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EUROSÜSTEEM

THE ESTONIAN BALANCE OF PAYMENTS, INTERNATIONAL INVESTMENT POSITION AND GROSS EXTERNAL DEBT FOR THE THIRD QUARTER 2013

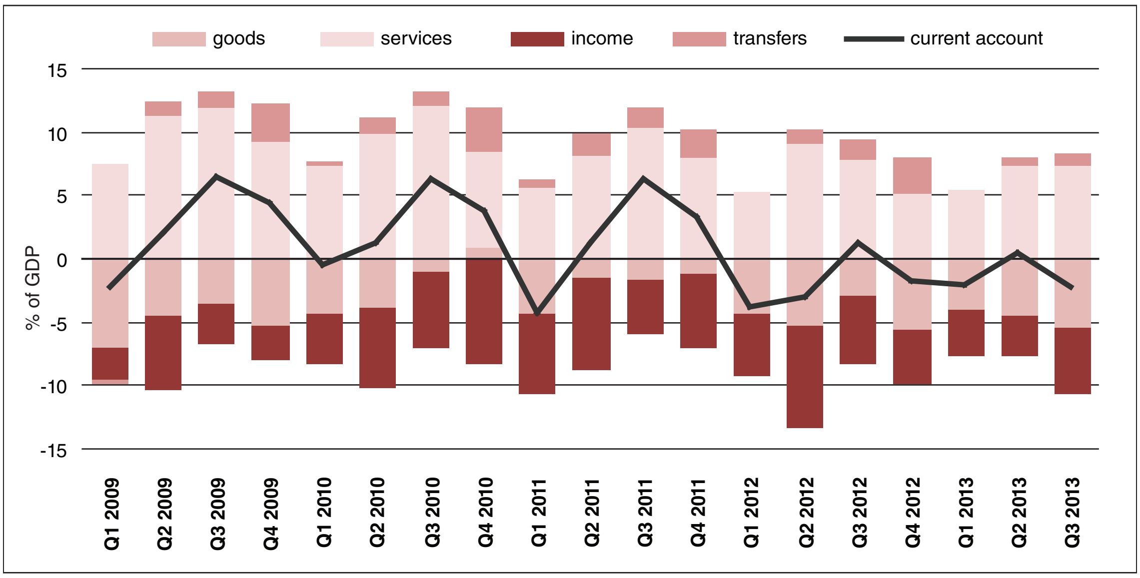
(Based on preliminary data)[1]

Estonia's current account deficit was 102 million euros in the third quarter of 2013, or 2% of GDP of the quarter (see Table 1 and Figure 1).

Table 1. Estonian balance of payments (million euros)

	2010	2011	2012					2013		
	Total	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3
CURRENT ACCOUNT	**408**	**291**	**-153**	**-133**	**54**	**-79**	**-310**	**-88**	**24**	**-102**
Goods	-271	-328	-168	-231	-129	-248	-776	-166	-203	-253
Services	1,339	1,322	216	404	354	239	1 214	234	348	345
Income	-894	-956	-197	-354	-241	-194	-987	-156	-149	-242
Current transfers	233	254	-4	48	70	125	239	0	29	47
Capital account	**505**	**669**	**94**	**137**	**191**	**184**	**606**	**106**	**145**	**155**
Financial account (including reserve assets)	**-861**	**-1,042**	**-90**	**176**	**-74**	**-304**	**-292**	**-138**	**-14**	**36**
Direct investment	1,100	1,290	49	439	156	-204	440	-38	67	328
Portfolio investment	-462	1,151	-116	193	-245	69	-100	-1	217	-191
Financial derivatives	33	-40	27	12	21	8	68	3	-12	17
Other investments	-2,363	-3,430	4	-467	13	-180	-630	-80	-324	-113
Reserve assets	831	-13	-53	0	-19	3	-70	-22	38	-5
Errors and omissions	**-53**	**81**	**149**	**-181**	**-172**	**199**	**-5**	**119**	**-155**	**-89**

Figure 1. The structure of the current account



[1] Comparisons are with data for the same period of the previous year unless otherwise stated.

The current account had been in surplus in both the third quarter of last year and the second quarter of this[2]. The deficit was mainly due to the increased deficit on the goods account, while the balances of the other components of the current account were around the same as in the third quarter of last year.

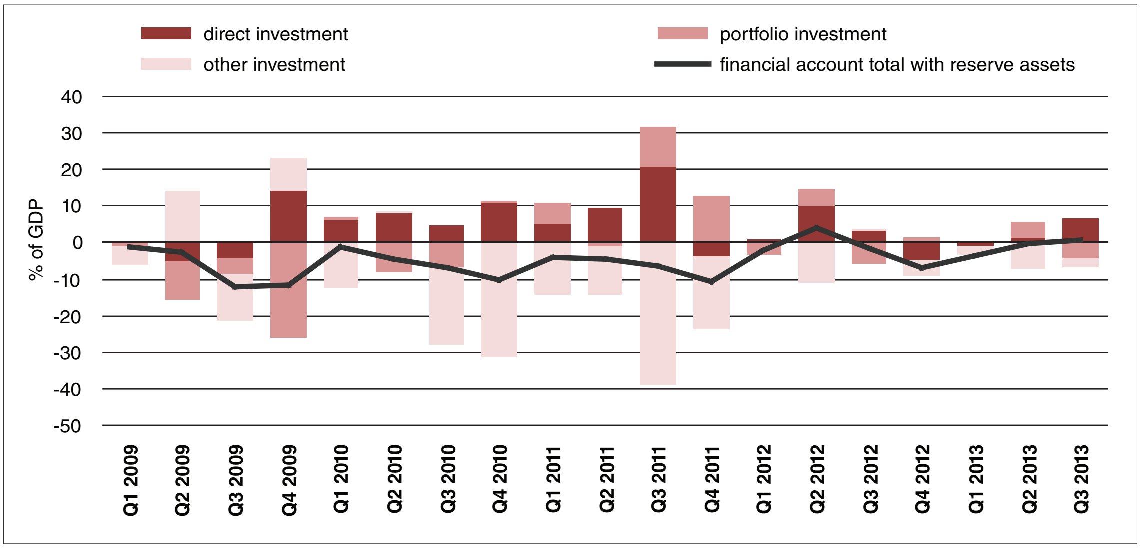
The deficit in *goods*, the part of the current account with the largest turnover, doubled from the same quarter of the previous year. Exports of goods fell by 9% and imports by 5%. Processed goods, mainly motor fuels, saw a continuation of the sharp reduction in both imports and exports, and if they are taken out from foreign trade, the fall in exports was 5% and that in imports was 2%. Exports and imports of goods in the third quarter were also smaller than in the previous quarter and the reduction was seen in most groups of goods. The largest contribution to the growth in the goods deficit came from mineral products, metal products and transport vehicles. **The surplus on the *services account*** was similar to what it was in the previous quarter and a year earlier. Both exports and imports of services were up on the previous year and the previous quarter, with imports growing somewhat faster than exports. **The net outflow of *income*** was as large as in the third quarter of 2012, and the main component in it was reinvested income[3]. ***Current transfers*** received exceeded transfers made due to subsidies from the EU, though the surplus was one third less than a year earlier.

The capital account surplus fell by one fifth and was almost entirely made up of European Union support for infrastructure development.

Financial account

In the third quarter of 2013 the Estonian economy was a net borrower, with capital inflows exceeding outflows by 36 million euros. The main channel for capital inflows was direct investment and for outflows it was portfolio and other investments (see Figure 2). Local investors bought several businesses back from foreign direct investors and this reduced the equity capital of foreign direct investment in Estonia. Foreign investors reinvested significant sums of direct investment income in Estonia and gave loan capital to their direct investment companies in Estonia. The direct investments of Estonian investors abroad could be divided roughly into two groups, equity investments and reinvested earnings. The net outflow of portfolio investment was caused by an increase in the demand from pension funds for equity securities and for debt securities from various sectors including the government sector. The size of the portfolio investment liabilities did not change. Flows of capital in the form of derivatives were modest, like before, and in this quarter there was a

Figure 2. The structure of the financial account



[2] Corrected data.

[3] Reinvested earnings are a book value where no actual movements of funds happen. The current account surplus without reinvested earnings was in surplus.

net inflow. There was in fall in both assets and liabilities for other investments, with liabilities contracting more. Assets contracted primarily on account of the assets in the form of cash and deposits related to the central bank's TARGET account[4]. Liabilities in the form of loans fell in other sectors and in the form of cash and deposits[5] for credit institutions. In recent years credit institutions have steadily reduced their external liabilities.

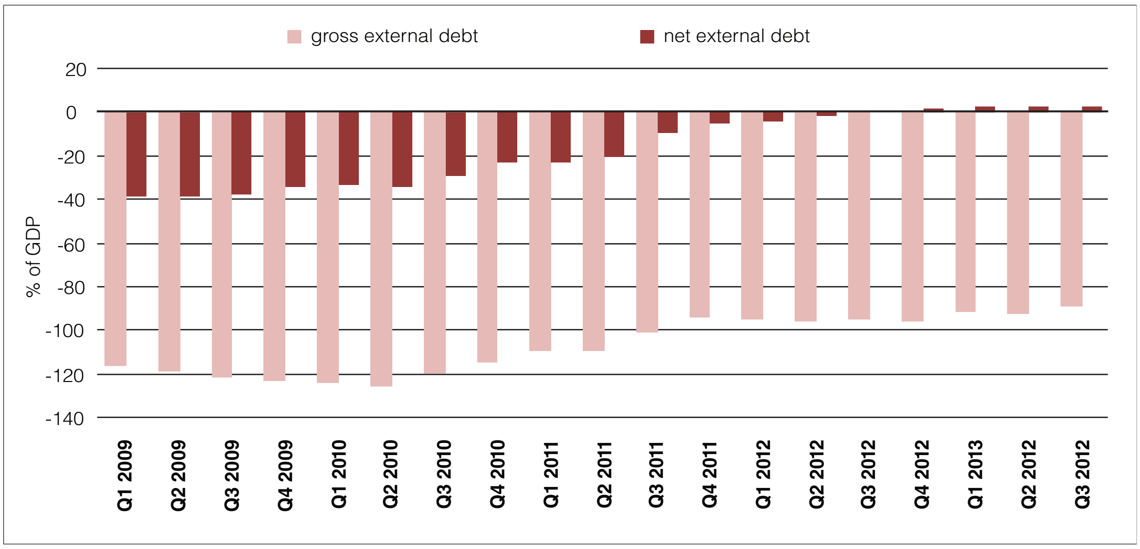
By institutional sector, the central bank had 303 million euros of net inflows of capital through the financial account, and the general government had 6 million euros. Credit institutions financed the outside world with 180 million euros and the business sector with 93 million euros.

Estonia's international investment position and gross external debt

The volume and structure of the foreign investment position in Estonia and the investment position abroad from Estonia did not change significantly during the third quarter of 2013. For this reason the net investment position (foreign assets minus foreign liabilities) also remained almost unchanged, and at the end of the third quarter of 2013 it was negative by 9.4 billion euros. Investments abroad by Estonian residents (foreign assets) stood at 20.3 billion euros and investments in Estonia by non-residents (foreign liabilities) stood at 29.7 billion euros. About a quarter of the investments made abroad were direct investments, while half of the foreign investments in Estonia were direct investments.

Gross external debt[6] or the debt of all the economic sectors in the country was 16.1 billion euros or 89% of Estonia's GDP for the year, having fallen by 2% during the quarter (see Figure 3). **Gross external debt was increased by the general government but reduced by credit institutions and the business sector.** The general government[7] external debt was 1.5 billion euros and accounted for 9% of the gross external debt. The net external debt (debt assets less debt liabilities) was positive for the fifth consecutive quarter, meaning that the foreign assets of the Estonian economic sectors were larger than their foreign liabilities by around 0.6 billion euros, or about 16% more than at the end of the previous quarter.

Figure 3. Gross and net external debt



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More detailed information on Estonia's balance of payments, international investment position and external debt can be found on Eesti Pank's website (http://www.eestipank.ee).

[4] TARGET – Trans-European Automated Real-time Gross settlement Express Transfer – is a service operated by the European Central Bank and central banks of the member states for credit institutions.

[5] This also covers lending between credit institutions.

[6] External debt liabilities (does not include direct or portfolio investments in share capital, reinvested income or derivative instruments).

[7] Central and local governments and social insurance funds for health and unemployment.