

II. ESTONIA'S INTERNATIONAL INVESTMENT POSITION AND EXTERNAL DEBT as at 31 December 2007

Foreign investment in Estonia increased 16% in 2007 and amounted to 422 billion kroons at the end of the year (see Table 2.1). Nearly 60% thereof was invested in financial intermediation and to a lesser extent in real estate, renting and business activities, wholesale and retail trade, and manufacturing (see Table 2.2). Most of the investment came from Sweden (38%) and Finland (20%).

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

	31/12/2006	Share (%)	31/12/2007	Share (%)	Change (%)
EXTERNAL ASSETS	184,382.3	100.0	242,452.3	100.0	31.5
Direct investment abroad	43,223.1	23.4	63,681.1	26.3	47.3
Equity capital and reinvested earnings	34,173.1	18.5	50,291.7	20.7	47.2
Other direct investment capital	9,050.0	4.9	13,389.4	5.5	47.9
Portfolio investment	57,313.9	31.1	68,787.1	28.4	20.0
Equity securities	21,252.1	11.5	31,253.5	12.9	47.1
Debt securities	36,061.8	19.6	37,533.7	15.5	4.1
Bonds and notes	25,904.3	14.0	23,503.3	9.7	-9.3
Money market instruments	10,157.6	5.5	14,030.4	5.8	38.1
Financial derivatives	546.3	0.3	1,466.5	0.6	168.4
Other investment	50,143.8	27.2	73,492.4	30.3	46.6
Trade credit	12,837.9	7.0	14,831.4	6.1	15.5
Loans	22,098.2	12.0	31,632.3	13.0	43.1
Long-term	7,874.0	4.3	9,723.9	4.0	23.5
Short-term	14,224.2	7.7	21,908.3	9.0	54.0
Currency and deposits	14,055.8	7.6	25,271.9	10.4	79.8
Other assets	1,151.8	0.6	1,756.9	0.7	52.5
Reserve assets	33,155.2	18.0	35,025.1	14.4	5.6
EXTERNAL LIABILITIES	337,744.5	100.0	422,011.3	100.0	24.9
Direct investment in Estonia	151,148.3	44.8	177,311.3	42.0	17.3
Equity capital and reinvested earnings	130,276.5	38.6	150,657.2	35.7	15.6
Other direct investment capital	20,871.7	6.2	26,654.1	6.3	27.7
Portfolio investment	46,255.7	13.7	48,809.5	11.6	5.5
Equity securities	22,428.0	6.6	25,858.2	6.1	15.3
Debt securities	23,827.7	7.1	22,951.3	5.4	-3.7
Bonds and notes	23,703.1	7.0	22,886.6	5.4	-3.4
Money market instruments	124.6	0.0	64.7	0.0	-48.1
Financial derivatives	394.3	0.1	502.9	0.1	27.5
Other investment	139,946.3	41.4	195,387.5	46.3	39.6
Trade credit	13,773.1	4.1	13,541.4	3.2	-1.7
Loans	73,237.1	21.7	110,910.6	26.3	51.4
Long-term	58,843.1	17.4	89,889.6	21.3	52.8
Short-term	14,394.0	4.3	21,021.0	5.0	46.0
Currency and deposits	49,286.4	14.6	68,358.3	16.2	38.7
Other liabilities	3,649.7	1.1	2,577.2	0.6	-29.4
NET INVESTMENT POSITION	-153,362.2		-179,559.0		17.1
Long-term	-132,767.3		-170,063.6		28.1
Short-term	-20,594.9		-9,495.4		-53.9
GROSS EXTERNAL DEBT	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

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

Assets			Liabilities		
Fields of activity					
	31/12/2006	31/12/2007		31/12/2006	31/12/2007
Financial intermediation	64.1	63.5	Financial intermediation	51.9	59.1
Real estate, renting and business activities	9.3	10.2	Real estate, renting and business activities	15.8	13.3
Public administration and defence; statutory social insurance	9.8	9.0	Wholesale and retail trade; repair	8.2	8.6
Wholesale and retail trade; repair	6.3	6.9	Manufacturing	10.1	8.0
Transport, storage and communications	3.8	3.7	Transport, storage and communications	5.9	4.5
Other	6.6	6.6	Other	8.1	6.6
Total	100.0	100.0	Total	100.0	100.0
Countries					
	31/12/2006	31/12/2007		31/12/2006	31/12/2007
Latvia	10.8	11.6	Sweden	37.0	38.4
Germany	10.8	11.4	Finland	21.8	19.8
Lithuania	9.6	9.9	United Kingdom	9.2	7.1
United Kingdom	7.6	7.6	Denmark	1.3	5.7
Russia	8.2	7.1	Netherlands	1.9	2.6
Other	53.1	52.3	Other	28.8	26.4
Total	100.0	100.0	Total	100.0	100.0

The large inflow of other capital (loans and deposits) continued in 2007 and changed also the structure of foreign investment in Estonia. Other investment increased 40% and accounted for 46% of total foreign investment at the end of the year. The direct investment position grew 17% year-on-year and constituted 42% (177 billion kroons) of total 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 financial intermediation (33%), real estate, renting and business activities (27%), manufacturing (15%), and wholesale and retail trade (13%; see Table 2.3). Swedish and Finnish investors made approximately 40% and 25% of direct investment, respectively.

Estonian investment abroad increased by around a third year-on-year and totalled 242 billion kroons. Financial intermediaries made 64% of the investment abroad. Investors in the real estate, renting and business activities, and the public sector invested to a lesser extent. Estonian investors preferred to invest in the Baltic States, Germany, the United Kingdom and Russia.

Compared to 2006, the shares of direct and other investment in the structure of investment abroad increased, whereas those of portfolio investment and reserve assets decreased by the end of 2007. The position of **foreign direct investment** increased by approximately a half, year-on-year, and comprised 26% of the external assets. Other investment posted similar growth figures and accounted for nearly a third of the external assets. The most active foreign direct investors were those of financial intermediation (40%) and real estate, renting and business activities (32%; see Table 2.3). Estonian investors preferred to invest in the neighbouring countries: a third of direct investment went both to Latvia and Lithuania.

Due to the prevalence of external liabilities, **Estonia's net investment position** was negative by 180 billion kroons at the end of 2007. Long-term capital comprised 95% of the net investment position (87% at the end of 2006).

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

Abroad			In Estonia		
Fields of activity					
	31/12/2006	31/12/2007		31/12/2006	31/12/2007
Financial intermediation	38.4	40.0	Financial intermediation	28.3	33.2
Real estate, renting and business activities	31.6	31.6	Real estate, renting and business activities	29.7	26.8
Transport, storage and communications	10.2	9.6	Manufacturing	17.4	14.6
Wholesale and retail trade; repair	8.0	8.2	Wholesale and retail trade; repair	10.3	13.4
Manufacturing	3.8	4.4	Transport, storage and communications	7.0	4.2
Other	8.1	6.1	Other	7.3	7.8
Total	100.0	100.0	Total	100.0	100.0
Countries					
	31/12/2006	31/12/2007		31/12/2006	31/12/2007
Latvia	34.5	33.6	Sweden	39.6	39.3
Lithuania	32.1	30.0	Finland	26.3	24.9
Russia	8.8	8.3	Netherlands	3.4	5.6
Cyprus	8.4	7.9	Denmark	1.9	4.4
Finland	4.7	4.0	Russia	2.6	2.6
Other	11.4	16.3	Other	26.2	23.1
Total	100.0	100.0	Total	100.0	100.0

Estonia's gross external debt increased by a third with the year and totalled 268 billion kroons at the end of the year, exceeding GDP by 10%. The growth of gross external debt was mainly boosted by credit institutions, whose debt liabilities increased 50% and accounted for about 60% of the gross external debt. The general government decreased its debt and it constituted only 1% of the gross debt. Estonia's net external debt (assets less liabilities) increased by over a half and totalled almost 86 billion kroons (35% of GDP; see Figure 2.1 and Table 2.4).

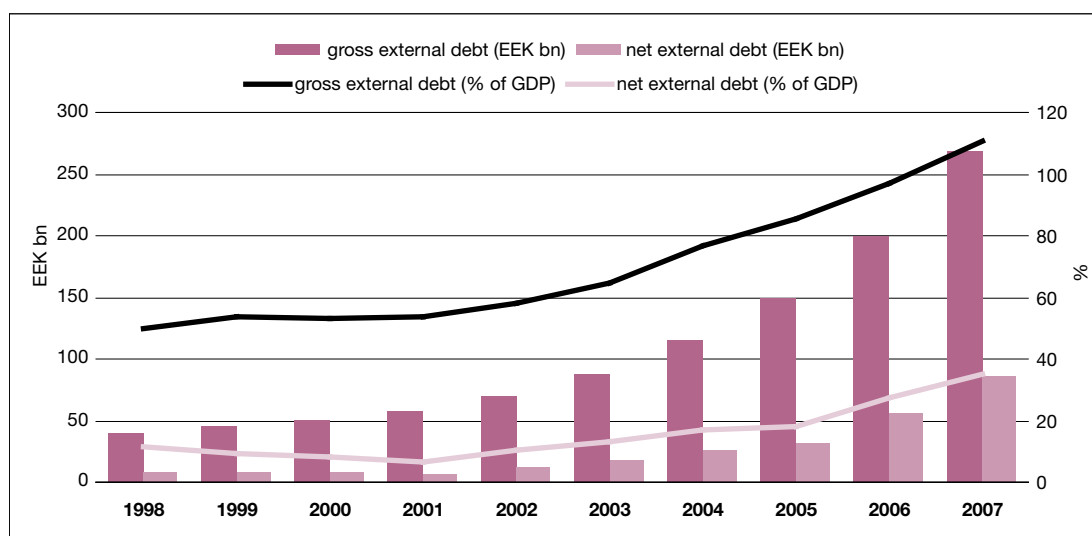


Figure 2.1. Estonia's gross and net external debt

Table 2.4. External debt (EEK m)

	31/12/2006	Share (%)	31/12/2007	Share (%)	Change (%)
LIABILITIES					
I. General government	5,402.1	2.7	3,451.5	1.3	-36.1
Short-term	688.7				
Long-term	4,713.4	2.4	3,451.5	1.3	-26.8
II. Monetary authorities (NCB)	459.1	0.2	1,316.9	0.5	186.9
Short-term	445.9	0.2	1,304.4	0.5	192.5
Long-term	13.2		12.5		
III. Credit institutions	101,522.1	50.7	152,972.3	57.0	50.7
Short-term	47,668.0	23.8	55,628.6	20.7	16.7
Long-term	53,854.1	26.9	97,343.6	36.2	80.8
IV. Other sectors	56,390.6	28.2	60,598.2	22.6	7.5
Short-term	22,648.5	11.3	24,985.3	9.3	10.3
Long-term	33,742.1	16.8	35,612.9	13.3	5.5
V. Direct investment: intercompany lending	36,540.8	18.2	50,245.1	18.7	37.5
GROSS EXTERNAL DEBT	200,314.7	100.0	268,584.0	100.0	34.1
ASSETS					
I. General government	18,194.1	12.6	21,759.1	11.9	19.6
Short-term	4,342.7	3.0	7,279.0	4.0	67.6
Long-term	13,851.4	9.6	14,480.1	7.9	4.5
II. Monetary authorities (NCB)	33,079.8	23.0	34,889.5	19.1	5.5
Short-term	24,123.5	16.8	21,144.4	11.6	-12.3
Long-term	8,956.4	6.2	13,745.1	7.5	53.5
III. Credit institutions	31,148.9	21.6	46,548.2	25.5	49.4
Short-term	22,445.7	15.6	36,711.6	20.1	63.6
Long-term	8,703.3	6.0	9,836.6	5.4	13.0
IV. Other sectors	36,840.8	25.6	42,697.8	23.3	15.9
Short-term	23,943.2	16.6	31,229.6	17.1	30.4
Long-term	12,897.7	9.0	11,468.2	6.3	-11.1
V. Direct investment: intercompany lending	24,719.0	17.2	36,980.4	20.2	49.6
TOTAL ASSETS	143,982.7	100.0	182,874.9	100.0	27.0
NET EXTERNAL DEBT (assets less liabilities)					
I. General government	12,792.0		18,307.6		43.1
Short-term	3,654.0		7,279.0		99.2
Long-term	9,138.0		11,028.6		20.7
II. Monetary authorities (NCB)	32,620.8		33,572.5		2.9
Short-term	23,677.6		19,839.9		-16.2
Long-term	8,943.2		13,732.6		53.6
III. Credit institutions	-70,373.2		-106,424.1		51.2
Short-term	-25,222.4		-18,917.0		-25.0
Long-term	-45,150.8		-87,507.1		93.8
IV. Other sectors	-19,549.8		-17,900.4		-8.4
Short-term	1,294.6		6,244.4		382.3
Long-term	-20,844.4		-24,144.8		15.8
V. Direct investment: intercompany lending	-11,821.8		-13,264.7		12.2
TOTAL NET EXTERNAL DEBT	-56,332.0		-85,709.0		52.1

The gross external debt accounted for 64% of total external liabilities. Leaving aside the intercompany lending of direct investment companies, long-term debt liabilities comprised 63% of the gross external debt. The share of long-term debt claims formed 34% of total debt claims. Figures 2.2 and 2.3 give an overview of Estonia's gross and net external debt by sectors.

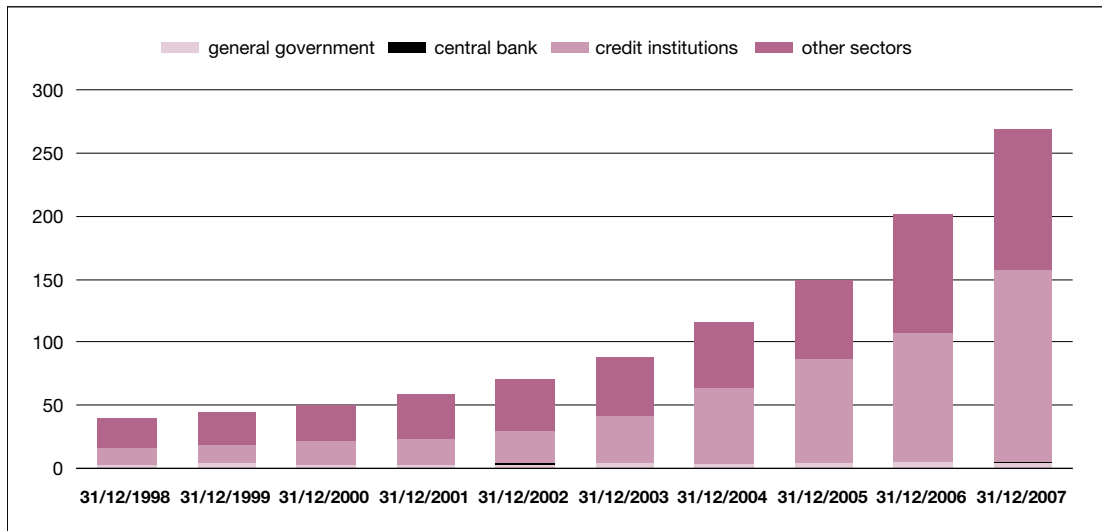


Figure 2.2. Estonia's gross external debt by sectors (EEK bn)

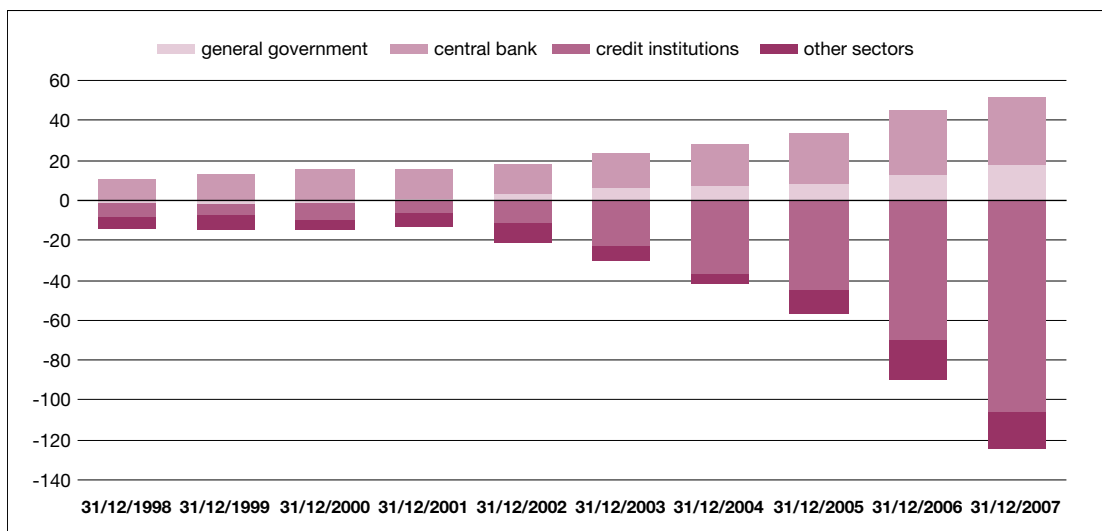


Figure 2.3. Estonia's net external debt by sectors (EEK bn)