

Eesti Pank
Bank of Estonia

Estonian Balance of Payments Yearbook 2006

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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 |
|--|-----------------|-----------------|------------------|------------------|------------------|------------------|------------------|
| Current account | -5,178.1 | -5,643.6 | -12,908.0 | -15,418.2 | -18,412.6 | -17,485.5 | -32,095.0 |
| 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 |
| Capital and financial account (reserve assets excluded) | 7,433.8 | 5,026.3 | 13,055.3 | 18,552.9 | 21,454.4 | 21,457.9 | 39,235.7 |
| 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 |
| Overall balance | 2,270.5 | -730.2 | 926.8 | 2,312.1 | 3,425.4 | 4,883.9 | 7,523.9 |
| Reserve assets | -2,270.5 | 730.2 | -926.8 | -2,312.1 | -3,425.4 | -4,883.9 | -7,523.9 |

* 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):

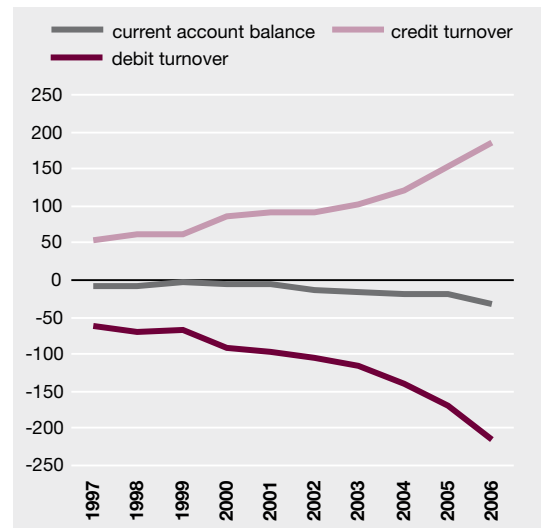
Table. Item “Direct investment in Estonia: equity capital and reinvested earnings” in Estonia’s international investment position

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

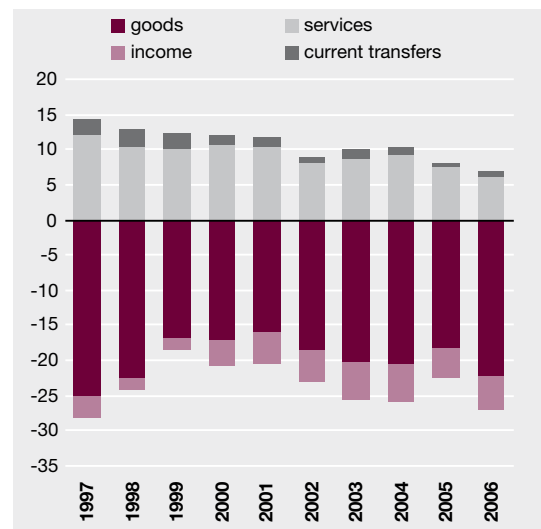
SHORT OVERVIEW

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)

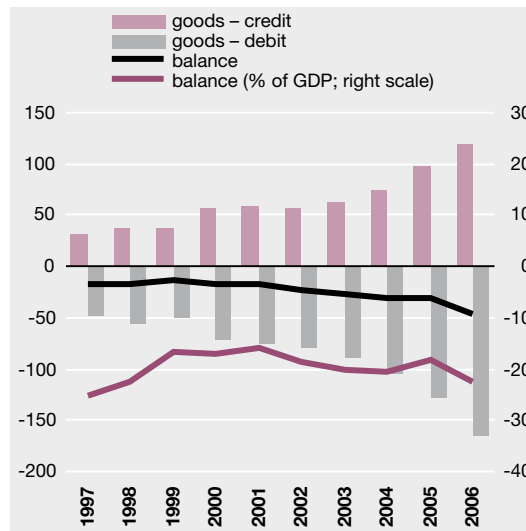


Current account components (% of GDP)

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)

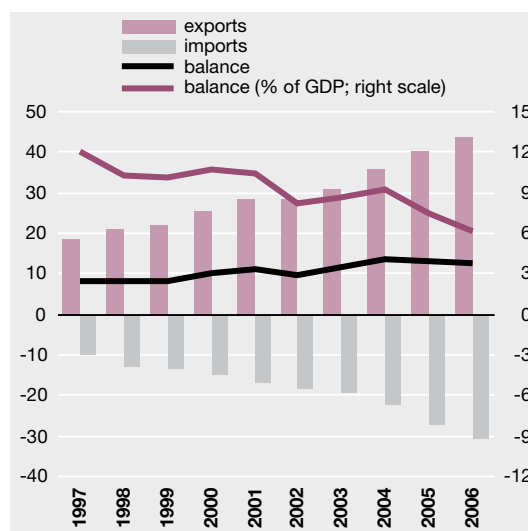
Services

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.

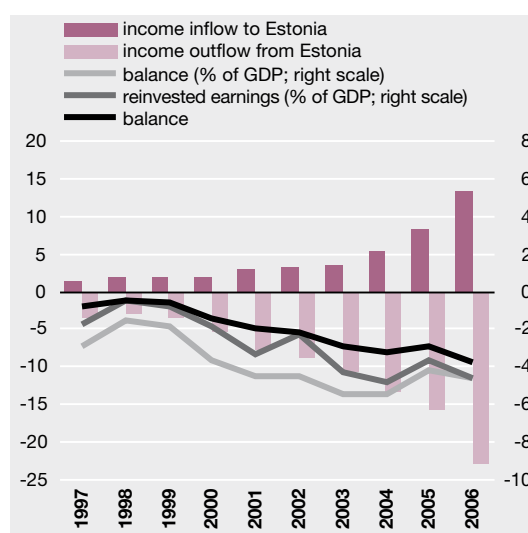
As regards services, Estonia's major trading partners were EU Member States who accounted for 72% of the exports and 74% of the imports of services.

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.

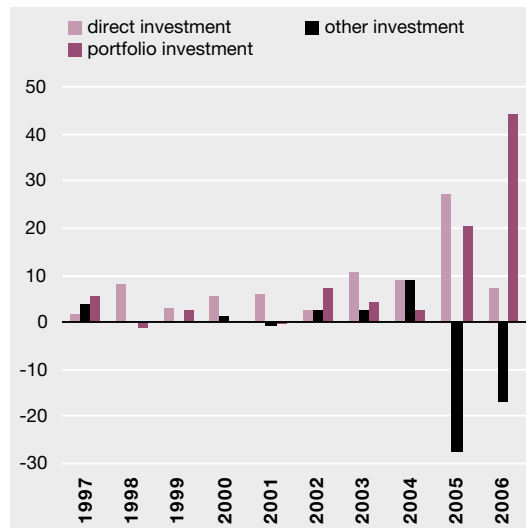
Capital and financial account

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.

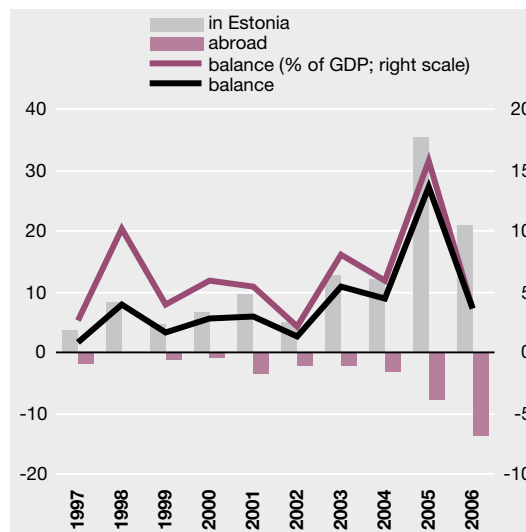
Direct investment

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.



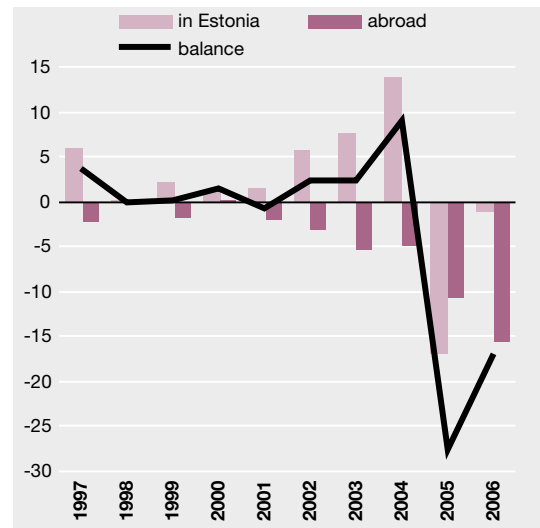
Sub-accounts of capital and financial account (EEK bn)



Direct investment (EEK bn)

Portfolio investment

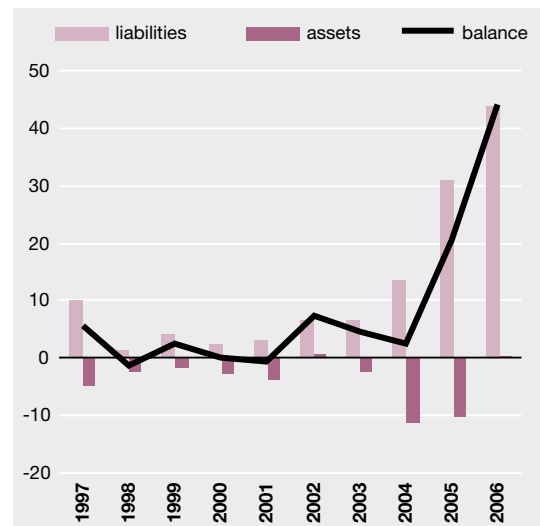
The net outflow of portfolio investment amounted to 16.8 billion kroons. Assets increased nearly as much, with equity security liabilities growing by 4.6 billion and debt security liabilities by 11 billion kroons. The growth of equity securities was boosted by enterprises in other sectors, whereas that 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**¹, 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

¹ 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.

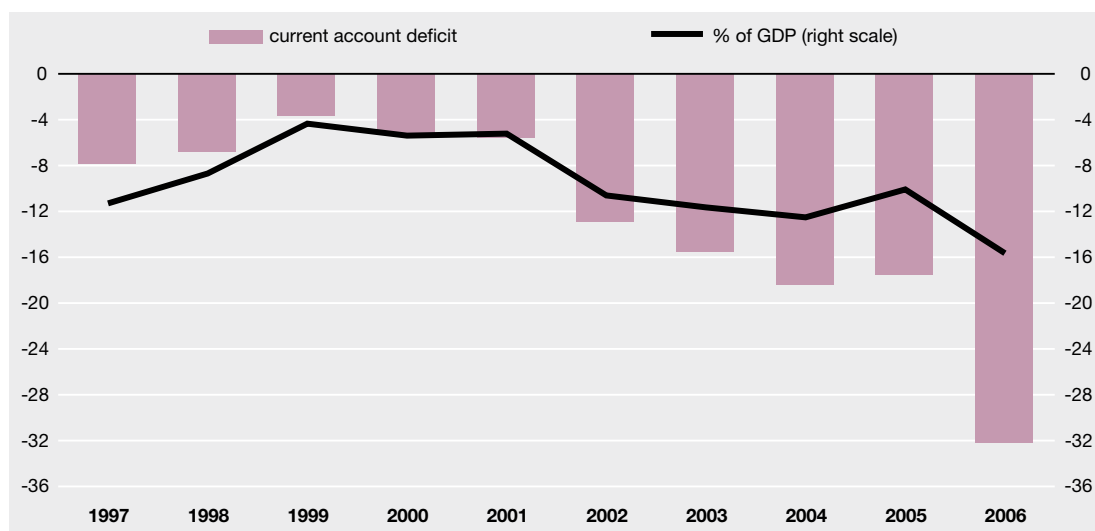


Figure 1.1. Estonia's current account balance (EEK bn)

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

| | 2005 | 2006 |
|---------------|------------------|------------------|
| EU-25 | -15,828.0 | -38,515.3 |
| 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 |
| CIS | -2,709.1 | -10,282.1 |
| Russia | -2,163.8 | -9,132.5 |
| Belarus | -1,460.3 | -1,555.9 |
| Ukraine | 326.7 | 595.2 |
| Other | 1,051.6 | 16,702.4 |
| 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 |
| Total | -17,485.5 | -32,095.0 |

* 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 |
| Total | 96,747.3 | 119,519.7 | 100.0 | 100.0 | 23.5 |

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 |
| Total | 128,365.3 | 165,298.5 | 100.0 | 100.0 | 28.8 |

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 |
| Total | -31,618.0 | -45,778.8 |

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 |
| EU-25 | 75,200.0 | 77,452.4 | 77.7 | 64.8 | 3.0 |
| 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 |
| CIS | 8,380.8 | 12,568.4 | 8.7 | 10.5 | 50.0 |
| 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 |
| Other | 13,166.6 | 29,498.9 | 13.6 | 24.7 | 124.0 |
| 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 |
| Total | 96,747.3 | 119,519.7 | 100.0 | 100.0 | 23.5 |

Table 1.9. Imports of goods by groups of countries*

| | Volume (EEK m) | | Share (%) | | Change (%) |
|---------------|------------------|------------------|--------------|--------------|-------------|
| | 2005 | 2006 | 2005 | 2006 | 2006/2005 |
| EU-25 | 97,874.7 | 122,642.6 | 76.2 | 74.2 | 25.3 |
| 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 |
| CIS | 14,933.7 | 26,518.4 | 11.6 | 16.0 | 77.6 |
| 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 |
| Other | 15,557.0 | 16,137.5 | 12.1 | 9.8 | 3.7 |
| 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 |
| Total | 128,365.3 | 165,298.5 | 100.0 | 100.0 | 28.8 |

* 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 |
| Total | -31,618.0 | -45,778.8 |

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 |
| Total | 12,967.8 | 12,697.9 | 100.0 | 100.0 | -2.1 |

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 |
| Total | 40,200.7 | 43,391.8 | 100.0 | 100.0 | 7.9 |

Table 1.14. Services exports by groups of countries

| | Balance (EEK m) | | Share (%) | | Change (%) |
|------------------|-----------------|-----------------|--------------|--------------|-------------|
| | 2005 | 2006 | 2005 | 2006 | 2006/2005 |
| EU-25 | 27,658.2 | 31,263.6 | 68.8 | 72.0 | 13.0 |
| 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 |
| CIS | 5,793.5 | 5,258.0 | 14.4 | 12.1 | -9.2 |
| 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 |
| Other | 6,749.0 | 6,870.2 | 16.8 | 15.8 | 1.8 |
| 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 |
| Total | 40,200.7 | 43,391.8 | 100.0 | 100.0 | 7.9 |

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 |
| Total | 27,233.0 | 30,693.9 | 100.0 | 100.0 | 12.7 |

Table 1.16. Services imports by groups of countries

| | Balance (EEK m) | | Share (%) | | Change (%) |
|---------------|------------------|------------------|--------------|--------------|-------------|
| | 2005 | 2006 | 2005 | 2006 | 2006/2005 |
| EU-25 | -20,342.1 | -22,735.7 | 74.7 | 74.1 | 11.8 |
| 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 |
| CIS | -3,031.1 | -3,537.6 | 11.1 | 11.5 | 16.7 |
| 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 |
| Other | -3,859.8 | -4,420.6 | 14.2 | 14.4 | 14.5 |
| 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 |
| Total | -27,233.0 | -30,693.9 | 100.0 | 100.0 | 12.7 |

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.

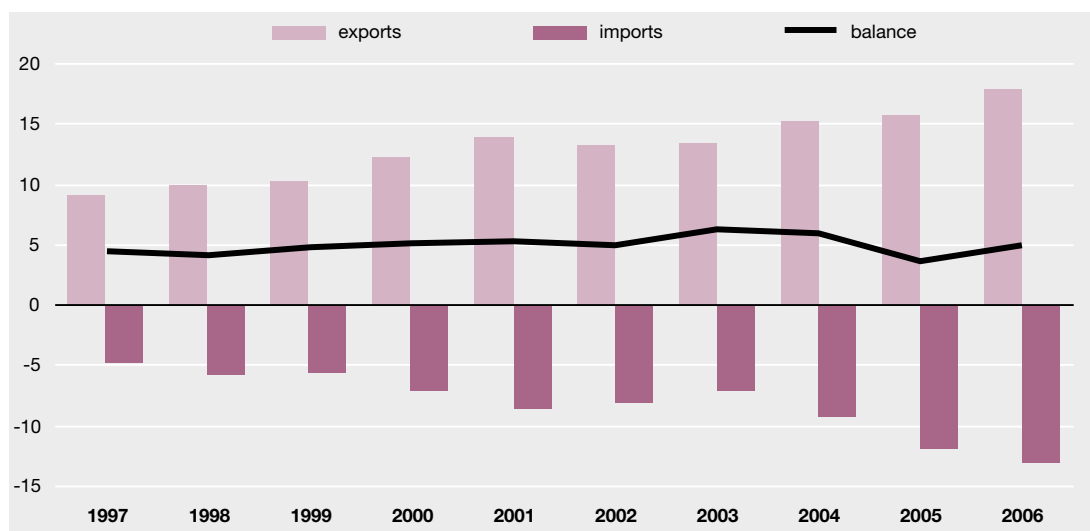


Figure 1.2. Transport services (EEK bn)

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 |
| EU-25 | 12,778.6 | 71.6 | 25.4 | EU-25 | 9,411.8 | 72.7 | 11.9 |
| 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 |
| CIS | 1,981.0 | 11.1 | 6.6 | CIS | 1,681.4 | 13.0 | 2.4 |
| 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 |
| Other | 3,083.2 | 17.3 | -14.8 | Other | 1,844.5 | 14.3 | -2.0 |
| 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 |
| Total | 17,842.8 | 100.0 | 13.9 | Total | 12,937.7 | 100.0 | 8.4 |

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.

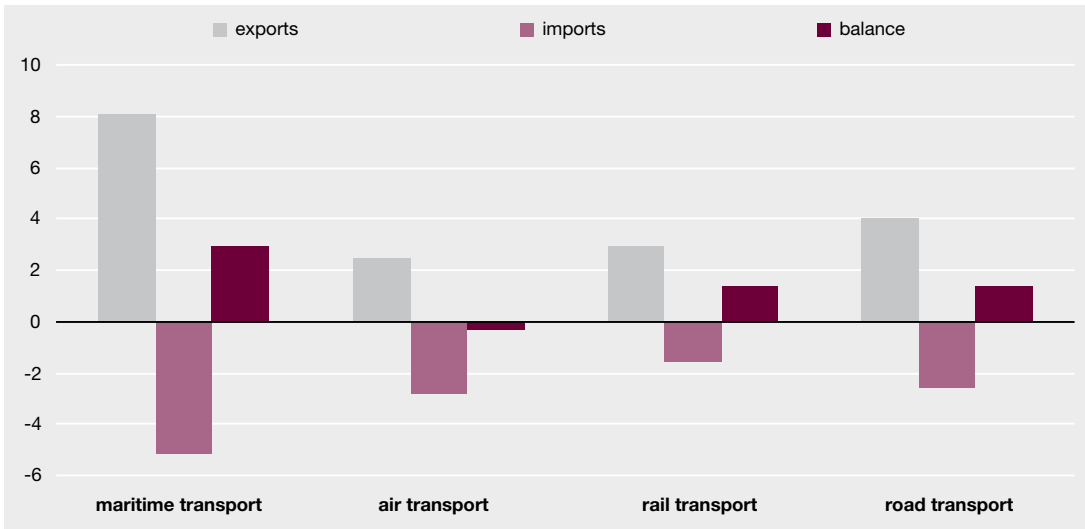


Figure 1.3. Transport services structure in 2006 by transport type (EEK bn)

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%.

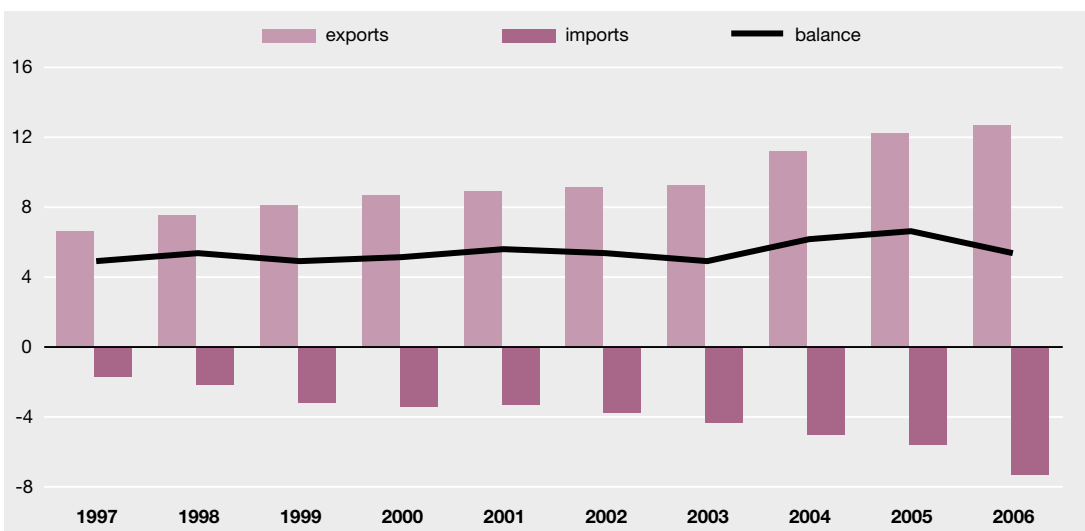


Figure 1.4. Travel services (EEK bn)

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 |
| EU-25 | 9,920.2 | 78.1 | 4.6 | EU-25 | -5,130.7 | 69.7 | 32.3 |
| 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 |
| CIS | 1,926.2 | 15.2 | -6.6 | CIS | -953.9 | 13.0 | 39.5 |
| 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 |
| Other | 848.6 | 6.7 | 19.4 | Other | -1,281.0 | 17.4 | 17.4 |
| 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 |
| Total | 12,695.0 | 100.0 | 3.6 | Total | -7,365.6 | 100.0 | 30.2 |

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 |
| Total | -7,209.1 | -9,424.8 | 100.0 | 100.0 | 30.7 |

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 |
| Total | 8,467.8 | 13,483.4 | 100.0 | 100.0 | 59.2 |

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 |
| EU-25 | 12,257.8 | 90.9 | 67.3 | EU-25 | -20,435.7 | 89.2 | 53.3 |
| 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 |
| CIS | 231.9 | 1.7 | -10.2 | CIS | -682.3 | 3.0 | 35.6 |
| 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 |
| Other | 993.7 | 7.4 | 12.3 | Other | -1,790.3 | 7.8 | -3.0 |
| 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 |
| Total | 13,483.4 | 100.0 | 59.2 | Total | -22,908.3 | 100.0 | 46.1 |

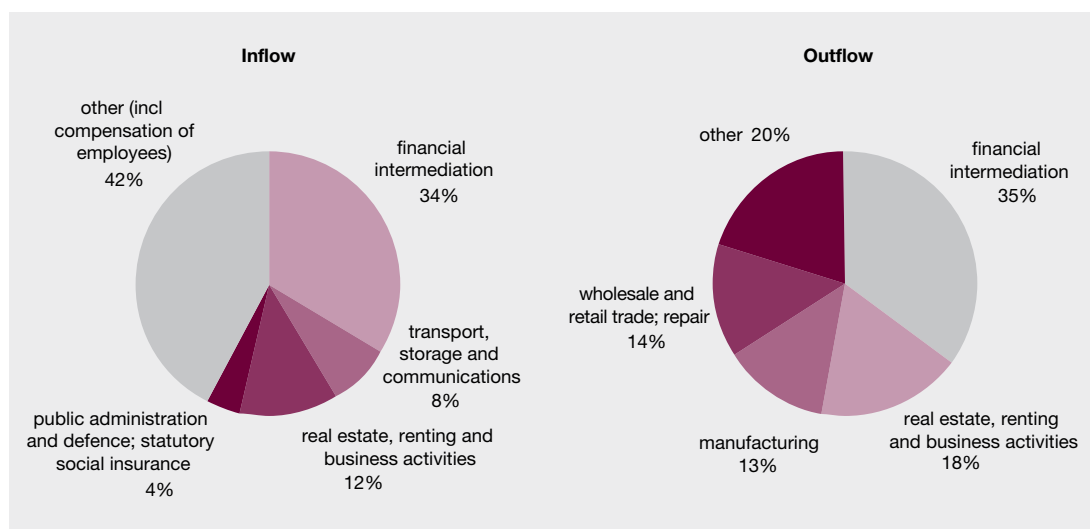


Figure 1.5. Inflow and outflow of income by fields of activity in 2006

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 |
| Total | 15,676.9 | 22,908.3 | 100.0 | 100.0 | 46.1 |

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 transfers²

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 |
| Current transfers | 5,892.2 | 7,162.2 | 5,091.6 | 5,806.9 | 800.6 | 1,355.3 |
| government transfers | 2,904.0 | 3,025.3 | 3,257.1 | 3,221.3 | -353.1 | -196.0 |
| 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 |
| private transfers | 2,988.2 | 4,136.9 | 1,834.5 | 2,585.6 | 1,153.7 | 1,551.3 |
| 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 |
| Capital transfers | 1,123.5 | 2,565.4 | 47.3 | 167.2 | 1,076.2 | 2,398.2 |
| 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 account³ 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.

² 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).

³ Without reserve assets.

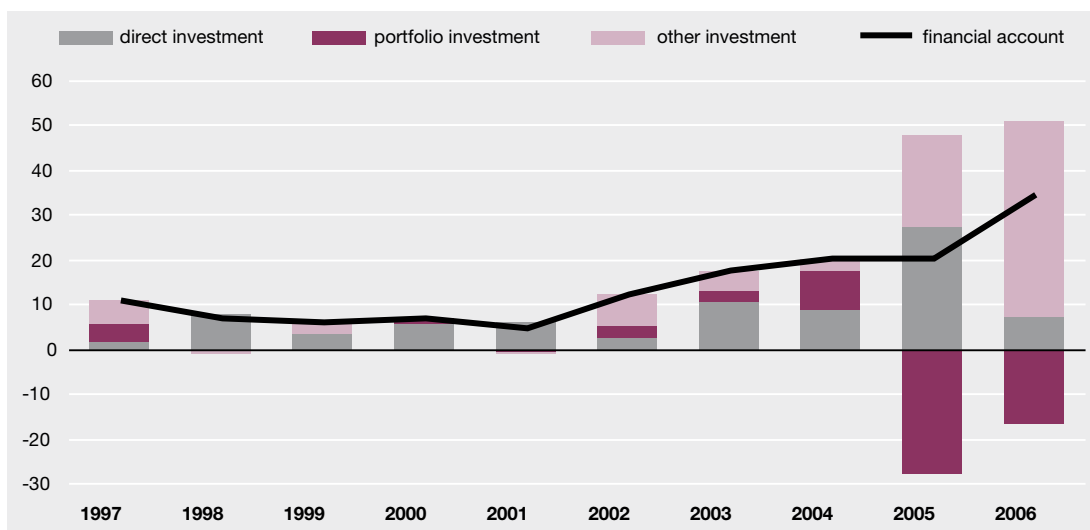


Figure 1.6. Structure of foreign investment capital flows (EEK bn)

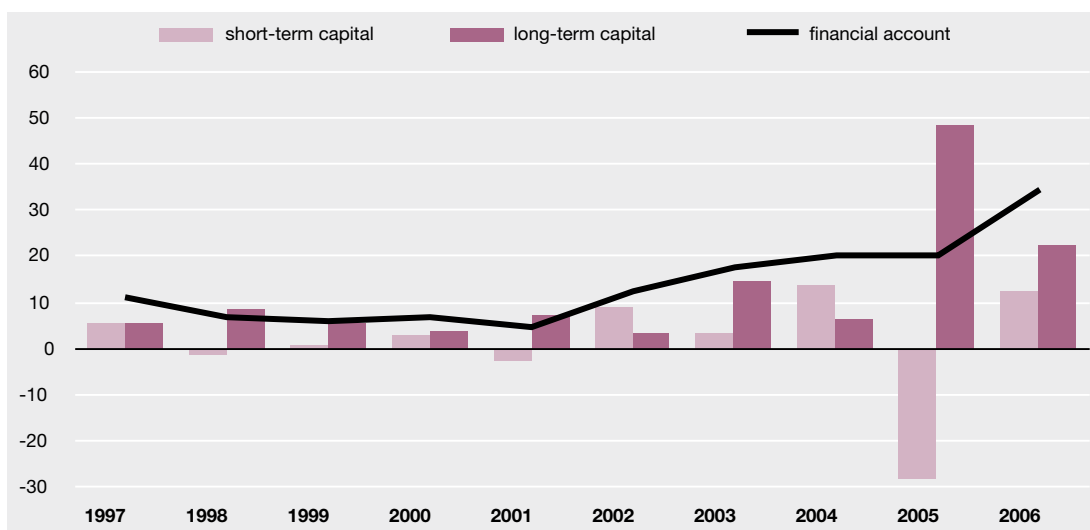


Figure 1.7. Maturity structure of the financial account (EEK bn)

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

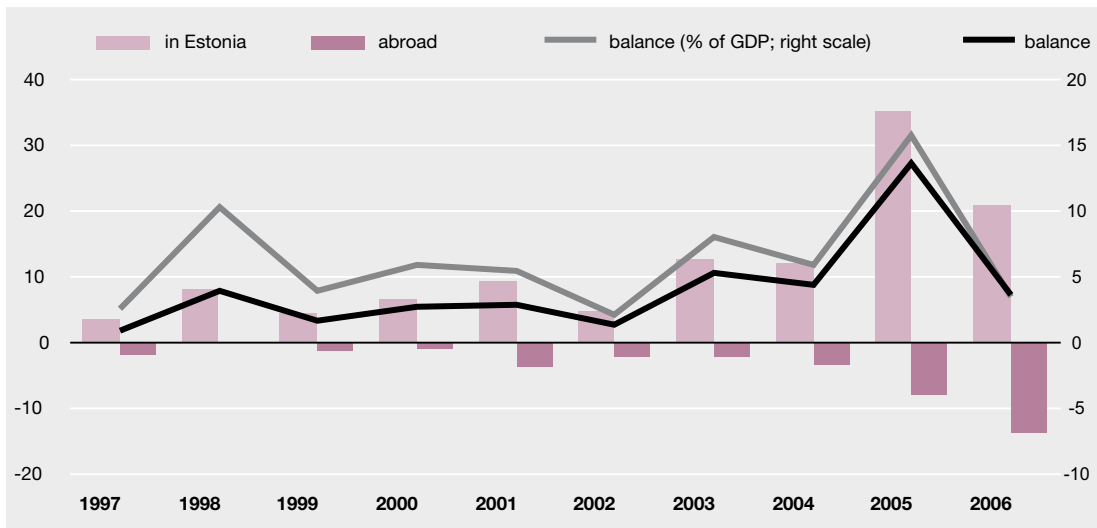


Figure 1.8. Direct investment (EEK bn)

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 |

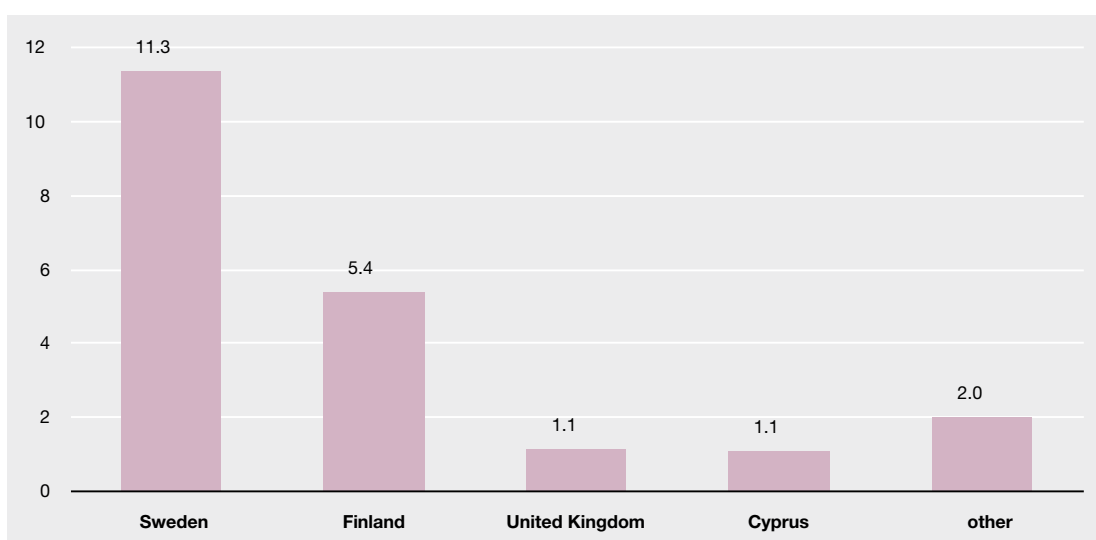


Figure 1.9. Direct investment in Estonia by countries in 2006 (EEK bn)

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 companies⁴. 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 |
| Total | 35,275.1 | 20,981.8 | 100.0 | 100.0 | -40.5 |

⁴ 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.

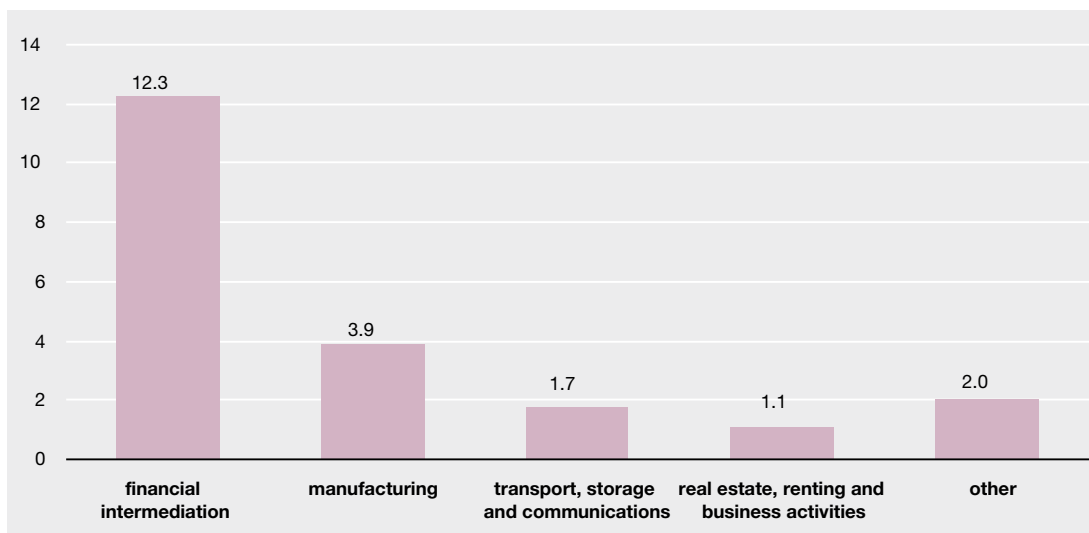


Figure 1.10. Direct investment in Estonia by fields of activities in 2006 (EEK bn)

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 |

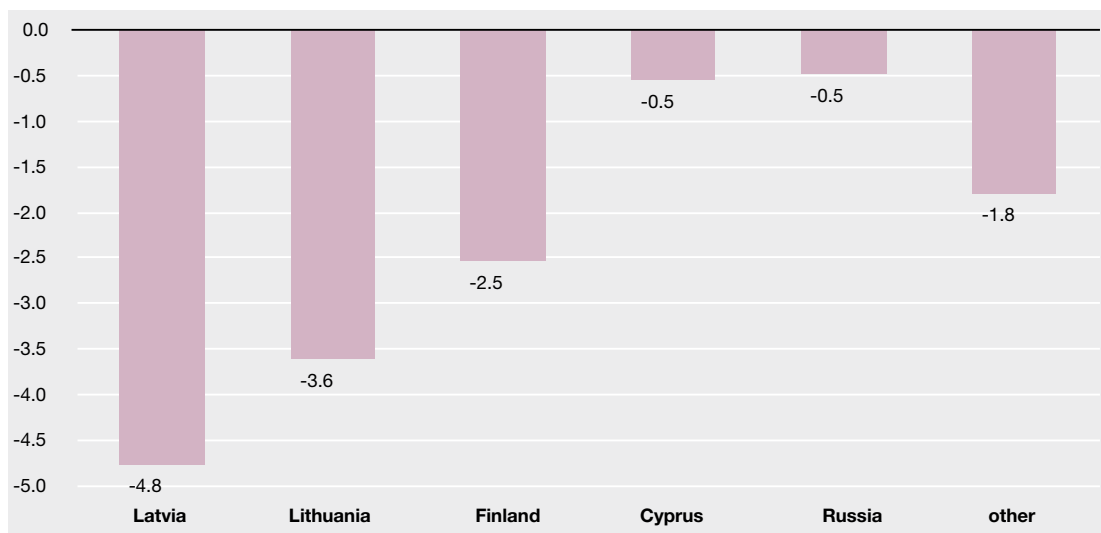


Figure 1.11. Direct investment abroad by countries in 2006 (EEK bn)

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 |
| Total | -7,939.6 | -13,707.1 | 100.0 | 100.0 | 72.6 |

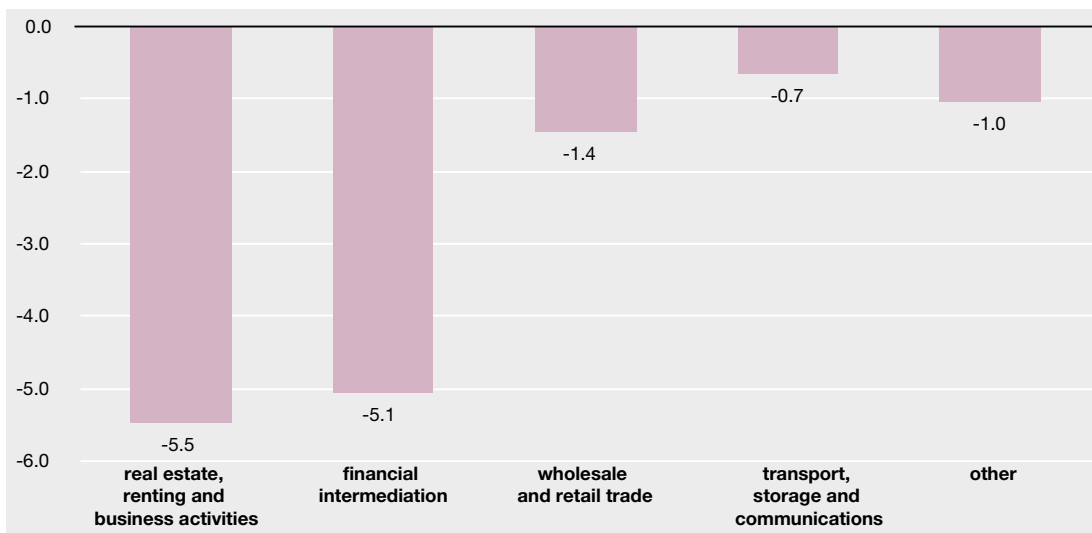


Figure 1.12. Direct investment abroad by fields of activity in 2006 (EEK bn)

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).

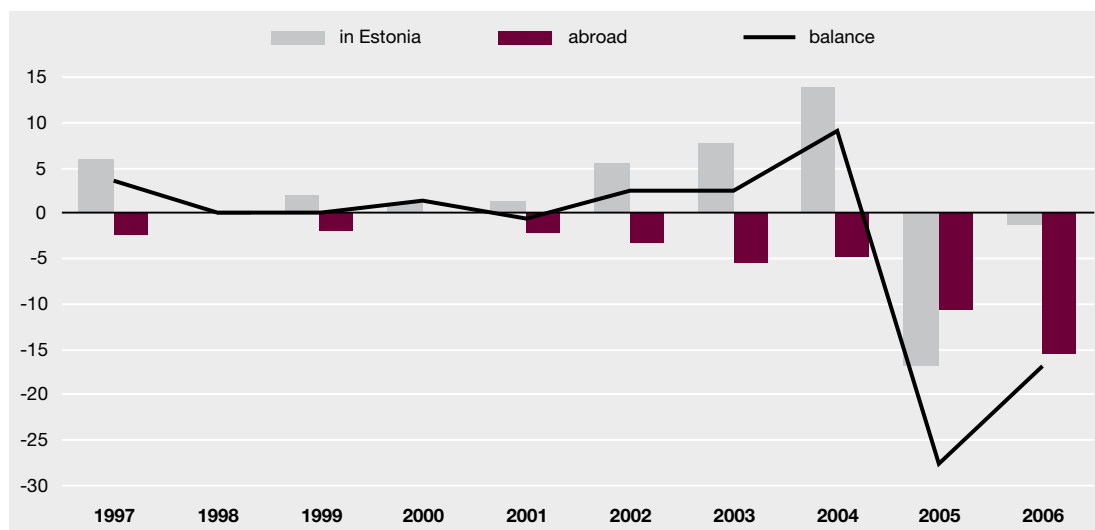


Figure 1.13. Portfolio investment (EEK bn)

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 |
| Equity securities | -4,848.9 | -4,584.0 | -16,352.3 | 3,738.1 | -21,201.2 | -845.9 |
| 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 |
| Debt securities | -5,826.1 | -10,986.0 | -532.0 | -4,997.9 | -6,358.1 | -15,983.9 |
| 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 |
| Total | -10,675.0 | -15,569.9 | -16,884.3 | -1,259.8 | -27,559.3 | -16,829.7 |

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 |

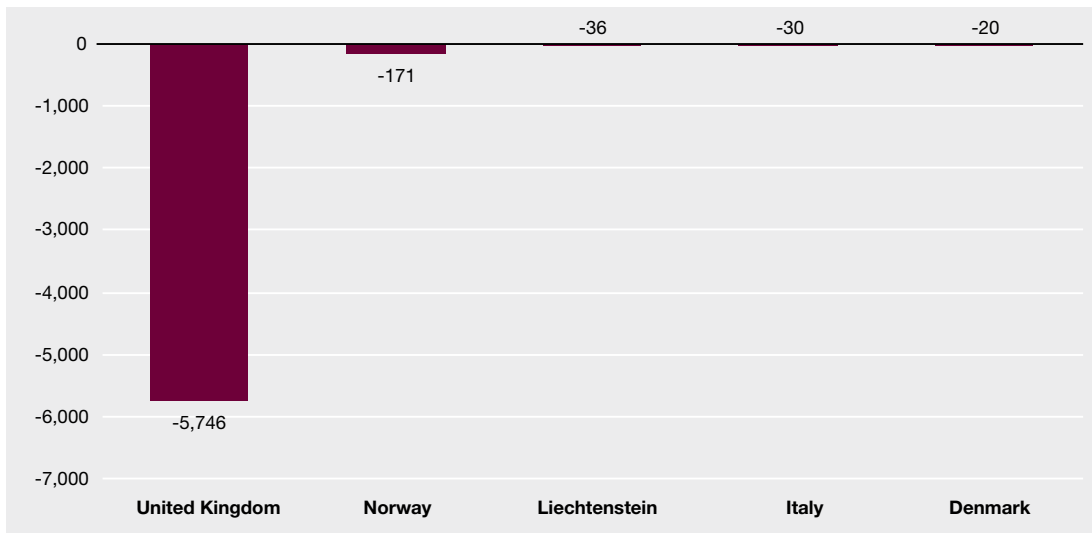


Figure 1.14. Decrease in portfolio investment liabilities by countries in 2006 (EEK bn)

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 |
| Total | -10,675.0 | -15,569.9 | -16,884.3 | -1,259.8 | 100.0 | 100.0 | 100.0 | 100.0 |

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).

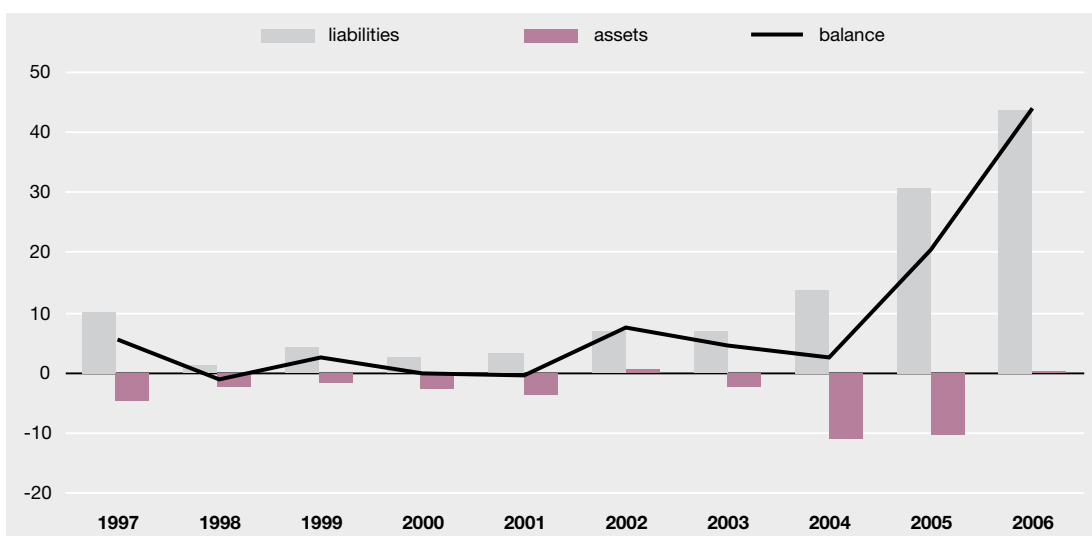


Figure 1.16. Other investment (EEK bn)

Table 1.35. Other investment by maturity (EEK m)

| | Assets | | Liabilities | | Balance | |
|---------------------------|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 |
| Long-term capital | 5,636.4 | -3,054.0 | 15,396.8 | 17,991.5 | 21,033.2 | 14,937.5 |
| 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 |
| Short-term capital | -16,010.0 | 3,388.8 | 15,515.4 | 25,703.4 | -494.6 | 29,092.2 |
| 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 |
| Total | -10,373.4 | 334.6 | 30,912.4 | 43,695.1 | 20,539.0 | 44,029.7 |

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.

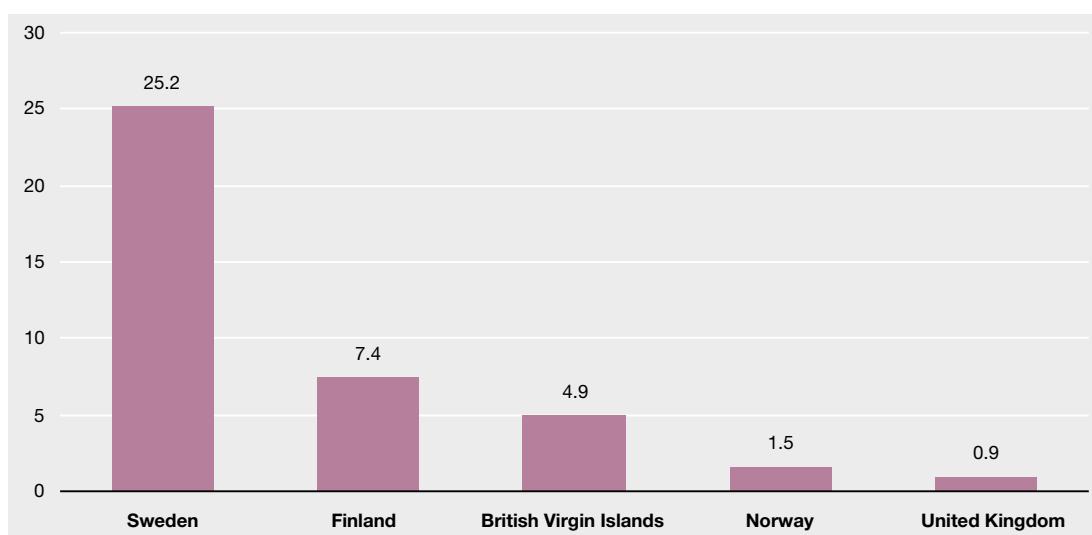


Figure 1.17. Increase in other investment liabilities by countries in 2006 (EEK bn)

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 |
| Total | -10,373.4 | 334.6 | 30,912.4 | 43,695.1 | 100.0 | 100.0 | 100.0 | 100.0 |

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 |

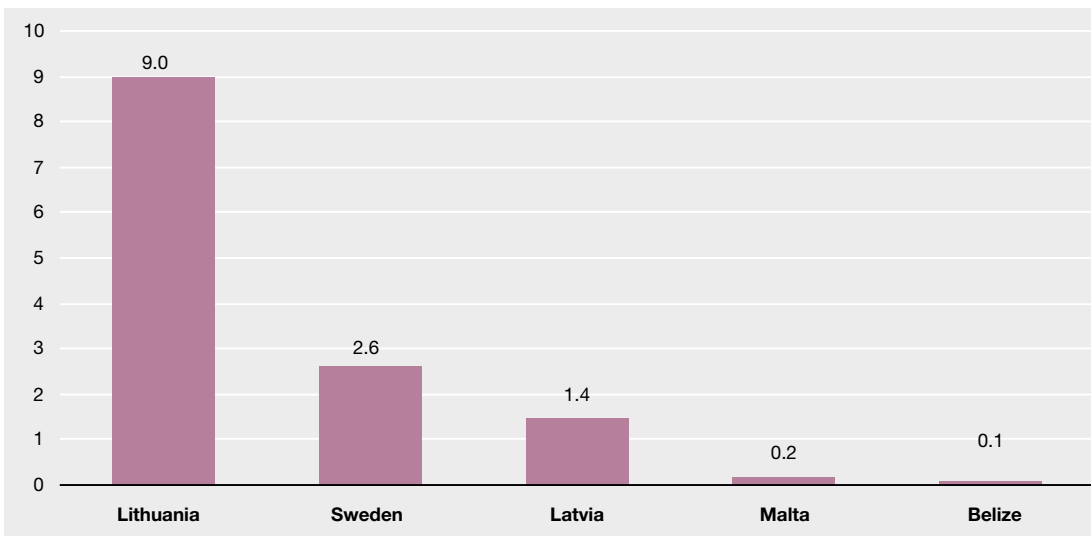


Figure 1.18. Increase in other investment assets by countries in 2006 (EEK bn)

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.

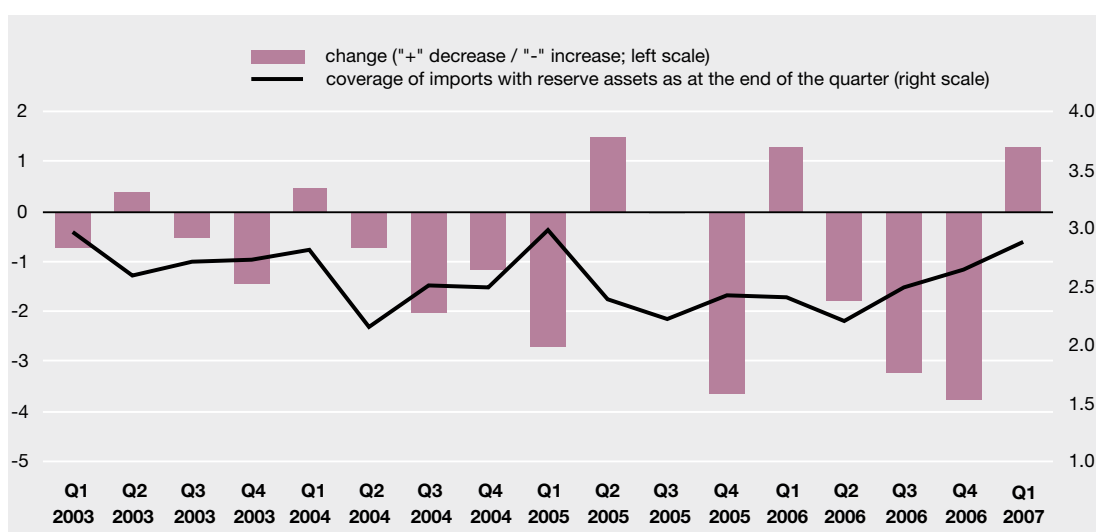


Figure 1.19. Changes in Estonia's gold and foreign exchange reserves (EEK bn) and coverage of goods imports without further processing (by months)

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 |
| Total | -4,883.9 | -7,523.9 | 100.0 | 100.0 |

II ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND EXTERNAL DEBT AS AT 31 DECEMBER 2006⁵

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 (%) |
|--|-------------------|--------------|-------------------|--------------|--------------|
| EXTERNAL ASSETS | 141,454.3 | 100.0 | 184,282.3 | 100.0 | 30.3 |
| Direct investment abroad | 25,641.8 | 18.1 | 42,929.4 | 23.3 | 67.4 |
| 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 |
| Portfolio investment | 39,171.3 | 27.7 | 57,655.5 | 31.3 | 47.2 |
| 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 |
| Financial derivatives | 360.1 | 0.3 | 546.3 | 0.3 | 51.7 |
| Other investment | 50,508.1 | 35.7 | 49,996.0 | 27.1 | -1.0 |
| 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 |
| Reserve assets | 25,773.0 | 18.2 | 33,155.2 | 18.0 | 28.6 |
| EXTERNAL LIABILITIES | 289,829.0 | 100.0 | 336,483.3 | 100.0 | 16.1 |
| Direct investment in Estonia | 149,256.6 | 51.5 | 150,465.6 | 44.7 | 0.8 |
| 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 |
| Portfolio investment | 44,679.5 | 15.4 | 46,226.6 | 13.7 | 3.5 |
| 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 |
| Financial derivatives | 132.4 | 0.0 | 394.3 | 0.1 | 197.9 |
| Other investment | 95,760.4 | 33.0 | 139,396.8 | 41.4 | 45.6 |
| 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 |
| NET INVESTMENT POSITION | -148,374.7 | | -152,200.9 | | 2.6 |
| Long-term | -143,836.4 | | -132,039.8 | | -8.2 |
| Short-term | -4,538.3 | | -20,161.2 | | 344.2 |
| GROSS EXTERNAL DEBT Gros | 149,591.7 | | 199,674.8 | | 33.5 |
| NET EXTERNAL DEBT | -31,750.2 | | -55,563.7 | | 75.0 |
| General government | 8,196.1 | | 13,826.8 | | 68.7 |

⁵ 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.

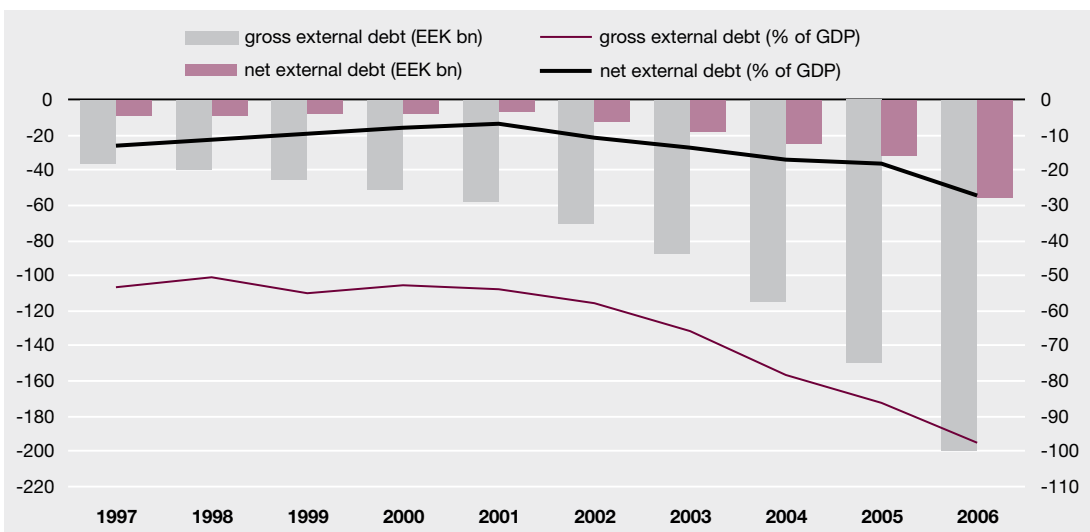


Figure 2.1. Estonia's gross and net external debt

Table 2.4. External debt (EEK m)

| | 31/12/2005 | Share (%) | 31/12/2006 | Share (%) | Change (%) |
|--|------------------|--------------|------------------|--------------|--------------|
| LIABILITIES | | | | | |
| I. General government | 4,799.6 | 3.2 | 4,713.4 | 2.4 | -1.8 |
| Short-term | 871.4 | | | | |
| Long-term | 3,928.2 | 2.6 | 4,713.4 | 2.4 | 20.0 |
| II. Monetary authorities (NCB) | 48.4 | 0.0 | 459.1 | 0.2 | 848.4 |
| Short-term | 48.4 | 0.0 | 445.9 | 0.2 | 821.1 |
| Long-term | | | 13.2 | | |
| III. Credit institutions | 81,481.6 | 54.5 | 101,522.1 | 50.8 | 24.6 |
| 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 |
| IV. Other sectors | 38,302.4 | 25.6 | 56,508.1 | 28.3 | 47.5 |
| 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 |
| V. Direct investment: intercompany lending | 24,959.7 | 16.7 | 36,472.0 | 18.3 | 46.1 |
| GROSS EXTERNAL DEBT | 149,591.7 | 100.0 | 199,674.8 | 100.0 | 33.5 |
| ASSETS | | | | | |
| I. General government | 12,995.7 | 11.0 | 18,540.2 | 12.9 | 42.7 |
| 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 |
| II. Monetary authorities (NCB) | 25,735.6 | 21.8 | 33,079.8 | 23.0 | 28.5 |
| 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 |
| III. Credit institutions | 36,254.8 | 30.8 | 31,148.9 | 21.6 | -14.1 |
| 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 |
| IV. Other sectors | 26,989.9 | 22.9 | 36,693.0 | 25.5 | 36.0 |
| 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 |
| V. Direct investment: intercompany lending | 15,865.5 | 13.5 | 24,649.0 | 17.1 | 55.4 |
| TOTAL ASSETS | 117,841.5 | 100.0 | 144,111.1 | 100.0 | 22.3 |
| NET EXTERNAL DEBT (assets less liabilities) | | | | | |
| I. General government | 8,196.1 | | 13,826.8 | | 68.7 |
| Short-term | 7,031.0 | | 4,342.7 | | -38.2 |
| Long-term | 1,165.1 | | 9,484.1 | | 714.0 |
| II. Monetary authorities (NCB) | 25,687.2 | | 32,620.8 | | 27.0 |
| Short-term | 19,998.5 | | 23,677.6 | | 18.4 |
| Long-term | 5,688.7 | | 8,943.2 | | 57.2 |
| III. Credit institutions | -45,226.8 | | -70,373.2 | | 55.6 |
| Short-term | -17,190.5 | | -25,222.4 | | 46.7 |
| Long-term | -28,036.3 | | -45,150.8 | | 61.0 |
| IV. Other sectors | -11,312.5 | | -19,815.0 | | 75.2 |
| Short-term | 3,249.0 | | 1,029.5 | | -68.3 |
| Long-term | -14,561.5 | | -20,844.5 | | 43.1 |
| V. Direct investment: intercompany lending | -9,094.2 | | -11,823.0 | | 30.0 |
| TOTAL NET EXTERNAL DEBT | -31,750.2 | | -55,563.7 | | 75.0 |

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.

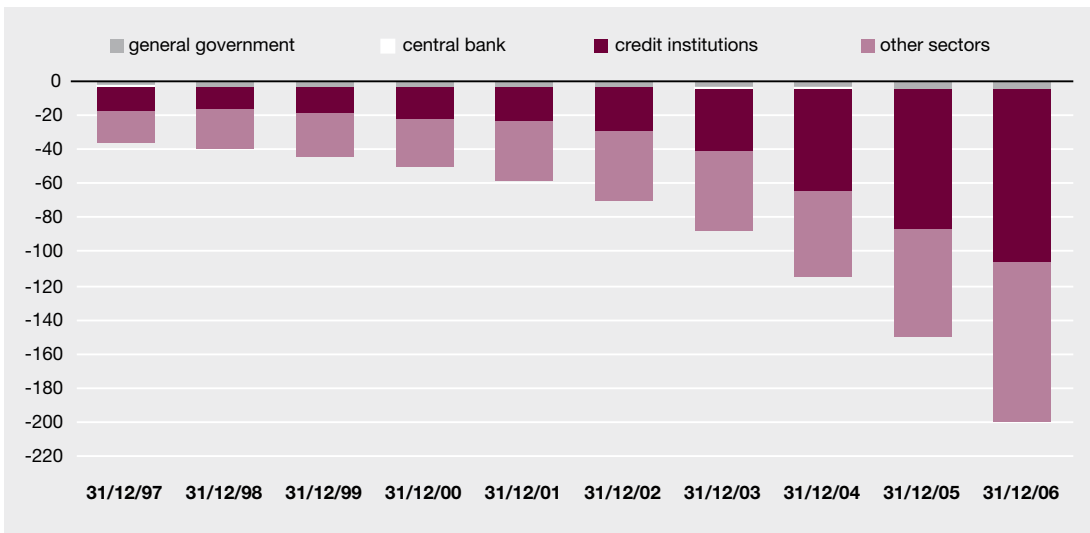


Figure 2.2. Estonia's gross external debt by sectors (EEK bn)

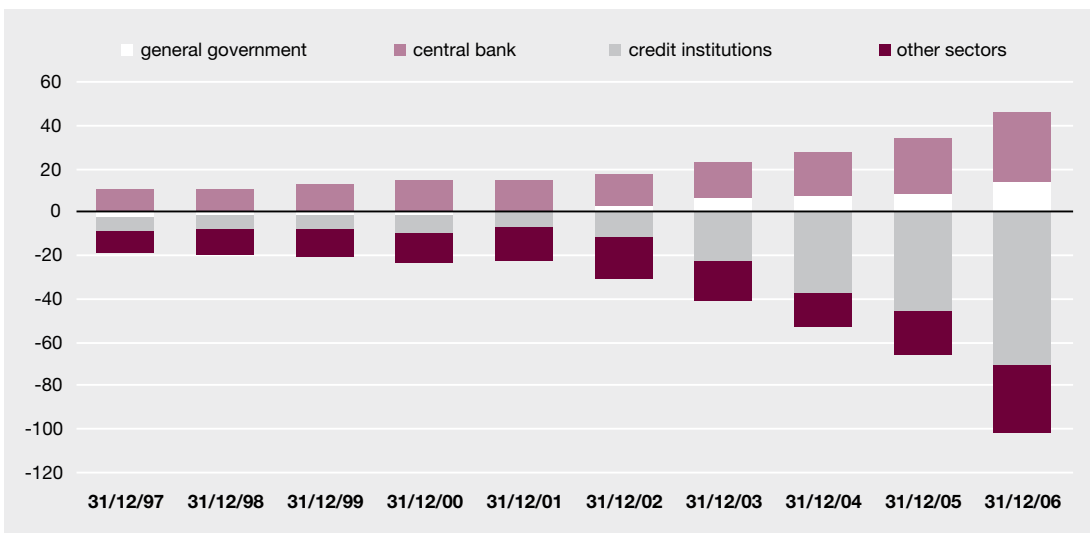


Figure 2.3. Estonia's net external debt by sectors (EEK bn)

III THEORETICAL CONCEPT, METHODOLOGY AND COMPILATION PRACTICES

The IMF Balance of Payments Manual, 5th Edition, serves as a methodological basis for external sector statistics as well as for the Estonian model of balance of payments statistics. The following is an introduction to three basic documents (balance of payments, international investment position, and external debt) along with their main principles, content of entries, dissemination policy, and compilation practices.

BALANCE OF PAYMENTS

The balance of payments is by nature the consolidated income statement as well as the consolidated balance sheet of all institutional sectors of the economy. Corporate financial statements reflect the relations of a company with the external environment. Theoretically, the balance of payments has the same functions, the company being the national economy in its entirety and the rest of the world as its environment.

The balance of payments is a statistical statement that systematically summarises economic transactions of a country conducted over a specific time period with the rest of the world. The period is usually a month, a quarter or a year.

Since the balance of payments reflects transactions over a specific time period, the values of the balance of payments items are *flow indicators*.

The balance of payments includes the *current account*, reflecting income on foreign trade, and the *capital account*, *financial account* and *reserve assets*, reflecting current account financing, i.e. the structure of *external financial resources*.

The current account is divided into four accounts⁶: *goods*, *services*, *income* and *current transfers*. The goods and services accounts include all sums receivable from selling goods and services as well as the sums payable for purchases. The income account reflects revenues related to the use and render for use of production factors (capital and labour). Transfers are all the remaining transactions related to the formation of gross disposable income of residents and are distinguishable from capital transfers.

Sources of financing are divided between three accounts: the *capital account*, *financial account* and *reserve assets*. The *capital account* records mainly transactions related to investment grants, intangible assets (e.g. the acquisition/disposal of intellectual property), debt forgiveness, and international capital transfers not related to the formation of gross disposable income. The *financial account* records foreign investment classified into four major categories: *direct investment*, *portfolio investment*, *financial derivatives* and *other investment*. In Estonia, *reserve assets* reflect changes in the gold and foreign exchange reserves of the central bank.

The compilation of the balance of payments is not based on the territory of the compiling country. A balance of payments transaction is for the most part a transaction between a *resident* and a *non-resident*, not only movement of funds. The balance of payments is compiled on an *accrual basis*, i.e. the transaction is recorded at the time the transaction was concluded between parties or a change of

⁶ Separate chapters provide an overview of the definitions and entries related to the balance of payments statistics.

ownership took place, regardless of whether the respective amount has actually been received or paid. All balance of payments transactions are recorded at *market prices*.

The *double entry system* serves as the basis for compiling the balance of payments. Every recorded transaction is represented by two entries with equal values, but under different items and with opposite signs: *credit* (+) and *debit* (-). Credit reflects an increase in the financial resources available while debit reflects their utilisation (see Table 3.1).

Table 3.1. Credit and debit

| | Increase in resources | Utilisation of resources |
|--------------------------|----------------------------------|----------------------------------|
| | CREDIT „+” | DEBIT „-” |
| Current account | Exports of goods | Imports of goods |
| | Exports of services | Imports of services |
| | Income inflow | Income outflow |
| | Transfers inflow | Transfers outflow |
| Capital account | Inflow of capital transfers | Outflow of capital transfers |
| Financial account | Decrease in external assets | Increase in external assets |
| | Increase in external liabilities | Decrease in external liabilities |
| Reserve assets | Decrease in reserve assets | Increase in reserve assets |

In the ideal case, the net balance of all entries in the statement is zero. The complicity and scope of the balance of payments make the collection of statistics always inaccurate. In order to balance the accounts, the inaccuracy is reflected under the entry *errors and omissions*.

Pursuant to the Special Data Dissemination Standard, the current account and the capital account record debit and credit turnovers separately. Only *net entries* (sums of debit and credit entries) are recorded on the financial account and the reserves account.

INTERNATIONAL INVESTMENT POSITION

International investment position is a consolidated balance sheet of the financial assets and liabilities of all institutional sectors of a country as at the balance sheet date at market prices.

Since accounts are fully consolidated, the financial assets and liabilities of domestic sectors cancel each other and the international investment position refers to the *external assets* and *external liabilities* of a country as a whole. The investment position differs from the traditional balance sheet in not considering the real assets and equity of Estonian residents. Therefore the investment position is not balanced.

Net investment position is the difference between the external assets and external liabilities of all institutional sectors of a country.

The net investment position is positive when external assets exceed external liabilities, reflecting the net debt of the rest of the world to the country. *Negative* net investment position reflects the debt of the country to the rest of the world.

It has been agreed to record assets and liabilities between the direct investment company and the direct investor in the balance of payments according to the *directional principle*:

- all direct investment company's claims to direct investors are deducted from direct investment in Estonia (liabilities);
- all direct investors' liabilities to foreign direct investment companies are deducted from direct investment from Estonia (claims).

The same concepts and definitions as in the balance of payments are used in compiling the investment position. The basic principles are *accounting on an accrual basis* and *valuation at market prices* on the day of compiling the position.

However, market prices of unquoted shares are not always available and indirect evaluation of market prices is complicated. Until 2006, Eesti Pank used the information in the Estonian Central Register of Securities for evaluating the liabilities of Estonian residents in case of unquoted shares. Since the respective information is generally not available in the investment position of the partner country, statistical asymmetries between countries may occur. Therefore, in order to achieve statistical consistency the EU working groups on statistics reached a consensus with regard to using only the own funds at book value (own capital divided by the number of shares) in case of unquoted shares. As a rule, own funds at book value tend to be lower than market prices. Eesti Pank has been using this method since the first quarter of 2007 (see "Adjustment of time series of balance of payments" p 7).

For listed companies, market prices are used. Upon delisting, market value is applied to the current quarter and then converged towards the own funds at book value during the following four quarters.

As international investment position reflects assets and resources as at a certain date, the values of investment position entries are *stock indicators*.

EXTERNAL DEBT

External debt statistics is based on the external claims and liabilities recorded in the international investment position, which are debts in their nature, i.e. they have to be repaid. Direct and portfolio investment into equity capital, reinvested earnings (retained earnings/losses of previous periods and equity capital reserves) and financial derivatives are excluded from debt accounting. In addition, neither the gold reserves of the central bank nor the International Monetary Fund's *special drawing rights*⁷ are included in the external debt.

The key external debt indicators are the following:

- **gross external debt – the amount of all external debt liabilities of all institutional sectors;**
- **net external debt – assets less liabilities, repayable by all institutional sectors.**

⁷ See Entries, Reserves.

Unlike the international investment position that reflects direct investment according to the *directional principle*, loans granted by resident direct investment companies to direct investors do not reduce direct investment liabilities, but are entered under assets in the balance sheet in debt accounting. Similarly, Estonian residents' loans granted by non-resident direct investment companies are not subtracted from Estonia's direct investment assets abroad but are added to debt liabilities instead.

Similar to the international investment position, the indicators reflecting the external debt are *stock indicators*.

DEFINITIONS

- **C.i.f.** (cost, insurance, freight) price – an international delivery clause of goods, including the value of goods and the cost of insurance and transportation to the customs frontier of the importing country.
- **F.o.b.** (free on board) price – an international delivery clause of goods, including the value of goods and the cost of insurance and transportation to the customs frontier of the exporting country.
- **Institutional sectors** are divided into the following groups in the external sector statistics:
 - *General government* – state government and defence authorities under the authority of central and local governments; scientific, research, health, social care, educational, cultural and sports institutions, and state funds and foundations financed from a central or a local government budget;
 - *Central Bank* – Eesti Pank as the national central bank;
 - *Credit institutions* – companies as private bodies licensed by Eesti Pank the principal and permanent activities of which are to receive cash deposits and other repayable funds from the public and to grant loans for their own account and perform other operations listed in the Credit Institutions Act;
 - *Other sectors* – the remaining private sector (companies and households).
- **Financial leasing** – loan (lease transaction) for the acquisition of assets on the condition that the leased property remains in the ownership of the lessor until the amortisation of the loan and interests.
- **Short-term capital** – claims or liabilities with the maturity of up to one year (included).
- **Short-term position** – net investment position based on short-term external assets and liabilities. Conventionally, reserves of the central bank are considered short-term due to their nature.
- **Non-resident** – all other persons not covered by the term *resident*.
- **Long-term capital** – assets or liabilities with the contractual maturity of over one year.

- **Long-term position** – net investment position based on long-term external assets and liabilities. Conventionally, direct investment is considered long-term due to its nature.
- **Repurchase agreement** – borrowing against securities as collateral.
- **Resident:**
 - 1) state authorities and agencies of the Republic of Estonia in the broadest sense (legislative, executive and judicial power and their agencies, constitutional institutions), also local government units and their agencies;
 - 2) Estonia's diplomatic, consular and other official representative offices abroad, as well as other representative offices of Estonian agencies and organisations abroad not involved in economic or commercial activities;
 - 3) legal persons in public law and their agencies established by the laws of the Republic of Estonia;
 - 4) legal persons in private law registered in Estonia;
 - 5) organisations and associations of persons established and operating in Estonia and enjoying partial legal capacity that are not legal persons;
 - 6) branches and representations of foreign legal persons registered in Estonia;
 - 7) Estonian citizens residing in Estonia;
 - 8) aliens residing in Estonia with a permanent residence permit;
 - 9) aliens residing in Estonia with a temporary residence permit for at least one year;
 - 10) Estonian citizens studying or receiving medical treatment abroad, regardless of the length of studies or medical treatment;
 - 11) diplomats, military personnel, staff of consular and other representative offices as well as their family members staying abroad and enjoying immunity and diplomatic privileges;
 - 12) ship crews, seasonal and border workers, regardless of the duration of their residence on the territory of a foreign country;
 - 13) conventional business entities representing real estate located on Estonian territory (land together with its essential parts).

ENTRIES

- **Trade account** – includes imports and exports of goods that contribute to the gross domestic product. Such imports and exports include:
 - imports for national consumption – goods imported for free circulation and paid by residents;
 - national exports – exports the sale of which provides receipts to residents;
 - imports of goods for processing and exports of processed goods.

Estonia's trade account is based on the *special trade system* of official trade statistics, registering goods exceeding free circulation⁸. Exports exclude re-exports of imported goods previously stored in customs warehouses or provisions for sea and air transport. Imports exclude customs warehousing

⁸ General trade system is also used, which registers movements of goods across customs frontiers. This system is not suitable for the compilation of the balance of payments, as it also includes the movement of goods of non-residents through Estonian customs warehouses.

of imported goods, yet reflect deliveries of goods from customs warehouses into free circulation and processing. As the official trade statistics and customs statistics do not comply with the balance of payments compilation principles (imports in c.i.f. prices, residency principle vs. territorial principle etc.), necessary supplements are added to the balance of payments. The most significant of them include:

- a) goods not declared in customs and not crossing frontiers but which are balance of payments transactions (e.g. fish caught in foreign waters);
- b) goods purchased for carriers abroad: fuel, provisions, merchandise, etc.;
- c) repair of capital goods purchased and sold;
- d) translation of imports into f.o.b. prices, i.e. separation of transportation and insurance costs;
- e) Consideration of price distortions upon exports of goods through customs warehouses and free zone;
- f) estimates of black economy.

As of 1 May 2004, foreign trade statistics is based on the combination of two reporting systems: trade with non-EU countries is still calculated on the basis of customs declarations submitted to the Tax and Customs Board (the so-called Extrastat), whereas intra-Community trade is registered through the so-called Intrastat survey organised by the Statistical Office (see www.stat.ee/125965). While Extrastat still enables to apply the special trade system, which excludes trade through customs warehouses, then Intrastat does not allow filtering out goods that have moved through intermediate warehouses and that have not really entered Estonia's internal market, thus rather reflecting the principles of the general trade system. Therefore, the general level of both imports and exports of goods is higher than in earlier periods and that peculiarity has to be taken into account when comparing time series. Moreover, due to the structural differences between Intrastat reports and customs declarations it is no longer possible to distinguish with sufficient accuracy the so-called normal exports and imports from the imports of goods for processing and from the exports of processed goods.

- **Services account** reflects the services sold to and purchased from non-residents by Estonian residents:
 - *transportation* – passenger, freight and other transportation services by major modes of transport (marine, air, rail, road and other transport modes);
 - *travel services* – include expenditure on package tours of tourists and one-day visitors, as well as on goods and services in the country of destination. Besides the above items, travel services also include education and health costs in the country of destination. While generally residence abroad up to one year accounts as tourism, with students and those receiving health care in the country of destination there is no time limit. Tourism is distinguished from travel services by the fact that international passenger transport services that are regarded as tourism services according to international practice are recorded in the balance of payments under transportation services entries;
 - *communications services* – comprise charges for telecommunications services (TV and radio transmission, telegraph, telex and facsimile communications, satellite and cable television, e-mail etc.), postal and courier services (packaging, mailing, transportation, delivery of items, lease of letter boxes, etc.);
 - *construction services* – generally cover the cost of construction activities abroad by resident companies or of construction activities in Estonia by non-residents. Construction services, as

- a rule, include sites or installation to be completed within one year;
- *insurance services* – charges collected and paid upon conclusion of life and non-life insurance contracts, loss adjustment expenses, insurance expert assessments, etc. Non-life insurance premiums and claims payable are recorded under current transfers while life insurance premiums and payments are recorded in the financial account under other long-term capital;
 - *financial services* – financial intermediation services and auxiliary services (other than insurance) related to commissions and fees of banking and securities brokerage or to custodial services, clearing, depository services, financial consulting, etc.;
 - *computer and information services* – cover transactions related to fees for the use and development of databases, data processing and programming, hardware consultations, software implementation etc. as well as services of news agencies;
 - *royalties and licence fees* – receipts and payments for the use of copyrights, licenses, franchises, patents, industrial processes or other intellectual property;
 - *merchandising* – commissions and fees of commodity brokers and dealers. Trade services is the difference between the value of goods purchased by residents abroad and the value of these goods resold abroad during the same period. The goods must never cross the Estonian border;
 - *operational lease* – payments where the lessee uses the assets during the contract period and returns the assets to the lessor upon the expiry of the contract (*capital lease* – see below);
 - *miscellaneous business services* – services related to consulting (legal assistance, accounting, audit, management consulting, etc.), public relations and marketing (advertising, opinion polls, market research, etc.) or other technical services (waste management, environmental protection, architectural and engineering solutions, printing services, etc.);
 - *personal, cultural and recreational services* – audio-visual services related to radio, television and production of motion pictures, organising concerts and other events, fees to performers, organising exhibitions and museum exhibits, producer services and other sports, cultural and recreational services;
 - *government services not included elsewhere* – other services rendered by government institutions related to embassies and consular services, military and other public sector services, state fees and foreign aid received and provided as a service (for foreign aid see also *current transfers*).
- **Income account** reflects income related to the use and render for use of production factors (capital and labour). Income falls into two categories:
 - a) *compensation of employees* – gross wages earned abroad together with social transfers made by the employer under a labour contract with a duration of up to a year and paid to foreigners in Estonia;
 - b) *investment income* – generally reflecting income on foreign (direct, portfolio and other) investment assets and payable from foreign investment liabilities (*interests* and *dividends*). Since the period between the emergence of operating profit and payment of dividends may be long, the concept of *reinvested earnings* has been applied to record that profit in the balance of payments. *Reinvested earnings* – a proportional change equal to investment in the undistributed operating profit or loss of the investment company, which on the other hand

may be regarded as additional investment in the company. As reinvested earnings decrease when paying dividends, the concept of reinvested earnings can be regarded as accounting of dividends on an accrual basis. Such method of calculation is statistically complicated and necessary data are not always available. Therefore, for the sake of simplicity it has been agreed to use it only in case of direct investment relations, not portfolio investment.

Accounting income on realised and unrealised exchange rates and spreads are not recorded as income, because the balance of payments records movement of financial instruments at market prices. For accounting purposes, the latter comprises acquisition cost and realised exchange rate and/or price profit/loss. Furthermore, neither waivers and write-offs of uncollectible loans nor exceptional profit/loss are recorded under reinvested earnings.

- **Current transfers account** includes all remaining transactions related to the accumulation of residents' disposable income but not recorded elsewhere under the current account. Current transfers are unilateral, i.e. there is no consignment or service following (or preceding) the transfer and neither is it income for the use of production factors. Current transfers are usually related to taxes, fines, subsidies, donations, inheritance, membership fees, insurance premiums, and indemnities. Current transfers include also the cost of goods and services received or provided as foreign aid as offsetting entries. The current transfers account records cash flows by two institutional sectors:

- a) *general government;*
- b) *other sectors.*

General government transfers are the amounts related to the transfers received from and paid by the Estonian public sector. Other sectors' transfers include mostly cash flows related to insurance contracts and *workers' remittances* indicating remittances to the home country of outside workers (also migrants – persons who have lived and worked in a foreign country more than a year) in case they have been hired by a company in a foreign country.

- **Capital transfers** are unilateral, similarly to current transfers, but amounts received or paid have no direct impact on residents' gross disposable income. Common capital transfers include:
 - a) various grants from international funds to finance building infrastructure objects;
 - b) transfers of migrants;
 - c) acquisition of non-produced, non-financial intangible assets (intellectual property) and disposal thereof (franchises, patents, trademarks, industrial processes, etc.);
 - d) waivers or write-offs of debt.

The capital account records cash flows by two sectors:

- a) general government;
- b) other sectors.

- **Direct investment** in Estonia's balance of payments refers to investment involving a qualifying holding, which amounts to 10% or more of the equity capital of the investment company⁹. According

⁹ The concept describes direct investment as financial resources applied leading to a qualifying holding and a casting vote of the investor in managing the direct investment enterprise, regardless of the actual holding. As such an approach does not ensure similar treatment of the investment in the investor and recipient country, the 10% criterion is recommended to avoid statistical errors (OECD Benchmark Definition of Foreign Direct Investment, 1996).

to international standards, lending and other investments between a company and an investor with a qualifying holding are also reflected as direct investment (except with financial intermediaries in case of whom only subordinated debt is recorded as direct investment).

- *Direct investment company* – a company in which an investor or direct investor has a qualifying holding.
- *Direct investor* – an investor who has a qualifying holding in a direct investment company.

The direct investment account includes the following items:

- a) *equity capital* of direct investment companies;
- b) *reinvested earnings* – proportional share of the direct investor in the operating profit or loss of a direct investment company;
- c) *other direct investment capital* – assets and liabilities related to lending, debt securities and trade credit between a direct investment company and a direct investor.

- **Portfolio investment** account records, under assets and liabilities, securities investments that fall into the following categories:
 - a) *equity security* – securities investment in equity capital not comprising a qualifying holding, i.e. remaining below 10% of the equity capital of a company;
 - b) *debt security* – bond or money market instrument that proves the debt claim:
 - *bond* – a security proving the right of claim of its holder and containing the borrower's commitment to repay the loan to the creditor on the agreed date and pay the interests. As a rule, bonds are long-term instruments (with the maturity of over one year);
 - *money market instrument* – a highly liquid debt liability that is tradable in the money market, has a low interest and credit risk, and a maturity of up to one year.

Portfolio investments are recorded in the balance of payments by institutional sectors.

- **Financial derivative** – a security related to a financial instrument, index or commodity allowing trading in financial risks on markets, i.e. the right or obligation to buy, sell or exchange a financial asset in the future in an agreed amount and at an agreed price. Common financial derivatives include *options*, *forwards*, *futures*, and *swaps*. Financial derivatives are recorded in the balance of payments by institutional sectors, assets and liabilities separately.
- **Other investment** cover all other investments that are neither direct investment nor portfolio investment, nor related to financial derivatives:
 - *trade credit* – outstanding or unpaid amounts for goods and services and advance payments, recorded on an accrual basis in the balance of payments as well as in the international investment position;
 - *loans* – short-term and long-term lending of institutional sectors not related to direct investment. Loans also cover *capital lease* and *repurchase agreements*;
 - *currency and deposits* – foreign currency held by residents and their deposits in foreign credit institutions are recorded as assets. Estonian kroons held by non-residents and their deposits in Estonian credit institutions are recorded as liabilities;
 - *other assets and liabilities* – other overdue sums (accounts receivable and accounts payable, accrued expenses, etc.) recorded on an accrual basis, as well as other assets and liabilities

unrelated to other entries. In addition, life insurance premiums collected and disbursements made by insurance companies are recorded here.

- **Reserves** – gold and foreign exchange reserves of the central bank comprising assets backing the kroon in Estonia's monetary system. Reserves are usually highly liquid tradable external assets of the central bank, entered as:
 - a) *monetary gold* – gold held as reserve assets;
 - b) *SDRs (special drawing rights)* – units of account created by the International Monetary Fund. Their value is based on a basket of four currencies (USD, EUR, JPY, and GBP). An SDR account is generated for every IMF Member State and it is used for conducting loan transactions and several other related operations between a Member State and IMF;
 - c) *International Monetary Fund (IMF) reserve position* – contribution to the IMF and virtually a loan available to the Member State if required;
 - d) *foreign exchange* – foreign exchange or equal reserve assets: foreign currency and deposits, equity securities, bonds, money market instruments, and financial derivatives;
 - e) *other assets* – other liquid external assets.

BALANCE OF PAYMENTS COMPILATION SYSTEM

Three fundamentally different systems and their combinations are used in the world for the compilation of balance of payments:

- **survey system, transaction-based system;**
- **settlements system;**
- **administrative system.**

The *survey system* draws upon information from various statistical surveys and studies. Both sampling and census are used, depending on the requirements, field of study and peculiarities of a specific country. The structure of the questionnaire follows either the balance of payments structure or the structure of financial statements and accounting principles. The advantage of the survey system lies in its flexibility but, on the other hand, statistical surveys are expensive to conduct, they have a low response rate and are not very operational. Anglo-American countries Australia, New Zealand, the United Kingdom, Ireland, the United States and Canada use the survey system successfully.

The *settlements system* is based on collection, coding and processing of international payments through resident banks. Based on the description of the transaction, clients, commercial institutions or the central bank attribute a transaction code to each incoming or outgoing payment in compliance with the balance of payments structure. The settlements system allows to collect detailed and operational information but is still limited, as cash flows do not reflect accrual approach, the description of a transaction or balance of payments code is often missing, sometimes netting occurs, and cash flows do not allow to estimate the positions. Owing to new EU legislation and economic globalisation, most countries of continental Europe are forced to replace the settlements system with a combined one.

The *administrative system* draws information from the data collected beforehand by various agencies. The use of this system requires full control over external transactions by the public sector. There are few

countries using solely administrative information for balance of payments purposes but almost all countries apply it to a greater or lesser extent. The biggest shortcoming of the administrative system lies in weak data quality control.

COMPILATION PRACTICES IN ESTONIA

Estonia started compiling national balance of payments in 1992. Due to the weakness of the banking system at that time, the survey system was introduced. However, as this system is not flexible enough in the changing economic environment, the possibilities to apply the settlements system in compiling balance of payments were studied. The settlements system was launched in parallel to the survey system in 1994. Arising from the compilation of international investment position as of 1996, surveys have become more important. Above all, surveys facilitate collecting information on an accrual basis and other indicators not reflected in money flows (e.g. trade credit, reinvested earnings).

By now, Estonia has developed its own *mixed system* of compiling balance of payments. Two parallel databases are complementary and simplify error identification. The databases in combination with administrative information ensure higher quality of the documents (balance of payments, international investment position, etc.), which is usually quite difficult to achieve in very open economies of low concentration.

As regards other quarterly statistics on balance of payments and the external sector, the survey system supplemented with the information collected through the settlements system is of great importance. Besides monthly reports by the central bank, credit institutions and the general government, the settlements system supplemented by various econometric models is applied upon compiling monthly balances of payment. In order to meet the European Union requirements, Eesti Pank started to release initial monthly balance of payment indicators in 2002.

Currently, ten different surveys are in use for collecting quarterly data from more than 3,300 enterprises. The quarterly settlements system involves approximately 145,000 transactions significant for the compilation of the balance of payments. Data on these transactions are received through the so-called *open system*: the central bank gets information only on the debit or credit side of the foreign payment order. Only bank customers' payments are communicated. Banking sector transactions are recorded in the balance of payments based on banks' balance sheets, income statements and other financial reports.

In addition, information is obtained from multiple other channels: official trade statistics, the Central Register for Securities, Financial Supervision Authority, surveys conducted by Statistics Estonia, Ministry of Justice Centre of Registers, Real Property Price Statistics from the Estonian Land Board, accounting registers in Eesti Pank, public sector institutions, etc. Moreover, statistical surveys are conducted, assessments made and econometric methods applied. Table 3.2 provides an overview of the sources of information applied to compile balance of payments statistics.

Table 3.2. Scope of primary and consolidated data used for balance of payments compilation and frequency of data collection

| Name of statement/report | Target group / content of statement/report | Frequency | Due date after accounting period | Sample size / No of data sources |
|---|---|-----------|----------------------------------|----------------------------------|
| SURVEY SYSTEM | | | | |
| Form 2 | Companies with foreign ownership | quarter | 20 days | 1,711 |
| Form 3 | Transport companies without foreign ownership | quarter | 20 days | 220 |
| Form 4 | Transport companies with foreign ownership | quarter | 20 days | 166 |
| Form 5 | Investment funds (management companies) | quarter | 20 days | 44 |
| Form 6 | Companies without foreign ownership | quarter | 20 days | 1,029 |
| Form 7 | Companies with foreign ownership and not engaged in foreign economic activities | quarter | 20 days | 55 |
| Form 9 | Insurance companies and intermediaries | quarter | 20 days | 18 |
| Form 10 | Other financial intermediaries | quarter | 20 days | 25 |
| SETTLEMENTS SYSTEM | | | | |
| Settlements system reporting according to the procedure for declaring international payments | Incoming international payments declared in credit institutions | 15 days | 7 days | 10 |
| | Outgoing international payments declared in credit institutions | 15 days | 21 days | 10 |
| | Consolidated report on international payments | month | 7 days | 10 |
| ADMINISTRATIVE INFORMATION | | | | |
| CREDIT INSTITUTIONS | | | | |
| Report on the balance of resources | Data on resources deposited in credit institutions and loans granted to credit institutions by residence and other characteristic details | month | 5 days | 10 |
| Report on the balance of loans | Loans issued by credit institutions by residence and other characteristic details | month | 5 days | 10 |
| Income statement | Distribution of income and expenditure of credit institutions by residence | quarter | 10 days | 10 |
| Services provided to and purchased from non-residents | Selected income and expenditure entries of credit institutions in the form of presentation extended to non-residents | quarter | 10 days | 10 |
| Statement of securities | Detailed statement of securities portfolios of credit institutions by residence | month | 5 days | 10 |
| Statement of off-balance-sheet items | Statement of off-balance-sheet activities of credit institutions | quarter | 7 days | 10 |
| Statement of custodial and investment services | Statement of custodial and investment activities of credit institutions | quarter | 7 days | 10 |
| Statement of financial flows | Transactions carried out by credit institutions with non-residents by principal balance sheet items | quarter | 10 days | 10 |
| EESTI PANK | | | | |
| Balance of payments statement of Eesti Pank | Accounting Department's statement of Eesti Pank's non-residents' balances of and changes in balance sheet entries, and changes in income statement entries of non-residents | month | 5 days | 1 |

| Name of statement/report | Target group / content of statement/report | Frequency | Due date after accounting period | Sample size / No of data sources |
|--|---|-----------|----------------------------------|----------------------------------|
| STATISTICS ESTONIA | | | | |
| Official foreign trade statistics | Processed, supplemented and categorised customs declaration data of the Customs Board by customs procedures and different characteristics | month | 56 days | 1 |
| | Intra-Community trade report Intrastat | | | |
| Tour operators' statement | Exports and imports of travel agencies (intermediation of passenger transport services included); tourists received and sent by countries | quarter | 2 months | 1 |
| Accommodation establishments' statement | Data on turnover and number of tourists serviced in accommodation establishments | quarter | 2 months | 1 |
| MINISTRY OF JUSTICE CENTRE OF REGISTERS AND INFOSYSTEMS | | | | |
| Central Business Register, Non-Profit Associations and Foundations Register | Data on legal persons registered in Estonia and their owners | month | 1 month | 1 |
| Land register database | Statistics on real estate transactions related to non-residents | year | by agreement | 1 |
| ESTONIAN CENTRAL REGISTER OF SECURITIES | | | | |
| Central Register of Securities | Statistics of securities issues registered in Estonian Central Register of Securities | month | 10 days | 1 |
| BORDER GUARD ADMINISTRATION | | | | |
| Border crossing statistics | Report on crossers of Estonia's border by citizenship | month | 25 days | 1 |
| MINISTRY OF FOREIGN AFFAIRS | | | | |
| Statistics on diplomatic missions abroad | Data on income, expenditure and assets of Estonian embassies and missions | quarter | 1 month | 1 |
| TAX AND CUSTOMS BOARD | | | | |
| Tax statistics | Data on taxes withheld from non-residents in Estonia and from residents abroad | year | as necessary | 1 |
| TALLINN CITY OFFICE | | | | |
| Statement of external assets and liabilities | Statement of external loans, external assets, financial income and expenditure of City of Tallinn | quarter | 1 month | 1 |
| MINISTRY OF FINANCE | | | | |
| Statement of external loans | Statement of usage and servicing of state loans | month | 10 days | 1 |
| Statement of external assets | Statement of balance and changes of assets of State Treasury | month | 1 month | 1 |
| OTHER | | | | |
| Open Estonian Foundation, Estonian Migration Foundation, Estonian Authors' Society, Estonian Unemployment Insurance Fund, Estonian Health Insurance Fund, Land Board, etc. | | | | 5-10 |

Besides Estonia, several other national central banks (including the central banks of Latvia, Lithuania, Sweden, and the Czech Republic) have started to apply the above mixed system (cash flows + surveys + administrative sources). With the approval of European Union institutions this model has recently been gaining popularity also in other European countries that so far had been obtaining information only from the cash-based system, established under tight capital control.

Legal basis for balance of payments statistics

Pursuant to Subsection 2(8) of the **Eesti Pank Act**, Eesti Pank is responsible for compiling the balance of payments of Estonia, the compilation being one of the basic functions of the central bank established by law.

Section 34 of this Act entitles Eesti Pank to obtain, free of charge, the information necessary for drawing up Estonia's balance of payments from all state and local government agencies and legal persons conducting cross-border economic transactions in the territory of Estonia.

Besides the Eesti Pank Act, also the **Official Statistics Act** provides for the compilation of the balance of payments. Pursuant to subsection 4(2), Eesti Pank is the other main agency conducting official statistical surveys besides the Statistical Office. Eesti Pank and the respondents are to follow all the provisions of the Official Statistics Act related to conducting surveys, the obligation to submit data, data protection, data dissemination, and responsibilities of parties.

Balance of payments reporting by Estonian credit institutions is also regulated by respective decrees issued by the Governor of Eesti Pank.

Confidentiality of data

Pursuant to the existing legal order, Eesti Pank ensures full organisational, information technological and physical protection of data related to all balance of payments transactions. All data is used for statistical purposes only and disseminated in aggregate form without identifiable features.

Dissemination and adjustment policy

The **Special Data Dissemination Standard (SDDS) of the International Monetary Fund**, which Estonia joined in October 1998, serves as a basis for disseminating statistical data. The standard sets minimum requirements for the content, frequency and time of data dissemination across statistics categories.

- **Data dissemination.** Balance of payments statistics together with press releases, analyses and statistical tables for 2006–2007 will be published on Eesti Pank's web site (<http://www.bankofestonia.info>) at noon on the dates specified in Table 3.3.

Table 3.3. Release calendar

| Balance of payments flash estimates | | | |
|---|------------|------------------|---------------|
| 2007 | | 2008 | |
| January | 14/3/2007 | January | 14/3/2008 |
| February | 13/4/2007 | February | 15/4/2008 |
| March | 15/5/2007 | March | 14/5/2008 |
| April | 12/6/2007 | April | 13/6/2008 |
| May | 12/7/2007 | May | 16/7/2008 |
| June | 13/8/2007 | June | 12/8/2008 |
| July | 12/9/2007 | July | 15/9/2008 |
| August | 12/10/2007 | August | 13/10/2008 |
| September | 9/11/2007 | September | 12/11/2008 |
| October | 12/12/2007 | October | 15/12/2008 |
| November | 18/1/2008 | November | January 2009 |
| December | 13/2/2008 | December | February 2009 |
| Quarterly balance of payments | | | |
| 2007 | | 2008 | |
| Quarter 1 | 26/6/2007 | Quarter 1 | 30/6/2008 |
| Quarter 2 | 24/9/2007 | Quarter 2 | 29/9/2008 |
| Quarter 3 | 27/12/2007 | Quarter 3 | 22/12/2008 |
| Quarter 4 | 31/3/2008 | Quarter 4 | March 2009 |
| International investment position | | | |
| 2007 | | 2008 | |
| As at 31/3/2007 | 26/6/2007 | As at 31/3/2008 | 30/6/2008 |
| As at 30/6/2007 | 24/9/2007 | As at 30/6/2008 | 29/9/2008 |
| As at 30/9/2007 | 27/12/2007 | As at 30/9/2008 | 22/12/2008 |
| As at 31/12/2007 | 31/3/2008 | As at 31/12/2008 | March 2009 |
| External debt | | | |
| 2007 | | 2008 | |
| As at 31/3/2007 | 26/6/2007 | As at 31/3/2008 | 30/6/2008 |
| As at 30/6/2007 | 24/9/2007 | As at 30/6/2008 | 29/9/2008 |
| As at 30/9/2007 | 27/12/2007 | As at 30/9/2008 | 22/12/2008 |
| As at 31/12/2007 | 31/3/2008 | As at 31/12/2008 | March 2009 |
| Foreign reserves / liquidity of foreign currency according to the standard data presentation form of IMF | | | |
| 2007 | | 2008 | |
| As at 31/12/2006 | 8/1/2007 | As at 31/12/2007 | 8/1/2008 |
| As at 31/1/2007 | 7/2/2007 | As at 31/1/2008 | 7/2/2008 |
| As at 28/2/2007 | 7/3/2007 | As at 29/2/2008 | 7/3/2008 |
| As at 30/3/2007 | 9/4/2007 | As at 31/3/2008 | 7/4/2008 |
| As at 30/4/2007 | 8/5/2007 | As at 30/4/2008 | 8/5/2008 |
| As at 31/5/2007 | 7/6/2007 | As at 30/5/2008 | 6/6/2008 |
| As at 29/6/2007 | 6/7/2007 | As at 30/6/2008 | 7/7/2008 |
| As at 31/7/2007 | 7/8/2007 | As at 31/7/2008 | 7/8/2008 |
| As at 31/8/2007 | 7/9/2007 | As at 29/8/2008 | 5/9/2008 |
| As at 28/9/2007 | 5/10/2007 | As at 30/9/2008 | 7/10/2008 |
| As at 31/10/2007 | 7/11/2007 | As at 31/10/2008 | 7/11/2008 |
| As at 30/11/2007 | 7/12/2007 | As at 28/11/2008 | 5/12/2008 |
| Nominal and real exchange rate of the Estonian kroon | | | |
| Monthly exchange rate is released on the 25 th day of the following month at the latest | | | |
| 2008 | 30/9/2007 | 2009 | 30/9/2008 |

- **Adjustment policy.** Upon collection of additional information and changes in methodology, the data of previous periods is adjusted as follows:
 - a) *regular adjustment* – the data released on dates provided in Table 3.3 is preliminary and revised upon the release of preliminary statistics of the next periods. As a rule, adjusted annual data is published upon the release of the statistics of the first quarter of the following year and is considered final;
 - b) *extraordinary adjustment* – in exceptional cases, when significant errors and omissions have occurred or methodology changes render results incomparably, data can be adjusted retrospectively for more than a year, of which the public will be notified by a respective reference.

- **Unit of account and conversion.** The unit of account for the balance of payments and the international investment position is the Estonian kroon (EEK). Statistics released in other currencies (USD, EUR) is based on the following conversion:
 - *balance of payments flash estimate* – the monthly average exchange rate of the respective currency against the Estonian kroon;
 - *quarterly balance of payments* – the quarterly average exchange rate of the currency against the Estonian kroon;
 - *annual balance of payments* – the average exchange rates of four quarters (i.e. the annual balance of payments is the sum of quarterly balances converted into foreign currency);
 - *investment position* – the exchange rate on the compilation date or on the closest banking day.

- **Rounding.** Due to rounding, the total of sub-items is not always equal to the total of the consolidated entry.