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MINISTEERIUM
MINISTRY of FINANCE of the REPUBLIC of ESTONIA

2024 Draft Budgetary Plan of Estonia

Tallinn, 13. October 2023

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Introduction

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

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

The 2023 Stability Programme was approved by the Government on 27 April 2023. **The draft 2024 State Budget with explanatory memorandum was approved on 26 September in the meeting of the Government and it was given for proceeding to Parliament.**

The draft 2024 State Budget of the Republic of Estonia is based on State Budget Strategy 2024–2027, The Government's Action Programme and the planned activities take into account the Government's Action Programme and The European Commission and the Country Specific Recommendations as adopted by the Council in May. In the formulation of the fiscal policy, national requirements and the Stability and Growth Pact requirements on the budgetary policy of the EU Member States are being respected.

1. Macroeconomic forecast

The Draft 2024 State Budget of the Republic of Estonia is based on the summer forecast of the Ministry of Finance (MoF), published on 24 August 2023. Assumptions of the forecast were fixed in mid-August 2023. Economic forecasts of the Ministry of Finance are public and can be found from the web page of the Ministry (https://www.fin.ee/riigi-rahandus-ja-maksud/fiskaalpoliitika-ja-majandus/rahandusministeeriumi-majandusprognoos).

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Economic situation has been challenging in Estonia and the neighbouring countries over the past year and a half. Sentiment of different economic sectors has deteriorated significantly in Estonia with companies considering a lack of demand as the main factor limiting their activity. Production and export volumes of the manufacturing sector have fallen. In 2022, Estonia's economy was the only country in the European Union in recession (-0.5%), but economic growth of Estonia's main trading partners has been weaker than the European Union average. Especially, depression of the construction and real estate sector in the Nordic countries has had a significant impact on Estonia's exports. The Ministry of Finance expects Estonia's GDP to fall by 2% in 2023 but grow by about 2.7% in 2024.

The reaction of the labour market to the recession has been mild so far. Until recently, companies in general were able to transmit increases in their input prices to the final prices of their products and profits have increased rapidly. However, opportunities for profits are becoming exhausted as inflation decelerates and demand weakens. The number of employed persons is expected to decrease in the second half of 2023, but to increase in the following years. So far the number of employed persons has decreased most in the sectors of manufacturing, transportation, construction, and administrative and support service activities. The unemployment rate is expected to increase moderately in 2023 and 2024 to 6.1% and 6.7%, respectively, up from 5.6% in 2022.

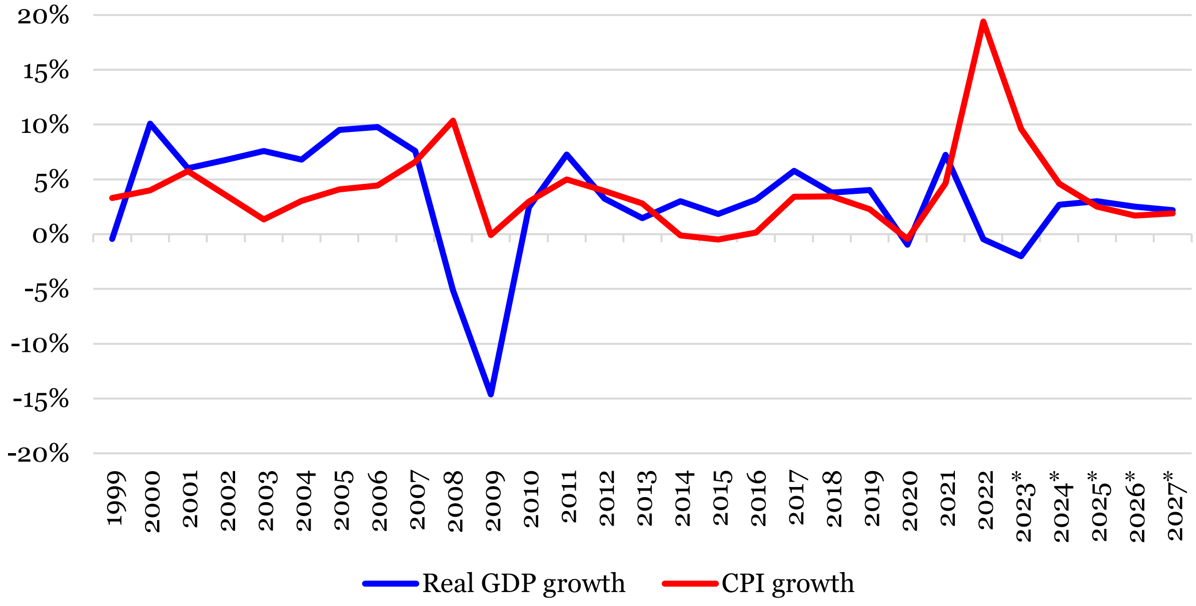
In 2022, real incomes of households fell due to rapid inflation, but private consumption was supported by savings accumulated during the pandemic and withdrawals of the II pillar pension funds. In 2023, real wages and real pension income are forecast to grow again. This may create a basis for the aggregate private consumption not to decline. However, savings are very unequally distributed among households and many households are not able to keep their level of consumption. Food consumption expenditure has fallen already since the second half of 2022.

Investments in total fell in 2022 due to rapid growth in prices, but housing investments still rose. Increased loan interest rates will hold back new housing investments in 2023. Companies are also expected to wait with investments until the external demand improves. Investments are forecast to increase again in 2024. The investments of the government sector should peak in 2026 in connection to the larger use of EU funds and construction of Rail Baltic.

Consumer price inflation is expected to slow down rapidly in 2023 to below 6% by the end of the year. In 2023 as a whole, the consumer price inflation is expected to be 9.6% and 4.6% in 2024. In 2024, the increase in the value added tax rate prevents inflation from slowing even further. It is estimated that about 1.4 percentage points from the consumer price inflation in 2024 will stem from the tax increase.

Figure 1

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



Source: Statistics Estonia, Ministry of Finance.

Table 0.i) Basic assumptions

	2022	2023*	2024*
Short-term interest rate (annual average)	0.4	3.4	3.5
Long-term interest rate (annual average)	1.1	2.6	3.0
USD/€ exchange rate (annual average)	0.952	0.917	0.910
Nominal effective exchange rate	-2.2	3.8	0.6
World excluding EU, GDP growth	3.2	3.0	3.2
EU GDP growth	3.5	0.6	1.2
Growth of relevant foreign markets	6.9	-0.6	2.2
World import volumes, excluding EU	4.8	1.6	3.2
Oil prices (Brent, USD/barrel)	100.7	82.1	82.0

Source: Eurostat, Bank of Estonia, European Central Bank, IMF, U.S. Energy Information Administration, Consensus Economics, European Commission, Chatham Financial, Bloomberg and NYMEX Brent futures, Ministry of Finance.

Table 1.a. Macroeconomic prospects

		2022 Level	2022 rate of change	2023 rate of change	2024 rate of change
1. Real GDP	B1*g	25701.2	-0.5	-2.0	2.7
of which					
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth (1/)		–	–	–	–
2. Potential GDP			2.6	1.6	1.6
contributions:					
- labour			1.7	1.1	0.7
- capital			1.7	1.6	1.5
- total factor productivity			-0.8	-1.0	-0.6
3. Nominal GDP	B1*g	36011.1	15.5	7.7	6.8
Components of real GDP					
4. Private final consumption expenditure	P.3	13222.0	2.3	0.0	1.5
5. Government final consumption expenditure	P.3	4711.2	0.1	2.3	0.0
6. Gross fixed capital formation	P.51	8129.8	-3.7	-2.1	3.1
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53		3.2	0.8	0.5
8. Exports of goods and services	P.6	22566.9	3.0	-4.2	2.9
9. Imports of goods and services	P.7	23775.4	3.2	-4.7	1.4
Contributions to real GDP growth					
10. Final domestic demand		27235.8	0.0	-0.1	1.6
11. Changes in inventories and net acquisition of valuables	P.52 + P.53		1.0	-2.3	-0.2
12. External balance of goods and services	B.11	-1208.5	-0.4	0.4	1.3

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

Source: Statistics Estonia, Ministry of Finance.

Table 1.b. Price developments

	ESA code	**2022** *level 2010=100*	**2022** rate of change	**2023*** rate of change	**2024*** rate of change
1. GDP deflator		166.4	16.1	9.9	4.0
2. Private consumption deflator		153.6	17.0	8.4	4.2
3. HICP		155.8	19.4	9.6	4.8
4. Public consumption deflator		184.2	12.7	12.4	4.3
5. Investment deflator		135.6	12.6	4.5	2.9
6. Export price deflator (goods and services)		146.1	19.9	2.6	1.7
7. Import price deflator (goods and services)		135.6	18.9	0.6	1.3

Source: Statistics Estonia, Ministry of Finance.

Table 1.c. Labour market developments

	ESA code	2022 Level	2022 rate of change	2023* rate of change	2024* rate of change
1. Employment, persons		677.4	4.1	1.0	0.4
2. Employment, hours worked			4.1	1.0	0.4
3. Unemployment rate (%)		40.2	5.6	6.1	6.7
4. Labour productivity, (real GDP per employed person)		37.9	-4.4	-3.0	2.3
5. Labour productivity, hours worked			-4.4	-3.0	2.3
6. Compensation of employees	D.1	17125.9	13.7	11.1	7.1
7. Compensation per employee		25.3	9.2	10.0	6.7

Source: Statistics Estonia, Ministry of Finance.

Table 1.d. Sectoral balances

	ESA code	2022 % of GDP	2023* % of GDP	2024* % of GDP
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	-2.5	1.3	2.3
of which:				
- balance on goods and services		-0.6	1.2	2.6
- balance of primary incomes and secondary incomes		-2.3	-1.8	-2.2
- capital account		0.4	1.9	1.9
2. Net lending/net borrowing of the private sector	B.9			
3. Net lending/net borrowing of general government	B.9	-1.0	-3.3	-2.9
4. Statistical discrepancy		-1.2	-	-

Source: Statistics Estonia, Ministry of Finance.

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Economic forecast of the Ministry of Finance is prepared by analysts from the Fiscal Policy Department, who belong to the personnel of the Ministry. The objectivity and independence of the forecast is assured through the transparency of forecasting process, the involvement of different external economists and through continuous comparison of forecasting results and regular analysis of forecasting errors. Before finalisation of the forecast of the Ministry of Finance, its main assumptions and results are discussed in a joint seminar with different forecasters in Estonia, who belong to the central bank, commercial banks and other institutions dealing with economic analysis. In addition, different comparative tables and figures with the outcome of different independent forecasters can be found from the document of Ministry's economic forecast.

The opinion of the Fiscal Council on the summer 2023 macroeconomic forecast of the Ministry of Finance

Pursuant to §18 of the State Budget Act, the Fiscal Council issued its opinion on the summer 2023 economic forecast of the Ministry of Finance on 7 September.[1]

In its September 7 opinion, the Fiscal Council endorsed the economic forecast of the Ministry of Finance but emphasises the uncertainty there has been around forecasts for economic growth and inflation in recent years. In addition, forecast errors for tax revenues could also prove larger than usual, as numerous changes to the tax system are expected to come into effect simultaneously.

The Ministry of Finance agrees with this assessment.

The impact of fiscal measures on economic development

The following aims to assess the macroeconomic impact of budgetary measures decided in autumn during the preparation of the draft 2024 State Budget and the State Budget Strategy for 2024-2027. Outlined is the additional impact, which adds to the already legislated budgetary measures. The tax changes adopted in the summer 2023 were already included in the Ministry of Finance's summer economic forecast.

The combined economic impact of the budgetary measures decided in the autumn is expected to be neutral or slightly expansionary in 2024. In the 2024 budget, spending is ultimately increased by 0.5% of GDP compared to the forecast, with only few expenditure cuts. The decisions to increase spending vary greatly, but the largest increases are in the defence and education. The spending growth is balanced by revenue growth, also at 0.5% of GDP. The largest revenue measures involve decisions on dividend distribution of state-owned companies and the additional revenue from commercial banks' dividends, both of the measures have very little effect on real economic activity (the combined impact of these two revenue measures is 0.3% of GDP).

The contractionary effect of the autumn budget decisions mainly appears in 2025 when the target is to improve the budget position by 2.2% of GDP. In 2026 and 2027, there is an additional improvement in fiscal deficits of about 0.5% of GDP per year, which should not significantly restrain economic growth. Most of the measures are revenue-based, but spending cuts also contribute to the improvement of the budget position.

Starting from 2025, various tax changes are expected to collect additional revenue by approximately 2% of GDP. Thus, the tax burden is expected to increase sharply in 2025 and remain at a similar level in the following years. This includes the broad-based security tax, from which it is expected to collect 1% of GDP for the state treasury, but the nature and form of tax is still unknown; discussions on its content are expected to start in the coming months.

The tax measures that are known in sufficient detail are expected to collect 1% of GDP into the budget. Due to the increase in indirect taxes, inflation is expected to accelerate by about 1.1% in 2025. The establishment of new taxes, namely the passenger car tax and the tax on sweetened beverages, will have a greater impact. Due to the increase in direct taxes, the growth of net income in 2025 is expected to slow down by about 0.6 percentage points. According to

[1] More detailed analyses can be found on the web page of the Fiscal Council:

https://eelarvenoukogu.ee/news/the-outlook-for-the-state-finances-remains-challenging the summer forecast, the real growth of net income or purchasing power in 2025 was 6.6%, and with the impact of new measures, this is estimated to slow down by approximately 1.7 percentage points to 4.8%. However, it should be noted that the relatively rapid increase in purchasing power in 2025 was due to the tax changes implemented in the summer (the positive effect of eliminating the basic allowance regression), which benefited individuals with above-average income.

The above reflects the direct impact of the measures and does not take into account indirect and behavioural effects, i.e. companies and households may change their economic behaviour due to government measures. It is likely that labour will be released from the public sector as a result of budget cuts, which may alleviate labour shortages in the private sector and reduce wage pressures. Whether the private sector can employ the released labour from the public sector depends on the economic situation at that moment.

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In the following, Ministry of Finance's 2023 summer forecast is compared with the latest public macroeconomic forecasts by other institutions. When comparing them, one should keep in mind that forecasts are compiled in different periods and are therefore based on different information, which causes variations in assumptions and results of the forecasts.

Different forecasters, in general, expect Estonia's GDP to fall around 2% in 2023 and consumer price inflation is expected to be slightly below 10%. For 2024, there is greater variation in growth forecasts, depending on assumptions on when the economy starts to grow again, which in turn is much related to the growth outlook of Estonia's main trading partners.

Table 1.f. Comparison of economic forecasts

	Real GDP growth, %			Nominal GDP growth, %		
	2023*	**2024***	**2025***	**2023***	**2024***	**2025***
Ministry of Finance	-2.0	2.7	3.0	7.7	6.8	5.5
Bank of Estonia	-2.2	1.4	4.0	5.3**	4.2**	6.5**
Swedbank	-2.0	2.0	3.0	6.7**	5.7**	5.2**
SEB	-1.8	1.5	3.0	-	-	-
Consensus Forecasts	-1.3	2.7	-	-	-	-
European Commission	-0.4	3.1	-	9.9**	6.7**	-
IMF	-2.3	2.4	2.7	6.7**	5.9**	5.5**
OECD	-1.3	3.2	-	12.0**	8.3**	-

	Consumer Price Index, % (in brackets Harmonised Consumer Price Index)			General government position, % of GDP		
	2023*	**2024***	**2025***	**2023***	**2024***	**2025***
Ministry of Finance	9.6 (9.6*)	4.6 (4.8*)	2.5 (2.6*)	-3.3	-2.9	-4.3
Bank of Estonia	9.4 (9.4*)	3.4 (3.6*)	1.9 (2.1*)	-3.1	-2.8	-3.7
Swedbank	9.8	4.3	2.4	-2.6	-3.0	-2.8
SEB	9.5*	4.5*	2.5*	-1.5	-2.5	-1.5
Consensus Forecasts	9.6	3.4	-	-2.9	-2.4	-
European Commission	9.2*	2.8*	-	-3.1	-2.7	-
IMF	10.0*	3.8*	3.2*	-3.9	-3.2	-2.8
OECD	9.2*	3.4*	-	-3.2	-2.1	-

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

Sources:
Ministry of Finance. 2023 summer forecast. 24.08.2023
Bank of Estonia. Monetary policy and economy. 3/2023. 26.09.2023.
Swedbank. Swedbank Economic Outlook – August 2023. 23.08.2023.
SEB. Nordic Outlook. August 2023. 29.08.2023.
Eastern Europe Consensus Forecasts. 18.09.2023.
European Commission. European Economic Forecast. Spring 2023. 15.05.2023.
IMF. World Economic Outlook. October 2023. 10.10.2023.
OECD Economic Outlook. No 113. June 2023. 07.06.2023.

2. Budgetary targets

The Government set its medium-term objective (MTO) of the general government structural deficit up to 1.0% of GDP in the latest State Budget Strategy.

Due to the COVID-19 crisis and the Russian war of aggression against Ukraine, the economy is still facing a tough situation. The General Escape Clause of the Stability and Growth Pact allows European Union member states to deviate from the medium-term budget objective (MTO) or its trajectory also in 2023. Starting from the year 2024, budget rules will return to their usual form. According to the Estonian Budget Act in force, the structural budget position must be improved by 0.5% of GDP if the general government structural budget position was cumulatively in deficit in the previous year. Additionally, it is required to avoid excessive budget deficits, meaning the nominal budget deficit should not exceed 3% of GDP.

In the most recent medium-term state budget strategy, the Estonian government has decided to amend the budget rules as set out in the State Budget Act. According to the proposed law the adjustment in structural deficit is not needed during bad economic times, which means that the structural deficit will stay at the level of 1.2% of GDP. The goal for the following years is to keep the deficit at the MTO level, meaning at 1.0% of GDP. The framework of budget rules established by the Budget Act was created before the crisis years and may not align with the actual needs for budget discipline during or after major crises. The deteriorating security situation has added pressure on expenditures, and finding solutions requires more time. Hence, the government has initiated the modification of budget rules to align them with the Stability and Growth Pact and to the Fiscal Compact and eliminate additional requirements added by Estonia, which have reduced flexibility in budget planning during the crises in the years 2020-2022. Due to very large estimated negative output gap, the SGP matrix, to which the domestic rule will, once adopted, be based requires no adjustment in structural balance during adverse economic times.

Compared to the previous state budget strategy, the deficit in 2024 is 1.4% lower as a percentage of GDP, and in 2025 and 2026, it is 1.6% lower. By following these goals, the nominal deficit remains below the required 3% limit in all years, reaching 1.2% of GDP by 2027.

Due to the Covid-19 pandemic that erupted in 2020, the general government budget position, which had fallen into a deficit of 1.5 billion euros, improved to a deficit of 349 million euros i.e 1.0% of GDP by the end of 2022, due to the rapid economic recovery. The position of social security funds improved the most, reaching a surplus of 157 million euros thanks to strong tax revenues, which boosted both the Health Insurance Fund and the Unemployment Insurance Fund reserves. The central government and local municipalities ended the year with a deficit, but it was still smaller than the previous year. The deficit was reduced by both strong tax collection and lower-than-planned expenditures in the supplementary budget.

In 2023, the nominal fiscal position of general government, considering 2024 draft budget measures, is forecast to reach a nominal deficit of 3.3% of GDP, which is an improvement of 0.6% the original state budget mainly due to strong tax collection, which also improves the Health Insurance Fund's budget position. Reduced operating expenditures and social benefits also contribute to reducing the deficit. **In 2024, according to the draft budget, nominal deficit will decrease and reach 2.9% of GDP.**

In 2022, the general government debt did increase by 0,7 percentage points and reached 18.5% of GDP, amounting to EUR 6 658 million. The debt increased due to the increase in the debt level of the State Treasury and the Local governments. This year, the debt burden of the general government can be expected to increase to 19.4% of GDP. This is due to a faster nominal rise in the debt level combined with slower nominal growth of GDP. **The general government debt rises to 20.9% of GDP by the end of 2024.**

The opinion of the Fiscal Council on the structural budget position objectives for 2024-2027

Pursuant to §14 of the State Budget Act, the Fiscal Council issued an opinion on the objectives of the structural budget position for 2024-2027 on 26 September.[2] Overall, the Fiscal Council welcomes the desire of the government to start to improve the fiscal position. The government has set the target in the state budget strategy 2024-2027 of not letting the general government structural budget deficit exceed 1% of GDP. The goal is expected to be achieved in 2025. The Fiscal Council notes however that the targets for the general government structural fiscal position set in the state budget strategy 2024-2027 only comply with the State Budget Act if it is assumed that the planned changes to the domestic fiscal rules come into force in 2024.

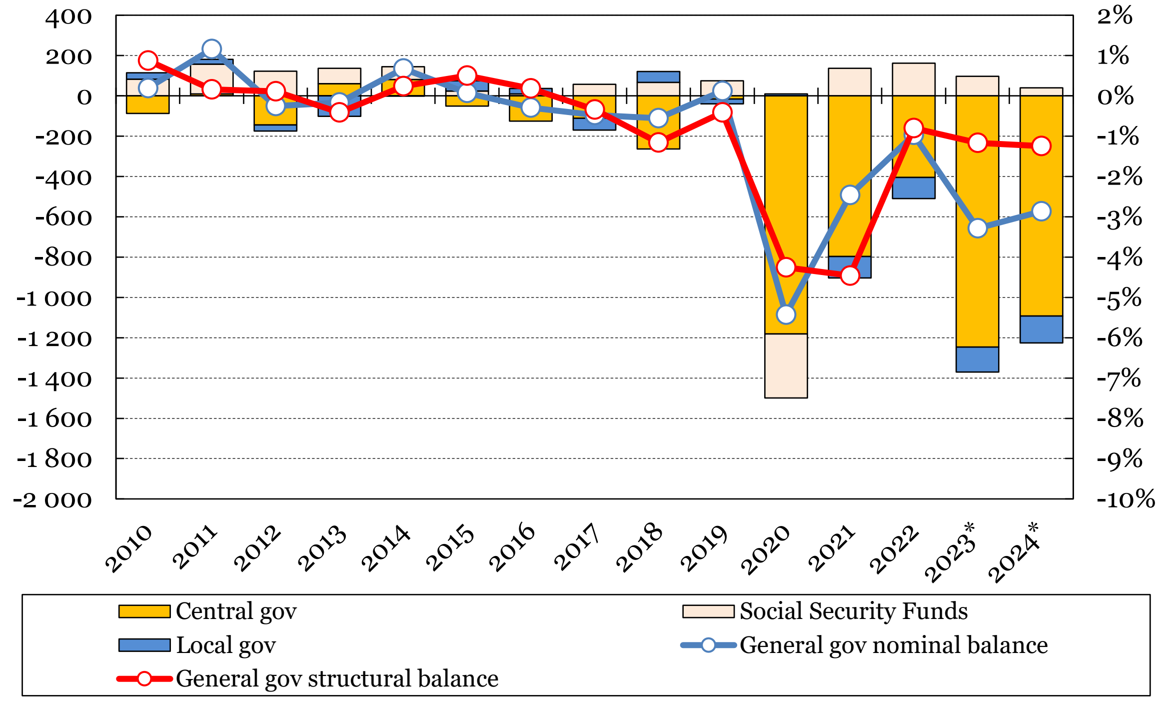
Even complying with less stringent fiscal rules would demand large changes in the current fiscal policy path. The forecast by the Ministry of Finance finds that meeting the targets set in the budget strategy would require an improvement in the budgetary position of around 3.7 billion euros for the next four years in total. The budget strategy contains a lot of new revenue and expenditure measures for this, some of which are still a work in progress.

[2] https://eelarvenoukogu.ee/uudised/valitsus-asub-eelarvepositsiooni-parandama-senisest-vahem-noudliku-eelarvereegliga

Figure 2

General government budgetary position

(% of GDP)

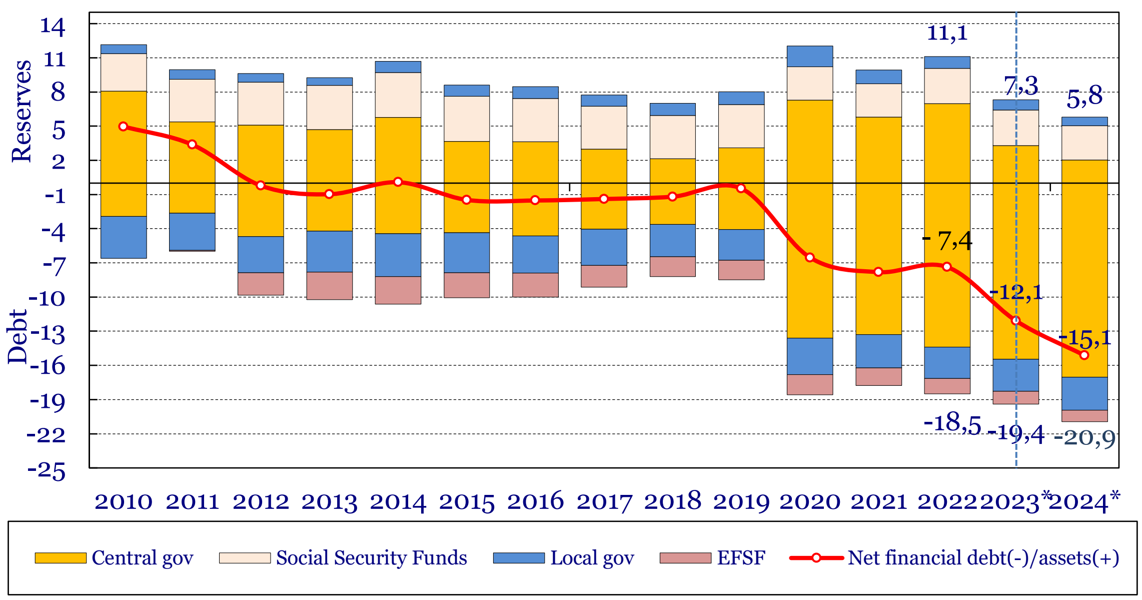


Source: Statistics Estonia, Ministry of Finance.

Figure 3

General government liquid financial assets, gross debt and net financial debt

(% of GDP)

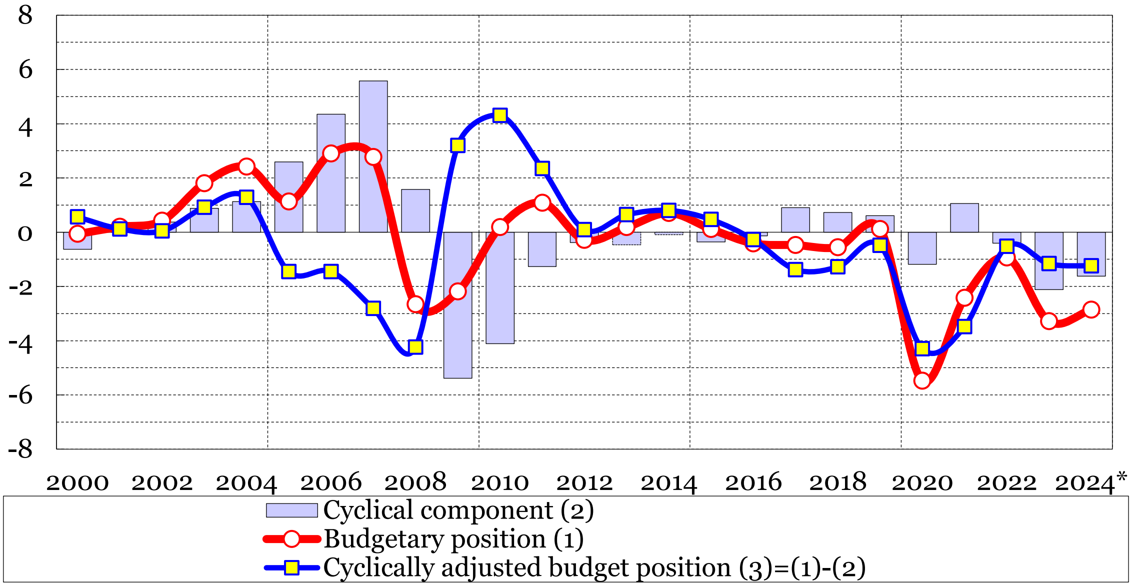


Source: Statistics Estonia, Ministry of Finance.

Figure 4

General government cyclically adjusted budgetary position

(% of GDP)

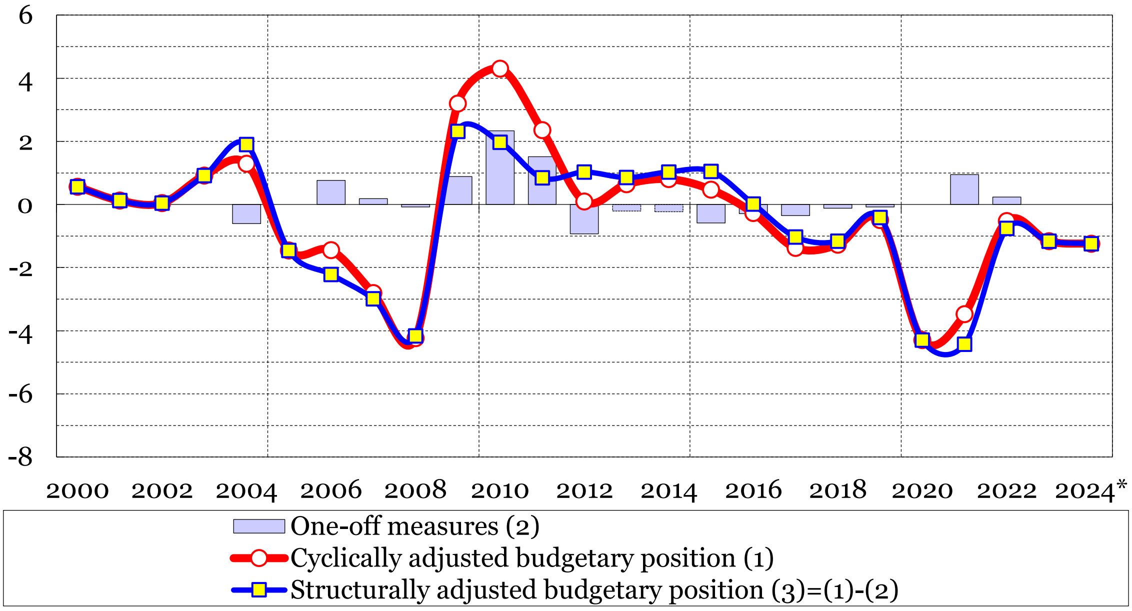


Source: Statistics Estonia, Ministry of Finance.

Figure 5

General government structurally adjusted budgetary position

(% of GDP)



Source: Ministry of Finance.

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

	ESA code	2023 (1/)	2024*
		% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector			
1. General government	S.13	-3.3	-2.9
2. Central government	S.1311	-3.2	-2.6
3. State government	S.1312	-	-
4. Local government	S.1313	-0.3	-0.3
5. Social security funds	S.1314	0.2	0.1
6. Interest expenditure	D.41	0.5	0.6
7. Primary balance (3/)		-2.8	-2.3
8. One-off and other temporary measures (4/)		0.0	0.0
9. Real GDP growth (%) (=1. in Table 1a)		-2.0	2.7
10. Potential GDP growth (%) (=2 in Table 1.a)		1.6	1.6
contributions:			
- labour		1.1	0.7
- capital		1.6	1.5
- total factor productivity		-1.0	-0.6
11. Output gap (% of potential GDP)		-4.4	-3.3
12. Cyclical budgetary component (% of potential GDP)		-2.1	-1.6
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		-1.2	-1.2
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		-0.6	-0.7
15. Structural balance (13 - 8) (% of potential GDP)		-1.2	-1.2

1/ According to Draft 2024 State Budget.
2/ TR-TE= B.9.
3/ The primary balance is calculated as (B.9, item 1) plus (D.41, item 6).
4/ A plus sign means deficit-reducing one-off measures.

Source: Ministry of Finance.

Table 2.b. General government debt developments

	ESA code	2023*	2024*
		% of GDP	% of GDP
1. Gross debt		19,4	20,9
2. Change in gross debt ratio		0,9	1,5
Contributions to changes in gross debt			
3. Primary balance (=item 10 in table 2.a.i))		-2,8	-2,3
4. Interest expenditure	D.41	0,5	0,6
5. Stock-flow adjustment		-1,1	-0,1
of which:			
- Differences between cash and accruals		-	-
- Net accumulation of financial assets		-	-
of which:			
- privatisation proceeds		-	-
- Valuation effects and other		-	-
p.m.: Implicit interest rate on debt (1/)		3,0	3.2
Other relevant variables			
6. Liquid financial assets (2/)		7,3	5,8
7. Net financial debt (7=1-6)		12,1	15,1
8. Debt amortization (existing bonds) since the end of the previous year [3]		1,1	1,4
9. Percentage of debt denominated in foreign currency		0	0
10. Average maturity [4]		7,5	7,5

1/ Proxied by interest expenditure divided by the debt level of the previous year.
2/ Liquid assets are here based on the accounting methodology which corresponds to the Consolidated Annual Report of the State. The definition of liquid financial assets covers the use of accounting standards, involving only those assets which are realizable in the short-term (including cash and deposits, debt securities, short-term trading quoted shares and investment fund shares)

Source: Ministry of Finance.

Table 2.c. Contingent liabilities

	2023*	2024*
	% of GDP	% of GDP
Public guarantees	7.6	7.2
Of which: linked to the financial sector	7.6	7.0

Source: Ministry of Finance.

[3] Central government borrowing without foundations and legal persons governed by public law.
[4] Central government without foundations and legal persons governed by public law.

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

Summer forecast (Table 3) differs from the Stability Programme forecast because of an upward correction of revenue collection and upward correction of expenditures in 2023 and in 2024. Revenue forecast was corrected upwards by 630.2 million euros in 2023 and by 1.13 billion euros in 2024. Expenditure forecast was corrected upwards by 246.4 million euros in 2023 and by 626.0 million euros in 2024 mainly because the government sector units had updated their funding plans compared to spring forecast and the forecast for the use of external funds had increased in 2024.

Indicators as a percentage of GDP are not directly comparable - the summer forecast ratios are based on the revised GDP time series that were disclosed on 17.08.2023 whereas in the Stability Programme forecast ratios were based on earlier GDP data.

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

General Government (S.13)	ESA Code	**2023***	**2024***
		% of GDP	*% of GDP*
1. Total revenue at unchanged policies	TR	39.8	39.6
of which			
1.1. Taxes on production and imports	D.2	13.2	13.6
1.2. Current taxes on income, wealth, etc.	D.5	8.1	7.8
1.3. Capital taxes	D.91	0	0
1.4. Social contributions	D.61	12.1	12.2
1.5. Property income	D.4	0.9	0.7
1.6. Other		5.4	5.3
p.m.: Tax burden (=D.2+D.5+D.61+D.91-D.995)		33.3	33.4
2. Total expenditure at unchanged policies	TE	43.1	42.5
of which			
2.1. Compensation of employees	D.1	11.4	11.2
2.2. Intermediate consumption	P.2	7.3	7.0
2.3. Social payments	D.62 D.632	14.7	14.7
of which Unemployment benefits		0.63	0.65
2.4. Interest expenditure (=9. in Table 2.a)	D.41	0.52	0.60
2.5. Subsidies	D.3	0.6	0.5
2.6. Gross fixes capital formation	P.51	5.5	5.7
2.7. Capital transfers	D.9	1.0	0.9
2.8. Other		2.1	1.9

Source: Ministry of Finance.

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

The Draft Budgetary Plan (Table 4.a) differs from the summer forecast (Table 3) because of revenue and expenditure measures taken during the budget negotiation process and presented in Table 5.a. For calculating GDP ratios, the same macroeconomic forecast is used as in the summer.

For 2023 and for 2024, revenues increased more than expenditures thereby improving nominal position. In 2023, general government revenues increased by 3.2 million euros and expenditures increased by 3.0 million euros. For 2024, revenue increased because of the government measures by 0.64% of GDP and expenditure increased by 0.59% of GDP. On the revenue side, the measures had the greatest impact on current taxes on income and wealth, while on the expenditure side compensation of employees, intermediate consumption, and investments were most affected by the measures.

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

General Government (S.13)	ESA code	2023*	2024*
		% of GDP	*% of GDP*
1. Total revenue target	TR	39.8	40.2
of which			
1.1. Taxes on production and imports	D.2	13.2	13.7
1.2. Current taxes on income, wealth, etc	D.5	8.1	8.1
1.3. Capital taxes	D.91	0	0
1.4. Social contributions	D.61	12.1	12.2
1.5. Property income	D.4	0.95	0.90
1.6. Other		5.4	5.3
p.m.: Tax burden (=D.2+D.5+D.61+D.91-D.995)		33.3	33.8
2. Total expenditure target	TE	43.1	43.1
of which			
2.1. Compensation of employees	D.1	11.4	11.4
2.2. Intermediate consumption	P.2	7.3	7.2
2.3. Social payments	D.62 D.632	14.7	14.8
of which Unemployment benefits		0.63	0.65
2.4. Interest expenditure (=9. in Table 2.a)	D.41	0.5	0.6
2.5. Subsidies	D.3	0.6	0.5
2.6. Gross fixes capital formation	P.51	5.5	5.8
2.7. Capital transfers	D.9	1.0	0.9
2.8. Other		2.1	2.0

Source: Ministry of Finance.

Table 4.b. presents figures for expenditure benchmark assessment. In accordance with the SGP, the general government expenditure growth of a member state should be in line with its

GDP growth. This expenditure benchmark is usually the 10-year average potential GDP growth (in a period from t-5 to t+4) of the member state if the member state is at MTO.

Table 4.b. Expenditure benchmark

	2022	2022	2023*	2024*
	level (m EUR)	*% GDP*	*% GDP*	*% GDP*
1. Expenditure on EU programmes fully matched by EU funds revenue	652,30	1,81	1,96	1,71
1a. of which investment fully matched by EU funds revenue	342,60	0,95	1,01	0,98
2. Cyclical unemployment benefit expenditure	0	0	0	0
3. Effect of discretionary revenue measures	295,6	0,82	0,06	0,64
4. General government revenue increases mandated by law	0	0	0	0

Source: Ministry of Finance.

Table 4.c i) and 4.c ii) present government expenditures by function. The expenditure measures have an impact on almost all functions of the government sector. In 2024 measures increased the most social protection and education.

Table 4.c. General government expenditures by function

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

	2023*		2024*	
	% of GDP	*% of general government expenditure*	*% of GDP*	*% of general government expenditure*
Education	6.14	14.2	6.16	14.3
Healthcare	6.12	14.2	6.24	14.5
Employment	0.63	1.47	0.65	1.51

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

Functions of the Government	**COFOG code**	**2023***	**2024***
		% of GDP	*% of GDP*
1. General public services	1	4.1	4.1
2. Defence	2	2.9	3.3
3. Public order and safety	3	1.8	1.9
4. Economic affairs	4	5.7	4.8
5. Environmental protection	5	0.6	0.6
6. Housing and community amenities	6	0.5	0.5
7. Health	7	6.1	6.2
8. Recreation, culture and religion	8	2.1	2.1
9. Education	9	6.1	6.2
10. Social protection	10	13.2	13.5
11. Total expenditure (=2. in Table 4.a)	**TE**	**43.1**	**43.1**

Source: Ministry of Finance.

5. Description of discretionary measures included in the draft budget

The discretionary measures that have an impact on state budget revenue and expenditure in 2024, have been compressed to 19 groups, that correspond to similar principles and objectives. Seven of them have an impact on state budget revenue, twelve of them affect state budget expenditure. The budget includes several revenue measures to improve the budget position, such as increase in environmental fees, penalty rates and state fees.

The measures that are expected to have biggest impact on budget revenues are related to changes to dividends, the timing of dividends and higher dividends from banks. According to the agreement made with the commercial banks, the corporate income tax on exceptional dividends of the financial sector has been increased by EUR 84 million. In addition, an additional dividend of State Forest Management Centre is expected to be paid because of increased profits that are supported by high timber prices. Decisions to increase environmental taxes are also major source of revenue in the national budget. Changing the oil shale mining fee rate, which is related to the world market price of heavy fuel oil, has the greatest impact on budget revenues among the environmental fees.

Expenditure measures are temporary in nature, and they are used to cover the priority areas for the State, like education, social protection, cyber security, internal security, and national defence. The investments made from the state budget has been reviewed, and opportunities have been found to allocate additional funds for the repair of state roads and the construction of the eastern border. Expenditure measures also include several expenditure saving measures with the aim to decrease spending of state budgetary institutions. However, in 2024 the cost-saving measures will be smaller in volume than cost-increasing measures, therefore the total of expenditure measures is -245,9 million euros. The expenditures of the government sector will start to decrease compared to the summer forecast because of discretionary measures from 2025 onwards.

Measures related to educational costs have a significant impact on compensation of employees. Educational costs that consist of measures like teachers' salary increase, the introduction of support for the survival of 6th grade schools and additional funding for Estonian-language education, amounts to 60,4 million euros in 2024. There is also planned an increase in the reserve of the Government of the Republic in the amount of 43 million to cover the costs related to Ukraine refugees, operational costs and investments of the State Fleet, additional European Peace Facility contributions and public transport subsidies.

Measures that are related to ICT expenditures will increase government gross fixed capital formation by almost 18 million in 2024. The main purpose of these investments is strengthening the country's IT infrastructure, increasing cyber security, and creating IT solutions for the payment of social benefits. Opportunities have also been found to cover certain investments, such as development of sustainable public transport, from CO_2 funds reducing expenditures by almost EUR 50 million.

The discretionary measures taken by Central Government in table 5b don't include additional financing needs of the Estonian Health Insurance Fund, the introduction of support for the survival of 6th grade schools and local government expenses incurring at the expense of additional personal income tax.

Table 5.a. Discretionary measures taken by General Government

List of measures	Detailed description	Target (exp / rev component) ESA Code	Accounting principle	Adoption status	Budgetary impact 2023* % of GDP	Budgetary impact 2024* % of GDP
1) Changes to dividends and the timing of dividends	Income tax on exceptional dividends of the financial sector. Additional dividends and the deferral of income tax on dividends.	Revenue, D4, D5	Accrual method	Draft is not required	-0.01	0.31
2) Environmental charges	Changing the oil shale mining fee rate, air and water pollution charges, deforestation fee, renewal of the system of fees for recreational and professional fishing licences, changing the oil shale mining fee rate, amendments to the Earth's Crust Act, increase in the rates of oil shale fly ash, hearth ash and semi-coke	Revenue, D2, D4	Accrual method	Submitted with budget	0.02	0.11
3) Improving the efficiency of the tax administration	More efficient collection of taxes	Revenue, D2, D5	Accrual method	Draft is not required	0.00	0.02
4) Improving the efficiency of the tax administration	Arrangement of e-commerce taxation in accordance with the EU directive	Revenue, D2	Accrual method	Submitted with budget	0.00	0.01
5) Increasing amounts of the fines, state fees and road usage fees	Increasing amounts of the fines and updating state fees as currently valid rates of state fees do not correspond to the expenses incurred by the state and the value of the operations themselves. Increase of road usage fees aimed at improving the energy efficiency of trucks and reducing the negative environmental impact by applying	Revenue, D2, D4, D7	Accrual method	Submitted with budget	0.00	0.03

	more of the "polluter pays" principle.					
6) Other income	Sale of state-owned real estate; increasing the rental income of the Land Board; continuation of the 50% reduction in waterway charges	Revenue, Other	Accrual method	Draft is not required	0.00	0.03
7) Tax revenues from cost measures	Income taxes, indirect taxes and social taxes on expenditure measures	Revenue, D2, D5, D61	Accrual method	Draft is not required	0.00	0.13
8)Culture and Sports	Development of Estonian film culture and increasing the author's compensation fund, supporting major sports events and increase in the capacity of the Film Estonia support mechanism for foreign-funded films produced in Estonia	Expenditure, D7, P51	Accrual method	Draft is not required	0.00	-0.02
9) Educational costs and funding for research & development	Increasing the teacher salary differentiation fund to 20%; the introduction of support for the survival of 6th grade schools; additional funding for Estonian-language education; teachers' salary increase; doubling of need-based study allowance to improve access to higher education; increasing the base budget for school scheme aid; additional funding for research & development and innovation	Expenditure, D1, D62, P2	Accrual method	Draft is not required	0.00	-0.15
10) Expenditure savings	The cost savings measures of state budgetary institutions	Expenditure, D1, D41, D62, D7, D9, P2, P51	Accrual method	Draft is not required	0.00	0.09
11) Health care	Additional funding for treatment of children with rare diseases and treatment started in	Expenditure, D1, D62, P2	Accrual method	Draft is not required	0.00	0.01

	childhood; additional funding for the collective agreement for healthcare workers; introducing allowance for nurses returning to the healthcare system; additional financing needs of the Estonian Health Insurance Fund; additional funding for mental health services					
12) ICT expenditures	Strengthening the country's IT infrastructure and increasing cyber security; increasing IT investments; additional funding for the Register of Buildings and the State Cloud; additional financing of IT solutions related to the payment of social benefits; creation of the registry of infertility treatment	Expenditure, D1, P2, P51	Accrual method	Draft is not required	0.00	-0.09
13) Implementation costs and increase in operating expenses	Costs of implementing the measures; additional costs arising from legislation; the increase in operating costs of constitutional institutions	Expenditure, D1, P2, P51	Accrual method	Draft is not required	0.00	-0.03
14) Internal and external security	Increasing the cost of hosting NATO allies; comprehensive national defense investment plan; Contributions to the European Peace Facility; additional funding for the construction of the eastern border; additional funding for internal security; creating additional student places for police training	Expenditure, D1, D7, P2, P51	Accrual method	Draft is not required	-0.06	-0.09

15) Other costs	Increasing the reserve (Ukrainian refugees, operational costs and investments of the State Fleet, European Peace Facility contributions, public transport subsidies, ice breaking, eligible VAT); continuing with organic food in kindergartens and schools; increasing the base funding of the national fleet; additional funding for state special plans; development of sustainable public transport: contribution to the establishment of Rail Baltic; bilateral assistance to Ukraine; investments made at the expense of the funds received from the sale of CO2; local government expenses incurring at the expense of additional personal income tax	Expenditure, D1, D7, D9, P2, P51	Accrual method	Draft is not required	0.00	-0.25
16) Public transport and infrastructure investments	Change in the cost of repairing and maintaining national roads; additional funding for public transport	Expenditure, D1, P2, P51	Accrual method	Draft is not required	0.00	0.09
17) Reduction of interest expenses	Interest expense on additional debt	Expenditure, D41	Accrual method	Draft is not required	0.00	0.01
18) Shifting costs between years	Shifting costs between years	Expenditure, D1, P2, P51	Accrual method	Draft is not required	0.06	-0.06

19) Social protection	Compensation for sickness and care days of a parent returning to work from childcare leave on the basis of his previous income; additional funding of the provision of special care services; transferring the survivor's pension to the family benefits system; implementation cost of income support	Expenditure, D1, D62, P2	Accrual method	Draft is not required	0.00	-0.03
Total revenue measures					**0.00**	**0.63**
Total expenditure measures					**-0.01**	**-0.51**
TOTAL					**0.00**	**0.12**

Source: Ministry of Finance.

Table 5.b. Discretionary measures taken by Central Government

List of measures	Detailed description	Target (exp / rev component) ESA Code	Accounting principle	Adoption status	Budgetary impact	
					2023*	2024*
					% of GDP	% of GDP
1) Changes to dividends and the timing of dividends	Income tax on exceptional dividends of the financial sector. Additional dividends and the deferral of income tax on dividends.	Revenue, D4, D5	Accrual method	Draft is not required	-0.01	0.31
2) Environmental charges	Changing the oil shale mining fee rate, air and water pollution charges, deforestation fee, renewal of the system of fees for recreational and professional fishing licences, changing the oil shale mining fee rate, amendments to the Earth's Crust Act, increase in the rates of oil shale fly ash, hearth ash and semi-coke	Revenue, D2, D4	Accrual method	Submitted with budget	0.02	0.11
3) Improving the efficiency of the tax administration	More efficient collection of taxes	Revenue, D2, D5	Accrual method	Draft is not required	0.00	0.02
4) Improving the efficiency of the tax administration	Arrangement of e-commerce taxation in accordance with the EU directive	Revenue, D2	Accrual method	Submitted with budget	0.00	0.01
5) Increasing amounts of the fines, state fees and road usage fees	Increasing amounts of the fines and updating state fees as currently valid rates of state fees do not correspond to the expenses incurred by the state and the value of the operations themselves. Increase of road usage fees aimed at improving the energy efficiency of trucks and reducing the negative environmental	Revenue, D2, D4, D7	Accrual method	Submitted with budget	0.00	0.03

	impact by applying more of the "polluter pays" principle.					
6) Other income	Sale of state-owned real estate; increasing the rental income of the Land Board; continuation of the 50% reduction in waterway charges	Revenue, Other	Accrual method	Draft is not required	0.00	0.03
7) Tax revenues from cost measures	Income taxes, indirect taxes and social taxes on expenditure measures	Revenue, D2, D5, D61	Accrual method	Draft is not required	0.00	0.13
8)Culture and Sports	Development of Estonian film culture and increasing the author's compensation fund, supporting major sports events and increase in the capacity of the Film Estonia support mechanism for foreign-funded films produced in Estonia	Expenditure, D7, P51	Accrual method	Draft is not required	0.00	-0.02
9) Educational costs and funding for research & development	Increasing the teacher salary differentiation fund to 20%; the introduction of support for the survival of 6th grade schools; additional funding for Estonian-language education; teachers' salary increase; doubling of need-based study allowance to improve access to higher education; increasing the base budget for school scheme aid; additional funding for research & development and innovation	Expenditure, D1, D62, P2	Accrual method	Draft is not required	0.00	-0.15
10) Expenditure savings	The cost savings measures of state budgetary institutions	Expenditure, D1, D41, D62, D7, D9, P2, P51	Accrual method	Draft is not required	0.00	0.09
11) Health care	Additional funding for treatment of children with rare diseases and treatment started in	Expenditure, D1, D62, P2	Accrual method	Draft is not required	0.00	0.01

	childhood; additional funding for the collective agreement for healthcare workers; introducing allowance for nurses returning to the healthcare system; additional funding for mental health services					
12) ICT expenditures	Strengthening the country's IT infrastructure and increasing cyber security; increasing IT investments; additional funding for the Register of Buildings and the State Cloud; additional financing of IT solutions related to the payment of social benefits; creation of the registry of infertility treatment	Expenditure, D1, P2, P51	Accrual method	Draft is not required	0.00	-0.09
13) Implementation costs and increase in operating expenses	Costs of implementing the measures; additional costs arising from legislation; the increase in operating costs of constitutional institutions	Expenditure, D1, P2, P51	Accrual method	Draft is not required	0.00	-0.03
14) Internal and external security	Increasing the cost of hosting NATO allies; comprehensive national defense investment plan; Contributions to the European Peace Facility; additional funding for the construction of the eastern border; additional funding for internal security; creating additional student places for police training	Expenditure, D1, D7, P2, P51	Accrual method	Draft is not required	-0.06	-0.09

15) Other costs	Increasing the reserve (Ukrainian refugees, operational costs and investments of the State Fleet, European Peace Facility contributions, public transport subsidies, ice breaking, eligible VAT); continuing with organic food in kindergartens and schools; increasing the base funding of the national fleet; additional funding for state special plans; development of sustainable public transport: contribution to the establishment of Rail Baltic; bilateral assistance to Ukraine; investments made at the expense of the funds received from the sale of CO_2	Expenditure, D1, D7, D9, P2, P51	Accrual method	Draft is not required	0.00	-0.25
16) Public transport and infrastructure investments	Change in the cost of repairing and maintaining national roads; additional funding for public transport	Expenditure, D1, P2, P51	Accrual method	Draft is not required	0.00	0.09
17) Reduction of interest expenses	Interest expense on additional debt	Expenditure, D41	Accrual method	Draft is not required	0.00	0.01
18) Shifting costs between years	Shifting costs between years	Expenditure, D1, P2, P51	Accrual method	Draft is not required	0.06	-0.06

19) Social protection	Compensation for sickness and care days of a parent returning to work from childcare leave on the basis of his previous income; additional funding of the provision of special care services; transferring the survivor's pension to the family benefits system; implementation cost of income support	Expenditure, D1, D62, P2	Accrual method	Draft is not required	0.00	-0.03
Total revenue measures					**0.00**	**0.63**
Total expenditure measures					**-0.01**	**-0.51**
TOTAL					**0.00**	**0.12**

Source: Ministry of Finance.

6. Links between the draft budgetary plan and country specific recommendations

In this chapter information is presented on how the measures in the draft budget plan take into account the country-specific recommendations (CSRs).[5]

Table 6.a. Country-specific recommendations

CSR no	List of measures	Description of direct relevance
1.	Wind down the energy support measures in force by the end of 2023, using the related savings to reduce the government deficit. Should renewed energy price increases necessitate support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings.	Energy compensation measures for households, including the electricity, came to an end in 31. March 2023. There were no energy compensation measures for companies. Electricity stock price has been falling in Estonia, being the lowest of the last 2 years in May '23. This will relieve cost pressures of the companies and enables the inflation to follow the downward trend. However, it should be noted that the official CPI statistics refer to the price of the universal electricity service, imposed at a fixed rate. Universal service, i.e. price ceiling (production price 154,08 EUR/MWh) is available for electricity until 30. April 2026 both for households and SMEs. However, actual market price is significantly lower, so the actual need for this specific measure is insignificant. The measure does not have a direct effect on State Budget expenditures.
	Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 4.9%.	The new Government has set a goal to ensure prudent fiscal policy and has already made decisions of cost savings and tax rises in 2024. In 2024, structural balance remains on the level of 1.2% of GDP, which means the nominal deficit will decrease by 0,4% of GDP to 2,9%. Increase of nationally financed net primary expenditure according to our own initial calculations is below 4,9% in 2024.
	For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position.	The Government has additionally declared plans of revision of expenditures and revenues beyond 2024. Beyond 2024 General Government structural budget deficit of 1.0% of GDP is targeted. In the following years the deficit is set to stay on the same level. The direct fiscal impulse to the economy in 2023 is expected to be negative.
	Preserve nationally financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitions.	Due to the negative effects of the war against Ukraine, rise of energy prices and inflation and supply disruptions in 2022 the government decided to propose amending the RRP, to ensure effective use of RRF grants in the changed circumstances. The changes, together with the additional REPowerEU chapter were adopted in June 2023. The Estonian RRP already included more investments to digital transition than the minimal requirement and all the changes in the modified RRP were to increase the investments to green transition, with the only exception being the addition of Viljandi hospital.

[5] https://www.consilium.europa.eu/en/press/press-releases/2023/06/16/european-semester-2023-country-specific-recommendations-agreed/
https://data.consilium.europa.eu/doc/document/ST-11135-2023-REV-1/en/pdf

2.	Proceed with the steady implementation of its recovery and resilience plan including its REPowerEU chapter. Proceed with the swift implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.	*Recovery and Resilience Plan* Estonia submitted its Recovery and Resilience Plan (RRP) on 18 June 2021, the European Commission released its assessment of the plan on 5 October 2021 and the European Council adopted the first Implementing Decision on 3 November 2021. On 30 June 2022, the Estonian Recovery and Resilience Fund (RRF) allocation was adjusted downwards from 969,3 MEUR to 863,18 MEUR. At the same time, the geopolitical context had changed considerably – in 2022, Estonia's economy was strongly hit by the rise of energy prices, negative effects from the war in Ukraine and supply disruptions. Due to that initial RRP was partially no longer achievable due to objective circumstances, so Estonian Government made the first decisions regarding exclusion of investments from the RRP on the 30 June 2022 and made a reasoned request to the Commission to make a proposal to amend the Council Implementing Decision. On 26 September 2022, Estonia started the unofficial negotiations regarding the RRP amendment with the European Commission and included REPowerEU chapter on 13 January 2023. On 9 March 2023, Estonia submitted officially an updated Recovery and Resilience Plan, and the European Council adopted its implementing decision on 16 June 2023. The updated plan amounts to EUR 953 184 800 in the form of non-repayable support. The updated RRP covers 17 reforms under RRF and 1 under REPowerEU and 28 investments (26 in RRF and 2 under REPowerEU), with 133 milestones and targets (76 milestones, 57 targets). Estonia submitted its first payment request under the Recovery and Resilience Facility to the European Commission on 30 June 2023. The request concerns 28 milestones and 1 target of the first and second instalments of the non-repayable support. The payment request amounts to EUR 285 955 440. On 22 September 2023 European Commission made a positive preliminary assessment of the satisfactory fulfilment of all 28 milestones and one target, which was approved by the European Council on 5 October 2023. Currently Estonian RRP is in an active implementation phase. *Cohesion Policy Programmes* In October 2022 European Commission endorsed Estonia's operational programme for 2021-2027 cohesion policy funds covering EUR 3.37 billion to support economic, social and territorial cohesion. Currently Estonia is in an active launching phase of the programme- so far 66% (2.2 bln) of the total 2021-2027 cohesion policy envelope is covered with legal acts and ready for use, 29% (approx. 1 bln) of the funds already committed and 2% (51 mln) disbursed. So far, the implementation progress has been most successful in Cohesion fund and PO3 „More connected Estonia" where 66% of the total support is already covered with projects.
3.	Strengthen social protection by extending the coverage of unemployment benefits, in particular for those in work for short spells and in non-standard forms of work, in order to address, inter alia, old-age	The Ministry of Economic Affairs and Communication is currently developing an analysis and proposals regarding the possibilities of expanding unemployment insurance coverage for new forms of work (members of management and control bodies, owners of business accounts, self-employed persons). The discussions in the government will follow after the analysis

	poverty. Improve access to and the affordability of healthcare and long-term care, in particular by ensuring their sustainable funding.	is completed. The government's action plan indicates that the current government has a consensus-based goal to find a solution. The Ministry of Social Affairs is currently developing an analysis of healthcare financing with the aim of proposing alternatives for sustainable and comprehensive financing of healthcare. The discussions in the government start at the end of this year (November-December 2023). The care reform entered into force on 1 July 2023. The following measures support the implementation of the reform: • To be able to finance 24-hour care according to the new rules and improve access to long-term care, the state allocates funds to municipalities – EUR 39.2 million in 2023 and EUR 57.9 million from 2024. When distributing funds, the number of elderly people living in each municipality is taken into account. From 2024, financial resources will be given to the revenue base of local governments. Providing a revenue base ensures that over the years the resources provided by the state will grow with economic growth. In 2024 EUR 7.7 million of total funds will be directed to the equalisation fund to equalise the incomes of municipalities with different financial capacities. The use of funds is flexible, local governments may use the right of discretion to find most effective solutions in the organisation of LTC in their areas. • On 01.07.2023 the decree of the Minister of Social Protection on establishing minimum standards 24-hour general care service entered into force (with the transition period for staff requirements until 1.07.2026). The decree establishes requirements for the content of the 24-hour general care service provided outside the home, including the activities necessary to achieve the goal of the service, and requirements for the number of employees directly providing the 24-hour general care service. • The decree of Minister of Social Protection on establishing minimum standards on home care service was signed on 29.06.2023 and will have transition period until 1 January 2025 to give local governments enough time to meet the established requirements. The decree establishes specified requirements for the content of the home service, including the activities necessary to achieve the purpose of the service. • The 4th phase of the integrated care initiative in 2023-2025 involves 8 areas of Estonia, including 6 counties aims to expand the regional network to a county-wide, keep the functioning network in operation and find solutions to regional challenges in the field of social and health care. In parallel, work is being done on supporting issues of data exchange, ICT solutions, introduction of evaluation instruments, etc. At the end of October 2023, the report of the RISK project will be launched, which will provide clear points that should be proceeded with in order to make health and social cooperation more effective. In the integrated care initiative, launched in 2018 with the support from the European Commission's DG REFORM, aims to contribute to the development of a more integrated and

		person-centered provision of social, medical, and vocational support services to people with disabilities and olde people with high support needs in Estonia.
4.	Reduce overall reliance on fossil fuels, accelerate the deployment of renewable energy sources, including by strengthening the domestic electricity grid capacity. Ensure sufficient capacity of electricity interconnections to increase the security of supply and continue the synchronisation with the Union electricity grid. Strengthen energy efficiency through new financing and support measures to meet the targets of the long-term renovation strategy. Continue efforts to increase the share of sustainable transport by electrifying the rail network and through taxation that incentivises the gradual renewal of the vehicle stock towards zero or low-emission vehicles. Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.	According to the amended law, Estonia must produce at least 100% of domestic consumption of electricity from renewable sources by 2030. To facilitate this, some 1 TWh capacity auctions will be held to promote the development of renewable electricity. In addition to that, further pieces of legislative amendments have been sent to the Government for approval to fast-track the developments of renewable electricity production. As for the grid developments, Estonian RRP foresees some 60 M€ to strengthen the transmission and distribution grid and allow for some additional RES to be connected to the grid. In addition to that, the Government has decided to rise another 13 M€ to strengthen the distribution system. The Baltic States have also agreed to speed up the process of synchronizing the electricity system with the system of Central-Europe from the end of 2025 to the beginning of 2025 due to the growing threat from forced desynchronization from Russian electricity system. Estonia is set to use a significant amount from the structural funds to co-finance investments into energy efficiency in housing. To boost the effect of high prices in reducing the energy consumption, the Government is giving out constant messages and tips to reduce consumption. Estonia is extending the electrified sections of the railway to Narva and Tartu. Has signed contracts for the purchase of trains for EUR 150 million to service the new electrified railway lines. About EUR 290 million will be spent on railway electrification. The construction period of the project is 2023-2026. The construction of the Rail Baltica railway has also entered the intensive construction stage. We support cycling infrastructure in the cities of Tallinn, Tartu and Pärnu in the amount of EUR 36 million as part of the promotion of a sustainable multi-modal urban mobility environment. In addition, 4 million in the surrounding areas of these cities. 16 million will be allocated to Tallinn and Tartu as part of the priority for mobility hubs. As part of the tram traffic priority, EUR 40 million will be allocated to the city of Tallinn. The projects are financed with the support of the European Regional Development Fund. At least 30% of the municipal contribution will be added to the projects. In addition, measures are being developed for the electric buses, the accessibility of the bus stops, and the alternative fuel infrastructure near apartment buildings. Also, the plan is to introduce a motor vehicle registration and annual tax starting in 2025. Tax mostly depends on the CO_2 emission and registration mass of the vehicle, in order to direct people to make a more environmentally friendly choice when purchasing/using a vehicle and gradually move towards a vehicle fleet with lower emissions. For the provision and acquisition of skills and competences needed for the green transition it is planned to carry out an analysis of vocational and higher education curriculums.

7. Divergence from the latest Stability Programme

Estonia's Stability Programme 2023 was based on the spring forecast of the Ministry of Finance. The forecast originates from the estimate of economic situation as of 6. April 2023. The 2024 State Budget and the State Budget Strategy for 2024-2027 are based on the summer economic forecast, published on 24. August 2023.

The summer forecast of the Ministry of Finance expects **real GDP** to decline by 2% in 2023 and to grow by 2.7% in 2024. The growth in GDP for 2023 and 2024 has been revised downwards in the summer forecast, compared to the estimates of -1.5% and 3%, respectively, in the spring forecast. When the spring forecast was compiled, economic sentiment of different economic sectors seemed to start to improve, but over the summer the sentiment deteriorated again. Also, the external demand has turned out to be weaker than expected. In the summer forecast, the recovery of the economy from the recession is expected to start later. However, nominal GDP is forecast to be higher than in the spring forecast as inflation and wage growth are expected to be quite fast.

HICP inflation forecast for 2023-2024 is 0.3 and 1.7 percentage points higher respectively compared to the Stability Programme. Slight upward revision for 2023 is related to food and energy prices, which are slowing down somewhat more slowly as expected before. Tax measures like hike in VAT rate and excise duty increases will push the inflation higher in 2024.

Labour market situation has remained stronger than expected in spring as the response to worsened economic conditions is delayed. Until summer, employment continued to increase as the reduction in jobs has been mitigated by faster turnover growth compared to wage costs. Most of the jobs have been lost in the manufacturing, construction, and transportation sectors. The deterioration of the economic situation gradually becomes apparent in labour market indicators and unemployment should start increasing this fall. Lower than expected unemployment rate and high inflation has led to persistent wage pressures. Wage growth rate in 2023 has been revised upwards and is now forecast to be only marginally lower than in 2022. In 2024. wage growth moderation is expected.

The general government budgetary position in 2023 has improved by 1.0% of GDP compared with the Stability Programme and is now expected to be in a deficit of 3.3% of GDP. The improvement is mainly due to higher tax revenues, which affect all levels of government. The general government nominal budget projection for 2024 has improved by about 1.3% of GDP compared to the Stability Programme.

In 2023, the **tax burden** forecast compared to the Stability Programme has been revised upwards by 0.2 pps to 33.3% of GDP. Tax revenues increased mainly because of direct taxes and social tax. Stronger than expected labour market performance despite of economic downturn has increased collection of PIT and social tax. Financial sector interest revenues and private sector higher profit distribution have increased CIT. In total GDP upward correction was lower than the tax revenues growth. In 2024, the tax burden has been revised upwards by 1.2 pps to 33,8% of GDP. In addition to direct taxes and social tax revenues upward correction the VAT rate increase rises revenues. Financial institutions agreed to distribute additional profits which increases CIT. Also better tax administration and expenditure measures tax content increases tax revenues in 2024.

Forecast of the general government debt has been decreased by 0.8% of GDP in 2023 and by 2.7% of GDP in 2024, compared to the forecast included in the Stability Programme due to higher projected tax receipts and improved budgetary position in this and next year.

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

	ESA code	2022	2023*	2024*
		% of GDP	*% of GDP*	*% of GDP*
General government structural balance (1/) target	B.9		B.9	
Stability Programme		-4.5	-2.0	-2.6
Draft Budgetary Plan		-0.8	-1.2	-1.2
Difference		3.7	0.8	1.4
General government structural balance projection at unchanged policies	B.9		B.9	
Stability Programme		-4.5	-2.0	-2.6
Draft Budgetary Plan (2/)		-0.8	-1.2	-1.3
Difference		3.7	0.8	1.3

1/ Budgetary position is targeted by structural balance.
2/ Actual (t-1) and summer forecast (t, t+1).
Source: Statistics Estonia, Ministry of Finance.

Table 7.b. Deviation from the last Stability Programme – net lending/net borrowing

	ESA code	2022	2023*	2024*
		% of GDP	*% of GDP*	*% of GDP*
General government net lending/ net borrowing target	B.9		B.9	
Stability Programme		-5.3	-4.3	-4.2
Draft Budgetary Plan		-1.0	-3.3	-2.9
Difference		4.3	1.0	1.3
General government net lending/ net borrowing projection at unchanged policies	B.9		B.9	
Stability Programme		-5.3	-4.3	-4.2
Draft Budgetary Plan (1/)		-1.0	-3.3	-2.9
Difference		4.3	1.0	1.3

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

Annex

Table 9. Table of the RRF impact on programme's projections

Revenue from RRF grants (% of GDP)							
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
RRF GRANTS as included in the revenue projections		0.006	0.342	0.493	0.834	0.497	0.132
Cash disbursements of RRF GRANTS from EU		0.404	0	0.641	0.600	0.284	0.448

Expenditure financed by RRF grants (% of GDP)							
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
TOTAL CURRENT EXPENDITURE		0.004	0.012	0.096	0.112	0.074	0.018
Gross fixed capital formation P.51g		0	0.006	0.194	0.322	0.110	0.027
Capital transfers D.9		0.002	0.047	0.202	0.400	0.314	0.088
TOTAL CAPITAL EXPENDITURE		0.002	0.052	0.396	0.722	0.424	0.115

Other costs financed by RRF grants (% of GDP)[1]							
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Reduction in tax revenue		0	0	0	0	0	0
Other costs with impact on revenue		0	0	0	0	0	0
Financial transactions		0	0.278	0	0	0	0

[1] *This covers costs that are not recorded as expenditure in national accounts*