



Weekly Briefing

**Estonia economy briefing:
Budgeting the uncertainty
E-MAP Foundation MTÜ**

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Budgeting the uncertainty

The end of September 2020, when the deadly pandemic had only been showing some strong signs for its yet another return, the Government of Estonia approved the draft of the country's budget for 2021, combining it with the state budget strategic outlook. Considering the nearly absolute level of uncertainty in the context of the COVID-19, where the '19' only represents a sad reminder of a relatively positive year in terms of global political economy, any activity on budgeting has distinctly preliminary nature. These days, literally nobody can make a proper forecast on how the ledger will look like by the end of the next year.

When it comes to a range of actual digits, the country's economy does not seem to be going into a period of total negativity, but the following data still brings concerns. For example, in August 2020, the production of industrial enterprises in Estonia showed a 5 per cent decrease as compared to August 2019¹. The same August 'detected' that both export and import dropped by correspondingly 6 per cent and 4 per cent (while also recording a non-significant but still increase in the trade deficit by EUR 15 million), comparing to the last year's data². What is interesting, however, the turnover of retail trade enterprises was EUR 643 million in September 2020, representing a 6 per cent increase and attributing the positive change to the fact that there were increases of 17 per cent in both "selling via mail order or the internet and [...] in other specialised stores selling predominantly computers and their accessories, books, sports equipment, games, toys, flowers, plants"³. Offering his comment on what is happening in Estonian economy on the macro-level, Kristo Aab, an analyst from *LHV*, noted the following:

While the economy here as well as the economies of our neighbo[u]rs have overcome the first shock, demand has not been restored in full yet. The clearest cooling is demonstrated by the construction sector – the manufacture of building materials as well as metals have been on a stable decline already for a year. [...] E-commerce, which had seen solid gains in popularity

¹ 'Production decreased in most manufacturing activities' in *Statistics Estonia*, 30 September 2020. Available from [<https://www.stat.ee/en/node/4530>].

² 'In August, Estonia's foreign trade decreased again' in *Statistics Estonia*, 9 October 2020. Available from [<https://www.stat.ee/en/node/164822>].

³ 'Turnover growth driven by stores selling manufactured goods' in *Statistics Estonia*, 30 October 2020. Available from [<https://www.stat.ee/en/node/4575>].

during the emergency situation, kept growing in September while, on the other hand, shopping at shopping malls has dropped a bit below last year's levels post-crisis.⁴

On the level of the pandemic-generated actions of the Government, given the relatively small size of the country's economy, the state-owned airline *Nordica*, which has been experiencing truly hard times during the last half a year, has finally been allocated EUR 30 million to get the things 'floating' in business terms. A report stated that the company will spend EUR 22 million "on repaying loans", while the balance will be "used to recapitalise Regional Jet"⁵, a subsidiary of *Nordica*'s parent company *Nordic Aviation Group AS*. This particular financial assistance has a distinct 'external' nature, because the troubled *Nordica* still has a chance to become a stable national flag carrier one day when the pandemic is over. At the moment, the company, due to its tight interlinkage with *LOT Polish Airlines*, became nearly invisible internationally. As of 2016, *Nordica*'s "extensive cooperation" with the Polish side started featuring "regular route flights and ticket sales [using] *LOT*'s commercial platform that ensures optimal partnership possibilities"⁶. Most probably, the Estonian Government is going to be looking after *Nordica* in order to solidify its 'Estonian' business-identity, since before the pandemic the airline was managing to operate a bit less than 100 flights per week, significantly contributing to the process of interlinking Tallinn with four destinations. Taavi Aas, the country's Minister of Economic Affairs and Infrastructure, noted that "*Nordica* has found a niche and offers strong competition, [and] [s]hould their contribution to flying from Tallinn prove necessary in the near future, they will immediately make an effort to do so"⁷. At the same time, it has to be notified that the market of offering different routes from the Estonian capital city has become extremely competitive – the 'business quietness' of *Nordica* has been substituted by the 'positive noise' coming from the aircrafts of its direct regional 'rivals', *airBaltic*. For a few years already, the flag carrier of Latvia has been very busy developing the Estonian market, and, as reported, it will soon start arranging direct flights between Tallinn and a new airport in Berlin⁸. The same report showed that *airBaltic* has a plan to schedule their

⁴ Kristo Aab as cited in 'LHV: Reduction in Estonia's industrial output reflects uncertainty', *ERR*, 31 October 2020. Available from [<https://news.err.ee/1153628/lhv-reduction-in-estonia-s-industrial-output-reflects-uncertainty>].

⁵ Lennart Ruuda, 'Nordica given state aid' in *Postimees*, 16 October 2020. Available from [<https://news.postimees.ee/7087880/nordica-given-state-aid>].

⁶ 'About Nordic Aviation Group' in *Nordica*. Available from [<https://www.nordica.ee/en/about-the-company/company/>].

⁷ Taavi Aas as cited in 'The government approved an increase in Nordica's share capital by 22 million euros', *Valitsus*, 15 October 2020. Available from [<https://www.valitsus.ee/en/news/government-approved-increase-nordicas-share-capital-22-million-euros>].

⁸ 'airBaltic to fly from Tallinn to new Berlin airport from next month' in *ERR*, 30 October 2020. Available from [<https://news.err.ee/1153324/airbaltic-to-fly-from-tallinn-to-new-berlin-airport-from-next-month>].

flights to Amsterdam, Brussels, Copenhagen, London, Oslo, Riga, Salzburg and Stockholm over winter⁹, and it can make it even harder for *Nordica* to get back on track.

Back to the aforementioned draft of the state budget, the planned volume of expenditures is shown at the level of nearly EUR 13 billion to be higher than the volume of revenues (EUR 11 billion)¹⁰. From the middle of 2020, the budgetary deficit for the next year's ledger started looking like an unavoidable issue. The country's economy, having showed relative stability in the pre-COVID-19 times, can forecast for only EUR 1.4 billion to come from the EU in the form of different subsidies – the balance is going to be Estonia's own responsibility to get ends meet. Presenting the digits, Prime Minister Jüri Ratas argued that

[The Government] drafted a budget that will help us overcome the coronavirus crisis. [...] [It] requires efforts in our healthcare, for which, in 2021 we will be directing funds to the reconstruction of hospitals in Tallinn and county centres. We are also turning our attention to better securing the country's crisis stockpiles by establishing the Estonian Stockpiling Agency. [...] Certainly, it is an important step in improving our people's livelihood that the old-age pension will increase by an average of EUR 20 next year, reaching EUR 544.¹¹

As for the Estonian parliament's Deputy Speaker, Helir-Valdor Seeder (*Pro Patria*), whose political party had recently won the argument in the country's Supreme Court on the reform of mandatory funded pensions, noted that “[a]longside the budget, the state budget strategy for 2021-2024 will also be approved, in which both the debt burden and the deficit will be lower than in the draft originally submitted by the Ministry of Finance”¹². In the context of the pension reform, the law of which was questioned by Kersti Kaljulaid, it had to be promulgated by the President after the Supreme Court “had turned down [her] request to declare the reform unconstitutional”¹³. The change is going to be about people “who have not yet reached retirement age” – they “would be entitled to demand the redemption of the units of a mandatory pension fund as well as the payout of money in their pension investment account”¹⁴. For 2021, it will, with necessity, mean that thousands of Estonian people will be applying for

⁹ ‘airBaltic to fly from Tallinn to new Berlin airport from next month’.

¹⁰ ‘The Government approved the draft state budget for 2021 and the state budget strategy’ in *Valitsus*, 29 September 2020. Available from [<https://www.valitsus.ee/en/news/government-approved-draft-state-budget-2021-and-state-budget-strategy>].

¹¹ Jüri Ratas as cited in ‘The Government approved the draft state budget for 2021 and the state budget strategy’.

¹² Helir-Valdor Seeder as cited in ‘The Government approved the draft state budget for 2021 and the state budget strategy’.

¹³ ‘President promulgates mandatory funded pensions reform’ in *Postimees*, 21 October 2020. Available from [<https://news.postimees.ee/7090925/president-promulgates-mandatory-funded-pensions-reform>].

¹⁴ ‘President promulgates mandatory funded pensions reform’.

the premature payout of their money, prospectively bringing a few hundreds of millions into the country's economy, but leaving the same people without their previously saved as well as pension-focused funds.

On a more concrete range of digits, the draft is forecasting that “the general government sector budget for next year will experience a deficit of 6.7 per cent of GDP nominally, and 6.6 per cent of GDP structurally”, with a prognosis given that “in 2024, the deficit will decline to 1.3 per cent of GDP structurally and to 2.5 per cent of GDP nominally”¹⁵. Characteristically, as reported by the Estonian Government, the debt burden of the country's general governmental sector is experiencing a certain growth, still being forecasted to remain the lowest in the EU (EUR 6.6 billion or 23.6 per cent of GDP)¹⁶. In any case, in spite of how nice and positive the budgetary draft looks today, the next year will be ‘populating’ many adjustments to the country's main ledger. Even though, indeed, the “Estonian economy has done better than expected”¹⁷, but there is a super-challenging period ahead. Budgeting uncertainly brings more uncertainty...

¹⁵ ‘The Government approved the draft state budget for 2021 and the state budget strategy’.

¹⁶ ‘The Government approved the draft state budget for 2021 and the state budget strategy’.

¹⁷ ‘The Estonian Economy is Forecast to Grow by 4.5 per cent in 2021’ in *Rahandusministeerium*, 7 September 2020. Available from [<https://www.rahandusministeerium.ee/en/news/estonian-economy-forecast-grow-45-cent-2021>].