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Estonia's high current account deficit has special reasons

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Introduction

Approximately twenty years have passed in Estonia since the beginning of the transition towards the market economy. In a few years' Estonia has achieved considerable results in reforms and in stabilizing its economy. Unfortunately Estonia has not resolved the current account deficit problem.

However, the unfortunate truth is that Estonia's current account deficit is one of the largest among transition countries, making last years up two-digit percentage of GDP. Experts view is that the figure of 5% or less in new EU countries is the level which wouldn't scare foreign investors (Dabrowski, 2003).

Last years large imbalances in current account position in advanced industrial economies like USA is somewhat paradoxical from the perspective of macroeconomic theory, as it means that emerging markets have increasingly become net lenders. On the contrary the current magnitude of global imbalances stems from a combination of structural and cyclical factors (Adjustment of Global …, 2007). IMF do not think that imbalances in nowadays magnitude are sustainable in the long run and action is needed to reduce them before they unravel in an abrupt and disorderly way. So IMF backs plan to reduce global imbalances (Robinson, 2007).

Our hypothesis is that the high ratio of current account deficit to GDP is not merely an indicator of Estonia's low competitiveness level. The balance of payments reserves are increasing. One reason for the high current account deficit is the higher degree of internationalization of Estonian economy compared to our neighbours. The second reason of the high ratio of current account deficit in Estonia is double registration in the balance of payments of reinvested earnings.

For testing these hypotheses we analyse the data of Estonian balance of payments during the period from 2000–2006 and compare the evolution of money inflows and outflows with other indicators of economic development to find the causalities.

1. Estonian current account balance evolution

The current account of the Estonian balance of payments has been negative each year since 1994. From Table 1 (and Appendix 1) we see that two subaccounts have positive balance (services and transfers) but the deficit of goods and income subaccounts is much bigger.

Table 1. Estonia's balance of payments current account evaluation (EEK m)

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Current account	–5178	–5644	–12908	–15418	–18413	–17486	–32095
Goods	–13371	–13542	–18455	–21522	–25499	–24045	–36723
Services	10204	11295	9891	11476	13561	12968	12698
Income	–3459	–4899	–5391	–7241	–7931	–7209	–9425
Transfers	1448	1503	1048	1869	1456	801	1385

Source: Estonia's Balance of Payments Yearbook 2006, 2007.

However, the high ratio of current account deficit to GDP is not merely an indicator of our low competitiveness, but partly and perhaps even more importantly, the result of massive inflow of money into Estonia. One can see from Table 2 that the overall balance of payments has always been positive during last years. From Appendix 2 we notice that in this millennium only in 2001 state reserves degreased, but last years reserves growth is notisable. Thus, the financial resources of the country are increasing. In addition, the share of foreign trade in GDP is in Estonia highest in Europe and higher than in Latvia and Lithuania and our ratio of exports to imports of goods is also better than in other Baltic countries. Therefore, another reason for the high current account deficit is the higher degree of internationalization compared to our neighbours due to our small domestic market. Nevertheless, comparing the year 2003 in 2006 gross domestic product has grown slower than foreign trade and imports have also grown slower than exports.

Table 2. Internationally comparable indicators of the Estonian balance of payments

	2003	**2004**	**2005**	**2006**	**2005**	
					Latvia	**Lithuania**
Foreign trade turnover (% of GDP)	111,7	119,9	127,1	135,4	68,4	108,7
Export and import ratio (%)	74,7	74,7	80,3	76,6	59,4	76,5
Overall balance of payments (change of external reserves (mln €)	148,2	219,6	300,3	482,3	…	…
Current account balance (% of GDP)	11,3	12,3	–9,9	–15,5	–19,7*	–10,4*

* For the year 2006.
Source: Estonia's Balance of Payments Yearbook 2006, 2007; Statistical Yearbook of Estonia 2007, 2007; author's calculations.

From Table 2 we see that Estonia's exports and imports ratio is better than in Latvia and Lithuania. Estonian exports of goods have the normal structure. Mostly were exported processed goods like we see from Table 3. But accounting rules included to the export also re-export. For example, 91% of the export 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.

Table 3. Estonian exports by main groups of goods in 2006

	Volume EEK mln	Share %	Change (%) 2005/2006
Food	8403	7,0	21,2
Mineral products	19362	16,2	164,7
Chemical products	8269	6,9	20,2
Closing, footwear	7954	6,7	–6,4
Timber and paper products	13827	11,6	8,7
Metals and metal products	10969	9,2	24,6
Machinery and equipment	29427	24,6	7,9
Transport vehicles	8042	6,7	22,9
Furniture, sporting goods	8702	7,3	11,1
Other	4565	3,8	15,4
Total	119520	100,0	23,5

Source: Estonia's Balance of Payments Yearbook 2006, 2007.

Trade balance is yet negative and Estonia should to improve the export in future to balance current account. Table 4 shows that Estonia has the biggest deficit in trade with CIS and euro-zone countries.

Table 4. Estonia's foreign trade balance in 2006 by groups of countries (EEK m)

	Exports		Imports		Trade balance	
	EEK m	%	EEK m	%	EEK m	%
EU –25	77452	64,8	122643	74,2	–45190	98,7
Finland	21797	18,2	30067	18,2	–8270	18,1
Germany	5979	5,0	20442	12,4	–14463	31,6
Sweden	14696	12,3	14823	9,0	–127	0,3
Lithuania	5693	4,8	10682	6,5	–4989	10,9
Latvia	10424	8,7	9450	5,7	974	–2,1
CIS	12568	10,5	26518	16,0	–13950	30,5
Russia	9471	7,9	21705	13,1	–12234	26,7
Ukraine	1848	1,5	1298	0,8	550	–1,2
Belarus	689	0,6	2281	1,4	–1592	3,5
Other countries	29499	24,7	16138	9,8	13361	–29,2
USA	7997	6,7	1919	1,4	6078	–13,3
China	3309	2,8	3431	2,1	–122	0,3
Total	119520	100,0	165249	100,0	–45779	100,0

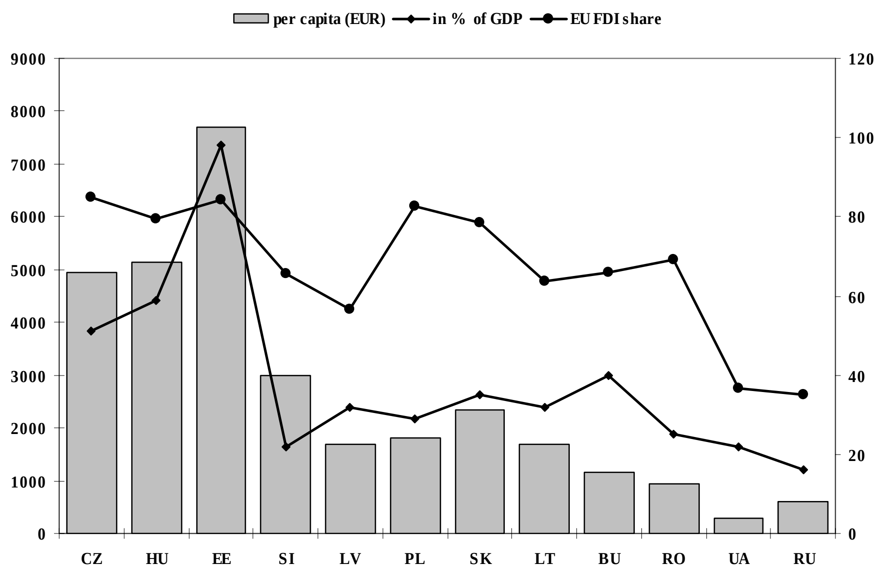
Source: Estonia's Balance of Payments Yearbook 2006, 2007; author's calculations.

By foreign trade balance by countries is not good to compare the competitiveness of Estonia with different countries for capacities of trade are small and in some cases our businessmen for price differences prefer to by from one country and to sell to the other. But in statistics of Eesti Pank where are data of trade with 40 countries, Estonia has positive balance with 15 of them.

2. Estonia is a gateway to the eastern markets

Estonia with its less than 1.4 million population is the smallest and northernmost of the Baltic States. However, it succeeded in attracting FDI much better than others (Figure 1). Despite the fall of FDI that was forecast to follow the extensive privatization of enterprises, recent years have shown an upward trend.

Figure 1. FDI stocks in CEE countries in 2005



Source: Havlik, 2006.

On the one hand, Estonia attracts foreign investors with its investor-friendly business climate comprising low risks, low costs, and low taxes. Those investors' assumptions are supported by the country's consistent free market policies that have, firstly, earned Estonia the reputation of having the most liberal trade and investment laws in Europe and, secondly, have boosted the country's international credibility. On the other hand, Estonia has been improving its FDI policy in order to maintain its efficiency in the changing market situation in view of Estonia's distinctive feature – its small transitional market. Like we saw from Figure 1 by the amount of FDI per capita, Estonia is one of the most successful among transition countries.

Last years FDI inflows per capita into Estonia were more intensive than into old EU countries. So FDI inflow into Estonia in years 2003, 2004 and 2005 were in USD 678, 776 and 2116. To EU–15 these numbers were 629, 481 and 1001 (Ferencikova, 2007:57).

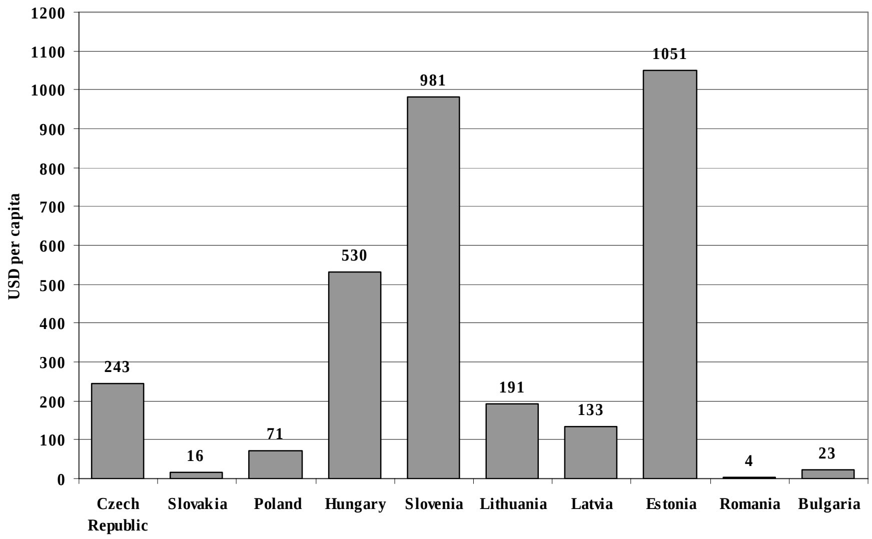
The study of Larimo *et al.* (1998) concluded that firms of different origin seem to have somewhat different motives for their FDI in Estonia. They divided the countries into three groups, taking into account their investment incentives. The study showed that neighbouring countries like Finland and

Sweden are mainly interested in finding a new market, but other countries use Estonia as a gateway for penetrating the markets of the European Union or Russia. Although these data are not recent, they vividly express the strategic motives of investors.

These researches confirm the conclusions of Ozawa (1992) who claims that firms that start losing comparative advantages start to invest abroad. Figure 2 shows that in developed EU countries FDI balance is negative, whereas it is highly positive in transition countries.

The flying-geese paradigm developed by Kojima (1973) sees that simpler activities will gradually flow out from relatively advanced host countries to newcomer host countries. Data of Figure 2 demonstrate that this theory is relevant in new EU countries. Figure 2 also indicates that FDI outflow from Estonia is much more intensive than from our neighbouring countries. And FDI outflow from Estonia is intensifying. When FDI outflow of 2002 and 2003 were 2,2 and 2,1 billion kroons, then outflows of 2005 already 7,7 billion and 2006 12,9 billion kroons. So FDI outflow in 2006 were already 64,2% comparing with inflow in this year (Estonian Preliminary Balance of Payments for the Year 2006, 2007).

Figure 2. FDI outflow from new EU countries during 2000–2005



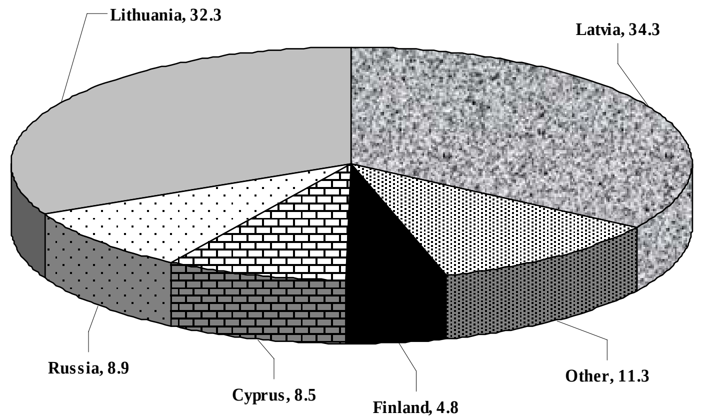
Source: Ferencikova, 2007:60; authors calculations.

The advantages Estonia had 10–15 years ago – high rates of return, very cheap and high-quality labour force, cheap raw materials – have gradually vanished. Due to the EU membership from May 2004, it is inevitable that the convergence of wages, prices and profitability makes these foreign investors' motives less important. On the contrary, Estonian entrepreneurs become more interested in moving on to "better hunting grounds" rather than increasing their investments in Estonia. This calls for thorough research on what should be done in order to boost investing in Estonia in the future. The study of the McKinsey Global Institute referred to at the beginning of this paper should be taken seriously. Its final conclusion is that developing countries must continue to build a strong infrastructure, including roads, power supplies, and ports – particularly if they want to attract export-oriented foreign investment (Farrell *et al.*, 2004).

Figure 3 clearly demonstrates that the main destinations of Estonian companies are Latvia, Lithuania and Russia. On the fourth place is already Ukraine.

This Figure shows that ca 75% of investments from Estonia are flowing into three neighbouring countries. Rapidly is growing the share of investment in Russia, whereas at the end of 2004 it was only 4.3%. This tendency is supported by the gravity theory (Paas, 2000). The research of Demekas et al. (2005) also confirms the predominance of gravity factors (host market size and geographical and cultural proximity between the source and host countries) in explaining FDI flovs in Central and South-Eastern Europe. Our previous research (Sõrg, 2005) also showed that Estonia has gradually last its cost advantages.

Figure 3. Estonian FDI position abroad by countries as at 31 Dec 2006 (%)



Source: Estonia's Balance of Payments Yearbook 2006, 2007.

Table 5 figures where the structure of FDI inflow and outflow is similar indicate that these companies who invested in Estonia years ago are now apparently moving on to other markets to earn higher profits. It is easier to move on in the service sector, which is why the latter is prevailing in FDI inflow as well as in outflow. Research of Havrylchuk and Jurzyk (2006) using a dataset comparising 265 banks from 10 CEECs between 1995–2003 finds that it is profitable for foreign banks to open subsidiaries in transition economies, since in CEECs ROA for foreign banks significantly exceeds that for parent banks in home countries.

Table 5. Estonia's FDI position by fields of activity as at 31 December 2006 (%)

	Inflow	Outflow
Financial intermediation	28,1	38,0
Real estate, renting and business activities	29,8	31,8
Transport, storage and communications	7,0	10,2
Wholesale and retail trade; repair	10,4	8,0
Manufacturing	17,5	3,8
Other	7,3	8,1
Total	100,0	100,0

Source: Estonia's Balance of Payments Yearbook 2006, 2007.

The survey conducted between June and September 2001 by the Chair of International Business of the University of Tartu showed that 65 per cent of the Estonian companies investing abroad are indirect investors, i.e. they belong, at last partially, to foreign owners (Varblane *et al*., 2001).

3. Accounting rules influence

Estonia started compiling national balance of payments in 1992. It is the responsibility of Eesti Pank. Due to the weakness of the banking system at that time, the survey system was introduced. However, as this system is not sufficiently flexible in the changing economic environment, the possibilities to apply the settlements system upon compiling the 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 significant. Above all, surveys facilitate collecting information on an accrual basis and other indicators not reflected in money flows (e.g. trade credit, reinvested earnings).

Three very different systems and their combinations are used in the world for the compilation of balance of payments:
- survey system, transaction-based system;
- settlements system, cash-based 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 USA, and Canada are among successful users of the survey system (Estonia’s Balance of Payments Yearbook 2006, 2007:55).

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. Money flows do not reflect accrual approach, the description of a transaction or balance of payments code is often missing, netting appears, and money flows do not allow to estimate positions. Pure settlements system is being pushed out by the mixed system in most countries of continental Europe.

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 larger or smaller extent. The major shortcoming of the administrative system lies in weak data quality control.

This methods combination (Appendix 3) is not guaranteeing avoiding mistakes. For example, in Estonia’s balance of payments of year 2006 errors and omissions sum is 383,2 mln EEK or 5,1% comparing with growth of reserve assets. This problem requires Eesti Pank every year correct previous years data.
But accounting rules show in current account deficit also sums what were not leaved Estonia and namely on the subaccount of income.

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 together with social transfers earned abroad 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 claims and payable from foreign investment liabilities (interests, dividends and other proprietary income). Investment income also includes reinvested earnings reflected as direct investments, being a proportional change equal to investment in the undistributed profit of the investment company.

Accounting income on realised and unrealised exchange rates and spreads are not records 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.

So income account includes among income outflows earnings reinvested into Estonia. These sums are big for very high foreign direct investment (FDI) inflows into Estonia. The research of Kálmán Kalotay brought detailed information of invarded FDI stock of selected economies as a percentage of GDP on 2002, where Estonia took the second position after Argentina (75.3%) with its percentage (58.6) on 2002 (Kalotay, 2004:121).

Table 6 shows that share of reinvested earnings into Estonia is forming usually two thirds of FDI inflows. From Table 1 we saw that in 2006 current account deficit was ca 30 bln EEK or 15,5%, comparing with GDP. When we take off reinvested earnings (13.2 bln EEK) deficit will be only 8,3% what is quite acceptable level for quickly growing transition economy.

Table 6. Reinvested earnings in GDP and FDI in Estonia

Year	**GDP in current prices (EEK m)**	**FDI total volume (EEK m)**	**Reinvested earnings**		
			volume (EEK m)	**share in FDI (%)**	**per GDP (%)**
2000	95491	6645	1815	27,3	1,9
2001	108218	9430	3879	41,1	3,6
2002	121372	4800	3370	70,2	2,8
2003	136010	12865	6407	49,8	4,7
2004	149923	12128	7982	65,8	5,3
2005	175392	35275	8212	23,3	5,3
2006	207061	20982	14256	67,9	6,9

Source: Estonia's Balance of Payments Yearbook 2006, 2007.

From the oposit side, Estonia has invested lot of money ahead to the Latvia and Lithuania. Several studies have shown that, foreign investors who are oriented to developing markets are interested to maximize the proprietary income (Nunnenkamp, 2000). According to the literature, 43% of German investors in Central and Eastern European countries are aiming for efficiency and 40% orienting towards new markets (especially in car, cement and chemical industries) (Zschiedrich, 2003:79). Lankes and Venables (1996) and Lankes and Stern (1998) find that the motive of entering new markets dominates in investments into Central and Eastern European (CEE) countries. Naturally, the motive of spreading risks plays role due to higher economic and financial risks due to higher in transition countries compared with developed market economies.

Investments from Estonia abroad already started to produce incomes to investors. But part of these earnings do not return to Estonia but are reinvested abroad. These sums we should to add to the income account real deficit to find real income money outflow from Estonia. So, we may conclude that by accounting rules in income subaccount are registrated some sums which did not leave Estonia and some sums what did not come into Estonia.

From Table 7 we may see that FDI income inflow and outflows grew very rapidly during the last year, but income inflow grew even quicker.

Table 7. Inflows and outflows of income in Estonia (mill. EEK)

	2005	**2006**	**Growth (%)**
Income inflow, total	8468	13483	59,2
of which: income on direct investment	3221	5585	73,4
income on portfolio investment	1038	1930	85,9
income on other investment	995	1091	9,5
other income	3214	4878	51,8
Income outflow, total	15677	22908	46,1
of which: income on direct investment	11990	17867	49,0
income on portfolio investment	1407	1103	–33,7
income on other investment	1663	2809	68,9
other income	621	918	47,8
Income inflow to outflow ratio, %	54,0	58,9	9,1

Source: Estonia’s Balance of Payments Yearbook 2006, 2007; completed by author.

We also see that the outflow of FDI income grew 49%. As investments outflow started later than investments inflow and are lower in amount, income inflows on direct investments are much more modest than outflows, but are nevertheless growing fast. Reinvested FDI income outflow in 2006 was 14616 million EEK, but inflow more than 3 times bigger or 4771 million.

The conclusion from the above mentioned analysis is that in the medium term, large inflows of direct investments into Estonia are unable to balance the current account of the balance of payments, since the part of earned income is taken out from Estonia, while another part is reinvested in to markets with better profit outlooks. Thus, if one wants to balance Estonian income money inflows and outflows, it is necessary to develop in further measures to avoid outflows of income earned in Estonia.

Conclusions

For years Estonia has been an attractive transition country for foreign investors, but due to continuously high current account deficit the increase outflow of money will causes for Estonia problems and gives very negative signal to new potential foreign investors.

The resent trends of FDI indicate that the foreign owners in Estonia are increasing their investments by reinvesting the profit and loan capital in the companies’ assets. This tendency demonstrates that foreign investors have succeeded in Estonia and that they have made long-term business plans in this country. Besides, they are making more and more investments through Estonia in the Eastern transition markets, using the experience gained in doing business in the Estonian emerging markets.

In the short run FI inflows increase the current account deficit of a transition country for their strongly positive influence to the import: import of technological reconstruction and increased purchasing power of the domestic market. But even now Estonia's current account deficit is one of the largest among transition countries.

Our research showed that this high current account deficit has two untraditional reasons. One reason for the high current account deficit is the higher degree of internationalization of Estonian economy compared to our neighbours. The second reason of the high ratio of current account deficit is double registrating reinvested earnings in the balance of payments. On income subaccount are registrated reinvested earnings which did not leave Estonia and they are at the same time included to the FDI inflows data.

Our position is that these economic policy measures enabling significantly reduce the Estonian current account deficit should be applied immediately and we should to explain the accounting influence to the current account balance to our investors and inside of Estonia also.

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Appendix 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	75,199.0	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	123.5	–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	–16,009.0	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	779.0	–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**

Source: Estonia's Balance of Payments Yearbook 2006, 2007:5).

Appendix 2. Internationally comparable key balance of payments indicators of Estonia

	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 of 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

Source: Estonia’s Balance of Payments Yearbook 2006, 2007:5).

Appendix 3. Scope of primary and consolidated data used for Estonia's 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-residence	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
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

Name of statement/report	Target group/content of statement/report	Frequency	Due date after accounting period	Sample size/No of data sources
Accommodation establishments' statement	Data on turnover and number of tourists services 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 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 days

Source: Estonia's Balance of Payment Yearbook 2006, 2007:57–58).