RAHANDUS-
MINISTEERIUM
MINISTRY of FINANCE of the REPUBLIC of ESTONIA

2021 Draft Budgetary Plan of Estonia

Tallinn, 15. October 2020

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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.

This spring, due to the COVID-19 pandemics and emergency situation, Estonia submitted a no policy change Stability Programme to the Council and the Commission. Preparation of the State Budget Strategy for the next four years was postponed to autumn and it was done at the same time with the draft 2021 State Budget. **The draft 2020 State Budget with explanatory memorandum and State Budget Strategy were approved on 29 September in the meeting of the Government and on 25 September the draft State Budget was given for proceeding to Parliament.**

The draft 2021 State Budget of the Republic of Estonia was prepared at the same time with the State Budget Strategy 2021–2024. Planned activities take into account the Government's Action Programme and The European Commission and the Council recommendations[1] (given according to the Stability Programme and Estonia's 2020 Competitiveness plan). In the formulation of the fiscal policy, the Stability and Growth Pact requirements on the budgetary policy of the EU Member States is being respected.

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[1] Estonia's country-specific recommendations:

(1) In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Improve the accessibility and resilience of the health system, including by addressing the shortages of health workers, strengthening primary care and ensuring the supply of critical medical products.

(2) Strengthen the adequacy of the social safety net, including by broadening the coverage of unemployment benefits.

(3) Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on digitalisation of companies, research and innovation, clean and efficient production and use of energy, resource efficiency, and sustainable transport, contributing to a progressive decarbonisation of the economy. Support the innovation capacity of small and medium-sized enterprises, and ensure sufficient access to finance.

(4) Step up the efforts to ensure effective supervision and enforcement of the anti-money laundering framework.

More detailed explanations for the country-specific recommendations and accompanying analysis can be found from European Commission's website:
Activities to comply with the recommendations of European Commission are published annually: https://www.riigikantselei.ee/en/supporting-government/national-reform-programme-estonia-2020.

In 2021, Estonia's general government structurally adjusted budgetary position is planned in a deficit of 6.6% of GDP. In 2020 and 2021, the escape clause will apply according to the SGP. From 2022, the requirement of the Estonian State Budget Act to improve the structural budgetary position at least by 0.5% of GDP will be applied again. The MTO remains at -0.5% of GDP.

1. Macroeconomic forecast

The Draft 2021 State Budget of the Republic of Estonia is based on the summer forecast of the Ministry of Finance (MoF), published on 7 September 2020. External assumptions of the forecast were fixed in late August 2020. Economic forecasts of the Ministry of Finance are public and can be found from the web page of the ministry (https://www.rahandusministeerium.ee/et/riigieelarve-ja-majandus/majandusprognoosid).

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Currently, medium-term economic development is mostly determined by the spread of the coronavirus, which means that uncertainty surrounding the growth prospects is much higher than usual. The main scenario of the forecast presumes that the spread of COVID-19 will be taken under control by summer 2021 and there will be no more non-economic restrictions for the recovery.

According to the baseline scenario **Estonia's gross domestic product** will decrease by 5.5% this year and grow by 4.5% next year, remaining at the end of 2021 about 1% below the end-2019 level. Economic growth is expected to recover in the spring next year, together with an increase in demand. GDP growth should be mainly supported by export in the coming year, which is growing in line with external demand. At the same time, domestic demand should increase through improved business and consumer confidence. This scenario assumes that national policies will prevent a significant drop in demand in economic sectors not directly affected by the virus, and the recession will not become widespread. GDP will continue to recover in 2022, but the growth rate is expected to slow to 3.5%. In 2023-2024, Estonia's economy is forecast to grow by an average of 2.7% per annum, supported both by export and domestic demand.

In 2020, **labour income** decline is expected to remain moderate at around 4%, which is supported by wage subsidy scheme. In 2021, the number of employed persons should continue falling, wage growth stops, and annual unemployment rate reaches 8%. Disposable income from labour and social transfers in 2020 are just below 2019 level, as pensions rose by 11% this April. Disposable income growth in 2021 is forecast to remain marginal as no wage bill growth nor pension rise is expected. Consumer prices decline by 0.2% this year thanks to lower raw materials' prices, excise cuts and cheaper services.

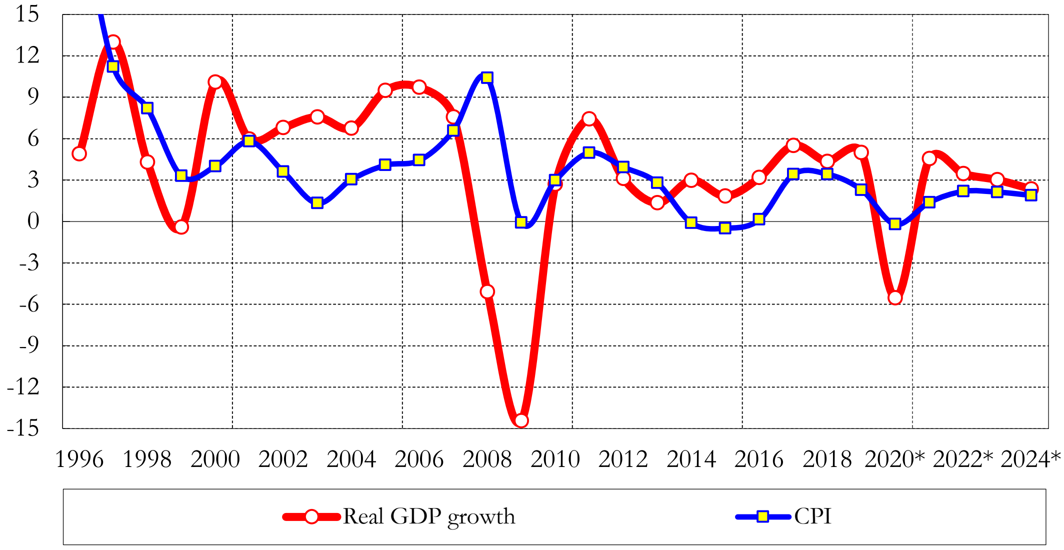
Private consumption will decrease by 5% in 2020 due to declining income, but also because of government imposed restrictions and raising savings rate due to elevated uncertainty. Indeterminate economic prospects curb private investment, which cannot be fully compensated by government support measures. Aggregate decline in investment will be 10%, but this follows strong growth in 2019. Public investment will give an increasing contribution to investment growth until 2023.

Exports is following the dynamics of foreign demand, which is an important cornerstone due to the large share of export-oriented industry in the economy. As a result of the pandemics, tourism services are in deep recession and driving the decline of services exports in this year. At the same time the decline of goods exports has turned to be smaller than expected. Exports of goods and services will decline by 8.5% and in some sectors longer recovery period should be considered. As a result of the crisis, **current account** surplus will turn to be the biggest of the history, reaching over 4% of GDP.

Figure 1

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

(per cent)

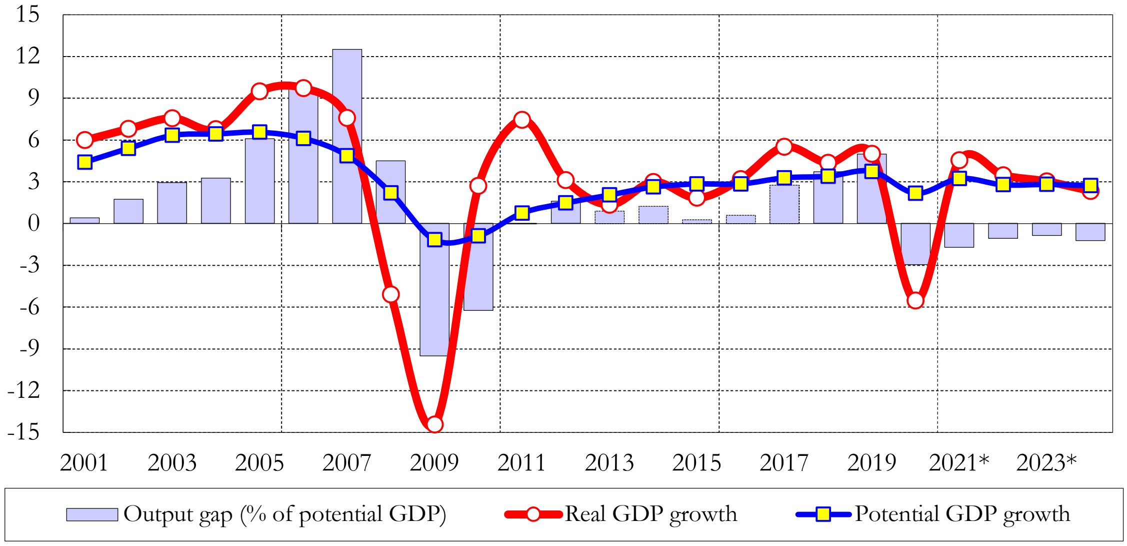


Source: Statistics Estonia, Ministry of Finance.

Figure 2

Development of potential GDP and output gap

(per cent)



Source: Statistics Estonia, Ministry of Finance.

Table 0.i) Basic assumptions

	2019	2020*	2021*
Short-term interest rate (annual average)	-0.4	-0.4	-0.5
Long-term interest rate (annual average)	-0.2	-0.4	-0.4
USD/€ exchange rate (annual average)	0.893	0.881	0.850
Nominal effective exchange rate	0.0	2.0	0.4
World excluding EU, GDP growth	3.0	-4.2	5.3
Eurozone GDP growth	-8.0	5.7	3.2
Growth of relevant foreign markets	2.2	-9.0	6.0
World import volumes, excluding EU	0.1	-12.0	8.0
Oil prices (Brent, USD/barrel)	64.3	42.3	47.5

Source: Ministry of Finance.

Table 1.a. Macroeconomic prospects

		2019 Level	2019 rate of change	2020 rate of change	2021 rate of change
1. Real GDP	B1*g	24789	5.0	-5.5	4.5
of which					
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth (1/)		–	–	–	–
2. Potential GDP			5.0	-2.9	-1.7
contributions:					
- labour			0.3	-0.4	0.5
- capital			1.5	1.0	1.1
- total factor productivity			1.9	1.6	1.7
3. Nominal GDP	B1*g	28112.4	8.4	-5.6	6.4
Components of real GDP					
4. Private final consumption expenditure	P.3	12375.6	3.3	-4.9	2.8
5. Government final consumption expenditure	P.3	4457.1	3.0	0.8	0.3
6. Gross fixed capital formation	P.51	6604.4	11.0	-10.1	5.1
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	416.5			
8. Exports of goods and services	P.6	19268.2	6.2	-8.5	5.8
9. Imports of goods and services	P.7	18234.0	3.7	-10.5	6.4
Contributions to real GDP growth					
10. Final domestic demand			4.9	-4.9	2.7
11. Changes in inventories and net acquisition of valuables	P.52 + P.53		-0.6	-1.8	1.9
12. External balance of goods and services	B.11		2.0	1.0	-0.1

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 forecast.

Source: Statistics Estonia, Ministry of Finance.

Table 1.b. Price developments

	ESA code	2019 *level 2010=100*	2019 rate of change	2020* rate of change	2021* rate of change
1. GDP deflator		134.7	3.2	-0.1	1.7
2. Private consumption deflator		126.2	2.5	-0.4	1.6
3. HICP		125.7	-0.4	1.4	2.3
4. Public consumption deflator		154.3	1.3	2.0	3.7
5. Investment deflator		124.1	-2.1	0.2	2.1
6. Export price deflator (goods and services)		113.6	-1.9	1.5	1.7
7. Import price deflator (goods and services)		110.2	-2.3	1.1	1.7

Source: Statistics Estonia, Ministry of Finance.

Table 1.c. Labour market developments

	ESA code	2019 *Level*	2019 *rate of change*	2020* *rate of change*	2021* *rate of change*
1. Employment, persons		671.3	1.0	-2.9	-0.3
2. Employment, hours worked			1.0	-2.9	-0.3
3. Unemployment rate (%)		31.3	4.4	7.5	8.0
4. Labour productivity, (real GDP per employed person)		36.9	4.0	-2.7	4.8
5. Labour productivity, hours worked			4.0	-2.7	4.8
6. Compensation of employees	D.1	13785.1	10.6	-2.7	1.0
7. Compensation per employee		20.5	9.5	0.2	1.3

Source: Statistics Estonia, Ministry of Finance.

Table 1.d. Sectoral balances

	ESA code	2019 *% of GDP*	2020* *% of GDP*	2021* *% of GDP*
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	3.8	5.9	5.8
of which:				
- balance on goods and services		4.1	5.5	5.4
- balance of primary incomes and secondary incomes		-1.4	-1.2	-1.4
- capital account		1.1	1.6	1.8
2. Net lending/net borrowing of the private sector	B.9			
3. Net lending/net borrowing of general government	B.9	0.1	-6.6	-6.7
4. Statistical discrepancy		-0.3	-	-

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. A preliminary version of the forecast will be discussed with the forecasting team of Bank of Estonia. Before finalisation of the forecast of the Ministry of Finance, its main assumptions and results will be 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. There are approximately ten institutions taking part from this seminar. 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. On the basis of this it is easy to be convinced of systemic inducement by some forecasters.

Changes to the framework of co-ordination of economic and fiscal policies of EU Member States provide the creation of independent fiscal councils in all euro area member states, which monitor the accordance of fiscal policy to fiscal rules and assess the need to use the correction mechanisms implemented in the framework. Estonia's Fiscal Council, which is attached to the Central Bank, was established in 2014. According to the Treaty of the Fiscal Council, it must provide an assessment of government's economic and fiscal forecast, medium-term budgetary strategy and of achievement of the structural budget balance objective.

The opinion of the Fiscal Council on the summer 2020 economic forecast of the Ministry of Finance on 21.09.2020 says:[2]

- „The Fiscal Council finds that the summer economic forecast 2020 of the Ministry of Finance is a suitable basis for preparing the state budget for next year and the budget strategy for next four years. The uncertainty that surrounds the economic forecast is larger than usual though."
- However, the Council sees some fiscal risks in the medium-term: "The Fiscal Council considers that the fiscal deficit in 2021 should only exceed 3% of GDP if it does so because of the weak economic cycle and the additional spending in response to the coronavirus crisis. The forecast indicators from the ministry do not justify the fiscal deficit exceeding the 3% limit in 2022 in the opinion of the Fiscal Council, and in 2023-2024 structural balance should be restored."

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In the following, there are pointed out most relevant differences between Ministry of Finance's 2020 summer forecast and other institutions latest public macroeconomic forecasts. Comparing them, one should keep in mind that forecasts are compiled in different periods and therefore based on different information, which causes variations in assumptions and results of the forecasts. This is particularly important factor in the current situation as pandemics-related restrictions could change by days and this has significant impact on short-term growth prospects.

Corona crisis brought along a considerable lowering of economic forecasts in spring and more negative output decline expectations were around -10% for 2020. However, statistics published in the second half of the summer indicated to relatively fast recovery of economic activity. Economic decline in the second quarter turned to be lower than expected as well. On the background of this, GDP forecasts by the institutions have been revised upwards. Forecasts published since August are in between -4.0% and -6.0% for 2020. The Ministry of Finance's expectations are on the lower end of the range.

For 2021, institutions expect the recovery of the economy and the speed of recovery will depend largely on the deepness of the 2020 downfall of output. Variation of forecasts is large, and those published in August-September will remain between 4.0% – 5.0%. The forecast by the Ministry of Finance is also situated in that range.

[2] More detailed analysis is found on the web page of the Fiscal Council: https://eelarvenoukogu.ee/

Table 1.e. Comparison of economic forecasts

	Real GDP growth, %			Nominal GDP growth, %		
	2020	2021*	2022*	2020	2021*	2022*
Ministry of Finance	-5.5	4.5	3.5	-5.6	6.4	6.0
Bank of Estonia	-3.8	0.2	5.4	-4.9**	1.0**	7.0**
Swedbank	-5.0	4.5	3.0	-4.3**	6.0**	5.6**
SEB	-4.7	4.0	3.5	-	-	-
Consensus Forecasts	-6.0	4.8	-	-	-	-
European Commission	-7.7	6.2	-	-	-	-
IMF	-7.5	7.9	-	-	-	-
OECD (1st wave scenario)	-8.4	4.3	-	-7.8**	6.4**	-
Estonian Institute of Economic Research	-5.0	-	-	-	-	-

	Consumer Price Index, % (in brackets Harmonised Consumer Price Index)			General government position, % of GDP		
	2020	2021*	2022*	2020	2021*	2022*
Ministry of Finance	-0.2 (-0.4*)	1.4 (1.4*)	2.2 (2.3*)	-6.6	-6.7	-5.4
Bank of Estonia	-0.5 (-0.7*)	0.6 (0.5*)	1.6 (1.6*)	-6.2	-4.4	-3.1
Swedbank	-0.2	1.1	2.0	-5.4	-3.5	-1.5
SEB	-0.5	1.8	2.3	-9.3	-4.2	-2.2
Consensus Forecasts	-0.1	1.5	-	-7.1	-3.8	-
European Commission	0.3*	1.9*	-	-	-	-
IMF	1.5*	2.0*	-	-8.3	-3.0	-
OECD (1st wave scenario)	0.1*	1.3*	-	-7.9	-4.4	-
Estonian Institute of Economic Research	-0.2	-	-	-	-	-

* 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. 2021 Draft Budgetary Plan of Estonia. 15.10.2020.
European Commission. European Economic Forecast. Summer 2020 (Interim). 07.07.2020.
IMF. World Economic Outlook. April 2020. 06.04.2020.
OECD Economic Outlook. No 107. June 2020. 10.06.2020.
Bank of Estonia. Monetary policy and economy. 3/2020. 29.09.2020.
Estonian Institute of Economic Research. Konjunktuur no 3 (214) 2020. 09.10.2020.
SEB. Nordic Outlook. September 2020. 25.08.2020.
Swedbank. Swedbank Economic Outlook – August 2020. 25.08.2020.
Eastern Europe Consensus Forecasts. 21.09.2020.

2. Budgetary targets

The Government's medium-term objective (MTO) is the general government structural deficit up to 0.5% of GDP according to the Stability Programme.

In 2020, the structurally adjusted budgetary position of general government is projected to be in a deficit of 5.7% of GDP. Due to the corona crisis, there is an exceptional economic situation, which caused activation of the escape clause according to the Stability and Growth Pact for 2020 and 2021. The escape clause allows a Member State of the European Union to deviate from the medium-term budgetary objective (MTO) or path towards MTO. At the same time, the requirement still applies on the excessive budget deficit, i.e. the nominal budget deficit shall not exceed 3% of GDP. From 2022, the requirement of the Estonian State Budget Act to improve the structural budgetary position at least by 0.5% of GDP will be applied again if in the previous year the general government structural position was in cumulative deficit and the general government structure was in deficit. In 2020 and 2021, the requirement is exempted according to the escape clause in the budgetary rules of the State Budget Act.

According to the forecast improving economic situation and legal framework the government has set the target to reduce the nominal deficit to 2.5% of GDP by 2024. There will be no budgetary target for the next year. In 2021, the Estonian economy will not be fully recovered from the crisis, therefore the government's economic recovery and activation measures will be implemented in the next year as well. As a result, the structural budget deficit amounts to 6.6% of GDP, which is about 200 million euros (0.7% of GDP) larger compared with the summer economic forecast. The impact of the recovery measures will be partly passed on for the coming years, but on the other hand it is decided to implement the position improving measures, which will maintain the budgetary position at least at the level projected in the summer economic forecast. Consequently, deficit is expected to decrease from 2022 onwards, which ensures compliance with the requirement set in the State Budget Act to improve the budgetary position at least by 0.5% of GDP.

According to Statistics Estonia the budgetary position of the general government was in a surplus of 0.1% of GDP, i.e EUR 21 million in 2019. Central government and local governments were in a deficit (both 0.1% of GDP), which was covered by a surplus from social security funds (0.3% of GDP). Central government deficit was mainly caused by increased social expenditure and higher contribution to the EU budget. The outcome of social security funds exceeded expectations mainly in terms of the Health Insurance Fund; this was caused by better than expected accrual of social tax.

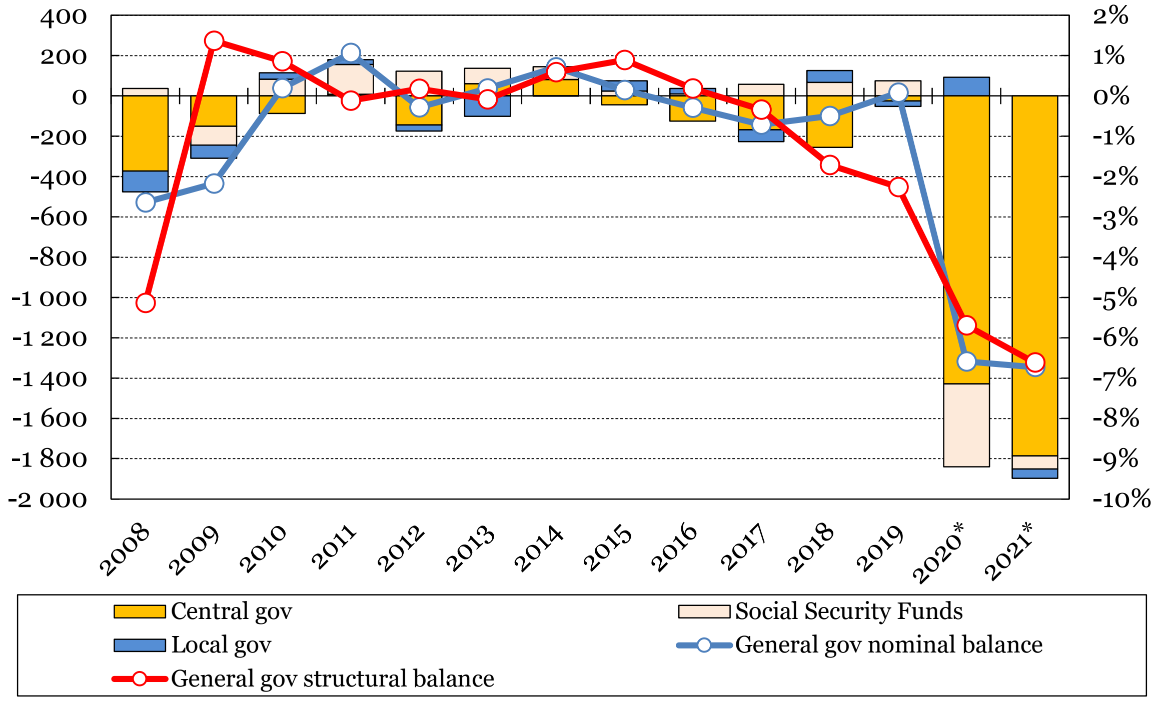
In 2020, the nominal budgetary position of general government, taking into account 2021 draft budget measures, reaches a nominal deficit of 6.6% of GDP, which is 6.6% worse than the original state budget due to reduced tax revenue because of the corona crisis and increased expenditure taken with the supplementary budget. In 2021, according to the draft budget, nominal deficit will increase by about EUR 150 million and reach 6.7% of GDP.

In 2019, the general government debt remained at 8.4 % of GDP, amounting to EUR 2 360 million. Despite the nominal increase in the debt level, rapid growth of GDP contributed to maintain the general government debt burden stable. Nominal increase in the debt level was due to the increase in the debt of Local governments and the State Treasury. This year, the debt burden of the general government can be expected to increase to 18.2% of GDP and rise further to 23.6% of GDP by the end of 2021.

Figure 3

General government budgetary position

(% of GDP)

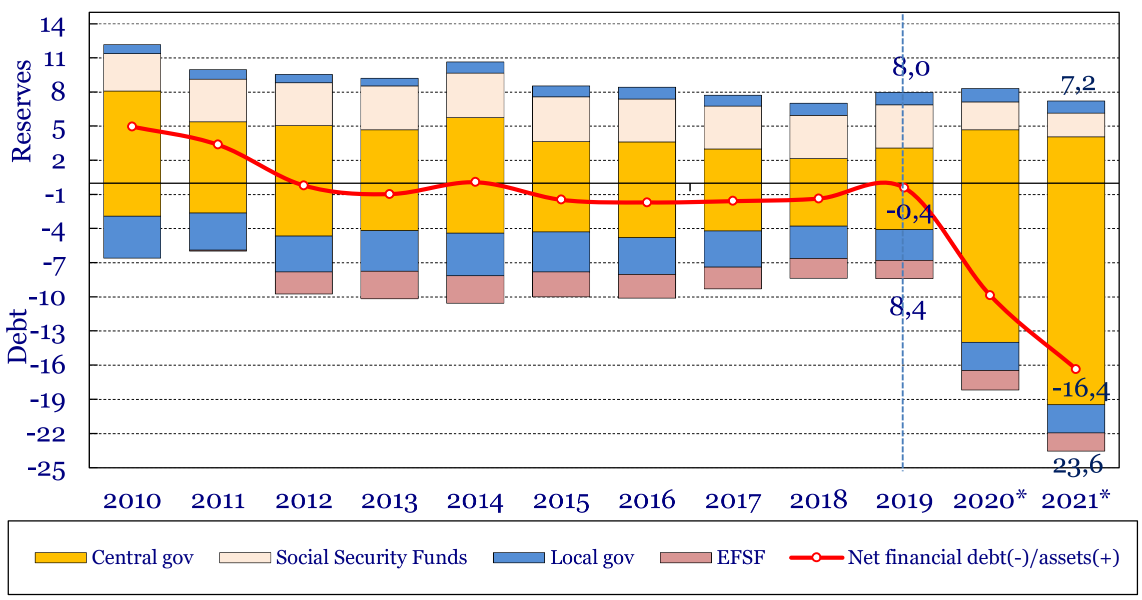


Source: Statistics Estonia, Ministry of Finance.

Figure 4

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

(% of GDP)

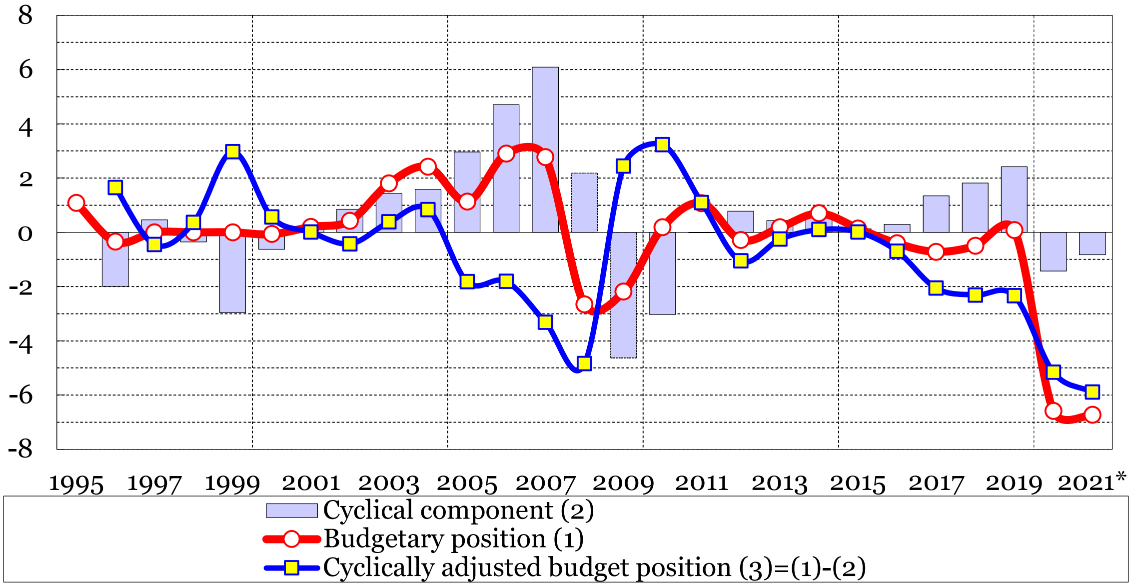


Source: Statistics Estonia, Ministry of Finance.

Figure 5

General government cyclically adjusted budgetary position

(% of GDP)

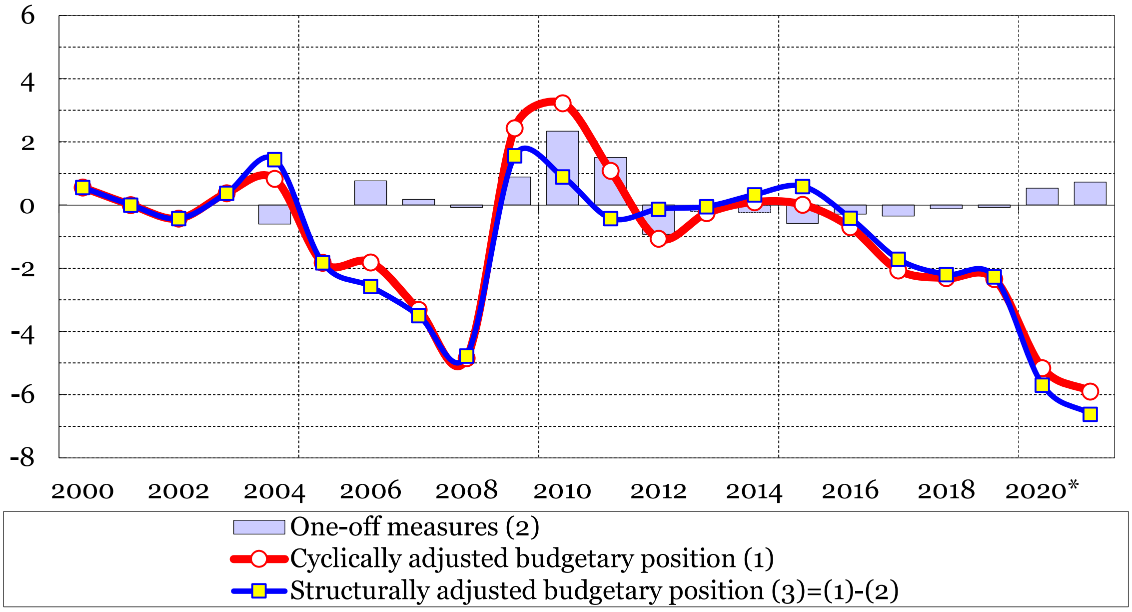


Source: Statistics Estonia, Ministry of Finance.

Figure 6

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	2020 (1/)	2021*
		% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector			
1. General government	S.13	-6.6	-6.7
2. Central government	S.1311	-5.4	-6.3
3. State government	S.1312	-	-
4. Local government	S.1313	0.3	-0.2
5. Social security funds	S.1314	-1.5	-0.2
6. Interest expenditure	D.41	0.0	0.0
7. Primary balance (3/)		-6.6	-6.7
8. One-off and other temporary measures (4/)		0.5	0.7
9. Real GDP growth (%) (=1. in Table 1a)		-5.5	4.5
10. Potential GDP growth (%) (=2 in Table 1.a)		2.2	3.2
contributions:			
- labour		-0.4	0.5
- capital		1.0	1.1
- total factor productivity		1.6	1.7
11. Output gap (% of potential GDP)		-2.9	-1.7
12. Cyclical budgetary component (% of potential GDP)		-1.4	-0.8
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		-5.2	-5.9
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		-5.1	-5.9
15. Structural balance (13 - 8) (% of potential GDP)		-5.7	-6.6

1/ According to Draft 2020 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	2020*	2021*
		% of GDP	% of GDP
1. Gross debt		18.2	23.6
2. Change in gross debt ratio		9.8	5.4
Contributions to changes in gross debt			
3. Primary balance (=item 10 in table 2.a.i))		-6.6	-6.7
4. Interest expenditure	D.41	0.0	0.0
5. Stock-flow adjustment		2.7	-0.3
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/)		0.3	0.2
Other relevant variables			
6. Liquid financial assets (2/)		8.3	7.2
7. Net financial debt (7=1-6)		9.9	16.4
8. Debt amortization (existing bonds) since the end of the previous year [3]		1.2	1.8
9. Percentage of debt denominated in foreign currency		0.0	0.0
10. Average maturity [4]		7.2	7.2

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

	2020*	2021*
	% of GDP	% of GDP
Public guarantees	9.5	8.9
Of which: linked to the financial sector	9.3	8.8

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 supplementary budget forecast mainly because of an upward correction of revenue collection in 2020 and downward correction in 2021 in case of all taxes. Expenditure forecast was corrected downwards in 2020 and upwards in 2021. Indicators as a percentage of GDP are not directly comparable as the summer forecast ratios are based on the GDP time series revised on 31.08.2020, but in the supplementary budget forecast were based on earlier GDP data.

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

General Government (S13)	ESA Code	2020*	2021*
		% of GDP	*% of GDP*
1. Total revenue at unchanged policies	TR	39.3	37.7
of which			
1.1. Taxes on production and imports	D.2	13.4	13.2
1.2. Current taxes on income, wealth, etc.	D.5	7.4	6.7
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	13.0	12.5
1.5. Property income	D.4	0.7	0.4
1.6. Other		4.7	4.8
p.m.: Tax burden (=D.2+D.5+D.61+D.91-D.995)		33.8	32.4
2. Total expenditure at unchanged policies	TE	45.9	43.8
of which			
2.1. Compensation of employees	D.1	12.4	11.9
2.2. Intermediate consumption	P.2	8.0	6.6
2.3. Social payments	D.62 D.632	17.0	14.8
of which Unemployment benefits		1.0	0.8
2.4. Interest expenditure (=9. in Table 2.a)	D.41	0.0	0.0
2.5. Subsidies	D.3	1.4	0.4
2.6. Gross fixes capital formation	P.51	5.5	5.3
2.7. Capital transfers	D.9	0.3	2.4
2.8. Other		1.4	2.3

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 2020, there were no significant changes. For 2021, revenue increased because of the government measures by 1.2% of GDP and expenditure increased by 1.9% of GDP, mainly due to investments.

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

General Government (S13)	ESA code	2020*	2021*
		% of GDP	*% of GDP*
1. Total revenue target	TR	39.3	39.0
of which			
1.1. Taxes on production and imports	D.2	13.4	13.3
1.2. Current taxes on income, wealth, etc	D.5	7.4	6.8
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	13.0	12.6
1.5. Property income	D.4	0.7	0.4
1.6. Other		4.7	5.8
p.m.: Tax burden (=D.2+D.5+D.61+D.91-D.995)		33.8	32.7
2. Total expenditure target	TE	45.9	45.7
of which			
2.1. Compensation of employees	D.1	12.5	12.1
2.2. Intermediate consumption	P.2	8.0	6.9
2.3. Social payments	D.62 D.632	17.0	15.0
of which Unemployment benefits		1.0	0.8
2.4. Interest expenditure (=9. in Table 2.a)	D.41	0.0	0.0
2.5. Subsidies	D.3	1.4	0.4
2.6. Gross fixes capital formation	P.51	5.5	6.7
2.7. Capital transfers	D.9	0.2	2.3
2.8. Other		1.4	2.3

Source: Ministry of Finance.

In accordance with the SGP, the general government expenditure growth of a member state should conform to 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, which is 3.1% for Estonia according to the European Commission Spring 2020 Forecast. If the member state does not fulfil its MTO (general government deficit up to 0.5% of GDP for Estonia) for current year, the benchmark for the next will be set at a lower level (1.3 for Estonia in 2020), which will help the member state to adjust its position by at least 0.5% of GDP and fulfil its MTO. This was the case for Estonia in 2019.

Adjusted expenditure growth[5] in 2020 will be 7.1%, which is far higher than the benchmark (difference of 5.8 pp). There is some deviation from the expenditure benchmark in 2021, when expenditure will increase by 2.9%, the expenditure benchmark is 2.6%[6] and thus, breach of the target is 0.3 pp.

Table 4.b. Expenditure benchmark

	2019	**2019**	**2020***	**2021***
	level (m EUR)	*% GDP*	*% GDP*	*% GDP*
1. Expenditure on EU programmes fully matched by EU funds revenue	487.0	1.73	2.13	2.72
1a. of which investment fully matched by EU funds revenue	245.1	0.87	1.07	1.37
2. Cyclical unemployment benefit expenditure	0	0	1.24	0.12
3. Effect of discretionary revenue measures	240.1	0.85	0.51	0.20
4. General government revenue increases mandated by law	0	0	0	0

Source: Ministry of Finance.

[5] In accordance with the European Commission's methodology, real expenditure growth is used using the GDP deflator. Excluded are interest expenditure and expenditure from table 4.b, also gross fixed capital formation is smoothed over time.

[6] The expenditure benchmark rate for 2021 is recalculated by using European Commission Spring 2020 Forecast data and applying necessary fiscal consolidation (0,25% of GDP) according to the required annual adjustment matrix, which is in line with the expected economic situation in 2021 (negative output gap between 1,5 and 3% of GDP and growth above potential).

Table 4.c. General government expenditures by function

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

	2020*		2021*	
	% of GDP	*% of general government expenditure*	*% of GDP*	*% of general government expenditure*
Education	6.9	15.0	7.1	15.6
Healthcare	6.3	13.8	5.1	11.1
Employment	1.0	2.2	0.8	1.7

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

Functions of the Government	**COFOG code**	**2020***	**2021***
		% of GDP	*% of GDP*
1. General public services	1	4.2	4.5
2. Defence	2	2.4	2.5
3. Public order and safety	3	2.5	2.5
4. Economic affairs	4	5.2	6.8
5. Environmental protection	5	0.1	0.2
6. Housing and community amenities	6	0.0	0.2
7. Health	7	6.3	5.1
8. Recreation, culture and religion	8	1.7	2.1
9. Education	9	6.9	7.1
10. Social protection	10	16.6	14.7
11. Total expenditure (=2. in Table 4.a)	**TE**	**45.9**	**45.7**

Source: Ministry of Finance.

5. Description of discretionary measures included in the draft budget

In this paragraph there are presented measures that were decided in spring with the Supplementary budget for year 2020 and new budgetary measures recorded in the State Budget Strategy 2021-2024. Together tables reflect six measure groups from the Supplementary Budget and eight new measure groups that have an impact on the state budget revenue and expenditure in 2021. Four measure groups have impact on revenues (total of EUR 427 million in 2021) and 10 measure groups have impact on expenditure (total of EUR -756 million in 2021).

April supplementary budget for 2020 included measures in total amount of 2.13 billion euros with 1.87 billion euros impact on cash flow in the first year to mitigate the negative influence of the pandemic. Beforehand, on 25 March the government had decided a measure for health-related expenditures with the amount of EUR 200 million. About 25% of these measures are direct expenditures.

In order to support the economic recovery, the Government has decided in the Draft Budgetary Plan not to cut down the costs of General Government. This decision creates additional fiscal stimulus to the economy in the magnitude of about 3.5% of GDP in 2020 and about 4.5% of GDP in 2021, when compared to the budgetary and economic projections before the crisis situation in autumn 2019. Although not directly targeted to the COVID-19 pandemics, it helps to sustain the economy by keeping government expenditure and contributes to aggregate demand. Current fiscal policy response to the crisis is fundamentally different from the reaction to the financial crisis, where Estonian government implemented budgetary consolidation measures in total amount of 16% of GDP over three years from 2008 to 2010. Current decision to support the economy with fiscal policies is justified as Estonian economy did not have significant imbalances before the virus and the crisis itself is not caused by economic factors. Instead, it is directly caused by necessary physical and administrative restrictions to contain the spread of the virus. The policy response has a significant impact on borrowing needs and debt level of following years.

Planning next years, it has been decided as well to make the best use of the different grant and loan fund of European Union to help the economy in longer run. The focus of the investments is on digital improvement and green development.

The central government has allocated extra funds (0.5% of GDP in 2021) for the Estonian Health Insurance Fund (EHIF) to compensate the loss of revenue from social tax receipts due to the economic downturn caused by the novel coronavirus. EHIF itself will bear some of the costs using its reserves as much as the legal limits of using these reserves allow. Since EHIF is mostly funded by the social tax, which has been mostly a stable source of revenue, but has now decreased unexpectedly and considerably, there might be a need for a more permanent solution for the future financing of the public healthcare system, which is more resistant to these kinds of shocks. Cutting the healthcare costs was not seriously considered by the government, since it is generally acknowledged that health spending, although cost-efficient, is somewhat insufficient as is, with a large share of out-of-pocket expenditure, limited access to services and less than full coverage.

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 2020* % of GDP	Budgetary impact 2021* % of GDP
Supplementary budget 2020						
1) Changes in law	Temporary suspension of contributions to the second pillar pension funds, reduction of fuel excise duties (diesel, liquid gas, natural gas, electricity), reduction of the interest rate on tax arrears rescheduling up to 100% instead of 50%	Revenue, D61, D2, D7	Accrual method	Submitted with supplementary budget	0.02	0.38
2) Personal support	Wage support measure managed, extrabudgetary support to Health Insurance FundState, reimbursement of sick days for workers from the first to the third day of sickness insurance	Expenditure, D61	Accrual method	Submitted with supplementary budget	-1.39	0.00
incl Personal support through Social Security Funds	Wage support measure managed by Unemployment Insurance Fund, extrabudgetary support to Health Insurance Fund	Expenditure, D61	Accrual method	Submitted with supplementary budget	-1.33	0.00
3) Additional operating grants	Local government support measure, support measure in the tourism sector, micro and small business measure through capital injections, reimbursement of 75% of all types of port dues for passenger ships by 2020	Expenditure, D9	Accrual method	Submitted with supplementary budget	-0.57	-0.04
incl additional operating grants to Local Governments	Local government support measure, reconstruction of local government roads	Expenditure, D9	Accrual method	Submitted with supplementary budget	-0.23	0.00
4) Finance instruments	Support purchases of shares in strategic companies or capital expansion of state-owned companies, operating and investment loan losses	Expenditure, P2	Accrual method	Submitted with supplementary budget	-0.06	-0.34

5) Investments	Renovation support measure for apartment buildings and private houses via KredEx, reconstruction of local government and Road Administration roads, last mile support for sparsely populated areas	Expenditure, P51g	Accrual method	Submitted with supplementary budget	-0.18	-0.46
incl investment support to Local Governments	Investment support to local governments	Expenditure, P51g	Accrual method	Submitted with supplementary budget	-0.13	-0.12
6) Government reserves	Creation of a COVID specific reserve and increasing government reserve	Expenditure, P2	Accrual method	Submitted with supplementary budget	-0.87	0.00
Draft Budget 2021						
1) Tax changes	Changes in VAT and tobacco excise duty	Revenue, D2	Accrual method	Submitted with budget	0.00	0.02
2) Additional grants	Intensive use of funds of the new EU financial period, replacement of KredEx expenses with EU funds	Revenue, D7	Accrual method	Draft is not required	0.00	1.11
3) Additional dividends	Additional dividends with CIT	Revenue, D5	Accrual method	Draft is not required	0.00	0.005
4) Changes in operating costs	Support for different budgetary and extrabudgetary institutions incl. increase in defence and R&D costs	Expenditure, P2	Accrual method	Submitted with budget	0.00	-0.43
5) Additional investments	Road projects, defence and IT investments, support for local governments	Expenditure, P51g	Accrual method	Submitted with budget	0.00	-0.50
incl investments of Local Governments	support for local governments	Expenditure, P51g	Accrual method	Submitted with budget	0.00	-0.06
6) Additional investments from new EU funds	Hospitals, public buildings and infrastructure	Expenditure, P51g	Accrual method	Submitted with budget	0.00	-0.75
7) Social transfers and other transfers	Increase in pensions	Expenditure, D62	Accrual method	Submitted with budget	-0.01	-0.19
incl transfers to Local Governments	Capital transfers for local governments	Expenditure, D62	Accrual method	Submitted with budget	0.00	-0.05
8) Cut in management costs	Cut in management costs of budgetary institutions	Expenditure, D1	Accrual method	Submitted with budget	0.00	0.04

Total revenue measures	0.02	1.51
Total expenditure measures	-3.09	-2.68
TOTAL	-3.07	-1.17

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	
					2020*	2021*
					% of GDP	*% of GDP*
Supplementary budget 2020						
1) Changes in law	Temporary suspension of contributions to the second pillar pension funds, reduction of fuel excise duties (diesel, liquid gas, natural gas, electricity), reduction of the interest rate on tax arrears rescheduling up to 100% instead of 50%	Revenue, D61, D2, D7	Accrual method	Submitted with supplementary budget	0.02	0.38
2) Personal support	Wage support measure, extrabudgetary support to Health Insurance Fund, state reimbursement of sick days for workers from the first to the third day of sickness insurance	Expenditure, D61	Accrual method	Submitted with supplementary budget	-0.06	0.00
3) Additional operating grants	Local government support measure, support measure in the tourism sector, micro and small business measure through capital injections, reimbursement of 75% of all types of port dues for passenger ships by 2020	Expenditure, D9	Accrual method	Submitted with supplementary budget	-0.35	-0.04
4) Finance instruments	Support purchases of shares in strategic companies or capital expansion of state-owned companies, operating and investment loan losses	Expenditure, P2	Accrual method	Submitted with supplementary budget	-0.06	-0.34

5) Investments	Renovation support measure for apartment buildings and private houses via KredEx, reconstruction of local government and Road Administration roads, last mile support for sparsely populated areas	Expenditure, P51g	Accrual method	Submitted with supplementary budget	-0.05	-0.34
6) Government reserves	Creation of a COVID specific reserve and increasing government reserve	Expenditure, P2	Accrual method	Submitted with supplementary budget	-0.87	0.00
Draft Budget 2021						
1) Tax changes	Changes in VAT and tobacco excise duty	Revenue, D2	Accrual method	Submitted with budget	0.00	0.02
2) Additional grants	Intensive use of funds of the new EU financial period, replacement of KredEx expenses with EU funds	Revenue, D7	Accrual method	Draft is not required	0.00	1.11
3) Additional dividends	Additional dividends with CIT	Revenue, D5	Accrual method	Draft is not required	0.00	0.005
4) Changes in operating costs	Support for different budgetary and extrabudgetary institutions incl. increase in defence and R&D costs	Expenditure, P2	Accrual method	Submitted with budget	0.00	-0.43
5) Additional investments	Road projects, defence and IT investments	Expenditure, P51g	Accrual method	Submitted with budget	0.00	-0.44
6) Additional investments from new EU funds	Hospitals, public buildings and infrastructure	Expenditure, P51g	Accrual method	Submitted with budget	0.00	-0.75
7) Social transfers and other transfers	Increase in pensions	Expenditure, D62	Accrual method	Submitted with budget	-0.01	-0.14
8) Cut in management costs	Cut in management costs of budgetary institutions	Expenditure, D1	Accrual method	Submitted with budget	0.00	0.04
Total revenue measures					0.02	1.51
Total expenditure measures					-1.40	-2.45
TOTAL					-1.38	-0.94

Source: Ministry of Finance

6. Links between the draft budgetary plan and the targets set by the Union's Strategy for growth and jobs 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) and contribute to Europe 2020 objectives for growth and jobs.[7]

More comprehensive and detailed information on the measures implemented is available in the strategy for competitiveness "Estonia 2020" and its action plan (Estonian national reform programme).

Table 6.a. Country-specific recommendations

CSR no	List of measures	Description of direct relevance
1.	Take all necessary measures, in line with the general escape clause of the Stability and Growth Pact, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Improve the accessibility and resilience of the health system, including by addressing the shortages of health workers, strengthening primary care and ensuring the supply of critical medical products.	The 2020 supplementary budget included measures to mitigate negative economic effects of the pandemic: • 268 million euros to the Unemployment Insurance Fund for labour market measures and for compensation of sick leave days. • 193 million euros for rescheduling the tax debt, reducing interest rates, lowering fuel excise duty, suspending payment of second pillar pension contributions, supporting local governments, etc; • 550 million for working capital and investment loans of companies, 104 million for loan guarantees, 300 million for support purchases of shares in strategic companies, 35 million for support of small businesses (incl. tourism sector); • 100 million for turnover and investment loans of rural companies, 50 million for guarantees, 50 million for capital lease. To expand insurance coverage and increase the availability of health care services, possibilities for increasing the scope of health insurance coverage and reducing the self-financing burden are being analysed. To increase the sustainability of health care financing and the resilience of the health care system, additional possibilities of state budget financing will be analysed and considered. For strengthening the primary level health care, implementation of the health centre programme will continue (until 2023) in order to provide a wider range of services in modern health centres through larger teams that are gathered around family physicians. To alleviate the shortage of staff, the training order of health care professionals and specialists will be increased. In addition,

[7] https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1591720698631&uri=CELEX%3A52020DC0506

		the return of specialists working outside the health sector to the health care sector will be supported through a corresponding training course for nurses and doctors. Doctors will also be motivated to work outside large centres with the help of start-up support, and the system is planned to be made more flexible (the draft is sent to the coordination round). Digital solutions are used to improve accessibility – national digital registry, extension of e-consultations between family physicians and specialist doctors, introduction of remote consultations for patients by specialist doctors. The system of strategic stocks in Estonia, including the stock of medicines and medical devices, is being renewed. Peoples-centred integrated hospital network plan for 2040 is also being prepared and updated (Person-Centred Integrated Hospital Master Plan in Estonia).
2.	Strengthen the adequacy of the social safety net, including by broadening the coverage of unemployment benefits.	In June 2020 Parliament adopted amendment to the Labour Market Services and Benefits Act and Unemployment Insurance Act: - Starting from the 1st August 2020 the replacement rate of unemployment insurance benefit for the period of 1 to 100 calendar days increased from the 50 per cent level to 60 per cent. - Starting from the beginning of 2021 the 31-fold daily rate of unemployment allowance shall not be less than 50 per cent of the previous year minimum monthly wage rate. To consider whether and how to include self-employed to the unemployment insurance benefits scheme consultations with social partners have been held and composing legislative draft is in process.
3.	Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on digitalisation of companies, research and innovation, clean and efficient production and use of energy, resource efficiency, and sustainable transport, contributing to a progressive decarbonisation of the economy. Support the innovation capacity of small and medium-sized enterprises, and ensure sufficient access to finance	In 2021, the implementation of the principles of circular economy in enterprises and local enterprises, reconstruction of apartment buildings, investments of local government housing stock, reconstruction of private houses, introduction of green gas in public transport, production of green gas, renovation of heat pipelines, renovation of district heating boilers and fuel change, hydrogen support will be supported. In 2021, research and development expenditures in the state budget will increase significantly, reaching 1% of GDP. Additional resources will be directed to research in research institutions, the offspring of researchers and the promotion of research and development by companies. In support of entrepreneurship, more and more attention is paid to innovation and development activities, including the significant strengthening of services to support applied research. Digitalisation of public services will be promoted, for example, almost EUR 8 million will be directed to the development of the population register. Support for the digitalisation of enterprises will also continue, especially in the industrial sector.
4.	Step up the efforts to ensure effective supervision and enforcement of the anti-money-laundering framework.	Governmental Committee to fight Money Laundering and Terrorism Financing is regularly monitoring and coordinating country´s efforts to ensure effective supervision and enforcement of the anti-money-laundering framework, as indicated in the Country Specific Recommendation. In June 2020, Parliament approved amendments to the Estonian Anti

		Money Laundering Terrorist Financing Prevention act, by which Estonia finalised transposition of 4th and 5th AMLD. To further enhance Estonian AML capabilities, Financial Intelligence Unit (FIU) will be transferred under the Ministry of Finance as an independent governmental authority. Estonian national risk assessment (NRA), which is the cornerstone for the country's risk-based fight against Money Laundering and Terrorism Financing, is under way and will be finalised by the end of the year. Respective Action Plan will be followed. In the budgetary process, further resources have been requested for the FIU and FSA to increase their supervisory abilities, including staff. Ministry of Justice has initiated a process to make administrative sanctioning system more effective in Estonia.

Table 6.b. Targets set by the Union's Strategy for growth and jobs

National 2020 headline targets	List of measures	Description of direct relevance to address the target
National employment target [76%]	1. Maintaining work capacity	Modernisation of health and safety regulation, including health inspection, staff mentoring and training, and first-aid management. Modern and clear regulation of occupational health and safety helps preventing work-related health damage and supports preservation of work capacity of employees in the working environment. The amendments came into force 1.01.2019. A guide for employers and employees on how to follow occupational health and safety requirements in case of telework was developed and published in July 2019. Telework can have a positive effect on employment if employers are more willing to provide teleworking by bringing those workers to the labour market for whom it is important to perform duties outside the employer's premises (e.g. for better combining work- and family life or workers in regions where daily commuting may be difficult). The intention of drafting the Draft Law on the Amendment to the Employment Contracts Act and the Occupational Health and Safety Act was sent to interest groups and ministries for collecting opinions. Based on the received feedback, consultations with stakeholders will continue. Discussions on possible changes to the employment relationship regulation are ongoing and they cover the flexibility of working and leisure time, workplace and fixed-term employment contracts and the extension of social guarantees to persons engaged in work.

	2. Increasing employability of youth	Matching learning opportunities with the needs of the labour market. Implementing the career services system and improving access to career services, including career counselling for young people, to support them in making informed choices about career and education. Implementation of the Youth Guarantee Program, including: - the provision of "My First Job", with the aim of fostering the recruitment of young people and, thus, reducing youth unemployment and carrying out labour market introductory workshops in order to raise young people's professional awareness; - „The Youth Prop-Up" support programme in 37 municipalities and programme „Hoog Sisse" in Tallinn City with the aim of identifying the young people aged 15–26 who are not involved in any kind of academic study or employment, empowering them through the possibilities of youth work, in order to assist in developing their practical knowledge and skills, and facilitating their entry into labour market. Development and implementation of a Youth Guarantee Support System for supporting inactive young people to continue their education, increase their employability and involve them into the labour market. Supporting activities that increase competitiveness and enable the young people aged 16-26 to participate in the Open Call for Proposals. Increasing working opportunities for minors via minor employability support in order to promote acquiring work experience (e.g. work education projects such as youth work brigade).
	3. Implementing Work Ability Reform	In 2016, a new system (Work Ability reform) was set up for supporting working ability, which renewed the way of assessing working ability, also the subsidies' system and the range of services provided by the EUIF. The system is based on individual approach and case management for every disabled person. The new working ability support system has had a significantly positive effect on the labour market participation. Initially when the system was developed, a goal was set that by the year 2022 the number of persons with reduced working ability in employment would be increased by over 50% - that goal was established already in 2017. According to the estimates of the Ministry of Finance, by the year 2022 there will be 19 100 more persons in employment and 16 400 more persons actively looking for work due to the working ability

		reform, compared to how many there would be with the old system.
	4. Implementation of the employment programmes	Providing active labour market measures. Employment programmes create conditions for piloting services in addition to the ones constituted in the Labour Market Services and Benefits Act. Since May 2017 Employment programmes provide unemployment prevention measures. These measures provide opportunities for specific employees for upskilling via labour market trainings or support formal educations studies. Starting from 1 January 2019, support for creating a regional job is provided in Ida-Virumaa and South-Eastern Estonia, where unemployment is higher than the Estonian average. The support consists of wage subsidies and reimbursement of training expenses. The measure is funded by the European Social Fund, with a total cost of EUR 1.48 million over three years. In total, creation of around 360 jobs will be supported during this period. Currently a new Employment programme for 2021-2023 is prepared with a total budget of 171.3 million euros. In the new programme there are previous programme measures continued, but also Covid-19 crises labour market influences addressed, more flexible counselling services planned and business start-up subsidy raised.
National R&D target [3% of GDP]	Preparing a joint strategy for R&D, innovation and entrepreneurship in co-operation with the Ministry of Education and Research and Ministry of Economic Affairs and Communication by 2021.	Planning a joint strategy in the field of R&D, innovation and entrepreneurship will help to better align various measures towards common goals and ensure better synergy between the measures. The strategy will be finished in 2020. The Peer review report of the Estonian R&I system was conducted in 2019 and will be used as an input for the new strategical system improvements.
	R&D expenditures are growing	R&D expenditures are growing in state budget by 56 million euros in 2021.
	Out of a number of initiatives which have been created to foster R and D in private sector, the following are most important:	
	Product development support for manufacturing companies. Due to COVID-19 crises product development scheme has been broadened for all industry sector.	The support is intended to encourage industry to invest more into development. Business value added and sales turnover from new products should increase.
	Innovation knowledge and capacity enhancement services for companies	This new measure is planned to enhance the Estonian companies' knowledge and technology-based growth through rising the knowledge and capacity of innovation

	Applied research programme	Comprehensive solution for initiating and carrying out companies applied research and experimental developments. Two main components: 1) Grant scheme for funding companies applied research and experimental development projects. 2) The Virtual Research and Technology Organisation.
	Demand-side policy measure	The measure helps to rise the public sector demand of the innovative solutions, enhance the knowledge and capacity to procure innovative solutions and develop the innovation solutions market through it.
	Innovation and development vouchers	The measure offers support to companies to develop innovative and high-valued product, services and technology through knowledge and technology transfer. In addition, it is rising the knowledge of intellectual property and cooperation with research and development institutions, consultation and engineering services providers.
	Estonian Space Cyber Security Missions	Estonian technology companies can test and validate new space cyber security related applications together with the European Space Agency to develop new products.
	Associated membership in European Organization for Nuclear Research (CERN)	By joining, businesses will have the opportunity to carry out cooperation projects with CERN, participate in CERN procurements and offer goods and services. It is important for Estonia to participate in business development projects and to create contacts between engineers and trainees. In addition to the possibility for companies to sell their products to CERN, the merger also includes other valuable elements such as enabling Estonian citizens to apply for CERN jobs, training and internships of Estonian engineers at CERN and development projects for companies operating in areas important to CERN during which the company should make a leap forward in its field.
	Proof of Concept grant for researchers is being piloted.	Scientists are offered an opportunity to develop their scientific results into the form that is attractive for the business sector (so-called Proof of Concept support). At the end of the research stage, the results are usually not sufficiently developed for being used for business applications. Further research is needed in order to develop the research results into applicable form for companies. Proof of concept support offers researchers this opportunity. In the design of the grant the ERC Proof of Concept grant conditions have been consulted and applied where possible.

	Needs-based R&D capacity development sectoral programmes in the field of ICT and valorisation of resources	The aim of the program is to improve the ability of R&D institutions to offer applied research in the field of ICT and valorisation of mineral resources, food and timber on topics that are the most promising for Estonian economy. The topics were identified in cooperation with companies, professional associations, and R&D institutions.
	In 2020, a new intersectoral mobility support measure has been launched.	With the measure support is provided to Estonian private and public sector institutions for the employment of a researcher for planning and implementing of applied research and product development projects corresponding to the characteristics of R&D. The purpose of the measure is to promote intersectoral cooperation by increasing the R&D capacity of Estonian private and public sector institutions and diversifying researchers' careers through work in different sectors.
	Smart City Centre of Excellence	The Smart City Centre of Excellence project aims to create a centre of excellence comparable to the best smart city centres in the world in terms of R&D results, focusing on five areas: transport, energy, construction architecture, data and governance. As a result of the Centre of Excellence, innovative and smart solutions reach beyond the boundaries of the Centre of Excellence and the University, resulting in a qualitative development leap in their field of activity for the university, cities and the country as a whole.
	Support for hiring development advisors in industry associations	The aim of the measure is to provide support for industry associations to increase the absorption of R&D among the member enterprises and to improve their ability to provide the necessary input for policy makers to make relevant decisions on policy level.
Reduction of the greenhouse gas emissions in non-ETS sectors [6 024 thousand tonnes (+11% compered 2005)]	General Principles of Climate Policy until 2050	General Principles of Climate Policy until 2050 (GPCP2050) is a vision document that sets long term greenhouse gas emissions reduction target to reduce the emission of greenhouse gasses by 80% by 2050 in comparison with the emission levels of 1990 and policy guidelines for adjusting with the impact of climate change or ensuring the preparedness and resilience to react to the impact of climate change. Principles and guidelines in the GPCP2050 must be taken into account when renewing and implementing the cross-sectoral and sectoral strategies and national development plans.
Renewables in gross final energy consumption [25%]	1. Implementation of the National Development Plan of the Energy Sector Until 2030 (in the future, also National Energy and Climate Plan - NECP)	Estonia has already fulfilled the 2020 goal for gross final consumption of renewables (30% in 2018). Activities to increase the share of renewables will continue. In our NECP, we have set an ambitious goal of 42% renewables from gross final energy consumption for 2030.

	2. Implementation of Structural Support measures	These goals and measures to achieve them are set in our National Development Plan of the Energy Sector Until 2030 and further elaborated in our National Energy and Climate Plan. Main activities include: a) Support for renovating district heating systems (boilers and district heating pipelines) b) Subsidising production of renewable electricity (transitioning towards reverse auctions is ongoing, first reverse auction was held in 2020) c) Increasing uptake of biomethane in transport (support for constructing CNG filling stations and production of biomethane). d) Support for renovations in the housing sector (renewable electricity generators integrated to the building are also eligible) e) Funding for measures alleviating wind turbine height restrictions stemming from national defence requirements It is important to note, that in 2020, additional funding of around EUR 100 million was decided for housing renovation grants. A pilot project for production and uptake of renewable hydrogen is being prepared. Work on designing measures for the new MFF is ongoing.
Energy efficiency goal [2 818 ktoe]	1. Implementation of the National Development Plan of the Energy Sector Until 2030 (in the future, also National Energy and Climate Plan) 2. Implementation of Structural Support measures	Estonia is on track in fulfilling the 2020 goal for final energy consumption (2015-2018 average – 2865 ktoe). We are also on track in fulfilling the energy efficiency obligation for the period 2014-2020 (~ 611 ktoe). By 2018, we have reached 64% of our energy efficiency obligation goal. As our economy is growing 2+ times faster than EU average, main efforts are targeted to avoid growth of final energy consumption. The 2030 goal for final energy consumption will be the same as for 2020 (i.e. maintaining the consumption levels of 2010). Significant decrease is foreseen for primary energy consumption. Energy efficiency obligation for Estonia for the period 2021-2030 is ~1273 ktoe. These goals and measures to achieve them are set in our National Development Plan of the Energy Sector Until 2030 and further elaborated in our National Energy and Climate Plan. Main activities include: a) Support for renovations in the housing sector b) Support for renovating district heating systems (boilers and district heating pipelines)

		c) Support for increasing resource efficiency of companies (incl. SMEs) d) Support for renovating street lightning e) Reduced electricity and gas excise tax for electro intensive companies that are ISO 50001 certified (and implement the energy efficiency measures defined in the audits) f) Rail Baltic development It is important to note, that in 2020, additional funding of around EUR 100 million was decided for housing renovation grants. A pilot project for electric buses is being prepared. Work on designing measures for the new MFF is ongoing.
Reducing the share of young people not in basic or lower education [9.5%].	1. Flexible learning possibilities and support systems in vocational education	On 01.01. 2019, amendments to the Vocational Educational Institutions Act came into force which, inter alia, regulate: - implementation of a career choice curriculum; - organisation of non-stationary general education in vocational education institutions (i.e. the possibility for adults to acquire only secondary education at a vocational school similar to the adult upper secondary school); - development of support system for vocational education pupils; - upgrading the organisation of studies of students with special educational needs. - In addition, the following has come into force: - 20.04.2019 amendments to the Government regulation on vocational education standard; - 14.06.2019 regulation by the Minister of education and research on the conditions and procedure for vocational education quality assessment; - 01.09.2019 regulation by the Minister of education and research on the principles, conditions and procedure for the implementation of vocational education institutions activity support; - 22.06.2019 amendment to the regulation by the Minister of education and research on implementation procedure for apprenticeships. The following is under development: - additional training for basic school graduates; - implementation of RPL in basic and upper secondary schools (incl. counselling of and incentives to the schools); - - increasing the flexibility of basic and upper secondary curricula and organisation of studies.

	2. Study and career counselling	Implementation of study and career counselling system in basic schools, upper-secondary schools and vocational schools. From the beginning of 2019, Rajaleidja (Pathfinder) career services of Innove Foundation have been merged with the career services system of the Estonian Unemployment Insurance Fund, and the services are provided by the Unemployment Insurance Fund. Study counselling continues at Rajaleidja Centers. Study counselling services are provided to pre-school children and general education and vocational education pupils to support their development and learning according to their abilities. Parents, teachers and support specialists in educational institutions, educational officials etc. are advised in the selection and implementation of the necessary measures related to the organisation of studies and education.
	3. Inclusive education and co-learning school	Introduction of principles for inclusive education, according to which education is equally available to all persons regardless of their social and economic background, nationality, gender, place of residence or special educational needs. Depending on the individual needs of the student, studies corresponding to the student's abilities and the required support in cooperation between the teachers, support specialists, assistant teachers and other specialists are ensured for the student. A co-learning concept is under development to support the schools where children from different cultural background learn together
The target for tertiary education [40%].	1. Granting equal access to higher education 2. One of the six indicators of higher education performance financing is the share of graduates within standard duration of studies 3. Various student allowances and grants to support successful completion of studies	Free higher education for all full-time students enrolled in programmes provided in Estonian. Performance financing system where at least 80% of the activity support is baseline financing and up to 20% is performance-based funding. In 2021, financing of higher education will increase. The share of graduates within standard duration of studies is monitored as a performance indicator to motivate universities to reduce the number of discontinuing students. When allocating the performance benefit, the ratio of commencing students and graduates within standard duration is assessed and the universities which show better results receive higher share of performance financing. Needs-based study allowance and special allowance for students with special educational needs, and the possibility to take state granted study loan.
National poverty target [15%]	1. Raising child benefits	Child allowance for the first and second child was raised to 60 euros in 2019 (a year before

		the allowance was €55) and for the third and subsequent child it is 100 euros. Since 1st March 2018 an allowance for multiple birth of three or more children was introduced. It is a monthly family allowance paid for one parent, who is raising triplets or more children born at the same time. The right to receive this allowance applied until the day that the children turn 18 months old. The allowance amount per month is 1,000 euros.
	2. Parental benefit changes	Related to the increase of the minimum wage, the minimum rate of parental benefit has constantly increased in recent years. In 2017, the minimum parental benefit was 430 euros, in 2018 it was 470 euros, in 2019 it was 500 euros. In 2020 the minimum parental benefit is 540 euros. In June 2020, Parliament adopted an amendment to the law that would maintain previous level of parental benefit for children with less than three years of age difference. In the past, the same principle was applied when the age difference between children was less than 2.5 years. The amendment came into force in July 2020. From 1 July 2020, it is possible to periodically suspend and continue receiving parental benefit from child's age of 70 days until the child reaches the age of three. Suspension and resumption shall be subject to the condition that the parental benefit may not be granted for a period shorter than one calendar month. If the parental benefit continues to be paid, the amount of the parental benefit will not be recalculated. In addition, the Minister of Population Affairs is working on an amendment for parents that lost their job during the crisis to exclude the period of unemployment from the parental benefit calculation period (similar to the time of sick-leave period). As a result of the change, unemployment due to the COVID-19 situation would not reduce the amount of parental benefit for mothers and fathers who have had a child the next year.
	3. Changes in subsistence benefit	No changes have been made in the subsistence benefit scheme from 2018. The subsistence benefit consists of the subsistence level and housing allowance. In 2019, the subsistence level for a person living alone or for the first member of a family was increased to 150 euros per month. The subsistence level for each under-age family member is 180 euros per month. The subsistence level for each following full-age family member is 120 euros per month. The

		subsistence level remained on the same level in 2020. In order to increase the motivation for working, wage income is not considered part of the household income in subsistence benefit calculations. The wage income is deducted from the income by 100% for first 2 months and by 50% for consecutive 4 months if the person has received subsistence benefits without labour income for at least the previous two consecutive months. The income earned by a person in a basic school, upper secondary school or a vocational education with non-completed secondary education level until the age of 19 years or after the age of 19 until the end of the current academic year or the exclusion from the school's list is not considered to be family income. From the beginning of 2018, municipalities will be able to take into account the amount of housing costs that are unavoidable and arising from legislation or because of risks to human health or life in deciding subsistence benefits for households who have been receiving subsistence benefit for at least six months in succession.
	4. Pension increase and increase in basic income tax allowance.	Pensions are increasing and the payment of additional support to retired persons living alone will continue in order to improve coping of pensioners. With pension indexation and extraordinary pension increase the average pension (44 years of pensionable service) rose from 483.24 to 528.09 euros in 1st of April 2020. From the beginning of 2018, the basic income tax allowance was increased to EUR 500 per month.

7. Divergence from the latest Stability Programme

Estonia's no-policy-change Stability Programme 2020 was based on the spring forecast of the Ministry of Finance. The forecast originates from the estimate of economic situation as of 31. March 2020. The 2021 State Budget and the State Budget Strategy for 2021-2024 are based on the summer economic forecast, published on 7. September 2020.

The main difference compared to the Spring forecast is that the decrease in GDP and all its subcomponents is smaller in 2020, but the recovery in 2021 is somewhat weaker as well. This means that the level of GDP and subcomponents in the end of 2021 will be lower according to the current knowledge.

In Spring, real GDP in 2020 was expected to fall by 8% and grow by 8% in 2021, while in Autumn the updated rates are -5.5% and +4.5%. Private consumption was expected to decline 11% in 2020 and recover by 9% in 2021 compared to -5% and +3% now. For investments, the figures were -6% and +6% in March while they are -10% and +5% now.

It must be stressed that the Spring forecast was made under even higher uncertainty and thus the figures should not be taken very precisely.

Substantial decline in the volumes of **exports** was feared to happen in 2020. However, goods trade has turned out to be more resilient against the crisis. Hence, the forecast of exports has been revised upwards for this year. Knowing that the recovery from COVID crisis will be sluggish, exports will pick up more slowly in 2021. Forecast for imports has been revised by similar figures for 2020-2021.

HICP inflation forecast for 2020-2021 is 0.8% and 0.7% lower respectively compared to the Stability Programme. Due to COVID crisis services, energy and food inflation has been lowered in both forecast years. Significant decline in energy prices is partly related to cut in excise duties of some energy components.

Labour market reaction to the crisis has been much softer than initially expected. Governments' crisis mitigation measures, wage subsidy scheme in particular, have played important role in keeping workplaces and curbing initial unemployment rise. Although economy has bottomed up, unemployment is forecast to increase as continuation of wage subsidy scheme is not planned and some sectors are reacting to the crisis with some time lag. Labour market situation is currently expected to start improving from mid-2021 onwards.

Wage growth has also performed better than forecast in spring. However, as recovery from the crisis is currently expected to remain prolonged, practically no wage growth is expected for 2021. This is because during recovery phase companies are expected to restore profitability in the first place. This results in lower labour cost share in value added, that has been an issue for companies, and it has weighed on competitiveness in past few years.

The general government budgetary position in 2020 has improved by 3.5% of GDP compared with the supplementary budget and is now expected to be in a deficit of 6.6% of GDP. The improvement comes mainly from higher tax revenues, which affects every level on general government. The general government nominal budget projection for 2021 has worsened by 2.9% of GDP compared to the supplementary budget because of slower recovery of economy.

In 2020, the tax burden forecast compared to the supplementary budget forecast has been revised upwards by 1.4 pps to 33.8% of GDP. Tax revenue increased mainly because of labour taxes (PIT and SSC) due to stronger labour market performance and wage support measure, also VAT and fuel excise revenues were increased; GDP upward correction was much lower than the tax revenues growth. In 2021, the tax burden has been revised upwards by 0.1pp to 32.7% of GDP. Fuel excise was corrected upwards, but labour taxes (due to weaker wage growth in 2021) and CIT (both private and state dividends CIT decreased) downwards; GDP downward correction was somewhat bigger than the downward correction of tax revenues.

Forecast of general government debt has been decreased by 3.7% of GDP in 2020 and increased by 0.2% of GDP in 2021, compared to the forecast included in the Supplementary Budget and Stability Programme due to higher actual tax receipts and improved budgetary position in this year, but larger budgetary deficit in the next year.

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

	ESA code	**2019**	**2020***	**2021***
		% of GDP	*% of GDP*	*% of GDP*
General government structural balance (1/) target	B.9			
Stability Programme		-1.1	-5.2	-0.8
Draft Budgetary Plan		-2.3	-5.7	-6.6
Difference		-1.2	-0.5	-5.8
General government structural balance projection at unchanged policies	B.9		B.9	
Stability Programme		-1.1	-5.2	-0.8
Draft Budgetary Plan		-2.3	-5.7	-5.9
Difference		-1.2	-0.5	-5.1

1/ Budgetary position is targeted by structural balance.
Source: Statistics Estonia, Ministry of Finance.

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

	ESA code	**2019**	**2020***	**2021***
		% of GDP	*% of GDP*	*% of GDP*
General government net lending/ net borrowing target	B.9			
Stability Programme		-0.4	-10.1	-3.8
Draft Budgetary Plan		0.1	-6.6	-6.7
Difference		0.5	3.5	-2.9
General government net lending/ net borrowing projection at unchanged policies	B.9		B.9	
Stability Programme		-0.4	-10.1	-3.8
Draft Budgetary Plan (1/)		0.1	-6.6	-6.0
Difference		0.5	3.5	-2.2

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

Annex

Table 8. Guarantees adopted/announced in response to COVID-19 outbreak

Description of measures	Adoption status	Maximum amount of contingent liability (% of GDP)	Current take-up (actual contingent liability, % of GDP)
Loan guarantees for bank loans already issued in order to allow for repayment schedule adjustments and other (Kredex)	Already adopted	1.15	0.18
Loan guarantees for bank loans already issued, increase of the guarantee reserve and reduction of guarantee fees (MES)	Already adopted	0.11	0.04
	Total	1.26	0.22

Source: Ministry of Finance.

Table 9. PRELIMINARY assumptions on revenue and expenditure of general government (S.13) in the context of the Recovery and Resilience Facility (RRF)
Subject to approval of the national RRP by the Government and by the Council

1. Financing to be received from the RRF included in Draft Budgetary Plan			
Millions of national currency	**2020**	**2021**	**Comment**
RRF grants - cash basis			
RRF grants included in general government revenue projections (accrual basis)		*137.4*	Total estimated amount for EE is EUR 1,106 billion. Approximately 12% of the total is preliminarily planned for 2021 budget. Approximately EUR 340 million not yet planned - under discussions in the cabinet.
RRF loans			No decision taken by the Gov on possible take up of the loan facility. Max EUR 1.9 billion available for EE.

2.1 Expenditure to be financed by grants or loans from the RRF included in Draft Budgetary Plan			
Millions of national currency (accrual basis)	**2020**	**2021**	**Comment**
RRF-related expenditure included in general government expenditure projections			
of which: Compensation of employees D.1			
of which: Intermediate consumption P.2			
of which: Social payments D.62+D.632			
of which: Interest expenditure D.41			
of which: Subsidies D.3		***42.4***	Grants (approximately 30-50% of the total investments) to reinforce energy efficiency investments in the housing sector. Managed by Kredex.
of which: Current transfers D.7			
of which: Gross fixed capital formation P.51		***80***	Gov. sector IT investments and developments (EUR 40 million), local gov investments in foot- and cycle traffic (EUR 5 million), Rohuküla railway (EUR 5 million), Tallinn hospital building (EUR 30 million)
of which: Capital transfers D.9		***15***	Extending the broadband to remote and sparsely populated areas (EUR 10 million), facilitation of investments in hydrogen tech (EUR 5 million)

Source: Ministry of Finance.