



EUROSÜSTEEM

## ESTONIA'S BALANCE OF PAYMENTS FOR 2011

(Based on preliminary data)

- **Year 2011 was successful for Estonia in terms of foreign trade: the current account was in surplus for the third year in row, totalling 506 million euros, or 3.2% of GDP (see Table 1 and Figure 1).**
- **Year-on-year, the structure of the current account did not change considerably: trade deficit and the surplus on services decreased somewhat, while income net outflow increased.**
- **The first half of 2011 saw record growth in goods exports, but growth started to slow gradually in the second half due to the rapid deterioration of the external environment. However, the deterioration did not affect services exports yet.**
- **The surplus on goods and services in 2011 was 1.1 billion euros, or 6.7% of GDP, which is more or less the same as in 2010.**
- **The net outflow of capital, which started off in 2010, continued in 2011, partly owing to the current account surplus. The outflow included primarily the currency and deposits of credit institutions.**
- **Estonia's gross external debt shrank by 5% to 15.7 billion euros by the end of 2011. Gross external debt was 15% larger than GDP at the end of 2010, while 2% smaller than GDP at the end of 2011. Estonia's net external debt (assets less liabilities) decreased three-fold from a year ago to 7% of GDP, which is the lowest ratio of the past ten years.**

### The structure of the current account did not change much

**Goods exports outpaced imports** year-on-year: exports grew by 38% and imports by 36% in 2011. Trade deficit contracted to 180 million euros, or 1% of GDP. Exports grew by record 54% in the first half of 2011, while growth slowed in the second half due to the deterioration of the general economic situation. Exports increased by 35% in the third quarter and by 16% in the fourth quarter, compared to the respective periods in 2010. Import growth slowed down too. In 2011, the imports and exports of goods grew in all major goods groups, in particular machinery and equipment, and mineral products (fuels). Trade deficit shrank, concerning mostly the goods groups of timber, paper and furniture, while the deficit on transport vehicles increased robustly.

**The surplus on services decreased slightly** to 1.3 billion euros. Although the turnover of services has increased from year to year, the surplus on services has ranged between 1.2–1.3 billion euros over the past four years. Services exports grew by 15% and imports by 27% year-on-year. Import growth was boosted, among other things, by the increased imports of transport services in relation to the delivery of strong growth in goods imports. The surplus on services decreased primarily because of construction services, as the imports of these services grew robustly.

**Income outflow exceeded inflow** by 846 million euros, with that negative balance increasing by 5% from a year ago. The majority of the income account turnover consisted of investment income. Non-residents'

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

Item	2009	2010	2011				
	Total	Total	Q1	Q2	Q3	Q4	Total
<b>Current account</b>	<b>512.3</b>	<b>513.2</b>	<b>-52.8</b>	<b>89.6</b>	<b>292.4</b>	<b>176.9</b>	<b>506.1</b>
Goods and services	799.1	1,062.2	96.5	311.7	393.6	273.3	1,075.1
Goods	-559.1	-250.2	-112.6	-26.8	-34.8	-6.3	-180.4
credit (f.o.b.)	6,550.4	8,777.7	2,752.2	3,192.9	3,071.2	3,079.3	12,095.4
debit (f.o.b.)	-7,109.4	-9,028.0	-2,864.7	-3,219.6	-3,106.0	-3,085.5	-12,275.9
Services	1,358.2	1,312.2	209.1	338.5	428.4	279.6	1,255.5
credit	3,173.8	3,421.7	773.6	1,008.4	1,126.2	1,027.6	3,935.9
debit	-1,815.5	-2,109.3	-564.6	-669.9	-697.8	-748.0	-2,680.3
Income	-502.1	-805.5	-200.8	-283.3	-164.0	-197.6	-845.7
credit	660.1	685.8	218.1	215.1	235.5	179.4	848.0
debit	-1,162.2	-1,491.3	-418.9	-498.3	-399.6	-376.9	-1,693.7
Current transfers	215.4	256.5	51.5	61.1	62.8	101.2	276.7
credit	502.1	592.0	175.9	142.6	131.2	207.1	656.8
debit	-286.6	-335.6	-124.4	-81.5	-68.5	-105.9	-380.2
<b>Capital and financial account (without reserve assets)</b>	<b>-450.7</b>	<b>-1,128.6</b>	<b>34.6</b>	<b>-33.5</b>	<b>-155.0</b>	<b>-178.7</b>	<b>-332.6</b>
Capital account	483.5	518.6	142.9	105.4	154.6	196.5	599.4
Financial account	-934.1	-1,647.4	-108.3	-138.9	-309.6	-375.2	-932.0
Direct investment	208.4	1,062.1	194.6	374.5	838.9	-232.2	1,175.8
Abroad	-1,114.7	-100.1	-224.1	-32.0	1,458.0	-155.6	1,046.4
In Estonia	1,323.1	1,162.3	418.7	406.5	-619.2	-76.6	129.5
Portfolio investment	-1,448.4	-440.6	210.9	-33.0	426.2	522.0	1,126.2
Assets	-486.1	-291.4	199.6	-3.3	284.5	522.5	1,003.2
Equity securities	-47.9	-301.8	10.3	-13.1	18.5	90.6	106.3
Debt securities	-438.2	10.4	189.3	9.8	265.9	431.9	896.9
Liabilities	-962.2	-149.4	11.3	-29.7	141.8	-0.5	123.0
Equity securities	-93.6	10.9	-0.4	-21.7	-28.0	-27.8	-77.8
Debt securities	-868.6	-160.1	11.7	-8.0	169.8	27.3	200.7
Financial derivatives	14.1	31.6	-30.6	-15.2	10.8	-8.7	-43.7
Assets	17.4	-1.9	-4.7	-1.4	-31.2	9.9	-27.4
Liabilities	-3.2	33.3	-26.0	-13.8	42.0	-18.6	-16.3
Other investment	291.7	-2,300.4	-483.2	-465.2	-1,585.6	-656.3	-3,190.3
Assets	954.7	-1,297.0	68.0	-882.6	-871.8	-458.7	-2,145.1
Long-term	-39.7	-321.6	-124.5	38.4	5.8	19.1	-61.2
Short-term	994.5	-975.4	192.6	-921.0	-877.7	-477.8	-2,083.9
Liabilities	-662.9	-1,003.6	-551.3	417.4	-713.7	-197.6	-1,045.2
Long-term	271.5	-1,287.2	-425.1	-165.9	-160.4	-437.1	-1,188.6
Short-term	-934.4	283.6	-126.2	583.3	-553.3	239.5	143.4
Errors and omissions	-59.6	-215.6	43.0	-63.8	-138.7	-1.2	-160.8
<b>Overall balance</b>	<b>2.1</b>	<b>-831.3</b>	<b>24.8</b>	<b>-7.7</b>	<b>-1.4</b>	<b>-3.0</b>	<b>12.8</b>
<b>Reserve assets</b>	<b>-2.1</b>	<b>831.3</b>	<b>-24.8</b>	<b>7.7</b>	<b>1.4</b>	<b>3.0</b>	<b>-12.8</b>

income on investment in Estonia exceeded residents' income on investment abroad by 1 billion euros. Dividends accounted for 28% and reinvested earnings for 54% of the non-residents' investment income. Estonian investors primarily earned income on direct and portfolio investment abroad (53% and 22% of the investment income, respectively). Given that the number of Estonian residents who work abroad is constantly growing, the surplus on labour income increased too, although the increase was not that significant in light of the inflow and outflow of investment income.

Compared to 2010, the use of EU subsidies increased further in 2011: **the total surplus on current transfers and the capital account grew by 13%** to 876 million euros.

EU Member States accounted for 68% of the credit turnover and for 80% of the debit turnover of the current account. The respective indicators for the monetary union were 34% and 35%. Year-on-year, the percentages of the EU and the monetary union have dropped by one percentage point.

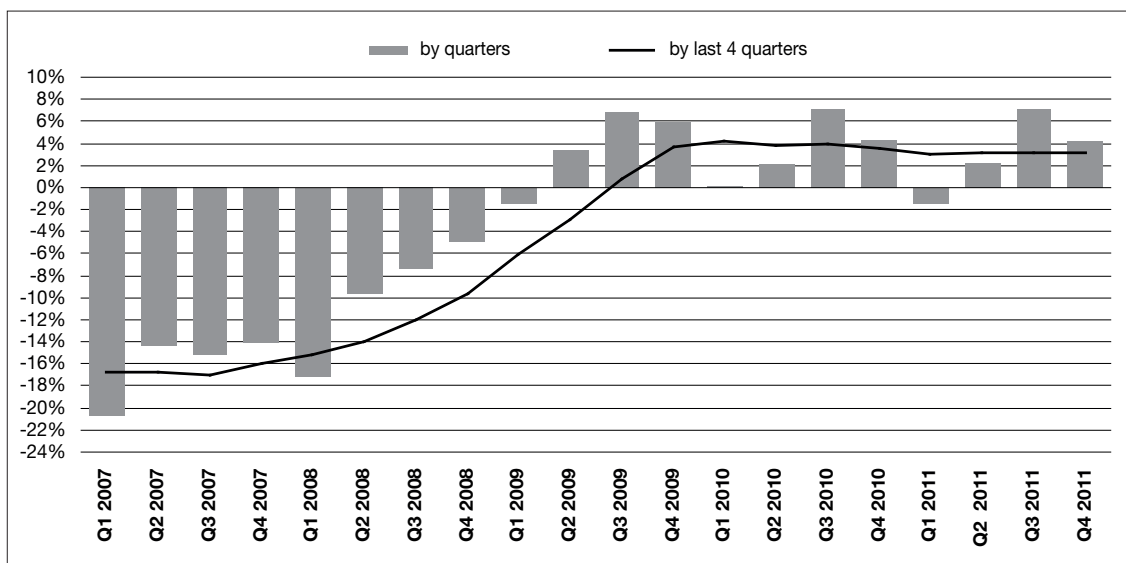


Figure 1. Current account balance (% of GDP)

### The net outflow of capital continued, though to a lesser extent compared to 2010

**The outflow of capital (net lending) on the financial account exceeded inflow by 924 million euros,** which is almost 60% less than in 2010. Net outflow included primarily other investment and totalled 3.2 billion euros. The outflow can be largely attributed to credit institutions. The net inflow of capital consisted of direct and portfolio investment.

**The net inflow of direct investment increased by 10% to 1.2 billion euros.** Foreign direct investment was somewhat exceptional in 2011: investment abroad shrank considerably, by 1 billion euros, instead of traditional growth. This was primarily due to structural changes in the banking sector – the Latvian and Lithuanian subsidiaries of one major Estonian bank were brought under the direct control of their foreign parent bank. The changes also entailed a considerable decline in equity capital – a component of direct investment – in Estonia. The above-mentioned large transactions had a considerable impact on the annual direct investment statistics. Consequently, foreign direct investment in Estonia increased only by 130 million euros from a year ago, while foreign direct investors reinvested here around 900 million euros of their direct investment income earned in Estonia.

**The net inflow of portfolio investment was unexceptionally large** at 1.1 billion euros. Portfolio investment assets decreased by 1 billion euros, while liabilities grew by 123 million euros. The decrease in assets (mainly money market instruments) concerned primarily the central bank<sup>1</sup> and the general government.

**The outflow of financial derivatives was 44 million euros larger than inflow.**

**The outflow of other investment (trade credit, loans, currency and deposits) was large too,** totalling 3.2 billion euros. Other investment assets increased by 2.1 billion euros and liabilities decreased by 1 billion euros, which can be mostly attributed to credit institutions.

**Estonia's gross external debt, that is the total external debt of all economic sectors, contracted 5% to 15.7 billion euros and was 2% smaller than GDP, year-on-year.** The external debt of credit institutions

<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.

decreased the most, while the debt of other sectors increased. Year-on-year, net external debt contracted three-fold to 1.1 billion euros (7% of GDP), which is similar to the levels recorded ten years ago.

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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 26 March and in English on 29 March 2012 under *Publications*.

**The balance of payments for the first quarter of 2012 will be published on the website of Eesti Pank (<http://www.bankofestonia.ee>) on 8 June 2012 at noon.**