

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

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

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

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

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

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

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

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

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

Figure 2.1. Estonia's gross and net external debt

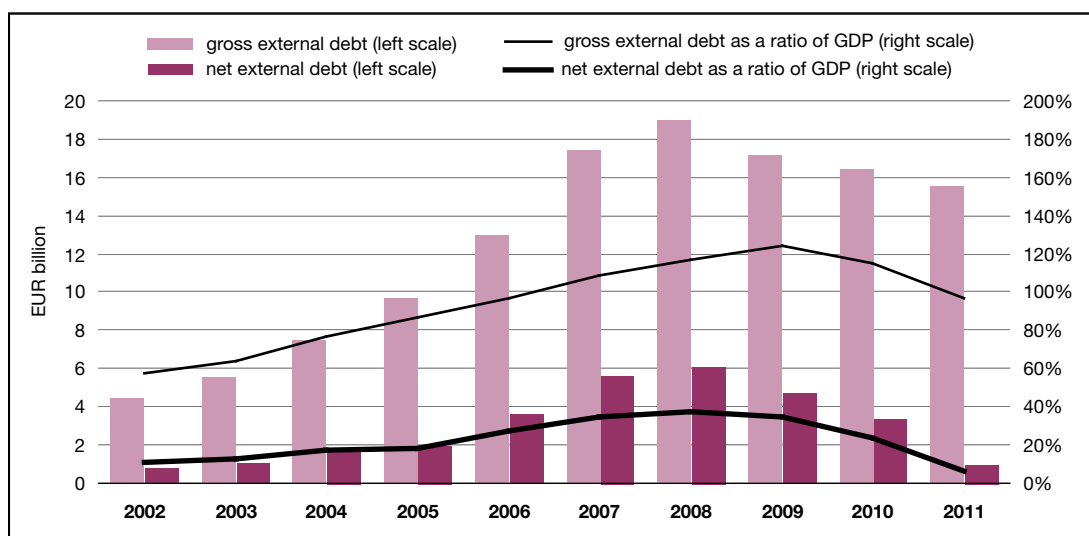


Table 2.2. Estonia's international investment position by fields of activity and countries (%)

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

* Excluding insurance and pension funds.

** Excluding compulsory social security.

*** Excluding motor vehicles and motorcycles.

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

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

* Excluding insurance and pension funds.

** Excluding motor vehicles and motorcycles.

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

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

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

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

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

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

Table 2.4. External debt (EUR million)

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

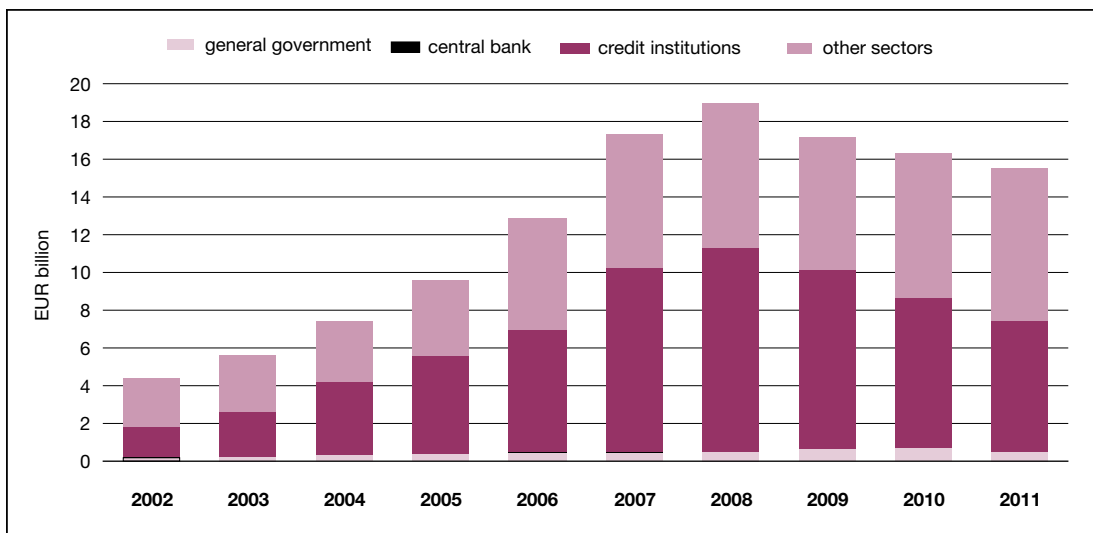


Figure 2.2. Estonia's gross external debt by sectors

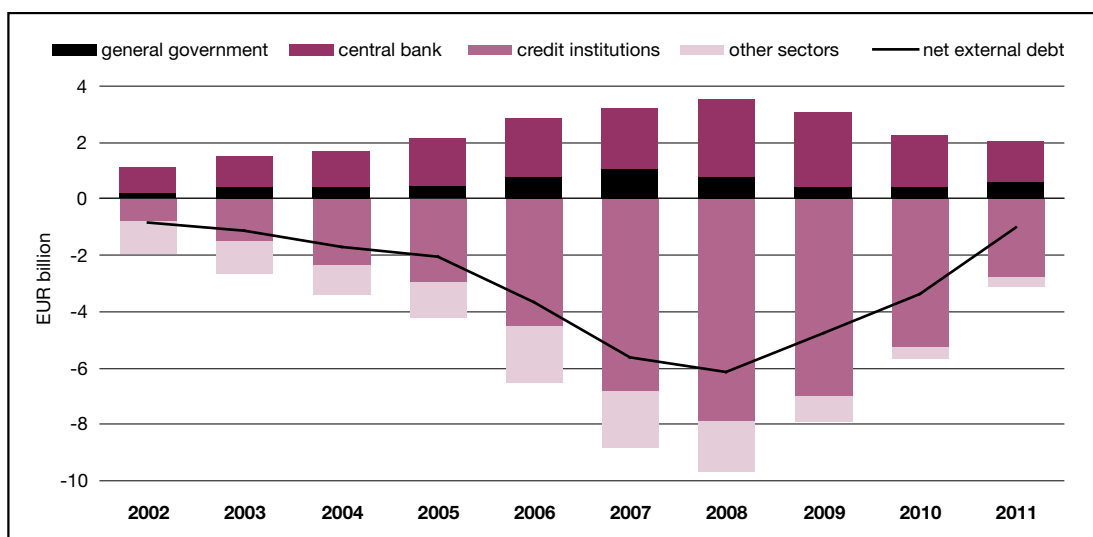


Figure 2.3. Estonia's net external debt by sectors

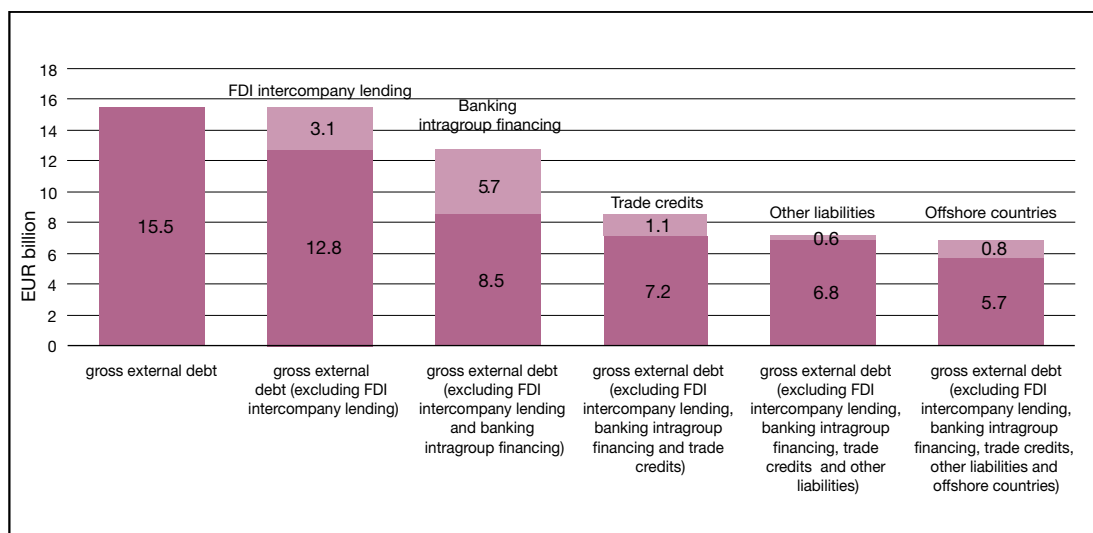


Figure 2.4. Structure of Estonia's gross external debt in 2011

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

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