
SHORT SURVEY

- **The deficit of the second quarter balance of payments amounted to 4.2 billion kroons or 14.7% of the expected GDP, growing by nearly one fifth year-on-year (see Table 1).**
- **The negative foreign trade balance remained the main source of the deficit, caused by the persistently high import demand for both investments and consumer goods.**
- **The size of the current account deficit was also affected by the distribution of profits earned from foreign investments, which was more intensive in the second quarter than in other periods of the year.**
- **Besides domestic savings, investments were partly covered from foreign loans and net inflow of direct investments, and to a lesser extent (nearly 0.4 billion kroons) also from reserves.**

The largest component of the **CURRENT ACCOUNT** deficit – **foreign trade deficit** – increased by just 0.3 billion kroons year-on-year, totalling 5.1 billion kroons. This was slightly over 16% of the GDP or similar to the last year's indicator. Despite the continuing weakness of the economies of Estonia's major trade partners, export of goods increased by 9.4%. Export increased in practically all groups of goods, with the exception of food and clothes, headgear and footwear. Normal export¹ of metals, transport vehicles, timber and paper products, machinery and equipment increased by almost 20%. Import increased by nearly 9% as a result of the constantly high domestic demand, growing at the cost of the increase of import of goods for free circulation, capital goods and transport vehicles. Import of processed goods was unchanged year-on-year, while export increased by more than 8%; processed goods made up nearly one third of exports and less than a fifth of imports. Machinery and equipment accounted for nearly 60% of the processed goods, while clothes, footwear and headgear made up 20%.

Estonia's major trade partners were members of the European Union, which accounted for 69% of export and 64% of import. Import of goods from the CIS countries became more active.

The surplus of **services balance** amounted to 2.6 billion kroons, down 0.2 billion kroons year-on-year. Transport and travel services accounted for 76% of the turnover of the services balance. Both export and import decreased, by 11 and 13%, respectively. The turnover of travel services increased, particularly their import, which cut the surplus of travel services slightly against the second quarter of 2002. The turnover of construction services decreased somewhat, mostly due to the 40% drop in their import.

The deficit of **income** balance was record high, amounting to 2 billion kroons. Income earned in Estonia by non-residents from capital and labour constituted 2.9 billion kroons and similar income earned by Estonian residents from abroad made up 0.9 billion kroons. Almost all of it was income earned from capital, with income from non-residents' direct investments accounting for 73%. However, thorough changes took place in the structure of investment income earned by residents from abroad – while in the second quarter of 2002 income from direct investments accounted for just 14% of the total investment

¹ Export without goods processed in Estonia.

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

	1999	2000	2001	2002					2003	
	Total	Total	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2
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	-5,209.8	-4,200.2
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	-4,351.0	-2,526.3
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	-5,621.0	-5,159.5
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	14,303.8	16,123.9
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	-21,283.4
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	1,270.0	2,633.2
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	6,573.5	8,231.3
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	-5,303.6	-5,598.1
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	-1,321.2	-1,989.8
Income: credit	1,964.3	2,008.0	2,994.7	638.8	743.1	1,239.5	657.9	3,279.3	865.8	920.8
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	-2,187.0	-2,910.6
Transfers: net	1,653.5	1,959.0	2,660.3	549.8	551.1	526.2	750.2	2,377.3	462.4	315.9
Transfers: credit	2,257.5	2,454.8	3,174.1	798.2	836.4	785.1	975.5	3,395.2	762.2	591.6
Transfers: debit	-604.0	-495.8	-513.8	-248.4	-285.3	-258.9	-225.3	-1,017.9	-299.8	-275.7
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	5,573.3	3,186.8
Capital account	17.8	278.5	90.0	138.0	46.1	121.2	15.4	320.7	60.1	-23.8
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	5,513.2	3,210.6
Direct investments	3,208.2	5,601.4	5,901.3	1,715.1	168.1	-30.8	759.4	2,611.8	4,221.4	1,698.5
Abroad	-1,239.8	-1,043.1	-3,528.3	-319.3	-891.0	-686.3	-291.8	-2,188.4	-355.1	-131.2
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	4,576.5	1,829.7
Portfolio investments	156.0	1,435.0	-699.7	-1,138.5	2,046.5	1,795.4	500.2	3,203.6	4,935.4	-4,261.3
Assets	-1,894.9	153.1	-2,100.2	-1,160.8	11.8	-1,631.1	422.1	-2,358.0	89.7	-1,793.3
Equity securities	187.0	53.3	236.5	-5.4	74.5	-52.4	-7.6	9.1	48.6	-79.9
Debt securities	-2,081.9	99.8	-2,336.7	-1,155.4	-62.7	-1,578.7	429.7	-2,367.1	41.1	-1,713.4
Liabilities	2,050.9	1,281.9	1,400.5	22.3	2,034.7	3,426.5	78.1	5,561.6	4,845.7	-2,468.0
Equity securities	3,292.3	-538.8	568.4	299.2	517.0	-103.6	199.6	912.2	103.1	660.6
Debt securities	-1,241.4	1,820.7	832.1	-276.9	1,517.7	3,530.1	-121.5	4,649.4	4,742.6	-3,128.6
Other investments	2,534.6	-41.7	-428.5	3,173.0	-109.7	808.2	3,585.4	7,456.9	3,643.6	5,773.4
Assets	-1,651.2	-2,638.3	-3,716.7	-643.6	-672.5	2,718.7	-679.0	723.6	-3,292.9	2,967.9
Long-term	421.8	-1,108.7	-322.7	274.8	95.9	-1,058.9	-394.8	-1,083.0	146.6	-162.2
Short-term	-2,073.0	-1,529.6	-3,394.0	-918.4	-768.4	3,777.6	-284.2	1,806.6	-3,439.5	3,130.1
Liabilities	4,185.8	2,596.6	3,288.2	3,816.6	562.8	-1,910.5	4,264.4	6,733.3	-350.7	2,805.5
Long-term	1,691.5	-549.9	1,814.4	976.7	-161.3	-890.6	1,904.2	1,829.0	656.9	606.0
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	-1,007.6	2,198.9
Errors and omissions	-511.3	90.7	296.2	208.0	360.7	101.2	-100.1	569.8	329.5	663.1
Overall balance	1,797.6	2,270.5	-730.2	655.4	-225.9	26.3	471.0	926.8	693.0	-350.3
Reserve assets	-1,797.6	-2,270.5	730.2	-655.4	225.9	-26.3	-471.0	-926.8	-693.0	350.3

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

income and 60% was earned from portfolio investments, then in the second quarter of 2003 the respective figures were 65 and 15%. Dividends were the main component of direct investment income for both non-residents and residents. The rest was made up of reinvested income and undistributed profits, which do not involve any real movement of money.

The surplus of **transfers** balance totalled 0.3 billion kroons.

The positive balance of **CAPITAL AND FINANCIAL ACCOUNT** stood at 3.2 billion kroons, half of which was the inflow of direct investments and the rest was capital inflow in the form of other investments.

Net inflow of **direct investments** amounted to 1.7 billion kroons. Non-residents invested 1.8 billion kroons in Estonia and Estonian residents made 131 million kroons worth of direct investments abroad.

Nearly half of the direct investments made into Estonia came from the increase of undistributed profits, while fixed capital increased by 20%. 70% of direct investments came from Finland, followed by almost

equal contributions from Denmark, Belgium, Great Britain and Sweden. 45% of the direct investment increase went into retail and wholesale trade and 36% into manufacturing.

Fixed capital decreased, while undistributed profits and loan capital increased in the direct investments placed abroad by residents. Investments were mostly made into Finland, Lithuania and Russia, with finance as well as retail and wholesale trade sectors dominating.

Unlike in the second quarter of 2002, which was characterised by the net inflow of **portfolio investments**, the second quarter of 2003 saw a reverse process – the outflow of portfolio investments exceeded their inflow by 2.8 billion kroons. The outflow of capital was based on the decrease of bond liabilities of credit institutions and the increase of debt security claims of the government sector.

While last year the inflow and outflow of **other investments** was more or less balanced, then in the second quarter of 2003 a considerable inflow of other investment capital took place. Net inflow amounted to 4.6 billion kroons and this was the main source of capital inflow. The inflow took place mostly in the form of short-term capital and mainly through credit institutions, through the decrease of claims as well as the increase of liabilities.

CURRENT ACCOUNT

In the second quarter of 2003, the current account deficit of the balance of payments amounted to 4.2 billion kroons, down 1 billion kroons quarter-on-quarter. This is the usual seasonal decrease of recent years and does not indicate any improvement of the external balance. This is also confirmed by the relative increase of the total current account deficit of the last four quarters (see Figure 1).

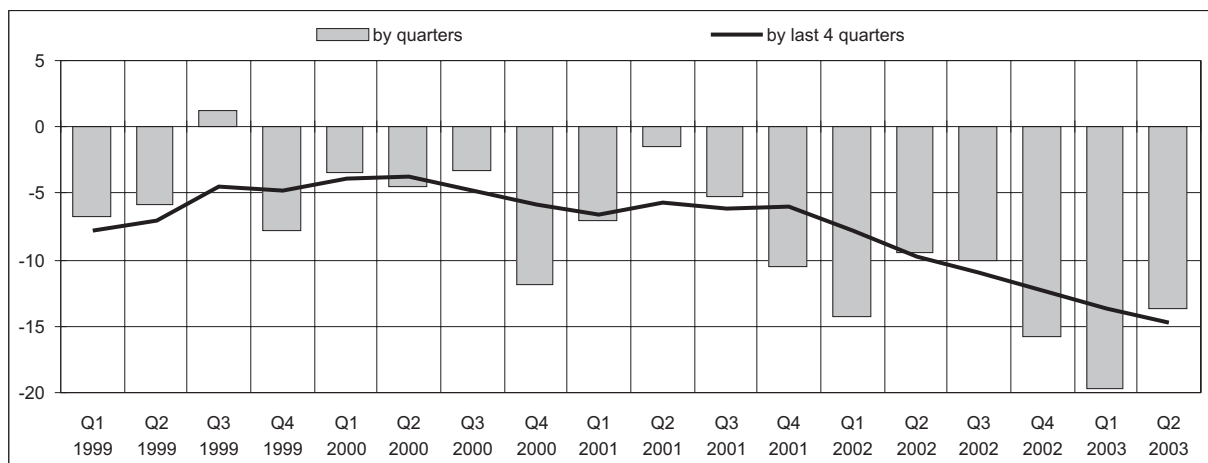


Figure 1. Current account balance to the GDP (%)

As compared to the second quarter of 2002, the current account deficit of the second quarter of 2003 was 1.5 billion kroons larger and averaged 14.7% of the four-quarter expected GDP.

The year-on-year increase of the current account deficit was mostly based on the growth of the deficit of income balance by 0.7 billion kroons, while the contribution of other sub-balances to the total deficit was approximately equal (see Figure 2). Compared to 2002, foreign trade deficit increased by 0.3 billion kroons and the surplus of the services and transfers balances both decreased by 0.2 billion kroons.

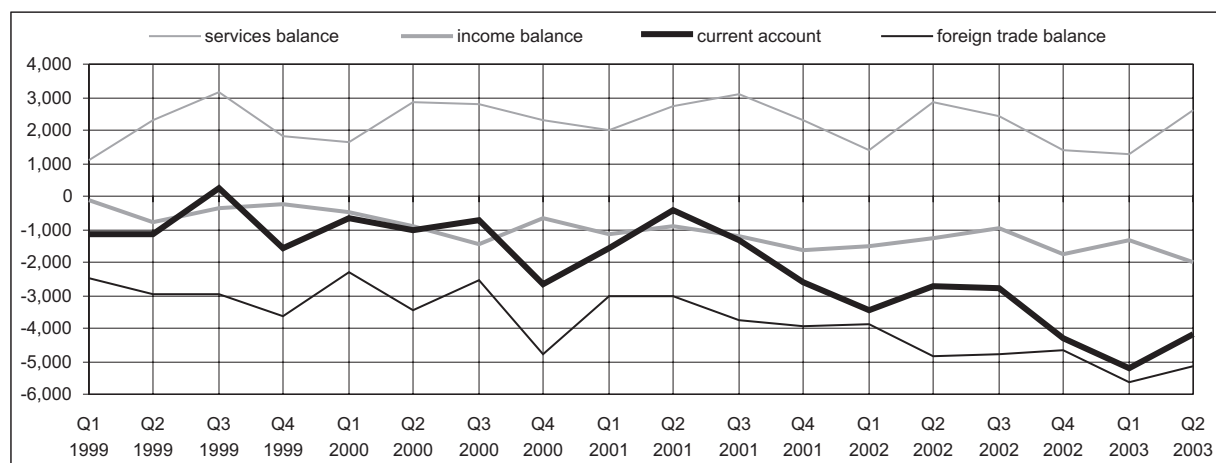


Figure 2. Comparison of the current account, foreign trade balance, income balance and services balance of the Estonian balance of payments (in f.o.b prices, EEK m)

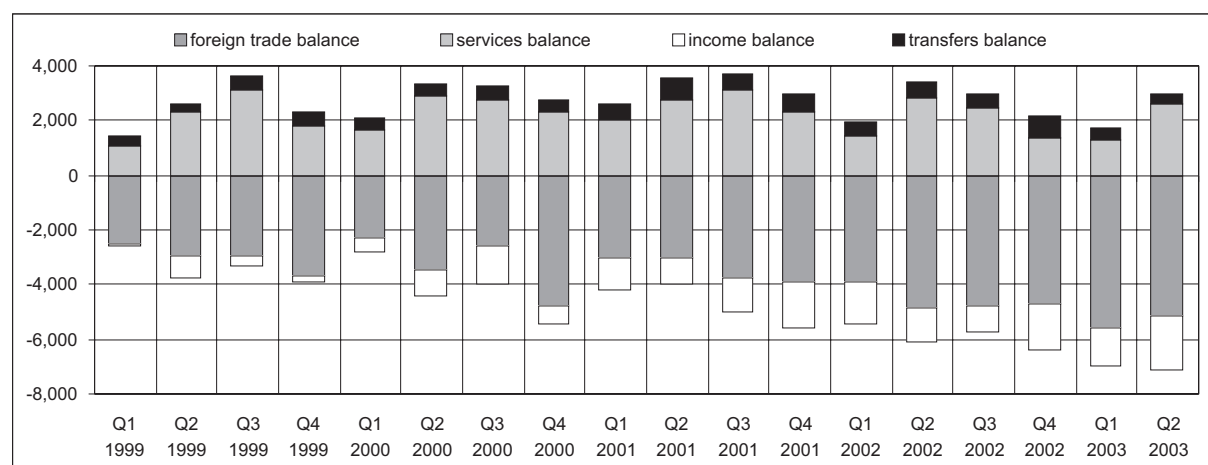


Figure 3. Current account structure (EEK m)

Regardless of the rapid increase of income balance deficit, the bulk of current account deficit (60%) derived from the deficit of goods and services balance (see Figure 3), which amounted to 8.1% of the expected second quarter GDP. The annual export of goods increased by 9.4%, despite the continuing weakness of external demand, and slightly exceeded the growth of their import (8.7%). This was due to the considerable improvement of the terms of trade – export prices increased while import prices went down. Year-on-year, the terms of trade improved by 10.8% in the second quarter, while in the first quarter of 2003 the terms of trade deteriorated by 1.3%.

The low of the services sector continued in the second quarter – both export and import decreased year-on-year.

Goods

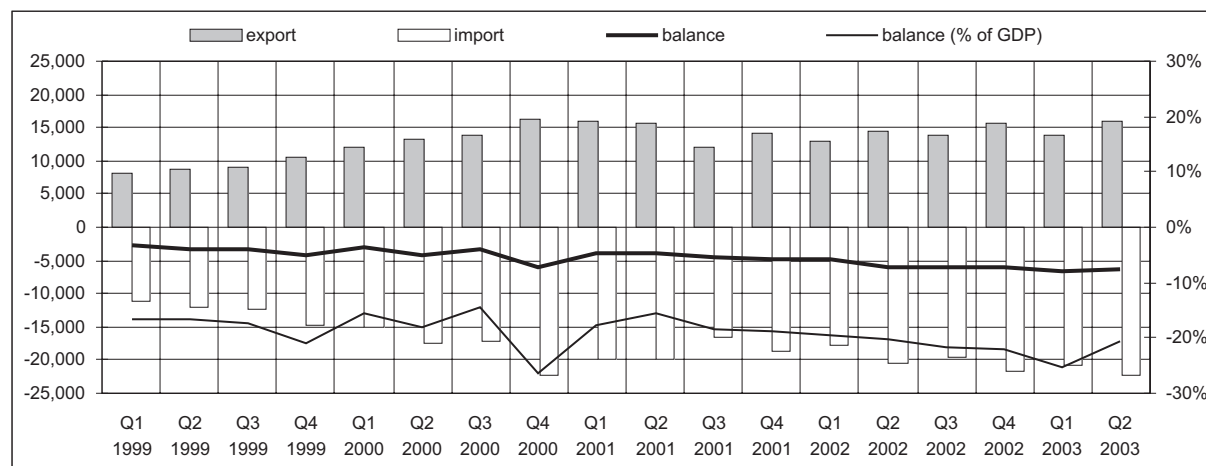
In the second quarter of 2003, the deficit of the foreign trade balance decreased by 460 million kroons quarter-on-quarter, due to the faster growth of export, and amounted to -5.2 billion kroons (see Table 2). The export of goods increased by 12.7% and import grew by 6.8%. Year-on-year, both export and import increased, but, due to the bigger volume of import, the deficit increased.

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

	Special export			Special import			Balance (EEK m)
	Volume* (EEK m)	Change against the previous period (%)	Share in total export of goods and services (%)	Volume* (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	14,303.8	-11.0	68.5	19,924.8	-4.0	79.0	-5,621.0
Q2 2003	16,123.9	12.7	66.2	21,283.4	6.8	79.2	-5,159.5

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

The export of goods according to **special trade statistics**² amounted to 15.9 billion kroons and import in c.i.f prices was 22.2 billion kroons (see Figure 4). Quarter-on-quarter, the trade deficit was down but it increased against the second quarter of 2002, amounting to 6.4 billion kroons.

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

² 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 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 13% quarter-on-quarter increase of **special export** was ensured by the increase of the normal export³ of capital goods and goods for intermediate consumption (see Table 3). Export of goods processed in Estonia increased by just 1.3%. Year-on-year, special export increased by 9.5% and growth concerned both normal export and export of goods processed in Estonia. The 7.4% increase of **special import** resulted from the 10% increase of normal import, while import of goods for processing decreased by 2.3% (see Table 4). Year-on-year, import of goods for free circulation increased, while import of goods for processing was unchanged.

Table 3. Special export by end consumption

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2002	Q1 2003	Q2 2003	Q2 2002	Q1 2003	Q2 2003	Q2 2003/ Q1 2003	Q2 2003/ Q2 2002
Normal export	10,281.6	9,517.6	11,312.1	71.0	68.0	71.4	18.9	10.0
Capital goods	556.8	498.4	654.4	3.8	3.6	4.1	31.3	17.5
Goods of intermediate consumption	6,378.3	5,776.6	7,288.3	44.1	41.3	46.0	26.2	14.3
Consumer goods	3,077.2	2,957.9	3,087.8	21.3	21.1	19.5	4.4	0.3
Other	269.3	284.6	281.6	1.9	2.0	1.8	-1.0	4.5
Export of processed goods	4,189.9	4,481.1	4,539.9	29.0	32.0	28.6	1.3	8.4
Capital goods	846.4	1,285.4	938.6	5.8	9.2	5.9	-27.0	10.9
Goods of intermediate consumption	2,350.7	2,195.9	2,619.6	16.2	15.7	16.5	19.3	11.4
Consumer goods	989.2	947.6	906.4	6.8	6.8	5.7	-4.3	-8.4
Other	3.7	52.2	75.3	0.0	0.4	0.5	44.1	1,957.0
Total	14,471.5	13,998.6	15,852.0	100.0	100.0	100.0	13.2	9.5

Table 4. Special import by end consumption

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2002	Q1 2003	Q2 2003	Q2 2002	Q1 2003	Q2 2003	Q2 2003/ Q1 2003	Q2 2003/ Q2 2002
Import for free circulation (normal import)	16,660.2	16,840.5	18,464.9	81.7	81.5	83.1	9.6	10.8
Capital goods	2,880.8	3,683.8	3,965.8	14.1	17.8	17.9	7.7	37.7
Goods of intermediate consumption	7,639.4	7,593.8	8,091.8	37.5	36.7	36.4	6.6	5.9
Consumer goods	4,185.5	3,529.3	4,097.0	20.5	17.1	18.4	16.1	-2.1
Other	1,954.4	2,033.5	2,310.3	9.6	9.8	10.4	13.6	18.2
Import of processed goods	3,730.9	3,833.1	3,743.4	18.3	18.5	16.9	-2.3	0.3
Capital goods	830.6	668.2	565.7	4.1	3.2	2.5	-15.3	-31.9
Goods of intermediate consumption	2,602.5	2,903.4	2,912.2	12.8	14.0	13.1	0.3	11.9
Consumer goods	282.9	244.8	256.3	1.4	1.2	1.2	4.7	-9.4
Other	14.9	16.6	9.2	0.1	0.1	0.0	-44.9	-38.6
Total	20,391.1	20,673.6	22,208.3	100.0	100.0	100.0	7.4	8.9

In the **export of processed goods**, export of capital goods decreased quarter-on-quarter, while export of goods for intermediate consumption increased. Namely, the export of mobile communication equipment classified as capital goods fell by 34% or by 370 million in three months, whereas the export of processed metal (galvanised steel) and electrical appliances (components of wind-driven generators) increased by the same amount. Besides the above items, parts of mobile communication equipment, cables and metal structures were exported as well. The share of capital goods decreased also in the **import of processed**

³ 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.

goods. Mostly components of electrical and electronic industry products and light industry raw materials were imported for processing in Estonia.

Normal export surged by 19% due to the growing export of **goods for intermediate consumption**, primarily timber, timber products and furniture. The export of **consumer goods** increased slightly and consisted mostly of furniture, food (fish and dairy products) and textile industry products. Traditionally, the share of **capital goods** in the normal export remained below 5%.

Import for free circulation or normal import increased slower than export but reached 22.2 billion kroons. The bulk of the 4 billion kroons import of **capital goods** was made up of transport vehicles and machinery as well as various equipment: railway cars, trucks, tractors, trailers, road-building machinery and computers. **Goods for intermediate consumption** included car parts, timber and timber products, metal products, natural gas, etc. Import of **consumer goods** increased by 16% and traditionally included medicines, cigarettes, plastic products and food. The import of passenger cars, classified under **other goods**, increased by 25%, whereas the import of motor fuel dropped by 11%.

Quarter-on-quarter, **foreign trade deficit** decreased by 0.3 billion kroons and totalled 6.4 billion kroons (see Table 5). The surplus of processed goods import increased by nearly 150 million kroons and amounted to 0.8 billion kroons; the deficit of foreign trade activity unrelated to subcontracting stood at 7.2 billion kroons.

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

	Q2 2002	Q1 2003	Q2 2003
Balance of normal export and normal import	-6,378.5	-7,322.9	-7,152.8
Capital goods	-2,324.0	-3,185.4	-3,311.3
Goods of intermediate consumption	-1,261.1	-1,817.2	-803.5
Consumer goods	-1,108.3	-571.4	-1,009.2
Other	-1,685.1	-1,749.0	-2,028.8
Balance of export and import of processed goods	458.9	648.0	796.5
Capital goods	15.7	617.2	372.9
Goods of intermediate consumption	-251.8	-707.5	-292.6
Consumer goods	706.3	702.7	650.1
Other	-11.3	35.6	66.1
Total	-5,919.6	-6,674.9	-6,356.3

Across groups of countries, export of goods to the European Union (EU) increased the most – by 11% (see Table 6). The EU plus acceding countries accounted for 82% of Estonia's export. The three major export partners were still Finland, Sweden and Germany, accounting for 51% of the total export. These three countries received 73% of goods exported to the EU. Among Central and Eastern European countries,

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

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2002	Q1 2003	Q2 2003	Q2 2002	Q1 2003	Q2 2003	Q2 2003/ Q1 2003	Q2 2003/ Q2 2002
EU countries	9,769.2	9,913.5	10,954.7	67.5	70.8	69.1	10.5	12.1
Central and Eastern European countries	1,852.7	1,909.8	2,020.7	12.8	13.6	12.7	5.8	9.1
CIS countries	676.8	665.4	995.7	4.7	4.8	6.3	49.6	47.1
Other	1,632.3	1,499.7	1,876.9	11.3	10.7	11.8	25.2	15.0
Customs-free zone	540.6	10.2	3.9	3.7	0.1	0.0	-61.4	-99.3
Total	14,471.5	13,998.6	15,852.0	100.0	100.0	100.0	13.2	9.5

the top four included Latvia, Lithuania, Hungary and Poland; export to other Baltic countries was up 14%. Norway, the USA and South Korea dominated among other countries. Among the CIS countries, Estonia's major trade partners included Russia and the Ukraine, with export growing by 57 and 34%, respectively. This can partly be attributed to the improved quality of statistics. As no destination country has to be reported for goods waiting to be exported in free trade zones (ie it can be both Estonia as well as a foreign country), part of export has remained unidentified in 2000–2002. In 2003, the requirements of the Customs Board and improved awareness of customs declarants have considerably increased the defining of the destination country for exports to free trade zones. Past experience allows us to assume that the bulk of goods stored in free trade zones in earlier years without declaring the destination country were exported to Russia and the Ukraine, thus increasing the actual share of these countries in Estonia's export⁴.

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

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2002	Q1 2003	Q2 2003	Q2 2002	Q1 2003	Q2 2003	Q2 2003/ Q1 2003	Q2 2003/ Q2 2002
EU countries	13,947.9	12,756.0	14,221.4	68.4	61.7	64.0	11.5	2.0
Central and Eastern European countries	2,619.2	2,797.6	2,995.8	12.8	13.5	13.5	7.1	14.4
CIS countries	1,809.4	2,812.6	2,786.9	8.9	13.6	12.5	-0.9	54.0
Other	2,014.5	2,307.4	2,204.2	9.9	11.2	9.9	-4.5	9.4
Total	20,391.1	20,673.6	22,208.3	100.0	100.0	100.0	7.4	8.9

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

	Q2 2002	Q1 2003	Q2 2003
EU countries	-4,178.7	-2,842.5	-3,266.7
Central and Eastern European countries	-766.6	-887.8	-975.1
CIS countries	-1,132.7	-2,147.2	-1,791.1
Other	-382.2	-807.8	-327.3
Customs-free zone	540.6	10.2	3.9
Total	-5,919.6	-6,674.9	-6,356.3

Import of goods from the current and future EU member countries increased considerably (see Table 7), amounting to 78% of the total import. Finland, Germany, Sweden and the Netherlands dominated among the EU countries and Latvia, Lithuania and Poland among the Central and Eastern European countries. Among the CIS countries, the top positions belonged to Russia, the Ukraine and Belarus; the list of other countries was led by the USA, China, Japan, Hong Kong and Switzerland.

Foreign trade balance was negative for all groups of countries (see Table 8).

Services

The surplus of services balance amounted to 2.6 billion kroons in the second quarter of 2003, down 7.4% year-on-year. The export of services decreased by 11.2% and import fell by 12.8% (see Figure 5 and Table 9).

⁴ See Eesti Pank Bulletin No 4 (57), 2000, p 23.

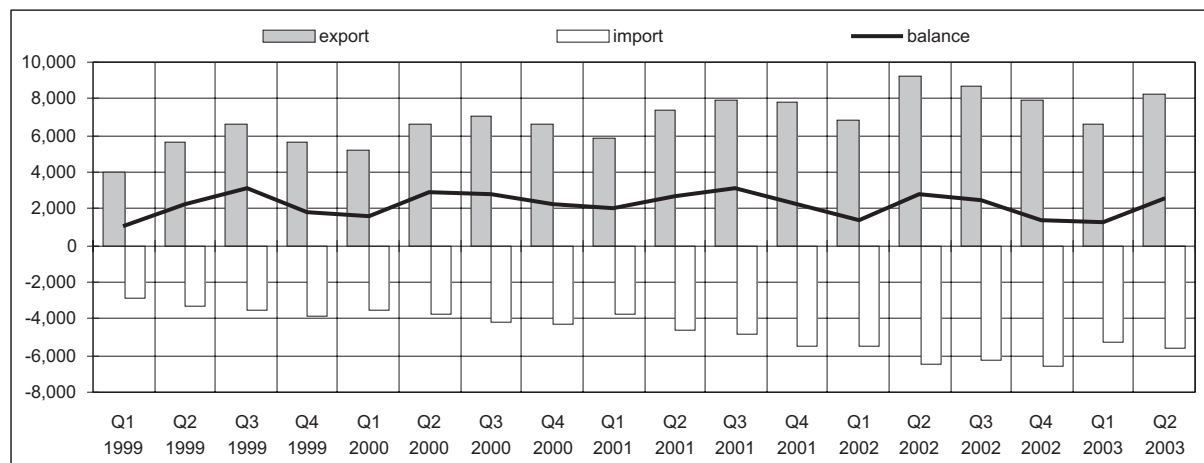


Figure 5. Services balance (EEK m)

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	6,573.6	-17.2	31.5	5,303.6	-19.1	21.0	1,270.0	-8.4
Q2 2003	8,231.3	25.2	33.8	5,598.1	5.6	20.8	2,633.2	107.3

The decrease of services balance surplus was caused by the year-on-year fall of the surpluses of transport and travel services balances by 17 and 6.3%, respectively (see Table 10).

Table 10. Services balance by major categories

	Balance (EEK m)			Share (%)			Change (%)	
	Q2 2002	Q1 2003	Q2 2003	Q2 2002	Q1 2003	Q2 2003	Q2 2003/ Q1 2003	Q2 2003/ Q2 2002
Transport services	1,430.5	890.4	1,187.9	50.3	70.1	45.1	33.4	-17.0
Travel services	1,733.4	521.3	1,624.7	60.9	41.0	61.7	211.7	-6.3
Construction services	-19.3	-80.8	-108.4	-0.7	-6.4	-4.1	34.2	461.7
Business services	-105.2	-82.1	-21.5	-3.7	-6.5	-0.8	-73.8	-79.6
Government services	-199.4	-21.0	-27.0	-7.0	-1.7	-1.0	28.6	-86.5
Other	5.1	42.2	-22.5	0.2	3.3	-0.9	-153.3	-541.2
Total	2,845.1	1,270.0	2,633.2	100.0	100.0	100.0	107.3	-7.4

The biggest impact on the **export of services** came from the 24.1% decline of the export of transport services, with freight transport down also against the first quarter of 2003 (see Table 11). The further decrease of the services export was slowed down by the 31.8% increase in the export of business services.

Table 11. Services export by major categories

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2002	Q1 2003	Q2 2003	Q2 2002	Q1 2003	Q2 2003	Q2 2003/ Q1 2003	Q2 2003/ Q2 2002
Transport services	5,082.5	3,755.4	3,855.9	54.8	57.1	46.8	2.7	-24.1
o/w freight	3,126.5	2,440.6	2,286.4	33.7	37.1	27.8	-6.3	-26.9
passenger	835.9	464.8	724.7	9.0	7.1	8.8	55.9	-13.3
other transport services	1,120.1	850.0	844.8	12.1	12.9	10.3	-0.6	-24.6
Travel services	2,723.3	1,465.2	2,805.7	29.4	22.3	34.1	91.5	3.0
Construction services	293.3	229.1	176.5	3.2	3.5	2.1	-23.0	-39.8
Business services	797.6	759.8	1,051.3	8.6	11.6	12.8	38.4	31.8
Government services	39.8	51.5	33.0	0.4	0.8	0.4	-35.9	-17.1
Other	331.0	312.6	308.9	3.6	4.8	3.8	-1.2	-6.7
Total	9,267.5	6,573.6	8,231.3	100.0	100.0	100.0	25.2	-11.2

The **import of services** was most affected by the 26.9% drop in the import of transport services; similarly to export, the import of transport services also decreased against the first quarter of 2003 (see Table 12). Since the import of travel and business services increased considerably year-on-year (approximately 19%), the structure of services import changed remarkably: the share of transport services fell below 48%, whereas the share of travel and business services increased by 6 and 5 percentage points, respectively, and reached 21 and 19%.

Table 12. Services import by major categories

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2002	Q1 2003	Q2 2003	Q2 2002	Q1 2003	Q2 2003	Q2 2003/ Q1 2003	Q2 2003/ Q2 2002
Transport services	3,652.0	2,865.0	2,668.0	56.9	54.0	47.7	-6.9	-26.9
o/w freight	2,926.1	2,402.9	2,146.7	45.6	45.3	38.3	-10.7	-26.6
passenger	363.3	186.0	257.2	5.7	3.5	4.6	38.3	-29.2
other transport services	362.6	276.1	264.1	5.6	5.2	4.7	-4.3	-27.2
Travel services	989.9	943.9	1,181.0	15.4	17.8	21.1	25.1	19.3
Construction services	312.6	309.9	284.9	4.9	5.8	5.1	-8.1	-8.9
Business services	902.8	841.9	1,072.8	14.1	15.9	19.2	27.4	18.8
Government services	239.2	72.5	60.0	3.7	1.4	1.1	-17.2	-74.9
Other	325.9	270.4	331.4	5.1	5.1	5.9	22.6	1.7
Total	6,422.4	5,303.6	5,598.1	100.0	100.0	100.0	5.6	-12.8

The **export and import of transport services** both decreased by nearly 25% year-on-year (see Figure 6). The export of transport services was most affected by sea transport, which decreased by 27% year-on-year. The import of sea transport services decreased by 11%. Quarter-on-quarter, both export and import of transport services increased by approximately 20%, which is a usual seasonal fluctuation. The negative balance of rail transport turned positive due to the decrease of freight transport services import. The positive balance of motor transport services decreased, since the import of freight transport dropped faster than export. In air transport, the share of freight transport services increased at the cost of passenger transport and other transport services.

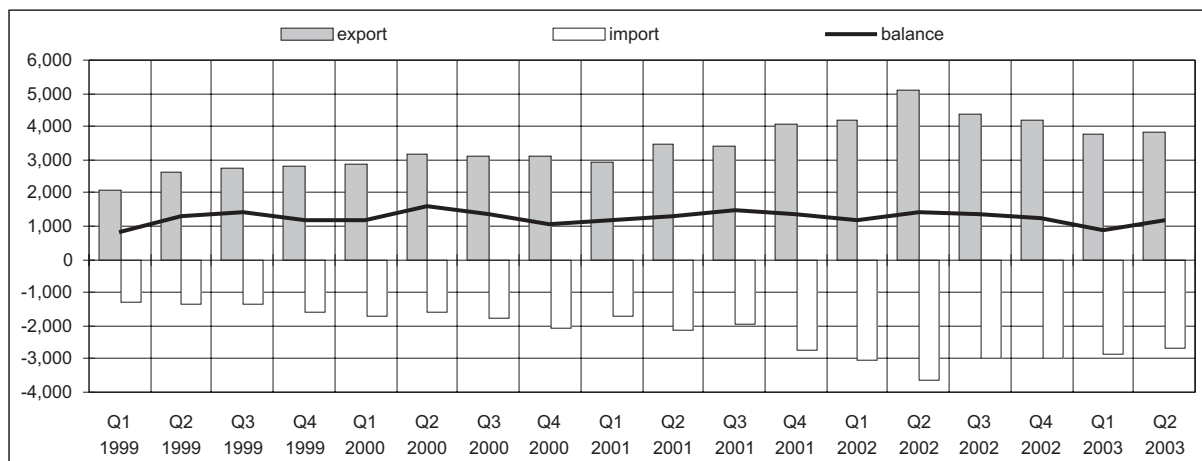


Figure 6. Transport services balance (EEK m)

In **travel services** Estonian tourism industry has kept its position and even strengthened it, which is quite remarkable in the context of the overall low of the world's tourism industry.

The **export of travel services** increased by 3% year-on-year (see Figure 7), due to the increased number of large cruise ships stopping in Tallinn. This increased the number of one-day visitors who spend considerably less in Estonia than overnight tourists. Year-on-year, the number of tourists from Finland decreased, whereas the number of tourists from other EU countries increased.

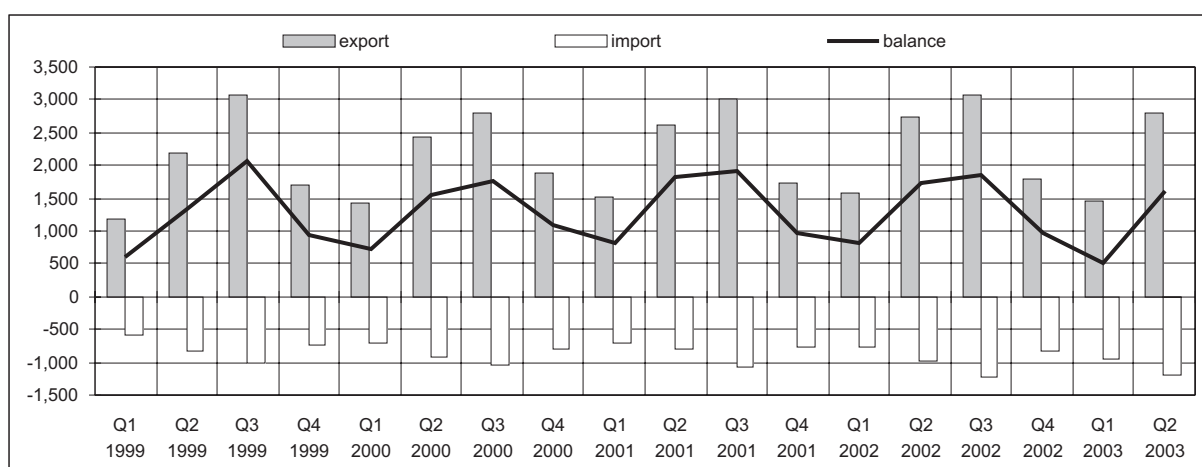


Figure 7. Travel services balance (EEK m)

Year-on-year, the **import of travel services** increased by 19%. The number of Estonians travelling abroad increased by 12%, mostly due to discount campaigns. The list of attractive destinations is getting longer all the time, while the share of previously popular destinations is decreasing. Estonians have taken an interest in countries like Ireland, Canada, the Czech Republic and Lithuania. Among popular destinations of the past, travels to Russia and Spain increased the most.

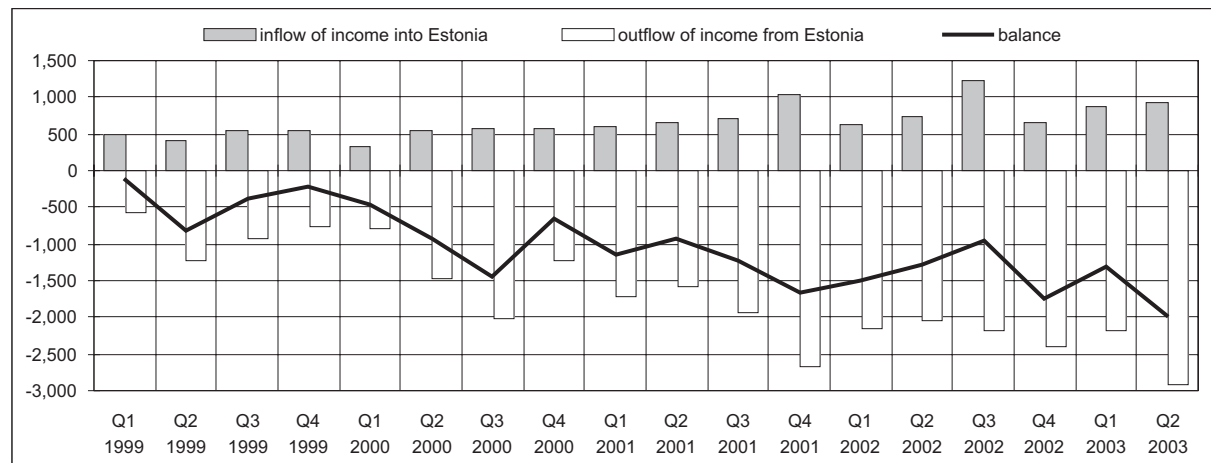
Income

Net outflow of income from Estonia reached a record in the second quarter of 2003, amounting to nearly 2 billion kroons or 54% more than in the second quarter of 2002 (see Table 13). The second

Table 13. Income balance (EEK m)

	Balance (EEK m)			Share (%)			Change (%)	
	Q2 2002	Q1 2003	Q2 2003	Q2 2002	Q1 2003	Q2 2003	Q2 2003/ Q1 2003	Q2 2003/ Q2 2002
Income from direct investments	-1,344.3	-1,560.6	-1,549.3	104.2	118.1	77.9	-0.7	15.2
o/w income from equity	-1,289.0	-1,489.1	-1,504.5	99.9	112.7	75.6	1.0	16.7
income from debt (interests)	-55.3	-71.5	-44.8	4.3	5.4	2.2	-37.8	-19.5
Income from portfolio investments	126.1	271.1	-374.3	-9.8	-20.5	18.8	-238.1	-396.8
Income from other investments	-90.6	-130.0	-124.6	7.0	9.8	6.3	-4.2	37.5
Other income	18.1	98.3	58.4	-1.4	-7.4	-2.9	-40.9	221.0
Total	-1,290.7	-1,321.2	-1,989.8	100.0	100.0	100.0	50.6	54.2

quarter is the peak period for dividend payments in Estonian companies (see Figure 8), which this year was also accompanied by the surge of reinvested income. Dividend payments and the rapid increase of share prices on the Tallinn stock exchange had a deep effect on the portfolio investment income indicator and turned the surplus of earlier periods into a deficit of 374 million kroons.

**Figure 8. Income balance (EEK m)**

The **inflow of income** to Estonia increased by 24% year-on-year and amounted to 0.9 billion kroons in the second quarter (see Table 14). Particularly remarkable was the 5.4-fold increase of the inflow of direct investment income, which compensated for the 3.4-fold decrease of the inflow of portfolio investment income.

The **outflow of income** increased by 43% year-on-year and amounted to 2.9 billion kroons (see Table 15). The outflow of direct investment income increased by 44%, mostly due to the book entry *reinvested*

Table 14. Income inflow to Estonia

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2002	Q1 2003	Q2 2003	Q2 2002	Q1 2003	Q2 2003	Q2 2003/ Q1 2003	Q2 2003/ Q2 2002
Income from direct investments	98.6	94.9	534.8	13.3	11.0	58.1	463.5	442.4
o/w income from equity	72.1	76.3	498.8	9.7	8.8	54.2	553.7	591.8
income from debt (interests)	26.5	18.6	36.0	3.6	2.1	3.9	93.5	35.8
Income from portfolio investments	425.2	495.0	123.4	57.2	57.2	13.4	-75.1	-71.0
Income from other investments	197.3	171.9	160.3	26.6	19.9	17.4	-6.7	-18.8
Other income	22.0	104.0	102.3	3.0	12.0	11.1	-1.6	365.0
Total	743.1	865.8	920.8	100.0	100.0	100.0	6.4	23.9

Table 15. Income outflow from Estonia

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2002	Q1 2003	Q2 2003	Q2 2002	Q1 2003	Q2 2003	Q2 2003/ Q1 2003	Q2 2003/ Q2 2002
Income from direct investments	-1,442.9	-1,655.5	-2,084.1	70.9	75.7	71.6	25.9	44.4
o/w income from equity	-1,361.1	-1,565.4	-2,003.3	66.9	71.6	68.8	28.0	47.2
income from debt (interests)	-81.8	-90.1	-80.8	4.0	4.1	2.8	-10.3	-1.2
Income from portfolio investments	-299.1	-223.9	-497.7	14.7	10.2	17.1	122.3	66.4
Income from other investments	-287.9	-301.9	-284.9	14.2	13.8	9.8	-5.6	-1.0
Other income	-3.9	-5.7	-43.9	0.2	0.3	1.5	670.2	1,025.6
Total	-2,033.8	-2,187.0	-2,910.6	100.0	100.0	100.0	33.1	43.1

income, which does not involve actual money flows. The outflow of dividend income was unchanged against 2002 (1.2 billion kroons). The outflow of income was strongly supported also by portfolio investment income, which increased by 66%, mostly at the cost of income earned from debt securities. This is due to the increased debt burden of Estonian economic sectors and no decrease in the outflow of this category of income is expected in the near future.

Transfers

The surplus of the transfers balance amounted to 316 million kroons in the II quarter, down 200 million kroons year-on-year. While the surplus of private transfers was larger than usual, the inflow of government transfers has slowed down in the past two quarters.

CAPITAL AND FINANCIAL ACCOUNT

The surplus of capital and financial account stood at 3.2 billion kroons, half of which came from the inflow of direct investments and the rest from the inflow of capital in the form of other investments. Portfolio investments were characterised by a significant outflow of capital related to the decreasing debt liabilities of various economic sectors.

The structure of the financial account by categories and maturity can be seen in Figures 9 and 10.

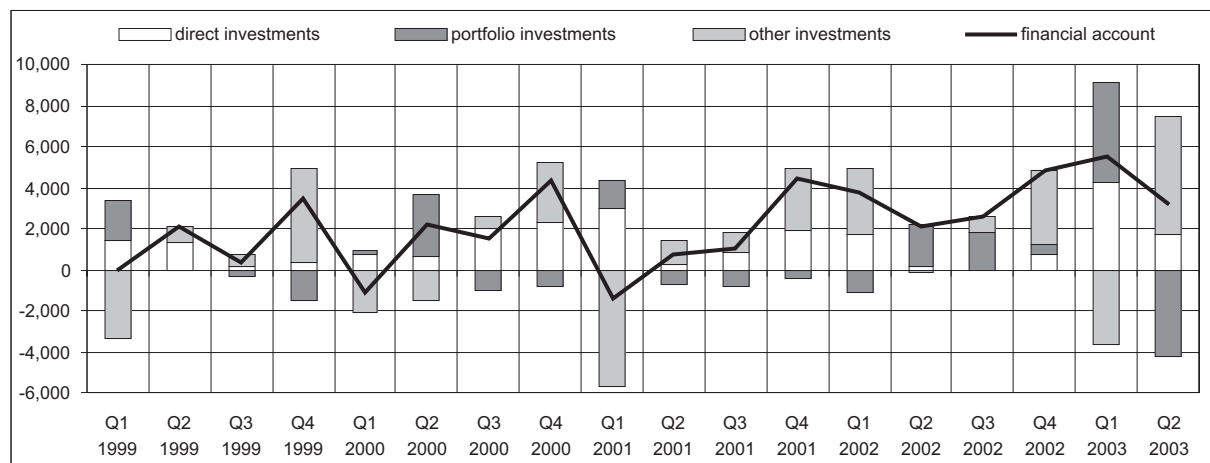


Figure 9. Changes in the structure of foreign investment capital flows (EEK m)

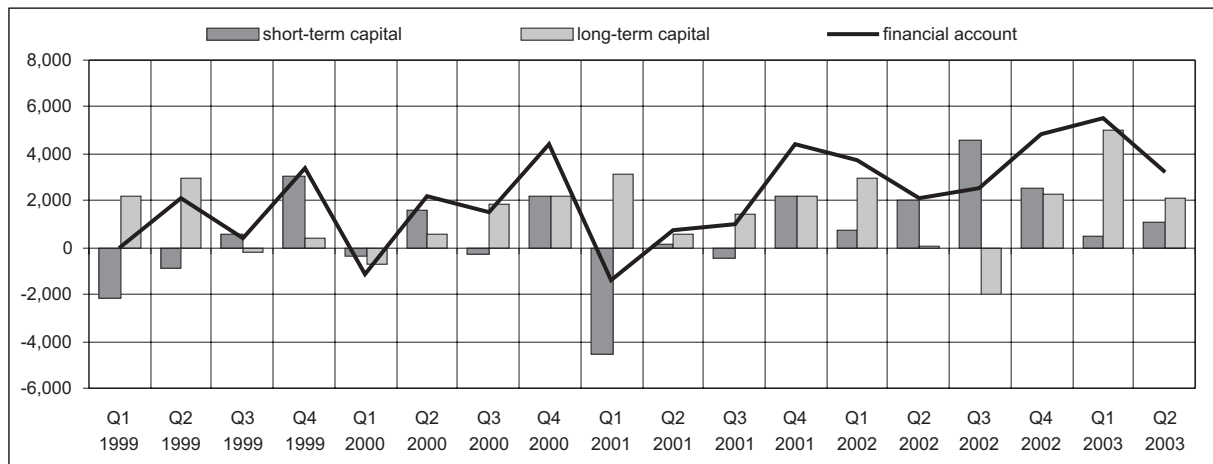


Figure 10. The maturity structure of financial sources (EEK m)

Direct Investments

The **balance of direct investments** was positive by 1.7 billion kroons in the second quarter of 2003, accounting for more than a half of the surplus of the financial account. Non-residents invested 1.8 billion kroons in Estonia and Estonian residents' direct investments abroad increased by 0.1 billion kroons (see Table 16 and Figure 11).

Table 16. Structure of direct investments

	Into Estonia						Abroad					
	EEK m			Share (%)			EEK m			Share (%)		
	Q2 2002	Q1 2003	Q2 2003	Q2 2002	Q1 2003	Q2 2003	Q2 2002	Q1 2003	Q2 2003	Q2 2002	Q1 2003	Q2 2003
Share capital	388.9	2,106.7	400.1	36.7	46.0	21.9	-283.5	-141.4	126.0	31.8	39.8	-96.0
Inflow	645.4	2,240.5	865.7	60.9	49.0	47.3	17.2	23.2	198.0	-1.9	-6.5	-150.9
Outflow	-256.5	-133.8	-465.6	-24.2	-2.9	-25.4	-300.7	-164.6	-72.0	33.7	46.4	54.9
Reinvested income	180.8	1,448.0	798.5	17.1	31.6	43.6	-50.6	-72.0	-140.0	5.7	20.3	106.7
Claims	-1,600.8	-1,220.8	-1,737.3	-151.1	-115.3	-164.0	-140.5	-169.4	-192.0	-13.3	-16.0	-18.1
Liabilities	1,781.6	2,668.8	2,535.8	168.2	252.0	239.4	89.9	97.4	52.0	8.5	9.2	4.9
Loan capital (net)	762.6	906.4	649.0	72.0	19.8	35.5	-538.9	-138.6	-130.1	60.5	39.0	99.2
Trade credit	117.3	100.9	344.8	11.1	2.2	18.8	-35.9	-3.4	116.7	4.0	1.0	-88.9
Short-term loans	181.8	470.7	-129.2	17.2	10.3	-7.1	76.8	50.9	-27.3	-8.6	-14.3	20.8
Long-term loans	463.5	334.8	433.4	43.8	7.3	23.7	-579.8	-186.1	-219.5	65.1	52.4	167.3
Other capital	-273.2	115.4	-17.9	-25.8	2.5	-1.0	-18.0	-3.1	12.9	2.0	0.9	-9.8
Total	1,059.1	4,576.5	1,829.7	100.0	100.0	100.0	-891.0	-355.1	-131.2	100.0	100.0	100.0

The volume of **direct investments made into Estonia** decreased by more than a half as compared to the first quarter, since the exceptionally big inflow of direct investments in the previous quarter was mostly due to a one-time large purchase and sale deal. Two-thirds of long-term investments derived from the growth of equity capital, of which two-thirds was reinvested income. Quarter-on-quarter, reinvested income decreased by a half, mostly due to the withdrawal of owner income. The biggest dividends were distributed in the transport and communications sector. Trade credit and long-term loan liabilities increased. The outflow of short-term capital was mostly related to credits granted to direct investors (see Figure 12).

Among countries, Finland still held the top position (69% of investments), followed by Denmark, Sweden and Belgium. EU members invested a total of 2.2 billion kroons into Estonia (up 117.8%).

Long-term investments were mostly made into wholesale and retail trade as well as industry (see Figures 13 and 14).

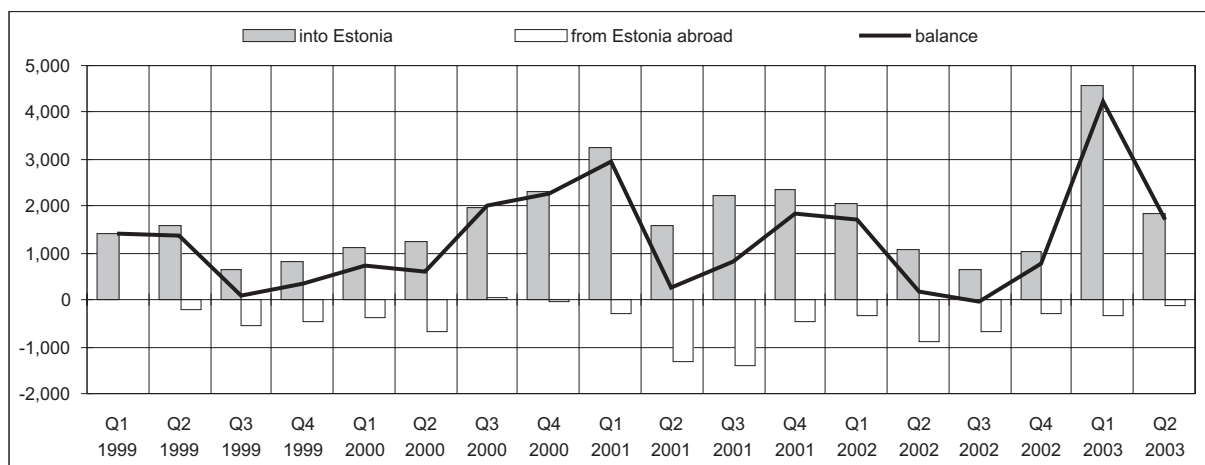


Figure 11. Direct investments (EEK m)

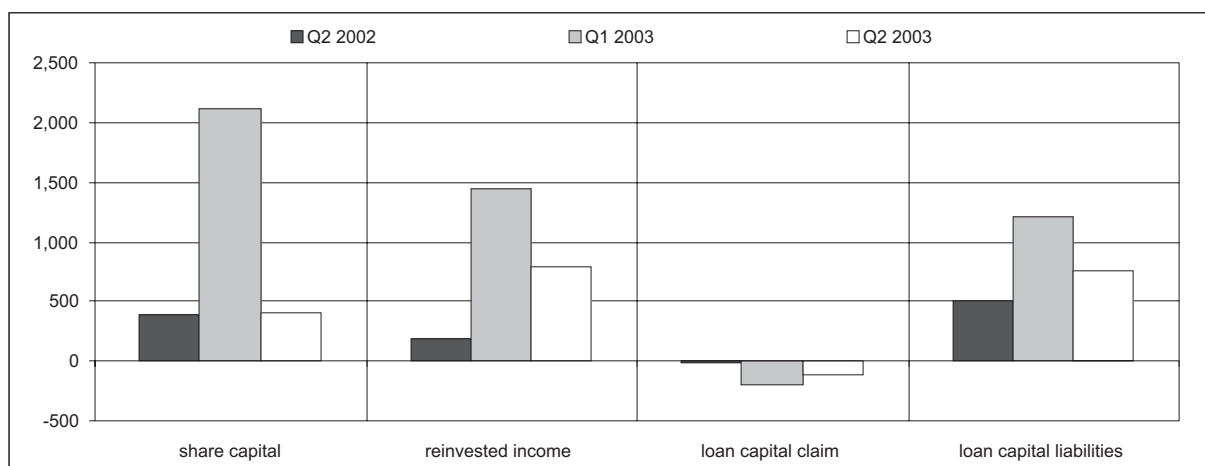


Figure 12. Structure of direct investments made into Estonia (EEK m)

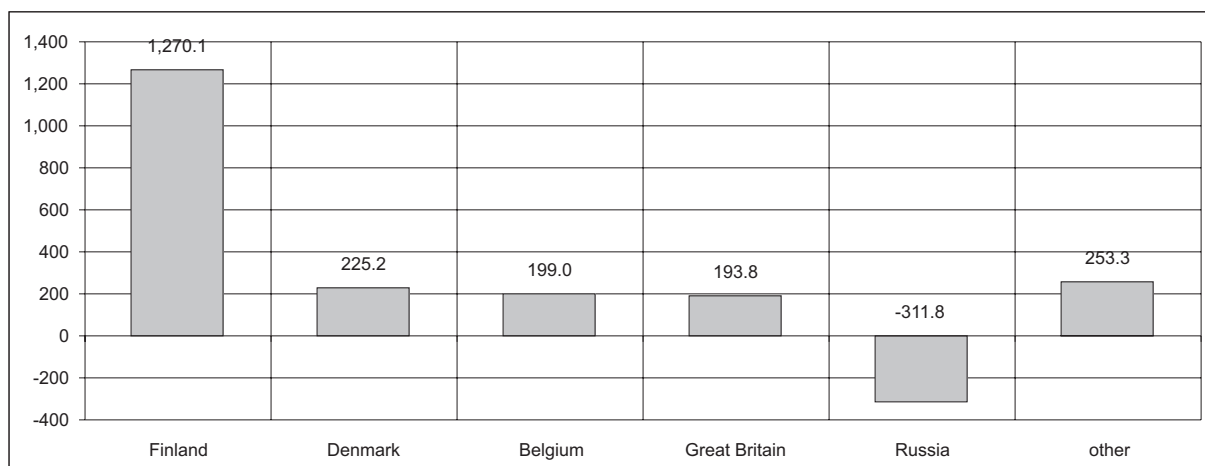


Figure 13. Structure of direct investments made into Estonia by countries in the 2nd quarter of 2003 (EEK m)

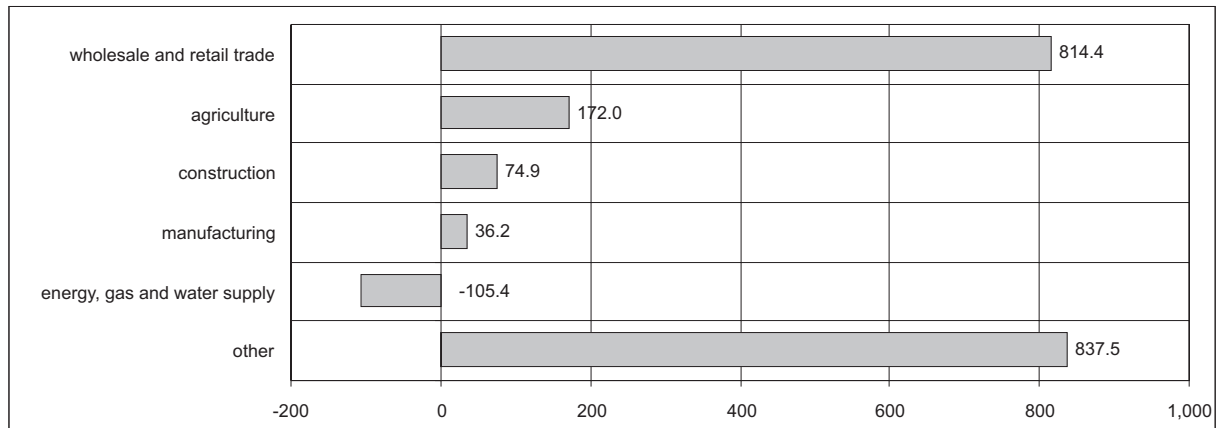


Figure 14. Structure of direct investments made into Estonia by spheres of activity in the 2nd quarter of 2003 (EEK m)

Direct investments into affiliated/associated companies abroad also fell by half as compared to the previous period. In share capital even a reverse flow was registered, due to the sale of real estate owned by a resident abroad⁵. The highest profits were earned by financial sector affiliated/associated companies abroad. Like in the first quarter, the outflow of long-term loan capital continued (see Figures 15 and 16).

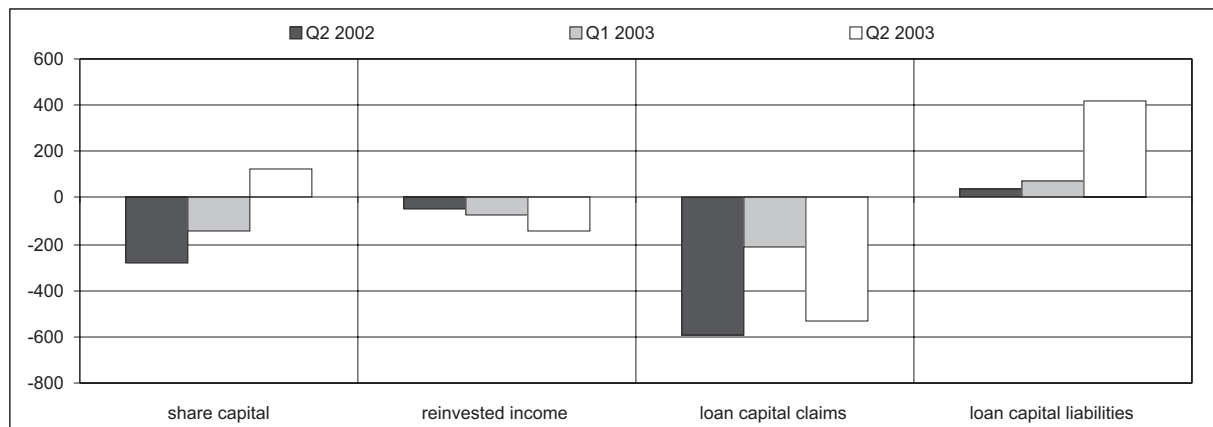


Figure 15. Structure of direct investments made abroad (EEK m)

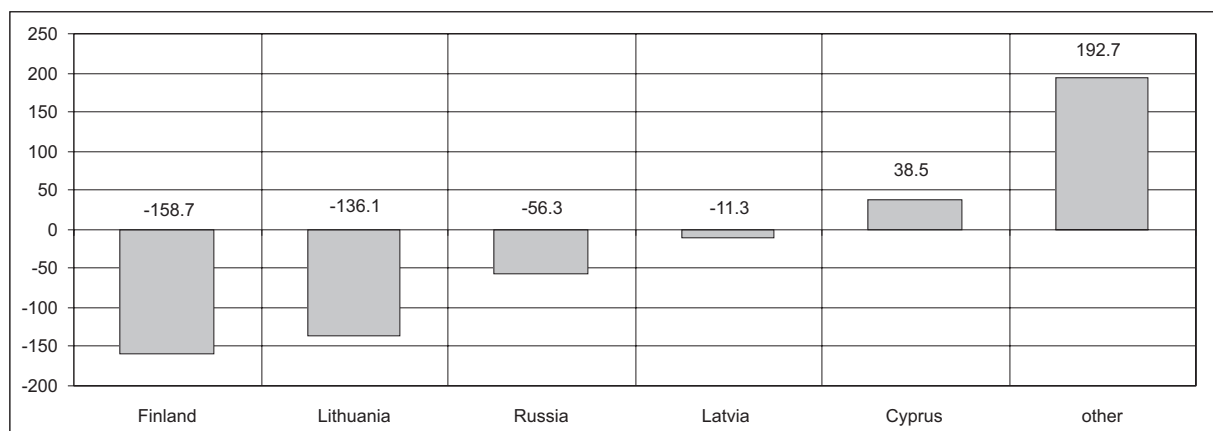


Figure 16. Structure of direct investments made abroad by countries in the 2nd quarter of 2003 (EEK m)

⁵ According to the IMF Balance of Payment Manual (BPM5), the purchase and sale of real estate has to be classified under the entry of fixed assets of direct investments.

The largest net outflow of direct investments concerned Finland and Lithuania. Mostly businesses in the financial, wholesale and retail sectors and the manufacturing placed long-term capital into foreign countries (see Figure 17).

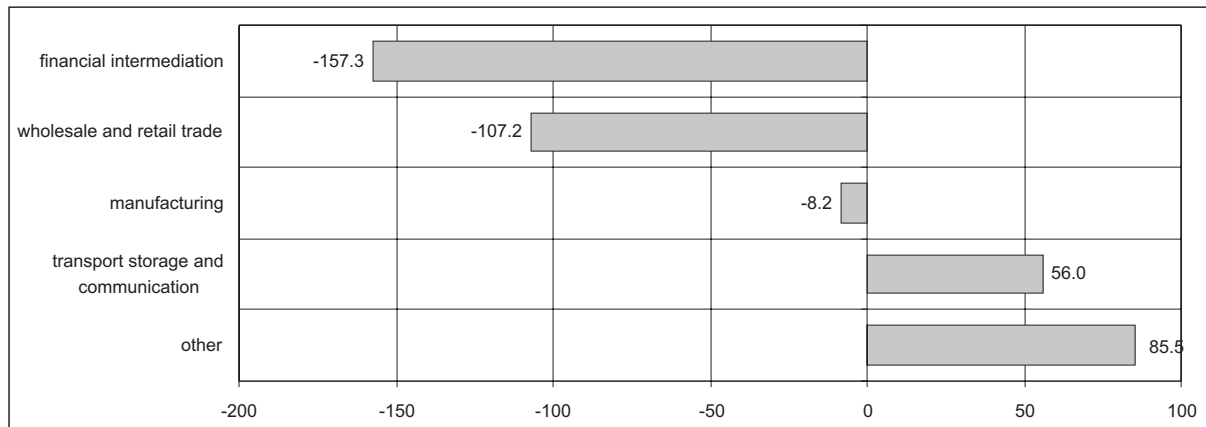


Figure 17. Structure of direct investments made abroad by spheres of activity in the 2nd quarter of 2003 (EEK m)

Portfolio Investments

An outflow of 4.3 billion kroons occurred in **portfolio investments** in the second quarter of 2003, unlike in the first quarter when the balance had a surplus of nearly 5 billion kroons. The negative capital flow can mainly be attributed to the decrease of debt liabilities of various economic sectors, but also the growth of debt security claims (see Table 17 and Figure 18).

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

	Claims			Liabilities			Balance		
	Q2 2002	Q1 2003	Q2 2003	Q2 2002	Q1 2003	Q2 2003	Q2 2002	Q1 2003	Q2 2003
Total portfolio investments	11.8	89.7	-1,793.3	2,034.7	4,845.7	-2,468.0	2,046.5	4,935.4	-4,261.3
Equity securities	74.5	48.6	-79.9	517.0	103.1	660.6	591.5	151.7	580.7
Government sector			-0.2						-0.2
Credit institutions	-3.6	4.5	-4.3	187.4	34.6	141.3	183.8	39.1	137.0
Other sectors	78.1	44.1	-75.4	329.6	68.5	519.3	407.7	112.6	443.9
Debt securities	-62.7	41.1	-1,713.4	1,517.7	4,742.6	-3,128.6	1,455.0	4,783.7	-4,842.0
Central bank							0.0		0.0
Government sector	-489.2	-199.9	-917.6	1,507.6	1.6	-56.6	1,018.4	-198.3	-974.2
Credit institutions	-29.8	20.4	-64.8	6.2	4,741.3	-2,774.3	-23.6	4,761.7	-2,839.1
Other sectors	456.3	220.6	-731.0	3.9	-0.3	-297.7	460.2	220.3	-1,028.7

Claims increased by 1.8 billion kroons in the second quarter. The government sector, which placed 0.9 billion kroons worth of free assets into foreign debt instruments, had the biggest impact on the growth of claims. Investments into debt instruments were also made by credit institutions and businesses of the other sector – 0.1 and 0.7 billion kroons, respectively.

The decrease of **liabilities** led to the 2.5 billion kroons outflow of capital from Estonia in the second quarter. Investments of non-residents into equity securities increased by 0.7 billion kroons, while resident credit institutions redeemed 2.8 billion kroons worth of debt securities issued in earlier periods. Businesses of the other sector and the government sector, too, reduced their debt securities related liabilities, to the total of 0.4 billion kroons.

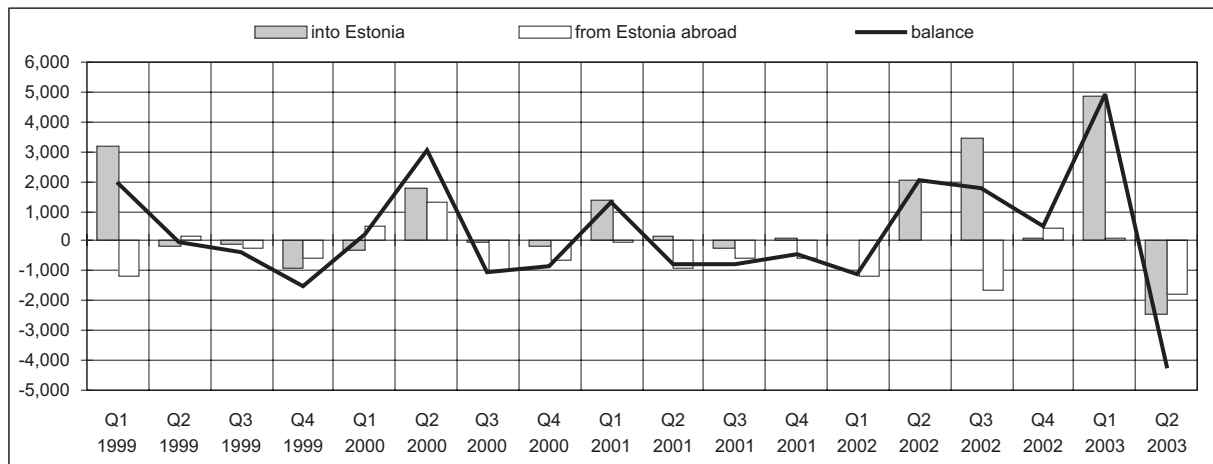


Figure 18. Portfolio investments (EEK m)

Other Investments

The balance of **other investments** had a surplus of 5.8 billion kroons in the second quarter of 2003 and the resulting inflow of capital helped to compensate the negative flows caused by the outflow of portfolio investments (see Figure 19 as well as Tables 18 and 19).

Claims decreased by approximately 3 billion kroons. The bulk of it was made up of loans repaid by non-residents to Estonian credit institutions as well as the decreased deposits of residents abroad, totalling 4.6 billion kroons. At the same time, claims of trade credit increased, resulting in a 0.7 billion kroons outflow of capital.

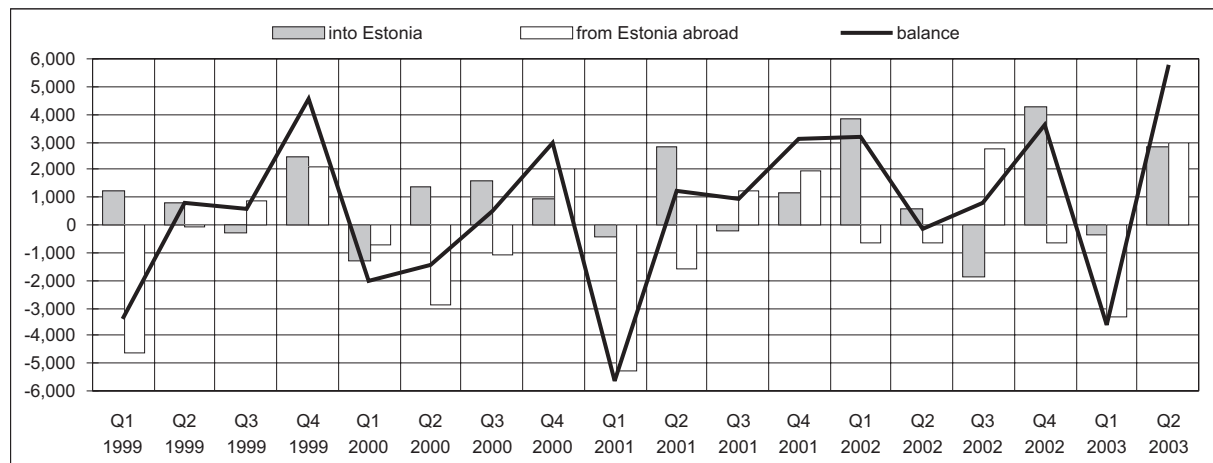


Figure 19. Other investments (EEK m)

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

	Claims			Liabilities			Balance		
	Q2 2002	Q1 2003	Q2 2003	Q2 2002	Q1 2003	Q2 2003	Q2 2002	Q1 2003	Q2 2003
Total	-672.5	-3,292.9	2,967.9	562.8	-350.7	2,805.5	-109.7	-3,643.6	5,773.4
o/w trade credit	-208.2	-357.4	-717.5	877.2	190.8	469.1	669.0	-166.6	-248.4
loans	1,540.6	-6,309.8	2,346.9	-1,821.3	-431.3	1,113.6	-280.7	-6,741.1	3,460.5
deposits	-1,413.1	3,413.5	1,421.7	775.3	-305.5	1,139.2	-637.8	3,108.0	2,560.9
other	-591.8	-39.2	-83.2	731.6	195.3	83.6	139.8	156.1	0.4

Table 19. Other investments by maturity (EEK m)

	Claims			Liabilities			Balance		
	Q2 2002	Q1 2003	Q2 2003	Q2 2002	Q1 2003	Q2 2003	Q2 2002	Q1 2003	Q2 2003
Total	-672.5	-3,292.9	2,967.9	562.8	-350.7	2,805.5	-109.7	-3,643.6	5,773.4
Long-term capital	95.9	146.6	-162.2	-161.3	656.9	606.6	-65.4	803.5	444.4
Central bank	-0.1						-0.1	0.0	0.0
Government sector				-565.0	-4.8	300.0	-565.0	-4.8	300.0
Credit institutions	-50.6	-219.3	93.0	374.1	413.0	1,083.3	323.5	193.7	1,176.3
Other sectors	146.6	365.9	-255.2	29.6	248.7	-776.7	176.2	614.6	-1,031.9
Short-term capital	-768.4	-3,439.5	3,130.1	724.1	-1,007.6	2,198.9	-44.3	-4,447.1	5,329.0
Central bank	-64.5			-478.0	122.3	43.6	-542.5	122.3	43.6
Government sector	-689.2	96.5	502.9				-689.2	96.5	502.9
Credit institutions	336.4	-3,415.2	3,777.7	966.8	-1,375.7	477.2	1,303.2	-4,790.9	4,254.9
Other sectors	-351.1	-120.8	-1,150.5	235.3	245.8	1,678.1	-115.8	125.0	527.6

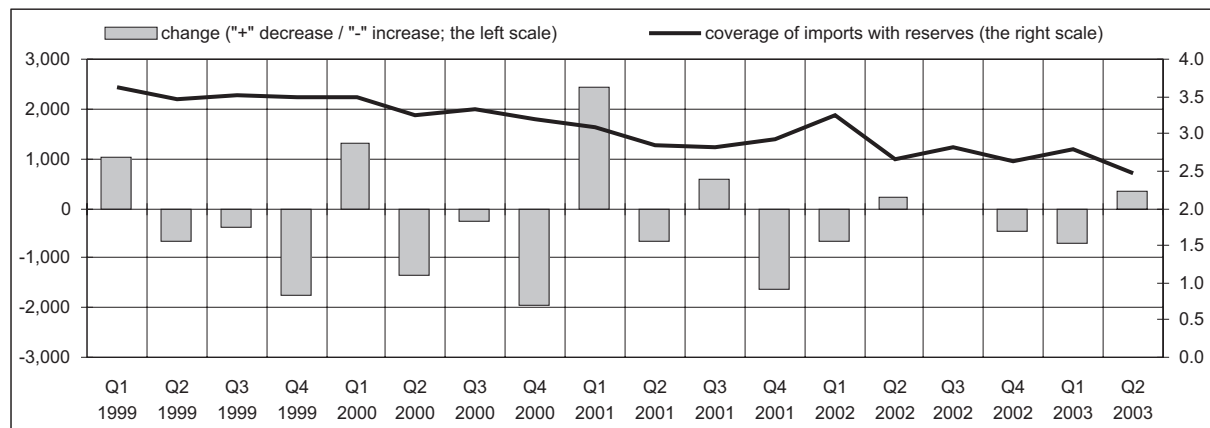
Liabilities increased in the second quarter and the resulting positive flow of capital amounted to approximately 2.8 billion kroons. Loan liabilities increased by 1.1 billion kroons and deposits of non-residents in Estonian credit institutions grew by a similar amount. The growth of liabilities was also supported by the increase of trade credit and other liabilities by 0.5 billion kroons.

RESERVES

Reserves of the balance of payments increased by 0.4 billion kroons in the second quarter of 2003 (see Table 20). The modest increase of reserves and growth of normal import reduced the coverage of imports with reserves to 2.5 months, which is the lowest level of the past four years (see Figure 20).

Table 20. Structure of changes in reserves (EEK m)

	Q2 2002	Q1 2003	Q2 2003
Gold	0.0	0.0	0.0
Cash and deposits	943.4	-2,891.2	9,107.1
Securities	-717.3	2,198.6	-8,745.9
Equity securities	0.0	0.0	0.0
Debt securities	-891.5	794.1	-14.2
Money market instrument	174.2	1,404.5	-8,731.7
Other claims	-0.2	-0.4	-10.9
Total	225.9	-693.0	350.3

**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 30 June 2003

By the end of the second quarter of 2003, the volume of foreign investments made into Estonia totalled 142.5 billion kroons. 52% of it or 74.1 billion kroons were **direct investments** that do not contribute to the external debt (see Table 21). The bulk of foreign investments were made into financial

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

	31.03.03	Share (%)	30.06.03	Share (%)
EXTERNAL ASSETS				
Direct investments abroad	10,761.5	16.2	10,587.2	16.3
share capital and reinvested earnings	7,318.5	11.0	7,184.4	11.1
other capital	3,443.0	5.2	3,402.8	5.2
Portfolio investments abroad	13,078.7	19.7	14,873.9	22.9
equity securities	681.5	1.0	819.1	1.3
debt securities	12,397.2	18.6	14,054.8	21.7
long-term	6,934.2	10.4	7,239.0	11.2
short-term	5,463.0	8.2	6,815.8	10.5
Financial derivatives	259.3	0.4	264.0	0.4
Other investments abroad	26,767.3	40.2	23,845.7	36.8
trade credit	4,617.8	6.9	5,484.8	8.5
loans	17,070.9	25.7	14,564.4	22.5
long-term	4,962.1	7.5	5,121.1	7.9
short-term	12,108.8	18.2	9,443.3	14.6
deposits	4,467.3	6.7	3,122.3	4.8
other assets	611.3	0.9	674.2	1.0
Reserves	15,639.0	23.5	15,288.5	23.6
Total external assets	66,505.8	100.0	64,859.3	100.0
EXTERNAL LIABILITIES				
Direct investments into Estonia	67,004.5	49.9	74,095.6	52.0
share capital and reinvested earnings	53,797.0	40.1	59,893.1	42.0
other capital	13,207.5	9.8	14,202.5	10.0
Portfolio investments into Estonia	24,180.8	18.0	22,742.5	16.0
equity securities	8,523.0	6.3	10,211.1	7.2
debt securities	15,657.8	11.7	12,531.4	8.8
long-term	15,625.0	11.6	12,468.5	8.8
short-term	32.8	0.0	62.9	0.0
Financial derivatives	231.9	0.2	228.8	0.2
Other investments into Estonia	42,859.8	31.9	45,423.5	31.9
trade credit	7,024.3	5.2	7,458.1	5.2
loans	21,420.1	16.0	22,429.3	15.7
long-term	18,458.3	13.7	18,997.1	13.3
short-term	2,961.8	2.2	3,432.2	2.4
deposits	11,558.1	8.6	12,697.3	8.9
other liabilities	2,857.3	2.1	2,838.8	2.0
Total external liabilities	134,277.0	100.0	142,490.4	100.0
Net international investment position	-67,771.2		-77,631.1	
short-term	-3,857.1		-6,332.8	
long-term	-63,914.1		-71,298.3	

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

intermediation (26% of direct investments), transport, storage and communication (22%), wholesale and retail trade (19%) and manufacturing (16%; see Figure 21). 69% of direct investments came from two countries – Sweden (38%) and Finland (28%; see Figure 22).

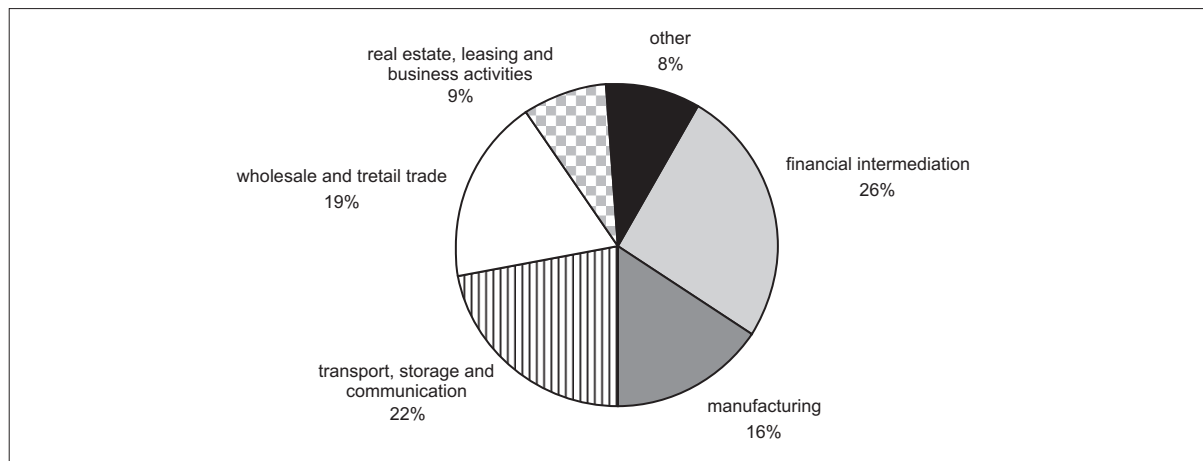


Figure 21. Direct investment position in Estonia by spheres of activity as of 30 June 2003

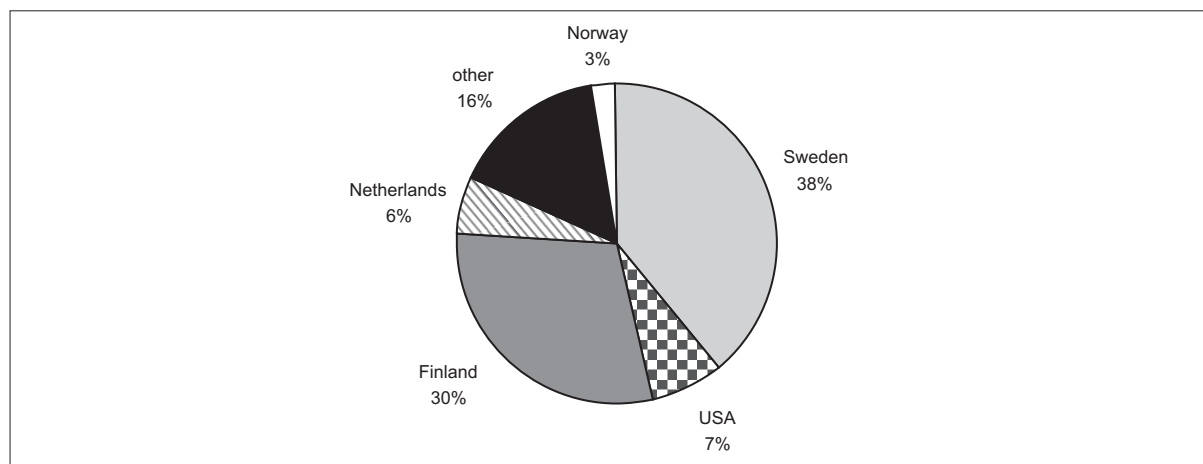


Figure 22. Direct investment position in Estonia by countries as of 30 June 2003

Besides direct investments, considerable investments have been made into Estonia in the form of **other investments** (loans, deposits, etc – nearly 32%) and **portfolio investments** (debt securities, 16%). Quarter-on-quarter, the share of portfolio investments decreased somewhat as the share of direct investments increased.

Estonian investments into foreign countries shrank slightly as compared to the end of the first quarter and amounted to nearly 65 billion kroons at the end of the second quarter. The majority of it (60%) 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 (39% of total direct investments abroad), transport, storage and communication (22%), as well as real estate, leasing and business services (16%; see Figure 23). 75% of Estonian foreign investments have been made into the other Baltic countries – 45% to Lithuania and 30% to Latvia (see Figure 24).

Due to the dominance of external liabilities, Estonia's net investment position was negative by 77.6 billion kroons or nearly 70% of the expected GDP at the end of the second quarter. 92% of the net investment position was made up of long-term capital.

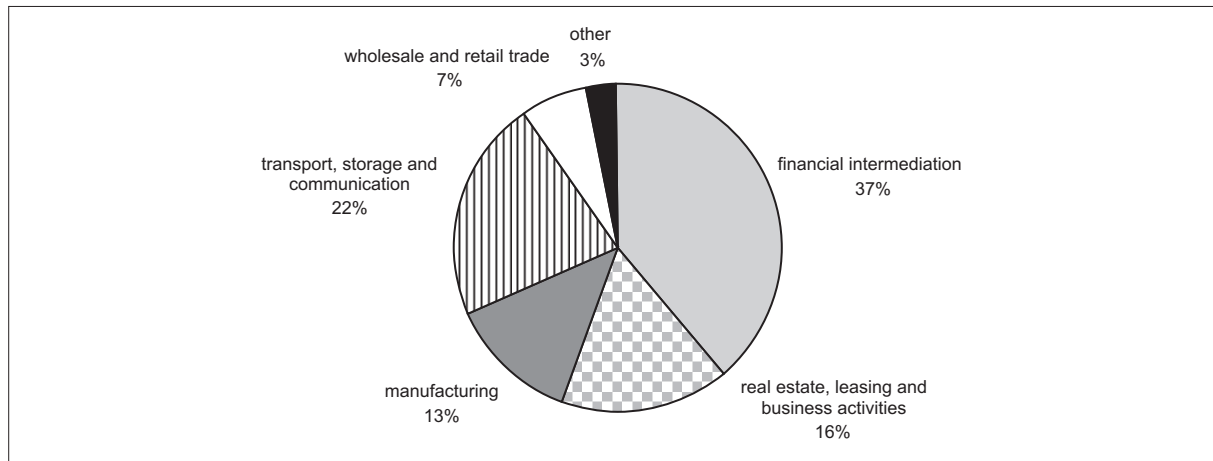


Figure 23. Estonia's direct investment position abroad by spheres of activity as of 30 June 2003

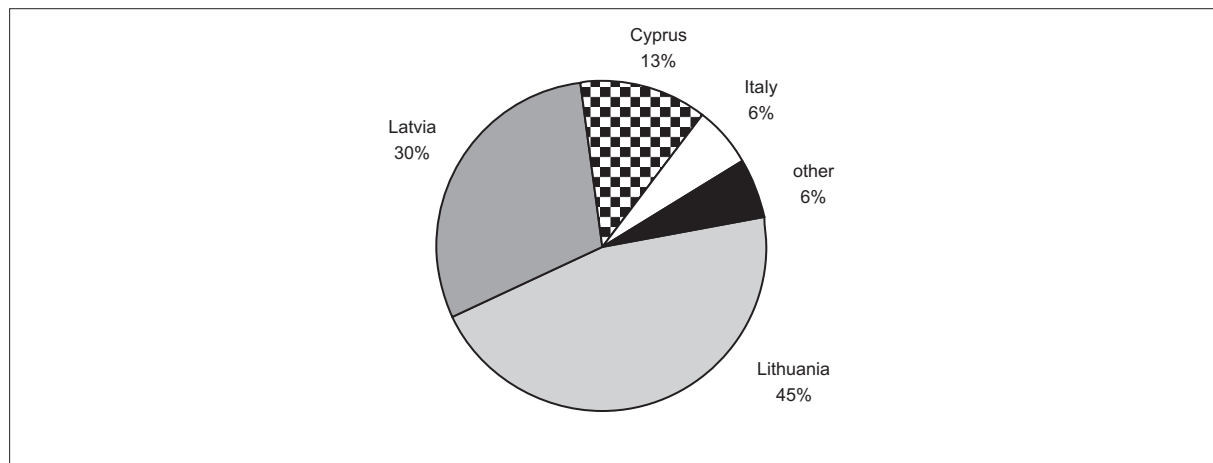


Figure 24. Estonia's direct investment position abroad by countries as of 30 June 2003

Since the second quarter of 2003, Eesti Pank has been improving the methodology of calculating the gross external debt pursuant to the requirements of the IMF's data dissemination standard (SDDS) valid from 2003. The methodological innovation concerns the division of cash and deposits into short and long-term capital, depending on whether they are money market instruments (short term) or other debt securities (long term). The only debts that have not been divided into short and long-term capital under the new methodology are inter-company debts, which were previously treated as long-term debts. Eesti Pank has made the respective changes also in the external debt time series.

On 30 June 2003, Estonia's gross external debt amounted to 76.9 billion kroons (69.7% of the expected GDP) and the net external debt (debt-related external claims minus liabilities) stood at 15.6 billion kroons (14.2% of the expected GDP; see Figure 25 and Table 22). Leaving aside inter-company debts, long-term debts accounted for 62% of the total debt. Debt claims mostly consisted of short-term capital (70%).

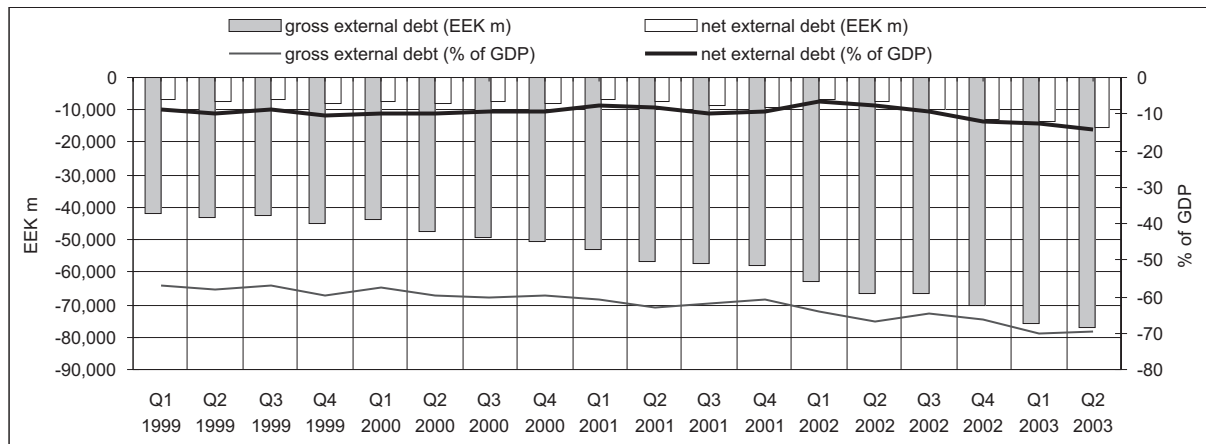


Figure 25. Estonia's gross and net external debt (EEK m, the left scale) and % of GDP (the right scale)

Table 22. External debt (EEK m)

	31.03.03	Share (%)	30.06.03	Share (%)
DEBT LIABILITIES				
I. Government	3,380.2	4.5	3,623.5	4.7
Short-term				
Long-term	3,380.2	4.5	3,623.5	4.7
II. Monetary authorities (CNB)	185.4	0.2	208.3	0.3
Short-term	185.4	0.2	208.3	0.3
Long-term				
III. Banks	29,641.8	39.0	28,453.6	37.0
Short-term	10,572.8	13.9	11,119.9	14.5
Long-term	19,069.0	25.1	17,333.7	22.5
IV. Other sectors	25,310.2	33.3	25,669.5	33.4
Short-term	9,315.4	12.3	10,790.2	14.0
Long-term	15,994.8	21.1	14,879.3	19.4
V. Direct investments: Inter-company debts	17,425.2	22.9	18,931.5	24.6
GROSS EXTERNAL DEBT	75,942.8	100.0	76,886.4	100.0
CLAIMS				
I. Government	7,113.0	11.4	7,527.6	12.3
Short-term	3,340.1	5.4	4,129.6	6.7
Long-term	3,772.9	6.0	3,398.0	5.5
II. Monetary authorities (CNB)	15,609.7	25.0	15,259.0	24.9
Short-term	12,273.0	19.7	11,932.8	19.5
Long-term	3,336.7	5.3	3,326.2	5.4
III. Banks	17,697.7	28.4	13,872.6	22.6
Short-term	16,174.1	25.9	12,442.5	20.3
Long-term	1,523.6	2.4	1,430.1	2.3
IV. Other sectors	14,341.7	23.0	16,488.6	26.9
Short-term	7,689.9	12.3	8,904.7	14.5
Long-term	6,651.8	10.7	7,583.9	12.4
V. Direct investments: Inter-company debts	7,660.7	12.3	8,131.8	13.3
CLAIMS TOTAL	62,422.8	100.0	61,279.6	100.0
NET EXTERNAL DEBT				
I. Government	3,732.8		3,904.1	
Short-term	3,340.1		4,129.6	
Long-term	392.7		-225.5	
II. Monetary authorities (CNB)	15,424.3		15,050.7	
Short-term	12,087.6		11,724.5	
Long-term	3,336.7		3,326.2	
III. Banks	-11,944.1		-14,581.0	
Short-term	5,601.3		1,322.6	
Long-term	-17,545.4		-15,903.6	
IV. Other sectors	-10,968.5		-9,180.9	
Short-term	-1,625.5		-1,885.5	
Long-term	-9,343.0		-7,295.4	
V. Direct investments: Inter-company debts	-9,764.5		-10,799.7	
NET EXTERNAL DEBT TOTAL	-13,520.0		-15,606.8	