

## II ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND EXTERNAL DEBT AS AT 31 DECEMBER 2006<sup>5</sup>

During 2006, **foreign investment in Estonia** increased by 16%, amounting to 336 billion kroons by the end of the year (see Table 2.1). Slightly over a half thereof was invested in financial intermediation and to a lesser extent also in real estate, renting and business activities, manufacturing, and wholesale and retail trade (see Table 2.2). Most of investment in Estonia came from Sweden (37%), Finland (22%), and the United Kingdom (9%).

**Table 2.1. Estonia's international investment position (EEK m)**

	31/12/2005	Share (%)	31/12/2006	Share (%)	Change (%)
<b>EXTERNAL ASSETS</b>	<b>141,454.3</b>	<b>100.0</b>	<b>184,282.3</b>	<b>100.0</b>	<b>30.3</b>
<b>Direct investment abroad</b>	<b>25,641.8</b>	<b>18.1</b>	<b>42,929.4</b>	<b>23.3</b>	<b>67.4</b>
Equity capital and reinvested earnings	20,151.5	14.2	33,952.8	18.4	68.5
Other direct investment capital	5,490.3	3.9	8,976.6	4.9	63.5
<b>Portfolio investment</b>	<b>39,171.3</b>	<b>27.7</b>	<b>57,655.5</b>	<b>31.3</b>	<b>47.2</b>
Equity securities	13,416.6	9.5	21,247.5	11.5	58.4
Debt securities	25,754.8	18.2	36,408.0	19.8	41.4
Bonds and notes	15,062.6	10.6	26,250.4	14.2	74.3
Money market instruments	10,692.2	7.6	10,157.6	5.5	-5.0
<b>Financial derivatives</b>	<b>360.1</b>	<b>0.3</b>	<b>546.3</b>	<b>0.3</b>	<b>51.7</b>
<b>Other investment</b>	<b>50,508.1</b>	<b>35.7</b>	<b>49,996.0</b>	<b>27.1</b>	<b>-1.0</b>
Trade credit	8,975.8	6.3	12,824.0	7.0	42.9
Loans	20,524.4	14.5	22,074.3	12.0	7.6
Long-term	5,839.7	4.1	7,878.1	4.3	34.9
Short-term	14,684.7	10.4	14,196.2	7.7	-3.3
Currency and deposits	20,038.9	14.2	13,954.8	7.6	-30.4
Other assets	969.0	0.7	1,143.0	0.6	18.0
<b>Reserve assets</b>	<b>25,773.0</b>	<b>18.2</b>	<b>33,155.2</b>	<b>18.0</b>	<b>28.6</b>
<b>EXTERNAL LIABILITIES</b>	<b>289,829.0</b>	<b>100.0</b>	<b>336,483.3</b>	<b>100.0</b>	<b>16.1</b>
<b>Direct investment in Estonia</b>	<b>149,256.6</b>	<b>51.5</b>	<b>150,465.6</b>	<b>44.7</b>	<b>0.8</b>
Equity capital and reinvested earnings	134,672.1	46.5	129,666.0	38.5	-3.7
Other direct investment capital	14,584.6	5.0	20,799.6	6.2	42.6
<b>Portfolio investment</b>	<b>44,679.5</b>	<b>15.4</b>	<b>46,226.6</b>	<b>13.7</b>	<b>3.5</b>
Equity securities	15,808.0	5.5	22,420.7	6.7	41.8
Debt securities	28,871.6	10.0	23,805.9	7.1	-17.5
Bonds and notes	28,394.6	9.8	23,695.6	7.0	-16.5
Money market instruments	477.0	0.2	110.3	0.0	-76.9
<b>Financial derivatives</b>	<b>132.4</b>	<b>0.0</b>	<b>394.3</b>	<b>0.1</b>	<b>197.9</b>
<b>Other investment</b>	<b>95,760.4</b>	<b>33.0</b>	<b>139,396.8</b>	<b>41.4</b>	<b>45.6</b>
Trade credit	10,607.9	3.7	13,797.5	4.1	30.1
Loans	54,219.0	18.7	73,340.5	21.8	35.3
Long-term	41,333.4	14.3	58,854.5	17.5	42.4
Short-term	12,885.5	4.4	14,486.0	4.3	12.4
Currency and deposits	28,205.6	9.7	49,286.4	14.6	74.7
Other liabilities	2,727.9	0.9	2,972.4	0.9	9.0
<b>NET INVESTMENT POSITION</b>	<b>-148,374.7</b>		<b>-152,200.9</b>		<b>2.6</b>
<b>Long-term</b>	<b>-143,836.4</b>		<b>-132,039.8</b>		<b>-8.2</b>
<b>Short-term</b>	<b>-4,538.3</b>		<b>-20,161.2</b>		<b>344.2</b>
<b>GROSS EXTERNAL DEBT Gros</b>	<b>149,591.7</b>		<b>199,674.8</b>		<b>33.5</b>
<b>NET EXTERNAL DEBT</b>	<b>-31,750.2</b>		<b>-55,563.7</b>		<b>75.0</b>
General government	8,196.1		13,826.8		68.7

<sup>5</sup> See "Adjustment of time series of balance of payments statistics" on p. 7.

**Table 2.2. Estonia's international investment position by fields of activity and countries (%)**

Assets			Liabilities		
Fields of activity					
	31/12/2005	31/12/2006		31/12/2005	31/12/2006
Financial intermediation	71.3	63.9	Financial intermediation	53.1	52.0
Real estate, renting and business activities	9.3	9.8	Real estate, renting and business activities	16.3	15.8
Public administration and defence; statutory social insurance	6.5	9.3	Manufacturing	10.0	10.1
Wholesale and retail trade; repair	5.3	6.3	Wholesale and retail trade; repair	7.3	8.2
Manufacturing	3.3	3.9	Veondus, laondus ja side	4.8	6.0
Other	4.2	6.8	Transport, storage and communications	8.5	7.9
Total	100.0	100.0	Total	100.0	100.0
Countries					
Germany	11.0	10.9	Sweden	37.8	37.0
Latvia	9.8	10.7	Finland	20.5	21.8
Lithuania	15.6	9.6	United Kingdom	11.8	9.3
Russia	7.6	8.2	Germany	3.8	3.5
United Kingdom	6.5	7.6	United States	3.2	2.8
Other	49.5	53.1	Other	22.9	25.6
Total	100.0	100.0	Total	100.0	100.0

The large inflow of other capital (loans and deposits) in 2006 changed also the structure of foreign investment in Estonia by the end of the year. The other investment position increased by nearly a half and the respective share accounted for 41% of total foreign investment at the end of the year. The direct investment position remained unchanged and comprised 45%, i.e. 150 billion kroons, of foreign investment. The modest growth of portfolio investment also decreased their share in total external liabilities. The most preferred fields of activity for **foreign direct investment in Estonia** were real estate, renting and business activities (30%), financial intermediation (28%) and manufacturing (18%; see Table 2.3). 40% of direct investment came from Sweden and 25% from Finland.

**Estonian investment abroad** increased by approximately a third year-on-year, amounting to 184 billion kroons. Financial intermediaries made 64% of the investment abroad. Investors in the public sector, real estate, renting and business activities, and wholesale and retail trade invested to a lesser extent. Estonian investors preferred to invest in Germany, the Baltic States, Russia, and the United Kingdom.

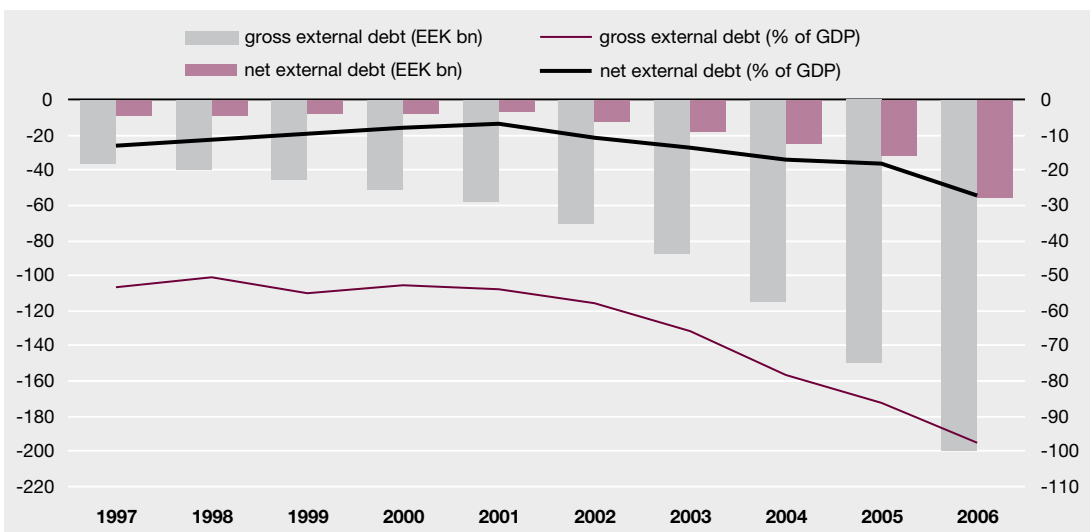
Compared to the end of 2005, the share of direct investment in the structure of investment abroad increased considerably and that of other investment decreased. The position of **foreign direct investment** grew about 70% year-on-year, accounting for 23% of the external assets (18% at the end of 2005). Portfolio investment increased as well (nearly 50%) and comprised a third of the external assets. The most active foreign direct investors were those of financial intermediation (38%), real estate, renting and business activities (32%), and transport, storage and communications (10%; see Table 2.3). Estonian investors preferred to invest in the neighbouring countries: a third of direct investment went both to Latvia and Lithuania and 9% was channelled to Russia.

Due to the prevalence of external liabilities, **Estonia's net investment position** was negative by 152 billion kroons at the end of 2006, comprising 74% of the volume of GDP. 87% of the net investment position was long-term capital.

**Table 2.3. Direct investment position by fields of activity and countries (%)**

Abroad			In Estonia		
Fields of activity					
	31/12/2005	31/12/2006		31/12/2005	31/12/2006
Financial intermediation	44.0	38.0	Real estate, renting and business activities	27.8	29.8
Real estate, renting and business activities	24.1	31.8	Financial intermediation	38.8	28.1
Transport, storage and communications	11.0	10.2	Manufacturing	14.9	17.5
Whole and retail trade; repair	7.4	8.0	Whole and retail trade; repair	8.8	10.4
Manufacturing	4.2	3.8	Transport, storage and communications	3.5	7.0
Other	9.4	8.1	Other	6.2	7.3
Total	100.0	100.0	Total	100.0	100.0
Countries					
Latvia	30.1	34.3	Sweden	47.3	39.5
Lithuania	31.6	32.3	Finland	23.2	26.4
Russia	13.2	8.9	United Kingdom	2.4	3.8
Cyprus	9.1	8.5	Netherlands	3.3	3.4
Finland	3.6	4.8	Norway	2.2	3.3
Other	12.4	11.3	Other	21.6	23.6
Total	100.0	100.0	Total	100.0	100.0

Estonia's **gross external debt** increased by a third year-on-year and amounted to 200 billion kroons (98% of GDP) at the end of the year. The growth in the gross external debt was mainly affected by other sectors and credit institutions, whose debt liabilities increased by 50% and 25%, respectively. The debt liabilities of credit institutions comprised 50% and those of other sectors 28% of the gross external debt. Estonia's net external debt (assets less liabilities) increased by 75% and constituted 56 billion kroons (27% of GDP; see Figure 2.1 and Table 2.4). The gross external debt accounted for 59% of the external liabilities.



**Figure 2.1. Estonia's gross and net external debt**

**Table 2.4. External debt (EEK m)**

	31/12/2005	Share (%)	31/12/2006	Share (%)	Change (%)
<b>LIABILITIES</b>					
<b>I. General government</b>	<b>4,799.6</b>	<b>3.2</b>	<b>4,713.4</b>	<b>2.4</b>	<b>-1.8</b>
Short-term	871.4				
Long-term	3,928.2	2.6	4,713.4	2.4	20.0
<b>II. Monetary authorities (NCB)</b>	<b>48.4</b>	<b>0.0</b>	<b>459.1</b>	<b>0.2</b>	<b>848.4</b>
Short-term	48.4	0.0	445.9	0.2	821.1
Long-term			13.2		
<b>III. Credit institutions</b>	<b>81,481.6</b>	<b>54.5</b>	<b>101,522.1</b>	<b>50.8</b>	<b>24.6</b>
Short-term	38,512.5	25.7	47,668.0	23.9	23.8
Long-term	42,969.1	28.7	53,854.1	27.0	25.3
<b>IV. Other sectors</b>	<b>38,302.4</b>	<b>25.6</b>	<b>56,508.1</b>	<b>28.3</b>	<b>47.5</b>
Short-term	12,787.6	8.5	22,761.8	11.4	78.0
Long-term	25,514.9	17.1	33,746.3	16.9	32.3
<b>V. Direct investment: intercompany lending</b>	<b>24,959.7</b>	<b>16.7</b>	<b>36,472.0</b>	<b>18.3</b>	<b>46.1</b>
<b>GROSS EXTERNAL DEBT</b>	<b>149,591.7</b>	<b>100.0</b>	<b>199,674.8</b>	<b>100.0</b>	<b>33.5</b>
<b>ASSETS</b>					
<b>I. General government</b>	<b>12,995.7</b>	<b>11.0</b>	<b>18,540.2</b>	<b>12.9</b>	<b>42.7</b>
Short-term	7,902.4	6.7	4,342.7	3.0	-45.0
Long-term	5,093.3	4.3	14,197.6	9.9	178.7
<b>II. Monetary authorities (NCB)</b>	<b>25,735.6</b>	<b>21.8</b>	<b>33,079.8</b>	<b>23.0</b>	<b>28.5</b>
Short-term	20,046.9	17.0	24,123.5	16.7	20.3
Long-term	5,688.7	4.8	8,956.4	6.2	57.4
<b>III. Credit institutions</b>	<b>36,254.8</b>	<b>30.8</b>	<b>31,148.9</b>	<b>21.6</b>	<b>-14.1</b>
Short-term	21,322.0	18.1	22,445.7	15.6	5.3
Long-term	14,932.8	12.7	8,703.3	6.0	-41.7
<b>IV. Other sectors</b>	<b>26,989.9</b>	<b>22.9</b>	<b>36,693.0</b>	<b>25.5</b>	<b>36.0</b>
Short-term	16,036.5	13.6	23,791.3	16.5	48.4
Long-term	10,953.4	9.3	12,901.8	9.0	17.8
<b>V. Direct investment: intercompany lending</b>	<b>15,865.5</b>	<b>13.5</b>	<b>24,649.0</b>	<b>17.1</b>	<b>55.4</b>
<b>TOTAL ASSETS</b>	<b>117,841.5</b>	<b>100.0</b>	<b>144,111.1</b>	<b>100.0</b>	<b>22.3</b>
<b>NET EXTERNAL DEBT (assets less liabilities)</b>					
<b>I. General government</b>	<b>8,196.1</b>		<b>13,826.8</b>		<b>68.7</b>
Short-term	7,031.0		4,342.7		-38.2
Long-term	1,165.1		9,484.1		714.0
<b>II. Monetary authorities (NCB)</b>	<b>25,687.2</b>		<b>32,620.8</b>		<b>27.0</b>
Short-term	19,998.5		23,677.6		18.4
Long-term	5,688.7		8,943.2		57.2
<b>III. Credit institutions</b>	<b>-45,226.8</b>		<b>-70,373.2</b>		<b>55.6</b>
Short-term	-17,190.5		-25,222.4		46.7
Long-term	-28,036.3		-45,150.8		61.0
<b>IV. Other sectors</b>	<b>-11,312.5</b>		<b>-19,815.0</b>		<b>75.2</b>
Short-term	3,249.0		1,029.5		-68.3
Long-term	-14,561.5		-20,844.5		43.1
<b>V. Direct investment: intercompany lending</b>	<b>-9,094.2</b>		<b>-11,823.0</b>		<b>30.0</b>
<b>TOTAL NET EXTERNAL DEBT</b>	<b>-31,750.2</b>		<b>-55,563.7</b>		<b>75.0</b>

Leaving aside the intercompany lending of direct investment companies, long-term debt liabilities comprised 57% of the gross external debt. The share of long-term debt claims formed 38% of total debt claims. Figures 2.2 and 2.3 give an overview of Estonia's gross and net external debt by sectors.

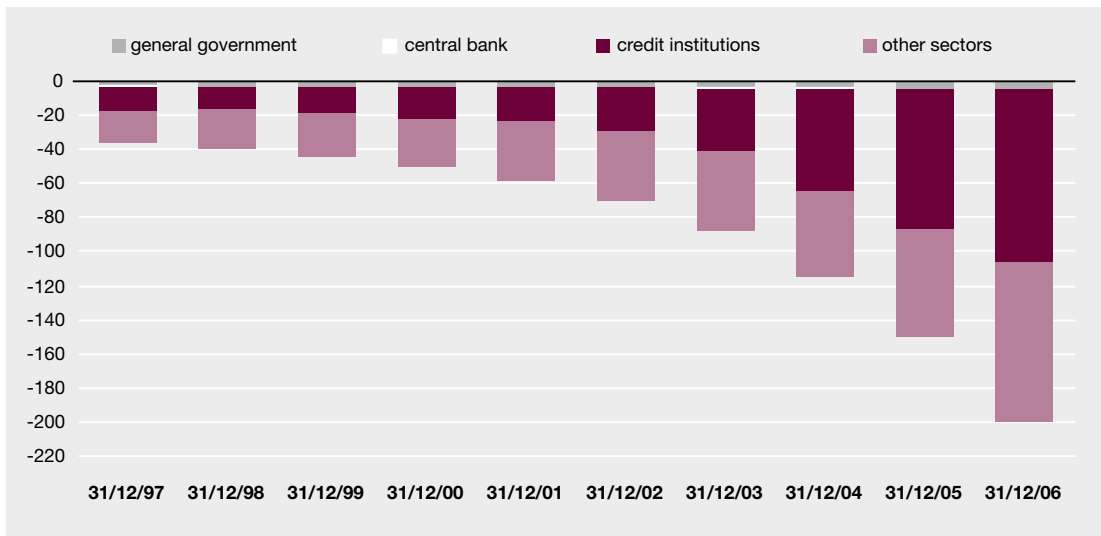


Figure 2.2. Estonia's gross external debt by sectors (EEK bn)

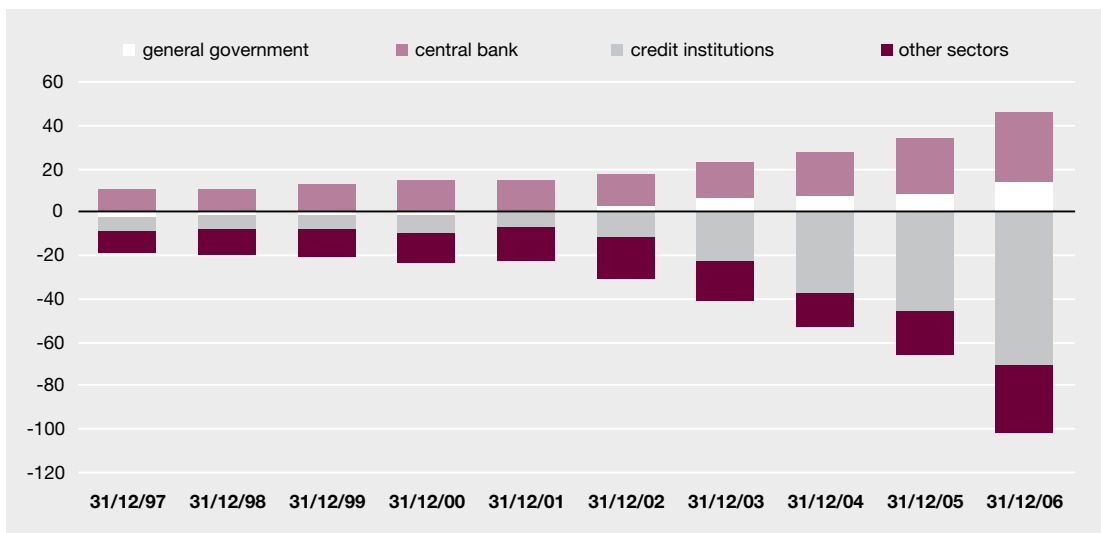


Figure 2.3. Estonia's net external debt by sectors (EEK bn)