



Brussels, 21.11.2023
C(2023) 9505 final

COMMISSION OPINION

of 21.11.2023

on the Draft Budgetary Plan of Estonia

{SWD(2023) 951 final}

(Only the Estonian text is authentic)

COMMISSION OPINION

of 21.11.2023

on the Draft Budgetary Plan of Estonia

(Only the Estonian text is authentic)

GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013¹ lays down provisions for enhanced monitoring of budgetary policies in the euro area, in order to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact 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, by 15 October, setting out the budgetary targets for the forthcoming year, and outlining the main aspects underlying the budgetary outlook for general government and its subsectors.
3. On 8 March 2023, the Commission adopted a Communication² providing fiscal policy guidance for 2024, which confirmed that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023.
4. On 26 April 2023, the Commission presented three legislative proposals³ to implement a comprehensive reform of the EU fiscal framework. The central objective of the proposals is to strengthen public debt sustainability, and to promote sustainable and inclusive growth through reforms and investments. In its proposals, the Commission aims at improving national ownership, simplifying the framework and moving towards a greater medium-term focus, combined with effective and more coherent enforcement. According to the Council Conclusions adopted on 14 March 2023, and on 27 October 2023⁴, the objective is to conclude the legislative work in 2023. As a new legal framework, based on the outcome of the ongoing economic governance review, is not yet in place, the current legal framework continues to apply. The fiscal component of the Spring 2023 country-specific recommendations included elements of the legislative proposals of 26 April 2023 that were consistent with the existing legislation.

¹ Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, (OJ L 140, 27.5.2013, pp. 11).

² Communication from the Commission to the Council, 'Fiscal policy guidance for 2024', 8.3.2023, COM(2023) 141 final.

³ Commission Proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, 26.4.2023, COM(2023) 240 final; Commission Proposal for a Council Regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, 26.4.2023, COM(2023) 241 final; Commission Proposal for a Council Directive amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, 26.4.2023, COM(2023) 242 final.

⁴ European Council meeting (26 and 27 October 2023) – Conclusions, EUCO 14/23.

5. As announced in its fiscal policy guidance for 2024⁵, the Commission will propose to the Council to open deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with the existing legal provisions. Member States were invited to take this into account when executing their 2023 budgets and preparing their Draft Budgetary Plans for 2024.
6. The Recovery and Resilience Facility⁶ provides financial support for the implementation of reforms and investments, notably to promote the green and digital transitions. The Facility also aims at increasing the resilience of the Union's energy system by reducing dependence on fossil fuels and diversifying energy supply at Union level ('REPowerEU objectives')⁷. The Facility will strengthen the resilience and potential growth of Member States' economies, which contributes to job creation and sustainable public finances. Part of this support takes the form of non-repayable financial support ("grants"), entailing a fiscal impulse financed by the Union. Together with cohesion policy funds and the Just Transition Mechanism, the Facility is supporting a fair and inclusive recovery in the EU, in line with the European Pillar of Social Rights.
7. Economic policy should continue to tackle the risks linked to high inflation and address long-term challenges. Despite declining, inflation in the euro area remains a key concern. It is essential that inflation continues to fall and that inflation expectations remain well anchored, with consistent monetary and fiscal policies, while remaining agile in the face of high uncertainty. In particular, emergency energy support measures taken to respond to the energy price shock should be wound down, using the related savings to reduce the government deficits, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, these should be targeted at protecting vulnerable households and firms, as well as be fiscally affordable and preserve incentives for energy savings. Furthermore, Member States should continue to preserve nationally financed public investment and ensure the effective absorption of grants under the Recovery and Resilience Facility and of other EU funds, in particular to foster the green and digital transitions.

CONSIDERATIONS CONCERNING ESTONIA

8. On 13 October 2023, Estonia submitted its Draft Budgetary Plan for 2024. On that basis and taking into account the Council Recommendation to Estonia of 14 July 2023⁸, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.
9. On 24 May 2023, the Commission adopted a report under Article 126(3) of the TFEU⁹. That report assessed the budgetary situation of Estonia, as the general

⁵ Communication from the Commission to the Council, 'Fiscal policy guidance for 2024', 8.3.2023, COM(2023) 141 final.

⁶ Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, (OJ L 57, 18.2.2021, p. 17).

⁷ Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

⁸ Council Recommendation on the 2023 National Reform Programme of Estonia and delivering a Council opinion on the 2023 Stability Programme of Estonia, OJ C 312, 1.9.2023, p. 49-57.

⁹ Report from the Commission, prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, 24.5.2023, COM(2023) 631 final.

government deficit in Estonia was planned to exceed 3% of GDP in 2023 in the 2023 Stability Programme. The report concluded that the deficit criterion as defined in the Treaty is not fulfilled by Estonia.

10. According to the Draft Budgetary Plan, Estonia's real GDP is projected to grow by 2.7% in 2024 (-2.0% in 2023), while HICP inflation is forecast at 4.8% in 2024 (9.6% in 2023). In turn, according to the Commission 2023 autumn forecast, Estonia's real GDP is projected to grow by 1.9% in 2024 (-2.6% in 2023), while inflation is forecast at 3.5% in 2024 (9.4% in 2023). The main differences between both sets of projections reflect much more optimistic view on investment in the Draft Budgetary Plan for both 2023 and 2024, more optimistic expectations on private consumption in the Draft Budgetary Plan in 2023, and weaker contribution of net exports in 2023 but stronger in 2024 in the Draft Budgetary Plan compared to the Commission's projections. The Commission's autumn forecast incorporated the flash real GDP data for the third quarter 2023, which indicated a continuation of the recession, and took into consideration that the early indicators pointed to a further weakness, which also explains a more pessimistic overall view in the Commission's forecast. The Draft Budgetary Plan forecasts higher inflation in 2024 than the Commission, in line with the more optimistic economic outlook. Overall, the macroeconomic scenario underpinning the budgetary projections in the Draft Budgetary Plan appears to be more favourable than the Commission's 2023 autumn forecast for 2024 (and 2023). Estonia complies with the requirement of Article 4(4) of Regulation (EU) No 473/2013, since the Draft Budgetary Plan is based on independently endorsed macroeconomic forecasts.
11. According to the Draft Budgetary Plan, Estonia's general government deficit is projected to decrease to 2.9% of GDP in 2024 (from 3.3% in 2023), while the general government debt-to-GDP ratio is set to increase to 20.9% at the end of 2024 (from 19.4% at the end of 2023). In turn, according to the Commission 2023 autumn forecast, Estonia's general government deficit is projected to decrease to 2.4% of GDP in 2024 (from 2.9% in 2023), while the general government debt-to-GDP ratio is set to increase to 20.5% at the end of 2024 (from 19.2% at the end of 2023). The main differences between the two sets of deficit projections reflect the relatively favourable budget execution data for the first half of 2023 and their carry-over into 2024. These were reflected in the Commission forecast but were not taken into account in the Draft Budgetary Plan. This leads to a more favourable fiscal projection in the Commission forecast in spite of the less favourable macroeconomic scenario.
12. Based on the Commission's estimates, the fiscal stance¹⁰ is projected to be contractionary at 0.9% of GDP in 2024, following an expansionary fiscal stance of 0.7% in 2023.
13. The Draft Budgetary Plan assumes that expenditure amounting to 0.8% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, compared to 0.5% of GDP in 2023. This is in line with the assumptions underlying the Commission 2023 autumn forecast. Expenditure

¹⁰ The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term (10-year) average potential GDP growth rate, expressed as a ratio to nominal GDP.

financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Estonia.

14. According to the Commission 2023 autumn forecast, taking into account the information contained in the Draft Budgetary Plan, the measures adopted to mitigate the economic and social impact of the increase in energy prices are planned to be fully wound down by the end of 2023. Moreover, the Draft Budgetary Plan includes several new revenue and expenditure measures for 2024 that are not directly related to energy price developments. On the revenue side, these include an increase in various environmental taxes and fees. In addition, the Draft Budgetary Plan presents as a measure the increase in corporate income tax revenues that is expected due to commercial banks handing out exceptionally more dividends than usual from previously accumulated capital and profits¹¹. On the expenditure side, several smaller measures are included in the Draft Budgetary Plan, such as extra funding for teacher's salaries, Estonian language education, public transport, IT investments and support for Ukrainian refugees. The aggregate fiscal impact of these measures is estimated by the Commission to be neutral in 2024 (revenues increase by 0.6% of GDP, expenditures increase by 0.6% of GDP) and most measures are expected to have a permanent impact on public finances.
15. On 14 July 2023, the Council recommended that Estonia ensure a prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure¹² in 2024 to not more than 4.9%. According to the Commission 2023 autumn forecast, Estonia's structural balance is projected at -0.6% of GDP in 2024, from -0.7% in 2023, thereby above the country's medium-term budgetary objective (MTO) of a structural balance of -0.75% of GDP¹³. Estonia is therefore assessed as being in line with what was recommended by the Council.
16. Moreover, the Council recommended that Estonia take action to wind down the emergency energy support measures in force as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Estonia should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings. According to the Commission 2023 autumn forecast, the net budgetary cost¹⁴ of energy support measures is projected at 0.3% of GDP in 2023 and 0% of GDP in both 2024 and 2025. The energy support measures are projected to be wound down by the end of 2023. This is in line with what was recommended by the Council.
17. In addition, the Council also recommended that Estonia preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions. According to the Commission 2023 autumn forecast, nationally financed public investment is projected to increase to 4.8% of GDP in 2024 (from 4.5% of

¹¹ The Commission does not classify such effects as discretionary fiscal measures.

¹² Net primary expenditure is defined as nationally financed expenditure net of discretionary revenues measures and excluding interest expenditure as well as cyclical unemployment expenditure.

¹³ Estonia lowered its MTO to a structural balance of -1% of GDP with the 2024 Draft Budgetary Plan. However, the minimum MTO allowed for Estonia is -0.75% of GDP, as commonly agreed at the EU level. Therefore, the current assessment uses the MTO value of -0.75.

¹⁴ The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

GDP in 2023) and, therefore, it is expected to be preserved. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to remain stable at 1.6% of GDP in 2024 (from 1.6% of GDP in 2023).

18. Furthermore, on 14 July 2023, the Council also recommended that, for the period beyond 2024, Estonia 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 Draft Budgetary Plan includes a short statement that the most recent Estonian medium-term state budget strategy plans to reduce the deficit over the medium term, reaching 1.2% of GDP by 2027. The Draft Budgetary Plan does not include detailed budgetary projections beyond 2024.

20. According to the Commission's forecast, Estonia is projected to achieve its MTO in 2024.

Moreover, according to the Commission 2023 autumn forecast, and taking into consideration the information included in Estonia's Draft Budgetary Plan, the emergency energy support measures are expected to be wound down by the end of 2023.

Furthermore, Estonia is expected to preserve nationally financed public investment. Estonia should also continue to ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds.

Overall, the Commission is of the opinion that the Draft Budgetary Plan of Estonia is in line with the Council Recommendation of 14 July 2023.

At the same time, the Commission projects Estonia's headline budget deficit at 2.4% of GDP in 2024, below the Treaty reference value of 3% of GDP, and the government debt ratio at 20.5% in 2024, below the Treaty reference value of 60% of GDP.

A comprehensive description of progress made with the implementation of the Council's country-specific recommendations will be included in the 2024 Country Report and assessed in the context of the Council's country-specific recommendations to be recommended by the Commission in spring 2024.

Table: Key macroeconomic and fiscal figures

	2022	2023		2024	
	Outturn	DBP	COM	DBP	COM
Real GDP (% change)	-0.5	-2.0	-2.6	2.7	1.9
HICP inflation (%; annual average)	19.4	9.6	9.4	4.8	3.5
General government balance (% of GDP)	-1.0	-3.3	-2.9	-2.9	-2.4
Primary balance (% of GDP)	-0.9	-2.8	-2.4	-2.3	-1.9
General government gross debt (% of GDP; at end-year)	18.5	19.4	19.2	20.9	20.5
	COM	COM		COM	
Fiscal stance (*) (% of GDP)	0.9	-0.7		0.8	
Fiscal adjustment (**) (% of GDP)	0.7	-0.7		0.8	
Change in total net budgetary cost of energy support measures (***) (% of GDP)	-0.7	-0.6		-0.3	
Growth in net nationally financed primary expenditure (% change) (A)				4.2	
Recommended maximum growth rate of net nationally financed primary expenditure (****) (% change) (B)				4.9	
Difference from recommended growth in net nationally financed primary expenditure (pps.) (B-A)				0.7	

Notes:

(*) Change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures (and COVID-19 pandemic-related temporary emergency measures), excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate. A negative (positive) sign indicates an excess (a shortfall) of net primary expenditure growth over medium-term potential GDP growth, corresponding to an expansionary (a contractionary) fiscal stance.

(**) Change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures (and COVID-19 pandemic-related temporary emergency measures), excluding one-off and cyclical unemployment expenditure, as well as expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate. A negative (positive) sign indicates an excess (a shortfall) of net nationally financed primary expenditure growth over medium-term potential GDP growth, corresponding to an expansionary (a contractionary) fiscal adjustment.

(***) Energy support measures less revenue from new taxes and levies on windfall profits by energy producers.

(****) According to the Council Recommendation ‘on the 2023 National Reform Programme of Estonia and delivering a Council opinion on the 2023 Stability Programme of Estonia’, (OJ C 312, 1.9.2023, p. 49).

(*****) Excess in growth of net nationally financed primary expenditure over the recommended maximum growth rate, expressed as a percentage of GDP.

‘DBP’ 2024 Draft Budgetary Plan, ‘COM’ Commission 2023 autumn forecast.

Done at Brussels, 21.11.2023

For the Commission
Paolo GENTILONI
Member of the Commission