RAHANDUS-
MINISTEERIUM
MINISTRY of FINANCE of the REPUBLIC of ESTONIA

2020 Draft Budgetary Plan of Estonia

Tallinn, 15. October 2019

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Introduction

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

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

The State Budget Strategy for the next four years and the 2019 Stability Programme was approved by the Government on 30 May 2019. **The draft 2019 State Budget with explanatory memorandum was approved on 24 September in the meeting of the Government and on 25 September it was given for proceeding to Parliament.**

The draft 2020 State Budget of the Republic of Estonia is based on State Budget Strategy 2020–2023, 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) and designed activities according to these. In the formulation of the budgetary policy, the Stability and Growth Pact requirements on the budgetary policy of the EU Member States is being respected.

In 2020, Estonia's general government structurally adjusted budgetary position is planned in a deficit of 0.7% of GDP, in line with the target set in the State Budget Strategy (+0.5% improvement compared to 2019). The adjustment is planned in accordance to the path towards MTO as defined by the requirements

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[1] Estonia's country-specific recommendations:

(1) Ensure that the nominal growth rate of net primary government expenditure does not exceed 4,1 % in 2020, corresponding to an annual structural adjustment of 0,6 % of GDP. Ensure effective supervision and the enforcement of the anti-money laundering framework.

(2) Address skills shortages and foster innovation by improving the capacity and labour market relevance of the education and training system. Improve the adequacy of the social safety net and access to affordable and integrated social services. Take measures to reduce the gender pay gap, including by improving wage transparency.

(3) Focus investment-related economic policy on sustainable transport and energy infrastructure, including interconnections, on fostering research and innovation, and on resource and energy efficiency, taking into account regional disparities.

More detailed explanations for the country-specific recommendations and accompanying analysis can be found from European Commission's website: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/european-semester-your-country/estonia/european-semester-documents-estonia_en

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 the State Budget Law and is in line with the SGP. The MTO remains at -0.5% of GDP and will be achieved in 2021.

1. Macroeconomic forecast

The Draft 2020 State Budget of the Republic of Estonia is based on the summer forecast of the Ministry of Finance (MoF), published on 9 September 2019. External assumptions of the forecast were fixed in late August 2019. 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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After a peak in 2017, foreign demand growth has been in a downward trend and is expected to bottom out this year. Along with external environment, Estonian GDP growth has been slowing down, but our economic situation is strong. Despite strong income growth and increasing sentiment, households' saving rate is going up.

According to the baseline scenario **Estonia's gross domestic produc**t will grow by 3.3% in 2019 and by 2.2% in 2020. The Ministry of Finance has revised upwards its growth forecast for 2019 compared to the spring forecast, mainly due to a strong growth outcome in the first half of the year. GDP growth this year will be supported primarily by the increase of domestic demand, which is based on investment and private consumption growth. In the coming year GDP growth will be slower than previously projected, due to weaker growth outlook of the main trading partners. Domestic demand and private consumption in particular remain the main growth driver in 2020. By 2021, we expect growth to accelerate to 2.6%. Export growth will accelerate in line with the development of export markets and its role as a driver of economic growth should increase. In 2022-2023, Estonia's economy is forecast to grow by 2.4%, supported both by export and domestic demand.

Domestic demand's contribution to growth in 2019 will be stronger than during past two years and previously expected, mostly due to active investment in the private sector. Corporate investment growth was remarkably strong in the first half of the year, but taking into account the declining economic sentiment and decreasing GDP growth expectations, growth will moderate significantly next year. Households' investment in new dwellings has been very active for a long time but is calming down and government investment activity is also slowing down. 11% investment growth is expected for 2019, but only 1.5% for 2020 because of general uncertainty and slowing GDP growth. If the slowdown in global economy will be temporary, 3-4% growth in investment could be expected in the medium term. Private consumption growth is moderating below 3% starting from 2020 due to more cautious consumer behaviour and slower aggregate real income growth, while lower inflation is supporting purchasing power. General government contribution to demand should be marginal starting from 2020 as the planned increase in funds for expenses in government agencies will be restricted.

In terms of the slowdown of global trade, growing political uncertainty and weak eurozone output, Estonia's and Nordic countries foreign trade has performed relatively well. **Exports of goods and services** will grow 3.4% in 2019, exceeding markedly foreign demand thanks to solid goods exports. However, in terms of declining sentiment indicators of manufacturing companies and weaker outlook of export orders, exports growth should be more sluggish in the second half of this year. Growing exports of ICT services are the main contributor to services exports. Historically the footprint of Estonian exports has increased, but considering the negative risks stemming from foreign environment, our exports following the foreign demand is conservatively expected in the following years. According to this, exports growth will slow to 2.4% in 2020 and in line with recovering foreign environment to grow 3.3% in 2021. Imports will grow 4.4% in 2019, being supported by higher investment activity of companies, brisk private consumption based on strong labour market as well as the expansion of activities focused on domestic market.

Strong domestic demand and the weakness of services exports will result in smaller **current account** surplus, reaching 0.6% of GDP in 2019. Afterwards, the intense investment activity of companies should recede and the current account surplus is forecast to expand temporarily.

Considering decreasing price pressures from foreign factors and the impact of lower alcohol excise duty rate, **CPI inflation** will slow down to 2.2% in 2019. As a result of lower crude oil and electricity stock prices and the slowdown of prices of solid fuels, energy prices will decline in the second half of this year. However, strong domestic demand along with very low unemployment is causing wage and cost pressures and has resulted in the pickup of services inflation. During 2020 – 2021 consumer prices will grow 2.2% and 2.1% respectively. According to the futures a decline in oil prices can be expected but mandatory increase of the share of biofuels will raise diesel fuel retail prices. In addition, gradual decline in electricity stock prices towards the long-term average is expected. Next year, growing prices of services and food will drive the CPI inflation. The impact of tax measures to inflation will be close to neutral. In terms of more modest economic growth and slower wage dynamics CPI inflation will stabilise around 2% in the end of the forecast period.

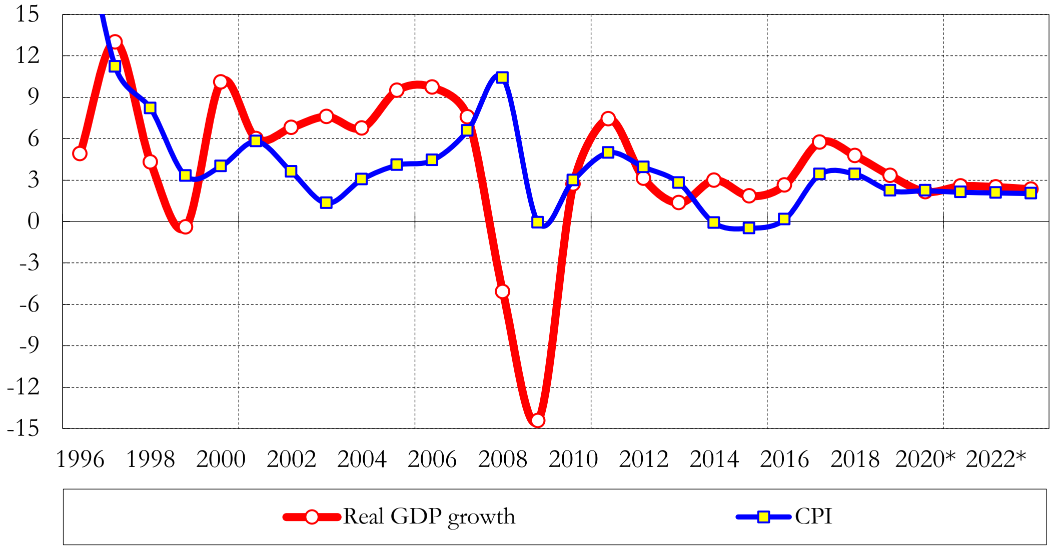
Labour market situation is still very good, but employment growth rate is forecast to decelerate further, in line with slowdown in economic growth. Labour shortages is still the most important factor hindering growth both in construction and services, but its importance is decreasing in the context of weakening economic sentiment. While employment is expected to increase by 1% this year, already high employment rates in Estonia in the EU28 comparison and shrinking working age population are the main reasons, why we expect employment growth to stop in 2021. Unemployment is expected to remain low at around 5% this year and increasing marginally in the following years due to higher participation of older persons in the labour market due to the Work Ability Reform and increasing pension age.

Wage growth has remained strong at around 8% despite the slowdown in economic growth. During past year or so wage growth has outpaced productivity growth and has had a negative effect on profits, which is not sustainable in the long run. Therefore, a slowdown in wage growth is forecast starting from 2020 along with decelerating GDP growth and as companies’ ability to pay higher wages is narrowing. Nevertheless, unemployment remains low and working age population is shrinking, which means that wage pressures remain for the coming years as well. Real wage growth is expected to grow by 4.8% this year due to a slowdown in inflation, before real wage growth stabilises around 3% starting from 2020.

Figure 1

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

(per cent)

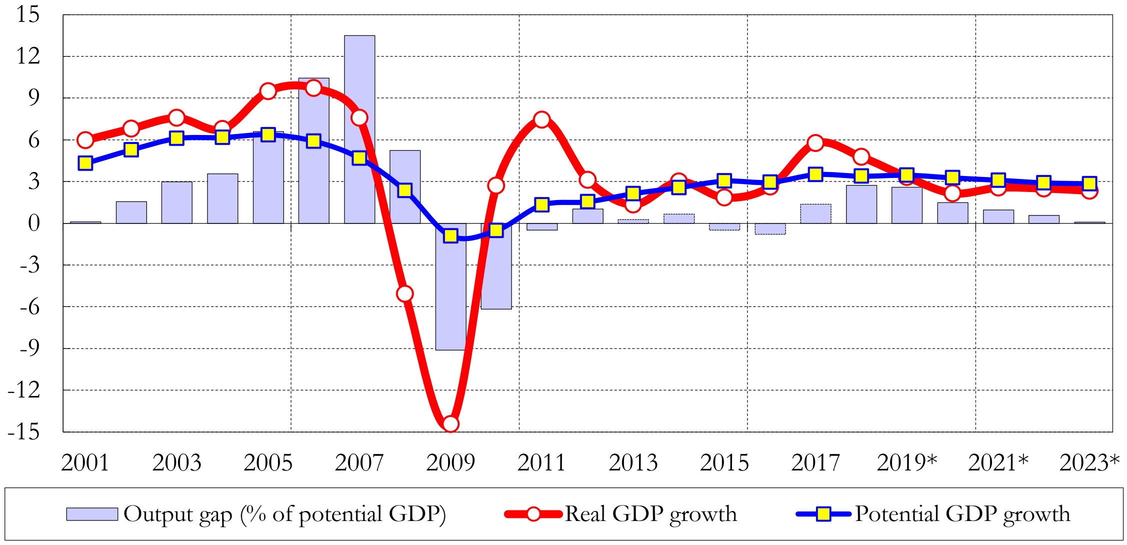


Source: Statistics Estonia, Ministry of Finance.

Figure 2

Development of potential GDP and output gap

(per cent)



Source: Statistics Estonia, Ministry of Finance.

Table 0.i) Basic assumptions

	2018	2019*	2020*
Short-term interest rate (annual average)	-0,3	-0,4	-0,5
Long-term interest rate (annual average)	0,4	-0,3	-0,5
USD/€ exchange rate (annual average)	0,848	0,889	0,894
Nominal effective exchange rate	3,4	0,1	0,0
World excluding EU, GDP growth	3,8	3,4	3,5
EU GDP growth	1,9	1,4	1,6
Growth of relevant foreign markets	3,4	1,6	2,4
World import volumes, excluding EU	4,7	1,5	2,8
Oil prices (Brent, USD/barrel)	71,1	63,3	58,1

Source: Ministry of Finance.

Table 1.a. Macroeconomic prospects

		2018	2018	2019	**2020**
		Level	rate of change	rate of change	rate of change
1. Real GDP	B1*g	23629,2	4,8	3,3	2,2
of which					
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth (1/)		–	–	–	–
2. Potential GDP			3,4	3,5	3,3
contributions:					
- labour			0,8	0,6	0,4
- capital			1,2	1,3	1,2
- total factor productivity			1,3	1,5	1,6
3. Nominal GDP	B1*g	26035,9	9,5	6,8	5,1
Components of real GDP					
4. Private final consumption expenditure	P.3	11943,7	4,3	3,6	2,8
5. Government final consumption expenditure	P.3	4338,0	0,9	1,6	0,1
6. Gross fixed capital formation	P.51	5835,3	1,7	11,0	1,5
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	642,0	2,4	2,3	2,4
8. Exports of goods and services	P.6	18174,7	4,3	3,4	2,4
9. Imports of goods and services	P.7	17704,4	5,7	4,4	2,1
Contributions to real GDP growth					
10. Final domestic demand			2,8	4,7	1,8
11. Changes in inventories and net acquisition of valuables	P.52 + P.53		0,8	0,0	0,0
12. External balance of goods and services	B.11		-0,8	-0,6	0,3

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

Source: Statistics Estonia, Ministry of Finance.

Table 1.b. Price developments

	ESA code	2018 *level 2010=100*	2018 rate of change	2019* rate of change	2020* rate of change
1. GDP deflator		130,8	4,5	3,4	2,8
2. Private consumption deflator		122,5	3,7	2,3	2,3
3. HICP		122,9	3,4	2,2	2,3
4. Public consumption deflator		145,2	7,2	6,5	2,8
5. Investment deflator		118,4	3,4	4,0	3,0
6. Export price deflator (goods and services)		113,6	2,4	0,4	1,2
7. Import price deflator (goods and services)		107,9	2,0	0,5	0,9

Source: Statistics Estonia, Ministry of Finance.

Table 1.c. Labour market developments

	ESA code	2018 *Level*	2018 *rate of change*	2019* *rate of change*	2020* *rate of change*
1. Employment, persons		664,7	0,9	1,0	0,1
2. Employment, hours worked					
3. Unemployment rate (%)		37,7	5,4	5,0	5,2
4. Labour productivity, (real GDP per employed person)		35,5	3,8	2,3	2,0
5. Labour productivity, hours worked					
6. Compensation of employees	D.1	12 623,8	10,9	9,3	6,0
7. Compensation per employee		18 991,8	9,9	8,3	5,8

Source: Statistics Estonia, Ministry of Finance.

Table 1.d. Sectoral balances

	ESA code	2018 *% of GDP*	2019* *% of GDP*	2020* *% of GDP*
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	3,1	2,4	2,9
of which:				
- balance on goods and services		3,5	2,6	3,0
- balance of primary incomes and secondary incomes		-1,7	-2,0	-2,0
- capital account		1,3	1,8	1,9
2. Net lending/net borrowing of the private sector	B.9			
3. Net lending/net borrowing of general government	B.9	-0,5	-0,1	0,0
4. Statistical discrepancy		-0,4	-	-

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 2019 economic forecast of the Ministry of Finance on 23.09.2019 says:[2]

- „ The Fiscal Council finds that the summer forecast of the Ministry of Finance is in line with the changes in the Estonian economy and the assumptions used for the forecast."
- However, the Council sees some risks ahead, in particular from geopolitical uncertainty and foreign trade tensions and this could lead slower than expected economic growth. Therefore, the Council recommends that the steps to improve the fiscal position be planned with an excess, as revenues in 2019 could prove weaker than expected.
- The Fiscal Council also recommends that the government stick to the budget targets set in the state budget strategy in spring and structural balance should already be attained in 2021.

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In the following, there are pointed out most relevant differences between Ministry of Finance's 2019 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.

In terms of weakening foreign climate the forecasts for 2019 were lowered in the beginning of this year. However, stronger than expected growth rate of the economy recorded during the first half of 2019 has resulted in an upward corrections of growth outlook by different institutions. Forecasts published since summer are in between 3.0%-3.4% for 2019.

For 2020, institutions expect a slowdown of the economy and during this year the forecasts have been lowered gradually. Forecasts published since summer are in between 1,9% to 2,5% for 2020. The Ministry of Finance's expectations are in the middle of the forecast 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, %		
	2019*	2020*	2021*	2019*	2020*	2021*
Ministry of Finance	3,3	2,2	2,6	6,8	5,1	5,2
Bank of Estonia	3,0	1,9	2,0	7,0**	5,0**	4,6**
Swedbank	3,3	2,3	2,5	7,0**	5,8**	5,5**
SEB	3,0	2,3	2,0	-	-	-
Luminor	3,4	2,5	2,4	-	-	-
Consensus Forecasts	3,4	2,5	-	-	-	-
European Commission	2,9	2,3	-	-	-	-
IMF	3,0	2,9	2,8	5,7	6,0	6,0
OECD	3,2	2,8	-	6,8**	6,1**	-
Estonian Institute of Economic Research	3,1	-	-	-	-	-

	Consumer price index, % (in brackets Harmonised Consumer Price Index)			General government position, % of GDP		
	2019*	2020*	2021*	2019*	2020*	2021*
Ministry of Finance	2,2 (2,2*)	2,2 (2,3*)	2,1 (2,2*)	-0,1	0,0	0,2
Bank of Estonia	2,3 (2,2*)	1,9 (2,1*)	1,8 (2,0*)	-0,2	0,1	-0,1
Swedbank	2,3	2,3	2,2	-0,4	-0,2	0,2
SEB	2,3*	2,2*	2,0	-0,2	-0,3	-0,3
Luminor	2,3	2,3	2,2	-0,5	-0,2	0,1
Consensus Forecasts	2,4	2,4	-	-0,2	-0,2	-
European Commission	2,4*	2,1*	-	-	-	-
IMF	3,0*	2,8*	2,6*	0,2	0,2	0,1
OECD	1,7*	2,3*	-	-0,2	-0,2	-
Estonian Institute of Economic Research	2,7	-	-	-	-	-

* 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. 2020 Draft Budgetary Plan of Estonia. 15.10.2019.
European Commission. European Economic Forecast. Summer 2019 (Interim). 10.07.2019.
IMF.World Economic Outlook. April 2019. 09.04.2019.
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Bank of Estonia. Monetary policy and economy. 3/2019. 03.10.2019.
Estonian Institute of Economic Research. Konjunktuur no 2 (209) 2019. 10.07.2019.
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Luminor. 12.09.2019.
Eastern Europe Consensus Forecasts. 16.09.2019.

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 2019, the structurally adjusted budgetary position of general government is projected to be in a deficit 1.2% of GDP, which is in line with the correction mechanism provided in the State Budget Act, which requires that a budgetary position that is not in line with the structurally balanced budget rule would be corrected by at least by 0.5% per year. General goal of the fiscal policy is to preserve neutral or countercyclical budgetary policy. **In 2020, Estonia's general government structurally adjusted budgetary position is planned in a deficit 0.7% of GDP, corresponding to correction mechanism.** During 2022–2023, the aim is a structural balance, which is less ambitious than the requirements set in the current State Budget Act. The government has decided to amend the State Budget Act by waiving the requirement to compensate for the cumulative structural deficit that has arisen and restoring the annual structural balance requirement. There are no sustainability problems in the budget when the objectives are met. **The adjustment is planned in accordance to the path towards MTO as defined by the requirements in the State Budget Law and is in line with the SGP. The MTO remains at -0.5% of GDP and will be achieved in 2021.**

According to Statistics Estonia the budgetary position of the general government was in a deficit of 0.6% of GDP or EUR 146 million in 2018. Central government was in a deficit (1.0% of GDP), which was partly offset by a surplus from local governments and social security funds (0.2% and 0.3% of GDP accordingly). Central government deficit was mainly caused by increased investment activity and increased social expenditure. The result of social security funds exceeded expectations both in terms of the Health Insurance Fund and the Unemployment Insurance Fund; this was caused by great accrual of social tax and unemployment insurance premium.

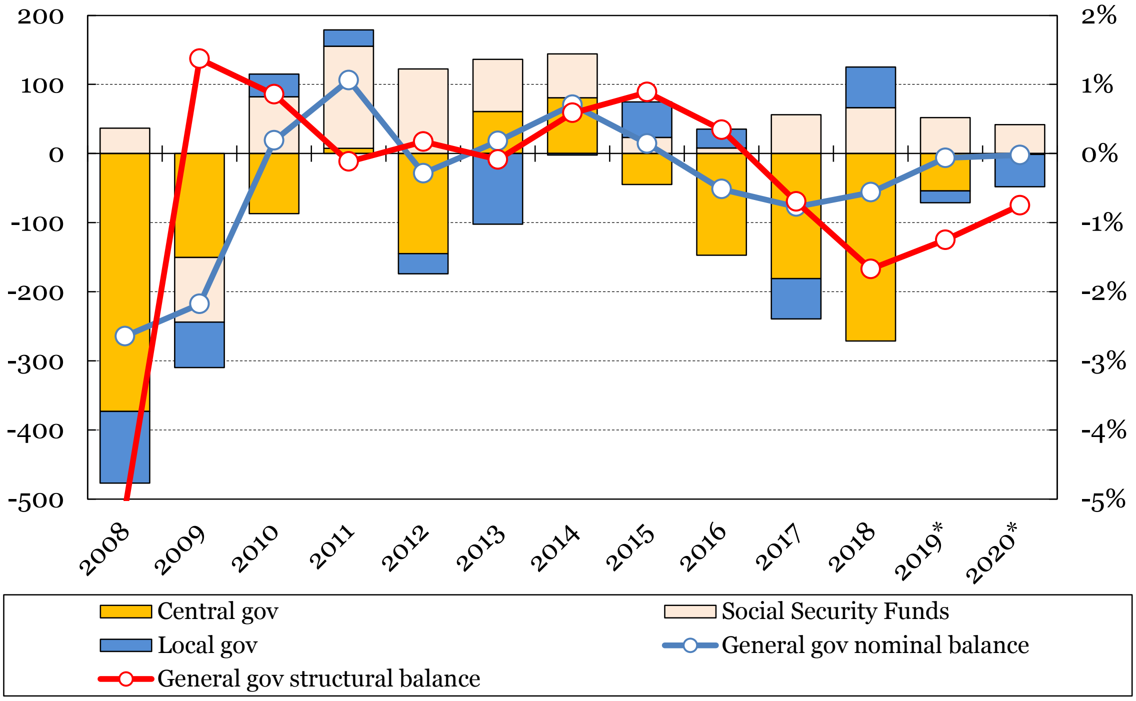
In 2019, the nominal budgetary position of general government, taking into account 2020 draft budget measures, reaches a nominal deficit of 0.1% of GDP, which is 0.5% less than in previous year. This year's position will be improved by the increased dividend revenue as well as by the increased sales revenue generated by the raise in CO2 quota price. In 2020, according to the draft budget, nominal budgetary position of general government will be in a balance due to improvements in central government level.

In 2018, the general government debt decreased to 8.4 % of GDP, amounting to EUR 2 174 million. Main reason for the decline in debt burden was the nominal decrease of the debt of local governments and in the central government. This year, debt burden of the general government can be expected to increase to 8.8% of GDP and dropping further to 8.0% of GDP by the end of 2020.

Figure 3

General government budgetary position

(% of GDP)

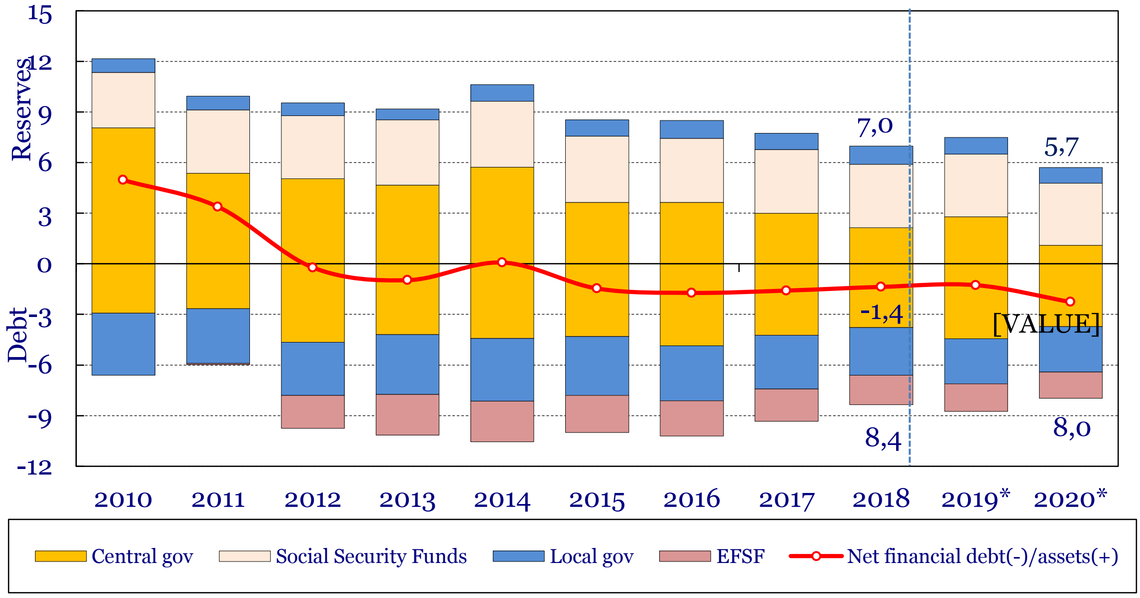


Source: Statistics Estonia, Ministry of Finance.

Figure 4

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

(% of GDP)

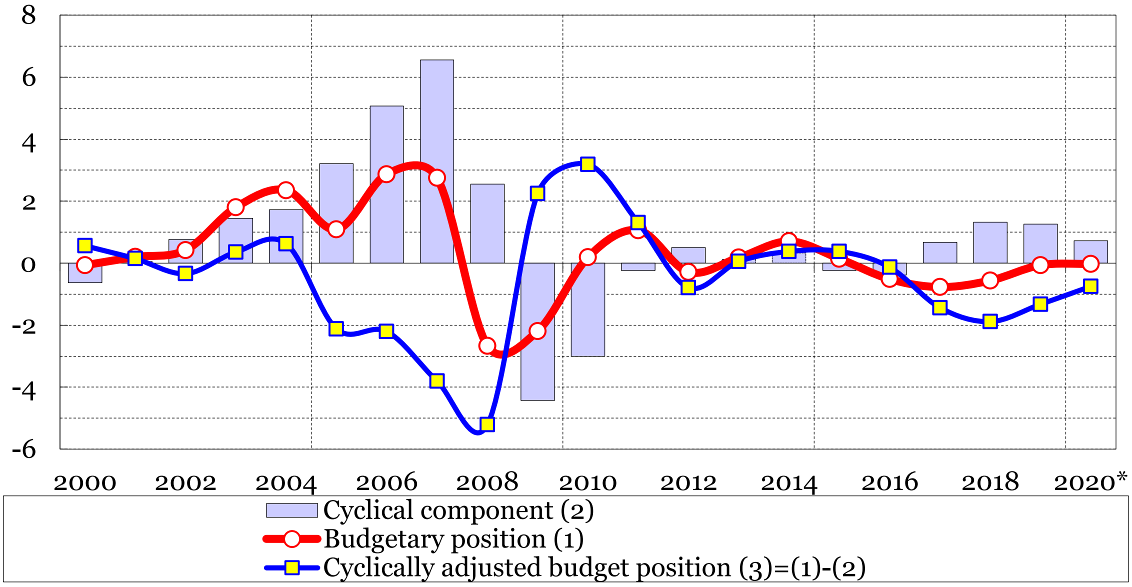


Source: Statistics Estonia, Ministry of Finance.

Figure 5

General government cyclically adjusted budgetary position

(% of GDP)

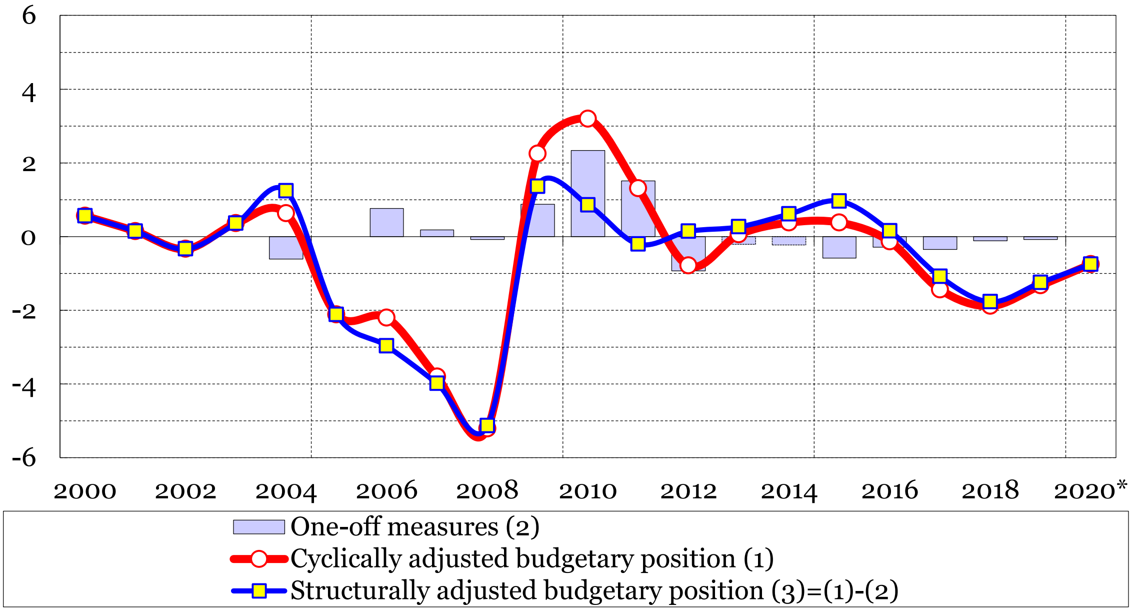


Source: Statistics Estonia, Ministry of Finance.

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	2019 (1/)	2020*
		% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector			
1. General government	S.13	-0,1	0,0
2. Central government	S.1311	-0,2	0,0
3. State government	S.1312	-	-
4. Local government	S.1313	-0,1	-0,2
5. Social security funds	S.1314	0,2	0,1
6. Interest expenditure	D.41	0,0	0,0
7. Primary balance (3/)		0,0	0,0
8. One-off and other temporary measures (4/)		-0,1	0,0
9. Real GDP growth (%) (=1. in Table 1a)		3,3	2,2
10. Potential GDP growth (%) (=2 in Table 1.a)		3,5	3,3
contributions:			
- labour		0,6	0,4
- capital		1,3	1,2
- total factor productivity		1,5	1,6
11. Output gap (% of potential GDP)		2,6	1,5
12. Cyclical budgetary component (% of potential GDP)		1,3	0,7
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		-1,3	-0,7
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		-1,3	-0,7

15. Structural balance (13 - 8) (% of potential GDP)		-1,2	-0,7

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	**2019***	**2020***
		% of GDP	*% of GDP*
1. Gross debt		8,8	8,0
2. Change in gross debt ratio		0,4	-0,8
Contributions to changes in gross debt			
3. Primary balance (=item 10 in table 2.a.i))		0,0	0,0
4. Interest expenditure	D.41	0,0	0,0
5. Stock-flow adjustment		0,9	-0,4
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/)		0,5	0,5
Other relevant variables			
6. Liquid financial assets (2/)		7,5	5,7
7. Net financial debt (7=1-6)		1,3	2,3
8. Debt amortization (existing bonds) since the end of the previous year [3]		0,6	0,6
9. Percentage of debt denominated in foreign currency		0,0	0,0
10. Average maturity [4]		4,1	4,3

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.

[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.

Table 2.c. Contingent liabilities

	2019*	**2020***
	% of GDP	*% of GDP*
Public guarantees	8,8	8,3
Of which: linked to the financial sector	8,6	8,2

Source: Ministry of Finance.

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

Summer forecast (Table 3) differs from the Stability Programme forecast mainly because of an upward correction of revenue collection of all taxes and social payments. Indicators as a percentage of GDP are not directly comparable as the summer forecast ratios are based on the GDP time series revised on 30.08.2019, but in the Stability Programme based on earlier GDP.

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

General Government (S13)	ESA Code	2019*	2020*
		% of GDP	*% of GDP*
1. Total revenue at unchanged policies	TR	39,2	39,4
of which			
1.1. Taxes on production and imports	D.2	14,0	13,9
1.2. Current taxes on income, wealth, etc.	D.5	7,2	7,3
1.3. Capital taxes	D.91	0,0	0,0
1.4. Social contributions	D.61	11,9	12,0
1.5. Property income	D.4	0,9	0,7
1.6. Other		5,2	5,5
p.m.: Tax burden (=D.2+D.5+D.61+D.91-D.995)		33,1	33,2
2. Total expenditure at unchanged policies	TE	39,5	39,2
of which			
2.1. Compensation of employees	D.1	11,3	11,2
2.2. Intermediate consumption	P.2	6,3	6,1
2.3. Social payments	D.62 D.632	13,4	13,7
of which Unemployment benefits		0,3	0,3
2.4. Interest expenditure (=9. in Table 2.a)	D.41	0,0	0,0
2.5. Subsidies	D.3	0,4	0,4
2.6. Gross fixes capital formation	P.51	5,8	5,6
2.7. Capital transfers	D.9	0,4	0,4
2.8. Other		1,9	1,9

Source: Ministry of Finance.

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

The Draft Budgetary Plan (Table 4.a) differs from the summer forecast (Table 3) because of revenue and expenditure measures (Table 5.a). In 2019, revenue increased by 0.1% GDP mainly because of including private sector company "TS Laevad" in general government sector and CIT increase due to shifting of dividends. Expenditure decreased by 0,1% of GDP in 2019. In 2020, revenue increased because of the measures by 0.2% of GDP and expenditure increased by 0.4% of GDP because of compensation of employees, social payments and other expenditures.

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

General Government (S13)	ESA code	**2019***	**2020***
		% of GDP	*% of GDP*
1. Total revenue target	TR	39,3	39,5
of which			
1.1. Taxes on production and imports	D.2	14,0	13,9
1.2. Current taxes on income, wealth, etc	D.5	7,3	7,3
1.3. Capital taxes	D.91	0,0	0,0
1.4. Social contributions	D.61	11,9	12,0
1.5. Property income	D.4	0,9	0,7
1.6. Other		5,3	5,6
p.m.: Tax burden (=D.2+D.5+D.61+D.91-D.995)		33,1	33,2
2. Total expenditure target	TE	39,4	39,6
of which			
2.1. Compensation of employees	D.1	11,3	11,4
2.2. Intermediate consumption	P.2	6,3	6,2
2.3. Social payments	D.62 D.632	13,4	13,8
of which Unemployment benefits		0,3	0,3
2.4. Interest expenditure (=9. in Table 2.a)	D.41	0,0	0,0
2.5. Subsidies	D.3	0,4	0,4
2.6. Gross fixes capital formation	P.51	5,7	5,6
2.7. Capital transfers	D.9	0,4	0,2
2.8. Other		1,8	2,0

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 2.6% for Estonia according to the EC 2019 Spring 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, which will help the member state to adjust its position by at least 0,5% of GDP and fulfil its MTO.

Adjusted expenditure growth[5] in 2019 will be 0,9%, which is lower than the benchmark (difference of 1.0 pp). The benchmark will not be met in 2020, when expenditures will increase by 2.0%, but as MTO is not met, the expenditure benchmark is 1.3% (difference 0.7 pp).

Table 4.b. Expenditure benchmark

	2018	**2018**	**2019***	**2020***
	level (m EUR)	*% GDP*	*% GDP*	*% GDP*
1. Expenditure on EU programmes fully matched by EU funds	450,8	1,73	2,02	2,25
1a. of which investment fully matched by EU funds	242,7	0,93	1,08	1,18
2. Cyclical unemployment benefit expenditure [6]	0,0	0	0	0
3. Effect of discretionary revenue measures [7]	107,3[8]	0,41	0,67	0,42
4. General government revenue increases mandated by law	0,0	0	0	0

Source: Ministry of Finance.

[5] In accordance with the EC 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] Expert assessment assumption is that the level of unemployment is at its normal rate.
[7] Included revenue measures: basic and pension income tax allowance changes; other income tax deductibility changes; company car taxation changes; income and tax from dividends; state budget wage increases; low-income tax support; distributed profit tax rate decrease (for mature companies); measure for curbing profit shifting; wage vs dividends taxation measures; entrepreneurial account for small companies; excise increases; reverse taxation of metal; VAT obligation threshold increase; fuel fraud measure; electricity excise reduction for large consumers (companies); self-employed taxation changes; CO_2 quota sales; fine increases; changes in resource charges, local government tax measure increases.
[8] The effect of all revenue changes which applied or will apply after 01.01.2017, compared to the counter-factual. In the following years, the change of this effect is given.

Table 4.c. General government expenditures by function

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

	2019*		2020*	
	% of GDP	*% of general government expenditure*	*% of GDP*	*% of general government expenditure*
Education	5,8	14,8	5,9	14,9
Healthcare	5,6	14,1	5,8	14,5
Employment	0,1	0,3	0,1	0,4

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

Functions of the Government	**COFOG code**	**2019***	**2020***
		% of GDP	*% of GDP*
1. General public services	1	3,1	3,2
2. Defence	2	2,4	2,2
3. Public order and safety	3	1,5	1,9
4. Economic affairs	4	5,2	5,4
5. Environmental protection	5	0,5	0,0
6. Housing and community amenities	6	0,3	0,2
7. Health	7	5,6	5,8
8. Recreation, culture and religion	8	1,8	1,5
9. Education	9	5,8	5,9
10. Social protection	10	13,1	13,5
11. Total expenditure (=2. in Table 4.a)	**TE**	**39,4**	**39,6**

Source: Ministry of Finance.

5. Description of discretionary measures included in the draft budget

There are twelve measures that have an impact on state budget revenue and expenditure in 2020. Four of them have an impact on state budget revenue, eight of them affect state budget expenditure. All expenditure measures (total of EUR -51 million) are temporary in nature and they are used to cover the priority needs of the ministries.

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 2018*	Budgetary impact 2019*
					% of GDP	*% of GDP*
1) Dividend income	Additional dividends and moving dividends to 2020, with additional income tax (CIT)	Revenue, D421, D5	Accrual method	Draft is not required	0,02	0,09
2) Rescheduling the rise in tobacco excise duty	The 10% increase in cigarette excise duty in 2020 will be replaced by a 5% increase in the period 2020-2023	Revenue, D2	Accrual method	Submitted with budget	0,00	-0,02
3) Increase in revenue from state fees	Abolition of the visa fee exemption and other	Revenue, P11	Accrual method	Submitted with budget	0,00	0,01
4) Specification of the forecast	Reclassification of AS TS Laevad into the general government sector	Revenue, P11	Accrual method	Draft is not required	0,04	0,03
5) Irregular pension increase	Old-age pension increase 7€	Expenditure, D62	Accrual method	Submitted with budget	0,00	-0,05
6) Specification of the source of funding	Expenditure measures and the source of funding specified - performance reserve and CO2 funds	Expenditure, D9	Accrual method	Draft is not required	0,00	0,18
7) Investments in fixed assets incl real estate investments	Incl. ferry and dotation for AS TS Laevad, IT support for official count of population, Washington embassy construction rescheduling, sports facilities	Expenditure, P5, P51, D3, D9	Accrual method	Draft is not required	0,00	-0,08
8) Additional wage increase	Compensation of employees in priority areas, incl 2,5% wage increase of teachers, internal security, cultural and social workers	Expenditure, D1	Accrual method	Draft is not required	0,00	-0,06
9) Cancellation of cost savings	Cancellation of cost savings decided in State Budget Strategy	Expenditure, D1, D7, P2	Accrual method	Draft is not required	0,00	-0,29
10) Additional grants	Additional grants in educational, regional, social and other fields	Expenditure, D7, D62	Accrual method	Draft is not required	0,00	-0,05
11) Operating cost	The Riigikogu, the State Chancellery, the Office	Expenditure,	Accrual method	Draft is not	0,06	0,08

savings and shift	of the President of the Republic, various ministries	P2		required		
12) Other different expenditure measures	Incl. costs of foreign diplomats, use of reserves, other additional funds allocated to different ministries	Expenditure, P2, D1	Accrual method	Submitted with budget	0,07	-0,02
Total revenue measures					**0,05**	**0,12**
Total expenditure measures					**0,13**	**-0,29**
TOTAL					**0,18**	**-0,17**

Source: Ministry of Finance

Table 5.b. Discretionary measures taken by Central

List of measures	Detailed description	Target (exp / rev component) ESA Code	Accounting principle	Adoption status	Budgetary impact 2018*	Budgetary impact 2019*
					% of GDP	*% of GDP*
1) Dividend income	Additional dividends and moving dividends to 2020, with additional income tax (CIT)	Revenue, D421, D5	Accrual method	Draft is not required	0,02	0,09
2) Rescheduling the rise in tobacco excise duty	The 10% increase in cigarette excise duty in 2020 will be replaced by a 5% increase in the period 2020-2023	Revenue, D2	Accrual method	Submitted with budget	0,00	-0,02
3) Increase in revenue from state fees	Abolition of the visa fee exemption and other	Revenue, P11	Accrual method	Submitted with budget	0,00	0,01
4) Specification of the forecast	Reclassification of AS TS Laevad into the general government sector	Revenue, P11	Accrual method	Draft is not required	0,04	0,03
5) Irregular pension increase	Old-age pension increase 7€	Expenditure, D62	Accrual method	Submitted with budget	0,00	-0,05
6) Specification of the source of funding	Expenditure measures and the source of funding specified - performance reserve and CO2 funds	Expenditure, D9	Accrual method	Draft is not required	0,00	0,18
7) Investments in fixed assets incl real estate investments	Incl. ferry and dotation for AS TS Laevad, IT support for official count of population, Washington embassy construction rescheduling, sports facilities	Expenditure, P5, P51, D3, D9	Accrual method	Draft is not required	0,00	-0,08
8) Additional wage increase	Compensation of employees in priority areas, incl 2,5% wage increase of teachers, internal security, cultural and social workers	Expenditure, D1	Accrual method	Draft is not required	0,00	-0,06
9) Cancellation of cost savings	Cancellation of cost savings decided in State Budget Strategy	Expenditure, D1, D7, P2	Accrual method	Draft is not required	0,00	-0,29
10) Additional grants	Additional grants in educational, regional, social and other fields	Expenditure, D7, D62	Accrual method	Draft is not required	0,00	-0,05
11) Operating cost	The Riigikogu, the State Chancellery, the Office	Expenditure,	Accrual method	Draft is not	0,06	0,08

savings and shift	of the President of the Republic, various ministries	P2		required		
12) Other different expenditure measures	Incl. costs of foreign diplomats, use of reserves, other additional funds allocated to different ministries	Expenditure, P2, D1	Accrual method	Submitted with budget	0,07	-0,02
Total revenue measures					**0,05**	**0,12**
Total expenditure measures					**0,13**	**-0,29**
TOTAL					**0,18**	**-0,17**

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. [9]

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.	1.1 Ensure that the nominal growth rate of net primary government expenditure does not exceed 4,1 % in 2020, corresponding to an annual structural adjustment of 0,6 % of GDP.	The draft 2020 Budget Plan targets structural deficit of -0,7% of GDP and nominal balance. Budgetary measures planned in the State Budget Strategy are mainly being implemented according to initial plans. General government expenditure increase in 2020 is affected by the following factors: • an upward revision of budget balance in 2019 by 0.3% of GDP in nominal terms (downward by 0.1% of GDP in structural terms) when compared to the Stability Programme; • increase of social payments 74 million EUR or 0.3% GDP; • increase of compensation of employees 56 million EUR; • increase of other costs, intermediate consumption and capital formation.
1.	1.2 Ensure effective supervision and the enforcement of the anti-money laundering framework.	Estonia has recently reviewed the effective functioning of AML institutional set up and related proceedings. Resulting measures planned to be implemented comprise of both legal updates (including also amendments necessary for AMLD V transposition) as well as strengthening supervisory institutions. The latter one includes recruitment of additional staff (in the FIU, FSA, criminal investigators and prosecutions service), additional powers for sanctioning, the establishment of strategic centre of analyses within the FIU and further development of IT tools for gathering enhanced law enforcement statistics and bank and payment accounts data retrieval systems.
2.	2.1 Address skills shortages and foster innovation by improving the capacity and labour market relevance	To alleviate skills shortages, in the context of adult education the government aims to improve adults' access to formal education, expand opportunities of in-service training and

[9] http://data.consilium.europa.eu/doc/document/ST-10159-2019-INIT/en/pdf

	of the education and training system.	retraining, increase flexibility in learning pathways and educational provision, recognition of RPL, and promote adult learning. Both in higher education, vocational education and in-service and retraining, the results of OSKA forecasting system are taken into account to ensure that the education system meets the needs of the labour market.
2.	2.2 Improve the adequacy of the social safety net and access to affordable and integrated social services.	For improving the adequacy of the social safety net: 1. Pension indexation with an index of 1,084 in 2019, resulting in average pension increase from EUR 446.52 to EUR 483.24. According to the forecasts, pension index of 1,08 is expected in 2020 and average pension raises to EUR 521.10. Government sent to the Parliament the proposal to increase pensions after 2020 indexation additionally 7 euros. 2. In 2018 Parliament adopted the I pension pillar reform. Pension reform addresses the problems of pensions' adequacy of low wage earners and the sustainability of pension system. As 77% of the insured persons are receiving wages below median income and I and II pillar pensions depend largely on contributions, very many people will receive low pensions in the future. In order to reduce the impact of the contributions to the future pensions changes in pension formula were introduced. New pension formula comes into force in 2021 and the formula stops increasing pension inequalities. 3. Second important development was the linkage of pensionable age with life expectancy. Pensionable age will be linked to life expectancy from 2027 when the previous rise in pensionable age is achieved (65 years for men and women). The change in pension formula and the rise in pensionable age will make everyone's (especially low-income person's) pensions bigger in the future. 4. Third improvement is the flexible pensionable concept. This will allow people to retire flexibly before legal pensionable age as they receive pensions even while they keep on working. In order to increase one's pension it is now possible to stop the pension payments and start them later again. While the pension payments are stopped, they will grow actuarially neutrally. It is also possible to take out only half of pension which makes later pension payments higher. In 2021, the concept of flexible pension will come into force. 5. From 2018, additional bonus to the pension is paid to the mothers and fathers in amount of EUR 6.627 per child who has been raised at least 8 years. This additional bonus is being paid to 229'000 pensioners. 6. Continuation of support for a pensioners' living alone, that started in 2017. In 2019, a pensioner living alone receives additional one-time benefit of EUR 115 per annum if the monthly pension is below EUR 540. In October 2019 this benefit is paid to nearly 87'000 pensioners. 7. Annual benefit of repressed persons was increased from EUR 192 to EUR 230 in 2018. Repressed persons'

		benefit receivers are pension-aged persons, mostly. 8. The basic income tax allowance was increased to EUR 500 per month. 9. Benefit for persons with reduced capacity for work was indexed with pension index (1.084) in 2019, which increased the average benefit for persons with partial capacity for work from EUR 217.51 to EUR 235.81 and the average monthly benefit for persons with no capacity for work increased from EUR 381.6 to EUR 413.7. 10. The subsistence level for the first household member was increased to EUR 150 per month in 2019.
2.	2.3 Take measures to reduce the gender pay gap, including by improving wage transparency.	For reducing the gender pay gap: 1. In order to support employers both in fulfilling legal requirements and taking voluntary measures to promote gender equality in their organisation, while also enabling them to keep the administrative burden of these activities as low as possible, IT tools are planned to be developed in the coming years. As far as possible, the tools are intended to use personnel and wages data that employers have already provided to the state. The tools should help the employers to discover shortcomings in their organisation in following the principle of equal treatment of women and men, including the principle of equal pay for women and men, to analyse more thoroughly overall gender equality situation in the organisation, and provide guidance for finding solutions and drawing up an action plan to tackle the shortcomings. 2. From January 2019, a three-year research project is carried out with an aim to decrease the still unexplained part of the gender pay gap by clearing up further reasons for it through linking together different existing databases, adding qualitative analysis and using simulation and forecast models to design evidence-based policy scenarios. The project also creates a low-administrative-cost database for up-to-date data on gender pay gap. Based on the analysis, user-friendly digital awareness-raising features will be developed. As the studies show, women in Estonia often enter the wage negotiation process with a lower wage expectation than men. The digital awareness-raising solutions can have an empowering effect on women, providing information about the average wage level and gender pay gap in a certain field or position-level. The 615 789 EUR project is co-financed from the Regional Development Fund. 3. Additional activities are implemented and planned to tackle different causes of the gender pay gap, including measures to raise awareness of the gender pay gap, its causes and ways to reduce it, measures to tackle gender stereotypes, to reduce gender segregation of the labour market, ensuring adequate wage in female-dominated sectors, easing the care burden (by providing adequate and flexible childcare and taking measures addressed to informal carers of people with disabilities and elderly), supporting more equal sharing of care burden between

		women and men etc.
3.	Focus investment-related economic policy on sustainable transport and energy infrastructure, including interconnections, on fostering research and innovation, and on resource and energy efficiency, taking into account regional disparities.	The issue of long-term investment-related economic policy is being addressed within the preparation of "Estonia 2035" strategy. "Estonia 2035" will become the main long-term planning document in Estonia. It describes main challenges, priorities and ways to address the long-term issues. It is also the basis for further negotiations with the Commission and agreeing long-term investment needs. There are 9 main challenges addressed in the strategy: - Addressing changes in population; - Creating opportunities for development of smart entrepreneurship; - Ensuring safety and security; - Designing quality space and infrastructure in accordance with people's needs; - Creating flexible, lifespan covering educational opportunities that meet people's needs; - Improvement of people's health and prolonging healthy life; - Keeping environment clean; - Rule country in a smart and cohesive way; - Decreasing fault lines in society. These topics include sustainable transport and energy infrastructure, interconnections, address research and innovation, energy efficiency and take into account regional disparities. Based on that precise investment focuses will be discussed with the Commission. Preparation of "Estonia 2035" is still in progress. It will be finalized by the end of the current year and adopted in Spring 2020.

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, work place and fixed-term employment contracts and the extension of social guarantees to persons engaged in work. In order to consider whether to relax eligibility conditions for unemployment insurance benefits consultations with social partners have been held and composing legislative intent is in process. The Government is planning to discuss this issue in the spring 2020.
	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. Development and implementation of a Youth Guarantee Support System for supporting inactive young people to help them 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 creation of work experience.
	3. Implementing Work Ability Reform	Improving the system for assessing work capacity and data exchange solutions necessary for service implementation, providing services

		for the target group.
	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.
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 entrepreneurship, R&D and innovation will help to better align various measures towards common goals and ensure better synergy between the measures. The strategy would be finished in 2020.
	Peer Review of the Estonian R&I System	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.
	Grant schemas for private sector companies have gained more interest among the target group and demand has grown considerably: a) Product development support for manufacturing companies (starting from September 2018). b) Supporting applied research in the area of smart specialisation supports cooperation of enterprises and research institutions.	a) The support is intended to encourage industry to invest more into development. Business value added and sales turnover from new products should increase. b) This measure enables the companies to share risks with the state when ordering knowledge intensive applied research and product development from R&D institutions. Positive experience provides additional development boost for further R&D investments.
	In addition to on-going measures, following actions have been initiated or launched in 2019:	
	Industry digitalisation diagnostics and implementation support	The objective of the grant is to support the preparation and adoption the digitisation and automation of manufacturing industry in order

		to increase the productivity.
	A pilot measure to support knowledge diffusion in selected industry associations was launched.	The measure supports industry associations with a technology transfer experts in order to increase the absorptive capacity of their member enterprises.
	Technology Competence Centers (Applied Research Centers) programme	In 2019, additional support was decided based on the results of midterm evaluation.
	EUROSTARS support measure	Support for participation in EUROSTARS framework was launched.
	Accelerate Estonia programme	A new R&D demand side measure was launched to foster more innovation in public sector policy making
	Preparations to become a full member of the European Organization for Nuclear Research (CERN) are ongoing	This will allow the Estonian companies to fully benefit from the opportunities provided by CERN. Opportunities for R&D and enhanced competitiveness are increasing
	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 research and development capacity development sectoral programmes in the field of ICT and resource valuation have been launched.	The capacity of research institutions to carry out the research needed for companies and to equip labour force with better knowledge and skills is growing. As a result, research areas in the interests of companies arise in research institutions. The ICT program was launched in 2018, the resource valuation program will be launched at the end of 2019.
	Since 2019 in the calculation of base financing the base financing of research institutions and the share of business contracts in the formula for the allocation of base financing has increased	The state promotes cooperation of research institutions with enterprises and creates an additional incentive for business co-operation through the growth in the share of entrepreneurship contracts and the increase in base financing. In the long run, this should lead to an increase in private sector R&D expenditure.
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 have to 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) 2. Implementation of Structural Support measures	Estonia has fulfilled the 2020 goal for gross final consumption of renewables (29,2% in 2017). Activities to increase the share will continue. In our draft NECP, we have set a goal of 42% renewables from gross final energy consumption for 2030. Main measures to attain the ambitious goals in renewables are set in the National Development Plan of the Energy Sector Until 2030 and as of 31.12.2019 also in the NECP. The Estonian NECP is currently being finalised. Main activities include: a) Support for renovating district heating networks b) Renewable electricity subsidies (in July 2018, reverse auction principle adopted, first auction to be held in the end of 2019) c) Increasing uptake of biomethane in transport (support for constructing CNG filling stations and production of biomethane).
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 (2015-2017 average – 2830 ktoe). As our economy is growing 2+ times faster than EU average, main efforts are targeted to avoid growth of final energy consumption. According to our draft NECP, the 2030 goal for final energy consumption will be the same as for 2020. Significant decrease is foreseen for primary energy consumption. Main measures to ensure the fulfilment of energy efficiency goals are set in the National Development Plan of the Energy Sector Until 2030 and as of 31.12.2019 also in the NECP. The Estonian NECP is currently being finalised. Main activities include: a) Support for renovating district heating networks b) Support for renovations in the housing sector 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)
Reducing the number of young persons with basic education level or lower who are not studying	1. Flexible learning possibilities and support systems in	On 01.01. 2019, amendments to the Vocational Educational Institutions Act came into force which, among other things, regulate:

[9,5%]	vocational education	- 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 and motivation 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.
	3. Inclusive education and co-learning school	Introduction of principles for inclusive education, according to which pupils with special educational needs are an inseparable part of the pupils' body, they are involved in learning activities according to their capabilities and get adequate support to learn and cope. A co-learning concept will be developed to support the schools where children from different cultural background learn together.
National target for tertiary education [40%]	1. One of the six indicators of higher education performance financing is the share of graduates within standard duration of studies	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.
	2. Needs-based study allowance and special allowance for students who need extra support.	Various student allowances and grants to support successful completion of studies are also relevant.
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 and in 2019 it is 500 euros. Also, the flexibility for receiving parental benefit at the same when the parent is working, has been increased. From 1 March 2018, the income threshold was raised from which the parental benefit would be reduced when working receiving a parental benefit simultaneously. The law amendment has been in force for year and half and according to the data of Social Insurance Board, the share of parents, who earn income while on parental leave has increased. Before 1st of March 2018 the share of persons who were granted parental benefits and who earned income on the same time was 10%, but after the law amendment came into force, the share has increased to 15%.
	3. Changes in subsistence benefit	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. All child allowances are considered as income in the calculation of subsistence benefit. The need-based family allowance regulation became void. In order to increase the motivation for work, wage income is not considered to be part of the household income in subsistence benefit calculations and 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 the average pension (44 years of pensionable service) rose from 446,52 to 483,24 euros in 1st of April 2019. 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 State Budget Strategy 2020–2023 and Stability Programme 2019 was based on the spring forecast of the Ministry of Finance, published on 4. April 2019. The 2019 State budget is based on the summer economic forecast, published on 10. September 2019.

According to the spring forecast of the Ministry of Finance economic growth for 2019 was expected to be 3,1%. During 2019–2020 we expected the growth rate at 2.7%. This year's economic growth forecast has been revised upwards by 0.2 percentage points and is now 3.3%. The main reason for this was faster than expected growth in the first half of year. Domestic demand and export will grow faster than previously forecast, but import growth will outstrip export growth, thus increasing the negative impact of net exports. The economic growth forecast for 2020-2021 has been revised downwards by 0.5 and 0.1 percentage points compared to the spring forecast. The biggest correction is in the coming year in the increase in domestic demand and imports and therefore the positive contribution of net export may be higher than previously expected. Growth expectations in 2021 will be driven by domestic demand, which is growing slower than previously projected. The adjustment of GDP growth and price increases led to an increase in the nominal growth forecast for this year. Nominal GDP growth expectations for 2020-2021 have been lowered as well compared to the previous forecast.

The contribution of **domestic demand** to growth will be significantly stronger in 2019 (+1,5pp) and weaker (-0,7pp) in 2020 than expected in the Stability Programme. This is mainly driven by investment and government consumption, changes in private consumption are smaller. Despite weakening sentiment corporate investment has been surprisingly strong in the first half of 2019. Due to the strong base in 2019, slower growth is expected to follow in 2020, as the recovery of global growth is being postponed for some time. Private consumption growth has been revised slightly down during the whole forecasting horizon because of more active saving behaviour by households and weaker outlook than a year ago.

As a result of stronger outcome of **exports** in the first half of 2019, the growth rate has been revised up by 0.2pp. Considering the slowdown of global trade and growing uncertainties, foreign demand assumption for 2020 has been lowered and therefore our exports growth has been cut by 0.6pp. Forecast of imports for 2019 will be higher mainly due to stronger investment activity.

HICP inflation forecast for 2019-2020 remained unchanged compared to the Stability Programme. An upward revision of core inflation and food inflation was balanced by the decrease of alcohol excise since 1. July 2019.

Labour market developments have been broadly in line with expectations, but a slowdown in employment is visible both according to the LFS and the Tax Office data. At the same time the unemployment rate has decreased further. Revised population projections show slightly more positive trends for the coming years as activity weighted working age population starts to decline in 2022 only.

Wage growth was faster than expected during first half of 2019 and the expected slowdown has started only gradually. As a result, wage growth is outpacing productivity growth, raising concerns for external competitiveness. However, a slowdown in wages is still expected as companies' possibilities for paying higher wages are narrowing.

The general government budgetary position in 2019 has improved by 0.3% of GDP compared with the spring forecast and is now expected to be in a deficit of 0.1% of GDP. The improvement comes from the central government level and is caused primarily by lower than expected expenditure. The general government nominal budget projection for 2020 has worsened by 0.1% of GDP compared to the Stability Programme.

In 2019, the tax burden forecast compared to the Stability Programme has been revised downwards by 0.4 pps to 33.1% of GDP. Tax revenue increased because of labour taxes (PIT and SSC) due to stronger wage growth and fuel excise because of stocks due to increase of biocomponent share as of January 2020; the main driver of tax burden change was an upward correction of GDP. In 2020, the tax burden has been revised downwards by 0.2pp to 33.2% of GDP. Tax revenue increased because of stronger wage growth (PIT and SSC), also VAT and revenue from the sale of emission permits were revised upwards; fuel excise, CIT and pollution fee downwards; as in 2019 the main driver of change was an upward correction of GDP.

Forecast of general government debt has been increased by 0.6% of GDP in 2019 and decreased by 0.1% of GDP in 2020, compared to the forecast included in the Stability Programme due to the State Treasury's issuance of treasury bills in amount of EUR 200 million for cash flow management in June this year.

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

	ESA code	**2018**	**2019***	**2020***
		% of GDP	*% of GDP*	*% of GDP*
General government structural balance (1/) target	B.9			
Stability Programme		-0,4	-1,1	-0,4
Draft Budgetary Plan		-1,7	-1,2	-0,7
Difference		-1,3	-0,1	-0,3
General government structural balance projection at unchanged policies	B.9			
Stability Programme		-0,4	-1,1	-0,4
Draft Budgetary Plan		-1,7	-1,4	-0,6
Difference		-1,3	-0,3	-0,2

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	2018	2019*	2020*
		% of GDP	*% of GDP*	*% of GDP*
General government net lending/ net borrowing target	B.9			
Stability Programme		0,2	-0,4	0,1
Draft Budgetary Plan		-0,6	-0,1	0,0
Difference		-0,8	0,3	-0,1
General government net lending/ net borrowing projection at unchanged policies	B.9			
Stability Programme		0,2	-0,4	0,1
Draft Budgetary Plan (1/)		-0,6	-0,2	0,2
Difference		-0,8	0,2	0,1

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

8. Distributional effects of main revenue and expenditure measures

Gini coefficient[10] for Estonia, which indicates the income distribution of the population (larger index denominates larger inequality), was 35.6% in 2014, which was the highest in the EU. Since 2015, the index for Estonia has greatly improved and reached 30.6% in 2018. The shift is large and with this Estonia is at the EU average level in 2017 (2018 data is not available for all EU countries). Despite that, inequality is still large compared to our northern neighbours, the Nordic countries. However, comparing countries with very different sizes and development stages might yield misleading results, since regional inequality in larger countries might be less noticeable for their inhabitants.

Revenue and expenditure measures planned for 2020, which could theoretically change income distribution, will most likely not have a noticeable effect in the context of Gini coefficient in 2020.

[10] Eurostat, EU-SILC – Gini coefficient of income after social transfers.