
SHORT OVERVIEW

- **Rapid economic growth in Estonia and a slight recovery of global economy in 2005 led to improved external balance of Estonia – the current account deficit of the balance of payments formed 10.5% of the gross domestic product (see Table 1 and Figure 1)¹, compared to the 12.7% deficit in 2004. In absolute value, the deficit amounted to 17.3 billion kroons, which is 4% less than in 2004.**
- **The deficit of the goods and services accounts amounted to 6.4% of the gross domestic product (7.8% in 2004).**
- **External balance was affected by the fast growth of goods exports as well as by the large imports of capital goods arising from high investment activity.**
- **The first half of 2005 witnessed extraordinary capital movements between accounts on the financial account, which were mainly related to the buying up of the shares of Hansapank. The changes reflected in a decrease in portfolio investment and an increase in direct investment.**
- **Foreign capital inflow occurred mainly in the form of other investment capital.**
- **The balance of payments reserves increased nearly 5 billion kroons.**

The largest component of the current account deficit, the **goods account** deficit, decreased by 1.7 billion kroons year-on-year, amounting to 23 billion kroons, which formed 14% of the GDP of 2005. The exports of goods increased 31%, i.e. by 24 billion kroons year-on-year, reaching 99 billion kroons. Compared to 2004, the growth of goods imports was outpaced by that of exports and amounted to 22%, i.e. 22 billion kroons. Thus, the debit turnover of the goods account stood at 122 billion kroons. Compared to the data of 2004, the robust increase in the goods turnover can be attributed to the EU accession as well as to changes in the reporting system used in the first months of 2004 (transition to Intrastat reporting in declaring intra-Community trade)².

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

Estonia's main trading partner was the European Union, whose share amounted to 78% in the exports and to 76% in the imports of goods. The partners with the largest goods turnover were Finland, Sweden, Germany, Latvia, and Lithuania from the EU, and Russia, Belarus and Ukraine from the CIS countries. As regards other countries, the United States and Norway had the largest goods turnover in terms of exports, and China and Japan in terms of imports.

¹ The current account deficit without reinvested earnings, which include no actual movement of funds, constituted 6.2% of GDP.

² 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 organised by the Statistical Office (see www.stat.ee/125965). While Extrastat still enables 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 the 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. The credit and debit of the balance of payments goods account include, in addition to official foreign trade statistics, also various amendments and assessments deriving from the methodology, which are related to the possible undercoverage of the Intrastat data.

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

	1999	2000	2001	2002	2003	2004	2005
Current account	-3607.7	-5,093.4	-5,889.5	-11,882.9	-15,401.9	-17,963.0	-17,285.8
Goods and services	-3,755.4	-3,569.0	-3,623.7	-8,318.2	-9,700.5	-11,064.7	-10,504.9
Goods	-12,096.9	-13,143.6	-13,783.9	-17,995.6	-21,483.1	-24,803.2	-23,057.7
credit (f.o.b.)	36,995.2	56,345.9	58,667.1	58,333.6	63,599.8	75,061.0	98,718.3
debit (f.o.b.)	-49,092.1	-69,489.5	-72,451.0	-76,329.2	-85,082.8	-99,864.2	-121,775.9
Services	8,341.5	9,574.6	10,160.2	9,677.4	11,782.6	13,738.5	12,552.7
credit	21,951.9	25,485.8	28,866.5	28,279.7	30,819.9	35,591.3	39,697.2
debit	-13,610.4	-15,911.2	-18,706.3	-18,602.3	-19,037.3	-21,852.8	-27,144.5
Income	-1,505.8	-3,483.4	-4,926.1	-5,423.1	-7,411.2	-8,979.6	-8,186.3
credit	1,964.3	2,008.0	2,994.7	3,339.3	3,422.1	5,453.6	8,168.2
debit	-3,470.1	-5,491.4	-7,920.8	-8,762.4	-10,833.3	-14,433.2	-16,354.5
Transfers	1,653.5	1,959.0	2,660.3	1,858.4	1,709.7	2,081.2	1,405.5
credit	2,257.5	2,454.8	3,174.1	2,876.3	3,221.4	5,734.7	6,170.8
debit	-604.0	-495.8	-513.8	-1,017.9	-1,511.7	-3,653.4	-4,765.4
Capital and financial account (reserve assets excluded)	5,916.6	7,273.2	4,863.1	12,739.6	18,232.9	22,447.3	21,944.0
Capital account	17.8	278.5	90.0	320.7	655.7	1,054.7	1,755.2
Financial account	5,898.8	6,994.7	4,773.1	12,418.9	17,577.2	21,392.6	20,188.7
Direct investment	3,208.2	5,601.4	5,901.3	2,611.8	10,716.7	9,722.7	27,286.9
Abroad	-1,239.8	-1,043.1	-3,528.3	-2,188.4	-2,149.2	-3,388.6	-7,634.0
In Estonia	4,448.0	6,644.5	9,429.6	4,800.2	12,865.9	13,111.3	34,920.9
Portfolio investment	156.0	1,435.0	-699.7	2,378.7	2,431.7	9,130.5	-26,600.1
Assets	-1,894.9	153.1	-2,100.2	-3,182.9	-5,351.6	-4,751.6	-10,230.1
Equity securities	187.0	53.3	236.5	9.1	-1,028.9	-2,893.5	-4,350.2
Debt securities	-2,081.9	99.8	-2,336.7	-3,192.0	-4,322.7	-1,858.1	-5,879.9
Liabilities	2,050.9	1,281.9	1,400.5	5,561.6	7,783.3	13,882.1	-16,370.0
Equity securities	3,292.3	-538.8	568.4	912.2	1,526.9	2,205.3	-16,203.3
Debt securities	-1,241.4	1,820.7	832.1	4,649.4	6,256.3	11,676.8	-166.7
Financial derivatives					-19.3	-8.3	-86.9
Assets					-139.2	-35.1	24.3
Liabilities					120.0	26.8	-111.2
Other investment	2,534.6	-41.7	-428.5	7,428.4	4,448.1	2,547.8	19,588.8
Assets	-1,651.2	-2,638.3	-3,716.7	695.1	-2,284.6	-11,168.8	-10,868.4
Long-term	421.8	-1,108.7	-322.7	-1,083.0	-565.7	-6,052.6	5,583.8
Short-term	-2,073.0	-1,529.6	-3,394.0	1,778.1	-1,718.9	-5,116.1	-16,452.1
Liabilities	4,185.8	2,596.6	3,288.2	6,733.3	6,732.7	13,716.5	30,457.2
Long-term	1,691.5	-549.9	1,814.4	1,829.0	4,310.4	3,740.6	16,021.9
Short-term	2,494.3	3,146.5	1,473.8	4,904.3	2,422.3	9,975.9	14,435.3
Errors and omissions	-511.3	90.7	296.2	70.1	-518.9	-1,058.9	225.7
Overall balance	1,797.6	2,270.5	-730.2	926.8	2,312.1	3,425.4	4,883.9
Reserve assets	-1,797.6	-2,270.5	730.2	-926.8	-2,312.1	-3,425.4	-4,883.9

* Due to Estonia's accession to the EU on 1 May 2004 the accounting system of the movement of goods between Estonia and other Member States changed considerably, which is why pre-accession and post-accession time-series of foreign trade statistics are not directly comparable.

The surplus of the **services account** was 12.6 billion kroons, having decreased by 1.2 billion kroons, i.e. 9%, year-on-year. The dynamics of the services turnover was mainly driven by transport services, whereas the imports of services grew much faster than the exports. The share of transport services in the total services turnover remained more or less the same, i.e. 41%, year-on-year. The shares of travel services and other business services decreased slightly and accounted for 26% and 17%, respectively, in the total services turnover. The turnover of construction services grew considerably – the volume of both the imports and exports of construction services more than doubled. The share of construction services in the services turnover increased from 4% to 7%, year-on-year.

In the services sector, Estonia's major trading partners were the EU Member States, which accounted for 69% of the exports and 75% of the imports. Estonia had the biggest surplus with Finland (7.7 billion kroons) and Russia (2.3 billion kroons), and the biggest deficit with Germany (1.4 billion kroons).

The growth rate of the total exports of goods and services, which are the direct components of GDP, outpaced that of imports. As a result, the deficit of goods and services account decreased from 7.8% of GDP in 2004 to 6.4% in 2005.

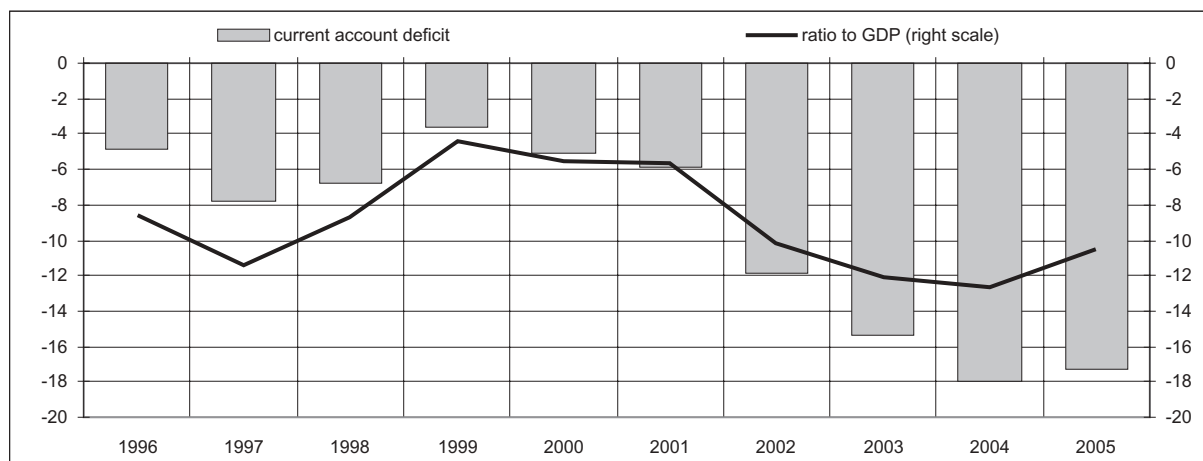


Figure 1. Current account deficit (EEK bn) and ratio to GDP (%)

The **income account** deficit decreased 9%, amounting to 8.2 billion kroons. The income earned by Estonian investors abroad (credit turnover) grew by a half and reached a record 8.2 billion kroons. The income earned by non-residents on the capital invested in Estonia and on compensations of employees (debit turnover) increased 13% and stood at 16.4 billion kroons. Labour income formed 38% of the residents' total income earned abroad and 4% of non-residents' total income earned in Estonia. The rest of income was investment income.

The accession to the EU and the free movement of workers contributed significantly to the labour income earned by residents abroad and by non-residents in Estonia: the former grew 60% and the latter nearly doubled. 38% of residents' labour income was earned in Finland, 17% in the United Kingdom, 14% in the United States, and 10% in Ireland as well as in Sweden. In Estonia, mainly Finnish and Swedish residents earned on labour.

Direct investment income accounted for 60%, portfolio investment income and other investment income both for a fifth of residents' investment income from abroad. As to non-residents' investment income earned in Estonia, direct investment formed 80%, the share of portfolio investment income was 9% and that of other investment 11%. Reinvested earnings accounted for 57% of residents' direct investment income and for 71% of that of non-residents. Excluding from the income account reinvested earnings, which involve no actual movement of funds, the income account had a deficit of 1 billion kroons.

87% of residents' and non-residents' investment income came from the European Union. 31% of residents' investment income came from the Baltic States and 16% from Cyprus. Both Finland and Sweden accounted for 28% of non-residents' investment income. Investors of financial intermediation earned 61% and those of transport, storage and communications earned 19% of residents' investment income. 35% of non-residents' investment income was earned on financial intermediation, 19% on real estate, renting and business activities, and 16% on manufacturing.

The surplus of the **transfers account** (current and capital transfers) remained unchanged, year-on-year, reaching 7.8 billion kroons. The incoming transfers grew 14% and the outgoing transfers increased by a third.

The positive balance of the **FINANCIAL ACCOUNT** was 20.2 billion kroons in 2005. Foreign capital inflow occurred mainly in the form of other investment capital. Large capital movements between the accounts of direct and portfolio investment mainly stemmed from the buying up of the shares of Hansapank, which reflected in an increase in direct investment and a decrease in portfolio investment.

As a result of the takeover of Hansapank, the positive balance of **direct investment** reached a record 27.3 billion kroons. Excluding the takeover of Hansapank, foreign direct investment in Estonia amounted to 7.9 billion and Estonian residents' direct investment abroad to 7.6 billion kroons.

Equity capital investment accounted for 80% of the direct investment inflow to Estonia, the rest being reinvested earnings and other direct investment capital. Excluding the takeover of Hansapank, foreign direct investment largely consisted of reinvested earnings. 99% of direct investment came from the EU, whereas 82% came from Sweden and 15% from Finland. 88% of direct investment was made in financial intermediation and 7% in manufacturing.

Like in the structure of non-residents' direct investment, equity capital investment also formed a considerable share (66%) of residents' foreign direct investment. Reinvested earnings accounted for 23% and other investment capital for 11%. Most of the investment went to Latvia (27%), Russia (23%), and Lithuania (21%). The share of the European Union was 64%. The investors of financial intermediation (57%), real estate, renting and business activities (14%), wholesale and retail trade (8%), and transport, storage and communications (8%) made the largest investments.

The negative balance of **portfolio investment** also posted a record of 26.6 billion kroons. Portfolio investment claims increased 10.2 billion and liabilities decreased 16.4 billion kroons. Claims increased mainly due to investment of other sectors in foreign equity and debt securities and the general government's investments in money market instruments. Liabilities decreased primarily because of a decline in credit institutions' liabilities related to equity securities (the takeover of Hansapank).

The net inflow of **other investment** amounted to 19.6 billion kroons. Claims increased 10.9 billion kroons. Long-term claims decreased by 5.6 billion kroons, whereas short-term claims increased 16.5 billion kroons mostly owing to currency and deposits of credit institutions and trade credit claims of other sectors. Other investment liabilities grew 30.5 billion kroons mainly as a result of an increase in long-term and short-term debt liabilities of credit institutions.

CURRENT ACCOUNT

Global economic recovery and Estonia's fast economic growth led to improved external balance of Estonia in 2005 – the current account deficit fell from 12.7% of GDP in 2004 to 10.5% in 2005 (see Figure 2). The deficit decreased mainly owing to a decline in the deficit of the goods and income accounts. The negative balance of the goods and services accounts together formed 6.4% of GDP. The current account deficit without reinvested earnings, which include no actual movement of funds, stood at 6.2% of GDP.

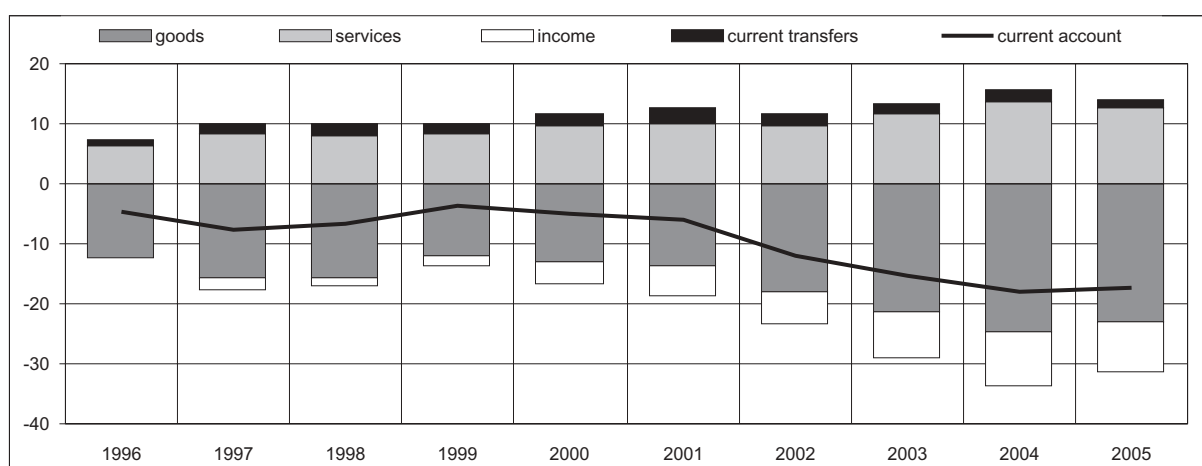


Figure 2. Current account structure (EEK bn)

The European Union Member States (EU-25) accounted for 76% of the credit turnover and for 78% of the debit turnover of the current account. The five most significant countries regarding the credit turnover in 2005 were Finland, Sweden, Russia, Latvia, and Germany (totalling 60% of the credit turnover); as for the debit turnover, the leading countries were Finland, Germany, Sweden, Russia, and Lithuania

(totalling 58% of the debit turnover). In 2005, Estonia's current account deficit was the biggest with Germany and Poland, whereas the largest surplus was registered with Finland and Latvia (see Table 2).

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

	2004	2005
EU-25*	-17,602.7	-16,117.2
Germany**	-7,259.2	-12,500.5
Finland	-1,755.9	5,451.5
Latvia	2,103.1	4,029.6
Poland	-2,511.1	-3,264.8
Netherlands	-1,113.2	-2,594.0
EU-15	-16,763.3	-16,613.6
CIS	-3,587.6	-2,557.8
Russia	-2,683.9	-2,044.7
Belarus	-1,124.4	-1,464.5
Kazakhstan	-7.6	575.8
Other	3,227.3	1,390.0
Hong Kong	-959.8	-2,300.2
Norway	1,344.2	2,163.5
Japan	-1,071.3	-2,096.6
USA	2,189.4	2,000.1
China	-1,301.1	-1,972.5
Total	-17,963.0	-17,285.0

* 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 deficit of the goods account of the balance of payments stood at 23 billion kroons in 2005, having decreased by 1.7 billion kroons year-on-year (see Table 3). This arose mainly from the faster growth rate of goods exports compared to that of imports. Goods exports amounted to 98.7 billion kroons, having increased 32% year-on-year. Goods imports reached 121.8 billion kroons and the growth rate to 22%. Compared to 2004, the robust increase in the goods turnover can be attributed to the EU accession as well as to changes in the accounting system in force during the first months of 2004 (transition to Intrastat reporting in declaring intra-Community trade; see also Footnote 2 on page 5).

According to preliminary **foreign trade statistics**³, goods exports stood at 97.3 billion and imports in c.i.f. prices at 128.1 billion kroons (see Figure 3). The foreign trade deficit amounted to 30.8 billion kroons, having decreased by 0.3 billion kroons from 2004.

The 31% growth in **goods exports** was most affected by an increase in the exports of machinery and equipment, mineral products, metals and metal products. Exports in all the other groups of goods also grew considerably (see Table 4). 55% of the machinery group accounted for mobile phones and their parts, whose exports increased 25% year-on-year and went to Finland, Sweden, Hungary, and Germany. Cables were exported to Finland, Sweden, the United Kingdom, and Latvia and components of electrical equipment to Finland and Sweden. Three quarters of the exports of mineral goods accounted for the reexports of motor fuel imported from Russia, Lithuania and Belarus to Gibraltar, the United States, Canada and EU Member States. The sales of electricity to Latvia slightly increased, whereas sales to Russia fell significantly. The main export articles in the metal products group were hot-rolled steel products (to the United Kingdom, Belgium, Ukraine and Latvia), iron constructions (to Denmark and Finland), and scrap metal (to Turkey, the Republic of Korea and India). In the timber, timber products and furniture

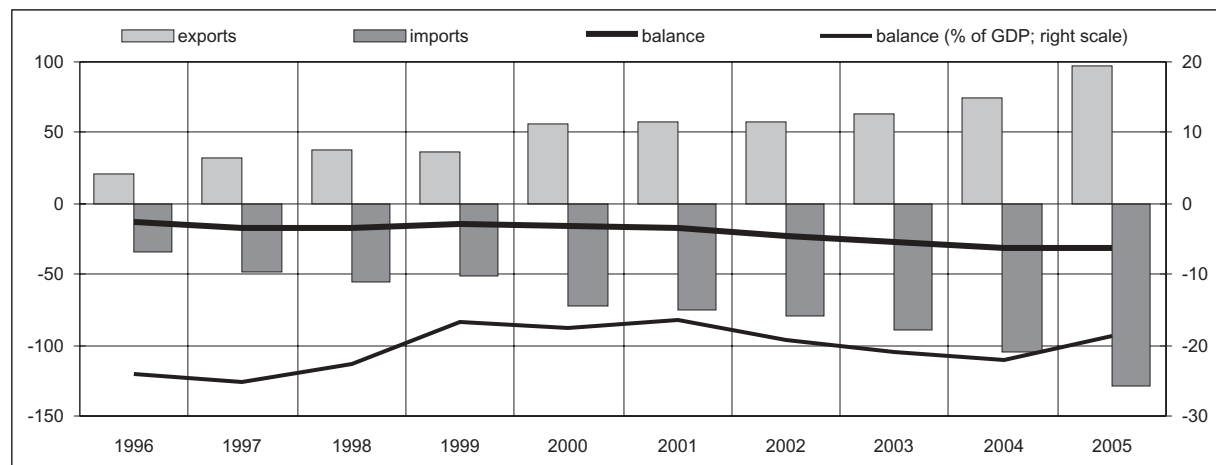
³ The following analysis is based on the foreign trade statistics compiled by the Statistical Office of Estonia and does not include either estimates caused by insufficient receipt of data added to the goods account of the balance of payments by Eesti Pank, or methodical adjustments (repair of capital goods, provisions purchased from abroad, etc.). Imports are in c.i.f. prices and have been 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 reporting 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 (f.o.b.)			Goods – debit (f.o.b.)			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 (%)	
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	63,599.8	9.5	67.4	85,082.8	11.5	81.7	-21,483.0
2004	75,061.0	18.0	67.8	99,864.2	17.4	82.0	-24,803.2
2005	98,718.3	31.5	71.3	121,775.9	21.9	81.8	-23,057.6

* 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 (%)
	2004	2005	2004	2005	2005/2004
Food	5,911.2	6,998.5	8.0	7.2	18.4
Mineral products	3,387.6	7,371.9	4.6	7.6	117.6
Chemical products	5,342.0	7,083.4	7.2	7.3	32.6
Clothing, footwear and headgear	8,106.7	8,416.0	10.9	8.6	3.8
Timber, paper and products	11,196.6	12,863.0	15.1	13.2	14.9
Metals and metal products	5,796.3	8,702.4	7.8	8.9	50.1
Machinery and equipment	20,204.9	27,217.8	27.2	28.0	34.7
Transport vehicles	4,523.6	6,512.1	6.1	6.7	44.0
Furniture, toys, sporting goods	6,929.6	8,108.4	9.3	8.3	17.0
Other	2,878.8	4,037.8	3.9	4.1	40.3
Total	74,277.3	97,311.4	100.0	100.0	31.0

group, timber sleepers were exported to the United Kingdom, construction components and ligneous material to Denmark, Finland, Sweden and Norway, and wooden furniture and prefabricated structures to the Nordic countries, Germany and Latvia. The main articles of clothing, footwear and headgear were men's suits and shirts, women's costumes and sportswear exported to Finland, Sweden and Russia, fur to Turkey and leather footwear to Finland, Latvia and Lithuania. In the chemical goods group, mastics, putties, paints and varnishes were exported to Russia and Latvia, plastic products to Sweden, Latvia and Finland, nitrogen fertilisers to the United States, and medicines to Lithuania and Latvia. In the food group, mainly fish and canned fish were exported to the Netherlands, Switzerland, Russia and Ukraine,

alcohol to Russia and Finland, and dairy products to Germany, Italy, Finland and the Netherlands. 38% of the exports of transport vehicles accounted for the exports to Latvia, Lithuania, Belgium, Spain and Germany of vehicles mainly imported from Finland and Germany. Parts of vehicles, including safety belts, were sent mostly to Sweden and Russia. As regards other goods, automatic equipment was exported to Finland, the United States and Sweden, toughened-glass panes and glass packaging to Belgium, Latvia and Lithuania, and cement products also to Latvia and Lithuania.

The **goods imports** also increased year-on-year across all main groups of goods (see Table 5). This mainly arose from an increase in the imports of machinery and equipment, mineral and chemical products. In the machinery and equipment group, mostly mobile communication devices and components of electronics industry were imported for processing as well as for internal supply, but also computers, road works machinery and other mechanisms were brought in. The major partner countries were Finland, Sweden, Germany, Hong Kong, Japan and Singapore. In the mineral products group, mainly motor fuel was imported from Russia, Lithuania and Belarus, and natural gas from Russia. Chemical goods were imported from Finland (paints, polishes, medicines), Germany (medicines, various industrial chemicals), Poland (medicines, car tyres) and Latvia (medicines). The imports of metal products included steel products from Finland, Russia, the United States and Taiwan, transport vehicles (mainly motor cars) from Finland, Germany and France, vans from Germany and Finland and spare parts from Sweden. In the food group, the leading import articles were coffee, sugar and spirits from Finland, cigarettes and fish products from Lithuania, fresh fish from Russia and pork from Finland and Denmark. As to clothing, footwear and headgear, the principal products were raw furskins from Finland, synthetic fibre from the Republic of Korea and underwear from Latvia. Raw wood and plywood from Russia prevailed in the timber products group.

Table 5. Imports by main groups of goods

	Volume (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
Food	9,697.2	10,806.0	9.2	8.4	11.4
Mineral products	7,274.5	11,906.4	6.9	9.3	63.7
Chemical products	12,301.5	15,192.3	11.7	11.9	23.5
Clothing, footwear and headgear	9,044.3	9,572.1	8.6	7.5	5.8
Timber, paper and products	5,850.4	7,091.6	5.5	5.5	21.2
Metals and metal products	11,638.2	13,214.0	11.0	10.3	13.5
Machinery and equipment	30,162.3	39,354.6	28.6	30.7	30.5
Transport vehicles	12,779.5	13,035.5	12.1	10.2	2.0
Furniture, toys, sporting goods	2,419.3	2,922.9	2.3	2.3	20.8
Other	4,260.1	5,017.4	4.0	3.9	17.8
Total	105,427.2	128,112.8	100.0	100.0	21.5

According to preliminary estimates, **foreign trade deficit** decreased by nearly 350 million kroons (see Table 6). Two groups of goods showed a surplus: timber and timber products as well as furniture and other industrial goods.

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

	2004	2005
Food	-3,786.0	-3,807.5
Mineral products	-3,886.8	-4,534.5
Chemical products	-6,959.5	-8,108.9
Clothing, footwear and headgear	-937.6	-1,156.1
Timber, paper and products	5,346.2	5,771.4
Metals and metal products	-5,842.0	-4,511.6
Machinery and equipment	-9,957.3	-12,136.8
Transport vehicles	-8,255.9	-6,523.4
Furniture, toys, sporting goods	4,510.2	5,185.5
Other	-1,381.3	-979.6
Total	-31,149.9	-30,801.4

By groups of countries, the goods exports both to the European Union as well as to other countries increased (see Table 7). The enlarged European Union was the major partner: compared to 2004 Estonia's exports to the EU grew 27% and accounted for 78% of the total exports in the period under analysis. The main partner states were Finland, Sweden, Latvia, Germany and Lithuania. Exports to the CIS countries increased 45%, including 51% (2.1 billion kroons) to Russia. The top three among other countries were the United States, Norway and Gibraltar.

Table 7. Exports of goods by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
EU-25	59,415.4	75,682.9	80.0	77.8	27.4
Finland	17,176.3	25,863.8	23.1	26.6	50.6
Sweden	11,396.7	12,770.4	15.3	13.1	12.1
Latvia	5,852.6	8,541.0	7.9	8.8	45.9
Germany	6,215.0	6,070.1	8.4	6.2	-2.3
Lithuania	3,254.8	4,576.1	4.4	4.7	40.6
EU-15	46,232.1	58,702.3	62.2	60.3	27.0
CIS	5,797.6	8,388.5	7.8	8.6	44.7
Russia	4,180.1	6,290.8	5.6	6.5	50.5
Ukraine	1,257.0	1,335.2	1.7	1.4	6.2
Kazakhstan	71.8	293.6	0.1	0.3	309.2
Other	9,064.3	13,240.0	12.2	13.6	46.1
USA	2,376.5	2,995.9	3.2	3.1	26.1
Norway	2,426.1	2,796.3	3.3	2.9	15.3
Gibraltar	123.0	1,496.6	0.2	1.5	1,116.6
Total	74,277.3	97,311.4	100.0	100.0	31.0

Goods imports also increased across all groups of countries (see Table 8). The share of the enlarged European Union was 76%; the top five import partners were Finland, Germany, Sweden, Lithuania and Latvia. Imports from Russia increased in line with exports, i.e. by 2.1 billion kroons; Russia was followed by Belarus and Ukraine. China, Japan and Hong Kong dominated among other countries.

Table 8. Imports of goods by groups of countries*

	Volume (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
EU-25	81,959.6	97,399.1	77.7	76.0	18.8
Finland	23,323.7	25,306.5	22.1	19.8	8.5
Germany	13,551.0	17,724.0	12.9	13.8	30.8
Sweden	10,256.3	11,211.3	9.7	8.8	9.3
Lithuania	5,568.7	7,731.6	5.3	6.0	38.8
Latvia	4,985.2	6,033.4	4.7	4.7	21.0
EU-15	64,990.8	75,984.8	61.6	59.3	16.9
CIS	12,687.7	14,954.3	12.0	11.7	17.9
Russia	9,657.5	11,807.2	9.2	9.2	22.3
Belarus	1,276.7	1,623.8	1.2	1.3	27.2
Ukraine	1,414.4	1,156.7	1.3	0.9	-18.2
Other	10,779.9	15,759.5	10.2	12.3	46.2
China	2,001.0	2,696.5	1.9	2.1	34.8
Japan	1,439.9	2,502.6	1.4	2.0	73.8
Hong Kong	1,031.5	2,414.3	1.0	1.9	134.0
Total	105,427.2	128,112.8	100.0	100.0	21.5

* Analysed by trading country.

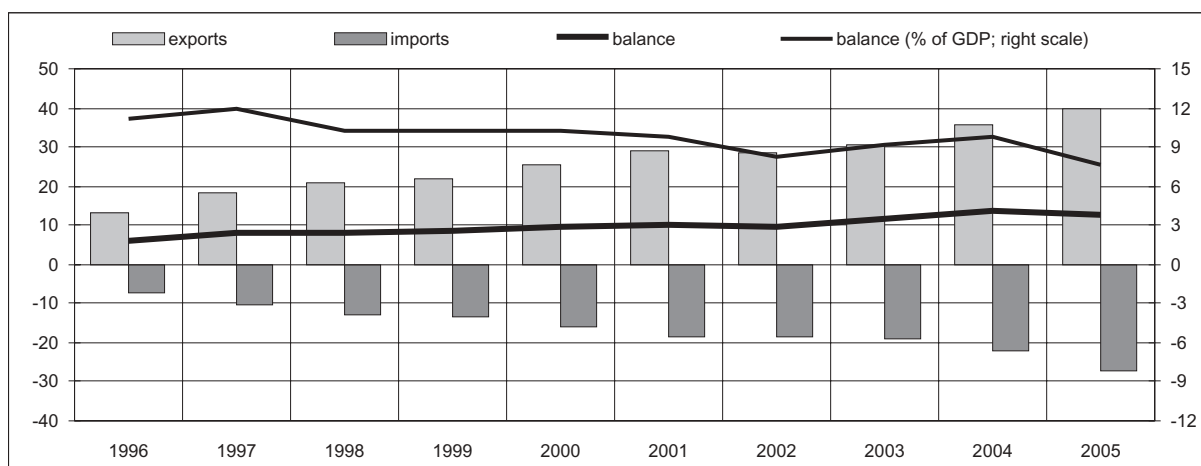
Foreign trade balance was negative across all groups of countries (see Table 9).

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

	2004	2005
EU-25	-22,544.3	-21,716.2
EU-15	-18,758.7	-17,282.4
CIS	-6,890.1	-6,565.8
Other	-1,715.6	-2,519.5
Total	-31,149.9	-30,801.4

Services

The surplus of the services account was 12.6 billion kroons in 2005, having decreased 9% year-on-year (see Figure 4). While the annual growth in exports slowed down to 12%, import growth accelerated to 24% (see Table 10). Services imports grew in line with goods imports (the share in total imports remained at 18%), whereas the growth rate of services exports was outpaced by that of goods exports. The surplus of the services account offset the foreign trade deficit by 54%, which remained close to the previous year's level.

**Figure 4. Changes in the services account (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 (%)
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	35,591.3	15.5	32.2	21,852.8	14.6	18.0	13,738.5	16.9
2005	39,697.2	11.5	28.7	27,144.5	24.2	18.2	12,552.7	-8.6

The year 2005 brought about a significant change in the structure of services (see Table 11): the share of transport services declined considerably (to 30% of the surplus of the services account), whereas that of business services increased. The positive balance of travel services changed little from the year before,

Table 11. Services balance by major categories

	Balance (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
Transportation	6,036.2	3,791.4	43.9	30.2	-37.2
Travel	6,081.3	6,133.4	44.3	48.9	0.9
Construction services	-43.8	56.1	-0.3	0.4	-228.1
Business services	1,553.4	2,399.8	11.3	19.1	54.5
Government services	91.8	184.2	0.7	1.5	100.7
Other	19.6	-12.2	0.1	-0.1	-162.2
Total	13,738.5	12,552.7	100.0	100.0	-8.6

its share growing to nearly a half of the surplus of the services account. The surplus of transport services declined notably (37% year-on-year). This was offset by the 2004 deficit of construction services turning into a surplus and the doubling of the positive balance of government services in 2005.

Services exports increased 12% year-on-year; the exports of the two principal groups of services, namely transport and travel services, rose 3% and 6%, respectively (see Table 12). The exports of business and construction services increased faster than average.

Table 12. Services exports by major categories

	Volume (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
Transportation	15,137.4	15,651.7	42.5	39.4	3.4
freight	8,754.0	8,514.9	24.6	21.4	-2.7
passenger	2,827.8	3,263.4	7.9	8.2	15.4
other transport services	3,555.6	3,873.4	10.0	9.8	8.9
Travel	11,116.4	11,803.7	31.2	29.7	6.2
Construction services	1,104.5	2,395.3	3.1	6.0	116.9
Business services	5,899.9	6,930.6	16.6	17.5	17.5
Government services	477.2	492.4	1.3	1.2	3.2
Other	1,855.9	2,423.5	5.2	6.1	30.6
Total	35,591.3	39,697.2	100.0	100.0	11.5

Two thirds of the services exports accounted for EU countries and the share of these countries has even slightly increased compared to 2004 (see Table 13). The larger share of CIS countries can be attributed to the addition of a new partner state, namely Kazakhstan – services exports to that country increased fourfold year-on-year. EU membership has facilitated growth in Estonia's services exports above all to neighbouring Finland and Sweden (by 18% and 30%, respectively). It should also be noted that services exports to offshore countries declined by 36%.

Table 13. Services exports by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
EU-25	23,780.8	27,224.2	66.8	68.6	14.5
Finland	10,773.1	12,745.4	30.3	32.1	18.3
Sweden	2,435.8	3,165.5	6.8	8.0	30.0
Germany	1,950.7	2,210.7	5.5	5.6	13.3
United Kingdom	2,578.1	2,159.5	7.2	5.4	-16.2
EU-15	20,664.1	23,610.3	58.1	59.5	14.3
CIS	4,584.2	5,748.1	12.9	14.5	25.4
Russia	4,008.2	4,775.6	11.3	12.0	19.1
Kazakhstan	127.7	504.0	0.4	1.3	294.7
Ukraine	372.7	354.4	1.0	0.9	-4.9
Other	7,226.3	6,724.9	20.3	16.9	-6.9
offshore regions	2,790.8	1,788.2	7.8	4.5	-35.9
USA	1,620.6	1,770.9	4.6	4.5	9.3
Switzerland	1,529.9	1,591.6	4.3	4.0	4.0
Total	35,591.3	39,697.2	100.0	100.0	11.5

Services imports grew 24% in 2005 (see Table 14), with the imports of transport and construction services increasing faster than average (30% and two times, respectively).

Table 14. Services imports by major categories

	Volume (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
Transportation	9,101.2	11,860.3	41.6	43.7	30.3
freight	5,892.8	7,847.4	27.0	28.9	33.2
passenger	1,025.3	1,161.6	4.7	4.3	13.3
other transport services	2,183.1	2,851.3	10.0	10.5	30.6
Travel	5,035.1	5,670.2	23.0	20.9	12.6
Construction services	1,148.3	2,339.2	5.3	8.6	103.7
Business services	4,346.5	4,530.8	19.9	16.7	4.2
Government services	385.4	308.2	1.8	1.1	-20.0
Other	1,836.3	2,435.8	8.4	9.0	32.6
Total	21,852.8	27,144.5	100.0	100.0	24.2

EU countries accounted for 75% of services imports, while imports from other countries posted the fastest growth (see Table 15).

Table 15. Services imports by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
EU-25	-16,691.4	-20,300.5	76.4	74.8	21.6
Finland	-4,220.2	-5,051.6	19.3	18.6	19.7
Germany	-2,603.5	-3,634.7	11.9	13.4	39.6
Sweden	-1,587.4	-2,077.8	7.3	7.7	30.9
United Kingdom	-1,264.5	-1,715.1	5.8	6.3	35.6
EU-15	-13,748.1	-16,831.3	62.9	62.0	22.4
CIS	-2,477.3	-3,033.0	11.3	11.2	22.4
Russia	-2,105.0	-2,438.3	9.6	9.0	15.8
Belarus	-137.9	-259.2	0.6	1.0	88.0
Ukraine	-178.4	-230.2	0.8	0.8	29.0
Other	-2,684.1	-3,811.0	12.3	14.0	42.0
USA	-801.0	-910.8	3.7	3.4	13.7
Egypt	-256.9	-377.7	1.2	1.4	47.0
Norway	-275.9	-280.7	1.3	1.0	1.7
Total	-21,852.8	-27,144.5	100.0	100.0	24.2

The surplus of **transport services** decreased in 2005 as a result of faster growth of imported transport services, in particular freight transport services (see Figure 5 and Tables 11, 12, 13). Oil and coal transit between other countries picked up pace. New infrastructure built in Russia and subsequent increase in loading capacities did not positively affect freight transport growth in Estonia. Large investments in Estonian oil, coal and fertiliser terminals were made mainly in relation to Russia's economic growth.

The exports of transport services to EU Member States increased 16% year-on-year (see Table 16). Finland remained the major purchaser of transport services. Compared to 2004, exports to Cyprus increased most. Sales of transport services to CIS countries and other countries decreased from 2004, and thus total exports of transport services grew only 3%.

Freight transport still accounted for the majority of transport services, although exports decreased a few per cent year-on-year. By transport types, the exports of sea transport services posted the largest volume (see Figure 6).

Growth in transport services imports considerably outpaced exports, resulting in a 37% decline in the transport services surplus. Purchases of freight and other transport services increased. The imports of

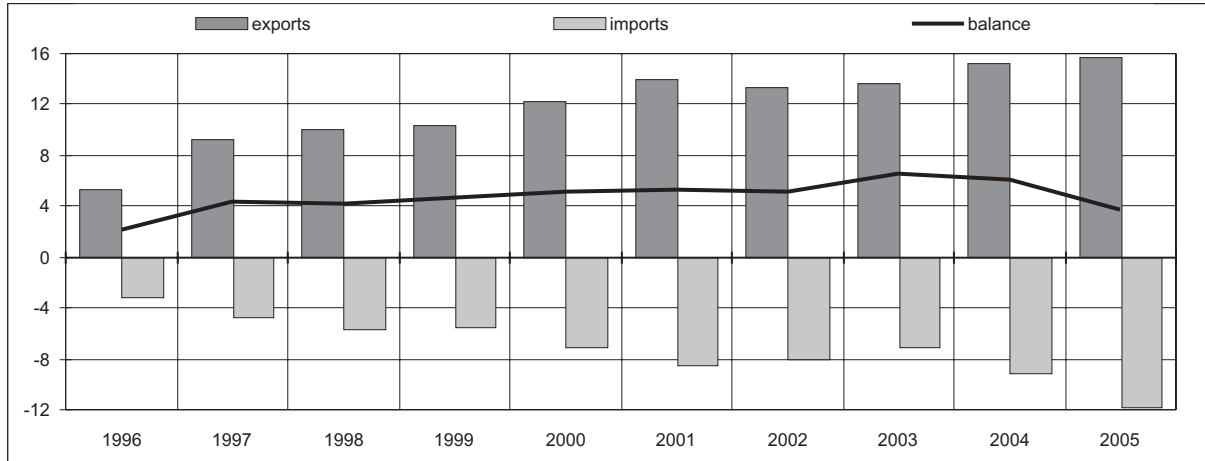


Figure 5. Transport services (EEK bn)

Table 16. Transport services by groups of countries in 2005

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%), 2005/2004		Volume (EEK m)	Share (%)	Change (%), 2005/2004
EU-25	10,161.2	64.9	15.8	EU-25	8,347.3	70.3	28.1
Finland	3,711.0	23.7	25.6	Finland	2,139.2	18.0	18.6
United Kingdom	1,293.5	8.3	-17.1	Germany	1,239.5	10.5	21.6
Sweden	1,243.6	7.9	15.3	Sweden	724.1	6.1	14.2
Germany	974.7	6.2	2.5	United Kingdom	703.3	5.9	85.5
Cyprus	529.9	3.4	204.9	Latvia	689.9	5.8	89.1
EU-15	8,893.8	56.8	10.8	EU-15	6,641.4	56.0	23.8
CIS	1,856.2	11.9	-3.8	CIS	1,643.2	13.9	22.9
Russia	1,646.7	10.5	-2.6	Russia	1,311.9	11.1	18.5
Ukraine	99.7	0.6	-54.3	Belarus	207.9	1.8	87.8
Other	3,634.3	23.2	-18.0	Other	1,869.8	15.8	49.8
offshore regions	1,195.2	7.6	-47.9	offshore regions	390.7	3.3	130.0
Switzerland	912.3	5.8	-4.0	USA	379.7	3.2	20.3
USA	887.2	5.7	9.7	China	261.0	2.2	56.1
Total	15,651.7	100.0	3.4	Total	11,860.3	100.0	30.3

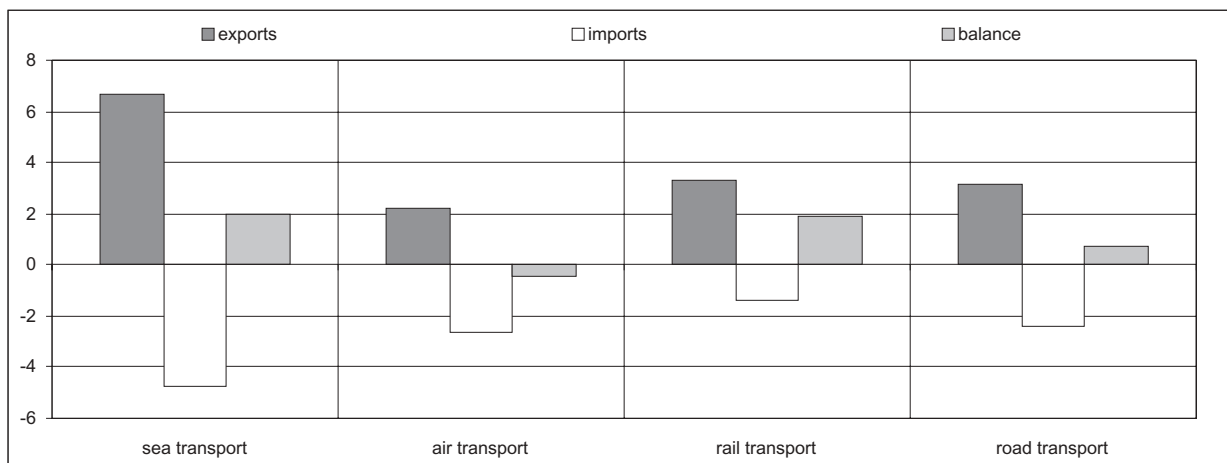


Figure 6. Transport services structure in 2005 by transport type (EEK bn)

passenger transportation increased as much as exports. Year-on-year, the imports of transport services primarily from European Union countries, particularly Finland, grew 30%. As for other countries, imports mainly from offshore regions increased.

The positive balance of **travel services** remained at the same level as the previous year, with exports increasing 6% and imports 13% (see Figure 7). The growth in transport services exports subsided towards the end of the year because of a decline in the number of shopping trips to Estonia and spending per person.

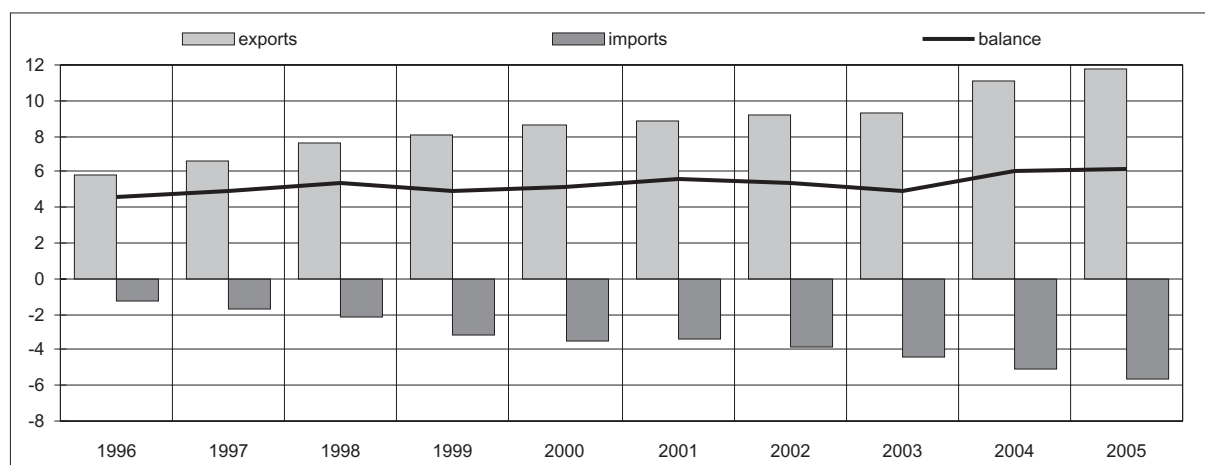


Figure 7. Travel services (EEK bn)

The imports of transport services grew faster than the exports, which was partly caused by a rise in the number of residents taking up short-term employment abroad. According to methodology, daily spending in the target country during short-term working periods is also regarded as travel services. Geographically, the imports of travel services from EU countries increased slower than average (see Table 17). Across the most popular countries of destination, the spending of Estonians grew 60% in Egypt and 2.5 times in Turkey, whereas spending in the United States fell 13%. Spending in Finland increased faster than average. Foreigners' spending in Estonia decreased while Estonians' spending abroad increased.

Table 17. Travel services by groups of countries in 2005

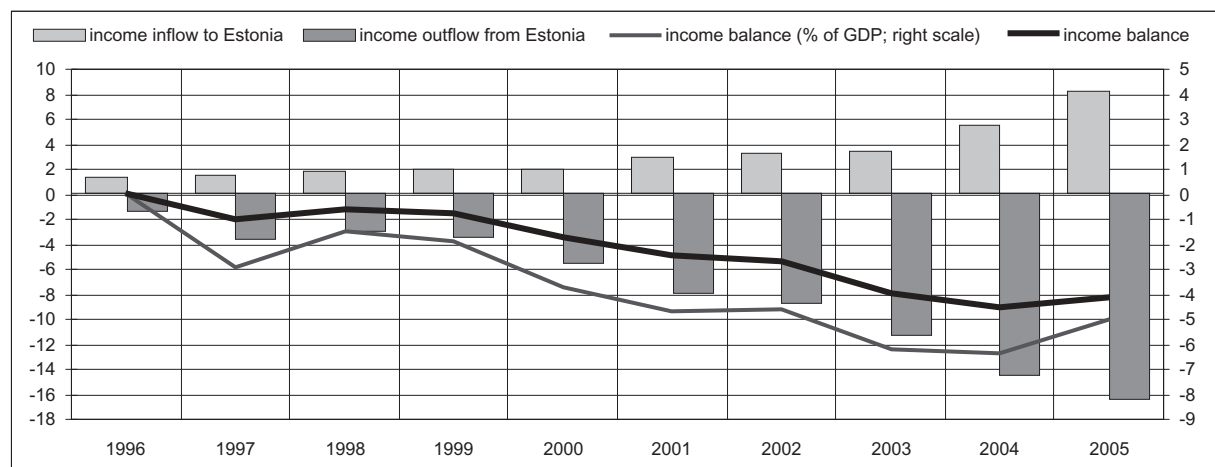
	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%), 2005/2004		Volume (EEK m)	Share (%)	Change (%), 2005/2004
EU-25	9,123.4	77.3	3.3	EU-25	-3,915.1	69.0	5.0
Finland	6,201.4	52.5	7.9	Finland	-849.3	15.0	33.7
Sweden	837.7	7.1	6.7	Germany	-440.2	7.8	-31.3
Latvia	505.6	4.3	-12.9	United Kingdom	-381.9	6.7	2.6
Germany	314.5	2.7	-17.1	Sweden	-365.4	6.4	-2.0
EU-15	8,315.8	70.5	7.0	EU-15	-3,265.7	57.6	6.8
CIS	2,020.3	17.1	27.4	CIS	-684.2	12.1	30.9
Russia	1,929.0	16.3	26.6	Russia	-542.5	9.6	11.9
Ukraine	64.2	0.5	59.3	Ukraine	-70.6	1.2	244.4
Other	660.0	5.6	-5.6	Other	-1,070.9	18.9	36.6
USA	239.7	2.0	-6.7	Egypt	-269.9	4.8	60.1
Norway	158.9	1.3	-17.5	USA	-174.6	3.1	-12.7
Switzerland	37.3	0.3	5.4	Turkey	-154.1	2.7	148.5
Total	11,803.7	100.0	6.2	Total	-5,670.2	100.0	12.6

Income

Income account deficit stood at 8.2 billion kroons in 2005, having declined 9% year-on-year (see Table 18 and Figure 8). **Income inflow increased 50% and outflow 13% year-on-year.** The negative balance of the income account was the result of the joint impact of several diverse factors (see Table 19). The major factor contributing to a decline in deficit was the 53% increase in the surplus of labour income as well as

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 (%)
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	5,453.6	61.1	14,433.2	27.5	-8,979.6	13.1
2005	8,168.2	49.8	16,354.5	13.3	-8,186.3	-8.8

**Figure 8. Income (EEK bn)****Table 19. Structure of income account**

	Volume (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
Income on direct investment	-9,838.2	-9,453.2	109.6	115.5	-3.9
income on equity	-9,488.0	-9,209.0	105.7	112.5	-2.9
reinvested earnings	-8,045.6	-7,150.6	89.6	87.3	-11.1
dividends	-1,442.4	-2,058.5	16.1	25.1	42.7
income on debt (interests)	-350.2	-244.2	3.9	3.0	-30.3
Income on portfolio investment	-203.8	-407.1	2.3	5.0	99.8
Income on other investment	-542.2	-778.5	6.0	9.5	43.6
Other income	1,604.6	2,452.6	-17.9	-30.0	52.8
Total	-8,979.6	-8,186.3	100.0	100.0	-8.8

the 4% decrease in the deficit of direct investment income. The income account deficit increased, as the deficit of the portfolio investment income doubled and that of other investment income grew 44%.

The largest component of the inflow and outflow of income was direct investment income, most of which was reinvested earnings (57% of the inflow and 71% of the outflow). The specifics of reinvested earnings is that they are reflected in an increase in a company's market value, thus not crossing the borders of the country while also being a component of direct investment in the financial account. Excluding reinvested earnings from the balance of the income account, the income account deficit in 2005 was just 1 billion kroons.

Income inflow to Estonia increased 50% year-on-year. Both direct investment income as well as labour income grew 60% (under “Other income” in Table 20).

Table 20. Income inflow to Estonia

	Volume (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
Income on direct investment	1,918.5	3,077.9	35.2	37.7	60.4
income on equity	1,748.3	2,801.6	32.1	34.3	60.2
reinvested earnings	919.6	1765	16.9	21.6	91.9
dividends	828.7	1036.6	15.2	12.7	25.1
income on debt (interests)	170.2	276.3	3.1	3.4	62.3
Income on portfolio investment	868.4	1,019.0	15.9	12.5	17.3
Income on other investment	748.8	997.7	13.7	12.2	33.2
Other income	1,917.9	3,073.6	35.2	37.6	60.3
Total	5,453.6	8,168.2	100.0	100.0	49.8

86% of the income inflow came from EU countries (see Table 21). The largest income inflow came from Latvia (18%), followed by Finland and Lithuania (16% and 13%, respectively). The income growth rates did not vary substantially across regions. Also the distribution of income inflow by fields of activity was similar to the preceding year (see Figure 9) – the largest part (38%) of the income inflow went to financial intermediation.

Table 21. Income by groups of countries in 2005

	Inflow				Outflow		
	Volume (EEK m)	Share (%)	Change (%), 2005/2004		Volume (EEK m)	Share (%)	Change (%), 2005/2004
EU-25	7,019.8	85.9	50.3	EU-25	-14,236.8	87.1	14.7
Latvia	1,471.6	18.0	30.2	Finland	-4,654.1	28.5	9.3
Finland	1316.2	16.1	25.2	Sweden	-4,547.3	27.8	4.6
Lithuania	1091.7	13.4	82.2	United Kingdom	-1,391.4	8.5	-27.9
Cyprus	800.2	9.8	34.5	Netherlands	-958.0	5.9	-1194.9
EU-15	3,584.9	43.9	53.9	EU-15	-13,907.0	85.0	17.7
CIS	301.4	3.7	49.0	CIS	-504.1	3.1	13.4
Russia	281.0	3.4	69.5	Russia	-471.9	2.9	13.9
Ukraine	12.8	0.2	-62.8	Ukraine	-39.9	0.2	209.3
Other	847.0	10.4	45.9	Other	-1,613.6	9.9	-255.5
USA	517.6	6.3	32.8	USA	-846.2	5.2	86.6
offshore regions	217.9	2.7	67.4	offshore regions	-293.2	1.8	179.0
				Canada	-90	0.6	-10.8
Total	8,168.2	100.0	49.8	Total	-16,354.5	100.0	38.4

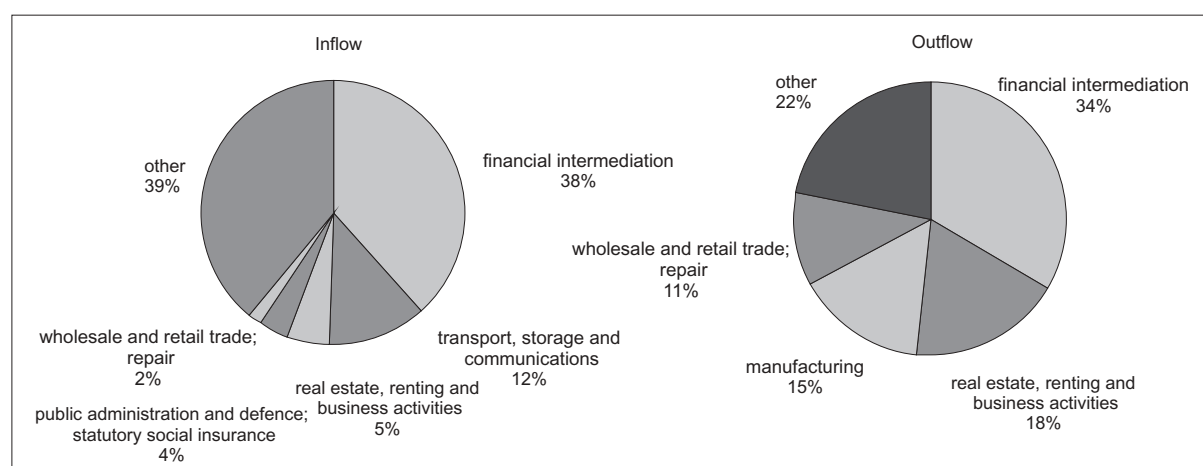


Figure 9. Inflow and outflow of income by fields of activity in 2005

Income outflow from Estonia increased 13% year-on-year, whereas the outflow of direct investment income slowed down (see Table 22). Looking at the structure of direct investment income, dividend outflow has risen faster (36%) while reinvested earnings remained practically at previous year's level.

Table 22. Income outflow from Estonia

	Volume (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
Income on direct investment	-11,756.7	-12,531.1	81.5	76.6	6.6
income on equity	-11,236.2	-12,010.6	77.8	73.4	6.9
reinvested earnings	-8,965.1	-8,915.5	62.1	54.5	-0.6
dividends	-2,271.1	-3,095.1	15.7	18.9	36.3
income on debt (interests)	-520.4	-520.5	3.6	3.2	0.0
Income on portfolio investment	-1,072.2	-1,426.1	7.4	8.7	33.0
Income on other investment	-1,291.0	-1,776.2	8.9	10.9	37.6
Other income	-313.3	-621.0	2.2	3.8	98.2
Total	-14,433.2	-16,354.5	100.0	100.0	13.3

87% of income outflow went to EU countries (see Table 21). The main target countries were Finland and Sweden (29% and 28%, respectively). Income outflow to the United States and offshore countries grew fastest (87% and 2.8 times, respectively). By fields of activity, the leading areas regarding income outflow were financial intermediation (33%), real estate, renting and business activities (18%), and manufacturing (15%; see Figure 9).

Current and Capital Transfers⁴

The surplus of the **current transfers** account stood at 1.4 billion kroons in 2005, having decreased by 0.7 billion kroons from 2004 (see Table 23). The inflow of current transfers increased 8% year-on-year and totalled 6.2 billion kroons. 58% of that accounted for the funds channelled into the Estonian economy via the general government (primarily allocations from the EU structural funds as well as VAT, income and social tax receipts). The inflow of other sectors' transfers amounted to 2.6 billion kroons. 82% of the transfers were made from EU Member States (agricultural subsidies from the European Commission, transfers from Germany, Finland, Belgium, and the United Kingdom). The outflow of current transfers increased 30% and amounted to 4.8 billion kroons. Payments into the EU budget and VAT refunds by the general government accounted for 63% of the outflow. Other sectors' transfers were also mainly made to the EU, namely Finland, Germany, the United Kingdom, and Sweden.

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

	Received		Paid		Balance	
	2004	2005	2004	2005	2004	2005
Current transfers	5,734.7	6,170.8	3,653.4	4,765.4	2,081.2	1,405.5
government transfers	3,859.9	3,599.7	1,791.2	2,982.5	2,068.8	617.3
EU-25	3,293.7	3,090.0	1,717.0	2,944.1	1,576.8	145.9
EU-15	3,218.3	2,971.3	1,697.3	2,918.8	1,521.1	52.5
CIS	405.5	369.3	3.6	3.8	401.9	365.5
other	160.7	140.4	70.6	34.5	90.2	105.9
private transfers	1,874.7	2,571.1	1,862.3	1,782.9	12.5	788.2
EU-25	1,327.1	2,103.5	1,583.3	1,419.5	-256.2	683.9
EU-15	1,265.0	2,040.2	1,516.7	1,339.1	-251.7	701.0
CIS	190.7	60.3	66.6	113.5	124.1	-53.2
other	357.0	407.3	212.5	249.8	144.5	157.4

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 1.6 billion kroons. Capital transfers into Estonia mainly comprised EU subsidies to the general government for various infrastructure objects.

FINANCIAL ACCOUNT

The positive balance of the financial account⁵ stood at 20.2 billion kroons in 2005. Foreign capital inflow mainly occurred in the form of other investment capital. As a result of the takeover of Hansapank by a foreign investor, also the turnover between direct investment and portfolio investment accounts changed considerably: direct investment increased and portfolio investment decreased. Figures 10 and 11 show the structure of the financial account by categories and maturities.

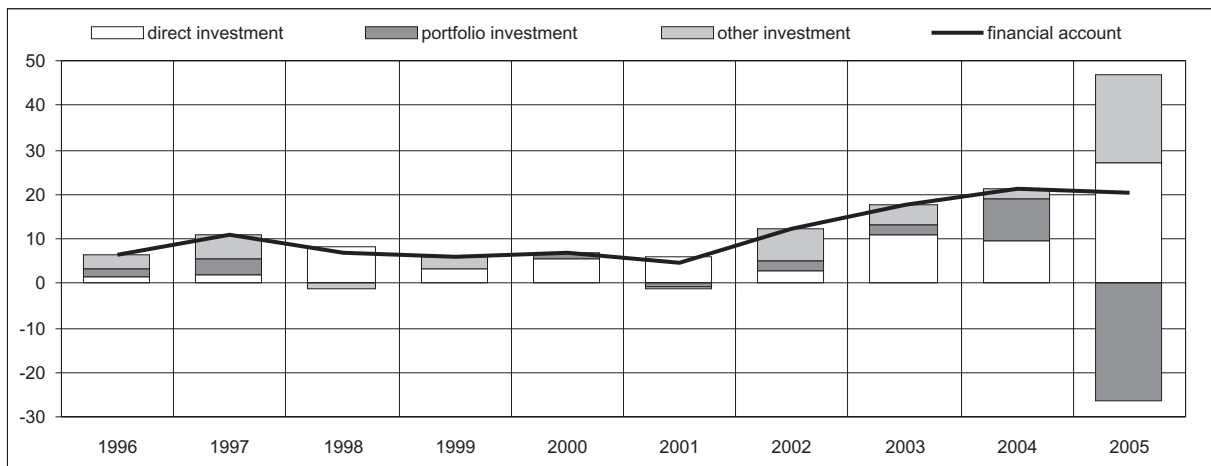


Figure 10. Changes in the structure of foreign investment capital flows (EEK bn)

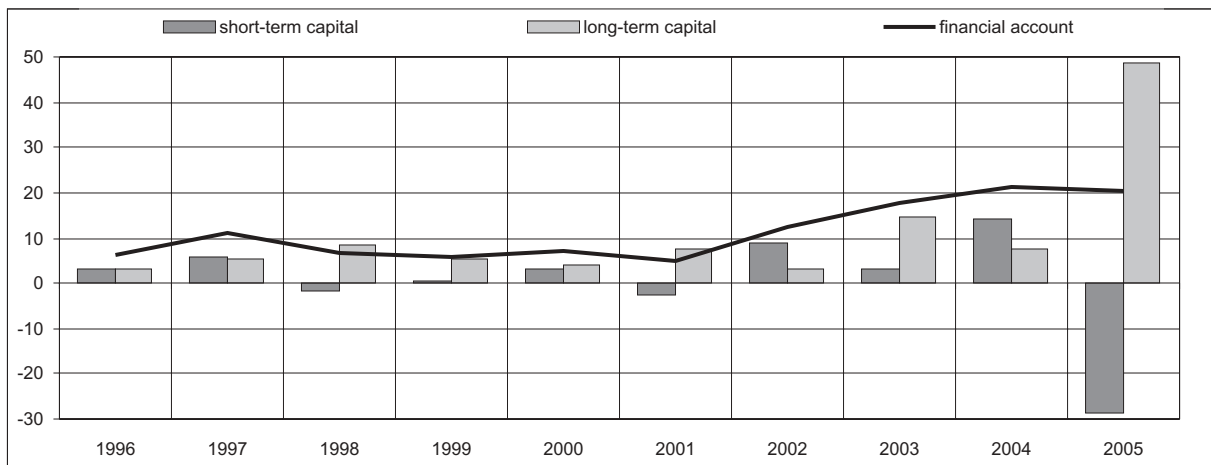


Figure 11. Maturity structure of the financial account (EEK bn)

Direct Investment

The balance of direct investment was positive by 27.3 billion kroons in 2005, exceeding the financial account surplus by a third. Non-residents invested 34.9 billion kroons in Estonia, while Estonian direct investment abroad grew 7.6 billion kroons (see Figure 12).

⁵ Without reserve assets.

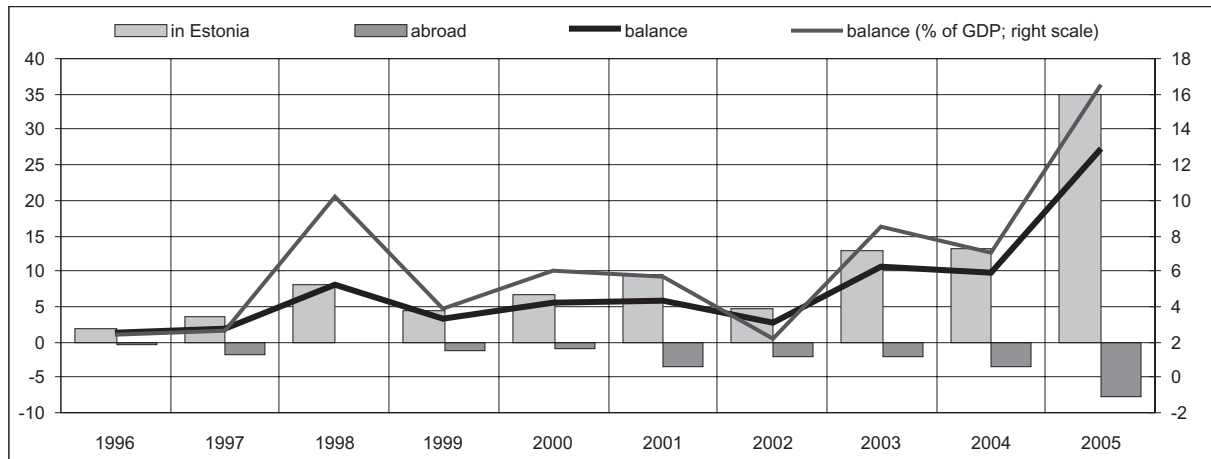


Figure 12. Direct investment (EEK bn)

In 2005, the volume of **direct investment in Estonia** again reached a record high in the history of compiling the balance of payments. The majority of that accounted for the buying up of shares from minority shareholders by Hansapank's core investor. Consequently, portfolio investment witnessed a 22.7 billion kroons decrease in equity security liabilities. Net inflow was just 4.3 billion kroons. Investment in equity capital accounted for 80% of total direct investment growth. Reinvested earnings increased as much as the year before, amounting to 8.9 billion kroons. 28% of that was income of non-resident owners of credit institutions. Excluding transactions related to Hansapank from the equity capital of direct investment, equity capital increased 9.9 billion kroons. Compared to 2004, net claims to direct investors related to long-term and short-term loans grew considerably, i.e. 1.7 billion kroons. Although the inflow of investments in the form of loans was considerably larger than in 2004, total loan commitments did not grow much (see Tables 24 and 25).

Table 24. Structure of direct investment in Estonia

	Equity capital		Reinvested earnings		Other capital				Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Assets		Liabilities		Volume (EEK m)	Share (%)
					Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)		
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	5,329.9	41.4	6,407.3	49.8	-1,334.0	-10.4	2,462.7	19.1	12,865.9	100.0
2004	4,638.6	35.4	8,965.1	68.4	-1,454.0	-11.1	961.6	7.3	13,111.3	100.0
2005	28,014.1	80.2	8,915.5	25.5	-2,121.2	-6.1	112.5	0.3	34,920.9	100.0

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

	Assets				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	3,020.9	3,726.9
2004	492.7	371.2	1,774.1	862.1	4,601.5	4,882.2	3,091.7	2,197.2
2005	1,249.1	508.2	2,379.1	1,465.8	6,807.6	6,909.3	4,918.0	4,572.0

The largest investors were Sweden, Finland and Germany. Investments from Luxembourg decreased by nearly a billion kroons. The share of EU Member States was 99% (see Figure 13). Direct investment went mainly to financial intermediation (88%) but the manufacturing sector is also worth highlighting (7%; see Figure 14 and Table 26).

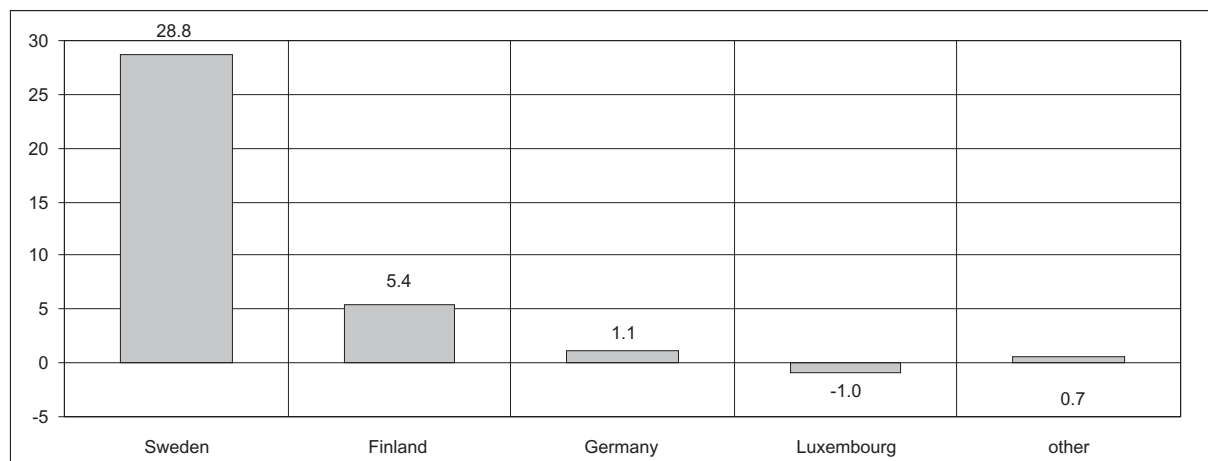


Figure 13. Direct investment in Estonia by countries in 2005 (EEK bn)



Figure 14. Direct investment in Estonia by fields of activity in 2005 (EEK bn)

Table 26. Direct investment in Estonia by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
EU-25	10,651.1	34,465.0	81.2	98.7	223.6
EU-15	9,912.8	34,668.3	75.6	99.3	249.7
CIS	696.0	859.0	5.3	2.5	23.4
Other	1,764.3	-403.1	13.5	-1.2	-122.8
Total	13,111.4	34,920.9	100.0	100.0	166.3

Direct investment abroad outpaced the volume of 2004 by more than two times. Similarly to direct investment inflow, such a large outflow has not been registered before and here too the outflow mainly comprised credit institutions' direct investment. Two thirds of direct investment outflow accounted for investments in equity capital and the share of the net profit (reinvested earnings) of Estonian companies increased by a fourth. The volume of long-term and short-term loans doubled year-on-year. Foreign subsidiaries and associated companies were granted credit in the amount of 3.6 billion kroons while repayments amounted to 2.6 billion kroons (see Tables 27 and 28).

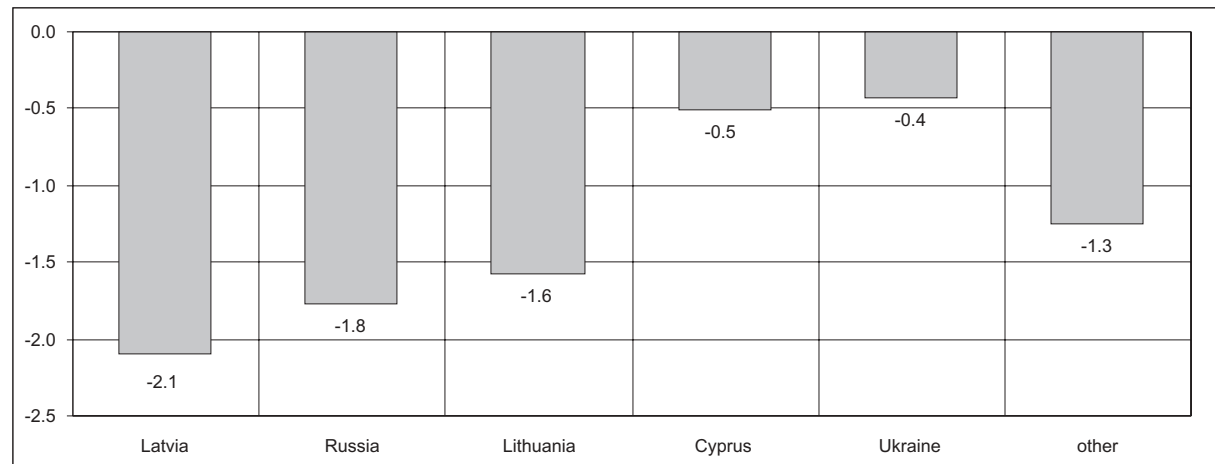
The largest investments went in Latvia (27%) and Russia (23%). Long-term investments in Lithuania increased by a fifth (see Figure 15). The biggest investor was the financial intermediation sector (57%),

Table 27. Structure of direct investment abroad

	Equity capital		Reinvested earnings		Other capital				Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Assets		Liabilities			
					Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)		
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	-1,060.0	49.3	-741.4	34.5	-645.8	30.0	297.9	-13.9	-2,149.2	100.0
2004	-2,175.2	64.2	-919.6	27.1	-434.2	12.8	140.3	-4.1	-3,388.6	100.0
2005	-5,064.0	66.3	-1,765.0	23.1	-1,043.1	13.7	238.1	-3.1	-7,634.0	100.0

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

	Assets				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	4.0	11.6	84.2	98.8
2004	934.8	1,232.5	952.4	368.9	17.9	61.2	27.9	37.1
2005	2,115.3	1,534.2	1,684.7	1,096.8	112.7	61.4	95.8	25.0

**Figure 15. Direct investment abroad by countries in 2005 (EEK bn)**

followed by real estate, renting and business activities (14%), wholesale and retail trade (8%), and transport, storage and communications (8%). 64% of the outflow went to the European Union. 87% of that was channelled into the economies of the new Member States (see Table 29 and Figure 16).

Table 29. Direct investment abroad by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2004	2005	2004	2005	2005/2004
EU-25	-3,011.1	-4,888.1	88.9	64.0	62.3
EU-15	-650.7	-661.5	19.2	8.7	1.7
CIS	-356.7	-2,484.7	10.5	32.5	596.6
Other	-20.8	-261.2	0.6	3.4	1,155.8
Total	-3,388.6	-7,634.0	100.0	100.0	125.3



Figure 16. Direct investment abroad by fields of activity in 2005 (EEK bn)

Portfolio Investment

The net outflow of portfolio investment reached a record 26.6 billion kroons in 2005. Assets increased 10.2 billion and liabilities decreased 16.4 billion kroons (see Figure 17 and Table 30). By sectors, the outflow was most affected by transactions with credit institutions' equity securities, resulting in a net capital outflow of 22.7 billion kroons.

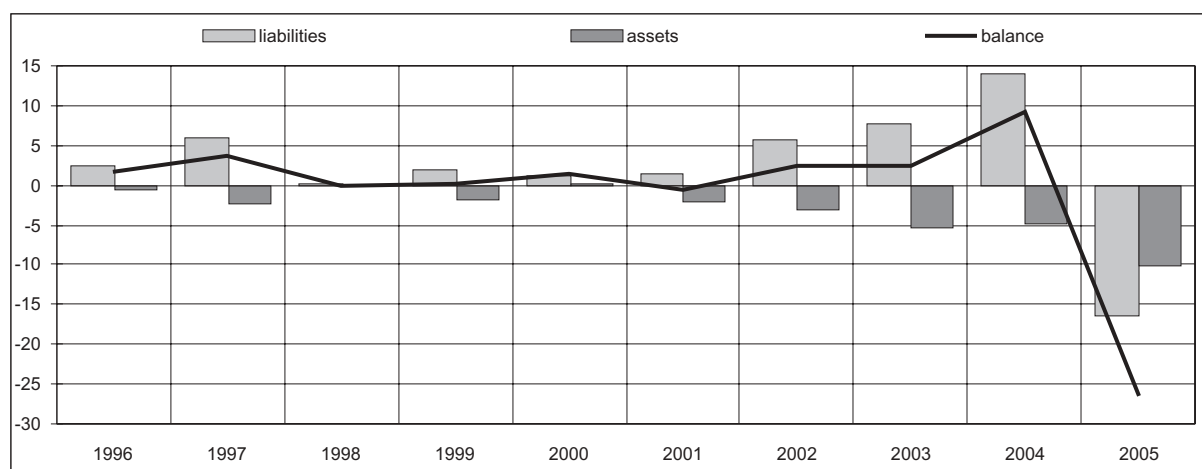


Figure 17. Portfolio investment (EEK bn)

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

	Assets		Liabilities		Balance	
	2004	2005	2004	2005	2004	2005
Equity securities	-2,893.5	-4,350.2	2,205.3	-16,203.3	-688.2	-20,553.5
central bank		-3.4				-3.4
general government	-44.4	-9.9			-44.4	-9.9
credit institutions	-23.6	-124.4	144.5	-22,600.3	120.9	-22,724.7
other sectors	-2,825.5	-4,212.5	2,060.8	6,397.0	-764.7	2,184.5
Debt securities	-1,858.1	-5,879.9	11,676.7	-166.8	9,818.6	-6,046.7
central bank						0.0
general government	-588.1	-1,292.9	343.0	133.9	-245.1	-1,159.0
credit institutions	-469.0	-766.7	10,910.8	-3,192.2	10,441.8	-3,958.9
other sectors	-801.0	-3,820.3	422.9	2,891.5	-378.1	-928.8
Total	-4,751.6	-10,230.1	13,882.0	-16,370.1	9,130.4	-26,600.2

Portfolio investment liabilities (see Table 31) decreased 16.4 billion kroons in 2005, whereas 16.2 billion of that accounted for equity security liabilities and 0.2 billion kroons for debt security liabilities. Equity security liabilities decreased above all due to a decline in the liabilities of credit institutions (the takeover of Hansapank). The total net outflow of debt security liabilities was 0.2 billion kroons. The inflow of debt security liabilities was approximately 2.2 billion kroons and the outflow of money market instruments was 2.4 billion kroons. By countries, portfolio investment liabilities to EU Member States and the United States decreased the most (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 (%)
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	1,820.7	142.0	1,281.9	100.0
2001	568.4	40.6	832.1	59.4	1,400.5	100.0
2002	912.2	16.4	4,649.4	83.6	5,561.6	100.0
2003	1,526.9	19.6	6,256.4	80.4	7,783.3	100.0
2004	2,205.3	15.9	11,676.7	84.1	13,882.0	100.0
2005	-16,203.3	99.0	-166.7	1.0	-16,370.0	100.0

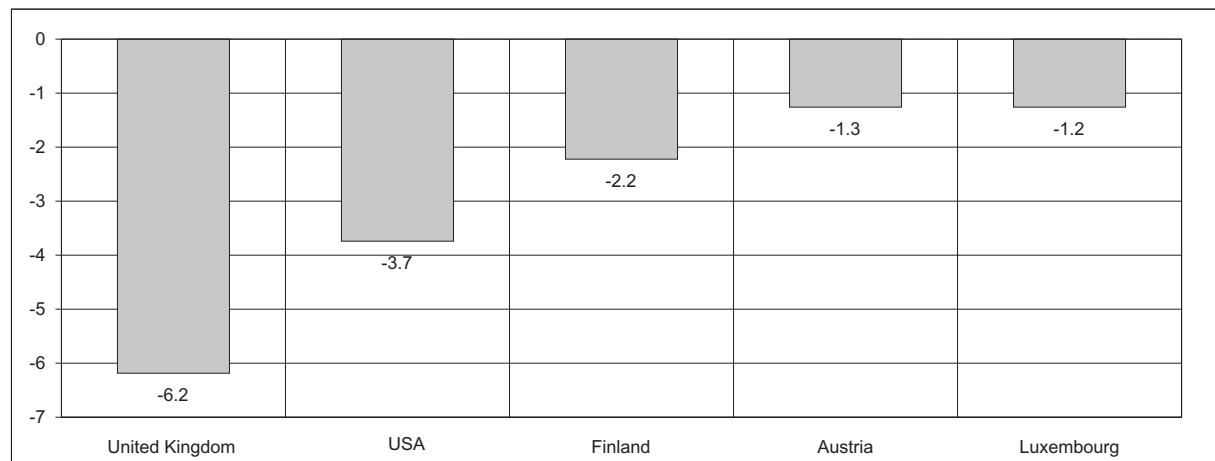


Figure 18. Decrease in portfolio investment liabilities by countries in 2005 (EEK bn)

Table 32. Structure of portfolio investment by groups of countries

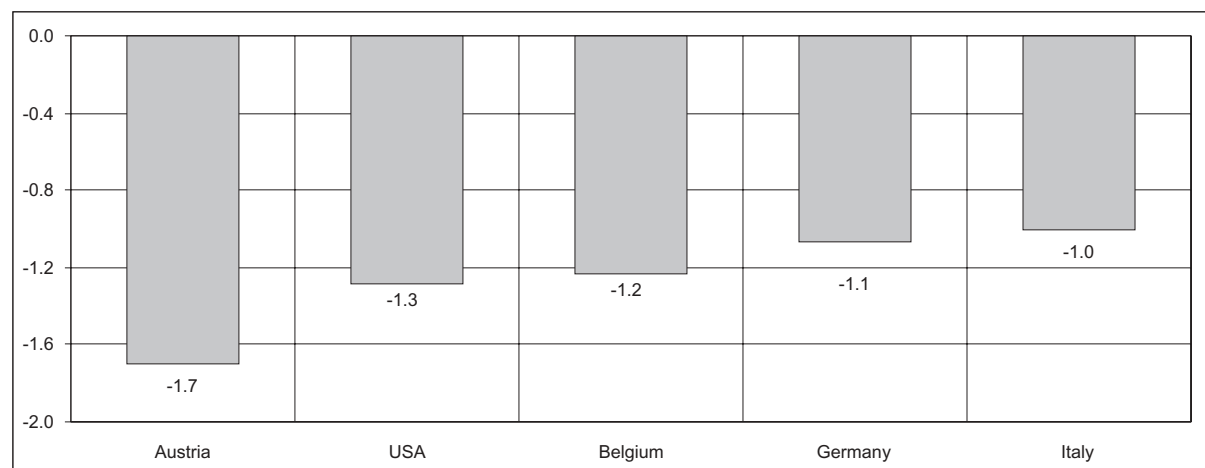
	Volume (EEK m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2004	2005	2004	2005	2004	2005	2004	2005
EU-25	-2,484.3	-7,312.7	13,121.2	-12,295.0	52.3	71.5	94.5	75.1
EU-15	-1,159.6	-4,667.6	13,558.0	-12,901.1	24.4	45.6	97.7	78.8
CIS	-184.4	-621.2	224.6	104.7	3.9	6.1	1.6	-0.6
Other	-2,082.9	-2,296.2	536.3	-4,179.7	43.8	22.4	3.9	25.5
Total	-4,751.6	-10,230.1	13,882.1	-16,370.0	100.0	100.0	100.0	100.0

Portfolio investment assets (see Table 33) increased 10.2 billion kroons year-on-year in terms of both equity and debt securities (4.3 billion and 5.9 billion kroons, respectively). The most active investors in equity securities issued by non-residents were companies in other sectors, who invested the total of

Table 33. Structure of portfolio investment assets

	Equity securities		Debt securities		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
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	-2,893.5	60.9	-1,858.1	39.1	-4,751.6	100.0
2005	-4,350.2	42.5	-5,879.9	57.5	-10,230.1	100.0

4.2 billion kroons. Companies in other sectors also invested most in debt securities and money market instruments. The resulting capital outflow totalled 3.8 billion kroons; the general government followed with 1.3 billion kroons. By countries, portfolio investment mainly went to Austria, the United States, and Belgium. By groups of countries, 72% of investment went to EU Member States (see Figure 19).

**Figure 19. Increase in portfolio investment assets by countries in 2005 (EEK bn)**

Other Investment

The net inflow of **other investment** totalled 19.6 billion kroons in 2005. Other investment liabilities increased 30.5 billion and assets 10.9 billion kroons (see Figure 20). Looking at the structure of other investment by maturity, the inflow of long-term capital stood at 22 billion kroons (see Table 34), whereas the outflow of other short-term investment capital stood at 2 billion kroons. While in previous years the current account deficit had been financed, as a rule, on the account of direct or portfolio investment, then in 2005 the main source of financing was other investment capital.

Other investment liabilities (see Table 35) increased 30.5 billion kroons year-on-year. The share of loan capital was 83% and that of deposits was approximately 10%. Liabilities grew across all sub-accounts. The inflow of other investment capital occurred mainly in the form of loans and deposits (25.3 and 2.9 billion kroons, respectively). The growth in trade credit and other investment liabilities contributed to capital inflow with 2.2 billion kroons. By groups of countries, other investment liabilities to the European Union grew the most, totalling 29 billion kroons. By countries, liabilities to Sweden, Finland and Germany increased the most (see Table 36 and Figure 21).

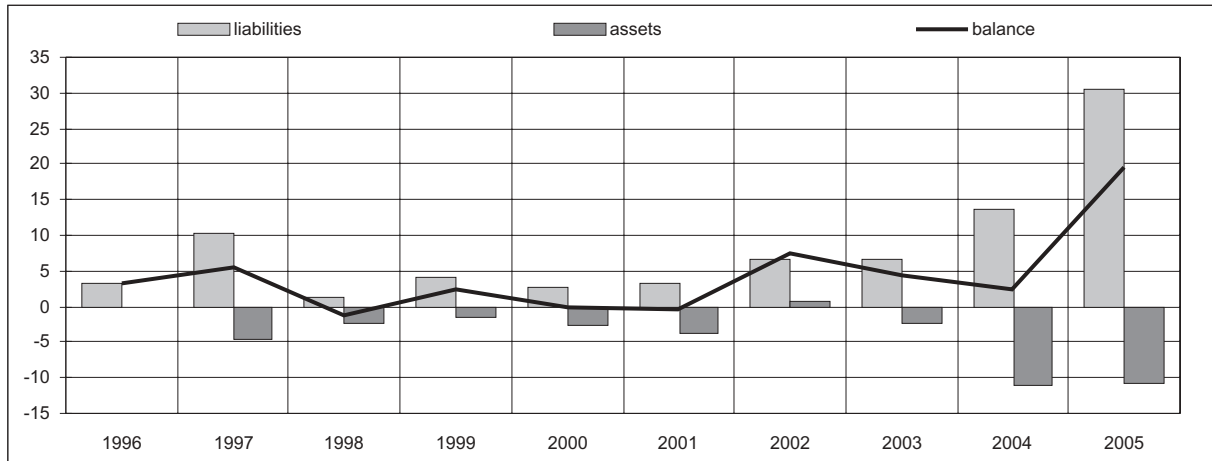


Figure 20. Other investment (EEK bn)

Table 34. Other investment by maturity (EEK m)

	Assets		Liabilities		Balance	
	2004	2005	2004	2005	2004	2005
Long-term capital	-6,052.7	5,583.8	3,740.6	16,021.9	-2,312.1	21,605.7
central bank	-10.5	-0.7			-10.5	-0.7
general government	-45.0	-60.9	-194.8	-174.4	-239.8	-235.3
credit institutions	-5,016.0	2,953.7	2,475.0	12,094.8	-2,541.0	15,048.5
other sectors	-981.2	2,691.7	1,460.4	4,101.5	479.2	6,793.2
Short-term capital	-5,116.1	-16,452.1	9,975.9	14,435.2	4,859.8	-2,016.9
central bank			189.7	-693.2	189.7	-693.2
general government	-119.3	-60.2			-119.3	-60.2
credit institutions	-3,347.2	-15,572.2	9,481.5	13,643.3	6,134.3	-1,928.9
other sectors	-1,649.6	-819.7	304.7	1,485.1	-1,344.9	665.4
Total	-11,168.8	-10,868.3	13,716.5	30,457.1	2,547.7	19,588.8

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 (%)
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	-115.7	-1.7	3,220.9	47.8	4,587.9	68.1	-960.3	-14.3	6,732.8	100.0
2004	625.2	4.6	4,564.7	33.3	8,804.7	64.2	-278.2	-2.0	13,716.4	100.0
2005	1,617.8	5.3	25,305.2	83.1	2,953.3	9.7	580.8	1.9	30,457.1	100.0

Table 36. Structure of other investment by groups of countries

	Volume (EEK m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2004	2005	2004	2005	2004	2005	2004	2005
EU-25	-9,117.3	-9,025.9	11,582.5	28,989.9	81.6	83.0	84.4	95.2
EU-15	-3,960.7	-4,505.5	9,696.9	29,666.9	35.5	41.5	70.7	97.4
CIS	-1,637.1	-513.8	955.1	531.0	14.7	4.7	7.0	1.7
Other	-414.4	-1,328.7	1,178.9	936.3	3.7	12.2	8.6	3.1
Total	-11,168.8	-10,868.4	13,716.5	30,457.2	100.0	100.0	100.0	100.0

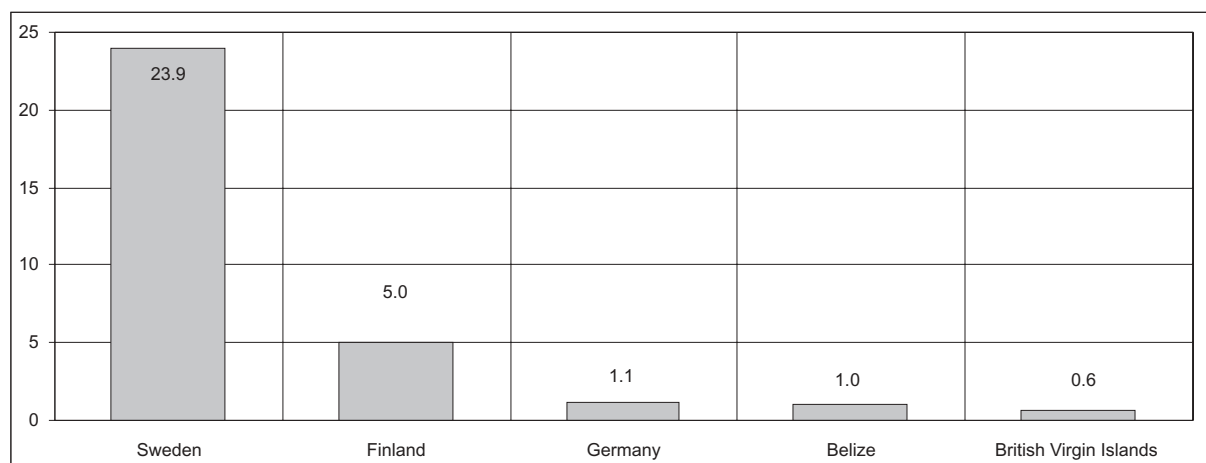


Figure 21. Increase in other investment liabilities by countries in 2005 (EEK bn)

Other investment assets (see Table 37) increased in 2005 and, as a result, capital outflow amounted to 10.9 billion kroons. Other investment assets grew mainly owing to deposits and trade credit, totalling 14 billion kroons. Loan assets decreased 4.1 billion kroons. By countries, other investment assets to Lithuania, Sweden and Germany increased the most (see Figure 22). Table 38 provides a more detailed overview of loan capital assets and liabilities.

Table 37. Structure of other investment assets

	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 (%)
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	-1,028.2	45.0	-3,520.4	154.1	2,209.4	-96.7	54.6	-2.4	-2,284.6	100.0
2004	-1,032.0	9.2	-8,455.6	75.7	-1,545.1	13.8	-136.2	1.2	-11,168.9	100.0
2005	-2,182.0	20.1	4,112.5	-37.8	-12,465.2	114.7	-333.6	3.1	-10,868.3	100.0

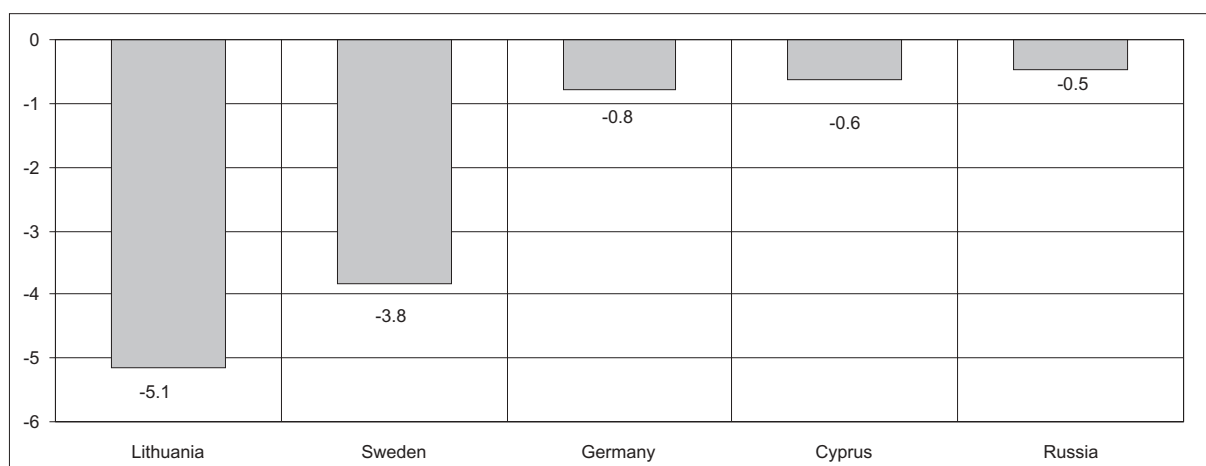


Figure 22. Increase in other investment assets by countries in 2005 (EEK bn)

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

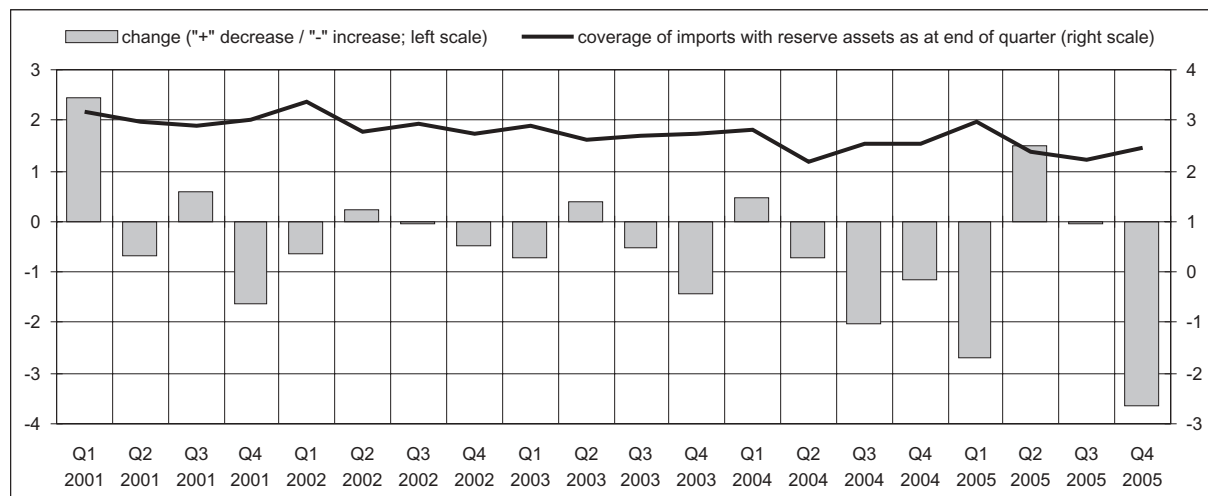
	Assets			Liabilities		
	Grantings	Repayments	Balance	Drawings	Repayments	Balance
2003	-34,919.1	31,398.8	-3,520.3	30,012.5	-26,791.5	3,221.0
2004	-29,782.6	21,327.1	-8,455.5	45,384.3	-40,819.4	4,564.9
2005	-77,497.3	81,609.7	4,112.5	125,984.6	-100,679.4	25,305.2

Reserve Assets

The balance of payments reserves increased 4.9 billion kroons in 2005 (see Table 39). Figure 23 gives an overview of the imports covered by reserve assets.

Table 39. Structure of changes in reserve assets

	Volume (EEK m)		Share (%)	
	2004	2005	2004	2005
Gold	0.0	0.0	0.0	0.0
Currency and deposits	875.3	-389.5	-25.6	8.0
Securities	-4,272.7	-4,470.3		
equity securities				
bonds and notes	-837.5	-1,870.6	24.4	38.3
money market instruments	-3,435.2	-2,599.7	100.3	53.2
Other assets	-28.0	-24.1	0.8	0.5
Total	-3,425.4	-4,883.9	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 GROSS EXTERNAL DEBT as at 31 December 2005

During 2005, foreign investment in Estonia increased by nearly a third, amounting to 302.7 billion kroons at the end of the year (see Table 40). 57% thereof was invested in financial intermediation and to a lesser extent also in real estate, renting and business activities, manufacturing, and wholesale and

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

	31/12/2004	%	31/12/2005	%
EXTERNAL ASSETS	99,735.0	100.0	138,765.9	100.0
Direct investment abroad	16,275.0	16.3	26,023.4	18.8
Equity capital and reinvested earnings	12,128.7	12.2	20,007.1	14.4
Other direct investment capital	4,146.4	4.2	6,016.2	4.3
Portfolio investment	24,717.0	24.8	38,729.0	27.9
Equity securities	5,136.0	5.1	13,059.5	9.4
Debt securities	19,581.1	19.6	25,669.5	18.5
Bonds and notes	12,352.6	12.4	15,008.6	10.8
Money market instruments	7,228.4	7.2	10,660.9	7.7
Financial derivatives	368.6	0.4	350.7	0.3
Other investment	37,769.9	37.9	47,889.8	34.5
Trade credit	6,986.7	7.0	9,055.9	6.5
Loans	22,359.2	22.4	17,738.5	12.8
Long-term	11,408.2	11.4	5,341.3	3.8
Short-term	10,951.0	11.0	12,397.2	8.9
Currency and deposits	7,664.6	7.7	20,096.2	14.5
Other assets	759.4	0.8	999.2	0.7
Reserve assets	20,604.3	20.7	25,773.0	18.6
EXTERNAL LIABILITIES	230,543.6	100.0	302,745.3	100.0
Direct investment in Estonia	115,483.2	50.1	162,275.1	53.6
Equity capital and reinvested earnings	100,593.8	43.6	148,952.9	49.2
Other direct investment capital	14,889.4	6.5	13,322.1	4.4
Portfolio investment	51,627.3	22.4	44,847.5	14.8
Equity securities	22,276.7	9.7	15,772.0	5.2
Debt securities	29,350.6	12.7	29,075.5	9.6
Bonds and notes	26,577.3	11.5	28,597.8	9.4
Money market instruments	2,773.3	1.2	477.6	0.2
Financial derivatives	238.0	0.1	132.3	0.0
Other investment	63,195.1	27.4	95,490.4	31.5
Trade credit	8,273.3	3.6	10,553.6	3.5
Loans	28,649.3	12.4	55,075.8	18.2
Long-term	25,081.9	10.9	41,939.5	13.9
Short-term	3,567.4	1.5	13,136.3	4.3
Currency and deposits	25,251.9	11.0	28,205.6	9.3
Other liabilities	1,020.7	0.4	1,655.4	0.5
NET INTERNATIONAL INVESTMENT POSITION	-130,808.6		-163,979.4	
Long-term	-100,372.4		-157,631.8	
Short-term	-30,436.3		-6,347.6	

retail trade (see Table 41). Most of investment in Estonia mainly came from Sweden (44%), Finland (19%), and the United Kingdom (11%).

Compared to the end of 2004, the structure of **foreign investment in Estonia** had changed considerably by the end of 2005: the shares of direct and other investment had increased and that of portfolio investment had decreased. The changes in the shares of direct and portfolio investment stemmed from the takeover of Hansapank by a foreign investor. In 2005, direct investment accounted for 54% (162.3 billion kroons) of total investment. The share of portfolio investment fell from 22% to 15% and that of other investment rose from 27% to 32%. The volume of other investment increased by a half mainly owing to long-term loans. The most preferred fields of activity for **foreign direct investment in Estonia** were financial intermediation (47% of direct investment), real estate, renting and business activities (16%), manufacturing (14%), and wholesale and retail trade (8%; see Table 42). Swedish investors made 56% and Finnish investors 20% of the direct investment.

Estonian investment abroad increased nearly 40%, amounting to 138.8 billion kroons. Financial intermediaries made 70% of the investment abroad. Investors of the public sector, real estate, renting

Table 41. Estonia's international investment position by fields of activity and countries (%) as at 31 December 2005

Assets		Liabilities	
Fields of activity			
Financial intermediation	70.3	Financial intermediation	57.3
Public administration and defence; statutory social insurance	9.5	Real estate, renting and business activities	10.2
Real estate, renting and business activities	6.5	Manufacturing	9.5
Wholesale and retail trade; repair	5.4	Wholesale and retail trade; repair	6.9
Manufacturing	3.7	Transport, storage and communications	4.5
Other	4.7	Other	11.6
Total	100.0	Total	100.0
Countries			
Lithuania	15.8	Sweden	43.5
Germany	11.3	Finland	18.7
Latvia	10.0	United Kingdom	11.1
United Kingdom	6.6	Germany	3.6
Russia	6.1	USA	3.2
Other	50.1	Other	19.9
Total	100.0	Total	100.0

Table 42. Direct investment position by fields of activity and countries (%) as at 31 December 2005

In Estonia		Abroad	
Fields of activity			
Financial intermediation	47.4	Financial intermediation	45.1
Real estate, renting and business activities	15.6	Real estate, renting and business activities	23.0
Manufacturing	13.6	Transport, storage and communications	10.8
Wholesale and retail trade; repair	7.9	Wholesale and retail trade; repair	7.0
Transport, storage and communications	3.0	Manufacturing	3.9
Other	12.5	Other	10.3
Total	100.0	Total	100.0
Countries			
Sweden	56.4	Lithuania	30.8
Finland	19.6	Latvia	29.8
USA	3.2	Russia	14.8
Netherlands	3.1	Cyprus	8.9
Germany	1.9	Finland	3.4
Other	15.8	Other	12.3
Total	100.0	Total	100.0

and business activities, and wholesale and retail trade invested to a lesser extent. Estonian investors mainly preferred to invest in the Baltic States and Germany, and somewhat less in the United Kingdom and Russia.

Year-on-year, the shares of direct and portfolio investment in the structure of **investment abroad** increased, and those of other investment and reserve assets decreased by the end of 2005. Loans, deposits and the central bank's gold and foreign exchange reserves covered 53% of the external assets. The share of **foreign direct investment** formed nearly 19%. The most active foreign direct investors were those of financial intermediation (45%), real estate, renting and business activities (23%), and transport, storage and communications (see Table 42). Approximately a third of direct investment went both in Latvia and Lithuania. The volume of direct investment in Russia continued to grow, comprising 15% of total foreign direct investment (4% at the end of 2004).

Due to the prevalence of external liabilities, Estonia's net investment position was negative by 164 billion kroons at the end of 2005, which was somewhat less than the volume of GDP for 2005. The share of long-term capital in the net investment position continued growth, amounting to nearly 96%.

Estonia's gross external debt increased by approximately a third year-on-year, totalling 148.2 billion kroons on 31 December 2005 (90% of GDP). The growth in the gross external debt mainly stemmed from a rise in credit institutions' debt liabilities, in particular short-term debt liabilities. Estonia's net external debt (claims less liabilities) constituted 32.6 billion kroons (19.8% of GDP; see Table 43 and Figure 24). The gross external debt amounted to 49% of the external liabilities. Leaving aside intercompany lending of direct investment companies, long-term debt liabilities accounted for 59% of the gross external debt. The share of long-term debt claims formed 36% of total debt claims.

Table 43. External debt (EEK m)

	31/12/2004	%	31/12/2005	%
LIABILITIES				
I. General government	3,891.0	3.4	3,852.8	2.6
Short-term		0.0		0.0
Long-term	3,891.0	3.4	3,852.8	2.6
II. Monetary authorities (NCB)	507.7	0.4	48.4	0.0
Short-term	507.7	0.4	48.4	0.0
Long-term		0.0		0.0
III. Credit institutions	59,932.7	52.2	82,529.9	55.7
Short-term	21,982.8	19.1	38,512.5	26.0
Long-term	37,950.0	33.0	44,017.4	29.7
IV. Other sectors	28,214.3	24.6	38,134.8	25.7
Short-term	10,549.7	9.2	12,783.5	8.6
Long-term	17,664.6	15.4	25,351.2	17.1
V. Direct investment: intercompany lending	22,299.0	19.4	23,673.2	16.0
GROSS EXTERNAL DEBT	114,844.8	100.0	148,239.1	100.0
ASSETS				
I. General government	11,552.0	12.9	12,995.7	11.2
Short-term	5,818.6	6.5	7,902.4	6.8
Long-term	5,733.4	6.4	5,093.3	4.4
II. Monetary authorities (NCB)	20,582.0	23.0	25,735.6	22.3
Short-term	16,879.4	18.9	20,046.9	17.3
Long-term	3,702.6	4.1	5,688.7	4.9
III. Credit institutions	23,030.2	25.7	36,254.8	31.4
Short-term	14,970.9	16.7	21,322.0	18.4
Long-term	8,059.3	9.0	14,932.8	12.9
IV. Other sectors	22,747.0	25.4	24,286.4	21.0
Short-term	12,598.7	14.1	13,885.4	12.0
Long-term	10,148.3	11.3	10,401.0	9.0
V. Direct investment: intercompany lending	11,556.0	12.9	16,367.3	14.2
TOTAL ASSETS	89,467.3	100.0	115,639.8	100.0
NET EXTERNAL DEBT (assets less liabilities)				
I. General government	7,661.0		9,142.9	
Short-term	5,818.6		7,902.4	
Long-term	1,842.4		1,240.5	
II. Monetary authorities (NCB)	20,074.3		25,687.2	
Short-term	16,371.7		19,998.5	
Long-term	3,702.6		5,688.7	
III. Credit institutions	-36,902.5		-46,275.1	
Short-term	-7,011.9		-17,190.5	
Long-term	-29,890.6		-29,084.6	
IV. Other sectors	-5,467.3		-13,848.4	
Short-term	2,049.0		1,101.9	
Long-term	-7,516.3		-14,950.3	
V. Direct investment: intercompany lending	-10,743.0		-7,305.9	
TOTAL NET EXTERNAL DEBT	-25,377.5		-32,599.3	

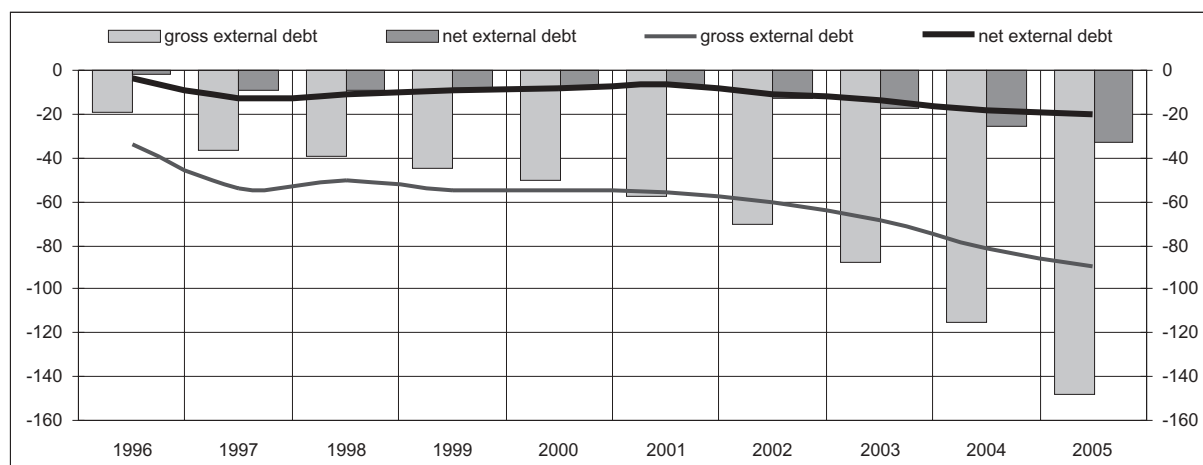


Figure 24. Estonia's gross and net external debt (EEK bn; left scale) and % of GDP (right scale)