



Weekly Briefing

**Estonia economy briefing:
Getting ready to face a global challenge
E-MAP Foundation MTÜ**

China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.
Szerkesztésért felelős személy: Chen Xin
Kiadásért felelős személy: Huang Ping

 1052 Budapest Petőfi Sándor utca 11.
 +36 1 5858 690
 office@china-cee.eu
 china-cee.eu

Getting ready to face a global challenge

With the current outbreak of COVID-19, it is going to represent a serious hurdle for analysts to overcome in order to see a perspective in the post-coronavirus political economy. Every nation's self-isolation, compounded with prospectively exponential rate of forecasted bankruptcies (both locally and internationally), can lead this semi-globalised economic system into irreversible collapsing. What will appear after the crisis is likely to be a different system. However, when it comes to smaller as well as neatly maintained economies, there could be an opportunity for those to either recover fast or not get into absolutism of the coronavirus-originated troubles. Especially, when a small economy is framed up by e-governance and a higher degree of the population's digital literacy. The latter example, indeed, resonates with what Estonian economy is all about. Therefore, this briefing will be focused on a number of elements related to the country's economic development being presented in such a way that almost neglects the COVID-19 'nightmare'. Only using this method, one could detect those **positive elements**, out of which Estonian economy will be bouncing up, after all sorts of emergencies and closures are over.

Considering the most recent statistical data published only few days ago, in January 2020, should the figures be compared to the same month of the previous year, "the exports of goods decreased by 1% and imports by 9%"¹ in Estonia (see *Table 1*). On a concrete note, exports wise, it accounted for EUR 1.14 billion with the top destinations for Estonian goods being the neighbouring Finland, Sweden and Latvia, while the biggest downfall was detected in exporting figures to the United States (down by EUR 31 million), Singapore (down by EUR 16 million) and Germany (down by EUR 14 million). Imports wise, however, the record shows EUR 1.16 billion, giving the trade deficit of EUR 20 million euros, "which is the smallest deficit in the last seven years"². As reported, the imported goods were predominantly from Finland, Latvia and Germany, while purchasing from a number of countries dramatically decreased – from Lithuania (down by EUR 41 million), Sweden (down by EUR 29 million) and Belarus (down by EUR 24 million)³.

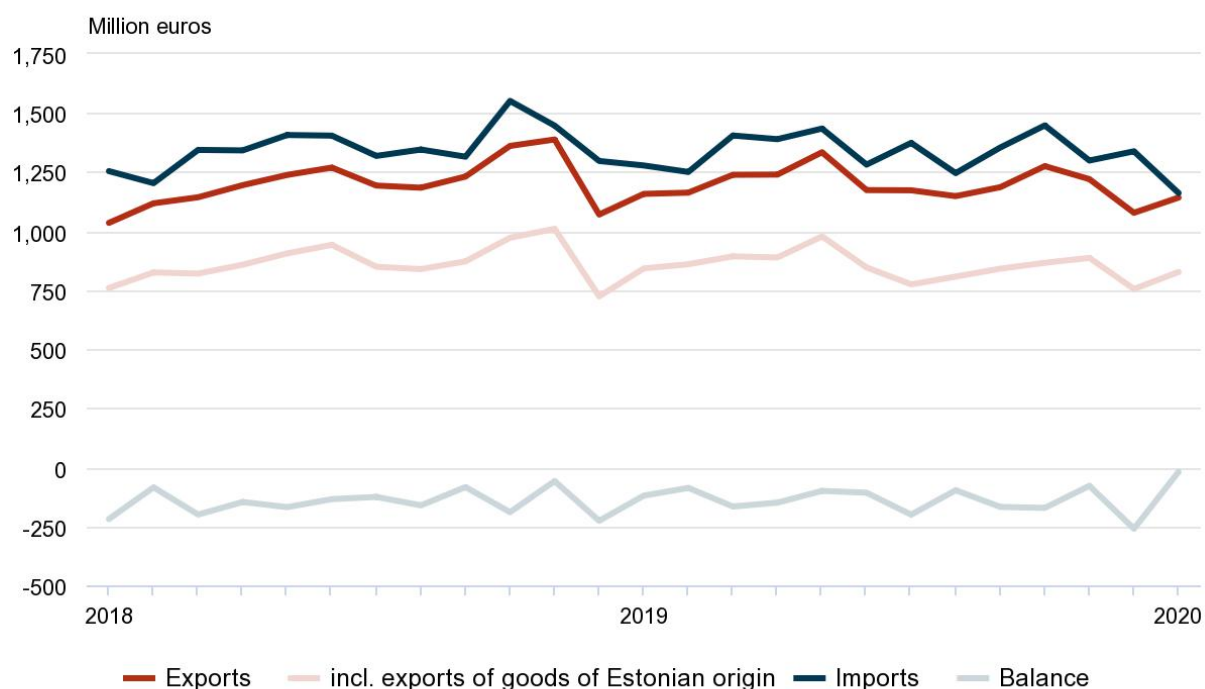
¹ 'In January, imports declined more than exports' in *Statistics Estonia*, 11 March 2020. Available from [<https://www.stat.ee/news-release-2020-029>].

² 'In January, imports declined more than exports'.

³ In January, imports declined more than exports'.

Table 1:

Estonia's foreign trade by month, 2018–2020



Source: Statistics Estonia

The above-mentioned context and some other indicators provided for a credible platform to argue that the country will be facing an economic crisis since “the companies’ balance sheets contracting drastically and banks calling back loans or requesting additional collateral”⁴. Certainly, there should be some logical ways to be found in order to mitigate the problematic consequences of the situation, but, as noted by Martin Helme, Estonian Minister of Finance, “the unpredictability makes planning virtually impossible”:

What we are seeing is everything happening in two months; in the European sphere, in two weeks. The first outcome is that we have not had as bad an outlook as that affecting the current economy. We cannot predict what will happen within two weeks or two months. [...] Both the global and European economies are in greater debt today than they were ten years ago. Unemployment is higher. Competitiveness is worse than it was right before the crisis of 2008. There had been talk of a fall. Now the bubble has burst with a big pop.⁵

⁴ ‘Finance minister: Economic crisis is here’ in *ERR*, 11 March 2020. Available from [<https://news.err.ee/1062166/finance-minister-economic-crisis-is-here>].

⁵ Martin Helme in ‘Finance minister: Economic crisis is here’.

In short, it could be stated that the economy is entering a certain phase of recession, but there is still a range of possibilities to halt the process of getting downhill. Most probably, for such a small economy, a policy of addressed tax liberalisation could be offered by the Government very soon. On the top of everything, there is a definite need to discuss the issue, which was recently addressed by the European Central Bank – the base interest rate on mortgages in the Republic of Estonia, in January 2020, was significantly higher than in Finland and Sweden, which are much stronger economies. In Estonia, the figure stood at 2.6 percent, while, in Finland and Sweden, it was correspondingly at 0.8 and 1.52 percent⁶. It is understandable that the level of the Estonian mortgage rate is driven by higher risks, but now, when the crisis is making all countries to face the same problem, it will be much harder for the Estonian population to ‘accommodate’ higher mortgage payments into their budgets. A good sign is that there is a likelihood that Estonian banks are planning “to give borrowers a grace period where needed”⁷. For example, at *Luminor*, there is an indication that the bank-offered “solutions can be very diverse”:

[A grace period] is certainly one of these, but at the same time there are no set solutions, because there is no standard problem and there are no standard entrepreneurs. [Periods] can be three months, six months or 12 months. It is particularly important for individuals to contact us before they get in arrears with payments, where the chances of a settlement are much greater than when arrears have built up.⁸

On the infrastructure-associated segment, the Government of Estonia expressed its positivity in regards of the *Rail Baltica*, the most debated and discussed project, which its stakeholders call “the largest Baltic-region infrastructure project in the last 100 years”⁹. During one of the most recent questioning session at the *Riigikogu*, Prime Minister Jüri Ratas confirmed that the grand-project, in fact, moved from its preliminary stage forward to “the preparation of the main design of the railroad and related infrastructure in all three sections of the main corridor”, which can be considered a major breakthrough as far as the project’s timeline is concerned (see *Figure 1*). Talking on a range of specifics, the Prime Minister extensively noted:

⁶ ‘Estonian banks charging higher home loan interest rates than in Finland’ in *ERR*, 11 March 2020. Available from [<https://news.err.ee/1062185/estonian-banks-charging-higher-home-loan-interest-rates-than-in-finland>].

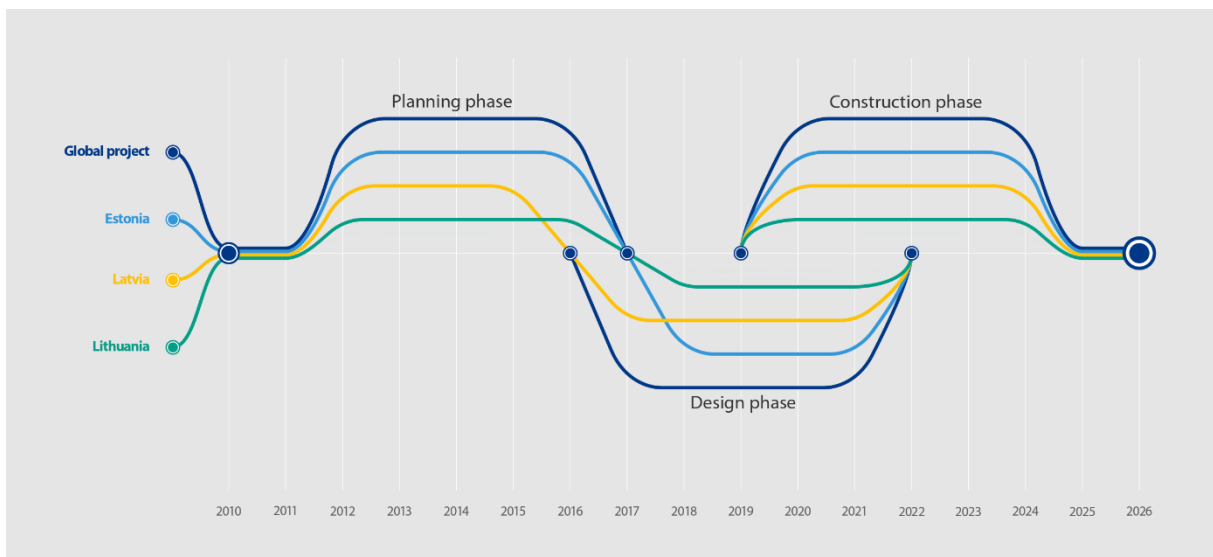
⁷ ‘Banks prepared to give grace period to borrowers facing coronavirus effects’ in *ERR*, 13 March 2020. Available from [<https://news.err.ee/1063398/banks-prepared-to-give-grace-period-to-borrowers-facing-coronavirus-effects>].

⁸ Heiki Raadik as cited in ‘Banks prepared to give grace period to borrowers facing coronavirus effects’.

⁹ ‘Rail Baltica – Project of the Century’ in *RB Rail AS*. Available from [<http://www.railbaltica.org/about-rail-baltica/>].

Rail Baltic will pass through 864 cadastral units in Estonia, of which 621 are cadastral units belonging to private owners and 74 are cadastral units belonging to a local government, which the state needs to acquire for the establishment of Rail Baltic. By February of this year, about 40 pieces of land had been acquired. [...] Design work is underway on about 75 percent of the 270-kilometer track. Construction work has advanced the farthest in the Kaunas area of Lithuania. By the end of 2020, an agreement will be concluded for the construction of the Riga airport terminal and railway. More important is the objective reiterated by the prime ministers of all the Baltic countries in Tallinn in February: to complete the Rail Baltic railway connection by the established deadline.¹⁰

Figure 1:
The Rail Baltica's Timeline



Source: RB Rail AS

The most recent steps made towards full implementation of the *Rail Baltica* could be treated as a positive cohesion-building sign in the context of the EU's financial goals for the 2021-2027 period and the European Green Deal-related targets¹¹. From its inception, this particular project has experienced plenty of set-backs and delays, but there has to be a brighter life after crisis, and, considering the fact that the *Rail Baltica* represents an integral part of the

¹⁰ Jüri Ratas in 'Ratas: Rail Baltic in design phase, construction about to start' in *Postimees*, 10 March 2020. Available from [<https://news.postimees.ee/6918747/ratas-rail-baltic-in-design-phase-construction-about-to-start>].

¹¹ 'Rail Baltica Forum in Brussels features progress and underlines necessary preconditions for successful project implementation' in *RB Rail AS*, 8 March 2020. Available from [<http://www.railbaltica.org/rail-baltica-forum-in-brussels-features-progress-and-underlines-necessary-preconditions-for-successful-project-implementation/>].

North Sea Baltic TEN-T corridor, it can significantly contribute to the EU's identity narrative at a challenging time.