

SHORT SURVEY

Due to the persistently weak export demand and strong import demand the year-on-year deficit of Estonia's preliminary balance of payments for the first quarter of 2003 increased both in absolute terms as well as in ratio with the expected GDP, amounting to 5.8 billion kroons and 14.1% of the GDP, respectively (see Table 1 and Figure 1).

The reasons behind the increase of the deficit were the same as before – the continuing growth of the foreign trade deficit and smaller than usual surplus of the services balance. The main source of financing the current account deficit was the net inflow of direct investments, which covered nearly three fourths of it. The reserves of the balance of payments increased by 0.7 billion kroons.

The main reason for the **CURRENT ACCOUNT** deficit – the foreign trade deficit – increased by 1.8 billion kroons year-on-year, totaling 5.7 billion kroons or 21.6% of the GDP (16.1% in the first quarter of 2002). Regardless of the continuing weakness of the economies of Estonia's major trade partners and the difficult climatic conditions of the past winter, the export of goods increased by 8%. The increase can mostly be attributed to the export of timber and timber products, mineral products and machinery and equipment. Import increased due to the stably high domestic demand by nearly 17%, growing due to the increase of goods imported for free circulation, mainly capital goods and means of transport. The harsh winter also increased the import of mineral products (fuels). The share of processed goods in both export and import remained stable, accounting for nearly one third and one fifth, respectively. Machinery and equipment accounted for 60% of the goods processed in Estonia, while the share of clothes, footwear and headgear amounted to 20%.

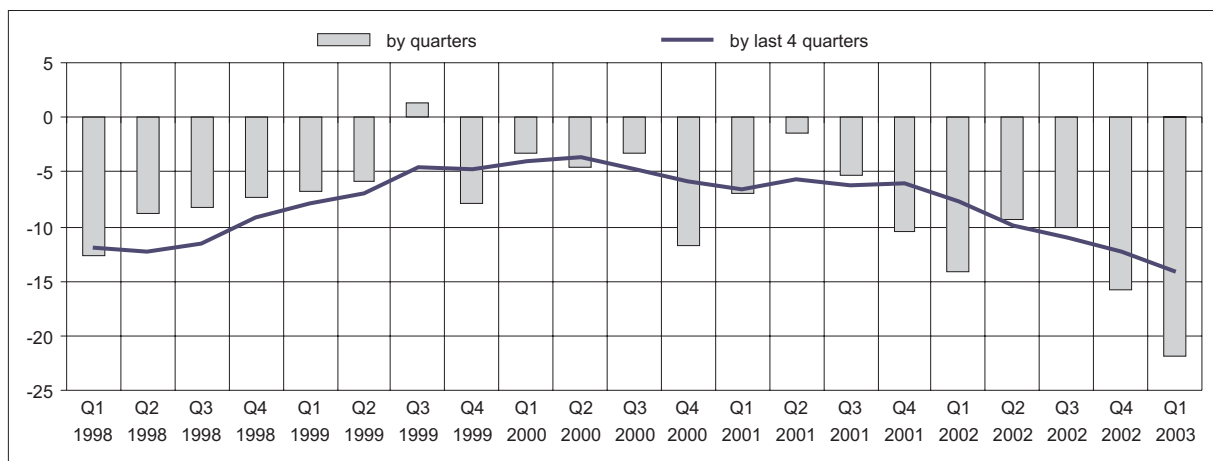


Figure 1. Current account balance to the GDP (%)

Table 1. Estonian balance of payments (EEK m)¹

| | 1999 | 2000 | 2001 | 2002 | | | | | 2003 |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|-----------------|
| | Total | Total | Total | Q1 | Q2 | Q3 | Q4 | Total | Q1 |
| Current account | -3,607.7 | -5,093.4 | -5,889.5 | -3,440.2 | -2,737.6 | -2,768.9 | -4,289.3 | -13,236.0 | -5,799.0 |
| Trade and services balance | -3,755.4 | -3,569.0 | -3,623.7 | -2,486.0 | -1,998.0 | -2,344.0 | -3,302.2 | -10,130.2 | -4,955.7 |
| Trade balance | -12,096.9 | -13,143.6 | -13,783.9 | -3,905.2 | -4,843.1 | -4,786.9 | -4,689.0 | -18,224.2 | -5,745.0 |
| Goods: export f.o.b | 36,995.2 | 56,345.9 | 58,667.1 | 13,154.0 | 14,743.7 | 14,132.3 | 16,069.5 | 58,099.5 | 14,179.4 |
| Goods: import f.o.b | -49,092.1 | -69,489.5 | -72,451.0 | -17,059.2 | -19,586.8 | -18,919.2 | -20,758.5 | -76,323.7 | -19,924.4 |
| Services: net | 8,341.5 | 9,574.6 | 10,160.2 | 1,419.2 | 2,845.1 | 2,442.9 | 1,386.8 | 8,094.0 | 789.3 |
| Services: credit | 21,951.9 | 25,485.8 | 28,866.5 | 6,890.3 | 9,267.5 | 8,730.2 | 7,942.9 | 32,830.9 | 6,744.1 |
| Services: debit | -13,610.4 | -15,911.2 | -18,706.3 | -5,471.1 | -6,422.4 | -6,287.3 | -6,556.1 | -24,736.9 | -5,954.8 |
| Income: net | -1,505.8 | -3,483.4 | -4,926.1 | -1,504.0 | -1,290.7 | -951.1 | -1,737.3 | -5,483.1 | -1,404.9 |
| Income: credit | 1,964.3 | 2,008.0 | 2,994.7 | 638.8 | 743.1 | 1,239.5 | 657.9 | 3,279.3 | 943.4 |
| Income: debit | -3,470.1 | -5,491.4 | -7,920.8 | -2,142.8 | -2,033.8 | -2,190.6 | -2,395.2 | -8,762.4 | -2,348.3 |
| Transfers: net | 1,653.5 | 1,959.0 | 2,660.3 | 549.8 | 551.1 | 526.2 | 750.2 | 2,377.3 | 561.6 |
| Transfers: credit | 2,257.5 | 2,454.8 | 3,174.1 | 798.2 | 836.4 | 785.1 | 975.5 | 3,395.2 | 860.5 |
| Transfers: debit | -604.0 | -495.8 | -513.8 | -248.4 | -285.3 | -258.9 | -225.3 | -1,017.9 | -298.9 |
| Capital and financial account | 5,916.6 | 7,273.2 | 4,863.1 | 3,887.6 | 2,151.0 | 2,694.0 | 4,860.4 | 13,593.0 | 5,611.4 |
| Capital account | 17.8 | 278.5 | 90.0 | 138.0 | 46.1 | 121.2 | 15.4 | 320.7 | 3.2 |
| Financial account | 5,898.8 | 6,994.7 | 4,773.1 | 3,749.6 | 2,104.9 | 2,572.8 | 4,845.0 | 13,272.3 | 5,608.2 |
| Direct investments | 3,208.2 | 5,601.4 | 5,901.3 | 1,715.1 | 168.1 | -30.8 | 759.4 | 2,611.8 | 4,228.2 |
| Abroad | -1,239.8 | -1,043.1 | -3,528.3 | -319.3 | -891.0 | -686.3 | -291.8 | -2,188.4 | -358.7 |
| Into Estonia | 4,448.0 | 6,644.5 | 9,429.6 | 2,034.4 | 1,059.1 | 655.5 | 1,051.2 | 4,800.2 | 4,586.9 |
| Portfolio investments | 156.0 | 1,435.0 | -699.7 | -1,138.5 | 2,046.5 | 1,795.4 | 500.2 | 3,203.6 | 5,068.0 |
| Assets | -1,894.9 | 153.1 | -2,100.2 | -1,160.8 | 11.8 | -1,631.1 | 422.1 | -2,358.0 | 218.7 |
| Equity securities | 187.0 | 53.3 | 236.5 | -5.4 | 74.5 | -52.4 | -7.6 | 9.1 | 37.4 |
| Debt securities | -2,081.9 | 99.8 | -2,336.7 | -1,155.4 | -62.7 | -1,578.7 | 429.7 | -2,367.1 | 181.3 |
| Liabilities | 2,050.9 | 1,281.9 | 1,400.5 | 22.3 | 2,034.7 | 3,426.5 | 78.1 | 5,561.6 | 4,849.3 |
| Equity securities | 3,292.3 | -538.8 | 568.4 | 299.2 | 517.0 | -103.6 | 199.6 | 912.2 | 110.8 |
| Debt securities | -1,241.4 | 1,820.7 | 832.1 | -276.9 | 1,517.7 | 3,530.1 | -121.5 | 4,649.4 | 4,738.5 |
| Other investments | 2,534.6 | -41.7 | -428.5 | 3,173.0 | -109.7 | 808.2 | 3,585.4 | 7,456.9 | -3,688.0 |
| Assets | -1,651.2 | -2,638.3 | -3,716.7 | -643.6 | -672.5 | 2,718.7 | -679.0 | 723.6 | -3,133.8 |
| Long-term | 421.8 | -1,108.7 | -322.7 | 274.8 | 95.9 | -1,058.9 | -394.8 | -1,083.0 | 142.3 |
| Short-term | -2,073.0 | -1,529.6 | -3,394.0 | -918.4 | -768.4 | 3,777.6 | -284.2 | 1,806.6 | -3,276.1 |
| Liabilities | 4,185.8 | 2,596.6 | 3,288.2 | 3,816.6 | 562.8 | -1,910.5 | 4,264.4 | 6,733.3 | -554.2 |
| Long-term | 1,691.5 | -549.9 | 1,814.4 | 976.7 | -161.3 | -890.6 | 1,904.2 | 1,829.0 | 576.1 |
| Short-term | 2,494.3 | 3,146.5 | 1,473.8 | 2,839.9 | 724.1 | -1,019.9 | 2,360.2 | 4,904.3 | -1,130.3 |
| Errors and omissions | -511.3 | 90.7 | 296.2 | 208.0 | 360.7 | 101.2 | -100.1 | 569.8 | 880.6 |
| Overall balance | 1,797.6 | 2,270.5 | -730.2 | 655.4 | -225.9 | 26.3 | 471.0 | 926.8 | 693.0 |
| Reserve assets | -1,797.6 | -2,270.5 | 730.2 | -655.4 | 225.9 | -26.3 | -471.0 | -926.8 | -693.0 |

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

Estonia's major trade partners were the European Union countries, whose share in export climbed to 71%, but in import dropped to 62%. In import, activation of trade with the Central and Eastern Europe and the CIS countries could be noticed.

The surplus of the **services balance** turned out to be record small, amounting to just 0.8 billion kroons and covering merely 14% of the foreign trade deficit (instead of the average 60% of the earlier periods). This was mostly caused by the decrease of the surplus of sea transport services by 0.3 billion kroons due to difficult ice conditions, and the continuing import of construction services due to the reconstruction work in the energy sector (the deficit was up by nearly 0.7 billion kroons). The export of services decreased by 2% year-on-year, while import increased by nearly 9%. Transport and travel services made up 75% of the turnover of the services balance.

Net outflow of **income** remained stable, amounting to 1.4 billion kroons. Nearly all of it was made up of income from direct investments – undistributed profit of direct investors.

The 0.6 billion kroons surplus of the **transfers balance** was approximately the same as it had been in the first quarter of 2002. The bulk of it was made up of the government transfers made in preparation for EU membership.

The surplus of the **CAPITAL AND FINANCIAL ACCOUNT** stood at 5.6 billion kroons, of which 75% was net inflow of direct investments (44% in the first quarter of 2002).

Net inflow of **direct investments** amounted to 4.2 billion kroons, growing by nearly 2.5 times year-on-year. Non-residents invested 4.6 billion kroons in Estonia, while direct investments of Estonian residents abroad totaled 0.4 billion kroons.

Unlike the recent periods, when the growth of direct investments mostly came from the increase of undistributed profits, in the first quarter of 2003 direct investments mostly grew on the account of investments into stock capital (46% of the total growth of direct investments). Undistributed profit accounted for 35% of the growth of direct investments. The bulk of foreign direct investments came from Finland and Sweden and the most popular sectors were wholesale and retail trade, finance and transport, storage and communication.

The weight of share and loan capital decreased in the structure of direct investments made by Estonian residents, while the importance of undistributed profits increased. Investments were mainly made into Lithuania, but also to the Ukraine and Russia, with sectors such as wholesale and retail trade, finance, manufacturing and transport, storage and communication dominating.

Net inflow of **portfolio investments** was record high and amounted to 5.1 billion kroons. Over 90% of the capital inflow (4.7 billion kroons) was based on the successful bond issues of credit institutions on foreign financial markets.

The 3.1 billion kroons net inflow of **other investments** in the first quarter of 2002 was replaced by the 3.7 billion kroons outflow this year. The outflow can mostly be attributed to the increase of the short-term claims of credit institutions on non-residents. Liabilities decreased by 0.6 billion kroons.

CURRENT ACCOUNT

The 5.8 billion kroons deficit of the current account of the balance of payments of the first quarter of 2003 set a record of recent years and increased the average relative deficit of the past four quarters to 14.1% of the GDP of the same period (see Figure 1). **Quarter-on-quarter, the deficit grew by 1.5 billion kroons.** 70% of the increase resulted from the surge of the trade deficit (by 1.1 billion kroons; see Figure 2).

Foreign trade deficit amounted to 21.6% of the GDP (16.1% in the first quarter of 2002). Regardless of global recession, the export of goods grew by 8%, but higher domestic demand (particularly for capital goods) increased import two times faster.

The deficit of the current account was also increased by the decline of the surplus of the services balance that was considerably faster than the usual seasonal drop (see Figure 3). The surplus of the services balance was almost two times smaller in the first quarter of 2003 than in the first quarter of 2002, due to the decrease of services export and the 0.5 billion kroons increase in their import.

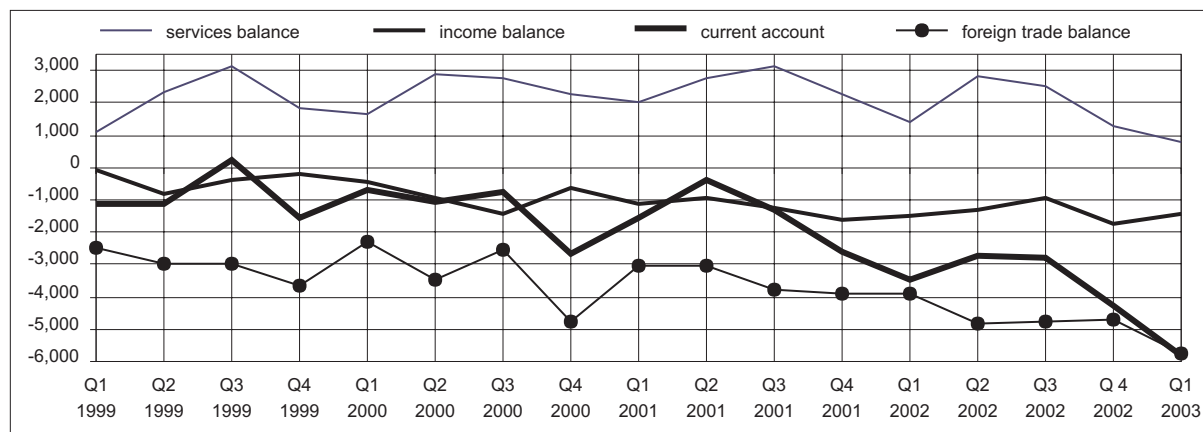


Figure 2. Comparison of the current account, foreign trade balance, income balance and services balance of the Estonian balance of payments (in f.o.b prices, EEK m)

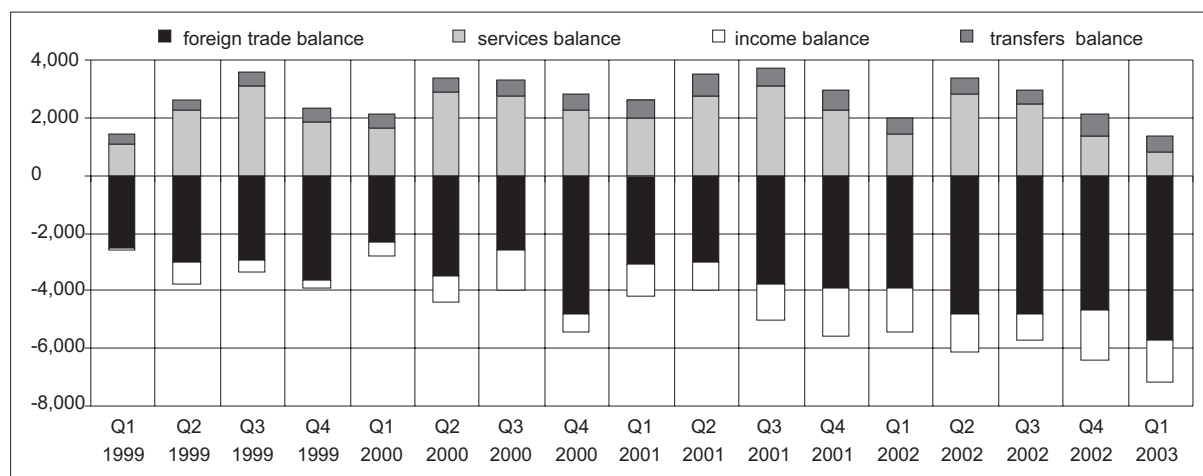


Figure 3. Current account structure (EEK m)

To some extent, the negative developments of the current account can be attributed to the increase of the real exchange rate of the Estonian kroon (3.7% as compared to 2002), which reduced the competitiveness of Estonian goods and services. The previous major appreciation of the kroon (16%) occurred in the first quarter of 1999, which marked the beginning of the recession in the Estonian economy.

Goods

The foreign trade balance deteriorated in the first quarter of 2003 (see Table 2). The export of goods fell by 12% quarter-on-quarter and amounted to 14.2 billion kroons. The import of goods totaled 19.9 billion kroons and decreased by just 4% quarter-on-quarter. Year-on-year, both export and import increased – by 8 and 17%, respectively. The faster increase of import, caused by high domestic demand, resulted in a record high trade deficit of 5.7 billion kroons.

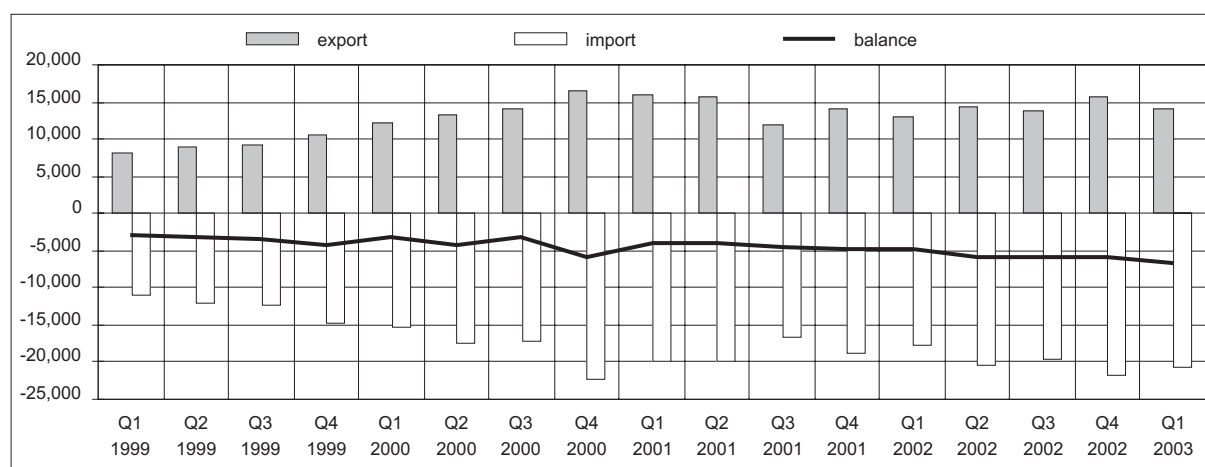
According to **special trade statistics**¹, the export of goods totaled 14 billion kroons and import in c.i.f. prices amounted to 21 billion kroons (see Figure 4).

¹ The analysis below does not contain adjustments made in the foreign trade balance of the balance of payments by the Balance of Payments and Economic 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.

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

| | Special export | | | Special import | | | Balance (EEK m) |
|---------|-----------------------------|--|---|-----------------------------|--|---|-----------------|
| | Volume ¹ (EEK m) | Change against the previous period (%) | Share in total export of goods and services (%) | Volume ¹ (EEK m) | Change against the previous period (%) | Share in total import of goods and services (%) | |
| 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 | 16,192.8 | -2.2 | 73.6 | 19,233.9 | -9.9 | 83.6 | -3,041.1 |
| Q2 2001 | 15,967.7 | -1.4 | 68.5 | 18,994.9 | -1.2 | 80.5 | -3,027.2 |
| Q3 2001 | 12,306.9 | -22.9 | 60.8 | 16,093.5 | -15.3 | 77.0 | -3,786.6 |
| Q4 2001 | 14,199.7 | 15.4 | 64.6 | 18,128.7 | 12.6 | 76.7 | -3,929.0 |
| 2001 | 58,667.1 | 4.1 | 67.0 | 72,451.0 | 4.3 | 79.5 | -13,783.9 |
| Q1 2002 | 13,154.0 | -7.4 | 65.6 | 17,059.2 | -5.9 | 75.7 | -3,905.2 |
| Q2 2002 | 14,743.7 | 12.1 | 61.4 | 19,586.8 | 14.8 | 75.3 | -4,843.1 |
| Q3 2002 | 14,132.3 | -4.1 | 61.8 | 18,919.2 | -3.4 | 75.1 | -4,786.9 |
| Q4 2002 | 16,069.5 | 13.7 | 66.9 | 20,758.5 | 9.7 | 76.0 | -4,689.0 |
| 2002 | 58,099.5 | -1.0 | 63.9 | 76,323.7 | 5.3 | 75.5 | -18,224.2 |
| Q1 2003 | 14,179.4 | -11.8 | 67.8 | 19,924.4 | -4.0 | 77.0 | -5,745.0 |

¹ Data of the balance of payments' foreign trade sub-balance.

**Figure 4. Estonian foreign trade balance (EEK m)**

The 11% quarter-on-quarter decrease of **special export** resulted from the decline of normal export² as well as the drop of the export of goods processed in Estonia across all major groups of end consumption (see Table 3). Year-on-year, special export was up 8%.

In **special import**, import for free circulation or normal import was unchanged quarter-on-quarter, while the import of goods for processing decreased considerably (see Table 4). Year-on-year, both normal import as well as the import of goods for processing increased.

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 for Estonia's internal consumption; does not include import of goods for processing.

Table 3. Special export by end consumption

| | Volume (EEK m) | | | Share (%) | | | Change (%) | |
|-----------------------------------|-----------------|-----------------|-----------------|--------------|--------------|--------------|---------------------|---------------------|
| | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2003/ Q4 2002 | Q1 2003/ Q1 2002 |
| Normal export | 8,836.3 | 10,343.6 | 9,517.6 | 68.1 | 66.0 | 68.0 | -8.0 | 7.7 |
| Capital goods | 445.1 | 595.0 | 498.4 | 3.4 | 3.8 | 3.6 | -16.2 | 12.0 |
| Goods of intermediate consumption | 5,354.0 | 6,243.2 | 5,776.6 | 41.3 | 39.8 | 41.3 | -7.5 | 7.9 |
| Consumer goods | 2,836.7 | 3,253.4 | 2,957.9 | 21.9 | 20.8 | 21.1 | -9.1 | 4.3 |
| Other | 200.5 | 251.9 | 284.6 | 1.5 | 1.6 | 2.0 | 12.9 | 41.9 |
| Export of processed goods | 4,130.2 | 5,327.9 | 4,481.1 | 31.9 | 34.0 | 32.0 | -15.9 | 8.5 |
| Capital goods | 869.4 | 1,693.8 | 1,285.4 | 6.7 | 10.8 | 9.2 | -24.1 | 47.8 |
| Goods of intermediate consumption | 2,335.7 | 2,497.7 | 2,195.9 | 18.0 | 15.9 | 15.7 | -12.1 | -6.0 |
| Consumer goods | 921.3 | 1,043.4 | 947.6 | 7.1 | 6.7 | 6.8 | -9.2 | 2.8 |
| Other | 3.8 | 93.0 | 52.2 | 0.0 | 0.6 | 0.4 | -43.8 | 1,290.2 |
| Total | 12,966.5 | 15,671.5 | 13,998.6 | 100.0 | 100.0 | 100.0 | -10.7 | 8.0 |

Table 4. Special import by end consumption

| | Volume (EEK m) | | | Share (%) | | | Change (%) | |
|--|-----------------|-----------------|-----------------|--------------|--------------|--------------|---------------------|---------------------|
| | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2003/ Q4 2002 | Q1 2003/ Q1 2002 |
| Import for free circulation (normal import) | 14,205.9 | 17,017.7 | 16,840.5 | 80.2 | 78.6 | 81.5 | -1.0 | 18.5 |
| Capital goods | 2,347.0 | 3,124.8 | 3,683.8 | 13.2 | 14.4 | 17.8 | 17.9 | 57.0 |
| Goods of intermediate consumption | 6,769.8 | 7,784.7 | 7,593.8 | 38.2 | 35.9 | 36.7 | -2.5 | 12.2 |
| Consumer goods | 3,573.5 | 4,211.5 | 3,529.3 | 20.2 | 19.4 | 17.1 | -16.2 | -1.2 |
| Other | 1,515.5 | 1,896.7 | 2,033.5 | 8.6 | 8.8 | 9.8 | 7.2 | 34.2 |
| Import of processed goods | 3,514.7 | 4,643.1 | 3,833.1 | 19.8 | 21.4 | 18.5 | -17.4 | 9.1 |
| Capital goods | 790.4 | 1,059.2 | 668.2 | 4.5 | 4.9 | 3.2 | -36.9 | -15.5 |
| Goods of intermediate consumption | 2,439.1 | 3,278.0 | 2,903.4 | 13.8 | 15.1 | 14.0 | -11.4 | 19.0 |
| Consumer goods | 273.1 | 286.5 | 244.8 | 1.5 | 1.3 | 1.2 | -14.6 | -10.3 |
| Other | 12.2 | 19.3 | 16.6 | 0.1 | 0.1 | 0.1 | -13.8 | 36.9 |
| Total | 17,720.6 | 21,660.7 | 20,673.6 | 100.0 | 100.0 | 100.0 | -4.6 | 16.7 |

The quarter-on-quarter decline of the **import and export of processed goods** was caused by the decline in the turnover of machinery and equipment (mostly products of the electronics industry). The volume of mobile communication equipment parts, which were imported as goods of intermediate consumption, shrank by 350 million kroons and led to a similar drop in the export of mobile phones, classified as capital goods. The import and export of another important group of processed goods – clothes, footwear and headgear – decreased by 10%.

The 8% decrease in **normal export** was caused by the **goods of intermediate consumption**, primarily due to the difficult ice conditions of the past winter that affected the export of unprocessed and little processed timber. However, the export of timber products (building parts, paper products) and prefabricated buildings was unchanged or even increased. Besides various timber products major groups of intermediate consumption goods included parts of mobile communication equipment, cables, car accessories (seatbelts), metal structures and textile products. The export of **consumer goods**, which mainly consisted of furniture and parts of furniture, fish and dairy products and textiles, decreased by 9%. The volume of **capital goods**, which account for just 3% of the export, dropped by nearly 100 million kroons. This group mostly covered trailers, containers, transformers and various equipment.

Import for free circulation or normal import remained on the level of the fourth quarter of 2002, but relatively big changes occurred in the distribution by end consumption: the import of consumer goods decreased by 16%, while the import of capital goods increased by 18%. Nearly one billion kroons of the 3.6 billion kroons import of capital goods was made up of one-time and relatively untypical purchases: railway engines, freight cars and a passenger boat. The capital goods import also included trucks, tractors, computers and mobile phones. The import of goods of intermediate consumption for free circulation decreased slightly, covering natural gas, steam boilers, car parts, timber and metal products. The decline of the import of consumer goods was caused by medicines and furniture. The import of passenger cars, listed under the so-called **other goods**, increased by 13% quarter-on-quarter and by 22% year-on-year; the import of motor fuel increased by 6 and 49%, respectively.

Foreign trade deficit increased in the conditions of persistently high domestic demand by 1.6 billion kroons and reached a record high 6.7 billion kroons (see Table 5). The surplus of the import of processed goods has remained around 0.6–0.7 billion kroons; the deficit of trade unrelated to subcontracting amounted to 7.3 billion kroons.

Across groups of countries, export of goods decreased quarter-on-quarter to both the European Union countries as well as other countries (see Table 6). Estonia's three major export partners were still Finland, Sweden and Germany, accounting for 75% of the export of goods to the European Union and for 53% of the total export. The top four export partners among the Central and Eastern European countries included Latvia, Lithuania, Hungary and Poland. Russia and the Ukraine dominated among the CIS countries, and Norway and the USA among other countries. Only 10 million kroons worth of goods waiting for export were stored into the free trade zone.

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

| | Q1 2002 | Q4 2002 | Q1 2003 |
|--|-----------------|-----------------|-----------------|
| Balance of normal export and normal import | -5,369.6 | -6,674.1 | -7,322.9 |
| Capital goods | -1,901.9 | -2,529.8 | -3,185.4 |
| Goods of intermediate consumption | -1,415.8 | -1,541.5 | -1,817.2 |
| Consumer goods | -736.8 | -958.1 | -571.4 |
| Other | -1,315.0 | -1,644.7 | -1,749.0 |
| Balance of export and import of processed goods | 615.5 | 684.9 | 648.0 |
| Capital goods | 79.1 | 634.6 | 617.2 |
| Goods of intermediate consumption | -103.4 | -780.3 | -707.5 |
| Consumer goods | 648.2 | 756.8 | 702.7 |
| Other | -8.4 | 73.7 | 35.6 |
| Total | -4,754.1 | -5,989.2 | -6,674.9 |

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

| | Volume (EEK m) | | | Share (%) | | | Change (%) | |
|--|-----------------|-----------------|-----------------|--------------|--------------|--------------|---------------------|---------------------|
| | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2003/ Q4 2002 | Q1 2003/ Q1 2002 |
| EU countries | 8,999.8 | 10,656.3 | 9,913.5 | 69.4 | 68.0 | 70.8 | -7.0 | 10.2 |
| Central and Eastern European countries | 1,626.1 | 2,260.6 | 1,909.8 | 12.5 | 14.4 | 13.6 | -15.5 | 17.4 |
| CIS countries | 591.9 | 896.0 | 665.4 | 4.6 | 5.7 | 4.8 | -25.7 | 12.4 |
| Other | 1,485.8 | 1,780.5 | 1,499.7 | 11.5 | 11.4 | 10.7 | -15.8 | 0.9 |
| Customs-free zone | 262.8 | 78.1 | 10.2 | 2.0 | 0.5 | 0.1 | -86.9 | -96.1 |
| Total | 12,966.5 | 15,671.5 | 13,998.6 | 100.0 | 100.0 | 100.0 | -10.7 | 8.0 |

The **import of goods** increased considerably from the CIS countries (see Table 7) – import from Russia was up 20%, import from the Ukraine doubled and import from Belarus increased by 17%. Major import partners among the EU countries included Finland, Germany, Sweden and the Netherlands, while Latvia, Lithuania and Poland dominated among the Central and Eastern European countries. Major import partners among other countries were Japan, China, Cyprus, the USA and Hong Kong.

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

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

| | Volume (EEK m) | | | Share (%) | | | Change (%) | |
|--|-----------------|-----------------|-----------------|--------------|--------------|--------------|---------------------|---------------------|
| | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2003/ Q4 2002 | Q1 2003/ Q1 2002 |
| EU countries | 12,018.2 | 14,086.7 | 12,756.0 | 67.8 | 65.0 | 61.7 | -9.4 | 6.1 |
| Central and Eastern European countries | 2,050.1 | 2,832.7 | 2,797.6 | 11.6 | 13.1 | 13.5 | -1.2 | 36.5 |
| CIS countries | 1,889.1 | 2,127.3 | 2,812.6 | 10.7 | 9.8 | 13.6 | 32.2 | 48.9 |
| Other | 1,763.2 | 2,614.0 | 2,307.4 | 9.9 | 12.1 | 11.2 | -11.7 | 30.9 |
| Total | 17,720.6 | 21,660.7 | 20,673.6 | 100.0 | 100.0 | 100.0 | -4.6 | 16.7 |

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

| | Q1 2002 | Q4 2002 | Q1 2003 |
|--|-----------------|-----------------|-----------------|
| EU countries | -3,018.4 | -3,430.4 | -2,842.5 |
| Central and Eastern European countries | -424.0 | -572.1 | -887.8 |
| CIS countries | -1,297.1 | -1,231.3 | -2,147.2 |
| Other | -277.4 | -833.6 | -807.8 |
| Customs-free zone | 262.8 | 78.1 | 10.2 |
| Total | -4,754.1 | -5,989.2 | -6,674.9 |

Services

The surplus of the services balance stood at 0.8 billion kroons in the first quarter of 2003, being nearly two times smaller than in the first quarter of 2002. The export of services decreased by 2% year-on-year, while import increased by 9% (see Table 9). In earlier periods the surplus of the services balance has been an important equaliser of the current account deficit, but not in the first quarter of 2003 (see Figure 5). The surplus of the services balance was affected the most by the growth of the deficit of

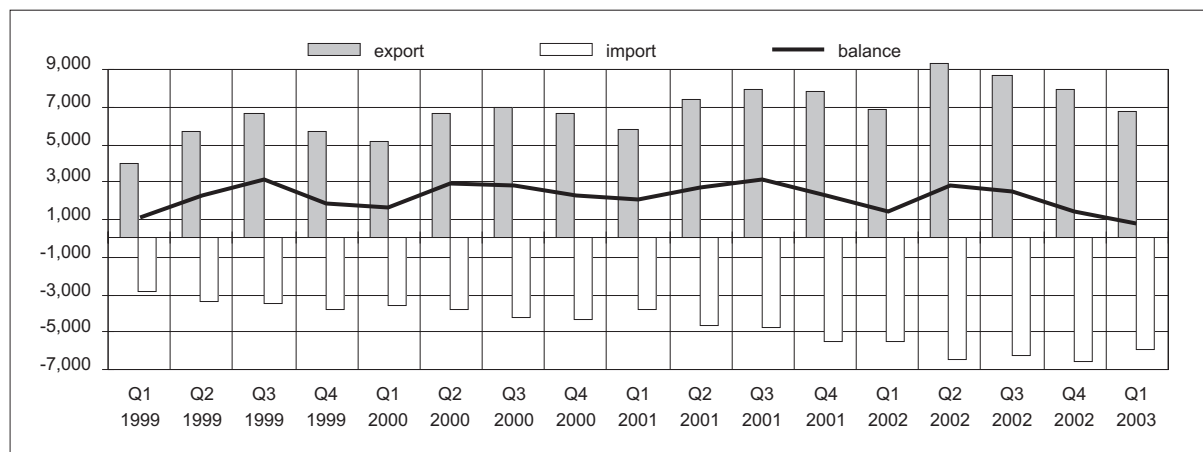


Figure 5. Services balance (EEK m)

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 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 | 7,925.7 | 7.8 | 39.2 | 4,807.8 | 4.3 | 23.0 | 3,117.9 | 13.8 |
| Q4 2001 | 7,787.7 | -1.7 | 35.4 | 5,502.6 | 14.5 | 23.3 | 2,285.1 | -26.7 |
| Q1 2002 | 6,890.3 | -11.5 | 34.4 | 5,471.1 | -0.6 | 24.3 | 1,419.2 | -37.9 |
| Q2 2002 | 9,267.5 | 34.5 | 38.6 | 6,422.4 | 17.4 | 24.7 | 2,845.1 | 100.5 |
| Q3 2002 | 8,730.2 | -5.8 | 38.2 | 6,287.3 | -2.1 | 24.9 | 2,442.9 | -14.1 |
| Q4 2002 | 7,942.9 | -9.0 | 33.1 | 6,556.1 | 4.3 | 24.0 | 1,386.8 | -43.2 |
| Q1 2003 | 6,744.1 | -15.1 | 32.2 | 5,954.8 | -9.2 | 23.0 | 789.3 | -43.1 |

construction services (by 564 million kroons) and the shrinking of the surplus of the travel services balance (see Table 10).

The main reason behind the decline of **services export** was the decrease of the most important categories of services – transport and travel services – by 9 and 6.5%, respectively (see Table 11). Export increased year-on-year only in construction and business services.

Table 10. Services balance by major categories

| | Balance (EEK m) | | | Share (%) | | |
|-----------------------|-----------------|----------------|--------------|--------------|--------------|--------------|
| | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2002 | Q4 2002 | Q1 2003 |
| Transport services | 1,165.1 | 1,212.0 | 812.5 | 82.1 | 87.4 | 102.9 |
| Travel services | 808.9 | 959.7 | 580.7 | 57.0 | 69.2 | 73.6 |
| Construction services | -54.2 | -329.4 | -600.0 | -3.8 | -23.8 | -76.0 |
| Business services | -51.1 | -31.7 | 10.9 | -3.6 | -2.3 | 1.4 |
| Government services | -431.3 | -425.4 | -66.5 | -30.4 | -30.7 | -8.4 |
| Other | -18.2 | 1.6 | 51.7 | -1.3 | 0.1 | 6.6 |
| Total | 1,419.2 | 1,386.8 | 789.3 | 100.0 | 100.0 | 100.0 |

Table 11. Services export by major categories

| | Volume (EEK m) | | | Share (%) | | | Change (%) | |
|--------------------------|----------------|----------------|----------------|--------------|--------------|--------------|---------------------|---------------------|
| | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2003/ Q4 2002 | Q1 2003/ Q1 2002 |
| Transport services | 4,198.4 | 4,207.2 | 3,811.1 | 60.9 | 53.0 | 56.5 | -9.4 | -9.2 |
| o/w freight | 2,728.2 | 2,523.5 | 2,519.4 | 39.6 | 31.8 | 37.4 | -0.2 | -7.7 |
| passenger | 439.6 | 721.2 | 465.2 | 6.4 | 9.1 | 6.9 | -35.5 | 5.8 |
| other transport services | 1,030.6 | 962.5 | 826.5 | 15.0 | 12.1 | 12.3 | -14.1 | -19.8 |
| Travel services | 1,567.6 | 1,789.4 | 1,465.2 | 22.8 | 22.5 | 21.7 | -18.1 | -6.5 |
| Construction services | 156.8 | 709.3 | 223.7 | 2.3 | 8.9 | 3.3 | -68.5 | 42.7 |
| Business services | 703.5 | 885.1 | 876.8 | 10.2 | 11.1 | 13.0 | -0.9 | 24.6 |
| Government services | 27.5 | 34.1 | 46.9 | 0.4 | 0.4 | 0.7 | 37.5 | 70.5 |
| Other | 236.5 | 317.8 | 320.4 | 3.4 | 4.0 | 4.8 | 0.8 | 35.5 |
| Total | 6,890.3 | 7,942.9 | 6,744.1 | 100.0 | 100.0 | 100.0 | -15.1 | -2.1 |

The **import of services** increased mostly in construction and travel services (by 3.9 times and 17% respectively; see Table 12). The rapid growth of the import of construction services is related to major projects in renovating the Estonian energy sector. The growth of services import was slowed down by transport and government services, which declined by 1 and 75%, respectively. The shrinking of the share of government services in total services import indicates that Estonia's integration with the EU has reached the final phase, where foreign aid in the form of goods and services is being replaced by financial aid which allows the country to improve its readiness for EU membership at its own discretion.

Table 12. Services import by major categories

| | Volume (EEK m) | | | Share (%) | | | Change (%) | |
|--------------------------|----------------|----------------|----------------|--------------|--------------|--------------|---------------------|---------------------|
| | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2003/ Q4 2002 | Q1 2003/ Q1 2002 |
| Transport services | 3,033.3 | 2,995.2 | 2,998.6 | 55.4 | 45.7 | 50.4 | 0.1 | -1.1 |
| o/w freight | 2,465.1 | 2,406.8 | 2,559.4 | 45.1 | 36.7 | 43.0 | 6.3 | 3.8 |
| passenger | 263.3 | 270.2 | 186.0 | 4.8 | 4.1 | 3.1 | -31.2 | -29.4 |
| other transport services | 304.9 | 318.2 | 253.2 | 5.6 | 4.9 | 4.3 | -20.4 | -17.0 |
| Travel services | 758.7 | 829.7 | 884.5 | 13.9 | 12.7 | 14.9 | 6.6 | 16.6 |
| Construction services | 211.0 | 1,038.7 | 823.7 | 3.9 | 15.8 | 13.8 | -20.7 | 290.4 |
| Business services | 754.6 | 916.8 | 865.9 | 13.8 | 14.0 | 14.5 | -5.6 | 14.7 |
| Government services | 458.8 | 312.8 | 113.4 | 8.4 | 4.8 | 1.9 | -63.7 | -75.3 |
| Other | 254.7 | 462.9 | 268.7 | 4.7 | 7.1 | 4.5 | -42.0 | 5.5 |
| Total | 5,471.1 | 6,556.1 | 5,954.8 | 100.0 | 100.0 | 100.0 | -9.2 | 8.8 |

The export of **transport services**, which have the biggest turnover among services, decreased by 9%, while the import of transport services fell by 1% (see Figure 6). The decline mostly concerned sea transport where export dropped by 14.3% year-on-year, mostly at the cost of other transport services. The import of transport services increased very little as far as sea transport was concerned. Although the surplus of land transport services remained stable, the volume of both export and import decreased and their structure changed. The deficit of rail transport services decreased by two times year-on-year, mostly due to the fall in the import of freight transport. The surplus of road transport decreased as well – the export of services decreased, while the import of freight transport increased.

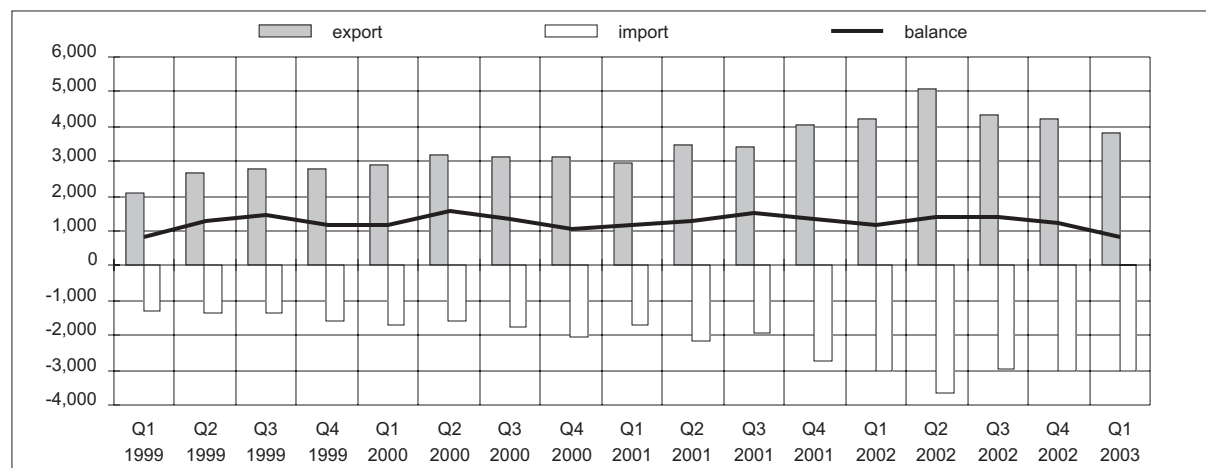


Figure 6. Transport services balance (EEK m)

The balance of **travel services** amounted to 0.6 billion kroons in the first quarter of 2003, with export down 6.5% year-on-year and import up 17% (see Figure 7). The export of travel services was affected by the 13% decline in the number of Finnish tourists visiting Estonia, due to the difficult ice conditions. While export of Estonian travel agencies was unchanged against 2002, import increased by 13%. As tourism is suffering from a global recession, numerous discount offers made trips to faraway countries affordable for Estonians and this, in turn, increased the average length of trips. The geography of destination countries has widened considerably – the number of Estonians visiting unusual destinations increased by 75% year-on-year. While the number of visits to Finland and Sweden decreased, the number of trips to such popular destinations as Italy, Germany and the UK as well as Thailand increased.

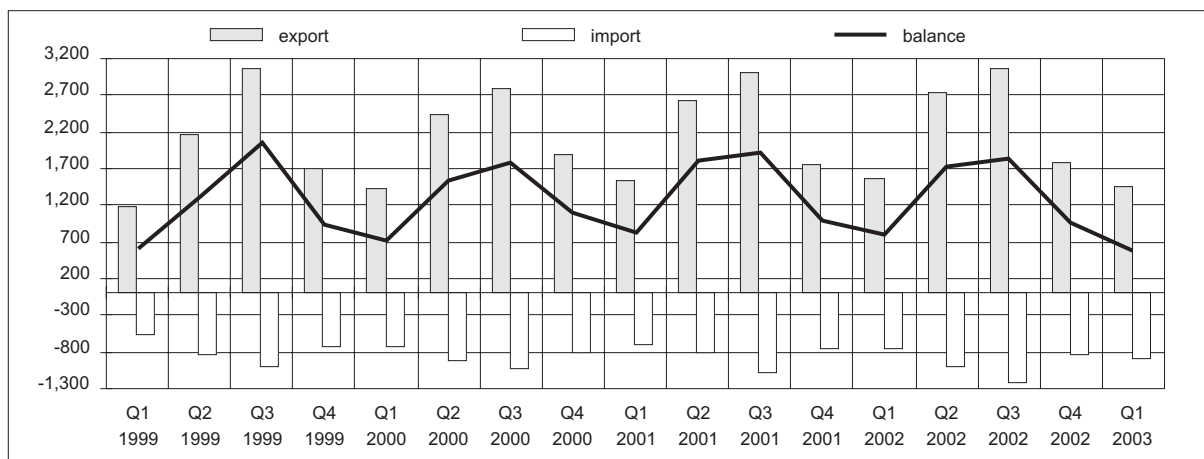


Figure 7. Travel services balance (EEK m)

Income

The deficit of the income balance amounted to 1.4 billion kroons in the first quarter of 2003, decreasing by 0.1 billion kroons year-on-year (see Table 13 and Figure 8). Although the net outflow of direct investment income increased slightly year-on-year, the growth of the net outflow of total income was curbed by the 130-million kroon surge of the surplus of portfolio investment income.

The growth of the net outflow of total income was slowed down by the 48% annual increase of the **inflow of income** (see Table 14). The inflow of income came short of one billion kroons and increase concerned income from both portfolio and direct investments (53 and 55%, respectively).

Table 13. Income balance (EEK m)

| | Balance (EEK m) | | | Share (%) | | | Change (%) | |
|-----------------------------------|-----------------|-----------------|-----------------|--------------|--------------|--------------|---------------------|---------------------|
| | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2003/ Q4 2002 | Q1 2003/ Q1 2002 |
| Income from direct investments | -1,529.9 | -1,622.4 | -1,642.6 | 101.7 | 93.4 | 116.9 | 1.2 | 7.4 |
| o/w income from equity | -1,484.3 | -1,549.7 | -1,574.6 | 98.7 | 89.2 | 112.1 | 1.6 | 6.1 |
| income from debt (interests) | -45.6 | -72.7 | -68.0 | 3.0 | 4.2 | 4.8 | -6.5 | 49.1 |
| Income from portfolio investments | 142.9 | -83.6 | 271.1 | -9.5 | 4.8 | -19.3 | -424.3 | 89.7 |
| Income from other investments | -139.1 | -89.3 | -131.8 | 9.2 | 5.1 | 9.4 | 47.6 | -5.2 |
| Other income | 22.1 | 58.0 | 98.4 | -1.5 | -3.3 | -7.0 | 69.7 | 345.2 |
| Income balance | -1,504.0 | -1,737.3 | -1,404.9 | 100.0 | 100.0 | 100.0 | -19.1 | -6.6 |

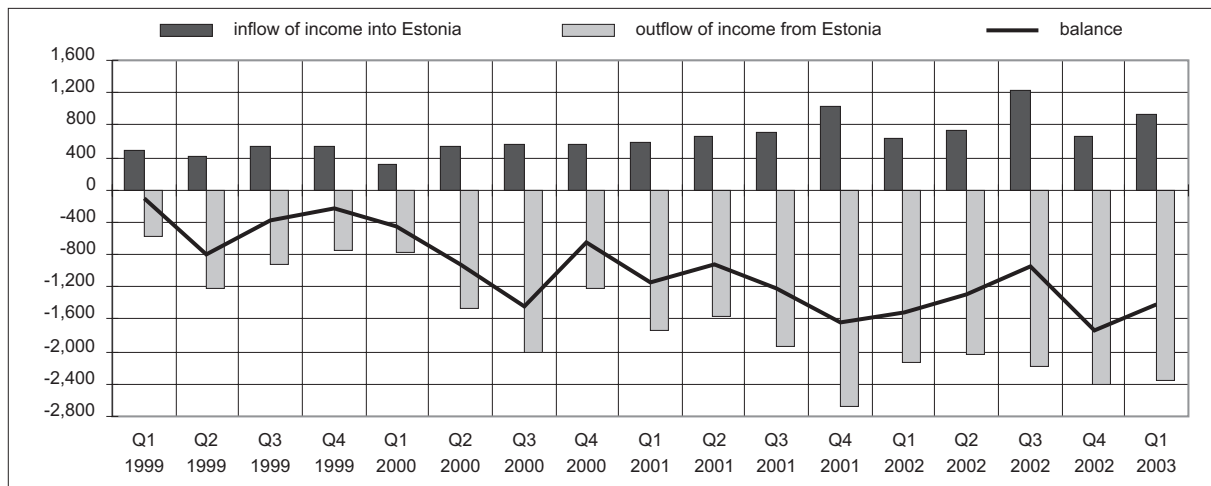


Figure 8. Income balance (EEK m)

Table 14. Income inflow to Estonia

| | Volume (EEK m) | | | Share (%) | | | Change (%) | |
|-----------------------------------|----------------|--------------|--------------|--------------|--------------|--------------|---------------------|---------------------|
| | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2003/ Q4 2002 | Q1 2003/ Q1 2002 |
| Income from direct investments | 111.5 | 211.1 | 173.1 | 17.5 | 32.1 | 18.3 | -18.0 | 55.2 |
| o/w income from equity | 89.6 | 177.0 | 156.3 | 14.0 | 26.9 | 16.6 | -11.7 | 74.4 |
| income from debt (interests) | 21.9 | 34.1 | 16.8 | 3.4 | 5.2 | 1.8 | -50.7 | -23.3 |
| Income from portfolio investments | 323.9 | 169.8 | 495.0 | 50.7 | 25.8 | 52.5 | 191.5 | 52.8 |
| Income from other investments | 176.9 | 208.1 | 171.3 | 27.7 | 31.6 | 18.2 | -17.7 | -3.2 |
| Other income | 26.5 | 68.9 | 104.0 | 4.1 | 10.5 | 11.0 | 50.9 | 292.5 |
| Total | 638.8 | 657.9 | 943.4 | 100.0 | 100.0 | 100.0 | 43.4 | 47.7 |

The growth of portfolio investment income was mostly based on the activities of the government sector on the bond market. The growth of direct investment income inflow can be attributed to the fact that Estonian direct investments were mostly made into Latvia and Lithuania where, similar to Estonia, economic growth was relatively rapid as compared to the rest of the world.

The **outflow of income** from Estonia totaled 2.3 billion kroons, growing by nearly 10% year-on-year (see Table 15). Income from direct investments accounted for 77% of the total outflow of income, up 11% year-on-year. The outflow of portfolio investment income increased even faster (24%), due to the increase of the debt securities portfolio.

Table 15. Income outflow from Estonia

| | Volume (EEK m) | | | Share (%) | | | Change (%) | |
|-----------------------------------|-----------------|-----------------|-----------------|--------------|--------------|--------------|---------------------|---------------------|
| | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2003/ Q4 2002 | Q1 2003/ Q1 2002 |
| Income from direct investments | -1,641.4 | -1,833.5 | -1,815.7 | 76.6 | 76.5 | 77.3 | -1.0 | 10.6 |
| o/w income from equity | -1,573.9 | -1,726.7 | -1,730.9 | 73.5 | 72.1 | 73.7 | 0.2 | 10.0 |
| income from debt (interests) | -67.5 | -106.8 | -84.8 | 3.2 | 4.5 | 3.6 | -20.6 | 25.6 |
| Income from portfolio investments | -181.0 | -253.4 | -223.9 | 8.4 | 10.6 | 9.5 | -11.6 | 23.7 |
| Income from other investments | -316.0 | -297.4 | -303.1 | 14.7 | 12.4 | 12.9 | 1.9 | -4.1 |
| Other income | -4.4 | -10.9 | -5.6 | 0.2 | 0.5 | 0.2 | -48.6 | 27.3 |
| Total | -2,142.8 | -2,395.2 | -2,348.3 | 100.0 | 100.0 | 100.0 | -2.0 | 9.6 |

Transfers

The surplus of the transfers balance amounted to nearly 0.6 billion kroons in the first quarter of 2003 and was unchanged year-on-year. The biggest increase was registered in private transfers.

CAPITAL AND FINANCIAL ACCOUNT

In the first quarter of 2003, the structure of the financial account was most affected by the significant increase in the volume of direct and portfolio investments (see Figures 9 and 10).

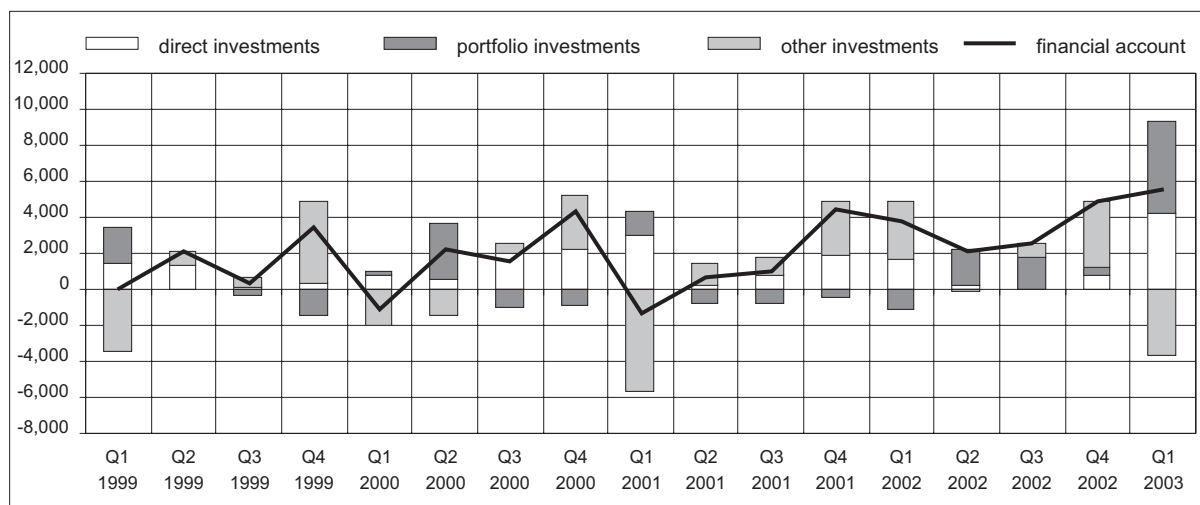


Figure 9. Changes in the structure of foreign investment capital flows (EEK m)

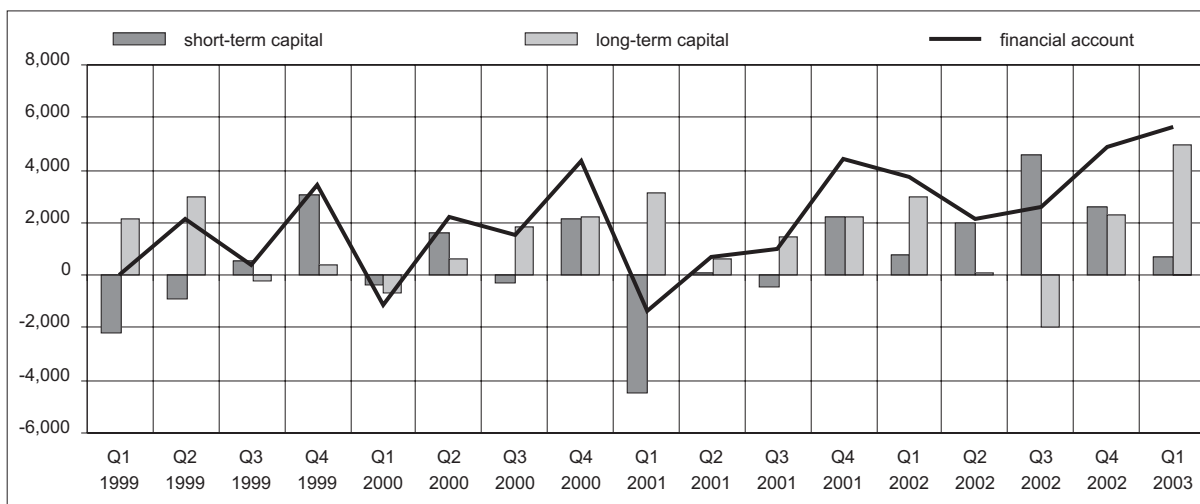


Figure 10. The maturity structure of financial sources (EEK m)

Direct Investments

The balance of direct investments had a surplus of 4.2 billion kroons in the first quarter of 2003, which accounted for three fourths of the surplus of the financial account. Non-residents invested 4.6 billion kroons into Estonia, while Estonian direct investments into foreign countries increased by 0.4 billion kroons (see Table 16 and Figure 11).

Table 16. Structure of direct investments

| | Into Estonia | | | | | | Abroad | | | | | |
|---------------------------|----------------|----------------|----------------|--------------|--------------|--------------|---------------|---------------|---------------|--------------|---------------|--------------|
| | EEK m | | | Share (%) | | | EEK m | | | Share (%) | | |
| | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2002 | Q4 2002 | Q1 2003 |
| Share capital | 554.7 | -171.9 | 2,105.1 | 27.3 | -16.4 | 45.9 | -83.4 | -457.5 | -74.5 | 26.1 | 156.8 | 20.8 |
| Inflow | 803.8 | 1,213.2 | 2,224.0 | 39.5 | 115.4 | 48.5 | 15.8 | 72.3 | 22.1 | -4.9 | -24.8 | -6.2 |
| Outflow | -249.1 | -1,385.1 | -118.9 | -12.2 | -131.8 | -2.6 | -99.2 | -529.8 | -96.6 | 31.1 | 181.6 | 26.9 |
| Reinvested income | 1,087.8 | 1,662.7 | 1,613.9 | 53.5 | 158.2 | 35.2 | -82.7 | -147.4 | -152.0 | 25.9 | 50.5 | 42.4 |
| Claims | -652.7 | -1,169.8 | -837.9 | -32.1 | -57.5 | -41.2 | -105.3 | -197.7 | -167.6 | -5.2 | -9.7 | -8.2 |
| Liabilities | 1,740.5 | 2,832.5 | 2,451.8 | 85.6 | 139.2 | 120.5 | 22.6 | 50.3 | 15.6 | 1.1 | 2.5 | 0.8 |
| Loan capital (net) | -103.5 | -541.1 | 815.0 | -5.1 | -51.5 | 17.8 | -141.6 | 305.4 | -188.7 | 44.3 | -104.7 | 52.6 |
| Trade credit | -272.8 | -59.9 | 49.1 | -13.4 | -5.7 | 1.1 | -116.0 | -18.6 | -67.0 | 36.3 | 6.4 | 18.7 |
| Short-term loans | 296.8 | -1,693.3 | 476.8 | 14.6 | -161.1 | 10.4 | -31.4 | 836.2 | 37.9 | 9.8 | -286.6 | -10.6 |
| Long-term loans | -127.5 | 1,212.1 | 289.1 | -6.3 | 115.3 | 6.3 | 5.8 | -512.2 | -159.6 | -1.8 | 175.5 | 44.5 |
| Other capital | 495.4 | 101.5 | 52.9 | 24.4 | 9.7 | 1.2 | -11.6 | 7.7 | 56.5 | 3.6 | -2.6 | -15.8 |
| Total | 2,034.4 | 1,051.2 | 4,586.9 | 100.0 | 100.0 | 100.0 | -319.3 | -291.8 | -358.7 | 100.0 | 100.0 | 100.0 |

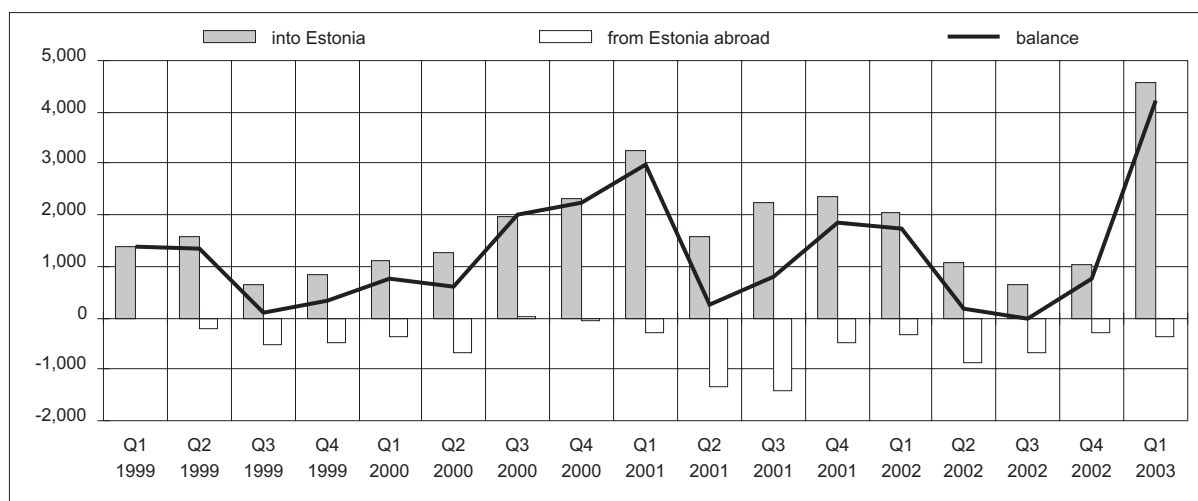


Figure 11. Direct investments (EEK m)

In the first quarter of this year the volume of **direct investments in Estonia** reached the highest level in the history of compiling the balance of payments. A third of the long-term investments was made up of the increase of reinvested income, the volume of which was unchanged quarter-on-quarter. Investments into share capital and selling of stocks resulted in a 2.2-billion kroon inflow of foreign capital. In loan capital, liabilities increased across all loan instruments. Liabilities to direct investors increased by nearly one billion kroons and claims grew by 0.2 billion kroons (see Figure 12).

Major investment inflow came from Finland, the Swedish business circles remained interested in Estonia. Member countries of the EU invested 3.7 billion kroons into Estonia (81%). Long-term investments were mostly made into wholesale and retail trade (see Figures 13 and 14).

Direct investments into affiliated/associated companies abroad were unchanged quarter-on-quarter. 42% of direct investments into foreign countries was made up of reinvested income and one fifth concerned the increase of share capital. Trade credit and long-term loans to affiliated/associated companies increased. Like in the fourth quarter of 2002, repayment of short-term loans continued (see Figure 15).

Estonian companies preferred investments into other Baltic countries, as well as the Ukraine and Russia.

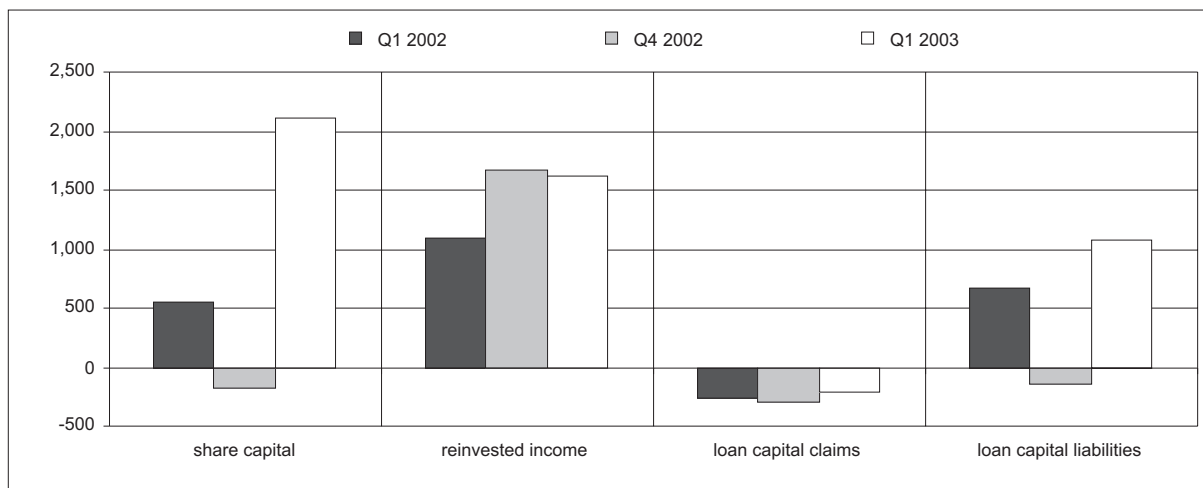


Figure 12. Structure of direct investments made into Estonia (EEK m)

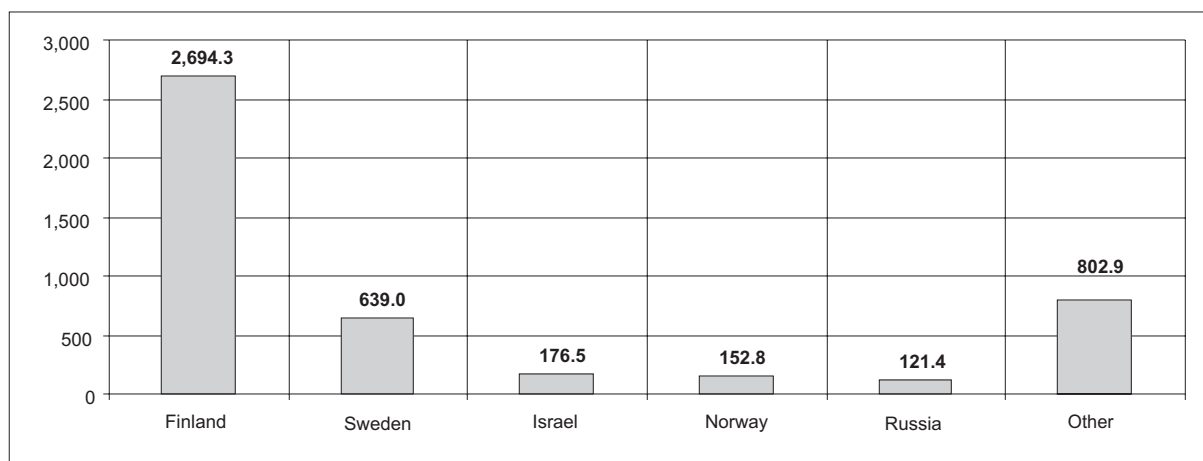


Figure 13. Structure of direct investments made into Estonia by countries in the first quarter of 2003 (EEK m)

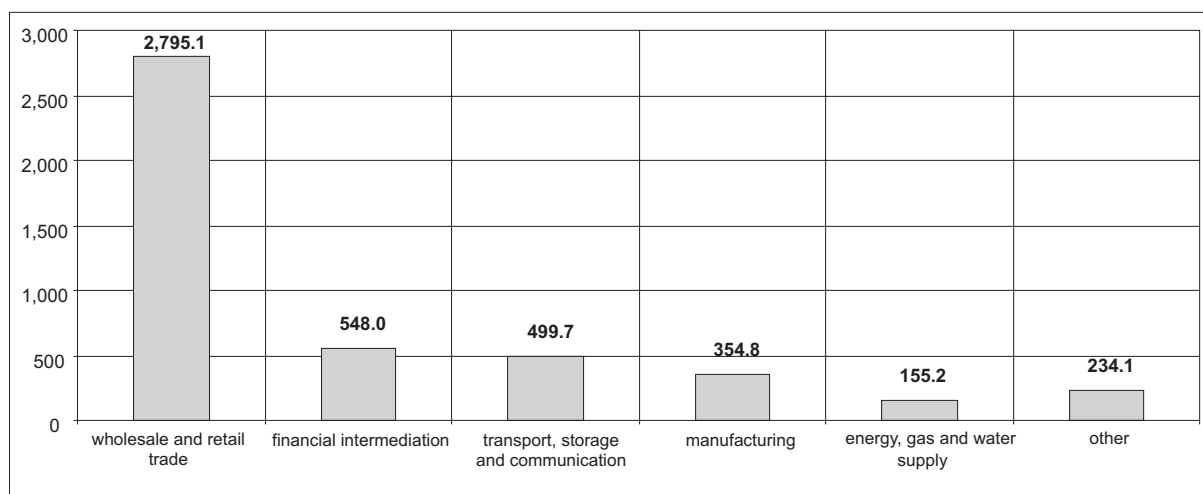


Figure 14. Structure of direct investments made into Estonia by spheres of activity in the third quarter of 2002 (EEK m)

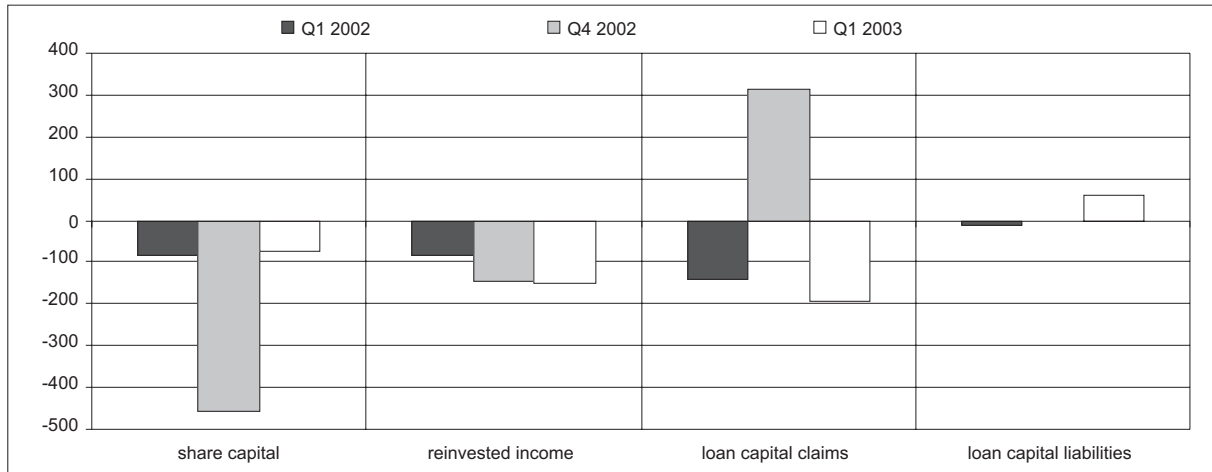


Figure 15 Structure of direct investments made abroad (EEK m)

Major investments were made by wholesale and retail businesses, as well as financial intermediators (see Figures 16 and 17).

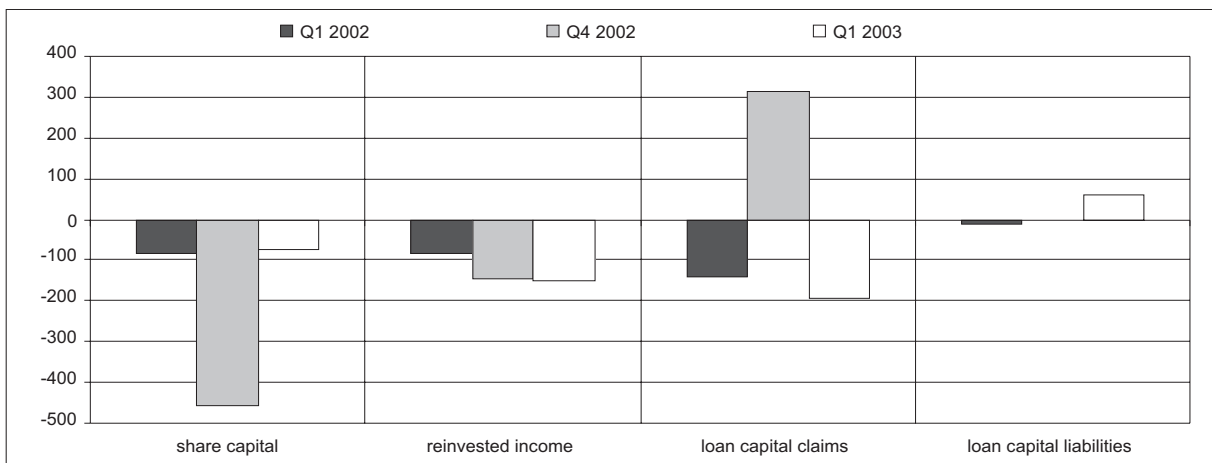


Figure 16. Structure of direct investments made abroad by countries in the first quarter of 2003 (EEK m)

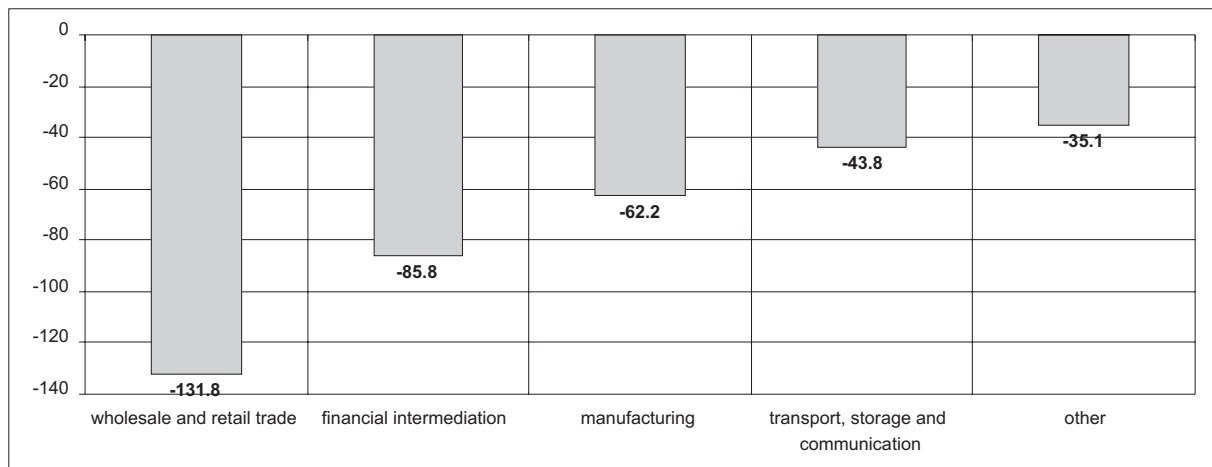


Figure 17. Structure of direct investments made abroad by spheres of activity in the first quarter of 2003 (EEK m)

Portfolio Investments

The inflow of **portfolio investments** amounted to 5.1 billion kroons in the first quarter of 2003 (see Table 17 and Figure 18). Such a remarkable inflow of portfolio investments resulted mostly from the bond issues carried out by credit institutions.

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

| | Claims | | | Liabilities | | | Balance | | |
|------------------------------------|----------|---------|---------|-------------|---------|---------|----------|---------|---------|
| | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2002 | Q4 2002 | Q1 2003 |
| Total portfolio investments | -1160.8 | 422.1 | 218.7 | 22.3 | 78.1 | 4849.3 | -1138.5 | 500.2 | 5068 |
| Equity securities | -5.4 | -7.6 | 37.4 | 299.2 | 199.6 | 110.8 | 293.8 | 192 | 148.2 |
| Credit institutions | 4.9 | 9.2 | 4.5 | -161.9 | 112.4 | 34.6 | -157.0 | 121.6 | 39.1 |
| Other sectors | -10.3 | -16.8 | 32.9 | 461.1 | 87.2 | 76.2 | 450.8 | 70.4 | 109.1 |
| Debt securities | -1,155.4 | 429.7 | 181.3 | -276.9 | -121.5 | 4,738.5 | -1,432.3 | 308.2 | 4,919.8 |
| Central bank | | | | | | | 0.0 | | 0.0 |
| Government sector | -246.5 | -698.0 | -58.3 | -1.5 | -57.5 | 1.6 | -248.0 | -755.5 | -56.7 |
| Credit institutions | -460.9 | 532.6 | 20.4 | -198.4 | -62.6 | 4,741.3 | -659.3 | 470.0 | 4,761.7 |
| Other sectors | -448.0 | 595.1 | 219.2 | -77.0 | -1.4 | -4.4 | -525.0 | 593.7 | 214.8 |

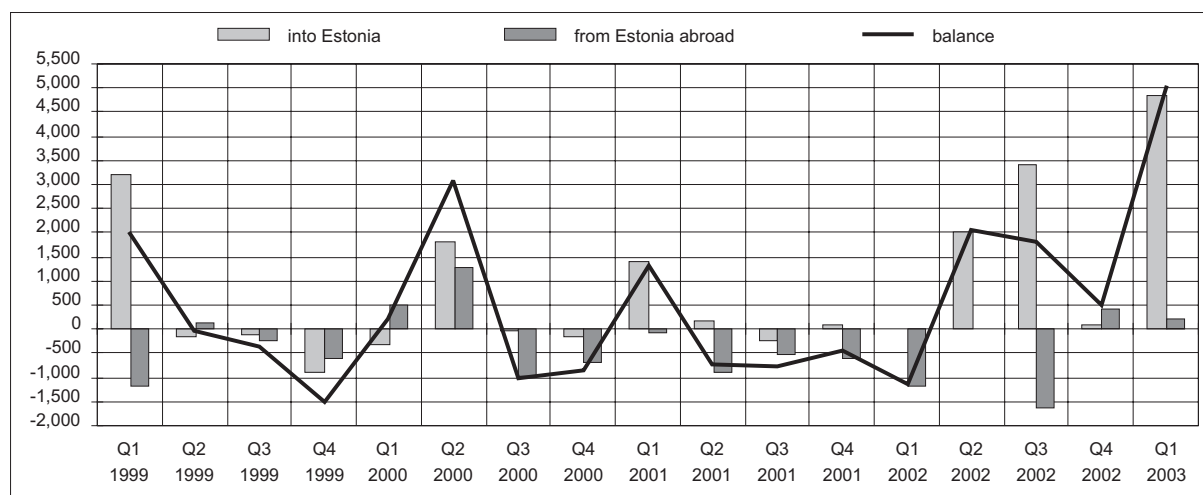


Figure 18. Portfolio investments (EEK m)

Portfolio investments abroad decreased by 0.2 billion kroons in the first quarter, mostly due to the drop of investments of the other sector into foreign debt securities.

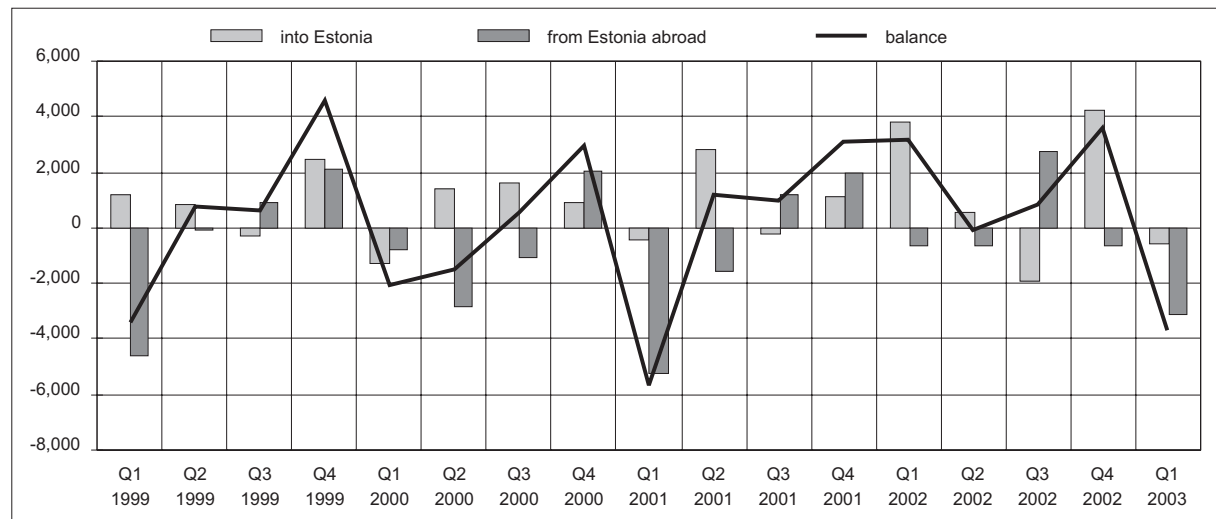
Portfolio investments into Estonia increased by 4.8 billion kroons in the first quarter – 4.7 billion kroons worth of bonds issued by credit institutions and 0.1 billion kroons worth of non-residents' investments into equity securities.

Other Investments

The outflow of **other investments** exceeded their inflow by 3.7 billion kroons in the first quarter (see Table 18 and Figure 19). The outflow of investments mostly occurred in the form of short-term capital (see Table 19), mostly due to the increase of short-term claims of credit institutions on non-residents.

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

| | Claims | | | Liabilities | | | Balance | | |
|------------------|---------------|-------------|----------------|---------------|---------------|---------------|-------------|---------------|--------------|
| | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2002 | Q4 2002 | Q1 2003 |
| Total | -643.6 | -679 | -3133.8 | 3816.6 | 4264.4 | -554.2 | 3173 | 3585.4 | -3688 |
| o/w trade credit | 38.9 | 1784.4 | -324.7 | 160.2 | -1305.4 | 240.6 | 199.1 | 479 | -84.1 |
| loans | -1,081.9 | -1,454.2 | -6,293.3 | 2,313.4 | 3,382.2 | -403.2 | 1,231.5 | 1,928.0 | -6,696.5 |
| deposits | 392.2 | -1,371.1 | 3,524.4 | 1,340.0 | 2,409.1 | -305.5 | 1,732.2 | 1,038.0 | 3,218.9 |
| other | 7.2 | 361.9 | -40.2 | 3.0 | -221.5 | -86.1 | 10.2 | 140.4 | -126.3 |

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

| | Claims | | | Liabilities | | | Balance | | |
|---------------------------|---------------|---------------|-----------------|----------------|----------------|-----------------|----------------|----------------|-----------------|
| | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2002 | Q4 2002 | Q1 2003 |
| Total | -643.6 | -679 | -3133.8 | 3816.6 | 4264.4 | -554.2 | 3173 | 3585.4 | -3688 |
| Long-term capital | 274.8 | -394.8 | 142.3 | 976.7 | 1904.2 | 576.1 | 1251.5 | 1509.4 | 718.4 |
| Central bank | 3.0 | 1.4 | | | | | 3.0 | 1.4 | 0.0 |
| Government sector | | | | -13.3 | 39.8 | -4.8 | -13.3 | 39.8 | -4.8 |
| Credit institutions | 148.5 | -29.4 | -219.3 | 208.9 | 1,038.0 | 413.0 | 357.4 | 1,008.6 | 193.7 |
| Other sectors | 123.3 | -366.8 | 361.6 | 781.1 | 826.4 | 167.9 | 904.4 | 459.6 | 529.5 |
| Short-term capital | -918.4 | -284.2 | -3,276.1 | 2,839.9 | 2,360.2 | -1,130.3 | 1,921.5 | 2,076.0 | -4,406.4 |
| Central bank | 6.4 | -1.9 | | 1,515.8 | 224.7 | 122.3 | 1,522.2 | 222.8 | 122.3 |
| Government sector | 146.9 | 296.9 | 96.5 | | | | 146.9 | 296.9 | 96.5 |
| Credit institutions | -1,220.6 | -2,588.9 | -3,415.2 | 1,528.5 | 2,912.9 | -1,375.7 | 307.9 | 324.0 | -4,790.9 |
| Other sectors | 148.9 | 2,009.7 | 42.6 | -204.4 | -777.4 | 123.1 | -55.5 | 1,232.3 | 165.7 |

Other investment claims increased by a total of 3.1 billion kroons. Short-term loans of credit institutions issued to non-residents increased by 6.6 billion kroons. Claims decreased in deposits as credit institutions, the government sector and other sector companies cut their deposits abroad, which resulted in a 3.5 billion kroons inflow of capital.

Other investment liabilities decreased by 0.5 billion kroons quarter-on-quarter. The total loan liabilities of all economic sectors decreased by 0.4 billion kroons, while the deposits of non-residents in Estonian credit institutions decreased by 0.3 billion kroons. Capital inflow was also affected by the increase of trade credit claims by 0.2 billion kroons.

RESERVES

The reserves of the balance of payments increased by 0.7 billion kroons (see Table 20 and Figure 20).

Table 20. Structure of changes in reserves

| | EEK m | | | Share (%) | | |
|--------------------------|----------------|---------------|---------------|--------------|--------------|--------------|
| | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2002 | Q4 2002 | Q1 2003 |
| Gold | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash and deposits | 2,285.4 | -3,317.1 | -2,891.2 | 93.1 | 704.3 | 417.2 |
| Securities | 166.9 | 2,708.9 | 2,198.6 | 6.8 | -575.1 | -317.3 |
| Equity securities | | | | 0.0 | 0.0 | 0.0 |
| Debt securities | -913.2 | 2,316.9 | 794.1 | -37.2 | -491.9 | -114.6 |
| Money market instruments | 1,080.1 | 392.0 | 1,404.5 | 44.0 | -83.2 | -202.7 |
| Other claims | 1.6 | 137.2 | -0.4 | 0.1 | -29.1 | 0.1 |
| Total | 2,453.9 | -471.0 | -693.0 | 100.0 | 100.0 | 100.0 |

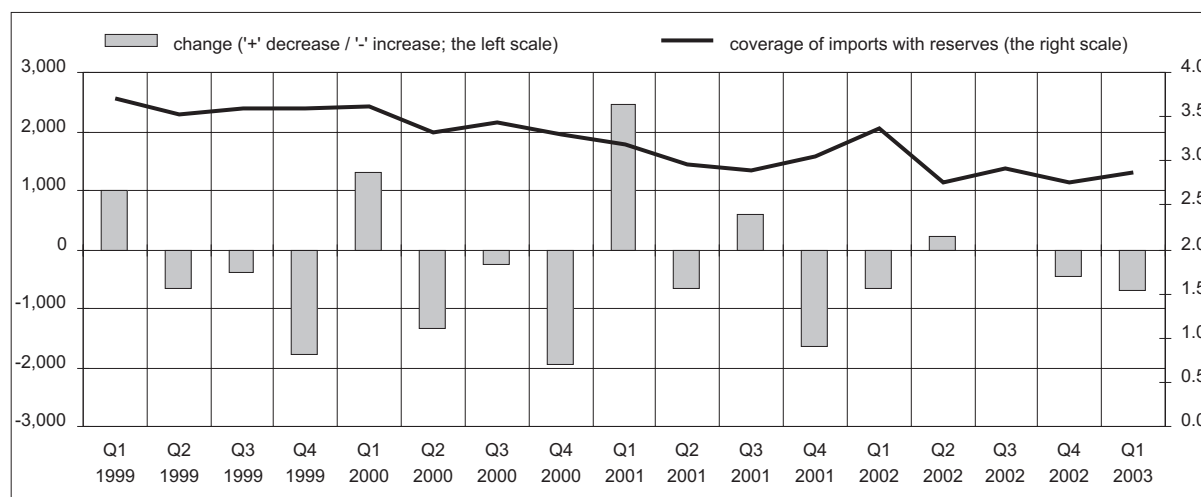


Figure 20. Change of the Estonia's gold and foreign currency reserves (EEK m) and the coverage of imports (in quarters)

ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND EXTERNAL DEBT as of 31 March 2003

At the end of the first quarter of 2003 the total volume of foreign investments made into Estonia amounted to 133.5 billion kroons. Half of it or 67.1 billion kroons were direct investments that do not contribute to the external debt (see Table 21). Major FDI areas are finance (26% of total FDI), transport, storage and communication (21%) and manufacturing (18%; see Figure 21). 66% of direct investments came from two countries – Sweden (38%) and Finland (28%; see Figure 22).

Besides direct investments, considerable investments have also been made into Estonia in the form of other investments (loans, deposits, etc, nearly 32%), and portfolio investments (18%). Quarter-on-quarter, the share of portfolio investments increased somewhat as the share of other investments decreased.

Table 21. Estonia's international investment position (EEK m)¹

| | 31.12.02 | Share (%) | 31.03.03 | Share (%) |
|--|------------------|--------------|------------------|--------------|
| EXTERNAL ASSETS | | | | |
| Direct investments abroad | 10,097.6 | 16.6 | 10,689.0 | 16.2 |
| Share capital and reinvested income | 6,635.8 | 10.9 | 7,327.8 | 11.1 |
| Other capital | 3,461.8 | 5.7 | 3,361.2 | 5.1 |
| Portfolio investments abroad | 12,308.4 | 20.2 | 12,552.5 | 19.1 |
| Equity securities | 549.2 | 0.9 | 879.3 | 1.3 |
| Debt securities | 11,759.2 | 19.3 | 11,673.2 | 17.7 |
| Long-term | 7,806.0 | 12.8 | 6,332.8 | 9.6 |
| Short-term | 3,953.2 | 6.5 | 5,340.4 | 8.1 |
| Financial derivatives | 194.2 | 0.3 | 259.3 | 0.4 |
| Other investments abroad | 23,328.4 | 38.3 | 26,722.1 | 40.6 |
| Trade credit | 4,199.4 | 6.9 | 4,695.1 | 7.1 |
| Loans | 10,646.3 | 17.5 | 16,989.7 | 25.8 |
| Long-term | 5,073.3 | 8.3 | 4,908.0 | 7.5 |
| Short-term | 5,573.0 | 9.1 | 12,081.7 | 18.3 |
| Deposits | 7,872.1 | 12.9 | 4,428.5 | 6.7 |
| Other assets | 610.6 | 1.0 | 608.8 | 0.9 |
| Reserves | 14,984.9 | 24.6 | 15,639.0 | 23.7 |
| TOTAL EXTERNAL ASSETS | 60,913.5 | 100.0 | 65,861.9 | 100.0 |
| EXTERNAL LIABILITIES | | | | |
| Direct investments into Estonia | 63,127.3 | 49.8 | 67,070.9 | 50.2 |
| Share capital and reinvested income | 50,915.4 | 40.2 | 54,050.5 | 40.5 |
| Other capital | 12,211.9 | 9.6 | 13,020.4 | 9.8 |
| Portfolio investments into Estonia | 20,596.4 | 16.2 | 24,081.2 | 18.0 |
| Equity securities | 9,483.1 | 7.5 | 8,519.4 | 6.4 |
| Debt securities | 11,113.3 | 8.8 | 15,561.8 | 11.7 |
| Long-term | 11,097.1 | 8.8 | 15,525.0 | 11.6 |
| Short-term | 16.2 | 0.0 | 36.8 | 0.0 |
| Financial derivatives | 88.7 | 0.1 | 231.9 | 0.2 |
| Other investments into Estonia | 42,967.9 | 33.9 | 42,144.9 | 31.6 |
| Trade credit | 6,763.8 | 5.3 | 6,939.1 | 5.2 |
| Loans | 21,715.2 | 17.1 | 21,200.1 | 15.9 |
| Long-term | 17,556.2 | 13.8 | 18,205.8 | 13.6 |
| Short-term | 4,159.0 | 3.3 | 2,994.3 | 2.2 |
| Deposits | 11,863.6 | 9.4 | 11,558.1 | 8.7 |
| Other liabilities | 2,625.3 | 2.1 | 2,447.6 | 1.8 |
| TOTAL EXTERNAL LIABILITIES | 126,780.3 | 100.0 | 133,528.9 | 100.0 |
| NET INTERNATIONAL INVESTMENT POSITION | -65,866.8 | | -67,667.0 | |
| Short-term | -6,930.3 | | -3,211.0 | |
| Long-term | -58,936.5 | | -64,456.0 | |

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

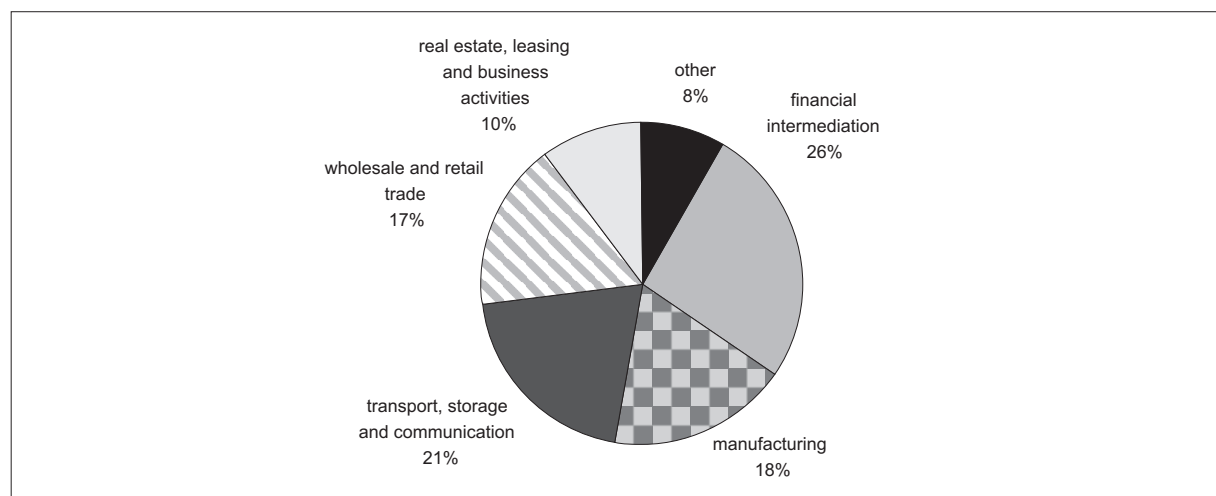


Figure 21. Direct investment position in Estonia by spheres of activity as of 31 March 2003

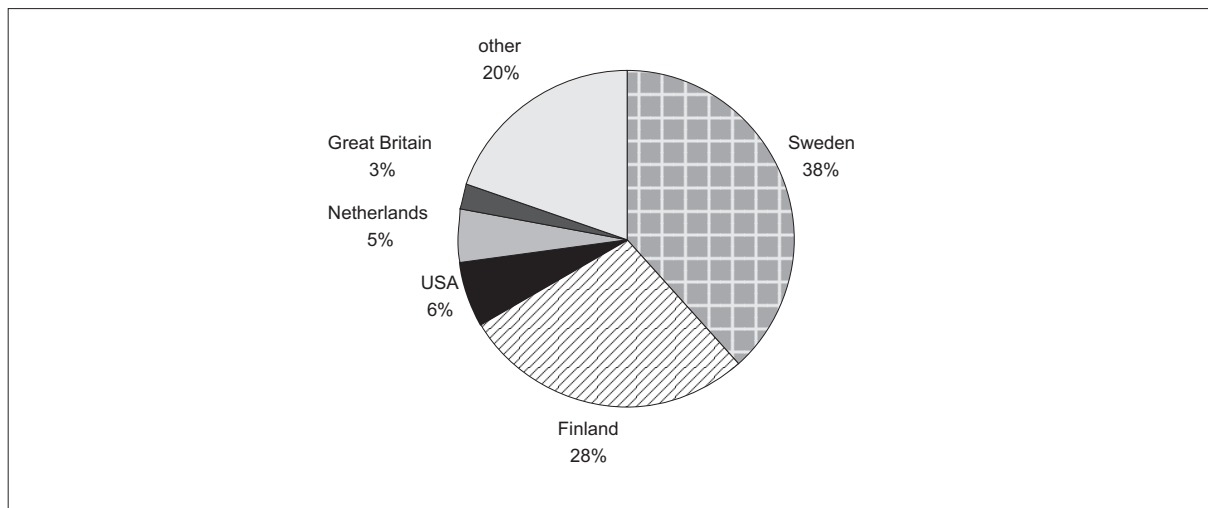


Figure 22. Direct investment position in Estonia by countries as of 31 March 2003

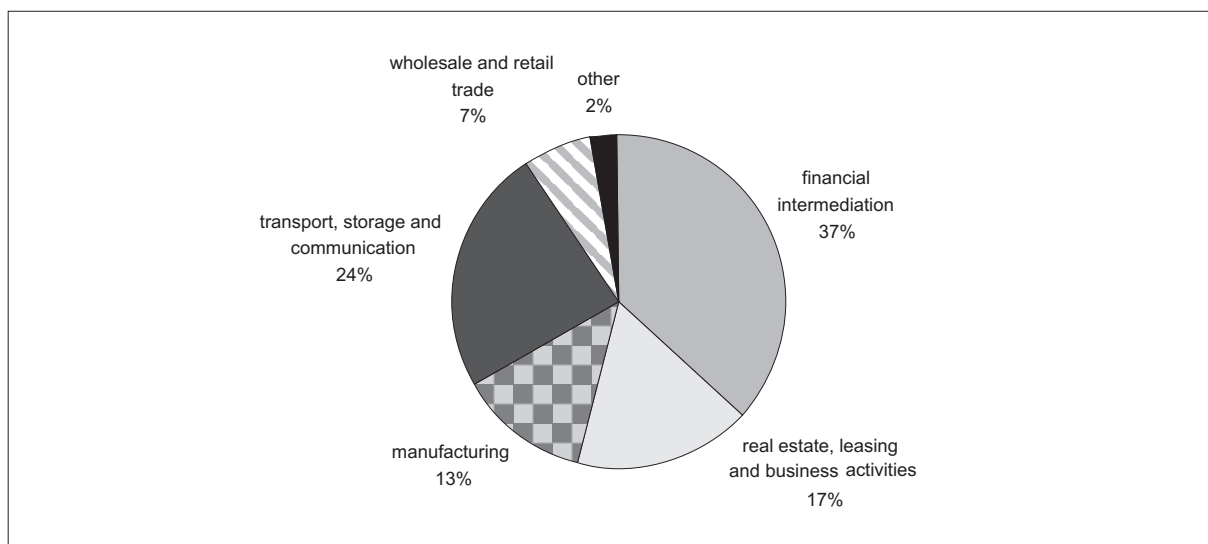


Figure 23. Estonia's direct investment position abroad by spheres of activity as of 31 March 2003

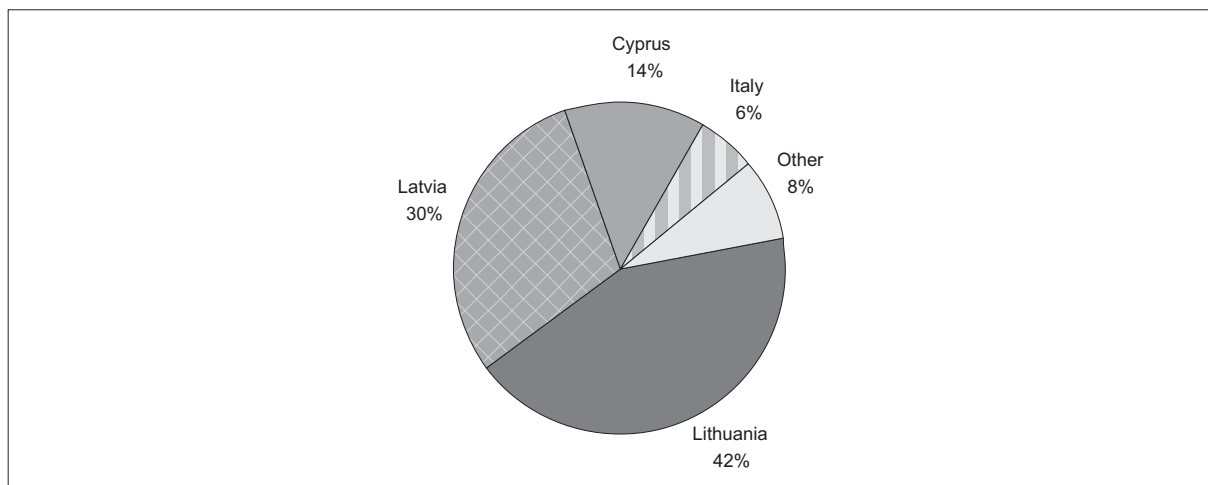


Figure 24. Estonia's direct investment position abroad by countries as of 31 March 2003

Table 22. External debt (EEK m)

| | 31.12.02 | Share (%) | 31.03.03 | Share (%) |
|--------------------------------|------------------|--------------|------------------|--------------|
| DEBT LIABILITIES | | | | |
| Short-term | 24,184.8 | 34.4 | 22,853.4 | 30.5 |
| Government sector | 0.0 | 0.0 | | 0.0 |
| Central bank | 255.5 | 0.4 | 185.4 | 0.2 |
| Credit institutions | 15,187.7 | 21.6 | 13,811.0 | 18.5 |
| Other sectors | 8,741.6 | 12.4 | 8,857.0 | 11.8 |
| Long-term | 46,072.6 | 65.6 | 51,960.1 | 69.5 |
| Government sector | 3,383.2 | 4.8 | 3,380.2 | 4.5 |
| Central bank | 0.0 | 0.0 | | 0.0 |
| Credit institutions | 10,754.1 | 15.3 | 15,830.8 | 21.2 |
| Other sectors | 31,935.3 | 45.5 | 32,749.1 | 43.8 |
| GROSS EXTERNAL DEBT | 70,257.4 | 100.0 | 74,813.5 | 100.0 |
| CLAIMS | | | | |
| Short-term | 37,136.6 | 64.6 | 42,739.2 | 69.6 |
| Government sector | 1,939.7 | 3.4 | 3,220.7 | 5.2 |
| Central bank | 14,943.2 | 26.0 | 15,598.1 | 25.4 |
| Credit institutions | 12,851.1 | 22.4 | 16,224.8 | 26.4 |
| Other sectors | 7,402.6 | 12.9 | 7,695.6 | 12.5 |
| Long-term | 20,318.6 | 35.4 | 18,701.8 | 30.4 |
| Government sector | 4,488.1 | 7.8 | 3,169.5 | 5.2 |
| Central bank | 12.4 | 0.0 | 12.1 | 0.0 |
| Credit institutions | 1,253.6 | 2.2 | 1,472.9 | 2.4 |
| Other sectors | 14,564.5 | 25.3 | 14,047.3 | 22.9 |
| CLAIMS TOTAL | 57,455.2 | 100.0 | 61,441.0 | 100.0 |
| NET EXTERNAL DEBT | | | | |
| Short-term | 12,951.8 | | 19,885.8 | |
| Government sector | 1,939.7 | | 3,220.7 | |
| Central bank | 14,687.7 | | 15,412.7 | |
| Credit institutions | -2,336.6 | | 2,413.8 | |
| Other sectors | -1,339.0 | | -1,161.4 | |
| Long-term | -25,754.0 | | -33,258.3 | |
| Government sector | 1,104.9 | | -210.7 | |
| Central bank | 12.4 | | 12.1 | |
| Credit institutions | -9,500.5 | | -14,357.9 | |
| Other sectors | -17,370.8 | | -18,701.8 | |
| NET EXTERNAL DEBT TOTAL | -12,802.2 | | -13,372.5 | |

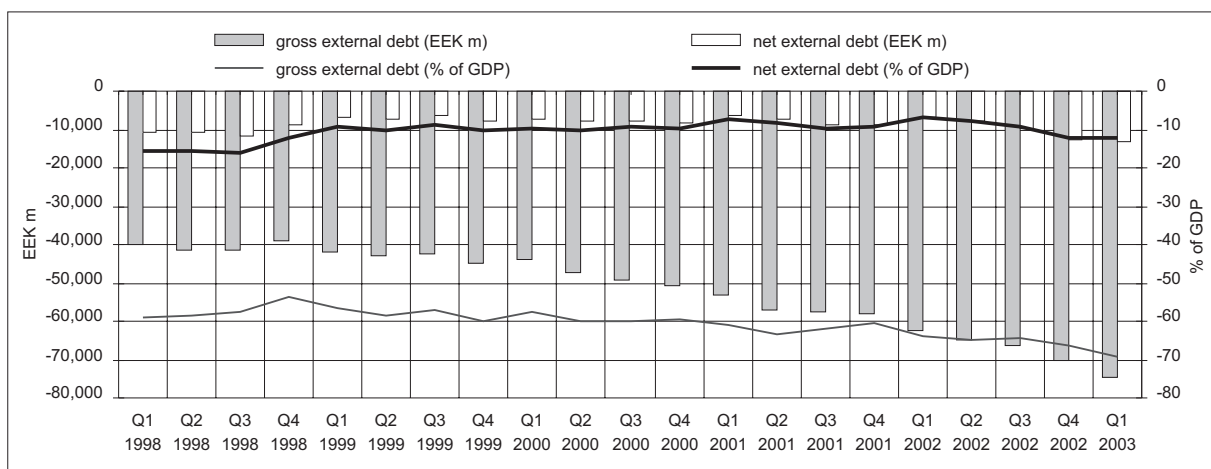


Figure 25. Estonia's gross and net external debt (EEK m, the left scale) and % of GDP (the right scale)

Estonian investments into foreign countries amounted to nearly 66 billion kroons by the end of the first quarter. The bulk of it was made up of loans, deposits and the gold and foreign currency 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 financial intermediation (37% of the total direct investments abroad), transport, storage and communication (24%), as well as real estate, leasing and business services (17%; see Figure 23). Over 70% of Estonian foreign investments have been made into the other Baltic countries – Lithuania (42%) and Latvia (30%; see Figure 24).

Due to the dominance of external liabilities, Estonia's net investment position was negative by 67.7 billion kroons at the end of the first quarter of 2003.

On 31 March 2003, Estonia's gross external debt amounted to 74.8 billion kroons (67.8% of the GDP of the past four quarters) and net external debt (debt-related external claims minus liabilities) stood at 13.4 billion kroons (12.1% of the GDP of the past four quarters; see Table 22). The dynamics of the Estonian gross and net external debt can be seen in Figure 25.

INTERNATIONAL TRANSACTIONS OF CUSTOMERS VIA THE ESTONIAN BANKING SYSTEM

Number and Turnover of Transactions

Year-on-year, **the number of international payments³** increased in the first quarter of 2003, and this concerned both incoming and outgoing payments (see Table 23 and Figure 26). The number of incoming payments increased by a third and the number of outgoing payments was up 8%. Quarter-on-quarter, the number of both incoming and outgoing payments decreased.

The **turnover of payments** increased as well, while the turnover of outgoing payments increased faster than the turnover of incoming payments – by 12 and 9%, respectively (see Table 24 and Figure 27). The average size of incoming payments increased to 162,100 kroons, while the average size of outgoing payments (165,400 kroons) remained slightly smaller quarter-on-quarter (in the fourth quarter of 2002 the respective figures were 151,100 and 187,500 kroons).

Table 23. Number of international payment transactions

| | In thousands | | | Change (%) | |
|-------------------|--------------|------------|------------|---------------------|---------------------|
| | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2003/ Q4 2002 | Q1 2003/ Q1 2002 |
| Incoming payments | 132 | 166 | 142 | -14 | 8 |
| Outgoing payments | 112 | 153 | 149 | -3 | 32 |
| Total | 244 | 319 | 291 | -9 | 19 |

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

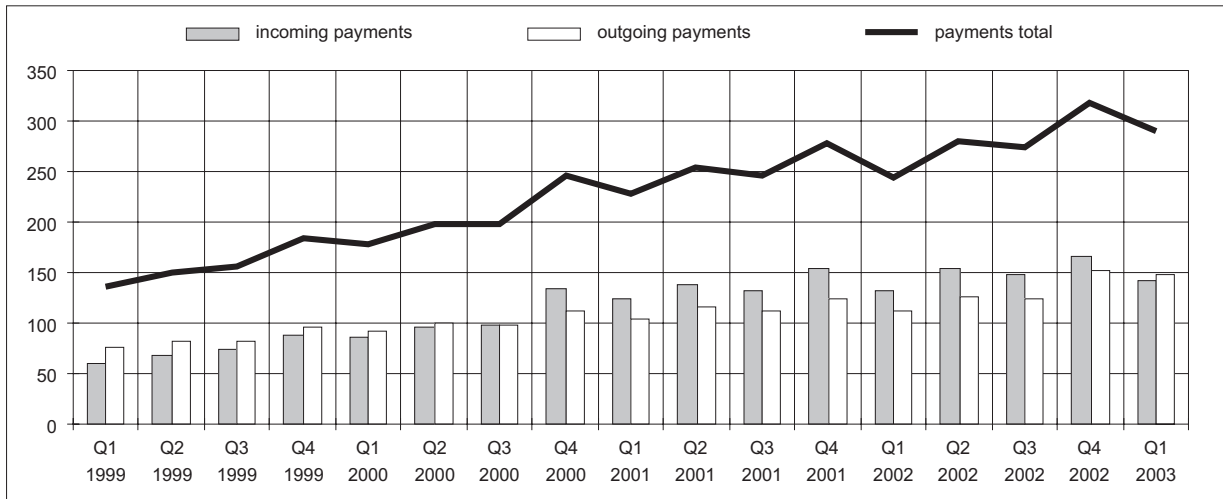


Figure 26. Number of international payment transactions (in thousands)

Table 24. Turnover of international payment transactions

| | EEK billion | | | Change (%) | |
|-------------------|-------------|-------------|-------------|---------------------|---------------------|
| | Q1 2002 | Q4 2002 | Q1 2003 | Q1 2003/ Q4 2002 | Q1 2003/ Q1 2002 |
| Incoming payments | 20.3 | 25.1 | 22.9 | -9 | 12 |
| Outgoing payments | 22.6 | 28.7 | 24.6 | -14 | 9 |
| Total | 42.9 | 53.8 | 47.5 | -12 | 11 |

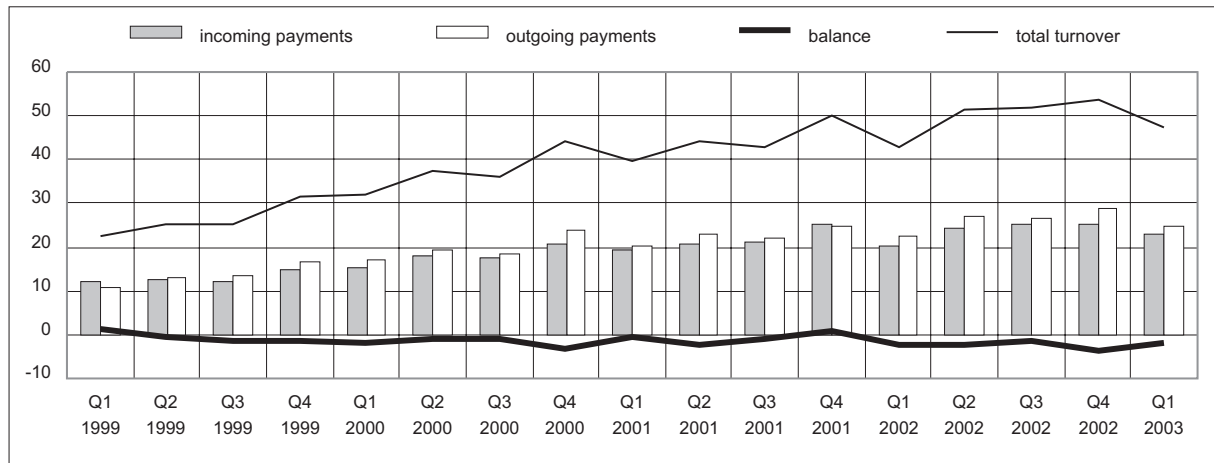


Figure 27. Turnover and balance of international payment transactions (EEK billion)

Use of Currencies⁴

In the **turnover** ranking of major currencies used by Estonian credit institutions for international payments in the first quarter of 2003 the share of the euro increased by eight percentage points year-on-year, accounting for 51% of the total turnover (see Figures 28 and 29). The use of the competing currency, the

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.

US dollar, decreased by 4.4 percentage points year-on-year and accounted for 34% of the total turnover. The share of the Estonian kroon dropped by 2.5 percentage points and amounted to 8% of payments. The share of other major currencies changed little.

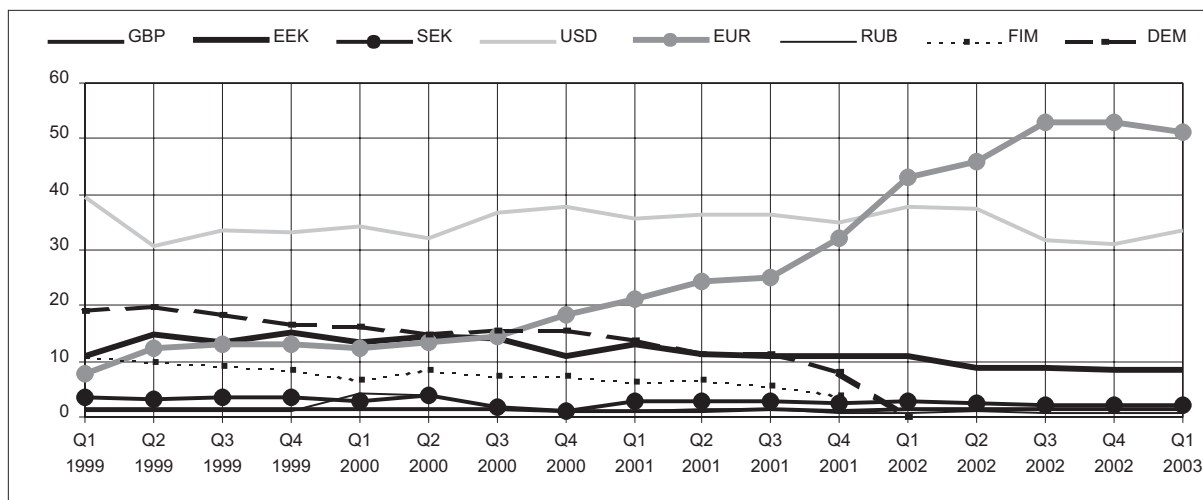


Figure 28. Currencies used in international payment transactions (%)

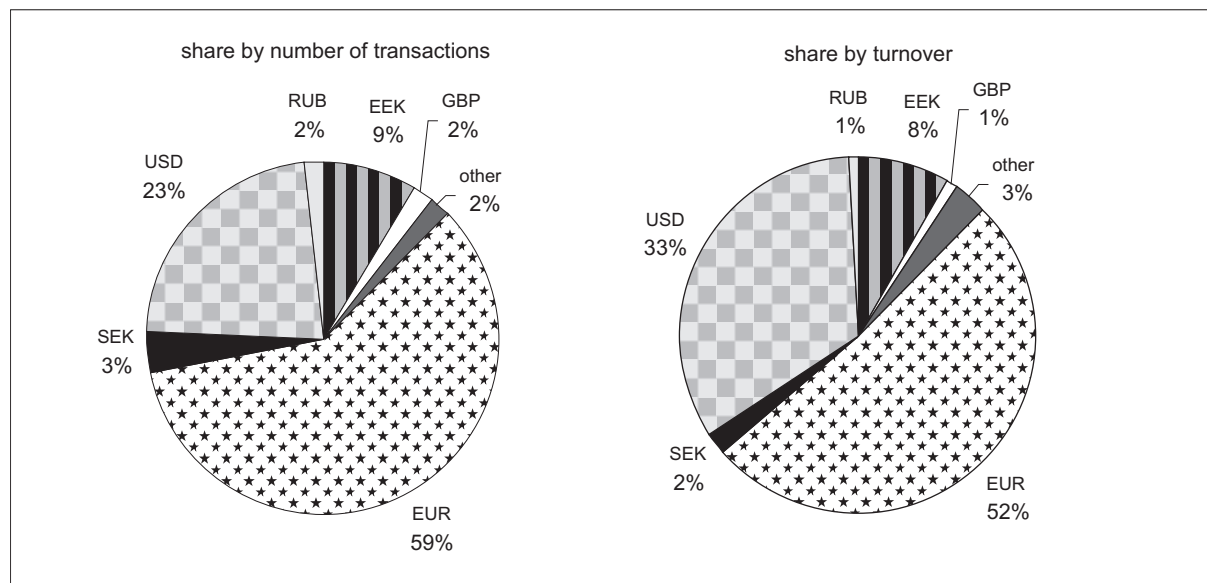


Figure 29. Use of major currencies by turnover and number of international payments