RAHANDUSMINISTEERIUM
MINISTRY of FINANCE of the REPUBLIC of ESTONIA

2018 Draft Budgetary Plan of Estonia

Tallinn, 16. October 2017

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Introduction

According to the European Parliament and Council Regulation (EU) No 473/2013 entered into force on 30 May 2013 about the common rules of monitoring and evaluation of Member States budget plans and ensuring the correction of their excessive deficit (EU OJ L 140, 27.05.2013) all euro area Member States must submit next year's draft budgetary plans (DBP) by 15 October.

Preparation and assessment of budgetary plans in autumn is an additional step in a framework of coordinated surveillance, which already included presenting and assessing the Stability Programmes by the Council and the Commission in spring. This contributes to coordination of policies between the euro area member states and ensures that the recommendations of the Council and of the Commission are taken into account accordingly in the budgetary processes of the member states. The information provided in the DBP should allow identifying possible discrepancies of the budgetary strategy from the one presented in the last Stability Programme.

The State Budget Strategy for the next four years along with the Stability Programme was approved by the Government on 27 April 2017. **The draft 2018 State Budget with explanatory memorandum was approved on 28 September in the meeting of the Government and at the same day it was given for proceeding to Parliament.**

The draft 2018 State Budget of the Republic of Estonia is based on State Budget Strategy 2018–2021, The Government's Action Programme and The European Commission and the Council recommendations[1] (given according to the Stability Programme and Estonia's 2020 Competitiveness plan) and designed activities according to these. In the formulation of the budgetary policy, the Stability and Growth Pact requirements on the budgetary policy of the EU Member States is being respected.

In 2018, Estonia's general government structurally adjusted budgetary position is planned in a deficit of 0.25% of GDP, exceeding the target set in the State Budget Strategy by 0.25% of GDP. Thus Estonia holds its medium-term objective, which is a structural deficit up to 0.5% of GDP.

[1] Estonia's country-specific recommendations shortly:
(1) Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact. Ensure better adequacy of the social safety net and reduce the gender pay gap.
(2) Promote private investment in research, technology and innovation.
More detailed country-specific recommendations and accompanying analysis can be found from European Commission's website: https://ec.europa.eu/info/strategy/european-semester/european-semester-your-country/estonia/european-semester-documents-estonia_en
Activities to comply with the recommendations of European Commission are published annually: https://riigikantselei.ee/en/supporting-government/national-reform-programme-estonia-2020.

1. Macroeconomic forecast

The Draft of State Budget 2018 of the Republic of Estonia is based on the summer forecast of the Ministry of Finance (MoF), published on 13 September 2017. External assumptions of the forecast were fixed in late August 2017. Economic forecasts of the Ministry of Finance are public and can be found from the web page of the ministry (https://www.rahandusministeerium.ee/et/riigieelarve-ja-majandus/majandusprognoosid).

Survey indicators for the European economy show increased optimism starting from the second half of 2016, and sentiment has remained strong since. This would translate into buoyant economic growth in the EU, but high uncertainty remains a concern in more distant future. Economic growth in Estonia's main trading partners has exceeded expectations, having a positive effect on our growth. Furthermore, after several delays EU 2014-2020 financing programmes are gaining momentum, which together with the local elections in autumn 2017 resulted in an upswing in public investments, giving a push to economic activity from public sector. Strong external environment, preserved export capacity and increasing investment activity are the main reasons behind an upward revision of economic growth throughout the forecast horizon. Nevertheless, both corporate and household saving rates are still at their historical highs, and positive messages need to remain for a longer period for breaking this trend.

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The growth of Estonia's gross domestic product reached 5.2% in the first half of this year, driven mainly by the strengthening of external environment and its positive impact on the confidence and investment of the business sector. According to the forecast baseline scenario, the Estonia's economy will grow 4.3% in 2017 and 3.3% in 2018. The main growth driver is domestic demand, which is based on growth of investments mainly. Export growth will pick up in line with external demand and its role as a carrier for growth should increase in the coming years. In 2019-2021 the Estonia's economy is forecast to grow by 3%, supported by relatively strong export growth, but the contribution of domestic demand remains stable due to private consumption and investment growth.

Private consumption growth will slow down significantly in 2017 because of rapid pickup of inflation. Despite high labour income growth, real consumption growth will be around 1.8%, as inflation accelerates to 3.4% and consumption behaviour of households is still cautious. In 2018, the robust increase of the tax free basic allowance will rise the net wage of low wage workers up to 15% and inflation decreases to 2.7%. This enables the pickup of private consumption up to 4.4%. As no further reforms which would increase the net earnings of households are currently planned, consumption growth will stay below GDP growth in the future, because the non-indexation of the new income tax system will constrain the growth of net incomes as the income level rises. Faster consumption growth can come from the decrease of the currently high saving rate.

Investment growth has recurred after three years of decrease mostly because the rapid pickup in the government sector. Mortgage borrowing increases at a moderate but stable pace which indicates a gradual pickup in confidence. A new phenomenon in the housing market compared to the pre-crisis period is a significantly lower use of borrowing to finance those investments and a higher share of flats that are bought for investment purposes. The government sector has finally managed to use more EU funds to finance its construction projects and local elections add additional incentives to public investment growth in 2017.

Corporations' investment growth has picked up as well, but so far it is not very broad based, related mostly to transport equipment. Weak investment during the recent years has been caused by sufficient capacity to meet still weak demand, but the trends in demand and investment seems to have been turned. Investment (gross capital formation) will grow 14% in 2017 due to weak base and some one-off projects. Starting 2018 growth will exceed GDP growth and be over 4%.

Foreign environment is favourable for Estonia this year. Global trade and economic growth has picked up and the economies of Estonian neighbour countries have shown faster output growth compared to the euro zone average. Strong expansion will continue in the second half of the year as well, enabling companies to raise export volumes and increase prices. Foreign demand will be the strongest of last five years, reaching 4.1%. Although the export growth is broad based and long-distance markets are in an upswing as well, goods export is being dragged by the weakness of foreign orders of communication equipment. Therefore, slightly weaker growth of **goods and services export** compared to foreign demand can be expected this year (3.5%). Import will grow 3.8%, being supported by growing investment need of companies and by the recovery of government investments related to increased utilisation of EU funds. Global recovery will continue in next year's, favouring the dynamics of our main trading partners. Export growth will stabilise at around 4%, which is slightly higher compared to foreign demand growth.

Similarly to last two years, **current account** surplus is expected to be near 2% of GDP in 2017. Brisk pick up in investments and the recovery of foreign companies' profitability will be compensated by the improvement of services account surplus. In midterm, current account surplus will decrease in terms of stable and close to potential economic growth.

Due to broad based increase in food prices, additional tax measures and increase in services prices, **inflation** will peak in the second half of 2017. Driven by the increase in global food prices and partly by vigorous growth of domestic demand, food prices will rise by 5.3% this year. Energy prices will increase by ca 5%, though in next year's relatively low crude oil futures will keep the contribution of energy to CPI modest. Indirect taxes raise the inflation rate by 0.9% in 2017 and the vast majority is coming from alcohol, tobacco and fuel excise increases. Services inflation will remain rapid in the second half of 2017. All in all, CPI inflation will reach 3.4% in 2017, which is the highest of the last five years. In 2018, slowdown of inflation can be expected (2.7%), because the price increase of fuels will fade away. In addition, food price increase will slow down, which was partly lifted by unfavourable weather conditions this year as well. Core inflation, reflecting price dynamics of services and industrial goods, will stabilise at 2.4%. This is in line with prompt wage dynamics and comparable to long time average growth rate. In 2019, inflation will slow to 2.5%, and in the end of forecast period to 2.0% mainly as a result of smaller impact from tax measures.

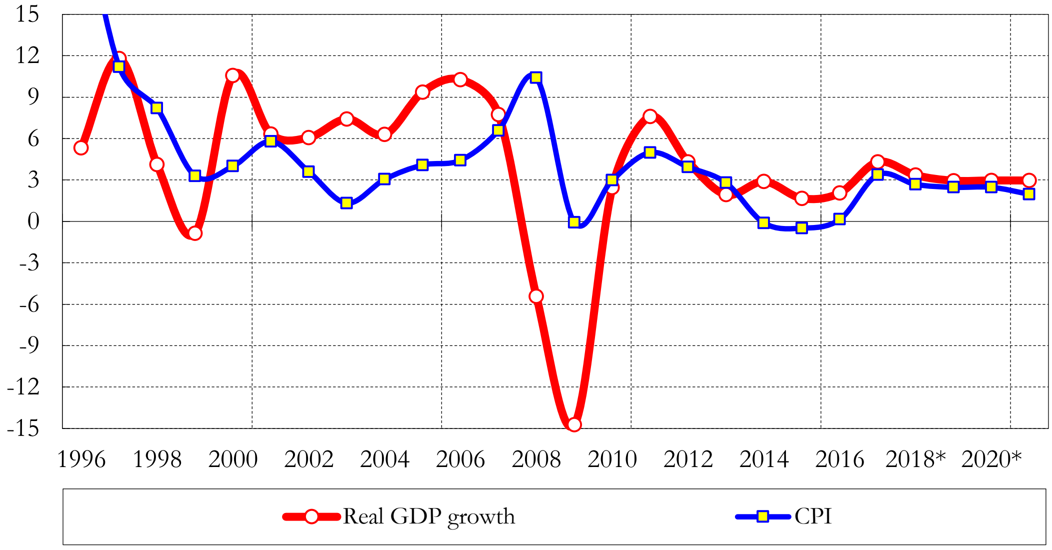
In the first half of 2017, positive **labour market** developments continued and demand for labour was supported by an upswing in economic activity. According to the labour market survey data, **employment** increased by 1.1% in the first half of this year and **unemployment** decreased to 6.3%. Employment growth was the fastest in domestic consumption related areas, but export sector needed extra forces, too. Construction sector employment started to increase again, supported by a rebound in construction activity after four years of decline, mostly due to growing public investments. A 0.8% increase in employment is forecast for this year, which is expected to moderate along with GDP growth and deepening labour supply constraints. Labour supply is affected by shrinking working age population from one hand, but by raising activity rates and positive migration flows from the other hand. Labour market participation is also affected by Work Ability Reform, which gradually started as of the middle of last year and according to the first outcomes could prove to be more successful than previously anticipated. Increasing unemployment is a side effect of the reform as non-working persons with reduced ability for work are required to register as unemployed at the Unemployment Insurance Board, but finding a job is complicated for them, while supporting measures start having a positive effect only gradually.

Average wage growth remained stable at around 6% during the first half of 2017, but an upward trend can be seen from latest Tax Board data due to accelerating economic growth. At the same time real wage growth has decelerated significantly when compared with previous years, remaining close to 3% during forecast horizon. Wage growth has been relatively widespread this year, although a 10% increase in the minimum wage increases wage pressures in sectors with lower than average wages. Labour shortage has increased significantly in recent months according to the sentiment indicators, but it still remains at the pre-boom levels. According to the forecast a 6.4% wage growth is expected this year, decelerating to 5.2% in 2108 due to positive income effect from personal income tax reform, mainly targeted to reduce labour tax wedge for lower income earners. Moderately fast wage growth is expected to continue in the following years, but still balanced with productivity gains.

Figure 1

Estonia's economic growth and the change of consumer price index

(per cent)

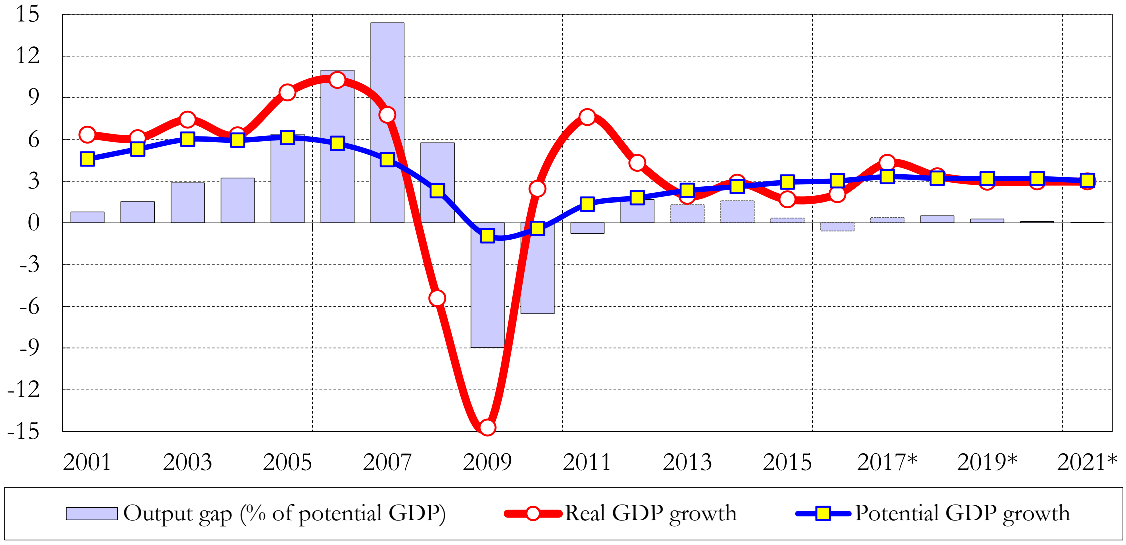


Source: Statistics Estonia, Ministry of Finance.

Figure 2

Development of potential GDP and output gap

(per cent)



Source: Statistics Estonia, Ministry of Finance.

Table 0.i) Basic assumptions

	2016	2017*	2018*
Short-term interest rate (annual average)	-0,3	-0,3	-0,2
Long-term interest rate (annual average)	0,1	0,4	0,7
USD/€ exchange rate (annual average)	0,904	0,887	0,848
Nominal effective exchange rate	1,2	0,5	0,0
World excluding EU, GDP growth	3,2	3,8	3,9
EU GDP growth	1,9	2,2	1,9
Growth of relevant foreign markets	2,7	4,1	3,8
World import volumes, excluding EU	0,8	4,4	4,0
Oil prices (Brent, USD/barrel)	43,7	51,6	53,1

Source: Ministry of Finance.

Table 1.a. Macroeconomic prospects

	ESA code	2016	2016	2017*	2018*
		Level	rate of change	rate of change	rate of change
1. Real GDP	B1*g	17976,6	2,1	4,3	3,3
of which					
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth (1/)		–	–	–	–
2. Potential GDP			3,0	3,3	3,2
contributions:					
- labour			1,0	0,7	0,5
- capital			0,9	1,2	1,2

- total factor productivity			1,2	1,4	1,5
3. Nominal GDP	B1*g	21098,3	3,7	8,7	6,9
Components of real GDP					
4. Private final consumption expenditure	P.3	9716,0	4,3	1,8	4,4
5. Government final consumption expenditure	P.3	3434,1	1,9	1,3	1,1
6. Gross fixed capital formation	P.51	4208,0	-1,2	13,7	4,1
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	403,7	1,9	1,5	1,4
8. Exports of goods and services	P.6	15 663,0	4,1	3,5	4,0
9. Imports of goods and services	P.7	15 408,5	5,3	3,8	4,4
Contributions to real GDP growth					
10. Final domestic demand			2,4	4,3	3,5
11. Changes in inventories and net acquisition of valuables	P.52 + P.53		0,6	-0,1	0,0
12. External balance of goods and services	B.11		-0,7	0,0	-0,2

1/ Implementation of budgetary measures were decided after the completion of macroeconomic forecast and therefore their impact on economic growth is not included in the forecast.

Source: Statistics Estonia, Ministry of Finance.

Table 1.b. Price developments

	ESA code	**2016** *level 2010=100*	**2016** rate of change	**2017*** rate of change	**2018*** rate of change
1. GDP deflator		117,4	1,6	4,2	3,4
2. Private consumption deflator		114,8	0,9	3,9	3,1
3. HICP		114,6	0,8	3,6	2,9
4. Public consumption deflator		127,3	4,0	4,9	3,9
5. Investment deflator		112,0	-0,8	3,8	3,3
6. Export price deflator (goods and services)		106,4	0,1	3,8	2,1
7. Import price deflator (goods and services)		102,9	-0,8	3,3	1,9

Source: Statistics Estonia, Ministry of Finance.

Table 1.c. Labour market developments

	ESA code	**2016** *Level*	**2016** *rate of change*	**2017*** *rate of change*	**2018*** *rate of change*
1. Employment, persons		644,6	0,6	0,8	0,4
2. Employment, hours worked					
3. Unemployment rate (%)		46,7	6,8	6,9	8,3
4. Labour productivity, (real GDP per employed person)		27,9	1,5	3,5	2,9
5. Labour productivity, hours worked					
6. Compensation of employees	D.1	10 411,4	6,0	6,3	6,3
7. Compensation per employee		16,151	5,4	6,1	5,5

Source: Statistics Estonia, Ministry of Finance.

Table 1.d. Sectoral balances

	ESA code	2016	2017*	2018*
		% of GDP	*% of GDP*	*% of GDP*
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	3,0	3,6	4,3
of which:				
- balance on goods and services		3,9	4,0	3,8
- balance of primary incomes and secondary incomes		-2,0	-1,9	-1,9
- capital account		1,1	1,5	2,4
2. Net lending/net borrowing of the private sector	B.9			
3. Net lending/net borrowing of general government	B.9	-0,3	0,0	-0,1
4. Statistical discrepancy		-1,1	-	-

Source: Statistics Estonia, Ministry of Finance.

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Economic forecast of the Ministry of Finance is prepared by analysts from the Fiscal Policy Department, who belong to personnel of the Ministry. The objectivity and independence of the forecast is assured through the transparency of forecast process, the involvement of different external economists and through continuous comparison of forecasting results. A preliminary version of the forecast will be discussed with the forecasting team of Bank of Estonia. Before finalisation of the forecast of the Ministry of Finance, its main assumptions and results will be discussed in a joint seminar with different forecasters in Estonia, who belong to the central bank, commercial banks and other institutions dealing with economic analysis. There are approximately ten institutions taking part from this seminar. In addition, different comparative tables and figures with the outcome of different independent forecasters can be found from the document of Ministry's economic forecast. On the basis of this it is easy to be convinced of systemic inducement by some forecasters.

Changes to the framework of co-ordination of economic and fiscal policies of EU Member States provide the creation of independent fiscal councils in all euro area member states, which monitor the accordance of fiscal policy to fiscal rules and assess the need to use the correction mechanisms implemented in the framework. Estonia's Fiscal Council, which is attached to the Central Bank, was established in 2014. According to the Treaty of the Fiscal Council, it must provide an assessment of government's economic and fiscal forecast, medium-term budgetary strategy and of achievement of the structural budget balance objective.

The opinion of the Fiscal Council on the summer 2017 economic forecast of the Ministry of Finance on 27.09.2017 says:[2]

- „The summer 2017 economic forecast of the Ministry of Finance, which shows the Estonian economy growing by 3.3% in real terms in 2018 and 6.9% in nominal terms, gives a plausible description of how the Estonian economy will develop in the near future, in the opinion of the Fiscal Council. The Fiscal Council finds that the risks of faster or slower growth are in balance."
- „Despite the very rapid growth in revenue, the Ministry of Finance forecasts the general

[2] More detailed analysis is found on the web page of the Fiscal Council: http://media.voog.com/0000/0036/0984/files/2017_summer_forecast_opinion.pdf

government budget will be in nominal and structural deficit in 2018. The Fiscal Council finds the forecast for revenues from corporate income tax are overly optimistic. This increases the risk that the budget deficit will be larger than planned. The summer forecast puts the structural deficit for 2018 at 0.4% of GDP, which the government has decided while drawing up the state budget to reduce to 0.25% of GDP. The Fiscal Council supports the decision of the government to reduce the structural deficit.“

- „Given the position in the economic cycle, the Fiscal Council recommends there should be a small surplus in the state budget to ensure that the structural budget position remains in compliance with the budget rules.“

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In the following, there are pointed out most relevant differences between Ministry of Finance’s 2017 summer forecast and other institutions latest public macroeconomic forecasts. Comparing them, one should keep in mind that forecasts are compiled in different periods and therefore based on different information, which causes variations in assumptions and results of the forecasts. As the foreign environment is uncertain and Statistical Office published revised GDP time series in September, then one should consider the assumptions of that time while estimating earlier forecasts.

In the beginning of this year, output expectations of different forecasters for 2017 were between 2.2-2.5%. After the stronger than expected Q1 GDP data, economic growth forecast has been revised significantly upwards. Because not all the institutions have updated their forecast, differences between forecasts are larger than usually. Ministry of Finance’s summer forecast for 2017 is one of the highest. This is because the forecast has been composed on the basis of the new GDP time series published in the end of August and taking into account robust output growth of Q2 as well.

For 2018, different institutions have bigger consensus. While in the first half of the year forecasts varied between 2.6-3.1%, then after the strong growth figures published since summer, forecasts for 2018 have been raised slightly. Last forecasts vary between 2.9-3.3%. Ministry of Finance increased economic growth to 3.3%, which is at the higher end of the forecast range.

Table 1.e. Comparison of economic forecasts

	Real GDP growth, %			Nominal GDP growth, %		
	2017*	2018*	2019*	2017*	2018*	2019*
Ministry of Finance	**4,3**	**3,3**	**3,0**	**8,7**	**6,9**	**5,8**
Bank of Estonia	3,5	3,3	2,9	6,9**	6,1**	5,7**
Swedbank	3,5	3,2	2,7	6,9	6,1	5,5
SEB	3,6	3,2	3,0	–	–	–
Nordea	3,3	2,9	2,8	–	–	–
Consensus Forecasts	3,8	3,0	–	–	–	–
European Commission	2,3	2,8	–	5,9**	6,1**	–
IMF	2,5	2,8	2,7	5,4	6,1	5,8
OECD	2,6	3,1	–	6,6**	6,0**	–
Estonian Institute of Economic Research	4,5	–	–	–	–	–

	Consumer price index, % (in brackets Harmonised Consumer Price Index)			General government position, % of GDP		
	2017*	2018*	2019*	2017*	2018*	2019*
Ministry of Finance	**3,4 (3,6*)**	**2,7 (2,9*)**	**2,5 (2,7*)**	**0,0**	**-0,1**	**-0,2**
Bank of Estonia	3,2 (3,4*)	2,4 (2,7*)	2,1 (2,5*)	-0,5	-0,9	-0,9
Swedbank	3,3	2,9	2,5	-0,5	-0,7	-0,5
SEB	3,2*	2,8*	2,5	-0,3	-0,8	-0,8
Nordea	3,3	2,5	2,4	-0,6	-0,9	-0,9
Consensus Forecasts	3,3	2,8	–	-0,2	-0,4	–
European Commission	3,3*	2,9*	–	-0,3	-0,5	–
IMF	3,2*	2,5*	2,3*	0,3	-0,2	-0,3
OECD	3,2*	2,8*	–	-0,4	-0,7	–
Estonian Institute of Economic Research	3,3	–	–	–	–	–

* Harmonised Consumer Price Index.
** calculated from the forecast of nominal GDP volume or by summing up real GDP and GDP deflator.

Sources:
Ministry of Finance. 2018 Draft Budgetary Plan of Estonia. 28.09.2017.
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Eastern Europe Consensus Forecasts. 18.09.2017.

2. Budgetary targets

The Government's medium-term objective (MTO) is the general government structural deficit up to 0.5% of GDP according to Stability Programme. Since 2009, after the global economic crisis, the budgetary position of general government has been in a structural surplus or balance (except in 2012 and 2013 when there was deficit 0.1% and 0.5% of GDP) and the MTO is therefore met.

In 2017, the structurally adjusted budgetary position of general government will remain in a surplus (0.2% of GDP) because of the impact of economic cycle, good tax revenue collection and modest expenditure growth. General goal of the fiscal policy is to preserve neutral or countercyclical budget policy. **In 2018, Estonia's general government structurally adjusted budgetary position is planned in a deficit of 0.25% of GDP, exceeding a target set in the State Budget Strategy by 0.25% of GDP.** The structural deficit of general government is planned temporarily and up to the amount of previously occurred surpluses. Structural deficit is used to finance strategic investments. Without them the budget would be in surplus, which indicates that there are no sustainability problems in the budget. Similar deficit as next year will remain also in 2019 after which general government reaches balance in 2020 and a surplus 0.5% of GDP in 2021. **Thus, Estonia holds its MTO during 2017-2021, which is a structural deficit up to 0.5% of GDP.**

According to Statistics Estonia the budgetary position of the general government fell in a deficit of 0.3% of GDP or EUR 61 million in 2016. Social security funds and local governments were in a surplus of respectively 0.04% and 0.1% of GDP. Central government was in a deficit of 0.5% of GDP. The general government structurally adjusted budgetary position was in a surplus of 0.2% of GDP in 2016.

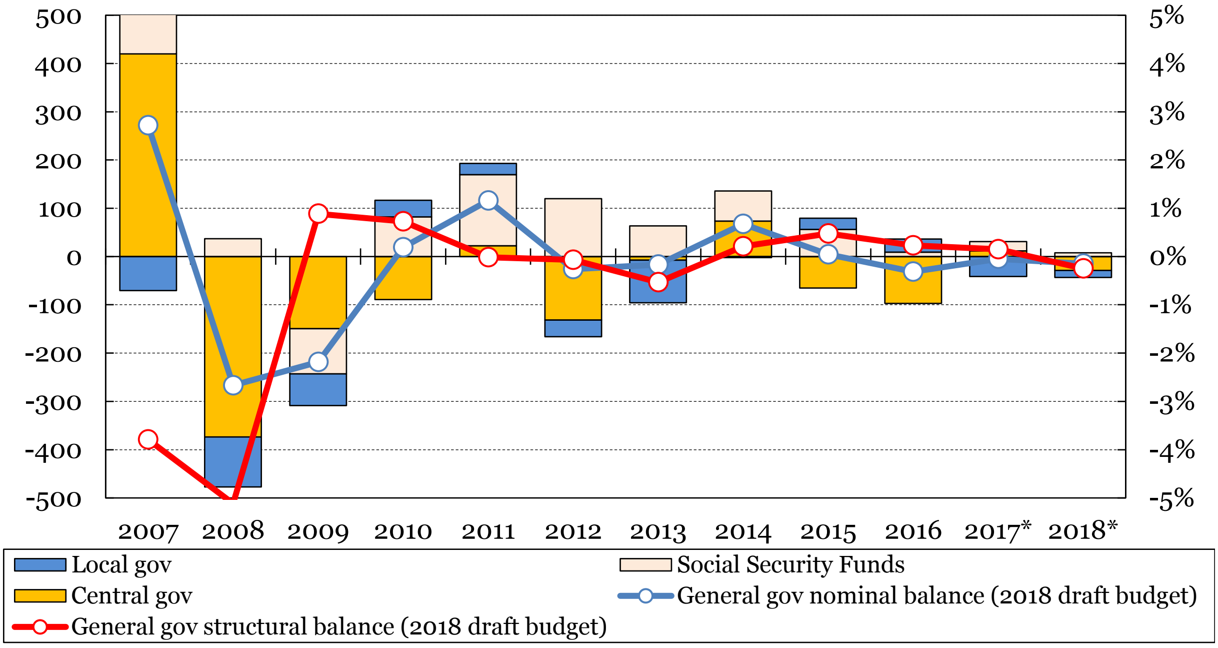
In 2017, the nominal budgetary position of general government, taking into account 2018 draft budget measures, reaches a nominal balance. Central government and social security funds are in a surplus. In 2018, according to the draft budget, the nominal budgetary position of the general government will be in deficit of 0.1% of GDP due to additional investments.

In 2016, the general government debt decreased to 9.4 % of GDP, amounting to EUR 1 987 million. The main reasons for the decline were the decrease of the debt burden of local governments and central government[3]. As according to the forecast there is no need to take a new loan in the next year, the debt burden decreases in 2018 to 8.6% of GDP.

[3] Public institutions and foundations involved in the central government.

Figure 3

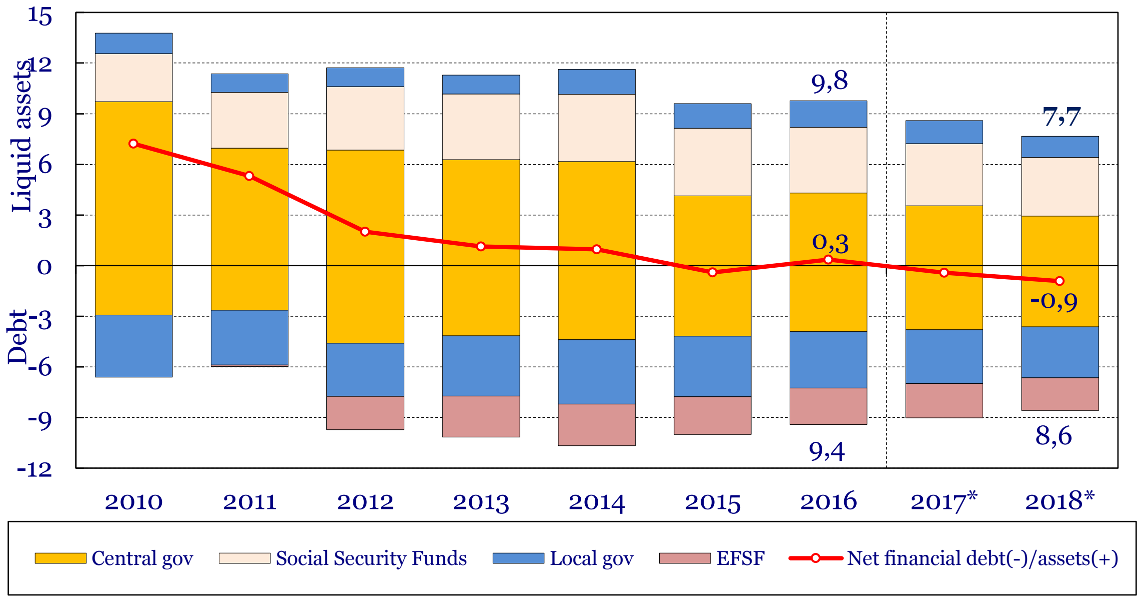
General government budgetary position
(% of GDP)



Source: Statistics Estonia, Ministry of Finance.

Figure 4

General government liquid financial assets, gross debt and net financial debt
(% of GDP)

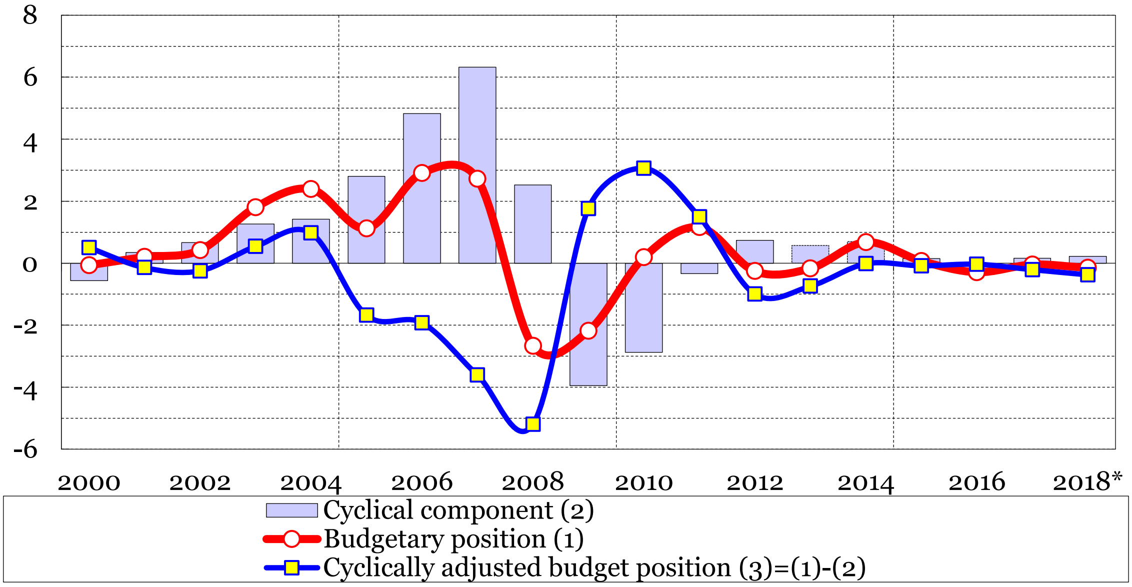


Source: Statistics Estonia, Ministry of Finance.

Figure 5

General government cyclically adjusted budgetary position

(% of GDP)

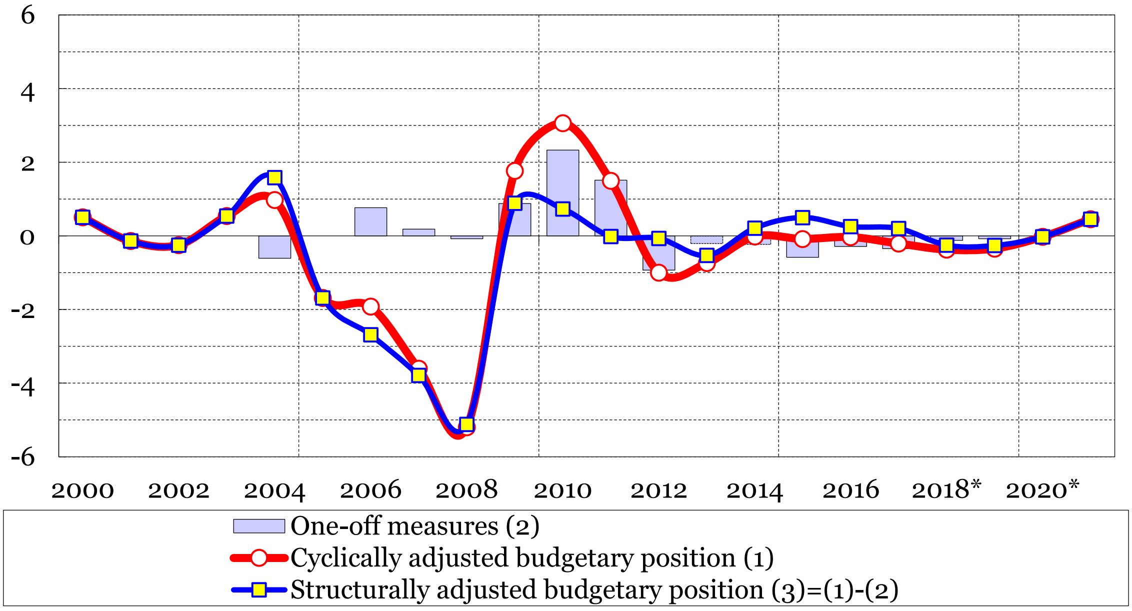


Source: Statistics Estonia, Ministry of Finance.

Figure 6

General government structurally adjusted budgetary position

(% of GDP)



Source: Ministry of Finance.

Table 2.a. Budgetary position objective of the general government by sub-sector

	ESA code	2017 (1/)	2018*
		% of GDP	*% of GDP*
Net lending (+) / net borrowing (-) (B.9) by sub-sector			
1. General government	S.13	0.0	-0.1
2. Central government	S.1311	0.1	-0.1
3. State government	S.1312	-	-
4. Local government	S.1313	-0.2	-0.1
5. Social security funds	S.1314	0.1	0.0
6. Interest expenditure	D.41	0.1	0.1
7. Primary balance (3/)		0.0	-0.1
8. One-off and other temporary measures (4/)		-0.4	-0.1
9. Real GDP growth (%) (=1. in Table 1a)		4.3	3.3
10. Potential GDP growth (%) (=2 in Table 1.a)		3.3	3.2
contributions:			
- labour		0.7	0.5
- capital		1.2	1.2
- total factor productivity		1.4	1.5
11. Output gap (% of potential GDP)		0.4	0.5
12. Cyclical budgetary component (% of potential GDP)		0.2	0.2
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		-0.2	-0.4
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		-0.2	-0.3
15. Structural balance (13 - 8) (% of potential GDP)		0.2	-0.3

1/ According to State Budget Draft 2018.
2/ TR-TE= B.9.
3/ The primary balance is calculated as (B.9, item 1) plus (D.41, item 6).
4/ A plus sign means deficit-reducing one-off measures.

Source: Ministry of Finance.

Table 2.b. General government debt developments

	ESA code	2017*	2018*
		% of GDP	*% of GDP*
1. Gross debt		9,0	8,6
2. Change in gross debt ratio		-0,4	-0,4
Contributions to changes in gross debt			
3. Primary balance (=item 10 in table 2.a.i))		0,0	-0,1
4. Interest expenditure	D.41	0,1	0,1
5. Stock-flow adjustment		0,3	0,0
of which:			
- Differences between cash and accruals		-	-
- Net accumulation of financial assets		-	-
of which:			
- privatisation proceeds		-	-

- Valuation effects and other		-	-
p.m.: Implicit interest rate on debt (1/)		0,6	0,7
Other relevant variables			
6. Liquid financial assets (2/)		8,6	7,7
7. Net financial debt (7=1-6)		0,4	0,9
8. Debt amortization (existing bonds) since the end of the previous year [4]		0,1	0,1
9. Percentage of debt denominated in foreign currency		0,0	0,0
10. Average maturity [5]		4,1	3,2

1/ Proxied by interest expenditure divided by the debt level of the previous year.
2/ Liquid assets are here defined as F.2, F.3 (consolidated for general government, i.e. netting out financial positions between government entities), F511, F.52 (only if quoted in stock exchange), F.71.

Source: Ministry of Finance.

Table 2.c. Contingent liabilities

	2017*	**2018***
	% of GDP	*% of GDP*
Public guarantees	0,3	0,3
Of which: linked to the financial sector	0,0	0,0

Source: Ministry of Finance.

4 Central government borrowing without foundations and legal persons governed by public law.
5 Central government without foundations and legal persons governed by public law.

3. Revenue and Expenditure Projections under a no-policy change scenario

Summer forecast (Table 3) differs from the Stability Programme forecast mainly because of an upward correction of other revenue and public gross fixed capital formation. Indicators as a percentage of GDP are not directly comparable as the summer forecast ratios are based on the GDP time series revised on 31.08.2017.

Table 3. General government expenditure and revenue projections at unchanged policies broken down by main components

General Government (S13)	ESA Code	2017*	2018*
		% of GDP	*% of GDP*
1. Total revenue at unchanged policies	TR	40.0	39.9
of which			
1.1. Taxes on production and imports	D.2	14.7	15.2
1.2. Current taxes on income, wealth, etc.	D.5	7.4	7.3
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	11.5	11.8
1.5. Property income	D.4	1.0	0.8
1.6. Other		5.5	4.7
p.m.: Tax burden (=D.2+D.5+D.61+D.91-D.995)		33.5	34.4
2. Total expenditure at unchanged policies	TE	40.0	40.1
of which			
2.1. Compensation of employees	D.1	11.3	11.0
2.2. Intermediate consumption	P.2	6.8	6.7
2.3. Social payments	D.62 D.632	13.6	13.8
of which Unemployment benefits		0.3	0.4
2.4. Interest expenditure (=9. in Table 2.a)	D.41	0.1	0.1
2.5. Subsidies	D.3	0.4	0.5
2.6. Gross fixes capital formation	P.51	5.5	5.7
2.7. Capital transfers	D.9	0.5	0.5
2.8. Other		1.9	1.9

Source: Ministry of Finance.

4. Expenditure and Revenue targets. General government expenditure by function

The Draft Budgetary Plan (Table 4.a) differs from summer forecast (Table 3) because of revenue and expenditure measures (Table 5.a). In 2017, revenue declined by 0.1% GDP due to shifting of dividends and CIT to 2018. In 2018, revenue increased because of the measures by 0.1% GDP. Expenditure did not change markedly in either year.

Table 4.a. General government expenditure and revenue targets, broken down by main components

General Government (S13)	ESA code	2017*	2018*
		% of GDP	% of GDP
1. Total revenue target	TR	40.0	39.9
of which			
1.1. Taxes on production and imports	D.2	14.7	15.2
1.2. Current taxes on income, wealth, etc	D.5	7.3	7.4
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	11.5	11.9
1.5. Property income	D.4	1.0	0.8
1.6. Other		5.5	4.7
p.m.: Tax burden (=D.2+D.5+D.61+D.91-D.995)		33.5	34.4
2. Total expenditure target	TE	40.0	40.1
of which			
2.1. Compensation of employees	D.1	11.3	11.1
2.2. Intermediate consumption	P.2	6.8	6.6
2.3. Social payments	D.62 D.632	13.6	13.8
of which Unemployment benefits		0.3	0.4
2.4. Interest expenditure (=9. in Table 2.a)	D.41	0.1	0.1
2.5. Subsidies	D.3	0.4	0.5
2.6. Gross fixes capital formation	P.51	5.5	5.6
2.7. Capital transfers	D.9	0.5	0.5
2.8. Other		1.9	1.9

Source: Ministry of Finance.

In accordance with the SGP, the general government expenditure growth of a member state should conform to its GDP growth. This expenditure benchmark is usually the 10 year average potential GDP growth (t-5, t, t+4) of the member state, which is 2.2% for Estonia according to the EC 2017 Winter Forecast. If the member state does not fulfil its MTO (general government deficit up to 0.5% of GDP for Estonia) for current year, the benchmark for the next will be set at a lower level (0.9% for Estonia), which will help the member state to adjust its position by at least 0,5% of GDP and fulfil its MTO.

Adjusted expenditure growth[6] in 2017 is 1.0%, which is in line with the benchmark. The benchmark is met in 2018 also, expenditures will decline by 0.7%. The main reason for this are the growing EU programme expenditures (table 4.b), which are fully matched by EU funds. Discretionary revenue changes are small in 2017. In 2018, there are many revenue changes, in both directions. The main revenue increase comes from excises which is partly balanced by the basic income allowance increase.

Table 4.b. Expenditure benchmark

	2016	**2016**	**2017***	**2018***
	level (m EUR)	*% GDP*	*% GDP*	*% GDP*
1. Expenditure on EU programmes fully matched by EU funds	617,9	2,93	3,61	4,46
1a. of which investment fully matched by EU funds	139,0	0,66	1,15	1,40
2. Cyclical unemployment benefit expenditure [7]	0,0	0,00	0,00	0,00
3. Effect of discretionary revenue measures [8]	39,6[9]	0,19	0,08	0,90
4. General government revenue increases mandated by law	0,0	0,00	0,00	0,00

Source: Ministry of Finance.

[6] In accordance with EC methodology, real expenditure growth is used using the GDP deflator. Excluded are interest expenditure and expenditure from table 4.b, also gross fixed capital formation is smoothed over time.

[7] Expert assessment assumption is that the level of unemployment is at its normal rate.

[8] Included revenue measures: basic income tax allowance changes; other income tax deductibility changes; company car taxation changes; income and tax from dividends; state budget wage increases; private rental income tax break; low-income tax support; distributed profit tax rate decrease (for mature companies); measure for curbing profit shifting; wage vs dividends taxation measures; entrepreneurial account for small companies; excise increases; reverse taxation of metal; VAT obligation threshold increase; tax on sweetened beverages; fuel fraud measure; electricity excise reduction for large consumers (companies); packaging excise reform; self-employed entrepreneur taxation changes; CO2 quota sales; fine increases; gambling tax changes; changes in resource charges, local government tax measure increases.

[9] The effect of all revenue changes which applied or will apply after 01.01.2016, compared to the counter-factual. The following years, the change of this effect is given.

Table 4.c. General government expenditures by function

Table 4.c.i) General government expenditure on education, healthcare and employment

	2017*		2018*	
	% of GDP	*% of general government expenditure*	*% of GDP*	*% of general government expenditure*
Education	5.9	14.8	6.0	15.1
Healthcare	5.6	14.0	5.5	13.7
Employment	0.1	0.4	0.2	0.5

Table 4.c.ii) Classification of the functions of the Government

Functions of the Government	**COFOG code**	**2017***	**2018***
		% of GDP	*% of GDP*
1. General public services	1	4.4	4.0
2. Defence	2	2.0	2.0
3. Public order and safety	3	1.6	1.4
4. Economic affairs	4	4.9	5.4
5. Environmental protection	5	0.5	0.5
6. Housing and community amenities	6	0.3	0.3
7. Health	7	5.6	5.5
8. Recreation, culture and religion	8	1.8	1.7
9. Education	9	5.9	6.0
10. Social protection	10	13.0	13.3
11. Total expenditure (=2. in Table 4.a)	**TE**	**40.0**	**40.1**

Source: Ministry of Finance.

5. Description of discretionary measures included in the draft budget

There are 13 measures that have an impact on state budget revenue and expenditure in 2017. Three of them have an impact on state budget revenue, ten of them affect state budget expenditure. All expenditure measures (total of EUR 5.2 million) are temporary in nature and they are used to cover the priority needs of the ministries.

Table 5.a. Discretionary measures taken by General Government

List of measures	Detailed description	Target (exp / rev component) ESA Code	Accounting principle	Adoption status	Budgetary impact	
					2017*	**2018***
					% of GDP	*% of GDP*
1) Additional dividends	Additional dividends in 2018	Revenue, D4	Accrual method	Draft is not required	-0,03	0,03
2) Additional income tax (CIT)	CIT on 2017 dividends in 2018	Revenue, D5	Accrual method	Draft is not required	-0,03	0,03
3) Other revenues	Compensation for building NATO barracks	Revenue, D7	Accrual method	Draft is not required	0,00	0,02
4) Social protection measures	Compensation for Olympic winners, changes in parental benefit system and in relatives care	Expenditure, P62	Accrual method	Submitted with budget	0,00	-0,02
5) Additional wage increase	Compensation of employees in priority areas	Expenditure, D1	Accrual method	Draft is not required	0,00	-0,02
6) Real estate investments	Rescheduling transactions	Expenditure, P51	Accrual method	Draft is not required	0,00	0,14
7) Real estate investments	Incl. Kääriku sporting center, lighthouses EV100 and Song Festival grounds	Expenditure, P51	Accrual method	Draft is not required	0,00	-0,02
8) Other investments	Incl. ferry and showroom for introducing Estonia	Expenditure , P51	Accrual method	Draft is not required	0,00	-0,02
9) Unemployment insurance for managers	Equalisation of the rights for unemployment insurance of employees and managers	Expenditure, P2	Accrual method	Submitted with budget	0,00	-0,04

10) Decrease in co-financing		Expenditure, P2	Accrual method	Draft is not required	0,00	0,07
11) Educational measures	Private school and reserved child care services	Expenditure, P2	Accrual method	Submitted with budget	0,00	-0,02
12) Heath care measures	Additional medicines compensation reform and vaccine for cervical cancer	Expenditure, P2	Accrual method	Submitted with budget	0,00	-0,02
13) Other expenditure measures	Additional funds allocated to different ministries	Expenditure, P2	Accrual method	Draft is not required	0,00	-0,03
Total revenue measures					**-0,07**	**0,08**
Total expenditure measures					**0,00**	**0,02**
TOTAL					**-0,07**	**0,10**

Source: Ministry of Finance.

Table 5.b. Discretionary measures taken by Central

List of measures	Detailed description	Target (exp / rev component) ESA Code	Accounting principle	Adoption status	Budgetary impact 2017*	Budgetary impact 2018*
					% of GDP	*% of GDP*
1) Additional dividends	Additional dividends in 2018	Revenue, D4	Accrual method	Draft is not required	-0,03	0,03
2) Additional income tax (CIT)	CIT on 2017 dividends in 2018	Revenue, D5	Accrual method	Draft is not required	-0,03	0,03
3) Other revenues	Compensation for building NATO barracks	Revenue, D7	Accrual method	Draft is not required	0,00	0,02
4) Social protection measures	Compensation for Olympic winners, changes in parental benefit system and in relatives care	Expenditure, P62	Accrual method	Submitted with budget	0,00	-0,02
5) Additional wage increase	Compensation of employees in priority areas	Expenditure, D1	Accrual method	Draft is not required	0,00	-0,02
6) Real estate investments	Rescheduling transactions	Expenditure, P51	Accrual method	Draft is not required	0,00	0,14
7) Real estate investments	Incl. Kääriku sporting center, lighthouses EV100 and Song Festival grounds	Expenditure, P51	Accrual method	Draft is not required	0,00	-0,02
8) Other investments	Incl. ferry and showroom for introducing Estonia	Expenditure , P51	Accrual method	Draft is not required	0,00	-0,02
9) Decrease in co-financing		Expenditure, P2	Accrual method	Draft is not required	0,00	0,07
10) Educational measures	Private school and reserved child care services	Expenditure, P2	Accrual method	Submitted with budget	0,00	-0,02

11) Heath care measures	Additional medicines compensation reform and vaccine for cervical cancer	Expenditure, P2	Accrual method	Submitted with budget	0,00	-0,02
12) Other expenditure measures	Additional funds allocated to different ministries	Expenditure, P2	Accrual method	Draft is not required	0,00	-0,03
Total revenue measures					**-0,07**	**0,08**
Total expenditure measures					**0,00**	**0,06**
TOTAL					**-0,07**	**0,14**

Source: Ministry of Finance.

6. Links between the draft budgetary plan and the targets set by the Union's Strategy for growth and jobs and country specific recommendations

In this chapter information is presented on how the measures in draft budget plan take into account the country-specific recommendations (CSRs) and contribute to Europe 2020 objectives for growth and jobs. [10]

More comprehensive and detailed information on the measures implemented is available in the strategy for competitiveness "Estonia 2020" and its action plan (Estonian national reform programme).

Table 6.a. Country-specific recommendations

CSR no	List of measures	Description of direct relevance
1.	1.1 Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which implies to remain at its medium-term budgetary objective in 2018.	In 2018, Estonia's general government structurally adjusted budgetary position is planned in a deficit of 0.25% of GDP, exceeding a target set in the State Budget Strategy by 0.25% of GDP. Thus Estonia holds its medium-term objective, which is a structural deficit up to 0.5% of GDP. During parliamentary process the parliament has no right to worsen the budgetary position.
1.	1.2 Take measures to reduce the gender pay gap, in particular by improving wage transparency and reviewing the parental leave system.	On 30th of June 2016, the Government adopted the Welfare Development Plan for 2016-2023 and an action plan for its implementation. Under the sub-goal of gender equality, the plan targets issues of equal economic independence of women and men; reducing gender pay gap; balanced participation of women and men in all levels of decision-making and management in politics and public and private sectors; reducing negative impact of gender stereotypes on decisions and everyday life of women and men; enhancing rights protection concerning equal treatment of women and men and guaranteeing institutional capacity to promote gender equality, including gender mainstreaming. Taking into account the wide range of causes behind our gender pay gap, most of the measures planned under this sub-goal are expected to help to decrease the gap. Measures specifically planned to decrease gender pay gap in the coming years include developing a proposal for a regulation foreseeing equal pay audits in organisations and other efforts to support this activity, preparing a gender pay gap analysis of public service organisations and based on that, drawing up recommendations for specific measures, preparing proposals to increase transparency of pay information in organisations etc. In order to give an additional impetus to the reduction of gender pay gap, preparatory work has started to amend the Gender Equality Act to provide the Labour Inspectorate with a right to exercise state supervision over implementation of the requirement of equal pay for women and men for the same work and work of equal value. Additionally, guidelines will be

[10] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016H0818(11)&from=EN

		developed to provide know-how for labour inspectors and employers on evaluation and comparison of jobs. It is also planned that the Inspectorate will provide counselling to employers to support the implementation of the principle of equal pay. The labour inspectors will be provided with a relevant training.
2.	Promote private investment in research, technology and innovation, including by implementing measures for strengthening the cooperation between academia and businesses.	This recommendation is fully in line with Estonian national priorities (National Reform Programme "Estonia 2020", Estonian RDI strategy "Knowledge-based Estonia 2014-2020", and Estonian Entrepreneurship Growth Strategy 2014-2020). During the years 2015-2020 more than EUR 600 million will be invested in R&D, innovation and business development, including support for smart specialisation growth areas. The main objective is to promote cooperation between businesses and universities and other research institutions. These measures are designed to contribute to the growth of knowledge base of the Estonian economy by supporting cooperation of research institutions and enterprises. It also aims to motivate students to choose study fields through all levels of higher education in the growth areas important for the economy and to support the demand in public sector for innovation. Specific actions are as follows: 1. Support for applied research and product development in cooperation between research institutions and businesses in smart specialisation areas (new measure launched in 2016); 2. Innovation and development shares subsidy, including for promoting cooperation between companies and research institutions; 3. Support for more flexible opportunities for businesses to participate in technology development centres and clusters; 4. Support for public procurements that foster innovation; 5. Development programme for businesses (so called tailor-made support for companies, including contract research with academia); 6. Doctoral studies in cooperation with enterprises (scholarships in smart specialisation areas). Other measures implemented: • Changes in the formula of calculating the base-line financing of public research institutions. Revenue from contract research with businesses is one component of the funding formula of the public research institutions. In 2016 we increased the weight of this component in the funding formula to motivate public research institutions' cooperation with business sector. • Extension of support for technology transfer and cooperation between universities, research institutions and businesses (through measure called ASTRA). • Opening up the infrastructure of research institutions for cooperation with businesses and other external users. • Inclusion of companies in the activities of popularisation of research. • Improving the work practice system at all levels of education, including higher education. The statistics show positive trends in the volume of contract research between public R&D institutions and private sector. In 2016 the volume of contract research increased by 9.6%, reaching EUR 8 million.

Table 6.b. Targets set by the Union's Strategy for growth and jobs

National 2020 headline targets	List of measures	Description of direct relevance to address the target
National employment target [76%]	1. Implementing Work Ability Reform	Creating a system for assessing work capacity, providing services for the target group, and data exchange solutions necessary for service implementation.
	2. Implementation of the employment programmes	Providing active labour market measures. Employment programmes create conditions for piloting services in addition to the ones constituted in the Labour Market Services and Benefits Act.
	3. Supporting staying in and returning to employment	Ensuring accessible and high-quality health services in order to promote staying in and returning to employment. Supporting adult education, including non-formal education, for improving work skills and acquiring new ones.
	4. Maintaining capacity for work	Reorganizing the systems of occupational health and safety and modernising the system of labour disputes.
	5. Increasing the willingness of young people to work	Aligning study opportunities with labour market needs, improving career counselling and implementing Youth Guarantee Programme.
National R&D target [3% of GDP]	1. Ensuring the high level and variety of science	1. Implementation of “Institutional development programme for R&D institutions and universities" (ASTRA). 2. Financing of main instruments: institutional and personal research grants, base financing, activity support for public R&D institutions and infrastructure maintenance costs 3. Supporting of top science centres for strengthening international competitiveness of science and its top quality. 4. Support for popularisation of science in the society and science collections. 5. Support for science infrastructure with national importance.
	2. Increasing public and economic benefits of RDI	1. Implementation of national programmes “Estonian language and cultural memory II” and “Technology of Estonian language”. 2. Support for core infrastructure and opening it for external users. 3. Support for purchasing science databases and for science libraries. 4. Increasing R&D capacity of state institutions

		(programme RITA).
	3. RDI that changes the structure of the economy is based on smart specialisation	1. Supporting applied research projects in smart specialisation areas. 2. Financing of higher education specialty scholarships in smart specialisation areas. 3. Financing of technology development centres
	4. Increasing Estonia's share and visibility in international RDI cooperation	1. Supporting the internationalisation of science and higher education via support for mobility and successors (programmes DORA Plus and Mobilitas Plus). 2. Funding of international cooperation agreements and member fees for international science organisations.
GHG emission reduction target [6,024 thousand tons (+11% compared to 2005)] Renewable energy target [25%] National energy efficiency target [2 818 ktoe]	1. Implementation of the new National Development Plan of the Energy Sector until 2030 2. Implementing new structural funds	objectives of the National Development Plan of the Energy Sector are: 1) to ensure energy supply in the electricity, heat, transport and housing sectors as well as in the sector of the production of domestic fuels; 2) to reduce the energy intensity of the economy (without compromising competitiveness) and increase energy efficiency; 3) to increase energy security through the development of the business environment required for energy production, infrastructure and connections. The focus is on increasing the use of alternative fuels in transport, the efficiency of heat production and transmission, energy conservation and the share of renewable energy.
Reducing the number of young persons with basic education level or lower who are not studying [9,5%]	1. Flexible learning possibilities and support systems	Development of apprenticeships in vocational education, where additional study places are created for apprentices and development of apprenticeship system. Renewal of support systems in vocational schools, piloting of orientation year.
	2. Academic and career counselling	Implementation of academic and career counselling system in basic schools, upper-secondary schools and vocational schools.
	3. Inclusive education and co-learning school	Introduction of principles for inclusive education, according to which pupils with special educational needs are firm and

		inseparable part of school pupils, they are involved in learning activities according to their capability, and they get sufficient support for learning and coping. A co-learning conception will be composed for supporting the schools where children with different cultural background must learn together.
National target for tertiary education [40%]	1. Means-tested education allowance, performance scholarships and student loans	The provision of means-tested education allowances, performance scholarships and widening the number of students applicable for student loans.
	2. Renewing of the financing model	The financing model will be renewed so that universities could implement agreed changes for ensuring quality and effective higher education.
National poverty target [15%]	1. Supporting families with children	Development of family benefit systems, including by increasing means-tested family allowance, increasing child allowance, increasing large family allowance, starting maintenance allowance fund etc.
	2. Pensions increase; the additional tax-free allowance is increased for pensioners	Pension increase continues. The principle that average pension is not taxed with the PIT is being continued. Paying additional benefits for pensioners living alone and supporting their subsistence.

7. Divergence from the latest Stability Programme

Estonia's 2017 Stability Programme was based on the spring forecast of the Ministry of Finance, published on 12 April 2017. The 2018 State budget is based on the summer economic forecast, published on 13 September 2017.

According to the spring forecast of the Ministry of Finance **economic growth** for 2017 was expected to be 2.4%. During 2018–2019 we expected the growth rate 3.1% and 2.8% respectively. This year's economic growth forecast has been raised by 1.9 percentage points compared to the spring forecast and is now 4.3%. The main reason for this was faster economic growth in the first half of year than expected in the previous forecast and improved growth outlook in the external environment. Domestic demand is growing faster than previously expected, however, export and import growth will be somewhat lower. The forecast for the coming year is increased by 0.2 percentage points compared to the spring forecast, because of faster domestic demand, export and import growth. Import will grow a bit faster than export, which may result in a negative contribution from net exports. Starting from 2019, economic growth expectations will be increased by domestic demand, which is growing faster than previously expected. Correction in GDP growth and the more optimistic expectations of rising prices, led to an increase in nominal growth rates for 2017-2019.

The contribution of **domestic demand** to growth in 2017 will be higher than forecast a year ago because of the unexpectedly rapid pickup in investment from a very low base. Strong investment growth will continue because of clear improvement in economic sentiment starting from the end of 2016 and higher foreign demand expectations. Private consumption growth will stay below past expectations because of the still rising households' saving rate and significantly higher inflation than forecasted last time.

Although foreign demand will be stronger than expected in spring, forecast of **exports** has been slightly revised downwards. This is mainly because of one commodity group – a substantial decline in exports of large scale communication equipment. In line with the developments of foreign demand, export forecast of 2018 was slightly lifted. Import will grow less than expected in spring due to first quarter data revisions in 2017.

Changes to **HICP** inflation forecast are small. Forecast for 2017 was raised by 0.2%, while expectations for 2018 remained unchanged. This year, stronger increase in food and services prices are behind the upward revision.

Labour market developments in the first half of 2017 were more positive than expected in the Spring Forecast as employment increased more than expected and unemployment remained lower than expected. Although labour market survey quarterly outcomes are volatile due to low sample sizes, these developments are confirmed by the data from the Tax Board and the Unemployment Insurance Board. In addition, first results of the Work Ability Reform show that there might be more positive effects for employment gains, but at the same time the reform activates less people than expected. This means that despite the effort of Unemployment Insurance Board, many of the persons with partial capacity for work drop out of the system and give up looking for a job. At the same time, the rate of finding a job is higher than assumed before.

Wage growth remains fast, showing signs of acceleration in line with general upswing in economic growth. That said, the long-waited adjustment in wage to profit ratio took place in the first half of 2017. This was expected in Spring Forecast, but in a smaller pace. Rebalancing was supported by acceleration of economic growth and improving profitability.

Wage growth expectations have been revised upwards in the Summer Forecast, which is in line with changes in GDP forecast.

The general government budgetary position in 2017 has improved by 0.5 % of GDP compared with the spring forecast and is now expected to be in a balance. Improvement comes mainly from the state budget and is caused primarily by decreased amount of social costs, postponement of some investments and slight increase of tax revenues. The general government nominal deficit projection for 2018 has decreased by 0.7 % of GDP compared to the Stability Programme to a marginal deficit of 0.1 % of GDP. The reasons are mainly the same as in this year, although tax revenue increases have more positive impact.

In 2017, the tax burden forecast compared to the Stability Programme has been decreased by 1.3% to 33.5% of GDP (total tax revenue did not change markedly as the downward correction of excise duty revenue was compensated by an upward correction of VAT revenue collection, but GDP was corrected upwards substantially). In 2018, the tax burden is expected to decrease by 1.4% to 34.4% of GDP (tax revenue increases primarily due to an upward correction of CIT and VAT, which cover the negative impact of cancelling package excise measure and sweetened drinks tax, upward correction of GDP was substantial).

Forecast of general government debt has been decreased by 0.4% of GDP in 2017 and by 1.3% in 2018, respectively, compared to the forecast included in the Stability Programme due to improved nominal balance.

Table 7.a. Deviation from the last Stability Programme – structural budgetary balance

	ESA code	**2016**	**2017***	**2018***
		% of GDP	*% of GDP*	*% of GDP*
General government structural balance (1/) target	B.9			
Stability Programme		0,6	0,2	-0,5
Draft Budgetary Plan		0,2	0,2	-0,3
Difference		-0,4	0,0	0,2
General government structural balance projection at unchanged policies	B.9			
Stability Programme		0,6	0,2	-0,5
Draft Budgetary Plan		0,2	0,2	-0,4
Difference		-0,4	0,0	0,1

1/ Budgetary position is targeted by structural balance.
Source: Statistics Estonia, Ministry of Finance.
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Table 7.b. Deviation from the last Stability Programme – net lending/net borrowing

	ESA code	2016	2017*	2018*
		% of GDP	*% of GDP*	*% of GDP*
General government net lending/ net borrowing target	B.9			
Stability Programme		-0,1	-0,5	-0,8
Draft Budgetary Plan		-0,3	-0,6	-0,1
Difference		-0,2	-0,1	0,7
General government net lending/ net borrowing projection at unchanged policies	B.9			
Stability Programme		-0,1	-0,5	-0,8
Draft Budgetary Plan (1/)		-0,3	0,0	-0,2
Difference		-0,2	0,5	0,6

1/ Actual (t-1) and summer forecast (t, t+1).
Source: Statistics Estonia, Ministry of Finance.

8. Distributional effects of main revenue and expenditure measures

Gini coefficient[11] for Estonia, which indicates the income distribution of the population (larger index denominates larger inequality), was 35.6% in 2014, which was the highest in the EU. In 2015, Estonia (with 34.8%) was surpassed by Lithuania, Romania, Bulgaria and Latvia. By 2016, the index has improved to 32.7%, which is the best result in recent years, but still above the EU average. It is especially high compared to the Nordic countries.

The planned revenue and expenditure measures will not have a distributional effect in 2017 or the effect is indirect and unquantifiable. In 2018, a large income tax allowance increase will come into force, which should improve the Gini coefficient by about 0.1 points. The assessment is based on a study[12] which looked at the Estonian tax burden distribution by income using the microsimulation model EUROMOD. Since the allowance affects most of the population, it can increase the relative poverty rate.

Other revenue measures, which could theoretically change the distribution of income (like excise increases), will most likely not have a quantifiable effect on the Gini coefficient. Expenditure measures planned for 2018 include family support increases and subsistence benefit increase, these might lower the absolute poverty rate.

[11] Eurostat, EU-SILC – Gini coefficient of income after social transfers.

[12] Praxis. (Only in Estonian) Maksupoliitika mõju leibkondade maksukoormuse jaotumisele: https://www.rahandusministeerium.ee/system/files_force/document_files/2016-praxis_maksukoormuse_raport_10nov.pdf?download=1