

Eesti Pank
Bank of Estonia



Estonian Preliminary Balance of Payments for the First Quarter of 2008

2008

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SHORT OVERVIEW

- A further decline in private consumption in the first quarter of 2008 considerably reduced the deficit on goods and services (the direct components of GDP) as a ratio to GDP. The deficit stood at 9.4% of the last four quarters GDP (12.4% in the first quarter of 2007) and 6.9% of the first-quarter GDP.
- The deficit on the goods account decreased substantially, while the surplus on the services and current transfers accounts increased.
- The return on foreign direct investment in Estonia remained high.
- The current account deficit for the first quarter of 2008 decreased 40% year-on-year, and accounted for 15.3% of the last four quarters GDP (see Table 1 and Figure 1)¹. In absolute value, the deficit amounted to 7.9 billion kroons. Quarter-on-quarter, the deficit declined by a fourth.
- Foreign capital inflow occurred mainly through direct and other investment.
- The balance of payments reserves increased by 1.9 billion kroons.

The easing in domestic demand, which had started in 2007 and continued also in 2008, had a considerable impact on Estonia's foreign trade balance. The deficit on the **goods account** – the largest component in the current account deficit – decreased by 25% both year-on-year and quarter-on-quarter, totalling 7.6 billion kroons. The foreign trade deficit as a ratio to the first-quarter GDP declined from 19% to 13%. Exports (in f.o.b. prices) amounted to nearly 32 billion and imports (f.o.b.) to 39 billion kroons. The foreign trade turnover was largely affected by processed goods (mostly motor fuels), as both their imports and

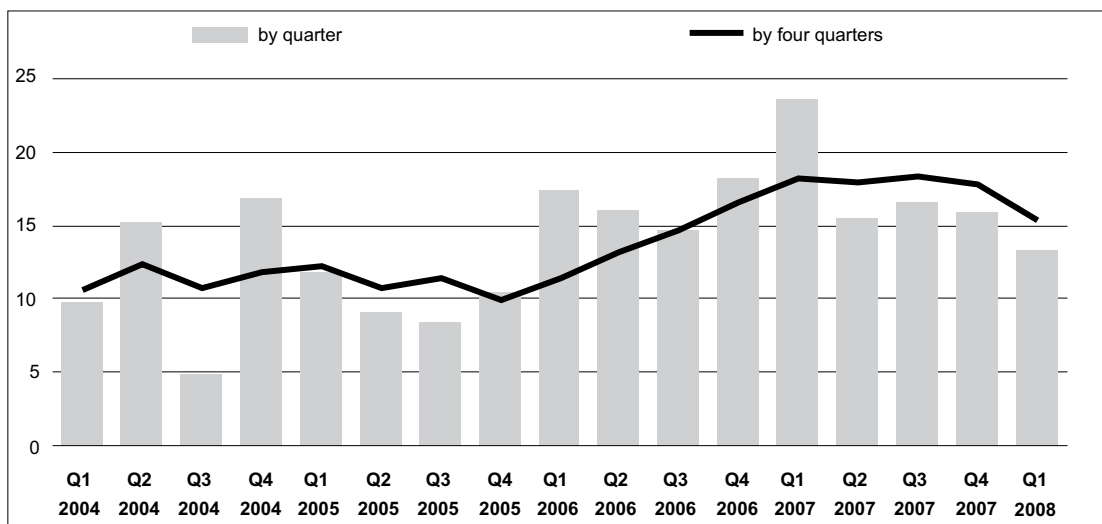


Figure 1. Current account deficit (% of GDP)

¹ With regard to the first-quarter GDP, the deficit was 13.3%. The current account deficit without reinvested earnings, which involve no actual movement of funds, constituted 8.1% of the last four quarters GDP and 6.1% of the first-quarter GDP.

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

Item	2005	2006	2007				2008	
	Total	Total	Q1	Q2	Q3	Q4	Total	Q1
Current account	-17,371.6	-34,303.4	-13,023.3	-9,453.4	-10,219.2	-10,468.0	-43,163.9	-7,888.6
Goods and services	-11,032.4	-24,231.4	-7,777.7	-6,397.9	-6,217.7	-6,567.2	-26,960.5	-4,118.2
Goods	-24,134.8	-37,515.5	-10,208.0	-11,070.9	-10,748.4	-9,994.5	-42,021.7	-7,616.0
credit (f.o.b.)	98,262.3	121,430.6	30,026.9	33,089.8	30,148.5	33,099.2	126,364.4	31,576.4
debit (f.o.b.)	-122,397.2	-158,946.1	-40,234.8	-44,160.7	-40,896.9	-43,093.7	-168,386.1	-39,192.4
Services	13,102.5	13,284.1	2,430.3	4,673.0	4,530.7	3,427.3	15,061.3	3,497.7
credit	40,228.7	43,597.9	10,195.0	13,225.8	13,789.5	12,845.0	50,055.3	11,733.1
debit	-27,126.2	-30,313.8	-7,764.7	-8,552.8	-9,258.8	-9,417.7	-34,994.0	-8,235.4
Income	-7,124.4	-10,768.2	-5,106.4	-3,752.6	-4,610.8	-4,519.0	-17,988.8	-5,028.0
credit	9,225.6	13,551.5	3,542.7	4,416.1	4,816.2	4,513.7	17,288.6	4,044.2
debit	-16,349.9	-24,319.8	-8,649.1	-8,168.6	-9,427.0	-9,032.6	-35,277.3	-9,072.2
Transfers	785.2	696.3	-139.2	697.1	609.3	618.1	1,785.4	1,257.6
credit	5,876.7	6,503.2	1,554.2	1,805.9	2,037.7	2,620.5	8,018.3	2,951.4
debit	-5,091.6	-5,806.9	-1,693.4	-1,108.8	-1,428.4	-2,002.4	-6,232.9	-1,693.8
Capital and financial account (reserve assets excluded)	21,208.3	41,204.7	11,838.5	8,139.2	16,373.9	6,475.1	42,826.7	10,057.6
Capital account	1,325.9	4,388.5	514.5	511.4	562.4	1,117.5	2,705.9	1,244.2
Financial account	19,882.3	36,816.2	11,324.0	7,627.8	15,811.5	5,357.6	40,120.8	8,813.4
Direct investment	27,321.7	8,577.5	5,376.9	408.5	1,515.5	5,368.3	12,669.1	4,314.9
Abroad	-8,699.5	-13,824.1	-3,619.8	-7,251.9	-4,191.4	-2,970.0	-18,033.0	-4,392.4
In Estonia	36,021.2	22,401.5	8,996.6	7,660.3	5,706.9	8,338.2	30,702.1	8,707.3
Portfolio investment	-27,688.4	-16,476.5	-1,212.7	-2,444.6	-1,979.3	-123.4	-5,760.1	571.7
Assets	-10,818.4	-15,205.2	-3,666.8	-2,280.5	-3,357.7	821.0	-8,483.9	1,111.5
Equity securities	-4,848.9	-4,567.7	-2,197.1	-2,831.2	-2,439.0	-129.9	-7,597.2	1,382.5
Debt securities	-5,969.5	-10,637.5	-1,469.6	550.6	-918.6	950.9	-886.7	-271.1
Liabilities	-16,870.0	-1,271.3	2,454.0	-164.1	1,378.3	-944.4	2,723.8	-539.8
Equity securities	-16,352.3	3,730.3	3,162.6	909.2	811.6	-1,667.7	3,215.7	-1,013.3
Debt securities	-517.8	-5,001.6	-708.6	-1,073.3	566.7	723.3	-491.9	473.5
Financial derivatives	-97.6	78.5	-148.9	190.8	-485.3	-354.3	-797.8	562.0
Assets	13.5	-180.9	-300.4	121.1	-509.5	-191.1	-879.9	582.4
Liabilities	-111.1	259.4	151.5	69.7	24.2	-163.3	82.1	-20.5
Other investment	20,346.6	44,636.8	7,308.7	9,473.1	16,760.6	467.1	34,009.6	3,364.9
Assets	-10,454.2	275.3	-4,819.0	-9,213.6	1,064.4	-9,649.2	-22,617.5	-739.2
Long-term	5,636.5	-3,052.9	-758.4	-496.3	-250.3	-1,004.4	-2,509.4	-753.5
Short-term	-16,090.7	3,328.2	-4,060.6	-8,717.4	1,314.7	-8,644.8	-20,108.1	14.3
Liabilities	30,800.8	44,361.5	12,127.7	18,686.8	15,696.2	10,116.3	56,627.1	4,104.1
Long-term	15,396.8	17,979.9	5,603.7	12,693.5	8,588.8	5,569.0	32,455.0	21,355.4
Short-term	15,404.1	26,381.6	6,524.0	5,993.3	7,107.5	4,547.3	24,172.1	-17,251.3
Errors and omissions	1,047.3	622.6	451.4	1,369.6	-756.4	659.8	1,724.4	-233.8
Overall balance	4,883.9	7,523.9	-733.3	55.4	5,398.3	-3,333.1	1,387.3	1,935.2
Reserve assets	-4,883.9	-7,523.9	733.3	-55.4	-5,398.3	3,333.1	-1,387.3	-1,935.2

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

exports decreased notably. Excluding processed goods, the exports of goods increased 14% in the first quarter of 2008, while imports remained at the previous level. Excluding processing, the exports of goods increased across all groups of goods. As regards imports (processed goods excluded), growth in some groups of goods offset the decline in other groups. The foreign trade deficit was primarily reduced by the declining deficits on metals, transport vehicles and other industrial goods as well as the growing surplus

on timber products. The foreign trade turnover exceeded GDP by approximately 20% (by more than 25% in the first quarter of 2007).

The surplus on the **services account** increased by nearly 50%, year-on-year, and totalled 3.5 billion kroons. Services exports grew 15% and imports 6%. The services surplus was boosted by different types of services. Growth in the surplus on transport services – the largest type of services – increased 25%, mostly owing to passenger transport and other transport services. The surplus on freight transport decreased by three times, primarily because of a decline in rail transport. The services surplus was significantly boosted by construction services, which posted a surplus of nearly half a billion kroons instead of the deficit recorded earlier. The surplus on travel services increased considerably and the surplus on computer and information services grew to a lesser extent. The total share of transport, travel and other business services accounted for 83–84% in both the imports and exports of services.

Total exports of goods and services, which are the direct components of GDP, grew 8%, whereas imports declined 1%. Consequently, the deficit on goods and services decreased by a half.

The net outflow of **income** was as large as in the first quarter of 2007, totalling 5 billion kroons. The income earned by Estonian residents abroad grew 14%, while the income earned by non-residents in Estonia increased 5%. Labour income comprised a fifth of Estonian residents' income earned abroad. The rest was investment income. The majority of income earned by non-residents in Estonia was investment income (97%). Reinvested earnings constituted 40% and 63% of the investment income of residents and non-residents, respectively.

The earlier small deficit on the **current transfers account** turned into a considerable surplus of 1.3 billion kroons. The volume of incoming transfers doubled, while that of outgoing transfers remained at the previous level. The surplus grew owing to transfers from the EU structural funds to the general government and other sectors.

The surplus on the **capital and financial account** (excl. reserves) was 10.1 billion kroons in the first quarter of 2008. The inflow of capital occurred primarily through direct and other investment.

Similar to current transfers, the surplus on the **capital account** also increased considerably, totalling 1.2 billion kroons. The surplus was boosted by capital transfers from the EU structural funds to the general government and other sectors in particular for investment in infrastructure.

The surplus on the **financial account** was 8.8 billion kroons.

Direct investment inflow was 4.3 billion kroons bigger than outflow in the first quarter of 2008. Foreign direct investment in Estonia amounted to 8.7 billion kroons and Estonia's direct investment abroad to 4.4 billion kroons.

Intercompany lending comprised over a half and equity capital investment nearly a fifth of residents' direct investment abroad, the rest being reinvested earnings.

The majority (over 60% of direct investment) of non-residents' direct investment in Estonia were reinvested earnings; equity capital investment and intercompany lending accounted for 20%.

The net outflow of **portfolio investment** amounted to 0.6 billion kroons. Portfolio investment assets decreased by 1.1 billion and liabilities by 0.5 billion kroons. The decrease was mainly due to investment funds and partly also other sectors. Transactions were made primarily with equity securities.

The net inflow of **derivatives** was also 0.6 billion kroons and was almost fully related to the decrease in the assets of credit institutions.

The net inflow of **other investment** was modest with 3.3 billion kroons. Assets increased by only 0.7 billion and liabilities by 4.1 billion kroons. The growth of liabilities was primarily driven by credit institutions whose loan liabilities increased by 22.3 billion kroons. Currency and deposit liabilities, on the other hand, decreased by 18.7 billion kroons.

The balance of payments reserves increased by 1.9 billion kroons.

CURRENT ACCOUNT

The decline in private consumption in the first quarter of 2008 entailed a considerable decline in the deficit of goods and services. The deficit constituted 9.4% of the last four quarters GDP and 6.9% of the first-quarter GDP. On the other hand, return on foreign direct investment continued to be strong. Consequently, the current account deficit was still high, despite the decline, accounting for 15.3% of the last four quarters GDP (see Figure 2). Based on the same quarter, the current account deficit stood at 13.3% of GDP and totalled 7.9 billion kroons in absolute value. The current account deficit without reinvested earnings, which involve no actual movement of funds, constituted 8.1% of the last four quarters GDP and 6.1% of the first-quarter GDP.

The EU-27 accounted for 75% of the credit turnover and for 82% of the debit turnover. The five most important partners in Estonia's credit turnover were Finland, Sweden, Latvia, Russia and Lithuania, totalling 56% of the credit turnover. More or less the same countries – Sweden, Finland, Germany, Latvia and Russia – were the major partners also in terms of debit turnover and comprising 56% of that. Estonia's current account deficit was the biggest with Sweden and Germany; the highest surplus was registered with Finland and Norway (see Table 2).

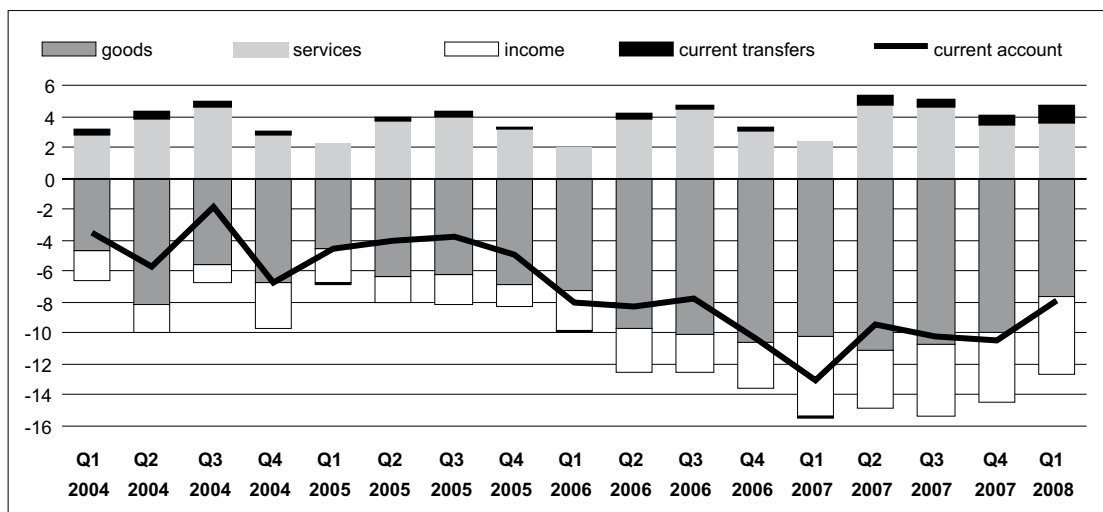


Figure 2. Current account structure (EEK bn)

Goods

The goods account deficit of the balance of payments amounted to 7.6 billion kroons in the first quarter of 2008. It was 25% lower both year-on-year and quarter-on-quarter (see Table 3). Goods exports (in f.o.b. prices) amounted to 32 billion and imports (f.o.b.) to 39 billion kroons. The foreign trade deficit as a ratio to the first-quarter GDP declined from 19% to 13%. The foreign trade turnover was largely affected by processed goods (mostly motor fuels), as their turnover decreased notably. Excluding processed goods, exports grew by 14%, while imports remained unchanged. The exports of goods increased across all groups of goods. As regards imports, growth in some groups of goods offset the decline in other groups. The foreign trade deficit was primarily reduced by the declining deficits on metals, transport vehicles and other industrial goods as well as the growing surplus on timber products.

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

	Q1 2007	Q4 2007	Q1 2008
EU-27	-13,746.9	-14,544.3	-10,354.1
Sweden	-3,043.8	-4,620.8	-3,947.4
Germany	-3,447.8	-3,999.4	-3,530.7
Finland	-1,891.4	844.7	1,264.8
Poland	-1,494.8	-1,542.9	-1,198.3
Latvia	990.1	-21.7	943.9
CIS	-2,590.1	714.8	288.7
Russia	-2,342.1	888.3	668.0
Belarus	-458.0	-459.7	-450.6
Azerbaijan	2.6	57.6	31.7
Other	3,313.8	3,361.4	2,176.9
Norway	686.9	1,007.2	1,080.5
China	-428.2	-732.5	-570.6
Canada	66.3	915.8	556.2
Turkey	206.3	275.1	419.0
Total	-13,023.3	-10,468.0	-7,888.6

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

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 2004	16,930.6	-3.7	69.8	21,578.1	-7.0	82.5	-4,647.5
Q2 2004	17,961.0	6.1	65.4	26,101.1	21.0	82.1	-8,140.1
Q3 2004	18,735.0	4.3	65.0	24,350.1	-6.7	81.4	-5,615.2
Q4 2004	20,386.4	8.8	69.4	27,065.4	11.2	81.5	-6,679.0
2004 total	74,013.0	16.7	67.3	99,094.7	16.6	81.9	-25,081.7
Q1 2005	21,495.9	5.4	73.1	26,082.3	-3.6	82.2	-4,586.4
Q2 2005	23,611.5	9.8	69.5	29,986.9	15.0	81.8	-6,375.4
Q3 2005	25,340.6	7.3	70.0	31,597.3	5.4	82.1	-6,256.7
Q4 2005	27,814.3	9.8	71.5	34,730.7	9.9	81.5	-6,916.3
2005 total	98,262.3	32.8	71.0	122,397.2	23.5	81.9	-24,134.8
Q1 2006	28,849.3	3.7	77.6	36,064.3	3.8	85.1	-7,214.9
Q2 2006	31,320.9	8.6	73.8	41,026.9	13.8	84.9	-9,706.0
Q3 2006	30,074.4	-4.0	70.1	40,096.3	-2.3	82.7	-10,021.9
Q4 2006	31,186.0	3.7	73.3	41,758.7	4.1	83.4	-10,572.7
2006 total	121,430.6	23.6	73.6	158,946.1	29.9	84.0	-37,515.5
Q1 2007	30,026.9	-3.7	74.7	40,234.8	-3.6	83.8	-10,208.0
Q2 2007	33,089.8	10.2	71.4	44,160.7	9.8	83.8	-11,070.9
Q3 2007	30,148.5	-8.9	68.6	40,896.9	-7.4	81.5	-10,748.4
Q4 2007	33,099.2	9.8	72.0	43,093.7	5.4	82.1	-9,994.5
2007 total	126,364.4	4.1	71.6	168,386.1	5.9	82.8	-42,021.7
Q1 2008	31,576.4	-4.6	72.9	39,192.4	-9.1	82.6	-7,616.0

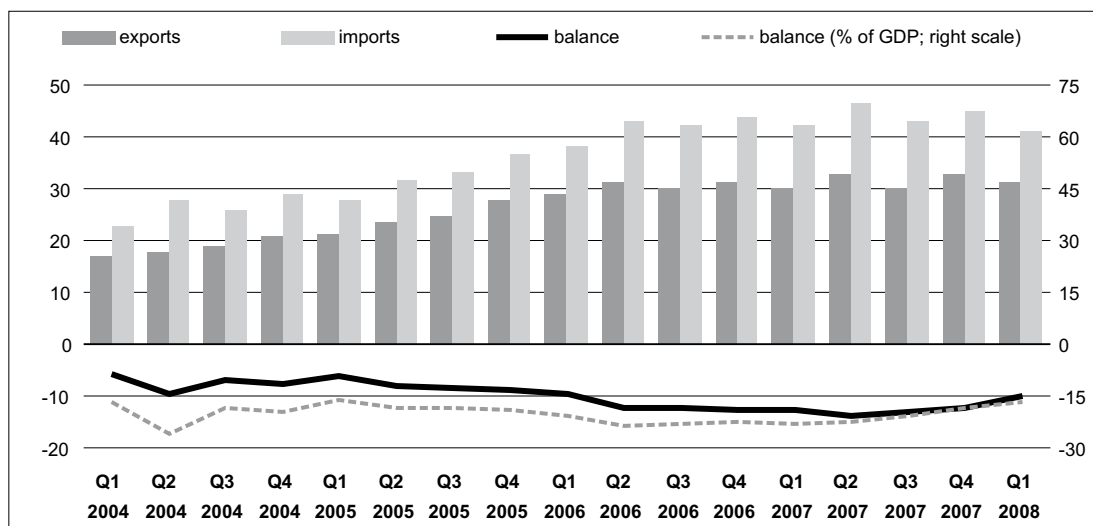


Figure 3. Estonia's foreign trade balance (EEK bn)

Table 4. Exports by main groups of goods

	Volume (EEK m)			Share (%)			Change (%)	
	Q1 2007	Q4 2007	Q1 2008	Q1 2007	Q4 2007	Q1 2008	Q1 2008 / Q4 2007	Q1 2008 / Q1 2007
Food	2,368.0	3,675.7	2,668.0	7.9	11.2	8.5	-27.4	12.7
Mineral products	4,594.6	3,307.9	2,950.2	15.4	10.1	9.4	-10.8	-35.8
Chemical products	2,104.7	2,564.7	2,362.8	7.0	7.8	7.6	-7.9	12.3
Clothing, footwear and headgear	1,948.4	1,976.0	2,010.4	6.5	6.0	6.4	1.7	3.2
Timber, paper and products	3,998.6	4,066.3	4,134.9	13.4	12.4	13.2	1.7	3.4
Metals and metal products	2,877.4	3,262.9	3,711.1	9.6	9.9	11.9	13.7	29.0
Machinery and equipment	6,212.8	7,078.6	6,819.7	20.8	21.5	21.8	-3.7	9.8
Transport vehicles	2,352.4	2,798.3	2,690.3	7.9	8.5	8.6	-3.9	14.4
Furniture, toys, sporting goods	2,324.0	2,665.6	2,506.7	7.8	8.1	8.0	-6.0	7.9
Other	1,105.4	1,462.5	1,396.8	3.7	4.5	4.5	-4.5	26.4
Total	29,886.3	32,858.4	31,251.0	100.0	100.0	100.0	-4.9	4.6

According to the preliminary foreign trade statistics², goods exports totalled 31 billion kroons. Imports in c.i.f. prices was nearly 41 billion kroons (see Figure 3). The foreign trade deficit, which has been relatively stable over the past seven quarters, standing at 12-13 billion kroons, dropped below 10 billion kroons.

Exports of goods increased, year-on-year, in most of the major groups, except for mineral products (incl. motor fuel, see Table 4). Machinery and equipment, timber and timber products and metals continued to be the largest groups of export goods. Mineral products occupied the second place in the first quarter of 2007, but their share has considerably declined. Goods exports increased the most on account of metals

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.

and machinery and equipment, whereas mineral products were an inhibiting factor. Their exports decreased more than a third, especially as regards the exports of processed motor fuel to Togo and the USA.

The exports of metals and metal products and other industrial goods grew the most – nearly 30%. Scrap metal, flat-rolled products and metal constructions, which were exported chiefly to Finland, Sweden and Turkey, prevailed in the metal products group. Other industrial goods (glass, measuring equipment) were exported mainly to Finland, Germany and Sweden. The exports of transport vehicles, food and chemical products increased 12–15%.

In the transport vehicles group, the exports of motor cars, safety belts and trailers accounted for 70%. Motor cars were intermediated to mostly Latvia and Lithuania, safety belts to Sweden and Russia and trailers to Finland, Sweden and Russia. Strong alcoholic beverages (to Russia) prevailed in food exports, followed by cheese products (to Finland, Russia and Italy) and canned fish (to Ukraine). As regards chemical products, the main items exported were paints, mastics, putties and plastic products as well as various chemicals (to Latvia, Lithuania, Russia, Finland, Sweden).

The exports of machinery and equipment increased 10%, with electrical telephone communications equipment, insulated wire, electric motors and spare parts of hoists and soil-treating machinery prevailing (to Finland and Sweden). Furniture exports grew 8% and it went mostly to Finland and Sweden; prefabricated wooden buildings were exported to Norway and Germany.

Timber and timber products and clothing, footwear and headgear exports showed the most modest growth (3%). As regards timber products, construction components, processed and unprocessed timber and wood pulp were exported (to Sweden and Finland). Clothing, footwear and headgear went chiefly to Finland, Sweden and Latvia. Quarter-on-quarter, exports dropped across all goods groups (excluding metals and metal products).

Different from exports, the **imports of goods** declined in most groups of goods (see Table 5). Similar to exports, the leading goods group of imports was also machinery and equipment, which were followed in almost equal shares by transport vehicles, mineral products and chemical products. The decline in goods imports was mainly affected by mineral products and, to a lesser extent, other industrial goods and timber and timber products. The imports of the latter three groups dropped by up to 25%. The imports

Table 5. Imports by main groups of goods

	Volume (EEK m)			Share (%)			Change (%)	
	Q1 2007	Q4 2007	Q1 2008	Q1 2007	Q4 2007	Q1 2008	Q1 2008 / Q4 2007	Q1 2008 / Q1 2007
Food	3.755.4	4.405.8	4.075.4	8.8	9.8	10.0	-7.5	8.5
Mineral products	6.631.1	6.967.4	5.325.6	15.6	15.4	13.0	-23.6	-19.7
Chemical products	4.961.0	5.283.1	5.311.2	11.7	11.7	13.0	0.5	7.1
Clothing, footwear and headgear	2.894.4	2.942.3	3.109.2	6.8	6.5	7.6	5.7	7.4
Timber, paper and products	2.509.7	2.200.5	2.081.3	5.9	4.9	5.1	-5.4	-17.1
Metals and metal products	4.393.3	4.143.3	4.285.9	10.3	9.2	10.5	3.4	-2.4
Machinery and equipment	8.594.9	10.118.6	8.693.7	20.2	22.4	21.3	-14.1	1.1
Transport vehicles	5.763.0	6.029.3	5.436.6	13.6	13.3	13.3	-9.8	-5.7
Furniture, toys, sporting goods	1.036.2	1.203.3	968.0	2.4	2.7	2.4	-19.6	-6.6
Other	1.935.6	1.884.1	1.550.1	4.6	4.2	3.8	-17.7	-19.9
Total	42.474.5	45.177.7	40.837.0	100.0	100.0	100.0	-9.6	-3.9

of furniture, transport vehicles and metals decreased somewhat as well. Food, chemical products and clothing, footwear and headgear showed an increase in imports of 7–8%.

The range of other imported goods, primarily from Finland, Sweden and Germany, was very wide. The imports of mineral products decreased primarily due to the decline in motor fuel imported from Russia for processing. This accounted for 80% of the entire group of goods. Timber imports decreased principally because of the drop in the processed and unprocessed timber from Russia, whereas the imports of transport vehicles fell due to a decline in the imports of motor cars from Germany and Finland. Strong alcoholic beverages (mostly from the United Kingdom, but also from France and Ireland) occupied the first place in the imports of food, accounting for nearly a fifth of food imports. Other import articles included coffee, grape wine, canned fish, etc. The chemical goods imported included medicines, fertilizers, tyres, plastic products and chemicals.

Foreign trade was in a **deficit** on eight groups of goods and only timber products and furniture posted a surplus (see Table 6). It should be noted that the surplus on the two latter groups of goods, especially timber products, increased. The total foreign trade deficit decreased by 3 billion kroons of which 0.9 billion accounted for the decline in the deficit of metals, 0.7 billion in the deficit of transport vehicles and 0.7 billion in the deficit of other industrial goods. Chemical products, transport vehicles and mineral products posted the largest deficits (2-3 billion kroons).

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

	Q1 2007	Q4 2007	Q1 2008
Food	-1 387,4	-730,1	-1 407,4
Mineral products	-2 036,5	-3 659,5	-2 375,4
Chemical products	-2 856,2	-2 718,3	-2 948,4
Clothing, footwear and headgear	-946,1	-966,4	-1 098,8
Timber, paper and products	1 488,9	1 865,8	2 053,6
Metals and metal products	-1 515,8	-880,4	-574,8
Machinery and equipment	-2 382,2	-3 040,0	-1 874,0
Transport vehicles	-3 410,6	-3 231,0	-2 746,3
Furniture, toys, sporting goods	1 287,8	1 462,3	1 538,7
Other	-830,1	-421,6	-153,3
Total	-12 588,3	-12 319,3	-9 586,0

By **groups of countries**, the increase in the **exports of goods** was most affected by the 14% growth of exports to the European Union as a result of which the share of the EU in Estonia's exports rose by 6 percentage points, constituting nearly three quarters thereof (see Table 7). The major exports partners in the EU were Finland, Sweden, Latvia, Lithuania and Germany. Exports to the CIS countries, especially Russia (78%), grew by nearly a tenth. Exports to other countries declined by more than 25%, mainly as a result of the decline in motor fuel exports.

The **imports of goods** from EU countries grew by 3% (see Table 8). The top five of our import partners was similar to export partners, only in a slightly different ranking. The drop in imports can be attributed to the decreasing imports of goods (motor fuel and timber) from the CIS countries, especially Russia, which declined by a third. The imports of goods from other countries fell by 5% with the most important partners being China, the USA and Japan.

Foreign trade was in deficit with the EU and CIS countries and in surplus with other countries (see Table 9).

Both the surplus and the deficit dropped year-on-year. Estonia had the biggest trade surplus with Norway (1 billion kroons) and the largest deficit with Germany (3.5 billion kroons).

Table 7. Exports of goods by groups of countries

	Volume (EEK m)			Share (%)			Change (%)	
	Q1 2007	Q4 2007	Q1 2008	Q1 2007	Q4 2007	Q1 2008	Q1 2008 / Q4 2007	Q1 2008 / Q1 2007
EU-27	20,151.2	23,193.4	23,015.7	67.4	70.6	73.6	-0.8	14.2
Finland	5,099.9	6,129.9	5,636.5	17.1	18.7	18.0	-8.0	10.5
Sweden	4,058.9	4,511.1	4,672.3	13.6	13.7	15.0	3.6	15.1
Latvia	3,171.2	3,595.7	3,389.8	10.6	10.9	10.8	-5.7	6.9
Lithuania	1,456.4	1,955.5	1,838.6	4.9	6.0	5.9	-6.0	26.2
Germany	1,525.7	1,716.2	1,690.0	5.1	5.2	5.4	-1.5	10.8
CIS	3,247.9	4,184.0	3,538.3	10.9	12.7	11.3	-15.4	8.9
Russia	2,560.6	3,239.2	2,756.6	8.6	9.9	8.8	-14.9	7.7
Ukraine	439.3	478.1	467.5	1.5	1.5	1.5	-2.2	6.4
Belarus	84.3	218.7	175.9	0.3	0.7	0.6	-19.6	108.7
Other	6,487.2	5,481.0	4,697.0	21.7	16.7	15.0	-14.3	-27.6
Norway	904.7	1,246.7	1,146.2	3.0	3.8	3.7	-8.1	26.7
USA	1,534.9	706.1	732.9	5.1	2.1	2.3	3.8	-52.2
Turkey	399.0	431.2	546.4	1.3	1.3	1.7	26.7	37.0
Total	29,886.3	32,858.4	31,251.0	100.0	100.0	100.0	-4.9	4.6

Table 8. Imports of goods by groups of countries*

	Volume (EEK m)			Share (%)			Change (%)	
	Q1 2007	Q4 2007	Q1 2008	Q1 2007	Q4 2007	Q1 2008	Q1 2008 / Q4 2007	Q1 2008 / Q1 2007
EU-27	31,860.7	36,665.3	32,861.1	75.0	81.2	80.5	-10.4	3.1
Finland	6,886.9	6,621.1	6,080.0	16.2	14.7	14.9	-8.2	-11.7
Germany	5,194.8	5,928.7	5,279.2	12.2	13.1	12.9	-11.0	1.6
Sweden	4,166.0	4,906.0	4,511.4	9.8	10.9	11.0	-8.0	8.3
Latvia	2,759.2	4,277.1	3,500.7	6.5	9.5	8.6	-18.2	26.9
Lithuania	2,381.6	3,277.0	2,854.2	5.6	7.3	7.0	-12.9	19.8
CIS	7,246.2	4,919.3	4,790.8	17.1	10.9	11.7	-2.6	-33.9
Russia	6,226.9	3,499.9	3,427.1	14.7	7.7	8.4	-2.1	-45.0
Belarus	531.7	791.7	625.5	1.3	1.8	1.5	-21.0	17.7
Ukraine	377.6	403.2	548.6	0.9	0.9	1.3	36.1	45.3
Other	3,367.7	3,593.1	3,185.1	7.9	8.0	7.8	-11.4	-5.4
China	784.1	1,003.4	791.5	1.8	2.2	1.9	-21.1	1.0
USA	589.5	465.9	534.8	1.4	1.0	1.3	14.8	-9.3
Norway	288.6	304.0	288.5	0.7	0.7	0.7	-5.1	-0.0
Total	42,474.5	45,177.7	40,837.0	100.0	100.0	100.0	-9.6	-3.9

* Analysed by trading country.

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

	Q1 2007	Q4 2007	Q1 2008
EU-27	-11,709.4	-13,471.8	-9,845.4
CIS	-3,998.3	-735.3	-1,252.5
Other	3,119.5	1,887.8	1,511.8
Total	-12,588.3	-12,319.3	-9,586.0

Services

The surplus on the services account amounted to 3.5 billion kroons in the first quarter of 2008, having increased by 2% compared to the end of 2007 and by 44% year-on-year (see Figure 4 and Table 10).

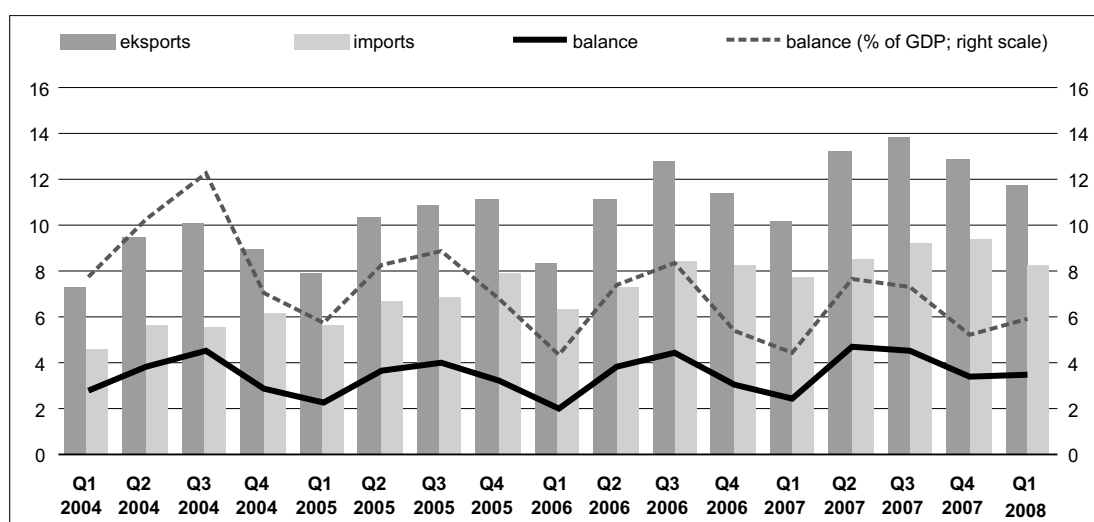


Figure 4. Services account (EEK bn)

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 (%)
Q1 2004	7,334.1	-8.4	30.2	4,588.3	-14.5	17.5	2,745.8	4.3
Q2 2004	9,495.3	29.5	34.6	5,684.2	23.9	17.9	3,811.1	38.8
Q3 2004	10,077.3	6.1	35.0	5,548.9	-2.4	18.6	4,528.4	18.8
Q4 2004	8,981.6	-10.9	30.6	6,149.3	10.8	18.5	2,832.3	-37.5
2004 total	35,888.3	17.0	32.7	21,970.7	14.4	18.1	13,917.6	21.3
Q1 2005	7,892.4	-12.1	26.9	5,659.8	-8.0	17.8	2,232.6	-21.2
Q2 2005	10,344.2	31.1	30.5	6,685.2	18.1	18.2	3,659.0	63.9
Q3 2005	10,884.5	5.2	30.0	6,903.6	3.3	17.9	3,980.9	8.8
Q4 2005	11,107.6	2.0	28.5	7,877.7	14.1	18.5	3,229.9	-18.9
2005 total	40,228.7	12.1	29.0	27,126.3	23.5	18.1	13,102.4	-5.9
Q1 2006	8,316.4	-25.1	22.4	6,338.5	-19.5	14.9	1,977.9	-38.8
Q2 2006	11,109.1	33.6	26.2	7,269.0	14.7	15.1	3,840.1	94.2
Q3 2006	12,813.7	15.3	29.9	8,417.0	15.8	17.3	4,396.7	14.5
Q4 2006	11,358.7	-11.4	26.7	8,289.3	-1.5	16.6	3,069.4	-30.2
2006 total	43,597.9	8.4	26.4	30,313.8	11.8	16.1	13,284.1	1.4
Q1 2007	10,195.0	-10.2	25.3	7,764.7	-6.3	16.2	2,430.3	-20.8
Q2 2007	13,225.8	29.7	28.6	8,552.8	10.1	16.2	4,673.0	92.3
Q3 2007	13,789.5	4.3	31.4	9,258.8	8.3	18.5	4,530.7	-3.0
Q4 2007	12,845.0	-6.8	28.0	9,417.7	1.7	17.9	3,427.3	-24.4
2007 total	50,055.3	14.8	29.4	34,994.0	15.4	18.2	15,061.3	13.4
Q1 2008	11,733.1	-8.7	27.1	8,235.4	-12.6	17.4	3,497.7	2.1

Year-on-year, the net exports of services grew mainly on account of the deficit on construction services turning into a surplus (see Table 11), since these services contributed 70% to the increase in the balance of services. The sphere of influence of transport and travel services was weaker. At the same time, the balance of business, government and several less important services decreased. The net exports of computer and information services has been growing steadily and faster than the average.

Services exports amounted to 11.7 billion kroons in the first quarter, having increased 15% year-on-year (see Table 12). Due to the 9% decrease in freight transport exports, the exports of transport services grew only 6%. Since the Estonian construction sector is shrinking, our construction companies are forced to look for labour contracts abroad – the exports of construction services increased by 2.8 times year-on-year.

Geographically, the year-on-year growth of services exports to EU countries (23%), especially to our neighbouring countries Finland, Sweden and Latvia, was faster (see Table 13). The exports of services to Russia grew little over the year (2%), but the quarter-on-quarter growth was positive (6%), taking into account that the first quarter is normally characterised by a seasonal decline in services exports. Services exports to offshore regions and the USA have decreased year-on-year, by 12% and 10%, respectively.

Table 11. Services balance by major categories

	Balance (EEK m)			Share (%)			Change (%)	
	Q1 2007	Q4 2007	Q1 2008	Q1 2007	Q4 2007	Q1 2008	Q1 2008 / Q4 2007	Q1 2008 / Q1 2007
Transportation	1,308.1	1,550.8	1,662.4	53.8	45.2	47.5	7.2	27.1
Travel	224.9	557.8	498.1	9.3	16.3	14.2	-10.7	121.5
Construction services	-184.3	445.6	574.0	-7.6	13.0	16.4	28.8	-411.4
Computer and information services	122.3	211.0	203.7	5.0	6.2	5.8	-3.5	66.6
Business services	708.2	632.8	590.4	29.1	18.5	16.9	-6.7	-16.6
Government services	87.2	52.8	32.2	3.6	1.5	0.9	-39.0	-63.1
Other	163.9	-23.5	-63.1	6.7	-0.7	-1.8	168.5	-138.5
Total	2,430.3	3,427.3	3,497.7	100.0	100.0	100.0	2.1	43.9

Table 12. Services exports by major categories

	Volume (EEK m)			Share (%)			Change (%)	
	Q1 2007	Q4 2007	Q1 2008	Q1 2007	Q4 2007	Q1 2008	Q1 2008 / Q4 2007	Q1 2008 / Q1 2007
Transportation	4,692.8	5,134.8	4,957.5	46.0	40.0	42.3	-3.5	5.6
freight	2,679.9	2,673.2	2,442.2	26.3	20.8	20.8	-8.6	-8.9
passenger	758.5	990.9	978.2	7.4	7.7	8.3	-1.3	29.0
other transport services	1,254.4	1,470.7	1,537.1	12.3	11.4	13.1	4.5	22.5
Travel	1,803.6	2,666.7	2,388.8	17.7	20.8	20.4	-10.4	32.4
Construction services	241.9	729.9	666.4	2.4	5.7	5.7	-8.7	175.5
Computer and information services	339.9	495.8	429.4	3.3	3.9	3.7	-13.4	26.3
Business services	2,227.6	2,840.6	2,342.2	21.8	22.1	20.0	-17.5	5.1
Government services	184.2	180.0	127.8	1.8	1.4	1.1	-29.0	-30.6
Other	705.0	797.2	821.0	6.9	6.2	7.0	3.0	16.5
Total	10,195.0	12,845.0	11,733.1	100.0	100.0	100.0	-8.7	15.1

Table 13. Services exports by groups of countries

	Volume (EEK m)			Share (%)			Change (%)	
	Q1 2007	Q4 2007	Q1 2008	Q1 2007	Q4 2007	Q1 2008	Q1 2008 / Q4 2007	Q1 2008 / Q1 2007
EU-27	6,735.8	9,250.4	8,282.1	66.1	72.0	70.6	-10.5	23.0
Finland	2,749.6	3,780.9	3,462.9	27.0	29.4	29.5	-8.4	25.9
Sweden	752.4	1,139.1	929.3	7.4	8.9	7.9	-18.4	23.5
United Kingdom	568.0	820.7	677.4	5.6	6.4	5.8	-17.5	19.3
Latvia	436.9	757.1	670.5	4.3	5.9	5.7	-11.4	53.5
Germany	448.6	501.7	506.3	4.4	3.9	4.3	0.9	12.9
CIS	1,572.1	1,622.1	1,682.3	15.4	12.6	14.3	3.7	7.0
Russia	1,363.4	1,317.1	1,392.7	13.4	10.3	11.9	5.7	2.1
Ukraine	99.5	135.3	148.8	1.0	1.1	1.3	10.0	49.5
Other	1,887.1	1,972.5	1,768.7	18.5	15.4	15.1	-10.3	-6.3
offshore regions	486.6	524.0	428.1	4.8	4.1	3.6	-18.3	-12.0
USA	355.0	334.8	318.4	3.5	2.6	2.7	-4.9	-10.3
Norway	199.6	303.3	316.5	2.0	2.4	2.7	4.4	58.6
Total	10,195.0	12,845.0	11,733.1	100.0	100.0	100.0	-8.7	15.1

Table 14. Services imports by major categories

	Volume (EEK m)			Share (%)			Change (%)	
	Q1 2007	Q4 2007	Q1 2008	Q1 2007	Q4 2007	Q1 2008	Q1 2008 / Q4 2007	Q1 2008 / Q1 2007
Transportation	3,384.7	3,584.0	3,295.1	43.6	38.1	40.0	-8.1	-2.6
freight	2,180.5	2,362.0	2,287.5	28.1	25.1	27.8	-3.2	4.9
passenger	478.8	312.0	291.8	6.2	3.3	3.5	-6.5	-39.1
other transport services	725.4	910.0	715.8	9.3	9.7	8.7	-21.3	-1.3
Travel	1,578.7	2,108.9	1,890.8	20.3	22.4	23.0	-10.3	19.8
Construction services	426.2	284.3	198.4	5.5	3.0	2.4	-30.2	-53.4
Computer and information services	207.9	248.4	225.7	2.7	2.6	2.7	-9.1	8.6
Business services	1,519.4	2,207.8	1,751.8	19.6	23.4	21.3	-20.7	15.3
Government services	96.9	127.2	95.5	1.2	1.4	1.2	-24.9	-1.4
Other	550.9	857.1	778.1	7.1	9.1	9.4	-9.2	41.2
Total	7,764.7	9,417.7	8,235.4	100.0	100.0	100.0	-12.6	6.1

Table 15. Services imports by groups of countries

	Volume (EEK m)			Share (%)			Change (%)	
	Q1 2007	Q4 2007	Q1 2008	Q1 2007	Q4 2007	Q1 2008	Q1 2008 / Q4 2007	Q1 2008 / Q1 2007
EU-27	5,736.1	7,175.8	6,239.3	73.9	76.2	75.8	-13.1	8.8
Finland	1,540.2	1,461.0	1,291.5	19.8	15.5	15.7	-11.6	-16.1
Germany	535.0	667.1	680.5	6.9	7.1	8.3	2.0	27.2
Latvia	462.6	797.5	636.5	6.0	8.5	7.7	-20.2	37.6
Germany	554.7	778.2	634.2	7.1	8.3	7.7	-18.5	14.3
United Kingdom	400.1	514.5	448.2	5.2	5.5	5.4	-12.9	12.0
CIS	1,017.9	785.7	786.7	13.1	8.3	9.6	0.1	-22.7
Russia	654.9	605.1	513.9	8.4	6.4	6.2	-15.1	-21.5
Ukraine	85.5	84.6	83.9	1.1	0.9	1.0	-0.8	-1.9
Other	1,010.7	1,456.2	1,209.4	13.0	15.5	14.7	-16.9	19.7
Egypt	264.5	300.5	320.1	3.4	3.2	3.9	6.5	21.0
USA	299.6	282.0	274.8	3.9	3.0	3.3	-2.6	-8.3
China	94.0	99.9	82.6	1.2	1.1	1.0	-17.3	-12.1
Total	7,764.7	9,417.7	8,235.4	100.0	100.0	100.0	-12.6	6.1

The imports of services amounted to 8.2 billion kroons in the first quarter, increasing by 6% year-on-year (see Table 14). Imports growth was most affected by travel and business services (growth 20% and 15%, respectively). The imports of construction services declined two times.

Geographically, purchasing services from the EU countries increased at the same pace with the total services imports growth. Imports from the CSI countries, especially Russia, declined 23%, whereas imports from other countries increased by nearly the same amount.

The **balance of transport services** accounted for approximately a half of the 2008 first-quarter services account and grew 27% year-on-year, due to an increase in the transport services provided to non-residents and a decrease in imported transport services. Both exports and imports decreased on the previous quarter, by 3% and 8%, respectively (see Figure 5 and Tables 11, 12, 13).

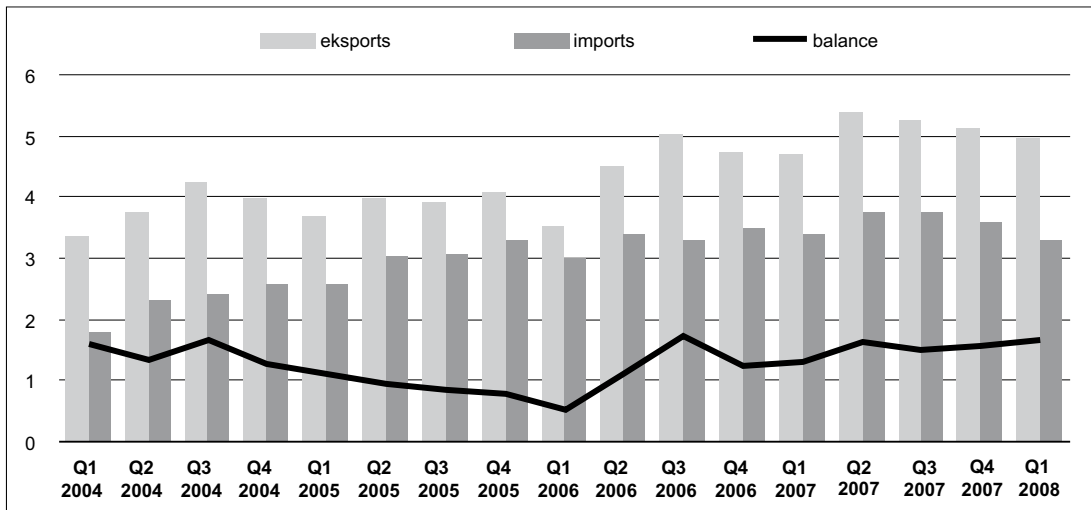


Figure 5. Transport services (EEK bn)

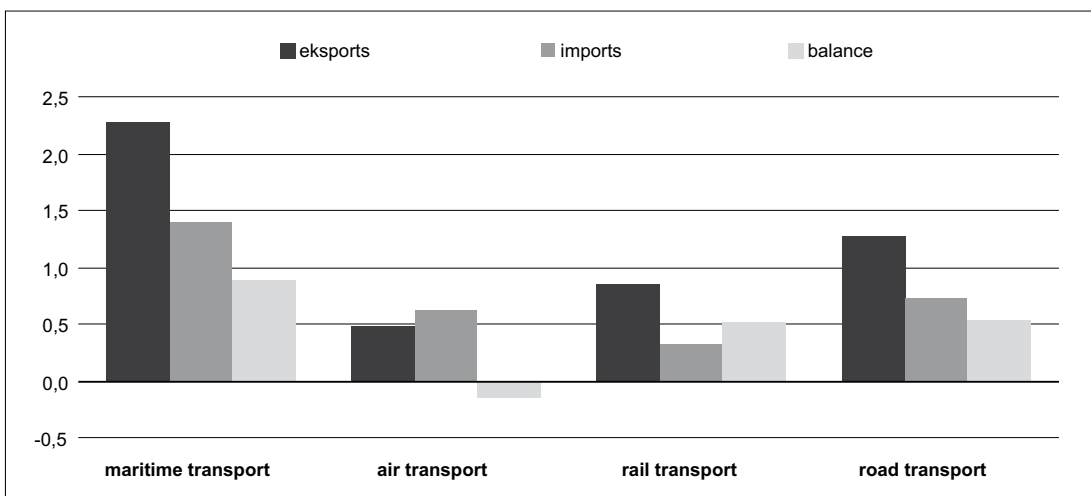


Figure 6. Transport services structure in the first quarter of 2008 by transport type (EEK bn)

By transport types, maritime transport formed the largest share of transport services, with passenger transport contributing the most to exports. As regards rail transport, the decline in the exports of freight transport was replaced by an increase in supporting and auxiliary transport services. Road and air transport kept their current levels (see Figure 6).

Year-on-year, the increase in transport services constituted 6% in the first quarter of 2008. Exports of transport services to EU countries, Finland in particular, grew by 11% (see Table 16). The share of the CIS countries in the exports of transport services stood at only 13% and increased also by 13% year-on-year. However, exports to other countries declined, mainly on account of offshore regions and Switzerland.

The imports of transport services dropped by a few per cent, especially due to a decline in the transport services purchased from Finland (see Tables 14 and 16). Imports from the CIS countries and other countries decreased as well.

Table 16. Transport services by groups of countries in the first quarter of 2008

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%), Q1 2008 / Q1 2007		Volume (EEK m)	Share (%)	Change (%), Q1 2008 / Q1 2007
EU-27	3,338.3	67.3	10.6	EU-27	2,379.8	72.2	-2.8
Finland	1,218.7	24.6	13.9	Germany	400.3	12.1	11.3
United Kingdom	438.5	8.8	26.2	Finland	374.7	11.4	-35.6
Sweden	395.2	8.0	13.1	Latvia	239.6	7.3	9.7
Germany	278.0	5.6	11.8	Sweden	239.1	7.3	25.2
Netherlands	190.3	3.8	56.2	United Kingdom	168.5	5.1	12.9
CIS	642.2	13.0	13.8	CIS	418.2	12.7	-2.2
Russia	595.0	12.0	11.5	Russia	338.1	10.3	-6.5
Ukraine	26.4	0.5	27.5	Belarus	43.5	1.3	50.0
Other	977.0	19.7	-12.0	Other	497.1	15.1	-2.3
Switzerland	300.4	6.1	-33.8	offshore regions	97.1	2.9	14.5
offshore regions	180.8	3.6	-46.9	USA	95.5	2.9	-13.5
Norway	170.4	3.4	118.2	China	75.0	2.3	4.0
Total	4,957.5	100.0	5.6	Total	3,295.1	100.0	-2.6

The first-quarter statistics on **travel services** reflect the positive impact of acceding to the Schengen agreement, since the free movement of people was made easier as from the end of 2007 (in the beginning the agreement was applied to the sea and land boundary between Estonia and the EU; the air boundary was opened at the end of the first quarter). The exports of travel services increased 32% and imports 20% (see Table 17 and Figure 7). The rapid growth of travel services exports was facilitated by the 17% increase in non-residents' visits to Estonia year-on-year as well as by the price level growth in Estonia, which increased the expenditure per person. The exports of travel services to Finland and Latvia increased the most – by 43% and 2.2 times, respectively.

Our slowing economic growth has not yet started to affect the tourist sector, since in the first quarter of 2008, Estonian travel agencies sold 21% more package travels to residents year-on-year. The most popular destinations with the fastest growth were Egypt and Thailand (44% and 56%, respectively). Travel services imports increased faster than the average also from the EU countries, e.g. from Spain (44%) and Austria (22%).

Table 17. Travel services by groups of countries in the first quarter of 2008

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%), Q1 2008 / Q1 2007		Volume (EEK m)	Share (%)	Change (%), Q1 2008 / Q1 2007
EU-27	1,768.7	74.0	39.0	EU-27	1,255.2	66.4	22.2
Finland	1,238.3	51.8	43.3	Finland	402.1	21.3	9.8
Sweden	139.0	5.8	19.5	United Kingdom	107.1	5.7	44.8
Latvia	105.5	4.4	117.4	Italy	95.6	5.1	115.7
Germany	53.3	2.2	23.9	Latvia	94.2	5.0	43.7
CIS	489.2	20.5	16.3	CIS	103.1	5.5	-24.5
Russia	458.2	19.2	16.7	Russia	72.3	3.8	-31.9
Other	130.9	5.5	18.1	Other	532.5	28.2	28.3
Norway	48.6	2.0	1.2	Egypt	264.0	14.0	44.1
USA	33.2	1.4	78.0	USA	65.0	3.4	-10.0
Canada	5.3	0.2	70.8	Thailand	53.4	2.8	55.5
Total	2,388.8	100.0	32.4	Total	1,890.8	100.0	19.8

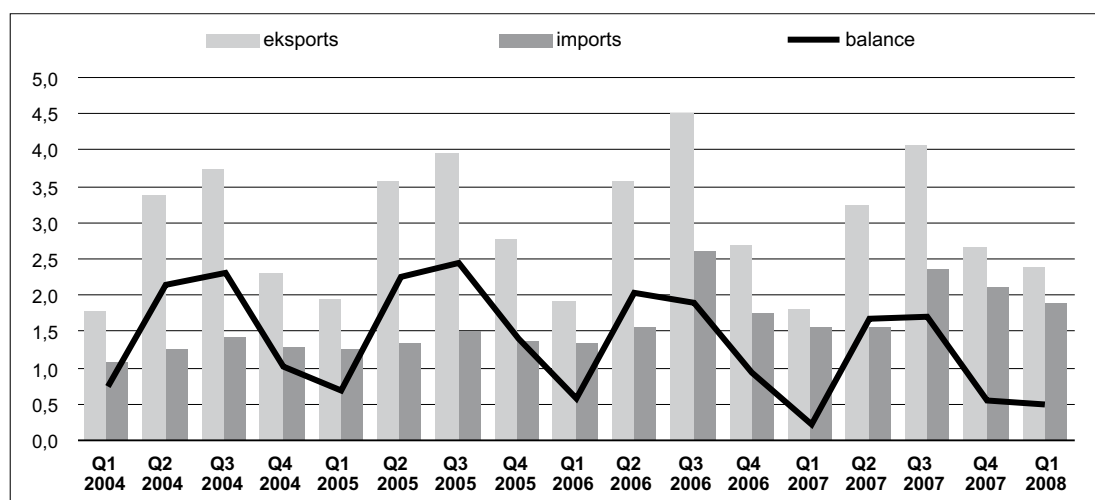


Figure 7. Travel services (EEK bn)

Income

The income account deficit remained at nearly the same level year-on-year and amounted to 5 billion kroons, i.e. 8.5% of the first-quarter GDP (see Table 18 and Figure 8). The deficit was unaltered due to a decline in the surplus on labour income, an increase in the deficit on other investment income (loans and deposits) and the deficit on portfolio investment income turning into a surplus. Excluding from the income account reinvested earnings, which include no actual movement of funds, the income account posted only a 0.8 billion kroon deficit (see Table 19).

Income inflow stood at 4 billion kroons, having increased by 14% year-on-year and declined by a tenth quarter-on-quarter (see Table 20). 90% of the income earned abroad came from EU countries, chiefly from Latvia and Lithuania (see Table 21). Labour income accounted for 20% of the income inflow; the rest was

investment income. Labour income inflow decreased by a fifth year-on-year, since some of the residents working abroad came back to Estonia and some that had been working abroad for a longer time became residents of their country of location³. Estonian residents earned labour income mostly in Finland (40%), the United Kingdom (10%), Ireland (10%) and Latvia (9%). Residents' income on foreign investment increased by nearly a third. The majority (55%) of residents' investment income was direct investment income and

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 2004	649.6	-4.2	2,601.9	27.7	-1,952.3	43.7
Q2 2004	1,238.9	19.7	3,010.5	18.8	-1,771.6	18.1
Q3 2004	1,912.1	63.0	3,081.2	-6.8	-1,169.1	-45.2
Q4 2004	1,686.4	141.6	4,758.0	61.5	-3,071.6	36.7
2004 total	5,487.0	6.3	13,451.6	23.5	-7,964.6	34.3
Q1 2005	1,590.3	-5.7	3,768.3	-20.8	-2,178.1	-29.1
Q2 2005	2,597.8	63.4	4,235.6	12.4	-1,637.7	-24.8
Q3 2005	2,757.7	6.2	4,649.6	9.8	-1,891.9	15.5
Q4 2005	2,279.7	-17.3	3,696.5	-20.5	-1,416.7	-25.1
2005 total	9,225.6	68.1	16,349.9	21.5	-7,124.4	-10.5
Q1 2006	2,692.1	18.1	5,241.3	41.8	-2,549.2	79.9
Q2 2006	3,516.1	30.6	6,301.7	20.2	-2,785.6	9.3
Q3 2006	3,779.3	7.5	6,251.4	-0.8	-2,472.1	-11.3
Q4 2006	3,564.0	-5.7	6,525.3	4.4	-2,961.3	19.8
2006 total	13,551.5	46.9	24,319.8	48.7	-10,768.2	51.1
Q1 2007	3,542.7	-0.6	8,649.1	32.5	-5,106.4	72.4
Q2 2007	4,416.1	24.7	8,168.6	-5.6	-3,752.6	-26.5
Q3 2007	4,816.2	9.1	9,427.0	15.4	-4,610.8	22.9
Q4 2007	4,513.7	-6.3	9,032.6	-4.2	-4,519.0	-2.0
2007 total	17,288.6	27.6	35,277.3	45.1	-17,988.8	67.1
Q1 2008	4,044.2	-10.4	9,072.2	0.4	-5,028.0	11.3

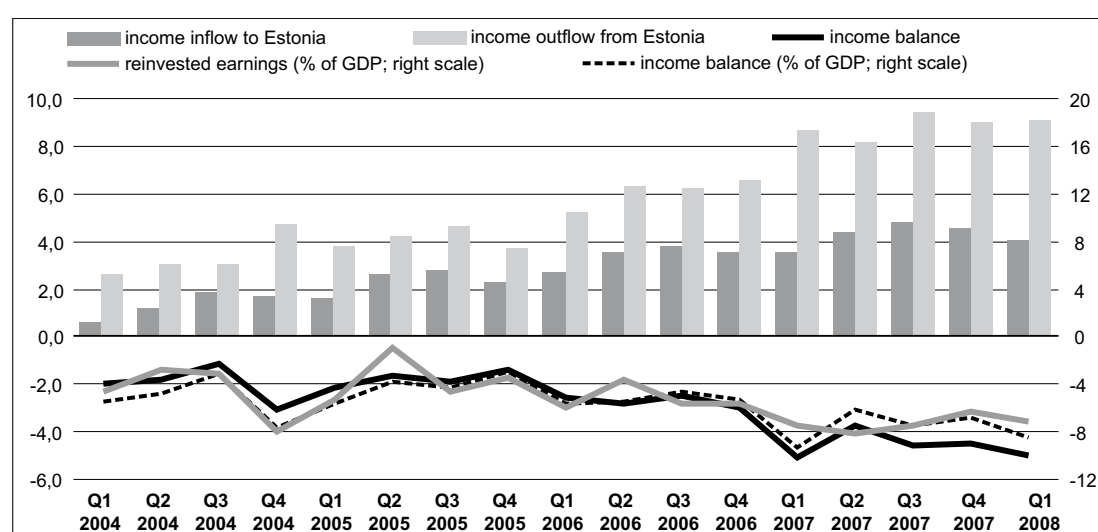


Figure 8. Income account (EEK bn)

³ In the latter case, their remittances to the home country are recorded under the balance of payments current transfers.

the rest was portfolio and other investment income. Reinvested earnings accounted for 70% of direct investment income. Residents received investment income mostly in Latvia (30%), Lithuania (19%), Cyprus (9%) and Germany (8%). 73% of residents' investment income abroad belonged to the investors of financial intermediation; 10% went to the investors of transport, storage and communications (see Figure 9).

Table 19. Structure of income account

	Volume (EEK m)			Share (%)			Change (%)	
	Q1 2007	Q4 2007	Q1 2008	Q1 2007	Q4 2007	Q1 2008	Q1 2008 / Q4 2008	Q1 2008 / Q1 2007
Labour income	894.7	777.9	578.0	-17.5	-17.2	-11.5	-25.7	-35.4
Investment income	-6,001.1	-5,296.8	-5,606.0	117.5	117.2	111.5	5.8	-6.6
Income on direct investment	-4,840.2	-4,777.6	-4,644.0	94.8	105.7	92.4	-2.8	-4.1
income on equity	-4,636.8	-4,437.0	-4,552.9	90.8	98.2	90.6	2.6	-1.8
reinvested earnings	-4,110.2	-4,193.3	-4,261.5	80.5	92.8	84.8	1.6	3.7
dividends	-526.6	-243.7	-291.5	10.3	5.4	5.8	19.6	-44.6
income on debt (interests)	-203.4	-340.6	-91.1	4.0	7.5	1.8	-73.3	-55.2
Income on portfolio investment	-539.1	471.1	358.8	10.6	-10.4	-7.1	-23.8	-166.6
Income on other investment	-621.8	-990.3	-1,320.8	12.2	21.9	26.3	33.4	112.4
Total	-5,106.4	-4,519.0	-5,028.0	100.0	100.0	100.0	11.3	-1.5

Table 20. Income inflow to Estonia

	Volume (EEK m)			Share (%)			Change (%)	
	Q1 2007	Q4 2007	Q1 2008	Q1 2007	Q4 2007	Q1 2008	Q1 2008 / Q4 2008	Q1 2008 / Q1 2007
Labour income	1,120.2	1,093.8	874.4	31.6	24.2	21.6	-20.1	-21.9
Investment income	2,422.5	3,419.9	3,169.7	68.4	75.8	78.4	-7.3	30.8
Income on direct investment	1,326.6	1,903.0	1,756.5	37.4	42.2	43.4	-7.7	32.4
income on equity	1,196.0	1,613.4	1,471.0	33.8	35.7	36.4	-8.8	23.0
reinvested earnings	1,133.1	1,510.2	1,245.5	32.0	33.5	30.8	-17.5	9.9
dividends	62.8	103.2	225.5	1.8	2.3	5.6	118.5	259.1
income on debt (interests)	130.6	289.5	285.4	3.7	6.4	7.1	-1.4	118.5
Income on portfolio investment	634.2	794.7	660.1	17.9	17.6	16.3	-16.9	4.1
Income on other investment	461.7	722.2	753.2	13.0	16.0	18.6	4.3	63.1
Total	3,542.7	4,513.7	4,044.2	100.0	100.0	100.0	-10.4	14.2

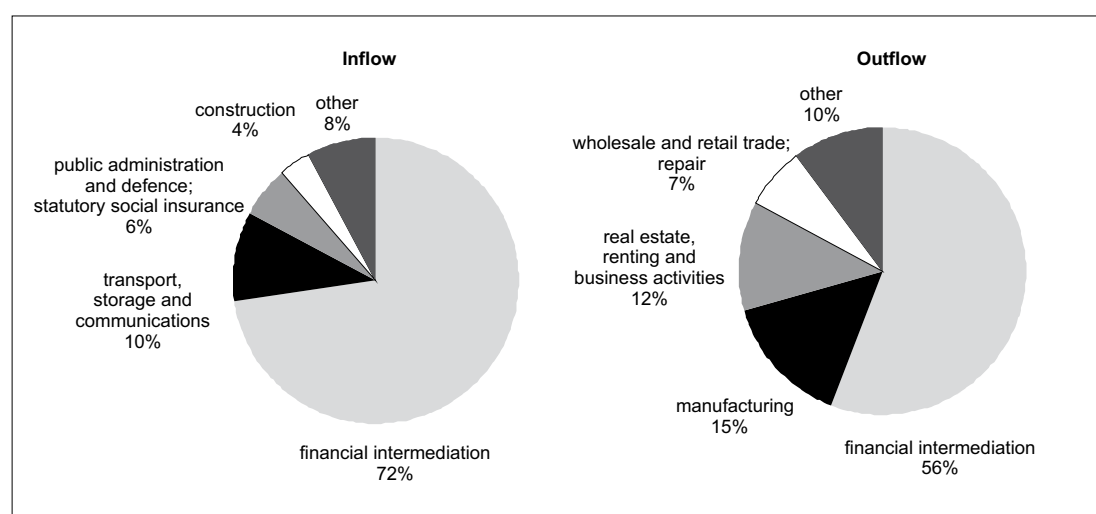


Figure 9. Inflow and outflow of income by fields of activity in the first quarter of 2008

Income outflow continued to be intensive and accounted for 9.1 billion kroons, having increased by 5% year-on-year (see Table 22). Similar to the inflow, also more than 90% of the outflow was related to the investment of EU countries in Estonia (see Table 21). 97% of the income earned by non-residents in Estonia was investment income, which increased by 4% year-on-year. Direct investment income accounted for about 75%, other investment income for 25% and portfolio investment for the remainder of the outflow. Similar to residents' direct investment income, reinvested earnings also accounted for a majority of non-residents' direct investment income earned in Estonia, but their share was even bigger – 86%. Estonia's constantly growing gross external debt was also reflected in the almost twofold increase in other investment income outflow. The volume of the portfolio investment income was as expected, though it was four times lower on the first quarter of 2007, when there occurred a substantial withdrawal of proprietary income from a major enterprise. In Estonia, investment income went mainly to Swedish investors (56%) and to a smaller extent also to Finnish (13%) and Cypriot (10%) investors. 56% of investment income was earned on financial intermediation, 15% on manufacturing and 12% on real estate, renting and business activities.

Table 21. Income by groups of countries in the first quarter of 2008

	Inflow				Outflow		
	Volume (EEK m)	Share (%)	Change (%), Q1 2008 / Q1 2007		Volume (EEK m)	Share (%)	Change (%), Q1 2008 / Q1 2007
EU-27	3,648.2	90.2	16.8	EU-27	8,380.7	92.4	12.9
Latvia	1,043.8	25.8	76.9	Sweden	4,581.8	50.5	33.3
Lithuania	604.9	15.0	5.0	Finland	1,189.3	13.1	-35.0
Finland	342.7	8.5	-27.3	Cyprus	838.4	9.2	313.7
United Kingdom	295.3	7.3	-18.9	Netherlands	396.7	4.4	-28.3
CIS	185.2	4.6	15.3	CIS	154.9	1.7	-1.8
Russia	149.5	3.7	-9.7	Russia	109.5	1.2	-21.2
Ukraine	19.6	0.5	-1019.2	Ukraine	38.2	0.4	114.6
Other	210.8	5.2	-18.6	Other	536.6	5.9	-49.6
USA	79.7	2.0	-39.7	Norway	193.7	2.1	93.9
offshore regions	24.2	0.6	-49.1	offshore regions	191.9	2.1	-27.1
Total	4,044.2	100.0	14.2	Total	9,072.2	100.0	4.9

Table 22. Income outflow from Estonia

	Volume (EEK m)			Share (%)			Change (%)	
	Q1 2007	Q4 2007	Q1 2008	Q1 2007	Q4 2007	Q1 2008	Q1 2008 / Q4 2007	Q1 2008 / Q1 2007
Labour income	225.5	315.9	296.4	2.6	3.5	3.3	-6.2	31.4
Investment income	8,423.6	8,716.7	8,775.8	97.4	96.5	96.7	0.7	4.2
Income on direct investment	6,166.8	6,680.5	6,400.5	71.3	74.0	70.6	-4.2	3.8
income on equity	5,832.8	6,050.4	6,024.0	67.4	67.0	66.4	-0.4	3.3
reinvested earnings	5,243.3	5,703.5	5,507.0	60.6	63.1	60.7	-3.4	5.0
dividends	589.5	346.9	517.0	6.8	3.8	5.7	49.0	-12.3
income on debt (interests)	334.1	630.1	376.5	3.9	7.0	4.2	-40.2	12.7
Income on portfolio investment	1,173.3	323.6	301.3	13.6	3.6	3.3	-6.9	-74.3
Income on other investment	1,083.5	1,712.6	2,074.0	12.5	19.0	22.9	21.1	91.4
Total	8,649.1	9,032.6	9,072.2	100.0	100.0	100.0	0.4	4.9

Current and capital transfers⁴

The surplus on the current transfers account posted a remarkable surplus of 1.3 billion kroons in the first quarter of 2008, thus contributing to the decrease of the current account deficit (see Table 23).

Estonia received 3 billion kroons in current transfers of which 42% went to the general government and the rest to other sectors. The government transfers contained allocations from the EU structural funds and VAT and social tax receipts from non-residents. At the same time, the government paid a large amount of contributions to international organisations and refunded VAT, thus the general government sector's paid and received current transfers were nearly in balance. Transfers to other sectors amounted to 1.7 billion kroons. Workers' remittances from abroad formed 10% of the amount and the rest was mostly external aid from the European Commission. Current transfers paid by other sectors amounted to 0.5 billion kroons.

Capital transfers posted also a surplus – 1.2 billion kroons. Capital transfers were predominantly one-sided: 1.3 billion kroons was received and only 0.1 billion kroons was paid. Capital transfers to Estonia mainly comprised EU subsidies to the general government as well as to other sectors for various infrastructure objects.

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

	Incoming			Outgoing			Balance		
	Q1 2007	Q4 2007	Q1 2008	Q1 2007	Q4 2007	Q1 2008	Q1 2007	Q4 2007	Q1 2008
Current transfers	1,554.2	2,620.5	2,951.4	1,693.4	2,002.4	1,693.8	-139.2	618.1	1,257.6
government transfers	541.6	914.1	1,244.8	962.4	1,386.7	1,152.7	-420.7	-472.7	92.1
EU-27	499.6	767.2	1,146.9	937.0	1,361.6	1,122.4	-437.4	-594.4	24.5
CIS	11.3	26.5	23.2	1.5	2.7	1.4	9.8	23.7	21.8
other	30.8	120.4	74.7	23.9	22.4	28.9	6.9	98.0	45.8
private transfers	1,012.6	1,706.4	1,706.6	731.0	615.6	541.1	281.6	1,090.8	1,165.5
EU-27	780.5	912.3	1,334.0	617.9	504.3	436.1	162.6	408.0	897.9
CIS	126.9	160.3	233.5	33.4	68.0	48.0	93.5	92.3	185.6
other	105.2	633.8	139.1	79.7	43.3	57.0	25.5	590.4	82.0
Capital transfers	492.5	1,119.5	1,342.6	39.3	73.6	97.4	453.2	1,045.9	1,245.2
government transfers	320.5	668.2	793.3	0.1	0.5	0.0	320.4	667.8	793.3
private transfers	172.0	451.2	549.4	39.2	73.1	97.4	132.8	378.2	451.9

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

FINANCIAL ACCOUNT

The financial account surplus was 8.8 billion kroons in the first quarter of 2008. The inflow of capital occurred primarily through direct and other investment.

Figures 10 and 11 show the structure of the financial account by categories and maturities.

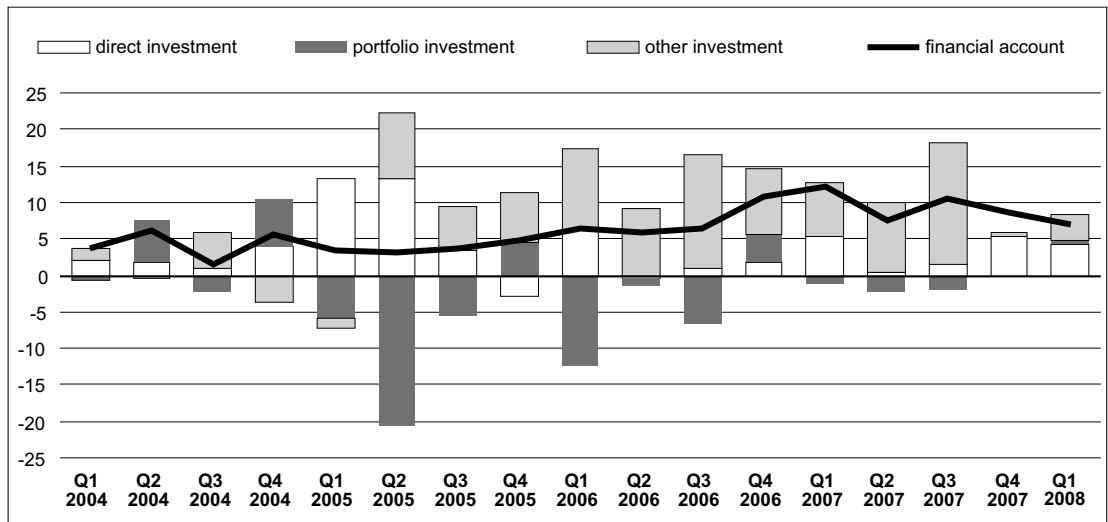


Figure 10. Changes in the structure of foreign investment capital flows (EEK bn)

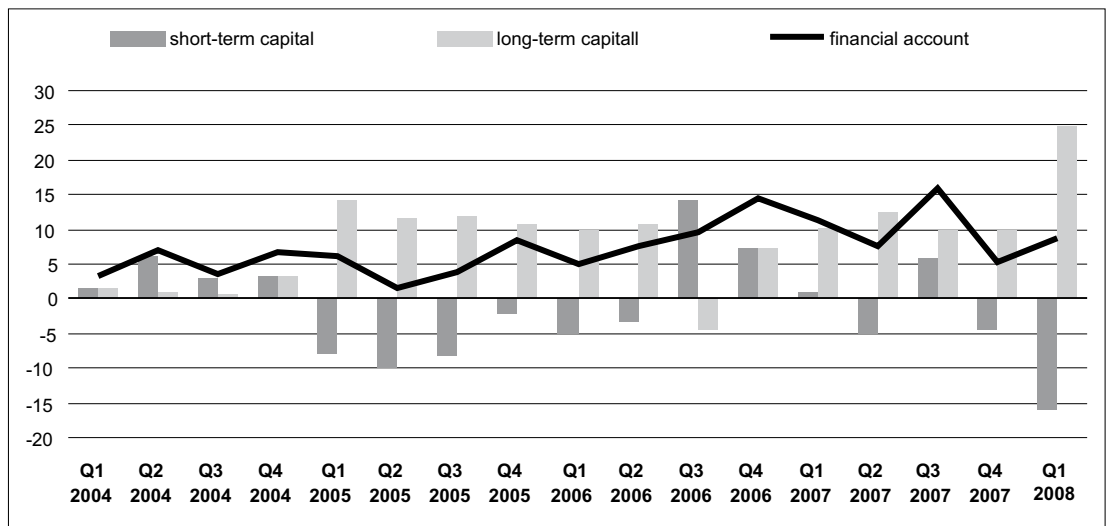


Figure 11. Maturity structure of the financial account (EEK bn)

Direct investment

The surplus on direct investment totalled 4.3 billion kroons in the first quarter of 2008, accounting for nearly a half of the financial account surplus. Non-residents invested 8.7 billion kroons in Estonia while Estonian residents' direct investment abroad grew by 4.4 billion kroons (see Figure 12).

The **inflow of direct investment in Estonia** has not changed much either year-on-year (decrease 3%) or quarter-on quarter (growth 4%). Two-thirds of the total amount of direct investment was reinvested income, of which a half (2.7 billion kroons) was the retained earnings of the financial sector, 0.7 billion the retained earnings of the chemical industry and 0.6 billion the retained earnings of enterprises providing business services. Direct investment in equity capital yielded Estonia 1.6 billion kroons. 80% thereof was channelled to enterprises providing various business services. Foreign investors decreased their holdings in enterprises engaged in real estate, construction and transport, storage and communications. As a result of eliminating various liabilities, the direct investment made in retailers of motor vehicles and motor fuel declined. The debt liabilities associated with the intercompany lending of direct investment companies increased by 2.7 billion kroons with the metal industry bearing 40% thereof. As a result of intercompany debt assets, 0.7 billion kroons exited Estonia. The largest lenders were enterprises providing business services (see Tables 24 and 25).

Approximately a half of the direct investment inflow came from Sweden. The share of the Netherlands (24%), the United Kingdom (12%) and Cyprus (11%) was also remarkable (see Figure 13). The substantial decrease in Finland's direct investment was primarily related to the change of foreign shareholders in one company – Finland's major holding was transferred to Sweden. As in previous periods, direct investment increased the most in financial intermediation (38%), followed by the sectors of real estate, renting and business activities (27%), manufacturing (17%) and transport, storage and communications (12%; see Figure 14). EU Member States continue to be the biggest investors. Compared to the previous quarter, the volume and share of funds from the CIS countries has increased, mainly on account of a decrease in the trade credit granted to foreign parent companies (see Table 26).

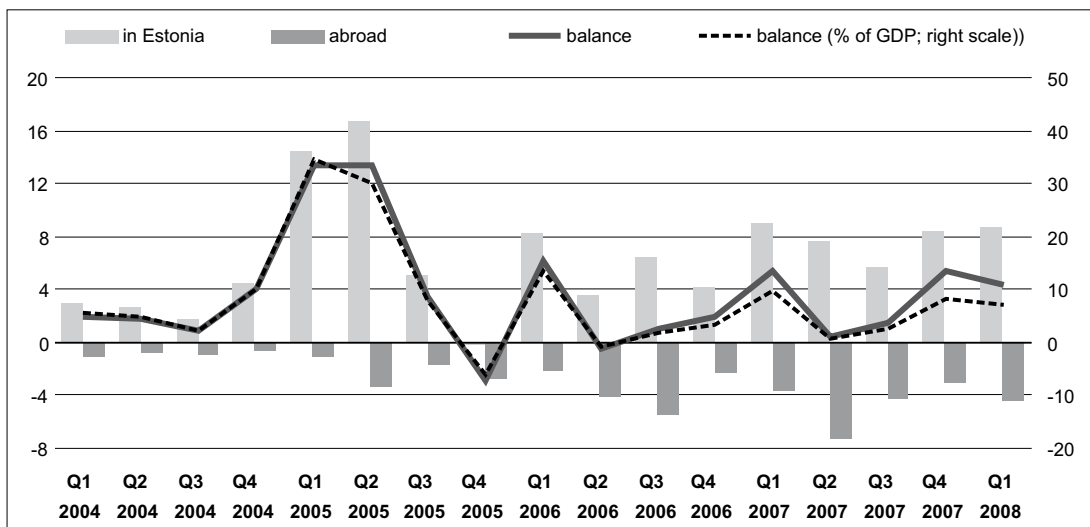


Figure 12. Direct investment (EEK bn)

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 2004	1,075.1	35.8	1,728.9	57.5	-682.1	-22.7	884.3	29.4	3,006.1	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	38.2	2,075.9	113.9	-729.9	-40.0	-219.0	-12.0	1,822.7	100.0
Q4 2004	1,198.5	26.3	3,642.5	79.9	733.4	16.1	-1,017.0	-22.3	4,557.5	100.0
2004 total	4,638.6	38.5	7,982.1	66.2	-1,454.0	-12.1	894.2	7.4	12,060.9	100.0
Q1 2005	12,634.1	87.8	2,442.1	17.0	-875.4	-6.1	194.5	1.4	14,395.3	100.0
Q2 2005	15,099.2	90.7	826.7	5.0	-450.3	-2.7	1,176.6	7.1	16,652.3	100.0
Q3 2005	315.0	6.1	3,368.8	65.8	-679.5	-13.3	2,119.0	41.4	5,123.4	100.0
Q4 2005	-68.8	45.9	2,248.2	-1,501.3	-8.9	5.9	-2,320.3	1,549.4	-149.8	100.0
2005 total	27,979.5	77.7	8,885.8	24.7	-2,014.0	-5.6	1,169.9	3.2	36,021.2	100.0
Q1 2006	1,146.6	14.0	3,663.1	44.6	-430.6	-5.2	3,832.7	46.7	8,211.9	100.0
Q2 2006	291.8	8.1	3,064.9	85.0	-877.5	-24.3	1,127.5	31.3	3,606.7	100.0
Q3 2006	821.7	12.9	4,384.0	68.7	-680.4	-10.7	1,860.4	29.1	6,385.7	100.0
Q4 2006	-18.7	-0.4	4,535.9	108.1	-2,475.4	-59.0	2,155.3	51.4	4,197.2	100.0
2006 total	2,241.5	10.0	15,648.0	69.9	-4,463.9	-19.9	8,975.9	40.1	22,401.5	100.0
Q1 2007	486.5	5.4	5,243.3	58.3	-409.7	-4.6	3,676.5	40.9	8,996.6	100.0
Q2 2007	2,652.0	34.6	3,581.0	46.7	-1,689.2	-22.1	3,116.5	40.7	7,660.3	100.0
Q3 2007	-19.9	-0.3	6,576.4	115.2	-2,117.1	-37.1	1,267.4	22.2	5,706.9	100.0
Q4 2007	1,128.1	13.5	5,703.5	68.4	-2,172.7	-26.1	3,679.3	44.1	8,338.2	100.0
2007 total	4,246.7	13.8	21,104.3	68.7	-6,388.8	-20.8	11,739.8	38.2	30,702.1	100.0
Q1 2008	1,560.7	17.9	5,507.0	63.2	-1,101.6	-12.7	2,741.3	31.5	8,707.3	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 2004	120.6	76.7	480.1	148.1	842.8	718.4	575.5	320.6
Q2 2004	189.2	105.7	528.8	220.4	1,160.0	1,004.9	670.3	289.3
Q3 2004	72.8	37.4	342.2	293.3	1,285.2	1,401.2	949.5	723.9
Q4 2004	110.1	151.3	422.9	200.3	1,313.5	1,757.7	829.2	863.4
2004 total	492.7	371.2	1,774.1	862.1	4,601.5	4,882.2	3,024.5	2,197.2
Q1 2005	315.7	162.5	431.5	213.4	1,620.1	2,118.0	1,404.3	914.8
Q2 2005	213.3	115.9	373.2	306.4	1,174.3	1,111.9	1,294.0	1,079.1
Q3 2005	336.1	81.0	688.3	340.1	2,854.9	1,160.5	1,362.4	1,158.7
Q4 2005	409.1	143.0	797.5	553.5	2,239.7	2,581.7	950.6	1,422.9
2005 total	1,274.3	502.5	2,290.6	1,413.4	7,889.0	6,972.1	5,011.3	4,575.5
Q1 2006	410.2	85.1	690.9	674.5	5,445.0	967.8	432.9	906.1
Q2 2006	473.5	93.1	653.4	601.4	2,204.5	1,610.9	714.0	842.1
Q3 2006	317.4	62.4	709.6	458.2	3,346.8	1,482.8	1,159.8	1,021.7
Q4 2006	919.5	368.7	1,669.8	855.2	2,320.7	2,078.4	1,812.2	623.6
2006 total	2,120.5	609.3	3,723.7	2,589.2	13,317.0	6,139.9	4,119.0	3,393.4
Q1 2007	753.1	231.4	1,024.9	1,348.3	6,412.2	2,849.1	1,201.4	925.8
Q2 2007	670.3	279.3	2,737.7	787.3	4,408.2	1,389.8	1,580.9	1,773.8
Q3 2007	1,253.4	470.6	1,614.9	421.3	2,359.5	1,867.8	3,630.0	2,565.0
Q4 2007	1,107.2	249.8	2,546.1	1,333.2	4,850.9	3,035.4	1,726.3	1,103.9
2007 total	3,783.9	1,231.2	7,923.7	3,890.1	18,030.7	9,142.0	8,138.6	6,368.5
Q1 2008	770.4	353.5	1,324.9	1,029.2	3,750.2	1,832.3	1,837.4	1,007.6

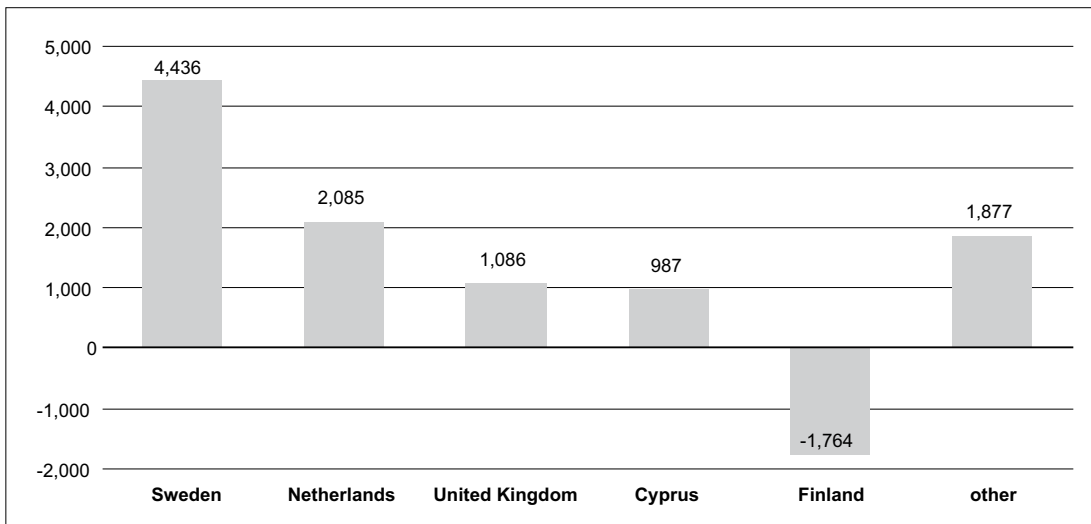


Figure 13. Direct investment in Estonia by countries in the first quarter of 2008 (EEK m)

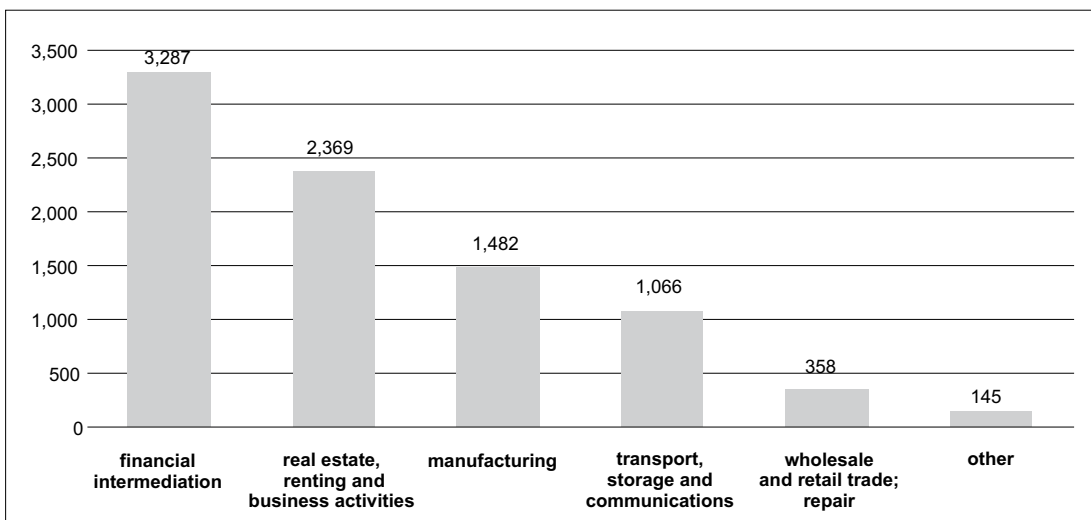


Figure 14. Direct investment in Estonia by fields of activities in the first quarter of 2008 (EEK m)

Table 26. Direct investment in Estonia by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	Q4 2007	Q1 2008	Q4 2007	Q1 2008	Q1 2008 / Q4 2007
EU-27	7.589,1	8.135,5	91,0	93,4	7,2
CIS	223,7	569,9	2,7	6,5	154,8
Other	525,4	1,8	6,3	0,0	-99,7
Total	8.338,2	8.707,3	100,0	100,0	4,4

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 (%)		
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	41.2	-361.8	35.2	-206.0	20.0	-37.2	3.6	-1,028.5	100.0
Q2 2005	-2,570.5	100.5	351.1	-13.7	-457.8	17.9	118.9	-4.6	-2,558.3	100.0
Q3 2005	-441.4	26.4	-1,306.7	78.2	-88.7	5.3	165.6	-9.9	-1,671.2	100.0
Q4 2005	-1,719.9	64.1	-617.3	23.0	-389.1	14.5	44.7	-1.7	-2,681.5	100.0
2005 total	-5,155.3	64.9	-1,934.7	24.4	-1,141.6	14.4	292.0	-3.7	-7,939.6	100.0
Q1 2006	-366.6	17.9	-856.5	41.8	-855.3	41.7	27.6	-1.3	-2,050.9	100.0
Q2 2006	-2,071.9	52.0	-1,088.6	27.3	-1,059.6	26.6	238.1	-6.0	-3,982.1	100.0
Q3 2006	-2,897.8	54.4	-1,412.5	26.5	-1,386.2	26.0	373.0	-7.0	-5,323.5	100.0
Q4 2006	-540.6	23.0	-1,413.4	60.1	-518.3	22.0	121.6	-5.2	-2,350.7	100.0
2006 total	-5,876.9	42.9	-4,771.1	34.8	-3,819.4	27.9	760.3	-5.5	-13,707.1	100.0
Q1 2007	-1,289.8	37.0	-997.6	28.6	-1,365.9	39.2	164.7	-4.7	-3,488.6	100.0
Q2 2007	-6,781.1	99.0	1,839.6	-26.9	-1,671.8	24.4	-236.3	3.4	-6,849.5	100.0
Q3 2007	-1,151.5	26.4	-1,889.7	43.3	-2,430.4	55.7	1,107.7	-25.4	-4,363.8	100.0
Q4 2007	-1,378.3	46.4	-1,510.2	50.8	-433.7	14.6	352.2	-11.9	-2,970.0	100.0
2007 total	-10,334.3	57.3	-3,252.2	18.0	-5,926.8	32.9	1,480.3	-8.2	-18,033.0	100.0
Q1 2008	-800.4	18.2	-1,245.5	28.4	-2,739.9	62.4	393.4	-9.0	-4,392.4	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 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	91.0	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	934.8	1,232.5	952.4	368.9	17.9	61.2	27.9	37.1
Q1 2005	239.7	303.9	220.2	82.3	30.5	4.7	1.4	0.9
Q2 2005	378.6	195.8	649.7	312.3	29.7	2.5	2.2	7.9
Q3 2005	582.3	659.5	516.6	387.0	44.3	13.2	58.9	0.5
Q4 2005	941.2	329.5	324.0	325.8	5.2	40.4	42.4	15.6
2005 total	2,141.8	1,488.6	1,710.6	1,107.4	109.6	60.7	104.9	25.0
Q1 2006	767.9	500.6	329.0	482.7	78.8	20.4	2.1	0.4
Q2 2006	864.1	269.5	340.9	523.4	0.6	51.4	2.9	0.4
Q3 2006	2,432.4	527.6	294.5	267.1	20.3	20.5	9.4	4.0
Q4 2006	1,331.5	1,074.8	598.9	352.9	18.9	20.3	132.6	15.7
2006 total	5,395.8	2,372.4	1,563.4	1,626.1	118.6	112.7	147.0	20.5
Q1 2007	1,052.9	146.9	267.6	287.0	13.9	24.5	59.6	30.0
Q2 2007	1,464.5	954.2	605.8	235.3	2.8	56.6	163.5	8.6
Q3 2007	3,092.8	304.9	566.7	531.7	11.5	19.3	1,048.0	30.9
Q4 2007	838.2	631.4	619.3	364.0	72.2	14.1	399.3	39.9
2007 total	6,448.4	2,037.4	2,059.3	1,418.0	100.4	114.6	1,670.4	109.3
Q1 2008	2,725.0	741.1	382.8	444.7	141.7	49.5	203.8	308.5

Direct investment abroad registered an increase of 1.4 billion kroons quarter-on-quarter and 0.8 billion kroons year-on-year (see Table 27). Equity capital investment formed approximately 20% of the outflow, proprietary income accounted for 28% and the rest was other direct investment capital. Other capital assets exceeded liabilities by 2.3 billion kroons. The loan liabilities of subsidiaries and affiliated companies grew by 1.9 billion kroons, with most of them being long-term liabilities. The loan liabilities of Estonian investors to foreign subsidiaries and affiliated companies remained unchanged quarter-on-quarter. The biggest net lenders and borrowers were financial intermediation enterprises (see Table 28).

Two-fifths of the direct investment outflow went to Lithuania. Substantial amounts went also to Latvia (19%) and Ukraine (12%; see Figure 15). The biggest investment were made by financial intermediation (47%) and other business activity (20%) investors (see Figure 16). 90% of the outflow remained in the EU and 11% went to the CIS countries. As regards other countries, the inflow of direct investment exceeded the outflow (see Table 29).

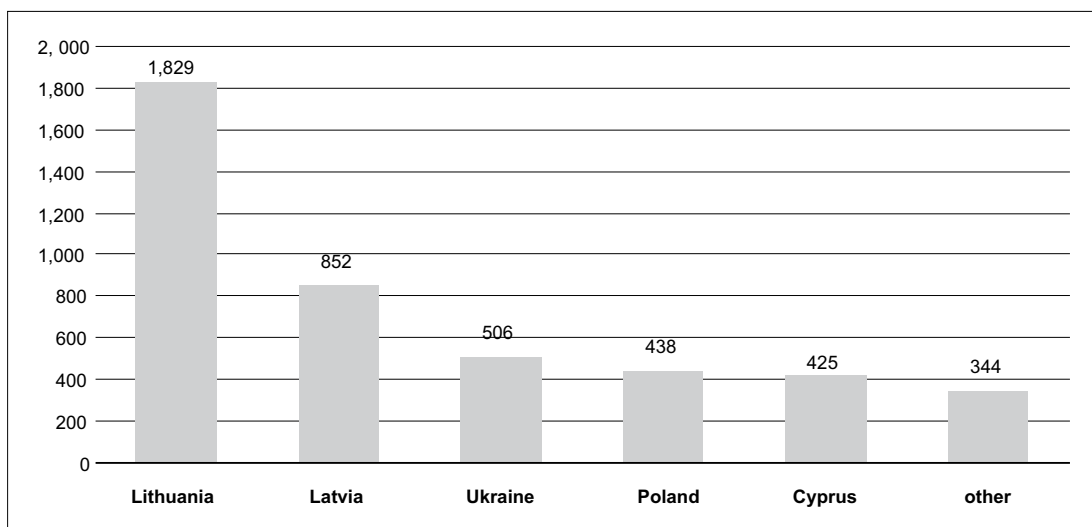


Figure 15. Direct investment abroad by countries in the first quarter of 2008 (EEK m)

Table 29. Direct investment abroad by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	Q4 2007	Q1 2008	Q4 2007	Q1 2008	Q1 2008 / Q4 2007
EU-27	-2,357.3	-3,947.1	79.4	89.9	67.4
CIS	-458.1	-462.6	15.4	10.5	1.0
Other	-154.6	17.3	5.2	-0.4	-111.2
Total	-2,970.0	-4,392.4	100.0	100.0	47.9



Figure 16. Direct investment abroad by fields of activity in the first quarter of 2008 (EEK m)

Portfolio investment

In the first quarter of 2008, the net inflow of portfolio investment constituted 572 million kroons. This stemmed from a decline in the investment of other sectors' enterprises in equity securities and a decrease in the assets of credit institutions into debt securities. The equity security liabilities of enterprises in other sectors declined as well (see Figure 17 and Table 30).

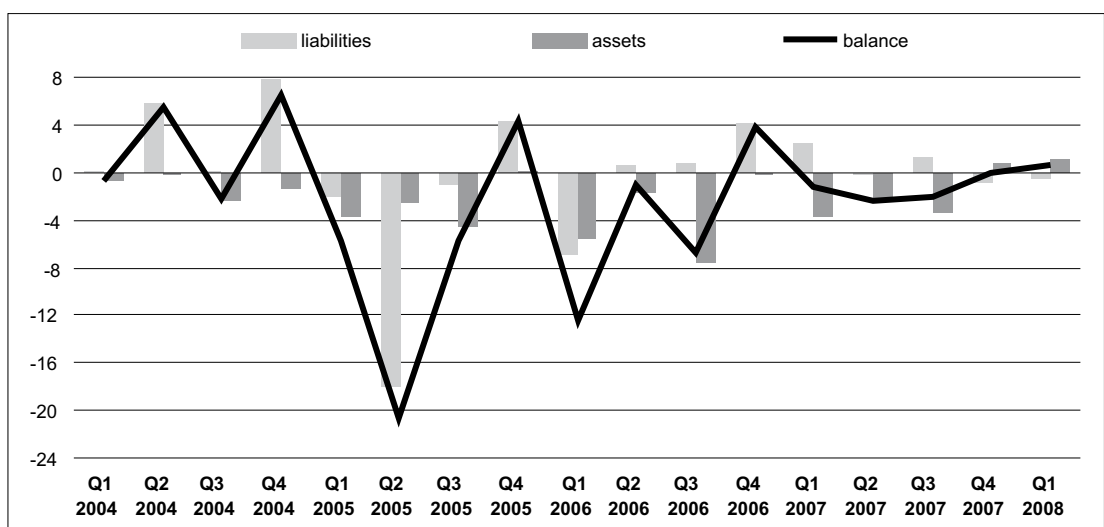


Figure 17. Portfolio investment (EEK bn)

Portfolio investment liabilities decreased by 540 million kroons in the first quarter of 2008 (see Table 31). Like in the previous quarter, the decrease took place on account of the liabilities of equity securities, which decreased by a billion kroons altogether. The equity security liabilities of enterprises in other sectors dropped by 421 million kroons and the equity security liabilities of other financial intermediaries by 591 million kroons. Debt security liabilities, on the other hand, grew by 474 million kroons with the 448 million kroon increase in bond liabilities playing the main role here. Money market

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

	Assets			Liabilities			Balance		
	Q1 2007	Q4 2007	Q1 2008	Q1 2007	Q4 2007	Q1 2008	Q1 2007	Q4 2007	Q1 2008
Equity securities	-2,197.1	-129.9	1,382.5	3,162.6	-1,667.7	-1,013.3	965.5	-1,797.6	369.2
central bank									
general government	2.9	-5.5	41.3				2.9	-5.5	41.3
credit institutions	63.7	-58.1	75.4	19.1		-21.9	82.8	-58.1	53.5
other sectors	-2,263.7	-66.2	1,265.7	3,143.6	-1,667.6	-991.4	879.9	-1,733.8	274.3
Debt securities	-1,469.6	950.9	-271.1	-708.6	723.3	473.5	-2,178.2	1,674.2	202.4
central bank									
general government	-545.8	-1,016.3	-804.0	31.0	373.2	19.0	-514.8	-643.1	-785.0
credit institutions	-241.2	1,677.9	1,339.7	-1,092.5	369.2	-0.5	-1,333.7	2,047.1	1,339.2
other sectors	-682.8	289.3	-806.6	352.8	-19.2	455.0	-330.0	270.1	-351.6
Total	-3,666.8	821.0	1,111.5	2,454.0	-944.4	-539.8	-1,212.8	-123.4	571.7

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 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	706.9	340.0	-499.0	-240.0	207.9	100.0
Q4 2004	891.4	11.4	6,939.1	88.6	7,830.4	100.0
2004 total	2,205.2	15.9	11,673.0	84.1	13,878.1	100.0
Q1 2005	-9,946.1	467.3	7,817.8	-367.3	-2,128.4	100.0
Q2 2005	-9,640.0	53.5	-8,371.2	46.5	-18,011.2	100.0
Q3 2005	483.6	-45.2	-1,552.4	145.2	-1,068.8	100.0
Q4 2005	2,750.3	63.4	1,588.1	36.6	4,338.4	100.0
2005 total	-16,352.2	96.9	-517.7	3.1	-16,870.0	100.0
Q1 2006	-498.4	7.3	-6,355.5	92.7	-6,854.0	100.0
Q2 2006	499.6	79.7	127.2	20.3	626.7	100.0
Q3 2006	839.2	100.0	-0.3	-0.0	839.0	100.0
Q4 2006	2,890.0	70.2	1,227.0	29.8	4,117.0	100.0
2006 total	3,730.4	-293.4	-5,001.6	393.4	-1,271.3	100.0
Q1 2007	3,162.6	128.9	-708.6	-28.9	2,454.0	100.0
Q2 2007	909.2	-554.1	-1,073.3	654.1	-164.1	100.0
Q3 2007	811.6	58.9	566.7	41.1	1,378.3	100.0
Q4 2007	-1,667.7	176.6	723.3	-76.6	-944.4	100.0
2007 total	3,215.7	118.1	-491.9	-18.1	2,723.8	100.0
Q1 2008	-1,013.3	187.7	473.5	-87.7	-539.8	100.0

instruments related liabilities grew by 26 million kroons. By countries, portfolio investment liabilities to the United Kingdom, Latvia, the Netherlands, Finland and Luxembourg decreased the most (see Figure 18 and Table 32).

Portfolio investment assets (see Table 33) decreased 1.1 billion kroons in the given period. This was primarily due to the 1.4 billion kroon decrease in the assets of equity securities caused by other sectors (investment funds). The assets of debt securities increased by 271 million kroons. The general government invested 804 million kroons in debt securities issued by non-residents and enterprises in other sectors invested 807 million kroons. By countries, residents' portfolio investment to Austria, Denmark, Germany, Spain and the United Kingdom dropped the most (see Figure 19).

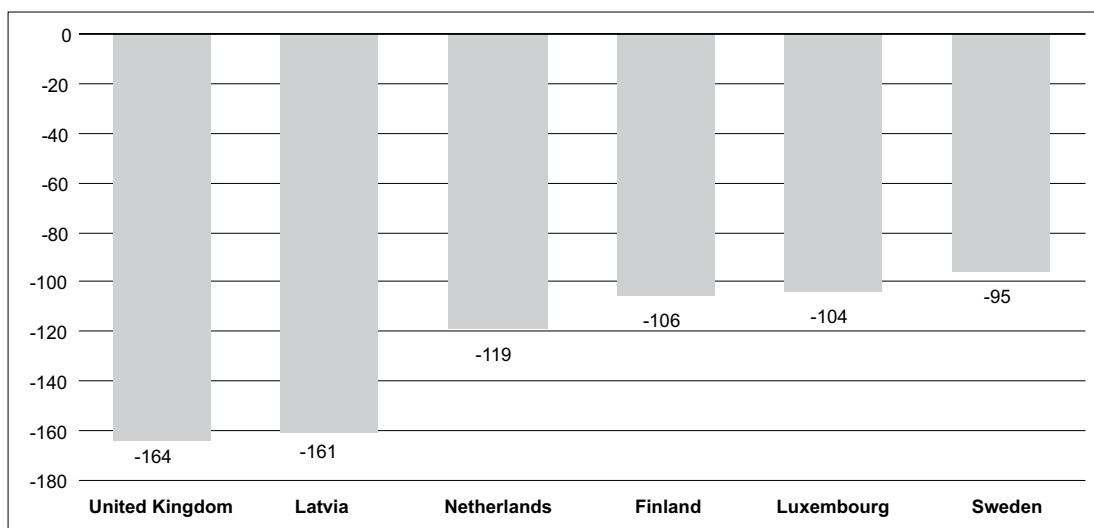


Figure 18. Increase in portfolio investment liabilities by countries in the first quarter of 2008 (EEK m)

Table 32. Structure of portfolio investment by groups of countries

	Volume (EEK m)		Share (%)	
	Assets	Liabilities	Assets	Liabilities
EU-27	948.5	-662.5	85.3	122.7
CIS	9.3	5.3	0.8	-1.0
Other	153.7	117.4	13.8	-21.7
Total	1,111.5	-539.8	100.0	100.0

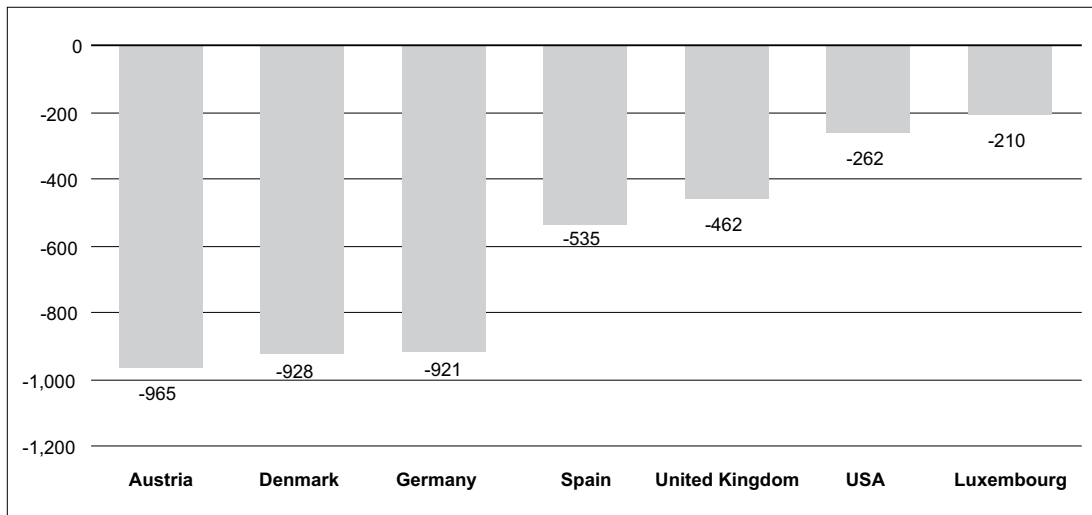


Figure 19. Increase in portfolio investment assets by countries in the first quarter of 2008 (EEK m)

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 2004	-441.6	57.5	-326.2	42.5	-767.7	100.0
Q2 2004	-565.5	307.8	381.7	-207.8	-183.7	100.0
Q3 2004	-544.6	22.3	-1,898.4	77.7	-2,443.1	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	-4,775.7	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	-1,231.6	22.0	-4,375.5	78.0	-5,607.1	100.0
Q2 2006	-1,057.9	60.9	-679.6	39.1	-1,737.5	100.0
Q3 2006	-670.7	8.9	-6,905.6	91.1	-7,576.2	100.0
Q4 2006	-1,607.6	565.3	1,323.2	-465.3	-284.4	100.0
2006 total	-4,567.8	30.0	-10,637.5	70.0	-15,205.2	100.0
Q1 2007	-2,197.1	59.9	-1,469.6	40.1	-3,666.8	100.0
Q2 2007	-2,831.2	124.1	550.6	-24.1	-2,280.5	100.0
Q3 2007	-2,439.0	72.6	-918.6	27.4	-3,357.7	100.0
Q4 2007	-129.9	-15.8	950.9	115.8	821.0	100.0
2007 total	-7,597.2	89.5	-886.7	10.5	-8,484.0	100.0
Q1 2008	1,382.5	124.4	-271.1	-24.4	1,111.5	100.0

Other investment

The net inflow of other investment reached 3.4 billion kroons in the first quarter, mostly owing to an increase in Estonian credit institutions' loan liabilities and a decline in deposits-related liabilities (see Figure 20 and Table 34).

Other investment liabilities grew by a total of 4.1 billion kroons (see Table 35). In the liabilities structure there occurred an approximately 20 billion kroon transfer of deposits-related liabilities into loan liabilities, causing the loan capital balance to increase substantially compared with previous quarters (see Table 38). Leaving aside the impact of reclassification, the loan liabilities of credit institutions grew by 1.9 billion kroons, which came mainly from foreign parent banks. Credit institutions deposits related liabilities grew by 3.2 billion kroons. In other sectors, loan liabilities related to long-term capital

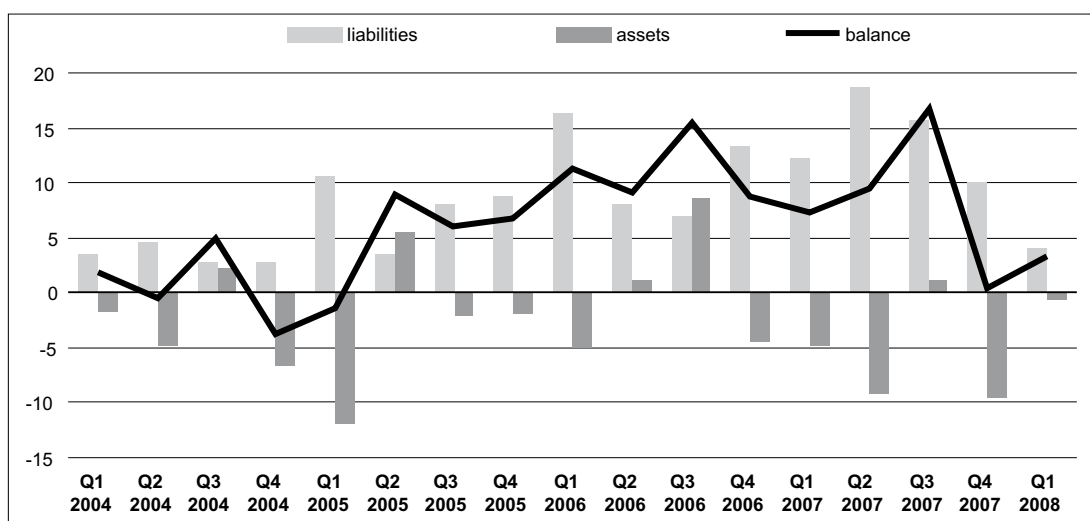


Figure 20. Other investment (EEK bn)

Table 34. Other investment by maturity (EEK m)

	Assets			Liabilities			Balance		
	Q1 2007	Q4 2007	Q1 2008	Q1 2007	Q4 2007	Q1 2008	Q1 2007	Q4 2007	Q1 2008
Long-term capital	-758.5	-1,004.4	-753.6	5,603.8	5,569.1	21,355.4	4,845.3	4,564.7	20,601.8
central bank	0.1		3.5						
general government	-56.5	-40.6	-64.3	31.5	-25.4	15.0	-25.0	-66.0	-49.3
credit institutions	-336.2	-433.7	-331.7	4,662.4	4,634.0	22,685.0	4,326.2	4,200.3	22,353.3
other sectors	-365.9	-530.1	-361.1	909.9	960.5	-1,344.6	544.0	430.4	-1,705.7
Short-term capital	-4,060.5	-8,644.7	14.3	6,524.0	4,547.4	-17,251.4	2,463.5	-4,097.3	-17,237.1
central bank				1,250.7	-1,754.2	-4.3	1,250.7	-1,754.2	-4.3
general government	10.8	18.9	-380.4						
credit institutions	4.4	-9,717.8	1,631.9	5,217.4	6,417.8	-18,495.8	5,221.8	-3,300.0	-16,863.9
other sectors	-4,075.7	1,054.2	-1,237.2	55.9	-116.2	1,248.7	-4,019.8	938.0	11.5
Total	-4,819.0	-9,649.1	-739.3	12,127.8	10,116.5	4,104.0	7,308.8	467.4	3,364.7

decreased by 1.3 billion kroons. Liabilities related to short-term capital in other sectors grew by 1.2 billion kroons of which 552 million kroons was an increase in trade credit liabilities and 582 million the growth of short-term loan liabilities. By countries, other investment liabilities to Sweden, Finland Denmark and Ireland increased the most (see Figure 21 and Table 36).

Table 35. Structure of other investment liabilities

	Trade credit		Loans		Deposits		Other capital		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
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	2,797.8	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	13,715.2	100.0
Q1 2005	617.1	5.8	5,172.6	49.0	1,326.0	12.6	3,444.7	32.6	10,560.4	100.0
Q2 2005	1,103.9	32.2	1,515.1	44.1	2,694.0	78.5	-1,881.0	-54.8	3,432.0	100.0
Q3 2005	753.0	9.3	13,601.0	167.6	-5,790.8	-71.4	-448.3	-5.5	8,114.9	100.0
Q4 2005	-840.6	-9.7	4,385.2	50.4	4,724.1	54.3	424.7	4.9	8,693.5	100.0
2005 total	1,633.4	5.3	24,673.9	80.1	2,953.3	9.6	1,540.1	5.0	30,800.8	100.0
Q1 2006	-416.2	-2.6	9,328.6	57.2	5,605.6	34.4	1,798.4	11.0	16,316.3	100.0
Q2 2006	1,366.4	17.2	2,131.6	26.8	5,183.6	65.1	-718.1	-9.0	7,963.5	100.0
Q3 2006	1,731.9	25.3	383.9	5.6	5,022.7	73.3	-283.1	-4.1	6,855.4	100.0
Q4 2006	503.4	3.8	7,387.1	55.9	5,269.2	39.8	66.5	0.5	13,226.3	100.0
2006 total	3,185.5	7.2	19,231.2	43.4	21,081.1	47.5	863.7	1.9	44,361.5	100.0
Q1 2007	-813.1	-6.7	7,996.3	65.9	4,355.5	35.9	589.0	4.9	12,127.7	100.0
Q2 2007	1,803.7	9.7	15,173.2	81.2	1,359.4	7.3	350.6	1.9	18,686.8	100.0
Q3 2007	-1,026.8	-6.5	9,901.7	63.1	7,805.5	49.7	-984.1	-6.3	15,696.2	100.0
Q4 2007	-247.8	-2.4	4,816.0	47.6	5,355.1	52.9	193.0	1.9	10,116.3	100.0
2007 total	-284.0	-0.5	37,887.2	66.9	18,875.5	33.3	148.5	0.3	56,627.0	100.0
Q1 2008	551.7	13.4	22,254.2	542.2	-18,686.3	-455.3	-15.5	-0.4	4,104.1	100.0

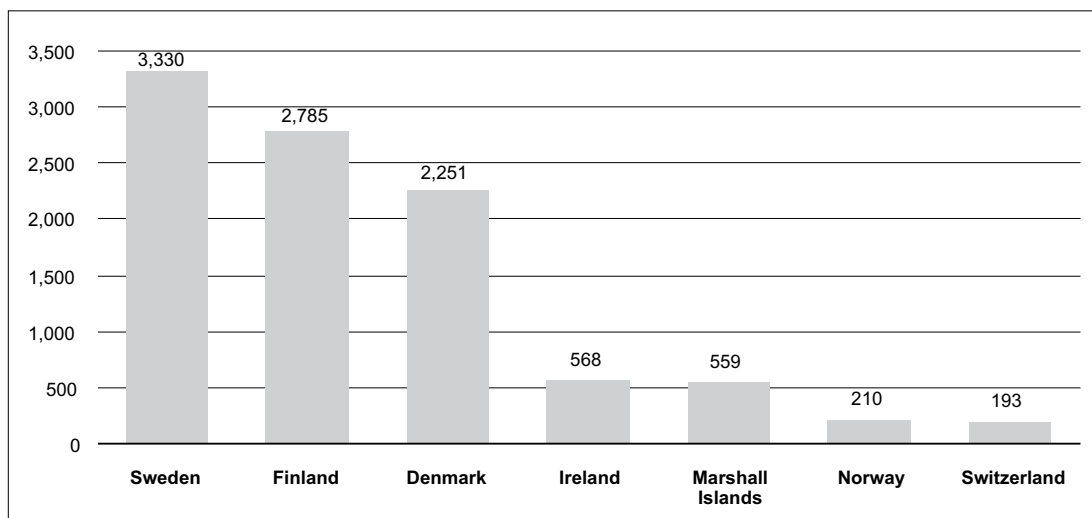


Figure 21. Increase in other investment liabilities by countries in the first quarter of 2008 (EEK m)

Other investment assets rose by 739 million kroons in the first quarter of 2008 (see Table 37). This was mainly caused by an increase in the assets related to loan assets and trade credit, both of which grew by a billion kroons and were mainly associated with enterprises in other sectors, where loan assets rose by 868 million kroons and trade credit related assets by 688 million kroons. The loan assets of credit institutions grew by 332 million kroons in the form of long-term loans. The assets of total deposits declined by 1.3 billion kroons. By countries, investment assets to Denmark rose the most, followed by Austria, France, Cyprus and Poland (see Figure 22). Table 38 provides a more detailed overview of loan capital assets and liabilities.

Table 36. Structure of other investment by groups of countries in the first quarter of 2008

	Volume (EEK m)		Share (%)	
	Assets	Liabilities	Assets	Liabilities
EU-27	-2,401.1	5,984.1	324.8	145.8
CIS	-126.8	138.0	17.2	3.4
Other	1,788.7	-2,018.0	-242.0	-49.2
Total	-739.2	4,104.1	100.0	100.0

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 2004	-161.9	9.2	-1,010.0	57.3	-374.9	21.3	-217.0	12.3	-1,763.9	100.0
Q2 2004	-571.9	11.6	-2,436.1	49.5	-490.6	10.0	-1,419.8	28.9	-4,918.3	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	-6,649.6	100.0
2004 total	-1,032.0	9.2	-8,455.6	75.7	-1,545.1	13.8	-136.2	1.2	-11,168.8	100.0
Q1 2005	-832.8	7.0	-2,862.2	24.0	-3,745.7	31.4	-4,474.2	37.6	-11,914.9	100.0
Q2 2005	-757.4	-14.0	-3,418.4	-63.1	5,582.9	103.0	4,013.0	74.0	5,420.1	100.0
Q3 2005	-1,488.3	70.8	1,405.9	-66.9	-2,145.3	102.0	125.2	-6.0	-2,102.5	100.0
Q4 2005	1,121.4	-60.4	9,023.1	-485.9	-12,024.2	647.5	22.7	-1.2	-1,857.0	100.0
2005 total	-1,957.1	18.7	4,148.4	-39.7	-12,332.3	118.0	-313.3	3.0	-10,454.3	100.0
Q1 2006	-369.5	7.3	-2,328.7	46.1	-1,909.8	37.8	-442.4	8.8	-5,050.4	100.0
Q2 2006	-1,894.3	-168.2	1,771.7	157.3	1,272.9	113.0	-23.8	-2.1	1,126.5	100.0
Q3 2006	-322.1	-3.7	-614.5	-7.2	9,491.2	110.5	37.3	0.4	8,591.9	100.0
Q4 2006	-943.0	21.5	-1,324.4	30.2	-2,569.9	58.5	444.7	-10.1	-4,392.7	100.0
2006 total	-3,528.9	-1,281.8	-2,495.9	-906.6	6,284.4	2,282.7	15.8	5.7	275.3	100.0
Q1 2007	-214.8	4.5	-1,136.8	23.6	-3,218.6	66.8	-248.8	5.2	-4,819.0	100.0
Q2 2007	-604.0	6.6	-5,001.2	54.3	-2,183.8	23.7	-1,424.5	15.5	-9,213.6	100.0
Q3 2007	-739.5	-69.5	1,273.0	119.6	-902.9	-84.8	1,433.8	134.7	1,064.4	100.0
Q4 2007	733.1	-7.6	-5,224.9	54.1	-4,810.8	49.9	-346.5	3.6	-9,649.2	100.0
2007 total	-825.2	3.6	-10,089.9	44.6	-11,116.1	49.1	-586.0	2.6	-22,617.4	100.0
Q1 2008	-1,038.8	140.5	-1,038.3	140.5	1,278.4	-172.9	59.4	-8.0	-739.2	100.0

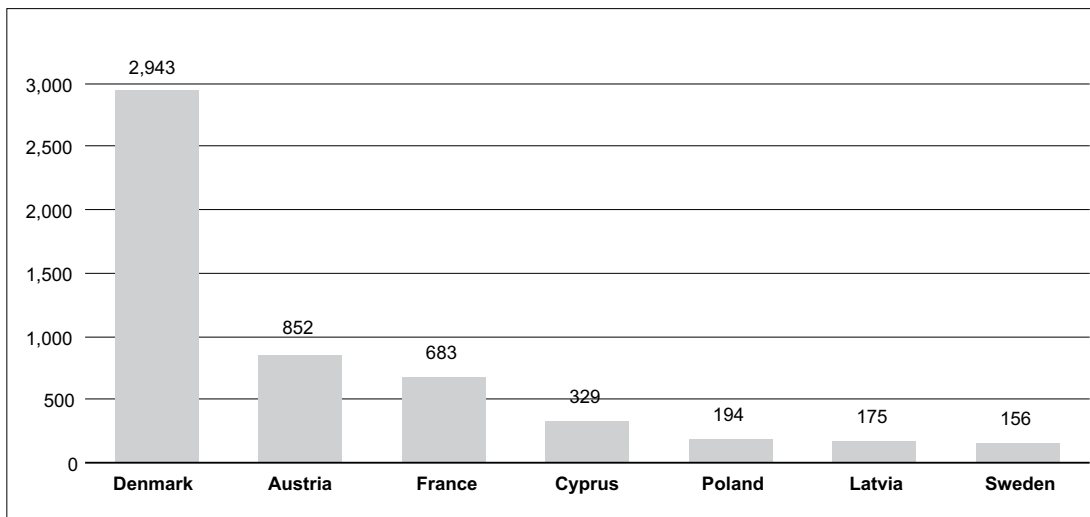


Figure 22. Increase in other investment assets by countries in the first quarter of 2008 (EEK m)

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

	Assets			Liabilities		
	Grantings	Repayments	Balance	Drawings	Repayments	Balance
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	-2,436.1	10,151.5	-10,118.9	32.5
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	-8,455.6	45,446.8	-40,882.1	4,564.6
Q1 2005	-13,043.5	10,181.3	-2,862.2	16,454.1	-11,281.6	5,172.6
Q2 2005	-6,872.6	3,454.2	-3,418.4	23,181.1	-21,666.0	1,515.1
Q3 2005	-19,205.2	20,611.1	1,405.9	40,909.3	-27,308.3	13,601.0
Q4 2005	-38,435.7	47,458.8	9,023.1	44,892.6	-40,507.4	4,385.2
2005 total	-77,557.0	81,705.4	4,148.4	125,437.1	-100,763.3	24,673.9
Q1 2006	-24,363.2	22,034.6	-2,328.7	40,351.8	-31,023.2	9,328.6
Q2 2006	-5,514.4	7,286.1	1,771.7	38,396.8	-36,265.2	2,131.6
Q3 2006	-4,097.5	3,483.0	-614.5	41,859.0	-41,475.0	383.9
Q4 2006	-42,001.4	40,677.0	-1,324.4	62,259.9	-54,872.8	7,387.1
2006 total	-75,976.5	73,480.7	-2,495.9	182,867.5	-163,636.2	19,231.2
Q1 2007	-53,466.9	52,330.2	-1,136.8	72,446.2	-64,449.9	7,996.3
Q2 2007	-90,414.2	85,413.0	-5,001.2	96,775.0	-81,601.8	15,173.2
Q3 2007	-116,748.6	118,021.6	1,273.0	109,856.4	-99,954.7	9,901.7
Q4 2007	-135,848.4	130,623.5	-5,224.9	84,583.5	-79,767.5	4,816.0
2007 total	-396,478.1	386,388.3	-10,089.9	363,661.1	-325,773.9	37,887.2
Q1 2008	-112,292.2	111,253.9	-1,038.3	125,260.3	-103,006.1	22,254.2

Reserve assets

The balance of payments reserves increased by 1.9 billion kroons in the first quarter of 2008 (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 (%)		
	Q1 2007	Q4 2007	Q1 2008	Q1 2007	Q4 2007	Q1 2008
Gold				0,0	0,0	0,0
Currency and deposits	1,141.1	6,896.9	-3,760.9	155.6	206.9	194.3
Securities	-406.1	-3,460.0	1,757.3	-55.4	-103.8	-90.8
equity securities				0.0	0.0	0.0
bonds and notes	-1921.1	-1630.5	1112.2	-262.0	-48.9	-57.5
money market instruments	1515.0	-1829.5	645.1	206.6	-54.9	-33.3
Financial derivatives	0.1	1.9	0.7	0.0	0.1	-0.0
Other assets	-1.8	-105.8	67.7	-0.2	-3.2	-3.5
Total	733.3	3,333.1	-1,935.2	100.0	100.0	100.0

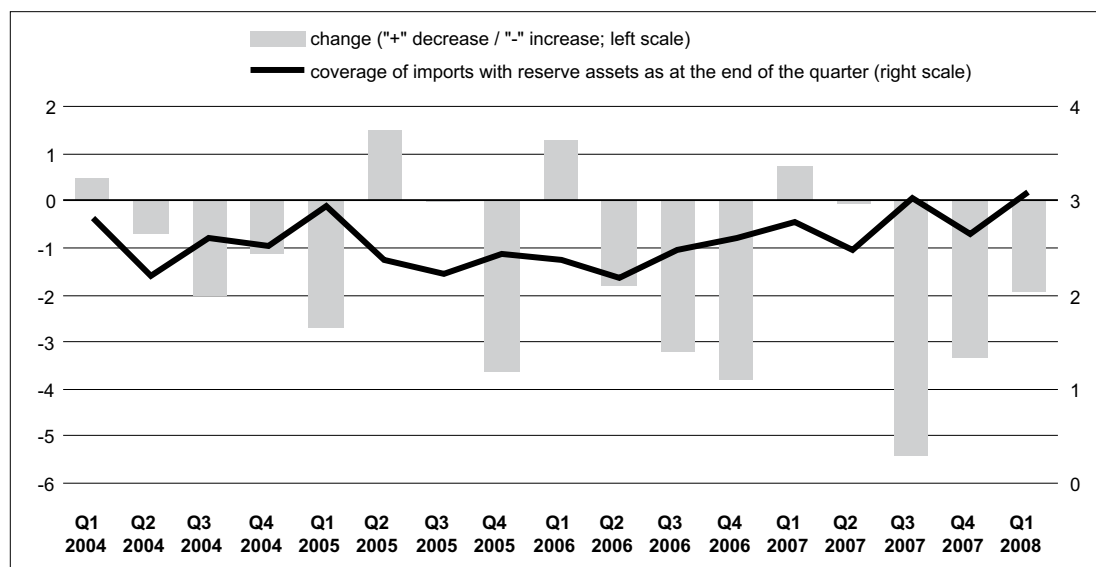


Figure 23. Changes in Estonia's gold and foreign exchange reserves (EEK bn) and coverage of imports of goods without further processing (by months)

ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND GROSS EXTERNAL DEBT as at 31 March 2008

In the first quarter of 2008, foreign investment in Estonia increased by 2% and amounted to 429 billion kroons at the end of the quarter (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 investment in Estonia came from Sweden (39%) and Finland (19%).

The structure of Estonia's foreign investment position did not change considerably in the first quarter. The position of foreign direct investment grew by nearly 4% and accounted for 43% of total investment in Estonia. Growth in the inflow of other capital (loans and deposits) started to decrease

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

	31/12/2007	%	31/3/2008	%
EXTERNAL ASSETS	242,452.3	100.0	244,439.1	100.0
Direct investment abroad	63,681.1	35.9	68,044.7	37.0
Equity capital and reinvested earnings	50,291.7	28.4	52,309.3	28.5
Other direct investment capital	13,389.4	7.6	15,735.5	8.6
Portfolio investment	68,787.1	38.8	63,465.7	34.5
Equity securities	31,253.5	17.6	25,783.6	14.0
Debt securities	37,533.7	21.2	37,682.1	20.5
Bonds and notes	23,503.3	13.3	25,294.5	13.8
Money market instruments	14,030.4	7.9	12,387.6	6.7
Financial derivatives	1,466.5	0.8	930.4	0.5
Other investment	73,492.4	41.4	74,931.9	40.8
Trade credit	14,831.4	8.4	16,547.8	9.0
Loans	31,632.3	17.8	32,394.7	17.6
Long-term	9,723.9	5.5	10,264.3	5.6
Short-term	21,908.3	12.4	22,130.3	12.0
Currency and deposits	25,271.9	14.3	24,093.7	13.1
Other assets	1,756.9	1.0	1,895.8	1.0
Reserve assets	35,025.1	19.8	37,066.3	20.2
EXTERNAL LIABILITIES	422,011.3	100.0	428,965.3	100.0
Direct investment in Estonia	177,311.3	-104.3	183,770.1	-95.1
Equity capital and reinvested earnings	150,657.2	-88.6	155,881.8	-80.7
Other direct investment capital	26,654.1	-15.7	27,888.3	-14.4
Portfolio investment	48,809.5	-28.7	43,946.3	-22.7
Equity securities	25,858.2	-15.2	20,520.1	-10.6
Debt securities	22,951.3	-13.5	23,426.2	-12.1
Bonds and notes	22,886.6	-13.5	23,312.6	-12.1
Money market instruments	64.7	-0.0	113.6	-0.1
Financial derivatives	502.9	-0.3	493.0	-0.3
Other investment	195,387.5	-114.9	200,756.0	-103.9
Trade credit	13,541.4	-8.0	14,438.7	-7.5
Loans	110,910.6	-65.2	135,184.6	-70.0
Long-term	89,889.6	-52.9	113,338.3	-58.7
Short-term	21,021.0	-12.4	21,846.3	-11.3
Currency and deposits	68,358.3	-40.2	48,601.8	-25.2
Other liabilities	2,577.2	-1.5	2,530.9	-1.3
NET INVESTMENT POSITION	-179,559.0		-184,526.3	
Long-term	-170,063.6		-193,213.1	
Short-term	-9,495.4		8,686.9	

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

Assets			Liabilities		
Fields of activity					
	31/12/2007	31/3/2008		31/12/2007	31/3/2008
Financial intermediation	63.5	61.4	Financial intermediation	59.1	58.6
Real estate, renting and business activities	10.2	11.3	Real estate, renting and business activities	13.3	14.6
Public administration and defence; statutory social insurance	9.0	9.4	Wholesale and retail trade; repair	8.6	8.2
Wholesale and retail trade; repair	6.9	6.8	Manufacturing	8.0	7.9
Transport, storage and communications	3.8	4.3	Transport, storage and communications	4.5	4.3
Other	6.6	6.8	Other	6.5	6.4
Total	100.0	100.0	Total	100.0	100.0
Countries					
	31/12/2007	31/3/2008		31/12/2007	31/3/2008
Latvia	11.6	11.9	Sweden	38.4	39.2
Lithuania	9.9	10.5	Finland	19.8	19.3
Germany	11.4	10.4	United Kingdom	7.1	6.9
United Kingdom	7.6	8.3	Denmark	5.7	6.5
Russia	7.1	6.7	Netherlands	2.6	3.0
Other	52.4	52.2	Other	26.4	25.1
Total	100.0	100.0	Total	100.0	100.0

in the second half of 2007 and continued to slow also in the first quarter of 2008. Quarter-on-quarter, inflow increased 3% and constituted 47% of total external liabilities. The portfolio investment position decreased 10% and accounted for 10% of total investment. The most preferred fields of activity for **foreign direct investment in Estonia** were financial intermediation (33%), real estate, renting and business activities (28%), manufacturing (15%), and wholesale and retail trade (13%; see Table 42). 40% of direct investment came from Sweden and approximately 25% from Finland.

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

In Estonia			Abroad		
Fields of activity					
	31/12/2007	31/3/2008		31/12/2007	31/3/2008
Financial intermediation	33.2	32.5	Financial intermediation	40.0	39.8
Real estate, renting and business activities	26.8	28.0	Real estate, renting and business activities	31.6	34.1
Manufacturing	14.6	14.8	Transport, storage and communications	9.6	10.6
Wholesale and retail trade; repair	13.4	12.6	Wholesale and retail trade; repair	8.2	5.6
Transport, storage and communications	4.2	4.7	Manufacturing	4.4	4.1
Other	7.8	7.4	Other	6.2	5.8
Total	100.0	100.0	Total	100.0	100.0
Countries					
	31/12/2007	31/3/2008		31/12/2007	31/3/2008
Sweden	39.3	40.0	Latvia	33.6	32.3
Finland	24.9	22.9	Lithuania	30.0	30.6
Netherlands	5.6	6.4	Cyprus	7.9	8.1
Denmark	4.4	4.7	Russia	8.3	7.9
Russia	2.6	2.8	Finland	4.0	4.0
Other	23.2	23.2	Other	16.2	17.1
Total	100.0	100.0	Total	100.0	100.0

Estonian investment abroad posted modest growth with only 1% (244 billion kroons). Financial intermediaries made 61% 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 the Baltic States, Germany, the United Kingdom and Russia.

Quarter-on-quarter, the share of direct investment in the structure of investment abroad slightly increased, whereas that of portfolio investment decreased. Other investment grew only 2% and comprised nearly a third of total external assets. The portfolio investment position decreased 8%. The **position of foreign direct investment** increased 7% quarter-on-quarter and accounted for 28% of total external assets. The most active foreign direct investors were those of financial intermediation (40%) and real estate, renting and business activities (34%; see Table 42). Estonian investors preferred to invest in the neighbouring countries: about two-thirds of direct investment went to Latvia and Lithuania.

Due to the prevalence of external liabilities, Estonia's net investment position was negative by 185 billion kroons at the end of the first quarter of 2008, including primarily long-term capital.

Estonia's gross external debt increased by 3% year-on-year and amounted to 277 billion kroons at the end of the first quarter, exceeding GDP by 12%. Gross external debt was increased equally by credit institutions, other sectors as well as intercompany lending of direct investment companies. The external debt of credit institutions accounted for 56% and that of other sectors for 25% of the gross external debt. The general government debt constituted only 1% of total debt liabilities. Estonia's net external debt (assets less liabilities) increased 1% and amounted to 87 billion kroons (see Table 43 and Figure 24). The net external debt comprised 35% of GDP and remained at the end-2007 level. The gross external debt accounted for 65% of the external liabilities. Leaving aside the intercompany lending of direct investment companies, long-term debt liabilities accounted for 62% of the gross external debt. The share of long-term debt claims formed 34% of total debt claims.

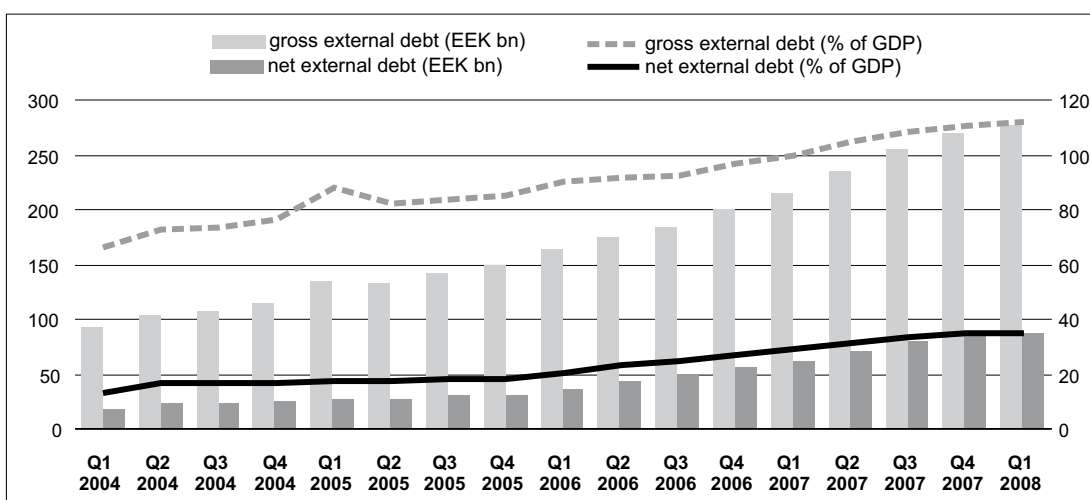


Figure 24. Estonia's gross and net external debt

Table 43. External debt (EEK m)

	31/12/2007	%	31/3/2008	%
LIABILITIES				
I. General government	3,451.5	1.3	3,484.2	1.3
Short-term		0.0		
Long-term	3,451.5	1.3	3,484.2	1.3
II. Monetary authorities (NCB)	1,316.9	0.5	1,262.0	0.5
Short-term	1,304.4	0.5	1,242.0	0.4
Long-term	12.5	0.0	20.0	0.0
III. Credit institutions	152,972.3	57.0	156,357.0	56.4
Short-term	55,628.6	20.7	57,367.5	20.7
Long-term	97,343.6	36.2	98,989.6	35.7
IV. Other sectors	60,598.2	22.6	63,079.0	22.8
Short-term	24,985.3	9.3	26,612.1	9.6
Long-term	35,612.9	13.3	36,466.9	13.2
V. Direct investment: intercompany lending	50,245.1	18.7	53,087.6	19.1
GROSS EXTERNAL DEBT	268,584.0	100.0	277,269.8	100.0
ASSETS				
I. General government	21,759.1	11.9	22,995.4	12.1
Short-term	7,279.0	4.0	7,019.7	3.7
Long-term	14,480.1	7.9	15,975.6	8.4
II. Monetary authorities (NCB)	34,889.5	19.1	36,886.9	19.4
Short-term	21,144.4	11.6	24,421.5	12.8
Long-term	13,745.1	7.5	12,465.4	6.5
III. Credit institutions	46,548.2	25.5	43,900.3	23.1
Short-term	36,711.6	20.1	34,647.1	18.2
Long-term	9,836.6	5.4	9,253.2	4.9
IV. Other sectors	42,697.8	23.3	45,700.6	24.0
Short-term	31,229.6	17.1	32,845.3	17.2
Long-term	11,468.2	6.3	12,855.2	6.8
V. Direct investment: intercompany lending	36,980.4	20.2	40,934.8	21.5
TOTAL ASSETS	182,874.9	100.0	190,418.0	100.0
NET EXTERNAL DEBT (assets less liabilities)				
I. General government	18,307.6		19,511.2	
Short-term	7,279.0		7,019.7	
Long-term	11,028.6		12,491.5	
II. Monetary authorities (NCB)	33,572.5		35,624.9	
Short-term	19,839.9		23,179.6	
Long-term	13,732.6		12,445.4	
III. Credit institutions	-106,424.1		-112,456.7	
Short-term	-18,917.0		-22,720.4	
Long-term	-87,507.1		-89,736.3	
IV. Other sectors	-17,900.4		-17,378.4	
Short-term	6,244.4		6,233.3	
Long-term	-24,144.8		-23,611.7	
V. Direct investment: intercompany lending	-13,264.7		-12,152.8	
TOTAL NET EXTERNAL DEBT	-85,709.0		-86,851.8	