



Economic situation

The state of the Estonian economy is moderately optimistic. The situation in the global economy is showing signs of stabilisation, but the state must be reasonable when increasing expenses.

The forecasts of some close neighbours and trade partners of Estonia have been toned down compared to spring, but their outlook in general is better than the EU's on the whole.

According to the forecast of the Ministry of Finance, the economy of Estonia will increase by 1.5 per cent this year on the back of internal demand, which is more modest than expected. Economic growth was influenced by weak external demand and the slowdown in the growth of internal demand, especially investments.

Improvement in the economic development outlook of the eurozone will also increase Estonia's growth opportunities as of 2014 and economic growth will once again approach a mid-term potential level of 3.6 per cent.

Fiscal framework of government sector

The structurally adjusted budget position will increase to 0.7 per cent of GDP by 2014.

- The structural surplus indicates that there are no structural sustainability problems in the budget and that the nominal position has been improving gradually since the disappearance of one-off influences.
- The total influence of one-off measures in 2014 is -0.7 per cent of GDP.
- Investments related to sales of pollution quotas will continue, the equity of Estonian Air will be increased and the influence of the funded pension compensation mechanism will also emerge.
- In 2012 Estonia had the smallest deficit of any EU Member State, at 0.2% of GDP. Germany was the only country with a surplus in the government sector budget.

The debt burden of the government sector by the end of next year will be 10 per cent of GDP, or 7.4 per cent of GDP without the impact of the EFSF.

- Although nominal debt burden will increase, the central government debt as a percentage of GDP will decrease from 6.8 per cent in 2013 to 6.7 per cent by the end of 2014.

Central government reserves amounted to 912 million euros at the end of 2012, but liquid financial assets are expected to decrease to 380 million euros by the end of 2014.

- This decrease in reserves is a result of the need to use them to cover the difference between current income and expenses, and to fund financing transactions.

State budget revenue

The revenue planned in the state budget amounts to 8 billion euros, which is 349 million euros or 4.6 per cent more than planned for the present year.

- The planned increase in tax revenue compared to planned revenue in 2013 is 6.8 per cent.
- Revenue from all taxes is expected to increase in 2014 compared to this year.
- Non-tax revenue will decrease by 8.2 per cent in relation to the decrease in the amount of external resources.

The tax burden will decrease to 32.1 per cent in 2014, i.e. by 0.3 per cent.

- This is the lowest level in the last six years.
- Increasing the excise duty payable on tobacco and alcohol will increase the tax burden in 2014.
- The higher contributions of the state to the mandatory funded pensions of those who continued making their own contributions will reduce the tax burden.

State Budget revenue in 2013 (mil EUR)

	Forecast for 2013 (million EUR)	State Budget 2014 draft (million EUR)	Compared to previous year (million EUR)	Compared to previous year (%)
Taxes and social security payments	5 109.3	5 457.5	348.2	6.8
Personal income tax	299.0	331.1	32.1	10.8
Corporate income tax	320.8	316.0	-4.8	-1.5
Social tax	2 065.0	2 245.7	180.7	8.8
Heavy goods vehicle tax	4.0	4.2	0.2	5.0
Value added tax	1 575.0	1 672.9	97.9	6.2
Excise duties	795.6	836.9	41.3	5.2
Alcohol excise duty	209.0	225.0	16.0	7.7
Excise duty on tobacco	168.1	175.4	7.3	4.3
Fuel excise duty	385.0	402.0	17.0	4.4

	Forecast for 2013 (million EUR)	State Budget 2014 draft (million EUR)	Compared to previous year (million EUR)	Compared to previous year (%)
Excise duty on packaging	0.250	0.250	0.0	0.0
Excise duty on electricity	33.2	34.2	1.0	3.0
Gambling tax	21.4	22.0	0.6	2.8
Customs duty	28.5	28.7	0.2	0.7
Non-tax revenue	1 488.3	1 365.8	-122.5	-8.2
Sales of goods and services	164.4	130.3	-34.2	-20.8
Subsidies	1 027.0	902.9	-124.2	-12.1
Other revenue	140.7	138.3	-2.3	-1.7
Financial revenue	156.1	194.3	38.2	24.4
Transfers of revenues	1 051.7	1 175.0	123.3	11.7
Total revenue	7 649.2	7 998.3	349.1	4.6

State budget expenditure

State budget expenditure will increase by 377 million euros or 4.9 per cent to 8.06 billion euros.

- If the expenses of Riigi Kinnisvara AS (State Real Estate Ltd.) are included, budget expenditure will increase by 418 million euros to 8.1 billion euros.
- The expenses of most areas of government will increase.
- Decreases only occur on account of one-off decisions made in the previous year (e.g. in respect of expenses that depend on revenue, such as foreign support).
- The increase in social expenditure has a major impact.

The expenses of Estonia's government sector form a more modest share of GDP than in other EU countries.

- In 2012 the average share was 49.3% in the EU and 40.5% in Estonia.
- The growth in Estonia compared to 2011 was 2.2 percentage points, which can partly be attributed to the use of proceeds from sales of CO₂ quotas.

There are plans to cover 899.2 million euros or 11.2 per cent of total state budget expenditure from foreign support in 2014.

- 100.2 million euros of this is for the implementation of the support measures of the new EU programme period (2014-2020).
- Compared to 2013 the total amount of foreign support in the state budget will decrease by 5.6 per cent as a result of the end of the present period and the launch of the new one.

Investments of the government sector in 2014 will amount to 832.1 million euros, which is 17.6 per cent of the projected investments of all sectors.

- Government sector investments will increase by 81.2 million euros or 8.9 per cent in comparison to the budget for 2013.

1.32 billion euros or 16.4 per cent of the budget is planned for labour and management expenses.

- Operating expenses are divided into labour expenses (665 million euros) and management expenses (657 million euros).

Social and other benefits to natural persons comprise 27.7 per cent of the 2014 state budget, i.e. 2.28 billion euros.

- Compared to the budget for 2013, total benefit expenses will increase by 116,085,452 euros or 5.36 per cent in relation to the procedure and scope of payment of pensions and benefits.
- The increase in benefits in 2014 arises mostly from the increase in pensions, second pension pillar contributions, education allowances, social tax paid for social benefit recipients and necessity-based family allowances.
- The average amount of social benefits paid by the state per resident in 2014 is 1,768 euros.

Budget expenditure by areas of administration

	Budget 2013	Budget draft 2014	Change (million EUR)	Change (%)
Total	7 683 758 782	8 060 509 512	376 750 730	4.90
The Chancellery of the Riigikogu	22 402 796	24 294 905	1 892 109	8.45
Office of the President of the Republic	3 967 899	4 397 123	429 224	10.82
National Audit Office	4 827 117	4 825 574	-1 543	-0.03
Chancellor of Justice	2 069 308	2 273 841	204 533	9.88
Supreme Court	4 766 963	5 071 259	304 296	6.38
Government Office	6 590 690	7 370 057	779 367	11.83
Ministry of Education and Research	523 390 718	543 285 677	19 894 959	3.80

	Budget 2013	Budget draft 2014	Change (million EUR)	Change (%)
Ministry of Justice	116 489 798	125 625 587	9 135 789	7.84
Ministry of Defence	361 365 000	383 992 940	22 627 940	6.26
Ministry of the Environment	286 220 837	276 144 022	-10 076 815	-3.52
Ministry of Culture	155 503 043	170 308 040	14 804 997	9.52
Ministry of Economic Affairs and Communications	584 660 354	563 062 498	-21 597 856	-3.69
Ministry of Agriculture	344 400 943	332 413 969	-11 986 974	-3.48
Ministry of Finance	1 546 553 838	1 753 930 964	207 377 126	13.41
Ministry of Internal Affairs (security)	282 715 568	315 199 734	32 484 166	11.49
Ministry of Internal Affairs (regional)	149 528 311	140 880 887	-8 647 424	-5.78
Ministry of Social Affairs	2 980 929 920	3 112 497 372	131 567 452	4.41
Ministry of Foreign Affairs	57 338 048	61 826 535	4 488 487	7.83

Expenditure by function (COFOG)	Budget 2013	Share of GDP, %	Budget draft 2014	Share of GDP, %	Change (%)
Total	7 683 758 782	42.4%	8 060 509 512	41.6%	4.90%
General public services	1 403 156 533	7.7%	1 372 903 233	7.1%	-2.16%
Defence	337 086 470	1.9%	358 076 732	1.8%	6.23%
Public order and safety	379 230 376	2.1%	421 452 941	2.2%	11.13%
Economic affairs	906 802 824	5.0%	976 824 731	5.0%	7.72%
Environmental protection	317 890 048	1.8%	320 173 737	1.7%	0.72%
Housing and community	10 000 000	0.1%	0	0.0%	-100.0%

Expenditure by function (COFOG)	Budget 2013	Share of GDP, %	Budget draft 2014	Share of GDP, %	Change (%)
amenities					
Health	948 164 977	5.2%	1 017 876 840	5.3%	7.35%
Recreation. culture and religion	180 034 532	1.0%	206 902 670	1.1%	14.92%
Education	734 163 938	4.1%	760 574 366	3.9%	3.60%
Social protection	2 482 586 248	13.7%	2 667 085 741	13.8%	7.43%

Selection of activities in 2014 state budget

Employment has decreased and salaries have grown faster than expected, which allows us to increase pensions in the next year by 5.8 per cent on average. This is the biggest pension increase in the last six years. The extra money received averages 240 euros per year, which means a monthly pension increase of 20 euros. The state will also increase the income tax-exempt minimum of pensions in such a manner that the average pension is exempt from income tax after the increase.

The government will also increase the payroll in all areas of government by 5.1 per cent. Ministers in turn can allocate funds for salary increases in areas where the need for this is greatest. In some areas it will be possible to increase salaries more as a result of reforms. The total cost of the payroll increase is 49 million euros.

Activities aimed at reducing tax fraud will continue. 3.2 million euros is planned for the development of the information systems of the Tax and Customs Board in relation to reducing tax fraud and increasing tax revenue. The centralisation of the state's support services will continue – additional funds are planned to continue the development of the self-service portal and business software in 2014.

The government will continue protecting the interests of Estonia in consular activities and in the promotion of enterprise with the **development of the network of Estonia's foreign missions**. The priority in the development of the network of foreign missions in 2014 is the opening of an embassy in Brazil. The establishment of an embassy will increase the efficiency of Estonia's activities in this country and in the region as a whole.

More than half of the investments planned in the state budget are in the area of activity of the Ministry of the Interior – this means rescue depots and police buildings, and the new administrative buildings of the Police and Border Guard Board and the Rescue Board to be built in Pärnu and Võru. **The biggest part of the internal security budget is meant for the wages of people that guarantee security.**

The defence budget will remain at 2 per cent of GDP to strengthen Estonia's primary independent defence capacity and the collective defence capacity of NATO. In the next year three new barracks will be built in Võru, Jõhvi and Ämari and a building at the Miinisadam Port will be renovated, providing all conscripts with contemporary living conditions. One rapid response infantry brigade will be fully armed, equipped and manned, and the development of the second rapid response infantry brigade will continue.

The government aims to increase the quality of court proceedings and thereby reduce the duration of proceedings. The court reforms launched this year will continue in the Tartu region next year.

Large-scale transport infrastructure projects will continue.

The quality of passenger train traffic will increase as a result of the introduction of new rolling stock on all routes.

The renovation of tram tracks in Tallinn will start.

Preparations for building an icebreaker will continue.

Building new passenger ferries for connections with small islands will continue.

Estonia will make the first contribution to the Rail Baltic joint venture (650,000 euros), which is a step towards the construction of a fast railway between Tallinn and the Lithuanian-Polish border.

Preparing the establishment of additional connections to the electrical systems of neighbouring countries, development of decentralised power production, and connection and renovation of networks

National school curricula will be streamlined and the changeover to the new national examination system will take place.

The welfare queues of special needs people will be reduced.

Planning Estonia's presidency of the European Union and implementation of the action plan, and celebrations of the 100th anniversary of the Republic of Estonia will continue.