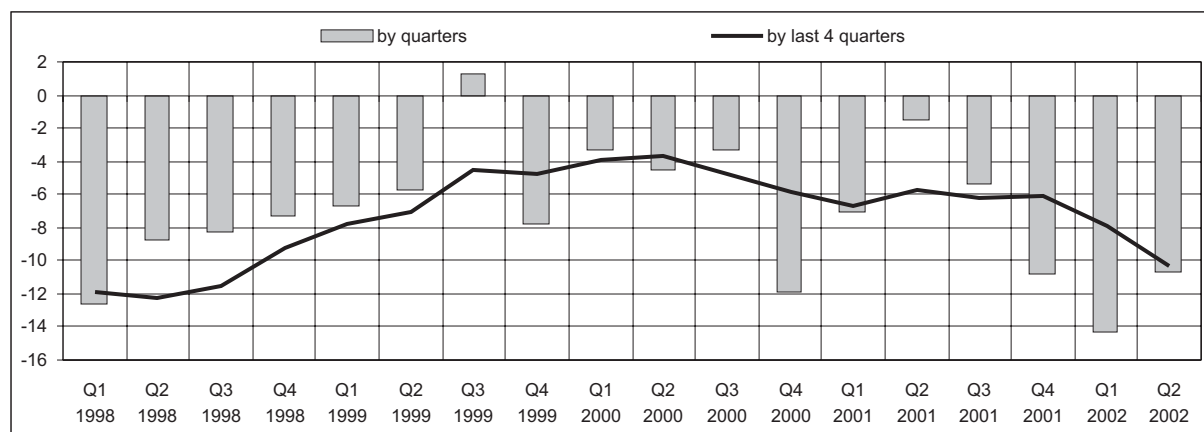


## SHORT SURVEY

In the second quarter of 2002 the deficit of the current account amounted to 3 billion kroons or approximately 10.6% of the expected gross domestic product (GDP) of the period. Quarter-on-quarter, the deficit shrank by 0.4 billion kroons in the terms of absolute volume. The current account deficit GDP ratio of the past 12 months has climbed to nearly 10.3% (see Figure 1). As the 2.3 billion kroon surplus of the capital and financial account was insufficient to cover the current account deficit, the overall balance of payments was negative and the gold and foreign currency reserves of the central bank decreased by 0.2 billion kroons (see Table 1).



**Figure 1. Current account balance to the GDP (%)**

The balance of payments for the second quarter of 2002 indicates that trends, which began last autumn, such as accelerated growth of the sheltered sector, increase of bank loans and drop in savings, have not changed. The fact that FDI inflow did not meet the entire financing need and therefore foreign borrowing and money reserves had to be used, also indicates that the debt burden of the Estonian economy has increased faster than in the earlier periods. In case the outlook of the Estonian export sector will not improve radically in the near future, the decrease of the current account deficit can rest only on the slowdown of loan growth and increased saving both in the private and public sector. Seasonal factors cannot be the basis for sustainable improvement in external balance.

The deficit of the **goods and services balance** decreased quarter-on-quarter and stood at 2.2 billion kroons. The growth of domestic demand and the unfavourable economic situation of Estonia's major trade partners were responsible for the record 5 billion kroons foreign trade deficit of the second quarter. Quarter-on-quarter, the foreign trade deficit increased by nearly one billion kroons, year-on-year the deficit was up by two billion kroons.

The export and import of goods increased due to the growth of normal export and import, while subcontracting was unchanged against the first quarter. The export of goods increased mainly due to the goods of intermediate consumption and consumer goods, which were dominated by timber and products made of timber. The import of investment goods as well as consumer goods increased in the import goods, with transport vehicles, machinery and equipment, food and chemical products having the biggest impact on the balance.

**Table 1. Estonian balance of payments (EEK m)<sup>1</sup>**

	1998	1999	2000	2001					2002	
	Total	Total	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2
<b>Current account</b>	<b>-6,760.2</b>	<b>-3,607.7</b>	<b>-5,093.4</b>	<b>-1,559.6</b>	<b>-401.2</b>	<b>-1,319.0</b>	<b>-2,631.0</b>	<b>-5,910.8</b>	<b>-3,465.8</b>	<b>-3,044.1</b>
Trade and services balance	-7,676.2	-3,755.4	-3,569.0	-1,023.8	-289.6	-671.1	-1,660.5	-3,645.0	-2,532.5	-2,201.6
Trade balance	-15,725.5	-12,096.9	-13,143.6	-3,041.1	-3,029.5	-3,789.0	-3,945.6	-13,805.2	-3,952.9	-5,026.3
Goods: export f.o.b	37,786.3	36,995.2	56,345.9	16,192.4	15,965.0	12,301.8	14,183.2	58,642.4	13,105.6	14,561.7
Goods: import f.o.b	-53,511.8	-49,092.1	-69,489.5	-19,233.5	-18,994.5	-16,090.8	-18,128.8	-72,447.6	-17,058.5	-19,588.0
Services: net	8,049.3	8,341.5	9,574.6	2,017.3	2,739.9	3,117.9	2,285.1	10,160.2	1,420.4	2,824.7
Services: credit	20,804.0	21,951.9	25,485.8	5,802.1	7,351.0	7,925.7	7,787.7	28,866.5	6,889.2	9,240.9
Services: debit	-12,754.7	-13,610.4	-15,911.2	-3,784.8	-4,611.1	-4,807.8	-5,502.6	-18,706.3	-5,468.8	-6,416.2
Income: net	-1,164.0	-1,505.8	-3,483.4	-1,136.8	-915.9	-1,223.0	-1,650.4	-4,926.1	-1,501.4	-1,410.8
Income: credit	1,871.8	1,964.3	2,008.0	594.6	657.3	707.6	1,035.2	2,994.7	636.9	744.5
Income: debit	-3,035.8	-3,470.1	-5,491.4	-1,731.4	-1,573.2	-1,930.6	-2,685.6	-7,920.8	-2,138.3	-2,155.3
Transfers: net	2,080.0	1,653.5	1,959.0	601.0	804.3	575.1	679.9	2,660.3	568.1	568.3
Transfers: credit	2,424.2	2,257.5	2,454.8	724.0	923.1	711.6	815.4	3,174.1	798.2	836.4
Transfers: debit	-344.2	-604.0	-495.8	-123.0	-118.8	-136.5	-135.5	-513.8	-230.1	-268.1
<b>Capital and financial account</b>	<b>6,869.8</b>	<b>5,916.6</b>	<b>7,512.1</b>	<b>-1,359.0</b>	<b>1,373.8</b>	<b>1,166.5</b>	<b>4,325.7</b>	<b>5,507.0</b>	<b>3,929.7</b>	<b>2,262.4</b>
Capital account	25.2	17.8	278.5	16.3	44.6	11.4	17.7	90.0	39.0	46.1
Financial account	6,844.6	5,898.8	7,233.6	-1,375.3	1,329.2	1,155.1	4,308.0	5,417.0	3,890.7	2,216.3
Direct investments	7,989.7	3,208.2	5,601.4	2,971.7	260.0	809.2	1,860.4	5,901.3	1,728.5	287.6
Abroad	-81.7	-1,239.8	-1,043.1	-294.3	-1,327.3	-1,422.8	-483.9	-3,528.3	-308.1	-859.2
Into Estonia	8,071.4	4,448.0	6,644.5	3,266.0	1,587.3	2,232.0	2,344.3	9,429.6	2,036.6	1,146.8
Portfolio investments	-23.4	156.0	1,854.9	1,323.4	243.3	298.6	-236.0	1,629.3	-1,070.2	2,078.8
Assets	-127.9	-1,894.9	573.0	-62.4	83.5	546.8	-339.1	228.8	-1,109.0	43.8
Equity securities	500.8	187.0	53.3	431.4	-5.9	-30.9	-158.1	236.5	-6.0	38.5
Debt securities	-628.7	-2,081.9	519.7	-493.8	89.4	577.7	-181.0	-7.7	-1,103.0	5.3
Liabilities	104.5	2,050.9	1,281.9	1,385.8	159.8	-248.2	103.1	1,400.5	38.8	2,035.0
Equity securities	401.1	3,292.3	-538.8	-1.9	502.6	-143.7	211.4	568.4	315.7	517.3
Debt securities	-296.6	-1,241.4	1,820.7	1,387.7	-342.8	-104.5	-108.3	832.1	-276.9	1,517.7
Other investments	-1,121.7	2,534.6	-222.7	-5,670.4	825.9	47.3	2,683.6	-2,113.6	3,232.4	-150.1
Assets	-2,480.2	-1,651.2	-2,819.3	-5,271.3	-1,974.2	481.0	1,562.7	-5,201.8	-549.5	-636.1
Long-term	-786.5	421.8	-1,108.7	-536.4	-500.5	487.1	227.1	-322.7	274.1	97.0
Short-term	-1,693.7	-2,073.0	-1,710.6	-4,734.9	-1,473.7	-6.1	1,335.6	-4,879.1	-823.6	-733.1
Liabilities	1,358.5	4,185.8	2,596.6	-399.1	2,800.1	-433.7	1,120.9	3,088.2	3,781.9	486.0
Long-term	1,258.4	1,691.5	-549.9	695.5	838.0	139.6	141.3	1,814.4	963.2	-165.7
Short-term	100.1	2,494.3	3,146.5	-1,094.6	1,962.1	-573.3	979.6	1,273.8	2,818.7	651.7
Errors and omissions	16.8	-511.3	-148.2	464.7	-294.9	-438.5	-57.7	-326.4	292.2	555.8
<b>Overall balance</b>	<b>126.4</b>	<b>1,797.6</b>	<b>2,270.5</b>	<b>-2,453.9</b>	<b>677.7</b>	<b>-591.0</b>	<b>1,637.0</b>	<b>-730.2</b>	<b>756.1</b>	<b>-225.9</b>
<b>Reserve assets</b>	<b>-126.4</b>	<b>-1,797.6</b>	<b>-2,270.5</b>	<b>2,453.9</b>	<b>-677.7</b>	<b>591.0</b>	<b>-1,637.0</b>	<b>730.2</b>	<b>-756.1</b>	<b>225.9</b>

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

The surplus of the **services balance** doubled seasonally compared to the first quarter, but despite the rapid annual increase of the export and import of services, the surplus of the services balance remained unchanged against the 2001 level. The export and import of the most important category of services – transport – increased considerably year-on-year (by 47 and 70%, respectively), but the surplus increased only slightly. The surplus of the next most important category of services – travel services – fell year-on-year, due to the faster growth of the import of services. Here discounts of transport companies and tightening competition on the travel services market played a major role.

**The income balance and the transfers balance** have changed little as compared to the first quarter. The net outflow of income amounted to 1.4 billion kroons, the bulk of which was made up of dividends paid to foreign direct investors as is customary in the second quarter. The surplus of the transfers balance stood at 0.6 billion kroons just like in the first quarter.

The 2.3-billion kroon surplus of the **capital and financial account** consisted mostly of the inflow of portfolio investments.

The balance of **direct investments** had a surplus of 0.3 billion kroons in the second quarter. Non-residents invested 1.2 billion kroons into Estonia, while the investments of Estonian businesses abroad increased by 0.9 billion kroons.

Investments into equity capital accounted for more than half of the direct investments made into Estonia. Due to dividend payments, the increase of undistributed profits was smaller than in the previous periods. Investments from Finland increased considerably in the second quarter. The most preferred sectors for foreign investors were trade, real estate and other business services and industry.

Nearly two-thirds of the direct investments by Estonian businesses abroad were in the form of loan capital and the rest consisted of investments into the shares of affiliated/associated companies abroad. The bulk of investments was made into Latvia and Lithuania and the biggest investments went into transport, storage and communication and finance.

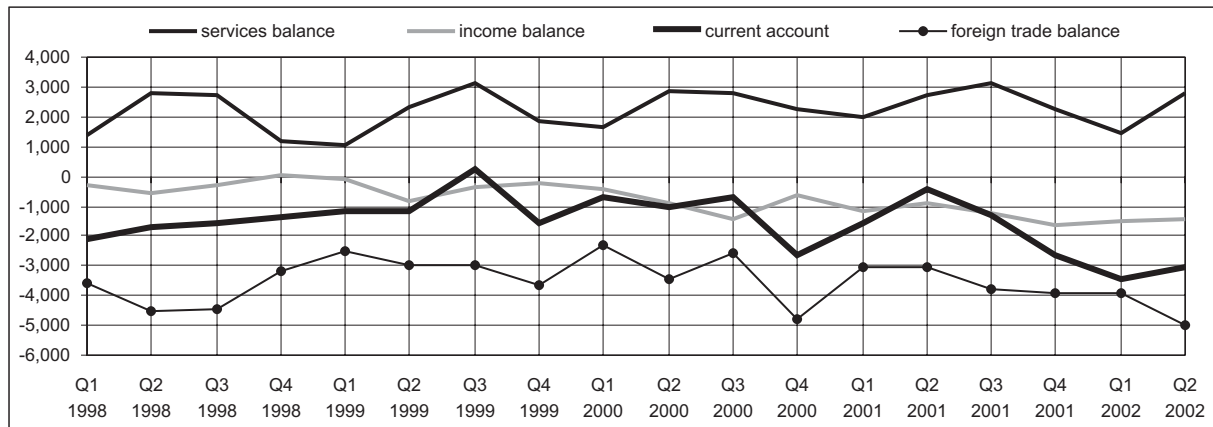
The net inflow of **portfolio investments** amounted to 2.1 billion kroons in the second quarter. This was mostly related to the increase of equity and debt security liabilities, with the government sector issuing 1.5 billion kroons worth of debt securities. Investments into equity papers of credit institutions and the other sector businesses increased by 0.5 billion kroons.

The outflow of **other investments** exceeded their inflow by approximately 0.2 billion kroons. Other investment claims increased by nearly 0.6 billion kroons in the second quarter and liabilities were up 0.5 billion kroons. The main reason of the increase of claims was the growth of the foreign assets of credit institutions. Liabilities increased mostly as a result of the 0.7 billion kroons growth of the non-residents' deposits in Estonian credit institutions and the 0.8 billion kroons trade credit debt of the other sector. Residents decreased their loan liabilities to non-residents by nearly 1.8 billion kroons in the second quarter

## CURRENT ACCOUNT

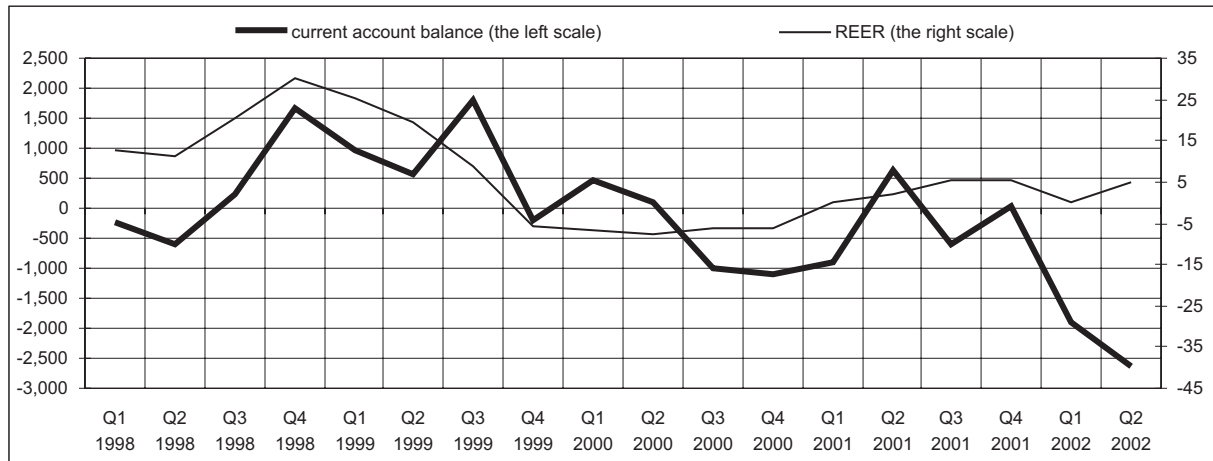
**The three-billion-kroon deficit of the second quarter balance of payments increased considerably the average relative deficit of the last four quarters (see Figure 1), bringing it to 10.3% of the GDP. Year-on-year, the current account deficit grew 7.6 times or by 2.6 billion kroons.**

The main reason for the growth of the deficit was the increase of the trade deficit (see Figure 2) by two billion kroons year-on-year, which amounted to 17.5% of the GDP (16.4% in the first quarter, 11.7% in



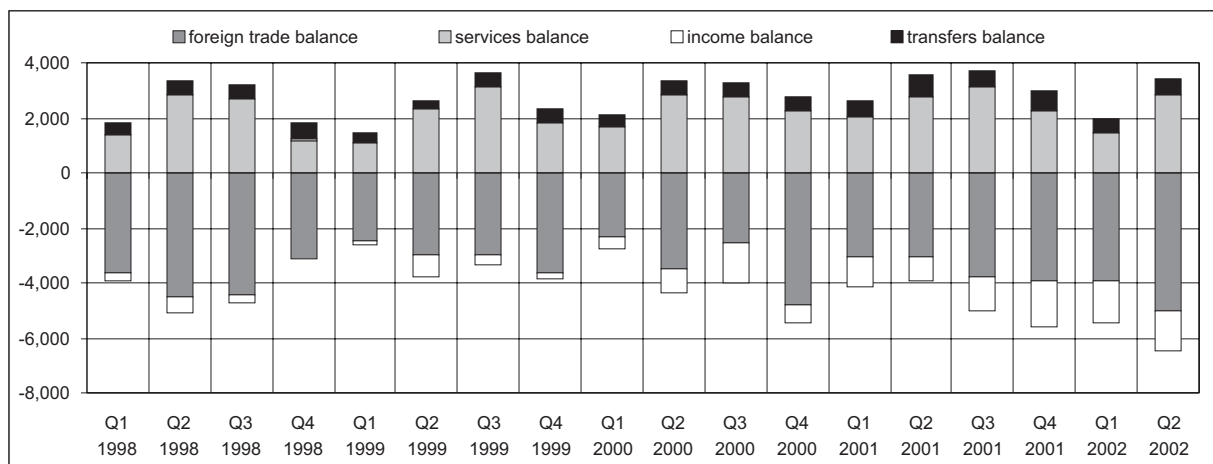
**Figure 2. Comparison of the current account, foreign trade balance, income balance and services balance of the Estonian balance of payments (in f.o.b prices, EEK m)**

the second quarter of 2001). With the decline of external demand the export of goods dropped by 8.8% year-on-year and import increased by 3.1%. While earlier there was a weak correlation between the current account deficit and the effective real rate of the Estonian kroon (see Figure 3), then in the second quarter of 2002 there was no link between the two.



**Figure 3. Annual change of the current account balance (EEK m) and the real effective exchange rate of the kroon (base index)**

The 0.5-billion-kroon growth of the income balance deficit also contributed to the current account deficit. The dynamics of the current account can be seen in Figure 4.



**Figure 4. Current account structure (EEK m)**

## Goods

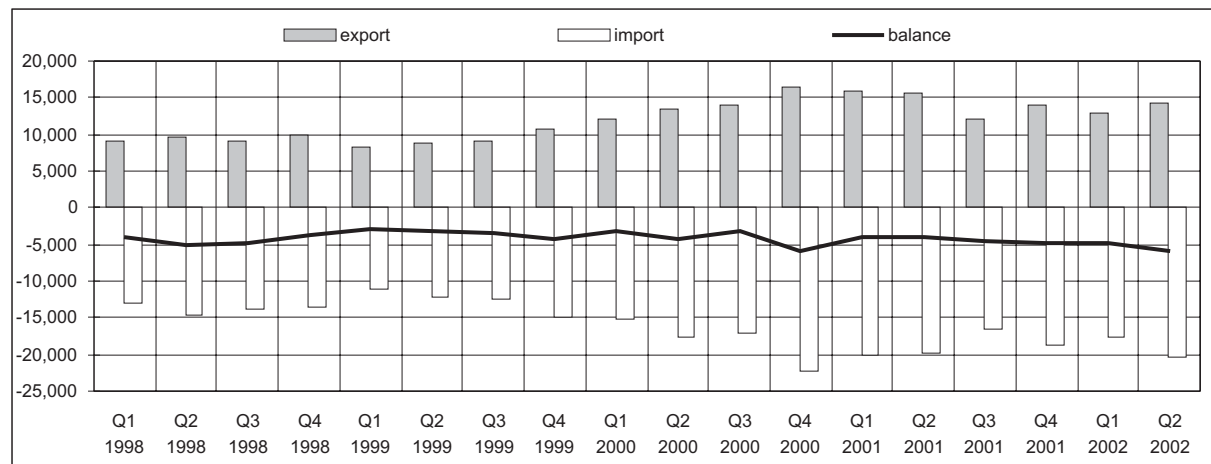
In the second quarter of 2002 the export of goods amounted to 14.6 billion kroons, increasing by 11% quarter-on-quarter and falling by 9% year-on-year. Import in f.o.b. prices increased against the previous quarter as well as the second quarter of last year by 15 and 3%, respectively, and made up 19.6 billion kroons (see Table 2). Due to the higher increase and larger volume of import the foreign trade deficit swelled to a record five billion kroons.

**Table 2. Changes in the special export and import of goods**

	Special export			Special import			Balance (EEK m)
	Volume <sup>1</sup> (EEK m)	Change against the previous period (%)	Share in total export of goods and services (%)	Volume <sup>1</sup> (EEK m)	Change against the previous period (%)	Share in total import of goods and services (%)	
Q1 1998	9,120.9		68.4	12,738.8		81.7	-3,617.9
Q2 1998	9,750.7	6.9	63.0	14,259.6	11.9	83.1	-4,508.9
Q3 1998	9,017.7	-7.5	59.8	13,468.8	-5.5	80.0	-4,451.1
Q4 1998	9,897.0	9.8	67.4	13,044.6	-3.1	78.3	-3,147.6
1998	37,786.3	18.7	64.5	53,511.8	12.7	80.8	-15,725.5
Q1 1999	8,226.5	-16.9	67.5	10,720.6	-17.8	78.8	-2,494.1
Q2 1999	8,882.6	8.0	61.1	11,865.6	10.7	77.9	-2,983.0
Q3 1999	9,177.0	3.3	58.0	12,145.8	2.4	77.5	-2,968.8
Q4 1999	10,709.1	16.7	65.3	14,360.1	18.2	78.9	-3,651.0
1999	36,995.2	-2.1	62.8	49,092.1	-8.3	78.3	-12,096.9
Q1 2000	12,260.9	14.5	70.2	14,587.7	1.6	80.4	-2,326.8
Q2 2000	13,495.8	10.1	66.9	16,955.8	16.2	81.7	-3,460.0
Q3 2000	14,026.6	3.9	66.7	16,588.3	-2.2	79.7	-2,561.7
Q4 2000	16,562.6	18.1	64.5	21,357.7	28.8	83.1	-4,795.1
2000	56,345.9	52.3	66.8	69,489.5	41.5	81.4	-13,143.6
Q1 2001	16,192.4	-2.2	73.6	19,233.5	-9.9	83.6	-3,041.1
Q2 2001	15,965.0	-1.4	68.5	18,994.5	-1.2	80.5	-3,029.5
Q3 2001	12,301.8	-22.9	60.8	16,090.8	-15.3	77.0	-3,789.0
Q4 2001	14,183.2	15.3	64.6	18,128.8	12.7	76.7	-3,945.6
2001	58,642.4	4.1	67.0	72,447.6	4.3	79.5	-13,805.2
Q1 2002	13,105.6	-7.6	65.5	17,058.5	-5.9	75.7	-3,952.9
Q2 2002	14,561.7	11.1	61.2	19,588.0	14.8	75.3	-5,026.3

<sup>1</sup> Data of the balance of payments' foreign trade sub-balance.

According to **special trade statistics**<sup>1</sup>, the export of goods amounted to 14.4 billion kroons and import in c.i.f. prices was 20.4 billion kroons (see Figure 5). The foreign trade deficit increased by two billion kroons year-on-year and amounted to six billion kroons.


**Figure 5. Estonian foreign trade balance (EEK m)**

<sup>1</sup> The analysis below does not contain adjustments made in the foreign trade balance of the balance of payments by the Statistics Department of Eesti Pank (repair of capital goods, provisions bought abroad, etc). Import is in c.i.f. prices and analyzed by the trading country. Eesti Pank uses the special trade system in its foreign trade analyses, which means that export does not contain the re-export of imported goods previously stored in customs warehouses or provisions for sea and air transport. Import does not contain customs warehousing of imported goods, but reflects deliveries of goods from customs warehouses into free circulation and processing.

A positive turn has taken place in Estonian export: the volume and share of **normal export**<sup>2</sup> has increased considerably compared to the export of processed goods (see Table 3). Over 60% of normal export was made up of the **goods of intermediate consumption** dominated by timber and timber products. Besides unprocessed and little processed timber, the export of labour-intensive articles such as prefabricated buildings and various building parts has increased considerably. The export of goods of intermediate consumption also included safety belts, paints, varnishes, metal structures and scrap metal. The export of **consumer goods** accounted for nearly a third of the normal export and consisted mostly of various furniture, food (fish and dairy products) and textile products. The share of **capital goods** in normal export was small, with major export articles being trailers and various measuring instruments.

**Table 3. Special export by end consumption**

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2001	Q1 2002	Q2 2002	Q2 2001	Q1 2002	Q2 2002	Q2 2002/ Q1 2002	Q2 2002/ Q2 2001
<b>Normal export</b>	<b>9,178.0</b>	<b>8,808.2</b>	<b>10,199.9</b>	<b>58.2</b>	<b>68.2</b>	<b>70.9</b>	<b>15.8</b>	<b>11.1</b>
Capital goods	523.7	441.0	553.3	3.3	3.4	3.8	25.5	5.6
Goods of intermediate consumption	5,815.3	5,334.4	6,311.6	36.9	41.3	43.9	18.3	8.5
Consumer goods	2,710.5	2,832.3	3,067.4	17.2	21.9	21.3	8.3	13.2
Other	128.5	200.5	267.6	0.8	1.6	1.9	33.4	108.2
<b>Export of processed goods</b>	<b>6,579.3</b>	<b>4,097.9</b>	<b>4,189.7</b>	<b>41.8</b>	<b>31.8</b>	<b>29.1</b>	<b>2.2</b>	<b>-36.3</b>
Capital goods	2,481.6	869.5	845.6	15.7	6.7	5.9	-2.7	-65.9
Goods of intermediate consumption	3,129.4	2,304.5	2,354.8	19.9	17.9	16.4	2.2	-24.8
Consumer goods	968.1	920.1	985.7	6.1	7.1	6.8	7.1	1.8
Other	0.1	3.8	3.7	0.0	0.0	0.0	-2.6	2,894.3
<b>Total</b>	<b>15,757.3</b>	<b>12,906.1</b>	<b>14,389.6</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>11.5</b>	<b>-8.7</b>

The **export of processed goods** has been relatively stable since the sharp recession of the summer of 2001. Over half of the processed goods were made up of **goods of intermediate consumption**, mostly parts of mobile communication equipment, various cables and parts of iron constructions. The **consumer goods** export consisted of textile products, while mobile phones and transformers made up the export of **capital goods**.

The quarterly and annual growth of **import meant for domestic circulation** or normal import was affected by all groups of end consumption (see Table 4). The **goods of intermediate consumption** accounted for 46% of the total normal import and consisted of a wide variety of parts for metalworking

**Table 4. Special import by end consumption**

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2001	Q1 2002	Q2 2002	Q2 2001	Q1 2002	Q2 2002	Q2 2002/ Q1 2002	Q2 2002/ Q2 2001
<b>Import for free circulation (normal import)</b>	<b>14,570.4</b>	<b>14,204.1</b>	<b>16,664.9</b>	<b>73.7</b>	<b>80.2</b>	<b>81.7</b>	<b>17.3</b>	<b>14.4</b>
Capital goods	2,500.1	2,344.9	2,880.8	12.6	13.2	14.1	22.9	15.2
Goods of intermediate consumption	6,445.5	6,768.9	7,643.0	32.6	38.2	37.5	12.9	18.6
Consumer goods	3,874.2	3,574.8	4,186.6	19.6	20.2	20.5	17.1	8.1
Other	1,750.6	1,515.5	1,954.5	8.9	8.6	9.6	29.0	11.7
<b>Import of processed goods</b>	<b>5,199.4</b>	<b>3,514.8</b>	<b>3,731.1</b>	<b>26.3</b>	<b>19.8</b>	<b>18.3</b>	<b>6.2</b>	<b>-28.2</b>
Capital goods	733.7	790.3	830.8	3.7	4.5	4.1	5.1	13.2
Goods of intermediate consumption	4,160.7	2,439.2	2,602.5	21.0	13.8	12.8	6.7	-37.5
Consumer goods	304.4	273.1	282.9	1.5	1.5	1.4	3.6	-7.1
Other	0.6	12.2	14.9	0.0	0.1	0.1	22.7	2,548.1
<b>Total</b>	<b>19,769.8</b>	<b>17,718.8</b>	<b>20,396.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>15.1</b>	<b>3.2</b>

<sup>2</sup> Normal export – export of goods manufactured in Estonian and belonging to Estonian legal entities; does not include the export of goods brought to Estonia for processing. Normal import – import of goods for Estonia's internal consumption; does not include import of goods for processing.

machine-tools, motor vehicles, iron structures, computers, electrical appliances, etc. The import of **consumer goods** amounted to 25%, with passenger cars, medicines, tobacco products and furniture being the major articles. Various means of transport (commercial vehicles, tractors, trailers), road building machinery, computers and mobile communication equipment were imported as **capital goods**.

The large **foreign trade deficit** reflected growing domestic demand in all groups of end consumption (see Table 5). Last year's 1.4-billion-kroon surplus of the import and export of processed goods has been replaced by a more modest figure, but mostly due to the drop in volumes.

**Table 5. Foreign trade balance by end consumption (EEK m)**

	Q2 2001	Q1 2002	Q2 2002
<b>Balance of normal export and normal import</b>	<b>-5,392.4</b>	<b>-5,395.8</b>	<b>-6,465.0</b>
Capital goods	-1,976.4	-1,903.9	-2,327.5
Goods of intermediate consumption	-630.2	-1,434.5	-1,331.4
Consumer goods	-1,163.8	-742.5	-1,119.1
Other	-1,622.0	-1,315.0	-1,686.9
<b>Balance of export and import of processed goods</b>	<b>1,379.9</b>	<b>583.1</b>	<b>458.6</b>
Capital goods	1,747.9	79.1	14.8
Goods of intermediate consumption	-1,031.3	-134.6	-247.7
Consumer goods	663.8	647.0	702.8
Other	-0.4	-8.4	-11.3
<b>Total</b>	<b>-4,012.5</b>	<b>-4,812.7</b>	<b>-6,006.4</b>

**Across the groups of countries, export of goods** to the European Union decreased year-on-year (see Table 6), which can be attributed to the decline of the processing of mobile communication equipment in Estonia. Export to Finland, Sweden and Germany accounted for 72% of the total export to the EU and amounted to seven billion kroons. Among Central and Eastern European countries, the dominating position belonged to Latvia and Lithuania, followed by Hungary and Poland. Russia and Ukraine led among the CIS countries. It is worth mentioning that Estonia increased its export to the neighbouring countries of Latvia, Lithuania and Russia both quarter-on-quarter and year-on-year. Major partners among other countries were Norway, the USA, South Korea and Switzerland. Half a billion kroons worth of goods waiting to be exported were stored into free trade zones.

**Table 6. Estonia's special export by groups of countries**

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2001	Q1 2002	Q2 2002	Q2 2001	Q1 2002	Q2 2002	Q2 2002/ Q1 2002	Q2 2002/ Q2 2001
EU countries	11,302.3	8,945.0	9,736.0	71.7	69.3	67.7	8.8	-13.9
Central and Eastern European countries	1,709.5	1,623.6	1,845.4	10.8	12.6	12.8	13.7	8.0
CIS countries	615.9	591.0	672.8	3.9	4.6	4.7	13.9	9.2
Other	1,500.2	1,484.2	1,600.6	9.5	11.5	11.1	7.8	6.7
Customs-free zone	629.4	262.4	534.9	4.0	2.0	3.7	103.8	-15.0
<b>Total</b>	<b>15,757.3</b>	<b>12,906.1</b>	<b>14,389.6</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>11.5</b>	<b>-8.7</b>

**Import** from the CIS countries decreased (see Table 7), mostly from Russia and Belarus. The major import partners among the EU countries were again Finland, Germany and Sweden, followed by Italy that has become a major partner due to the import of parts for metalworking machine tools. Among Central and Eastern European countries, import increased considerably from Lithuania, Latvia and Poland. The three leading partners among the CIS countries were Russia, Ukraine and Belarus. Other major importers included Hong Kong, Japan, China, the USA, Norway and Switzerland.

The **foreign trade balance** was negative in all groups of countries (see Table 8).



**Table 7. Estonia's special import by groups of countries**

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2001	Q1 2002	Q2 2002	Q2 2001	Q1 2002	Q2 2002	Q2 2002/ Q1 2002	Q2 2002/ Q2 2001
EU countries	13,855.7	12,019.3	13,952.4	70.1	67.8	68.4	16.1	0.7
Central and Eastern European countries	2,380.0	2,047.6	2,619.4	12.0	11.6	12.8	27.9	10.1
CIS countries	2,020.2	1,888.9	1,809.8	10.2	10.7	8.9	-4.2	-10.4
Other	1,513.9	1,763.0	2,014.5	7.7	9.9	9.9	14.3	33.1
<b>Total</b>	<b>19,769.8</b>	<b>17,718.8</b>	<b>20,396.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>15.1</b>	<b>3.2</b>

**Table 8. Foreign trade balance by groups of countries (EEK m)**

	Q2 2001	Q1 2002	Q2 2002
EU countries	-2,553.4	-3,074.3	-4,216.4
Central and Eastern European countries	-670.5	-424.0	-774.0
CIS countries	-1,404.3	-1,297.9	-1,137.0
Other	-13.8	-278.8	-413.9
Customs-free zone	629.4	262.4	534.9
<b>Total</b>	<b>-4,012.5</b>	<b>-4,812.7</b>	<b>-6,006.4</b>

## Services

The surplus of the services balance amounted to 2.8 billion kroons in the second quarter of 2002, being 3.1% larger than last year (see Table 9). The surplus of the services balance increases seasonally in the second quarter due to growing volumes of travel and transport services. This year, the surplus doubled as compared to the first quarter. The growth rate exceeded the usual seasonal increase in the export as well as import of services by 34 and 17% against the first quarter (see Figure 6).

**Table 9. Services export and import**

	Export			Import			Balance	
	Volume (EEK m)	Change against the previous period (%)	Share in total goods and services balance (%)	Volume (EEK m)	Change against the previous period (%)	Share in total goods and services balance (%)	Volume (EEK m)	Change against 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	32.5	2,887.6	-20.0	21.4	1,075.0	-9.2
Q2 1999	5,659.5	42.8	38.9	3,361.3	16.4	21.9	2,298.2	113.8
Q3 1999	6,648.3	17.5	42.0	3,517.9	4.7	22.5	3,130.4	36.2
Q4 1999	5,681.5	-14.5	34.7	3,843.6	9.3	21.2	1,837.9	-41.3
Q1 2000	5,195.3	-8.6	29.8	3,554.2	-7.5	19.6	1,641.1	-10.7
Q2 2000	6,666.1	28.3	33.1	3,793.4	6.7	18.3	2,872.7	75.0
Q3 2000	7,004.7	5.1	33.3	4,225.8	11.4	20.3	2,778.9	-3.3
Q4 2000	6,619.7	-5.5	28.6	4,337.8	2.7	16.9	2,281.9	-17.9
Q1 2001	5,802.1	-12.4	26.4	3,784.8	-12.7	16.4	2,017.3	-11.6
Q2 2001	7,351.0	26.7	31.5	4,611.1	21.8	19.5	2,739.9	35.8
Q3 2001	7,925.1	7.8	39.2	4,807.8	4.3	20.2	3,117.3	13.8
Q4 2001	7,787.7	-1.7	35.4	5,502.6	14.5	22.5	2,285.1	-26.7
Q1 2002	6,889.2	-11.5	34.5	5,468.8	-0.6	24.3	1,420.4	-37.8
Q2 2002	9,240.9	34.1	38.8	6,416.2	17.3	24.7	2,824.7	98.9



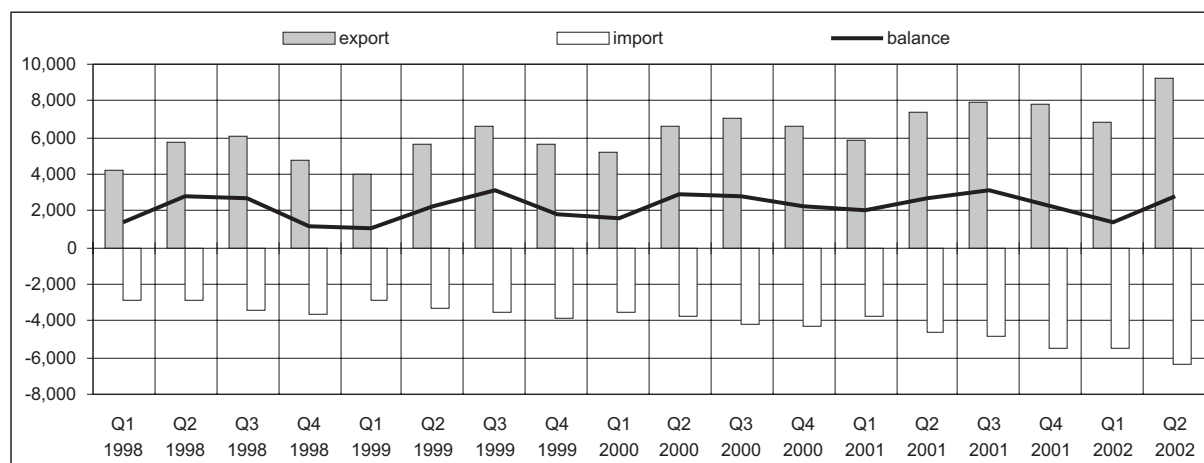


Figure 6. Services balance (EEK m)

Year-on-year, the **balance of services** improved in transport and government services but deteriorated in all other services, with surpluses decreasing and deficits increasing (see Table 10).

Table 10. Services balance by major categories

	Balance (EEK m)			Share (%)		
	Q2 2001	Q1 2002	Q2 2002	Q2 2001	Q1 2002	Q2 2002
Transport services	1,293.2	1,165.1	1,420.9	47.2	82.0	50.3
Travel services	1,818.0	809.0	1,736.2	66.4	57.0	61.5
Construction services	27.8	-54.9	-13.8	1.0	-3.9	-0.5
Business services	4.1	-50.8	-116.6	0.1	-3.6	-4.1
Government services	-416.9	-429.6	-197.6	-15.2	-30.2	-7.0
Other	13.7	-18.4	-4.4	0.5	-1.3	-0.2
<b>Total</b>	<b>2,739.9</b>	<b>1,420.4</b>	<b>2,824.7</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

The **export of services** increased by 26% year-on-year (see Table 11). The export of construction services grew 3.2 times and above-average growth was also registered in the export of transport and government services (47 and 36%, respectively).

Table 11. Services export by major categories

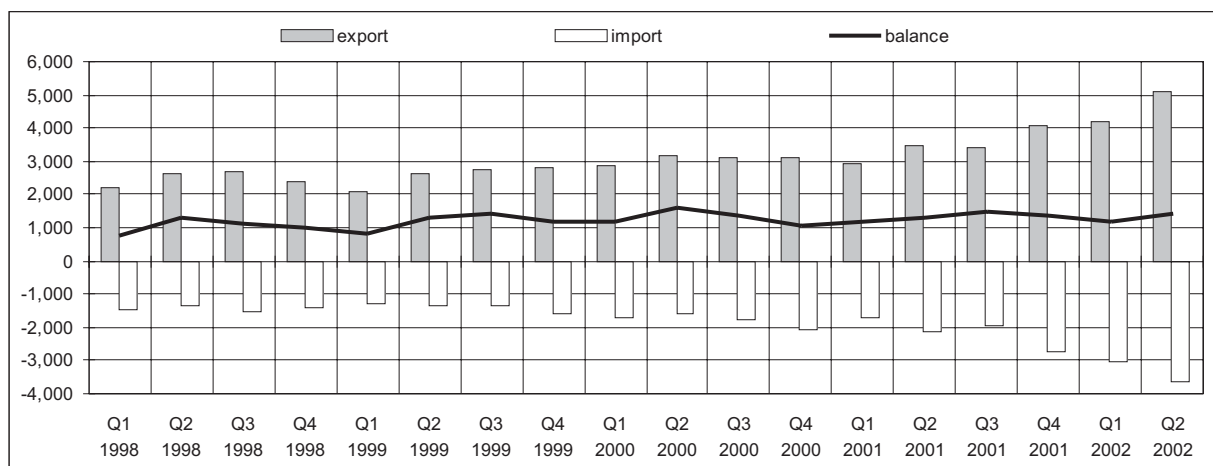
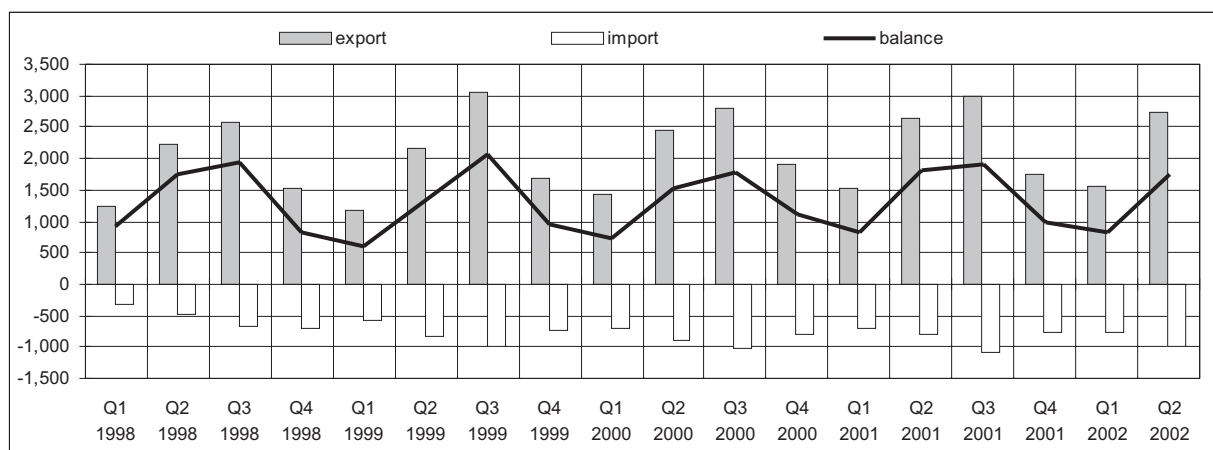
	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2001	Q1 2002	Q2 2002	Q2 2001	Q1 2002	Q2 2002	Q2 2002/ Q1 2002	Q2 2002/ Q2 2001
Transport services	3,448.8	4,198.4	5,075.2	46.9	60.9	54.9	20.9	47.2
o/w freight	1,538.2	2,728.2	3,119.5	20.9	39.6	33.8	14.3	102.8
passenger	779.8	439.6	835.9	10.6	6.4	9.0	90.2	7.2
other transport services	1,130.8	1,030.6	1,119.8	15.4	15.0	12.1	8.7	-1.0
Travel services	2,626.2	1,567.7	2,721.3	35.7	22.8	29.4	73.6	3.6
Construction services	90.7	153.8	292.7	1.2	2.2	3.2	90.3	222.7
Business services	863.5	703.8	795.2	11.7	10.2	8.6	13.0	-7.9
Government services	30.5	29.2	41.6	0.4	0.4	0.5	42.5	36.4
Other	291.3	236.3	314.9	4.0	3.4	3.4	33.3	8.1
<b>Total</b>	<b>7,351.0</b>	<b>6,889.2</b>	<b>9,240.9</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>34.1</b>	<b>25.7</b>

The **import of services** increased by 39% year-on-year (see Table 12), with transport and construction services growing faster than the average – 70% and 4.9 times, respectively.

**Table 12. Services import by major categories**

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2001	Q1 2002	Q2 2002	Q2 2001	Q1 2002	Q2 2002	Q2 2002/ Q1 2002	Q2 2002/ Q2 2001
Transport services	2,155.6	3,033.3	3,654.3	46.7	55.5	57.0	20.5	69.5
o/w freight	1,581.8	2,465.1	2,928.9	34.3	45.1	45.6	18.8	85.2
passenger	296.4	263.3	363.3	6.4	4.8	5.7	38.0	22.6
other transport services	277.4	304.9	362.1	6.0	5.6	5.6	18.8	30.5
Travel services	810.2	758.7	985.1	17.6	13.9	15.4	29.8	21.6
Construction services	62.9	208.7	306.5	1.4	3.8	4.8	46.9	387.3
Business services	859.4	754.6	911.8	18.6	13.8	14.2	20.8	6.1
Government services	447.4	458.8	239.2	9.7	8.4	3.7	-47.9	-46.5
Other	275.6	254.7	319.3	6.0	4.7	5.0	25.4	15.9
<b>Total</b>	<b>4,611.1</b>	<b>5,468.8</b>	<b>6,416.2</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>17.3</b>	<b>39.1</b>

**Transport services** have become Estonia's most important category of services, accounting for 55% of the total export and 57% of the total import of services. The fastest growth was registered in freight transport services where export doubled and import increased by 85%. Freight transport by road grew nearly 2.4 times against the second quarter of 2001. The dynamics of the transport services export can be seen in Figure 7.

**Figure 7. Transport services balance (EEK m)****Figure 8. Travel services balance (EEK m)**

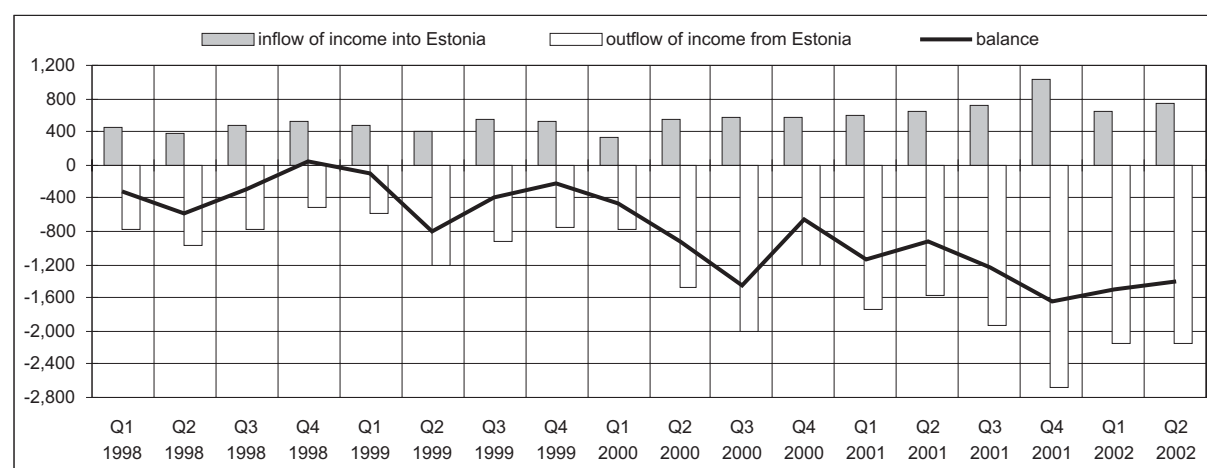
The balance of **travel services** decreased by 4.5% year-on-year, since export grew slower than import (4 and 22%, respectively; see Figure 8). The number of foreign tourists visiting Estonia has changed little against last year: the number of tourists from Finland and the CIS countries dropped, but the number of visitors from the Scandinavian countries and other EU countries increased. The earnings of Estonian travel agencies increased by 14% year-on-year. Discounts resulting from the recession of the tourism industry have boosted Estonians' interest in travelling – the number of Estonians travelling abroad increased by 10% and the turnover of travel agencies from services sold to Estonians increased by 25%. According to the reports of travel agencies, the most popular destinations for Estonians were, besides the neighbouring countries, Germany, Great Britain, Spain, Italy and the USA.

## Income

In the second quarter of 2002 the deficit of the **income balance** amounted to 1.4 billion kroons, up 54% year-on-year (see Table 13). Quarter-on-quarter, the net outflow of income decreased for the second successive quarter (6% in the second quarter; see Figure 9). The outflow of income occurred in the form of direct investment income, as the net inflow of portfolio investment income slightly exceeded the net outflow of other investment income.

**Table 13. Income balance (EEK m)**

	Balance (EEK m)			Share (%)			Change (%)	
	Q2 2001	Q1 2002	Q2 2002	Q2 2001	Q1 2002	Q2 2002	Q2 2002/ Q1 2002	Q2 2002/ Q2 2001
Income from direct investments	-819.8	-1,527.4	-1,466.1	89.5	101.7	103.9	-4.0	78.8
o/w income from equity	-747.7	-1,481.8	-1,410.5	81.6	98.7	100.0	-4.8	88.6
income from debt (interests)	-72.1	-45.6	-55.6	7.9	3.0	3.9	21.9	-22.9
Income from portfolio investments	-3.9	142.9	126.8	0.4	-9.5	-9.0	-11.3	
Income from other investments	-124.4	-139.0	-89.6	13.6	9.3	6.4	-35.5	-28.0
Other income	32.2	22.1	18.1	-3.5	-1.5	-1.3	-18.1	-43.8
<b>Total</b>	<b>-915.9</b>	<b>-1,501.4</b>	<b>-1,410.8</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>-6.0</b>	<b>54.0</b>



**Figure 9. Income balance (EEK m)**

The **inflow of income** amounted to 745 million kroons and was up 13% year-on-year (see Table 14). The growth came entirely from direct investment income.

The **outflow of income** made up 2.2 billion kroons in the second quarter, growing 37% year-on-year (see Table 15). While the outflow of income from direct investments increased 90%, the profitability of other categories of investments decreased year-on-year.

**Table 14. Income inflow to Estonia**

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2001	Q1 2002	Q2 2002	Q2 2001	Q1 2002	Q2 2002	Q2 2002/ Q1 2002	Q2 2002/ Q2 2001
Income from direct investments	4.2	109.5	99.2	0.6	17.2	13.3	-9.4	2,261.9
o/w income from equity	-24.4	87.7	73.0	-3.7	13.8	9.8	-16.8	-399.2
income from debt (interests)	28.6	21.8	26.2	4.4	3.4	3.5	20.2	-8.4
Income from portfolio investments	426.0	323.9	425.9	64.8	50.9	57.2	31.5	0.0
Income from other investments	191.5	177.0	197.4	29.1	27.8	26.5	11.5	3.1
Other income	35.6	26.5	22.0	5.4	4.2	3.0	-17.0	-38.2
<b>Total</b>	<b>657.3</b>	<b>636.9</b>	<b>744.5</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>16.9</b>	<b>13.3</b>

**Table 15. Income outflow from Estonia**

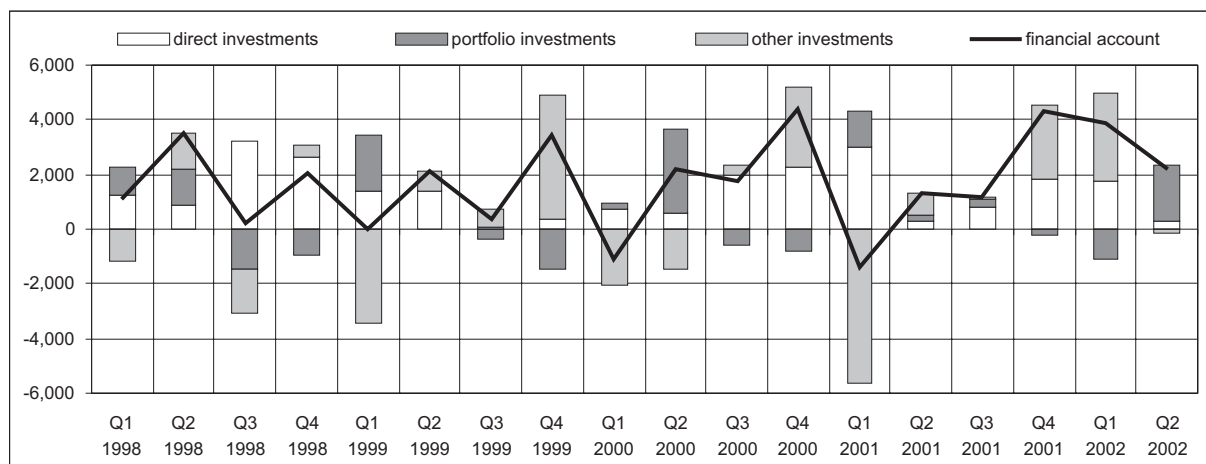
	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2001	Q1 2002	Q2 2002	Q2 2001	Q1 2002	Q2 2002	Q2 2002/ Q1 2002	Q2 2002/ Q2 2001
Income from direct investments	-824.0	-1,636.9	-1,565.3	52.4	76.6	72.6	-4.4	90.0
o/w income from equity	-723.3	-1,569.5	-1,483.5	46.0	73.4	68.8	-5.5	105.1
income from debt (interests)	-100.7	-67.4	-81.8	6.4	3.2	3.8	21.4	-18.8
Income from portfolio investments	-429.9	-181.0	-299.1	27.3	8.5	13.9	65.2	-30.4
Income from other investments	-315.9	-316.0	-287.0	20.1	14.8	13.3	-9.2	-9.1
Other income	-3.4	-4.4	-3.9	0.2	0.2	0.2	-11.4	14.7
<b>Total</b>	<b>-1,573.2</b>	<b>-2,138.3</b>	<b>-2,155.3</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>0.8</b>	<b>37.0</b>

## Transfers

The surplus of the **transfers balance** amounted to 568 million kroons in the second quarter remaining unchanged against the first quarter. Year-on-year, the net inflow of transfers has decreased due to the exceptionally high credit of the reference period and this year's larger debit.

## CAPITAL AND FINANCIAL ACCOUNT

The surplus of the capital and financial account was 2.3 billion kroons in the second quarter of 2002. The structure of the financial account by categories and terms can be seen in Figures 10 and 11.

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

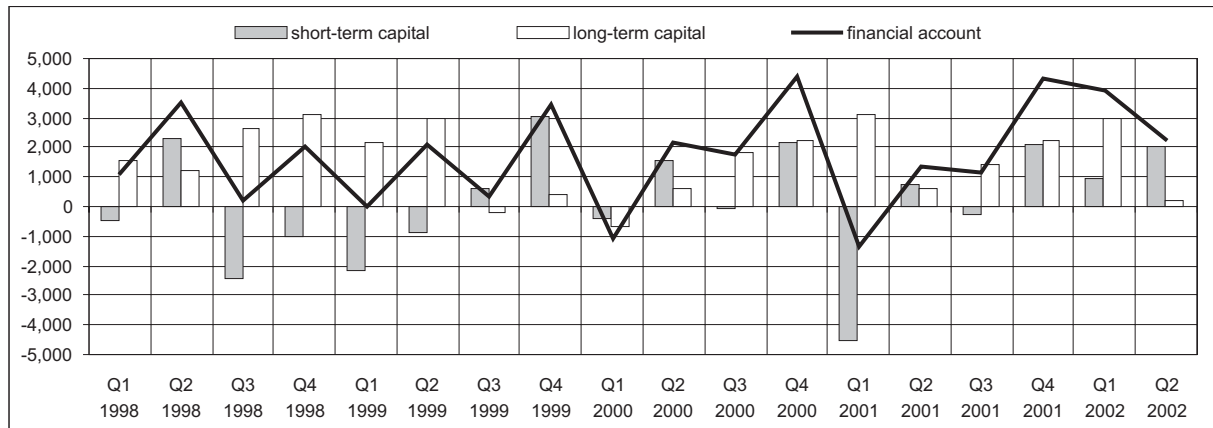


Figure 11. The maturity structure of financial sources (EEK m)

## Direct Investments

The **balance of direct investments** was positive by 0.3 billion kroons in the second quarter of 2002. Non-residents invested 1.2 billion kroons into Estonia and Estonian residents' investments abroad grew by 0.9 billion kroons (see Table 16 and Figure 12). The inflow of net direct investments accounted for 13% of the surplus of the financial account.

Table 16. Structure of direct investments

	Into Estonia						Abroad					
	EEK m			Share (%)			EEK m			Share (%)		
	Q2 2001	Q1 2002	Q2 2002	Q2 2001	Q1 2002	Q2 2002	Q2 2001	Q1 2002	Q2 2002	Q2 2001	Q1 2002	Q2 2002
<b>Share capital</b>	<b>394.0</b>	<b>549.5</b>	<b>377.5</b>	<b>24.8</b>	<b>27.0</b>	<b>32.9</b>	<b>-1,036.7</b>	<b>-83.4</b>	<b>-277.5</b>	<b>78.1</b>	<b>27.1</b>	<b>32.3</b>
Inflow	858.9	798.6	629.5	54.1	39.2	54.9	14.4	15.8	21.2	-1.1	-5.1	-2.5
Outflow	-464.9	-249.1	-252.0	-29.3	-12.2	-22.0	-1,051.1	-99.2	-298.7	79.2	32.2	34.8
<b>Reinvested income</b>	<b>-222.3</b>	<b>1,084.1</b>	<b>304.6</b>	<b>-14.0</b>	<b>53.2</b>	<b>26.6</b>	<b>52.5</b>	<b>-80.8</b>	<b>-53.3</b>	<b>-4.0</b>	<b>26.2</b>	<b>6.2</b>
Claims	-1,996.2	-652.7	-1,523.1	-125.7	-41.1	-95.9	-43.4	-103.4	-140.0	-2.7	-6.5	-8.8
Liabilities	1,773.9	1,736.8	1,827.7	111.7	109.4	115.1	95.9	22.6	86.7	6.0	1.4	5.5
<b>Loan capital (net)</b>	<b>1,124.9</b>	<b>-98.7</b>	<b>750.3</b>	<b>70.9</b>	<b>-4.8</b>	<b>65.4</b>	<b>-336.2</b>	<b>-137.9</b>	<b>-514.6</b>	<b>25.3</b>	<b>44.8</b>	<b>59.9</b>
Trade credit	340.6	-269.6	119.9	21.5	-13.2	10.5	4.3	-117.1	-32.8	-0.3	38.0	3.8
Short-term loans	443.1	311.9	172.5	27.9	15.3	15.0	-102.8	-30.2	97.9	7.7	9.8	-11.4
Long-term loans	341.2	-141.0	457.9	21.5	-6.9	39.9	-237.7	9.4	-579.7	17.9	-3.1	67.5
<b>Other capital</b>	<b>291.1</b>	<b>501.7</b>	<b>-285.6</b>	<b>18.3</b>	<b>24.6</b>	<b>-24.9</b>	<b>-6.9</b>	<b>-6.0</b>	<b>-13.8</b>	<b>0.5</b>	<b>1.9</b>	<b>1.6</b>
<b>Total</b>	<b>1,587.7</b>	<b>2,036.6</b>	<b>1,146.8</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>-1,327.3</b>	<b>-308.1</b>	<b>-859.2</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

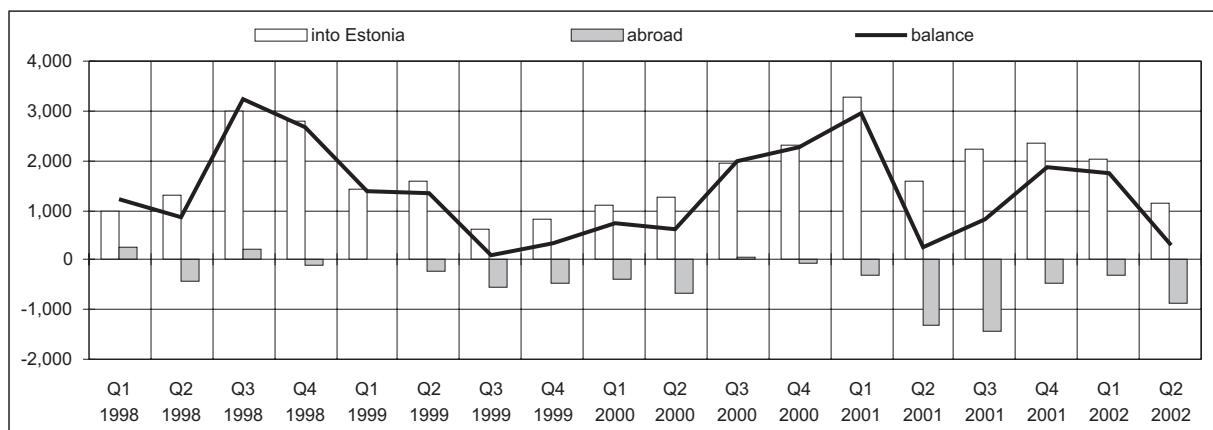
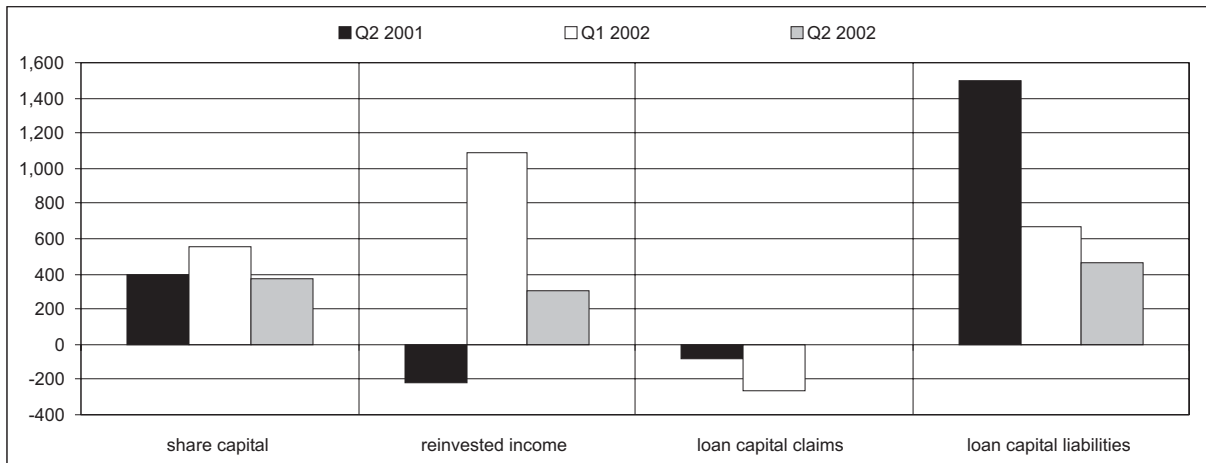


Figure 12. Direct investments (EEK m)

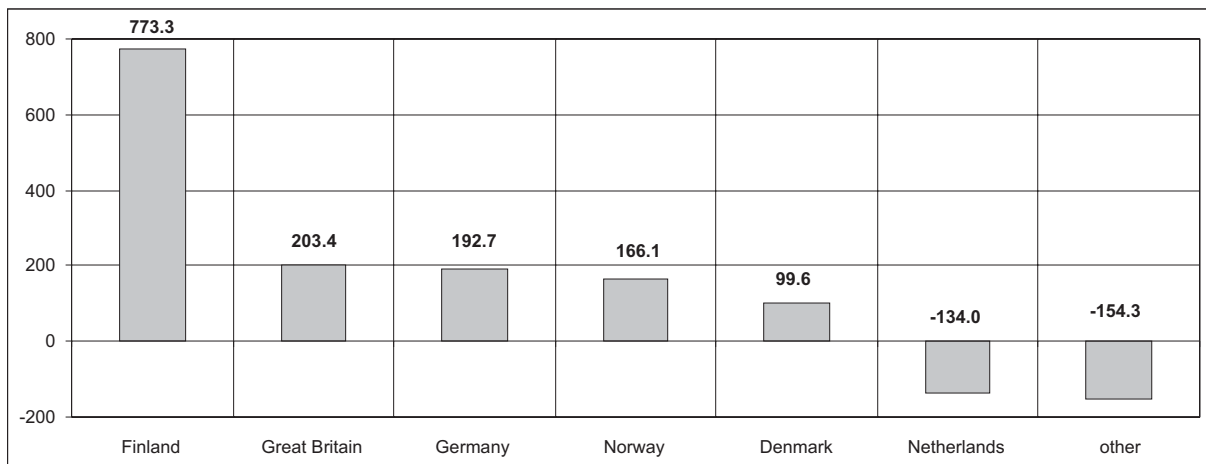
The inflow of **foreign direct investments** was the smallest of recent years. The drop in the volume of direct investments can be attributed to the withdrawal of income by foreign investors, which usually takes place in the first half of the year. More than half of the direct investments made into Estonia were investments into equity capital and half of this was made up of reinvested income. The economic activity of foreign-owned businesses was still successful – the share of non-residents’ profits increased by 1.8 billion kroons in the second quarter. While in the first quarter the outflow of long-term capital was registered, then in the second quarter long-term liabilities to direct investors increased by nearly 0.5 billion kroons. Short-term debts of foreign-owned businesses increased as well (see Figure 13.).



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

Two thirds of direct investments came from Finland and nearly half of it was invested into transport, storage and communication. On the whole, investments increased the most in trade, real estate and other business services and industry (see Figures 14 and 15).

The **outflow of direct investments** was the largest of the past three quarters. Nearly two thirds of direct investments abroad consisted of loan capital and the rest was made up of investments into the share capital of affiliated/associated companies outside Estonia. Long-term direct investments abroad increased in the form of share capital, undistributed profit and long-term loans by more than 900 million kroons (see Figure 16).



**Figure 14. Structure of direct investments made into Estonia by countries in the 2nd quarter of 2002 (EEK m)**

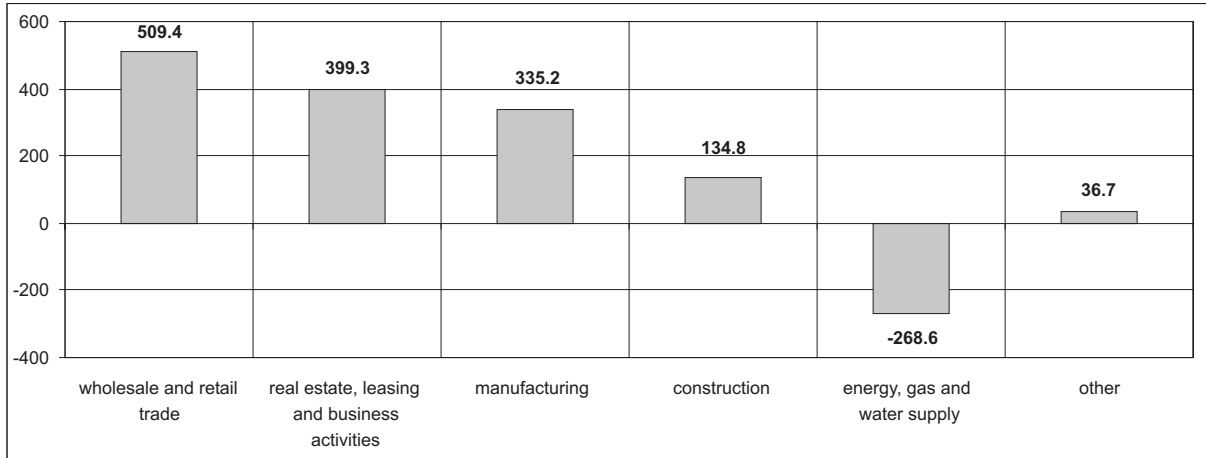


Figure 15. Structure of direct investments made into Estonia by spheres of activity in the 2nd quarter of 2002 (EEK m)

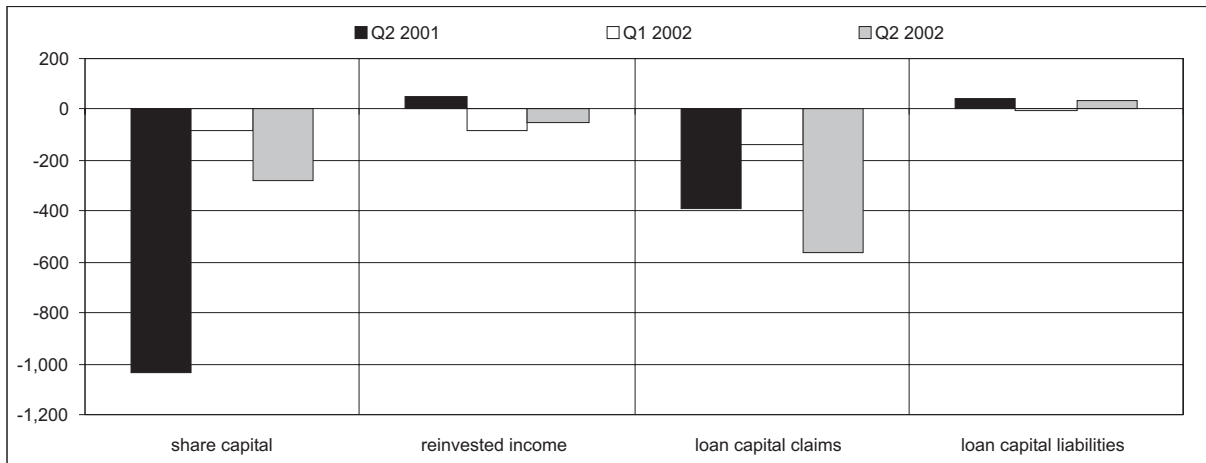


Figure 16. Structure of direct investments made abroad (EEK m)

Investments were mostly made into Latvia and Lithuania and the main fields were transport, storage and communication as well as finance (see Figures 17 and 18).

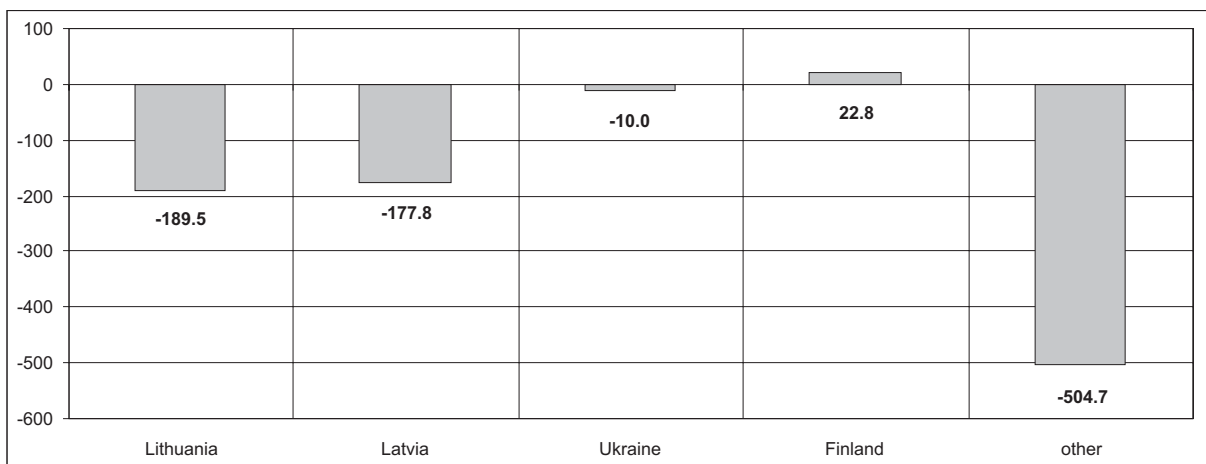


Figure 17. Structure of direct investments made abroad by countries in the 2nd quarter of 2002 (EEK m)



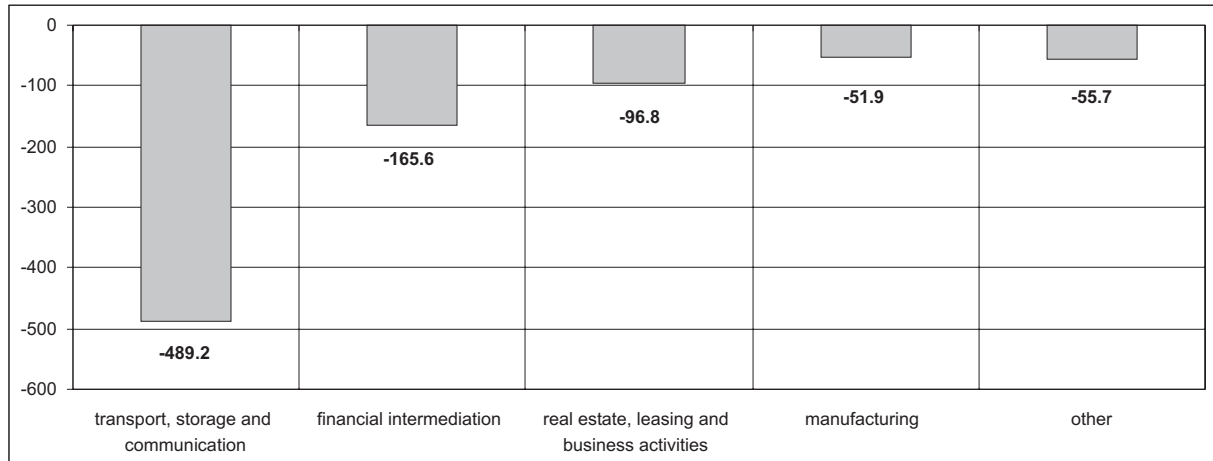


Figure 18. Structure of direct investments made abroad by spheres of activity in the 2nd quarter of 2002 (EEK m)

## Portfolio Investments

Net inflow of **portfolio investments** amounted to approximately 2.1 billion kroons in the second quarter of 2002 and was mostly related to the issuing of government bonds (see Figure 19 and Table 17).

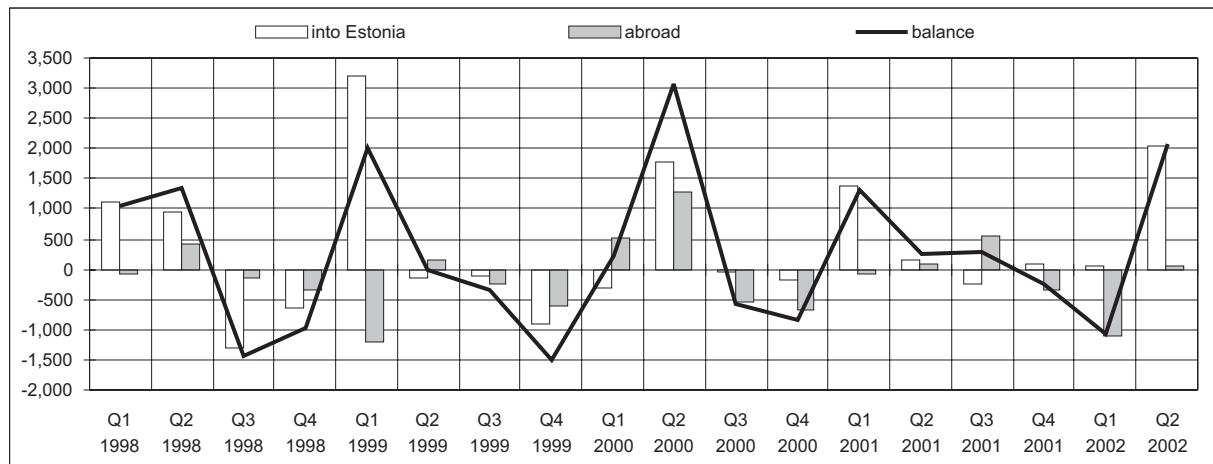


Figure 19. Portfolio investments (EEK m)

Table 17. Portfolio investments by types of securities and sectors of economy (EEK m)

	Claims			Liabilities			Balance		
	Q2 2001	Q1 2002	Q2 2002	Q2 2001	Q1 2002	Q2 2002	Q2 2001	Q1 2002	Q2 2002
<b>Total portfolio investments</b>	83.5	-1,109.0	43.8	159.8	38.8	2,035.0	243.3	-1,070.2	2,078.8
<b>Equity securities</b>	-5.9	-6.0	38.5	502.6	315.7	517.3	496.7	309.7	555.8
Credit institutions	5.7	4.9	-3.6	462.2	-161.9	187.4	467.9	-157.0	183.8
Other sectors	-11.6	-10.9	42.1	40.4	477.6	329.9	28.8	466.7	372.0
<b>Debt securities</b>	89.4	-1,103.0	5.3	-342.8	-276.9	1,517.7	-253.4	-1,379.9	1,523.0
Central bank	81.8						81.8		0.0
Government sector	12.5	-192.9	-417.5	-55.8	-1.5	1,507.6	-43.3	-194.4	1,090.1
Credit institutions	-8.9	-460.9	-29.8	-548.0	-198.4	6.2	-556.9	-659.3	-23.6
Other sectors	4.0	-449.2	452.6	261.0	-77.0	3.9	265.0	-526.2	456.5

**Portfolio investment claims** decreased by nearly 43 million kroons in the second quarter. Residents reduced their investments in the non-residents' equity as well as debt securities by 38.5 and 5.3 million kroons, respectively.

**Portfolio investment liabilities** increased by two billion kroons in the second quarter. The exceptional inflow of capital was due to the large bond issue of the government sector, which amounted to 1.5 billion kroons. The growth of liabilities was also supported by equity transactions, which boosted the portfolio investments of non-residents into the equity capital of the other sector companies by 329.9 million kroons and investments into the banking sector by 187.4 million kroons.

## Other Investments

The outflow of **other investment capital** exceeded its inflow by 150 million kroons. In the second quarter, the claims of other investments increased by nearly 636 million kroons, while liabilities grew by 486 million kroons (see Figure 20, Tables 18 and 19).

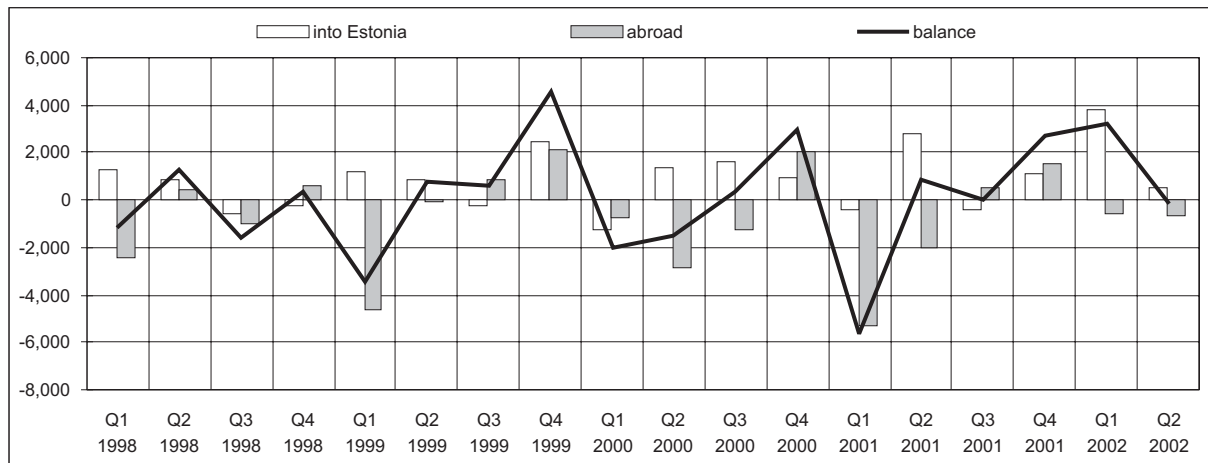


Figure 20. Other investments (EEK m)

Table 18. Other investments by type of capital (EEK m)

	Claims			Liabilities			Balance		
	Q2 2001	Q1 2002	Q2 2002	Q2 2001	Q1 2002	Q2 2002	Q2 2001	Q1 2002	Q2 2002
<b>Total</b>	<b>-1,974.2</b>	<b>-549.5</b>	<b>-636.1</b>	<b>2,800.1</b>	<b>3,781.9</b>	<b>486.0</b>	<b>825.9</b>	<b>3,232.4</b>	<b>-150.1</b>
o/w trade credit	-777.1	42.2	-153.6	789.9	150.7	846.2	12.8	192.9	692.6
loans	-580.3	-1,083.7	1,546.0	367.1	2,317.7	-1,854.2	-213.2	1,234.0	-308.2
deposits	-502.0	380.9	-1,423.2	1,098.6	1,340.0	775.3	596.6	1,720.9	-647.9
other	-114.8	111.1	-605.3	544.5	-26.5	718.7	429.7	84.6	113.4

The increase of **other investment claims** in the second quarter was mostly related to the 1.4 billion kroons growth of the foreign assets of credit institutions and the government sector. Trade credit claims increased by 153 million kroons and other claims grew by 605 million kroons. At the same time, non-residents reduced their loan liabilities to residents by 1.5 billion kroons.

**Liabilities of other investments** increased by 486 million kroons in the second quarter. The growth of liabilities mostly derived from the increase of non-residents' deposits in Estonian credit institutions by

**Table 19. Other investments by maturity (EEK m)**

	Claims			Liabilities			Balance		
	Q2 2001	Q1 2002	Q2 2002	Q2 2001	Q1 2002	Q2 2002	Q2 2001	Q1 2002	Q2 2002
<b>Total</b>	<b>-1,974.2</b>	<b>-549.5</b>	<b>-636.1</b>	<b>2,800.1</b>	<b>3,781.9</b>	<b>486.0</b>	<b>825.9</b>	<b>3,232.4</b>	<b>-150.1</b>
<b>Long-term capital</b>	<b>-500.5</b>	<b>274.1</b>	<b>97.0</b>	<b>838.0</b>	<b>963.2</b>	<b>-165.7</b>	<b>337.5</b>	<b>1,237.3</b>	<b>-68.7</b>
central bank	-0.1	3.0	-0.1	-1.5			-1.6	3.0	-0.1
government sector				-88.4	-13.3	-565.0	-88.4	-13.3	-565.0
credit institutions	47.8	148.5	-50.6	429.4	208.9	374.1	477.2	357.4	323.5
other sectors	-548.2	122.6	147.7	498.5	767.6	25.2	-49.7	890.2	172.9
<b>Short-term capital</b>	<b>-1,473.7</b>	<b>-823.6</b>	<b>-733.1</b>	<b>1,962.1</b>	<b>2,818.7</b>	<b>651.7</b>	<b>488.4</b>	<b>1,995.1</b>	<b>-81.4</b>
central bank	-186.5	106.8	-64.5	-8.7	1,515.8	-478.0	-195.2	1,622.6	-542.5
government sector	95.3	154.2	-686.1				95.3	154.2	-686.1
credit institutions	-398.7	-1,220.6	336.4	1,378.5	1,528.5	966.8	979.8	307.9	1,303.2
other sectors	-983.8	136.0	-318.9	592.3	-225.6	162.9	-391.5	-89.6	-156.0

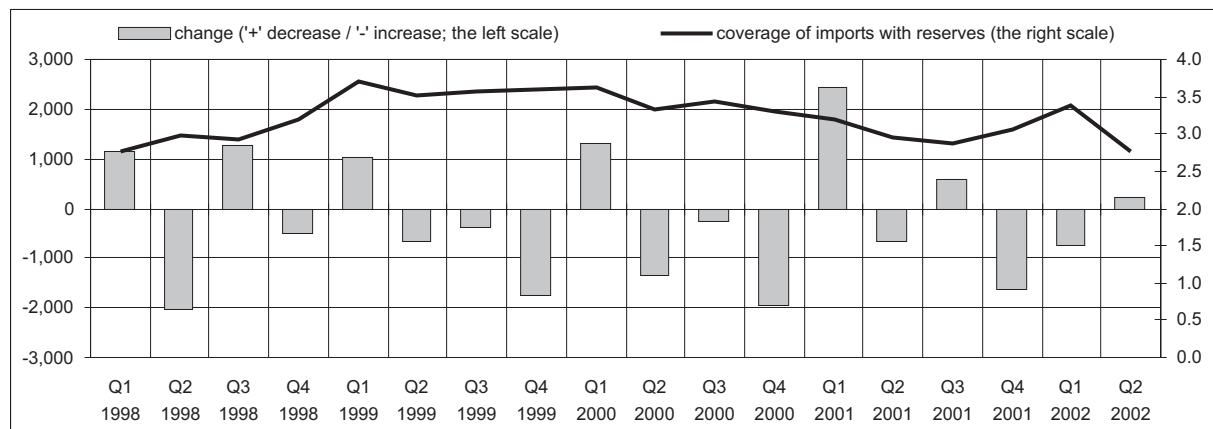
0.7 billion kroons. Trade credit liabilities and other liabilities increased as well, by 0.8 and 0.7 billion kroons, respectively. The cause of the capital outflow was the repayment of loans to non-residents by the central bank, the government and companies of the other sector in the total sum of 1.8 billion kroons.

## RESERVES

The inflow of capital into the capital and financial account did not cover the current account deficit in the second quarter and, thus, the balance of payments was negative and the gold and foreign currency reserves of Eesti Pank decreased by 226 million kroons (see Table 20). As the import of goods increased quarter-on-quarter, the coverage of imports with reserves decreased (see Figure 21).

**Table 20. Structure of reserves change**

	EEK m			Share (%)		
	Q2 2001	Q1 2002	Q2 2002	Q2 2001	Q1 2002	Q2 2002
Gold	0.0	0.0	0.0	0.0	0.0	0.0
Cash and deposits	-351.1	-890.8	943.4	51.8	117.8	417.6
Securities	-325.8	135.1	-717.3	48.1	-17.9	-317.5
Equity securities				0.0	0.0	0.0
Debt securities	59.7	515.3	-891.5	-8.8	-68.2	-394.6
Money market instruments	-385.5	-380.2	174.2	56.9	50.3	77.1
Other claims	-0.8	-0.4	-0.2	0.1	0.1	-0.1
<b>Total</b>	<b>-677.7</b>	<b>-756.1</b>	<b>225.9</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

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

## ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND EXTERNAL DEBT AS OF 30 JUNE 2002

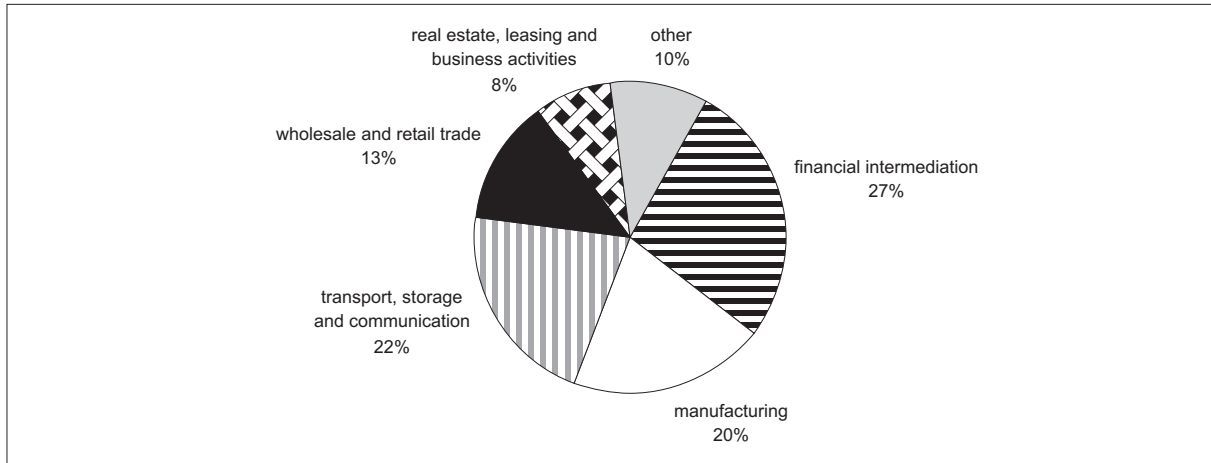
By the end of the second quarter of 2002 the total volume of foreign investments made into Estonia stood at 120 billion kroons, of which 51.3% or 61.3 billion kroons were direct investments that do not contribute to the external debt (see Table 21). Major FDI areas have been finance (27% of FDI),

**Table 21. Estonia's international investment position (EEK m)<sup>1</sup>**

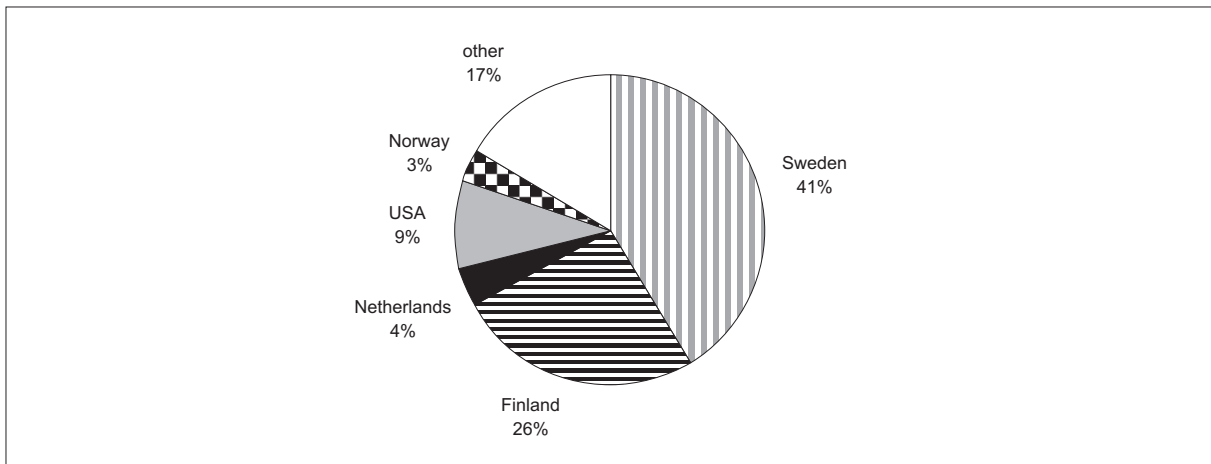
	31.03.02	%	30.06.02	%
<b>EXTERNAL ASSETS</b>				
<b>Direct investments abroad</b>	<b>8,051.6</b>	<b>13.8</b>	<b>8,945.1</b>	<b>15.1</b>
share capital and reinvested income	5,187.1	8.9	5,494.0	9.3
other capital	2,864.5	4.9	3,451.1	5.8
<b>Portfolio investments abroad</b>	<b>8,825.6</b>	<b>15.1</b>	<b>8,675.1</b>	<b>14.6</b>
equity securities	419.8	0.7	389.4	0.7
debt securities	8,405.8	14.4	8,285.7	14.0
long-term	5,194.4	8.9	5,255.2	8.9
short-term	3,211.4	5.5	3,030.5	5.1
<b>Financial derivatives</b>	<b>158.6</b>	<b>0.3</b>	<b>175.4</b>	<b>0.3</b>
<b>Other investments abroad</b>	<b>25,952.0</b>	<b>44.4</b>	<b>26,677.5</b>	<b>45.0</b>
trade credit	5,083.0	8.7	5,317.7	9.0
loans	10,399.1	17.8	8,828.7	14.9
long-term	3,752.3	6.4	3,649.9	6.2
short-term	6,646.8	11.4	5,178.8	8.7
deposits	10,084.6	17.3	11,594.3	19.6
other assets	385.3	0.7	936.8	1.6
<b>Reserves</b>	<b>15,436.8</b>	<b>26.4</b>	<b>14,772.9</b>	<b>24.9</b>
<b>TOTAL EXTERNAL ASSETS</b>	<b>58,424.6</b>	<b>100.0</b>	<b>59,246.0</b>	<b>100.0</b>
<b>EXTERNAL LIABILITIES</b>				
<b>Direct investments into Estonia</b>	<b>62,252.4</b>	<b>52.7</b>	<b>61,349.0</b>	<b>51.3</b>
share capital and reinvested income	49,894.8	42.3	48,542.7	40.6
other capital	12,357.6	10.5	12,806.3	10.7
<b>Portfolio investments into Estonia</b>	<b>14,972.1</b>	<b>12.7</b>	<b>17,060.3</b>	<b>14.3</b>
equity securities	8,853.9	7.5	9,413.3	7.9
debt securities	6,118.2	5.2	7,647.0	6.4
long-term	6,059.4	5.1	7,590.1	6.4
short-term	58.8	0.0	56.9	0.0
<b>Financial derivatives</b>	<b>110.8</b>	<b>0.1</b>	<b>118.1</b>	<b>0.1</b>
<b>Other investments into Estonia</b>	<b>40,754.9</b>	<b>34.5</b>	<b>40,981.7</b>	<b>34.3</b>
trade credit	6,276.6	5.3	7,163.4	6.0
loans	22,379.8	19.0	20,303.6	17.0
long-term	16,555.1	14.0	16,459.2	13.8
short-term	5,824.7	4.9	3,844.4	3.2
deposits	9,440.0	8.0	10,215.3	8.5
other liabilities	2,658.5	2.3	3,299.4	2.8
<b>TOTAL EXTERNAL LIABILITIES</b>	<b>118,090.2</b>	<b>100.0</b>	<b>119,509.1</b>	<b>100.0</b>
<b>NET INTERNATIONAL INVESTMENT POSITION</b>	<b>-59,665.6</b>		<b>-60,263.1</b>	
short-term	3,379.0		887.5	
long-term	-63,044.6		-61,150.6	

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

transport, storage and communication (22%) and manufacturing (20%; see Figure 22). The bulk of direct investments came from Sweden (42%) and Finland (26%; see Figure 23).

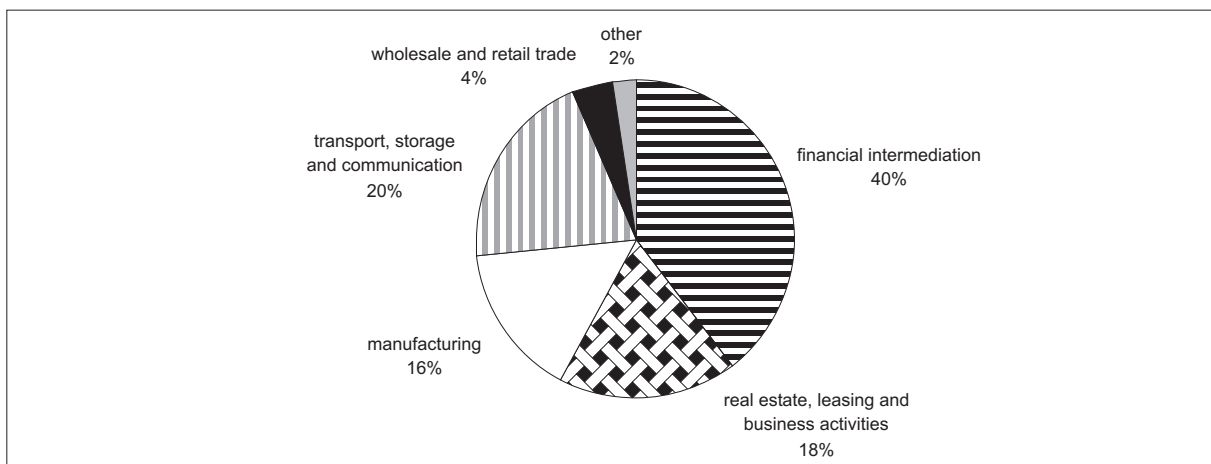


**Figure 22. Direct investment position in Estonia by spheres of activity as of 30 June 2002**



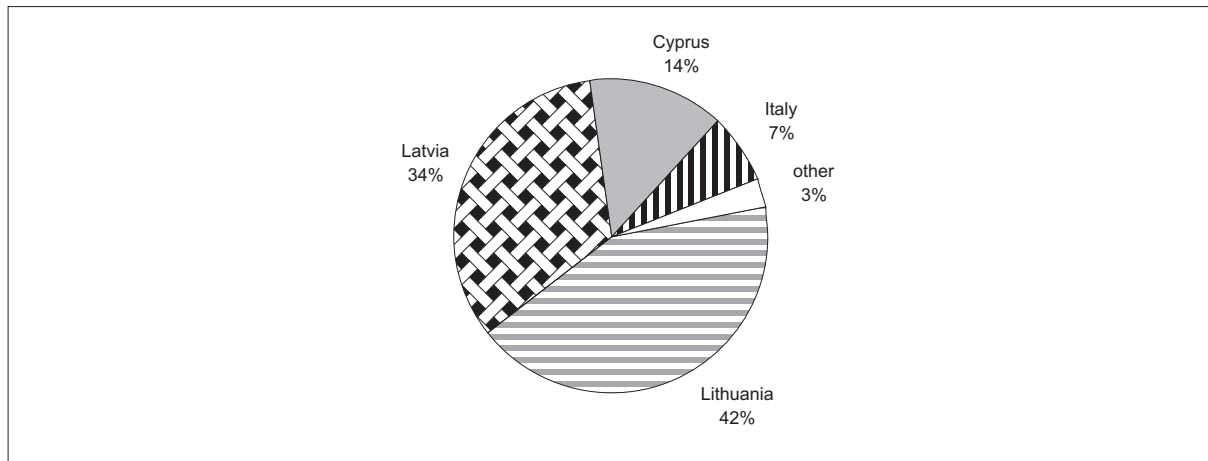
**Figure 23. Direct investment position in Estonia by countries as of 30 June 2002**

Besides direct investments, Estonia has attracted a considerable amount of other investments (loans, deposits, etc; 34.3%) and portfolio investments (14.3%). In the second quarter, the biggest increase occurred in portfolio investments, with capital placed into equity and long-term debt securities.



**Figure 24. Estonia's direct investment position abroad by spheres of activity as of 30 June 2002**

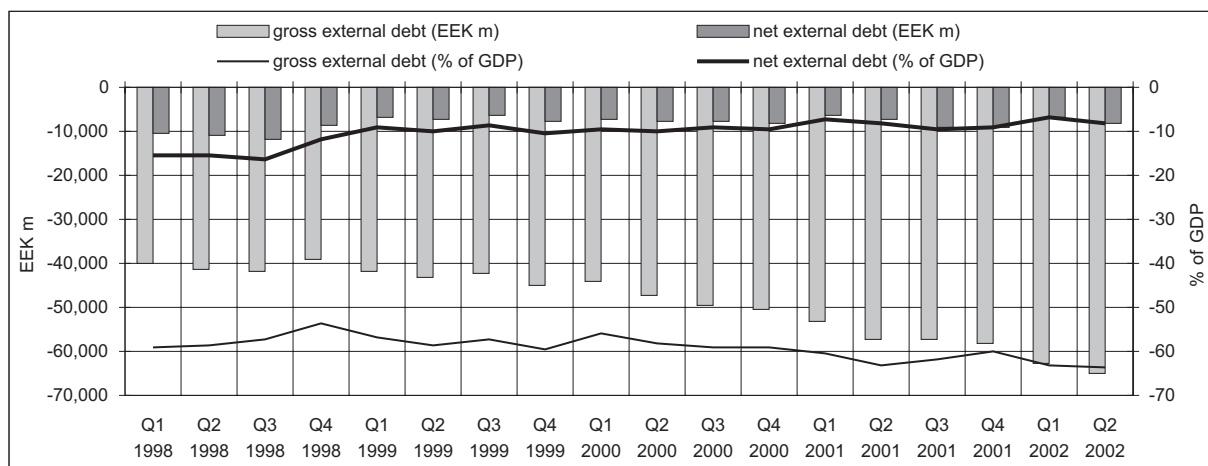
**Estonian investments into foreign countries amounted to 59.2 billion kroons by the end of the second quarter.** The bulk of it was made up of loans, deposits and the gold and foreign currency reserves of the central bank. Direct investments accounted for 15% of the total volume of investments made abroad. Estonian investors preferred such sectors as finance (40% of all investments made abroad), transport, storage and communication (20%) and real estate, leasing and business services (18%; see Figure 24). By countries, the majority of direct investments were made into Lithuania (42%) and Latvia (34%; see Figure 25).



**Figure 25. Estonia's direct investment position abroad by countries as of 30 June 2002**

**Due to the predominance of external liabilities Estonia's net investment position at the end of the second quarter was negative by 60.3 billion kroons.**

**On 30 June, Estonia's total external debt amounted to 64.9 billion kroons (64% of the GDP of the past 12 months) and the net external debt (external debt claims minus external debt liabilities) stood at 8.3 billion kroons (8.2% of the GDP of the past 12 months; see Table 22).** The dynamics of Estonia's total foreign debt and net foreign debt can be seen from Figure 26.



**Figure 26. Estonia's gross and net external debt (EEK m, the left scale) and % of GDP (the right scale)**

Table 22. External debt (EEK m)

	31.03.02	%	30.06.02	%
<b>DEBT LIABILITIES</b>				
<b>Short-term</b>	<b>23,009.1</b>	<b>36.8</b>	<b>23,374.0</b>	<b>36.0</b>
Government sector	0.0	0.0	0.0	0.0
Central bank	1,636.4	2.6	915.8	1.4
Credit institutions	12,692.1	20.3	13,678.6	21.1
Other sectors	8,680.6	13.9	8,779.6	13.5
<b>Long-term</b>	<b>39,584.5</b>	<b>63.2</b>	<b>41,489.5</b>	<b>64.0</b>
Government sector	2,976.5	4.8	3,766.6	5.8
Central bank	0.0	0.0	0.0	0.0
Credit institutions	8,836.0	14.1	9,228.9	14.2
Other sectors	27,772.0	44.4	28,494.0	43.9
<b>GROSS EXTERNAL DEBT</b>	<b>62,593.6</b>	<b>100.0</b>	<b>64,863.5</b>	<b>100.0</b>
<b>CLAIMS</b>				
<b>Short-term</b>	<b>40,788.5</b>	<b>72.9</b>	<b>40,776.1</b>	<b>72.1</b>
Government sector	2,289.1	4.1	2,923.7	5.2
Central bank	15,399.5	27.5	14,734.7	26.0
Credit institutions	13,460.0	24.0	13,146.2	23.2
Other sectors	9,639.9	17.2	9,971.5	17.6
<b>Long-term</b>	<b>15,188.2</b>	<b>27.1</b>	<b>15,797.5</b>	<b>27.9</b>
Government sector	1,254.3	2.2	1,721.9	3.0
Central bank	14.1	0.0	12.8	0.0
Credit institutions	1,150.6	2.1	1,175.8	2.1
Other sectors	12,769.2	22.8	12,887.0	22.8
<b>CLAIMS TOTAL</b>	<b>55,976.7</b>	<b>100.0</b>	<b>56,573.6</b>	<b>100.0</b>
<b>NET EXTERNAL DEBT</b>				
<b>Short-term</b>	<b>17,779.4</b>		<b>17,402.1</b>	
Government sector	2,289.1		2,923.7	
Central bank	13,763.1		13,818.9	
Credit institutions	767.9		-532.4	
Other sectors	959.3		1,191.9	
<b>Long-term</b>	<b>-24,396.3</b>		<b>-25,692.0</b>	
Government sector	-1,722.2		-2,044.7	
Central bank	14.1		12.8	
Credit institutions	-7,685.4		-8,053.1	
Other sectors	-15,002.8		-15,607.0	
<b>NET EXTERNAL DEBT TOTAL</b>	<b>-6,616.9</b>		<b>-8,289.9</b>	

## INTERNATIONAL TRANSACTIONS OF CUSTOMERS VIA THE ESTONIAN BANKING SYSTEM

### Number and Turnover of Transactions

The number of international payments<sup>3</sup> increased quarter-on-quarter and this concerned both incoming and outgoing payments (see Table 23 and Figure 27). The number of incoming payments increased at a faster rate, climbing 16% as compared to the first quarter. The number of outgoing payments increased by 12%. The number of payments increased also year-on-year, with incoming payments up 11% and outgoing payments 8%.

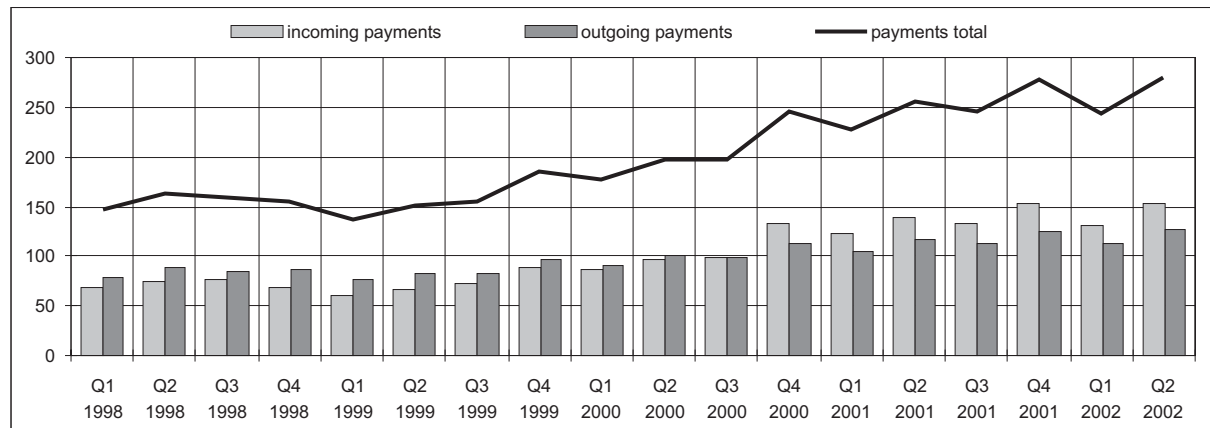
In the second quarter of 2002, the turnover of international payments of the customers of commercial banks increased by more or less the same amount as in the previous quarter and the respective quarter of

<sup>3</sup> International payments do not contain transactions between residents only and between non-residents only.



**Table 23. Number of international payment transactions**

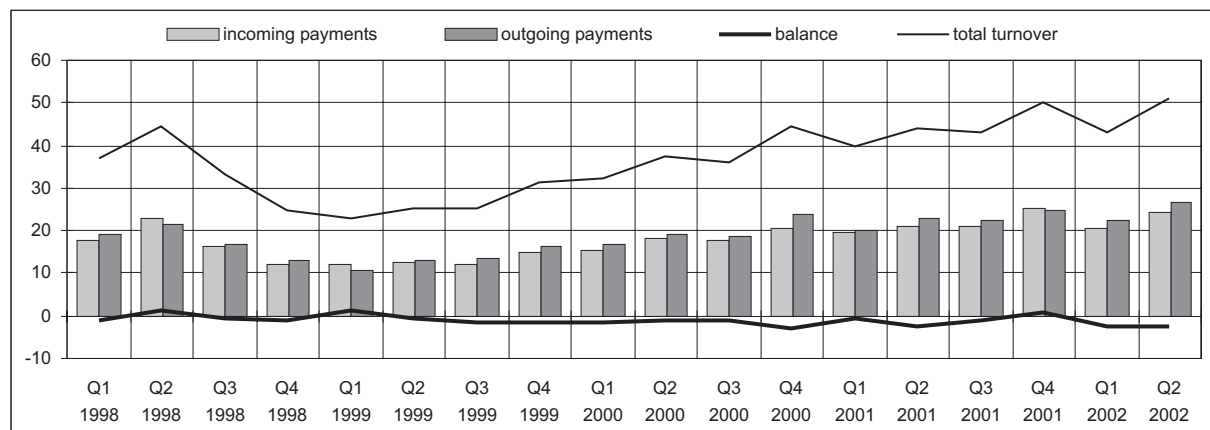
	In thousands			Change (%)	
	Q2 2001	Q1 2002	Q2 2002	Q2 2002/ Q1 2002	Q2 2002/ Q2 2001
Incoming payments	138.2	131.6	153.2	16.5	10.9
Outgoing payments	116.6	112.5	126.3	12.3	8.3
<b>Total</b>	<b>254.8</b>	<b>244.1</b>	<b>279.0</b>	<b>14.3</b>	<b>9.5</b>


**Figure 27. Number of international payment transactions (in thousands)**

2001. The turnover of incoming payments grew by 20% and that of outgoing payments by 19% against the first quarter; the annual growth was 17 and 16%, respectively (see Table 24 and Figure 28). The average size of incoming payments was 159,300 kroons; the average size of outgoing payments was 212,500 kroons (in the first quarter of 2002, 154,400 and 201,200 kroons, respectively).

**Table 24. Turnover of international payment transactions**

	EEK billion			Change (%)	
	Q2 2001	Q1 2002	Q2 2002	Q2 2002/ Q1 2002	Q2 2002/ Q2 2001
Incoming payments	20.9	20.3	24.4	20.1	17.0
Outgoing payments	23.1	22.6	26.8	18.6	16.1
<b>Total</b>	<b>44.0</b>	<b>42.9</b>	<b>51.2</b>	<b>19.5</b>	<b>16.5</b>


**Figure 28. Turnover and balance of international payment transactions (EEK billion)**

### Use of Currencies<sup>4</sup>

In the turnover ranking of major currencies used by Estonian credit institutions for international payments in the second quarter of 2002 the share of the euro increased by three percentage points against the first quarter, accounting for 46% of the total turnover (see Figures 29 and 30). The rise of the euro reduced the share of the US dollar in international payments (37%) by one percentage point and the share of the Estonian kroon (9%) by two percentage points. The share of other major currencies remained unchanged against the first quarter. The share of the Swedish krona amounted to 3% of the total turnover and the share of both the British pound and the Russian rouble was 1%. The share of other currencies combined remained stable at 3%.

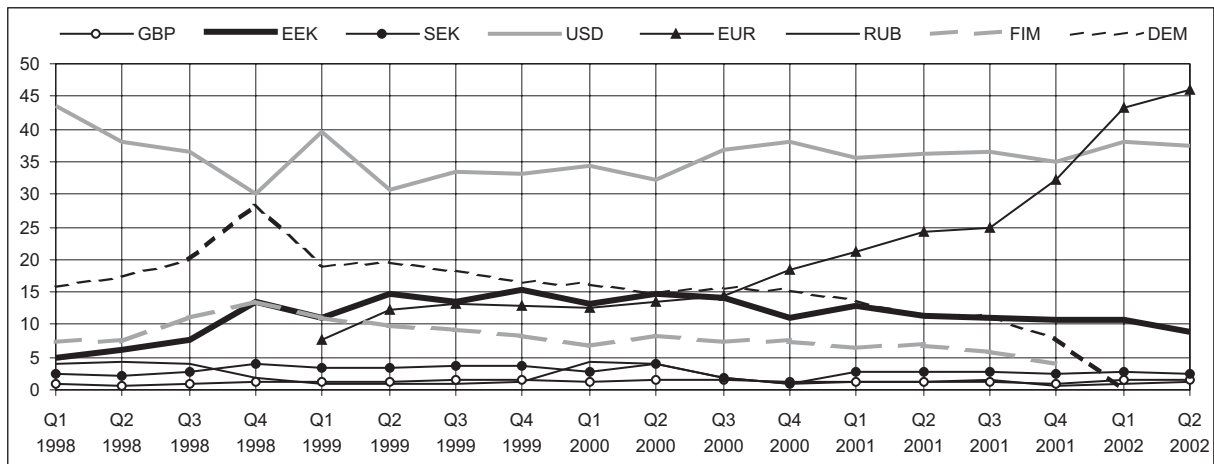


Figure 29. Currencies used in international payment transactions (%)

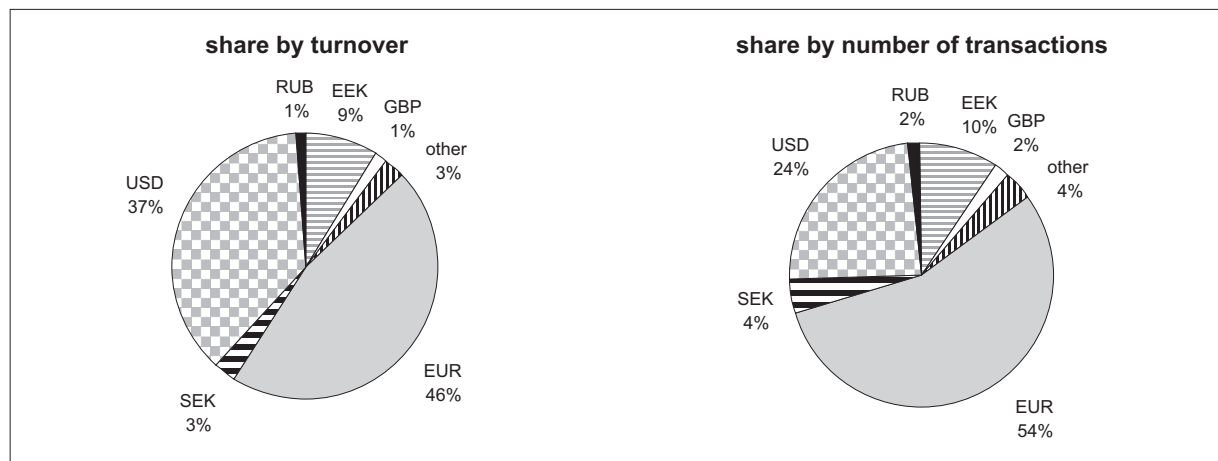


Figure 30. Use of major currencies by turnover and number of international payments

The number of payments made in the euro increased to 55% of the total number and like in the turnover, the share of the euro was up three percentage points quarter-on-quarter. The share of the US dollar (24%) dropped by two percentage points and the share of the Estonian kroon (10%) fell by one percentage point. The share of other currencies in the number of transactions remained unchanged, with the Swedish krona used in 4% of payments, the Russian rouble and the British pound in 2% of payments. The combined share of the rest of the currencies was 4%.

<sup>4</sup> The analysis of transactions by currencies does not reflect payments below 100,000 kroons as these are given only in the Estonian kroons in the statistics of Eesti Pank and their inclusion would thus considerably distort the general picture.