

Eesti Pank
Bank of Estonia



Estonian Preliminary Balance of Payments for the Second Quarter of 2006

2006

Estonia's Preliminary Balance of Payments is published four times a year.

The quarterly is available at: <http://www.bankofestonia.info>.

Information about publications by phone +372 668 0998.

Subscriptions of printed versions by

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The quarterly is free of charge to subscribers.

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SHORT OVERVIEW

- **Estonia's fast economic growth accompanied by increased consumption and investment needs kept the current account deficit of Estonia's balance of payments high in the second quarter of 2006, just as in the first quarter. The deficit accounted for 11.2% of the GDP of the last four quarters (see Table 1 and Figure 1)¹. In absolute value, the deficit amounted to 6.3 billion kroons, exceeding the year-ago level by 20% and remaining at the level of the previous quarter.**
- **The current account deficit was mainly boosted by the increase in the foreign trade deficit. The position of other sub-accounts of the current account improved.**
- **Foreign capital inflow occurred mainly through other investment capital.**
- **The capital account surplus was a record 1.3 billion kroons.**
- **The balance of payments reserve assets increased by 1.8 billion kroons.**

The **goods account** had a deficit of 8.2 billion kroons, which exceeded the current account deficit by 1.8 billion kroons. The goods account deficit increased considerably quarter-on-quarter as well as year-on-year, accounting for 15.8% of GDP. The exports of goods amounted to 30.3 billion and the imports to 38.5 billion kroons, both increasing 29% year-on-year.

The main export groups included electronic and oil products as well as timber and timber products. Electronic goods were also the largest import group, followed by oil products, transport vehicles and chemical products. In the last quarters, the turnover of oil products, which are imported to Estonia for processing and then re-exported, has grown remarkably. Their share has risen considerably both in exports and imports. While in the second quarter of 2005 mineral products accounted for 7% of the exports and 9% of the imports, in the second quarter of 2006 the respective figures were 18% and 16%. Machinery and equipment contributed the most to the goods account deficit, but the increase in deficit was mostly boosted by the widening gap between the imports and exports of transport vehicles (primarily motor cars) and chemical products. Timber and timber products posted a surplus.

Estonia's main trading partner was still the European Union, although its share in the exports of goods decreased from 79% in the second quarter of 2005 to 64% in the second quarter of 2006 and in imports from 78% to 72%, respectively. The decrease stemmed from larger exports and imports of oil products with mainly non-EU countries. Finland, Sweden, Latvia, Russia and the United States were the largest export partners, and Finland, Russia, Germany, Sweden and Lithuania the major import partners.

The surplus on the **services account** was 3.9 billion kroons, having increased by 0.5 billion kroons year-on-year. The exports of services grew 12% and the imports 9%. The surplus on services grew mainly owing to transport services (especially sea and road transport), as the exports of transport services outpaced imports. The surplus was further boosted by financial services (the deficit turned into a surplus) as well as computer and information services (the surplus doubled). The structure of the total turnover of the services account remained virtually unchanged: transport services accounted for 42%, travel services for 29% and other business services for 17%.

¹ The current account deficit without reinvested earnings, which involve no actual movement of funds, constituted 7.1% of GDP of the last four quarters.

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

	2002	2003	2004	2005				2006		
	Total	Total	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2
Current account	-12,908.0	-15,415.6	-18,351.6	-4,474.9	-5,230.9	-4,006.4	-4,426.2	-18,138.4	-6,362.4	-6,349.2
Goods and services	-8,564.6	-10,199.6	-11,918.7	-2,149.5	-2,823.2	-2,338.2	-3,356.9	-10,667.8	-3,862.5	-4,239.5
Goods	-18,455.3	-21,666.7	-25,499.0	-4,366.8	-6,208.4	-6,166.0	-6,554.7	-23,295.8	-5,743.7	-8,161.8
credit (f.o.b.)	57,948.7	63,443.7	75,199.5	21,409.6	23,606.6	25,320.7	27,811.2	98,148.2	28,381.0	30,338.5
debit (f.o.b.)	-76,404.0	-85,110.4	-100,698.5	-25,776.4	-29,815.0	-31,486.7	-34,366.0	-121,444.0	-34,124.7	-38,500.3
Services	9,890.7	11,467.1	13,580.3	2,217.3	3,385.2	3,827.7	3,197.9	12,628.1	1,881.2	3,922.3
credit	28,164.3	30,674.0	35,666.4	7,872.9	10,098.5	10,796.6	11,068.2	39,836.2	8,192.8	11,269.3
debit	-18,273.6	-19,206.9	-22,086.1	-5,655.6	-6,713.3	-6,968.9	-7,870.3	-27,208.2	-6,311.6	-7,347.0
Income	-5,391.1	-7,375.2	-7,950.9	-2,494.9	-2,976.4	-1,839.9	-1,418.2	-8,729.3	-2,375.5	-2,652.3
credit	3,371.3	3,449.5	5,484.4	1,579.8	1,837.0	2,773.0	2,273.2	8,463.0	2,322.3	2,943.1
debit	-8,762.4	-10,824.8	-13,435.3	-4,074.6	-4,813.4	-4,612.9	-3,691.4	-17,192.3	-4,697.8	-5,595.4
Transfers	1,047.7	2,159.2	1,518.0	169.5	568.7	171.6	348.8	1,258.7	-124.3	542.7
credit	2,065.6	3,670.7	5,276.7	1,398.1	1,670.3	1,350.4	1,848.6	6,267.4	1,336.8	1,839.5
debit	-1,017.9	-1,511.5	-3,758.7	-1,228.6	-1,101.5	-1,178.8	-1,499.8	-5,008.7	-1,461.1	-1,296.9
Capital and financial account (reserve assets excluded)	13,055.3	18,260.3	21,532.8	6,698.7	3,266.6	4,521.3	8,748.6	23,235.2	5,898.6	7,408.0
Capital account	636.4	685.2	1,145.3	469.0	327.3	181.3	789.9	1,767.5	1,191.3	1,301.7
Financial account	12,418.9	17,575.1	20,387.5	6,229.7	2,939.3	4,340.0	7,958.7	21,467.6	4,707.3	6,106.3
Direct investment	2,611.8	10,716.0	8,746.9	13,786.5	15,458.3	2,654.5	-2,880.1	29,019.2	5,766.9	-394.3
Abroad	-2,188.4	-2,149.2	-3,388.6	-892.2	-2,529.8	-1,642.1	-2,663.2	-7,727.3	-1,830.7	-3,527.2
In Estonia	4,800.2	12,865.3	12,135.5	14,678.6	17,988.1	4,296.6	-216.9	36,746.4	7,597.7	3,133.0
Portfolio investment	2,442.4	2,431.6	9,102.6	-5,576.7	-20,959.0	-5,331.6	4,454.7	-27,412.6	-11,975.2	-1,348.1
Assets	-3,182.9	-5,351.6	-4,775.7	-3,692.5	-2,575.7	-4,609.4	59.3	-10,818.4	-5,618.7	-1,626.7
Equity securities	9.1	-1,028.9	-2,893.5	-1,373.5	-1,243.1	-1,467.8	-764.5	-4,848.9	-1,243.2	-1,018.8
Debt securities	-3,192.0	-4,322.7	-1,882.2	-2,319.0	-1,332.6	-3,141.6	823.8	-5,969.5	-4,375.5	-607.8
Liabilities	5,625.3	7,783.2	13,878.3	-1,884.2	-18,383.2	-722.2	4,395.4	-16,594.2	-6,356.5	278.5
Equity securities	912.2	1,526.9	2,205.3	-9,703.8	-10,127.2	842.0	2,809.3	-16,179.6	-29.0	175.4
Debt securities	4,713.1	6,256.2	11,673.0	7,819.5	-8,256.0	-1,564.2	1,586.1	-414.6	-6,327.5	103.1
Financial derivatives	-63.7	-19.3	-8.3	45.4	-62.8	-74.9	-5.3	-97.7	103.8	42.1
Assets	-43.2	-139.2	-35.1	61.9	-42.9	-24.7	19.3	13.5	96.8	-7.3
Liabilities	-20.5	120.0	26.8	-16.5	-19.8	-50.2	-24.6	-111.2	7.0	49.4
Other investment	7,428.4	4,446.8	2,546.4	-2,025.4	8,502.7	7,092.0	6,389.5	19,958.8	10,811.8	7,806.6
Assets	695.1	-2,284.6	-11,168.8	-12,047.9	5,477.4	-2,127.6	-2,008.9	-10,706.9	-5,138.4	1,116.5
Long-term	-1,083.0	-565.7	-6,052.6	-1,961.8	-3,678.6	3,096.5	7,975.9	5,432.1	-866.7	-1,542.5
Short-term	1,778.1	-1,718.9	-5,116.1	-10,086.1	9,156.1	-5,224.1	-9,984.8	-16,139.0	-4,271.7	2,659.0
Liabilities	6,733.3	6,731.4	13,715.1	10,022.5	3,025.3	9,219.6	8,398.3	30,665.7	15,950.2	6,690.2
Long-term	1,829.0	4,309.1	3,740.5	2,690.0	1,886.7	6,055.0	5,454.0	16,085.6	4,623.7	12,687.2
Short-term	4,904.3	2,422.3	9,974.7	7,332.5	1,138.6	3,164.6	2,944.3	14,580.1	11,326.5	-5,997.0
Errors and omissions	779.5	-532.7	244.2	467.6	471.1	-471.1	-680.4	-212.8	-810.6	746.5
Overall balance	926.8	2,312.1	3,425.4	2,691.4	-1,493.3	43.8	3,641.9	4,883.9	-1,274.3	1,805.4
Reserve assets	-926.8	-2,312.1	-3,425.4	-2,691.4	1,493.3	-43.8	-3,641.9	-4,883.9	1,274.3	-1,805.4

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

In the services sector, Estonia's major trading partners were the EU Member States, which accounted for 74–75% of the exports and imports. Estonia had the biggest surplus with Finland (2.5 billion kroons) and the biggest deficit with Germany (0.2 billion kroons).

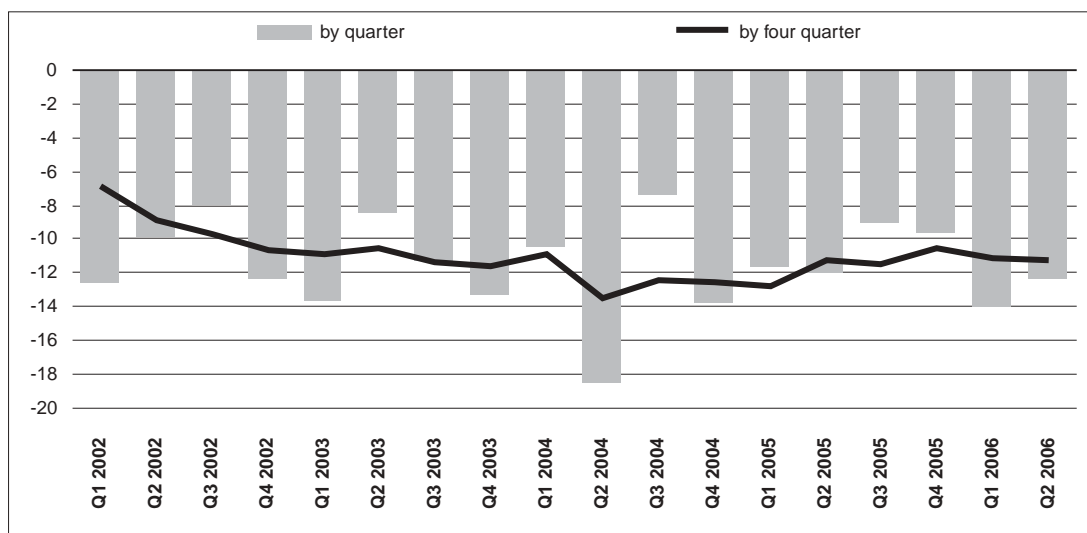


Figure 1. Current account deficit (% of GDP)

Total exports of goods and services, which are the direct components of GDP, grew slower than imports. As a result, the deficit on the goods and services account increased from 6.5% in the second quarter of 2005 to 9.1% of the GDP of the last four quarters in the second quarter of 2006.

The deficit on the **income account** decreased 11%, amounting to 2.7 billion kroons. The income earned by Estonian investors abroad (credit turnover) grew 60% and reached 2.9 billion kroons. Labour income comprised 42% of that and the rest was investment income, 43% of which were reinvested earnings. The income earned by non-residents on the capital invested in Estonia and on compensations of employees (debit turnover) stood at 5.6 billion kroons. 96% of non-residents' income came from investment income, 45% of which consisted of reinvested earnings. Excluding from the income account reinvested earnings, which involve no actual movement of funds, the income account deficit stood at 0.9 billion kroons.

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 64% and the latter 45%. 42% of residents' labour income was earned in Finland, 19% in the United Kingdom, 10% in Sweden, 8% in Ireland, and 5% in the United States and Norway. In Estonia, mainly Finnish (42%), Swedish (19%), Polish (11%), Ukrainian (10%), and Russian (7%) residents earned on labour income.

Most of residents' investment income came from the European Union: 36% from Latvia, 22% from Cyprus and 18% from Lithuania. EU countries dominated also in non-residents' investment income in Estonia: Swedish investors earned 32% and Finnish investors 29% of the investment income. Investors of financial intermediation earned 40% of residents' investment income, the share of transport, storage and communications investors was 20%, investors in construction constituted 13%, and the investors of real estate, renting and business activities accounted for 11%. 33% of non-residents' investment income was earned on financial intermediation, 18% on manufacturing, 17% on wholesale and retail trade, and 14% on real estate, renting and business activities.

The surplus on the **current transfers and capital accounts** more than doubled year-on-year, amounting to 1.8 billion kroons. The growth can largely be attributed to the capital account (receipts from the EU structural funds and sales of emission quotas), the surplus on current transfers remained close to the year-ago level.

The surplus on the **FINANCIAL ACCOUNT** increased by nearly a third compared with the first quarter of 2006, constituting 6.1 billion kroons. Foreign capital inflow occurred mainly through other investment; in terms of direct and portfolio investment, capital outflow exceeded inflow.

Direct investment outflow was 0.4 billion kroons bigger than inflow. Foreign direct investment in Estonia increased by 3.1 billion and direct investment of Estonian residents abroad by 3.5 billion kroons.

Reinvested earnings accounted for 78%, other direct investment capital for 13%, and equity capital investment for 9% of the direct investment inflow. Direct investment mainly came from Finland (37%) and Sweden (36%); the share of the European Union was nearly 100%. 73% of direct investment was made in financial intermediation, the rest went mainly to manufacturing as well as wholesale and retail trade.

Equity capital investment accounted for 57%, other direct investment capital for 23% and reinvested earnings for 20% in the structure of non-residents' direct investment. Most of the investment went to Latvia (68%), Lithuania (18%), and Cyprus (17%). The share of the European Union was again nearly 100%. The investors of financial intermediation (49%), transport, storage and communications (22%), wholesale and retail trade (11%), and real estate, renting and business activities (11%) made the largest investments.

The deficit on **portfolio investment** was 1.3 billion kroons. Portfolio investment assets increased by 1.6 billion and liabilities by 0.3 billion kroons, quarter-on-quarter. Assets increased mainly owing to the rise in the assets of equity securities of other sectors.

The net inflow of **other investment** amounted to 7.8 billion kroons. Assets decreased by 1.1 billion kroons, quarter-on-quarter, mostly on account of the decline in the short-term assets of credit institutions (predominantly repayment of short-term loans). Other investment liabilities grew by 6.7 billion kroons largely as a result of the increase in the currency and deposits of credit institutions and in the loan liabilities of other sectors.

CURRENT ACCOUNT

Estonia's fast economic growth accompanied by increased consumption and investment needs kept the current account deficit of Estonia's balance of payments high in the second quarter of 2006. The deficit accounted for 11.2% of the GDP of the last four quarters. The external balance was mainly affected by the increase in the foreign trade deficit (see Figure 2). The current account deficit without reinvested earnings, which involve no actual movement of funds, constituted 7.1% of the GDP of the last four quarters.

The EU Member States accounted for 70% of the credit turnover (78% in the second quarter of 2005) and for 75% of the debit turnover (79%) of the current account. The five most important partners as regards Estonia's credit turnover in the second quarter of 2006 were Finland, Sweden, Latvia, Russia, and the United States (totalling 54% of the credit turnover). As for debit turnover, also Finland, Russia, Germany, Sweden, and Lithuania (totalling 59% of the debit turnover) were in the lead. Similarly to the second quarter of 2005, Estonia's current account deficit in the second quarter of this year was the biggest with Russia and Germany, whereas the highest surplus was registered with the United States and Gibraltar (Finland and Latvia the year before; see Table 2).

Goods

The goods account deficit soared in the second quarter compared to the previous quarter as well as to the second quarter of 2005, amounting to 8.2 billion kroons (see Table 3). The exports of goods stood at 30.3 billion and the imports in f.o.b. prices at 38.5 billion kroons.

According to the preliminary **foreign trade statistics**², goods exports totalled 30.1 billion and imports in c.i.f. prices 40.6 billion kroons (see Figure 3). The growth rate of both exports and imports amounted to 29% year-on-year. As imports significantly exceeded exports in terms of volume, the foreign trade deficit increased by 2.5 billion kroons and reached 10.5 billion kroons.

Goods exports increased across all major groups, except for clothing, footwear and headgear (see Table 4). The growth in exports was mostly affected by the increased exports of mineral products (particularly motor fuel), metal products, machinery and electrical equipment. The exports of mineral products increased more than 3.5 times, year-on-year, including the exports of fuels that increased more than fourfold. Motor fuel actually accounted for 93% of the exports of mineral products. 74% of that was re-exported after processing in Estonia. The principal countries of destination were the United States and Gibraltar (the first known port of destination from which fuel is presumably transported to the United States). Smaller quantities of motor fuel were exported to Egypt, the Netherlands Antilles and Liberia. Exports also included peat, cement, pitch, coke and electricity. In the machinery and equipment group, the most important export articles were again mobile communication devices and components with exports amounting to 3.7 billion kroons and

² The following analysis does not include the adjustments made to the goods account (repair of capital goods, provisions purchased from abroad, etc.) made by the Balance of Payments and Economic Statistics Department of Eesti Pank. Imports are in c.i.f. prices and analysed by the trading country.

As of the moment of accession, the terms "exports" and "imports" are only applicable in reference to trading with third countries, while the Intrastat 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.

The special trade system used for drawing up the balance of payments prior to the accession to the EU has not been applicable to the same extent as of the moment of accession, since the Intrastat reporting system does not provide for making the difference between general and special trade. Thus, the impact of customs or intermediate warehouses has been eliminated only from trading with third countries, whereas in trading with EU countries also the movement of goods through intermediate warehouses has been registered.

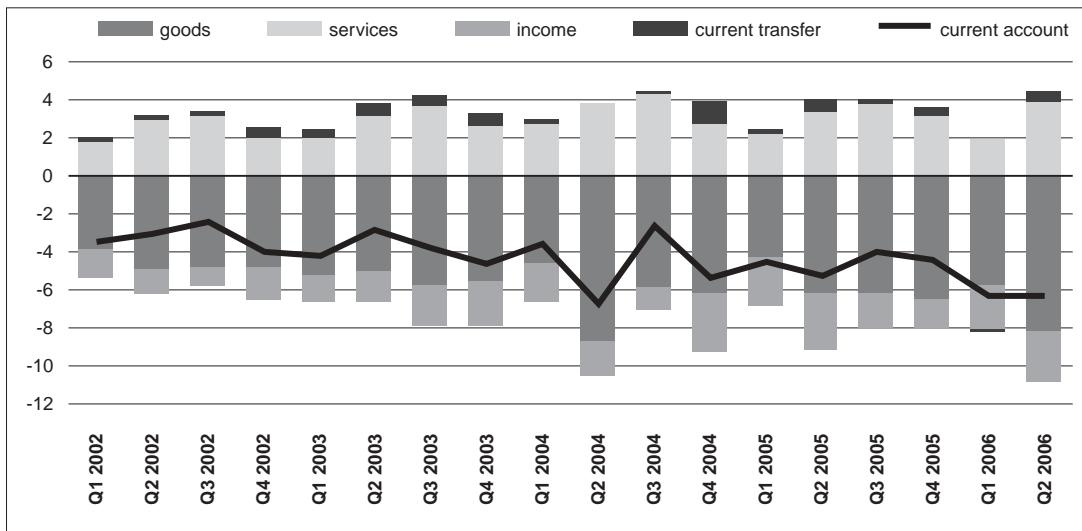


Figure 2. Current account structure (EEK bn)

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

	Q2 2005	Q1 2006	Q2 2006
EU-25	-4,542.7	-6,820.9	-7,153.1
Germany*	-3,334.2	-2,721.2	-3,105.4
Poland	-812.5	-920.7	-1,069.2
Lithuania	-702.4	-921.2	-1,036.2
Latvia	1,003.6	893.3	926.7
Italy	-532.4	-626.5	-811.2
CIS	-1,005.6	-3,568.5	-3,520.7
Russia	-833.9	-3,289.1	-3,123.2
Belarus	-406.9	-629.0	-382.1
Kazakhstan	102.6	166.4	-111.8
Other	317.4	4,027.0	4,324.6
USA	240.0	2,715.8	1,817.1
Gibraltar	283.1	1,346.9	1,628.9
Norway	588.5	523.7	691.0
Hong Kong	-433.0	-626.0	-663.5
Egypt	-47.7	-153.8	477.0
Total	-5,230.9	-6,362.4	-6,349.2

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

accounting for over a half of the group of goods and for 66% of electrical equipment. The countries of destination were Finland, Sweden, China and Hungary. The exports of metals and metal products increased 37% year-on-year. Hot galvanized steel products were mainly exported to Russia, Poland and Belarus, metal constructions to Norway, Finland and Denmark, and scrap metal to Egypt, Turkey and Thailand. Timber and timber products (wooden sleepers, construction components, paper and cardboard, processed and little-processed timber) were mainly exported to Finland, Sweden, the United Kingdom, Germany and Denmark; prefabricated wooden buildings and furniture were exported to Norway, Germany and Finland. The exports of chemical products increased by a fifth, whereas the exports of several construction materials

Table 3. Imports and exports of goods

	Goods – credit			Goods – debit			Balance (EEK m)
	Volume (EEK m)	Change compared to the previous period (%)	Share in total exports of goods and services (%)	Volume (EEK m)	Change compared to the previous period (%)	Share in total imports of goods and services (%)	
Q1 2002	13,206.1	-7.5	70.1	17,079.5	-5.4	81.6	-3,873.4
Q2 2002	14,666.6	11.1	64.8	19,606.2	14.8	79.5	-4,939.6
Q3 2002	14,088.5	-3.9	64.6	18,939.2	-3.4	80.6	-4,850.7
Q4 2002	15,987.5	13.5	70.0	20,779.1	9.7	81.2	-4,791.6
2002 total	57,948.7	-1.4	67.3	76,404.0	5.6	80.7	-18,455.3
Q1 2003	14,308.4	-10.5	70.5	19,528.0	-6.0	83.1	-5,219.6
Q2 2003	16,065.8	12.3	67.0	21,144.0	8.3	81.6	-5,078.1
Q3 2003	15,480.4	-3.6	63.8	21,225.1	0.4	80.6	-5,744.7
Q4 2003	17,589.1	13.6	68.7	23,213.3	9.4	81.2	-5,624.3
2003 total	63,443.7	9.5	67.4	85,110.4	11.4	81.6	-21,666.7
Q1 2004	16,930.6	-3.7	69.8	21,578.1	-7.0	82.5	-4,647.5
Q2 2004	18,019.9	6.4	65.5	26,756.9	24.0	82.4	-8,737.1
Q3 2004	19,183.0	6.5	65.8	25,104.4	-6.2	81.7	-5,921.4
Q4 2004	21,066.0	9.8	70.3	27,259.1	8.6	81.5	-6,193.0
2004 total	75,199.5	18.5	67.8	100,698.5	18.3	82.0	-25,499.0
Q1 2005	21,409.6	1.6	73.1	25,776.4	-5.4	82.0	-4,366.8
Q2 2005	23,606.6	10.3	70.0	29,815.0	15.7	81.6	-6,208.4
Q3 2005	25,320.7	7.3	70.1	31,486.7	5.6	81.9	-6,166.0
Q4 2005	27,811.2	9.8	71.5	34,366.0	9.1	81.4	-6,554.7
2005 total	98,148.2	30.5	71.1	121,444.0	20.6	81.7	-23,295.8
Q1 2006	28,381.0	2.0	77.6	34,124.7	-0.7	84.4	-5,743.7
Q2 2006	30,338.5	6.9	72.9	38,500.3	12.8	84.0	-8,161.8

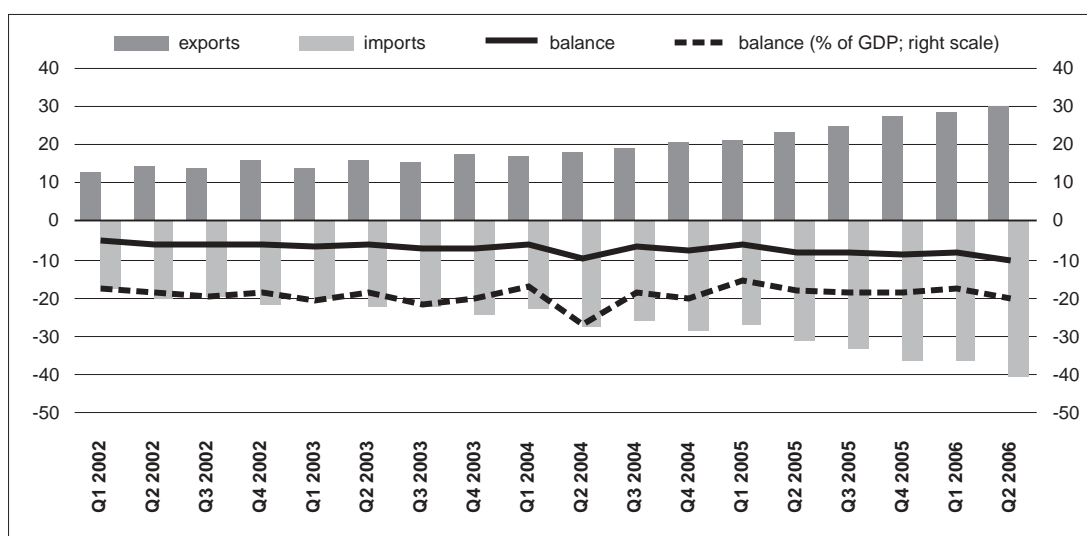


Figure 3. Estonia's foreign trade balance (EEK bn)

Table 4. Exports by main groups of goods

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2005	Q1 2006	Q2 2006	Q2 2005	Q1 2006	Q2 2006	Q2 2006 / Q1 2006	Q2 2006 / Q2 2005
Food	1,739.9	1,816.2	1,910.9	7.4	6.4	6.3	5.2	9.8
Mineral products	1,484.8	5,608.1	5,352.4	6.3	19.9	17.8	-4.6	260.5
Chemical products	1,783.7	1,713.3	2,140.8	7.6	6.1	7.1	25.0	20.0
Clothing, footwear and headgear	2,080.2	2,193.5	1,842.7	8.9	7.8	6.1	-16.0	-11.4
Timber, paper and products	3,454.0	3,269.6	3,711.4	14.8	11.6	12.3	13.5	7.5
Metals and metal products	1,899.3	2,092.6	2,605.2	8.1	7.4	8.6	24.5	37.2
Machinery and equipment	6,154.6	6,669.7	7,097.8	26.3	23.6	23.6	6.4	15.3
Transport vehicles	1,727.2	1,746.8	2,039.0	7.4	6.2	6.8	16.7	18.1
Furniture, toys, sporting goods	2,015.4	2,115.6	2,256.2	8.6	7.5	7.5	6.6	11.9
Other	1,059.4	1,003.6	1,164.0	4.5	3.6	3.9	16.0	9.9
Total	23,398.4	28,228.9	30,120.5	100.0	100.0	100.0	6.7	28.7

(putties, paints and polishes), nitrogen fertilizers and plastic products soared 50%. The major exporting partners were Latvia, Russia, Sweden, Finland and Lithuania. 42% of the exports of transport vehicles accounted for the sales of previously imported motor cars to Latvia and Lithuania. The exports of motor cars increased 28% year-on-year. Deliveries of motor vehicle parts (incl. safety belts) increased 12% and were sent mainly to Sweden. Trailers and semi-trailers were exported to Sweden, Finland and Germany. As regards food products, the biggest export articles were strong alcoholic beverages taken mainly to Russia and Finland. Canned fish was sold to Ukraine, Lithuania and Russia; fish fillets to Switzerland, Denmark and the Netherlands; milk and dairy products to Germany, Russia, Italy, and Finland. Products of the textile and footwear industry (ready-made clothes for men and women, footwear and fur) were mainly exported to Finland, Sweden, Latvia and Russia. Several other products (glass and cement products, high-precision instruments etc.) were exported to Finland, Latvia and Germany.

Goods imports slightly outpaced exports year-on-year, whereas imports also increased across nearly all groups of goods (see Table 5). The growth and structure of imports were mainly affected by the increased imports of mineral products, machinery and equipment, transport vehicles and chemical goods. Motor fuel accounted for 85% of the imports of mineral products, 57% of that came from Russia and 26% from Lithuania. 86% of the fuel imported from Russia went for processing while Lithuanian fuel was channelled to the internal market. Important import articles were also natural gas and petroleum gases (incl. butane used for fuel processing) brought from Russia. In the machinery and equipment group, electronic equipment and components (integrated circuits, components of mobile communication devices, LCD and LED panels, etc.) accounted for 63% of the total imports of the group. Goods were imported from EU countries (Finland, Sweden, Germany, the United Kingdom, Hungary) as well as from Asia (Singapore, Hong Kong, China). Also, various roadworks machinery was imported from the United Kingdom, Sweden, Belgium and Germany. Motor cars brought to Estonia through Finland, Germany, Latvia and France accounted for over 60% of transport vehicles imports. Vans from Germany and Finland and tractors from Germany, Poland and the Netherlands were imported. In the chemical goods group, medicines were imported from Germany, Latvia, Poland and Lithuania; plastic products from Germany, Lithuania and Finland; and chemicals belonging to the ethers group were bought for inward processing from Russia and the United States. 25% of metals imports accounted for rolled steel sheets bought from Finland, Turkey and Taiwan for inward processing as well as for internal supply. Also, iron pipes and metal constructions were imported. The major articles of food imports were strong and low-alcohol beverages from Finland, the Netherlands and traditional wine-producing countries. Pork was imported from Denmark and Finland, tobacco products from Lithuania and

Table 5. Imports by main groups of goods

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2005	Q1 2006	Q2 2006	Q2 2005	Q1 2006	Q2 2006	Q2 2006 / Q1 2006	Q2 2006 / Q2 2005
Food	2,862.8	2,576.4	2,768.0	9.1	7.1	6.8	7.4	-3.3
Mineral products	2,711.4	6,244.6	6,312.6	8.6	17.3	15.6	1.1	132.8
Chemical products	3,848.4	4,083.9	4,787.9	12.3	11.3	11.8	17.2	24.4
Clothing, footwear and headgear	2,223.6	2,512.7	2,597.6	7.1	7.0	6.4	3.4	16.8
Timber, paper and products	1,905.5	1,982.1	2,265.0	6.1	5.5	5.6	14.3	18.9
Metals and metal products	3,303.8	3,375.8	3,987.1	10.5	9.3	9.8	18.1	20.7
Machinery and equipment	8,967.4	9,376.7	10,294.1	28.6	25.9	25.4	9.8	14.8
Transport vehicles	3,686.3	3,834.1	4,986.2	11.7	10.6	12.3	30.0	35.3
Furniture, toys, sporting goods	694.0	774.3	946.9	2.2	2.1	2.3	22.3	36.4
Other	1,186.9	1,373.4	1,647.3	3.8	3.8	4.1	19.9	38.8
Total	31,390.2	36,133.9	40,592.7	100.0	100.0	100.0	12.3	29.3

Germany, and sugar and coffee from Finland and Poland. The imports of clothing, footwear and headgear mainly consisted of footwear and men's and women's clothes from various EU countries and China. As regards timber products, sleepers, raw wood and plywood were imported from Russia and wooden construction components from Finland. Furniture was imported from Finland, Poland and Italy. Several other industrial goods (medical equipment, glass fibre, etc.) were imported from Finland, Germany and Sweden.

The **foreign trade deficit** increased 31 % year-on-year and amounted to 10.5 billion kroons (see Table 6). The machinery and equipment group posted the largest deficit. However, it was transport vehicles whose deficit increased the most, by 1 billion kroons, and chemical products, whose deficit grew by 0.6 billion kroons. Only two commodity groups – timber and timber products and furniture and other industrial goods – retained surplus.

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

	Q2 2005	Q1 2006	Q2 2006
Food	-1,122.9	-760.2	-857.1
Mineral products	-1,226.6	-636.5	-960.2
Chemical products	-2,064.8	-2,370.7	-2,647.1
Clothing, footwear and headgear	-143.4	-319.2	-755.0
Timber, paper and products	1,548.5	1,287.5	1,446.4
Metals and metal products	-1,404.6	-1,283.2	-1,381.8
Machinery and equipment	-2,812.8	-2,707.0	-3,196.2
Transport vehicles	-1,959.1	-2,087.3	-2,947.2
Furniture, toys, sporting goods	1,321.4	1,341.3	1,309.3
Other	-127.5	-369.8	-483.3
Total	-7,991.8	-7,905.0	-10,472.2

By **groups of countries**, the **exports of goods** to the European Union as well as to other groups of countries increased (see Table 7). Exports to the EU countries grew just 4%. The major partner countries were Finland, Sweden, Latvia, Germany, and Lithuania. Exports to CIS countries increased by more than a half, including 54% to Russia, which moved Russia up to the fourth position in the list of export countries. Exports to other countries grew the fastest with the top three being the United States, Gibraltar and China. Since exports to Gibraltar comprised just the re-exports of fuel processed in Estonia, it is quite likely that the fuel was further transported to the United States, and thus the United States ranks second behind Finland among Estonia's export partners.

Table 7. Exports of goods by groups of countries

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2005	Q1 2006	Q2 2006	Q2 2005	Q1 2006	Q2 2006	Q2 2006 / Q1 2006	Q2 2006 / Q2 2005
EU-25	18,563.2	18,428.3	19,361.9	79.3	65.3	64.3	5.1	4.3
Finland	5,906.1	5,746.7	5,950.6	25.2	20.4	19.8	3.5	0.8
Sweden	3,392.0	3,590.4	3,516.5	14.5	12.7	11.7	-2.1	3.7
Latvia	2,053.1	2,172.8	2,457.0	8.8	7.7	8.2	13.1	19.7
Germany	1,426.3	1,450.5	1,583.3	6.1	5.1	5.3	9.1	11.0
Lithuania	1,066.3	1,157.9	1,376.5	4.6	4.1	4.6	18.9	29.1
CIS	1,911.2	2,492.5	2,907.4	8.2	8.8	9.7	16.6	52.1
Russia	1,400.1	1,802.1	2,149.3	6.0	6.4	7.1	19.3	53.5
Ukraine	301.6	453.1	481.9	1.3	1.6	1.6	6.3	59.8
Kazakhstan	62.4	83.9	179.1	0.3	0.3	0.6	113.4	186.9
Other	2,923.9	7,308.1	7,851.2	12.5	25.9	26.1	7.4	168.5
USA	656.7	2,992.8	2,145.5	2.8	10.6	7.1	-28.3	226.7
Gibraltar	284.0	1,357.2	1,623.5	1.2	4.8	5.4	19.6	471.7
Norway	123.7	207.5	945.8	0.5	0.7	3.1	355.9	664.6
Total	23,398.4	28,228.9	30,120.5	100.0	100.0	100.0	6.7	28.7

The **imports of goods** from all groups of countries increased as well, while imports from the CIS countries grew the fastest (see Table 8). Imports from European Union countries increased by 20%; the top five countries were Finland, Germany, Sweden, Lithuania, and Latvia. Imports from Russia increased by two times, year-on-year, amounting to nearly 6 billion kroons. With that Russia ranked second behind Finland among the import countries. Russia was followed by Belarus and Ukraine. China, Hong Kong and the United States dominated among other countries.

Table 8. Imports of goods by groups of countries*

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2005	Q1 2006	Q2 2006	Q2 2005	Q1 2006	Q2 2006	Q2 2006 / Q1 2006	Q2 2006 / Q2 2005
EU-25	24,342.6	25,253.8	29,289.6	77.5	69.9	72.2	16.0	20.3
Finland	6,272.9	6,301.3	7,509.6	20.0	17.4	18.5	19.2	19.7
Germany	4,423.0	4,207.1	4,749.4	14.1	11.6	11.7	12.9	7.4
Sweden	2,953.9	2,713.9	3,135.8	9.4	7.5	7.7	15.5	6.2
Lithuania	1,926.4	2,362.2	2,698.0	6.1	6.5	6.6	14.2	40.1
Latvia	1,476.1	1,708.0	2,163.0	4.7	4.7	5.3	26.6	46.5
CIS	3,683.1	7,048.7	6,898.0	11.7	19.5	17.0	-2.1	87.3
Russia	2,847.2	5,908.4	5,611.7	9.1	16.4	13.8	-5.0	97.1
Belarus	442.0	710.9	568.4	1.4	2.0	1.4	-20.0	28.6
Ukraine	259.9	342.5	339.8	0.8	0.9	0.8	-0.8	30.8
Other	3,364.5	3,831.4	4,405.1	10.7	10.6	10.9	15.0	30.9
Hong Kong	614.4	610.8	882.9	2.0	1.7	2.2	44.5	43.7
China	454.5	657.5	678.8	1.4	1.8	1.7	3.2	49.3
Japan	409.4	345.0	529.2	1.3	1.0	1.3	53.4	29.3
Total	31,390.2	36,133.9	40,592.7	100.0	100.0	100.0	12.3	29.3

* Analysed by trading country.

Foreign trade with the EU and CIS countries remained in deficit (see Table 9). As regards the EU Member States, Estonia had the largest surplus of goods with Sweden, Latvia and Hungary, with Ukraine from the CIS countries, and with the United States, Gibraltar, Norway and Egypt as for other countries.

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

	Q2 2005	Q1 2006	Q2 2006
EU-25	-5,779.4	-6,825.5	-9,927.7
CIS	-1,771.9	-4,556.2	-3,990.6
Other	-440.6	3,476.7	3,446.1
Total	-7,991.8	-7,905.0	-10,472.2

Services

The surplus on the services account stood at 3.9 billion kroons in the second quarter of 2006. The indicator grew 16% year-on-year and more than twice quarter-on-quarter (see Table 10 and Figure 4).

The surplus on the services account increased mainly as a consequence of the fast growth in the transport services surplus (33%; see Table 11). The increase in the surplus was also underpinned by faster than usual growth in travel as well as computer and information services surplus and by several smaller types of services (financial services) moving from deficit to surplus.

Services exports totalled 11.3 billion kroons in the second quarter, having increased 12% year-on-year. The exports of transport services, particularly freight transport, grew faster than average (by 15% and 24%, respectively; see Table 12). Travel services exports, which had posted a decline in the first quarter, increased 13%.

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 2002	5,631.2	-20.9	29.9	3,848.7	-16.2	18.4	1,655.7	-27.5
Q2 2002	7,959.8	41.4	35.2	5,043.2	31.0	20.5	2,961.0	78.8
Q3 2002	7,712.6	-3.1	35.4	4,555.3	-9.7	19.4	3,107.2	4.9
Q4 2002	6,860.7	-11.0	30.0	4,826.4	6.0	18.8	1,953.5	-37.1
2002 total	28,164.3	0.1	32.7	18,273.6	8.5	19.3	9,677.4	-12.4
Q1 2003	5,989.6	-12.7	29.5	3,959.8	-18.0	16.9	2,029.8	3.9
Q2 2003	7,913.9	32.1	33.0	4,773.7	20.6	18.4	3,140.2	54.7
Q3 2003	8,768.1	10.8	36.2	5,102.5	6.9	19.4	3,665.6	16.7
Q4 2003	8,002.4	-8.7	31.3	5,370.8	5.3	18.8	2,631.6	-28.2
2003 total	30,674.0	8.9	32.6	19,206.8	5.1	18.4	11,467.2	18.5
Q1 2004	7,334.1	-8.4	30.2	4,561.4	-15.1	17.5	2,772.7	5.4
Q2 2004	9,479.4	29.3	34.5	5,731.0	25.6	17.6	3,748.4	35.2
Q3 2004	9,969.1	5.2	34.2	5,619.8	-1.9	18.3	4,349.3	16.0
Q4 2004	8,883.7	-10.9	29.7	6,173.9	9.9	18.5	2,709.8	-37.7
2004 total	35,666.3	16.3	32.2	22,086.1	15.0	18.0	13,580.2	18.4
Q1 2005	7,872.9	-11.4	26.9	5,655.6	-8.4	18.0	2,217.3	-18.2
Q2 2005	10,098.5	28.3	30.0	6,713.3	18.7	18.4	3,385.2	52.7
Q3 2005	10,796.6	6.9	29.9	6,968.9	3.8	18.1	3,827.7	13.1
Q4 2005	11,068.2	2.5	28.5	7,870.3	12.9	18.6	3,197.9	-16.5
2005 total	39,836.2	11.7	28.9	27,208.1	23.2	18.3	12,628.1	-7.0
Q1 2006	8,192.8	-26.0	22.4	6,311.6	-19.8	15.6	1,881.2	-41.2
Q2 2006	11,269.3	37.6	27.1	7,347.0	16.4	16.0	3,922.3	108.5

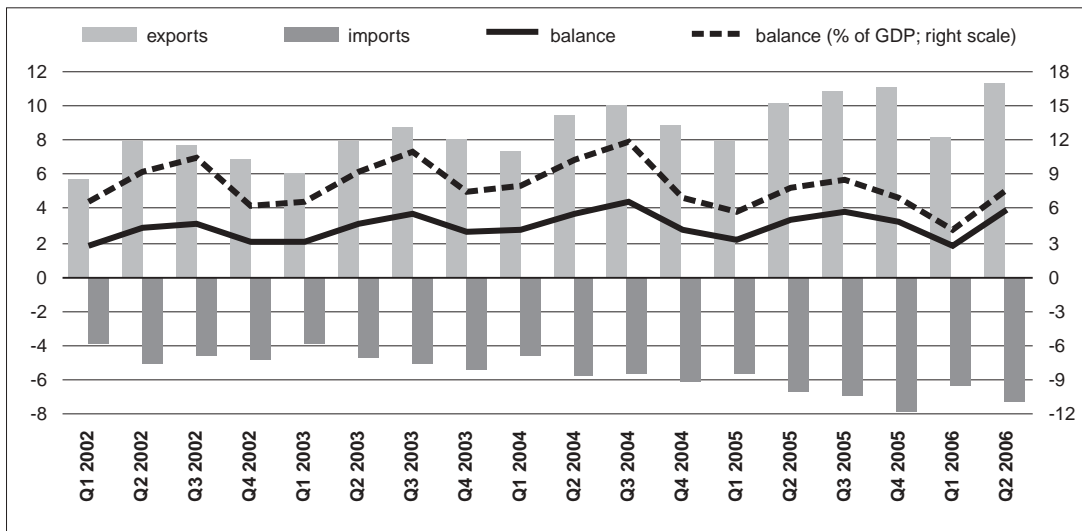


Figure 4. Services account (EEK bn)

Table 11. Services balance by major categories

	Balance (EEK m)			Share (%)			Change (%)	
	Q2 2005	Q1 2006	Q2 2006	Q2 2005	Q1 2006	Q2 2006	Q2 2006 / Q1 2006	Q2 2006 / Q2 2005
Transportation	949.1	579.1	1,265.0	28.0	30.8	32.3	118.4	33.3
Travel	1,982.4	521.6	2,144.9	58.6	27.7	54.7	311.2	8.2
Construction services	-53.5	47.5	-99.5	-1.6	2.5	-2.5	-309.5	86.0
Business services	511.1	770.8	482.5	15.1	41.0	12.3	-37.4	-5.6
Government services	50.6	-48.1	40.0	1.5	-2.6	1.0	-183.2	-20.9
Other	-54.5	10.3	89.4	-1.6	0.5	2.3	768.0	-264.0
Total	3,385.2	1,881.2	3,922.3	100.0	100.0	100.0	108.5	15.9

Table 12. Services exports by major categories

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2005	Q1 2006	Q2 2006	Q2 2005	Q1 2006	Q2 2006	Q2 2006 / Q1 2006	Q2 2006 / Q2 2005
Transportation	3,974.0	3,476.2	4,571.2	39.4	42.4	40.6	31.5	15.0
freight	1,944.2	1,859.9	2,403.8	19.3	22.7	21.3	29.2	23.6
passenger	925.7	685.6	1,071.8	9.2	8.4	9.5	56.3	15.8
other transport services	1,104.1	930.7	1,095.6	10.9	11.4	9.7	17.7	-0.8
Travel	3,365.0	1,894.5	3,795.3	33.3	23.1	33.7	100.3	12.8
Construction services	407.5	226.5	235.0	4.0	2.8	2.1	3.8	-42.3
Business services	1,684.0	1,839.4	1,784.2	16.7	22.5	15.8	-3.0	6.0
Government services	117.6	107.7	112.8	1.2	1.3	1.0	4.7	-4.1
Other	550.4	648.5	770.8	5.5	7.9	6.8	18.9	40.0
Total	10,098.5	8,192.8	11,269.3	100.0	100.0	100.0	37.6	11.6

Services exports to EU countries grew faster than average (17%), particularly to the neighbouring countries: Sweden (33%), Latvia (20%) and Finland (11%; see Table 13).

Services imports amounted to 7.3 billion kroons in the second quarter, posting a 9% rise year-on-year (see Table 14). The imports of travel and business services grew faster than average (19% and 11%, respectively). The structure of services imports remained relatively stable.

The structure of services imports has remained by and large the same also in terms of country of origin (see Table 15). The share of Finland in services imports has somewhat increased.

Table 13. Services exports by groups of countries

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2005	Q1 2006	Q2 2006	Q2 2005	Q1 2006	Q2 2006	Q2 2006 / Q1 2006	Q2 2006 / Q2 2005
EU-25	7,227.5	5,570.2	8,441.8	71.6	68.0	74.9	51.6	16.8
Finland	3,453.8	2,355.9	3,831.9	34.2	28.8	34.0	62.6	10.9
Sweden	807.8	692.5	1,071.7	8.0	8.5	9.5	54.8	32.7
Germany	597.3	406.2	752.7	5.9	5.0	6.7	85.3	26.0
Latvia	414.1	331.5	494.8	4.1	4.0	4.4	49.3	19.5
United Kingdom	703.4	481.0	493.0	7.0	5.9	4.4	2.5	-29.9
CIS	1,270.2	1,160.1	1,164.8	12.6	14.2	10.3	0.4	-8.3
Russia	1,034.7	927.1	950.6	10.2	11.3	8.4	2.5	-8.1
Kazakhstan	126.6	114.6	107.6	1.3	1.4	1.0	-6.1	-15.1
Other	1,600.8	1,462.5	1,662.7	15.9	17.9	14.8	13.7	3.9
offshore regions	1,270.2	1,160.1	1,164.8	12.6	14.2	10.3	0.4	-8.3
Switzerland	352.5	388.5	382.7	3.5	4.7	3.4	-1.5	8.6
USA	453.7	342.3	355.9	4.5	4.2	3.2	3.9	-21.6
Total	10,098.5	8,192.8	11,269.3	100.0	100.0	100.0	37.6	11.6

Table 14. Services imports by major categories

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2005	Q1 2006	Q2 2006	Q2 2005	Q1 2006	Q2 2006	Q2 2006 / Q1 2006	Q2 2006 / Q2 2005
Transportation	3,024.9	2,897.1	3,306.3	45.1	45.9	45.0	14.1	9.3
freight	1,973.8	2,025.4	2,175.8	29.4	32.1	29.6	7.4	10.2
passenger	275.5	302.5	358.8	4.1	4.8	4.9	18.6	30.2
other transport services	775.6	569.2	771.7	11.6	9.0	10.5	35.6	-0.5
Travel	1,382.6	1,372.9	1,650.4	20.6	21.8	22.5	20.2	19.4
Construction services	461.1	179.0	334.5	6.9	2.8	4.6	86.9	-27.5
Business services	1,172.9	1,068.6	1,301.8	17.5	16.9	17.7	21.8	11.0
Government services	67.0	135.7	72.8	1.0	2.2	1.0	-46.4	8.7
Other	604.8	658.3	681.2	9.0	10.4	9.3	3.5	12.6
Total	6,713.3	6,311.6	7,347.0	100.0	100.0	100.0	16.4	9.4

Table 15. Services imports by groups of countries

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2005	Q1 2006	Q2 2006	Q2 2005	Q1 2006	Q2 2006	Q2 2006 / Q1 2006	Q2 2006 / Q2 2005
EU-25	4,924.0	4,526.7	5,456.6	73.3	71.7	74.3	20.5	10.8
Finland	1,081.8	1,289.2	1,310.2	16.1	20.4	17.8	1.6	21.1
Germany	962.4	525.3	930.2	14.3	8.3	12.7	77.1	-3.3
Sweden	513.2	393.1	548.0	7.6	6.2	7.5	39.4	6.8
Latvia	423.0	344.5	490.3	6.3	5.5	6.7	42.3	15.9
United Kingdom	427.2	390.7	366.9	6.4	6.2	5.0	-6.1	-14.1
CIS	842.8	734.7	935.8	12.6	11.6	12.7	27.4	11.0
Russia	709.5	607.7	787.5	10.6	9.6	10.7	29.6	11.0
Ukraine	51.8	57.6	77.6	0.8	0.9	1.1	34.7	49.8
Other	946.5	1,050.2	954.6	14.1	16.6	13.0	-9.1	0.9
USA	221.5	223.1	193.6	3.3	3.5	2.6	-13.2	-12.6
Norway	78.8	78.2	87.8	1.2	1.2	1.2	12.3	11.4
China	66.5	61.1	86.1	1.0	1.0	1.2	40.9	29.5
Total	6,713.3	6,311.6	7,347.0	100.0	100.0	100.0	16.4	9.4

Transport services surplus increased fast in the second quarter of 2006 compared to both the first quarter and the same period the year before, amounting to nearly one third of the transport services balance (see Figure 5 and Tables 11, 12, 14). Maritime transport accounted for the largest share of transport services, above all owing to the rise in the share of freight transport, which contributed to the growth in the transport services surplus (see Figure 6).

The exports of transport services increased by a sixth year-on-year, whereas transport services accounted for 41% of total services exports (see Table 12). As the exports of travel services grew, also the exports of transport services to travellers increased 16% year-on-year. The exports of freight transport in the railway and road transport sector on the territories of other countries increased as well. The share of EU countries

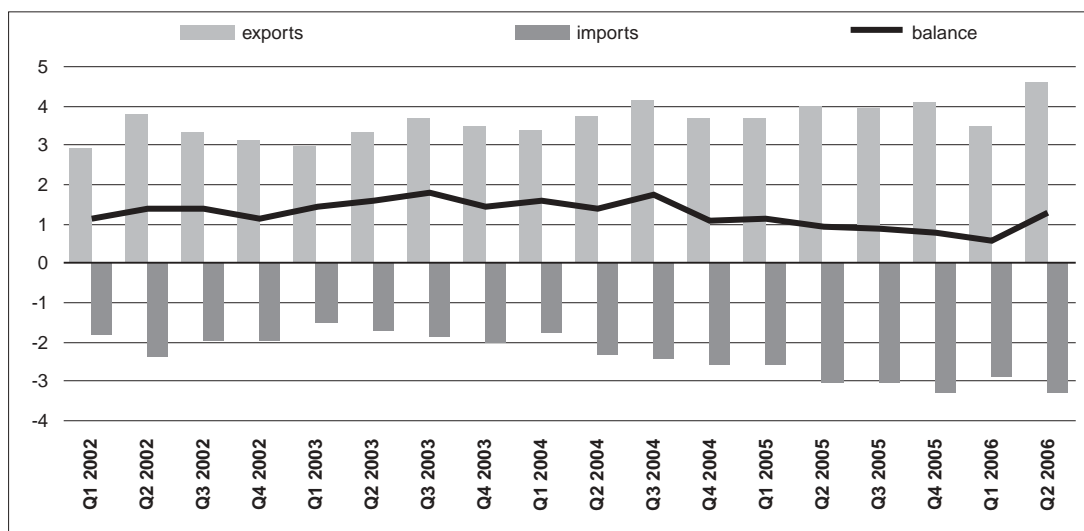


Figure 5. Transport services (EEK bn)

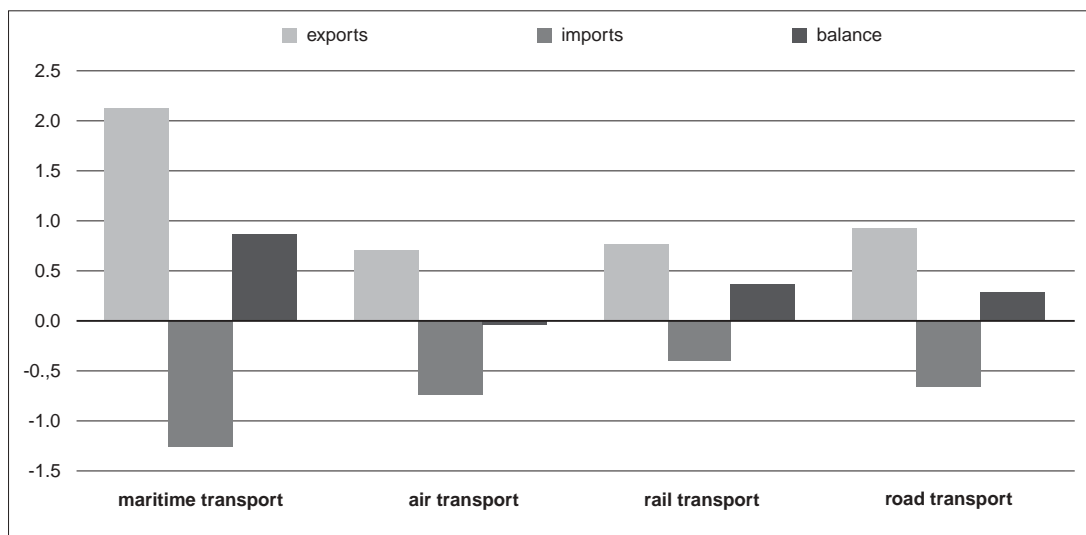


Figure 6. Transport services structure in the second quarter of 2006 by transport type (EEK bn)

in transport services exports stood at 74%, having increased 26% year-on-year. Finland was the biggest importer of transport services (23%), but Cyprus stood out with the fastest growth rate (see Table 16).

The imports of transport services also showed an upward trend year-on-year (9%; see Table 14). Transport services were mainly purchased from EU countries, above all from Finland (see Table 16). As regards CIS countries, transport services were mainly bought from Russia, while Ukraine showed the fastest rise regarding Estonia's imports of transport services. As for other countries, offshore regions and China were the largest providers of transport services.

Table 16. Transport services by groups of countries in the second quarter of 2006

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%), Q2 2006 / Q2 2005		Volume (EEK m)	Share (%)	Change (%), Q2 2006 / Q2 2005
EU-25	3,396.2	74.3	25.8	EU-25	2,405.7	72.8	12.8
Finland	1,067.3	23.3	3.1	Finland	642.3	19.4	16.7
Sweden	540.4	11.8	56.5	Germany	379.4	11.5	24.3
Germany	420.8	9.2	60.1	Latvia	211.5	6.4	14.0
Cyprus	302.0	6.6	252.4	Sweden	209.1	6.3	0.2
United Kingdom	277.8	6.1	-27.1	Netherlands	117.1	3.5	9.5
CIS	429.5	9.4	3.1	CIS	463.8	14.0	4.1
Russia	379.9	8.3	3.1	Russia	405.0	12.2	10.8
Ukraine	22.6	0.5	14.1	Ukraine	25.1	0.8	73.1
Other	745.5	16.3	-13.1	Other	436.8	13.2	-2.3
Switzerland	224.8	4.9	4.1	offshore regions	101.8	3.1	37.9
offshore regions	205.8	4.5	-21.0	China	80.9	2.4	28.8
USA	158.4	3.5	-22.0	Hong Kong	61.7	1.9	48.7
Total	4,571.2	100.0	15.0	Total	3,306.3	100.0	9.3

The exports of **travel services** increased 13% year-on-year, whereas imports grew 19% (see Figure 7). While the number of tourists from EU countries visiting Estonia declined during winter months compared to the same period the year before, the second quarter saw a 15% growth. Tourists from the Scandinavian countries visited Estonia more frequently than during the year before. The number of Finnish tourists grew mainly on account of one-day trips. There were also more cruise ship tourists, whose stay in Estonia was limited to a few hours. The living expenses of temporary workers from Poland and Ukraine increased the share of these countries in Estonia's travel services exports³.

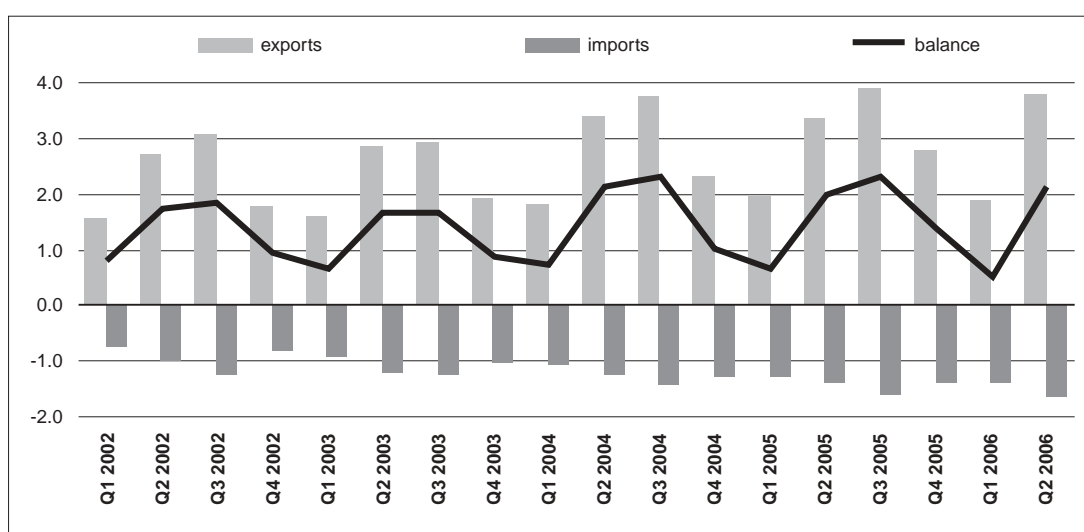


Figure 7. Travel services (EEK bn)

Table 17. Travel services by groups of countries in the second quarter of 2006

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%), Q2 2006 / Q2 2005		Volume (EEK m)	Share (%)	Change (%), Q2 2006 / Q2 2005
EU-25	3,104.0	81.8	15.4	EU-25	-1,206.4	73.1	32.6
Finland	2,154.8	56.8	17.1	Finland	-235.1	61.1	76.4
Sweden	294.4	7.8	23.2	Germany	-212.2	-7.7	63.3
Germany	145.2	3.8	70.0	Sweden	-124.7	-17.5	64.0
Latvia	121.1	3.2	0.5	United Kingdom	-99.0	-28.1	17.6
CIS	444.2	11.7	-7.8	CIS	-198.5	12.0	-4.4
Russia	412.9	10.9	-10.4	Russia	-160.6	9.7	-11.5
Other	247.1	6.5	28.2	Other	-245.5	14.9	-7.3
Norway	91.5	2.4	87.6	USA	-45.5	2.8	-7.8
USA	87.7	2.3	14.4	Egypt	-33.9	2.1	-30.0
Canada	13.3	0.4	11.0	Turkey	-30.1	1.8	49.8
Total	3,795.3	100.0	12.8	Total	-1,650.4	100.0	19.4

³ According to the balance of payments methodology, the daily expenditure of employees in the work period are recorded under travel expenses.

Travel services imports increased mainly owing to the growth in the daily expenses abroad of seasonal workers who are Estonian residents. The number of Estonians who used the services of travel agencies rose by just 5% year-on-year. The total number of the Estonians who visited foreign countries during the quarter changed very little year-on-year. The most popular destinations included trips to EU countries (the Netherlands and the United Kingdom), whereas visits to Egypt, which had lately been a favourite, declined by a third.

Income

The income account deficit was 2.7 billion kroons in the second quarter of 2006, having decreased 11% year-on-year (see Table 18 and Figure 8). The income account deficit amounted to 5.1% of the quarterly GDP.

The decline in the income account deficit was mostly affected by the considerable rise in the surplus of labour income (68%; see Table 19). Due to the fast growth in Estonia's debt burden the net outflow of other investment income (which largely consists of loan interests) increased by nearly three times year-on-year.

Income inflow grew 60% year-on-year (see Table 20). Income on foreign direct investment contributed the most in that respect, posting a twofold rise compared to the previous year. Moreover, labour income earned abroad increased 64% as well.

Table 18. Income

	Inflow		Outflow		Balance	
	Volume (EEK m)	Change compared to previous period (%)	Volume (EEK m)	Change compared to previous period (%)	Volume (EEK m)	Change compared to previous period (%)
Q1 2002	646.3	-38.0	2,142.8	-20.2	-1,496.5	-9.1
Q2 2002	771.6	19.4	2,033.8	-5.1	-1,262.2	-15.7
Q3 2002	1,248.0	61.7	2,190.6	7.7	-942.6	-25.3
Q4 2002	705.4	-43.5	2,395.2	9.3	-1,689.8	79.3
2002 total	3,371.3	11.6	8,762.4	10.6	-5,391.1	10.1
Q1 2003	644.6	-8.6	2,036.8	-15.0	-1,392.2	-17.6
Q2 2003	1,001.4	55.4	2,535.0	24.5	-1,533.6	10.2
Q3 2003	1,139.2	13.8	3,307.4	30.5	-2,168.2	41.4
Q4 2003	664.3	-41.7	2,945.6	-10.9	-2,281.3	5.2
2003 total	3,449.5	2.3	10,824.8	23.5	-7,375.3	36.8
Q1 2004	647.7	-2.5	2,601.8	-11.7	-1,954.1	-14.3
Q2 2004	1,238.8	91.3	3,002.1	15.4	-1,763.3	-9.8
Q3 2004	1,912.0	54.3	3,081.2	2.6	-1,169.2	-33.7
Q4 2004	1,686.0	-11.8	4,750.2	54.2	-3,064.2	162.1
2004 total	5,484.5	59.0	13,435.3	24.1	-7,950.8	7.8
Q1 2005	1,579.8	-6.3	4,074.6	-14.2	-2,494.9	-18.6
Q2 2005	1,837.0	16.3	4,813.4	18.1	-2,976.4	19.3
Q3 2005	2,773.0	51.0	4,612.9	-4.2	-1,839.9	-38.2
Q4 2005	2,273.2	-18.0	3,691.4	-20.0	-1,418.2	-22.9
2005 total	8,463.0	54.3	17,192.3	28.0	-8,729.3	9.8
Q1 2006	2,322.3	2.2	4,697.8	27.3	-2,375.5	67.5
Q2 2006	2,943.1	26.7	5,595.4	19.1	-2,652.3	11.7

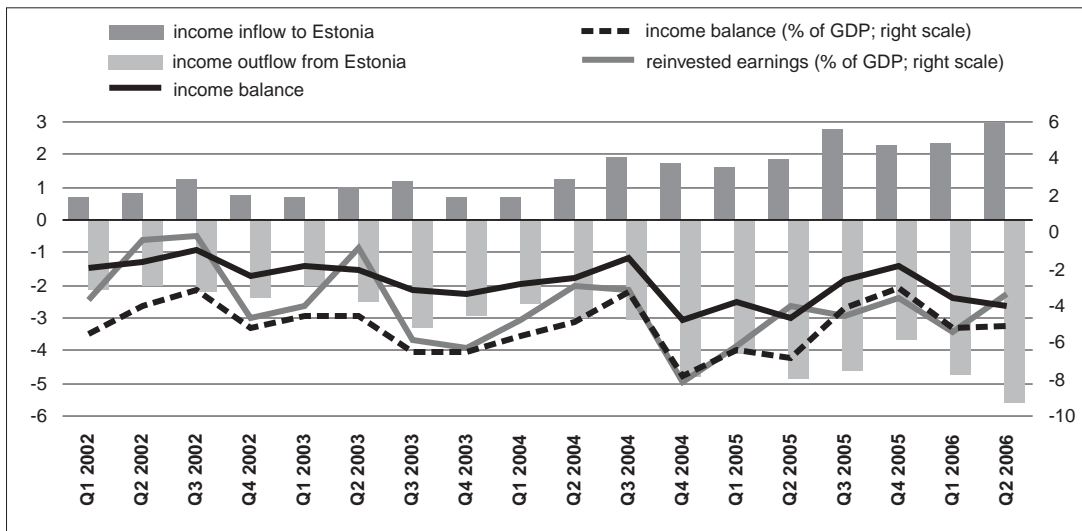


Figure 8. Income account (EEK bn)

Table 19. Structure of income account

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2005	Q1 2006	Q2 2006	Q2 2005	Q1 2006	Q2 2006	Q2 2006 / Q1 2006	Q2 2006 / Q2 2005
Income on direct investment	-3,258.1	-2,871.4	-3,139.1	109.5	120.9	118.4	9.3	-3.7
income on equity	-3,174.4	-2,762.9	-3,022.9	106.7	116.3	114.0	9.4	-4.8
reinvested earnings	-1,755.6	-2,499.7	-1,725.8	59.0	105.2	65.1	-31.0	-1.7
dividends	-1,418.8	-263.2	-1,297.1	47.7	11.1	48.9	392.8	-8.6
income on debt (interests)	-83.7	-108.5	-116.2	2.8	4.6	4.4	7.1	38.8
Income on portfolio investment	-174.0	-24.1	-70.6	5.8	1.0	2.7	192.9	-59.4
Income on other investment	-164.2	-347.4	-484.7	5.5	14.6	18.3	39.5	195.2
Other income	619.8	867.4	1,042.1	-20.8	-36.5	-39.3	20.1	68.1
Total	-2,976.4	-2,375.5	-2,652.3	100.0	100.0	100.0	11.7	-10.9

Table 20. Income inflow to Estonia

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2005	Q1 2006	Q2 2006	Q2 2005	Q1 2006	Q2 2006	Q2 2006 / Q1 2006	Q2 2006 / Q2 2005
Income on direct investment	566.4	781.1	1,108.0	30.8	33.6	37.6	41.9	95.6
income on equity	523.2	707.3	1,023.0	28.5	30.5	34.8	44.6	95.5
reinvested earnings	-351.1	640.6	722.8	-19.1	27.6	24.6	12.8	-305.9
dividends	874.3	66.7	300.3	47.6	2.9	10.2	350.2	-65.7
income on debt (interests)	43.2	73.8	85.0	2.4	3.2	2.9	15.2	96.8
Income on portfolio investment	281.5	261.6	354.8	15.3	11.3	12.1	35.6	26.0
Income on other investment	228.5	227.8	231.5	12.4	9.8	7.9	1.6	1.3
Other income	760.6	1,051.7	1,248.8	41.4	45.3	42.4	18.7	64.2
Total	1,837.0	2,322.3	2,943.1	100.0	100.0	100.0	26.7	60.2

Income outflow increased 16% year-on-year, whereas income on debt grew faster than average (both liabilities to direct investors as well as loans taken with 58% and 82%, respectively).

The EU countries held the largest share both in the inflow and outflow of income (97% and 87%, respectively). Negative income inflow from Russia indicates that companies with Estonian shareholding were making losses in the second quarter (see Table 21). Finland witnessed the biggest year-on-year increase among EU countries in terms of income inflow, mainly owing to labour income. Like earlier, Sweden and Finland again held the largest share (31% and 30%, respectively) in income outflow.

Labour income, which is difficult to classify by fields of activity, accounted for 42% of the income inflow. As for the rest of income inflow, most income was earned on financial intermediation (23% of total income inflow; see Figure 9) and transportation, storage and communications (11%). Financial intermediation prevailed also in income outflow (31% of total income outflow), followed by manufacturing (18%) and wholesale and retail trade (17%).

Table 21. Income by groups of countries in the second quarter of 2006

	Inflow				Outflow		
	Volume (EEK m)	Share (%)	Change (%), Q2 2006 / Q2 2005		Volume (EEK m)	Share (%)	Change (%), Q2 2006 / Q2 2005
EU-25	2,850.7	96.9	88.4	EU-25	4,858.8	86.8	14.0
Latvia	627.8	21.3	43.0	Sweden	1,746.9	31.2	8.4
Finland	624.9	21.2	141.2	Finland	1,653.5	29.6	25.6
Lithuania	386.6	13.1	85.0	United Kingdom	293.5	5.2	-10.2
Cyprus	312.0	10.6	439.7	Austria	243.3	4.3	92.9
EU-15	1,484.4	50.4	78.3	EU-15	4,490.6	80.3	7.3
CIS	-195.2	-6.6	-418.4	CIS	148.3	2.7	105.7
Ukraine	13.0	0.4	94.0	Russia	122.3	2.2	76.2
Russia	-206.0	-7.0	-505.9	Ukraine	22.0	0.4	815.4
Other	287.6	9.8	-31.0	Other	588.3	10.5	23.2
offshore regions	97.2	3.3	6.6	offshore regions	229.0	4.1	311.9
USA	96.6	3.3	-27.1	Norway	110.8	2.0	-698.9
Total	2,943.1	100.0	60.2	Total	5,595.4	100.0	16.2

Table 22. Income outflow from Estonia

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2005	Q1 2006	Q2 2006	Q2 2005	Q1 2006	Q2 2006	Q2 2006 / Q1 2006	Q2 2006 / Q2 2005
Income on direct investment	3,824.5	3,652.5	4,247.2	79.5	77.7	75.9	16.3	11.1
income on equity	3,697.6	3,470.3	4,046.0	76.8	73.9	72.3	16.6	9.4
reinvested earnings	1,404.5	3,140.3	2,448.6	29.2	66.8	43.8	-22.0	74.3
dividends	2,293.1	329.9	1,597.4	47.6	7.0	28.5	384.2	-30.3
income on debt (interests)	127.0	182.3	201.2	2.6	3.9	3.6	10.4	58.4
Income on portfolio investment	455.4	285.8	425.4	9.5	6.1	7.6	48.8	-6.6
Income on other investment	392.7	575.2	716.2	8.2	12.2	12.8	24.5	82.4
Other income	140.8	184.4	206.7	2.9	3.9	3.7	12.1	46.8
Total	4,813.4	4,697.8	5,595.4	100.0	100.0	100.0	19.1	16.2

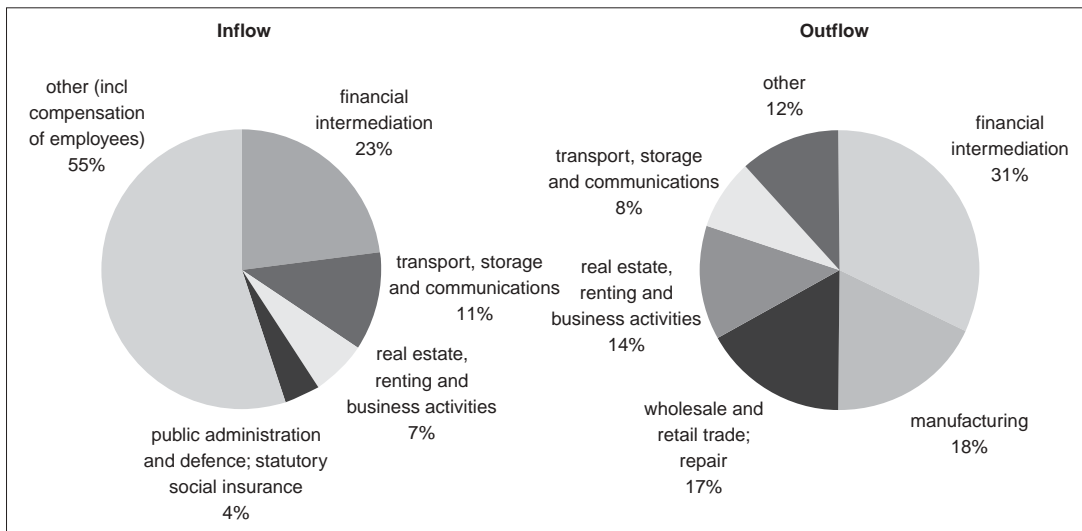


Figure 9. Inflow and outflow of income by fields of activity in the second quarter of 2006

Current and capital transfers⁴

The current transfers account again posted a surplus of 0.5 billion kroons in the second quarter of 2006, while remaining close to the previous year's level (see Table 23). The inflow of current transfers amounted to 1.8 billion kroons. Government transfers reached nearly 1 billion kroons and mostly consisted of allocations from the EU structural funds as well as VAT, income and social tax receipts from non-residents. Other sectors' transfers stood at 0.8 billion kroons with 85% of that coming from EU Member States (agricultural subsidies from the European Commission, transfers from Belgium, the United Kingdom, Germany and Sweden). The outflow of current transfers amounted to 1.3 billion kroons and was distributed equally between the general government and other sectors. The general government made transfers mainly to the European Union (payments into the EU budget and refunds of value added tax). Other sectors' transfers were also mainly made to the EU. The biggest beneficiaries were Finland, Germany, the United Kingdom and Sweden.

The surplus on the **capital transfers account** was 0.9 billion kroons, outpacing considerably the respective figures for the previous quarter and the second quarter of 2005. Capital transfers into Estonia mainly comprised EU subsidies to the general government as well as to other sectors for various infrastructure objects.

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 the EU 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).

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

	Received			Paid			Balance		
	Q2 2005	Q1 2006	Q2 2006	Q2 2005	Q1 2006	Q2 2006	Q2 2005	Q1 2006	Q2 2006
Current transfers	1,670.3	1,336.8	1,839.5	1,101.5	1,461.1	1,296.9	568.7	-124.3	542.7
government transfers	713.0	625.6	993.6	643.2	871.6	648.5	69.8	-246.1	345.1
EU-25	605.4	518.0	854.6	638.2	860.4	640.6	-32.8	-342.5	214.1
CIS	102.0	88.8	114.2	0.9	1.6	1.2	101.1	87.3	113.0
other	5.5	18.8	24.8	4.2	9.6	6.7	1.4	9.2	18.0
private transfers	957.2	711.2	845.9	458.3	589.5	648.4	498.9	121.8	197.5
EU-25	851.1	574.8	718.0	377.3	484.4	528.0	473.8	90.4	190.1
CIS	12.3	36.1	26.2	21.3	50.6	37.1	-9.0	-14.4	-10.8
other	93.9	100.2	101.7	59.8	54.5	83.3	34.1	45.7	18.3
Capital transfers	326.3	333.8	980.3	6.4	64.3	61.0	319.9	269.5	919.4
government transfers	320.4	190.4	777.7	0.0	0.0	0.0	320.4	190.4	777.7
private transfers	5.9	143.4	202.6	6.4	64.3	61.0	-0.5	79.1	141.6

FINANCIAL ACCOUNT

The surplus on the financial account⁵ was 6.1 billion kroons in the second quarter of 2006. Foreign capital inflow occurred mainly through other investment. As regards direct and portfolio investment, capital outflow exceeded the inflow. Figures 10 and 11 show the structure of the financial account by categories and maturities.

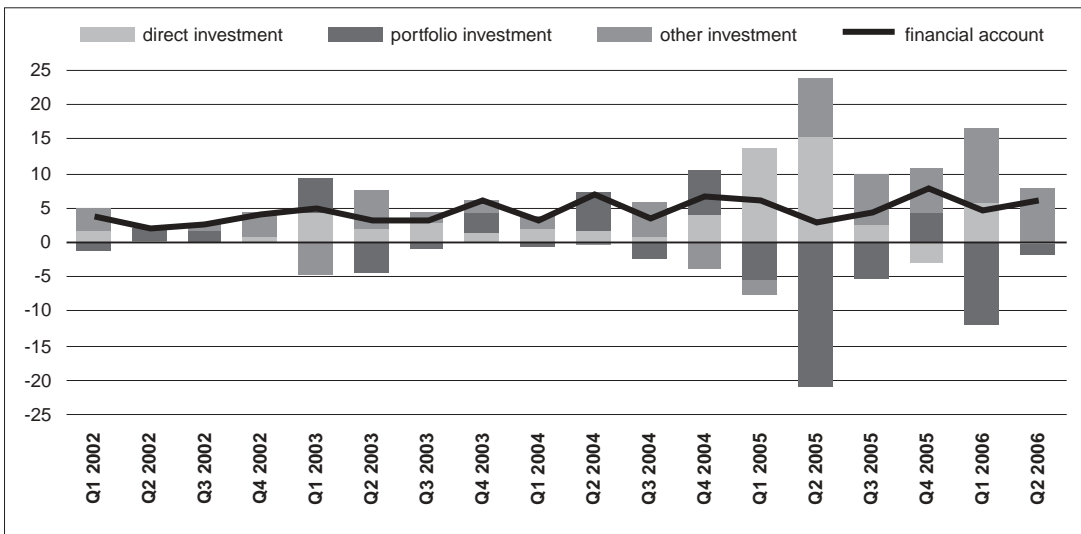


Figure 10. Changes in the structure of foreign investment capital flows (EEK bn)

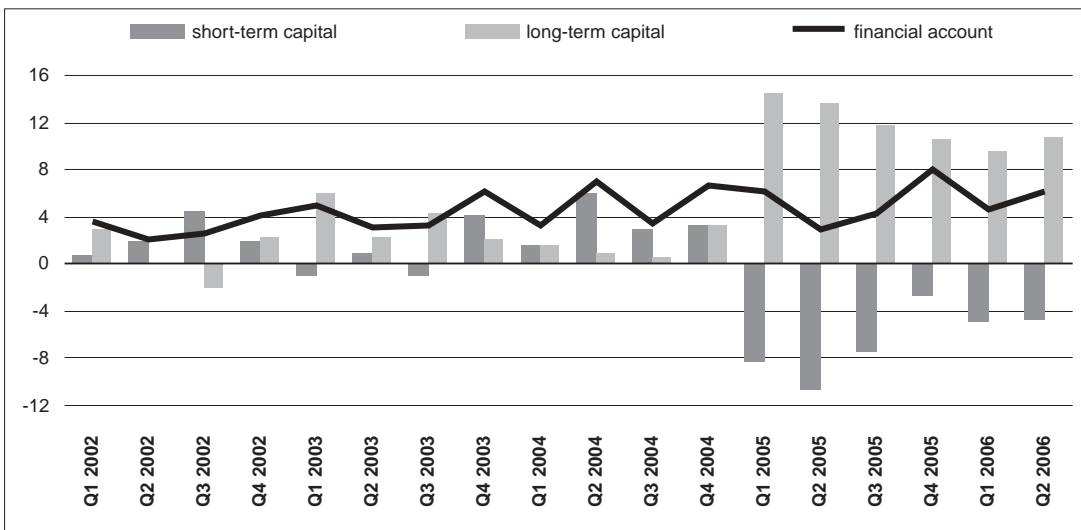


Figure 11. Maturity structure of the financial account (EEK bn)

⁵ Without reserve assets.

Direct investment

The deficit on direct investment stood at 0.4 billion kroons in the second quarter of 2006. Also in the last quarter of 2005, the outflow of direct investment outpaced that of inflow. Non-residents invested 3.1 billion kroons in Estonia, while Estonia's direct investment abroad grew by 3.5 billion kroons (see Figure 12).

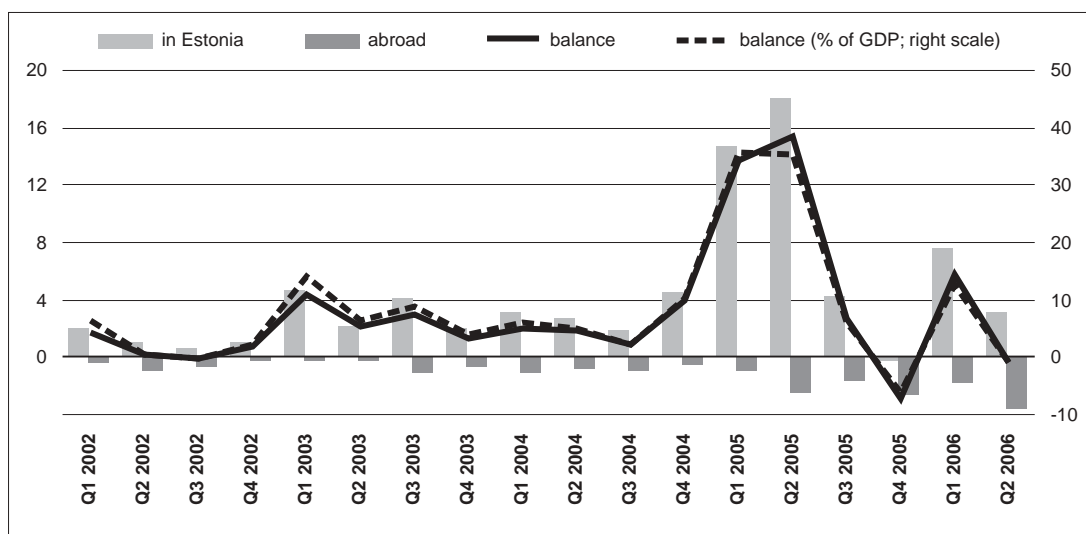


Figure 12. Direct investment (EEK bn)

Direct investment by foreign investors decreased nearly 60% quarter-on-quarter. Equity capital investment declined the most, amounting to 0.3 billion kroons. 78% of the direct investment inflow came from reinvested earnings. The growth in reinvested earnings remained smaller compared to the first quarter mainly because of the dividends paid, as foreign shareholders withdrew 1.3 billion kroons in dividends. The largest profits were made in manufacturing, whereas the biggest dividends were paid in the real estate, renting and business activities sector. Other liabilities to foreign direct investors grew by 1.2 billion kroons. Direct investors granted long-term and short-term loans totalling nearly 3 billion kroons and the total amount of respective repayments was 2.3 billion kroons. Loan capital assets to direct investors increased as much as in the previous period, but twice as much as year-on-year (see Tables 24 and 25).

The largest investors included Finland (37%), Sweden (36%), Cyprus (11%), and Lithuania (10%). The Netherlands' direct investment decreased mainly owing to the repayment of a long-term loan to a direct investor. The share of EU Member States was 94%, while just a third was related to the monetary union (see Figure 13). 75% of the direct investment inflow was placed in financial intermediation, while strategic investments in manufacturing and wholesale and retail trade grew 45% (see Figure 14 and Table 26).

Direct investment abroad increased nearly twice, quarter-on-quarter, and reached the highest level in the past 15 years. The equity capital of foreign subsidiaries and associated companies grew by nearly 2 billion kroons, while other liabilities repayable increased by about 1 billion kroons. The reinvested earnings

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 (%)		
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	2,320.8	49.7	1,299.8	27.8	-207.0	-4.4	1,259.1	26.9	4,672.7	100.0
Q2 2003	596.5	27.2	429.9	19.6	-167.7	-7.6	1,333.8	60.8	2,192.6	100.0
Q3 2003	1,799.7	44.4	2,474.1	61.1	-569.9	-14.1	346.4	8.6	4,050.3	100.0
Q4 2003	612.9	31.4	2,202.9	113.0	-389.5	-20.0	-476.7	-24.4	1,949.7	100.0
2003 total	5,329.9	41.4	6,406.7	49.8	-1,334.0	-10.4	2,462.7	19.1	12,865.3	100.0
Q1 2004	1,075.1	35.1	1,728.9	56.4	-682.1	-22.2	944.8	30.8	3,066.7	100.0
Q2 2004	1,669.3	62.4	534.7	20.0	-775.4	-29.0	1,245.9	46.6	2,674.5	100.0
Q3 2004	695.7	38.1	2,077.5	113.9	-729.9	-40.0	-219.0	-12.0	1,824.3	100.0
Q4 2004	1,198.5	26.2	3,648.4	79.8	733.4	16.0	-1,010.3	-22.1	4,570.0	100.0
2004 total	4,638.6	38.2	7,989.5	65.8	-1,454.0	-12.0	961.5	7.9	12,135.5	100.0
Q1 2005	12,614.1	85.9	2,748.4	18.7	-875.4	-6.0	191.6	1.3	14,678.6	100.0
Q2 2005	15,867.5	88.2	1,404.5	7.8	-450.3	-2.5	1,166.3	6.5	17,988.1	100.0
Q3 2005	314.5	7.3	3,327.1	77.4	-647.5	-15.1	1,302.5	30.3	4,296.6	100.0
Q4 2005	-114.3	52.7	2,243.7	-1,034.4	-29.2	13.5	-2,317.1	1,068.3	-216.9	100.0
2005 total	28,681.8	78.1	9,723.7	26.5	-2,002.4	-5.4	343.3	0.9	36,746.4	100.0
Q1 2006	1,184.6	15.6	3,140.3	41.3	-411.0	-5.4	3,683.8	48.5	7,597.7	100.0
Q2 2006	278.2	8.9	2,448.6	78.2	-846.6	-27.0	1,252.8	40.0	3,133.0	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
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	3,020.9	3,726.9
Q1 2004	120.6	76.7	480.1	148.1	842.6	718.4	636.0	320.6
Q2 2004	189.2	105.7	528.8	220.4	1160	1004.9	670.3	289.3
Q3 2004	72.8	37.4	342.2	293.3	1285.2	1401.2	949.5	723.9
Q4 2004	110.1	151.3	422.9	200.3	1,313.5	1,757.7	835.9	863.4
2004 total	492.7	371.2	1,774.1	862.1	4,601.5	4,882.2	3,091.7	2,197.2
Q1 2005	315.7	162.5	431.5	213.4	1,620.1	2,118.0	1,404.3	917.8
Q2 2005	213.3	115.9	373.2	306.4	1,174.3	1,111.9	1,294.0	1,089.4
Q3 2005	336.1	81.0	656.4	340.1	2,072.6	1,165.5	1,362.9	1,192.9
Q4 2005	411.1	141.8	794.3	553.5	2,239.7	2,582.2	953.6	1,417.6
2005 total	1,276.3	501.3	2,255.5	1,413.4	7,106.6	6,977.6	5,014.8	4,617.7
Q1 2006	542.3	216.5	540.6	543.2	5,188.9	967.5	430.6	885.6
Q2 2006	499.6	132.8	621.1	585.0	2,254.2	1,618.4	673.8	709.0

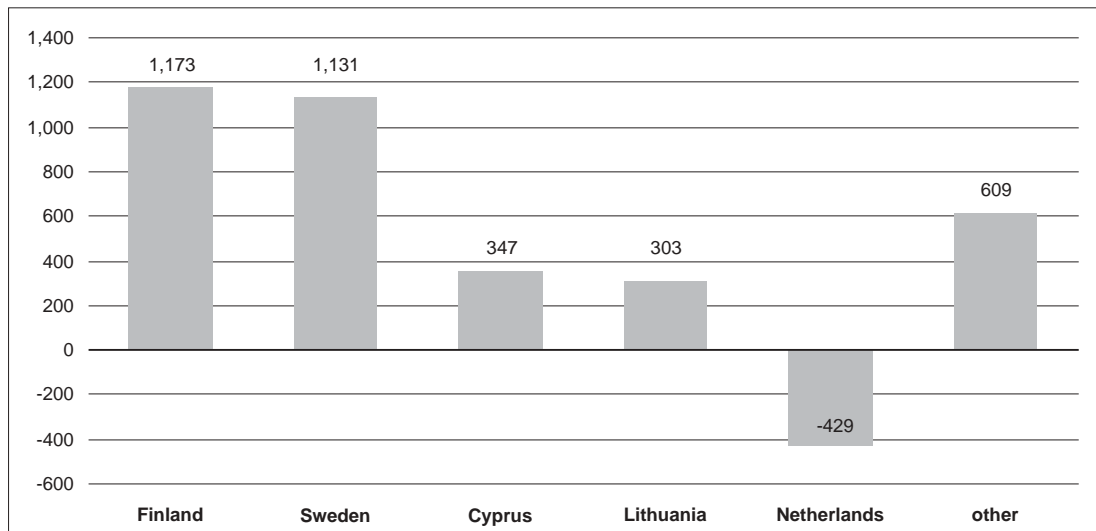


Figure 13. Direct investment in Estonia by countries in the second quarter of 2006 (EEK m)

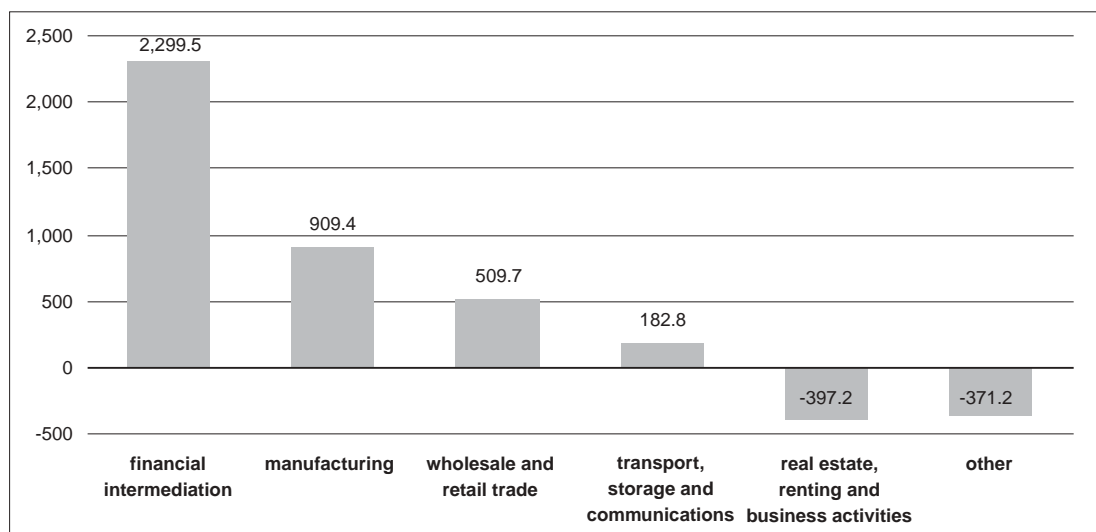


Figure 14. Direct investment in Estonia by fields of activities in the second quarter of 2006 (EEK m)

Table 26. Direct investment in Estonia by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	Q1 2006	Q2 2006	Q1 2006	Q2 2006	Q2 2006 / Q1 2006
EU-25	6,972.0	3,124.0	91.8	94.3	-55.2
CIS	-590.1	216.5	-7.8	6.5	-136.7
Other	1,215.8	-27.5	16.0	-0.8	-102.3
Total	7,597.7	3,313.0	100.0	100.0	-56.4

of Estonian enterprises stood at over 0.7 billion kroons, which accounted for 20% of the direct investment outflow. A third of other assets were short- and long-term loans while the rest were amounts payable for goods and services. Foreign subsidiaries and associated companies were granted loans for 1.1 billion kroons, the respective repayments amounted to 0.8 billion kroons (see Tables 27 and 28).

Table 27. Structure of direct investment abroad

	Equity capital		Reinvested earnings		Other capital				Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Assets		Liabilities		Volume (EEK m)	Share (%)
					Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)		
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	111.9	-51.2	-134.2	61.4	-321.8	147.3	125.7	-57.6	-218.4	100.0
Q3 2003	-282.9	26.3	-528.1	49.1	-228.7	21.3	-35.0	3.3	-1,074.7	100.0
Q4 2003	-808.3	138.9	-7.1	1.2	97.9	-16.8	135.7	-23.3	-581.9	100.0
2003 total	-1,060.0	49.3	-741.4	34.5	-645.8	30.0	297.9	-13.9	-2,149.2	100.0
Q1 2004	-102.8	10.2	-67.0	6.6	-804.0	79.8	-34.1	3.4	-1,007.9	100.0
Q2 2004	-1,458.4	174.8	526.5	-63.1	112.6	-13.5	-15.3	1.8	-834.5	100.0
Q3 2004	-508.9	51.5	-927.3	93.8	92.3	-9.3	354.9	-35.9	-988.9	100.0
Q4 2004	-105.2	18.9	-451.9	81.1	165.0	-29.6	-165.2	29.6	-557.3	100.0
2004 total	-2,175.2	64.2	-919.6	27.1	-434.2	12.8	140.3	-4.1	-3,388.6	100.0
Q1 2005	-423.5	47.5	-361.8	40.6	-69.7	7.8	-37.2	4.2	-892.2	100.0
Q2 2005	-2,570.5	101.6	351.1	-13.9	-429.3	17.0	118.9	-4.7	-2,529.8	100.0
Q3 2005	-441.4	26.9	-1,306.7	79.6	-59.6	3.6	165.6	-10.1	-1,642.1	100.0
Q4 2005	-1,779.1	66.8	-613.3	23.0	-375.0	14.1	104.2	-3.9	-2,663.2	100.0
2005 total	-5,214.5	67.5	-1,930.8	25.0	-933.5	12.1	351.5	-4.5	-7,727.3	100.0
Q1 2006	-374.5	20.5	-640.6	35.0	-843.7	46.1	28.0	-1.5	-1,830.7	100.0
Q2 2006	-2,001.5	56.7	-722.8	20.5	-1,003.2	28.4	200.3	-5.7	-3,527.2	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
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	4.0	11.6	84.3	98.8
Q1 2004	171.2	180.1	86.2	59.9	0.3	3.3	7.3	12.2
Q2 2004	212.9	575.3	444.8	37.8	7.8	25.2	15.8	17.5
Q3 2004	134.5	193.2	122.1	91	3.5	0.9	1.6	6.3
Q4 2004	416.3	283.9	299.2	180.2	6.3	31.9	3.2	1.2
2004 total	934.9	1,232.5	952.3	368.9	17.9	61.3	27.9	37.1
Q1 2005	241.9	442.4	220.2	82.3	30.5	4.7	1.4	0.9
Q2 2005	378.6	224.3	649.7	312.3	29.7	2.5	2.2	7.9
Q3 2005	582.3	688.5	516.6	387.0	44.3	13.2	58.9	0.5
Q4 2005	941.2	343.6	324.0	325.8	5.2	40.4	42.4	15.6
2005 total	2,144.0	1,698.8	1,710.6	1,107.4	109.7	60.8	104.9	25.0
Q1 2006	762.1	524.9	347.8	482.7	78.8	20.4	2.1	0.4
Q2 2006	781.1	289.3	336.2	461.3	0.6	51.4	2.9	0.4

68% of foreign direct investment went to Latvia, followed by Lithuania (18%) and Cyprus (17%; see Figure 15). Half of the outflow came from financial intermediation, but the contribution of transport, storage and communications companies (22%), wholesale and retail trade sector (11%) as well as real estate, renting and business activities (11%) also increased. 99% of the outflow went to EU Member States. Estonia's direct investment in the CIS countries decreased (see Figure 16 and Table 29).

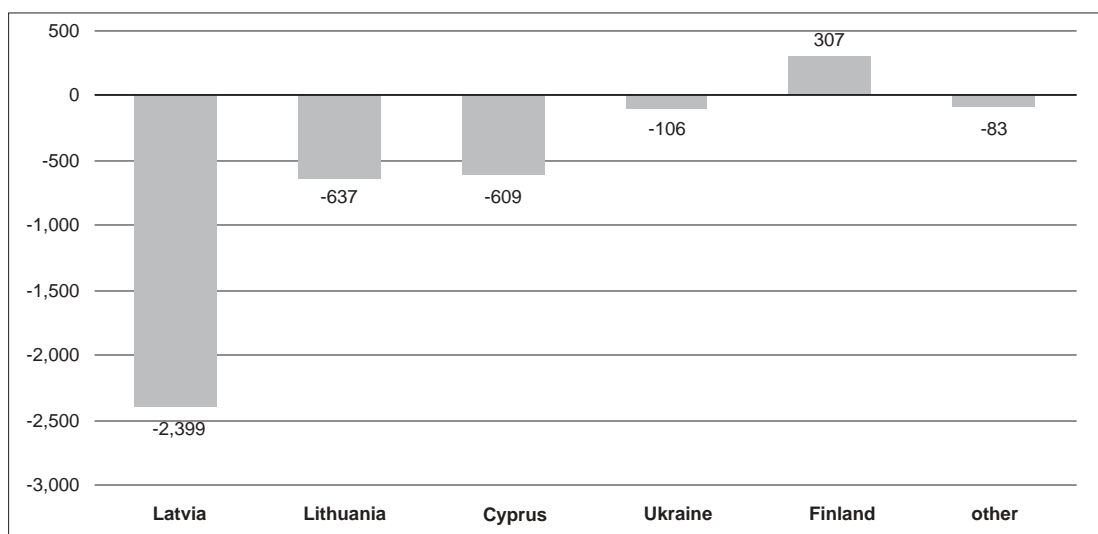


Figure 15. Direct investment abroad by countries in the second quarter of 2006 (EEK m)

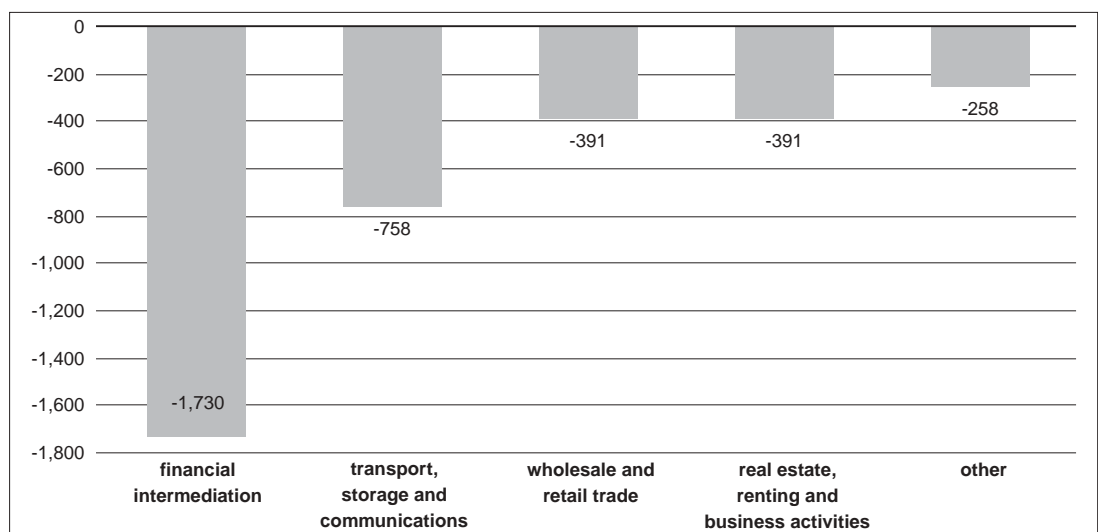


Figure 16. Direct investment abroad by fields of activity in the second quarter of 2006 (EEK m)

Table 29. Direct investment abroad by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	Q1 2006	Q2 2006	Q1 2006	Q2 2006	Q2 2006 / Q1 2006
EU-25	-1,526.4	-3,482.6	83.4	98.7	128.2
CIS	-41.1	138.6	2.2	-3.9	-437.2
Other	-263.2	-183.2	14.4	5.2	-30.4
Total	-1,830.7	-3,527.2	100.0	100.0	92.7

Portfolio investment

The net outflow of **portfolio investment** was 1.3 billion kroons in the second quarter of 2006. This resulted mainly from other sectors' investments in equity and debt securities (see Figure 17 and Table 30).

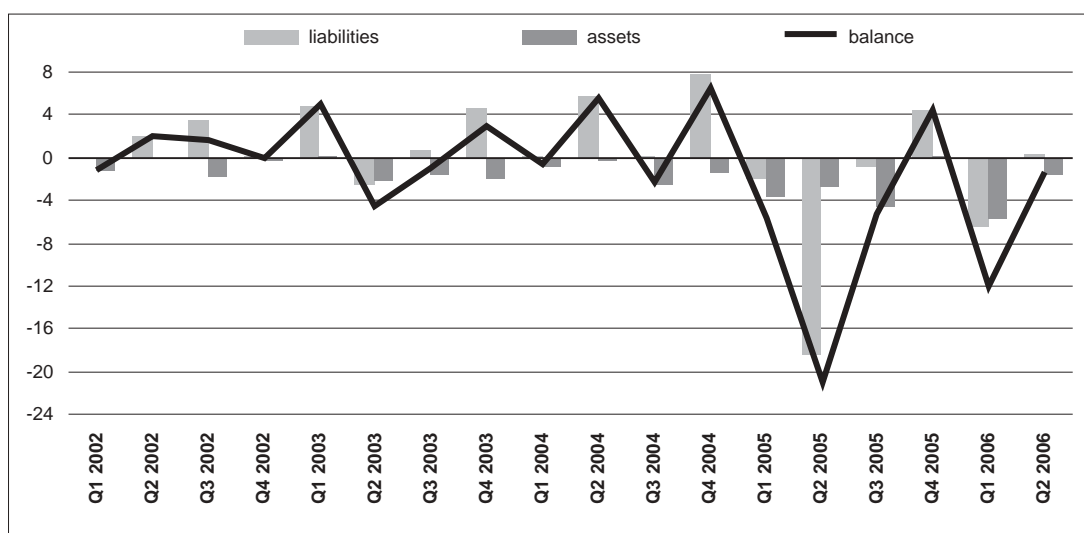


Figure 17. Portfolio investment (EEK bn)

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

	Assets			Liabilities			Balance		
	Q2 2005	Q1 2006	Q2 2006	Q2 2005	Q1 2006	Q2 2006	Q2 2005	Q1 2006	Q2 2006
Equity securities	-1,243.1	-1,243.2	-1,018.8	-10,127.2	-29.0	175.4	-11,370.3	-1,272.2	-843.4
central bank	-3.4						-3.4		
general government	-5.3	-8.0	56.7				-5.3	-8.0	56.7
credit institutions	-3.3	-20.8	99.3	-11,675.4		2.3	-11,678.7	-20.8	101.6
other sectors	-1,231.3	-1,214.4	-1,174.8	1,548.2	-29.0	173.0	316.9	-1,243.4	-1,001.8
Debt securities	-1,332.6	-4,375.5	-607.8	-8,256.0	-6,327.5	103.1	-9,588.6	-10,703.0	-504.7
central bank									
general government	74.6	-2,714.9	-24.0	-53.0	23.5	-65.2	21.6	-2,691.4	-89.2
credit institutions	-254.3	-1,096.2	-100.2	-8,480.7	-5,691.3	49.7	-8,735.0	-6,787.5	-50.5
other sectors	-1,153.0	-564.3	-483.8	277.6	-659.8	118.6	-875.4	-1,224.1	-365.2
Total	-2,575.7	-5,618.7	-1,626.7	-18,383.2	-6,356.5	278.5	-20,958.9	-11,975.2	-1,348.2

Portfolio investment liabilities increased by approximately 300 million kroons in the second quarter of 2006, with equity securities growing by 175 million and debt securities by 103 million kroons (see Table 31). The increase in the liabilities came largely from the rise in equity and debt security liabilities of enterprises in other sectors. Only the debt security liabilities of the general government decreased. By countries, portfolio investment liabilities to EU Member States, above all to the United Kingdom, increased the most (see Table 32 and Figure 18).

Portfolio investment assets increased by 1.6 billion kroons quarter-on-quarter, including equities by 1.0 billion and debt securities by 608 million kroons (see Table 33). Primarily, enterprises in other sectors invested in equity and debt securities issued by non-residents in the total amount of 1.2 billion and 484 million kroons, respectively. By countries, Estonian residents invested the most in Germany, Luxembourg, Australia and the United States (see Figure 19).

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 2002	299.2	1,159.7	-273.4	-1,059.7	25.8	100.0
Q2 2002	517.0	25.3	1,528.6	74.7	2,045.6	100.0
Q3 2002	-103.6	-3.0	3,530.2	103.0	3,426.6	100.0
Q4 2002	199.6	156.8	-72.3	-56.8	127.3	100.0
2002 total	912.2	16.2	4,713.1	83.8	5,625.3	100.0
Q1 2003	83.9	1.7	4,763.5	98.3	4,847.5	100.0
Q2 2003	733.8	-30.4	-3,147.4	130.4	-2,413.6	100.0
Q3 2003	563.1	89.2	68.0	10.8	631.1	100.0
Q4 2003	146.1	3.1	4,572.1	96.9	4,718.2	100.0
2003 total	1,526.9	19.6	6,256.2	80.4	7,783.2	100.0
Q1 2004	147.3	169.9	-60.5	-69.8	86.7	100.0
Q2 2004	459.6	8.0	5,293.4	92.0	5,753.1	100.0
Q3 2004	707.1	339.8	-499.0	-239.8	208.1	100.0
Q4 2004	891.3	11.4	6,939.1	88.6	7,830.4	100.0
2004 total	2,205.3	15.9	11,673.0	84.1	13,878.3	100.0
Q1 2005	-9,703.8	515.0	7,819.5	-415.0	-1,884.2	100.0
Q2 2005	-10,127.2	55.1	-8,256.0	44.9	-18,383.2	100.0
Q3 2005	842.0	-116.6	-1,564.2	216.6	-722.2	100.0
Q4 2005	2,809.3	63.9	1,586.1	36.1	4,395.4	100.0
2005 total	-16,179.7	97.5	-414.6	2.5	-16,594.2	100.0
Q1 2006	-29.0	0.5	-6,327.5	99.5	-6,356.5	100.0
Q2 2006	175.4	63.0	103.1	37.0	278.5	100.0

Table 32. Structure of portfolio investment by groups of countries in the second quarter of 2006

	Volume (EEK m)		Share (%)	
	Assets	Liabilities	Assets	Liabilities
EU-25	-579.5	166.2	35.6	59.7
CIS	-331.9	51.4	20.4	18.5
Other	-715.3	60.9	44.0	21.9
Total	-1,626.7	278.5	100.0	100.0

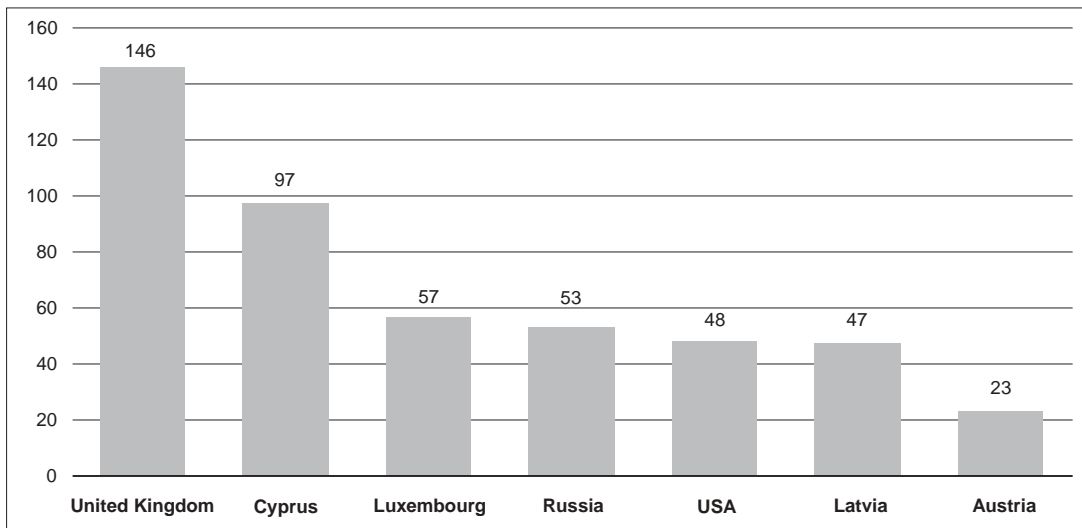


Figure 18. Increase in portfolio investment liabilities by countries in the second quarter of 2006 (EEK m)

Table 33. Structure of portfolio investment assets

	Equity securities		Debt securities		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
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	-441.6	57.5	-326.2	42.5	-767.8	100.0
Q2 2004	-565.5	307.7	381.7	-207.7	-183.8	100.0
Q3 2004	-544.6	22.3	-1,898.4	77.7	-2,443.0	100.0
Q4 2004	-1,341.8	97.1	-39.4	2.9	-1,381.2	100.0
2004 total	-2,893.5	60.6	-1,882.3	39.4	-4,775.8	100.0
Q1 2005	-1,373.5	37.2	-2,319.0	62.8	-3,692.5	100.0
Q2 2005	-1,243.1	48.3	-1,332.6	51.7	-2,575.7	100.0
Q3 2005	-1,467.8	31.8	-3,141.6	68.2	-4,609.4	100.0
Q4 2005	-764.5	-1,289.2	823.8	1,389.2	59.3	100.0
2005 total	-4,848.9	44.8	-5,969.4	55.2	-10,818.3	100.0
Q1 2006	-1,243.2	22.1	-4,375.5	77.9	-5,618.7	100.0
Q2 2006	-1,018.8	62.6	-607.8	37.4	-1,626.7	100.0

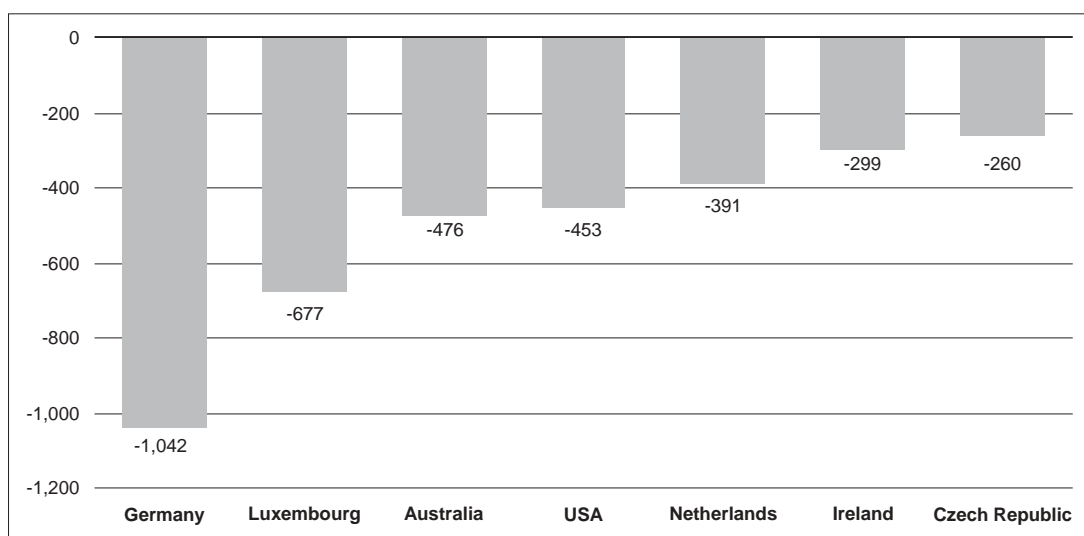


Figure 19. Increase in portfolio investment assets by countries in the second quarter of 2006 (EEK m)

Other investment

The net inflow of **other investment** reached 7.8 billion kroons in the second quarter. This came mainly from the repayment of credit institutions' short-term loans and the growth in non-residents' deposits in Estonian credit institutions (see Table 34 and Figure 20).

Other investment liabilities grew by the total of 6.7 billion kroons (see Table 35). The deposit growth of 5.2 billion kroons increased the liabilities the most, followed by loans with 2.1 billion and liabilities related to trade credit with 0.8 billion kroons. Meanwhile other investment liabilities decreased by 1.4 billion kroons. Credit institutions' long-term loan liabilities grew by nearly 12 billion kroons, whereas short-term loan liabilities declined to the same extent. Other investment capital liabilities to the British Virgin Islands, Sweden and Finland increased the most by countries and to EU Member States by groups of countries (see Figure 21 and Table 36).

Table 34. Other investment by maturity (EEK m)

	Assets			Liabilities			Balance		
	Q2 2005	Q1 2006	Q2 2006	Q2 2005	Q1 2006	Q2 2006	Q2 2005	Q1 2006	Q2 2006
Long-term capital	-3,678.6	-866.6	-1,542.5	1,886.8	4,623.7	12,687.3	-1,791.8	3,757.1	11,144.8
central bank	-0.4	0.2					-0.4	0.2	0.0
general government	-4.4	-15.9	0.0	424.6	-39.2	-35.8	420.2	-55.1	-35.8
credit institutions	-1,555.2	-553.6	-970.6	-87.8	4,053.1	11,904.7	-1,643.0	3,499.5	10,934.1
other sectors	-2,118.6	-297.3	-571.9	1,550.0	609.8	818.4	-568.6	312.5	246.5
Short-term capital	9,156.1	-4,271.6	2,658.6	1,138.5	11,326.4	-5,997.2	10,294.6	7,054.8	-3,338.6
central bank				-439.7	52.5	-3.8	-439.7	52.5	-3.8
general government	41.2	448.6	-470.2				41.2	448.6	-470.2
credit institutions	9,070.0	-3,392.1	5,062.8	236.5	12,007.3	-8,038.3	9,306.5	8,615.2	-2,975.5
other sectors	44.9	-1,328.1	-1,934.0	1,341.7	-733.4	2,044.9	1,386.6	-2,061.5	110.9
Total	5,477.4	-5,138.4	1,116.5	3,025.3	15,950.2	6,690.2	8,502.7	10,811.8	7,806.7

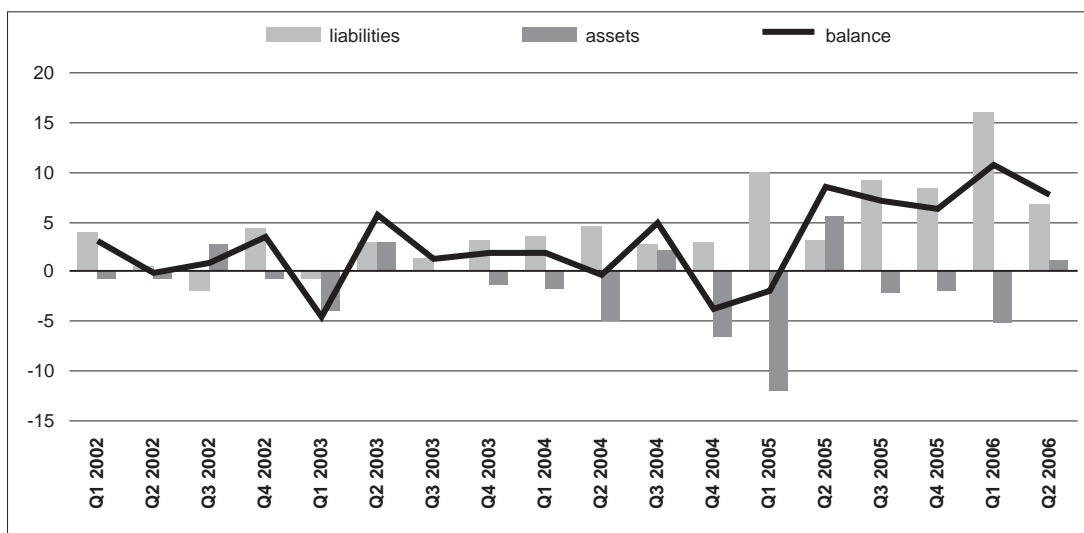


Figure 20. Other investment (EEK bn)

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 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	-7.2	201.0	-32.4	-305.6	49.2	-560.9	90.3	-621.0	100.0
Q2 2003	502.9	17.5	1,162.6	40.5	1,139.1	39.7	63.7	2.2	2,868.3	100.0
Q3 2003	-684.1	-53.3	1,152.3	89.8	1,300.6	101.4	-485.9	-37.9	1,282.9	100.0
Q4 2003	21.0	0.7	703.7	22.0	2,453.8	76.7	22.8	0.7	3,201.3	100.0
2003 total	-115.7	-1.7	3,219.6	47.8	4,587.9	68.2	-960.3	-14.3	6,731.5	100.0
Q1 2004	-41.7	-1.2	1,652.4	46.4	1,833.4	51.5	116.2	3.3	3,560.3	100.0
Q2 2004	1,108.1	24.6	32.5	0.7	3,418.3	75.7	-45.6	-1.0	4,513.3	100.0
Q3 2004	-159.1	-5.7	1,316.7	47.1	1,305.0	46.6	335.1	12.0	2,797.7	100.0
Q4 2004	-282.1	-9.9	1,563.0	55.0	2,248.0	79.0	-685.1	-24.1	2,843.8	100.0
2004 total	625.2	4.6	4,564.6	33.3	8,804.7	64.2	-279.4	-2.0	13,715.1	100.0
Q1 2005	617.1	6.2	5,167.8	51.6	1,326.0	13.2	2,911.6	29.1	10,022.5	100.0
Q2 2005	1,104.0	36.5	1,517.3	50.2	2,694.0	89.0	-2,290.0	-75.7	3,025.3	100.0
Q3 2005	752.6	8.2	14,383.3	156.0	-5,790.8	-62.8	-125.6	-1.4	9,219.5	100.0
Q4 2005	-857.0	-10.2	4,385.2	52.2	4,724.1	56.3	146.0	1.7	8,398.3	100.0
2005 total	1,616.7	5.3	25,453.6	83.0	2,953.3	9.6	642.0	2.1	30,665.6	100.0
Q1 2006	-708.9	-4.4	9,199.5	57.7	5,605.6	35.1	1,854.0	11.6	15,950.2	100.0
Q2 2006	824.5	12.3	2,062.6	30.8	5,183.6	77.5	-1,380.5	-20.6	6,690.2	100.0

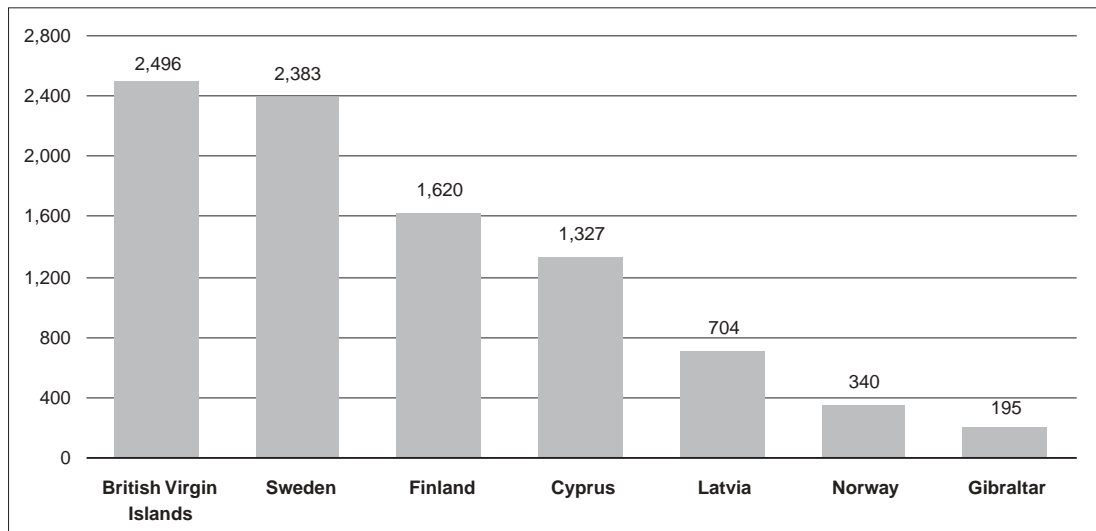


Figure 21. Increase in other investment liabilities by countries in the second quarter of 2006 (EEK m)

Table 36. Structure of other investment by groups of countries in the second quarter of 2006

	Volume (EEK m)		Share (%)	
	Assets	Liabilities	Assets	Liabilities
EU-25	2,516.8	6,064.7	225.4	90.7
CIS	-963.2	-198.2	-86.3	-3.0
Other	-437.1	823.7	-39.1	12.3
Total	1,116.5	6,690.2	100.0	100.0

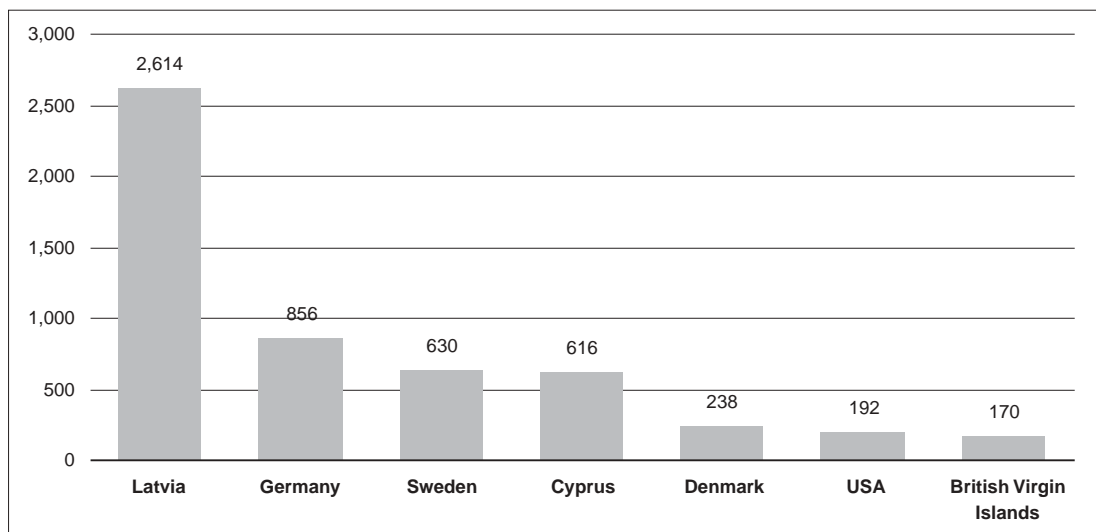


Figure 22. Decrease in other investment assets by countries in the second quarter of 2006 (EEK m)

Other investment assets decreased by 1.1 billion kroons in the second quarter of 2006 (see Table 37). Loan and deposit assets both declined – by 1.8 and 1.3 billion kroons, respectively. Trade credit assets increased by 1.9 billion kroons. By countries, mainly other investment assets to Latvia, Germany, Sweden and Cyprus decreased (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 (%)
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	-901.1	23.1	-6,337.1	162.2	3,367.7	-86.2	-35.8	0.9	-3,906.3	100.0
Q2 2003	-765.5	-26.9	2,349.2	82.7	1,353.3	47.6	-96.5	-3.4	2,840.5	100.0
Q3 2003	-31.6	-224.1	1,962.6	13,919.1	-612.6	-4,344.7	-1,304.3	-9,250.4	14.1	100.0
Q4 2003	670.0	-54.3	-1,495.1	121.3	-1,899.0	154.0	1,491.2	-121.0	-1,232.9	100.0
2003 total	-1,028.2	45.0	-3,520.4	154.1	2,209.4	-96.7	54.6	-2.4	-2,284.6	100.0
Q1 2004	-161.9	9.2	-1,010.0	57.3	-374.9	21.3	-217.0	12.3	-1,763.8	100.0
Q2 2004	-571.9	11.6	-2,436.1	49.5	-490.6	10.0	-1,419.8	28.9	-4,918.4	100.0
Q3 2004	-91.7	-4.2	-1,300.1	-60.1	2,533.9	117.1	1,020.9	47.2	2,163.0	100.0
Q4 2004	-206.5	3.1	-3,709.4	55.8	-3,213.5	48.3	479.7	-7.2	-6,649.7	100.0
2004 total	-1,032.0	9.2	-8,455.6	75.7	-1,545.1	13.8	-136.2	1.2	-11,168.9	100.0
Q1 2005	-832.8	6.9	-2,995.2	24.9	-3,745.7	31.1	-4,474.2	37.1	-12,047.9	100.0
Q2 2005	-757.4	-13.8	-3,446.7	-62.9	5,668.6	103.5	4,013.0	73.3	5,477.5	100.0
Q3 2005	-1,484.5	69.8	1,377.0	-64.7	-2,145.3	100.8	125.2	-5.9	-2,127.6	100.0
Q4 2005	1,097.3	-54.6	8,900.2	-443.0	-12,029.1	598.8	22.7	-1.1	-2,008.9	100.0
2005 total	-1,977.4	18.5	3,835.3	-35.8	-12,251.5	114.4	-313.3	2.9	-10,706.9	100.0
Q1 2006	-709.9	13.8	-2,391.0	46.5	-1,594.6	31.0	-442.9	8.6	-5,138.4	100.0
Q2 2006	-1,932.5	-173.1	1,803.7	161.5	1,269.3	113.7	-24.0	-2.1	1,116.5	100.0

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

	Assets			Liabilities		
	Grantings	Repayments	Balance	Drawings	Repayments	Balance
Q1 2003	-11,076.1	4,739.0	-6,337.1	8,564.7	-8,363.7	201.0
Q2 2003	-8,846.0	11,195.2	2,349.2	6,465.1	-5,302.6	1,162.5
Q3 2003	-9,902.7	11,865.4	1,962.7	5,733.2	-4,580.9	1,152.3
Q4 2003	-5,094.3	3,599.2	-1,495.1	9,313.6	-8,609.9	703.7
2003 total	-34,919.1	31,398.8	-3,520.3	30,076.6	-26,857.1	3,219.5
Q1 2004	-6,702.8	5,692.8	-1,010.0	9,121.4	-7,469.0	1,652.4
Q2 2004	-8,219.5	5,783.5	-2,436.0	10,151.5	-10,118.9	32.6
Q3 2004	-5,910.9	4,610.8	-1,300.1	9,621.4	-8,304.7	1,316.7
Q4 2004	-8,949.4	5,240.0	-3,709.4	16,552.5	-14,989.5	1,563.0
2004 total	-29,782.6	21,327.1	-8,455.5	45,446.8	-40,882.1	4,564.7
Q1 2005	-13,037.8	10,042.6	-2,995.2	16,451.5	-11,283.8	5,167.7
Q2 2005	-6,872.4	3,425.7	-3,446.7	23,195.6	-21,678.3	1,517.3
Q3 2005	-19,205.0	20,582.0	1,377.0	41,691.7	-27,308.3	14,383.4
Q4 2005	-38,544.9	47,445.0	8,900.1	44,892.6	-40,507.4	4,385.2
2005 total	-77,660.1	81,495.3	3,835.2	126,231.4	-100,777.8	25,453.6
Q1 2006	-24,396.8	22,005.8	-2,391.0	40,210.2	-31,010.7	9,199.5
Q2 2006	-5,455.6	7,259.2	1,803.7	33,590.9	-31,528.3	2,062.6

Reserve assets

The balance of payments reserves increased by 1.8 billion kroons in the second quarter of 2006 (see Table 39). Figure 23 provides an overview of the imports covered by reserve assets.

Table 39. Structure of changes in reserve assets

	Volume (EEK m)			Share (%)		
	Q2 2005	Q1 2006	Q2 2006	Q2 2005	Q1 2006	Q2 2006
Gold	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	3,141.5	1,199.7	654.3	210.4	94.1	-36.2
Securities	-1,635.0	75.7	-2,462.5	-109.5	5.9	136.4
equity securities	0.0	0.0	0.0	0.0	0.0	0.0
bonds and notes	-412.9	404.8	-2,372.9	-27.7	31.8	131.4
money market instruments	-1,222.1	-329.1	-89.6	-81.8	-25.8	5.0
Other assets	-13.2	-1.1	2.8	-0.9	-0.1	-0.2
Total	1,493.3	1,274.3	-1,805.4	100.0	100.0	100.0

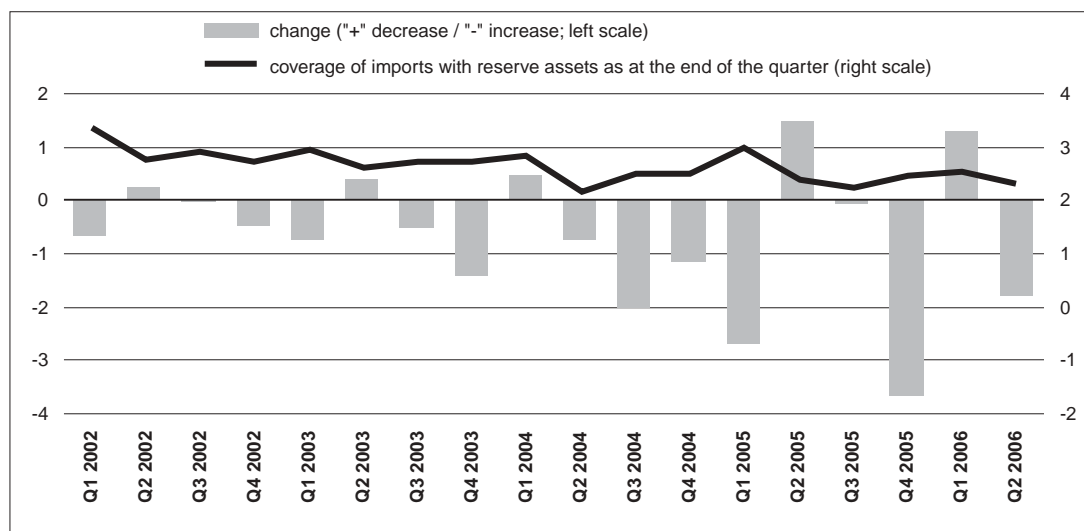


Figure 23. Changes in Estonia's gold and foreign exchange reserves (EEK bn) and coverage of goods imports without further processing (by months)

ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND GROSS EXTERNAL DEBT as at 30 June 2006

During the second quarter of 2006, foreign investment in Estonia increased 2% and amounted to 333.2 billion kroons at the end of the quarter (see Table 40). Nearly 59% thereof was invested in financial intermediation and to a lesser extent also in manufacturing, real estate, renting and business activities, as well as wholesale and retail trade (see Table 41). Most of investment came from Sweden (45%), Finland (19%), and the United Kingdom (8%).

Compared to the end of the previous quarter, a few changes had occurred in the structure of foreign investment in Estonia by the end of the second quarter of 2006: the share of direct and portfolio investment had decreased and that of other investment had increased. At the end of June 2006, direct investment

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

	31/03/2006	%	30/06/2006	%
EXTERNAL ASSETS	154,606.3	100.0	158,707.4	100.0
Direct investment abroad	29,047.9	18.8	31,915.1	20.1
Equity capital and reinvested earnings	22,170.4	14.3	24,093.7	15.2
Other direct investment capital	6,877.5	4.4	7,821.4	4.9
Portfolio investment	45,806.5	29.6	46,210.0	29.1
Equity securities	15,861.4	10.3	15,901.2	10.0
Debt securities	29,945.1	19.4	30,308.8	19.1
Bonds and notes	16,903.4	10.9	19,149.3	12.1
Money market instruments	13,041.7	8.4	11,159.5	7.0
Financial derivatives	223.6	0.1	234.3	0.1
Other investment	55,128.8	35.7	54,288.7	34.2
Trade credit	9,530.1	6.2	11,656.7	7.3
Loans	22,303.1	14.4	20,522.6	12.9
Long-term	6,034.6	3.9	7,451.2	4.7
Short-term	16,268.5	10.5	13,071.4	8.2
Currency and deposits	21,711.6	14.0	20,506.9	12.9
Other assets	1,583.9	1.0	1,602.6	1.0
Reserve assets	24,399.5	15.8	26,059.3	16.4
EXTERNAL LIABILITIES	325,603.0	100.0	333,211.2	100.0
Direct investment in Estonia	176,752.5	54.3	179,290.4	53.8
Equity capital and reinvested earnings	157,907.3	48.5	159,951.8	48.0
Other direct investment capital	18,845.3	5.8	19,338.6	5.8
Portfolio investment	37,599.4	11.5	35,953.5	10.8
Equity securities	14,975.9	4.6	13,248.3	4.0
Debt securities	22,623.5	6.9	22,705.1	6.8
Bonds and notes	22,613.7	6.9	22,660.2	6.8
Money market instruments	9.8	0.0	45.0	0.0
Financial derivatives	139.3	0.0	179.0	0.1
Other investment	111,111.7	34.1	117,788.3	35.3
Trade credit	10,040.6	3.1	10,791.6	3.2
Loans	63,494.3	19.5	65,518.4	19.7
Long-term	45,471.9	14.0	58,009.5	17.4
Short-term	18,022.4	5.5	7,508.9	2.3
Currency and deposits	33,810.8	10.4	38,994.4	11.7
Other liabilities	3,766.0	1.2	2,483.9	0.7
NET INVESTMENT POSITION	-170,996.7		-174,503.8	
Long-term	-170,023.2		-178,573.0	
Short-term	-973.5		4,069.2	

Table 41. Estonia's international investment position by fields of activity and countries (%)

Assets			Liabilities		
			Fields of activity		
	31/03/2006	30/06/2006		31/03/2006	30/06/2006
Financial intermediation	68.9	67.1	Financial intermediation	58.5	59.4
Public administration and defence; statutory social insurance	9.8	9.7	Manufacturing	9.0	9.1
Wholesale and retail trade; repair	5.3	6.8	Real estate, renting and business activities	9.4	9.1
Real estate, renting and business activities	6.5	6.6	Wholesale and retail trade; repair	6.8	7.0
Manufacturing	4.0	4.1	Activities of households	4.6	4.4
Other	5.5	5.7	Other	11.7	11.0
Total	100.0	100.0	Total	100.0	100.0
			Countries		
	31/03/2006	30/06/2006		31/03/2006	30/06/2006
Lithuania	14.4	14.9	Sweden	44.9	44.5
Germany	14.2	13.3	Finland	18.9	19.0
Latvia	9.7	9.6	United Kingdom	8.7	8.4
Russia	8.7	8.8	Germany	3.3	3.3
Finland	4.8	5.5	USA	2.5	2.5
Other	48.2	47.9	Other	21.7	22.3
Total	100.0	100.0	Total	100.0	100.0

accounted for approximately 54% (179.3 billion kroons) of total investment. The share of portfolio investment declined (largely owing to the decrease in the liabilities arising from equity securities); portfolio investment formed 10.8% of the external liabilities. Foreign investment in Estonia grew mainly as a result of the increase in other investment liabilities, which accounted for 35.3% of total external liabilities. The most preferred fields of activity for foreign direct investment in Estonia were financial intermediation (47%), real estate, renting and business activities (14%), and manufacturing (13%; see Table 42). Swedish investors made 53% and Finnish investors 20% of the direct investment.

Estonian investment abroad increased 3%, amounting to 158.7 billion kroons. Financial intermediaries made 67% of the investment abroad. Investors in the public sector, wholesale and retail trade, and real estate, renting and business activities invested to a lesser extent. Estonian investors preferred to invest in the Baltic States, Germany, and Russia.

Quarter-on-quarter, the share of direct investment in the structure of investment abroad slightly increased and that of other investment decreased. Loans, deposits and the central bank's gold and foreign exchange reserves covered about 51% of the external assets. The share of foreign direct investment formed 20%. The most active foreign direct investors were those of financial intermediation (43%), real estate, renting and business activities (23%), and transport, storage and communications (11%; see Table 42). 35% of direct investment went to Latvia and 29% to Lithuania. The share of direct investment in Russia accounted for 11% of total foreign direct investment.

Due to the prevalence of external liabilities (mostly long-term capital liabilities), Estonia's net investment position was negative by 174.5 billion kroons at the end of the second quarter of 2006. This was 7% less than the volume of the GDP of the last four quarters. In terms of short-term capital, assets exceeded liabilities by 4 billion kroons.

Table 42. Direct investment position by fields of activity and countries (%)

In Estonia			Abroad		
Fields of activity			Fields of activity		
	31/03/2006	30/06/2006		31/03/2006	30/06/2006
Financial intermediation	47.4	47.4	Financial intermediation	41.8	42.8
Real estate, renting and business activities	14.4	14.0	Real estate, renting and business activities	23.6	23.2
Manufacturing	12.7	13.0	Transport, storage and communications	11.3	11.3
Activities of households	8.3	8.1	Wholesale and retail trade; repair	7.6	8.4
Wholesale and retail trade; repair	7.8	8.0	Activities of households	5.2	4.9
Other	9.4	9.5	Other	10.5	9.4
Total	100.0	100.0	Total	100.0	100.0
Countries			Countries		
	31/03/2006	30/06/2006		31/03/2006	30/06/2006
Sweden	54	53.3	Latvia	30.4	35.3
Finland	20.3	20.3	Lithuania	30.7	29.2
Netherlands	2.6	2.6	Russia	13.7	11.0
Norway	2.8	2.5	Cyprus	9.2	9.3
United Kingdom	2.1	2.5	Ukraine	2.9	3.0
Other	18.2	18.8	Other	13.1	12.2
Total	100.0	100.0	Total	100.0	100.0

Estonia's gross external debt increased 5%, amounting to 171.6 billion kroons on 30 June 2006 (91% of the GDP of the last four quarters). The gross external debt grew mainly owing to the increase in the long-term debt liabilities of credit institutions. The external debt of credit institutions accounted for 56% and that of other sectors for 24% of the gross external debt. Estonia's net external debt (assets less liabilities) constituted 41.4 billion kroons (22% of the GDP of the last four quarters; see Figure 24 and Table 43). The gross external debt amounted to a half of the external liabilities. Leaving aside the intercompany lending of direct investment companies, long-term debt liabilities accounted for 60% of the gross external debt. Their share rose by approximately 8 percentage points quarter-on-quarter. The share of long-term debt claims formed 40% of total debt claims.

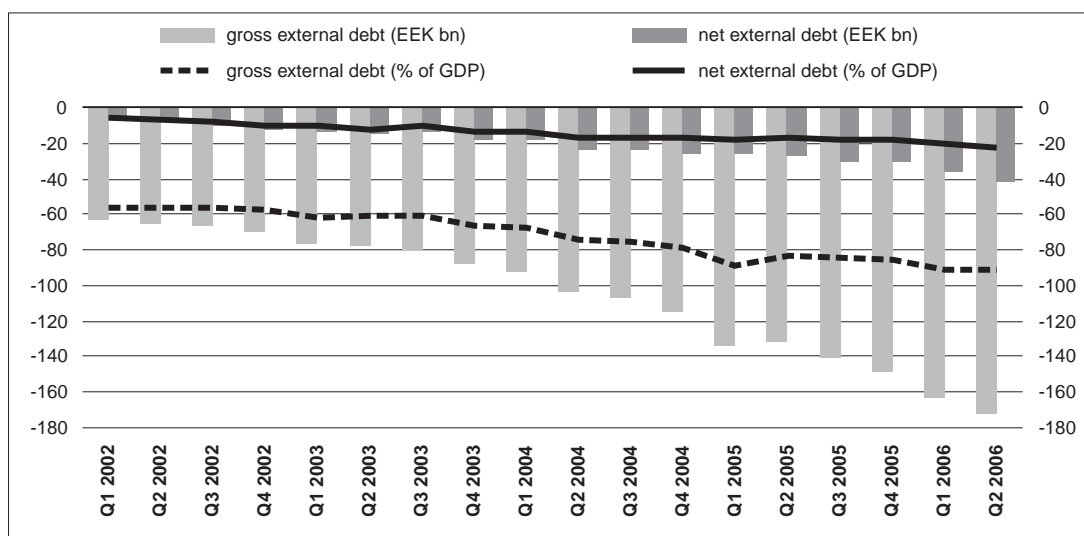


Figure 24. Estonia's gross and net external debt

Table 43. External debt (EEK m)

	31/03/2006	%	30/06/2006	%
LIABILITIES				
I. General government	3,896.1	2.4	3,786.7	2.2
Short-term				
Long-term	3,896.1	2.4	3,786.7	2.2
II. Monetary authorities (NCB)	82.4	0.1	159.4	0.1
Short-term	82.4	0.1	159.4	0.1
Long-term				
III. Credit institutions	91,822.5	56.2	95,720.3	55.8
Short-term	50,500.6	30.9	40,822.3	23.8
Long-term	41,321.8	25.3	54,898.0	32.0
IV. Other sectors	37,932.7	23.2	40,815.5	23.8
Short-term	12,821.2	7.8	14,992.3	8.7
Long-term	25,111.6	15.4	25,823.2	15.1
V. Direct investment: intercompany lending	29,629.7	18.1	31,083.7	18.1
GROSS EXTERNAL DEBT	163,363.4	100.0	171,565.6	100.0
ASSETS				
I. General government	15,237.7	12.0	15,693.1	12.1
Short-term	8,687.5	6.8	7,647.1	5.9
Long-term	6,550.2	5.2	8,046.1	6.2
II. Monetary authorities (NCB)	24,352.8	19.2	25,981.0	20.0
Short-term	19,161.6	15.1	18,478.9	14.2
Long-term	5,191.2	4.1	7,502.1	5.8
III. Credit institutions	41,239.6	32.5	37,286.6	28.7
Short-term	25,914.0	20.4	19,937.4	15.3
Long-term	15,325.6	12.1	17,349.3	13.3
IV. Other sectors	28,574.4	22.5	31,595.8	24.3
Short-term	17,587.8	13.8	19,815.3	15.2
Long-term	10,986.5	8.6	11,780.5	9.1
V. Direct investment: intercompany lending	17,662.0	13.9	19,566.5	15.0
TOTAL ASSETS	127,066.4	100.0	130,123.1	100.0
NET EXTERNAL DEBT (assets less liabilities)				
I. General government	11,341.6		11,906.4	
Short-term	8,687.5		7,647.1	
Long-term	2,654.1		4,259.3	
II. Monetary authorities (NCB)	24,270.5		25,821.6	
Short-term	19,079.2		18,319.5	
Long-term	5,191.2		7,502.1	
III. Credit institutions	-50,582.9		-58,433.7	
Short-term	-24,586.7		-20,885.0	
Long-term	-25,996.2		-37,548.7	
IV. Other sectors	-9,358.4		-9,219.7	
Short-term	4,766.6		4,823.1	
Long-term	-14,125.0		-14,042.7	
V. Direct investment: intercompany lending	-11,967.7		-11,517.2	
TOTAL NET EXTERNAL DEBT	-36,296.9		-41,442.6	