

PRELIMINARY BALANCE OF PAYMENTS OF ESTONIA FOR THE FIRST QUARTER OF 2000¹

SHORT OVERVIEW

The first three months of 2000 were characterised by a rapid growth of external demand, which led to a record high exports. Due to modest domestic demand no significant growth of imports occurred which, compared to the previous quarter, improved both the foreign trade balance and the **current account** balance. According to preliminary data, in the first quarter of 2000 the current account deficit exceeded 1.5 billion kroons, ie was approximately 8% against the expected gross domestic product (GDP) of the first quarter. The balance of the current account of the last four quarters

was approximately 6% against the GDP of the same period. In the given period, the balance of the **financial account** was negative by more than 0.3 billion kroons. This partly reflected the higher than usual level of saving and was related to the reducing of liquidity buffers after the danger of the year 2000 problem was over, and also to the refinancing of external liabilities of the banking sector. The balance of payments was refinanced on the account of the **reserves**. As a result, the reserves decreased by 1.3 billion kroons (see Figure 1 and Table 1).

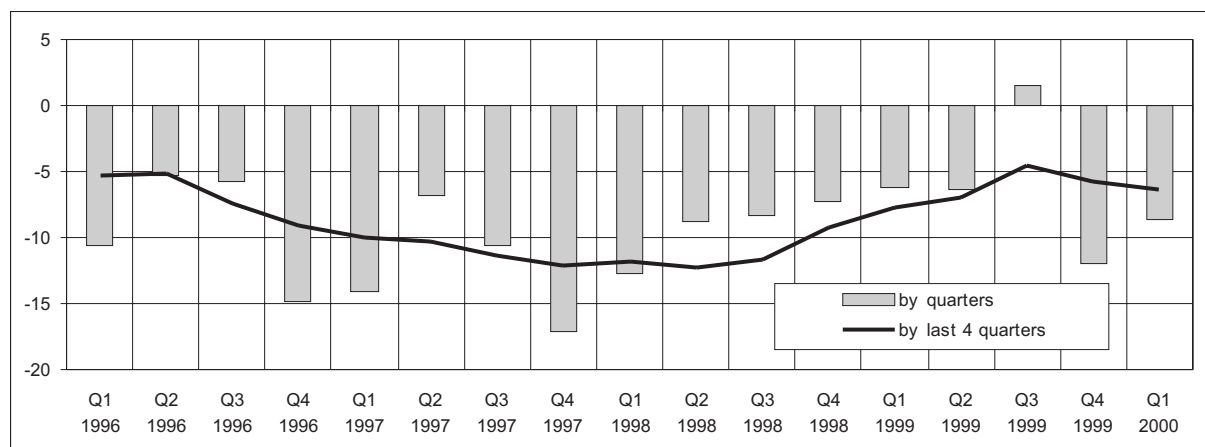


Figure 1. Current account balance against GDP (%)

The biggest part of the **CURRENT ACCOUNT** deficit was traditionally formed by the negative balance of the **foreign trade balance**. Imports exceeded exports by 2.5 billion kroons, which is comparable with the respective figures of the first quarter of 1999 but is nearly half as much as in the fourth quarter of 1999.

Jerky increase in export volumes was a reaction to the on-going increase in external demand, which resulted in the record high level of exports, ie 12 billion kroons, being by 47% higher than a year before. The source for the growth of exports were machinery and equipment conveyed into Estonia for processing. Their re-export

¹ The adjusted balance of payments for the first quarter of 2000 and the preliminary balance of payments for the second quarter will be published at the Eesti Pank web site (<http://www.ee/epbe>) on 18 September 2000 at noon.

Table 1. Estonia's balance of payments (EEK mn)¹

	1998					1999					2000
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1
Current account	-2,125.1	-1,716.7	-1,558.6	-1,351.6	-6,752.0	-1,030.5	-1,234.8	278.1	-2,347.8	-4,335.0	-1,540.9
Trade and services balance	-2,262.3	-1,687.0	-1,753.1	-1,966.8	-7,669.2	-1,303.2	-771.3	185.8	-2,594.0	-4,482.7	-952.4
Trade balance	-3,614.3	-4,507.3	-4,446.7	-3,150.1	-15,718.4	-2,404.1	-3,095.4	-2,973.7	-4,465.5	-12,938.7	-2,525.3
Goods: export f.o.b.	9,120.8	9,750.7	9,017.8	9,897.1	37,786.4	8,194.9	8,900.2	9,149.5	9,791.4	36,036.0	12,074.2
Goods: import f.o.b.	-12,735.1	-14,258.0	-13,464.5	-13,047.2	-53,504.8	-10,599.0	-11,995.6	-12,123.2	-14,256.9	-48,974.7	-14,599.5
Services: net	1,352.0	2,820.3	2,693.6	1,183.3	8,049.2	1,100.9	2,324.1	3,159.5	1,871.5	8,456.0	1,572.9
Services: credit	4,212.2	5,729.2	6,069.7	4,792.9	20,804.0	3,962.6	5,659.5	6,648.3	5,681.5	21,951.9	5,187.6
Services: debit	-2,860.2	-2,908.9	-3,376.1	-3,609.6	-12,754.8	-2,861.7	-3,335.4	-3,488.8	-3,810.0	-13,495.9	-3,614.7
Income: net	-325.3	-576.6	-297.2	35.1	-1,164.0	-97.1	-807.7	-378.4	-222.6	-1,505.8	-1,107.7
Income: credit	461.1	388.9	486.3	535.5	1,871.8	481.9	406.4	542.3	533.7	1,964.3	324.0
Income: debit	-786.4	-965.5	-783.5	-500.4	-3,035.8	-579.0	-1,214.1	-920.7	-756.3	-3,470.1	-1,431.7
Transfers: net	462.5	546.9	491.7	580.1	2,081.2	369.8	344.2	470.7	468.8	1,653.5	519.2
Transfers: credit	532.2	633.9	566.0	692.1	2,424.2	529.1	536.7	567.8	623.9	2,257.5	629.8
Transfers: debit	-69.7	-87.0	-74.3	-112.0	-343.0	-159.3	-192.5	-97.1	-155.1	-604.0	-110.6
Capital and financial account	1,096.8	3,505.5	207.3	2,060.2	6,869.8	150.3	2,135.1	678.3	3,778.7	6,742.4	-322.6
Capital account	10.2	3.6	9.2	2.2	25.2	8.6	2.9	-0.6	6.9	17.8	6.8
Financial account	1,086.6	3,501.9	198.1	2,058.0	6,844.6	141.7	2,132.2	678.9	3,771.8	6,724.6	-329.4
Direct investments	1,217.9	871.0	3,235.7	2,665.1	7,989.7	1,401.8	1,360.2	105.8	340.4	3,208.2	1,488.9
Abroad	236.6	-431.5	228.4	-115.2	-81.7	-0.9	-226.9	-531.3	-480.7	-1,239.8	-357.9
Into Estonia	981.3	1,302.5	3,007.3	2,780.3	8,071.4	1,402.7	1,587.1	637.1	821.1	4,448.0	1,846.8
Portfolio investments	1,049.4	1,355.5	-1,447.7	-980.6	-23.4	2,008.0	-12.7	-345.4	-1,493.9	156.0	194.2
Assets	-64.8	419.0	-148.2	-333.9	-127.9	-1,198.6	144.8	-238.6	-602.5	-1,894.9	488.5
Equity securities	124.2	304.0	18.5	54.1	500.8	81.2	67.8	5.6	32.4	187.0	85.3
Debt securities	-189.0	115.0	-166.7	-388.0	-628.7	-1,279.8	77.0	-244.2	-634.9	-2,081.9	403.2
Liabilities	1,114.2	936.5	-1,299.5	-646.7	104.5	3,206.6	-157.5	-106.8	-891.4	2,050.9	-294.3
Equity securities	1,078.6	337.1	-1,027.4	12.8	401.1	2,940.3	600.7	230.4	-479.1	3,292.3	78.2
Debt securities	35.6	599.4	-272.1	-659.5	-296.6	266.3	-758.2	-337.2	-412.3	-1,241.4	-372.5
Other investments	-1,180.7	1,275.4	-1,589.9	373.5	-1,121.7	-3,268.1	784.7	918.5	4,925.3	3,360.4	-2,012.5
Assets	-2,442.0	393.6	-1,019.0	587.2	-2,480.2	-4,506.6	-50.4	880.8	2,375.0	-1,301.2	-868.9
Long-term	-204.6	-67.8	-290.1	-224.0	-786.5	78.5	251.9	115.0	-23.6	421.8	-277.0
Short-term	-2,237.4	461.4	-728.9	811.2	-1,693.7	-4,585.1	-302.3	765.8	2,398.6	-1,723.0	-591.9
Liabilities	1,261.3	881.8	-570.9	-213.7	1,358.5	1,238.5	835.1	37.7	2,550.3	4,661.6	-1,143.6
Long-term	516.4	429.3	-341.2	653.9	1,258.4	720.1	1,392.5	-119.2	173.9	2,167.3	-957.1
Short-term	744.9	452.5	-229.7	-867.6	100.1	518.4	-557.4	156.9	2,376.4	2,494.3	-186.5
Errors and omissions	-105.9	242.3	90.4	-220.9	5.9	-99.8	-209.2	-265.7	348.5	-226.2	571.1
Overall balance	-1,134.2	2,032.5	-1,259.6	487.7	126.4	-980.0	691.1	690.7	1,779.4	2,181.2	-1,292.4
Reserve assets	1,134.2	-2,032.5	1,259.6	-487.7	-126.4	980.0	-691.1	-690.7	-1,779.4	-2,181.2	1,292.4

¹ After additional information is received, data of the earlier periods have been updated accordingly.

doubled. At the same time, the export of timber and little processed wood increased by one third. Compared to the first quarter of previous year, the imports increased by nearly 38%, mostly at the expense of goods imported for processing. Low domestic demand is reflected by a decrease of imported consumer goods compared to the fourth quarter of 1999. The share of capital goods increased to almost one fifth of the total imports. The share of the European Union in the Estonian foreign trade reached one third.

The dynamics of the **services balance** was of seasonal character. The reason for the decrease in the surplus of the balance was caused by a more rapid decrease in the volume of services export than import compared to the previous quarter. This was caused by a traditionally low turnover of travel services in the first half of the year. The import and export of another important service – transport – have kept increasing in the last four quarters due to the increase in transit volumes conveyed through Estonia. A

rise in oil prices has contributed to it. Compared to the first quarter of 1999 the services export has increased by nearly one third and import by one fourth.

In the first quarter of 2000, the outflow of **income** was record high having a significant impact on the deficit of the current account. The main reason for that was an exceptionally high level of reinvested income resulting from the enlivening economy and forming nearly 90% of the negative balance of the income balance. Due to that the current account deficit reached approximately 8% against the expected GDP of the first quarter. At the same time, the deficit of goods and services balance against the GDP was small – approximately 5%.

The balance of the **CAPITAL AND FINANCIAL ACCOUNT**, unlike previous periods, was negative by 0.3 billion kroons. The main reason for that was a temporary outflow of capital through the banking sector due to the refinancing of the earlier taken loans.

The nearly 1.5 billion kroon positive balance of **direct investments** was of the same order as a year earlier. A significant part of it (65%) was reinvested profit. Three fourths of direct investments made into Estonia originated from Sweden and Finland. As a rule, an increase was recorded in transport, industry, wholesale and retail trade, real estate, rent and business services sector. Estonian direct investors directed capital into Latvian finance, real estate, rent and business services sector as well as into wholesale and retail trade businesses.

A nearly 0.2 billion kroon net inflow of **portfolio investments** was associated with debt securities issue of other sectors and investments into stocks of Estonian

credit institutions. At the same time, credit institutions realised financial market instruments issued abroad and reduced the debt liabilities to the same extent.

As regards **other investments**, capital worth by 2 billion kroons more moved out of Estonia than came in, due to the simultaneous increase of external claims and decrease of external liabilities. External claims increased mainly due to the loans granted by credit institutions and deposits abroad. The increase of the latter mainly reflected a decrease in high liquidity buffers built for the turn of the year and a relatively high for the beginning of the year level of domestic saving. A reason for the decrease in external liabilities was mostly the repaid short- and long-term loan capital by banks.

CURRENT ACCOUNT

For the second consecutive quarter the deficit of the current account was considerably larger than in the respective period of the previous year – in the first

quarter the deficit was 50% larger than in the first quarter of 1999 (see Figures 2 and 3). The main reason for the increase was the rapid growth of the deficit of

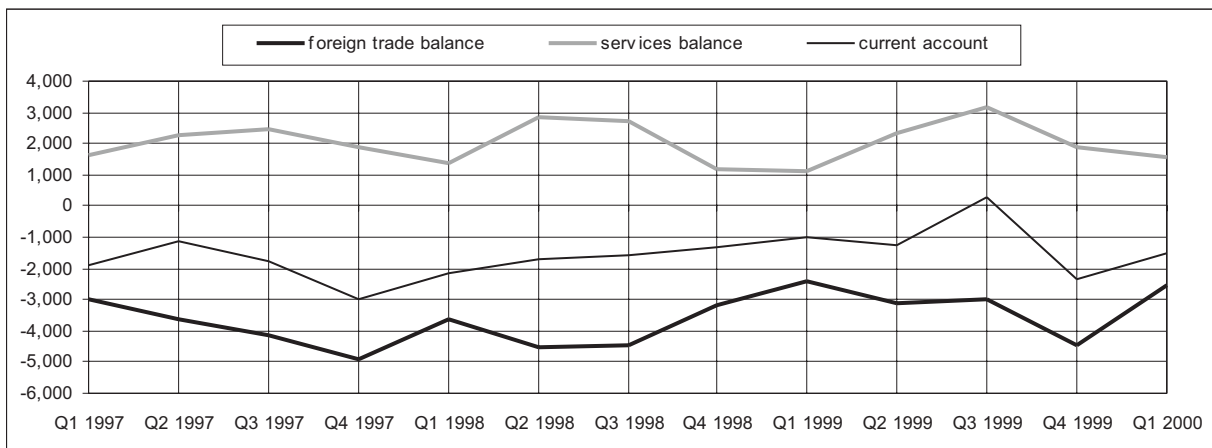


Figure 2. Comparison of the current account, foreign trade balance and services balance of the Estonian balance of payments (in f.o.b. prices, EEK mn)

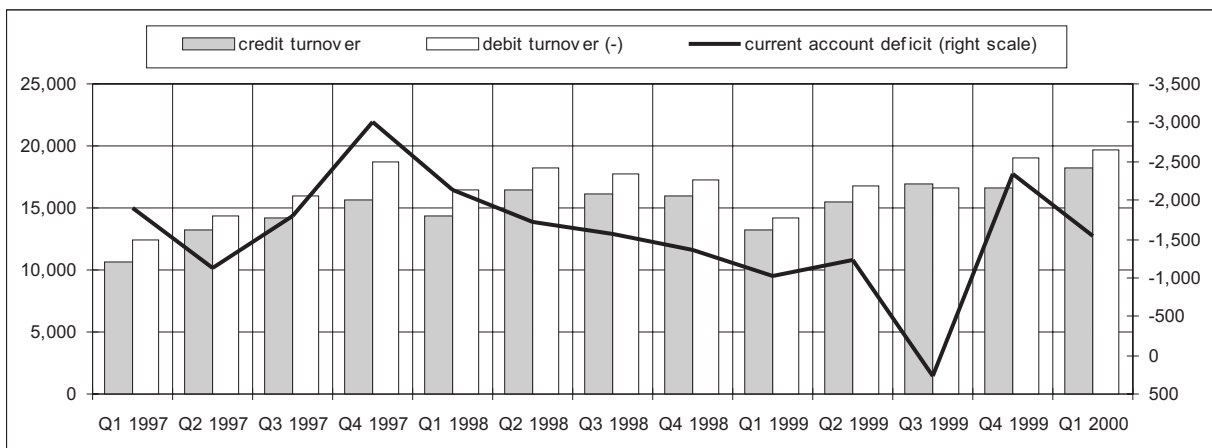


Figure 3. Current account turnover and balance (EEK mn)

the income balance (see Figure 4). No real outflow of income took place because the 1.1 billion kroon deficit resulted from the rapid increase in the reinvested income of Estonian companies which in the financial account is described under the inflow of direct investments.

The main contributor to the current account deficit

was still the foreign trade balance. Increased external demand and growth of the Estonian economy is testified by the increase of exports, which outstripped the increase of imports (by 47% and 38% against the respective figures of 1999). A significant improvement (4.3%) of Estonia's terms of trade (the ratio of the export and import price indices) as compared to the first quarter of 1999 also contributed to this.

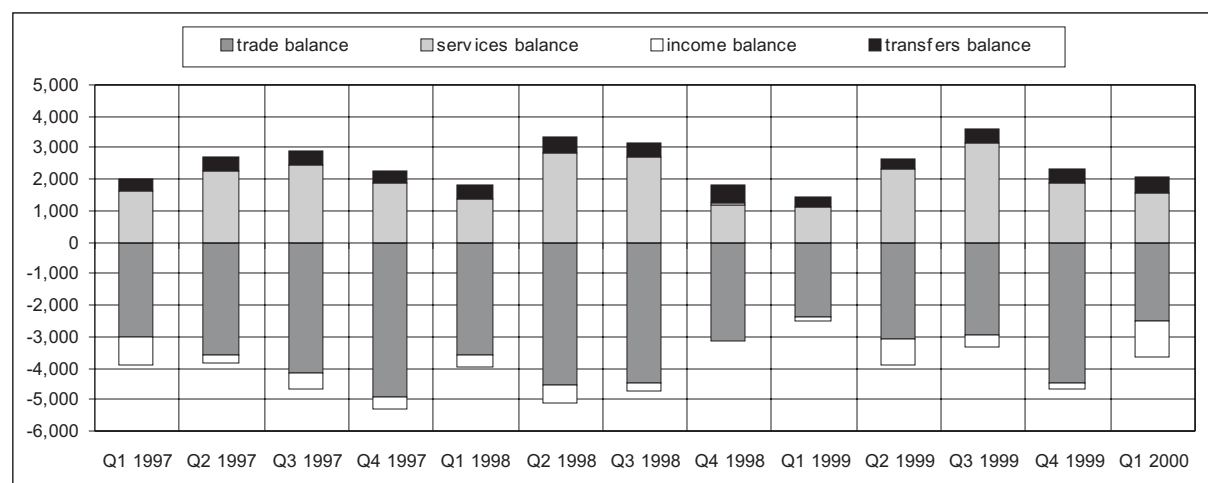


Figure 4. Current account structure (EEK mn)

Goods

The first quarter of 2000 was favourable for Estonia's foreign trade – the export of goods increased by 23% against the fourth quarter of 1999 and by 47% against the first quarter of 1999 (including the adjustments resulting from the balance of payments methodology), reaching a record 12.1 billion kroons (see Table 2). 14.6

billion kroons worth of goods was imported (in f.o.b. prices and including the adjustments of the balance of payments) whereas the growth rate of imports was considerably slower than that of exports, 2% and 38%, respectively. The trade deficit stood at 2.5 billion kroons, being nearly 2 billion kroons smaller than in the fourth quarter of 1999.

Table 2. Changes in the special export and import of goods¹

	Special export			Special import			Balance (EEK mn)
	Volume ² (EEK mn)	Change compared to the previous period (%)	Share in total goods and services balance (%)	Volume ² (EEK mn)	Change compared to the previous period (%)	Share in total goods and services balance (%)	
Q1 1997	6,372.2	*	65.7	9,385.1	*	84.5	-3,012.9
Q2 1997	7,753.9	21.7	62.4	11,363.3	21.1	82.6	-3,609.4
Q3 1997	8,025.9	3.5	59.9	12,151.8	6.9	80.7	-4,125.9
Q4 1997	9,719.4	21.1	66.0	14,626.1	20.4	82.4	-4,906.7
Q1 1998	9,120.8	-6.2	68.4	12,735.1	-12.9	81.7	-3,614.3
Q2 1998	9,750.7	6.9	63.0	14,258.0	12.0	83.1	-4,507.3
Q3 1998	9,017.8	-7.5	59.8	13,464.5	-5.6	80.0	-4,446.7
Q4 1998	9,897.1	9.8	67.4	13,047.2	-3.1	78.3	-3,150.1
Q1 1999	8,194.9	-17.2	67.4	10,599.0	-18.8	78.7	-2,404.1
Q2 1999	8,900.2	8.6	61.1	11,995.6	13.2	78.2	-3,095.4
Q3 1999	9,149.5	2.8	57.9	12,123.2	1.1	77.7	-2,973.7
Q4 1999	9,791.4	7.0	63.3	14,256.9	17.6	78.9	-4,465.5
Q1 2000	12,074.2	23.3	69.9	14,599.5	2.4	80.2	-2,525.3

¹ Special trade method, adjusted by Eesti Pank.

² Data of the current account foreign trade balance.

According to the **special trade statistics**², the export of goods amounted to 12 billion kroons, import in c.i.f. prices to 15.2 billion kroons and foreign trade deficit to 3.2 billion kroons (see Figure 5).

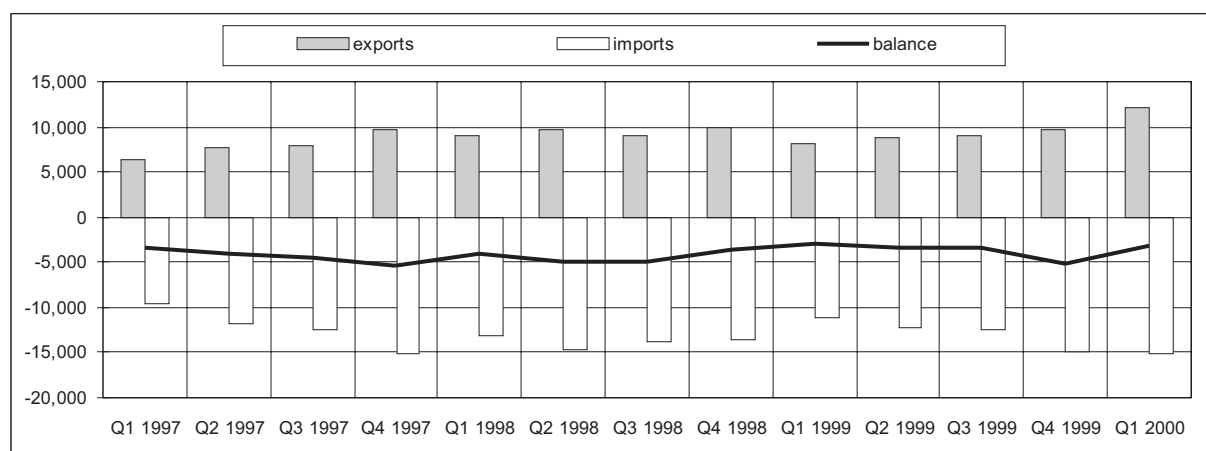


Figure 5. Estonia's foreign trade balance (EEK mn)

The growth of **end export** (total special export without processed goods) was positive – by 11% against the fourth quarter of 1999 and by 31% against the first quarter of 1999 (see Table 3). **The main export articles were timber and timber products, clothing, footwear and headgear, furniture and food products.** Of these, the export of the first three has been growing steadily while the export of food products has decreased, bringing its share in end export down to 10% (16% last year).

The **export of processed goods** has been increasing constantly and their share in total special export now reaches over 40%. In the first quarter two groups of goods were still dominating: machinery and equipment (71%) and clothing, footwear and headgear (17%). **The export of processed machinery and equipment (mainly mobile phones) jumped by 65% as compared to the fourth quarter of 1999 and 2.3 times as compared to the first quarter of 1999.**

Table 3. Estonia's special export and import by the breakdown of customs procedures

	Volume (EEK mn)			Share (%)			Change (%)	
	Q1 2000	Q4 1999	Q1 1999	Q1 2000	Q4 1999	Q1 1999	Q1 2000/ Q4 1999	Q1 2000/ Q1 1999
End export	7,096.3	6,406.3	5,430.4	59.0	65.8	66.5	10.8	30.7
Export of processed goods	4,937.5	3,326.3	2,738.0	41.0	34.2	33.5	48.4	80.3
Special export total	12,033.8	9,732.6	8,168.5	100.0	100.0	100.0	23.6	47.3
Import for free circulation	10,296.4	11,475.8	8,544.6	67.7	77.3	77.4	-10.3	20.5
Import of processed goods	4,910.1	3,370.4	2,491.8	32.3	22.7	22.6	45.7	97.0
Special import total	15,206.4	14,846.2	11,036.4	100.0	100.0	100.0	2.4	37.8

Modest domestic demand brought the **import for free circulation** down by 10% as compared to the fourth quarter of 1999 but it was still 21% higher than in the first quarter of 1999. Imports decreased in almost all groups of goods except timber, paper and products thereof. **Mainly machinery and equipment (computers and**

their accessories, phones, fax machines, parts), chemical products (medicines) and various food products were imported to Estonia.

In the **import of processed goods** the main groups were the same as in exports and the growth rate was also similar.

² The analysis below does not contain the adjustments made in the foreign trade balance (see Tables 1 and 3) of the balance of payments by the Statistics Department of Eesti Pank (repair of capital goods, estimation on smuggling, etc). Imports is given in c.i.f. prices and analysed according to the trading country. Data on exports and imports differ from those published by the State Statistical Office (SSO), because instead of the general trade system used by the SSO, Eesti Pank uses the **special trade system**. This means that exports do not include the re-export of goods previously imported into customs warehouses and their use for provisioning sea vessels and aircraft. Imports does not reflect the customs warehousing of imported goods, but contains deliveries of goods from customs warehouses into free circulation and processing. Exports takes into account the possible price distortions occurring in the course of exports through customs warehouses that are not reflected in the foreign trade statistics of the SSO.

If we analyse Estonia's foreign trade balance by **end consumption** then we can see that **exports** were dominated by **goods of intermediate consumption** which accounted for over half of the total special export (see Table 4). Their share has decreased thanks to the tripling of the export of **capital goods**. The main goods of intermediate consumption were unprocessed and little processed wood and parts of mobile phones. Of capital goods, mainly mobile phones were exported. Of **consumer goods** the main export articles were furniture and furniture

components as well as tinned fish.

The share of **capital goods** increased also in **imports** (see Table 5). Mainly electric condensers, transformers and computers were imported. Of **goods of intermediate consumption**, parts of mobile phones, natural gas, ferrous metals and parts of electric machinery were imported. The import of **consumer goods** decreased by 18% as compared to the fourth quarter of 1999. Mostly food products, medicines, timber and paper and furniture were imported.

Table 4. Special export by final consumption

	Volume (EEK mn)			Share (%)			Change (%)	
	Q1 2000	Q4 1999	Q1 1999	Q1 2000	Q4 1999	Q1 1999	Q1 2000/ Q4 1999	Q1 2000/ Q1 1999
Capital goods	2,695.8	913.5	845.7	22.4	9.4	10.4	195.1	218.8
Goods of intermediate consumption	6,352.2	5,813.0	4,693.4	52.8	59.7	57.5	9.3	35.3
Consumer goods	2,789.9	2,815.2	2,513.5	23.2	28.9	30.8	-0.9	11.0
Other	195.9	190.9	115.8	1.6	2.0	1.4	2.6	69.1
Total	12,033.8	9,732.6	8,168.5	100.0	100.0	100.0	23.6	47.3

Table 5. Special import by final consumption

	Volume (EEK mn)			Share (%)			Change (%)	
	Q1 2000	Q4 1999	Q1 1999	Q1 2000	Q4 1999	Q1 1999	Q1 2000/ Q4 1999	Q1 2000/ Q1 1999
Capital goods	2,952.7	2,503.9	1,852.1	19.4	16.9	16.8	17.9	59.4
Goods of intermediate consumption	8,174.7	7,478.1	5,650.1	53.8	50.4	51.2	9.3	44.7
Consumer goods	2,986.1	3,639.5	2,707.3	19.6	24.5	24.5	-18.0	10.3
Other	1,093.0	1,224.8	826.9	7.2	8.2	7.5	-10.8	32.2
Total	15,206.4	14,846.2	11,036.4	100.0	100.0	100.0	2.4	37.8

The **foreign trade balance** was negative for all groups of end consumption (see Table 6).

By groups of countries, special export to the European Union increased by 32% as compared to the fourth quarter of 1999 and by 58% as compared to the first quarter of 1999 and accounted for 76% of the total special export (see Table 7). The export of goods to the **CIS countries** has been decreasing constantly and amounted to just 4% of the special export in the first quarter. This was due to the ban on certain customs procedures³ under which goods were later exported at lower prices. The role of customs-free zones used instead has been gradually growing. Presumably, a large part of goods stored in customs-free zones was later exported to the CIS countries (mainly Russia) and thus their actual share in special export is probably larger.

Nearly **three quarters of special import** came from the

Table 6. Foreign trade balance by groups of goods (EEK mn)

	Q1 2000	Q4 1999	Q1 1999
Capital goods	-256.9	-1,590.4	-1,006.4
Goods of intermediate consumption	-1,822.5	-1,665.1	-956.7
Consumer goods	-196.2	-824.3	-193.8
Other	-897.1	-1,033.8	-711.0
Total	-3,172.6	-5,113.6	-2,867.9

European Union although the increase of special import was smaller than that of special export (see Table 8). As compared to the fourth quarter of 1999, the import of goods from the **CIS countries** increased while import from **Central and Eastern Europe** decreased.

Estonia's **foreign trade balance** was positive only with Central and Eastern Europe (see Table 9).

³ As of 31 October 1999 the customs procedure code 72 (customs warehousing of goods for later export) is invalid, but from 1 November new procedures were introduced – code 78 (storing of goods in the customs-free zone for later export) and code 56 (import of goods for processing in a customs-free zone). This change does not enable to determine the country of destination for exports.

Table 7. Estonia's special export by groups of countries

	Volume (EEK mn)			Share (%)			Change (%)	
	Q1 2000	Q4 1999	Q1 1999	Q1 2000	Q4 1999	Q1 1999	Q1 2000/ Q4 1999	Q1 2000/ Q1 1999
EU countries	9,081.9	6,865.7	5,739.7	75.5	70.5	70.3	32.3	58.2
Central and Eastern European countries	1,300.7	1,242.9	949.1	10.8	12.8	11.6	4.7	37.0
CIS countries	436.7	564.5	796.1	3.6	5.8	9.7	-22.6	-45.1
Other	805.2	757.0	642.0	6.7	7.8	7.9	6.4	25.4
Customs-free zone ¹	409.3	302.5	41.6	3.4	3.1	0.5	35.3	883.9
Total	12,033.8	9,732.6	8,168.5	100.0	100.0	100.0	23.6	47.3

¹ Customs-free zone is singled out due to the fact that customs procedure code 78 (goods for exporting stored into customs-free zone), introduced in 1 November 1999, does not enable to determine the country of destination for exports in most cases.

Table 8. Estonia's special import by groups of countries

	Volume (EEK mn)			Share (%)			Change (%)	
	Q1 2000	Q4 1999	Q1 1999	Q1 2000	Q4 1999	Q1 1999	Q1 2000/ Q4 1999	Q1 2000/ Q1 1999
EU countries	11,259.8	10,684.4	8,222.1	74.0	72.0	74.5	5.4	36.9
Central and Eastern European countries	1,699.4	1,523.9	1,121.4	11.2	10.3	10.2	11.5	51.5
CIS countries	1,287.6	1,599.8	1,027.1	8.5	10.8	9.3	-19.5	25.4
Other	959.0	1,038.1	665.3	6.3	7.0	6.0	-7.6	44.1
Customs-free zone	0.6	0.0	0.5	0.0	0.0	0.0		16.4
Total	15,206.4	14,846.2	11,036.4	100.0	100.0	100.0	2.4	37.8

Table 9. Foreign trade balance by groups of countries (EEK mn)

	Q1 2000	Q4 1999	Q1 1999
EU countries	-2,177.9	-3,818.6	-2,482.5
Central and Eastern European countries	-1,262.7	-959.4	-325.3
CIS countries	13.1	-356.9	-78.0
Other	-153.9	-281.1	-23.3
Customs-free zone	408.8	302.5	41.1
Total	-3,172.6	-5,113.6	-2,867.9

Services

The preliminary surplus of the services balance amounted to 1.6 billion kroons in the first quarter of 2000 and this covered 62% of the foreign trade deficit (see Table 10). The latter indicator was

approximately equal to the 1999 average although it has usually been below 45% in the first quarter. As the surplus of the services balance fluctuates seasonally (see Figure 6) there is some point only in comparison

Table 10. Services export and import

	Export			Import			Balance	
	Volume (EEK mn)	Change compared to the previous period (%)	Share in total goods and services balance (%)	Volume (EEK mn)	Change compared to the previous period (%)	Share in total goods and services balance (%)	Volume (EEK mn)	Change compared to the previous period (%)
Q1 1998	4,212.2	-15.7	31.6	2,860.2	-8.3	18.3	1,352.0	-28.1
Q2 1998	5,729.2	36.0	37.0	2,908.9	1.7	16.9	2,820.3	108.6
Q3 1998	6,069.7	5.9	40.2	3,376.1	16.1	20.0	2,693.6	-4.5
Q4 1998	4,792.9	-21.0	32.6	3,609.6	6.9	21.7	1,183.3	-56.1
Q1 1999	3,962.6	-17.3	32.6	2,861.7	-20.7	21.3	1,100.9	-7.0
Q2 1999	5,659.5	42.8	38.9	3,335.4	16.6	21.8	2,324.1	111.1
Q3 1999	6,648.3	17.5	42.1	3,488.8	4.6	22.3	3,159.5	35.9
Q4 1999	5,681.5	-14.5	36.7	3,810.0	9.2	21.1	1,871.5	-40.8
Q1 2000	5,187.6	-8.7	33.5	3,614.7	-5.1	19.8	1,572.9	-16.0

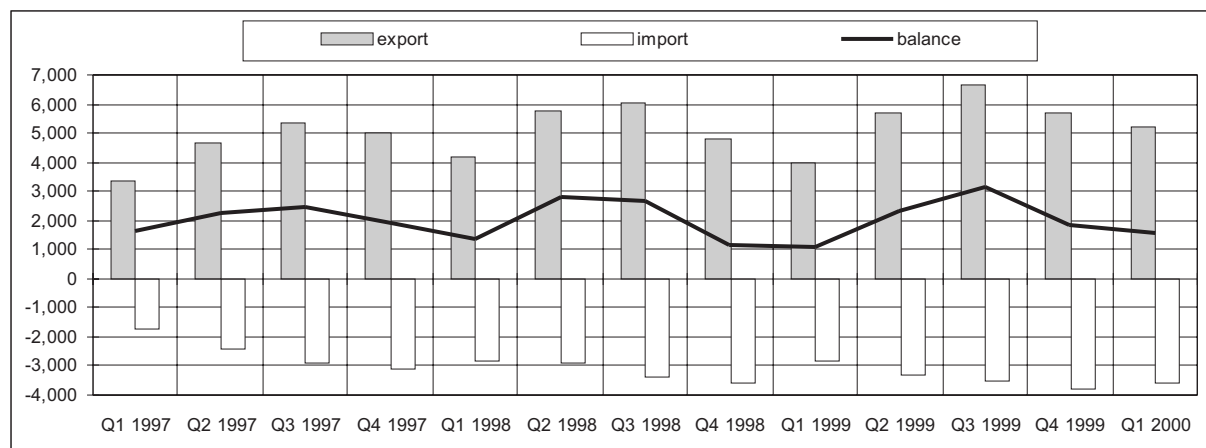


Figure 6. Services balance (EEK mn)

with the respective period of the previous year. The same Figure also shows the stagnation in the growth of the export of services in the fourth quarter of 1998 and the first quarter of 1999.

The surplus of the services balance was by 43% larger than in the first quarter of 1999, mostly thanks to the 42% increase in the surplus of transport services

balance and the 21% increase in the surplus of travel services balance. The reduced deficit of the balance of other services also had a considerable impact (see Table 11). While the share of services has increased in recent years in the total export of goods and services, the share of the import of services has remained stable over the last two years and even decreased in the first quarter of 2000.

Table 11. Services balance by major categories

	Balance (EEK mn)			Share (%)		
	Q1 2000	Q4 1999	Q1 1999	Q1 2000	Q4 1999	Q1 1999
Transport services	1,199.4	1,213.3	844.9	76.3	64.8	76.7
Travel services	729.5	949.0	604.6	46.4	50.7	54.9
Construction services	-15.7	91.8	20.6	-1.0	4.9	1.9
Business services	31.6	0.4	37.6	2.0	0.0	3.4
Government services	-371.4	-312.3	-315.7	-23.6	-16.7	-28.7
Other	-0.5	-70.7	-91.1	0.0	-3.8	-8.3
Services: net	1,572.9	1,871.5	1,100.9	100.0	100.0	100.0

In the **structure of the services export** (see Table 12) the share of **transport services** increased as compared to the first quarter of 1999 and the share of **travel** and

construction services decreased. The export of **transport and business services** increased the most – by 38% and 35%, respectively.

Table 12. Services export by major categories

	Volume (EEK mn)			Share (%)			Change (%)	
	Q1 2000	Q4 1999	Q1 1999	Q1 2000	Q4 1999	Q1 1999	Q1 2000/ Q4 1999	Q1 2000/ Q1 1999
Transport services	2,880.1	2,794.0	2,092.6	55.5	49.2	52.8	3.1	37.6
o/w freight	1,331.4	1,163.9	931.0	25.7	20.5	23.5	14.4	43.0
passenger	414.5	606.8	366.7	8.0	10.7	9.3	-31.7	13.0
other transport services	1,134.2	1,023.3	794.9	21.9	18.0	20.1	10.8	42.7
Travel services	1,448.8	1,688.2	1,179.0	27.9	29.7	29.8	-14.2	22.9
Construction services	57.3	234.2	61.7	1.1	4.1	1.6	-75.5	-7.1
Business services	601.0	693.3	446.1	11.6	12.2	11.3	-13.3	34.7
Government services	15.9	13.0	11.1	0.3	0.2	0.3	22.3	43.2
Other	184.5	258.8	172.1	3.6	4.6	4.3	-28.7	7.2
Total	5,187.6	5,681.5	3,962.6	100.0	100.0	100.0	-8.7	30.9

The structure of the services import changed less (see Table 13) and the 26% increase against the first quarter

of 1999 mainly resulted from transport and business services which increased by 35% and 77%, respectively.

Table 13. Services import by major categories

	Volume (EEK mn)			Share (%)			Change (%)	
	Q1 2000	Q4 1999	Q1 1999	Q1 2000	Q4 1999	Q1 1999	Q1 2000/ Q4 1999	Q1 2000/ Q1 1999
Transport services	1,680.7	1,580.7	1,247.7	46.5	41.5	43.6	6.3	34.7
o/w freight	1,217.6	1,164.3	800.9	33.7	30.6	28.0	4.6	52.0
passenger	159.1	146.7	123.8	4.4	3.9	4.3	8.5	28.5
other transport services	304.0	269.7	323.0	8.4	7.1	11.3	12.7	-5.9
Travel services	719.3	739.2	574.4	19.9	19.4	20.1	-2.7	25.2
Construction services	73.0	142.4	41.1	2.0	3.7	1.4	-48.7	77.6
Business services	569.4	692.9	408.5	15.8	18.2	14.3	-17.8	39.4
Government services	387.3	325.3	326.8	10.7	8.5	11.4	19.1	18.5
Other	185.0	329.5	263.2	5.1	8.6	9.2	-43.9	-29.7
Total	3,614.7	3,810.0	2,861.7	100.0	100.0	100.0	-5.1	26.3

The export and import of transport services increased by 38% and 35%, respectively, against the first quarter of 1999 (see Figure 7). Export grew mostly thanks to the increase of freight services and other transport services (both were up by 43%) and transport volumes were up in road transport as well as sea transport. The increase of the import of transport services mainly

resulted from freight services. The increase of the import of passenger transport services (first of all by sea) was compensated by the decrease of the volume of other transport services import by sea and land.

The surplus of the travel services balance increased by 21% as compared to the first quarter of 1999, with export up by 23% and import by 25% (see Figure 8).

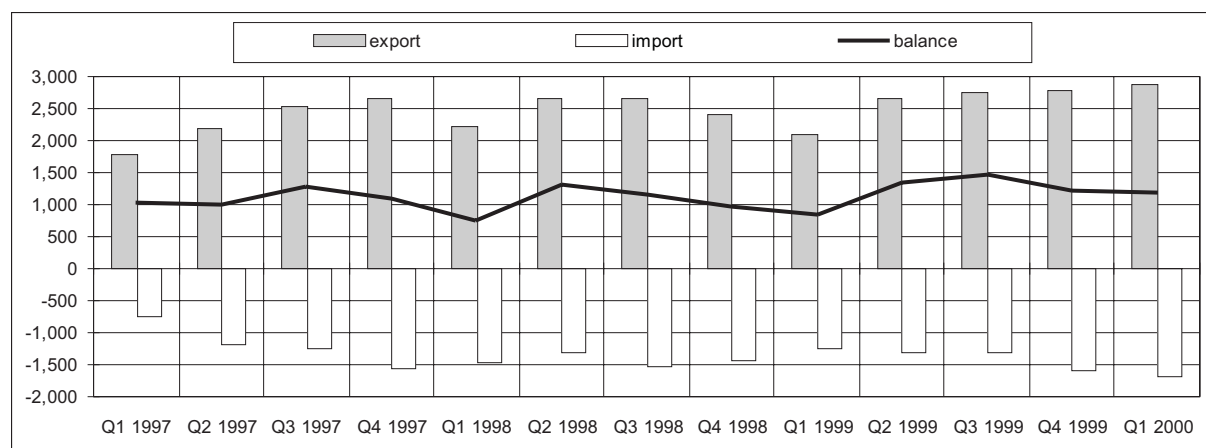


Figure 7. Transport services balance (EEK mn)

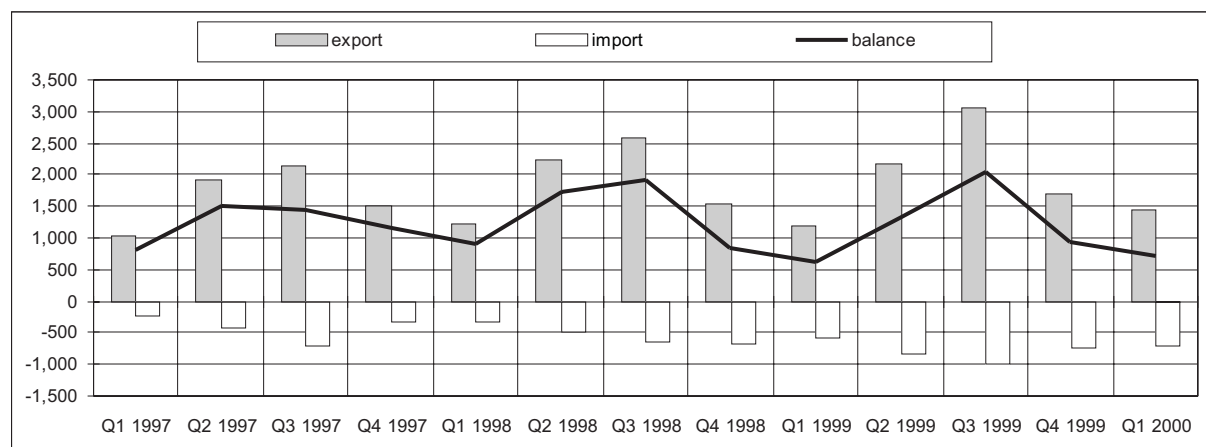


Figure 8. Travel services balance (EEK mn)

The relatively big increase of the **export of travel services** is probably temporary and resulted from the low level of the comparison basis. The total number of foreign tourists increased by 6.5% against the first quarter of 1999 whereas the number of tourists using the services of travel agencies was up by 37% (thanks to Finns, first of all). At the same time the total number of visits by Finns in the first quarter was 2.5% smaller than in the first quarter of 1999. The main decrease came from one-day visits. The total number of foreign visitors increased thanks to the increase in the number of tourists from the CIS countries (up by 22%) and to a lesser extent from the more remote member countries of the European Union (up by 10%).

The increase of the **travel services import** mostly resulted from the preference of longer and more expensive trips: while the number of border crossings by Estonian residents increased by 8% as compared to the first quarter of 1999 and the number of people using the services of travel agencies was up by 7.2% then the number of tourists visiting Finland was down by 38% and the number of tourists headed for Latvia dropped by 23%. At the same time the number of visits to the Scandinavian countries increased by 26%. 63% more people visited the European Union countries and 69% more travelled to other more remote countries. The new popular destinations include the United States of America (4.9 times more visits), Italy (up 2.2 times), Germany (up 2.1 times) and Spain (up 2 times).

Income

There were major changes in the income balance in the first quarter of 2000 (see Table 14 and Figure 9). The deficit grew 11.4 times as compared to the first quarter of 1999 and amounted to 1.1 billion kroons. The deficit of direct investment income exceeded 1 billion kroons and the deficit of other investment income increased by 73%.

The deficit of the income balance grew due to the 2.5-fold increase of the outflow of income as well as the 33% decrease of the inflow of income as compared to the first quarter of 1999. Inflow of income decreased in all categories of income and income from fixed capital was negative due to the losses of Estonian companies abroad (see Table 15). The outflow of income from Estonia

Table 14. Income balance (EEK mn)

	Balance (EEK mn)			Share (%)			Change (%)	
	Q1 2000	Q4 1999	Q1 1999	Q1 2000	Q4 1999	Q1 1999	Q1 2000/ Q4 1999	Q1 2000/ Q1 1999
Income from direct investments	-1,002.6	-192.6	-108.9	90.5	86.5	112.2	420.6	820.7
o/w income from equity	-983.4	-250.3	-83.5	88.8	112.4	86.0	292.9	1,077.7
income from debt (interests)	-19.2	57.7	-25.4	1.7	-25.9	26.2	-133.3	-24.4
Income from portfolio investments	109.0	110.0	128.5	-9.8	-49.4	-132.3	-0.9	-15.2
Income from other investments	-211.4	-142.6	-122.1	19.1	64.1	125.7	48.2	73.1
Other income	-2.7	2.6	5.4	0.2	-1.2	-5.6	-203.8	-150.0
Income: net	-1,107.7	-222.6	-97.1	100.0	100.0	100.0	397.6	1,040.8

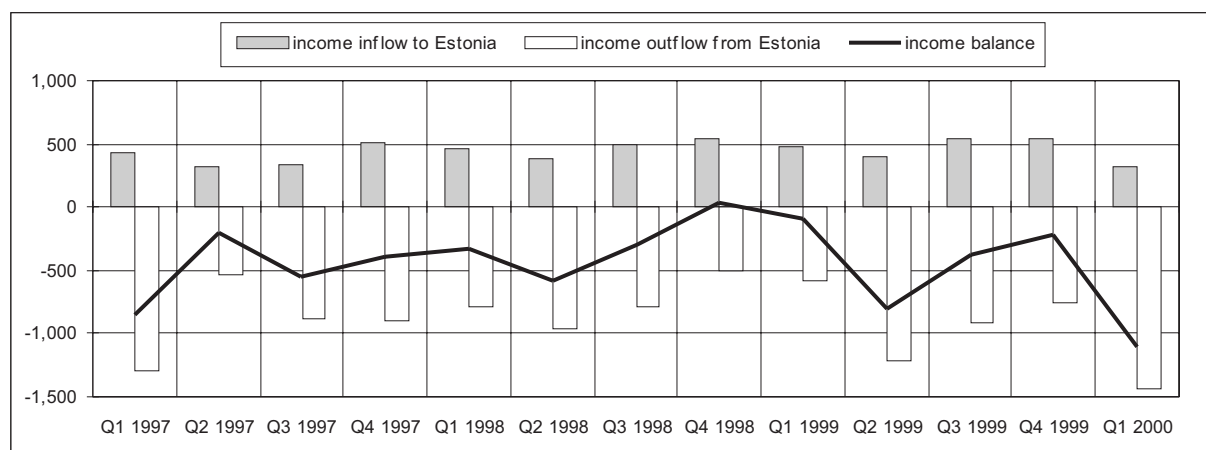


Figure 9. Income balance (EEK mn)

Table 15. Income inflow to Estonia

	Volume (EEK mn)			Share (%)			Change (%)	
	Q1 2000	Q4 1999	Q1 1999	Q1 2000	Q4 1999	Q1 1999	Q1 2000/ Q4 1999	Q1 2000/ Q1 1999
Income from direct investments	8.6	119.7	41.5	2.7	22.4	8.6	-92.8	-79.3
o/w income from equity	-26.6	8.1	1.6	-8.2	1.5	0.3	-428.4	-1,762.5
income from debt (interests)	35.2	111.6	39.9	10.9	20.9	8.3	-68.5	-11.8
Income from portfolio investments	204.4	278.6	302.3	63.1	52.2	62.7	-26.6	-32.4
Income from other investments	104.0	125.6	130.2	32.1	23.5	27.0	-17.2	-20.1
Other income	7.0	9.8	7.9	2.2	1.8	1.6	-28.6	-11.4
Total	324.0	533.7	481.9	100.0	100.0	100.0	-39.3	-32.8

increased also against the fourth quarter of 1999 (by 89%; see Table 16). The outflow of direct investment income amounted to over 1 billion kroons in the first quarter, which means that the profit of foreign-owned companies

increased rapidly. The decrease of the portfolio investment income can be attributed to earlier portfolio investments of foreigners being turned into direct investments.

Table 16. Income outflow from Estonia

	Volume (EEK mn)			Share (%)			Change (%)	
	Q1 2000	Q4 1999	Q1 1999	Q1 2000	Q4 1999	Q1 1999	Q1 2000/ Q4 1999	Q1 2000/ Q1 1999
Income from direct investments	-1,011.2	-312.3	-150.4	70.6	41.3	26.0	223.8	572.3
o/w income from equity	-956.8	-258.4	-85.1	66.8	34.2	14.7	270.3	1,024.3
income from debt (interests)	-54.4	-53.9	-65.3	3.8	7.1	11.3	0.9	-16.7
Income from portfolio investments	-95.4	-168.6	-173.8	6.7	22.3	30.0	-43.4	-45.1
Income from other investments	-315.4	-268.2	-252.3	22.0	35.5	43.6	17.6	25.0
Other income	-9.7	-7.2	-2.5	0.7	1.0	0.4	34.7	288.0
Total	-1,431.7	-756.3	-579.0	100.0	100.0	100.0	89.3	147.3

Transfers

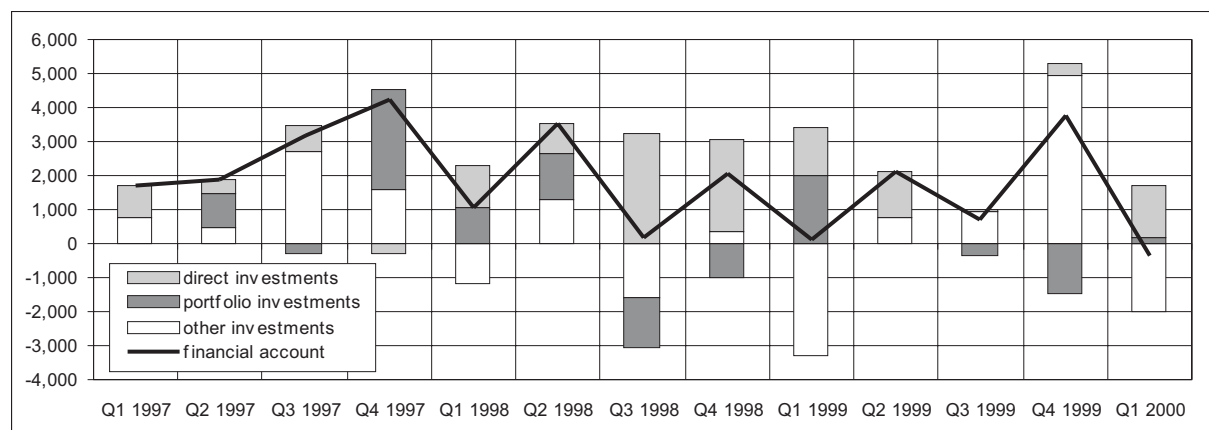
The surplus of the transfers' balance stood at 0.5 billion kroons in the first quarter, being 40% larger than in the first quarter of 1999. This resulted from the 19% increase of the credit as well as the 31% decrease of the debit. The 100 million kroon increase

of the transfers' credit was based 76% on government transfers and 24% on private transfers. As compared to the fourth quarter of 1999, credit was nearly unchanged, while the decrease of debit derived mostly from private transfers.

CAPITAL AND FINANCIAL ACCOUNT

The balance of the capital and financial account was, unlike in earlier periods, by 0.3 billion kroons negative.

The deficit was mainly caused by the large outflow of other investments (see Figures 10 and 11).

**Figure 10. Changes in the structure of foreign investment capital flows (EEK mn)**

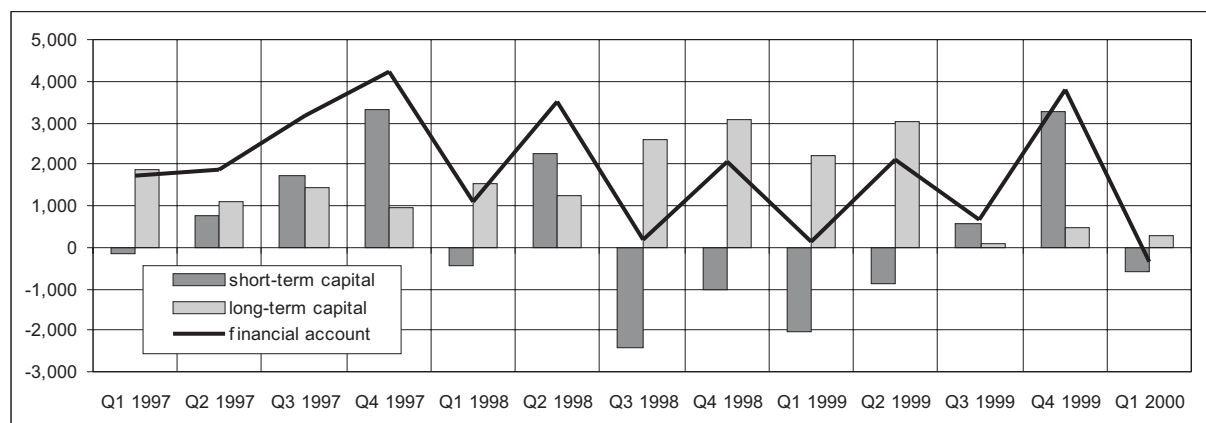


Figure 11. Changes in the maturity structure of source of funds (EEK mn)

Direct Investments⁴

The growth of direct investments that began in the fourth quarter of 1999 continued in the first quarter of 2000. The surplus of the direct investments balance amounted to nearly 1.5 billion kroons, being 4.4 times larger than in the fourth

quarter of 1999. Non-residents brought 1.8 billion kroons worth of direct investments into Estonia, while Estonian residents' direct investments abroad increased by 0.4 billion kroons (see Table 17 and Figure 12).

Table 17. Structure of direct investments

	Into Estonia						Abroad					
	EEK mn			Share (%)			EEK mn			Share (%)		
	Q1 2000	Q4 1999	Q1 1999	Q1 2000	Q4 1999	Q1 1999	Q1 2000	Q4 1999	Q1 1999	Q1 2000	Q4 1999	Q1 1999
Share capital	577.5	1,032.2	747.4	31.3	125.7	53.3	-190.3	-157.4	-13.8	53.2	32.7	1,533.3
Inflow	792.0	1,380.1	1,227.0	42.9	168.1	87.5	15.3	303.6	80.9	-4.3	-63.2	-8,988.9
Outflow	-214.5	-347.9	-479.6	-11.6	-42.4	-34.2	-205.6	-461.0	-94.7	57.4	95.9	10,522.2
Reinvested income	950.1	186.8	-229.4	51.4	22.7	-16.4	26.6	-8.1	-1.5	-7.4	1.7	166.7
Claims	-501.5	-966.6	-833.9	-27.2	-52.3	-45.2	-12.4	-69.2	-12.0	-0.7	-3.7	-0.6
Liabilities	1,451.6	1,153.4	604.5	78.6	62.5	32.7	39.0	61.1	10.5	2.1	3.3	0.6
Loan capital (net)	340.8	-183.3	664.4	18.5	-22.3	47.4	-192.0	-313.3	-10.3	53.6	65.2	1,144.4
Trade credit	84.3	-311.0	224.3	4.6	-37.9	16.0	-2.2	0.4	88.2	0.6	-0.1	-9,800.0
Short-term loans	171.8	-333.9	192.4	9.3	-40.7	13.7	-84.5	-219.2	21.9	23.6	45.6	-2,433.3
Long-term loans	84.7	461.6	247.7	4.6	56.2	17.7	-105.3	-94.5	-120.4	29.4	19.7	13,377.8
Other capital	-21.6	-214.6	220.3	-1.2	-26.1	15.7	-2.2	-1.9	24.7	0.6	0.4	-2,744.4
Total	1,846.8	821.1	1,402.7	100.0	100.0	100.0	-357.9	-480.7	-0.9	100.0	100.0	100.0

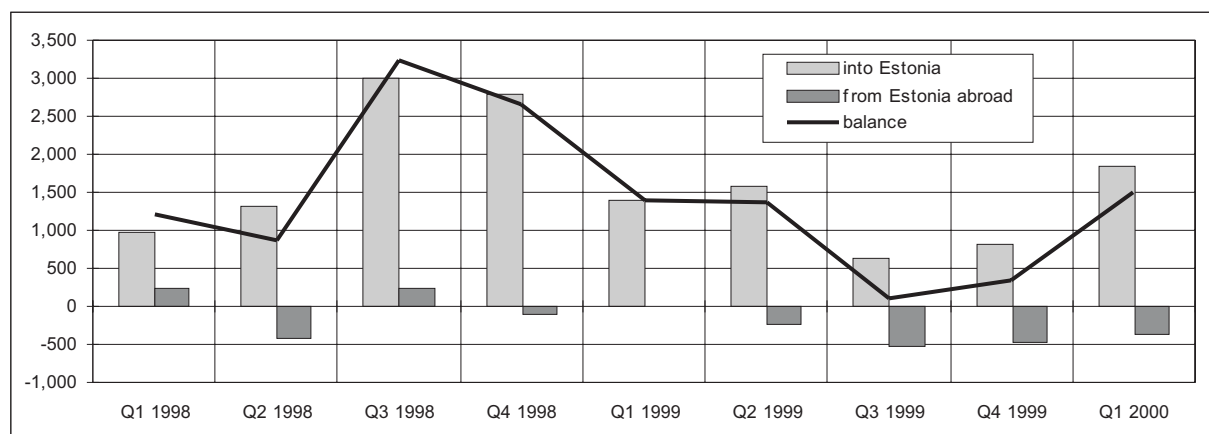


Figure 12. Direct investments (EEK mn)

⁴ See Changes in the Methodology of Drawing up the Balance of Payments, pp 43 to 44.

One third of direct investments made into Estonia increased the **share capital of joint ventures**. Over half of long-term investments consisted of the **income reinvested** by foreign investors. The large share of reinvested income can partly be explained by changes in the Income Tax Act at the beginning of 2000. The increase of reinvested income was also due to the companies' annual meetings being shifted to a later date,

which, in turn, postponed the payment of dividends. As compared to the first quarter of 1999, the profits more than doubled while losses decreased by 40%. **Investments of loan capital** increased by more than 0.3 billion kroons in the first quarter of 2000. While at the end of 1999 the short-term capital returned to investors, then in the first quarter of 2000 short-term loans and trade credit debts increased considerably (see Figure 13).

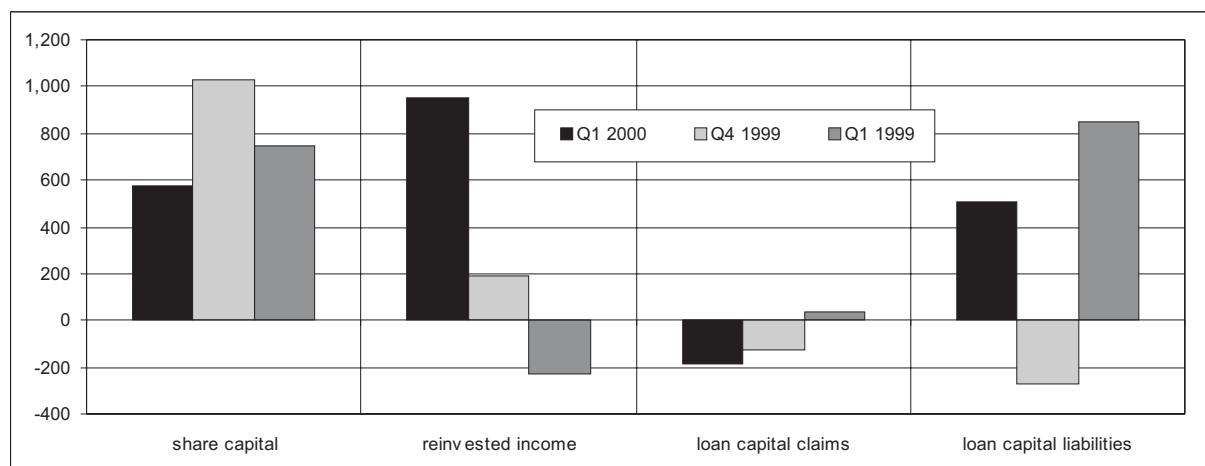


Figure 13. Structure of direct investments made into Estonia (EEK mn)

Three fourths of direct foreign investments into Estonia came from **Sweden** and **Finland** (see Figure 14). As usually, investments increased into **transport, industry, wholesale and retail trade, real estate, leasing** and **business services sector** (see Figure 15).

Investing into affiliated/associated companies abroad remained active. Half of the direct investment outflow consisted of investments into **share capital** and the other half was **loans** (see Figure 16). The

biggest increase was recorded in long-term loan capital claims. Affiliated/associated companies abroad ended the first quarter of 2000 with the total loss of 26.6 million kroons.

Estonian investors notably enlarged their long-term investments into **Latvia** (see Figure 17). Most investments were made into **finance, real estate, leasing and business services sector** and **wholesale and retail trade** (see Figure 18).

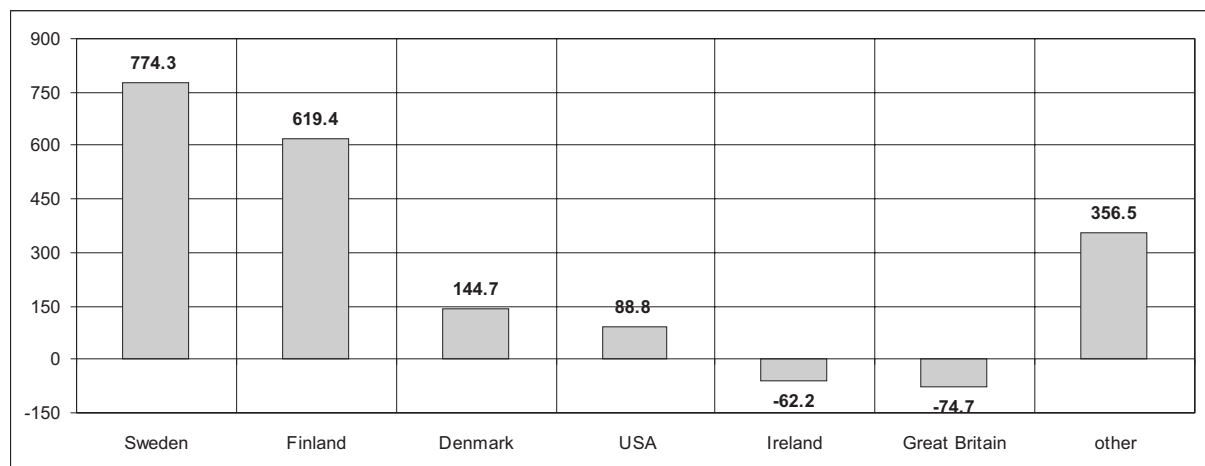


Figure 14. Structure of direct investments made into Estonia by countries in the 1st quarter of 2000 (EEK mn)

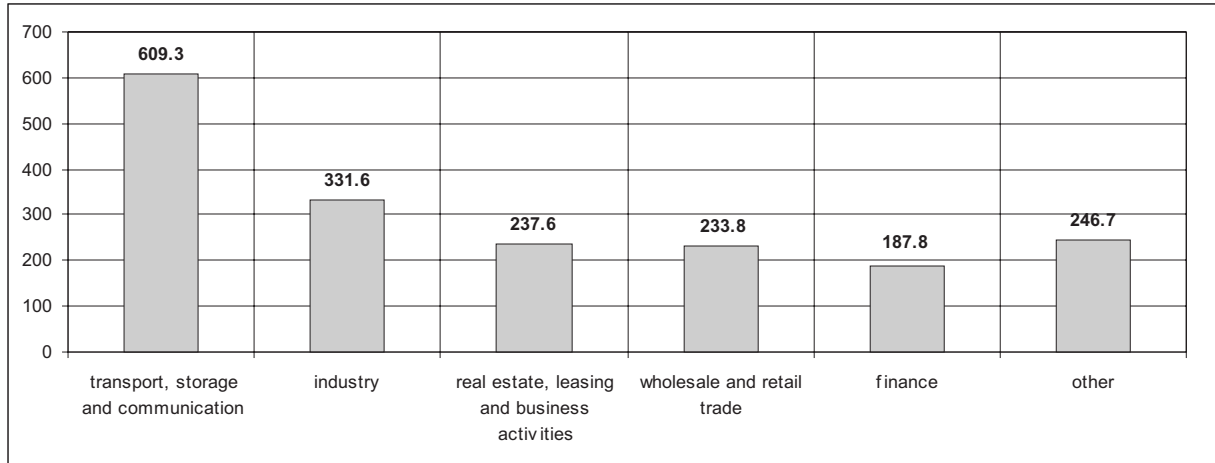


Figure 15. Structure of direct investments made into Estonia by spheres of activities in the 1st quarter of 2000 (EEK mn)

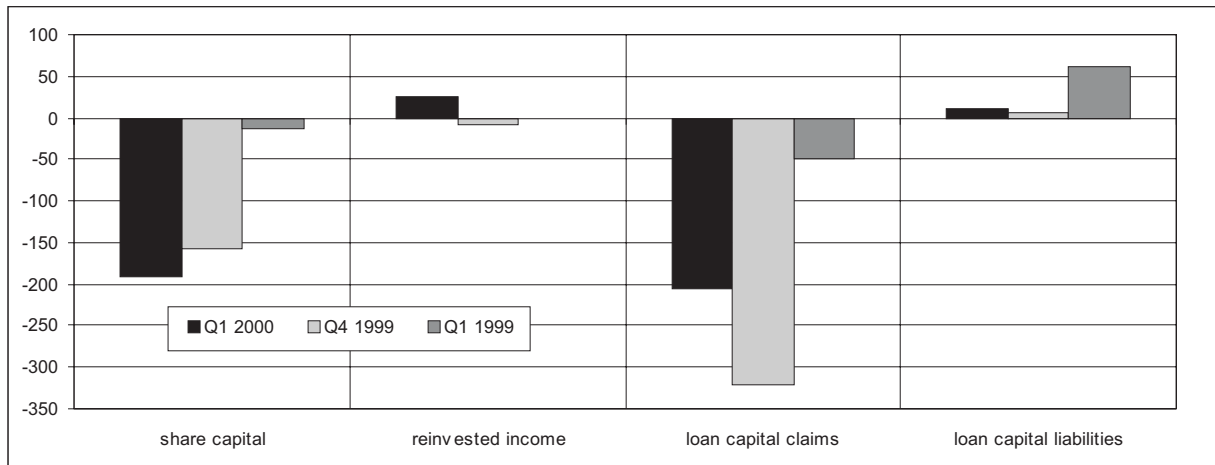


Figure 16. Structure of direct investments made abroad (EEK mn)

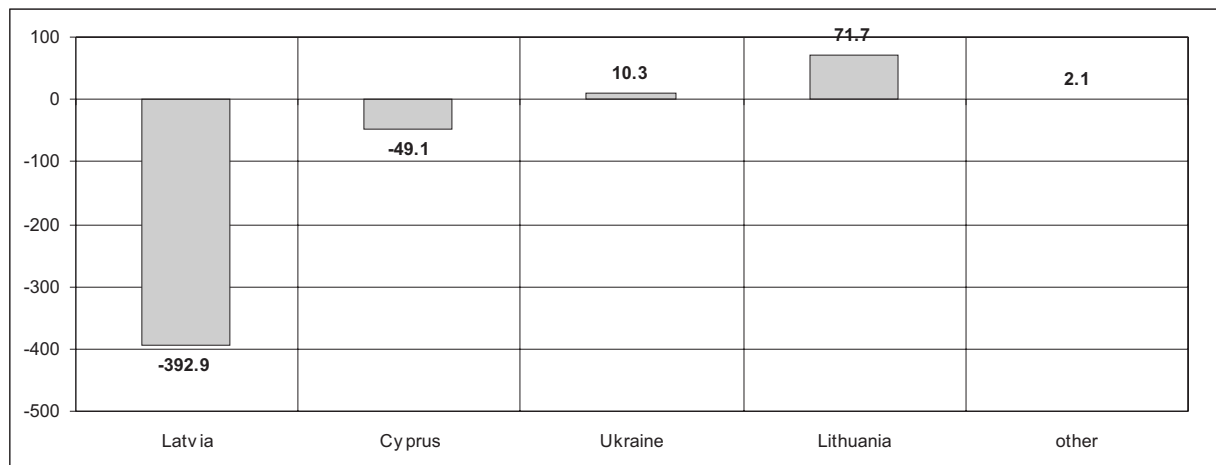


Figure 17. Structure of direct investments made abroad by countries in the 1st quarter of 2000 (EEK mn)

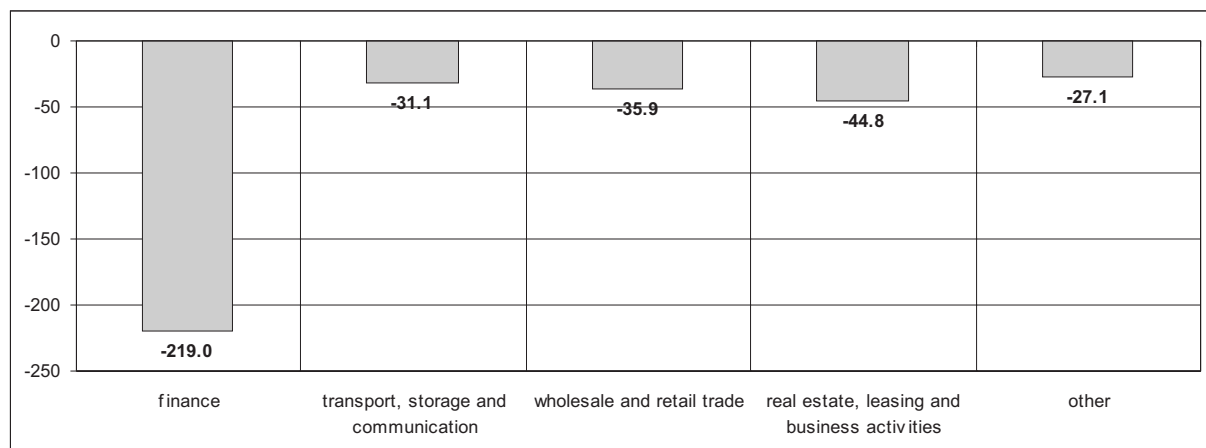


Figure 18. Structure of direct investments made abroad by spheres of activities in the 1st quarter of 2000 (EEK mn)

Portfolio Investments

The balance of portfolio investments was positive by nearly 0.2 billion kroons in the first quarter (see Figure 19). In the case of equity securities there was an inflow of

163.5 million kroons. In the case of debt securities the in- and outflow of capital was nearly equal, although the balance was positive by 30 million kroons (see Table 18).

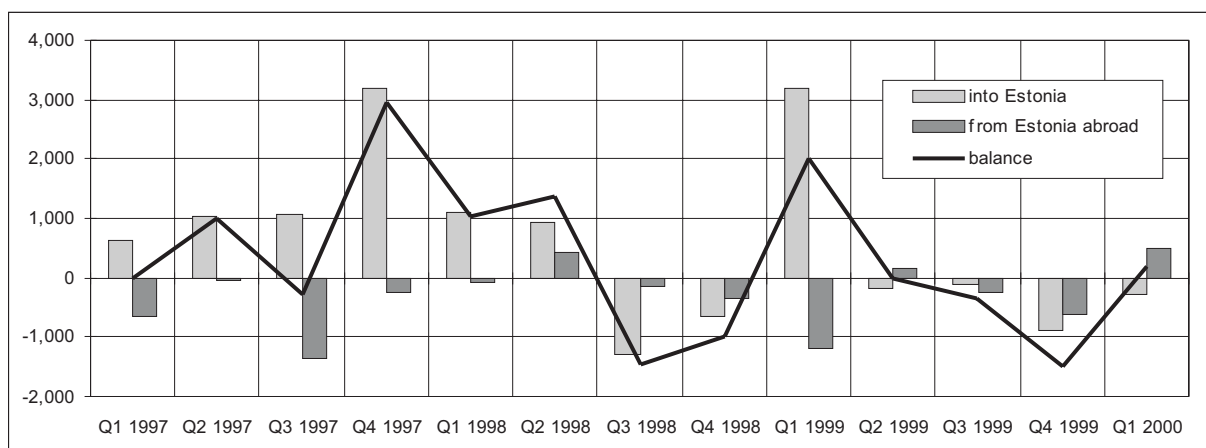


Figure 19. Portfolio investments (EEK mn)

Table 18. Portfolio investments by types of securities and sectors of economy (EEK mn)

	Claims			Liabilities			Balance		
	Q1 2000	Q4 1999	Q1 1999	Q1 2000	Q4 1999	Q1 1999	Q1 2000	Q4 1999	Q1 1999
Total portfolio investments	488.5	-602.5	-1,198.6	-294.3	-891.4	3,206.6	194.2	-1,493.9	2,008.0
o/w equity securities	85.3	32.4	81.2	78.2	-479.1	2,940.3	163.5	-446.7	3,021.5
banks	-6.1	8.6	24.1	171.2	-543.8	171.2	165.1	-535.2	195.3
other sectors	91.4	23.8	57.1	-93.0	64.7	2,769.1	-1.6	88.5	2,826.2
debt securities	403.2	-634.9	-1,279.8	-372.5	-412.3	266.3	30.7	-1,047.2	-1,013.5
government sector				-78.1	-71.8	8.2	-78.1	-71.8	8.2
banks	451.0	-646.5	-958.2	-518.0	-68.5	607.9	-67.0	-715.0	-350.3
other sectors	-47.8	11.6	-321.6	223.6	-272.0	-349.8	175.8	-260.4	-671.4

Portfolio investment claims decreased by approximately 0.5 billion kroons in the first quarter. This was mainly due to the money instruments issued abroad realised by credit institutions. At the same time,

the investments of credit institutions into long-term debt securities increased slightly, while investments of the companies in other sectors into foreign equity securities decreased.

Portfolio investment liabilities decreased as well, by nearly 0.3 billion kroons. Investments of non-residents into the equity securities of credit institutions increased by 171 million kroons but investments into the stocks of the

companies of other sectors decreased. Credit institutions redeemed 518 million kroons worth of debt securities issued earlier; the debt security liabilities of the companies of other sectors increased by more than 220 million kroons.

Other Investments

In the category of other investments the capital outflow exceeded inflow by 2 billion kroons. This was due to the increase of external claims combined with the decrease of external liabilities (see Figure 20 and Tables 19 and 20).

Claims increased mostly thanks to the loans issued by credit institutions (0.3 billion kroons) and foreign deposits (0.7 billion kroons). The increase of external claims was influenced by the decrease of the large liquidity buffers created for the turn of the year, as well

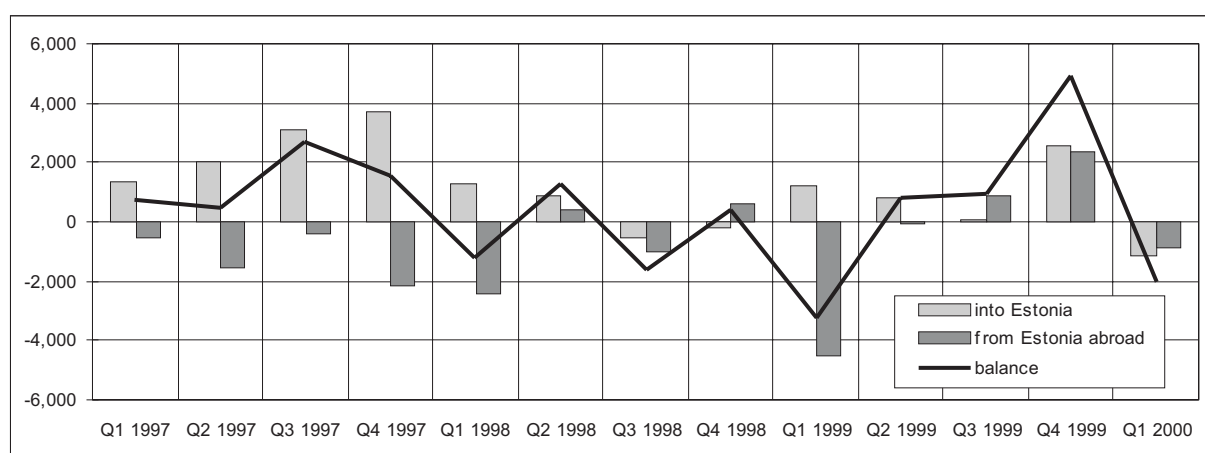


Figure 20. Other investments (EEK mn)

Table 19. Other investments by type of capital (EEK mn)

	Claims			Liabilities			Balance		
	Q1 2000	Q4 1999	Q1 1999	Q1 2000	Q4 1999	Q1 1999	Q1 2000	Q4 1999	Q1 1999
Total	-868.9	2,375.0	-4,506.6	-1,143.6	2,550.3	1,238.5	-2,012.5	4,925.3	-3,268.1
o/w trade credit	-198.3	235.3	24.3	-21.7	474.4	-77.8	-220.0	709.7	-53.5
loans	-370.1	7.8	-10.8	-1,373.4	951.7	1,299.6	-1,743.5	959.5	1,288.8
deposits	-609.6	2,217.7	-4,180.7	395.6	1,061.2	-342.7	-214.0	3,278.9	-4,523.4
other	309.1	-85.8	-339.4	-144.1	63.0	359.4	165.0	-22.8	20.0

Table 20. Other investments by maturity (EEK mn)

	Claims			Liabilities			Balance		
	Q1 2000	Q4 1999	Q1 1999	Q1 2000	Q4 1999	Q1 1999	Q1 2000	Q4 1999	Q1 1999
Total	-868.9	2,375.0	-4,506.6	-1,143.6	2,550.3	1,238.5	-2,012.5	4,925.3	-3,268.1
Long-term capital	-277.0	-23.6	78.5	-957.1	173.9	720.1	-1,234.1	150.3	798.6
central bank				0.1	92.4	42.1	0.1	92.4	42.1
government sector				-192.4	15.9	82.9	-192.4	15.9	82.9
banks	-225.8	-72.9	73.2	-934.5	90.8	536.1	-1,160.3	17.9	609.3
other sectors	-51.2	49.3	5.3	169.7	-25.2	59.0	118.5	24.1	64.3
Short-term capital	-591.9	2,398.6	-4,585.1	-186.5	2,376.4	518.4	-778.4	4,775.0	-4,066.7
central bank	-78.1	-47.6	-169.3	-10.0	-0.4	707.3	-88.1	-48.0	538.0
government sector	300.8	500.2	-1,563.2				300.8	500.2	-1,563.2
banks	-453.0	1,311.8	-2,904.5	-81.8	1,691.2	26.2	-534.8	3,003.0	-2,878.3
other sectors	-361.6	634.2	51.9	-94.7	685.6	-215.1	-456.3	1,319.8	-163.2

as the relatively high level of domestic savings at the beginning of the year. **Trade credit** also increased by nearly 200 million kroons. The government sector deposits abroad decreased by 300 million kroons.

Liabilities were reduced mostly by repayments of **short- and long-term loans** (1.3 billion kroons in total). The **deposits of non-residents in Estonian credit institutions** increased by more than 400 million kroons.

RESERVES

The reserves of the balance of payments decreased in the first quarter by nearly 1.3 billion kroons due to the current account and the financial

account deficit which also resulted in the decrease of the coverage of imports with the reserves (see Figure 21).

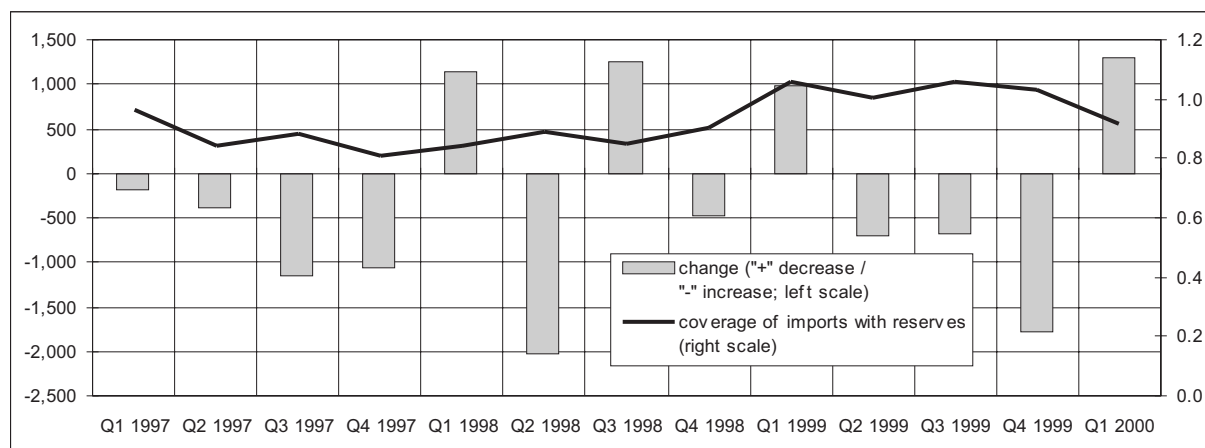


Figure 21. Change of the Estonia's gold and foreign currency reserves (EEK mn) and the coverage of imports (in quarters)

ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND EXTERNAL DEBT⁵

At the end of the first quarter of 2000, Estonian economic sectors' investments into foreign countries reached 38.8 billion kroons (see Table 21). In a quarter they decreased by approximately 0.5% and formed nearly half against the expected gross domestic product (GDP) of Estonia of last four quarters. Of capital invested abroad, more than one third was made up of gold and foreign currency reserves of the central bank and one fifth was made up of Estonian residents' settlement accounts and deposits with banks abroad. Sums invested in foreign bonds and sums due from the sale of goods and services both formed one tenth of the investments made abroad, and Estonia's direct investments abroad – 12%. Table 22 characterises Estonia's investment position abroad by countries and spheres of activities.

At the end of the first quarter, foreign investments made into Estonia exceeded Estonia's investments abroad more than twice and formed 88.9 billion kroons. In a quarter these investments increased by 8% due to balance of payments transactions, exchange rate and price changes. Almost half, ie 43 billion kroons of foreign investments made into Estonia, were direct investments. The most attractive sectors for direct investors were transport and communications (31%), industry (21%), finance (21%) and trade (16%). A significant part of direct investment capital invested into Estonia has come from Sweden (41%) and Finland (32%; see Table 23). Besides direct investments, one fifth of foreign investments made into Estonia was made up of mainly long-term loan capital, and nearly 17% of stocks and debt instruments of Estonian businesses.

⁵ Estonia's international investment position as of end of the second quarter of 2000 will be published at the Eesti Pank web site (<http://www.ee/epbe>) on 25 September 2000 at noon.

Table 21. Estonia's international investment position and external debt (EEK mn)¹

EXTERNAL ASSETS	31.03.00	Share (%)	31.12.99	Share (%)	Growth (%)
Direct investments abroad	4,692.5	12.1	4,376.1	11.2	7.2
share capital and reinvested income	1,976.8	5.1	1,878.6	4.8	5.2
other capital	2,715.7	7.0	2,497.5	6.4	8.7
Portfolio investments abroad	4,621.0	11.9	4,749.6	12.2	-2.7
equity securities	391.4	1.0	192.2	0.5	103.6
debt securities	4,229.6	10.9	4,557.4	11.7	-7.2
Other investments abroad	16,016.4	41.3	15,132.9	38.8	5.8
trade credit	3,904.3	10.1	3,696.2	9.5	5.6
loans	3,094.2	8.0	2,710.2	7.0	14.2
long-term	1,983.8	5.1	1,699.3	4.4	16.7
short-term	1,110.4	2.9	1,010.9	2.6	9.8
deposits	8,429.4	21.7	7,751.8	19.9	8.7
other assets	588.5	1.5	974.7	2.5	-39.6
Reserves	13,394.5	34.5	14,718.3	37.8	-9.0
Total external assets	38,788.0	100.0	38,976.9	100.0	-0.5
o/w loans	34,932.4	90.1	35,448.1	90.9	-1.5
EXTERNAL LIABILITIES					
Direct investments into Estonia	43,052.2	48.4	38,396.7	46.7	12.1
share capital and reinvested income	34,085.8	38.3	29,841.0	36.3	14.2
other capital	8,966.4	10.1	8,555.7	10.4	4.8
Portfolio investments into Estonia	14,831.0	16.7	12,011.4	14.6	23.5
equity securities	11,001.0	12.4	7,791.6	9.5	41.2
debt securities	3,830.0	4.3	4,219.8	5.1	-9.2
Other investments into Estonia	30,955.0	34.8	31,898.8	38.8	-3.0
trade credit	4,934.8	5.6	4,950.7	6.0	-0.3
loans	17,946.0	20.2	19,218.9	23.4	-6.6
long-term	15,017.1	16.9	15,843.7	19.2	-5.2
short-term	2,928.9	3.3	3,375.2	4.1	-13.2
deposits	6,458.8	7.3	6,054.9	7.4	6.7
other liabilities	1,615.4	1.8	1,674.3	2.0	-3.5
Total external liabilities	88,881.9	100.0	82,306.9	100.0	8.0
o/w loans	43,795.1	49.3	44,674.3	54.3	-2.0
Net international investment position	-50,093.9	100.0	-43,330.0	100.0	15.6
short-term	2,176.0		5,756.4		-62.2
long-term	-52,289.7		-49,084.7		6.5
Net external debt of Estonian residents	-8,862.7	100.0	-9,226.2	100.0	-3.9
o/w government sector	-1,841.5	20.8	-1,693.8	18.4	8.7

¹ After additional information is received, data of the earlier periods have been updated accordingly.

Table 22. Estonia's direct investment position abroad by countries and spheres of activities as of 31 March 2000 (%)

Country	EEK mn	%	Sphere of activity	EEK mn	%
Latvia	2,472.0	53	Finance	2,791.4	60
Lithuania	1,561.1	33	Transport, storage and communication	576.5	12
Cyprus	471.5	10	Industry	538.8	11
Other	187.9	4	Real estate, leasing and business services	381.5	8
			Wholesale and retail trade	357.3	8
			Other	47.0	1

Table 23. Direct investment position in Estonia by countries and spheres of activities as of 31 March 2000 (%)

Country	EEK mn	%	Sphere of activity	EEK mn	%
Sweden	17,643.8	41	Transport, storage and communication	13,418.3	30
Finland	13,856.1	32	Finance	8,893.0	21
USA	1,858.1	4	Industry	8,870.0	21
Denmark	1,728.2	4	Wholesale and retail trade	6,781.9	16
Other	7,966.0	19	Other	5,089.0	12

Due to the predominance of external liabilities over external claims, Estonia's net investment position at the end of the first quarter was negative by 50.1 billion kroons. Although within the first quarter more money flew out from the financial account of the balance of payments than came in, a rise in stock prices and appreciation of the US dollar against the euro increased the negative net investment position by 6.8 billion kroons compared to the end of 1999. By the end of the first quarter the negative net investment position (predominance of external liabilities over external claims) formed 65% against the expected GDP

of last four quarters.

If only debts are included in external claims and liabilities, Estonia's gross external debt at the end of the first quarter was 43.8 billion kroons, ie 56% against the expected GDP. Compared to the end of 1999 this figure was somewhat smaller. At the same time, Estonia's net external debt was 8.9 billion kroons, ie 12% against the expected GDP. The gross external debt of the government sector stood at 3.6 billion kroons (4.7% against GDP) and net external debt at 1.8 billion kroons (2.3% against GDP). Figures 22, 23 and 24 reflect the dynamics of Estonia's external debt.

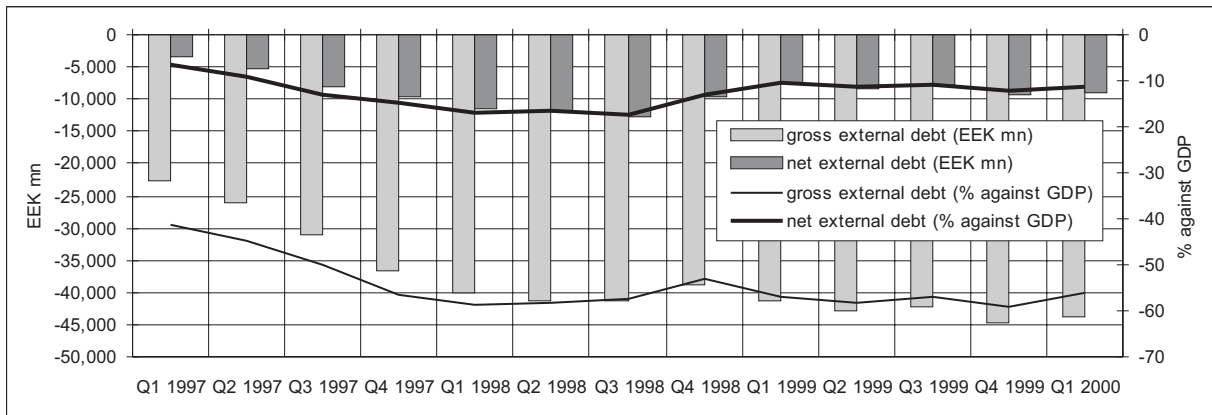


Figure 22. Estonia's gross and net external debt (EEK mn, left scale and % against GDP, right scale)

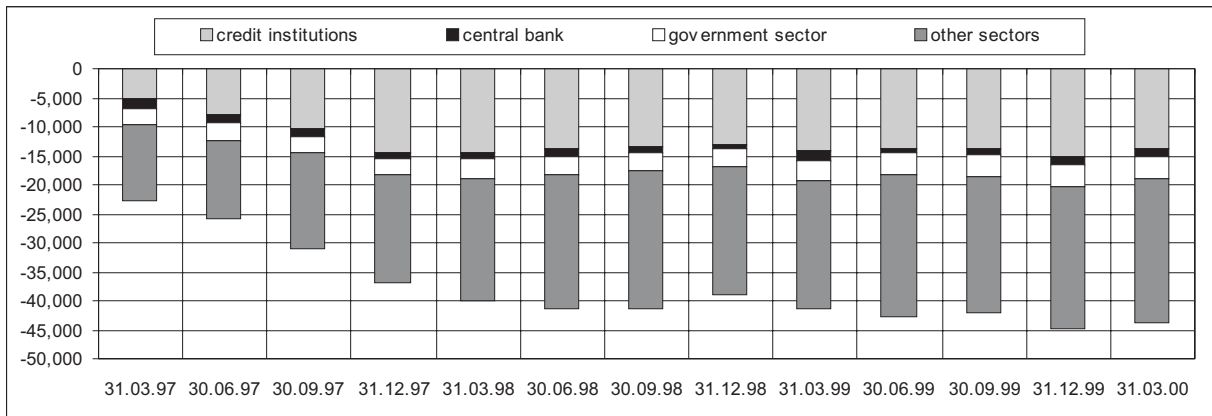


Figure 23. Estonia's gross external debt by economic sectors (EEK mn)

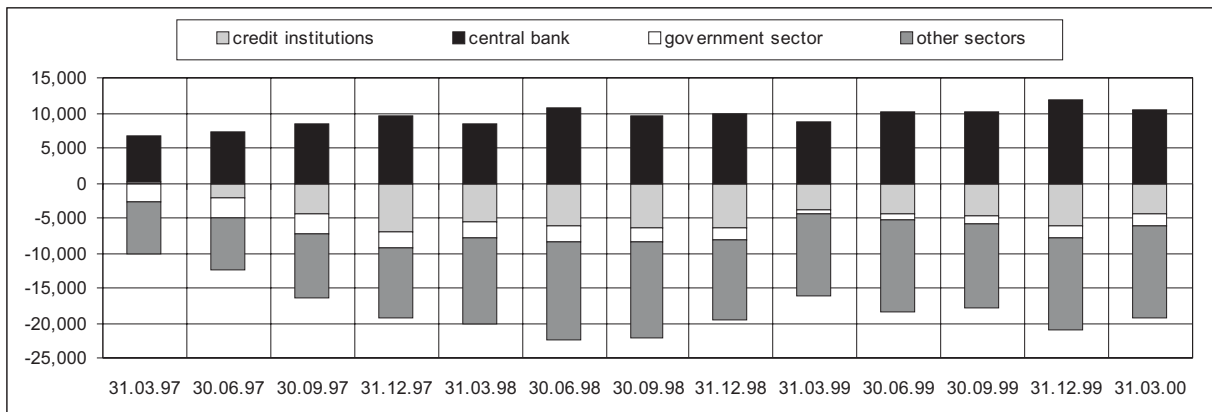


Figure 24. Estonia's net external debt by economic sectors (EEK mn)

INTERNATIONAL TRANSACTIONS OF CUSTOMERS VIA THE ESTONIAN BANKING SYSTEM

Number and Turnover of Transactions

In the first quarter of 2000 the **number of international transactions**⁶ was 1.5 times bigger for incoming payments and 1.4 times bigger for outgoing payments than it had been three years ago (see Table 24 and Figure 25). As compared to the period of economic

recession in the early 1999 the number of outgoing payments was up by one sixth and the number of incoming payments was up by nearly a third. As compared to the fourth quarter of 1999 these indicators were, however, slightly down in the first quarter of 2000.

Table 24. Number of international payment transactions

	In thousands				Change (%)	
	Q1 2000	Q4 1999	Q1 1999	Q1 1997	Q1 2000/ Q4 1999	Q1 2000/ Q1 1999
Incoming payments	85	89	61	58	-4.5	39.3
Outgoing payments	89	96	76	64	-7.3	17.1
Total	174	185	137	122	-5.9	27.0

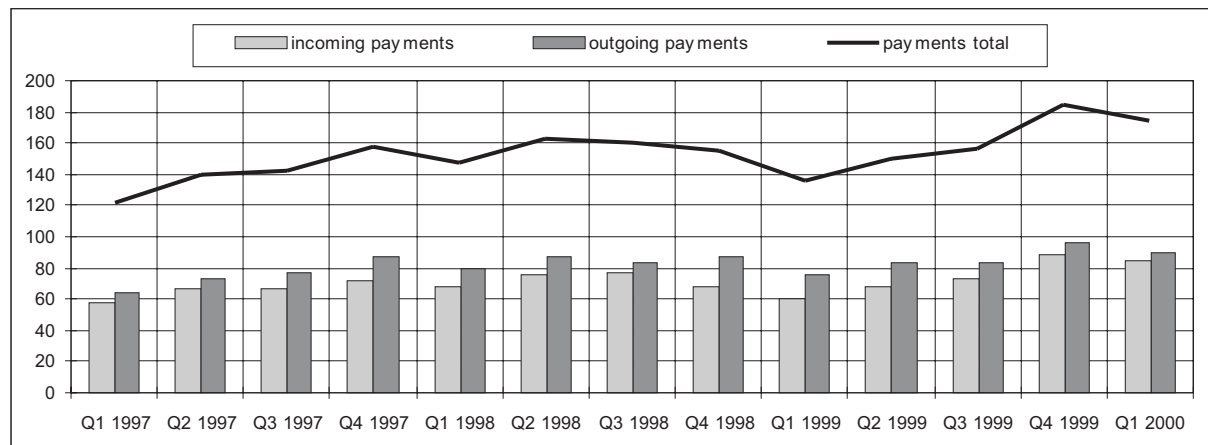


Figure 25. Number of international payment transactions (in thousands)

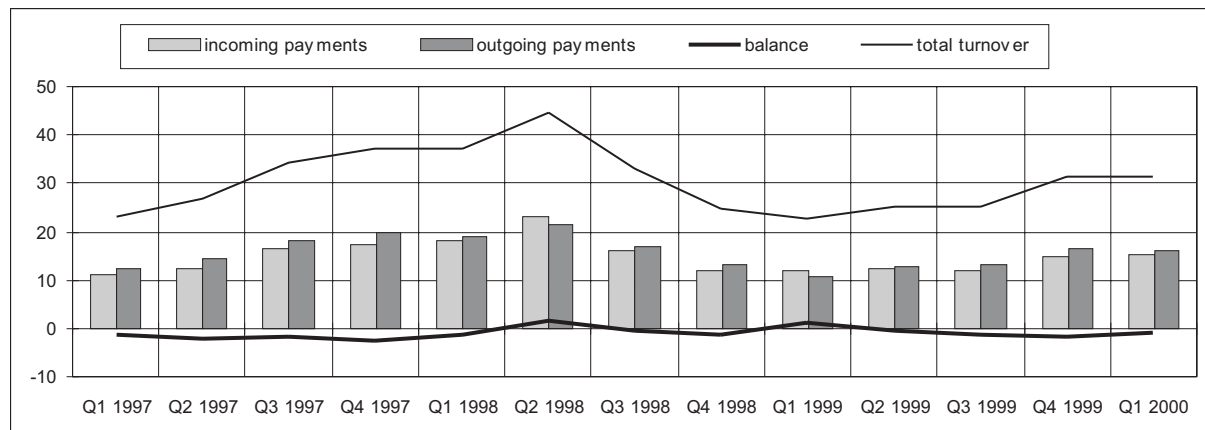
The turnover of international payments carried out by the customers of commercial banks has increased 1.3 times against the first quarter of 1997 if we look at outgoing payments and 1.4 times if we look at incoming payments (see Table 25 and Figure 26). As compared to the first quarter of 1999 the turnover of outgoing payments was up by 50%, while the number of

transactions increased by just 17.1%. The turnover of incoming payments increased by 27.7%, the number of transactions by 39.3%. As compared to the fourth quarter of 1999 the turnover of outgoing and incoming payments was nearly the same in the first quarter but the average size of a payment was up 1.1 times (563,300 kroons and 615,000 and 637,700 and 685,400, respectively).

⁶ Unlike in earlier analyses, international payments no longer include transactions amongst residents and transactions amongst non-residents.

Table 25. Turnover of international payment transactions

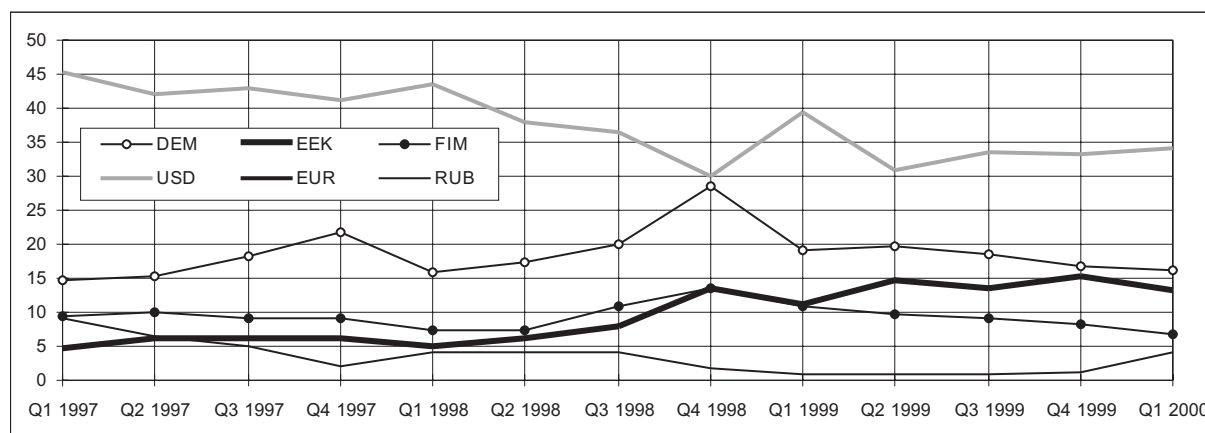
	EEK billion				Change (%)	
	Q1 2000	Q4 1999	Q1 1999	Q1 1997	Q1 2000/ Q4 1999	Q1 2000/ Q1 1999
Incoming payments	15.2	15.0	11.9	11	1.3	27.7
Outgoing payments	16.2	16.5	10.8	12.3	-1.8	50.0
Total	31.4	31.5	22.7	23.3	-0.3	38.3

**Figure 26. Turnover and balance of international payment transactions (EEK billion)**

Use of Currencies⁷

Since 1996 the list of main currencies used by Estonian commercial banks in international payments has been supplemented with the euro, the Russian rouble and the Ukrainian hryvna. The dominating currency is still the US dollar although its share in total turnover had decreased from 45.4% in the first quarter of 1997 to 34.2% in the first quarter of 2000. Yet, it was by 1.1 percentage points bigger than in the fourth quarter of 1999. The share of the German mark increased from 14.6% to 16.7% in three years (in 1999 its share had been stable).

Of other currencies, the share of the Russian rouble and the Ukrainian hryvna has increased (from the respective 1.1% and 2.3% in the fourth quarter of 1999 to 4.2% and 3.9% in the first quarter of 2000). The share of the euro, used as an accounting currency since 1999, amounted to 12.6% of the total turnover of payments in the first quarter of 2000, being thus nearly the same as in the previous quarter. The share of the Estonian kroon has dropped from 15.3% in the fourth quarter of 1999 to 13.2% in the first quarter of 2000 (see Figure 27).

**Figure 27. Currencies used in international payment transactions (%)**

⁷ The analysis of transactions by currencies does not reflect payment transactions below 100,000 kroons as these are given only in the Estonian kroons in the statistics available to Eesti Pank and their inclusion would thus considerably distort the actual picture.

By the number of transactions, the use of currencies was similar to their share in the turnover (USD – 28.3%; DEM – 19.9%; FIM – 11.1%; SEK – 5.3%;

RUB – 1.7%; UAH – 1.1%). The use of the euro has increased to 12.2% in the first quarter of 2000. The Estonian kroon was used in 10.9% of the transactions.

CHANGES IN THE METHODOLOGY OF DRAWING UP THE BALANCE OF PAYMENTS

The direct investment relationship between the company and the investor is determined by the size of the investor's qualifying holding in the company's share capital, which guarantees the effective vote and a permanent interest in the management process. According to the Estonian Accounting Act, the level of a qualifying holding begins from 20%⁸. From 1996, when the Accounting Act took effect, this has also been taken into account while drawing up the balance of payments of the country. In addition, Eesti Pank has analysed large-scale investments separately, in order to make sure of the continued interest and the effective vote of the investor regardless of the size of the holding.

The studies carried out in every couple of years have indicated that the share of investments guaranteeing a 10–19.9% holding in a company is insignificant in total investments. Thus, despite the 20% minimum for qualifying holding, Estonia's current data is internationally comparable. Still, several international organisations, such as the Statistical Office of the European Communities (Eurostat) and the Organisation for Economic Cooperation and Development (OECD), have questioned the comparability of Estonian data with other countries and have suggested that the level of qualifying holding be lowered to 10%.

In view of this, the Statistics Department of Eesti Pank carried out another study in this matter in the fourth quarter of 1999. As in the case of credit institutions all transactions have been analysed separately and all investments in the 10–19.9% range, according to the principle of qualifying holding, have been included in the total direct investment volume, the main attention was focussed on other sectors. Companies where investors held 10–19.9% of the shares were studied. The aim was to determine the volume of external claims connected with such investors. Among the companies that report the balance of payments related data, 2% had foreign investors in the specified range. It appeared that, according to the international investment position as of end-1999, the share capital, share premium, reserves and

profit/loss of such investors amounted to just 1.3% (382 million kroons) of the total direct investments into the share capital of Estonian companies (29,847.3 million kroons) and their loan capital was just 2.9% (233.4 million kroons) of the total loan capital (8,145 million kroons).

According to the Enterprises Register, the share capital of investors owning 10–19.9% of the companies not reporting data relevant to the balance of payments amounted to just 23.6 million kroons which is 0.1% of the share capital reflected in the international investment position (IIP).

If the minimum level of qualifying holding was to be lowered to 10% of the share capital the total volume of direct investments into Estonia at the end of 1999 would be 1.7% bigger, according to IIP. The position of portfolio investments⁹ would decrease accordingly (see Table 26).

Table 26. Direct investments into Estonia by two different levels of qualifying holding (EEK mn)

	20% and more	10% and more
Direct investments into Estonia	37,992.3	38,631.3
Share capital and reinvested income	29,847.3	30,252.9
Liabilities to direct investors	29,847.3	30,252.9
Other capital	8,145.0	8,378.4
Claims on direct investors	-1,271.5	-1,271.5
Liabilities to direct investors	9,416.5	9,649.9

There is no detailed register of long-term investments from Estonia abroad and thus the above analysis would be difficult to apply on the outflow of direct investments. Getting this information through a questionnaire is also problematic due to the differences in the accounting principles set down by the Accounting Act¹⁰. Still, the difference here is probably also insignificant. At the same time it is possible to evaluate direct investments in the range of 10–19.9% of the share capital by making

⁸ Under the Accounting Act and the Commercial Code, qualifying holding is interpreted as investments into associated and affiliated companies where the share in authorised capital is 20–50% and over 50%, respectively.

⁹ As of 27 March 2000.

¹⁰ Long-term foreign investments into affiliated and associated companies are calculated by the equity method while the simple cost accounting method is applied on other portfolio investments.

additional inquiries among Estonian companies as well as by comparing data on direct investments with the data of the statistical departments of the Lithuanian and Latvian central banks, since 90% of direct investments from Estonia abroad are made up of investments into Latvia and Lithuania.

In view of the above, the Statistics Department of Eesti Pank makes the following changes in the methodology of drawing up the balance of payments:

1. From January 2000 investments that amount to more than 10% of the company's share capital are regarded as direct investments;

2. Data is still collected proceeding from the calculation principles provided by the Accounting Act. Additional data is sought from other sources, including various registers and partner countries, and estimations are used as well;

3. As the possible changes are minor, the direct investment flows of earlier years are comparable to the future periods and therefore no additional studies of earlier periods are necessary;

4. On the basis of available data the IIP data as of 31 December 1999 will be adjusted but earlier IIP and balance of payments data will not be revised.

Eesti Pank Balance of Payments Statistics Section