



EUROSÜSTEEM

## ESTONIA'S BALANCE OF PAYMENTS FOR THE SECOND QUARTER OF 2012

(Based on preliminary data)

- Estonia's current account deficit was 86 million euros in the second quarter of 2012. This made up 2.2% of the same quarter's GDP (see Table 1 and Figure 1).<sup>1</sup> Compared to the revised data for the first quarter, the current account deficit contracted slightly in the second quarter of 2012, while a year ago the current account was in surplus.
- Compared to the first half of 2011, the current account deficit for the first half of 2012 was over two times bigger, amounting to 194 million euros.
- The current account was shaped by a number of determinants. On the one hand, the surplus on services increased, while on the other hand the income outflow and deficit on goods grew too.
  - The foreign trade deficit picked up, primarily because the exports of mineral products, which are previously imported to Estonia for processing and then exported again, decreased and the imports of transport vehicles increased.
  - The surplus on services was mainly boosted by business, travel and computer services.
  - The significant net outflow of income was related to the exceptionally large direct investment transactions that were settled through Estonia, but belonged to foreign holding companies registered here.
- The Estonian economy was a net borrower this time: the inflow of capital on the financial account was around 80 million euros larger than the outflow.
  - The general government, the central bank, credit institutions and other financial intermediaries lent 248 million euros to the rest of the world.
  - However, the inflow of cross-border finances for the corporate sector was 393 million euros larger than the outflow.
- Estonia's gross external debt grew by 2% to 16.1 billion euros from the first quarter and was 2% smaller than the GDP for the last four quarters. The gross external debt was boosted primarily by the business sector and somewhat also by the general government. The net external debt (assets less liabilities) shrank due to a rise in the debt claims on the rest of the world, and totalled around 0.5 billion euros, or 3% of the GDP for the last four quarters, at the end of the second quarter.

### The current account in deficit for the second consecutive quarter

The exports of goods decreased by 3%, while imports increased by 3% from the second quarter of 2011. Nevertheless, the volumes of exports and imports remained large: exports were only a bit lower than its record level in the second quarter of 2011, and imports posted a new record high. Goods exports contracted because of a sharp fall in the volume of mineral products that are imported to Estonia for processing and then

<sup>1</sup> The current account without reinvested earnings, which involves no actual movement of funds, was in a surplus, constituting 7.0% of GDP.

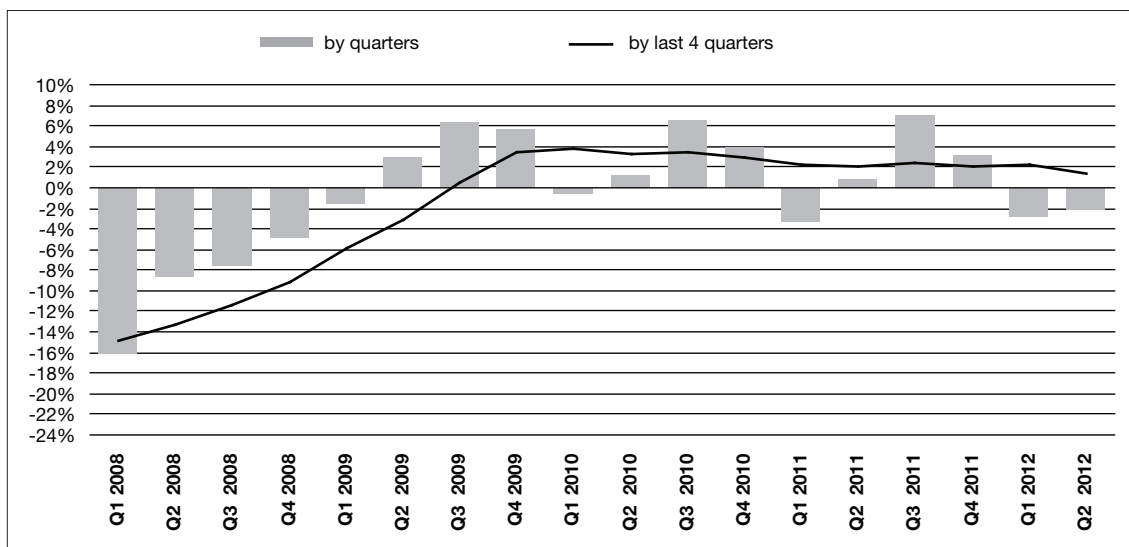
**Table 1. Estonia's balance of payments (EUR million)**

Item	2009	2010	2011					2012	
	Total	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2
<b>Current account</b>	<b>470.5</b>	<b>419.4</b>	<b>-118.2</b>	<b>35.9</b>	<b>291.4</b>	<b>130.3</b>	<b>339.5</b>	<b>-107.9</b>	<b>-86.2</b>
Goods and services	799.6	1,073.1	81.8	293.1	392.5	250.4	1,017.8	79.8	196.3
Goods	-591.0	-266.6	-129.2	-42.6	-37.2	-12.5	-221.5	-148.3	-223.7
credit (f.o.b.)	6,460.2	8,769.0	2,743.0	3,180.0	3,069.0	3,063.9	12,055.9	2,994.3	3,080.0
debit (f.o.b.)	-7,051.2	-9,035.6	-2,872.2	-3,222.6	-3,106.2	-3,076.4	-12,277.4	-3,142.6	-3,303.8
Services	1,390.6	1,339.7	211.0	335.7	429.7	262.9	1,239.2	228.2	420.1
credit	3,200.6	3,441.4	767.2	992.7	1,120.0	1,019.8	3,899.7	901.1	1,126.5
debit	-1,809.9	-2,101.7	-556.2	-657.0	-690.3	-757.0	-2,660.4	-672.9	-706.5
Income	-506.0	-893.5	-224.6	-288.7	-168.3	-251.0	-932.6	-196.9	-342.0
credit	657.8	703.3	212.6	218.0	243.1	187.8	861.6	186.0	158.6
debit	-1,163.7	-1,596.9	-437.2	-506.8	-411.4	-438.8	-1,794.2	-382.9	-500.6
Current transfers	176.9	239.8	24.7	31.4	67.2	130.9	254.3	9.2	59.5
credit	451.1	552.6	132.9	103.3	138.2	236.0	610.3	121.3	142.3
debit	-274.2	-312.8	-108.1	-71.9	-71.0	-105.0	-356.1	-112.1	-82.8
<b>Capital and financial account (without reserve assets)</b>	<b>-513.0</b>	<b>-1,176.9</b>	<b>83.3</b>	<b>-56.0</b>	<b>-125.9</b>	<b>-182.9</b>	<b>-281.4</b>	<b>101.1</b>	<b>189.5</b>
Capital account	485.7	505.2	187.1	113.9	159.5	209.0	669.5	86.8	109.9
Financial account	-998.7	-1,682.1	-103.7	-169.9	-285.4	-391.9	-950.9	14.3	79.6
Direct investment	210.6	1,100.1	186.6	390.7	850.0	-193.3	1,234.1	55.7	405.3
Abroad	-1,113.9	-107.1	-224.8	-27.8	1,450.5	-148.8	1,049.1	-85.5	-35.1
In Estonia	1,324.5	1,207.3	411.5	418.5	-600.5	-44.5	185.0	141.2	440.4
Portfolio investment	-1,451.7	-462.1	212.9	-37.6	434.9	541.7	1,151.9	-116.3	193.7
Assets	-489.5	-316.8	201.4	-8.0	293.0	545.2	1,031.5	-86.6	-101.4
Equity securities	-49.6	-303.8	8.1	-15.2	18.3	90.9	102.2	-102.8	23.5
Debt securities	-439.9	-13.0	193.2	7.2	274.7	454.2	929.3	16.2	-125.0
Liabilities	-962.2	-145.3	11.5	-29.6	141.9	-3.5	120.4	-29.7	295.2
Equity securities	-93.5	30.0	0.0	-21.6	-28.0	-30.9	-80.5	-14.4	3.1
Debt securities	-868.7	-175.3	11.5	-8.0	170.0	27.4	200.8	-15.3	292.0
Financial derivatives	14.6	32.7	-29.2	-13.6	12.2	-8.2	-38.8	26.6	11.6
Assets	17.2	-0.9	-3.2	0.0	-29.8	10.4	-22.6	44.2	25.8
Liabilities	-2.6	33.6	-26.0	-13.6	42.0	-18.6	-16.2	-17.5	-14.2
Other investment	227.9	-2,352.7	-474.1	-509.4	-1,582.6	-732.1	-3,298.1	48.3	-531.0
Assets	955.3	-1,263.4	90.2	-932.0	-869.2	-499.6	-2,210.6	-292.7	-525.9
Long-term	-39.8	-322.5	-135.0	38.3	6.0	-2.8	-93.5	-154.9	-10.2
Short-term	995.2	-940.8	225.2	-970.3	-875.2	-496.7	-2,117.1	-137.8	-515.7
Liabilities	-727.5	-1,089.4	-564.3	422.6	-713.4	-232.6	-1,087.6	341.0	-5.1
Long-term	207.0	-1,361.2	-422.2	-162.6	-160.4	-445.2	-1,190.3	241.2	-515.7
Short-term	-934.4	271.8	-142.1	585.2	-553.0	212.6	102.8	99.8	510.7
Errors and omissions	-22.2	-73.8	59.6	12.5	-166.9	49.6	-45.3	60.0	-103.1
<b>Overall balance</b>	<b>-64.7</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>53.2</b>	<b>0.2</b>
<b>Reserve assets</b>	<b>64.7</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>-53.2</b>	<b>-0.2</b>

exported again. The exports of other goods groups (excluding timber, paper and products thereof) picked up. Goods imports were driven by a rapid growth in the imports of transport vehicles, furniture and various other goods. The foreign trade deficit increased by five-fold from a year ago to 224 million euros, or 5.2% of the second-quarter GDP. The deficit was caused primarily by mineral products and transport vehicles.

**The surplus on services increased by 25% to 420 million euros year-on-year.** Services exports grew by 14% and imports by 8%. The surplus increased owing to the exports of business, travel and computer services, which considerably exceeded their imports.

**The net outflow of income grew by around 20% to 342 million euros year-on-year.** This stemmed from a more than 25% decline in residents' income from abroad, while the income earned by non-residents in Estonia remained more or less unchanged from the previous year. The net outflow of income largely consisted of



**Figure 1. Current account balance (% of GDP)**

reinvested earnings, which are treated as direct investment inflow and are thus a book value without any actual movement of funds.

**The surpluses on current and capital transfers totalled 169 million euros, which is 17% more than in the second quarter of 2011.** Growth stemmed from an increase in EU subsidies.

**Estonia was a net borrower from abroad in the second quarter**

**The capital inflow in the financial account (with reserves) exceeded the outflow by 80 million euros.** The business sector was a net borrower, while the other sectors – the general government, the central bank, other financial intermediaries and credit institutions – were net lenders, financing the rest of the world with 116, 91, 80 and 27 million euros, respectively.

**The direct investment inflow was 405 million euros bigger than outflow.** Non-residents' direct investment in Estonia grew by 440 million euros and residents' direct investment abroad by 35 million euros. This arose largely from the fact that the investment made by foreign holding companies registered in Estonia had an insignificant impact on the Estonian economy.

**The portfolio investment inflow was 194 million euros bigger than the outflow.** External assets grew by 101 million and external liabilities by 295 million euros, primarily in association with the acquisition of money market instruments by the general government. Liabilities grew as a result of an increase in debt securities issued by Estonian enterprises in other sectors that are controlled by non-residents.

**The net inflow of financial derivatives totalled 12 million euros**

**The outflow of other investment (loans, deposits and currency) was 531 million euros bigger than the inflow.** This arose primarily from a growth in external assets. The volume of external liabilities did not change from the first quarter. Assets increased owing to the loans and deposits of other sectors (the business and household sectors).

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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 *Statistics*. A longer analysis of the balance of payments

together with graphs will be published in Estonian on 25 September and in English on 28 September 2012 under *Publications*.

The balance of payments for the third quarter of 2012 will be published on the website of Eesti Pank (<http://www.bankofestonia.ee>) on 10 December 2012 at noon.