
SHORT OVERVIEW

- **Current account deficit of the balance of payments for the second quarter of 2004 amounted to 7.4 billion kroons, i.e. 14.9% of the expected GDP (see Table 1 and Figure 1).**
- **Current account deficit was affected by an increase in the foreign trade deficit and income deficit.**
- **Stocking of inventories before Estonia's accession to the European Union resulted in record trade deficit in the second quarter of 2004.**
- **Income from foreign investments into Estonia remained large, and the net outflow of income amounted to 8.3% of the expected GDP.**
- **Direct investments accounted for nearly 40% of the net inflow of foreign capital and portfolio investments accounted for the rest.**
- **Balance of payments reserves decreased by 0.7 billion kroons.**

The largest component of the **CURRENT ACCOUNT DEFICIT** was again the goods account with a record deficit of 8.6 billion kroons. The deficit was 20% of GDP. The exports of goods amounted to 18.3 and the imports to 26.8 billion kroons. The rise in goods turnover was brought about by the EU accession, which is why the imports in April exceeded all previous records, and 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 comparable¹. The main groups of export goods 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 food. The main trade partner was the enlarged European Union (EU-25), which accounted for 80% of the total turnover of goods. Major partners were Finland, Sweden, Germany, Latvia and Lithuania, accounting for 61% of exports and 57% of imports.

The **services** surplus increased 13% year-on-year and amounted to 3.6 billion kroons. Services exports grew by nearly 20% and imports by 25%, year-on-year. The growth of the services surplus was most affected by travel services and other business services. At the same time, the transport services surplus decreased due to the abandoning of tax-free trade within the EU. The structure of the services account turnover remained relatively stable. Transport services accounted for 40%, travel services for 36%, other business services for 18%, and construction services for 4%.

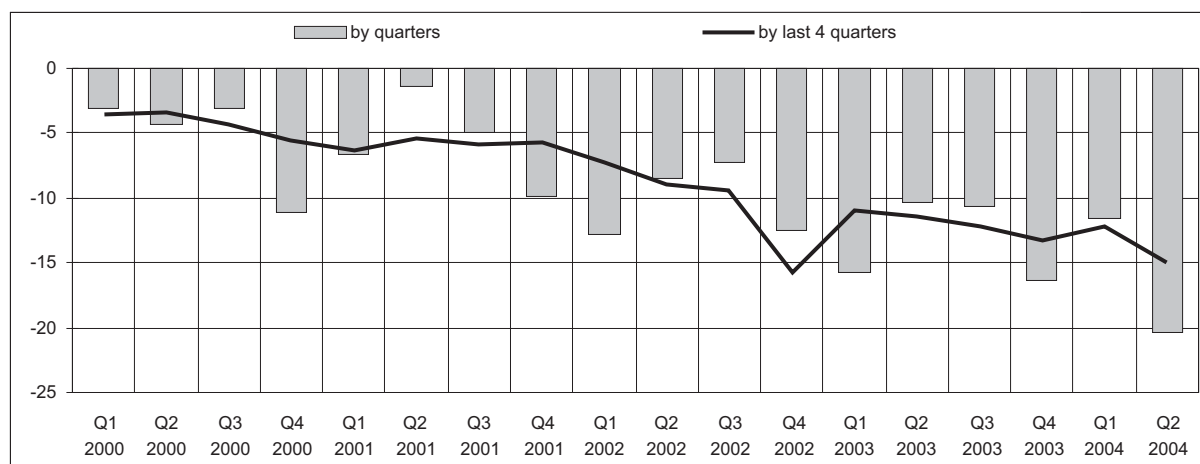
¹ As of 1 May 2004 foreign trade statistics is based on the combination of two reporting systems: trade with non-EU countries is still calculated on the basis of customs declarations submitted to the Tax and Customs Board (the so-called Extrastat), whereas trade with other EU countries is registered through the so-called Intrastat survey organized 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 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)*

	2000	2001	2002	2003					2004	
	Total	Total	Total	I	II	III	IV	Total	I	II
Current account	-5,093.4	-5,889.5	-11,882.9	-4,546.6	-3,450.5	-3,416.6	-5,149.4	-16,563.1	-3,676.9	-7,418.8
Goods and services	-3,569.0	-3,623.7	-8,318.2	-3,325.3	-1,818.2	-1,950.7	-3,007.0	-10,101.1	-1,822.6	-4,914.7
Goods**	-13,143.6	-13,783.9	-17,995.6	-5,448.6	-5,058.9	-5,702.3	-5,641.1	-21,850.9	-4,627.6	-8,561.3
Goods: exports f.o.b.	56,345.9	58,667.1	58,333.6	14,329.4	16,095.2	15,518.8	17,590.3	63,533.8	16,905.2	18,286.7
Goods: imports f.o.b.	-69,489.5	-72,451.0	-76,329.2	-19,778.1	-21,154.1	-21,221.1	-23,231.4	-85,384.7	-21,532.8	-26,848.0
Services	9,574.6	10,160.2	9,677.4	2,123.4	3,240.7	3,751.6	2,634.1	11,749.9	2,805.0	3,646.7
Services: credit	25,485.8	28,866.5	28,279.7	6,027.3	7,942.6	8,859.3	7,985.4	30,814.4	7,358.2	9,404.2
Services: debit	-15,911.2	-18,706.3	-18,602.3	-3,903.9	-4,701.8	-5,107.6	-5,351.3	-19,064.6	-4,553.2	-5,757.5
Income	-3,483.4	-4,926.1	-5,423.1	-1,608.9	-1,886.9	-1,964.4	-2,476.5	-7,936.7	-2,201.3	-3,016.8
Income: credit	2,008.0	2,994.7	3,339.3	617.2	966.3	1,099.3	703.2	3,385.9	625.3	878.0
Income: debit	-5,491.4	-7,920.8	-8,762.4	-2,226.1	-2,853.2	-3,063.7	-3,179.7	-11,322.7	-2,826.5	-3,894.9
Transfers	1,959.0	2,660.3	1,858.4	387.5	254.6	498.5	334.1	1,474.7	346.9	512.7
Transfers: credit	2,454.8	3,174.1	2,876.3	741.0	573.5	802.4	757.9	2,874.8	812.9	1,191.1
Transfers: debit	-495.8	-513.8	-1,017.9	-353.4	-318.9	-303.9	-423.8	-1,400.1	-466.0	-678.4
Capital and financial account	7,273.2	4,863.1	12,739.6	5,230.2	3,389.8	3,611.3	6,748.5	18,979.0	3,119.3	7,337.8
Capital account	278.5	90.0	320.7	126.3	-6.3	257.8	171.2	549.0	27.7	154.8
Financial account	6,994.7	4,773.1	12,418.9	5,103.8	3,396.1	3,353.5	6,577.3	18,430.7	3,091.6	7,183.0
Direct investments	5,601.4	5,901.3	2,611.8	4,322.2	2,186.0	2,622.5	1,301.6	10,432.2	1,651.7	2,726.4
Abroad	-1,043.1	-3,528.3	-2,188.4	-274.3	-219.7	-959.7	-584.8	-2,038.5	-1,004.1	-838.1
Into Estonia	6,644.5	9,429.6	4,800.2	4,596.4	2,405.8	3,582.2	1,886.4	12,470.7	2,655.8	3,564.5
Portfolio investments	1,435.0	-699.7	2,378.7	5,109.3	-4,477.9	-1,092.3	2,832.9	2,372.0	-712.4	5,580.2
Assets	153.1	-2,100.2	-3,182.9	189.7	-2,074.7	-1,623.9	-1,842.6	-5,351.6	-769.0	-211.5
Equity securities	53.3	236.5	9.1	-124.5	-263.4	-199.0	-442.0	-1,028.9	-441.7	-553.1
Debt securities	99.8	-2,336.7	-3,192.0	314.2	-1,811.4	-1,424.9	-1,400.6	-4,322.7	-327.3	341.6
Liabilities	1,281.9	1,400.5	5,561.6	4,919.6	-2,403.2	531.6	4,675.6	7,723.6	56.6	5,791.7
Equity securities	-538.8	568.4	912.2	109.6	680.2	544.8	151.9	1,486.5	68.4	386.8
Debt securities	1,820.7	832.1	4,649.4	4,810.0	-3,083.4	-13.2	4,523.7	6,237.1	-11.8	5,404.9
Other investments	-41.7	-428.5	7,428.4	-4,327.7	5,688.0	1,823.3	2,442.8	5,626.5	2,152.3	-1,123.6
Assets	-2,638.3	-3,716.7	695.1	-3,696.8	2,809.7	225.2	-1,235.3	-1,897.2	-1,676.3	-5,009.8
Long-term	-1,108.7	-322.7	-1,083.0	131.0	-154.6	84.8	-622.4	-561.3	-1,152.0	-1,854.0
Short-term	-1,529.6	-3,394.0	1,778.1	-3,827.7	2,964.2	140.5	-612.9	-1,335.9	-524.4	-3,155.8
Liabilities	2,596.6	3,288.2	6,733.3	-630.9	2,878.3	1,598.1	3,678.1	7,523.6	3,828.7	3,886.2
Long-term	-549.9	1,814.4	1,829.0	1,368.5	485.0	1,109.4	1,264.2	4,227.2	690.9	282.1
Short-term	3,146.5	1,473.8	4,904.3	-1,999.4	2,393.3	488.7	2,413.8	3,296.4	3,137.7	3,604.1
Errors and omissions	90.7	296.2	70.1	49.2	-318.8	336.1	-170.9	-104.5	89.2	806.1
Overall balance	2,270.5	-730.2	926.8	732.7	-379.6	530.8	1,428.1	2,312.1	-468.4	725.1
Reserve assets	-2,270.5	730.2	-926.8	-732.7	379.6	-530.8	-1,428.1	-2,312.1	468.4	-725.1

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

** 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.

**Figure 1. Current account deficit (% of GDP)**

The EU member states were the Estonia's major trade partners in the services sector: 67% of services were exported to and 77% imported from those countries in the second quarter of 2004. Estonia's biggest surplus was with Finland (1.7 billion kroons) and the biggest deficit with Germany (0.3 billion kroons).

The **income** deficit reached record 3 billion kroons, i.e. 8.3% of expected GDP, in the second quarter of 2004, increasing by 60% year-on-year. Income earned by non-residents on capital invested in Estonia and on compensations of employees stood at 3.9 billion kroons (income debit), while income of residents from investments abroad totalled 0.9 billion kroons (income credit). 76% of non-residents' investment income came from direct investment, while 53% of it was paid out as dividends and 47% was reinvested. In the latter case no actual movement of funds took place. For residents, income from direct investment accounted for nearly 40% of the total investment income.

Most of the investment income of residents came from Latvia and Lithuania. The share of the EU in the investment income of residents accounted for 85%. Nearly 70% of the income was earned on financial intermediation. 95% of income earned on investments into Estonia belonged to investors from the EU member states (mostly Finland, Sweden, and the United Kingdom). Here, too, most of the income was earned on financial intermediation (40%), followed by manufacturing, transport, storage and communications, wholesale and retail trade, and electricity, gas, and water supply.

The **transfers** surplus increased more than twice year-on-year and amounted to 0.5 billion kroons. The growth was mainly related to transfers from the EU structural funds.

The positive balance of the **CAPITAL AND FINANCIAL ACCOUNT** increased more than twice quarter-on-quarter and amounted to 7.3 billion kroons. Nearly half of it was based on the inflow of direct investment and the rest on the inflow of portfolio investment. Other investments were characterised by net outflow.

The net inflow of **direct investment** was 2.7 billion kroons in the second quarter of 2004, increasing by a third quarter-on-quarter. Non-residents invested 3.6 billion kroons in Estonia, and residents invested 0.8 billion kroons abroad.

Share capital accounted for a third of the direct investment inflow. The level of reinvested earnings remained lower compared to previous quarters, due to the distribution of dividends. Major investors were from Scandinavia (Finland, Denmark) and Austria. The share of the EU in the direct investment inflow was 71%. Most investments were made in real estate, renting and business activities, manufacturing, and financial intermediation.

Residents' direct investments abroad decreased by 17% quarter-on-quarter. Investments in share capital were record 1.5 billion kroons. As in case of foreign-owned companies residing in Estonia, dividends were distributed also in foreign subsidiaries and associated companies, and thus, reinvested earnings decreased significantly. Investments were mainly made into Latvia, Finland, and Lithuania. The share of the EU was 83%. Largest investments were made into financial intermediation, hotels and restaurants, and industry.

The net inflow of **portfolio investment** amounted to 5.6 billion kroons, being the main channel of capital inflow. Portfolio investment claims increased by 0.2 and liabilities by 5.8 billion kroons. The growth of liabilities was mainly due to money market instruments issued by credit institutions.

The net outflow of **other investments** was 1.1 billion kroons, claims increasing by 5 and liabilities by 3.9 billion kroons. The movement of other investments mainly took place through credit institutions.

CURRENT ACCOUNT

Stocking of inventories before Estonia's accession to the European Union resulted in a significant increase in the balance of payments deficit, which reached 7.4 billion kroons in the second quarter of 2004, i.e. 14.9% of expected GDP. Deficit growth was also affected by income from foreign investments into Estonia, the net outflow of which was 8.3% of expected GDP (see Figure 2). Receipt of funds from the European Union structural funds increased in the second quarter.

The EU countries (EU-25) accounted for 77% of the credit and debit turnover of the current account. Estonia's five most important trade partners were Finland, Sweden, Latvia, Germany, and Russia, which accounted for 60% of the credit turnover and 58% of the debit turnover. In the second quarter of 2004, Estonia's current account deficit was the highest with Germany and Finland, while the highest surplus was registered with the British Virgin Islands, Norway, and the USA (see Table 2).

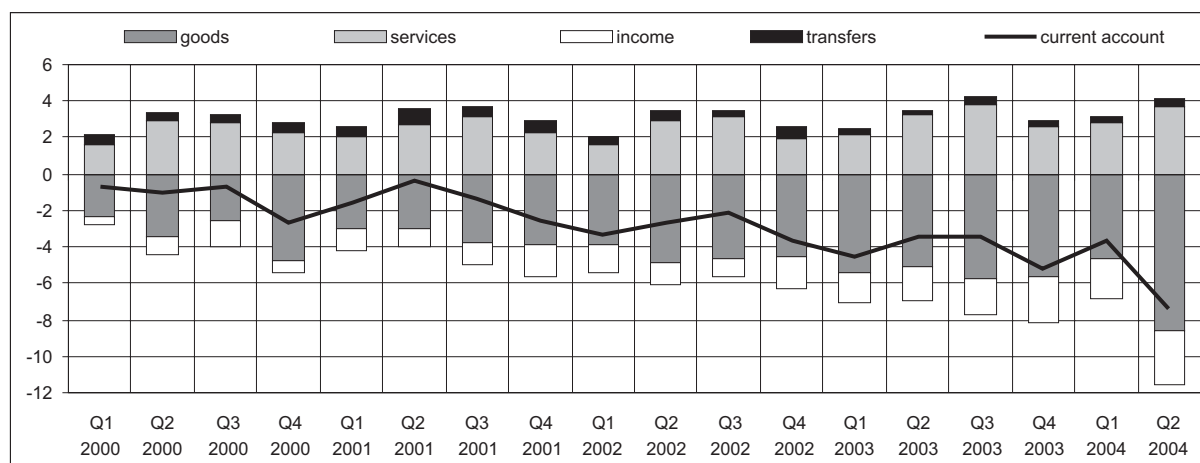


Figure 2. Current account structure (EEK bn)

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

	Q2 2003	Q1 2004	Q2 2004
EU-25*	-565.8	-2,744.0	-7,166.8
Germany	-1,412.1	-1,120.5	-2,331.7
Finland	200.5	282.1	-1,204.2
Poland	-432.1	-501.7	-674.1
Sweden	-404.1	422.5	-534.8
Lithuania	-35.9	-168.4	-490.8
EU-15	-341.9	-2,585.9	-5,697.7
CIS	-1,378.9	-1,282.0	-1,490.5
Russia	-579.9	-1,146.3	-949.3
Belarus	-246.4	-205.8	-331.7
Ukraine	-555.1	86.5	-172.0
Other	-1,505.8	349.2	1,238.5
British Virgin Islands	519.8	545.2	695.8
Norway	524.4	350.8	507.9
USA	9.3	199.7	300.3
Japan	-173.8	-292.4	-212.4
China	-131.2	-268.9	-201.2
Total	-3,450.5	-3,676.8	-7,418.8

* Before 1 May 2004, 15 EU member states and 10 acceding countries have been observed.

Goods

The trade account of the balance of payments was more unfavourable in the second quarter of 2004 than usually with a deficit of nearly 9 billion kroons (see Table 3). The exports of goods reached a record 18 billion kroons, growing 8% quarter-on-quarter and 14% year-on-year. Imports increased by approximately 25%, quarter-on-quarter and year-on-year, amounting to 27 billion kroons. The rise in goods turnover was brought about by the EU accession, which is why the imports in April exceeded all previous records, and 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 Footnote on page 3).

According to the **foreign trade system**² the exports of goods totalled 18 billion kroons and the imports in c.i.f. prices were 28.7 billion kroons (see Figure 3). Foreign trade deficit increased by 4.5 billion kroons year-on-year, totalling 10.7 billion kroons.

Table 3. Changes in the exports and imports 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 (%)		
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 total	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 total	58,667.1		4.1	67.0	72,451.0	4.3	79.5	-13,783.9
Q1 2002	13,156.1		-7.3	69.9	17,060.8	-5.9	81.0	-3,904.7
Q2 2002	14,766.6		12.2	64.8	19,587.5	14.8	79.5	-4,820.9
Q3 2002	14,238.5		-3.6	64.8	18,920.5	-3.4	80.4	-4,682.0
Q4 2002	16,172.4		13.6	70.1	20,760.4	9.7	80.8	-4,588.0
2002 total	58,333.6		-0.6	67.3	76,329.2	5.4	80.4	-17,995.6
Q1 2003	14,329.4		-11.4	70.4	19,778.1	-4.7	83.5	-5,448.7
Q2 2003	16,095.2		12.3	67.0	21,154.1	7.0	81.8	-5,058.9
Q3 2003	15,518.8		-3.6	63.7	21,221.1	0.3	80.6	-5,702.3
Q4 2003	17,590.3		13.3	68.8	23,231.4	9.5	81.3	-5,641.1
2003 total	63,533.7		8.9	67.3	85,384.7	11.9	81.7	-21,851.0
Q1 2004	16,905.2		-3.9	69.7	21,532.8	-7.3	82.5	-4,627.6
Q2 2004	18,286.7		8.2	66.0	26,848.0	24.7	82.3	-8,561.3

² The analysis below does not contain adjustments made in the goods account 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). Imports are in c.i.f. prices and analysed by the trading country. The special trade system used for the balance of payments compilation before the EU accession is not applicable after the accession, as the Intrastat reporting system does not allow to differentiate between general and special trade. Therefore, the impact of customs and intermediate warehouses has been eliminated only from trade with third countries.

The terms “exports” and “imports” are only used in case of trade with third countries since the EU accession. The Intrastat uses terms “dispatch” and “arrival”. The following analysis includes intra-Community as well as non-Community trade and thus the terms “exports” and “imports” are used for the sake of clarity.

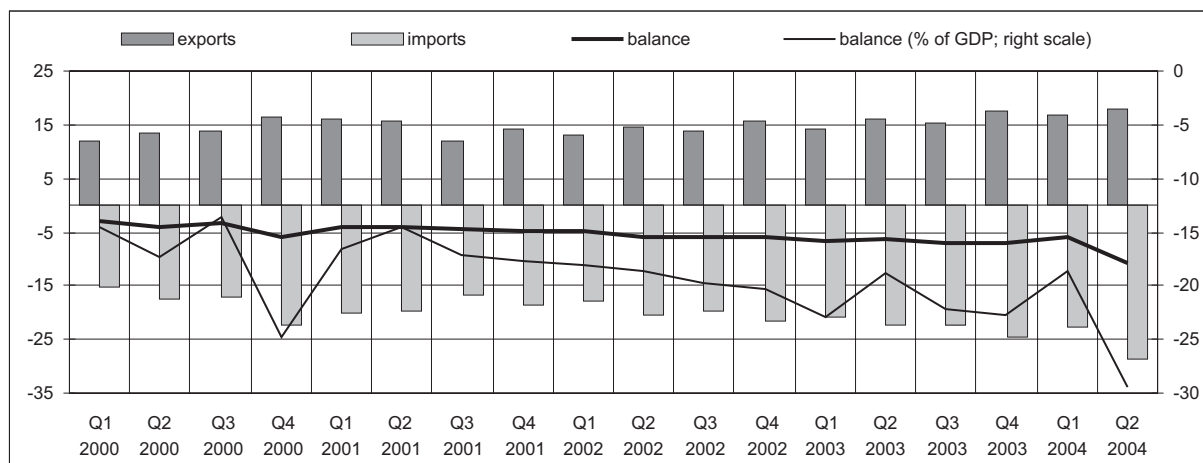


Figure 3. Estonia's foreign trade balance (EEK bn)

Imports of goods increased by 30% year-on-year and across all groups of goods (see Table 4). Import growth was mainly affected by equipment and machinery, transport vehicles, metals, food and mineral products. As regards machinery, mostly accessories and parts of electric and electronic products, mobile phones, computers, and road construction machinery were imported to Estonia. The import growth of transport vehicles prior to the EU accession resulted from the imports of motor cars and car accessories, which increased by 78%, amounting to 2.7 billion kroons. Metal products included mainly various steel products for processing as well as for free circulation. Imports of food also reflected vividly the expectations related to the EU accession: the three largest groups were tobacco products (47% growth), strong and low-alcohol beverages (growth almost tripled), and sugar (imports increased 3.5 times). These articles formed a third of the total food imports. The main article of mineral products was motor fuel with imports increasing by 58% and accounting for nearly 70% of the whole group.

Table 4. Exports by main groups of goods

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2003	Q1 2004	Q2 2004	Q2 2003	Q1 2004	Q2 2004	Q2 2004/ Q1 2004	Q2 2004/ Q2 2003
Food	2,133.6	2,020.8	3,004.0	9.6	8.9	10.5	48.7	40.8
Mineral products	1,156.9	1,265.7	1,908.2	5.2	5.6	6.6	50.8	64.9
Chemical products	2,874.1	2,896.7	3,253.3	13.0	12.7	11.3	12.3	13.2
Clothing, footwear and headgear	2,053.3	2,179.8	2,345.3	9.3	9.6	8.2	7.6	14.2
Timber, paper and products	1,192.9	1,355.1	1,792.2	5.4	6.0	6.2	32.3	50.2
Metals and metal products	2,051.3	2,281.6	2,938.9	9.2	10.0	10.2	28.8	43.3
Machinery and equipment	5,826.7	6,418.1	7,234.0	26.3	28.2	25.2	12.7	24.2
Transport vehicles	3,351.8	2,838.3	4,380.8	15.1	12.5	15.2	54.3	30.7
Furniture, toys, sporting goods	487.5	584.3	646.5	2.2	2.6	2.2	10.6	32.6
Other	1,060.0	932.8	1,238.0	4.8	4.1	4.3	32.7	16.8
Total	22,188.1	22,773.2	28,741.2	100.0	100.0	100.0	26.2	29.5

Exports of goods also increased across all main groups (see Table 5). Export growth was most affected by machinery and equipment (electronic products), transport vehicles (motor cars and car accessories), furniture and furniture elements, and prefabricated wooden buildings. The analysis of goods exports indicated that one of the underlying reasons for 13% growth was the exports of goods in the light of EU accession. For example, some motor cars previously imported from Finland and Germany were exported to Latvia and Lithuania and some of motor fuel (mainly imported from Lithuania and Latvia) was exported to the EU countries. Other major export articles included unprocessed and little processed timber, waste metal, metal structures, textile products, and milk and fish products.

Table 5. Exports by main groups of goods

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2003	Q1 2004	Q2 2004	Q2 2003	Q1 2004	Q2 2004	Q2 2004/ Q1 2004	Q2 2004/ Q2 2003
Food	1,153.8	1,159.1	1,349.6	7.2	6.9	7.5	16.4	17.0
Mineral products	441.3	485.1	583.3	2.8	2.9	3.2	20.2	32.2
Chemical products	1,196.9	1,251.6	1,360.1	7.5	7.4	7.5	8.7	13.6
Clothing, footwear and headgear	1,942.0	2,059.6	2,011.2	12.2	12.2	11.2	-2.3	3.6
Timber, paper and products	3,114.5	2,670.5	3,214.6	19.6	15.9	17.8	20.4	3.2
Metals and metal products	1,497.6	1,301.3	1,508.3	9.4	7.7	8.4	15.9	0.7
Machinery and equipment	3,638.1	4,814.7	4,297.4	22.8	28.6	23.8	-10.7	18.1
Transport vehicles	776.9	901.8	1,153.9	4.9	5.4	6.4	28.0	48.5
Furniture, toys, sporting goods	1,565.0	1,626.6	1,848.0	9.8	9.7	10.3	13.6	18.1
Other	601.8	568.1	696.4	3.8	3.4	3.9	22.6	15.7
Total	15,927.8	16,838.3	18,023.0	100.0	100.0	100.0	7.0	13.2

Foreign trade deficit was affected by all groups, year-on-year (see Table 6). Only the surplus of furniture and other manufactured goods increased slightly. The surplus of timber and timber products decreased by nearly 500 million kroons, while the deficits of other groups increased significantly. Trade deficit was most affected by transport vehicles, and equipment and machinery with a deficit of altogether 6 billion kroons.

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

	Q2 2003	Q1 2004	Q2 2004
Food	-979.8	-861.7	-1,654.4
Mineral products	-715.6	-780.6	-1,324.9
Chemical products	-1,677.2	-1,645.1	-1,893.2
Clothing, footwear and headgear	-111.3	-120.2	-334.1
Timber, paper and products	1,921.6	1,315.4	1,422.4
Metals and metal products	-553.7	-980.3	-1,430.6
Machinery and equipment	-2,188.6	-1,603.4	-2,936.6
Transport vehicles	-2,574.9	-1,936.5	-3,226.9
Furniture, toys, sporting goods	1,077.5	1,042.3	1,201.5
Other	-458.2	-364.7	-541.6
Total	-6,260.3	-5,934.9	-10,718.2

By groups of countries, the exports of goods to the EU 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 82% of total exports. Major investors were again Finland and Sweden. Surprisingly, Latvia was the third largest investor, followed by Germany and Lithuania. The five major partners accounted for 75% of the exports of goods to the EU and 61% of total exports. Among the CIS countries, the top two included Russia and the Ukraine, while Norway and the USA dominated among other countries.

Imports of goods also increased across all groups of countries (see Table 8), and primarily the EU. The top five of partners was the same as in case of exports, only with different ranking: Finland, Germany, Sweden, Lithuania, and Latvia. Russia accounted for 72% of the CIS countries, followed by the Ukraine and Belarus. China, the USA, Japan, Hong Kong, Switzerland, and Norway dominated among other countries.

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

Table 7. Exports of goods by groups of countries

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2003	Q1 2004	Q2 2004	Q2 2003	Q1 2004	Q2 2004	Q2 2004/ Q1 2004	Q2 2004/ Q2 2003
EU-25*	13,011.4	14,114.3	14,796.9	81.7	83.8	82.1	4.8	13.7
Finland	4,145.2	4,212.8	4,366.1	26.0	25.0	24.2	3.6	5.3
Sweden	2,474.2	3,011.2	2,830.1	15.5	17.9	15.7	-6.0	14.4
Germany	1,449.0	1,570.3	1,491.4	9.1	9.3	8.3	-5.0	2.9
Latvia	1,040.6	1,205.6	1,583.5	6.5	7.2	8.8	31.3	52.2
Lithuania	578.4	557.5	764.6	3.6	3.3	4.2	37.1	32.2
EU-15	10,987.4	11,443.8	11,786.9	69.0	68.0	65.4	3.0	7.3
CIS	1,011.8	904.4	1,085.0	6.4	5.4	6.0	20.0	7.2
Russia	659.4	560.5	745.2	4.1	3.3	4.1	33.0	13.0
Ukraine	302.3	290.2	273.0	1.9	1.7	1.5	-5.9	-9.7
Other	1,904.5	1,819.7	2,141.0	12.0	10.8	11.9	17.7	12.4
USA	382.0	370.4	532.6	2.4	2.2	3.0	43.8	39.4
Norway	568.3	562.0	611.5	3.6	3.3	3.4	8.8	7.6
Total	15,927.8	16,838.3	18,023.0	100.0	100.0	100.0	7.0	13.2

* Before 1 May 2004, 15 EU member states and 10 acceding countries have been observed.

Table 8. Imports of goods by groups of countries¹

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2003	Q1 2004	Q2 2004	Q2 2003	Q1 2004	Q2 2004	Q2 2004/ Q1 2004	Q2 2004/ Q2 2003
EU-25*	17,202.0	17,164.0	22,767.2	77.5	75.4	79.2	32.6	32.4
Finland	4,951.4	4,646.8	6,360.7	22.3	20.4	22.1	36.9	28.5
Sweden	2,287.9	2,281.7	2,690.7	10.3	10.0	9.4	17.9	17.6
Germany	2,782.3	2,909.3	3,635.3	12.5	12.8	12.6	25.0	30.7
Latvia	1,022.0	1,082.5	1,378.1	4.6	4.8	4.8	27.3	34.8
Lithuania	904.1	932.4	2,190.5	4.1	4.1	7.6	134.9	142.3
EU-15	14,200.3	13,860.9	17,605.9	64.0	60.9	61.3	27.0	24.0
CIS	2,786.6	3,046.9	3,258.0	12.6	13.4	11.3	6.9	16.9
Russia	1,613.6	2,368.5	2,337.7	7.3	10.4	8.1	-1.3	44.9
Ukraine	889.5	390.7	464.9	4.0	1.7	1.6	19.0	-47.7
Other	2,199.5	2,562.3	2,716.0	9.9	11.3	9.4	6.0	23.5
USA	352.6	355.7	429.8	1.6	1.6	1.5	20.8	21.9
Norway	190.8	232.6	203.8	0.9	1.0	0.7	-12.4	6.8
Total	22,188.1	22,773.2	28,741.2	100.0	100.0	100.0	26.2	29.5

¹ Analysed by trading country.

* Before 1 May 2004, 15 EU member states and 10 acceding countries have been observed.

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

	Q2 2003	Q1 2004	Q2 2004
EU-25*	-4,190.6	-3,049.7	-7,970.3
Finland	-806.2	-434.0	-1,994.6
Sweden	186.3	729.5	139.4
Germany	-1,333.3	-1,339.0	-2,143.9
Latvia	18.6	123.1	205.4
Lithuania	-325.7	-374.9	-1,425.9
EU-15	-3,212.9	-2,417.1	-5,819.0
CIS	-1,774.8	-2,142.5	-2,173.0
Russia	-954.2	-1,808.0	-1,592.5
Ukraine	-587.2	-100.5	-191.9
Other	-295.0	-742.6	-575.0
USA	29.4	14.7	102.8
Norway	377.5	329.4	407.7
Total	-6,260.3	-5,934.9	-10,718.2

* Before 1 May 2004, 15 EU member states and 10 acceding countries have been observed.

Services

Surplus of the services account amounted to 3.6 billion kroons in the second quarter of 2004, up by 13% year-on-year (see Table 10). The surplus of the services account offset foreign trade deficit by 43%. The services account to GDP ratio, however, remained at previous levels (see Figure 4).

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 (%)
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
2000 total	25,485.8	16.1	31.1	15,911.2	16.9	18.6	9,574.6	14.8
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
2001 total	28,866.5	13.3	33.0	18,706.3	17.6	20.5	10,160.2	6.1
Q1 2002	5,653.4	-27.4	30.1	3,997.7	-27.3	19.0	1,655.7	-27.5
Q2 2002	8,004.7	41.6	35.2	5,043.7	26.2	20.5	2,961.0	78.8
Q3 2002	7,730.1	-3.4	35.2	4,622.9	-8.3	19.6	3,107.2	4.9
Q4 2002	6,891.5	-10.8	29.9	4,938.0	6.8	19.2	1,953.5	-37.1
2002 total	28,279.7	-2.0	32.7	18,602.3	-0.6	19.6	9,677.4	-4.8
Q1 2003	6,027.3	-12.5	29.6	3,903.9	-20.9	16.5	2,123.4	8.7
Q2 2003	7,942.6	31.8	33.0	4,701.8	20.4	18.2	3,240.7	52.6
Q3 2003	8,859.3	11.5	36.3	5,107.6	8.6	19.4	3,751.6	15.8
Q4 2003	7,985.4	-9.9	31.2	5,351.3	4.8	18.7	2,634.1	-29.8
2003 total	30,814.4	9.0	32.7	19,064.6	2.5	18.3	11,749.9	21.4
Q1 2004	7,358.2	-2.0	30.3	4,553.2	-4.2	17.5	2,805.0	1.5
Q2 2004	9,404.2	27.8	34.0	5,757.5	26.4	17.7	3,646.7	30.0

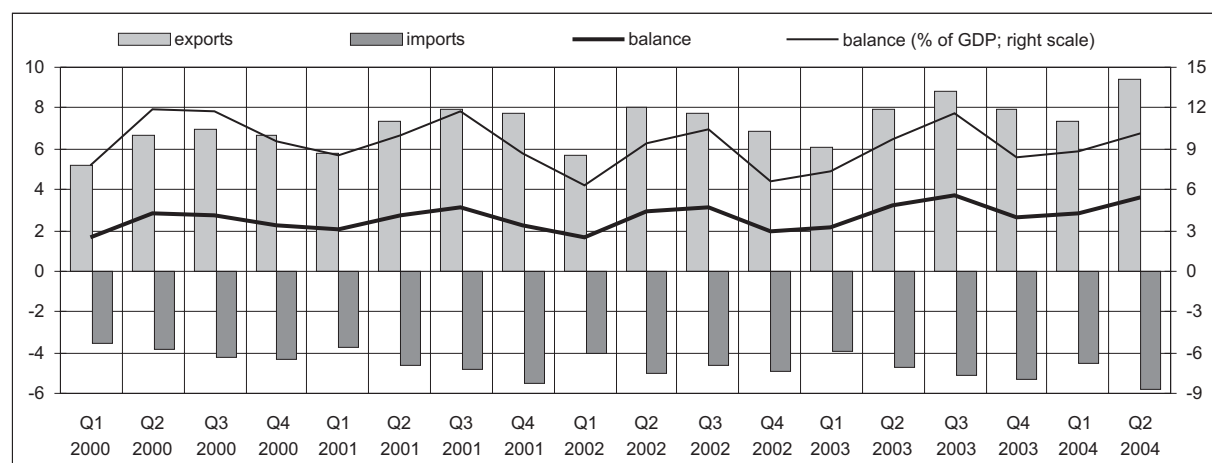


Figure 4. Changes in services (EEK bn)

The surplus of the services account was most affected by travel and business services: the surplus of travel services reached nearly 60%, while the deficit of business services turned into a surplus, year-on-year. At the same time, the surplus of transport services, which is one of the major components of the services account, decreased by 25%, year-on-year (see Table 11).

Table 11. Services balance by major categories

	Balance (EEK m)			Share (%)			Change (%)	
	Q2 2003	Q1 2004	Q2 2004	Q2 2003	Q1 2004	Q2 2004	Q2 2004/ Q1 2004	Q2 2004/ Q2 2003
Transportation	1,719.7	1,598.9	1,310.0	53.0	57.0	35.9	-18.1	-23.8
Travel	1,633.5	716.4	2,096.5	50.4	25.5	57.5	192.6	28.3
Construction services	-121.2	-11.1	-123.7	-3.7	-0.4	-3.4	1,014.4	2.1
Business services	-9.5	468.2	347.6	-0.3	16.7	9.6	-25.8	-3,758.9
Government services	55.3	49.7	43.8	1.7	1.8	1.2	-11.9	-20.8
Other	-37.1	-17.1	-27.5	-1.1	-0.6	-0.8	60.8	-25.9
Total	3,240.7	2,805.0	3,646.7	100.0	100.0	100.0	30.0	12.5

Exports of services increased 18% year-on-year and amounted to 9.4 billion kroons in the second quarter of 2004. The structure of services exports did not change significantly when compared to the previous year: the exports of transport services increased slower than usual, while that of business and construction services grew faster (see Table 12).

Estonia's accession to the European Union has had a positive effect on services exports: provision of services to old member states has increased faster than the total exports of services, year-on-year (see Table 13). Fast growth occurred in the exports of services to Finland, the United Kingdom, and Sweden.

Table 12. Services exports by major categories

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2003	Q1 2004	Q2 2004	Q2 2003	Q1 2004	Q2 2004	Q2 2004/ Q1 2004	Q2 2004/ Q2 2003
Transportation	3,406.9	3,400.0	3,724.7	42.9	46.2	39.6	9.6	9.3
freight	1,632.9	1,957.4	2,231.9	20.5	26.6	23.7	14.0	36.7
passenger	798.9	564.6	645.9	10.1	7.7	6.9	14.4	-19.2
other transport services	975.0	878.0	847.0	12.3	11.9	9.0	-3.5	-13.1
Travel	2,854.4	1,781.4	3,373.7	35.9	24.2	35.9	89.4	18.2
Construction services	172.0	142.0	226.1	2.2	1.9	2.4	59.2	31.5
Business services	1,070.8	1,528.6	1,502.1	13.5	20.8	16.0	-1.7	40.3
Government services	117.4	124.9	116.2	1.5	1.7	1.2	-7.0	-1.0
Other	321.1	381.3	461.4	4.0	5.2	4.9	21.0	43.7
Total	7,942.6	7,358.2	9,404.2	100.0	100.0	100.0	27.8	18.4

Table 13. Services exports by groups of countries

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2003	Q1 2004	Q2 2004	Q2 2003	Q1 2004	Q2 2004	Q2 2004/ Q1 2004	Q2 2004/ Q2 2003
EU-25*	5,388.9	4,696.8	6,249.9	67.8	63.8	66.5	33.1	16.0
Finland	2,497.8	2,108.6	2,820.9	31.4	28.7	30.0	33.8	12.9
Sweden	514.3	424.1	683.3	6.5	5.8	7.3	61.1	32.9
United Kingdom	359.5	455.7	634.0	4.5	6.2	6.7	39.1	76.4
Germany	369.2	444.5	490.0	4.6	6.0	5.2	10.2	32.7
Latvia	576.8	257.9	452.7	7.3	3.5	4.8	75.5	-21.5
EU-15	4,309.2	3,990.2	5,300.9	54.3	54.2	56.4	32.8	23.0
CIS	857.0	977.3	1,051.0	10.8	13.3	11.2	7.5	22.6
Russia	786.6	901.9	953.0	9.9	12.3	10.1	5.7	21.2
Ukraine	54.7	44.9	63.1	0.7	0.6	0.7	40.5	15.4
Other	1,696.7	1,684.1	2,103.3	21.4	22.9	22.3	24.9	24.0
<i>offshore</i> regions	597.7	750.2	906.5	7.5	10.2	9.6	20.8	51.7
USA	339.9	393.0	380.1	4.3	5.3	4.0	-3.3	11.8
Switzerland	324.2	303.0	360.0	4.1	4.1	3.8	18.8	11.0
Total	7,942.6	7,358.2	9,404.2	100.0	100.0	100.0	27.8	18.4

* Before 1 May 2004, 15 EU member states and 10 acceding countries have been observed.

Imports of services increased 23% year-on-year, amounting to 5.8 billion kroons in the second quarter of 2004. Record growth in the imports of goods in the second quarter of 2004 brought about a significant increase in the imports of transport services as well. Growth in the imports of other services was considerably slower (see Table 14).

Accession to the EU did not significantly affect the structure of services imports (see Table 15), only the share of certain EU countries changed: the share of Germany increased and that of Sweden decreased. Among major non-EU countries, only the share of Russia and the USA increased in the total imports of services (11% and 4%, respectively).

Table 14. Services imports by major categories

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2003	Q1 2004	Q2 2004	Q2 2003	Q1 2004	Q2 2004	Q2 2004/ Q1 2004	Q2 2004/ Q2 2003
Transportation	1,687.2	1,801.1	2,414.7	35.9	39.6	41.9	34.1	43.1
freight	998.1	1,181.7	1,614.6	21.2	26.0	28.0	36.6	61.8
passenger	327.2	222.0	303.7	7.0	4.9	5.3	36.8	-7.2
other transport services	361.9	397.4	496.4	7.7	8.7	8.6	24.9	37.2
Travel	1,220.9	1,065.0	1,277.2	26.0	23.4	22.2	19.9	4.6
Construction services	293.2	153.1	349.8	6.2	3.4	6.1	128.5	19.3
Business services	1,080.2	1,060.4	1,154.5	23.0	23.3	20.1	8.9	6.9
Government services	62.1	75.2	72.4	1.3	1.7	1.3	-3.7	16.6
Other	358.2	398.4	488.9	7.6	8.6	8.4	22.7	36.5
Total	4,701.8	4,553.2	5,757.5	100.0	100.0	100.0	26.4	22.5

Table 15. Services imports by groups of countries

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2003	Q1 2004	Q2 2004	Q2 2003	Q1 2004	Q2 2004	Q2 2004/ Q1 2004	Q2 2004/ Q2 2003
EU-25*	3,633.5	3,559.4	4,411.1	77.2	78.2	76.6	23.9	21.4
Finland	1,163.1	900.8	1,148.7	24.7	19.8	20.0	27.5	-1.2
Germany	362.3	411.2	775.9	7.7	9.0	13.5	88.7	114.2
Sweden	386.7	307.0	438.8	8.2	6.7	7.6	42.9	13.5
United Kingdom	215.0	325.4	245.9	4.6	7.1	4.3	-24.4	14.4
Cyprus	202.8	149.3	209.0	4.3	3.3	3.6	40.0	3.1
EU-15	2,921.2	2,892.5	3,570.6	62.1	63.5	62.0	23.4	22.2
CIS	510.3	456.1	712.1	10.9	10.0	12.4	56.1	39.5
Russia	388.3	384.4	613.8	8.3	8.4	10.7	59.7	58.1
Ukraine	66.8	37.8	56.0	1.4	0.8	1.0	48.1	-16.2
Other	558.0	537.7	634.3	11.9	11.8	11.0	18.0	13.7
USA	168.1	172.7	230.8	3.6	3.8	4.0	33.6	37.3
Norway	58.4	61.1	78.0	1.2	1.3	1.4	27.7	33.6
China	23.5	26.5	42.4	0.5	0.6	0.7	60.0	80.4
Total	4,701.8	4,553.2	5,757.5	100.0	100.0	100.0	26.4	22.5

* Before 1 May 2004, 15 EU member states and 10 acceding countries have been observed.

The **transport services** surplus decreased (21% year-on-year) due to the abandoning of tax-free trade on means of transport (particularly on means of sea transport) after the EU accession. The exports of transport services increased by 9% year-on-year and imports by 43% (see Figure 5).

The exports of freight transport services increased the most, year-on-year (37%; see Table 12), particularly in railway and road transport (34% and 32%, respectively). Growth was most affected by the transit of oil products. Passenger and other transport services decreased by more than 20%. Transport services were mostly exported to the EU countries (57%; see Table 16), with Finland as the main partner (18%). Among the CIS countries, exports went mainly to Russia (11%). Among other countries, services were mainly exported to low tax rate countries (18%).

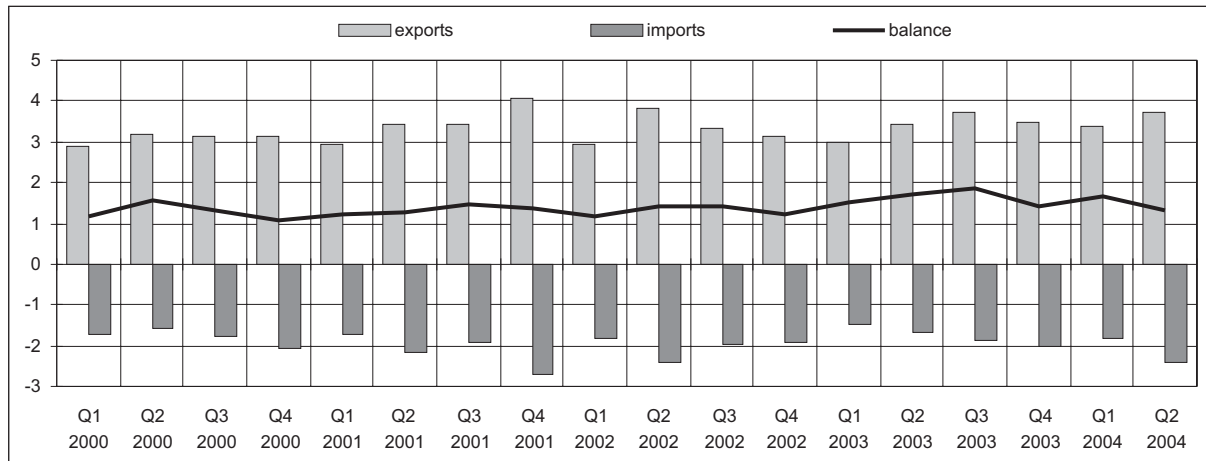


Figure 5. Transport services (EEK bn)

Table 16. Freight transport services by groups of countries in the second quarter of 2004

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%), Q2 2004 / Q2 2003		Volume (EEK m)	Share (%)	Change (%), Q2 2004 / Q2 2003
EU-25*	2,101.7	56.4	10.2	EU-25*	-1,755.3	72.7	34.4
Finland	684.1	18.4	-16.9	Finland	-494.6	20.5	41.3
United Kingdom	359.0	9.6	98.3	Germany	-302.1	12.5	82.1
Sweden	286.8	7.7	15.7	Sweden	-160.1	6.6	15.4
Germany	252.9	6.8	27.2	United Kingdom	-102.4	4.2	1.4
Netherlands	133.1	3.6	24.9	Lithuania	-95.1	3.9	93.7
EU-15	1,923.1	51.6	10.1	EU-15	-1,452.0	60.1	32.0
CIS	423.3	11.4	10.8	CIS	-350.1	14.5	151.7
Russia	392.9	10.5	7.8	Russia	-291.9	12.1	299.9
Ukraine	26.0	0.7	83.1	Belarus	-29.0	1.2	1.4
Other	1,199.7	32.2	7.3	Other	-309.3	12.8	27.5
offshore regions	686.3	18.4	27.6	USA	-102.8	-4.3	69.4
Switzerland	267.9	7.2	-1.7	China	-37.6	-1.6	114.9
USA	166.1	4.5	-16.0	Norway	-35.9	-1.5	11.5
Total	3,724.7	100.0	9.3	Total	-2,414.7	100.0	43.1

* Before 1 May 2004, 15 EU member states and 10 acceding countries have been observed.

Imports of transport services increased, year-on-year, mostly due to faster growth rate of freight transport services (62%; see Table 14), mainly in railway and road transport. The EU countries were the main import partners (73%) also in transport services, with Finland accounting for the largest share (21%; see Table 16). The share of the CIS countries in imports grew fast due to continuous increase in Russia's oil exports.

The share of sea transport was the highest in both exports and imports of transport services in the second quarter of 2004 (see Figure 6).

Exports of **travel services** has grown fast after the EU accession (18% year-on-year; see Figure 7). The number of tourists visiting Estonia as well as the length of trips increased. This indicator was also affected by the Estonian World Festival ESTO held in Riga in June, which increased the number of Estonians living abroad visiting their home country. The number of cruise passengers visiting Tallinn grew as well. Changes in the customs rules after the EU accession brought about larger expenditure of Finnish and Swedish tourists on goods purchased in Estonia (see Table 17).

Imports of travel services increased by 5%, year-on-year. Growth of imports to the EU remained as large, while the USA and Egypt became new popular countries of destination (see Table 17).

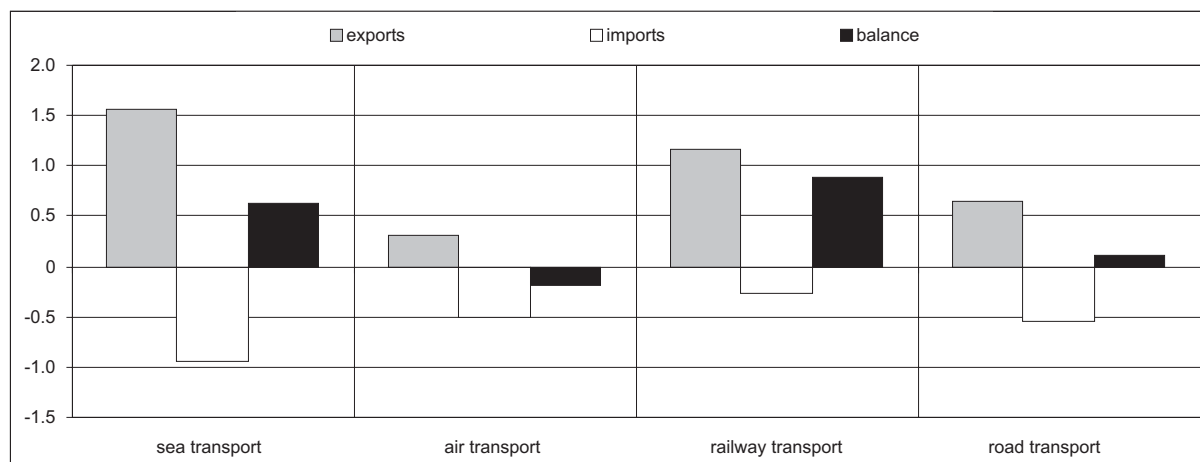


Figure 6. Transport services structure in the second quarter of 2004 by transport type (EEK bn)

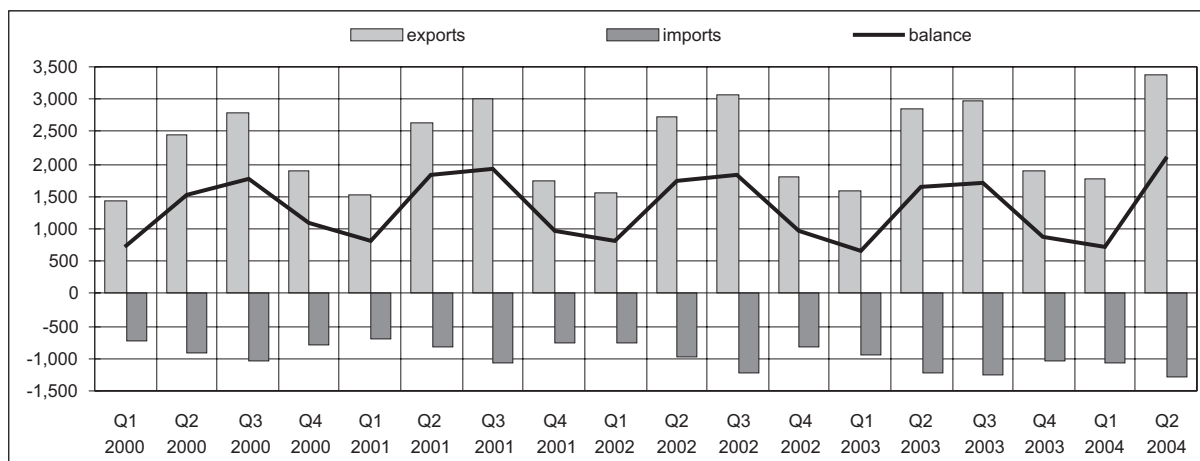


Figure 7. Travel services (EEK m)

Table 17. Travel services by groups of countries in the second quarter of 2004

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%), Q2 2004 / Q2 2003		Volume (EEK m)	Share (%)	Change (%), Q2 2004 / Q2 2003
EU-25*	2,771.4	82.1	18.1	EU-25*	-921.5	72.2	4.6
Finland	1,663.4	49.3	26.5	Germany	-196.3	15.4	-4.6
Sweden	276.2	8.2	56.5	Finland	-167.4	13.1	17.9
Germany	271.8	8.1	-22.9	United Kingdom	-141.6	11.1	26.1
United Kingdom	111.8	3.3	26.0	Sweden	-76.6	6.0	3.2
EU-15	2,284.8	67.7	28.8	EU-15	-759.2	59.4	2.9
CIS	348.9	10.3	15.3	CIS	-193.3	15.1	-12.0
Russia	337.2	10.0	16.7	Russia	-188.5	14.8	1.4
Other	253.4	7.5	23.4	Other	-162.4	12.7	34.8
Norway	68.2	2.0	17.5	USA	-61.8	4.8	85.8
USA	20.9	0.6	136.4	Egypt	-22.4	1.8	94.2
Japan	13.8	0.4	73.1	Norway	-13.1	1.0	571.0
Total	3,373.7	100.0	18.2	Total	-1,277.2	100.0	4.6

* Before 1 May 2004, 15 EU member states and 10 acceding countries have been observed.

Income

Deficit of the income account amounted to record 3 billion kroons in the second quarter of 2004 (see Table 18 and Figure 8), increasing by 60% year-on-year. The net outflow of income was 8.3% of GDP. The share of reinvested earnings, which do not involve any real movement of funds, has grown in the structure of investment income in the last quarters. Reinvested earnings saw a deficit (-1.9 billion kroons; see Table 19) in the second quarter.

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 (%)
Q1 2000	324.1	-8.6	783.7	-7.5	-459.6	-10.7
Q2 2000	539.4	66.4	1,470.3	87.6	-930.9	102.5
Q3 2000	570.6	5.8	2,016.6	37.2	-1,446.0	55.3
Q4 2000	573.9	0.6	1,220.8	-39.5	-646.9	-55.3
2000 total	2,008.0	16.1	5,491.4	16.9	-3,483.4	14.8
Q1 2001	594.6	3.6	1,731.4	41.8	-1,136.8	75.7
Q2 2001	657.3	10.5	1,573.2	-9.1	-915.9	-19.4
Q3 2001	707.6	7.7	1,930.6	22.7	-1,223.0	33.5
Q4 2001	1,035.2	46.3	2,685.6	39.1	-1,650.4	34.9
2001 total	2,994.7	49.1	7,920.8	44.2	-4,926.1	41.4
Q1 2002	638.8	-38.3	2,142.8	-20.2	-1,504.0	-8.9
Q2 2002	763.1	19.5	2,033.8	-5.1	-1,270.7	-15.5
Q3 2002	1,239.5	62.4	2,190.6	7.7	-951.1	-25.2
Q4 2002	697.9	-43.7	2,395.2	9.3	-1,697.3	78.5
2002 total	3,339.3	11.5	8,762.4	10.6	-5,423.1	10.1
Q1 2003	617.2	-11.6	2,226.1	-7.1	-1,608.9	-5.2
Q2 2003	966.3	56.6	2,853.2	28.2	-1,886.9	17.3
Q3 2003	1,099.3	13.8	3,063.7	7.4	-1,964.4	4.1
Q4 2003	703.2	-36.0	3,179.7	3.8	-2,476.5	26.1
2003 total	3,386.0	1.4	11,322.7	29.2	-7,936.7	46.3
Q1 2004	625.3	-11.1	2,826.5	-11.1	-2,201.2	-11.1
Q2 2004	878.0	24.9	3,894.9	22.5	-3,016.9	21.8

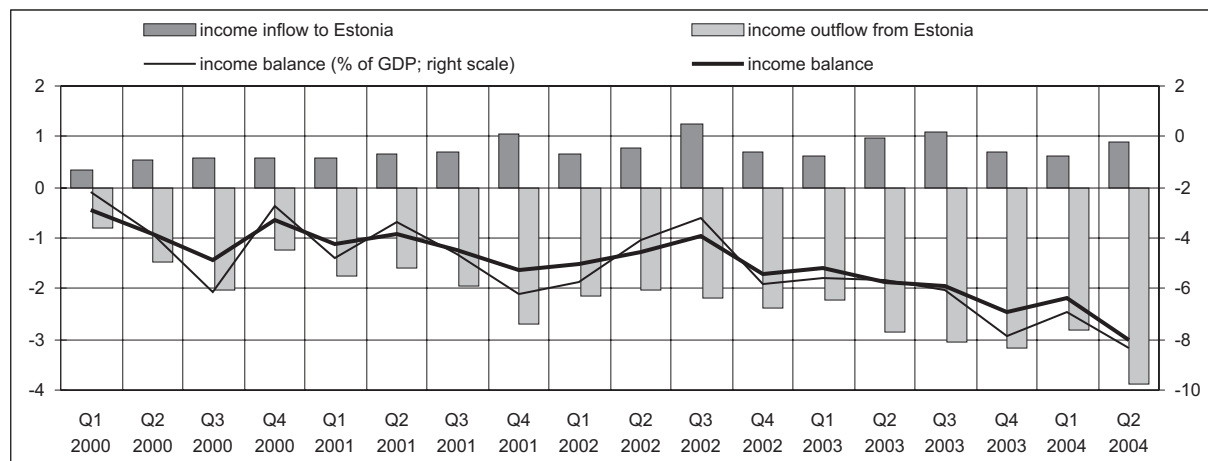


Figure 8. Income (EEK bn)

Table 19. Structure of income account

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2003	Q1 2004	Q2 2004	Q2 2003	Q1 2004	Q2 2004	Q2 2004/ Q1 2004	Q2 2004/ Q2 2003
Income on direct investments	-1,584.7	-2,178.0	-2,695.8	84.0	98.9	89.4	23.8	70.1
income on equity	-1,530.6	-2,093.9	-2,615.3	81.1	95.1	86.7	24.9	70.9
reinvested earnings	-491.2	-1,862.3	-1,854.3	26.0	84.6	61.5	-0.4	277.5
dividends	-1,039.3	-231.6	-761.0	55.1	10.5	25.2	228.6	-26.8
income on debt (interests)	-54.2	-84.2	-80.5	2.9	3.8	2.7	-4.4	48.5
Income on portfolio investments	-304.0	-7.4	-338.9	16.1	0.3	11.2	4,479.7	11.5
Income on other investments	-88.5	-155.3	-164.9	4.7	7.1	5.5	6.2	86.3
Other income	90.4	139.4	182.2	-4.8	-6.3	-6.0	30.7	101.5
Total	-1,886.9	-2,201.3	-3,016.8	100.0	100.0	100.0	37.0	59.9

Inflow of income decreased by 9% year-on-year (see Table 20). This was due to the double amount of dividends paid, which, in turn, led to a decrease in the goodwill of companies with Estonian ownership. Real inflow of money increased by 69% year-on-year.

As regards income inflow by groups of countries (see Table 21), the share of the EU countries was 85%, with old member states accounting for 43% and new members (mainly Latvia and Lithuania) for 42%. By fields of activity, highest income was earned from investments into financial intermediation and public sector (66% and 11%, respectively; see Figure 9).

Table 20. Income inflow to Estonia

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2003	Q1 2004	Q2 2004	Q2 2003	Q1 2004	Q2 2004	Q2 2004/ Q1 2004	Q2 2004/ Q2 2003
Income on direct investments	535.4	115.3	259.7	55.4	18.4	29.6	125.2	-51.5
income on equity	498.2	88.6	222.8	51.6	14.2	25.4	151.5	-55.3
reinvested earnings	134.2	59.9	-524.5	13.9	9.6	-59.7	-975.6	-490.8
dividends	364.1	28.7	747.3	37.7	4.6	85.1	2,503.8	105.2
income on debt (interests)	37.2	26.8	36.9	3.8	4.3	4.2	37.7	-0.8
Income on portfolio investments	139.7	218.8	245.1	14.5	35.0	27.9	12.0	75.4
Income on other investments	188.2	124.6	164.9	19.5	19.9	18.8	32.3	-12.4
Other income	103.0	166.5	208.4	10.7	26.6	23.7	25.2	102.3
Total	966.3	625.3	878.0	100.0	100.0	100.0	40.4	-9.1

Table 21. Income by groups of countries in the second quarter of 2004

	Inflow				Outflow		
	Volume (EEK m)	Share (%)	Change (%), Q2 2004 / Q2 2003		Volume (EEK m)	Share (%)	Change (%), Q2 2004 / Q2 2003
EU-25*	746.5	85.0	-18.7	EU-25*	-3,681.2	94.5	63.9
Latvia	286.4	32.6	-44.7	Finland	-1,379.6	35.4	101.0
Finland	120.2	13.7	69.9	Sweden	-1,091.2	28.0	28.7
Sweden	75.3	8.6	97.3	United Kingdom	-384.1	9.9	13.5
Germany	65.4	7.5	140.5	Germany	-286.2	7.3	42.9
EU-15	376.5	42.9	88.2	EU-15	-3,487.4	89.5	58.0
CIS	44.6	5.1	224.1	CIS	-79.8	2.0	-44.6
Russia	33.4	3.8	666.6	Russia	-61.3	1.6	-56.8
Ukraine	10.6	1.2	8.9	Ukraine	-18.7	0.5	804.0
Other	87.0	9.9	150.5	Other	-133.9	3.4	-70.8
USA	43.6	5.0	634.0	USA	-85.4	2.2	138.3
<i>offshore</i> regions	29.1	3.3	214.2	<i>offshore</i> regions	113.5	-2.9	-196.5
Total	878.0	100.0	-9.1	Total	-3,894.9	100.0	36.5

* Before 1 May 2004, 15 EU member states and 10 acceding countries have been observed.

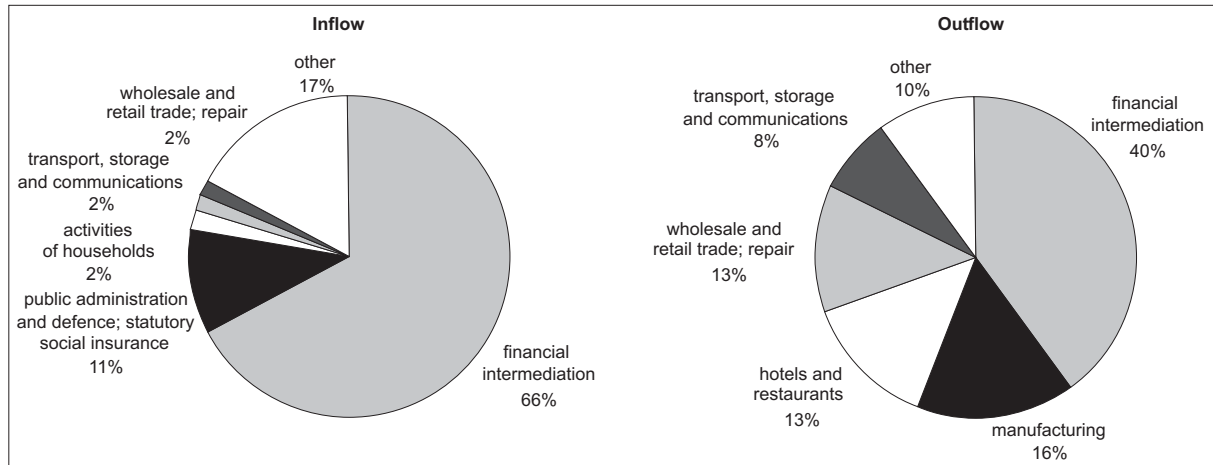


Figure 9. Inflow and outflow of income by fields of activity in the second quarter of 2004

Outflow of income increased by 37% year-on-year and reached over 3.9 billion kroons in the second quarter of 2004 (see Table 22). Reinvested earnings increased the most, year-on-year (2.1 times). Apart from reinvested earnings, the outflow of income from investments into Estonia grew by 15%. Income outflow went mainly to the EU countries (95%), with old member states (mainly Finland and Sweden; see Table 21) accounting for 90%.

Table 22. Income outflow from Estonia

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2003	Q1 2004	Q2 2004	Q2 2003	Q1 2004	Q2 2004	Q2 2004/ Q1 2004	Q2 2004/ Q2 2003
Income on direct investments	-2,120.1	-2,293.4	-2,955.5	74.3	81.1	75.9	28.9	39.4
income on equity	-2,028.8	-2,182.4	-2,838.1	71.1	77.2	72.9	30.0	39.9
reinvested earnings	-625.4	-1,922.1	-1,329.8	21.9	68.0	34.1	-30.8	112.6
dividends	-1,403.4	-260.3	-1,508.3	49.2	9.2	38.7	479.4	7.5
income on debt (interests)	-91.3	-111.0	-117.4	3.2	3.9	3.0	5.8	28.6
Income on portfolio investments	-443.7	-226.2	-584.0	15.6	8.0	15.0	158.2	31.6
Income on other investments	-276.7	-279.9	-329.2	9.7	9.9	8.5	17.6	19.0
Other income	-12.7	-27.1	-26.2	0.4	1.0	0.7	-3.3	106.3
Total	-2,853.2	-2,826.5	-3,894.9	100.0	100.0	100.0	37.8	36.5

By fields of activity (see Figure 9), highest income was earned from investments into financial intermediation (40%) and manufacturing (16%). These were followed by hotels and restaurants, and wholesale and retail trade (both accounting for 13%).

Current and Capital Transfers³

The surplus of **current transfers** account was 0.5 billion kroons in the second quarter of 2004, increasing twice year-on-year (see Table 23). Inflow of current transfers reached 1.2 billion kroons; 63% were sums received by the government, consisting mostly of EU assistance as well as pensions and other payments. Private transfers were made from the EU countries and other countries (the USA, Canada). Government

³ 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 EU structural funds available for Estonia into current and capital transfers is not clearly distinct 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).

transfers (refund of value added tax) to Finland and the USA accounted for over a half of the outflow of current transfers. Private transfers were also made to EU countries mostly.

The surplus of **capital transfers** account was 155 billion kroons. Capital transfers to Estonia mainly consisted of EU assistance to the general government for various infrastructure projects.

Table 23. Current transfers by groups of countries

	Received (EEK m)			Paid (EEK m)			Balance (EEK m)		
	Q2 2003	Q1 2004	Q2 2004	Q2 2003	Q1 2004	Q2 2004	Q2 2003	Q1 2004	Q2 2004
Current transfers	573.5	812.9	1,191.1	318.9	466.0	678.4	254.6	346.9	512.7
government transfers	156.9	375.8	753.8	31.7	11.8	364.5	125.1	363.9	389.3
EU-25*	87.1	196.8	601.1	27.5	5.8	326.5	59.6	191.0	274.6
EU-15	83.1	182.4	580.8	25.9	3.7	321.1	57.2	178.7	259.7
CIS	65.9	98.4	99.0	0.4	0.6	1.4	65.5	97.8	97.6
other	3.9	80.6	53.7	3.8	5.4	36.6	0.1	75.2	17.1
private transfers	416.7	437.2	437.3	287.2	454.2	313.9	129.5	-17.0	123.4
EU-25*	206.0	223.8	329.6	230.6	399.0	246.2	-24.6	-175.2	83.4
EU-15	187.3	207.4	312.9	217.3	387.9	231.7	-30.0	-180.5	81.2
CIS	14.7	161.9	6.9	10.2	9.9	18.1	4.5	152.0	-11.2
other	196.0	51.5	100.8	46.4	45.3	49.6	149.6	6.2	51.2

* Before 1 May 2004, 15 EU member states and 10 acceding countries have been observed.

FINANCIAL ACCOUNT

Surplus of the financial account⁴ was 7.2 billion kroons in the second quarter of 2004. Nearly 40% was the inflow of direct investment, the rest being portfolio investment. Other investments were characterised by net outflow. The structure of the financial account by categories and maturity can be seen in Figures 10 and 11.

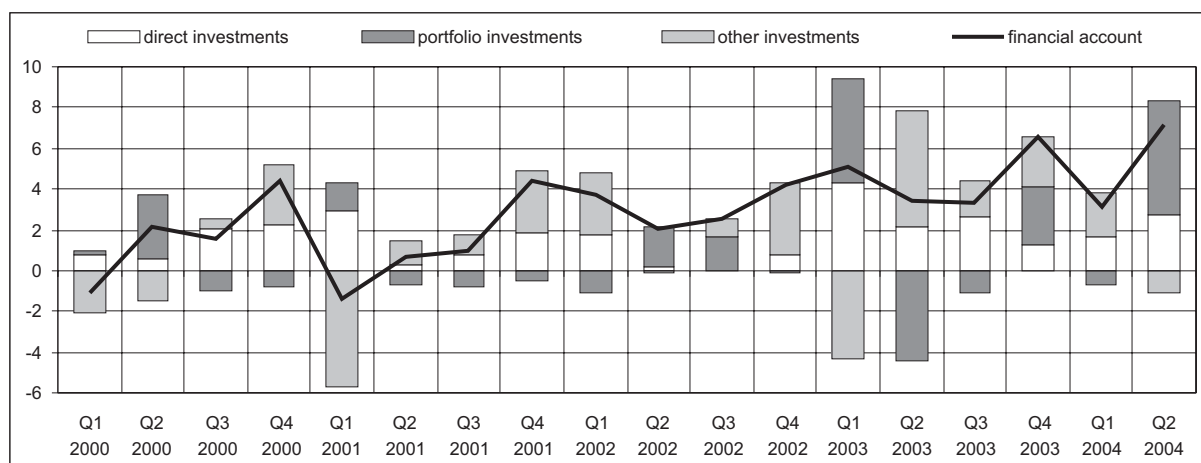


Figure 10. Changes in the structure of foreign investment capital flows (EEK bn)

⁴ Reserves excluded.

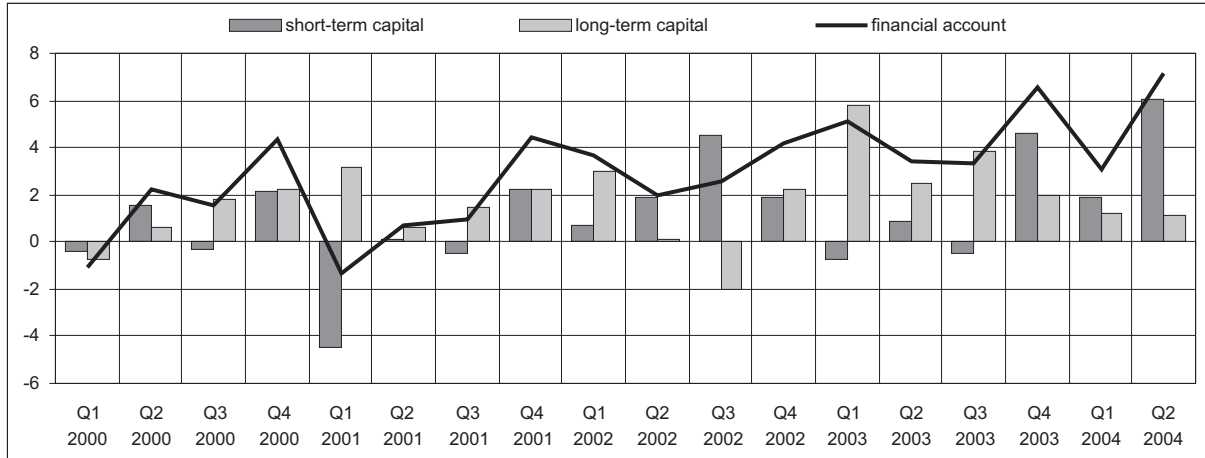


Figure 11. Maturity structure of financial account (EEK bn)

Direct Investments

Balance of direct investment was positive by 2.7 billion kroons in the second quarter of 2004, accounting for 42% of the financial account surplus. Non-residents invested 3.6 billion kroons in Estonia and Estonian residents' direct investments abroad grew by 0.8 billion kroons. The net inflow of direct investment covered 37% of the current account deficit. Direct investment formed 7.8% of the expected GDP (see Figure 12).

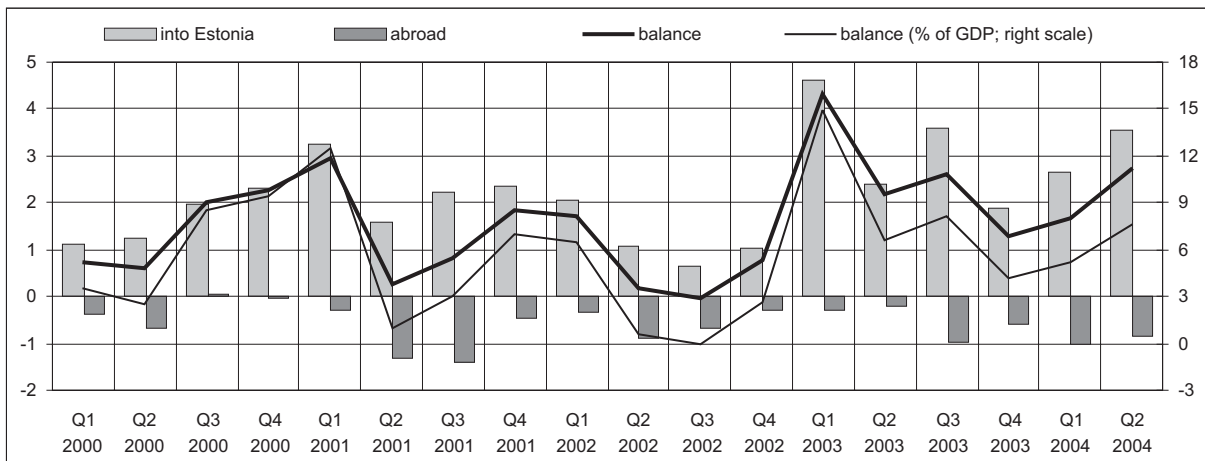


Figure 12. Direct investments (EEK bn)

The volume of **direct investments into Estonia** increased by 34% quarter-on-quarter. Equity investments formed approximately 75% of direct investment inflow. Long-term investments into shares doubled compared to the previous year. The level of reinvested earnings was lower quarter-on-quarter, due to the distribution of dividends, but significantly higher compared to previous years. Highest income was earned in financial intermediation, and wholesale and retail trade. Lowest profit was earned in transport, storage and communications, arising from payment of dividends. Other capital claims to direct investors increased by more than 0.8 billion kroons with trade credit accounting for more than half of it.

Direct investors received half a billion kroons of short-term loans from Estonian-based subsidiaries and associated companies. Liabilities of other direct investment capital increased by 1.8 billion kroons, with gross debts of long-term and short-term loans growing by 1.9 million kroons and 0.4 million kroons, respectively). Repayments of long-term loans accounted for a billion kroons (see Tables 24 and 25).

Table 24. Structure of direct investments into Estonia

	Share 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 (%)		
Q1 2000	588.6	52.8	301.6	27.1	-236.9	-21.3	461.1	41.4	1,114.4	100.0
Q2 2000	526.6	41.8	202.3	16.0	37.5	3.0	494.3	39.2	1,260.7	100.0
Q3 2000	1,197.7	60.9	861.0	43.8	-123.0	-6.3	29.9	1.5	1,965.6	100.0
Q4 2000	1,612.4	70.0	450.3	19.5	-74.9	-3.3	316.0	13.7	2,303.8	100.0
2000 total	3,925.3	59.1	1,815.2	27.3	-397.3	-6.0	1,301.3	19.6	6,644.5	100.0
Q1 2001	1,586.0	48.6	1,131.4	34.6	-489.2	-15.0	1,037.8	31.8	3,266.0	100.0
Q2 2001	393.6	24.8	-222.3	-14.0	-82.8	-5.2	1,498.8	94.4	1,587.3	100.0
Q3 2001	362.4	16.2	1,253.3	56.2	-40.3	-1.8	656.6	29.4	2,232.0	100.0
Q4 2001	1,299.2	55.4	1,716.5	73.2	-338.4	-14.4	-333.0	-14.2	2,344.3	100.0
2001 total	3,641.2	38.6	3,878.9	41.1	-950.7	-10.1	2,860.2	30.3	9,429.6	100.0
Q1 2002	554.7	27.3	1,087.8	53.5	-269.8	-13.3	661.7	32.5	2,034.4	100.0
Q2 2002	388.9	36.7	180.8	17.1	-14.3	-1.4	503.7	47.6	1,059.1	100.0
Q3 2002	49.3	7.5	439.0	67.0	-195.1	-29.8	362.3	55.3	655.5	100.0
Q4 2002	-171.9	-16.4	1,662.7	158.2	-293.4	-27.9	-146.2	-13.9	1,051.2	100.0
2002 total	821.0	17.1	3,370.3	70.2	-772.6	-16.1	1,381.5	28.8	4,800.2	100.0
Q1 2003	2,074.3	45.1	1,470.1	32.0	-207.0	-4.5	1,259.1	27.4	4,596.5	100.0
Q2 2003	614.2	25.5	625.4	26.0	-167.7	-7.0	1,333.8	55.4	2,405.7	100.0
Q3 2003	1,590.9	44.4	2,214.7	61.8	-569.9	-15.9	346.4	9.7	3,582.1	100.0
Q4 2003	346.2	18.4	2,406.3	127.6	-389.5	-20.6	-476.7	-25.3	1,886.3	100.0
2003 total	4,625.6	37.1	6,716.5	53.9	-1,334.0	-10.7	2,462.7	19.7	12,470.7	100.0
Q1 2004	557.3	21.0	1,922.1	72.4	-663.5	-25.0	839.8	31.6	2,655.8	100.0
Q2 2004	1,170.0	32.8	1,329.8	37.3	-772.8	-21.7	1,837.5	51.6	3,564.5	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
Q1 2003	68.8	69.9	98.3	79.7	816.3	418.8	858.2	444.3
Q2 2003	97.0	75.1	321.8	195.9	1,044.2	509.4	1,354.0	1,336.8
Q3 2003	84.5	48.1	258.0	50.1	1,943.9	501.4	400.5	1,420.5
Q4 2003	158.1	53.2	332.6	173.0	1,351.2	1,237.5	408.1	525.3
2003 total	408.4	246.3	1,010.7	498.7	5,155.6	2,667.1	3,020.8	3,726.9
Q1 2004	120.6	76.7	474.9	148.1	843.8	718.4	573.8	320.6
Q2 2004	189.2	105.7	528.7	220.4	1,905.0	1,014.7	440.7	290.2

Major direct investments came from Denmark (21%), Finland (19%), Austria (12%), and Russia (11%). Long-term investments of EU countries in Estonia increased by 2.5 billion kroons (71% of the inflow). Half of direct investment inflow came to real estate, renting and business activities, followed by manufacturing (23%), financial intermediation (21%), and wholesale and retail trade (17%; see Figures 13 and 14, and Table 26).

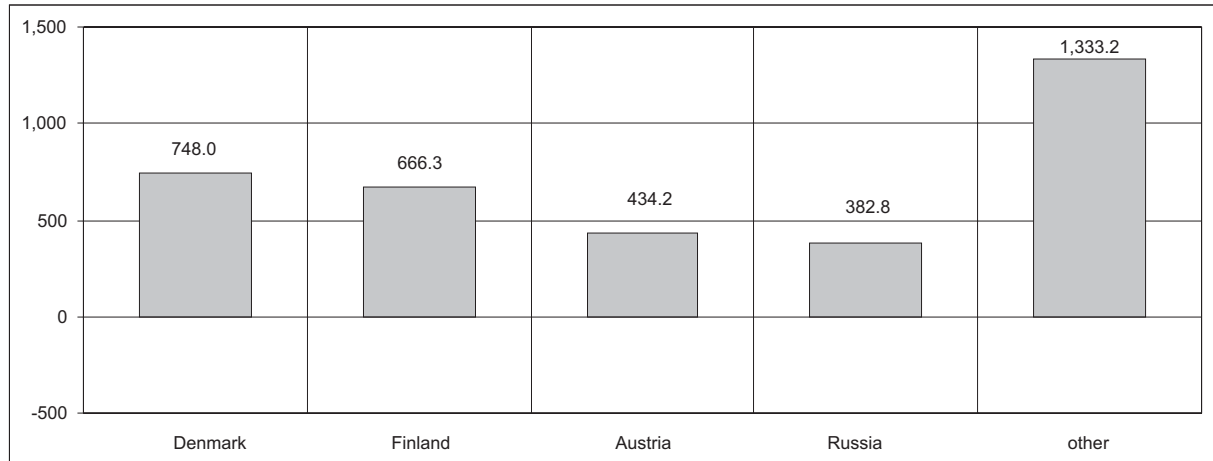


Figure 13. Direct investments into Estonia by countries in the second quarter of 2004 (EEK m)

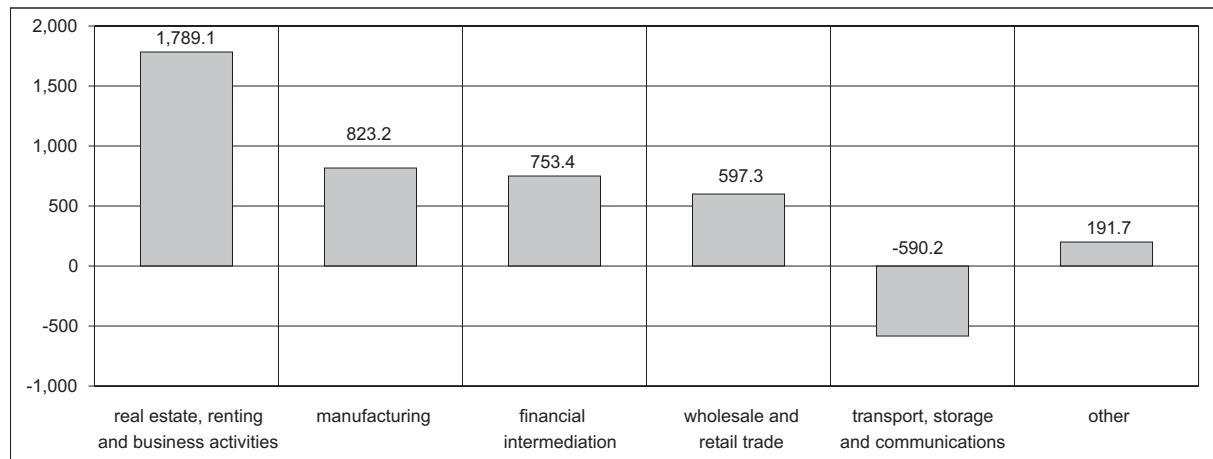


Figure 14. Direct investments into Estonia by fields of activity in the second quarter of 2004 (EEK m)

Table 26. Direct investments into Estonia by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	Q1 2004	Q2 2004	Q1 2004	Q2 2004	Q2 2004/ Q1 2004
EU-25*	2,466.1	2,529.1	92.9	71.0	2.6
EU-15	2,377.7	2,230.4	89.5	62.6	-6.2
CIS	-30.8	385.9	-1.2	10.8	-1,352.9
Other	220.5	649.5	8.3	18.2	194.6
Total	2,655.8	3,564.5	100.0	100.0	34.2

* Before 1 May 2004, 15 EU member states and 10 acceding countries have been observed.

Residents' direct investments abroad decreased by 17% quarter-on-quarter. Investments in the share capital of foreign subsidiaries and associated companies were record 1.5 billion kroons. As in case of foreign-owned companies residing in Estonia, dividends were distributed also in foreign subsidiaries and associated companies, and thus, reinvested earnings decreased significantly. Other capital was characterised by investment outflow. Repayments of long-term loans amounted to 0.6 billion kroons. At the same time, short-term loans reached over 0.4 billion kroons (see Tables 27 and 28).

Table 27. Structure of direct investments abroad

	Share 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 (%)		
Q1 2000	-250.6	67.6	26.9	-7.3	-159.0	42.9	11.9	-3.2	-370.8	100.0
Q2 2000	-577.6	87.4	-9.5	1.4	-98.6	14.9	24.7	-3.7	-661.0	100.0
Q3 2000	230.5	573.4	-61.5	-153.0	-169.0	-420.4	40.2	100.0	40.2	100.0
Q4 2000	18.0	-35.0	-21.8	42.3	-54.2	105.2	6.5	-12.6	-51.5	100.0
2000 total	-579.7	55.6	-65.9	6.3	-480.8	46.1	83.3	-8.0	-1,043.1	100.0
Q1 2001	-80.8	27.5	-5.1	1.7	-214.4	72.9	6.0	-2.0	-294.3	100.0
Q2 2001	-1,036.7	78.1	52.5	-4.0	-388.0	29.2	44.9	-3.4	-1,327.3	100.0
Q3 2001	-728.3	51.2	-166.4	11.7	-393.6	27.7	-134.5	9.5	-1,422.8	100.0
Q4 2001	-51.3	10.6	-186.2	38.5	-246.8	51.0	0.4	-0.1	-483.9	100.0
2001 total	-1,897.1	53.8	-305.2	8.7	-1,242.8	35.2	-83.2	2.4	-3,528.3	100.0
Q1 2002	-83.4	26.1	-82.7	25.9	-141.3	44.3	-11.9	3.7	-319.3	100.0
Q2 2002	-283.5	31.8	-50.6	5.7	-591.2	66.4	34.3	-3.8	-891.0	100.0
Q3 2002	-79.5	11.6	-384.8	56.1	-308.9	45.0	86.9	-12.7	-686.3	100.0
Q4 2002	-457.5	156.8	-147.4	50.5	314.2	-107.7	-1.1	0.4	-291.8	100.0
2002 total	-903.9	41.3	-665.5	30.4	-727.2	33.2	108.2	-4.9	-2,188.4	100.0
Q1 2003	-80.7	29.4	-72.0	26.2	-193.2	70.4	71.6	-26.1	-274.3	100.0
Q2 2003	110.5	-50.3	-134.2	61.1	-321.8	146.4	125.7	-57.2	-219.8	100.0
Q3 2003	-167.9	17.5	-528.1	55.0	-228.7	23.8	-35.0	3.6	-959.7	100.0
Q4 2003	-811.2	138.7	-7.1	1.2	97.9	-16.7	135.7	-23.2	-584.7	100.0
2003 total	-949.3	46.6	-741.4	36.4	-645.8	31.7	298.0	-14.6	-2,038.5	100.0
Q1 2004	-111.8	11.1	-59.9	6.0	-804.8	80.2	-27.7	2.8	-1,004.1	100.0
Q2 2004	-1,458.0	174.0	524.5	-62.6	113.5	-13.5	-18.1	2.2	-838.1	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
Q1 2003	244.9	62.1	54.7	107.5	1.3	1.2	8.4	5.8
Q2 2003	233.3	73.8	131.7	78.4	1.5	0	38.4	22.1
Q3 2003	220.0	102.1	103.3	229.1	0.5	4.6	0.2	49.1
Q4 2003	408.9	478.6	182.4	88.8	0.8	5.8	37.3	21.7
2003 total	1,107.1	716.6	472.1	503.8	4.1	11.6	84.3	98.7
Q1 2004	171.2	179.1	86.0	59.9	0.3	3.3	7.3	12.2
Q2 2004	210.8	575.3	444.7	37.8	7.8	25.2	15.8	17.5

Most of the outflow of direct investment went into Latvia (77%), followed by Finland (53%) and Lithuania (33%). Residents' claims to Cyprus decreased considerably (by 0.7 billion kroons). The majority of subsidiaries and associated companies are located in the enlarged EU, which received 83% of Estonian capital. Largest investments were traditionally made in financial intermediation, followed by hotels and restaurants, and industry (see Table 29, and Figures 15 and 16).

Table 29. Direct investments abroad by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	Q1 2004	Q2 2004	Q1 2004	Q2 2004	Q2 2004/ Q1 2004
EU-25*	-956.5	-699.3	95.3	83.4	-26.9
EU-15	132.2	-482.8	-13.2	57.6	-465.2
CIS	-38.0	-110.3	3.8	13.2	190.3
Other	-9.6	-28.5	1.0	3.4	196.9
Total	-1,004.1	-838.1	100.0	100.0	-16.5

* Before 1 May 2004, 15 EU member states and 10 acceding countries have been observed.

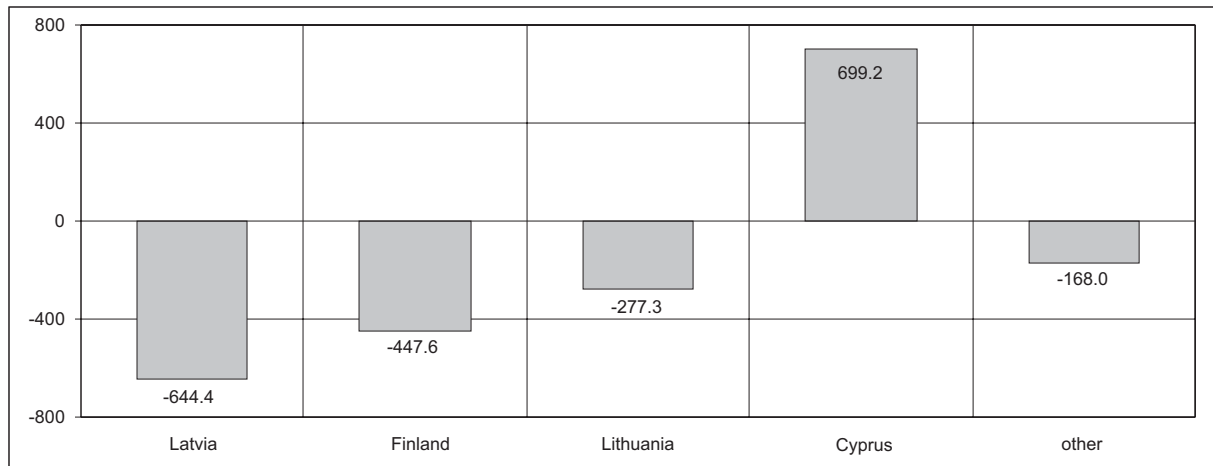


Figure 15. Direct investments abroad by countries in the second quarter of 2004 (EEK m)

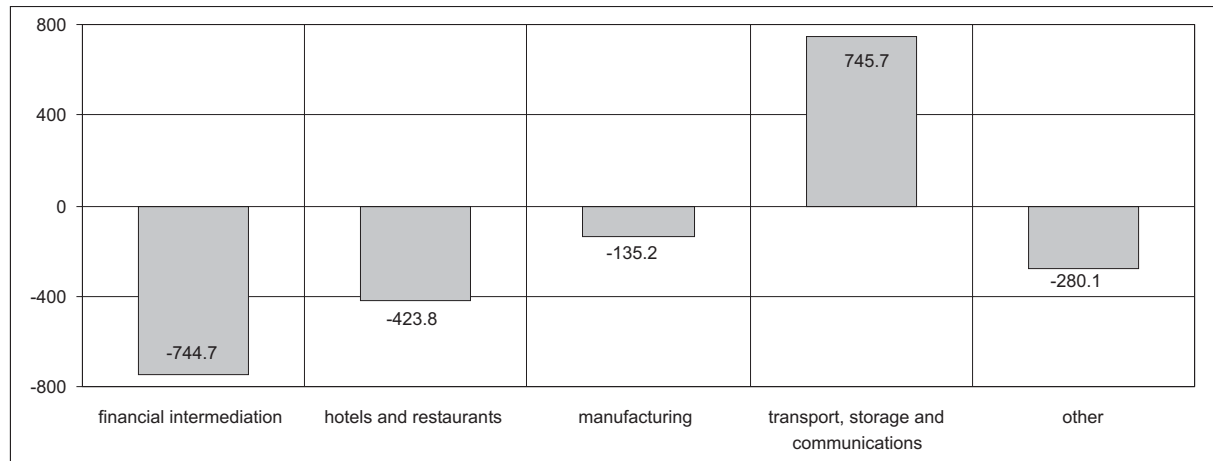


Figure 16. Direct investments abroad by fields of activity in the second quarter of 2004 (EEK m)

Portfolio Investments

The inflow of **portfolio investment** exceeded the outflow by nearly 5.6 billion kroons in the second quarter of 2004, arising mainly from growth of liabilities of short-term and long-term debt securities (see Table 30 and Figure 17).

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

	Claims			Liabilities			Balance		
	Q2 2003	Q1 2004	Q2 2004	Q2 2003	Q1 2004	Q2 2004	Q2 2003	Q1 2004	Q2 2004
Equity securities	-263.3	-441.7	-553.0	680.2	68.4	386.8	416.9	-373.3	-166.2
general government	-83.1	0.4	-45.6				-83.1	0.4	-45.6
credit institutions	-4.8	-14.6	-13.5	155.7	44.7	-1.6	150.9	30.1	-15.1
other sectors	-175.4	-427.5	-493.9	524.5	23.7	388.4	349.1	-403.8	-105.5
Debt securities	-1,811.4	-327.3	341.5	-3,075.6	-79.9	5,449.9	-4,887.0	-407.2	5,791.4
central bank									0.0
general government	-914.7	3.0	845.7	-59.7	0.3	419.4	-974.4	3.3	1,265.1
credit institutions	-63.3	-134.0	-78.3	-2,720.5	43.2	5,047.3	-2,783.8	-90.8	4,969.0
other sectors	-833.4	-196.3	-425.9	-295.4	-123.4	-16.8	-1,128.8	-319.7	-442.7
Total	-2,074.7	-769.0	-211.5	-2,395.4	-11.5	5,836.7	-4,470.1	-780.5	5,625.2

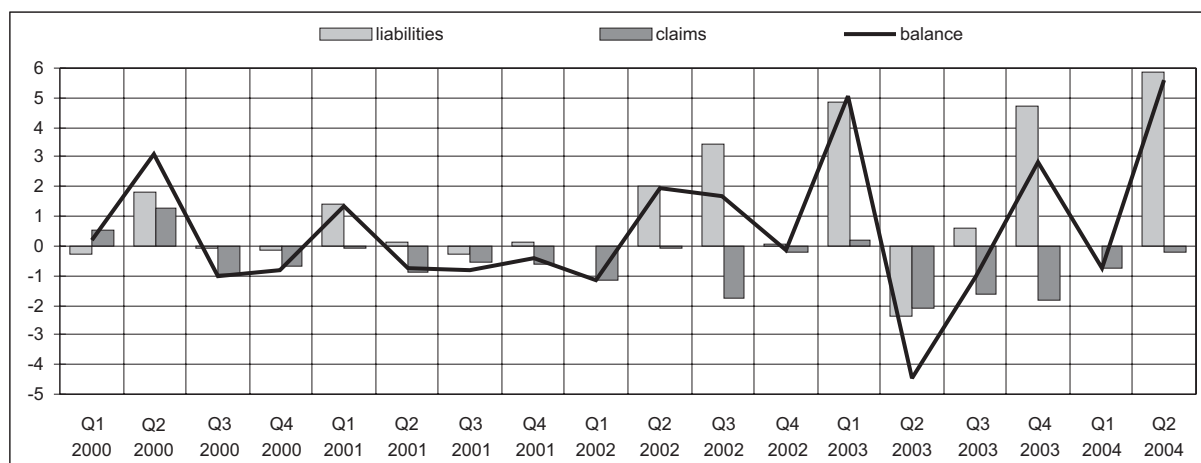


Figure 17. Portfolio investments (EEK bn)

Portfolio investment liabilities increased by 5.8 billion kroons in the second quarter of 2004 (see Table 31). Credit institutions issued 4.1 billion kroons of money market instruments and 0.9 billion kroons of bonds, while 0.4 billion kroons of government bonds issued also contributed to the growth of liabilities. Non-residents' investments into equity securities were mainly limited to companies of other sectors, amounting to approximately 0.4 billion kroons in the second quarter. The largest portfolio investors were the EU countries, particularly Germany, the United Kingdom, and Luxembourg (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 (%)
Q1 2000	89.4	-29.2	-395.3	129.2	-305.9	100.0
Q2 2000	134.5	7.5	1,656.9	92.5	1,791.4	100.0
Q3 2000	91.8	-223.9	-132.8	323.9	-41.0	100.0
Q4 2000	-854.5	525.5	691.9	-425.5	-162.6	100.0
2000 total	-538.8	-42.0	1,820.7	142.0	1,281.9	100.0
Q1 2001	-1.9	-0.1	1,387.7	100.1	1,385.8	100.0
Q2 2001	502.6	314.5	-342.8	-214.5	159.8	100.0
Q3 2001	-143.7	57.9	-104.5	42.1	-248.2	100.0
Q4 2001	211.4	205.0	-108.3	-105.0	103.1	100.0
2001 total	568.4	40.6	832.1	59.4	1,400.5	100.0
Q1 2002	299.2	1,341.7	-276.9	-1,241.7	22.3	100.0
Q2 2002	517.0	25.4	1,517.7	74.6	2,034.7	100.0
Q3 2002	-103.6	-3.0	3,530.1	103.0	3,426.5	100.0
Q4 2002	199.6	255.6	-121.5	-155.6	78.1	100.0
2002 total	912.2	16.4	4,649.4	83.6	5,561.6	100.0
Q1 2003	109.6	2.3	4,731.2	97.7	4,840.8	100.0
Q2 2003	680.2	-28.4	-3,075.6	128.4	-2,395.4	100.0
Q3 2003	544.8	91.9	48.3	8.1	593.1	100.0
Q4 2003	151.9	3.2	4,552.5	96.8	4,704.4	100.0
2003 total	1,486.5	19.2	6,256.4	80.8	7,742.9	100.0
Q1 2004	68.4	-589.7	-80.0	689.7	-11.6	100.0
Q2 2004	386.8	6.6	5,449.9	93.4	5,836.7	100.0

Portfolio investment claims increased by 0.2 billion kroons in the second quarter, claims of equity securities growing by 0.5 billion kroons and those of debt securities reducing by 0.3 billion kroons (see Table 33). By countries, most investments went into the USA, Belgium, and the United Kingdom (see Figure 19).

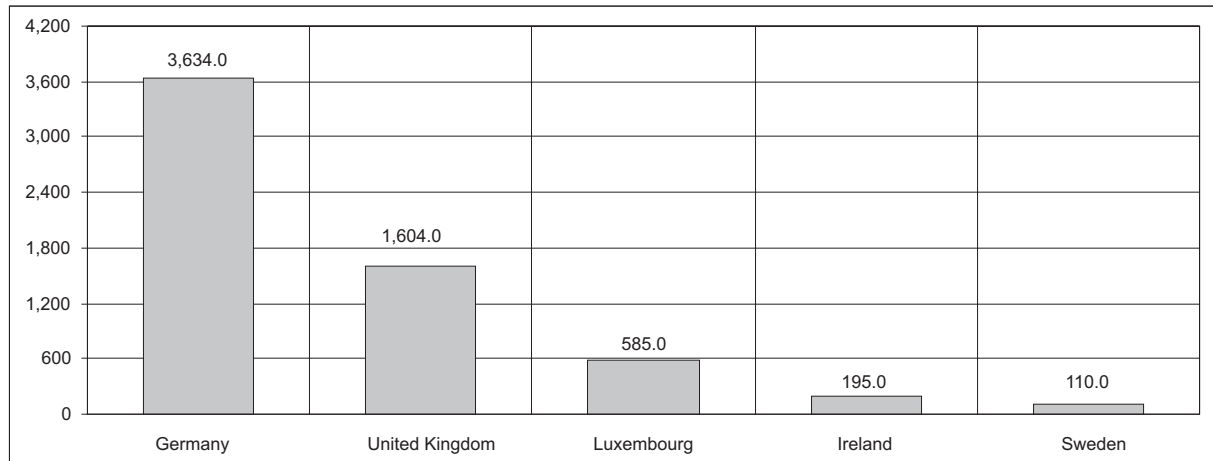


Figure 18. Portfolio investment liabilities by countries in the second quarter of 2004 (EEK m)

Table 32. Structure of portfolio investments by groups of countries in the second quarter of 2004

	Volume (EEK m)		Share (%)	
	Claims	Liabilities	Claims	Liabilities
EU-25*	699.5	5,886.0	-330.7	100.8
EU-15	727.0	5,882.7	-343.7	100.8
CIS	-75.5	12.6	35.7	0.2
Other	-835.5	-61.9	395.0	-1.1
Total	-211.5	5,836.7	100.0	100.0

* Before 1 May 2004, 15 EU member states and 10 acceding countries have been observed.

Table 33. Structure of portfolio investment claims

	Equity securities		Debt securities		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
Q1 2000	104.5	20.2	411.8	79.8	516.3	100.0
Q2 2000	-4.7	-0.4	1,283.0	100.4	1,278.3	100.0
Q3 2000	-115.4	11.9	-853.0	88.1	-968.4	100.0
Q4 2000	68.9	-10.2	-742.0	110.2	-673.1	100.0
2000 total	53.3	34.8	99.8	65.2	153.1	100.0
Q1 2001	431.4	-691.3	-493.8	791.3	-62.4	100.0
Q2 2001	-5.9	0.6	-902.2	99.4	-908.1	100.0
Q3 2001	-30.9	5.7	-511.8	94.3	-542.7	100.0
Q4 2001	-158.1	26.9	-428.9	73.1	-587.0	100.0
2001 total	236.5	-11.3	-2,336.7	111.3	-2,100.2	100.0
Q1 2002	-5.4	0.5	-1,155.4	99.5	-1,160.8	100.0
Q2 2002	74.5	-84.6	-162.6	184.6	-88.1	100.0
Q3 2002	-52.4	3.0	-1,678.8	97.0	-1,731.2	100.0
Q4 2002	-7.6	3.7	-195.2	96.3	-202.8	100.0
2002 total	9.1	-0.3	-3,192.0	100.3	-3,182.9	100.0
Q1 2003	-124.5	-65.6	314.2	165.6	189.7	100.0
Q2 2003	-263.4	12.7	-1,811.4	87.3	-2,074.8	100.0
Q3 2003	-199.0	12.3	-1,424.9	87.7	-1,623.9	100.0
Q4 2003	-442.0	24.0	-1,400.6	76.0	-1,842.6	100.0
2003 total	-1,028.9	19.2	-4,322.7	80.8	-5,351.6	100.0
Q1 2004	-441.7	57.4	-327.3	42.6	-769.0	100.0
Q2 2004	-553.1	261.5	341.6	-161.5	-211.5	100.0

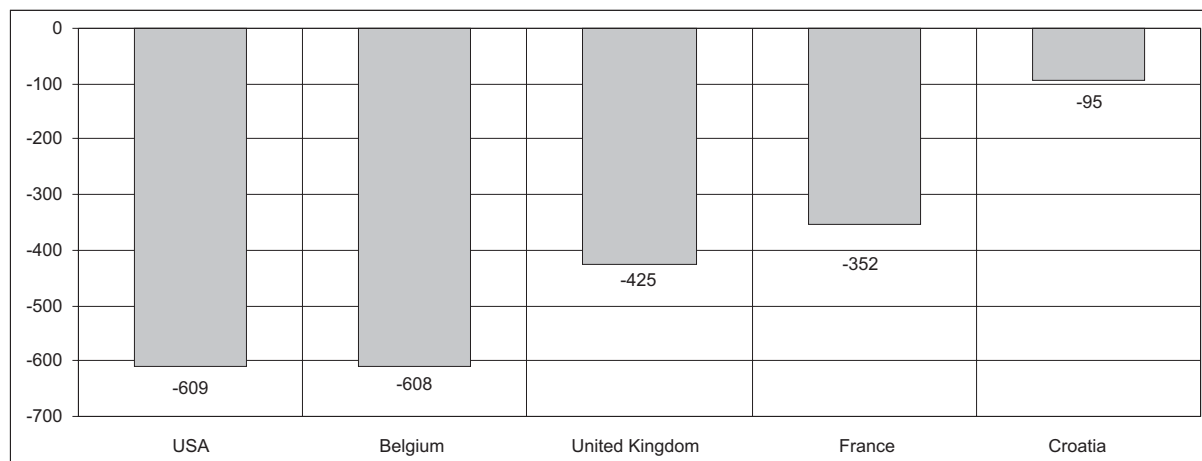


Figure 19. Portfolio investment claims by countries in the second quarter of 2004 (EEK m)

Other Investments

The net outflow of **other investment** was 1.1 billion kroons in the second quarter of 2004, liabilities increasing by 3.9 and claims by 5 billion kroons (see Figure 20 and Table 34).

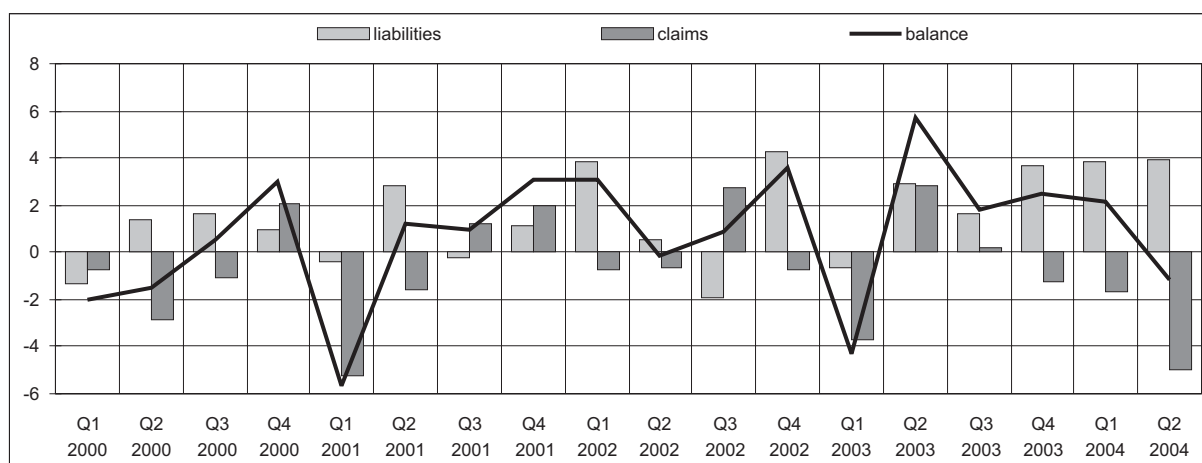


Figure 20. Other investments (EEK bn)

Table 34. Other investments by maturity (EEK m)

	Claims			Liabilities			Balance		
	Q2 2003	Q1 2004	Q2 2004	Q2 2003	Q1 2004	Q2 2004	Q2 2003	Q1 2004	Q2 2004
Long-term capital	-154.7	-1,152.0	-1,853.9	485.0	690.9	282.1	330.3	-461.1	-1,571.8
central bank	0.3	-0.3	-10.8				0.3	-0.3	-10.8
general government				300.0	-34.1	-63.6	300.0	-34.1	-63.6
credit institutions	93.0	-840.2	-1,736.2	1,037.2	152.7	283.1	1,130.2	-687.5	-1,453.1
other sectors	-248.0	-311.5	-106.9	-852.2	572.3	62.6	-1,100.2	260.8	-44.3
Short-term capital	2,964.4	-524.4	-3,155.9	2,393.3	3,137.8	3,604.1	5,357.7	2,613.4	448.2
central bank				95.2	-68.9	-355.0	95.2	-68.9	-355.0
general government	502.7	-15.8	-514.4				502.7	-15.8	-514.4
credit institutions	3,777.8	-253.2	-2,350.6	477.1	3,041.1	2,837.8	4,254.9	2,787.9	487.2
other sectors	-1,316.1	-255.4	-290.9	1,821.0	165.6	1,121.3	504.9	-89.8	830.4
Total	2,809.7	-1,676.4	-5,009.8	2,878.3	3,828.7	3,886.2	5,688.0	2,152.3	-1,123.6

The 3.9 billion kroons growth of **other investment liabilities** was mainly brought about by increasing trade credit (1.1 billion kroons) and non-residents' deposits (3.4 billion kroons) in Estonian credit institutions (see Table 35). However, residents' liabilities to non-residents decreased by 0.5 billion kroons in the second quarter. Other investment liabilities to the EU countries (Finland, Sweden, and Cyprus) were the largest (see Figure 21 and Table 36).

Other investment claims increased by all sub-items by altogether 5 billion kroons (see Table 37). Loans and other claims increased by 2.4 and 1.4 billion kroons, respectively. Claims of trade credit and deposits increased as well by 0.6 and 0.5 billion kroons, respectively. By countries, claims to the USA, Latvia, and the United Kingdom grew most (see Figure 22). Changes in loan capital claims and liabilities can be seen in Table 38.

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 (%)
Q1 2000	-21.0	1.6	-1,550.5	119.7	395.6	-30.5	-119.2	9.2	-1,295.1	100.0
Q2 2000	465.9	33.8	229.2	16.6	599.1	43.5	83.2	6.0	1,377.4	100.0
Q3 2000	191.6	12.0	182.8	11.4	1,180.5	73.9	43.0	2.7	1,597.9	100.0
Q4 2000	444.4	48.5	353.2	38.5	-219.8	-24.0	338.6	36.9	916.4	100.0
2000 total	1,080.9	41.6	-785.3	-30.2	1,955.4	75.3	345.6	13.3	2,596.6	100.0
Q1 2001	-480.2	-1,655.6	536.0	-134.3	-315.9	79.2	-139.0	34.8	-399.1	100.0
Q2 2001	789.9	-614.2	367.1	13.1	1,098.6	39.2	544.5	19.4	2,800.1	100.0
Q3 2001	-217.4	-69.4	750.0	-320.9	-752.1	321.8	-14.2	6.1	-233.7	100.0
Q4 2001	10.6	26.4	917.3	81.8	50.8	4.5	142.2	12.7	1,120.9	100.0
2001 total	102.9	3.1	2,570.4	78.2	81.4	2.5	533.5	16.2	3,288.2	100.0
Q1 2002	160.2	4.2	2,313.4	60.6	1,340.0	35.1	3.0	0.1	3,816.6	100.0
Q2 2002	877.2	155.9	-1,821.3	-323.6	775.3	137.8	731.6	130.0	562.8	100.0
Q3 2002	1,049.1	-54.9	-1,911.0	100.0	-760.9	39.8	-287.7	15.1	-1,910.5	100.0
Q4 2002	-1,305.4	-30.6	3,382.2	79.3	2,409.1	56.5	-221.5	-5.2	4,264.4	100.0
2002 total	781.1	11.6	1,963.3	29.2	3,763.5	55.9	225.4	3.3	6,733.3	100.0
Q1 2003	44.5	-7.1	191.0	-30.3	-305.6	48.4	-560.8	88.9	-630.9	100.0
Q2 2003	502.9	17.5	1,172.7	40.7	1,139.1	39.6	63.6	2.2	2,878.3	100.0
Q3 2003	-278.9	-17.5	1,062.3	66.5	1,300.6	81.4	-485.9	-30.4	1,598.1	100.0
Q4 2003	492.4	13.4	709.3	19.3	2,453.8	66.7	22.7	0.6	3,678.2	100.0
2003 total	760.9	10.1	3,135.3	41.7	4,587.9	61.0	-960.4	-12.8	7,523.7	100.0
Q1 2004	255.3	6.7	1,623.1	42.4	1,833.4	47.9	116.9	3.1	3,828.7	100.0
Q2 2004	1,066.4	27.4	-551.1	-14.2	3,418.3	88.0	-47.4	-1.2	3,886.2	100.0

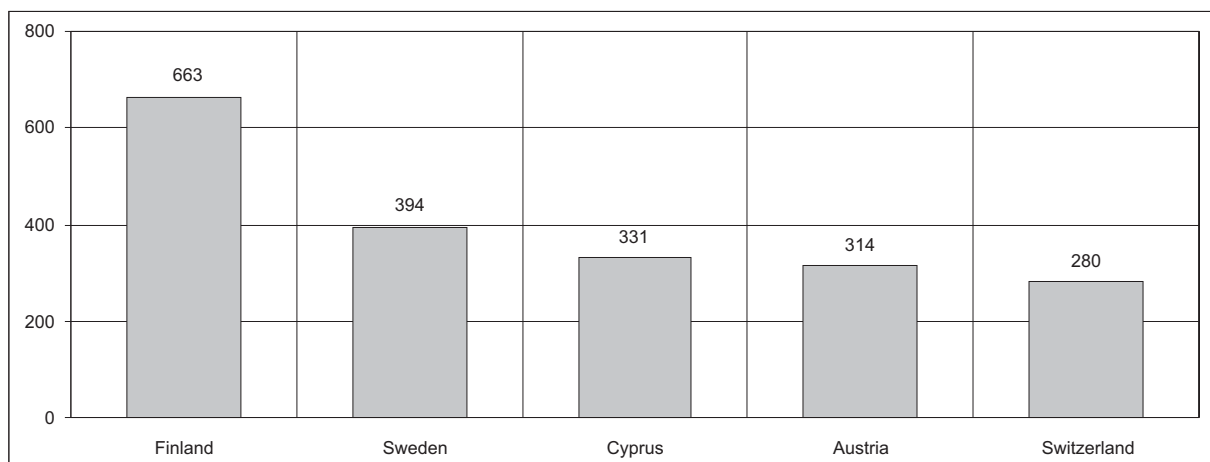


Figure 21. Other investment liabilities by countries in the second quarter of 2004 (EEK m)

Table 36. Structure of other investments by groups of countries in the second quarter of 2004

	Volume (EEK m)		Share (%)	
	Claims	Liabilities	Claims	Liabilities
EU-25*	-1,597.2	2,036.8	31.9	52.4
EU-15	-377.1	1,524.6	7.5	39.2
CIS	-306.9	153.1	6.1	3.9
Other	-3,105.7	1,696.3	62.0	43.6
Total	-5,009.8	3,886.2	100.0	100.0

* Before 1 May 2004, 15 EU member states and 10 acceding countries have been observed.

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 (%)
Q1 2000	-117.5	15.5	-403.8	53.4	-543.4	71.9	308.9	-40.9	-755.8	100.0
Q2 2000	-4.7	0.2	-795.3	27.8	-1,926.8	67.4	-130.0	4.6	-2,856.8	100.0
Q3 2000	-189.2	17.8	-1,281.2	120.2	255.9	-24.0	149.0	-14.0	-1,065.5	100.0
Q4 2000	233.4	11.4	-333.7	-16.4	2,111.3	103.5	28.8	1.4	2,039.8	100.0
2000 total	-78.0	3.0	-2,814.0	106.7	-103.0	3.9	356.7	-13.5	-2,638.3	100.0
Q1 2001	-301.4	-1,655.6	-1,655.6	31.4	-3,156.4	59.9	-157.9	3.0	-5,271.3	100.0
Q2 2001	-777.1	-614.2	-580.3	36.3	-128.0	8.0	-114.8	7.2	-1,600.2	100.0
Q3 2001	342.2	-69.4	-69.4	-5.8	802.0	66.9	123.8	10.3	1,198.6	100.0
Q4 2001	151.5	26.4	26.4	1.3	1,744.4	89.2	33.9	1.7	1,956.2	100.0
2001 total	-584.8	15.7	-2,278.9	61.3	-738.0	19.9	-115.0	3.1	-3,716.7	100.0
Q1 2002	-22.8	3.2	-1,081.9	153.4	392.2	-55.6	7.2	-1.0	-705.3	100.0
Q2 2002	-208.2	31.0	1,540.6	-229.1	-1,413.1	210.1	-591.8	88.0	-672.5	100.0
Q3 2002	-464.6	-16.7	-329.0	-11.8	3,121.2	112.3	452.1	16.3	2,779.7	100.0
Q4 2002	1,743.2	-246.6	-1,454.2	205.7	-1,357.7	192.1	361.9	-51.2	-706.8	100.0
2002 total	1,047.6	150.7	-1,324.5	-190.5	742.6	106.8	229.4	33.0	695.1	100.0
Q1 2003	-691.6	18.7	-6,337.1	171.4	3,367.7	-91.1	-35.8	1.0	-3,696.8	100.0
Q2 2003	-796.2	-28.3	2,349.2	83.6	1,353.3	48.2	-96.5	-3.4	2,809.8	100.0
Q3 2003	170.0	75.5	1,962.6	871.5	-607.5	-269.8	-1,299.9	-577.2	225.2	100.0
Q4 2003	667.8	-54.1	-1,495.0	121.0	-1,899.0	153.7	1,491.0	-120.7	-1,235.2	100.0
2003 total	-650.0	34.3	-3,520.3	185.6	2,214.5	-116.7	58.8	-3.1	-1,897.0	100.0
Q1 2004	-117.2	7.0	-1,007.3	60.1	-334.9	20.0	-216.9	12.9	-1,676.3	100.0
Q2 2004	-633.0	12.6	-2,443.2	48.8	-549.7	11.0	-1,383.9	27.6	-5,009.8	100.0

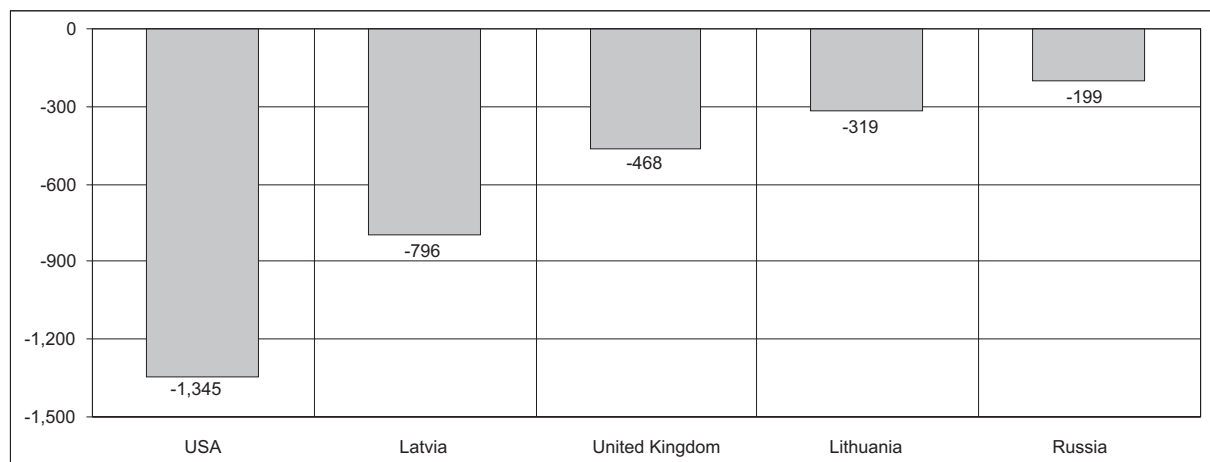

Figure 22. Other investment claims by countries in the second quarter of 2004 (EEK m)

Table 38. Claims and liabilities of loan capital (EEK m)

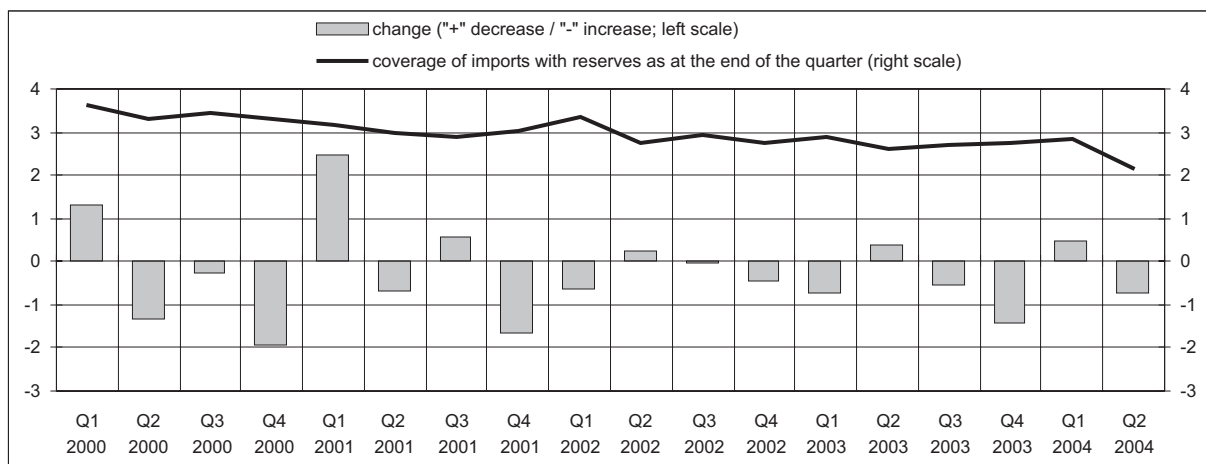
	Claims			Liabilities		
	Granting	Repayments	Balance	Drawings	Repayments	Balance
Q1 2003	-11,076.1	4,739.0	-6,337.1	8,547.3	-8,356.3	191.0
Q2 2003	-8,846.0	11,195.2	2,349.2	6,448.5	-5,275.8	1,172.7
Q3 2003	-9,902.7	11,865.4	1,962.7	5,629.6	-4,567.3	1,062.3
Q4 2003	-5,094.3	3,599.2	-1,495.1	9,297.4	-8,588.1	709.3
2003 total	-34,919.1	31,398.8	-3,520.3	29,922.8	-26,787.5	3,135.3
Q1 2004	-6,699.8	5,692.5	-1,007.3	9,080.7	-7,457.6	1,623.1
Q2 2004	-8,213.7	5,770.5	-2,443.2	9,609.7	-10,160.8	-551.1

Reserves

Balance of payments reserves increased by 0.7 billion kroons in the second quarter of 2004 (see Table 39). The coverage of imports with reserves is shown in Figure 23.

Table 39. Structure of changes in reserves

	Volume (EEK m)			Share (%)		
	Q2 2003	Q1 2004	Q2 2004	Q2 2003	Q1 2004	Q2 2004
Gold	0.0	0.0	0.0	0.0	0.0	0.0
Cash and deposits	9,128.5	1,541.0	1,171.9	2,404.8	329.0	-161.6
Securities	-8,744.0	-1,054.3	-1,894.5	-2,303.5	-225.1	261.3
equity securities				0.0	0.0	0.0
bonds	-35.4	-273.8	234.2	-9.3	-58.5	-32.3
money market instruments	-8,708.6	-780.6	-2,128.7	-2,294.2	-166.7	293.6
Other claims	-4.9	-18.2	-2.5	-1.3	-3.9	0.3
Total	379.6	468.4	-725.1	100.0	100.0	100.0

**Figure 23. Change of 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 30 June 2004

By the end of the second quarter of 2004, foreign investments into Estonia totalled 189.7 billion kroons (see Table 40). Nearly half of it was made into financial intermediation and considerably less into transport, storage, and communications, manufacturing, and wholesale and retail trade (see Table 41). Most of the investments came from Sweden, Finland, and the United Kingdom.

Quarter-on-quarter, the share of portfolio investments in the structure of investments into Estonia increased, and the share of direct and other investments decreased slightly. Direct investments accounted for approximately half of it, i.e. 92.3 billion kroons, other investments constituting nearly

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

	31/03/2004	%	30/06/2004	%
EXTERNAL ASSETS				
Direct investments	13,855.8	17.7	14,670.4	17.3
Share capital and reinvested earnings	9,129.2	11.7	10,047.2	11.8
Other capital	4,726.6	6.0	4,623.2	5.4
Portfolio investments	19,447.3	24.9	19,588.7	23.0
Equity securities	2,523.3	3.2	3,054.1	3.6
Debt securities	16,924.0	21.6	16,534.6	19.5
Long-term	10,416.4	13.3	9,653.8	11.4
Short-term	6,507.6	8.3	6,880.8	8.1
Financial derivatives	277.0	0.4	282.6	0.3
Other investments	27,923.0	35.7	33,071.1	38.9
Trade credit	5,851.2	7.5	6,592.9	7.8
Loans	15,127.8	19.3	17,535.0	20.6
Long-term	6,670.9	8.5	8,506.0	10.0
Short-term	8,456.9	10.8	9,029.0	10.6
Deposits	6,167.8	7.9	6,783.0	8.0
Other assets	776.2	1.0	2,160.2	2.5
Reserves	16,701.6	21.4	17,394.0	20.5
TOTAL EXTERNAL ASSETS	78,204.7	100.0	85,006.8	100.0
EXTERNAL LIABILITIES				
Direct investments	87,460.0	50.2	92,326.7	48.7
Share capital and reinvested earnings	72,308.7	41.5	75,915.1	40.0
Other capital	15,151.3	8.7	16,411.6	8.7
Portfolio investments	32,171.3	18.5	38,908.9	20.5
Equity securities	14,580.9	8.4	15,868.5	8.4
Debt securities	17,590.4	10.1	23,040.4	12.1
Long-term	13,202.0	7.6	14,528.7	7.7
Short-term	4,388.4	2.5	8,511.7	4.5
Financial derivatives	220.0	0.1	183.3	0.1
Other investments	54,455.7	31.2	58,281.7	30.7
Trade credit	8,548.7	4.9	9,587.2	5.1
Loans	26,216.6	15.0	25,623.1	13.5
Long-term	22,298.0	12.8	22,587.8	11.9
Short-term	3,918.6	2.2	3,035.3	1.6
Deposits	18,280.7	10.5	21,698.9	11.4
Other liabilities	1,409.7	0.8	1,372.5	0.7
TOTAL EXTERNAL LIABILITIES	174,307.0	100.0	189,700.6	100.0
NET INTERNATIONAL INVESTMENT POSITION	-96,102.3		-104,693.8	
Short-term	-17,300.3		-22,633.1	
Long-term	-78,802.0		-82,060.7	

a third and portfolio investments a fifth. The most preferred fields for **foreign direct investments into Estonia** were financial intermediation (30% of all direct investments), manufacturing (17%), transport, storage, and communications (16.5%), and wholesale and retail trade (15%; see Table 42). 68% of direct investments came from Sweden and Finland.

Estonian investments abroad totalled 85 billion kroons. Two thirds of the investments abroad were made by financial intermediaries. Investments abroad were also made by the public sector, transport, storage and communications, and manufacturing. Most of the Estonian investments went to Germany, Lithuania, and Latvia.

Quarter-on-quarter, the share of direct and portfolio investments decreased slightly in the structure of investments abroad, while the share of other investments increased. Loans, deposits, and the central bank's gold and foreign exchange reserves covered 59% of foreign claims. **Direct investments** accounted for 17% of all investments abroad. The most active direct investors were in financial intermediation (40%), transport, storage, and communications (21%), and real estate, renting, and business activities (17%). 85% of all direct investments 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 30 June 2004

Claims		Liabilities	
Fields of activity			
Financial intermediation	68.0	Financial intermediation	48.6
Public administration and defence	12.2	Transport, storage and communications	11.5
Transport, storage and communications	6.1	Manufacturing	10.7
Manufacturing	5.4	Wholesale and retail trade	10.5
Wholesale and retail trade	5.0	Real estate, renting and business activities	7.9
Other	3.3	Other	10.8
Total	100.0	Total	100.0
Countries			
Germany	12.9	Sweden	27.7
Lithuania	15.0	Finland	20.9
Latvia	11.9	United Kingdom	13.7
USA	7.5	Germany	6.6
Netherlands	7.0	USA	5.8
Other	45.7	Other	25.3
Total	100.0	Total	100

Table 42. Direct investment position by fields of activity and countries (%) as at 30 June 2004

In Estonia		Abroad	
Fields of activity			
Financial intermediation	30.3	Financial intermediation	40.0
Manufacturing	16.8	Transport, storage and communications	20.7
Transport, storage and communications	16.5	Real estate, renting and business activities	16.7
Wholesale and retail trade	14.9	Wholesale and retail trade	8.1
Real estate, renting and business activities	12.7	Manufacturing	7.7
Other	8.5	Other	4.0
Total	100.0	Total	100.0
Countries			
Sweden	42.0	Lithuania	41.5
Finland	25.6	Latvia	31.6
USA	4.7	Cyprus	11.7
Denmark	3.2	Finland	4.4
Netherlands	3.2	Ukraine	3.2
Other	20.0	Other	5.7
Total	100	Total	100

Due to the large share of external liabilities, Estonia's net investment position was negative by 104.7 billion kroons at the end of the second quarter of 2004, amounting to 79% of expected GDP. 78% of the net investment position was made up of long-term capital, the share of which has somewhat decreased over the past quarter.

On 30 June 2004, Estonia's gross external debt amounted to 104.9 billion kroons (80% of expected GDP) and the net external debt (debt-related external claims minus liabilities) stood at 26.2 billion kroons (20% of expected GDP; see Table 43 and Figure 24). Gross debt amounted to 55% of external liabilities. Leaving aside intra-group debts of direct investment companies, long-term debts accounted for 53% of the gross debt. Debt claims mostly consisted of short-term capital.

Table 43. External debt (EEK m)

	31/03/2004	%	30/06/2004	%
DEBT LIABILITIES				
I. General government	3,684.4	3.9	4,040.2	3.9
Short-term				
Long-term	3,684.4	3.9	4,040.2	3.9
II. Central bank	366.1	0.4	27.1	0.0
Short-term	366.1	0.4	27.1	0.0
Long-term				
III. Credit institutions	40,312.4	43.0	48,480.4	46.2
Short-term	20,701.3	22.1	25,723.0	24.5
Long-term	19,611.1	20.9	22,757.4	21.7
IV. Other sectors	27,683.2	29.6	28,774.4	27.4
Short-term	11,192.7	11.9	12,202.2	11.6
Long-term	16,490.5	17.6	16,572.2	15.8
V. Direct investments: intra-group debts	21,636.4	23.1	23,593.5	22.5
GROSS EXTERNAL DEBT	93,682.5	100.0	104,915.6	100.0
CLAIMS				
I. General government	10,680.0	14.7	10,304.2	13.1
Short-term	5,886.8	8.1	6,593.4	8.4
Long-term	4,793.2	6.6	3,710.8	4.7
II. Central bank	16,665.5	22.9	17,372.4	22.1
Short-term	13,442.3	18.5	14,418.4	18.3
Long-term	3,223.2	4.4	2,954.0	3.8
III. Credit institutions	15,446.7	21.2	19,612.0	24.9
Short-term	11,781.0	16.2	14,202.3	18.0
Long-term	3,665.7	5.0	5,409.7	6.9
IV. Other sectors	18,708.7	25.7	19,667.1	25.0
Short-term	10,024.1	13.8	10,583.7	13.4
Long-term	8,684.6	11.9	9,083.4	11.5
V. Direct investments: intra-group debts	11,211.7	15.4	11,805.1	15.0
CLAIMS TOTAL	72,712.6	100.0	78,760.8	100.0
NET EXTERNAL DEBT (debt claims minus debt liabilities)				
I. General government	6,995.6		6,264.0	
Short-term	5,886.8		6,593.4	
Long-term	1,108.8		-329.4	
II. Central bank	16,299.4		17,345.3	
Short-term	13,076.2		14,391.3	
Long-term	3,223.2		2,954.0	
III. Credit institutions	-24,865.7		-28,868.4	
Short-term	-8,920.3		-11,520.7	
Long-term	-15,945.4		-17,347.7	
IV. Other sectors	-8,974.5		-9,107.3	
Short-term	-1,168.6		-1,618.5	
Long-term	-7,805.9		-7,488.8	
V. Direct investments: intra-group debts	-10,424.7		-11,788.4	
NET EXTERNAL DEBT TOTAL	-20,969.9		-26,154.8	

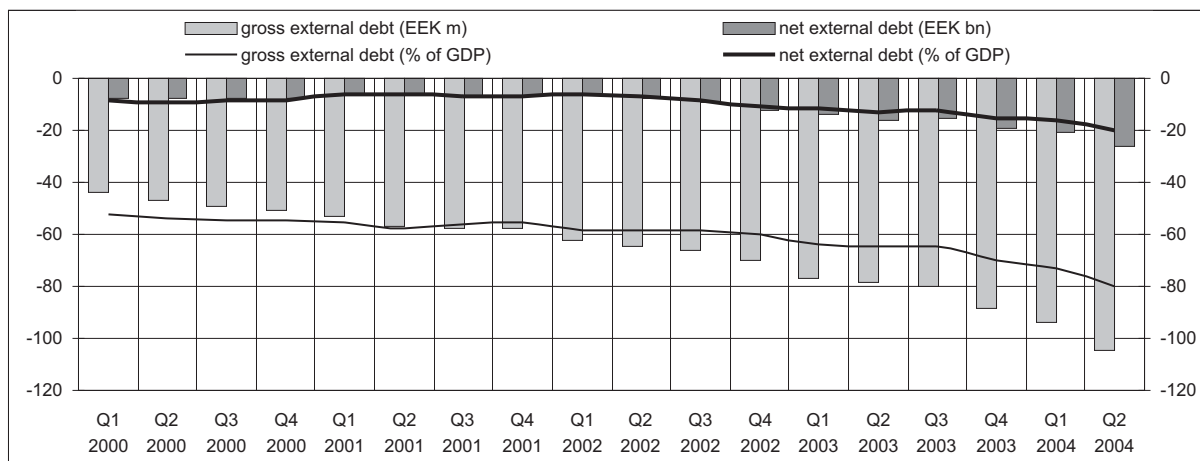


Figure 24. Estonia's gross and net external debt (EEK bn; left scale) and % of GDP (right scale)