11 March 2011

EUROSÜSTEEM

ESTONIA'S BALANCE OF PAYMENTS FOR 2010

(Based on preliminary data)

- **Estonia's current account had a surplus for the second year in row (see Table 1 and Figure 1).**
- **The surplus totalled 517 million euros, or 3.6% of GDP[1]. Year-on-year, the surplus shrank by around 20%.**
- **The recovery of external demand facilitated the exports of goods and services, and the yield of foreign direct investment in Estonia.**
- **The surplus on goods and services increased by 40% from 2009 to 1.1 billion euros, or 7.6% of GDP. Goods exports grew by more than a third.**
- **The net outflow of income, which largely consisted of reinvested earnings, grew by two times.**
- **Estonia's gold and foreign currency reserves contracted by 831 million euros, mainly as a consequence of the lowering of the minimum reserve requirement for banks[2] in connection with preparations for joining the Eurosystem.**
- **Estonia's gross external debt decreased by 5% from 2009 and totalled 16.6 billion euros at the end of 2010, exceeding GDP by 14%. The debt burden diminished because of the surplus on the current account, but also because of the investment of free funds abroad and the repayment of loans as a result of lowering the minimum reserve requirement.**

Current account in surplus for the second year in row

Goods deficit shrank by more than 60% from 2009 to 214 billion euros (only 1.5% of GDP). The last time the deficit was as low was in 1994. Both exports and imports of goods picked up, whereas exports grew at a more rapid pace: exports increased 35% and imports 27%. Growth in goods exports grew from quarter to quarter and peaked at 54% in the fourth quarter of 2010, having grown significantly from the fourth quarter of 2009. Exports and imports were both driven by machinery and equipment. Foreign trade deficit contracted mostly because of the surplus on timber, paper and products made thereof increased, whereas the deficit on mineral products decreased.

The surplus on **services** was only 3% lower than the record high witnessed in 2009, and amounted to 1.3 billion euros. The exports of services grew by 8% and imports by 15%. The surplus was mainly boosted by transport, travel and other business services, with their surpluses accounting for 46%, 27% and 13% of the total surplus, respectively.

The net outflow of **labour and capital income** grew by two times over the year and stood at 777 million euros. The surplus on labour income remained at the year-ago level with 135 million euros. Capital income

[1] The current account surplus without reinvested earnings constituted 8.6% of GDP.
[2] Eesti Pank lowered the 15% minimum reserve requirement to 11% on 1 September 2010 and to 7% on 1 November 2010. Starting from 1 January 2011, the requirement is 2% for liabilities with maturities less than two years and 0% for liabilities with maturities over two years.

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

Item	2008	2009	2010				
	Total	Total	Q1	Q2	Q3	Q4	Total
Current account	**-1,567.9**	**627.7**	**43.2**	**85.7**	**240.4**	**147.6**	**516.9**
Goods and services	-900.8	785.7	128.9	236.4	421.0	310.3	1,096.6
Goods	-2,125.4	-559.8	-107.1	-105.0	-23.0	20.7	-214.4
credit (f.o.b.)	8,538.6	6,536.1	1,800.9	2,107.1	2,267.0	2,643.9	8,818.8
debit (f.o.b.)	-10,664.0	-7,096.0	-1,907.9	-2,212.1	-2,290.0	-2,623.2	-9,033.3
Services	1,224.6	1,345.5	236.0	341.4	444.1	289.6	1,311.0
credit	3,512.4	3,158.6	699.3	862.2	958.7	883.1	3,403.3
debit	-2,287.9	-1,813.2	-463.3	-520.8	-514.6	-593.5	-2,092.3
Income	-860.7	-380.6	-119.8	-199.3	-201.6	-256.6	-777.3
credit	1,169.0	673.9	179.0	178.4	201.2	170.2	728.8
debit	-2,029.7	-1,054.5	-298.8	-377.6	-402.8	-426.8	-1,506.1
Current transfers	193.7	222.7	34.1	48.6	21.0	94.0	197.7
credit	525.4	514.9	129.6	108.9	104.5	185.9	528.8
debit	-331.8	-292.2	-95.5	-60.3	-83.5	-91.9	-331.2
Capital and financial account (without reserve assets)	**1,931.9**	**-526.0**	**-258.2**	**110.0**	**-750.0**	**-398.8**	**-1,296.9**
Capital account	167.3	384.1	136.6	84.9	77.7	175.8	475.0
Financial account	1,764.6	-910.1	-394.8	25.2	-827.7	-574.6	-1,771.9
Direct investment	419.8	99.8	140.1	313.9	142.6	309.1	905.7
Abroad	-759.8	-1,109.3	-118.4	-39.0	-101.6	-31.8	-290.8
In Estonia	1,179.7	1,209.0	258.5	353.0	244.1	340.9	1,196.5
Portfolio investment	508.1	-1,442.0	26.8	-290.4	-220.2	50.7	-433.1
Assets	680.5	-482.2	27.5	-175.8	-222.4	86.5	-284.2
Equity securities	261.8	-47.8	-70.4	-169.1	-6.8	-57.9	-304.2
Debt securities	418.8	-434.4	97.9	-6.6	-215.6	144.4	20.0
Liabilities	-172.4	-959.8	-0.6	-114.6	2.2	-35.8	-148.9
Equity securities	-212.7	-92.3	8.6	-2.3	-1.7	6.0	10.5
Debt securities	40.3	-867.6	-9.2	-112.3	3.9	-41.8	-159.4
Financial derivatives	52.9	12.5	2.8	12.5	16.9	-0.5	31.7
Assets	43.1	17.8	-3.2	8.7	2.4	-9.8	-1.8
Liabilities	9.8	-5.3	6.0	3.7	14.5	9.3	33.5
Other investment	783.7	419.6	-564.5	-10.9	-766.9	-933.9	-2,276.3
Assets	-357.3	960.4	-40.9	136.5	-599.8	-706.6	-1,210.8
Long-term	-17.7	-39.6	-149.5	-1.3	-0.1	-165.7	-316.6
Short-term	-339.7	1,000.1	108.6	137.8	-599.6	-540.9	-894.2
Liabilities	1,141.0	-540.8	-523.6	-147.4	-167.2	-227.3	-1,065.4
Long-term	-615.4	390.0	-155.4	-431.4	-80.6	-624.1	-1,291.4
Short-term	1,756.5	-930.9	-368.2	284.0	-86.6	396.8	226.0
Errors and omissions	138.9	-99.7	106.0	14.2	-66.2	-105.3	-51.3
Overall balance	**503.0**	**2.1**	**-109.0**	**210.0**	**-575.8**	**-356.5**	**-831.3**
Reserve assets	**-503.0**	**-2.1**	**109.0**	**-210.0**	**575.8**	**356.5**	**831.3**

on foreign investment accounted for the majority of the income account, with non-residents' income on investment in Estonia exceeding residents' income on investment abroad by 912 billion euros. This was almost two times more than in 2009 and was mostly related to reinvested earnings. The estimated net outflow of reinvested earnings increased by 3.5 times year-on-year and constituted around 80% of the total investment income.

Estonia made active use of grants from the EU budget in 2010. Most of the subsidies came as capital transfers. The surplus on **current and capital transfers** totalled 673 million euros in 2010, which is 11% more than in 2009.

EU Member States accounted for 70% of the credit turnover and 82% of the debit turnover of the current account. The respective indicators for the monetary union were 35% and 38%.

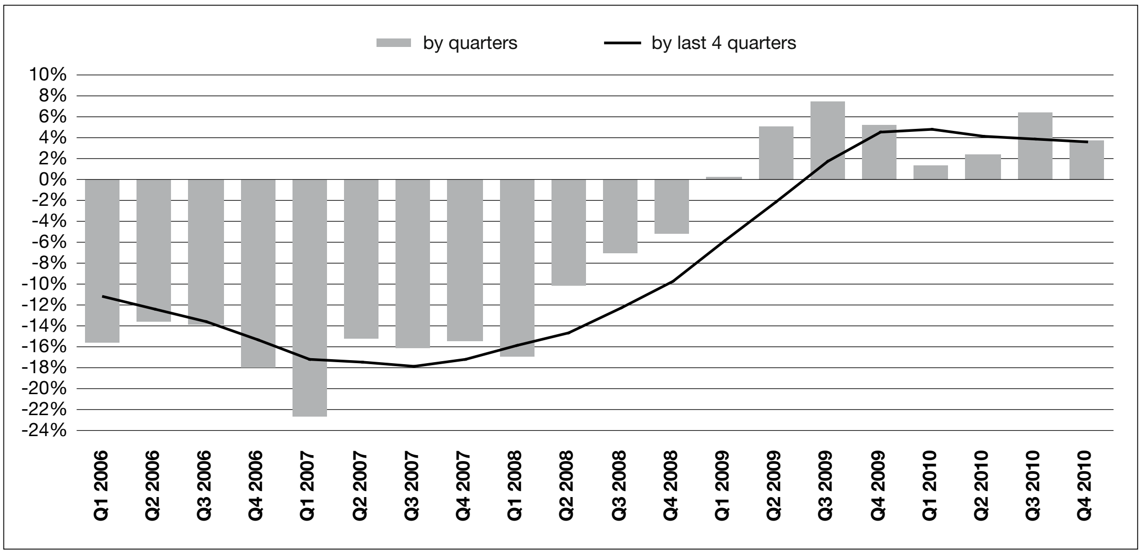

Figure 1. Current account balance (% of GDP)

Capital net outflow increased, largely because of the euro

The **financial account** recorded a significant net outflow of capital in 2010, mainly consisting of other investment, which totalled 1.8 billion euros. Portfolio investment accounted for some of the outflow. Direct investment recorded a net inflow, the largest since 2005.

Direct investment inflow was 906 million euros bigger than outflow. Direct investment in Estonia grew by 1.2 billion euros, just like in 2009, whereas 80% of the growth consisted of reinvested earnings. Residents' direct investment abroad expanded by only 291 million euros, 80% of that being reinvested earnings. The rest were equity capital investment and intercompany lending between cross-border groups.

The outflow of **portfolio investment** was 433 million euros larger than inflow. Portfolio investment assets grew by 284 million euros as a result of the foreign debt security investment of financial intermediaries (pension funds). Portfolio investment liabilities (mainly debt securities) decreased by 149 million euros, as the general government, credit institutions and other sectors all reduced their liabilities. The net inflow of **financial derivatives** totalled 32 million euros.

The outflow of capital in the form of **other investment** (trade credit, loans, currency and deposits) exceeded inflow by 2.3 billion euros. Other investment assets increased by 1.2 billion euros and liabilities contracted by 1.1 billion euros. The increase in assets can be largely attributed to currency and deposits,[3] as banks invested their free funds abroad when the minimum reserve requirement was lowered. Trade credit assets and lending by other sectors increased too. Other investment liabilities declined mainly because of a drop in the currency and deposit liabilities of credit institutions, when the latter made their loan repayments.

Estonia's **gross external debt** shrank by 5% from 2009 and totalled 16.6 billion euros at the end of 2010. The shrinkage was largely due to a decline in the debt liabilities of credit institutions.

The **gold and foreign exchange reserves** contracted by 831 million euros (mostly in the second half of 2010) because of the lowering of the minimum reserve requirement for banks and the surplus on the current account.

[3] This entry includes also lending between credit institutions.

More detailed statistics on Estonia's balance of payments, international investment position and gross external debt is available on the website of Eesti Pank under *Statistical Indicators*. A longer analysis of the balance of payments together with graphs will be published in Estonian on 25 March and in English on 28 March 2011 under *Publications*.

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The balance of payments for the first quarter of 2011 will be published on the website of Eesti Pank (http://www.bankofestonia.ee) on 9 June 2011 at noon.

Please acknowledge the source when publishing or citing.

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