

II. ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND EXTERNAL DEBT AS AT 31 DECEMBER 2004

In 2004, total foreign investment into Estonia increased by nearly 40%, amounting to 230.5 billion kroons by the end of the year (see Table 2.1). **Nearly a half thereof was invested into financial intermediation (51%) and to a lesser extent also into real estate, renting and business activities, manufacturing, wholesale and retail trade, and transport, storage and communications sectors** (see Table 2.2). Two thirds of investment into Estonia was made by Swedish, Finnish, and British investors.

Year-on-year, the share of portfolio investment increased considerably in the structure of foreign investment into Estonia, whereas the share of direct and other investment decreased. Direct investment accounted for a half of the total investment (i.e. 115.5 billion kroons), portfolio investment for more than a fifth, and other investment for the rest. The most preferred fields of activity for **foreign direct investment into Estonia** were financial intermediation (a third of direct investment), real estate, renting and business activities (23%), manufacturing (17%), and wholesale and retail trade (10%; see Table 2.3). Almost 70% of direct investment came from Sweden and Finland.

Estonian investment abroad totalled 100 billion kroons. Financial intermediaries made 70% of investment abroad. Investors of the public sector, real estate, renting and business activities, transport, storage and communications as well as wholesale and retail trade invested abroad too. The most popular destinations for Estonian investors were Lithuania, Germany, and Latvia.

Compared to the end of 2003, the share of other investment increased in the structure of investment abroad, while the share of reserve assets and direct investment decreased. Loans, deposits and the central bank's gold and foreign exchange reserves covered 59% of the external claims. **Direct investment** accounted for 16% of all investments abroad. The most active direct investors abroad were those of financial intermediation (40%), real estate, renting and business activities (30%) as well as transport, storage and communications (14%). 83% of all direct investment abroad were channelled into three countries – Lithuania, Latvia, and Cyprus (see Table 2.3).

Due to the fact that external liabilities were prevailing and growing faster than claims, Estonia's net investment position was negative by 131 billion kroons at the end of 2004, accounting for 92% of GDP. 77% of the net investment position was long-term capital. The share of the latter has fallen by 13 percentage points over the past year.

Estonia's gross external debt increased by a third over the year and stood at 115 billion kroons (81% of GDP) on 31 December 2004. Estonia's net external debt (assets less liabilities) totalled 25.4 billion kroons (18% of GDP; see Table 2.4 and Figure 2.3). The gross external debt amounted to 50% of the external liabilities. Leaving aside intercompany lending of direct investment companies, long-term liabilities accounted for 52% of the total external debt. Debt assets mostly consisted of short-term capital (60%).

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

	31/12/2003	Share (%)	31/12/2004	Share (%)	Change (%)
TOTAL EXTERNAL ASSETS	75,471.7	100.0	99,735.0	100.0	32.1
Direct investment abroad	12,761.0	16.9	16,275.0	16.3	27.5
Equity capital and reinvested earnings	8,955.0	11.9	12,128.7	12.2	35.4
Other direct investment capital	3,806.0	5.0	4,146.4	4.2	8.9
Portfolio investment	18,669.9	24.7	24,717.0	24.8	32.4
Equity securities	1,914.7	2.5	5,136.0	5.1	168.2
Debt securities	16,755.2	22.2	19,581.1	19.6	16.9
Bonds and notes	8,562.9	11.3	12,352.6	12.4	44.3
Money market instruments	8,192.3	10.9	7,228.4	7.2	-11.8
Financial derivatives	333.5	0.4	368.6	0.4	10.5
Other investment	26,523.7	35.1	37,769.9	37.9	42.4
Trade credit	5,697.0	7.5	6,986.7	7.0	22.6
Loans	14,224.0	18.8	22,359.2	22.4	57.2
Long-term	5,621.6	7.4	11,408.2	11.4	102.9
Short-term	8,602.4	11.4	10,951.0	11.0	27.3
Currency and deposits	5,948.8	7.9	7,664.6	7.7	28.8
Other assets	653.8	0.9	759.4	0.8	16.2
Reserve assets	17,183.5	22.8	20,604.3	20.7	19.9
TOTAL EXTERNAL LIABILITIES	165,877.5	100.0	230,543.6	100.0	39.0
Direct investment in Estonia	86,880.8	52.4	115,483.2	50.1	32.9
Equity capital and reinvested earnings	72,072.7	43.4	100,593.8	43.6	39.6
Other direct investment capital	14,808.1	8.9	14,889.4	6.5	0.5
Portfolio investment	29,453.3	17.8	51,627.3	22.4	75.3
Equity securities	11,783.6	7.1	22,276.7	9.7	89.0
Debt securities	17,669.7	10.7	29,350.6	12.7	66.1
Bonds and notes	12,971.7	7.8	26,577.3	11.5	104.9
Money market instruments	4,697.9	2.8	2,773.3	1.2	-41.0
Financial derivatives	208.6	0.1	238.0	0.1	14.1
Other investment	49,334.7	29.7	63,195.1	27.4	28.1
Trade credit	7,244.3	4.4	8,273.3	3.6	14.2
Loans	24,371.3	14.7	28,649.3	12.4	17.6
Long-term	21,349.0	12.9	25,081.9	10.9	17.5
Short-term	3,022.3	1.8	3,567.4	1.5	18.0
Currency and deposits	16,447.3	9.9	25,251.9	11.0	53.5
Other liabilities	1,271.8	0.8	1,020.7	0.4	-19.7
NET INTERNATIONAL INVESTMENT POSITION	-90,405.8		-130,808.6		44.7
Long-term	-81,182.8		-100,372.4		23.6
Short-term	-9,223.0		-30,436.3		230.0
GROSS EXTERNAL DEBT	87,532.9		114,844.8		31.2
NET EXTERNAL DEBT	-17,588.7		-25,377.5		44.3
General government	7,032.9		7,661.0		8.9

Table 2.2. Estonia's international investment position by fields of activity and countries (%) as at 31 December 2004

Claims		Liabilities	
Fields of activity			
Financial intermediation	70.3	Financial intermediation	51.3
Public administration and defence	11.6	Real estate, renting and business activities	13.1
Real estate, renting and business activities	5.5	Manufacturing	10.7
Wholesale and retail trade	5.3	Wholesale and retail trade	7.6
Manufacturing	4.6	Transport, storage and communications	5.4
Other	2.7	Other	11.9
Total	100.0	Total	100.0
Countries			
Lithuania	14.5	Sweden	29.8
Germany	12.8	Finland	20.4
Latvia	12.8	United Kingdom	16.7
Finland	7.1	USA	5.7
United Kingdom	7	Germany	3.9
Other	45.8	Other	23.5
Total	100.0	Total	100.0

Table 2.3. Direct investment position by fields of activity and countries (%) as at 31 December 2004

In Estonia		Abroad	
Fields of activity			
Financial intermediation	31.5	Financial intermediation	39.8
Real estate, renting and business activities	22.7	Real estate, renting and business activities	30.0
Manufacturing	16.7	Transport, storage and communications	13.5
Wholesale and retail trade	10.0	Wholesale and retail trade	6.2
Transport, storage and communications	5.3	Manufacturing	5.7
Other	13.8	Other	4.8
Total	100.0	Total	100.0
Countries			
Sweden	45.4	Lithuania	38.9
Finland	23.8	Latvia	32.7
USA	5.1	Cyprus	11.2
Norway	2.8	Finland	4.7
United Kingdom	2.7	Russia	4.2
Other	20.2	Other	8.3
Total	100.0	Total	100.0

Table 2.4. External debt (EEK m)

	31/12/2003	Share (%)	31/12/2004	Share (%)	Change (%)
LIABILITIES					
I. General government	3,744.2	4.3	3,891.0	3.4	3.9
Short-term					
Long-term	3,744.2	4.3	3,891.0	3.4	3.9
II. Monetary authorities (NCB)	485.1	0.6	507.7	0.4	4.6
Short-term	485.1	0.6	507.7	0.4	4.6
Long-term					
III. Credit institutions	37,075.1	42.4	59,932.7	52.2	61.7
Short-term	19,043.6	21.8	21,982.8	19.1	15.4
Long-term	18,031.5	20.6	37,950.0	33.0	110.5
IV. Other sectors	25,700.0	29.4	28,214.3	24.6	9.8
Short-term	9,946.9	11.4	10,549.7	9.2	6.1
Long-term	15,753.1	18.0	17,664.6	15.4	12.1
V. Direct investment: intercompany lending	20,528.5	23.5	22,299.0	19.4	8.6
GROSS EXTERNAL DEBT	87,532.9	100.0	114,844.8	100.0	31.2
ASSETS					
I. General government	10,777.1	15.4	11,552.0	12.9	7.2
Short-term	6,398.3	9.1	5,818.6	6.5	-9.1
Long-term	4,378.7	6.3	5,733.4	6.4	30.9
II. Monetary authorities (NCB)	17,150.2	24.5	20,582.0	23.0	20.0
Short-term	14,256.0	20.4	16,879.4	18.9	18.4
Long-term	2,894.2	4.1	3,702.6	4.1	27.9
III. Credit institutions	14,218.0	20.3	23,030.2	25.7	62.0
Short-term	12,615.8	18.0	14,970.9	16.7	18.7
Long-term	1,602.2	2.3	8,059.3	9.0	403.0
IV. Other sectors	18,272.5	26.1	22,747.0	25.4	24.5
Short-term	9,929.4	14.2	12,598.7	14.1	26.9
Long-term	8,343.2	11.9	10,148.3	11.3	21.6
V. Direct investment: intercompany lending	9,526.4	13.6	11,556.0	12.9	21.3
TOTAL ASSETS	69,944.2	100.0	89,467.3	100.0	27.9
NET EXTERNAL DEBT (assets less liabilities)					
I. General government	7,032.9		7,661.0		8.9
Short-term	6,398.3		5,818.6		-9.1
Long-term	634.6		1,842.4		190.3
II. Monetary authorities (NCB)	16,665.8		20,074.3		20.5
Short-term	13,770.9		16,371.7		18.9
Long-term	2,894.2		3,702.6		27.9
III. Credit institutions	-22,857.1		-36,902.5		61.4
Short-term	-6,427.9		-7,011.9		9.1
Long-term	-16,429.3		-29,890.6		81.9
IV. Other sectors	-7,427.4		-5,467.3		-26.4
Short-term	-17.5		2,049.0		-11,782.5
Long-term	-7,409.9		-7,516.3		1.4
V. Direct investment: intercompany lending	-11,002.2		-10,743.0		-2.4
TOTAL NET EXTERNAL DEBT	-17,588.7		-25,377.5		44.3

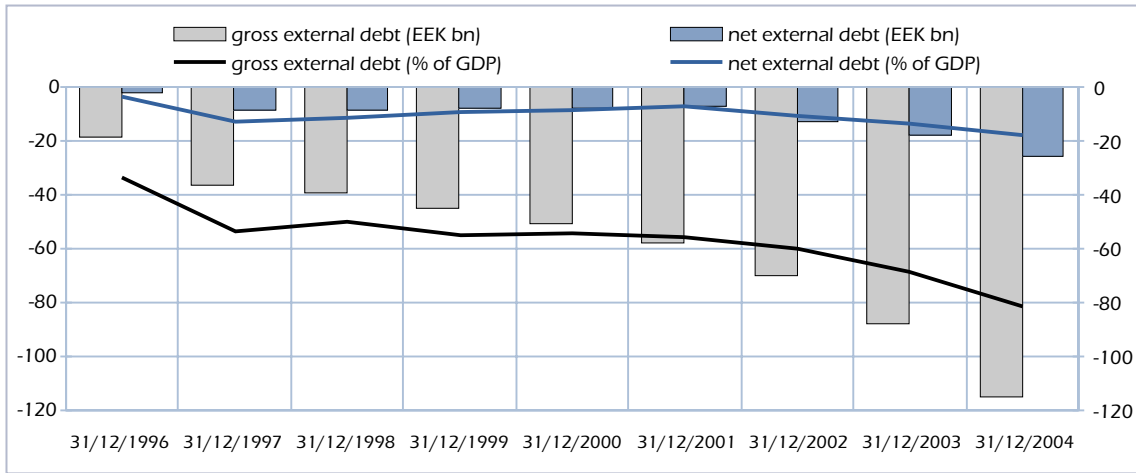


Figure 2.1. Estonia's gross and net external debt (EEK bn; left scale) and % of GDP (right scale)

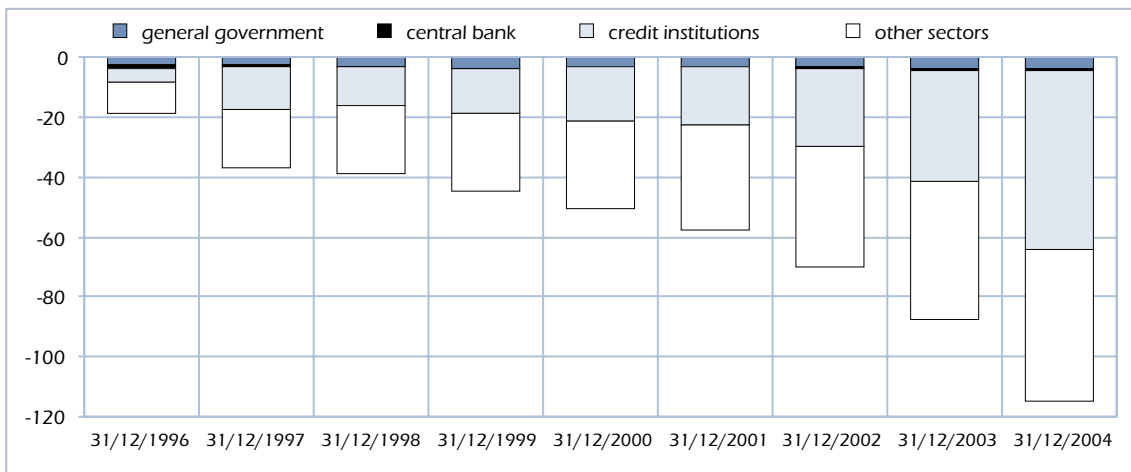


Figure 2.2. Estonia's gross external debt by sectors (EEK bn)

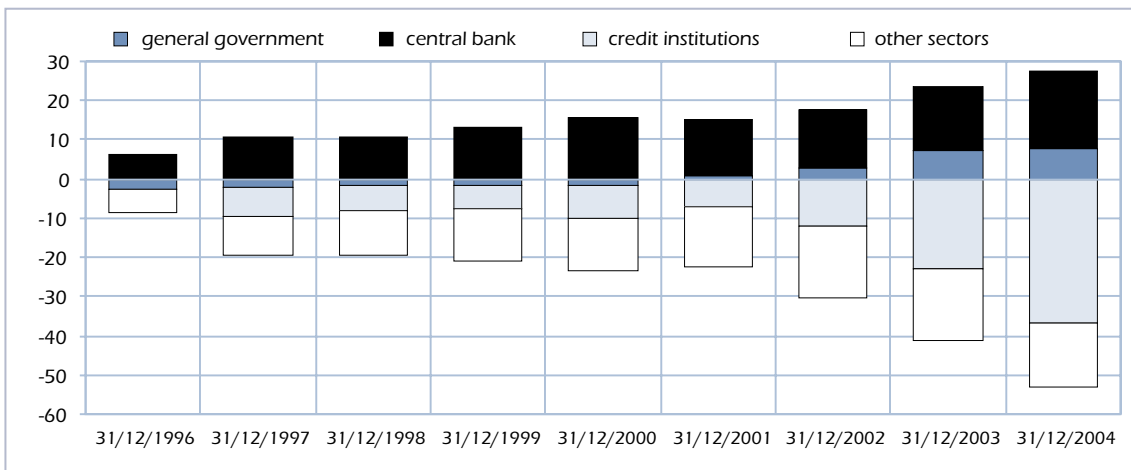


Figure 2.3. Estonia's net external debt by sectors (EEK bn)