



## Brief Overview of State Budget 2013

**The state of Estonian economy is moderately optimistic. The government will take the budget into a sound surplus so it can start increasing the amount of reserves.**

- The gross domestic product (GDP) of Estonia continues its stable growth and will come close to the level of average long-term growth during the next three years. Export will remain the engine of economic growth in the coming years.
- However, insecurity in global economy calls for caution in increasing expenditure. The main threat is that external demand will not recover as much as expected.

**The government follows the goal set in the budget strategy in order to maintain the trustworthiness of its economic policy and use the coming years for increasing sustainable development and securing economic growth.**

- The general government budget for the next year is close to balance (-0.7% of GDP), which is a sign of economic stability and creates a better economic environment overall.
- Structurally, the budget position will have a surplus of 0.1% of GDP in the next year.
  - Structural surplus indicates that there are no sustainability problems in the budget and the nominal deficit in the coming years is a result of temporary factors.

**Tabel 1. Government sector's accrual-based budgetary position in 2013**

<b>Government sector (mln EUR)</b>	<b>-128</b>
State budget	-144
<i>incl state pension insurance</i>	-370
Other central government	-18
Social security funds	64
Local governments	-29
<b>Government sector (% SKPst)</b>	<b>-0,7%</b>
State budget	-0,8%
<i>incl state pension insurance</i>	-2,0%
Other central government	-0,1%
Social security funds	0,4%
Local governments	-0,2%

**The debt burden of Estonia will remain the lowest in the European Union also according to the budget for 2013**

- The debt burden forecast for the coming year is 12 per cent of GDP, where 4.3 per cent is the impact of EFSF (in 2011, 16.3% of GDP in Bulgaria and 18.2% in Luxemburg. The average in the eurozone is 83% of GDP).
- In addition to the difference in current revenue and expenditure, the debt burden of general government is also influenced by the contribution made to the European Stability Mechanism (ESM) and the increase of the equity of Eesti Energia by up to 200 million euros.
- According to the forecast, the state will not have to go to the bond market.
- In the conditions of economic growth that exceeds expectations, the state avoids making positive supplementary budgets and reduces the deficit faster instead.

**The main trends of tax policy remain the same. The tax burden will decrease by 0.6% to 32.6% in 2013, which is the lowest level in the last five years**

- The goal is to take the tax burden back to the level it was at before the recession by reducing labour-related taxes.
- The following will have an impact on the tax burden next year:
  - reducing the unemployment insurance premium rates to 3 per cent;
  - according to the resolution adopted in spring, alcohol excise will be increased by 5 per cent to reduce the accessibility of alcohol.
  - The 10% increase in tobacco excise on cigarettes will be divided between two years.

## **REVENUE**

**State budget revenue will increase by 165.1 million euros or 2.2 per cent to 7.5 billion euros**

- The transfers of revenues (e.g. local authorities' share of income tax and unemployment insurance premium) will be recognised in the budget from the next year and increase revenue/expenditure by 1.05 billion euros.

**The revenue structure of the state budget has changed. The share of non-tax revenue decreases**

- Non-tax revenue will decrease by 122 million euros in comparison to Summer Forecast 2012.
  - Support will decrease by 145.4 million euros.
  - Financial revenue will decrease by 14.6 million euros.
- The state plans to collect taxes more efficiently in the next year. Tax revenue will decrease by 264.7 million euros in comparison to Summer Forecast 2012, incl.:
  - social tax 139 million euros;
  - VAT 64.4 million euros; and
  - excise duties 46.2 million euros.

Tabel 2. State Budget revenue in 2013

	Forecast for 2012 (mln EUR)	State Budget 2013 (mln EUR)	Compared to previous year (mln EUR)	Compared to previous year (%)
<b>Taxes and social security payments</b>	<b>4 760,5</b>	<b>5 025,2</b>	<b>264,70</b>	<b>5,6</b>
Personal income tax	257,0	293,3	36,3	14,1
Corporate income tax	258,0	234,0	-24	-9,3
Social tax	1 930,0	2 069,0	139	7,2
Heavy goods vehicle tax	3,7	3,9	0,2	5,4
Value added tax	1 485,0	1 549,4	64,4	4,3
Excise duties	775,0	821,2	46,2	6,0
Alcohol excise duty	194,0	209,0	15	7,7
Excise duty on tobacco	156,5	161,8	5,3	3,4
Fuel excise duty	392,0	417,0	25	6,4
Excise duty on packaging	0,3	0,4	0,1	33,3
Excise duty on electricity	32,2	33,0	0,8	2,5
Gambling tax	21,1	21,5	0,4	1,9
Customs duty	30,7	33,0	2,3	7,5
<b>Non-tax revenue</b>	<b>1 552,9</b>	<b>1 428,8</b>	<b>-124,1</b>	<b>-8,0</b>
Sales of goods and services	148,1	157,0	8,9	6,0
Subsidies	1 106,3	961,0	-145,3	-13,1
Other revenue	129,0	148,8	19,8	15,3
Financial revenue	169,5	162,0	-7,5	-4,4
<b>State Budget total</b>	<b>6 313,4</b>	<b>6 454,0</b>	<b>140,6</b>	<b>2,2</b>
Transfers of revenues	1 009,2	1 029,5	20,3	2,0
<b>Total revenue</b>	<b>7 322,6</b>	<b>7 483,5</b>	<b>160,9</b>	<b>2,2</b>

## EXPENDITURE

**State budget expenditure will increase 1.1 per cent to 7,7 billion euros in 2013.**

- The state's expenditure in the next year is planned responsibly and in consideration of long-term impact in order to guarantee the security of consumers and companies.

**Tabel 3. Budget expenditure by areas of administration and government**

	Budget 2012	Budget 2013	Change (mln EUR)	Change (%)
<b>Total</b>	<b>7 601 366 842</b>	<b>7 683 758 782</b>	<b>82 391 940</b>	<b>1,1%</b>
<b>Government of the Republic</b>	<b>326 648 315</b>	<b>324 000 569</b>	<b>-2 647 746</b>	<b>-0,8%</b>
<b>The Chancellery of the Riigikogu</b>	21 475 950	22 402 796	926 846	4,3%
<b>Office of the President of the Republic</b>	3 787 546	3 967 899	180 353	4,8%
<b>National Audit Office</b>	4 527 617	4 827 117	299 500	6,6%
<b>Chancellor of Justice</b>	2 001 938	2 069 308	67 370	3,4%
<b>Supreme Court</b>	4 701 418	4 766 963	65 545	1,4%
<b>Government Office</b>	5 849 933	6 590 690	740 757	12,7%
<b>Ministry of Education and Research</b>	495 094 112	523 390 718	28 296 606	5,7%
<b>Ministry of Justice</b>	113 160 744	116 489 798	3 329 054	2,9%
<b>Ministry of Defence</b>	340 663 000	361 365 000	20 702 000	6,1%
<b>Ministry of the Environment</b>	476 059 253	286 220 837	-189 838 416	-39,9%
<b>Ministry of Culture</b>	167 566 144	155 503 043	-12 063 101	-7,2%
<b>Ministry of Economic Affairs and Communications</b>	570 656 533	584 660 354	14 003 821	2,5%
<b>Ministry of Agriculture</b>	359 880 962	344 400 943	-15 480 019	-4,3%
<b>Ministry of Finance</b>	1 485 689 895	1 546 553 838	60 863 943	4,1%
<b>Ministry of Internal Affairs (security)</b>	294 417 311	282 715 568	-11 701 743	-4,0%
<b>Ministry of Internal Affairs (regional)</b>	176 676 986	149 528 311	-27 148 675	-15,4%
<b>Ministry of Social Affairs</b>	2 787 420 131	2 980 929 920	193 509 789	6,9%
<b>Ministry of Foreign Affairs</b>	46 387 650	57 338 048	10 950 398	23,6%

**The main increase in expenditure is related to the increase in social protection:**

- state pension insurance expenses increase by 93.3 million euros;
- health insurance expenses of the Health Insurance Fund increase by 55 million euros; and
- the state transfers 9 million euros into the mandatory pension funds of residents.

**Increases in expenditure caused by new activities:**

- need-based child support 2.6 million euros;
- vocational study programme reform 5 million euros;
- restoration of paternal leave 3.7 million euros;
- streamlining the general education network 4.1 million euros; and

- need-based education allowance 3.6 million euros.

**The increase in budget expenditure is also related to the increase in the state's labour and management expenses**

- All areas of government receive another 4.4 per cent, or 29.3 million euros, for labour expenses.
  - Each minister decides on the purpose for which the additional funds will be used as necessary, i.e. salaries will increase in areas where it is needed the most.
- The increase in operating expenses that is related to the defence budget is 11.1 million euros.
- Road maintenance costs will also increase operating expenses.

**Social benefits amount to 28.3 % of the total volume of the state budget for 2013, i.e. 2.2 billion euros.**

- The cost of social benefits will increase by 122.5 million euros or 6 per cent in comparison to the budget for 2012.
- Pension will increase by five per cent.
- The average amount of social benefits paid by the state per one resident in 2013 is 1,674.15 euros.

**Budget expenditure is reduced by the expenses covered by the money raised from sales of pollution quotas and foreign support in relation to the expiry of the 2007-2013 period:**

- expenses incurred on account of sales of pollution quotas decrease by 181.7 million euros;
- foreign support by 50.4 million euros; and
- expenditure related to co-financing of foreign support by 18.6 million euros.

**In comparison to 2012, public sector investments will decrease by 109 million euros (10.6%) to 921.7 million euros, This is 21.2 per cent of the forecast investments of all sectors.**

- Estonia stands out with a high level of investments when the share of general government investments in GDP is compared with neighbouring countries. The volume of investments remained high during the crisis as well.

**Approximately 450.4 million euros of external support will be directed into investments in 2013, which is 48% of all general government investments.**

- 93.7 million euros will go to road maintenance;
- 150 million euros will be invested in the infrastructure of water and waste economy.
- 85.4 million euros will be used investment support for the implementation of the Estonian Rural Development Plan 2007-2013 and the Operational Programme for the European Fisheries Fund 2007-2013.

- 46 million euros is intended for the development of the hospital network and investments into welfare infrastructure.

**The biggest investment properties to be built via RKAS (State Real Estate Ltd) in 2013 are:**

- education – four schools (Nõo Realgümnaasium, Viljandi Gümnaasium, Haapsalu Gümnaasium, Jõgeva Gümnaasium) and the new archive building of the National Archive:
- homeland security – Tartu rescue depot and united alarm centre, Lasnamäe rescue depot and united alarm centre.
- culture – main building of the Estonian National Museum.

**Expenditure has remained stable in terms of areas of activity for many years and there will also be no major changes in 2013.**

- We still contribute more into to education, culture and national defence in comparison to other EU countries.

- Similar to previous years, social protection expenses will comprise the biggest share of budget expenditure in 2013 with more than 33.2% of total revenue.

	Budget 2012	Budget 2013	Share of GDP, %	Change (mln, EUR)	Change (%)
GDP, mln EUR	16 672 000 000	18 068 000 000		1 396 000 000	8,4
<b>Allocation of costs by the fields of activity (COFOG)</b>	<b>7 601 366 842</b>	<b>7 683 758 782</b>	<b>42,5%</b>	<b>82 391 940</b>	<b>1,1</b>
<b>General public services</b>	1 319 645 331	1 403 156 533	<b>7,8%</b>	83 511 202	<b>6,3</b>
<b>Defence</b>	318 572 887	337 086 470	<b>1,9%</b>	18 513 583	<b>5,8</b>
<b>Public order and safety</b>	386 422 132	375 934 559	<b>2,1%</b>	-10 487 573	<b>-2,7</b>
<b>Economic affairs</b>	918 109 569	906 802 913	<b>5,0%</b>	-11 306 656	<b>-1,2</b>
<b>Environmental protection</b>	522 008 775	317 889 959	<b>1,8%</b>	-204 118 816	<b>-39,1</b>
<b>Housing and community amenities</b>	0	10 000 000	<b>0,1%</b>	10 000 000	<b>100,0</b>
<b>Health</b>	876 239 026	948 164 977	<b>5,2%</b>	71 925 951	<b>8,2</b>
<b>Recreation, culture and religion</b>	166 465 248	178 077 054	<b>1,0%</b>	11 611 806	<b>7,0</b>
<b>Education</b>	696 220 168	724 482 925	<b>4,0%</b>	28 262 757	<b>4,1</b>
<b>Social protection</b>	2 397 683 706	2 482 163 392	<b>13,7%</b>	84 479 686	<b>3,5</b>