



ESTONIA'S BALANCE OF PAYMENTS FOR THE FIRST QUARTER OF 2012

(Based on preliminary data)

- In the first quarter of 2012, Estonia's current account deficit was 86 million euros.¹ This made up 2.2% of the same quarter's GDP and was a quarter smaller than a year ago (see Table 1 and Figure 1)². In 2009–2011, when the annual current account posted a surplus, there was also a deficit in the first quarter.
- Several factors affected the current account: on the one hand, the surplus on services increased, whereas the outflow of income decreased, on the other hand, the deficit on goods went up.
 - The foreign trade deficit grew mostly due to the increased imports of investment goods.
 - The surplus on most of the services went up. Construction services were an exception: they entered a deficit due to an increase in domestic investment demand targeted at outsourcing the service.
 - The net outflow of income shrank, since direct investment income declined.
- The Estonian economy continued to be a net lender, but in a smaller extent. The outflow of capital from the financial account (including reserves) was 42 million euros larger than the inflow.
 - Credit institutions and other financial intermediaries financed the rest of the world in the amount of 248 million euros; net capital inflow into the general government sector was 262 million euros.
 - Cross-border financial flows of the corporate sector were basically in balance.
- Estonia's gross external debt increased 2%, quarter-on-quarter, standing at 15.8 billion (97% of GDP) at the end of the first quarter. The debt was increased by the general government sector and other sectors. Estonia's net external debt (assets less liabilities) decreased by about a fifth within the quarter, amounting to 0.8 billion euros (5% of GDP).

The current account deficit was narrower than in the first quarter of 2011

Compared to the same period a year ago, goods imports grew somewhat faster than exports, owing to the import of investment goods. Goods imports grew by 10% and exports by 9%. Trade deficit increased by a third, amounting to 175 million euros and making up 4.5% of GDP. Exports and imports went up across all the major groups of goods (except for the imports of mineral products).

¹ The large difference between the sum of current accounts of the first-quarter balance of payment's monthly flash estimates and the quarter's balance of payments current account was due to the one-off adjustment of data. The adjustment concerned mostly the imports of goods and services.

² The current account without reinvested earnings, which involves no actual movement of funds, was in a surplus, constituting 2.0% of GDP.

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

Item	2010	2011				2012	
	Total	Q1	Q2	Q3	Q4	Total	Q1
Current account	419.4	-118.2	35.9	291.4	130.3	339.5	-86.2
Goods and services	1,073.1	81.8	293.1	392.5	250.4	1,017.8	78.4
Goods	-266.6	-129.2	-42.6	-37.2	-12.5	-221.5	-175.0
credit (f.o.b.)	8,769.0	2,743.0	3,180.0	3,069.0	3,063.9	12,055.9	2,982.6
debit (f.o.b.)	-9,035.6	-2,872.2	-3,222.6	-3,106.2	-3,076.4	-12,277.4	-3,157.6
Services	1,339.7	211.0	335.7	429.7	262.9	1,239.2	253.3
credit	3,441.4	767.2	992.7	1,120.0	1,019.8	3,899.7	907.7
debit	-2,101.7	-556.2	-657.0	-690.3	-757.0	-2,660.4	-654.3
Income	-893.5	-224.6	-288.7	-168.3	-251.0	-932.6	-174.7
credit	703.3	212.6	218.0	243.1	187.8	861.6	185.0
debit	-1,596.9	-437.2	-506.8	-411.4	-438.8	-1,794.2	-359.7
Current transfers	239.8	24.7	31.4	67.2	130.9	254.3	10.2
credit	552.6	132.9	103.3	138.2	236.0	610.3	120.9
debit	-312.8	-108.1	-71.9	-71.0	-105.0	-356.1	-110.7
Capital and financial account (without reserve assets)	-1,176.9	83.3	-56.0	-125.9	-182.9	-281.4	98.0
Capital account	505.2	187.1	113.9	159.5	209.0	669.5	86.8
Financial account	-1,682.1	-103.7	-169.9	-285.4	-391.9	-950.9	11.3
Direct investment	1,100.1	186.6	390.7	850.0	-193.3	1,234.1	17.7
Abroad	-107.1	-224.8	-27.8	1,450.5	-148.8	1,049.1	-106.6
In Estonia	1,207.3	411.5	418.5	-600.5	-44.5	185.0	124.3
Portfolio investment	-462.1	212.9	-37.6	434.9	541.7	1,151.9	-118.2
Assets	-316.8	201.4	-8.0	293.0	545.2	1,031.5	-86.5
Equity securities	-303.8	8.1	-15.2	18.3	90.9	102.2	-102.8
Debt securities	-13.0	193.2	7.2	274.7	454.2	929.3	16.3
Liabilities	-145.3	11.5	-29.6	141.9	-3.5	120.4	-31.7
Equity securities	30.0	0.0	-21.6	-28.0	-30.9	-80.5	-16.4
Debt securities	-175.3	11.5	-8.0	170.0	27.4	200.8	-15.3
Financial derivatives	32.7	-29.2	-13.6	12.2	-8.2	-38.8	26.6
Assets	-0.9	-3.2	0.0	-29.8	10.4	-22.6	44.2
Liabilities	33.6	-26.0	-13.6	42.0	-18.6	-16.2	-17.5
Other investment	-2,352.7	-474.1	-509.4	-1,582.6	-732.1	-3,298.1	85.1
Assets	-1,263.4	90.2	-932.0	-869.2	-499.6	-2,210.6	-299.6
Long-term	-322.5	-135.0	38.3	6.0	-2.8	-93.5	-153.9
Short-term	-940.8	225.2	-970.3	-875.2	-496.7	-2,117.1	-145.7
Liabilities	-1,089.4	-564.3	422.6	-713.4	-232.6	-1,087.6	384.7
Long-term	-1,361.2	-422.2	-162.6	-160.4	-445.2	-1,190.3	232.6
Short-term	271.8	-142.1	585.2	-553.0	212.6	102.8	152.1
Errors and omissions	-73.8	59.6	12.5	-166.9	49.6	-45.3	41.3
Overall balance	-831.3	24.8	-7.7	-1.4	-3.0	12.8	53.2
Reserve assets	831.3	-24.8	7.7	1.4	3.0	-12.8	-53.2

The surplus on services increased by a fifth, amounting to 253 million euros. The exports and imports of services accelerated at the same pace, 18% each. The surplus expanded mostly owing to business and transportation services. The construction services account balance, which was in surplus in the first quarter of last year, turned negative. This was caused by outsourced construction services needed for renovations in the energy sector.

The net income outflow decreased by a fifth compared to the first quarter of 2011 and exceeded the inflow by 175 million euros. The shrinkage in the net outflow was caused by the fact that the income earned by non-residents in Estonia declined faster than the income earned by Estonian investors abroad (13% and 18%, respectively), mainly as regards direct investment income.

The total surplus on the current transfers and capital account was 96 million euros, two times smaller than a year earlier. The smaller surplus on the current transfers account in the first quarter could be expected, since this is the time when membership fees of international organisations are paid. The sharp decline in the

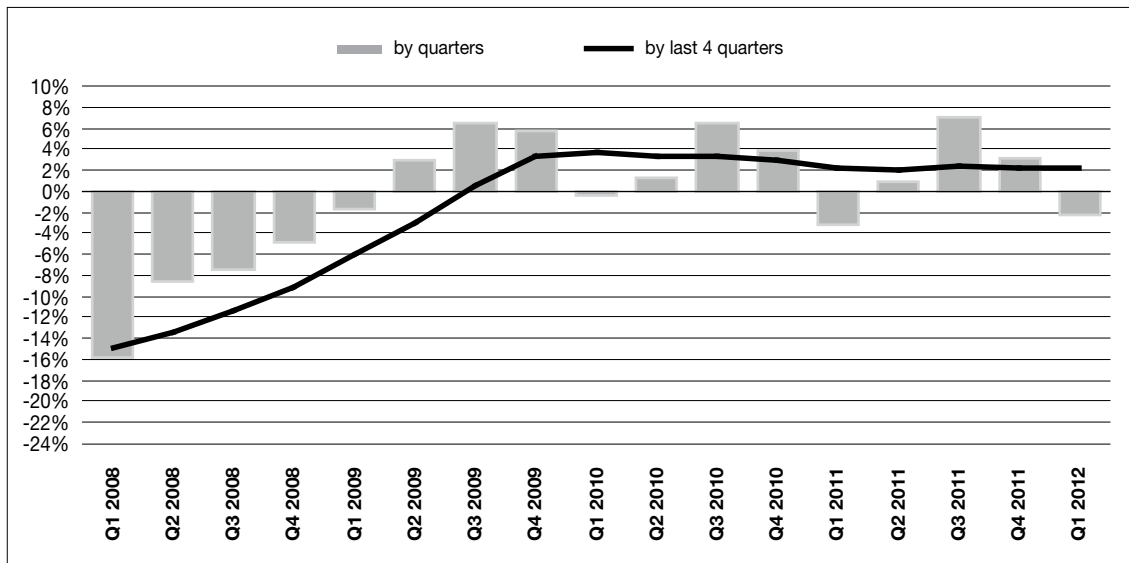


Figure 1. Current account balance (% of GDP)

capital account surplus was brought about by the close-to-the-zero revenue on the sale of emission permissions. EU subsidies for the development of the infrastructure were received in the usual amount.

Estonia continued to be a net lender

Capital outflow in the financial account (with reserves) exceeded the inflow by 42 million euros. Portfolio investment was the main outflow channel and other investment (different loans, deposits and other claims/liabilities) was the main inflow channel, supported, to a smaller extent, by derivative instruments and direct investment.

The net inflow of direct investment was modest, just 18 million euros. Estonia's direct investment abroad made up 106 million euros and non-residents' direct investment in Estonia 124 million euros. The main components in both-way direct investment were reinvested earnings and intercompany lending. Equity and share capital investment remained modest.

The outflow of portfolio investment exceeded the inflow by 118 million euros. This was primarily due to the rise in the assets of equity securities of other sectors (mostly investment funds).

The net inflow of derivative instruments was 27 million euros.

As regards other investment, the recent years' net capital outflow turned into net capital inflow of 85 million euros. Other investment assets increased by 300 million euros, on account of trade credit (other sectors), loans (the general government sector) and currency and deposits (credit institutions and other sectors). Other investment liabilities grew by 385 million euros, primarily due to a rise in the loan liabilities of the general government sector and other sectors.

Reserves increased by 53 million euros.

Estonia's gross external debt, that is, the total external debt of all economic sectors, grew by 2% in the first quarter to 15.8 billion euros and was 3% smaller than GDP. The debt was increased by the general government sector and other sectors. Net external debt decreased by about a fifth over the quarter, standing at 0.8 billion euros at the end of the quarter. Net external debt was primarily reduced by the general government sector and credit institutions.

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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 *Statistical Indicators*. A more detailed analysis of the balance of payments together with tables and graphs will be published in Estonian on 26 June and in English on 29 June 2012 under *Publications*.

The preliminary balance of payments for the second quarter of 2012 will be published on the website of Eesti Pank (www.bankofestonia.ee) at noon on 7 September 2012.