



EUROSÜSTEEM

## **ESTONIA'S BALANCE OF PAYMENTS FOR THE SECOND QUARTER OF 2011**

(Based on preliminary data)

- **The current account surplus for the second quarter of 2011 totalled 34 million euros, or 0.8% of the second-quarter GDP (see Table 1 and Figure 1). The surplus decreased somewhat year-on-year<sup>1</sup>, while the deficit for the first quarter of 2011 now turned into a surplus.**
- **The current account was mainly shaped by a decrease in the trade credit deficit and an increase in the net income outflow.**
- **Goods exports grew by 53% owing to strong external demand. Both exports and imports posted new record highs.**
- **The surplus on goods and services increased by over a third to 300 million euros, or 7.5% of the second-quarter GDP.**
- **Net income outflow grew by 60%, mostly owing to the withdrawal of dividends by foreign investors. The net outflow totalled 326 million euros, or 8.1% of the second-quarter GDP.**
- **The financial account witnessed further modest net outflow of capital.**
- **Estonia's gross external debt increased 3% quarter-on-quarter to 16.8 billion euros, exceeding the GDP for the last four quarters by 10%. The net external debt, on the other hand, contracted.**
- **Estonia's gold and foreign exchange reserves decreased by 8 million euros quarter-on-quarter.**

### **Strong goods exports restored current account surplus**

**Trade deficit shrank** by almost three times to 48 million euros, or 1.2% of GDP. Both the imports and exports of goods continued strong growth, with exports growing at a more rapid pace: the exports of goods increased 53% and imports 46%. Imports and exports were mainly boosted by machinery and equipment and somewhat less by mineral products (fuels). Foreign trade deficit contracted primarily because the deficit on mineral products decreased, while the surplus on timber, paper and products made thereof, and furniture and other goods increased. The deficit on transport vehicles, on the other hand, grew.

**The surplus on services remained more or less unchanged** from the second quarter of 2010 at 348 million euros. The exports of services grew by 16% and imports by 26%. Imports outpaced exports partly because of the cost of the delivery of stronger goods imports. The surpluses on transport and travel services, the two largest groups of services, increased to 81% of the total surplus on services. Other business services, the third biggest group of services, however shrank considerably because of merchanting services, thus inhibiting the growth in services surplus.

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<sup>1</sup> All comparisons have been drawn on an annual basis, if not indicated otherwise.

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

Item	2009	2010				2011		
	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2
<b>Current account</b>	<b>512.3</b>	<b>5.7</b>	<b>74.1</b>	<b>264.5</b>	<b>168.9</b>	<b>513.1</b>	<b>-52.8</b>	<b>34.1</b>
Goods and services	799.1	104.0	219.2	421.1	317.9	1,062.1	96.5	300.2
Goods	-559.1	-130.6	-127.6	-22.9	30.9	-250.2	-112.6	-47.8
credit (f.o.b.)	6,550.4	1,780.2	2,080.1	2,268.0	2,649.3	8,777.7	2,762.2	3,174.4
debit (f.o.b.)	-7,109.5	-1,910.8	-2,207.7	-2,291.0	-2,618.4	-9,027.9	-2,864.7	-3,222.2
Services	1,358.2	234.5	346.7	444.0	287.0	1,312.3	209.0	348.0
credit	3,173.8	700.0	866.8	961.2	893.7	3,421.6	773.6	1,002.9
debit	-1,815.6	-465.4	-520.0	-517.2	-606.7	-2,109.3	-564.6	-654.9
Income	-502.1	-109.7	-203.8	-195.6	-296.4	-805.4	-200.8	-325.5
credit	660.1	179.4	178.0	207.6	120.8	685.9	218.1	213.3
debit	-1,162.2	-289.1	-381.8	-403.2	-417.2	-1,491.3	-418.9	-538.8
Current transfers	215.4	11.4	58.7	39.0	147.4	256.4	51.5	59.3
credit	502.1	107.8	119.7	123.1	241.4	592.0	175.9	142.6
debit	-286.7	-96.4	-61.0	-84.2	-94.0	-335.6	-124.4	-83.3
<b>Capital and financial account (without reserve assets)</b>	<b>-450.6</b>	<b>-107.5</b>	<b>128.4</b>	<b>-747.4</b>	<b>-402.1</b>	<b>-1,128.8</b>	<b>34.6</b>	<b>38.5</b>
Capital account	483.4	66.5	75.7	93.3	283.1	518.6	142.9	105.4
Financial account	-934.1	-174.0	52.6	-840.8	-685.2	-1,647.4	-108.3	-66.9
Direct investment	208.4	200.0	305.4	151.7	405.0	1,062.1	194.6	411.3
Abroad	-1,114.7	-50.8	-43.8	-93.2	87.7	-100.2	-224.1	-28.5
In Estonia	1,323.1	250.9	349.2	244.9	317.3	1,162.3	418.7	439.8
Portfolio investment	-1,448.3	31.4	-288.7	-224.0	40.7	-440.6	210.9	-21.8
Assets	-486.1	32.1	-174.2	-225.9	76.6	-291.4	199.6	3.4
Equity securities	-47.9	-65.9	-169.1	-7.0	-59.8	-301.8	10.3	-12.9
Debt securities	-438.2	98.0	-5.1	-218.9	136.4	10.4	189.3	16.2
Liabilities	-962.2	-0.7	-114.5	1.8	-36.0	-149.3	11.3	-25.1
Equity securities	-93.6	8.6	-2.0	-1.7	6.0	10.8	-0.4	-17.4
Debt securities	-868.7	-9.2	-112.5	3.5	-41.9	-160.1	11.7	-7.7
Financial derivatives	14.1	2.8	12.5	16.9	-0.6	31.6	-30.6	-15.2
Assets	17.4	-3.2	8.7	2.4	-9.8	-1.8	-4.7	-1.2
Liabilities	-3.3	5.9	3.7	14.5	9.2	33.4	-26.0	-14.0
Other investment	291.7	-408.2	23.4	-785.3	-1,130.3	-2,300.5	-483.2	-441.2
Assets	954.6	-68.1	135.9	-596.9	-767.9	-1,296.9	68.0	-892.3
Long-term	-39.8	-149.5	-1.2	0.0	-170.9	-321.6	-124.5	37.7
Short-term	994.4	81.4	137.1	-596.9	-597.0	-975.4	192.6	-929.9
Liabilities	-662.8	-340.2	-112.5	-188.5	-362.4	-1,003.5	-551.3	451.1
Long-term	271.6	-44.5	-399.0	-101.8	-741.9	-1,287.2	-425.1	-165.7
Short-term	-934.4	-295.6	286.5	-86.7	379.4	283.6	-126.2	616.8
Errors and omissions	-59.6	-7.1	7.6	-92.8	-123.3	-215.6	43.0	-80.3
<b>Overall balance</b>	<b>2.1</b>	<b>-109.0</b>	<b>210.0</b>	<b>-575.8</b>	<b>-356.5</b>	<b>-831.3</b>	<b>24.8</b>	<b>-7.7</b>
<b>Reserve assets</b>	<b>-2.1</b>	<b>109.0</b>	<b>-210.0</b>	<b>575.8</b>	<b>356.5</b>	<b>831.3</b>	<b>-24.8</b>	<b>7.7</b>

The net outflow of income showed vigorous growth at 60% to 326 million euros. The majority of the income account turnover consisted of capital income on foreign investment. Non-residents' income on investment in Estonia exceeded residents' income on investment abroad by 373 million euros, increasing by around two thirds. The net outflow of investment income was mainly driven by the withdrawal of dividends from foreign direct investment in Estonia, which accounted for 90% of the total net outflow of investment income. The income account was boosted by 80% growth in the surplus on labour income. Residents' income earned abroad exceeded non-residents' income earned in Estonia by 48 million euros, which shows that employment abroad has been picking up in the past few quarters.

Current and capital transfers totalled 164 million euros in the second quarter of 2011, which is around 25% 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).

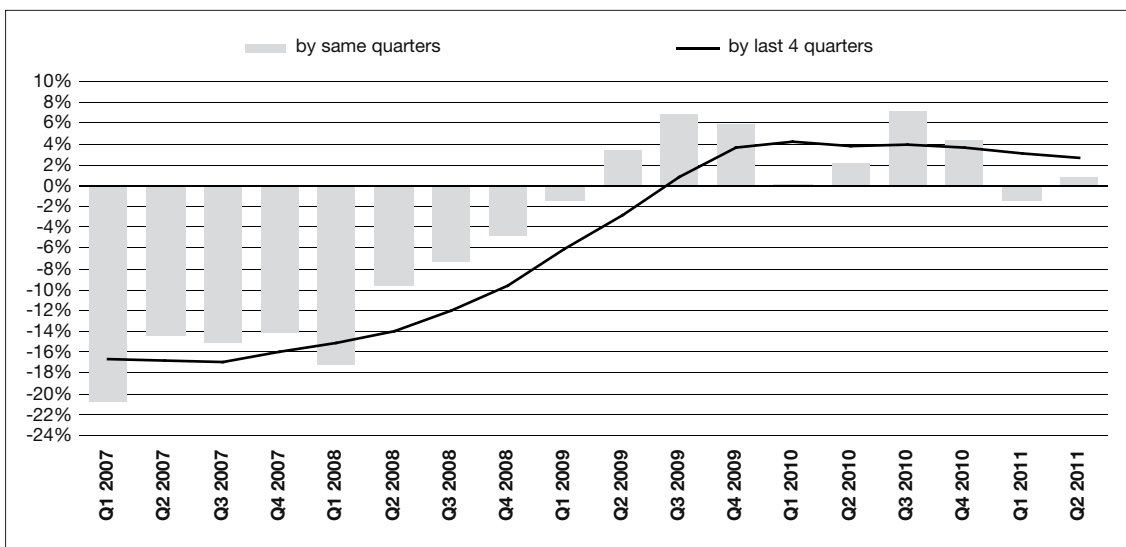


Figure 1. Current account balance (% of GDP)

### Net capital outflow remained modest

The net outflow of capital on the financial account totalled 70 million euros in the second quarter of 2011. The inflow of capital involved mostly direct investment, while the outflow consisted of other investment.

**Direct investment inflow** was 411 million euros bigger than outflow. Direct investment in Estonia grew by 440 million euros. Two thirds of the growth were related to the flows of intercompany lending between direct investment companies: assets to direct investors decreased, while liabilities increased. Equity capital investment and reinvested earnings accounted for 16% and 17% of the direct investment inflow respectively. The low share of reinvested earnings is due to the large withdrawals of dividends. Residents' direct investment abroad increased by 29 million euros.

**The outflow of portfolio investment was 22 million euros bigger than inflow.** Portfolio investment assets grew by 3 million euros, while liabilities shrank by 25 million euros. There were considerable changes in the assets of debt and money market instruments: debt security assets increased by 314 million euros, while money market instrument assets decreased by 330 million euros. This mainly concerned the assets of credit institutions and somewhat less the assets of the central bank<sup>2</sup>.

The outflow of **financial derivatives** was 15 million euros larger than inflow.

**Capital outflow in the form of other investment** (trade credit, loans, currency and deposits) exceeded inflow by 441 million euros. Other investment assets increased by 892 million euros and liabilities by 451 million euros. It was primarily the currency and deposits of credit institutions that grew, and somewhat also the assets of the central bank, the general government and other sectors. The increase in liabilities concerned mostly the currency and deposits of credit institutions and the central bank, and somewhat less also other liabilities and trade credit. Loan liabilities, on the other hand, contracted.

Estonia's **gross external debt**, that is the total external debt of all economic sectors, increased 3% quarter-on-quarter to 16.8 billion euros, and was 10% larger than the GDP for the last four quarters. External debt was

<sup>2</sup> 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.

boosted by credit institutions and the central bank. Estonia's net external debt (debt assets less debt liabilities) shrank and accounted nearly for 21% of the GDP for the last four quarters.

Estonia's **gold and foreign exchange reserves** decreased by 8 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 23 September and in English on 28 September 2011 under *Publications*.

**The balance of payments for the third quarter of 2011 will be published on the website of Eesti Pank (<http://www.bankofestonia.ee>) on 9 December 2011 at noon.**

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