

9 March 2012



## ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND GROSS EXTERNAL DEBT as at 31 December 2011

Foreign investment in Estonia totalled 26.4 billion euros (65% more than GDP) at the end of 2011, having decreased only by 1% from the previous year (see Table 1).

**Table 1. Estonia's international investment position (EUR million)**

	31/12/2010	%	31/12/2011	%
<b>EXTERNAL ASSETS</b>				
<b>Direct investment abroad</b>	<b>4,324.8</b>	<b>26.6</b>	<b>3,611.2</b>	<b>21.1</b>
Equity capital and reinvested earnings	2,969.6	18.2	2,432.3	14.2
Other direct investment capital	1,355.2	8.3	1,179.0	6.9
<b>Portfolio investment</b>	<b>3,947.5</b>	<b>24.2</b>	<b>4,200.4</b>	<b>24.5</b>
Equity securities	1,594.3	9.8	1,607.9	9.4
Debt securities	2,353.2	14.5	2,592.5	15.1
Bonds and notes	1,457.4	9.0	1,967.2	11.5
Money market instruments	895.8	5.5	625.3	3.7
<b>Financial derivatives</b>	<b>33.7</b>	<b>0.2</b>	<b>68.4</b>	<b>0.4</b>
<b>Other investment</b>	<b>6,063.7</b>	<b>37.2</b>	<b>9,090.0</b>	<b>53.1</b>
Trade credit	1,564.6	9.6	1,695.0	9.9
Loans	1,584.2	9.7	1,690.3	9.9
Long-term	1,089.9	6.7	983.4	5.7
Short-term	494.3	3.0	706.9	4.1
Currency and deposits	2,480.4	15.2	5,091.0	29.7
Other assets	434.5	2.7	613.7	3.6
<b>Reserve assets</b>	<b>1,908.8</b>	<b>11.7</b>	<b>160.4</b>	<b>0.9</b>
<b>TOTAL EXTERNAL ASSETS</b>	<b>16,278.5</b>	<b>100.0</b>	<b>17,130.5</b>	<b>100.0</b>
<b>EXTERNAL LIABILITIES</b>				
<b>Direct investment in Estonia</b>	<b>12,302.0</b>	<b>46.1</b>	<b>12,762.7</b>	<b>48.4</b>
Equity capital and reinvested earnings	10,658.7	39.9	11,514.6	43.7
Other direct investment capital	1,643.3	6.2	1,248.0	4.7
<b>Portfolio investment</b>	<b>1,432.9</b>	<b>5.4</b>	<b>1,329.3</b>	<b>5.0</b>
Equity securities	892.7	3.3	627.6	2.4
Debt securities	540.2	2.0	701.7	2.7
Bonds and notes	536.3	2.0	698.9	2.7
Money market instruments	3.9	0.0	2.8	0.0
<b>Financial derivatives</b>	<b>90.5</b>	<b>0.3</b>	<b>80.0</b>	<b>0.3</b>
<b>Other investment</b>	<b>12,869.1</b>	<b>48.2</b>	<b>12,195.2</b>	<b>46.3</b>
Trade credit	1,133.6	4.2	1,416.6	5.4
Loans	3,364.7	12.6	3,763.3	14.3
Long-term	2,392.5	9.0	3,075.4	11.7
Short-term	972.2	3.6	687.9	2.6
Currency and deposits	7,738.7	29.0	6,620.7	25.1
Other liabilities	632.2	2.4	394.5	1.5
<b>TOTAL EXTERNAL LIABILITIES</b>	<b>26,694.5</b>	<b>100.0</b>	<b>26,367.0</b>	<b>100.0</b>
<b>NET INTERNATIONAL INVESTMENT POSITION</b>	<b>-10,416.0</b>		<b>-9,236.6</b>	

Estonia's gross external debt, that is the total external debt of all economic sectors, comprised 59% or 15.7 billion euros of total direct investment in Estonia, having shrunk by 5% year-on-year. Gross external debt was 15% larger than GDP at the end of 2010, while only 2% smaller than GDP at the end of 2011 (see Table 2 and Figure 1).

Estonian residents' investment abroad grew by 5% from a year ago to 17.1 billion euros at the end of 2011.

Table 2. Estonia's external debt (EUR million)

	31/12/2010	%	31/12/2011	%
<b>LIABILITIES</b>				
<b>I. General government</b>	<b>754.1</b>	<b>4.6</b>	<b>527.6</b>	<b>3.4</b>
Short-term	0.2	0.0	11.6	0.1
Long-term	753.9	4.6	516.0	3.3
<b>II. Monetary authorities (NCB)</b>	<b>80.4</b>	<b>0.5</b>	<b>73.8</b>	<b>0.5</b>
Short-term	8.3	0.1	0.3	0.0
Long-term	72.1	0.4	73.6	0.5
<b>III. Credit institutions</b>	<b>8,003.7</b>	<b>48.6</b>	<b>6,887.5</b>	<b>44.0</b>
Short-term	4,501.0	27.3	4,336.6	27.7
Long-term	3,502.7	21.3	2,550.9	16.3
<b>IV. Other sectors</b>	<b>4,571.1</b>	<b>27.7</b>	<b>5,407.9</b>	<b>34.5</b>
Short-term	2,145.7	13.0	2,140.1	13.7
Long-term	2,425.5	14.7	3,267.8	20.9
<b>V. Direct investment: intercompany lending</b>	<b>3,071.7</b>	<b>18.6</b>	<b>2,762.6</b>	<b>17.6</b>
<b>GROSS EXTERNAL DEBT</b>	<b>16,481.0</b>	<b>100.0</b>	<b>15,659.5</b>	<b>100.0</b>
<b>ASSETS</b>				
<b>I. General government</b>	<b>1,148.9</b>	<b>8.8</b>	<b>1,073.1</b>	<b>7.4</b>
Short-term	584.4	4.5	499.7	3.4
Long-term	564.5	4.3	573.4	3.9
<b>II. Monetary authorities (NCB)</b>	<b>1,900.3</b>	<b>14.5</b>	<b>1,530.7</b>	<b>10.5</b>
Short-term	1,654.8	12.6	747.9	5.1
Long-term	245.5	1.9	782.8	5.4
<b>III. Credit institutions</b>	<b>2,761.1</b>	<b>21.1</b>	<b>4,128.3</b>	<b>28.4</b>
Short-term	2,001.6	15.3	3,219.3	22.2
Long-term	759.5	5.8	908.9	6.3
<b>IV. Other sectors</b>	<b>4,506.3</b>	<b>34.4</b>	<b>5,105.7</b>	<b>35.1</b>
Short-term	3,102.2	23.7	3,642.9	25.1
Long-term	1,404.0	10.7	1,462.8	10.1
<b>V. Direct investment: intercompany lending</b>	<b>2,783.5</b>	<b>21.2</b>	<b>2,693.6</b>	<b>18.5</b>
<b>TOTAL ASSETS</b>	<b>13,100.1</b>	<b>100.0</b>	<b>14,531.3</b>	<b>100.0</b>
<b>NET EXTERNAL DEBT (assets less liabilities)</b>				
<b>I. General government</b>	<b>394.8</b>		<b>545.6</b>	
Short-term	584.2		488.2	
Long-term	-189.5		57.4	
<b>II. Monetary authorities (NCB)</b>	<b>1,819.9</b>		<b>1,456.9</b>	
Short-term	1,646.5		747.6	
Long-term	173.4		709.2	
<b>III. Credit institutions</b>	<b>-5,242.6</b>		<b>-2,759.3</b>	
Short-term	-2,499.4		-1,117.3	
Long-term	-2,743.2		-1,642.0	
<b>IV. Other sectors</b>	<b>-64.9</b>		<b>-302.2</b>	
Short-term	956.6		1,502.8	
Long-term	-1,021.5		-1,805.0	
<b>V. Direct investment: intercompany lending</b>	<b>-288.2</b>		<b>-69.0</b>	
<b>TOTAL NET EXTERNAL DEBT</b>	<b>-3,380.9</b>		<b>-1,128.2</b>	

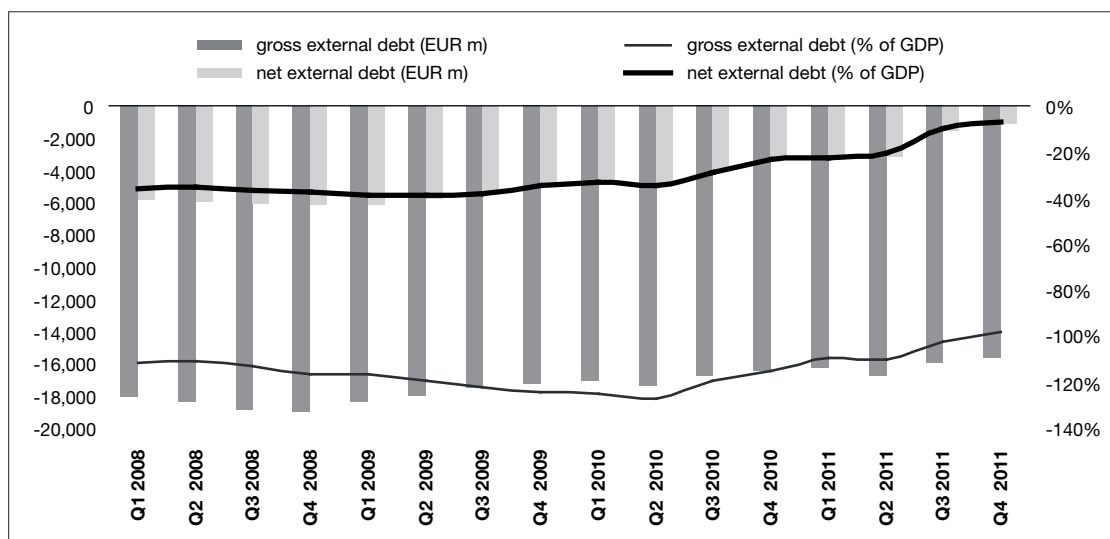


Figure 1. Estonia's gross and external debt

Due to the prevalence of foreign investment in Estonia over residents' investment abroad, Estonia had a negative net international investment position of 9.2 billion euros, which decreased by 11% from a year ago. Estonia's net external debt (assets less liabilities) contracted three-fold from the previous year to 1.1 billion euros. Net external debt-to-GDP ratio decreased from 24% to 7% year-on-year. The last such low ratio was recorded ten years ago.

The share of direct investment in **total investment in Estonia** increased by 2 percentage points from the previous year to 48%. The increase in investment concerned mainly equity direct investment, while the share of other investment dropped to 46% by the end of 2011. The rest were portfolio investment (5%) and financial derivatives. In terms of volume, the total investment position contracted only by 1%, primarily on account of other investment. The currency and deposit liabilities of credit institutions decreased by more than 1 billion euros, while the trade credit liabilities and long-term loan liabilities of other sectors increased. The direct investment position grew by 4% year-on-year.

The structure of **Estonia's investment abroad** changed considerably. First, a structural change occurred in the banking sector: the Latvian and Lithuanian subsidiaries of one major bank were brought under the direct control of their foreign parent bank. Consequently, the direct investment position abroad contracted by 17% from a year ago and its share in the total position fell from 27% to 21%. Second, Estonia changed over to the euro,<sup>1</sup> which resulted in a sudden drop in the share of reserve assets and an increase in other investment. Other investment formed 53% of the total investment position at the end of 2011, with other investment abroad increasing by 50% year-on-year. Other investment growth was mainly driven by credit institutions, and somewhat also by the central bank. Portfolio investment accounted for 25% of Estonia's investment abroad and that ratio did not change from a year ago.

**Estonia's gross external debt** shrank by 5% to 15.7 billion euros by the end of 2011, mostly owing to credit institutions and less to the general government and direct investment companies. The external debt of other sectors, on the other hand, increased by around 20%. The share of credit institutions in gross external debt dropped from 49% to 44%, while the share of other sectors rose to 35% year-on-year. The share of the general government declined to 3%. At the end of 2010, 52% of gross external debt was related to Sweden

<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.

and Finland, but this ratio fell to 40% by the end of 2011. Credit institutions were liable for 60% of the debt to Sweden and Finland. Estonia's net external debt (assets less liabilities) decreased three-fold from a year ago to 1.1 billion euros.

More detailed statistics on Estonia's international investment position and gross external debt is available on the website of Eesti Pank under *Statistical Indicators*.

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**Estonia's international investment position and gross external debt as at 31 March 2012 will be published on the website of Eesti Pank (<http://www.bankofestonia.ee>) on 8 June 2012 at noon.**