
SHORT OVERVIEW

- **The continuously strong inflow of external funds accompanied by active investment activities and private consumption maintained a high level of current account deficit.**
- **The current account deficit of 2004 formed 12.7% of the expected GDP, which is slightly less than the year before. In absolute value the deficit increased by nearly a billion kroons, amounting to 17.5 billion kroons (see Table 1 and Figure 1)¹.**
- **The credit turnovers of goods, services, and income grew faster than debit turnovers.**
- **The transfers turnover increased manifold due to the accession to the EU.**
- **Foreign capital inflow occurred mainly in the form of direct and portfolio investment.**
- **The balance of payments reserve assets increased by 3.4 billion kroons.**

The largest component of the **CURRENT ACCOUNT DEFICIT** was once again the **goods account** with negative balance of nearly 25 billion kroons. The exports of goods increased 18%, i.e. 12 billion kroons year-on-year, reaching 75 billion kroons. The imports of goods increased by 17%, i.e. 14 billion kroons year-on-year, causing the debit of goods account to reach 100 billion kroons for the first time. The rise in the goods turnover compared to 2003 was brought about by the accession to the European Union as well as by a change in the reporting system (transition to Intrastat reporting in declaring intra-Community trade), which is why foreign trade statistics before and after the accession are not directly comparable².

The main groups of export goods traditionally included machinery and equipment, timber and timber products, furniture and textile products. Machinery and equipment dominated also in imports, followed by transport vehicles, chemical products, and metal products.

Estonia's main trading partner was the enlarged European Union, whose share amounted to 80% in the exports of goods and to 78% in the imports of goods. The partners with the largest goods turnover were Finland, Sweden, Germany, Latvia, and Lithuania from the EU, Russia from the CIS, and the United States and Norway from the rest of the world.

The **services** surplus increased by a fifth year-on-year and totalled 14.3 billion kroons. Services exports grew by 16% and imports by 13%. The growth in the services surplus was most affected by travel

¹ The current account deficit without reinvested earnings, which include no actual movement of funds, constituted 7.1% of the expected GDP.

² From 1 May 2004 foreign trade statistics is based on the combination of two reporting systems: trade with non-EU countries is still calculated on the basis of customs declarations submitted to the Tax and Customs Board (the so-called Extrastat), whereas trade with other EU countries is registered through the so-called Intrastat survey organised by the Statistical Office (see www.stat.ee/125965). While Extrastat still allows the use of the special trade system, which excludes trade through customs warehouses, then Intrastat provides no way of excluding goods moving through intermediate warehouses that actually do not reach the Estonian domestic market, thus rather reflecting the principles of general trade system. Therefore, the general level of imports and exports of goods is higher than in previous periods and this peculiarity has to be taken into account when comparing time series. Due to differences in the structure of Intrastat reports as compared to customs declarations, precise distinction between normal exports and imports and imports of goods for processing and exports of processed goods is no longer possible.

Table 1. Estonia's balance of payments (EEK m)

	1998	1999	2000	2001	2002	2003	2004
Current account	-6,760.2	-3,607.7	-5,093.4	-5,889.5	-11,882.9	-16,563.1	-17,484.5
Goods and services	-7,676.2	-3,755.4	-3,569.0	-3,623.7	-8,318.2	-10,101.1	-10,317.9
Goods*	-15,725.5	-12,096.9	-13,143.6	-13,783.9	-17,995.6	-21,850.9	-24,659.0
credit (f.o.b.)	37,786.3	36,995.2	56,345.9	58,667.1	58,333.6	63,533.8	75,059.0
debit (f.o.b.)	-53,511.8	-49,092.1	-69,489.5	-72,451.0	-76,329.2	-85,384.7	-99,717.8
Services	8,049.3	8,341.5	9,574.6	10,160.2	9,677.4	11,749.9	14,341.1
credit	20,804.0	21,951.9	25,485.8	28,866.5	28,279.7	30,814.4	35,817.6
debit	-12,754.7	-13,610.4	-15,911.2	-18,706.3	-18,602.3	-19,064.6	-21,476.5
Income	-1,164.0	-1,505.8	-3,483.4	-4,926.1	-5,423.1	-7,936.7	-9,130.7
credit	1,871.8	1,964.3	2,008.0	2,994.7	3,339.3	3,385.9	4,932.2
debit	-3,035.8	-3,470.1	-5,491.4	-7,920.8	-8,762.4	-11,322.7	-14,062.8
Transfers	2,080.0	1,653.5	1,959.0	2,660.3	1,858.4	1,474.7	1,964.0
credit	2,424.2	2,257.5	2,454.8	3,174.1	2,876.3	2,874.8	5,403.5
debit	-344.2	-604.0	-495.8	-513.8	-1,017.9	-1,400.1	-3,439.5
Capital and financial account (reserve assets excluded)	6,869.8	5,916.6	7,273.2	4,863.1	12,739.6	18,979.7	20,633.0
Capital account	25.2	17.8	278.5	90.0	320.7	549.0	1,054.7
Financial account	6,844.6	5,898.8	6,994.7	4,773.1	12,418.9	18,430.7	19,578.3
Direct investment	7,989.7	3,208.2	5,601.4	5,901.3	2,611.8	10,432.2	8,353.2
Abroad	-81.7	-1,239.8	-1,043.1	-3,528.3	-2,188.4	-2,038.5	-3,259.5
In Estonia	8,071.4	4,448.0	6,644.5	9,429.6	4,800.2	12,470.7	11,612.7
Portfolio investment	-23.4	156.0	1,417.5	-665.0	2,442.4	2,391.3	8,892.2
Assets	-127.9	-1,894.9	153.1	-2,100.2	-3,182.9	-5,351.5	-4,505.7
Equity securities	500.8	187.0	53.3	236.5	9.1	-1,028.9	-2,919.5
Debt securities	-628.7	-2,081.9	99.8	-2,336.5	-3,192.0	-4,322.7	-1,586.3
Liabilities	104.5	2,050.9	1,264.4	1,435.2	5,625.3	7,742.9	13,398.0
Equity securities	401.1	3,292.3	-538.8	568.4	912.2	1,486.5	1,644.4
Debt securities	-296.6	-1,241.4	1,803.2	866.8	4,713.1	6,256.4	11,753.4
Financial derivatives	0.0	0.0	17.5	-34.7	-63.7	-19.3	-8.4
Assets	0.0	0.0	-77.8	-0.3	-43.2	-139.1	-35.3
Liabilities	0.0	0.0	95.3	-34.4	-20.5	119.9	27.0
Other investment	-1,121.7	2,534.6	-41.7	-428.5	7,428.4	5,626.5	2,341.2
Assets	-2,480.2	-1,651.2	-2,638.3	-3,716.7	695.1	-1,897.2	-11,567.7
Long-term	-786.5	421.8	-1,108.7	-322.7	-1,083.0	-561.3	-6,008.7
Short-term	-1,693.7	-2,073.0	-1,529.6	-3,394.0	1,778.1	-1,335.9	-5,559.0
Liabilities	1,358.5	4,185.8	2,596.6	3,288.2	6,733.3	7,523.6	13,908.9
Long-term	1,258.4	1,691.5	-549.9	1,814.4	1,829.0	4,227.2	2,864.8
Short-term	100.1	2,494.3	3,146.5	1,473.8	4,904.3	3,296.4	11,044.0
Errors and omissions	16.8	-511.3	90.7	296.2	70.1	-104.5	276.8
Overall balance	126.4	1,797.6	2,270.5	-730.2	926.8	2,312.1	3,425.4
Reserve assets	-126.4	-1,797.6	-2,270.5	730.2	-926.8	-2,312.1	-3,425.4

* Estonia's accession to the EU on May 1, 2004 brought about a significant change in the calculation system of the movement of goods between Estonia and the other Member States. Thus, the time-series of foreign trade before and after the accession are not directly comparable.

services and other business services. The transport services surplus decreased, mainly as regards other supporting and auxiliary transport services, which was also affected by the abandoning of tax-free trade on means of transport after the EU accession. The structure of the services balance turnover (the total of the credit and debit turnover) remained stable: like in 2003, the transport services turnover constituted 42%, the travel services turnover 28%, and the turnover of other business services 18% of the total services turnover.

In the services sector, Estonia's major trading partners were the EU Member States, which accounted for 67% of the exports and 76% of the imports in 2004. Estonia's biggest surplus was with Finland (6.9 billion kroons).

The **income account** deficit continued to increase in 2004 and constituted 9.1 billion kroons, i.e. 6.6% of the expected GDP. Debit turnover of income, i.e. the income earned by foreign investors in Estonia,

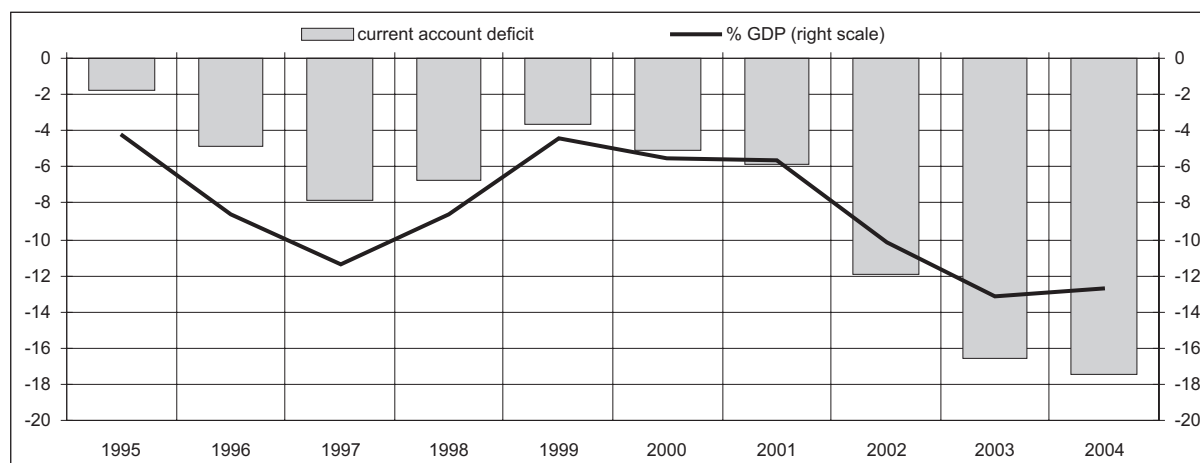


Figure 1. Current account deficit (EEK bn) and ratio to GDP (%)

increased by a fourth, whereas the income earned by Estonian investors abroad (credit turnover) increased by nearly 50%. The growth was favoured by both compensation of employees and investment income. The income earned by non-residents on the capital invested in Estonia and on compensations of employees stood at 14.1 billion kroons, while the residents' income on investment abroad totalled 4.9 billion kroons. 80% of non-residents' investment income (mainly reinvested earnings) and 50% of residents' investment income (reinvested earnings and dividends) came from direct investment. Excluding reinvested earnings, which involve no real movement of funds, from the income account, the net outflow of income stood at 1.5 billion kroons.

The majority of residents' income earned on investment and compensation of employees came from the Baltic States, Finland, and Cyprus. The share of the European Union was 86%. 45% of the income was earned by financial intermediaries, 13% by transport, storage, and communications investors, and 12% by hotel and restaurant sector investors. 83% of income earned on investments into Estonia belonged to investors from the EU Member States (mostly Finland, Sweden, and the United Kingdom). Most income was earned on financial intermediation (32%), manufacturing (18%), retail and wholesale trade (14%), and transport, storage and communications (13%).

The surplus of the **transfers account** (both current and capital transfers) increased by a half, whereas the incoming transfers multiplied twice and outgoing transfers 2.5 times. The growth in turnover was mainly due to transfers from the EU structural funds and value added tax paid by and refunded to non-residents.

The positive balance of the **FINANCIAL ACCOUNT** somewhat increased year-on-year, constituting 19.6 billion kroons. 8.4 billion kroons thereof accounted for the net inflow of direct investment, 8.9 billion kroons of portfolio investment, and 2.3 billion kroons of other investment.

Although the net inflow of **direct investment** decreased by 2 billion kroons year-on-year, their level still remained high. Direct investment into Estonia fell by only 7%, amounting to 11.6 billion kroons. Estonian residents' direct investment abroad grew 60% and amounted to 3.3 billion kroons.

Equity capital investment accounted for a fourth of the direct investment inflow, the rest was reinvested earnings. Major investors were from the Scandinavian countries (Finland, Denmark, Norway, Sweden) and Russia. The share of the EU in the direct investment inflow was 79%. The majority of investments was made into the financial intermediation, real estate, renting and business activities, wholesale and retail trade, as well as into manufacturing.

Investment into equity capital accounted for 67% and reinvested earnings for 23% of residents' direct investment capital abroad. Investments went mainly to Latvia, Lithuania, Finland, and Russia. The share of the European Union was 89%. The investors in the financial intermediation (51%), hotel and restaurant sector, manufacturing, real estate, renting and business activities, and construction made the largest investments.

The net inflow of **portfolio investment** was record-breaking – 8.9 billion kroons. Portfolio investment claims increased by 4.5 and liabilities by 14.3 billion kroons. The claims increased mainly as a result of other sector investment into foreign equity securities, and liabilities as a result of issuing debt securities of credit institutions.

Although the net inflow of **other investment** was not substantial (2.3 billion kroons), the turnovers were remarkable. Other investment claims (mainly loans) grew by 11.6 billion kroons in the form of both short-term and long-term capital. Other investment liabilities increased by 13.9 billion kroons in the form of both loans and deposits. The movement of other investment mainly took place via credit institutions.

CURRENT ACCOUNT

The 2004 current account deficit ratio to the expected GDP was 12.7 %, which is slightly less than a year before (13.1%). This indicator was maintained on a high level by the intensive inflow of external funds accompanied by active investment activities and private consumption. The credit turnovers of all sub-accounts of the current account, excluding transfers, increased faster than debit turnovers (see Figure 2). The net outflow of income constituted 6.6% of the expected GDP. The even bigger net outflow of income was curbed by the increased income of Estonian investors on foreign direct investment.

The European Union Member States (EU-25) accounted for 76% of the credit turnover and 79% of the debit turnover. Estonia's five most important foreign trade partners were Finland, Sweden, Germany, Russia, and Latvia, which accounted for 60% of both the credit turnover and the debit turnover. In 2004, Estonia's current account deficit was the biggest with Germany and Russia, whereas the highest surplus was registered with the USA, British Virgin Islands, and Latvia (see Table 2).

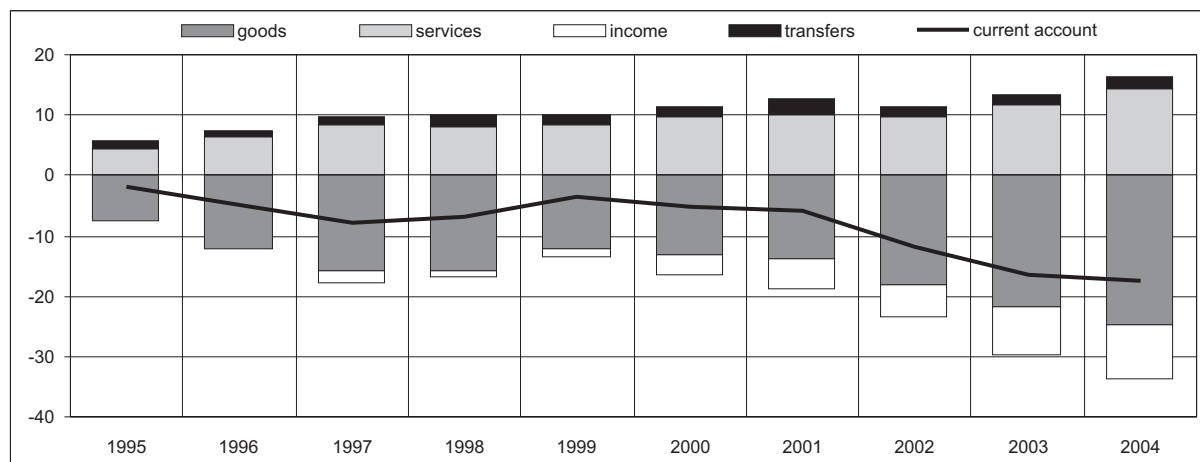


Figure 2. Current account structure (EEK bn)

Table 2. Current account balance by groups of countries (EEK m)

	2003	2004
EU-25*	-12,217.0	-17,358.2
Germany**	-5,028.9	-7,214.8
Poland	-1,874.7	-2,538.3
Latvia	2,128.8	2,094.9
Finland	768.1	-2,049.9
Italy	-1,658.6	-2,022.1
EU-15	-11,300.5	-16,295.0
CIS	-6,767.4	-3,602.2
Russia	-3,263.9	-2,687.8
Belarus	-877.0	-1,125.1
Ukraine	-2,621.1	255.1
Other	2,421.3	3,475.9
USA	590.1	2,231.3
British Virgin Islands	2,089.4	2,100.1
Norway	1,436.2	1,484.0
China	-618.8	-1,313.7
Japan	25.2	-1,102.6
Total	-16,563.1	-17,484.5

* Here and below 15 EU Member States and 10 acceding countries have been analysed before 1 May 2004.

** Countries are ranked by the absolute value of last period's current account balance.

Goods

The trade account deficit of the balance of payments amounted to 25 billion kroons in 2004, having increased by ca. 3 billion kroons during the year (see Table 3). Goods exports increased 18% year-on-year, amounting to 75 billion kroons. Imports of goods grew 17%, reaching 100 billion for the first time. The rise in the goods turnover compared to the data of 2003 was brought about by the accession to the European Union as well as by a change in the reporting system (transition to Intrastat reporting in declaring intra-Community trade), which is why foreign trade statistics before and after the accession are not directly comparable (see also Footnote 2 on page 5).

According to the preliminary **foreign trade statistics**³, goods exports totalled 74 billion and imports in c.i.f. prices 105 billion kroons (see Figure 3). Foreign trade deficit formed approximately 32 billion kroons, having increased by 4.5 billion kroons year-on-year.

The 18% increase in the **exports of goods** was mainly caused by machinery and equipment, transport vehicles, and mineral products, although exports of other groups of goods (excl. clothing, footwear and headgear) increased considerably as well (see Table 4). As regards machinery, mobile phones and their parts, whose exports increased by 37% year-on-year, and which were channelled to Finland, Sweden, Hungary, and Germany, constituted more than 60%. The growth in the exports of transport vehicles was mainly underpinned by the exports of motor cars imported from Finland and Germany to Lithuania, Latvia, and Russia for 1.2 billion kroons. Car parts, including safety belts, were mainly channelled to Sweden and Russia. Whereas prior to the accession to the EU, more than a half of the exports of mineral goods embodied re-exports of motor fuel imported from Lithuania, Russia, and Belarus to the USA and EU Member States, sales of electricity to Latvia and Russia increased 10% year-on-year, constituting

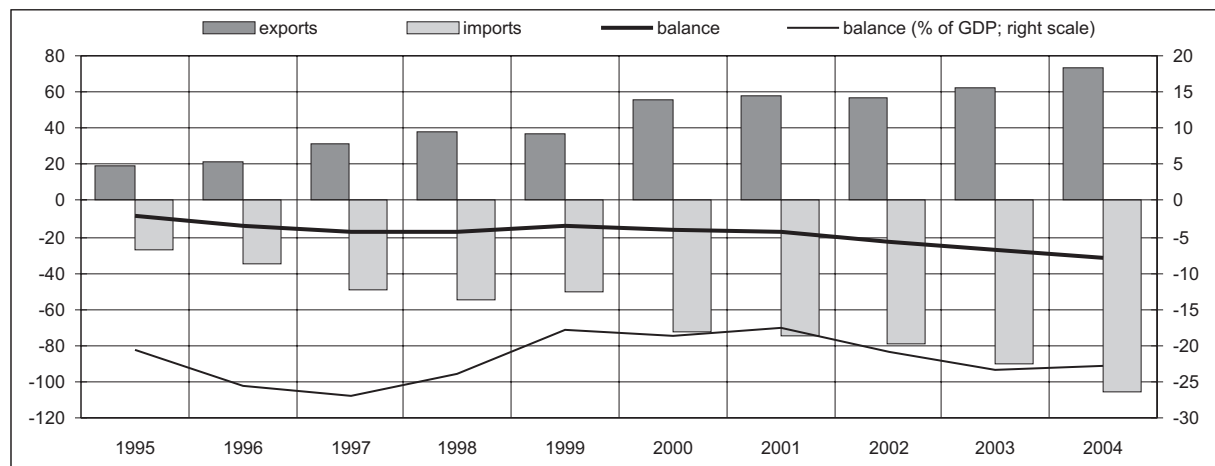
³ The following analysis is based on the foreign trade statistics of the Statistical Office and does not include either estimates caused by insufficient receipt of data added to the goods account of the balance of payments by Eesti Pank, or methodical adjustments (repair of capital goods, provisions bought from abroad, etc). Imports are in c.i.f. prices and analysed by the trading country.

As of the moment of accession, the terms "exports" and "imports" are only applicable in reference to trading with third countries, while the Intrastat system uses the terms "dispatch of goods" and "arrival of goods". Since the following analysis covers both intra-Community and non-Community trade, the terms "exports" and "imports" have still been used for the sake of simplicity and clarity.

Table 3. Changes in the imports and exports of goods

	Goods – credit			Goods – debit			Balance (EEK m)
	Volume* (EEK m)	Change compared to the previous period (%)	Share in total exports of goods and services (%)	Volume* (EEK m)	Change compared to the previous period (%)	Share in total imports of goods and services (%)	
1995	19,428.2	22.7	66.0	27,043.7	32.3	82.6	-7,615.5
1996	21,833.4	12.4	62.1	34,121.6	26.2	82.8	-12,288.2
1997	31,846.5	45.9	63.4	47,499.3	39.2	82.4	-15,652.8
1998	37,786.3	18.7	64.5	53,511.8	12.7	80.8	-15,725.5
1999	36,995.2	-2.1	62.8	49,092.1	-8.3	78.3	-12,096.9
2000	56,345.9	52.3	68.9	69,489.5	41.5	81.4	-13,143.6
2001	58,667.1	4.1	67.0	72,451.0	4.3	79.5	-13,783.9
2002	58,099.5	-1.0	67.3	76,323.7	5.3	79.1	-18,224.2
2003	63,533.8	9.4	67.3	85,384.7	11.9	81.7	-21,850.9
2004	75,058.9	18.1	67.7	99,717.8	16.8	82.2	-24,658.9

* Data of the foreign trade account of the balance of payments.

**Figure 3. Estonia's foreign trade balance (EEK bn)****Table 4. Exports by main groups of goods**

	Volume (EEK m)		Share (%)		Change (%)
	2003	2004	2003	2004	2004/2003
Food	4,700.4	5,340.7	7.5	7.3	13.6
Mineral products	1,781.7	3,358.5	2.8	4.6	88.5
Chemical products	4,902.9	5,317.8	7.8	7.2	8.5
Clothing, footwear and headgear	8,297.2	8,111.3	13.3	11.0	-2.2
Timber, paper and products	10,682.6	11,166.2	17.1	15.2	4.5
Metals and metal products	5,334.2	5,715.9	8.5	7.8	7.2
Machinery and equipment	15,644.3	20,268.9	25.0	27.5	29.6
Transport vehicles	2,709.9	4,502.8	4.3	6.1	66.2
Furniture, toys, sporting goods	6,124.0	6,939.8	9.8	9.4	13.3
Other	2,354.3	2,871.1	3.8	3.9	22.0
Total	62,531.4	73,592.9	100.0	100.0	17.7

20% of the exports in this group of goods. Unprocessed and little processed timber and timber products (to the United Kingdom, Sweden and Finland) and wooden furniture and prefabricated buildings (to Germany, Finland, Norway) traditionally dominated in the timber, timber products and furniture group. The main articles of the clothing, footwear and headgear group were men's suits and shirts and women's costumes to the EU Member States, but also fur to Turkey and Cyprus. The main export articles in the metal products group were iron constructions, steel products, and scrap metal. In the food group, dairy

products were exported to the Netherlands and Germany, alcohol to Russia and Finland, and canned fish to Ukraine, Lithuania, and Russia. The main articles in the chemical products group were plastic products, medicines, and fillers to Russia, Latvia, Lithuania, and Sweden.

Imports of goods also increased year-on-year across most of the main groups, except for transport vehicles, whose imports decreased by 5% (see Table 5). Import growth was mainly affected by the rise in the imports of machinery and equipment and metals by 29% and 40%, respectively. In the machinery and equipment group, mainly mobile communication equipment and various electronics industry components for both processing and internal circulation were imported to Estonia. The major partners were Finland, Sweden, Japan, and Hungary. The imports of transport vehicles mainly consisted of motor cars from Finland and Germany, rail wagons from Russia and Ukraine, and commercial vehicles from Germany. As regards chemical products, medicines from Latvia, Germany, Belgium and Lithuania were imported. In the metals group, steel products were imported from Russia and Finland. As regards imports of food, the main articles were coffee and beer from Finland, cigarettes and rape oil from Lithuania, and soya oil from Germany. In the clothing, footwear and headgear group, textile commodities from Latvia, Finland, and Korea dominated; under mineral products, motor fuel from Lithuania, Russia, and Belarus, and natural gas from Russia were the main articles. A considerable development in the timber products group was the 57% increase in the imports of commodities from Russia.

Table 5. Imports by main groups of goods

	Volume (EEK m)		Share (%)		Change (%)
	2003	2004	2003	2004	2004/2003
Food	8,214.2	9,601.4	9.2	9.1	16.9
Mineral products	5,041.6	7,295.5	5.6	6.9	44.7
Chemical products	11,060.7	12,206.3	12.3	11.6	10.4
Clothing, footwear and headgear	8,239.6	9,007.1	9.2	8.6	9.3
Timber, paper and products	4,641.7	5,958.7	5.2	5.7	28.4
Metals and metal products	8,269.4	11,553.9	9.2	11.0	39.7
Machinery and equipment	24,953.9	30,169.5	27.8	28.7	20.9
Transport vehicles	13,357.9	12,741.7	14.9	12.1	-4.6
Furniture, toys, sporting goods	2,036.8	2,423.2	2.3	2.3	19.0
Other	3,894.0	4,298.4	4.3	4.1	10.4
Total	89,709.9	105,255.7	100.0	100.0	17.3

According to preliminary data, **foreign trade deficit** increased by 4.5 billion kroons (see Table 6). Two groups of goods posted a surplus: timber and timber products, and furniture and other manufactured goods. The balance of clothing, footwear and headgear, which was characterised by surplus in 2003, became negative, and the deficit of the majority of other groups of goods (excl. transport vehicles) increased as well.

Table 6. Foreign trade balance by main groups of goods (EEK m)

	2003	2004
Food	-3,513.8	-4,260.7
Mineral products	-3,260.0	-3,937.0
Chemical products	-6,157.9	-6,888.5
Clothing, footwear and headgear	57.6	-895.8
Timber, paper and products	6,040.9	5,207.4
Metals and metal products	-2,935.2	-5,837.9
Machinery and equipment	-9,309.6	-9,900.6
Transport vehicles	-10,648.0	-8,238.9
Furniture, toys, sporting goods	4,087.3	4,516.6
Other	-1,539.7	-1,427.3
Total	-27,178.5	-31,662.8

By groups of countries, the **exports of goods** to the European Union as well as to other groups of countries increased (see Table 7). The enlarged EU was the major partner, with exports to the EU growing by 14% year-on-year, accounting for 80% of the total exports in the period under analysis. The major partners were traditionally Finland, Sweden, and Germany, followed by Latvia and Lithuania. Exports to former CIS countries increased by 54%, constituting 8%, whereas exports to Russia increased by 71%, i.e. 1.7 billion kroons year-on-year. The top three of other countries were Norway, the USA, and the Republic of Korea.

Table 7. Exports of goods by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2003	2004	2003	2004	2004/2003
EU-25	51,524.5	58,888.8	82.4	80.0	14.3
Finland	16,203.5	17,129.5	25.9	23.3	5.7
Sweden	9,520.3	11,346.7	15.2	15.4	19.2
Germany	6,177.4	6,217.3	9.9	8.4	0.6
Latvia	4,393.7	5,776.7	7.0	7.8	31.5
Lithuania	2,340.5	3,016.4	3.7	4.1	28.9
EU-15	42,739.8	45,872.9	68.3	62.3	7.3
CIS	3,770.4	5,797.5	6.0	7.9	53.8
Russia	2,439.9	4,179.8	3.9	5.7	71.3
Ukraine	1,137.5	1,257.1	1.8	1.7	10.5
Belarus	81.5	172.1	0.1	0.2	111.3
Other	7,236.5	8,906.7	11.6	12.1	23.1
Norway	2,245.7	2,423.7	3.6	3.3	7.9
USA	1,552.8	2,381.5	2.5	3.2	53.4
Korean Republic	402.5	636.4	0.6	0.9	58.1
Total	62,531.4	73,592.9	100.0	100.0	17.7

Imports of goods also increased across all groups of countries (see Table 8). The enlarged European Union achieved a share of 78%, the top five included Finland, Germany, Sweden, Lithuania, and Latvia. Imports from Russia increased by 2.5 billion kroons, imports from Ukraine decreased by the same amount. China, Japan and the USA dominated among other countries.

Foreign trade balance was negative for all groups of countries (see Table 9).

Table 8. Imports of goods by groups of countries*

	Volume (EEK m)		Share (%)		Change (%)
	2003	2004	2003	2004	2004/2003
EU-25	68,669.3	81,794.8	76.5	77.7	19.1
Finland	19,274.1	23,289.5	21.5	22.1	20.8
Germany	11,433.4	13,517.7	12.7	12.8	18.2
Sweden	8,781.9	10,220.0	9.8	9.7	16.4
Lithuania	3,682.9	5,423.6	4.1	5.2	47.3
Latvia	3,789.1	5,004.5	4.2	4.8	32.1
EU-15	56,118.6	64,891.3	62.6	61.7	15.6
CIS	12,047.2	12,684.8	13.4	12.1	5.3
Russia	7,204.2	9,655.2	8.0	9.2	34.0
Ukraine	3,797.8	1,414.4	4.2	1.3	-62.8
Belarus	866.4	1,276.2	1.0	1.2	47.3
Other	8,993.4	10,776.1	10.0	10.2	19.8
China	1,274.4	2,001.0	1.4	1.9	57.0
Japan	1,348.6	1,437.4	1.5	1.4	6.6
USA	1,199.9	1,244.8	1.3	1.2	3.7
Total	89,709.9	105,255.7	100.0	100.0	17.3

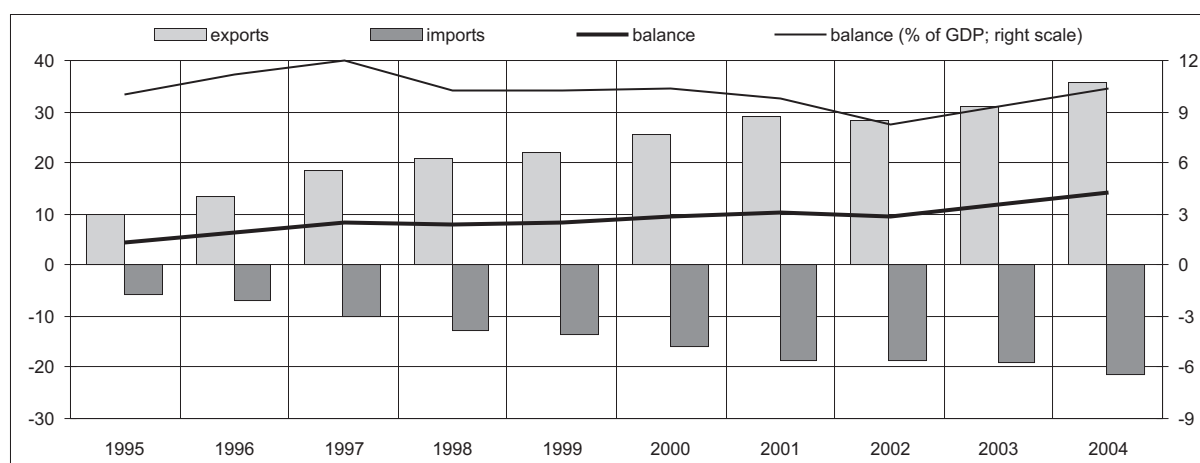
* Analysed by trading country.

Table 9. Foreign trade balance by groups of countries (EEK m)

	2003	2004
EU-25	-17,144.8	-22,906.1
EU-15	-13,378.8	-19,018.5
CIS	-8,276.7	-6,887.3
Other	-1,757.0	-1,869.4
Total	-27,178.5	-31,662.8

Services

The surplus of the services account amounted to 14.3 billion kroons in 2004, increasing 22% year-on-year (see Figure 4). The fast growth was caused by the accelerated growth rate of exports compared to imports (see Table 10). The surplus of the services account offset the foreign trade deficit by 58%, which is slightly more than in previous years.

**Figure 4. Changes in services (EEK bn)****Table 10. Exports and imports of services**

	Exports			Imports			Balance	
	Volume (EEK m)	Change compared to the previous period (%)	Share in total turnover of goods and services (%)	Volume (EEK m)	Change compared to the previous period (%)	Share in total turnover of goods and services (%)	Volume (EEK m)	Change compared to the previous period (%)
1993	4,434.3	81.7	29.2	3,437.2	78.2	21.3	997.1	95.0
1994	6,657.0	50.1	29.6	5,301.3	54.2	20.6	1,355.7	36.0
1995	10,022.9	50.6	34.0	5,692.6	7.4	17.4	4,330.3	219.4
1996	13,352.8	33.2	37.9	7,107.8	24.9	17.2	6,245.0	44.2
1997	18,366.7	37.5	36.6	10,134.0	42.6	17.6	8,232.7	31.8
1998	20,804.0	13.3	35.5	12,754.8	25.9	19.2	8,049.2	-2.2
1999	21,951.9	5.5	37.2	13,610.4	6.7	21.7	8,341.5	3.6
2000	25,485.8	16.1	31.1	15,911.2	16.9	18.6	9,574.6	14.8
2001	28,866.5	13.3	33.0	18,706.3	17.6	20.5	10,160.2	6.1
2002	28,279.7	-2.0	32.7	18,602.3	-0.6	19.6	9,677.4	-4.8
2003	30,814.4	9.0	32.7	19,064.6	2.5	18.3	11,749.9	21.4
2004	35,817.6	16.2	32.3	21,476.6	12.7	17.7	14,341.0	22.1

Although the structure of services turnover remained stable, the structure of the services balance was considerably affected by Estonia's accession to the EU (see Table 11). Active tourism increased the share of travel services, the fast growth of goods imports magnified the volumes of freight services,

and the abandoning of duty-free trade for intra-Community trips decreased the turnover of passenger transport, which altogether resulted in a decline in the share of transport services in the services account balance. The share of business services has increased substantially.

Table 11. Services balance by major categories

	Balance (EEK m)		Share (%)		Change (%)
	2003	2004	2003	2004	2004/2003
Transportation	6,507.0	5,992.5	55.4	41.8	-7.9
Travel	4,878.8	6,699.6	41.5	46.7	37.3
Construction services	-108.5	-43.7	-0.9	-0.3	-59.7
Business services	261.4	1,521.6	2.2	10.6	482.1
Government services	171.5	153.6	1.5	1.1	-10.4
Other	39.6	17.4	0.3	0.1	-56.1
Total	11,749.9	14,341.0	100.0	100.0	22.1

Services exports grew 16% year-on-year, whereas the growth was above average in travel and business services (21% and 23%, respectively). Exports of construction services declined for the second year in row (see Table 12).

Two thirds of the services exports went to the EU countries, with Finland accounting for 31% thereof. Year-on-year, the exports of services to the United Kingdom, Sweden, and Germany, and out of other more significant countries, to Russia and Switzerland, has grown faster (see Table 13).

Table 12. Services exports by major categories

	Volume (EEK m)		Share (%)		Change (%)
	2003	2004	2003	2004	2004/2003
Transportation	13,606.8	15,222.9	44.2	42.5	11.9
freight	7,052.4	8,837.6	22.9	24.7	25.3
passenger	2,920.7	2,832.1	9.5	7.9	-3.0
other transport services	3,633.7	3,553.2	11.8	9.9	-2.2
Travel	9,317.9	11,289.3	30.2	31.5	21.2
Construction services	1,174.8	1,104.6	3.8	3.1	-6.0
Business services	4,756.5	5,865.4	15.4	16.4	23.3
Government services	474.8	477.2	1.5	1.3	0.5
Other	1,483.6	1,858.1	4.8	5.2	25.2
Total	30,814.4	35,817.5	100.0	100.0	16.2

Table 13. Services exports by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2003	2004	2003	2004	2004/2003
EU-25	20,622.8	23,958.0	66.9	66.9	16.2
Finland	9,686.1	11,085.8	31.4	31.0	14.4
United Kingdom	1,983.3	2,559.8	6.4	7.1	29.1
Sweden	1,964.5	2,405.8	6.4	6.7	22.5
Germany	1,549.0	1,978.6	5.0	5.5	27.7
EU-15	17,595.7	20,895.3	57.1	58.3	18.8
CIS	3,183.2	4,658.3	10.3	13.0	46.3
Russia	2,909.7	4,087.7	9.4	11.4	40.5
Ukraine	179.2	369.8	0.6	1.0	106.4
Other	7,008.4	7,201.3	22.7	20.1	2.8
offshore regions	2,632.3	2,788.9	8.5	7.8	5.9
USA	1,561.4	1,623.3	5.1	4.5	4.0
Switzerland	1,165.6	1,527.6	3.8	4.3	31.1
Total	30,814.4	35,817.6	100.0	100.0	16.2

Imports of services increased 13% in 2004, whereas transport services accounted for the most of the growth (annual growth 30%). Freight transport increased as much as 40% and other transport services grew by 39% (see Table 14).

The share of the EU countries in the services imports accounted for 76%, whereas the share of the major partner, Finland, declined to 20%. Services imports increased at a faster than average rate from Germany and Latvia, and out of non-EU countries, from Russia (see Table 15).

Table 14. Services imports by major categories

	Volume (EEK m)		Share (%)		Change (%)
	2003	2004	2003	2004	2004/2003
Transportation	7,099.8	9,230.4	37.2	43.0	30.0
freight	4,278.4	5,994.2	22.4	27.9	40.1
passenger	1,250.8	1,054.7	6.6	4.9	-15.7
other transport services	1,570.6	2,181.5	8.2	10.2	38.9
Travel	4,439.1	4,589.7	23.3	21.4	3.4
Construction services	1,283.3	1,148.3	6.7	5.3	-10.5
Business services	4,495.1	4,343.8	23.6	20.2	-3.4
Government services	303.3	323.6	1.6	1.5	6.7
Other	1,444.0	1,840.8	7.6	8.6	27.5
Total	19,064.6	21,476.6	100.0	100.0	12.7

Table 15. Services imports by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2003	2004	2003	2004	2004/2003
EU-25	-14,314.7	-16,365.2	75.1	76.2	14.3
Finland	-4,368.5	-4,190.8	22.9	19.5	-4.1
Germany	-1,475.8	-2,493.3	7.7	11.6	68.9
Sweden	-1,401.3	-1,565.8	7.4	7.3	11.7
Latvia	-929.7	-1,189.0	4.9	5.5	27.9
EU-15	-11,607.0	-13,415.8	60.9	62.5	15.6
CIS	-2,194.1	-2,487.5	11.5	11.6	13.4
Russia	-1,676.4	-2,107.7	8.8	9.8	25.7
Ukraine	-308.0	-187.2	1.6	0.9	-39.2
Other	-2,555.8	-2,623.9	13.4	12.2	2.7
USA	-753.9	-797.2	4.0	3.7	5.7
Norway	-395.4	-278.6	2.1	1.3	-29.5
Egypt	-25.3	-240.6	0.1	1.1	849.5
Total	-19,064.6	-21,476.6	100.0	100.0	12.7

The **transport services** surplus decreased in 2004 mainly due to the abandoning of tax-free trade on passenger ships within the EU, which primarily affected passenger transport (see Figure 5 and Tables 11 and 12).

Exports of transport services to the EU Member States increased by 12% year-on-year (see Table 16). The biggest importer of transport services was again Finland. The continued demand for transport services imports in the CIS countries and increasing commodities production volumes in Russia led to a 29% rise in the volume of transport services imported by the CIS countries. Among other countries, the main trading partners were offshore regions. Freight transport, which witnessed a 25% growth in exports year-on-year, again constituted the largest part of transport services, increasing the share of the CIS countries to 58%. The continued oil transit via Estonian ports earned income in both the rail and sea transport sector, notwithstanding the robust development of Russian ports (see Figure 6).

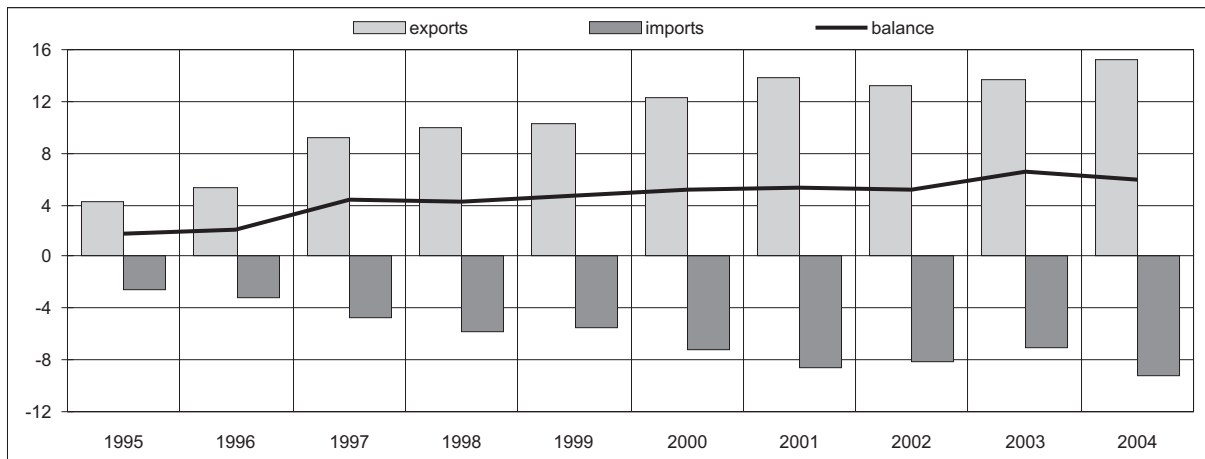


Figure 5. Transport services (EEK bn)

Table 16. Transport services by groups of countries in 2004

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%), 2004/2003		Volume (EEK m)	Share (%)	Change (%), 2004/2003
EU-25	8,842.9	58.1	12.2	EU-25	6,601.3	71.5	30.3
Finland	2,958.2	19.4	-7.5	Finland	1,867.9	20.2	35.9
United Kingdom	1,587.9	10.4	40.1	Germany	1,028.2	11.1	52.3
Sweden	1,086.9	7.1	21.4	Sweden	633.9	6.9	26.6
Germany	977.1	6.4	34.5	United Kingdom	374.5	4.1	28.3
Netherlands	562.1	3.7	34.4	Latvia	370.8	4.0	49.3
EU-15	8,092.5	53.2	12.5	EU-15	5,439.3	58.9	28.5
CIS	1,942.6	12.8	28.9	CIS	1,368.8	14.8	30.1
Russia	1,700.4	11.2	18.8	Russia	1,126.2	12.2	62.4
Ukraine	219.7	1.4	293.7	Belarus	112.1	1.2	-16.5
Other	4,437.4	29.1	5.2	Other	1,260.3	13.7	28.2
offshore regions	2,299.4	15.1	1.2	USA	321.6	3.5	50.6
Switzerland	947.1	6.2	25.5	offshore regions	171.4	1.9	98.8
USA	808.7	5.3	11.7	China	168.5	1.8	130.5
Total	15,222.9	100.0	11.9	Total	9,230.4	100.0	30.0

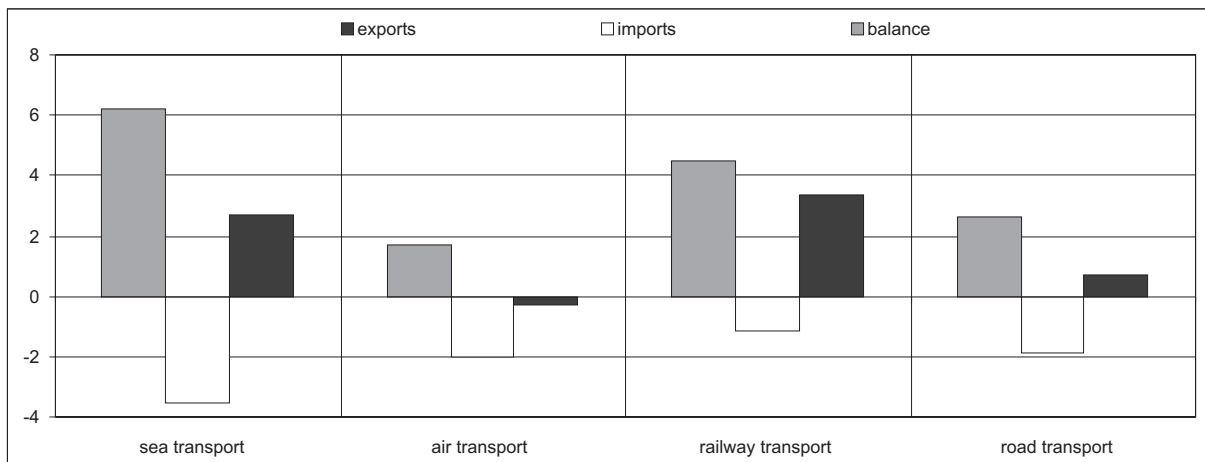


Figure 6. Transport services structure in 2004 by transport type (EEK bn)

Imports of transport services outpaced the growth in exports, causing a decline in the surplus of transport services. There was a growth in the imports of freight and other transport services. Imports of passenger

transport declined 16%, mainly in the sea and air transport sector, caused by preferring domestic shipping companies and airlines, as well as by favourably-priced flight tickets. Transport services were mainly bought from the EU countries, including 20% from Finland. The imports of transport services increased ca. 30% evenly from the EU countries, CIS countries headed by Russia, and from the rest of countries.

Exports of **travel services** received a positive impulse from the accession to the EU due to the abandoning of several customs restrictions and simplified travel opportunities (see Figure 7). Year-on-year, the number of foreigners visiting Estonia increased by 14%. Even though the number of tourists serviced by travel agencies remained the same, the duration of trips and the number of days stayed at accommodation establishments increased. Year-on-year, the number of tourists from Finland and Scandinavian countries increased the most, and the number of cruise travellers from the USA is growing again (see Table 17).

Imports of travel services increased 3%. Whereas the number of visits to foreign countries increased by 16%, a majority thereof were related to seasonal or short-term employment in foreign countries. The geography of Estonian tourists' destinations has changed: for example, the number of travellers to Egypt grew 10 times year-on-year, to Turkey 2.2 times, and to the USA 46% (see Table 17). Closer contacts with Brussels increased visits to Belgium by 43%, and the Olympic Games raised the number of visits to Greece by 25%. At the same time, the popularity of old EU Member States, excluding Germany, declined.

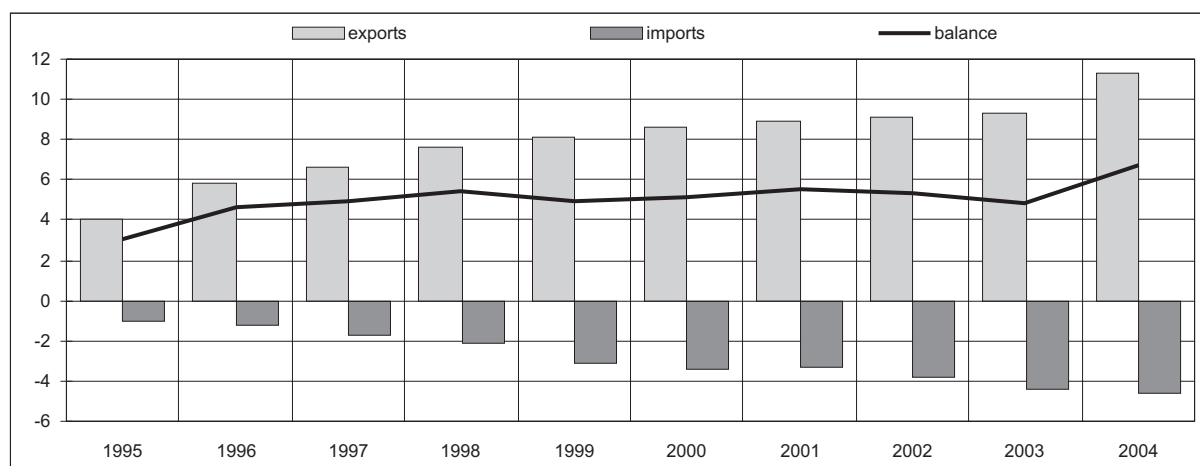


Figure 7. Travel services (EEK bn)

Table 17. Travel services by groups of countries in 2004

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%), 2004/2003		Volume (EEK m)	Share (%)	Change (%), 2004/2003
EU-25	8,969.8	79.5	16.8	EU-25	-3,369.3	73.4	2.6
Finland	6,063.7	53.7	24.8	Finland	-555.9	12.1	-22.8
Sweden	747.5	6.6	22.4	Germany	-517.8	11.3	11.6
Latvia	540.5	4.8	-18.5	Sweden	-365.1	8.0	11.8
Germany	381.1	3.4	27.3	Latvia	-319.5	7.0	41.1
EU-15	7,963.5	70.5	23.0	EU-15	-2,708.5	59.0	-3.2
CIS	1,649.3	14.6	64.2	CIS	-501.7	10.9	-11.3
Russia	1,594.7	14.1	67.3	Russia	-468.9	10.2	-5.5
Ukraine	35.7	0.3	9.8	Ukraine	-17.8	0.4	-56.8
Other	670.2	5.9	5.4	Other	-718.7	15.7	22.1
USA	260.2	2.3	14.3	USA	-195.9	4.3	65.8
Norway	187.1	1.7	2.5	Egypt	-152.2	3.3	1102.1
Total	11,289.3	100.0	21.2	Total	-4,589.7	100.0	3.4

Income

The income account deficit of 2004 was 9.1 billion kroons, having increased 15% year-on-year (see Table 18 and Figure 8). The positive balance of compensations of those employed abroad increased 3.5 times, reaching 1.3 billion kroons in 2004 and exceeding the net outflow of income on portfolio and other investment (see Table 19).

Income inflow to Estonia increased 46% year-on-year, and this was mainly affected by the growth in income of the people employed abroad, as well as by income on direct investment abroad (3.5 times and 37%, respectively; see Table 20).

Table 18. Changes in income

	Inflow		Outflow		Balance	
	Volume (EEK m)	Change compared to the previous period (%)	Volume (EEK m)	Change compared to the previous period (%)	Volume (EEK m)	Change compared to the previous period (%)
1995	727.7	50.8	699.5	-18.7	28.2	-107.5
1996	1,352.5	85.9	1,326.3	89.6	26.2	-7.1
1997	1,594.1	17.9	3,604.6	171.8	-2,010.5	-7,773.7
1998	1,871.8	17.4	3,035.8	-15.8	-1,164.0	-42.1
1999	1,964.3	4.9	3,470.1	14.3	-1,505.8	29.4
2000	2,008.0	2.2	5,491.4	58.2	-3,483.4	131.3
2001	2,994.7	49.1	7,920.8	44.2	-4,926.1	41.4
2002	3,339.3	11.5	8,762.4	10.6	-5,423.1	10.1
2003	3,386.0	1.4	11,322.7	29.2	-7,936.7	46.3
2004	4,932.2	45.7	14,062.8	24.2	-9,130.6	15.0

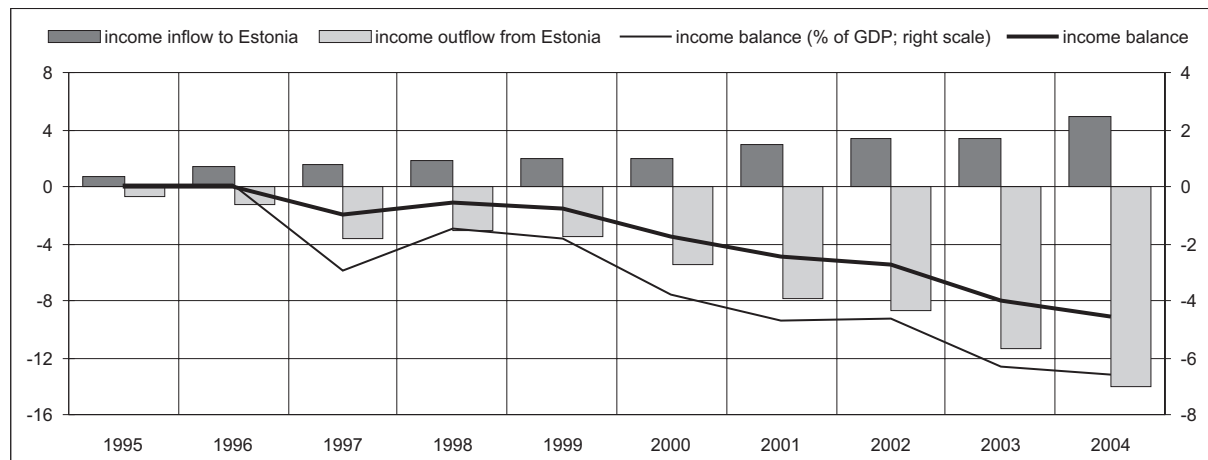


Figure 8. Income (EEK bn)

Table 19. Structure of income account

	Volume (EEK m)		Share (%)		Change (%)
	2003	2004	2003	2004	2004/2003
Income on direct investment	-7,690.7	-9,396.6	96.9	102.9	22.2
income on equity	-7,393.3	-9,064.3	93.2	99.3	22.6
reinvested earnings	-5,975.1	-7,676.6	75.3	84.1	28.5
dividends	-1,418.2	-1,387.7	17.9	15.2	-2.2
income on debt (interests)	-297.4	-332.3	3.7	3.6	11.7
Income on portfolio investment	-267.1	-388.7	3.4	4.3	45.5
Income on other investment	-334.2	-599.2	4.2	6.6	79.3
Other income	355.2	1,253.9	-4.5	-13.7	253.0
Total	-7,936.7	-9,130.7	100.0	100.0	15.0

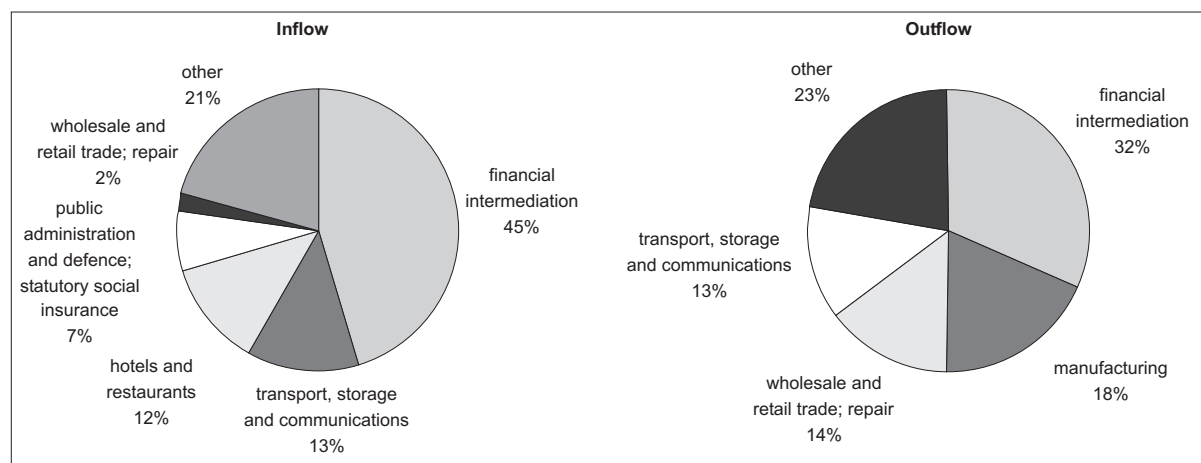
Table 20. Income inflow to Estonia

	Volume (EEK m)		Share (%)		Change (%)
	2003	2004	2003	2004	2004/2003
Income on direct investment	1,274.6	1,750.0	37.6	35.5	37.3
income on equity	1,161.6	1,580.7	34.3	32.0	36.1
reinvested earnings	741.4	752	21.9	15.2	1.4
dividends	420.2	828.7	12.4	16.8	97.2
income on debt (interests)	113.0	169.3	3.3	3.4	49.9
Income on portfolio investment	866.5	972.5	25.6	19.7	12.2
Income on other investment	812.9	693.2	24.0	14.1	-14.7
Other income	432.0	1516.6	12.8	30.7	251.1
Total	3,385.9	4,932.2	100.0	100.0	45.7

86% of the income inflow derived from the EU Member States (see Table 21), whereas the inflow of income from Finland increased the most (144%). Latvia, which was holding the largest share, maintained its position, providing the biggest absolute increase in the income inflow (269 million kroons) year-on-year. The inflow of income from the USA and Russia was faster than from the EU. By fields of activity, financial intermediation earned the biggest income (45%). Transport, storage, and communications, and hotels and restaurants followed (with 13% and 12%, respectively; see Figure 9).

Table 21. Income by groups of countries in 2004

	Inflow				Outflow		
	Volume (EEK m)	Share (%)	Change (%), 2004/2003		Volume (EEK m)	Share (%)	Change (%), 2004/2003
EU-25	4,260.6	86.4	39.5	EU-25	-11,729.3	83.4	28.4
Latvia	1,235.6	25.1	27.8	Finland	-4,551.5	32.4	52.2
Finland	765.0	15.5	143.8	Sweden	-3,256.1	23.2	12.5
Cyprus	594.9	12.1	53.0	United Kingdom	-1,390.0	9.9	5.4
Lithuania	584.9	11.9	-2.8	Netherlands	-579.4	4.1	-3.4
EU-15	1,827.8	37.1	67.2	EU-15	-11,156.2	79.3	24.6
CIS	180.7	3.7	201.2	CIS	-558.7	4.0	49.6
Russia	150.4	3.0	497.6	Russia	-526.5	3.7	44.6
Ukraine	27.9	0.6	-21.7	Uzbekistan	-18.1	0.1	
Other	490.9	10.0	79.9	Other	-1,774.9	12.6	2.3
USA	347.0	7.0	802.5	Norway	-554.3	3.9	222.8
offshore regions	79.6	1.6	65.5	offshore regions	-381.1	2.7	-34.7
				USA	-331.7	2.4	-45.3
Total	4,932.2	100.0	45.7	Total	-14,062.9	100.0	25.0


Figure 9. Inflow and outflow of income by fields of activity in 2004

Income outflow from Estonia increased 24% year-on-year, mainly in the form of income on direct investment (see Table 22). 76% of the income on direct investment earned in Estonia was reinvested. This constituted 8.4 billion kroons, and it shall be recorded on the financial account of the balance of payments as direct investment into Estonia.

83% of the income outflow went to the EU countries, whose share increased compared to the previous year. The growth of the income outflow was the fastest to Finland, and to a lesser extent to other significant countries of destination. By fields of activity, income outflow is dominated by financial intermediation (32%), manufacturing (18%), and retail and wholesale trade (14%; see Figure 9).

Table 22. Income outflow from Estonia

	Volume (EEK m)		Share (%)		Change (%)
	2003	2004	2003	2004	2004/2003
Income on direct investment	-8,965.3	-11,146.6	79.2	79.3	24.3
income on equity	-8,554.9	-10,645.0	75.6	75.7	24.4
reinvested earnings	-6,716.5	-8,428.6	59.3	59.9	25.5
dividends	-1,838.4	-2,216.4	16.2	15.8	20.6
income on debt (interests)	-410.3	-501.6	3.6	3.6	22.3
Income on portfolio investment	-1,133.7	-1,361.2	10.0	9.7	20.1
Income on other investment	-1,147.0	-1,292.4	10.1	9.2	12.7
Other income	-76.7	-262.7	0.7	1.9	242.5
Total	-11,322.7	-14,062.9	100.0	100.0	24.2

Current and Capital Transfers⁴

The surplus of the **current transfers** account increased 33% year-on-year, i.e. approximately 0.5 billion kroons, and constituted 2 billion kroons (see Table 23). The inflow of current transfers reached 5.4 billion kroons, of which funds channelled into the Estonian economy through the general government constituted 65% (i.e. 3.5 billion kroons) and included mainly allocations from the European Union structural funds and receipt of pension and other payments. Private transfers also came mainly from the EU Member States (Germany, Finland, Sweden), followed by the United States and Ukraine. 52% of the outflow of current transfers was government transfers (payments into the EU budget and refund of value added tax to the EU countries). Private transfers were also mainly made to the EU (Finland, Germany, the United Kingdom, and Sweden).

Table 23. Current transfers by groups of countries (EEK m)

	Received		Paid		Balance	
	2003	2004	2003	2004	2003	2004
Current transfers	2,874.8	5,403.6	1,400.1	3,439.5	1,474.7	1,964.1
government transfers	1,302.4	3,523.7	208.4	1,791.2	1,094.0	1,732.5
EU-25	928.0	2,857.0	181.3	1,717.0	746.7	1,140.1
EU-15	911.2	2,792.6	154.4	1,697.3	756.9	1,095.4
CIS	279.8	398.7	2.4	3.6	277.4	395.1
other	94.6	267.9	24.7	70.6	69.9	197.3
private transfers	1,572.4	1,879.9	1,191.7	1,648.4	380.7	231.6
EU-25	877.6	1,345.6	914.6	1,380.5	-37.0	-34.8
EU-15	727.4	1,283.6	875.9	1,323.3	-148.6	-39.7
CIS	61.1	190.7	39.2	55.5	22.0	135.2
other	633.7	343.6	237.9	212.4	395.7	131.1

⁴ Although capital transfers are reflected under the capital and financial account in the IMF methodology, the present analysis treats them together with current transfers. The distribution of European Union structural funds available for Estonia into current and capital transfers is not clearly distinguishable and is, therefore, based on the expert estimates of the Ministry of Financial Affairs, the Ministry of Agriculture, and Eesti Pank (according to the purpose of structural funds).

The surplus of the **capital transfers** account was 1.1 billion kroons. Most of the capital transfers to Estonia consisted of EU assistance to the general government for various infrastructure projects.

FINANCIAL ACCOUNT

The financial account⁵ surplus was 19.6 billion kroons in 2004, of which 8.4 billion kroons accounted for the net inflow of direct investment, 8.9 billion for portfolio investment, and 2.3 billion for other investment. The structure of the financial account by categories and maturities can be seen in Figures 10 and 11.

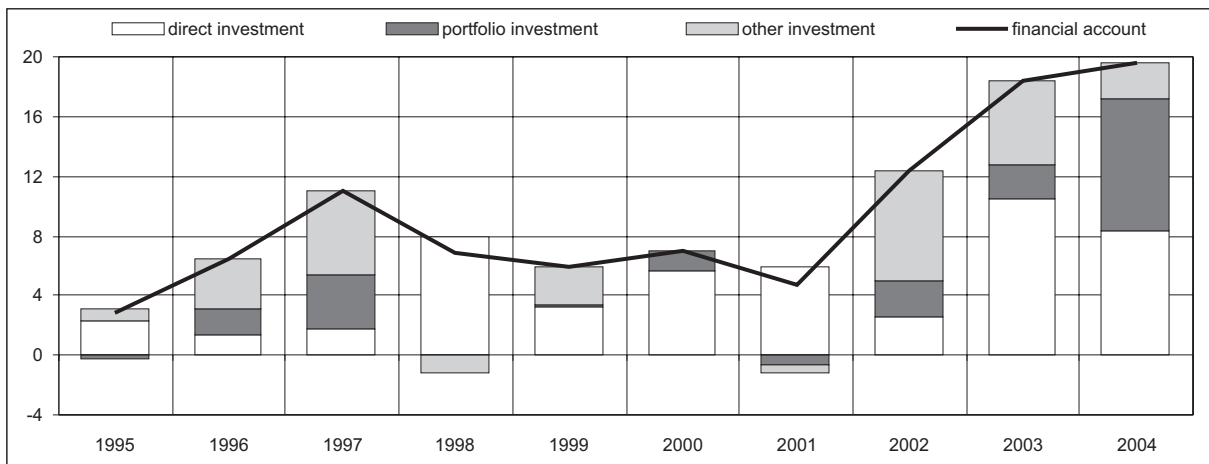


Figure 10. Changes in the structure of foreign investment capital flows (EEK bn)

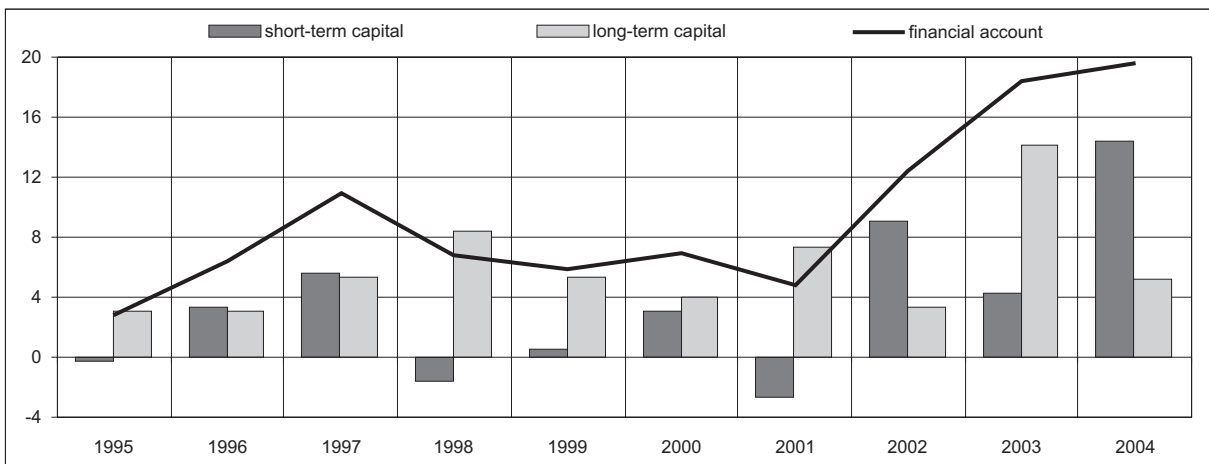


Figure 11. Maturity structure of the financial account (EEK bn)

⁵ Reserve assets excluded.

Direct Investment

The **balance of direct investment** was positive by 8.4 billion kroons in 2004, accounting for a half of the financial account surplus. Non-residents invested 11.6 billion kroons into Estonia and Estonian residents' direct investment abroad grew by 3.3 billion kroons (see Figure 12). Almost a half of the current account deficit was covered by the net inflow of direct investment.

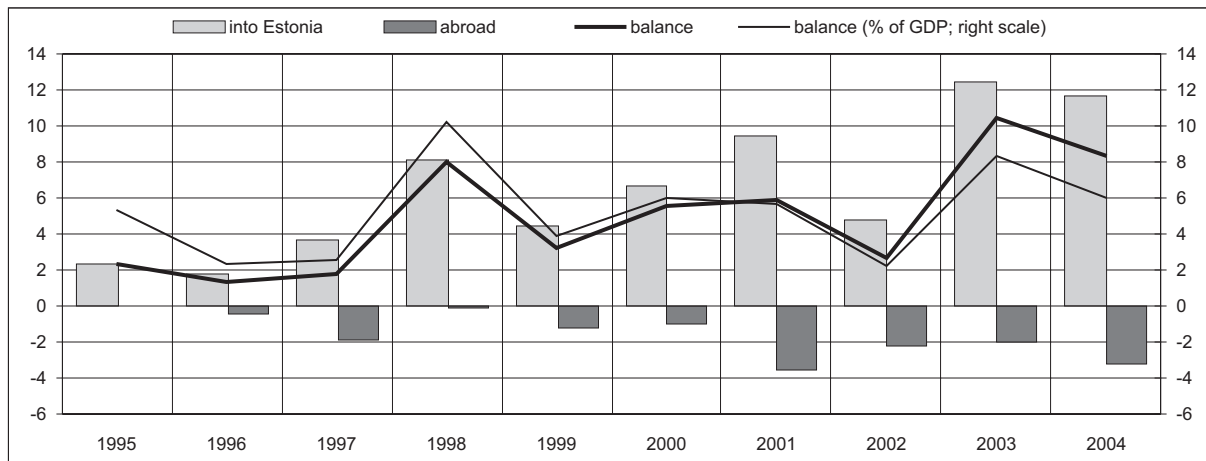


Figure 12. Direct investment (EEK bn)

The **inflow of direct investment into Estonia** was somewhat smaller year-on-year, but turned out to be considerably larger compared to previous periods. The main growth component was again growth in reinvested earnings, which has been increasing remarkably during the last two years (3.4 billion kroons in 2002, 6.7 billion in 2003, and 8.4 billion kroons in 2004), whereas the last quarter of 2004 witnessed record high reinvested earnings – 3.1 billion kroons. Two thirds of the inflow of long-term investment was earnings reinvested by residents, and income on the sale of shares increased by a fourth (3.2 billion kroons). The inflow and outflow of loan capital claims and liabilities were in balance. The net inflow of long-term loan liabilities was 0.5 billion kroons. Short-term loan liabilities increased by nearly a billion kroons, and the volume of short-term loans to direct investors increased by the same amount (see Tables 24 and 25).

Table 24. Structure of direct investment into Estonia

	Equity capital		Reinvested earnings		Other capital				Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Claims		Liabilities		Volume (EEK m)	Share (%)
					Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)		
1995	1,166.1	50.4	178.4	7.7	-60.8	-2.6	1,029.2	44.5	2,312.9	100.0
1996	215.8	11.9	216.3	11.9	-157.9	-8.7	1,540.2	84.9	1,814.4	100.0
1997	1,360.8	36.8	1,303.8	35.3	-97.4	-2.6	1,126.9	30.5	3,694.1	100.0
1998	5,661.9	70.1	389.4	4.8	-203.9	-2.5	2,224.0	27.6	8,071.4	100.0
1999	2,551.9	57.4	721.9	16.2	-265.0	-6.0	1,439.2	32.4	4,448.0	100.0
2000	3,925.3	59.1	1,815.2	27.3	-397.3	-6.0	1,301.3	19.6	6,644.5	100.0
2001	3,641.2	38.6	3,878.9	41.1	-950.7	-10.1	2,860.2	30.3	9,429.6	100.0
2002	821.0	17.1	3,370.3	70.2	-772.6	-16.1	1,381.5	28.8	4,800.2	100.0
2003	4,625.6	37.1	6,716.5	53.9	-1,334.0	-10.7	2,462.7	19.7	12,470.9	100.0
2004	3,164.7	27.3	8,428.6	72.6	-2,154.3	-18.6	2,173.5	18.7	11,612.7	100.0

Table 25. Loan capital claims and liabilities to foreign direct investors (EEK m)

	Claims				Liabilities			
	Long-term		Short-term		Long-term		Short-term	
	Grantings	Repayments	Grantings	Repayments	Drawings	Repayments	Drawings	Repayments
2003	408.4	246.3	1,010.7	498.7	5,155.6	2,667.1	3,020.8	3,726.9
2004	502.5	371.2	1,766.6	852.0	5,288.4	4,818.4	2,799.6	1,909.0

31% of the direct investment inflow came from Finland, followed by Sweden (16%), Norway (9%), and Denmark (8%). Long-term investments of EU Member States in Estonia increased by 9.2 billion kroons (79%). Four fields of activity were the most affected by the inflow of direct investment: financial intermediation (23%), real estate, renting and business activities (22%), wholesale and retail trade (21%), and manufacturing (18%). Highest income was earned in manufacturing and financial intermediation (see Table 26, and Figures 13 and 14).

Table 26. Direct investment into Estonia by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2003	2004	2003	2004	2004/2003
EU-25	10,467.1	9,217.9	83.9	79.4	-11.9
EU-15	10,410.7	8,534.3	83.5	73.5	-18.0
CIS	-34.5	707.1	-0.3	6.1	-2,149.6
Other	2,038.1	1,687.7	16.3	14.5	-17.2
Total	12,470.7	11,612.7	100.0	100.0	-6.9

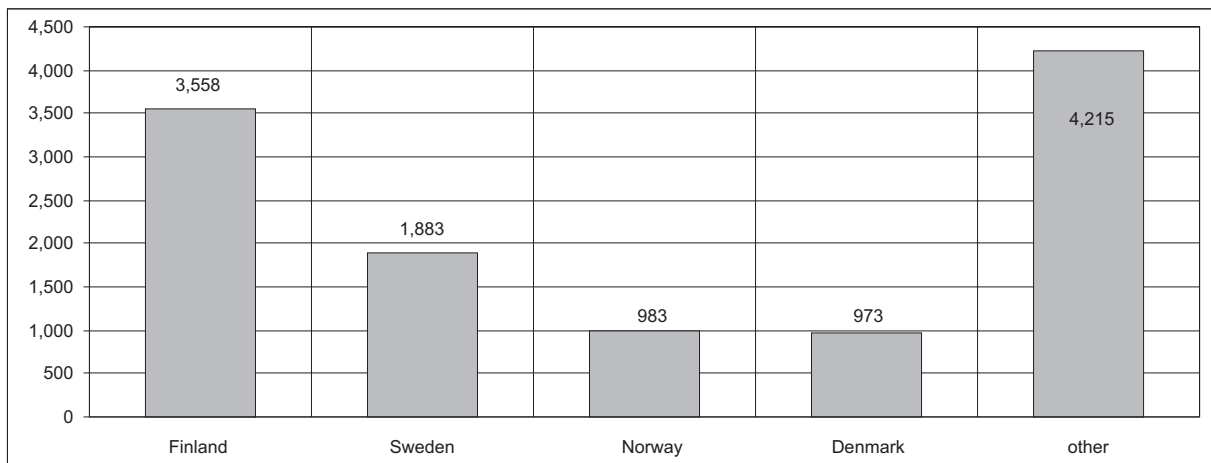


Figure 13. Direct investment into Estonia by countries in 2004 (EEK m)



Figure 14. Direct investment into Estonia by fields of activities in 2004 (EEK m)

Similarly to the inflow of direct investment, the volume of **direct investment abroad** was also considerable (3.3 billion kroons), approaching in its volume the year 2001. The growth was 60% year-on-year. Two thirds of the outflow (2.2 billion kroons) increased the share of Estonian companies in equity capital, and a fourth (0.8 billion kroons) was reinvested in the business activity of foreign subsidiaries

and associated companies. Whereas the short-term loan liabilities of Estonian companies increased by 0.6 billion kroons, the long-term liabilities decreased by 0.3 billion kroons (see Tables 27 and 28).

Table 27. Structure of direct investment abroad

	Equity capital		Reinvested earnings		Other capital				Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Claims		Liabilities			
					Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1995	-3.6	12.4	0.0	0.0	-26.8	92.1	1.3	-4.5	-29.1	100.0
1996	-107.1	22.1	-147.2	30.4	-261.3	53.9	31.1	-6.4	-484.5	100.0
1997	-539.2	28.2	-88.5	4.6	-1,303.2	68.1	18.0	-0.9	-1,912.9	100.0
1998	-472.7	578.6	-2.7	3.3	386.7	-473.3	7.0	-8.6	-81.7	100.0
1999	-525.7	42.4	-115.7	9.3	-641.3	51.7	42.9	-3.5	-1,239.8	100.0
2000	-579.7	55.6	-65.9	6.3	-480.8	46.1	83.3	-8.0	-1,043.1	100.0
2001	-1,897.1	53.8	-305.2	8.7	-1,242.8	35.2	-83.2	2.4	-3,528.3	100.0
2002	-903.9	41.3	-665.5	30.4	-727.2	33.2	108.2	-4.9	-2,188.4	100.0
2003	-949.3	46.6	-741.4	36.4	-645.8	31.7	297.9	-14.6	-2,038.5	100.0
2004	-2,189.0	67.2	-752.0	23.1	-487.3	15.0	168.6	-5.2	-3,259.5	100.0

Table 28. Loan capital claims and liabilities to foreign subsidiaries and associated companies (EEK m)

	Claims				Liabilities			
	Long-term		Short-term		Long-term		Short-term	
	Grantings	Repayments	Grantings	Repayments	Drawings	Repayments	Drawings	Repayments
2003	1,107.1	716.6	472.1	503.8	4.1	11.6	84.3	98.8
2004	929.2	1,222.2	930.8	337.4	17.8	37.7	27.9	37.1

More than a half of last year's direct investment abroad was made to Latvia, followed by Lithuania (17%), Finland (15%), and Russia (10%). Financial intermediation made the most of investment (51%), followed by construction (9%), real estate, renting and business activities (9%), and manufacturing (9%). 89% of the outflow was invested in the EU, out of which 72% went to the economy of the new Member States (see Table 29, Figures 15 and 16).

Table 29. Direct investment abroad by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2003	2004	2003	2004	2004/2003
EU-25	-1,686.4	-2,902.6	82.7	89.1	72.1
EU-15	54.1	-569.7	-2.7	17.5	-1,153.0
CIS	-337.6	-384.9	16.6	11.8	14.0
Other	-14.5	28.0	0.7	-0.9	-293.1
Total	-2,038.5	-3,259.5	100.0	100.0	59.9

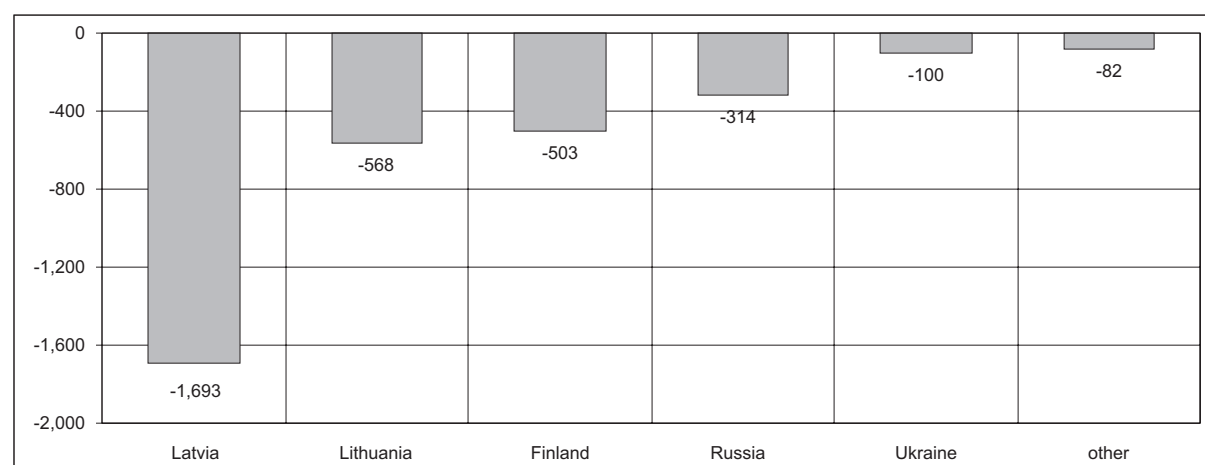


Figure 15. Direct investment abroad by countries in 2004 (EEK m)

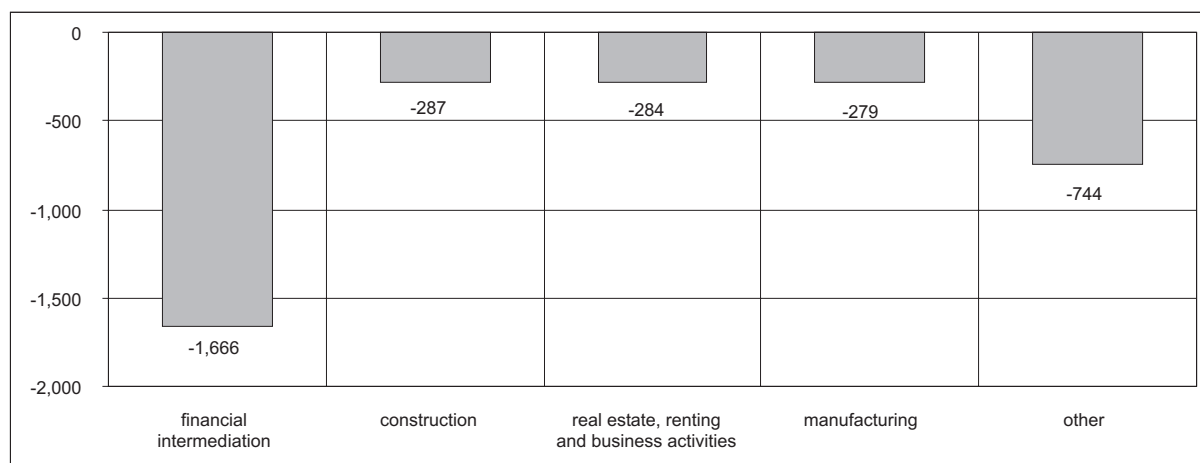


Figure 16. Direct investment abroad by fields of activity in 2004 (EEK m)

Portfolio Investment

The net inflow of **portfolio investment** was nearly 8.9 billion kroons in 2004, which exceeded the respective flows of 2003 by almost fourfold. This balance of payments item was most affected by residents' successful debt securities issues in foreign financial markets (see Figure 17 and Table 30).

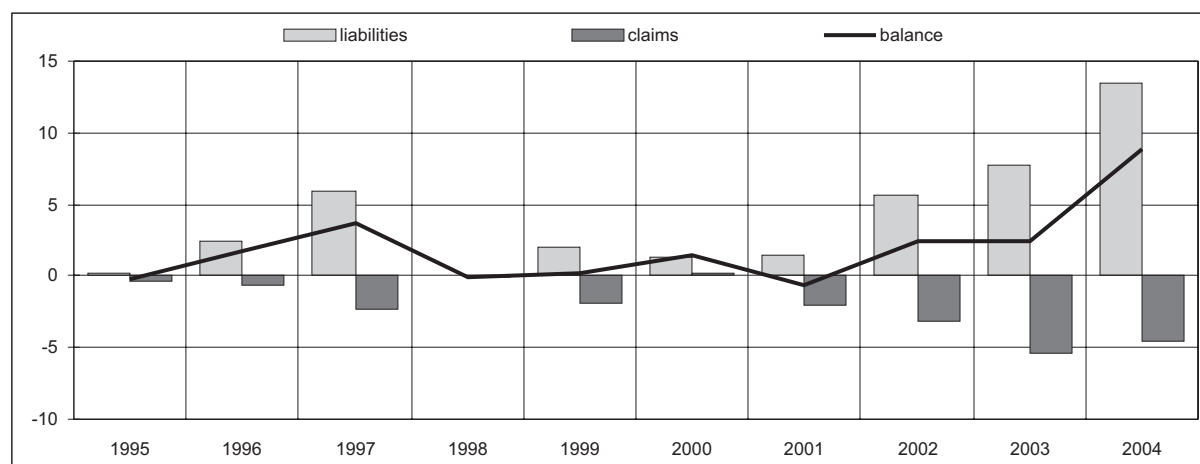


Figure 17. Portfolio investment (EEK bn)

Table 30. Portfolio investment by types of securities and sectors (EEK m)

	Claims		Liabilities		Balance	
	2003	2004	2003	2004	2003	2004
Equity securities	-1,028.8	-2,919.4	1,486.5	1,644.4	457.7	-1,275.0
general government	-57.0	-48.8			-57.0	-48.8
credit institutions	-5.4	-23.5	234.5	144.5	229.1	121.0
other sectors	-966.4	-2,847.1	1,252.0	1,499.9	285.6	-1,347.2
Debt securities	-4,322.7	-1,586.3	6,256.3	11,753.5	1,933.6	10,167.2
central bank						0.0
general government	-4,164.7	-424.6	-88.7	419.7	-4,253.4	-4.9
credit institutions	1,075.8	-469.0	6,644.1	10,910.9	7,719.9	10,441.9
other sectors	-1,233.8	-692.7	-299.1	422.9	-1,532.9	-269.8
Total	-5,351.5	-4,505.7	7,742.8	13,397.9	2,391.3	8,892.2

Portfolio investment liabilities (see Table 31) increased 13.4 billion kroons in 2004, out of which 1.6 billion accounted for equity securities and 11.8 billion for debt securities. The biggest growth in liabilities was caused by debt securities issued by credit institutions, and the arising capital inflow amounted to 12.8 billion kroons. Most of portfolio investment capital came from the EU countries, particularly the United Kingdom and Luxembourg, while the United States accounted for the largest share from outside the EU (see Figure 18 and Table 32).

Table 31. Structure of portfolio investment liabilities

	Equity securities		Debt securities		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1995	113.7	89.4	13.5	10.6	127.2	100.0
1996	2,093.8	86.8	319.0	13.2	2,412.8	100.0
1997	1,763.6	29.5	4,210.8	70.5	5,974.4	100.0
1998	401.1	383.8	-296.6	-283.8	104.5	100.0
1999	3,292.3	160.5	-1,241.4	-60.5	2,050.9	100.0
2000	-538.8	-42.0	1,803.2	142.0	1,264.4	100.0
2001	568.4	40.6	866.8	59.4	1,435.2	100.0
2002	912.2	16.4	4,713.1	83.6	5,625.3	100.0
2003	1,486.5	19.2	6,256.4	80.8	7,742.9	100.0
2004	1,644.4	19.2	11,753.4	80.8	13,398.0	100.0

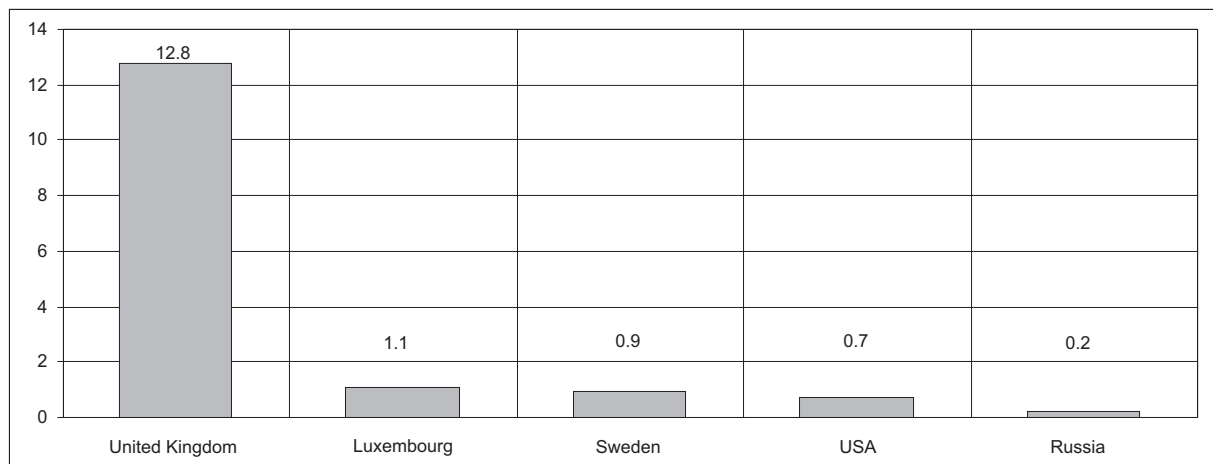


Figure 18. Increase in portfolio investment liabilities by countries in 2004 (EEK bn)

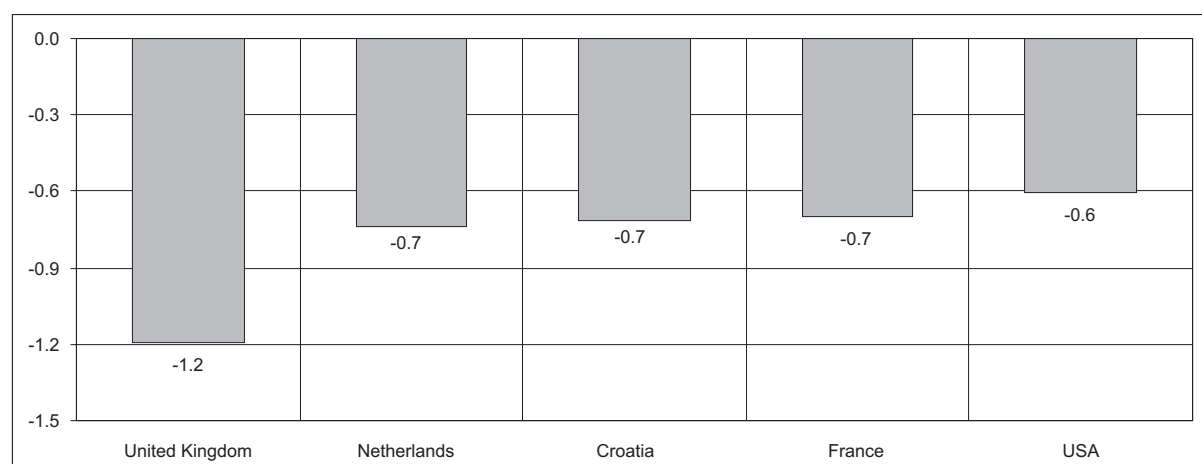
Table 32. Structure of portfolio investment by groups of countries

	Volume (EEK m)				Share (%)			
	Claims		Liabilities		Claims		Liabilities	
	2003	2004	2003	2004	2003	2004	2003	2004
EU-25	-4,465.2	-2,237.3	7,657.5	12,658.0	83.4	49.7	98.9	98.9
EU-15	-3,510.2	-928.9	7,612.5	13,130.0				
CIS	-132.2	-209.8	59.6	217.9	2.5	4.7	0.8	0.8
Other	-754.1	-2,058.6	25.8	522.1	14.1	45.7	0.3	0.3
Total	-5,351.5	-4,505.7	7,742.9	13,398.0	100.0	100.0	100.0	100.0

Portfolio investment claims (see Table 33) increased 4.5 billion kroons in 2004, across both equity and debt securities with 2.9 and 1.6 billion kroons, respectively. Enterprises in other sectors invested in equity securities issued by non-residents the most actively, to the total amount of 2.8 billion kroons. As regards debt securities, credit institutions made the most of investments, and the arising capital outflow amounted to 1,5 billion. By countries, portfolio investment went mainly to the United Kingdom, the Netherlands, and Croatia (see Figure 19).

Table 33. Structure of portfolio investment claims

	Equity securities		Debt securities		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1995	58.0	-15.2	-440.3	115.2	-382.3	100.0
1996	-181.0	28.8	-447.4	71.2	-628.4	100.0
1997	-1,238.5	53.4	-1,080.8	46.6	-2,319.3	100.0
1998	500.8	-391.6	-628.7	491.6	-127.9	100.0
1999	187.0	-9.9	-2,081.9	109.9	-1,894.9	100.0
2000	53.3	34.8	99.8	65.2	153.1	100.0
2001	236.5	-11.3	-2,336.7	111.3	-2,100.2	100.0
2002	9.1	-0.3	-3,192.0	100.3	-3,182.9	100.0
2003	-1,028.9	19.2	-4,322.7	80.8	-5,351.6	100.0
2004	-2,919.5	64.8	-1,586.3	35.2	-4,505.8	100.0


Figure 19. Increase in portfolio investment claims by countries in 2004 (EEK bn)

Other Investment

The inflow of **other investment** totalled 2.3 billion kroons in 2004; liabilities increased by 13.9 billion and claims by 11.6 billion kroons (see Figure 20 and Table 34).

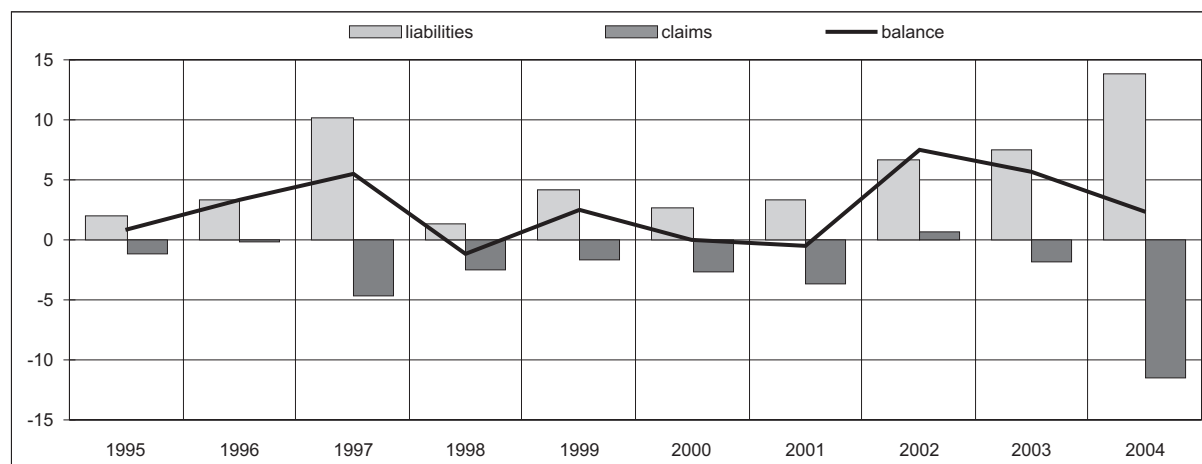

Figure 20. Other investment (EEK bn)

Table 34. Other investment by maturity (EEK m)

	Claims		Liabilities		Balance	
	2003	2004	2003	2004	2003	2004
Long-term capital	-561.2	-6,008.8	4,227.3	2,864.6	3,666.1	-3,144.2
central bank	1.1	-10.4			1.1	-10.4
general government			421.7	-194.6	421.7	-194.6
credit institutions	-301.6	-5,016.0	2,938.8	2,475.1	2,637.2	-2,540.9
other sectors	-260.7	-982.4	866.8	584.1	606.1	-398.3
Short-term capital	-1,335.9	-5,558.9	3,296.3	11,044.3	1,960.4	5,485.4
central bank			576.3	189.7	576.3	189.7
general government	558.2	-119.5			558.2	-119.5
credit institutions	-990.1	-3,347.1	1,555.7	9,481.5	565.6	6,134.4
other sectors	-904.0	-2,092.3	1,164.3	1,373.1	260.3	-719.2
Total	-1,897.1	-11,567.7	7,523.6	13,908.9	5,626.5	2,341.2

Other investment liabilities (see Table 35) increased by 13.9 billion kroons, including growth in trade credit, loans and deposits items. The inflow of other investment capital mostly occurred in the form of deposits and loans with 8.8 and 4.2 billion kroons, respectively. By countries, other investment liabilities increased mainly to the European Union countries, above all to Finland, Sweden and Latvia (see Figure 21 and Table 36).

Table 35. Structure of other investment liabilities

	Trade credit		Loans		Deposits		Other capital		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1995	230.1	11.9	1,060.7	54.8	636.0	32.9	8.5	0.4	1,935.3	100.0
1996	426.7	12.6	1,723.7	50.7	1,232.3	36.3	14.8	0.4	3,397.5	100.0
1997	367.0	3.6	6,399.7	63.0	2,426.0	23.9	961.8	9.5	10,154.5	100.0
1998	-221.2	-16.3	290.0	21.3	365.5	26.9	924.2	68.0	1,358.5	100.0
1999	119.1	2.8	2,399.7	57.3	1,462.7	34.9	204.3	4.9	4,185.8	100.0
2000	1,080.9	41.6	-785.3	-30.2	1,955.4	75.3	345.6	13.3	2,596.6	100.0
2001	102.9	3.1	2,570.4	78.2	81.4	2.5	533.5	16.2	3,288.2	100.0
2002	781.1	11.6	1,963.3	29.2	3,763.5	55.9	225.4	3.3	6,733.3	100.0
2003	760.9	10.1	3,135.3	41.7	4,587.9	61.0	-960.5	-12.8	7,523.6	100.0
2004	1,217.4	8.8	4,182.1	30.1	8,804.7	63.3	-295.3	-2.1	13,908.9	100.0

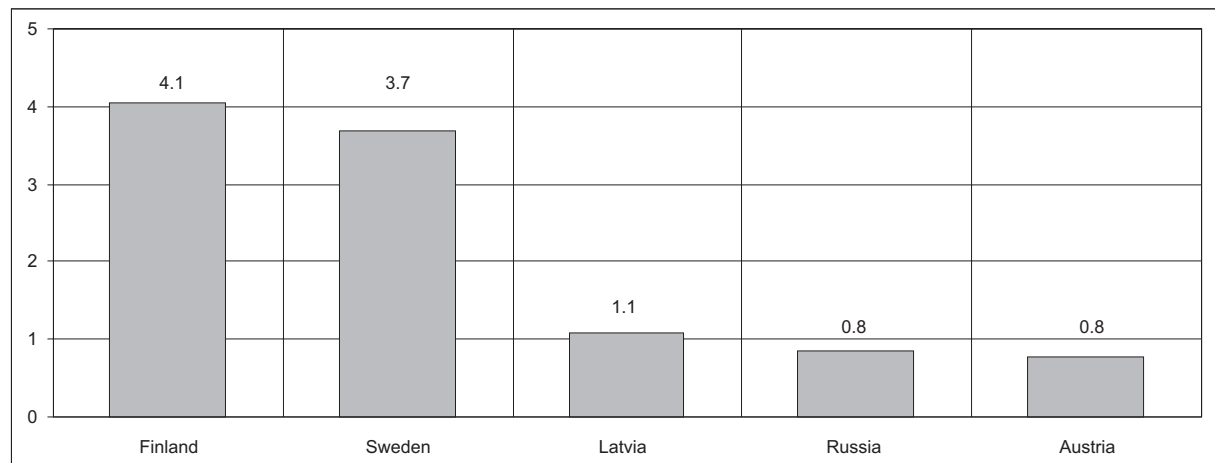
**Figure 21. Increase in other investment liabilities by countries in 2004 (EEK bn)**

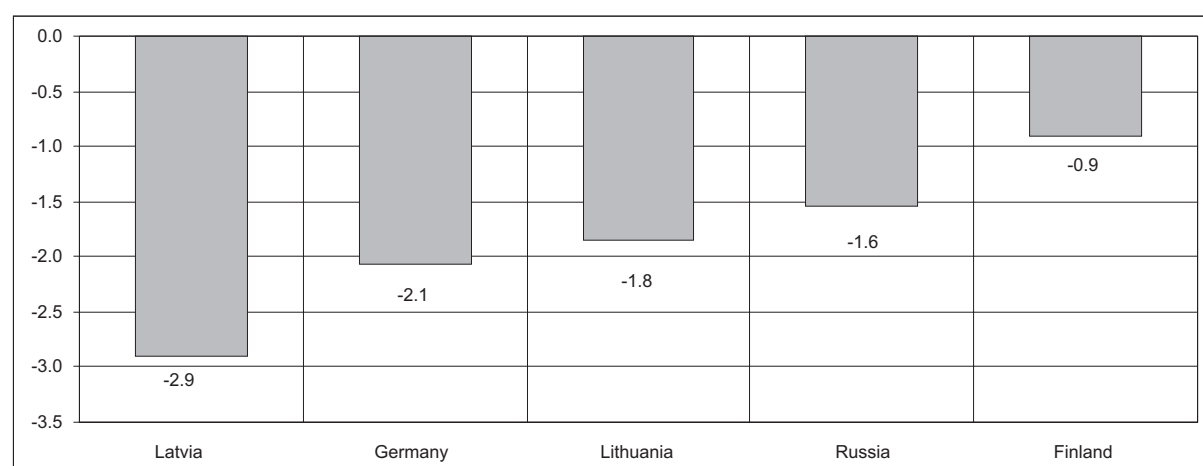
Table 36. Structure of other investment by groups of countries

	Volume (EEK m)				Share (%)			
	Claims		Liabilities		Claims		Liabilities	
	2003	2004	2003	2004	2003	2004	2003	2004
EU-25	-2,082.4	-9,640.9	8,272.4	11,676.6	109.8	83.3	110.0	84.0
EU-15	165.4	-4,566.6	8,121.3	9,689.5				
CIS	-586.0	-1,567.5	-277.4	1,055.1	30.9	13.6	-3.7	7.6
Other	771.2	-359.3	-471.4	1,177.2	-40.6	3.1	-6.3	8.5
Total	-1,897.2	-11,567.7	7,523.6	13,908.9	100.0	100.0	100.0	100.0

Other investment claims (see Table 37) increased 11.6 billion kroons in 2004, and the increase occurred across all sub-items. The outflow of other investment capital mainly occurred in the form of loans and deposits with 8.5 and 2.3 billion kroons, respectively. By countries, other investment claims increased most to Latvia, Germany, and Lithuania (see Figure 22). Table 38 provides an overview of loan capital claims and liabilities.

Table 37. Structure of other investment claims

	Trade credit		Loans		Deposits		Other capital		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1995	-54.9	4.9	-220.0	19.7	-840.3	75.1	-3.6	0.3	-1,118.8	100.0
1996	-565.6	525.7	-16.5	15.3	590.3	-548.6	-115.8	107.6	-107.6	100.0
1997	-851.4	18.4	-1,633.3	35.2	-1,820.5	39.3	-330.3	7.1	-4,635.5	100.0
1998	-993.7	40.1	-542.2	21.9	-1,049.9	42.3	105.6	-4.3	-2,480.2	100.0
1999	-401.8	24.3	-57.4	3.5	-887.9	53.8	-304.1	18.4	-1,651.2	100.0
2000	-78.0	3.0	-2,814.0	106.7	-103.0	3.9	356.7	-13.5	-2,638.3	100.0
2001	-584.8	15.7	-2,278.9	61.3	-738.0	19.9	-115.0	3.1	-3,716.7	100.0
2002	1,047.6	150.7	-1,324.5	-190.5	742.6	106.8	229.4	33.0	695.1	100.0
2003	-650.0	34.3	-3,520.4	185.6	2,214.5	-116.7	58.8	-3.1	-1,897.1	100.0
2004	-741.4	6.4	-8,472.3	73.2	-2,263.1	19.6	-90.7	0.8	-11,567.5	100.0

**Figure 22. Increase in other investment claims by countries in 2004 (EEK bn)****Table 38. Claims and liabilities of loan capital (EEK m)***

	Claims			Liabilities		
	Grantings	Repayments	Balance	Drawings	Repayments	Balance
2003	-34,919.2	31,398.9	-3,520.3	29,923.4	-26,788.2	3,135.2
2004	-29,774.6	21,302.3	-8,472.3	44,466.6	-40,284.5	4,182.1

* Data on grantings and repayments by claims and liabilities became available in 2003.

Reserve Assets

The balance of payments reserves increased by 3.4 billion kroons in 2004 (see Table 39). Figure 23 provides an overview of the imports covered by reserve assets.

Table 39. Structure of changes in reserve assets

	Volume (EEK m)		Share (%)	
	2003	2004	2003	2004
Gold	0.0	0.0	0.0	0.0
Currency and deposits	2,848.6	875.2	-123.2	-25.5
Securities	-5,135.9	-4,272.7	222.1	124.7
equity securities			0.0	0.0
bonds and notes	1,042.6	-837.5	-20.3	19.6
money market instruments	-6,178.6	-3,435.3	120.3	80.4
Other claims	-24.7	-28.0	1.1	0.8
Total	-2,312.0	-3,425.5	100.0	100.0

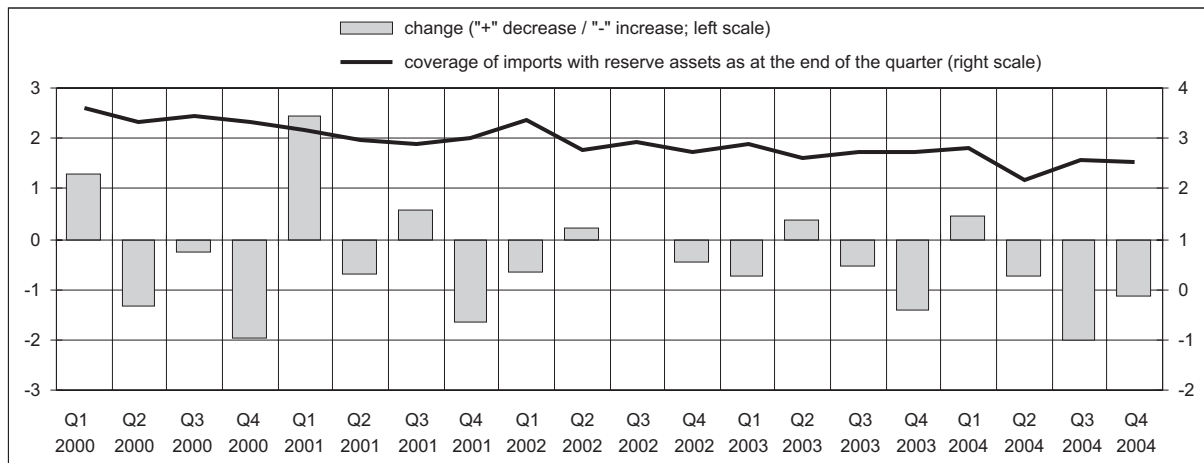


Figure 23. Changes in Estonia's gold and foreign exchange reserves (EEK bn) and coverage of imports (by months)

ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND EXTERNAL DEBT as at 31 December 2004

During 2004, all foreign investments into Estonia increased 40%, amounting to 226 billion kroons by the end of the year (see Table 40). Nearly a half thereof was invested into financial intermediation (52%) and to a lesser extent into real estate, renting and business activities, manufacturing, wholesale and retail trade, and transport, storage, and communications sector (see Table 41). Two thirds of investment into Estonia was made by Swedish, Finnish, and British investors.

Year-on-year, the share of portfolio investment increased considerably in the structure of foreign investment into Estonia, whereas the importance of direct and other investment diminished. Direct investment constituted nearly a half of the total investment, amounting to 109 billion kroons; portfolio investment formed more than a fifth, and the rest were other investment. The most preferred fields of activity for **foreign direct investment into Estonia** were financial intermediation (a third of direct investments), real estate, renting and business activities (22%), manufacturing (18%), and wholesale and retail trade (11%; see Table 42). 70% of direct investment came from Sweden and Finland.

Estonian investment abroad totalled 100 billion kroons. Financial intermediaries made 70% of the investment abroads. Investors of the public sector, real estate, renting and business activities, transport, storage and communications, as well as wholesale and retail trade invested abroad as well. The majority of Estonian investment went to Lithuania, Germany and Latvia.

Table 40. Estonia's international investment position (EEK m)

	31/12/2003	%	31/12/2004	%
EXTERNAL ASSETS	74,649.7	100.0	99,662.4	100.0
Direct investment abroad	12,668.0	17.0	16,030.9	16.1
Equity capital and reinvested earnings	8,862.0	11.9	11,880.1	11.9
Other direct investment capital	3,806.0	5.1	4,150.8	4.2
Portfolio investment	18,459.6	24.7	24,486.1	24.6
Equity securities	1,905.4	2.6	5,178.2	5.2
Debt securities	16,554.2	22.2	19,307.9	19.4
Bonds and notes	8,361.9	11.2	12,190.2	12.2
Money market instruments	8,192.3	11.0	7,117.7	7.1
Financial derivatives	333.5	0.4	368.7	0.4
Other investment	26,005.0	34.8	38,172.3	38.3
Trade credit	5,430.1	7.3	6,671.8	6.7
Loans	14,216.1	19.0	22,378.7	22.5
Long-term	5,621.7	7.5	11,409.7	11.4
Short-term	8,594.4	11.5	10,969.0	11.0
Currency and deposits	5,793.7	7.8	8,362.6	8.4
Other assets	565.1	0.8	759.2	0.8
Reserve assets	17,183.6	23.0	20,604.4	20.7
EXTERNAL LIABILITIES	160,779.0	100.0	225,815.7	100.0
Direct investment in Estonia	80,792.3	50.3	109,314.6	48.4
Equity capital and reinvested earnings	65,983.6	41.0	94,396.7	41.8
Other direct investment capital	14,808.7	9.2	14,917.9	6.6
Portfolio investment	29,453.3	18.3	51,705.3	22.9
Equity securities	11,783.6	7.3	22,276.7	9.9
Debt securities	17,669.7	11.0	29,428.6	13.0
Bonds and notes	12,971.7	8.1	26,655.3	11.8
Money market instruments	4,698.0	2.9	2,773.3	1.2
Financial derivatives	208.7	0.1	238.0	0.1
Other investment	50,324.7	31.3	64,557.8	28.6
Trade credit	8,076.3	5.0	9,299.8	4.1
Loans	24,529.4	15.3	29,002.5	12.8
Long-term	21,506.0	13.4	25,060.9	11.1
Short-term	3,023.4	1.9	3,941.6	1.7
Currency and deposits	16,447.3	10.2	25,251.9	11.2
Other liabilities	1,271.7	0.8	1,003.6	0.4
NET INTERNATIONAL INVESTMENT POSITION	-86,129.3		-126,153.3	
Long-term	-75,634.1		-94,587.8	
Short-term	-10,495.2		-31,565.5	

Compared to the end of 2003, the share of other investment in the structure of investment abroad increased, and the importance of reserve assets and direct investment decreased. Loans, deposits and the central bank's gold and foreign exchange reserves covered 59% of the external claims. **Direct investment** accounted for 16% of all investments made abroad. The most active direct investors abroad were those of financial intermediation (40%), real estate, renting and business activities (29%), and transport, storage and communications (14%). 83% of all direct investment abroad were made into three countries – Lithuania, Latvia, and Cyprus (see Table 42).

Table 41. Estonia's international investment position by fields of activity and countries (%) as at 31 December 2004

Claims		Liabilities	
Fields of activity			
Financial intermediation	70.1	Financial intermediation	52.3
Public administration and defence	11.6	Real estate, renting and business activities	12.5
Real estate, renting and business activities	5.4	Manufacturing	10.9
Wholesale and retail trade	5.3	Wholesale and retail trade	7.7
Transport, storage and communications	5.2	Transport, storage and communications	5.4
Other	2.4	Other	11.2
Total	100.0	Total	100.0
Countries			
Lithuania	14.4	Sweden	29.3
Germany	12.9	Finland	20.5
Latvia	12.9	United Kingdom	16.7
Finland	7.1	USA	5.3
United Kingdom	7.0	Germany	4.1
Other	45.7	Other	24.1
Total	100.0	Total	100.0

Table 42. Direct investment position by fields of activity and countries (%) as at 31 December 2004

In Estonia		Abroad	
Fields of activity			
Financial intermediation	33.3	Financial intermediation	39.9
Real estate, renting and business activities	22.2	Real estate, renting and business activities	29.4
Manufacturing	17.7	Transport, storage and communications	13.8
Wholesale and retail trade	10.6	Wholesale and retail trade	6.4
Transport, storage and communications	5.1	Manufacturing	5.7
Other	11.1	Other	4.8
Total	100.0	Total	100.0
Countries			
Sweden	45.6	Lithuania	38.8
Finland	24.1	Latvia	33.2
USA	4.4	Cyprus	11.4
Netherlands	2.7	Italy	4.3
Denmark	2.1	Finland	4.1
Other	21.1	Other	8.2
Total	100.0	Total	100.0

Due to the fact that external liabilities were prevailing and growing faster than claims, Estonia's net investment position was negative by 126 billion kroons at the end of 2004, constituting 91% of the expected GDP. 75% of the net investment position was long-term capital. The share of the latter has fallen by 13 percentage points over the last year.

Estonia's gross external debt increased by a third over the year, amounting to 117 billion kroons by 31 December 2004 (approximately 85% of the expected GDP). Estonia's net external debt (assets less liabilities) constituted 26.7 billion kroons (19% of the expected GDP; see Table 43 and Figure 24). The gross external debt amounted to 52% of the external liabilities. Leaving aside intercompany lending of direct investment companies, long-term debts accounted for 63% of the gross external debt. Debt assets mostly consisted of short-term capital.

Table 43. External debt (EEK m)

	31/12/2003	%	31/12/2004	%
LIABILITIES				
I. General government	3,718.2	4.2	3,969.0	3.4
Short-term				
Long-term	3,718.2	4.2	3,969.0	3.4
II. Monetary authorities (NCB)	485.1	0.5	507.7	0.4
Short-term	485.1	0.5	507.7	0.4
Long-term				
III. Credit institutions	37,075.1	41.9	59,932.8	51.2
Short-term	19,043.7	21.5	21,982.8	18.8
Long-term	18,031.4	20.4	37,950.0	32.4
IV. Other sectors	26,716.0	30.2	29,576.9	25.3
Short-term	10,779.9	12.2	11,933.3	10.2
Long-term	15,936.1	18.0	17,643.6	15.1
V. Direct investment: intercompany lending	20,529.1	23.2	23,024.8	19.7
GROSS EXTERNAL DEBT	88,523.5	100.0	117,011.2	100.0
ASSETS				
I. General government	10,688.2	15.4	11,388.3	12.6
Short-term	6,398.3	9.2	5,818.6	6.4
Long-term	4,289.9	6.2	5,569.7	6.2
II. Monetary authorities (NCB)	17,150.3	24.8	20,582.0	22.8
Short-term	14,256.0	20.6	16,879.4	18.7
Long-term	2,894.3	4.2	3,702.6	4.1
III. Credit institutions	14,218.0	20.5	23,030.2	25.5
Short-term	12,615.8	18.2	14,970.9	16.6
Long-term	1,602.2	2.3	8,059.3	8.9
IV. Other sectors	17,641.7	25.5	23,039.9	25.5
Short-term	9,499.5	13.7	12,888.8	14.3
Long-term	8,142.2	11.8	10,151.1	11.2
V. Direct investment: intercompany lending	9,526.4	13.8	12,257.7	13.6
TOTAL ASSETS	69,224.6	100.0	90,298.1	100.0
NET EXTERNAL DEBT (assets less liabilities)				
I. General government	6,970.0		7,419.3	
Short-term	6,398.3		5,818.6	
Long-term	571.7		1,600.7	
II. Monetary authorities (NCB)	16,665.2		20,074.3	
Short-term	13,770.9		16,371.7	
Long-term	2,894.3		3,702.6	
III. Credit institutions	-22,857.1		-36,902.6	
Short-term	-6,427.9		-7,011.9	
Long-term	-16,429.2		-29,890.7	
IV. Other sectors	-9,074.3		-6,537.0	
Short-term	-1,280.4		955.5	
Long-term	-7,793.9		-7,492.5	
V. Direct investment: intercompany lending	-11,002.7		-10,767.1	
TOTAL NET EXTERNAL DEBT	-19,298.9		-26,713.1	

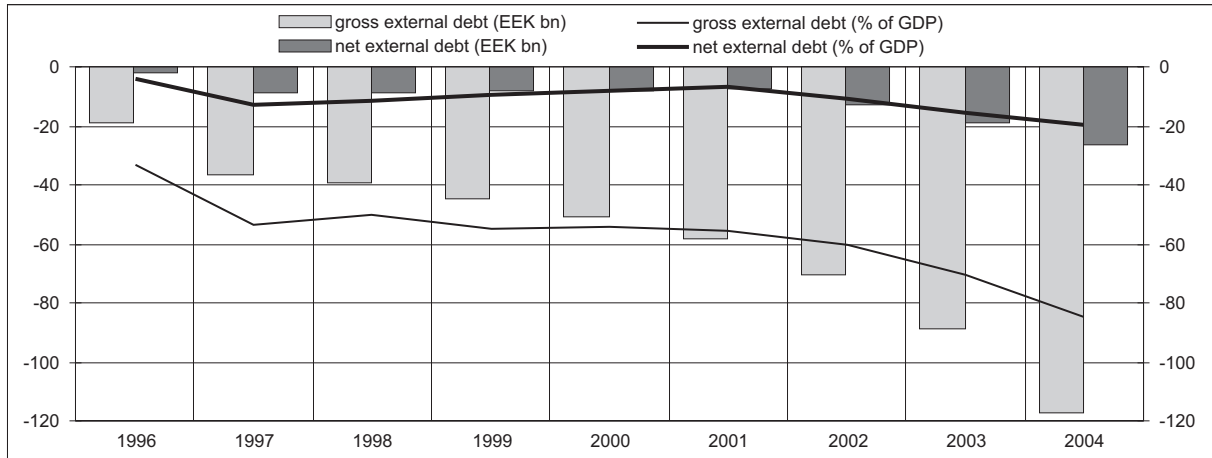


Figure 24. Estonia's gross and net external debt (left scale) and % of GDP (right scale)