

# I ESTONIA'S BALANCE OF PAYMENTS IN 2006

## INTRODUCTION

Estonia's economic growth accelerated in 2006, reaching 11.4% according to preliminary estimates. The growth was stimulated by strong demand in major foreign markets, favourable monetary policy environment and continuous extensive capital inflow.

Although growth was strong in almost all fields of activity and branches of manufacturing, companies oriented to the domestic market posted the highest rates. Year-on-year, the growth rates of both private consumption and investment increased. The latter picked up the most in the real estate sector that experienced an upward phase until summer 2006. After that, domestic demand was more boosted by private consumption. Domestic demand was considerably supported by rapid wage increase accompanied by the income tax reduction and favourable loan terms.

Fast growth continued also in the export sector. However, the average annual growth rate of exports was no longer as rapid as in the second half of 2005, when the flows of transit and outsourced products grew robustly and the rise of commodity prices in the global market considerably increased the cost of trade flows. Thus, the downward trend of goods exports does not denote a decrease in competitiveness but to the stabilisation of the structure of product flows.

The ratio of fixed capital investment and GDP continued to grow and stood at 34% as the annual average. Domestic savings grew slower than investments and consequently the need for external financing increased even further. The current account deficit rose to nearly 16% of GDP. Since the level of savings is already comparable to that in the leading industrial countries, the current investment activity should decline to improve the external balance. Along with the current account deficit also the external debt increased, as the inflow of foreign direct investment grew slower than the need for financing.

Rapid economic expansion offered more opportunities for Estonian companies to invest abroad. Therefore, the flows of direct and portfolio investment often grow both in inward and outward directions. Portfolio investment flows are affected by the increased savings of Estonian households and general government as well as by the need to hedge risks and look for foreign investment opportunities.

Similar to previous years, the general government was the main force balancing the economy in 2006. The consolidated budget surplus was the largest in the last fifteen years, reaching almost 4% of GDP.

Tables 1.1 and 1.2 provide an overview of Estonia's balance of payments and its key indicators.

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

	2000	2001	2002	2003	2004	2005	2006
<b>Current account</b>	<b>-5,178.1</b>	<b>-5,643.6</b>	<b>-12,908.0</b>	<b>-15,418.2</b>	<b>-18,412.6</b>	<b>-17,485.5</b>	<b>-32,095.0</b>
Goods and services	-3,167.6	-2,247.6	-8,564.6	-10,046.8	-11,937.6	-11,077.0	-24,025.4
Goods	-13,371.4	-13,542.4	-18,455.3	-21,522.3	-25,499.0	-24,044.8	-36,723.3
credit (f.o.b.)	56,118.1	58,798.5	57,948.7	63,443.7	75,199.5	97,971.4	120,166.4
debit (f.o.b.)	-69,489.5	-72,340.9	-76,404.0	-84,966.0	-100,698.5	-122,016.2	-156,889.8
Services	10,203.8	11,294.8	9,890.7	11,475.5	13,561.4	12,967.7	12,697.9
credit	25,263.4	28,135.4	28,164.3	30,674.0	35,703.4	40,200.7	43,391.8
debit	-15,059.6	-16,840.6	-18,273.6	-19,198.5	-22,142.0	-27,233.0	-30,693.9
Income	-3,458.9	-4,898.6	-5,391.1	-7,240.7	-7,931.4	-7,209.1	-9,424.8
credit	2,032.5	3,022.2	3,371.3	3,584.1	5,496.5	8,467.8	13,483.4
debit	-5,491.4	-7,920.8	-8,762.4	-10,824.8	-13,427.8	-15,676.9	-22,908.3
Transfers	1,448.4	1,502.6	1,047.7	1,869.4	1,456.3	800.6	1,355.2
credit	1,944.2	2,016.4	2,065.6	3,380.8	5,252.0	5,892.2	7,162.2
debit	-495.8	-513.8	-1,017.9	-1,511.5	-3,795.6	-5,091.6	-5,806.9
<b>Capital and financial account (reserve assets excluded)</b>	<b>7,433.8</b>	<b>5,026.3</b>	<b>13,055.3</b>	<b>18,552.9</b>	<b>21,454.4</b>	<b>21,457.9</b>	<b>39,235.7</b>
Capital account	439.1	253.2	636.4	977.8	1,149.8	1,240.3	4,682.6
Financial account	6,994.7	4,773.1	12,418.9	17,575.1	20,304.6	20,217.6	34,553.1
Direct investment	5,601.4	5,901.3	2,611.8	10,716.0	8,739.4	27,335.5	7,274.7
Abroad	-1,043.1	-3,528.3	-2,188.4	-2,149.2	-3,388.6	-7,939.6	-13,707.1
In Estonia	6,644.5	9,429.6	4,800.2	12,865.2	12,128.1	35,275.1	20,981.8
Portfolio investment	1,417.5	-665.0	2,442.4	2,431.6	9,027.1	-27,559.2	-16,829.7
Assets	153.1	-2,100.2	-3,182.9	-5,351.6	-4,851.0	-10,675.0	-15,569.9
Equity securities	53.3	236.5	9.1	-1,028.9	-2,893.5	-4,848.9	-4,583.9
Debt securities	99.8	-2,336.7	-3,192.0	-4,322.7	-1,957.5	-5,826.1	-10,986.0
Liabilities	1,264.4	1,435.2	5,625.3	7,783.2	13,878.1	-16,884.3	-1,259.8
Equity securities	-538.8	568.4	912.2	1,526.9	2,205.2	-16,352.2	3,738.1
Debt securities	1,803.2	866.8	4,713.1	6,256.2	11,673.0	-532.0	-4,997.9
Financial derivatives	17.5	-34.7	-63.7	-19.2	-8.3	-97.6	78.5
Assets	-77.8	-0.3	-43.2	-139.2	-35.1	13.5	-180.9
Liabilities	95.3	-34.4	-20.5	120.0	26.8	-111.0	259.3
Other investment	-41.7	-428.5	7,428.4	4,446.8	2,546.4	20,538.9	44,029.7
Assets	-2,638.3	-3,716.7	695.1	-2,284.6	-11,168.8	-10,373.4	334.6
Long-term	-1,108.7	-322.7	-1,083.0	-565.7	-6,052.6	5,636.5	-3,054.0
Short-term	-1,529.6	-3,394.0	1,778.1	-1,718.9	-5,116.1	-16,009.9	3,388.6
Liabilities	2,596.6	3,288.2	6,733.3	6,731.4	13,715.1	30,912.4	43,695.1
Long-term	-549.9	1,814.4	1,829.0	4,309.0	3,740.5	15,396.8	17,991.5
Short-term	3,146.5	1,473.8	4,904.3	2,422.3	9,974.6	15,515.6	25,703.6
Errors and omissions	14.8	-112.9	779.5	-822.7	383.6	911.6	383.2
<b>Overall balance</b>	<b>2,270.5</b>	<b>-730.2</b>	<b>926.8</b>	<b>2,312.1</b>	<b>3,425.4</b>	<b>4,883.9</b>	<b>7,523.9</b>
<b>Reserve assets</b>	<b>-2,270.5</b>	<b>730.2</b>	<b>-926.8</b>	<b>-2,312.1</b>	<b>-3,425.4</b>	<b>-4,883.9</b>	<b>-7,523.9</b>

\* After additional information is received, data of the earlier periods have been updated accordingly.

\*\* Due to Estonia's accession to the EU on 1 May 2004 the accounting system of the movement of goods between Estonia and other Member States changed considerably, which is why pre-accession and post-accession time-series of foreign trade statistics are not directly comparable.

**Table 1.2. Internationally comparable key balance of payments indicators**

	2000	2001	2002	2003	2004	2005	2006
Foreign trade turnover (% of GDP)	131.5	121.2	110.7	111.7	119.9	127.1	135.4
Exports and imports ratio (%)	80.8	81.3	75.8	74.7	74.7	80.3	76.6
Nominal effective exchange rate (% compared to previous period)	97.3	101.3	102.1	103.6	101.0	100.3	99.5
Real effective exchange rate (% compared to previous period)	96.2	102.0	101.9	101.7	101.3	101.1	100.4
Terms of trade (ratio of exports and imports price indices)	112.6	118.4	112.2	121.6	122.4	119.6	119.4
Overall balance of balance of payments (change of external reserves; EEK m)	2,270.5	-730.2	926.8	2,312.1	3,425.4	4,883.9	7,523.9
Change in external reserves (% of GDP)	2.4	-0.7	0.8	1.7	2.3	2.8	3.7
Current account balance (EEK m)	-5,178.1	-5,643.6	-12,908.0	-15,418.2	-18,412.6	-17,485.5	-32,095.0
Current account balance without government transfers (EEK m)	-6,154.3	-6,639.9	-13,628.4	-16,638.8	-18,858.6	-17,132.4	-31,899.0
Current account balance without government transfers (% of GDP)	6.4	6.1	11.2	12.5	12.9	9.9	15.6
Government transfers (net; EEK m)	976.2	996.3	720.4	1,220.6	446.0	-353.1	-196.0
Government transfers (% of GNP)	1.1	1.0	0.6	1.0	0.3	-0.2	-0.1
Gross external debt (% of GDP)	53.0	53.6	57.9	66.0	78.3	86.4	97.6
External debt servicing (% of total exports)	1.3	1.0	1.7	0.3	0.2	0.6	0.2

## ADJUSTMENT OF TIME SERIES OF BALANCE OF PAYMENTS STATISTICS

### 1. Adjustment of time series due to revising initial data

- The adjustment of statistics of foreign trade (particularly underdeclared imports) and current transfers by Statistics Estonia in the second quarter of 2007 brought along the adjustment of the respective entries in the preliminary balance of payments for 2006. The **goods account deficit** of the balance of payments for 2006, published on 26 June 2007, increased by 2.7 billion kroons compared to the preliminary balance of payments for 2006 published on 26 March 2007. The **surplus on the current transfers account** grew by 1.2 billion kroons.
- In connection with the ongoing integration of balance of payments statistics into the input-output tables of the national accounts system compiled by Statistics Estonia, the balance of payments time series for 2003–2005 were adjusted. The changes were related to several current account items and were not considerable.

### 2. Adjustment of time series due to changes in methodology

In compliance with international standards, the investment position is compiled in market prices. If the shares are not quoted, various methods are used to establish market prices for the purpose of compiling statistics. Until 2006, the evaluation of unquoted shares issued in Estonia and used for the compilation of the investment position drew from (a) market prices if the shares were traded with recently and the transaction recorded in the Estonian Central Register of Securities, and (b) the book value of the share (company's own capital per share) if data about the transactions were missing. In order to avoid asymmetries between countries, the EU working groups on statistics reached a consensus with regard to using only the book value in case of unquoted shares. The method was implemented as of 2007. If a company is delisted from the stock exchange, transition to book value takes place within the following four quarters to adjust the time series smoothly. An exception was made with Hansapank who left the stock exchange in the second quarter of 2005 and in case of whom transition from the market price to the book value of shares took place within two years from the second quarter of 2005 to the first quarter of 2007. This affected the data published earlier under the equity capital item of direct investment liabilities (see the table below):

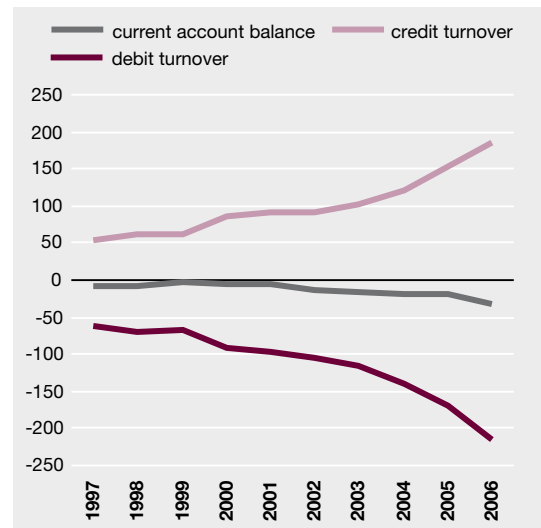
**Table. Item “Direct investment in Estonia: equity capital and reinvested earnings” in Estonia’s international investment position**

	30/9/2005	31/12/2005	31/3/2006	30/6/2006	30/9/2006	31/12/2006
<b>Value of the earlier item (EEK m)</b>	152,643	154,608	157,907	160,200	164,838	179,571
<b>Value of the adjusted item (EEK m)</b>	139,222	134,672	132,713	129,727	127,775	129,666
<b>Extent of adjustment (% of the earlier value)</b>	-8,8	-12,9	-16,0	-19,0	-22,5	-27,8

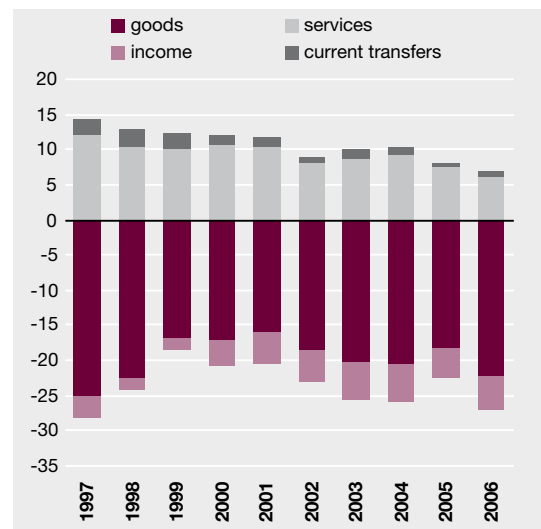
## SHORT OVERVIEW

### Current account

Estonia's rapid economic growth, increased investment and private consumption led to the deterioration of the external balance in 2006. The current account deficit formed 15.7% of GDP (10.1% in 2005). In absolute value, the deficit amounted to 32 billion kroons. The external balance was mostly affected by stronger imports of goods compared to exports and to a lesser extent by increased income account deficit. The deficit in the goods and services accounts totalled 11.7% of GDP (6.4% in 2005). The credit turnover of the current account increased by 21% and debit turnover by 27%. The EU-25 countries accounted for 69% of the credit turnover and for 77% of the debit turnover. Estonia's current account deficit was the biggest with the United States, whereas the highest surplus was registered with Germany.



Current account turnover and balance (EEK bn)

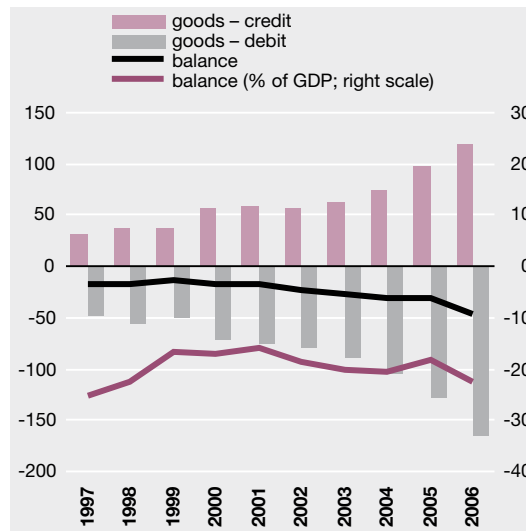


Current account components (% of GDP)

## Goods

The deficit in the goods account – the largest component in the current account deficit – increased by nearly 13 billion kroons over the year, amounting to 37 billion kroons and accounting for 18% of GDP in 2006. The exports of goods increased by 23%, i.e. 22 billion kroons year-on-year, reaching 120 billion kroons. Compared to 2005, the growth of goods imports was outpaced by that of exports, accounting for 29%, i.e. 35 billion kroons. Thus, the debit turnover of goods stood at 157 billion kroons. The deficit on the goods account was mainly boosted by transport vehicles, chemical products, clothing footwear and headgear, and oil products. Two groups of goods posted a surplus: timber and timber products, and furniture and other industrial goods.

The main groups of export goods included machinery and equipment, timber and timber products, furniture, metal and textile products. Machinery and equipment dominated also in imports, followed by chemical products, metal products, and transport vehicles. Estonia's main trading partner was the European Union, whose share amounted to 65% in the exports and to 74% in the imports of goods. The share of EU countries decreased year-on-year: by 13 percentage points in exports and by 2 percentage points in imports. The decline in EU's share largely stemmed from the robust growth in the volume of oil products transit between Estonia and third countries. The absolute volume of trade with EU countries, however, increased.



**Estonia's external trade balance (EEK bn)**

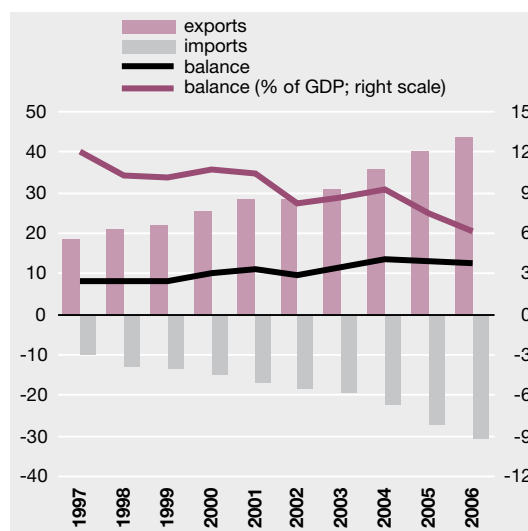
## Services

The surplus on the **services account** was 12.7 billion kroons, remaining close to the level of 2005. Year-on-year, the exports of services grew by 8% and the imports by 13%. The surplus on transport services – the largest type of services – increased as the exports of transport services outpaced imports, particularly as regards sea and road transport. At the same time, the surplus on travel services – the second largest type of services – decreased. The surplus on the third largest type of services, namely other business services, remained unchanged. The surplus on computer and information services grew as well, whereas the small surplus on construction services turned into a deficit. No significant changes occurred in the structure of the services account. The total share of transport, travel and other business services in the services exports stood at nearly 90% and at 84% in the imports.

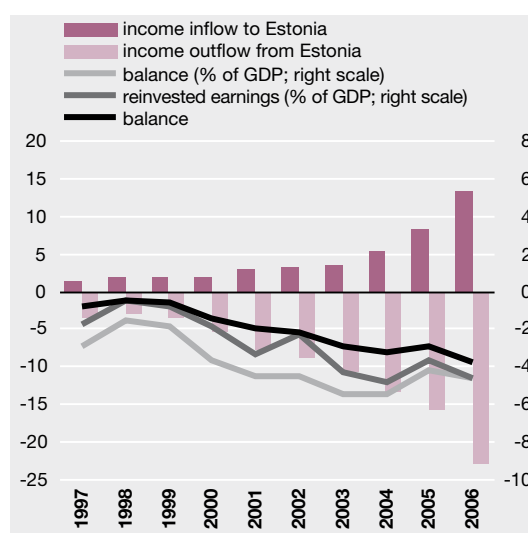
As regards services, Estonia's major trading partners were EU Member States who accounted for 72% of the exports and 74% of the imports of services.

## Income

The income account deficit increased by nearly a third, amounting to 9.4 billion kroons. The income earned by Estonian residents abroad grew by 60% and the income earned by non-residents in Estonia by nearly a half, reaching 13.5 and 22.9 billion kroons, respectively. Similar to 2005, labour income comprised approximately 40% of the income earned by residents abroad, the rest being investment income. More than half of the latter was reinvested earnings, whereas their share increased considerably year-on-year. The majority (96%) of non-residents income earned in Estonia, on the other hand, was investment income, the rest being labour income. Non-residents' investment income was mostly comprised of direct investment in Estonia, 80% of it being reinvested earnings.



Services account (EEK bn)



Income account (EEK bn)

Excluding from the income account reinvested earnings, which involve no actual movement of funds, the income account was practically balanced. Nearly 90% of the income account turnover was related to EU Member States; most of the income was earned in financial intermediation.

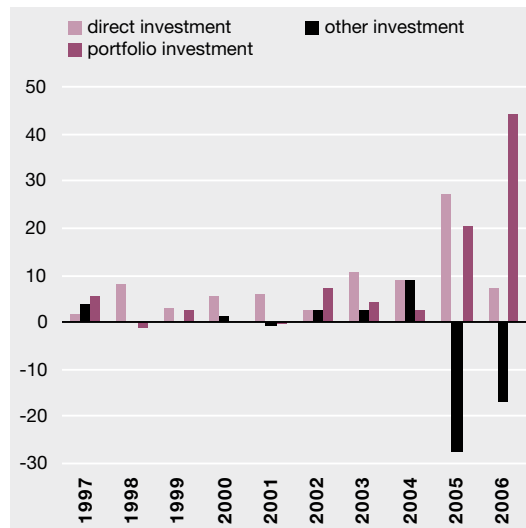
### Capital and financial account

The surplus on the capital and financial account posted a record with 39.2 billion kroons in 2006. Capital inflow occurred mainly through other investment and to some extent also through direct investment, while portfolio investment witnessed net outflow. The large inflow of other investment capital resulted from the increase in non-residents' deposits held with Estonian credit institutions and in the loan liabilities of other sectors.

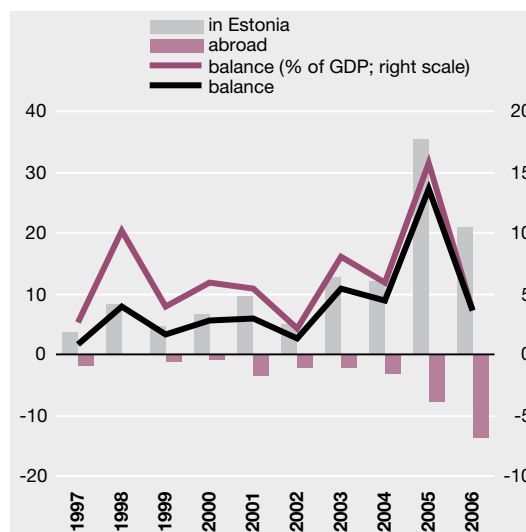
### Direct investment

Direct investment inflow was 7.3 billion kroons bigger than outflow. Foreign direct investment in Estonia grew by 21 billion kroons, thus remaining significantly below the 2005 level when the investment volume was boosted by the takeover of Hansapank. Estonian investment abroad reached record levels too, amounting to 13.7 billion kroons.

Two thirds of direct investment in Estonia included reinvested earnings, 11% accounted for equity capital and the rest was other investment capital. Equity capital investment accounted for 43%, reinvested earnings for a third and other direct investment capital for a fifth of residents' direct investment abroad. Practically all direct investment in Estonia made in 2006 originated from EU countries, with about half coming from Sweden and a third from Finland. Nearly 90% of residents' direct investment went to EU countries, mainly to Latvia, Lithuania and Finland.



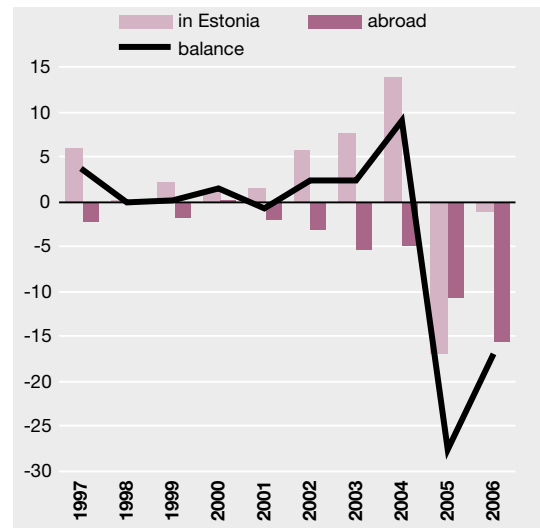
Sub-accounts of capital and financial account (EEK bn)



Direct investment (EEK bn)

### Portfolio investment

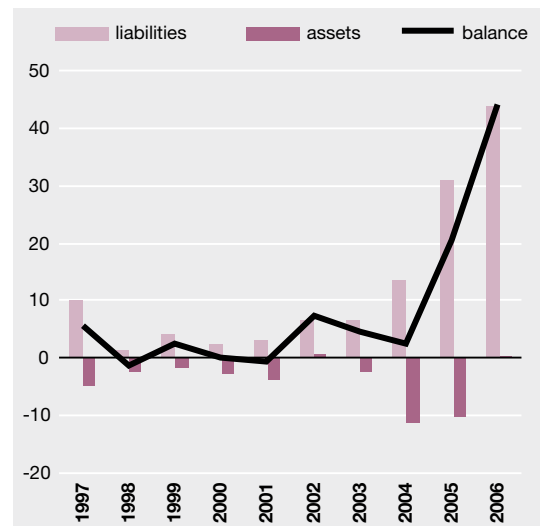
The net outflow of portfolio investment amounted to 16.8 billion kroons. Assets increased nearly as much, with equity security liabilities growing by 4.6 billion and debt security liabilities by 11 billion kroons. The growth of equity securities was boosted by enterprises in other sectors, whereas that of debt securities mainly relied on the general government. Portfolio investment liabilities decreased slightly.



Portfolio investment (EEK bn)

### Other investment

The net inflow of other investment increased by more than two times compared to 2005 and reached a record 44 billion kroons. Since the volume of assets remained virtually unchanged, the net inflow increased mostly owing to the rise in liabilities. Loan liabilities grew by 19 billion and currency and deposit liabilities by 21 billion kroons. The growth of loan liabilities was facilitated primarily by enterprises in other sectors and that of currency and deposits by credit institutions.



Other investment (EEK bn)

## CURRENT ACCOUNT

Estonia's rapid economic growth, increased investment and private consumption led to the deterioration of the external balance in 2006. The current account deficit formed 15.7% of GDP (10.1% in 2005; see Figure 1.1). In absolute value, the deficit amounted to 32.1 billion kroons. The external balance was mostly affected by stronger imports of goods compared to exports and to a lesser extent by increased income account deficit. The deficit in the goods and services accounts totalled 11.7% of GDP (6.4% in 2005). The credit turnover of the current account increased by 21% and debit turnover by 27%. The EU-25 countries accounted for 69% of the credit turnover and for 77% of the debit turnover. Estonia's current account deficit was the biggest with the United States, whereas the highest surplus was registered with Germany (see Table 1.3).

### Goods

The goods account deficit of the balance of payments increased by a half year-on-year, reaching nearly 37 billion kroons (see Table 1.4). The imports of goods grew by 29% year-on-year and amounted to 174 billion kroons. The growth rate of goods exports was lower than that of imports and stood at 23%. The goods exports amounted to 120 billion kroons. The share of goods in the goods and services account has increased year-on-year. In 2006, the exports of goods accounted for 74% and imports for 84% of the exports and imports of goods and services.

According to the revised **foreign trade statistics**<sup>1</sup>, goods exports totalled 120 billion and imports in c.i.f. prices 165 billion kroons, having grown 24% and 29%, respectively, year-on-year. As the volume and growth rate of imports outpaced those of exports, the foreign trade deficit increased by 14 billion kroons and reached 46 billion kroons.

The **exports of goods** increased fast across almost all groups of goods, only the exports of textile products decreased by 6% (see Table 1.5). The main driving force behind growth was the exports of mineral products which grew by 2.6 times compared to 2005. 91% of the exports of mineral products comprised motor fuel. Nearly 80% of that was imported for processing from Russia and Belarus and then re-exported to the United States, Gibraltar and Togo. In addition, fuel imported from Lithuania was re-exported to the States. The exports of electricity decreased by 40%; most of the exports went to Latvia. The exports of another large group of goods – machinery and equipment – grew by only 8% year-on-year. The exports of mobile phones and their parts decreased by 8% year-on-year, accounting for 47% of the exports of machinery and equipment. The target countries were Finland, Sweden, China and Hungary. Cables were exported to Sweden, Finland and Latvia, components of various mechanical equipment to Finland, and transformers to Finland, Sweden and Germany.

The exports of timber and timber products increased by 9%. Wooden sleepers were exported to the United Kingdom, Germany, Finland and the Netherlands, construction components to Denmark, Japan, Sweden and Finland, and firewood to Finland, Denmark and Sweden. Wooden furniture and prefabricated wooden buildings

<sup>1</sup> The following analysis does not include the adjustments made to the goods account (repair of capital goods, provisions purchased from abroad, etc) made by the Balance of Payments and Economic Statistics Department of Eesti Pank. Imports are in c.i.f. prices and analysed by the trading country.

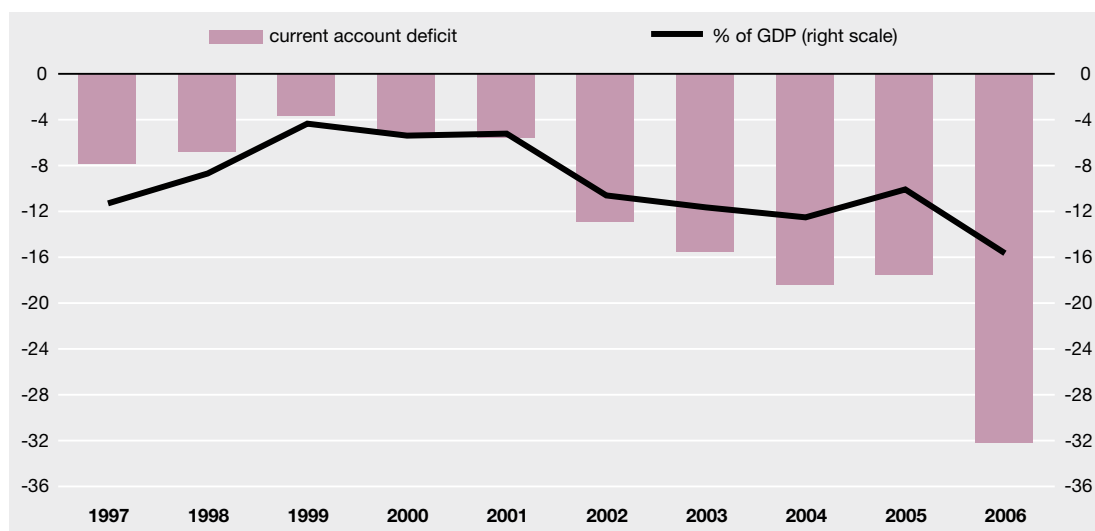


Figure 1.1. Estonia's current account balance (EEK bn)

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

	2005	2006
<b>EU-25</b>	<b>-15,828.0</b>	<b>-38,515.3</b>
Germany*	-12,673.4	-14,584.0
Sweden	-1,448.4	-6,245.7
Poland	-3,287.1	-4,548.4
Latvia	4,046.2	3,659.3
Lithuania	-1,991.3	-3,301.6
<b>CIS</b>	<b>-2,709.1</b>	<b>-10,282.1</b>
Russia	-2,163.8	-9,132.5
Belarus	-1,460.3	-1,555.9
Ukraine	326.7	595.2
<b>Other</b>	<b>1,051.6</b>	<b>16,702.4</b>
United States	2,107.6	6,901.2
Gibraltar	1,513.5	5,546.5
Norway	1,983.6	2,758.7
Hong Kong	-2,286.0	-2,214.9
Togo	25.5	1,182.3
<b>Total</b>	<b>-17,485.5</b>	<b>-32,095.0</b>

\* Countries are ranked by the absolute value of last period's current account balance.

**Table 1.4. Imports and exports of goods**

	Special exports			Special imports			Balance (EEK m)
	Volume* (EEK m)	Change compared to the previous period (%)	Share in total exports of goods and services (%)	Volume* (EEK m)	Change compared to the previous period (%)	Share in total imports of goods and services (%)	
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	56,118.1	51.7	69.0	69,489.5	41.5	82.2	-13,371.4
2001	58,798.5	4.8	67.6	72,340.9	4.1	81.1	-13,542.4
2002	57,948.7	-1.4	67.3	76,404.0	5.6	80.7	-18,455.3
2003	63,443.7	9.5	67.4	84,966.0	11.2	81.6	-21,522.3
2004	75,199.5	18.5	67.8	100,698.5	18.5	82.0	-25,499.0
2005	97,971.4	30.3	70.9	122,016.3	21.2	81.8	-24,044.8
2006	120,166.4	22.7	73.5	156,889.8	28.6	83.6	-36,723.3

\* Data of the foreign trade account in the balance of payments.

**Table 1.5. Exports by main groups of goods**

	Volume (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
Food	6,933.8	8,403.3	7.2	7.0	21.2
Mineral products	7,314.7	19,361.7	7.6	16.2	164.7
Chemical products	6,878.4	8,269.2	7.1	6.9	20.2
Clothing, footwear and headgear	8,494.6	7,954.2	8.8	6.7	-6.4
Timber, paper and products	12,722.2	13,826.8	13.1	11.6	8.7
Metals and metal products	8,800.0	10,968.6	9.1	9.2	24.6
Machinery and equipment	27,270.5	29,427.4	28.2	24.6	7.9
Transport vehicles	6,544.0	8,042.2	6.8	6.7	22.9
Furniture, toys, sporting goods	7,832.5	8,701.5	8.1	7.3	11.1
Other	3,956.6	4,564.9	4.1	3.8	15.4
<b>Total</b>	<b>96,747.3</b>	<b>119,519.7</b>	<b>100.0</b>	<b>100.0</b>	<b>23.5</b>

went to Finland, Norway, Germany, Denmark and Sweden. The exports of metal products grew robustly with the main export articles being hot-rolled steel products (to Russia, Poland, Ukraine and Latvia), scrap metal (to Turkey, Egypt and the Netherlands) and iron constructions (to Finland, Denmark, Norway and Sweden). The exports of chemical products increased by 20%. Various construction materials (mastics, paints, varnishes, putties) were exported to Russia and Latvia, plastic products to Sweden, Latvia and Finland, carbonic acids to the United States and Germany, and nitrogen fertilizers to the States and France. The exports of food products increased by a fifth, whereas the exports of spirits almost doubled. The target countries were Russia and Finland. Fish fillet was sent to Switzerland, Denmark and the Netherlands, canned fish to Ukraine, Lithuania and Russia. Dairy products were exported to Germany, Latvia, Russia and Finland. The exports of transport vehicles increased by 23% year-on-year. 44% of the exports comprised motor cars imported mainly from Finland and Germany and exported to Latvia, Lithuania, Spain, Germany and Russia. Components of motor vehicles were exported to Sweden and Russia, and trailers to Finland and Sweden. The main export articles of textile products and footwear were men's suits and shirts, women's costumes, leather footwear, bed linen, cotton fabric and fur, which were taken to Finland, Sweden, Latvia, Russia and Germany. As regards other goods, automatic equipment was exported to Finland, Germany and Sweden, toughened-glass panes and glass packaging to Belgium, Germany, Latvia and Lithuania, and cement products also to Latvia and Lithuania.

**Table 1.6. Imports by main groups of goods**

	Volume (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
Food	11,020.1	12,146.9	8.6	7.3	10.2
Mineral products	11,841.0	26,951.5	9.2	16.3	127.6
Chemical products	14,954.4	18,590.3	11.6	11.2	24.3
Clothing, footwear and headgear	9,382.4	10,594.5	7.3	6.4	12.9
Timber, paper and products	7,050.2	8,414.0	5.5	5.1	19.3
Metals and metal products	13,202.1	15,685.7	10.3	9.5	18.8
Machinery and equipment	39,901.0	42,009.0	31.1	25.4	5.3
Transport vehicles	13,242.2	19,967.7	10.3	12.1	50.8
Furniture, toys, sporting goods	2,818.7	3,774.7	2.2	2.3	33.9
Other	4,953.2	7,164.2	3.9	4.3	44.6
<b>Total</b>	<b>128,365.3</b>	<b>165,298.5</b>	<b>100.0</b>	<b>100.0</b>	<b>28.8</b>

The **imports of goods** increased across all main groups of goods year-on-year (see Table 1.6). Import growth was mostly driven by the increase in the imports of mineral products, transport vehicles and chemical products. The imports of mineral products grew by 2.3 times year-on-year. 88% of that accounted for motor fuel imported both for processing (from Russia and Belarus) and for free circulation (from Lithuania). The imports of natural gas increased by a third and came from Russia. 75% of the transport vehicles imported comprised motor cars and trucks as well as their components, whereas the imports of the latter increased by 50%. The major exporting countries were Finland and Germany. The imports of chemical products grew by 25%. Medicines were purchased from Germany, Latvia, Poland and Denmark, various plastic products from Germany, Finland and Sweden, ethers from Russia and the United States, and tyres from Poland, Latvia and Germany. In the machinery and equipment group, mostly mobile communication devices and components of electronic equipment were imported both for processing and for internal supply. In addition, computers, cables, roadworks machinery and other mechanisms were purchased. The major partner countries were Finland, Germany, Sweden, Hong Kong, China and the Netherlands. 25% of the imports of metal products comprised steel products from Finland, Turkey, Taiwan and Russia. In addition, various iron pipes and constructions were imported from Russia, Finland and Germany, metal furniture components from Germany and Finland, and aluminium from Tajikistan. Various food products were purchased from Finland, Lithuania, Latvia, Germany, the Netherlands and Poland. The biggest import articles were spirits and wines, pork, coffee, tobacco products and sugar. In the clothing, footwear and headgear group, the main import articles were footwear from Germany, the Netherlands and Italy; ready-made men's and women's clothes from Finland and Germany; underwear from Latvia, and various fabrics and textile commodities from China, Taiwan and the Republic of Korea. Raw wood and plywood from Russia and paper products from Finland and Sweden were the major import articles in the group of timber products. Furniture and lamps were purchased from Finland, Poland and Italy.

According to the revised data, **foreign trade deficit** increased by 14 billion kroons (see Table 1.7). Two groups of goods posted a surplus: timber and timber products, and furniture and other industrial goods. The deficit was increased by 5 billion kroons by transport vehicles – the imports of motor cars alone exceeded exports by 7 billion kroons. Motor fuels, chemical products and clothing, footwear and headgear also contributed to the deficit growth. The deficit in food products, however, decreased.

By **groups of countries**, the goods exports to the European Union increased by only 2.3 billion kroons.

**Table 1.7. Foreign trade balance by main groups of goods (EEK m)**

	2005	2006
Food	-4,086.3	-3,743.6
Mineral products	-4,526.3	-7,589.8
Chemical products	-8,076.1	-10,321.1
Clothing, footwear and headgear	-887.7	-2,640.3
Timber, paper and products	5,672.1	5,412.7
Metals and metal products	-4,402.1	-4,717.1
Machinery and equipment	-12,630.6	-12,581.6
Transport vehicles	-6,698.2	-11,925.5
Furniture, toys, sporting goods	5,013.8	4,926.8
Other	-996.5	-2,599.3
<b>Total</b>	<b>-31,618.0</b>	<b>-45,778.8</b>

The share of the EU decreased by 13 percentage points year-on-year (see Table 1.8). Exports to the CIS and other countries, on the other hand, grew considerably. The main export partners in the EU were Finland, Sweden, Latvia, Germany and Lithuania. 28% of the exports to the EU comprised the exports of machinery and equipment (mostly electronic products), followed by the exports of timber and timber products as well as transport vehicles. Russia ranked first among the CIS members with exports to Russia increasing by 51%. Ukraine and Belarus followed. Exports to Russia mainly consisted of food and chemical products, machinery and equipment and transport vehicles. Exports to Ukraine comprised metal, mineral and food products, and Belarus purchased metal and chemical products. The top three of other countries were the United States, Gibraltar and China. The States and Gibraltar purchased oil products, whereas China imported electronic products from Estonia.

The share of the EU decreased also in the imports of goods, although the respective volume grew by 25 billion kroons. This resulted from the 84% growth in imports from the CIS, particularly from Russia (see Table 1.9). The top five of EU countries included Finland, Germany, Sweden, Lithuania and Latvia. From the EU, mainly machinery and equipment, transport vehicles (motor cars) and chemical products were

**Table 1.8. Exports of goods by groups of countries**

	Volume (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
<b>EU-25</b>	<b>75,200.0</b>	<b>77,452.4</b>	<b>77.7</b>	<b>64.8</b>	<b>3.0</b>
Finland	25,477.8	21,796.7	26.3	18.2	-14.4
Sweden	12,725.7	14,696.4	13.2	12.3	15.5
Latvia	8,541.7	10,423.7	8.8	8.7	22.0
Germany	6,000.2	5,978.9	6.2	5.0	-0.4
Lithuania	4,473.6	5,692.6	4.6	4.8	27.3
<b>CIS</b>	<b>8,380.8</b>	<b>12,568.4</b>	<b>8.7</b>	<b>10.5</b>	<b>50.0</b>
Russia	6,284.0	9,470.5	6.5	7.9	50.7
Ukraine	1,335.2	1,847.9	1.4	1.5	38.4
Belarus	252.7	688.9	0.3	0.6	172.6
<b>Other</b>	<b>13,166.6</b>	<b>29,498.9</b>	<b>13.6</b>	<b>24.7</b>	<b>124.0</b>
United States	2,992.7	7,996.9	3.1	6.7	167.2
Gibraltar	1,496.6	5,529.5	1.5	4.6	269.5
China	528.1	3,308.6	0.5	2.8	526.5
<b>Total</b>	<b>96,747.3</b>	<b>119,519.7</b>	<b>100.0</b>	<b>100.0</b>	<b>23.5</b>

**Table 1.9. Imports of goods by groups of countries\***

	Volume (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
<b>EU-25</b>	<b>97,874.7</b>	<b>122,642.6</b>	<b>76.2</b>	<b>74.2</b>	<b>25.3</b>
Finland	25,336.9	30,067.2	19.7	18.2	18.7
Germany	17,860.3	20,441.9	13.9	12.4	14.5
Sweden	11,366.9	14,822.7	8.9	9.0	30.4
Lithuania	7,678.5	10,682.4	6.0	6.5	39.1
Latvia	6,006.1	9,450.1	4.7	5.7	57.3
<b>CIS</b>	<b>14,933.7</b>	<b>26,518.4</b>	<b>11.6</b>	<b>16.0</b>	<b>77.6</b>
Russia	11,788.5	21,704.8	9.2	13.1	84.1
Belarus	1,623.7	2,281.1	1.3	1.4	40.5
Ukraine	1,154.9	1,298.1	0.9	0.8	12.4
<b>Other</b>	<b>15,557.0</b>	<b>16,137.5</b>	<b>12.1</b>	<b>9.8</b>	<b>3.7</b>
China	2,676.8	3,431.4	2.1	2.1	28.2
Hong Kong	2,397.7	2,333.8	1.9	1.4	-2.7
United States	1,847.4	1,919.1	1.4	1.2	3.9
<b>Total</b>	<b>128,365.3</b>	<b>165,298.5</b>	<b>100.0</b>	<b>100.0</b>	<b>28.8</b>

\* Analysed by trading country.

imported to Estonia. 66% of the imports from Russia consisted of mineral products, the majority of which accounted for motor fuel imported for processing. Russia was followed by Belarus and Ukraine. Motor fuel was imported also from Belarus and metal products from Ukraine. The top three among other countries were China, Hong Kong and the United States. Estonia imported electronic components from China and Hong Kong, and machinery and equipment from the States.

Foreign trade remained in deficit with the EU as well as the CIS (see Table 1.10). As regards the EU Member States, Estonia had the biggest trade deficit with Germany, Finland and Lithuania, and the biggest surplus with Latvia and Hungary. Russia accounted for 12 billion kroons of the total 14 billion kroons deficit with the CIS. Foreign trade balance was in surplus with Ukraine. As for other countries, the largest surplus on trade was recorded with the United States and Gibraltar.

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

	2005	2006
EU-25	-22,674.7	-45,190.2
CIS	-6,552.9	-13,950.0
Other	-2,390.4	13,361.4
<b>Total</b>	<b>-31,618.0</b>	<b>-45,778.8</b>

## Services

The surplus on the **services account** was 12.7 billion kroons in 2006, having decreased by 2% year-on-year (see Table 1.11). Compared to 2005, the growth of services exports as well as imports slowed down by 8% and 13%, respectively. Year-on-year, the share of services in the total turnover of goods and services decreased both in exports and imports. The surplus on the services account offset the foreign trade deficit by 35%, which is considerably less than in previous years.

The year 2006 brought about a significant change in the structure of services. The share of transport services grew considerably, i.e. to 39% of the surplus on the services account, whereas the share of computer and information services, which had so far been modest, accounted for 4% of the surplus (see Table 1.12). The surplus on the services account decreased, as the surplus on travel services declined by 19% and the surplus on construction services turned into a deficit.

Services exports increased by 8% year-on-year. The exports of the two principal groups of services, namely transport and travel services, rose by 14% and 4%, respectively (see Table 1.13). The exports of

**Table 1.11. Exports and imports of services**

	Exports			Imports			Balance	
	Volume (EEK m)	Change compared to the previous period (%)	Share in total turnover of goods and services (%)	Volume (EEK m)	Change compared to the previous period (%)	Share in total turnover of goods and services (%)	Volume (EEK m)	Change compared to the previous period (%)
1997	18,366.7	37.5	36.6	10,134.0	42.6	17.6	8,232.7	31.8
1998	20,804.0	13.3	35.5	12,754.8	25.9	19.2	8,049.2	-2.2
1999	21,951.9	5.5	37.2	13,610.4	6.7	21.7	8,341.5	3.6
2000	25,263.4	15.1	31.0	15,059.6	10.6	17.8	10,203.8	22.3
2001	28,135.4	11.4	32.4	16,840.6	11.8	18.9	11,294.8	10.7
2002	28,164.3	0.1	32.7	18,273.6	8.5	19.3	9,890.7	-12.4
2003	30,674.0	8.9	32.6	19,198.5	5.1	18.4	11,475.5	16.0
2004	35,703.4	16.4	32.2	22,142.0	15.3	18.0	13,561.4	18.2
2005	40,200.7	12.6	29.1	27,233.0	23.0	18.2	12,967.8	-4.4
2006	43,391.8	7.9	26.5	30,693.9	12.7	16.4	12,697.9	-2.1

**Table 1.12. Services balance by major categories**

	Balance (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
Transportation	3,737.1	4,905.1	28.8	38.6	31.3
Travel	6,601.8	5,329.4	50.9	42.0	-19.3
Construction services	52.0	-591.6	0.4	-4.7	-1,237.7
Computer and information services	136.6	549.6	1.1	4.3	302.3
Business services	2,373.3	2,426.1	18.3	19.1	2.2
Government services	267.8	133.9	2.1	1.1	-50.0
Other	-200.8	-54.6	-1.5	-0.4	-72.8
<b>Total</b>	<b>12,967.8</b>	<b>12,697.9</b>	<b>100.0</b>	<b>100.0</b>	<b>-2.1</b>

computer and information services and business services grew faster than average (by two times and 14%, respectively), whereas the exports of construction services declined by over two times.

EU countries accounted for 72% of the services exports. Compared to 2005, this ratio has risen (see Table 1.14). The smaller share of the CIS has been caused by the 12% decrease in exports to Russia. Services exports to offshore countries kept declining (15%).

Services imports increased by 13% in 2006 (see Table 1.15). The imports of construction services, which grew the most in 2005, decreased by 29% in 2006. The imports of transport services increased by only 8%. Half of the growth in services imports can be attributed to the 30% increase in travel services imports compared to 2005.

75% of services imports came from EU countries, but imports from the CIS and other countries grew faster than average (see Table 1.16). As regards major partners from the EU, the imports of services from Finland grew faster than average (16%), whereas imports from other old EU Member States increased less than average.

**Table 1.13. Services exports by major categories**

	Balance (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
Transportation	15,672.1	17,842.8	39.0	41.1	13.9
freight	8,367.9	9,489.7	20.8	21.9	13.4
passenger	3,256.0	4,181.3	8.1	9.6	28.4
other transport services	4,048.2	4,171.8	10.1	9.6	3.1
Travel	12,256.1	12,695.0	30.5	29.3	3.6
Construction services	2,398.9	1,083.9	6.0	2.5	-54.8
Computer and information services	552.1	1,133.1	1.4	2.6	105.2
Business services	6,922.2	7,898.0	17.2	18.2	14.1
Government services	575.9	547.8	1.4	1.3	-4.9
Other	1,823.4	2,191.2	4.5	5.0	20.2
<b>Total</b>	<b>40,200.7</b>	<b>43,391.8</b>	<b>100.0</b>	<b>100.0</b>	<b>7.9</b>

**Table 1.14. Services exports by groups of countries**

	Balance (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
<b>EU-25</b>	<b>27,658.2</b>	<b>31,263.6</b>	<b>68.8</b>	<b>72.0</b>	<b>13.0</b>
Finland	12,857.8	13,975.6	32.0	32.2	8.7
Sweden	3,124.4	3,416.4	7.8	7.9	9.3
Germany	2,255.8	2,446.0	5.6	5.6	8.4
United Kingdom	2,410.3	2,308.7	6.0	5.3	-4.2
<b>CIS</b>	<b>5,793.5</b>	<b>5,258.0</b>	<b>14.4</b>	<b>12.1</b>	<b>-9.2</b>
Russia	4,818.4	4,255.0	12.0	9.8	-11.7
Kazakhstan	504.4	444.8	1.3	1.0	-11.8
Ukraine	354.8	392.5	0.9	0.9	10.6
<b>Other</b>	<b>6,749.0</b>	<b>6,870.2</b>	<b>16.8</b>	<b>15.8</b>	<b>1.8</b>
Switzerland	1,583.3	1,640.9	3.9	3.8	3.6
United States	1,776.8	1,527.6	4.4	3.5	-14.0
offshore regions	1,793.0	1,518.0	4.5	3.5	-15.3
<b>Total</b>	<b>40,200.7</b>	<b>43,391.8</b>	<b>100.0</b>	<b>100.0</b>	<b>7.9</b>

**Table 1.15. Services imports by major categories**

	Balance (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
Transportation	11,934.9	12,937.7	43.8	42.2	8.4
freight	7,958.5	8,666.3	29.2	28.2	8.9
passenger	1,114.6	1,400.8	4.1	4.6	25.7
other transport services	2,861.8	2,870.6	10.5	9.4	0.3
Travel	5,654.4	7,365.6	20.8	24.0	30.3
Construction services	2,346.8	1,675.5	8.6	5.5	-28.6
Computer and information services	415.5	583.6	1.5	1.9	40.5
Business services	4,549.0	5,471.9	16.7	17.8	20.3
Government services	308.1	413.9	1.1	1.3	34.3
Other	2,024.3	2,245.7	7.4	7.3	10.9
<b>Total</b>	<b>27,233.0</b>	<b>30,693.9</b>	<b>100.0</b>	<b>100.0</b>	<b>12.7</b>

**Table 1.16. Services imports by groups of countries**

	Balance (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
<b>EU-25</b>	<b>-20,342.1</b>	<b>-22,735.7</b>	<b>74.7</b>	<b>74.1</b>	<b>11.8</b>
Finland	-5,067.1	-5,874.0	18.6	19.1	15.9
Germany	-3,644.3	-3,347.5	13.4	10.9	-8.1
Sweden	-2,121.9	-2,181.2	7.8	7.1	2.8
Latvia	-1,705.0	-1,831.6	6.3	6.0	7.4
<b>CIS</b>	<b>-3,031.1</b>	<b>-3,537.6</b>	<b>11.1</b>	<b>11.5</b>	<b>16.7</b>
Russia	-2,438.6	-2,874.2	9.0	9.4	17.9
Ukraine	-228.9	-336.6	0.8	1.1	47.1
Kazakhstan	-36.7	-60.0	0.1	0.2	63.5
<b>Other</b>	<b>-3,859.8</b>	<b>-4,420.6</b>	<b>14.2</b>	<b>14.4</b>	<b>14.5</b>
United States	-905.0	-856.0	3.3	2.8	-5.4
Egypt	-390.2	-474.5	1.4	1.5	21.6
Norway	-282.9	-378.3	1.0	1.2	33.7
<b>Total</b>	<b>-27,233.0</b>	<b>-30,693.9</b>	<b>100.0</b>	<b>100.0</b>	<b>12.7</b>

The surplus on **transport services** grew by about 25% in 2006 and was mainly driven by the increased sale of sea transport services, particularly passenger transport and partly freight services (see Figures 1.2 and 1.3, and Tables 1.12 and 1.13). The surplus on road transport services more than doubled. Rail transport, which is related to the transit of oil products and coal, remained at the level of 2005.

Total exports of transport services grew by 14% year-on-year; imports to EU countries increased by 25% (see Table 1.17). The biggest importer of transport services was again Finland. For the second consecutive year, exports to Cyprus picked up the fastest as a result of increased passenger transport. The share of other countries fell.

The imports of transport services grew much more modestly: by only 8% year-on-year (see Tables 1.15 and 1.17). Import growth was mainly driven by air transport, particularly passenger transport, which grew by 26% compared to 2005. The imports of transport services from the EU increased by 12% year-on-year, Finland being the main trading partner. The volume of transport services provided by the CIS grew by 13% year-on-year. The imports of transport services from other countries decreased by a few per cent, whereas the share of China in imports rose and that of the United States fell.

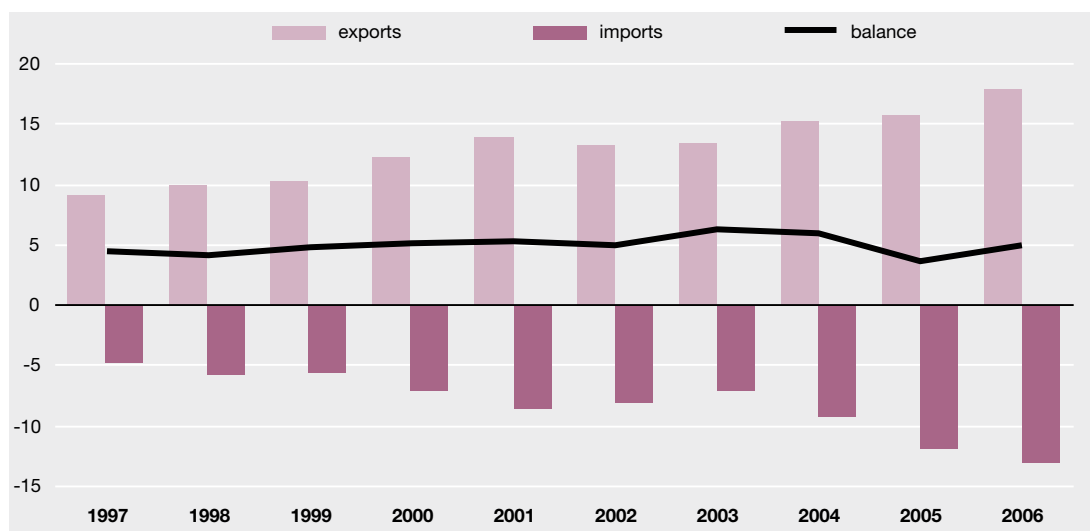
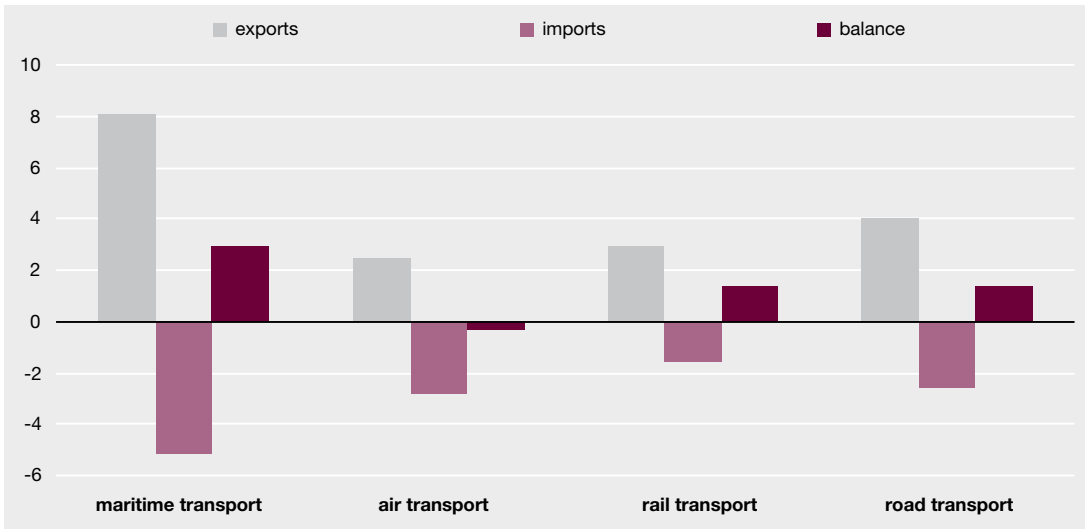


Figure 1.2. Transport services (EEK bn)

Table 1.17. Transport services by groups of countries in 2006

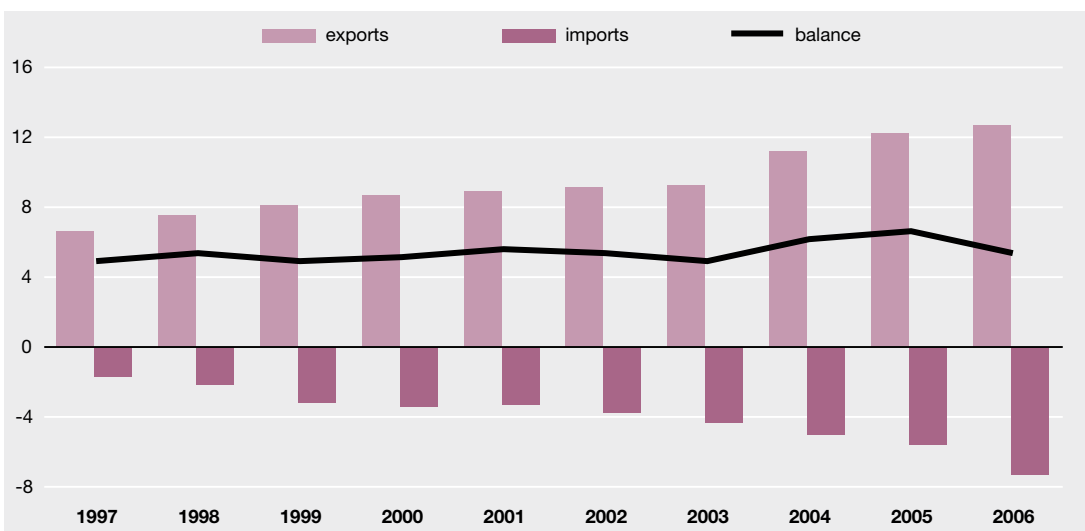
	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%) 2006/2005		Volume (EEK m)	Share (%)	Change (%) 2006/2005
<b>EU-25</b>	<b>12,778.6</b>	<b>71.6</b>	<b>25.4</b>	<b>EU-25</b>	<b>9,411.8</b>	<b>72.7</b>	<b>11.9</b>
Finland	4,877.6	27.3	30.8	Finland	2,398.3	18.5	13.4
Sweden	1,547.7	8.7	24.2	Germany	1,476.6	11.4	16.9
Germany	1,219.2	6.8	24.7	Latvia	735.4	5.7	-0.9
United Kingdom	1,107.9	6.2	-14.5	Sweden	699.7	5.4	-4.6
Cyprus	1,052.3	5.9	98.6	Denmark	541.7	4.2	17.5
<b>CIS</b>	<b>1,981.0</b>	<b>11.1</b>	<b>6.6</b>	<b>CIS</b>	<b>1,681.4</b>	<b>13.0</b>	<b>2.4</b>
Russia	1,779.5	10.0	7.9	Russia	1,414.9	10.9	7.8
Ukraine	95.1	0.5	-4.6	Belarus	106.2	0.8	-48.6
<b>Other</b>	<b>3,083.2</b>	<b>17.3</b>	<b>-14.8</b>	<b>Other</b>	<b>1,844.5</b>	<b>14.3</b>	<b>-2.0</b>
Switzerland	1,027.0	5.8	13.9	offshore regions	412.7	3.2	5.3
offshore regions	789.8	4.4	-33.8	China	317.0	2.5	22.1
United States	624.8	3.5	-29.4	United States	221.4	1.7	-41.4
<b>Total</b>	<b>17,842.8</b>	<b>100.0</b>	<b>13.9</b>	<b>Total</b>	<b>12,937.7</b>	<b>100.0</b>	<b>8.4</b>

The surplus on **travel services** decreased by 19% in 2006, as exports increased by 4% and imports by 30% (see Figure 1.4). The growth in travel services exports has been slowing down in the last two years and reflects only changes in the structure of travel services. The number of Finnish tourists has decreased, whereas the number of tourists from Scandinavia and other EU countries has increased. In 2006, labour mobility took place in both directions: so far labour outflow from Estonia to wealthier EU countries could be noted, whereas in 2006 also the inflow of migrant workers to more labour-intensive fields of activity in Estonia (construction, metal-working, etc.) could be detected. The living costs of temporary labour during the working period are recorded under travel services.



**Figure 1.3. Transport services structure in 2006 by transport type (EEK bn)**

The imports of travel services grew faster than the exports, which resulted from a rise in the number of residents taking up short-term employment abroad. The number of Estonians' trips abroad did not rise considerably in 2006 (6%), but the length and cost of trips has grown along with increased financial capabilities. In some quarters of 2006, the number of tourism trips purchased by Estonian travel agencies and sold to Estonians exceeded, for the first time, the cost of tourism trips sold by travel agencies to non-residents. The imports of travel services to EU countries increased by 32%, whereas imports from Finland picked up nearly 50% (see Table 1.18). As regards the most popular destinations for Estonians, the number of trips to Greece grew by 39%, to Hungary by 27%, to France by 26% and to Thailand by 25%.



**Figure 1.4. Travel services (EEK bn)**

**Table 1.18. Travel services by groups of countries in 2006**

	Exports				Imports		
	Volume (EEK m)	Share (%)	Change (%) 2006/2005		Volume (EEK m)	Share (%)	Change (%) 2006/2005
<b>EU-25</b>	<b>9,920.2</b>	<b>78.1</b>	<b>4.6</b>	<b>EU-25</b>	<b>-5,130.7</b>	<b>69.7</b>	<b>32.3</b>
Finland	6,455.9	50.9	2.1	Finland	-1,319.0	17.9	49.9
Sweden	889.3	7.0	9.4	Germany	-602.1	8.2	41.4
United Kingdom	534.2	4.2	0.8	United Kingdom	-446.8	6.1	28.7
Germany	476.3	3.8	33.8	Sweden	-408.8	5.6	1.7
<b>CIS</b>	<b>1,926.2</b>	<b>15.2</b>	<b>-6.6</b>	<b>CIS</b>	<b>-953.9</b>	<b>13.0</b>	<b>39.5</b>
Russia	1,809.9	14.3	-8.2	Russia	-753.0	10.2	38.9
Ukraine	92.4	0.7	42.9	Ukraine	-105.0	1.4	48.6
<b>Other</b>	<b>848.6</b>	<b>6.7</b>	<b>19.4</b>	<b>Other</b>	<b>-1,281.0</b>	<b>17.4</b>	<b>17.4</b>
Norway	316.4	2.5	64.8	Egypt	-352.7	4.8	24.9
United States	245.8	1.9	-0.6	United States	-194.8	2.6	11.6
Switzerland	37.2	0.3	-3.3	Turkey	-104.6	1.4	-32.1
<b>Total</b>	<b>12,695.0</b>	<b>100.0</b>	<b>3.6</b>	<b>Total</b>	<b>-7,365.6</b>	<b>100.0</b>	<b>30.2</b>

## Income

The **income account** deficit increased by nearly a third year-on-year and amounted to 9.4 billion kroons, i.e. 4.6% of GDP (see Table 1.19). Within the last couple of years, residents' income earned abroad has grown faster than non-residents' income earned in Estonia. This has been facilitated by the opening of the European Union labour market to Estonian residents. Labour income witnessed net inflow, whereas investment income experienced net outflow. The income account of Estonia's balance of payments is largely affected by reinvested earnings which include no actual movement of funds. Excluding from the income account reinvested earnings, the income account was virtually balanced (see Table 1.20).

**Income inflow** stood at a record 13.5 billion kroons, having increased by 60% year-on-year (see Table 1.21). 91% of the income earned by residents abroad came from EU countries (see Table 1.22). Labour income accounted for 36% of the income inflow; the rest was investment income. The former grew by 50% and the latter by over 60% year-on-year. Estonian residents earned labour income mostly in Finland (42% of the labour income inflow), the United Kingdom (19%), Ireland (10%) and Sweden (9%). 65% of the investment income

**Table 1.19. Income**

	Inflow		Outflow		Balance	
	Volume (EEK m)	Change compared to previous period (%)	Volume (EEK m)	Change compared to previous period (%)	Volume (EEK m)	Change compared to previous period (%)
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	2,032.5	3.5	5,491.4	58.2	-3,458.9	129.7
2001	3,022.2	48.7	7,920.8	44.2	-4,898.6	41.6
2002	3,371.3	11.6	8,762.4	10.6	-5,391.1	10.1
2003	3584.1	6.3	10824.8	23.5	-7,240.7	34.3
2004	5496.5	53.4	13427.9	24.0	-7,931.4	9.5
2005	8467.8	54.1	15676.9	16.7	-7,209.1	-9.1
2006	13483.4	59.2	22908.3	46.1	-9,424.9	30.7

**Table 1.20. Structure of income account**

	Volume (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
Labour income	2,592.6	3,960.0	-36.0	-42.0	52.7
Investment income	-9,801.7	-13,384.8	136.0	142.0	36.6
Income on direct investment	-8,764.8	-12,281.9	121.6	130.3	40.1
income on equity	-8,361.8	-11,657.8	116.0	123.7	39.4
reinvested earnings	-6,276.8	-9,484.8	87.1	100.6	51.1
dividends	-2,085.1	-2,172.9	28.9	23.1	4.2
income on debt (interests)	-402.9	-624.1	5.6	6.6	54.9
Income on portfolio investment	-369.3	826.5	5.1	-8.8	-323.8
Income on other investment	-667.7	-1,929.4	9.3	20.5	189.0
<b>Total</b>	<b>-7,209.1</b>	<b>-9,424.8</b>	<b>100.0</b>	<b>100.0</b>	<b>30.7</b>

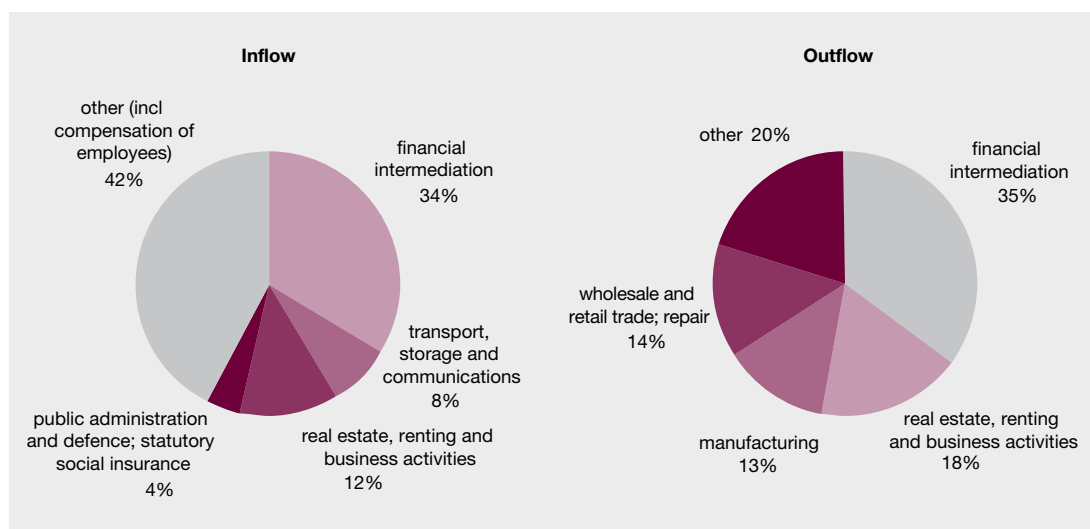
**Table 1.21. Income inflow to Estonia**

	Volume (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
Labour income	3,213.7	4,877.7	38.0	36.2	51.8
Investment income	5,254.1	8,605.7	62.0	63.8	63.8
Income on direct investment	3,220.9	5,585.1	38.0	41.4	73.4
income on equity	2,971.5	5,236.1	35.1	38.8	76.2
reinvested earnings	1,934.7	4,771.1	22.8	35.4	146.6
dividends	1,036.8	465.0	12.2	3.4	-55.2
income on debt (interests)	249.4	348.9	2.9	2.6	39.9
Income on portfolio investment	1,038.0	1,930.1	12.3	14.3	85.9
Income on other investment	995.2	1,090.6	11.8	8.1	9.6
<b>Total</b>	<b>8,467.8</b>	<b>13,483.4</b>	<b>100.0</b>	<b>100.0</b>	<b>59.2</b>

inflow was direct investment income, with reinvested earnings forming 85% of that. The latter increased by 2.5 times year-on-year. The rest of income was earned on portfolio and other investment (22% and 13%, respectively). Residents received investment income mostly in Latvia and Lithuania (49%) and to a lesser extent in Cyprus and Finland. The largest share of residents' investment income (34%) belonged to the investors of

**Table 1.22. Income by groups of countries in 2006**

	Inflow				Outflow		
	Volume (EEK m)	Share (%)	Change (%) 2006/2005		Volume (EEK m)	Share (%)	Change (%) 2006/2005
<b>EU-25</b>	<b>12,257.8</b>	<b>90.9</b>	<b>67.3</b>	<b>EU-25</b>	<b>-20,435.7</b>	<b>89.2</b>	<b>53.3</b>
Finland	2,829.5	21.0	100.3	Sweden	-8,356.6	36.5	81.8
Latvia	2595.1	19.2	72.5	Finland	-6,378.3	27.8	56.0
Lithuania	1718.7	12.7	46.4	United Kingdom	-1,666.8	7.3	33.9
United Kingdom	1,146.5	8.5	71.1	Germany	-911.2	4.0	8.8
Cyprus	953.8	7.1	19.2	Cyprus	-521.5	2.3	186.8
<b>CIS</b>	<b>231.9</b>	<b>1.7</b>	<b>-10.2</b>	<b>CIS</b>	<b>-682.3</b>	<b>3.0</b>	<b>35.6</b>
Russia	181.0	1.3	-23.7	Russia	-563.0	2.5	28.6
Ukraine	29.6	0.2	127.3	Ukraine	-99.2	0.4	183.9
<b>Other</b>	<b>993.7</b>	<b>7.4</b>	<b>12.3</b>	<b>Other</b>	<b>-1,790.3</b>	<b>7.8</b>	<b>-3.0</b>
United States	418.1	3.1	-21.0	United States	-481.6	2.1	-27.8
offshore regions	232.9	1.7	7.7	offshore regions	-461.3	2.0	5.9
Norway	229.2	1.7	344.8	Norway	-303.5	1.3	-23.1
<b>Total</b>	<b>13,483.4</b>	<b>100.0</b>	<b>59.2</b>	<b>Total</b>	<b>-22,908.3</b>	<b>100.0</b>	<b>46.1</b>



**Figure 1.5. Inflow and outflow of income by fields of activity in 2006**

financial intermediation. The investors of real estate, renting and business activities as well as transport, storage and communications earned less (12% and 8%, respectively; see Figure 1.5).

**Income outflow** posted a record too and amounted to 22.9 billion kroons (see Table 1.23). Approximately 90% of the income earned by non-residents in Estonia belonged to EU residents. Most of income outflow comprised investment income (96%), the rest being labour income. Labour income earned in Estonia and

**Table 1.23. Income outflow from Estonia**

	Volume (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
Labour income	621.0	917.7	4.0	4.0	47.8
Investment income	15,055.9	21,990.6	96.0	96.0	46.1
Income on direct investment	11,985.7	17,866.9	76.5	78.0	49.1
income on equity	11,333.4	16,893.9	72.3	73.7	49.1
reinvested earnings	8,211.5	14,255.9	52.4	62.2	73.6
dividends	3,121.9	2,638.0	19.9	11.5	-15.5
income on debt (interests)	652.3	973.0	4.2	4.2	49.2
Income on portfolio investment	1,407.3	1,103.6	9.0	4.8	-21.6
Income on other investment	1,662.9	3,020.0	10.6	13.2	81.6
<b>Total</b>	<b>15,676.9</b>	<b>22,908.3</b>	<b>100.0</b>	<b>100.0</b>	<b>46.1</b>

investment income both increased by about 50% year-on-year. In Estonia, mainly Finnish (43%), Swedish (20%), Ukrainian and Polish residents earned on labour income.

The share of direct investment income in non-residents' income earned in Estonia was more or less the same as in 2005, namely 81%. 80% of direct investment income was reinvested earnings. 14% of the investment income earned in Estonia was earned on other investment and 5% on portfolio investment. In Estonia, mostly Swedish and Finnish investors earned on investment (37% and 28%, respectively), and to a lesser extent also UK (7%) and German investors. Non-residents earned income in Estonia primarily on financial intermediation (35%), real estate, renting and business activities (18%), wholesale and retail trade (14%), and manufacturing (13%).

## Current and capital transfers<sup>2</sup>

The surplus on the **current transfers** account increased considerably year-on-year and amounted to 1.4 billion kroons (see Table 1.24). The inflow of current transfers grew by 20% and reached 7.2 billion kroons. Slightly over 40% of that accounted for funds channelled into the Estonian economy through the general government (primarily allocations from the EU structural funds and revenues from taxes). The inflow of current transfers of other sectors increased by nearly 40% year-on-year, totalling 4.1 billion kroons. 75% of that came from the EU (agricultural subsidies from the European Commission, transfers from Germany, Finland, Belgium and Sweden). The outflow of current transfers increased by 14% and reached 5.8 billion kroons. Payments into the EU budget and VAT refunds by the general government accounted for 55% of the outflow. Other sectors' transfers were also mainly made to the EU (Finland, Germany, Sweden, and the United Kingdom).

**Table 1.24. Current and capital transfers by groups of countries (EEK m)**

	Received		Paid		Balance	
	2005	2006	2005	2006	2005	2006
<b>Current transfers</b>	<b>5,892.2</b>	<b>7,162.2</b>	<b>5,091.6</b>	<b>5,806.9</b>	<b>800.6</b>	<b>1,355.3</b>
<b>government transfers</b>	<b>2,904.0</b>	<b>3,025.3</b>	<b>3,257.1</b>	<b>3,221.3</b>	<b>-353.1</b>	<b>-196.0</b>
EU-27	2,753.4	2,828.1	3,218.8	3,166.5	-465.4	-338.4
CIS	61.9	66.7	3.8	6.1	58.1	60.6
other	88.7	130.4	34.5	48.7	54.2	81.7
<b>private transfers</b>	<b>2,988.2</b>	<b>4,136.9</b>	<b>1,834.5</b>	<b>2,585.6</b>	<b>1,153.7</b>	<b>1,551.3</b>
EU-27	2,207.0	3,017.2	1,469.3	2,111.4	737.7	905.8
CIS	364.9	625.1	113.8	144.1	251.1	481.0
other	416.3	494.6	251.3	330.1	165.0	164.5
<b>Capital transfers</b>	<b>1,123.5</b>	<b>2,565.4</b>	<b>47.3</b>	<b>167.2</b>	<b>1,076.2</b>	<b>2,398.2</b>
government transfers	462.0	1,563.9	0.0	0.8	462.0	1,563.1
private transfers	661.5	1,001.4	47.3	166.4	614.2	835.0

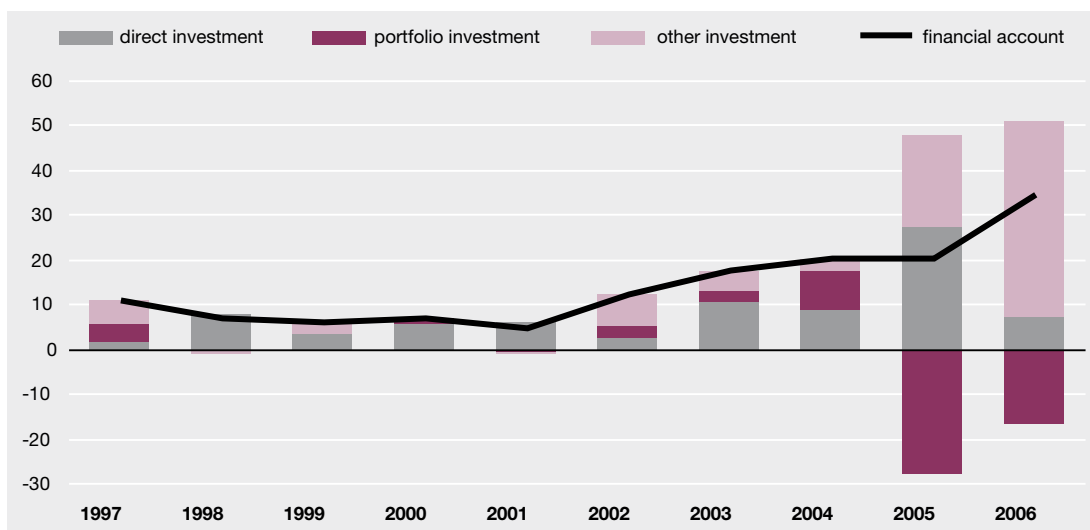
The surplus on **capital transfers** grew by over two times year-on-year and amounted to 2.4 billion kroons. Capital transfers into Estonia mainly comprised EU subsidies to the general government and other sectors for various infrastructure objects and investments.

## FINANCIAL ACCOUNT

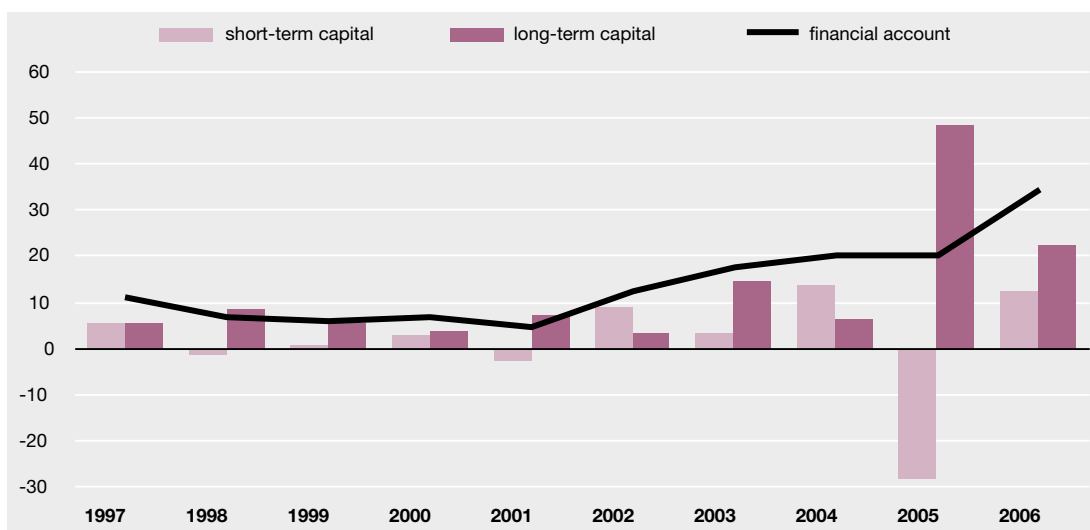
The surplus on the financial account<sup>3</sup> was a record 34.6 billion kroons in 2006. Capital inflow occurred mainly through other investment and to some extent also through direct investment, while portfolio investment witnessed net outflow. The large inflow of other investment capital resulted from the increase in non-residents' deposits held with Estonian credit institutions and in the loan liabilities of other sectors. Figures 1.6 and 1.7 show the structure of the financial account by categories and maturities.

<sup>2</sup> Although capital transfers are reflected under the capital and financial account in the IMF methodology, the present analysis treats them together with current transfers. The distribution of European Union structural funds available for Estonia into current and capital transfers is not clearly distinguishable and is, therefore, based on the expert estimates of the Ministry of Financial Affairs, the Ministry of Agriculture, and Eesti Pank (according to the purpose of structural funds).

<sup>3</sup> Without reserve assets.



**Figure 1.6. Structure of foreign investment capital flows (EEK bn)**



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

### **Direct investment**

**Direct investment** posted a surplus of 7.3 billion kroons in 2006, accounting for 21% of the financial account surplus. Non-residents invested 21 billion kroons in Estonia and Estonian residents' direct investment abroad grew by 13.7 billion kroons (see Figure 1.8).

The inflow of **direct investment in Estonia** was extremely large compared to previous years, although year-on-year it declined by almost two times. The exceptionally strong growth of direct investment in 2005 mostly stemmed from the buy-out of shares from foreign minority shareholders by Hansapank's core investor. Equity capital investment accounted for 11% of total direct investment growth. Economic

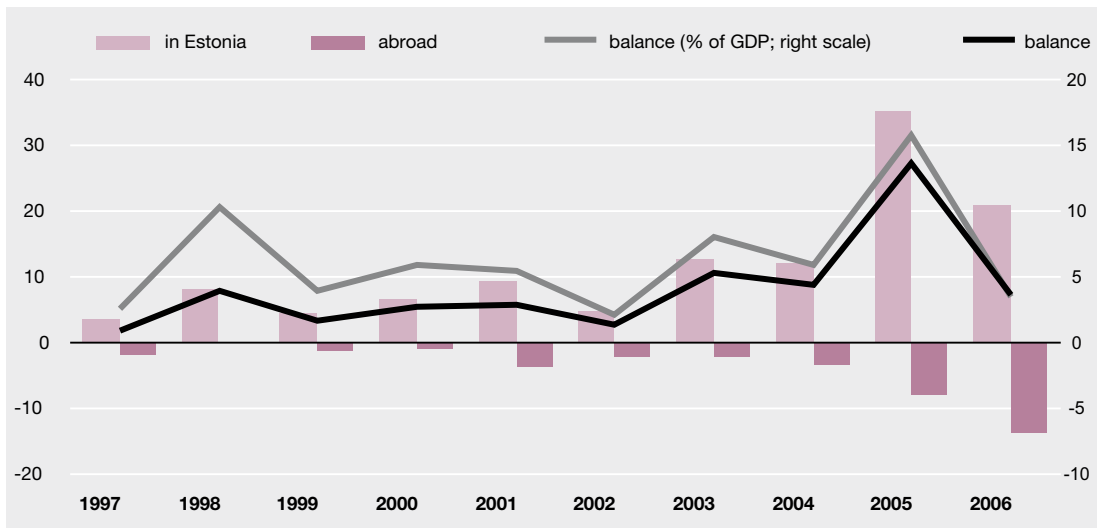


Figure 1.8. Direct investment (EEK bn)

expansion is reflected also in the increase in reinvested earnings. Compared to 2005, reinvested earnings grew by a third, amounting to 14.3 billion kroons. 25% of that was the income of non-resident owners of credit institutions. High incomes were also earned in the fields of trade and real estate, renting and business activities. Compared to 2005, net claims to direct investors related to long-term and short-term loans increased by two thirds. Long-term loan liabilities grew significantly – the net outflow reached 7 billion kroons, with 5.8 billion kroons accounting for the subordinated debt of banks (see Tables 1.25 and 1.26).

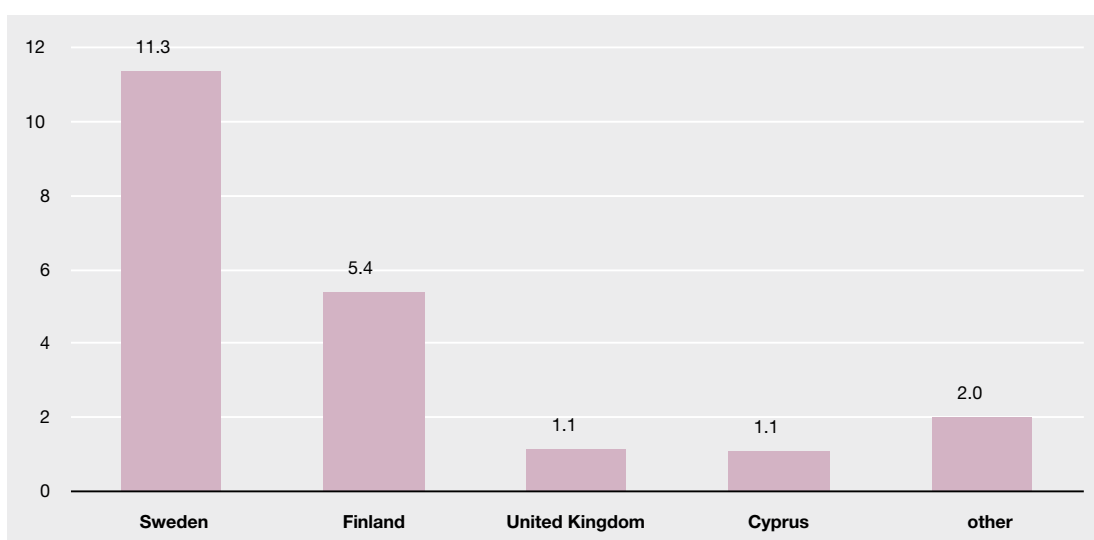
Largest investments traditionally came from Sweden (54%) and Finland (26%). Investors of the United Kingdom and Cyprus made a modest contribution as well (6% and 5%, respectively). Direct investment in financial intermediation (59%), manufacturing (19%) and transport, storage and communications (8%) grew the most. 99% of direct investment came from EU Member States (see Table 1.27 and Figure 1.10).

Table 1.25. Structure of direct investment in Estonia

	Equity capital		Reinvested earnings		Other capital				Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Assets		Liabilities		Volume (EEK m)	Share (%)
					Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)		
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	5,329.9	41.4	6,406.7	49.8	-1,334.0	-10.4	2,462.7	19.1	12,865.3	100.0
2004	4,638.6	38.2	7,982.1	65.8	-1,454.0	-12.0	961.5	7.9	12,128.1	100.0
2005	27,959.3	79.3	8,211.5	23.3	-2,014.0	-5.7	1,118.3	3.2	35,275.1	100.0
2006	2,303.2	11.0	14,256.0	67.9	-4,465.5	-21.3	8,888.2	42.4	20,981.8	100.0

**Table 1.26. Loan capital assets and liabilities to foreign direct investors (EEK m)**

	Assets				Liabilities			
	Long-term		Short-term		Long-term		Short-term	
	Grantings	Repayments	Grantings	Repayments	Drawings	Repayments	Drawings	Repayments
2003	408.4	246.4	1,010.7	498.7	5,155.6	2,667.1	3,020.9	3,726.9
2004	492.7	371.2	1,774.1	862.1	4,601.5	4,882.2	3,091.7	2,197.2
2005	1,274.3	502.5	2,290.6	1,413.4	7,889.0	6,972.1	5,012.7	4,628.4
2006	2,121.6	609.9	3,723.7	2,589.2	13,157.0	6,147.4	4,115.2	3,391.2



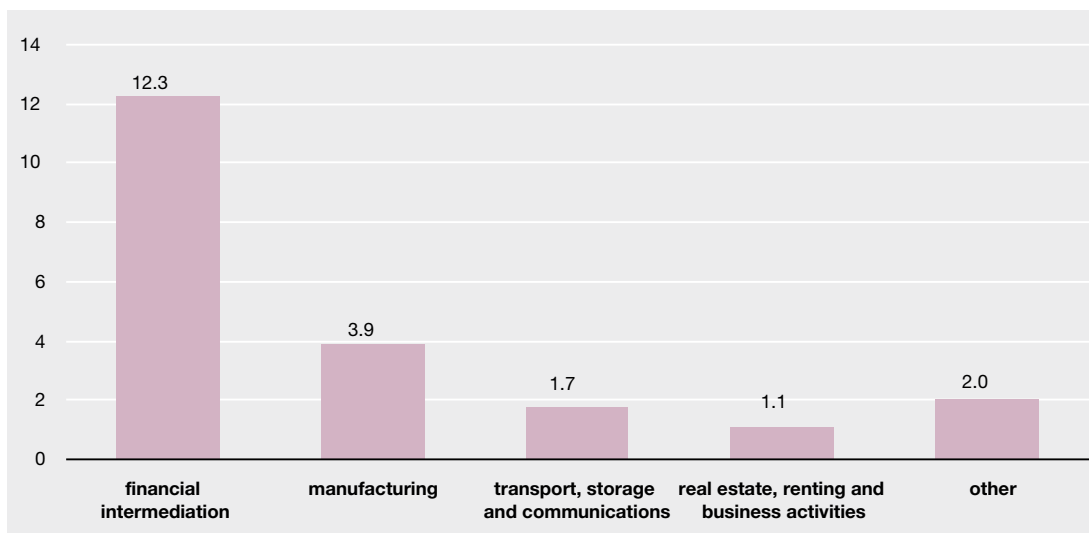
**Figure 1.9. Direct investment in Estonia by countries in 2006 (EEK bn)**

**Direct investment abroad** grew by nearly two times compared to 2005. Direct investment outflow has been constantly doubling over the last three years. Thus, we can again state that never before in the history of compiling Estonia's balance of payments has the outflow been that large. 43% of direct investment boosted equity capital in foreign subsidiaries and associated companies and the share of Estonian enterprises in net profit (reinvested earnings) grew by more than a third. Since 2006, Eesti Pank has been using a new methodology for the calculation of reinvested earnings of foreign subsidiaries and affiliated companies<sup>4</sup>. The assets of other foreign investment capital formed 28% of the total outflow.

**Table 1.27. Direct investment in Estonia by groups of countries**

	Volume (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
EU-25	34,612.9	20,666.8	98.1	98.5	-40.3
CIS	837.0	846.5	2.4	4.0	1.1
Other	-174.8	-531.5	-0.5	-2.5	204.1
<b>Total</b>	<b>35,275.1</b>	<b>20,981.8</b>	<b>100.0</b>	<b>100.0</b>	<b>-40.5</b>

<sup>4</sup> As of 2006, the entry of foreign reinvested earnings indicates the share of an Estonian qualifying shareholder in the retained profits/losses of non-resident subsidiaries and affiliated companies. Beforehand, this item included the change in the equity capital of an investment object acquired, reflected on the basis of the equity method of the long-term financial investments of a direct investor. This, however, was not methodically correct. The change in methodology enables to give a fairer picture of our income abroad. In previous years the outflow of direct investment was relatively modest and therefore enterprises could be saved from the excessive accounting burden.



**Figure 1.10. Direct investment in Estonia by fields of activities in 2006 (EEK bn)**

The long-term loan liabilities of subsidiaries and affiliated companies increased by nearly 3 billion kroons. Half of the liabilities were loans granted by financial intermediaries (see Tables 1.28 and 1.29).

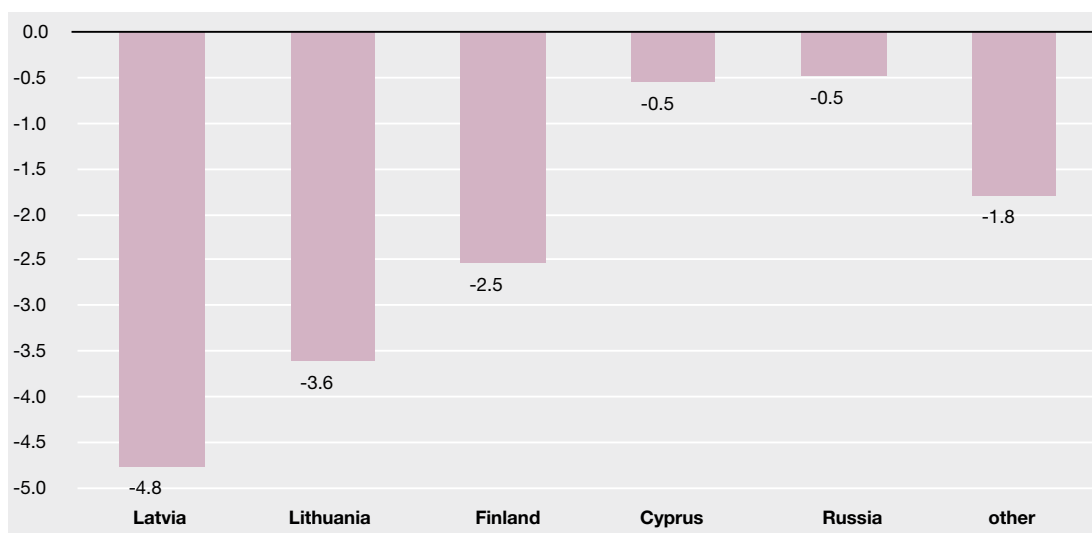
The largest investments went in Latvia (35%) and Lithuania (26%). Investments made in Finland grew by 2.5 billion kroons (see Figure 1.11). The biggest investors were the real estate, renting and business activities sector (40%) and financial intermediation (39%), followed by wholesale and retail trade (11%), and transport, storage and communications (5%). 88% of the outflow went to the European Union. 85% of that was channelled into new Member States (see Table 1.30 and Figure 1.12).

**Table 1.28. Structure of direct investment abroad**

	Equity capital		Reinvested earnings		Other capital				Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Assets		Liabilities		Volume (EEK m)	Share (%)
					Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)		
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	-1,060.0	49.3	-741.4	34.5	-645.8	30.0	297.9	-13.9	-2,149.2	100.0
2004	-2,175.2	64.2	-919.6	27.1	-434.2	12.8	140.3	-4.1	-3,388.6	100.0
2005	-5,155.3	64.9	-1,934.7	24.4	-1,141.6	14.4	292.0	-3.7	-7,939.6	100.0
2006	-5,876.9	42.9	-4,771.1	34.8	-3,819.4	27.9	760.3	-5.5	-13,707.1	100.0

**Table 1.29. Loan capital assets and liabilities to foreign subsidiaries and associated companies (EEK m)**

	Assets				Liabilities			
	Long-term		Short-term		Long-term		Short-term	
	Grantings	Repayments	Grantings	Repayments	Drawings	Repayments	Drawings	Repayments
2003	1,107.1	716.6	472.1	503.8	4.0	11.6	84.2	98.8
2004	934.8	1,232.5	952.4	368.9	17.9	61.2	27.9	37.1
2005	2,141.8	1,488.6	1,710.6	1,107.4	109.6	60.7	104.9	25.0
2006	5,395.2	2,372.1	1,545.6	1,626.1	118.6	112.7	147.0	20.5



**Figure 1.11. Direct investment abroad by countries in 2006 (EEK bn)**

**Table 1.30. Direct investment abroad by groups of countries**

	Volume (EEK m)		Share (%)		Change (%)
	2005	2006	2005	2006	2006/2005
EU-25	-5,063.3	-12,060.9	63.8	88.0	138.2
CIS	-2,611.8	-903.9	32.9	6.6	-65.4
Other	-264.5	-742.3	3.3	5.4	180.6
<b>Total</b>	<b>-7,939.6</b>	<b>-13,707.1</b>	<b>100.0</b>	<b>100.0</b>	<b>72.6</b>



Figure 1.12. Direct investment abroad by fields of activity in 2006 (EEK bn)

### Portfolio investment

The net outflow of **portfolio investment** was 16.8 billion kroons in 2006. This resulted mainly from investments in debt securities made by the general government, credit institutions and enterprises in other sectors (see Figure 1.13 and Table 1.31).

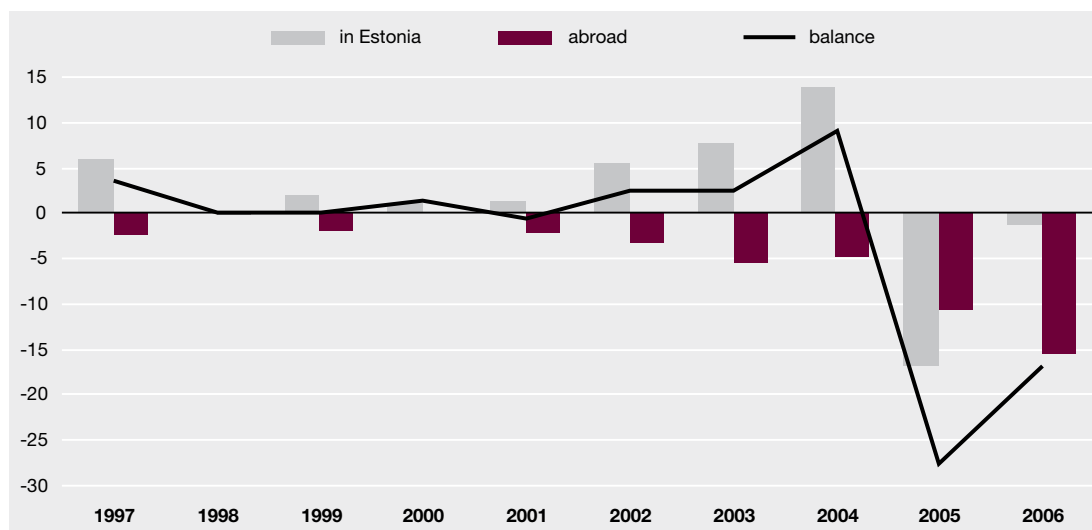


Figure 1.13. Portfolio investment (EEK bn)

**Portfolio investment liabilities** decreased by 1.3 billion kroons in 2006 (see Table 1.32). Equity security liabilities increased by 3.7 billion kroons; debt security liabilities decreased by 5 billion kroons. Transactions with equity securities were mainly carried out by enterprises in other sectors, whereas the decrease in debt security liabilities was related to credit institutions. By countries, portfolio investment liabilities to the United States as well as to some EU countries (e.g. Finland, Latvia, Lithuania and Sweden) increased the most. All in all, liabilities to the EU declined, since the liabilities to the United Kingdom decreased by 5.7 billion kroons (see Figure 1.14 and Table 1.33).

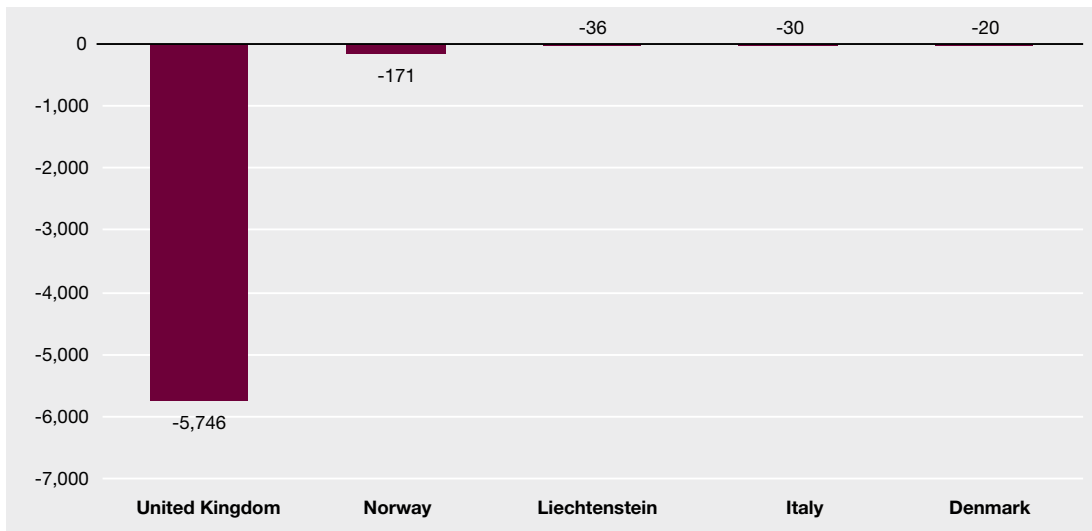
**Portfolio investment assets** increased by 15.6 billion kroons year-on-year in terms of both equity and debt securities (4.6 and 11 billion kroons, respectively; see Table 1.34). The most active investors

**Table 1.31. Portfolio investment by types of securities and sectors (EEK m)**

	Assets		Liabilities		Balance	
	2005	2006	2005	2006	2005	2006
<b>Equity securities</b>	<b>-4,848.9</b>	<b>-4,584.0</b>	<b>-16,352.3</b>	<b>3,738.1</b>	<b>-21,201.2</b>	<b>-845.9</b>
central bank	-3.4				-3.4	0.0
general government	-8.7	-167.2			-8.7	-167.2
credit institutions	-124.4	-6.1	-22,012.7	25.2	-22,137.1	19.1
other sectors	-4,712.4	-4,410.7	5,660.4	3,712.8	948.0	-697.9
<b>Debt securities</b>	<b>-5,826.1</b>	<b>-10,986.0</b>	<b>-532.0</b>	<b>-4,997.9</b>	<b>-6,358.1</b>	<b>-15,983.9</b>
central bank					0.0	0.0
general government	-1,149.5	-6,024.3	135.3	856.0	-1,014.2	-5,168.3
credit institutions	-766.7	-2,676.9	-3,192.2	-5,506.7	-3,958.9	-8,183.6
other sectors	-3,909.9	-2,284.7	2,524.8	-347.2	-1,385.1	-2,631.9
<b>Total</b>	<b>-10,675.0</b>	<b>-15,569.9</b>	<b>-16,884.3</b>	<b>-1,259.8</b>	<b>-27,559.3</b>	<b>-16,829.7</b>

**Table 1.32. Structure of portfolio investment liabilities**

	Equity securities		Debt securities		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
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	-42.6	1,803.2	142.6	1,264.4	100.0
2001	568.4	39.6	866.8	60.4	1,435.2	100.0
2002	912.2	16.2	4,713.1	83.8	5,625.3	100.0
2003	1,527.0	19.6	6,256.2	80.4	7,783.2	100.0
2004	2,205.2	15.9	11,673.0	84.1	13,878.2	100.0
2005	-16,352.3	96.8	-532.0	3.2	-16,884.3	100.0
2006	3,738.1	-296.7	-4,997.9	396.7	-1,259.8	100.0



**Figure 1.14. Decrease in portfolio investment liabilities by countries in 2006 (EEK bn)**

in equity securities issued by non-residents were companies in other sectors, who invested the total of 4.4 billion kroons. The general government invested the most (6 billion kroons) both in bonds and money market instruments. Credit institutions and enterprises in other sectors followed (2.7 and 2.3 billion kroons, respectively). By countries, portfolio investment went mainly to Germany, France, the Netherlands and Luxembourg (see Figure 1.15).

**Table 1.33. Structure of portfolio investment by groups of countries**

	Volume (EEK m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2005	2006	2005	2006	2005	2006	2005	2006
EU-25	-8,188.2	-12,828.4	-12,902.4	-2,881.4	76.7	82.4	76.4	228.7
CIS	-589.5	-1154.3	97.2	230.2	5.5	7.4	-0.6	-18.3
Other	-1,897.3	-1,587.2	-4,079.2	1,391.4	17.8	10.2	24.2	-110.4
<b>Total</b>	<b>-10,675.0</b>	<b>-15,569.9</b>	<b>-16,884.3</b>	<b>-1,259.8</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**Table 1.34. Structure of portfolio investment assets**

	Equity securities		Debt securities		Total	
	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)	Volume (EEK m)	Share (%)
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
2004	-2,893.5	59.6	-1,957.6	40.4	-4,851.0	100.0
2005	-4,848.9	45.4	-5,826.1	54.6	-10,675.0	100.0
2006	-4,584.0	29.4	-10,986.0	70.6	-15,569.9	100.0

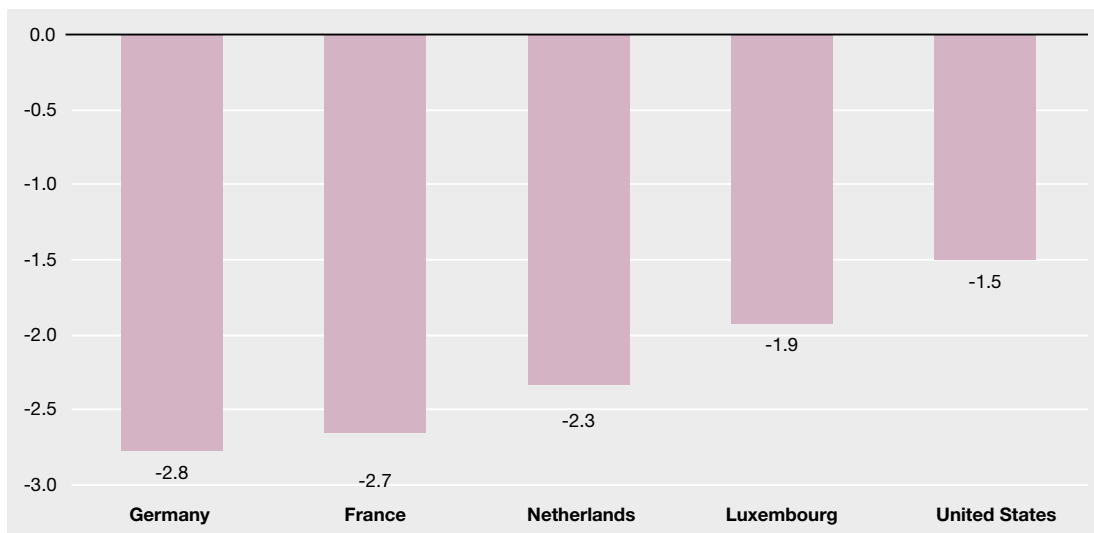


Figure 1.15. Increase in portfolio investment assets by countries in 2006 (EEK bn)

### Other investment

The net inflow of **other investment** reached 44 billion kroons in 2006, with other investment liabilities increasing by 43.7 billion kroons (see Figure 1.16). Looking at the structure of other investment by maturity, capital inflow occurred both through short-term and long-term capital (see Table 1.35).

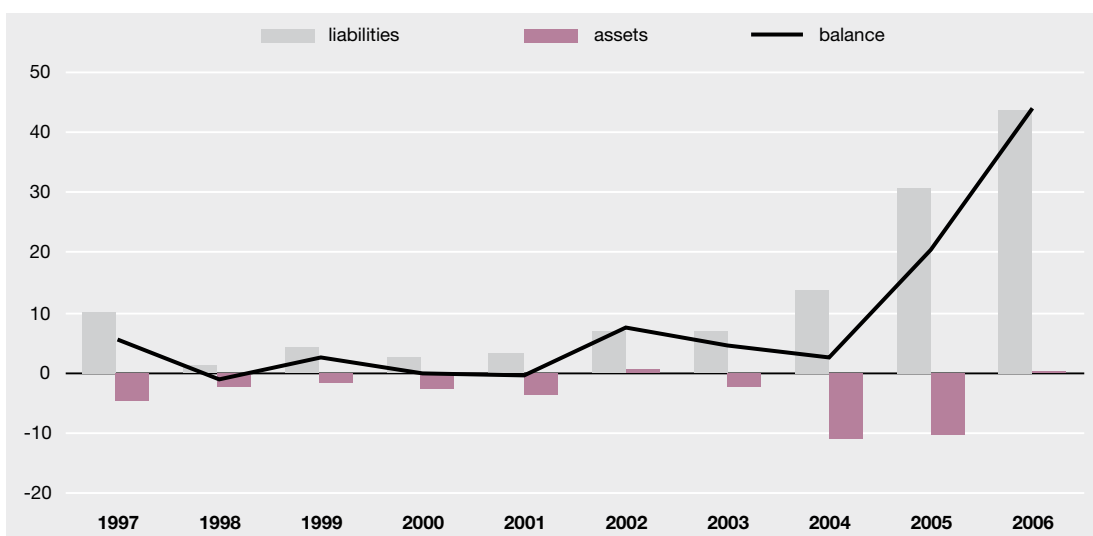


Figure 1.16. Other investment (EEK bn)

**Table 1.35. Other investment by maturity (EEK m)**

	Assets		Liabilities		Balance	
	2005	2006	2005	2006	2005	2006
<b>Long-term capital</b>	<b>5,636.4</b>	<b>-3,054.0</b>	<b>15,396.8</b>	<b>17,991.5</b>	<b>21,033.2</b>	<b>14,937.5</b>
central bank	-0.7	0.2			-0.7	0.2
general government	-60.9	-56.5	-178.3	-33.4	-239.2	-89.9
credit institutions	2,953.7	-2,342.7	11,312.5	8,900.2	14,266.2	6,557.5
other sectors	2,744.3	-655.0	4,262.6	9,124.7	7,006.9	8,469.7
<b>Short-term capital</b>	<b>-16,010.0</b>	<b>3,388.8</b>	<b>15,515.4</b>	<b>25,703.4</b>	<b>-494.6</b>	<b>29,092.2</b>
central bank			-693.3	377.8	-693.3	377.8
general government	-60.2	428.5	871.4	-871.4	811.2	-442.9
credit institutions	-15,572.3	9,545.8	13,643.3	16,651.6	-1,929.0	26,197.4
other sectors	-377.5	-6,585.5	1,694.0	9,545.4	1,316.5	2,959.9
<b>Total</b>	<b>-10,373.4</b>	<b>334.6</b>	<b>30,912.4</b>	<b>43,695.1</b>	<b>20,539.0</b>	<b>44,029.7</b>

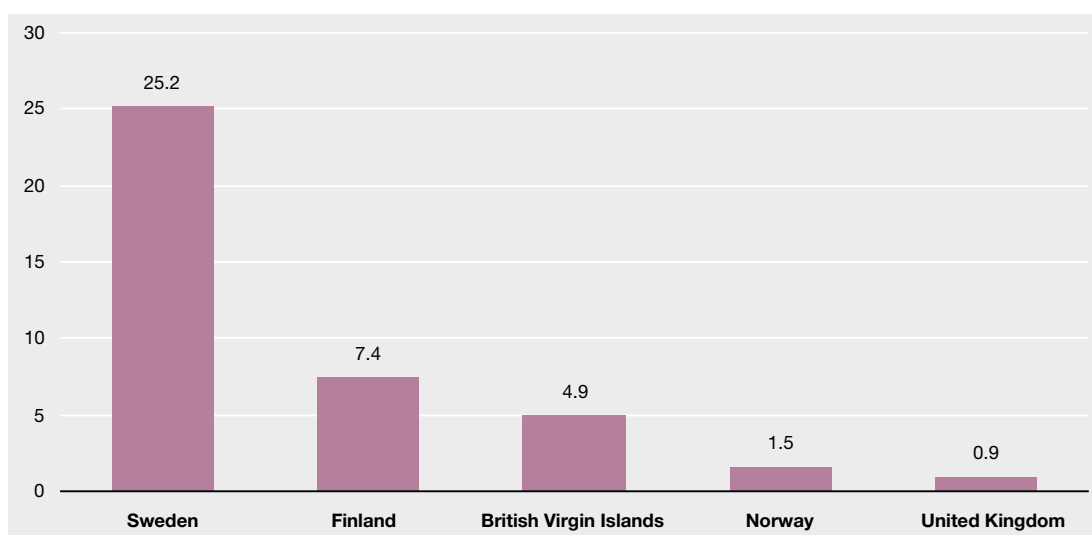
**Other investment liabilities** increased by 43.7 billion kroons year-on-year, whereas growth was observed across all sub-items of liabilities (see Table 1.36). Deposits and loans held the largest share in the volume of liabilities with 48.2% and 44.2%, respectively. As regards the institutional breakdown, the liabilities (both in the form of short-term and long-term capital) of credit institutions increased the most

**Table 1.36. 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 (%)
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	2,399.7	57.3	1,462.7	34.9	204.3	4.9	4,185.8	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	-115.7	-1.7	3,219.5	47.8	4,587.9	68.2	-960.3	-14.3	6,731.4	100.0
2004	625.2	4.6	4,564.6	33.3	8,804.7	64.2	-279.4	-2.0	13,715.1	100.0
2005	1,633.6	5.3	24,673.8	79.8	2,953.3	9.6	1,651.6	5.3	30,912.4	100.0
2006	3,207.0	7.3	19,332.2	44.2	21,081.1	48.2	74.8	0.2	43,695.1	100.0

(by 25.6 billion kroons), followed by those of enterprises in other sectors (by 18.7 billion kroons). By countries, other investment capital liabilities to Sweden and Finland grew the most: by 25.2 and 7.4 billion kroons, respectively (see Figure 1.17 and Table 1.37).

**Other investment assets** declined by 335 billion kroons in 2006 (see Table 1.38). This arose from a 6.3 billion kroon decrease in deposit assets. Trade credit and loan assets increased by 3.5 and 2.5 billion kroons, respectively. By countries, other investment assets to Lithuania, Sweden and Latvia increased the most (see Figure 1.18). Table 1.39 provides a more specific overview of loan capital claims and liabilities.



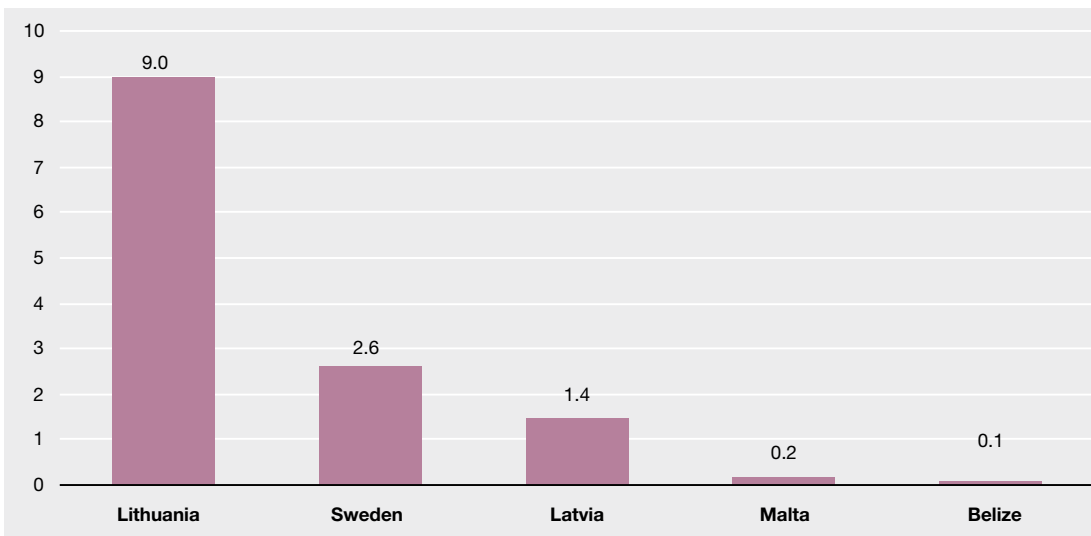
**Figure 1.17. Increase in other investment liabilities by countries in 2006 (EEK bn)**

**Table 1.37. Structure of other investment by groups of countries**

	Volume (EEK m)				Share (%)			
	Assets		Liabilities		Assets		Liabilities	
	2005	2006	2005	2006	2005	2006	2005	2006
EU-25	-8,911.6	6,509.1	29,307.5	34,655.6	85.9	1,945.3	94.8	79.3
CIS	-305.4	-2,825.2	541.8	484.8	2.9	-844.4	1.8	1.1
Other	-1,156.4	-3,349.3	1,063.1	8,554.7	11.1	-1,001.0	3.4	19.6
<b>Total</b>	<b>-10,373.4</b>	<b>334.6</b>	<b>30,912.4</b>	<b>43,695.1</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**Table 1.38. Structure of other investment assets**

	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 (%)
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	24.3	-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	-1,028.2	45.0	-3,520.4	154.1	2,209.4	-96.7	54.6	-2.4	-2,284.6	100.0
2004	-1,032.0	9.2	-8,455.5	75.7	-1,545.1	13.8	-136.2	1.2	-11,168.8	100.0
2005	-1,957.1	18.9	4,148.4	-40.0	-12,251.5	118.1	-313.3	3.0	-10,373.4	100.0
2006	-3,516.0	-1,050.8	-2,470.8	-738.4	6,304.7	1,884.2	16.8	5.0	334.6	100.0



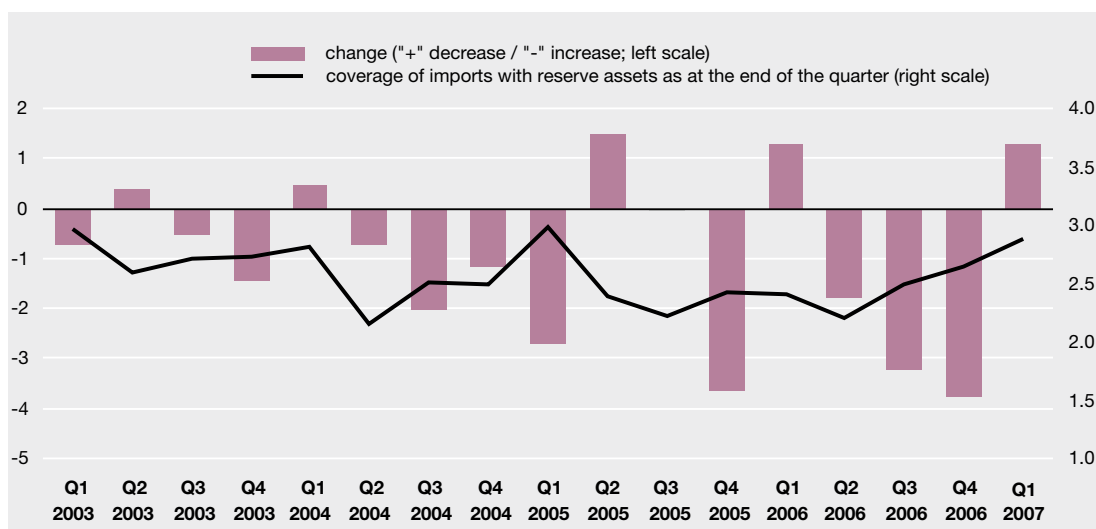
**Figure 1.18. Increase in other investment assets by countries in 2006 (EEK bn)**

**Table 1.39. Assets and liabilities of loan capital (EEK m)**

	Assets			Liabilities		
	Grantings	Repayments	Balance	Drawings	Repayments	Balance
2003	-34,919.2	31,398.9	-3,520.3	30,076.6	-26,857.1	3,219.5
2004	-29,782.7	21,327.1	-8,455.5	45,446.7	-40,882.1	4,564.6
2005	-77,557.0	81,705.4	4,148.4	125,437.1	-100,763.3	24,673.8
2006	-75,947.3	73,476.5	-2,470.8	182,867.1	-163,534.9	19,332.2

## Reserve assets

The balance of payments reserves increased by 7.5 billion kroons in 2006 (see Table 1.40). Figure 1.19 provides an overview of the imports covered by reserve assets.



**Figure 1.19. Changes in Estonia's gold and foreign exchange reserves (EEK bn) and coverage of goods imports without further processing (by months)**

**Table 1.40. Structure of reserve assets**

	Volume (EEK m)		Change (%)	
	2005	2006	2005	2006
Gold	0.0	0.0	0.0	0.0
Currency and deposits	-389.5	-1,506.0	8.0	20.0
Securities	-4,470.3	-6,017.4	91.5	80.0
equity securities				
bonds and notes	-1,870.6	-3,404.3	38.3	45.2
money market instruments	-2,599.7	-2,613.2	53.2	34.7
Financial derivatives	0.0	-1.0	0.0	0.0
Other assets	-24.1	0.5	0.5	-0.0
<b>Total</b>	<b>-4,883.9</b>	<b>-7,523.9</b>	<b>100.0</b>	<b>100.0</b>