

Eesti Pank
Bank of Estonia



Estonian Preliminary Balance of Payments for the Second Quarter of 2008

2008

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SHORT OVERVIEW

- A further decline in private consumption had a considerable impact on the current account deficit for the second quarter of 2008. The deficit decreased by a third compared to the same period of the previous year and comprised 10% of the second-quarter GDP (see Table 1 and Figure 1)¹. In absolute value, the deficit amounted to 6.5 billion kroons. Quarter-on-quarter, the deficit decreased 17%.
- The deficit on goods and services (the direct components of GDP) as a ratio to GDP constituted 3.4% of the second-quarter GDP and 7.7% of the GDP for the last four quarters.
- The deficit on the goods account decreased substantially, while the surplus on the services and current transfers accounts slightly increased.
- The return on foreign direct investment in Estonia remained high.
- Foreign capital inflow occurred through direct, portfolio as well as other investment.
- The balance of payments reserves increased by 3.7 billion kroons.

The easing in domestic demand, which had started in 2007 and continued also in 2008, had a considerable impact on Estonia's second-quarter foreign trade balance. The deficit on the **goods account** – the largest component in the current account deficit – decreased nearly 30% year-on-year and totalled 7.9 billion kroons. The foreign trade deficit declined from 19% to 12% as a ratio to the second-quarter GDP. The exports of goods (f.o.b.) grew 5% year-on-year and amounted to 35 billion kroons – the highest level in the years of regained independence. The imports of goods (f.o.b.) decreased 3% and totalled 43 billion kroons.

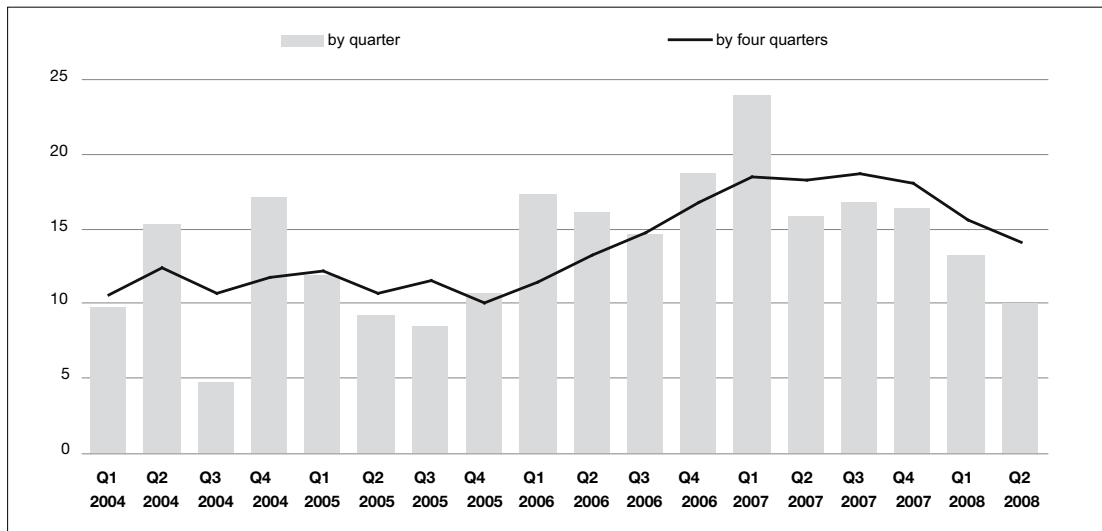


Figure 1. Current account deficit (% of GDP)

¹ With regard to the GDP for the last four quarters, the deficit was 14.1%. The current account deficit without reinvested earnings, which involve no actual movement of funds, constituted 3.3% of the second-quarter GDP and 7.1% of the GDP for the last four quarters.

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

Item	2005	2006	2007					2008	
	Total	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2
Current account	-17,371.6	-34,303.4	-13,023.3	-9,453.4	-10,219.2	-10,468.0	-43,163.9	-7,853.4	-6,524.2
Goods and services	-11,032.4	-24,231.4	-7,777.7	-6,397.9	-6,217.7	-6,567.2	-26,960.5	-4,033.4	-2,225.0
Goods	-24,134.8	-37,515.5	-10,208.0	-11,070.9	-10,748.4	-9,994.5	-42,021.7	-7,737.4	-7,943.2
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	31,645.0	34,812.3
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	-39,382.4	-42,755.5
Services	13,102.5	13,284.1	2,430.3	4,673.0	4,530.7	3,427.3	15,061.3	3,704.0	5,718.2
credit	40,228.7	43,597.9	10,195.0	13,225.8	13,789.5	12,845.0	50,055.3	11,844.9	14,180.8
debit	-27,126.2	-30,313.8	-7,764.7	-8,552.8	-9,258.8	-9,417.7	-34,994.0	-8,140.9	-8,462.6
Income	-7,124.4	-10,768.2	-5,106.4	-3,752.6	-4,610.8	-4,519.0	-17,988.8	-5,077.2	-5,250.9
credit	9,225.6	13,551.5	3,542.7	4,416.1	4,816.2	4,513.7	17,288.6	4,136.7	3,988.9
debit	-16,349.9	-24,319.8	-8,649.1	-8,168.6	-9,427.0	-9,032.6	-35,277.3	-9,213.9	-9,239.7
Transfers	785.2	696.3	-139.2	697.1	609.3	618.1	1,785.4	1,257.3	951.7
credit	5,876.7	6,503.2	1,554.2	1,805.9	2,037.7	2,620.5	8,018.3	2,951.0	2,051.0
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	-1,099.3
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	10,151.1	9,383.4
Capital account	1,325.9	4,388.5	514.5	511.4	562.4	1,117.5	2,705.9	1,244.2	496.9
Financial account	19,882.3	36,816.2	11,324.0	7,627.8	15,811.5	5,357.6	40,120.8	8,906.8	8,886.5
Direct investment	27,321.7	8,577.5	5,376.9	408.5	1,515.5	5,368.3	12,669.1	4,226.7	2,334.7
Abroad	-8,699.5	-13,824.1	-3,619.8	-7,251.9	-4,191.4	-2,970.0	-18,033.0	-4,457.1	-1,232.6
In Estonia	36,021.2	22,401.5	8,996.6	7,660.3	5,706.9	8,338.2	30,702.1	8,683.8	3,567.3
Portfolio investment	-27,688.4	-16,476.5	-1,212.7	-2,444.6	-1,979.3	-123.4	-5,760.1	473.3	2,228.5
Assets	-10,818.4	-15,205.2	-3,666.8	-2,280.5	-3,357.7	821.0	-8,483.9	1,005.2	3,100.0
Equity securities	-4,848.9	-4,567.7	-2,197.1	-2,831.2	-2,439.0	-129.9	-7,597.2	1,323.2	1,072.4
Debt securities	-5,969.5	-10,637.5	-1,469.6	550.6	-918.6	950.9	-886.7	-318.0	2,027.6
Liabilities	-16,870.0	-1,271.3	2,454.0	-164.1	1,378.3	-944.4	2,723.8	-531.9	-871.5
Equity securities	-16,352.3	3,730.3	3,162.6	909.2	811.6	-1,667.7	3,215.7	-1,010.5	-247.4
Debt securities	-517.8	-5,001.6	-708.6	-1,073.3	566.7	723.3	-491.9	478.7	-624.1
Financial derivatives	-97.6	78.5	-148.9	190.8	-485.3	-354.3	-797.8	793.5	-18.9
Assets	13.5	-180.9	-300.4	121.1	-509.5	-191.1	-879.9	814.0	-68.2
Liabilities	-111.1	259.4	151.5	69.7	24.2	-163.3	82.1	-20.5	49.2
Other investment	20,346.6	44,636.8	7,308.7	9,473.1	16,760.6	467.1	34,009.6	3,413.2	4,342.2
Assets	-10,454.2	275.3	-4,819.0	-9,213.6	1,064.4	-9,649.2	-22,617.5	-786.8	-465.2
Long-term	5,636.5	-3,052.9	-758.4	-496.3	-250.3	-1,004.4	-2,509.4	-769.6	-473.9
Short-term	-16,090.7	3,328.2	-4,060.6	-8,717.4	1,314.7	-8,644.8	-20,108.1	-17.2	8.7
Liabilities	30,800.8	44,361.5	12,127.7	18,686.8	15,696.2	10,116.3	56,627.1	4,200.1	4,807.4
Long-term	15,396.8	17,979.9	5,603.7	12,693.5	8,588.8	5,569.0	32,455.0	21,359.0	-12,539.6
Short-term	15,404.1	26,381.6	6,524.0	5,993.3	7,107.5	4,547.3	24,172.1	-17,159.0	17,347.0
Errors and omissions	1,047.3	622.6	451.4	1,369.6	-756.4	659.8	1,724.4	-362.5	877.9
Overall balance	4,883.9	7,523.9	-733.3	55.4	5,398.3	-3,333.1	1,387.3	1,935.2	3,737.1
Reserve assets	-4,883.9	-7,523.9	733.3	-55.4	-5,398.3	3,333.1	-1,387.3	-1,935.2	-3,737.1

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

The primary groups of export goods included machinery and equipment (mostly electronic products), metal products, timber and timber products, and mineral products. Electronic products were also the largest import items, followed by mineral and chemical products, and transport vehicles. Mineral products, transport vehicles and chemical products had the largest deficits on the goods account. Timber and timber products posted a surplus.

The share of Estonia's main trading partner – the European Union – comprised 70% of the exports and 81% of the imports of goods. Finland, Sweden, Russia, Latvia and the United States were the largest export partners, and Finland, Germany, Sweden, Lithuania and Latvia the major import partners.

The surplus on the **services account** was 5.7 billion kroons, having increased by a fifth year-on-year. The exports of services grew 7%, whereas imports declined 1%. Growth in the surplus on transport services – the largest type of services – increased 10%, mostly owing to passenger transport and other transport services. The surplus on freight transport declined by a fifth, primarily because of a decline in the exports of rail transport services. The services surplus was significantly boosted by travel, construction and other business services, which recorded higher export growth rates compared to imports. The share of transport, travel and other business services in both the imports and exports of services remained at the levels recorded in the second quarter of 2007 (83%).

Total exports of goods and services, which are the direct components of GDP, grew 6%, whereas imports declined 3%. Consequently, the deficit on goods and services decreased by nearly three times.

The net outflow of **income** was still large in the second quarter, totalling 5.3 billion kroons. The income earned by Estonian residents abroad decreased 10%. Nearly a fourth of Estonian residents' income earned abroad comprised labour income and the rest was investment income. Direct investment income (primarily dividends) comprised a half of residents' investment income; portfolio investment income and other investment income both accounted for a quarter. The income earned by non-residents in Estonia increased 13% and consisted mainly of investment income (97%). 70% of the latter was direct investment income, two thirds of that being reinvested earnings.

Incoming **current transfers** grew 14%, whereas outgoing transfers remained unchanged. Consequently, the surplus on current transfers increased by a third and stood at nearly 1 billion kroons.

The surplus on the **capital account** was close to the year-ago level, totalling 0.5 billion kroons.

The surplus on the **financial account** reached 8.9 billion kroons. Foreign capital inflow occurred through direct, portfolio as well as other investment.

Direct investment inflow was 2.3 billion kroons bigger than outflow in the second quarter of 2008. Foreign direct investment in Estonia amounted to 3.6 billion and Estonia's direct investment abroad to 1.2 billion kroons.

Equity capital investment and intercompany lending comprised more or less equal shares of resident's direct investment abroad. Reinvested earnings decreased considerably owing to dividend payments.

The income earned by non-residents on direct investment in Estonia and then reinvested totalled 4 billion kroons; somewhat less was invested in equity capital. Intercompany lending declined by 0.7 billion kroons.

The net inflow of **portfolio investment** amounted to 2.2 billion kroons. Portfolio investment assets decreased by 3.1 billion and liabilities by 0.9 billion kroons. The decrease in assets was primarily driven by the general government (debt securities) and investment funds (equity securities). Both the credit institutions and financial intermediaries reduced their liabilities. Transactions were made primarily with debt securities.

The turnover of **financial derivatives** was modest, with inflow and outflow being almost balanced.

The net inflow of **other investment** amounted to 4.3 billion kroons. Assets increased by 0.5 billion and liabilities by 4.8 billion kroons. Liabilities largely grew as a result of an increase in non-residents' currency and deposits held with Estonian credit institutions.

The balance of payments reserves increased by 3.7 billion kroons.

CURRENT ACCOUNT

A further easing in private consumption in the second quarter of 2008 brought along a considerable decrease in the current account deficit of Estonia's balance of payments. Year-on-year, the deficit declined by a third and accounted for 10% of the second-quarter GDP (see Figures 1 and 2). With regard to the GDP for the last four quarters, the deficit was 14.1%. The decline was primarily caused by a decrease in the deficit on the goods account and, to a lesser extent, by an increase in the surpluses on services and transfers accounts. The deficit on goods and services (the direct components of GDP) constituted only 3.4% of the second-quarter GDP and 7.7% of the GDP for the last four quarters.

Estonia mostly trades with EU countries, who comprised 73% of the second-quarter credit turnover and 83% of the debit turnover (see Table 2). Finland, Sweden, Latvia and Lithuania were the four major trade partners both in the credit and debit turnover (in slightly different order). Russia was the fifth biggest partner in terms of credit turnover and Germany in debit turnover. The five major partner countries accounted for 55% of the credit turnover and 58% of the debit turnover.

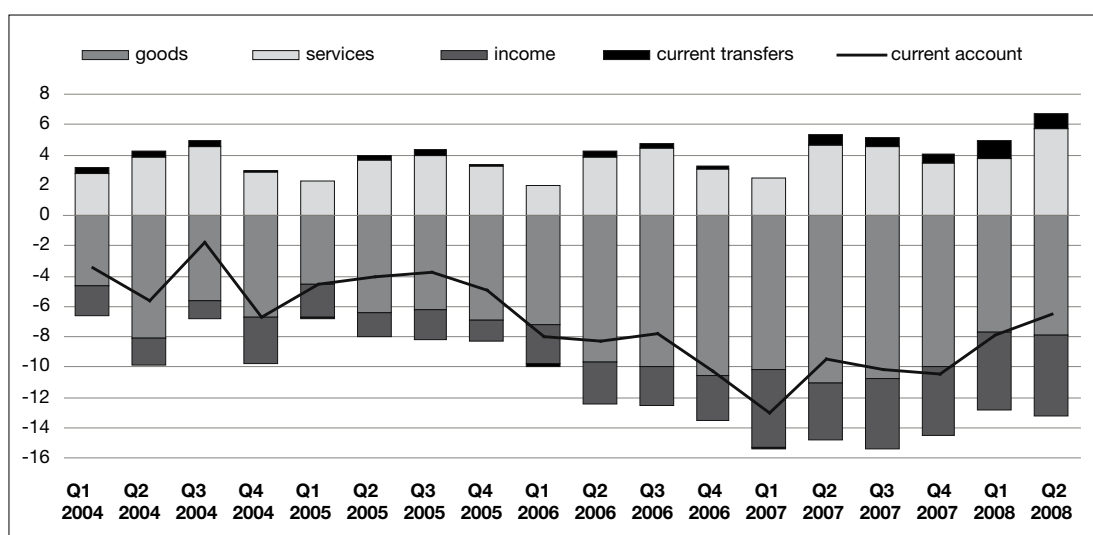


Figure 2. Current account structure (EEK bn)

Goods

The goods account deficit of the balance of payments amounted to 8 billion kroons in the second quarter of 2008. Quarter-on-quarter the deficit grew only marginally, whereas year-on-year it decreased 28%, i.e. by 3 billion kroons (see Table 3). The exports of goods reached a record 35 billion kroons, having increased 5% year-on-year. The imports of goods (f.o.b.) decreased 3% and totalled 43 billion kroons.

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

	Q2 2007	Q1 2008	Q2 2008
EU-27	-11,330.5	-10,334.2	-10,848.3
Germany	-3,882.4	-3,495.6	-3,809.8
Sweden	-3,371.2	-4,120.7	-3,717.2
Lithuania	-228.2	-483.5	-1,755.5
Finland	-548.9	1,278.9	1,550.4
Poland	-1,384.2	-1,223.8	-1,051.6
CIS	-2,398.1	294.3	508.1
Russia	-1,588.6	665.8	1,353.2
Belarus	-600.7	-450.9	-1,055.7
Ukraine	-145.0	-0.5	184.4
Other	4,275.2	2,186.5	3,816.0
United States	1,516.4	307.8	1,746.3
Norway	989.0	1,071.8	1,362.8
China	-616.1	-567.6	-725.2
Switzerland	518.4	258.8	378.8
Nigeria	2.8	208.0	252.9
Total	-9,453.4	-7,853.4	-6,524.2

* 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	31,645.0	-4.4	72.8	39,382.4	-8.6	82.9	-7,737.4
Q2 2008	34,812.3	10.0	71.1	42,755.5	8.6	83.5	-7,943.2

According to the preliminary foreign trade statistics², goods exports totalled 34.5 billion and imports in c.i.f. prices 44.5 billion kroons (see Figure 3). The foreign trade deficit remained unchanged in the second quarter, unlike in the first quarter when it had decreased to 10 billion kroons.

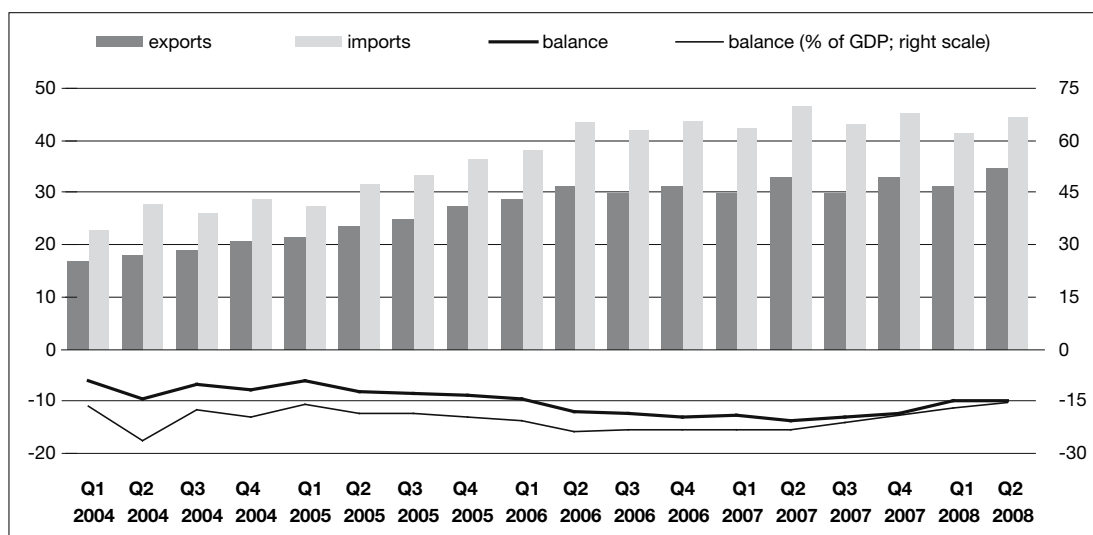


Figure 3. Estonia's foreign trade balance (EEK bn)

The structure of **goods exports** has changed substantially over the year. Although machinery and equipment were still the largest export item with exports growing 13%, the increase in total goods exports was largely due to metal products. Their exports grew 40% and placed second in terms of volume. The exports of mineral products, which ranked second a year ago, decreased by nearly a fifth; the exports of timber and timber products declined 9% (see Table 4).

Table 4. Exports by main groups of goods

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2007	Q1 2008	Q2 2008	Q2 2007	Q1 2008	Q2 2008	Q2 2008 / Q1 2008	Q2 2008 / Q2 2007
Food	2,462.8	2,741.7	2,855.0	7.5	8.8	8.3	4.1	15.9
Mineral products	4,917.3	2,945.5	3,961.6	15.0	9.4	11.5	34.5	-19.4
Chemical products	2,540.5	2,370.1	2,916.2	7.7	7.6	8.4	23.0	14.8
Clothing, footwear and headgear	1,925.8	2,003.8	1,805.5	5.9	6.4	5.2	-9.9	-6.2
Timber, paper and products	4,418.8	4,108.9	4,021.9	13.5	13.1	11.6	-2.1	-9.0
Metals and metal products	3,307.7	3,732.6	4,630.3	10.1	11.9	13.4	24.1	40.0
Machinery and equipment	6,674.9	6,838.6	7,555.1	20.3	21.8	21.9	10.5	13.2
Transport vehicles	2,755.4	2,686.7	2,627.3	8.4	8.6	7.6	-2.2	-4.7
Furniture, toys, sporting goods	2,508.8	2,498.0	2,506.9	7.6	8.0	7.3	0.4	-0.1
Other	1,309.6	1,393.4	1,643.3	4.0	4.4	4.8	17.9	25.5
Total	32,821.5	31,319.2	34,523.1	100.0	100.0	100.0	10.2	5.2

² The following analysis does not include the adjustments made to the goods account (repair of capital goods, provisions purchased from abroad, etc.) made by the Balance of Payments and Economic Statistics Department of Eesti Pank. Imports are in c.i.f. prices and analysed by the trading country. As of the moment of accession, the terms "exports" and "imports" are only applicable in reference to trading with third countries, while the Intrastat reporting system uses the terms "dispatch of goods" and "arrival of goods". Since the following analysis covers both intra-Community and non-Community trade, the terms "exports" and "imports" have still been used for the sake of simplicity and clarity.

The exports of machinery and equipment mostly consisted of mobile communication devices, cables and electric motors delivered to Sweden, Finland and Denmark. One reason for a strong growth in the exports of metal products was the increased exports of the products of heavy industry (hot-rolled steel products and iron constructions) to various EU countries. Another reason was the exports of metal wastes (scrap and ferrous metals, aluminium, copper) both to EU countries (Poland, Slovakia, the Netherlands) and non-EU partners (Turkey, China). The decline in the exports of mineral products was primarily caused by a 1.2 billion kroon decrease in the exports of fuel coming from Russia and processed in Estonia.

The exports of electricity to Finland and Latvia slightly increased. The exports of timber suffered as a result of smaller deliveries of firewood and unprocessed or little processed timber to Finland, Sweden and Denmark. The exports of wooden construction components, prefabricated wooden buildings and furniture, on the other hand, sustained previous levels or even increased. The exports of food picked up considerably, growing 16%. Spirits, which were mostly imported from the United Kingdom and France, were exported to Russia. Cheese and curds were delivered to Russia, Finland and Italy; fish products to Sweden, Finland and Switzerland, and pork to Latvia and Lithuania.

The exports of chemical products increased 15% and mostly consisted of construction and repair materials (putties, mastics, paints and varnishes), plastic products and nitrogen fertilizers sold to Russia, Latvia, Sweden, Lithuania and Finland. Ready-made men's and women's clothes, footwear and bed linen were exported to Finland, Sweden, Latvia and Russia. Transport vehicles (motor cars and spare parts, trailers and semi-trailers) were delivered to Lithuania, Latvia, Sweden, Russia and Finland.

A 4% decline in the **imports of goods** was primarily caused by a 22% decrease in the imports of transport vehicles (see Table 5). The latter resulted from lower imports of motor cars, which decreased by 1.2 billion kroons. Motor cars and spare parts were imported from Germany, Finland, Sweden and Latvia. In addition, tractors and trucks were purchased from Germany and Sweden.

Table 5. Imports by main groups of goods

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2007	Q1 2008	Q2 2008	Q2 2007	Q1 2008	Q2 2008	Q2 2008 / Q1 2008	Q2 2008 / Q2 2007
Food	4,149.4	4,114.2	4,366.3	8.9	10.0	9.8	6.1	5.2
Mineral products	6,245.8	5,411.4	6,836.6	13.4	13.1	15.3	26.3	9.5
Chemical products	5,536.0	5,348.0	5,711.7	11.9	12.9	12.8	6.8	3.2
Clothing, footwear and headgear	2,813.3	3,119.0	2,748.0	6.0	7.5	6.2	-11.9	-2.3
Timber, paper and products	3,189.2	2,073.1	2,151.4	6.8	5.0	4.8	3.8	-32.5
Metals and metal products	4,995.0	4,319.1	5,026.8	10.7	10.5	11.3	16.4	0.6
Machinery and equipment	9,644.7	8,834.3	9,545.7	20.7	21.4	21.4	8.1	-1.0
Transport vehicles	6,943.2	5,464.8	5,427.5	14.9	13.2	12.2	-0.7	-21.8
Furniture, toys, sporting goods	1,165.7	972.2	1,013.1	2.5	2.4	2.3	4.2	-13.1
Other	1,881.2	1,656.6	1,713.6	4.0	4.0	3.8	3.4	-8.9
Total	46,563.5	41,312.7	44,540.8	100.0	100.0	100.0	7.8	-4.3

The imports of timber and timber products decreased as much as 33%. This was due to a manifold decline in timber imports from Russia. The imports of machinery and equipment, the largest import item, remained at the year-ago level. Moreover, electrical and electronic products, agricultural

and roadworks machinery, and computers were purchased from Finland, Germany and Sweden. The imports of mineral products increased 10% year-on-year.

Motor fuels were imported from Lithuania, Russia and Belarus. Lithuania and Belarus provided the fuel used for internal supply. Some of the fuel (from Russia, Lithuania and Poland) was also used for processing. The volume of motor fuel imported from Russia for processing declined 62% (by 1.3 billion kroons). The decline was offset by the imports of fuel from Lithuania that increased by 1.5 billion kroons. Furthermore, also the imports of gas from Russia, fuel oil from the Netherlands, petroleum coke from Sweden and Lithuania, and electricity from Lithuania picked up considerably.

The imports of chemical products grew slightly in the second quarter. The main import items were medicines from Germany, Latvia and Lithuania as well as plastic and plastic products from Germany, Lithuania, Finland and Sweden. The imports of metals and metal products consisted of various iron and steel products as well as ferrous and non-ferrous scrap metals from Finland, Germany, Sweden, Latvia and Poland.

Similar to the exports of food products, spirits were also the largest import item, followed by wines. Spirits were purchased from the United Kingdom, France and Finland; wines were imported from France, Finland, Spain, Germany, Italy and Chile. Pork originated from Denmark and Finland, and pet food from Sweden and Germany.

Ready-made men's and women's clothes, underwear and footwear were imported from Latvia, Finland, Germany, China, Italy and Sweden. Interior design products (furniture, lamps, etc.) were purchased from Finland, Poland, Italy, Germany and China.

The **foreign trade deficit** decreased 27% year-on-year and amounted to 10 billion kroons (see Table 6). Mineral products, transport vehicles and chemical products posted the largest deficits. Two groups of goods posted a surplus: timber and timber products, and furniture and other industrial goods.

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

	Q2 2007	Q1 2008	Q2 2008
Food	-1,686.6	-1,372.5	-1,511.3
Mineral products	-1,328.5	-2,465.9	-2,875.1
Chemical products	-2,995.5	-2,977.9	-2,795.4
Clothing, footwear and headgear	-887.5	-1,115.2	-942.5
Timber, paper and products	1,229.6	2,035.8	1,870.5
Metals and metal products	-1,687.3	-586.5	-396.5
Machinery and equipment	-2,969.8	-1,995.7	-1,990.6
Transport vehicles	-4,187.7	-2,778.1	-2,800.2
Furniture, toys, sporting goods	1,343.0	1,525.8	1,493.8
Other	-571.6	-263.2	-70.2
Total	-13,742.0	-9,993.5	-10,017.7

By **groups of countries**, the **exports** of goods to the European Union grew 8% and thus the share of the EU in exports increased by 2 percentage points (see Table 7). Exports to Sweden, Finland and Germany gained considerably, whereas exports to Latvia declined. Exports to the CIS went up

Table 7. Exports of goods by groups of countries

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2007	Q1 2008	Q2 2008	Q2 2007	Q1 2008	Q2 2008	Q2 2008 / Q1 2008	Q2 2008 / Q2 2007
EU-27	22,421.9	23,134.9	24,311.6	68.3	73.9	70.4	5.1	8.4
Finland	5,587.0	5,662.5	6,278.0	17.0	18.1	18.2	10.9	12.4
Sweden	4,106.3	4,660.4	4,908.1	12.5	14.9	14.2	5.3	19.5
Latvia	3,777.7	3,417.7	2,951.4	11.5	10.9	8.5	-13.6	-21.9
Germany	1,691.5	1,680.6	1,933.3	5.2	5.4	5.6	15.0	14.3
Lithuania	1,898.0	1,874.3	1,901.3	5.8	6.0	5.5	1.4	0.2
CIS	3,398.8	3,499.8	4,122.6	10.4	11.2	11.9	17.8	21.3
Russia	2,656.6	2,720.0	3,118.9	8.1	8.7	9.0	14.7	17.4
Ukraine	448.9	466.9	571.1	1.4	1.5	1.7	22.3	27.2
Belarus	96.1	174.6	204.7	0.3	0.6	0.6	17.3	113.1
Other	7,000.8	4,684.6	6,088.9	21.3	15.0	17.6	30.0	-13.0
USA	2,065.6	731.6	2,125.2	6.3	2.3	6.2	190.5	2.9
Norway	1,071.2	1,140.3	1,330.5	3.3	3.6	3.9	16.7	24.2
Turkey	382.1	545.2	469.0	1.2	1.7	1.4	-14.0	22.7
Total	32,821.5	31,319.2	34,523.1	100.0	100.0	100.0	10.2	5.2

Table 8. Imports of goods by groups of countries*

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2007	Q1 2008	Q2 2008	Q2 2007	Q1 2008	Q2 2008	Q2 2008 / Q1 2008	Q2 2008 / Q2 2007
EU-27	35,678.2	33,337.5	36,275.8	76.6	80.7	81.4	8.8	1.7
Finland	7,831.2	6,101.1	6,678.3	16.8	14.8	15.0	9.5	-14.7
Germany	5,745.2	5,421.0	6,167.3	12.3	13.1	13.8	13.8	7.3
Sweden	4,590.6	4,585.7	4,643.8	9.9	11.1	10.4	1.3	1.2
Lithuania	2,922.7	2,976.4	4,470.0	6.3	7.2	10.0	50.2	52.9
Latvia	3,039.7	3,520.8	3,369.2	6.5	8.5	7.6	-4.3	10.8
CIS	7,128.6	4,791.4	4,877.7	15.3	11.6	11.0	1.8	-31.6
Russia	5,503.8	3,427.6	2,908.3	11.8	8.3	6.5	-15.2	-47.2
Belarus	669.6	625.7	1,187.7	1.4	1.5	2.7	89.8	77.4
Ukraine	621.9	548.5	491.8	1.3	1.3	1.1	-10.3	-20.9
Other	3,756.7	3,183.7	3,387.2	8.1	7.7	7.6	6.4	-9.8
China	896.4	791.5	940.3	1.9	1.9	2.1	18.8	4.9
USA	525.6	534.8	502.5	1.1	1.3	1.1	-6.0	-4.4
Norway	248.8	288.5	251.2	0.5	0.7	0.6	-12.9	0.9
Total	46,563.5	41,312.7	44,540.8	100.0	100.0	100.0	7.8	-4.3

* Analysed by trading country.

21%, with exports to Russia growing 17%. As a result, Estonia had a trade surplus with Russia, the latter ranking third among Estonia's export partners. Exports to other countries fell 13% because the exports of motor fuel processed in Estonia to Togo ceased. The top three among other countries were the United States, Norway and Turkey.

The **imports of goods** from EU countries grew only 2% year-on-year (see Table 8). The top five import partners were Finland, Germany, Sweden, Lithuania and Latvia. Imports from the CIS shrank 32%, with imports from Russia decreasing 47%. Imports from Belarus, on the other hand, climbed 77%. The top three among other countries were China, the United States and Norway.

Foreign trade with the EU and the CIS was in deficit (see Table 9). Major trade partners with trade surpluses included Denmark and Sweden from among EU countries, Russia and Kazakhstan from the CIS, and the United States and Norway from among other countries. Estonia had the biggest trade deficit with Germany.

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

	Q2 2007	Q1 2008	Q2 2008
EU-27	-13,256.3	-10,202.6	-11,964.2
CIS	-3,729.8	-1,291.7	-755.1
Other	3,244.1	1,500.8	2,701.7
Total	-13,742.0	-9,993.5	-10,017.7

Services

The surplus on the services account reached a record 5.7 billion kroons in the second quarter of 2008, having increased 54% quarter-on-quarter and 22% year-on-year (see Table 10 and Figure 4).

Table 10. Exports and imports of services

	Exports			Imports			Balance	
	Volume (EEK m)	Change compared to the previous period (%)	Share in total turnover of goods and services (%)	Volume (EEK m)	Change compared to the previous period (%)	Share in total turnover of goods and services (%)	Volume (EEK m)	Change compared to the previous period (%)
Q1 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	11,844.9	-7.8	27.2	8,140.9	-13.6	17.1	3,704.0	8.1
Q2 2008	14,180.8	19.7	28.9	8,462.6	4.0	16.5	5,718.2	54.4

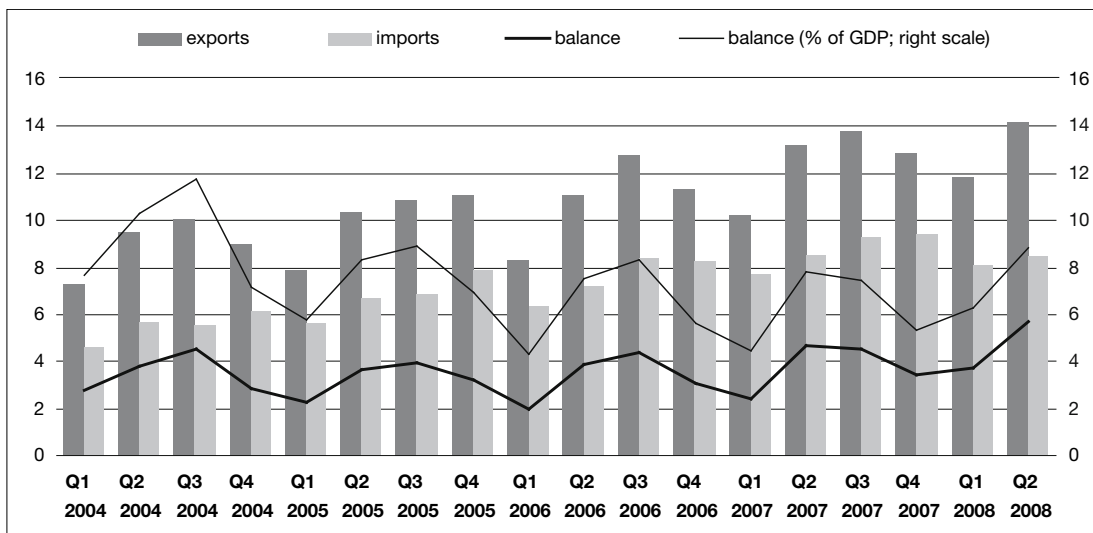


Figure 4. Services account (EEK bn)

The net exports of services was largely boosted by a 65% growth in the surplus on business services, but also growth in the net exports of travel and construction services (17% and 44%, respectively; see Table 11). The surplus on transport services increased year-on-year, even though both the exports and imports declined.

Table 11. Services balance by major categories

	Balance (EEK m)			Share (%)			Change (%)	
	Q2 2007	Q1 2008	Q2 2008	Q2 2007	Q1 2008	Q2 2008	Q2 2008 / Q1 2008	Q2 2008 / Q2 2007
Transportation	1,646.5	1,762.4	1,794.3	35.2	47.6	31.4	1.8	9.0
Travel	1,686.1	496.1	1,964.7	36.1	13.4	34.4	296.0	16.5
Construction services	427.3	468.0	615.2	9.1	12.6	10.8	31.5	44.0
Computer and information services	188.7	198.9	164.0	4.0	5.4	2.9	-17.5	-13.1
Business services	588.4	702.7	970.9	12.6	19.0	17.0	38.2	65.0
Government services	-66.4	32.2	30.5	-1.4	0.9	0.5	-5.3	-145.9
Other	202.4	43.7	178.6	4.3	1.2	3.1	308.7	-11.8
Total	4,673.0	3,704.0	5,718.2	100.0	100.0	100.0	54.4	22.4

Table 12. Services exports by major categories

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2007	Q1 2008	Q2 2008	Q2 2007	Q1 2008	Q2 2008	Q2 2008 / Q1 2008	Q2 2008 / Q2 2007
Transportation	5,394.3	4,958.5	5,336.5	40.8	41.9	37.6	7.6	-1.1
freight	2,725.8	2,448.7	2,602.2	20.6	20.7	18.4	6.3	-4.5
passanger	1,205.6	978.2	1,267.8	9.1	8.3	8.9	29.6	5.2
other transport services	1,462.9	1,531.6	1,466.5	11.1	12.9	10.3	-4.3	0.2
Travel	3,254.5	2,388.8	3,652.9	24.6	20.2	25.8	52.9	12.2
Construction services	647.5	666.4	862.1	4.9	5.6	6.1	29.4	33.1
Computer and information services	351.3	424.9	467.4	2.7	3.6	3.3	10.0	33.0
Business services	2,551.3	2,456.4	2,776.6	19.3	20.7	19.6	13.0	8.8
Government services	142.2	127.8	134.1	1.1	1.1	0.9	4.9	-5.7
Other	884.7	822.1	951.2	6.7	6.9	6.7	15.7	7.5
Total	13,225.8	11,844.9	14,180.8	100.0	100.0	100.0	19.7	7.2

Services exports amounted to 14.2 billion kroons in the second quarter, increasing 7% year-on-year (see Table 12). Travel services made the largest contribution to export growth (annual growth stood at 12%), followed by construction and business services (33% and 9% growth, respectively). The growth in travel services was stimulated by high domestic inflation and the number of visitors that started to grow again after a short stagnation. The exports of construction services recorded growth rates already in the first quarter. The exports of transport services decreased only marginally (mainly freight transport) compared to the previous year.

Services exports to EU countries grew in proportion to total services exports (see Table 13). Exports to the CIS, Russia in particular, increased faster than average, whereas exports to other countries, particularly offshore regions, declined.

The imports of services totalled 8.5 billion kroons in the second quarter, decreasing 1% year-on-year (see Table 14). Although the annual change in services imports was small, the structure of imports has become more homogeneous. Namely, the imports of transport and business services have decreased in terms of share, whereas the relative importance of travel, computer and information services as well as telecommunication services has increased.

Table 13. Services exports by groups of countries

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2007	Q1 2008	Q2 2008	Q2 2007	Q1 2008	Q2 2008	Q2 2008 / Q1 2008	Q2 2008 / Q2 2007
EU-27	9,558.8	8,321.1	10,155.6	72.3	70.0	71.6	22.0	6.2
Finland	4,084.0	3,464.3	4,374.7	30.9	29.1	30.8	26.3	7.1
Sweden	1,140.6	942.2	1,275.0	8.6	7.9	9.0	35.3	11.8
United Kingdom	997.5	674.6	762.4	7.5	5.7	5.4	13.0	-23.6
Germany	562.3	536.4	682.2	4.3	4.5	4.8	27.2	21.3
Latvia	600.0	670.5	682.2	4.5	5.6	4.8	1.7	13.7
CIS	1,368.8	1,723.6	1,910.8	10.3	14.5	13.5	10.9	39.6
Russia	1,123.5	1,412.7	1,586.4	8.5	11.9	11.2	12.3	41.2
Ukraine	126.5	168.9	175.4	1.0	1.4	1.2	3.8	38.7
Other	2,298.2	1,844.2	2,114.5	17.4	15.5	14.9	14.7	-8.0
Switzerland	688.7	446.4	482.1	5.2	3.8	3.4	8.0	-30.0
USA	423.8	313.1	446.0	3.2	2.6	3.1	42.4	5.2
offshore regions	482.4	428.1	382.4	3.6	3.6	2.7	-10.7	-20.7
Total	13,225.8	11,888.9	14,180.9	100.0	100.0	100.0	19.3	7.2

Table 14. Services imports by major categories

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2007	Q1 2008	Q2 2008	Q2 2007	Q1 2008	Q2 2008	Q2 2008 / Q1 2008	Q2 2008 / Q2 2007
Transportation	3,747.8	3,196.1	3,542.2	43.8	39.3	41.9	10.8	-5.5
freight	2,461.5	2,199.3	2,388.8	28.8	27.0	28.2	8.6	-3.0
passenger	365.7	291.8	308.0	4.3	3.6	3.6	5.6	-15.8
other transport services	930.6	705.0	845.4	10.9	8.7	10.0	19.9	-9.2
Travel	1,568.4	1,892.8	1,688.2	18.3	23.3	19.9	-10.8	7.6
Construction services	220.4	198.4	246.9	2.6	2.4	2.9	24.4	12.0
Computer and information services	162.6	225.9	303.5	1.9	2.8	3.6	34.4	86.7
Business services	1,962.9	1,753.7	1,805.6	23.0	21.5	21.3	3.0	-8.0
Government services	208.6	95.5	103.6	2.4	1.2	1.2	8.5	-50.3
Other	672.1	778.5	772.6	7.9	9.6	9.1	-0.8	15.0
Total	8,552.8	8,140.9	8,462.6	100.0	100.0	100.0	4.0	-1.1

As regards geographical distribution, the imports of services changed relatively little in the second quarter (see Table 15). The share of Finland, the biggest partner, declined, whereas Sweden and Germany gained in terms of share.

Table 15. Services imports by groups of countries

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2007	Q1 2008	Q2 2008	Q2 2007	Q1 2008	Q2 2008	Q2 2008 / Q1 2008	Q2 2008 / Q2 2007
EU-27	6,646.1	6,146.8	6,512.9	77.7	75.5	77.0	6.0	-2.0
Finland	1,417.1	1,175.6	1,210.9	16.6	14.4	14.3	3.0	-14.6
Sweden	670.5	684.6	766.0	7.8	8.4	9.1	11.9	14.2
Germany	671.2	640.9	706.9	7.8	7.9	8.4	10.3	5.3
Latvia	473.8	637.4	690.9	5.5	7.8	8.2	8.4	45.8
Lithuania	355.4	419.1	474.0	4.2	5.1	5.6	13.1	33.4
CIS	785.6	668.6	867.5	9.2	8.2	10.3	29.7	10.4
Russia	567.4	513.5	624.2	6.6	6.3	7.4	21.6	10.0
Ukraine	112.3	83.9	122.4	1.3	1.0	1.4	45.9	9.0
Other	1,121.1	1,325.5	1,082.2	13.1	16.3	12.8	-18.4	-3.5
USA	251.2	275.8	291.8	2.9	3.4	3.4	5.8	16.2
China	94.5	79.8	108.6	1.1	1.0	1.3	36.1	14.9
offshore regions	161.0	135.5	107.0	1.9	1.7	1.3	-21.0	-33.5
Total	8,552.8	8,140.9	8,462.6	100.0	100.0	100.0	4.0	-1.1

The **balance of transport services** comprised 31% of the services account in the second quarter, increasing 9% year-on-year (primarily owing to a decrease in imported transport services). Compared to the first quarter, both the imports and exports of transport services grew – 11% and 8%, respectively (see Figure 5 and Tables 11, 12 and 13).

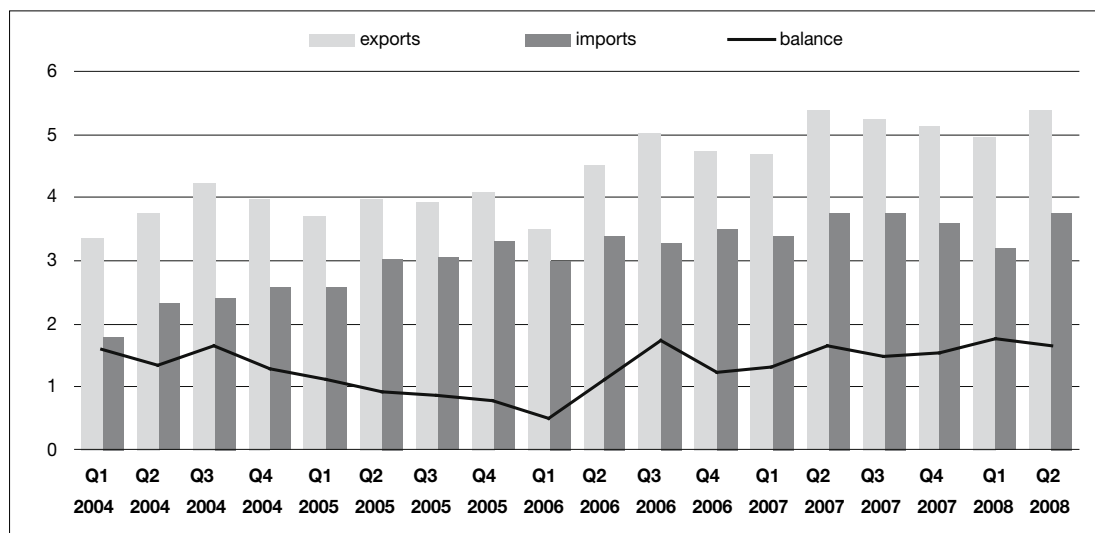


Figure 5. Transport services (EEK bn)

By transport types, maritime transport accounted for the largest share of transport services, with transport volumes remaining at the levels recorded in the second quarter of 2007 (see Figure 6). The exports of air and road transport services increased year-on-year, whereas the exports of rail transport services decreased. The imports of transport services did not change much over the year in terms of different transport types.

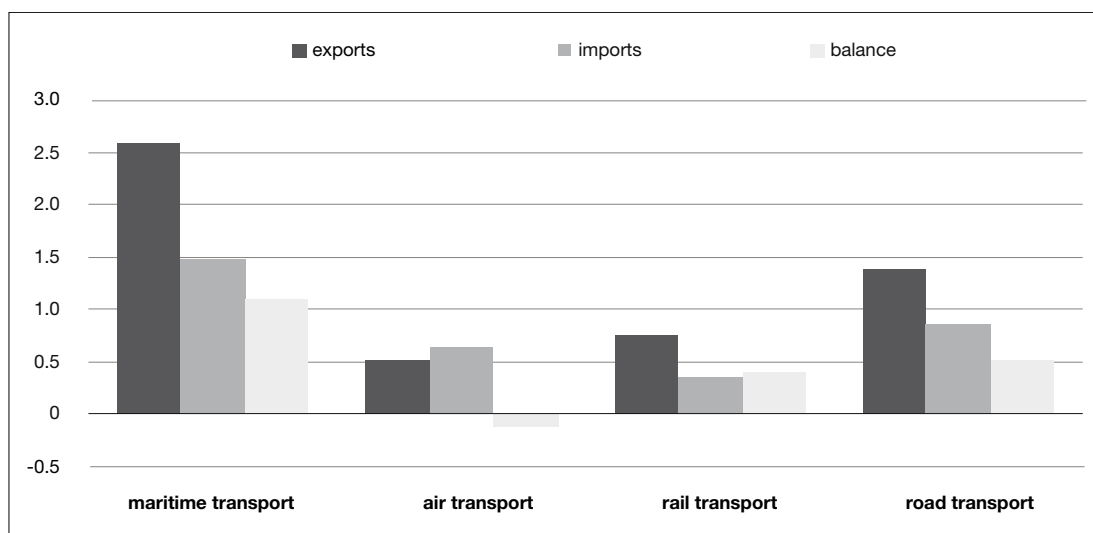


Figure 6. Transport services structure in the second quarter of 2008 by transport type (EEK bn)

Although the exports of transport services gained 8% quarter-on-quarter, it was nevertheless 1% lower compared to the second quarter of 2007. Freight transport declined 5% year-on-year, whereas passenger transport grew 5% (across different types of transport). The exports of transport services to EU countries remained at the previous year's level, even though exports to Finland and Sweden, the biggest EU partners, slightly increased (see Table 16). The share of the CIS in transport services exports climbed to 21%. At the same time, exports to other countries, in particular offshore regions and Switzerland, eased.

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

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%), Q2 2008 / Q2 2007		Volume (EEK m)	Share (%)	Change (%), Q2 2008 / Q2 2007
EU-27	3,668.8	68.7	0.0	EU-27	2,574.6	72.7	-9.6
Finland	1,417.7	26.6	3.4	Germany	434.2	12.3	14.3
Sweden	487.4	9.1	7.2	Finland	283.8	8.0	-58.8
United Kingdom	401.6	7.5	-16.1	Sweden	259.4	7.3	15.5
Germany	297.6	5.6	6.5	Latvia	247.1	7.0	16.4
Latvia	191.4	3.6	51.3	Lithuania	207.6	5.9	33.4
CIS	659.1	12.4	20.8	CIS	452.9	12.8	13.6
Russia	612.8	11.5	25.0	Russia	342.8	9.7	9.2
Ukraine	28.2	0.5	-21.9	Belarus	61.0	1.7	43.5
Other	1,008.6	18.9	-14.4	Other	514.7	14.5	2.7
Switzerland	326.4	6.1	-36.9	USA	114.6	3.2	41.1
offshore regions	214.4	4.0	-28.2	China	93.6	2.6	11.6
USA	161.6	3.0	39.6	offshore regions	90.1	2.5	-33.6
Total	5,336.5	100.0	-1.1	Total	3,542.2	100.0	-5.5

The imports of transport services declined 5% primarily because less transport services were imported from Finland (see Tables 14 and 16). The imports of transport services from the CIS grew 14% year-on-year. The share of imported transport services also increased by a few percentage points.

The **travel services account** was further stimulated by accession to the Schengen agreement. In the second quarter, the agreement that provides for the free movement of people was expanded to include also air passengers. According to preliminary data, the exports of services increased 12% and imports 8% (see Table 17 and Figure 7). As the number of non-resident visitors grew 2% year-on-year, the export growth was primarily boosted by domestic price rises that increased visitors' expenditure in Estonia. The exports of travel services to Germany and Latvia made the largest contribution to growth.

Even though 5% less package travels were purchased from travel agencies in the second quarter, the sale of international travel tickets increased, as did the number of passengers and length of trips. Compared to 2007, the number of trips to Egypt, Italy, France and Russia has grown the most, Finland still being the most popular destination.

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

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%), Q2 2008 / Q2 2007		Volume (EEK m)	Share (%)	Change (%), Q2 2008 / Q2 2007
EU-27	2,828.8	77.4	9.7	EU-27	1,202.7	71.2	5.1
Finland	1,736.0	47.5	1.9	Finland	243.6	14.4	23.7
Sweden	329.0	9.0	10.0	Latvia	119.1	7.1	34.8
Germany	169.4	4.6	50.5	Sweden	101.6	6.0	21
United Kingdom	118.5	3.2	32.5	Italy	89.9	5.3	48.3
CIS	532.5	14.6	18.9	CIS	181.0	10.7	47.5
Russia	499.2	13.7	20.3	Russia	121.2	7.2	27.1
Other	291.6	8.0	27.3	Other	304.5	18.0	1.2
USA	97.9	2.7	57.6	USA	62.6	3.7	8.6
Norway	85.3	2.3	22.9	Turkey	58.4	3.5	-30.6
Japan	16.2	0.4	28.5	Egypt	56.2	3.3	26.7
Total	3,652.9	100.0	12.2	Total	1,688.2	100.0	7.6

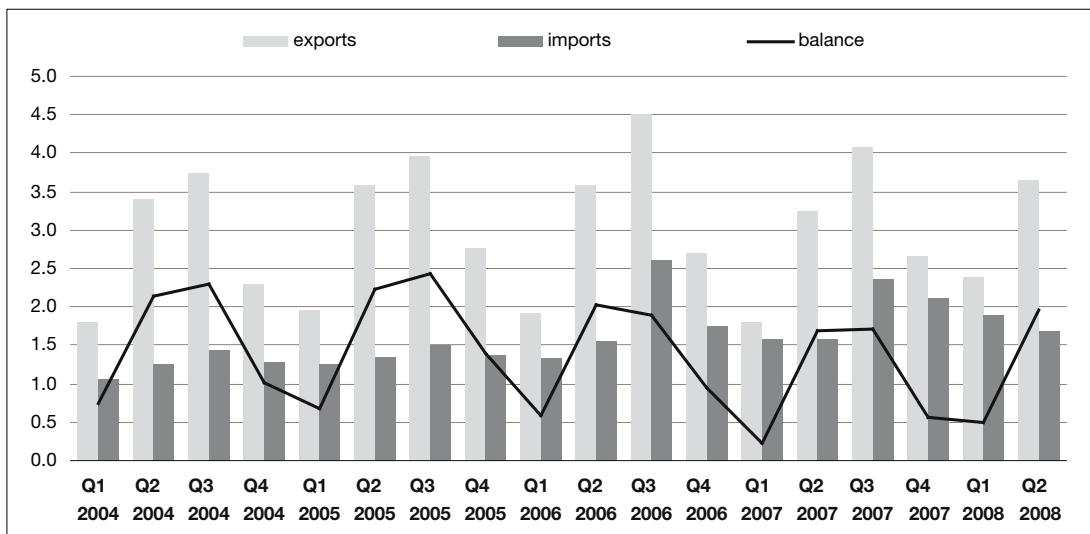


Figure 7. Travel services (EEK bn)

Income

The income account deficit increased 40% compared to the second quarter of 2007 and totalled 5.3 billion kroons – the highest level in absolute terms in the years of regained independence (see Table 18). As a ratio to GDP, the deficit stood at 8.1%. The net outflow of income was primarily stimulated by the increased net outflow of investment income, particularly direct and other investment income, i.e. loans and deposits (see Table 19). The income account deficit was still largely shaped by reinvested earnings, which include no actual movement of funds. Excluding reinvested earnings, the income account had a deficit of only 0.9 billion kroons, i.e. 1.4% of GDP (see Figure 8).

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	4,136.7	-8.4	-9,213.9	2.0	-5,077.2	12.4
Q2 2008	3,988.9	-3.6	-9,239.7	0.3	-5,250.8	3.4

Table 19. Structure of income account

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2007	Q1 2008	Q2 2008	Q2 2007	Q1 2008	Q2 2008	Q2 2008 / Q1 2008	Q2 2008 / Q2 2007
Labour income	957.7	578.7	623.2	-25.5	-11.4	-11.9	7.7	-34.9
Investment income	-4,710.3	-5,655.9	-5,874.1	125.5	111.4	111.9	3.9	24.7
Income on direct investment	-4,058.9	-4,689.1	-4,753.5	108.2	92.4	90.5	1.4	17.1
income on equity	-3,816.0	-4,590.8	-4,656.9	101.7	90.4	88.7	1.4	22.0
reinvested earnings	-4,983.1	-4,266.2	-4,357.5	132.8	84.0	83.0	2.1	-12.6
dividends	1,167.1	-324.6	-299.4	-31.1	6.4	5.7	-7.8	-125.7
income on debt (interests)	-242.9	-98.3	-96.6	6.5	1.9	1.8	-1.7	-60.2
Income on portfolio investment	45.9	361.5	218.0	-1.2	-7.1	-4.2	-39.7	374.9
Income on other investment	-697.3	-1,328.3	-1,338.5	18.6	26.2	25.5	0.8	92.0
Total	-3,752.6	-5,077.2	-5,250.9	100.0	100.0	100.0	3.4	39.9

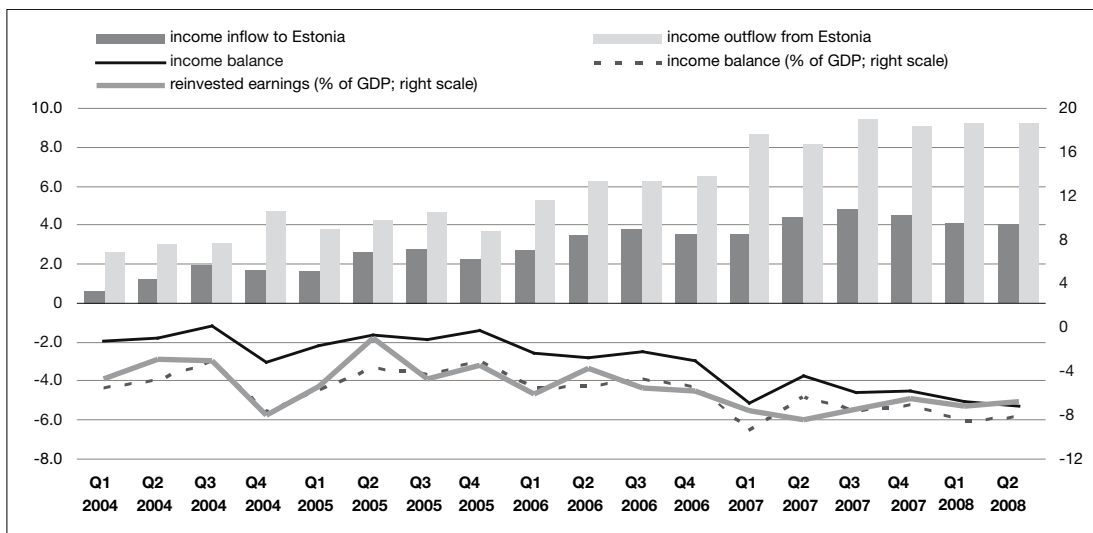


Figure 8. Income account (EEK bn)

Income inflow decreased 10% year-on-year and totalled 4 billion kroons (see Table 20). Slightly over 90% of the income came from EU countries, in particular Latvia and Lithuania (see Table 21). The inflow of income to Estonia decreased across EU, CIS and other countries as well as across various individual countries. Labour income accounted for 25% of the income inflow; the rest was investment income. Labour income decreased 24%, which was largely due to 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. Estonian residents were employed mostly in Finland (39% of labour income inflow), the United Kingdom (11%), Ireland and Latvia.

Table 20. Income inflow to Estonia

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2007	Q1 2008	Q2 2008	Q2 2007	Q1 2008	Q2 2008	Q2 2008 / Q1 2008	Q2 2008 / Q2 2007
Labour income	1,212.5	875.1	928.1	27.5	21.2	23.3	6.1	-23.5
Investment income	3,203.6	3,261.6	3,060.7	72.5	78.8	76.7	-6.2	-4.5
Income on direct investment	1,849.1	1,855.2	1,503.6	41.9	44.8	37.7	-19.0	-18.7
income on equity	1,715.2	1,564.6	1,257.1	38.8	37.8	31.5	-19.7	-26.7
reinvested earnings	-1,402.1	1,340.4	-306.6	-31.7	32.4	-7.7	-122.9	-78.1
dividends	3,117.3	224.2	1,563.7	70.6	5.4	39.2	597.5	-49.8
income on debt (interests)	133.9	290.6	246.6	3.0	7.0	6.2	-15.1	84.2
Income on portfolio investment	799.2	661.1	832.9	18.1	16.0	20.9	26.0	4.2
Income on other investment	555.3	745.3	724.2	12.6	18.0	18.2	-2.8	30.4
Total	4,416.1	4,136.7	3,988.9	100.0	100.0	100.0	-3.6	-9.7

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

	Inflow				Outflow		
	Volume (EEK m)	Share (%)	Change (%), Q2 2008 / Q2 2007		Volume (EEK m)	Share (%)	Change (%), Q2 2008 / Q2 2007
EU-27	3,624.4	90.9	-7.7	EU-27	8,329.7	90.2	-16.0
Latvia	809.6	20.3	-33.2	Sweden	4,601.8	49.8	22.9
Lithuania	678.6	17.0	-12.3	Finland	1,885.4	20.4	9.1
Germany	348.7	8.7	23.2	United Kingdom	446.6	4.8	-13.7
Finland	329.9	8.3	-19.1	Denmark	395.3	4.3	24.1
CIS	131.3	3.3	-40.6	CIS	297.8	3.2	153.4
Russia	164.4	4.1	-29.8	Russia	261.0	2.8	244.1
Ukraine	52.9	1.3	304.7	Ukraine	20.3	0.2	-31.1
Other	233.2	5.8	-13.5	Other	612.3	6.6	-29.6
USA	89.0	2.2	-13.5	USA	172.1	1.9	-50.3
offshore regions	29.3	0.7	-43.2	offshore regions	222.5	2.4	-1.0
Total	3,988.9	100.0	-9.7	Total	9,239.7	100.0	13.1

The investment income of residents declined 5%. The decline resulted from decreased direct investment income, whereas income on portfolio and other investment increased. Direct investment income (mostly dividends) accounted for 50%, portfolio investment income for 27% and other investment income for the remainder of the investment income. Residents received investment income primarily from Latvia (24%) and Lithuania (22%) and somewhat less from Germany and Cyprus. As regards investment income earned abroad, investors of financial intermediation received the majority (74%) of that; 11% went to the investors of transport, storage and communications (see Figure 9).

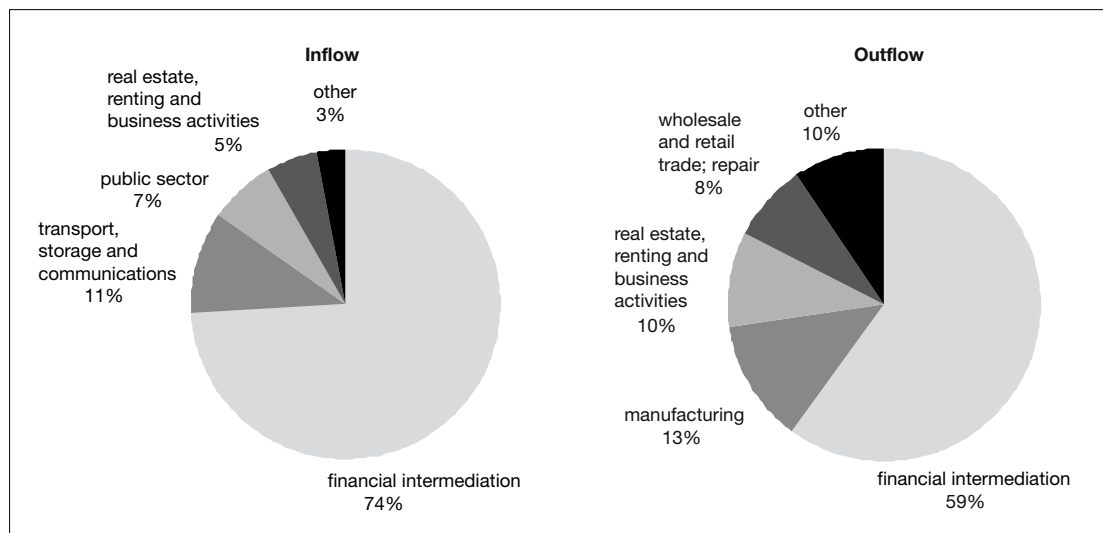


Figure 9. Inflow and outflow of income by fields of activity in the second quarter of 2008

Income outflow remained strong in the second quarter. With 9.2 billion kroons it exceeded the 9 billion kroon level for the fourth consecutive quarter (see Table 22). The outflow was up 13% on a year ago. 90% of the income earned in Estonia belonged to EU investors; income was down 16% year-on-year (see Table 21). Investment income comprised 97% of non-residents' income earned in Estonia. 70% of the investment income was direct investment income (reinvested earnings comprising

Table 22. Income outflow from Estonia

	Volume (EEK m)			Share (%)			Change (%)	
	Q2 2007	Q1 2008	Q2 2008	Q2 2007	Q1 2008	Q2 2008	Q2 2008 / Q1 2008	Q2 2008 / Q2 2007
Labour income	254.7	296.4	304.9	3.1	3.2	3.3	2.9	19.7
Investment income	7,913.9	8,917.5	8,934.8	96.9	96.8	96.7	0.2	12.9
Income on direct investment	5,908.0	6,544.3	6,257.1	72.3	71.0	67.7	-4.4	5.9
income on equity	5,531.2	6,155.4	5,913.9	67.7	66.8	64.0	-3.9	6.9
reinvested earnings	3,581.0	5,606.7	4,050.9	43.8	60.9	43.8	-27.7	13.1
dividends	1,950.2	548.8	1,863.0	23.9	6.0	20.2	239.5	-4.5
income on debt (interests)	376.8	388.9	343.2	4.6	4.2	3.7	-11.8	-8.9
Income on portfolio investment	753.3	299.6	615.0	9.2	3.3	6.7	105.3	-18.4
Income on other investment	1,252.7	2,073.6	2,062.7	15.3	22.5	22.3	-0.5	64.7
Total	8,168.6	9,213.9	9,239.7	100.0	100.0	100.0	0.3	13.1

two thirds of that), 23% was income on other investment and the rest was portfolio investment income. The increased debt burden of Estonian residents reflected itself also in the rapid outflow of other investment income (income on loans and deposits), which posted 65% growth on a year ago. Mostly Swedish and Finnish investors earned on investment in Estonia (51% and 20%, respectively); investors from the United Kingdom, Denmark and Cyprus earned somewhat less. Approximately two thirds of non-residents' investment income was earned on financial intermediation, 13% on manufacturing and 10% on real estate, renting and business activities (see Figure 9).

Current and capital transfers³

The surplus on the current transfers account totalled 1 billion kroons in the second quarter of 2008, increasing 37% year-on-year (see Table 23).

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

	Incoming			Outgoing			Balance		
	Q2 2007	Q1 2008	Q2 2008	Q2 2007	Q1 2008	Q2 2008	Q2 2007	Q1 2008	Q2 2008
Current transfers	1,805.9	2,951.0	2,051.0	1,108.8	1,693.8	1,099.3	697.1	1,257.3	951.7
government transfers	708.2	1,244.8	767.0	482.6	1,152.7	618.6	225.6	92.1	148.4
EU-27	588.6	1,146.9	702.3	454.9	1,122.4	605.1	133.7	24.5	97.2
CIS	25.6	23.2	16.0	2.4	1.4	2.1	23.3	21.8	13.9
other	94.0	74.7	48.7	25.3	28.9	11.4	68.7	45.8	37.3
private transfers	1,097.7	1,706.2	1,284.0	626.2	541.1	480.7	471.5	1,165.1	803.3
EU-27	844.6	1,333.7	1,074.3	529.9	436.1	384.9	314.7	897.6	689.4
CIS	167.1	233.5	110.6	34.9	48.0	49.6	132.2	185.6	61.0
other	85.9	139.1	99.1	61.4	57.0	46.2	24.5	82.0	52.9
Capital transfers	565.4	1,342.6	552.9	19.6	97.4	16.0	545.8	1,245.2	536.9
government transfers	301.9	793.3	377.1	0.0	0.0	0.2	301.9	793.3	376.9
private transfers	263.5	549.4	175.9	19.6	97.4	15.8	244.0	451.9	160.1

³ Although capital transfers are reflected under the capital and financial account in the IMF methodology, the present analysis treats them together with current transfers. The distribution of European Union structural funds available for Estonia into current and capital transfers is not clearly distinguishable and is, therefore, based on the expert estimates of the Ministry of Financial Affairs, the Ministry of Agriculture, and Eesti Pank (according to the purpose of structural funds).

The inflow of **current transfers** amounted to 2 billion kroons and was divided equally between the general government and other sectors. Government transfers constituted 37% of the current transfers and contained allocations from the EU structural funds as well as VAT, income and social tax receipts from non-residents. Transfers to other sectors totalled 1.3 billion kroons. 52% of that accounted for external aid from the European Commission and 17% for transfers by migrants employed abroad. The outflow of current transfers was 1 billion kroons. Government transfers constituted 56% of that, the rest being transfers of other sectors. 86% of government transfers were compulsory payments into the EU budget. The rest were mostly refunds of VAT and some also external aid provided by Estonia. Other sectors' transfers were mainly made to the EU (Finland, Germany, the United Kingdom and Sweden) but also to Russia.

Capital transfers posted a surplus of 0.5 billion kroons, which was close to the level recorded in the second quarter of 2007. Capital transfers into Estonia mainly comprised EU subsidies to the general government as well as to other sectors for various infrastructure objects.

FINANCIAL ACCOUNT

The surplus on the financial account totalled 8.9 billion kroons in the second quarter of 2008, similar to the first quarter. Other investment capital comprised 50% of the surplus, direct and portfolio investment both accounting for 25%. Figures 10 and 11 show the structure of the financial account by categories and maturities.

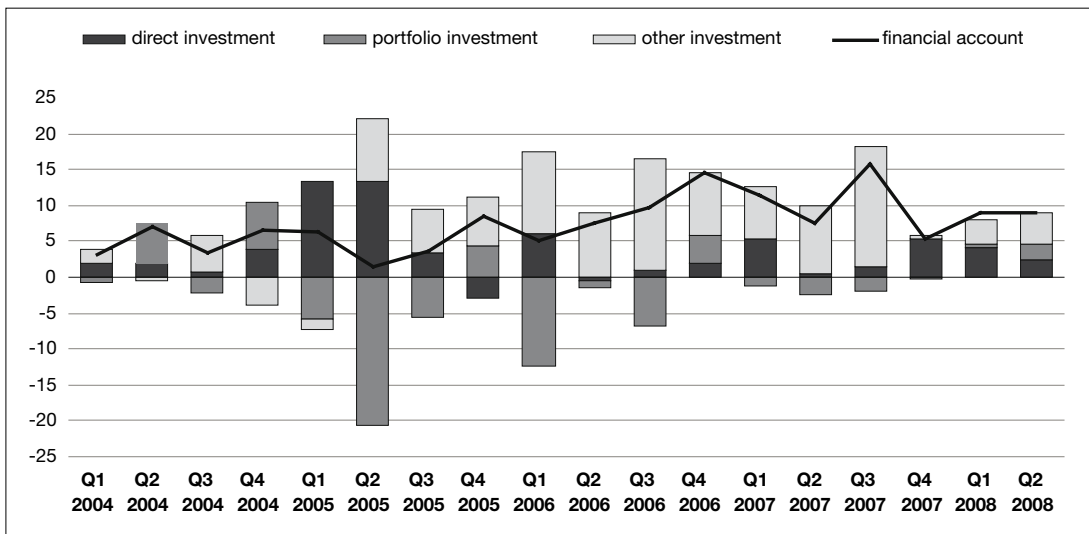


Figure 10. Changes in the structure of foreign investment capital flows (EEK bn)

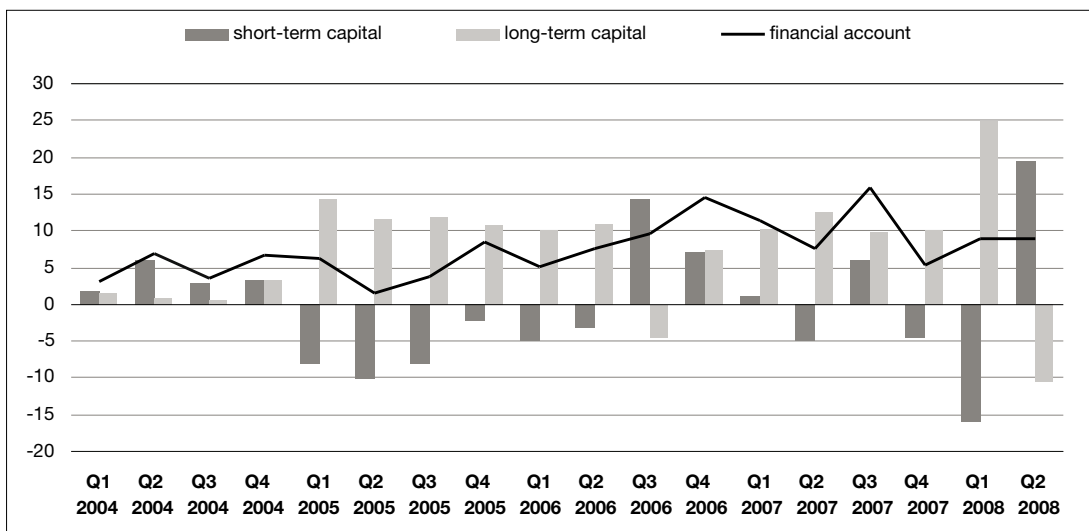


Figure 11. Maturity structure of the financial account (EEK bn)

Direct investment

Direct investment posted a 2.3 billion kroon surplus in the second quarter and contributed almost 50% to the financial account surplus. Non-residents invested 3.6 billion kroons in Estonia and Estonian residents' direct investment abroad grew by 1.2 billion kroons (see Figure 12).

Direct investment in Estonia decreased more than 50% – both year-on-year and quarter-on-quarter. The share of reinvested earnings in total direct investment exceeded 100%, which denotes an outflow of funds from Estonia in the form of other capital. The financial sector contributed 3.1 billion kroons (75%) to total reinvested earnings. Other fields of activity each recorded less than quarter of a million kroons of retained profits. Direct investment in equity capital brought 207 million kroons to Estonia. Investors preferred to invest in transport and travel agencies, which received the total of 1.3 billion kroons. Non-residents withdrew 1.1 billion kroons from the equity capital of food and beverage companies. The intercompany debt liabilities of direct investment companies did not change from the first quarter. Intercompany debt claims channelled 1.1 billion kroons out of Estonia. Real estate companies were the largest creditors (see Tables 24 and 25).

Over a half of the direct investment inflow originated from the Netherlands. Finland contributed 38% and Cyprus 8% (see Figure 13). The substantial growth in Dutch direct investment largely stemmed from a debt repaid to a company by its foreign shareholders. As in previous periods, direct investment in financial intermediation (74%) gained the most also in the second quarter, followed by investment in transport, storage and communications (36%) and wholesale and retail trade (19%; see Figure 14). Investment in manufacturing witnessed the strongest decline. EU countries remained the largest investors (see Table 26). Compared to the first quarter, investment from the CIS has decreased both in terms of share and amount.

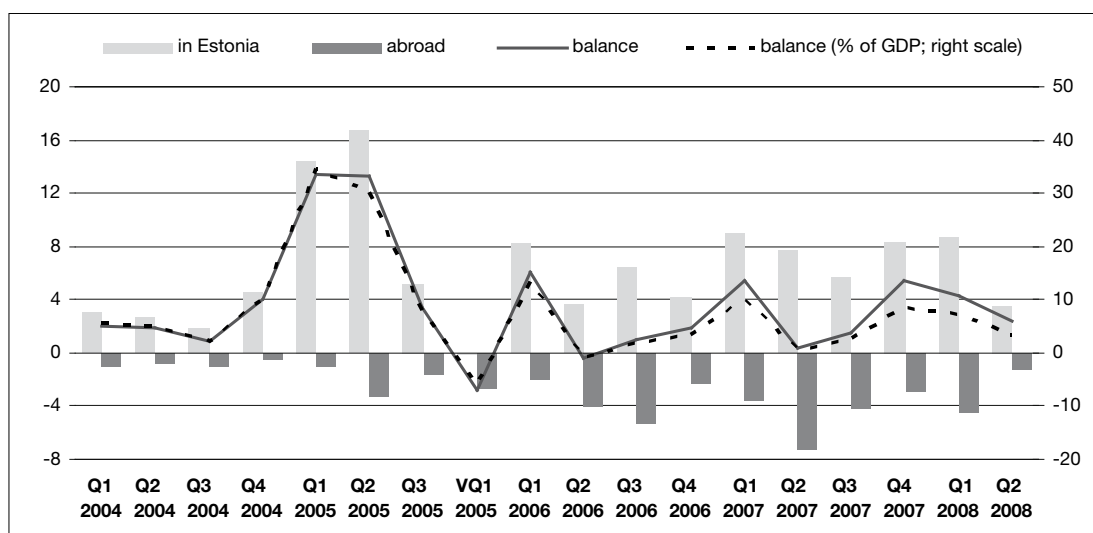


Figure 12. Direct investment (EEK bn)

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	1,571.0	18.1	5,606.7	64.6	-1,086.6	-12.5	2,592.8	29.9	8,683.8	100.0
Q2 2008	207.3	5.8	4,050.9	113.6	-1,704.1	-47.8	1,013.2	28.4	3,567.3	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	5,011.4	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	709.7	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	767.3	354.8	1,404.4	1,152.6	3,757.0	2,044.9	1,868.4	1,012.0
Q2 2008	1,738.8	101.9	2,357.9	2,886.9	1,702.8	2,419.0	2,076.7	1,451.9

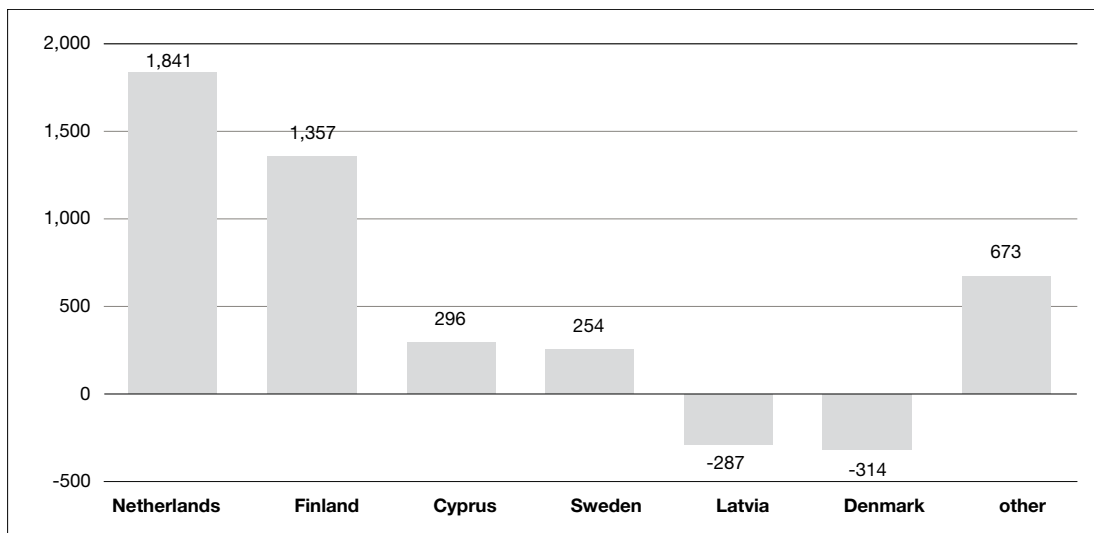


Figure 13. Direct investment in Estonia by countries in the second quarter of 2008 (EEK m)

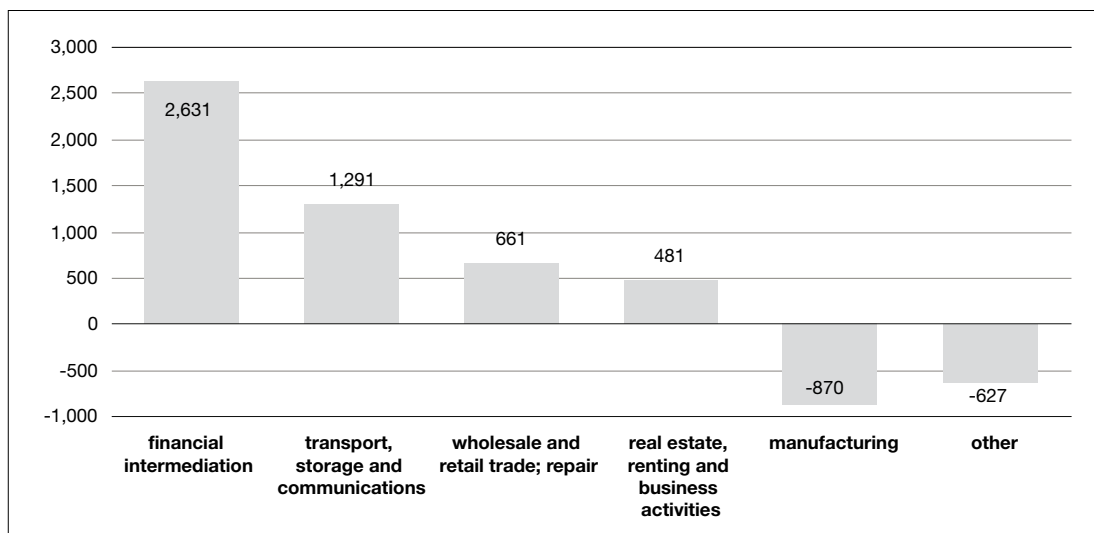


Figure 14. Direct investment in Estonia by fields of activities in the second quarter of 2008 (EEK m)

Table 26. Direct investment in Estonia by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	Q1 2008	Q2 2008	Q1 2008	Q2 2008	Q2 2008 / Q1 2008
EU-27	8,227.0	3,437.4	94.7	96.4	-58.2
CIS	563.9	-113.4	6.5	-3.2	-120.1
Other	-107.1	243.3	-1.2	6.8	-327.1
Total	8,683.8	3,567.3	100.0	100.0	-58.9

Direct investment abroad registered a substantial decline, both quarter-on-quarter and year-on-year (see Table 27). Equity capital investment comprised nearly 60% of the outflow; proprietors' income not withdrawn turned into a loss of 0.3 billion kroons. Other capital assets and liabilities decreased and the net outflow was negative by 0.8 billion kroons. The loan liabilities of subsidiaries and affiliated companies decreased by 0.7 billion kroons on the previous quarter, most of them being long-term liabilities. Moreover, also the loan liabilities of Estonian investors to foreign subsidiaries and affiliated companies declined by as much as 0.4 billion kroons (see Table 28). The largest direct investment was channelled to financial intermediation.

Direct investment in Russia shrank by 1.4 billion kroons, which constitutes 115% of the total net direct investment (see Figure 15). Investment in Latvia and Cyprus increased – by 1.2 and 1 billion kroons, respectively. The investors of water transport, food and beverage production, and computers and other related fields made the largest investment (98%, 23% and 20%, respectively). Foreign direct investment of financial intermediaries declined by 0.7 billion kroons (see Figure 16). Most of the decline can be attributed to the restructuring of a company. For the same reason, the share of the CIS in direct investment flows stood at -106% (see Table 29). The majority of the outflow (191%) remained in the European Union.

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	77.5	-408.8	12.3	-457.8	13.8	118.9	-3.6	-3,318.2	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	59.3	-2,694.6	31.0	-1,141.6	13.1	292.0	-3.4	-8,699.5	100.0
Q1 2006	-366.6	17.6	-891.7	42.7	-855.7	41.0	27.6	-1.3	-2,086.5	100.0
Q2 2006	-2,071.9	51.2	-1,149.6	28.4	-1,059.4	26.2	238.1	-5.9	-4,042.9	100.0
Q3 2006	-2,897.8	54.0	-1,441.2	26.8	-1,404.2	26.1	373.0	-6.9	-5,370.2	100.0
Q4 2006	-558.7	24.0	-1,362.4	58.6	-524.9	22.6	121.6	-5.2	-2,324.5	100.0
2006 total	-5,895.1	42.6	-4,845.1	35.0	-3,844.3	27.8	760.3	-5.5	-13,824.1	100.0
Q1 2007	-1,277.4	35.3	-1,133.1	31.3	-1,368.9	37.8	159.7	-4.4	-3,619.8	100.0
Q2 2007	-6,747.7	93.0	1,402.1	-19.3	-1,667.9	23.0	-238.4	3.3	-7,251.9	100.0
Q3 2007	-930.9	22.2	-2,010.9	48.0	-2,456.3	58.6	1,206.7	-28.8	-4,191.4	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	-838.2	18.8	-1,340.4	30.1	-2,679.9	60.1	401.3	-9.0	-4,457.1	100.0
Q2 2008	-714.9	58.0	306.6	-24.9	147.7	-12.0	-972.0	78.9	-1,232.6	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	2,643.0	790.4	486.4	446.8	141.2	49.5	205.4	308.5
Q2 2008	841.1	1,755.9	521.2	271.7	28.4	76.8	54.7	409.4

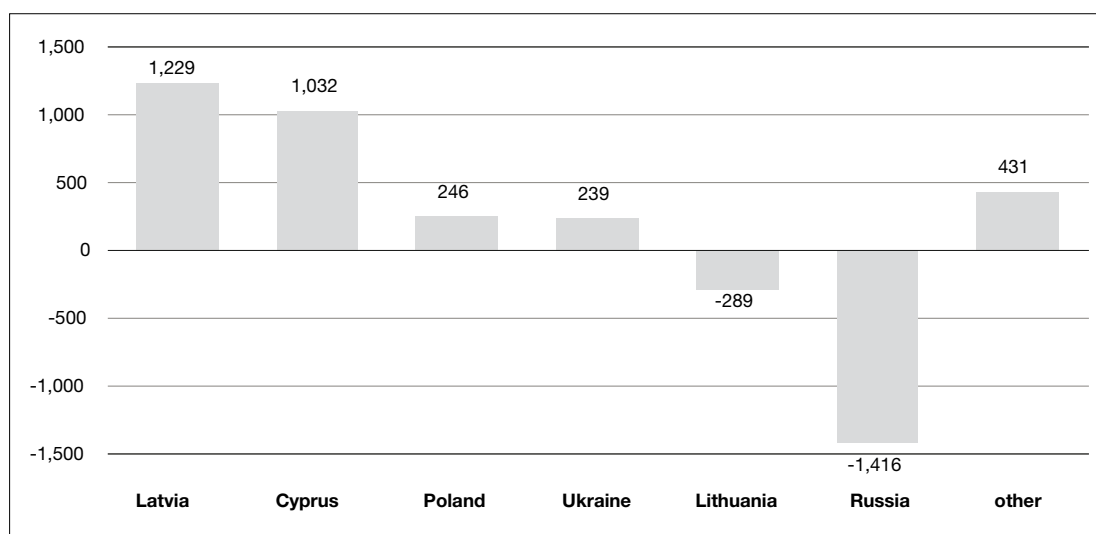


Figure 15. Direct investment abroad by countries in the second quarter of 2008 (EEK m)

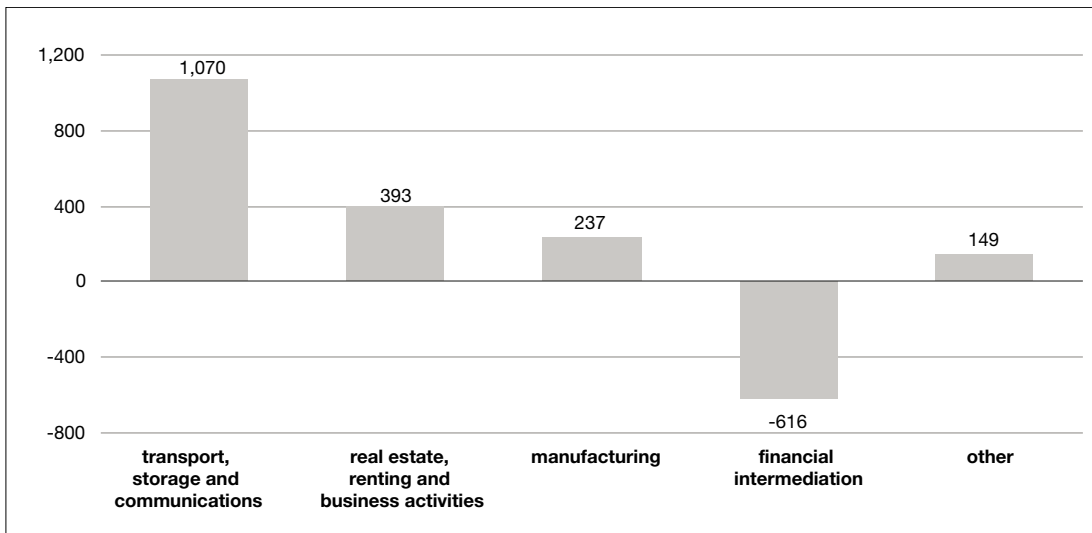


Figure 16. Direct investment abroad by fields of activity in the second quarter of 2008 (EEK m)

Table 29. Direct investment abroad by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	Q1 2008	Q2 2008	Q1 2008	Q2 2008	Q2 2008 / Q1 2008
EU-27	-4,046.4	-2,350.1	90.8	190.7	-41.9
CIS	-426.6	1,303.6	9.6	-105.8	-405.6
Other	15.9	-186.1	-0.4	15.1	-1,269.7
Total	-4,457.1	-1,232.6	100.0	100.0	-72.3

Portfolio investment

The net inflow of portfolio investment was 2.2 billion kroons in the second quarter of 2008. This resulted mainly from a decrease in debt security investment made by the general government and credit institutions as well as a decline in equity security investment made by enterprises in other sectors. At the same time, enterprises in other sectors increased their debt security investment (see Figure 17 and Table 30).

Portfolio investment liabilities decreased by 872 million kroons in the second quarter (see Table 31). Similar to previous quarters, both the debt security liabilities and equity security liabilities decreased in the second quarter. In total, debt security liabilities declined by 624 million and equity security liabilities by 247 million kroons. Enterprises in other sectors reduced their equity security liabilities by 357 million kroons. As regards debt security liabilities, enterprises in other sectors and credit institutions decreased their liabilities by 357 and 220 million kroons, respectively. The liabilities related to money market instruments declined by 24 million kroons. By countries, portfolio investment liabilities to Denmark, Latvia, Austria and the United Kingdom diminished the most (see Figure 8 and Table 32).

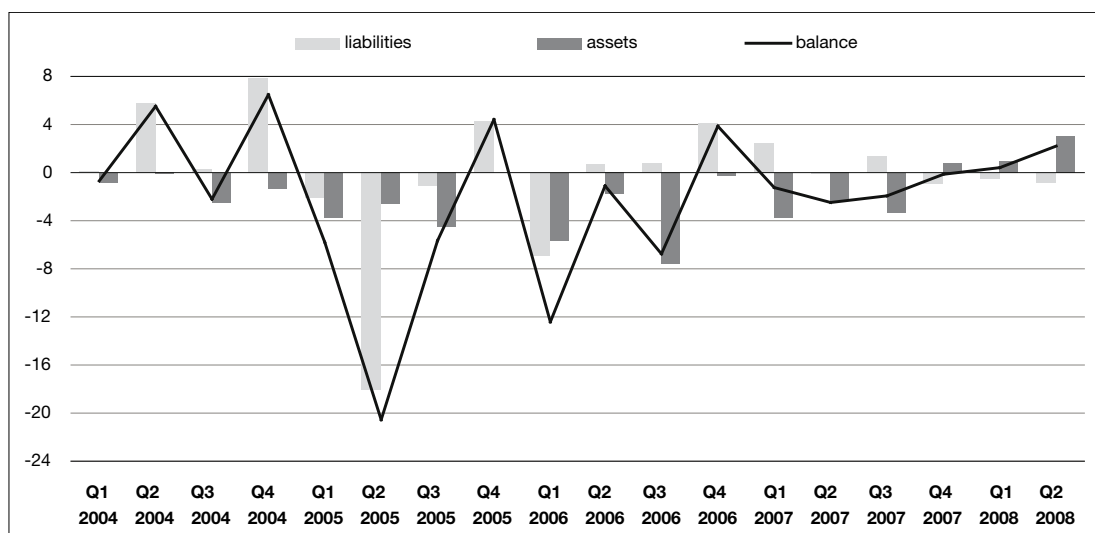


Figure 17. Portfolio investment (EEK bn)

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

	Assets			Liabilities			Balance		
	Q2 2007	Q1 2008	Q2 2008	Q2 2007	Q1 2008	Q2 2008	Q2 2007	Q1 2008	Q2 2008
Equity securities	-2,831.2	1,323.2	1,072.4	909.2	-1,010.5	-247.4	-1,922.0	312.7	825.0
central bank									
general government	64.0	41.3	220.7				64.0	41.3	220.7
credit institutions	-19.5	75.4	40.3	2.6	-21.9	-18.4	-16.9	53.5	21.9
other sectors	-2,875.7	1,206.5	811.4	906.6	-988.6	-229.0	-1,969.1	217.9	582.4
Debt securities	550.6	-318.0	2,027.6	-1,073.3	478.7	-624.1	-522.7	160.7	1,403.5
central bank									
general government	1,306.1	-804.0	1,894.2	-1,596.7	19.0	-47.4	-290.6	-785.0	1,846.8
credit institutions	-1,265.0	1,339.6	1,252.6	196.5	-2.0	-219.6	-1,068.5	1,337.6	1,033.0
other sectors	509.5	-853.6	-1,119.2	326.9	461.7	-357.1	836.4	-391.9	-1,476.3
Total	-2,280.5	1,005.2	3,100.0	-164.1	-531.9	-871.5	-2,444.6	473.3	2,228.5

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	-1,010.5	190.0	478.7	-90.0	-531.9	100.0
Q2 2008	-247.4	28.4	-624.1	71.6	-871.5	100.0

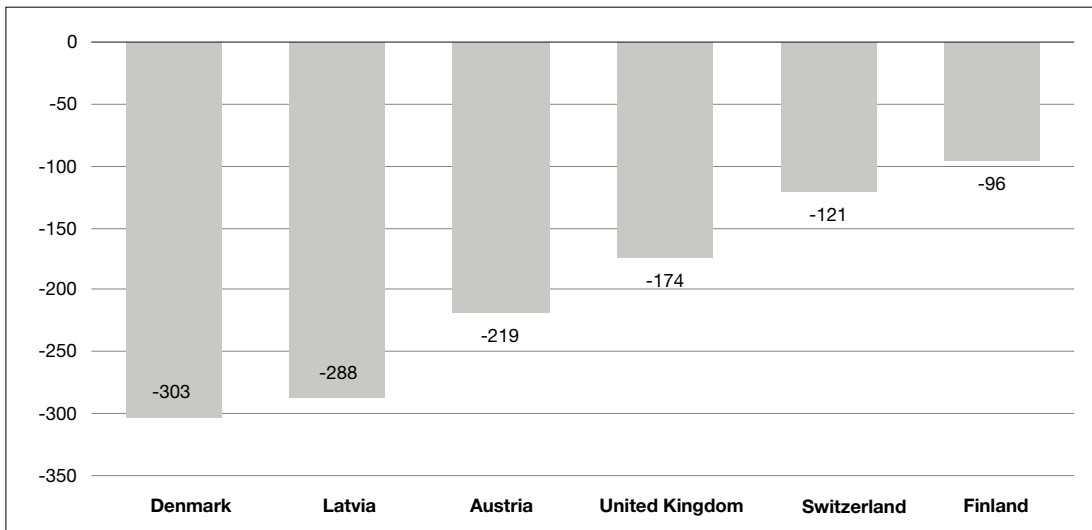


Figure 18. Decrease in portfolio investment liabilities by countries in the second quarter of 2008 (EEK m)

Table 32. Structure of portfolio investment by groups of countries in the second quarter of 2008

	Volume (EEK m)		Share (%)	
	Assets	Liabilities	Assets	Liabilities
EU-27	2,967.5	-762.8	95.7	87.5
CIS	255.2	25.3	8.2	-2.9
Other	-122.7	-134.0	-4.0	15.4
Total	3,100.0	-871.5	100.0	100.0

Portfolio investment assets decreased by 3.1 billion kroons in the second quarter (see Table 33). This stemmed from a 1.1 billion kroon decrease in equity security assets and a 2 billion kroon decrease in debt security assets. Similar to the first quarter, the claims on equity securities held by investment funds decreased the most also in the second quarter. Enterprises in other sectors invested 1.1 billion kroons in equity securities issued by non-residents. The investment of credit institutions and the general government, on the other hand, declined by 1.3 and 1.9 billion kroons. By countries, Estonian residents' investment in the Netherlands, Belgium, Finland, Russia and the United States decreased the most (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 (%)
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	1,323.2	131.6	-318.0	-31.6	1,005.2	100.0
Q2 2008	1,072.4	34.6	2,027.6	65.4	3,100.0	100.0

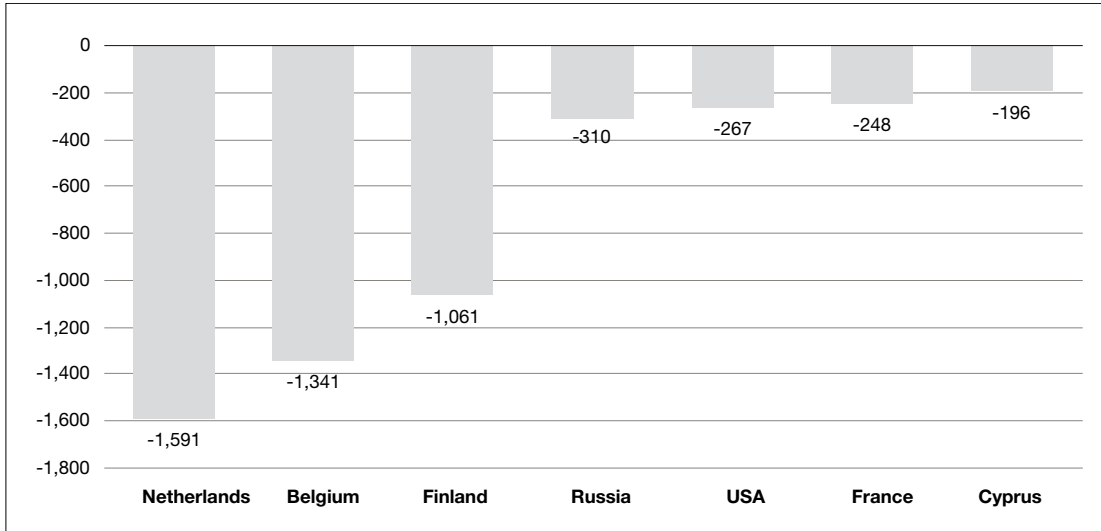


Figure 19. Decrease in portfolio investment assets by countries in the second quarter of 2008 (EEK m)

Derivatives

The second-quarter turnover of derivatives was modest, with inflow and outflow being almost balanced (see Figure 20). It was mainly credit institutions who invested in derivatives – as much as 68 million kroons. By countries, assets to the United Kingdom, Latvia, Sweden and Austria grew the most. As regards derivative-related liabilities, credit institutions decreased their liabilities by 69 billion kroons, whereas enterprises in other sectors increased their liabilities by 119 million kroons. In total, the derivative-related liabilities grew by 49 million kroons and concerned mainly Norway and Sweden.

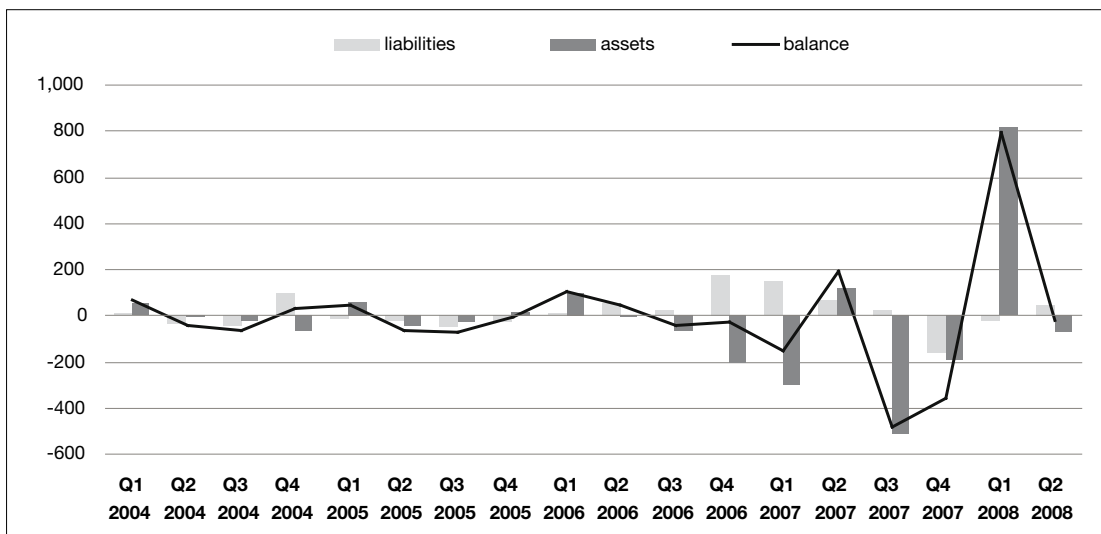


Figure 20. Financial derivatives (EEK m)

Other investment

The net inflow of other investment reached 4.3 billion kroons in the second quarter. This stemmed from an increase in the liabilities on the deposits of Estonian credit institutions and the liabilities in the form of loans of enterprises in other sectors (see Figure 21 and Table 34).

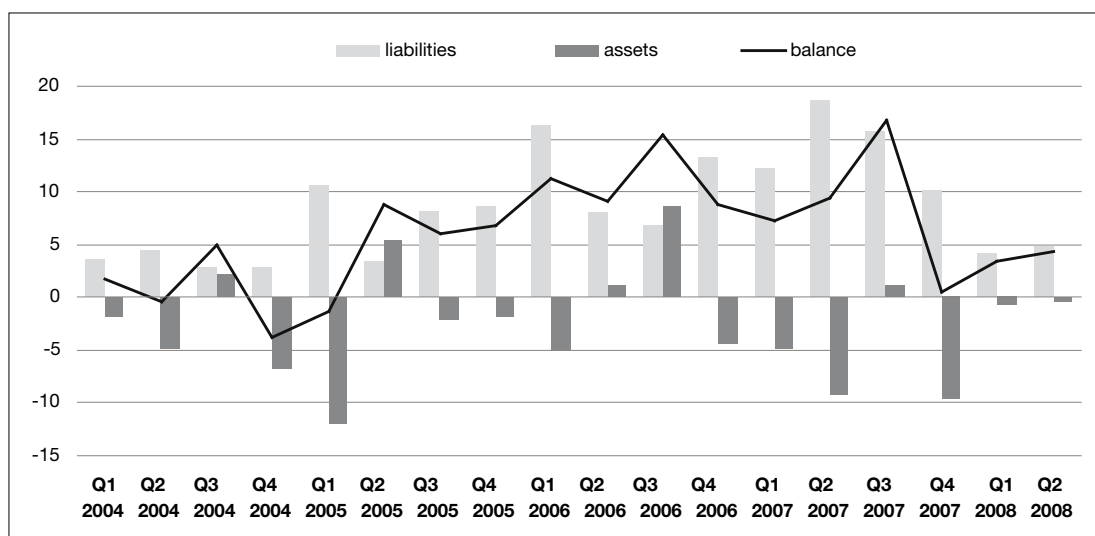


Figure 21. Other investment (EEK bn)

Table 34. Other investment by maturity (EEK m)

	Assets			Liabilities			Balance		
	Q2 2007	Q1 2008	Q2 2008	Q2 2007	Q1 2008	Q2 2008	Q2 2007	Q1 2008	Q2 2008
Long-term capital	-435.4	-462.1	-415.8	16,512.1	21,150.3	-13,373.1	16,076.7	20,688.2	-13,788.9
central bank		3.5							
general government		-64.3		-35.2	15.0	-174.5	-35.2	-49.3	-174.5
credit institutions	-314.3	-331.7	-49.8	13,691.2	22,685.0	-14,335.1	13,376.9	22,353.3	-14,384.9
other sectors	-121.1	-69.6	-366.0	2,856.1	-1,549.7	1,136.5	2,735.0	-1,619.3	770.5
Short-term capital	-11,246.6	-121.5	-227.4	2,174.7	-16,950.2	18,180.5	-9,071.9	-17,071.7	17,953.1
central bank				715.8	-4.4	-922.4	715.8	-4.4	-922.4
general government	16.3	-380.4	-52.2						
credit institutions	-9,893.7	1,631.8	1,138.2	2,492.2	-18,495.8	17,667.9	-7,401.5	-16,864.0	18,806.1
other sectors	-1,369.2	-1,372.9	-1,313.4	-1,033.3	1,550.0	1,435.0	-2,402.5	177.1	121.6
Total	-9,213.6	-786.8	-465.2	18,686.8	4,200.1	4,807.4	9,473.2	3,413.3	4,342.2

Other investment liabilities grew by the total of 4.8 billion kroons (see Table 35). As regards the structure of liabilities, liabilities in the form of deposits and trade credits increased – by 5 and 1.4 billion kroons, respectively. Loan liabilities, on the other hand, decreased by 1.4 billion kroons. The decrease in loan liabilities can largely be attributed to the liabilities of credit institutions, whereas deposit liabilities increased mainly owing to funds received from foreign parent banks. Enterprises in other sectors

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	596.5	14.2	22,301.0	531.0	-18,686.3	-444.9	-11.1	-0.3	4,200.1	100.0
Q2 2008	1,413.4	29.4	-1,449.3	-30.1	5,018.6	104.4	-175.2	-3.6	4,807.4	100.0

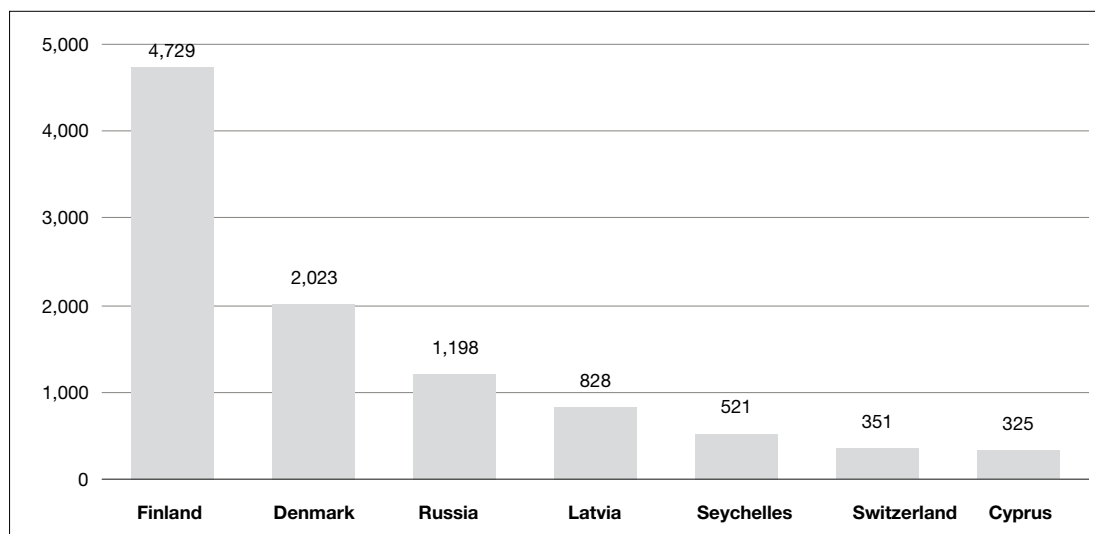


Figure 22. Increase in other investment liabilities by countries in the second quarter of 2008 (EEK m)

increased both the short-term and long-term liabilities. Their short-term capital liabilities grew as a result of an increase in trade credit liabilities, whereas growth in long-term capital liabilities was related to increasing loan liabilities. By countries, other investment liabilities to Finland, Denmark, Russia and Latvia increased the most (see Figure 22 and Table 36).

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

	Volume (EEK m)		Share (%)	
	Assets	Liabilities	Assets	Liabilities
EU-27	844.5	3,398.2	-181.5	70.7
CIS	-447.5	1,161.3	96.2	24.2
Other	-862.2	247.9	185.3	5.2
Total	-465.2	4,807.4	100.0	100.0

Other investment assets rose by 465 million kroons in the second quarter (see Table 37). Similar to the first quarter, the underlying reason was the increase in loan and trade credit assets, which grew by 2.8 and 1.1 billion kroons, respectively. The loan assets of credit institutions increased by 2.4 billion kroons in the form of short-term loans. Total claims on deposits, however, decreased by 3.9 billion kroons. By countries, investment assets to Denmark recorded highest growth rates, followed by assets to Canada, Lithuania, Ukraine and Norway (see Figure 23). Table 38 provides a more detailed overview of loan capital assets and liabilities.

Table 37. Structure of other investment assets

	Trade credit		Loans		Deposits		Other capital		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
Q1 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	-1,174.3	149.3	-1,054.2	134.0	1,283.5	-163.1	158.2	-20.1	-786.8	100.0
Q2 2008	-1,081.0	232.4	-2,844.7	611.5	3,949.3	-848.9	-488.8	105.1	-465.2	100.0

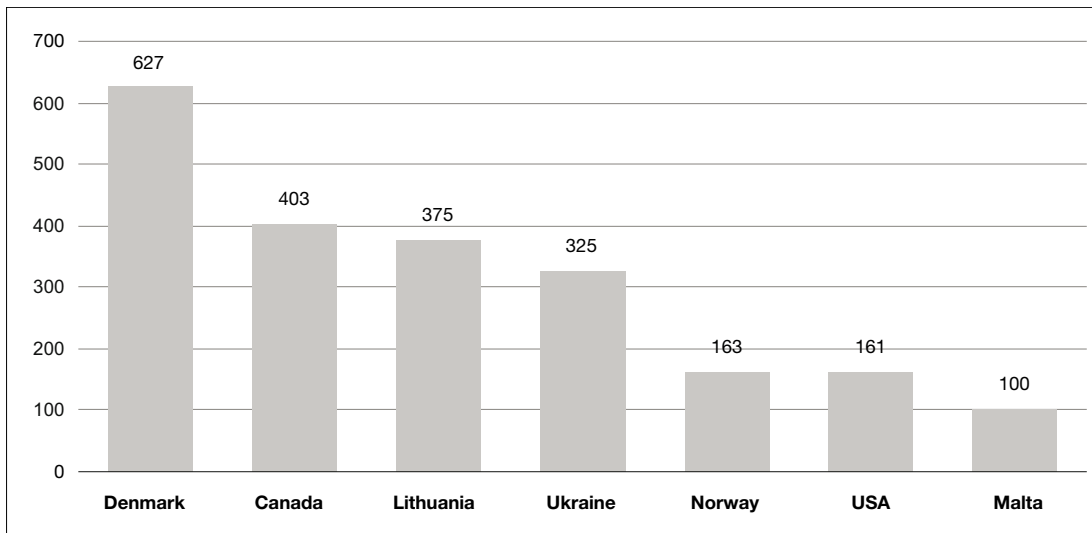


Figure 23. Increase in other investment assets by countries in the second quarter of 2008 (EEK m)

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	-112,339.3	111,285.1	-1,054.2	125,290.4	-102,989.4	22,301.0
Q2 2008	-52,589.3	49,744.6	-2,844.7	138,875.1	-140,324.5	-1,449.3

Reserve assets

The balance of payments reserves increased by 3.7 billion kroons in the second quarter of 2008 (see Table 39). Figure 24 provides an overview of the imports covered by reserve assets.

Table 39. Structure of changes in reserve assets

	Volume (EEK m)			Share (%)		
	Q2 2007	Q1 2008	Q2 2008	Q2 2007	Q1 2008	Q2 2008
Gold				0.0	0.0	0.0
Currency and deposits	340.5	-3,760.9	2,934.9	-614.6	194.3	-78.5
Securities	-399.0	1,757.3	-6,659.5	720.2	-90.8	178.2
equity securities				0.0	0.0	0.0
bonds and notes	-464.2	1,112.2	-2,759.5	837.9	-57.5	73.8
money market instruments	65.2	645.1	-3,900.0	-117.6	-33.3	104.4
Financial derivatives	0.2	0.7	-0.4	-0.4	0.0	0.0
Other assets	3.0	67.7	-12.0	-5.4	-3.5	0.3
Total	-55.4	-1,935.2	-3,737.0	100.0	100.0	100.0

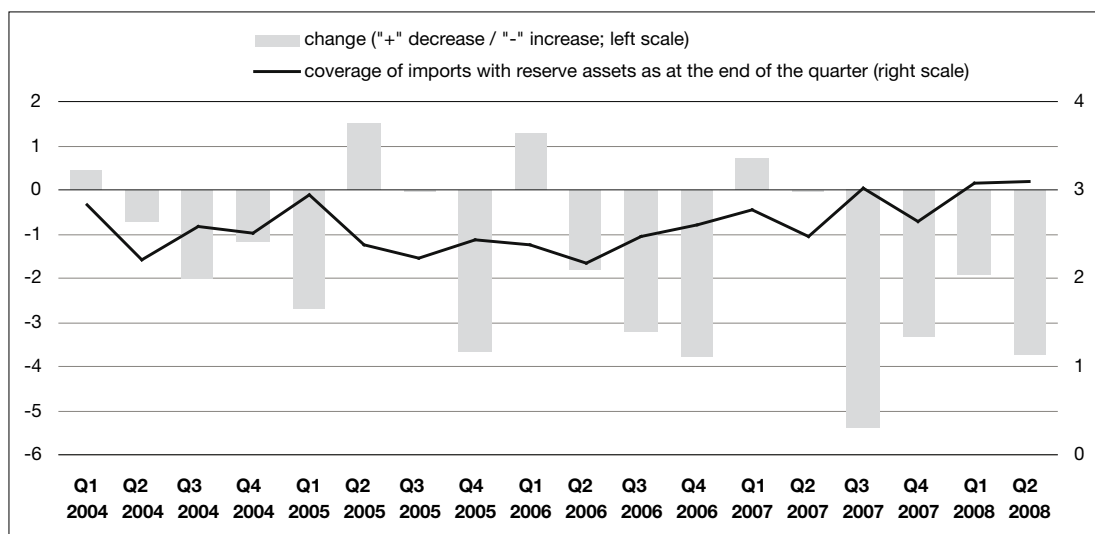


Figure 24. Changes in Estonia's gold and foreign exchange reserves (EEK bn) and coverage of imports of goods without further processing (by months)

ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND GROSS EXTERNAL DEBT as at 30 June 2008

In the second quarter of 2008, foreign investment in Estonia increased by 5.5 billion kroons (1%) and amounted to 434 billion kroons (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 (38%) and Finland (21%).

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

	31/03/2008	%	30/06/2008	%
EXTERNAL ASSETS	243,771.6	100.0	244,737.1	100.0
Direct investment abroad	67,416.0	27.7	68,453.7	28.0
Equity capital and reinvested earnings	51,734.3	21.2	51,959.2	21.2
Other direct investment capital	15,681.7	6.4	16,494.5	6.7
Portfolio investment	63,650.4	26.1	59,753.3	24.4
Equity securities	25,762.8	10.6	23,823.7	9.7
Debt securities	37,887.5	15.5	35,929.6	14.7
Bonds and notes	25,290.6	10.4	23,977.4	9.8
Money market instruments	12,596.9	5.2	11,952.2	4.9
Financial derivatives	698.9	0.3	759.8	0.3
Other investment	74,940.0	30.7	75,319.6	30.8
Trade credit	16,665.1	6.8	17,676.7	7.2
Loans	32,413.2	13.3	35,113.9	14.3
Long-term	10,276.3	4.2	10,725.4	4.4
Short-term	22,136.8	9.1	24,388.4	10.0
Currency and deposits	24,065.0	9.9	20,243.0	8.3
Other assets	1,796.7	0.7	2,286.1	0.9
Reserve assets	37,066.3	15.2	40,450.8	16.5
EXTERNAL LIABILITIES	428,362.1	100.0	433,884.9	100.0
Direct investment in Estonia	183,155.4	42.8	184,031.2	42.4
Equity capital and reinvested earnings	154,913.3	36.2	157,639.3	36.3
Other direct investment capital	28,242.1	6.6	26,391.8	6.1
Portfolio investment	43,900.1	10.2	42,474.7	9.8
Equity securities	20,628.3	4.8	18,835.2	4.3
Debt securities	23,271.8	5.4	23,639.5	5.4
Bonds and notes	23,153.2	5.4	23,547.2	5.4
Money market instruments	118.6	0.0	92.2	0.0
Financial derivatives	493.0	0.1	595.7	0.1
Other investment	200,813.5	46.9	206,783.4	47.7
Trade credit	14,498.1	3.4	15,917.7	3.7
Loans	135,173.7	31.6	134,859.5	31.1
Long-term	113,339.3	26.5	100,766.1	23.2
Short-term	21,834.4	5.1	34,093.4	7.9
Currency and deposits	48,601.8	11.3	53,617.5	12.4
Other liabilities	2,539.9	0.6	2,388.8	0.6
NET INVESTMENT POSITION	-184,590.5		-189,147.8	
Long-term	-193,220.1		-181,373.4	
Short-term	8,629.6		-7,774.4	

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

Assets			Liabilities		
Fields of activity					
	31/03/2008	30/06/2008		31/03/2008	30/06/2008
Financial intermediation	61.6	61.3	Financial intermediation	58.7	58.9
Real estate, renting and business activities	10.9	11.0	Real estate, renting and business activities	14.3	14.0
Public administration and defence; statutory social insurance	9.4	8.6	Wholesale and retail trade; repair	8.2	8.4
Wholesale and retail trade; repair	6.9	7.3	Manufacturing	7.9	7.6
Transport, storage and communications	4.4	4.9	Transport, storage and communications	4.5	4.8
Other	6.8	6.9	Other	6.4	6.3
Total	100.0	100.0	Total	100.0	100.0
Countries					
	31/03/2008	30/06/2008		31/03/2008	30/06/2008
Latvia	12.0	12.4	Sweden	39.2	37.8
Germany	10.4	11.1	Finland	19.4	20.5
Lithuania	10.0	10.0	Denmark	6.6	6.8
United Kingdom	8.4	6.9	United Kingdom	6.9	6.4
Russia	6.7	6.0	Netherlands	3.1	3.3
Other	52.5	53.6	Other	24.8	25.2
Total	100.0	100.0	Total	100.0	100.0

The structure of foreign investment in Estonia did not change much over the quarter. Other investment comprised the largest share (48%), followed by direct (42%) and portfolio investment (10%). Neither did the structure change by fields of activity. The most preferred fields of activity for **foreign direct investment in Estonia** were financial intermediation (33%), real estate, renting and business activities (28%), manufacturing (14%), and wholesale and retail trade (13%; see Table 42). Nearly 40% of total direct investment in Estonia has been made by Swedish and 25% by Finnish investors. Investors from the Netherlands, Denmark and Russia have invested to a lesser extent.

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

In Estonia			Abroad		
Fields of activity					
	31/03/2008	30/06/2008		31/03/2008	30/06/2008
Financial intermediation	32.7	32.9	Financial intermediation	40.1	37.9
Real estate, renting and business activities	27.4	27.5	Real estate, renting and business activities	33.3	33.7
Manufacturing	14.8	14.4	Transport, storage and communications	10.8	12.2
Wholesale and retail trade; repair	12.6	12.8	Wholesale and retail trade; repair	5.8	5.8
Transport, storage and communications	5.1	5.4	Manufacturing	4.1	4.4
Other	7.4	7.0	Other	5.9	6.0
Total	100.0	100.0	Kokku	100.0	100.0
Countries					
	31/03/2008	30/06/2008		31/03/2008	30/06/2008
Sweden	39.7	39.0	Latvia	32.6	33.8
Finland	23.0	23.9	Lithuania	29.3	28.3
Netherlands	6.6	7.4	Cyprus	8.1	9.5
Denmark	4.7	3.9	Russia	8.0	5.5
Russia	2.8	2.8	Finland	4.3	4.0
Other	23.2	23.0	Other	17.7	18.9
Total	100.0	100.0	Total	100.0	100.0

Estonian investment abroad posted modest growth with nearly 0.4% (1 billion kroons), totaling 245 billion kroons. Similar to the first quarter, financial intermediaries comprised the largest share (61%) of Estonian investment abroad. Investors in the public sector, real estate, renting and business activities, and wholesale and retail trade invested to a lesser extent (see Table 41). The second quarter saw a slight decline in public sector investment abroad. Estonian investors have invested in many different countries, Latvia, Germany, Lithuania, the United Kingdom and Russia being the most preferred destinations.

Quarter-on-quarter, the share of direct and other investment in the structure of investment abroad remained unchanged (28% and 31%, respectively), whereas the share of portfolio investment slightly decreased and that of reserves increased. The **position of foreign direct investment** grew by only 1 billion kroons, i.e. nearly 2%. The most active foreign direct investors were those of financial intermediation (38%) and real estate, renting and business activities (34%; see Table 42). However, financial intermediaries decreased their foreign direct investment position over the quarter. The majority (nearly two thirds) of Estonian direct investment abroad has been channelled to the Baltic States, and some also to Cyprus, Russia and Finland. In the second quarter, Estonia's direct investment position in Russia decreased, whereas the position in Cyprus increased.

Due to the prevalence of external liabilities, Estonia's net investment position was negative by 189 billion kroons at the end of the second quarter of 2008. 96% of the net investment position was long-term capital.

Estonia's gross external debt increased 2% quarter-on-quarter and amounted to 283 billion kroons at the end of the second quarter, exceeding the GDP for the last four quarters by 14%. Credit institutions and other sectors contributed the most to the increase, comprising 57% and 23% of the debt, respectively. The general government debt constituted only 1% of the gross debt. Estonia's net external debt (assets less liabilities) increased 2% and totalled 89 billion kroons (see Table 43 and Figure 25). The net external debt accounted for approximately 36% of GDP. The gross external debt

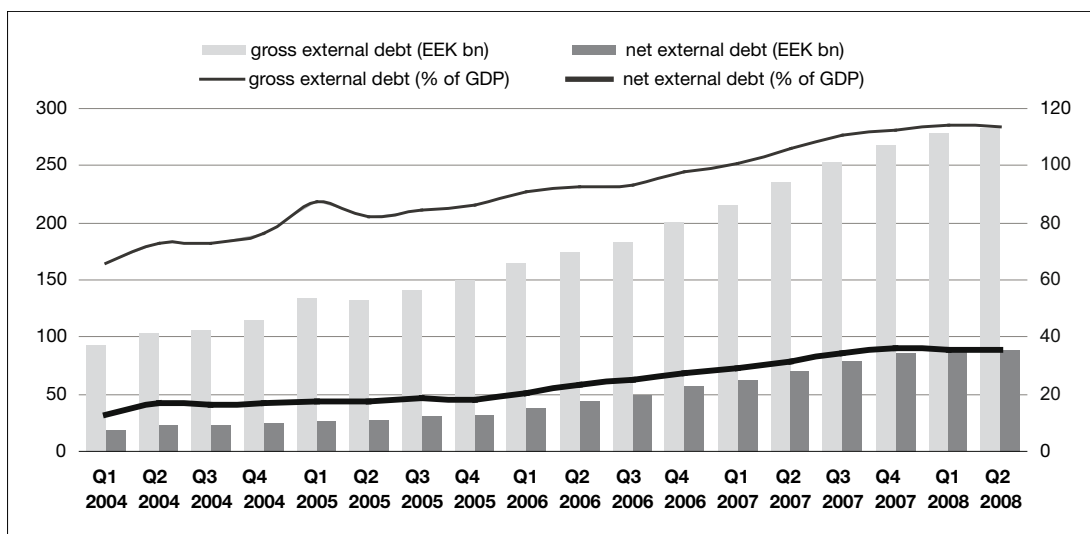


Figure 25. Estonia's gross and net external debt

constituted 65% of total external liabilities. Leaving aside the intercompany lending of direct investment companies, long-term debt liabilities comprised 63% of the gross external debt (62% at the end of the first quarter). The share of long-term debt claims still stood at 34% of total debt claims.

Table 43. External debt (EEK m)

	31/03/2008	%	30/06/2008	%
LIABILITIES				
I. General government	3,485.5	1.3	3,263.6	1.2
Short-term		0.0		
Long-term	3,485.5	1.3	3,263.6	1.2
II. Monetary authorities (NCB)	1,262.0	0.5	298.5	0.1
Short-term	1,242.0	0.4	265.9	0.1
Long-term	20.0	0.0	32.6	0.0
III. Credit institutions	156,199.2	56.3	160,504.3	56.7
Short-term	57,367.5	20.7	76,238.1	26.9
Long-term	98,831.7	35.6	84,266.2	29.8
IV. Other sectors	63,138.7	22.7	66,356.5	23.4
Short-term	26,673.7	9.6	27,269.5	9.6
Long-term	36,465.0	13.1	39,087.0	13.8
V. Direct investment: intercompany lending	53,566.1	19.3	52,643.8	18.6
GROSS EXTERNAL DEBT	277,651.5	100.0	283,066.7	100.0
ASSETS				
I. General government	22,995.4	12.1	21,102.5	10.9
Short-term	7,019.7	3.7	7,118.0	3.7
Long-term	15,975.6	8.4	13,984.5	7.2
II. Monetary authorities (NCB)	36,886.9	19.3	40,294.2	20.7
Short-term	24,421.5	12.8	25,469.3	13.1
Long-term	12,465.4	6.5	14,824.8	7.6
III. Credit institutions	43,900.3	23.0	41,598.0	21.4
Short-term	34,647.1	18.2	32,444.1	16.7
Long-term	9,253.2	4.9	9,153.9	4.7
IV. Other sectors	45,914.0	24.1	48,530.9	25.0
Short-term	33,050.8	17.3	34,355.9	17.7
Long-term	12,863.3	6.7	14,175.0	7.3
V. Direct investment: intercompany lending	41,005.8	21.5	42,746.5	22.0
TOTAL ASSETS	190,702.4	100.0	194,272.1	100.0
NET EXTERNAL DEBT (assets less liabilities)				
I. General government	19,509.9		17,838.9	
Short-term	7,019.7		7,118.0	
Long-term	12,490.2		10,720.9	
II. Monetary authorities (NCB)	35,624.9		39,995.6	
Short-term	23,179.6		25,203.4	
Long-term	12,445.4		14,792.2	
III. Credit institutions	-112,298.9		-118,906.3	
Short-term	-22,720.4		-43,794.0	
Long-term	-89,578.5		-75,112.3	
IV. Other sectors	-17,224.6		-17,825.5	
Short-term	6,377.1		7,086.4	
Long-term	-23,601.7		-24,912.0	
V. Direct investment: intercompany lending	-12,560.4		-9,897.3	
TOTAL NET EXTERNAL DEBT	-86,949.1		-88,794.6	