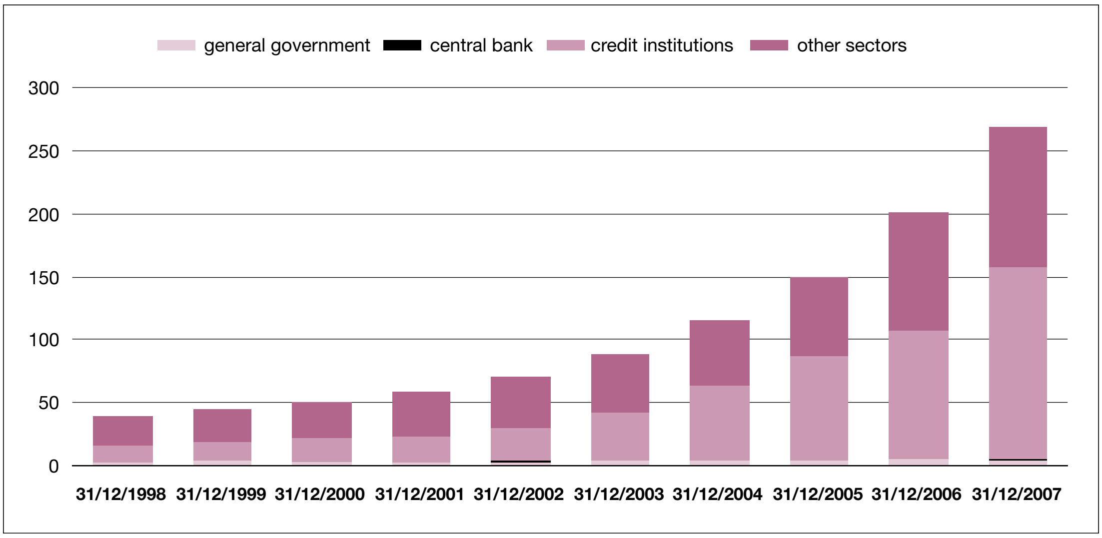


Figure 2.2. Estonia's gross external debt by sectors (EEK bn)

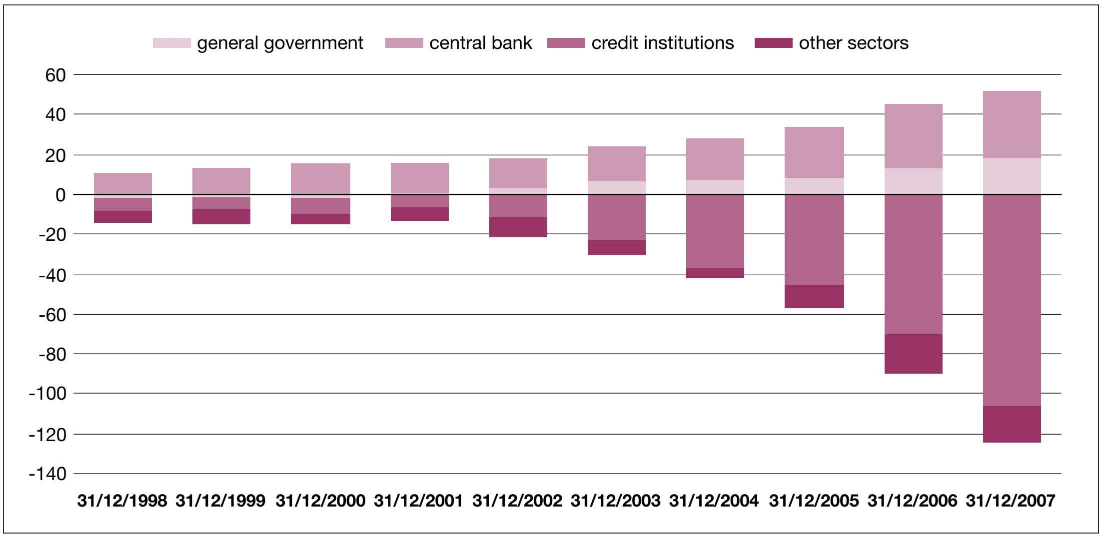


Figure 2.3. Estonia's net external debt by sectors (EEK bn)

III. THEORETICAL CONCEPT, METHODOLOGY AND COMPILATION PRACTICES

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

BALANCE SHEET

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

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

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

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

The current account is divided into four accounts[4]: *goods, services, income* and *current transfers*. The goods and services accounts include all sums receivable from selling goods and services as well as the sums payable for purchases. The income account reflects revenues related to the use and render for use of production factors (capital and labour). Transfers are all the remaining transactions related to the formation of gross disposable income of residents and are distinguishable from capital transfers.

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

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

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

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

Table 3.1. Credit and debit

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

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

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

INTERNATIONAL INVESTMENT POSITION

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

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

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

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

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

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

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

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

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

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

EXTERNAL DEBT

External debt statistics is based on the external claims and liabilities recorded in the international investment position, which are debts in their nature, meaning that they have to be repaid. Direct and portfolio investment in equity capital, reinvested earnings (retained earnings/losses of previous periods and equity capital reserves) and financial derivatives are excluded from debt accounting. Moreover, neither the gold reserves of the central bank nor the International Monetary Fund's *special drawing rights*[5] are included in the external debt.

The key external debt indicators are the following:

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

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

[5] See *Entries*: reserves.

DEFINITIONS

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

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

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

- **Institutional sectors** are divided into the following groups in the external sector statistics:
  - *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;
  - *Central Bank* – Eesti Pank as the national central bank;
  - *Credit institutions* – companies as private bodies licensed by Eesti Pank the principal and permanent activities of which are to receive cash deposits and other repayable funds from the public and to grant loans for their own account and perform other operations listed in the Credit Institutions Act;
  - *Other sectors* – the remaining private sector (companies and households).

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

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

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

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

- **Resident**:
  1) state authorities and agencies of the Republic of Estonia in the broadest sense (legislative, executive and judicial power and their agencies, constitutional institutions), also local government units and their agencies;
  2) Estonia's diplomatic, consular and other official representative offices abroad, as well as other representative offices of Estonian agencies and organisations abroad not involved in economic or commercial activities;
  3) legal persons in public law and their agencies established by the laws of the Republic of Estonia;
  4) legal persons registered in Estonia governed by private law;
  5) organisations and associations of persons established and operating in Estonia and enjoying partial legal capacity that are not legal persons;

6) branches and agencies of foreign legal persons registered in Estonia;
7) Estonian citizens residing in Estonia;
8) foreigners residing in Estonia holding a permanent residence permit;
9) foreigners residing in Estonia holding a temporary residence permit for at least one year;
10) Estonian citizens studying or receiving medical treatment abroad, regardless of the length of studies or medical treatment;
11) diplomats, military personnel, employees of consulates and other official representative offices of the Republic of Estonia abroad that have been granted with immunity and diplomatic privileges, and their family members;
12) ship crews, seasonal and border workers, regardless of the duration of their residence on the territory of a foreign country;
13) conventional business entities representing real estate located on Estonian territory (land together with its essential parts).

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

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

ENTRIES

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

Estonia's trade account is based on the *special trade system* of official trade statistics, registering goods exceeding free circulation[6] . 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, yet reflect deliveries of goods from customs warehouses into free circulation and processing. As the official trade statistics and customs statistics do not comply with the balance of payments compilation principles (imports in c.i.f. prices, residency principle vs. territorial principle etc.), necessary supplements are added to the balance of payments. The most significant of them include:

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

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

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

- **Services account** reflects the services sold to and purchased from non-residents by Estonian residents:
  - *transportation* – passenger, freight and other transportation services by major modes of transport (marine, air, rail, road and other transport modes);
  - *travel services* – include expenditure on package tours of tourists and one-day visitors, as well as on goods and services in the country of destination. Besides the above items, travel services also include education and health costs in the country of destination. While generally residence abroad up to one year accounts as tourism, with students and those receiving health care in the country of destination there is no time limit. Tourism is distinguished from travel services by the fact that international passenger transport services that are regarded as tourism services according to international practice are recorded in the balance of payments under transportation services entries;
  - *communications services* – comprise charges for telecommunications services (TV and radio transmission, telegraph, telex and facsimile communications, satellite and cable television, e-mail etc.), postal and courier services (packaging, mailing, transportation, delivery of items, lease of letter boxes etc.);
  - *construction services* – generally cover the cost of construction activities abroad by resident companies or of construction activities in Estonia by non-residents. Construction services, as a rule, include sites or installation to be completed within one year;
  - *insurance services* – charges collected and paid upon conclusion of life and non-life insurance contracts, loss adjustment expenses, insurance expert assessments, etc. Non-life insurance premiums and claims payable are recorded under current transfers while life insurance premiums and payments are recorded in the financial account under other long-term capital;
  - *financial services* – financial intermediation services and auxiliary services (other than insurance) related to commissions and fees of banking and securities brokerage or to custodial services, clearing, depository services, financial consulting, etc.;
  - *computer and information services* – cover transactions related to fees for the use and development of databases, data processing and programming, software and hardware consultations, software implementation etc. as well as services of news agencies;
  - *royalties and licence fees* – receipts and payments for the use of copyrights, licenses, franchises, patents, industrial processes or other intellectual property;

- *merchanting* – commissions and fees of commodity brokers and dealers. Trade services is the difference between the value of goods purchased by residents abroad and the value of these goods resold abroad during the same period. The goods must never cross the Estonian border;
- *operational lease* – payments where the lessee uses the assets during the contract period and returns the assets to the lessor upon the expiry of the contract (*capital lease* – see below);
- *miscellaneous business services* – services related to consulting (legal assistance, accounting, audit, management consulting, etc.), public relations and marketing (advertising, opinion polls, market research, etc.) or other technical services (waste management, environmental protection, architectural and engineering solutions, printing services, etc.);
- *personal, cultural and recreational services* – audio-visual services related to radio, television and production of motion pictures, organising concerts and other events, fees to performers, organising exhibitions and museum exhibits, producer services and other sports, cultural and recreational services;
- *government services not included elsewhere* – other services rendered by government institutions related to embassies and consular services, military and other public sector services, state fees and foreign aid received and provided as a service (for foreign aid see also current transfers).

- **Income account** reflects income related to the use and render for use of production factors (capital and labour). Income falls into two categories:
  a) *compensation of employees* – gross wages earned abroad together with social transfers made by the employer under a labour contract with a duration of up to a year and paid to foreigners in Estonia;
  b) *investment income* – generally reflecting income on foreign (direct, portfolio and other) investment assets and payable from foreign investment liabilities (*interests* and *dividends*). Since the period between the emergence of operating profit and payment of dividends may be long, the concept of *reinvested earnings* has been applied to record that profit in the balance of payments. *Reinvested earnings* – a proportional change equal to investment in the undistributed operating profit or loss of the investment company, which on the other hand may regarded 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 realised and unrealised exchange rates and spreads are not recorded as income, because the balance of payments records movement of financial instruments at market prices. For accounting purposes, the latter comprises acquisition cost and realised exchange rate and/or price profit/loss. Furthermore, neither waivers and write-offs of uncollectible loans nor exceptional profit/loss are recorded under reinvested earnings.

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

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

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

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

- **Direct investment** in Estonia's balance of payments refers to investment involving a qualifying holding, which amounts to 10% or more of the equity capital of the investment company[7]. According to international standards, lending and other investments between a company and an investor with a qualifying holding are also reflected as direct investment (except with financial intermediaries in case of whom only subordinated debt is recorded as direct investment).
  - *Direct investment company* – a company in which an investor or direct investor has a qualifying holding.
  - *Direct investor* – an investor who has a qualifying holding in a direct investment company.

The direct investment account includes the following items:
  a) *equity capital* of direct investment companies;
  b) *reinvested earnings* – proportional share of the direct investor in the operating profit or loss of a direct investment company;

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

c) *other direct investment capital* – assets and liabilities related to lending, debt securities and trade credit between a direct investment company and a direct investor.

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

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

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

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

- **Reserve assets** – gold and foreign exchange reserves of the central bank comprising assets backing the kroon in Estonia's monetary system. Reserves are usually highly liquid tradable external assets of the central bank, entered as:
  a) *monetary gold* – gold held as reserve assets;
  b) *SDRs* (special drawing rights) – units of account created by the International Monetary Fund. Their value is based on a basket of four currencies (USD, EUR, JPY, and GBP). An SDR account is generated for every IMF Member State and it is used for conducting loan transactions and several other related operations between a Member State and IMF.

c) *International Monetary Fund (IMF) reserve position* – contribution to the IMF and virtually a loan available to the Member State if required.
d) *foreign exchange* – foreign exchange or equal reserve assets: foreign currency and deposits, equity securities, bonds, money market instruments, and financial derivatives;
e) *other assets* – other liquid external assets.

BALANCE OF PAYMENTS COMPILATION SYSTEM

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

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

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

The *settlements system* is based on the collection, coding and processing of international payments through resident banks. Based on the description of the transaction, clients, commercial institutions or the central bank attribute a transaction code to each incoming or outgoing payment in compliance with the balance of payments structure. The settlements system enables to collect detailed and operational information but is still limited: money flows do not reflect accrual approach, the description of a transaction or balance of payments code is often missing, netting appears, and money flows do not enable to estimate positions. Owing to new EU legislation and economic globalisation, most countries of continental Europe are forced to replace the settlements system with a combined one.

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

COMPILATION PRACTICES IN ESTONIA

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

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

As regards other quarterly statistics on balance of payments and the external sector, the survey system supplemented with the information collected through the settlements system is of great importance. In addition to the monthly reports of the central bank, credit institutions and the general government, the settlements system supplemented by various econometric models is applied for the compilation of monthly balances of payment. In order to meet the European Union requirements, Eesti Pank started to publish monthly balance of payment flash estimates in 2002.

Currently, ten different surveys are in use. In 2007, quarterly data from approximately 3,300 entrepreneurs was collected through these surveys. The quarterly settlements system involves approximately 140,000 transactions significant for the compilation of the balance of payments. Data on these transactions are received through the so-called *open system*: the central bank gets information only on the debit or credit side of the foreign payment order. Only bank customers' payments are communicated. Banking sector transactions are recorded in the balance of payments based on banks' balance sheets, income statements and other financial reports.

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

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

Name of statement/report	Target group / content of statement/report	Frequency	Due date after accounting period	Sample size / No of data sources
SURVEY SYSTEM				
Forms 2 and 2F	Companies with foreign ownership	quarter	20 days	1,775
Form 3	Transport companies without foreign ownership	quarter	20 days	202
Form 4	Transport companies with foreign ownership	quarter	20 days	181
Form 5	Investment funds (management companies)	quarter	20 days	60
Forms 6 and 6F	Companies without foreign ownership	quarter	20 days	1,147
Form 7	Companies with foreign ownership and not engaged in foreign economic activities	quarter	20 days	58
Form 9	Insurance companies and intermediaries	quarter	20 days	20
Form 10	Other financial intermediaries	quarter	20 days	27

Name of statement/report	Target group / content of statement/report	Frequency	Due date after accoun-ting period	Sample size / No of data sources
SETTLEMENTS SYSTEM				
Settlements system reporting according to the procedure for dec-laring international payments	Incoming international payments declared in credit institutions	15 days	7 days	11
	Outgoing international payments declared in credit institutions	15 days	21 days	11
	Consolidated report on international payments	month	7 days	11
ADMINISTRATIVE INFORMATION				
CREDIT INSTITUTIONS				
Report on the balance of resources	Data on resources deposited in credit institutions and loans granted to credit institutions by residence and other characteristic details	month	5 days	11
Report on the balance of loans	Loans issued by credit institutions by residence and other characteristic details	month	5 days	11
Income statement	Breakdown of income and expenditure of credit institutions by residence	quarter	10 days	11
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	11
Statement of securities	Detailed statement of securities portfolios of credit institutions by residence	month	5 days	11
Statement of off-balance-sheet items	Statement of off-balance-sheet activities of credit institutions	quarter	7 days	11
Statement of asset management and investment services	Statement of asset management and investment activities of credit institutions	quarter	7 days	11
Statement of financial flows	Transactions carried out by credit institutions with non-residents by principal balance sheet items	quarter	10 days	11
EESTI PANK				
Balance of payments statement of Eesti Pank	Accounting Department's statement of Eesti Pank's non-residents' balances of and changes in balance sheet entries, and changes in income statement entries of non-residents	month	5 days	1
STATISTICS ESTONIA				
Official trade statistics	Processed, supplemented and categorised cus-toms declaration data of the Customs Board by customs procedures and different characteristics	month	50 days	1
	Intra-Community trade report Intrastat			
Tour operators' statement	Imports and exports of travel agencies (incl. inter-mediation of passenger transport services); tourists received and sent by countries	quarter	2 months	1
Accommodation establishments' statement	Data on turnover and number of tourists serviced by accommodation establishments	quarter	2 months	1
MINISTRY OF JUSTICE CENTRE OF REGISTERS AND INFOSYSTEMS				
Central Business Register, Non-Profit Associations and Founda-tions Register	Data on legal persons registered in Estonia and their owners	month	1 month	1
Land register database	Real estate objects belonging to non-residents	year	by agree-ment	1
LAND BOARD				
Land Board's database of real estate transactions	Transactions with real estate purchased by or trans-ferred to non-residents by countries	quarter	by agree-ment	1
ESTONIAN CENTRAL REGISTER OF SECURITIES				
Central Register of Securities	Statistics on securities issues registered in Estonian Central Register of Securities	month	10 days	1
BORDER GUARD ADMINISTRATION				
Border crossing statistics	Report on crossers of Estonian border by citizen-ship	month	25 days	1

Name of statement/report	Target group / content of statement/report	Frequency	Due date after accoun-ting period	Sample size / No of data sources
MINISTRY OF FOREIGN AFFAIRS				
Statistics on diplomatic missions abroad	Data on income, expenditure and assets of Estonian embassies and missions	quarter	1 month	1
TAX AND CUSTOMS BOARD				
Tax statistics	Data on taxes withheld from non-residents in Estonia and from residents abroad	year	as necessary	1
CITY OFFICES OF TALLINN AND TARTU				
Statement of external assets and liabilities	Statement of external loans, external assets, financial income and expenditure of Tallinn and Tartu	quarter	1 month	2
MINISTRY OF FINANCE				
Statement of external loans	Statement of use and servicing of state loans	month	10 days	1
Statement of external assets	Statement of balance and changes of assets of the State Treasury	month	1 month	1
OTHER				
Migration Foundation, Unemployment Insurance Fund, Health Insurance Fund, etc.				5–10

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

Legal basis for balance of payments statistics

Pursuant to Subsection 2(8) of the **Eesti Pank Act**, Eesti Pank is responsible for compiling the balance of payments of Estonia, the compilation being one of the basic functions of the central bank established by law.

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

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

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

Confidentiality of data

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

Dissemination and adjustment policy

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

- **Data dissemination**. Balance of payments statistics together with press releases, analyses and statistical tables are published on Eesti Pank's web site (http://www.bankofestonia.info).

- **Adjustment policy**. Upon collection of additional information and changes in methodology, the data of previous periods is adjusted as follows:
  a) *Regular adjustment* – the quarterly data published are preliminary and revised upon the release of preliminary statistics of the next periods. As a rule, adjusted annual data is published upon the release of the statistics of the first quarter of the following year and is considered final;
  b) *extraordinary adjustment* – in exceptional cases, when significant errors and omissions have occurred or methodology changes render results incomparably, data can be adjusted retrospectively for more than a year, of which the public will be notified by a respective reference.

- **Unit of account and conversion**. The unit of account for the balance of payments and the international investment position is the Estonian kroon (EEK). Statistics released in other currencies (USD, EUR) is based on the following conversion:
  - *balance of payments flash estimate* – the monthly average exchange rate of the respective currency against the Estonian kroon;
  - *quarterly balance of payments* – the quarterly average exchange rate of the currency against the Estonian kroon;
  - *annual balance of payments* – the average exchange rates of four quarters (i.e. the annual balance of payments is the sum of quarterly balances converted into foreign currency);
  - *investment position* – the exchange rate on the compilation date or on the closest banking day.

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