



Weekly Briefing

Estonia economy briefing:

A forecasted economic growth and a little bit on the COP26

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It appears to be if the COVID-19 cannot ignore political economy, the latter has managed to find some internal reserves to start ignoring the pandemic. The sad irony of the situation can be confirmed by statistics, so a moral boost for businesses, consumers as well as employees (in whichever capacity a human being ‘exists’ on a given moment) can be projected for the benefit of the entire economy. For example, *Statistics Estonia* confirms that the September 2021 data on the turnover of retail trade enterprises (EUR 791 million) showed a significant increase (17 per cent), if compared to the September 2020 records¹. Jaanika Tiigiste, the organisation’s leading analyst, argues that “[t]he increased turnover in September was influenced the most by stores selling manufactured goods where turnover grew by 28 per cent compared to September 2020”², while the outlets that sell manufactured goods recorded their biggest increase (49 per cent) in the turnover through mail order or the internet. Getting ready for Christmas regardless?

Reconfirming the above, on the macro-level, the European Commission was happy to issue its forecast on Estonia’s prospective growth of the country’s real GDP that should get up to 9 per cent by the end of 2021, indicating “private demand, government stimulus and buoyant exports”³ as the main combined driver for the upward trend. Intriguingly, the growth is seen as remaining to be on a stronger side in 2022-2023 as well, being endorsed by a certain “recovery in employment, sustained wage growth and dynamic foreign demand” and, in its own way, reinforced by a higher inflation that is projected “to surge” this year because of significant increases in energy prices⁴. Estonia’s Finance Minister, Keit Pentus-Rosimannus (*Reform*), is visibly glad to note that her country’s “economy has recovered at a rapid pace, and [it is] largely back to pre-crisis levels”, stating that the figure for real economic growth is forecasted to be “2.6 per cent in 2023, 2.9 per cent in 2024 and 2.8 per cent in 2025”⁵.

Psychologically, it can be considered a positive time for getting into the planned budgetary debate in the *Riigikogu*, even though the new state budget would need to be discussed

¹ ‘The turnover of retail trade enterprises grew significantly in September’ in *Statistics Estonia*, 29 October 2021. Available from [<https://www.stat.ee/en/node/183310>].

² Jaanika Tiigiste as cited in ‘The turnover of retail trade enterprises grew significantly in September’.

³ ‘European Commission forecasts 9 percent economic growth for Estonia in 2021’ in *ERR*, 11 November 2021. Available from [<https://news.err.ee/1608399242/european-commission-forecasts-9-percent-economic-growth-for-estonia-in-2021>].

⁴ ‘European Commission forecasts 9 percent economic growth for Estonia in 2021’.

⁵ Keit Pentus-Rosimannus as cited in ‘Finance ministry forecasts 2021 economic growth of 9.5 percent’, *ERR*, 9 September 2021. Available from [<https://news.err.ee/1608333086/finance-ministry-forecasts-2021-economic-growth-of-9-5-percent>].

anyway. At the moment, it is known that the next year's figures are drafted to be around EUR 13.13 billion (revenue) and EUR 13.64 billion (expenditures), and, having passed the first reading on 21 October, the draft will be going to the second reading on 17 November⁶. This is when the detailed elaboration will be taking place, and the Government can get plenty of feedback from the opposition on the proposed document, which outlined the tax burden for 2022 to be 33.7 per cent of GDP and the general Government's debt burden – EUR 6.36 billion or 19.7 per cent of GDP⁷. For the first time since 2007, the *Centre Party* and the 'reformists' are in the same governmental coalition, and this is going to be their first budget prepared together in more than two decades. During the latest local elections in October, these two major political parties combined managed to 'collect' 53 city and rural municipality governments (or 67 per cent of the total number)⁸. Therefore, the same Minister Pentus-Rosimannus expresses everything but negative prognosis about the depth of the budgetary plan:

Estonia's long-term interest is higher productivity of the economy. Our people's wages and pensions depend on it, as does the greater well-being of our society. Higher productivity is not possible without scientific innovation, without smart and science-intensive business. That [i]s why we will invest 1 per cent of GDP, or EUR 324 million, in research and development next year⁹.

On another note, which has enormous economic implications for both Estonia and the whole EU, the 26th United Nations Climate Change Conference's (COP26) outcome has already generated plenty of discussions in the country. For Prime Minister Kaja Kallas, it was the first major event where her strategic vision on a 'greener' Estonia could be expressed on the truly global stage. It is well-documented that the 'green theme' was one of the main elements of her programme when she was about to be appointed for her current role. In Glasgow, during the COP26, she declared that Estonia aims "to stop production of electricity from oil shale by 2035 and phase out oil shale-based energy entirely by 2040", adding that her country's ideas on digitalisation can be shared with other countries because "digital solutions have a big role to

⁶ 'State budget bill to go to second reading, 'protection' funds halved' in *ERR*, 10 November 2021. Available from [<https://news.err.ee/1608397814/state-budget-bill-to-go-to-second-reading-protection-funds-halved>].

⁷ '2022 state budget passes first Riigikogu reading' in *ERR*, 21 October 2021. Available from [<https://news.err.ee/1608376634/2022-state-budget-passes-first-riigikogu-reading>].

⁸ Henry-Laur Allik and Heleri Kuris, 'Reform Party most successful in terms of local coalitions' in *Postimees*, 9 November 2021. Available from [<https://news.postimees.ee/7381293/reform-party-most-successful-in-terms-of-local-coalitions>].

⁹ Keit Pentus-Rosimannus as cited in '2022 state budget passes first Riigikogu reading'.

play in achieving energy efficiency, waste reduction as well as any other green goal”¹⁰. At the same time, as it was expressed by Prime Minister Kallas during her conversation with Catherine, Duchess of Cambridge, Estonia’s Ida-Viru County “has a long tradition of oil shale mining”, and “this industry is still an important source of income for a large part of the families living in the area”¹¹.

Naturally, Estonia’s participation in the COP26, policy wise, was in the line with the EU’s general vision on working reducing greenhouse gas emissions by 55 per cent by 2030 compared to 1990¹². What are the immediate implications for the country in the post-Glasgow political excitement? Firstly, as a representative of Estonian Ministry of the Environment noted, a set of certain ruled of compliance with the Paris Climate Agreement were agreed upon, leading to maintaining “two global markets created for trading units of greenhouse gases”, however this “will [...] not have a big impact on Estonia”¹³. Secondly, in the context of the EU’s obligatory trading system that the entity has in place, Estonia can volunteer in adopting “the new framework for transnational cooperation and the second market, which replaces the Kyoto Protocol”, and this does not represent an additional obligation of the country, “rather it is a new opportunity”¹⁴. Thirdly, since in the EU’s plan “to contribute an additional five billion US dollars to climate finance until 2027”¹⁵, Estonia’s input in 2021 was one million. Finally, as the Ministry of the Environment reported, Estonia with a number of other nations “announced contributions totalling USD 413 million to the [Least Developed Countries Fund]”, focusing on such initiatives as National Adaptation Programmes of Action, National Adaptation Plans, and Adaptation Communications¹⁶.

Objectively, all these initiatives and actions – especially when it comes to the country’s commitments to reduce, increase, decrease, or abolish – have plenty of implications on local

¹⁰ Kaja Kallas, ‘National Statement by Prime Minister Kaja Kallas, Estonia November 1, 2021, Glasgow, COP26’ in *Valitsus*, 1 November 2021. Available from [<https://www.valitsus.ee/en/news/national-statement-prime-minister-kaja-kallas-estonia-november-1-2021-glasgow-cop26>].

¹¹ Kaja Kallas as cited in ‘Estonia’s PM Kaja Kallas and the Duchess of Cambridge discussed challenges and experiences of the green transition’ in *Invest in Estonia*, November 2021. Available from [<https://investinestonia.com/estonias-pm-kaja-kallas-and-the-duchess-of-cambridge-discussed-challenges-and-experiences-of-the-green-transition/>].

¹² ‘Kallas at COP26: Estonia has a lot to offer in terms of climate neutrality’ in *ERR*, 1 November 2021. Available from [<https://news.err.ee/1608388973/kallas-at-cop26-estonia-has-a-lot-to-offer-in-terms-of-climate-neutrality>].

¹³ Kadi Ristkok as cited in ‘COP26 final agreements to have little impact on Estonia’, *ERR*, 17 November 2021. Available from [<https://news.err.ee/1608405269/cop26-final-agreements-to-have-little-impact-on-estonia>].

¹⁴ Ristkok.

¹⁵ Ristkok.

¹⁶ ‘Estonia at UN Climate Change Conference of the Parties (COP26) in Glasgow #COP26EE’ in *Ministry of the Environment*. Available from [<https://envir.ee/en/COP26EE#deal-data-for-the->].

businesses and the Estonian economy in general. There is also a highly important point that, as it was noted by Kaja Tael, Ambassador at large for climate and energy policy, “Estonia is not represented independently in COP26 negotiations” and that is why “Estonian negotiators have daily coordination meetings with them to make sure EU representatives have a strong mandate and support”¹⁷. On the level of the EU, the European Commission’s Vice President Frans Timmermans is acting as the entity’s climate diplomat, thus this factor helps the EU to project its common position on the issue on the highest level.

Characteristically, for Estonia, it is planning to launch a range of specific environmental initiatives through the platform of Eastern Partnership Centre, linking those with the current development cooperation programmes running for Georgia, Ukraine and a few others¹⁸. In a certain way, by doing that, Estonia will be revitalising the already existing programme called ‘Greening Economies in the Eastern Neighbourhood’, which is responding to a set of promises-commitments made a few years ago by the EU and other international actors after the Warsaw Eastern Partnership Summit and the Rio+20 Summit¹⁹.

¹⁷ Kaja Tael as cited in Merili Arjakas, ‘Kaja Tael: Estonia visible in Glasgow’, *Postimees*, 4 November 2021. Available from [<https://news.postimees.ee/7378130/kaja-tael-estonia-visible-in-glasgow>].

¹⁸ Tael.

¹⁹ ‘EaP GREEN: Greening economies in the European Union’s Eastern Partnership countries’ in *OECD*. Available from [<https://www.oecd.org/environment/eapgreen.htm>].