



## **THE ESTONIAN BALANCE OF PAYMENTS FOR 2012**

(Based on preliminary data)

- After three years in surplus, the balance of payments current account slipped into deficit in 2012 of 204 million euros or 1.2% of GDP (see Table 1 and Figure 1).
- The current account deficit was almost entirely due to the goods account, which increased its deficit to more than three times the level of 2011. With weaker external demand and stronger domestic demand, export growth was mild while imports grew rather faster.
- The balances of the other components of the current account – services, income and current transfers – did not change greatly.
- The growth in the external trade deficit was primarily related to increased imports of investment goods like machinery and equipment, rail transport and industrial equipment.
- The cash flow on the capital account was in surplus by 582 million euros, which was slightly less than in 2011 and was almost entirely made up of European Union support for infrastructure development.
- The Estonian economy was a net lender in 2012 with 290 million euros more going out from the financial account, including reserves, than came in.
- The gross external debt of the Estonian economy grew by almost 8% in the year to 16.7 billion euros, and stood at 98% of the year's GDP by the end of the year. The main drivers of the growth in gross external debt were other sectors and the government sector. As debt claims to the external environment grew faster in the year than loans taken from abroad, Estonia's net foreign debt was positive, with debt claims exceeding liabilities by 0.3 billion euros at the end of the year, or 2% of GDP.

### **The current account turned negative because of foreign trade**

The growth rates of both exports and imports of goods were significantly slower in 2012 than in 2011, with exports growing by 4% and imports by 8%. However the volumes of exports and imports were larger than in any other previous year. If goods for processing are excluded from exports, then exports grew by almost 9% during the year. The main growth in goods exports came from food and chemical goods, and machinery and equipment. Exports of wood and metal products remained very close to their levels of the previous year. Imports of goods increased for most groups of goods except mineral products. There was rapid growth in imports of furniture and various other goods, transport equipment, particularly railway rolling stock and ships, and machinery and equipment. The trade deficit was three times larger than in the previous year at 730 million euros, which is equal to 4.3% of GDP. A major contributor to the increase in the deficit was investment goods, notably industrial equipment, railway vehicles, ships, and electrical and mechanical machinery and equipment, but also other transport vehicles and chemical products.

The surplus from imports and exports of services was very close to its level of a year earlier at 1.2 billion euros. Exports of services grew by 9% and imports by 14%. The faster growth in imports was

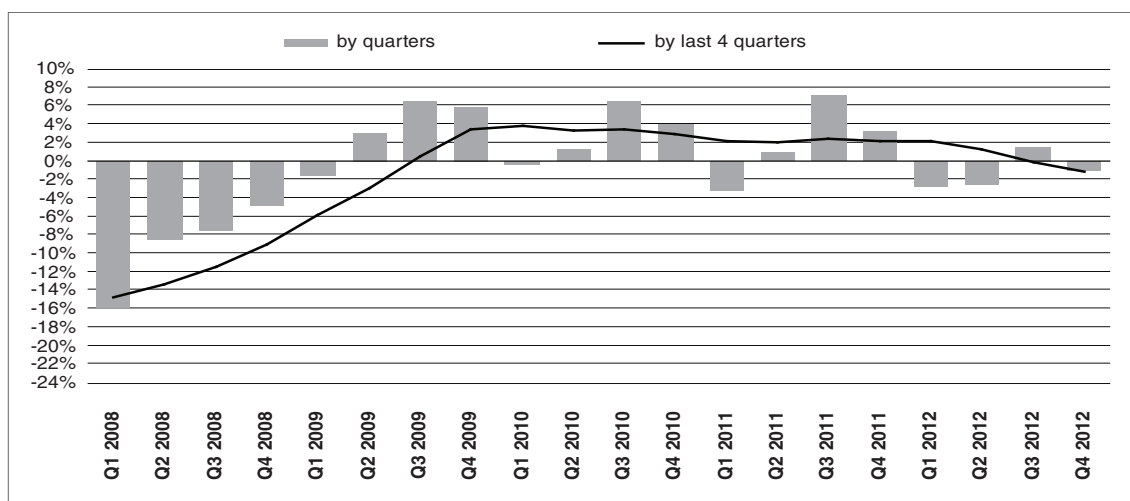
**Table 1. Estonia's balance of payments (EUR million)**

Item	2010	2011	2012				Total
	Total	Total	Q1	Q2	Q3	Q4	
<b>Current account</b>	<b>419.4</b>	<b>339.5</b>	<b>-107.9</b>	<b>-110.9</b>	<b>64.4</b>	<b>-50.0</b>	<b>-204.3</b>
Goods and services	1,073.1	1,017.8	79.8	177.5	221.9	7.1	486.4
Goods	-266.6	-221.5	-148.3	-227.2	-128.8	-230.5	-735.0
credit (f.o.b.)	8,769.0	12,055.9	2,994.3	3,091.4	3,308.9	3,170.7	12,565.2
debit (f.o.b.)	-9,035.6	-12,277.4	-3,142.6	-3,318.6	-3,437.7	-3,401.2	-13,300.2
Services	1,339.7	1,239.2	228.2	404.8	350.7	237.7	1,221.4
credit	3,441.4	3,899.7	901.1	1,124.8	1,152.6	1,063.6	4,242.2
debit	-2,101.7	-2,660.4	-672.9	-720.0	-801.9	-825.9	-3,020.8
Income	-893.5	-932.6	-196.9	-346.7	-232.9	-173.0	-949.5
credit	703.3	861.6	186.0	158.1	216.9	211.2	772.2
debit	-1,596.9	-1,794.2	-382.9	-504.9	-449.8	-384.2	-1,721.8
Current transfers	239.8	254.3	9.2	58.4	75.4	115.9	258.9
credit	552.6	610.3	121.3	141.2	156.6	214.5	633.6
debit	-312.8	-356.1	-112.1	-82.8	-81.2	-98.6	-374.8
<b>Capital and financial account (without reserve assets)</b>	<b>-345.6</b>	<b>-294.2</b>	<b>47.9</b>	<b>266.1</b>	<b>49.1</b>	<b>-71.7</b>	<b>291.4</b>
Capital account	505.2	669.5	86.8	110.2	211.8	173.0	581.7
<b>Financial account</b>	<b>-850.8</b>	<b>-963.7</b>	<b>-38.9</b>	<b>155.9</b>	<b>-162.7</b>	<b>-244.6</b>	<b>-290.3</b>
Direct investment	1,100.1	1,234.1	55.7	481.0	149.8	-231.4	455.1
Abroad	-107.1	1,049.1	-85.5	-50.3	-89.6	-463.9	-689.3
In Estonia	1,207.3	185.0	141.2	531.3	239.4	232.5	1,144.4
Portfolio investment	-462.1	1,151.9	-116.3	193.7	-245.0	55.4	-112.3
Assets	-316.8	1,031.5	-86.6	-101.2	-239.8	165.5	-262.1
Equity securities	-303.8	102.2	-102.8	23.5	-5.4	-74.6	-159.3
Debt securities	-13.0	929.3	16.2	-124.8	-234.3	240.1	-102.8
Liabilities	-145.3	120.4	-29.7	294.9	-5.2	-110.1	149.8
Equity securities	30.0	-80.5	-14.4	3.4	-8.7	-97.1	-116.7
Debt securities	-175.3	200.8	-15.3	291.5	3.5	-13.0	266.6
Financial derivatives	32.7	-38.8	26.6	11.7	21.5	-26.4	33.5
Assets	-0.9	-22.6	44.2	25.8	0.2	-12.4	57.8
Liabilities	33.6	-16.2	-17.5	-14.0	21.2	-14.0	-24.3
Other investment	-2,352.7	-3,298.1	48.3	-530.3	-69.9	-45.1	-597.0
Assets	-1,263.4	-2,210.6	-292.7	-532.9	-413.0	-395.3	-1,633.9
Long-term	-322.5	-93.5	-154.9	-6.0	-61.5	-213.4	-435.8
Short-term	-940.8	-2,117.1	-137.8	-526.9	-351.5	-181.9	-1,198.1
Liabilities	-1,089.4	-1,087.6	341.0	2.6	343.1	350.2	1,036.9
Long-term	-1,361.2	-1,190.3	241.2	-514.2	183.0	519.6	429.6
Short-term	271.8	102.8	99.8	516.8	160.1	-169.4	607.3
<b>Reserve assets</b>	<b>831.3</b>	<b>-12.8</b>	<b>-53.2</b>	<b>-0.2</b>	<b>-19.1</b>	<b>2.9</b>	<b>-69.5</b>
<b>Errors and omissions</b>	<b>-73.8</b>	<b>-45.3</b>	<b>60.0</b>	<b>-155.3</b>	<b>-113.5</b>	<b>121.6</b>	<b>-87.1</b>
<b>Capital and financial account excluding reserve assets</b>	<b>-1,176.9</b>	<b>-281.4</b>	<b>101.1</b>	<b>266.3</b>	<b>68.2</b>	<b>-74.5</b>	<b>361.0</b>
<b>Financial account excluding reserve assets</b>	<b>-1,682.1</b>	<b>-950.9</b>	<b>14.3</b>	<b>156.1</b>	<b>-143.6</b>	<b>-247.5</b>	<b>-220.8</b>

mainly caused by purchases of transport services for bringing in imported goods. Exports were higher than imports in all the main categories of services except for construction and copyright and licensing payments. The largest surplus of exports over imports was, as usual, in transport, travel, and other business services, which contributed 91% of the surplus in the services account.

**Net outflows from the income account remained at around the same level as in the previous year, increasing by 2% and reaching 950 million euros.** Income earned abroad by Estonian residents from labour and investment fell by 10% and the income earned in Estonia by non-residents fell by 4%. There was a net inflow in labour income, but a net outflow in investment income. Investment income accounted for the lion's share of the net outflows from the income account, and 86% of it was reinvested profit. Reinvested

**Figure 1. Current account balance in relation to GDP (%)**



profit is also a component of the inflows of direct investment, and so it is calculated for accounting purposes while no actual cash transactions happen.

**The total surplus in current transfers and the capital account fell by around 10% to 841 million euros.**

The fall came in consequence of the sharp reduction in the sales of emissions quotas. Current and capital transfers from European Union funds increased.

### **Estonia continued to be a net lender in 2012**

**Capital outflows from the financial account, including reserves, surpassed inflows by 290 million euros.** The business sector with 454 million euros, the government sector with 365 million euros and credit institutions with 130 million euros were net borrowers but the central bank and, to a smaller extent, households were net lenders, financing the outside world with 1202 and 37 million euros respectively.

**Inflows from direct investments surpassed outflows by 455 million euros.** Direct investments in Estonia by non-residents grew to 1.1 billion euros and direct investments abroad by residents were 689 million euros. Almost 80% of the direct investments in Estonia by non-residents was reinvested earnings, and one third was equity investment. To some extent, the loans were made to the direct investors. In contrast, the largest part of the direct investment abroad by residents was as loan capital to subsidiary and associated companies, and a third of investments were in equity. Reinvested income abroad fell as dividends were taken out. Investments in Estonia were concentrated in financial services and maritime transport, while direct investment abroad was made by investors of maritime transport.

**Outflows from portfolio investors exceeded inflows by 112 million euros.** Foreign assets grew by 262 million euros. Equity security assets increased principally in other sectors, through pension funds, and debt security assets increased for credit institutions. Portfolio investment liabilities increased by 150 million euros, mainly due to other sectors reducing equity security liabilities and increasing debt security liabilities.

**Net inflows of derivatives were 34 million euros.** Assets fell by 58 million euros and liabilities by 24 million, mostly driven by the assets and liabilities of other sectors in both cases.

**Outflows from other investments in the form of loans and deposits exceeded inflows by 597 million euros.** This was in consequence of the growth in both external assets and external liabilities, of 1.6 million and

1 million euros respectively. Assets grew mainly through an increase in the cash and deposits of the central bank held abroad and the long-term loans of the government sector. Liabilities grew mainly because of the increased long-term loan obligations of the government sector and other sectors.

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More detailed statistics on Estonia's balance of payments, international investment position and external debt can be found on Eesti Pank's website under the heading "Statistics". A longer analysis of the balance of payments with tables and graphs will be published in Estonian on the website under the heading "Publications" on 27 March and in English on 4 April 2013.

The balance of payments for the first quarter of 2013 will be published on the Eesti Pank website (<http://www.eestipank.ee>) on 10 June 2013 at 12.00 midday.