Eesti Pank

Estonia's Balance of Payments Yearbook 2011

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I. ESTONIA'S BALANCE OF PAYMENTS IN 2011

INTRODUCTION

The Estonian economy continued strong recovery in the first half of 2011, while in the second half of the year growth started to slow down. The annual GDP growth stood at 7.6%.

Growth was primarily boosted by the export-oriented industrial sector, which contributed around 50% of the growth in the first half of 2011. The reutilisation of production capacity that became underused during the recession in 2008-2009 and favourable external environment enabled the Estonian exporters to expand rapidly and gain market share. In the second half of 2011, however, the external environment showed signs of slowdown. The spread of the sovereign debt crisis increased uncertainty and inhibited growth. In general, the sovereign debt crisis did not affect Estonia that much in 2011 and concerned mainly export companies.

In 2011, Estonia's economic growth was much more export-oriented that it was in the pre-crisis boom period. Domestic demand grew modestly, but, compared to earlier periods, it relied more on income growth than on loan money, and thus the recovery of the economy did not entail a deficit on the current account. Domestic demand growth picked up in the second half of the year, even though the outlook for foreign markets worsened. Households' improved financial situation and confidence in keeping jobs boosted consumption. Investment picked up too, in the wake of reutilising free production capacity.

The income account reflected general economic developments. Rapid growth in the first half of 2011 contributed to the outflow of income in book value. The second half of the year, however, saw a slowdown in profit growth and a fall in investment income outflow, which were due to heightened problems in the external environment. The drop in the profits of foreign-owned companies offset lower net exports and the current account posted a surplus. Year-on-year, the current account did not change much from 2010.

The capital and financial accounts were shaped mainly by the banking sector. The shrinking indebtedness of Estonian residents and increased savings helped banks reduce their liabilities to parent banks. In addition, the structural change of a commercial bank resulted in a fall in investment, both inbound and outbound.

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

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

	2005	2006	2007	2008	2009	2010	2011
Current account	**–1,116.0**	**–2,053.0**	**–2,562.5**	**–1,486.1**	**470.5**	**419.4**	**339.5**
Goods and services	–710.9	–1,413.7	–1,598.6	–725.8	799.6	1,073.1	1,017.8
Goods	–1,550.1	–2,304.1	–2,640.8	–2,041.1	–591.0	–266.6	–221.5
credit (f.o.b.)	6,347.9	7,774.0	8,132.1	8,490.1	6,460.2	8,769.0	12,055.9
debit (f.o.b.)	–7,898.0	–10,078.1	–10,773.0	–10,531.2	–7,051.2	–9,035.6	–12,277.4
Services	839.3	890.3	1,042.1	1,315.3	1,390.6	1,339.7	1,239.3
credit	2,612.0	2,870.9	3,289.2	3,600.8	3,200.6	3,441.4	3,899.7
debit	–1,772.6	–1,980.6	–2,247.0	–2,285.5	–1,809.9	–2,101.7	–2,660.4
Income	–455.3	–688.0	–1,058.8	–883.8	–506.0	–893.5	–932.6
credit	589.5	866.3	1,210.3	1,142.3	657.8	703.3	861.6
debit	–1,044.9	–1,554.3	–2,269.2	–2,026.1	–1,163.8	–1,596.9	–1,794.2
Transfers	50.2	48.7	95.1	123.4	176.9	239.8	254.3
credit	375.6	419.8	471.1	430.4	451.1	552.6	610.4
debit	–325.5	–371.0	–376.0	–307.0	–274.2	–312.8	–356.1
Capital and financial account (reserve assets excluded)	**1,311.0**	**2,679.3**	**2,614.2**	**1,942.3**	**–513.0**	**–1,176.9**	**–281.4**
Capital account	84.7	288.6	173.7	212.5	485.7	505.2	669.5
Financial account	1,226.3	2,390.7	2,440.3	1,729.9	–998.7	–1,682.1	–950.9
Direct investment	1,751.2	550.3	708.5	421.6	210.6	1,100.1	1,234.1
Abroad	–556.0	–881.7	–1,276.5	–760.2	–1,113.9	–107.1	1,049.1
In Estonia	2,307.2	1,431.9	1,985.0	1,181.8	1,324.5	1,207.3	185.0
Portfolio investment	–1,769.5	–1,055.7	–368.0	506.2	–1,451.7	–462.1	1,151.9
Assets	–691.4	–974.5	–552.3	680.5	–489.5	–316.8	1,031.5
Equity securities	–310.0	–292.0	–491.4	261.8	–49.6	–303.8	102.2
Debt securities	–381.6	–682.4	–60.9	418.8	–439.9	–13.1	929.3
Liabilities	–1,078.1	–81.1	184.2	–174.3	–962.2	–145.3	120.4
Equity securities	–1,045.1	238.4	225.9	–212.7	–93.6	30.0	–80.5
Debt securities	–33.1	–319.7	–41.6	38.3	–868.7	–175.3	200.8
Financial derivatives	–6.2	5.1	–50.9	53.0	14.6	32.7	–38.8
Assets	0.9	–11.6	–56.5	43.1	17.2	–0.9	–22.6
Liabilities	–7.2	16.5	5.5	9.8	–2.6	33.6	–16.2
Other investment	1,250.9	2,891.1	2,150.8	749.1	227.9	–2,352.7	–3,298.1
Assets	–712.1	36.0	–1,485.2	–363.7	955.3	–1,263.4	–2,210.6
Long-term	–268.5	345.5	–210.1	–17.7	–39.8	–322.6	–93.5
Short-term	–443.9	–309.6	–1,275.1	–346.1	995.2	–940.8	–2,117.1
Liabilities	1,963.1	2,855.2	3,636.1	1,112.8	–727.5	–1,089.4	–1,087.6
Long-term	696.9	1,614.6	2,967.1	–643.7	207.0	–1,361.2	–1,190.3
Short-term	1,266.1	1,240.6	669.0	1,756.5	–934.4	271.8	102.8
Errors and omissions	117.2	–145.3	38.0	46.8	–22.2	–73.8	–45.3
Overall balance	**312.2**	**481.1**	**89.6**	**503.0**	**–64.7**	**–831.3**	**12.8**
Reserve assets	**–312.2**	**–481.1**	**–89.6**	**–503.0**	**64.7**	**831.3**	**–12.8**

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

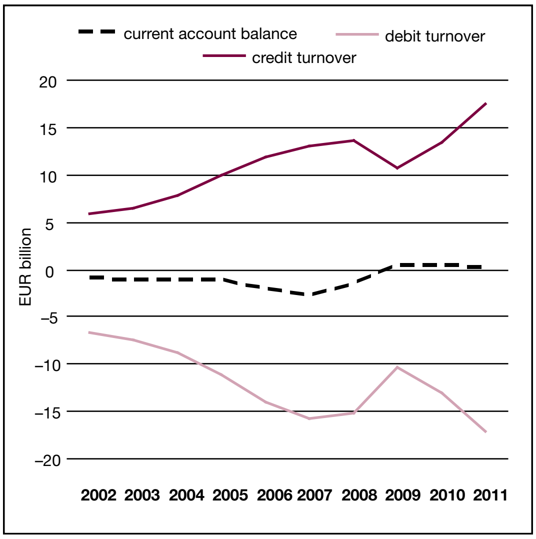
Table 1.2. Internationally comparable key balance of payments indicators

	2007	2008	2009	2010	2011
Foreign trade turnover (% of GDP)	117.6	116.7	97.6	124.5	152.3
Goods exports/imports (%)	75.5	80.6	91.6	97.0	98.2
Nominal effective exchange rate (% compared to previous period)	100.9	101.6	104.7	96.9	99.5
Real effective exchange rate (% compared to previous period)	102.9	104.7	101.6	97.7	100.3
Terms of trade (ratio of exports and imports price indices)	124.2	122.4	124.5	120.9	119.3
Overall balance of balance of payments (change of external reserves; EUR m)	89.6	503.0	–64.7	–831.3	12.8
Change in external reserves (% of GDP)	0.6	3.1	–0.5	–5.8	0.1
Current account balance (EUR m)	–2,562.5	–1,489.1	470.5	419.4	339.5
Current account balance without government transfers (EUR m)	–2,553.0	–1,428.6	487.4	399.2	280.2
Current account balance without government transfers (% of GDP)	–15.9	–8.7	3.5	2.8	1.8
Government transfers (net; EUR m)	–9.5	–60.5	–16.9	20.1	59.3
Government transfers (% of GNP)	–0.1	–0.4	–0.1	0.2	0.8
Gross external debt (% of GDP)	108.3	116.7	124.3	114.7	97.1

OVERVIEW

Current account

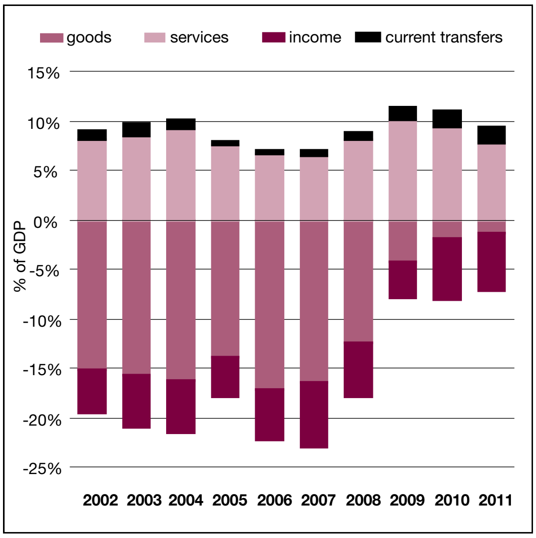
Year 2011 was successful for Estonia in terms of foreign trade: the current account was in surplus for the third year in row, totalling 340 million euros, or 2.1% of GDP. Year-on-year, the structure of the current account did not change considerably: trade deficit and the surplus on services decreased somewhat, while income net outflow increased. The first half of 2011 saw record growth in goods exports, but growth started to slow gradually in the second half due to the rapid deterioration of the external environment. However, the deterioration did not affect services exports yet. The surplus on goods and services in 2011 was 1.1 billion euros, or 6.4% of GDP, which is more or less the same as in 2010. The EU accounted for 68% of the credit turnover and for 80% of the debit turnover of the current account. The respective indicators for the monetary union were 34% and 36%.



Current account turnover and balance

Goods

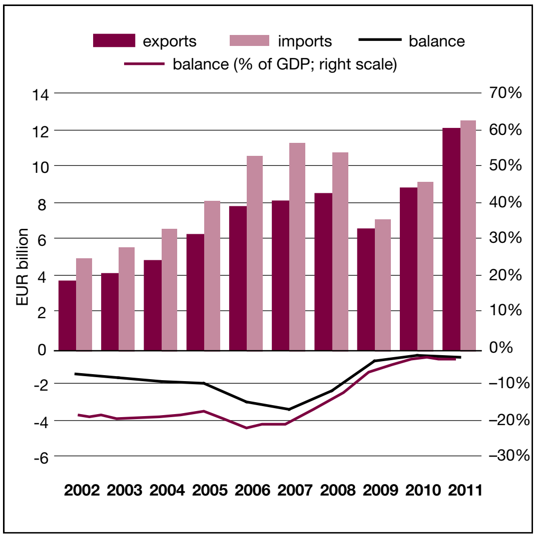
The deficit on the goods account was record low in 2011 at 222 million euros, or 1.4% of the annual GDP. The exports and imports of goods reached a record high: exports picked up by 38% and totalled 12.1 billion euros, while imports grew by 36% and amounted to 12.3 million euros. Imports and exports were both driven mainly by machinery and equipment, and mineral products. Estonia's main trading partner, the European Union, comprised 65% of the exports and 78% of the imports of goods.



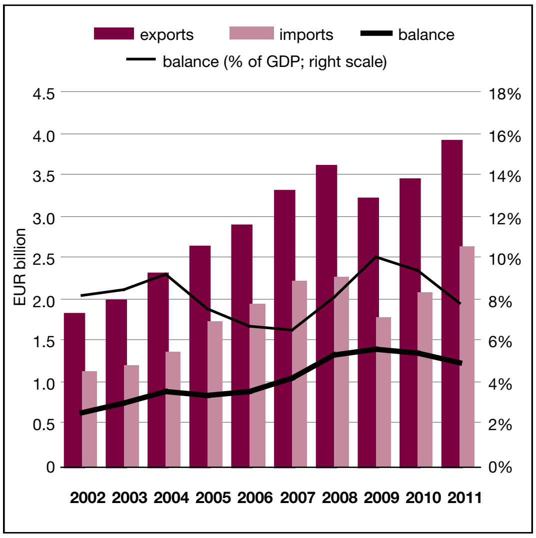
Current account components

Services

The surplus on the services account decreased slightly in 2011 to 1.2 billion euros. Although the turnover of services has increased from year to year, the surplus on services has ranged between 1.2–1.4 billion euros over the past four years. The surplus was boosted mainly by transport, travel and other business services, with their surpluses accounting for 49%, 26% and 13% of the total surplus on services, respectively. The share of EU countries totalled 71% in the exports and 81% in the imports of services.



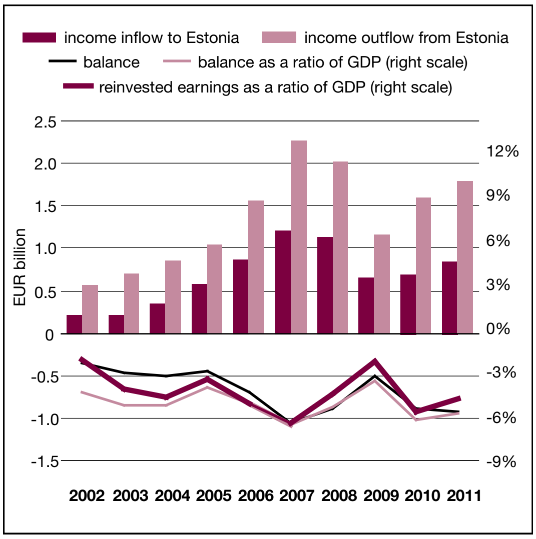
Estonia's external trade



Services account

Income

The net outflow of labour and capital income grew by 4% over the year to 933 million euros. The majority of the income account turnover consisted of investment income. Non-residents' income on investment in Estonia exceeded residents' income on investment abroad by 1.1 billion euros. Dividends accounted for 26% and reinvested earnings for 56% of the non-residents' investment income. Estonian investors primarily earned income on direct and portfolio investment abroad: 64% and 22% of the investment income, respectively. Given that the number of Estonian residents who work abroad is constantly growing, the surplus on labour income increased too, although the increase was not that significant in light of the inflow and outflow of investment income. The majority of residents' and non-residents' income was related to EU countries.



Income account

Current transfers and the capital account

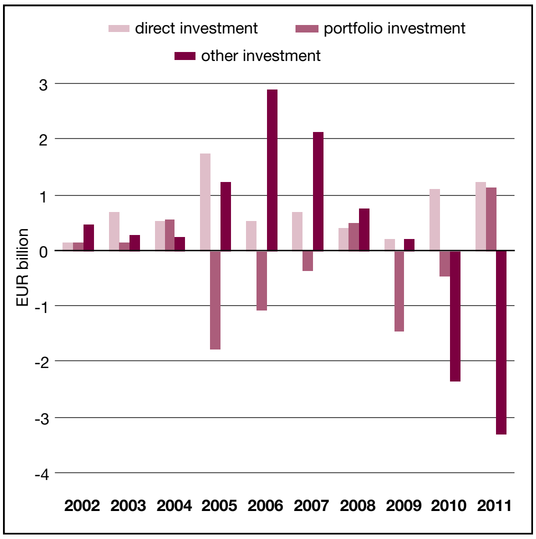
The surplus on current transfers increased by 6% from 2010 to 254 million euros in 2010. The surplus on capital transfers grew by 30% over the year to 480 million euros. The sales of CO_2 emission quotas, which are recorded under intangible assets, provided Estonia with 193 million euros in 2011; that is 43% more than in 2010.

Financial account

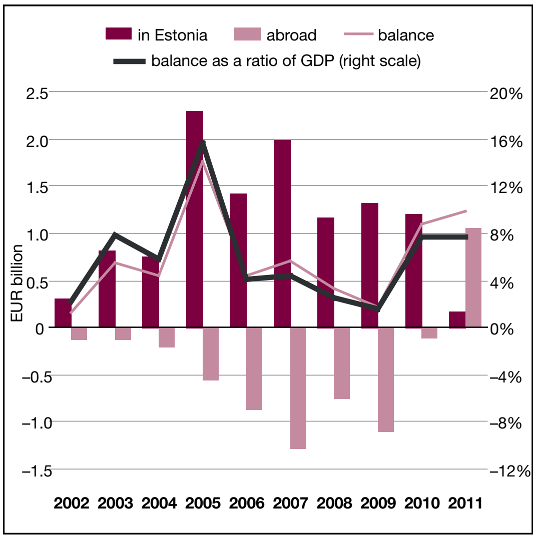
The outflow of capital (net lending) on the financial account exceeded inflow by 951 million euros, which is over 40% less that in 2010. Net outflow included primarily other investment and totalled 3.3 billion euros. The outflow can be largely attributed to credit institutions. The net inflow of capital consisted of direct and portfolio investment.

Direct investment

Direct investment had a surplus of 1.2 billion euros in 2011, which is 10% more than in 2010. Foreign direct investment was somewhat exceptional in 2011: investment shrank considerably, by 1 billion euros, instead of traditional growth. This resulted from a structural change in the banking sector: the Latvian and Lithuanian subsidiaries of one major bank were brought under the direct control of their foreign parent bank. This large transaction had a considerable impact on the annual direct investment statistics. The change also entailed a decline in equity capital – a component of direct investment – in Estonia. Consequently, foreign direct investment increased only by 185 million euros in annual terms.



Sub-accounts of capital and financial accounts



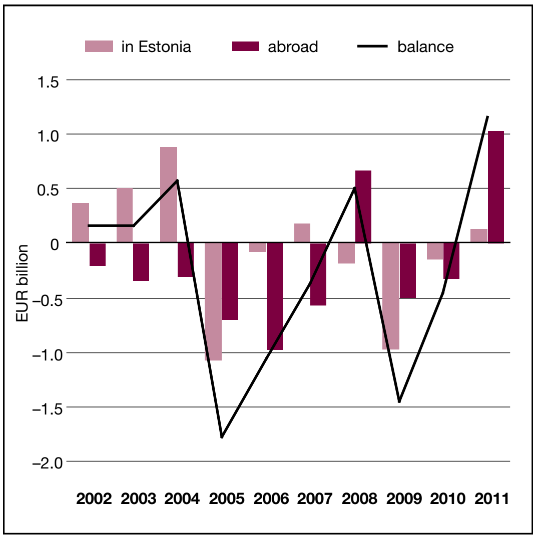
Direct investment

Portfolio investment

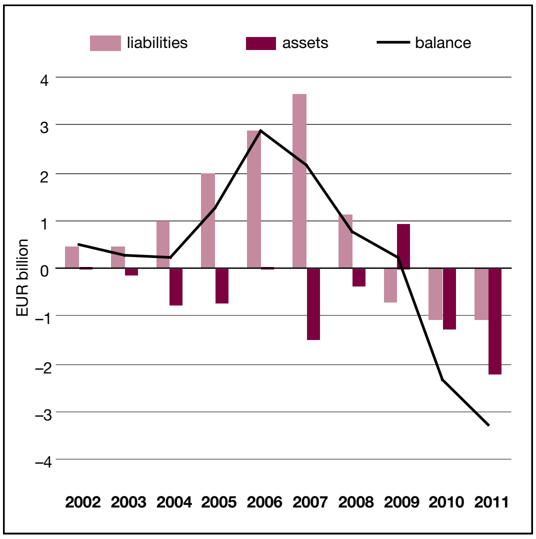
The net inflow of portfolio investment totalled 1.2 billion euros. This was due to a fall in investment in foreign instruments, compared to previous years, and new bond issues. The net outflow of financial derivatives amounted to 39 million euros in 2011.

Other investment

Similar to 2010, the year 2011 saw a considerable outflow of capital in the total amount of 3.3 billion euros. External liabilities decreased as a result of the lowering of the reserve requirements for commercial banks when Estonia joined the euro area. Investment abroad picked up mostly owing to credit institutions who invested in short-term foreign deposits.



Portfolio investment



Other investment

CURRENT ACCOUNT

The year 2011 was successful for Estonia in terms of foreign trade: the current account was in surplus for the third year in row, totalling 340 million euros, or 2.1% of GDP (see Figure 1.1).[1] The structure of the current account did not change considerably. The first half of 2011 saw record growth in goods exports, but growth started to slow gradually in the second half due to the rapid deterioration of the external environment.

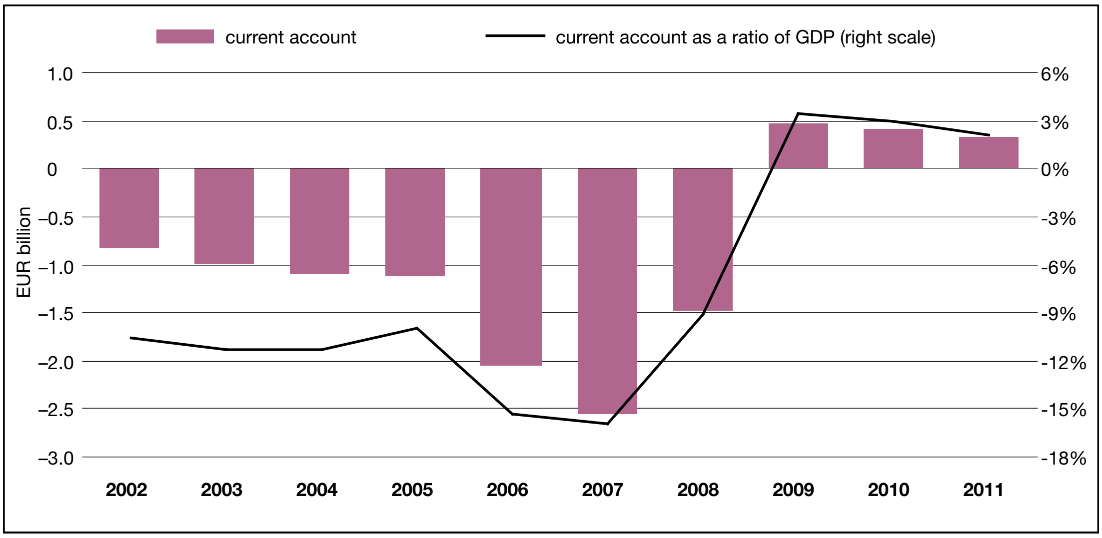


Figure 1.1. Estonia's current account

The credit turnover on the current account increased by 29% and debit turnover by 31%. Estonia mainly traded with EU countries, which constituted 68% of the credit turnover and 80% of the debit turnover (70% and 81% in 2010, respectively). The respective indicators with regard to the monetary union were 34% and 36% (35% and 38% in 2010). Finland and Sweden were Estonia's major partners in terms of both credit and debit turnovers. The top five partners included also Latvia, Lithuania and Germany, in both turnovers. The five biggest partners accounted for 51% of the total turnover. Estonia had the largest current account surpluses with Finland and the United States. The surplus with Finland grew by 33% and the surplus with the United States by about 2.5-fold year-on-year. Estonia had the biggest current account deficits with Germany and Poland, both increasing around 50% (see Table 1.3).

[1] The current account surplus without reinvested earnings constituted 6.9% of GDP.

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

	2010	2011
EU-27	**–1,123.5**	**–1,732.3**
Germany*	–578.3	–822.2
Finland	558.6	742.9
Poland	–414.5	–643.4
Latvia	–125.1	–350.8
Lithuania	–161.6	–312.6
CIS	**469.1**	**569.8**
Russia	318.3	534.7
Belarus	–39.0	–50.1
Kazakhstan	106.6	25.3
Other	**1,073.8**	**1,501.9**
USA	260.0	631.2
Nigeria	160.3	391.2
China	–167.0	–247.7
Norway	231.0	239.2
Turkey	62.6	96.1
Total	**419.4**	**339.5**

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

Goods

The turnover of the goods account continued rapid growth in 2011: both the exports and imports of goods surged from 2010 to record high levels at 38% and 36% respectively, totalling over 12 billion euros (see Table 1.4). The turnover of goods posted particularly strong growth in the first half of 2011 when exports and imports increased by 54% and 48% respectively from the first half of 2010. The deterioration of the external environment in the second half of 2011 inhibited growth in goods exports and imports considerably. The goods account had a deficit of 222 million euros and constituted 1.4% of the annual GDP.

Table 1.4. Imports and exports of goods

	Goods – credit (f.o.b.)			Goods – debit (f.o.b.)			Balance (EUR m)
	Volume* (EUR m)	Change compared to the previous period (%)	Share in total exports of goods and services (%)	Volume* (EUR m)	Change compared to the previous period (%)	Share in total exports of goods and services (%)	
2002	3,703.6	–1.4	66.7	4,883.1	5.6	85.7	–1,179.5
2003	4,054.8	9.5	67.4	5,430.3	11.2	81.6	–1,375.5
2004	4,764.2	17.5	67.5	6,333.3	16.6	81.9	–1,569.1
2005	6,347.9	33.2	70.8	7,898.0	24.7	81.7	–1,550.1
2006	7,774.0	22.5	73.0	10,078.1	27.6	83.6	–2,304.1
2007	8,132.2	4.6	71.2	10,772.9	6.9	82.7	–2,640.8
2008	8,490.1	4.4	70.2	10,531.2	–2.2	82.2	–2,041.1
2009	6,460.2	–23.9	66.9	7,051.2	–33.0	79.6	–591.0
2010	8,769.0	35.7	71.8	9,035.6	28.1	81.1	–266.6
2011	12,055.9	37.5	75.6	12,277.4	35.9	82.2	–221.5

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

According to preliminary foreign trade statistics[2], goods exports totalled 12 billion and imports in c.i.f. prices 12.6 billion euros in 2011. The annual foreign trade deficit totalled 610 million euros.

The exports of goods increased significantly across all groups of goods. Growth was mainly boosted by the exports of machinery and equipment, and mineral products, but also metal and food products (see Table 1.5). The delivery of mobile communication devices – the primary export item in the group of machinery and equipment – to Sweden and the United States grew by over two-fold from 2010, but growth slowed rapidly in the fourth quarter of 2011. Motor fuel constituted 81% of the exports of mineral products and it was re-exported after processing in Estonia mostly to the third countries (the USA, Nigeria) and also to the Netherlands and France. The export growth of that goods group also slowed somewhat in the second half of 2011. The exports of metal products (steel products, iron constructions, scrap metal) were steady quarter-on-quarter, being delivered to Finland, Turkey and Sweden.

Table 1.5. Exports by main groups of goods

	Volume (EUR m)		Share (%)		Change (%)
	2010	2011	2010	2011	2011/2010
Food	832.9	1,014.1	9.5	8.4	21.8
Mineral products	1,375.8	2,061.1	15.7	17.1	49.8
Chemical products	675.0	915.0	7.7	7.6	35.6
Clothing, footwear and headgear	391.8	459.2	4.5	3.8	17.2
Timber, paper and products	1,069.7	1,239.2	12.2	10.3	15.8
Metals and metal products	793.9	1,038.9	9.1	8.6	30.9
Machinery and equipment	1,978.2	3,305.0	22.6	27.5	67.1
Transport vehicles	573.0	591.7	6.6	4.9	3.3
Furniture, toys, sporting goods	667.1	787.2	7.6	6.5	18.0
Other	387.7	610.4	4.4	5.1	57.4
Total	**8,744.9**	**12,021.8**	**100.0**	**100.0**	**37.5**

The exports of food products increased by 22% from a year ago and reached a record high at 313 million euros in the fourth quarter of 2011. The biggest export items were spirits, cheese and other dairy products, fish and meat products, barley, rapeseeds and various prepared products. 20% of the food products were exported to Russia, and less to Finland, Latvia and Lithuania. Unprocessed and little processed timber was sold primarily to Sweden and Finland; wooden houses to Norway and Germany; wooden construction components to Sweden, Japan and Norway; and furniture to Finland and Denmark. The exports of chemical products gained momentum too and consisted primarily of construction materials (putties, mastics, paints, varnishes, etc.) and plastic products, which were sent to Russia, Latvia and Finland.

The exports of transport vehicles posted more or less similar results as in 2010. The exports of motor cars and spare parts increased by 28% from 2010 and accounted for 55% of the total exports of transport vehicles. The biggest importers were Latvia, Sweden, Lithuania and Russia. Ready-made men's and women's clothes, footwear, sportswear, etc. and other industrial products (gold items, toughened-glass panes and glass products, medical equipment) were exported primarily to Finland, Russia and Sweden.

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

The imports of goods increased significantly across all groups of goods (see Table 1.6). Growth in goods imports was driven mainly by machinery and equipment and mineral products. The imports of components, leads, cables, etc. for the electronics industry increased by almost two-fold and came from Poland, Sweden, China and Hungary. Mineral products (motor fuel for processing and domestic supply, natural gas and electricity) were purchased from Russia, Lithuania, Latvia and Finland. Goods import growth was also boosted by a nearly 1.6-fold increase in the imports of transport vehicles. Over 50% of that consisted of the imports of motor cars and spare parts from Sweden, Germany, Latvia, Finland and France. The largest import items in the group of chemical products were medicines and plastic products, purchased from Lithuania and Latvia, and car tyres from Poland and Germany. Food products (spirits and low-alcohol beverages, meat and fish products, pet food, chocolate and confectionary products) were imported primarily from Latvia, Finland and Lithuania; iron and steel products were purchased from Finland, Germany and Sweden. Clothing and footwear were imported from Latvia, Finland, Germany and China; timber and timber products (sawn timber, plywood, paper and cardboards) from Finland, Russia and Latvia.

The foreign trade deficit increased by 20% from 2010 and totalled 0.6 billion euros (see Table 1.7). Timber and timber products, furniture and other industrial goods posted surpluses, while chemical products and transport vehicles had the largest deficits.

Table 1.6. Imports by main groups of goods

	Volume (EUR m)		Share (%)		Change (%)
	2010	2011	2010	2011	2011/2010
Food	1,022.7	1,236.3	11.1	9.8	20.9
Mineral products	1,614.2	2,277.0	17.4	18.0	41.1
Chemical products	1,255.8	1,573.3	13.6	12.5	25.3
Clothing, footwear and headgear	587.6	696.2	6.4	5.5	18.5
Timber, paper and products	480.8	525.0	5.2	4.2	9.2
Metals and metal products	824.7	1,107.7	8.9	8.8	34.3
Machinery and equipment	2,185.7	3,451.0	23.6	27.3	57.9
Transport vehicles	655.8	1,033.0	7.1	8.2	57.5
Furniture, toys, sporting goods	206.3	231.0	2.2	1.8	12.0
Other	418.9	500.9	4.5	4.0	19.6
Total	**9,252.4**	**12,631.4**	**100.0**	**100.0**	**36.5**

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

	2010	2011
Food	–189.9	–222.2
Mineral products	–238.4	–215.9
Chemical products	–580.8	–658.3
Clothing, footwear and headgear	–195.8	–236.9
Timber, paper and products	588.9	714.2
Metals and metal products	–30.8	–68.8
Machinery and equipment	–207.6	–146.0
Transport vehicles	–82.8	–441.3
Furniture, toys, sporting goods	460.8	556.2
Other	–31.2	109.5
Total	**–507.6**	**–609.6**

The exports of goods picked up in terms of all **groups of countries** and major trade partners (see Table 1.8). The share of the EU in goods exports dropped somewhat, although total exports increased by a third. Sweden ranked first among Estonia's EU export partners, mostly owing to robust growth in the exports of mobile communication devices in the first half of 2011. Machinery and equipment (primarily electronic products) comprised 30% of the exports to the EU, followed by timber and timber products, furniture, mineral products (motor fuels), metal and food products. Machinery and equipment accounted for as much as 35% of the exports to CIS countries; chemical and food products ranked second in volume. Estonia's biggest trade partner Russia remained third in export ranking. Among other countries the United States and Nigeria took the lead, as the re-exports of processed motor fuels from Estonia to these countries increased.

The imports of goods picked up too in terms of all groups of countries and major trade partners (see Table 1.9). Finland was Estonia's biggest importer partner among EU countries. 30% of the imports of goods from EU countries consisted of machinery and equipment, followed by chemical products, fuels and food products. Mineral products (fuels, natural gas) prevailed at 68% in imports from CIS countries, primarily Russia. Imports from other countries largely consisted of machinery and equipment (components of electronic products), textile products and transport vehicles.

Foreign trade was in deficit with the EU only (see Table 1.10). Among EU countries, Estonia had the largest trade deficits with Germany, Poland, Lithuania and Latvia, and the largest surpluses with Sweden, Finland, France and Denmark. Trade balance with the CIS and other countries improved considerably. Among the CIS countries, Estonia had trade deficits with Belarus and Kazakhstan only. Among other countries, Estonia had trade surpluses with the United States, Norway and Turkey, and a trade deficit with China.

Table 1.8. Exports of goods by groups of countries

	Volume (EUR m)		Share (%)		Change (%)
	2010	2011	2010	2011	2011/2010
EU-27	**5,912.5**	**7,815.8**	**67.6**	**65.0**	**32.2**
Sweden	1,363.7	1,877.2	15.6	15.6	37.7
Finland	1,488.1	1,804.6	17.0	15.0	21.3
Latvia	778.1	955.6	8.9	7.9	22.8
Germany	454.9	548.1	5.2	4.6	20.5
Lithuania	437.3	547.6	5.0	4.6	25.2
CIS	**1,136.9**	**1,595.1**	**13.0**	**13.3**	**40.3**
Russia	844.4	1,323.7	9.7	11.0	56.8
Ukraine	88.4	105.8	1.0	0.9	19.7
Belarus	63.3	81.6	0.7	0.7	28.9
Other	**1,695.5**	**2,610.9**	**19.4**	**21.7**	**54.0**
USA	330.9	751.0	3.8	6.2	127.0
Nigeria	165.0	391.4	1.9	3.3	137.2
Norway	299.8	361.7	3.4	3.0	20.6
Total	**8,744.9**	**12,021.8**	**100.0**	**100.0**	**37.5**

Table 1.9. Imports of goods by groups of countries*

	Volume (EUR m)		Share (%)		Change (%)
	2010	2011	2010	2011	2011/2010
EU-27	**7,377.8**	**9,903.6**	**79.7**	**78.4**	**34.2**
Finland	1,377.0	1,586.1	14.9	12.6	15.2
Latvia	1,012.9	1,362.2	10.9	10.8	34.5
Sweden	1,007.9	1,334.2	10.9	10.6	32.4
Germany	1,042.2	1,288.6	11.3	10.2	23.6
Lithuania	725.5	1,030.4	7.8	8.2	42.0
CIS	**1,005.7**	**1,376.1**	**10.9**	**10.9**	**36.8**
Russia	762.8	1,044.3	8.2	8.3	36.9
Belarus	118.4	147.2	1.3	1.2	24.4
Ukraine	71.7	102.1	0.8	0.8	42.4
Other	**869.0**	**1,351.7**	**9.4**	**10.7**	**55.5**
China	281.6	454.8	3.0	3.6	61.5
Norway	128.5	142.5	1.4	1.1	10.9
USA	92.8	140.1	1.0	1.1	50.9
Total	**9,252.4**	**12,631.4**	**100.0**	**100.0**	**36.5**

* Analysed by trading country.

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

	2010	2011
EU-27	-1,465.3	-2,087.8
CIS	131.2	218.9
Other	826.5	1,259.2
Total	**-507.6**	**-609.6**

Services

The recovery of the economy boosted both the exports and imports of goods, while services imports posted stronger growth owing to the cost of the delivery of increased goods imports (see Table 1.11). The share of services in the total turnover of goods and services remained at 21%. Services accounted for around 8% of GDP.

Table 1.11. Exports and imports of services

	Exports			Imports			Balance	
	Volume (EUR m)	Change compared to the previous period (%)	Share in total turnover of goods and services (%)	Volume (EUR m)	Change compared to the previous period (%	Share in total turnover of goods and services (%)	Volume (EUR m)	Change compared to the previous period (%)
2002	1,800.0	0.1	32.7	1,167.9	8.5	19.3	632.1	–12.4
2003	1,960.4	8.9	32.6	1,227.0	5.1	18.4	733.4	16.0
2004	2,293.7	17.0	32.5	1,403.0	14.3	18.1	890.7	21.4
2005	2,612.0	13.9	29.2	1,772.7	26.3	18.3	839.3	–5.8
2006	2,870.9	9.9	27.0	1,980.6	11.7	16.4	890.3	6.1
2007	3,289.2	14.6	28.8	2,247.1	13.5	17.3	1,042.1	17.0
2008	3,600.8	9.5	29.8	2,285.5	1.7	17.8	1,315.3	26.2
2009	3,200.6	–11.1	33.1	1,809.9	–20.8	20.4	1,390.6	5.7
2010	3,441.4	7.5	28.2	2,101.7	16.1	18.9	1,339.7	–3.7
2011	3,899.7	13.3	24.4	2,660.4	26.6	17.8	1,239.2	–7.5

Transport, travel and other business services formed 88% of the total net exports of services in 2011 (see Table 1.12). The surpluses on these main types of services dropped by 5%, 4% and 7% respectively. Only the surplus on government services, which account for the smallest share in total services, grew from 2010. The surplus on services contracted primarily on account of rapid growth in the imports of transport, travel and construction services. The surpluses on construction, insurance, computer and information services decreased too. Royalties and licence fees recorded a deficit, which grew from 2010.

The exports of services picked up in terms of most services, by 13% in total (see Table 1.13). The exports of construction services, transport services, and computer and information services showed the highest growth rates at 47%, 14% and 13%, respectively. The exports of transport services gained momentum mainly owing to auxiliary transport services (dispatch, storage and logistics services, etc.).

Table 1.12. Services balance by major categories

	Balance (EUR m)		Share (%)		Change (%)
	2010	**2011**	**2010**	**2011**	**2011/2010**
Transportation	641.9	608.9	47.9	49.1	–5.1
Travel services	331.9	318.7	24.8	25.7	–4.0
Construction services	79.6	59.0	5.9	4.8	–25.9
Computer and information services	82.3	70.4	6.1	5.7	–14.5
Business services	178.6	166.6	13.4	13.4	–6.7
Government services	10.5	12.2	0.8	1.0	16.2
Other	14.9	3.4	1.1	0.3	–76.9
Total	**1,339.7**	**1,239.2**	**100.0**	**100.0**	**–7.5**

Table 1.13. Services exports by major categories

	Volume (EUR m)		Share (%)		Change (%)
	2010	**2011**	**2010**	**2011**	**2011/2010**
Transportation	1,363.7	1,552.8	39.6	39.8	13.9
freight	639.8	693.8	18.6	17.8	8.4
passenger	263.2	306.6	7.6	7.9	16.5
other transport services	460.7	552.4	13.4	14.1	19.9
Travel services	809.3	897.3	23.5	23.0	10.9
Construction services	161.4	237.9	4.7	6.1	47.4
Computer and information services	154.3	173.8	4.5	4.5	12.6
Business services	663.0	739.6	19.3	19.0	11.6
Government services	32.2	35.7	0.9	0.9	10.9
Other	257.5	262.6	7.5	6.7	2.0
Total	**3,441.4**	**3,899.7**	**100.0**	**100.0**	**13.3**

The geographical distribution of services exports was similar to that in 2010: exports to the EU, the CIS and other countries picked up by 13%, 10% and 18% respectively (see Table 1.14). 71% of the services were exported to EU countries. Finland, Russia and Sweden were the main export partners in 2011, just as in previous years. The United Kingdom became the fourth biggest partner in the group of EU countries, right ahead of the Netherlands that ranked fourth in 2010. Among other countries, exports to offshore regions, Switzerland and Norway increased by 20%.

Table 1.14. Services exports by groups of countries

	Volume (EUR m)		Share (%)		Change (%)
	2010	2011	2010	2011	2011/2010
EU-27	**2,438.3**	**2,753.9**	**70.9**	**70.6**	**12.9**
Finland	961.5	1,085.5	27.9	27.8	12.9
Sweden	272.1	329.5	7.9	8.4	21.1
Latvia	198.4	229.8	5.8	5.9	15.8
United Kingdom	137.4	173.3	4.0	4.4	26.1
CIS	**487.3**	**536.5**	**14.1**	**13.8**	**10.1**
Russia	371.3	416.5	10.8	10.7	12.2
Kazakhstan	62.4	51.7	1.8	1.3	-17.1
Belarus	23.9	32.8	0.7	0.8	37.2
Other	**515.8**	**609.3**	**15.0**	**15.6**	**18.1**
offshore regions	170.0	184.5	4.9	4.7	8.5
Switzerland	101.0	129.1	2.9	3.3	27.8
Norway	80.9	109.0	2.4	2.8	34.7
Total	**3,441.4**	**3,899.7**	**100.0**	**100.0**	**13.3**

The imports of services grew much faster than exports in 2011, by 27% in total and in terms of all major types of services (see Table 1.15). The exports of construction services increased by more than two-fold; the exports of computer and information services, and transport services posted growth at 44% and 31%, respectively. The latter's export growth was related to the delivery of imported goods.

The structure of services imports from major trade partners did not change much from 2010. The share of EU countries increased by 27% from 2010 to 81% in 2011 (see Table 1.16). The biggest trade partners were Finland, Sweden and Germany. Imports from the CIS mainly concerned Russia and increased by 17% over the year. Services imports from other countries grew by 26%. Norway was the leading partner, as Estonia imported over two times more services (travel, architectural, design and other technical services) from there compared to 2010. Services imports from China (marine and air freight transport) outpaced imports from offshore regions, which were consequently left out of the top three of partners.

Table 1.15. Services imports by major categories

	Volume (EUR m)		Share (%)		Change (%)
	2010	2011	2010	2011	2011/2010
Transportation	721.8	943.9	34.3	35.5	30.8
freight	447.5	633.6	21.3	23.8	41.6
passenger	68.0	95.6	3.2	3.6	40.6
other transport services	206.3	214.7	9.8	8.1	4.1
Travel services	477.3	578.5	22.7	21.7	21.2
Construction services	81.8	178.9	3.9	6.7	118.7
Computer and information services	72.0	103.4	3.4	3.9	43.6
Business services	484.5	573.1	23.1	21.5	18.3
Government services	21.7	23.6	1.0	0.9	8.8
Other	242.6	259.0	11.6	9.8	6.8
Total	**2,101.7**	**2,660.4**	**100.0**	**100.0**	**26.6**

Table 1.16. Services imports by groups of countries

	Volume (EUR m)		Share (%)		Change (%)
	2010	2011	2010	2011	2011/2010
EU-27	**1,693.2**	**2,148.2**	**80.6**	**80.7**	**26.9**
Finland	375.2	426.0	17.9	16.0	13.5
Sweden	249.8	274.4	11.9	10.3	9.8
Germany	140.8	268.9	6.7	10.1	91.0
Latvia	215.0	240.2	10.2	9.0	11.7
CIS	**144.2**	**171.8**	**6.9**	**6.5**	**19.1**
Russia	111.2	130.6	5.3	4.9	17.4
Belarus	15.3	19.3	0.7	0.7	26.1
Ukraine	11.7	15.7	0.6	0.6	34.2
Other	**264.3**	**340.4**	**12.5**	**12.8**	**25.9**
Norway	30.6	68.5	1.5	2.6	123.9
USA	56.3	55.8	2.7	2.1	-0.9
China	33.1	48.1	1.6	1.8	45.3
Total	**2,101.7**	**2,660.4**	**100.0**	**100.0**	**26.6**

The surplus on transport services shrank by 5% in 2011 and constituted around 50% of the net exports of services (see Figures 1.2-1.3 and Table 1.12). Rail transport constituted the largest share of the net exports of transport services, followed by maritime and road transport. Air transport remained in deficit.

The exports of transport services grew by 14% year-on-year to 40% of the total exports of services (see Table 1.13). Approximately 50% of the exports consisted of freight transport (8% annual growth); other transport services and passenger transport accounted for 36% and 20% respectively. The exports of transport services to EU and CIS countries increased by 7% and 25% respectively in 2011 (see Table 1.17). The top five of major EU partner countries were Finland, Sweden, the Netherlands, Latvia and the United Kingdom, but in a

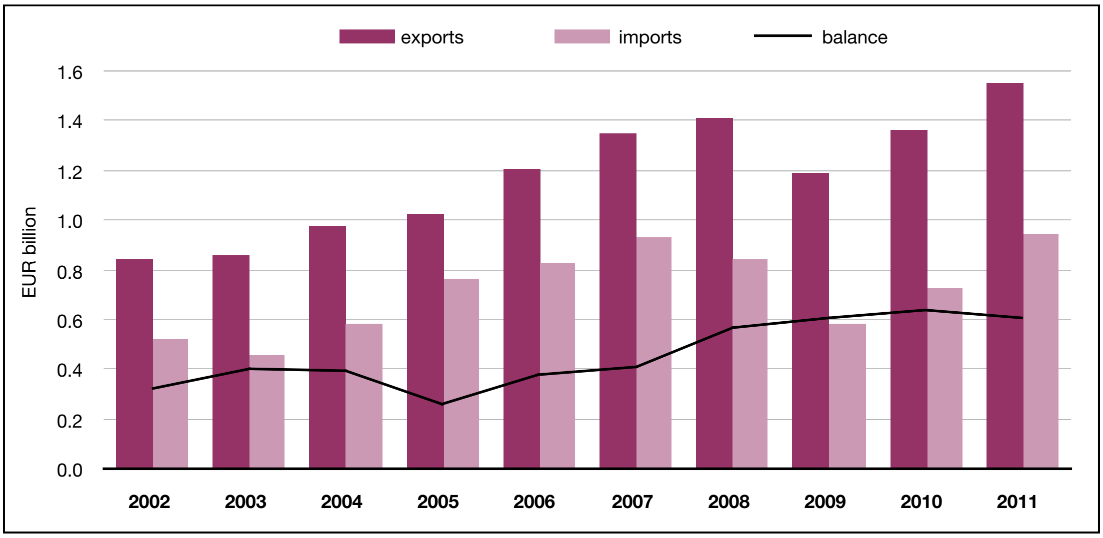


Figure 1.2. Transport services

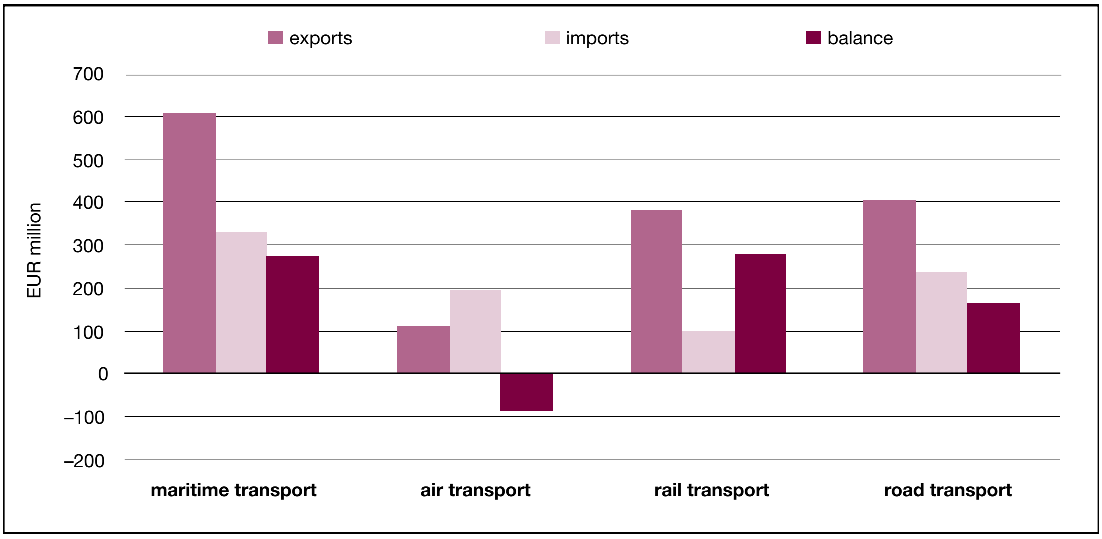


Figure 1.3. Transport services structure in 2011 by transport type

Table 1.17. Transport services by groups of countries in 2011

	Exports				Imports		
	Volume (EUR m)	**Share (%)**	**Change (%), 2011/2010**		**Volume (EUR m)**	**Share (%)**	**Change (%), 2011/2010**
EU-27	**981.4**	**63.2**	**6.8**	**EU-27**	**732.8**	**77.6**	**29.4**
Finland	312.0	20.1	10.2	Sweden	106.5	11.3	23.7
Sweden	132.0	8.5	16.9	Finland	100.7	10.7	25.6
Netherlands	97.6	6.3	-16.7	Germany	98.6	10.4	22.3
Latvia	74.7	4.8	9.5	Latvia	72.3	7.7	26.0
United Kingdom	72.7	4.7	30.8	Lithuania	63.0	6.7	32.1
CIS	**271.6**	**17.5**	**25.3**	**CIS**	**70.4**	**7.5**	**48.8**
Russia	223.1	14.4	17.8	Russia	48.5	5.1	67.8
Kazakhstan	19.4	1.2	90.2	Belarus	12.9	1.4	31.6
Other	**299.8**	**19.3**	**31.4**	**Other**	**140.7**	**14.9**	**29.8**
offshore regions	124.0	8.0	46.9	China	42.8	4.5	57.4
Switzerland	83.9	5.4	39.8	offshore regions	22.3	2.4	-3.0
Norway	30.6	2.0	24.9	USA	16.7	1.8	28.5
Total	**1,552.8**	**100.0**	**13.9**	**Total**	**943.9**	**100.0**	**30.8**

different ranking compared to 2010. Kazakhstan ranked second ahead of Belarus in terms of exports to CIS countries. Total exports to other countries picked up by 31%, with offshore regions, Switzerland and Norway ranking in the top at 47%, 40% and 25% respectively.

The imports of transport services outpaced exports by 50% in growth in 2011 (see Table 1.15). Similar to exports, also the imports of transport services grew in terms of all groups of countries and major trade partners (see Table 1.17). The top five EU partners in transport services imports were Sweden, Finland, Germany, Latvia and Lithuania. Estonia's imports from these five trade partners accounted for around 50% of the total transport services needed. Russia and Belarus remained the largest import partners from the CIS. China, offshore regions and the United States remained the main import partners from among other countries.

The exports of **travel services** totalled 897 million euros in 2011, which is 11% more than in 2010 (see Figure 1.4 and Table 1.18). The imports of travel services grew by 21% from 2010 and amounted to 579 million euros. The surplus on travel services was 318 million euros, or over 2% of GDP.

The number of foreigners visiting Estonia rose by 13% from 2010 to around 5.3 million visitors in 2011 (see Figure 1.5). Visitors from EU and CIS countries accounted for 81% and 12% respectively of the total number. The number of visits by EU and CIS citizens increased by 12% and 18% respectively from 2010. The majority of tourists (42%) came from Sweden; half of them stayed in Estonia for only one day.

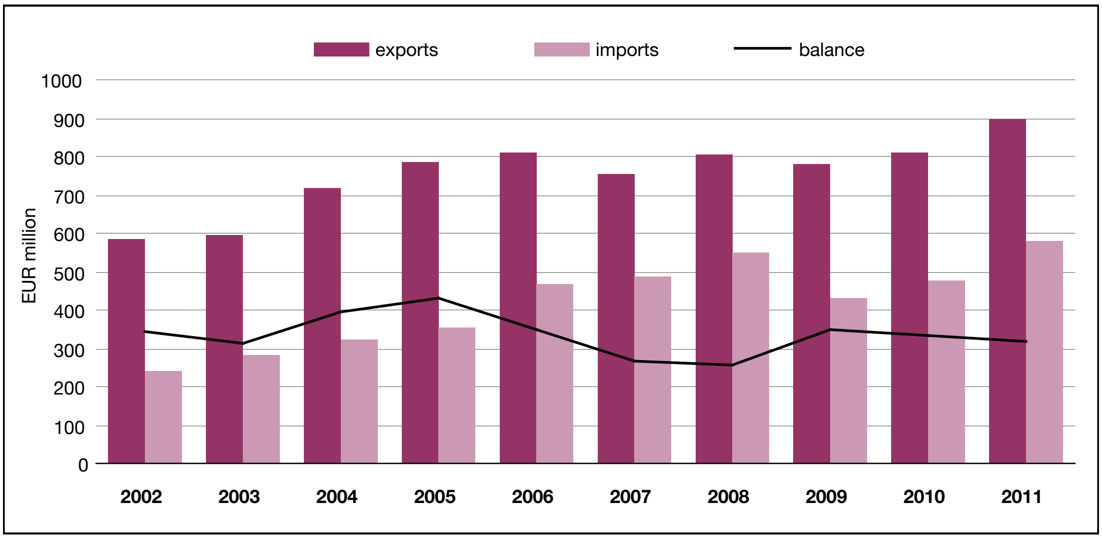


Figure 1.4. Travel services

Table 1.18. Travel services by groups of countries in 2011

	Exports				Imports		
	Volume (EUR m)	Share (%)	Change (%), 2011/2010		Volume (EUR m)	Share (%)	Change (%), 2011/2010
EU-27	**720.6**	**80.3**	**8.4**	**EU-27**	**434.7**	**75.1**	**18.4**
Finland	412.5	46.0	0.3	Finland	174.0	30.1	11.7
Sweden	69.0	7.7	6.7	United Kingdom	34.7	6.0	63.3
Germany	48.6	5.4	50.8	Latvia	32.1	5.5	–22.0
Latvia	39.8	4.4	–2.8	Germany	30.8	5.3	61.1
CIS	**110.4**	**12.3**	**16.8**	**CIS**	**48.3**	**8.3**	**4.2**
Russia	105.8	11.8	15.4	Russia	42.5	7.3	3.1
Ukraine	3.7	0.4	50.5	Ukraine	3.0	0.5	9.4
Other	**66.3**	**7.4**	**32.5**	**Other**	**95.5**	**16.5**	**49.9**
Norway	17.4	1.9	31.7	Norway	23.4	4.0	119.8
USA	13.6	1.5	37.2	Turkey	15.6	2.7	71.1
Korea	4.3	0.5	30.5	USA	11.1	1.9	25.5
Total	**897.3**	**100.0**	**10.9**	**Total**	**578.5**	**100.0**	**21.2**

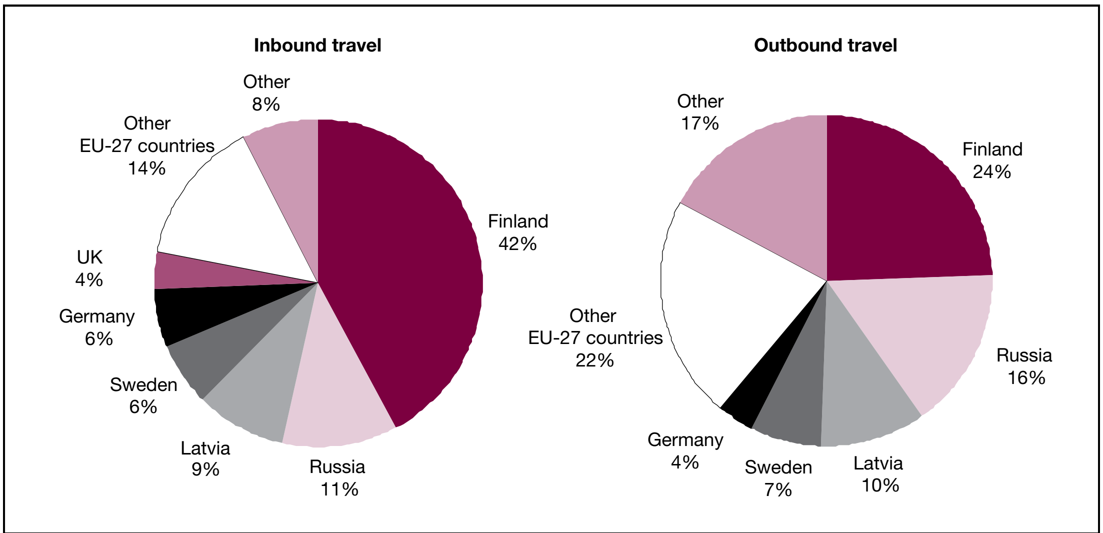


Figure 1.5. International travel statistics by countries in 2011

The spending of Finnish tourists formed 46% of the total exports of travel services (see Table 1.18). Tourists from Russia accounted for 11% of the total number of visits and their spending formed around 12% of the total exports of travel services. Sweden's respective figures were 6% and 8%. Among bigger countries, travel services exports from Russia and Germany increased the most at 15% and 51% respectively.

Estonian residents' trips to foreign countries totalled 3.8 million in 2011, which is 8% more than in 2010. The number of trips to EU countries increased by 7% from 2010 and accounted for 67% of the total number of trips. Travels to CIS countries grew by 13% from a year ago and formed 18% of the total number of visits to foreign countries. Multiple-day trips constituted 70% of the total number of Estonian residents' trips abroad both in 2010 and 2011. Estonia's closest neighbours were the most popular countries of destination: trips to Finland, Russia, Latvia and Sweden constituted 24%, 16%, 10% and 7% respectively of the total of trips. The proximity of Finland, Russia, Latvia and Sweden was also the reason for the high percentages of one-day visits: 36%, 43%, 52% and 38% respectively. The spending of Estonian residents in Finland and Russia constituted 30% and 7% respectively of the total imports of travel services. The imports of travel services from Finland, the United Kingdom and Norway (the countries with the highest number of Estonian residents employed there) increased the most from a year ago: by 12%, 63% and 120% respectively.

Income

The net outflow of income grew by 4% in 2011 to 933 million euros, or 5.8% of GDP (see Table 1.19). Reinvested earnings, which is a book value and does not involve any actual movement of funds, constituted a significant part of the income structure. Reinvested earnings excluded, the net outflow of income was 171 million euros, or 1% of GDP.

Labour income recorded a net inflow of 190 million euros, which increased by over 40% from 2010 (see Table 1.20). The increase stemmed from the growing popularity of working abroad among residents. The

Table 1.19. Income

	Inflow		Outflow		Balance	
	Volume (EUR m)	Change compared to previous period (%)	Volume (EUR m)	Change compared to previous period (%)	Volume (EUR m)	Change compared to previous period (%)
2002	215.5	11.6	560.0	10.6	–344.5	10.1
2003	229.1	6.3	691.9	23.6	–462.8	34.3
2004	350.7	53.1	859.7	24.3	–509.1	10.0
2005	589.5	68.1	1,044.9	21.5	–455.3	–10.6
2006	866.3	47.0	1,554.3	48.8	–688.0	51.1
2007	1,210.3	39.7	2,269.2	46.0	–1,058.8	53.9
2008	1,142.3	–5.6	2,026.1	–10.7	–883.8	–16.5
2009	657.8	–42.4	1,163.8	–42.6	–506.0	–42.7
2010	703.3	6.9	1,596.9	37.2	–893.5	76.6
2011	861.6	22.5	1,794.2	12.4	–932.6	4.4

Table 1.20. Structure of income account

	Volume (EUR m)		Share (%)		Change (%)
	2010	2011	2010	2011	2011/2010
Labour income	131.7	189.5	–14.7	–20.3	43.9
Investment income	–1,025.2	–1,122.1	114.7	120.3	9.5
income on direct investment	–947.2	–1,106.9	106.0	118.7	16.9
income on equity	–938.2	–1,100.9	105.0	118.0	17.3
dividends	–121.3	–339.7	13.6	36.4	180.0
reinvested earnings	–816.9	–761.3	91.4	81.6	–6.8
income on debt (interests)	–9.0	–6.0	1.0	0.6	–33.8
income on portfolio investment	66.5	94.1	–7.4	–10.1	41.5
income on other investment	–144.5	–109.3	16.2	11.7	–24.3
Total	**–893.5**	**–932.6**	**100.0**	**100.0**	**4.4**

net outflow of investment income, the main component of the income account, grew by 10% from a year ago to slightly over 1.1 billion euros. This was somewhat less than the record high in 2007. Direct and other investment incomes posted a net outflow, while portfolio investment witnessed net inflow. The majority of the net outflow of investment income consisted of direct investment income (1.1 billion euros), which increased by 17% year-on-year. Reinvested earnings formed 69% and dividends 31% of the net outflow of direct investment income. The net outflow of dividends grew by almost three-fold from 2010, while the net outflow of reinvested earnings shrank by 7%. The net inflow of portfolio investment income increased by over 40%, while the net outflow of other investment income (interest income) contracted by 25%.

Income inflow grew by 23% from 2010 and totalled 862 million euros (see Table 1.21). 93% of the investment inflow came from EU countries (see Table 1.22). Labour income constituted over 25% of the income inflow, having increased by 24% year-on-year to 248 million euros. About 50% of the labour income was earned in Finland and 11% in Sweden. Somewhat less labour income was earned in the United Kingdom, the United States, Germany and Latvia. The labour income earned in Finland grew by 25% over the year. The inflow of investment income increased by 22% to 614 million euros in 2011. The majority (64%) of the investment income inflow consisted of direct investment. Direct investment income grew by 21%, portfolio investment income by 31% and other investment income by 15% from 2010. The inflow of direct investment

Table 1.21. Income inflow to Estonia

	Volume (EUR m)		Share (%)		Change (%)
	2010	2011	2010	2011	2011/2010
Labour income	200.3	248.0	28.5	28.8	23.9
Investment income	503.1	613.6	71.5	71.2	22.0
income on direct investment	324.9	392.7	46.2	45.6	20.8
income on equity	259.5	333.6	36.9	38.7	28.5
dividends	62.6	120.2	8.9	14.0	92.0
reinvested earnings	196.9	213.4	28.0	24.8	8.3
income on debt (interests)	65.4	59.1	9.3	6.9	-9.7
income on portfolio investment	103.9	135.9	14.8	15.8	30.9
income on other investment	74.2	85.0	10.6	9.9	14.5
Total	**703.3**	**861.6**	**100.0**	**100.0**	**22.5**

Table 1.22. Income by groups of countries in 2011

	Inflow				Outflow		
	Volume (EUR m)	Share (%)	Change (%) 2011/2010		Volume (EUR m)	Share (%)	Change (%) 2011/2010
EU-27	**804.2**	**93.3**	**22.1**	**EU-27**	**1,566.3**	**87.3**	**9.6**
Lithuania	198.3	23.0	48.8	Sweden	769.6	42.9	1.3
Finland	146.3	17.0	22.4	Finland	312.1	17.4	11.2
Latvia	111.2	12.9	–22.3	Netherlands	131.2	7.3	–14.8
Cyprus	107.9	12.5	–1.7	Denmark	71.8	4.0	28.8
Sweden	39.7	4.6	77.3	Germany	62.0	3.5	18.9
CIS	**22.3**	**2.6**	**8.9**	**CIS**	**70.6**	**3.9**	**–2.6**
Russia	10.4	1.2	68.2	Russia	61.6	3.4	–4.9
Ukraine	5.8	0.7	49.1	Belarus	4.8	0.3	14.8
Other	**35.1**	**4.1**	**45.5**	**Other**	**157.4**	**8.8**	**65.3**
USA	15.9	1.8	62.2	USA	38.3	2.1	124.5
Norway	5.3	0.6	–37.9	Switzerland	38.1	2.1	133.6
offshore regions	3.2	0.4	34.1	offshore regions	30.6	1.7	–41.1
Total	**861.6**	**100.0**	**22.5**	**Total**	**1,794.2**	**100.0**	**12.4**

in the form of dividends increased by two-fold, and so the inflow of reinvested earnings (book value) grew modestly at 8%. Reinvested earnings made up 54% of the direct investment inflow.

A third of the investment income inflow was earned on financial intermediation (excluding insurance and pension funds), 19% on the activities of head offices, 14% on water transport and 11% on insurance (excluding compulsory social security; see Figure 1.6). Income on financial intermediation shrank by more than 20% and income on water transport by 9%. The lower income on financial intermediation largely resulted from the structural change in the banking sector: the Latvian and Lithuanian subsidiaries of one major bank were brought under the direct control of their foreign parent bank. This affected also the outflow of investment income. The income of investors in head office activities grew by as much as twenty-fold and constituted 19% of the total investment income inflow (1% in 2010). Insurance investors raised their income by a third. The foreign investment income of real estate and wholesale investors increased by two- and four-fold respectively.

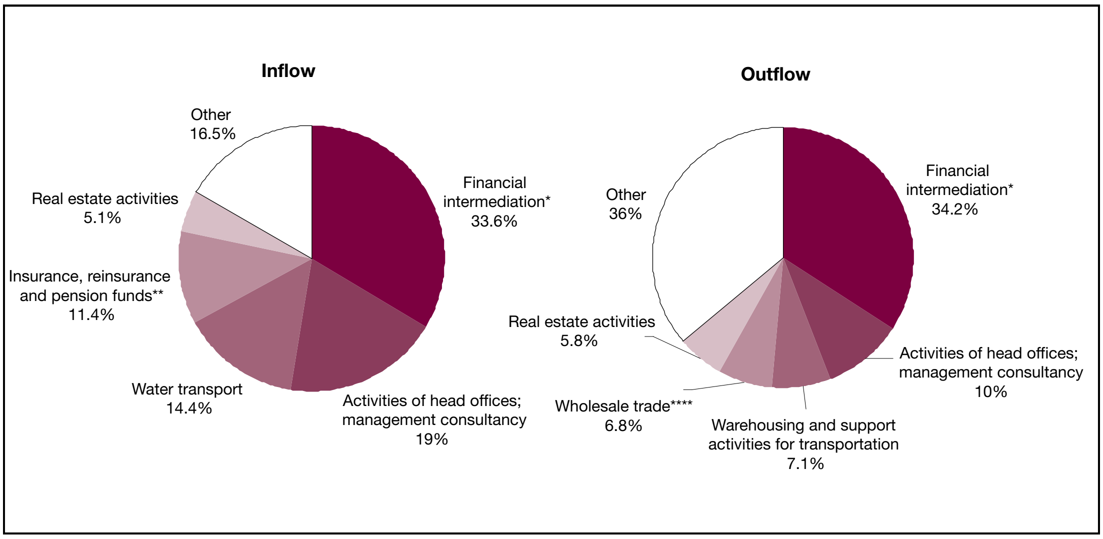


Figure 1.6. Inflow and outflow of investment income by fields of activity in 2011

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

66% of the investment income inflow was related to three countries: Lithuania (32%), Latvia (17%) and Cyprus (17%). The investment income earned in Lithuania grew by 50%, while the income inflow from Latvia and Cyprus shrank in 2011. 45% of the investment income earned in Lithuania belonged to investors related to head offices and a third to investors engaged in financial intermediation. In the former's case the income inflow increased by five-fold, while the latter's income inflow contracted by a third. 61% of the investment income from Latvia again went to financial intermediation investors (78% in 2010), while its volume shrank by 40%. The investment income of investors in head office activities in Latvia grew considerably in 2011 and formed 17% of the total investment income earned there. Investors in water transport gained 83% of the investment income earned in Cyprus, which decreased somewhat from a year ago. Investment income inflow from France and Luxembourg increased significantly too.

Income outflow from Estonia grew by 12% from 2011 to 1.8 billion euros (see Table 1.23). 87% of the outflow went to EU countries. Labour income constituted only 3% of the income outflow, the rest being investment income. Year-on-year, the outflow of labour income shrank by 15%. The majority of the labour income earned in Estonia went to Finland, Latvia, Sweden and Germany. The labour income earned by Swedes in Estonia decreased by around three-fold from 2010. Investment income grew by 14% to 1.7 billion euros over the year. The outflow of investment income increased primarily owing to direct investment income, which gained almost 20% from 2010 and constituted 86% of the total outflow of investment income. Portfolio investment income grew somewhat on account of other investment income that shrank. Similar to the inflow, also the outflow of direct investment income recorded a considerable amount of dividend payments, which grew by 2.5-fold over the year. This affected the outflow of reinvested earnings, which decreased by 4% to 975 million euros, constituting 65% of the total outflow of direct investment income.

Foreign investors earned primarily on financial intermediation (excluding insurance and pension funds) in Estonia. Although the volume of that was around 10% lower than it was in 2010, its share in the investment income outflow dropped from 43% to 34% in 2011. The reason for that was the above-mentioned structural change in the banking sector. Income on the activities of head offices totalled 10%, income on

Table 1.23. Income outflow from Estonia

	Volume (EUR m)		Share (%)		Change (%)
	2010	2011	2010	2011	2011/2010
Labour income	–68.6	–58.6	4.3	3.3	–14.6
Investment income	–1,528.3	–1,735.7	95.7	96.7	13.6
income on direct investment	–1,272.2	–1,499.5	79.7	83.6	17.9
income on equity	–1,197.8	–1,434.5	75.0	80.0	19.8
dividends	–183.9	–459.9	11.5	25.6	150.1
reinvested earnings	–1,013.8	–974.6	63.5	54.3	–3.9
income on debt (interests)	–74.4	–65.0	4.7	3.6	–12.6
income on portfolio investment	–37.4	–41.9	2.3	2.3	11.9
income on other investment	–218.7	–194.3	13.7	10.8	–11.2
Total	**–1,596.9**	**–1,794.2**	**100.0**	**100.0**	**12.4**

warehousing and support activities for transportation was 7%, and income on wholesale trade made up 7%. Investment income was earned in many other fields of activity too. Compared to 2010, considerable income was earned on the activities of head offices, wholesale trade, manufacture of computers and electronic equipment, real estate activities, manufacture of electrical equipment, retail trade, and motor vehicle sale in 2011.

68% of the investment income earned in Estonia belonged to three countries: Sweden (43%), Finland (17%) and the Netherlands (7%). Compared to 2010, the outflow of investment income to Sweden did not change much in volume, while the outflow to Finland increased by 11% and that to the Netherlands decreased by 15%. Around 60% of the income of Swedish investors was earned on financial intermediation, but the volume of income shrank by 19% over the year. Income on the activities of head offices, which ranked second in volume, grew by 50% and made up 15% of the investment income outflow to Sweden. Swedes' income earned in the electronics industry doubled and accounted for 9% of the total outflow to Sweden. Finnish investors earned income on many fields of activity, such as financial intermediation, wholesale trade, timber processing, manufacture of motor vehicles and trailers, real estate, manufacture of electrical equipment, etc. Finns earned the highest incomes on financial intermediation, which increased by around 50% over the year and constituted 22% of the investment income outflow to Finland. Income on the manufacture of electrical equipment grew by 25%, income on the manufacture of motor vehicles and trailers picked up by over 50%, and that on wholesale trade grew by a third. Dutch investors earned income mainly on warehousing and support activities for transportation, which did not change much in volume from 2010 and accounted for 68% of the total investment income in 2011. Income on real estate activities followed at 20%, having doubled from the previous year. Income on the activities of head offices shrank by 50%. In addition, investors from Switzerland, Norway and the United States increased their investment income in Estonia significantly.

Current transfers and the capital account

The surplus on the current transfers account increased by 6% from 2010 to 254 million euros in 2011 (see Table 1.24).

Current transfers to Estonia totalled 610 million euros, of which 42% went to the general government. 181 million euros (71%) of the latter were allocations from EU structural funds, while the rest were mostly tax payments by non-resident employees. Transfers to other sectors totalled 357 million euros, of which 47% were EU structural funds and 12% transfers by migrants employed abroad. The outflow of current transfers was 356 million euros, with Estonia's payment to the EU budget accounting for almost half of that.

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

	Incoming		Outgoing		Balance	
	2010	2011	2010	2011	2010	2011
Current transfers	**552.6**	**610.3**	**312.8**	**356.1**	**239.8**	**254.3**
government transfers	**186.5**	**253.9**	**166.4**	**194.5**	**20.1**	**59.3**
EU-27	176.1	241.8	155.7	177.7	20.4	64.1
CIS	2.5	3.0	0.8	0.7	1.7	2.2
other	7.9	9.0	9.9	16.1	–2.0	–7.0
private transfers	**366.1**	**356.5**	**146.5**	**161.5**	**219.7**	**194.9**
EU-27	284.5	287.6	115.6	130.5	168.9	157.1
CIS	46.6	44.9	4.3	14.2	42.3	30.7
other	35.0	24.0	26.6	16.9	8.5	7.1
Capital transfers	**376.0**	**484.6**	**6.0**	**4.3**	**370.0**	**480.3**
government transfers	197.9	228.7	0.2	4.3	197.7	224.4
private transfers	178.1	255.9	5.8	0.0	172.3	255.9
Intangible assets	**135.3**	**192.7**	**0.2**	**3.5**	**135.2**	**189.2**

The surplus on capital transfers grew by 30% over the year to 480 million euros. The capital transfers into Estonia mainly comprised EU subsidies to the general government and also to other sectors for infrastructure objects.

The sales of CO_2 emission quotas, which are recorded under intangible assets, provided Estonia with 193 million euros; that is 43% more than in 2010.

FINANCIAL ACCOUNT

The net outflow of capital, which started off in 2009, continued in 2011, though to a smaller extent, totalling 951 million euros. The net outflow mainly consisted of other investment, while direct and portfolio investment recorded net inflows. Figures 1.7-1.8 show the structure of the financial account by categories and maturities.

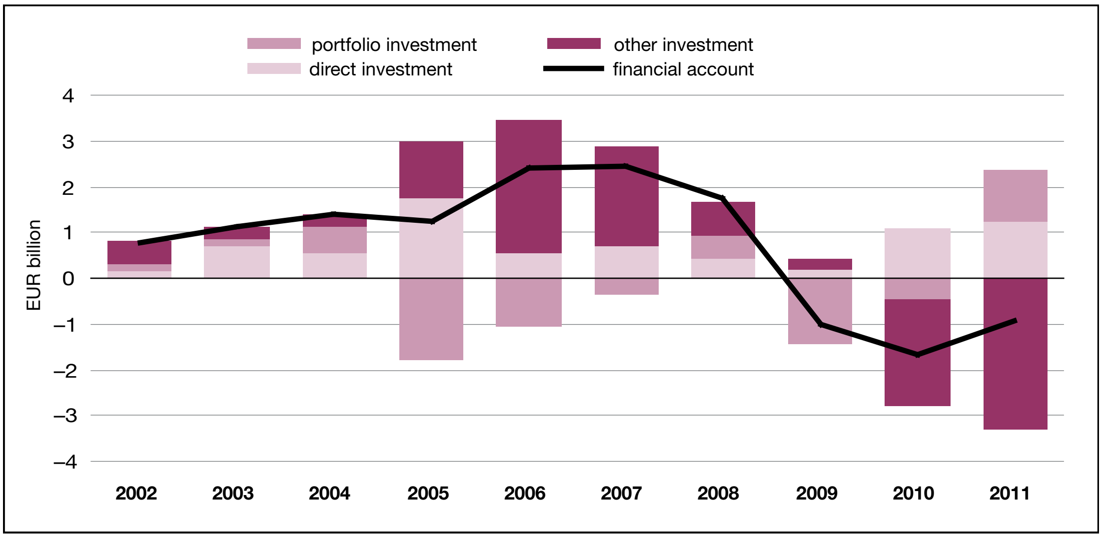


Figure 1.7. Structure of foreign investment capital flows

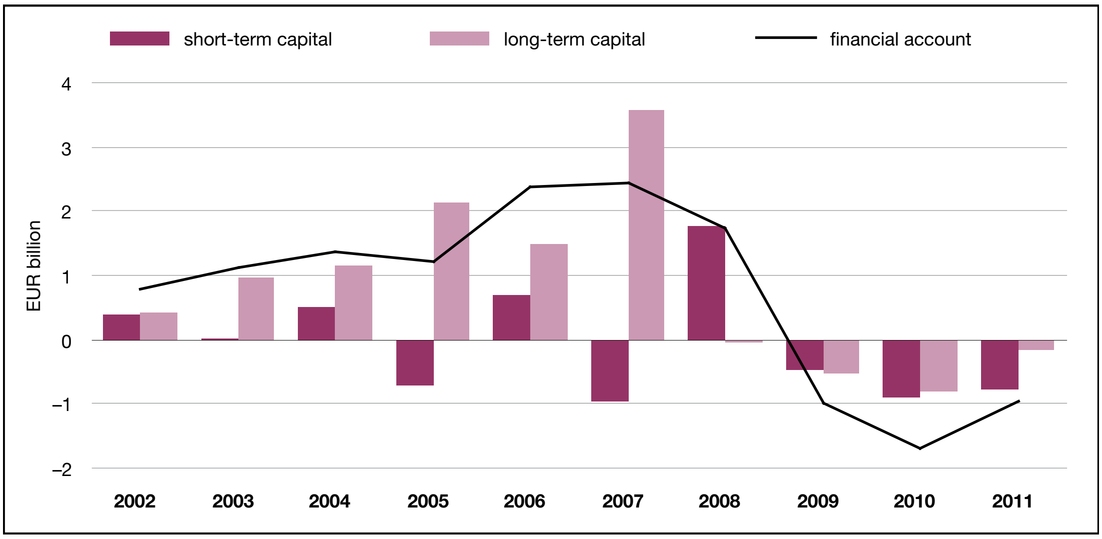


Figure 1.8. Maturity structure of the financial account

Direct investment

Direct investment had a surplus of 1.2 billion euros in 2011. Regardless of the relatively typical level of direct investment, 2011 witnessed some exceptional events that complicated the comparison of 2011 with previous years. Direct investment statistics for 2011 mainly reflects the extensive realisation of direct investment abroad and the reduction of capital in Estonia, which stemmed from the structural change in the banking sector. Consequently, non-residents' direct investment in Estonia increased by 185 million euros, while residents' direct investment abroad decreased by 1 billion euros (see Figure 1.9).

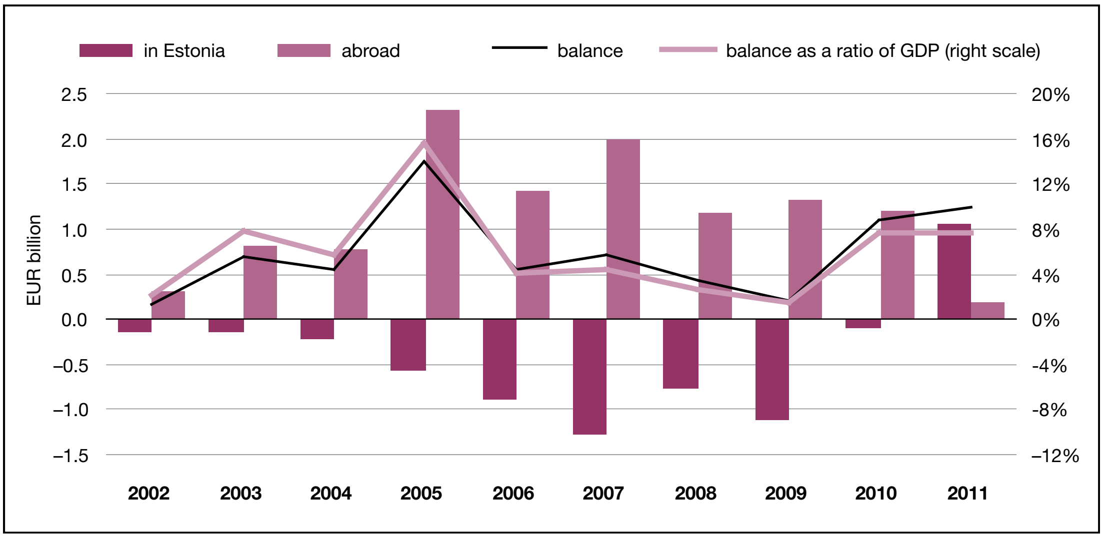


Figure 1.9. Direct investment

The inflow of **direct investment in Estonia** formed only 15% of the inflow in 2010. The structure of investment reflected similar profits for the business sector as in 2010, regardless of the decline in equity capital and the increased withdrawal of loan capital from Estonia. A total of 381 million euros of equity capital were withdrawn from direct investment companies in 2011, in particular from financial intermediaries. Reinvested earnings totalled around one billion euros, which is only 4% less than in 2010. The biggest contributions were made by financial intermediaries (184 million euros), companies engaged in warehousing and support activities for transportation (103 million euros) and wholesalers (94 million euros). The increase in assets to direct investment companies led to an outflow of 82 million euros from Estonian companies, while liabilities (especially long-term loans) decreased by 326 million euros (see Tables 1.25-1.26).

The largest direct investors were the Netherlands and Finland; the United States and Norway invested somewhat less (see Figure 1.10). Swedish and French investment in Estonia contracted. The outflow of foreign investment concerned mainly financial intermediation companies, while the largest inflows were recorded in real estate, the chemical industry and companies engaged in warehousing and support activities for transportation (see Figure 1.11). The direct investment of EU countries in Estonia shrank by 208 million euros, while investment from non-EU and CIS countries posted strongest growth over the past ten years (see Table 1.27).

Table 1.25 Structure of direct investment in Estonia

	Equity capital		Reinvested earnings		Other capital				Total	
					Assets		Liabilities			
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)
2002	52.5	17.1	215.4	70.2	–49.4	–16.1	88.3	28.8	306.8	100.0
2003	340.6	41.4	409.5	49.8	–85.3	–10.4	157.4	19.1	822.2	100.0
2004	296.5	38.5	510.1	66.2	–92.9	–12.1	57.2	7.4	770.8	100.0
2005	1,788.2	77.5	567.9	24.6	–128.7	–5.6	79.9	3.5	2,307.3	100.0
2006	143.1	10.0	1,000.4	69.9	–285.3	–19.9	573.7	40.1	1,431.9	100.0
2007	273.2	13.8	1,366.9	68.9	–417.7	–21.0	762.5	38.4	1,985.0	100.0
2008	195.2	16.5	870.6	73.7	–125.3	–10.6	241.4	20.4	1,181.8	100.0
2009	1,219.1	92.0	408.4	30.8	–50.0	–3.8	–253.0	–19.1	1,324.5	100.0
2010	311.8	25.8	1,013.8	84.0	–231.7	–19.2	113.3	9.4	1,207.3	100.0
2011	–380.9	–205.9	974.6	526.9	–82.3	–44.5	–326.4	–176.5	185.0	100.0

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

	Assets				Liabilities			
	Long-term		Short-term		Long-term		Short-term	
	Grantings	Repay-ments	Grantings	Repay-ments	Drawings	Repay-ments	Drawings	Repay-ments
2003	26.1	15.7	64.6	31.9	329.5	170.5	193.1	238.2
2004	31.5	23.7	113.4	55.1	294.1	312.0	193.3	140.4
2005	81.4	32.1	146.4	90.3	504.2	440.5	320.3	292.4
2006	135.5	38.9	238.0	165.5	851.1	392.4	263.3	216.9
2007	246.7	78.3	510.8	248.6	1,152.7	586.4	516.5	406.9
2008	224.3	161.7	576.8	521.8	876.1	770.2	783.2	600.2
2009	170.2	131.2	388.4	372.8	567.3	734.5	631.2	611.5
2010	82.2	210.0	769.0	446.2	742.6	466.7	424.1	653.9
2011	140.8	62.0	626.4	650.5	692.8	1,075.9	649.0	688.2

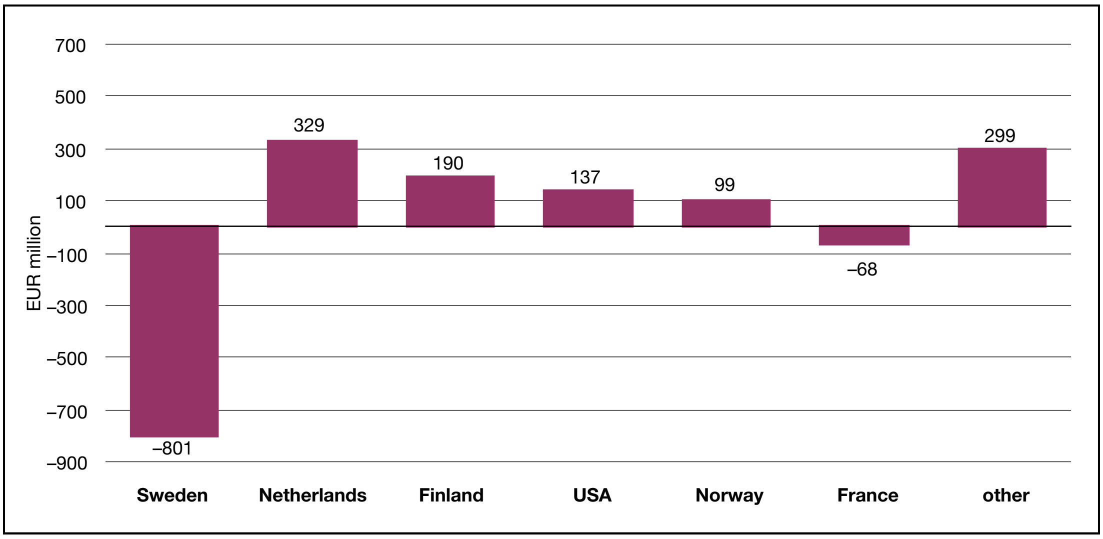


Figure 1.10. Direct investment in Estonia by countries in 2011

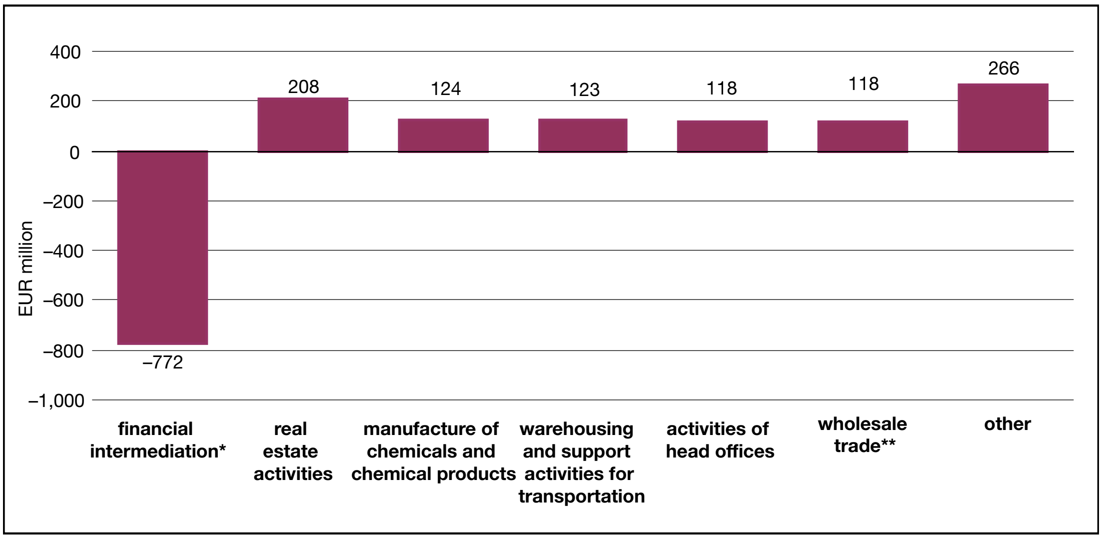


Figure 1.11. Direct investment in Estonia by fields of activity in 2011

* Excluding insurance and pension funds.
** Excluding motor vehicles and motorcycles.

Table 1.27. Direct investment in Estonia by groups of countries

	Volume (EUR m)		Share (%)		Change (%)
	2010	2011	2010	2011	2011/2010
EU-27	1,142.1	–208.3	94.6	–112.6	–118.2
CIS	37.7	67.2	3.1	36.3	78.1
Other	27.5	326.1	2.3	176.3	1,087.0
Total	**1,207.3**	**185.0**	**100.0**	**100.0**	**–84.7**

Direct investment abroad contracted by 1 billion euros (see Table 1.28). Equity capital investment witnessed the largest change, as Estonian investors gained 1.3 billion euros. In 2011, around 213 million euros of reinvested earnings were channelled abroad (8% growth from 2010), of which 40% went to financial intermediaries and 40% to water transport investors. Loans to subsidiaries grew by 49 million and trade credit by 89 million euros; loans from subsidiaries shrank by 25 million euros (see Table 1.29).

Estonian direct investment in its southern neighbouring countries contracted the most: by 687 million euros in Latvia and by 516 million euros in Lithuania. Direct investment in the United States and Sweden, on the other hand, expanded by 67 and 55 million euros respectively (see Figure 1.12). Investors in financial intermediation withdrew funds from abroad. The largest investments were made by electricity, gas, steam and air conditioning suppliers, and companies engaged in the activities of head offices (see Figure 1.13). By groups of countries, investments in EU countries were withdrawn, while investments in CIS and other countries were expanded (see Table 1.30).

Table 1.28. Structure of direct investment abroad

	Equity capital		Reinvested earnings		Other capital				Total	
					Assets		Liabilities			
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)
2002	–57.8	41.3	–42.5	30.4	–46.5	33.2	6.9	–4.9	–139.9	100.0
2003	–67.7	49.3	–47.4	34.5	–41.3	30.0	19.0	–13.9	–137.4	100.0
2004	–139.0	64.2	–58.8	27.1	–27.7	12.8	9.0	–4.1	–216.6	100.0
2005	–329.5	59.3	–172.2	31.0	–73.0	13.1	18.7	–3.4	–556.0	100.0
2006	–376.8	42.7	–309.6	35.1	–243.8	27.7	48.6	–5.5	–881.6	100.0
2007	–660.0	51.7	–324.8	25.4	–384.8	30.1	93.1	–7.3	–1,276.5	100.0
2008	–150.7	19.8	–136.7	18.0	–419.7	55.2	–53.0	7.0	–760.2	100.0
2009	–772.0	69.3	–99.0	8.9	–162.9	14.6	–80.0	7.2	–1,113.9	100.0
2010	–78.2	73.0	–196.9	183.8	70.4	–65.7	97.6	–91.1	–107.1	100.0
2011	1,347.9	128.5	–213.4	–20.3	–138.0	–13.2	52.6	5.0	1,049.1	100.0

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

	Assets				Liabilities			
	Long-term		Short-term		Long-term		Short-term	
	Grantings	Repayments	Gran-tings	Repayments	Drawings	Repayments	Drawings	Repayments
2003	70.8	45.8	30.2	32.2	0.3	0.7	5.4	6.3
2004	59.7	78.8	60.9	23.6	1.1	3.9	1.8	2.4
2005	136.9	95.1	109.3	70.8	7.0	3.9	6.7	1.6
2006	342.9	151.6	99.9	103.9	7.6	7.2	9.4	1.3
2007	408.3	130.8	133.5	95.4	6.4	7.3	107.3	7.0
2008	347.1	234.1	185.3	129.0	16.3	11.8	38.0	75.4
2009	397.6	197.5	226.7	158.4	11.1	5.6	10.0	72.3
2010	141.7	170.2	116.9	80.2	4.5	7.5	35.6	10.4
2011	211.8	192.2	119.3	90.1	5.6	5.2	15.8	40.7

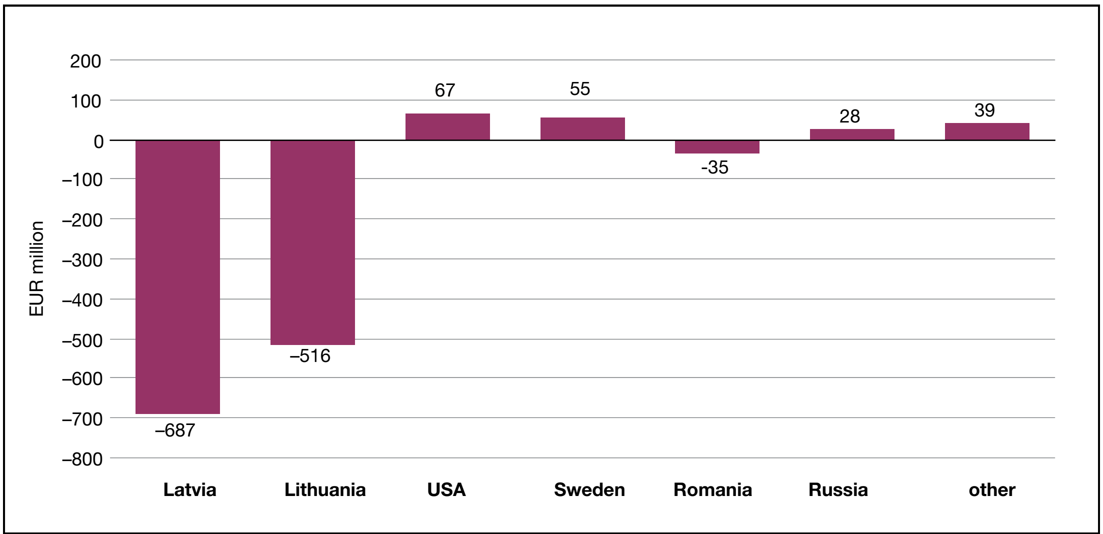


Figure 1.12. Direct investment abroad by countries in 2011

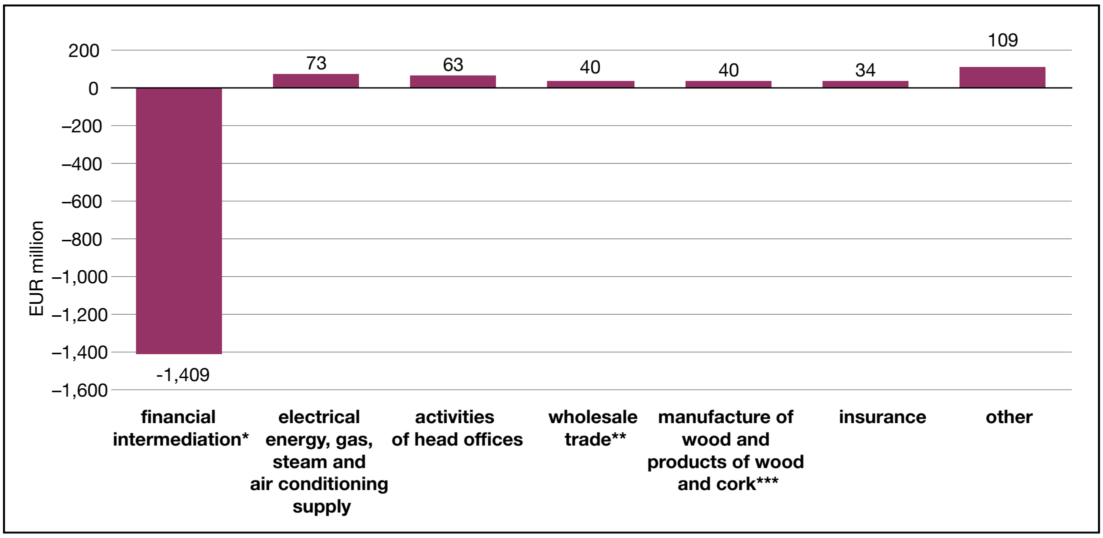


Figure 1.13. Direct investment abroad by activities in 2011

* Excluding insurance and pension funds.
** Excluding motor vehicles and motorcycles.
*** Excluding furniture; manufacture of articles of straw and plaiting materials.

Table 1.30. Direct investment abroad by groups of countries

	Volume (EUR m)		Share (%)		Change (%)
	2010	2011	2010	2011	2011/2010
EU-27	–135.6	1,173.1	126.6	111.8	–964.8
CIS	32.9	–41.6	–30.7	–4.0	–226.2
Other	–4.4	–82.4	4.1	–7.9	1,755.8
Total	**–107.1**	**1,049.1**	**100.0**	**100.0**	**–1,079.2**

Portfolio investment

The net inflow of portfolio investment totalled 1.2 billion euros in 2011. This resulted primarily from a decline in foreign debt security investment. The decline can be attributed to the central bank, the general government as well as credit institutions (see Figure 1.14 and Table 1.31). Foreign investors invested in enterprises in other sectors.

Portfolio investment liabilities grew by 120 million euros in 2011 (see Table 1.32). By institutional sectors, only enterprises in other sectors increased their liabilities, in particular non-financial companies, whose liabilities grew by 214 million euros. The general government reduced its debt security liabilities by 11 million euros in 2011. Enterprises in other sectors reduced their equity security liabilities by 79 million euros. By countries, portfolio investment liabilities to Germany increased the most, followed by liabilities to the United Kingdom, Hong Kong and Lithuania (see Figure 1.15 and Table 1.33).

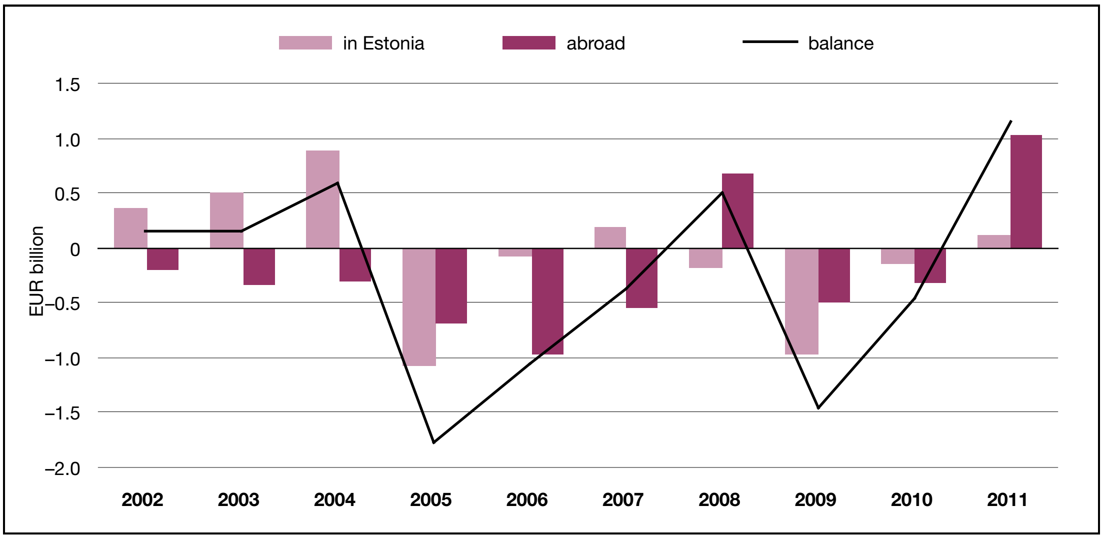


Figure 1.14. Portfolio investment

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

	Assets		Liabilities		Balance	
	2010	2011	2010	2011	2010	2011
Equity securities	**–303.8**	**102.2**	**30.0**	**–80.5**	**–273.8**	**21.7**
central bank	–	–	–	–	–	–
general government	6.1	–6.9	–	–	6.1	–6.9
credit institutions	–0.4	0.1	2.1	–1.7	1.7	–1.6
other sectors	–309.5	109.0	27.9	–78.8	–281.6	30.2
Debt securities	**–13.0**	**929.3**	**–175.3**	**200.8**	**–188.3**	**1,130.1**
central bank	–	639.5	–	–	–	639.5
general government	–7.0	206.9	–90.2	–10.9	–97.2	196.0
credit institutions	–79.5	217.3	–42.1	–0.1	–121.6	217.2
other sectors	73.5	–134.3	–43.0	211.9	30.5	77.6
Total	**–316.8**	**1,031.5**	**–145.3**	**120.4**	**–462.1**	**1,151.9**

Table 1.32. Structure of portfolio investment liabilities

	Equity securities		Debt securities		Total	
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)
2002	58.3	16.4	297.2	83.6	355.5	100.0
2003	97.6	19.6	399.8	80.4	497.4	100.0
2004	140.9	15.9	746.0	84.1	887.0	100.0
2005	–1,045.1	96.9	–33.1	3.1	–1,078.2	100.0
2006	238.5	–293.7	–319.7	393.7	–81.2	100.0
2007	225.8	122.6	–41.6	–22.6	184.2	100.0
2008	–212.7	122.0	38.3	–22.0	–174.3	100.0
2009	–93.5	9.7	–868.7	90.3	–962.2	100.0
2010	30.0	–20.6	–175.3	120.6	–145.3	100.0
2011	–80.5	–66.9	200.8	166.8	120.4	100.0

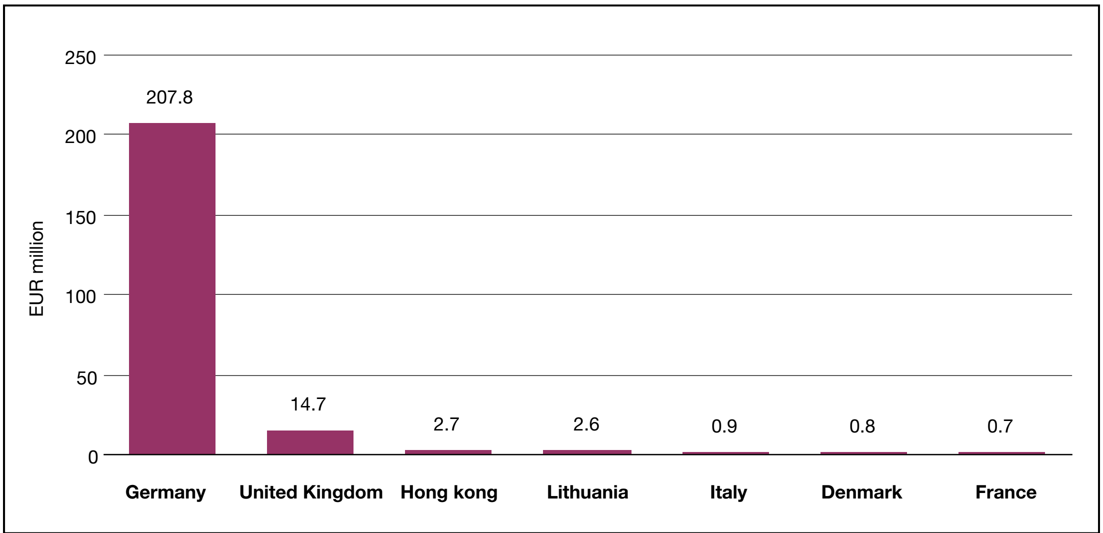


Figure 1.15. Increase in portfolio investment liabilities by countries in 2011

Table 1.33. Structure of portfolio investment by groups of countries

	Volume (EUR m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2010	2011	2010	2011	2010	2011	2010	2011
EU-27	–284.1	1,025.8	–118.7	151.0	89.7	99.4	81.7	125.4
CIS	–7.8	32.5	4.1	–0.7	2.5	3.2	–2.8	–0.6
Other	–24.9	–26.8	–30.7	–29.9	7.9	–2.6	21.1	–24.8
Total	**–316.8**	**1,031.5**	**–145.3**	**120.4**	**100.0**	**100.0**	**100.0**	**100.0**

Portfolio investment assets shrank by 1 billion euros over the year (see Table 1.34). Equity security assets decreased by 102 million and debt security assets by 929 million euros. The latter stemmed mainly from a decline in the central bank's investment in money market instruments denominated in euros or issued in the euro area. While the central bank's investment in money market instruments contracted by

Table 1.34. Structure of portfolio investment assets

	Equity securities		Debt securities		Total	
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)
2002	0.6	–0.3	–204.0	100.3	–203.4	100.0
2003	–65.8	19.2	–276.3	80.8	–342.0	100.0
2004	–184.9	60.6	–120.3	39.4	–305.2	100.0
2005	–309.9	44.8	–381.5	55.2	–691.4	100.0
2006	–292.0	30.0	–682.5	70.0	–974.5	100.0
2007	–491.4	89.0	–60.8	11.0	–552.2	100.0
2008	261.8	38.5	418.8	61.5	680.5	100.0
2009	–49.6	10.1	–439.9	89.9	–489.5	100.0
2010	–303.8	95.9	–13.0	4.1	–316.8	100.0
2011	102.2	9.9	929.3	90.1	1,031.5	100.0

893 million euros, its debt security investment grew by 254 million euros. Besides the central bank, also the general government and credit institutions reduced their investment in money market instruments: by 210 and 140 million euros respectively. Enterprises in other sectors increased their debt security investment by 134 million euros owing to pension and insurance funds. The foreign equity security assets of enterprises in other sectors decreased by 109 million euros, mainly owing to the operations of pension funds. By countries, primarily portfolio investment assets to Belgium, Italy, the Netherlands and France decreased (see Figure 1.16).

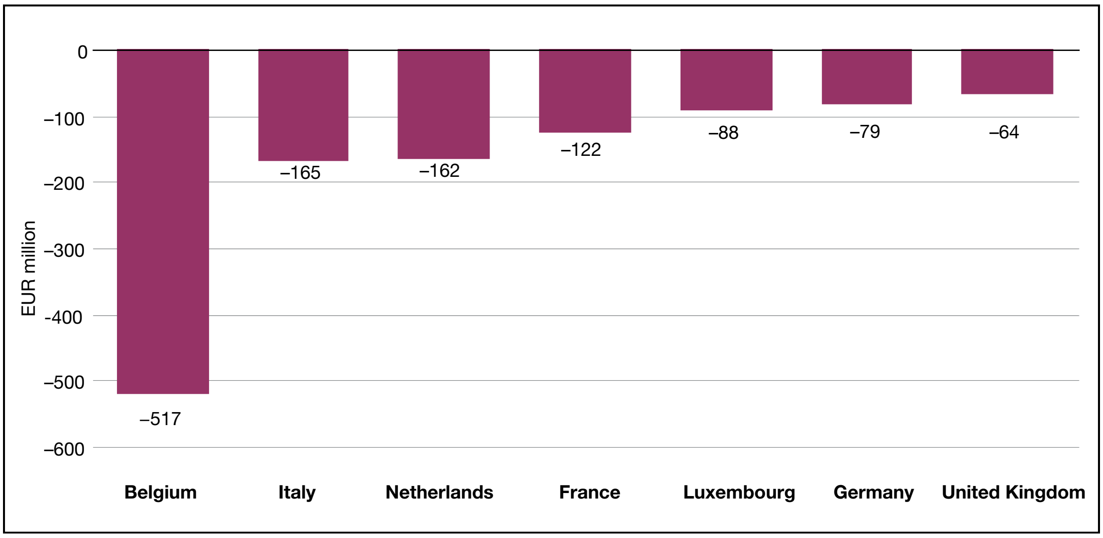


Figure 1.16. Decrease in portfolio investment assets by countries in 2011

Financial derivatives

The net outflow of financial derivatives totalled 39 million euros in 2011 (see Figure 1.17). Financial derivative assets grew by 23 million euros in 2011, largely owing to an increase in non-financial companies' investment in financial derivatives. By countries, assets to the United Kingdom and Denmark increased the most. Financial derivative liabilities decreased by 16 million euros, which was related to non-financial companies. By countries, liabilities to the United Kingdom increased the most.

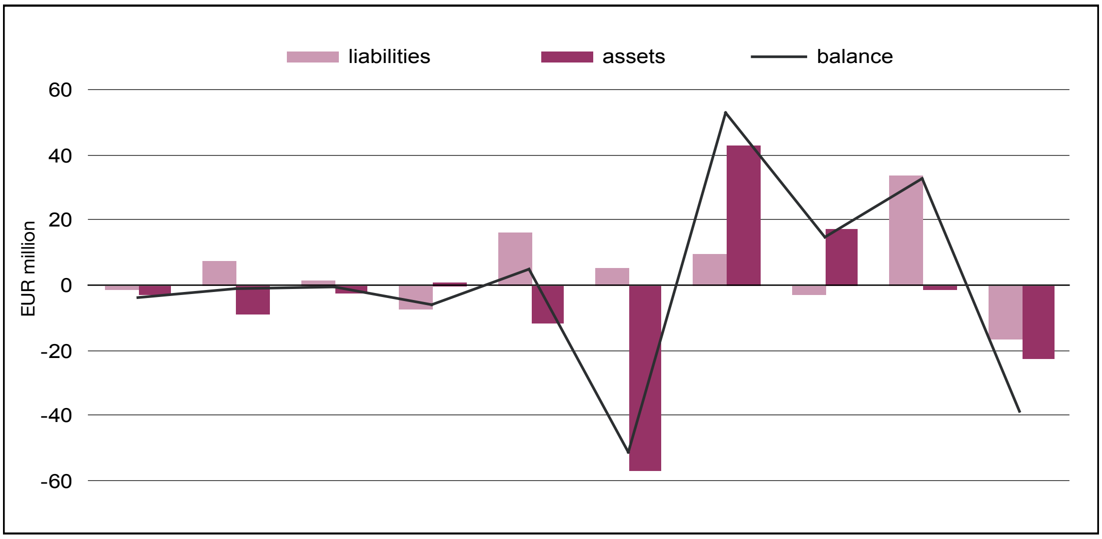


Figure 1.17. Financial derivatives

Other investment

The net outflow of other investment totalled 3.3 billion euros in 2011. The outflow of investment related to credit institutions constituted 2.5 billion euros of that (see Figure 1.18). The net outflow consisted of both long- and short-term capital (see Table 1.35).

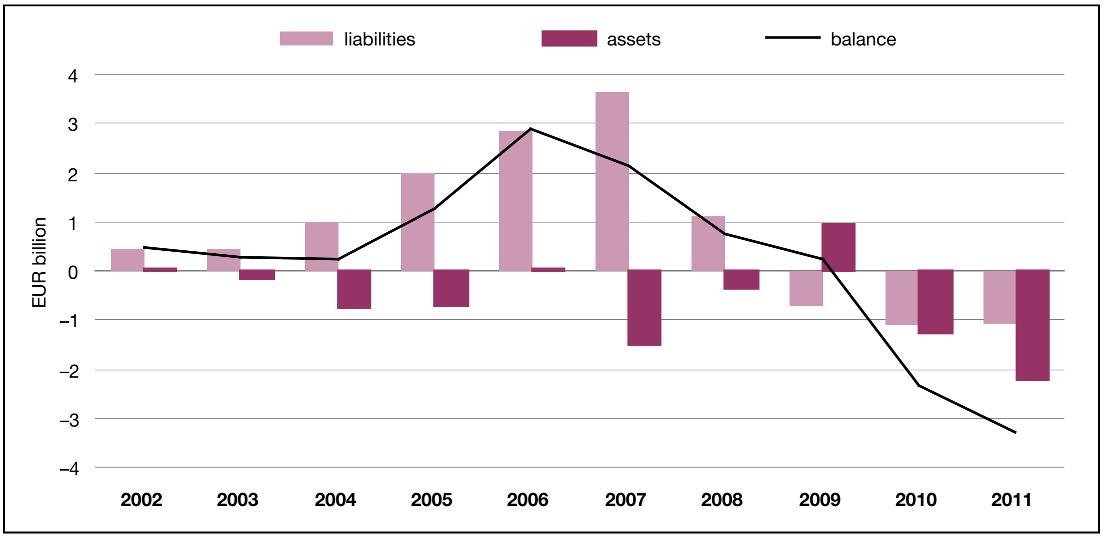


Figure 1.18. Other investment

Table 1.35. Other investment by maturity (EUR million)

	Assets		Liabilities		Balance	
	2010	2011	2010	2011	2010	2011
Long-term capital	**–322.6**	**–93.5**	**–1,361.2**	**–1,190.3**	**–1,683.8**	**–1,283.8**
central bank	0.0	–195.3	–	–	0.0	–195.3
general government	–3.0	–11.1	95.4	–215.4	92.4	–226.5
credit institutions	6.7	32.0	–1,100.4	–978.6	–1,093.7	–946.6
other sectors	–326.3	80.9	–356.2	3.7	–682.5	84.6
Short-term capital	**–940.9**	**–2,117.2**	**271.8**	**102.8**	**–669.1**	**–2,014.4**
central bank	–	–91.7	7.2	–7.3	7.2	–99.0
general government	–14.4	–101.6	0.0	4.8	–14.4	–96.8
credit institutions	–200.1	–1,359.1	–342.5	–214.5	–542.6	–1,573.6
other sectors	–726.4	–564.8	607.1	319.8	–119.3	–245.0
Total	**–1,263.4**	**–2,210.6**	**–1,089.4**	**–1,087.6**	**–2,352.8**	**–3,298.2**

Table 1.36. Structure of other investment liabilities

	Trade credit		Loans		Deposits		Other capital		Total	
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)
2002	49.9	11.6	125.5	29.2	240.5	55.9	14.4	3.3	430.3	100.0
2003	–7.4	–1.7	205.8	47.8	293.2	68.2	–61.4	–14.3	430.2	100.0
2004	40.0	4.0	291.8	29.3	562.7	56.5	101.1	10.2	995.6	100.0
2005	104.4	5.3	1,577.1	80.3	188.8	9.6	92.8	4.7	1,963.1	100.0
2006	203.6	7.1	1,229.2	43.1	1,347.3	47.2	75.0	2.6	2,855.2	100.0
2007	–21.9	–0.6	2,443.3	67.2	1,206.4	33.2	8.3	0.2	3,636.0	100.0
2008	20.0	1.8	70.1	6.3	951.1	85.5	71.6	6.4	1,112.8	100.0
2009	–329.0	45.2	141.8	–19.5	–476.6	65.5	–63.7	8.8	–727.5	100.0
2010	359.5	–33.0	–40.3	3.7	–1,587.7	145.7	179.1	–16.4	–1,089.4	100.0
2011	226.4	–20.8	98.2	–9.0	–1,161.8	106.8	–250.3	23.0	–1,087.6	100.0

Other investment liabilities declined by 1.1 billion euros from 2010, with the loan/currency and deposit liabilities (including interbank loans) of credit institutions shrinking by 1.2 billion euros[3] (see Table 1.36). About 50% of the decrease in liabilities occurred in January 2011, when Estonia joined the euro area and the required reserve ratio for credit institutions was lowered from 7% to 2%. Other capital liabilities decreased too, by 250 million euros in total. General government's liabilities constituted 223 million euros of that and consisted of EU funds not yet used. Growth in short-term capital was boosted by the 228 million-euro increase in the trade credit liabilities of enterprises in other sectors. The latter also expanded their loan liabilities by 144 million euros in 2011. By countries, other investment liabilities to Sweden posted the strongest decline at 1.6 billion euros, followed by liabilities to Denmark, Finland and Lithuania (see Figure 1.19 and Table 1.37).

Other investment assets increased by 2.2 billion euros in 2011 (see Table 1.38). Deposit assets recorded the strongest growth at 1.7 billion euros, followed by trade credit assets and other capital

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

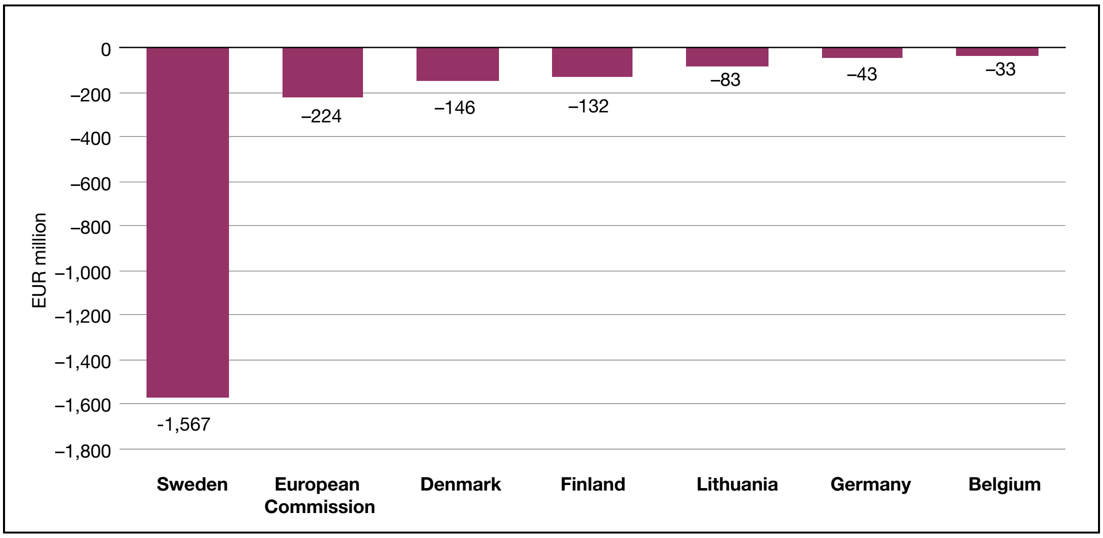


Figure 1.19. Decrease in other investment liabilities by countries and institutions in 2011

Table 1.37. Structure of other investment by groups of countries

	Volume (EEK m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2010	2011	2010	2011	2010	2011	2010	2011
EU-27	–1,073.2	–1,946.8	–1,158.1	–1,876.7	84.9	88.1	106.3	172.6
CIS	–53.9	–105.3	–27.3	162.1	4.3	4.8	2.5	–14.9
Other	–136.3	–158.5	96.0	627.0	10.8	7.2	–8.8	–57.6
Total	**–1,263.4**	**–2,210.6**	**–1,089.4**	**–1,087.6**	**100.0**	**100.0**	**100.0**	**100.0**

Table 1.38. Structure of other investment assets

	Trade credit		Loans		Deposits		Other capital		Total	
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)
2002	67.0	150.7	–84.7	–190.5	47.5	106.8	14.7	33.0	44.4	100.0
2003	–65.7	45.0	–225.0	154.1	141.2	–96.7	3.5	–2.4	–146.0	100.0
2004	–66.0	8.8	–540.4	72.0	–98.8	13.2	–45.8	6.1	–750.9	100.0
2005	–125.1	17.6	265.1	–37.2	–788.2	110.7	–64.1	9.0	–712.2	100.0
2006	–225.5	–628.1	–161.8	–450.7	401.6	1,118.7	21.7	60.4	35.9	100.0
2007	–41.0	2.8	–645.0	43.4	–743.0	50.0	–56.2	3.8	–1,485.2	100.0
2008	–110.2	30.3	–128.0	35.2	–44.2	12.2	–81.4	22.4	–363.7	100.0
2009	178.7	18.7	129.9	13.6	697.0	73.0	–50.2	–5.3	955.3	100.0
2010	–350.1	27.7	–260.8	20.6	–485.3	38.4	–167.1	13.2	–1,263.4	100.0
2011	–204.1	9.2	–32.9	1.5	–1,663.9	75.3	–309.7	14.0	–2,210.6	100.0

assets at 310 and 204 million euros respectively. The majority of these assets were short-term capital, except for the central bank's other capital assets, which grew by 195 million euros. Growth stemmed from Estonia's capital payment and the transfer of reserves to the European Central Bank after the adoption of the euro. Credit institutions invested 1.4 billion euros in short-term foreign deposits. Enterprises in other sectors invested in all types of capital. By countries, other investment assets to Sweden, Denmark, Finland and Cyprus increased the most (see Figure 1.20). Table 1.39 gives an overview of loan capital assets and liabilities.

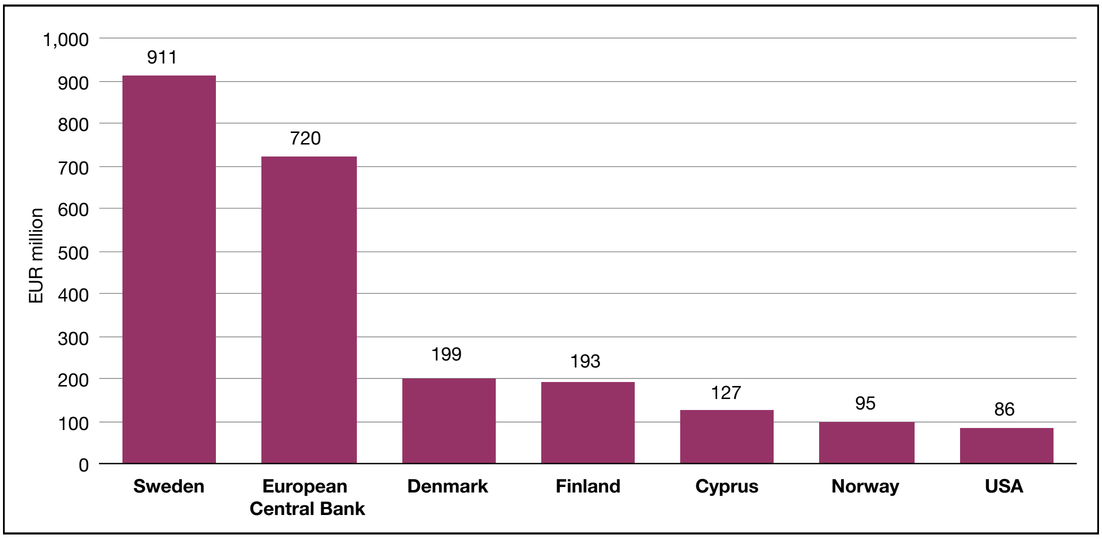


Figure 1.20. Increase in other investment assets by countries and institutions in 2011

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

	Assets			Liabilities		
	Grantings	Repayments	Total	Drawings	Repayments	Total
2003	–2,231.7	2,006.8	–225.0	1,922.2	–1,716.5	205.8
2004	–1,903.5	1,363.1	–540.4	2,904.6	–2,612.8	291.8
2005	–4,956.8	5,221.9	265.1	8,017.0	–6,439.9	1,577.1
2006	–4,858.1	4,696.3	–161.8	11,687.5	–10,458.3	1,229.2
2007	–25,339.9	24,694.8	–645.0	23,266.0	–20,822.7	2,443.3
2008	–3,066.8	2,938.9	–128.0	6,639.7	–6,569.6	70.1
2009	–1,495.5	1,625.4	129.9	3,420.2	–3,278.4	141.8
2010	–1,747.2	1,486.4	–260.8	2,661.3	–2,701.6	–40.3
2011	–1,101.8	1,068.9	–32.9	2,162.5	–2,064.3	98.2

Reserve assets

The reserve assets increased by 13 million euros in 2011 (see Table 1.40).

Table 1.40. Structure of reserve assets

	Volume (EUR m)		Share (%)	
	2010	2011	2010	2011
Gold	–	–	0.0	0.0
SDRs	0.0	0.0	0.0	0.0
Reserve position in the IMF	0.0	–	0.0	0.0
Currency and deposits	5.8	0.0	0.7	0.0
Securities	878.0	–13.5	105.6	105.5
bonds and notes	133.5	–11.9	16.1	93.0
money market instruments	744.6	–1.5	89.6	11.7
Financial derivatives	–12.7	0.7	–1.5	–5.5
Other	–39.8	–	–4.8	0.0
Total	**831.3**	**–12.8**	**100.0**	**100.0**

II. ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND GROSS EXTERNAL DEBT as at 31 December 2011

Foreign investment in Estonia totalled 26.4 billion euros (65% more than GDP) at the end of 2011, having decreased only by 1% from the previous year (see Table 2.1).

Estonia's gross external debt, that is the total external debt of all economic sectors, comprised 59%, or 15.5 billion euros, of total direct investment in Estonia, having shrunk by around 6% year-on-year. Gross external debt was 15% larger than GDP at the end of 2010, while only 3% larger than GDP at the end

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

	31/12/2010	Share (%)	31/12/2011	Share (%)	Change (%)
EXTERNAL ASSETS	**16,282.5**	**100.0**	**17,194.7**	**100.0**	**5.6**
Direct investment abroad	**4,322.2**	**26.5**	**3,663.5**	**21.3**	**–15.2**
Equity capital and reinvested earnings	2,973.8	18.3	2,465.1	14.3	–17.1
Other direct investment capital	1,348.5	8.3	1,198.4	7.0	–11.1
Portfolio investment	**3,991.6**	**24.5**	**4,182.2**	**24.3**	**4.8**
Equity securities	1,596.8	9.8	1,607.0	9.3	0.6
Debt securities	2,394.9	14.7	2,575.2	15.0	7.5
Bonds and notes	1,480.7	9.1	1,949.9	11.3	31.7
Money market instruments	914.2	5.6	625.3	3.6	–31.6
Financial derivatives	**33.6**	**0.2**	**68.4**	**0.4**	**103.4**
Other investment	**6,026.3**	**37.0**	**9,120.3**	**53.0**	**51.3**
Trade credit	1,521.2	9.3	1,650.5	9.6	8.5
Loans	1,587.8	9.8	1,691.2	9.8	6.5
Long-term	1,097.5	6.7	990.5	5.8	–9.7
Short-term	490.3	3.0	700.6	4.1	42.9
Currency and deposits	2,481.3	15.2	5,110.3	29.7	105.9
Other assets	435.9	2.7	668.4	3.9	53.3
Reserve assets	**1,908.8**	**11.7**	**160.4**	**0.9**	**–91.6**
EXTERNAL LIABILITIES	**26,715.9**	**100.0**	**26,413.9**	**100.0**	**–1.1**
Direct investment in Estonia	**12,495.4**	**46.8**	**12,927.9**	**48.9**	**3.5**
Equity capital and reinvested earnings	10,781.7	40.4	11,692.2	44.3	8.4
Other direct investment capital	1,713.7	6.4	1,235.7	4.7	–27.9
Portfolio investment	**1,418.2**	**5.3**	**1,327.2**	**5.0**	**–6.4**
Equity securities	893.2	3.3	634.6	2.4	–29.0
Debt securities	525.0	2.0	692.6	2.6	31.9
Bonds and notes	521.1	2.0	689.8	2.6	32.4
Money market instruments	3.9	0.0	2.8	0.0	–29.2
Financial derivatives	**91.6**	**0.3**	**80.1**	**0.3**	**–12.5**
Other investment	**12,710.8**	**47.6**	**12,078.7**	**45.7**	**–5.0**
Trade credit	1,123.1	4.2	1,391.9	5.3	23.9
Loans	3,289.3	12.3	3,745.1	14.2	13.9
Long-term	2,318.0	8.7	3,058.9	11.6	32.0
Short-term	971.4	3.6	686.1	2.6	–29.4
Currency and deposits	7,738.7	29.0	6,620.8	25.1	–14.4
Other liabilities	559.8	2.1	321.0	1.2	–42.7
NET INVESTMENT POSITION	**–10,433.3**		**–9,219.2**		**–11.6**
Long-term	**–12,005.9**		**–11,979.3**		**–0.2**
Short-term	**1,572.5**		**2,760.1**		**75.5**
GROSS EXTERNAL DEBT	**16,402.0**		**15,503.6**		**–5.5**
NET EXTERNAL DEBT	**–3,352.3**		**–1,031.6**		**–69.2**
General government	429.9		575.9		34.0

of 2011 (see Table 2.4 and Figure 2.1). Estonian residents' investment abroad grew by 6% from a year ago to 17.2 billion euros at the end of 2011. Due to the prevalence of foreign investment in Estonia over residents' investment abroad, Estonia had a negative net international investment position of 9.2 billion euros, which decreased by 12% from a year ago. Estonia's net external debt (assets less liabilities) contracted by three-fold from the previous year to 1 billion euros. Net external debt-to-GDP ratio dropped from 23% to 7% year-on-year. The last such low ratio was recorded ten years ago.

The share of direct investment in **foreign investment in Estonia** increased by 2 percentage points from the previous year to 49%. The increase in investment concerned mainly equity direct investment, while the share of other investment dropped to 46% by the end of 2011. The rest were portfolio investment (5%) and financial derivatives. In terms of volume, the total investment position contracted only by 1%, primarily on account of other investment. The currency and deposit liabilities of credit institutions decreased by more than 1 billion euros, while the trade credit liabilities and long-term loan liabilities of other sectors increased. The direct investment position grew by around 4% year-on-year.

Swedish and Finnish investors made the largest investment in Estonia: 24% and 23% respectively of the total investment position (see Table 2.2). Sweden's share dropped by about 9 percentage points over the year, mainly as a result of a decline in the provision of financial services, which comprised 65% of Sweden's total investment position in Estonia in 2011 (76% in 2010). Finland's investment position in Estonia was more broad-based, but the provision of financial services prevailed here too, constituting 43% of Finland's total position. Estonia also attracted investment from the Netherlands, Russia, the United Kingdom and Germany. The main fields of investment were financial intermediation, real estate activities, wholesale trade, activities of head offices and management consultancy, and production of energy.

The position of direct investment in Estonia was relatively similar to the total investment position. The largest direct investment came from Sweden and Finland, constituting 52% of the direct investment position (see Table 2.3). The main fields of direct investment were financial intermediation and real estate activities.

Figure 2.1. Estonia's gross and net external debt

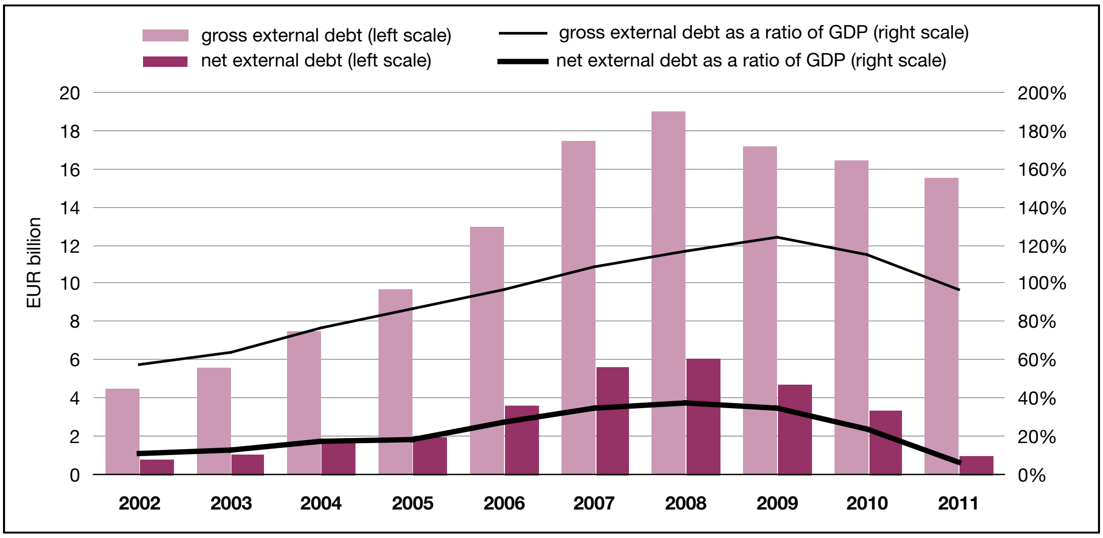


Table 2.2. Estonia's international investment position by fields of activity and countries (%)

Assets			Liabilities		
Fields of activity					
	31/12/2010	**31/12/2011**		**31/12/2010**	**31/12/2011**
Financial intermediation*	45.3	40.0	Financial intermediation*	47.8	40.9
Insurance, reinsurance and pension funding**	9.4	9.1	Real estate activities	7.6	9.0
Public administration and defence; compulsory social security	7.1	6.5	Wholesale trade***	5.3	6.4
Wholesale trade***	5.3	5.7	Activities of head offices; management consultancy	4.7	4.9
Activities of head offices; management consultancy	4.9	5.4	Electricity, gas, steam and air conditioning supply	3.3	4.2
Other	28.1	33.3	Other	31.3	34.6
Total	100.0	100.0	Total	100.0	100.0
Countries					
	31/12/2010	**31/12/2011**		**31/12/2010**	**31/12/2011**
Sweden	8.3	14.2	Sweden	32.6	24.1
Lithuania	12.1	9.7	Finland	21.9	22.5
Latvia	10.4	8.5	Netherlands	4.3	5.6
Finland	6.7	7.8	Russia	2.9	3.9
Cyprus	4.7	5.3	United Kingdom	3.6	3.9
Other	57.8	54.6	Other	34.7	40.0
Total	100.0	100.0	Total	100.0	100.0

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

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

Abroad			In Estonia		
Fields of activity					
	31/12/2010	**31/12/2011**		**31/12/2010**	**31/12/2011**
Activities of head offices; management consultancy	15.0	21.6	Financial intermediation*	28.1	20.5
Water transport	12.4	14.9	Real estate activities	12.7	15.7
Real estate activities	11.9	14.1	Activities of head offices; management consultancy	7.5	7.7
Financial intermediation*	39.6	12.8	Wholesale trade**	7.1	7.6
Wholesale trade**	5.4	7.2	Warehousing and support activities for transportation	4.5	5.3
Other	15.8	29.3	Other	36.1	40.1
Total	100.0	100.0	Total	100.0	100.0
Countries					
	31/12/2010	**31/12/2011**		**31/12/2010**	**31/12/2011**
Lithuania	29.6	21.9	Sweden	35.2	28.6
Latvia	25.7	18.9	Finland	22.7	23.8
Cyprus	14.0	17.1	Netherlands	8.3	10.3
Finland	6.4	8.2	Russia	3.9	4.2
Russia	5.6	7.6	Norway	2.9	3.6
Other	18.7	26.2	Other	27.1	29.5
Total	100.0	100.0	Total	100.0	100.0

* Excluding insurance and pension funds.
** Excluding motor vehicles and motorcycles.

The structure of **Estonia's investment abroad** changed considerably in 2011. First, a structural change occurred in the banking sector: the Latvian and Lithuanian subsidiaries of one major bank were brought under the direct control of their foreign parent bank. Consequently, the direct investment position abroad contracted by 15% from a year ago and its share in the total position fell from 27% to 21%. Second, Estonia changed over to the euro,[4] which resulted in a sudden drop in the share of reserve assets and an increase in other investment. Other investment formed 53% of the total investment position at the end of 2011, with other investment abroad increasing by 51% year-on-year. Other investment growth was mainly driven by credit institutions, and somewhat also by the central bank. Portfolio investment accounted for 24% of Estonia's investment abroad and that ratio did not change from 2010.

Estonia has invested in a number of countries, In 2010, Lithuania attracted the largest investment (12% of Estonia's investment position abroad), while in 2011 Sweden took the lead with its share rising from 8% to 14% and the volume of investment almost doubling. Investment growth was driven primarily by financial intermediaries. The positions of Lithuania and Latvia, which ranked second and third, decreased in relative and also absolute terms. The changes in the positions of these three countries largely stemmed from the above-mentioned structural change in the Estonian banking sector. 40% of the investment abroad was made in financial intermediation, followed by insurance, public administration, wholesale trade, and head office activities.

Estonia's direct investment position abroad was slightly more concentrated than the total investment position abroad, as it concerned primarily three countries: Lithuania (22%), Latvia (19%) and Cyprus (17%). The direct investment position in Lithuania and Latvia shrank considerably year-on-year owing to the structural change in the Estonian banking sector. In 2010 the direct investment of financial intermediaries constituted 40% of the total direct investment position abroad, while in 2011 this ratio was only 13%. Investors in head office activities ranked first in 2011, as their direct investment made up over 20% of the total position. The direct investment of investors in water transport (15%), real estate activities (14%) and financial intermediation came next.

Estonia's gross external debt shrank by almost 6% to 15.5 billion euros by the end of 2011 (see Table 2.4 and Figures 2.1–2.4). The debt contracted mostly owing to credit institutions and less to the general government and direct investment companies. The external debt of other sectors, on the other hand, increased by 20%. The share of credit institutions in the gross external debt dropped from 49% to 44%, while the share of other sectors rose to 35% year-on-year. The share of the general government declined to 3.5%. At the end of 2010, 53% of the gross external debt was related to Sweden and Finland, but this ratio fell to 40% by the end of 2011 mostly on account of Sweden. Credit institutions were liable for 60% of the debt to Sweden and Finland.

The breakdown of the gross external debt by components was the following at the end of 2011: intercompany lending of enterprises in other sectors and of credit institutions accounted for 3.1 billion and 5.7 billion euros respectively (see Figure 2.4). Trade credit formed 1.1 billion euros of the gross external debt, other debt liabilities made up 0.6 billion and debt liabilities to offshore companies totalled 0.8 billion euros.

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

Table 2.4. External debt (EUR million)

	31/12/2010	Share (%)	31/12/2011	Share (%)	Change (%)
LIABILITIES					
I. General government	**754.1**	**4.6**	**538.8**	**3.5**	**–28.6**
Short-term	0.2	0.0	11.6	0.1	5700.0
Long-term	753.9	4.6	527.2	3.4	–30.1
II. Monetary authorities (NCB)	**8.3**	**0.1**	**0.3**	**0.0**	**–96.4**
Short-term	8.3	0.1	0.3	0.0	–96.4
Long-term					
III. Credit institutions	**8,003.7**	**48.8**	**6,887.6**	**44.4**	**–13.9**
Short-term	4,501.0	27.4	4,336.6	28.0	–3.7
Long-term	3,502.7	21.4	2,551.0	16.5	–27.2
IV. Other sectors	**4,469.7**	**27.3**	**5,344.7**	**34.5**	**19.6**
Short-term	2,134.0	13.0	2,113.7	13.6	–1.0
Long-term	2,335.7	14.2	3,231.0	20.8	38.3
V. Direct investment: intercompany lending	**3,166.3**	**19.3**	**2,732.3**	**17.6**	**–13.7**
GROSS EXTERNAL DEBT	**16,402.0**	**100.0**	**15,503.6**	**100.0**	**–5.5**
ASSETS					
I. General government	**1,184.0**	**9.1**	**1,114.7**	**7.7**	**–5.9**
Short-term	596.3	4.6	529.6	3.7	–11.2
Long-term	587.7	4.5	585.1	4.0	–0.4
II. Monetary authorities (NCB)	**1,828.2**	**14.0**	**1,468.3**	**10.1**	**–19.7**
Short-term	1,654.8	12.7	747.9	5.2	–54.8
Long-term	173.4	1.3	720.4	5.0	315.5
III. Credit institutions	**2,761.1**	**21.2**	**4,128.3**	**28.5**	**49.5**
Short-term	2,001.6	15.3	3,219.3	22.2	60.8
Long-term	759.5	5.8	908.9	6.3	19.7
IV. Other sectors	**4,475.4**	**34.3**	**5,065.9**	**35.0**	**13.2**
Short-term	3,063.7	23.5	3,624.3	25.0	18.3
Long-term	1,411.7	10.8	1,441.6	10.0	2.1
V. Direct investment: intercompany lending	**2,801.1**	**21.5**	**2,695.0**	**18.6**	**–3.8**
TOTAL ASSETS	**13,049.8**	**100.0**	**14,472.0**	**100.0**	**10.9**
NET EXTERNAL DEBT (assets less liabilities)					
I. General government	**429.9**		**575.9**		**34.0**
Short-term	596.1		518.0		–13.1
Long-term	–166.2		57.8		–134.8
II. Monetary authorities (NCB)	**1,819.9**		**1,468.0**		**–19.3**
Short-term	1,646.5		747.6		–54.6
Long-term	173.4		720.4		315.5
III. Credit institutions	**–5,242.6**		**–2,759.3**		**–47.4**
Short-term	–2,499.4		–1,117.3		–55.3
Long-term	–2,743.2		–1,642.0		–40.1
IV. Other sectors	**5.7**		**–278.8**		**–4991.2**
Short-term	929.7		1,510.6		62.5
Long-term	–924.0		–1,789.4		93.7
V. Direct investment: intercompany lending	**–365.2**		**–37.3**		**–89.8**
TOTAL NET EXTERNAL DEBT	**–3,352.3**		**–1,031.6**		**–69.2**

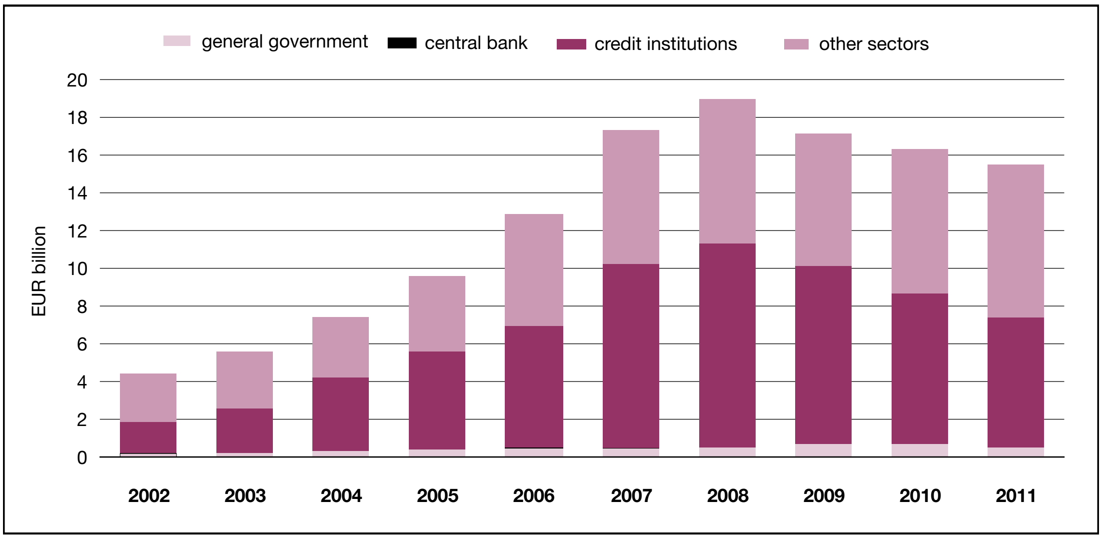


Figure 2.2. Estonia's gross external debt by sectors

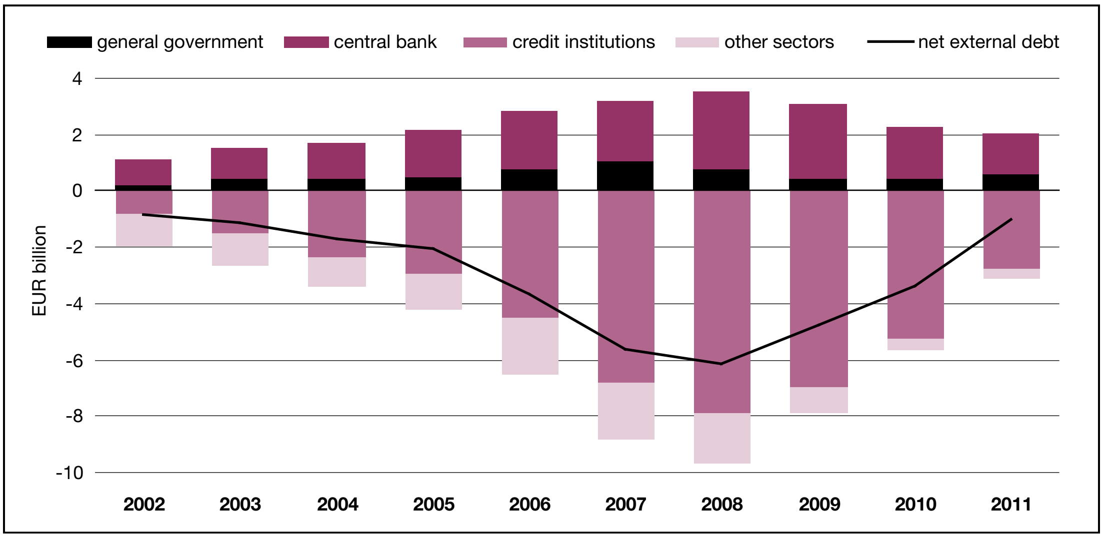


Figure 2.3. Estonia's net external debt by sectors

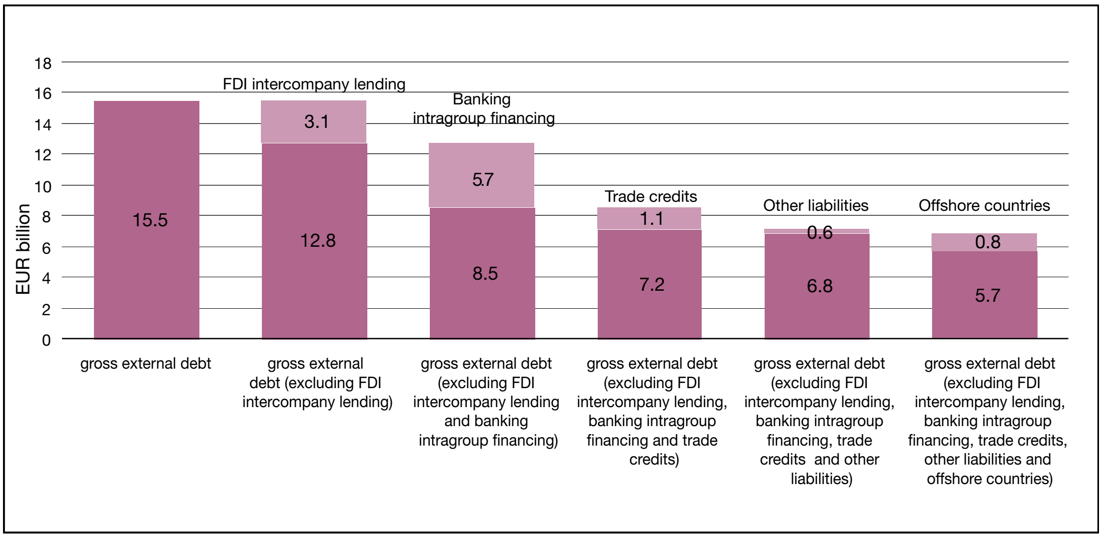


Figure 2.4. Structure of Estonia's gross external debt in 2011

Excluding these components – loan liabilities with relatively low risk level – from the gross external debt, the external debt liabilities with a higher risk level totalled 5.7 billion euros at the end of 2011.

Estonia's net external debt (assets less liabilities) decreased by three-fold from a year ago to 1 billion euros. The general government and the central bank recorded a positive net external debt, while credit institutions and other sectors had a negative debt. The net external debt can be attributed mainly to credit institutions, whose debt liabilities exceeded their debt liabilities by 2.8 billion euros.

III. THEORETICAL CONCEPT, METHODOLOGY AND COMPILATION PRACTICES

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

BALANCE OF PAYMENTS

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

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

The balance of payments

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

The current account is divided into four sub-accounts: *goods, services, income* and *current transfers* (see "Balance of payments terms and definitions" below). The goods and services accounts include all sums receivable from selling goods and services, and the sums payable for purchases. The income account reflects revenues related to the use and render for use of production factors (capital and labour). Current transfers are all the remaining transactions that are related to the formation of gross disposable income of residents and are distinguishable from capital transfers.

The sources of financing are divided between three accounts: *the capital account, the financial account* and *the reserve assets.* The capital account records mainly transactions that are related to investment grants (e.g. the acquisition/disposal of intellectual property; sales of CO_2 emission quotas), waiver of debt, and other international capital transfers not related to the formation of gross disposable income. The *financial account* records foreign investments that are classified into four major categories: *direct investment, portfolio investment, financial derivatives* and *other investment*. In Estonia, reserve assets reflect changes in the gold and foreign exchange reserves of the central bank.[5]

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

The compilation of the balance of payments is not based on the territory of a country, but its economic territory, administered by the government of that country, within which persons, goods, services and capital move freely. The economic territory includes the national air-space, territorial waters and territorial enclaves abroad (embassies, military bases, special zones, etc.) As a rule, a balance of payment transaction is a monetary or non-monetary transaction between a *resident* and a *non-resident*. Resident is an Estonian inhabitant with a permanent residence or a natural person registered in Estonia. *Non-resident* is a legal entity or a natural person who is registered abroad and whose permanent residence is not Estonia.

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

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

The balance of payments is compiled on the basis of the *double entry system*. Every recorded transaction is represented by two entries with equal values, but under different items and with opposite signs: *credit* (+) and *debit* (–). Credit shows an increase in the financial resources available, while debit indicates the use of these resources (see Table 3.1).

Table 3.1. Credit and debit

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

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

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

INTERNATIONAL INVESTMENT POSITION

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

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

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

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

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

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

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

The international investment position is based on indicators as at end-period.

EXTERNAL DEBT

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

Direct and portfolio investment in equity capital, reinvested earnings (retained earnings/losses of previous periods and equity capital reserves) and financial derivatives are excluded from the accounting of debt. Neither does the debt include the central bank's gold reserves nor the IMF's special drawing rights (see "Balance of payments terms and definitions").

The key external debt indicators are the following:

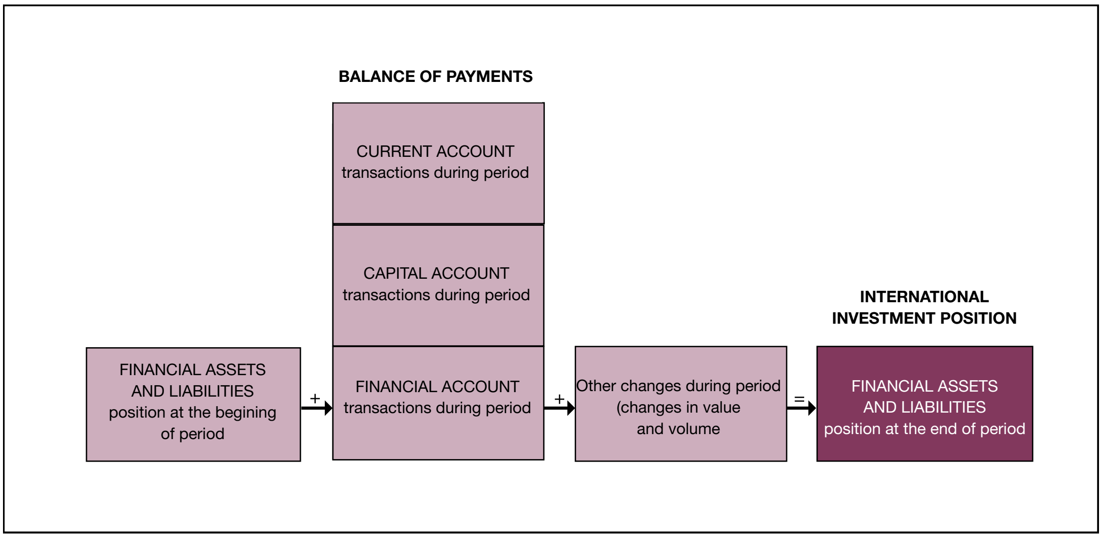
- **gross external debt** – the total of external debt liabilities of all institutional sectors;
- **net external debt** – assets less liabilities, repayable by all institutional sectors.

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

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

The external debt is based on indicators as at end-period.

The relation between the balance of payments and the international investment position



BALANCE OF PAYMENTS TERMS AND DEFINITIONS

Institutional sectors

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

- *the central bank* – Eesti Pank;
- *the general government* – state government and defence authorities under the authority of central

and local governments; scientific, research, health, social care, educational, cultural and sports institutions, and state funds and foundations financed from a central or a local government budget;
- *credit institutions* – companies as private bodies, licensed by Eesti Pank, whose principal and permanent activities are to receive cash deposits and other repayable funds from the public and to grant loans for their own account and perform other operations listed in the Credit Institutions Act;
- *other sectors* – the remaining private sector (companies, households and non-profit institutions serving households).

Entries

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

The goods account consists of goods exports and imports that contribute to the formation of GDP. Such imports and exports include:
- imports for national consumption – imported goods paid for by residents;
- national exports – revenues from exported goods belong to residents;
- imports of goods for processing and exports of processed goods.

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

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

As of 1 May 2004, foreign trade statistics is based on the combination of two reporting systems: trade with non-EU countries is still calculated on the basis of customs declarations submitted to the Tax and Customs Board (the so-called Extrastat), 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. Owing to the large share of EU countries in Estonia's foreign trade, the general level of the exports and imports goods is higher than in earlier periods, which has to be taken into account when comparing time series. Moreover, due to the structural differences between Intrastat reports and customs declarations it is no longer possible to distinguish with sufficient accuracy "customary" exports and imports from the imports of goods for processing and from the exports of processed goods.

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

a) *transportation* – passenger, freight and other transportation services by major modes of transport (marine, air, rail, road and other transport modes);
b) *travel services* – expenditure on package tours of tourists and one-day visitors, and on goods and services in the country of destination. Besides the above items, travel services include education and health costs in the country of destination. While generally residence abroad up to one year accounts as tourism, then with students and those receiving health care in the country of destination there is no time limit. Tourism is distinguished from travel services by the fact that international passenger transport services that are regarded as tourism services (according to international practice) are recorded in the balance of payments under transportation services entries;
c) *communications services* – charges for telecommunications services (TV and radio transmission, telegraph, telex and facsimile communications, satellite and cable television, e-mail etc.), postal and courier services (packaging, mailing, transportation, delivery of items, lease of letter boxes, etc.);
d) *construction services* – the cost of resident companies' construction activities abroad and non-resident companies' construction activities in Estonia. Construction services concern objects or sites to be completed within one year;
e) *insurance services* – charges collected and paid upon conclusion of life and non-life insurance contracts, loss adjustment expenses, insurance expert assessments, etc. Non-life insurance premiums and claims payable are recorded under current transfers, while life insurance premiums and payments are recorded in the financial account under other long-term capital;
f) *financial services* – financial intermediation services and auxiliary services (other than insurance) related to commissions and fees of banking and securities brokerage or to custodial services, clearing, depository services, financial consulting, etc.;
g) *computer and information services* – cover transactions related to fees for the use and development of databases, data processing and programming, software and hardware consultations, software implementation, etc., and services of news agencies;
h) *royalties and licence fees* – receipts and payments for the use of copyrights, licenses, franchises, patents, industrial processes or other intellectual property;
i) *merchanting* – commissions and fees of commodity brokers and dealers. Merchanting is the difference between the value of goods purchased by residents abroad and the value of these goods resold abroad in the same period. The goods must never cross the Estonian border;
j) *operational lease* – payments where the lessee uses the assets during the contract period and returns the assets to the lessor upon the expiry of the contract (*Financial lease* – see under *Other investment*);
k) *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, archi-

tectural and engineering solutions, printing services, etc.);

l) *personal, cultural and recreational services* – audio-visual services related to radio, television and production of motion pictures, organising concerts and other events, fees to performers, organising exhibitions and museum exhibits, producer services and other sports, cultural and recreational services;

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

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

a) *compensation of employees (labour income)* – gross wages earned abroad together with social transfers made by the employer under a labour contract with a duration of up to a year and paid to foreigners in Estonia;

b) *investment income* – interests and dividends received on foreign (direct, portfolio and other) investment assets and payable on foreign investment liabilities. As the period between the emergence of operating profit and payment of dividends may be long, the concept of *reinvested earnings* has been applied to record that profit in the balance of payments. *Reinvested earnings* – a proportional change equal to investment in the undistributed operating profit or loss of the investment company, which is recorded on the income account but also on the financial account as additional investment in the company. As reinvested earnings decrease when paying dividends, the concept of reinvested earnings can be regarded as accounting of dividends on an accrual basis. Such a method of calculation is statistically complicated and the necessary data are not always available. Therefore, for the sake of simplicity it has been agreed to use it only in case of direct investment relations, not portfolio investment.

Accounting income on the revaluation of financial assets and liabilities, including waivers and write-offs of uncollectible loans, are not recorded on the income account.

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

a) general government;
b) other sectors.

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

The capital account consists of three components:

a) *capital transfers of the general government;*
b) *capital transfers of other sectors;*
c) *intangible assets.*

Capital transfers are unilateral, similarly to current transfers, but the amounts received or paid have no direct impact on residents' gross disposable income. Capital transfers related to the use of international (primarily EU) funds to finance the construction of infrastructure objects are the most common. Intangible assets are related to the acquisition of non-produced non-financial assets (intellectual property) and disposal thereof (franchises, patents, trademarks, industrial processes, CO_2 quotas, etc.).

The financial account reflects the financial resources of the current account, that is foreign investment, which are divided into four categories: *direct investment, portfolio investment, financial derivatives* and *other investment.*

Direct investment in Estonia's balance of payments refers to investment that involves a qualifying holding, which amounts to at least 10% of the equity capital of the investment company. Based on international standards, lending and other investment between a company and an investor with a qualifying holding are also reflected as direct investment (except with financial intermediaries in case of whom only subordinated debt is recorded as direct investment).

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

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

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

The direct investment account consists of the following items:

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

Direct investment is considered to be long-term.

The portfolio investment account records, under assets and liabilities, securities investment that fall into the following categories:

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

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

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

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

Reserve assets – gold and foreign exchange reserves of a country that are considered to be short-term capital. Reserve assets are usually highly liquid tradable external assets of the central bank, entered as:
a) *monetary gold* – gold held as reserve assets;
b) SDRs (special drawing rights) – units of account created by the International Monetary Fund. Their

value is based on a basket of four currencies (USD, EUR, JPY, and GBP). An SDR account is generated for every IMF Member State for conducting loan transactions and several other related operations between a Member State and IMF;

c) *reserve position in the IMF* – contribution of a Member State to the IMF and, if required, available to the Member State as a loan;

d) *foreign exchange* – foreign exchange or equal reserve assets: foreign currency and deposits, equity securities, bonds, money market instruments, and financial derivatives;

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

BALANCE OF PAYMENTS COMPILATION SYSTEMS

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

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

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

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

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

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

COMPILATION PRACTICES IN ESTONIA

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

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

As regards other quarterly statistics on balance of payments and the external sector, the survey system supplemented with the information collected through the settlements system is of great importance. In addition to the monthly reports of the central bank (balance of payments flash estimates), credit institutions and the general government, the settlements system together with various econometric models are used to compile monthly balances of payments. Eesti Pank started to release the flash estimate of monthly balance of payments in 1999 in line with the requirements of the European Central Bank.

Currently, seven different surveys are used to collect quarterly data from more than 3,500 enterprises. The settlements system involves approximately 140,000 transactions over a year that are significant for the compilation of the balance of payments. Data on these transactions are received through the so-called *open system*: the central bank gets information only on the debit or credit side of the foreign payment order. Only bank customers' payments are submitted. Banking sector transactions are recorded in the balance of payments on the basis of banks' balance sheets, income statements and other financial reports.

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

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 accoun-ting period	Sample size / No of data sources in 2011
SURVEY SYSTEM				
Forms 2 and 7	Companies with foreign ownership	quarter	20 days	1,985
Form 3	Transport companies without foreign ownership	quarter	20 days	244
Form 4	Transport companies with foreign ownership	quarter	20 days	228
Form 6	Companies without foreign ownership	quarter	20 days	1,020
Form 9	Insurance companies and intermediaries	quarter	20 days	22
Form 10	Other financial intermediaries	quarter	20 days	95

Name of statement/report	Target group / content of statement/report	Frequency	Due date after accoun-ting period	Sample size / No of data sources in 2011
SETTLEMENTS SYSTEM				
Settlements system reporting according to the procedure for declaring interna-tional payments	Incoming international payments declared in credit institutions	15 days	25 days	13
	Outgoing international payments declared in credit institutions	15 days	8 days	13
ADMINISTRATIVE INFORMATION				
CREDIT INSTITUTIONS				
Report on the balance and turnovers of resources	Data on resources deposited in credit institutions and loans granted to credit institutions by resi-dence and other characteristic details	month	5 days	19
Report on the balance and turnovers of loans	Loans issued by credit institutions by residence and other characteristic details	month	5 days	19
Income statement	Breakdown of income and expenditure of credit institutions by residence	quarter	10 days	19
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	19
Statement of securities	Detailed statement of securities portfolios of credit institutions by residence	month	5 days	19
Statement of off-balance-sheet items	Statement of off-balance-sheet activities of credit institutions	quarter	30 days	19
Statement of asset management and investment services	Statement of custodial and investment activities of credit institutions	quarter	15 days	19
Report on non-transactional financial flows	Non-transactional financial flows of credit institu-tions during the reporting period, excluding revalu-ations caused by exchange rate fluctuations	month	12 days	19
EESTI PANK				
Balance of payments statement of Eesti Pank	Financial Department's statement of Eesti Pank's non-residents' balances of and changes in balance sheet entries, and changes in income statement entries of non-residents	month	5 days	1
STATISTICS ESTONIA				
Official trade statistics	Processed, supplemented and categorised cus-toms declaration data (Extrastat)	month	50 days	1
	Intra-Community trade report (Intrastat)			
Household Budget Survey	Data on tourists' expenditure abroad	quarter	120 days	1
Assets and liabilities related to general government's external aid	Accrual accounting of external aid	quarter	58 days	1
Accommodation establishments' statement	Data on turnover and number of tourists serviced in accommodation establishments	month	40 days	1
MINISTRY OF JUSTICE, CENTRE OF REGISTERS AND INFOSYSTEMS				
Central Business Register, Non-Profit Associations and Foundations Register	Data on legal persons registered in Estonia and their owners	month	1 month	1
Land Register Database	Data on real estate objects belonging to non-residents	year	as agreed	1
LAND BOARD				
Land Board's database of real estate transactions	Transactions with real estate purchased by or transferred to non-residents by countries	quarter	1 month	1
ESTONIAN CENTRAL SECURITIES DEPOSITORY				
Central Register of Securities	Statistics on securities issues registered in the Estonian Central Securities Depository	month	20 days	1
BORDER GUARD ADMINISTRATION				
Border crossing statistics	Report on crossers of Estonian border by citizen-ship	month	25 days	1
MINISTRY OF FOREIGN AFFAIRS				

Name of statement/report	Target group / content of statement/report	Frequency	Due date after accoun-ting period	Sample size / No of data sources in 2011
Statistics on diplomatic missions abroad	Data on income, expenditure and assets of Estonian embassies and missions	quarter	45 days	1
TAX AND CUSTOMS BOARD				
Tax statistics	Data on taxes withheld from non-residents in Estonia and from residents abroad	year	as necessary	1
CITY OFFICES OF TALLINN AND TARTU				
Statement of external assets and liabilities	Statement of external loans, external assets, financial income and expenditure of Tallinn and Tartu	quarter	45 days	2
MINISTRY OF FINANCE				
Statement of external loans	Statement of use and servicing of state loans	month	10 days	1
Statement of external assets	Statement of balance and changes of assets of State Treasury	month	1 month	1
OTHER				
Unemployment Insurance Fund, Health Insurance Fund, etc.	5–10			5–10

to compile balance of payments statistics.

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

LEGAL BASIS FOR BALANCE OF PAYMENTS STATISTICS AND PROTECTION OF DATA

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

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

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

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

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

PRINCIPLES FOR THE DISSEMINATION AND REVISION OF DATA

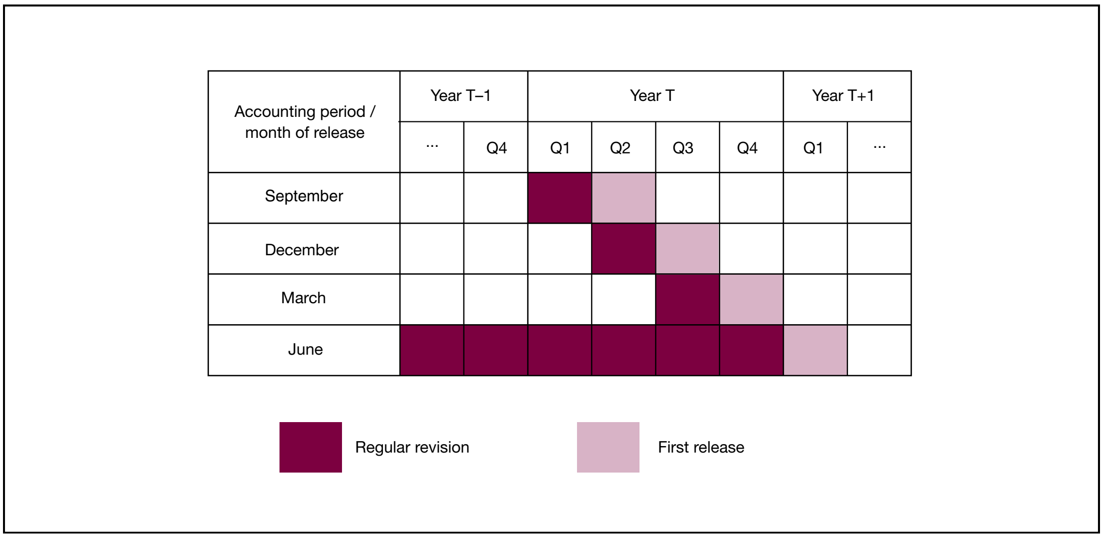
The Special Data Dissemination Standard (SDDS) of the International Monetary Fund, which Estonia joined in October 1998, serves as a basis for the dissemination of statistical data. The standard sets minimum requirements for the content, frequency and time of data dissemination by statistics categories.

Data dissemination. Balance of payments statistics, press releases, analyses and statistics tables are published on Eesti Pank's (http://www.statistika.eestipank.ee/?lng=en#treeMenu/AVALEHT).

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

- *Regular revision:*

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



the respective items of that quarterly balance of payments.

- *Extraordinary revision:*

a) in exceptional cases, when significant errors or omissions have occurred, the data for previous quarters may be revised extraordinarily;

b) when changes in methodology or data collection system render results incomparably, data can be revised retrospectively as far back as relevant in terms of the methodological change;
c) the general public is notified of extraordinary changes and reasons in the press releases on the balance of payments and the international investment position.

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