

I. ESTONIA'S BALANCE OF PAYMENTS FOR 2003

Although in the second half of 2003 the world economy started to recover from a depression that had lasted for more than two years, the average annual global growth remained relatively modest (2.6%) and varied across major economic areas. The economic recovery of Estonia's main trade partners, the EU countries, was slower than average and in 2003 the growth rate of their GDP was even lower than in 2002 (0.7% and 1%, respectively). Thus, external demand environment remained relatively weak for Estonia – the weighted average economic growth of the ten major trade partners was 2.7%.

Weak external demand also reduced the growth prospects of Estonian exports and the annual average increase remained below the average medium-term forecast – the real growth of the exports of goods amounted to 6.1% in 2003. The 12% nominal growth of normal exports indicates, however, that for the third consecutive year Estonian exporters have increased their share in the world market. The increase in export volumes across major groups of goods was relatively similar (only food and textile industry showed below-average growth), which points to the overall improvement of competitiveness of the industrial sector.

Although external demand remained relatively weak for Estonia in 2003, interest rate cuts and increasing trust of foreign investors towards the Estonian economy encouraged domestic demand growth. Investment activity remained close to the peak level achieved in 2002 (the share of investments and inventory amounted to 31% of GDP) but was based mostly on single large-scale or one-time investment projects. The high import content of these projects led to the imports of goods increasing faster than exports (the real growth of goods imports amounted to 13.3% in 2003) and the trade deficit increased by 2 percentage points, i.e. to 17.4% of GDP.

Besides single large-scale investment projects, another reason behind the deepening current account deficit was the decrease of the savings level. The decline in interest rates and cyclical weakness of external demand resulted in declining private saving, which was not fully compensated by the general government's conservative fiscal policy and the largest ever budget surplus (2.4% of GDP). Still, the profitability of the business sector remained relatively high and, due to large foreign ownership, brought about the largest ever income deficit (6.3% of GDP) of which three fourths was reinvested in the Estonian economy. As a result of all this, the current account deficit reached 13.2% of GDP (as against 10.2% in 2002).

While in the 1990s most of the foreign resources used for financing the current account deficit were foreign direct investments, then in recent years a number of foreign-owned companies have expanded their activities in Estonia through loans from the local financial sector. In capital flows, the share of loan resources attracted by the financial sector from abroad has increased, consisting mostly of resources received from foreign parent banks. In 2003, foreign direct investments covered two thirds of the current account deficit (the surplus

of direct investments stood at 8.3% of GDP) and resources received from foreign parent banks amounted to 3.4% of GDP.

The constant involvement of foreign resources in expanding the capital base of the Estonian economy has, besides increasing the total volume of foreign direct investments, increased the debt burden of the Estonian economy as well. These developments continued also in 2003 when the total volume of direct investments into Estonia increased by 10 percentage points (to 64% of GDP) and the external debt burden grew by 10 percentage points (to 70% of GDP). At the same time, the Estonian financial sector, the government and the central bank own a considerable amount of foreign financial assets, which makes Estonia's net external debt significantly lower than the gross debt – at the end of 2003 the net external debt amounted to just 15% of GDP. Dividend and interest income earned from those investments also helps to balance the income deficit.

Surveys of Estonia's balance of payments and the main international indicators of the balance of payments are given in Tables 1.1 and 1.2.

Table 1.1. Estonia's balance of payments (EEK m)

	1997	1998	1999	2000	2001	2002	2003
Current account	-7,810.2	-6,760.2	-3,607.7	-5,093.4	-5,889.5	-11,882.9	-16,563.1
Trade and services	-7,420.1	-7,676.2	-3,755.4	-3,569.0	-3,623.7	-8,318.2	-10,101.1
Goods	-15,652.8	-15,725.5	-12,096.9	-13,143.6	-13,783.9	-17,995.6	-21,850.9
Goods: exports f.o.b.	31,846.5	37,786.3	36,995.2	56,345.9	58,667.1	58,333.6	63,533.8
Goods: imports f.o.b.	-47,499.3	-53,511.8	-49,092.1	-69,489.5	-72,451.0	-76,329.2	-85,384.7
Services: net	8,232.7	8,049.3	8,341.5	9,574.6	10,160.2	9,677.4	11,749.9
Services: credit	18,366.7	20,804.0	21,951.9	25,485.8	28,866.5	28,279.7	30,814.4
Services: debit	-10,134.0	-12,754.7	-13,610.4	-15,911.2	-18,706.3	-18,602.3	-19,064.6
Income: net	-2,010.5	-1,164.0	-1,505.8	-3,483.4	-4,926.1	-5,423.1	-7,936.7
Income: credit	1,594.1	1,871.8	1,964.3	2,008.0	2,994.7	3,339.3	3,385.9
Income: debit	-3,604.6	-3,035.8	-3,470.1	-5,491.4	-7,920.8	-8,762.4	-11,322.7
Transfers	1,620.4	2,080.0	1,653.5	1,959.0	2,660.3	1,858.4	1,474.7
Transfers: credit	1,877.7	2,424.2	2,257.5	2,454.8	3,174.1	2,876.3	2,874.8
Transfers: debit	-257.3	-344.2	-604.0	-495.8	-513.8	-1,017.9	-1,400.1
Capital and financial account	10,953.3	6,869.8	5,916.6	7,273.2	4,863.1	12,739.6	18,979.7
Capital account	-2.0	25.2	17.8	278.5	90.0	320.7	549.0
Financial account	10,955.3	6,844.6	5,898.8	6,994.7	4,773.1	12,418.9	18,430.7
Direct investments	1,781.2	7,989.7	3,208.2	5,601.4	5,901.3	2,611.8	10,432.2
Abroad	-1,912.9	-81.7	-1,239.8	-1,043.1	-3,528.3	-2,188.4	-2,038.5
Into Estonia	3,694.1	8,071.4	4,448.0	6,644.5	9,429.6	4,800.2	12,470.7
Portfolio investments	3,655.1	-23.4	156.0	1,435.0	-699.7	2,378.7	2,372.0
Assets	-2,319.3	-127.9	-1,894.9	153.1	-2,100.2	-3,182.9	-5,351.6
Equity securities	-1,238.5	500.8	187.0	53.3	236.5	9.1	-1,028.9
Debt securities	-1,080.8	-628.7	-2,081.9	99.8	-2,336.7	-3,192.0	-4,322.7
Liabilities	5,974.4	104.5	2,050.9	1,281.9	1,400.5	5,561.6	7,723.6
Equity securities	1,763.6	401.1	3,292.3	-538.8	568.4	912.2	1,486.6
Debt securities	4,210.8	-296.6	-1,241.4	1,820.7	832.1	4,649.4	6,237.1
Other investments	5,519.0	-1,121.7	2,534.6	-41.7	-428.5	7,428.4	5,626.5
Assets	-4,635.5	-2,480.2	-1,651.2	-2,638.3	-3,716.7	695.1	-1,897.2
Long-term	-1,063.0	-786.5	421.8	-1,108.7	-322.7	-1,083.0	-561.3
Short-term	-3,572.5	-1,693.7	-2,073.0	-1,529.6	-3,394.0	1,778.1	-1,335.9
Liabilities	10,154.5	1,358.5	4,185.8	2,596.6	3,288.2	6,733.3	7,523.6
Long-term	4,604.9	1,258.4	1,691.5	-549.9	1,814.4	1,829.0	4,227.2
Short-term	5,549.6	100.1	2,494.3	3,146.5	1,473.8	4,904.3	3,296.4
Errors and omissions	-371.8	16.8	-511.3	90.7	296.2	70.1	-104.5
Overall balance	2,771.3	126.4	1,797.6	2,270.5	-730.2	926.8	2,312.1
Reserve assets	-2,771.3	-126.4	-1,797.6	-2,270.5	730.2	-926.8	-2,312.1

Table 1.2. Internationally comparable main indicators of the balance of payments

	1997	1998	1999	2000	2001	2002	2003
Foreign trade turnover (% of GDP)	116.1	116.5	105.4	135.7	125.7	115.2	118.3
Export and import ratio (%)	67.1	70.7	75.4	81.4	80.8	76.4	74.3
Nominal effective exchange rate (% compared to the previous period)	97.2	108.8	117.1	97.3	101.3	102.1	103.6
Real effective exchange rate (% compared to the previous period)	103.3	110.4	107.3	96.2	102.0	101.9	101.7
Terms of trade (ratio of exports and imports price indices)	108.8	108.8	107.9	112.6	118.4	112.2	121.6
Overall balance of the balance of payments (change of external reserves, EEK m)	2,771.3	126.4	1,797.6	2,270.5	-730.2	926.8	2,312.0
Ratio of the external reserves change to GDP (%)	4.1	0.2	2.2	2.4	-0.7	0.8	1.8
Current account balance (EEK m)	-7,810.2	-6,760.2	-3,607.7	-5,093.4	-5,889.5	-11,882.9	-16,563.1
Current account deficit without government transfers (EEK m)	-9,143.0	-8,314.5	-5,022.8	-6,609.3	-8,072.8	-13,432.0	-17,657.1
Current account deficit without government transfers (% of GDP)	13.4	10.6	6.2	7.1	7.7	11.5	14.0
Government transfers (net, EEK m)	1,332.8	1,554.3	1,415.1	1,515.9	2,183.3	1,549.1	1,094.0
Government transfers (% of GNP)	2.0	2.0	1.8	1.7	2.2	1.4	0.9
Estonia's total external debt (% of GDP)	53.8	50.1	54.9	54.6	55.6	60.1	69.1
External debt servicing (% from total exports)	1.6	1.2	1.1	1.3	1.0	1.7	0.3

CHANGES IN THE BALANCE OF PAYMENTS STATISTICS METHODOLOGY

In the course of drawing up the 2003 fourth quarter balance of payments, data of the previous quarters were also adjusted due to **additional information received and specification of the methodology used in compiling the balance of payments.**

In connection with the adoption of the EU statistics requirements, Eesti Pank introduced the regional (country) breakdown, which resulted in adjustments in the data on **transport services and foreign trade.** As a result of methodological adjustments, the following balance of payments items have changed:

- **Foreign trade: imports** – in order to convert the imports indicator expressed in the c.i.f. price in the official foreign trade statistics into the f.o.b. price (the c.i.f. price includes the value of goods and cost of transportation and insurance to the customs frontier of the importing country; the f.o.b. price includes the value of goods and the cost of insurance and transportation to the customs frontier of the exporting country) the general average transport and insurance rate was specified across trading countries. Since the weighted average rate turned out somewhat higher than the previously applied rate, the imports of goods decreased by an estimated 200 million kroons;
- **Transport services: debit** – in addition to the share of carriers, goods for processing were excluded from the transportation costs, which are calculated by the above method, and the transportation cost rate was divided across the countries by modes of transport, so as to achieve a more precise entry. The new approach showed that the imports of services had formerly been somewhat overestimated (by approximately 150 million kroons per quarter). Since previously imported transport services were divided across the modes of transport by exports, the change also led to a reclassification of entries under air, rail, and road transport.

The above estimates are based on the foreign trade statistics of the Customs Board.

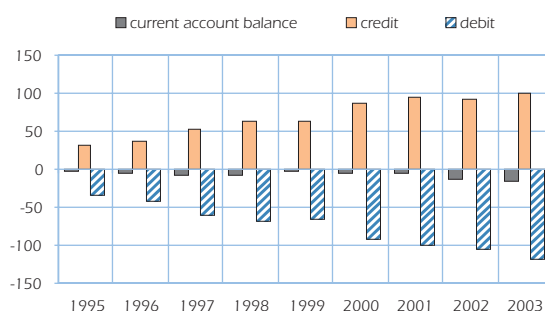
Adjustments were also made in the **current transfers account:**

- **Government transfers: credit** – estimates on foreign aid, used until 2002 for the lack of real data, were replaced with reported data, which turned out smaller than the estimates. Due to receiving more representative information, part of transactions earlier entered under the central government current transfers are now shown as government transfers of the capital account (investments into environmental protection, infrastructure, etc received in the form of foreign aid).

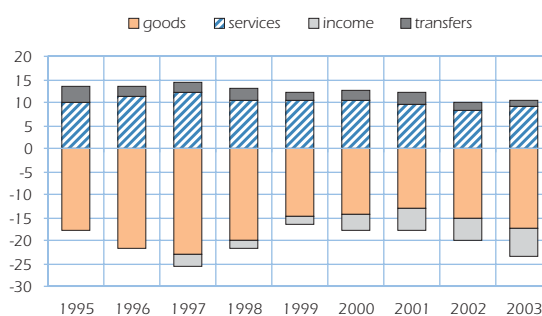
SHORT OVERVIEW

Current Account

Due to relatively weak external demand, active investments and private consumption, the deficit of Estonia's 2003 balance of payments increased by nearly 40% year-on-year, amounting to 16.6 billion kroons according to adjusted data, i.e. 13.2% of GDP. The main reason behind the deficit was still imports of goods exceeding exports. The current account deficit was also increased by the income earned from foreign investments into Estonia, which was particularly large in 2003 – the net outflow of income reached 6.3% of GDP. The EU countries¹ accounted for 63–64% of both credit and debit turnover, whereas the enlarged European Union (EU-25) accounted for 77%.



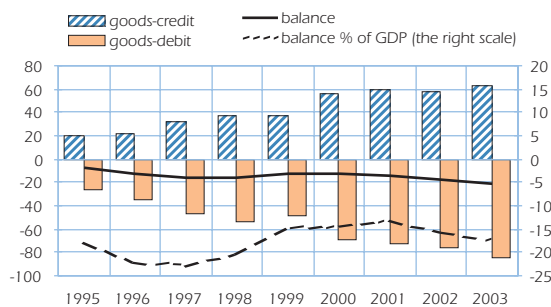
Current account turnover and balance (EEK bn)



Current account components (% of GDP)

Goods

In 2003, the foreign trade deficit increased by 3.9 billion kroons year-on-year, amounting to 21.9 billion kroons, i.e. 17.4% of GDP. The exports of goods increased by 9%, with normal exports² up 12%. Exports increased across almost all groups of goods, with the exception of food and clothing, footwear and headgear. Largest growth was recorded in the normal exports of machinery and equipment, chemical products, metal and mineral products. Imports increased by 12%, due to the persistently high domestic demand, with imports of goods for free circulation up nearly 16% (mostly thanks to capital goods and means of transport). The increase in imports of goods for processing and exports of processed goods was modest, which led to a slight decrease of their share in the foreign trade turnover. Almost 60% of processed goods and goods for processing were machinery and equipment and 20%



Estonia's foreign trade balance (EEK bn)

were clothing, footwear and headgear.

Estonia's major trade partners were the EU countries, which accounted for 68% of exports and 63% of imports. Trade was also lively with the acceding countries and CIS countries.

¹ Here and below the EU countries denote the 15 countries that were members of the union in the period analysed (2003); the ten countries that joined the EU on 1 May 2004 are referred to as acceding countries.

² Normal exports – exports of goods manufactured in Estonia and belonging to Estonian legal entities; do not include the exports of processed goods. Normal imports – imports of goods for Estonia's domestic consumption; do not include the imports of goods for processing.

Services

The surplus of the services balance increased by 21% in 2003, due to exports growing faster than imports (by 9% and 3%, respectively). While in 2002 the surplus of the services balance mostly consisted of the debit balance of transport and travel services, then in 2003 the share of travel services decreased.

Income

The income balance had a record deficit of 7.9 billion kroons, which was mostly related to direct investment income. 75% of the deficit derived from the growth of reinvested earnings, which do not involve any real movement of funds. However, the direct investment income paid out as dividends has decreased twice year-on-year.

Capital and Financial Account

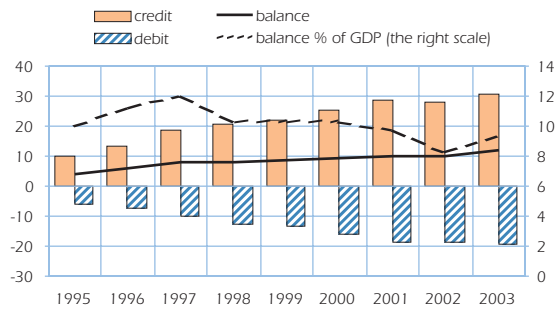
The surplus of the capital and financial account increased by nearly 50% year-on-year and amounted to record 19 billion kroons. Direct investment balance was also exceptionally high, covering 55% of the net capital inflow. In recent years, the current account deficit has been financed, besides foreign direct investments, also by other forms of capital inflow (loans, deposits), which covered nearly a third of the capital and financial account balance.

Direct Investments

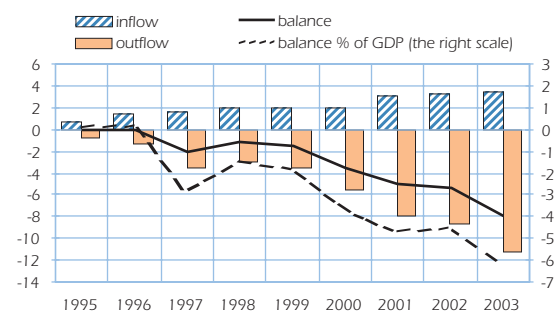
The net inflow of direct investments stood at 10.4 billion kroons, of which non-residents' strategic investments into Estonia formed 12.5 billion kroons and residents' direct investments abroad amounted to 2 billion kroons.

Estonia received a record amount of direct investments, over 90% of which was invested into equity. The growth of reinvested earnings doubled year-on-year. 76% of foreign direct investments into Estonia came from Finland and Sweden. The most popular investment sector was wholesale and retail trade.

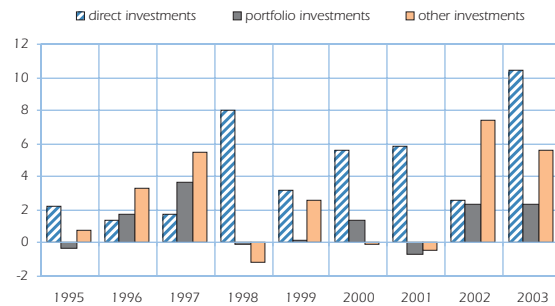
The structure of residents' direct investments abroad changed little. The main components were share



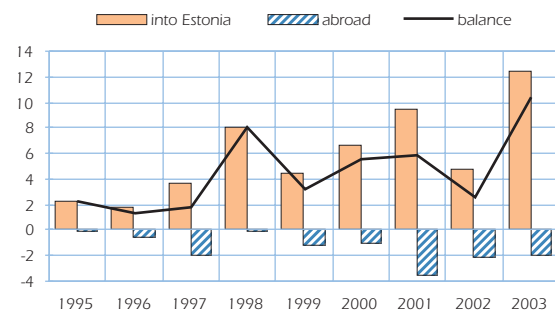
Services balance (EEK bn)



Income balance (EEK bn)



Capital and financial account sub-accounts (EEK bn)

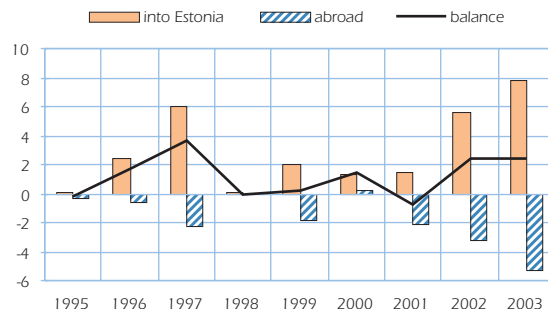


Direct investments (EEK bn)

capital (47%) and retained profits (36%). More than half of direct investments abroad went into Lithuania. The financial intermediation sector was Estonia's largest investor.

Portfolio Investments

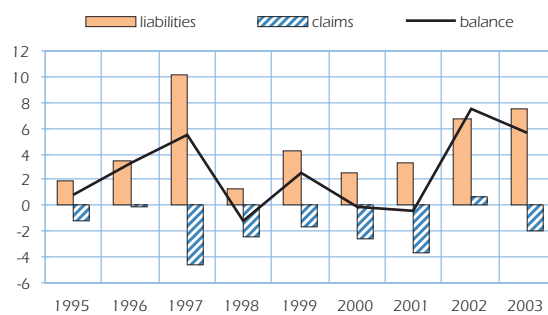
Portfolio investment balance was positive by 2.4 billion kroons in 2003. Estonia received about 7.7 billion kroons worth of portfolio investments and 5.4 billion kroons were invested abroad. Investments into debt securities dominated, with the general government investing 4.2 billion kroons into debt securities issued by non-residents in 2003. Estonian credit institutions issued 6.6 billion kroons worth of debt securities in foreign financial markets.



Portfolio investments (EEK bn)

Other Investments

The net inflow of other investments amounted to approximately 5.6 billion kroons in 2003, with investment liabilities growing by 1.9 billion kroons and claims by 7.5 billion kroons. Loan liabilities and non-residents' deposits in credit institutions increased remarkably, by 3.1 million and 4.6 billion kroons, respectively. The growth of other investment liabilities was mostly related to the EU countries.



Other investments (EEK bn)

CURRENT ACCOUNT

The previous year's tendencies continued in 2003: weak export demand and strong import demand increased the current account deficit even further and the relative current account deficit amounted to 13.2% of GDP (see Figure 1.1).

Estonia's foreign trade was mostly limited to the EU countries and acceding countries (77% of the turnover; see Table 1.3). Current account deficits were the highest with Germany, Russia, the Ukraine, and the Netherlands. Surpluses were the largest with Latvia, the British Virgin Islands, Norway, Finland, and the UK.

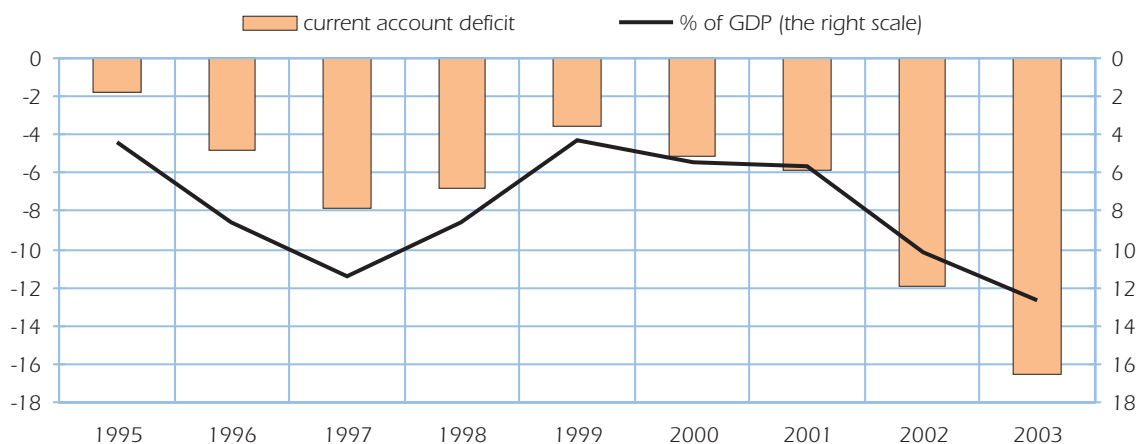


Figure 1.1. Estonia's current account balance (EEK bn)

Table 1.3. Current account by groups of countries in 2003 (EEK m)

European Union	-12,041.3
Germany	-5,028.9
Netherlands	-2,542.0
Italy	-1,658.6
Belgium	-1,194.9
Sweden	-971.0
Acceding countries	-916.6
Latvia	2,128.8
Poland	-1,874.7
Czech Republic	-499.5
CIS	-6,767.4
Russia	-3,263.9
Ukraine	-2,621.1
Belarus	-877.0
Other	3,162.2
British Virgin Islands	2,089.4
Norway	1,436.2
Japan	-988.6
Hong Kong	-791.3
China	-618.8
Total	-16,563.1

Goods

In 2003, the goods deficit increased by 3.9 billion kroons year-on-year, totalling 21.9 billion kroons. Exports of goods amounted to 63.5 billion kroons and imports were 85.4 billion kroons (see Table 1.4).

Table 1.4. Changes in the exports and imports of goods

	Goods: exports f.o.b.			Goods: imports f.o.b.			Balance (EEK m)
	Volume* (EEK m)	Change compared to the previous year (%)	Share in total exports of goods and services (%)	Volume* (EEK m)	Change compared to the previous year (%)	Share in total imports of goods and services (%)	
1995	19,428.2	22.7	66.0	27,043.7	32.3	82.6	-7,615.5
1996	21,833.4	12.4	62.1	34,121.6	26.2	82.8	-12,288.2
1997	31,846.5	45.9	63.4	47,499.3	39.2	82.4	-15,652.8
1998	37,786.3	18.7	64.5	53,511.8	12.7	80.8	-15,725.5
1999	36,995.2	-2.1	62.8	49,092.1	-8.3	78.3	-12,096.9
2000	56,345.9	52.3	68.9	69,489.5	41.5	81.4	-13,143.6
2001	58,667.1	4.1	67.0	72,451.0	4.3	79.5	-13,783.9
2002	58,333.6	-0.6	67.3	76,329.2	5.4	80.4	-17,995.6
2003	63,533.8	8.9	67.3	85,384.7	11.9	81.7	-21,850.9

* Data of foreign trade in the balance of payments.

Exports according to **special trade statistics**³ were 62.5 billion kroons, imports in c.i.f. prices were 89.7 billion kroons, and goods deficit was 27.2 billion kroons.

³The analysis below does not contain adjustments made in the foreign trade balance by the Balance of Payments and Economic Statistics Department of Eesti Pank (repair of capital goods, provisions bought abroad, etc). Imports are in c.i.f. prices and analysed by the trading country.

Eesti Pank uses the special trade system in its foreign trade analyses, which means that exports exclude the re-exports of imported goods previously stored in customs warehouses or provisions for sea and air transport. Imports exclude customs warehousing of imported goods, yet reflect deliveries of goods from customs warehouses into free circulation and processing.

Exports of goods surged by nearly 10% year-on-year, with both normal exports and exports of processed goods increasing by 12% and 5%, respectively (see Table 1.5).

Table 1.5. Special exports by final consumption

	Volume (EEK m)		Share (%)		Change (%)
	2002	2003	2002	2003	2003/2002
Normal exports	39,057.5	43,712.4	68.5	69.9	11.9
capital goods	2,118.0	2,591.6	3.7	4.1	22.4
intermediate goods	23,893.9	27,110.6	41.9	43.4	13.5
consumer goods	12,042.6	12,852.2	21.1	20.6	6.7
other	1,003.0	1,158.0	1.8	1.9	15.5
Exports of processed goods	17,933.2	18,819.1	31.5	30.1	4.9
capital goods	4,659.3	4,278.4	8.2	6.8	-8.2
intermediate goods	9,224.0	10,521.2	16.2	16.8	14.1
consumer goods	3,881.0	3,731.3	6.8	6.0	-3.9
other	168.9	288.1	0.3	0.5	70.6
Total	56,990.6	62,531.4	100.0	100.0	9.7

The volume of **normal exports** increased in all groups of final consumption by a total of 4.7 billion kroons, mostly thanks to an increase in the exports of intermediate and consumer goods. Intermediate goods mostly included timber products: sleepers, prefabricated wooden buildings and components, as well as unprocessed timber and firewood. On a positive note it should be mentioned that the share of unprocessed timber is constantly decreasing in exports and the share of processed timber is increasing. Intermediate goods exports included also metal structures, car accessories, paints, etc. Consumer goods exports mainly consisted of furniture and its components, fish and dairy products, textile products, footwear, medicines, and plastic products. Capital goods exports included trailers, containers, lifting and loading mechanisms, metal moulds, and various instruments. The three major groups in the exports of processed goods were machinery, clothing, footwear and headgear, and metals. Machinery exports increased by 4% and metals exports by 18%, while exports of clothing, footwear and headgear fell by 5%. Over half of the processed goods consisted of intermediate goods – electronics and engineering components, and metal products. Capital goods exports consisted mainly of mobile communication equipment, whereas consumer goods mostly included textile products.

Imports of goods increased by 13% in 2003 (see Table 1.6), with normal imports (imports for free circulation) growing by 16%, while imports for processing remained approximately at the same level as in 2002.

Table 1.6. Special imports by final consumption

	Volume (EEK m)		Share (%)		Change (%)
	2002	2003	2002	2003	2003/2002
Imports for free circulation (normal imports)	63,587.9	73,659.7	80.0	82.1	15.8
capital goods	11,140.3	16,408.7	14.0	18.3	47.3
intermediate goods	29,536.5	32,258.0	37.2	36.0	9.2
consumer goods	15,674.7	16,420.7	19.7	18.3	4.8
other	7,236.3	8,572.3	9.1	9.6	18.5
Imports of goods for processing	15,883.8	16,050.1	20.0	17.9	1.0
capital goods	3,568.0	2,545.4	4.5	2.8	-28.7
intermediate goods	11,176.9	12,396.6	14.1	13.8	10.9
consumer goods	1,082.6	1,061.6	1.4	1.2	-1.9
other	56.3	46.5	0.1	0.1	-17.4
Total	79,471.7	89,709.9	100.0	100.0	12.9

The volume of **normal imports** increased across all groups of final consumption, growing by a total of 10 billion kroons. More than half came from the growth of capital goods imports. The most remarkable change as compared to 2002 was railway cars imports worth 3.8 billion kroons. Besides these, computers, trucks, farming and road construction machinery, and mobile phones were imported. Intermediate goods imports included parts of motor vehicles, natural gas, unprocessed timber, metal products, machinery components, etc. Medicines and other chemical products, food, footwear, ready-made clothes, and household electronic devices dominated in consumer goods imports. Other goods traditionally included motor cars and motor fuel, which are hard to define by final consumption. Motor car imports increased by 22% in 2003 and amounted to 4.6 billion kroons. Imports of motor fuel increased by 8% year-on-year, totalling 3.4 billion kroons.

Imports for processing increased insignificantly year-on-year and their share in special imports dropped from 20% to 18%. Most of goods for processing were intermediate goods, such as components of electrical and electronic appliances, raw material for the textile industry, and metals.

Foreign trade deficit increased by 21% year-on-year and totalled 27.2 billion kroons (see Table 1.7). The surplus of processed goods and goods for processing increased by 0.7 billion kroons, whereas the deficit of normal exports and imports increased by 5.4 billion kroons, mostly due to the growth of capital goods imports.

Table 1.7. Foreign trade balance by final consumption (EEK m)

	2002	2003
Balance of normal exports and normal imports	-24,530.4	-29,947.4
capital goods	-9,022.3	-13,817.2
intermediate goods	-5,642.7	-5,147.4
consumer goods	-3,632.1	-3,568.5
other	-6,233.3	-7,414.3
Balance of exports of processed goods and imports of goods for processing	2,049.4	2,768.9
capital goods	1,091.3	1,733.1
intermediate goods	-1,952.8	-1,875.4
consumer goods	2,798.4	2,669.7
other	112.5	241.6
Total	-22,481.0	-27,178.5

By groups of countries, **exports of goods** to the EU and the acceding countries increased, as well as exports to the CIS countries (see Table 1.8).

Table 1.8. Special exports by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2002	2003	2002	2003	2003/2002
European Union	38,740.8	42,739.8	68.0	68.3	10.3
Finland	14,111.2	16,203.5	24.8	25.9	14.8
Sweden	8,737.5	9,520.3	15.3	15.2	9.0
Germany	5,644.6	6,177.4	9.9	9.9	9.4
Acceding countries	7,794.1	8,784.7	13.7	14.0	12.7
Latvia	4,216.4	4,393.7	7.4	7.0	4.2
Lithuania	1,987.8	2,340.5	3.5	3.7	17.7
Poland	543.2	691.1	1.0	1.1	27.2
CIS	3,058.7	3,770.4	5.4	6.0	23.3
Russia	1,901.7	2,439.9	3.3	3.9	28.3
Ukraine	969.3	1,137.5	1.7	1.8	17.3
Other	7,397.1	7,236.5	13.0	11.6	-2.2
USA	1,277.3	1,552.8	2.2	2.5	21.6
Norway	1,926.3	2,245.7	3.4	3.6	16.6
Total	56,990.6	62,531.4	100.0	100.0	9.7

Growth was the biggest in exports to the EU countries, with Estonia's three major trade partners – Finland, Sweden and Germany – accounting for 75% of the exports volume and 85% of the growth. Among acceding countries, the leading position belonged to Latvia, Lithuania, Hungary, and Poland. Russia and the Ukraine dominated among the CIS countries, accounting for 95% of exports. The top three of other countries included Norway, the USA, and China.

Imports of goods increased across all groups of countries in 2003 (see Table 1.9). Imports from the CIS countries grew by a remarkable 60%, thanks to the above-mentioned purchases of railway cars from Russia and the Ukraine. Deliveries from acceding countries increased by 26%, with Latvia, Lithuania and Poland occupying the top three positions. Imports from the EU grew by 5% and major trade partners were still Finland, Germany, and Sweden. The top three of other countries were Japan, China, and the USA.

Table 1.9. Special imports by groups of countries*

	Volume (EEK m)		Share (%)		Change (%)
	2002	2003	2002	2003	2003/2002
European Union	53,332.3	56,118.6	67.1	62.6	5.2
Finland	18,366.1	19,274.1	23.1	21.5	4.9
Sweden	8,363.9	8,781.9	10.5	9.8	5.0
Germany	9,563.1	11,433.4	12.0	12.7	19.6
Acceding countries	9,969.6	12,550.7	12.5	14.0	25.9
Latvia	3,226.5	3,789.1	4.1	4.2	17.4
Lithuania	3,026.2	3,682.9	3.8	4.1	21.7
Poland	2,188.8	2,744.6	2.8	3.1	25.4
CIS	7,518.3	12,047.2	9.5	13.4	60.2
Russia	5,646.1	7,204.2	7.1	8.0	27.6
Ukraine	1,041.4	3,797.8	1.3	4.2	264.7
Other	8,651.5	8,993.4	10.9	10.0	4.0
USA	1,082.1	1,199.9	1.4	1.3	10.9
Norway	764.0	789.3	1.0	0.9	3.3
Total	79,471.7	89,709.9	100.0	100.0	12.9

* Analysed by trading country.

Foreign trade balance was negative for all groups of countries (see Table 1.10).

Table 1.10. Foreign trade balance by groups of countries (EEK m)

	2002	2003
European Union	-14,591.5	-13,378.8
Finland	-4,254.9	-3,070.5
Sweden	373.6	738.4
Germany	-3,918.5	-5,256.0
Acceding countries	-2,175.5	-3,766.0
Latvia	990.0	604.6
Lithuania	-1,038.4	-1,342.4
Poland	-1,645.6	-2,053.5
CIS	-4,459.6	-8,276.7
Russia	-3,744.4	-4,764.3
Ukraine	-72.1	-2,660.3
Other	-1,254.4	-1,757.0
USA	195.2	353.0
Norway	1,162.3	1,456.4
Total	-22,481.0	-27,178.5

Services

The surplus of the services balance was 11.7 billion kroons in 2003, growing by 21% year-on-year (see Table 1.11). The surplus of the services balance offset foreign trade deficit by 54%, the same as in 2002.

Table 1.11. Exports and imports of services

	Exports		Imports		Balance	
	Volume (EEK m)	Change compared to the previous year (%)	Volume (EEK m)	Change compared to the previous year (%)	Volume (EEK m)	Change compared to the previous year (%)
1995	10,022.9	50.6	5,692.6	7.4	4,330.3	219.4
1996	13,352.8	33.2	7,107.8	24.9	6,245.0	44.2
1997	18,366.7	37.5	10,134.0	42.6	8,232.7	31.8
1998	20,804.0	13.3	12,754.8	25.9	8,049.2	-2.2
1999	21,951.9	5.5	13,610.4	6.7	8,341.5	3.6
2000	25,485.8	16.1	15,911.2	16.9	9,574.6	14.8
2001	28,866.5	13.3	18,706.3	17.6	10,160.2	6.1
2002	28,279.7	-2.0	18,602.3	-0.6	9,677.4	-4.8
2003	30,814.4	9.0	19,064.6	2.5	11,749.9	21.4

The main change in the structure of the services balance concerned the decreasing share of travel services and the deficit of the government and business services turning into a surplus (see Table 1.12).

Table 1.12. Services balance by major categories

	Balance (EEK m)		Share (%)	
	2002	2003	2002	2003
Transportation	5,206.5	6,507.0	53.8	55.4
Travel	5,340.7	4,878.8	55.2	41.5
Construction services	-96.8	-108.5	-1.0	-0.9
Business services	-146.0	261.4	-1.5	2.2
Government services	-679.8	171.5	-7.0	1.5
Other	52.8	39.6	0.5	0.3
Total	9,677.4	11,749.9	100.0	100.0

Exports of services increased by 9% in 2003 (see Table 1.13). Due to adjustments in the general government entry (see Changes in the Balance of Payments Statistics Methodology), the services exports of the general government increased by approximately 3.7 times.

Table 1.13. Services exports by major categories

	Volume (EEK m)		Share (%)		Change (%)
	2002	2003	2002	2003	2003/2002
Transportation	13,290.3	13,606.8	47.0	44.2	2.4
freight	6,174.9	7,052.4	21.8	22.9	14.2
passenger	2,979.5	2,920.7	10.5	9.5	-2.0
other transport services	4,135.9	3,633.7	14.6	11.8	-12.1
Travel	9,148.8	9,317.9	32.4	30.2	1.8
Construction services	1,289.4	1,174.8	4.6	3.8	-8.9
Business services	3,236.8	4,756.5	11.4	15.4	47.0
Government services	126.8	474.8	0.4	1.5	274.4
Other	1,187.6	1,483.6	4.2	4.8	24.9
Total	28,279.7	30,814.4	100.0	100.0	9.0

A considerable increase occurred also in the exports of business and other services. Exports of travel services increased by 2% and mostly on the account of freight transport, which mainly comprised rail freight transport and other services. Only exports of construction services decreased year-on-year by 9%. In services exports the share of EU countries was the biggest (57% of total services exports), with Finland accounting for 31% and Russia and the UK for 6% each (see Table 1.14).

Table 1.14. Services exports and imports by groups of countries in 2003

Exports			Imports		
	Volume (EEK m)	Share (%)		Volume (EEK m)	Share (%)
European Union	17,570.7	57.0	European Union	11,605.6	60.9
Finland	9,686.1	31.4	Finland	4,368.5	22.9
United Kingdom	1,983.3	6.4	Germany	1,475.8	7.7
Sweden	1,964.5	6.4	Sweden	1,401.3	7.4
Germany	1,549.0	5.0	United Kingdom	893.1	4.7
Acceding countries	3,027.1	9.8	Acceding countries	2,708.0	14.2
Latvia	1,451.2	4.7	Latvia	929.7	4.9
Lithuania	599.0	1.9	Cyprus	747.9	3.9
CIS	3,183.2	10.3	CIS	2,194.1	11.5
Russia	2,909.7	9.4	Russia	1,676.4	8.8
Ukraine	179.2	0.6	Ukraine	308.0	1.6
Other	7,033.4	22.8	Other	2,556.9	13.4
offshore regions	2,632.1	8.5	USA	753.9	4.0
USA	1,561.4	5.1	Norway	395.4	2.1
Norway	499.8	1.6	Switzerland	217.2	1.1
Exports total	30,814.4	100.0	Imports total	19,064.6	100.0

Imports of services grew by 3% in 2003 – at a considerably slower pace than exports. This led to an increase in the surplus of the services balance. Only imports of travel and other services increased (by 17% and 27%, respectively). Imports of government services decreased by 62%, imports of construction services were down by 7% and that of transport services by 12% (see Table 1.15). The EU countries held the leading position (61%) in imports as well. The share of other groups of countries was nearly equal at 12–14%. Among individual countries, Finland held the largest share (23%), followed by Russia (9%), Germany (8%), and Sweden (7%).

Table 1.15. Services imports by major categories

	Volume (EEK m)		Share (%)		Change (%)
	2002	2003	2002	2003	2003/2002
Transportation	8,083.8	7,099.8	43.5	37.2	-12.2
freight	5,528.7	4,278.4	29.7	22.4	-22.6
passenger	1,223.1	1,250.8	6.6	6.6	2.3
other transport services	1,332.0	1,570.6	7.2	8.2	17.9
Travel	3,808.1	4,439.1	20.5	23.3	16.6
Construction services	1,386.2	1,283.3	7.5	6.7	-7.4
Business services	3,382.8	4,495.1	18.2	23.6	32.9
Government services	806.6	303.3	4.3	1.6	-62.4
Other	1,134.8	1,444.0	6.1	7.6	27.2
Total	18,602.3	19,064.6	100.0	100.0	2.5

The surplus of **transportation**, the most important category of services, accounted for more than half of the total surplus (see Table 1.12 and Figure 1.2). Due to changes in the balance of payments methodology, major shifts took place in air and rail transport services (see Changes in the Balance of Payments Statistics Methodology).

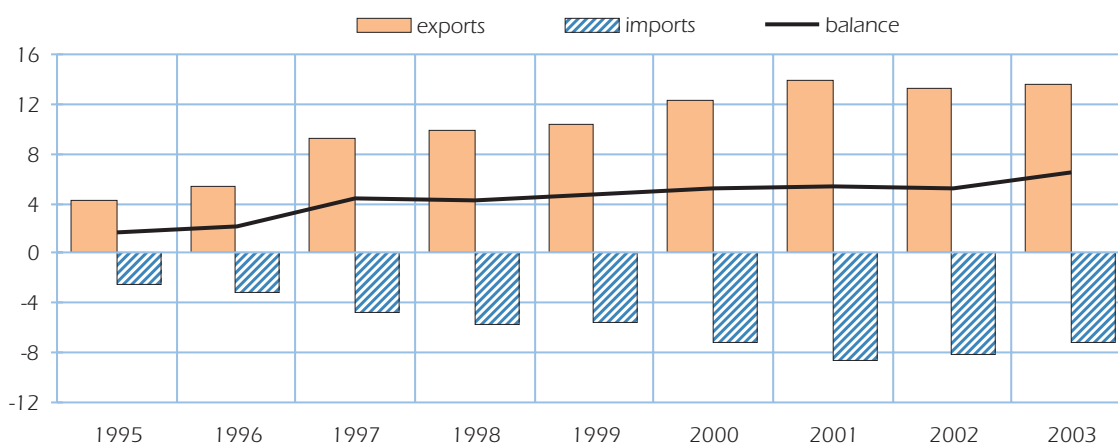


Figure 1.2. Transport services balance (EEK bn)

The positive balance of air transport services turned negative. Despite the successful exports of freight transport services, the increased number of passengers was unable to boost the exports of passenger transport, due to lower airfares. The deficit of rail freight transport services turned into a surplus. Investments into the rolling stock and auxiliary and other services increased the exports of rail transport services considerably in 2003. Difficult ice conditions in Russia's Gulf of Finland ports also had a positive effect on the growth of freight transport exports, which significantly increased the rail transport of raw materials from Russia. Sea transport still held the leading position among different transport types, regardless of the fact that the balance of sea transport services remained practically unchanged compared with 2002. For the first time, oil transit through Estonian ports fell, whereas exports of unprocessed timber rose.

The EU countries accounted for most of transport services exports and imports. The share of other countries in transport services exports was 39%, mainly due to providing freight transport services to countries with low tax rates (see Tables 1.16 and 1.17). The share of the EU countries amounted to 94% in passenger transport services exports and to 63% in imports.

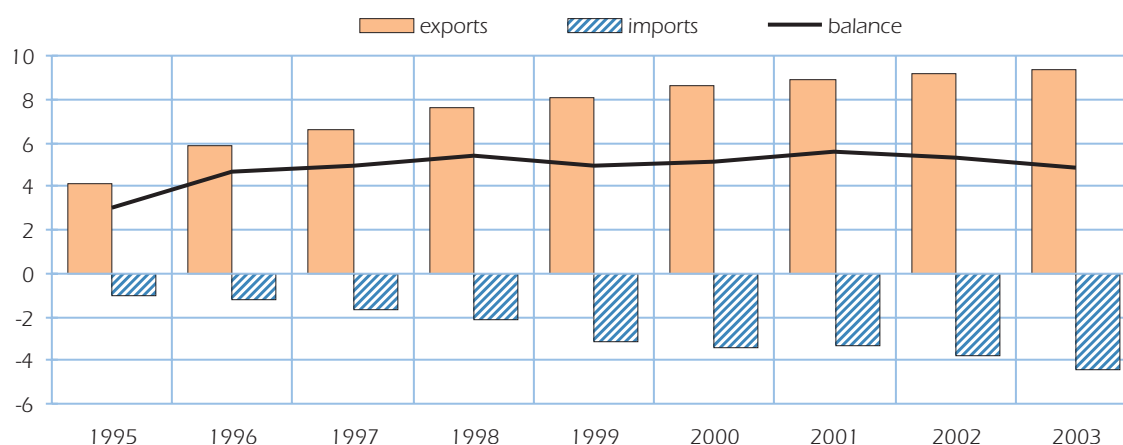
Table 1.16. Exports and imports of freight transport services by groups of countries in 2003

	Exports		Imports		Balance	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
European Union	2,943.8	41.7	2,365.0	55.3	578.8	20.9
Finland	713.8	10.1	625.5	14.6	88.3	3.2
United Kingdom	613.7	8.7	93.3	2.2	520.4	18.8
Germany	494.9	7.0	473.3	11.1	21.6	0.8
Sweden	437.0	6.2	207.4	4.8	229.6	8.3
Denmark	199.3	2.8	305.5	7.1	-106.2	-3.8
Acceding countries	415.2	5.9	657.9	15.4	-242.7	-8.7
Latvia	159.5	2.3	180.5	4.2	-21.0	-0.8
Cyprus	132.2	1.9	48.4	1.1	83.8	3.0
Lithuania	73.6	1.0	143.0	3.3	-69.4	-2.5
Poland	23.7	0.3	177.7	4.2	-154.0	-5.6
Hungary	15.6	0.2	35.6	0.8	-20.0	-0.7
CIS	976.4	13.8	757.5	17.7	218.9	7.9
Russia	913.3	12.9	486.6	11.4	426.7	15.4
Ukraine	46.8	0.7	132.6	3.1	-85.8	-3.1
Belarus	8.3	0.1	125.9	2.9	-117.6	-4.2
Other	2,717.0	38.5	498.0	11.6	2,219.1	80.0
British Virgin Islands	1,590.3	22.5	4.0	0.1	1,586.3	57.2
USA	481.1	6.8	126.2	2.9	354.9	12.8
Switzerland	304.6	4.3	26.4	0.6	278.2	10.0
Norway	109.4	1.6	111.3	2.6	-1.9	-0.1
Total	7,052.4	100.0	4,278.4	100.0	2,774.0	100.0

Table 1.17. Exports and imports of passenger transport services by groups of countries in 2003

	Exports		Imports		Balance	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
European Union	2,733.5	93.6	782.0	62.5	1,951.5	116.9
Finland	2,059.3	70.5	284.3	22.7	1,775.0	106.3
Sweden	389.7	13.3	147.3	11.8	242.4	14.5
Germany	89.5	3.1	63.4	5.1	26.1	1.6
United Kingdom	68.3	2.3	58.0	4.6	10.3	0.6
Denmark	61.8	2.1	8.9	0.7	52.9	3.2
Acceding countries	59.3	2.0	70.6	5.6	-11.3	-0.7
Lithuania	30.1	1.0	10.5	0.8	19.6	1.2
Latvia	21.1	0.7	15.6	1.2	5.5	0.3
Czech Republic	4.1	0.1	9.3	0.7	-5.2	-0.3
Poland	3.9	0.1	8.9	0.7	-5.0	-0.3
Slovakia	0.2	0.0	4.7	0.4	-4.5	-0.3
CIS	53.1	1.8	36.8	2.9	16.3	1.0
Russia	47.2	1.6	22.7	1.8	24.5	1.5
Ukraine	5.7	0.2	9.7	0.8	-4.0	-0.2
Other	74.8	2.6	361.4	28.9	-286.6	-17.2
Norway	22.6	0.8	94.2	7.5	-71.6	-4.3
USA	20.0	0.7	55.1	4.4	-35.1	-2.1
Faeroe Islands	6.8	0.2	0.0	0.0	6.8	0.4
Switzerland	5.0	0.2	11.5	0.9	-6.5	-0.4
Canada	2.3	0.1	12.5	1.0	-10.2	-0.6
Total	2,920.7	100.0	1,250.8	100.0	1,669.9	100.0

Exports of **travel services** remained close to the previous year's level (see Figure 1.3). The number of foreigners visiting Estonia increased by 3%, mostly on account of one-day visitors arriving by sea. The number of Finnish and American visitors continued to decline, whereas the number of tourists from the Scandinavian and CIS countries increased.

**Figure 1.3. Travel services balance (EEK bn)**

The share of the EU countries was the biggest (70% of travel services exports; see Table 1.18). Finnish tourists made over half of travel expenditures in Estonia. Among other countries, neighbouring Russia and Latvia held the leading positions (10% and 7%, respectively, of the total exports of travel services).

The rapid growth of travel services imports that had begun in 2002 continued in 2003 (17% year-on-year), which reduced the surplus of the travel services balance by 9% (see Table 1.12). In 2003, Estonians made 1.7 million trips abroad and the number of visits to all major destination countries increased. Imports of travel

services were distributed more evenly than exports: Finland accounted for 16% of the total imports of travel services, the share of Russia was 11% and that of Germany – 10%. The EU countries accounted for 63% of the total imports of travel services (see Table 1.18).

Table 1.18. Exports and imports of travel services by groups of countries in 2003

Exports			Imports		
	Volume (EEK m)	Share (%)		Volume (EEK m)	Share (%)
European Union	6,474.6	69.5	European Union	-2,796.9	63.0
Finland	4,859.9	52.2	Finland	-720.3	16.2
Sweden	610.7	6.6	Germany	-463.9	10.4
Germany	299.4	3.2	Sweden	-326.6	7.4
United Kingdom	201.6	2.2	United Kingdom	-229.3	5.2
Acceding countries	1,203.0	12.9	Acceding countries	-488.2	11.0
Latvia	663.0	7.1	Latvia	-226.4	5.1
Lithuania	215.8	2.3	Lithuania	-91.8	2.1
CIS	1,013.3	10.9	CIS	-622.8	14.0
Russia	953.0	10.2	Russia	-496.1	11.2
			Belarus	-41.3	0.9
Other	626.9	6.7	Other	-531.2	12.0
USA	227.7	2.4	USA	-118.1	2.7
Norway	182.6	2.0	Norway	-69.1	1.6
Exports total	9,317.9	100.0	Imports total	-4,439.1	100.0

Income

Income deficit amounted to a record 7.9 billion kroons in 2003, up 46% year-on-year (see Tables 1.19 and 1.20). The deficit growth can be attributed to an increase in the direct investment income deficit, and first and foremost the negative balance of reinvested earnings. 75% of the income deficit derived from reinvested earnings (50% in 2002).

Income inflow into Estonia increased by just 1% (see Table 1.21). Income inflow from direct investments continued to grow rapidly (52%), whereas inflow from portfolio investments decreased by 42%. As to direct investment income, reinvested earnings increased by 11% and dividends by more than six times. As to other income, compensations of Estonians working abroad are also becoming an important component of income, increasing by 2.3 times year-on-year.

Table 1.19. Income balance

	Inflow		Outflow		Balance	
	Volume (EEK m)	Change compared to the previous period (%)	Volume (EEK m)	Change compared to the previous period (%)	Volume (EEK m)	Change compared to the previous period (%)
1995	727.7	50.8	699.5	-18.7	28.2	-107.5
1996	1,352.5	85.9	1,326.3	89.6	26.2	-7.1
1997	1,594.1	17.9	3,604.6	171.8	-2,010.5	-7,773.7
1998	1,871.8	17.4	3,035.8	-15.8	-1,164.0	-42.1
1999	1,964.3	4.9	3,470.1	14.3	-1,505.8	29.4
2000	2,008.0	2.2	5,491.4	58.2	-3,483.4	131.3
2001	2,994.7	49.1	7,920.8	44.2	-4,926.1	41.4
2002	3,339.3	11.5	8,762.4	10.6	-5,423.1	10.1
2003	3,385.9	1.4	11,322.7	29.2	-7,936.7	46.3

Table 1.20. Structure of income balance

	Volume (EEK m)		Share (%)		Change (%)
	2002	2003	2002	2003	2003/2002
Income on direct investments	-5,714.3	-7,690.7	105.4	96.9	34.6
income on equity	-5,478.3	-7,393.3	101.0	93.2	35.0
reinvested earnings	-2,704.8	-5,975.1	49.9	75.3	120.9
dividends	-2,773.5	-1,418.2	51.1	17.9	-48.9
income on debt (interests)	-236.0	-297.4	4.4	3.7	26.0
Income on portfolio investments	545.6	-267.1	-10.1	3.4	-149.0
Income on other investments	-418.5	-334.2	7.7	4.2	-20.2
Other income	164.1	355.2	-3.0	-4.5	116.5
Total	-5,423.1	-7,936.7	100.0	100.0	46.4

Table 1.21. Income inflow to Estonia

	Volume (EEK m)		Share (%)		Change (%)
	2002	2003	2002	2003	2003/2002
Income on direct investments	840.8	1,274.6	25.2	37.6	51.6
income on equity	732.7	1,161.6	21.9	34.3	58.5
reinvested earnings	665.5	741.4	19.9	21.9	11.4
dividends	67.2	420.2	2.0	12.4	525.3
income on debt (interests)	108.1	113.0	3.2	3.3	4.5
Income on portfolio investments	1,495.3	866.5	44.8	25.6	-42.0
Income on other investments	812.4	812.9	24.3	24.0	0.1
Other income	190.8	432.0	5.7	12.8	126.4
Total	3,339.3	3,385.9	100.0	100.0	1.4

By fields of activity, income inflow was the largest in financial intermediation (60%) and transport, storage and communications (12%; see Figure 1.4). By countries, income inflow was the largest from Latvia (29%), Cyprus (12%), and Finland (9%; see Table 1.22). By groups of countries, investment income mostly came from the acceding countries (58% of total inflow) and the EU countries (32%).

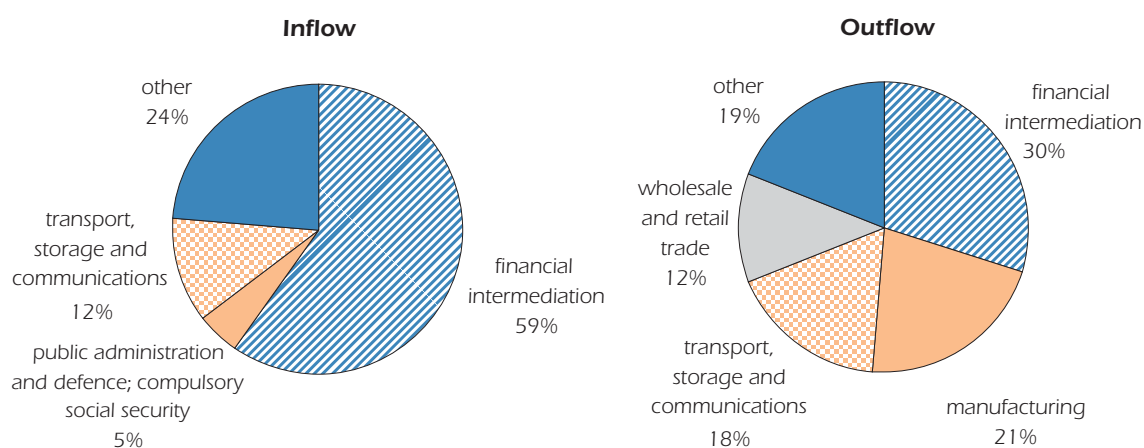
**Figure 1.4. Inflow and outflow of income by fields of activity in 2003**

Table 1.22. Income by groups of countries in 2003

Inflow			Outflow		
	Volume (EEK m)	Share (%)		Volume (EEK m)	Share (%)
European Union	1,080.6	31.9	European Union	-8,889.9	78.5
Finland	313.8	9.3	Finland	-2,991.3	26.4
Germany	233.1	6.9	Sweden	-2,895.1	25.6
Sweden	202.9	6.0	United Kingdom	-1,318.5	11.6
Ireland	85.7	2.5	Netherlands	-599.6	5.3
Acceding countries	1,959.9	57.9	Acceding countries	-187.4	1.7
Latvia	967.0	28.6	Latvia	-100.7	0.9
Cyprus	388.8	11.5	Lithuania	-65.3	0.6
CIS	60.0	1.8	CIS	-373.4	3.3
Ukraine	35.6	1.1	Russia	-364.2	3.2
Other	285.4	8.4	Other	-1,871.9	16.5
USA	38.4	1.1	USA	-606.6	5.4
			offshore regions	-584.0	5.2
Total	3,385.9	100.0	Total	-11,322.7	100.0

Income outflow from Estonia increased by 29% compared to 2002 and amounted to 11.3 billion kroons (see Table 1.23). Nearly 60% of income outflow was made up of reinvested earnings, which doubled year-on-year. What we have here is a methodological peculiarity of the balance of payments compilation and there is no real outflow of funds from Estonia – funds are reinvested in the Estonian economy and reflected as a contra-entry under direct investments in the financial account. The outflow of income received as dividends decreased by 35%.

Table 1.23. Income outflow from Estonia

	Volume (EEK m)		Share (%)		Change (%)
	2002	2003	2002	2003	2003/2002
Income on direct investments	6,555.1	8,965.3	74.8	79.2	36.8
income on equity	6,211.0	8,554.9	70.9	75.6	37.7
reinvested earnings	3,370.3	6,716.5	38.4	59.3	99.3
dividends	2,840.7	1,838.4	32.4	16.2	-35.3
income on debt (interests)	344.1	410.3	3.9	3.6	19.3
Income on portfolio investments	949.7	1,133.7	10.8	10.0	19.4
Income on other investments	1,230.9	1,147.0	14.0	10.1	-6.8
Other income	26.7	76.7	0.3	0.7	187.3
Total	8,762.4	11,322.7	100.0	100.0	29.2

By fields of activity, income outflow was the biggest in financial intermediation (28% of total outflow) and manufacturing (23%; see Figure 1.4). Finland (26%) and Sweden (26%; see Table 1.22) dominated among individual countries. 79% of income outflow went to the EU countries, leaving the CIS countries and acceding countries (3% and 2%, respectively) far behind.

Current and Capital Transfers

Current transfers surplus was 1.5 billion kroons in 2003, i.e. 21% smaller than in 2002. The volume of incoming current transfers amounted to 2.9 billion kroons, of which sums received by the general government accounted for 45%, consisting mostly of EU assistance as well as pensions and other payments.

Transfers of other sectors were divided between the EU and other countries (Switzerland, the USA). Transfers made from Estonia amounted to 1.4 billion kroons and dominated by general government and other sector transfers to the EU countries (Germany, the UK, Finland, Belgium, and Sweden).

Capital transfers balance had a surplus of 0.6 billion kroons, which is nearly double the amount of 2002. Capital transfers mainly consisted of EU assistance to the general government for various infrastructure projects.

The structure of current and capital transfers by groups of countries is illustrated by Figure 1.5.

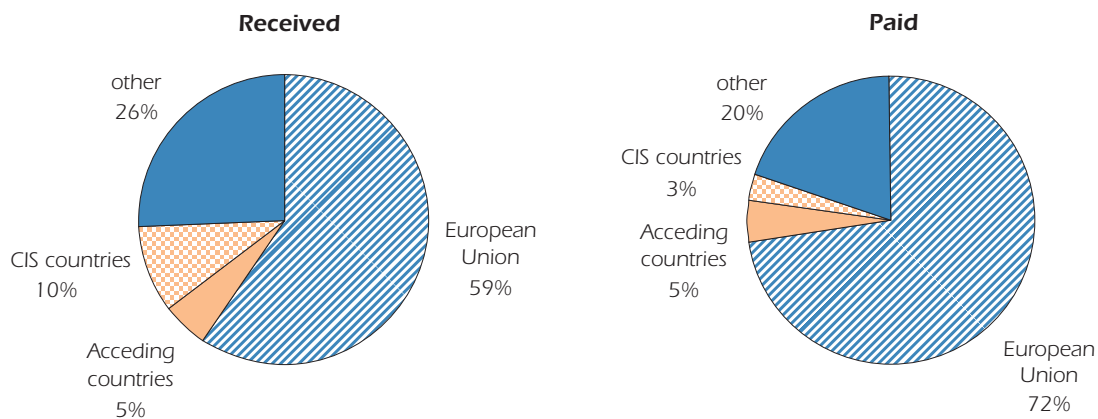


Figure 1.5. Current and capital transfers in 2003

FINANCIAL ACCOUNT

The surplus of the capital and financial account was record 19 billion kroons, i.e. nearly 50% up year-on-year. A survey of the financial account is provided in Figures 1.6 and 1.7.

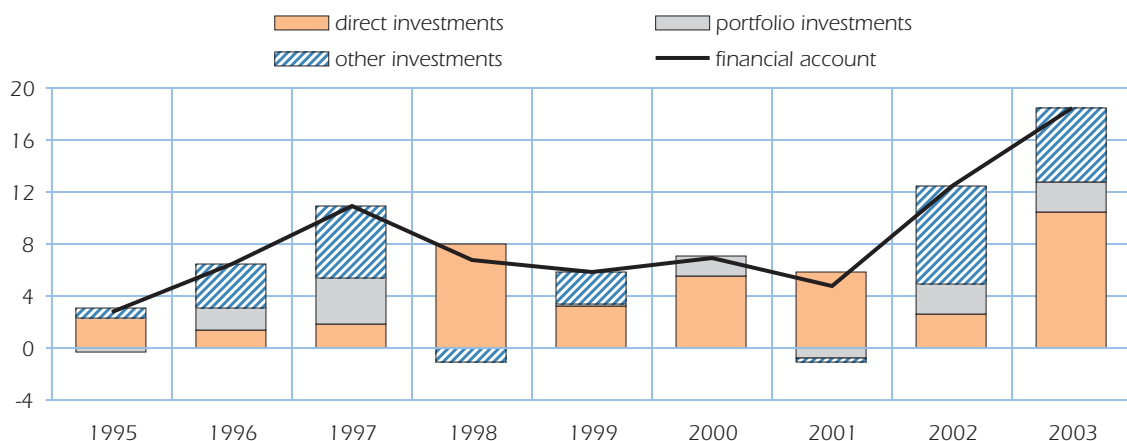


Figure 1.6. Changes in the structure of foreign investment capital flows (EEK bn)

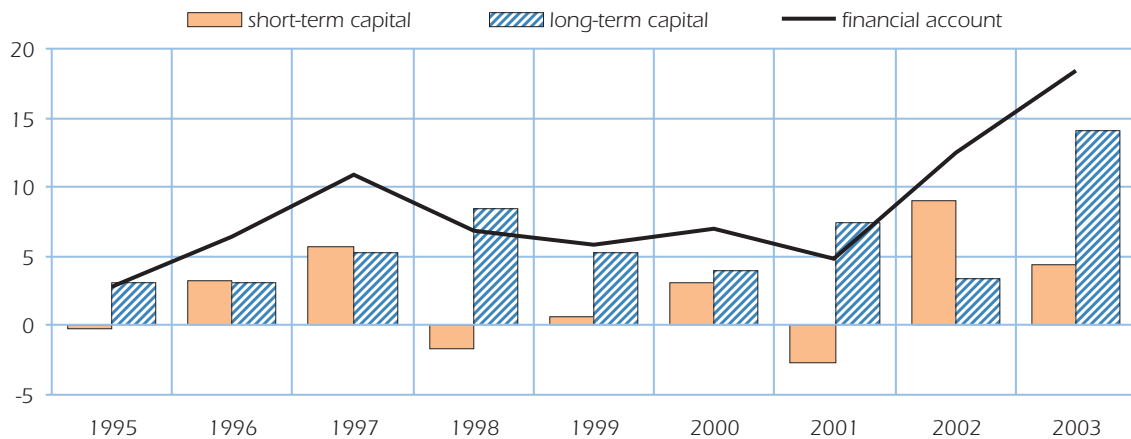


Figure 1.7. Maturity structure of financial account (EEK bn)

Direct Investments

Direct investment balance was positive by 10.4 billion kroons in 2003, accounting for nearly 60% of the financial account surplus. Non-residents invested 12.5 billion kroons in Estonia and Estonian residents' direct investments abroad grew by 2 billion kroons (see Figure 1.8). The net inflow of direct investments covered 63% of the current account deficit.

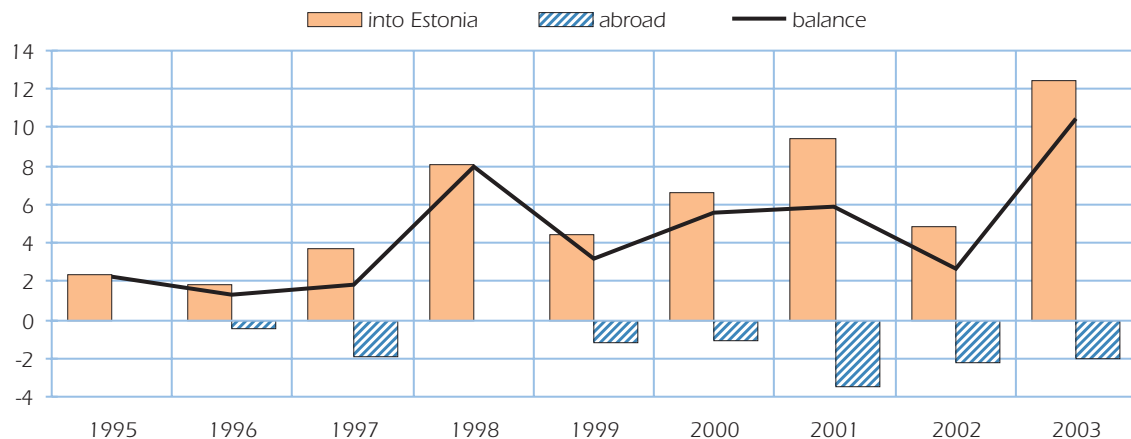


Figure 1.8. Direct investments (EEK bn)

Direct investment inflow was record large in 2003. The volume of direct investments into Estonia increased 2.6 times year-on-year. The main growth components were the doubling volume of reinvested earnings and multiple increase in the share capital. Half of the direct investment inflow was made up of non residents' reinvested earnings and 37% consisted of income earned from the sale of shares. The growth of reinvested earnings was remarkable in the second half of the year (4.6 billion kroons). The biggest profits were earned in the industrial sector. Net inflow of long-term loan liabilities amounted to 2.5 billion kroons. Like in 2002, short-term loan liabilities decreased (by 0.7 billion kroons) and claims on direct investors increased (by 0.5 billion kroons; see Tables 1.24 and 1.25).

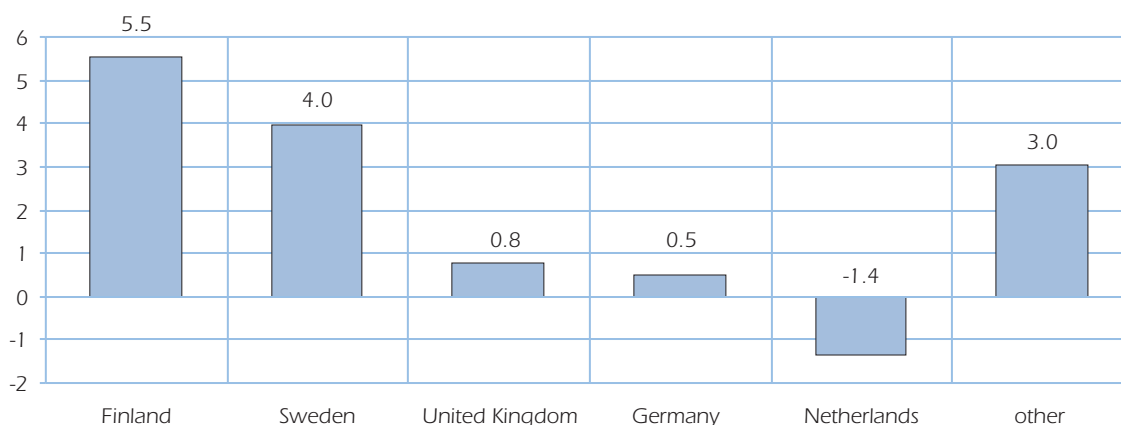
Table 1.24. Structure of direct investments into Estonia

	Share capital		Reinvested earnings		Other capital				Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Claims		Liabilities		Volume (EEK m)	Share (%)
					Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)		
1995	1,166.1	50.4	178.4	7.7	-60.8	-2.6	1,029.2	44.5	2,312.9	100.0
1996	215.8	11.9	216.3	11.9	-157.9	-8.7	1,540.2	84.9	1,814.4	100.0
1997	1,360.8	36.8	1,303.8	35.3	-97.4	-2.6	1,126.9	30.5	3,694.1	100.0
1998	5,661.9	70.1	389.4	4.8	-203.9	-2.5	2,224.0	27.6	8,071.4	100.0
1999	2,551.9	57.4	721.9	16.2	-265.0	-6.0	1,439.2	32.4	4,448.0	100.0
2000	3,925.3	59.1	1,815.2	27.3	-397.3	-6.0	1,301.3	19.6	6,644.5	100.0
2001	3,641.2	38.6	3,878.9	41.1	-950.7	-10.1	2,860.2	30.3	9,429.6	100.0
2002	821.0	17.1	3,370.3	70.2	-772.6	-16.1	1,381.5	28.8	4,800.2	100.0
2003	4,625.6	37.1	6,716.5	53.9	-1,334.0	-10.7	2,462.7	19.7	12,470.7	100.0

Table 1.25. Loan capital claims and liabilities to foreign direct investors in 2003 (EEK m)

	Long-term loan	Short-term loan
Claims (net)	162.1	512.0
grantings	408.4	1,010.7
repayments	246.3	498.7
Liabilities (net)	2,488.5	-706.1
drawings	5,155.6	3,020.8
repayments	2,667.1	3,726.9

44% of direct investment inflow came from Finland, followed by Sweden (32%), the UK (6%), and Germany (4%). Direct investments of the EU countries in Estonia increased by 10.4 billion kroons (84%). The most preferred fields of activity were wholesale and retail trade (37%), next came real estate, leasing and business (15%), financial intermediation (14%), and manufacturing (14%; see Figures 1.9 and 1.10, and Table 1.26).

**Figure 1.9. Direct investments into Estonia by countries in 2003 (EEK bn)**

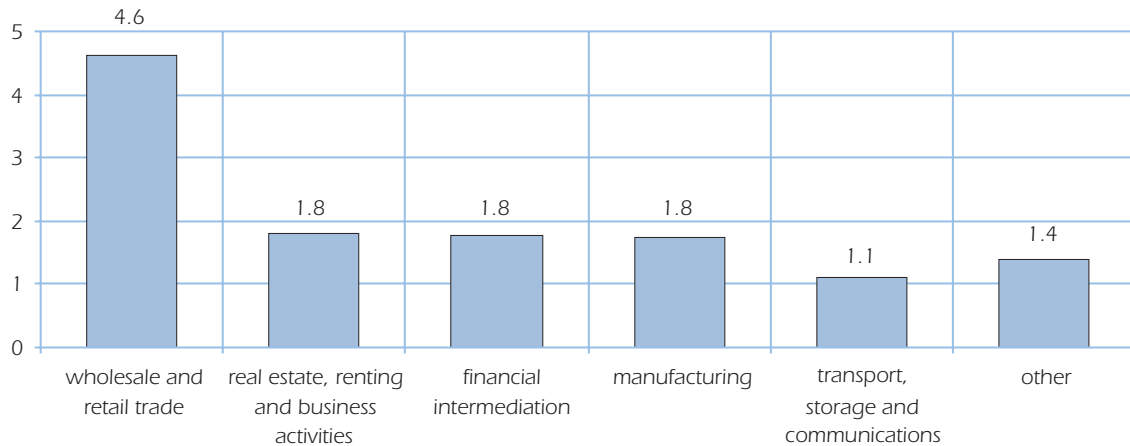


Figure 1.10. Direct investments into Estonia by fields of activity in 2003 (EEK bn)

Table 1.26. Direct investments into Estonia by groups of countries

	Volume (EEK m)		Share (%)		Change (%)
	2002	2003	2002	2003	2003/2002
European Union	4,065.8	10,410.7	84.7	83.5	156.1
Acceding countries	-5.4	56.3	-0.1	0.5	1,142.6
CIS	239.8	-34.5	5.0	-0.3	-114.4
Other	500.0	2,038.4	10.4	16.3	307.7
Total	4,800.2	12,470.9	100.0	100.0	159.8

Direct investments into foreign subsidiaries and associated companies remained at the same level as in 2002. Nearly half of direct investment outflow went into shares and 0.7 billion kroons was reinvested in the business activities of foreign subsidiaries and associated companies. Most of the net outflow of loan capital was made up of increasing long-term loan claims (0.4 billion kroons; see Tables 1.27 and 1.28).

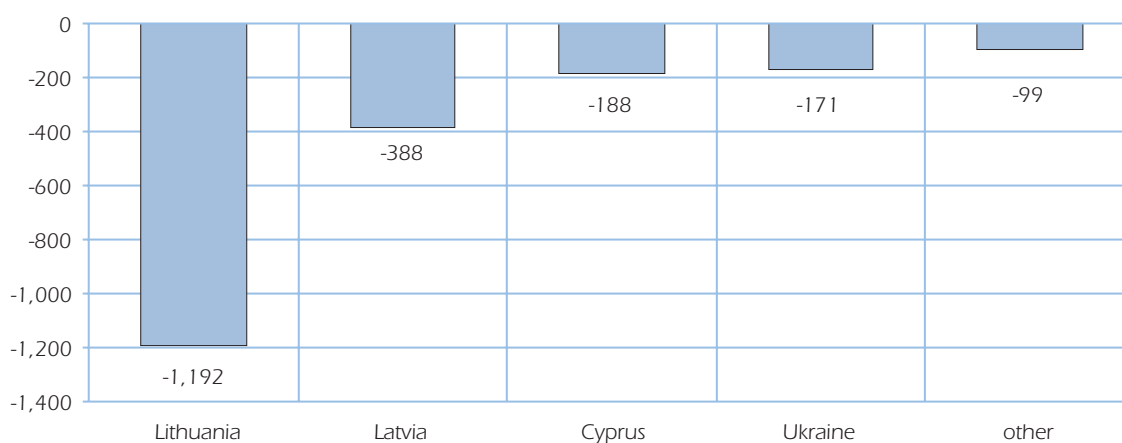
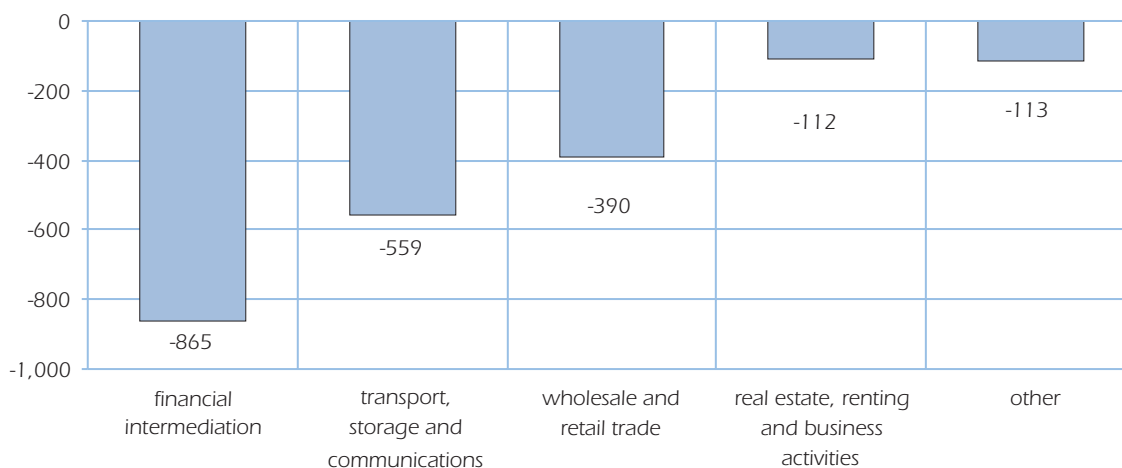
The most preferred investment target was Lithuania (59%), followed by Latvia (19%) and Cyprus (9%). The largest investments were made into financial intermediation (42%), transport, storage and communications (27%). 85% of investments went into the EU acceding countries (see Figures 1.11, 1.12, and Table 1.29).

Table 1.27. Structure of direct investments abroad

	Share capital		Reinvested earnings		Other capital				Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Claims		Liabilities		Volume (EEK m)	Share (%)
					Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)		
1995	-3.6	12.4	0.0	0.0	-26.8	92.1	1.3	-4.5	-29.1	100.0
1996	-107.1	22.1	-147.2	30.4	-261.3	53.9	31.1	-6.4	-484.5	100.0
1997	-539.2	28.2	-88.5	4.6	-1,303.2	68.1	18.0	-0.9	-1,912.9	100.0
1998	-472.7	578.6	-2.7	3.3	386.7	-473.3	7.0	-8.6	-81.7	100.0
1999	-525.7	42.4	-115.7	9.3	-641.3	51.7	42.9	-3.5	-1,239.8	100.0
2000	-579.7	55.6	-65.9	6.3	-480.8	46.1	83.3	-8.0	-1,043.1	100.0
2001	-1,897.1	53.8	-305.2	8.7	-1,242.8	35.2	-83.2	2.4	-3,528.3	100.0
2002	-903.9	41.3	-665.5	30.4	-727.2	33.2	108.2	-4.9	-2,188.4	100.0
2003	-949.3	46.6	-741.4	36.4	-645.8	31.7	297.9	-14.6	-2,038.5	100.0

Table 1.28. Loan capital claims and liabilities to foreign subsidiaries and associated companies in 2003 (EEK m)

	Long-term loan	Short-term loan
Claims (net)	390.5	-31.7
grantings	1,107.1	472.1
repayments	716.6	503.8
Liabilities (net)	-7.5	-14.4
drawings	4.1	84.3
repayments	11.6	98.7

**Figure 1.11. Direct investments abroad by countries in 2003 (EEK m)****Figure 1.12. Direct investments abroad by fields of activity in 2003 (EEK m)****Table 1.29. Direct investments abroad by groups of countries**

	Volume (EEK m)		Share (%)		Change (%)
	2002	2003	2002	2003	2003/2002
European Union	24.4	54.1	-1.1	-2.7	121.7
Acceding countries	-1,923.1	-1,740.6	87.9	85.4	-9.5
CIS	-130.9	-337.6	6.0	16.6	157.9
Other	-158.8	-14.4	7.3	0.7	-90.9
Total	-2,188.4	-2,038.5	100.0	100.0	-6.8

Portfolio Investments

The net inflow of **portfolio investments**⁴ amounted to 2.4 billion kroons in 2003, approximately equal to the level of 2002 (see Figure 1.13 and Table 1.30). The surplus of the investment inflow can mostly be attributed to large-scale debt security issues of residents in foreign financial markets.

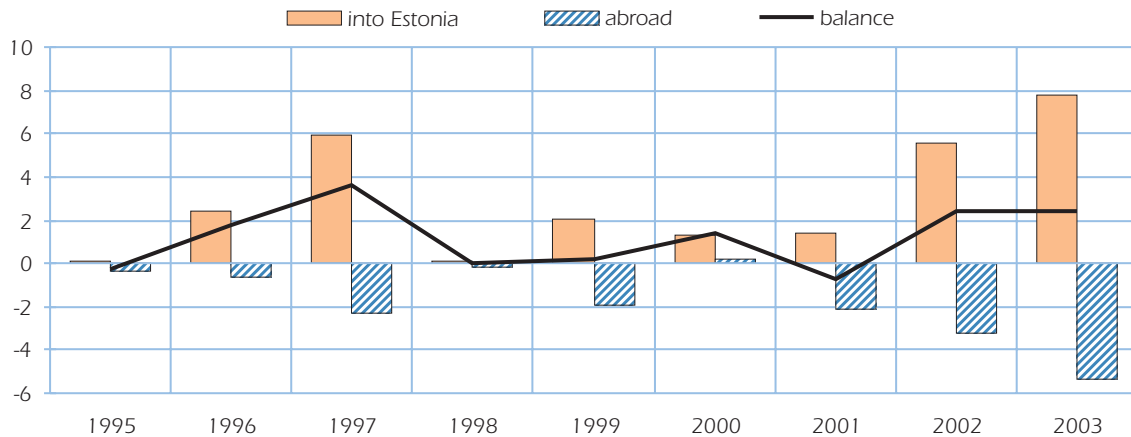


Figure 1.13. Portfolio investments (EEK bn)

Table 1.30. Portfolio investments by types of securities and sectors (EEK m)

	Claims		Liabilities		Balance	
	2002	2003	2002	2003	2002	2003
Total	-3,182.9	-5,351.5	5,561.6	7,742.8	2,378.7	2,391.3
Equity securities	9.1	-1,028.8	912.2	1,486.5	921.3	457.7
general government		-57.0				-57.0
credit institutions	13.0	-5.4	105.7	234.5	118.7	229.1
other sectors	-3.9	-966.4	806.5	1,252.0	802.6	285.6
Debt securities	-3,192.0	-4,322.7	4,649.4	6,256.3	1,457.4	1,933.6
monetary authorities						0.0
general government	-3,288.9	-4,164.7	1,448.6	-88.7	-1,840.3	-4,253.4
credit institutions	-56.0	1,075.8	189.4	6,644.3	133.4	7,720.1
other sectors	152.9	-1,233.8	3,011.4	-299.3	3,164.3	-1,533.1

Portfolio investments into Estonia increased by 7.7 billion kroons. This was due to the considerable upsurge of non-residents' investments into equity and debt securities (see Table 1.31).

Table 1.31. Structure of portfolio investments into Estonia

	Equity securities		Debt securities		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1995	113.7	89.4	13.5	10.6	127.2	100.0
1996	2,093.8	86.8	319.0	13.2	2,412.8	100.0
1997	1,763.6	29.5	4,210.8	70.5	5,974.4	100.0
1998	401.1	383.8	-296.6	-283.8	104.5	100.0
1999	3,292.3	160.5	-1,241.4	-60.5	2,050.9	100.0
2000	-538.8	-42.0	1,820.7	142.0	1,281.9	100.0
2001	568.4	40.6	832.1	59.4	1,400.5	100.0
2002	912.2	16.4	4,649.4	83.6	5,561.6	100.0
2003	1,486.5	19.2	6,256.4	80.8	7,742.9	100.0

⁴ Excluding financial derivatives.

Investments into debt securities issued by credit institutions increased by approximately 6.6 billion kroons year-on-year. In case of equity securities, non-residents preferred other sector companies, which received 1.2 billion kroons. 98% of portfolio investments came from the EU countries, whereas the share of other groups of countries was insignificant (see Table 1.32). Portfolio investment inflow by countries can be seen in Figure 1.14.

Table 1.32. Structure of portfolio investments by groups of countries in 2003

	Volume (EEK m)		Share (%)	
	Claims	Liabilities	Claims	Liabilities
European Union	-3,265.9	7,612.5	61.0	98.3
Acceding countries	-954.9	45.0	17.8	0.6
CIS	-132.3	59.7	2.5	0.8
Other	-998.5	25.7	18.7	0.3
Total	-5,351.6	7,742.9	100.0	100.0

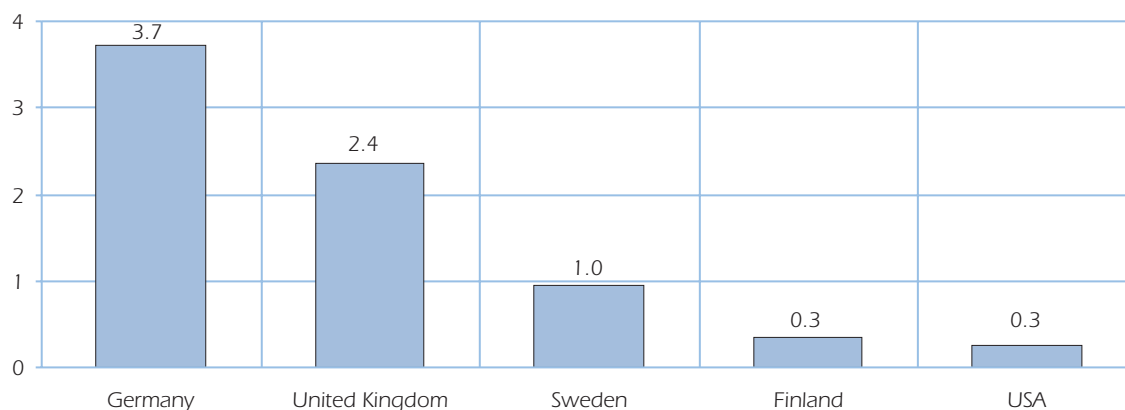


Figure 1.14. Portfolio investments into Estonia by countries in 2003 (EEK bn)

Portfolio investments abroad increased by 5.4 billion kroons in 2003 (see Table 1.33). The growth was mostly based on general government and other sector companies' investments into debt securities issued by non-residents (4.8 billion and 1.6 billion kroons, respectively). Residents also invested actively into foreign equity securities, for the total sum of nearly one billion kroons. By groups of countries, largest investments went into the EU countries and other countries (see Table 1.32). As to individual countries, the largest sums were invested into Belgium, the Netherlands, and the USA, followed by France and Lithuania (see Figure 1.15).

Table 1.33. Structure of portfolio investments abroad

	Equity securities		Debt securities		Total	
	Volume (EEK)	Share (%)	Volume (EEK)	Share (%)	Volume (EEK)	Share (%)
1995	58.0	-15.2	-440.3	115.2	-382.3	100.0
1996	-181.0	28.8	-447.4	71.2	-628.4	100.0
1997	-1,238.5	53.4	-1,080.8	46.6	-2,319.3	100.0
1998	500.8	-391.6	-628.7	491.6	-127.9	100.0
1999	187.0	-9.9	-2,081.9	109.9	-1,894.9	100.0
2000	53.3	34.8	99.8	65.2	153.1	100.0
2001	236.5	-11.3	-2,336.7	111.3	-2,100.2	100.0
2002	9.1	-0.3	-3,192.0	100.3	-3,182.9	100.0
2003	-1,028.9	19.2	-4,322.7	80.8	-5,351.6	100.0

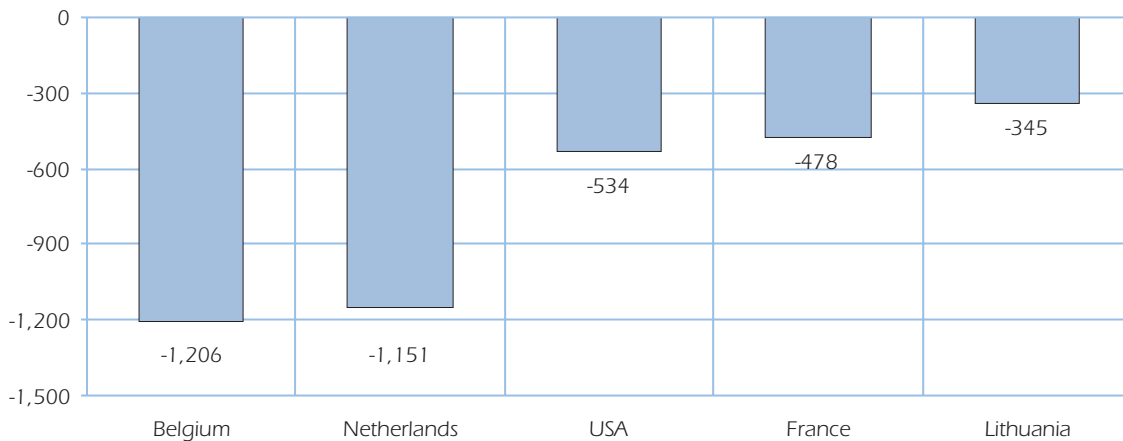


Figure 1.15. Portfolio investments abroad by countries in 2003 (EEK m)

Other Investments

The balance of other investments showed a surplus of 5.6 billion kroons in 2003 (see Figure 1.16). Capital inflow can be attributed to the remarkable increase in other investment liabilities. Claims of other investments increased by approximately 1.9 billion kroons and liabilities surged by 7.5 billion kroons. Investment inflow mostly took the form of long-term capital (see Table 1.34).

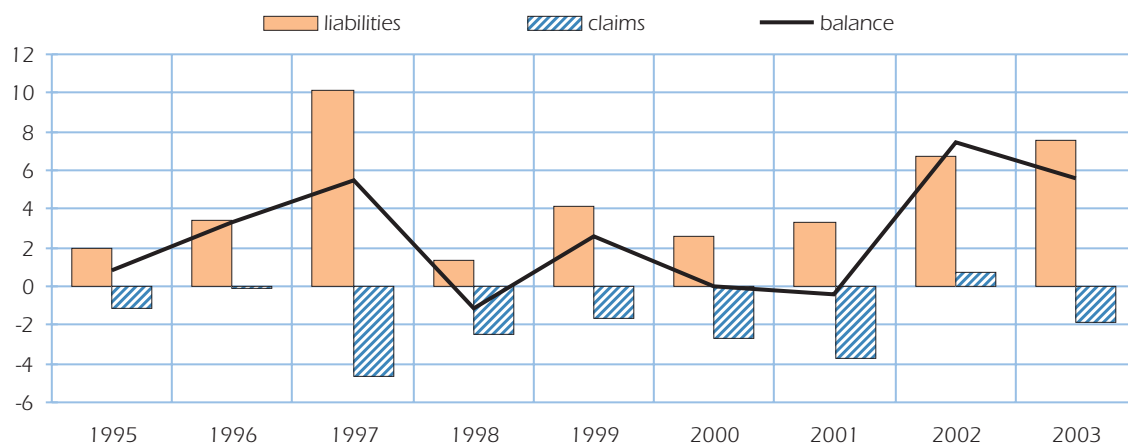


Figure 1.16. Other investments (EEK bn)

Table 1.34. Other investments by maturity (EEK m)

	Claims		Liabilities		Balance	
	2002	2003	2002	2003	2002	2003
Long-term capital	-1,083.0	-561.3	1,829.0	4,227.3	746.0	3,666.0
monetary authorities	4.8	1.1			4.8	1.1
general government			-883.9	421.7	-883.9	421.7
credit institutions	-156.8	-301.6	1,638.3	2,938.8	1,481.5	2,637.2
other sectors	-931.0	-260.8	1,074.6	866.8	143.6	606.0
Short-term capital	1,778.1	-1,335.9	4,904.3	3,296.3	6,682.4	1,960.4
monetary authorities	-53.3		646.1	576.3	592.8	576.3
general government	-311.2	558.2			-311.2	558.2
credit institutions	-345.3	-990.1	4,045.4	1,555.7	3,700.1	565.6
other sectors	2,487.9	-904.0	212.8	1,164.3	2,700.7	260.3
Total	695.1	-1,897.2	6,733.3	7,523.6	7,428.4	5,626.4

Other investment liabilities increased by 7.5 billion kroons in 2003 (see Table 1.35). Non-residents' deposits in Estonian credit institutions increased considerably, resulting in a capital inflow of nearly 4.6 billion kroons. The growth of liabilities and the related capital inflow was also supported by the flows of trade credit and loan capital, which amounted to 0.8 billion and 3.1 billion kroons respectively. The growth of liabilities mostly concerned the EU countries – Finland, Sweden, and the UK (see Table 1.36 and Figure 1.17).

Table 1.35. Structure of other investment liabilities

	Trade credit		Loans		Deposits		Other capital		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1995	230.1	11.9	1,060.7	54.8	636.0	32.9	8.5	0.4	1,935.3	100.0
1996	426.7	12.6	1,723.7	50.7	1,232.3	36.3	14.8	0.4	3,397.5	100.0
1997	367.0	3.6	6,399.7	63.0	2,426.0	23.9	961.8	9.5	10,154.5	100.0
1998	-221.2	-16.3	290.0	21.3	365.5	26.9	924.2	68.0	1,358.5	100.0
1999	119.1	2.8	2,399.1	57.3	1,462.7	34.9	204.3	4.9	4,185.2	100.0
2000	1,080.9	41.6	-785.3	-30.2	1,955.4	75.3	345.6	13.3	2,596.6	100.0
2001	102.9	3.1	2,570.4	78.2	81.4	2.5	533.5	16.2	3,288.2	100.0
2002	781.1	11.6	1,963.3	29.2	3,763.5	55.9	225.4	3.3	6,733.3	100.0
2003	760.9	10.1	3,135.3	41.7	4,587.9	61.0	-960.5	-12.8	7,523.6	100.0

Table 1.36. Structure of other investments by groups of countries in 2003

	Volume (EEK m)		Share (%)	
	Claims	Liabilities	Claims	Liabilities
European Union	164.5	8,083.2	-8.7	107.4
Acceding countries	-2,247.8	151.1	118.5	2.0
CIS	-585.9	-277.5	30.9	-3.7
Other	772.0	-433.2	-40.7	-5.8
Total	-1,897.2	7,523.6	100.0	100.0

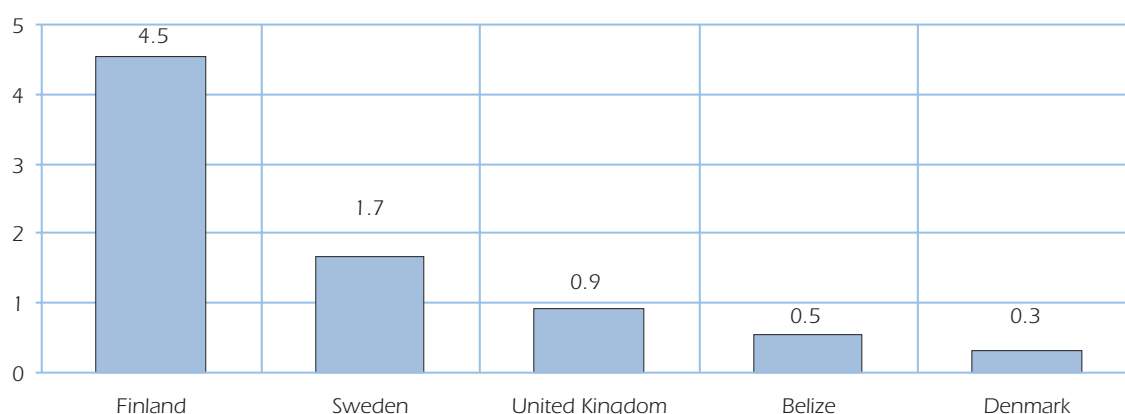


Figure 1.17. Other investment liabilities by countries in 2003 (EEK m)

Other investment claims increased in 2003 and resulted in a capital outflow of approximately 1.9 billion kroons (see Table 1.37). Loans granted to non-residents by credit institutions and other sector companies increased by nearly 3.5 billion kroons. Capital outflow was somewhat offset by the 2.3 billion kroons fall

of residents' deposits abroad. By groups of countries, claims increased the most against the EU acceding countries and the CIS countries (see Table 1.36). Among individual countries, investments were mostly made into Latvia, Sweden, and Lithuania (see Figure 1.18).

Table 1.37. Structure of other investment claims

	Trade credit		Loans		Deposits		Other capital		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
1995	-54.9	4.9	-220.0	19.7	-840.3	75.1	-3.6	0.3	-1,118.8	100.0
1996	-565.6	525.7	-16.5	15.3	590.3	-548.6	-115.8	107.6	-107.6	100.0
1997	-851.4	18.4	-1,633.3	35.2	-1,820.5	39.3	-330.3	7.1	-4,635.5	100.0
1998	-993.7	40.1	-542.2	21.9	-1,049.9	42.3	105.6	-4.3	-2,480.2	100.0
1999	-401.8	24.1	-57.4	3.5	-887.9	53.8	-304.1	18.4	-1,651.2	100.0
2000	-78.0	3.0	-2,814.0	106.7	-103.0	3.9	356.7	-13.5	-2,638.3	100.0
2001	-584.8	15.7	-2,278.9	61.3	-738.0	19.9	-115.0	3.1	-3,716.7	100.0
2002	1,047.6	150.7	-1,324.5	-190.5	742.6	106.8	229.4	33.0	695.1	100.0
2003	-650.0	34.3	-3,520.3	185.6	2,214.5	-116.7	58.6	-3.1	-1,897.2	100.0

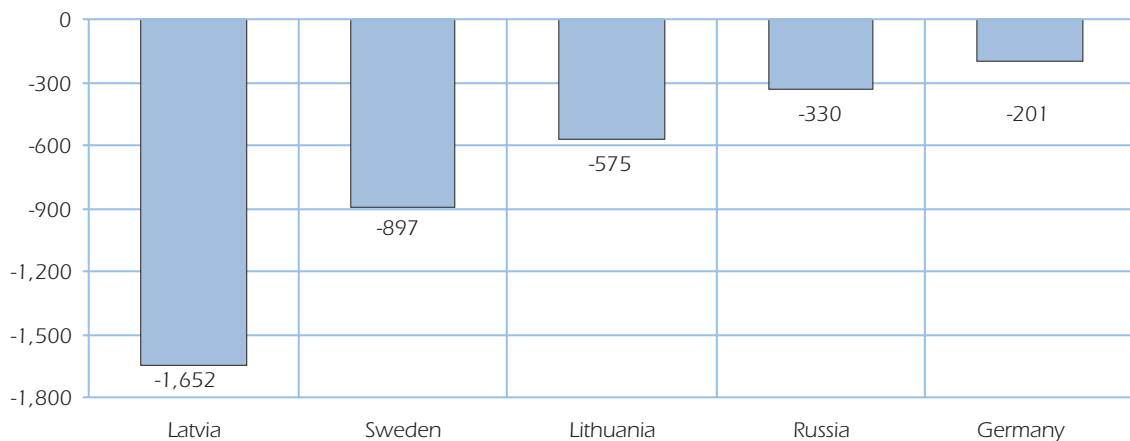


Figure 1.18. Other investment claims by countries in 2003 (EEK m)

Changes in claims and liabilities of loan capital can be seen in Table 1.38.

Table 1.38. Claims and liabilities of loan capital (EEK m)*

Claims	
Granting	-34,919.1
Repayment	31,398.8
Total	-3,520.3
Liabilities	
Granting	29,922.8
Repayment	-26,787.5
Total	3,135.3

* Information on granting and repayment of loans by claims and liabilities became available in 2003.

RESERVES

Reserves of the balance of payments increased by 2.3 billion kroons in 2003. The coverage of imports with reserves is illustrated by Figure 1.19.

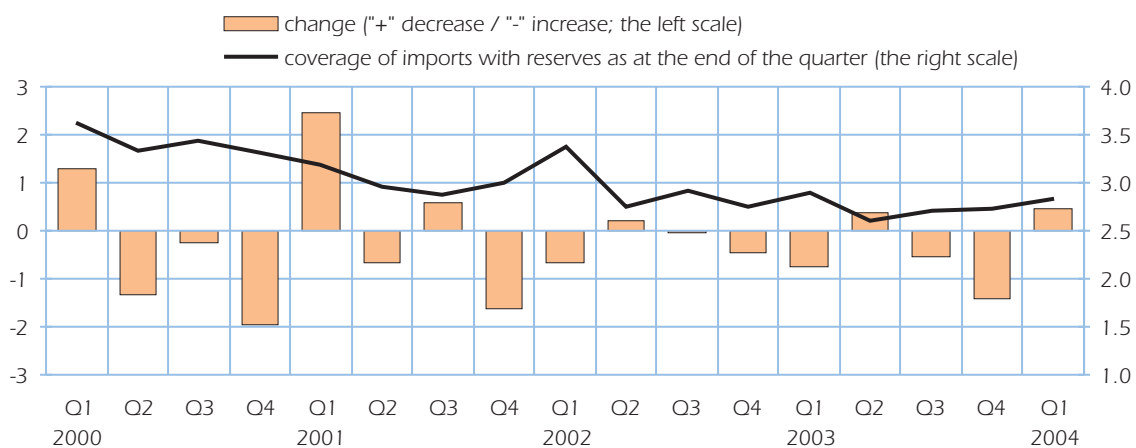


Figure 1.19. Change of Estonia's gold and foreign exchange reserves (EEK bn) and coverage of imports, excluding goods for processing (by months)