Eesti Pank
Bank of Estonia

Estonia's Balance of Payments for 2009

2010

CONTENTS

SHORT OVERVIEW

- **Domestic demand shrank faster than external demand, which had a significant effect on the current account in 2009. The deep current account deficit recorded in previous years turned into a nearly 10 billion kroon surplus. The surplus accounted for 4.6% of GDP (see Table 1 and Figure 1).**
- **The current account surplus primarily resulted from a rapid decrease in trade deficit but also a decline in the net outflow of income.**
- **The exports of goods and services, direct components of GDP, exceeded their imports and the surplus on goods and services was 5.9% as a ratio of GDP. The imports of goods and services decreased faster than exports.**
- **Estonia made active use of grants from the EU budget – the surplus on current and capital transfers totalled over 9 billion kroons.**
- **In 2009 Estonia turned from net external borrower to net external lender. Namely, the previous years' large net capital inflow on the financial account was replaced by a net outflow, which mainly comprised portfolio investment.**
- **The quarterly changes in the gold and foreign exchange reserves faded each other out and at year-end the reserves stood more or less at end-2008 level.**

The deficit on the **goods account** decreased by almost four times in 2009 and totalled 7.9 billion kroons (3.7% of GDP). The exports of goods contracted 25% and imports by a third. The foreign trade deficit decreased mainly owing to a sudden decline in the deficit on transport vehicles, machinery and equipment, and mineral products.

The foreign trade of **services** performed relatively well in light of the difficult economic situation. Similar to trade, also the imports and exports of services contracted but the extent of contraction was smaller: exports dropped 10% and imports 21%. The surplus on services slightly increased,

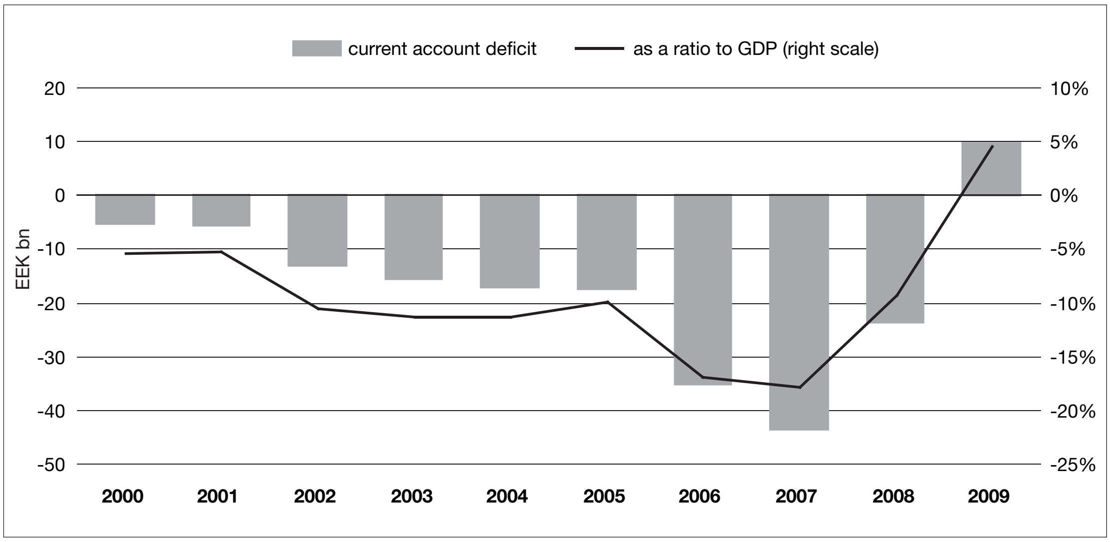

Figure 1. Current account deficit

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

	2003	2004	2005	2006	2007	2008	2009
Current account	**-15,418.2**	**-17,134.1**	**-17,461.8**	**-35,010.1**	**-43,538.7**	**-23,553.4**	**9,887.6**
Goods and services	-10,046.8	-10,615.8	-11,122.5	-25,005.4	-28,586.2	-10,711.9	12,741.0
Goods*	-21,522.3	-24,551.7	-24,254.5	-37,366.1	-43,581.0	-29,381.3	-7,908.6
credit (f.o.b.)	63,443.7	74,543.0	99,322.3	121,430.6	126,534.2	133,560.8	101,747.0
debit (f.o.b.)	-84,966.0	-99,094.7	-123,576.9	-158,796.7	-170,115.3	-162,942.0	-109,655.5
Services	11,475.5	13,936.0	13,132.0	12,360.7	14,994.8	18,669.4	20,649.5
credit	30,674.0	35,888.9	40,868.5	43,610.5	50,065.4	55,240.1	49,454.9
debit	-19,198.5	-21,952.9	-27,736.5	-31,249.8	-35,070.6	-36,570.7	-28,805.3
Income	-7,240.7	-7,965.3	-7,124.4	-10,766.2	-16,575.0	-15,871.4	-6,250.2
credit	3,584.1	5,487.0	9,225.6	13,558.1	19,093.3	17,396.6	10,711.3
debit	-10,824.8	-13,452.3	-16,349.9	-24,324.3	-35,668.4	-33,268.0	-16,961.5
Transfers	1,869.4	1,447.0	785.2	761.5	1,622.5	3,029.8	3,396.8
credit	3,380.8	5,242.6	5,876.8	6,568.5	7,610.8	8,220.7	8,056.0
debit	-1,511.5	-3,795.6	-5,091.6	-5,806.9	-5,988.3	-5,190.8	-4,659.2
Capital and financial account (reserve assets excluded)	**18,552.9**	**22,670.6**	**20,513.3**	**41,431.3**	**42,261.0**	**32,809.5**	**-8,063.8**
Capital account	977.8	1,076.6	1,325.9	4,515.8	2,561.0	2,511.9	6,010.0
Financial account	17,575.1	21,594.0	19,187.3	36,915.4	39,700.0	30,297.6	-14,073.8
Direct investment	10,716.0	8,672.2	27,401.5	8,613.1	11,344.1	9,312.5	2,367.0
Abroad	-2,149.2	-3,388.6	-8,699.5	-13,790.4	-19,912.0	-11,300.1	-16,473.9
In Estonia	12,865.3	12,060.9	36,101.0	22,403.6	31,256.1	20,612.5	18,840.9
Portfolio investment	2,431.6	9,102.5	-27,688.4	-16,476.5	-5,558.2	7,854.5	-22,456.3
Assets	-5,351.6	-4,775.7	-10,818.4	-15,206.7	-8,440.6	10,639.9	-7,515.6
Equity securities	-1,028.9	-2,893.5	-4,848.9	-4,569.2	-7,688.8	4,102.5	-770.3
Debt securities	-4,322.7	-1,882.2	-5,969.5	-10,637.5	-751.8	6,537.4	-6,745.3
Liabilities	7,783.2	13,878.2	-16,870.0	-1,269.8	2,882.4	-2,785.4	-14,940.7
Equity securities	1,527.0	2,205.2	-16,352.3	3,731.8	3,533.3	-3,415.3	-1,443.5
Debt securities	6,256.2	11,673.0	-517.8	-5,001.6	-650.9	629.9	-13,497.3
Financial derivatives	-19.3	-8.3	-97.6	78.5	-797.8	828.5	200.8
Assets	-139.2	-35.1	13.5	-180.9	-883.4	674.6	285.2
Liabilities	120.0	26.8	-111.1	259.4	85.6	153.9	-84.4
Other investment	4,446.8	3,827.7	19,571.8	44,700.3	34,711.9	12,302.2	5,814.7
Assets	-2,284.6	-11,749.5	-11,143.5	562.4	-22,289.4	-5,662.0	14,797.4
Long-term	-565.7	-6,052.6	-4,199.6	5,406.7	-3,288.4	-276.0	-574.3
Short-term	-1,718.9	-5,696.9	-6,943.9	-4,844.3	-19,001.1	-5,386.0	15,371.7
Liabilities	6,731.4	15,577.2	30,715.3	44,137.9	57,001.3	17,964.2	-8,982.6
Long-term	4,309.1	5,602.6	10,905.4	24,727.1	46,534.1	-9,521.2	5,112.5
Short-term	2,422.3	9,974.7	19,809.9	19,410.8	10,467.2	27,485.4	-14,095.1
Errors and omissions	-822.7	-2,111.2	1,832.4	1,106.1	2,679.6	-1,386.4	-1,791.7
Overall balance	**2,312.1**	**3,425.4**	**4,883.9**	**7,527.3**	**1,401.9**	**7,869.7**	**32.1**
Reserve assets	**-2,312.1**	**-3,425.4**	**-4,883.9**	**-7,527.3**	**-1,401.9**	**-7,869.7**	**-32.1**

* 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.

as imports declined faster than exports. The surplus on the services account was record high in 2009 with nearly 21 billion kroons. Transport, travel and other business services (trade, advertising and legal aid services), which are Estonia's three major types of services, comprised 86% of the surplus.

The net outflow of **labour and capital income** decreased by over two times in 2009 and stood at 6.3 billion kroons. The surplus on labour income reached 2.1 billion kroons, having declined 15% year-on-year. Capital income (investment income) accounted for the majority of the income account; non-residents' income earned in Estonia exceeded residents' income earned abroad by 8.4 billion kroons. The net outflow of investment income shrank by two times over the year. Direct investment income comprised 63% of both the inflow and outflow of investment income.

The use of EU subsidies increased considerably in 2009, especially in the second half of the year. The majority of the subsidies came as capital transfers. The total surplus on **current and capital transfers** grew 70% year-on-year and stood at 9.4 billion kroons.

Similar to 2008, EU Member States accounted for 72% of the credit turnover and 81% of the debit turnover of the current account.

The external sector surplus was not fully invested in Estonia and the earlier large capital net inflow was replaced by a net outflow. Thus, the **financial account** had a deficit of 14 billion kroons. The net outflow of capital comprised portfolio investment.

Direct investment inflow was 2.4 billion kroons bigger than outflow in 2009, which is significantly less than in previous years. At the same time, both the direct investment in Estonia and Estonia's direct investment abroad were relatively large, totalling as much as 18.8 and 16.5 billion kroons, respectively. The fourth quarter witnessed large direct investment in both directions, which were primarily related to equity capital investments made by credit institutions and other sectors.

The net outflow of capital consisted of **portfolio investment** and totalled 22.5 billion kroons. Most of the outflow consisted of credit institutions' transactions, and resulted in an increase in the debt security assets and a decrease in debt security liabilities. Compared to 2008, the net inflow of **financial derivatives** was modest with 0.2 billion kroons.

The inflow of **other investment** (trade credit, loans and deposits) has shrunk considerably over the past three years. The net inflow of other investment was 5.8 billion kroons in 2009. Other investment assets declined by nearly 15 billion and liabilities by 9 billion kroons. The decrease in both the assets and liabilities can be attributed to a decline in the currency and deposits (incl. short-term loans) of credit institutions.

The **gold and foreign exchange reserves** increased by 32 million kroons in 2009.

CURRENT ACCOUNT

Domestic demand shrank faster than external demand, which had a significant effect on the current account in 2009. The large deficits of previous years were replaced by a surplus of almost 10 billion kroons (see Figure 2). The surplus accounted for 4.6% of GDP. The current account surplus primarily resulted from a rapid decrease in trade deficit but also a decline in the net outflow of income. The surplus on goods and services (the direct components of GDP) as a ratio of GDP was 5.9%. The exports of goods and services contracted 20% and imports 31%. Estonia made active use of grants from the EU budget – the surplus on current and capital transfers totalled over 9 billion kroons.

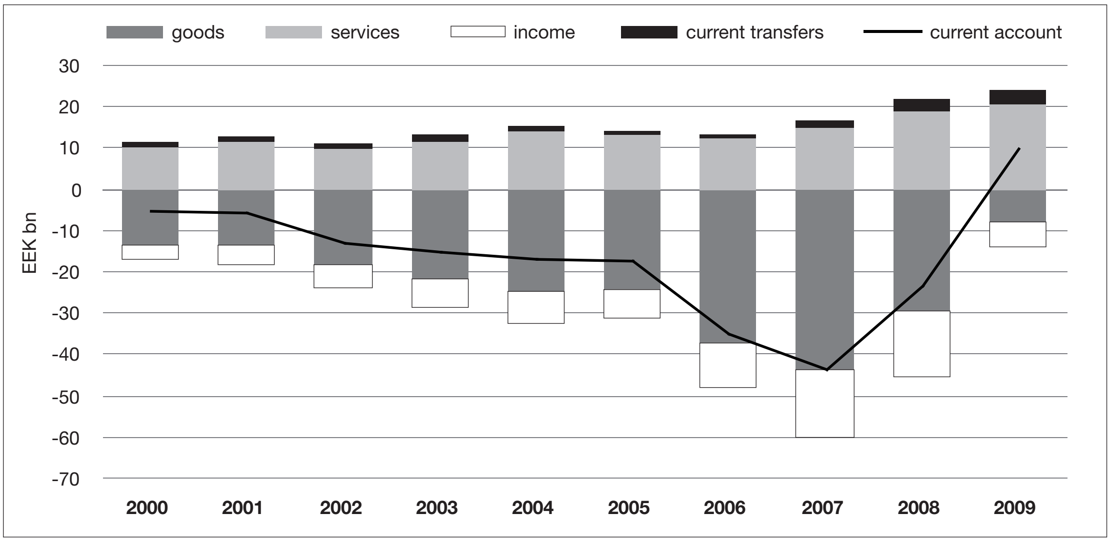

Figure 2. Current account structure

The share of the EU in the credit as well as the debit turnover remained unchanged from 2008 and 2007. The five most important partners were the same in both turnovers, with the only difference in the two leading countries. Finland was the biggest partner in terms of credit turnover with Sweden ranking second, whereas Sweden was the leader in terms of debit turnover with Finland ranking second. The other major partners were Latvia, Germany and Lithuania. The five largest partners accounted for around 70% of both the credit and debit turnover. Estonia had the biggest current account surplus with Finland, Russia and the United States, whereas the highest deficit was registered with Sweden, Germany and Lithuania (see Table 2). Compared to 2008, the deficits with Sweden and Germany decreased by nearly 20 billion kroons in total.

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

	2008	2009
EU-27	**-39,339.2**	**-7,378.4**
Finland*	10,274.8	12,274.1
Sweden	-15,586.7	-5,831.6
Germany	-14,424.1	-4,745.6
Lithuania	-4,410.3	-4,615.2
Poland	-4,826.7	-3,801.3
CIS	**3,162.7**	**3,207.8**
Russia	6,384.7	3,267.1
Belarus	-4,191.1	-1,457.5
Kazakhstan	448.6	903.4
Other	**12,623.1**	**14,058.2**
USA	4,980.2	3,216.8
Nigeria	1,069.3	2,944.7
Norway	4,233.7	2,683.1
Canada	932.9	1,889.8
Switzerland	1,366.5	1,573.3
Total	**-23,553.4**	**9,887.6**

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

Goods

Given the current recession, the deficit on the goods account for 2009 decreased by 21 billion kroons (73%) from 2008 and stood at 8 billion kroons (see Table 3). This accounted for nearly 4% of annual GDP. The exports of goods declined 24% year-on-year and amounted to 102 billion kroons. The imports of goods decreased by a third and reached 110 billion kroons.

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 (%)	
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	74,543.0	17.5	67.5	99,094.7	16.6	81.9	-24,551.7
2005	99,322.3	33.2	70.8	123,576.9	24.7	81.7	-24,254.6
2006	121,430.6	22.3	73.6	158,796.7	28.5	83.6	-37,366.1
2007	126,534.2	4.2	71.7	170,115.3	7.1	82.9	-43,581.1
2008	133,560.8	5.6	70.7	162,942.0	-4.2	81.7	-29,381.2
2009	101,747.0	-23.8	67.3	109,655.5	-32.7	79.2	-7,908.5

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

According to the preliminary **foreign trade statistics**[1], goods exports totalled 101.3 billion and imports in c.i.f. prices 114.1 billion kroons in 2009 (see Figure 3). Both the imports and exports contracted significantly in the first quarter, whereas the second, third and fourth quarters witnessed moderate quarterly growth. Compared to the boom period, when quarterly foreign trade deficit had totalled 12–14 billion kroons, the quarterly deficit figures for 2009 remained within 2–4 billion kroons and totalled 12.8 billion kroons on an annual basis.

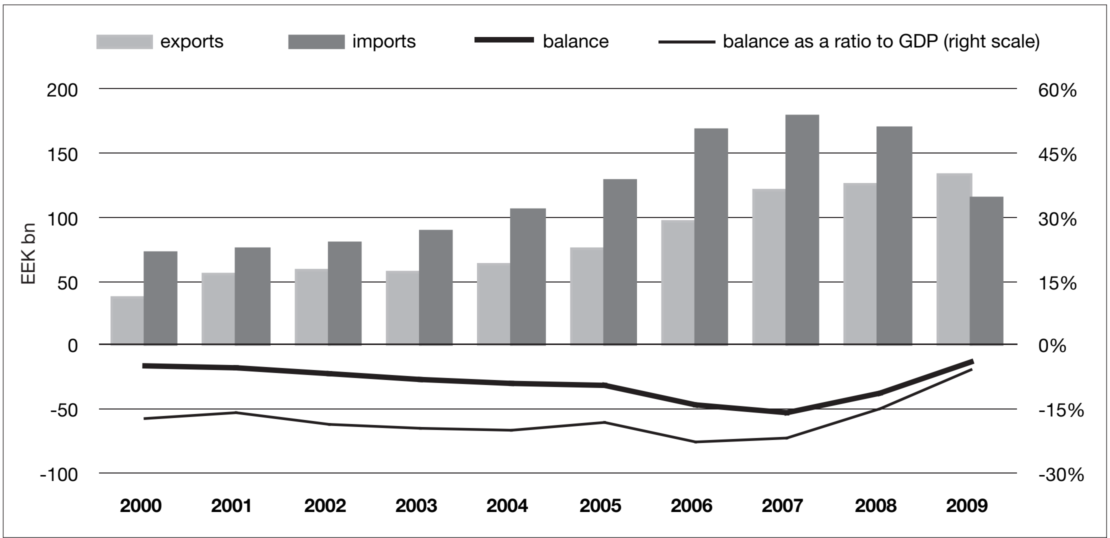

Figure 3. Estonia's foreign trade balance

The **exports of goods** declined nearly across all groups of goods (see Table 4). Only the exports of mineral products increased year-on-year, ranking second after machinery and equipment. 75% of the exports of mineral products comprised motor fuels imported from Russia and Lithuania for processing and then re-exported to the United States, Nigeria and Canada. The major factor contributing to the contraction of exports was the 31% decrease in the exports of machinery and equipment. Mobile communication devices and other electronic goods were exported to Sweden, Finland, Russia, Latvia and Germany. The exports of metals and metal products decreased nearly 50% and primarily consisted of metal constructions and steel products, sold to Finland, Sweden and Latvia. Timber and timber products (construction components, firewood, mechanical pulp, etc.) were exported to Finland, Sweden and Denmark; prefabricated wooden buildings went to Germany, Norway and the United Kingdom, and furniture mainly to Finland and Sweden.

The largest export items in the food group were again spirits, which were sold to Russia, Finland, Latvia and Lithuania. Other major export items included cheese, curds and other dairy products,

[1] 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.

Table 4. Exports by major groups of goods

	Volume (EEK m)		Share (%)		Change (%)
	2008	2009	2008	2009	2009/2008
Food	12,047.6	10,195.3	9.1	10.1	-15.4
Mineral products	16,038.7	17,023.2	12.1	16.8	6.1
Chemical products	11,266.5	8,759.2	8.5	8.6	-22.3
Clothing, footwear and headgear	7,167.5	5,174.4	5.4	5.1	-27.8
Timber, paper and products	15,192.0	12,004.1	11.5	11.8	-21.0
Metals and metal products	15,988.0	8,857.2	12.1	8.7	-44.6
Machinery and equipment	28,822.9	19,873.0	21.8	19.6	-31.1
Transport vehicles	10,364.1	6,619.6	7.8	6.5	-36.1
Furniture, toys, sporting goods	9,569.2	8,385.1	7.2	8.3	-12.4
Other	5,989.3	4,418.5	4.5	4.4	-26.2
Total	**132,445.8**	**101,309.7**	**100.0**	**100.0**	**-23.5**

frozen and canned fish as well as various prepared products, which were exported to the above countries and also Sweden, Germany, the Netherlands, Ukraine and Denmark. The exports of chemical products primarily consisted of construction materials (putties, mastics, paints, varnishes, etc.), carbonic acids and plastic products, sold to Russia, Poland and Lithuania. Compared to 2008, the re-exports of motor cars to Latvia, Finland, Sweden and Russia contracted considerably, which is why also the exports of transport vehicles decreased 36%. Textile products and footwear were exported to Finland, Sweden, Latvia and Russia.

The **imports of goods** declined significantly across all groups of goods (see Table 5). Imports declined largely as a result of a considerable fall in the imports of machinery and equipment, transport vehicles and metals; mineral products were the biggest import items. Motor fuels were purchased for processing and internal supply from Russia, Lithuania, Belarus and Latvia; natural gas was imported from Russia and electricity from Lithuania and Latvia. The largest import items in the group of machinery and equipment included mobile communication devices and components of electronic equipment, which were purchased from Finland, Sweden and Germany. Chemical products (medicines, plastic products, tyres, etc.) were imported from Germany, Finland, Lithuania, Latvia and Poland.

Table 5. Imports by major groups of goods

	Volume (EEK m)		Share (%)		Change (%)
	2008	2009	2008	2009	2009/2008
Food	17,613.5	14,492.2	10.4	12.7	-17.7
Mineral products	27,197.1	22,987.6	16.0	20.1	-15.5
Chemical products	21,910.6	16,862.2	12.9	14.8	-23.0
Clothing, footwear and headgear	11,087.1	7,688.1	6.5	6.7	-30.7
Timber, paper and products	7,921.6	5,995.9	4.7	5.3	-24.3
Metals and metal products	18,048.9	8,839.5	10.6	7.7	-51.0
Machinery and equipment	36,731.9	21,943.5	21.6	19.2	-40.3
Transport vehicles	18,710.4	7,167.5	11.0	6.3	-61.7
Furniture, toys, sporting goods	4,038.0	2,824.8	2.4	2.5	-30.0
Other	6,783.0	5,281.6	4.0	4.6	-22.1
Total	**170,042.2**	**114,082.9**	**100.0**	**100.0**	**-32.9**

Similar to the exports of food products, spirits and wines were also the largest import item, purchased from the United Kingdom, Finland and France. Footwear, men's and women's clothes, knitwear and underwear were imported from the EU as well as China, Turkey and Pakistan. The imports of transport vehicles contracted 62% from 2008, mostly owing to the decreased imports of motor cars and spare parts from Sweden, Germany and Finland. Timber and paper were purchased from Finland, Russia and Latvia, and steel products from Finland, Germany and Sweden.

The **foreign trade deficit** decreased by 25 billion kroons (66%) from 2008 and totalled 12.8 billion kroons (see Table 6). Three groups of goods posted a surplus: timber and timber products, furniture and other industrial goods as well as metals and metal products. The deficit decreased primarily in the groups of transport vehicles, machinery and equipment, and mineral products.

The **exports of goods** decreased nearly across all **groups of countries** (see Table 7). The main export partners in the EU were Finland, Sweden, Latvia, Germany and Lithuania. Machinery and equipment (primarily electronic products) comprised 22% of the exports to the EU, followed by

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

	2008	2009
Food	-5,565.9	-4,296.9
Mineral products	-11,158.5	-5,964.4
Chemical products	-10,644.1	-8,103.0
Clothing, footwear and headgear	-3,919.6	-2,513.7
Timber, paper and products	7,270.4	6,008.2
Metals and metal products	-2,060.8	17.7
Machinery and equipment	-7,909.1	-2,070.5
Transport vehicles	-8,346.2	-547.8
Furniture, toys, sporting goods	5,531.2	5,560.3
Other	-793.7	-863.2
Total	**-37,596.4**	**-12,773.2**

Table 7. Exports of goods by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2008	2009	2008	2009	2009/2008
EU-27	**92,254.6**	**69,978.9**	**69.7**	**69.1**	**-24.1**
Finland	24,265.1	18,621.0	18.3	18.4	-23.3
Sweden	18,329.2	12,672.8	13.8	12.5	-30.9
Latvia	13,233.4	9,809.8	10.0	9.7	-25.9
Germany	6,661.3	6,109.4	5.0	6.0	-8.3
Lithuania	7,545.9	4,943.4	5.7	4.9	-34.5
CIS	**17,686.4**	**11,928.8**	**13.4**	**11.8**	**-32.6**
Russia	13,775.0	9,424.4	10.4	9.3	-31.6
Ukraine	2,206.1	1,134.1	1.7	1.1	-48.6
Belarus	850.2	593.2	0.6	0.6	-30.2
Other	**22,504.8**	**19,402.0**	**17.0**	**19.2**	**-13.8**
USA	6,374.2	4,287.7	4.8	4.2	-32.7
Nigeria	4,379.6	3,229.8	3.3	3.2	-26.3
Norway	1,075.3	2,954.9	0.8	2.9	174.8
Total	**132,445.8**	**101,309.7**	**100.0**	**100.0**	**-23.5**

timber and timber products, food and mineral products (motor fuels). Exports to the CIS consisted of food and chemical products, and machinery and equipment, with Russia, Ukraine and Belarus as the largest partners. The top three among other countries were the United States, Norway and Nigeria. The majority of the exports to the United States and Nigeria consisted of motor fuels; Norway purchased timber products (furniture and log cabins) from Estonia.

The **imports of goods** also decreased across all groups of countries (see Table 8). The top five of EU countries included Finland, Lithuania, Germany, Latvia and Sweden. Imports from the EU primarily consisted of machinery and equipment, chemical and food products, and fuels. 66% of the imports from Russia consisted of motor fuels and natural gas. Motor fuel was imported also from Belarus and metal products from Ukraine. The top three among other countries were China, the United States and Norway. China exported electronic components and clothing to Estonia, the United States sold transport vehicles and Norway delivered motor fuel.

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 Lithuania, Germany and Poland, and the largest surplus with Finland, Sweden and Denmark. As regards the CIS, Estonia had the biggest deficit with Belarus and Russia, and a slight surplus with Ukraine. In terms of other countries, Estonia registered trade deficit with China and a large surplus with the United States, Canada and Norway.

Table 8. Imports of goods by groups of countries*

	Volume (EEK m)		Share (%)		Change (%)
	2008	2009	2008	2009	2009/2008
EU-27	**135,569.2**	**90,898.0**	**79.7**	**79.7**	**-33.0**
Finland	23,992.2	16,481.6	14.1	14.4	-31.3
Lithuania	15,229.3	12,456.3	9.0	10.9	-18.2
Germany	22,777.1	11,905.0	13.4	10.4	-47.7
Latvia	15,325.1	11,598.5	9.0	10.2	-24.3
Sweden	17,002.0	9,547.8	10.0	8.4	-43.8
CIS	**20,695.4**	**13,051.7**	**12.2**	**11.4**	**-36.9**
Russia	13,024.7	10,016.4	7.7	8.8	-23.1
Belarus	4,979.5	2,009.5	2.9	1.8	-59.6
Ukraine	1,829.1	713.7	1.1	0.6	-61.0
Other	**13,777.6**	**10,133.2**	**8.1**	**8.9**	**-26.5**
China	3,635.0	2,274.2	2.1	2.0	-37.4
USA	2,011.6	1,579.0	1.2	1.4	-21.5
Norway	1,157.7	1,493.9	0.7	1.3	29.0
Total	**170,042.2**	**114,082.9**	**100.0**	**100.0**	**-32.9**

* Analysed by trading country.

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

	2008	2009
EU-27	-43,314.7	-20,919.1
CIS	-3,009.0	-1,122.9
Other	8,727.3	9,268.8
Total	**-37,596.4**	**-12,773.2**

Services

Although 2009 witnessed severe recession, the trade of services was relatively lively: the surplus on the services account totalled almost 21 billion kroons, having grown 11% from 2008 (see Figure 4). Although both the imports and exports of services declined from 2008, imports shrank two times faster than exports (see Table 10). As the turnover of goods decreased to a considerable extent, the share of services in the total turnover of goods and services slightly increased.

In 2009 also the structure of the net exports of services changed (see Table 11). Transport, travel and other business services, which are Estonia's three major types of services, comprised 86% of the services surplus (80% in 2008). The net exports of construction services, on the other hand, declined nearly 60% from the previous year.

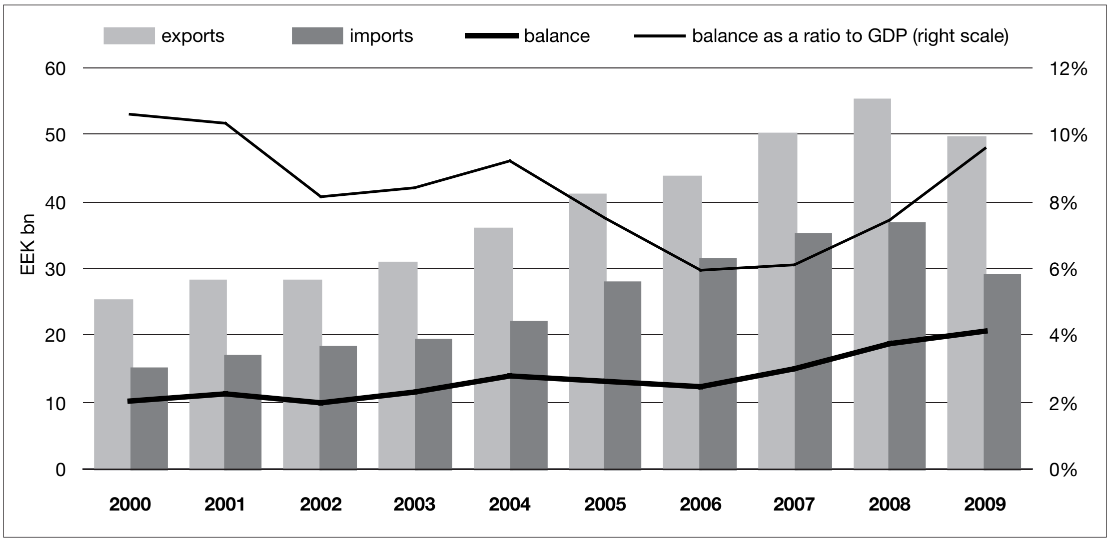

Figure 4. Services account

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 (%)
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	35,888.9	17.0	32.5	21,952.9	14.3	18.1	13,936.0	21.4
2005	40,868.5	13.9	29.2	27,736.5	26.3	18.3	13,132.0	-5.8
2006	43,610.5	6.7	26.4	31,249.8	12.7	16.4	12,360.7	-5.9
2007	50,065.4	14.8	28.3	35,070.6	12.2	17.1	14,994.8	21.3
2008	55,240.1	10.3	29.3	36,570.7	4.3	18.3	18,669.4	24.5
2009	49,454.9	-10.5	32.7	28,805.3	-21.2	20.8	20,649.6	10.6

Table 11. Services balance by major categories

	Balance (EEK m)		Share (%)		Change (%)
	2008	2009	2008	2009	2009/2008
Transportation	7,445.5	8,666.0	39.9	42.0	16.4
Travel	4,228.2	5,447.0	22.6	26.4	28.8
Construction services	2,759.1	1,121.0	14.8	5.4	-59.4
Computer and information services	820.0	1,062.8	4.4	5.1	29.6
Business services	3,171.6	3,677.3	17.0	17.8	15.9
Government services	7.0	156.2	0.0	0.8	2,131.4
Other	238.0	519.2	1.3	2.5	118.2
Total	**18,669.4**	**20,649.5**	**100.0**	**100.0**	**10.6**

Services exports decreased 10% from 2008 (see Table 12). This was due to a 15% fall in the exports of transport services to non-residents and a 40% decline in the exports of construction services. Given the general contraction in the economy, only the exports of computer and information services picked up 10% year-on-year.

Table 12. Services exports by major categories

	Volume (EEK m)		Share (%)		Change (%)
	2008	2009	2008	2009	2009/2008
Transportation	21,450.9	18,250.3	38.8	36.9	-14.9
freight	10,192.5	7,912.4	18.5	16.0	-22.4
passenger	4,757.1	3,965.2	8.6	8.0	-16.6
other transport services	6,501.3	6,372.7	11.7	12.9	-2.0
Travel	12,835.1	12,221.9	23.2	24.7	-4.8
Construction services	3,942.0	2,364.1	7.1	4.8	-40.0
Computer and information services	1,859.5	2,052.9	3.4	4.2	10.4
Business services	10,888.8	10,510.0	19.7	21.3	-3.5
Government services	589.9	554.3	1.1	1.1	-6.0
Other	3,673.9	3,501.4	6.7	7.0	-4.7
Total	**55,240.1**	**49,454.9**	**100.0**	**100.0**	**-10.5**

The geographical distribution of services exports was relatively similar to that in 2008 (see Table 13). The percentages of EU and other countries slightly increased, whereas that of the CIS decreased. Exports contracted across all groups of countries, in particular the CIS. The largest export partners were again Finland and Russia. The exports of operational lease to Kazakhstan increased by almost two times. Germany became the fourth biggest partner in the group of EU countries (in 2008: the United Kingdom).

The imports of services shrank considerably faster than exports in 2009, contracting by over 20% (see Table 14). The imports of transport, travel and other business services, which are the biggest services for Estonia in terms of imports, decreased 25% from 2008. The imports of transport services were, among other things, affected by a considerable fall in the imports of import goods. Only the imports of construction services picked up in 2009.

Table 13. Services exports by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2008	2009	2008	2009	2009/2008
EU-27	**38,305.0**	**34,900.8**	**69.3**	**70.6**	**-8.9**
Finland	15,855.7	14,447.4	28.7	29.2	-8.9
Sweden	4,574.3	4,048.1	8.3	8.2	-11.5
Latvia	2,904.0	2,639.0	5.3	5.3	-9.1
United Kingdom	2,561.1	2,101.4	4.6	4.2	-17.9
CIS	**8,556.3**	**6,663.0**	**15.5**	**13.5**	**-22.1**
Russia	7,129.8	4,967.4	12.9	10.0	-30.3
Kazakhstan	454.7	861.3	0.8	1.7	89.4
Ukraine	683.7	530.8	1.2	1.1	-22.4
Other	**8,378.8**	**7,891.1**	**15.2**	**15.9**	**-5.8**
offshore regions	1,717.8	2,259.8	3.1	4.6	31.6
Switzerland	2,032.5	1,872.4	3.7	3.8	-7.9
USA	1,649.9	1,366.1	3.0	2.8	-17.2
Total	**55,240.1**	**49,454.9**	**100.0**	**100.0**	**-10.5**

Table 14. Services imports by major categories

	Volume (EEK m)		Share (%)		Change (%)
	2008	2009	2008	2009	2009/2008
Transportation	14,005.4	9,584.2	38.3	33.3	-31.6
freight	9,326.1	6,003.6	25.5	20.9	-35.6
passenger	1,375.8	980.5	3.8	3.4	-28.7
other transport services	3,303.5	2,600.1	9.0	9.0	-21.3
Travel	8,606.9	6,774.9	23.5	23.5	-21.3
Construction services	1,182.8	1,243.1	3.2	4.3	5.1
Computer and information services	1,039.5	990.1	2.8	3.4	-4.8
Business services	7,717.3	6,832.6	21.1	23.7	-11.5
Government services	582.9	398.1	1.6	1.4	-31.7
Other	3,435.9	2,982.3	9.5	10.4	-13.2
Total	**36,570.7**	**28,805.3**	**100.0**	**100.0**	**-21.2**

The structure of services imports by groups of countries did not change much, year-on-year. EU countries accounted for 77% of the imports in 2009 (see Table 15). The imports of services from Finland, Estonia's largest trade partner, decreased over 20% year-on-year. Latvia's share in imports increased 7% from 2008, making Latvia the second major import partner from the EU after Sweden. Imports from the CIS shrank 23% from 2008; 75% of the services were purchased from Russia. Ukraine switched places with Belarus and was thus Estonia's third major import partner in 2009. The imports of services from other countries, in particular the United States, Egypt and Norway, decreased 27% year-on-year.

The surplus on **transport services** increased 16% in 2009, as their imports declined faster than exports (see Figures 5-6 and Table 11). The surplus grew mostly on account of transport services – various storage, logistics and intermediation services. The decline in goods exports, and especially imports, also caused a decrease in transport services. As regards different types of transport, the net exports of maritime transport accounted for the largest share of the balance of transport services, followed by rail and road transport. Air transport remained in deficit.

Table 15. Services imports by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2008	2009	2008	2009	2009/2008
EU-27	**27,602.7**	**22,099.9**	**75.5**	**76.7**	**-19.9**
Finland	5,496.1	4,242.1	15.0	14.7	-22.8
Latvia	2,861.5	3,053.5	7.8	10.6	6.7
Sweden	2,938.5	2,343.1	8.0	8.1	-20.3
Germany	2,751.1	1,710.9	7.5	5.9	-37.8
CIS	**3,650.7**	**2,822.0**	**10.0**	**9.8**	**-22.7**
Russia	2,652.8	2,115.9	7.3	7.3	-20.2
Belarus	329.7	218.7	0.9	0.8	-33.7
Ukraine	510.7	207.3	1.4	0.7	-59.4
Other	**5,317.3**	**3,883.4**	**14.5**	**13.5**	**-27.0**
USA	1,277.5	967.2	3.5	3.4	-24.3
Egypt	723.8	459.6	2.0	1.6	-36.5
Norway	492.3	360.8	1.3	1.3	-26.7
Total	**36,570.7**	**28,805.3**	**100.0**	**100.0**	**-21.2**

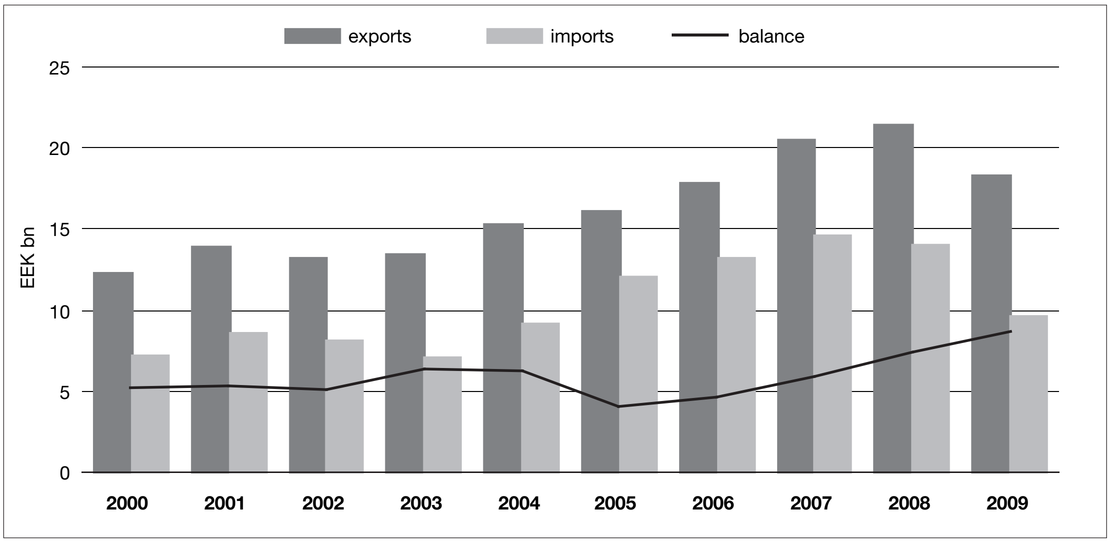

Figure 5. Transport services

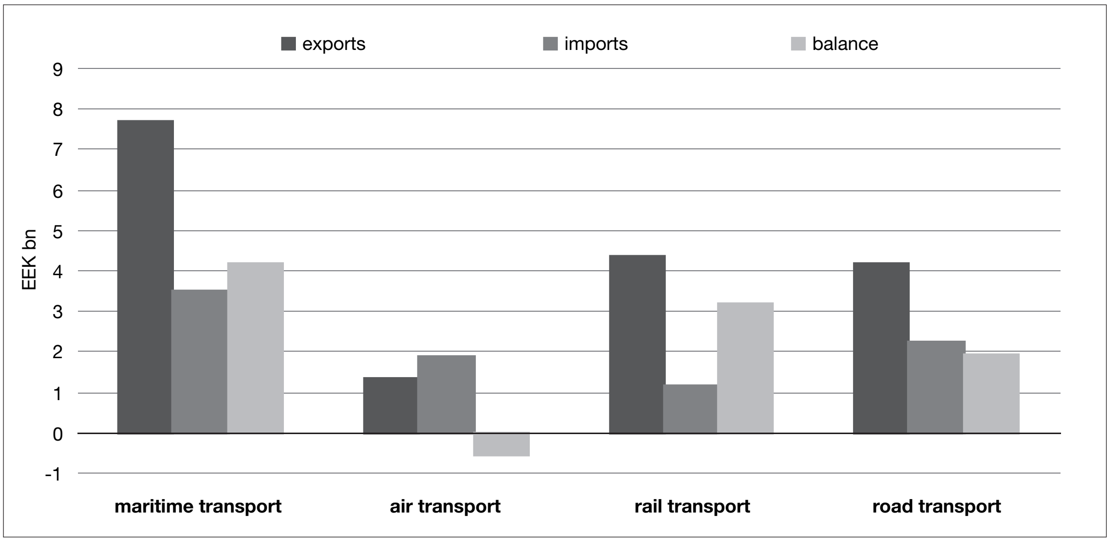

Figure 6. Transport services structure in 2009 by transport type

The exports of transport services decreased 15% across all major groups of countries and the majority of countries in 2009 (see Tables 12 and 16). Finland was still the biggest importer of transport services in the group of EU countries, followed by Sweden; the exports of transport services to these two countries decreased. The exports of transport services to the Netherlands, on the other hand, picked up nearly 40% from 2008, which made the Netherlands Estonia's third largest export partner among EU countries. Exports to the CIS contracted 8% and were almost entirely channelled to Russia. The ranking of other countries remained unchanged from 2008, with Switzerland as the leading export partner.

Table 16. Transport services by groups of countries in 2009

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%), 2009/2008		Volume (EEK m)	Share (%)	Change %), 2009/2008
EL-27	**11,704.7**	**64.1**	**-17.1**	**EU-27**	**7,142.3**	**74.5**	**-28.6**
Finland	4,110.5	22.5	-19.1	Finland	1,045.6	10.9	-27.7
Sweden	1,621.6	8.9	-13.4	Latvia	938.3	9.8	-7.1
Netherlands	1,027.7	5.6	37.4	Germany	927.0	9.7	-44.5
Germany	816.6	4.5	-30.5	Sweden	733.8	7.7	-32.9
Latvia	750.4	4.1	-1.4	Lithuania	634.5	6.6	-12.3
CIS	**2,776.9**	**15.2**	**-8.4**	**CIS**	**1,078.9**	**11.3**	**-41.8**
Russia	2,567.1	14.1	-7.9	Russia	796.2	8.3	-44.4
Ukraine	73.7	0.4	-37.4	Belarus	109.2	1.1	-55.2
Other	**3,768.7**	**20.7**	**-12.3**	**Other**	**1,363.0**	**14.2**	**-36.6**
Switzerland	1,266.3	6.9	-12.5	China	234.0	2.4	-35.4
offshore regions	998.8	5.5	-1.1	USA	230.6	2.4	-50.7
USA	562.0	3.1	-2.9	offshore regions	230.1	2.4	-45.6
Total	**18,250.3**	**100.0**	**-14.9**	**Total**	**9,584.2**	**100.0**	**-31.6**

The imports of transport services shrank by nearly a third in 2009 (see Tables 14 and 16). The imports of transport services decreased across all types of services, especially freight transport. The imports of transport services decreased across all groups of countries and the majority of countries. Imports from the EU mainly originated from Finland, Latvia and Germany; the major CIS partners included Russia and Belarus, just like in 2008. As regards other countries, China, the United States and offshore regions held almost equal shares.

As the exports of **travel services** decreased less than imports in 2009 (5% and 21%, respectively), their surplus grew by over 25% and stood at 5.4 billion kroons (see Figure 7 and Tables 11 and 17). The use of travel agencies' services for planning trips abroad decreased further in 2009:

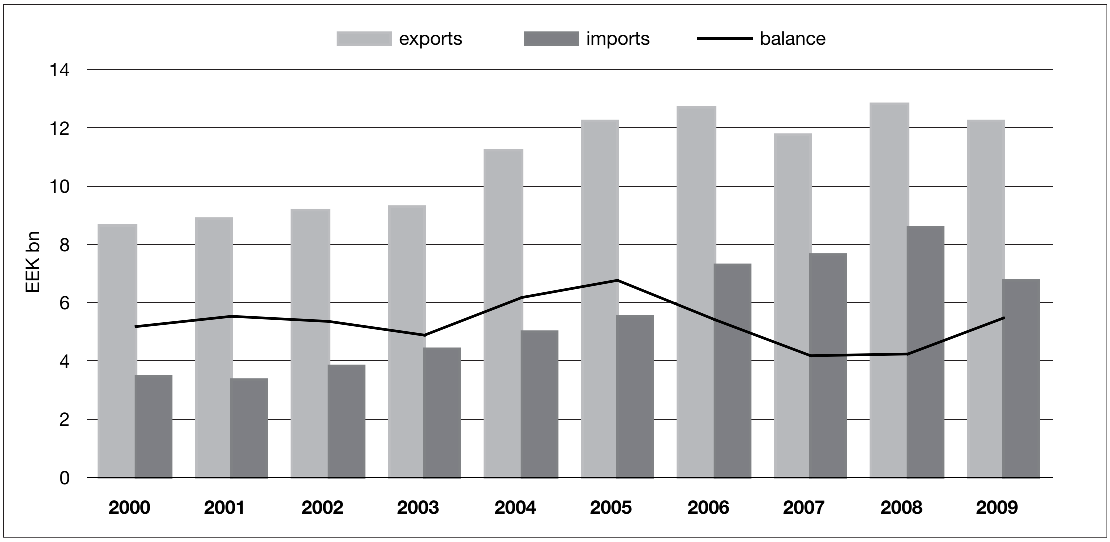

Figure 7. Travel services

Table 17. Travel services by groups of countries in 2009

	Exports				Imports		
	Volume (EEK m)	**Share (%)**	**Change (%), 2009/2008**		**Volume (EEK m)**	**Share (%)**	**Change (%), 2009/2008**
EU-27	**10,099.5**	**82.6**	**0.9**	**EU-27**	**4,424.1**	**65.3**	**-25.5**
Finland	6,398.9	52.4	2.7	Finland	1,283.8	18.9	-12.4
Sweden	854.4	7.0	-13.0	Latvia	654.4	9.7	31.5
Latvia	545.5	4.5	-7.2	Sweden	319.0	4.7	-13.0
Germany	423.5	3.5	-23.1	Spain	283.9	4.2	-34.7
CIS	**1,312.8**	**10.7**	**-28.4**	**CIS**	**1,054.7**	**15.6**	**30.6**
Russia	1,215.8	9.9	-27.9	Russia	776.2	11.5	34.9
Ukraine	54.8	0.4	-42.5	Ukraine	76.1	1.1	-42.6
Other	**809.6**	**6.6**	**-18.3**	**Other**	**1,296.1**	**19.1**	**-30.4**
Norway	230.9	1.9	-24.3	Egypt	353.1	5.2	-41.1
USA	117.6	1.0	-61.7	Turkey	247.3	3.7	26.3
Australia	52.3	0.4	48.8	USA	219	3.2	-39.2
Total	**12,221.9**	**100.0**	**-4.8**	**Total**	**6,774.9**	**100.0**	**-21.3**

by 29% in terms of residents and by 20% in terms of non-residents. At the same time the number of residents' trips declined only 3%, whereas the number of non-residents' trips grew 2%. Independent travelling (including travel planning via the Internet), on the other hand, increased to a considerable extent. In total, 4.7 million foreigners visited Estonia in 2009. Half of them originated from Finland, 12% from Latvia and 10% from Russia. The recession entailed a drop in prices, which is why also travel expenditure per person decreased in 2009.

Estonian residents visited primarily Latvia, Finland and Sweden (the number of trips increased 3–4%) as well as Russia (5%). As regards popular holiday destinations, the number of trips to Turkey and Greece picked up (26% and 4%, respectively). On the other hand, the number of trips to Egypt – once a very popular destination – decreased 35% in 2009. Expenditures in Egypt contracted too (41%). The number of long and expensive trips decreased, as did expenditures abroad.

Income

The net outflow of labour and capital income decreased by 2.5 times in 2009 and totalled 6.3 billion kroons, i.e. 2.6% of GDP (see Table 18 and Figure 8). The net outflow of income without reinvested earnings, which include no actual movement of funds, constituted 1.3% of GDP.

The income account reached record highs in 2007, when the largest incomes were earned both in Estonia and abroad. In 2008 the inflow and outflow of incomes increased only slightly (4–9%), whereas 2009 witnessed a robust decline. The reason lies in the fact that non-residents' income earned in Estonia decreased faster than residents' income earned abroad. As regards the two main components of income – labour income and investment income – the former posted net inflow and the latter net outflow. At the same time, both the net inflow of labour income and the net outflow of investment income decreased, even though at a different pace (15% and 54%, respectively).

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 (%)
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	13,452.3	24.3	-7,965.3	10.0
2005	9,225.6	68.1	16,349.9	21.5	-7,124.3	-10.6
2006	13,558.1	47.0	24,324.3	48.8	-10,766.2	51.1
2007	19,093.3	40.8	35,668.4	46.6	-16,575.1	54.0
2008	17,396.6	-8.9	33,268.0	-6.7	-15,871.4	-4.2
2009	10,711.3	-38.4	16,961.4	-49.0	-6,250.1	-60.6

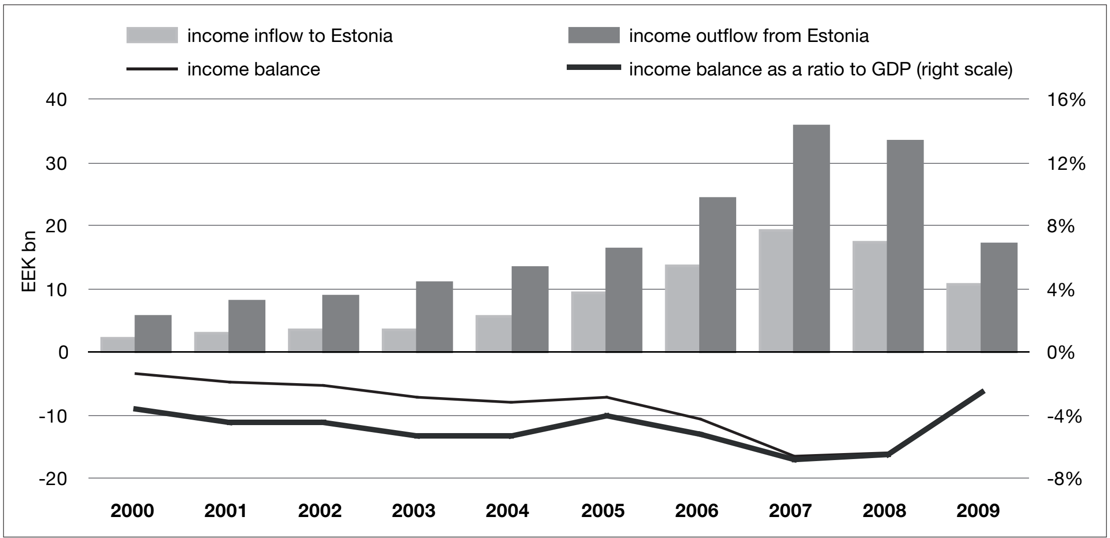

Figure 8. Income account

The income account of Estonia's balance of payments has been largely affected by reinvested earnings, which are not subject to taxation in Estonia. Owing to the accounting methods, 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. The net outflow of reinvested earnings declined by four times year-on-year and totalled 3.5 billion kroons (see Table 19). In 2008 reinvested earnings accounted for 77% of the investment income, and in 2009 as much as 42%. The net inflow of income on portfolio investment decreased by two times and the net outflow of income on other investment (loans and deposits) by almost two times compared to 2008.

Income inflow decreased almost 40% in 2009 and amounted to 10.7 billion kroons (see Table 20). The majority of residents' income earned abroad was related to EU countries (see Table 21). Although labour income decreased 16%, its share in total income inflow increased to 28% (3 billion kroons). Labour income declined primarily owing to the growing number of residents who have lost their jobs abroad.

Table 19. Structure of income account

	Balance (EEK m)		Share (%)		Change (%)
	2008	2009	2008	2009	2009/2008
Labour income	2,495.0	2,124.6	-15.7	-34.0	-14.8
Investment income	-18,366.4	-8,374.8	115.7	134.0	-54.4
Income on direct investment	-13,497.7	-5,387.9	85.0	86.2	-60.1
income on equity	-13,071.9	-5,231.7	82.4	83.7	-60.0
reinvested earnings	1,107.9	-1,698.7	-7.0	27.2	-253.3
dividends	-14,179.9	-3,533.0	89.3	56.5	-75.1
income on debt (interests)	-425.7	-156.2	2.7	2.5	-63.3
Income on portfolio investment	1,491.2	727.5	-9.4	-11.6	-51.2
Income on other investment	-6,360.0	-3,714.3	40.1	59.4	-41.6
Total	**-15,871.4**	**-6,250.2**	**100.0**	**100.0**	**-60.6**

Table 20. Income inflow to Estonia

	Balance (EEK m)		Share (%)		Change (%)
	2008	2009	2008	2009	2009/2008
Labour income	3,591.3	3,001.2	20.6	28.0	-16.4
Investment income	13,805.3	7,710.1	79.4	72.0	-44.2
Income on direct investment	7,901.4	4,843.0	45.4	45.2	-38.7
income on equity	6,588.7	3,394.3	37.9	31.7	-48.5
dividends	5,320.4	1,542.0	30.6	14.4	-71.0
reinvested earnings	1,268.3	1,852.3	7.3	17.3	46.0
income on debt (interests)	1,312.7	1,448.7	7.5	13.5	10.4
Income on portfolio investment	3,161.5	1,796.2	18.2	16.8	-43.2
Income on other investment	2,742.4	1,070.9	15.8	10.0	-60.9
Total	**17,396.6**	**10,711.3**	**100.0**	**100.0**	**-38.4**

Table 21. Income by groups of countries in 2009

	Inflow				Outflow		
	Volume (EEK m)	Share (%)	Change (%), 2009/2008		Volume (EEK m)	Share (%)	Change (%), 2009/2008
EU-27	**10,879.8**	**101.6**	**-32.9**	**EU-27**	**-15,967.1**	**-94.1**	**-48.0**
Lithuania	2,524.1	23.6	-11.4	Sweden	-11,182.5	-65.9	-42.0
Latvia	2,299.4	21.5	-33.9	Finland	-1,714.2	-10.1	-61.2
Cyprus	2,031.5	19.0	50.0	Netherlands	-827.6	-4.9	1.1
Finland	969.5	9.1	-69.1	Denmark	-671.9	-4.0	-58.1
CIS	**-645.0**	**-6.0**	**-356.0**	**CIS**	**-231.8**	**-1.4**	**-55.1**
Ukraine	-620.1	-5.8	1505.1	Russia	-168.5	-1.0	-49.6
Russia	-85.1	-0.8	-2107.9	Ukraine	-32.8	-0.2	-74.3
Belarus	21.4	0.2	-112.0	Belarus	-20.8	-0.1	-30.9
Other	**476.5**	**4.4**	**-49.1**	**Other**	**-762.6**	**-4.5**	**-62.3**
USA	175.4	1.6	-48.7	British Virgin Islands	-241.2	-1.4	-5.7
Norway	163.6	1.5	-42.7	USA	-256.4	-1.5	-23.7
Total	**10,711.3**	**100.0**	**-1.9**	**Total**	**16,961.4**	**100.0**	**-4.9**

Estonian residents were employed mostly in Finland (43% of labour income inflow), the United Kingdom (11%), Sweden, Latvia and Norway. Labour income earned in Ireland and Latvia shrank the most.

Residents' income on foreign investment decreased 44%. Direct investment income accounted for 63%, portfolio investment income for 23% and income on other investment for 14% of total investment income. Residents' income on foreign direct investment declined nearly 40% and changed also in terms of structure. In 2008 residents drew a considerable amount of dividends, whereas in 2009 the three main components of direct investment (dividends, reinvested earnings and interests) accounted for more or less equal proportions of the total inflow of direct investment income. Direct investment income decreased mainly on account of dividend income, whereas incomes on reinvested earnings and interests grew. Residents' portfolio and other investment incomes decreased 43% and 61%, respectively.

86% of the investment income inflow was related to three countries: Latvia, Lithuania and Cyprus. The majority of the investment income inflow was earned in financial intermediation (excluding insurance and pension funding) and somewhat less in water transport (see Figure 9). The investors of other business services as well as wholesale and retail trade suffered losses from foreign investment.

Income outflow declined 50% in 2009 and totalled 17 billion kroons (see Table 22). Over 90% of that belonged to EU countries, in particular Sweden. Labour income comprised 5% of income outflow, having decreased 20% from 2008. In Estonia, primarily Finnish, Swedish and Latvian residents earned labour income. Non-residents' investment income earned in Estonia decreased by two times from 2008 and totalled 16 billion kroons. The structure of investment income outflow did not change much with the year: 64% of that was direct investment income, 6% was portfolio investment income and 30% was other investment income. As regards the different types of direct investment income, the proportion of reinvested earnings declined the most: from 72% in 2008 to 53% in 2009.

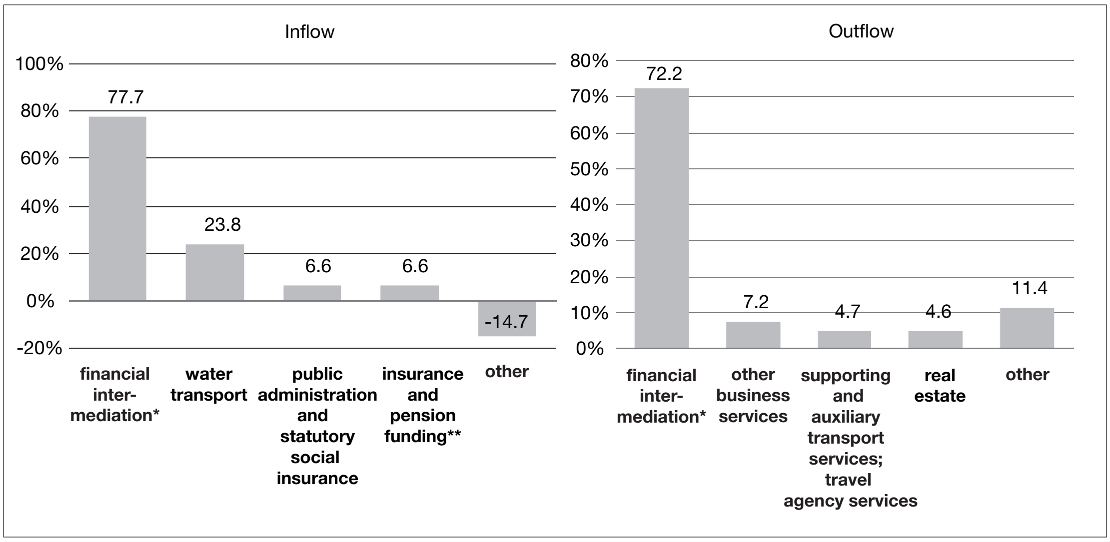

Figure 9. Inflow and outflow of investment income by fields of activity in 2009

* Except insurance and pension funding

** Except motor vehicles and motorcycles

Table 22. Income outflow from Estonia

	Balance (EEK m)		Share (%)		Change (%)
	2008	2009	2008	2009	2009/2008
Labour income	-1,096.3	-876.6	3.3	5.2	-20.0
Investment income	-32,171.8	-16,084.9	96.7	94.8	-50.0
Income on direct investment	-21,399.1	-10,230.9	64.3	60.3	-52.2
income on equity	-19,660.6	-8,626.0	59.1	50.9	-56.1
dividends	-4,212.4	-3,240.7	12.7	19.1	-23.1
reinvested earnings	-15,448.2	-5,385.3	46.4	31.8	-65.1
income on debt (interests)	-1,738.5	-1,604.9	5.2	9.5	-7.7
Income on portfolio investment	-1,670.3	-1,068.7	5.0	6.3	-36.0
Income on other investment	-9,102.4	-4,785.3	27.4	28.2	-47.4
Total	**-33,268.0**	**-16,961.5**	**100.0**	**100.0**	**-49.0**

Nearly 70% of the investment income was earned by Swedish investors. The drop in investment income can largely be attributed to Swedish financial intermediaries, since almost 75% of non-residents' investment income was earned in financial intermediation (excluding insurance and pension funding). Some income was earned also on other business activities, transport and real estate. In general, the majority of fields of activity witnessed decreased outflows of investment income and some even suffered losses (e.g. metal production, wholesale). However, the outflow of investment income on insurance and pension funding doubled and that of electrical energy, gas, steam and hot water increased 50% in 2009.

Current and capital transfers[2]

The surplus on the current transfers account increased 12% in 2009 and totalled 3.4 billion kroons (see Table 23). The inflow of current transfers totalled 8.1 billion kroons, with the general government receiving 40% and other sectors 60% of that. 64% of the general government's current transfers were allocations from the EU structural funds and the rest were VAT, income and social tax receipts from non-residents. Other sectors received 4.9 billion kroons. 44% of that accounted for external aid from the European Commission and 13% for transfers by migrants employed abroad. The outflow of current transfers stood at 4.7 billion kroons, having decreased 10% from 2008. Government transfers comprised 63% of the outflow, 90% of which was Estonia's payment into the EU budget. The rest were mostly refunds of VAT and some also external aid provided by Estonia. 27% of other sectors' transfers went to Finland and less to Germany, Sweden, the United Kingdom and Latvia.

Capital transfers posted a surplus of 6 billion kroons, which was 3.4 billion kroons bigger compared to the surplus for 2008. 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	
	2008	2009	2008	2009	2008	2009
Current transfers	8,220.7	8,056.0	5,190.8	4,659.2	3,029.8	3,396.8
government transfers	**2,886.6**	**3,196.4**	**3,175.1**	**2,952.3**	**-288.5**	**244.2**
EU-27	2,584.7	2,599.3	3,105.5	2,759.2	-520.9	-159.9
CIS	69.4	47.2	10.3	11.6	59.1	35.7
other	232.6	549.9	59.3	181.4	173.3	368.4
private transfers	**5,334.0**	**4,859.6**	**2,015.8**	**1,706.9**	**3,318.3**	**3,152.6**
EU-27	4,149.9	3,797.6	1,597.1	1,407.2	2,552.8	2,390.4
CIS	736.0	735.5	182.1	71.5	553.8	664.0
other	448.2	326.4	236.6	228.2	211.6	98.2
Capital transfers	**2,718.8**	**6,015.7**	**143.4**	**15.3**	**2,575.3**	**6,000.4**
government transfers	1,090.5	3,852.1	0.4	0.2	1,090.1	3,851.9
private transfers	1,628.3	2,163.6	143.0	15.1	1,485.2	2,148.5

[2] 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

After a long period of being a net external borrower, in 2009 Estonia became a net external lender: the deficit on the financial account (excluding reserve assets) totalled 14 billion kroons. The inflow of capital mainly comprised of portfolio investment. Figures 10 and 11 show the structure of the financial account by categories and maturities.

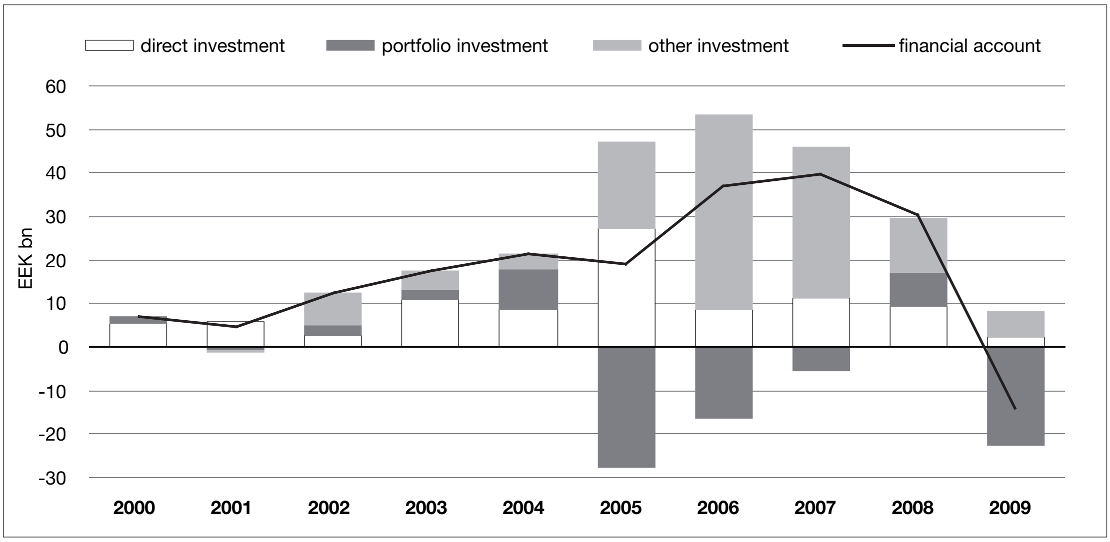

Figure 10. Changes in the structure of foreign investment capital flows (EEK bn)

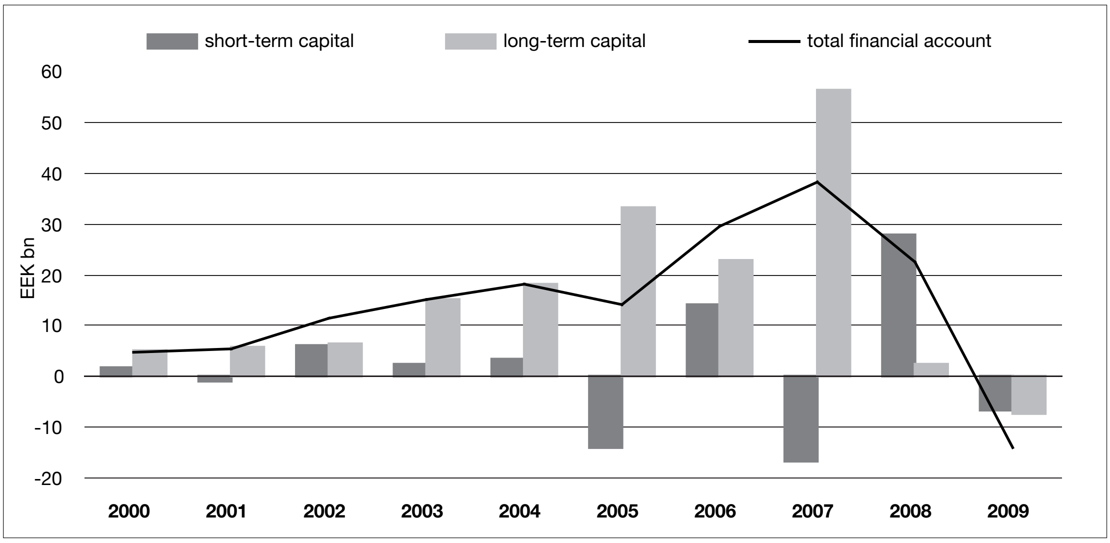

Figure 11. Maturity structure of the financial account (EEK bn)

Direct investment

The inflow of direct investment shrank 9% and the outflow by almost 50% from 2008. Nevertheless, direct investment posted a surplus of 2.4 billion kroons. Non-residents' direct investment in Estonia totalled 18.8 billion and residents' direct investment abroad reached 16.5 billion kroons (see Figure 12).

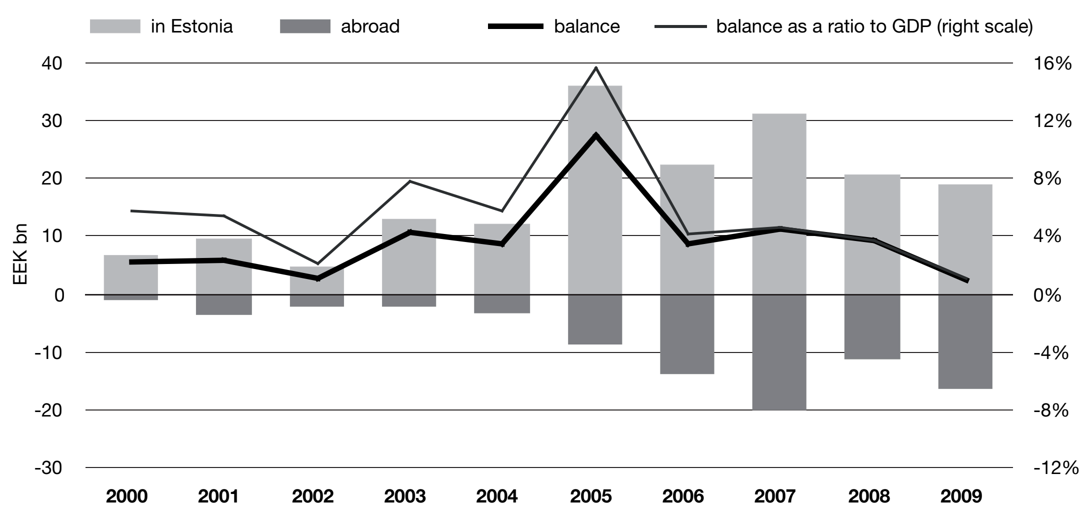

Figure 12. Direct investment

The inflow of **direct investment in Estonia** decreased by 1.8 billion kroons, year-on-year. The structure of investment reflected an increased need for financing: the proportion of equity capital payments of direct investment companies was the largest and that of reinvested earnings one of the smallest of the past ten years. Equity capital payments totalled 18.9 billion kroons, with one third being channelled to financial intermediation and another third to companies engaged in other business activities. Reinvested earnings totalled 5.4 billion kroons, which is 35% less than in 2008. The reinvested earnings of financial intermediation, the main contributor to total reinvested earnings, decreased approximately 40%. Estonian companies registered outflows of direct investment capital as a result of liabilities paid (in particular long-term loans and trade credit) as well as an increase in assets concerning direct investment groups (see Tables 24-25).

Table 24. Structure of direct investment in Estonia

	Equity capital		Reinvested earnings		Other capital				Total	
					Assets		Liabilities			
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
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	77.5	8,885.8	24.6	-2,014.0	-5.6	1,249.7	3.5	36,101.0	100.0
2006	2,238.6	10.0	15,652.5	69.9	-4,463.5	-19.9	8,975.9	40.1	22,403.6	100.0
2007	4,275.0	13.7	21,503.0	68.8	-6,506.2	-20.8	11,984.3	38.3	31,256.1	100.0
2008	3,183.3	15.4	15,448.2	74.9	-1,903.4	-9.2	3,884.4	18.8	20,612.5	100.0
2009	18,857.4	100.1	5,385.3	28.6	-1,247.3	-6.6	-4,154.4	-22.1	18,840.9	100.0

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

	Assets				Liabilities			
	Long-term		Short-term		Long-term		Short-term	
	Grantings	Repayments	Grantings	Repayments	Drawings	Repayments	Drawings	Repayments
2003	408.4	246.4	1,010.7	498.7	5,155.6	2,667.1	3,020.9	3,726.9
2004	492.7	371.2	1,774.1	862.1	4,601.5	4,882.2	3,024.5	2,197.2
2005	1,274.3	502.5	2,290.6	1,413.4	7,889.0	6,892.3	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	3,851.7	1,225.7	7,973.2	3,890.1	18,030.7	9,173.8	8,138.6	6,368.5
2008	3,482.9	2,530.1	8,977.8	8,126.0	13,766.8	11,966.1	12,379.2	9,336.8
2009	2,493.8	1,815.6	6,259.9	5,663.0	8,646.8	11,452.7	9,757.4	9,384.2

The biggest direct investors were from Sweden (85%) and the Netherlands (9%). Investors from Finland, France, Russia and Bulgaria invested to a lesser extent (see Figure 13). Direct investment from Luxembourg decreased as a result of loan repayments. Nearly 75% of direct investment went to financial intermediation and 15% to companies providing business services (see Figure 14). 97% of direct investment came from EU countries (see Table 26).

Direct investment abroad increased 46% from 2008 and totalled 16.5 billion kroons, thus exceeding the 2006 figures yet remaining below the record highs in 2007 (see Table 27). Similar to direct investment in Estonia, equity capital prevailed also in direct investment abroad, constituting 75% of residents' direct investment, with 80% of the latter coming from financial intermediation companies. Financial intermediaries also made the largest contribution to reinvested earnings. Changes in loans and trade credit granted to subsidiaries were modest in 2009 (see Table 28).

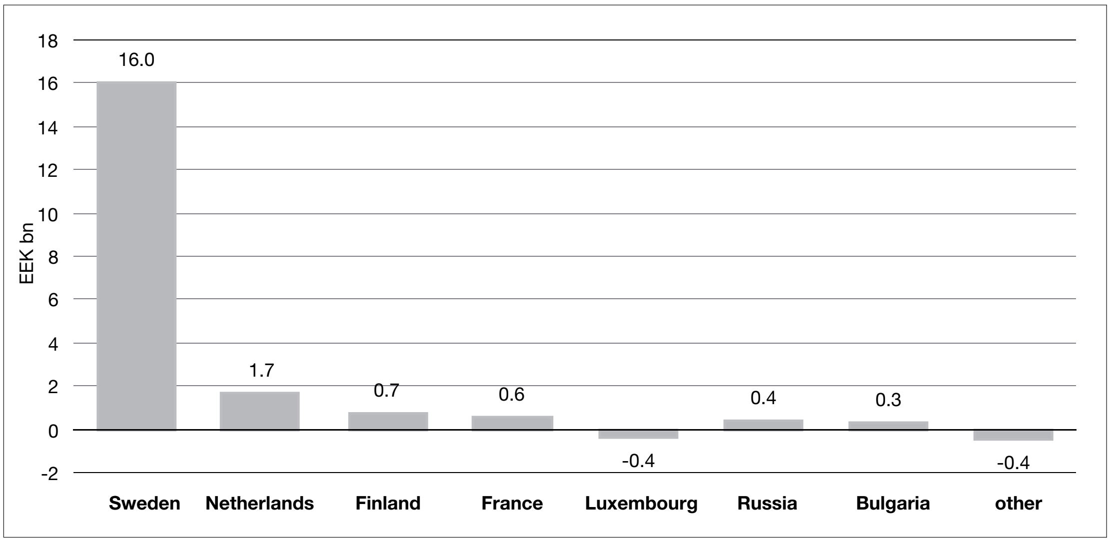

Figure 13. Direct investment in Estonia by countries in 2009

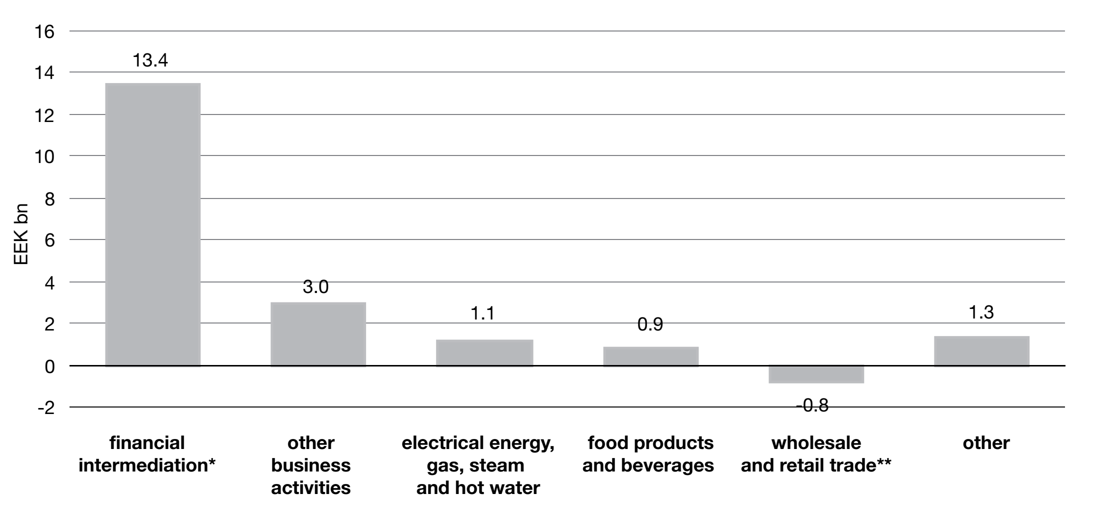

Figure 14. Direct investment in Estonia by fields of activities in 2009

* Except insurance and pension funding

** Except machinery and equipment

Table 26. Direct investment in Estonia by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2008	2009	2008	2009	2009/2008
EU-27	16,778.4	18,195.9	81.4	96.6	8.4
CIS	1,904.6	520.1	9.2	2.8	-72.7
Other	1,929.5	124.9	9.4	0.7	-93.5
Total	**20,612.5**	**18,840.9**	**100.0**	**100.0**	**-8.6**

Table 27. Structure of direct investment abroad

	Equity capital		Reinvested earnings		Other capital				Total	
					Assets		Liabilities			
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
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	-5,895.5	42.8	-4,844.9	35.1	-3,810.3	27.6	760.3	-5.5	-13,790.4	100.0
2007	-10,324.1	51.8	-5,041.3	25.3	-6,003.8	30.2	1,457.2	-7.3	-19,912.0	100.0
2008	-2,552.8	22.6	-1,268.3	11.2	-6,545.9	57.9	-933.0	8.3	-11,300.1	100.0
2009	-11,795.8	71.6	-1,852.3	11.2	-1,639.2	10.0	-1,186.5	7.2	-16,473.9	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
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	5,361.8	2,372.7	1,563.4	1,626.1	118.6	112.7	147.0	20.5
2007	6,371.1	2,047.0	2,087.8	1,493.4	100.4	114.6	1,678.5	109.3
2008	5,402.8	3,656.3	2,902.9	2,012.4	254.3	280.5	594.6	1,179.1
2009	5,771.9	2,995.5	2,705.9	2,409.7	161.1	86.3	154.8	1,131.2

Estonian direct investors preferred to invest in Latvia and Lithuania who received 65% and 40% of direct investment, respectively (see Figure 15). Other investment destinations included Cyprus and the Netherlands. Direct investment in Ukraine, Finland and Norway contracted. Financial intermediaries accounted for 93% and insurance investors for 8% of foreign investment outflow (see Figure 16). By groups of countries, nearly all direct investment was channelled to the EU (see Table 29).

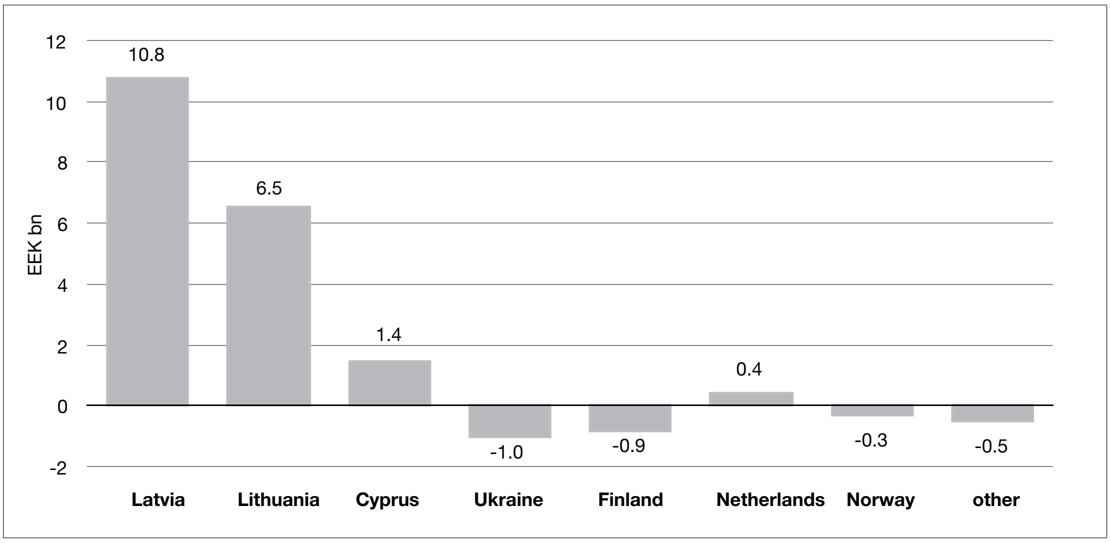

Figure 15. Direct investment abroad by countries in 2009

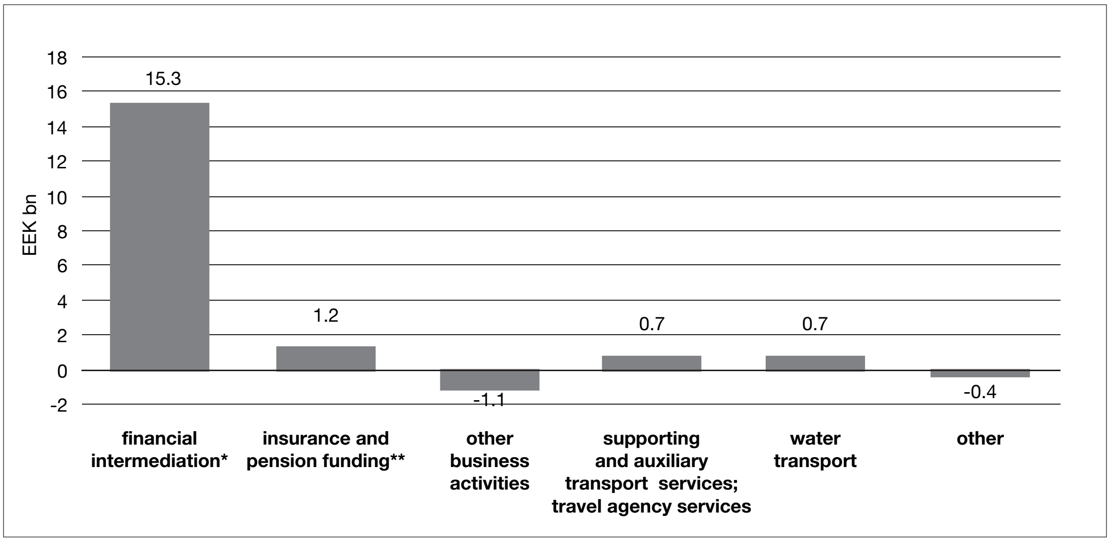

Figure 16. Direct investment abroad by fields of activity in 2009

* Except insurance and pension funding
** Except motor vehicles and motorcycles

Table 29. Direct investment abroad by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2007	2008	2007	2008	2008/2007
EU-27	-11,533.4	-18,144.9	102.1	110.1	57.3
CIS	756.8	1,229.2	-6.7	-7.5	62.4
Other	-523.4	441.8	4.6	-2.7	-184.4
Total	**-11,300.1**	**-16,473.9**	**100.0**	**100.0**	**45.8**

Portfolio investment

The net outflow of portfolio investment totalled 22.5 billion kroons in 2009, which primarily resulted from the repayment of debt securities issued by credit institutions to foreign investors. In addition, credit institutions invested in foreign debt securities (see Figure 17 and table 30).

Portfolio investment liabilities decreased by 14.9 billion kroons in 2009 (see Table 31). 13.2 billion kroons of that resulted from a decline in credit institutions' debt security liabilities. In addition, also the equity and debt security liabilities of enterprises in other sectors decreased. Equity security liabilities decreased by 1.4 billion kroons in total, while debt security liabilities declined by 644 million kroons. General government's debt security liabilities grew by 419 million kroons. By countries, portfolio investment liabilities to EU countries increased the most. The majority of that can be attributed to a decrease in liabilities to the United Kingdom as well as a decline in liabilities to Germany, Cyprus, the Netherlands and Sweden (see Figure 18 and Table 32).

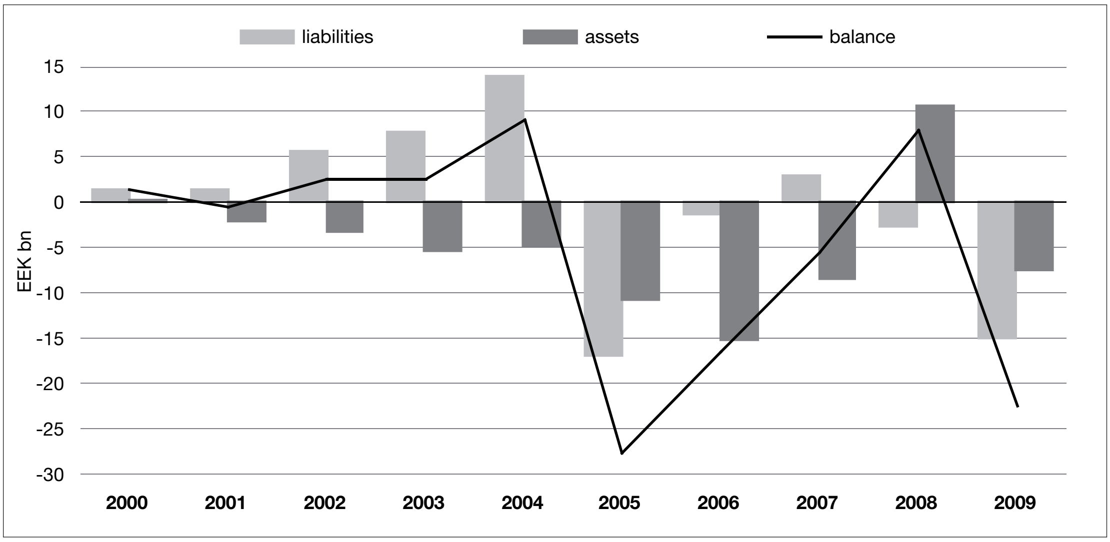

Figure 17. Portfolio investment

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

	Assets		Liabilities		Balance	
	2008	2009	2008	2009	2008	2009
Equity securities	**4,102,5**	**-770,3**	**-3,415,3**	**-1,443,5**	**687,2**	**-2,213,8**
central bank	0,0	0,0	0,0	0,0	0,0	0,0
general government	2,8	289,6	0,0	0,0	2,8	289,6
credit institutions	131,4	9,6	-40,2	3,7	91,2	13,3
other sectors	3,968,2	-1,069,5	-3,375,2	-1,447,2	593,0	-2,516,7
Debt securities	**6,537,4**	**-6,745,3**	**629,9**	**-13,497,3**	**7,167,3**	**-20,242,6**
central bank	0,0	0,0	0,0	0,0	0,0	0,0
general government	4,710,1	2,185,3	572,6	418,7	5,282,7	2,604,0
credit institutions	2,410,9	-7,556,3	-330,0	-13,272,1	2,080,9	-20,828,4
other sectors	-583,5	-1,374,4	387,4	-643,9	-196,1	-2,018,3
Total	**10,639,9**	**-7,515,6**	**-2,785,4**	**-14,940,7**	**7,854,5**	**-22,456,3**

Table 31. Structure of portfolio investment liabilities

	Equity securities		Debt securities		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
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	3,731,8	-293,9	-5,001,6	393,9	-1,269,8	100,0
2007	3,533,3	122,6	-650,9	-22,6	2,882,4	100,0
2008	-3,415,3	122,6	629,9	-22,6	-2,785,4	100,0
2009	-1,443,5	9,7	-13,497,3	90,3	-14,940,7	100,0

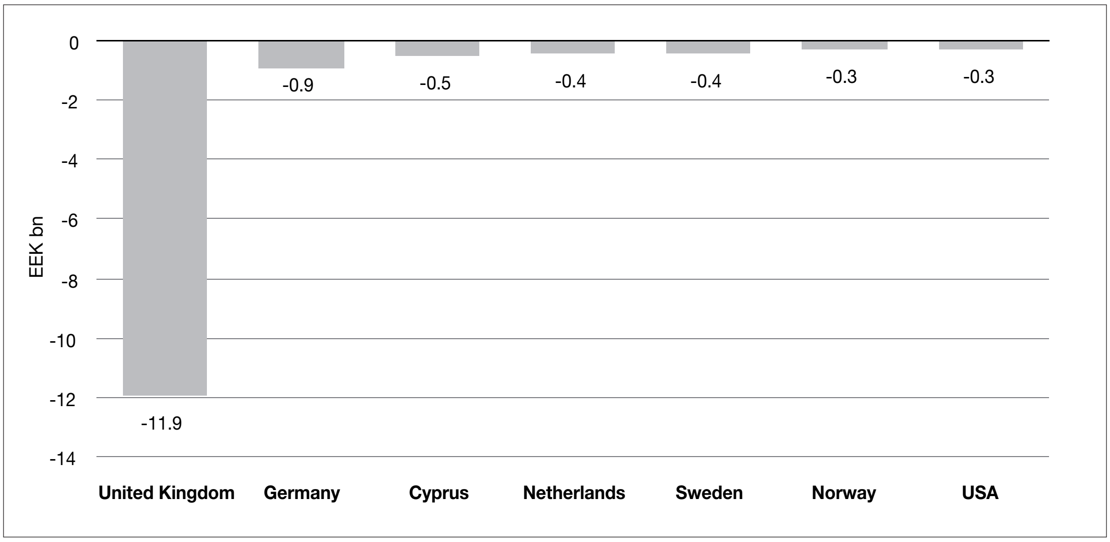

Figure 18. Decrease in portfolio investment liabilities by countries in 2009

Table 32. Structure of portfolio investment by groups of countries

	Volume (EEK m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2008	2009	2008	2009	2008	2009	2008	2009
EU-27	9,379.5	-9,196.6	-2.515.8	-14,399.3	88.2	122.4	90.3	96.4
CIS	1,320.9	523.7	-59.0	-1.9	12.4	-7.0	2.1	0.0
Other	-60.5	1,157.3	-210.6	-539.5	-0.6	-15.4	7.6	3.6
Total	**10,639.9**	**-7,515.6**	**-2.785.4**	**-14,940.7**	**100.0**	**100.0**	**100.0**	**100.0**

Portfolio investment assets increased by 7.5 billion kroons in 2009 (see Table 33). Equity security assets grew by 770 million kroons, while debt security assets increased by 6.7 billion kroons. The latter stemmed from changes in the sector of credit institutions – reverse-repo transactions with non-residents were replaced by investment in short-term debt securities. General government's debt security assets shrank by 2.2 billion kroons as a result of using reserve assets to cover running costs in the first half of the year. Enterprises in other sectors invested 1.1 billion kroons in foreign equity securities and 1.4 billion kroons in debt securities. The majority of other sectors' investment was made by investment funds and insurance companies. By countries, primarily portfolio investment assets to France, Italy, the Netherlands, Spain, Belgium and Finland increased (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 (%)
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	-4,569.2	30.0	-10,637.5	70.0	-15,206.7	100.0
2007	-7,688.8	91.1	-751.8	8.9	-8,440.6	100.0
2008	4,102.5	38.6	6,537.4	61.4	10,639.9	100.0
2009	-770.3	10.2	-6,745.3	89.8	-7,515.6	100.0

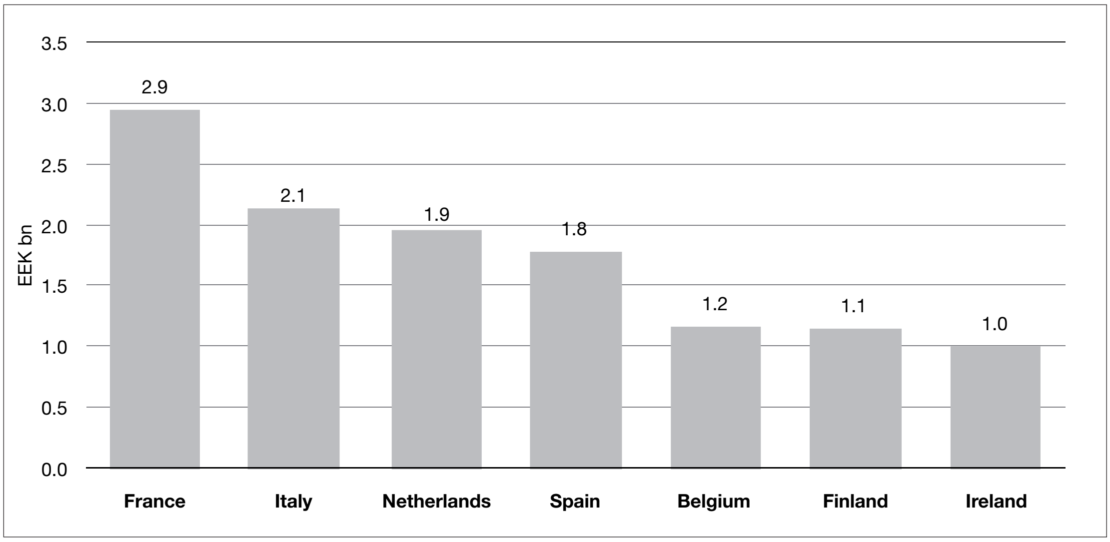

Figure 19. Decrease in portfolio investment assets by countries in 2009

Financial derivatives

Financial derivatives witnessed a moderate net inflow of 0.2 billion kroons in 2009. Financial derivative assets decreased by 285 million kroons (see Figure 20). This was largely caused by a decline in credit institutions' investment in derivatives. By countries, assets to Sweden, Germany and Norway diminished the most. Financial derivative liabilities shrank by 85 million kroons, which was due to a decline in credit institutions' liabilities. By countries, financial derivative liabilities to Denmark decreased the most.

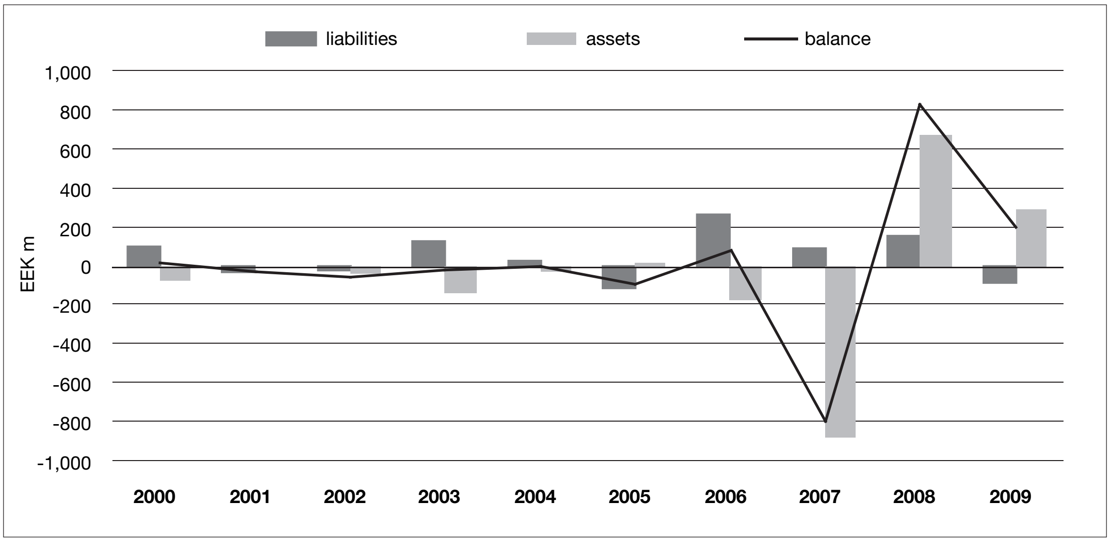

Figure 20. Financial derivatives

Other investment

The net inflow of other investment reached 5.8 billion kroons in 2009, with other investment assets decreasing by 14.8 billion kroons and liabilities by 9 billion kroons (see Figure 21). The majority of net inflow was long-term capital (see Table 34).

Other investment liabilities shrank primarily because of a 7.5 billion kroon decrease in credit institutions' liabilities related to loans/currency and deposits (incl. interbank loans)[3] and a 5 billion kroon decline in trade credit liabilities (see Table 35). Credit institutions' liabilities to parent banks decreased primarily in the first half of 2009, whereas the fourth quarter witnessed a decline in portfolio liabilities with the help of additional funds gained on other investment. Enterprises in other sectors reduced both long-term and short-term capital liabilities. The decrease in short-term liabilities stemmed from a decline in trade credit liabilities, while long-term liabilities shrank as a result of a decrease in the loan liabilities of other financial intermediaries. General government liabilities grew by 5 billion kroons with the year. The first half of 2009 witnessed growth in the EU funds received but not yet used, whereas the second half saw an increase in direct loan liabilities. By countries, primarily other investment liabilities to Sweden and Denmark contracted, followed by liabilities to Russia and British Virgin Islands (see Table 36 and Figure 22).

[3] Interbank loans have been recorded under *Other investment – Loans/currency and deposits* since the data for the first 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-2009, long-term liabilities comprised 49.3% and assets 9% of the liabilities related to loans/currency and deposits under other investment.

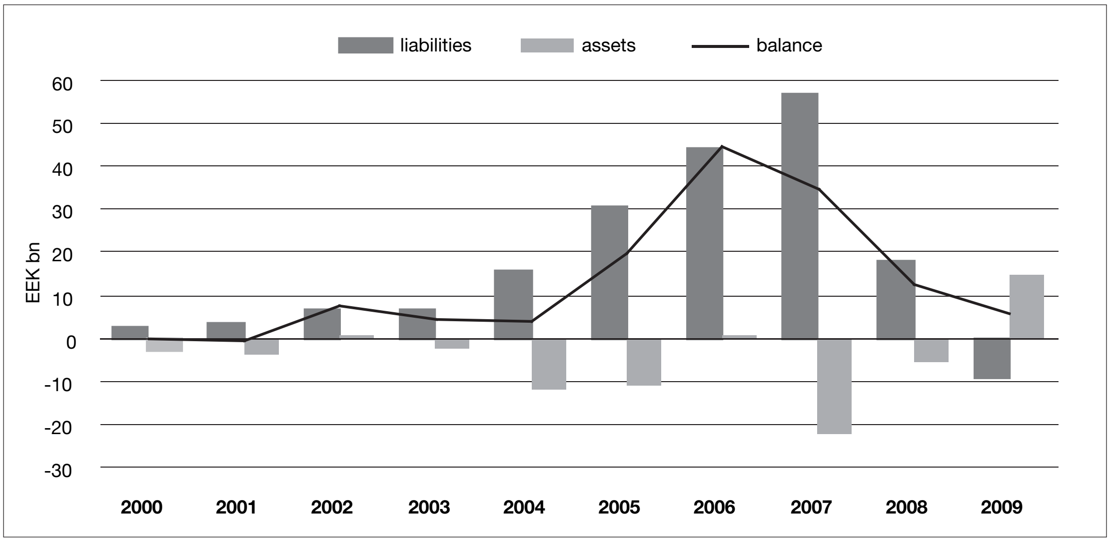

Figure 21. Other investment

Table 34. Other investment by maturity (EEK m)

	Assets		Liabilities		Balance	
	2008	2009	2008	2009	2008	2009
Long-term capital	**-276.1**	**-574.2**	**-9,521.1**	**5,112.3**	**-9,797.2**	**4,538.1**
central bank	3.5	-0.5	-0.2	1,043.8	3.3	1,043.3
general government	-128.6	-88.0	1,323.3	4,974.7	1,194.7	4,886.7
credit institutions	720.8	427.5	-12,726.0	1,441.6	-12,005.2	1,869.1
other sectors	-871.8	-913.2	1,881.6	-2,347.8	1,009.8	-3,261.0
Short-term capital	**-5,386.0**	**15,371.9**	**27,485.6**	**-14,095.2**	**22,099.6**	**1,276.7**
central bank	0.0	0.0	-1,740.3	115.3	-1,740.3	115.3
general government	-1,326.3	-784.5	-1.4	1.1	-1,327.7	-783.4
credit institutions	-3,175.7	15,167.0	28,294.2	-10,623.3	25,118.5	4,543.7
other sectors	-884.0	989.4	933.1	-3,588.3	49.1	-2,598.9
Total	**-5,662.1**	**14,797.7**	**17,964.5**	**-8,982.9**	**12,302.4**	**5,814.8**

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 (%)
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	4.0	4,565.3	29.3	8,804.7	56.5	1,582.0	10.2	15,577.2	100.0
2005	1,633.6	5.3	24,676.0	80.3	2,953.3	9.6	1,452.4	4.7	30,715.3	100.0
2006	3,185.6	7.2	19,233.3	43.6	21,081.1	47.8	637.9	1.4	44,137.9	100.0
2007	-343.1	-0.6	38,232.4	67.1	18,875.5	33.1	236.6	0.4	57,001.3	100.0
2008	310.3	1.7	1,121.6	6.2	14,881.8	82.8	1,650.4	9.2	17,964.2	100.0
2009	-5,002.7	55.7	1,510.2	-16.8	-7,457.8	83.0	1,967.7	-21.9	-8,982.6	100.0

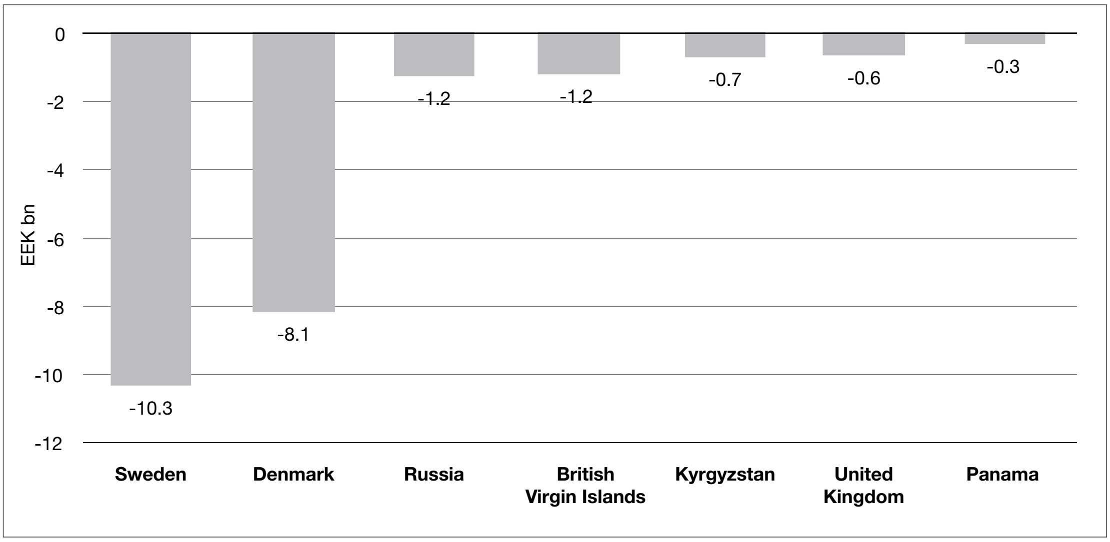

Figure 22. Decrease in other investment liabilities by countries in 2009

Table 36. Structure of other investment by groups of countries

	Volume (EEK m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2008	2009	2008	2009	2008	2009	2008	2009
EU-27	-7,551.3	13,839.2	13,698.2	-6,651.2	133.4	93.5	76.3	74.0
CIS	2,037.0	-760.9	2,660.5	-2,031.7	-36.0	-5.1	14.8	22.6
Other	-147.7	1,719.1	1,605.5	-299.7	2.6	11.6	8.9	3.3
Total	**-5,662.0**	**14,797.4**	**17,964.2**	**-8,982.6**	**100.0**	**100.0**	**100.0**	**100.0**

Table 37. Structure of other investment assets

	Trade credit		Loans		Deposits		Other capital		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
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	8.8	-8,455.5	72.0	-1,545.1	13.2	-716.9	6.1	-11,749.5	100.0
2005	-1,957.1	17.6	4,148.4	-37.2	-12,332.3	110.7	-1,002.5	9.0	-11,143.5	100.0
2006	-3,529.0	-627.5	-2,531.9	-450.2	6,284.4	1,117.4	338.8	60.2	562.4	100.0
2007	-641.5	2.9	-10,093.3	45.3	-11,114.4	49.9	-440.2	2.0	-22,289.4	100.0
2008	-1,684.9	29.8	-1,966.3	34.7	-717.1	12.7	-1,293.7	22.8	-5,662.0	100.0
2009	2,702.4	18.3	2,004.3	13.5	11,580.4	78.3	-1,489.7	-10.1	14,797.4	100.0

Other investment assets decreased by 14.8 billion kroons in 2009 (see Table 37). The decrease arose mainly from a 11.6 billion kroon drop in deposit assets. Nearly 50% of that drop stemmed from the replacement of reverse-repo transactions of credit institutions with investment in short-term debt securities. Trade credit assets and loan assets decreased by 2.7 and 2 billion kroons, respectively, in 2009. Other capital assets, on the other hand, grew by 1.5 billion kroons. By countries, primarily other investment assets to Germany and the United Kingdom increased, followed by assets to Lithuania, Canada and Finland (see Figure 23). Table 38 provides a more detailed overview of loan capital assets and liabilities.

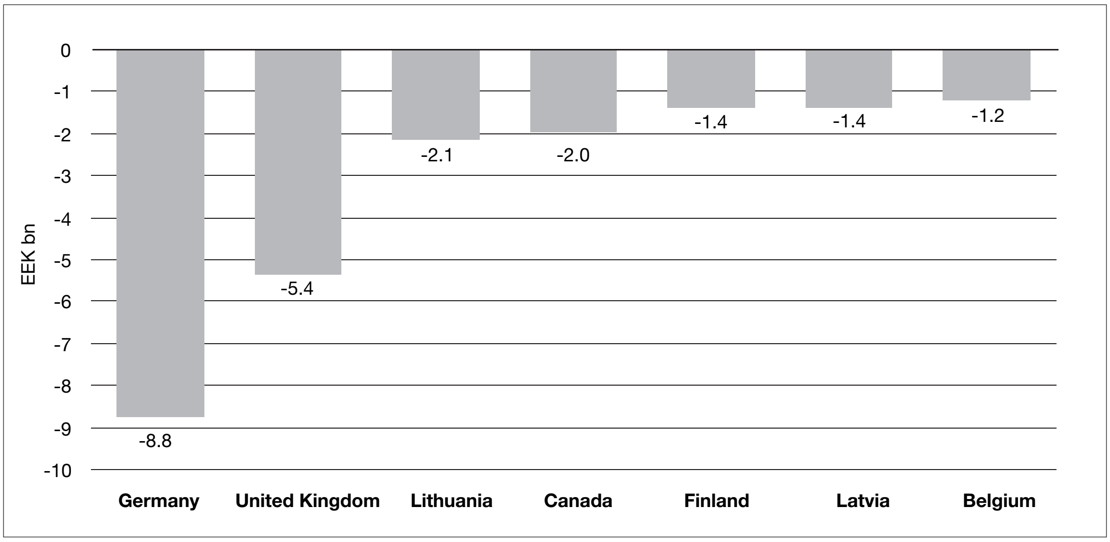

Figure 23. Decrease in other investment assets by countries in 2009

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

	Assets			Liabilities		
	Grantings	Repayments	Total	Drawings	Repayments	Total
2003	-34,919.2	31,398.9	-3,520.3	30,076.6	-26,857.1	3,219.5
2004	-29,782.7	21,327.1	-8,455.5	45,447.4	-40,882.1	4,565.3
2005	-77,557.0	81,705.4	4,148.4	125,439.3	-100,763.3	24,676.0
2006	-76,012.5	73,480.6	-2,531.9	182,869.5	-163,636.2	19,233.3
2007	-396,483.6	386,390.3	-10,093.3	364,037.0	-325,804.6	38,232.4
2008	-47,949.6	45,983.3	-1,966.3	103,834.8	-102,713.1	1,121.6
2009	-23,335.6	25,339.9	2,004.3	56,157.7	-54,647.5	1,510.2

Reserve assets

Reserve assets remained unchanged in 2009, having increased by only 32 million kroons from 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 (%)	
	2007	2008	2007	2008
Gold	0.0	0.0	0.0	0.0
SDRs	0.0	-1,044.2	0.0	3,253.0
Currency and deposits	-2,722.4	-1,901.9	34.6	5,924.9
Securities	-5,710.2	2,905.2	72.6	-9,050.5
debt securities	243.9	8,206.0	-3.1	-25,563.9
money market instruments	-5,954.1	-5,300.8	75.7	16,513.4
financial derivatives	0.7	-1.1	0.0	3.4
Other assets	562.1	9.9	-7.1	-30.8
Total	**-7,869.7**	**-32.1**	**100.0**	**100.0**

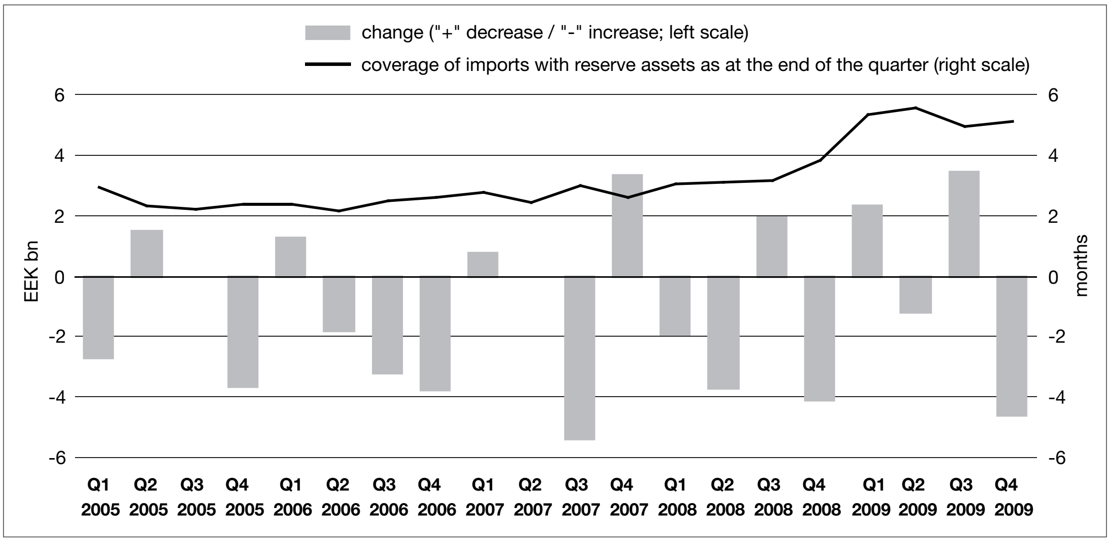

Figure 24. Changes in Estonia's gold and foreign exchange reserves and coverage of imports with reserve assets

ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND GROSS EXTERNAL DEBT as at 31 December 2009

Foreign investment in Estonia totalled 409 billion kroons at the end of 2009, having decreased 5% year-on-year (see Table 40). Estonia's investment abroad amounted to 233 billion kroons, having declined 3% from 2008. Owing to the prevalence of external liabilities (position in Estonia) over external assets (position abroad), Estonia's net investment position was negative by 176 billion kroons at the end of 2009, having decreased 7% year-on-year. Estonia's gross external debt comprised 66% (272 billion kroons) of total external liabilities, having declined 9% from 2008. Although gross external debt shrank in absolute terms, it increased as a ratio of GDP owing to the latter's decline. At the end of the year, gross external debt was 27% bigger than GDP (see Table 41 and Figure 25). Estonia's net external debt (assets less liabilities) contracted 20% year-on-year and amounted to 79 billion kroons. The ratio of net external debt to GDP declined somewhat and stood at 37%.

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

	31/12/2008	%	31/12/2009	%
EXTERNAL ASSETS	**241,243.6**	**100.0**	**233,410.0**	**100.0**
Direct investment abroad	**73,932.6**	**30.6**	**70,993.1**	**30.4**
Equity capital and reinvested earnings	52,560.2	21.8	47,958.7	20.5
Other direct investment capital	21,372.3	8.9	23,034.4	9.9
Portfolio investment	**42,375.9**	**17.6**	**54,001.3**	**23.1**
Equity securities	12,699.7	5.3	17,302.2	7.4
Debt securities	29,676.2	12.3	36,699.1	15.7
Bonds and notes	20,636.0	8.6	21,482.5	9.2
Money market instruments	9,040.2	3.7	15,216.6	6.5
Financial derivatives	**835.3**	**0.3**	**457.1**	**0.2**
Other investment	**79,989.6**	**33.2**	**64,708.8**	**27.7**
Trade credit	16,989.2	7.0	14,928.5	6.4
Loans	18,120.9	7.5	15,650.5	6.7
Long-term	9,954.8	4.1	10,509.1	4.5
Short-term	8,166.1	3.4	5,141.4	2.2
Currency and deposits	41,066.0	17.0	29,489.9	12.6
Other assets	3,813.4	1.6	4,639.9	2.0
Reserve assets	**44,110.3**	**18.3**	**43,249.8**	**18.5**
EXTERNAL LIABILITIES	**430,534.1**	**100.0**	**409,050.8**	**100.0**
Direct investment in Estonia	**177,035.1**	**41.1**	**176,311.0**	**43.1**
Equity capital and reinvested earnings	148,924.6	34.6	152,434.0	37.3
Other direct investment capital	28,110.4	6.5	23,877.0	5.8
Portfolio investment	**32,473.4**	**7.5**	**20,164.3**	**4.9**
Equity securities	7,967.6	1.9	9,193.5	2.2
Debt securities	24,505.8	5.7	10,970.8	2.7
Bonds and notes	24,424.3	5.7	10,867.8	2.7
Money market instruments	81.5	0.0	103.0	0.0
Financial derivatives	**767.4**	**0.2**	**702.6**	**0.2**
Other investment	**220,258.4**	**51.2**	**211,872.8**	**51.8**
Trade credit	14,073.9	3.3	9,716.2	2.4
Loans	47,043.2	10.9	48,561.6	11.9
Long-term	34,977.8	8.1	35,149.4	8.6
Short-term	12,065.4	2.8	13,412.2	3.3
Currency and deposits	152,637.9	35.5	144,971.1	35.4
Other liabilities	6,503.4	1.5	8,624.0	2.1
NET INVESTMENT POSITION	**-189,290.6**		**-175,640.7**	

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

Assets			Liabilities		
Fields of activity					
	31/12/2008	**31/12/2009**		**31/12/2008**	**31/12/2009**
Financial intermediation*	52.3	49.6	Financial intermediation*	59.7	52.6
Insurance and pension funding**	5.9	8.7	Other business services	5.0	9.7
Other business services	8.4	8.1	Real estate	6.5	7.4
Public administration and defence; statutory social insurance	8.2	7.8	Wholesale and retail trade***	5.6	4.7
Wholesale and retail trade***	6.1	5.2	Electrical energy. gas. steam and hot water supply	2.5	3.1
Other	19.0	20.6	Other	20.7	22.5
Total	100.0	100.0	Total	100.0	100.0
Countries					
	31/12/2008	**31/12/2009**		**31/12/2008**	**31/12/2009**
Latvia	13.1	12.1	Sweden	38.6	37.9
Lithuania	11.2	10.7	Finland	19.6	21.5
Germany	12.2	7.7	Netherlands	3.4	4.0
France	5.1	7.3	United Kingdom	6.3	3.6
Finland	5.4	5.6	Denmark	5.9	3.5
Other	53.0	56.6	Other	26.1	29.5
Total	100.0	100.0	Total	100.0	100.0

* Except insurance and pension funding
** Except compulsory social security
*** Except motor vehicles and motorcycles

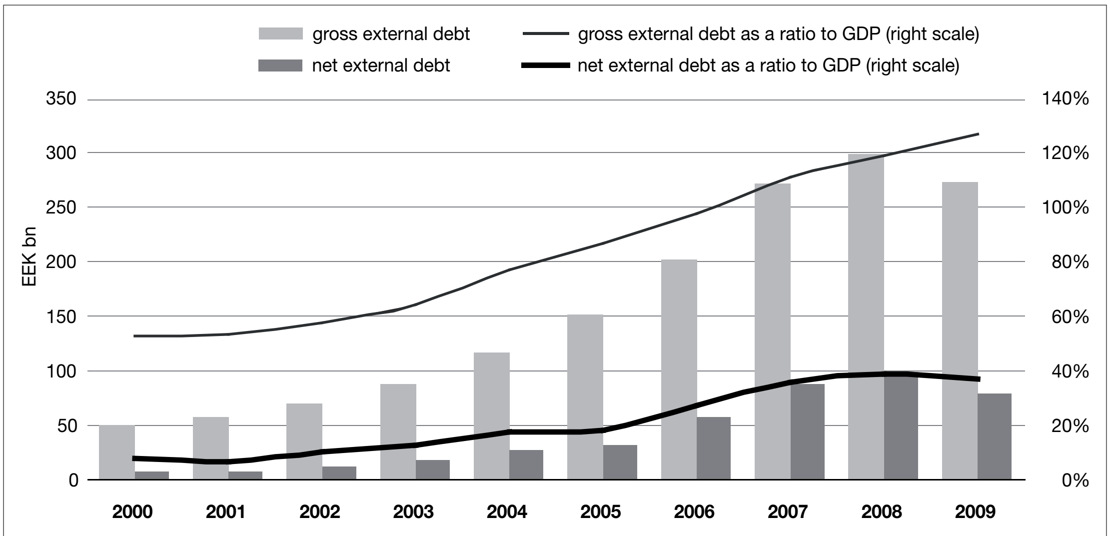

Figure 25. Estonia's gross and net external debt

The **position of foreign investment in Estonia** decreased primarily because the portfolio investment position (equity and debt securities) declined by over 12 billion kroons. The direct investment position (investment in subsidiaries and affiliated companies) remained more or less at end-2008 level. The position of other investment (currency and deposits, interbank loans) declined 4%. Thus, also the structure of the position changed: other investment accounted for 52%, direct investment for 43% and portfolio investment for 5% of the position at end-2009. Nearly 60% of foreign investment came from Sweden and Finland (see Table 42). 53% of foreign investment was invested in financial intermediation and 10% in other business activities. The absolute and relative contribution of financial intermediation to the total position contracted significantly, whereas that of other business activities increased year-on-year. The geographical breakdown of direct investment in Estonia was similar to the total foreign investment position (see Table 42). Financial intermediation again prevailed (27%) and the proportion of other business activities increased significantly with the year, reaching almost 16%.

The structure of **Estonia's investment abroad** changed considerably, as the proportion of other investment declined, whereas that of portfolio investment increased. At the end of 2009, direct investment accounted for 30%, other investment for 28% and portfolio investment for 23% of the total position, the rest being reserve assets. Investors of financial intermediation, insurance and pension funding, and other business activities contributed 50%, 9% and 8% to the total position, respectively. The geographical breakdown of investment was broad-based with Latvia (12%), Lithuania (11%) and Germany (8%) being the main targets. Investors of financial intermediation and other business activities prevailed also in terms of direct investment abroad (55% in total). Almost 60% of Estonia's direct investment abroad had been channelled to Latvia and Lithuania.

The **gross external debt** shrank, mostly owing to credit institutions and less to other sectors as well as intercompany lending between direct investment companies (see Table 43). Credit institutions contributed 54% and other sectors 23% to the gross external debt. The general government debt accounted for only about 5% of the gross external debt, being one of the lowest government debts in the EU. The net external debt can be mainly attributed to credit institutions and other sectors, whose

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

In Estonia			**Abroad**		
Fields of activity					
	31/12/2008	**31/12/2009**		**31/12/2008**	**31/12/2009**
Financial intermediation*	32.8	27.1	Financial intermediation*	37.0	32.1
Other business services	9.4	15.6	Other business services	24.9	22.8
Real estate	12.8	13.0	Real estate	8.3	12.6
Wholesale and retail trade**	8.2	6.9	Water transport	9.8	11.2
Supporting and auxiliary transport services; travel agency services	4.8	3.8	Wholesale and retail trade**	5.6	4.5
Other	32.0	33.6	Other	14.3	16.8
Total	100.0	100.0	Total	100.0	100.0
Countries					
	31/12/2008	**31/12/2009**		**31/12/2009**	**31/12/2009**
Sweden	40.1	39.7	Latvia	31.6	30.4
Finland	22.1	22.9	Lithuania	28.2	27.9
Netherlands	7.4	8.7	Cyprus	9.8	12.1
Norway	3.1	3.2	Finland	5.4	4.8
Russia	3.3	3.1	Russia	4.6	4.5
Other	23.8	22.5	Other	20.2	20.2
Total	100.0	100.0	Total	100.0	100.0

* Except insurance and pension funding
** Except motor vehicles and motorcycles

debt liabilities exceeded their debt assets by 108 and 17 billion kroons, respectively. Year-on-year, the net external debt of credit institutions and other sectors decreased 12% and 28%, respectively. At the same time, the debt assets of the general government and the central bank exceeded their debt liabilities by 5 and 42 billion kroons, respectively (primarily reserve assets).

Table 43. External debt (EEK m)

	31/12/2008	%	31/12/2009	%
LIABILITIES				
I. General government	**7,671.1**	**2.6**	**13,065.6**	**4.8**
Short-term	0.7	0.0	1.8	
Long-term	7,670.4	2.6	13,063.9	4.8
II. Monetary authorities (NCB)	**112.3**	**0.0**	**1,235.8**	**0.5**
Short-term	111.4	0.0	180.6	0.1
Long-term	0.9	0.0	1,055.1	0.4
III. Credit institutions	**169,715.6**	**56.9**	**147,054.0**	**54.0**
Short-term	85,547.4	28.7	74,707.2	27.4
Long-term	84,168.2	28.2	72,346.8	26.6
IV. Other sectors	**67,265.2**	**22.6**	**61,488.3**	**22.6**
Short-term	26,240.6	8.8	23,603.8	8.7
Long-term	41,024.6	13.8	37,884.5	13.9
V. Direct investment: intercompany lending	**53,336.6**	**17.9**	**49,553.1**	**18.2**
GROSS EXTERNAL DEBT	**298,100.7**	**100.0**	**272,396.7**	**100.0**
ASSETS				
I. General government	**19,517.3**	**9.7**	**18,185.4**	**9.4**
Short-term	6,898.0	3.4	9,433.3	4.9
Long-term	12,619.3	6.3	8,752.1	4.5
II. Monetary authorities (NCB)	**43,968.1**	**22.0**	**43,157.4**	**22.3**
Short-term	29,741.5	14.9	36,815.7	19.0
Long-term	14,226.7	7.1	6,341.7	3.3
III. Credit institutions	**46,340.8**	**23.1**	**38,641.8**	**20.0**
Short-term	38,044.4	19.0	28,310.5	14.6
Long-term	8,296.4	4.1	10,331.2	5.3
IV. Other sectors	**43,812.1**	**21.9**	**44,570.1**	**23.1**
Short-term	31,560.4	15.8	29,109.6	15.1
Long-term	12,251.7	6.1	15,460.4	8.0
V. Direct investment: intercompany lending	**46,598.5**	**23.3**	**48,710.5**	**25.2**
TOTAL ASSETS	**200,236.8**	**100.0**	**193,265.0**	**100.0**
NET EXTERNAL DEBT (assets less liabilities)				
I. General government	**11,846.1**		**5,119.7**	
Short-term	6,897.3		9,431.5	
Long-term	4,948.9		-4,311.8	
II. Monetary authorities (NCB)	**43,855.8**		**41,921.6**	
Short-term	29,630.0		36,635.0	
Long-term	14,225.8		5,286.6	
III. Credit institutions	**-123,374.8**		**-108,412.2**	
Short-term	-47,503.0		-46,396.6	
Long-term	-75,871.8		-62,015.6	
IV. Other sectors	**-23,453.1**		**-16,918.3**	
Short-term	5,319.8		5,505.8	
Long-term	-28,772.8		-22,424.1	
V. Direct investment: intercompany lending	**-6,738.1**		**-842.6**	
TOTAL NET EXTERNAL DEBT	**-97,863.9**		**-79,131.7**	