



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

(Based on preliminary data)

- The worsening of the external environment did not yet manifest itself in Estonia's balance of payments for the third quarter of 2011. The current account surplus was a record 301 million euros, or 7.3% of the third-quarter GDP (see Table 1 and Figure 1).
- The surplus on goods and services totalled 389 million euros, or 9.4% of the third-quarter GDP, being only slightly lower than the record high reached in the third quarter of 2011.
- Goods exports picked up 35%, driven by strong domestic and external demand.¹ Both exports and imports recorded large volumes in the third quarter, though the volumes being somewhat lower than in the second quarter.
- The net outflow of income decreased slightly in the third quarter.
- The financial account witnessed a further net outflow of capital in the amount of 327 million euros.
- Estonia's direct investment abroad and foreign direct investment in Estonia shrank considerably owing to the structural reorganisation in the banking sector.
- Estonia's gross external debt decreased by 5% quarter-on-quarter to 16 billion euros, exceeding the GDP for the last four quarters only by 2%. Net external debt contracted by more than double-fold, dropping from 21% to 9% as a ratio of GDP, from the second quarter.

The current account's sub-accounts changed little

The imports of goods were slightly larger than their exports. Trade deficit was 34 million euros, or 0.8% of GDP, approximately as small as in the third quarter of 2010. Both the exports and imports of goods increased 35% across all major groups of goods, in particular machinery and equipment, and mineral products (fuels). Growth picked up sharply from a year ago, while quarter-on-quarter the exports and imports of several goods groups (mineral products in particular) declined around 4%.

The surplus on services decreased somewhat, but still recorded another high at 423 million euros after the record high level reported in the third quarter of 2010. The exports of services grew by 17% and imports by 35%. Imports outpaced exports partly because of the cost of the delivery of stronger goods imports. The surplus on services shrank owing to a modest decline in the surpluses on transport and travel services, the two major types of services. Their surpluses amounted to 78% of the total surplus on services.

The net outflow of income decreased nearly by 10% to 179 million euros. The majority of the income account turnover consisted of capital income on foreign investment. Non-residents' income on invest-

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

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

Item	2010					2011		
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3
Current account	5.7	74.1	264.5	168.9	513.1	-52.8	89.6	300.9
Goods and services	104.0	219.2	421.1	317.9	1,062.1	96.5	311.7	388.9
Goods	-130.6	-127.6	-22.9	30.9	-250.2	-112.6	-26.7	-33.8
credit (f.o.b.)	1,780.2	2,080.1	2,268.0	2,649.3	8,777.7	2,752.2	3,192.9	3,069.2
debit (f.o.b.)	-1,910.8	-2,207.7	-2,291.0	-2,618.4	-9,027.9	-2,864.7	-3,219.6	-3,103.0
Services	234.5	346.7	444.0	287.0	1,312.3	209.0	338.5	422.7
credit	700.0	866.8	961.2	893.7	3,421.6	773.6	1,008.4	1,120.4
debit	-465.4	-520.0	-517.2	-606.7	-2,109.3	-564.6	-669.9	-697.7
Income	-109.7	-203.8	-195.6	-296.4	-805.4	-200.8	-283.3	-178.5
credit	179.4	178.0	207.6	120.8	685.9	218.1	215.1	229.8
debit	-289.1	-381.8	-403.2	-417.2	-1,491.3	-418.9	-498.3	-408.3
Current transfers	11.4	58.7	39.0	147.4	256.4	51.5	61.1	90.5
credit	107.8	119.7	123.1	241.4	592.0	175.9	142.6	164.8
debit	-96.4	-61.0	-84.2	-94.0	-335.6	-124.4	-81.5	-74.2
Capital and financial account (without reserve assets)	-107.5	128.4	-747.4	-402.1	-1,128.8	34.6	-33.5	-172.0
Capital account	66.5	75.7	93.3	283.1	518.6	142.9	105.4	154.6
Financial account	-174.0	52.6	-840.8	-685.2	-1,647.4	-108.3	-138.9	-326.6
Direct investment	200.0	305.4	151.7	405.0	1,062.1	194.6	374.5	846.1
Abroad	-50.8	-43.8	-93.2	87.7	-100.2	-224.1	-32.0	1,460.7
In Estonia	250.9	349.2	244.9	317.3	1,162.3	418.7	406.5	-614.6
Portfolio investment	31.4	-288.7	-224.0	40.7	-440.6	210.9	-33.0	415.6
Assets	32.1	-174.2	-225.9	76.6	-291.4	199.6	-3.3	274.0
Equity securities	-65.9	-169.1	-7.0	-59.8	-301.8	10.3	-13.1	9.5
Debt securities	98.0	-5.1	-218.9	136.4	10.4	189.3	9.8	264.5
Liabilities	-0.7	-114.5	1.8	-36.0	-149.3	11.3	-29.7	141.6
Equity securities	8.6	-2.0	-1.7	6.0	10.8	-0.4	-21.7	-28.2
Debt securities	-9.2	-112.5	3.5	-41.9	-160.1	11.7	-8.0	169.8
Financial derivatives	2.8	12.5	16.9	-0.6	31.6	-30.6	-15.2	11.4
Assets	-3.2	8.7	2.4	-9.8	-1.8	-4.7	-1.4	-30.6
Liabilities	5.9	3.7	14.5	9.2	33.4	-26.0	-13.8	42.0
Other investment	-408.2	23.4	-785.3	-1,130.3	-2,300.5	-483.2	-465.2	-1,599.7
Assets	-68.1	135.9	-596.9	-767.9	-1,296.9	68.0	-882.6	-886.8
Long-term	-149.5	-1.2	0.0	-170.9	-321.6	-124.5	38.4	5.9
Short-term	81.4	137.1	-596.9	-597.0	-975.4	192.6	-921.0	-892.7
Liabilities	-340.2	-112.5	-188.5	-362.4	-1,003.5	-551.3	417.4	-712.9
Long-term	-44.5	-399.0	-101.8	-741.9	-1,287.2	-425.1	-165.9	-163.2
Short-term	-295.6	286.5	-86.7	379.4	283.6	-126.2	583.3	-549.7
Errors and omissions	-7.1	7.6	-92.8	-123.3	-215.6	43.0	-63.8	-130.2
Overall balance	-109.0	210.0	-575.8	-356.5	-831.3	24.8	-7.7	-1.4
Reserve assets	109.0	-210.0	575.8	356.5	831.3	-24.8	7.7	1.4

ment in Estonia exceeded residents' income on investment abroad by 231 million euros, which is virtually as much as it was a year ago. Like in the third quarter of 2010, the net outflow of investment income almost entirely consisted of reinvested earnings, which are a book value and does not involve any actual movement of funds. The income account was boosted by 20% growth in the surplus on labour income. Residents' income earned abroad exceeded non-residents' income earned in Estonia by 53 million euros, which shows that employment abroad has been picking up in the past few quarters.

The surplus on current transfers and the capital account grew by almost double-fold to 245 million euros. The majority of the transfers came from EU structural funds for infrastructure investments and from the sale of intangible assets (emission quotas).

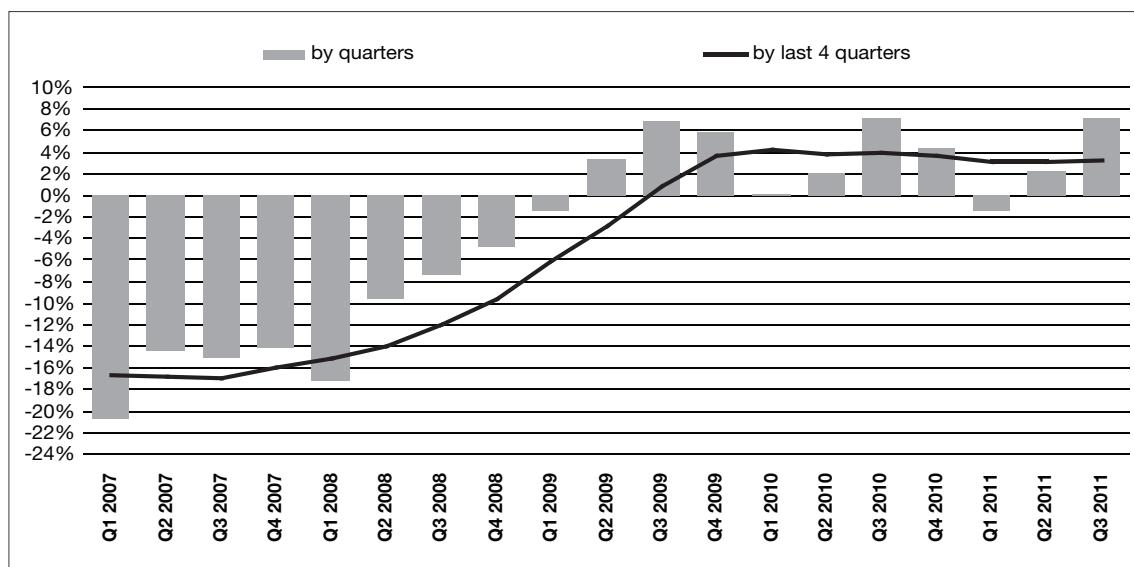


Figure 1. Current account balance (% of GDP)

Net capital outflow increased

The net outflow of capital on the financial account (net lending/borrowing) totalled 327 million euros in the third quarter of 2011. Foreign capital inflow to Estonia mainly consisted of direct and portfolio investment. Estonia's investment abroad comprised other investment capital (loans, deposits and other capital).

Direct investment inflow recorded a record high since 2005, when a large domestic bank was taken over by foreign investors. The third-quarter inflow was 846 million euros bigger than the outflow. Direct investment was exceptional in the third quarter, given that the usual growth was replaced by a considerable decline, both in terms of investment in Estonia and Estonia's investment abroad. Direct investment in Estonia shrank by 615 million euros, while residents' investment abroad contracted by 1,461 million euros in the third quarter. This was primarily due to structural changes in the banking sector – the Latvian and Lithuanian subsidiaries of one major bank being brought under the direct control of their foreign parent bank.

Portfolio investment inflow picked up and was 416 million euros bigger than outflow. Portfolio investment assets decreased by 274 million euros, while liabilities grew by 142 million euros. The decrease in assets can be mainly attributed to central bank's² money market instruments; growth in liabilities was driven by other sectors' debt securities.

The inflow of financial derivatives was 11 million euros bigger than their outflow.

The net outflow of capital in the form of other investment was as large as 1.6 billion euros. Other investment assets increased by 887 million euros, while liabilities decreased by 713 million euros. It was primarily the currency and deposits of credit institutions that grew in the third quarter. The decrease in liabilities concerned the currency and deposits of the central bank and credit institutions, and the other liabilities of the general government and credit institutions.

²As 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 **gross external debt**, that is the total external debt of all economic sectors, contracted 5% quarter-on-quarter to 16 billion euros and was 2% larger than the GDP for the last four quarters. All institutional sectors, in particular credit institutions, reduced their foreign debt. Net external debt (debt assets less debt liabilities) shrank by more than double-fold and constituted only 9% of the GDP for the last four quarters. The last such low ratio was recorded in 2002. Net external debt contracted primarily owing to credit institutions.

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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 December and in English on 29 December 2011 under *Publications*.

Estonia's balance of payments for 2011 will be published on the website of Eesti Pank (<http://www.bankofestonia.ee>) on 9 March 2011 at noon.

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