

Republic of Estonia

STATE BUDGET STRATEGY
2013–2016

Tallinn
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INTRODUCTION

Essence of State Budget Strategy

The objective of the State Budget Strategy is to ensure sustainability of the budget policy over the medium term and enhance the effectiveness of the Government in steering the country and policy areas.

The first document serving as a budget strategy was drawn in 2000. Two years later, the State Budget Act of Estonia¹ established the annual obligation to draw a strategy to be proposed by the Minister of Finance and approved by the Government of the Republic no later than seven months before the beginning of the next fiscal year.

The current State Budget Strategy is renewed each spring by elaborating the plans for the next three years and setting objectives for the fourth year. This ensures that the medium-term plans are constantly adjusted to meet the changes in the economy, fiscal environment and sectoral operating environment.

The budget strategy includes budgetary policies, priorities of the Government of the Republic, analysis of the economic environment and forecast of economic development, including income forecasts and other information necessary for financial management.

Implementation and Renewal of State Budget Policy

The State Budget Policy is implemented via organisation-based development and activity plans. According to a directive of the Minister of Finance on drafting the state budget, the constitutional institutions, Government Office and ministries shall submit to the Ministry of Finance the draft budgets for the following year, i.e. the activity plans and financial plans for the first year of the development plans. Drawing on the summer economic forecast, the Ministry of Finance first analyses the drafts and solves possible disputes and then submits the draft budget along with an explanatory memorandum to the Government of the Republic for approval. The *Riigikogu* begins the proceeding of the draft budget no later than three months before the budget year. Upon entry into force of the State Budget Act, the Government of the Republic approves the State Budget Action Plan and a supplementary budgetary nomenclature.

Each year, the ministries and governmental institutions include another year in their organisation-based development plans, thus ensuring the four-year perspective in strategic planning. The supplements must be based on the current State Budget Strategy. Discussions with the Prime Minister and relevant ministers must be held before the minister in charge may approve the renewed development plan. As a rule, the development plans are submitted to the Ministry of Finance by 1 March.

This State Budget Strategy serves as the basis for drawing the organisation-based development plans and the State Budget Strategy for years 2014–2017.

Monitoring of State Budget Strategy

At the end of each budget year, each governmental institution prepares annual accounts and submits a report on the implementation of state budget. The Ministry of Finance draws up the report on implementation of the state budget to be approved by the Government of the Republic as a part of the state financial statements within the state annual accounts.

¹ State Budget Act of Estonia, Estonian version at <https://www.riigiteataja.ee/ert/act.jsp?id=13164364>.

Overviews of state budget proceeds, use of budgetary instruments and the situation in the economy and general government are regularly drawn and disclosed during the current budget year².

The overview of meeting the budgetary objectives as set in the State Budget Strategy 2012–2015 can be found in Chapter 3.1.

The implementation of the goals and current priorities of the Government of the Republic as described in Chapter 2 is outlined in the descriptions of the current situation in the same chapter. A more elaborate overview of meeting the objectives will be described in the State Budget Strategy of 2014–2017.

Preparation of State Budget Strategy 2013–2016

The State Budget Strategy 2013–2016 was prepared in coordination and material consistency with the renewal of the Government of the Republic Action Programme and the ESTONIA 2020 National Reform Programme. In accordance with the regulation of the Government of the Republic “Types of strategic development plans and procedure for their preparation, supplementation, implementation, assessment and reporting”³, the ministries developed organisation-based development plans for the years 2013–2016 and submitted them with the financial plans to the Ministry of Finance by 1 March.

The analysis of the current situation in sectoral policies has been reviewed in cooperation with the ministries. This year, this document served as input in planning the use of the European Union (hereinafter: the EU) funds for the programme period 2014–2020. Information received from the ministries in their responses to the letter regarding the bases for the budget strategy was used as input for preparing the economic forecast⁴, stability programme and budget strategy.

In January, prior to any discussions in the Government, the Ministry of Finance and the Government Office arranged joint meetings to discuss the Government of the Republic Action Programme, challenges regarding ESTONIA 2020 and the Budget Strategy. All ministries were involved. The results of the discussions are echoed in the Budget Strategy, the Government of the Republic Action Programme and the National Reform Programme.

One objective of those meetings was to achieve greater consistency between the organisation-based development plans and the State Budget Strategy. Negotiations on the officials’ level on the topic of the Budget Strategy were held in March.

Cabinet meetings were held in April to discuss economic and fiscal policy objectives and budget priorities. The “State Budget Strategy 2013–2016” was submitted to the ministries for approval on 17 April. On 26 April 2012, the Budget Strategy was submitted to the Government of the Republic for approval. Before approving the document in the Government, it was also discussed in the committees of the *Riigikogu*.

Structure of State Budget Strategy 2013–2016

The State Budget Strategy comprises three chapters. The first part of the document describes the priorities of the Government of the Republic. The second part describes the current situation, objectives and significant changes in sectoral policies. The third part describes the economic and fiscal policy objectives and priorities and also the fiscal framework of the general government for the coming four years.

² Monthly economic reviews by the Ministry of Finance, <http://www.fin.ee/index.php?id=619>.

³ Types of strategic development plans and procedure for their preparation, supplementation, implementation, assessment and reporting, Estonian version at <https://www.riigiteataja.ee/ert/act.jsp?id=12790098>.

⁴ <http://www.fin.ee/economic-forecasts>.

The annexes of the document include the main indicators of the economic forecast drawn up by the Ministry of Finance in spring 2012 and the implementation of the Strategy for Using Structural Funds 2007–2013.

1. PRIORITIES OF GOVERNMENT OF REPUBLIC

The Government of the Republic as assumed on 6 April 2011 has set sectoral objectives in 18 policy areas and defined the indicators and their target levels for assessing the achievement of the goals. The Government regards seven of the goals as priorities⁵. The State Budget Strategy⁶ defines their target levels until the year 2016, just as with other indicators.

The priorities of the Government of the Republic are as follows:

- Achieving general government budget surplus.⁷
- Population increase (Estonians must become a growing nation).⁸
- Increase of productivity to 73% of the EU average by 2015.⁹ Targets of 2013 and 2016 are 71% and 73.6%, respectively.
- Return to the pre-crisis high employment level by 2020. For the purpose, the employment target for 2015 is 72% in the 20–64 age group.¹⁰ The targets of 2013 and 2016 are 71% and 72.8%, respectively.
- Reduction of the proportion of young adults in the 18–24 age group with at most basic education and not in further education or training to 11% by 2015.¹¹ The objectives for 2013 and 2016 are 11.5% and 10.5%, respectively.
- Increasing healthy life expectancy (target levels for 2015: 57.1 years for men, 62 years for women).¹² The healthy life expectancy targets for 2013 are 56.3 years for men and 61 years for women. The targets for 2016 are 57.5 years for men and 62.5 years for women.
- Keeping greenhouse gas emissions at the level of 2010 (or below 20 million tons per year).¹³ The same target has been set for the years 2013 and 2016.

⁵ The most important priorities of the Government for 2015 were disclosed by the Prime Minister in his address to the Riigikogu on the basis of formation of the government, 5 April 2011.

⁶ In Chapter 2: Sectoral policy goals.

⁷ In Chapter 3.1: Objectives of the fiscal policy of the Government of the Republic.

⁸ Indicator of policy area 2.2: Family and Population Policy

⁹ Indicator of Policy area 2.1: Economic environment.

¹⁰ Indicator of Policy area 2.4: Employment market and social security.

¹¹ Indicator of Policy area 2.3: Education.

¹² Indicator of Policy area 2.5: Public health.

¹³ Indicator of Policy area 2.14: Environment and 2.6: Energy.

2. SECTORAL POLICY GOALS

This chapter provides an overview of the current situation in policy areas, the goals of sectoral policies and the indicators¹⁴ and their target levels for achieving the goals. This chapter also outlines the most significant changes that support the achievement of the objectives.

2.1 Economic Environment

After the restoration of independence, the pace of Estonian real convergence has been remarkable, coming rapidly closer to the EU average. For the last two years, the Estonian GDP *per capita* has stayed at 64% of the EU27 average.

In 2010, the economy started growing again (2.3%) and reached 7.6% in 2011 compared to the previous year, thus showing the most rapid growth in the entire EU. In 2010, the increase in labour productivity per person employed was the highest of the three last years, reaching 69.3% of EU27 average. Labour productivity is below EU27 average partially because of the unfavourable structure of the economy and the low capitalisation ratio of manufacturing industries.

The regulatory environment in Estonia is one of the most flexible and business-friendly in the world. According to Doing Business 2012, a comparative report of business environments of 183 countries of the world by the World Bank, Estonia ranks as 24¹⁵. In the aspect of regional competition, we continue to hold a high position among EU Member States with our 8th position.

Estonia stands out with the openness of its economy compared to other EU countries. Estonian exports have grown significantly during 2010 and 2011, partly owing to participating in the same supply chain as the Scandinavian countries, whereby the local companies serve as subcontractors to our Nordic neighbours. In 2011, the Estonian export of goods and services amounted to 75% of the GDP (12 billion euros, including annual increase of 38% in nominal value).

Estonia can clearly be distinguished from other Central and Eastern Europe countries by its balanced budget policy. During the years after the restoration of independence, a significant goal of the Estonian budget policy has been to keep the medium-term budget position of the general government balanced or in surplus, if possible. This in turn has been expressed in the low government debt level. In 2010, Estonia was the only EU country with a positive budget position (followed by Sweden with its balanced budget position). The preliminary data show that in 2011, the government surplus was 1% and debt level 6% of GDP. In 2010, the average price level decreased by 1.5% to 75.1% of the EU27 average.

Sector objectives:

1. Estonia is a competitive and reliable economic environment.
2. The budget policy is sustainable and balances the macroeconomy.

¹⁴ In the indicators describing the goals, the ministries responsible have been abbreviated as follows: MER – Ministry of Education and Research, MJ – Ministry of Justice, MD – Ministry of Defence, ME – Ministry of Environment, MC – Ministry of Culture, MEAC – Ministry of Economic Affairs and Communications, MA – Ministry of Agriculture, MF – Ministry of Finance, MIA – Ministry of Internal Affairs (Minister of Internal Affairs), MIA reg. – Ministry of Internal Affairs (Minister of Regional Affairs), MSA – Ministry of Social Affairs and MFA – Ministry of Foreign Affairs.

¹⁵ Compared with the previous analysis, Estonia has fallen 6 positions mainly because of the mistake made in assessing the area of construction permits – the conversion to euro was not taken into account, therefore the calculations showed that the cost of processing construction permits has increased 15-fold.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Labour productivity per employed person, % of EU average Source: Eurostat Responsible: MEAC (MER, MSA, MIA reg., MA)	69.3% (in 2010)	71%	72%	73%	73.60%
Proportion of Estonian export in world trade, % Source: WTO ¹⁶ Responsible: MEAC (MER, MIA reg., MA)	0.085% (in 2010)	0.097	0.098	0.100	0.102
Estonia's rank in the World Bank report <i>Doing Business</i> Source: The World Bank Group Responsible: MEAC (MF, MJ)	24 th position (in 2011)	Estonia among top 13	Estonia among top 12	Estonia among top 10	Estonia among top 10
Budget position of general government, % of GDP Source: Ministry of Finance Responsible: MF	1% (in 2011)	>-0.7%	>0.1%	>0.5%	>0.9%

Most significant changes:

- Simplification and improved targeting of entrepreneurship grants to raise competitiveness.
- Completion of the financial and personnel accounting centralisation reform.
- Reform of managing and control systems of EU structural assistance.
- Launching measures under the new EU programming period in the beginning of 2014.
- Lowering the unemployment insurance premium rate in 2013.
- Annual increase on alcohol excise duty by 5% (beginning with 2013).

2.2 Family and Population Policy

As of 1 January 2012, the population of Estonia was 1,318,005. The country is faced with a decreasing and ageing population. In 2011, 14,679 persons were born, 15,244 died, there were 3,709 immigrants to and 6,214 emigrants from Estonia. On 1 January this year, the working-age population of Estonia had decreased by nearly 7000 compared to the beginning of the previous year. At the same time, the number of children (age 0 to 14) increased¹⁷. According to the predictions, the population of Estonia may decrease to 1.17 million people by 2060.

Although in 2010 the population of Estonia increased for the first time in several years, the growth of the population continues to be one of the priorities of the Government of the Republic in order for Estonia to be a growing nation. The total fertility rate of Estonia is higher than the EU average and in other Baltic States, but it must still be increased significantly in order to reproduce the population. For Estonians, one of the main reasons inhibiting the birth of children is the lack of economic security¹⁸, and therefore the increase in the well-being and quality of life of families is also important to the nation as a whole.

Social exclusion continues to be a challenge. The percentage of children living in relative poverty is still higher than the percentage of the total population living in relative poverty— this means that special attention must be paid to prevention and decrease of poverty and inequality of children. An important role in the mitigation of poverty and inequality is played by financial supports and

¹⁶ World Trade Organization.

¹⁷ Statistics Estonia

¹⁸ Factors influencing birth rates in Estonia. Office of the Minister of Population, 2008.

ensuring that the employment market services and social services are available. In 2010, social transfers¹⁹ in Estonia (including pensions and family benefits) decreased the poverty of children by 13 percentage points, i.e. to 40%²⁰. However, getting out of poverty requires more than just financial support and benefits. Families expect more support in services²¹ and therefore it is important to develop services to support both the combining of family, work and private life and the children's well-being. An important aspect of combining family, work and private life and, indirectly, also reducing poverty is the availability of childcare. Unfortunately, the current system offering preschool education and childcare is not always sufficiently flexible, versatile, available or affordable in order to meet the needs of parents and children. In 2009²², for example, the percentage of children aged 0–2 attending formal childcare was 25% (EU average: 28%), in the 3–6 age group this percentage was 92%. This demonstrates the need for additional childcare facilities for children under 3 years of age (the Barcelona Strategy of 2002 set the objective to offer childcare facilities to at least 33% of children under 3 years of age and at least 90% of children at the age of 3 and older).

Sector objective:

Estonians are a growing nation and the well-being and quality of life of children and families has increased.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Natural population growth Source: Statistics Estonia Responsible: MSA (MER, MEAC, MIA, MJ, MA)	35 (2010)	Positive	Positive	Positive	Positive
Total fertility rate Source: Statistics Estonia Responsible: MSA (MER, MEAC, MIA, MJ, MA)	1.64 (in 2010)	1.68	1.70	1.71	1.72
Percentage of children attending formal childcare in the 0–2 and 3–6 age groups, % Source: Ministry of Social Affairs Responsible: MSA (MER)	25 (0–2 years) 92 (3–6 years) (in 2009)	31 (0–2 years) 92 (3–6 years)	32 (0–2 years) 92 (3–6 years)	33 (0–2 years) 92 (3–6 years)	33 (0–2 years) 92 (3–6 years)
Number of children separated from their family / percentage in the 0–17 age group, % Source: Ministry of Social Affairs, Statistics Estonia Responsible: MSA	460 children / 0.19% (in 2010)	Decreasing	Decreasing	Decreasing	Decreasing
Rate of relative poverty among children aged 0–17, % Source: Statistics Estonia, Estonian Social Survey Responsible: MSA (MJ, MIA reg.)	19.5 (in 2010)	18	18	17	17

¹⁹ Social transfers are benefits paid to households under collective social security plans, by state or local government in order to mitigate various risks.

²⁰ Statistics Estonia.

²¹ Children and Estonian Society. RISC survey of value orientations. Appendix to the Estonian national report. TNS Emor, 2006.

²² Eurostat.

Most significant changes:

- Preparation of a new Child Protection Act and renewal of the child welfare system in order to support well-being of children and families, increase quality and availability of services and improve child protection arrangements.
- Establishment of diagnostic systems for abused children in order to identify child abuse in early stages and ensure timely and professional help.
- In order to notice children's developmental needs in timely manner and support their mental health, a strategy of early intervention and prevention services along with a system for assessing the child's needs is developed.
- Initiation of a comprehensive substitute care system in order to develop this policy area in an integrated way. The system promotes family-centred approach, favouring guardian families, fostering, adoption and substitute home service.
- A Family Benefits and Services Strategy (Green Paper) is under preparation. Development of a universal family benefits system in order to increase cost-efficiency of the system and offer more help to those in greater need (large families, single-parent families, etc.).
- Development and implementation of parenting programmes with proven efficiency in order to prevent child-associated risks and support parenthood.
- Implementation of certificate of employee and family-friendly employer and further development of the system of parental leave and benefits in order to facilitate combining of work and family life.
- Increasing the quality, flexibility and availability of preschool education and childcare system, and establishment of a common information system for childcare resources.
- Increasing the effectiveness of infertility treatment.
- Implementation of parental pension and re-implementation of father's child leave benefit as of 1 January 2013.

2.3 Education

Different-sized generations have an effect on educational facilities as well. In the period 2007–2011, the number of children in childcare institutions increased by 11%²³; in January 2011, 29% of municipalities lacked nursery school places²⁴. However, the network of general education schools in Estonia was established in the period when the annual birth rate was about one-fourth higher than in 2010. During the past ten years, the number of school children has diminished by about 40%. In addition, urbanisation has caused many rural schools to have fewer children than earlier²⁵ and many municipalities face reorganisation of school networks. This means closing down separate levels of study, not entire schools.

The quality indicators of the Estonian education system show good results in general, but the characteristics required by today's society and economy – students' creativity, initiative and problem-solving abilities – need improving. A positive step forward is the turnaround of the past few years in the number of students who have dropped out from daytime general education.

The number of people with higher education has constantly increased from 23.3% to 29.4% during the past nine years. Despite the fact that the number of people who have passed their PhDs has constantly been increasing, the growth rate does not meet the expectations.

²³ Estonian Education Information System.

²⁴ Survey conducted by the Ministry of Education and Research among local governments in 2011.

²⁵ Estonian Human Resource Report. 2010.

It is positive that the participation of adults in lifelong education has improved yearly and is currently above the EU27 average.²⁶ The main problem is the percentage of young people in the 18–24 age group with basic education or less who are currently not studying. Estonia is close to the EU average (14.9% in 2009) and according to an employment study of 2011, this indicator fell to 10.8%.

Despite the highest growth rates in Europe, the business research and development (R&D) investments in Estonia are still below the EU average and the national strategic objectives because of the country's low starting level. Similarly to the other new Member States, the share of the Estonian business sector in the total R&D expenses is fairly weak, falling below the EU average (61.5%).

Development of human resources and infrastructure also has its share in increasing the volume and quality of R&D. During 2000–2009, the number of full-time researchers and engineers increased by 61.8%. The number of researchers in the business sector increased by almost five times in ten years and constituted 30% of all full-time researchers and engineers in 2010. The number of researchers has increased at a lower pace than the volume of R&D expenditure, but this was expected, given the initial level. In 1998, the level of R&D funding per researcher was about 15 times below the EU average.

Sector objectives:

1. Estonia provides high-quality and available education, which takes into account the needs of students and society.
2. Estonia features high-quality and sustainable R&D, research-intensive economy.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Participation in preschool education (4 to school age group), % Source: Ministry of Education and Research Responsible: MER (MSA, MIA reg.)	93.8 (in 2010)	95	95	95	95
Proportion of young adults in the 18–24 age group with basic education or less and not in further education or training, % Source: Ministry of Education and Research Responsible: MER (MJ, MSA, MIA reg.)	10.8 (in 2011)	11.5	11	11	10.5
Percentage of young teachers (up to 30 years) in general education schools, % Source: Ministry of Education and Research Responsible: MER (MIA reg.)	10.3 (in 2011)	12.5	12.5	12.5	12.5
Percentage of people with third level education in the 30–34 age group, % Source: Statistics Estonia Responsible: MER (MEAC)	40.2 (in 2011)	40	40	40	40

²⁶ Eurostat, participation in Lifelong Learning 2010

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsiem080&plugin=1>.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Participation of adults (25–64 age group) in lifelong learning* Source: Statistics Estonia Responsible: MER (MSA, MEAC)	12 (in 2011)	13.5	14	15	15
Gross domestic expenditure on research and development (GERD), including business enterprise research and development (BERD), percentage of GDP Source: Statistics Estonia Responsible: MER (MEAC)	1.63/0.83 (in 2010)	1.85/0.92	1.93/0.96	2.0/1.0	2.2/1.1
Number of full-time researchers and engineers Source: Statistics Estonia Responsible: MER	4,078 (in 2010)	4800	5000	5521	5521

Most significant changes:

- Restructuring and unification of the Estonian general education school network (especially secondary school network) in order to ensure high quality education and sufficient choices in each secondary school.
- Clear definition of duties and working time of teachers, establishment of a motivating salary system that takes into account the results of their work, modernisation of teachers' training and aligning it with the requirements of the study programmes for basic and secondary education, organisation of in-service training for teachers, and provision of methodological guidance and teaching equipment in order to ensure that the teacher's profession is developed in a sustainable and professional manner.
- Implementation of new models for science funding.
- Implementation of the higher education reform along with a comprehensive solution for study benefits.

2.4 Employment Market and Social Security

In 2011, the employment market showed signs of revival and the employment rate (20–64 age group) reached 70.1%. Unemployment fell to 12.5% (15–74 age group)²⁷ after being on the highest level since restoration of independence with the lowest employment level (66.4%) in 2010.

Reducing youth unemployment remains an important challenge for Estonia. By 2010, the youth unemployment rate increased to 32.9% (which is significantly higher than the EU average 21.1%), but then decreased rapidly in 2011.

The economic crisis of the past two years has increased the number of long-term unemployed people, the number of people giving up job search and the risk of falling below the threshold of risk of poverty. Decreased employment opportunities and high long-term unemployment has significantly worsened the ability to cope in households with unemployed member(s). Distribution of income and the social situation of the population are characterised by the rate of relative poverty²⁸ – the central dimension of social exclusion. According to the latest comparable data (EU-SILC survey 2010, data from 2009), the relative poverty rate of unemployed people (16–64 age

²⁷ Statistics Estonia, unemployment rate in the 15–74 age group.

²⁸ Rate of relative poverty indicates the ratio of households with income below the relative poverty threshold in the society. Relative poverty threshold is 60% of the median equalised yearly disposable income of members of the household.

group) in Estonia was 46.7%, being higher than the EU average (45%)²⁹; by 2010, this figure increased to 52.1%³⁰.

It is important to ensure the increasing income, quality of life and social security by offering need-based support and benefits with opportunities to age actively and with dignity. In 2011, the average monthly pension was €270.6 and the average monthly old-age pension €305.1³¹. Minimum wage in Estonia is among the lowest in the EU, but in 2012, after staying on the same level for four years, the minimum wage was increased to €290 – the highest in the Baltic States³².

The average gross wage in Estonia in 2010 was €792 (net: €637)³³. According to the statistics of Q4 2011, the average gross wage was €865³⁴ and median monthly disbursement³⁵ in Q4 was €623³⁶. The average monthly gross disbursement for the entire year 2011 was €636 and the median disbursement was €498³⁷.

During 2011, the salary increased more than prices and the real salary³⁸ grew by 0.4%. In 2008, the gender pay gap in Estonia was the highest of the EU (27.6%) according to Eurostat.

Sector objective:

Ensuring the increase in income, quality of life and social security.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Rate of relative poverty (before and after social transfers), % Source: Statistics Estonia; Estonian Social Survey Responsible: MSA (MEAC, MER, MIA reg., MA)	41.1 / 17.5 (in 2010)	41.2 / 16.9	40.5 / 16.7	40.1 / 16.5	40.1 / 16.5
Employment rate in the 20–64 age group, % Source: Statistics Estonia, Estonian Employment Survey Responsible: MSA (MEAC, MER, MIA reg., MA)	70.1 (in 2011)	71	71.5	72	72.8
Youth unemployment rate in the 15–24 age group, % Source: Statistics Estonia, Estonian Employment Survey Responsible: MSA (MEAC, MER, MIA reg., MA)	22.3 (in 2010)	20	17	15	14

²⁹ Eurostat.

³⁰ Statistics Estonia.

³¹ Statistics Estonia.

³² Eurostat.

³³ Statistics Estonia.

³⁴ Statistics Estonia

³⁵ Meaning that half the disbursements were smaller than this amount, while another half were bigger.

³⁶ Tax and Customs Board.

³⁷ Tax and Customs Board. The quarterly disbursement statistics disclosed by the Tax and Customs Board include wage and other income where the income tax is applied and which are declared by the employers in tax return form TSD annex 1 with code 01. This data does not include redundancy payments. It is important to note that the data from Statistics Estonia and the Tax and Customs Board are not comparable.

³⁸ Real salary takes into account the effect of changes in customer price index.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Percentage of unemployed people in the 15–24 age group, % Source: Statistics Estonia, Estonian Employment Survey Responsible: MSA (MEAC, MER, MIA reg., MA)	8.9 (in 2011)	7.8	6.8	6.2	5.7
Long-term unemployment rate, % Source: Statistics Estonia, Estonian Employment Survey Responsible: MSA (MEAC, MER, MIA reg., MA)	7.1 (in 2011)	5	4.4	4	3.7

Most significant changes:

- The focus in the coming period is on youth, long-term unemployed and elderly. The objective is to intensify the effect of the active employment market policy. For those purposes, the existing legislation will be revised; where necessary, new employment market measures will be developed (such as measures supporting employee mobility) and existing measures improved. Development of an assessment system to monitor and assess the efficiency of employment services.
- One of the greatest challenges in ensuring the sustainability of social insurance is the implementation of the devised reforms regarding a) insurance against incapacity for work (including implementing the insurance system for occupational accidents and diseases), b) old-age pension under favourable conditions, superannuated pension and special pensions.
- Implementation of measures to increase the availability of social welfare services based on needs and to ensure their high quality and sustainability. Further organisation of social welfare network and development of perspectives and policies regarding special care. Organisation of state special care facilities (stages 2 and 3), building new family homes for children, ensuring access of disabled people to information, public buildings, transportation and home adaptation.
- Development of a strategy to implement the UN³⁹ Convention on the Rights of Persons with Disabilities and an active ageing strategy.
- Initiative on developing perspectives for reducing the gender pay gap in Estonia in order to reduce gender inequality and promote gender equality.

2.5 Public Health

From the aspect of vitality and productivity of Estonian population, it is important to increase the healthy life expectancy and the average life expectancy among Estonians. Although the average life expectancy and healthy life expectancy have increased during the past 15 years, they still remain below the EU average.

In the past years, the life expectancy in Estonia has increased to the highest of the Baltic States, but still remains lower than in most EU countries. The life expectancy gap between women and men remains huge: in 2010, the difference was a bit below ten years in favour of women. The average life expectancy of Estonians leaves Estonia in a significantly lower position in the global Human Development Index – Estonia ranked 34 in 2010⁴⁰.

Estonia's healthy life expectancy figures were among the worst in the EU (7.6 years below the EU average for men and 4.5 years for women in 2010). The healthy (without limitations) life expectancy for children born in 2010 is lower than for children born in 2009, but during the period 2004–2009

³⁹ United Nations.

⁴⁰ Estonian Human Development Report 2010/2011. Estonian Cooperation Body 2011.

the healthy life expectancy increased rapidly⁴¹. Increasing the healthy life expectancy is one of the priorities for the Government of the Republic.

The main reasons for health loss in Estonia are cardiovascular diseases (37%) and cancer (15%). The number of years of life lost due to premature deaths has decreased since 2000 for both men and women, but the percentage of years of life lost due to illness has constantly been increasing.

One of the most troubling problems in our society is the unhealthy lifestyle – excessive consumption of alcohol, smoking, insufficient physical activity and lack of attention on healthy eating. Drugs and the spread of HIV continue to be a problem and a vast source of danger to human health and life expectancy.

Sector objective:

Healthy life expectancy of Estonians has increased.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Life expectancy (separately for men and women), years Source: Statistics Estonia Responsible: MSA (MC, MEAC, MER, MIA reg., MA, MJ)	men 70.62 women 80.52 (in 2010)	men 71.6 women 81.5	men 72.1 women 81.8	men 72.5 women 82.2	men 73 women 82.5
Healthy (without limitations) life expectancy at birth (separately for men and women), years Source: Statistics Estonia Responsible: MSA (MC, MEAC, MER, MIA reg., MA)	men 54.1 women 58 (in 2010)	men 56.3 women 61	men 56.7 women 61.5	men 57.1 women 62	men 57.5 women 62.5

Most significant changes:

- An important goal for the coming period is to ensure high quality, availability and sustainable financing of health care. Ensuring the sufficiency of health care professionals is of key importance.
- Specialised medical care and hospital network need restructuring in order to improve the quality and availability of services using the optimal amount of resources.
- Estonia’s priority is to increase efficiency of preventive measures and raise awareness in order to improve health behaviour and living, working and learning environment. Reduction of premature deaths requires a cross-sectoral action plan, a more efficient fight against HIV and a prevention and control system for infectious diseases.
- Special attention is paid to the development of E-services – first aid portal, patient portal and healthcare professional portal.

2.6 Energy

It is important to ensure energy security for Estonia with the lowest possible energy price for the consumers and the least potential impact on the Estonian environment. Share of domestic energy remains high: in 2010, the energy dependency rate⁴² was 14.9%. Estonia is one of the few Member

⁴¹ Statistics Estonia.

⁴² The energy dependency rate shows the proportion of energy that an economy must import. It is calculated as net energy imports divided by gross inland energy consumption.

States with continuously decreasing energy dependency⁴³, currently being one of the most energy independent Member States (ranked third in 2009 with its share being 21.2%)⁴⁴.

The energy intensity of the Estonian economy (i.e. the amount of primary energy per unit of GDP) is increasing. Our energy intensity is one of the highest in the EU, ranking as second (data of 2010), therefore we need to increase energy efficiency in order to reduce greenhouse gas emissions to the agreed levels and save resources. Most of Estonian electrical energy is based on oil shale; its efficiency is low, it is a great burden on the environment and has a high geographic concentration.

The Estonian energy sector is one of the most carbon dioxide-intensive energy sectors in the EU⁴⁵: owing to the use of oil shale, electricity exports and its cold climate, the situation of Estonia is one of the most serious in the world regarding carbon dioxide emissions (ranked as second in 2009)⁴⁶. A new period of the EU Emissions Trading System will be launched in 2013. According to expectations, this increases the prices of allowed emissions, which means that the expenses for businesses and consumers will increase, unless energy intensity decreases.

The share of renewable energy in the final energy consumption was 24% in 2010 and will probably exceed 25% in 2011, which is the Estonian target for 2020. The extent of development of renewable energy sources should ensure that the target of 2020 is met. It is important to keep in mind that the renewable energy support should ease the burden on consumer tariffs that have significantly increased for the past few years.

Simultaneously it is important to pay attention to measures reducing the final energy consumption. During the years of economic crisis, final consumption decreased due to the decline in general economic activities. Now we face the challenge of avoiding increases in energy consumption. There is energy savings potential in almost every sector, including households, industry, transportation and the public sector.

According to the Treaty of Accession of Estonia to the EU, the Estonian electricity market will be opened to all parties to the market on 1 January 2013. Estonia has to ensure that the electricity market is opened successfully and functions smoothly.

Sector objective:

Energy security for Estonia is ensured with the lowest possible energy price for the consumers and the least possible impact on the Estonian environment.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Total greenhouse gas emissions (without land use, land-use change and forestry sector (LULUCF)) Source: Ministry of the Environment Responsible: ME (MEAC, MA)	20.49 ⁴⁷ (in 2010)	20 million metric tonnes of carbon dioxide equivalents	20 million metric tonnes of carbon dioxide equivalents	20 million metric tonnes of carbon dioxide equivalents	20 million metric tonnes of carbon dioxide equivalents
Share of renewable energy in the final energy consumptions, including transport fuels, % Source: Eurostat Responsible: MEAC	24 / 0.1 (in 2010)	22.8% / 2.5%	23% / 2.5%	23.6% / 5%	24% / 5%

⁴³ Energy dependency shows the ratio of net imports of energy sources to total energy consumption.

⁴⁴ International Energy Agency IEA.

⁴⁵ International Energy Agency IEA.

⁴⁶ International Energy Agency IEA.

⁴⁷ Preliminary assessment.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Final Energy Consumption, PJ Source: Statistics Estonia Responsible: MEAC	118 PJ (in 2010)	No more than in 2010			
No power outages in Estonia under usual circumstances that would impact more than 10,000 consumers over 2 hours Source: MEAC Responsible: MEAC	2 (in 2010) 0 (in 2011)	0	0	0	0

Most significant changes:

- Creating opportunities for additional connections to the electrical systems of the neighbouring countries, development of decentralised power production, and connection and renovation of networks.
- Transposition and successful implementation of EU legislation supporting final consumer's energy savings.
- Promotion of combined heat and power plants. Mapping of the heating sector, identification of effective district heating systems and promotion of their sustainability in order to lower the price of heat energy for the consumer, increase the reliability of the systems and decrease losses during transmission of heat energy.
- Development of a legal framework to ensure security of energy and fuel supply. Promotion of connections and infrastructures that increase national energy security (e.g. Estlink 2). Establishment of preconditions for connecting the Estonian electricity networks with the Continental Synchronous Area.
- Participation in establishing regulations for long-term use and trading of Assigned Amount Units, participation in emissions trading and identification of policy areas for distributing income.
- Amendment of support schemes for renewable energy.
- Participation in the preparatory activities of the Visaginas Nuclear Power Plant project.

2.7 Transport

Good transport connections are a prerequisite to the competitiveness of the Estonian economy. Movement of persons and goods in Estonia and between Estonia and the rest of the world should be available, fast and safe.

The current transport connections between Estonia and its main foreign trading partners⁴⁸ do not meet the expectations of the local businesses. Therefore, Estonia increases investments into transport infrastructure in order to improve waterway, airway, railroad and road transport connections. However, a lot remains to be done regarding airway connections, mainland connections and transfers between transport modes.

In spite of improvements in connections and large investments during the past decade, satisfaction with the transportation system is low compared to other EU Member States. Airport capacity and flight safety has been improved, however the current number of Estonian air connections is not sufficient and this is one of the greatest factors decreasing the relative satisfaction with transport in Estonia. Connections between larger roads and railways as well as between international harbours and airport pose a problem as well. To develop railroad transport the works of large investment requiring Rail Baltica project are continued.

⁴⁸ Nordic Countries, Latvia, Lithuania, Russia, and countries in Western Europe.

The state of road surfaces on the main roads has improved with the average age of surface being less than 13 years; on secondary roads, however, the age of road surface is above 22 years and on basic roads as much as 25 years. The main focus in domestic public transport has been on meeting the minimum transportation needs. The financial state of the people using public transport is not sufficient to increase ticket prices. The reputation of public transport has fallen and the number of public transport users has decreased. People are relying more and more on personal cars.

In Estonia, traffic safety and traffic activity continue to be closely related. Increasing traffic safety requires decreasing the number of people died and injured in traffic accidents. Currently, the main problems are road users' attitudes (regarding alcohol consumption and driving) and traffic behaviour (especially non-motorised road users). It is also a challenge to avoid the negative effects of rapid urban sprawl and to solve any occurring problems, *inter alia* through comprehensive planning of transportation and infrastructure.

Sector objective:

Movement of people and goods in Estonia as well as between Estonia and the rest of the world is available, fast and safe.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Number of deaths in traffic accidents, three year's average Source: Estonian Road Administration Responsible: MEAC, (MIA)	93 (2009-2011)	<75	<75	<75	<75
Increased satisfaction with transport (infrastructure organisation) Source: Estonian Institute of Economic Research Responsible: MEAC	6.2 (in 2011)	-	-	7.2	7.2
Percentage of public transport users among employed persons, % Source: Estonian Employment Survey Responsible: MEAC	22.2 (in 2011)	25	27	30	30
Increase in road traffic, three years' average Source: Estonian Road Administration; Statistics Estonia Responsible: MEAC, (MIA)	In 2011, average increase in road traffic was 0.5% and economic growth 7.5%.	below economic growth	below economic growth	below economic growth	below economic growth

Most significant changes:

- Continuation of large transport infrastructure projects.
- Continuation of international cooperation to achieve the functioning of Rail Baltica. Increase of share of public transport users.

2.8 Information Society

According to Eurostat, availability of public e-services to the population is fairly good in most of the Member States. The availability of selected service categories is 100% in eight Member States; in 2010, the respective figures for Estonia were 90%.

50% of the Estonian population uses electronic channels to communicate with the government – this is above the EU27 average (41%). In the EU, about 89% of the services offered to businesses are available via electronic channels, this figure being 100% in 16 Member States (including Estonia).

Businesses use these services more actively than private persons; on the average, 76% of EU businesses use electronic channels to communicate with the government, while 80% in Estonia. Improving the interoperability and interaction of various information systems providing public services is challenging – although many modern and well-functioning information systems have been developed and implemented to ensure the basic functioning of state and municipal government institutions, they are not always integrated.

While the Estonian situation regarding use of public e-services and Internet is above the EU average, the broadband infrastructure characteristics fall significantly below the EU average. Estonia needs to increase broadband speed and ensure its availability in rural areas, where people, institutions and businesses often lack the opportunities to use electronic communications and services offered by the information society on similar grounds with the inhabitants and businesses in densely populated areas.

Sector objective:

A living and working environment, which values time and convenience, has been created for people and businesses with the help of modern and versatile opportunities provided by ICT.

Policy area	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Share of internet users in the 16–74 age group Source: Statistics Estonia Responsible: MEAC	76.5% (in 2011)	Increasing share	Increasing share	Increasing share	Increasing share
Share of fast broadband connection (percentage of download speed of over 100 Mbps among fixed internet connection) Source: Digital Agenda Scoreboard Responsible: MEAC	2.7% (in 2011)	Increasing share	Increasing share	Increasing share	Increasing share
Satisfaction of people with government-provided e-services (percentage of those who have used e-services) Source: RISO ⁴⁹ Responsible: MEAC	78% (in 2011)	Increasing share	Increasing share	Increasing share	Increasing share
Satisfaction of businesses with government-provided e-services (percentage of those who have used e-services) Source: RISO Responsible: MEAC	94% (in 2011)	Increasing share	Increasing share	Increasing share	Increasing share

⁴⁹ Ministry of Economic Affairs and Communications, Department of State Information Systems.

Most significant changes:

- The main focus over the next years will be on increasing awareness about the information society.
- Webpages of government sector will be made more user-friendly and available.
- Disclosure of public data to the private sector, improvement of coordination and interoperability of the sector.
- Further development of the pan-Estonian fast broadband network EstWIN. By the end of 2015, this network should ensure access to quality and fast broadband connection all over Estonia.

2.9 Internal Security

Estonia may be characterised by concentration of economy and active people to the larger centres and the related concentration of crime. The recent years' trend in registered crimes has been either stable or declining; in 2011, the year-on-year decline was 12%. The decline was most prominent in thefts, frauds and robberies. Traffic crimes increased 10%, offences against the person 12%, offences against family and minors 7.5% and offences against public health (including narcotics-related crimes) 1.5%.

The number of people dying due to unnatural causes in 2011 decreased 6% compared to the previous year. Among unnatural deaths, the number of crime-related deaths has decreased on a yearly basis for the past several years; however, the number of killings, murders and traffic deaths increased in 2011 and the share of suicides and occupational accidents remains high.

Proceedings in courts take time and the recidivism risk is high (within a year after being released from the prison, about 40% of the released persons commit another crime and 26% of the released persons are imprisoned again)⁵⁰. The reputation of the country is also affected by the recent corruption cases⁵¹ and according to the Corruption Perceptions Index of Transparency International, the rank of Estonia has been falling for two years in a row⁵².

Sector objective:

To ensure greater safety for persons and property, and to keep constitutional order, internal peace and stability.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Number of registered crimes Source: Ministry of Justice Responsible: MJ (MIA)	42,567 (in 2011)	Below 42,000	Below 42,000	Below 41,000	Below 40,000

⁵⁰ Crime in Estonia 2009, Ministry of Justice; Estonian summary

<http://www.just.ee/orb.aw/class=file/action=preview/id=48522/Kuritegevus+Eestis+2009.+Kokkuv%F5te.pdf>

⁵¹ Annual Review 2011, Estonian Security Police, <http://www.kapo.ee/cms-data/text/138/124/files/kapo-aastaraamat-2011-eng.pdf>

⁵² Transparency International, 2011 <http://cpi.transparency.org/cpi2011/results/#CountryResults>.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Number of unnatural deaths, including occupational accidents, traffic accidents, drowning, killing/murders, suicides (narcotics-related deaths) Source: Ministry of Internal Affairs Responsible: MIA (MSA, MEAC)	500 (123)	452 (decreasing)	421 (decreasing)	392 (decreasing)	364 (decreasing)
Corruption Perceptions Index of Transparency International Source: Ministry of Justice Responsible: MJ (MIA)	6.4 (2011)	6.4	6.5	>6.5	6.6
Proportion of victims of crime among residents Source: Ministry of Justice Responsible: MJ (MIA)	9% of residents have been victims to a crime during the past 12 months (in 2011)	Less than 12%	Less than 12%	Less than 12%	Less than 10%
Average duration of proceedings in criminal, civil, misdemeanour and administrative matters Source: Ministry of Justice Responsible: MJ	206 days in civil matters, 165 days in administrative matters, 385 days in general procedures of criminal matters, 88 days in misdemeanour matters (in 2011)	160 days in civil matters, 120 days in administrative matters, 300 days in general procedures of criminal matters, 75 days in misdemeanour matters	150 days in civil matters, 110 days in administrative matters, 300 days in general procedures of criminal matters, 70 days in misdemeanour matters	100 days in civil matters, 100 days in administrative matters, 250 days in general procedures of criminal matters, 70 days in misdemeanour matters	100 days in civil matters, 100 days in administrative matters, 200 days in general procedures of criminal matters, 70 days in misdemeanour matters

Most significant changes:

- Updating of information systems and development of registries to ensure quick assistance and availability of services.
- Continuation of structural reforms, including prison reform and the development of a unified national rescue centre.
- Shortening the duration of court proceedings, development of forensics.
- More efficient detection of serious hidden crimes.
- Greater involvement of volunteers.
- Increase of preventive activities in order to reduce accidents.

- Continuing activities towards detection and prevention of illegal immigration.
- Development of capacity to detect pollution and decontaminate polluted areas.
- Further development of environment that meets the Schengen Area requirements.

2.10 Culture

While integrating representatives of other cultures into Estonian culture, it is important to ensure the preservation of Estonian culture in order to retain the Estonian nation and culture for the future. The amount of people regularly engaged in hobbies related to folk culture is important from the perspective of preserving folk culture. Compared to 2010, the figures have decreased⁵³; however, the number of groups receiving activity support from the government and participating in song and dance festival has increased during the recent years.

As of end-2011, the number of protected cultural monuments was 26,979⁵⁴. The task of preserving cultural objects is difficult to fulfil. The possibilities of the Estonian population for visiting museums have decreased – the ticket prices have been increasing during the past year, especially with renewed museums. Although the prices are low compared to the rest of the Europe, it is a considerable obstacle for Estonians, as can also be seen in the declining number of museum visits during 2010. The National Heritage Board continues to face problems in preserving the architectural heritage⁵⁵; in 2011, 30.2% of the architectural monuments were in a very bad or deteriorated state.

Estonia continues to have a strong and vibrant theatre culture⁵⁶. The total number of theatre visits increased in 2010 by almost 3% year-on-year, while the number of theatrical productions increased by almost 4%.

Changes in lifestyle and entertainment preferences have lead to the overall decline in reading, one reason for this trend being the relatively high price of books. This is counterbalanced by increased borrowing of books from libraries and the rapid spread of e-books.

Sector objective:

To ensure the viability of the Estonian cultural space to preserve and develop Estonian nation and culture.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Number of visits to and theatrical productions of theatres receiving activity support from the Ministry of Culture Source: Ministry of Culture Responsible: MC (MEAC)	0.89 million visits 417 theatrical productions (2010)	0.9 400	0.95 400	1 400	1 400
Number of museum visits, millions Source: Statistics Estonia Responsible: MC (MER, MIA reg., MEAC)	2.15 (in 2010)	2.3	2.3	2.4	2.4

⁵³ Folk Culture Database managed by the Folk Culture Centre, <http://www.rahvakultuur.ee>.

⁵⁴ The national database of the national registry of cultural monuments is accessible on the web at <http://www.muinas.ee/registry>.

⁵⁵ Architectural heritage includes buildings, settlements and other man-made clusters with architectural, cultural or environmental value regardless of the period, including Soviet and contemporary times.

⁵⁶ Eurobarometer survey “European Cultural Values 2007”.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Number of borrowings from public libraries (millions) ⁵⁷ Source: Statistics Estonia Responsible: MC (MER, MIA reg., MEAC)	11.96 (in 2011)	12.1	12.2	12.3	12.3
Number of people practicing folk culture activities Source: Ministry of Culture Responsible: MC (MER, MIA reg., MEAC)	83,487 (in 2011)	84,500	84,500	85,000	85,000
Share of architectural monuments deteriorated or in bad state, % ⁵⁸ Source: Ministry of Culture Responsible: MC (MER, MIA reg., MEAC)	30.2 (in 2011)	30.2	30	29	29

Most significant changes:

- Restructuring of the Estonian Film Foundation and establishment of the Estonian Film Institute. Implementation of a special program for making movies for children and youth.
- Participation in preparatory work and activities of the year of the Baltic Sea 2014 taking place in Estonia.
- Organising the year of music in 2015.
- Organising the year of cultural heritage in 2013 and national launch of the European Heritage Label.

2.11 Sport

Promotion of public health requires an environment that promotes physical activity and a supporting infrastructure. The availability of sports facilities has improved during the recent years, but the current number of local activity and sports facilities does not fully meet the needs of society. However, the trend is rising – in 2010, 36.3% of the population was actively going in for sports and almost half of them were young people. Sports clubs were visited by 25% of young people below 19 years of age. Professional sports show positive development as well: in 2010, Estonian athletes won a total of 108 medals from various world and European championships (of which 10 in Olympic sports); in 2011, Estonian athletes won a total of 126 medals, of which 14 in Olympic sports.

Sector objective:

An environment that promotes physical activity and a supporting infrastructure have been created.

⁵⁷ Target levels of the indicator have been considerably adjusted compared with the previous period of the development plan based on analysis of the trends in the area. Target levels for organisation-based development plan: 2013 – 11.9; 2014 – 11.9; 2015 – 11.9; 2016 – 11.9.

⁵⁸ In 2011, the National Heritage Board finished the inspection of architectural monuments. As a result, the indicator values were significantly adjusted. The earlier data were from reviews that included the inspection of only some architectural monuments.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Proportion of people regularly going in for sports in the 16–64 age group, % Source: National Institute for Health Development Responsible: MC	36.3 (in 2010)	40	42	45	45
Proportion of young people (up to 19 years of age) going to sports clubs of the entire age group, % Source: Estonian Sports Register Responsible: MC	24.3 (in 2010)	25.5	26	26.5	26.5

Most significant changes:

- Promoting and development of sports through organisation and development of state funding of sports; establishment of long-term goals in sports; development of professional system of coaches; development of the Estonian Sports Register.
- Support of large international championships, implementation of anti-doping programme and development of health check-ups system for athletes in cooperation with the Ministry of Social Affairs.

2.12 Estonian Language

In order to preserve the Estonian nation, it is important to ensure the continuity and development of the Estonian language. During the period 1990–2010, the number of people speaking Estonian as their native language has decreased by 5%. During the same period, the percentage of Estonian-speaking people of the whole population has increased to 69% (1990: 61%) – this means that there are more and more⁵⁹ people of ethnicities other than Estonian who speak Estonian and their average level of language skills has improved. Since the number of people with Estonian as their native language is decreasing and the number of people speaking Estonian as a foreign language is increasing, it is important to ensure that quality Estonian is being taught to both groups.

The quality of teaching Estonian in general education schools may be measured with the results of the final examinations in secondary schools; these results have gradually improved over the past several years. The Estonian final examination results in primary schools have shown improvement during the past couple of years. However, the inadequate level of functional language skills among general education school students⁶⁰ and university first year students⁶¹ is an increasing problem that requires further focus on developing active and passive language skills necessary in everyday life.

In secondary schools where Russian is the language of instruction, transition to teaching subjects in Estonian is entering the final phase. Since the number of graduates from secondary and vocational schools is decreasing, there are also fewer students taking the exam (5,988 in 2010 and 5,845 in 2011), but the passing rate has decreased as well: only about half the students taking the exam pass. Schools where the language of instruction is other than Estonian recognise the purpose for studying Estonian mainly as a communication tool. This attitude increases openness and interest towards Estonian language and culture for almost a third of the students in the final grade of secondary school. Among the graduates of secondary schools where the language of instruction is Russian, more and more are entering Estonian universities, which increases their opportunities to be socially active.

⁵⁹ Estonian Labour Force Survey.

⁶⁰ PISA 2009.

⁶¹ The University of Tartu Survey 2010.

Sector objective:

Ensure preservation and development of the Estonian language in all aspects of life.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Native language skills (after 2014: Estonian skills) of young people with secondary education (average result of final examination), points (maximum: 100). Source: Ministry of Education and Research Responsible: MER (MC, MIA reg.)	59.2 (in 2011)	>58	>58	>58	>58
Percentage of people passing Estonian language examinations (levels A2 to C1), % Source: Ministry of Education and Research Responsible: MER (MC, MIA reg.)	51.5 (in 2011)	55	55	55	55

Most significant changes:

- Support for teaching Estonian in general education schools.
- Launching transition to internationally recognised foreign language state examinations (in Russian, German and French) in 2014.
- Continuing of language-related activities outside Estonia, including the programme of Estonians abroad and the Academic Programme for Teaching Estonian Language and Culture Abroad.

2.13 Integration

The native language of about 90,000 citizens of the Republic of Estonia is not Estonian. In addition, Estonia and Latvia stand out among other EU Member States for the large percentage of residents whose citizenship is either Russian or undefined⁶². Although the proportion of Estonian residents with undefined citizenship has gradually decreased⁶³, their average age is increasing and their ability to pass Estonian language examination is decreasing, which poses problems in applying for citizenship. The problems arise in several aspects, since the unemployment is higher among the Russian-speaking population mostly due to geographical location, level of education and official language skills⁶⁴.

As it is important to support residents with native languages other than Estonian in learning Estonian and acquiring information, it is problematic as the Russian-speaking residents tend to consume and trust media of Russian origin⁶⁵. At the same time, the number of new immigrants to Estonia is gradually growing⁶⁶, which results in the need to adjust the adaptation programmes to reflect the immigrant profiles – it is necessary to ensure equal opportunities to participate in society for every resident of Estonia regardless of their ethnic nationality and native language.

Sector objective:

Equal opportunities to participate in society for every resident of Estonia regardless of their ethnic nationality and native language are ensured.

⁶² Eurostat.

⁶³ Population register.

⁶⁴ EIM 2011.

⁶⁵ The 2010 Monitoring of the Integration Plan.

⁶⁶ Our People Integration and Migration Foundation survey in the ImmigrationPolicy2.0 project.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Number of residents with undefined citizenship Source: Population Register Responsible: MC (MIA)	94,395 (in 2011)	91,000	90,000	89,700	87,000
Percentage of Russian-speaking residents who watch / listen to Estonian Public Broadcasting (including Radio 4, ETV, ETV2) Source: Ministry of Culture Responsible: MC (MIA)	58 (in 2010)	60	2012 is the beginning of a new period of Integration Strategy, current indicator will be discontinued	63	

Most significant changes:

- Increased support for using Estonian for teaching subjects in the primary education level at schools where Russian is the language of instruction.
- The greatest challenge is the preparation for the new period of the Integration Strategy and the related activities: language study, accommodation programmes, support for activities of ethnic minorities, activities to support tolerance in society and support of naturalisation process.

2.14 Environment

Preservation of clean and naturally diverse environment requires resource efficiency. Resource efficiency may be achieved by moving towards economy based on waste reuse, waste recycling and near-to-zero waste residues. In 2010, waste reuse increased to 36%. On the other hand, the share of oil shale waste in the overall waste production has not materially decreased since the possibilities for its reuse are still under research. This has an adverse effect on the total waste reuse rate⁶⁷.

The amount of waste *per capita* produced in Estonia between 2006 and 2009 is bigger than in Latvia, Finland and Sweden, but still only 67–85% of the EU average. Most of the waste originates from manufacturing industry, wastewater treatment and energy enterprises, and consists of waste related to oil shale industry and oil shale energy production. According to international definitions, most oil shale waste has been classified as hazardous waste. Between 2006 and 2010, the amounts of untreated and treated sewage water in Estonia have been roughly equal⁶⁸, and the amount of sewage water that needs treatment has decreased from 2009 to 2010. The state of groundwater, the main source of drinking water in Estonia, is good. In 2010, 80% of the population got water from the public water supply, and 74% of those got high-quality drinking water from the public water supply. The rest of the population got their water from individual bore wells and dug wells⁶⁹.

In absolute figures, use of natural resources increases constantly. Natural resource productivity varies across EU Member States⁷⁰: only a few of them have succeeded in separating their economic growth from resource usage, and nine Member States (Estonia among them) have barely shown any signs of separating economic growth and resource usage. This means that Estonia needs to focus further on more efficient and economical resource usage⁷¹.

With regard to the environment, until now most attention has been paid to environmental infrastructure (mostly in terms of clean drinking water, wastewater treatment and disposal of

⁶⁷ The Estonian Environment Information Centre (EEIC), <http://www.keskkonnainfo.ee/main/index.php/en>.

⁶⁸ Ministry of Finance based on the statistics from Statistics Estonia.

⁶⁹ Development Plan of the Ministry of the Environment for 2011–2014.

⁷⁰ Communication “The Sixth Community Environment Action Programme FINAL ASSESSMENT”. European Commission, 2011.

⁷¹ “European Competitiveness Report 2011”. European Commission, 2011.

consumer and industry waste), but renewable energy, green transport and green energy are gradually gaining more importance.

In the transition to a resource efficient economy, it is important not only to mitigate climate changes but also adapt to them. This requires adoption of a cross-sectoral approach based on resilience and resistance of ecosystems, protection of habitats and biodiversity and benefitting from ecosystem services.

A significant part of Estonia's territory is protected (in 2011, 18.1% of land and 27.4% of marine areas⁷²), but the fragmentation and destruction of populations and habitats of important species is a enormous problem: half of habitat types and species are in inadequate and bad condition.

Sector objective:

Shaping a responsible attitude towards nature and preserving a clean and biodiverse environment for Estonians.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Response capacity to a marine pollution incident within 24 hours Source: Ministry of Internal Affairs Responsible: MIA (MEAC, ME)	1.8 km ² within 24 hours (2011)	1.8 km ² within 24 hours			
Total greenhouse gas emissions (without land use, land-use change and forestry sector (LULUCF)) Source: Ministry of the Environment Responsible: ME (MEAC, MA)	20,49 (in 2010)	20 million metric tonnes of carbon dioxide equivalents	20 million metric tonnes of carbon dioxide equivalents	20 million metric tonnes of carbon dioxide equivalents	20 million metric tonnes of carbon dioxide equivalents
Percentage of consumers who get drinking water that meets requirements from the public water supply Source: Ministry of the Environment Responsible: ME (MSA)	81% (in 2011)	90%	95%	100%	100%
Proportion of waste recycling of total waste Source: Ministry of the Environment Responsible: ME	36% (in 2010)	37%	37%	37%	39%
Protection of biodiversity and natural resources (proportion of protected areas compared to total land area) Source: Ministry of the Environment Responsible: ME	18.1% (in 2011)	No less than in 2010			
Percentage of functioning wastewater collection and treatment systems in agglomerations of more than 2000 population equivalent Source: Ministry of the Environment Responsible: ME	74% (in 2010)	90%	95%	100%	100%

Most significant changes:

- Development and initial implementation of ecosystem services assessment policies.

⁷² National Spatial Plan "Estonia 2030+".

- Analysis on European Commission communication “A Roadmap for moving to a competitive low carbon economy in 2050” with the goal of preparing a national roadmap.
- Renewal of environmental monitoring measures and increased monitoring of living nature. Extensive renewal of conservation management and species action plans.
- Implementation of EU emissions trading scheme.
- Further investments into public water supply and sewerage systems and wastewater treatment plants in order to ensure access to safe drinking water as well as collection and treatment of wastewater. Investments in restoration, repair and management of water bodies.
- Development of new approaches for oil shale sector management in 2016–2020.
- Restoration of populations of endangered fish species and opening of fish passages in stream barrages for salmon migrating to spawning areas.
- Development of approaches for waste management in 2014–2020.
- Improvement of environmental impact assessment and the strategic environmental impact assessment system.

2.15 Rural and Regional Development

Considering the size of Estonia, domestic regional differences are significant in comparison with the rest of Europe and other developed countries⁷³. Although Estonia is mostly sparsely populated with a significantly lower level of urbanisation than in the rest of the Europe⁷⁴, domestic migration in Estonia may be characterised as a relatively active concentration of population into larger urban areas, this trend being more intensive than in most developed countries⁷⁵.

Just like population, the active and more productive economic activities tend to concentrate into economic activity areas of larger cities⁷⁶; there are significant regional differences in regard to amount and growth of GDP and GDP *per capita*⁷⁷ and these differences have been increasing during recent years.

The current structural changes in economy present new and regionally versatile challenges in development of economic activity areas. But despite the smallness of Estonia, each region has specific abilities related to its position and natural or cultural traits to allow specialising in certain economic activities and prioritising such economies that are more suitable for the region. Balancing the regional development requires promoting economic specialisation that is based on the competitive edges of various regions⁷⁸.

Regional differences in employment continue to be significant as well. Due to unfavourable demographic processes, the number of new employees is smaller than a couple of years ago in all economic activity areas. Regional employment markets are shrinking in various speeds and regional differences in labour pressure are increasing as well⁷⁹.

While the population in larger urban areas increases, Estonia needs to bear more in mind the increasingly scarce population in rural areas. The peripheral areas have to face the new normal.

⁷³ “Regions at a Glance 2011”, OECD 2011; “The Objectives of Economic and Social Cohesion in the Economic Polices of Member States”, EPRC 2010.

⁷⁴ “Fifth Report on Economic, Social and Territorial Cohesion”, EU 2010.

⁷⁵ Redefining Urban: A new way to measure metropolitan areas in OECD countries, OECD 2011.

⁷⁶ “Regional Development Trends in Estonia 2005–2011”, Ministry of Internal Affairs, 2011.

⁷⁷ “Regions at a Glance 2011”, OECD 2011.

⁷⁸ The same principles are supported by the Territorial Agenda 2020 approved by the Government of the Republic of Estonia.

⁷⁹ In 2005-2006, the lowest county labour pressure index was 1.3 times lower than the highest; by 2011, this ratio had increased to 1.7.

Currently, there are about 48 rural municipalities with around 50,000 inhabitants whose population has decreased by at least half during the last 50 years or at the annual rate of at least 1% during the last decade. Population shrinking decreases business opportunities and increases the risks of unemployment, discouragement and permanent incapacity for work. Considering the internal migration trends and the decreasing and ageing population, it is increasingly difficult and usually much more costly to ensure jobs and provide services in the more peripheral areas with the same availability and quality level. The number of services provided in the peripheral areas has decreased through the decisions of both governmental sector (moving governmental institutions, closing down schools, etc.) and business sector (bank offices, post offices and stores have been closed down in smaller towns due to lack of consumers). The social indicators of the 2000s have shown that quality of life and well-being in the rural areas farther away from urban areas have decreased⁸⁰; therefore, it is important to act towards increasing quality of life in rural areas.

Sector objective:

1. Comprehensive and regionally balanced development that takes into account the specific abilities and nature of areas.
2. Increasing quality of life and number of well-paid jobs in rural areas.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Employment level in rural areas (15–64 age group), % Source: Statistics Estonia Responsible: MIA reg., (MA, MEAC, MSA)	57% (in 2011)	-	-	59%	-
Increase of net value added per annual working unit (compared with the previous year) in agriculture, % Source: FADN ⁸¹ Responsible: MA, (MIA reg., MEAC)	€13,274 per AWU (in 2010)	3.1%	3.0%	2.8%	3.0%

Most significant changes:

- Continued efforts to increase attractiveness of rural areas by diversifying economic activities and renewing and developing villages.
- Guided regional development – preparation of regional development strategy, follow-ups to planning on national level and preparation of new support programmes.
- Renewal of comprehensive county plans.
- Strengthening of labour catchment areas by supporting regional and rural development.
- Promotion of business environment and employment market outside main pull centres for population and economy by measures designed to improve regional competitiveness and regional competence centres and in particular target areas.

2.16 Foreign Policy

One of the prevailing goals in ensuring the international status of Estonia is to integrate into various international organisations and promote the interests of Estonia through these organisations. By now, Estonia has joined almost every pursued international organisation. Increasing Estonian influence and improving reputation requires promoting the visibility of Estonia in international

⁸⁰ Estonian Human Resource Report 2010.

⁸¹ FADN – Farm Accountancy Data Network.

organisations, enhancing cooperation with the Baltic States and the Nordic countries and promoting relations with the countries in the Middle East and Asia.

Estonia is represented in all the capitals of the permanent members of the UN Security Council and in most of the NATO and EU Member States. A significant foreign policy objective is to facilitate the global movement of Estonian citizens. The Government continues to expand visa-free travel opportunities. At the beginning of 2011, Estonian citizens were able to travel without a visa to 69 countries besides the EU and EEA Member States. Cooperation with businesses and business organisations has strengthened in terms of promoting foreign investments and finding new markets for Estonian companies. Currently, Estonia is represented with all important economic partners, and Enterprise Estonia has eleven representations in ten countries.

It is also important that foreigners who need a visa to travel to Estonia can obtain it with minimum hassle and time. Estonia is small and its resources are limited; therefore, the number of foreign embassies is limited as well. Several visa representation agreements have been and continue to be signed with other EU Member States.

Development cooperation and humanitarian aid is handled systematically as a foreign and security policy measure. Estonia has not yet reached the EU target level for 2010 (0.17% of GNP) but plans to reach it by 2015. This means significant expansion of development cooperation and humanitarian aid and continuing promotion of democratic values and human rights. In 2012, Estonia will run for a member state of the United Nations Human Rights Council for the period 2013–2015. Estonia increasingly understands the importance of development cooperation, with gradually more involvement of the public and volunteers.

Sector objective:

Increasing the international influence of Estonia, promotion of democracy and security in the world.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Capacity to respond to and process the requests of Estonian businesses on topic of business and economy, requests per annum Source: Ministry of Foreign Affairs Responsible: MFA	389 (in 2011)	Increasing level	Increasing level	Increasing level	Increasing level
Number of experts seconded to international civil missions / number of missions Source: Ministry of Foreign Affairs Responsible: MFA	20 experts / 8 missions (in 2011)	Increasing	Increasing	No more than 30 experts / 10 missions	Sustained level
Estonia represented in foreign countries Source: Ministry of Foreign Affairs Responsible: MFA	33 embassies, 7 permanent representations, 4 consulates general, 1 special mission, 1 consular agency, 145 honorary consuls (in 2011)	Expanding	Expanding	Expanding	Expanding

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Readiness to provide consular services and assistance Source: Ministry of Foreign Affairs Responsible: MFA	Processing of up to 146,395 visa applications, provision of up to 50,123 instances of consular services or assistance 24/7 availability of consular assistance (in 2011)	Readiness to process 150,000 visa applications and conduct 51,000 consular procedures	Increasing readiness	Processing of up to 151,000 visa applications, provision of up to 52,000 instances of consular services or assistance	Increasing readiness
The share of GNP allocated to development cooperation and humanitarian aid (target: 0.17% of GNP) Source: Ministry of Foreign Affairs Responsible: MFA	0.10% of GNP (in 2010)	0.14% of GNP	0.15% of GNP	0.17% of GNP	Increasing share

Most significant changes:

- Continuous integration into various international organisations and promotion of Estonian interest via such organisations.
- Active participation in NATO activities in the EU common foreign and security policy.
- Promotion of the activities of Estonian foreign embassies in protection of interest of Estonian persons and entities in both consular procedures and promoting the interests of businesses.
- Being a valued partner in provision of development cooperation and humanitarian aid.
- Chairmanship in the Nordic-Baltic Cooperation in 2014 and chairmanship in the Council of the Baltic Sea States from 2014 to 2015.

2.17 Defence and Security Policy

Estonian military defence strategy is based on primary self-defence and NATO collective defence. The development of military defence is directed towards the preemption of military threats and, if applicable, the combatting thereof. One example of sharing responsibility between NATO members is the financial contribution to defence expenditure. Our contributions during the recent years take us in the upper third among the 28 NATO Member States⁸². Compared with the other NATO Member States, Estonia allocates the most resources to investments.

Development is measured by the mobility of the Estonian defence forces, characterised by the NATO usability targets for forces⁸³. In 2011, the proportion of units deployable and units deployable sustainably of the entire army decreased year-on-year. In accordance with the mobility of the defence forces indicator, 50% of the land forces must be deployable by 2018.

In the coming years, Estonian national defence will be further integrated into NATO systems, meaning that training, infrastructure and technology readiness level must be raised to the NATO standards. Air surveillance and NATO air defence continues to be the priority of the Estonian air forces.

⁸² Action Report of Government of Republic 2007–2010, Government Office 2011.

⁸³ The usability target for forces shows the readiness of forces to participate in foreign operations and be involved in NATO operations. The amount of units deployable once and units deployable sustainably is calculated according to nationally approved principles agreed with NATO.

The Estonian Defence Forces are comprised of professional defence forces and a reservist army. Recruitment and preservation of personnel is difficult. In 2011, the formerly positive balance turned negative. The Estonian Defence League is a voluntary, militarily organised and armed national defence organisation carrying out military training. In the end of 2011, the number of its members had increased by 552 year-on-year. The increasing number of members shows the increasing popularity of the National Defence and its special organisations; this is significant from the viewpoint of voluntary national defence.

Sector objective:

Development of primary self-defence, participation in collective security and support for civil authority.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Mobility of defence forces: proportion of deployable units in the army, % / proportion of sustainably deployable units in the army, % Source: Ministry of Defence Responsible: MD	32.4 / 9.3 (in 2011)	34 / 10	35 / 10	37 / 10	39 / 10
Proportion of defence expenditure of GDP, % Source: Ministry of Defence Responsible: MD	1.74 (in 2011)	2	2	2	2
Total number of members of Defence League and special organisations Source: Ministry of Defence Responsible: MD	21,526 (in 2011)	23,300	23,800	24,600	25,500

Most significant changes:

- Planning joint use of resources with the Ministry of Internal Affairs (development of Mine Harbour, promotion of joint flight capacity).
- Development of military capacity regarding national airspace surveillance system.
- Development of army readiness and mobilisation system, preparation of reservist units.
- Development of rapid, deployable, mobile and sustainable all-purpose units.
- Naval operations management, upgrading of mine clearance operations.
- Assembling, equipping and training of war-time units on the basis of National League, supporting civil authorities.

2.18 Governance and Civic Society

Cooperation between different levels and units is a prerequisite to coherent and efficient governance. The changes in the economic situation and decreased budget resources have created the need to provide services efficiently. The most dominant problems in governance are the fragmented activities of ministries and their lack of cooperation in pursuing common central goals. In addition, the effects analysis is rarely used in decision-making and planning and implementation of policies⁸⁴.

Local governments have varying development and management capacities. Their current lack of regional cooperation combined with the regional fragmentation of Estonia is an increasing hindrance to developing several areas of life and providing public services. Therefore, cooperation between local municipalities is promoted in Estonia.

⁸⁴ <http://valitsus.ee/UserFiles/valitsus/et/riigikantselei/uldinfo/2012-2015%20arengukava.pdf>

Charity has a growing role both in increasing social capital and as a direct socio-economic input in the development of the state. It constitutes a significant portion of the GDP.

The role of the third sector still needs improvement. The most pressing problems are the organisations' capacity to provide services, operational capability and economic viability. However, citizens' groups have gained power and skills, which has increased their capacity to earn income, provide public and societal services, start up social enterprises, etc.

Citizens' groups who participate in shaping politics increasingly feel their significant role in finding the best solutions to the challenges society is facing, and in improving the preparation procedures and quality of legislation and policy documents. 24% of local municipalities, 31% of county governments and 17% of ministry officials cooperate with citizens' groups⁸⁵, but there are no established criteria for assessing the quality of involvement.

Sector objective:

1. Improvement of uniformity in governance by providing public services based on customer needs more efficiently; better and more efficient shaping and implementation of policies.
2. Promotion of civic initiative and participatory democracy in the cooperation between citizens' groups and public authorities.

Indicator	Initial level	Target level 2013	Target level 2014	Target level 2015	Target level 2016
Residents' assessment on availability and quality of local public services ⁸⁶ Source: Enterprise Estonia Responsible: MIA reg. (MEAC)	3.64 (in 2009)	Sustained level	Sustained level	3.64	Increasing level
Government effectiveness ⁸⁷ Source: Institute for Management Development Responsible: Government Office	34.05 points, 4 th position (in 2010)	Retain position in top five			
Socio-political participation rate of non-institutional population, % Source: European Social Survey, Institutionalisation of Civic Initiative in Estonia Responsible: MIA reg.	5	Sustained level	Sustained level	7	Increasing level

Most significant changes:

- Centralisation of web pages of governmental institutions into one single government portal.
- On-going centralisation of support services.
- Preparations for Estonia's Presidency of the Council of the European Union.
- More efficient involvement of the civic society via better availability of IT solutions.
- Improved quality of financial management of the state, which guarantees a more accurate and operational overview of the state's receivables, liabilities and investment needs.
- In the preparation phase of decision-making and policy planning, more attention will be paid to preparing effects analyses. Statistics will cover civic society in a more comprehensive way.

⁸⁵ Research report "Institutionalization of Civic Initiative in Estonia 2009/2010". Civil Society Research and Development, Tallinn University, 2010).

⁸⁶ Measured on a five-point scale every two years.

⁸⁷ Total points and Estonia's rank among EU Member States for six indicators in the International Institute for Management Development (IMD) competitiveness survey: management of public financial resources, legal barriers to business competitiveness, flexibility of government policies towards changes, implementation of government decisions, transparency of government policies, bureaucracy as a hindrance to business.

3. FISCAL FRAMEWORK

Budget strategy and its fiscal framework are based on the economic forecast of the Ministry of Finance from spring 2012; this forecast may be found on the web page of the Ministry of Finance⁸⁸. Main indicators of the economic forecast are presented in Appendix 1.

The budget policy of the following four years will be conservative, with budget expenses planned according to resources.

3.1 Objectives of the Fiscal Policy of the Government of the Republic

The main goal of the Government's fiscal policy is **to support macroeconomic stability via the flexibility and efficiency of markets and to manage the risks that threaten the balanced development of the economy**. The **medium-term budgetary objective (MTO) of the Government is a general government structural surplus** that meets the requirements of the Maastricht Treaty and the Stability and Growth Pact.

The Government's objective is to guarantee a **sustainable budget policy that ensures macroeconomic balance**. The goal is to make budget policy decisions that support maximum macroeconomic stability, manage the risks that threaten the balanced development of the economy, and improve the economy's growth potential and increase employment. The **existence of adequate reserves and flexibility in the budget** for making changes in the structure of revenue and expenditure must be guaranteed in order to cope with future economic downturns.

Budget policy decisions are made **simultaneously** (i.e. only in the budget (strategy) process), decisions are sustainable (the long-term impact of the decisions is considered) and take account of sector policies and the activities of the other levels of the general government as much as possible; and all **sources of financing** (European Union grants, proceeds from sales of greenhouse gas emission quotas, etc., in addition to tax revenue) are **uniformly regarded**.

Budgetary position of general government

The Government continues with a strict fiscal policy and its **medium-term objective (MTO) is the general government structural surplus**.⁸⁹ This objective is in line with the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. Planning the budget position with a surplus helps guarantee the long-term sustainability of the budget.

Estonia managed to achieve its MTO until the global economic crisis, but the budgetary position of general government fell into a structural deficit in 2008⁹⁰. Since 2009, Estonian general government is in structural surplus again and the MTO is thus met. The deterioration of the budgetary position in 2012 is caused mainly by one-off factors, but also the deterioration of the economic situation, which takes the structural budgetary position into a deficit for one year. The structurally adjusted budgetary position will once again be in a growing surplus from 2013 onwards.

The objective is to increase the general government structurally adjusted surplus to 1.0% of GDP by 2016. The general government nominal budget surplus will be attained in 2014 if this objective is achieved, which will make it possible to replenish the reserves that decreased during the recession. **No positive supplementary budgets will be prepared during the year and any extra tax revenue received into the budget will be placed into reserves**.

⁸⁸ <http://www.fin.ee/economic-forecasts>.

⁸⁹ Surplus target was set in Convergence Programme 2007. Convergence Programmes of 2005 and 2006 set the objective to achieve a balanced budget.

⁹⁰ Due to later reassessments, structural deficit was also identified in 2006 and 2007.

Tax-burden objective

Take the tax burden back to the level it was at before the recession by reducing labour-related taxes.

The tax burden in 2012 will increase by 0.2% in comparison to the previous year, to 32.9% of GDP. Receipt of VAT and excise duties will increase this year (tobacco and alcohol excise will increase, and fiscally marked fuel reform will be implemented); receipt of corporate income tax will increase due to the partial deferral of the profit distributions of state-owned companies until this year; and taxes related to workforce will also increase due to the positive developments on the employment market. However, restarting the payment of mandatory funded pension contributions in their full extent reduces the tax burden technically. All in all, tax revenue will grow slightly faster than the economy, which will bring about an increase in the tax burden.

The tax burden will decrease to 32.3% of GDP by 2016. Future developments are discussed in greater detail in Chapter 3.3.

3.2 Budgetary Position of the General Government

The general government covers public sector entities that are financed mainly via mandatory payments made by entities belonging to other sectors, and whose main activity is redistribution of national income (so-called non-market producers). General government in Estonia consists of three sectors: central government, local governments and social security funds⁹¹.

The budgetary position of the general government in 2011 was in surplus for the second year after the recession, which totalled 163.9 million euros or 1% of GDP. The central government ended the year in balance; social security funds and local governments were in a surplus of 0.9% and 0.1% of GDP, respectively. Proceeds from sales of Assigned Amount Units made a strong contribution to the achievement of a budget surplus, but the surplus would have been achieved without this support as well.

According to the spring forecast of the Ministry of Finance, the budget deficit in 2012 will amount to 2.6% of GDP. The main generator of the deficit is the central government, and the main reasons are the sudden increase in the investments resulting from the sales of quotas and restarting the payment of mandatory funded pension contributions in full. The budget deficit of general government will become smaller in 2013 due to the decrease in temporary impact factors to 1% of GDP, and the budgetary position will achieve a surplus of 0.5% of GDP by the end of the forecast period in 2016.

The Government's objective after the structurally adjusted budget surplus of 2010 and 2011 is to achieve another surplus in 2013 after the deficit of the current year and to increase it to 1% of GDP by 2016. The nominal budget surplus will be attained in 2014 if this objective is achieved, which will make it possible to replenish the reserves that decreased during the recession. No positive supplementary budgets will be prepared during the year and any extra tax revenue received into the budget will be placed into reserves.

Table 1. Budgetary position objective of general government from 2012–2016

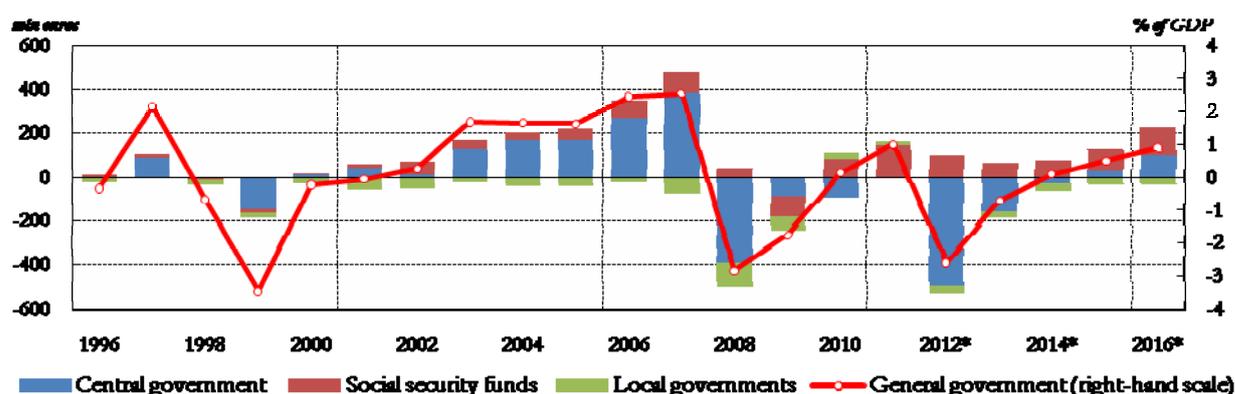
	2012	2013	2014	2015	2016
Structurally adjusted budgetary position of general government (% of GDP)	-0.5	0.1	0.5	0.7	1.0
Budgetary position of general government (% of GDP)	-2.6	-0.7	0.1	0.5	0.9
State budget	-2.8	-0.8	0.0	0.3	0.5
incl. state pension insurance	-2.2	-2.2	-2.4	-2.6	-2.6

⁹¹ See Chapters 3.2.1, 3.2.2 and 3.2.3.

	2012	2013	2014	2015	2016
Other central government	-0.2	0.0	-0.1	-0.2	-0.1
Social security funds	0.6	0.4	0.4	0.5	0.6
Local governments	-0.2	-0.2	-0.2	-0.2	-0.2
Budgetary position of general government (mln euros)	-428	-123	14	94	193
State budget	-463	-148	-3	68	111
incl. state pension insurance	-361	-384	-459	-515	-543
Other central government	-34	-7	-24	-41	-13
Social security funds	101	63	78	104	131
Local governments	-33	-31	-37	-36	-35

Source: Ministry of Finance.

Figure 1. Budgetary position of the general government



Source: Statistics Estonia, Ministry of Finance.

Cyclically adjusted position of general government budget

The method used by the Ministry of Finance to estimate potential GDP⁹² is the production function method⁹³. The use of this method indicated that from 2005 to 2007 the GDP of Estonia increased considerably faster than it should have, considering the resources existing in economy at the time, which created significant imbalances. The economic growth that could be considered manageable for the economy of Estonia before the crisis was ca. 6%, but it actually reached 10% at times. The growth was based on the rapid inflow of foreign funds as well as the overall optimism of local economic agents, which made domestic demand considerably bigger than total production and income. This excessive demand resulted in a scale of the economy (or GDP gap⁹⁴) that was up to 12% larger than usual in 2007, which was accompanied by accelerating inflation, a strong deterioration of the trade balance and tension from the excessively intense and inefficient use of resources in the economy, which brought along an increase in their prices.

Demand for consumer and investment goods decreased suddenly as the uncertainty that started to appear at the height of the boom continued to increase. The global financial crisis that started in autumn 2008 magnified the economic downturn caused by the cyclical behaviour of the economy even further. Global demand also decreased considerably as a result of the financial crisis and caused the scale of foreign trade to decrease by up to a third. As a result, the negative GDP gap of Estonia increased to almost 11% of GDP in 2009. The negative GDP has started to decrease as the

⁹² Potential GDP – maximum GDP using the existing production input (workforce, capital, productivity/skills) without causing excess pressure for price increase.

Potential economic growth – change over time of potential GDP. Depends on changes in production inputs.

⁹³ Further information on GDP gap and cyclically adjusted budget position may be found in Appendix 3 to Estonian Convergence Programme of May 2004.

⁹⁴ GDP gap (output gap) – difference between actual and potential GDP.

economic cycle is turning, but was still approximately 9% in 2010 and 3% in 2011. The GDP gap should close by the final years of the forecast period.

As the recent financial crisis and its aftermaths have been considerably larger than the usual cyclical volatility of the economy, it is likely that countries lost some of their production potential in the course of the crisis. The growth potential of Estonian economy in the next few years will also be lower than before the crisis due to the same reasons.

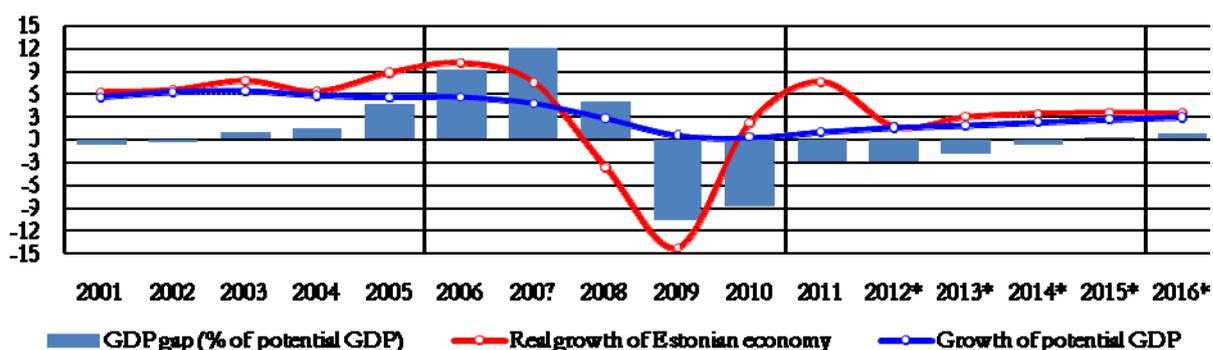
The estimates of the cyclically adjusted position of Estonia's general government budget found on the basis of the GDP gap indicate that the fiscal policy of Estonia is countercyclical from 2011 to 2012 in the conditions of a negative GDP gap (the GDP level is lower than the potential level). The GDP level will remain lower than the potential level from 2013 to 2014, but the fiscal policy will become stricter – the cyclically adjusted budgetary position will start improving – which is why the fiscal policy will become procyclical. The GDP gap will become positive in the period of 2015-2016 and the cyclically adjusted budgetary position will improve in both years. This is why the course of the fiscal policy in these years is countercyclical. However, it must be kept in mind that the impact of the change in the use of external funds must also be assessed in addition to the change in the budgetary position when a final assessment of the fiscal policy is given. Since the external funds are neutral in regard to the budgetary position – revenue always equals expenditure –, an increase in the use of funds, for example, is not reflected in the changes that occur in the budgetary position. However, it does provide some extra stimulation to economic activities during the economic crisis and is cyclical in its nature.

Table 2. Cyclically adjusted budgetary position, 2011–2016 (% of GDP)

	2001–2010	2011	2012*	2013*	2014*	2015*	2016*
1. Real GDP growth (%)	3.8	7.6	1.7	3.0	3.4	3.5	3.5
2. Budgetary position of the general government	-	1.0	-2.6	-0.7	0.1	0.5	0.9
3. Interest payments	-	0.1	0.1	0.2	0.2	0.2	0.3
4. Potential real GDP growth (%)	4.4	1.1	1.6	1.9	2.3	2.7	3.0
4.a Contribution of capital to potential growth (%)	2.9	1.2	1.5	1.5	1.6	1.7	1.8
4.b Contribution of labour to potential growth (%)	0.5	0.2	0.2	0.2	0.3	0.4	0.4
4.c Contribution of productivity to potential growth (%)	1.0	-0.2	0.0	0.3	0.5	0.7	0.9
5. GDP gap (output gap)	1.3	-2.8	-2.7	-1.7	-0.6	0.2	0.7
6. Cyclical budget component	-	-0.8	-0.8	-0.5	-0.2	0.1	0.2
7. Cyclically adjusted budgetary position	-	1.9	-1.8	-0.2	0.3	0.4	0.7
8. Cyclically adjusted primary position	-	2.0	-1.6	0.0	0.4	0.6	1.0
9. Fiscal policy position	-	Counter-cyclical	Counter-cyclical	Pro-cyclical	Pro-cyclical	Counter-cyclical	Counter-cyclical

Source: Ministry of Finance, Statistics Estonia.

Figure 2. Development of potential GDP and GDP gap (%)



Source: Ministry of Finance, Statistics Estonia.

Structural position of general government budget

The structural budgetary position of general government is calculated by removing not only the impact of the economic cycle but also one-off and temporary factors, which may distort the budgetary position, from the nominal position. The measures that have a significant impact on the budget, but whose significant impact on the cyclically adjusted budgetary position is temporary and non-recurring (on the scale of at least ca. 0.1% of GDP) are called one-off and temporary measures. Although the general principles on the basis of which the impact of a measure is classified as temporary have been defined, the consideration of each specific case is decided separately.

The Government's objective after the structurally adjusted budget surplus of 2010 and 2011 is to achieve another surplus in 2013 after the deficit of the current year and to increase it to 1% of GDP by 2016. Even though the nominal budgetary position will deteriorate considerably in 2012, it is caused mainly by the impact of one-off factors, which have no influence on the structural budgetary position.

The one-off measures that influence the budgetary position of general government are listed in Table 3. The total amount of one-off measures in 2011 was 1.6% of GDP, consisting of the temporary reduction of second pension pillar contributions by one-half and the balance of sales of Assigned Amount Units. The state starts paying its contributions to people's second pension pillars in full in 2012 and the influence will disappear. Dividends of state-owned companies, which exceed the usual dividend and net profit ratio, and income tax will be added. The balance of emission quotas will become negative, mainly due to the investments associated with the sales of AAUs; its impact on the budgetary position will be as significant as -1.3% of GDP. The investments associated with sales of AAUs will continue until 2014 and the impact of the funded pension compensation mechanism will also occur in the same year. Impact on the budgetary position will decrease to -0.2 to -0.3% of GDP.

Table 3. One-off measures and their impact, 2011–2016 (mln euros)

	2011	2012*	2013*	2014*	2015*	2016*
Suspension of second pension pillar contributions	84					
Revenue from sales of Assigned Amount Units (AAU)	191	47				
Expenses of Assigned Amount Units (AAU)	-24	-290	-52	-7		
Dividends that exceed the usual dividend and net profit ratio, and income tax, totalling at least 0.1% of GDP		26				
2+6 and 3+6 second pension pillar contributions				-39	-59	-65
Total, mln euros	251	-217	-52	-46	-59	-65
Total, % of GDP	1.6	-1.3	-0.3	-0.2	-0.3	-0.3

Source: Ministry of Finance.

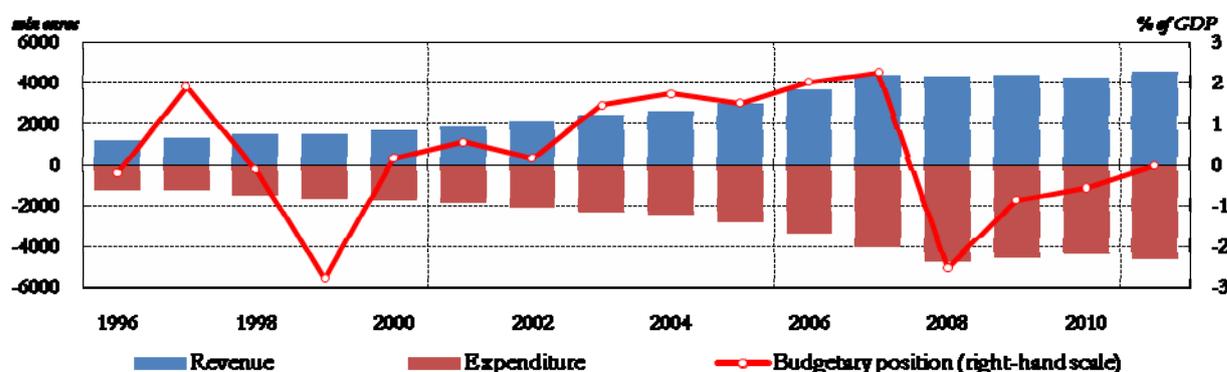
Table 4. Structurally adjusted budgetary position, 2011–2016 (% of GDP)

	2011	2012*	2013*	2014*	2015*	2016*
1. Cyclically adjusted budgetary position	1.9	-1.8	-0.2	0.3	0.4	0.7
2. One-off measures	1.6	-1.3	-0.3	-0.2	-0.3	-0.3
3. Structurally adjusted budgetary position	0.3	-0.5	0.1	0.5	0.7	1.0

Source: Ministry of Finance, Statistics Estonia.

3.2.1 Budgetary Position of the Central Government

The biggest part of central government, which comprises ca. three-fourths of general government, are agencies financed from the state budget (constitutional institutions and ministries with their areas of government). The central government also includes foundations established by the state (hospitals and the Environmental Investment Centre have the biggest impact), companies that mainly provide services to the state (e.g. AS Riigi Kinnisvara) and institutions governed by public law (e.g. universities, Estonian Public Broadcasting).

Figure 3. Revenue, expenditure and budgetary position of central government

Source: Statistics Estonia, Ministry of Finance.

The tax revenue of the state budget, which is the most sensitive to economic development, comprises the biggest part of the central government's revenue. This is why the biggest part of the budget deficit is coming from the state budget when the economic cycle is in a phase of decline. Respectively, the state budget contributed the most to the budgetary surplus during the pre-crisis years. Non-tax revenue, which mainly consists of external support received from the European Union, also comprises a large part of the central government's revenue in addition to tax revenue.

The majority of the central government's expenditure consists of state budget expenditure, ca. one-third⁹⁵ of which are social security expenses (incl. state pension insurance). These expenses are followed by expenditure on economy (incl. agriculture and road construction) and health (allocation to the Estonian Health Insurance Fund).

The remaining budgetary position of central government is the aggregate amount of foundations, commercial undertakings and agencies governed by public law. Large investments, which exceed the revenue of the current year, are one of the main factors that influence the budgetary position. The impact on the budgetary position is negative irrespective of whether they are financed from the reserves collected in previous years or with loans.

Table 5. Position of the central government

	2012	2013	2014	2015	2016
Revenues of the central government	4,317	4,357	4,425	4,550	4,753
Expenditure of the central government	4,813	4,512	4,452	4,523	4,655
Position (mln euros)	-496	-155	-27	27	98

⁹⁵ Based on State Budget 2012.

	2012	2013	2014	2015	2016
Position (% of GDP)	-3.0%	-0.9%	-0.1%	0.1%	0.5%

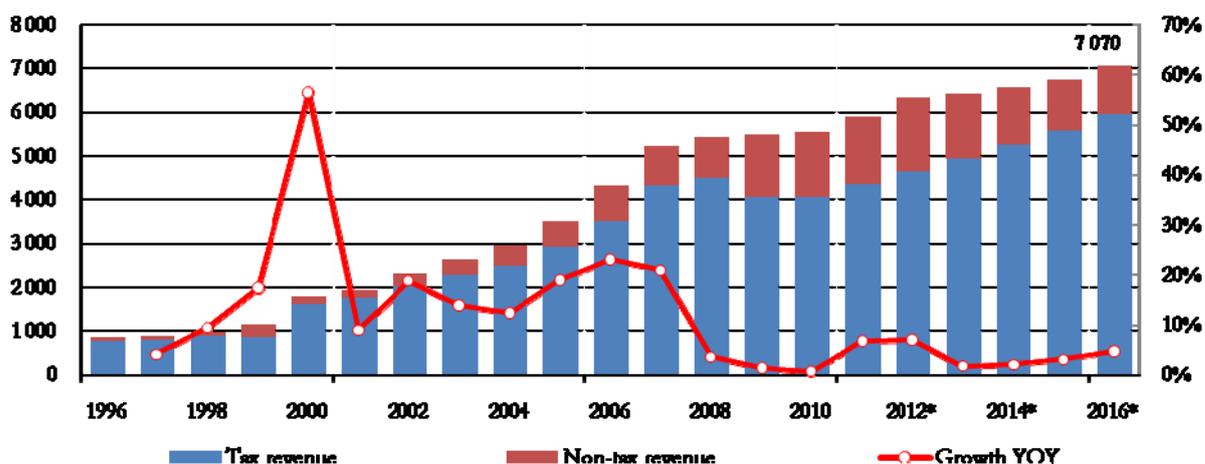
Source: Ministry of Finance, Statistics Estonia.

Position of the state budget

State budget revenues

The state budget revenues will increase annually during the entire period 2013–2016. By 2016, the revenues will increase by 755 million euros (11.9%) compared to 2012. The improving economic environment increases the share of tax revenues in total revenues; share of non-tax revenue decreases, *inter alia*, due to the shrinking volume of external funds (a temporary decrease due to launch of the new EU financial perspective) and proceeds of sales of Assigned Amount Units.

Figure 4. Volume and growth of state budget revenues (mln euros, %)



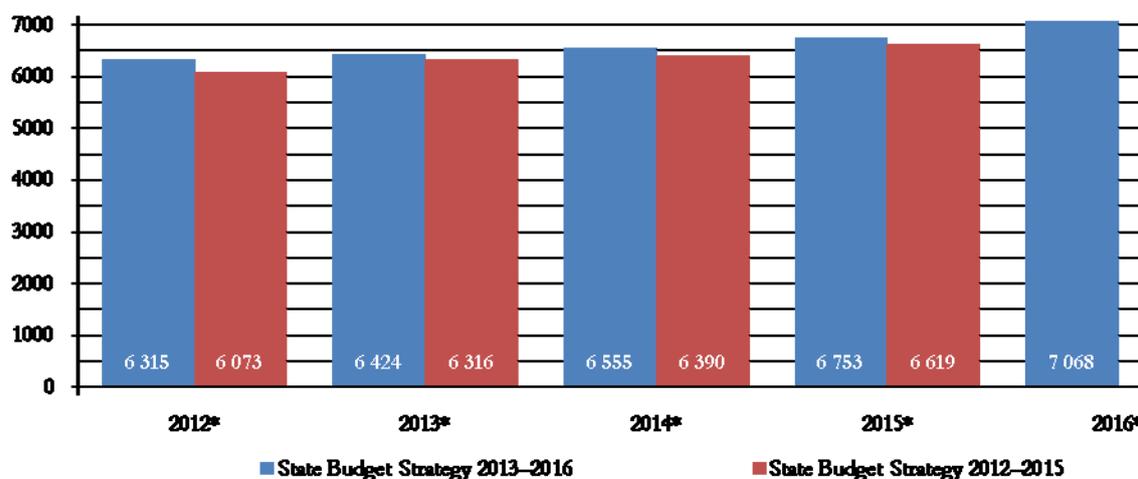
Source: Ministry of Finance, Statistics Estonia.

During the budget strategy period (2013–2016) the tax revenue is expected to show average annual growth of 6.4%. Receipt of social tax, VAT and excise duties will constitute the largest part of tax revenues. During 2013–2016, receipt of social tax will annually increase by 6.4% on average; the forecasted receipt in 2016 is 2,430 million euros. Receipt is influenced by positive developments in employment and average wage.

Reducing the income tax rate to 20% in 2015 will have an important effect on tax revenue both in regard to persons and entities.

For the aforementioned period, receipt of VAT will increase by 6.2% on average and the forecasted receipt in 2016 is 1,845 million euros. Predictions regarding receipt of VAT are influenced by changes in both consumer confidence and VAT-related debt dynamics. Private consumption is expected to increase annually by 6.8% during 2013–2016. During the same period, receipt of excise duties will annually increase by 7.3% on average; the forecasted receipt in 2016 is 1,005 million euros. Receipt of fuel excise constitutes the largest proportion of excise duties. This will be positively influenced by the reform of fiscal marking of liquid fuel taking effect in 2012. Tobacco excise receipt will increase due to increase in the excise by 10% in both 2012 and 2013.

Figure 5. Comparison of revenues planned in State Budget Strategy 2013–2016 and in the previous state budget strategy (million euros)



Source: Ministry of Finance.

For each coming budget year, the forecasted state budget revenue is expected to increase compared with the previous state budget strategy. This increase can be attributed to the increasing tax receipt because of the improving economic environment on the one hand and the predicted receipt of external funds in 2013–2014 on the other.

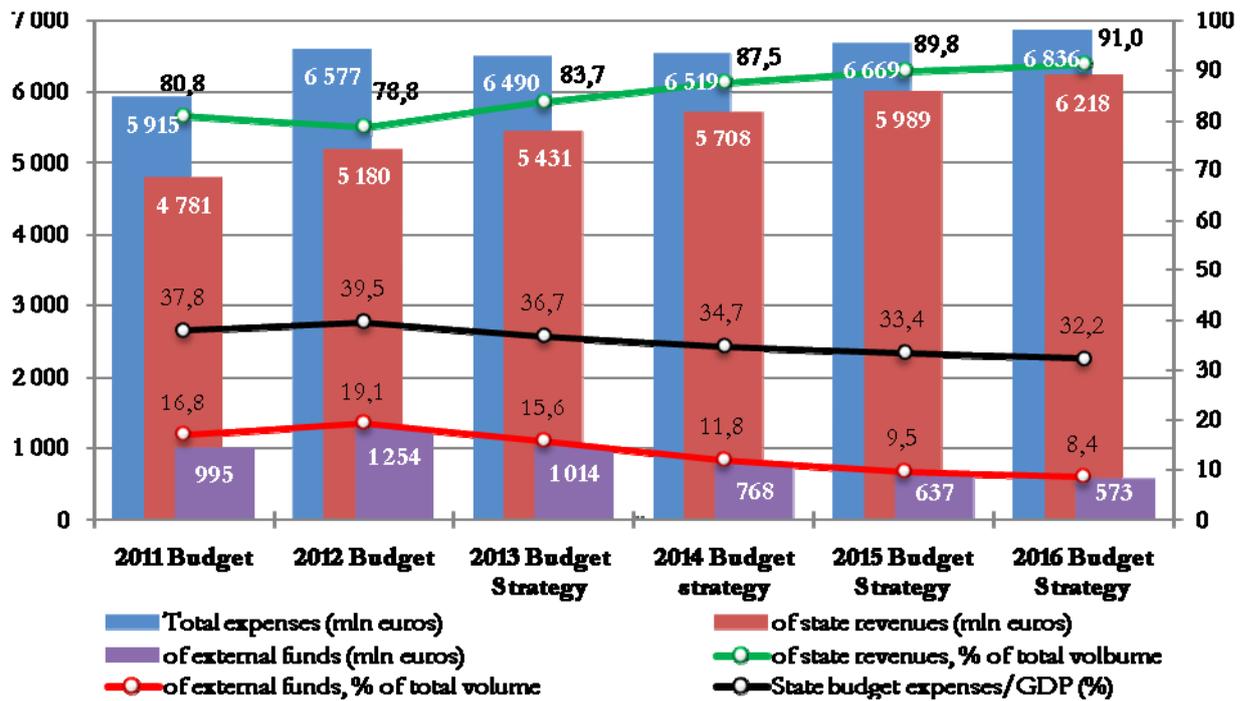
The volume of non-tax revenues depends most on external funds; on average, these constitute about 56% of all non-tax revenues during 2013–2016. During the initial years of the period, the volume of external funds is larger, then it will decrease, since the EU 2007–2013 programme period is replaced with the 2014–2020 programme period. Revenues on property (especially proprietary income) will increase since 2014. Sales of goods and services will not increase significantly. Other revenues will increase between 2013 and 2016 on average by 11% per year, mostly due to increased receipt of pollution charges.

Changes in tax policies that influence tax receipt and tax incentives that negatively influence receipt of revenues into state budget have been described in Chapter 3.3.

State budget expenses

During 2013–2016, state budget expenses are predicted to increase annually. By 2016, the expenses will increase by 258.8 million euros (3.58%) compared to 2012. At the same time, the ratio of state budget expenses to the GDP will decrease. The biggest share of expenses is related to employment market and social security, public health and education. An important part of expenses is related to governance and civic society, family and population policy, internal security, transport, defence, rural and regional development and culture.

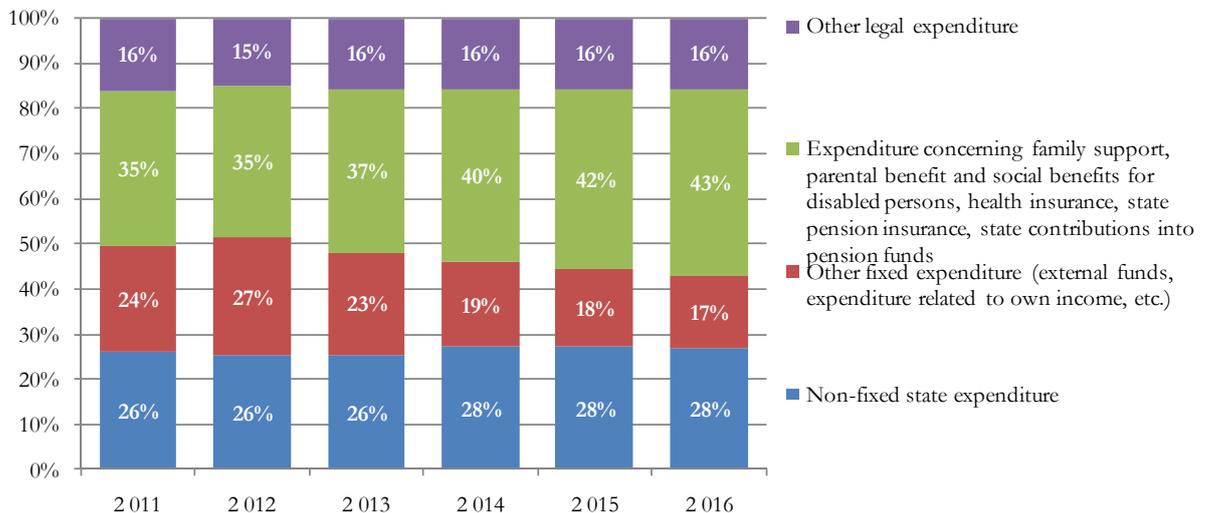
Figure 6. State budget expenses 2011–2016 (mln euros)



Source: Ministry of Finance

The level of fixed costs remains high and the objective of increasing budget flexibility continues to be important. Approximately 76% of expenses are related to revenue-dependent expenses and are in compliance with legislation.

Figure 7. Structure of state budget expenditure during 2011–2016 (in %)

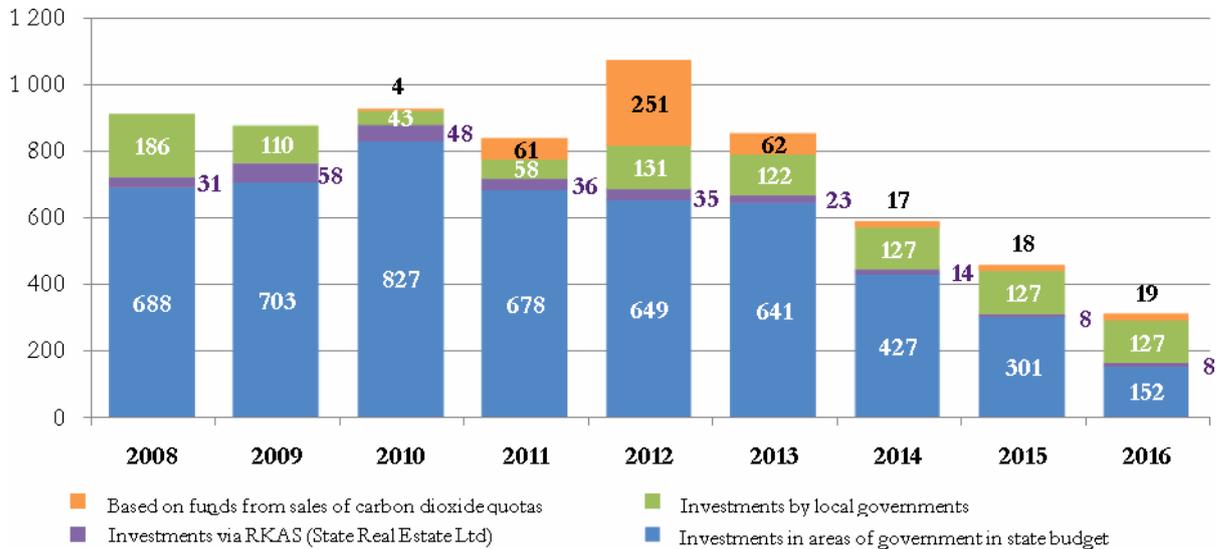


Source: Ministry of Finance

One of the Government’s priorities is to use the external funds of the period 2007–2013 as quickly as possible in order to contribute to invigorating the economy and creating jobs. An overview of implementation of the strategy for using structural funds may be found in Appendix 2. The new EU funding period (2014–2020) is currently under preparation and it should significantly increase funding volumes. The same goes for the planning of next period’s funds under the EU emissions trading scheme.

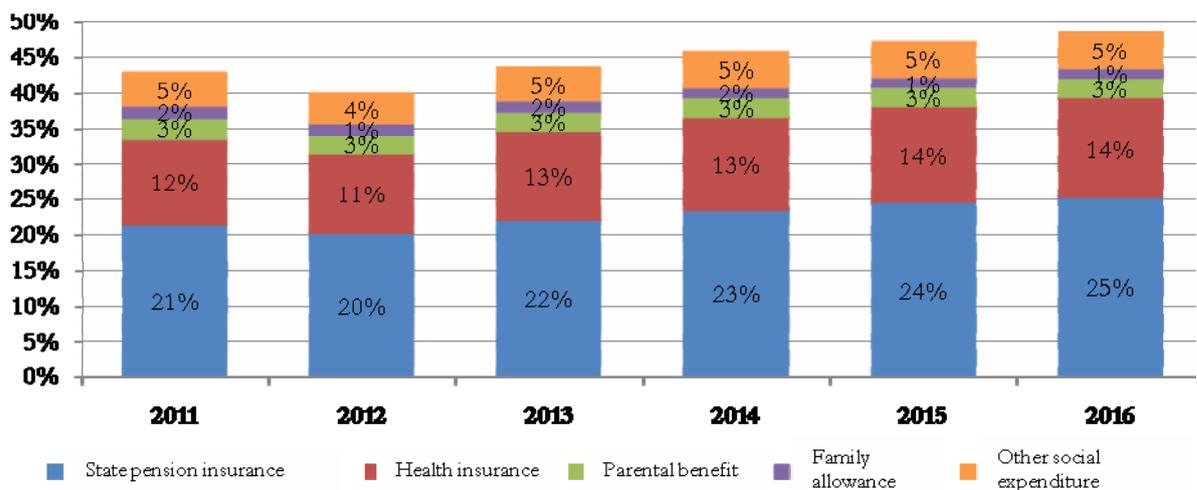
About 60% of the budget tax revenues will be allocated to legally revenue-dependent expenses. The largest of them are the social tax (tied to pension and health insurance), fuel excise duty (75% tied to financing of road management), receipts of gambling tax (coverage for project-based funding in the field of culture, education and regional matters) and pollution tax (partially tied to funding environmental projects). As the economy improves, the funding and budget proportion of those sectors increases.

Figure 8. Investments of general government (mln euros)



Beginning with 2013, the volume of investments will start decreasing annually due to ending of the projects under the current EU period, mostly in regard to projects in road management and environmental infrastructure. Also the investments related to health and welfare infrastructure, the Estonian Rural Development Plan and the European fisheries fund are coming to their end. After the launch of the new EU structural funds period 2014–2020, the volume of investments will gradually go up again. After the withdrawal of loan restrictions, the volume of investments of local municipalities first grew exponentially, but stabilised by 2012.

Figure 9. Proportion of social expenditure of state budget expenditure (%)



Source: Ministry of Finance

By 2016, the proportion of social expenditure is 48.4% of the total state budget expenditure. In 2016, the state pension insurance expenditure will increase by 378 million euros (28%) compared to 2012. If the current system is not changed, the payments related to special pensions will increase as

well. During the budget strategy period, the expenditure volume related to special pensions for the police and border guard officials increases by 40%, for judges by 36% and for members of the Defence Forces by 42%.

As the receipt of social tax increases, the state allowance to the health insurance fund increases by 194 million euros by 2016 – an increase of 25% compared to 2012.

In comparison with 2012, additional funds will be allocated to other social benefits in 2013–2016, including:

- monthly benefits to disabled persons 21 million euros (35%), 82 million euros by the end of the budget strategy period;
- parental benefits 10 million euros (6%), 184 million euros by 2016;
- with the parental pension valid from 2013, the allocations into mandatory funded pension will increase by 17 million euros (increase 1,414%);
- state-paid social tax for receivers of social benefits in special circumstances increases by 9.8 million euros (16%) by 2016, mostly due to increasing number of persons receiving pension for incapacity for work (30% per year) and increase in minimum wage;
- increase in unemployment allowance by 6.4 million euros (97%) in relation to increase in minimum wage and changes in the principles for calculating daily unemployment allowance rate taking effect in 2013; re-implementation of father's leave in 2013, which means that the annual additional costs are about 4 million euros.

In the situation where the objective is to achieve and maintain budget surplus, there is a possibility that budgetary resources increase in addition to the social sector in other areas also. The national defence expenditure is maintained at the level of 2% of the GDP, which means that in 2015, the national defence budget surpasses the 400 million euro mark. Additional resources are targeted in road management and education.

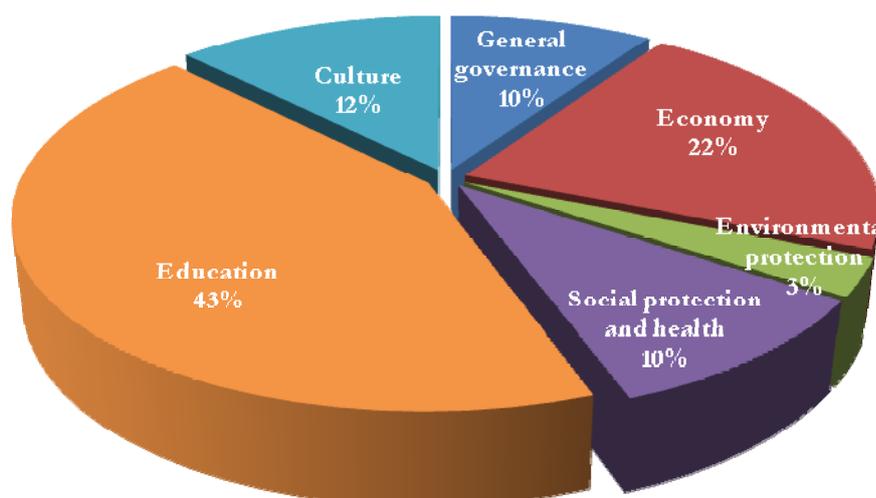
Position of other central government

In regard to other units in the central government, the budgetary position of the general government is most of all influenced by large hospitals (North Estonia Medical Centre, University of Tartu Hospital) and universities (University of Tartu, Tallinn University of Technology). In 2012, the institutions of other central government have an overall negative effect of 0.2% of the GDP on the general government budgetary position, but by 2016 this effect is already slightly positive.

3.2.2 Budgetary Position of Local Governments

There are 226 local governments in Estonia that have an important role in the performance of public sector functions. They all perform the same functions irrespective of their size – organise the maintenance of schools, nursery schools, community cultural centres, museums, sports facilities, nursing homes and health authorities; provision of social welfare and social services; welfare of the elderly; youth work; housing and utility management; water supply and sewerage; environmental maintenance; waste management; territorial planning; public transport in municipalities, towns and cities; and maintenance of streets and roads in municipalities, towns and cities. The total amount of their expenses in 2011 on cash basis was 1,296 million euros. Operating expenses comprised 72% of this.

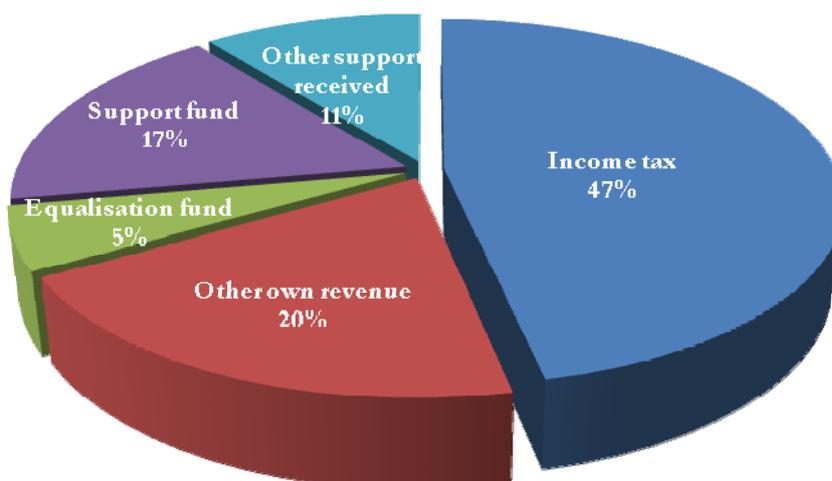
Figure 10. Breakdown of expenditure of local governments by areas of activity in 2011



Source: Ministry of Finance.

The budgets of local governments are independent, which means that they prepare them themselves. Their main types of revenue are income tax and support from the state budget.

Figure 11. Breakdown of revenue of local governments in 2011



Source: Ministry of Finance.

The accrual-based surplus of local governments from 2010 to 2011 was caused by the extraordinary restriction pursuant to which they were only allowed to assume additional obligations for the purpose of cofinancing external support and refinancing existing obligations. They usually end up in a deficit without this restriction. The debt burden was increased to cover this, amounting to 565 million euros by the end of 2011. The data of the budgets of local governments and their budget execution are available in monthly reports⁹⁶.

The activities of local governments have been regulated by the Financial Management of Local Governments Act since 2012. The Act stipulates that local governments must guarantee that the result of their operating activities is positive every year and see to keeping their net debt (the difference between liabilities and liquid assets) within their individual limits (this applies to both the local government itself and the entities that depend on the local government). The individual limit depends on the local government's or entity's financial capacity and is 60% to 100% of operating

⁹⁶ <http://www.fn.ec/index.php?id=11182>.

revenue. The possibility to increase the net debt above 60% is postponed until the end of 2016, even if the individual limit would allow to do it earlier. This reduces the deficit.

Table 6. Cash-based aggregate indicators of local governments (mln euros)

LOCAL GOVERNMENTS	2010	2011	2012*	2013*	2014*	2015*	2016*
TOTAL REVENUE	1,270	1,324	1,357	1,418	1,441	1,473	1,531
- Income tax	585	619	652	707	751	798	852
- Equalisation fund	70	72	72	73	72	72	72
TOTAL EXPENDITURE	1,249	1,295	1,390	1,449	1,478	1,509	1,566
BALANCE	27	29	-33	-31	-37	-36	-35

Source: Ministry of Finance.

The basis on which the revenue base of local governments is formed will be reviewed as soon as budgetary options appear, and their aggregate deficit will also be considered. There are currently no plans to increase the local governments' income tax and equalisation fund due to their presumably high level of deficit and the limited state budgetary options.

Land tax will be abolished in 2013 in order to reduce the tax burden of homeowners. The abolishment will apply to land under homes to the extent of 1500 m² in densely populated areas and 2 ha in low-density areas.

The share of financing the maintenance of local roads will be increased in the financing of overall road maintenance. The more specific breakdown will be agreed on during the annual process of state budget preparation.

3.2.3 Budgetary Position of Social Security Funds

The Estonian Health Insurance Fund and the Unemployment Insurance Fund belong to the sector of social security funds. In Estonia, the national pension insurance system belongs to central government.

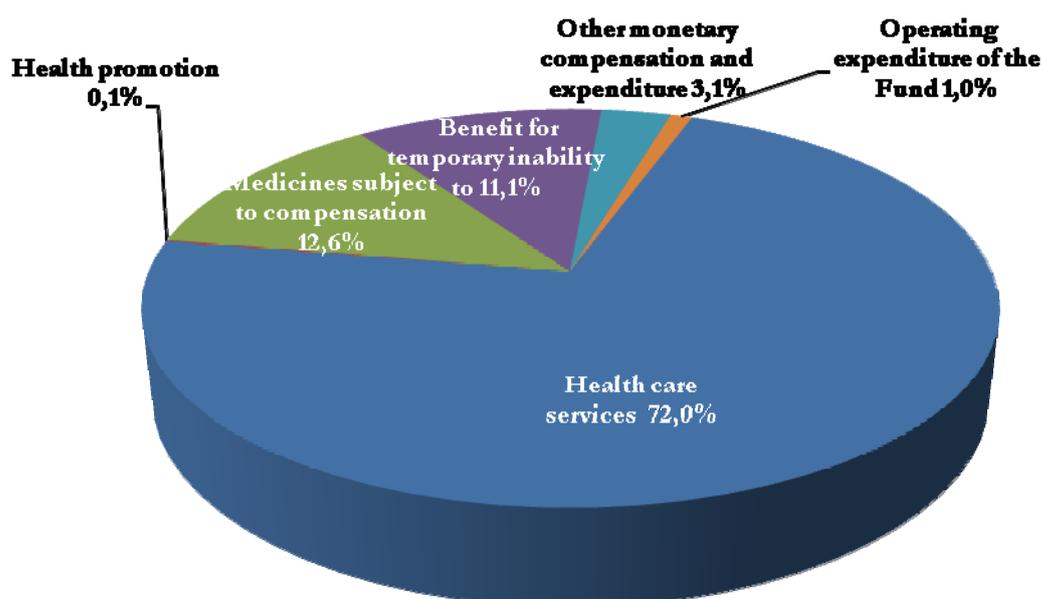
Table 7. Forecast of the budgetary position of social security funds, 2011–2016

	2011	Budget for 2012	2012*	2013*	2014*	2015*	2016*
Budgetary position of social security funds (<i>million euros</i>)	148	106	101	63	78	104	131
Social security funds (<i>% of GDP</i>)	0.9	0.6	0.6	0.4	0.4	0.5	0.6

* *forecast*

The health insurance part of social tax comprises ca. 99% of the revenue of the Estonian Health Insurance Fund. Health services (prevention of diseases, primary and specialised medical care, nursing care and dental treatment) comprise the biggest part of the compensation guaranteed to insured persons. These services are followed by compensated medicines and benefits for temporary inability to work.

Figure 12. Breakdown of expenditure of the Estonian Health Insurance Fund, 2011



In 2009 and 2010, the budget of the Estonian Health Insurance Fund ended up in a deficit due to the decrease in the social tax collected. In 2011, the budget of the Estonian Health Insurance Fund ended up in a surplus of ca. 13 million euros, mainly due to the collection of more social tax and the amount of expenditure (especially benefits for temporary inability to work) being smaller than forecast, but a deficit is anticipated for this year and the two coming years. The deficit in 2012 is influenced by the increase in the levels of expenses (mainly the expenses of specialised medical care and medicines subject to compensation).

Table 8. Aggregate indicators of the Estonian Health Insurance Fund (mln euros)**

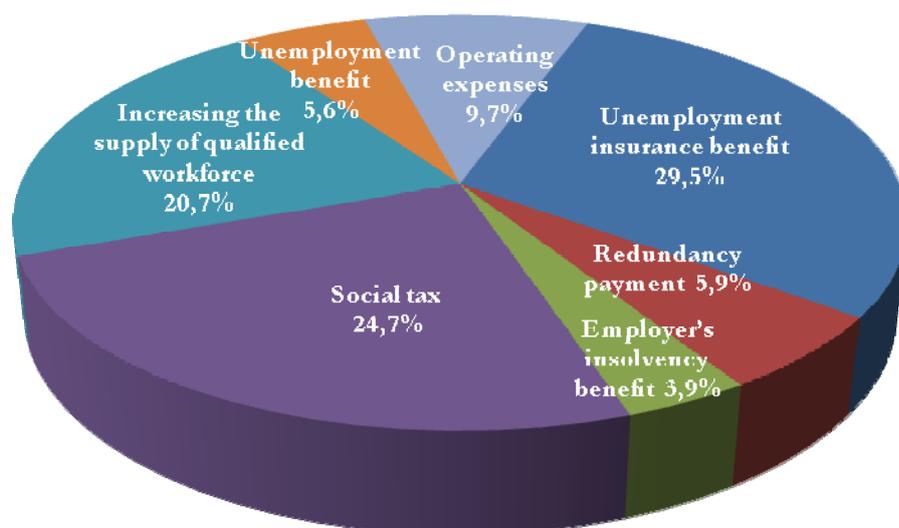
	2008	2009	2010	2011	2012*	2013*	2014*	2015*	2016*
Total revenue	824.5	730.5	694.4	735.1	772.4	822.0	860.6	911.9	969.7
incl. social tax	799.0	718.0	685.9	725.6	763.7	812.7	850.5	901.1	958.1
Total expenditure	788.6	771.2	700.3	725.5	787.2	829.3	865.7	904.3	944.4
incl. health services	527.4	514.5	501.0	522.5	561.2	582.2	601.0	620.6	641.1
Budgetary position	34.9	-40.6	-1.2	13.0	-14.8	-7.3	-5.1	7.6	25.3

* forecast

** Budgetary position from 2008–2011 on the basis of the data of Statistics Estonia. Forecast of expenditure for 2012–2015 according to Resolution No. 13 of the Supervisory Board of the Estonian Health Insurance Fund “Approval of the Principles of Planning the Expenditure and Sources for Covering the Expenditure of the Estonian Health Insurance Fund in Four Years and the Requirements for Preparation of the Draft Budget of the Estonian Health Insurance Fund for 2012” dated 30 May 2011, and the expenditure forecast for 2016 is based on the principles given in the aforementioned resolution of the Supervisory Board of the Estonian Health Insurance Fund.

Unemployment insurance benefits comprise the biggest part of the expenditure of the Unemployment Insurance Fund. The length of the period in which these benefits are paid increased to 360 days in 2011. The number of unemployment insurance benefit recipients increased by ca. 3.5 times in 2009 and decreased by ca. 40% in 2010, and the decreasing trend should prevail during the entire programme period according to forecasts.

Figure 13. Breakdown of expenditure of the Unemployment Insurance Fund, 2011



As in 2010, the Unemployment Insurance Fund ended the previous year in a surplus as well (ca. 135 million euros), which resulted from the increase in unemployment insurance premiums in the middle of 2009 and the decrease in the number of persons to whom this benefit was paid. This year's budgetary position of the Unemployment Insurance Fund is positively influenced by the continuing decrease in the volume of benefits and increasing collection of unemployment insurance benefits. The budget surplus expected as a result of this is ca. 115 million. The rates of unemployment insurance premiums is expected to decrease to 2% and 1% from 2013, which will reduce the budget deficit significantly.

Table 9. Aggregate indicators of the Unemployment Insurance Fund (mln euros)**

	2008	2009	2010	2011*	2012*	2013*	2014*	2015*	2016*
Total revenue	48.6	159.6	238.4	249.7	245.8	194.9	202.6	211.9	224.1
- unemployment insurance premium	48.0	115.0	179.0	192.5	206.2	158.6	168.0	178.0	189.4
Total expenditure	45.1	209.3	157.3	117.8	126.4	120.9	115.7	112.8	115.4
- benefits**	37.0	139.0	76.0	45.8	41.9	38.5	34.6	33.7	34.8
Budgetary position	1.9	-53.3	83.5	134.8	115.4	70.7	83.5	95.9	105.3

* forecast

** Unemployment insurance benefit, insurance benefit in the case of redundancy and employer's insolvency benefit.

*** Budgetary position from 2008–2011 on the basis of the data of Statistics Estonia.

The principles of financing the services were changed in order to guarantee the sustainability of employment market services and the ability to react quickly and flexibly to changes on the employment market, which means that the provision of services will mainly be financed from the collected unemployment insurance premiums beginning with 2012.

3.3 Tax Policies, Tax Burden and Tax Expenditure

One of the tax policy goals of the Government is to shift the tax burden from the taxation of income to the taxation of consumption, use of natural resources and pollution of the environment by refocusing taxes partially. At the same time the system should remain **stable, simple and transparent** with as few exceptions and differences as possible.

In 2010, the tax burden in Estonia decreased by 1.4% to 34.3% of GDP, which is considerably lower than the weighted average of the 27 EU Member States and the euro area. In 2011, the tax burden decreased by 1.5% to 32.7%. Both years can be characterised by the nominal GDP growing at a significantly faster pace than tax revenues, which indicates the export-driven nature of the

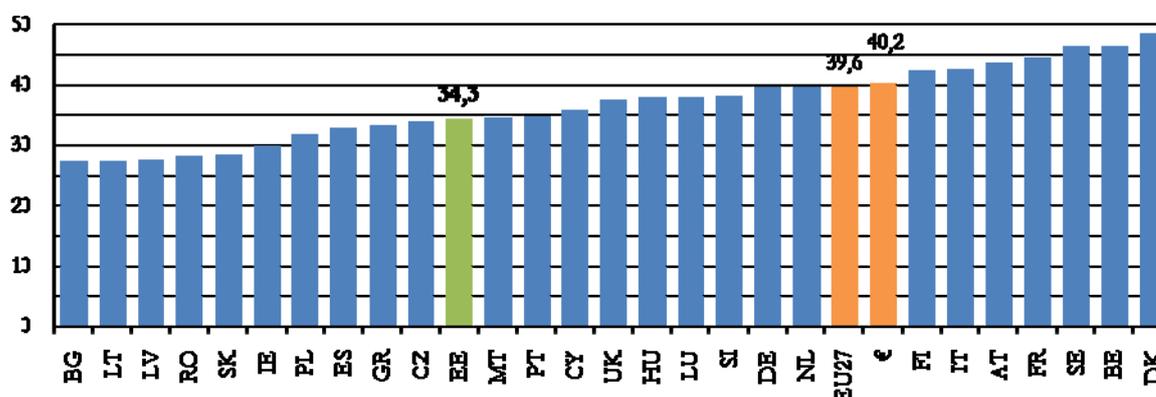
economic growth. The decrease in the tax burden in 2010 can also be explained with the fact that the amounts of several taxes that were collected were smaller than before, such as corporate income tax (the profit distributions of state-owned and private companies decreased), tobacco excise (the impact of stocking up) and social tax (negative developments on the employment market). The partial restoration of payments into mandatory funded pension in 2011 had a reducing effect on tax burden.

The goal is to take the tax burden by 2016 back to the level it was at before the recession by reducing labour-related taxes.

The tax burden in 2012 will increase by 0.2% in comparison to the previous year, to 32.9% of GDP. Receipt of VAT and excise duties will increase this year (tobacco and alcohol excise will increase, and fiscal marking of fuel will be reformed); receipt of corporate income tax will increase due to the partial deferral of the profit distributions of state-owned companies until this year; and taxes related to workforce will also increase due to positive developments on the employment market. However, full restoration of payment of mandatory funded pension contributions reduces the tax burden technically. All in all, tax revenue will grow slightly faster than the economy, which will bring about an increase in the tax burden.

The tax burden will decrease to 32.3% of GDP by 2016. The higher contributions of the state into the mandatory funded pensions of persons who continued making their own contributions will reduce the tax burden from 2013 to 2016. The tax policy changes that reduce the tax burden are reduction of the rates of unemployment insurance premiums from 2013, abolishment of the obligation to pay the pension part of social tax on wages that exceed €4,000 per month in 2014 and later, and reduction of the income tax rate to 20% in 2015. The tax burden will be increased by the full implementation of the fiscally marked fuel reform in 2013, whereby excise incentives will be replaced with direct aid. The tax burden is also increased by the various measures taken to achieve the structural budgetary position objective (more efficient tax collection by the Tax and Customs Board, increasing the alcohol excise, reducing the limit of income tax deductions).

Figure 14. Tax burden in 2010 (% of GDP)



Source: Eurostat.

Higher taxation of consumption and environment exploitation

The taxes and charges that are regarded as environmental taxes in Estonia are fuel and energy excise, packaging excise, heavy goods vehicle tax, car registration fee, boat tax, pollution charges and charges for use of natural resources. It is possible that the existing tax rates will be changed within the scope of the green tax reform.

Reducing differences in taxation

Tax incentives that diverge from their original objective and have therefore become unjustified will be critically inspected and abandoned. Each tax incentive will be analysed to ascertain whether it is

proportional to the goal to be achieved, whether it meets the expectations and needs of society, and whether trying to achieve this goal via the tax incentive is the most expedient approach. If necessary, the incentive will be implemented for a specific period of time, which makes it possible to analyse the effectiveness of the incentive in the achievement of the goal and to decide, on the basis of the analysis, whether the incentive should be extended.

Changes in taxes

There are plans to increase alcohol excise by 5% every year (from 2013 to 2016) in order to reduce the accessibility of alcohol.

More efficient tax collection by the Tax and Customs Board

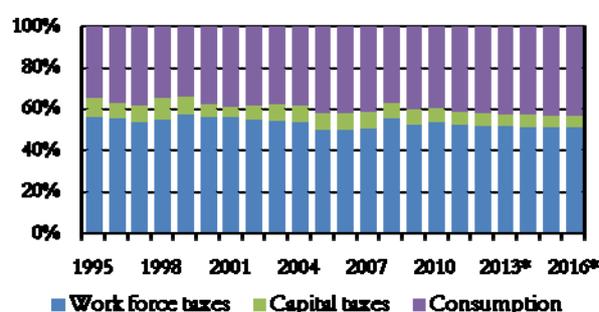
The Tax and Customs Board plans to apply three measures in order to improve tax collection: e-receipt, the obligation to register employees and taxation of persons who repeatedly bring goods subject to excise duty across the border.

Figure 15. Development of tax burden in Estonia (% of GDP)

A. Tax burden



B. Tax revenue (%)



Sources: Ministry of Finance, Eurostat.

Table 10. Main tax policy changes in 2012 and 2013⁹⁷

	Entry into force	Impact 2012		Impact 2013	
		million €	% of GDP	million €	% of GDP
1. Opening of an investment account	1 Jan 2011 (impact 2012)	-4.3	-0.03	-4.6	-0.03
2. Increasing tobacco excise by 10%	1 Jan 2012	8.0	0.05	9.0	0.05
3. Fiscally marked fuel reform	1 Jan 2012	18.0*	0.11	68.5**	0.39
4. Not regarding the expenses of formal education within the adult education system as fringe benefits	1 Jan 2012	-5.4	-0.03	-5.4	-0.03
5. Increasing alcohol excise by 5%	1 Feb 2012	6.5	0.04	9.0	0.05
6. Reducing the upper limit of income tax incentive from €3,196 to €1,920	1 Jan 2012 (impact 2013)			5.0	0.03
7. Increasing tobacco excise by 10%	1 Jan 2013			10.0	0.06
8. Increasing the excise duty payable on oil shale used for the production of heat (€0.3/GJ)	1 Jan 2013			0.6	0.00
9. Reducing the rate of unemployment insurance premium from 4.2% to 3.0% (2.0% and 1.0%)	1 Jan 2013			-52.4	-0.30

⁹⁷ Impact compared with the situation where the rates of 31 December 2010 still apply.

	Entry into force	Impact 2012		Impact 2013	
		million €	% of GDP	million €	% of GDP
10. Increasing the personal income tax share of local governments by 0.17% in 2013 and 0.03% in 2014	1 Jan 2013, 1 Jan 2014			-10.5	-0.06

* The benefit of using fiscally marked fuel in mining, construction and forestry works will be abolished.

** The incentive in using fiscally marked fuel will be abolished and replaced with a support scheme.

Source: Ministry of Finance.

Table 11. Impact of fiscal policy decisions on general government revenue and expenditure

	2011	2011	2012	2013	2014	2015	2016
	million €	% of GDP					
General government revenue	6,264.2	39.2	40.1	38.1	36.3	34.9	34.4
General government revenue in light of revenue policy measures				38.4	36.9	35.7	35.2

Tax expenditure

The tax expenditure contained in the state budget of Estonia for 2012 and 2013 are described below. The method of revenue to be lost and cash-based data are used to estimate the value of tax expenditure, and the delay between the implementation of a provision and the actual application is considered for every tax expenditure provision. Only the so-called first round effects of the establishment of tax expenditure have been estimated. For example, in the event of establishment of increased basic exemption, only the direct impact of the implementation of the provision has been assessed. However, the assessment does not include the aspect that natural persons have more money in the case of increased basic exemption and more VAT is received if they use this money for consumption. The aggregate impact of the establishment of tax expenditure is regarded in the case of tax expenditure that is directly and clearly related to other taxes, e.g. the tax expenditure arising from the Alcohol, Tobacco, Fuel and Electricity Excise Duty Act influence the receipt of VAT to the extent of the final consumption rate. The different behavioural effects and budget restrictions have not been considered in the evaluation of tax expenditure due to the implementation of the method of revenue to be lost, e.g. it has been assumed that the consumption of goods and services is unit elastic (the relative change in quantity is the same as the relative change in price).

In assessing the value of tax expenditure, it is important to understand that each individual provision of tax expenditure has been evaluated separately without considering the confluence of different provisions, which means that whilst finding the aggregate amount of tax expenditure by adding up different provisions is incorrect, it does make it possible to assess the level and trends of the established tax expenditure.

The tax expenditure that has a significant impact on the receipt of state budget revenue is contained in three different legal acts – the Income Tax Act, the Value Added Tax Act and the Alcohol, Tobacco, Fuel and Electricity Excise Duty Act. In the case of the Value Added Tax Act⁹⁸ (VATA), the provisions through which the consumption of certain goods or services is promoted with the implementation of a lower tax rate can be regarded as tax expenditure or significant deviations from the pursued tax system. In the case of the Income Tax Act⁹⁹ (ITA), the provisions through which entrepreneurs operating in certain areas of activity, natural persons or families of certain type and natural persons that incur certain expenses or consumer certain services are supported with increased basic exemptions can be regarded as tax expenditure or significant deviations from the pursued tax system. In the case of the ITA, it is assumed that the basic exemption to be subtracted from a resident natural person's income earned in the taxation period, which is established pursuant to Section 23, is a part of the pursued tax system (and not tax expenditure). In the case of the

⁹⁸ Value Added Tax Act, Estonian version <https://www.riigiteataja.ee/ert/act.jsp?id=12869417>.

⁹⁹ Income Tax Act (2009), <https://www.riigiteataja.ee/ert/act.jsp?id=12851790>.

Alcohol, Tobacco, Fuel and Electricity Excise Duty Act¹⁰⁰ (ATFEEDA), the provisions through which entrepreneurs operating in certain areas of activity or the production of certain goods are supported with lower excise duty rates or excise duty exemptions can be regarded as tax expenditure or significant deviations from the pursued tax system.

Table 12. Tax expenditure in state budget from 2012-2013¹⁰¹ (mln euros)

	Provision	Policy area	2012	2013
1. 9% VAT on books and workbooks	VATA, cl. §15 (2) 1)	Education	6.9	7.1
2. 9% VAT on medicines and medical equipment	VATA, cl. 15 (2) 2)	Public health	28.2	29.3
3. 9% VAT on periodic publications	VATA, cl. §15 (2) 3)	Culture	1.9	2.0
4. 9% VAT on accommodation services	VATA, cl. §15 (2) 4)	Culture	17.9	18.6
5. Increased basic exemption starting from the second child	ITA §23 ¹	Family and Population Policy	24.8	25.6
6. Increased basic exemption in the event of pension	ITA §23 ²	Employment Market and Social Security	114.2	119.2
7. Increased basic exemption in the case of compensation for accident at work or occupational disease	ITA §23 ³	Employment Market and Social Security	0.2	0.2
8. Deduction of housing loan interest	ITA §25	Competitive economic environment	20.4	18.3
9. Deduction of training expenses	ITA §26	Education	15.0	15.8
10. Gifts and donations	ITA subsection 27(1)	Culture	0.6	0.6
11. Insurance premiums and acquisition of pension fund units	ITA §28	Employment Market and Social Security	7.1	7.4
12. Increased basic exemption of self-employed persons upon sale of agricultural produce or timber	ITA subsection §32(4)	Competitive economic environment	3.0	3.0
13. 50% excise duty rate for independent small breweries	ATFEEDA subsection 46(1)	Competitive economic environment	0.1	0.1
14. Lower excise duty rate on diesel fuel for specific purposes and on light heating oil	ATFEEDA subsection §66(7)	Competitive economic environment	50.0	0.0
15. Exemption of fishermen from fuel excise duty	ATFEEDA cl. 27(1) 22 ²)	Competitive economic environment	1.6	1.5
16. Electricity used for chemical reduction and in electrolytic, metallurgic and mineralogical processes	ATKEAS cl. 27(1) 24), 28 ⁴)	Energy	0.8	0.8
17. Electricity and fuel used to produce electricity and electricity used to maintain the ability to produce electricity	ATFEEDA cl. §27(1) 28 ²)	Energy	6.1	7.1
18. Fuel used for mineralogical processes	ATFEEDA cl. §27(1) 28 ²)	Energy	0.6	0.6
19. Natural gas used for the purpose of operating the natural gas network	ATFEEDA cl. §27(1) 28 ⁶)	Energy	0.01	0.01
TOTAL			299.4	257.2

Source: Ministry of Finance.

The receipt of the state budgets for 2012 and 2013 is influenced by 19 different tax expenditure provisions in the Value Added Tax Act, the Income Tax Act and the Alcohol, Tobacco, Fuel and

¹⁰⁰ Alcohol, Tobacco, Fuel and Electricity Excise Duty Act, Estonian version <https://www.riigiteataja.ee/ert/act.jsp?id=12906565>.

¹⁰¹ Tax expenditure assessments have only been calculated for the provisions that are included in tax regulations as of 1 January 2012.

Electricity Excise Duty Act. The total scope of the main tax expenditure in 2012 comprises 299.4 million euros or 1.8% of GDP. Increased basic exemption in the event of pension, lower excise duty rate on diesel fuel for specific purposes and on light heating oil, and increased basic exemption starting from the second child remain the biggest types of tax expenditure. The scope of the three biggest types of tax expenditure comprises 63.2% of the scope of the entire established tax expenditure in 2012. Tax expenditure will decrease by 14.1% in 2013 as a result of the fiscally marked fuel reform.

Tax expenditure may also be regarded as a share of the receipt of the relevant tax. In the case of value added tax, tax expenditure (items 1-4 in the table) comprises 54.9 million euros in 2012, which is 3.8% of the total VAT received. The relevant tax expenditure (items 5–12 in the table) comprises 185.3 million euros or 74.5% of the personal income tax received into the state budget and the same share in the case of fuel excise duty (items 13–19 in the table) is 59.2 million euros or 15.8%.

3.4 General Government Debt Burden and Reserves

General government debt

The main goal of Estonia's fiscal policy since the restoration of independence has been to keep the budgetary position of general government over the medium term in balance or, if possible, in a surplus, which has become expressed in the low debt burden of the state. The general government debt of Estonia in the end of 2011 comprised 6% of GDP, which is 0.7% less than in 2010. The debt of local governments comprised 539 million euros and the central government debt comprised 490 million euros in the total general government debt of 965 million euros. The impact of the European Financial Stability Facility (EFSF) on the debt of Estonia in 2011 was 14 million euros. According to the methodology used to calculate the general government debt, the loans issued by the EFSF are partially reflected in the debt burden of Estonia since the state joined this facility.

The general government debt can be expected to increase in 2012 as a result of the EFSF's impact – the financial needs of central government will be covered on the account of financial reserves. It will be necessary to use loan options to balance cash flow on the central government level in 2013, since cash flows during 2012-2013 will not only be affected by the budget deficit, but to a great extent also by financing transactions (incl. contributions into the European Stability Mechanism and the increase of the share capital of Eesti Energia). This is the main reason why general government debt will increase to 11% of GDP in 2013; however, it will start decreasing again thereafter and fall below 9.5% of GDP by 2016. According to the forecast, the deficit of local governments will be covered from external funds during the entire medium-term period and this will also be supported by the abolition of the loan restriction at the beginning of 2012. However, the loan burden of local governments as a share of GDP will drop by 0.1% to 3.3% of GDP in 2016 when compared to 2011.

Table 13. Change in general government debt burden in 2011

	31 December 2010		31 December 2011		Change %
	million €	% of GDP	million €	% of GDP	
General government	956.7	6.7%	965.2	6.0%	-0.7%
Domestic debt	596.2	4.2%	621.1	3.9%	-0.3%
External debt	360.5	2.5%	344.1	2.2%	-0.3%
Central government	472.7	3.3%	489.7	3.1%	-0.2%
Domestic debt	264.0	1.8%	279.8	1.8%	0.0%
External debt	208.7	1.5%	209.9	1.3%	-0.2%
Local governments	540.7	3.8%	538.7	3.4%	-0.4%
Domestic debt	389.2	2.7%	404.5	2.5%	-0.2%
External debt	151.5	1.1%	134.2	0.8%	-0.3%
Social security funds	0.3	0.0%	0.1	0.0%	0.0%
Domestic debt	0.1	0.0%	0.1	0.0%	0.0%

	31 December 2010		31 December 2011		Change
	million €	% of GDP	million €	% of GDP	%
External debt	0.2	0.0%	0.0	0.0%	0.0%

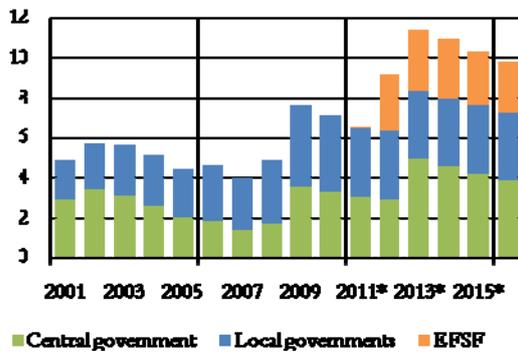
Table 14. General government debt burden, 2011–2016 (% of GDP)

	2011	2012*	2013*	2014*	2015*	2016*
1. Total debt	6.0	8.8	11.0	10.6	10.0	9.5
2. Change in debt burden	-0.7	2.8	2.2	-0.4	-0.6	-0.5
Contribution to change in debt burden:						
3. Impact of EFSF	0.1	2.7	0.4	0.1	0.0	0.0
4. Primary budgetary position	1.1	-2.4	-0.5	0.3	0.7	1.2
5. Interest payments	0.1	0.1	0.2	0.2	0.2	0.3
6. Other factors influencing the debt (SFA)	1.0	-2.3	1.7	0.2	0.6	1.0
Estimated interest rate of general government debt (%)	3.4	3.5	3.3	3.7	4.3	4.9

Source: Ministry of Finance, Statistics Estonia.

Figure 16. Development of debt burden, 2001–2016 (% of GDP)

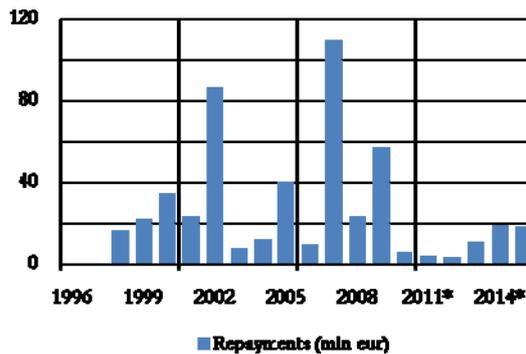
A. General government debt



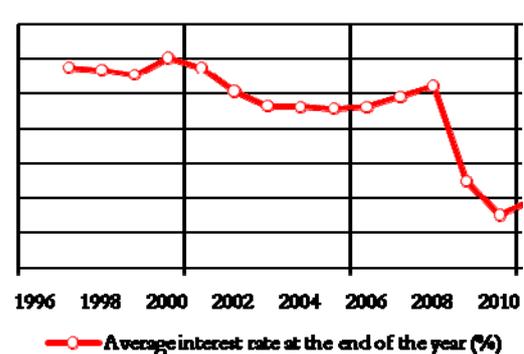
B. Stock-flow adjustments



C. Repayment of central government loans



D. Average interest rate of central government¹⁰² debt



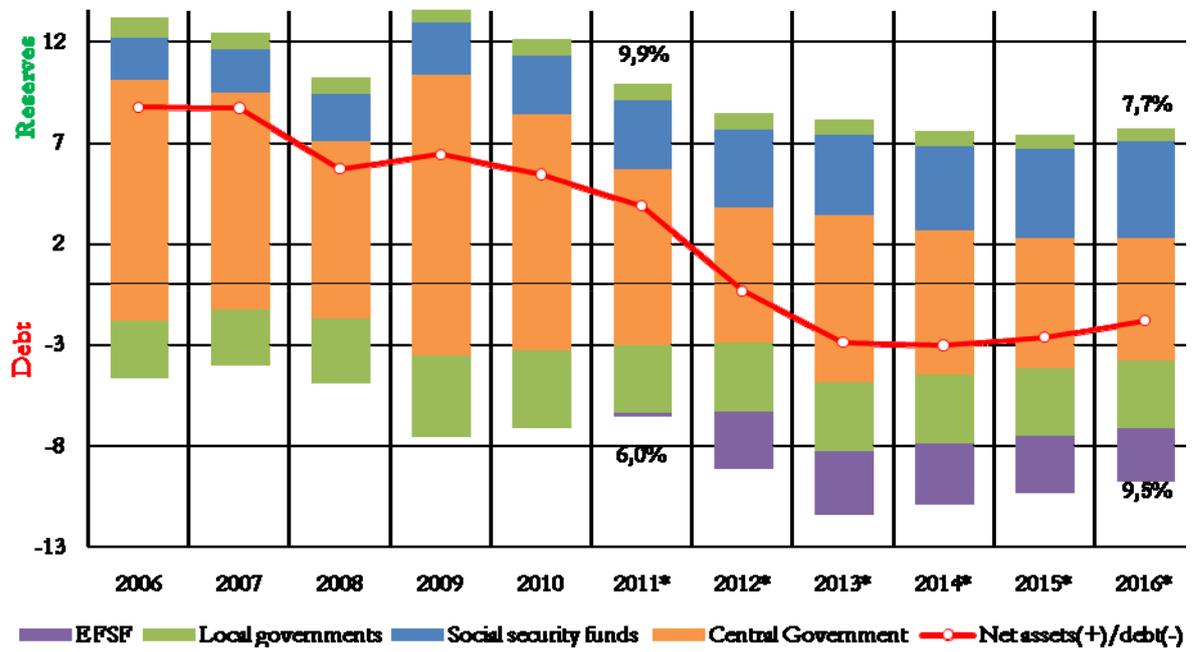
Source: Ministry of Finance, Statistics Estonia, Eurostat.

General government reserves and net position

The fact that the level of net assets will become negative in 2012 is the result of the EFSF's impact. Without considering the EFSF, the level of net assets will be maintained for almost the entire period, i.e. liquid assets will exceed the debt burden. Liquid financial assets will start growing at the general government level in 2016.

¹⁰² Central government without foundations and legal persons governed by public law.

Figure 17. Liquid assets, debt burden and net position of general government, 2006–2015 (% of GDP)



Source: Ministry of Finance, Statistics Estonia.

SUMMARY

The updated state budget strategy is based on the economic forecast of the Ministry of Finance from spring 2012, the Programme of the governing coalition of the Pro Patria and Res Publica Union and the Estonian Reform Party, organisation-based development plans of Estonian ministries and implementation reports of sectoral development plans. The State Budget Strategy was prepared side-by-side with the Stability Programme 2012.

The Government's objective for the coming four years is to guarantee a sustainable budget policy that ensures macroeconomic balance. The core of the current budget policy will remain the same. The goal is to make budget policy decisions that support maximum macroeconomic stability, manage the risks that threaten the balanced development of the economy, and improve the economy's growth potential and increase employment. The existence of adequate reserves and flexibility in the budget for making changes in the structure of revenue and expenditure must be guaranteed in order to cope with future economic downturns.

The Government ensures that Estonia's budget policy is consistent with the budgetary framework of the euro area and the European Union, being based on the Stability and Growth Pact and the positions of the Eurogroup and the Council of the European Union in regard to ensuring sustainable economic growth, budget policy and financial stability in the euro area and in the EU.

The most significant baselines in planning the sectoral policies and annual state budget in 2013–2016 are the following:

- After the years of economic recession, it is important to restore the general government budget surplus and reserves in order to be prepared for the possible upcoming cycles of decline and ensure the long-term sustainability of budget.
- Although the economic situation has improved, the existing policies need to be changed in order to avoid budget deficit. To recover the budget from deficit and avoid the debt crisis that has hit several European countries, Estonia needs not only to increase income, but also to cut expenses by reducing tax incentives, collecting debts, transforming supports to be more need-based, gradually transferring from direct support measures to financial instruments, increasing general government efficiency and cutting or reducing current or planned services and supports.
- The primary and only financial cover for new activities is achieved by saving and setting priorities in policy areas.
- The Government adopts decisions that influence state budget twice a year – while preparing the State Budget Strategy or the State Budget. All budget decisions are made simultaneously and no money is distributed outside the budget process. The allocation of funds under EU 2014+ and proceeds from sales of Assigned Amount Units in 2013 and later is planned during the budget strategy process.

The share of tax income in the budget will increase as a result of improving economy, broadening tax base and more efficient tax collection. The goal of the coming years is to achieve budget surplus and lower tax burden. The percentage of budget expenses of GDP decreases by 5.5 percentage points (to 32.2%) by 2016 compared to 2011, while the percentage of maintenance costs of state institutions¹⁰⁵ of GDP decreases by 1.3 percentage points (to 4.3%). State administration will be made more effective by conducting real estate reform, centralising support services (financial,

¹⁰⁵ Does not include expenditure related to special purpose defence equipment and road management, since these are not considered to be usual maintenance costs.

personnel and wage accounting, public procurement) and implementing e-invoices. Strategic planning and advanced performance management help to improve the quality of public sector management decisions.

The priorities of the Government of the Republic for the coming years are as follows:

- achieving a nominal and structural general government surplus;
- positive population growth (the Estonian nation must become a growing nation);
- productivity increase to 73% of the European Union average by 2015;
- achievement of the pre-crisis level of employment by 2020. For this purpose, the employment target for 2015 is 72% in the 20–64 age group;
- reduction of the proportion of young adults with at most basic education and not in further education or training in the 18–24 age group to 11% by 2015;
- increasing healthy life expectancy (57.1 years for men and 62 years for women); and
- keeping greenhouse gas emissions at the level of 2010 (or below 20 million tons per year).

These objectives are some of the basis for preparing the State Budget – the annual implementation plan for the State Budget Strategy.

APPENDICES

Appendix 1. Ministry of Finance, Economic Forecast of Spring 2012 for 2011–2016.

	2001-2010	2011	2012*	2013*	2014*	2015*	2016*
Main economic indicators (%)							
1. Real GDP growth	3.8	7.6	1.7	3.0	3.4	3.5	3.5
1a. GDP at constant 2005 prices (bln euros)		12.0	12.2	12.6	13.0	13.5	14.0
2. Nominal GDP growth	9.3	11.7	4.4	6.2	6.2	6.4	6.3
2a. Nominal GDP (bln euros)		16.0	16.7	17.7	18.8	20.0	21.2
2b. Nominal GNP (bln euros)		15.2	15.8	16.7	17.7	18.8	0.0
3. GDP deflator	5.2	3.7	2.6	3.1	2.7	2.7	2.7
4. Consumer price index	4.2	5.0	3.3	3.0	2.7	2.7	2.7
5. Harmonised index of consumer prices	4.2	5.1	3.4	3.0	2.7	2.7	2.7
6. Employment (15–74 age group, in thousands)		609.1	613.1	619.5	623.2	625.7	628.2
7. Employment growth	0.1	6.7	0.7	1.0	0.6	0.4	0.4
8. Labour productivity growth (based on employment)	3.6	0.9	1.0	1.9	2.8	3.1	3.1
9. Unemployment rate	9.7	12.5	11.5	9.6	8.7	8.3	8.2
10. Average wage (euros)		835	867	910	958	1 011	1 071
11. Real wage growth	5.5	0.4	0.5	1.9	2.5	2.7	3.2
11a. Nominal wage growth	9.9	5.4	3.8	5.0	5.3	5.5	6.0
12. Investments and stock (% of GDP)		24.5	25.8	26.6	27.5	28.6	29.8
13. National savings (% of GDP)		27.7	26.7	26.6	26.5	26.3	26.3
14. Current account (% of GDP)	-8.2	3.2	1.0	0.0	-1.0	-2.3	-3.5
Sources of growth							
15. Private consumption expenditure	4.1	4.4	2.2	3.5	3.8	4.7	4.2
16. General government final consumption expenditure	4.1	4.4	2.2	3.5	3.8	4.7	4.2
17. Total capital investment in fixed assets	4.5	26.8	14.8	4.0	8.0	8.2	8.3
18. Change of inventories (% of GDP)	1.4	3.0	2.0	2.7	2.6	2.6	2.6
19. Domestic demand	4.3	11.1	3.8	3.6	3.8	4.3	4.4
20. Export of goods and services	5.6	24.9	1.0	5.4	6.3	6.7	6.7
21. Import of goods and services	5.9	27.0	3.2	6.1	6.8	7.7	7.7
Contribution to GDP growth							
22. Domestic demand (excluding inventories)	4.3	7.6	4.5	2.9	3.9	4.5	4.4
23. Change in inventories	0.2	2.6	-0.9	0.5	-0.3	-0.3	-0.1
24. Balance of goods and services	-0.6	0.1	-1.9	-0.5	-0.3	-0.7	-0.9
Added value growth							
25. Primary sector	1.8	2.6	-0.8	3.1	2.0	1.7	1.9
26. Manufacturing	4.0	18.2	3.8	5.4	5.3	4.8	4.6
27. Construction	3.1	17.7	6.3	4.8	4.6	4.7	4.5
28. Other services	3.6	2.9	0.8	2.1	2.7	3.1	3.0

* forecast

Contribution to GDP growth indicates the shares of specific sectors in economic growth. This is calculated by multiplying growth in the area by its share in GDP. The sum of the contributions of different sectors amounts to economic growth (the slight difference can be attributed to a statistical error – the part of GDP that cannot be divided between the areas).

Source: Ministry of Finance, Statistics Estonia, Bank of Estonia.

Forecast published by the Ministry of Finance on 3 April 2012.

Appendix 2. Implementation of National Strategic Reference Framework 2007-2013.

State Budget Strategy 2007–2010 included the preparation and approval of a sub-strategy called “National Strategic Reference Framework 2007-2013”. This strategy defined the general objectives, indicators and priorities for 2007–2013 for targeted development of sectors eligible for EU structural assistance.

The strategy for using structural assistance is a permanent part of the annually renewed state budget strategy. This part includes all sectors potentially eligible and all activities that pursue the same objectives – i.e. it is an overall overview of sectors related to using EU structural assistance. This ensures a more comprehensive approach to planning the development of these sectors.

The objective of State Budget Strategy is to ensure sustainability of budget policy over the medium term and enhance the effectiveness of the government in steering the country and policy areas. In order to achieve this objective, the content of the priorities included in the strategy for using structural assistance has been somewhat elaborated in order to adapt the implementation of the priorities to the dynamically changing current situation.

For using the structural assistance during the period 2007–2013, six priorities have been defined to be implemented in this State Budget Strategy in 2013–2016 via the following policy areas and their goals:

Priority in National Strategic Reference Framework 2007-2013	Implementation within State Budget Strategy 2012–2015 (policy areas)
1) Educated and active population	<ul style="list-style-type: none"> ○ Policy area “Family and population policy” ○ Policy area “Education” ○ Policy area “Employment market and social security” ○ Policy area “Public health” ○ Policy area “Estonian language” ○ Policy area “Integration”
2) Increase in the R&D capacity and in the innovativeness and productivity of the enterprises	<ul style="list-style-type: none"> ○ Policy area “Economic environment” ○ Policy area “Education”
3) Better connection opportunities	<ul style="list-style-type: none"> ○ Policy area “Transport” ○ Policy area “Information society” ○ Policy area “Governance and civic society”
4) Sustainable use of environment	<ul style="list-style-type: none"> ○ Policy area “Environment” ○ Policy area “Energy” ○ Policy area “Domestic security”
5) Integral and balanced development of regions	<ul style="list-style-type: none"> ○ Policy area “Environment” ○ Policy area “Rural and regional development” ○ Policy area “Economic environment” ○ Policy area “Transport” ○ Policy area “Information society” ○ Policy area “Culture” ○ Policy area “Sport” ○ Policy area “Governance and civic society”
6) Higher administrative capacity	<ul style="list-style-type: none"> ○ Policy area “Governance and civic society”

The strategy for using structural assistance is implemented through three operational programmes: Operational Programme for Human Resource Development, Operational Programme for the Development of the Living Environment and Operational Programme for the Development of Economic Environment. Due to changes in the economic situation and the need to optimise the use of budget resources and EU 2007–2013 structural assistance, the volume of support related to priority objectives – employment market and promotion of business and innovation – was adjusted in 2010.

From 2009 to 2011, new measures were provided, the volumes of the most expedient measures were increased and the national requirements related to application for and use of the EU assistance.

Due to that, some regulations and programmes were changed in order to allow for comprehensive and targeted use of EU structural assistance.

An initiative to change the operational programmes was launched in 2011 in order to optimise the use of structural assistance and mitigate the risks related during the final years of the programming period. The proposals for change will be submitted to the European Commission for approval in 2012. Estonia will also continue its activities in pursuing the simplification of the framework for using EU structural assistance.

Since 2010, Estonia has made preparations for the next EU Multiannual Financial Framework, beginning in 2014. An assignment for 2012 is to define the objectives for using the assistance of EU programming period of 2014–2020 and to prepare drafts for planning documents (partnership contract between Estonia and the EU regarding use of resources from five funds, Structural Assistance Implementation Programme, Estonian Rural Development Plan, Fisheries and Maritime Affairs Implementation Programme) to be agreed with the European Commission in 2013. At the same time, work has begun to adjust the EU funds implementation system for the new programming period in order to be prepared by 1 January 2014 to use the assistance expediently and efficiently.