



Weekly Briefing

Estonia economy briefing:

The ‘budgetary talks’: how to find the sources to cover all sorts of promises?

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In a well-functioning democracy, the ‘budgetary talks’ is always a relatively transparent ‘conversation’ on how to reconcile numerous political promises with the money in hand. Without a question, Estonia is a liberal democracy, but, given the specific composition of the current governmental coalition in the country, the aforementioned ‘conversation’ is promising to be extremely diverse at its best and highly populist at its worst. An avalanche of promises arrives from the widest possible ‘spectrum’ – narratives from both political right and left are getting mixed up with some ideas of undetermined political nature, which can be more related to science fiction rather than responsible politics. In any case, all will come to a point of completing a budget for 2020 very soon.

In order to get the process off the ground, the Estonian Ministry of Finance commenced the talk with delivering its summer economic forecast. It was reported that the Estonian economy, while still under pressure of having the government’s structural budgetary deficit (from 2019 until, most probably, 2023), will be into growth by 3.3% this year and is expected to grow further by 2.2% in 2020¹. Another couple of good positivity-enhancing points were made on a prospect of the average salary increase from €1,404 (by the end of 2019) to €1,484 (as forecasted for the end of 2020) and in regards of real wages growth – if the impact of price increases is taken into account, the real wages will grow by 3.4% in 2020². At the same time, as Finance Minister Martin Helme (*EKRE*) specified, the next year’s budget needs to allocate few segments from where some cutbacks will be made – the pronounced figure for the cutback was €50 million³. Considering the scale of the planned state budget revenue and expenditure for 2019 (correspondingly, €11.07 and €11.76 billion)⁴, the required cutback does not look like a monumental task to complete. However, there is also a factor of the country’s debt burden

¹ ‘Finance Ministry forecast economic growth of 3.3 percent’ in *ERR*. 9 September 2019. Available from [<https://news.err.ee/978457/finance-ministry-forecast-economic-growth-of-3-3-percent>].

² ‘Finance Ministry forecast economic growth of 3.3 percent’.

³ ‘Finance Minister: €50 million needs to be cut from budget’ in *ERR*. 9 September 2019. Available from [<https://news.err.ee/978467/finance-minister-50-million-needs-to-be-cut-from-budget>].

⁴ ‘State budget revenue and expenditure, years’ in *Statistics Estonia*. 16 September 2019. Available from [<https://www.stat.ee/53721>].

that is likely to increase to 8.9% of the GDP this year⁵, and it can make a significant difference on the process of managing the budget in 2020.

In a notable addition, whatever a current Government is to propose, the usual role of the opposition is to criticise the proposal's shortcomings. As reported by *Postimees*, Aivar Sõerd (*Reform Party*) who is an oppositional MP as well as a member of the parliamentary Finance Committee noted that there is a need

to take a closer look at these figures, at how this alleged equilibrium over the coming years has been achieved. I do not trust these numbers. [...] Those €50 million need to be taken with a grain of salt, as there is a lot of hot air in this budget. [...] It is a question of whether they want to spend the money to fulfil election promises or think about the future and invest in long-term projects, such as road construction. A matter of priorities.⁶

Until a range of new budgetary ideas gets tested by the real life, the whole discussion will be gradually moving into the *Riigikogu*, which will be responsible for adopting the final version of the state budget. Until it occurs, there is a likelihood that the Estonian Minister of Finance will continue the practice of announcing some of the main features of the prospective budget in a 'bit by bit' manner. For example, he does not deny that, within the Government, "[p]olitical discussions are currently underway regarding whether and how we will be able to fulfil some political promises included in the government's program[me]"⁷.

Arguably, during the March 2019 parliamentary elections, there were some substantial promises made, but these days, exactly before the time when the new budget needs to be explicitly clarified, some of the clusters of the country's labour force are trying to deliver their strong message on low wages they have been receiving. *The Estonian Rescue Workers Union* called their members out on 19 September to address the issues that "because the average wage has increased so quickly their own pay increases in 2019 have been cancelled out"⁸. On the same day, in Tallinn and Tartu (the two biggest cities in Estonia), the country's academic staff unions got their members protesting as well. The latter two groups' common message was

⁵ 'Finance Minister: €50 million needs to be cut from budget'.

⁶ Aivar Sõerd in Anna Põld, '50-million budget hole to be patched'. *Postimees*. 10 September 2019. Available from [<https://news.postimees.ee/6774185/50-million-budget-hole-to-be-patched>].

⁷ Martin Helme in 'Finance minister on next budget: We're looking for money to fund promises'. *ERR*. 18 September 2019. Available from [<https://news.err.ee/981575/finance-minister-on-next-budget-we-re-looking-for-money-to-fund-promises>].

⁸ 'Rescue workers to protest low wages on Thursday' in *ERR*. 18 September 2019. Available from [<https://news.err.ee/981655/rescue-workers-to-protest-low-wages-on-thursday>].

framed up by the fact that the current Government is unlikely to honour their predecessor's promise to increase higher education spending to 1% of the country's GDP (it is 0.71% now)⁹. Intriguingly, Jüri Ratas was the Prime Minister then and is the Prime Minister now. In real digits, should the increase be ever given the green light, it will mean an additional €470 million to be 'injected' into the academic segment of public economy over the next four years¹⁰. If it does not happen, as noted by the rectors of the University of Tartu and Tallinn University, "this will first and foremost affect stagnating wages for junior researchers, which in turn means that Estonia is at risk of losing out on an entire generation of researchers"¹¹. It is a serious call, considering the importance of education for any nation's ultimate success. In fact, this statement from the rectors of the aforesaid universities resonated with what yet another rector stated in May. Back then, Professor Mart Kalm (the Estonian Academy of Arts) noted the following:

Besides research, the funding of higher education should be increased as well. I cannot tell how much the teachers' salary will be increased, but if it will remain the same, we shall certainly need to convene a crisis meeting at the academy and discuss which English-language curricula we have to open to earn some money. The state financing is insufficient and it is really depressing if we have to pay university lecturers the same wages as to secondary school teachers¹².

The above described common call on prospective wages and salaries increases are not groundless in Estonia. As reported by Statistics Estonia, "the change of the consumer price index in August 2019 was 0.7% compared to July 2019 and 2.4% compared to August of the previous year"¹³. On the items, the index was mostly affected by "food and non-alcoholic beverages, which contributed more than 40% of the total increase [...], [and] [a] half of this increase was due to 27% more expensive vegetables"¹⁴. This is not to conclude on a doom-and-gloom situation in the Estonian economy – it is rather the opposite. However, there is an interesting point made by Raivo Vare, a high-profile Estonian business expert and a former politician, who underscored one of the main economics-related challenges the current Government is required to overcome – social dissatisfaction. Vare noted that

⁹ 'Gallery: Academic trade unions hold protests in Tallinn and Tartu' in *ERR*. 19 September 2019. Available from [<https://news.err.ee/982010/gallery-academic-trade-unions-hold-protests-in-tallinn-and-tartu>].

¹⁰ 'Gallery: Academic trade unions hold protests in Tallinn and Tartu'.

¹¹ 'Gallery: Academic trade unions hold protests in Tallinn and Tartu'.

¹² Mart Kalm in 'The government started with bad budgetary news'. *Postimees*. 28 May 2019. Available from [<https://news.postimees.ee/6694002/the-government-started-with-bad-budgetary-news>].

¹³ 'In August, food and transport had the greatest impact on the change in the consumer price index' in *Statistics Estonia*. 6 September 2019. Available from [<https://www.stat.ee/news-release-2019-108>].

¹⁴ 'In August, food and transport had the greatest impact on the change in the consumer price index'.

[w]hile our salaries are still growing rapidly and faster than productivity, it is not enough as we are drawn psychologically to the Scandinavian standard of living. Politicians are forced to adapt to that psychology, which is what they're doing.¹⁵

Indeed, in general economic terms, the Estonian society is mentally 'living' and 'behaving' like a second 'Norway' that has a big well-functioning economy and plenty of funds as a back-up. However, in the particular case of Estonia, it could be considered a long-term noble goal, but, unfortunately, not a reflection of reality. This is something for the Estonian Government to keep in mind when the final draft of the new budget will be bound to be presented before the *Riigikogu*.

¹⁵ Raivo Vare in Jelena Poverina, 'Raivo Vare: Estonia suffering from problems of a wealthy society'. *Postimees*. 23 July 2019. Available from [<https://news.postimees.ee/6737176/raivo-vare-estonia-suffering-from-problems-of-a-wealthy-society>].