

SHORT SURVEY

- Due to the weak export demand and strong import demand, the current account deficit of Estonia's 2002 preliminary balance of payments more than doubled year-on-year, both in absolute terms as well as in relation to the expected GDP, amounting to 13.3 billion kroons and 12.5%, respectively (see Table 1 and Figure 1).
- The sudden increase of the deficit resulted from the growth of the foreign trade deficit and the decrease of the surplus of the services balance.
- The current account deficit was fully covered by the surplus of the capital and financial account and reserves increased by nearly one billion kroons.
- In 2002 the structure of financing the current account deficit changed – while in previous years it was mostly covered from direct investments then in 2002 the share of direct investments decreased and the share of portfolio and other investments increased.

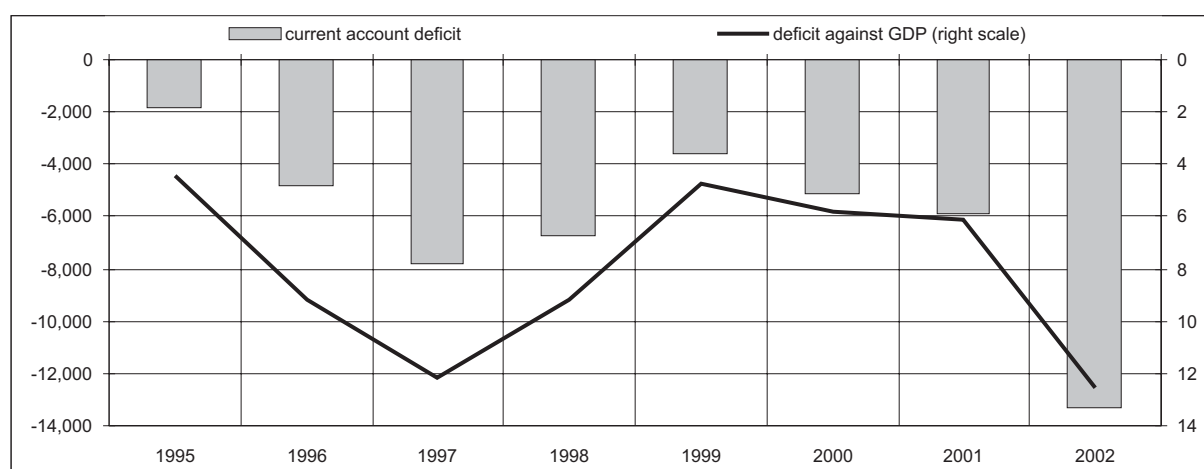


Figure 1. Balance of current account (EEK m)

The deficit of the main component of the **CURRENT ACCOUNT** – **foreign trade balance** – increased by approximately one billion kroons in every quarter of 2002 and by nearly five billion kroons by the end of the year, amounting to 18.5 billion kroons or 17.4% of the GDP (14.3% in 2001). Persisting high domestic demand and weakness of Estonia's main trade partners resulted in the 1.5% decline in the export of goods and the 5.3% increase of their import. These changes were caused by the reduction of the share of processed goods in both export and import (a slight increase was registered in the fourth quarter) and were mostly related to the recession in the world electronics industry. At the same time, normal export (export without goods processed in Estonia) increased by 9.4%. The growth occurred in all groups of goods, especially in the export of transport vehicles, timber and timber products and mineral products. By end consumption, the export of capital goods increased the most. Import of goods for free circulation

Table 1. Estonian balance of payments (EEK m)

	1998	1999	2000	2001	2002				
	Total	Total	Total	Q1	Q1	Q2	Q3	Q4	Total
Current account	-6,760.2	-3,607.7	-5,093.4	-5,889.5	-3,423.4	-2,749.9	-2,754.9	-4,393.5	-13,321.7
Trade and services balance	-7,676.2	-3,755.4	-3,569.0	-3,623.7	-2,489.4	-2,029.2	-2,341.2	-3,571.0	-10,430.8
Trade balance	-15,725.5	-12,096.9	-13,143.6	-13,783.9	-3,905.7	-4,874.3	-4,797.3	-4,940.3	-18,517.6
Goods: export f.o.b	37,786.3	36,995.2	56,345.9	58,667.1	13,153.4	14,712.2	14,121.5	15,818.4	57,805.5
Goods: import f.o.b	-53,511.8	-49,092.1	-69,489.5	-72,451.0	-17,059.1	-19,586.5	-18,918.8	-20,758.7	-76,323.1
Services: net	8,049.3	8,341.5	9,574.6	10,160.2	1,416.3	2,845.1	2,456.1	1,369.3	8,086.8
Services: credit	20,804.0	21,951.9	25,485.8	28,866.5	6,887.4	9,267.5	8,743.4	7,875.7	32,774.0
Services: debit	-12,754.7	-13,610.4	-15,911.2	-18,706.3	-5,471.1	-6,422.4	-6,287.3	-6,506.4	-24,687.2
Income: net	-1,164.0	-1,505.8	-3,483.4	-4,926.1	-1,503.8	-1,290.7	-973.1	-1,571.9	-5,339.5
Income: credit	1,871.8	1,964.3	2,008.0	2,994.7	636.9	743.1	1,239.5	650.5	3,270.0
Income: debit	-3,035.8	-3,470.1	-5,491.4	-7,920.8	-2,140.7	-2,033.8	-2,212.6	-2,222.4	-8,609.5
Transfers: net	2,080.0	1,653.5	1,959.0	2,660.3	569.8	570.0	559.4	749.4	2,448.6
Transfers: credit	2,424.2	2,257.5	2,454.8	3,174.1	798.2	836.4	785.1	960.3	3,380.0
Transfers: debit	-344.2	-604.0	-495.8	-513.8	-228.4	-266.4	-225.7	-210.9	-931.4
Capital and financial account	6,869.8	5,916.6	7,512.1	5,507.0	3,960.0	2,228.3	2,507.1	4,871.2	13,566.6
Capital account	25.2	17.8	278.5	90.0	138.0	46.1	121.2	15.4	320.7
Financial account	6,844.6	5,898.8	7,233.6	5,417.0	3,822.0	2,182.2	2,385.9	4,855.8	13,245.9
Direct investments	7,989.7	3,208.2	5,601.4	5,901.3	1,733.1	170.6	25.3	1,190.1	3,119.1
Abroad	-81.7	-1,239.8	-1,043.1	-3,528.3	-315.0	-888.5	-680.7	-152.8	-2,037.0
Into Estonia	8,071.4	4,448.0	6,644.5	9,429.6	2,048.1	1,059.1	706.0	1,342.9	5,156.1
Portfolio investments	-23.4	156.0	1,837.4	1,664.0	-1,064.9	2,129.1	1,981.1	701.3	3,746.6
Assets	-127.9	-1,894.9	573.0	228.8	-1,107.2	83.5	-1,445.5	546.4	-1,922.8
Equity securities	500.8	187.0	53.3	236.5	-5.4	74.5	-52.4	46.3	63.0
Debt securities	-628.7	-2,081.9	519.7	-7.7	-1,101.8	9.0	-1,393.1	500.1	-1,985.8
Liabilities	104.5	2,050.9	1,264.4	1,435.2	42.3	2,045.6	3,426.6	154.9	5,669.4
Equity securities	401.1	3,292.3	-538.8	568.4	315.7	517.0	-103.6	226.6	955.7
Debt securities	-296.6	-1,241.4	1,803.2	866.8	-273.4	1,528.6	3,530.2	-71.7	4,713.7
Financial derivatives (net)*			17.5	-34.7	-3.5	-10.9	-0.1	-49.2	-63.7
Other investments	-1,121.7	2,534.6	-222.7	-2,113.6	3,157.3	-106.6	379.6	3,013.6	6,443.9
Assets	-2,480.2	-1,651.2	-2,819.3	-5,201.8	-646.0	-669.4	2,301.0	-1,105.5	-119.9
Long-term	-786.5	421.8	-1,108.7	-322.7	274.1	95.9	-1,055.1	-362.0	-1,047.1
Short-term	-1,693.7	-2,073.0	-1,710.6	-4,879.1	-920.1	-765.3	3,356.1	-743.5	927.2
Liabilities	1,358.5	4,185.8	2,596.6	3,088.2	3,803.3	562.8	-1,921.4	4,119.1	6,563.8
Long-term	1,258.4	1,691.5	-549.9	1,814.4	963.2	-161.3	-890.9	2,327.2	2,238.2
Short-term	100.1	2,494.3	3,146.5	1,273.8	2,840.1	724.1	-1,030.5	1,791.9	4,325.6
Errors and omissions	16.8	-511.3	-148.2	-347.7	118.8	295.7	274.1	-6.7	681.9
Overall balance	126.4	1,797.6	2,270.5	-730.2	655.4	-225.9	26.3	471.0	926.8
Reserve assets	-126.4	-1,797.6	-2,270.5	730.2	-655.4	225.9	-26.3	-471.0	-926.8

* Until 1999, financial derivatives were included in portfolio investments

(normal import) increased by 13%, with the import of capital goods and goods of intermediate consumption growing faster than the import of consumer goods. Estonia's main foreign trade partners were the EU member countries, the share of which fell from 70% to 67% in the foreign trade turnover, due to the drop in the volume of processed goods.

While the surplus of the **services balance** has so far been growing with every year, then in 2002 it dropped by 25%, amounting to 8.1 billion kroons (see Figure 2). In many previous years the surplus of the services balance accounted for more than 70% of the trade balance deficit, but in 2002 this indicator was just 44%. The decrease of the surplus was caused by the 33% growth of the services import, as compared to the 13.5% growth in their export. Three fourths of the turnover of the balance was made up of transport and travel services. The decrease of the surplus of the services balance, in essence, happened on the account of the marginal construction services where the 0.8 billion kroons surplus of 2001 was replaced by the 0.9 billion kroons deficit. Import of construction services intensified at the end of the year and this was related to the reconstruction work in the energy and transport sector.

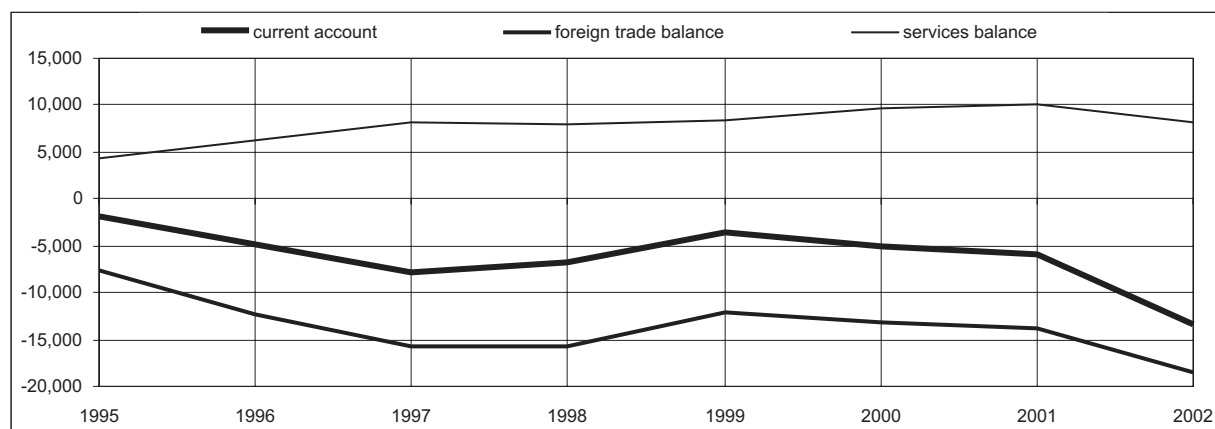


Figure 2. Comparison of the current account, foreign trade balance and services balance of the Estonian balance of payments (in f.o.b prices, EEK m)

Intensive net outflow of **income** stabilised in 2002, amounting to 5.3 billion kroons, which is 0.4 billion kroons more than in 2001. The increase of net outflow resulted from larger payments of dividends and undistributed profits to foreign direct investors, presumably due to changes in the income tax legislation concerning the taxation of dividends that came into force in 2003.

The surplus of the **transfers balance** was approximately the same as in 2001 and made up 2.4 billion kroons. A large part of it consisted of government transfers related to preparations for EU membership.

The surplus of the **CAPITAL AND FINANCIAL ACCOUNT** was record large – 13.6 billion kroons or nearly 2.5 times larger than in 2001. Unlike in previous years when the surplus of the financial account was mainly formed from direct investments, the 2002 surplus resulted from a more intensive inflow of other investments and portfolio investments.

The net inflow of **direct investments** amounted to 3.1 billion kroons, which is nearly a half smaller than in 2001. Non-residents made 5.2 billion kroons worth of direct investments into Estonia and Estonian residents invested 2 billion kroons into foreign countries.

The bulk of direct investments (62%) consisted of the increase of undistributed profit, an indication of continuing profitability of investments made into Estonia. The decline of direct investments was affected by the fall in the inflow of share capital and loan capital. The slow-down of share capital growth was, in turn, related to the reduction of share capital in a number of businesses. The bulk of foreign direct investments came from Finland and Sweden and the most popular sectors were finance, transport, storage and communication.

The proportion of share and loan capital fell in the structure of direct investments made by residents into foreign countries, while the share of undistributed profit increased. Investments were mostly made into Lithuania, Cyprus and Latvia and mainly in such sectors as finance, transport, storage and communication.

The net inflow of **portfolio investments** amounted to 3.7 billion kroons, which is more than double as compared to 2001. Capital inflow was mostly based on the successful floating of debt securities on foreign financial markets by some companies of the other sector and credit institutions (4.65 billion kroons). Capital outflow in the form of portfolio investments mostly resulted from the increased investments of the government sector into foreign debt securities.

The inflow of **other investments** was record large and exceeded their outflow by 6.6 billion kroons. The inflow consisted mostly of the growth of short-term liabilities to non-residents. Claims remained unchanged in 2002.

Among the changes in the **general economic indices of the balance of payments** (see Table 2) the relative strengthening of the Estonian kroon can be pointed out besides other factors that affected the decrease of export and increase of import. The export-import ratio that had improved in recent years has now fallen back to the level of 1999.

Table 2. Internationally comparable general indicators of the balance of payments

	1995	1996	1997	1998	1999	2000	2001	2002
Foreign trade turnover (% of GDP)	113.6	106.7	123.9	124.2	112.8	144.2	135.8	126.2
Export of goods to import of goods (%)	71.8	64.1	67.1	70.7	75.4	81.4	80.8	75.8
Nominal effective exchange rate of the kroon (% against the previous year)	125.3	100.0	97.2	108.8	117.1	97.3	101.3	102.1
Real effective exchange rate of the kroon (December 1992=100%)	128.6	141.0	145.7	160.8	172.6	166.0	169.3	174.4
Terms of trade*	107.4	107.7	108.8	108.8	107.9	112.6	118.4	112.2
Overall balance of the balance of payments (change of external reserves; EEK m)	1,200.4	1,228.4	2,771.3	126.4	1,797.6	2,270.5	-730.2	926.8
Ratio of the external reserves change to GDP	2.9	2.3	4.3	0.2	2.4	2.6	-0.8	0.9
Current account balance (EEK m)	-1,810.6	-4,806.9	-7,810.2	-6,760.2	-3,607.7	-5,093.4	-5,889.5	-13,321.7
Current account without government transfers (EEK m)	-2,964.4	-5,812.2	-9,143.0	-8,314.5	-5,022.8	-6,609.3	-8,072.8	-15,366.7
Current account deficit without government transfers (% of GDP)	7.4	11.1	14.3	11.3	6.6	7.6	8.4	14.5
Government transfers (net, EEK m)	1,153.8	1,005.3	1,332.8	1,554.3	1,415.1	1,515.9	2,183.3	2,045.0
Government transfers (% of GNP)	2.8	1.9	2.1	2.1	1.9	1.8	2.4	2.0
Estonia's total external debt (% of GDP)		35.8	57.4	53.3	58.7	58.0	60.1	65.5
External debt servicing (% of total exports)	1.2	3.3	1.6	1.2	1.1	1.3	1.0	1.6

* Export to price indices

Goods

Under continuing global recession, Estonian export was unable to overcome the slump in 2002. **Although the export of goods increased by 12% in the fourth quarter of 2002 as compared to the last quarter, the annual export dropped by 1.5% year-on-year and amounted to 57.8 billion kroons** (see Table 3). **The import of goods continued in the conditions of high domestic demand: import for free circulation grew by nearly 10% in the fourth quarter and by 5.3% year-on-year, amounting to 76 billion kroons.** Foreign trade deficit increased by 4.7 billion kroons year-on-year and reached the record level of 18.5 billion kroons. Export under the **special trade statistics**¹ was 56.9 billion kroons, import in c.i.f. prices was 79.5 billion kroons and trade deficit 22.6 billion kroons (see Figure 3).

Decrease of the **goods export** was caused by the nearly 20% decline in the export of **processed goods**, which cut their share in special export by seven percentage points, to 18 billion kroons (see Table 4). Although the fourth quarter of 2002 indicated improvement of the subcontracting industry, the export of processed goods remained weak in the first three quarters of last year.

¹ The analysis below does not contain the 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 analysed 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.

The export of Estonian-assembled mobile communication equipment (**capital goods**) fell particularly sharply, remaining, nevertheless, the biggest article in this group of goods. The export of capital goods also included transformers and electrical and alarm equipment. The bulk of **goods of intermediate consumption** was made up of mobile communication equipment parts and cables. **Consumer goods** processed in Estonia came from the category of textile industry products.

Table 3. Changes in the special export and import of goods

	Special export			Special import			Balance (EEK m)
	Volume ¹ (EEK m)	Change compared to the previous period (%)	Share in total export of goods and services (%)	Volume ¹ (EEK m)	Change compared to the previous period (%)	Share in total import of goods and services (%)	
1995	19,428.2	22.7	66.0	27,043.7	32.3	82.6	-7,615.5
1996	21,833.4	12.4	62.1	34,121.6	26.2	82.8	-12,288.2
1997	31,846.5	45.9	63.4	47,499.3	39.2	82.4	-15,652.8
1998	37,786.3	18.7	64.5	53,511.8	12.7	80.8	-15,725.5
1999	36,995.2	-2.1	62.8	49,092.1	-8.3	78.3	-12,096.9
2000	56,013.0	51.4	68.7	69,506.2	41.6	81.0	-13,493.2
2001	58,667.1	4.7	67.0	72,451.0	4.2	79.5	-13,783.9
2002	57,805.5	-1.5	63.8	76,323.1	5.3	75.6	-18,517.6

* Data of the balance of payments' foreign sub-balance

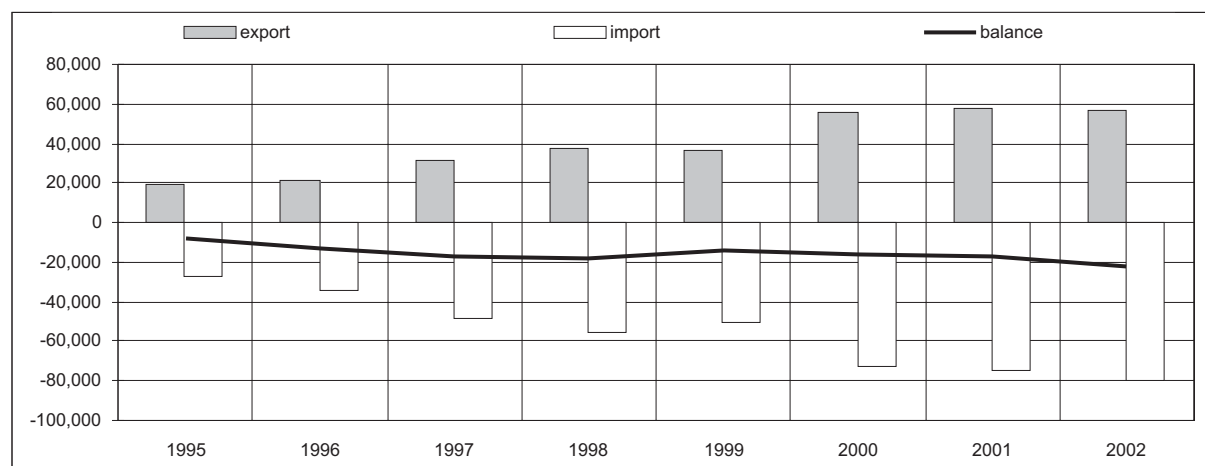


Figure 3. Estonian foreign trade balance (EEK m)

Table 4. Special export by end consumption

	Volume (EEK m)		Share (%)		Change (%)
	2001	2002	2001	2002	2002/2001
Normal export	35,606.6	38,966.1	61.5	68.5	9.4
Capital goods	1,925.9	2,116.2	3.3	3.7	9.9
Goods of intermediate consumption	21,920.1	23,830.2	37.9	41.9	8.7
Consumer goods	11,124.1	12,032.6	19.2	21.2	8.2
Other	636.5	987.1	1.1	1.7	55.1
Export of processed goods	22,249.9	17,897.0	38.5	31.5	-19.6
Capital goods	8,843.5	4,658.2	15.3	8.2	-47.3
Goods of intermediate consumption	9,674.9	9,196.1	16.7	16.2	-4.9
Consumer goods	3,730.3	3,873.8	6.4	6.8	3.8
Other	1.2	168.9	0.0	0.3	13,746.9
Total	57,856.5	56,863.1	100.0	100.0	-1.7

Normal export² increased by more than 9% year-on-year and amounted to 39 billion kroons. Biggest export articles belonged to the group of **goods of intermediate consumption**:

² Normal export – export of goods manufactured in Estonia and belonging to Estonian legal entities; does not include the export of goods brought to Estonia for processing. Normal import – import of goods into Estonia for internal consumption; does not include import of goods for processing.

unprocessed and little processed timber, wooden construction components and prefabricated buildings, car accessories (seatbelts) and metal structures. The export of **consumer goods** included furniture and furniture accessories, fish and dairy products, pharmaceuticals and garments. The export of **capital goods** covered trailers, tractors, lab equipment and various mechanisms.

Import of goods increased by nearly 6% in 2002 (see Table 5), although the import of **processed goods** fell by 16%. Deliveries of mobile communication equipment parts, which belong to the group of **intermediate consumption goods**, fell by more than four times in 2002 and led to the decrease of mobile phones export as well. However, the import of various parts of electrical appliances increased considerably, accounting for 35% of intermediate consumption goods.

Table 5. Special import by end consumption

	Volume (EEK m)		Share (%)		Change (%)
	2001	2002	2001	2002	2002/2001
Normal import	56,279.2	63,580.7	75.0	80.0	13.0
Capital goods	9,801.9	11,136.1	13.1	14.0	13.6
Goods of intermediate consumption	25,278.0	29,535.8	33.7	37.2	16.8
Consumer goods	14,760.9	15,672.4	19.7	19.7	6.2
Other	6,438.3	7,236.4	8.6	9.1	12.4
Import of processed goods	18,797.1	15,886.3	25.0	20.0	-15.5
Capital goods	3,046.9	3,571.0	4.1	4.5	17.2
Goods of intermediate consumption	14,592.5	11,176.5	19.4	14.1	-23.4
Consumer goods	1,154.5	1,082.5	1.5	1.4	-6.2
Other	3.2	56.3	0.0	0.1	1,641.7
Total	75,076.3	79,467.0	100.0	100.0	5.8

Among **capital goods**, mostly goods under the category of machinery and equipment were imported: alarm equipment and other electrical appliances, mobile phones, condensers, microphones. The bulk of imported **consumer goods** was made up of clothing and chemical products.

The year-on-year increase of import was caused by the 13% increase in **normal import** (import for free circulation), which grew across all groups of end consumption. Import of **goods of intermediate consumption** increased the most and constituted the biggest share: parts of motor vehicles and various machinery, natural gas, metal products and iron structures, plastic products, cables, raw wood and wooden sleepers, cotton, etc. Imported **capital goods** included mostly transport vehicles (commercial vehicles, tractors, railway engines, trailers) and machinery and equipment (computers, roadworks machinery, machine-tools, mobile phones). Main articles among **consumer goods** were pharmaceuticals, furniture, food products, textile products and chemical products. Under the so-called **other goods** passenger cars were imported (up 25% year-on-year), as well as fuel.

The **foreign trade deficit** increased by 31% year-on-year and reached 22.6 billion kroons (see Table 6). The surplus of processed goods fell by 1.5 billion kroons, while the deficit of normal export and import increased by 4 billion kroons, mostly due to the growing import of capital goods and goods of intermediate consumption.

Across the groups of countries, export of goods to the European Union decreased by 4%, but increased to the Central and Eastern European countries and the CIS countries (see Table 7). Nevertheless, export to the EU countries accounted for 68% of the total export and even 82% if we include the ten accession countries. Finland, Sweden and Germany were still the top three export partners, accounting for 74% of the export to the EU and half of the total export. Export

Table 6. Foreign trade balance by end consumption (EEK m)

	2001	2002
Balance of normal export and normal import	-20,672.7	-24,614.6
Capital goods	-7,876.0	-9,019.9
Goods of intermediate consumption	-3,358.0	-5,705.6
Consumer goods	-3,636.8	-3,639.8
Other	-5,801.8	-6,249.3
Balance of export and import of processed goods	3,452.9	2,010.8
Capital goods	5,796.6	1,087.3
Goods of intermediate consumption	-4,917.6	-1,980.3
Consumer goods	2,575.8	2,791.3
Other	-2.0	112.5
Total	-17,219.8	-22,603.9

Table 7. Estonian special export by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2001	2002	2001	2002	2002/2001
EU countries	40,181.6	38,625.3	69.5	67.9	-3.9
Central and Eastern European countries	6,842.9	7,732.8	11.8	13.6	13.0
CIS countries	2,586.2	2,882.0	4.5	5.1	11.4
Other	5,955.1	6,344.7	10.3	11.2	6.5
Customs-free zone	2,290.6	1,278.3	4.0	2.2	-44.2
Total	57,856.5	56,863.1	100.0	100.0	-1.7

to Finland decreased by 28% year-on-year (mostly due to the drop in processing of mobile communication equipment), but import to Sweden was up 7% and to Germany by 40%. Latvia and Lithuania dominated among the Central and Eastern European countries, with export to these two neighbouring countries growing by 6% and 15%, respectively. Among the CIS countries, the leading positions belonged to Russia (up 21%) and Ukraine (down 6%). Major partners among other countries included Norway and the USA with a 20% growth in exports. 1.3 billion kroons worth of goods was placed into free trade zones to wait for export.

Import of goods across the groups of countries increased in 2002, with the exception of import from the CIS countries, which remained unchanged against 2001 (see Table 8). The top three partners in the EU were again Finland, Germany and Sweden, and the growth trend was similar to that of export: import from Finland decreased by 18%, import from Germany and Sweden increased by 14 and 11%, respectively. Among the CEE countries, import from Latvia increased by 7% and from Lithuania by 33%. Estonia's trade balance with Latvia had a surplus of nearly one billion kroons, while trade with Lithuania showed a deficit of almost the same size. Leaders among the CIS countries were Russia, Ukraine and Belarus. Major import partners among other countries included Japan, Hong Kong, China and the USA.

Table 8. Estonian special import by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2001	2002	2001	2002	2002/2001
EU countries	52,471.3	53,331.6	69.9	67.1	1.6
Central and Eastern European countries	8,879.2	9,956.4	11.8	12.5	12.1
CIS countries	7,518.9	7,517.6	10.0	9.5	0.0
Other	6,206.9	8,661.4	8.3	10.9	39.5
Total	75,076.3	79,467.0	100.0	100.0	5.8

The **foreign trade balance** was negative for all groups of countries (see Table 9).

Table 9. Foreign trade balance by groups of countries

	2001	2002
EU countries	-12,289.7	-14,706.3
Central and Eastern European countries	-2,036.3	-2,223.6
CIS countries	-4,932.7	-4,635.6
Other	-251.8	-2,316.7
Customs-free zone	2,290.6	1,278.3
Total	-17,219.8	-22,603.9

Services

The surplus of the services balance amounted to 8.1 billion kroons in 2002, down 20% year-on-year (see Figure 4 and Table 10). While in previous years the surplus of the services balance compensated for 50-75% of the foreign trade deficit. Export of services increased by 13.5% year-on-year, import grew by 32%.

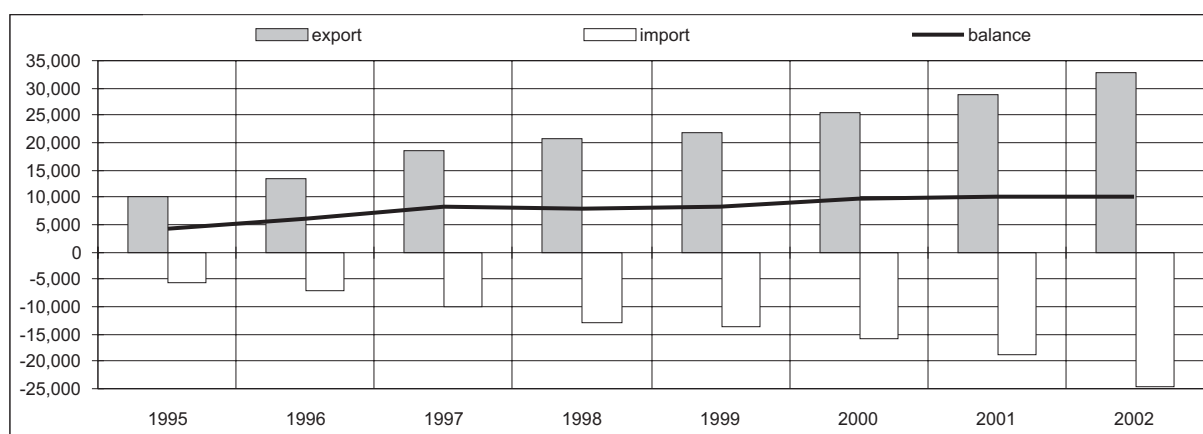


Figure 4. Estonian services balance (EEK m)

Table 10. Services export and import

	Export		Import		Balance	
	Volume (EEK m)	Change compared to the previous period (%)	Volume (EEK m)	Change compared to the previous period (%)	Volume (EEK m)	Change compared to the previous period (%)
1993	4,434.3	81.7	3,437.2	78.2	997.1	95.0
1994	6,657.0	50.1	5,301.3	54.2	1,355.7	36.0
1995	10,022.9	50.6	5,692.6	7.4	4,330.3	219.4
1996	13,352.8	33.2	7,107.8	24.9	6,245.0	44.2
1997	18,366.7	37.5	10,134.0	42.6	8,232.7	31.8
1998	20,804.0	13.3	12,754.8	25.9	8,049.2	-2.2
1999	21,951.9	5.5	13,610.4	6.7	8,341.5	3.6
2000	25,485.8	16.1	15,911.2	16.9	9,574.6	14.8
2001	28,866.5	13.3	18,706.3	17.6	10,160.2	6.1
2002	32,774.0	13.5	24,687.2	32.0	8,086.8	-20.4

The main change in the structure of the **services balance** concerned the 0.9 billion kroons deficit of construction services, which replaced the 0.8 billion kroons surplus of 2001 (see Table 11). Other major categories of services changed little.

Table 11. Services balance by major categories

	Balance (EEK m)		Share (%)	
	2001	2002	2001	2002
Transport services	5,328.6	5,133.7	52.4	63.5
Travel services	5,544.7	5,340.7	54.6	66.0
Construction services	822.1	-919.7	8.1	-11.4
Business services	-128.3	-168.2	-1.3	-2.1
Government services	-1,469.9	-1,418.7	-14.5	-17.5
Other	63.0	119.0	0.6	1.5
Total	10,160.2	8,086.8	100.0	100.0

The only category that indicated above-average growth of export was transport, the most important of services, which increased by 28% (see Table 12). Export of construction, business and government services has decreased year-on-year. Import of construction services increased by four times and import of transport services was up 47% (see Table 13).

Table 12. Services export by major categories

	Volume (EEK m)		Share (%)		Change (%)
	2001	2002	2001	2002	2002/2001
Transport services	13,877.1	17,747.7	48.1	54.2	27.9
o/w freight	6,828.0	10,693.7	23.7	32.6	56.6
passenger	2,700.3	2,979.5	9.4	9.1	10.3
other transport services	4,348.9	4,074.5	15.1	12.4	-6.3
Travel services	8,897.7	9,148.8	30.8	27.9	2.8
Construction services	1,369.1	1,287.5	4.7	3.9	-6.0
Business services	3,390.0	3,226.4	11.7	9.8	-4.8
Government services	155.3	126.8	0.5	0.4	-18.4
Other	1,177.2	1,236.8	4.1	3.8	5.1
Total	28,866.5	32,774.0	100.0	100.0	13.5

Table 13. Services import by major categories

	Volume (EEK m)		Share (%)		Change (%)
	2001	2002	2001	2002	2002/2001
Transport services	8,548.5	12,614.0	45.7	51.1	47.6
o/w freight	6,365.9	10,058.9	34.0	40.7	58.0
passenger	1,073.7	1,223.1	5.7	5.0	13.9
other transport services	1,108.9	1,332.0	5.9	5.4	20.1
Travel services	3,353.0	3,808.1	17.9	15.4	13.6
Construction services	547.0	2,207.2	2.9	8.9	303.5
Business services	3,518.3	3,394.6	18.8	13.8	-3.5
Government services	1,625.2	1,545.5	8.7	6.3	-4.9
Other	1,114.3	1,117.8	6.0	4.5	0.3
Total	18,706.3	24,687.2	100.0	100.0	32.0

Export and import of **transport services** increased faster than the total export and import of services (see Figure 5), with the volume of cargo transport growing at a particularly rapid rate (export was up 57% and import 58%). The export of cargo transport by rail increased by 5.7 times, import climbed 3.6 times. Road transport, however, has decreased.

The growth of **travel services** export was very small in 2002, just 2.8% (see Figure 6). The number of foreign tourists visiting Estonia decreased by 1%, whereas the length of visits increased by 9%. The cross section of tourists has changed – fewer visitors came from Finland, the CIS countries and the USA, while the number of visitors from Scandinavia and the EU increased. Given the numerous discounts related to the 2002 slump in the tourism industry and increasing purchasing

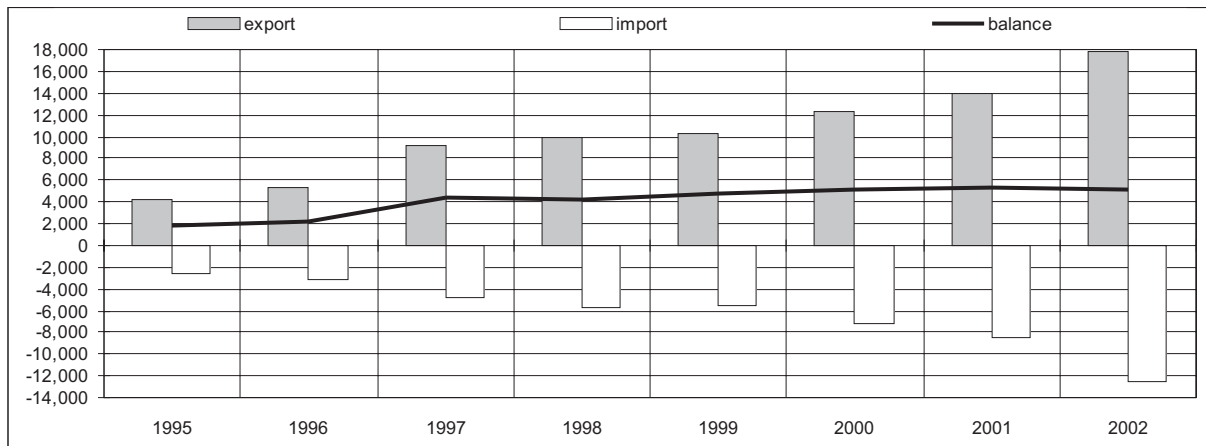


Figure 5. Transport services balance (EEK m)

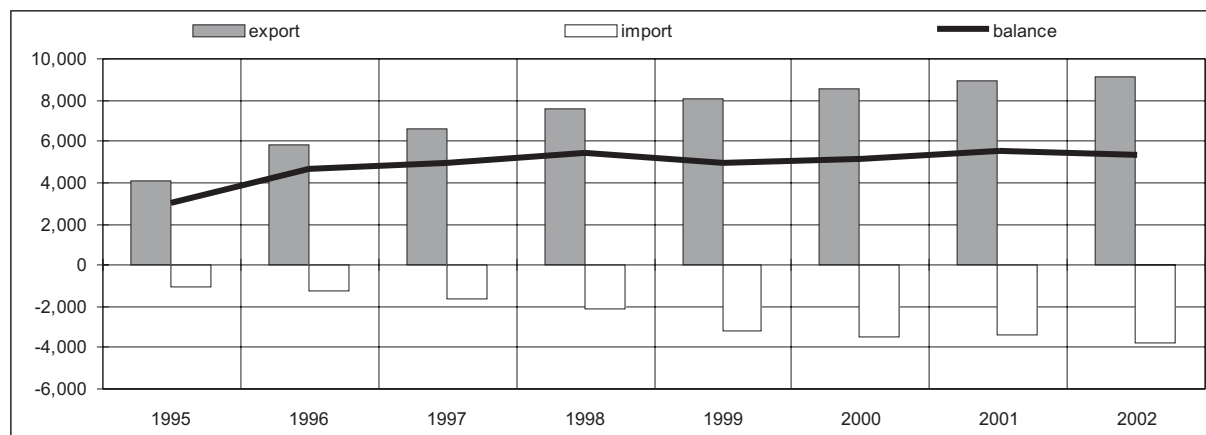


Figure 6. Travel services balance (EEK m)

power of Estonian residents, the import of travel services increased by 13.6%. Discount offers by airlines took Estonians to far-away destinations that involved higher expenses. The most popular destinations besides the neighbouring countries included Spain, Italy, Great Britain and the USA.

Income

The deficit of the income balance was 5.3 billion kroons in 2002, up 8.4% year-on-year (see Table 14 and Figure 7). The bulk of the increase resulted from the net outflow of direct investment income, which grew by 12.1%. The growth of the net outflow was caused by larger payment of dividends and undistributed profits to foreign direct investors, probably due to the income tax amendment that came into force in 2003 and concerned taxation of dividends. The growth of income outflow was slowed down by the decrease in the outflow of other investment income (loan and deposit interests, etc) and increase in the net inflow of employee compensation income.

Inflow of income into Estonia increased by 0.3 billion kroons in 2002 (9.2%). Inflow of income from direct investments made into foreign countries doubled, making up 25% of the total inflow of income (see Table 15). Income from compensations paid to Estonians working abroad increased as well (75%). **Outflow of income** from Estonia increased by 8.7% and amounted to 8.6 billion kroons (see Table 16).

Table 14. Estonian income balance (EEK m)

	Balance (EEK m)		Share (%)		Change (%)
	2001	2002	2001	2002	2002/2001
Income from direct investments	-4,965.0	-5,565.8	100.8	104.2	12.1
o/w income from equity	-4,751.0	-5,329.5	96.4	99.8	12.2
income from debt (interests)	-214.0	-236.3	4.3	4.4	10.4
Income from portfolio investments	458.7	485.6	-9.3	-9.1	5.9
Income from other investments	-512.3	-423.4	10.4	7.9	-17.4
Other income	92.5	164.1	-1.9	-3.1	77.4
Total	-4,926.1	-5,339.5	100.0	100.0	8.4

**Figure 7. Estonia's income balance (EEK m)****Table 15. Inflow of income into Estonia**

	Balance (EEK m)		Share (%)		Change (%)
	2001	2002	2001	2002	2002/2001
Income from direct investments	456.4	831.5	15.2	25.4	82.2
o/w income from equity	349.1	723.5	11.7	22.1	107.2
income from debt (interests)	107.3	108.0	3.6	3.3	0.7
Income from portfolio investments	1,621.4	1,435.3	54.1	43.9	-11.5
Income from other investments	808.2	812.4	27.0	24.8	0.5
Other income	108.7	190.8	3.6	5.8	75.5
Total	2,994.7	3,270.0	100.0	100.0	9.2

Table 16. Outflow of income from Estonia

	Volume (EEK m)		Share (%)		Change (%)
	2001	2002	2001	2002	2002/2001
Income from direct investments	-5,421.4	-6,397.3	68.4	74.3	18.0
o/w income from equity	-5,100.1	-6,053.0	64.4	70.3	18.7
income from debt (interests)	-321.3	-344.3	4.1	4.0	7.2
Income from portfolio investments	-1,162.7	-949.7	14.7	11.0	-18.3
Income from other investments	-1,320.5	-1,235.8	16.7	14.4	-6.4
Other income	-16.2	-26.7	0.2	0.3	64.8
Total	-7,920.8	-8,609.5	100.0	100.0	8.7

Transfers

The surplus of the transfers balance stood at 2.4 billion kroons in 2002, decreasing by 0.2 billion kroons year-on-year. The surplus of the government transfers decreased due to the debit

growth. The debit and credit of private transfers have increased considerably over the year (by 22 and 61%, respectively), but the surplus decreased only a little.

CAPITAL AND FINANCIAL ACCOUNT

The surplus of the capital and financial account amounted to 13.6 billion kroons in 2002. A survey of the structure of the financial account by categories and terms is given in Figures 8 and 9.

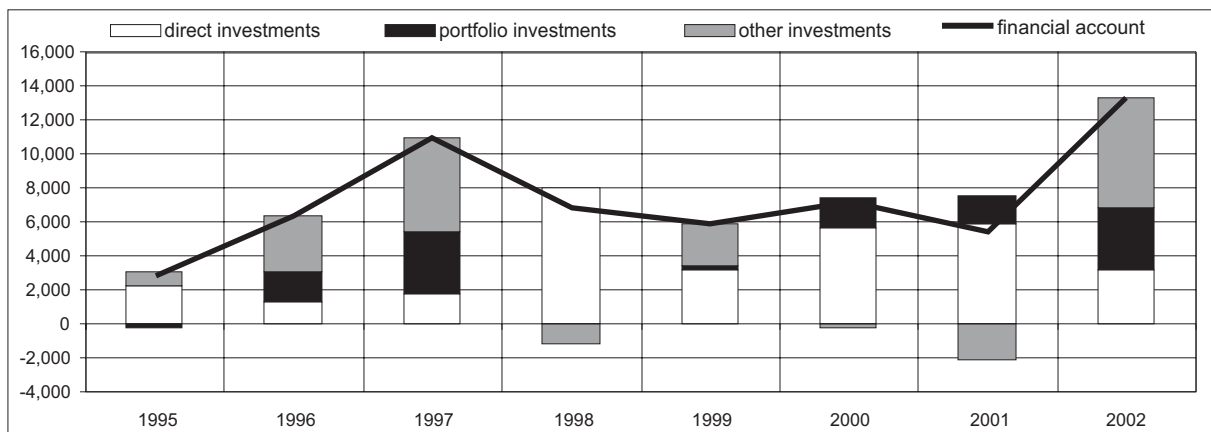


Figure 8. Changes in the structure of foreign investment capital flows (EEK m)

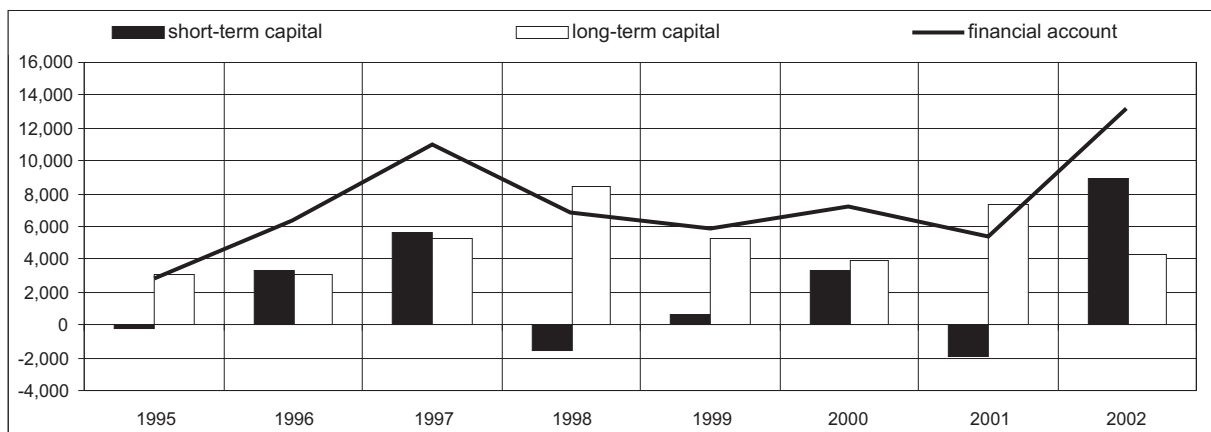


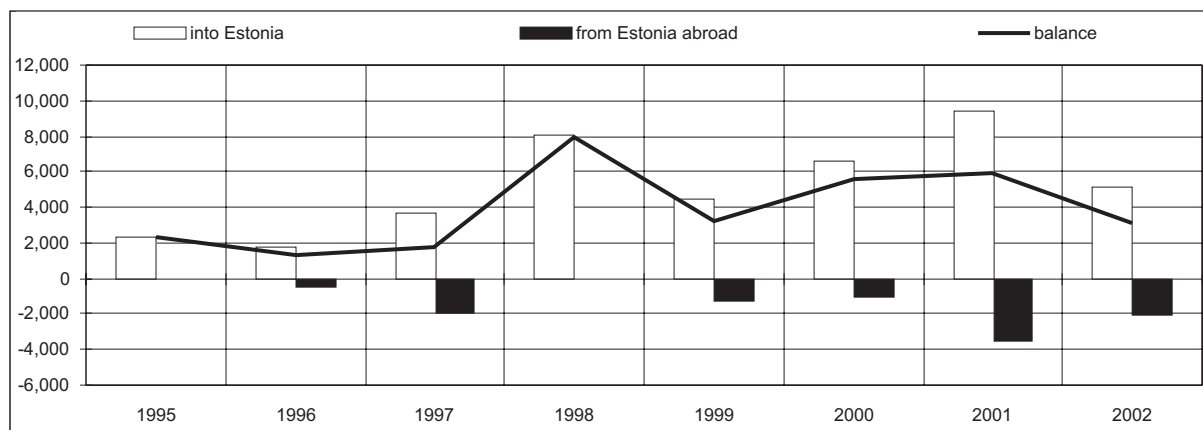
Figure 9. The maturity structure of financial sources (EEK m)

Direct Investments

The balance of direct investments had a surplus of 3.1 billion kroons in 2002, which is only half of the net inflow of direct investments in 2001. Non-residents invested 5.2 billion kroons into Estonia and Estonian residents' direct investments in foreign countries increased by 2 billion kroons (see Table 17 and Figure 10). A quarter of the current account deficit was covered by the net inflow of direct investments.

Table 17. Outflow of income from Estonia

	Into Estonia				Abroad			
	EKK m		Share (%)		EEK m		Share (%)	
	2001	2002	2001	2002	2001	2002	2001	2002
Share capital	3,641.2	1,376.0	38.6	26.7	-1,897.1	-668.5	53.8	32.8
Inflow	4,955.5	3,296.9	52.6	63.9	288.5	68.1	-8.2	-3.3
Outflow	-1,314.3	-1,920.9	-13.9	-37.3	-2,185.6	-736.6	61.9	36.2
Reinvested income	3,878.9	3,214.2	41.1	62.3	-305.2	-656.3	8.7	32.2
Claims	-4,095.4	-4,815.0	-43.4	-51.1	-522.1	-810.2	-5.5	-8.6
Liabilities	7,974.3	8,029.2	84.6	85.1	216.9	153.9	2.3	1.6
Loan capital (net)	1,892.3	415.1	20.1	8.1	-1,322.4	-685.2	37.5	33.6
Trade credit	-474.1	-628.1	-5.0	-12.2	-164.7	-129.6	4.7	6.4
Short-term loans	1,215.9	422.0	12.9	8.2	-569.4	-320.4	16.1	15.7
Long-term loans	1,150.5	621.2	12.2	12.0	-588.3	-235.2	16.7	11.5
Other capital	17.2	150.8	0.2	2.9	-3.6	-27.0	0.1	1.3
Total	9,429.6	5,156.1	100.0	100.0	-3,528.3	-2,037.0	100.0	100.0

**Figure 10. Direct investments (EEK m)**

The inflow of direct investments into Estonia fell by half year-on-year. However, we have to keep in mind that the year 2001 was a record one as far as inflow of direct investments was concerned. In 2002, non-residents invested 90% of long-term financial investments into equity capital, of which 70% consisted of undistributed profits belonging to non-residents. At the same time, an extensive withdrawal of owner's income took place, testifying to Estonia's favourable investment climate.

Dividend payments were affected by the amendment of the Income Tax Act that took effect in 2003 and concerned taxation of dividends. Income was mostly reinvested to the manufacturing, while transport, storage and communication firms preferred dividend payments. Compared to equity capital investments, transfers of loan capital were small. In the fourth quarter of 2002 both short- and long-term loans were repaid. The net inflow of other direct investment capital increased by 0.6 billion kroons, with loan capital liabilities growing by more than 1.1 billion kroons (see Figure 11).

Three fourths of direct investment inflow came from Finland and Sweden; in case of Dutch investments a considerable flow-back occurred (see Figure 12). 83% of the net inflow of direct investments originated from the EU member countries, while the share of investments from countries invited to join the EU in 2004 amounted to just 2%. Finance, transport, storage and communication were the most preferred sectors, whereas direct investments into energy, gas and water supply companies decreased considerably (see Figure 13).

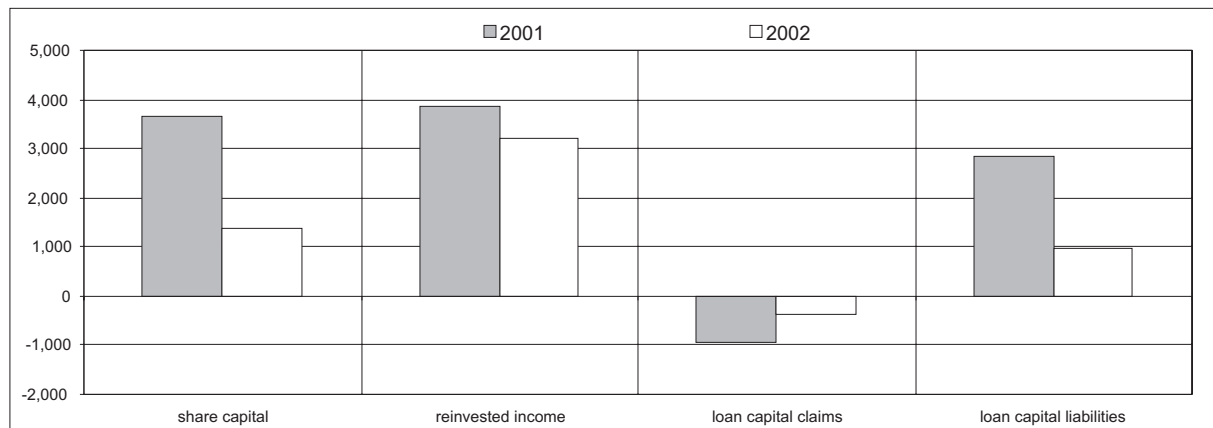


Figure 11. Structure of direct investments made into Estonia (EEK m)

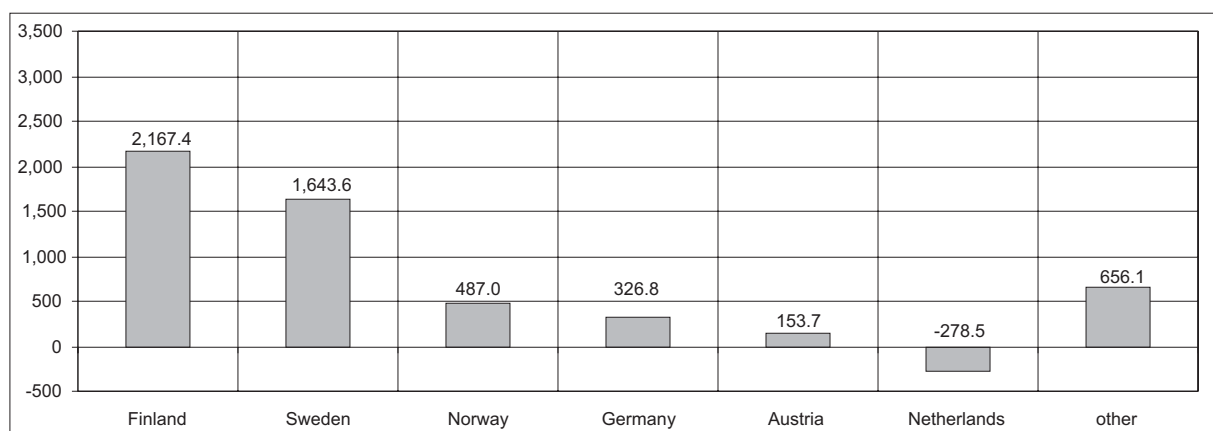


Figure 12. Structure of direct investments made into Estonia by countries in 2002 (EEK m)

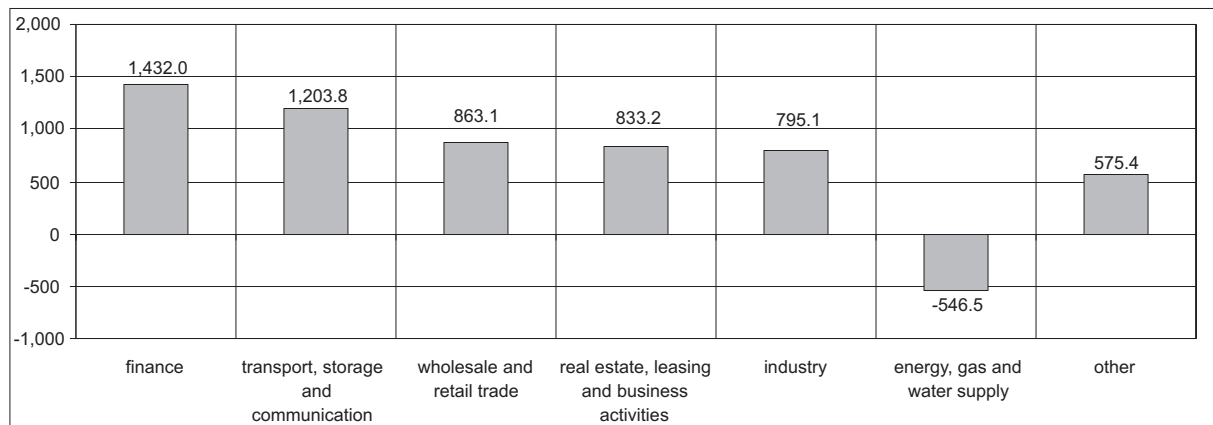


Figure 13. Structure of direct investments made into Estonia by spheres of activity in 2002 (EEK m)

Direct investments abroad by Estonian businesses dropped by three fourths year-on-year. Almost equal amounts were invested into the share capital of affiliated/associated companies and loan capital and the value of investments calculated under the equity method increased (reinvested income). An extensive return of long-term loan capital took place in the fourth quarter (0.3 billion kroons), similarly to direct investments made in Estonia. Year-on-year, claims on affiliated/associated companies abroad increased across all loan instruments (see Figure 14).

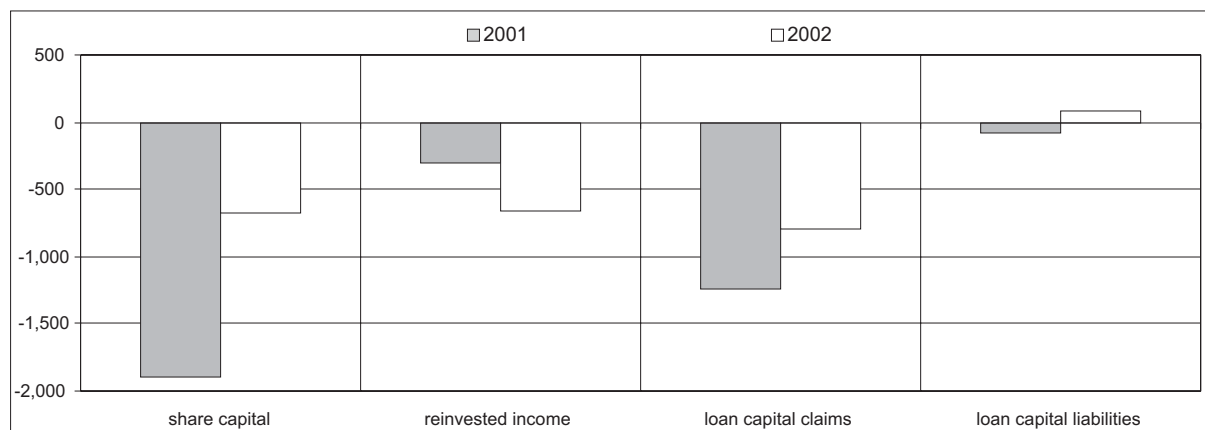


Figure 14. Structure of direct investments made abroad (EEK m)

In 2002, the most preferred investment target was still Lithuania (44% of the total outflow). While previously the second place belonged to affiliated/associated companies in Latvia, then last year Cyprus occupied this place (see Figure 15). A change of places has also occurred in spheres of activity – investments into transport, storage and communication have risen to the top and financial intermediation has dropped to the second place (see Figure 16). The share of direct investments placed into EU members was 2%, whereas 88% of direct investments were made into countries joining the EU in 2004.

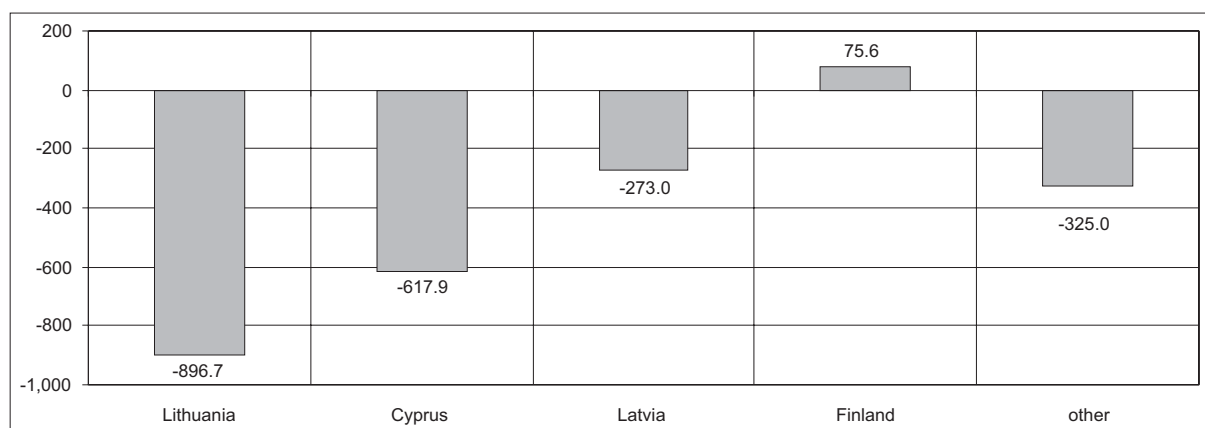


Figure 15. Structure of direct investments made abroad by countries in 2002 (EEK m)

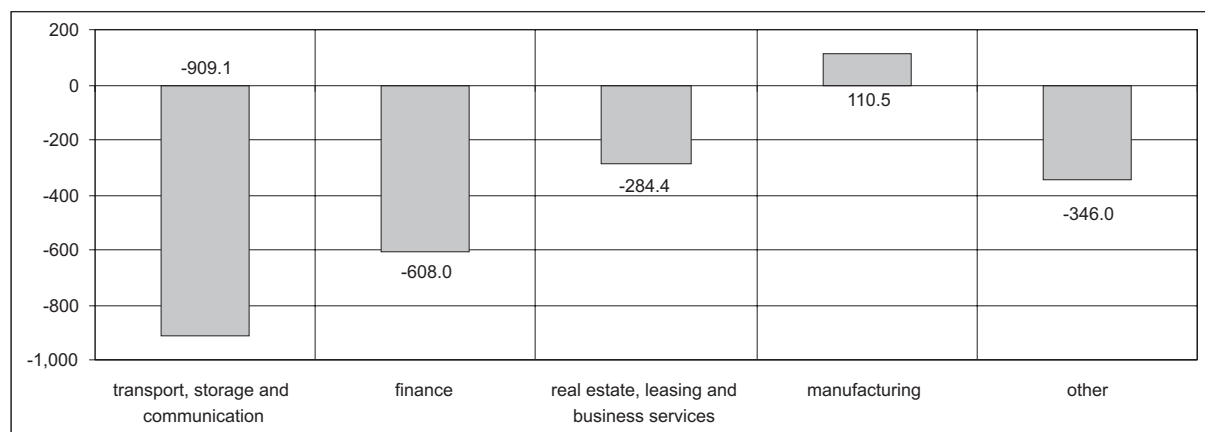


Figure 16. Structure of direct investments made abroad by spheres of activity in 2002 (EEK m)

Portfolio Investments

The net inflow of **portfolio investments** amounted to 3.7 billion kroons in 2002, more than doubling year-on-year (see Figure 17 and Table 18). This form of investment inflow was an important source of finance for the Estonian economy last year and can be compared in size to direct investments.

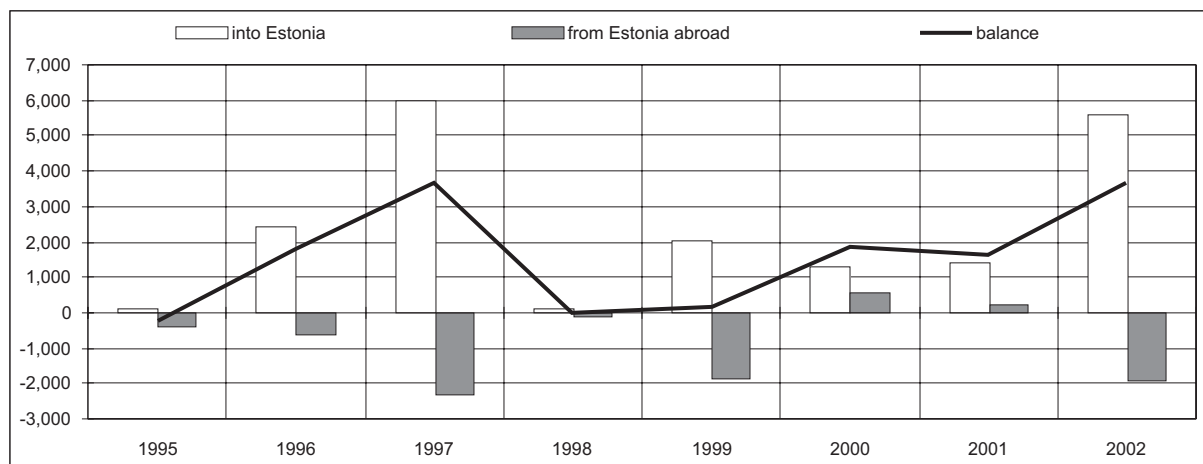


Figure 17. Portfolio investments (EEK m)

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

	Claims		Liabilities		Balance	
	2001	2002	2001	2002	2001	2002
Total portfolio investments	228.8	-1,922.8	1,400.5	5,605.7	1,629.3	3,682.9
o/w equity securities	236.5	63.0	568.4	955.7	804.9	1,018.7
credit institutions	399.1	13.0	429.1	105.7	828.2	118.7
other sectors	-162.6	50.0	139.3	850.0	-23.3	900.0
debt securities	-7.7	-1,985.8	832.1	4,650.0	742.6	2,664.2
central bank	81.8					0.0
government sector	-0.1	-2,105.3	-115.6	1,448.6	-115.7	-656.7
credit institutions	437.0	-56.0	543.0	189.4	980.0	133.4
other sectors	-526.4	175.5	404.7	3,012.0	-121.7	3,187.5

Portfolio investments abroad (claims) increased by 1.9 billion kroons last year, resulting mostly from free resources of the government sector being invested into debt instruments issued by non-residents (2.1 billion kroons). No major changes took place in investments into equity securities.

Portfolio investments into Estonia (liabilities) increased by 5.6 billion kroons year-on-year, with one billion kroons invested into equity securities and 4.6 billion kroons into debt securities. 0.1 billion kroons worth of investments into equity securities were made into credit institutions and 0.9 billion kroons worth into companies of the other sector. Successful bond issues of the government sector and the other sector attracted, respectively, 3.0 billion and 1.5 billion kroons of additional capital to Estonia.

Other Investments

The **balance of other investments** showed a surplus of approximately 6.4 billion kroons in 2002 (see Figure 18 and Table 19), differing considerably from the year 2001 when a capital

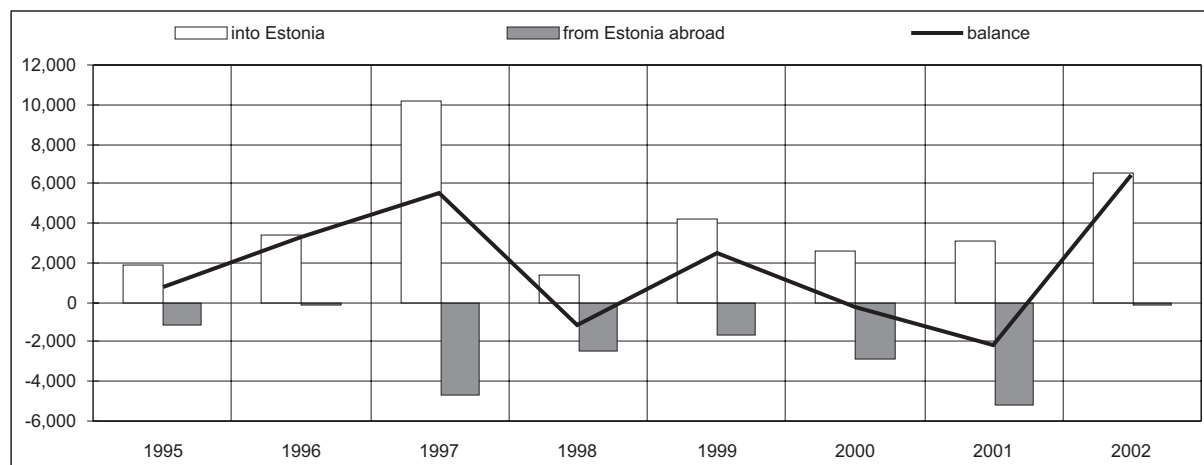


Figure 18. Other investments (EEK m)

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

	Claims		Liabilities		Balance	
	2001	2002	2001	2002	2001	2002
Total	-5,201.8	-119.9	3,088.2	6,563.8	-2,113.6	6,443.9
o/w trade credit	-834.8	1,049.8	-97.1	548.0	-931.9	1,597.8
loans	-2,278.9	-1,338.6	2,570.4	2,027.8	291.5	689.2
deposits	-1,973.1	-99.8	81.4	3,763.5	-1,891.7	3,663.7
other	-115.0	268.7	533.5	224.5	418.5	493.2

outflow of 2.1 billion kroons took place. Capital inflow can be attributed to the remarkable increase of liabilities in the form of growing loan liabilities and larger deposits of non-residents in domestic credit institutions. The inflow of investments mostly took the form of short-term capital (see Table 20).

Table 20. Other investments by maturity (EEK m)

	Claims		Liabilities		Balance	
	2001	2002	2001	2002	2001	2002
Total	-5,201.8	-119.9	3,088.2	6,563.8	-2,113.6	6,443.9
Long-term capital	-322.7	-1,108.1	1,814.4	2,238.2	1,491.7	1,130.1
central bank	3.0	4.8	-2.9		0.1	4.8
government sector		-61.0	-128.2	-883.9	-128.2	-944.9
credit institutions	-130.0	-156.8	183.5	1,638.3	53.5	1,481.5
other sectors	-195.7	-895.1	1,762.0	1,483.8	1,566.3	588.7
Short-term capital	-4,879.1	988.2	1,273.8	4,325.6	-3,605.3	5,313.8
central bank	-202.7	-53.3	-89.2	646.1	-291.9	592.8
government sector	-297.5	-1,083.2			-297.5	-1,083.2
credit institutions	-3,574.7	-345.3	908.2	4,045.4	-2,666.5	3,700.1
other sectors	-804.2	2,470.0	454.8	-365.9	-349.4	2,104.1

Claims of other investments increased by 0.1 billion kroons. The biggest changes concerned loans granted by the other sector, which resulted in the outflow of 1.4 billion kroons, and the decrease of trade credit claims, which caused the inflow of 1 billion kroons. Other claims dropped by 0.3 billion kroons.

Liabilities of other investments increased by 6.6 billion kroons in 2002. In order to meet higher domestic demand, credit institutions have increased their loan liabilities to non-residents

by 2.1 billion kroons; loan liabilities of the other sector grew by 0.5 billion kroons last year. Increased deposits of non-residents in Estonian credit institutions (3.7 billion kroons) have contributed to the growth of liabilities. Only the government sector has reduced its loan liabilities – by 0.8 billion kroons. Trade credit and other liabilities increased by 0.5 billion and 0.2 billion kroons, respectively.

Reserves

Reserves of the balance of payments increased by 927 million kroons in 2002. Coverage of imports with the reserves is illustrated in Figure 19.

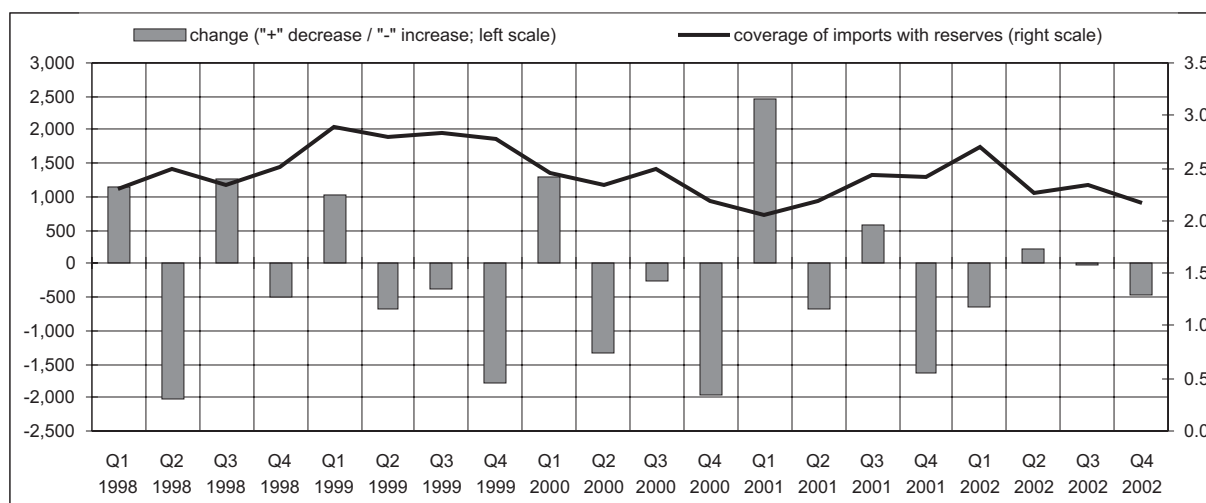


Figure 19. Change of the Estonian gold and foreign currency reserves (EEK m) and the coverage of imports (in quarters)

ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND EXTERNAL DEBT as of 31 December 2002

By the end of 2002, the volume of foreign investments made into Estonia totaled 127 billion kroons. Half of it or 63.1 billion kroons were direct investments, which do not contribute to the external debt (see Table 21).

The bulk of foreign investments have been made into finance (27% of direct investments), transport, storage and communication (23%) and manufacturing (19%; see Figure 20). Nearly 70% of direct investments came from two countries – Sweden (41%) and Finland (27%; see Figure 21).

Besides direct investments, considerable amount of investments have been made into Estonia in the form of other investments (loans, deposits, etc – 34%) and portfolio investments (16%). The last quarter of the year saw particularly intensive inflow of capital in the form of other investments. **Estonian investments into foreign countries amounted to 61 billion kroons by the end of the year.** The majority of it was made up of loans, deposits and the gold and foreign currency

Table 21. Estonian international investment position (EEK m)

	31.12.01	Share (%)	31.12.02	Share (%)	Change
EXTERNAL ASSETS					
Direct investments abroad	7,815.7	15.1	10,008.6	16.4	28.1
share capital and reinvested income	5,058.8	9.8	6,440.2	10.6	27.3
other capital	2,756.9	5.3	3,568.4	5.9	29.4
Portfolio investments abroad	4,637.6	9.0	9,773.6	16.0	110.7
equity securities	398.2	0.8	473.9	0.8	19.0
debt securities	4,239.4	8.2	9,299.7	15.2	119.4
long-term	1,616.2	3.1	6,498.4	10.7	302.1
short-term	2,623.2	5.1	2,801.3	4.6	6.8
Financial derivatives	154.3	0.3	194.2	0.3	25.9
Other investments abroad	24,508.6	47.4	26,032.9	42.7	6.2
trade credit	4,990.4	9.7	4,174.9	6.8	-16.3
loans	9,255.2	17.9	10,672.6	17.5	15.3
long-term	3,955.3	7.7	5,047.0	8.3	27.6
short-term	5,299.9	10.3	5,625.6	9.2	6.1
deposits	9,760.9	18.9	10,604.4	17.4	8.6
other assets	502.1	1.0	581.0	1.0	15.7
Reserves	14,552.5	28.2	14,984.9	24.6	3.0
TOTAL EXTERNAL ASSETS	51668.7	100.0	60994.2	100.0	18.0
incl debt creative assets	49027.6		57407.8		17.1
EXTERNAL LIABILITIES					
Direct investments into Estonia	55,905.3	52.6	63,119.8	49.8	12.9
share capital and reinvested income	43,991.8	41.4	50,972.3	40.2	15.9
other capital	11,913.5	11.2	12,147.5	9.6	2.0
Portfolio investments into Estonia	13,521.2	12.7	20,615.5	16.3	52.5
equity securities	7,129.1	6.7	9,510.9	7.5	33.4
debt securities	6,392.1	6.0	11,104.6	8.8	73.7
long-term	6,334.9	6.0	11,088.4	8.8	75.0
short-term	57.2	0.1	16.2	0.0	-71.7
Financial derivatives	112.1	0.1	88.7	0.1	-20.9
Other investments into Estonia	36,689.9	34.5	42,866.8	33.8	16.8
trade credit	6,131.7	5.8	6,698.8	5.3	9.2
loans	19,853.9	18.7	21,694.7	17.1	9.3
long-term	15,512.9	14.6	17,892.5	14.1	15.3
short-term	4,341.0	4.1	3,802.2	3.0	-12.4
deposits	8,099.9	7.6	11,863.6	9.4	46.5
other liabilities	2,604.4	2.5	2,609.7	2.1	0.2
TOTAL EXTERNAL LIABILITIES	106228.5	100.0	126690.8	100	19.3
incl debt creative liabilities	58006.8	54.6	69684.2	55.0	20.1
NET INTERNATIONAL INVESTMENT POSITION	-54,559.8		-65696.6		20.4
short-term	4,703.3		-5,007.6		
long-term	-59,263.1		-60,689.0		2.4
NET EXTERNAL DEBT	-8979.2		-12276.4		36.7
incl government sector	-1,251.0		3,291.9		

reserve of the central bank. The share of direct investments in the total volume of investments abroad amounted to 16%. Preference was given to such areas as finance (39% of total direct investments abroad), transport, storage and communication (22%), as well as real estate, leasing and business services (18%; see Figure 22). Over 70% of Estonian foreign investments have been made into the Baltic countries – Lithuania (44%) and Latvia (31%; see Figure 23).

Due to the dominance of external liabilities, Estonia's net investment position was negative by 65.7 billion kroons at the end of 2002.

On 31 December 2002, Estonia's gross external debt amounted to 69.7 billion kroons or 65.5% of the expected GDP and net external debt (debt-related external claims minus

liabilities) stood at 12.3 billion kroons or 11.6% of the expected GDP (see Table 22). For the first time the net external debt of the government sector was positive. The dynamics of Estonia's gross and net external debt can be seen in Figure 24.

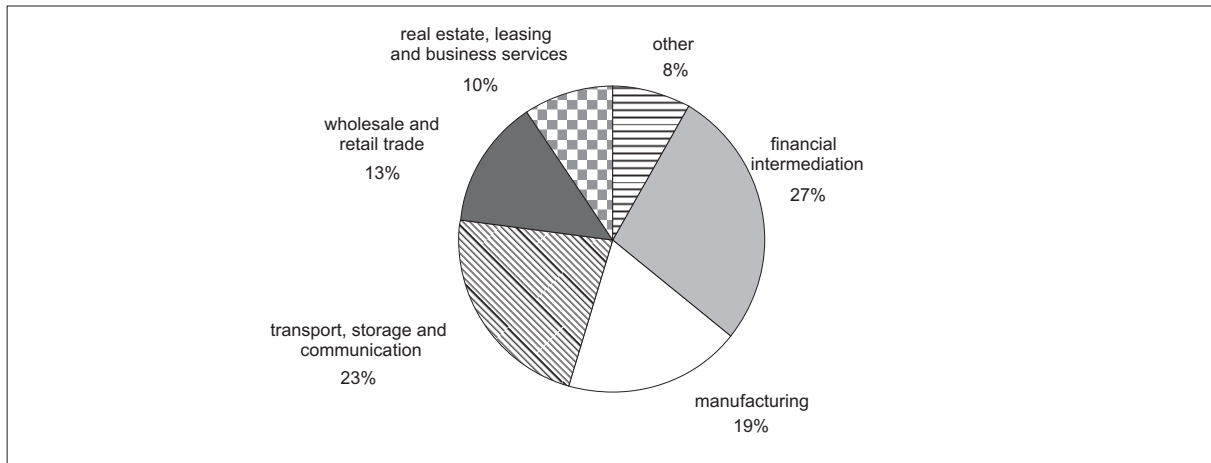


Figure 20. Direct investment position in Estonia by spheres of activity as of 31 December 2002

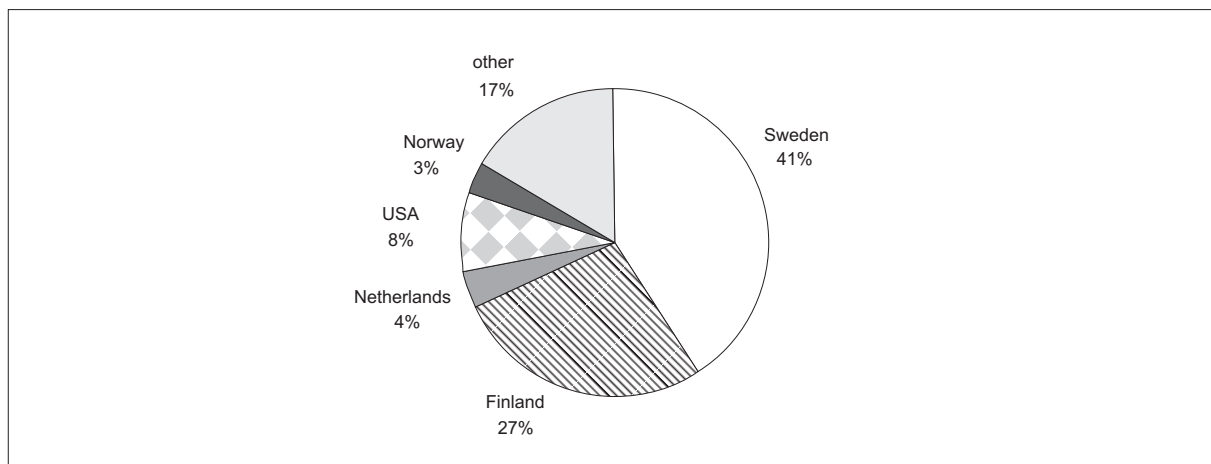


Figure 21. Direct investment position in Estonia by countries as of 31 December 2002

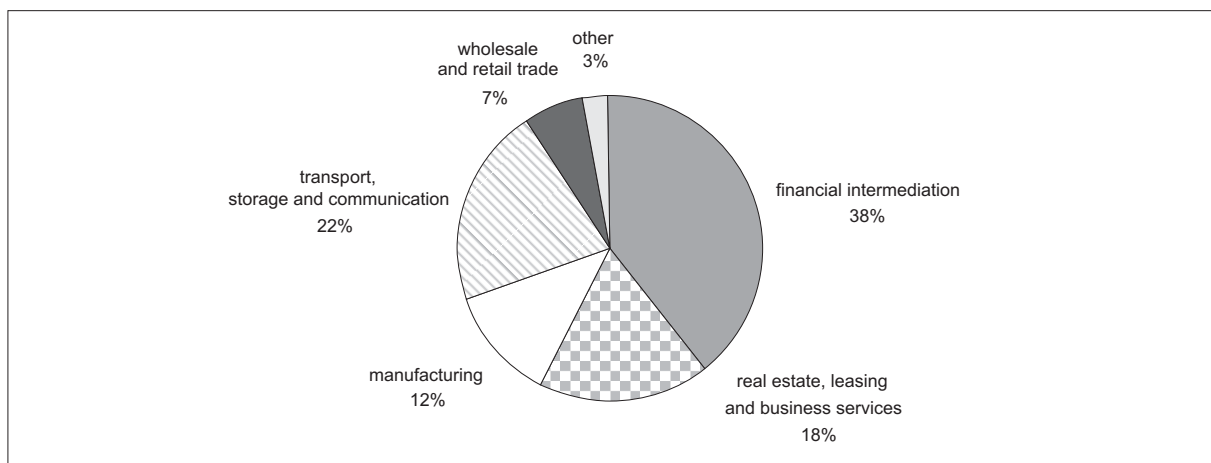


Figure 22. Estonian direct investment position abroad by spheres of activity as of 31 December 2002

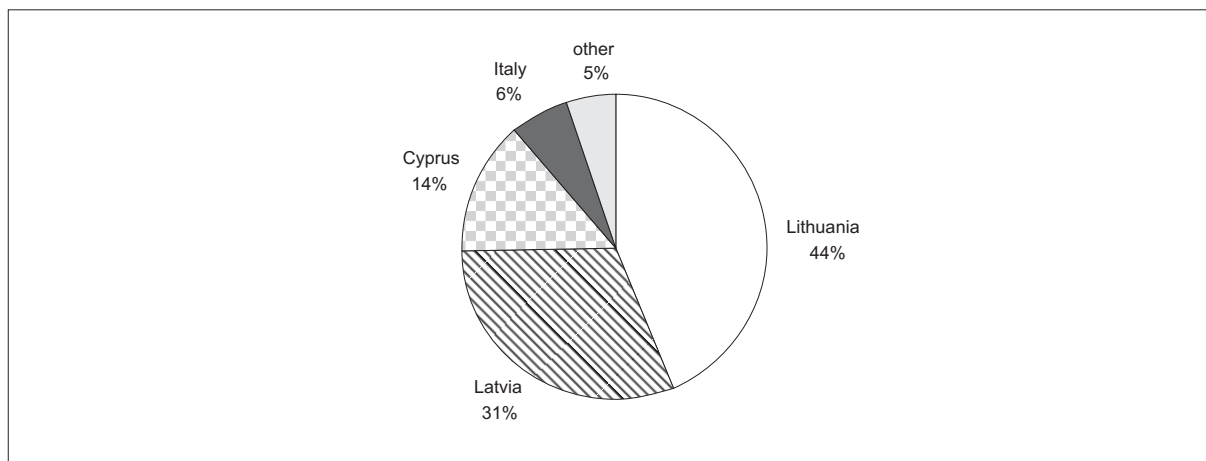


Figure 23. Estonian direct investment position abroad by countries as of 31 December 2002

Table 22. External debt (EEK m)

	31.03.02	30.06.02	30.09.02	31.12.02
DEBT LIABILITIES				
Short-term	23,009.1	23,374.0	21,924.1	23,747.4
Government sector				
Central bank	1,636.4	915.8	5.3	255.5
Credit institutions	12,692.1	13,678.6	12,280.3	15,187.7
Other sectors	8,680.6	8,779.6	9,638.5	8,304.2
Long-term	39,584.5	41,489.5	44,373.9	45,936.8
Government sector	2,976.5	3,766.6	3,408.8	3,391.2
Central bank	0.0	0.0	0.0	
Credit institutions	8,836.0	9,228.9	9,726.1	10,754.1
Other sectors	27,772.0	28,494.0	31,239.0	31,791.5
GROSS EXTERNAL DEBT	62,593.6	64,863.5	66,298.0	69,684.2
CLAIMS				
Short-term	40,788.5	41,276.1	37,950.2	38,716.3
Government sector	2,289.1	2,923.7	3,295.3	3,466.3
Central bank	15,399.5	14,734.7	14,702.6	14,943.2
Credit institutions	13,460.0	13,646.2	10,649.1	12,851.1
Other sectors	9,639.9	9,971.5	9,303.2	7,455.7
Long-term	15,188.2	15,797.5	18,619.4	18,691.5
Government sector	1,254.3	1,721.9	2,566.6	3,216.8
Central bank	14.1	12.8	12.4	12.4
Credit institutions	1,150.6	1,175.8	1,382.5	1,253.6
Other sectors	12,769.2	12,887.0	14,657.9	14,208.7
CLAIMS TOTAL	55,976.7	57,073.6	56,569.6	57,407.8
NET EXTERNAL DEBT				
Short-term	17,779.4	17,902.1	16,026.1	14,968.9
Government sector	2,289.1	2,923.7	3,295.3	3,466.3
Central bank	13,763.1	13,818.9	14,697.3	14,687.7
Credit institutions	767.9	-32.4	-1,631.2	-2,336.6
Other sectors	959.3	1,191.9	-335.3	-848.5
Long-term	-24396.3	-25692.0	-25,754.5	-27,245.3
Government sector	-1722.2	-2044.7	-842.2	-174.4
Central bank	14.1	12.8	12.4	12.4
Credit institutions	-7685.4	-8053.1	-8,343.6	-9,500.5
Other sectors	-15002.8	-15607.0	-16,581.1	-17,582.8
NET EXTERNAL DEBT TOTAL	-6616.9	-7789.9	-9,728.4	-12,276.4

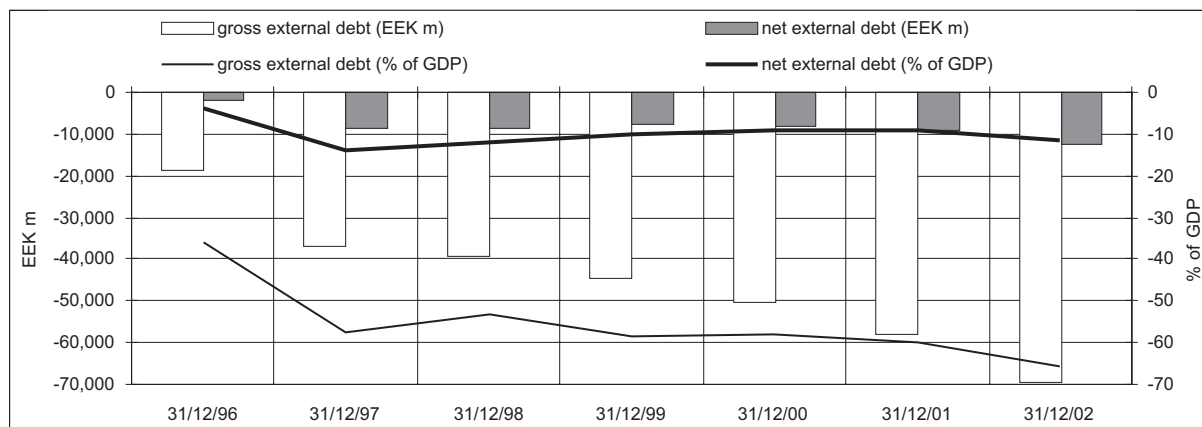


Figure 24. Estonian gross and net external debt (EEK m and % of GDP)

INTERNATIONAL TRANSACTIONS OF CUSTOMERS VIA THE ESTONIAN BANKING SYSTEM

Number and Turnover of Transactions

In 2002, the **total number of international payments**³ increased by 11% (see Table 23 and Figure 25). The number of incoming payments exceeded the number of outgoing payments in the last quarter and throughout the year. A large proportion of payments were smaller than 100,000 Estonian kroons.

Table 23. Number of international payment transactions

	In thousands		Change (%)
	2001	2002	2002/2001
Incoming payments	547	599	9
Outgoing payments	458	516	13
Total	1005	1115	11

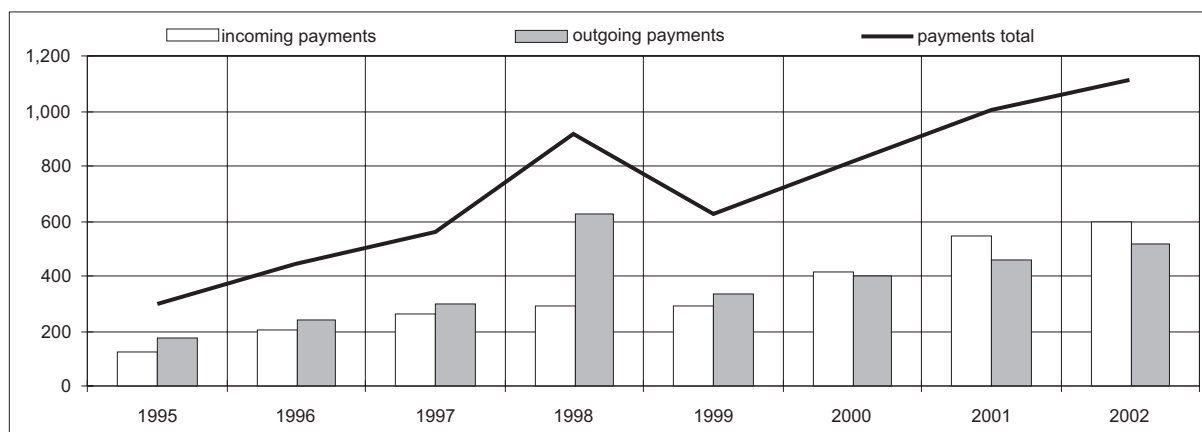


Figure 25. Number of international payment transactions (in thousands)

³ International payments do not contain transactions between residents only and between non-residents only.

The **turnover of international payments** had a similar dynamics: year-on-year, the turnover of incoming payments increased by 10% and the turnover of outgoing payments was up 17% (see Table 24 and Figure 26). Like in 2001, the turnover of payments increased in the last quarter of the year.

Table 24. Turnover of international payment transactions

	EEK billion		Change (%)
	2001	2002	2002/2001
Incoming payments	87	95	10
Outgoing payments	90	105	17
Total	177	200	13

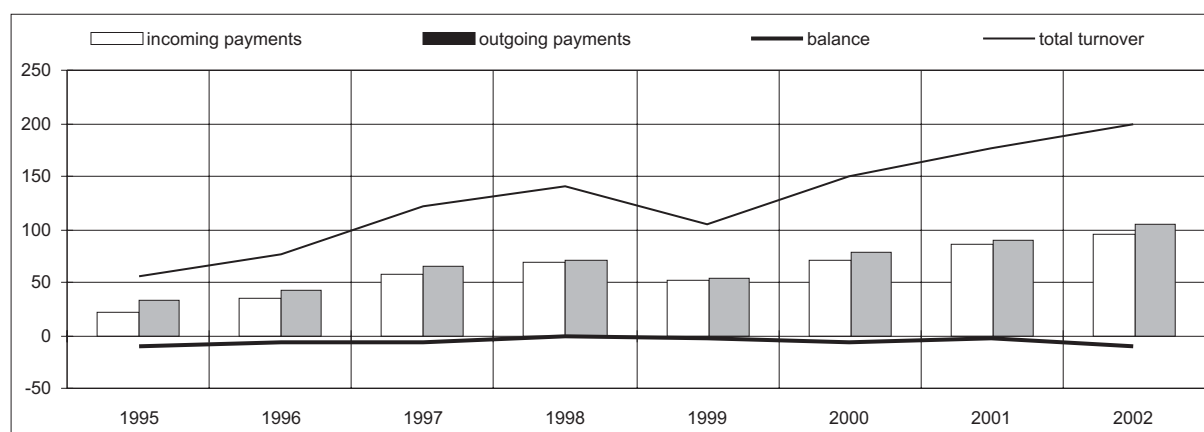


Figure 26. Turnover and balance of international payment transactions (in billions)

The share of payments under 100,000 kroons accounted for only 10% of the total turnover and played an insignificant role in the number of payments.

The **average size of an incoming payment** (158,700 kroons) remained on the level of 2001. The average size of an outgoing payment (203,300 kroons) increased by approximately 7,000 kroons year-on-year.

Use of Currencies⁴

By turnover, the ranking of major currencies used in international payments by Estonian credit institutions in 2002 changed due to the introduction of the euro banknotes and coins on 1 January 2002, as was expected (see Figure 27). With the disappearance of the German mark and the Finnish markka, their position was taken by the euro, which doubled its share year-on-year to 47% of the total turnover. The share of the US dollar has remained unchanged at 34–36% for the last four years. The share of the Estonian kroon decreased somewhat (-2 percentage points) in turnover and placed third with 9% among the currencies used. The share of other currencies in total turnover was just 8%, with the Swedish krona and the Russian rouble accounting for 3 and 1%, respectively.

⁴ 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.

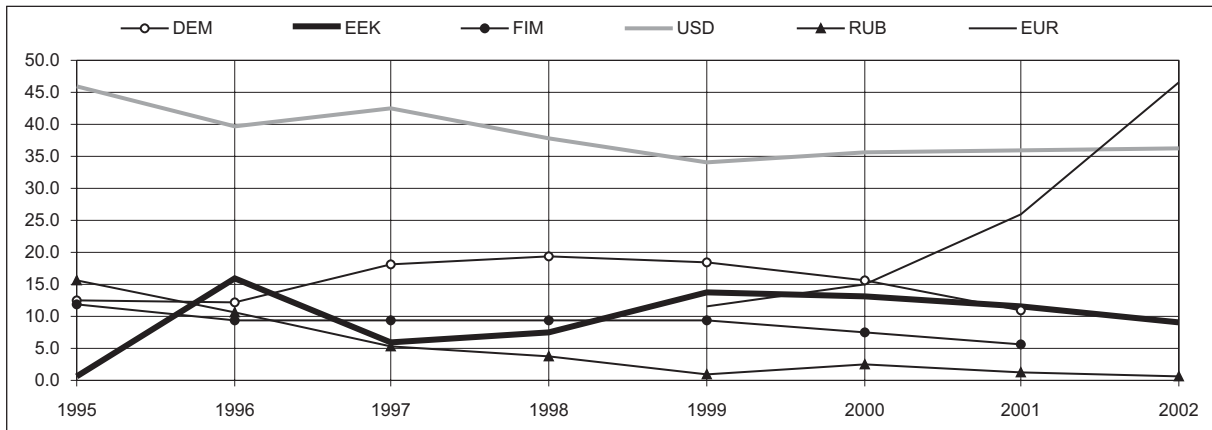


Figure 27. Currencies used in international payment transactions (%)

In the ranking of currencies by the **number of transactions**, the use of the euro dominated as well, more than doubling year-on-year and making up 52% of the total number of transactions. The number of transactions in other currencies was unchanged as compared to 2001.

By countries, the use of currencies in international payments varied (see Figure 28). The euro dominated in payments with **the European Monetary Union (EMU) countries** (81% of the

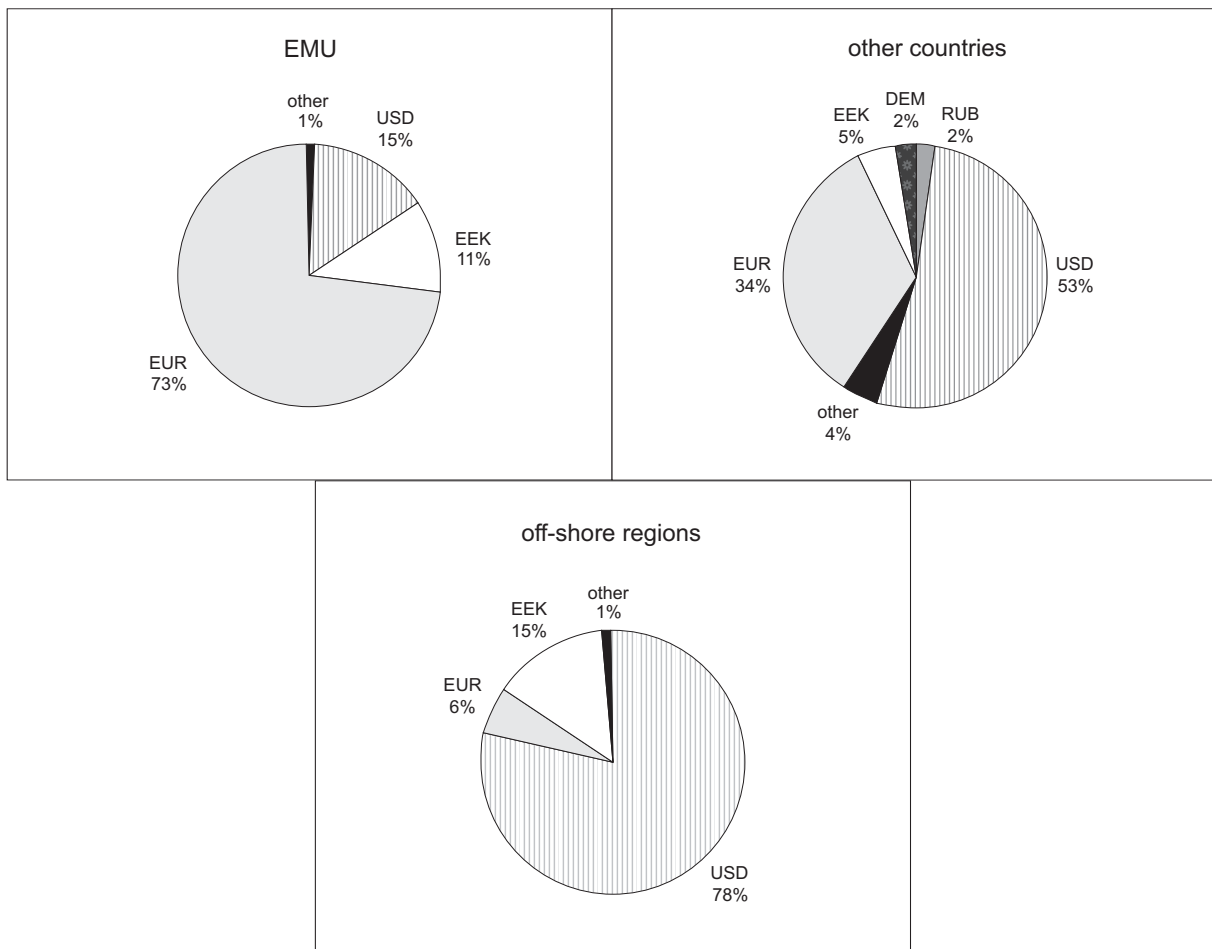


Figure 28. Currencies used in international payment transactions by countries in 2002 (by turnover, %)

number of transactions and 73% of the turnover). By the number of transactions, the Estonian kroon moved to the second place (10% of the number of transactions and 11% of the turnover). By turnover, the share of the Estonian kroon was four percentage points smaller than that of the US dollar (8% of the number of transactions and 15% of the turnover). The share of the euro in total turnover more than doubled in 2002 (see Figure 29). The share of the Estonian kroon and the US dollar was unchanged year-on-year. The share of other currencies amounted to just 1% in the EMU area.

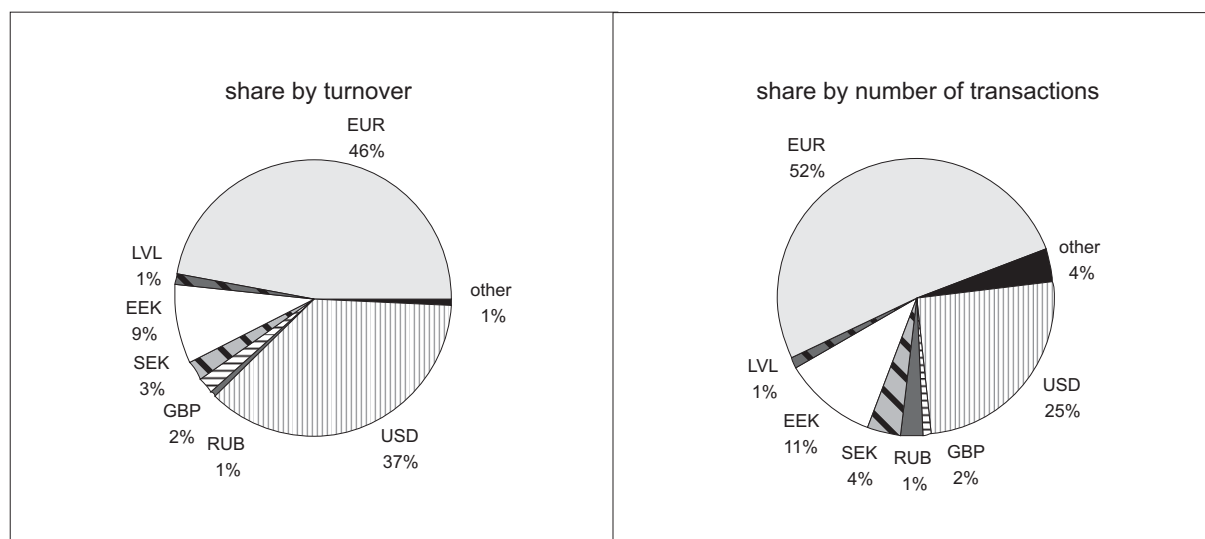


Figure 29. Use of major currencies by turnover and number of international payments in 2002 (%)

In transactions involving tax havens mostly two currencies were used – the US dollar (47% of the number and 79% of the turnover of transactions) and the Estonian kroon (47 and 15%, respectively). Year-on-year, the use of the euro increased, whereas the use of the dollar decreased somewhat. The share of the Russian rouble remained below 1%. In transactions with **other countries**, the dominating currency was the US dollar (44% of the number of transactions and 53% of the turnover), followed by the euro (37 and 34%, respectively) and the Estonian kroon (8 and 5%, respectively). Year-on-year, the share of the euro increased the most, both in the number of transactions and turnover (+21 percentage points and +16 percentage points, respectively).