

Eesti Pank
Bank of Estonia



Estonian Preliminary Balance of Payments for the Year 2007

2008

CONTENTS

SHORT OVERVIEW	4
CURRENT ACCOUNT	8
Goods.....	8
Services	15
Income.....	20
Current and capital transfers.....	24
FINANCIAL ACCOUNT	25
Direct investment	26
Portfolio investment	30
Other investment	33
Reserve assets	36
ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND GROSS EXTERNAL DEBT as at 31 December 2007	38

SHORT OVERVIEW

- The decline in private consumption and investment activity in 2007 entailed a slight decrease in the deficit on goods and services (the direct components of GDP) as a ratio to GDP. The deficit stood at 10.8% of GDP (11.6% in 2006). In absolute terms, the deficit on goods and services increased a little.
- The proprietary income on foreign direct investment in Estonia reached a record high.
- The deficit on goods account¹ increased, and so did the surplus on the services account.
- The current account deficit for 2007 grew by nearly a third, year-on-year, and comprised 17.4% of GDP (see Table 1 and Figure 1)². In absolute value, the deficit amounted to 42 billion kroons.
- The capital inflow was intense and occurred mainly through direct and other investment.
- The balance of payments reserves increased by 1.4 billion kroons.

Although the growth of domestic demand started to slow in 2007, it did not have a considerable impact on Estonia's foreign trade balance yet. The deficit in the **goods account** – the largest component in the current account deficit – increased more than 10% year-on-year and was almost equal to the total current

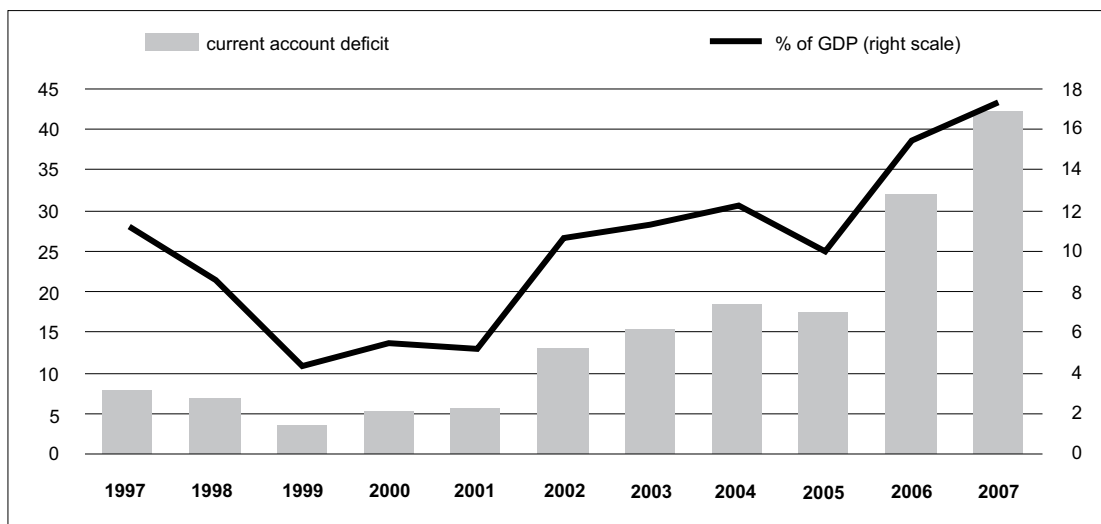


Figure 1. Current account deficit (EEK bn and % of GDP)

¹ The current balance of payments includes an extraordinary adjustment of the goods account for the first and second quarters of 2007. As a result, the goods deficit for the first half-year increased by 1.9 billion kroons compared to the data published previously. A regular adjustment was performed for the third quarter balance of payments, which entailed a 1.7 billion kroon increase in the deficit on the goods account. The total deficit on the goods account for the first three quarters of 2007 grew by 3.6 billion kroons owing to the adjustments.

² The current account deficit without reinvested earnings, which involve no actual movement of funds, remained at the previous year's level and constituted 10.7% of GDP.

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

	2001	2002	2003	2004	2005	2006	2007
Current account	-5,643.6	-12,908.0	-15,418.2	-18,412.6	-17,485.5	-32,095.0	-42,207.5
Goods and services	-2,247.6	-8,564.6	-10,046.8	-11,937.6	-11,077.0	-24,025.4	-26,219.1
Goods	-13,542.4	-18,455.3	-21,522.3	-25,499.0	-24,044.8	-36,723.3	-41,279.2
credit (f.o.b.)	58,798.5	57,948.7	63,443.7	75,199.5	97,971.4	120,166.4	126,465.3
debit (f.o.b.)	-72,340.9	-76,404.0	-84,966.0	-100,698.5	-122,016.2	-156,889.8	-167,744.5
Services	11,294.8	9,890.7	11,475.5	13,561.4	12,967.7	12,697.9	15,060.1
credit	28,135.4	28,164.3	30,674.0	35,703.4	40,200.7	43,391.7	49,868.8
debit	-16,840.6	-18,273.6	-19,198.5	-22,142.0	-27,233.0	-30,693.8	-34,808.7
Income	-4,898.6	-5,391.1	-7,240.7	-7,931.4	-7,209.1	-9,424.8	-16,512.9
credit	3,022.2	3,371.3	3,584.1	5,496.5	8,467.8	13,483.4	16,666.5
debit	-7,920.8	-8,762.4	-10,824.8	-13,427.8	-15,676.9	-22,908.3	-33,179.5
Transfers	1,502.6	1,047.7	1,869.4	1,456.3	800.6	1,355.2	524.5
credit	2,016.4	2,065.6	3,380.8	5,252.0	5,892.2	7,162.2	6,740.3
debit	-513.8	-1,017.9	-1,511.5	-3,795.6	-5,091.6	-5,806.9	-6,215.8
Capital and financial account (reserve assets excluded)	5,026.3	13,055.3	18,552.9	21,454.4	21,457.9	39,235.7	41,168.2
Capital account	253.2	636.4	977.8	1,149.8	1,240.3	4,682.6	3,822.1
Financial account	4,773.1	12,418.9	17,575.1	20,304.6	20,217.6	34,553.1	37,346.2
Direct investment	5,901.3	2,611.8	10,716.0	8,739.4	27,335.5	7,274.7	10,830.4
Abroad	-3,528.3	-2,188.4	-2,149.2	-3,388.6	-7,939.6	-13,707.1	-17,572.6
In Estonia	9,429.6	4,800.2	12,865.2	12,128.1	35,275.1	20,981.8	28,403.0
Portfolio investment	-665.0	2,442.4	2,431.6	9,027.1	-27,559.2	-16,829.7	-5,962.2
Assets	-2,100.2	-3,182.9	-5,351.6	-4,851.0	-10,675.0	-15,569.9	-8,685.4
Equity securities	236.5	9.1	-1,028.9	-2,893.5	-4,848.9	-4,583.9	-7,793.3
Debt securities	-2,336.7	-3,192.0	-4,322.7	-1,957.5	-5,826.1	-10,986.0	-892.1
Liabilities	1,435.2	5,625.3	7,783.2	13,878.1	-16,884.3	-1,259.8	2,723.2
Equity securities	568.4	912.2	1,526.9	2,205.2	-16,352.2	3,738.1	3,215.1
Debt securities	866.8	4,713.1	6,256.2	11,673.0	-532.0	-4,997.9	-491.9
Financial derivatives	-34.7	-63.7	-19.2	-8.3	-97.6	78.5	-811.9
Assets	-0.3	-43.2	-139.2	-35.1	13.5	-180.9	-894.0
Liabilities	-34.4	-20.5	120.0	26.8	-111.0	259.3	82.1
Other investment	-428.5	7,428.4	4,446.8	2,546.4	20,538.9	44,029.7	33,289.8
Assets	-3,716.7	695.1	-2,284.6	-11,168.8	-10,373.4	334.6	-23,133.2
Long-term	-322.7	-1,083.0	-565.7	-6,052.6	5,636.5	-3,054.0	-2,617.7
Short-term	-3,394.0	1,778.1	-1,718.9	-5,116.1	-16,009.9	3,388.6	-20,515.5
Liabilities	3,288.2	6,733.3	6,731.4	13,715.1	30,912.4	43,695.1	56,423.1
Long-term	1,814.4	1,829.0	4,309.0	3,740.5	15,396.8	17,991.5	32,542.5
Short-term	1,473.8	4,904.3	2,422.3	9,974.6	15,515.6	25,703.6	23,880.6
Errors and omissions	-112.9	779.5	-822.7	383.6	911.6	383.2	2,426.5
Overall balance	-730.2	926.8	2,312.1	3,425.4	4,883.9	7,523.9	1,387.3
Reserve assets	730.2	-926.8	-2,312.1	-3,425.4	-4,883.9	-7,523.9	-1,387.3

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

account deficit (41 billion kroons). One reason for the higher deficit in comparison with the data published earlier was the extensive adjustment of foreign trade statistics for the first three quarters of 2007. The foreign trade deficit declined slightly and constituted 17% of GDP. Exports amounted to 126 billion kroons, and imports of goods to 168 billion kroons. Year-on-year, the exports of goods increased 5% and imports 7%. The foreign trade turnover was largely affected by processed goods, as both their imports and exports

decreased considerably. Nearly 75% of processed goods were motor fuels. Excluding processed goods, the exports of goods grew 11% and imports 10% in 2007. The foreign trade deficit was mainly boosted by transport vehicles and mineral products (motor fuels). The foreign trade turnover exceeded GDP by 25% (by over a third in 2006).

The surplus on the **services account** was relatively similar from 2004 to 2006, whereas in 2007 it increased by approximately 20% and stood at 15 billion kroons. Services exports grew 15% and imports 13% year-on-year. The surplus on the services account was primarily enhanced by construction services, which posted a surplus of over one billion kroons instead of the previous deficit, and to a lesser extent also by the increased surplus on computer and information services, and financial services. The growth of surplus on transport services – the largest type of services – was equivalent to the decline in the surplus on travel services. The total share of transport, travel and other business services accounted for 85% of both the imports and exports of services.

Total exports of goods and services, which are the direct components of GDP, grew 8%, which is just as much as their total deficit. Total deficit in goods and services decreased from 11.6% of GDP in 2006 to 10.8% in 2007.

The profitability of non-residents' investment in Estonia, in particular direct investment, is reflected by the **income account**. The net outflow of income grew 75%, year-on-year, and reached a record 16.5 billion kroons. The income earned by Estonian investors abroad grew by 25% and the income earned by non-residents in Estonia increased by nearly a half, reaching 16.7 and 33.2 billion kroons, respectively. A fourth of Estonian residents' income earned abroad comprised labour income and the rest was investment income. More than half of the latter was direct investment income. In 2007, residents received large dividends, unlike in 2006 when direct investment income mostly consisted of reinvested earnings. Residents' portfolio and other investment income increased significantly too. The majority of income earned by non-residents' in Estonia comprised investment income (97%), with reinvested earnings forming 60% of that. Non-residents' income on other investment in Estonia increased by almost two times and composed 17% of investment income.

The surplus on **current transfers** was almost three times smaller compared to the previous year – only 0.5 billion kroons. The decline in surplus was caused by increased payments into the EU budget. The amount of incoming transfers declined 6%, whereas that of outgoing transfers grew 7%.

The **capital and financial account** (excl. reserves) reached a new record level in 2007 and comprised 41 billion kroons. The large inflow of foreign capital occurred primarily through other investment capital via credit institutions as well as through direct investment.

The surplus on the **capital account** decreased by approximately 20% and stood at 3.8 billion kroons. This mainly resulted from the termination of the sales of intangible assets (primarily emission quotas). At the same time, government transfers from the EU structural funds increased by over two times.

The surplus on the **financial account** reached 37.3 billion kroons.

Direct investment inflow was 10.8 billion kroons bigger than outflow in 2007. Both foreign direct investment in Estonia and Estonia's direct investment abroad were large in size, totalling 28.4 and 17.6 billion kroons, respectively.

The extensive amount of dividends paid to residents in 2007 also entailed a change in the structure of direct investment. The share of reinvested earnings decreased, whereas that of equity capital increased, comprising 15% and 60% of direct investment, respectively. The share of intercompany lending remained close to the level of 2006.

The structure of non-residents' direct investment in Estonia did not change much. The majority (70%) of direct investment was reinvested earnings; intercompany lending accounted for 20% and the rest was equity capital.

The net outflow of **portfolio investment** amounted to 6 billion kroons. Portfolio investment assets increased by 8.7 billion and liabilities by 2.7 billion kroons. The growth in assets as well as liabilities was mainly driven by investment funds, equity securities being the primary investment product.

Recently, the number of transactions related to **derivatives** has also been increasing. Their net outflow was 0.8 billion kroons in 2007 and included primarily investments of credit institutions, whereas their assets increased in the same amount.

The net inflow of **other investment** was as much as 33 billion kroons but 25% smaller than in 2006. Assets increased by 23 billion and liabilities by 56 billion kroons. Similar to portfolio investment, the growth could mostly be attributed to credit institutions.

The balance of payments **reserves** increased by 1.4 billion kroons.

CURRENT ACCOUNT

The decline in private consumption and investment activity in 2007 entailed a slight decrease in the deficit on goods and services (the direct components of GDP) as a ratio to GDP. The deficit declined from 11.6% in 2006 to 10.8% in 2007. In absolute terms, the deficit increased slightly. The deficit on the goods account increased, and so did the deficit on the services account (see Figure 2). The net outflow of income reached a record level owing to the favourable investment environment in Estonia. All in all, the current account deficit amounted to 42 billion kroons (17.4% of GDP). The current account deficit without reinvested earnings, which include no actual movement of funds, constituted 10.7% of GDP (10.9% in 2006).

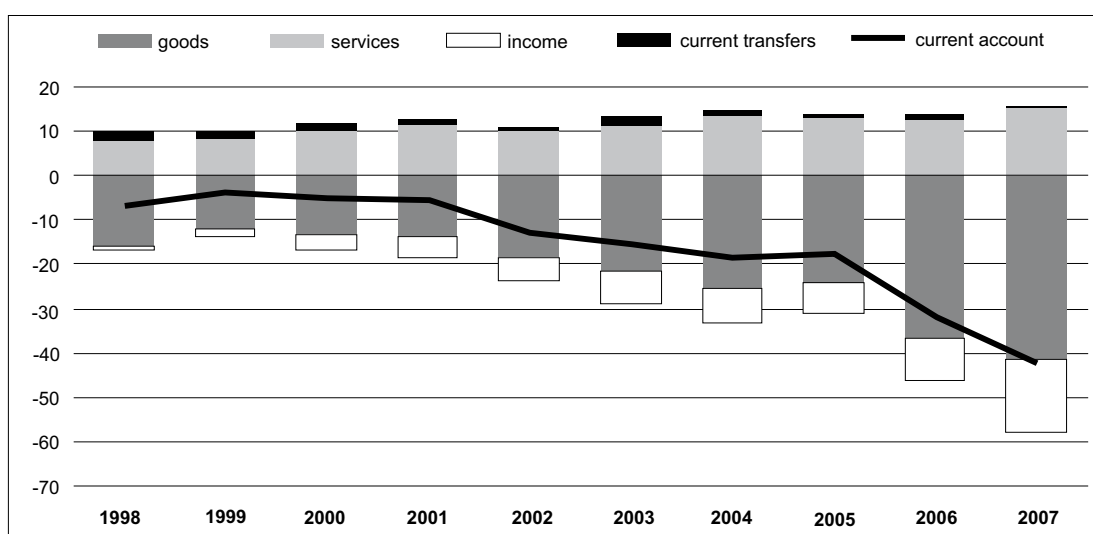


Figure 2. Current account structure (EEK bn)

The share of the EU in both the credit and debit turnover of the current account increased – to 71% and 80%, respectively. Finland, Sweden, Latvia, Germany, Lithuania and Russia were the main partner countries, comprising approximately 60% of both turnovers. Estonia's current account deficit was the biggest with Germany and Sweden, whereas the highest surplus was registered with Latvia, Togo and the United States (see Table 2).

Goods

Although the growth of domestic demand started to slow in 2007, it did not have a considerable impact on Estonia's foreign trade balance yet. The deficit in the goods account – the largest component in the current account deficit – increased more than 10%, year-on-year,³ and was almost equal to the total current account deficit (41 billion kroons; see Table 3). The imports (in f.o.b. prices) and exports of goods totalled 126 and 168 billion kroons, respectively. Year-on-year, they increased 5% and 7%, respectively. The foreign trade turnover was largely affected by processed goods, as both their imports and exports decreased considerably. Nearly 75% of processed goods were motor fuels. Excluding

³ One reason for the higher deficit in comparison with the data published earlier was the extensive adjustment of foreign trade statistics for the first three quarters of 2007.

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

	2006	2007
EU-27	-38,574.2	-51,733.3
Germany*	-14,584.0	-15,211.4
Sweden	-6,245.7	-12,535.6
Poland	-4,548.4	-5,897.8
Latvia	3,659.3	4,422.5
Italy	-3,154.8	-3,778.3
CIS	-2,752.2	-10,209.2
Belarus	-1,555.9	-1,889.7
Russia	-9,132.5	-1,575.7
Kazakhstan	-40.6	160.1
Other	9,231.4	19,735.0
Togo	1,182.3	4,244.6
USA	6,901.2	3,847.2
Norway	2,758.7	3,527.4
China	3.2	-2,573.1
Switzerland	954.6	1,494.0
Total	-32,095.0	-42,207.5

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

Table 3. Imports and exports of goods

	Goods – credit (f.o.b.)			Goods – debit (f.o.b.)			Balance (EEK m)
	Volume ¹ (EEK m)	Change compared to the previous period (%)	Share in total exports of goods and services (%)	Volume ¹ (EEK m)	Change compared to the previous period (%)	Share in total exports of goods and services (%)	
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	56,118.1	51.7	69.0	69,489.5	41.5	82.2	-13,371.4
2001	58,798.5	4.8	67.6	72,340.9	4.1	81.1	-13,542.4
2002	57,948.7	-1.4	67.3	76,404.0	5.6	80.7	-18,455.3
2003	63,443.7	9.5	67.4	84,966.0	11.2	-81.6	-21,522.3
2004	75,199.5	18.5	67.8	100,698.5	18.5	-82.0	-25,499.0
2005	97,971.4	30.3	70.9	122,016.3	21.2	-81.8	-24,044.8
2006	120,166.4	22.7	73.5	156,889.8	28.6	-83.6	-36,723.3
2007	126,465.3	5.2	71.7	167,744.5	6.9	-82.8	-41,279.2

¹ Data of the foreign trade account of the balance of payments.

processed goods, the exports of goods grew 11% and imports 10% in 2007. The foreign trade turnover exceeded GDP by 25% (by over a third in 2006).

According to preliminary **foreign trade statistics**,⁴ goods exports totalled 126 billion and imports in c.i.f. prices 176 billion kroons (see Figure 3). The foreign trade deficit increased 10% and was slightly over 50 billion kroons.

⁴ 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.

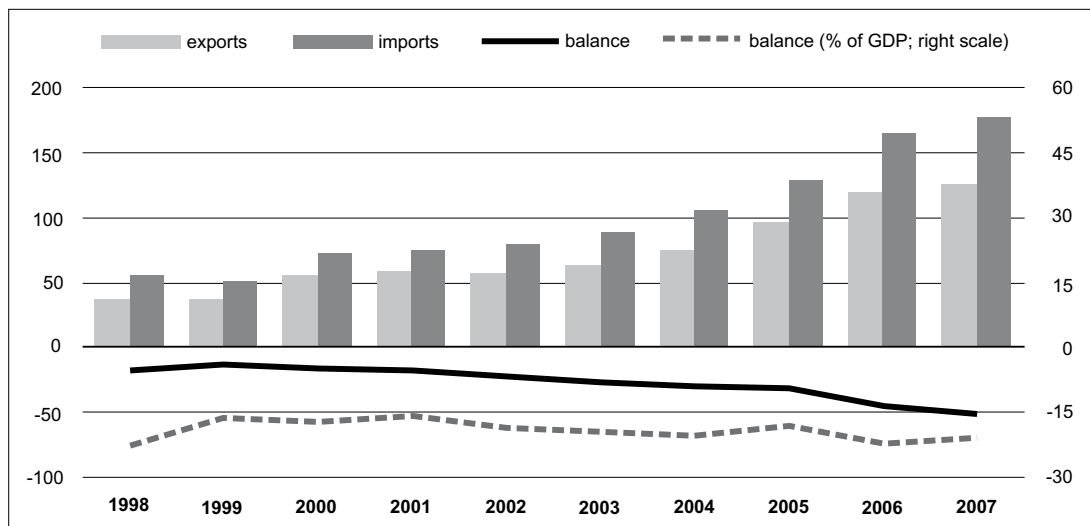


Figure 3. Estonia's foreign trade balance (EEK bn)

Table 4. Exports by main groups of goods

	Volume (EEK m)		Share (%)		Change (%) 2007/2006
	2006	2007	2006	2007	
Food	8,403.3	11,034.9	7.0	8.8	31.3
Mineral products	19,361.7	15,518.2	16.2	12.4	-19.9
Chemical products	8,269.2	9,851.3	6.9	7.8	19.1
Clothing, footwear and headgear	7,954.2	7,878.7	6.7	6.3	-0.9
Timber, paper and products	13,826.8	16,624.5	11.6	13.2	20.2
Metals and metal products	10,968.6	12,671.0	9.2	10.1	15.5
Machinery and equipment	29,427.4	26,214.0	24.6	20.9	-10.9
Transport vehicles	8,042.2	10,647.8	6.7	8.5	32.4
Furniture, toys, sporting goods	8,701.5	9,927.0	7.3	7.9	14.1
Other	4,564.9	5,245.1	3.8	4.2	14.9
Total	119,519.7	125,612.6	100.0	100.0	5.1

Goods exports grew in nearly all the ten groups of goods analysed, except for mineral products and machinery and equipment. The exports of clothing, footwear and headgear remained at a similar level compared to 2006 (see Table 4). The largest groups of export goods included machinery and equipment (mostly electronic products), timber and timber products, and mineral products. However, both machinery and equipment and mineral products decreased in terms of share. The exports of food products and transport vehicles posted the strongest growth, increasing by a third.

The biggest export item among food products was spirits, which was sent to Russia and some also to Finland. The rapid growth of food exports was driven by the exports of spirits that doubled year-on-year. Moreover, also the exports of milk products (milk powder, cheese, milk fats) and cereals (barley) grew. Milk powder and cheese were sold mainly to Russia, Finland and Italy, and cereals to Saudi Arabia. Other export items included fish and fish products (to Ukraine, Finland and Lithuania), non-alcoholic beverages (Latvia and Lithuania), coffee (Russia, Latvia and Lithuania) and grape wines (Russia).

Half of the exports of transport vehicles comprised motor cars, most of which went to Latvia and Lithuania. The second biggest item in that group included components of motor cars, including safety belts,



that were exported to Sweden and Russia. In addition, yachts were exported to Finland and Sweden, and trucks to Latvia. The exports of timber and timber products increased by a fifth. The items exported included processed timber (to the United Kingdom and Finland), construction components (Denmark, Sweden, Japan, Finland and Norway), and unprocessed timber and firewood (Finland and Denmark). The main export items among chemical products were various construction and repair materials (mastics, putties, paints and varnishes), plastic products, fertilizers, medicines and tyres. These goods were mostly channelled to the neighbouring countries: Russia, Latvia, Lithuania, Finland and Sweden.

The exports of metals, furniture and other goods increased 15%. As regards metals and metal products, the primary export items were metal constructions (to Finland, Denmark and Norway), pipes (Turkey), flat-rolled products (Lithuania, Poland and Latvia) and various iron and steel products (Finland and Sweden). The leading export item in the category of furniture was prefabricated buildings which were sold to Norway, Germany and the United Kingdom. Various items of furniture (mattresses, pillows, seats, lamps, etc.) were exported to Finland, Sweden, Denmark, Germany and the United Kingdom.

In the category of other industrial goods, the major export items included cement and concrete products (to Latvia, Lithuania and Russia), safety glass (Belgium and Germany), measuring instruments (Finland), automatic equipment (Sweden), medical equipment and orthopaedic aids (Germany) and glass containers (Lithuania and Latvia). The exports of mineral products decreased by a fifth. Motor fuel accounted for 80% of that, being also the main component of the decrease. Over 80% of motor fuel exports consisted of fuel processed in Estonia and then re-exported (mostly to Togo and the United States and some also to Canada, Finland and the Netherlands).

As a result of launching a cable between Finland and Estonia, the exports of electricity increased three times. The exports of peat increased 50% and went to the Netherlands and Sweden. The exports of cement grew by more than two times; most of it was sent to Russia and Latvia. However, the exports of machinery and equipment, currently still the largest export group, has been losing its share in exports, decreasing 10% year-on-year. Mechanical equipment and machinery accounted for about a third in that category, the rest being electrical equipment and machinery. The latter is also responsible for the abovementioned decrease. The biggest export items were mobile communication devices (to Sweden and Finland), insulated wires and cables (Sweden, Finland and the Netherlands) and components of various mechanical and electrical equipment (Finland, Sweden, Italy, Germany and Saudi Arabia). As regards clothing, footwear and headgear, men's and women's clothes were exported to Finland and Sweden, footwear to Finland and Latvia, linen to Sweden and Finland and furs to Turkey and Sweden.

Machinery and equipment were the largest goods group also in the **imports of goods**. Mineral products and transport vehicles ranked next (see Table 5). The share of the first two groups of goods declined in imports too. Import developments were rather similar compared to exports in terms of goods groups: the same groups of goods that increased their export volumes also enlarged the volume of imports. This suggests that Estonia acted as a country of transit for these goods and provided either intermediation or processing services. Such goods groups comprised food products (33% growth), timber and timber products (24%) and transport vehicles (22%). The imports of other goods increased as well; only that of mineral products and machinery and equipment decreased (by nearly 10%).

Half of the growth of food imports can be contributed to the increase in the imports of alcoholic beverages, which are the biggest import item in the food category. The primary countries of origin were the United

Table 5. Imports by main groups of goods

	Volume (EEK m)		Share (%)		Change (%) 2007/2006
	2006	2007	2006	2007	
Food	12,146.9	16,164.5	7.3	9.2	33.1
Mineral products	26,951.5	24,745.6	16.3	14.0	-8.2
Chemical products	18,590.3	20,858.7	11.2	11.8	12.2
Clothing, footwear and headgear	10,594.5	11,731.5	6.4	6.6	10.7
Timber, paper and products	8,414.0	10,387.5	5.1	5.9	23.5
Metals and metal products	15,685.7	18,220.9	9.5	10.3	16.2
Machinery and equipment	42,009.0	37,913.7	25.4	21.5	-9.7
Transport vehicles	19,967.7	24,359.4	12.1	13.8	22.0
Furniture, toys, sporting goods	3,774.7	4,470.3	2.3	2.5	18.4
Other	7,164.2	7,614.2	4.3	4.3	6.3
Total	165,298.5	176,466.2	100.0	100.0	6.8

Kingdom and France. The imports of spirits increased by 3.5 times. Other major import items in the food group were sugar (from Poland, Finland, Denmark and the United Kingdom), tobacco products (Latvia), grape wines (France, Italy and Chile), coffee (Finland) and ready-to-eat pet food (Poland and Germany). The imports of timber and timber products increased mainly owing to the stronger growth of timber and plywood imports. Most of these goods as well as unprocessed timber originated from Russia.

Various kinds of paper and paper products, and wooden construction components were purchased from Finland. Motor cars and their spare parts drove the growth in imports of transport vehicles. In addition, also the imports of trucks, tractors, various trailers and special purpose vehicles (cranes, maintenance vehicles, concrete mixers) increased. Transport vehicles were purchased from Germany, Sweden, Finland and Japan as well as from the United Kingdom, the Netherlands, Italy, Austria and Denmark. The imports of furniture and toys grew 20%. Furniture was imported from Finland, Poland, Italy and Latvia; prefabricated wooden buildings from Finland; toys from China, and equipment for recreational establishments (gambling tables and machines) from the Netherlands and Latvia.

The imports of metals and metal products increased 16%. A large share of the imports in this goods group comprised flat-rolled iron and steel products. Flat-rolled products at a more advanced stage of manufacture were imported from Finland, Sweden and the Netherlands; products at a less advanced stage of manufacture originated from Russia and Ukraine. Flat-rolled products were also purchased from Taiwan and the United States. Iron and steel pipes were imported from Russia, Finland and Ukraine; metal constructions from Finland and Germany.

The imports of chemical products grew slightly over 10%. A large part of the imported chemical products contained various plastic raw materials as well as finished goods (from Finland, Germany, the Netherlands etc.). Medicines formed another major group and originated from many different countries. New tyres from Germany, Poland, Latvia and Japan also made quite a big contribution to growth. In addition, mastics, putties, binders etc. were imported from Germany, Ireland, Belgium, Denmark and Poland.

The imports of clothing, footwear and headgear increased 10%. Ready-made clothes accounted for a majority of that and were imported from various countries. Footwear was purchased from Germany and Italy, and synthetic staple fibre from Korea. The imports of other industrial goods grew 6% and consisted of different kinds of medical and measuring instruments and automatic equipment (from Finland, Germany and Sweden) as well as plate glass, glass fibre etc. The imports of mineral products decreased approximately

10%. Motor fuel accounted for 80% of the imports in that category and originated primarily from Russia and Lithuania and to some extent also from Belarus and Latvia. The decrease in the imports of mineral products can be largely attributed to the twofold decrease of motor fuel imported from Russia for processing. At the same time, several new countries of origin (Poland, Sweden, Latvia, Italy and Kazakhstan) sent motor fuel to Estonia for processing. Moreover, gas was imported from Russia and Latvia; petroleum coke and bitumen from Sweden, and also some electricity from Lithuania, Finland and Latvia.

The imports of machinery and equipment decreased just as much as the imports of mineral products – mostly on account of electrical machinery and equipment. The imports of mechanical machinery and equipment increased 10% and constituted 45% of total imports in that goods group. More precisely, the items imported included computers (from Lithuania, Latvia and Finland), earthwork machinery (the United Kingdom, Belgium and Germany), hand instruments (Japan, Germany, China), printing machinery (Finland), special-purpose equipment and spare parts for the above goods. The major import items in the category of electrical machinery and equipment were mobile communication devices (from Finland, Sweden, China and Latvia), electrical cut-outs (Finland and Germany), insulated wire and cables (Finland and Sweden), electronic integrated switches (Germany, Sweden and Finland) and television receiving equipment (Germany and Sweden).

Foreign trade deficit increased 10% and amounted to slightly over 50 billion kroons. Eight out of ten goods groups posted deficits. Compared to 2006, transport vehicles, mineral products and clothing, footwear and headgear increased their deficit the most (by 1.2–1.8 billion kroons; see Table 6). The deficit in machinery and equipment as well as other industrial goods decreased. The exports of goods exceeded imports only in two groups – timber and timber products, and furniture, which both increased their surpluses.

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

	2006	2007
Food	-3,743.6	-5,129.5
Mineral products	-7,589.8	-9,227.4
Chemical products	-10,321.1	-11,007.4
Clothing, footwear and headgear	-2,640.3	-3,852.8
Timber, paper and products	5,412.7	6,237.0
Metals and metal products	-4,717.1	-5,549.9
Machinery and equipment	-12,581.6	-11,699.7
Transport vehicles	-11,925.5	-13,711.6
Furniture, toys, sporting goods	4,926.8	5,456.7
Other	-2,599.3	-2,369.0
Total	-45,778.8	-50,853.6

By **groups of countries**, the **exports of goods** to the European Union grew 13%. Consequently, the share of the EU in Estonia's exports increased by 5 percentage points and reached 70% (see Table 7). The major partners were Finland, Sweden, Latvia, Lithuania and Germany. Exports to Latvia and Lithuania gained the most. Exports to the CIS increased 14%, whereas 80% of that went to Russia. Russia was also Estonia's fourth biggest export partner. Goods exports to other countries decreased by a fifth (by a third to the US, mostly on account of motor fuel). The **imports of goods** from EU countries grew 13% year-on-year (see Table 8). Deliveries from Finland, the biggest import partner, decreased slightly, whereas deliveries from Lithuania and Sweden increased considerably. Imports from the CIS declined 13%, mostly on account of the motor fuel imported from Russia for processing. Goods imports from Ukraine grew by a third. Imports

Table 7. Exports of goods by groups of countries

	Volume (EEK m)		Share (%)		Change (%) 2007/2006
	2006	2007	2006	2007	
EU-27	77,452.4	87,792.2	64.8	69.9	13.3
Finland	21,796.7	22,520.9	18.2	17.9	3.3
Sweden	14,696.4	16,695.4	12.3	13.3	13.6
Latvia	10,423.7	14,273.0	8.7	11.4	36.9
Lithuania	5,692.6	7,217.4	4.8	5.7	26.8
Germany	5,978.9	6,623.1	5.0	5.3	10.8
CIS	12,568.4	14,355.4	10.5	11.4	14.2
Russia	9,470.5	11,109.0	7.9	8.8	17.3
Ukraine	1,847.9	1,860.4	1.5	1.5	0.7
Belarus	688.9	568.0	0.6	0.5	-17.6
Other	29,498.9	23,465.0	24.7	18.7	-20.5
USA	7,996.9	5,240.1	6.7	4.2	-34.5
Norway	3,177.9	4,244.9	2.7	3.4	33.6
Togo	1,182.3	4,244.6	1.0	3.4	259.0
Total	119,519.7	125,612.6	100.0	100.0	5.1

Table 8. Imports of goods by groups of countries*

	Volume (EEK m)		Share (%)		Change (%) 2007/2006
	2006	2007	2006	2007	
EU-27	122,642.6	138,306.9	74.2	78.4	12.8
Finland	30,067.2	28,171.4	18.2	16.0	-6.3
Germany	20,441.9	22,530.6	12.4	12.8	10.2
Sweden	14,822.7	17,874.9	9.0	10.1	20.6
Lithuania	9,450.1	13,302.3	5.7	7.5	40.8
Latvia	10,682.4	11,931.1	6.5	6.8	11.7
CIS	26,518.4	23,147.6	16.0	13.1	-12.7
Russia	21,704.8	18,082.5	13.1	10.2	-16.7
Belarus	2,281.1	2,542.0	1.4	1.4	11.4
Ukraine	1,298.1	1,740.9	0.8	1.0	34.1
Other	16,137.5	15,011.7	9.8	8.5	-7.0
China	3,431.4	3,716.0	2.1	2.1	8.3
USA	1,919.1	2,205.6	1.2	1.2	14.9
Japan	1,734.2	1,399.3	1.0	0.8	-19.3
Total	165,298.5	176,466.2	100.0	100.0	6.8

* Analysed by trading country.

from other countries diminished 7%. China was the biggest partner in that group of countries, followed by the United States and Japan.

Foreign trade deficit with the European Union was almost equal to total deficit (see Table 9). Deficit with CIS members and surplus with other countries were more or less similar in size and decreased 40% year-on-year.

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

	2006	2007
EU-27	-45,190.2	-50,514.7
CIS	-13,950.0	-8,792.2
Other	13,361.4	8,453.3
Total	-45,778.8	-50,853.6

Services

The surplus on the services account amounted to 15.1 billion kroons in 2007, increasing 19% year-on-year (see Figure 4). Year-on-year, the growth of services exports as well as imports increased 15% and 13%, respectively (see Table 10). Compared to 2006, the share of services in the total turnover of goods and services grew both in terms of exports and imports. The surplus on the services account offset foreign trade deficit by 36%, which is close to the 2006 level but less than in previous years.

Year 2007 brought about a significant change in the structure of services balance (see Table 11). The surplus on travel services declined 19% year-on-year. Consequently, the share of that type of services in total balance of services fell from 42% to 29%. The surplus on transport services increased faster than average (21%), thus also growing its share in total services (40%). The growth of transport services' surplus

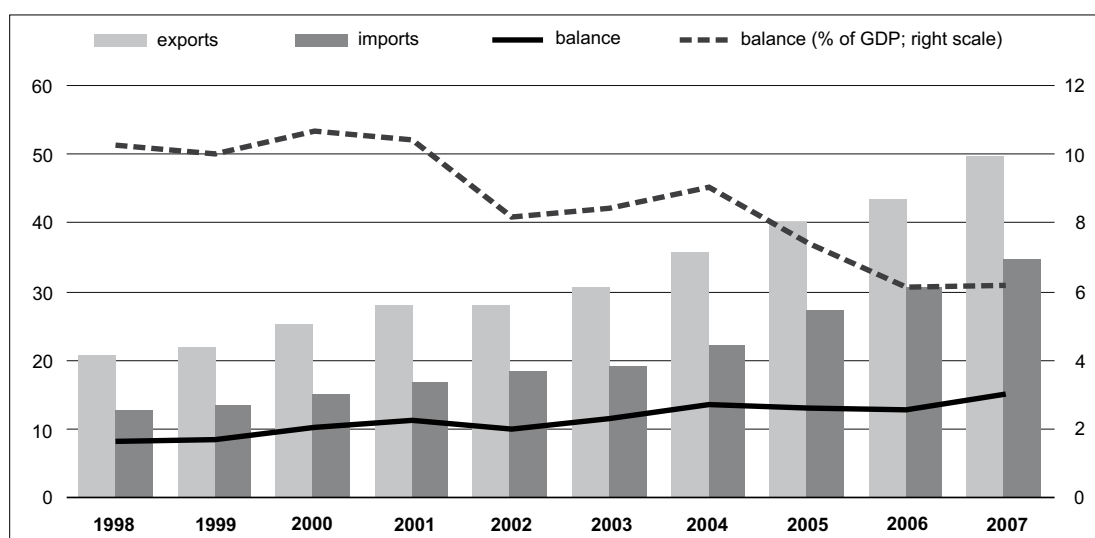


Figure 4. Services account (EEK bn)

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 (%)
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	25,263.4	15.1	31.0	15,059.6	10.6	17.8	10,203.8	22.3
2001	28,135.4	11.4	32.4	16,840.6	11.8	18.9	11,294.8	10.7
2002	28,164.3	0.1	32.7	18,273.6	8.5	19.3	9,890.7	-12.4
2003	30,674.0	8.9	32.6	19,198.5	5.1	18.4	11,475.5	16.0
2004	35,703.4	16.4	32.2	22,142.0	15.3	18.0	13,561.4	18.2
2005	40,200.7	12.6	29.1	27,233.0	23.0	18.2	12,967.8	-4.4
2006	43,391.8	7.9	26.5	30,693.9	12.7	16.4	12,697.9	-2.1
2007	49,868.8	14.9	28.3	34,808.7	13.4	17.2	15,060.1	18.6

Table 11. Services balance by major categories

	Balance (EEK m)		Share (%)		Change (%) 2007/2006
	2006	2007	2006	2007	
Transportation	4,905.1	5,932.7	38.6	39.4	20.9
Travel	5,329.4	4,338.8	42.0	28.8	-18.6
Construction services	-591.6	1,130.0	-4.7	7.5	-291.0
Computer and information services	549.6	767.1	4.3	5.1	39.6
Business services	2,426.1	2,386.8	19.1	15.8	-1.6
Government services	133.9	82.0	1.1	0.5	-38.8
Other	-54.6	422.7	-0.4	2.8	-874.2
Total	12,697.9	15,060.1	100.0	100.0	18.6

Table 12. Services exports by major categories

	Volume (EEK m)		Share (%)		Change (%) 2007/2006
	2006	2007	2006	2007	
Transportation	17,842.8	20,479.7	41.1	41.1	14.8
freight	9,489.7	10,731.7	21.9	21.5	13.1
passenger	4,181.3	4,326.7	9.6	8.7	3.5
other transport services	4,171.8	5,421.3	9.6	10.9	30.0
Travel	12,695.0	11,726.9	29.3	23.5	-7.6
Construction services	1,083.9	2,200.3	2.5	4.4	103.0
Computer and information services	1,133.1	1,570.6	2.6	3.1	38.6
Business services	7,898.0	9,938.6	18.2	19.9	25.8
Government services	547.8	658.4	1.3	1.3	20.2
Other	2,191.2	3,294.3	5.0	6.6	50.3
Total	43,391.8	49,868.8	100.0	100.0	14.9

was equal to the decrease in travel services' surplus. The surplus on the services account grew mostly owing to the deficit on construction services turning into a surplus.

Services exports increased 15% in 2007 (see Table 12). The exports of construction services grew the most – by two times. The growth of other major services was also relatively strong (15–50%); only the exports of travel services declined (8%).

EU countries accounted for 70% of the services exports. Compared to 2006, this ratio has fallen (see Table 13) because the annual growth rate of Finland and Sweden – Estonia's main trading partners – was smaller than average (6%). As regards other countries, exports to Russia and offshore regions continued rapid growth (31% in both cases).

The imports of services increased 13% in 2007, with travel and transport services making the biggest contributions (38% and 12%, respectively; see Table 14). As concerns the most important services, the imports of travel services remained close to the year-ago level, whereas the imports of construction services declined 36%.

EU countries accounted for 75% of services imports (see Table 15). Finland was the biggest import partner, holding a 17% share in services imports. Germany, Sweden, Latvia and Russia followed with around 7–8% shares.

Table 13. Services exports by groups of countries

	Volume (EEK m)		Share (%)		Change (%) 2007/2006
	2006	2007	2006	2007	
EU-27	31,285.7	34,763.5	72.1	69.7	11.1
Finland	13,975.6	14,815.7	32.2	29.7	6.0
Sweden	3,416.4	3,637.3	7.9	7.3	6.5
United Kingdom	2,308.7	3,057.7	5.3	6.1	32.4
Latvia	1,835.7	2,668.7	4.2	5.4	45.4
CIS	5,258.0	6,594.8	12.1	13.2	25.4
Russia	4,255.0	5,563.0	9.8	11.2	30.7
Ukraine	392.5	473.4	0.9	0.9	20.6
Kazakhstan	444.8	355.2	1.0	0.7	-20.1
Other	6,815.6	8,510.5	15.7	17.1	24.9
Switzerland	1,640.9	2,056.0	3.8	4.1	25.3
offshore regions	1,518.0	1,984.8	3.5	4.0	30.8
USA	1,527.6	1,506.5	3.5	3.0	-1.4
Total	43,391.8	49,868.8	100.0	100.0	14.9

Table 14. Services imports by major categories

	Volume (EEK m)		Share (%)		Change (%) 2007/2006
	2006	2007	2006	2007	
Transportation	12,937.7	14,547.0	42.2	41.8	12.4
freight	8,666.3	9,437.2	28.2	27.1	8.9
passenger	1,400.8	1,538.8	4.6	4.4	9.9
other transport services	2,870.6	3,571.0	9.4	10.3	24.4
Travel	7,365.6	7,388.2	24.0	21.2	0.3
Construction services	1,675.5	1,070.2	5.5	3.1	-36.1
Computer and information services	583.6	687.9	1.9	2.0	17.9
Business services	5,471.9	7,551.9	17.8	21.7	38.0
Government services	413.9	576.4	1.3	1.7	39.3
Other	2,245.7	2,987.1	7.3	8.6	33.0
Total	30,693.9	34,808.7	100.0	100.0	13.4

Table 15. Services imports by groups of countries

	Volume (EEK m)		Share (%)		Change (%) 2007/2006
	2006	2007	2006	2007	
EU-27	22,815.4	26,549.7	74.3	76.3	16.4
Finland	5,874.0	5,930.0	19.1	17.0	1.0
Germany	3,347.5	2,709.9	10.9	7.8	-19.0
Sweden	2,181.2	2,387.8	7.1	6.9	9.5
Latvia	1,831.6	2,369.4	6.0	6.8	29.4
CIS	3,537.6	3,165.4	11.5	9.1	-10.5
Russia	2,874.2	2,365.4	9.4	6.8	-17.7
Ukraine	336.6	431.8	1.1	1.2	28.3
Belarus	199.4	240.5	0.6	0.7	20.6
Other	4,340.9	5,093.6	14.1	14.6	17.3
USA	856.0	1,091.5	2.8	3.1	27.5
Egypt	474.5	671.0	1.5	1.9	41.4
Norway	378.3	496.5	1.2	1.4	31.2
Total	30,693.9	34,808.7	100.0	100.0	13.4

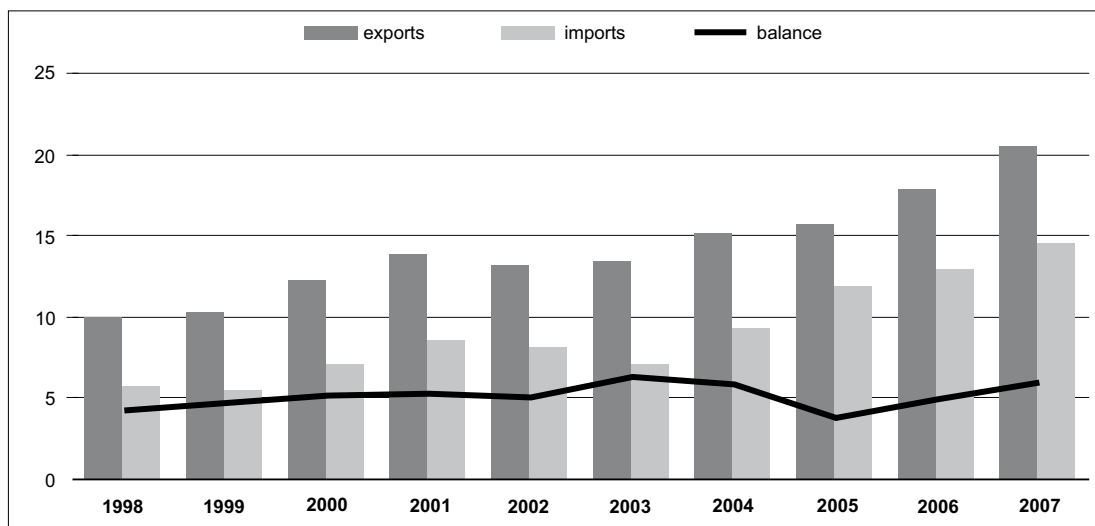


Figure 5. Transport services (EEK bn)

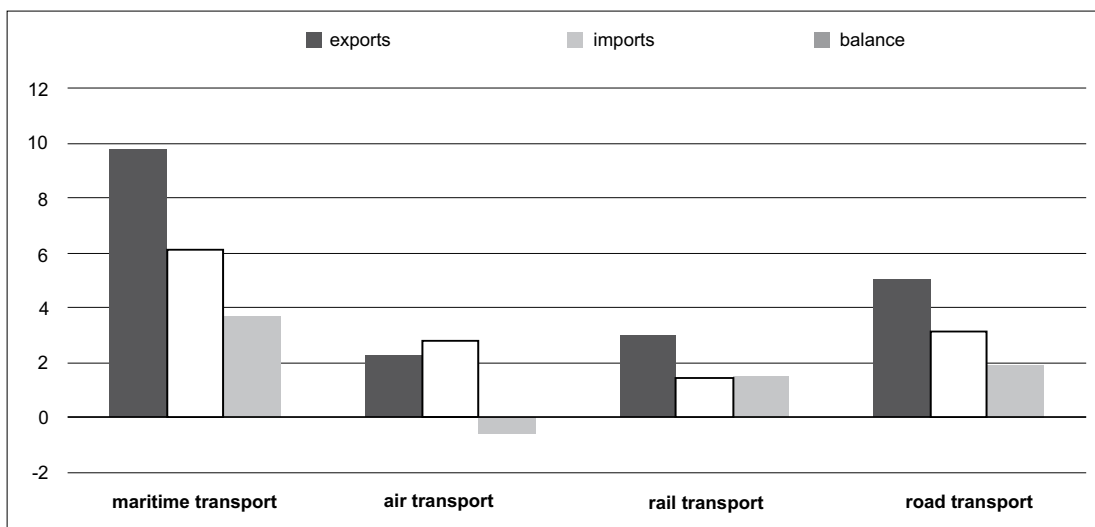


Figure 6. Transport services structure in 2007 by transport type (EEK bn)

The surplus on **transport services** grew in 2007 despite the setbacks in transit trade and was mainly driven by the increased sale of sea and road transport services (see Figures 5 and 6 and Tables 11 and 12). In rail transport, other supporting and auxiliary transport services, related to storage, logistics and provision of forwarding services to non-residents, gained importance.

Total exports of transport services grew 15% year-on-year. Growth to EU Member States was slower than average (8%; see Table 16). The biggest importer of transport services was again Finland. Exports to CIS increased 27%, with exports to Russia and Ukraine gaining over 30%. The biggest partner among other countries was Switzerland which imported 41% more transport services compared to 2006.

Table 16. Transport services by groups of countries in 2007

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%), 2007/2006		Volume (EEK m)	Share (%)	Change (%), 2007/2006
EU-27	13,819.7	67.5	8.1	EU-27	10,813.4	74.3	14.6
Finland	5,241.4	25.6	7.5	Finland	2,140.2	14.7	-10.8
United Kingdom	1,748.2	8.5	57.8	Germany	1,601.5	11.0	8.5
Sweden	1,619.9	7.9	4.7	Sweden	953.2	6.6	36.2
Germany	1,015.5	5.0	-16.7	Latvia	921.9	6.3	25.4
Denmark	704.2	3.4	18.0	United Kingdom	829.6	5.7	68.4
CIS	2,523.4	12.3	27.4	CIS	1,610.2	11.1	-4.2
Russia	2,317.0	11.3	30.2	Russia	1,284.1	8.8	-9.2
Ukraine	127.8	0.6	34.4	Belarus	176.1	1.2	65.8
Other	4,136.6	20.2	34.5	Other	2,123.4	14.6	16.8
Switzerland	1,451.1	7.1	41.3	offshore regions	557.5	3.8	35.1
offshore regions	1,215.2	5.9	53.9	USA	359.1	2.5	62.2
USA	476.2	2.3	-23.8	China	337.7	2.3	6.5
Total	20,479.7	100.0	14.8	Total	14,547.0	100.0	12.4

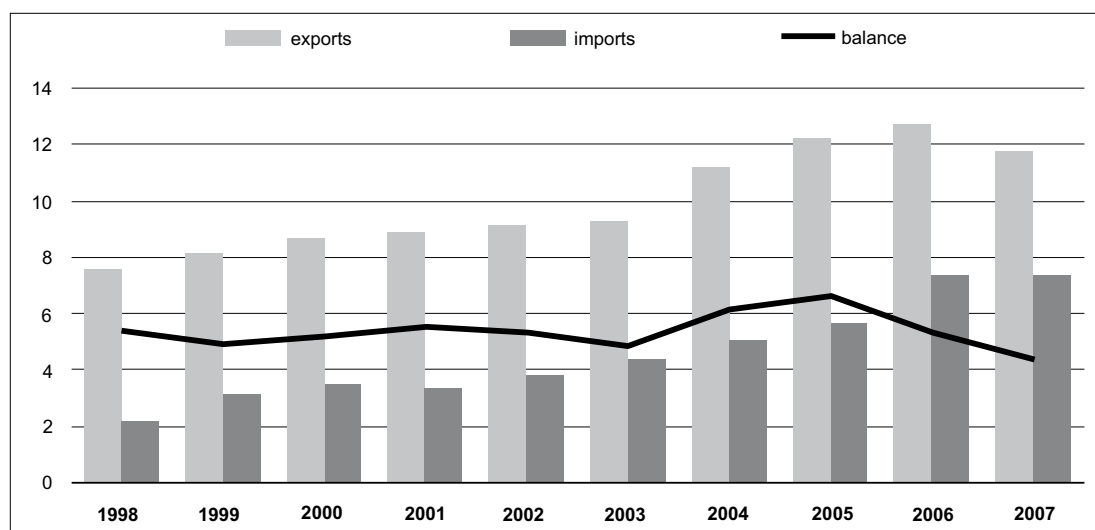


Figure 7. Travel services (EEK bn)

The growth of transport services exports exceeded imports by some percentage points (see Tables 14 and 16). Imports increased in all service categories, especially as regards other transport and auxiliary services – similar to the exports of transport services. The majority of transport services were purchased from EU countries in 2007. The share of CIS members in imports declined year-on-year. Imports from other countries grew 17% mostly owing to the higher imports of transport services from offshore regions and the United States.

The surplus on **travel services** decreased 19% in 2007, as exports were down 8% and imports remained at the previous year's level (see Figure 7). Exports declined largely because of the decreasing number of visitors from major EU countries (see Table 17). While the number of Swedish and German visitors shrank,

then the number of Russians visiting Estonia even grew, along with expenditure per visitor. The year 2006 witnessed the start of labour mobility in two directions. At first, labour outflow from Estonia to wealthier EU countries prevailed, whereas in 2007 the inflow and outflow of workers levelled off, while the inflow of migrant workers to more labour-intensive fields of activity in Estonia increased. Workers from Russia were issued the largest number of work permits. It should also be borne in mind that the living costs of temporary labour during the working period are recorded under travel services.

The number of Estonians' trips abroad as well as the length and cost of trips increased in 2007. The number of tourism trips purchased by Estonian travel agencies and sold to Estonians exceeded the cost of tourism trips sold by travel agencies to non-residents. As regards the most popular travel destinations for Estonians, the number of trips to Egypt, Turkey and Greece as well as new EU members like the Czech Republic, Latvia, Lithuania and Bulgaria grew the most. The stagnation in the imports of travel services may be explained by the permanent outflow of residents: some Estonians who have left the country to work abroad have stayed there for good and become migrants whose living costs are no longer recorded under travel services according to the balance of payments methodology.

Table 17. Travel services by groups of countries in 2007

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%), 2007/2006		Volume (EEK m)	Share (%)	Change (%), 2007/2006
EU-27	8,758.7	74.7	-11.8	EU-27	5,181.5	70.1	0.4
Finland	5,726.5	48.8	-11.3	Finland	1,436.4	19.4	8.9
Sweden	780.1	6.7	-12.3	Latvia	454.6	6.2	16.5
Germany	406.9	3.5	-14.6	Sweden	375.4	5.1	-8.2
Latvia	394.1	3.4	-12.4	Germany	373.5	5.1	-38.0
CIS	2,141.1	18.3	11.2	CIS	728.4	9.9	-24.6
Russia	1,992.0	17.0	10.2	Russia	555.1	7.5	-26.3
Ukraine	107.1	0.9	16.2	Ukraine	122.6	1.7	16.7
Other	827.1	7.1	1.7	Other	1,478.3	20.0	21.4
Norway	291.4	2.5	-7.9	Egypt	496.6	6.7	40.5
USA	212.8	1.8	-13.4	USA	241.5	3.3	26.8
Japan	48.4	0.4	44.7	Turkey	180.9	2.4	72.1
Total	11,726.9	100.0	-7.6	Total	7,388.2	100.0	0.3

Income

The profitability of foreign investors' investment (especially direct investment) in Estonia is reflected by the record high net outflow of income in 2007, which increased 75% year-on-year and totalled 16.5 billion kroons, i.e. 7% of GDP (see Table 18 and Figure 8).

Income account deficit was driven by the significantly stronger growth of non-residents' income compared to the income earned by residents abroad. Labour income witnessed net inflow, whereas investment income experienced net outflow. The income account of Estonia's balance of payments is largely affected by reinvested earnings, which are not subject to taxation in Estonia. Reinvested earnings include no actual movement of funds. The net outflow of reinvested earnings grew over 70% year-on-year and was almost equal to the total income account deficit both in 2006 and 2007 (see Table 19). Excluding reinvested earnings from the income account, the inflows and outflows of income were virtually equal in the past two years.

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 (%)
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	2,032.5	3.5	5,491.4	58.2	-3,458.9	129.7
2001	3,022.2	48.7	7,920.8	44.2	-4,898.6	41.6
2002	3,371.3	11.6	8,762.4	10.6	-5,391.1	10.1
2003	3,584.1	6.3	10,824.8	23.5	-7,240.7	34.3
2004	5,496.5	53.4	13,427.9	24.0	-7,931.4	9.5
2005	8,467.8	54.1	15,676.9	16.7	-7,209.1	-9.1
2006	13,483.4	59.2	22,908.3	46.1	-9,424.9	30.7
2007	16,666.5	23.6	33,179.5	44.8	-16,512.9	75.2

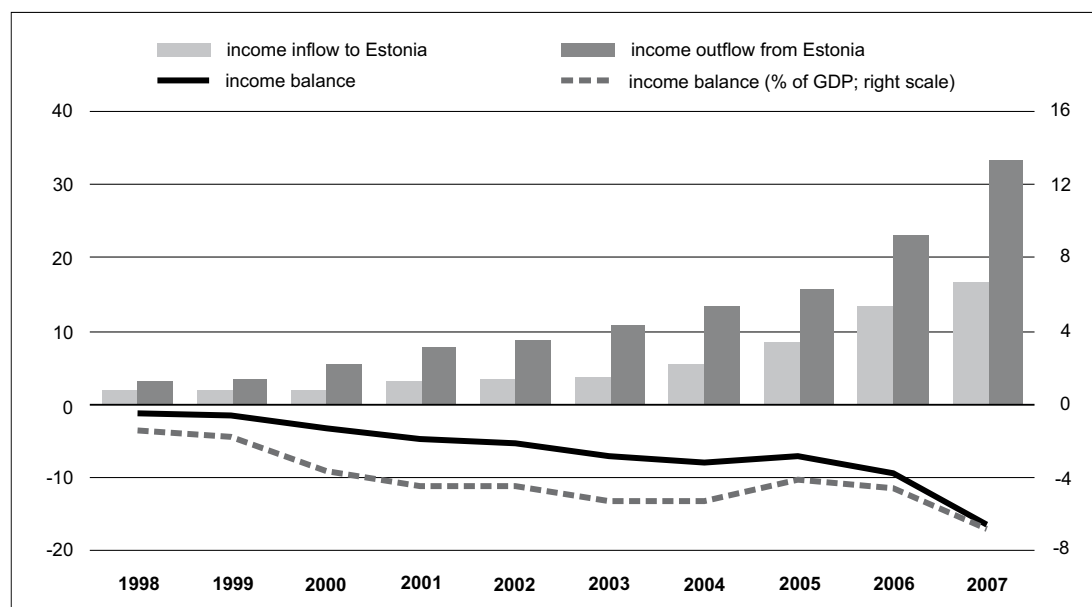


Figure 8. Income account (EEK bn)

Table 19. Structure of income account

	Balance (EEK m)		Share (%)		Change (%)
	2006	2007	2006	2007	2007/2006
Labour income	3,960.0	3,462.3	-42.0	-21.0	-12.6
Investment income	-13,384.9	-19,975.2	142.0	121.0	49.2
Income on direct investment	-12,281.9	-17,304.1	130.3	104.8	40.9
income on equity	-11,657.8	-16,195.6	123.7	98.1	38.9
reinvested earnings	-9,484.8	-16,298.3	100.6	98.7	71.8
dividends	-2,173.0	102.6	23.1	-0.6	-104.7
income on debt (interests)	-624.1	-1,108.4	6.6	6.7	77.6
Income on portfolio investment	826.5	472.2	-8.8	-2.9	-42.9
Income on other investment	-1,929.4	-3,143.3	20.5	19.0	62.9
Total	-9,424.9	-16,512.9	100.0	100.0	75.2

During 2004–2006, the annual growth of **income inflow** was 50% on average; in 2007, growth decelerated and totalled 25% (see Table 20). Regardless of the slowdown, income inflow was still record high with 16.7 billion kroons. Nearly 90% of residents' income earned abroad was related to EU countries (see Table 21).

The share of labour income in income inflow decreased both in relative and absolute terms. One of the reasons was the fact that people working abroad for a longer period (more than one year) become residents of the country of employment and their remittances to the country of origin are reflected under current transfers in the balance of payments. Labour income constituted over 25% (4.5 billion kroons) of income inflow. Estonian residents were employed mostly in Finland (nearly 40% of labour income inflow), the United Kingdom (17%), Ireland (10%), Sweden and Latvia.

Residents' income on foreign investment increased more than 40%. Direct investment income accounted for 55%, portfolio investment income for 25% and income on other investment for 20% of total investment income. Compared to 2006, the structure of direct investment income changed considerably in 2007: the share of dividends grew and that of reinvested earnings fell significantly as a result of the extensive amount of dividends paid. Residents' portfolio and other investment income increased faster than average.

Table 20. Income inflow to Estonia

	Volume (EEK m)		Share (%)		Change (%)
	2006	2007	2006	2007	2007/2006
Labour income	4,877.7	4,527.8	36.2	27.2	-7.2
Investment income	8,605.8	12,138.8	63.8	72.8	41.1
Income on direct investment	5,585.1	6,747.2	41.4	40.5	20.8
income on equity	5,236.1	6,061.4	38.8	36.4	15.8
reinvested earnings	4,771.1	2,715.4	35.4	16.3	-43.1
dividends	465.0	3,346.0	3.4	20.1	619.6
income on debt (interests)	348.9	685.8	2.6	4.1	96.6
Income on portfolio investment	1,930.1	2,995.6	14.3	18.0	55.2
Income on other investment	1,090.6	2,396.0	8.1	14.4	119.7
Total	13,483.4	16,666.5	100.0	100.0	23.6

Table 21. Income by groups of countries in 2007

	Inflow				Outflow		
	Volume (EEK m)	Share (%)	Change (%), 2007/2006		Volume (EEK m)	Share (%)	Change (%), 2007/2006
EU-27	14,616.2	87.7	19.0	EU-27	29,756.6	89.7	45.6
Latvia	3,174.4	19.0	22.3	Sweden	13,863.7	41.8	65.9
Lithuania	2,433.4	14.6	41.6	Finland	7,863.0	23.7	23.3
Finland	2,430.6	14.6	-14.1	United Kingdom	1,958.6	5.9	17.5
United Kingdom	1,627.8	9.8	42.0	Denmark	1,396.0	4.2	259.4
CIS	993.7	6.0	328.5	CIS	579.6	1.7	-15.0
Russia	846.0	5.1	367.4	Russia	443.3	1.3	-21.3
Belarus	83.1	0.5	409.3	Ukraine	115.4	0.3	16.3
Other	1,056.7	6.3	9.5	Other	2,843.3	8.6	59.1
USA	495.0	3.0	18.4	USA	788.2	2.4	63.6
Norway	211.4	1.3	-7.8	Norway	564.0	1.7	85.9
Total	16,666.5	100.0	23.6	Total	33,179.5	100.0	44.8

86% of the investment income inflow was related to EU countries, whereas half of that came from Latvia and Lithuania (see Table 21). Nearly 70% of the investment income inflow belonged to the investors of financial intermediation. The investors of transport, storage and communications earned 10% and those of public sector and real estate, renting and business activities received 7% (see Figure 9).

Income outflow gained 45% in 2007 and totalled 33.2 billion kroons (see Table 22). 90% of the income went to EU countries. Labour income comprised only 3% of income outflow. As regards non-residents' investment income earned in Estonia, 75% was direct investment income, 8% was portfolio investment income and other investment income formed 17%. The outflow of the two latter doubled year-on-year. Reinvested earnings accounted for 80% of non-residents' direct investment income for the second consecutive year. Swedish investors earned 47% and Finnish investors 26% of the investment income (see Table 21). Half of non-residents' investment income was earned on financial intermediation, 14% on real estate, renting and business activities, 12% on manufacturing and 11% on wholesale and retail trade (see Figure 9).

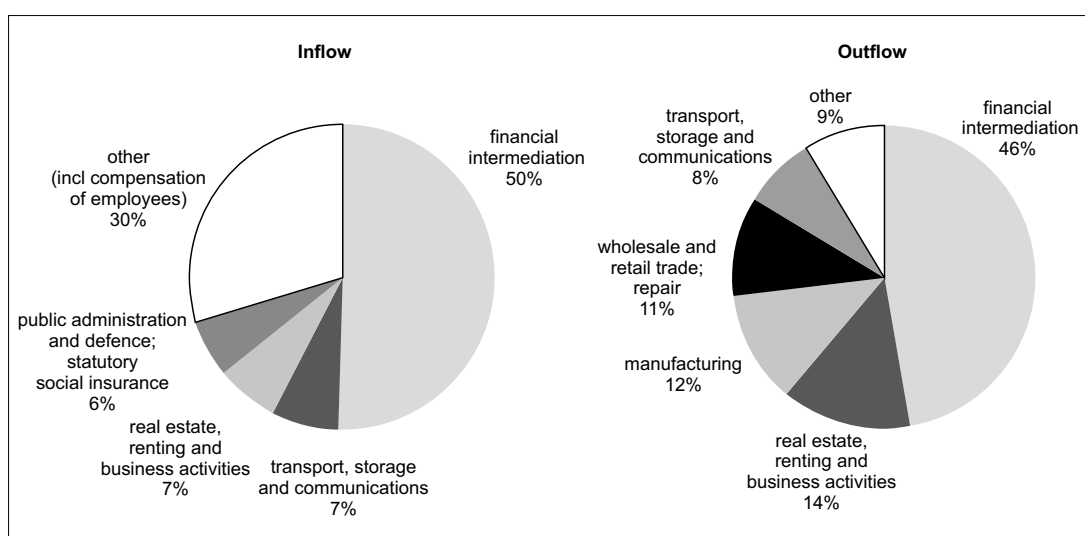


Figure 9. Inflow and outflow of income by fields of activity in 2007

Table 22. Income outflow from Estonia

	Volume (EEK m)		Share (%)		Change (%) 2007/2006
	2006	2007	2006	2007	
Labour income	917.7	1,065.5	4.0	3.2	16.1
Investment income	21,990.6	32,114.0	96.0	96.8	46.0
Income on direct investment	17,867	24,051.3	78.0	72.5	34.6
income on equity	16,893.9	22,257.0	73.7	67.1	31.7
reinvested earnings	14,256.0	19,013.7	62.2	57.3	33.4
dividends	2,638.0	3,243.3	11.5	9.8	22.9
income on debt (interests)	973.0	1,794.3	4.2	5.4	84.4
Income on portfolio investment	1,103.6	2,523.4	4.8	7.6	128.7
Income on other investment	3,020.0	5,539.3	13.2	16.7	83.4
Total	22,908.3	33,179.5	100.0	100.0	44.8

Current and capital transfers⁵

The surplus on the current transfers account decreased by almost three times year-on-year and amounted to 525 million kroons (see Table 23). This resulted from a decrease in current transfers received and an increase in current transfers paid.

The inflow of current transfers declined 20% and reached 6.7 billion kroons. 43% of that accounted for funds channelled into the Estonian economy through the general government (primarily allocations from the EU structural funds and revenues from taxes). The inflow of current transfers of other sectors also decreased slightly year-on-year and amounted to 3.8 billion kroons. 60% of that came from the EU (agricultural subsidies from the European Commission, transfers from the United States, Russia, Germany and Finland). The outflow of current transfers increased 7% and totalled 6.2 billion kroons. General government's payments into the EU budget and VAT refunds accounted for nearly 60% of the outflow. Other sectors' transfers were also mainly made to the EU (Finland, Germany, the United Kingdom and Sweden).

The **surplus on capital transfers** grew 56% year-on-year and amounted to 3.7 billion kroons. Capital transfers into Estonia mainly comprised EU subsidies to the general government for various infrastructure objects and investments.

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

	Received		Paid		Balance	
	2006	2007	2006	2007	2006	2007
Current transfers	7,162.2	6,740.3	5,806.9	6,215.8	1,355.3	524.5
government transfers	3,025.3	2,909.4	3,221.3	3,637.5	-196.0	-728.1
EU-27	2,829.7	2,523.5	3,166.5	3,536.3	-336.8	-1,012.8
CIS	66.7	80.9	6.1	7.9	60.6	73.0
other	128.9	305.0	48.7	93.3	80.2	211.7
private transfers	4,136.9	3,830.9	2,585.6	2,578.3	1,551.3	1,252.7
EU-27	3,020.4	2,282.9	2,116.8	2,163.8	903.6	119.1
CIS	625.1	623.7	144.1	140.7	481.0	483.0
other	491.3	924.4	324.7	273.9	166.7	650.5
Capital transfers	2,565.4	4,013.5	167.2	275.3	2,398.1	3,738.3
government transfers	1,563.9	3,650.7	0.8	0.8	1,563.1	3,649.9
private transfers	1,001.4	362.9	166.4	274.5	835.0	88.3

⁵ 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).

FINANCIAL ACCOUNT

The surplus on the financial account⁶ reached a record 37.3 billion kroons in 2007. The large inflow of foreign capital occurred primarily through other investment capital via credit institutions as well as through direct investment. Figures 10 and 11 show the structure of the financial account by categories and maturities.

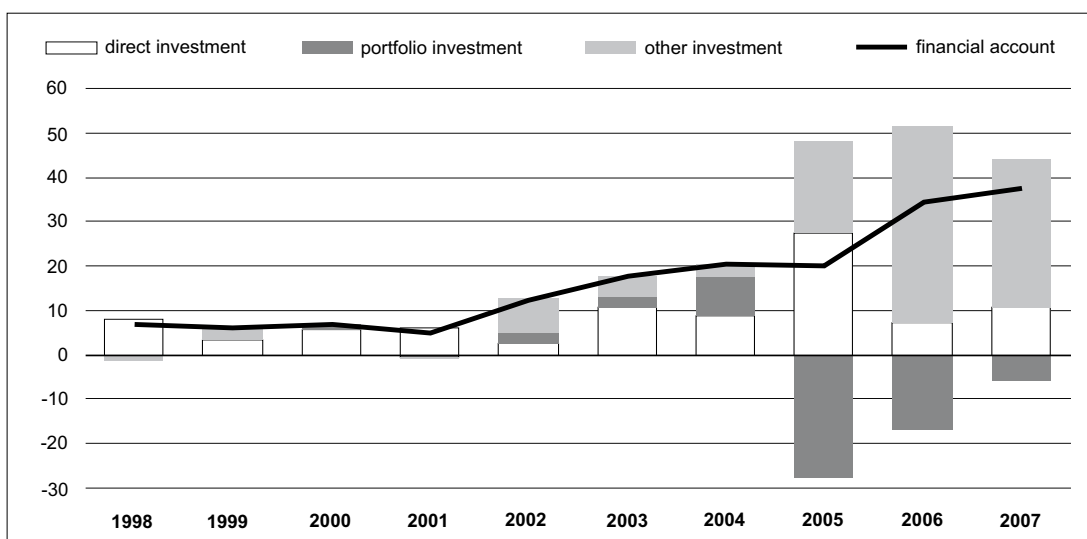


Figure 10. Changes in the structure of foreign investment capital flows (EEK bn)

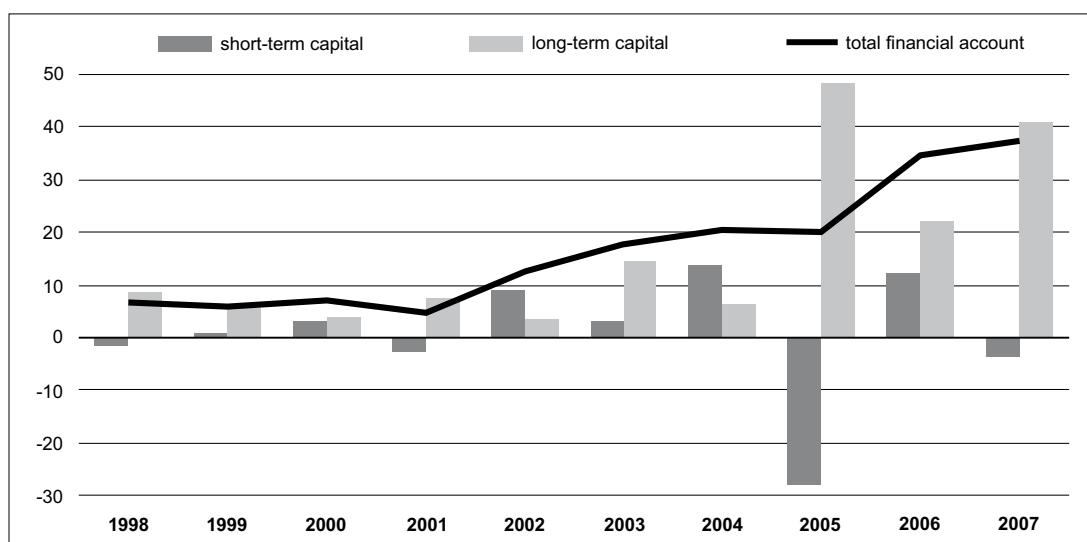


Figure 11. Maturity structure of the financial account (EEK bn)

⁶ Without reserve assets.

Direct investment

In 2007, both the inflow and outflow of direct investment enjoyed high levels. Direct investment recorded a 10.8 billion kroon surplus, which formed nearly a third of the surplus on the financial account. Non-residents' direct investment in Estonia totalled 28.4 billion and residents' direct investment abroad reached 16.6 billion kroons (see Figure 12).

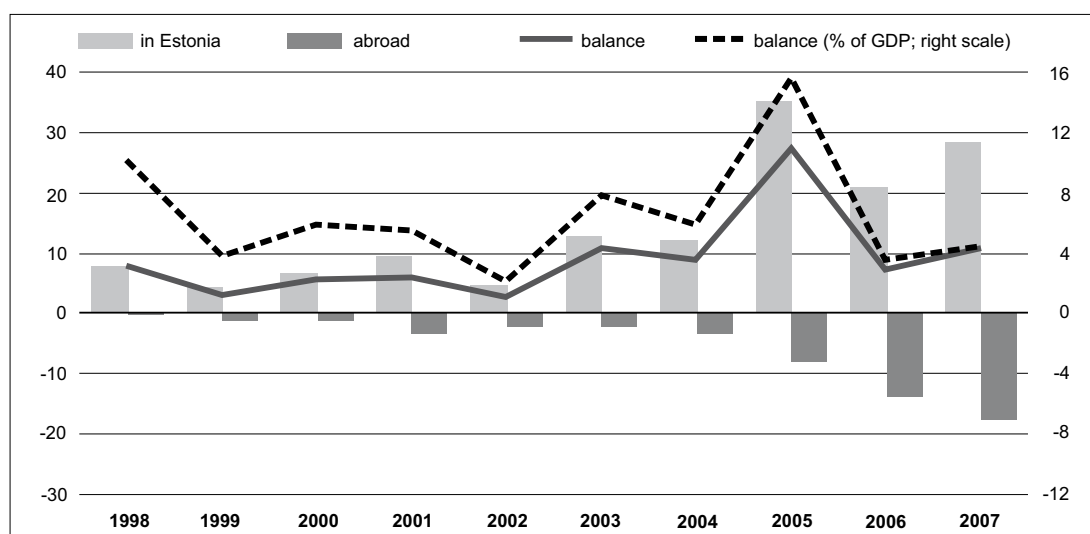


Figure 12. Direct investment (EEK bn)

The inflow of **direct investment in Estonia** increased by more than a third year-on-year. The structure of direct investment inflow has been stable in the past two years, indicating Estonia's economic achievements. Estonia has been a favourable investment environment, as reinvested earnings are not subject to taxation here. This, in turn, has encouraged foreign investors to reinvest their direct investment income. Consequently, the share of reinvested earnings in direct investment inflow has reached nearly 70% in the past two years, standing at 19 billion kroons in 2007. Profits of credit institutions accounted for approximately a half of total reinvested earnings; manufacturing, real estate, renting and business activities, and wholesale and retail trade comprised 14–16%. Equity capital investment formed only 15% and other capital nearly 20% of total direct investment. Compared to 2006, loan assets to foreign direct investors increased by 2.5 times and loan liabilities by a third (see Tables 24 and 25).

The biggest direct investors were, as usual, from Sweden (46%), Finland (20%), the Netherlands and Denmark (12%). Investors from Lithuania, Luxembourg and Cyprus invested to a lesser extent (see Figure 13). Over half (53%) of direct investment was made in financial intermediation; nearly 20% in wholesale and retail trade; 17% in real estate, renting and business activities, and 10% in manufacturing (see Figure 14). Direct investment from EU countries was equal to the total balance of direct investment (see Table 26).

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 (%)		
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	6,406.7	49.8	-1,334.0	-10.4	2,462.7	19.1	12,865.2	100.0
2004	4,638.6	38.2	7,982.1	65.8	-1,454.0	-12.0	961.5	7.9	12,128.1	100.0
2005	27,959.3	79.3	8,211.5	23.3	-2,014.0	-5.7	1,118.3	3.2	35,275.1	100.0
2006	2,303.2	11.0	14,255.9	67.9	-4,465.5	-21.3	8,888.1	42.4	20,981.8	100.0
2007	4,161.1	14.7	19,013.7	66.9	-6,322.8	-22.3	11,550.9	40.7	28,402.9	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	246.4	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	1,274.3	502.5	2,290.6	1,413.4	7,889.0	6,972.1	5,012.7	4,628.4
2006	2,121.6	609.9	3,723.7	2,589.2	13,157.0	6,147.4	4,115.2	3,391.2
2007	3,743.4	1,235.9	7,890.0	3,880.6	17,923.1	9,110.2	8,119.7	6,363.1

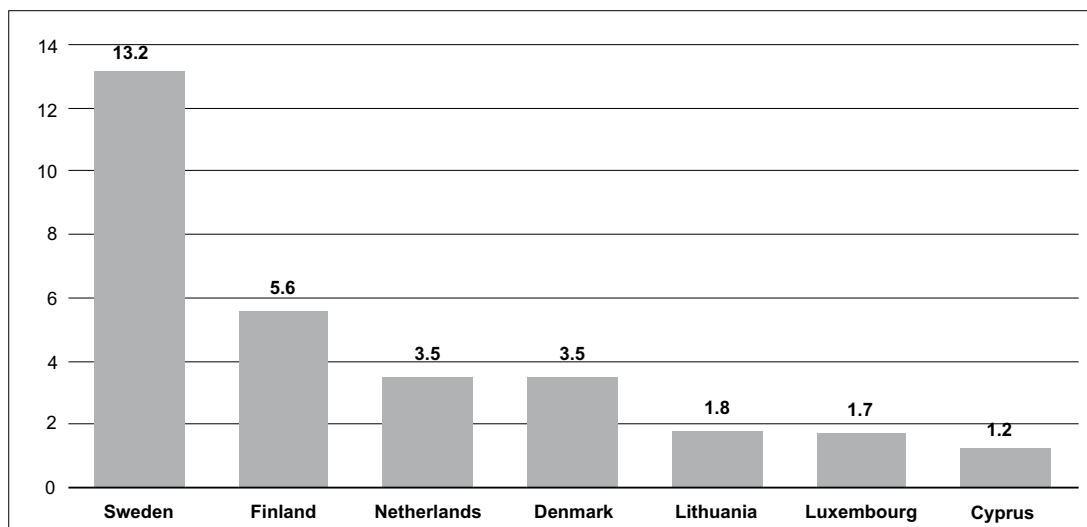


Figure 13. Direct investment in Estonia by countries in 2007 (EEK bn)

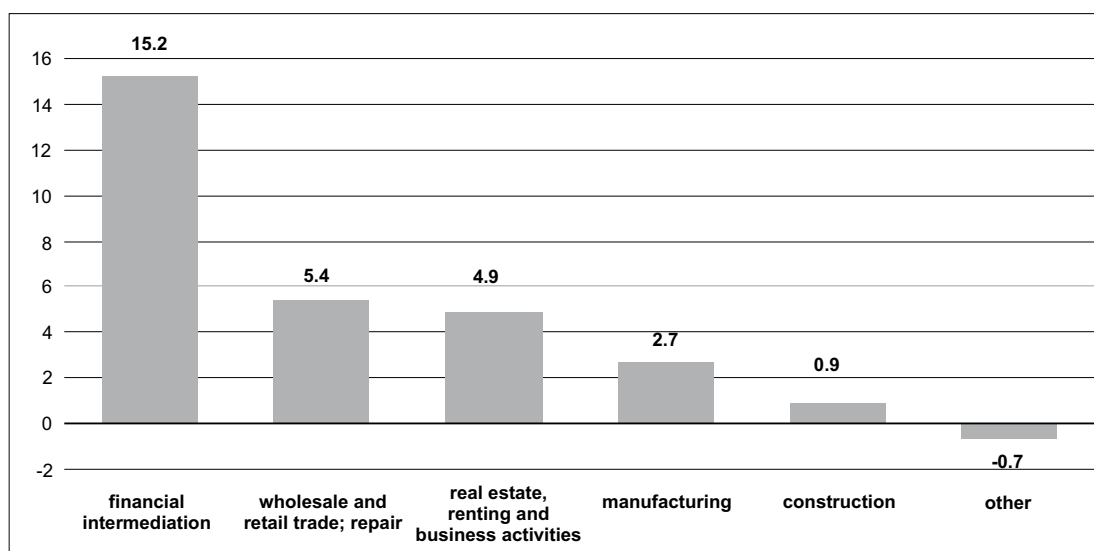


Figure 14. Direct investment in Estonia by fields of activities in 2007 (EEK bn)

Table 26. Direct investment in Estonia by groups of countries

	Volume (EEK m)		Share (%)		Change (%) 2007/2006
	2006	2007	2006	2007	
EU-27	20,619.3	28,595.4	98.3	100.7	38.7
CIS	846.0	-264.5	4.0	-0.9	-131.3
Other	-484.0	72.1	-2.3	0.3	-114.9
Total	20,981.8	28,403.0	100.0	100.0	35.4

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 (%)		
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	-5,155.3	64.9	-1,934.7	24.4	-1,141.6	14.4	292.0	-3.7	-7,939.6	100.0
2006	-5,876.9	42.9	-4,771.1	34.8	-3,819.4	27.9	760.3	-5.5	-13,707.1	100.0
2007	-10,524.1	59.9	-2,715.4	15.5	-5,888.8	33.5	1,555.8	-8.9	-17,572.5	100.0

Direct investment abroad exceeded the year-ago level by more than 25% and amounted to a record 17.6 billion kroons (see Table 27). Direct investment outflow has been intense during the past three years and one of the largest per capita in comparison with the other nine countries that joined the EU together with Estonia. Unlike direct investment in Estonia, which has mostly consisted of retained earnings in the past years, equity capital investment prevailed in residents' foreign direct investment in 2007. They increased by nearly two times year-on-year and constituted 60% of total direct investment. Since residents withdrew considerable amounts of dividends on foreign investment in 2007, the share of dividends in the direct investment structure declined to 16%. Other direct investment capital comprised a fourth of direct investment outflow. Loan capital assets and liabilities to foreign subsidiaries and associated companies increased slightly (see Table 28).

Estonian direct investors preferred to invest in Latvia and Lithuania who received 34% and 23% of direct investment, respectively (see Figure 15). Other investment destinations included Russia, Cyprus and Italy. Financial intermediaries accounted for 48% and investors in the field of real estate, renting and business

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	2,141.8	1,488.6	1,710.6	1,107.4	109.6	60.7	104.9	25.0
2006	5,395.2	2,372.1	1,545.6	1,626.1	118.6	112.7	147.0	20.5
2007	6,431.5	2,013.1	2,035.4	1,397.2	112.9	114.6	1,669.9	109.3

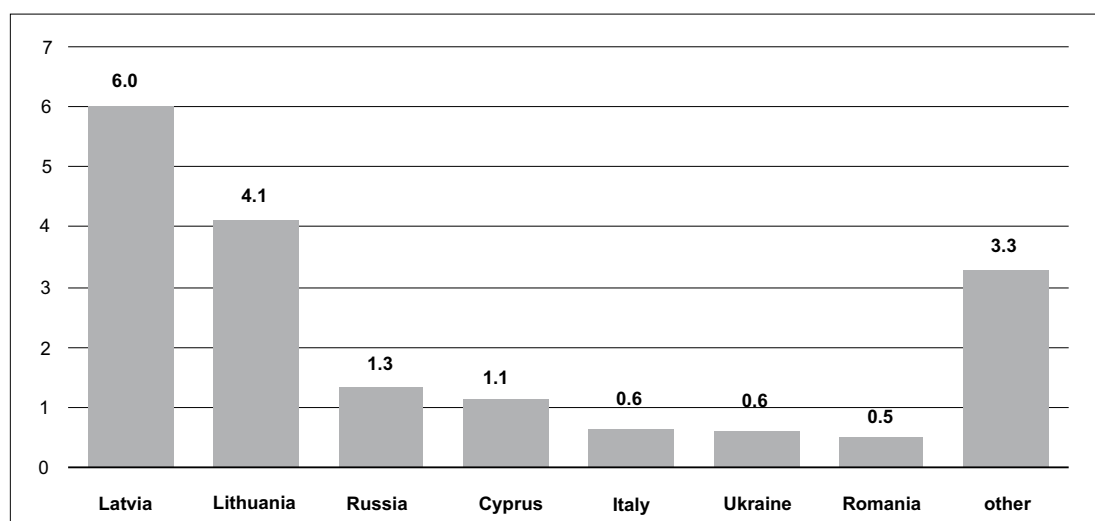


Figure 15. Direct investment abroad by countries in 2007 (EEK bn)

activities for 28% of foreign investment outflow (see Figure 16). By groups of countries, slightly over 80% of direct investment was channelled to the EU (see Table 29). Direct investment to the CIS grew by nearly three times and comprised 13% of total investment. Direct investment in Russia increased the most; the share of Ukraine grew to a lesser extent.

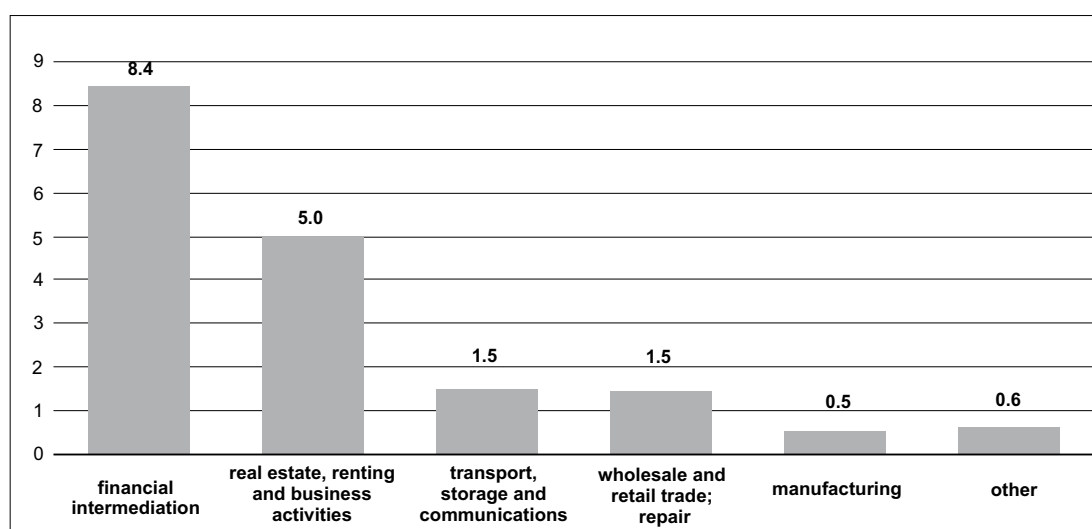


Figure 16. Direct investment abroad by fields of activity in 2007 (EEK bn)

Table 29. Direct investment abroad by groups of countries

	Volume (EEK m)		Share (%)		Change (%) 2007/2006
	2006	2007	2006	2007	
EU-27	-12,611.1	-14,312.3	92.0	81.4	13.5
CIS	-903.9	-2,321.7	6.6	13.2	156.9
Other	-192.1	-938.6	1.4	5.3	388.6
Total	-13,707.1	-17,572.6	100.0	100.0	28.2

Portfolio investment

The net outflow of **portfolio investment** was 6 billion kroons in 2007. This resulted mainly from debt security investment made by the general government and equity security investment made by enterprises in other sectors (see Figure 17 and Table 30).

Portfolio investment liabilities increased by 2.7 billion kroons in 2007 (see Table 31). Equity security liabilities increased by 3.2 billion kroons, whereas debt security liabilities decreased by approximately 500 million kroons. As regards equity securities, mainly transactions with enterprises in other sectors were carried out. The decline in debt security liabilities can be attributed to the general government and credit institutions. By countries, portfolio investment liabilities to EU countries, in particular Finland, Lithuania, Poland and Austria, increased the most (see Figure 18 and Table 32).

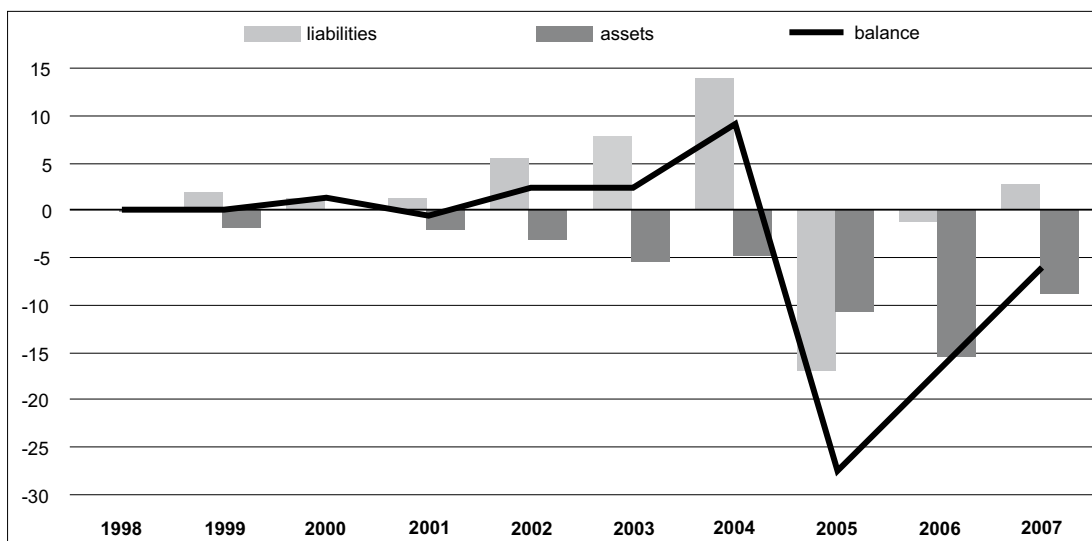


Figure 17. Portfolio investment (EEK bn)

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

	Assets		Liabilities		Balance	
	2006	2007	2006	2007	2006	2007
Equity securities	-4,584.0	-7,793.3	3,738.1	3,215.1	-845.9	-4,578.2
central bank	0.0	0.0	0.0	0.0	0.0	0.0
general government	-167.2	-111.7	0.0	0.0	-167.2	-111.7
credit institutions	-6.1	68.6	25.2	21.7	19.1	90.3
other sectors	-4,410.7	-7,750.2	3,712.8	3,193.3	-697.9	-4,556.9
Debt securities	-10,986.0	-892.1	-4,997.9	-491.9	-15,983.9	-1,384.0
central bank	0.0	0.0	0.0	0.0	0.0	0.0
general government	-6,024.3	-3,505.3	856.0	-1,026.3	-5,168.3	-4,531.6
credit institutions	-2,676.9	1,985.6	-5,506.7	-515.4	-8,183.6	1,470.2
other sectors	-2,284.7	627.7	-347.2	1,049.8	-2,631.9	1,677.5
Total	-15,569.9	-8,685.4	-1,259.8	2,723.2	-16,829.7	-5,962.2

Table 31. Structure of portfolio investment liabilities

	Equity securities		Debt securities		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
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	1,527.0	19.6	6,256.2	80.4	7,783.2	100.0
2004	2,205.2	15.9	11,673.0	84.1	13,878.2	100.0
2005	-16,352.3	96.8	-532.0	3.2	-16,884.3	100.0
2006	3,738.1	-296.7	-4,997.9	396.7	-1,259.8	100.0
2007	3,215.1	118.1	-491.9	-18.1	2,723.2	100.0

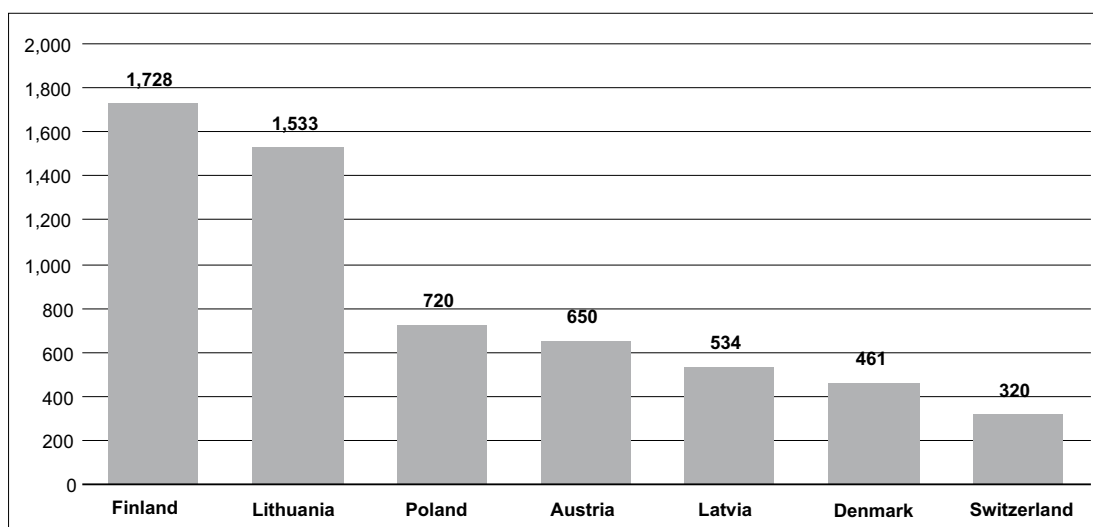


Figure 18. Increase in portfolio investment liabilities by countries in 2007 (EEK m)

Table 32. Structure of portfolio investment by groups of countries

	Volume (EEK m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2006	2007	2006	2007	2006	2007	2006	2007
EU-27	-12,828.4	-8,493.8	-2,881.4	2,342.1	82.4	97.8	228.7	86.0
CIS	-1,154.3	-1,616.6	230.2	22.6	7.4	18.6	-18.3	0.8
Other	-1,587.2	1,425.0	1,391.4	358.5	10.2	-16.4	-110.4	13.2
Total	-15,569.9	-8,685.4	-1,259.8	2,723.2	100.0	100.0	100.0	100.0

Portfolio investment assets grew by 8.7 billion kroons year-on-year; equity security investment comprised 7.8 billion of that (see Table 33). Debt security assets gained nearly 900 million kroons in 2007. The most active investors in equity securities issued by non-residents were companies in other sectors, who invested the total of 7.8 billion kroons. The general government invested the most in debt securities, namely 3.5 billion kroons in total. By countries, portfolio investment went mainly to Finland, Austria, Luxembourg and France (see Figure 19).

Table 33. Structure of portfolio investment assets

	Equity securities		Debt securities		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
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	59.6	-1,957.6	40.4	-4,851.0	100.0
2005	-4,848.9	45.4	-5,826.1	54.6	-10,675.0	100.0
2006	-4,584.0	29.4	-10,986.0	70.6	-15,569.9	100.0
2007	-7,793.3	89.7	-892.1	10.3	-8,685.4	100.0

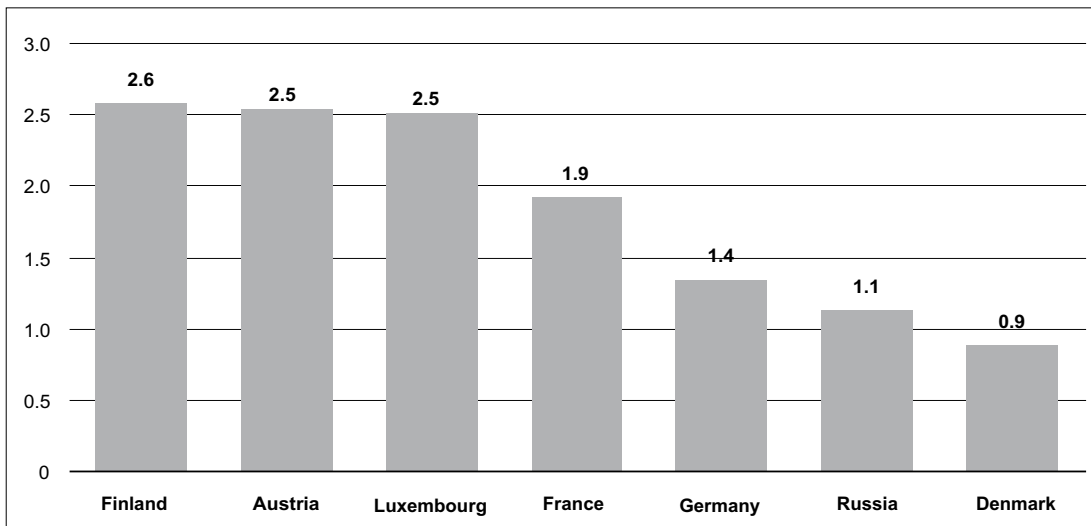


Figure 19. Increase in portfolio investment assets by countries in 2007 (EEK bn)

Other investment

The **net inflow of other investment** reached 33.3 billion kroons in 2007, with other investment liabilities increasing by 56.4 billion kroons (see Figure 20). The majority of net inflow was long-term capital (see Table 34).

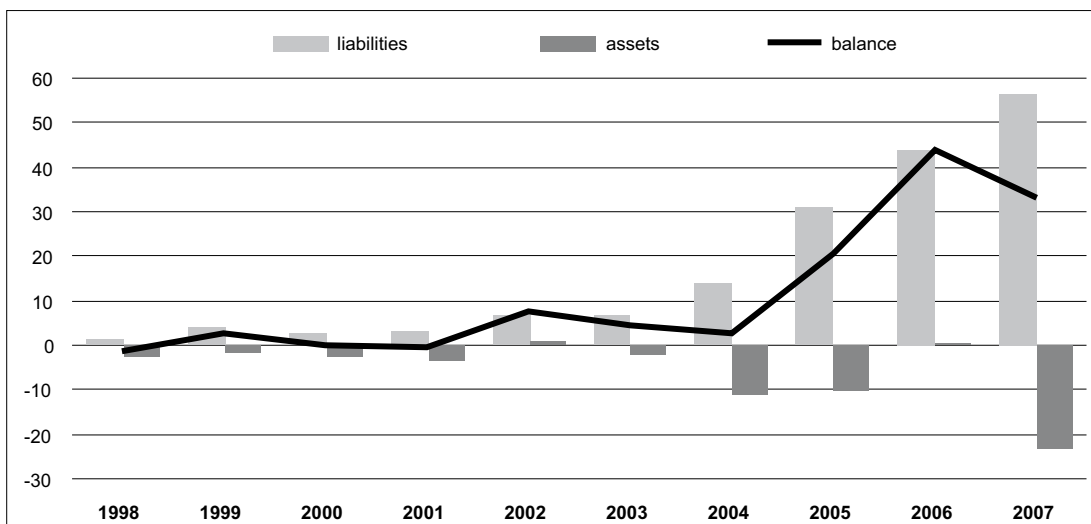


Figure 20. Other investment (EEK bn)

Table 34. Other investment by maturity (EEK m)

	Assets		Liabilities		Balance	
	2006	2007	2006	2007	2006	2007
Long-term capital	-3,054.0	-2,617.7	17,991.5	32,542.6	14,937.5	29,924.9
central bank	0.2	0.1			0.2	0.1
general government	-56.5	-97.1	-33.4	-232.2	-89.9	-329.3
credit institutions	-2,342.7	-1,279.4	8,900.2	31,057.7	6,557.5	29,778.3
other sectors	-655.0	-1,241.3	9,124.7	1,717.1	8,469.7	475.8
Short-term capital	3,388.8	-20,515.5	25,703.4	23,880.4	29,092.2	3,364.9
central bank			377.8	951.7	377.8	951.7
general government	428.5	38.2	-871.4		-442.9	38.2
credit institutions	9,545.8	-16,382.9	16,651.6	20,754.4	26,197.4	4,371.5
other sectors	-6,585.5	-4,170.8	9,545.4	2,174.3	2,959.9	-1,996.5
Total	334.6	-23,133.2	43,695.1	56,423.1	44,029.7	33,289.9

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 (%)
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	3,219.5	47.8	4,587.9	68.2	-960.3	-14.3	6,731.4	100.0
2004	625.2	4.6	4,564.6	33.3	8,804.7	64.2	-279.4	-2.0	13,715.1	100.0
2005	1,633.6	5.3	24,673.8	79.8	2,953.3	9.6	1,651.6	5.3	30,912.4	100.0
2006	3,207.0	7.3	19,332.2	44.2	21,081.1	48.2	74.8	0.2	43,695.1	100.0
2007	-581.6	-1.0	38,013.3	67.4	18,875.5	33.5	115.9	0.2	56,423.1	100.0

Other investment liabilities increased by 56.4 billion kroons year-on-year (see Table 35); most of the growth can be attributed to loans and deposits. More precisely, loans constituted 67.4% and deposits 33.5% of other investment liabilities. As regards the institutional breakdown, the liabilities (both in the form of short-term and long-term capital) of credit institutions increased the most (by 51.8 billion kroons), followed by those of enterprises in other sectors (by 3.9 billion kroons). By countries, other investment capital liabilities to Sweden grew the most – by 28 billion kroons – followed by Finland and Denmark with 8.7 and 8.4 billion kroons, respectively (see Table 36 and Figure 21).

Table 36. Structure of other investment by groups of countries

	Volume (EEK m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2006	2007	2006	2007	2006	2007	2006	2007
EU-27	6,509.1	-21,876.3	34,655.6	51,507.5	1,945.3	94.6	79.3	91.3
CIS	-2,825.2	-137.1	484.8	577.1	-844.4	0.6	1.1	1.0
Other	-3,349.3	-1,119.8	8,554.7	4,338.5	-1,001.0	4.8	19.6	7.7
Total	334.6	-23,133.2	43,695.1	56,423.1	100.0	100.0	100.0	100.0

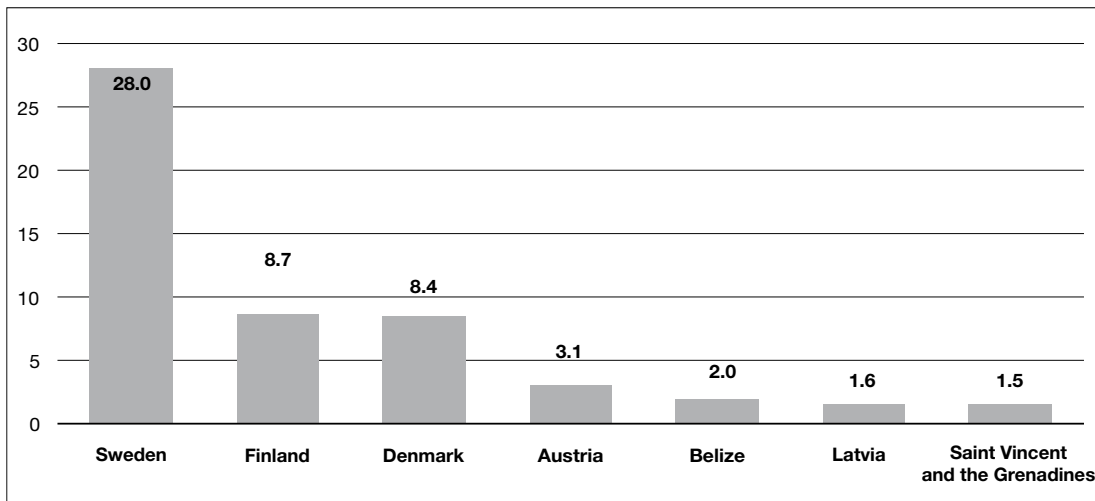


Figure 21. Increase in other investment liabilities by countries in 2007 (EEK bn)

Other investment assets increased by 23.1 billion kroons in 2007 (see Table 37). This stemmed from the 21.2 billion kroon growth in deposits and loan assets. Trade credit assets and other capital assets gained 1.3 billion and 600 million kroons, respectively. By countries, other investment capital was mainly channelled to Finland, Germany and the United Kingdom (see Figure 22). Table 38 provides an 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 (%)
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	-3,520.3	154.1	2,209.3	-96.7	54.6	-2.4	-2,284.6	100.0
2004	-1,032.0	9.2	-8,455.5	75.7	-1,545.1	13.8	-136.2	1.2	-11,168.8	100.0
2005	-1,957.1	18.9	4,148.4	-40.0	-12,251.5	118.1	-313.3	3.0	-10,373.4	100.0
2006	-3,516.0	-1,050.8	-2,470.8	-738.4	6,304.7	1,884.2	16.8	5.0	334.6	100.0
2007	-1,315.2	5.7	-10,068.2	43.5	-11,133.5	48.1	-616.2	2.7	-23,133.2	100.0

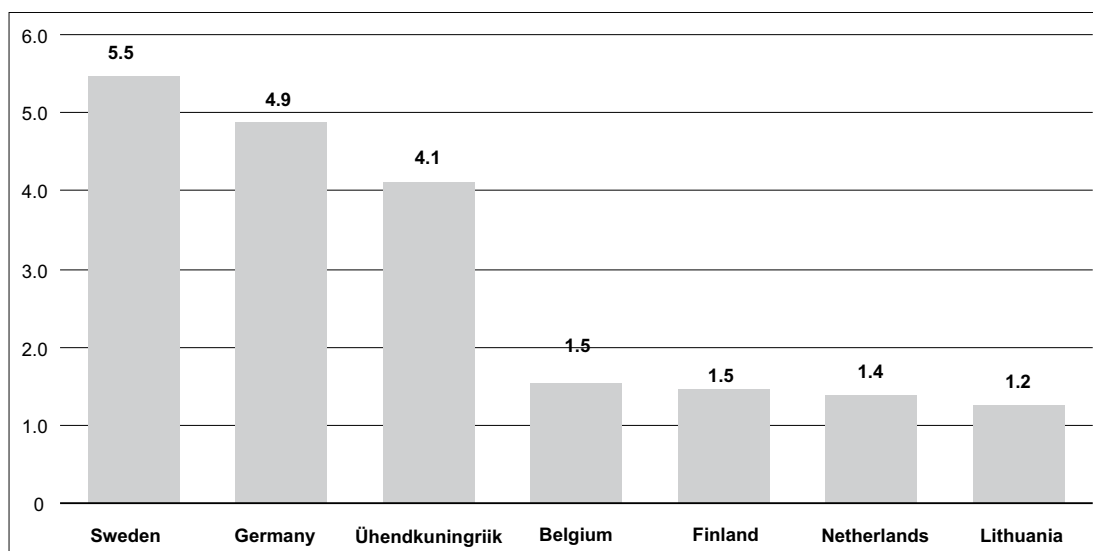


Figure 22. Increase in other investment assets by countries in 2007 (EEK bn)

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

	Assets			Liabilities		
	Grantings	Repayments	Total	Drawings	Repayments	Total
2003	-34,919.2	31,398.9	-3,520.3	30,076.6	-26,857.1	3,219.5
2004	-29,782.7	21,327.1	-8,455.5	45,446.7	-40,882.1	4,564.6
2005	-77,557.0	81,705.4	4,148.4	125,437.1	-100,763.3	24,673.8
2006	-75,947.3	73,476.5	-2,470.8	182,867.1	-163,534.9	19,332.2
2007	-396,438.9	386,370.6	-10,068.2	363,778.9	-325,765.6	38,013.3

Reserve assets

The balance of payments reserves increased by 1.4 billion kroons in 2007 (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 (%)	
	2006	2007	2006	2007
Gold	0.0	0.0	0.0	0.0
Currency and deposits	-1,506.0	2,701.9	20.0	-194.8
Securities	-6,017.4	-3,984.5	80.0	287.2
equity securities				
bonds and notes	-3,404.3	-5,089.7	45.2	366.9
money market instruments	-2,613.2	1,105.2	34.7	-79.7
Other assets	0.5	-105.0	-0.0	7.6
Total	-7,523.9	-1,387.3	100.0	100.0

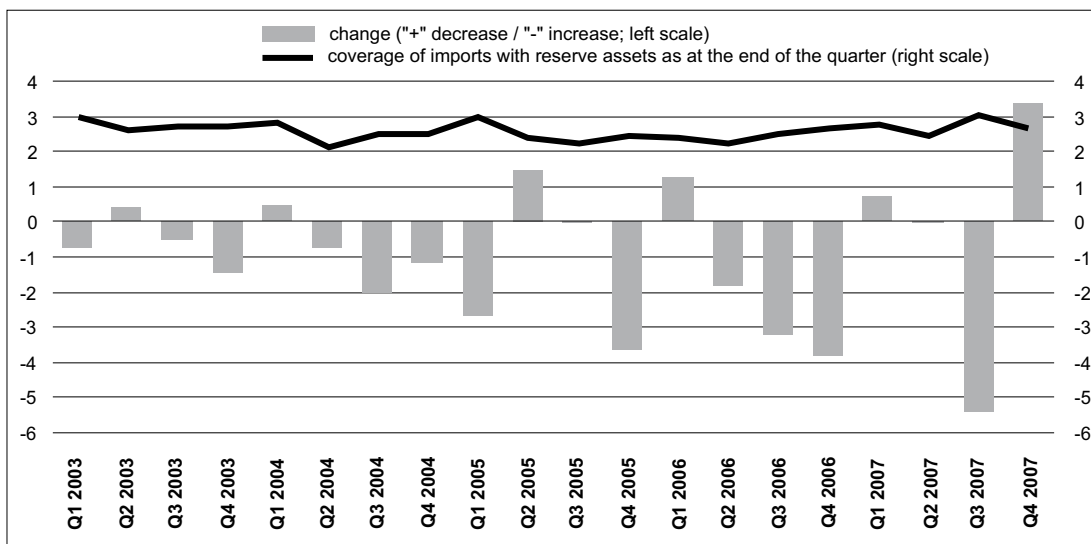


Figure 23. Changes in Estonia's gold and foreign exchange reserves (EEK bn) and coverage of imports of goods without further processing (by months)

ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND GROSS EXTERNAL DEBT as at 31 December 2007

During 2007, foreign investment in Estonia increased nearly 25% and amounted to 422 billion kroons at the end of the year (see Table 40). Nearly 60% thereof was invested in financial intermediation and to a lesser extent in real estate, renting and business activities, wholesale and retail trade, and manufacturing (see Table 41). Most of the investment came from Sweden (39%) and Finland (20%).

The large inflow of other capital (loans and deposits) continued in 2007 and also changed the structure of foreign investment in Estonia. Other investment increased 40% and accounted for 46% of total foreign investment at the end of the year. The direct investment position grew 17% year-on-year and constituted 42% (177 billion kroons) of total foreign investment. The modest growth of portfolio investment also decreased their share in total external liabilities. The most preferred fields of activity for foreign direct investment in Estonia were financial intermediation (31%), real estate, renting and business activities

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

	31/12/2006	%	31/12/2007	%
EXTERNAL ASSETS	184,282.3	100.0	241,517.3	100.0
Direct investment abroad	42,929.4	23.3	62,475.4	25.9
Equity capital and reinvested earnings	33,952.8	18.4	49,266.3	20.4
Other direct investment capital	8,976.6	4.9	13,209.1	5.5
Portfolio investment	57,655.5	31.3	69,000.2	28.6
Equity securities	21,247.5	11.5	31,418.5	13.0
Debt securities	36,408.0	19.8	37,581.7	15.6
Bonds and notes	26,250.4	14.2	23,569.0	9.8
Money market instruments	10,157.6	5.5	14,012.8	5.8
Financial derivatives	546.3	0.3	1,480.6	0.6
Other investment	49,996.0	27.1	73,535.9	30.4
Trade credit	12,824.0	7.0	15,128.9	6.3
Loans	22,074.3	12.0	31,490.0	13.0
Long-term	7,878.1	4.3	9,825.6	4.1
Short-term	14,196.2	7.7	21,664.4	9.0
Currency and deposits	13,954.8	7.6	25,298.3	10.5
Other assets	1,143.0	0.6	1,618.6	0.7
Reserve assets	33,155.2	18.0	35,025.1	14.5
EXTERNAL LIABILITIES	336,483.3	100.0	421,555.4	100.0
Direct investment in Estonia	150,465.6	44.7	176,526.3	41.9
Equity capital and reinvested earnings	129,666.0	38.5	150,631.5	35.7
Other direct investment capital	20,799.6	6.2	25,894.8	6.1
Portfolio investment	46,226.6	13.7	48,800.7	11.6
Equity securities	22,420.7	6.7	25,859.6	6.1
Debt securities	23,805.9	7.1	22,941.2	5.4
Bonds and notes	23,695.6	7.0	22,890.7	5.4
Money market instruments	110.3	0.0	50.5	0.0
Financial derivatives	394.3	0.1	502.9	0.1
Other investment	139,396.8	41.4	195,725.4	46.4
Trade credit	13,797.5	4.1	13,439.2	3.2
Loans	73,340.5	21.8	111,394.9	26.4
Long-term	58,854.5	17.5	90,371.0	21.4
Short-term	14,486.0	4.3	21,023.9	5.0
Currency and deposits	49,286.4	14.6	68,358.3	16.2
Other liabilities	2,972.4	0.9	2,533.0	0.6
NET INVESTMENT POSITION	-152,200.9		-180,038.1	
Long-term	-132,039.8		-170,798.3	
Short-term	-20,161.2		-9,239.8	

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

Assets			Liabilities		
	31/12/2006	31/12/2007		31/12/2006	31/12/2007
Fields of activity					
Financial intermediation	63.9	63.5	Financial intermediation	52.0	58.4
Real estate, renting and business activities	9.3	10.0	Real estate, renting and business activities	15.8	14.2
Public administration and defence; statutory social insurance	9.8	9.0	Wholesale and retail trade; repair	8.2	8.6
Wholesale and retail trade; repair	6.3	6.9	Manufacturing	10.1	7.9
Transport, storage and communications	3.9	3.8	Transport, storage and communications	6.0	4.4
Other	6.8	6.8	Other	7.9	6.5
Total	100.0	100.0	Total	100.0	100.0
Countries					
Germany	10.9	11.5	Sweden	37.0	38.5
Latvia	10.7	11.4	Finland	21.8	19.6
Lithuania	9.6	9.7	United Kingdom	9.3	7.1
United Kingdom	7.6	7.6	Denmark	1.3	5.7
Russia	8.2	7.2	Netherlands	1.9	2.7
Other	53.0	52.6	Other	28.7	26.4
Total	100.0	100.0	Total	100.0	100.0

(29%), manufacturing (14%), and wholesale and retail trade (13%; see Table 42). Approximately 40% of direct investment came from Sweden and 25% from Finland.

Estonian investment abroad increased by a third year-on-year and amounted to 242 billion kroons. Financial intermediaries made 64% of the investment abroad. Investors in the real estate, renting and business activities, and the public sector invested to a lesser extent. Estonian investors preferred to invest in Germany, the Baltic States, the United Kingdom and Russia.

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

In Estonia			Abroad		
	31/12/2006	31/12/2007		31/12/2006	31/12/2007
Fields of activity					
Financial intermediation	28.1	31.3	Financial intermediation	38.0	39.9
Real estate, renting and business activities	29.8	29.2	Real estate, renting and business activities	31.8	31.3
Manufacturing	17.5	14.4	Transport, storage and communications	10.2	9.8
Wholesale and retail trade; repair	10.4	13.4	Wholesale and retail trade; repair	8.0	8.1
Transport, storage and communications	7.0	3.7	Manufacturing	3.8	7.7
Other	7.2	8.0	Other	8.2	3.2
Total	100.0	100.0	Total	100.0	100.0
Countries					
Sweden	39.5	39.7	Latvia	34.3	33.6
Finland	26.4	24.6	Lithuania	32.3	29.7
Netherlands	3.4	5.7	Russia	8.9	8.5
Denmark	1.9	4.4	Cyprus	8.5	8.1
Russia	2.6	2.6	Finland	4.8	4.1
Other	26.2	23.0	Other	11.2	16.0
Total	100.0	100.0	Total	100.0	100.0

Year-on-year, the shares of direct and other investment in the structure of investment abroad increased, and those of portfolio investment and reserve assets decreased by the end of 2007. The position of **foreign direct investment** increased by approximately a half year-on-year and comprised 26% of the external assets. Other investment increased to the same extent and accounted for nearly a third of the external assets. The most active foreign direct investors were those of financial intermediation (40%) and real estate, renting and business activities (31%; see Table 42). Estonian investors preferred to invest in the neighbouring countries: a third of direct investment went both to Latvia and Lithuania.

Due to the prevalence of external liabilities, Estonia's net investment position was negative by 180 billion kroons at the end of 2007. 95% of the net investment position was long-term capital (87% at the end of 2006).

Estonia's gross external debt increased by a third year-on-year and amounted to 268 billion kroons at the end of the year, exceeding GDP by 10%. The growth of gross external debt was mainly boosted by credit institutions, whose debt liabilities increased 50% and accounted for nearly 60% of the gross external debt. The general government decreased its debt and it constituted only 1% of the gross debt. Estonia's net external debt (assets less liabilities) increased by over a half and totalled 85 billion kroons (35% of GDP; see Figure 24 and Table 43). The gross external debt accounted for 64% of the external liabilities. Leaving aside the intercompany lending of direct investment companies, long-term debt liabilities comprised 63% of the gross external debt. The share of long-term debt claims formed 34% of total debt claims.

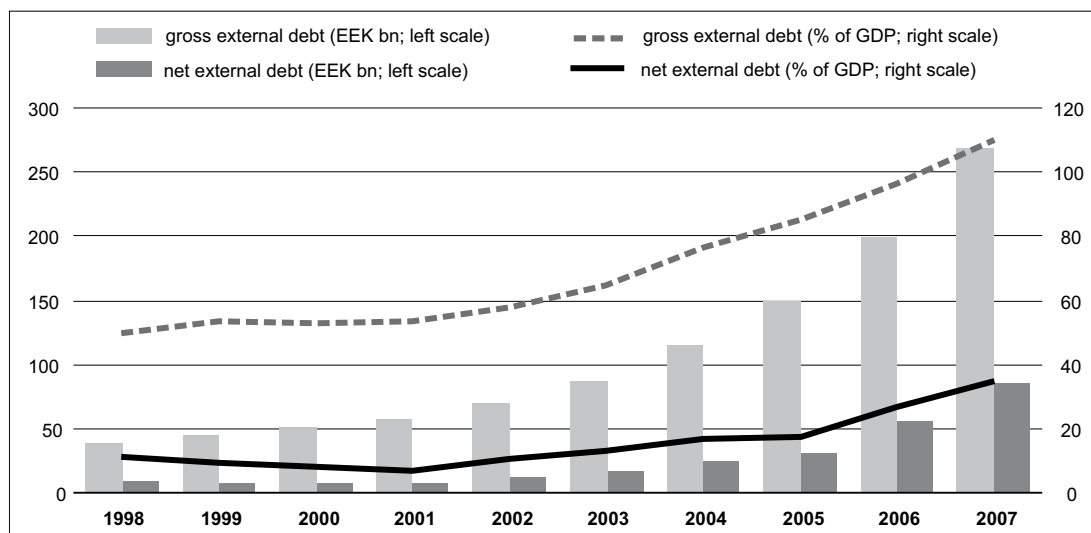


Figure 24. Estonia's gross and net external debt

Table 43. External debt (EEK m)

	31/12/2006	%	31/12/2007	%
LIABILITIES				
I. General government	4,713.4	2.4	3,450.5	1.3
Short-term		0.0		
Long-term	4,713.4	2.4	3,450.5	1.3
II. Monetary authorities (NCB)	459.1	0.2	1,316.9	0.5
Short-term	445.9	0.2	1,304.4	0.5
Long-term	13.2	0.0	12.5	0.0
III. Credit institutions	101,522.1	50.8	152,972.3	57.0
Short-term	47,668.0	23.9	55,628.6	20.7
Long-term	53,854.1	27.0	97,343.6	36.3
IV. Other sectors	56,508.1	28.3	60,926.9	22.7
Short-term	22,761.8	11.4	24,827.5	9.3
Long-term	33,746.3	16.9	36,099.4	13.5
V. Direct investment: intercompany lending	36,472.0	18.3	49,692.7	18.5
GROSS EXTERNAL DEBT	199,674.8	100.0	268,359.2	100.0
ASSETS				
I. General government	18,540.2	12.9	21,753.9	11.9
Short-term	4,342.7	3.0	7,274.5	4.0
Long-term	14,197.6	9.9	14,479.4	7.9
II. Monetary authorities (NCB)	33,079.8	23.0	34,889.5	19.1
Short-term	24,123.5	16.7	21,144.4	11.6
Long-term	8,956.4	6.2	13,745.1	7.5
III. Credit institutions	31,148.9	21.6	46,548.2	25.4
Short-term	22,445.7	15.6	36,711.6	20.1
Long-term	8,703.3	6.0	9,836.6	5.4
IV. Other sectors	36,693.0	25.5	42,794.5	23.4
Short-term	23,791.3	16.5	31,158.3	17.0
Long-term	12,901.8	9.0	11,636.2	6.4
V. Direct investment: intercompany lending	24,649.0	17.1	37,006.9	20.2
TOTAL ASSETS	144,111.1	100.0	182,993.0	100.0
NET EXTERNAL DEBT (assets less liabilities)				
I. General government	13,826.8		18,303.4	
Short-term	4,342.7		7,274.5	
Long-term	9,484.1		11,028.9	
II. Monetary authorities (NCB)	32,620.8		33,572.5	
Short-term	23,677.6		19,839.9	
Long-term	8,956.4		13,732.6	
III. Credit institutions	-70,373.2		-106,424.1	
Short-term	-25,222.4		-18,917.0	
Long-term	-45,150.8		-87,507.1	
IV. Other sectors	-19,815.0		-18,132.4	
Short-term	1,029.5		6,330.8	
Long-term	-20,844.5		-24,463.2	
V. Direct investment: intercompany lending	-11,823.0		-12,685.7	
TOTAL NET EXTERNAL DEBT	-55,563.7		-85,366.2	