

Eesti Pank  
Bank of Estonia



# Estonia's Balance of Payments for 2008

2009



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## SHORT OVERVIEW

- The sudden deepening of global economic crisis and rapid easing in domestic demand had a considerable impact on the current account deficit of the balance of payments for 2008. The deficit decreased by nearly a half compared to 2007 and comprised 9.2% of GDP (see Table 1 and Figure 1)<sup>1</sup>. In absolute value, the deficit totalled 22.9 billion kroons.
- The decrease in current account deficit was especially pronounced in the second half of 2008, primarily because of the decline in the net outflow of income. The current account deficit for the fourth quarter of 2008 was the lowest in three years and amounted to 3.3 billion kroons (5.5% of the fourth-quarter GDP).
- The deficit on goods and services (the direct components of GDP) as a ratio to GDP constituted 4.3% in 2008. Total exports of goods and services grew 7%, whereas imports shrank 2%. Consequently, the deficit on goods and services decreased 60%.
- The current account deficit has declined across all current account components, particularly on account of a decrease in the deficit on the goods account.
- Net capital inflow decreased substantially and occurred mainly in the form of direct and other investment.
- The total balance of payments posted a surplus; the reserves increased by nearly 8 billion kroons.

The deficit on the **goods account** of the balance of payments for 2008 stood at 28.6 billion kroons and comprised 11.5% of GDP. Compared to 2007, the foreign trade deficit shrank by a third; that is, by 13.4 billion kroons. Goods exports grew 6% year-on-year and totalled 133.7 billion kroons in current prices; imports declined 4% and amounted to 162.4 billion kroons. The decrease in trade deficit can largely be attributed to the goods groups of transport vehicles, machinery and equipment, and metals, as their deficits declined by 15 billion kroons in total.

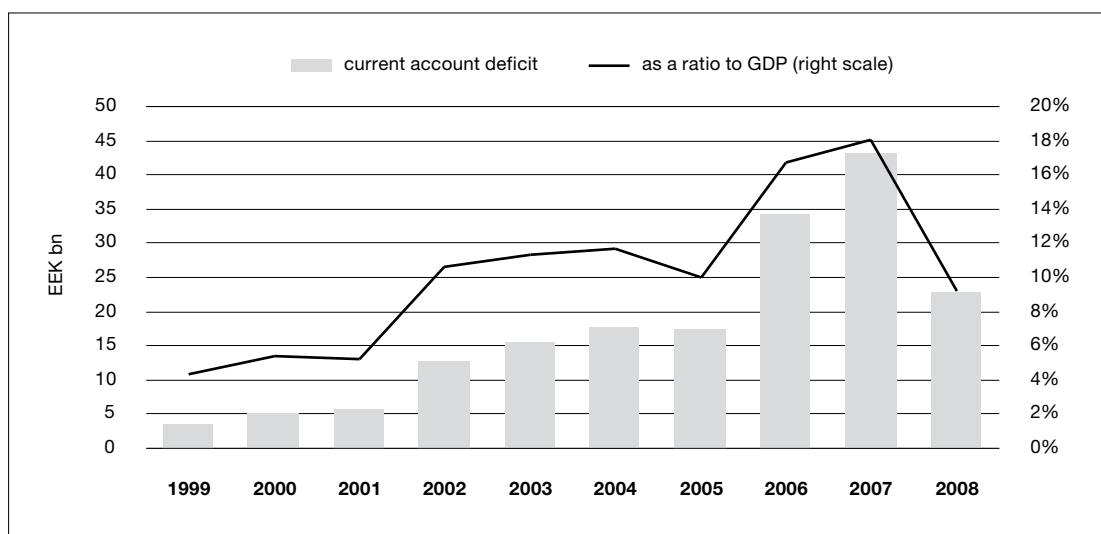


Figure 1. Current account deficit

<sup>1</sup> The current account deficit without reinvested earnings, which include no actual movement of funds, constituted 3.9% of GDP.

The main groups of export goods included machinery and equipment (20%; mostly electronic products), mineral and metal products, and timber and timber products (all 12%). Year-on-year, the exports of metals and metal products as well as chemical products increased the most (24% and 16%, respectively).

Machinery and equipment was also the largest import item (22%), followed by mineral products (16%), and chemical products (13%). The exports of transport vehicles and timber and timber products declined the most (27% and 23%, respectively). The deficit on the goods account declined sharply, as the exports of goods increased and imports decreased. Mineral products and chemical products had the largest deficits on the goods account. Timber and timber products as well as various industrial goods posted surpluses.

The share of Estonia's main trading partner – the European Union – comprised 70% of the exports and 80% of the imports of goods. Finland, Sweden, Russia and Latvia were the largest export partners, and Finland, Germany, Sweden, Latvia and Lithuania the major import partners.

Although the economic situation deteriorated further in the second half of 2008, the surplus on the **services account** kept growing. Year-on-year, it increased 20% and stood at 18 billion kroons. Services exports grew 9% and imports 4%. The total share of transport, travel and other business services accounted for 83% of both the imports and exports of services. Growth in the surplus on transport services – the largest type of services – increased 25%. Growth was mainly driven by the surplus on other transport services and to a lesser extent by the passenger transport surplus. The services surplus was significantly boosted by other business services and construction services, but also travel, computer and information, financial and insurance services.

The share of EU countries totalled 71% in the exports and 76% in the imports of services. Estonia had the biggest surplus with Finland (10.4 billion kroons) and the biggest deficit with Cyprus (1.1 billion kroons).

Total exports of goods and services, which are the direct components of GDP, grew 7%, whereas imports shrank 2%. Consequently, the deficit on goods and services decreased 60%.

The net outflow of **income** declined 8% in 2008 and totalled 16.6 billion kroons. The first half of the year witnessed active income outflow, but the trend turned in the second half, particularly in the fourth quarter. This resulted from a considerable decrease in reinvested earnings on direct investment, which in turn stemmed from falling profits, growing losses and withdrawal of dividends by residents.

The income earned by Estonian residents abroad declined 2% and the income earned by non-residents in Estonia decreased 5%. Labour income comprised 20% of Estonian residents' income earned abroad. The rest was investment income. Non-residents earned income in Estonia primarily on investment. Direct investment accounted for the majority of both the residents' and non-residents' investment income – 56% and 67%, respectively. Non-residents' direct investment income contained a considerable amount of reinvested earnings; residents drew large dividends on their foreign direct investment. Non-residents' income on other investment (loans and deposits) increased further and reached 28% of total investment income (16% in 2007). The income of both the residents and non-residents was almost entirely related to EU countries. Non-residents earned income in Estonia primarily on financial intermediation (62%) and somewhat less on other business activities, production of chemical products, and wholesale. Resident investors earned income abroad mostly in the field of financial intermediation (51%) as well as other business activities, but also water transport and public sector.

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

	2002	2003	2004	2005	2006	2007	2008
<b>Current account</b>	<b>-12,908</b>	<b>-15,418.2</b>	<b>-17,681.1</b>	<b>-17,371.6</b>	<b>-34,303.4</b>	<b>-43,163.9</b>	<b>-22,887.7</b>
Goods and services	-8,564.6	-10,046.8	-11,163.5	-11,032.4	-24,231.4	-26,960.5	-10,631.9
Goods*	-18,455.3	-21,522.3	-25,081.7	-24,134.8	-37,515.5	-42,021.7	-28,647.9
credit (f.o.b.)	57,948.7	63,443.7	74,013.0	98,262.3	121,430.6	126,364.4	133,705.9
debit (f.o.b.)	-76,404.0	-84,966.0	-99,094.7	-122,397.2	-158,946.1	-168,386.1	-162,353.8
Services	9,890.7	11,475.5	13,918.3	13,102.5	13,284.1	15,061.3	18,016.0
credit	28,164.3	30,674.0	35,888.8	40,228.7	43,597.9	50,055.3	54,397.0
debit	-18,273.6	-19,198.5	-21,970.6	-27,126.2	-30,313.8	-34,994.0	-36,380.9
Income	-5,391.1	-7,240.7	-7,964.6	-7,124.4	-10,768.2	-17,988.8	-16,598.8
credit	3,371.3	3,584.1	5,487.0	9,225.6	13,551.5	17,288.6	16,958.8
debit	-8,762.4	-10,824.8	-13,451.6	-16,349.9	-24,319.8	-35,277.3	-33,557.6
Transfers	1,047.7	1,869.4	1,447.0	785.2	696.3	1,785.4	4,343.0
credit	2,065.6	3,380.8	5,242.6	5,876.7	6,503.2	8,018.3	9,532.2
debit	-1,017.9	-1,511.5	-3,795.6	-5,091.6	-5,806.9	-6,232.9	-5,189.2
<b>Capital and financial account (reserve assets excluded)</b>	<b>13,055.3</b>	<b>18,552.9</b>	<b>21,389.3</b>	<b>21,208.3</b>	<b>41,204.7</b>	<b>42,826.7</b>	<b>33,092.2</b>
Capital account	636.4	977.8	1,076.6	1,325.9	4,388.5	2,705.9	3,792.9
Financial account	12,418.9	17,575.1	20,312.7	19,882.3	36,816.2	40,120.8	29,299.3
Direct investment	2,611.8	10,716.0	8,672.2	27,321.7	8,577.5	12,669.1	11,007.6
Abroad	-2,188.4	-2,149.2	-3,388.6	-8,699.5	-13,824.1	-18,033.0	-10,366.6
In Estonia	4,800.2	12,865.3	12,060.9	36,021.2	22,401.5	30,702.1	21,374.3
Portfolio investment	2,442.4	2,431.6	9,102.5	-27,688.4	-16,476.5	-5,760.1	6,491.3
Assets	-3,182.9	-5,351.6	-4,775.7	-10,818.4	-15,205.2	-8,483.9	9,930.0
Equity securities	9.1	-1,028.9	-2,893.5	-4,848.9	-4,567.7	-7,597.2	3,745.2
Debt securities	-3,192.0	-4,322.7	-1,882.2	-5,969.5	-10,637.5	-886.7	6,184.8
Liabilities	5,625.3	7,783.2	13,878.2	-16,870.0	-1,271.3	2,723.8	-3,438.7
Equity securities	912.2	1,527.0	2,205.2	-16,352.3	3,730.3	3,215.7	-3,438.6
Debt securities	4,713.1	6,256.2	11,673.0	-517.8	-5,001.6	-491.9	-0.1
Financial derivatives	-63.7	-19.3	-8.3	-97.6	78.5	-797.8	849.2
Assets	-43.2	-139.2	-35.1	13.5	-180.9	-879.9	676.1
Liabilities	-20.5	120.0	26.8	-111.1	259.4	82.1	173.2
Other investment	7,428.4	4,446.8	2,546.4	20,346.6	44,636.8	34,009.6	10,951.2
Assets	695.1	-2,284.6	-11,168.8	-10,454.2	275.3	-22,617.5	-5,753.4
Long-term	-1,083.0	-565.7	-6,052.6	5,636.5	-3,052.9	-2,509.4	-1,075.1
Short-term	1,778.1	-1,718.9	-5,116.1	-16,090.7	3,328.2	-20,108.1	-4,678.3
Liabilities	6,733.3	6,731.4	13,715.1	30,800.8	44,361.5	56,627.1	16,704.6
Long-term	1,829.0	4,309.1	3,740.5	15,396.8	17,979.9	32,455.0	24,726.8
Short-term	4,904.3	2,422.3	9,974.7	15,404.1	26,381.6	24,172.1	-8,022.2
Errors and omissions	779.5	-822.7	-282.8	1,047.3	622.6	1,724.4	-2,338.5
<b>Overall balance</b>	<b>926.8</b>	<b>2,312.1</b>	<b>3,425.4</b>	<b>4,883.9</b>	<b>7,523.9</b>	<b>1,387.3</b>	<b>7,866.0</b>
<b>Reserve assets</b>	<b>-926.8</b>	<b>-2,312.1</b>	<b>-3,425.4</b>	<b>-4,883.9</b>	<b>-7,523.9</b>	<b>-1,387.3</b>	<b>-7,866.0</b>

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

Incoming **current and capital transfers** increased 20% year-on-year, whereas outgoing transfers decreased more or less to the same extent. Consequently, the surplus on current and capital transfers grew significantly, and reached 4.3 and 3.9 billion kroons, respectively.

The surplus on the **financial account** was nearly a third smaller than in 2007, totalling 29.3 billion kroons. The net inflow of foreign capital occurred through direct, other as well as portfolio investment.

**Direct investment** inflow was 11 billion kroons bigger than outflow in 2008. Foreign direct investment in Estonia amounted to 21.4 billion and Estonia's direct investment abroad to 10.4 billion kroons.

In 2007 equity capital investment constituted most of Estonian residents' direct investment abroad, whereas in 2008 intercompany lending prevailed (70%) and the share of reinvested earnings dropped to 8%. Nearly two thirds of direct investment abroad went to Lithuania and Latvia. Direct investment in Russia decreased by over 2 billion kroons. The most active foreign direct investors were those of financial intermediation, other business activities and water transport.

74% of non-residents' direct investment in Estonia were reinvested earnings. Most of the investment came from Sweden (58%) and the Netherlands (23%). Finnish direct investment in Estonia shrank by 1.5 billion kroons. Half of direct investment in Estonia was invested in financial intermediation and less in other business activities and transport.

The net inflow of **portfolio investment** amounted to 6.5 billion kroons. Portfolio investment assets decreased by 9.9 billion and liabilities by 3.4 billion kroons. The decline in assets was primarily driven by the general government whose debt security assets shrank by 4.7 billion kroons. Other financial intermediaries and households decreased equity security assets. Liabilities decreased mainly due to a decline in the debt security liabilities of other financial intermediaries and other sectors.

The net inflow of **financial derivatives** totalled 0.8 billion kroons.

The net inflow of **other investment** amounted to 11 billion kroons. Other investment assets increased by 5.7 billion and liabilities by 16.7 billion kroons. Credit institutions recorded the strongest growth in terms of liabilities.

The balance of payments reserves increased by 7.9 billion kroons.

## CURRENT ACCOUNT

The sudden deepening of global economic crisis and rapid easing in domestic demand brought about a nearly 50% decrease in the current account deficit, which accounted for 9.2% of GDP in 2008. In absolute value, the deficit amounted to 22.9 billion kroons. The current account deficit has declined across all current account components, particularly on account of a decrease in the deficit on the goods account. The deficit on goods and services (the direct components of GDP) as a ratio to GDP was 4.3%. Total exports of goods and services grew 7%, whereas imports shrank 2%. Consequently, the deficit on goods and services decreased 60%. The current account deficit without reinvested earnings, which include no actual movement of funds, constituted 3.9% of GDP.

The share of the EU in the credit as well as the debit turnover was the same as in 2007: 72% and 81%, respectively. Four out of the five most important partners were the same in both turnovers: Finland, Sweden, Latvia and Lithuania. Russia was the fifth major partner in terms of exports and Germany in imports. The five largest trade partners accounted for 62% of both the credit and the debit turnover. Estonia's current account deficit was the biggest with Sweden, Germany and Poland, whereas the highest surplus was registered with Finland, Russia and the United States (see Table 2). In 2007, the current account was in deficit with Finland and Russia.

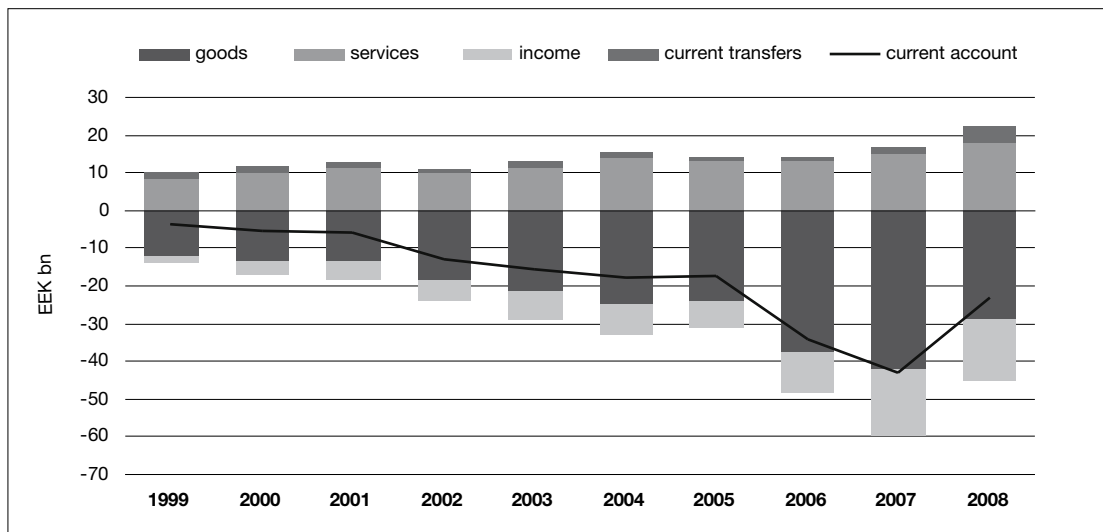


Figure 2. Current account structure

### Goods

**The deficit on the goods account decreased 32%, i.e. by 13.4 billion kroons, from 2007 and stood at 28.6 billion kroons in 2008, comprising 12% of GDP** (see Table 3). The exports of goods grew 6% year-on-year and amounted to 133.7 billion kroons. Imports, on the other hand, declined 4% and totalled 162.4 billion kroons.



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

	2007	2008
<b>EU-27</b>	<b>-52,205.9</b>	<b>-38,226.2</b>
Sweden*	-14,973.4	-15,204.5
Germany	-15,217.0	-14,311.6
Finland	-1,412.9	9,832.4
Poland	-5,936.5	-4,832.9
Lithuania	-1,959.3	-3,859.9
<b>CIS</b>	<b>-3,249.0</b>	<b>2,365.5</b>
Russia	-1,945.1	5,985.8
Belarus	-1,906.1	-4,193.4
Kazakhstan	159.8	405.2
<b>Other</b>	<b>12,291.0</b>	<b>12,973.0</b>
USA	3,706.8	4,975.9
Norway	3,573.4	4,021.7
China	-2,573.2	-2,562.9
Turkey	618.8	1,676.5
Switzerland	1,503.6	1,341.9
<b>Total</b>	<b>-43,163.9</b>	<b>-22,887.7</b>

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

**Table 3. Imports and exports of goods**

	Goods – credit (f.o.b.)			Goods – debit (f.o.b.)			Balance (EEK m)
	Volume* (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 exports of goods and services (%)	
1999	36,995.2	-2.1	62.8	49,092.1	-8.3	78.3	-12,096.9
2000	56,118.1	51.7	69.0	69,489.5	41.5	82.2	-13,371.4
2001	58,798.5	4.8	67.6	72,340.9	4.1	81.1	-13,542.4
2002	57,948.7	-1.4	67.3	76,404.0	5.6	80.7	-18,455.3
2003	63,443.7	9.5	67.4	84,966.0	11.2	81.6	-21,522.3
2004	74,013.0	16.7	67.3	99,094.7	16.6	81.9	-25,081.7
2005	98,262.3	32.8	71.0	122,397.2	23.5	81.9	-24,134.8
2006	121,430.6	23.6	73.6	158,946.1	29.9	84.0	-37,515.5
2007	126,364.4	4.1	71.6	168,386.1	5.9	82.8	-42,021.7
2008	133,705.9	5.8	71.1	162,353.8	-3.6	81.7	-28,647.9

\* Data of the foreign trade account of the balance of payments.

According to the preliminary **foreign trade statistics**<sup>2</sup>, goods exports totalled 132.2 billion and imports in c.i.f. prices 170.1 billion kroons in 2008 (see Figure 3). Exports rose in the first three quarters of 2008 compared to the same period in 2007 and went down only in the fourth quarter. Annual export growth reached 5%. Imports declined in the first, second and fourth quarter in particular (12%) – by 5% in total. The foreign trade deficit decreased by 15 billion kroons in total.

<sup>2</sup> 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 Intra-stat reporting system uses the terms "dispatch of goods" and "arrival of goods". Since the following analysis covers both intra-Community and non-Community trade, the terms "exports" and "imports" have still been used for the sake of simplicity and clarity.

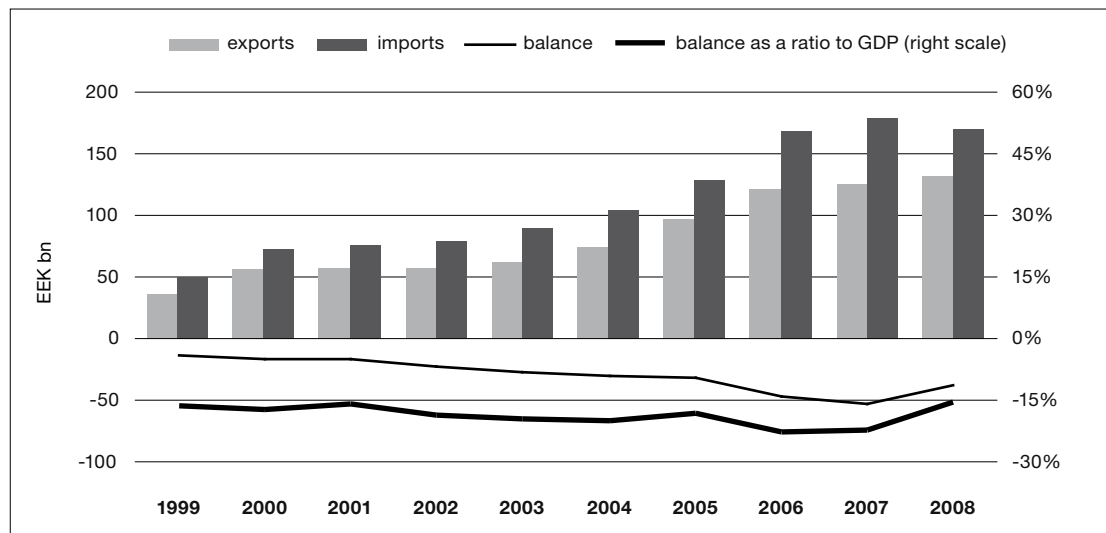


Figure 3. Estonia's foreign trade balance

Table 4. Exports by main groups of goods

	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
Food	11,128.6	12,031.3	8.9	9.1	8.1
Mineral products	15,671.8	15,774.4	12.5	11.9	0.7
Chemical products	9,707.3	11,243.0	7.7	8.5	15.8
Clothing, footwear and headgear	7,587.3	7,196.1	6.0	5.4	-5.2
Timber, paper and products	16,563.0	15,260.3	13.2	11.5	-7.9
Metals and metal products	12,954.6	16,018.8	10.3	12.1	23.7
Machinery and equipment	26,405.8	28,881.5	21.0	21.8	9.4
Transport vehicles	10,788.4	10,285.3	8.6	7.8	-4.7
Furniture, toys, sporting goods	9,817.8	9,594.0	7.8	7.3	-2.3
Other	5,104.0	5,986.5	4.1	4.5	17.3
<b>Total</b>	<b>125,728.6</b>	<b>132,271.1</b>	<b>100.0</b>	<b>100.0</b>	<b>5.2</b>

Table 5. Imports by main groups of goods

	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
Food	16,610.8	18,176.9	9.3	10.7	9.4
Mineral products	25,186.1	27,269.2	14.1	16.0	8.3
Chemical products	20,740.6	21,687.8	11.6	12.7	4.6
Clothing, footwear and headgear	11,222.7	11,149.7	6.3	6.6	-0.7
Timber, paper and products	10,282.6	7,946.6	5.8	4.7	-22.7
Metals and metal products	18,962.4	18,018.6	10.6	10.6	-5.0
Machinery and equipment	38,604.6	36,598.3	21.6	21.5	-5.2
Transport vehicles	25,090.0	18,383.6	14.0	10.8	-26.7
Furniture, toys, sporting goods	4,448.5	3,971.4	2.5	2.3	-10.7
Other	7,641.9	6,910.1	4.3	4.1	-9.6
<b>Total</b>	<b>178,790.3</b>	<b>170,112.3</b>	<b>100.0</b>	<b>100.0</b>	<b>-4.9</b>

**Goods export** growth was boosted by several goods groups, particularly metals and metal products, machinery and equipment as well as chemical and food products (see Table 4). The exports of metals posted even 24% annual growth and comprised mainly waste metals, hot-rolled steel products and metal constructions sent to Finland, Turkey, Latvia, Sweden and Poland. The exports of machinery and equipment grew almost 10% and over 50% of that went to Finland and Sweden (mostly mobile communication devices and components, cables, electric motors and transformers). The exports of chemical products increased 16%. Various construction materials (mastics, putties) were exported to Russia and Ukraine, nitrogen fertilizers to the United States, the United Kingdom and France, and plastic products to Sweden, Latvia and Finland.

The exports of food products picked up considerably too. The primary export items were spirits to Russia and Finland, dairy products to Finland, Latvia, Russia and Germany, and canned fish to Finland and Ukraine. The exports of mineral products remained at the level of 2007 and 70% of that consisted motor fuels imported from Lithuania, Russia and Belarus, and re-exported to the United States, Nigeria, Finland and various other countries. Electricity was exported to Finland and Latvia. The exports of transport vehicles decreased 5%, largely owing to the considerable fall in motor car imports. Motor cars and spare parts were exported to Latvia, Lithuania, Russia and Sweden.

The exports of timber and timber products declined 8% year-on-year. The main export items were wooden construction components, processed or little processed timber and firewood, which were sent to Finland, Sweden, Germany, Denmark, Norway and the United Kingdom. Textile products and footwear were exported primarily to Finland, Sweden, Latvia, Russia and Lithuania. Prefabricated wooden buildings were delivered to Norway, Germany and Denmark; furniture and furniture components went to Finland, Sweden and Denmark.

**Goods imports** decreased across seven goods groups out of ten – only the imports of food, chemical and mineral products posted growth (see Table 5). The decrease was largely caused by a significant drop in the imports of transport vehicles, timber, and machinery and equipment. The imports of motor cars from Finland, Sweden and Germany decreased by a third; that is, by 4.4 billion kroons. The imports of trucks (mostly from Germany and Sweden) decreased by a billion kroons year-on-year. Spare parts of motor cars and tractors were purchased from Sweden, Germany and Finland.

The 23% decline in timber imports was caused by reduced deliveries of raw timber from Russia. The imports of machinery and equipment shrank 5%, i.e. by 2 billion kroons. The main import items were mobile communication devices and components of electronic equipment (imported both for processing and internal supply) as well as cables, computers and TV sets. The major trade partners were Finland, Germany, Sweden and Latvia. The imports of mineral products increased 8%; 78% of the imports consisted of motor fuels from Lithuania, Russia and Belarus. The imports of chemical products grew 5%. Medicines were purchased from Latvia, Germany and Lithuania, and hydrocarbons that are used for fuel processing from Russia.

The imports of food products increased nearly 10%. Similar to the exports of food products, spirits were also the largest import item, purchased from the United Kingdom, France, Ireland and Finland. Wines were imported from France, Italy and Spain; pork from Denmark and Finland; fish products from Latvia and Lithuania; pet food from Sweden, Poland and Germany, and coffee from Finland and Sweden. The imports of metals and metal products contained iron and steel products from Finland, Germany, Sweden, Latvia, Russia, Poland and Ukraine. Footwear, underwear, ready-made men's and women's clothes, knitwear etc. were imported from Latvia, Finland, Germany, China, Italy and Sweden. Various industrial products (furniture, lamps) were purchased primarily from Finland, Poland, China, Germany and Italy.

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

	2007	2008
Food	-5,482.2	-6,145.7
Mineral products	-9,514.3	-11,494.8
Chemical products	-11,033.3	-10,444.8
Clothing, footwear and headgear	-3,635.4	-3,953.5
Timber, paper and products	6,280.5	7,313.7
Metals and metal products	-6,007.8	-1,999.8
Machinery and equipment	-12,198.8	-7,716.8
Transport vehicles	-14,301.6	-8,098.3
Furniture, toys, sporting goods	5,369.3	5,622.5
Other	-2,537.9	-923.6
<b>Total</b>	<b>-53,061.7</b>	<b>-37,841.2</b>

The **foreign trade deficit** decreased 29%, i.e. by 15 billion kroons, and totalled 37.8 billion kroons (see Table 6). Two groups of goods posted a surplus: timber and timber products as well as furniture and other industrial goods. The transport vehicles, machinery and equipment, and metal products contributed to a decrease in the deficit. However, mineral and food products, and clothing, footwear and headgear boosted the deficit.

By **groups of countries, goods exports** to the European Union picked up 5% and the EU accounted for around 70% of total goods exports (see Table 7). The main export partners in the EU were Finland, Sweden, Latvia, Lithuania and Germany. 25% of the exports to the EU consisted of machinery and equipment (primarily electronic products), followed by timber and timber products, and metal and food products. Exports to the CIS increased 23%. Russia's share in exports was 78% (25% growth), Ukraine and Belarus followed. Exports to Russia included machinery and equipment, food products and motor cars; metal products were delivered to Ukraine, and Belarus purchased machinery and equipment as well as chemical products. The top three among other countries were the United States, Norway and Turkey. 74% of the exports to the United States comprised motor fuel; timber products (furniture and log cabins) were sent to Norway, and waste metal to Turkey.

**Table 7. Exports of goods by groups of countries**

	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
<b>EU-27</b>	<b>87,936.5</b>	<b>92,357.2</b>	<b>69.9</b>	<b>69.8</b>	<b>5.0</b>
Finland	22,273.9	24,318.3	17.7	18.4	9.2
Sweden	16,688.8	18,345.8	13.3	13.9	9.9
Latvia	14,522.1	13,172.3	11.6	10.0	-9.3
Lithuania	7,435.9	7,575.6	5.9	5.7	1.9
Germany	6,544.4	6,676.5	5.2	5.0	2.0
<b>CIS</b>	<b>14,345.7</b>	<b>17,699.2</b>	<b>11.4</b>	<b>13.4</b>	<b>23.4</b>
Russia	11,103.1	13,786.1	8.8	10.4	24.2
Ukraine	1,859.7	2,207.4	1.5	1.7	18.7
Belarus	564.9	850.4	0.4	0.6	50.5
<b>Other</b>	<b>23,446.4</b>	<b>22,214.7</b>	<b>18.6</b>	<b>16.8</b>	<b>-5.3</b>
USA	5,238.9	6,374.7	4.2	4.8	21.7
Norway	4,239.1	4,380.8	3.4	3.3	3.3
Turkey	1,606.5	2,416.0	1.3	1.8	50.4
<b>Total</b>	<b>125,728.6</b>	<b>132,271.1</b>	<b>100.0</b>	<b>100.0</b>	<b>5.2</b>

The **imports of goods** decreased across all groups of countries (see Table 8). The top five of EU countries included Finland, Germany, Sweden, Latvia and Lithuania. Imports from the EU consisted of machinery and equipment, chemical and food products, and transport vehicles (mostly motor cars). Imports from Russia comprised mainly mineral products (motor fuel and natural gas for processing) and chemical products (for fuel processing). Other major import partners were Belarus and Ukraine: Belarus sold motor fuel to Estonia and Ukraine delivered metal products. The top three among other countries were China, the United States and Norway. China exported electronic components, the United States sold transport vehicles and machinery, and Norway delivered motor fuel to Estonia.

Foreign trade was in deficit with the EU as well as the CIS (see Table 9). As regards the EU Member States, Estonia had the biggest trade deficit with Germany (almost 16 billion kroons) and the biggest surplus with Sweden, Denmark and Finland. From among the CIS countries, Estonia had a trade deficit of 4 billion kroons with Belarus, and a 0.8 billion kroon surplus with Russia. As for other countries, Estonia had the largest trade surplus with the United States, Norway and Turkey.

**Table 8. Imports of goods by groups of countries\***

	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
<b>EU-27</b>	<b>140,525.9</b>	<b>135,634.7</b>	<b>78.6</b>	<b>79.7</b>	<b>-3.5</b>
Finland	27,795.6	24,200.5	15.5	14.2	-12.9
Germany	23,151.1	22,633.4	12.9	13.3	-2.2
Sweden	19,017.5	17,018.7	10.6	10.0	-10.5
Latvia	13,323.4	15,097.2	7.5	8.9	13.3
Lithuania	12,455.2	15,010.3	7.0	8.8	20.5
<b>CIS</b>	<b>23,253.1</b>	<b>20,698.7</b>	<b>13.0</b>	<b>12.2</b>	<b>-11.0</b>
Russia	18,112.1	13,024.3	10.1	7.7	-28.1
Belarus	2,542.0	4,978.2	1.4	2.9	95.8
Ukraine	1,741.0	1,829.3	1.0	1.1	5.1
<b>Other</b>	<b>15,011.3</b>	<b>13,778.9</b>	<b>8.4</b>	<b>8.1</b>	<b>-8.2</b>
China	3,716.2	3,634.9	2.1	2.1	-2.2
USA	2,204.4	2,011.6	1.2	1.2	-8.7
Norway	1,090.3	1,157.7	0.6	0.7	6.2
<b>Total</b>	<b>178,790.3</b>	<b>170,112.3</b>	<b>100.0</b>	<b>100.0</b>	<b>-4.9</b>

\* Analysed by trading country

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

	2007	2008
EU-27	-52,589.4	-43,277.5
CIS	-8,907.4	-2,999.5
Other	8,435.1	8,435.8
<b>Total</b>	<b>-53,061.7</b>	<b>-37,841.2</b>

## Services

The surplus on the services account amounted to 18 billion kroons in 2008, which is 20% up on a year earlier (see Figure 4). The deepening of economic downturn in the second half of 2008 had relatively little impact on the import and export figures for 2008. Although the growth of imports as well as exports slowed, exports posted higher annual growth figures than imports (9% and 4%, respectively; see Table 10). As goods imports declined, the share of services in the total turnover of goods and services slightly increased. The surplus on the services account offset 63% of the foreign trade deficit.

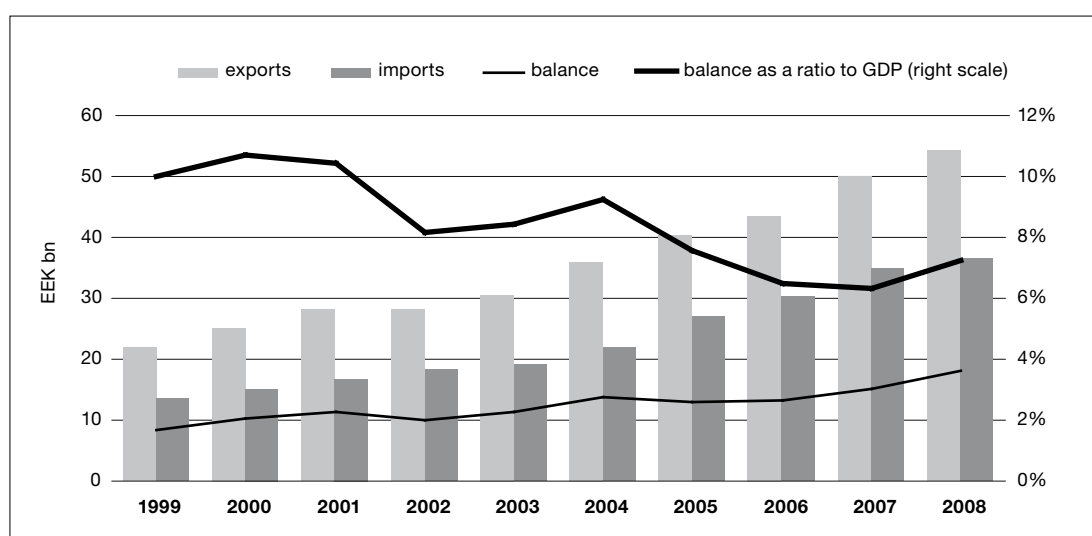


Figure 4. Services account

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 (%)
1999	21,951.9	5.5	37.2	13,610.4	6.7	21.7	8,341.5	3.6
2000	25,263.4	15.1	31.0	15,059.6	10.6	17.8	10,203.8	22.3
2001	28,135.4	11.4	32.4	16,840.6	11.8	18.9	11,294.8	10.7
2002	28,164.3	0.1	32.7	18,273.6	8.5	19.3	9,890.7	-12.4
2003	30,674.0	8.9	32.6	19,198.5	5.1	18.4	11,475.5	16.0
2004	35,888.8	17.0	32.7	21,970.6	14.4	18.1	13,918.2	21.3
2005	40,228.7	12.1	29.0	27,126.2	23.5	18.1	12,967.8	-6.8
2006	43,597.9	8.4	26.4	30,313.8	11.8	16.0	13,284.1	2.4
2007	50,055.3	14.8	28.4	34,994.0	15.4	17.2	15,061.3	13.4
2008	54,397.0	8.7	28.9	36,380.9	4.0	18.3	18,016.1	19.6

Year 2008 brought about a significant change in the structure of the net exports of services (see Table 11). Half of the improvement of the services balance can be attributed to a 26% growth in the surplus on transport services. The increased net exports of business and construction services contributed somewhat less: 38% and 48%, respectively. The surplus on government and communication services turned into a deficit in 2008.

Services exports increased 9% in 2007 (see Table 12). In 2008, services exports were primarily boosted by the exports of other business services (12% growth), but also travel and transport services (9% and 5% growth, respectively). The exports of government and financial services shrank (10% and 35%, respectively).

As regards the geographical breakdown of services exports, 2008 was comparable to 2007 (see Table 13). The share of the CIS slightly rose, whereas that of other countries (incl. off-shore regions) dropped, and the share of the EU countries remained unchanged. Like in previous years, Finland and Russia were the largest export partners. Latvia ranked third among EU countries, followed by the United Kingdom.

Services imports increased 4% in 2008 (see Table 14). The imports of transport services, which holds the largest share in total services imports, declined 4% year-on-year. Travel services made the largest contribution to total services imports (annual growth stood at 11%); the shares of other types of services were relatively equal.

The structure of services imports by groups of countries did not change much year-on-year. EU countries accounted for 76% of services imports (see Table 15); imports from Finland declined 9% from 2007. As regards the CIS, services imports from Ukraine and Belarus posted the strongest growth. In terms of other countries, imports to the United States and Egypt grew the most, largely owing to increased imports of travel services.

**Table 11. Services balance by major categories**

	Balance (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
Transportation	6,003.9	7,532.5	39.9	41.8	25.5
Travel	4,174.1	4,429.3	27.7	24.6	6.1
Construction services	1,159.1	1,719.1	7.7	9.5	48.3
Computer and information services	792.9	809.8	5.3	4.5	2.1
Business services	2,412.7	3,337.9	16.0	18.5	38.3
Government services	82.0	-44.1	0.5	-0.2	-153.8
Other	436.5	231.5	2.9	1.3	-47.0
<b>Total</b>	<b>15,061.3</b>	<b>18,016.0</b>	<b>100.0</b>	<b>100.0</b>	<b>19.6</b>

**Table 12. Services exports by major categories**

	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
Transportation	20,474.4	21,387.0	40.9	39.3	4.5
freight	10,735.3	10,230.9	21.4	18.8	-4.7
passenger	4,318.3	4,760.8	8.6	8.8	10.2
other transport services	5,420.9	6,395.3	10.8	11.8	18.0
Travel	11,791.7	12,854.2	23.6	23.6	9.0
Construction services	2,253.1	2,876.4	4.5	5.3	27.7
Computer and information services	1,599.5	1,848.3	3.2	3.4	15.6
Business services	9,971.6	11,174.3	19.9	20.5	12.1
Government services	658.4	589.9	1.3	1.1	-10.4
Other	3,306.5	3,666.9	6.6	6.7	10.9
<b>Total</b>	<b>50,055.3</b>	<b>54,397.0</b>	<b>100.0</b>	<b>100.0</b>	<b>8.7</b>

**Table 13. Services exports by groups of countries**

	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
<b>EU-27</b>	<b>35,460.4</b>	<b>38,389.0</b>	<b>70.8</b>	<b>70.6</b>	<b>8.3</b>
Finland	14,823.5	15,839.8	29.6	29.1	6.9
Sweden	4,145.3	4,576.0	8.3	8.4	10.4
Latvia	2,693.1	2,907.8	5.4	5.3	8.0
United Kingdom	3,109.0	2,788.2	6.2	5.1	-10.3
<b>CIS</b>	<b>6,397.4</b>	<b>7,505.5</b>	<b>12.8</b>	<b>13.8</b>	<b>17.3</b>
Russia	5,369.1	6,081.8	10.7	11.2	13.3
Ukraine	470.0	683.4	0.9	1.3	45.4
Kazakhstan	355.1	454.8	0.7	0.8	28.1
<b>Other</b>	<b>8,197.5</b>	<b>8,502.5</b>	<b>16.4</b>	<b>15.6</b>	<b>3.7</b>
Switzerland	2,057.6	2,035.8	4.1	3.7	-1.1
offshore regions	1,995.2	1,797.3	4.0	3.3	-9.9
USA	1,518.3	1,655.0	3.0	3.0	9.0
<b>Total</b>	<b>50,055.3</b>	<b>54,397.0</b>	<b>100.0</b>	<b>100.0</b>	<b>8.7</b>

**Table 14. Services imports by major categories**

	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
Transportation	14,470.5	13,854.5	41.4	38.1	-4.3
freight	9,448.0	9,161.2	27.0	25.2	-3.0
passenger	1,537.5	1,425.9	4.4	3.9	-7.3
other transport services	3,484.9	3,267.4	10.0	9.0	-6.2
Travel	7,617.7	8,424.8	21.8	23.2	10.6
Construction services	1,094.0	1,157.3	3.1	3.2	5.8
Computer and information services	806.6	1,038.5	2.3	2.9	28.7
Business services	7,558.9	7,836.4	21.6	21.5	3.7
Government services	576.4	634.0	1.6	1.7	10.0
Other	2,870.0	3,435.4	8.2	9.4	19.7
<b>Total</b>	<b>34,994.0</b>	<b>36,380.9</b>	<b>100.0</b>	<b>100.0</b>	<b>4.0</b>

**Table 15. Services imports by groups of countries**

	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
<b>EU-27</b>	<b>26,927.3</b>	<b>27,581.0</b>	<b>76.9</b>	<b>75.8</b>	<b>2.4</b>
Finland	5,960.3	5,413.3	17.0	14.9	-9.2
Sweden	2,546.6	2,946.2	7.3	8.1	15.7
Latvia	2,397.3	2,840.4	6.9	7.8	18.5
Germany	2,658.5	2,790.4	7.6	7.7	5.0
<b>CIS</b>	<b>3,148.3</b>	<b>3,452.3</b>	<b>9.0</b>	<b>9.5</b>	<b>9.7</b>
Russia	2,361.0	2,452.4	6.7	6.7	3.9
Ukraine	422.2	511.3	1.2	1.4	21.1
Belarus	236.2	329.7	0.7	0.9	39.6
<b>Other</b>	<b>4,918.4</b>	<b>5,347.6</b>	<b>14.1</b>	<b>14.7</b>	<b>8.7</b>
USA	1,086.9	1,295.1	3.1	3.6	19.2
Egypt	647.4	722.7	1.9	2.0	11.6
Norway	503.6	494.1	1.4	1.4	-1.9
<b>Total</b>	<b>34,994.0</b>	<b>36,380.9</b>	<b>100.0</b>	<b>100.0</b>	<b>4.0</b>



The surplus on **transport services** grew in 2008, regardless of the general deterioration of the global economy. The main driving force was the increased sale of passenger transport by sea and other supporting and auxiliary transport services by road, which were primarily related to storage, logistics and provision of forwarding services (see Figure 5-6 and Tables 11-12). The higher share of other supporting and auxiliary services also offset the lower volumes of freight transport in the rail and air transport sector.

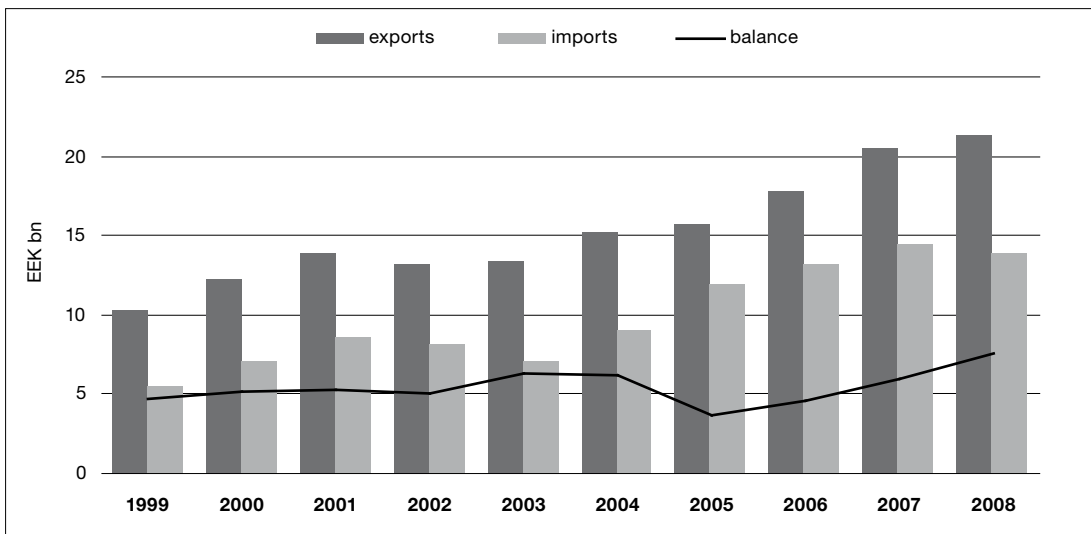


Figure 5. Transport services

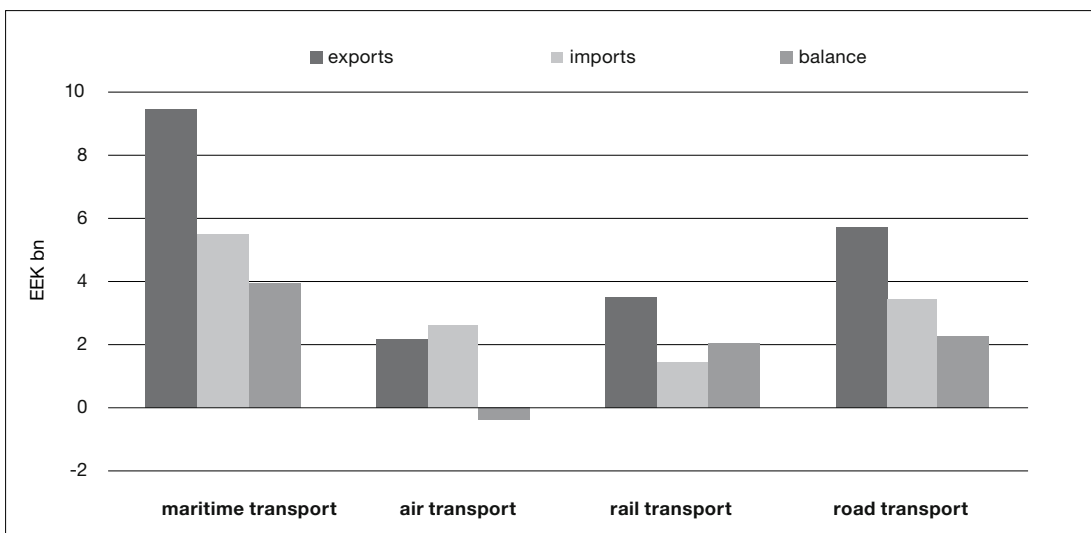


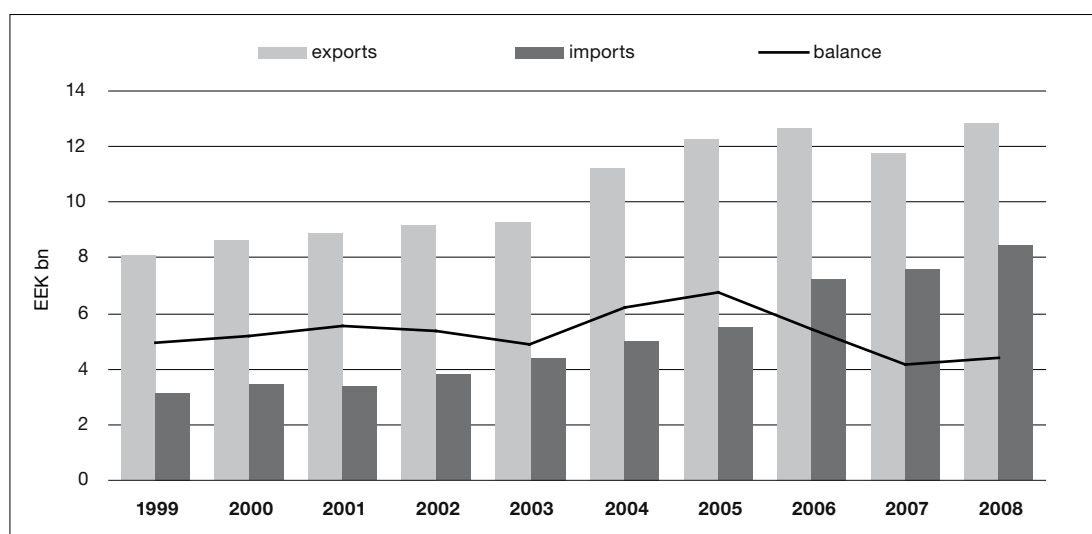
Figure 6. Transport services structure in 2008 by transport type

Total exports of transport services increased 5% year-on-year; sale to EU countries was lower than average (2% growth; see Table 16). Finland was the biggest importer of transport services also in 2008. Exports to the CIS (incl. Russia) picked up 22%. Switzerland was the biggest trade partner among other countries, although the share of the United States in transport services exports witnessed strongest annual growth.

The imports of transport services declined 4% (see Tables 14 and 16). The imports of transport services decreased across all types of services, especially passenger transport. The majority of transport services in 2008 were purchased from EU countries, in particular Germany. Imports from the CIS went up 6%. Imports from other countries grew 3%, largely owing to the increased procurement of transport services from the United States, offshore regions and China.

**Table 16. Transport services by groups of countries in 2008**

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%), 2008/2007		Volume (EEK m)	Share (%)	Change(%), 2008/2007
<b>EU-27</b>	<b>14,051.8</b>	<b>65.7</b>	<b>1.6</b>	<b>EU-27</b>	<b>9,960.1</b>	<b>71.9</b>	<b>-7.2</b>
Finland	5,028.4	23.5	-4.1	Germany	1,669.4	12.0	10.9
Sweden	1,875.6	8.8	15.4	Finland	1,428.7	10.3	-33.2
United Kingdom	1,513.8	7.1	-18.3	Sweden	1,086.7	7.8	13.8
Germany	1,174.5	5.5	15.5	Latvia	1,001.2	7.2	8.4
Netherlands	748.7	3.5	28.9	Lithuania	719.4	5.2	24.2
<b>CIS</b>	<b>3,029.7</b>	<b>14.2</b>	<b>21.6</b>	<b>CIS</b>	<b>1,722.7</b>	<b>12.4</b>	<b>5.8</b>
Russia	2,787.1	13.0	22.0	Russia	1,301.6	9.4	0.0
Ukraine	116.8	0.5	-8.6	Belarus	244.0	1.8	38.6
<b>Other</b>	<b>4,305.5</b>	<b>20.1</b>	<b>3.8</b>	<b>Other</b>	<b>2,171.7</b>	<b>15.7</b>	<b>2.7</b>
Switzerland	1,448.3	6.8	-0.2	USA	481.4	3.5	33.2
offshore regions	1,012.4	4.7	-17.5	offshore regions	423.4	3.1	-23.9
USA	580.7	2.7	21.9	China	362.5	2.6	7.4
<b>Total</b>	<b>21,387.0</b>	<b>100.0</b>	<b>4.5</b>	<b>Total</b>	<b>13,854.5</b>	<b>100.0</b>	<b>-4.3</b>



**Figure 7. Travel services**

The surplus on **travel services** rose 6% in 2008; exports increased 9% and imports gained 11% (see Figure 7 and Tables 11 and 17). The number of visitors from Finland, Sweden, Russia and Latvia who used the services of travel agencies has dropped 40–50% but the number of visits from these countries has risen. The growing popularity of independent travel planning via the Internet probably plays a role here. The number of cruise travellers increased in 2008. Finns again held the largest share (45%) among Estonia's visitors, with the number of visits growing 4% year-on-year. Even though the number of Estonians' trips abroad did not rise in 2008, their expenses increased, since more trips were made to distant countries. The use of services of travel agencies decreased also in the case of trips to neighbouring countries, but the number of Estonians using travel agencies increased 4% in total. The most popular destinations were the United States (41% more visits compared to 2007), Egypt (15%), France (15%) and Turkey (12%).

**Table 17. Travel services by groups of countries in 2008**

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%), 2008/2007		Volume (EEK m)	Share (%)	Change(%), 2008/2007
<b>EU-27</b>	<b>10,031.9</b>	<b>78.0</b>	<b>11.8</b>	<b>EU-27</b>	<b>5,792.5</b>	<b>68.8</b>	<b>6.0</b>
Finland	6,231.8	48.5	8.8	Finland	1,369.0	16.2	-5.9
Sweden	981.6	7.6	5.8	Latvia	482.7	5.7	0.9
Latvia	588.7	4.6	41.4	Spain	434.4	5.2	23.9
Germany	551.1	4.3	31.7	Italy	412.7	4.9	48.2
<b>CIS</b>	<b>1,832.2</b>	<b>14.3</b>	<b>-6.8</b>	<b>CIS</b>	<b>768.2</b>	<b>9.1</b>	<b>15.5</b>
Russia	1,686.4	13.1	-7.4	Russia	536.2	6.4	6.2
Ukraine	95.3	0.7	-7.9	Ukraine	132.4	1.6	17.8
<b>Other</b>	<b>990.1</b>	<b>7.7</b>	<b>16.5</b>	<b>Other</b>	<b>1,864.1</b>	<b>22.1</b>	<b>25.3</b>
USA	306.9	2.4	36.5	Egypt	597	7.1	24.1
Norway	305.2	2.4	0.2	USA	365.1	4.3	54.3
Japan	54.3	0.4	15.1	Turkey	194.7	2.3	7.3
<b>Total</b>	<b>12,854.2</b>	<b>100.0</b>	<b>9.0</b>	<b>Total</b>	<b>8,424.8</b>	<b>100.0</b>	<b>10.6</b>

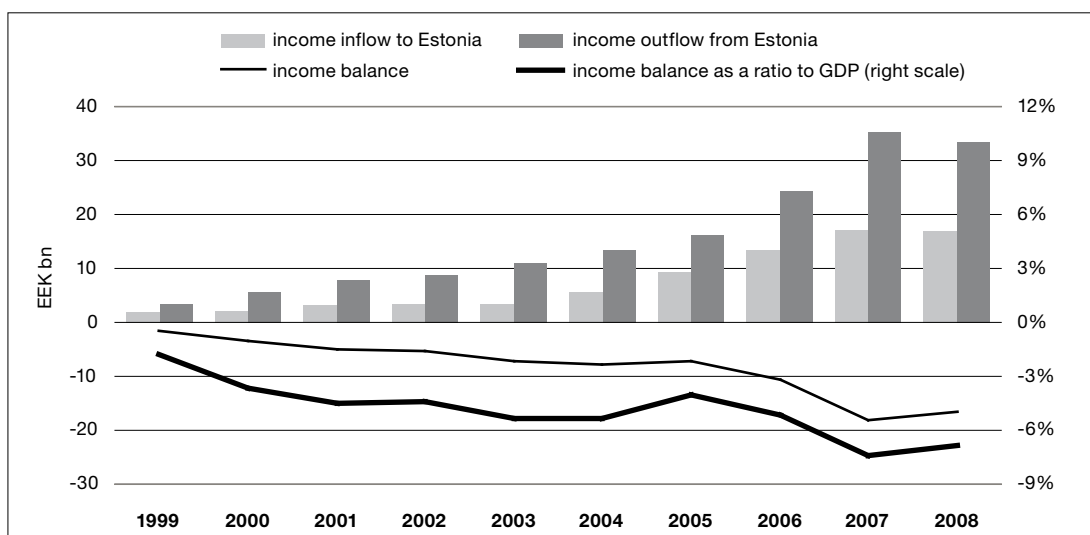
## Income

**The strong growth in the net outflow of income witnessed in previous years turned into a decline in 2008.** The first half of the year still saw active net outflow, whereas the second half recorded a considerable decline. In total, the net outflow of income decreased 8% and totalled 16.6 billion kroons, i.e. 6.7% of GDP (see Table 18 and Figure 8). The net outflow of income without reinvested earnings, which include no actual movement of funds, constituted 0.7% of GDP.

The decrease in the income account deficit was driven by the considerable decline of non-residents' income compared to the income earned by residents abroad. As regards the two main components of income – labour income and investment income – the former posted net inflow and the latter net outflow. The net inflow of labour income as well as the net outflow of investment income decreased. The income account of Estonia's balance of payments is largely affected by reinvested earnings, which are not subject to taxation in Estonia. Reinvested earnings include no actual movement of funds. The decrease in reinvested earnings was namely the reason for smaller net outflow of investment income. Lower reinvested earnings, in turn, stemmed from the falling profits and growing losses of direct investment companies as well as withdrawal of dividends by residents.

**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 (%)
1999	1,964.3	4.9	3,470.1	14.3	-1,505.8	29.4
2000	2,032.5	3.5	5,491.4	58.2	-3,458.9	129.7
2001	3,022.2	48.7	7,920.8	44.2	-4,898.6	41.6
2002	3,371.3	11.6	8,762.4	10.6	-5,391.1	10.1
2003	3,584.1	6.3	10,824.8	23.5	-7,240.7	34.3
2004	5,487.0	53.1	13,451.6	24.3	-7,964.6	10.0
2005	9,225.6	68.1	16,349.9	21.5	-7,124.3	-10.6
2006	13,551.5	46.9	24,319.8	48.7	-10,768.3	51.1
2007	17,288.6	27.6	35,277.3	45.1	-17,988.7	67.1
2008	16,958.8	-1.9	33,557.6	-4.9	-16,598.8	-7.7



**Figure 8. Income account**

The net outflow of reinvested earnings declined 16% year-on-year and totalled 15 billion kroons (see Table 19). The net inflow of income on portfolio investment increased by three times and the net outflow of income on other investment (loans and deposits) by two times compared to 2007.

**Income inflow** decreased only 2% in 2008 and amounted to 17 billion kroons (see Table 20). The inflow increased in the first three quarters but decreased by more than 40% in the fourth quarter compared to the previous quarter. Over 90% of residents' income earned abroad was related to EU countries (see Table 21). The share of labour income in income inflow decreased both in relative and absolute terms. One of the reasons was the fact that people working abroad for a longer period (more than one year) become residents of the country of employment and their remittances to the country of origin are reflected under current transfers in the balance of payments. The second reason is the rise in the number of residents who lost their jobs abroad. Labour income accounted for 20% (3.6 billion kroons) of the income inflow. Estonian residents were employed mostly in Finland (43% of labour income inflow), the United Kingdom (11%), Ireland, Latvia and Sweden.

**Table 19. Structure of income account**

	Balance (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
Labour income	3,461.6	2,401.3	-19.2	-14.5	-30.6
Investment income	-21,450.4	-19,000.1	119.2	114.5	-11.4
Income on direct investment	-18,791.6	-14,296.8	104.5	86.1	-23.9
income on equity	-17,709.0	-13,858.0	98.4	83.5	-21.7
dividends	143.1	1,114.6	-0.8	-6.7	678.8
reinvested earnings	-17,852.1	-14,972.6	99.2	90.2	-16.1
income on debt (interests)	-1,082.6	-438.9	6.0	2.6	-59.5
Income on portfolio investment	461.2	1,493.8	-2.6	-9.0	223.9
Income on other investment	-3,120.0	-6,197.1	17.3	37.3	98.6
<b>Total</b>	<b>-17,988.8</b>	<b>-16,598.8</b>	<b>100.0</b>	<b>100.0</b>	<b>-7.7</b>

**Table 20. Income inflow to Estonia**

	Balance (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
Labour income	4,527.8	3,591.5	26.2	21.2	-20.7
Investment income	12,760.8	13,367.3	73.8	78.8	4.8
Income on direct investment	7,366.921	7,436.273	42.6	43.8	0.9
income on equity	6,629.251	6,171.477	38.3	36.4	-6.9
dividends	3,377.1	5,320.6	19.5	31.4	57.6
reinvested earnings	3,252.2	850.8	18.8	5.0	-73.8
income on debt (interests)	737.7	1,264.8	4.3	7.5	71.5
Income on portfolio investment	2,994.9	3,166.2	17.3	18.7	5.7
Income on other investment	2,399.0	2,764.9	13.9	16.3	15.3
<b>Total</b>	<b>17,288.6</b>	<b>16,958.8</b>	<b>100.0</b>	<b>100.0</b>	<b>-1.9</b>

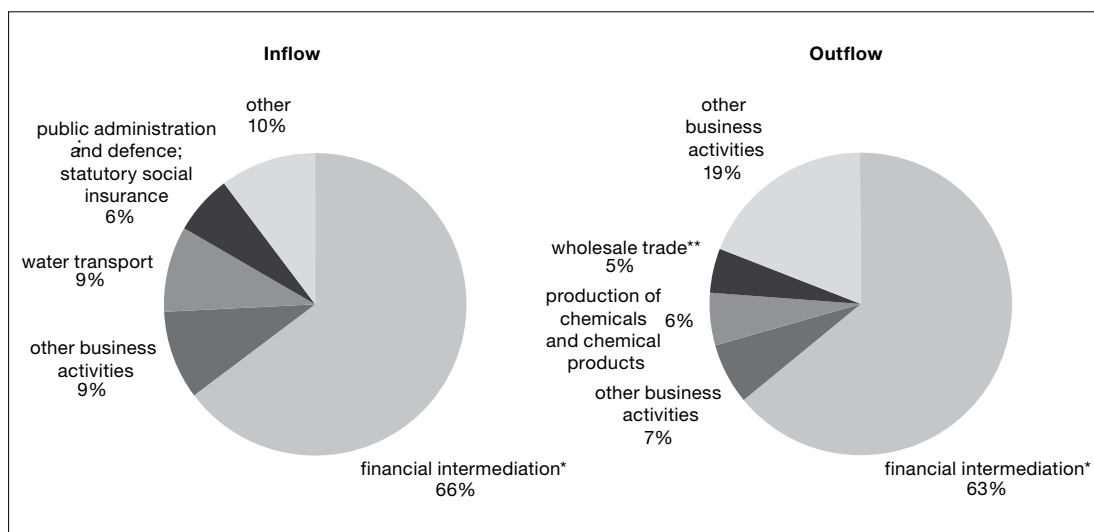
**Table 21. Income by groups of countries in 2008**

	Inflow				Outflow		
	Volume (EEK m)	Share (%)	Change (%), 2008/2007		Volume (EEK m)	Share (%)	Change (%), 2008/2007
<b>EU-27</b>	<b>16,208.5</b>	<b>95.6</b>	<b>6.4</b>	<b>EU-27</b>	<b>31,193.5</b>	<b>93.0</b>	<b>-1.8</b>
Lithuania	3,215.6	19.0	12.0	Sweden	19,119.3	57.0	15.8
Finland	3,158.7	18.6	33.8	Finland	4,855.0	14.5	-35.3
Latvia	3,004.7	17.7	-14.8	Cyprus	1,734.5	5.2	233.2
Cyprus	1,354.6	8.0	22.9	Denmark	1,593.6	4.7	15.0
<b>CIS</b>	<b>-84.3</b>	<b>-0.5</b>	<b>-109.0</b>	<b>CIS</b>	<b>350.6</b>	<b>1.0</b>	<b>-47.5</b>
Russia	388.4	2.3	-52.7	Russia	211.4	0.6	-61.0
Ukraine	-384.8	-2.3	-2107.9	Ukraine	80.2	0.2	-25.2
Belarus	-171.5	-1.0	-368.6	Belarus	35.0	0.1	458.9
<b>Other</b>	<b>834.6</b>	<b>4.9</b>	<b>-25.2</b>	<b>Other</b>	<b>2,013.5</b>	<b>6.0</b>	<b>29.1</b>
USA	339.8	2.0	-31.4	Norway	528.2	1.6	2.0
Norway	166.4	1.0	-21.7	British Virgin Islands	357.4	1.1	55.1
<b>Total</b>	<b>16,958.8</b>	<b>100.0</b>	<b>-1.9</b>	<b>Total</b>	<b>33,557.6</b>	<b>100.0</b>	<b>-4.9</b>

Residents' income on foreign investment increased 5%. Direct investment income accounted for 44%, portfolio investment income for 19% and income on other investment for 16% of total investment income. The level of residents' investment income was similar to 2007, but the structure changed: the share of dividends grew and that of reinvested earnings fell as a result of the extensive amount of dividends paid.

Residents' portfolio and other investment income increased 6% and 15%, respectively. 97% of the inflow of investment income was related to EU countries, nearly half of it with Latvia and Lithuania. 65% of the investment income inflow belonged to financial intermediaries (except insurance and pension funds). Somewhat less investment went to other business activities, water transport and the public sector (see Figure 9).

**Income outflow** declined 5% in 2008 and totalled 33.6 billion kroons (see Table 22). Over 90% of the income belonged to EU investors, in particular to Swedish residents (see Table 21). Labour income comprised nearly 4% of the outflow. Direct investment income comprised 67%, portfolio investment income 5% and other investment income 28% of non-residents' investment income earned in Estonia (16% in 2007). The net outflow of other investment income increased more than 60% year-on-year. Like in several previous years, non-residents' direct investment income largely consisted of reinvested earnings (73%) also in 2008 (70% on average in 2000–2008). Swedish investors earned 59% and Finnish investors 14% of the investment income. Almost two thirds of non-residents' investment income was earned on financial intermediation (except insurance and pension funds) and less on other business activities, production of chemical products and wholesale (see Figure 9).



**Figure 9. Inflow and outflow of investment income by fields of activity in 2008**

\* Except insurance and pension funding

\*\* Except motor vehicles and motorcycles

**Table 22. Income outflow from Estonia**

	Balance (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
Labour income	-1,066.1	-1,190.2	3.0	3.5	11.6
Investment income	-34,211.2	-32,367.4	97.0	96.5	-5.4
Income on direct investment	-26,158.517	-21,733.111	74.2	64.8	-16.9
income on equity	-24,338.216	-20,029.428	69.0	59.7	-17.7
dividends	-3,234.0	-4,206.0	9.2	12.5	30.1
reinvested earnings	-21,104.3	-15,823.4	59.8	47.2	-25.0
income on debt (interests)	-1,820.3	-1,703.7	5.2	5.1	-6.4
Income on portfolio investment	-2,533.7	-1,672.3	7.2	5.0	-34.0
Income on other investment	-5,519.0	-8,962.0	15.6	26.7	62.4
<b>Total</b>	<b>-35,277.3</b>	<b>-33,557.6</b>	<b>100.0</b>	<b>100.0</b>	<b>-4.9</b>

## Current and capital transfers<sup>3</sup>

The surplus on current transfers account stood at 4.3 billion kroons in 2008, having increased by 2.6 billion kroons from 2007 (see Table 23). The inflow of current transfers amounted to 9.5 billion kroons. Government transfers comprised 39% (3.7 billion kroons) of the current transfers and contained allocations from the EU structural funds (58%) as well as VAT, income and social tax receipts from non-residents. Transfers to other sectors totalled 5.9 billion kroons. 40% of that accounted for external aid from the European Commission and 15% for transfers by migrants employed abroad. The outflow of current transfers was 5.2 billion kroons, having decreased by over a million kroons from 2007. Government transfers constituted 61% of the outflow, the rest being transfers of other sectors. 87% 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. 25% of other sectors' transfers went to Finland and less to Germany, the United Kingdom, Sweden, Latvia and Russia.

Capital transfers posted a surplus of 0.5 billion kroons, which was 1.2 billion kroons bigger compared to the surplus for 2007. Capital transfers into Estonia mainly comprised EU subsidies to the general government as well as to other sectors for various infrastructure objects.

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

	Received		Paid		Balance	
	2007	2008	2007	2008	2007	2008
<b>Current transfers</b>	8,018.3	9,532.2	6,232.9	5,189.2	1,785.4	4,343.0
<b>government transfers</b>	<b>2,859.7</b>	<b>3,677.0</b>	<b>3,637.3</b>	<b>3,175.1</b>	<b>-777.5</b>	<b>501.9</b>
EU-27	2,473.8	3,161.3	3,536.0	3,105.5	-1,062.2	55.7
CIS	80.9	65.4	7.9	10.3	73.0	55.1
other	305.0	450.4	93.3	59.3	211.7	391.1
<b>private transfers</b>	<b>5,158.6</b>	<b>5,855.2</b>	<b>2,595.7</b>	<b>2,014.1</b>	<b>2,562.9</b>	<b>3,841.1</b>
EU-27	3,633.1	4,613.2	2,158.5	1,595.5	1,474.6	3,017.7
CIS	601.1	736.0	163.2	182.2	437.8	553.8
other	924.4	506.0	273.9	236.5	650.5	269.6
<b>Capital transfers</b>	<b>2,918.3</b>	<b>3,999.7</b>	<b>296.2</b>	<b>143.4</b>	<b>2,622.0</b>	<b>3,856.3</b>
government transfers	1,827.7	2,558.8	0.8	0.4	1,826.9	2,558.4
private transfers	1,090.6	1,440.9	295.5	143.0	795.1	1,297.9

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

# FINANCIAL ACCOUNT

The surplus on the financial account<sup>4</sup> totalled 29.3 billion kroons and was nearly a third lower than in 2007. Foreign capital inflow occurred primarily in the form of direct and other investment. Figures 10 and 11 show the structure of the financial account by categories and maturities.

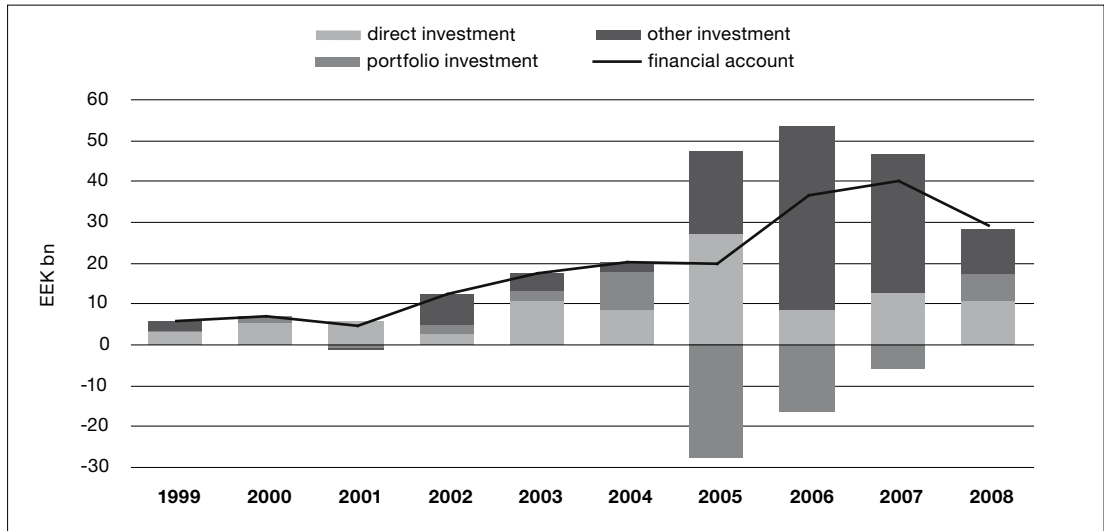


Figure 10. Changes in the structure of foreign investment capital flows (EEK bn)

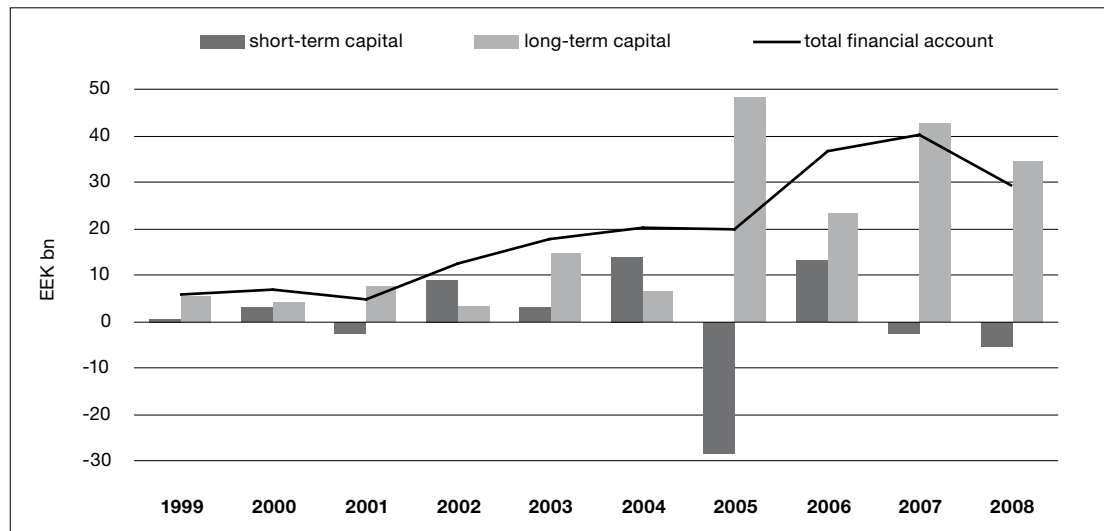


Figure 11. Maturity structure of the financial account (EEK bn)

<sup>4</sup> Without reserve assets.



## Direct investment

The inflow and outflow of direct investment decreased 30% and 40%, respectively, compared to the record highs of 2007. The surplus on direct investment amounted to 11 billion kroons and formed more than a third of the surplus on the financial account. Non-residents' direct investment in Estonia totalled 21.4 billion and residents' direct investment abroad reached 10.4 billion kroons (see Figure 12).

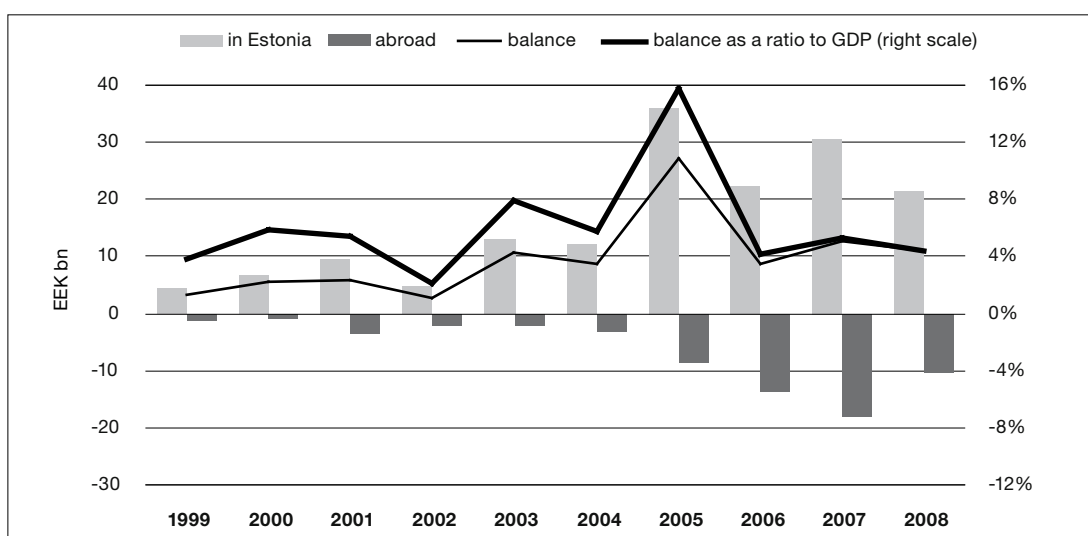


Figure 12. Direct investment

The inflow of **direct investment in Estonia** decreased, year-on-year, to the level of 2006. The structure of direct investment inflow has been stable for the past three years, indicating Estonia's economic achievements. Estonia has been a favourable environment for investment, as reinvested earnings are not subject to taxation here. This, in turn, has encouraged foreign investors to reinvest their direct investment income. This is revealed by the large share of reinvested earnings (over 70%) in the inflow of direct investment in 2008. Profits of credit institutions accounted for two thirds and profits of chemical companies for 10% of total reinvested earnings; the shares of other fields of activity were lower. Equity capital investment formed less than 15% and other capital nearly 10% of total direct investment. Compared to 2007, lending to direct investors decreased by 3.7 times and borrowing from them by 2.7 times (see Tables 24 and 25).

The biggest direct investors were from Sweden (58%) and the Netherlands (23%). Investors from Norway, Russia, Cyprus and the United Kingdom invested to a lesser extent (see Figure 13). The decrease in direct investment made by Finnish investors was related to the sale of a company. Half of direct investment was made in financial intermediation, 17% in business service companies, and 16% in transport and travel agencies (see Figure 14). 80% of direct investment came from EU countries (see Table 26).

**Direct investment abroad** decreased faster than investment in Estonia and totalled 10.4 billion kroons, which is lower than in 2006 (see Table 27). Nevertheless, the large outflow of direct investment continued for the fourth year in row. Unlike direct investment in Estonia, which has mostly consisted of retained earnings in recent years, residents' foreign direct investment mostly consisted of loans and trade credit granted to subsidiaries in 2008. The low share (8%) of reinvested earnings stemmed from the drawing of dividends.

**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 (%)		
1999	2,551.8	57.4	721.8	16.2	-265.0	-6.0	1,439.2	32.4	4,447.8	100.0
2000	3,925.2	59.1	1,815.2	27.3	-397.2	-6.0	1,301.3	19.6	6,644.5	100.0
2001	3,641.4	38.6	3,878.9	41.1	-950.7	-10.1	2,860.3	30.3	9,429.9	100.0
2002	821.0	17.1	3,370.3	70.2	-772.5	-16.1	1,381.5	28.8	4,800.3	100.0
2003	5,329.9	41.4	6,406.7	49.8	-1,334.0	-10.4	2,462.7	19.1	12,865.3	100.0
2004	4,638.6	38.5	7,982.1	66.2	-1,454.0	-12.1	894.2	7.4	12,060.9	100.0
2005	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
2006	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
2007	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
2008	3,023.0	14.1	15,823.4	74.0	-1,743.7	-8.2	4,271.6	20.0	21,374.3	100.0

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

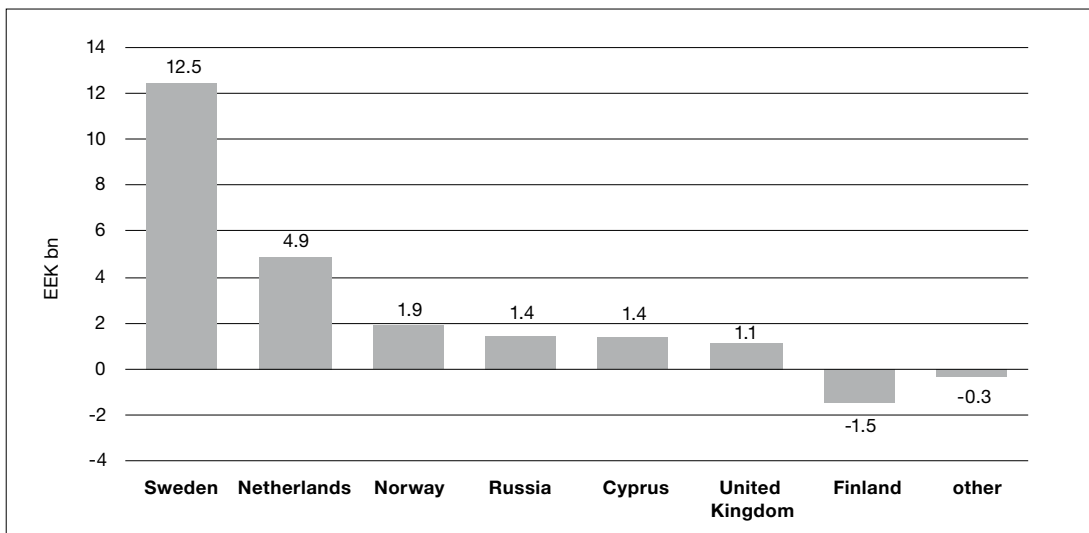
	Assets				Liabilities			
	Long-term		Short-term		Long-term		Short-term	
	Grantings	Repayments	Grantings	Repayments	Drawings	Repayments	Drawings	Repayments
2003	408.4	246.4	1,010.7	498.7	5,155.6	2,667.1	3,020.9	3,726.9
2004	492.7	371.2	1,774.1	862.1	4,601.5	4,882.2	3,024.5	2,197.2
2005	1,274.3	502.5	2,290.6	1,413.4	7,889.0	6,972.1	5,011.4	4,575.5
2006	2,120.5	609.3	3,723.7	2,589.2	13,317.0	6,139.9	4,119.0	3,393.4
2007	3,783.9	1,231.2	7,923.7	3,890.1	18,030.7	9,142.0	8,138.6	6,368.5
2008	3,541.9	2,487.7	8,878.7	8,102.6	13,458.0	11,729.2	12,267.6	9,245.8

**Table 26. Direct investment in Estonia by groups of countries**

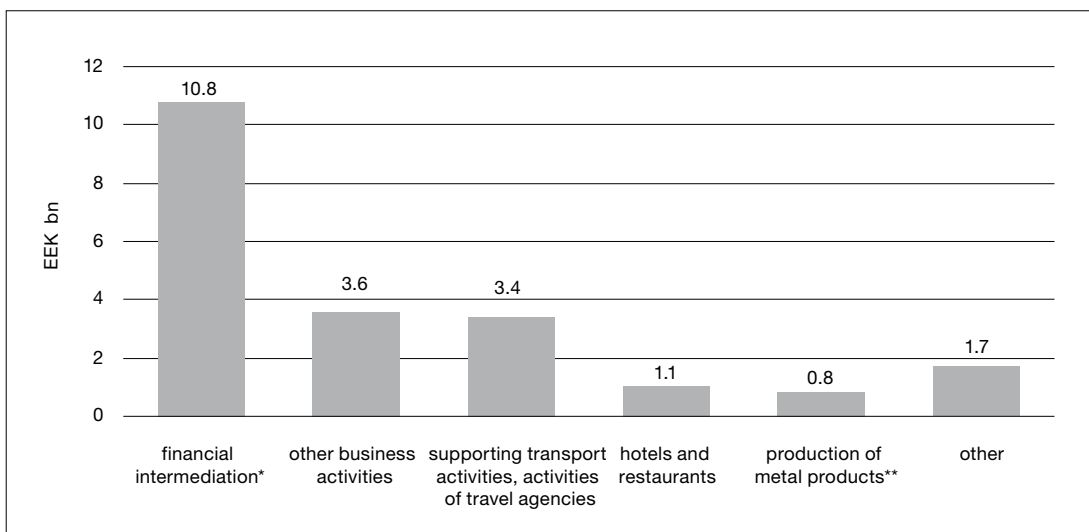
	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
EU-27	30,736.5	17,476.0	100.1	81.8	-43.1
CIS	-172.0	1,651.2	-0.6	7.7	-1,060.2
Other	137.5	2,247.1	0.4	10.5	1,534.0
<b>Total</b>	<b>30,702.1</b>	<b>21,374.3</b>	<b>100.0</b>	<b>100.0</b>	<b>-30.4</b>

**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 (%)		
1999	-525.7	42.4	-115.8	9.3	-641.3	51.7	42.9	-3.5	-1,239.8	100.0
2000	-579.6	55.5	-65.9	6.3	-481.0	46.1	83.1	-8.0	-1,043.4	100.0
2001	-1,897.1	53.8	-305.2	8.7	-1,242.7	35.2	-83.0	2.4	-3,528.1	100.0
2002	-903.9	41.3	-665.5	30.4	-727.2	33.2	108.0	-4.9	-2,188.6	100.0
2003	-1,060.0	49.3	-741.4	34.5	-645.8	30.0	297.9	-13.9	-2,149.2	100.0
2004	-2,175.2	64.2	-919.6	27.1	-434.2	12.8	140.3	-4.1	-3,388.6	100.0
2005	-5,155.3	59.3	-2,694.6	31.0	-1,141.6	13.1	292.0	-3.4	-8,699.5	100.0
2006	-5,895.1	42.6	-4,845.1	35.0	-3,844.3	27.8	760.3	-5.5	-13,824.1	100.0
2007	-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
2008	-2,363.2	22.8	-850.8	8.2	-6,239.5	60.2	-913.1	8.8	-10,366.6	100.0



**Figure 13. Direct investment in Estonia by countries in 2008**



**Figure 14. Direct investment in Estonia by fields of activities in 2008**

\* Except insurance and pension funding

\*\* Except machinery and equipment

The share of equity capital investment has fallen to 23% – the lowest of the past ten years. However, in absolute terms, investment remained at the level of 2004 (see Table 38).

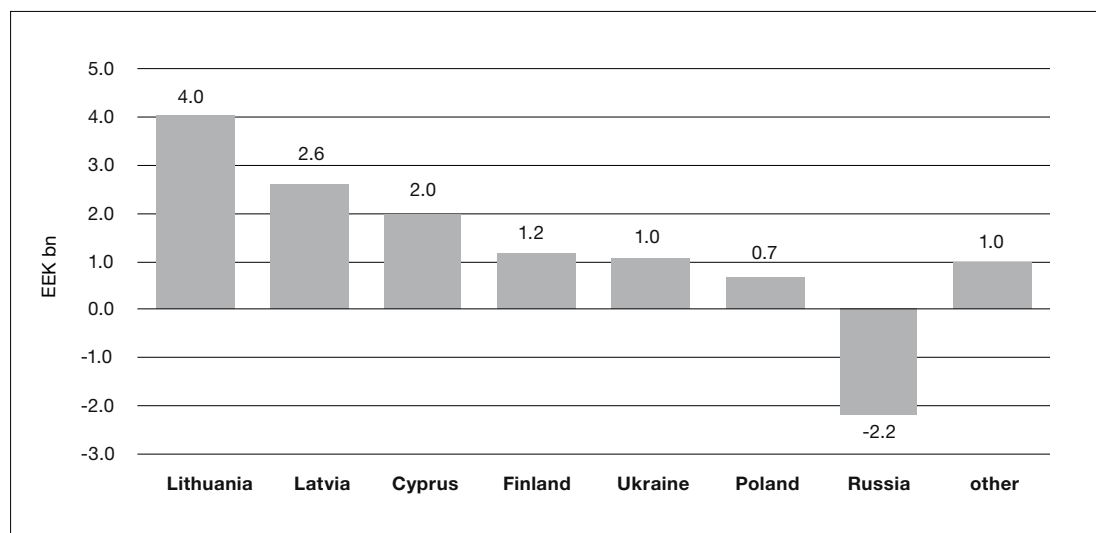
Estonian direct investors preferred to invest in Latvia and Lithuania who received 39% and 25% of direct investment, respectively (see Figure 15). Other investment destinations included Cyprus, Finland and Ukraine. Direct investment in Russia shrank. Financial intermediaries accounted for 36% and investors in the field of other business activities for 23% of foreign investment outflow (see Figure 16). By groups of countries, nearly all direct investments were channelled to the EU (see Table 29).

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

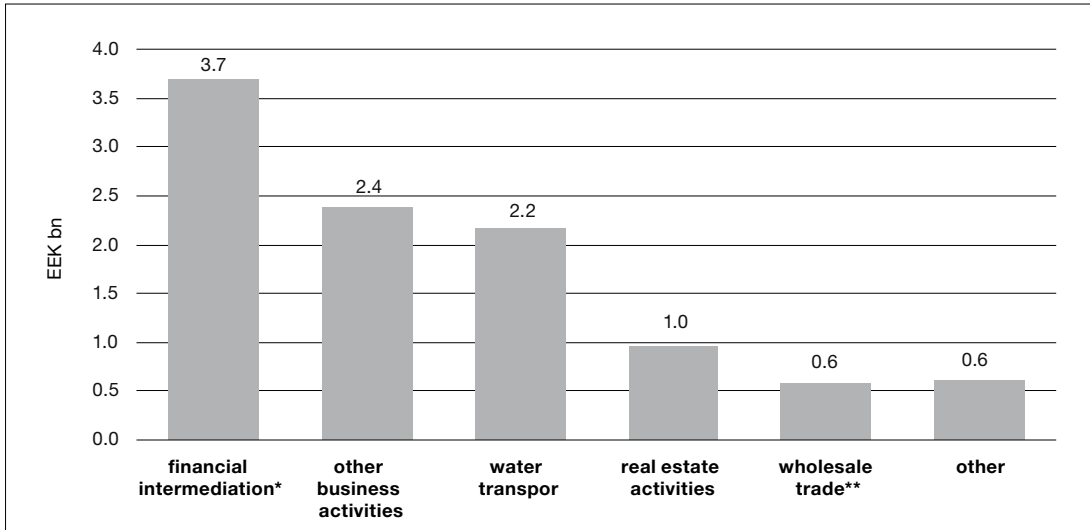
	Assets				Liabilities			
	Long-term		Short-term		Long-term		Short-term	
	Grantings	Repayments	Grantings	Repayments	Drawings	Repayments	Drawings	Repayments
2003	1,107.1	716.6	472.1	503.8	4.0	11.6	84.2	98.8
2004	934.8	1,232.5	952.4	368.9	17.9	61.2	27.9	37.1
2005	2,141.8	1,488.6	1,710.6	1,107.4	109.6	60.7	104.9	25.0
2006	5,395.8	2,372.4	1,563.4	1,626.1	118.6	112.7	147.0	20.5
2007	6,448.4	2,037.4	2,059.3	1,418.0	100.4	114.6	1,670.4	109.3
2008	5,194.2	3,622.5	2,620.5	1,885.8	251.3	290.9	594.6	1,180.3

**Table 29. Direct investment abroad by groups of countries**

	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
EU-27	-14,763.2	-11,447.4	81.9	110.4	-22.5
CIS	-2,275.3	1,235.6	12.6	-11.9	-154.3
Other	-994.5	-154.8	5.5	1.5	-84.4
<b>Total</b>	<b>-18,033.0</b>	<b>-10,366.6</b>	<b>100.0</b>	<b>100.0</b>	<b>-42.5</b>



**Figure 15. Direct investment abroad by countries in 2008**



**Figure 16. Direct investment abroad by fields of activity in 2008**

\* Except insurance and pension funding

\*\* Except motor vehicles and motorcycles

## Portfolio investment

**The net inflow of portfolio investment totalled 6.5 billion kroons in 2008. This resulted primarily from a decrease in the debt security investment of the general government and credit institutions, as well as a decline in the equity security investment of foreign investors** (see Figure 17 and Table 30).

**Portfolio investment liabilities** decreased by 3.4 billion kroons in 2008 as a result of lower investment in Estonian equity securities (see Table 31). The equity security liabilities of enterprises in other sectors decreased by as much as 1.7 billion kroons in the fourth quarter, of which 1 billion kroons belonged to investment funds. Debt security liabilities remained at the previous level, because investment in enterprises in other sectors increased by 387 million kroons, but debt security liabilities of credit institutions and the general government decreased. By countries, portfolio investment liabilities to EU countries, in particular Finland, Latvia, the United Kingdom, Austria and Cyprus, increased the most (see Figure 18 and Table 32).

**Portfolio investment assets** diminished by 9.9 billion kroons year-on-year; equity security investment comprised 3.7 billion and debt security assets 6.2 billion kroons of that (see Table 33). The investment of other sectors' enterprises in equity securities issued by non-residents declined by 3.6 billion kroons, of which assets of investment funds constituted 1.6 billion kroons. The debt security investment of credit institutions decreased by 2.4 billion kroons; the debt security assets of the general government declined by 4.7 billion kroons owing to the decrease in Estonia's reserve assets. By countries, primarily portfolio investment assets to Germany, Finland, Poland, Denmark and Belgium decreased (see Figure 19).

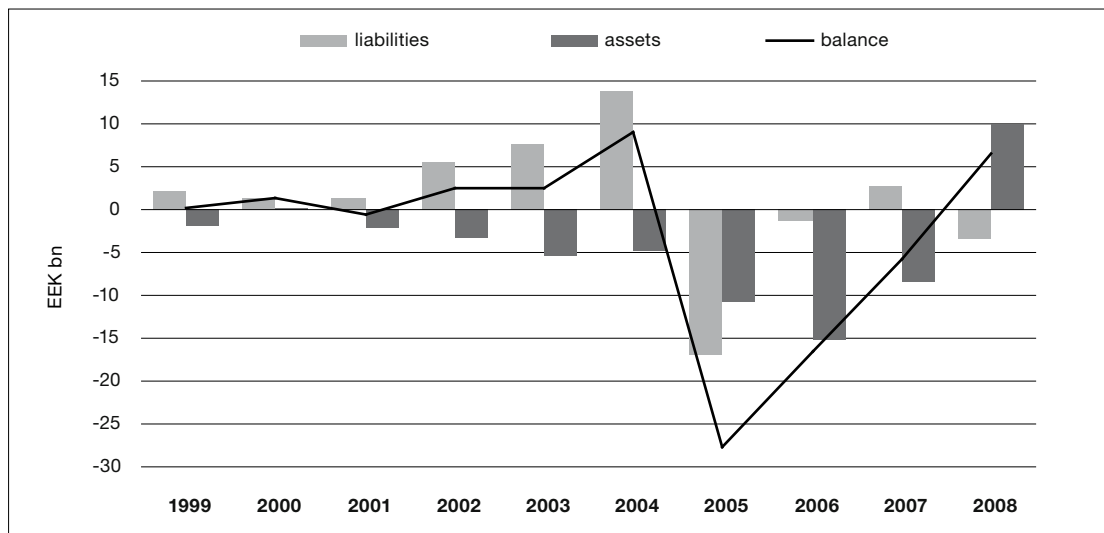


Figure 17. Portfolio investment

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

	Assets		Liabilities		Balance	
	2007	2008	2007	2008	2007	2008
<b>Equity securities</b>	<b>-7,597.3</b>	<b>3,745.1</b>	<b>3,215.6</b>	<b>-3,438.6</b>	<b>-4,381.7</b>	<b>306.5</b>
central bank						
general government	-111.2	2.8			-111.2	2.8
credit institutions	68.6	131.4	21.7	-40.2	90.3	91.2
other sectors	-7,554.7	3,610.9	3,193.9	-3,398.4	-4,360.8	212.5
<b>Debt securities</b>	<b>-886.9</b>	<b>6,184.9</b>	<b>-491.9</b>	<b>-0.1</b>	<b>-1,378.8</b>	<b>6,184.8</b>
central bank						
general government	-3,510.6	4,710.1	-1,026.6	-29.6	-4,537.2	4,680.5
credit institutions	1,985.6	2,410.9	-515.4	-357.8	1,470.2	2,053.1
other sectors	638.1	-936.1	1,050.1	387.3	1,688.2	-548.8
<b>Total</b>	<b>-8,483.9</b>	<b>9,930.0</b>	<b>2,723.8</b>	<b>-3,438.7</b>	<b>-5,760.1</b>	<b>6,491.3</b>

Table 31. Structure of portfolio investment liabilities

	Equity securities		Debt securities		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1999	3,292.3	160.5	-1,241.4	-60.5	2,050.9	100.0
2000	-538.8	-42.0	1,820.7	142.0	1,281.9	100.0
2001	568.4	40.6	832.1	59.4	1,400.5	100.0
2002	912.2	16.4	4,649.4	83.6	5,561.6	100.0
2003	1,527.0	19.6	6,256.2	80.4	7,783.2	100.0
2004	2,205.2	15.9	11,673.0	84.1	13,878.2	100.0
2005	-16,352.3	96.9	-517.8	3.1	-16,870.0	100.0
2006	3,730.3	-293.4	-5,001.6	393.4	-1,271.3	100.0
2007	3,215.7	118.1	-491.9	-18.1	2,723.8	100.0
2008	-3,438.6	100.0	-0.1	0.0	-3,438.7	100.0

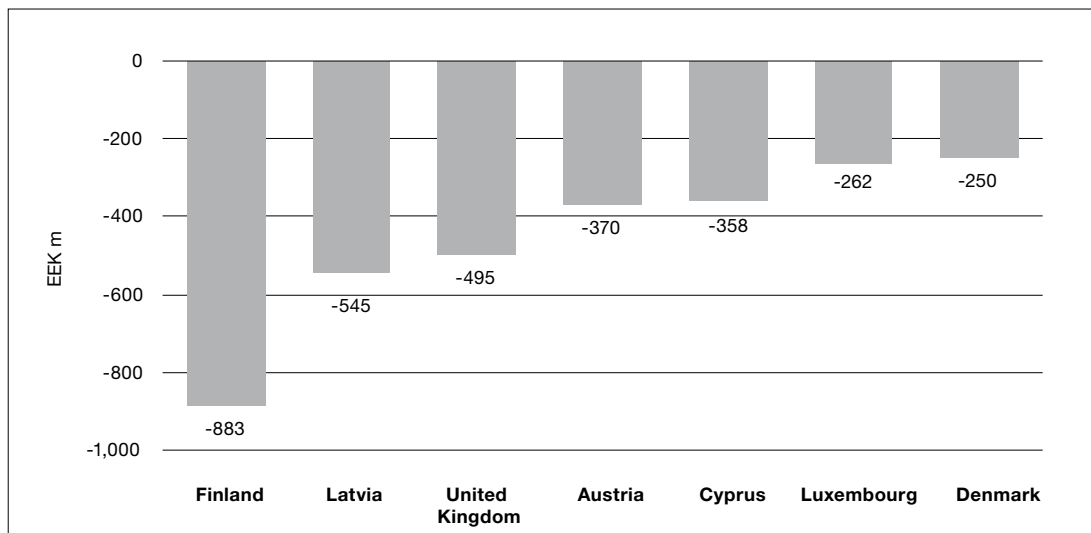


Figure 18. Decrease in portfolio investment liabilities by countries in 2008

Table 32. Structure of portfolio investment by groups of countries

	Volume (EEK m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2007	2008	2007	2008	2007	2008	2007	2008
EU-27	-8,374.6	8,891.4	2,342.7	-3,139.6	98.7	89.5	86.0	91.3
CIS	-1,565.2	1,100.5	22.6	-59.0	18.4	11.1	0.8	1.7
Other	1,455.9	-61.9	358.5	-240.1	-17.2	-0.6	13.2	7.0
<b>Total</b>	<b>-8,483.9</b>	<b>9,930.0</b>	<b>2,723.8</b>	<b>-3,438.7</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Table 33. Structure of portfolio investment assets

	Equity securities		Debt securities		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1999	187.0	-9.9	-2,081.9	109.9	-1,894.9	100.0
2000	53.3	34.8	99.8	65.2	153.1	100.0
2001	236.5	-11.3	-2,336.7	111.3	-2,100.2	100.0
2002	9.1	-0.3	-3,192.0	100.3	-3,182.9	100.0
2003	-1,028.9	19.2	-4,322.7	80.8	-5,351.6	100.0
2004	-2,893.5	60.6	-1,882.2	39.4	-4,775.7	100.0
2005	-4,848.9	44.8	-5,969.5	55.2	-10,818.4	100.0
2006	-4,567.7	30.0	-10,637.5	70.0	-15,205.2	100.0
2007	-7,597.2	89.5	-886.7	10.5	-8,483.9	100.0
2008	3,745.2	37.7	6,184.8	62.3	9,930.0	100.0

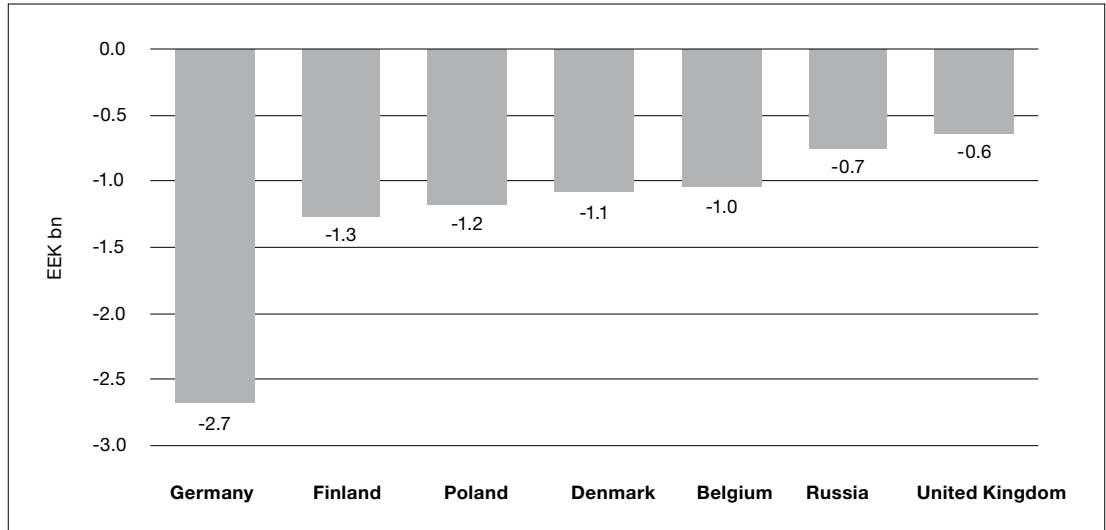


Figure 19. Decrease in portfolio investment assets by countries in 2008

## Financial derivatives

Financial derivative assets decreased by 676 million kroons in 2008 (see Figure 20). This was caused by a decline in credit institutions' investment in derivatives in the first quarter of 2008. By countries, assets to Austria, the United Kingdom, Sweden and Germany shrank the most. Financial derivative liabilities increased by 173 million kroons in 2008, largely owing to the liabilities of credit institutions acquired in the fourth quarter. By countries, liabilities to Denmark and Sweden increased the most.

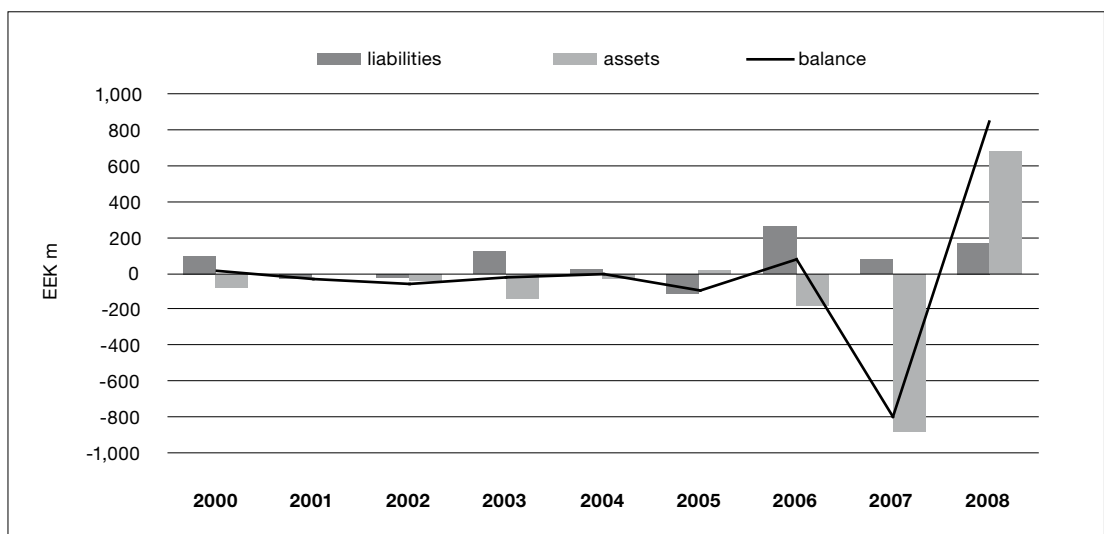


Figure 20. Financial derivatives



## Other investment

The net inflow of other investment stood at 11 billion kroons in 2008 (see Figure 21).

**Other investment liabilities** increased by 16.7 billion kroons year-on-year; credit institutions' liabilities related to loans/currency and deposits (incl. interbank loans) accounted for 14.5 billion kroons of that (see Table 34).<sup>5</sup> In the fourth quarter, the respective liabilities of credit institutions grew by 7.4 billion kroons, which stemmed from a decrease in domestic deposits at the height of the financial crisis in autumn. Consequently, banks lost depositors and had to acquire additional funds from their parent banks. Enterprises in other sectors increased both the short-term and long-term liabilities. Growth in trade credit liabilities comprised 1 billion kroons of the increase in short-term liabilities; loan liabilities grew by 1.8 billion kroons, increasing long-term liabilities. By countries, other investment liabilities to Finland grew the most – by 10.6 billion kroons. Sweden and Russia followed with 4.9 and 2.5 billion kroons, respectively (see Figure 22 and Table 35).

**Other investment assets** increased by 5.8 billion kroons in 2008 (see Table 36). This was caused by an increase in trade credit and deposit assets by 2.3 and 1.9 billion kroons, respectively. Other capital assets grew by 1.1 billion kroons. By countries, other investment capital was mainly channelled to Germany, Lithuania, Denmark and Latvia (see Figure 23). Table 37 provides an overview of loan capital claims and liabilities.

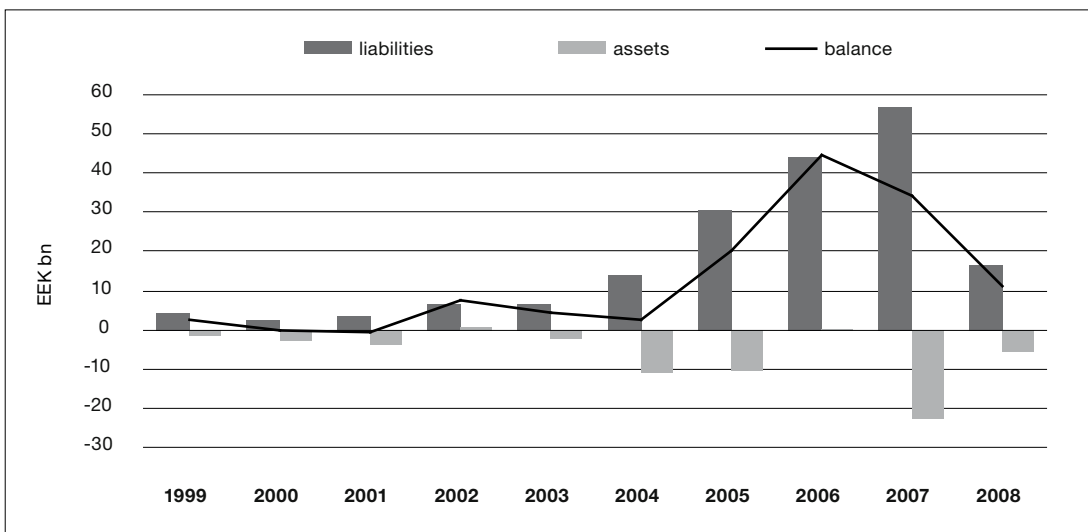


Figure 21. Other investment

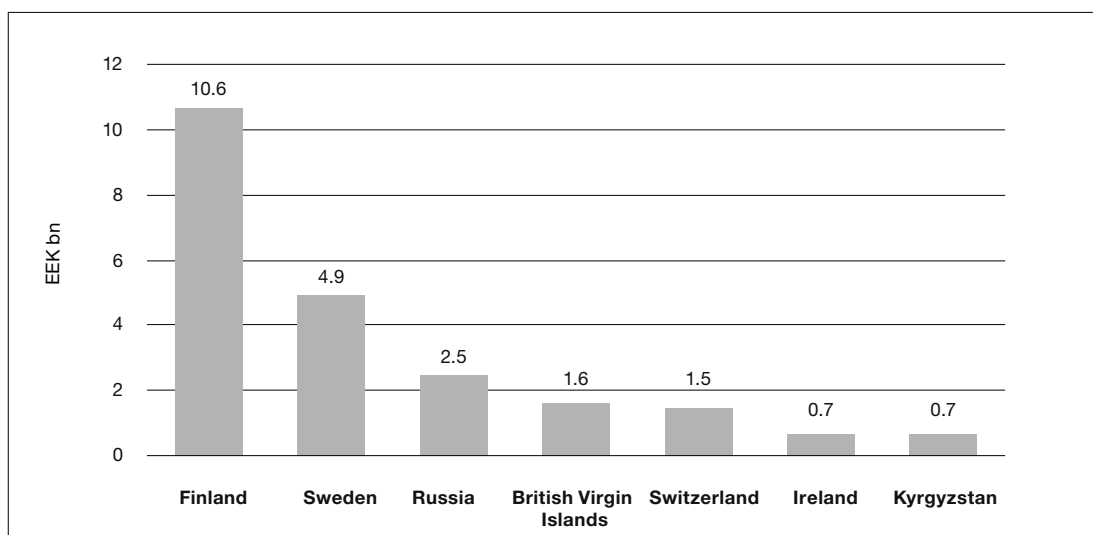
<sup>5</sup> Interbank loans have been recorded under *Other investment – Loans/currency and deposits* since the second quarter of 2008 (formerly under long- and short-term loans). The ECB's guideline for euro area countries and recommendation for non-euro area countries provide for the distinction between *loans* and *currency and deposits* based on the nature of the borrower. This implies that loans granted by banks to non-banks and loans between non-banks are still recorded under loans, whereas interbank loans are recorded under deposits. As at end-2008, long-term liabilities comprised 45.8% and assets 6.3% of the liabilities related to loans/currency and deposits under other investment.

**Table 34. 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 (%)
1999	119.1	2.8	2,399.7	57.3	1,462.7	34.9	204.3	4.9	4,185.8	100.0
2000	1,080.9	41.6	-785.3	-30.2	1,955.4	75.3	345.6	13.3	2,596.6	100.0
2001	102.9	3.1	2,570.4	78.2	81.4	2.5	533.5	16.2	3,288.2	100.0
2002	781.1	11.6	1,963.3	29.2	3,763.5	55.9	225.4	3.3	6,733.3	100.0
2003	-115.7	-1.7	3,219.5	47.8	4,587.9	68.2	-960.3	-14.3	6,731.4	100.0
2004	625.2	4.6	4,564.6	33.3	8,804.7	64.2	-279.4	-2.0	13,715.1	100.0
2005	1,633.6	5.3	24,673.8	80.1	2,953.3	9.6	1,540.1	5.0	30,800.8	100.0
2006	3,185.6	7.2	19,231.2	43.4	21,081.1	47.5	863.7	1.9	44,361.5	100.0
2007	-284.0	-0.5	37,887.2	66.9	18,875.5	33.3	148.4	0.3	56,627.1	100.0
2008	1,012.0	6.1	24,225.2	145.0	-8,138.9	-48.7	-393.6	-2.4	16,704.6	100.0

**Table 35. Structure of other investment by groups of countries**

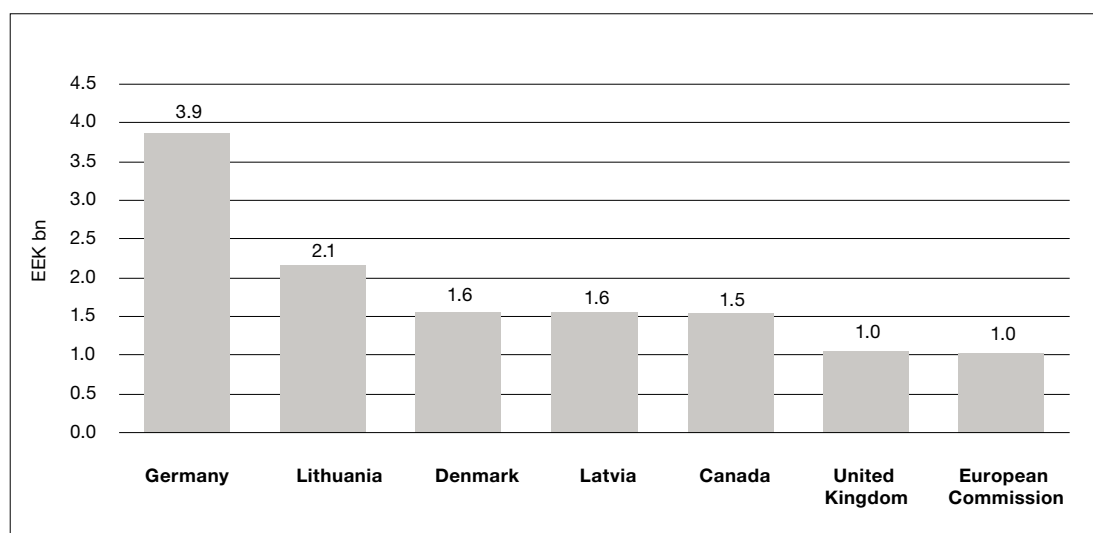
	Volume (EEK m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2007	2008	2007	2008	2007	2008	2007	2008
	EU-27	-21,484.4	-7,347.0	51,802.0	12,011.0	95.0	127.7	91.5
CIS	-42.2	1,951.3	710.5	3,186.3	0.2	-33.9	1.3	19.1
Other	-1,090.9	-357.7	4,114.6	1,507.3	4.8	6.2	7.3	9.0
<b>Total</b>	<b>-22,617.5</b>	<b>-5,753.4</b>	<b>56,627.1</b>	<b>16,704.6</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>



**Figure 22. Increase in other investment liabilities by countries in 2008**

**Table 36. 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 (%)
1999	-401.8	24.3	-57.4	3.5	-887.9	53.8	-304.1	18.4	-1,651.2	100.0
2000	-78.0	3.0	-2,814.0	106.7	-103.0	3.9	356.7	-13.5	-2,638.3	100.0
2001	-584.8	15.7	-2,278.9	61.3	-738.0	19.9	-115.0	3.1	-3,716.7	100.0
2002	1,047.6	150.7	-1,324.5	-190.5	742.6	106.8	229.4	33.0	695.1	100.0
2003	-1,028.2	45.0	-3,520.3	154.1	2,209.3	-96.7	54.6	-2.4	-2,284.6	100.0
2004	-1,032.0	9.2	-8,455.5	75.7	-1,545.1	13.8	-136.2	1.2	-11,168.8	100.0
2005	-1,957.1	18.7	4,148.4	-39.7	-12,332.3	118.0	-313.3	3.0	-10,454.2	100.0
2006	-3,528.9	-1,281.8	-2,495.9	-906.6	6,284.4	2,282.7	15.7	5.7	275.3	100.0
2007	-825.3	3.6	-10,090.0	44.6	-11,116.2	49.1	-586.0	2.6	-22,617.5	100.0
2008	-2,319.5	40.3	-406.4	7.1	-1,905.3	33.1	-1,122.2	19.5	-5,753.4	100.0



**Figure 23. Increase in other investment assets by countries in 2008**

**Table 37. Assets and liabilities of loan capital (EEK m)**

	Assets			Liabilities		
	Grantings	Repayments	Total	Drawings	Repayments	Total
2003	-34,919.2	31,398.9	-3,520.3	30,076.6	-26,857.1	3,219.5
2004	-29,782.7	21,327.1	-8,455.5	45,446.7	-40,882.1	4,564.6
2005	-77,557.0	81,705.4	4,148.4	125,437.1	-100,763.3	24,673.8
2006	-75,976.5	73,480.6	-2,495.9	182,867.4	-163,636.2	19,231.2
2007	-396,478.2	386,388.2	-10,090.0	363,661.0	-325,773.9	37,887.2
2008	-145,952.2	145,545.9	-406.4	196,313.7	-172,088.6	24,225.2

## Reserve assets

The balance of payments reserves increased by 7.9 billion kroons in 2008 (see Table 38). Figure 24 provides an overview of the imports covered by reserve assets.

Table 38. Structure of changes in reserve assets

	Volume (EEK m)		Share (%)	
	2007	2008	2007	2008
Gold			0,0	0,0
Currency and deposits	2,701.9	-2,722.4	-194.8	34.6
Securities	-3,984.5	-5,710.2	287.2	72.6
equity securities				
bonds and notes	-5,089.7	243.9	366.9	-3.1
money market instruments	1,105.2	-5,954.1	-79.7	75.7
Other assets	-104.7	566.6	7.5	-7.2
<b>Total</b>	<b>-1,387.3</b>	<b>-7,866.0</b>	<b>100.0</b>	<b>100.0</b>

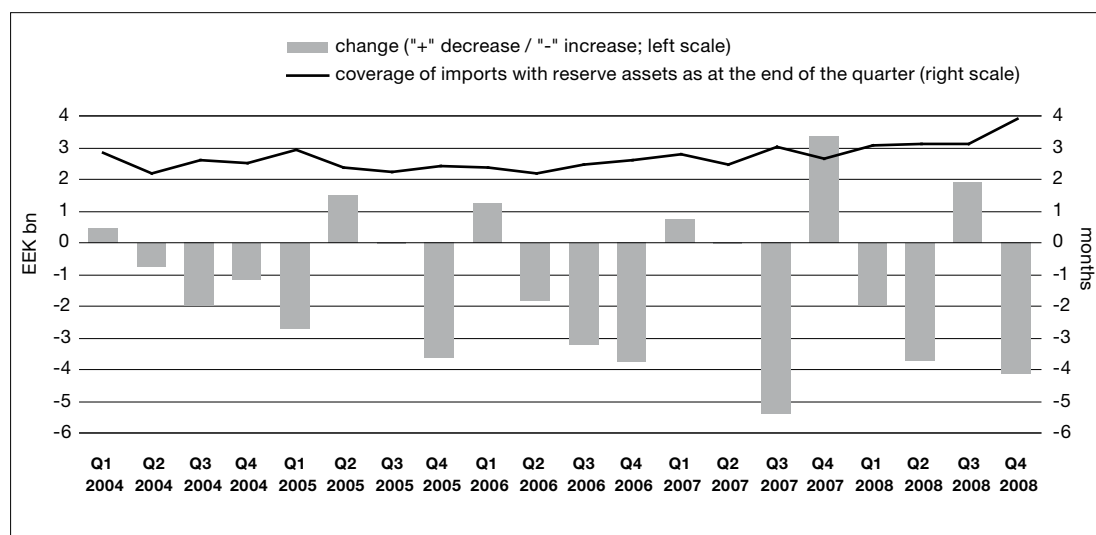


Figure 24. Changes in Estonia's gold and foreign exchange reserves and coverage of imports with reserve assets

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

In 2008, foreign investment in Estonia increased 3% and amounted to 436 billion kroons (see Table 39). Nearly 60% thereof was invested in financial intermediation (except insurance and pension funding), 7% in real estate activities, 6% in wholesale and 5% in other business activities (see Table 40). Most of the investment came from Sweden (39%) and Finland (20%). Foreign investment in Estonia increased until the third quarter of 2008 but decreased then in the fourth quarter.

Year-on-year, the share of portfolio investment in the structure of foreign investment in Estonia declined, whereas the share of other investment grew to the same extent. Other investment accounted for nearly 51%, direct investment for 42% and portfolio investment for 7% of foreign investment in Estonia. Growth in foreign investment in Estonia was primarily inhibited by portfolio investment, which declined 10% as a result

**Table 39. Estonia's international investment position (EEK m)**

	31/12/2007	%	31/12/2008	%
<b>EXTERNAL ASSETS</b>	<b>242,452.3</b>	<b>100.0</b>	<b>242,605.7</b>	<b>100.0</b>
<b>Direct investment abroad</b>	<b>63,681.1</b>	<b>26.3</b>	<b>74,596.3</b>	<b>30.7</b>
Equity capital and reinvested earnings	50,291.7	20.7	53,545.3	22.1
Other direct investment capital	13,389.4	5.5	21,050.9	8.7
<b>Portfolio investment</b>	<b>68,787.1</b>	<b>28.4</b>	<b>42,712.3</b>	<b>17.6</b>
Equity securities	31,253.5	12.9	12,851.7	5.3
Debt securities	37,533.7	15.5	29,860.6	12.3
Bonds and notes	23,503.3	9.7	20,638.5	8.5
Money market instruments	14,030.4	5.8	9,222.1	3.8
<b>Financial derivatives</b>	<b>1,466.5</b>	<b>0.6</b>	<b>854.6</b>	<b>0.4</b>
<b>Other investment</b>	<b>73,492.4</b>	<b>30.3</b>	<b>80,266.6</b>	<b>33.1</b>
Trade credit	14,831.4	6.1	17,307.0	7.1
Loans	31,632.3	13.0	18,144.1	7.5
Long-term	9,723.9	4.0	9,824.6	4.0
Short-term	21,908.3	9.0	8,319.5	3.4
Currency and deposits	25,271.9	10.4	41,073.1	16.9
Other assets	1,756.9	0.7	3,742.4	1.5
<b>Reserve assets</b>	<b>35,025.1</b>	<b>14.4</b>	<b>44,175.9</b>	<b>18.2</b>
<b>EXTERNAL LIABILITIES</b>	<b>422,011.3</b>	<b>100.0</b>	<b>436,036.7</b>	<b>100.0</b>
<b>Direct investment in Estonia</b>	<b>177,311.3</b>	<b>42.0</b>	<b>182,251.5</b>	<b>41.8</b>
Equity capital and reinvested earnings	150,657.2	35.7	154,125.2	35.3
Other direct investment capital	26,654.1	6.3	28,126.3	6.5
<b>Portfolio investment</b>	<b>48,809.5</b>	<b>11.6</b>	<b>32,499.8</b>	<b>7.5</b>
Equity securities	25,858.2	6.1	8,119.2	1.9
Debt securities	22,951.3	5.4	24,380.6	5.6
Bonds and notes	22,886.6	5.4	24,299.1	5.6
Money market instruments	64.7	0.0	81.5	0.0
<b>Financial derivatives</b>	<b>502.9</b>	<b>0.1</b>	<b>735.3</b>	<b>0.2</b>
<b>Other investment</b>	<b>195,387.5</b>	<b>46.3</b>	<b>220,550.1</b>	<b>50.6</b>
Trade credit	13,541.4	3.2	14,832.3	3.4
Loans	110,910.6	26.3	46,961.3	10.8
Long-term	89,889.6	21.3	34,891.8	8.0
Short-term	21,021.0	5.0	12,069.5	2.8
Currency and deposits	68,358.3	16.2	152,637.9	35.0
Other liabilities	2,577.2	0.6	6,118.6	1.4
<b>NET INVESTMENT POSITION</b>	<b>-179,559.0</b>		<b>-193,431.0</b>	
<b>Long-term</b>	<b>-170,063.6</b>		<b>-111,739.1</b>	
<b>Short-term</b>	<b>-9,495.4</b>		<b>-81,691.9</b>	

of a fall in market prices. The most preferred fields of activity for **foreign direct investment in Estonia** were financial intermediation (except insurance and pension funding – 32%), real estate activities (15%), other business activities (9%) and wholesale (8%; see Table 41). 40% of total direct investment in Estonia has been made by Swedish and nearly 25% by Finnish investors. Investors from the Netherlands, Denmark and Russia have invested to a lesser extent.

**Table 40. Estonia's international investment position by fields of activity and countries (%)**

Assets			Liabilities		
Fields of activity					
	31/12/2007	31/12/2008		31/12/2007	31/12/2008
Financial intermediation*	54.0	52.1	Financial intermediation*	58.0	59.1
Other business activities	5.4	8.7	Real estate activities	6.3	7.3
Public administration and defence; statutory social insurance	9.0	8.1	Wholesale trade**	5.3	5.5
Wholesale trade**	5.7	6.1	Other business activities	6.5	5.0
Insurance and pension funding***	6.7	5.9	Supporting transport activities, activities of travel agencies	1.7	2.7
Other	19.2	19.1	Other	22.2	20.4
Total	100.0	100.0	Total	100.0	100.0
Countries					
	31/12/2007	31/12/2008		31/12/2007	31/12/2008
Latvia	11.6	13.2	Sweden	38.4	38.6
Germany	11.4	12.1	Finland	19.8	19.8
Lithuania	9.9	11.5	United Kingdom	7.1	6.3
United Kingdom	7.6	5.7	Denmark	5.7	5.8
Finland	6.0	5.5	Netherlands	2.6	3.2
Other	53.4	52.1	Other	26.4	26.3
Total	100.0	100.0	Total	100.0	100.0

\* Except insurance and pension funding

\*\* Except motor vehicles and motorcycles

\*\*\* Except compulsory social security

**Table 41. Direct investment position by fields of activity and countries (%)**

In Estonia			Abroad		
Fields of activity					
	31/12/2007	31/12/2008		31/12/2007	31/12/2008
Financial intermediation*	31.0	32.2	Financial intermediation*	39.5	36.8
Real estate activities	13.8	14.7	Other business activities	17.0	25.5
Other business activities	11.9	9.1	Water transport	8.2	9.9
Wholesale trade**	7.7	8.0	Real estate activities	13.4	8.4
Supporting transport activities, activities of travel agencies	2.8	4.5	Wholesale trade**	6.2	5.6
Other	32.9	31.5	Other	15.7	13.9
Total	100.0	100.0	Total	100.0	100.0
Riigid					
	31/12/2007	31/12/2008		31/12/2007	31/12/2008
Sweden	39.3	39.9	Latvia	33.6	32.0
Finland	24.9	22.4	Lithuania	30.0	29.1
Netherlands	5.6	6.8	Cyprus	7.9	9.5
Denmark	4.4	3.7	Finland	4.0	5.4
Russia	2.6	3.4	Russia	8.3	4.4
Other	23.1	23.7	Other	16.3	19.7
Total	100.0	100.0	Total	100.0	100.0

\* Except insurance and pension funding

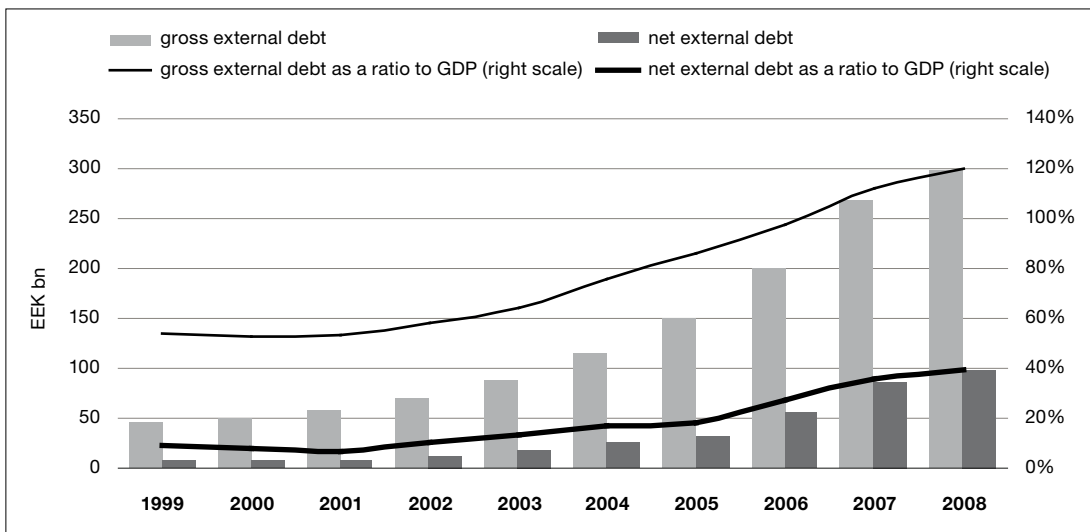
\*\* Except motor vehicles and motorcycles

**Estonian investment abroad** increased in the first half of 2008, but in end-2008 dropped to the level recorded at the end of 2007, totalling 243 billion kroons. Financial intermediaries (except insurance and pension funding) comprised the largest share (52%) of Estonian investment abroad. Somewhat less investment went to other business activities, the public sector, wholesale, and insurance and pension funding. Estonian investors have invested in many different countries, Latvia, Germany and Lithuania being the most preferred destinations.

Compared to the end of 2007, the share of direct and other investment in the structure of Estonian investment abroad increased, comprising 31% and 33%, respectively. The share of portfolio investment decreased by 11 percentage points for the above-mentioned reason. The position of **foreign direct investment** grew 17%. The most active foreign direct investors were those of financial intermediation (except insurance and pension funding – 37%) and other business activities (26%; see Table 41). The majority (slightly over 60%) of Estonian direct investment abroad has been channelled to the Baltic States, and some also to Cyprus, Finland and Russia. The position of Estonian direct investment in Russia shrank 40% year-on-year.

**Due to the prevalence of external liabilities, Estonia's net investment position was negative by 193 billion kroons at the end of 2008.** 58% of the net investment position was long-term capital.<sup>6</sup>

**Estonia's gross external debt increased 11% year-on-year and amounted to 298 billion kroons at the end of 2008, exceeding GDP by 20%.** 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 2.4% of the gross debt.<sup>7</sup> Estonia's **net external debt (assets less liabilities) increased 14% and totalled 98 billion kroons** (see Table 42 and Figure 25). The net external debt accounted for approximately 39% of GDP. The gross external debt accounted for 68% of total external liabilities. Leaving aside the inter-company lending of direct investment companies, long-term debt liabilities accounted for 53% of the gross external debt. The share of long-term debt claims formed 31% of total debt claims.



**Figure 25. Estonia's gross and net external debt**

<sup>6</sup> Following the recommendations of the European Central Bank, interbank loans are now recorded under *Loans, currency and deposits* (formerly under long- and short-term loans). Loans, currency and deposits are treated as short-term capital, which is why the share of long-term capital in the net investment position has fallen considerably.

<sup>7</sup> The increased share of the general government debt, compared to earlier figures, arises from changes in the methodology. Now also transfers from EU funds are recorded under the general government debt on an accrual basis.

**Table 43. External debt (EEK m)**

	31/12/2007	%	31/12/2008	%
<b>LIABILITIES</b>				
<b>I. General government</b>	<b>3,451.5</b>	<b>1.3</b>	<b>7,269.2</b>	<b>2.4</b>
Short-term	.	0.0	2,978.2	0.0
Long-term	3,451.5	1.3	4,291.0	1.4
<b>II. Monetary authorities (NCB)</b>	<b>1,316.9</b>	<b>0.5</b>	<b>139.5</b>	<b>0.0</b>
Short-term	1,304.4	0.5	100.7	0.0
Long-term	12.5	0.0	38.8	0.0
<b>III. Credit institutions</b>	<b>152,972.3</b>	<b>57.0</b>	<b>169,687.7</b>	<b>56.9</b>
Short-term	55,628.6	20.7	85,547.4	28.7
Long-term	97,343.6	36.2	84,140.4	28.2
<b>IV. Other sectors</b>	<b>60,598.2</b>	<b>22.6</b>	<b>67,834.3</b>	<b>22.7</b>
Short-term	24,985.3	9.3	26,993.3	9.1
Long-term	35,612.9	13.3	40,841.0	13.7
<b>V. Direct investment: intercompany lending</b>	<b>50,245.1</b>	<b>18.7</b>	<b>53,296.5</b>	<b>17.9</b>
<b>GROSS EXTERNAL DEBT</b>	<b>268,584.0</b>	<b>100.0</b>	<b>298,227.2</b>	<b>100.0</b>
<b>ASSETS</b>				
<b>I. General government</b>	<b>21,759.1</b>	<b>11.9</b>	<b>19,529.4</b>	<b>9.7</b>
Short-term	7,279.0	4.0	6,910.1	3.4
Long-term	14,480.1	7.9	12,619.3	6.3
<b>II. Monetary authorities (NCB)</b>	<b>34,889.5</b>	<b>19.1</b>	<b>44,019.9</b>	<b>22.0</b>
Short-term	21,144.4	11.6	29,755.2	14.9
Long-term	13,745.1	7.5	14,264.7	7.1
<b>III. Credit institutions</b>	<b>46,548.2</b>	<b>25.5</b>	<b>46,340.8</b>	<b>23.1</b>
Short-term	36,711.6	20.1	38,044.4	19.0
Long-term	9,836.6	5.4	8,296.4	4.1
<b>IV. Other sectors</b>	<b>42,697.8</b>	<b>23.3</b>	<b>44,238.8</b>	<b>22.1</b>
Short-term	31,229.6	17.1	32,114.8	16.0
Long-term	11,468.2	6.3	12,124.0	6.1
<b>V. Direct investment: intercompany lending</b>	<b>36,980.4</b>	<b>20.2</b>	<b>46,221.1</b>	<b>23.1</b>
<b>TOTAL ASSETS</b>	<b>182,874.9</b>	<b>100.0</b>	<b>200,350.1</b>	<b>100.0</b>
<b>NET EXTERNAL DEBT (assets less liabilities)</b>				
<b>I. General government</b>	<b>18,307.6</b>		<b>12,260.2</b>	
Short-term	7,279.0		3,931.9	
Long-term	11,028.6		8,328.3	
<b>II. Monetary authorities (NCB)</b>	<b>33,572.5</b>		<b>43,880.4</b>	
Short-term	19,839.9		29,654.5	
Long-term	13,732.6		14,225.9	
<b>III. Credit institutions</b>	<b>-106,424.1</b>		<b>-123,346.9</b>	
Short-term	-18,917.0		-47,503.0	
Long-term	-87,507.1		-75,844.0	
<b>IV. Other sectors</b>	<b>-17,900.4</b>		<b>-23,595.5</b>	
Short-term	6,244.4		5,121.5	
Long-term	-24,144.8		-28,716.9	
<b>V. Direct investment: intercompany lending</b>	<b>-13,264.7</b>		<b>-7,075.4</b>	
<b>TOTAL NET EXTERNAL DEBT</b>	<b>-85,709.0</b>		<b>-97,877.2</b>	