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COMMISSION OPINION

of 21.11.2018

on the Draft Budgetary Plan of Estonia

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING ESTONIA

3. On the basis of the Draft Budgetary Plan for 2019 submitted on 15 October 2018 by Estonia, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. Estonia is subject to the preventive arm of the SGP. On 13 July 2018, the Council recommended Estonia to ensure that the nominal growth rate of net primary government expenditure does not exceed 4.1% in 2019, corresponding to an annual structural adjustment of 0.6% of GDP towards the medium-term budgetary objective of -0.5% of GDP. [1]

5. According to the Commission 2018 autumn forecast, real GDP is expected to grow by 3.5% in 2018 and 2.8% in 2019. The macroeconomic scenario underlying the Draft Budgetary Plan, projecting similar economic growth rates, is plausible. Estonia complies with the requirement of Regulation (EU) No 473/2013, since the draft budget is based on independently endorsed macroeconomic forecasts.

6. The Draft Budgetary Plan expects a headline budget surplus of 0.6% of GDP in 2018 and 0.5% in 2019. The structural balance[2] of the Draft Budgetary Plan is estimated to to remain stable at a deficit of 0.6% of GDP in 2018 and 2019. The Commission 2018 autumn forecast foresees slightly smaller headline surpluses of 0.5% of GDP in 2018 and 2019. The structural deficit in the Commission forecast is sligthly larger, forecast at 0.8% of GDP in 2018 and 0.7% of GDP in 2019. The larger deficit is explained by the difference in headline surpluses, in combination with a somewhat different assessment of one-off measures.

7. Over recent years, Estonia has shifted the tax burden from labour to consumption taxes. The most recent and notable measure is the income tax reform for low- to

[1] Council Recommendation of 13 July 2018 on the 2018 National Reform Programme of Estonia and delivering a Council opinion on the 2018 Stability Programme of Estonia (OJ C 320, 10.9.2018, p. 24–26).

[2] Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

medium-income earners, which took effect in 2018. Its costs were offset by increases in other taxes and excise duties. That measure should reduce the tax-wedge on low- to medium-income earners. The Draft Budgetary Plan presents a number of relatively minor fiscal measures, which on the aggregate have a net deficit-increasing effect of 0.2% of GDP in 2018, and a deficit-decreasing effect of 0.2% of GDP in 2019. The largest fiscal effect comes from cancelling the previously planned rise of alcohol excises, shifting dividend revenue from State-owned companies from 2018 to 2019, bringing some expenditures forward from 2019 to 2018, sale of CO^2 quotas in 2019 and postponing some investments from 2019 to the following years.

8. In 2018, for Estonia to comply with the requirements of the preventive arm, the nominal growth rate of government expenditure, net of discretionary revenue measures and one-offs, should not exceed 6.1%, corresponding to a maximum deterioration of the structural balance by 0.2% of GDP. According to the Draft Budgetary Plan and the Commission forecast, Estonia is assessed to comply with these requirements.

   According to both the information provided in the Draft Budgetary Plan and the Commission 2018 autumn forecast, in 2019 the (recalculated) structural balance is projected to be close to the medium-term budgetary objective. Thus, the current assessment indicates a risk of some deviation in 2019. At the same time, Estonia has a requirement that the nominal growth rate of net primary government expenditure should not exceed 4.9% in 2019, corresponding to an adjustment of 0.3% of GDP in 2019. Based on the Commission 2018 autumn forecast, the expenditure benchmark would currently point to a risk of a significant deviation from that requirement in 2019. If the structural balance is no longer projected to be close to the medium-term budgetary objective in future assessments for 2019, the overall assessment of compliance will need to take into account a possible deviation from that requirement.

9. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Estonia is broadly compliant with the provisions of the Stability and Growth Pact. However, this assessment is dependent on the current projection that Estonia will be close to its MTO. If such a projection is not confirmed in future assessments, the overall assessment of compliance will need to take into account the extent of the deviation from the requirement set by the Council. The Commission therefore invites the authorities to stand ready to take the necessary measures within the national budgetary process to ensure that the 2019 budget will be compliant with the SGP rules.

   A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2019 Country Reports and assessed in the context of the country-specific recommendations to be proposed by the Commission in May 2019.

Done at Brussels, 21.11.2018

For the Commission
Pierre MOSCOVICI
Member of the Commission