# TEN YEARS OF ESTONIAN BALANCE OF PAYMENTS SINCE THE RESTORATION OF INDEPENDENCE

**Jaanus Kroon**

*Income from abroad under current articles exceeded the respective spending by 1.8 million kroons. It is remarkable that foreign trade in this area has been in favour of Estonia also in previous years…* This can be read in the 1938 yearbook of Eesti Pank, which carried the last summary of the balance of payments before the Republic of Estonia was annexed by a foreign power. From there the time series of Estonia's balance of payments go back to the year 1929 and resume again in 1992. Although the terms describing economic processes are modern, the concept of the balance of payments has not changed much since the pre-war period. As the 2001 balance of payments published in 2002 was the tenth annual balance since the restoration of independence, we will bring a brief survey of the history and methods of drawing up the balance of payments.

## ■  Retrospect  ■

The history of drawing up balance of payments in different countries is not very long, going back to the 1920s and 1930s, just like in Estonia, although the idea of keeping account of the import and export of goods originates with the medieval mercantilists[1]. Governments began to pay more attention to drawing up balance of payments due to the chaos in the international monetary system caused by the Great Depression of the 1930s. The importance of the balance of payments was stressed at the 1944 conference in Bretton-Woods, USA, which was organised to determine the basic principles of the monetary system. The balance of payments became one of the most important basic documents in designing national monetary and foreign trade policies. The unification of the balance of payments compilation was started already by the League of Nations before World War II. The International Monetary Fund, created in 1946, continued this work and coordinates it to this very day.

As in other countries of continental Europe, the compilation of the balance of payments is the responsibility of the central bank in Estonia. Under the Central Bank Act this is one of the main tasks of the bank. Since the end of 1991, the balance of payments has been drawn up by the Balance of Payments Division at the bank's Department of Statistics (until

---

[1] Mercantilism was the prevailing economic theory in the 15th–17th century. The main attention was focused on active foreign trade relations, money circulation, saving and external competitiveness. Money was taken to be equal to the nation's wealth, which was achieved through the surplus of the foreign trade balance and supported by various protectionist measures.

1997, Balance of Payments Department). The whole work of the Division is based on the ideology of compiling the balance of payments and the respective legal framework.

Methodologically, the gathering and analysis of balance of payments (BOP) data is based on the 5th edition of the IMF's Balance of Payments Manual, which has served as a source of development for the Estonian BOP model.

During ten years, several accompanying reports have been added to the quarterly BOP: since 1996, the quarterly international investment position and external debt report have been drawn up and published and since 2000, after the Asian crisis, the central bank monthly international reserves liquidity report has been compiled. Since the beginning of 2002, the monthly BOP based on partial estimates is being published in addition to the quarterly BOP[2].

> **As in other countries of continental Europe, the compilation of the balance of payments is the responsibility of the central bank in Estonia.**

## ■ How Is Balance of Payments Compiled? ■

Three principally different systems of collecting preliminary data for compiling BOP are being used:

- survey system;
- International Transactions Reporting System (ITRS);
- administrative system.

The survey system is based on data collected through various statistical questionnaires and surveys. Depending on the need, the sphere under study and peculiarities of the compiling country, both sampling and surveys can be used. The structure of the questionnaires follows either the BOP structure or the structure of financial statements and the principles of accounting. The advantage of the survey system lies in its flexibility, whereas statistical surveys include high cost, low rate of response and slowness. The system of surveys is applied most successfully in Anglo-American countries.

The ITRS is based on reporting, collecting, coding and processing of international settlements made through domestic banks. Depending on the transaction description, the client, the credit institution or the central bank assigns a transaction code to the payments or proceeds, which corresponds to the structure of BOP. The ITRS allows collecting information in detail and quickly, but it also has certain limitations: the money flows do not reflect the accrual approach, often descriptions or BOP codes are missing and nettings occur. The money flows do not

---

[2] See Balance of Payments Yearbook 2001, pp 6–9 for the balance of payments, international investment position, calculation of the external debt and all the other terms used.

enable the calculation of the position of assets and liabilities at a certain moment of time. The settlement system is used in most of the European countries where the principles of capital control enforced until the 1990s have laid a solid foundation for it.

The administrative system relies on the data collected by various agencies. The use of this system requires the public sector's full control over external transactions. There are not many countries where BOP relies solely on administrative data, although this system is used in almost every country to a larger or smaller extent. The main shortcoming of the administrative system is weak control over the quality of the data.

The dual system – a combined system based on money flows and surveys – is relatively widespread. Besides Estonia, it is used by a number of central banks and, with the approval of EU institutions, this model has also gained popularity in those European countries which so far used only the ITRS created under strict capital control (see Table 1).

*Table 1. Distribution of countries according to the system used for compiling BOP*

| Survey system | ITRS | Administrative system | Combined system |
|---|---|---|---|
| Australia | Belgium | Armenia | Austria |
| Canada | Bulgaria | Azerbaijan | Czech Republic |
| Denmark | Cyprus | Belarus | Estonia |
| Finland | France | Russia | Latvia |
| Great Britain | Germany | Tadjikistan | Malta |
| Ireland | Greece | | Sweden |
| Lithuania | Hungary | | |
| New Zealand | Italy | | |
| USA | Netherlands | | |
| | Poland | | |
| | Portugal | | |
| | Slovakia | | |
| | Slovenia | | |
| | Spain | | |
| | Ukraine | | |

## ■ How Is Estonian Balance of Payments Compiled? ■

Estonia was the first among the former Soviet republics to start compiling its BOP in 1992. Due to the weakness of the banking sector of that time, the survey system was applied with the help of the IMF experts. As the survey system was not flexible enough in the constantly changing economic environment, the possibilities of switching over to the ITRS were studied and it was introduced in 1994. But surveys have not lost their importance either, mostly in connection with compiling the international investment position that was started later. The advantages of surveys include the possibility of collecting information on an accrual basis and getting indicators not reflected in settlements system (trade credit, reinvested income, etc).

By today, Estonia has worked out its own, integrated system of BOP compiling that is not based on any model abroad. Two parallel databases complement one another and make it easier to identify errors. Combining these data with administrative information also ensures better quality of the documents compiled (BOP, international investment position, etc), which is often difficult to achieve in a very open economic space with low concentration. The smallness of Estonia is also an advantage here.

Very important for the BOP and other quarterly statistics of the external sector is survey system, which is complemented with data collected through settlements. In compiling the monthly BOP, however, promptness makes ITRS indispensable. The data of banking settlements is supplemented with the help of various econometric models.

> **By today, Estonia has worked out its own, integrated system of BOP compiling that is not based on any model abroad.**

Currently, ten different questionnaires are being used to collect quarterly information from more than 3,000 enterprises. The quarterly ITRS covers approximately 60,000 transactions important for compiling BOP and information on them is obtained through the so-called open system – the central bank gets only one half of the payment documents (debits or credits). Only payments made by bank customers are declared. The transactions of the banking sector are described in BOP on the basis of the banks' balance sheets, profit and financial reports (see Figures 1 and 2).
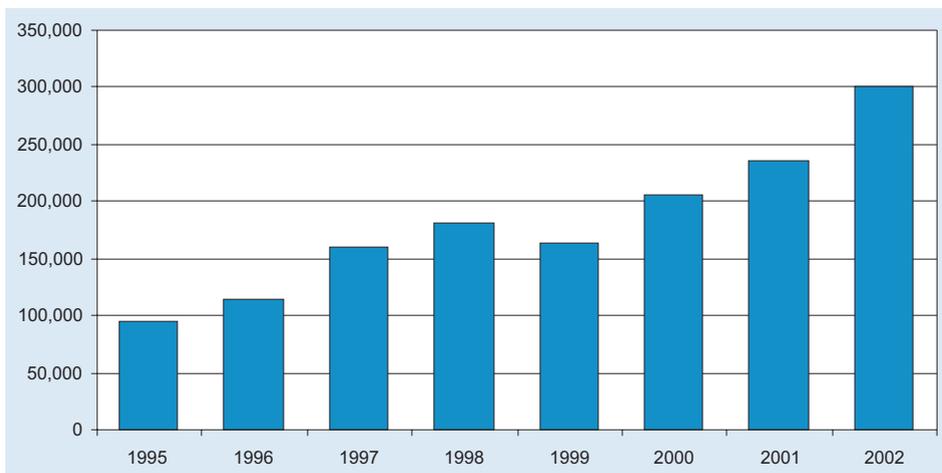


*Figure 1. Annual number of transactions in the settlement system*

Besides the above-mentioned main sources, information is collected from a number of other channels: official trade statistics, the Central Depository of Securities, surveys of the Statistical Office, the Central Business Register, the accounting register of Eesti Pank, etc. Also, statistical surveys are conducted and assessments as well as econometric methods are used.

4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
1995  1996  1997  1998  1999  2000  2001  2002
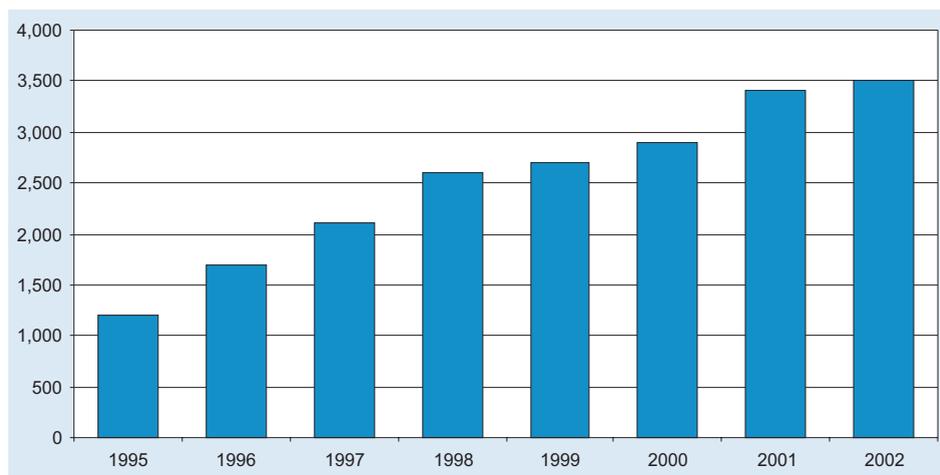
*Figure 2. Number of companies in quarterly survey sample*

At the Statistical Department of Eesti Pank, 11 economists are engaged in the compilation of BOP data spending approximately 40% of their time on checking and processing the input data. Half of their work consists of methodology and development activities and training, 10% is devoted to compiling output and analysis. Actually, this is only the tip of the iceberg, as considerably more people are engaged in analysing the data, from financial experts of enterprises to analysis and monetary policy divisions of Eesti Pank, international organisations, politicians, universities and research institutes.

## ■ International Cooperation ■

The main goal of the statistical work of central banks is to inform the international public of the economy of their home country. However, in the interest of data comparability, central banks have to follow the requirements agreed upon and imposed by international organisations. The importance of this aspect has become more and more significant in the globalising world and therefore international cooperation of the compilers of the Estonian BOP has tightened considerably over the past decade.

In the course of Estonia's integration into the EU, such new cooperation partners as Eurostat and the European Central Bank have emerged besides the IMF. Training in these organisations and participation in their work groups has given the employees of Eesti Pank opportunities to take part in the discussion of issues concerning unification and methodology of European BOP statistics. Our international partners also include the central banks of several countries, particularly the central banks of Finland and Latvia, but also the statistical offices of Ireland and New Zealand.

In 1995, the IMF began the introduction of the Special Data Dissemination Standard (SDDS), aimed at improving the availability of timely, high-quality and comparable data on countries participating in international financial markets. Estonia adopted the SDDS principles in

1998 and this set higher requirements on the BOP data as well. By today, nearly 50 countries have adopted SDDS and their statistics is regarded to be of particularly high quality. The same conclusion was made about the Estonian BOP statistics by the IMF mission that visited the country in the spring of 2001.

## ■ Plans for the Future ■

Compiling BOP is a constantly changing process that sets the compilers ever new requirements. International requirements and standards are improving, legal and economic environment keeps changing. Although most of the development work goes on unnoticed to the bystander, important changes are expected in the near future, concerning the data collection system and output as a whole.

In 2003, a new procedure of declaring international payments will be introduced, which will increase the number of codes applied to international transactions and will thus provide more precise information. The minimum size of transactions will be increased from 100,000 kroons to 200,000 kroons, which corresponds to the EU standard minimum of 12,500 euros.

In view of joining the EU and EMU, it is important that a regional measure is introduced into the BOP statistics and this is a key issue for Estonia's participation in the compilation of the EU balance of payments. It gives interesting information on the BOPs of Estonia's trade partners but in turn sets additional requirements on details of the data. Therefore, major changes are also expected in the contents and form of the reports. Preparations will begin for switching over to electronic reporting.

> **The most important innovation related to the output of BOP statistics concerns the more detailed presentation of the financial account data.**

The most important innovation related to the output of BOP statistics concerns the more detailed presentation of the financial account data, where net change will be supplemented with debit and credit turnover. Besides data on direct investments and trade, all other BOP and international investment position data by countries will also become available.

In 2003, external debt report corresponding to the IMF's new standard of data dissemination will be drawn up, which will become another important document reflecting Estonia's foreign trade situation, besides the BOP and international investment position.

**Compiling the balance of payments, or any other statistical document, needs compromise solutions, which correspond to the wishes of end consumers-analysts and international organisations as well as the possibilities of data providers. Statistics culture and traditions also set their limitations. The goal of Eesti Pank is to find the optimum solutions that would best fit the Estonian economic environment. By providing reliable and high quality BOP statistics we will adhere to this principle also in the years to come.**