

Small States Economic Development

Estonia

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Economic Development– Historical Background I

- Since regaining independence (1991) neo-liberal worldview has dominated Estonian economic and social development
- Prior to the 2008 financial crisis Estonia enjoyed the highest economic growth rates among the OECD members + prudent fiscal policies resulting in balanced budgets + the lowest debt in the OECD
- 2008 crisis - decrease in GDP 14.7% - government responded with immediate and radical fiscal consolidation measures (direct impact also on the citizens) - GDP turned to growth already in 2010
- 2019: solid economic growth - GDP per capita USD 34.9; GDP growth 4.3%; General government debt 8.8% of GDP (OECD 2020)

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Economic Development– Historical Background II

- The structure of the economy (contribution to GDP 2018):
 - Service sectors 68.1%
 - Industrial sectors 29.2%
 - Primary branches (including agriculture) 2.8%
- Similar structure for the last 10 years
- No single driver - **wholesale & retail trade + processing industry + construction** have been in top 3 for the last 5 years
- 2019 new categories driving GDP growth - **information & communications + professional, scientific & technical activities + agriculture, forestry & fishing** (Statistics Estonia 2020)

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Economic Development– Country overview

- Unemployment: 3.9% (2019) - lowest of the century!
- Average wage: 1407 EUR (2019), income inequality OECD average (Gini coefficient 2017)
- Gender wage gap 2nd highest in OECD: 27% (2019)
- Population risk of poverty: 21.7% + old age poverty is high! (2018)
- Demographic challenges: rapid ageing + negative fertility rate
- Estonian students rank 1st in PISA in all three domains of assessment („Estonia is Europe's newest education powerhouse!“ BBC)

Source: Statistics Estonia 2019, 2020

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Economic Development– Well-being

- In general, Estonians tend to be less satisfied with their lives than their EU/OECD counterparts (e.g. Estonians rank 35 out of 40 in OECD better life index)
- The health status of Estonians has improved (e.g. life expectancy at birth in Estonia is 78 years), but differences by economic status remain
- 89% of adults aged 25-64 have completed upper secondary education + high skills of 15 -year olds (PISA)
- Good air quality, but high levels of CO2 emissions + rising amounts of landfill waste

Source: OECD 2019

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Economic Development– Country Comparison

	Estonian regions		Country average	OECD average
	Top 20%	Bottom 20%		
 Safety				
Homicide Rate (per 100 000 people), 2013	1.7	6.6	3.8	3.4
 Jobs				
Employment rate (%), 2014	77.6	64.7	70.2	66.3
Unemployment rate (%), 2014	5.3	11.2	8.6	8.6
 Access to services				
Households with broadband access (%), 2014	87.6	71.8	81.0	69.8
 Civic engagement				
Voters in last national election (%), 2015	69.1	57.1	64.2	68.1
 Education				
Labour force with at least upper secondary education (%), 2014	93.4	85.6	91.4	74.3
 Community				
Perceived social support network (%), average 2006-14	90.8	82.9	87.2	88.9
 Health				
Life Expectancy at birth (years), 2013	77.5	73.7	77.3	79.7
Age-adjusted mortality rate (per 1 000 people), 2013	8.9	10.8	9.7	8.4
 Environment				
Level of air pollution in PM 2.5 ($\mu\text{g}/\text{m}^3$), 2013	6.6	8.9	8.5	10.4
 Income				
Disposable income per capita (in USD PPP), 2013	10 523	6 551	8 459	17 916
 Housing				
Rooms per person, 2013	1.4	1.2	1.2	1.8
 Life satisfaction				
Self-evaluation of life satisfaction (scale from 0 to 10), average 2006-14	5.6	5.3	5.4	6.7

Note: Data in the first two columns refer to average values of top and bottom regions of national ranking and until the equivalent of 20% of the national population is reached.

Source: OECD Regional Well-Being Database: www.oecdregionalwellbeing.org

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Economic Development: Challenges ahead

Four main challenges:

- **Inequality issues:** inequality between urban and rural areas, geographical regions, men and women, skilled and unskilled, and citizens and non-citizens
- Ageing of the population
- Labour **productivity** growth and **digitalisation of industry** - access to ultra-fast broadband is one of the major bottlenecks to the adoption of digital technologies, in particular for small firms
- **Reducing dependence on oil shale**

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Economic Development: Key Recommendations

- **Inequality issues:** protect the current pension system; extend health insurance coverage and eligibility for unemployment insurance; strong action on gender wage gap
- **Environmental issues + reducing dependence on oil shale:** implement more efficient measures to incentivize giving/taking up oil shale based/green energy solutions. Improve waste collection infrastructure + introduce relevant economic measures
- **Productivity issues:** improve managerial skills of entrepreneurs + strengthen cooperation in-between sectors + more attention to digital skills of teachers + the girls vs. boys. Attention to holistic industry digitalisation
- (Recommendation based on OECD 2019)

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Economic Development: Current Strategies and Policies

- Estonia is currently entering a new phase of national level strategic planning with an aim to reduce the overall number of development plans + single policy strategies and provide an umbrella strategy „Estonia 2035“
- For the very first time strategic planning of economic and innovation policy is merged with research and development policy. The development plan and related strategies are being finalised in March 2020
- „Estonia 2035“ visions Estonian economy as follows: *Estonian economy „flies high“, is innovative and responsible. Estonia has flexible and knowledge-based economy that calls for action and investments. It is a cradle for new and courageous solutions and experiments that treats people and nature in a respectful way.*

https://www.rigikantselei.ee/sites/default/files/rigikantselei/strateeglaburoo/Eesti2035/eesti_suured_sihid_plit_072019.pdf

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Economic Development: 2019 forecast for Estonia

Indicators	2018	2019	2020	2021
GDP growth (% yoy)	4,8	3,2	2,1	2,4
Inflation (% yoy)	3,4	2,4	2,1	2,2
Unemployment (%)	5,4	5,1	5,4	5,8
Public budget balance (% of GDP)	-0,6	-0,2	-0,2	-0,2
Gross public debt (% of GDP)	8,4	8,7	8,4	8,2
Current account balance (% of GDP)	2,0	1,4	1,6	1,6

Source: European Commission 2019

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Economic Development: March 2020 forecast

The economic forecast for Estonia has changed radically since Spring 2020 due to the global COVID-19 pandemic:

- The prognosis of GDP growth for 2020 estimated to be around 2.1% (EC) to 2.3% (Bank of Estonia) has turned into negative – a fall of GDP by 6-14% depending on the length of the crisis is expected (Bank of Estonia).
- Until now the tourism sector has been hit the most. Looking forward, the service and transport sectors are probably going to be hit the hardest.
- Estonian government is introducing a package of various economic support measures, but their impact is not known yet. The aim is to ease the immediate challenges and to prevent the escalation of current problems related to the companies' loss of turnover into structural problems of unemployment and bankruptcies.
- The unemployment rate (all time low in 2019 at 3.9%) has started to increase and labour market will see a considerable change due to the crisis.
- As the help package to the economy will comprise loans, the government deficit will increase.