



ESTONIA'S BALANCE OF PAYMENTS FOR THE FIRST QUARTER OF 2011

(Based on preliminary data)

- Estonia's current account, which had run surpluses for eight consecutive quarters, posted a deficit in the first quarter of 2011, amounting to 63 million euros, or 1.7% of the first-quarter GDP (see Table 1 and Figure 1).
- Estonia's gross external debt decreased by 1.4 % quarter-on-quarter to 16.3 billion euros, exceeding the GDP for the last four quarters by 9%.
- The main reason for the current account turning into a deficit was the increase in the profitability of foreign-owned companies and the resulting double year-on-year growth in their reinvested earnings, which are recorded as net income outflow on the current account.
- Excluding these reinvested earnings, the current account was in surplus, which accounted for 5.2% of the first-quarter GDP.
- External demand remained strong, facilitating rapid growth in goods exports, which recorded the highest level for the past twenty years.
- The surplus on goods and services declined by 10% year-on-year to 92 million euros, or 2.5% of the first-quarter GDP.
- The surplus on the current transfers and capital account grew by 2.5 times to around 200 million euros.
- The financial account witnessed further modest net outflow of capital.
- Estonia's gold and foreign exchange reserves increased by 25 million euros quarter-on-quarter.

Economic recovery led the current account into a deficit

Goods deficit shrank by 10% from the first quarter of 2010 to 117 million euros, or 3.2% of GDP. Both the imports and exports of goods picked up, whereas exports grew at a more rapid pace: exports increased 54% and imports 50%. Imports and exports were both boosted by machinery and equipment and somewhat less by mineral products (fuels). Foreign trade deficit contracted primarily because of the deficit on machinery and equipment turned into a surplus. The surplus on timber, paper and products made thereof and furniture increased, while the deficit on transport vehicles grew as well.

The surplus on the **services account** also decreased by 10% to 209 million euros. The exports of services grew by 10% and imports by 20%. Imports outpaced exports partly because of the cost of the delivery of stronger goods imports. The surplus was mainly boosted by transport services, other business services and travel services, with their surpluses making up 57%, 18% and 11% respectively of the total surplus on the services account.

The greatest change on the current account concerned **labour and capital income**, whose net outflow doubled and totalled 206 million euros in the first quarter of 2011. The majority of the income account

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

Item	2009	2010				2011	
	Total	Q1	Q2	Q3	Q4	Total	Q1
Current account	512.3	5.7	74.1	264.5	168.9	513.1	-62.7
Goods and services	799.1	104.0	219.2	421.1	317.9	1,062.1	91.9
Goods	-559.1	-130.6	-127.6	-22.9	30.9	-250.2	-117.2
credit (f.o.b.)	6,550.4	1,780.2	2,080.1	2,268.0	2,649.3	8,777.7	2,743.5
debit (f.o.b.)	-7,109.5	-1,910.8	-2,207.7	-2,291.0	-2,618.4	-9,027.9	-2,860.8
Services	1,358.2	234.5	346.7	444.0	287.0	1,312.3	209.1
credit	3,173.8	700.0	866.8	961.2	893.7	3,421.6	769.7
debit	-1,815.6	-465.4	-520.0	-517.2	-606.7	-2,109.3	-560.6
Income	-502.1	-109.7	-203.8	-195.6	-296.4	-805.4	-206.0
credit	660.1	179.4	178.0	207.6	120.8	685.9	219.7
debit	-1,162.2	-289.1	-381.8	-403.2	-417.2	-1,491.3	-425.7
Current transfers	215.4	11.4	58.7	39.0	147.4	256.4	51.4
credit	502.1	107.8	119.7	123.1	241.4	592.0	175.8
debit	-286.7	-96.4	-61.0	-84.2	-94.0	-335.6	-124.4
Capital and financial account (without reserve assets)	-450.6	-107.5	128.4	-747.4	-402.1	-1,128.8	100.5
Capital account	483.4	66.5	75.7	93.3	283.1	518.6	142.9
Financial account	-934.1	-174.0	52.6	-840.8	-685.2	-1,647.4	-42.5
Direct investment	208.4	200.0	305.4	151.7	405.0	1,062.1	232.3
Abroad	-1,114.7	-50.8	-43.8	-93.2	87.7	-100.2	-194.7
In Estonia	1,323.1	250.9	349.2	244.9	317.3	1,162.3	427.0
Portfolio investment	-1,448.3	31.4	-288.7	-224.0	40.7	-440.6	211.9
Assets	-486.1	32.1	-174.2	-225.9	76.6	-291.4	231.6
Equity securities	-47.9	-65.9	-169.1	-7.0	-59.8	-301.8	14.0
Debt securities	-438.2	98.0	-5.1	-218.9	136.4	10.4	217.6
Liabilities	-962.2	-0.7	-114.5	1.8	-36.0	-149.3	-19.7
Equity securities	-93.6	8.6	-2.0	-1.7	6.0	10.8	0.0
Debt securities	-868.7	-9.2	-112.5	3.5	-41.9	-160.1	-19.7
Financial derivatives	14.1	2.8	12.5	16.9	-0.6	31.6	-30.7
Assets	17.4	-3.2	8.7	2.4	-9.8	-1.8	-4.6
Liabilities	-3.3	5.9	3.7	14.5	9.2	33.4	-26.1
Other investment	291.7	-408.2	23.4	-785.3	-1,130.3	-2,300.5	-456.0
Assets	954.6	-68.1	135.9	-596.9	-767.9	-1,296.9	126.3
Long-term	-39.8	-149.5	-1.2	0.0	-170.9	-321.6	-124.3
Short-term	994.4	81.4	137.1	-596.9	-597.0	-975.4	250.6
Liabilities	-662.8	-340.2	-112.5	-188.5	-362.4	-1,003.5	-582.3
Long-term	271.6	-44.5	-399.0	-101.8	-741.9	-1,287.2	-394.8
Short-term	-934.4	-295.6	286.5	-86.7	379.4	283.6	-187.5
Errors and omissions	-59.6	-7.1	7.6	-92.8	-123.3	-215.6	-12.9
Overall balance	2.1	-109.0	210.0	-575.8	-356.5	-831.3	24.8
Reserve assets	-2.1	109.0	-210.0	575.8	356.5	831.3	-24.8

turnover consisted of capital income on foreign investment. Non-residents' income on investment in Estonia exceeded residents' income on investment abroad by 251 million euros, increasing around 80%. Investment income growth largely stemmed from retained profits, or reinvested earnings, as the calculated net outflow of reinvested earnings doubled. The income account was boosted by a 40% growth in the surplus on labour income. Residents' income earned abroad exceeded non-residents' income earned in Estonia by 45 million euros, which shows that employment abroad has picked up.

Current and capital transfers totalled 194 million euros in the first quarter of 2011, which is 2.5 times more than a year ago. The majority of the transfers came from EU structural funds for infrastructure investments and from the sale of intangible assets (emission quotas).

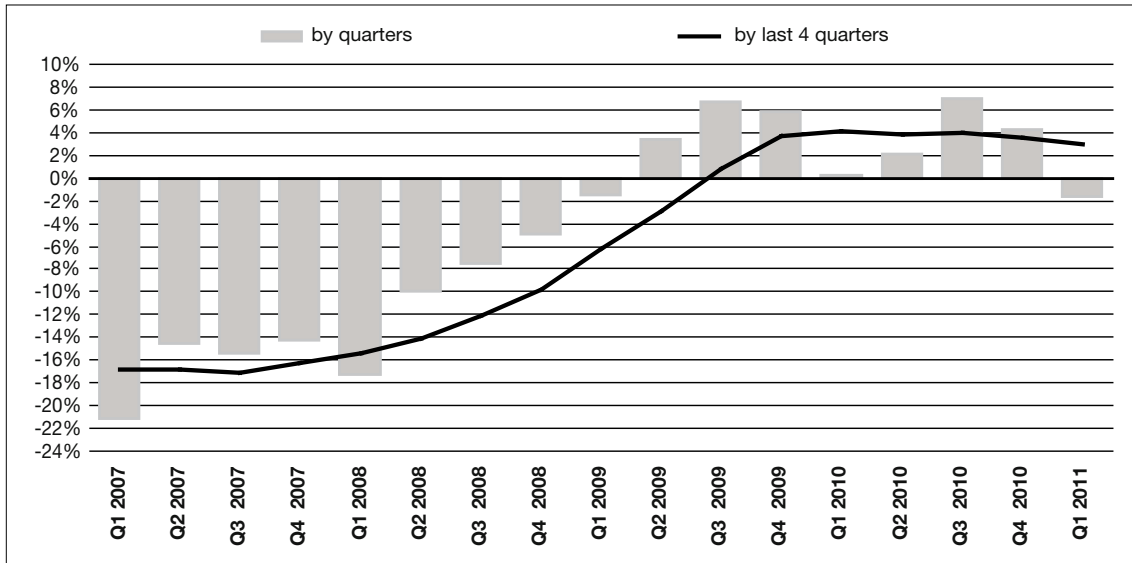


Figure 1. Current account balance (% of GDP)

The net outflow of capital continued, though at a modest pace

The net outflow of capital on the **financial account** totalled 72 million euros in the first quarter of 2011. Direct and portfolio investment recorded a net inflow of capital, while other investment posted a net outflow.

Direct investment inflow was 232 million euros bigger than outflow. Direct investment in Estonia grew by 427 million euros. 75% of the growth was related to reinvested earnings, which are recorded as income outflow on the current account. Equity capital investment accounted for 6% of the direct investment inflow. Residents' direct investment abroad increased by 195 million euros. The structure of these investment slightly differed from the structure of non-residents' direct investment in Estonia: equity direct investment constituted 30% and reinvested earnings and intercompany lending between cross-border groups both 35% of the total direct investment in the first quarter of 2011.

Portfolio investment inflow was 182 million euros bigger than outflow. Portfolio investment assets decreased by 202 million euros, mainly because of a decline in the debt security assets of the central bank.¹ Portfolio investment liabilities decreased by 20 million euros, mainly on account of debt securities issued by other sectors. The net outflow of **financial derivatives** totalled 31 million euros.

The outflow of capital in the form of **other investment** (trade credit, loans, currency and deposits) exceeded inflow by 456 million euros. Other investment assets shrank by 126 million and liabilities by 582 million euros. Assets contracted primarily on account of central bank's currency and deposits. The trade credit assets of other sectors and the currency and deposit assets of credit institutions increased. 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. However, trade credit liabilities grew.

Estonia's **gross external debt**, that is the total external debt of all economic sectors, contracted 1.4% quarter-on-quarter to 16.3 billion euros and was 9% larger than the GDP for the last four quarters.

¹ As Estonia adopted the euro on 1 January 2011, the external assets denominated in euros or external assets issued by euro area countries are no longer recorded under the gold and foreign exchange reserves of Eesti Pank. They are recorded either under portfolio or other investment, depending on the type of asset.

Estonia's **gold and foreign exchange reserves** increased by 25 million euros quarter-on-quarter.

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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 22 June 2011 and in English on 29 June 2011 under *Publications*.

The balance of payments for the second quarter of 2011 will be published on the website of Eesti Pank (<http://www.bankofestonia.ee>) on 8 September 2011 at noon.

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