EUROSÜSTEEM

Estonia's Balance of Payments for 2012

2013

OVERVIEW

- **Having been in surplus for three years, Estonia's current account ran a deficit of 204 million euros in 2012, or 1.2% of GDP** (see Table 1 and Figure 1).
- **The current account deficit was almost entirely caused by the deficit in the goods account, which was more than three times the size of the deficit of 2011. Weaker external demand and stronger domestic demand led to moderate growth in exports and much faster growth in imports.**
- **The other components of the current account – services, current transfers and income account balances – changed less.**
- **The foreign trade deficit mainly rose due to the increase in imports of investment goods such as machinery and equipment, railway vehicles and industrial plant equipment.**
- **The capital account had a surplus of 582 million euros, which was somewhat less than in 2011 and was almost entirely made up of contributions from the EU budget for infrastructure development.**
- **The Estonian economy was a net lender in 2012 with 290 million euros more going out from the financial account, including reserves, than came in.**
- **The gross external debt of the Estonian economy grew by 8% over the year to 16.7 billion euros and stood at 98% of the year's GDP at the end of 2012. The gross external debt was boosted primarily by other sectors and the general government. The net external debt became positive as debt claims on the rest of the world rose faster than liabilities, so that by the end of the year it stood at 0.3 billion euros, or 2% of GDP.**

The current account deficit is due to foreign trade

The growth rates of both exports and imports of goods were significantly slower in 2012 than in 2011, with exports growing by 4% and imports by 8%. However the volumes of exports and imports were larger than they have been in any other previous year. If reprocessed goods are

Figure 1. Current account balance

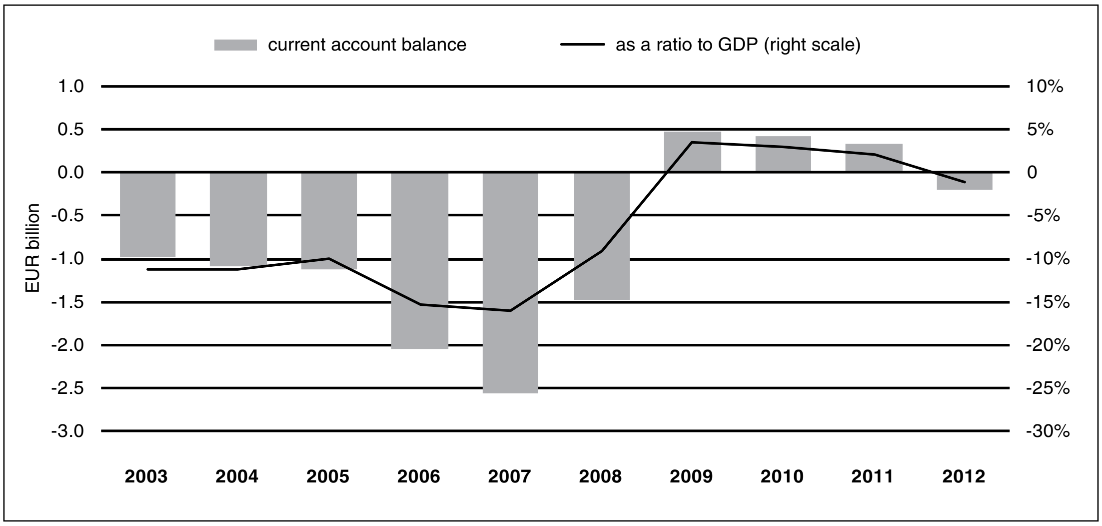


Table 1. Estonia's balance of payments (EUR million)

	2006	2007	2008	2009	2010	2011	2012
Current account	**-2,053.0**	**-2,562.5**	**-1,486.1**	**470.5**	**419.4**	**339.5**	**-204.3**
Goods and services	-1,413.8	-1,598.6	-725.8	799.6	1,073.1	1,017.8	486.4
Goods	-2,304.1	-2,640.8	-2,041.1	-591.0	-266.6	-221.5	-735.0
credit (f.o.b.)	7,774.0	8,132.2	8,490.1	6,460.2	8,769.0	12,055.9	12,565.2
debit (f.o.b.)	-10,078.1	-10,772.9	-10,531.2	-7,051.2	-9,035.6	-12,277.4	-13,300.2
Services	890.3	1,042.1	1,315.3	1,390.6	1,339.7	1,239.3	1,221.4
credit	2,870.9	3,289.2	3,600.8	3,200.6	3,441.4	3,899.7	4,242.2
debit	-1,980.6	-2,247.1	-2,285.5	-1,809.9	-2,101.7	-2,660.4	-3,020.8
Income	-687.9	-1,058.9	-883.8	-506.0	-893.5	-932.6	-949.5
credit	866.4	1,210.3	1,142.3	657.8	703.3	861.6	772.2
debit	-1,554.3	-2,269.2	-2,026.1	-1,163.8	-1,596.9	-1,794.2	-1,721.8
Transfers	48.7	95.1	123.4	176.9	239.8	254.3	258.9
credit	419.8	471.1	430.4	451.1	552.6	610.4	633.6
debit	-371.1	-376.1	-307.0	-274.2	-312.8	-356.1	-374.8
Capital and financial account (reserve assets included)	**2,198.3**	**2,524.5**	**1,439.4**	**-448.4**	**-345.6**	**-294.2**	**291.4**
Capital account	288.6	173.8	212.5	485.7	505.2	669.5	581.7
Financial account	1,909.7	2,350.8	1,226.9	-934.0	-850.8	-963.7	-290.3
Direct investment	550.3	708.6	421.6	210.6	1,100.1	1,234.1	455.1
Abroad	-881.6	-1,276.5	-760.2	-1,113.9	-107.1	1,049.1	-689.3
In Estonia	1,431.9	1,985.0	1,181.8	1,324.5	1,207.3	185.0	1,144.4
Portfolio investment	-1,055.7	-368.0	506.2	-1,451.7	-462.1	1,151.9	-112.3
Assets	-974.5	-552.2	680.5	-489.5	-316.8	1,031.5	-262.1
Equity securities	-292.0	-491.4	261.8	-49.6	-303.8	102.2	-159.3
Debt securities	-682.5	-60.8	418.8	-439.9	-13.1	929.3	-102.8
Liabilities	-81.2	184.2	-174.3	-962.2	-145.3	120.4	149.8
Equity securities	238.5	225.8	-212.7	-93.6	30.0	-80.5	-116.7
Debt securities	-319.7	-41.6	38.3	-868.7	-175.3	200.8	266.6
Financial derivatives	5.0	-51.0	53.0	14.6	32.7	-38.8	33.5
Assets	-11.6	-56.5	43.1	17.2	-0.9	-22.6	57.8
Liabilities	16.6	5.5	9.8	-2.6	33.6	-16.2	-24.3
Other investment	2,891.1	2,150.8	749.1	227.9	-2,352.7	-3,298.1	-597.0
Assets	36.0	-1,485.2	-363.7	955.3	-1,263.4	-2,210.6	-1,633.9
Long-term	345.6	-210.2	-17.7	-39.8	-322.6	-93.5	-435.8
Short-term	-309.6	-1,275.1	-346.1	995.2	-940.8	-2,117.1	-1,198.1
Liabilities	2,855.2	3,636.0	1,112.8	-727.5	-1,089.4	-1,087.6	1,036.9
Long-term	1,614.6	2,967.1	-643.7	207.0	-1,361.2	-1,190.3	429.6
Short-term	1,240.6	669.0	1,756.5	-934.4	271.8	102.8	607.3
Reserve assets	-481.1	-89.6	-503.0	64.7	831.3	-12.8	-69.5
Errors and omissions	**-145.2**	**38.0**	**46.8**	**-22.2**	**-73.8**	**-45.3**	**-87.1**
Capital and financial account without reserve assets	*2,679.3*	*2,614.1*	*1,942.3*	*-513.0*	*-1,176.9*	*-281.4*	*361.0*
Financial account without reserve assets	*2,390.7*	*2,440.4*	*1,729.9*	*-998.7*	*-1,682.1*	*-950.9*	*-220.8*

excluded from exports, then exports grew by almost 9% during the year. The main growth in goods exports came from food and chemical goods, and machinery and equipment. Exports of timber and metal products remained very close to their levels of the previous year. Imports of goods increased for most groups of goods except mineral products. There was rapid growth in imports of furniture and various other goods, transport equipment, particularly railway rolling stock and ships, and machinery and equipment. The trade deficit was three times larger than in the previous a year at 730 million euros, which is equal to 4.3% of GDP. A major contributor to the increase in the deficit was investment goods, notably industrial equipment, railway vehicles, ships, and electrical and mechanical machines and equipment, but also other transport vehicles and chemical products.

The surplus from imports and exports of services was very close to its level of a year earlier at 1.2 billion euros. Services exports grew by 9% and imports by 14%. The faster growth in imports was mainly caused by purchases of transport services for bringing in imported goods. Exports were higher than imports in all the main categories of services except for construction and copyright and licensing payments. The largest surplus of exports over imports was, as usual, in travel, transport and other business services, which contributed 91% of the surplus in the services account.

Net outflows from the income account remained at around the same level as in the previous year, increasing by 2% and reaching 950 million euros. Income earned abroad by Estonian residents from labour and investment fell by 10% and the income earned in Estonia by non-residents fell by 4%. There was a net inflow in labour income, but a net outflow in investment income. Investment income accounted for the lion's share of the net outflows from the income account, and 86% of it was reinvested profit. Reinvested profit is also a component of the inflows of direct investment, and so it is calculated for accounting purposes while no actual cash transactions happen.

The total surplus in **current transfers and the capital account** fell by around 10% to 841 million euros. The fall came in consequence of the sharp reduction in the sales of emissions quotas. Current and capital transfers from European Union structural funds increased.

Estonia continued to be a net lender in 2012

Capital outflows from the financial account, including reserves, surpassed inflows by 290 million euros. The business sector with 454 million euros, the government sector with 365 million euros and credit institutions with 130 million euros were net borrowers but the central bank and to a smaller extent households were net lenders, financing the outside world with 1.2 billion euros and 37 million euros respectively.

Inflows from direct investments surpassed outflows by 455 million euros. Direct investments in Estonia by non-residents grew to 1.1 billion euros and direct investments abroad by residents were 689 million euros. Almost 80% of the direct investments in Estonia by non-residents was reinvested profit, and one third was equity investment. To some extent, the loans were made to own direct investors. In contrast, the largest part of the direct investment abroad by residents was loan capital to subsidiary and associated companies, and a third of investments were in equity. Reinvested income abroad fell as dividends were taken out. Investments in Estonia were concentrated in financial services and maritime transport, while direct investment abroad was made by investors in maritime transport.

Outflows from portfolio investors surpassed inflows by 112 million euros. Foreign assets grew by 262 million euros. Equity security assets increased principally in other sectors, through pension funds, and debt security assets increased for credit institutions. Portfolio investment liabilities increased by 150 million euros, mainly due to other sectors reducing equity security liabilities and increasing debt security liabilities.

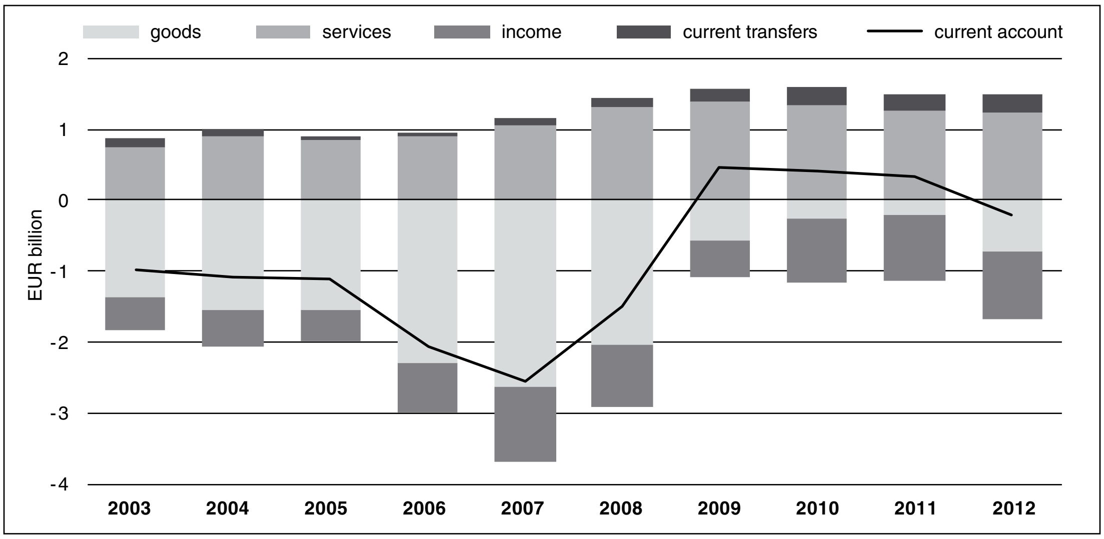
Net inflows of derivatives were 34 million euros. Assets fell by 58 million euros and liabilities by 24 million, mostly driven by the assets and liabilities of other sectors in both cases.

Outflows from other investments in the form of loans and deposits exceeded inflows by 597 million euros. This was in consequence of the growth in both external assets and external liabilities, of 1.6 billion and 1 billion euros respectively. Assets grew mainly through an increase in the cash and deposits of the central bank held abroad and the long-term loans of the government sector. Liabilities grew mainly because of the increased long-term loan obligations of the government sector and other sectors.

CURRENT ACCOUNT

After three years in surplus, the balance of payments current account slipped into deficit in 2012 of 204 million euros or 1.2% of GDP (see Figure 2). The current account deficit was mainly due to the increased deficit on the goods account, while the balances of the other components of the current account – services, income and current transfers – did not change greatly. The foreign trade deficit more than tripled, largely in consequence of increased domestic demand for imported investment goods. The surplus on goods and services totalled 486 million euros, or 2.9% of GDP. If the net outflow of reinvested earnings, which is a book value, is excluded from the income account, the current account was in surplus of 4.6% of GDP in 2012, rather than in deficit.

Figure 2. Current account structure



Credit and debit turnovers in the current account still grew in 2012, but at a markedly slower rate than in 2011 and 2010, with credit turnover up by 5% on 2011 and debit turnover by 8%. Estonia traded mostly with EU Member States, which accounted for 67% of the credit turnover and 81% of the debit turnover. These figures have remained relatively stable over the years. The credit turnover with the European Union increased by 2% and the debit turnover by 9%. Several of Estonia's major trade partners, such as Sweden, Latvia, Lithuania and Russia, are not members of the Economic and Monetary Union (EMU), and so the EMU provides a much smaller proportion of the total turnover, with 32% of credit turnover and 38% of debit turnover. The five major partner countries accounted for 54% of both the credit turnover and the debit turnover, which was about the same as in 2011. Leaders in terms of both turnovers were Finland and Sweden, with Latvia and Lithuania fourth and fifth. Russia was the third in credit turnover and Germany in debit turnover. Estonia's highest current account surpluses were with Russia (almost 900 million euros, see Table 2) and the United States (567 million euros), while the highest deficits were with Germany (902 million euros) and Poland (655 million euros). The surplus with Russia almost doubled during the year.

Table 2. Current account balance by groups of countries (EUR million)

	2011	2012
EU-27	**-1,732.3**	**-2,650.7**
Germany*	-822.2	-901.5
Poland	-643.4	-654.6
Lithuania	-312.6	-509.5
Netherlands	-164.9	-340.6
Finland	742.9	290.4
CIS	**569.8**	**867.0**
Russia	534.7	898.5
Belarus	-50.1	-109.3
Kazakhstan	25.3	90.1
Other countries	**1,502.0**	**1,579.4**
USA	631.2	567.4
China	-247.7	-378.8
Norway	239.2	260.6
Nigeria	391.2	168.5
Total	**339.5**	**-204.3**

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

Goods

Turnover in the goods account grew more slowly in 2012 than in 2011: The exports of goods increased by 4% and totalled 12.6 billion euros, while imports grew by 8% to 13.3 billion euros (see Table 3). The trade deficit more than tripled due to the faster rate of import and reached 735 million euros, which is equal to 4.3% of annual GDP.

According to the preliminary foreign trade statistics[1], goods exports totalled 12.6 billion and imports in c.i.f. prices 13.8 billion euros in 2012 (see Figure 3). The annual foreign trade deficit totalled 1.2 billion euros.

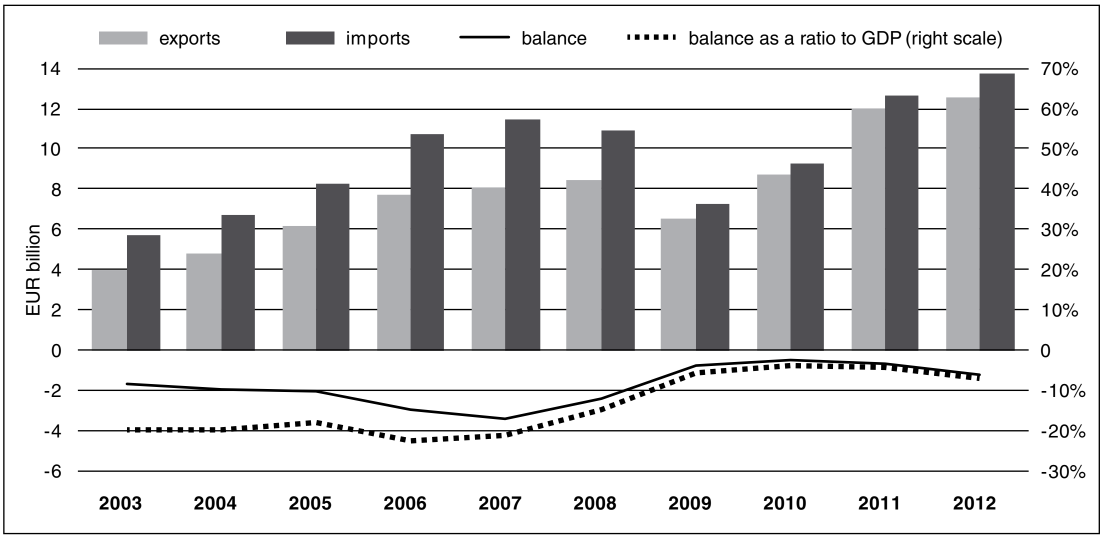
Table 3. Exports and imports of goods

	Goods – credit (f.o.b.)			Goods – debit (f.o.b.)			Balance (EUR m)
	Volume* (EUR m)	Change from previous period (%)	Share in total exports of goods and services (%)	Volume* (EUR m)	Change from previous period (%)	Share in total exports of goods and services (%)	
2003	4,054.8	9.5	67.4	5,430.3	11.2	81.6	-1,375.5
2004	4,764.2	17.5	67.5	6,333.3	16.6	81.9	-1,569.1
2005	6,347.9	33.2	70.8	7,898.0	24.7	81.7	-1,550.1
2006	7,774.0	22.5	73.0	10,078.1	27.6	83.6	-2,304.1
2007	8,132.2	4.6	71.2	10,772.9	6.9	82.7	-2,640.8
2008	8,490.1	4.4	70.2	10,531.2	-2.2	82.2	-2,041.1
2009	6,460.2	-23.9	66.9	7,051.2	-33.0	79.6	-591.0
2010	8,769.0	35.7	71.8	9,035.6	28.1	81.1	-266.6
2011	12,055.9	37.5	75.6	12,277.4	35.9	82.2	-221.5
2012	12,565.2	4.2	74.8	13,300.2	8.3	81.5	-735.0

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

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

Figure 3. Estonia's foreign trade balance



The export of goods increased across all groups of goods except mineral products (see Table 4). The main export items were again machinery and equipment, and their contribution to export growth was also the largest. The main goods in this group were mobile communications equipment and cables, sold principally to Sweden, and also to the USA and to a new market in Mexico. Road building machines were also supplied to Russia and various parts for electronic and machine production went to Finland and Russia. Exports of mineral products fell by 9% as the supply of imported motor fuels from Russia for processing fell. Fuels were delivered to the United States, Sweden and Nigeria, and electricity was sold to Latvia and Lithuania. The exports of timber and timber products increased slightly. Unprocessed and little processed timber was sold primarily to Sweden, Finland and Denmark; wooden houses to Norway and Germany; and wooden construction components and furniture to Sweden, Finland and Denmark.

Total exports of food products grew by 15% year-on-year. In first place remained strong alcoholic beverages, which were imported from the United Kingdom and France and then sold on to Russia. Other food products like cheese and dairy products, fish and meat, cereals, and a variety of semi-finished products were mainly exported to Finland, Russia, Latvia and Lithuania. Metal products (steel products, iron constructions and

Table 4. Exports by major groups of goods

	Volume (EUR m)		Share (%)		Change (%)
	2011	2012	2011	2012	2012/2011
Food	1,015.4	1,163.1	8.5	9.3	14.5
Mineral products	2,061.3	1,872.8	17.2	14.9	-9.1
Chemical products	915.4	1,032.3	7.6	8.2	12.8
Clothing, footwear and headgear	458.9	497.2	3.8	4.0	8.3
Timber, paper and products	1,240.3	1,247.6	10.3	9.9	0.6
Metals and metal products	1,030.9	1,038.6	8.6	8.3	0.7
Machinery and equipment	3,291.9	3,592.5	27.4	28.6	9.1
Transport vehicles	594.3	634.9	4.9	5.1	6.8
Furniture, toys, sporting goods	786.7	830.1	6.5	6.6	5.5
Other	617.6	642.1	5.1	5.1	4.0
Total	**12,012.6**	**12,551.3**	**100.0**	**100.0**	**4.5**

waste metal) were exported to Finland, Turkey and Latvia and chemical products (mastics, putties, paints, varnishes, plastic products, ethers, and medicines) were exported to Russia, Latvia, Finland and Lithuania. The majority of exported transport vehicles were cars that were imported from Sweden and Germany and re-exported to Latvia, Lithuania and Russia. Car parts and accessories were sold to Sweden and Russia and trailers to Finland. Ready-made men's and women's clothes, footwear, sportswear, and other light industrial products (gold items, medical equipment, toughened-glass panes and glass products) were exported primarily to Finland, Russia Latvia and Belgium.

The import of goods increased in most groups of goods except mineral and metal products (see Table 5). The largest contribution to the growth of imports came from machinery and equipment and transport vehicles. Electronic products and semi-finished products were imported from Sweden, Finland, Germany, China and Poland. The import of transport vehicles grew by over 20%, mainly with the supply of vehicles and parts from Sweden and Germany. Purchases of railway rolling stock from Ukraine and ships from Finland were also significant. Mineral products (motor fuel for processing and domestic supply, natural gas and electricity) were purchased from Lithuania, Russia, Finland, Latvia and Belarus. The main items in the chemical products group were medicines from Lithuania and Latvia, chemicals for improving motor fuels from Russia, ethers from Holland and Belgium, car tyres from Poland and fertilisers from Finland.

The import of food products from the Baltic States has grown year by year, and fish, confectionary and chocolate products, and animal feed were bought from Latvia, and tobacco, fish products and non-alcoholic drinks from Lithuania. The largest import items among food products were again strong alcoholic beverages from the United Kingdom, France, Finland and the Netherlands. Various metal products were imported from Finland, Germany, Sweden and Poland; clothing and footwear from Latvia, Finland, Germany, China and Italy; and timber and timber products (sawn timber, veneer, paper and cardboard products) from Finland, Russia and Latvia.

The foreign trade deficit almost doubled from 2011 and reached 1.2 billion euros (see Table 6). Transport vehicles, machinery and equipment and chemical products had the largest impact on the trade deficit, while timber and timber products, furniture and other industrial goods were in surplus.

Table 5. Imports by major groups of goods

	Volume (EUR m)		Share (%)		Change (%)
	2011	2012	2011	2012	2012/2011
Food	1,243.5	1,359.2	9.8	9.9	9.3
Mineral products	2,276.9	2,127.3	18.0	15.5	-6.6
Chemical products	1,575.3	1,794.1	12.4	13.0	13.9
Clothing, footwear and headgear	687.4	741.9	5.4	5.4	7.9
Timber, paper and products	525.9	564.7	4.2	4.1	7.4
Metals and metal products	1,112.7	1,074.0	8.8	7.8	-3.5
Machinery and equipment	3,467.0	3,928.6	27.4	28.6	13.3
Transport vehicles	1,039.8	1,260.5	8.2	9.2	21.2
Furniture, toys, sporting goods	231.5	279.6	1.8	2.0	20.8
Other	511.3	621.9	4.0	4.5	21.6
Total	**12,671.4**	**13,751.8**	**100.0**	**100.0**	**8.5**

Table 6. Foreign trade balance by major groups of goods (EUR million)

	2011	2012
Food	-228.1	-196.1
Mineral products	-215.6	-254.5
Chemical products	-659.9	-761.8
Clothing, footwear and headgear	-228.5	-244.6
Timber, paper and products	714.4	682.9
Metals and metal products	-81.8	-35.5
Machinery and equipment	-175.2	-336.0
Transport vehicles	-445.6	-625.6
Furniture, toys, sporting goods	555.1	550.5
Other	106.2	20.2
Total	**-658.8**	**-1,200.4**

Viewed by groups of countries, **exports of goods** increased to the EU and the CIS. (see Table 7). The share of goods exported to the EU was the same as in 2011. Machinery and equipment (primarily electronic products) comprised 30% of the exports to the EU, followed by timber and timber products, mineral products and food. Exports to the CIS increased by 15%. The leading place was taken by machinery and equipment with 38% of the exports to CIS countries, with chemical and food products following. Estonia's biggest trade partner in the CIS is Russia, which remained third in the overall export ranking. Exports to other countries fell slightly, with the USA, Norway and Nigeria the biggest trading partners and mineral products making up the largest group of goods.

The **imports of goods** from the European Union increased, while the CIS and other countries remained at their levels of 2011. (see Table 8). Machinery and equipment also accounted for 30% of the imports of goods from EU countries, followed by chemical products, food products and mineral products. Mineral products (fuels, natural gas) provided 54% and transport vehicles 11% of the imports from CIS countries. Imports from other countries largely consisted of machinery and equipment (components of electronic products), and textile products.

Table 7. Exports of goods by groups of countries

	Volume (EUR m)		Share (%)		Change (%)
	2011	2012	2011	2012	2012/2011
EU-27	**7,820.4**	**8,181.8**	**65.1**	**65.2**	**4.6**
Sweden	1,875.1	1,997.8	15.6	15.9	6.5
Finland	1,808.2	1,827.4	15.1	14.6	1.1
Latvia	957.3	1,099.1	8.0	8.8	14.8
Lithuania	551.4	675.6	4.6	5.4	22.5
Germany	550.4	563.7	4.6	4.5	2.4
CIS	**1,583.6**	**1,828.0**	**13.2**	**14.6**	**15.4**
Russia	1,312.5	1,518.7	10.9	12.1	15.7
Ukraine	105.7	118.7	0.9	0.9	12.3
Kazakhstan	48.3	86.2	0.4	0.7	78.4
Other	**2,608.7**	**2,541.6**	**21.7**	**20.2**	**-2.6**
USA	750.0	584.8	6.2	4.7	-22.0
Norway	361.5	421.9	3.0	3.4	16.7
Nigeria	391.4	177.0	3.3	1.4	-54.8
Total	**12,012.6**	**12,551.3**	**100.0**	**100.0**	**4.5**

Table 8. Imports of goods by groups of countries*

	Volume (EUR m)		Share (%)		Change (%)
	2011	2012	2011	2012	2012/2011
EU-27	**9,943.7**	**11,008.1**	**78.5**	**80.0**	**10.7**
Finland	1,589.4	1,988.5	12.5	14.5	25.1
Germany	1,287.3	1,417.7	10.2	10.3	10.1
Sweden	1,335.3	1,398.9	10.5	10.2	4.8
Latvia	1,363.4	1,308.9	10.8	9.5	-4.0
Lithuania	1,040.0	1,186.6	8.2	8.6	14.1
CIS	**1,376.1**	**1,383.5**	**10.9**	**10.1**	**0.5**
Russia	1,044.2	933.2	8.2	6.8	-10.6
Belarus	147.2	202.0	1.2	1.5	37.2
Ukraine	102.1	197.0	0.8	1.4	93.0
Other	**1,351.7**	**1,360.1**	**10.7**	**9.9**	**0.6**
China	454.8	479.3	3.6	3.5	5.4
Norway	142.5	183.7	1.1	1.3	28.9
USA	140.1	116.3	1.1	0.8	-17.0
Total	**12,671.4**	**13,751.8**	**100.0**	**100.0**	**8.5**

* Analysed by trading country.

Foreign trade with the EU was in deficit by 2.8 billion euros (see Table 9). Among the EU Member States, Estonia's biggest trade deficits were with Germany, Poland and Lithuania, and the largest surpluses were with Sweden, Denmark and Spain. The trade balance with CIS countries, principally Russia, improved significantly. Among the CIS countries, Estonia had trade deficits with Belarus and Ukraine only. Among other countries, Estonia had trade surpluses with the United States, Norway, Nigeria and Turkey, and the largest trade deficit was with China.

Table 9. Foreign trade balance by groups of countries (EUR million)

	2011	2012
EU-27	-2,123.3	-2,826.3
CIS	207.5	444.4
Other	1,257.0	1,181.5
Total	**-658.8**	**-1,200.4**

Services

The surplus on the services account was 1.2 billion euros in 2012, similar to what it was a year earlier (see Table 10 and Figure 4). The surplus from services stood at 7% of GDP. Services exports made up 25% of the total exports of goods and services, a number that has fallen slightly over the years. Services imports made up 19% of the total imports of goods and services, a number that has been relatively stable. European Union countries consumed 67% of the exported services and 79% of the imported services were bought from these countries. The five major trade partners were the same for both exports and imports, though the order was slightly different. The countries were Finland, Sweden, Germany, Latvia and Russia. The biggest import and export partner was Finland, and these five countries accounted for 55% of exports of services and 47% of imports. The balance for services was positive with the majority of trade partners. The largest surpluses were with Finland (647 million euros) and Russia (313 million euros), while the largest deficits were with France (106 million euros) and Cyprus (83 million euros).

Figure 4. Services account

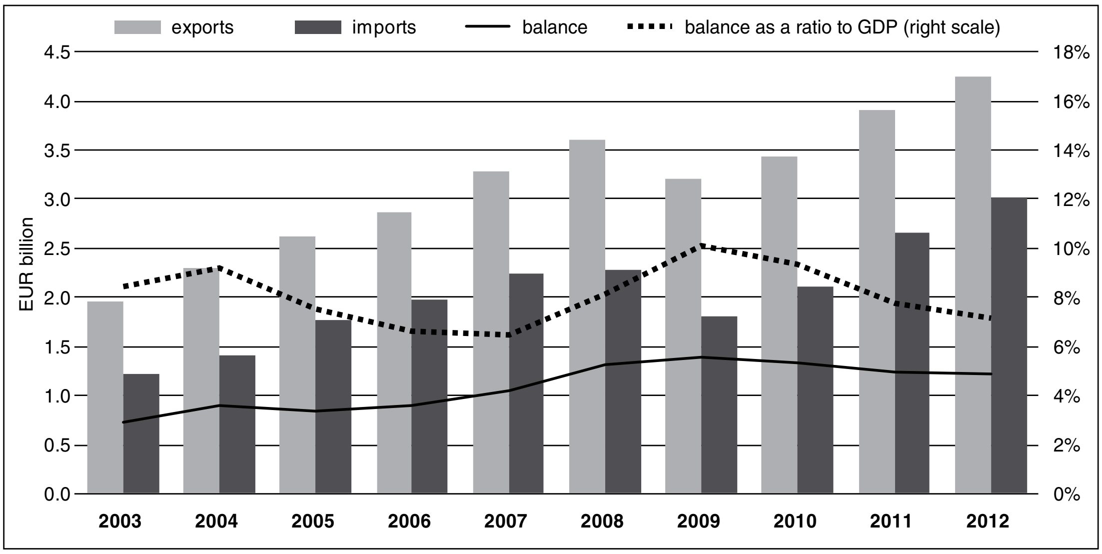


Table 10. Exports and imports of services

	Exports			Imports			Balance	
	Volume (EUR m)	Change from previous period (%)	Share in total turnover of goods and services (%)	Volume (EUR m)	Change from previous period (%)	Share in total turnover of goods and services (%)	Volume (EUR m)	Change from previous period (%)
2003	1,960.4	16.0	32.6	1,227.1	5.1	18.4	733.4	16.0
2004	2,293.8	17.0	32.5	1,403.1	14.3	18.1	890.7	21.4
2005	2,612.0	13.9	29.2	1,772.7	26.3	18.3	839.3	-5.8
2006	2,870.9	9.9	27.0	1,980.6	11.7	16.4	890.3	6.1
2007	3,289.2	14.6	28.8	2,247.1	13.5	17.3	1,042.1	17.1
2008	3,600.8	9.5	29.8	2,285.5	1.7	17.8	1,315.3	26.2
2009	3,200.6	-11.1	33.1	1,809.9	-20.8	20.4	1,390.6	5.7
2010	3,441.4	7.5	28.2	2,101.7	16.1	18.9	1,339.7	-3.7
2011	3,899.7	13.3	24.4	2,660.4	26.6	17.8	1,239.3	-7.5
2012	4,242.2	8.8	25.2	3,020.8	13.5	18.5	1,221.4	-1.4

The surplus on the services account was mainly boosted by transport services, which made up 42% of the total surplus (49% in 2011, see Table 11). The surplus from exports of transport services fell by 16% year-on-year. The surplus from travel services was 28% of the total surplus and grew slightly during the year. In third place came other business services, which supplied 22% of the total surplus, up from 13% in the previous year. In general there was a surplus in most categories of services except transport of goods, copyright and licensing, leasing and construction services. Construction services were in surplus in 2011 but were in deficit in 2012. The main reason for this was the extensive renovation work in the energy generating industry in Estonia.

Services exports increased 9% from 2011 (see Table 12). A record 4.2 billion euros worth of services were provided to foreign countries. The structure of the services exports has remained relatively stable, with transport services accounting for 40%, travel services for 22% and other business services

Table 11. Services balance by major categories

	Balance (EUR m)		Share (%)		Change (%)
	2011	2012	2011	2012	2012/2011
Transport	608.9	513.4	49.1	42.0	-15.7
transport of goods	60.2	-3.9	4.9	-0.3	-106.5
transport of passengers	211.1	159.4	17.0	13.1	-24.5
other transport services	337.7	357.8	27.2	29.3	6.0
Travel	318.7	339.4	25.7	27.8	6.5
Construction services	59.0	-10.7	4.8	-0.9	-118.2
Computer and information services	70.4	93.4	5.7	7.7	32.6
Other business services	166.6	264.0	13.4	21.6	58.5
Government services	12.2	12.1	1.0	1.0	-0.5
Other	3.4	9.8	0.3	0.8	188.2
Total	**1,239.3**	**1,221.1**	**100.0**	**100.0**	**-1.5**

Table 12. Services exports by major categories

	Volume (EUR m)		Share (%)		Change (%)
	2011	2012	2011	2012	2012/2011
Transport	1,552.8	1,664.0	39.8	39.2	7.2
transport of goods	693.8	794.9	17.8	18.7	14.6
transport of passengers	306.7	286.4	7.9	6.8	-6.6
other transport services	552.5	582.7	14.2	13.7	5.5
Travel	897.3	949.7	23.0	22.4	5.8
Construction services	237.9	247.5	6.1	5.8	4.0
Computer and information services	173.8	215.6	4.5	5.1	24.1
Other business services	739.6	856.6	19.0	20.2	15.8
Government services	35.7	38.5	0.9	0.9	7.8
Other	262.6	270.2	6.7	6.4	2.9
Total	**3,899.7**	**4,242.2**	**100.0**	**100.0**	**8.8**

for 20%. The latter include trade services, operational lease, legal assistance, accounting, management consulting, scientific and technical services and other professional services. Exports of services grew for the most part. The fastest growth was in computer and information services, which saw exports increase fourfold over the year. Other business services exports increased by 16%, travel services exports by 6% and transport services exports by 7%. The only falls were in communication and insurance services and copyright and licensing fees, which have lower turnover.

Two thirds of sales of services went to EU member states, where sales grew by 3% (see Table 13). By far the most important buyer of services from Estonia was Finland, which took one quarter of the exports of services. The volume of exports to Finland remained at the level of 2011. The structure of exports to Finland remained almost the same as a year before, with travel services making up 38%, transport services 29%, other business services 17% and construction services 12%. Exports of services to the CIS, primarily Russia, grew by 15% and accounted for 15% of total exports. Around half of the services sold to Russia were transport services, followed by travel services with 28% and other business services with 15%. Services exports to the other countries increased by about one third, making up 19% of total exports, with low-tax regions, Switzerland and the USA prominent. Exports to offshore regions were primarily made up of transport services and also to a smaller extent of computer and information services. Exports to the United States almost consisted mainly of transport, computer and other business services.

Table 13. Services exports by groups of countries

	Volume (EUR m)		Share (%)		Change (%)
	2011	2012	2011	2012	2012/2011
EU-27	**2,753.9**	**2,833.7**	**70.6**	**66.8**	**2.9**
Finland	1,085.5	1,079.7	27.8	25.5	-0.5
Sweden	329.5	330.9	8.5	7.8	0.4
Latvia	229.8	255.3	5.9	6.0	11.1
Germany	165.3	204.0	4.2	4.8	23.4
CIS	**536.5**	**615.0**	**13.8**	**14.5**	**14.6**
Russia	416.5	478.0	10.7	11.3	14.8
Kazakhstan	51.7	58.3	1.3	1.4	12.8
Ukraine	29.5	33.1	0.8	0.8	12.5
Other	**609.2**	**793.5**	**15.6**	**18.7**	**30.3**
offshore regions	184.5	231.4	4.7	5.5	25.4
Switzerland	129.1	159.8	3.3	3.8	23.8
USA	87.4	158.2	2.2	3.7	81.0
Total	**3,899.7**	**4,242.2**	**100.0**	**100.0**	**8.8**

Services imports grew 14% year-on-year, to stand at 3 billion euros (see Table 14). Transport services accounted for 38% of services imports, while travel services and business services accounted for 20% each. The main driver of the growth in services imports was transport services, which increased by 22%, largely due to the costs associated with bringing ever-larger volumes of imported goods to the country. The fastest growth was, however, seen by construction services bought from abroad, which increased by almost half. Construction services were mainly bought from France and Germany and, as already mentioned, were largely in connection with the renovation work in the energy sector. Computer and information services also grew at a faster rate, 18%, than earlier.

Table 14. Services imports by major categories

	Volume (EUR m)		Share (%)		Change (%)
	2011	2012	2011	2012	2012/2011
Transport	943.9	1,150.6	35.5	38.1	21.9
transport of goods	633.5	798.8	23.8	26.4	26.1
transport of passengers	95.6	127.0	3.6	4.2	32.8
other transport services	214.8	224.9	8.1	7.4	4.7
Travel	578.5	610.3	21.7	20.2	5.5
Construction services	178.9	258.2	6.7	8.5	44.3
Computer and information services	103.4	122.2	3.9	4.0	18.2
Other business services	573.1	592.6	21.5	19.6	3.4
Government services	23.6	26.4	0.9	0.9	11.9
Other	259.1	260.4	9.7	8.6	0.5
Total	**2,660.4**	**3,020.8**	**100.0**	**100.0**	**13.5**

Like in 2011, 80% of services were bought from EU countries in 2012, and the volume of imports from those countries increased by 12 % (see Table 15). The major partner countries in this were Finland, Germany, Sweden and Latvia. Purchases of services from the CIS, principally Russia, rose by 29%, and from other countries by 18%. The main purchases from Finland were travel, transport and other business services; from Germany it was transport and construction services; from Latvia other business services and transport services; from Russia transport and travel services; from Norway travel services; from China transport services; and from the USA various services.

Table 15. Services imports by groups of countries

	Volume (EUR m)		Share (%)		Change (%)
	2011	2012	2011	2012	2012/2011
EU-27	**2,148.2**	**2,399.2**	**80.7**	**79.4**	**11.7**
Finland	426.0	432.3	16.0	14.3	1.5
Germany	268.9	277.0	10.1	9.2	3.0
Sweden	274.4	275.3	10.3	9.1	0.3
Latvia	240.2	262.7	9.0	8.7	9.4
CIS	**171.8**	**220.8**	**6.5**	**7.3**	**28.5**
Russia	130.6	165.9	4.9	5.5	27.0
Ukraine	15.7	26.5	0.6	0.9	68.8
Belarus	19.3	18.8	0.7	0.6	-2.6
Other	**340.4**	**400.8**	**12.8**	**13.3**	**17.7**
Norway	68.5	66.0	2.6	2.2	-3.6
China	48.1	59.6	1.8	2.0	23.9
USA	55.8	56.4	2.1	1.9	1.1
Total	**2,660.4**	**3,020.8**	**100.0**	**100.0**	**13.5**

The surplus on **transport services**, which is one of the most important service types in the Estonian balance of payments' services account, was 16% lower in 2012 than in 2011 at 513 million euros (see Table 11 and Figures 5 and 6). The surplus mostly fell in the transport of goods and passengers and the usual surplus in transport of goods was replaced by a small deficit in 2012. The main contributor to the surplus in transport services was provided by other transport services, such as storage, packaging, navigation fees and rescue, which accounted for 70% of the surplus in transport services. Analysis of transport services across different types of transport shows that maritime and rail transport contributed roughly equally to the surplus with 260–270 million euros, while road transport contributed about half as much. Air transport was in deficit by 153 million euros, double the amount of the previous year.

Exports of transport services grew 7% year-on-year, to stand at almost 1.7 billion euros (see Table 12). Freight transport comprised 48% of the exports of transport services, followed by other transport services

Figure 5. Transport services

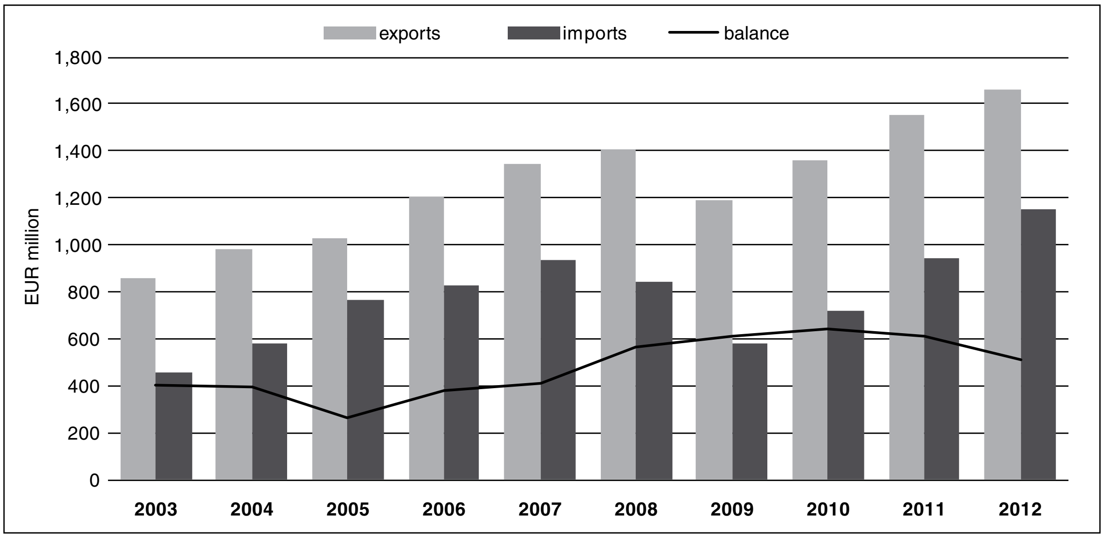
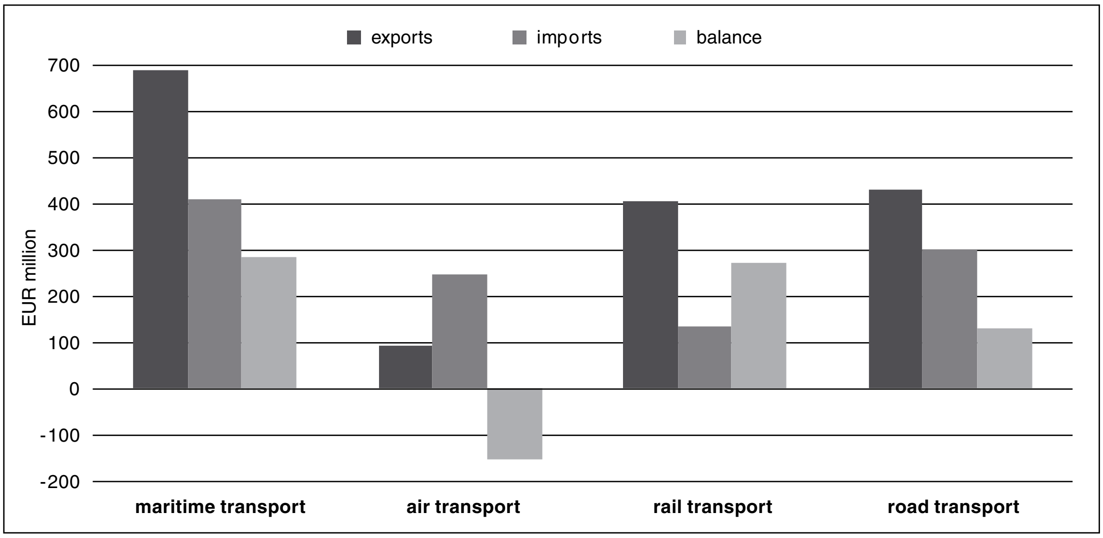


Figure 6. Transport services structure in 2012 by transport type



at 35% and passenger transport at 17%. Exports of freight transport increased by 15% over the year and exports of other transport services increased by 6%, while exports of passenger transport fell by 7%. Across different types of transport, the largest increase in exports of transport services, by 14%, was in maritime transport, while rail and road transport increased by 5–7%. Air transport services fell by 16%, primarily due to a drop of one third in passenger transport. Air freight and other transport services remained at around their levels of the previous year. The growth in exports of maritime and road transport services was mainly in freight, and also in road passenger transport. European Union countries took 61% of exports of transport services, 15% went to the CIS countries, primarily Russia, and 24% to other countries (see Table 16). Exports to the EU grew by 3%, while those to other countries, particularly offshore regions and Switzerland, grew by one third. The two principal purchasers of Estonian transport services were Estonia's neighbours, Finland and Russia.

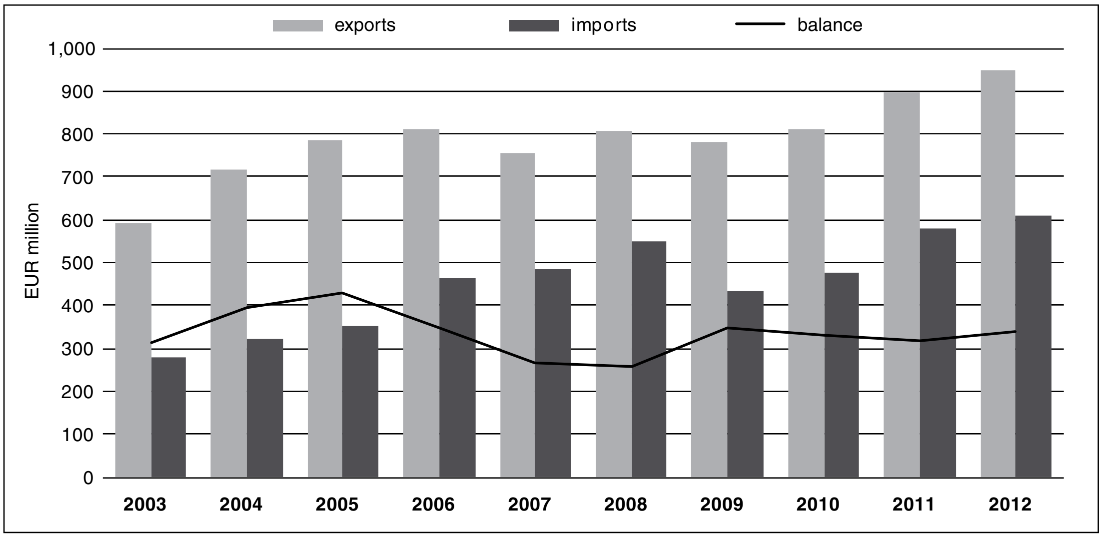
Table 16. Transport services by groups of countries in 2012

	Exports				Imports		
	Volume (EUR m)	Share (%)	Change (%), 2012/2011		Volume (EUR m)	Share (%)	Change (%), 2012/2011
EU-27	**1,008.9**	**60.6**	**2.8**	**EU-27**	**886.0**	**77.0**	**20.9**
Finland	310.0	16.8	-0.6	Sweden	129.1	11.2	21.6
Sweden	144.9	7.0	9.8	Finland	122.5	10.6	15.7
Latvia	96.0	6.8	28.5	Germany	114.1	9.9	12.7
United Kingdom	83.8	4.0	15.2	Latvia	81.5	7.1	2.6
Netherlands	76.9	3.4	-21.2	Lithuania	64.7	5.6	8.0
CIS	**256.0**	**15.4**	**-5.7**	**CIS**	**101.5**	**8.8**	**44.0**
Russia	227.5	13.7	2.0	Russia	75.8	6.6	56.2
Ukraine	9.1	0.5	-20.6	Belarus	11.6	1.0	-10.2
Other	**399.0**	**24.0**	**33.1**	**Other**	**163.1**	**14.2**	**16.0**
offshore regions	153.8	9.2	24.1	China	50.9	4.4	18.9
Switzerland	121.5	7.3	44.8	offshore regions	30.3	2.6	36.3
USA	40.4	5.7	38.8	Norway	17.6	1.5	28.6
Total	**1,664.0**	**100.0**	**7.2**	**Total**	**1,150.6**	**100.0**	**21.9**

Imports of transport services increased by 20% to almost 1.2 billion euros (see Table 14). Freight transport accounted for almost 70% of the imports of transport services, and increased in volume by 26% during the year. The growth was largely caused by the cost of transport for bringing the record imports of goods to the country. The share of other transport services in imports of transport services was 20% and that of passenger transport was 11%. Imports of passenger transport increased by one third and imports of other transport services by 5%. The fastest growth in imports of transport services was in rail transport, which rose by 34%, followed by air, maritime and road transport at 23-26%. The EU supplied the largest share of the goods that were imported to Estonia, and this explains why its share of imports of transport services is so high at 77%, increasing by one fifth during the year. Purchases of transport services from the CIS grew by almost half, mainly from Russia. Sweden and Finland held the lead position in transport services imports with 11% each of the total volume, followed by Germany, Latvia, Lithuania and Russia.

The exports of **travel services** totalled almost 950 million euros in 2012, which is 6% more than in 2011 (see Figure 7). The imports of travel services grew by the same amount from 2011 and amounted to 610 million euros. The surplus on travel services was 339 million euros, or 2% of GDP.

Figure 7. Travel services



In 2012, 5.3 million visits were made to Estonia, which is about the same as in 2011. Visitors from the European Union made up 76% of this number, and their total was 6.4% less than in the previous year. Finland, the largest partner in this, supplied 3% fewer visitors, while the largest falls in visitor numbers were among those from the UK and Poland, down by 27%, and from Sweden and Italy, down by 20%. At the same time, the number of visitors from Russia rose by 31%, while the number coming from the USA increased by a factor of 2.2, largely through cruise ship passengers.

Despite the slight fall in visitor numbers, Finland remained the largest export partner for travel services with 43% of the total in financial terms, followed by Russia with 14%. Germany moved up into third place with 6%, just ahead of Sweden (see Table 17). The share of travel services going to the EU fell over the year from 80% to 75%, while the share of the CIS rose from 12% to 15%.

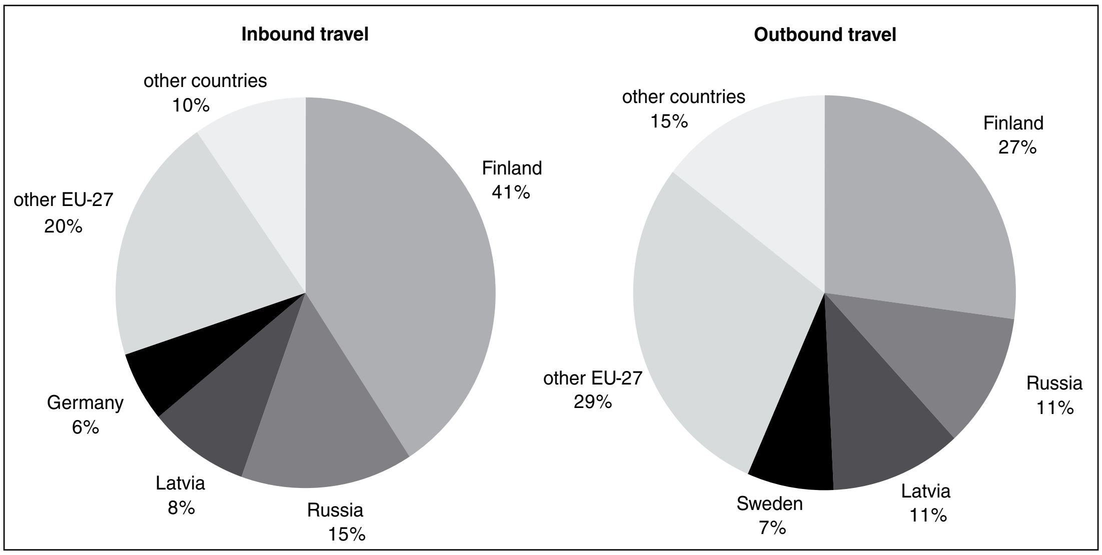
Table 17. Travel services by groups of countries in 2012

	Exports				Imports		
	Volume (EUR m)	Share (%)	Change (%), 2012/2011		Volume (EUR m)	Share (%)	Change (%), 2012/2011
EU-27	**714.1**	**75.2**	**-0.9**	**EU-27**	**433.6**	**71.0**	**-0.3**
Finland	409.3	43.1	-0.9	Finland	153.1	25.1	-12.0
Germany	58.7	6.2	20.0	Latvia	37.4	6.1	16.6
Sweden	57.0	6.0	-17.5	United Kingdom	33.9	5.6	-2.4
Latvia	37.8	4.0	-5.6	Germany	33.8	5.5	9.6
CIS	**143.6**	**15.1**	**30.0**	**CIS**	**51.6**	**8.5**	**5.3**
Russia	134.9	14.2	29.6	Russia	43.2	7.1	1.7
Ukraine	4.6	0.5	24.3	Ukraine	3.9	0.6	31.5
Other	**91.9**	**9.7**	**35.1**	**Other**	**125.1**	**20.5**	**23.4**
USA	27.3	2.9	93.9	Norway	27.9	4.6	19.2
Norway	21.1	2.2	19.9	Turkey	18.4	3.0	18.1
Canada	5.6	0.6	34.6	USA	13.8	2.3	24.9
Total	**949.6**	**100.0**	**5.8**	**Total**	**610.3**	**100.0**	**5.5**

Estonian residents' trips to foreign countries totalled more than 3.8 million in 2012, which is 2% more than in 2011. Neighbouring countries hosted 57% of the foreign trips, with 27% going to Finland, 11% each to Latvia and Russia, and 7% to Sweden (see Figure 8). A large number of these trips continued on into other countries. Single night stays accounted for 30% of the trips abroad. While the number of trips to neighbouring countries increased, the number of visits to Russia fell by 29%, with the number of day-trips falling even more. Among the main holiday destinations, France saw 24% more visitors than in the previous year, Italy 25% more and Spain 21% more.

Although there were more trips to EU countries in 2012 than in 2011, the amount of money spent there was lower. The main impact of this decline in imports of travel services was felt in Finland, which saw a fall of 12%.

Figure 8. International travel statistics by countries in 2012



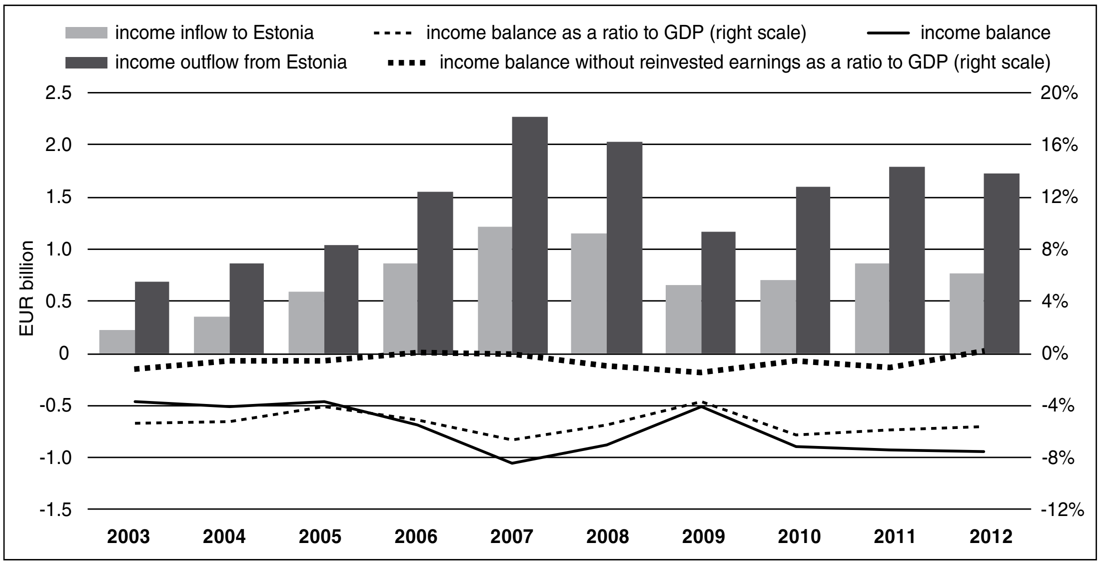
Income

The net outflow of income grew by 2% in 2012 to 950 million euros, or 5.6% of GDP (see Table 18 and Figure 9). Both the income earned by Estonian residents abroad and the income earned by non-residents in Estonia fell. A distinctive feature of the Estonian balance of payments is the high share in the net outflow of income of reinvested earnings, which is a book value. This was the case in 2012, where the net outflow of reinvested earnings was larger than the net outflow from the total income account. Reinvested earnings excluded, the income account actually saw a net inflow of income of 0.2% of GDP.

Table 18. Income

	Inflow		Outflow		Balance	
	Volume (EUR m)	Change from previous period (%)	Volume (EUR m)	Change from previous period (%)	Volume (EUR m)	Change from previous period (%)
2003	229.1	6.3	691.9	23.5	-462.8	34.3
2004	350.7	53.1	859.7	24.3	-509.0	10.0
2005	589.6	68.1	1,045.0	21.6	-455.4	-10.5
2006	866.4	46.9	1,554.3	48.7	-687.9	51.1
2007	1,210.3	39.7	2,269.2	46.0	-1,058.9	53.9
2008	1,142.3	-5.6	2,026.1	-10.7	-883.8	-16.5
2009	657.8	-42.4	1,163.7	-42.6	-505.9	-42.8
2010	703.3	6.9	1,596.9	37.2	-893.6	76.6
2011	861.6	22.5	1,794.2	12.4	-932.6	4.4
2012	772.2	-10.4	1,721.8	-4.0	-949.6	1.8

Figure 9. Income account



Of the two main components of income, labour income recorded a net inflow of 202 million euros, while investment income posted a net outflow of 1.2 billion euros (see Table 19). As it became more common for residents to work abroad, the net inflow of labour income increased over the year by 6% and the net outflow of investment income by 3%. In the net outflow of investment income (income

Table 19. Structure of income account

	Balance (EUR m)		Share (%)		Change (%)
	2011	2012	2011	2012	2012/2011
Labour income	189.5	201.6	-20.3	-21.2	6.4
Investment income	-1,122.1	-1,151.1	120.3	121.2	2.6
Income on direct investment	-1,106.9	-1,157.3	118.7	121.9	4.6
income on equity	-1,100.9	-1,166.5	118.0	122.9	6.0
dividends	-339.7	-178.4	36.4	18.8	-47.5
reinvested earnings	-761.3	-988.1	81.6	104.1	29.8
income on debt (interests)	-6.0	9.2	0.6	-1.0	-254.0
Income on portfolio investment	94.1	64.2	-10.1	-6.8	-31.7
Income on other investment	-109.3	-58.0	11.7	6.1	-46.9
Total	**-932.6**	**-949.5**	**100.0**	**100.0**	**1.8**

on direct, portfolio and other investment), 988 million euros or 86% consisted of reinvested earnings. The net outflow of income from direct investment was 1.2 billion euros and the net outflow of interest income from other investments in loans and deposits was 58 million euros. The portfolio investment inflow was 64 million euros bigger than outflow.

The inflow of income from labour and capital income earned abroad by residents dropped by 10% over the year to 772 million euros (see Table 20). EU countries provided 87% of the income inflow (see Table 21), and this volume saw a drop of 16% over the year. The drop mainly happened in Lithuania, Finland and Sweden. The inflow of income from the CIS and other countries was much more modest in volume but grew faster, with income earned from CIS countries more than doubling over the year. One third of the inflow of income was labour income, which rose by 7% during the year to 266 million euros. Estonian residents earned income mainly in Finland (47% of the total labour income inflow), and also in Sweden, the United Kingdom and the United States (7–8% each), Germany, the European Commission and Norway (3–5%). Labour income from Russia rose 2.4 times year-on-year, while that from the USA rose by 70% and from Norway by 47% and labour income from Sweden fell by almost one fifth.

The largest share of income inflows was accounted for by the 507 million euros of investment income though this fell by 17% in 2012. Direct investment income made up 60% of the investment income inflow, portfolio investment income 22%, and interest income 18%. The fall in the inflow of investment income was above all a consequence of the fall of almost one quarter in the inflow of direct investment

Table 20. Income inflow to Estonia

	Volume (EUR m)		Share (%)		Change (%)
	2011	2012	2011	2012	2012/2011
Labour income	248.0	265.5	28.8	34.4	7.0
Investment income	613.6	506.7	71.2	65.6	-17.4
Income on direct investment	392.7	302.0	45.6	39.1	-23.1
income on equity	333.6	248.6	38.7	32.2	-25.5
dividends	120.2	295.0	14.0	38.2	145.3
reinvested earnings	213.4	-46.4	24.8	-6.0	-121.7
income on debt (interests)	59.1	53.4	6.9	6.9	-9.5
Income on portfolio investment	135.9	114.0	15.8	14.8	-16.2
Income on other investment	85.0	90.7	9.9	11.7	6.7
Total	**861.6**	**772.2**	**100.0**	**100.0**	**-10.4**

Table 21. Income by groups of countries in 2012

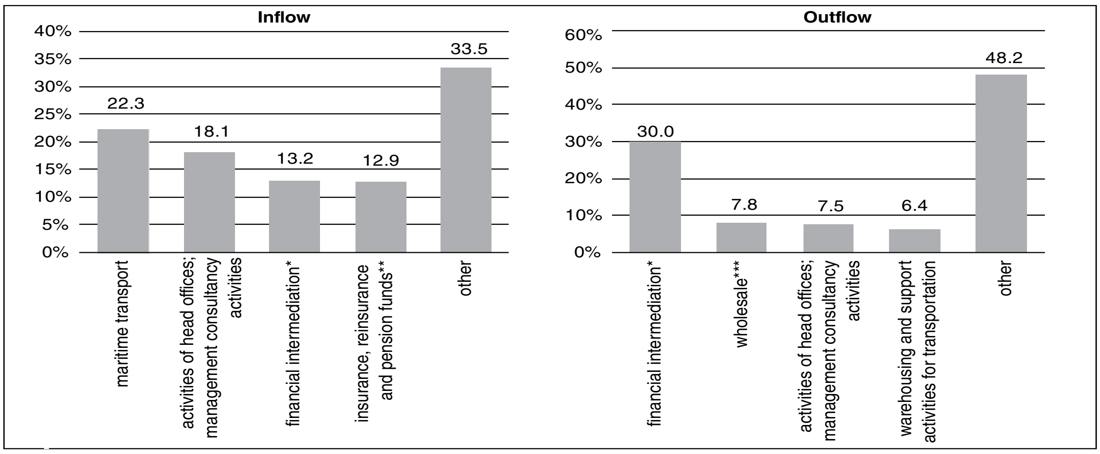
	Inflow				Outflow		
	Volume (EUR m)	Share (%)	Change (%), 2012/2011		Volume (EUR m)	Share (%)	Change (%), 2012/2011
EU-27	**672.6**	**87.1**	**-16.4**	**EU-27**	**-1,494.0**	**86.8**	**-4.6**
Cyprus*	134.8	17.5	25.0	Sweden	-535.5	31.1	-30.4
Finland	105.8	13.7	-27.7	Finland	-329.3	19.1	5.5
Lithuania	103.8	13.4	-47.6	Netherlands	-176.7	10.3	34.7
Sweden	94.7	12.3	-14.8	Lithuania	-120.8	7.0	214.0
CIS	**50.5**	**6.5**	**126.5**	**CIS**	**-70.8**	**4.1**	**0.4**
Russia	25.6	3.3	147.1	Russia	-56.2	3.3	-8.6
Belarus	18.3	2.4	4682.6	Belarus	-6.0	0.3	23.7
Ukraine	4.0	0.5	-30.9	Ukraine	-5.7	0.3	59.6
Other	**49.1**	**6.4**	**40.0**	**Other**	**-157.0**	**9.1**	**-0.3**
USA	24.4	3.2	53.2	Norway	-45.2	2.6	27.8
Norway	8.1	1.0	51.2	USA	-39.1	2.3	2.1
Total	**772.2**	**100.0**	**-10.4**	**Total**	**-1,721.8**	**100.0**	**-4.0**

* Countries are ranked by the absolute value of the last period.

income. Dividends of 295 million euros were drawn from direct investments abroad, leading to a fall in reinvested earnings, while some earnings came from intra-group loans. Foreign equity and bonds brought in 114 million euros of income, which was 16% less than in 2011. Other investment income, or interest income, grew by 7% from 2011 and amounted to 91 million euros.

In 2011 the investors in financial intermediation (excluding insurance and pension funds) ranked first by receiving 34% of the investment income inflow from abroad, but in 2012 investors in maritime transport headed the list (see Figure 10). They received 22% of the inflow of investment income, and their total volume grew by 30% during the year. Income for investors in financial intermediation fell by almost 70% to make up 13% of inflows, due to a structural change in the banking sector. In second place for inflows of investment income were investors in head offices with 18% of the inflow, one fifth less than a year earlier.

Figure 10. Inflow and outflow of investment income by fields of activity in 2012



* Not including insurance and pension funds.
** Not including social insurance.
*** Not including motor vehicles and motorcycles.

Three countries supplied 63% of the investment income inflow: Cyprus with 26%, Latvia with 20% and Lithuania with 20%. The inflow of investment income from Cyprus grew by a quarter, while that from Latvia and particularly Lithuania contracted due to a structural change in the banking sector. The investment income from Cyprus was primarily earned by investors in maritime transport. Of the investment income earned in Lithuania, 46% belonged to investors in head offices, 23% to investors in insurance, and 12% to investors in financial intermediation (excluding insurance and pension funds). The income of the investors in head offices contracted by half, and that of investors in financial intermediation by 80% year-on-year. The investment income from Latvia was earned by investors in various fields. Investors in financial intermediation dominated, though their share of investment income earned in Latvia fell from 61% to 26%, and fell by two thirds. Investors in head offices were in second position with 24% of total income and growth of 22%. Real estate investors and insurance investors each earned 11% of the income, with income from insurance doubling over the year. Other investors who earned income in Latvia were investors in wood processing, wholesale, energy generation, warehousing and information.

Income outflow declined by 4% to 1.7 billion euros (see Table 22). EU countries received 87% of the outflow, as with the inflow, though the fall in the outflow was smaller at 5% from the previous year. In contrast to the inflow, the outflow saw only a small role played labour income at 4% or 64 million euros though this was 9% more than in 2011. The outflow of investment income was almost 1.7 billion euros, which was 5% less than a year before. In Estonia, labour income was primarily earned by Finnish, Latvian and Russian residents.

Table 22. Income outflow from Estonia

	Volume (EUR m)		Share (%)		Change (%)
	2011	2012	2011	2012	2012/2011
Labour income	-58.6	-63.9	3.3	3.7	9.2
Investment income	-1,735.7	-1,657.8	96.7	96.3	-4.5
Income on direct investment	-1,499.5	-1,459.4	83.6	84.8	-2.7
income on equity	-1,434.5	-1,415.1	80.0	82.2	-1.4
dividends	-459.9	-473.4	25.6	27.5	2.9
reinvested earnings	-974.6	-941.8	54.3	54.7	-3.4
income on debt (interests)	-65.0	-44.3	3.6	2.6	-31.9
Income on portfolio investment	-41.9	-49.7	2.3	2.9	18.8
Income on other investment	-194.3	-148.7	10.8	8.6	-23.5
Total	**-1,794.2**	**-1,721.8**	**100.0**	**100.0**	**-4.0**

As in 2011, the lion's share of the investment income outflow in 2012 came from direct investment income with 88% or 1.7 billion euros, followed by interest income with 9% and portfolio investment income with 3%. Year-on-year, the outflow of direct investment income fell by 3% and interest income by around 25%, while portfolio investment income went up by one fifth. The structure of the outflow of direct investment income was exactly the same as in 2011, with reinvested income at 942 million euros accounting for 65% of the outflow, 473 million euros of dividends accounting for 32%, and interest payments on loans between direct investment companies accounting for the other 44 million euros or 3%. The outflow of dividend income increased by 3%, reinvested income fell by the same amount, and interest income fell by one third. Reinvested earnings are a book value where no actual cash transactions happen. They are considered as a direct investment in Estonia and are recorded in the financial account of the balance of payments under direct investment inflow.

Foreign investors earned income from Estonia in very many different fields. In leading position was financial intermediation (excluding insurance and pension funds), which provided 16% of the investment income outflow, followed by wholesale and the activities of head offices with 8% each, then warehousing and support activities for transportation, and real estate, each with 6% (see Figure 10). The income on investment in financial intermediation, activities of head offices, and warehousing and support activities for transportation shrank during the year, while investment income outflows from textile production tripled, those from retail doubled, flows from leasing and insurance went up by half, and those from wholesale by 10%.

Almost two thirds of the investment income earned in Estonia went to three countries: Sweden taking 32% (44% in 2011), Finland 19% and the Netherlands 11%. The investment income outflow to Sweden fell by 30%, mainly in relation to the structural change in the banking sector. Outflows of investment income to Finland increased by 7%, to the Netherlands by 35%, and to Lithuania by 300%. As they had in 2011, Swedish investors earned 57% of their income in Estonia in 2012 in financial intermediation (excluding insurance and pension funds), but the volume of this fell by one third. Next came investments in head offices with 10%, and production of computers and electronics with 6%, with both of these falling by half. As Finnish residents have invested widely in Estonia, their investment income is earned in a wide range of fields. As with Sweden, investors in financial intermediation ranked first at 14% of the total investment income earned in Estonia, and they too saw the volume fall by one third year-on-year. Next came investors in wholesale at 13%, production of motor vehicles and trailers at 7%, telecommunications at 6% and so forth. Investment income from leasing doubled, and that from retail almost tripled. Investments from the Netherlands were more concentrated, remaining mainly in three areas. Dutch investors earned 42% of their total investment income in Estonia from investment in warehousing and support activities for transportation, 19% from head office activities, and 11% from real estate activities. Income from warehousing and support activities for transportation fell, while income from head office activities tripled.

Current transfers and the capital account

The surplus on the current transfers account increased slightly from 2011 to 259 million euros in 2012 (see Table 23).

Table 23. Current and capital transfers by groups of countries (EUR million)

	Received		Paid		Balance	
	2011	**2012**	**2011**	**2012**	**2011**	**2012**
Current transfers	**610.3**	**633.6**	**356.1**	**374.8**	**254.3**	**258.9**
government transfers	**253.9**	**189.5**	**194.5**	**211.2**	**59.3**	**-21.7**
EU-27	241.8	179.3	177.7	199.5	64.1	-20.2
CIS	3.0	6.4	0.7	1.1	2.2	5.3
other	9.0	3.8	16.1	10.6	-7.0	-6.7
private transfers	**356.5**	**444.1**	**161.5**	**163.6**	**194.9**	**280.5**
EU-27	287.6	353.5	130.5	130.0	157.1	223.5
CIS	44.9	54.8	14.2	15.2	30.7	39.6
other	24.0	35.9	16.9	18.4	7.1	17.4
Capital transfers	**484.6**	**561.9**	**4.3**	**0.1**	**480.3**	**561.8**
government transfers	228.7	322.0	4.3	0.0	224.4	322.0
private transfers	255.9	239.9	0.0	0.1	255.9	239.8
Intangible assets	**192.7**	**32.0**	**3.5**	**12.1**	**189.2**	**19.9**

Current transfers to Estonia totalled 634 million euros, of which 70% went to other sectors and less than one third to the general government. Of the transfers to the general government, 155 million euros or 82% were allocations from EU structural funds, while the rest were mostly tax payments by non-resident employees. Of the incoming current transfers to other sectors, 212 million euros or 48% was from EU structural funds, while transfers from migrants working abroad totalled 47 million euros or 11% of the total. The outflow of current transfers amounted to 375 million euros. The general government accounted for 56% of that, of which 85% or 179 million euros was Estonia's payment into the EU shared funds. As the current transfers received by the general government were smaller than the transfers paid out, the general government balance for 2012 was negative. However, the positive balance of other sectors increased by 44%.

The surplus on capital transfers grew 17% year-on-year and amounted to 562 million euros. The capital transfers into Estonia mainly comprised EU subsidies to the general government and also to other sectors for infrastructure objects.

The sales of CO_2 emission quotas, which are recorded under **intangible assets**, provided Estonia with 32 million euros, which was substantially less than in 2011.

FINANCIAL ACCOUNT

The Estonian economy was again a net lender in 2012 with 290 million euros more going out from the financial account than came in. The business sector with 454 million euros, the government sector with 365 million euros and credit institutions with 130 million euros were net borrowers but the central bank and to a smaller extent households were net lenders, financing the outside world with 1.2 billion euros and 37 million euros respectively. The inflow of direct investment was higher than the outflow, but for portfolio and direct investment the situation was the opposite, with the outflow larger than the inflow. Figures 11 and 12 show the structure of the financial account by categories and maturities.

Figure 11. Changes in the structure of foreign investment capital flows

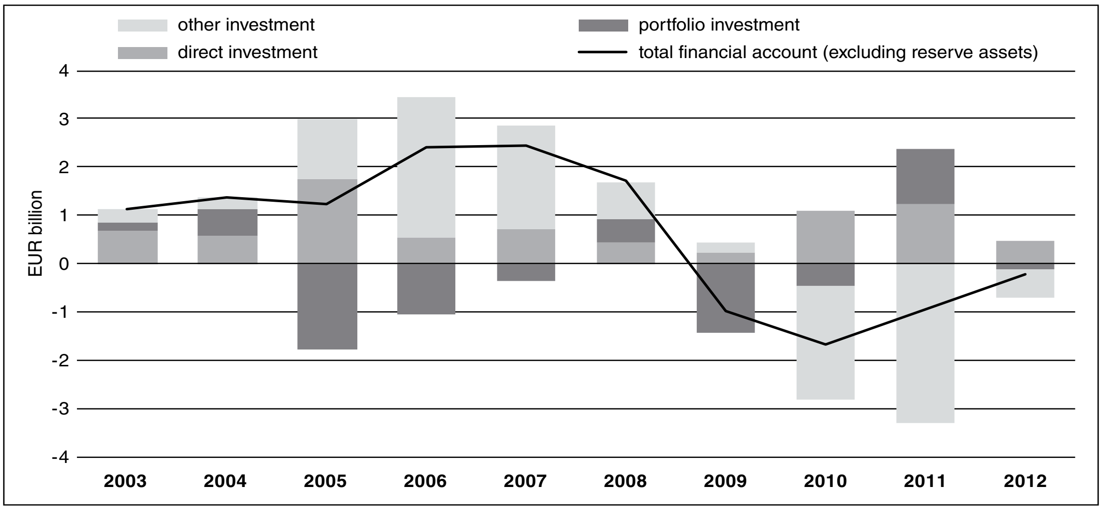
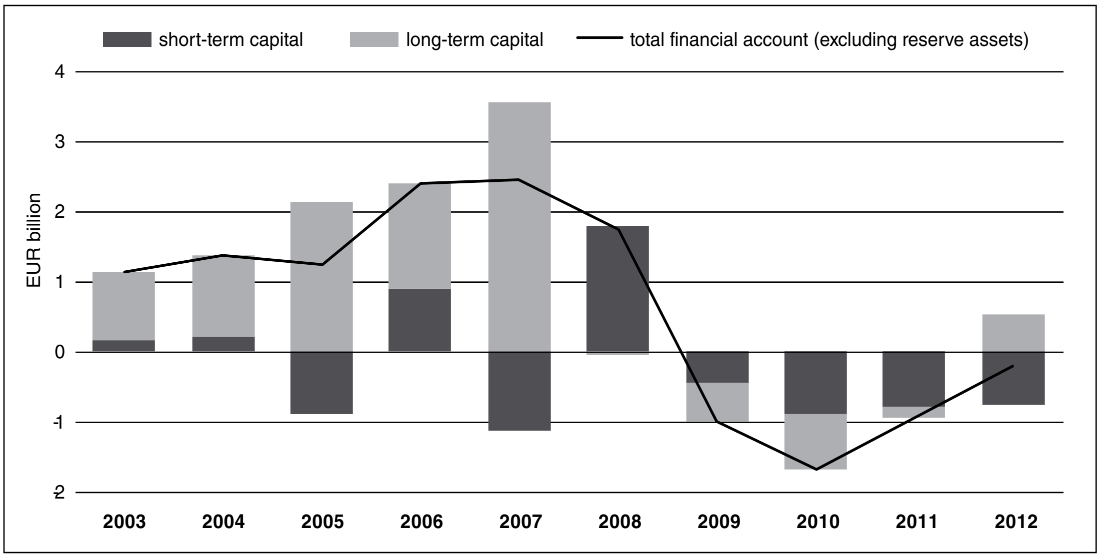


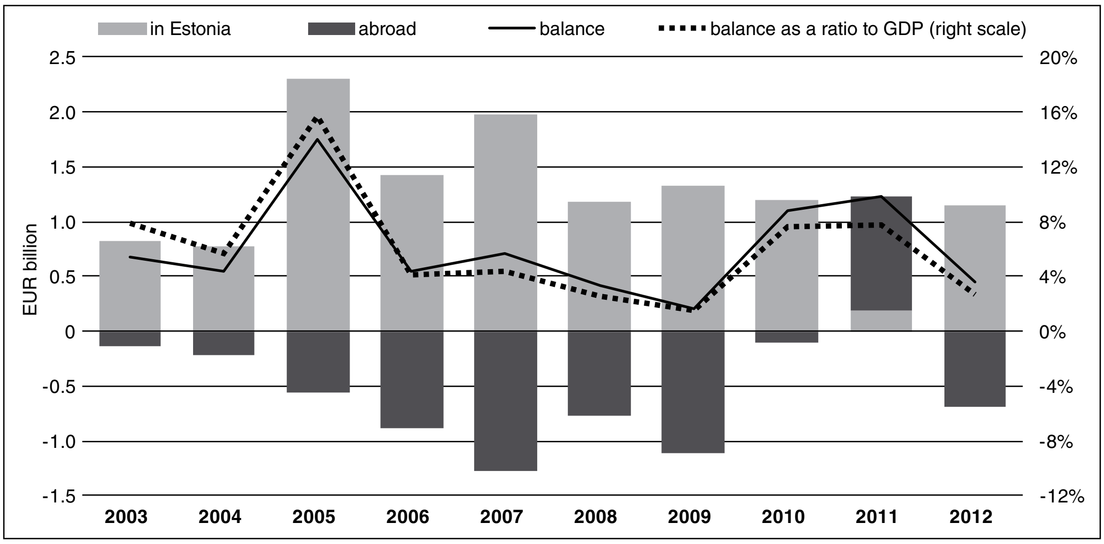
Figure 12. Maturity structure of the financial account



Direct investment

Direct investment had a surplus of 0.5 billion euros in 2012, which is less than half its level of 2011. This amount can be seen as quite normal, as the level for the past couple of years hit record highs due to extraordinary events. Non-residents' direct investment in Estonia in 2012 totalled 1.2 billion and residents' direct investment abroad reached 0.7 billion euros (see Figure 13).

Figure 13. Direct investment



The inflow of **direct investments to Estonia** was six times higher than the record low seen in 2011 and was the same level as the inflows of 2010. The structure of investments showed that almost 80% of direct investment in Estonia by non-residents came in the 942 million euros of reinvested earnings. This amount could have been bigger, but foreign investors chose to withdraw 473 million euros in dividends. Reinvested earnings were 33 million euros or 33% less than in 2011, while distributed income increased by 14 million euros, or 3%. The largest part of this reinvestment of capital in 2012 was done by financial intermediaries (370 million euros), wholesalers (99 million euros) and real estate companies (59 million euros). Direct investors paid 378 million euros into Estonian corporate equity in 2012, of which 222 million went into financial intermediation companies. Equity investments in food production fell by 94 million euros following the buyback of companies from foreign investors. The increase in claims on direct investment companies led to an outflow of 143 million euros from Estonian companies, while the reduction in liabilities, especially short-term loans, resulted in an outflow of 75 million euros (see Tables 24 and 25).

The largest direct investors were Lithuania, Sweden and Finland, while smaller investments came from Norway, the Cayman Islands and Russia (see Figure 14). The inflow of foreign investment funds was largest for financial intermediation companies (see Figure 15). The direct investment of EU countries in Estonia increased by 677 million euros, while investment from non-EU and CIS countries posted its strongest growth of the past ten years (see Table 26).

Direct investment abroad increased by 689 million euros (see Table 27). The largest change was in claims on direct investment companies, which increased by 429 million euros. Estonian investment in

Table 24. Structure of direct investment in Estonia

	Equity capital		Reinvested earnings		Other capital				Total	
					Assets		Liabilities			
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)
2003	340.6	41.4	409.5	49.8	-85.3	-10.4	157.4	19.1	822.2	100.0
2004	296.5	38.5	510.1	66.2	-92.9	-12.1	57.2	7.4	770.8	100.0
2005	1,788.2	77.5	567.9	24.6	-128.7	-5.6	79.9	3.5	2,307.3	100.0
2006	143.1	10.0	1,000.4	69.9	-285.3	-19.9	573.7	40.1	1,431.9	100.0
2007	273.2	13.8	1,366.9	68.9	-417.7	-21.0	762.5	38.4	1,985.0	100.0
2008	195.2	16.5	870.6	73.7	-125.3	-10.6	241.4	20.4	1,181.8	100.0
2009	1,219.1	92.0	408.4	30.8	-50.0	-3.8	-253.0	-19.1	1,324.5	100.0
2010	311.8	25.8	1,013.8	84.0	-231.7	-19.2	113.3	9.4	1,207.3	100.0
2011	-380.9	-205.9	974.6	526.9	-82.3	-44.5	-326.4	-176.5	185.0	100.0
2012	378.1	33.0	941.8	82.3	-178.3	-15.6	2.8	0.2	1,144.4	100.0

Table 25. Loan capital assets and liabilities to foreign direct investors (EUR million)

	Assets					Liabilities				
	Long-term		Short-term		Total	Long-term		Short-term		Total
	Gran-tings	Repay-ments	Gran-tings	Repay-ments	Balance	Drawings	Repay-ments	Drawings	Repay-ments	Balance
2003	26.1	15.7	64.6	31.9	43.1	329.5	170.5	193.1	238.2	113.9
2004	31.5	23.7	113.4	55.1	66.1	294.1	312.0	193.3	140.4	34.9
2005	81.4	32.1	146.4	90.3	105.4	504.2	440.5	320.3	292.4	91.6
2006	135.5	38.9	238.0	165.5	169.1	851.1	392.4	263.3	216.9	505.1
2007	246.7	78.3	510.8	248.6	430.6	1,152.7	586.4	516.5	406.9	675.8
2008	224.3	161.7	576.8	521.8	117.6	876.1	770.2	783.2	600.2	288.9
2009	170.2	131.2	388.4	372.8	54.6	567.3	734.5	631.2	611.5	-147.6
2010	82.2	210.0	769.0	446.2	194.9	742.6	466.7	424.1	653.9	46.1
2011	140.8	62.0	626.4	650.5	54.7	692.8	1,075.9	649.0	688.2	-422.3
2012	90.7	60.7	1,259.6	1,146.5	143.0	420.3	408.2	568.7	655.6	-74.8

Figure 14. Direct investment in Estonia by countries in 2012

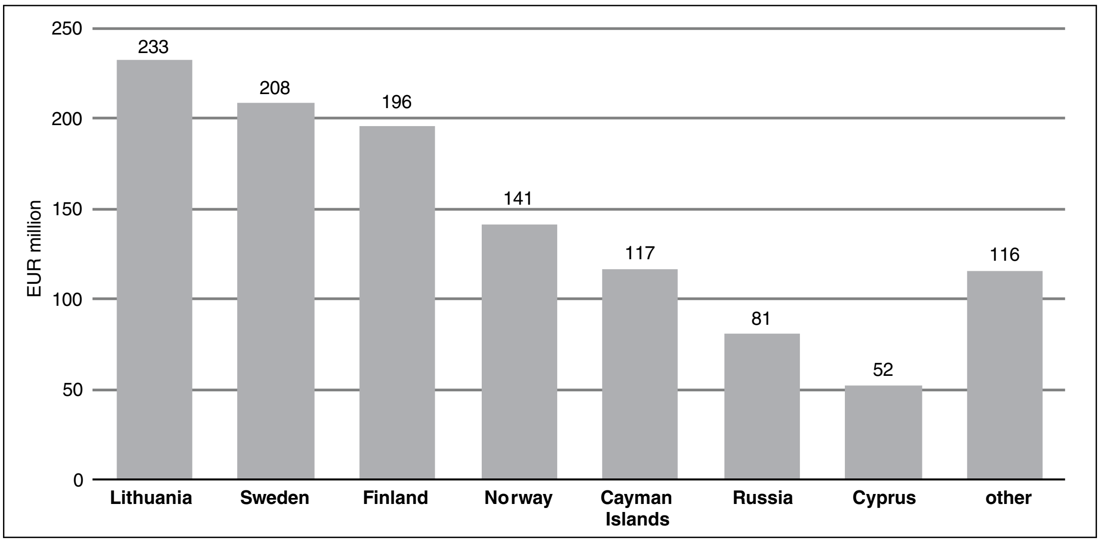


Figure 15. Direct investment in Estonia by fields of activity in 2012

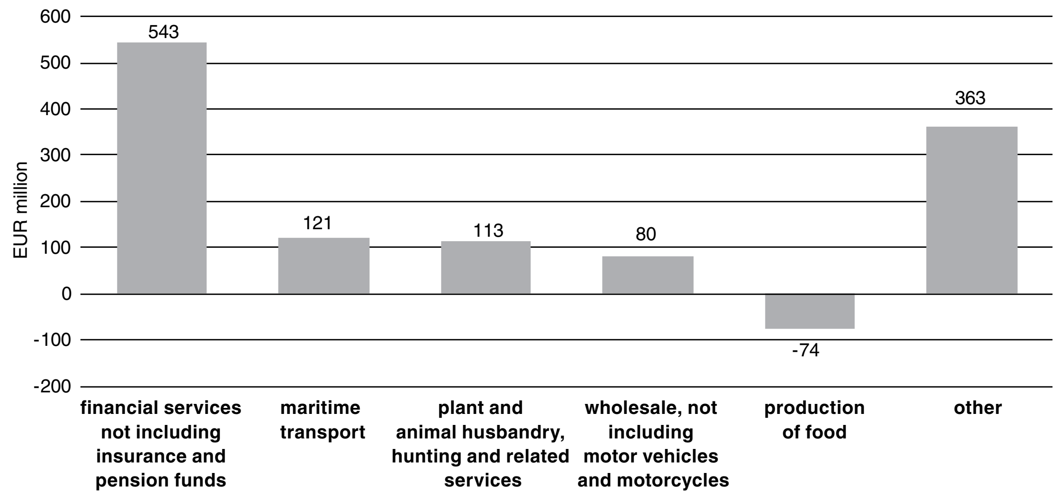


Table 26. Direct investment in Estonia by groups of countries

	Volume (EUR m)		Share (%)		Change (%)
	2011	2012	2011	2012	2012/2011
EU-27	-208.3	676.9	-112.6	59.2	-424.9
CIS	67.2	101.1	36.3	8.8	50.5
Other	326.1	366.4	176.3	32.0	12.4
Total	**185.0**	**1,144.4**	**100.0**	**100.0**	**518.7**

Table 27. Structure of direct investment abroad

	Equity capital		Reinvested earnings		Other capital				Total	
					Assets		Liabilities			
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)
2003	-67.7	49.3	-47.4	34.5	-41.3	30.0	19.0	-13.9	-137.4	100.0
2004	-139.0	64.2	-58.8	27.1	-27.7	12.8	9.0	-4.1	-216.6	100.0
2005	-329.5	59.3	-172.2	31.0	-73.0	13.1	18.7	-3.4	-556.0	100.0
2006	-376.8	42.7	-309.6	35.1	-243.8	27.7	48.6	-5.5	-881.6	100.0
2007	-660.0	51.7	-324.8	25.4	-384.8	30.1	93.1	-7.3	-1,276.5	100.0
2008	-150.7	19.8	-136.7	18.0	-419.7	55.2	-53.0	7.0	-760.2	100.0
2009	-772.0	69.3	-99.0	8.9	-162.9	14.6	-80.0	7.2	-1,113.9	100.0
2010	-78.2	73.0	-196.9	183.8	70.4	-65.7	97.6	-91.1	-107.1	100.0
2011	1,347.9	128.5	-213.4	-20.3	-138.0	-13.2	52.6	5.0	1,049.1	100.0
2012	-246.5	35.8	46.4	-6.7	-428.9	62.2	-60.3	8.7	-689.3	100.0

the shares and equity capital of foreign subsidiaries rose by 247 million euros, with half coming from financial intermediation companies. The reinvested earnings from investments abroad was positive at 46 million euros, which is unusual, following large withdrawals of dividends of 295 million euros. Loans from subsidiaries brought 1 million euros into Estonia (see Table 28).

Table 28. Loan capital assets and liabilities to foreign subsidiaries and associated companies (EUR million)

	Assets					Liabilities				
	Long-term		Short-term		Total	Long-term		Short-term		Total
	Gran-tings	Repay-ments	Gran-tings	Repay-ments	Balance	Drawings	Repay-ments	Drawings	Repay-ments	Balance
2003	70.8	45.8	30.2	32.2	22.9	0.3	0.7	5.4	6.3	-1.4
2004	59.7	78.8	60.9	23.6	18.3	1.1	3.9	1.8	2.4	-3.4
2005	136.9	95.1	109.3	70.8	80.3	7.0	3.9	6.7	1.6	8.2
2006	342.9	151.6	99.9	103.9	187.3	7.6	7.2	9.4	1.3	8.5
2007	408.3	130.8	133.5	95.4	315.5	6.4	7.3	107.3	7.0	99.4
2008	347.1	234.1	185.3	129.0	169.3	16.3	11.8	38.0	75.4	-32.9
2009	397.6	197.5	226.7	158.4	268.4	11.1	5.6	10.0	72.3	-56.9
2010	141.7	170.2	116.9	80.2	8.2	4.5	7.5	35.6	10.4	22.2
2011	211.8	192.2	119.3	90.1	48.9	5.6	5.2	15.8	40.7	-24.5
2012	180.8	126.1	96.5	99.6	51.5	12.6	12.1	12.8	11.9	1.3

The largest increase in investments by Estonian direct investors was in investments in Cyprus, where 647 million euros went, much more than the 76 million that went to Lithuania or the 46 million to Latvia. Direct investments in Finland fell by 61 million euros, and in Sweden by 49 million euros (see Figure 16). The money was taken abroad by investors in maritime transport. Investors in head office activities reduced their investments abroad by 68 million euros (see Figure 17). By groups of countries, 95% of investment went to EU countries, while investment in the CIS and other countries was smaller (see Table 29).

Figure 16. Direct investment abroad by countries in 2012

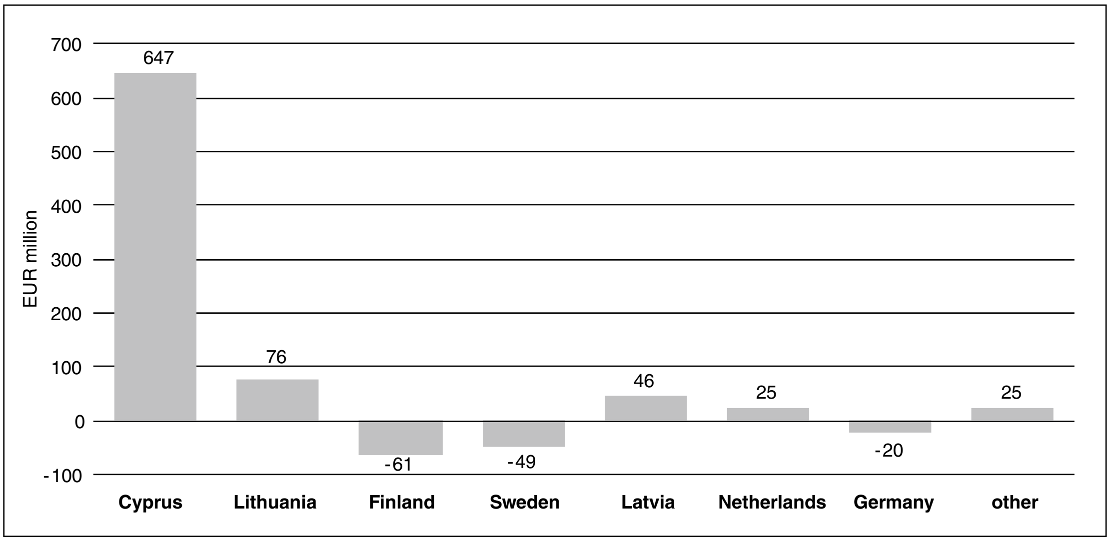


Figure 17. Direct investment abroad by fields of activity in 2012

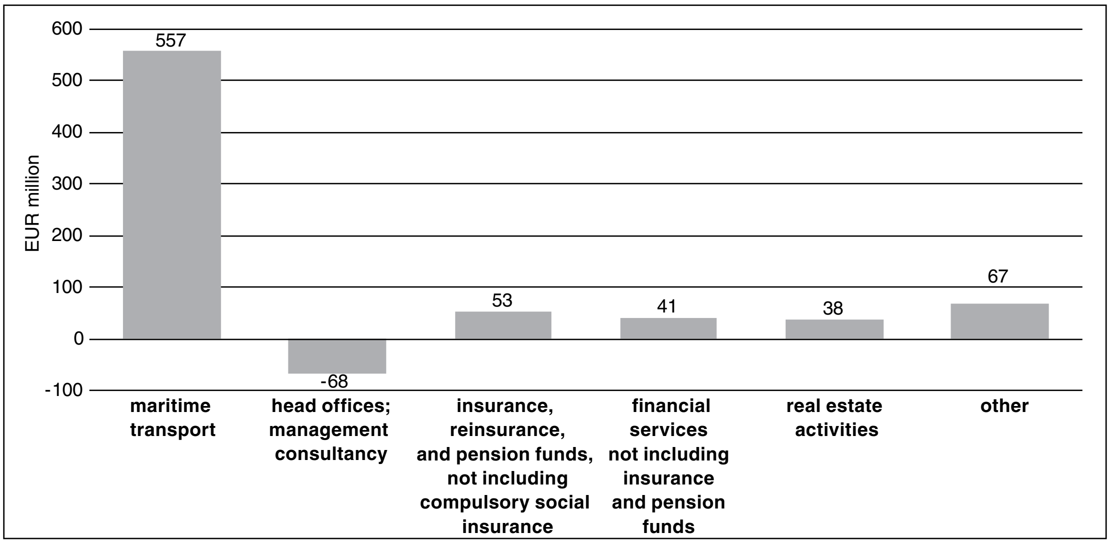


Table 29. Direct investment abroad by groups of countries

	Volume (EUR m)		Share (%)		Change (%)
	2011	2012	2011	2012	2012/2011
EU-27	1,173.1	-656.5	111.8	95.2	-156.0
CIS	-41.6	-19.1	-4.0	2.8	-54.2
Other	-82.4	-13.8	-7.9	2.0	-83.3
Total	**1,049.1**	**-689.3**	**100.0**	**100.0**	**-165.7**

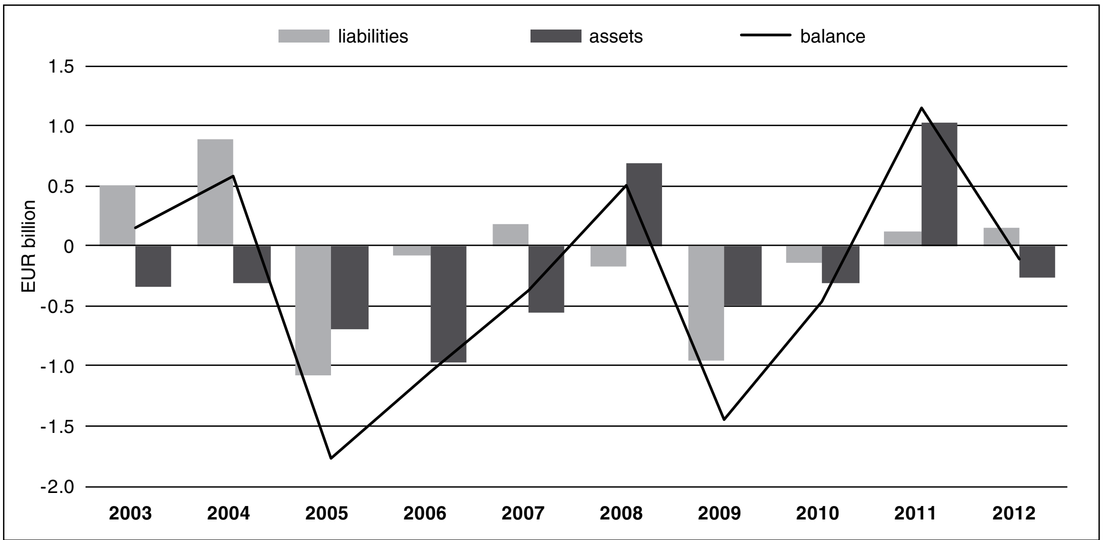
Portfolio investment

The net outflow of portfolio investment was 112 million euros in 2012. The foreign money market investments of other financial intermediaries increased, including the investments of pension funds in foreign equity securities (see Table 30 and Figure 18). The investments of foreign portfolio investors in non-financial companies decreased.

Table 30. Portfolio investment by types of securities and sectors (EUR million)

	Assets		Liabilities		Balance	
	2011	2012	2011	2012	2011	2012
Equity securities	**102.2**	**-159.3**	**-80.5**	**-116.7**	**21.7**	**-276.0**
central bank	-	-15.7	-	-	-	-15.7
general government	-6.9	9.6	-	-	-6.9	9.6
credit institutions	0.1	0.9	-1.7	-4.7	-1.6	-3.8
other sectors	109.0	-154.2	-78.8	-112.0	30.2	-266.2
Debt securities	**929.3**	**-102.8**	**200.8**	**266.6**	**1,130.1**	**163.8**
central bank	639.5	-17.5	-	-	639.5	-17.5
general government	206.9	-6.0	-10.9	-11.2	196.0	-17.2
credit institutions	217.3	-10.4	-0.1	-1.6	217.2	-12.0
other sectors	-134.3	-68.8	211.9	279.3	77.6	210.5
Total	**1,031.5**	**-262.1**	**120.4**	**149.8**	**1,151.9**	**-112.3**

Figure 18. Portfolio investment



Portfolio investment liabilities grew by 150 million euros in 2012 (see Table 31). By institutional sector, only the liabilities of companies in other sectors increased. While these companies reduced their liabilities from equity securities by 112 million euros, their debt-security liabilities increased by a total of 279 million euros. The reduction in equity security liabilities was caused by a fall in the investments of foreign portfolio investors, while the issuance of bonds by non-financial companies increased the debt-security liabilities. The contribution of other sectors in the period was modest. By countries, portfolio investment liabilities to Switzerland increased the most, followed by liabilities to Austria, France and Denmark (see Figure 19 and Table 32).

Portfolio investment assets grew by 262 million euros in the year (see Table 33). Equity security assets grew by 159 million euros, and debt security assets by 103 million euros. The growth in equity security assets was primarily driven by the investments of pension funds in investment and money market funds. In contrast to the previous year, the central bank also invested in equity securities issued in the euro area, increasing its assets by 16 million euros. All institutional sectors

Table 31. Structure of portfolio investment liabilities

	Equity securities		Debt securities		Total	
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)
2003	97.6	19.6	399.8	80.4	497.4	100.0
2004	140.9	15.9	746.0	84.1	887.0	100.0
2005	-1,045.1	96.9	-33.1	3.1	-1,078.2	100.0
2006	238.5	-293.7	-319.7	393.7	-81.2	100.0
2007	225.8	122.6	-41.6	-22.6	184.2	100.0
2008	-212.7	122.0	38.3	-22.0	-174.3	100.0
2009	-93.5	9.7	-868.7	90.3	-962.2	100.0
2010	30.0	-20.6	-175.3	120.6	-145.3	100.0
2011	-80.5	-66.9	200.8	166.8	120.4	100.0
2012	-116.7	-77.9	266.6	178.0	149.8	100.0

Figure 19. Increase in portfolio investment liabilities by countries in 2012

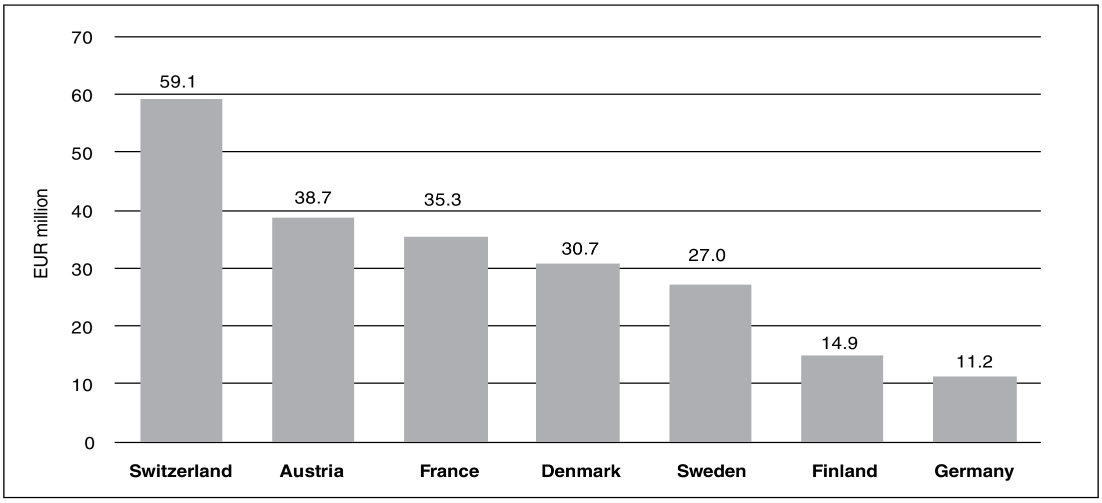


Table 32. Structure of portfolio investment by groups of countries

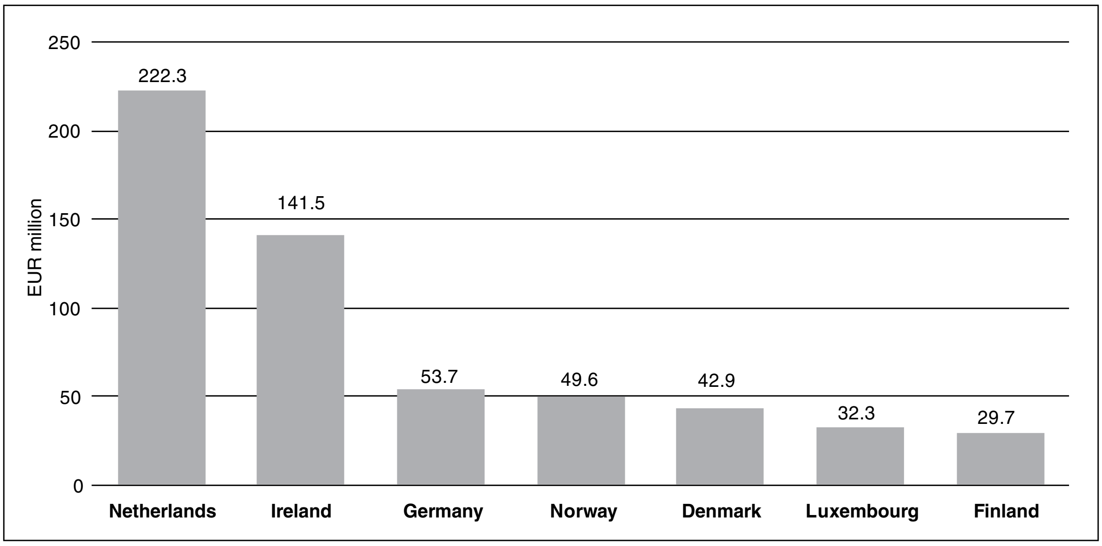
	Volume (EUR m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2011	2012	2011	2012	2011	2012	2011	2012
EU-27	1,025.8	-248.8	151.0	92.1	99.4	94.9	125.4	61.5
CIS	32.5	8.8	-0.7	-2.3	3.2	-3.4	-0.6	-1.5
Other	-26.8	-22.1	-29.9	60.0	-2.6	8.4	-24.8	40.1
Total	**1,031.5**	**-262.1**	**120.4**	**149.8**	**100.0**	**100.0**	**100.0**	**100.0**

Table 33. Structure of portfolio investment assets

	Equity securities		Debt securities		Total	
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)
2003	-65.8	19.2	-276.3	80.8	-342.0	100.0
2004	-184.9	60.6	-120.3	39.4	-305.2	100.0
2005	-309.9	44.8	-381.5	55.2	-691.4	100.0
2006	-292.0	30.0	-682.5	70.0	-974.5	100.0
2007	-491.4	89.0	-60.8	11.0	-552.2	100.0
2008	261.8	38.5	418.8	61.5	680.5	100.0
2009	-49.6	10.1	-439.9	89.9	-489.5	100.0
2010	-303.8	95.9	-13.0	4.1	-316.8	100.0
2011	102.2	9.9	929.3	90.1	1,031.5	100.0
2012	-159.3	60.8	-102.8	39.2	-262.1	100.0

contributed to the increase in debt security assets. Investments grew particularly for other financial intermediaries, which increased their assets by 66 million euros The central bank increased its assets by 18 million euros and credit institutions by 10 million as a result of investments in bonds. The general government increased its assets by 6 million euros through investments in money markets. By countries, primarily portfolio investment assets picked up to the Netherlands, Ireland, Germany and Norway (see Figure 20).

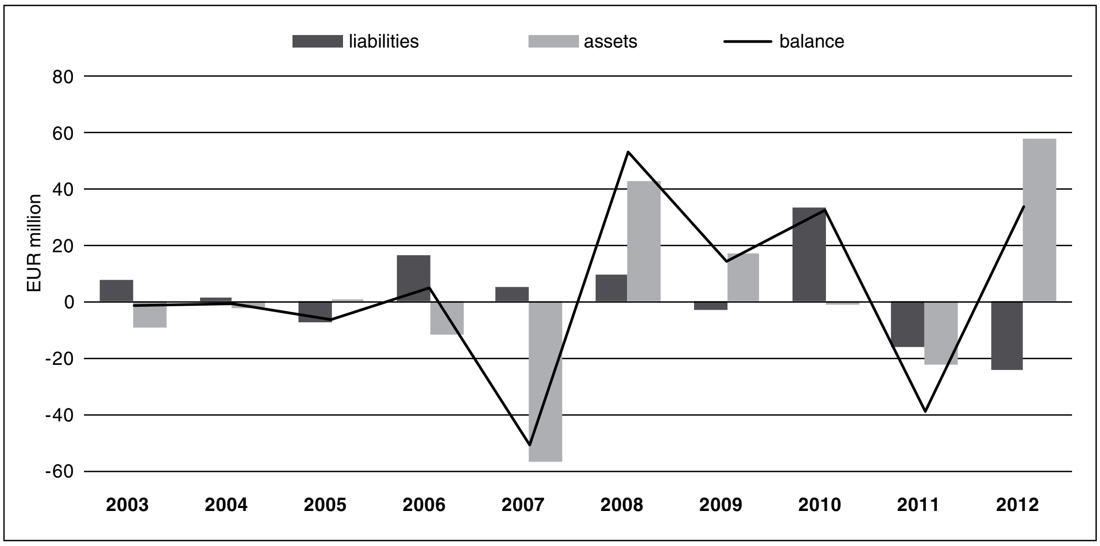
Figure 20. Increase in portfolio investment assets by countries in 2012



Financial derivatives

The **net inflow of financial derivatives** totalled 34 million euros in 2012 (see Figure 21). Assets related to financial derivatives shrank by 58 million euros in 2012, largely owing to an reduction in the investments in financial derivatives of non-financial companies. By countries, assets to Sweden and Denmark diminished the most. Financial derivative liabilities decreased by 24 million euros, also because of non-financial companies. By countries, financial derivative liabilities to Sweden decreased the most.

Figure 21. Financial derivatives



Other investments

The net outflow of other investment totalled 597 million euros in 2012, of which 1.1 billion euros was the outflow of the other investment of the central bank (see Figure 22). Short-term capital also contributed to the net outflow (see Table 34).

Figure 22. Other investment

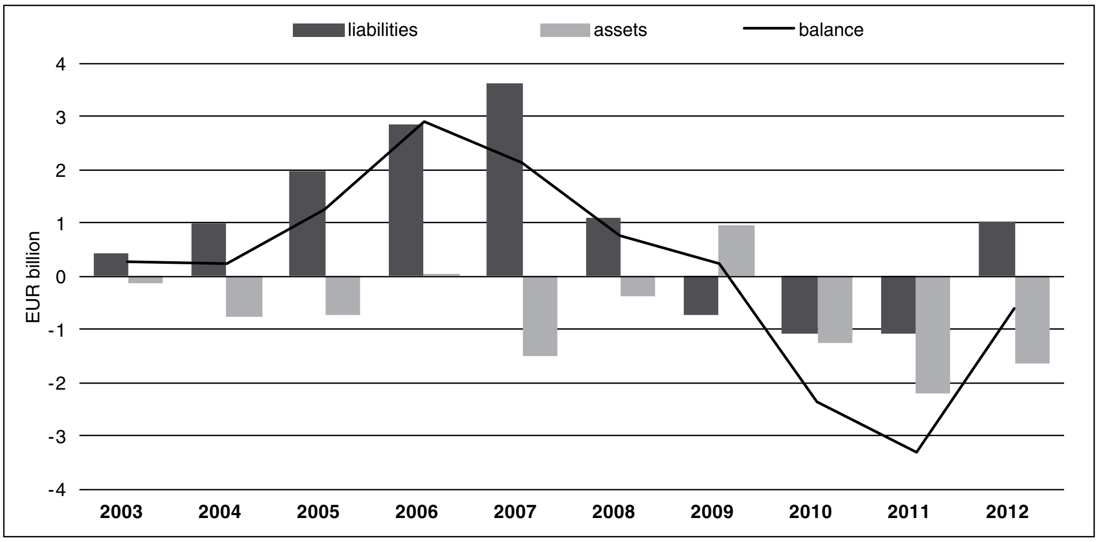


Table 34. Other investment by maturity (EUR million)

	Assets		Liabilities		Balance	
	2011	2012	2011	2012	2011	2012
Long-term capital	**-93.5**	**-435.7**	**-1,190.3**	**429.6**	**-1,283.8**	**-6.1**
central bank	-195.3	8.2	-	-	-195.3	8.2
general government	-11.1	-402.0	-215.4	738.1	-226.5	336.1
credit institutions	32.0	195.1	-978.6	-1,061.4	-946.6	-866.3
other sectors	80.9	-237.0	3.7	752.9	84.6	515.9
Short-term capital	**-2,117.2**	**-1,197.9**	**102.8**	**607.2**	**-2,014.4**	**-590.7**
central bank	-91.7	-1,126.3	-7.3	18.9	-99.0	-1,107.4
general government	-101.6	36.9	4.8	-0.6	-96.8	36.3
credit institutions	-1,359.1	216.3	-214.5	552.7	-1,573.6	769.0
other sectors	-564.8	-324.8	319.8	36.2	-245.0	-288.6
Total	**-2,210.7**	**-1,633.6**	**-1,087.5**	**1,036.8**	**-3,298.2**	**-596.8**

Other investment liabilities grew by 1 billion euros over the year (see Table 35). Of this, 1.4 billion euros was from increased loan liabilities, 76 million was from liabilities related to other capital, and 24 million was in liabilities related to trade credit. Deposit liabilities fell by 509 million euros. The loan liabilities were mainly long-term, with 717 million euros held by the general government and 606 million euros by non-financial companies. The general government's loan liabilities of 385 million euros come from a loan from the European Investment Bank for priority investments co-financed by the European Union. Loan liabilities to the EFSF increased by 341 million euros. As the obligation to redeem the debt to investors officially lies with the EFSF, guarantor countries like Estonia take the

Table 35. Structure of other investment liabilities

	Trade credit		Loans		Deposits		Other capital		Total	
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)
2003	-7.4	-1.7	205.8	47.8	293.2	68.2	-61.4	-14.3	430.2	100.0
2004	40.0	4.0	291.8	29.3	562.7	56.5	101.1	10.2	995.6	100.0
2005	104.4	5.3	1,577.1	80.3	188.8	9.6	92.8	4.7	1,963.1	100.0
2006	203.6	7.1	1,229.2	43.1	1,347.3	47.2	75.0	2.6	2,855.2	100.0
2007	-21.9	-0.6	2,443.3	67.2	1,206.4	33.2	8.3	0.2	3,636.0	100.0
2008	20.0	1.8	70.1	6.3	951.1	85.5	71.6	6.4	1,112.8	100.0
2009	-329.0	45.2	141.8	-19.5	-476.6	65.5	-63.7	8.8	-727.5	100.0
2010	359.5	-33.0	-40.3	3.7	-1,587.7	145.7	179.1	-16.4	-1,089.4	100.0
2011	226.4	-20.8	98.2	-9.0	-1,161.8	106.8	-250.3	23.0	-1,087.6	100.0
2012	23.5	2.3	1,446.2	139.5	-508.8	-49.1	76.0	7.3	1,036.9	100.0

loan obligation to the EFSF as an other investment loan liability of the same amount. Non-financial companies increased their long-term loan liabilities in the fourth quarter in particular. Credit institutions reduced their liabilities related to deposits by 528 million euros. In geographical terms, other investment liabilities to Finland declined most, followed by liabilities to the European Investment Bank, Luxembourg and Latvia (see Figure 23 and Table 36).

Figure 23. Growth in other investment liabilities in 2012

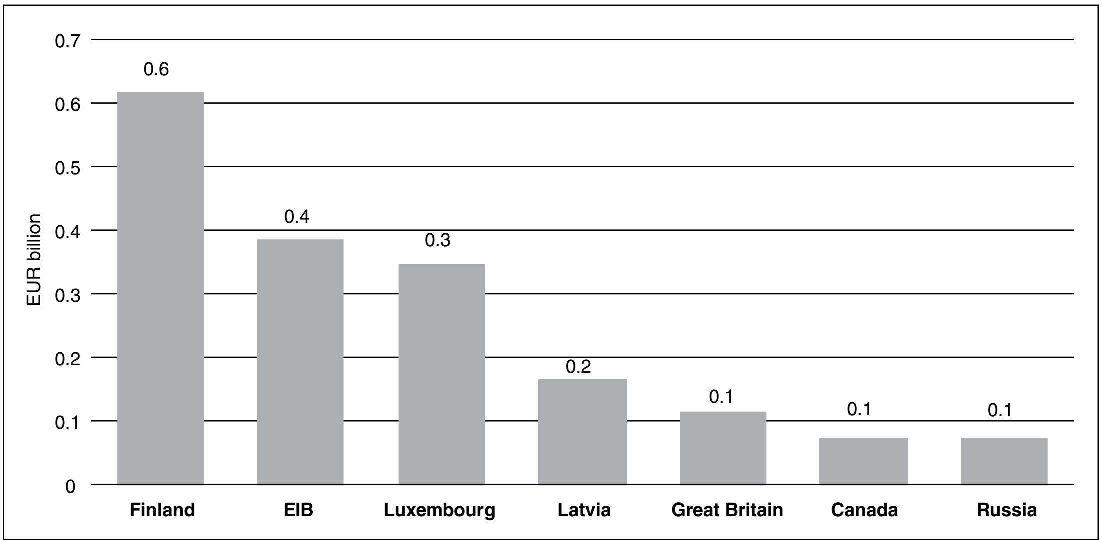


Table 36. Structure of other investment assets by groups of countries

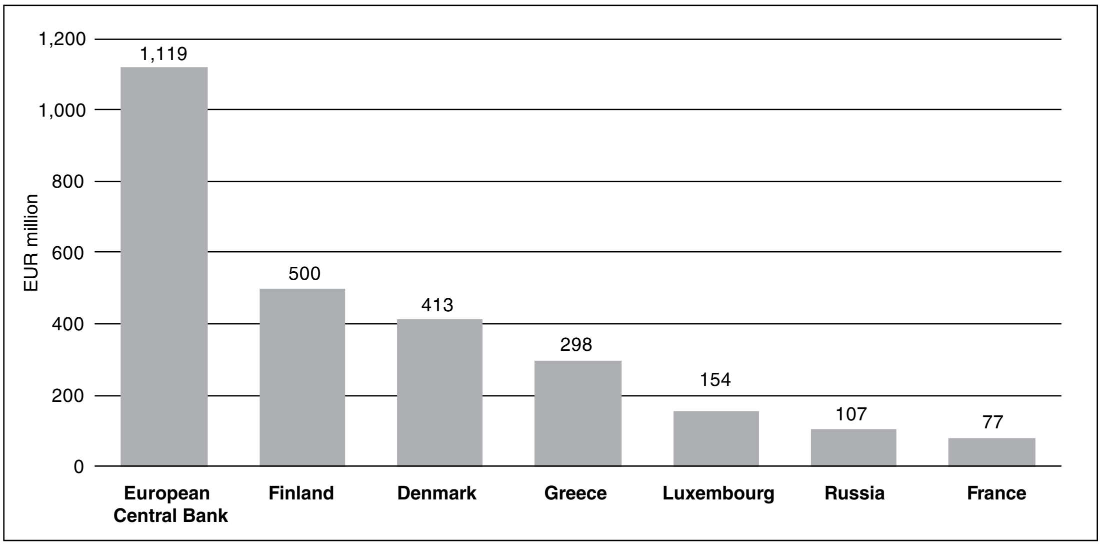
	Volume (EUR m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2011	2012	2011	2012	2011	2012	2011	2012
EU-27	-1,946.8	-1,306.5	-1,876.7	1,010.4	88.1	80.0	172.6	97.4
CIS	-105.3	-75.2	162.1	94.8	4.8	4.6	-14.9	9.1
Other	-158.5	-252.2	627.0	-68.3	7.2	15.4	-57.6	-6.6
Total	**-2,210.6**	**-1,633.9**	**-1,087.6**	**1,036.9**	**100.0**	**100.0**	**100.0**	**100.0**

Other investment assets increased by 1.6 billion euros in 2012 (see Table 37). Deposit assets posted the strongest growth with 813 million euros, followed by assets related to loans, which increased by 512 million euros. Other capital and trade credit assets grew by 159 and 150 billion euros respectively. The growth of 1.1 billion euros in the assets related to deposits at the central bank meant that the financial account was larger than the current account due to transactions within the euro area[2].The growth of 341 million euros in the general government's loan assets comes from the claims arising through the EFSF on countries that have needed help. In geographical terms, investment assets increased most to the European Central Bank, followed by those to Finland, Denmark and Greece (see Figure 24). Table 38 gives a more detailed view of loan capital assets and liabilities.

Table 37. Structure of other investment assets

	Trade credit		Loans		Deposits		Other capital		Total	
	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)	Volume (EUR m)	Share (%)
2003	-65.7	45.0	-225.0	154.1	141.2	-96.7	3.5	-2.4	-146.0	100.0
2004	-66.0	8.8	-540.4	72.0	-98.8	13.2	-45.8	6.1	-750.9	100.0
2005	-125.1	17.6	265.1	-37.2	-788.2	110.7	-64.1	9.0	-712.2	100.0
2006	-225.5	-628.1	-161.8	-450.7	401.6	1,118.7	21.7	60.4	35.9	100.0
2007	-41.0	2.8	-645.0	43.4	-743.0	50.0	-56.2	3.8	-1,485.2	100.0
2008	-110.2	30.3	-128.0	35.2	-44.2	12.2	-81.4	22.4	-363.7	100.0
2009	178.7	18.7	129.9	13.6	697.0	73.0	-50.2	-5.3	955.3	100.0
2010	-350.1	27.7	-260.8	20.6	-485.3	38.4	-167.1	13.2	-1,263.4	100.0
2011	-204.1	9.2	-32.9	1.5	-1,663.9	75.3	-309.7	14.0	-2,210.6	100.0
2012	-150.3	9.2	-512.0	31.3	-812.9	49.8	-158.7	9.7	-1,633.9	100.0

Figure 24. Increase in other investment assets in 2012



[2] Before Estonia joined the euro area, changes in the central bank's liquidity were shown in foreign currency reserves, but after joining changes in the assets and liabilities of the central bank's TARGET account also need to be observed alongside the changes in foreign currency reserves. The increase in assets related to the euro area TARGET accounts indicates increased liquidity for the central bank. In the balance of payments these are recorded as other investment deposit items.

Table 38. Assets and liabilities of loan capital (EUR million)

	Assets			Liabilities		
	Grantings	Repayments	Total	Drawings	Repayments	Total
2003	-2,231.7	2,006.8	-225.0	1,922.2	-1,716.5	205.8
2004	-1,903.5	1,363.1	-540.4	2,904.6	-2,612.8	291.8
2005	-4,956.8	5,221.9	265.1	8,017.0	-6,439.9	1,577.1
2006	-4,858.1	4,696.3	-161.8	11,687.5	-10,458.3	1,229.2
2007	-25,339.9	24,694.8	-645.0	23,266.0	-20,822.7	2,443.3
2008	-3,066.8	2,938.9	-128.0	6,639.7	-6,569.6	70.1
2009	-1,495.5	1,625.4	129.9	3,420.2	-3,278.4	141.8
2010	-1,747.2	1,486.4	-260.8	2,661.3	-2,701.6	-40.3
2011	-1,101.8	1,068.9	-32.9	2,162.5	-2,064.3	98.2
2012	-6,214.8	5,702.7	-512.0	23,467.9	-22,021.7	1,446.2

Reserve assets

The reserve assets increased by 70 million euros in 2012 (see Table 39).

Table 39. Structure of changes in reserve assets

	Volume (EUR m)		Share (%)	
	2011	2012	2011	2012
Gold	-	-	-	-
SDRs	0.0	0.0	0.0	0.0
Reserve position in the IMF	-	-9.0	-	0.0
Currency and deposits	0.0	-21.7	0.0	31.2
Securities	-13.5	-38.9	105.5	56.0
debt securities	-11.9	-46.2	93.0	66.5
money market instruments	-1.5	7.3	11.7	-10.5
Financial derivatives	0.7	0.1	-5.5	-0.1
Other assets	-	-	-	-
Total	**-12.8**	**-69.5**	**100.0**	**100.0**

ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND GROSS EXTERNAL DEBT AS AT 31 DECEMBER 2012

Foreign investment in Estonia totalled 29.2 billion euros (72% more than GDP) at the end of 2012, having increased by 11% from the previous year (see Table 40). There were increases in the direct, portfolio and other investment positions.

Direct investment made up 49% of the structure of the foreign investment position, which was unchanged over the year. Other investments as loans and deposits made up close to 45% and portfolio investments 6%. Foreign investors have invested primarily in financial intermediation (excluding insurance and pension funds), which accounts for 37% of the total position in Estonia, and to a lesser extent in real estate related activities (9%), wholesale trade (6%), head office activities and energy generation (see Table 41). The largest change over the year was a fall of around 4 percentage points in the share of financial intermediation in the total position. Two countries supplied 44% of the foreign investment position in Estonia, with 24% coming from Finland and 20% from Sweden, while the Netherlands, the United Kingdom and Luxembourg each provided 4–6%.

Table 40. Estonia's international investment position (EUR million)

	31/12/2011	Share (%)	31/12/2012	Share (%)	Change (%)
EXTERNAL ASSETS	**17,194.7**	**100.0**	**20,198.4**	**100.0**	**17.5**
Direct investment abroad	**3,663.5**	**21.3**	**4,389.5**	**21.7**	**19.8**
Equity capital and reinvested earnings	2,465.1	14.3	2,718.1	13.5	10.3
Other direct investment capital	1,198.4	7.0	1,671.3	8.3	39.5
Portfolio investment	**4,182.2**	**24.3**	**4,673.1**	**23.1**	**11.7**
Equity securities	1,607.0	9.3	1,916.7	9.5	19.3
Debt securities	2,575.2	15.0	2,756.4	13.6	7.0
Bonds and notes	1,949.9	11.3	2,188.6	10.8	12.2
Money market instruments	625.3	3.6	567.8	2.8	-9.2
Financial derivatives	**68.4**	**0.4**	**69.8**	**0.3**	**2.1**
Other investment	**9,120.2**	**53.0**	**10,837.5**	**53.7**	**18.8**
Trade credit	1,650.5	9.6	1,863.5	9.2	12.9
Loans	1,691.2	9.8	2,238.7	11.1	32.4
Long-term	990.5	5.8	1,583.4	7.8	59.9
Short-term	700.6	4.1	655.3	3.2	-6.5
Currency and deposits	5,110.3	29.7	5,903.2	29.2	15.5
Other assets	668.4	3.9	832.1	4.1	24.5
Reserve assets	**160.4**	**0.9**	**228.5**	**1.1**	**42.4**
EXTERNAL LIABILITIES	**26,413.9**	**100.0**	**29,202.6**	**100.0**	**10.6**
Direct investment in Estonia	**12,927.9**	**48.9**	**14,268.6**	**48.9**	**10.4**
Equity capital and reinvested earnings	11,692.2	44.3	13,217.1	45.3	13.0
Other direct investment capital	1,235.7	4.7	1,051.6	3.6	-14.9
Portfolio investment	**1,327.1**	**5.0**	**1,807.6**	**6.2**	**36.2**
Equity securities	634.6	2.4	759.8	2.6	19.7
Debt securities	692.6	2.6	1,047.8	3.6	51.3
Bonds and notes	689.8	2.6	1,044.1	3.6	51.4
Money market instruments	2.8	0.0	3.7	0.0	33.2
Financial derivatives	**80.1**	**0.3**	**119.5**	**0.4**	**49.3**
Other investment	**12,078.7**	**45.7**	**13,006.8**	**44.5**	**7.7**
Trade credit	1,391.9	5.3	1,440.4	4.9	3.5
Loans	3,745.0	14.2	5,110.1	17.5	36.5
Long-term	3,058.9	11.6	4,414.2	15.1	44.3
Short-term	686.1	2.6	695.9	2.4	1.4
Currency and deposits	6,620.8	25.1	6,057.4	20.7	-8.5
Other liabilities	321.0	1.2	398.8	1.4	24.2
NET INVESTMENT POSITION	**-9,219.2**		**-9,004.2**		**-2.3**

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

Assets			Liabilities		
Fields of activity					
	31/12/2011	31/12/2012		31/12/2011	31/12/2012
Financial intermediation*	40.0	37.9	Financial intermediation*	40.9	37.2
Insurance and pension funding***	9.1	9.3	Real estate activities	9.0	8.9
Public administration and defence; statutory social insurance	6.5	7.4	Wholesale**	6.4	6.0
Wholesale**	5.7	5.6	Activities of head offices; management consultancy activities	4.9	5.1
Maritime transport	3.5	5.6	Electrical energy, gas, steam and hot water supply	4.2	5.0
Other	35.2	34.2	Other	34.6	37.8
Total	100.0	100.0	Total	100.0	100.0
Countries					
	31/12/2011	31/12/2012		31/12/2011	31/12/2012
European Central Bank	4.9	9.7	Finland	22.5	23.5
Finland	7.8	9.1	Sweden	24.1	20.2
Sweden	14.2	8.2	Netherlands	5.6	5.6
Cyprus	5.3	7.7	United Kingdom	3.9	4.5
Latvia	8.5	6.9	Luxembourg	3.2	4.3
Other	59.3	58.4	Other	40.7	41.9
Total	100.0	100.0	Total	100.0	100.0

* Not including insurance and pension funds.
** Not including motor vehicles and motorcycles.
*** Not including compulsory social insurance.

Foreign direct investors have made a total of 14.3 billion euros of direct investment in Estonia. Nearly 22% of this has been invested in financial intermediation (excluding insurance and pension funds), 16% in real estate activities, 8% in head offices and 8% in wholesale (see Table 42). Half of the direct investment has come from Sweden and Finland and one tenth from the Netherlands. Financial intermediation (excluding insurance and pension funds) accounted for 53% of the Swedish direct investment position in Estonia, followed by head office activities with 9%, real estate activities with 7% and production of computers and electronics. Direct investment from Finland has gone into many different areas, with real estate activities taking the leading position with 25%, followed by wholesale with 10%, financial intermediation (excluding insurance and pension funds) with 6%, production of food with 5%, plant and animal husbandry, retail, telecommunications, production of beverages and wood processing with 4% each, and then others. Dutch direct investors have invested mainly in warehousing and support activities for transportation (28% of the position in Estonia), real estate related activities (18%), and activities of head offices (11%).

Estonian residents' investment abroad grew by 18% from a year ago to 20.2 billion euros at the end of 2012. The growth was mainly in direct and other investments, both of which increased by one fifth. Other investment was the largest part of the foreign position, accounting for 54%, followed by portfolio investment with 23% and direct investment with 22%. The rest was reserve assets and financial derivatives. The most active investors abroad were investors in financial intermediation, whose investments made up 38% of Estonia's total investment position abroad, followed by investors in insurance, the public sector, wholesale and maritime transport (see Table 41). The geographical spread of Estonian investments abroad is very wide. The European Central Bank rose to the top of the list for the first time with 10% of Estonia's total investment position abroad, while Finland,

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

in Estonia			Abroad		
Fields of activity					
	31/12/2011	31/12/2012		31/12/2011	31/12/2012
Financial intermediation*	20.5	21.5	Maritime transport	14.9	25.1
Real estate activities	15.7	15.5	Activities of head offices; management consultancy activities	21.6	18.8
Activities of head offices; management consultancy activities	7.7	7.9	Real estate activities	14.1	13.1
Wholesale**	7.6	7.8	Financial intermediation*	12.8	10.5
Warehousing and support activities for transportation	5.3	5.1	Wholesale**	7.2	6.0
Other	43.2	42.2	Other	29.4	26.5
Total	100.0	100.0	Total	100.0	100.0
Countries					
	31/12/2011	31/12/2012		31/12/2011	31/12/2012
Sweden	28.6	27.6	Cyprus	17.1	28.7
Finland	23.8	23.3	Lithuania	21.9	19.8
Netherlands	10.3	10.4	Latvia	18.9	17.2
Norway	3.6	4.7	Russia	7.6	5.7
Russia	4.2	4.6	Finland	8.2	5.5
Other	29.5	29.4	Other	26.3	23.1
Total	100.0	100.0	Total	100.0	100.0

* Not including insurance and pension funds.
** Not including motor vehicles and motorcycles.

Sweden, Cyprus, Latvia and Lithuania each received 7–9% and Denmark, Russia, the Netherlands, Luxembourg, France, the USA and Germany 3–5% of the position.

Over time, Estonian investors have channelled 4.4 billion euros of **direct investment** abroad. Direct investments abroad have mainly gone to maritime transport, with 25% of the direct investment position abroad, followed by head offices (19%), real estate (13%), and financial intermediation (10%). Two thirds of the direct investment abroad has gone to three countries, with Cyprus receiving 29%, Lithuania 20% and Latvia 17%. The main investments in Cyprus have come from investors in maritime transport. Of the direct investments in Lithuania, 85% have been in four areas, with 34% of the position coming from investors in head offices, 25% from real estate investors, 15% from investors in insurance and 10% from financial intermediation (excluding insurance and pension funds). In Latvia, 70% of the position has also been in four areas, with the first three the same as in Lithuania. Investors in head offices have provided 32% of the direct investment position in Latvia, real estate investors 25% and insurance investors 10%, with another 10% coming from direct investors in wholesale.

Estonia's **gross external debt**, that is the total external debt of all economic sectors in the country, increased by 8% to stand at 16.7 billion euros at the end of the year (see Table 43 and Figures 25 and 26). The gross external debt was boosted primarily by long-term loans to other sectors and the general government. The gross external debt was equal to 58% of total foreign investment in Estonia or to 98% of GDP. The general government debt more than doubled from the previous year to make up almost 8% of the gross external debt at the end of the year. The growth was partly in

Table 43. Estonia's external debt (EUR million)

	31/12/2011	Share (%)	31/12/2012	Share (%)	Change (%)
LIABILITIES					
I. General government	**538.8**	**3.5**	**1,263.3**	**7.6**	**134.5**
Short-term	11.6	0.1	10.9	0.1	-6.1
Long-term	527.2	3.4	1,252.5	7.5	137.6
II. Monetary authorities (NCB)	**0.3**	**0.0**	**19.2**	**0.1**	**7207.8**
Short-term	0.3	0.0	19.2	0.1	7207.8
Long-term		0.0		0.0	
III. Credit institutions	**6,887.6**	**44.4**	**6,322.8**	**38.0**	**-8.2**
Short-term	4,336.6	28.0	4,826.4	29.0	11.3
Long-term	2,551.0	16.5	1,496.4	9.0	-41.3
IV. Other sectors	**5,344.7**	**34.5**	**6,449.2**	**38.7**	**20.7**
Short-term	2,113.7	13.6	2,190.3	13.1	3.6
Long-term	3,231.0	20.8	4,258.9	25.6	31.8
V. Direct investment: intercompany lending	**2,732.3**	**17.6**	**2,604.5**	**15.6**	**-4.7**
GROSS EXTERNAL DEBT	**15,503.6**	**100.0**	**16,659.0**	**100.0**	**7.5**
ASSETS					
I. General government	**1,114.7**	**7.7**	**1,500.0**	**8.8**	**34.6**
Short-term	529.6	3.7	585.5	3.5	10.6
Long-term	585.1	4.0	914.4	5.4	56.3
II. Monetary authorities (NCB)	**1,468.3**	**10.1**	**2,697.8**	**15.9**	**83.7**
Short-term	747.9	5.2	1,818.0	10.7	143.1
Long-term	720.4	5.0	879.8	5.2	22.1
III. Credit institutions	**4,128.3**	**28.5**	**3,691.1**	**21.8**	**-10.6**
Short-term	3,219.3	22.2	2,847.5	16.8	-11.5
Long-term	908.9	6.3	843.6	5.0	-7.2
IV. Other sectors	**5,065.9**	**35.0**	**5,840.3**	**34.4**	**15.3**
Short-term	3,624.3	25.0	4,091.0	24.1	12.9
Long-term	1,441.6	10.0	1,749.3	10.3	21.3
V. Direct investment: intercompany lending	**2,695.0**	**18.6**	**3,224.2**	**19.0**	**19.6**
TOTAL ASSETS	**14,472.0**	**100.0**	**16,953.5**	**100.0**	**17.1**
NET EXTERNAL DEBT (assets less liabilities)					
I. General government	**575.9**		**236.6**		**-58.9**
Short-term	518.0		574.7		10.9
Long-term	57.8		-338.0		-684.6
II. Monetary authorities (NCB)	**1,468.0**		**2,678.6**		**82.5**
Short-term	747.6		1,798.7		140.6
Long-term	720.4		879.8		22.1
III. Credit institutions	**-2,759.3**		**-2,631.6**		**-4.6**
Short-term	-1,117.3		-1,978.9		77.1
Long-term	-1,642.0		-652.7		-60.2
IV. Other sectors	**-278.8**		**-608.9**		**118.4**
Short-term	1,510.6		1,900.7		25.8
Long-term	-1,789.4		-2,509.6		40.2
V. Direct investment: intercompany lending	**-37.3**		**619.8**		**-1760.0**
TOTAL NET EXTERNAL DEBT	**-1,031.6**		**294.5**		**-128.5**

Figure 25. Estonia’s gross and net external debt

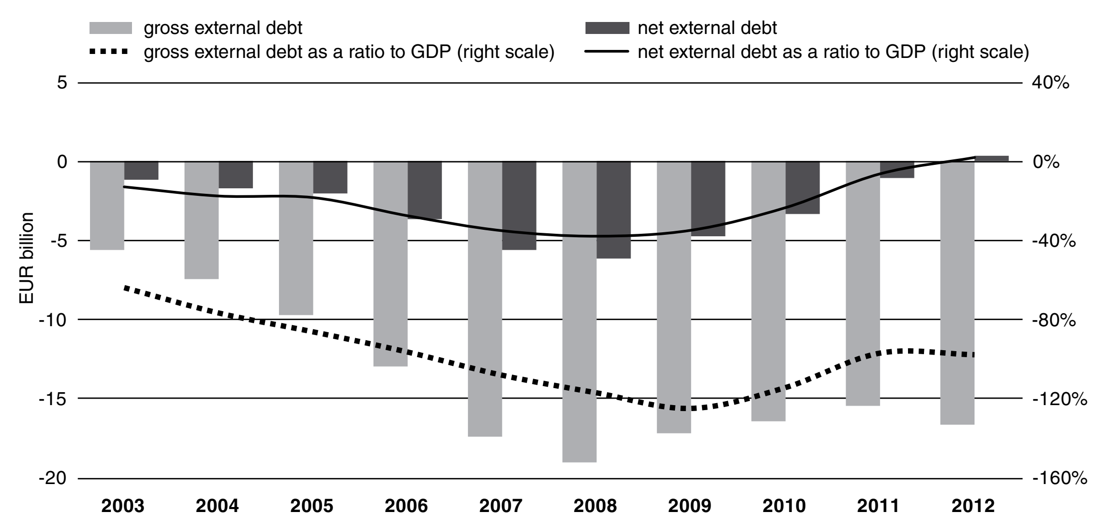
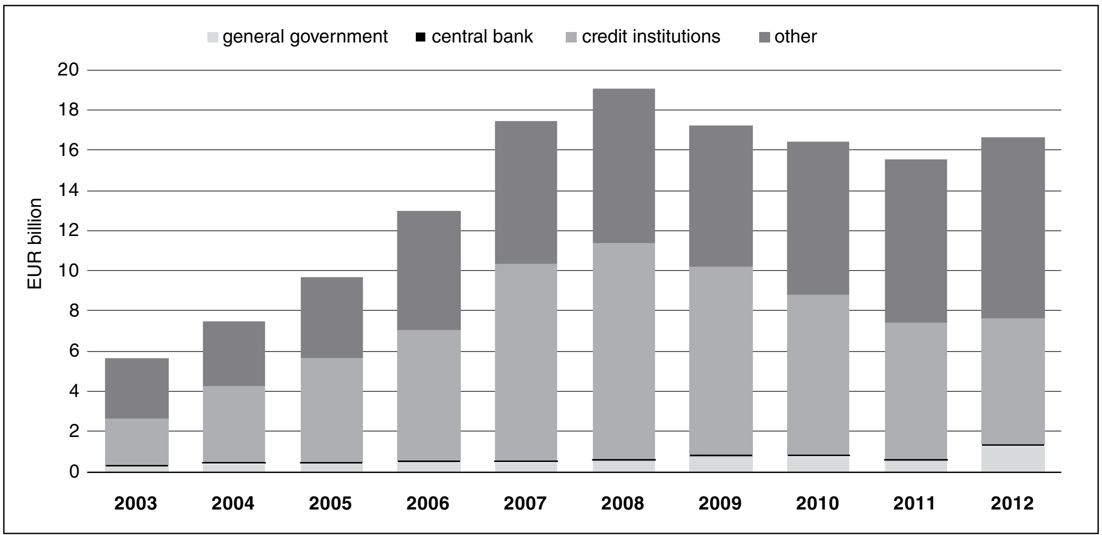


Figure 26. Estonia's gross external debt by economic sector



connection with the financial aid provided within the framework of the EFSF[3]. The share of gross external debt held by credit institutions continued to decline, from 44% at the start of the year to 38% at the end. The share held by other sectors increased and stood at 39% at the end of the year. If the external debt of direct investment companies is added to this, as they are mainly in other sectors, then the external debt of other sectors makes up 54% of the gross external debt. Debts to Finland accounted for 24% of the total, and debts to Sweden for 13%.

[3] Under the methodology used for the balance of payments, financial aid under the EFSF is reflected as an item of other investment on both the asset and liability sides, meaning it has no impact on the financial account. However, only loan obligations are considered as external debt and in this way the financial aid provided under the EFSF affects gross external debt.

Due to the prevalence of foreign investment in Estonia over residents' investment abroad, Estonia had a negative net international investment position (external assets less external liabilities) of 9 billion euros, which was 2% less than a year ago. At the end of 2011 external debt liabilities exceeded external debt assets to give net external debt of 1 billion euros, but at the end of 2012 external debt assets exceeded external debt liabilities by 0.3 billion euros. The main contributors to making net external debt positive were the central bank and direct investment companies.