

## II ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND EXTERNAL DEBT as at 31 December 2005

During 2005, foreign investment in Estonia increased by a third, amounting to 308.9 billion kroons at the end of the year (see Table 2.1). 56% thereof was invested in financial intermediation and to a lesser extent also in real estate, renting and business activities, manufacturing and wholesale and retail trade (see Table 2.2). Most of investment came from Sweden (42%), Finland (19%), and the United Kingdom (11%).

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

	31/12/2004	Share (%)	31/12/2005	Share (%)	Change (%)
<b>EXTERNAL ASSETS</b>	<b>100,759.0</b>	<b>100.0</b>	<b>141,588.1</b>	<b>100.0</b>	<b>40.5</b>
<b>Direct investment abroad</b>	<b>16,275.0</b>	<b>16.2</b>	<b>26,119.2</b>	<b>18.4</b>	<b>60.5</b>
Equity capital and reinvested earnings	12,128.7	12.0	20,210.4	14.3	66.6
Other direct investment capital	4,146.4	4.1	5,908.8	4.2	42.5
<b>Portfolio investment</b>	<b>25,741.1</b>	<b>25.5</b>	<b>39,180.7</b>	<b>27.7</b>	<b>52.2</b>
Equity securities	6,136.0	6.1	13,425.9	9.5	118.8
Debt securities	19,605.1	19.5	25,754.8	18.2	31.4
Bonds and notes	12,376.7	12.3	15,062.6	10.6	21.7
Money market instruments	7,228.4	7.2	10,692.2	7.6	47.9
<b>Financial derivatives</b>	<b>368.6</b>	<b>0.4</b>	<b>360.1</b>	<b>0.3</b>	<b>-2.3</b>
<b>Other investment</b>	<b>37,769.9</b>	<b>37.5</b>	<b>50,155.2</b>	<b>35.4</b>	<b>32.8</b>
Trade credit	6,986.7	6.9	8,996.3	6.4	28.8
Loans	22,359.2	22.2	20,151.1	14.2	-9.9
Long-term	11,408.2	11.3	5,357.6	3.8	-53.0
Short-term	10,951.0	10.9	14,793.5	10.4	35.1
Currency and deposits	7,664.6	7.6	20,038.9	14.2	161.4
Other assets	759.4	0.8	969.0	0.7	27.6
<b>Reserve assets</b>	<b>20,604.3</b>	<b>20.4</b>	<b>25,773.0</b>	<b>18.2</b>	<b>25.1</b>
<b>EXTERNAL LIABILITIES</b>	<b>230,567.2</b>	<b>100.0</b>	<b>308,880.4</b>	<b>100.0</b>	<b>34.0</b>
<b>Direct investment in Estonia</b>	<b>115,447.8</b>	<b>50.1</b>	<b>168,174.2</b>	<b>54.4</b>	<b>45.7</b>
Equity capital and reinvested earnings	100,558.5	43.6	154,608.5	50.1	53.7
Other direct investment capital	14,889.3	6.5	13,565.7	4.4	-8.9
<b>Portfolio investment</b>	<b>51,674.2</b>	<b>22.4</b>	<b>44,795.6</b>	<b>14.5</b>	<b>-13.3</b>
Equity securities	22,276.7	9.7	15,805.9	5.1	-29.0
Debt securities	29,397.5	12.8	28,989.7	9.4	-1.4
Bonds and notes	26,624.2	11.5	28,512.8	9.2	7.1
Money market instruments	2,773.3	1.2	477.0	0.2	-82.8
<b>Financial derivatives</b>	<b>238.0</b>	<b>0.1</b>	<b>132.3</b>	<b>0.0</b>	<b>-44.4</b>
<b>Other investment</b>	<b>63,207.2</b>	<b>27.4</b>	<b>95,778.3</b>	<b>31.0</b>	<b>51.5</b>
Trade credit	8,273.3	3.6	10,590.1	3.4	28.0
Loans	28,662.6	12.4	55,264.4	17.9	92.8
Long-term	25,095.2	10.9	42,042.9	13.6	67.5
Short-term	3,567.4	1.5	13,221.5	4.3	270.6
Currency and deposits	25,251.9	11.0	28,205.6	9.1	11.7
Other liabilities	1,019.4	0.4	1,718.3	0.6	68.6
<b>NET INVESTMENT POSITION</b>	<b>-129,808.1</b>		<b>-167,282.3</b>		<b>28.9</b>
<b>Long-term</b>	<b>-100,326.2</b>		<b>-163,468.1</b>		<b>62.9</b>
<b>Short-term</b>	<b>-29,481.9</b>		<b>-3,824.2</b>		<b>-87.0</b>
<b>GROSS EXTERNAL DEBT</b>	<b>114,903.7</b>		<b>148,754.8</b>		<b>29.5</b>
<b>NET EXTERNAL DEBT</b>	<b>-25,412.3</b>		<b>-30,801.8</b>		<b>21.2</b>
General government	7,545.1		9,067.5		20.2

**Table 2.2. Estonia's international investment position by fields of activity and countries (%) as at 31 December 2005**

Assets		Liabilities	
<b>Fields of activity</b>			
Financial intermediation	70.9	Financial intermediation	56.1
Public administration and defence; statutory social insurance	9.3	Real estate, renting and business activities	10.1
Real estate, renting and business activities	6.3	Manufacturing	9.4
Wholesale and retail trade; repair	5.4	Wholesale and retail trade; repair	6.9
Manufacturing	3.8	Transport, storage and communications	4.5
Other	4.3	Other	13.0
Total	100.0	Total	100.0
<b>Countries</b>			
Lithuania	15.7	Sweden	42.0
Germany	11.0	Finland	19.2
Latvia	9.8	United Kingdom	11.1
Russia	7.6	Germany	3.6
United Kingdom	6.5	USA	3.0
Other	49.4	Other	21.0
Total	100.0	Total	100.0

Compared to the end of 2004, the structure of **foreign investment in Estonia** had changed considerably by the end of 2005: the shares of direct and other investment had increased while that of portfolio investment had decreased. The changes in the shares of direct and portfolio investment stemmed from the takeover of Hansapank by a foreign investor. In 2005, direct investment accounted for 54% (168.2 billion kroons) of total investment. The share of portfolio investment fell from 22% to 15% and that of other investment rose from 27% to 31%. The volume of other investment increased by a half mainly owing to the rise in both long-term and short-term loans. The most preferred fields of activity for **foreign direct investment in Estonia** were financial intermediation (46%), real estate, renting and business activities (15%), manufacturing (13%), and wholesale and retail trade (8%; see Table 2.3). Swedish investors made 53% and Finnish investors 21% of the direct investment.

**Estonian investment abroad increased nearly 40%, amounting to 141.6 billion kroons.** Financial intermediaries made 70% of the investment abroad. Investors of the public sector, real estate, renting and business activities, and wholesale and retail trade also invested abroad. Estonian investors mainly preferred to invest in the Baltic States and Germany, and somewhat less in Russia and the United Kingdom.

Compared to the end of 2004, the shares of direct and portfolio investment in the structure of **investment abroad** slightly increased, while the shares of other investment and reserve assets decreased. Loans, deposits and the central bank's gold and foreign exchange reserves covered 54% of the external assets. **Foreign direct investment** formed nearly 18%. The most active foreign direct investors were those of financial intermediation (45%), real estate, renting and business activities (23%), and transport, storage and communications (see Table 2.3). Approximately a third of direct investment went both in Latvia and Lithuania. The volume of direct investment in Russia continued to grow, comprising 15% of total foreign direct investment (4% at the end of 2004).

**Due to the prevalence of external liabilities, Estonia's net investment position was negative by 167.3 billion kroons at the end of 2005, outpacing the volume of GDP in 2005 by 1%.** The share of long-time capital in the net investment position continued growth, accounting for 98%.

Table 2.3. Direct investment position by fields of activity and countries (%) as at 31 December 2005

In Estonia		Abroad	
<b>Fields of activity</b>			
Financial intermediation	45.7	Financial intermediation	45.1
Real estate, renting and business activities	15.2	Real estate, renting and business activities	22.8
Manufacturing	13.3	Transport, storage and communications	10.8
Wholesale and retail trade; repair	7.8	Wholesale and retail trade; repair	7.3
Transport, storage and communications	3.0	Manufacturing	4.1
Other	15.0	Other	9.9
Total	100.0	Total	100.0
<b>Countries</b>			
Sweden	53.3	Lithuania	31.1
Finland	20.6	Latvia	29.5
Netherlands	3.0	Russia	14.8
USA	2.9	Cyprus	8.9
United Kingdom	1.9	Finland	3.5
Other	18.3	Other	12.2
Total	100.0	Total	100.0

**Estonia's gross external debt increased by approximately a third year-on-year, totalling 148.8 billion kroons (90% of GDP) on 31 December 2005.** The growth in gross external debt mainly stemmed from a rise in the short-term liabilities of credit institutions and long-term liabilities of other sectors. Estonia's net external debt (assets less liabilities) constituted 30.8 billion kroons (18.7% of GDP; see Figure 2.1 and Table 2.4). The gross external debt amounted to 48% of the external liabilities. Leaving aside the intercompany lending of direct investment companies, long-term debt liabilities accounted for 59% of the gross external debt. The share of long-term debt assets formed 36% of total debt assets. Figures 2.2 and 2.3 give an overview of Estonia's gross and net external debt by sectors.

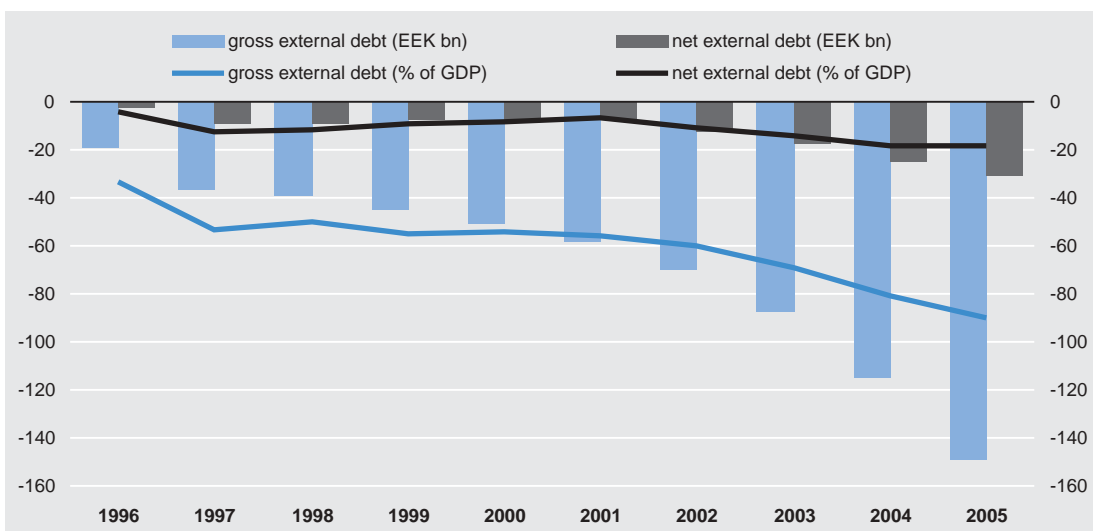


Figure 2.1. Estonia's gross and net external debt

Table 2.4. External debt (EEK m)

	31/12/2004	Share (%)	31/12/2005	Share (%)	Change (%)
<b>LIABILITIES</b>					
<b>I. General government</b>	<b>4,031.0</b>	<b>3.5</b>	<b>3,928.2</b>	<b>2.6</b>	<b>-2.6</b>
Short-term					
Long-term	4,031.0	3.5	3,928.2	2.6	-2.6
<b>II. Monetary authorities (NCB)</b>	<b>507.7</b>	<b>0.4</b>	<b>48.4</b>	<b>0.0</b>	<b>-90.5</b>
Short-term	507.7	0.4	48.4	0.0	-90.5
Long-term					
<b>III. Credit institutions</b>	<b>59,932.8</b>	<b>52.2</b>	<b>82,529.9</b>	<b>55.5</b>	<b>37.7</b>
Short-term	21,982.8	19.1	38,512.5	25.9	75.2
Long-term	37,950.0	33.0	44,017.4	29.6	16.0
<b>IV. Other sectors</b>	<b>28,133.3</b>	<b>24.5</b>	<b>38,261.6</b>	<b>25.7</b>	<b>36.0</b>
Short-term	10,548.4	9.2	12,967.5	8.7	22.9
Long-term	17,584.9	15.3	25,294.1	17.0	43.8
<b>V. Direct investment: intercompany lending</b>	<b>22,298.9</b>	<b>19.4</b>	<b>23,986.7</b>	<b>16.1</b>	<b>7.6</b>
<b>GROSS EXTERNAL DEBT</b>	<b>114,903.7</b>	<b>100.0</b>	<b>148,754.8</b>	<b>100.0</b>	<b>29.5</b>
<b>ASSETS</b>					
<b>I. General government</b>	<b>11,576.1</b>	<b>12.9</b>	<b>12,995.7</b>	<b>11.0</b>	<b>12.3</b>
Short-term	5,818.6	6.5	7,902.4	6.7	35.8
Long-term	5,757.5	6.4	5,093.3	4.3	-11.5
<b>II. Monetary authorities (NCB)</b>	<b>20,582.0</b>	<b>23.0</b>	<b>25,735.6</b>	<b>21.8</b>	<b>25.0</b>
Short-term	16,879.4	18.9	20,046.9	17.0	18.8
Long-term	3,702.6	4.1	5,688.7	4.8	53.6
<b>III. Credit institutions</b>	<b>23,030.2</b>	<b>25.7</b>	<b>36,254.8</b>	<b>30.7</b>	<b>57.4</b>
Short-term	14,970.9	16.7	21,322.0	18.1	42.4
Long-term	8,059.3	9.0	14,932.8	12.7	85.3
<b>IV. Other sectors</b>	<b>22,747.1</b>	<b>25.4</b>	<b>26,637.1</b>	<b>22.6</b>	<b>17.1</b>
Short-term	12,598.8	14.1	16,165.8	13.7	28.3
Long-term	10,148.3	11.3	10,471.3	8.9	3.2
<b>V. Direct investment: intercompany lending</b>	<b>11,556.0</b>	<b>12.9</b>	<b>16,329.8</b>	<b>13.8</b>	<b>41.3</b>
<b>TOTAL ASSETS</b>	<b>89,491.4</b>	<b>100.0</b>	<b>117,952.9</b>	<b>100.0</b>	<b>31.8</b>
<b>NET EXTERNAL DEBT (assets less liabilities)</b>					
<b>I. General government</b>	<b>7,545.1</b>		<b>9,067.5</b>		<b>20.2</b>
Short-term	5,818.6		7,902.4		35.8
Long-term	1,726.5		1,165.1		-32.5
<b>II. Monetary authorities (NCB)</b>	<b>20,074.3</b>		<b>25,687.2</b>		<b>28.0</b>
Short-term	16,371.7		19,998.5		22.2
Long-term	3,702.6		5,688.7		53.6
<b>III. Credit institutions</b>	<b>-36,902.6</b>		<b>-46,275.1</b>		<b>25.4</b>
Short-term	-7,011.9		-17,190.5		145.2
Long-term	-29,890.7		-29,084.6		-2.7
<b>IV. Other sectors</b>	<b>-5,386.2</b>		<b>-11,624.5</b>		<b>115.8</b>
Short-term	2,050.4		3,198.3		56.0
Long-term	-7,436.6		-14,822.8		99.3
<b>V. Direct investment: intercompany lending</b>	<b>-10,742.9</b>		<b>-7,656.9</b>		<b>-28.7</b>
<b>TOTAL NET EXTERNAL DEBT</b>	<b>-25,412.3</b>		<b>-30,801.8</b>		<b>21.2</b>

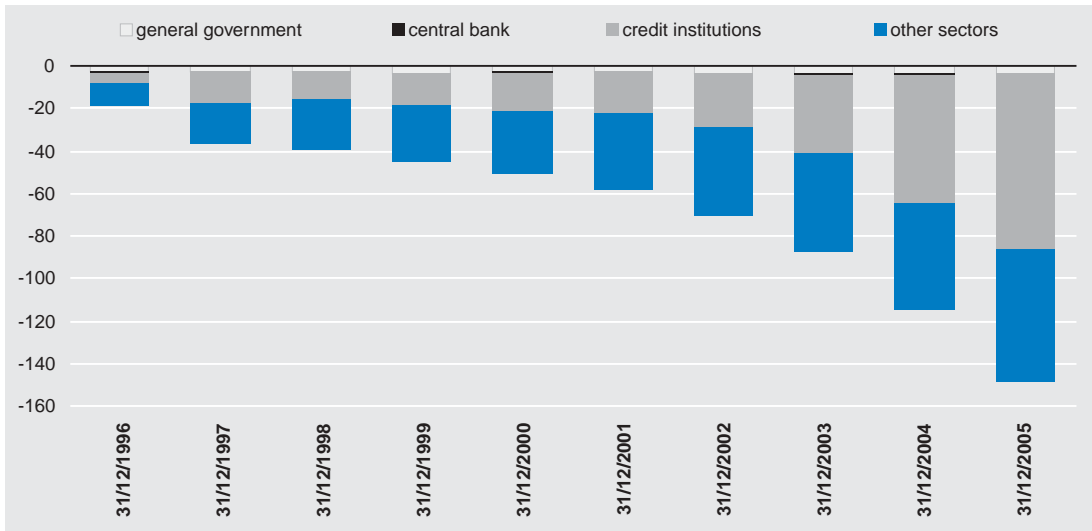


Figure 2.2. Estonia's gross external debt by sectors (EEK bn)

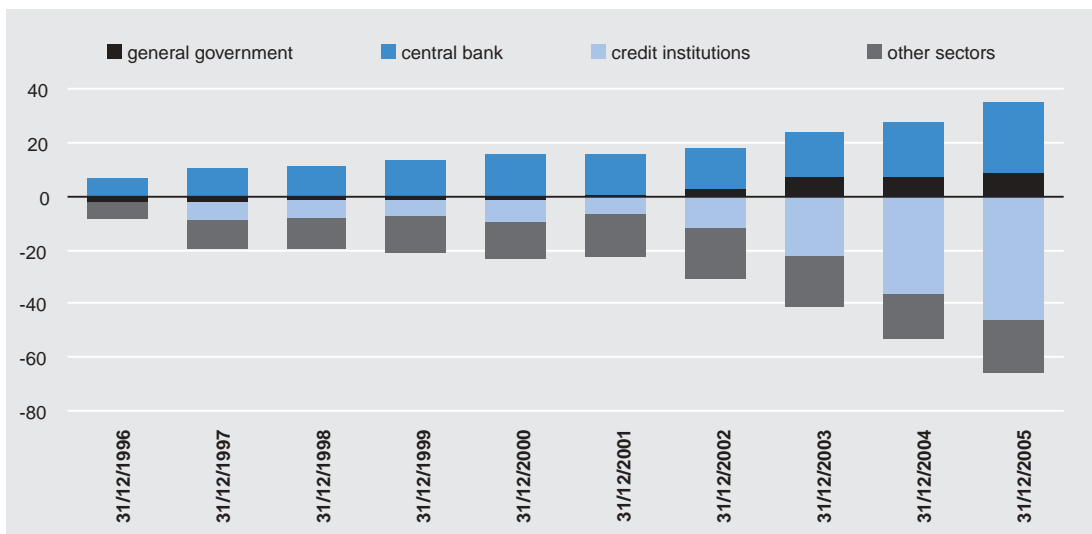


Figure 2.3. Estonia's net external debt by sectors (EEK bn)