9 September 2013

EUROSÜSTEEM

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

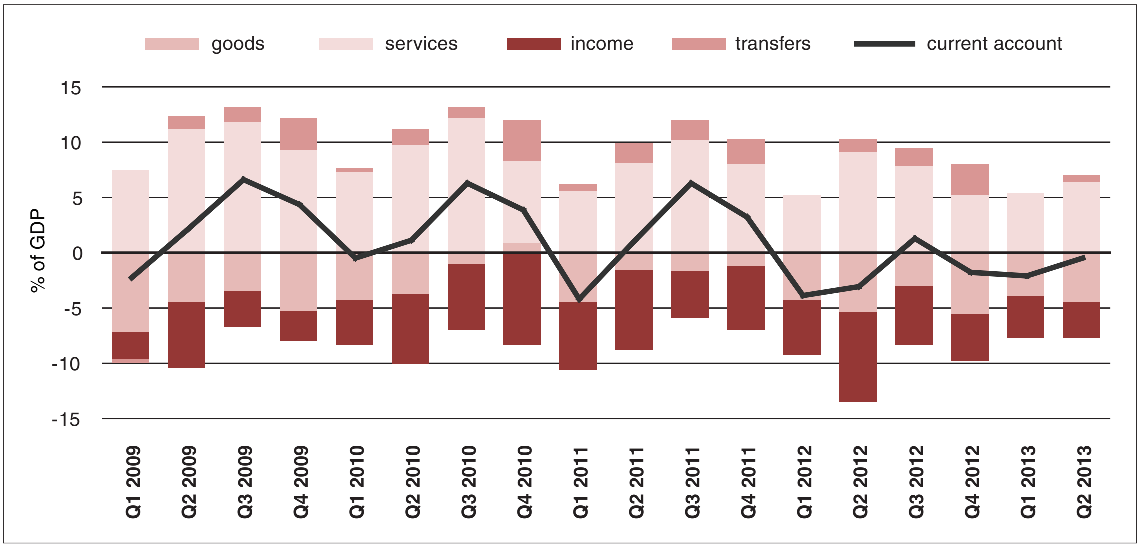
(Based on preliminary data)[1]

In the second quarter of 2013, Estonia's current account was almost in balance, with a deficit of only 24 million euros, which is equal to 0.5% of GDP for 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
CURRENT ACCOUNT	**408**	**291**	**-153**	**-133**	**54**	**-79**	**-310**	**-88**	**-24**
Goods	-271	-328	-168	-231	-129	-248	-776	-166	-205
Services	1,339	1,322	216	404	354	239	1 214	234	299
Income	-894	-956	-197	-354	-241	-194	-987	-156	-148
Current transfers	233	254	-4	48	70	125	239	0	29
Capital account	**505**	**669**	**94**	**137**	**191**	**184**	**606**	**106**	**145**
Financial account (incl. reserve assets)	**-861**	**-1,042**	**-90**	**176**	**-74**	**-304**	**-292**	**-138**	**48**
Direct investment	1,100	1,290	49	439	156	-204	440	-38	86
Portfolio investment	-462	1,151	-116	193	-245	69	-100	-1	209
Financial derivatives	33	-40	27	12	21	8	68	3	-7
Other investments	-2,363	-3,430	4	-467	13	-180	-630	-80	-279
Reserve assets	831	-13	-53	0	-19	3	-70	-22	38
Errors and omissions	**-53**	**81**	**149**	**-181**	**-172**	**199**	**-5**	**119**	**-169**

Figure 1. The structure of the current account

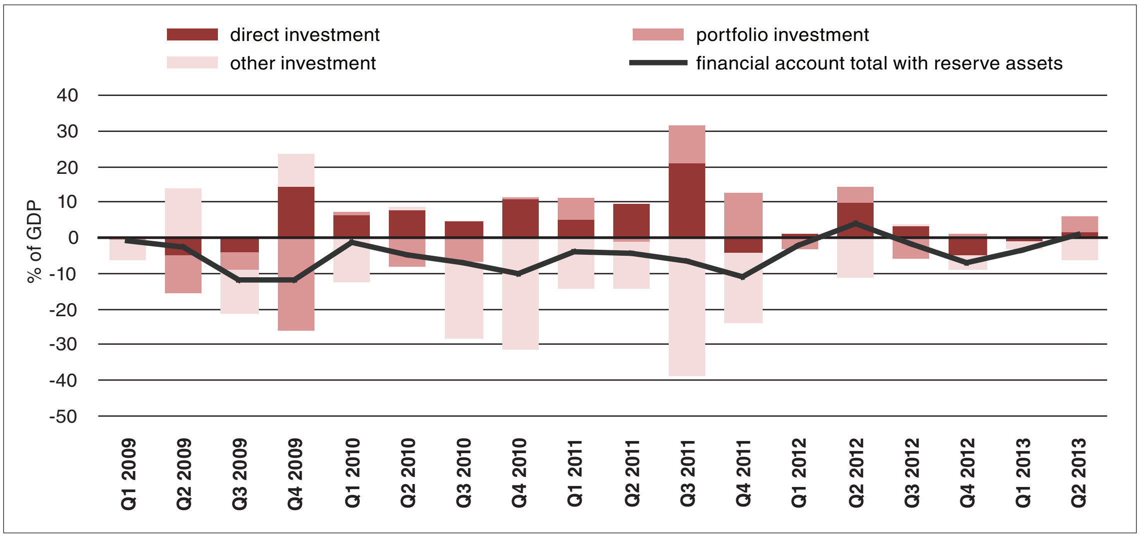


[1] Comparisons are with data for the same period of the previous year unless otherwise stated.

The deficit in *trade account*, the part of the current account with the largest turnover, fell by one tenth from the same quarter of the previous year. Exports of goods grew by 4% and imports by 3%. Processed goods, mainly motor fuels, saw a sharp reduction in both imports and exports, and if they are taken out from foreign trade, the rise in exports was 8% and that in imports was 9%. The main contributors to the reduction in the trade account deficit were wood and wood products and various manufactured goods. **The surplus from imports and exports of *services*** was down a quarter on the near-record levels seen in the second quarter of last year, mainly due to a fall in the surplus from transport services. **The slowdown in the net outflows of *income*** that started in the third quarter of 2012 continued as income earned by non-residents in Estonia shrank while income earned abroad by residents grew. In both cases the changes were mainly related to income from direct investment and the withdrawal of dividends typical of the second quarter. As the movement towards work abroad increased, so did the labour income earned abroad. ***Current transfers*** received exceeded transfers made due to subsidies from the EU.

The capital account was in surplus by around the same amount as in the second quarter of the previous year, almost entirely in consequence of the support from the EU Structural Funds for infrastructure development.

Figure 2. The structure of the financial account



The financial account

In the second quarter of 2013 the Estonian economy was a net borrower, with capital inflows exceeding outflows by 48 million euros. The main channels for the net inflow were portfolio investment and, to a smaller extent, direct investment (see Figure 2). The drivers of the net inflow of portfolio investments were the general government, which sold some of its bond holdings, and the business sector, which issued bonds to cover its investment needs. Direct investment unusually saw the investments made by Estonian residents abroad falling rather than growing, which was a result of the significant withdrawal of profit as dividends. There was a net outflow of capital from other investment, mainly through credit institutions but also to a smaller extent through the central bank. In recent years credit institutions have steadily reduced their external liabilities.

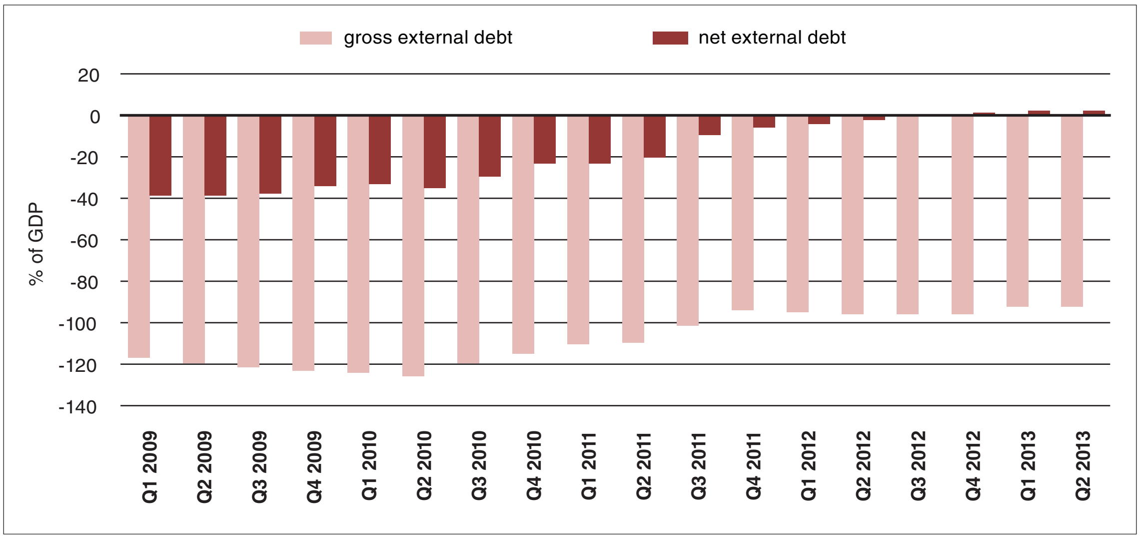
By institutional sector, the general government had 317 million euros of net inflows of capital through the financial account, and the business sector had 81 million euros. Credit institutions financed the outside world with 276 million euros and the central bank with 74 million euros.

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 were essentially the same as at the end of the first quarter. For this reason there was no change in the net investment position (foreign assets minus foreign liabilities) and at the end of the second quarter of 2013 it was negative by 9.3 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 29.6 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[2] or the debt of all the economic sectors in the country was 16.5 billion euros (92% of Estonia's GDP for the year), having grown by 2% during the quarter (see Figure 3). **The gross external debt increased owing to the general government and the business sector, but fell because of credit institutions.** The general government[3] external debt was 1.4 billion euros having grown by 13% during the quarter to make up 8% of the total external debt. The net external debt (debt assets less debt liabilities) was positive for the fourth consecutive quarter, meaning that the foreign assets of the Estonian economic sectors were larger than their foreign liabilities by around 0.4 billion euros, or exactly the same amount as 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).

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

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