



**FMA VISIT TO TALLIN IN
CONTEXT OF THE
ESTONIAN PRESIDENCY**

6 - 7 November

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II. ESTONIA

1. CULTURE OF ESTONIA

2. HISTORY



II. Estonia¹

1. Culture of Estonia

Estonia, located between the Oriental and Occidental Europe, it is a cultural frontier, or rather, a meeting point between cultures. In the traditions of the country there are elements originating from both the East and the West; indeed, the Estonians have always been considered Nordic and have a very Scandinavian way of thinking. It is precisely in peripheral and border cultures that the most interesting phenomena emerge, which are precisely the conditions of Estonia. Estonian contemporary culture, despite the small size of the country, is so varied that it is often difficult to find common denominators.

This country has a beautiful heritage in which we can find places and natural parks dotted with fjords, forests and lakes. Estonia also retains numerous medieval villages populated with buildings of historical artistic interest, where you can enjoy the way of life of their ancestors.

Tallinn, the capital of the city, it is the commercial and financial centre of Estonia and it has become one of the Baltic's most international cultural settings.

It is an independent country since 1991. Sister with Finnish ethnicity, has been able to make the transition from communism to capitalism without major conflicts and has managed to conquer its independence more quickly and more stable than the rest of its neighbors.

2. History

The Danes, the Germans and the Swedes of the Middle Ages governed the current land known as Estonia successively until the 18th century. Russia annexed the region in 1721. During the 19th century, a nationalist movement in Estonia emerged that by the 20th century it sought independence.

After the Bolshevik revolution of 1917 and the advance of German troops in Russia, Estonia declared its independence on February 24, 1918. Nevertheless, after the surrender of Germany to the Western powers in November 1918, Russian troops tried to return to Estonia. The Estonians, however, were expelled to Soviet forces in April 1919, and the following year Soviet Russia recognized the Republic of Estonia.

The Nazi-Soviet pact of 1939, Estonia assigned to the Soviet sphere of influence. The Red Army invaded in June 1940 and "recognized" the Soviet Socialist Republic of Estonia to the USSR in August 1940. However, Hitler's forces invaded the USSR in June 1941 and seized control of Estonia shortly thereafter. The German army withdrew in 1944, and Soviet forces once again occupied Estonia.

Taking advantage of the relatively greater freedom allowed by Mikhail Gorbachev in the late 1980s, a nationalist Estonian movement, the Popular Front, was launched in 1987. Estonia declared its independence from Moscow on August 20, 1991.

¹ <http://www.un.estemb.org/estonia/>



A new constitution was passed on June 28, 1992. With great fanfare, the last Russian tanks and 2,000 soldiers were withdrawn from Estonia on 17 August 1994, ending 50 years of military presence in Estonia.

Russia has also announced that it will start dismantling two nuclear reactors in Estonia. Estonia demanded the return of more than 750 square miles of land that Russia considers part of its territory, but which belonged to Estonia before World War II. When Estonia renewed its claim to these lands, the Russian government began to build 680 border posts, many of which are guarded by armed soldiers and connected by fences.

On the other hand, the 1995 parliamentary vote reflects the dissatisfaction of rural and retired people. It marked a shift from vigorous free market reforms that dominated Estonia's transition from Soviet rule. The results of the election, however, did not significantly alter Estonia's commitment to a balanced budget, a stable currency, or a good foreign investment climate.

After the March 1995 elections, *Tiit Vahi* was approved as prime minister, but he and his cabinet resigned in October 1995 amid a scandal within the administration involving wiretaps and clandestine arms sales. President *Lennart Meri* later appointed a new government, which reinstated *Vahi* as prime minister. In September 1996, *Lennart Meri* won a second presidential term, although the election was turned over to a polling station after no candidate won the necessary two-thirds majority in the parliamentary vote in August. Following a censure motion in February 1997, Prime Minister *Vahi* resigned and was replaced by *Mart Siimann*, who formed a minority government.

Reformers once again gained control of the Estonian Parliament in the March 1999 general election, in which a coalition of right-center parties garnered a slight majority, winning 53 of the 101 seats. (However, the leftist Center Party won 28 seats, the highest number for a single party).

Mart Laar was appointed prime minister. The new government was expected to highlight both political and economic reforms, focusing on the elimination of corruption and inefficiency in public administration, the courts and the police.

Since its independence in 1991, Estonia's foreign policy has focused on integration with Western Europe, with specific long-term objectives of EU and NATO membership.

One of these goals was given impetus in 1998, when Estonia was invited by the European Union to start negotiations for membership. In December 2002, the EU officially invited Estonia, one of the 10 new candidate countries, to join the body from May 2004. A referendum on Estonia's entry into the EU will be held on 14 September 2003. In November 2002, Estonia was one of the seven countries of Central and Eastern Europe to be invited to join NATO, with accession scheduled for 2004. Internally, Estonia still faces the challenge of integrating its ethnic minority population fully into the public life of the nation.

In September 2001 *Arnold Rüütel* was elected president, succeeding *Meri*, who was forbidden by the Constitution to seek a third consecutive term. *Rüütel*'s victory was seen as a reaction to popular discontent with the government and growing economic problems in small towns and rural areas, among other reasons. However, because none of the presidential candidates received the necessary two-thirds vote in Parliament after three rounds of voting, an electoral college composed of all members of parliament and 266 representatives of local governments, elected the president. In January 2002, *Mart Laar* resigned as Prime Minister and *Siim Kallas* took his place.



Parliamentary elections held on March 2, 2003 led to the formation of a coalition government formed by the Public-center-right Res, the Right-wing Reformist Party, and the Union Rural Party People. *Juhan Parts* was thirty-six years old when he became prime minister on April 10.

Estonia has the most advanced information infrastructure in all the countries of the former Eastern Communist bloc. About 700,000 of Estonia's approximately 1.4 million people online banking, from scratch in 1997.

Citizens use the Internet to access state services and to conduct any number of business transactions, and many people, which never had a landline, are currently based on mobile phones.

President *Rüütel* announced his support for the US-led military campaign against the regime of Saddam Hussein in Iraq, which began on March 19, 2003, but regretted the fact that a peaceful solution to the crisis was not been achieved.

Estonia joined the European Union in 2004, becoming the first of the former Soviet Socialist republics to embrace pan-Europeanism. Joining the European Union has made Estonia far bigger than it has ever been before, without increasing our territory. The four freedoms in the EU – free movement of persons, goods, services and capital – have given us excellent opportunities and expanded our horizons considerably. There is more stability and the economy has grown substantially. Estonia's influence in European and world affairs has considerably increased. The increase in mutual trust among European countries has much of importance – through working together in the European Union, the EU Institutions and member states have learned to trust each other more, leading to work efficiency and development.

The great wish and goal of Estonia to become a member of the European Union realised on 1 May 2004, ten years ago. Significant progress had been made by that time, but a lot more was waiting to be accomplished because the EU membership status requires active participation and responsibility. Estonia has identified its interests and priorities in the EU, and worked for them in Estonia, Brussels and all other member states. The spectrum of Estonia's interests in the European Union is very wide – from electronic identity to enlargement of the EU, from strong monetary union to effective foreign policy. In ten years, we have built up a system that enables us to have a say in all topics important to us.

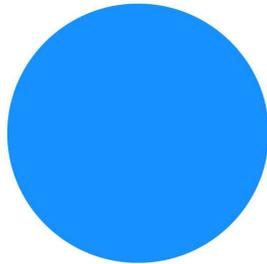
In 2011, Estonia was the 17th member state to join the Eurozone. While accession to the EU gave a strong push to the Estonian economy, joining the euro helped the economy out of the crisis. Adopting the euro increased trust in Estonian economy, helping to attract new investments to Estonia and create new jobs. Moreover, the euro made travelling easier and decreased currency exchange costs, and it also brought lower loan interest rates.

Today's Estonia is a thriving and forward-looking member state of EU and NATO, where you can vote online and start your own business in less than half an hour. Many have done so already, including the founders of Skype and Transfer Wise. Estonia has a reputation as one of the most socially progressive and technologically advanced countries in all of northern Europe.



III. ESTONIA'S EU PRESIDENCY 2017

- 1. PROGRAMME OF THE PRESIDENCY**
- 2. PRIORITY DOSSIERS UNDER THE ESTONIAN EU COUNCIL PRESIDENCY**
- 3. ESTONIA PRESIDENCY PRIORITIES DISCUSSED IN PARLIAMENTARY COMMITTEES**



EU2017.EE



Programme of the
Estonian Presidency
of the Council of the
European Union

1 JULY 2017 – 31 DECEMBER 2017



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INTRODUCTION



Creating European unity, a journey that started 60 years ago, continues to be an ambitious and forward-looking endeavour. The European Union started as a dream of few and became the hope of many. The EU's four fundamental freedoms – a distant dream and goal in 1957 – are now functioning and accepted as self-evident. Europeans have been living together in peace for longer than ever before. European citizens and companies enjoy unprecedented freedoms and prosper across the globe.



As the EU is facing unprecedented challenges, both at the global and European level, Estonia as the Member State holding the Council presidency is confident that there is sufficient unity and determination in Europe to tackle all problems dynamically. While negotiating the withdrawal of the United Kingdom from the European Union in accordance with European Council guidelines and negotiating directives adopted by the Council, we also need to adapt to a union of 27 as swiftly as possible. We are confident that we will have the strength and capability to turn these challenges into opportunities, and we have reason to view the European Union and its future with great hope. European unity is expressed through both speaking with one voice and joint action. Together we are stronger than 60 years ago: hundreds of millions of Europeans benefit from living in a greater union. A union that has set aside old divisions and is willing to defend what has been achieved. A union that is determined and tenacious to resolve the current and future challenges. A union where Member States and institutions share responsibilities and take joint decisions that serve the interests of and improve life for all European citizens.





The Estonian Presidency strives for unity through balance; however, this does not mean settling for the lowest common denominator. Unity means broad-based support for the founding values of the European idea and the goals of the European Union, as well as respect for diversity – a fundamental European value – and regarding it as an asset. In building on these principles, Europe – a rather disparate political conglomeration – can succeed in striking a balance between various points of view, interests and traditions. Tenacity, unity and future-oriented thinking require the willingness to compromise from all parties and a constant balancing act between preservation and new developments. ‘One for all and all for one’ means that together we are stronger.



At the EU’s 60th anniversary summit in Rome we endorsed a declaration of intent for the next decade. Debates on the future of Europe continue. The priorities of the Estonian Presidency build on the European Council’s strategic agenda and the common goals formulated in Rome. The following are important objectives for both Estonia and the Presidency: an open and innovative European economy, a safe and secure Europe, a digital Europe and the free movement of data, and an inclusive and sustainable Europe. In pursuing those objectives, we will respect human rights and fundamental freedoms, commit to the principle of better regulation and examine opportunities for using various e-solutions.





AN OPEN AND INNOVATIVE EUROPEAN ECONOMY



An open European economy has always been able to adapt to changing circumstances. The Estonian Presidency intends to strive to make the most of transforming challenges and crises into opportunities and using them to promote a strong single market – a key driver of economic welfare for citizens. Europe must be open to innovation and promote fair competition in order to encourage businesses to develop innovative products and modern services. The European economy can only grow and weather crises if society uses the latest technologies and scientific knowledge. Excellent research is an investment in the future, which creates the capacity to cope with the rapidly developing changes and challenges in society. All Europeans should benefit from growth.

Economic recovery and job creation are supported by an attractive business environment and functioning trading partnerships

The European economy can only flourish if the business environment supports creativity and an entrepreneurial spirit and is transparent, simple and free of red tape. In order to create growth and jobs, we need to unleash the full potential of the single market in services by simplifying administrative formalities for businesses and making the most of the opportunities offered by digital technologies. Boosting the cross-border provision of services will have a direct positive impact on the economy as a whole, will support the set-up and expansion of businesses and offer greater choice and better prices for consumers. It is therefore



Estonia's objective to make significant progress in negotiations on the services package, including a services e-card, services notification procedure and the proportionality assessment of professional qualifications.



It should be easy to start a business in the European Union. By utilising the opportunities of the information society, all operators should make maximum use of digital technology in carrying out all activities related to a company, from establishment to winding down operations. Creating a better business environment and the exercise of the freedom of establishment in the European Union are facilitated by harmonised rules for cross-border mergers and divisions and for the transfer of the registered seat of a company from one Member State to another. Estonia wishes to actively proceed with discussions on developments in **company law** and is ready to start negotiations with the European Commission on the proposed reform package.



The goal of the Estonian Presidency is to ensure that the European Union continues to be an active **advocate of free trade** on the international arena. Estonia is committed to contributing to the initiation of negotiations on new free trade agreements and to the continuation and conclusion of ongoing negotiations. Estonia also

wishes to continue to promote free trade with the EU's partners within the World Trade Organisation (WTO). The Eleventh WTO Ministerial Conference, to be held in Buenos Aires, Argentina, is an important milestone in the improvement of global trade rules.

Investments, a stable banking sector and a transparent fiscal policy will enhance Europe's competitiveness

Estonia attaches importance to the level of growth of both private and public investment and will work to ensure that the **Strategic Investment Fund** mandate will be extended. The Estonian Presidency aims to create optimal conditions for sustainable economic growth and a shock-resistant euro area. While the European **Economic and Monetary Union** has been strengthened in recent years, a number of projects are still ongoing. A stable and resilient banking sector will help to prevent economic and financial crises; the further reduction of risks is a necessary step towards completing the **banking union**. Estonia wants to further develop the proposals on establishing common rules in order to reduce risk and strengthen confidence in the banking sector. This will bolster financial stability and confidence in the euro and reduce pressure on using taxpayers' money to support the sector.



A functioning banking union and capital markets union will facilitate the distribution of risks between the private and public sector in the European Union and contribute to the funding of companies and financial stability. The European Commission has prepared a midterm review of the development of the **capital markets union**, for which Estonia plans to set out new goals in close cooperation with the Member States in Council Conclusions. In building on the Commission's capital markets union mid-term review, we will set out next steps for strengthening capital markets and removing restrictions on the free movement of capital.



The European tax landscape must take into account the impact of global change and remain an attractive market for companies at a time of increasing international competition. Tax evasion, avoidance and fraud undermine the competitiveness of honest operators and may result in considerable tax losses for the Member States. Estonia intends to launch negotiations on the **definitive cross-border VAT system**. The current temporary mechanism leaves scope for tax fraud. The definitive value added tax system will be based on the principle of taxation at the place of consumption. The development of cross-border e-commerce makes it necessary to **modernise VAT for cross-border e-commerce** in order to

facilitate cross-border e-commerce for SMEs, combat VAT fraud and ensure a level playing field between EU businesses and third-country businesses. Estonia intends to make progress on the initiative on VAT for e-commerce and conclude discussions on **VAT rates for e-books and e-publications**.



Estonia is working towards agreement in the Council of the European Union on a common **EU list of non-cooperative tax jurisdictions**. We will also launch discussions on whether to impose **mandatory rules on financial intermediaries and advisers to disclose tax avoidance schemes**.

The modern energy market combines an efficient energy supply system and consumer friendliness

Guided by the principles of a European **energy union**, Estonia will strive for an open and innovative European economy by developing common energy, climate, environmental and economic policies. The responsible and sustainable use of natural resources will contribute to the European Union's target to cut greenhouse gas emissions by at least 40% below 1990 levels by 2030 and to increase the competitiveness of the European Union.



The Estonian Presidency intends to address all important aspects of the energy union. We need to create the conditions for enhancing the role of consumers on the market. Retail markets and distribution networks should be adapted to the needs of all customers, including those generating electricity. Europe's approach to the electricity markets should be based on the principle of cooperation, which has great potential for saving energy. Estonia will make a strong contribution to the EU's efforts to develop energy markets that encourage energy efficiency and investments into energy production and connections. The **integration of European energy systems and markets** is essential for ensuring an affordable and secure energy supply for consumers.

The European Union budget contributes to the achievement of common objectives

By funding common objectives and policies, the European Union and Member States can achieve more than they would individually. **The debates on the future of the European Union budget** must consider the added value offered to the Member States through joint action at the European Union level, be it scientific cooperation, cross-border infrastructure projects, reducing disparities in the economic development of various regions, providing high quality food or conserving natural resources.



In the second half of 2017, the European Commission will publish interim reports on the results and achievements of the major thematic funding programmes – **Horizon 2020, the Connecting Europe Facility, Cohesion Policy funds and the Common Agricultural Policy funds** – together with possible guidelines for the future, and discussions on how to support the achievement of European Union political objectives in the budgetary period commencing in 2021. In the context of Horizon 2020 interim evaluation, Estonia intends to initiate a discussion on how to simplify the research and innovation partnering instruments, funded from the Framework Programme, and support the participation of newcomers. Estonia also plans to lead a discussion in the context of the Connecting Europe Facility mid-term review on the future framework for the cross-border infrastructure investments. Estonia wishes to advance the political discussion on the future of the cohesion policy, taking into account the long-term development needs of the European Union as well as its regions and supporting the continuation of a strong cohesion policy. Estonia believes that agricultural policy should continue in the European Union as a common policy funded from the European Union budget. The Estonian Presidency will have the opportunity to introduce a debate on the planning of the next multi-annual financial framework.

The European Union budget for 2018 should continue to support the competitiveness of the European Union, economic growth and recovery and employment as well as address the migration and security challenges. It is important to ensure a realistic budget that meets the objectives and requirements set for it. Estonia's task is to reach an agreement to ensure that the European Union has the necessary resources in its 2018 budget to achieve its objectives and implement its policies. Estonia will continue negotiations on the simplification of the European Union Financial Regulation and the related regulations, i.e. the **'omnibus' Regulation**, in order to implement the regulations from 1 January 2018. The European Union budget must be able to respond flexibly to the changing circumstances; the rules on the use of budget funds should be clearer and simpler.

●

A purposeful use of the European Union budget is in our common interest. Abuse of the budget and VAT fraud must be responded to effectively. Estonia will seek to reach an agreement on the establishment of a **European Public Prosecutor's Office**.





A SAFE AND SECURE EUROPE



Ensuring the safety and security of Europe and the well-being of its citizens is the *raison d'être* of the European Union. The European Union's ability to fulfil this goal depends on developments in the European Union, its immediate neighbourhood and beyond and on the global stage. In recognition of the intrinsic link between the internal and external aspects of security, the Presidency will work to promote and uphold the objectives of the **Security Union** and those set out in the **Global Strategy**.



A Europe without internal borders requires common solutions on security, migration, asylum and external border policies. The Presidency will produce a mid-term review of the progress of the European Union in strengthening cooperation in the area of freedom, security and justice. We will continue to work towards ensuring a safe society based on

fundamental rights by ensuring a coherent and coordinated capacity to respond to emerging threats, such as emergencies caused by nature or technology, terrorism and hybrid threats. Estonia intends to utilise the opportunities provided by modern communication and information technologies, such as the interoperability of information systems and the improved quality of data exchange in accordance with the common European Union data protection rules, to prevent and thwart various types of crime.

Modern IT solutions and databases contribute to maintaining public security in the Schengen area

Europe without borders with the free movement of goods, services and persons is one of Europe's most important achievements that



affects us every day. The Presidency will continue efforts to **enhance security in the Schengen area** by strengthening cooperation and improving compensatory measures, particularly regarding the control and surveillance of the European Union's external borders. These actions will be accompanied by practical cooperation such as a more frequent and efficient exchange of information on serious crime.



The Presidency will work towards introducing modern IT solutions to enhance the security of the external borders of the Schengen area, while maintaining smooth border crossing. In order to make the control and surveillance of the European Union's external borders more efficient and to secure more detailed information on third country nationals entering or leaving the European Union, Estonia will seek an agreement on the new **European Entry/Exit system** for registering border crossings by third country nationals. Another objective is to reach the final stage of the negotiations on the **European Travel Information and Authorisation System (ETIAS)**, which is designed to register the crossing of the external border by visa-exempt third country nationals.



Law enforcement authorities must be able to exchange more precise information on criminals. Estonia will

focus on modernising the **Schengen Information System**, which is the main tool for data and information exchange between police, border control and customs authorities. The exchange of criminal records minimises the chances of criminals being able to hide their crimes by moving from one Member State to another. The Estonian Presidency will focus on the improvement of the **European Criminal Records Information System**.



Currently, the data held by the European Union border control and security authorities is fragmented and this is hindering their work. The best way to enhance information exchange is to make the information systems **interoperable** and facilitate clearly defined and justified access by authorities to the data held in these information systems.

Cross-border cooperation should be reinforced to tackle terrorism and organised crime more effectively

Terrorism has become a global security threat, which can be effectively prevented and thwarted only through a united stance. To combat terrorism and radicalisation effectively, we need to have a common understanding of the threats involved. We intend to focus both on the prevention of **radicalisation** and on building the



rapid response capabilities of the Member States. We want to bring the internal and external aspects of the fight against terrorism closer together and to develop joint expertise capacities. The Estonian Presidency intends to focus also on **building the capacity of neighbouring countries** to combat organised crime, including through closer cooperation with Ukraine.



Estonia will direct its efforts to achieving agreements on intensifying the fight against the financing of terrorism and organised crime and on prosecuting serious cross-border crime. The European Union needs to strengthen its capacity to **counter money laundering under criminal law** to ensure that crimes related to money laundering are prosecuted in the European Union on the basis of uniform principles. The existing European Union legislative framework on **mutual recognition of criminal asset freezing and confiscation orders** also needs to be modernised. A freezing or confiscation order issued in one Member State must be quickly and efficiently recognised and applicable in other Member States.



The possibility of using e-evidence and retaining communication data is a prerequisite in the effective fight against terrorism and other types of crime. **The improved availability**

and processing of e-evidence would significantly facilitate obtaining evidence in cross-border cases. Estonia wants to launch discussions on the collection and use of e-evidence. **Communication data** is often important evidence in criminal proceedings, in terms of both apprehending criminals and tracking the location of victims. Estonia will hold a wide-based discussion in order to find a European Union level solution for the retention of communication data.

A well-managed migration policy is needed for the development and security of the European Union

Migration policy requires a systematic approach that takes into account both internal and external aspects and focuses attention on the long-term perspective of the migration policy.



The Estonian Presidency will continue the implementation of the **partnership frameworks** between the European Union and third countries in cooperation with the main countries of origin and transit to ease migratory pressures. As a well-functioning return policy is an integral part of migration management, the EU must assist countries of origin through development cooperation



and investment, emphasising their obligation to readmit third country nationals. It is also essential to implement the **Valletta Action Plan** and the European Union Action Plan on Return together with its recommendations, which are designed to curb illegal migration. We must also monitor all actions and developments related to third countries, in order to swiftly respond to changing circumstances.

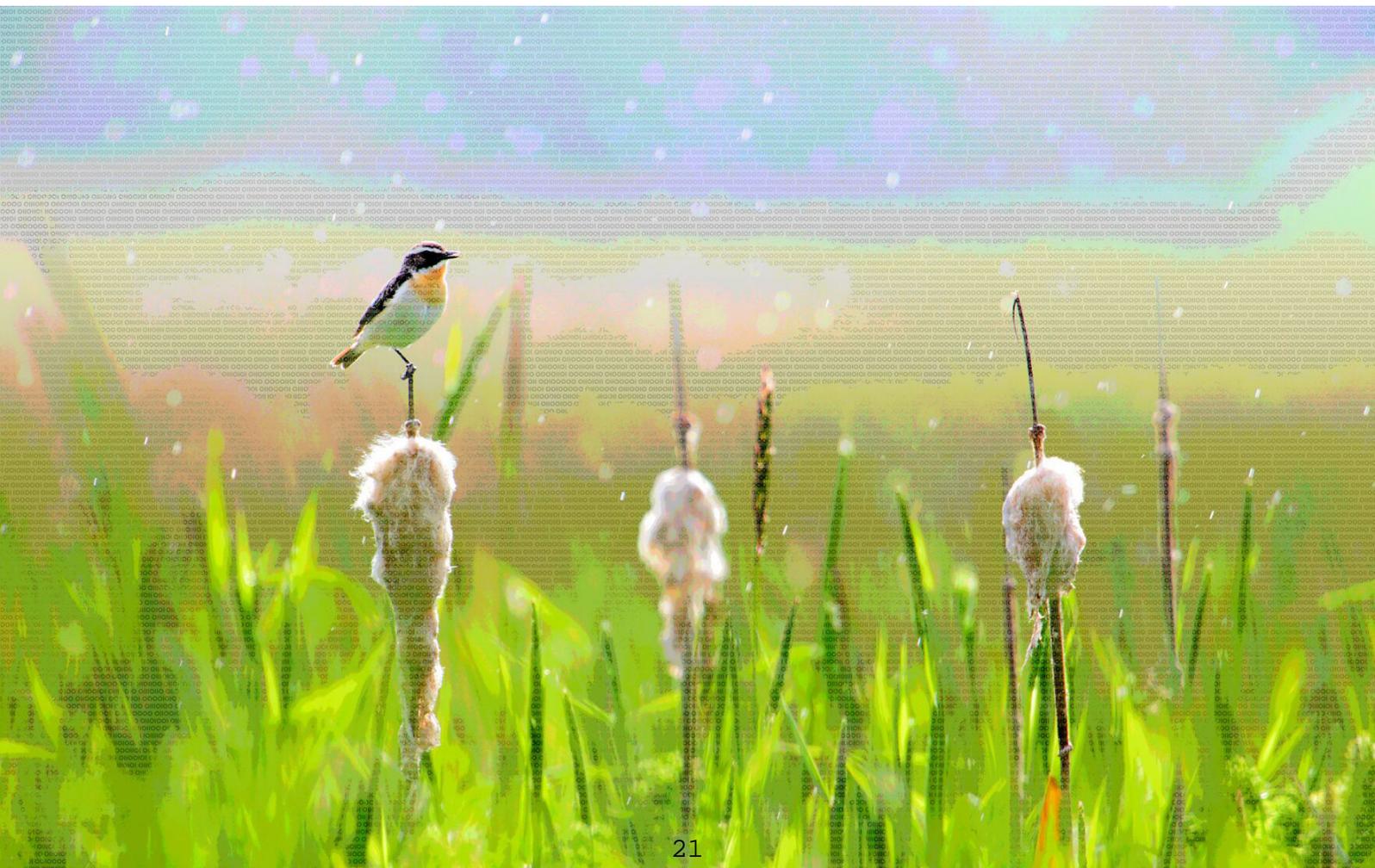


A well-managed external border is the cornerstone of an effective migration policy. Estonia will continue the efforts to reinforce the European Union's external border and draw more attention to land border management.

An effective migration policy would contribute positively to Europe's economic growth and competitiveness. Estonia wants to focus more attention on **legal migration**, and in particular to promote the legal migration of highly skilled labour and simplify internal mobility. Estonia will continue to pursue an agreement on the renewal of the European Union **Blue Card directive**.



Estonia will also continue work on modernising the **Common European Asylum System** to ensure its proper functioning and uniform conditions for people applying for and receiving asylum in Europe.



The European Union in a globalised world

In the area of external policy the Presidency supports the High Representative of the Union for Foreign Affairs and Security Policy as chair of the Foreign Affairs Council in all its activities.

Ensuring security, peace and stability in **Europe's immediate neighbourhood and beyond** is an important goal for the EU. Therefore, the implementation of the objectives of the European **Neighbourhood Policy** shall be continued. Estonia strives to enhance the region's economy, democracy, human rights, rule of law and the promotion of prosperity and national resilience to cope with different types of security threats.

It is important to promote an efficient and effective **Eastern Partnership** by supporting the Eastern Partnership countries' sovereign choices, increased democracy, economic prosperity and stability. Estonia intends to contribute to the strengthening of relations between the six Eastern Partnership countries and the European Union. By enhancing dialogue and sectoral cooperation with the Eastern Partnership countries and by supporting their reforms, we want to

ensure a tangible positive impact on the lives of the people in our partner countries and to enhance the resilience of these countries. Strategic communication is essential in explaining the European Union's objectives in the region and making our actions more visible and comprehensible. The November **Eastern Partnership summit** in Brussels will confirm the European Union's continued and longstanding support for the region.

With regards to the **European Union's southern neighbourhood**, Estonia intends to promote continued political dialogue and cooperation in the fields of economy and security. Besides intensifying cooperation in the security sector – conflict prevention and management; the fight against terrorism and radicalisation; and combating human trafficking – our southern neighbours need support in tackling socioeconomic challenges.

Estonia will focus on the promotion of the digital sector – eGovernment and e-services – to facilitate the implementation of better and more transparent governance in all regions.

The summits scheduled for the second half of 2017 will provide an opportunity to strengthen

partnerships with African, as well as with Latin American and Caribbean countries. A renewed EU-Africa partnership offers opportunities for various forms of cooperation, including in the fields of innovation, technology, eGovernment, youth and education. Estonia will continue the preparations for the renewal of the partnership framework between the European Union and the African, Caribbean and the Pacific countries as the ACP-EU Partnership Agreement (Cotonou Agreement) will expire in 2020.



Close **transatlantic relations** remain important. Therefore, Estonia will support continued dialogue on matters of common concern and interest, including the international fight against terrorism, cyber threats and trade.



Estonia will continue to support the implementation of the **European Union enlargement policy** within the broader framework of security, stability, democracy and rule of law in Europe. The Estonian approach is based on the understanding that countries, which respect and promote the core values of the European Union and meet the strict and fair conditionality, should be able to advance in the enlargement process.



In **development cooperation**, Estonia will continue contributing to the implementation of the United Nations Sustainable Development Goals both inside and outside of the European Union. During the Presidency, the European Fund for Sustainable Development will be established under the External Investment Plan to mobilise additional resources to fund sustainable development in partner countries.



Regarding **humanitarian aid**, particular focus will be placed on protracted displacement. In the World Humanitarian Summit follow-up process, Estonia will focus on aid effectiveness and innovative solutions in humanitarian aid.

Closer defence cooperation and increased defence spending will strengthen security in Europe

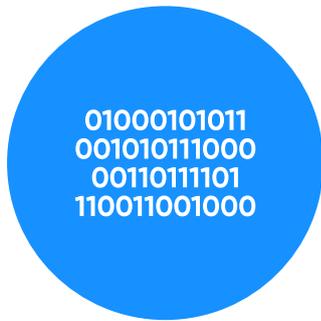
In the field of European defence cooperation, Estonia will seek to enhance military capabilities of the European Union Member States, including **determining the level of defence spending and investments of the Member States** and reaching agreement on the revision of the common funding of European Union operations, notably to increase the usability of European Union

Battlegroups. Estonia supports and contributes to the discussions on **Permanent Structured Cooperation (PESCO)**, the **Coordinated Annual Review on Defence (CARD)** and a **European Defence Action Plan (EDAP)**. Estonia supports the Commission's initiatives, in particular in the field of defence research and development and in strengthening the European defence industrial base in order to create better opportunities for involving and funding the small and medium size enterprises operating in the sector.



In a new security environment, **identifying hybrid threats**, increasing the awareness of such threats and stepping up resilience measures have become essential to enable timely responses to threats. Estonia continues to contribute to the European Union's early warning system and to promote exchanges of experience between institutions and Member States. All the tools at the disposal of the European Union and NATO are required to tackle hybrid and cyber threats. Estonia supports **EU-NATO cooperation** through practical actions in accordance with the EU-NATO joint declaration of 2016 and contributes to the cooperation objectives in the field of **cyber defence**, including organising mutually open and coordinated exercises.





DIGITAL EUROPE AND THE FREE MOVEMENT OF DATA



A strong single market supporting growth and jobs must be connected and keep pace with both new technological developments and the increasing digitisation of society. Information and communications technology are no longer a specific sector; they are the backbone of all modern innovative economic systems. The internet and digital technologies change lives, jobs and societies, and they are integrated across all economic sectors and walks of life. However, technological progress also involves risks to our security and democracy, while at the same time offering new opportunities for defending our values.



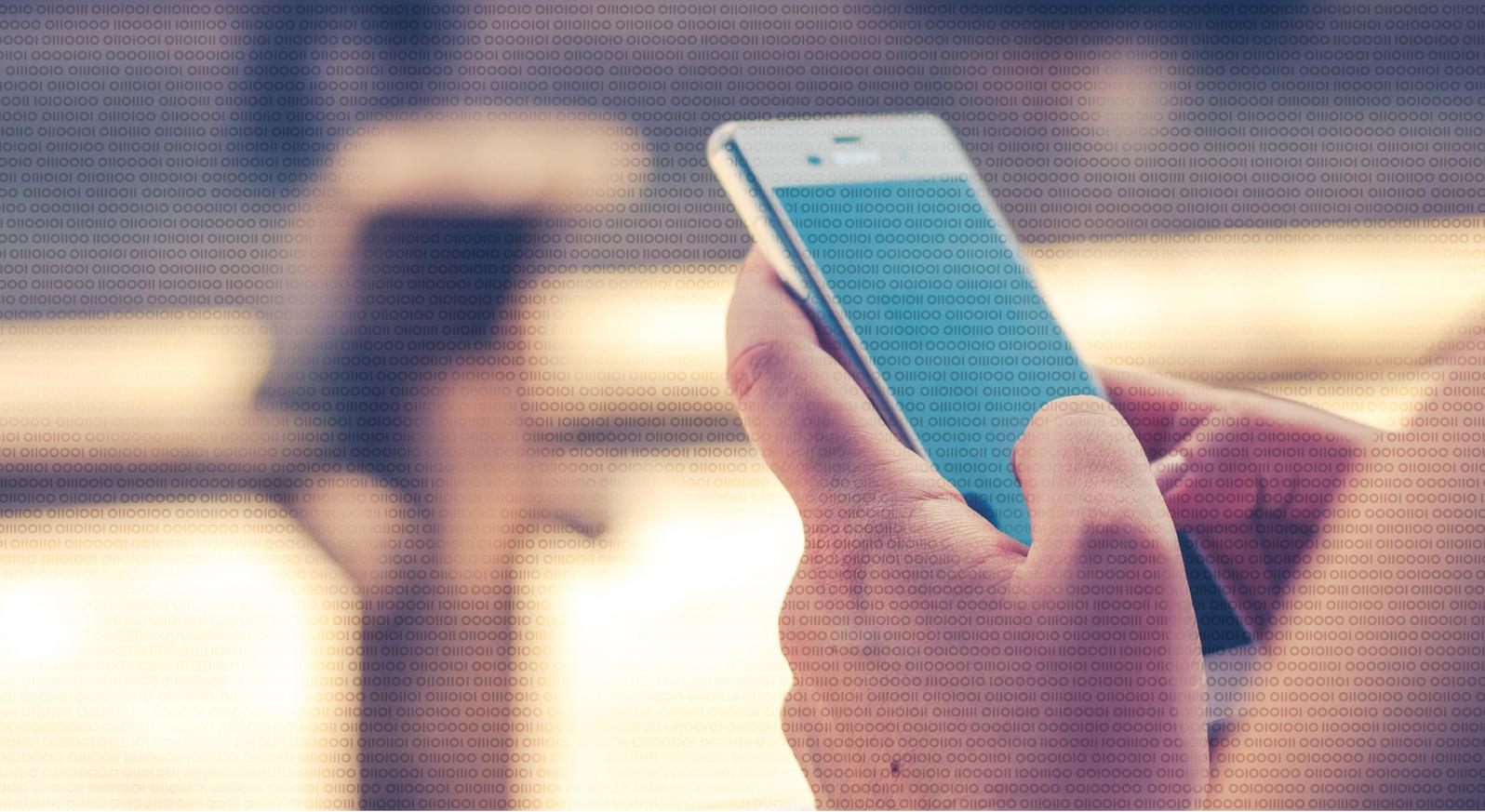
Europe must keep pace with technological progress and fully exploit its potential. This will contribute to improving the everyday lives of citizens, businesses and Member States. Estonia's goal is to make progress

on the **Commission's Digital Single Market strategy measures**. We also want to advance discussions on the future of eGovernment, cyber security and the free movement of data, which are essential for the European Union's economy. Estonia will organise a range of events and a **digital summit** for open-minded discussions about Europe's digital future.

The free movement of data is essential for the development of a digital society

With technological progress, data has become a resource and a key driver of social development and economic growth. The European Union is in the early stages of a **data-driven economy**. The Estonian Presidency intends to stress the need to **develop a digital society in all areas of life**.





The European Union should **end the unjustified data location restrictions** of non-personal data, achieve **legal clarity on the ownership** of non-personal data and ensure the reliable storage and exchange of data based on the **'once-only' principle** in the public sector. Estonia is planning a broad debate on the free movement of data and on measures boosting the data economy.

High-speed, high-quality and widely available internet connection is the mainstay of a smart data-driven economy

Smart economy is based on the interoperability of data resources and digital technologies for the purpose of achieving economic success and the well-being of citizens. In order to promote **smart economy** in Europe, we need to focus on the initiatives that

contribute to the technology-based universal digitisation of the economy. In creating a favourable environment for new services, it is important to ensure **modern, accessible and secure electronic communications** across Europe by taking a major step forward towards a Gigabit Society, including the establishment of the **European Electronic Communications Code**.

The proposed **Single Digital Gateway** for simplifying cross-border service provision is also an important means of fostering entrepreneurship. It makes it easier for companies to enter the markets of other Member States, to navigate these markets and to obtain information about local rules and public services.

The development of e-commerce and e-services broadens the choice for Europeans

The Estonian Presidency focuses on the **development of cross-border e-commerce and e-services** for the benefit of both consumers and companies. A precondition for well-functioning e-commerce in Europe is the **protection of consumer interests** wherever they may live. In order to end unjustified geo-blocking in the European Union, an agreement must be reached on the **geo-blocking regulation**. In the absence of uniform contract law rules on the supply of digital content and internet sales is a barrier to e-commerce. Estonia seeks to move forward with negotiations on a **contract law package** to ensure legal certainty and clarity for entrepreneurs and consumers engaged in cross-border trade.



As copyright law must keep up with the development of digital solutions, Estonia seeks to move forward with the **copyright reform**. Under new market conditions, cross-border access to a wider variety of digital content protected by copyright should be further facilitated by such measures as levelling the free use regulation of protected works, while ensuring the functioning of a fair market in terms of copyright. Updating the legal area of **audiovisual media**

services contributes to ensuring the fair treatment of market participants, creates favourable conditions for the development of such services and gives consumers more choice. Estonia seeks to reach an agreement on amending the Audiovisual Media Services Directive.

Public e-services simplify also cross-border formalities

The EU eGovernment Action Plan 2016–2020 aims to develop well-functioning cross-border **digital public services** to reduce the administrative burden on businesses and citizens by making their interactions with public administrations easier and faster. Estonia wishes to ensure a sustainable and efficient implementation of the Action Plan and to accelerate the adoption of electronic identification (eID) and trust services.



Estonia intends to give attention to the application of the eGovernment principles in the initiatives launched in all sectors. The Presidency intends to launch a forward-looking debate culminating in the **Tallinn declaration on eGovernment** – a common understanding of Member States on how to achieve an efficient eGovernment in the European Union, also in a cross-border context. Estonia strives for an eGovernment supporting the single market and built on the important



principles of a well-functioning digital society: the 'digital by default', 'once-only' and 'no-legacy' principles and the free movement of data.



We also want to launch a discussion to promote **cooperation and coordination on e-health** in order to create the necessary preconditions for a wider use and cross-border movement of health data for the purposes of treatment, research and innovation and to promote data-based innovation in healthcare. To this end, we want to focus European Union cooperation on practical solutions that give people electronic access to and greater control over the use of their health data as well as enable them to consent to securely share their health data for the purposes of e-services.



Today, information technology is widely used in judicial procedures and in providing European Union citizens with better access to justice. As all people have the right of access to effective justice, the Estonian Presidency wants to contribute to the development of and to ensuring the sustainability of **e-justice**.



Estonia will also contribute to the uptake of digital solutions and technologies outside the European Union by horizontally and system-

atically promoting the use of digital solutions as a lever of development within the European Union **development policy**.

Trust and security are crucial for the development of a digital society

The development of a digital society has opened up many new opportunities, while making us more vulnerable, creating new risks and exacerbating existing risks, such as the malicious use of technology. In cyberspace, Europe must also stand by its values and protect its security.



Estonia promotes European Union wide cooperation in the field of cybersecurity, acknowledging the field as a source of opportunity rather than an obstacle. To that end, it is essential to update the **European Union cybersecurity strategy** and the mandate of the European Union Agency for Network and Information Security (ENISA). Bringing **eprivacy** legislation in line with today's needs and the objectives of the data protection reform will contribute to increasing the level of trust. Estonia wants to move forward with the negotiations on the **ePrivacy Regulation**.







INCLUSIVE AND SUSTAINABLE EUROPE



People's quality of life is affected by the environment around them. Sustainable development can only be achieved if all economic, social and environmental issues are addressed in a coordinated and integrated manner. In line with the **United Nations 2030 Agenda for Sustainable Development**, Europe must ensure a clean and caring environment for present and future generations. This requires the sustainable and efficient management of natural resources and a social order that offers sustainable solutions. An inclusive and sustainable Europe helps its citizens adapt to change and supports equal opportunities for all to stay active as long as possible and to live a long and healthy life. The primary responsibility for reducing social gaps continues to lie with each Member State.

An inclusive Europe supports equal opportunities for all

In order to ensure society's sustainability and Europe's economic and social prosperity in the context of an ageing and declining population, everyone across Europe must have equal opportunities for the development of skills, high-quality education, employment and access to services. An evolving society and technological progress have **changed the nature of work** and led to **new forms of work**. This entails the redefining of the roles of the employer and the employee and the need to adapt working conditions, skills and social security systems accordingly.



Estonia wants to focus on the modernisation of education and the labour market to ensure that knowledge and skills, including digital skills, are

keeping up with these changes. In order to strengthen Europe's competitiveness, it is essential to invest in the **development of skills** and to move forward with the initiatives triggered by the New Skills Agenda and subsequent Commission initiatives on youth and education. The Estonian Presidency intends to focus on creating better links between education and the labour market. We will continue to review the **Europass Decision** to achieve a better implementation and synergy between the digital tools designed for documenting people's skills and qualifications, and to modernise these tools for the digital age.



Estonia proposes a broad discussion on the future of work and the accompanying opportunities, including national e-solutions. To ensure an inclusive Europe, Estonia will contribute to creating better opportunities for people with special needs to participate in societal life. To that end, we need to achieve a speedy agreement on the **Accessibility Act**, to which the Estonian Presidency will significantly contribute.



An increasing need for qualified labour and ensuring high-quality working life requires further promotion of gender equality, including support for the **work-life balance**. The unequal division of labour in caring for

children, the elderly and other dependent family members affects the participation of women in the labour market and the participation of men in family life. Estonia intends to continue the debate on the reconciliation of family life to increase women's participation in the labour market and to reduce their care burden.

Opening up new opportunities for young people supports the development of a strong society

An economically sustainable and competitive Europe must open up new opportunities for young Europeans by promoting the development of competences, inclusion, active participation and **voluntary activities** in society. We want to highlight the role of **smart youth work** in achieving these objectives. During the Estonian Presidency, discussions will continue on the common ground for EU cooperation in the field of youth work and youth policy from 2019 onwards. Estonia's goal is to create more opportunities **for young people to have a say in these discussions**. The Estonian Presidency can contribute to the establishment of the **European Solidarity Corps** to create opportunities for young people to contribute, through voluntary work and professional activities, to addressing the significant challenges facing society.



The freedom of movement is a pillar of the European Union and must continue to function smoothly

The free movement of persons, workers and services in the European Union internal market and the supporting social guarantees must be properly ensured. Estonia focuses on the modernisation of **social security coordination** rules and successful negotiations on **regulating the posting of workers**, which is essential in the context of the internal market. In order to ensure quick and easy access to social benefits by people using the freedom of movement, new e-solutions should be introduced.



We also intend to work actively on the proposals of the new European Union mobility package in order to contribute to the functioning of an open and fair **road transport market**.

The implementation of the Paris Agreement and transitioning to an environmentally sustainable economy will ensure a cleaner living environment

Climate change is increasingly affecting the natural environment and people's quality of life. To achieve a better living environment, the European Union must **reduce greenhouse gas emissions** as agreed in the Paris Agreement, a landmark global agreement on

limiting climate change. First and foremost, this will entail the revision of the current EU Emissions Trading System (ETS), as well as reducing emissions from sectors falling outside the ETS, such as transport, agriculture, small-scale energy production, waste management and other sectors. In addition, the land use and forestry sector must also be integrated in the larger European greenhouse gas emissions reduction system in order to reach the targets set under the Paris Agreement. There is no doubt that attention must be paid to **energy efficiency** in order to achieve the objectives of the EU climate and energy policies. Estonia intends to continue work on the energy efficiency directives.



Our ever-intensifying economy must find solutions to challenges posed by limited resources and environmental pollution. In order to ensure sustainable growth, we must change existing production and consumption patterns, and this can best be achieved through the introduction of innovative and smart solutions with reduced environmental impacts in the spheres of manufacturing, business models, consumption as well as spatial planning and development. Europe is striving to transition to a resource-efficient **circular economy**, which focuses on the reuse, repair, and recycling of existing materials and products. Therefore, Estonia aims



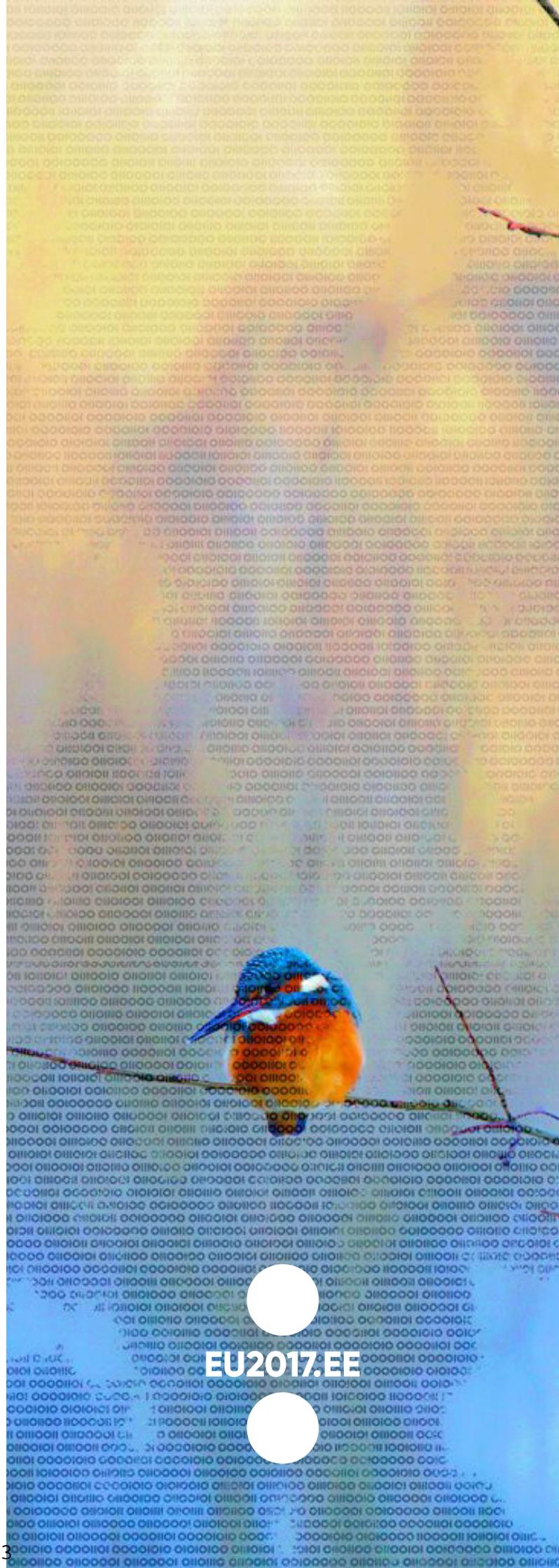
to make substantial progress with negotiations on waste legislation and to initiate discussions on promoting environmentally friendly and eco-innovative IT solutions along with new cooperation platforms in the larger framework of transitioning to circular economy and promoting environmentally-aware consumption.



In the context of circular economy, it is also important to promote the wider use of innovative fertilisers and offer a more diverse range of fertilisers to agricultural producers in order to make food production more cost-effective and resource-efficient. To attain this goal, it is essential to reach agreement on the **Fertilising Products Regulation**, to which the Estonian Presidency will contribute.



One of the goals of the United Nations 2030 Agenda for Sustainable Development is the restoration of degraded land and soil. The European Union has both the need and potential for a more effective protection of soils as a resource, as the current policy only contributes to this goal indirectly. Estonia is planning to launch a broad-based discussion on the protection of agricultural soil and its importance in sustainable food production. In this regard, Estonia emphasises the **importance of the greater use of digital soil data at the European Union level.**



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Priority dossiers under the Estonian EU Council Presidency

INTRODUCTION

Estonia will hold the EU Council Presidency from July to December 2017. Its presidency will herald a new Trio Presidency, composed of Estonia, Bulgaria and Austria. This will be the first time Estonia holds the rotating presidency. Estonia is currently led by a government coalition consisting of three political parties: the Estonian Centre Party (Eesti Keskerakond), the Social Democratic Party (Sotsiaaldemokraatlik Erakond) and the Pro Patria and Res Publica Union (Isamaa ja Res Publica Liit). Its Prime Minister, Jüri Ratas, in office since November 2016, belongs to the Estonian Centre Party.

Estonia is a republic divided into 15 counties. It has a unicameral parliamentary system with 101 Members of Parliament, elected by proportional representation. On 15 October 2017, local municipality elections will be held, followed by parliamentary (Riigikogu) elections in 2019.

POLITICAL PRIORITIES OF THE ESTONIAN PRESIDENCY

The Estonian Presidency promises to focus on preserving the common values of prosperity, security, peace and stability in Europe. It will seek to maintain Europe's unity through practical decisions, while focusing on the following over-arching objectives:

- an open and innovative European economy,
- a safe and secure Europe,
- a digital Europe and the free movement of data,
- an inclusive and sustainable Europe.

This note looks at the Estonian Presidency priorities in Part A, with those dossiers which figure in the Joint Declaration agreed by the three institutions as priorities for 2017 marked with an asterisk (*). Part B refers to other dossiers in the 2017 Joint Declaration.

PART A: ESTONIAN PRESIDENCY PRIORITIES

1. OPEN AND INNOVATIVE EUROPEAN ECONOMY

The Estonian Presidency will focus on the development of a business environment that favours stability, knowledge-based growth and competitiveness. To this end, the free movement of services and cross-border mobility of companies will be encouraged, as well as the completion of the second stage of the European Banking Union. In concrete terms, implementation of the measures of the Capital Markets Union will be a priority, as well as utilisation of the European Fund for Strategic Investments (EFSI) as this becomes necessary. The EFSI legislation, clearly a priority file in the Joint Declaration 2017, could be finalised politically under the Maltese Presidency, possibly with a vote in plenary in July.

Other areas to feature as a matter of priority are:

- Modernisation of taxation rules to prevent tax evasion
- Value added tax regime for cross-border trade and removal of value added tax obstacles to e-commerce (2016/0370 CNS and 2016/0406 CNS)
- Cross-border company law
- New electricity market design
- EU budget 2018
- Omnibus regulation
- Horizon 2020
- Connecting Europe Facility
- Future of the Common Agricultural Policy
- European Services e-card (2016/0403 COD)
- Free trade agreements with Japan, Singapore, Australia and New Zealand

With regard to the new electricity market design, the European Commission has proposed the Clean Energy Package referred to in Part B of this paper.

2. A SAFE AND SECURE EUROPE

Terrorism and organised crime, as well as the protection of the EU's external borders remain a high priority. To this end, the Estonian Presidency will be focusing on modern IT solutions and the introduction of databases to support the Schengen Area.

Specifically this implies carrying forward work on the following:

- Entry/Exit regulation (Smart Borders 2016/0105 COD) and Use of the Entry/Exit System (2016/0106 COD)*
- European Travel Information and Authorisation System (ETIAS) (2016/0357 COD)*
- European Criminal Records Information System (ECRIS) (2016/0002 COD)*
- Legal migration framework, namely the Entry and Residency of third-country nationals for the purposes of highly skilled employment (2016/0176 COD)*
- Fair asylum policy, which includes the Dublin system (2016/0133 COD), the Asylum Agency (2016/0131 COD), Reception Conditions (2016/0222 COD), Asylum Qualification (2016/0223 COD), Asylum Procedure (2016/0224 COD) and New Resettlement Framework (2016/0225 COD)*
- Efficient procedure for returning illegal migrants (2016/0407 COD)

It is to be noted that these legislative proposals already feature as priority files in the Joint Declaration 2017, with the exception of the return of illegal migrants. Work is ongoing under the Maltese Presidency and there is a possibility that the proposal on the Entry/Exit System (both Regulation and Directive), as well as the Asylum Agency, could be concluded politically by summer. With regard to ETIAS, the Council plans to adopt a general approach by June 2017 and this would therefore feature prominently under the Estonian Presidency. Work on the asylum package, on the other hand, is progressing slowly under the Maltese Presidency. The Estonian Presidency will be tasked with continuing the work started; on most legislative proposals, a general approach is being sought in Council prior to the end of the Maltese Presidency. On ECRIS, the Commission is expected to present a modified proposal by the end of June 2017.

With regard to the Return Directive (Directive 2008/115/EC), and its connection to the use of the Schengen Information System for the return of illegal migrants, the Estonian Presidency intends to give priority to the Renewed Action Plan announced by the European Commission in its Communication of 2 March 2017, together with the implementation of the Malta Declaration of 3 February 2017, which highlighted the need to start a critical review of EU Return Policy.

On the international front, the Estonian Presidency supports the EU Global Strategy, the strengthening of trans-Atlantic relations and those with the European Neighbourhood Policy (ENP) countries, particularly the Eastern Partnership. It will also work on the review of the Cotonou Agreement.

On the defence front, the Estonian Presidency commits to enhancing European military capabilities, specifically to seek agreement on a level of military spending of 2 % of GDP. In line with the EU-NATO joint declaration of July 2016, emphasis will be placed on cyber-security and defence.

3. A DIGITAL EUROPE AND THE FREE MOVEMENT OF DATA

A digital Europe is an over-arching goal of the Estonian Presidency, based on the country's vast experience in the development of digital services. The Presidency will be focusing on the establishment of a Digital Single Market, increased e-solutions and data, as well as cross-border e-services.

The following are the main areas expected to be developed during the Estonian Presidency:

- EU Telecoms Reform, composed of the Electronic communications code (2016/0288 COD) and the Body of European Regulators for Electronic Communications (BEREC) (2016/0286 COD)*
- Copyright reform, encompassing copyright in the digital single market (2016/0280 COD) and the Regulation on online transmissions of broadcasting organisations and re-transmissions of television and radio programmes (2016/0284 COD)*
- Audiovisual media services reform (2016/0151 COD)*
- e-Privacy regulation and EU internal data protection rules (2017/0003 COD & 2017/0002 COD)*
- Cross-border parcel delivery services (2016/0149 COD)
- Development of e-Justice

While progress has been made on the package on copyright in the digital single market, it will likely be left to the Estonian Presidency to conclude these negotiations. The Audiovisual Media Services reform is expected to commence during the Estonian Presidency, with a first trilogue in July, and possible political agreement between the co-legislators towards the end of this year.

4. AN INCLUSIVE AND SUSTAINABLE EUROPE

The development of the information society has changed the nature of employment; as a consequence, there is a need to pay attention to working conditions and skills, as well as the need to reconcile work and family life.

In particular, the Estonian Presidency will focus on:

- Posting of Workers Directive (2016/0070 COD)*
- Regulation on the Coordination of social security systems (2016/0397 COD)*
- Work and family life package (2017/0085 COD)
- European Solidarity Corps (2017/0102 COD)*

The Work and Family Life Package is part of the wider European Pillar of Social Rights, adopted by the European Commission on 26 April 2017. An essential part of this package is the new proposal for a Directive on Work-Life balance for Parents and Carers (2017/0085 COD), as well as guidance on the interpretation of the Working Time Directive 2003/88/EC. On the Written Statement Directive 91/533/EEC, giving employees starting a new job the right to be notified in writing of the essential aspects of their employment relationship, the Commission is launching two consultations on a proposed revision to reflect labour market changes. The first consultation of the social partners concerns modernising the rules on labour contracts.

From the point of view of sustainability, the Estonian Presidency takes account of the Paris Agreement and the commitment of a 40 % reduction in greenhouse gas emissions by 2030. To this end, the following proposals, forming part of the Clean Energy package, will be given priority:

- Modernisation of EU Emissions Trading System (ETS) (2015/0148 COD)*
- Effort-sharing regulation (ESR) (2016/0231 COD)*
- Measures to limit greenhouse gas emissions from land use, land use change and forestry (LULUCF) (2016/0230 COD)*
- Increasing energy efficiency (2016/0376 COD)*.

On the ETS file, the Council adopted a general approach on 28 February 2017, and technical work is ongoing, paving the way for the Estonian Presidency to possibly reach a conclusion. On the Effort-sharing Regulation, a general approach may be adopted by Council in June 2017, while Parliament adopted its position in plenary in June. With regard to LULUCF, the ENVI committee will be seeking a mandate for negotiations from plenary, probably after the summer, hence it will be on the agenda of the Estonian Presidency.

PART B: JOINT DECLARATION ON LEGISLATIVE PRIORITIES

The Presidents of the European Parliament, Council and Commission signed, on 13 December 2016, the Joint Declaration on the EU's Legislative Priorities for 2017, in which they commit to give priority treatment in the legislative process to a series of initiatives in key policy areas.

The following is an overview of all the other legislative initiatives in the process of being finalised at Parliament level or being negotiated with the Council, and which remain a priority for end-2017. Those initiatives forming part of the Estonian Presidency priorities, and which are mentioned in part A of this paper, will not be repeated here.

1. NEW BOOST FOR JOBS, GROWTH AND INVESTMENT:

- the Circular Economy Package, composed of Batteries and accumulators (2015/0272 COD), Landfill of waste (2015/0274 COD), Waste (2015/0275 COD) and Packaging waste (2015/0276 COD)
- European Deposit Insurance Scheme (EDIS) (2015/0270 COD)
- the Banking Reform Package composed of Capital requirements regulation reform (2016/0360 COD), Loss-absorbing and re-capitalisation capacity Directive (2016/0362 COD) and Regulation (2016/0361 COD), Ranking of unsecured debt instruments in insolvency hierarchy (2016/0363 COD), Exempted entities, remuneration, supervisory measures and powers and capital conservation measures (2016/0364 COD), and Recovery and resolution of central counter-parties (2016/0365 COD)
- Trade Defence Instruments (2013/0103 COD)

The Circular Economy Package is composed of four major legislative initiatives. Technical discussions are ongoing in the Council and an informal trilogue is planned for 26 June 2017. This package will continue to be negotiated under the Estonian Presidency. On the Trade Defence Instruments, negotiations between Parliament and Council are ongoing and it is hoped that political agreement can be reached during the Estonian Presidency.

2. ADDRESSING THE SOCIAL DIMENSION OF THE EUROPEAN UNION:

- Accessibility requirements for products and services (2015/0278 COD)

The IMCO committee voted on the report on accessibility on 25 April 2017 and the Council is expected to adopt a general approach in June 2017. His proposal will be negotiated during the Estonian Presidency.

3. BETTER PROTECTING THE SECURITY OF OUR CITIZENS:

- Money laundering and terrorist financing (2016/0208 COD)

The LIBE and ECON committees are joint committees under Rule 55. The mandate for negotiations was announced in plenary in March 2017 and trilogues are ongoing.

4. REFORMING AND DEVELOPING OUR MIGRATION POLICY IN A SPIRIT OF RESPONSIBILITY AND SOLIDARITY

- External investment plan/European Fund for Sustainable Development (EFSD) (2016/0281 COD)

- External investment package, composed of EIB external lending and the Guarantee fund for external actions (2016/0275 COD & 2016/0274 COD)

The DEVE, BUDG and AFET committees are joint committees under Rule 55 on the EFSD file. The mandate for negotiations was agreed and announced in plenary in April 2017. Both co-legislators hope to reach political agreement, and to have it voted in plenary in July 2017, in which case it would be closed before the Estonian Presidency. On the external investment package files, negotiations are ongoing and they could potentially be closed before the Estonian Presidency.

5. DELIVERING ON COMMITMENT TO IMPLEMENT A CONNECTED DIGITAL SINGLE MARKET

- Preventing unjustified geo blocking (2016/0152 COD)

IMCO adopted this report on 24 April 2017 and a mandate for negotiations was confirmed by plenary in May. This file will likely be concluded under the Estonian Presidency. It is also linked to the need to remove value added tax obstacles on e-commerce, which is an Estonian Presidency priority.

6. DELIVERING ON AN AMBITIOUS ENERGY UNION AND A FORWARD LOOKING CLIMATE CHANGE POLICY

- Clean Energy package, composed of the proposals on Energy efficiency (2016/0376 COD), Energy performance of buildings (2016/0381 COD), Common rules on the internal market in electricity (Directive 2016/0380 COD and Regulation 2016/0379 COD), European Agency for the cooperation of energy regulators (2016/0378 COD), Risk preparedness in the electricity sector (2016/0377 COD), Energy from renewable sources (2016/0382 COD) and Governance of the Energy Union (2016/0375 COD)

It is to be noted that the Maltese Presidency decided to accelerate two of the proposals of the Clean Energy Package, i.e. the Energy Efficiency file, also identified as an Estonian Presidency priority, and the Energy Performance of buildings. The Council plans to adopt a general approach on these two in June, following which it will be up to the Estonian Presidency to push for a conclusion.

One final point concerns the negotiations between the European Parliament, Council and Commission of the Joint Declaration for 2018. Negotiations on which proposals will form part of the Joint Declaration for 2018 will be held towards the end of the Estonian Presidency, with the participation of the subsequent Bulgarian Presidency. The Estonian Presidency is committed to working on all proposals included in the Joint Declaration for 2017 and which are not yet concluded. It is to be noted also that in the 18-month Trio Presidency Programme for Estonia, Bulgaria and Austria, published on 2 June 2017, there is a clear commitment to furthering the initiatives of the Joint Declaration on the EU's legislative priorities.

This document is also available on the internet at: www.europarl.europa.eu/thinktank

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Estonian Presidency priorities discussed in committee¹

The priorities of the Estonian Presidency of the EU Council of Ministers are being outlined to parliamentary committees by ministers in a series of meetings taking place in July.

International Trade: regain people's trust in free trade

The Presidency wants to advance with several negotiations, open new markets for European businesses, but at the same time regain citizen's trust in free trade, Entrepreneurship and Information Technology Minister Urve Palo told the International Trade Committee on 11 July. The Presidency is determined to resolve "tough issues" regarding the modernisation of the EU's trade defence instruments, currently under negotiation with EU ministers.

MEPs emphasised that making the EU Commission's negotiating mandates public would greatly contribute to transparency.

Transport and Tourism: road transport, digital solutions, aviation

To pave the way for adopting the "Mobility package" before the end of the current parliamentary term, the Presidency will seek quick progress on working conditions and market access in road transport, Economic Affairs and Infrastructure Minister Kadri Simson told Transport and Tourism Committee MEPs on 11 July. Digitalisation will help cut administrative costs and fraud (such as letterbox companies), she added.

Mrs Simson also hopes for an agreement on aviation safety rules by the end of November.

Culture and Education: how to take advantage of the digital revolution

Implementation of Erasmus+ as well as updating teaching methods to take full advantage of new technologies are among Presidency priorities, Education and Research Minister Mailis Reps told the Culture and Education Committee on 11 July.

An agreement on the European Audiovisual Media Services Directive and better rules to tackle illicit trade of cultural goods are also priority files for the next six months, Culture Minister Indrek Saar said.

Civil Liberties, Justice and Home Affairs: migration, refugees' relocation, security

Migration will continue to be at the forefront, with the aim of establishing a proper asylum system combined with rigorous border controls and an effective returns policy, said Interior Minister Andres Anvelt to the Civil Liberties Committee on 10 July. He considered the relocation of all eligible asylum-seekers from Greece and Italy by September feasible.

¹ <http://www.europarl.europa.eu/news/en/press-room/20170712IPR79622/estonian-presidency-priorities-discussed-in-committee>

In the face of “clear and very real” terrorist threats, the EU must improve the interoperability of its databases and make efforts on de-radicalisation. The financing of terrorism will also be high on the agenda, added Justice Minister Urmas Reinsalu.

Foreign Affairs: migration and Eastern partnership

Setting up a comprehensive approach to migration and reinforcing the eastern vector of EU external policy are priority issues, Foreign Affairs Minister Sven Mikser told Foreign Affairs Committee on 11 July. Several MEPs raised concerns about Turkey’s EU accession talks, with plenary having recently reaffirmed that negotiations should be suspended if changes to the Turkish constitution go ahead. Turkey continues to be an EU candidate country and we need to maintain an open dialogue, Mr Mikser said.

EU-LAC summit (San Salvador, October), the 5th Eastern Partnership summit (November) and the 5th EU-Africa summit (Abidjan, November) were listed as important chances to try to solve major pending crises worldwide.

Agriculture and Rural Development: CAP reform, ending unfair trade practices

Securing an agreement with the Parliament on the so-called Omnibus regulation to modernise the Common Agricultural Policy (CAP) is a top priority, Rural Affairs Minister Tarmo Tamm told Agriculture Committee on 11 July. The Presidency also wants to improve the situation of agricultural markets, protect agricultural soils and fight antimicrobial resistance.

MEPs stressed the CAP will be able to deliver only if it is adequately financed and called on the Presidency to support Parliament in its quest for an EU law to do away with unfair trading practices in the food supply chain.

Industry, Research and Energy: energy, 9th research programme, digital market

Opening negotiations on a few important energy and telecommunication files, completing the work on the digital single market as well as preparing the ninth Research framework programme were presented as priority actions to the Industry, Energy and Research Committee by Economic Affairs and Infrastructure Minister Kadri Simson, Entrepreneurship and Information Technology Minister Urve Palo and Education and Research Minister Mailis Reps, on 11 July.

MEPs also raised questions about the future of EU industrial strategy and space policy as well as free flow of data in the EU.

Environment, Public Health and Food Safety: ETS, LULUCF

On July 11, Environment Minister Siim Kiisler said that the Presidency will push forward EU policy to deliver on the Paris climate change targets and is committed to making substantial progress on climate policy files, such as the reform of the emissions trading system (ETS), the effort-sharing regulation (ESR), aviation ETS and the legislation on land-use, land-use change and forestry (LULUCF).

Health and Labour Minister Jevgeni Ossinovski said that the Presidency would like to promote coordination on e-health cross-border cooperation, in the framework of the Digital Single Market.

Legal Affairs: copyright, family law, insolvency

Digital change is at the core of the Presidency's priorities, Justice Minister Urmas Reinsalu, told Legal Affairs Committee MEPs on 12 July. Progress on copyright reform is high on the agenda. However, it remains to be seen if an agreement between Parliament and Council can be reached during the Presidency, Minister Reinsalu said.

MEPs highlighted the importance of making progress in the revision of the Brussels II regulation on family law and the insolvency directive.

Fisheries: North Sea, Adriatic

Sustainable management of fish stocks and the protection of the oceans are the two key priorities in this field, Environment Minister Siim Valmar Kiisler told the Fisheries Committee on July 12.

Mr Kiisler said the Presidency will start negotiations on the North Sea multiannual plan and the technical measures regulation as soon as the EP plenary approves its position, as well as try to move discussions forward on the Multiannual plan for the small-pelagic stocks in the Adriatic.

Women's rights and gender equality: gender-based violence, pay gap, parental leave

Combating gender-based violence will remain a focal point, Health and Labour Minister Jevgeni Ossinovski told the Women's Rights and Gender Equality Committee on July 12. The Presidency priorities will also include promoting gender equality by reducing discrimination and stereotyping that cause the gender pay gap, segregation in education and on the labour market.

Finally, the Presidency supports balancing work and family life, including through regulations on parental and paternity leave.

Internal Market and Consumer Protection: creating a Digital Europe

Advancing on the Digital Single Market and the Single Market Strategy proposals will be high on the agenda, Economic Affairs and Infrastructure Minister Kadri Simson told the Internal Market Committee on 12 July. Geo-blocking, the Services Package and the Compliance Package were among the high priority files mentioned by the Minister. On type approval for cars, Ms Simson told MEPs that the presidency is committed to taking forward the negotiations.

Entrepreneurship and Information Technology Minister Urve Palo highlighted the importance of e-commerce, e-government and cybersecurity, which should be a "key strength" of European industry.

Regional Development: the future of cohesion policy

Cohesion policy is a cross-sectorial topic that contributes to various policies in the EU and is linked to many of the Presidency priorities, said Public Administration Minister Jaak Aab to the Regional Development Committee on 12 July. Mr Aab also listed as priorities in the field: proceeding with discussions on simplification, efficiency and the future of the EU cohesion policy and starting negotiations with MEPs on the Omnibus regulation.

Mr Aab promised that the Presidency “will do its utmost to inform EU citizens on the positive impact of cohesion policy and its main achievements”.

Economic and Monetary Affairs: fiscal coordination, EFSI, anti-money laundering

“Economic growth is strong and uncertainty has receded. We should take advantage of the present favourable economic and financial conditions to coordinate fiscal and economic policies and focus on more decisive political reforms promoting growth, as in the country specific recommendations”, said Finance Minister Toomas Tõniste to Committee MEPs on 11 July.

He also listed the extension of the European Fund for Strategic Investment (EFSI), the completion of the Banking Union, the Capital Markets Union and finalising the negotiations on anti-money laundering rules as key priorities.

Development: prevention of crises and education for refugees

The Presidency wants to focus on preventing crises by strengthening the resilience of fragile countries, thus increasing their ability to withstand natural and man-made disasters, Foreign Affairs Minister Sven Mikser told the Development Committee on 12 July. Providing education for displaced people, especially children, and making humanitarian aid more effective through digital solutions are also among the Presidency’s priorities.

MEPs voiced concerns about the situation of refugees in Italy, called for more solidarity from member states and emphasised that, in emergencies, the humanitarian perspective should always prevail over bureaucratic considerations.

Constitutional affairs: Brexit, transparency, seats in the EP

The United Kingdom’s withdrawal from the EU, transparency in the EU institutions, and the redistribution of seats in the European Parliament were some of the key issues that Deputy Minister for EU affairs Matti Maasikas discussed with the Constitutional Affairs Committee on 12 July. Mr Maasikas said that the Estonian government is committed to follow the path of previous Presidencies, as well as to advance with important legislative files, such as the revision of the European electoral law and the European Parliament’s right of inquiry.

He finally thanked MEPs for Parliament’s March resolution on Brexit, underlining that it had helped the Council to consolidate its position on this complex subject.

Employment and Social Affairs: posted workers and social benefits

EU ministers should reach an agreement in October on very complex and highly divisive draft changes to rules on posted workers and negotiations with MEPs could follow shortly, said Minister of Labour and Health Jevgeni Ossinovski to the Employment Committee on 13 July. He repeated the Presidency's call for "unity through balance" and emphasised the importance of introducing the best practices of digital society to improve social Europe.

Coordination of social security systems with transparent, easy to understand and easy to implement rules on access to social benefits throughout the EU, including long-term care and family allowances, were the priorities presented by Minister of Social Protection Kaia Iva.



IV. POLITICS IN ESTONIA

1. HISTORICAL BACKGROUND

2. A SYNTHESIS OF THE ESTONIAN CONSTITUTION

3. POLITICAL STRUCTURE OF ESTONIA



IV. POLITICS IN ESTONIA

1. Historical background²

After centuries of foreign domination by Danes, Germans, Swedes, Poles, and Russians, Estonian leaders declared independence from the Russian empire on 24 February 1918. An unstable but democratic parliamentary system operated from 1919 until 1934 when acting president *Konstantin Päts* seized power and dissolved Parliament. In 1940, the USSR annexed Estonia, making it the Estonian Soviet Socialist Republic (Estonian SSR). The German army invaded Estonia in 1941, ruling it until 1945. It is been estimated that 90,000 people, or 8% of the pre-war population of Estonia, died in the course of the war. During Stalin's reign, 80,000 people were been arrested or been deported and 15,000 died in a guerrilla war of resistance.

Under Communism, Estonian culture and other forms of national expression were repressed, and large numbers of Russians settled in Estonia. Russified Estonians (some of them do not speak Estonian), Russians, and others were brought in to rule Estonia. In the post-Stalin era, dissidents calling for observation of human rights or protesting the repression of the Estonian nation were harassed, arrested, exiled, and even killed.

Significant changes came after Mikhail Gorbachev became leader of the USSR. In fall 1987, the policies of *glasnost* (openness) and *perestroika* (restructuring) provided the opportunity to discuss openly various economic, environmental, and historical issues in Estonia for the first time.

The Popular Front, an organization dedicated to bringing about progressive changes and unaffiliated with the Communist Party, was established in April 1988. Soon thereafter, the government legalized the flag of independent Estonia and declared Estonian the official language of the republic.

In November the Estonian Parliament, the Supreme Soviet, interpreted the meaning of "sovereignty" in the republic's Constitution in the broadest possible terms, provoking an angry attack from Gorbachev.

A constitutional amendment adopted in February 1990 stripped the Communist Party of its leading role in Estonian society. In March 1990 the Estonian Communist Party split into two factions, one supporting Moscow, the other declaring itself independent from Moscow. Also in March 16, parties ran candidates for the 105 seats in the Estonian *Riigikogu* (Parliament). Estonian nationalists won an overwhelming majority. *Arnold Rüütel* was been elected president by the new Parliament.

When the coup d'état against Mikhail Gorbachev began in Moscow in August 1991, the Estonian government immediately allied with Russian president Boris Yeltsin. On 20 August, Estonia declared

² <http://www.nationsencyclopedia.com/World-Leaders-2003/Estonia-POLITICAL-BACKGROUND.html>



itself independent of the USSR; the following day the Russian Federation recognized Estonia as an independent state. The Communist Party of the USSR and other organizations supporting the coup were outlawed. In September, the USSR recognized Estonian independence.

The Estonians began to dismantle the Soviet secret police (KGB). The Soviet government agreed to withdraw all its troops from Estonian soil by the end of 1994.

In 1992, a constitutional assembly introduced amendments to the 1938 Constitution. After the draft Constitution was approved by popular referendum, it came into effect 3 July 1992. Elections for the new Parliament and president were held on 20 September 1992, with *Lennart Meri* as victor.

On 5 March 1995, Estonia held its second parliamentary elections since achieving independence from the USSR. The centre-left Coalition Party/Rural Union alliance won an impressive victory, taking 41 seats in the 101-seat Parliament.

The market-reform-oriented Estonian Reform Party-Liberals coalition won 19 seats. The centre-left Estonian Centre Party finished third with 16 seats. The rightist Pro Patria/Estonian National Independence Party group (now known as the Fatherland Union), fell to only eight seats. A coalition representing the Russian-speaking population, Our Home Is Estonia, won six seats. The Moderates won six seats, and the Rightists won five.

On 5 April 1995, the Parliament elected Coalition Party leader *Tiit Vahi* as prime minister of Estonia. He formed a government with the Centre Party. After a wiretapping scandal, the Centre Party was forced out in October 1995 and was replaced by the Reform Party. In November 1996 this coalition collapsed in turn, and the Coalition Party appeared headed back into coalition with the Centre Party. *Meri* ran for re-election as president of Estonia in August 1996. According to Estonia's Constitution, a two-thirds majority in the Estonian Parliament elects the president. If no candidate receives the required number of votes after three rounds of voting, an electoral college of members of Parliament and local legislatures selects the president by a simple majority. On 26 and 27 August, *Meri* handily outscored his main opponent, *Arnold Rüütel*, in the three rounds of parliamentary voting but did not win a two-thirds majority. In the vote of the Electoral College on 20 September, *Meri* won a majority, beating *Rüütel* by a vote of 196 to 126 (with 44 abstentions and 6 invalid ballots) in the 374-member Electoral College.

Meri was constitutionally barred from a third term. Following a stalemate in Parliament over the choice of a new president, *Arnold Rüütel* won a run-off election on 21 September 2001 and took over duties as president 7 October.



2. A synthesis of the Estonian Constitution³

The first Constitution was adopted by the freely elected Estonian Constituent Assembly on 15 June 1920 and came into force on 21 December 1920. The second Constitution was adopted on 24 January 1934, following a referendum in 1933, and was in force until the third Constitution was enacted on 1 January 1938. It remained in force, *de facto*, until 16 June 1940, when the Soviet Union occupied Estonia and, *de jure*, until 28 June 1992, when the fourth and current Constitution of the Republic of Estonia was adopted by referendum.

The first chapter of the Constitution refers to the general provisions, which define broadly the territory, the official language, the powers of state, the activities of the Estonian Parliament (*Riigikogu*), the natural wealth and resources of the country and the colours of the flag.

Chapter two refers to the fundamental rights, freedoms and duties.

Chapter three refers to the Estonian citizens and the conditions to have the right to vote or not in the country.

Chapter four refers to the legislative power and the duties the *Riigikogu* has, the conditions and the behaviour you have to have to be part of the *Riigikogu* and how the *Riigikogu* works.

Chapter five refers to the President of the Republic who is the Head of the State and the necessary process to vote. The powers and the duties are laid down on the Constitution and generally, a President is appointed by the Parliament by a simple majority for a period of 5 years.

Chapter six speaks about the Government. The necessary duties it may do and it is obligatory to be composed of the Prime Minister and the ministers. How the President of the *Riigikogu* needs to be elected. The minister's obligations in the Government and how to manage if the minister is temporally unable to perform its duties. Voting shall not take place earlier than on the second day after the bill is bound to the issue of confidence.

Chapter seven is about legislation. The procedure for the passage of laws shall be provided by the *Riigikogu* Procedure Act. The President of the Republic shall proclaim laws. The authority of a member of the Government will end with the entry into force of the conviction by a court against him or her. The ones who have the right to initiate laws are the members of the *Riigikogu*, a faction of the *Riigikogu*, a committee of the *Riigikogu*, the Government of the Republic and the President of the Republic.

Chapter eight refers to the finance and the budget state. First, the Government needs to submit a draft state budget to the *Riigikogu*. On the proposal of the Government, the *Riigikogu* may pass a supplementary budget. The President of the Republic shall declare extraordinary elections to the *Riigikogu* if it has not passed the state budget within two months after the beginning of the budgetary year.

³ <http://www.partylaw.leidenuniv.nl/party-law/4c8b89f5-0ed4-43aa-a2e6-194a7287acdc.pdf>.



Chapter nine refers to the foreign relations and the international treaties. It is necessary that the procedure for the relations of the Republic of Estonia with other states and with international organisations be regulated by law. The land boundary of Estonia is determined by the Tartu Peace Treaty of 2 February 1920 and by other international boundary agreements.

The sea and air boundaries of Estonia shall be determined on the basis of international conventions. The Republic of Estonia shall not conclude international treaties which are in conflict with the Constitution.

Chapter ten is about national defence. It is obligatory for the Estonians to participate in national defence. It refers, also, to the procedure the country needs to follow if there is a declaration of an emergency state.

Chapter eleven speaks about the state audit office, which needs to be an independent state body responsible for economic control, and its functions.

Chapter twelve refers to the legal chancellor. His or her main functions are to analyse the proposals on the law's modifications, the passage of the new laws and the activities of state agencies, and, if necessary, he or her shall present a report to the *Riigikogu*. The Legal Chancellor can only be removed from, office by court judgment.

Chapter thirteen is about the courts. The Constitution established the country system shall consist of: country and city courts, administrative courts, circuit courts and the Supreme Courts.

Chapter fourteenth refers to the local Government, which needs to have an independent budget. Its representative it is the council. The Constitution established the right to vote to every person living permanently in Estonia and have attained eighteen years of age.

Chapter fifteen explains broadly in what the constitution amendments consist.



3. Political structure of Estonia⁴

Estonia is a parliamentary republic with a certain presidential component by virtue of the broad powers conferred by the Constitution on the Chief of the State. In 1991, the legal continuity of the first Republic was been declared it would have remained in suspense during the years of Soviet occupation. On June 28, 1992, the actual Constitution was been approved by referendum.

The President of the Republic is the Head of State and Supreme Commander of the Estonian Armed Forces. He is chosen by the *Riigikogu*, or in his a National Electoral Assembly, for a term of five years renewable time.

Toomas Hendrik Ilves, after exhausting the maximum period in office, (10 years) was officially relieved on 10 October 2016 by *Kersti Kaljulaid*, the fourth holder of the post since the restoration of independence, and the first woman to the head of the state.

According to the Constitution, the supreme power of the State resides in the people, which exercises it through the citizens with the right to vote, older Estonians (including non-nationals in local elections), electing deputies and participating in referendums. The electoral system is of universal suffrage and proportional representation. Since 2005, voters have can cast their vote via internet using the electronic ID.

The Parliament (*Riigikogu*) is the supreme legislative organ of the State; it is unicameral and has 101 deputies. The members of the *Riigikogu* are four years. The last legislative elections took place on 1 March 2015 and had a high participation (63.7%). Six matches got parliamentary representation: Estonian Reform party (liberal center): 30 seats; Centre Party Faction (center-left): 27 seats; Social Democratic Party (center-left): 15 seats; *Pro Patria* and *Res Publica* Union Faction (IRL, conservative): 13 seats; Conservative People's Party (EKRE, conservative): 7 seats and Free Party (VE): 8 seats. Previously, on October 20, 2013, municipal elections took place. The political party that obtained better results in those elections was the Centro's party, which gained two more seats in the capital to the previous municipal elections. On the contrary, the Reform Party showed a certain decline in losing five seats. The results for the country's capital were: Center Party: 53% of the vote, Pro-Patria-IRL: 19%, Reform: 11% and Social-Democrats: 10%. The next elections to the local governing will take place on October 15, 2017.

The Government exercises executive power, developing internal and external policies of the State. It is been chaired by *Jüri Ratas* and composed by fifteen Ministers. PM *Jüri Ratas* was invested on November 23, 2016 with the support of 56 deputies, and heads a tripartite coalition government between his party, the Social Democratic Party (SDE) and the coalition Propatria and Respública IRL. This coalition replaced the Government chaired by *Taavi Rivas*, who not to overcome a motion of confidence in Parliament was forced to resign, thus ending seventeen uninterrupted years of hegemony of the Reform party in Estonian political life.

The political situation in Estonia is stable. There is broad consensus the major issues of economic policy - budget balance, liberalization, promotion of private investment and competitiveness - and foreign policy and defense-EU and NATO as guarantors of welfare and security, Nordic-Baltic vocation, relations with Russia, cybersecurity.

4

<http://country.eiu.com/article.aspx?articleid=282778212&Country=Estonia&topic=Summary&subtopic=Political+structure>



In any case, internal politics was been strongly conditioned by the environment particularly in view of the situation in Ukraine. In this sense, the integration of the Russian-speaking minority (approximately 27% of the population) remains one of the issues that divides the major parties, more beyond ideological differences, the party of Centro is been seen as defender of the interests of this minority.

Moreover, it should been noted that after the incidents of 2007, during the so-called crisis of the "bronze soldier", the social coexistence is extremely peaceful, without ever having taken place again unrest.

Estonia has among its strengths its economic dynamism, the wide implementation of information and communication technologies and the fiscal policy manifested in the management of the recent crisis. However; it concerned the exposure of Estonia and its trading partners to the euro crisis, the medium- and long-term consequences of demographic phenomena such as aging of the population and emigration, income and employment imbalances between regions and social groups, occasional cases of corruption and financing of political parties and their exposure to the international situation.

The forthcoming Estonia Presidency of the European Union in the second half of 2017, and the celebration of the centenary of its first independence during 2018, will contribute to the international projection of the country.



V. POLITICAL ACTORS

- 1. THE ESTONIAN PARLIAMENT**
- 2. THE RIIGIKOGU'S FUNCTIONS**
- 3. THE GOVERNMENT**
- 4. THE CABINET OF ESTONIA**
- 5. POLITICAL PARTIES**
- 6. OSCE/ODIHR ELECTION ASSESSMENT MISSION
FINAL REPORT**



V. Political Actors

1. The Estonian Parliament

The Estonian Parliament comprises of the President of Estonia (Head of State), who is elected for a five-year term by the Parliament (1st-3rd round) or an electoral college (4th and subsequent rounds). Mr. Speaker and the Members of the Parliament.

President of Estonia⁵

Personal details:

First name: *Kersti*

Surname: *Kaljulaid*

Date of birth: 30 December 1969

Place of birth: Tartu, Estonia

Nationality: Estonian



Career

From 1999 to 2002, *Kersti Kaljulaid* was Prime Minister *Mart Laar*'s Economic Advisor. Her duties included organisation of cooperation of the Office of the Prime Minister with Estonian central bank, the Ministry of Finance and ministries that had larger budgets, as well as coordination of relations with the International Monetary Fund and other financial institutions (European Bank for Reconstruction and Development, Nordic Investment Bank and World Bank). She participated in preparing the pension reform together with the Minister of Finance and the Minister of Social Affairs and advised the Prime Minister in annual budget negotiations held with other ministers.

From 2002 to 2004, *Kersti Kaljulaid* was the CFO and CEO of the *Iru Power Plant* of state-owned energy company *Eesti Energia*.

From 2004 to 2016, she was a Member of the European Court of Auditors. From 2004 to 2006, *Kersti Kaljulaid* organised the financial audit of the research and development funds of the budget of the European Union and from 2007 to 2010, she was responsible for the audit of the Structural Policies. From 2004 to 2007, she was the auditor of the Galileo project of the European Union. From 2010 to 2016, she coordinated the preparation of the Annual Report and State of Assurance of the European Court of Auditors. From 2005 to 2007, she was a member of the Europol Audit Committee and chaired the committee in 2007.

⁵ <https://president.ee/en/republic-of-estonia/heads-of-state/12575-kersti-kaljulaid/layout-headofstate.html>



From 2006 to 2008, she was the chair of the Administrative Affairs Committee of the Court of Auditors. From 2010 to 2014, she was responsible for the methodology and preparation of the Annual Report of the Court of Auditors. In 2016, she worked in the field of the agriculture audit.

In addition, *Kersti Kaljulaid* was a member of the Supervisory Board of the Estonian Genome Centre from its foundation until 2004. She was also a member of the Advisory Board of the University of Tartu from 2009 to 2011 and the Council Chair of the University of Tartu from 2012 to 2016.

Kersti Kaljulaid has been a co-author of the social-political radio talk show *Keskpäevatund* (Midday Hour) in radio station Kuku from 2002 to 2004 and the editor of the *Eurominutid* (Euro-minutes) radio show from 2007 to 2016 in the same station.

Speaker of the house⁶

Personal details:

First name: *Eiki*

Surname: *Nestor*

Date of birth: 5 September 1953

Place of birth: Tallinn, Estonia

Nationality: Estonian



Career

He has been, Head of Division 1976–1982 in Keila Motor Depot; Motor Transport and Road Workers Trade Union, Chief Inspector of Occupational Health and Safety 1982–1989; Estonian Transport and Road Workers' Trade Union, Deputy Chairman, Chairman 1989–1992; Minister of Regional Affairs 1994–1995; Minister of Social Affairs 1999–2002.

In addition, he is been membership in representative bodies: 7th *Riigikogu* (Deputy Chairman of faction 1993–1994), 8th *Riigikogu*, 9th *Riigikogu* (Deputy Chairman of faction 2002–2003), 10th *Riigikogu* (Deputy Chairman of faction, Deputy Chairman of the Select Committee on the Application of Anti-Corruption Act), 11th *Riigikogu* (Chairman of faction), 12th *Riigikogu* (President 2014–2015, Deputy Chairman of faction 2011–2014), 13th *Riigikogu* (President); Tallinn City Council 1996–1999, elected also in 2005 and 2009.

⁶ <https://www.riigikogu.ee/en/parliament-of-estonia/composition/members-riigikogu/saadik/81aecc23-8483-48d6-9217-289fce86b1b5/EikiNestor>



2. The Riigikogu's functions⁷

The role of the *Riigikogu* has not been the same throughout the history of the Republic of Estonia. The first constitution of 1920 strongly emphasised the importance of people's representation in managing the state. Although the *Riigikogu* possessed extensive authority during the 1920s, its activity was greatly hindered by the fragmentation of political forces. The ensuing political instability and decline of the *Riigikogu's* popularity can be viewed as a major explanatory factors behind the March 1934 coup, when acting state elder *Konstantin Päts*, fearing a victory by right-wing extremists, suspended the *Riigikogu* and effectively cancelled forthcoming presidential elections. During the ensuing 'era of silence', parliament ceased to function for several years. It was only in 1938 that a new 2-chamber *Riigikogu* — elected according to the new constitution that came into force during that year — again resumed regular legislative activity. According to the new constitution, however, the institution of the President had both legislative and executive power. The government was appointed by the President, who also had the right to dissolve the Parliament at any given time.

The constitution of the newly independent Estonia does not strictly follow either the parliamentarian or presidential model of state power. On the one hand, there is no strong presidential power in Estonia. On the other hand, the *Riigikogu* no longer enjoys the kind of control over other branches of government that it had in the 1920s. According to the 1992 constitution, the responsibilities of the *Riigikogu* are quite extensive, but its power is divided and balanced with other constitutional bodies.

Since Estonia became part of the European Union on May 1st 2004, the importance of the *Riigikogu* has decreased and the executive branch has become more important. In all European Union countries, the prime minister and ministers play the main part in dealing with the European Union. In the *Riigikogu*, the European Union Affairs Committee was formed, with the goal of collaborating with other European countries' governments and offering opinions about the proposals of European Union legislation and other important affairs related to the European Union. The content-richness and execution of the guidelines of the European Union depend largely on how well the executive branch supplies the *Riigikogu* with information. Of course, it's always possible to receive the opinions of ministers and the prime minister is even legally obligated to give an annual presentation on the implementation of European Union policies. When the agreement on the European Union's functioning came into effect in 2010, a considerable number of clauses were added to documents regarding the jurisdiction of the European Union Affairs Committee. For instance, it is possible to initiate a review of how European Union legislation corresponds to the principles of proportionality and subsidiarity. Also, when the principle of subsidiarity is violated, the government can be forced to file a claim with the Court of Justice of the European Union. The *Riigikogu* has the right to voice opposition to an initiative by the European Union.

⁷ http://www.estonica.org/en/State/Riigikogu/The_Constitutional_role_of_the_Riigikogu/



3. The Government⁸

The Government led by *Jüri Ratas* assumed office on November 23, 2016. The Government coalition is formed by the Estonian Centre Party, the Estonian Social Democratic Party, and the *Pro Patria* and *Res Publica* Union (IRL). The main goal of the Government is to safeguard and increase our security, to bring Estonia out of economic stagnation, to increase public welfare and cohesion, and to start an increase in the population numbers of Estonia.

Prime Minister of Estonia⁹

Personal details

First name: *Jüri*

Surname: *Ratas*

Date of birth: 2 July 1978

Place of birth: Tallinn, Estonia

Nationality: Estonian



Career

He holds a Bachelor's degree in Law from the School of Law at the University of Tartu.

Jüri Ratas has broad work experience in different areas. His first positions were Analyst of the Building Research Institute and Market Researcher of *ANR Amer Nielsen Eesti OÜ*, then he was appointed to the Chairman of the Management Board of the car service *Värvilised OÜ* (1999-2002) and worked as Sales Representative of the insurance company *Sampo Eesti Kindlustus* (1999-2000).

Jüri Ratas has also contributed to the development of Estonian basketball, in 2001-2002 as the Head of Youth Basketball of the Estonian Basketball Association and from 2012 to 2016 in the position of the President of the Estonian Basketball Association.

His service in Tallinn administration started in 2002 when he was elected the Economic Adviser to the Tallinn City Office (2002-2003). During 2003-2004 and in 2005 *Jüri Ratas* served as the Deputy Mayor of Tallinn and from 2005 to 2007 as the Mayor of Tallinn. He has been elected to Tallinn City Council in 2005, 2009 and 2013. In 2007-2016 *Jüri Ratas* held the position of the Vice-President of the 11th, 12th and 13th Estonian Parliament.

⁸ <https://www.valitsus.ee/en/basic-principles-government-coalition-0>

⁹ <https://www.valitsus.ee/en>



4. Cabinet of Estonia¹⁰

The Estonian Government is composed by several ministries:

- Interior Ministry
- Ministry for Culture
- Ministry for Health and Labour
- Ministry for Social Protection
- Ministry for Economic Affairs and Infrastructures
- Ministry for Education and Research
- Ministry for Defence
- Ministry for Environment
- Ministry for Public Administration
- Ministry for Rural Affairs
- Ministry for Finance
- Ministry for Justice
- Ministry for entrepreneurship and Information Technology

¹⁰ <https://www.valitsus.ee/en/basic-principles-government-coalition-0>



5. Political Parties¹¹

Estonia elects a legislature on the national level. The 101 members of the *Riigikogu* are elected for a four-year term by proportional representation.

Estonia has a multi-party system with numerous parties. Often no one party has the chance to gain power alone and parties must work with each other to form coalition governments.

Political parties represented on Parliament



Centre Party Faction¹²: The Estonian Centre Party Faction represents the centrist world view in the *Riigikogu*. Its activities support the interests of every Estonian resident. The faction supports increasing the role of the government sector in developing and governing Estonia, and advocates a tax policy that promotes European values.

It has 27 members. The party is led by *Kersti Sarapuu*.



Conservative People's Party of Estonia Faction¹³: The Estonian Conservative People's Party is founded on the continuity of the Republic of Estonia and its Constitution, and it unites people who fight for the nation state, social cohesion and democratic principles.

It has 7 members and the party is held by *Martin Helme* since 2009.



Estonian Reform Party Faction¹⁴: The Reform Party Faction has a right centre world view, which means that it emphasises the central role of low taxation and wider individual and market freedoms and the freedom of enterprise in the development of a country.

Estonian Reform Party Faction has 30 members, this makes it the largest faction in the *Riigikogu*. Is held by *Hanno Pevkur*.

¹¹ <https://www.riigikogu.ee/en/parliament-of-estonia/parliamentary-groups/>

¹² <https://www.riigikogu.ee/en/parliament-of-estonia/factions/estonian-centre-party-faction/>

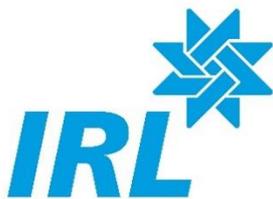
¹³ <https://www.riigikogu.ee/en/parliament-of-estonia/factions/conservative-peoples-party-estonia-faction/>

¹⁴ <https://www.riigikogu.ee/en/parliament-of-estonia/factions/estonian-reform-party-faction/>



Estonian Free Party Faction¹⁵: The Estonian Free Party is a new political party that aims to make the political system of Estonia more open and to carry out the state reform and administrative reform.

It has 8 members and is led by *Artur Talvik*.



Pro Patria and Res Publica Union Faction¹⁶: By its world view, the Pro Patria and Res Publica Union Faction is rightist and conservative and its policies are first of all based on defending the national interests and security of Estonia.

Pro Patria and Res Publica Union Faction has 13 members and is led by *Helir-Valdor Seeder*.



Social Democratic Party¹⁷: The Social Democratic Party (SDP) has a moderately left-wing world view, championing the principles of justice, compassion, solidarity, and protection of civil rights and individual freedoms. The Social Democrats believe that the state must play a stronger role in directing Estonia's development and improving the wellbeing of the population.

It has 15 members and is led by *Kalvi Kõva*.

¹⁵ <https://www.riigikogu.ee/en/parliament-of-estonia/factions/estonian-free-party-faction/>

¹⁶ <https://www.riigikogu.ee/en/parliament-of-estonia/factions/pro-patria-res-publica-union-faction/>

¹⁷ <https://www.riigikogu.ee/en/parliament-of-estonia/factions/social-democratic-party-faction/>



Office for Democratic Institutions and Human Rights

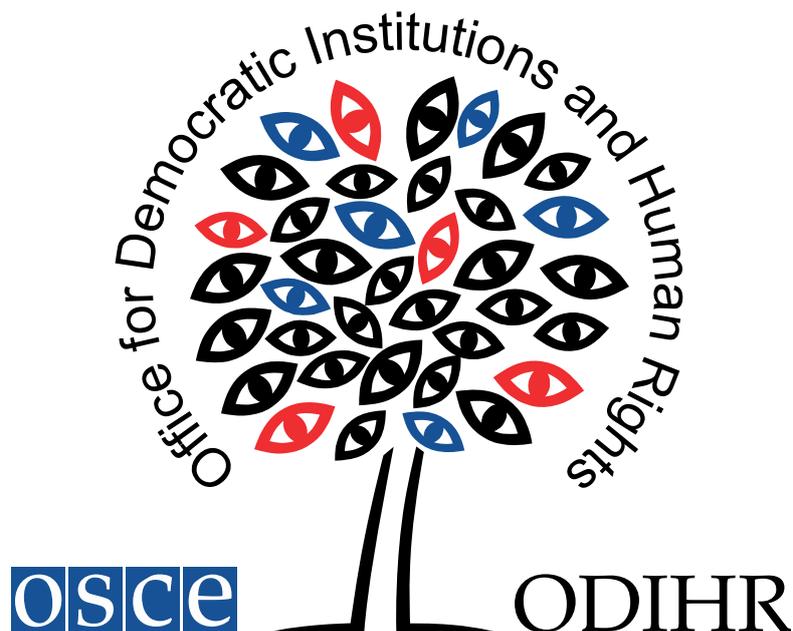
ESTONIA

PARLIAMENTARY ELECTIONS

1 March 2015

OSCE/ODIHR ELECTION EXPERT TEAM

Final Report



Warsaw
26 May 2015

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ESTONIA
PARLIAMENTARY ELECTIONS
1 March 2015

OSCE/ODIHR Election Expert Team Final Report¹

I. EXECUTIVE SUMMARY

Following an invitation from the Permanent Mission of the Republic of Estonia to the OSCE and based on the recommendation of a Needs Assessment Mission, the OSCE Office for Democratic Institutions and Human Rights (OSCE/ODIHR) on 15 February deployed an Election Expert Team (EET) to observe the 1 March 2015 parliamentary elections. The OSCE/ODIHR EET focused on particular aspects of the elections related to Internet voting, political party and campaign finance and the participation of national minorities.

Starting in 2005, Estonia was the first OSCE participating State to offer all eligible voters the possibility to vote via the Internet in all national and municipal elections. In these elections, a total of 176,329 voters cast their ballots via the Internet, which amounted to 30.5 per cent of all votes cast. Most OSCE/ODIHR EET interlocutors expressed a high degree of trust in reliability and security of Internet voting. Internet voting was administered efficiently and in line with the legal framework, although additional measures can be taken to enhance transparency and accountability of the process.

Since the 2011 parliamentary elections, several amendments were adopted with regard to Internet voting; including to address a number of previous OSCE/ODIHR recommendations, however, some still remain outstanding. A key development since the 2011 parliamentary elections was the establishment of the Electronic Voting Committee (EVC), under the auspices of the National Electoral Committee (NEC), to organize Internet voting and verify the electronic voting results. The work of the EVC enjoyed broad public confidence.

The NEC introduced a verification process for voters to confirm that their online vote was cast as intended and recorded on the ballot storage server as cast, which partially addressed a previous OSCE/ODIHR recommendation. However, the system does not allow for end-to-end verification. The Election Act does not require formal certification of the Internet voting system by an independent organization, which somewhat limits transparency and accountability of the system. The NEC contracted an auditor to assess compliance of Internet voting with procedural requirements and published summaries of audit reports.

The Political Parties Act has been amended several times since the last parliamentary elections, and provides a generally solid legal framework for regulating political party and campaign finance. There is no ceiling on contributions to political parties or candidates, or on party or candidate campaign expenditures. Parties are prohibited from using public funds to conduct or organize election campaigns. Political parties and other stakeholders noted to the OSCE/ODIHR EET that the misuse of public resources, specifically by local government authorities, for campaigning is a continuing problem. The continuing ban on outdoor political advertising during the campaign restricts freedom of expression.

¹ The English version of this report is the only official document. An unofficial translation is available in Estonian.

The Political Party Finance Supervision Committee (PPFSC) has been established to oversee adherence to campaign finance legislation. PPFSC authority is limited, as it may not adopt regulations, issue fines or investigate possible violations. However, it has the authority to impose monetary penalties if parties do not comply with its administrative instructions to rectify identified violations. In accordance with the law, the PPFSC must send cases requiring investigation to the police, which has resulted in delays and poses a significant problem for enforcement. Political parties are required to submit quarterly and annual reports to the PPFSC on income and expenditures. The law does not require reporting on third-party campaign expenditures.

OSCE/ODIHR EET noted a positive trend of parties across the political spectrum placing candidates belonging to national minorities on party lists, in some cases in prominent positions, and greater efforts by parties and candidates to reach out to Russian-speaking voters, including with campaign information in Russian. However, the NEC website featured detailed election information only in Estonian, with some general information also available in English. Voting instructions sent to voters, as well as information in polling stations and on ballots, were only in Estonian. Some information about Internet voting was available in Russian and English.

Persons of undetermined citizenship have the right to vote in local elections but not the right to vote nor stand as candidates in parliamentary elections. While persons of undetermined citizenship could participate in party activities and donate to parties or candidates, despite a previous OSCE/ODIHR recommendation, they do not have the right to join political parties. Despite positive amendments to the Citizenship Act, the pace of naturalization of persons with undetermined citizenship remains slow.

II. INTRODUCTION AND ACKNOWLEDGEMENTS

Following an invitation from the Permanent Mission of the Republic of Estonia to the OSCE and based on the recommendation of a Needs Assessment Mission (NAM) deployed from 18 to 21 January, the OSCE Office for Democratic Institutions and Human Rights (OSCE/ODIHR) deployed an Election Expert Team (EET) from 15 February to 5 March to observe the 1 March 2015 parliamentary elections. The OSCE/ODIHR EET consisted of three experts from two OSCE participating States.

The OSCE/ODIHR EET assessed aspects of the elections related to Internet voting, political party and campaign finance, and the participation of national minorities. This report is therefore limited in scope and does not offer an overall assessment of the electoral process. The specific areas under review were assessed for their compliance with OSCE commitments and other international obligations and standards for democratic elections, as well as with national legislation. In line with OSCE/ODIHR methodology, the OSCE/ODIHR EET did not undertake a comprehensive and systematic observation of the electoral process or election day procedures. This final report should be read in conjunction with the 2015 OSCE/ODIHR NAM report, as well as the 2011 OSCE/ODIHR Election Assessment Mission final report, which provide additional detail on the electoral process in Estonia.²

The OSCE/ODIHR EET wishes to thank the Ministry of Foreign Affairs, the National Electoral Committee (NEC), the Electronic Voting Committee (EVC), the Political Party Finance Supervision Committee (PPFSC), political parties, and other interlocutors for their co-operation and assistance.

² [See all previous OSCE/ODIHR reports on Estonia.](#)

III. ELECTORAL SYSTEM, LEGAL FRAMEWORK, AND ELECTION ADMINISTRATION

Estonia is a parliamentary republic with a unicameral parliament (*Riigikogu*) of 101 members, elected for 4-year terms from 12 multi-member districts through open lists. District sizes range from 5 to 14 seats, based on the number of registered voters in each district.

Parliamentary elections are regulated primarily by the *Riigikogu* Election Act. Other legal instruments of relevance to the issues covered by the OSCE/ODIHR EET include the Constitution, the Political Parties Act, the Penal Code, and the Language Act. These laws are complemented by NEC regulations and decrees. There are no special legal provisions aiming to promote women's political participation. OSCE/ODIHR EET interlocutors generally expressed satisfaction with the legal framework as a solid basis to conduct democratic elections.

The elections were administered by a three-tiered election administration, comprising the NEC, 15 County and 2 City Electoral Committees (CCECs), and 547 Division Committees (one per polling station).³ Voting via the Internet was organized by the EVC, which operates under the auspices of the NEC. The NEC, EVC, and CCECs are permanent bodies appointed for four-year terms. Division committees are formed anew for each election. The election administration enjoyed widespread trust by election stakeholders.

The Election Act provides for a wide range of possibilities for citizens to exercise their right to vote. In addition to election day, voters could vote during the advance voting period from 19 to 25 February, either in a polling station or over the Internet. Mobile voting on election day was organized in hospitals, nursing homes and pre-trial detention centres, as well as for homebound voters. Voters abroad could cast their ballots in 39 diplomatic or consular missions or online.

IV. INTERNET VOTING

Starting in 2005, Estonia was the first OSCE participating State to offer all eligible voters the possibility to vote via the Internet in all national and municipal elections. These were the third parliamentary and eighth consecutive elections to include online voting.⁴ The Internet voting system relies on activated identity document (ID) cards that offer a possibility of digital identification and authentication, including via mobile phones with specially enabled SIM cards (*mobil-ID*).⁵ Secrecy of votes cast online is protected through the use of a process that can be compared to the “double envelope” system used in postal voting.⁶ The system relies on well-established cryptographic methods.

³ Due to an increasing number of Internet voters, the number of polling stations used for parliamentary elections has been steadily reduced. In 2007 there were 657 and 625 in 2011.

⁴ Internet is widely used in Estonia; some 83 per cent of households had Internet access as of 2014.

⁵ According to the Identity Documents Act, all citizens must have an ID card. The cards have a special chip that contains the private keys and a certificate necessary for secure identification. However, the ID does not have to be digitally activated if a citizen does not want to use the electronic services.

⁶ The completed electronic ballot has no information about the voter and is sealed in an electronic “envelope”. This envelope is then sealed inside another one which contains information about the voter. After the eligibility of the voter is confirmed, the outer envelope is opened electronically and the ballot is deposited in the electronic ballot box.

As a measure to further protect secrecy, voters could cast their ballots via the Internet as many times as they wished – thus mitigating the potential for pressure or intimidation – with only the voter’s final electronic vote counted. An electronic vote was cancelled if the voter cast a paper ballot during early voting. The names of voters who cast ballots via the Internet were marked on voter lists and these voters were ineligible to cast paper ballots on election day, despite a previous OSCE/ODIHR recommendation. Although this was publicized on the NEC website and through the media, it was not mentioned on polling cards sent to voters and some voters were not aware of this restriction. Voters who voted online so close to the end of Internet voting as not to be able to change their votes could potentially demonstrate for whom they voted by showing their cast ballot as displayed on the computer screen or a mobile phone.⁷

For these elections, a total of 176,329 voters (19.6 per cent of all registered voters) cast ballots via the Internet, which amounted to 30.5 per cent of all votes cast.⁸ Most OSCE/ODIHR EET interlocutors expressed a high degree of trust in the reliability and security of Internet voting. While they acknowledged its potential vulnerabilities, they believed the benefits outweigh the risks. A few political parties and candidates, including one parliamentary party, generally oppose Internet voting. Overall, political parties and candidates showed limited interest in or understanding of specific features of the Internet voting system and observed the work of election administration only to a limited extent.

A. LEGAL FRAMEWORK AND ADMINISTRATION OF INTERNET VOTING

Internet voting is regulated by the Election Act, supplemented by the Identity Documents Act, the Digital Signatures Act and NEC regulations. The Election Act establishes an adequate legal basis for regulating Internet voting, but specific issues require further attention. A number of amendments to the Election Act since the 2011 parliamentary elections further consolidated Internet voting, addressing several previous OSCE/ODIHR recommendations. A chapter was added to describe the general principles, preparation, voting, and counting procedures for Internet voting. The Election Act was also amended to clarify validity criteria for votes cast via the Internet.

A key positive amendment since the 2011 parliamentary elections was the establishment of the EVC to organize the Internet voting and verify the electronic voting results. The establishment of the EVC formalized the Internet voting management structure and increased accountability and transparency, as previously recommended by the OSCE/ODIHR. The EVC was composed of seven members appointed by the NEC from among experts in relevant disciplines, such as Internet security, computer programming, and administration of servers. The Election Act does not, however, explicitly specify qualifications or other conditions for membership in the EVC. The work of the EVC appeared to be efficient and enjoyed broad public confidence.

To maintain and further strengthen confidence in the EVC, consideration could be given to formalizing the qualifications or other possible requirements for its members.

⁷ [Council of Europe \(CoE\) Recommendation \(2004\)11 on Legal, Operational and Technical Standards for E-Voting](#), recommendation 51 states that “A remote e-voting system shall not enable the voter to be in possession of a proof of the content of the vote cast.”

⁸ In the 2011 parliamentary elections, 24.3 per cent of all ballots were cast online. See [NEC comparative statistics on Internet voting](#).

The EVC does not have the authority to issue regulations. Its decisions may be reviewed by the NEC, although according to the EVC, it is not obliged to report to the NEC on a regular basis. During these elections, the EVC held three formal sessions to approve the election software, technical documentation and timeframe for testing of components and system set-up, and to organize a final test.⁹ The minutes of these meetings were available online. One of the three sessions was held online, and could not be directly observed. According to the EVC chairperson, all other decisions were made on an *ad hoc* basis as a part of a daily routine.

To increase accountability of its work, the EVC should hold regular meetings and formally adopt and publish all decisions related to Internet voting in sessions open to observers.

The Election Act stipulates that in case of discovered breaches in security and reliability of the system, the NEC may decide, upon a proposal of the EVC, not to start Internet voting or to suspend or terminate it. However, despite a previous OSCE/ODIHR recommendation, the law does not provide sufficiently detailed conditions for the invalidation of the Internet voting results.

B. ORGANIZATION OF INTERNET VOTING

The Internet voting process consists of five stages: testing, system set-up, voting, counting, and data destruction.¹⁰ The OSCE/ODIHR EET observed that the EVC organized the process in a professional and timely manner. The comprehensive testing of software and hardware before the arrival of the OSCE/ODIHR EET was not conducted in the presence of election observers or auditors. No detailed formal procedures were prescribed for software development and testing.

The vendor delivered the Internet voting software on 6 January; it was then tested from 19 to 23 January. The EVC made available the source code of the server-side software.¹¹ The last change to the software was made on 4 February and system was set up at the NEC premises between 10 and 13 February. The keys for encrypting and decrypting votes were distributed to NEC members on 13 February.

The NEC could consider adopting and publishing detailed and formal procedures and deadlines for software development, testing, and updates of the Internet voting system.

Voting online was available from 19 to 25 February through software that voters could download from the EVC website, which included enhanced support for the visually impaired. The NEC did not provide Internet voters with an option for casting a blank ballot.¹²

The NEC introduced a verification process for voters to confirm that their online vote was cast as intended and recorded on the ballot storage server as cast, which partially addressed an OSCE/ODIHR

⁹ This was a limited end-to-end test, in which 14 electronic ballots were cast and results checked.

¹⁰ The OSCE/ODIHR EET did not observe the stages of testing, set-up, and data destruction.

¹¹ Software source code can be found at: <https://github.com/vvk-ehk/evalimine>. The EVC also used calculation and comparison of hash values of the source code files to demonstrate that the software installed on the server was the same as published in the repository.

¹² CoE Recommendation (2004)11 recommendation 13 calls for electronic voting systems to “provide the voter with a means of participating in an election or referendum without the voter exercising a preference for any of the voting options, for example, by casting a blank vote” in order to ensure free suffrage.

recommendation.¹³ Verification is done using a separate smart device (mobile phone or tablet), which reads a code displayed on the voter's computer screen upon completion of voting. The mobile device then temporarily displays the voter's choice, enabling the voter to confirm that his/her vote was recorded as cast. The EVC did not receive any reports of incorrect verification.¹⁴ The EVC informed the OSCE/ODIHR EET that there were no attempts of denial-of-service (DoS) attacks on its servers during the voting period and the Estonian Computer Emergency Response Team noted that it constantly observed the Estonian Internet for potential threats of malware and DoS attacks.

The EVC performed daily updates of the voter register and backed up encrypted ballots on a CD. This was done through direct access to the servers, which the EVC insisted was preferable to establishing a remote connection, even though direct (administrative) access and maintenance during critical operations is not considered a good security practice. The EVC maintained that backing up encrypted votes on an external storage medium is preferable to organizing and securing another location with a direct connection to mirrored servers. However, in case of a catastrophic event at the server location, there could be a considerable interruption of voting and loss of votes cast after the last backup. There is no formal disaster recovery plan, despite a previous OSCE/ODIHR recommendation.

The EVC could consider reviewing its security practices related to server maintenance and backup.

Internet votes were counted in a public counting ceremony on the evening of election day. First, encrypted votes were transferred to an offline counting server. Votes were then sorted by constituency and voters' digital signatures were removed and stored separately to preserve vote secrecy. Subsequently, encrypted votes were decrypted using the decryption key and counted. In an efficient process, the EVC showed results of Internet voting by the time polls closed on election day. The next day, the EVC performed successful checks of the server log files in order to verify the consistency of the counting process.¹⁵

The system does not allow for verification that all electronic ballots were counted exactly as recorded in the ballot storage server without jeopardizing vote secrecy. The EVC is aware of possible technical solutions to this problem, including end-to-end verifiability, which would not jeopardize the secrecy of the vote, and stated publicly that it is considering such improvements of the system.

The authorities could continue efforts to include end-to-end verifiability in the Internet voting system to enhance system accountability through verification that votes are counted as recorded.

C. CERTIFICATION AND AUDIT

Formal certification by an independent organization is not required, despite a previous OSCE/ODIHR recommendation and CoE guidelines.¹⁶ The EVC stated that certification was not necessary due to the openness of the Internet voting software. However, in the absence of certification, independent scrutiny of all individual components, their interaction, and the system as a whole is not envisaged.

¹³ Verification was piloted during the 2013 local elections and was introduced in the law for these elections.

¹⁴ Although just 4.2 per cent of online voters used the verification tool, the EVC considered the process a success, explaining that a minimum of two per cent of vote verifications is sufficient to ensure statistically that there was no malicious software targeting the voting client over the Internet.

¹⁵ These log files contain information about which electronic ballots were excluded as required and which were counted. This process can be compared to reconciliation of ballots cast with those counted in different categories.

¹⁶ See for example, Council of Europe [Guidelines on "Certification of e-voting systems"](#).

Authorities could consider establishing a formal process for end-to-end certification of the Internet voting system by an independent body, in line with the CoE guidelines, with its report made public.

The NEC contracted an auditor to assess compliance of Internet voting with procedural requirements. The auditor produced two interim reports during the election period and was to issue a final report following the end of election process, after the OSCE/ODIHR EET's departure. Published summaries of the audit reports stated that the EVC accurately followed technical protocols and verified that all security seals on servers and other components were intact but did not include any recommendations.

To increase transparency and accountability, the NEC could consider publishing full audit reports of the Internet voting system.

The EVC was required to conduct all critical interventions on the servers with at least two EVC members present. Video recordings of all such actions by the EVC constituted the only record. No paper records were made, although such records could potentially be of crucial importance during the complaints and appeals process. The EVC decided informally not to make the video recordings publicly available during the election period, but to post them online only after the election results were final.

To increase accountability of the Internet voting process, the EVC could consider producing and retaining records at all stages of the process.

Technical documentation (operational manuals and step-by-step instructions) on the Internet voting system was produced and published by the EVC. However, the information was not always presented to interested stakeholders in a readily comprehensible way. Auditors noted that documentation is at times cross-referenced and difficult to follow and in a few cases not all command line instructions that the operator needed to execute during the system set-up were included in the step-by-step instructions. There is no consolidated operational manual that describes all Internet voting procedures, despite a previous OSCE/ODIHR recommendation.

V. POLITICAL PARTY AND CAMPAIGN FINANCE

The Political Parties Act has been amended several times since the 2011 elections and provides a generally solid legal framework for regulating political party and campaign finance. In line with international good practice, it includes detailed provisions requiring transparency on party income and expenditures. These legal provisions also extend to organizations affiliated to political parties. It also establishes the basis for public funding of parties and regulates borrowing. Since the 2011 parliamentary elections, the PPFSC was established to verify parties' adherence to the legislation. The Election Act also has provisions, in particular, concerning financial deposits by candidates and permitted types of campaigning. Several interlocutors welcomed that the candidate deposit had been reduced by half, highlighting that this was particularly beneficial to smaller parties.¹⁷ The CoE's Group of States against Corruption (GRECO) has noted "remarkable progress" in implementing GRECO's

¹⁷ The candidate deposit amount was equivalent to one minimum monthly salary (EUR 390). The deposit is returned if a candidate garners at least half a simple quota in the district in which he or she is standing, or if his or her political party wins enough votes to enter parliament.

recommendations and for a “substantial reform process” concerning the transparency of political funding.¹⁸

A. REGULATION OF INCOME AND EXPENDITURES

Most party funding comes from public resources. The parliament allocated EUR 5,412,678 for parties in both 2014 and 2015. Non-parliamentary parties that meet two thresholds (receiving at least one or four per cent of the votes at the last parliamentary elections) are entitled to funding (EUR 9,587 and EUR 15,978 yearly, respectively). The rest is divided among the parliamentary parties in proportion to the number of seats each holds.¹⁹ While some parties advocate reducing the amount of public support for parties, most OSCE/ODIHR EET political party interlocutors believed that the percentage allocated to non-parliamentary parties should be increased.

There is no ceiling on contributions to political parties or candidates, or on party or candidate campaign expenditures.²⁰ Several parties and civil society organizations advocated instituting such limits. The legislation allows for in-kind donations and prohibits anonymous contributions, donations by legal persons and donations in cash in excess of EUR 1,200 per year from a single donor. There are no limits on donations made by bank transfer. The press reported that since the 2011 elections, several individuals made large contributions to political parties, including a single donor reportedly giving over EUR 1 million. If verified, this would constitute a large proportion of total party funding since 2011.²¹

The authorities could consider limiting the amount a single donor may contribute to a candidate or political party in a year, in order to ensure that the democratic process is not distorted by political influence through financial advantages.

Despite a previous OSCE/ODIHR recommendation, outdoor political advertising during the campaign remains prohibited, which restricts freedom of expression.²² The Supreme Court acknowledged that the ban infringed on electoral rights, freedom of expression, and other constitutional rights, but nevertheless ruled that it is an appropriate measure “to reduce the role of money” in politics.²³ In practice, the ruling has not reduced campaign expenditures, as parties displayed posters before the official election period and shifted expenses to other forms of advertising, primarily television. There is no legal requirement for campaign materials to include the name of the person or organization that paid for them.

¹⁸ See [GRECO Third Evaluation Round, Second Compliance Report on Estonia](#), adopted 14-16 May 2012.

¹⁹ In 2014 and 2015, public funding ranged from about EUR 1 million to almost EUR 1.8 million per parliamentary party, which is equivalent to some 76 to 87 per cent of their total respective income.

²⁰ Article 3.b.ii of the [CoE Recommendation Rec\(2003\)4](#) on common rules against corruption in the funding of political parties and electoral campaigns notes that “states should ... consider the possibility of introducing rules limiting the value of donations to political parties”. The [2010 OSCE/ODIHR and Venice Commission Guidelines on Political Party Regulation](#) state that “The regulation of party and campaign finance is necessary to protect the democratic process, including spending limits, where appropriate.”

²¹ For example, in 2014, the PPFSC website indicates that the total funding from private donations of all four parliamentary parties was EUR 1.1 million.

²² Article 19 of the International Covenant on Civil and Political Rights (ICCPR) states that “Everyone shall have the right to freedom of expression; this right shall include freedom to seek, receive and impart information and ideas of all kinds, regardless of frontiers, either orally, in writing or in print, in the form of art, or through any other media of his choice.” The right may be subject to restrictions only if these “are necessary: (a) For respect of the rights or reputations of others; (b) For the protection of national security or of public order (*ordre public*), or of public health or morals.”

²³ See [Judgement](#) of the Supreme Court, case No. 3-4-1-33-09, 1 July 2010.

Parties are prohibited from using public funds to conduct or organize election campaigns.²⁴ However, parties and other stakeholders noted to the OSCE/ODIHR EET that the misuse of administrative resources for campaigning is a continuing general problem. They specifically asserted that Tallinn city government was the most visible example of such malpractice. This assertion was supported by the PPFSC in a meeting with the EET, as well as by a detailed report of the National Audit Office, which found that the Tallinn city government acted against the public interest during the 2013 local elections.²⁵ The Tallinn city government maintained that its advertisements were notices related to its responsibilities or city events and were in the public interest. The OSCE/ODIHR EET was made aware of several complaints with regard to these allegations that were formally filed with the authorities.

To address concerns with regard to the alleged misuse of administrative resources, the authorities could consider clarifying relevant provisions regulating the use of public funds during the campaign period.

B. REPORTING AND DISCLOSURE

Political parties submit quarterly and annual reports to the PPFSC on income and expenditures. Separate reports on campaign expenses are required from both parties and independent candidates within 30 days of the elections. Campaign finance reports are publicly available on the PPFSC website.

A number provisions aim at ensuring transparency of political finance. Parties may use only bank accounts that have been communicated to the PPFSC. Names of individual donors and the amounts of their contributions, including in-kind donations, must be published, as must names of political party members and their membership dues.

Party expenses must be reported in specified categories, such as advertising, public relations, and publications. For elections, a party must provide detailed reports on the expenses of each candidate, as well as its own expenses. Some civil society organizations pointed out to the OSCE/ODIHR EET that the categories are not sufficiently specific to enable them to assess whether the reports are accurate or realistic, explaining that parties report a lump sum for each category and not costs of each poster or each television advertisement. The law does not require reporting on third-party campaign expenditures. Several election stakeholders mentioned to the OSCE/ODIHR EET that these elections were the first to see third-party advertising in noticeable quantities.

To enhance transparency of campaign finance, the authorities could consider amending the law to require reporting on election-related expenditures by third-parties.

C. MONITORING AND OVERSIGHT

The PPFSC is the principal body charged with verifying party and candidate adherence to the law. It is made up of representatives appointed by three institutions and by each parliamentary party.²⁶ None of

²⁴ This does not include the funding granted to political parties from the national budget.

²⁵ See [summary of the National Audit Office report](#) issued 13 January 2015. Although the report does not relate to these elections, it was released in January 2015 during the election campaign, leading to some accusations that the timing was political.

²⁶ The Chancellor of Justice, Auditor General, and NEC each appoint a member. At the time of these elections, the PPFSC also comprised four representatives appointed by four parliamentary parties.

its members works full time. An appointing body or party may remove its representative at any time, which could negatively impact the PPFSC's independence.

The parliament could consider amending the law to secure the tenure of PPFSC members, in order to enhance the independence of the Committee and its members.

The PPFSC meets monthly to review regular finance reporting required of parties; it does not meet more frequently during election periods. The PPFSC provided parties with guidance on how to prepare financial reports.

PPFSC authority is limited, as it may not adopt regulations, issue fines or investigate possible violations. It may, however, issue precepts, for example asking a party to return funds or pay for services provided to it, and may impose monetary penalties that are not considered fines if the party does not comply.²⁷ The PPFSC may look into complaints or initiate actions on its own. Through its February meeting, it considered around 20 complaints relating to these elections and issued several precepts, some of which were still pending action on election day, as they were challenged by political parties in courts. Since the PPFSC may not conduct its own investigations, it must forward cases requiring investigation to the police. According to the PPFSC, lengthy or delayed investigations pose a problem for enforcement. The PPFSC is bound by confidentiality, which reduces the transparency of its work. Both the PPFSC and the National Audit Office recommended giving the PPFSC power to conduct investigations.

Authorities could consider amending the law to provide the PPFSC with more resources and authority to conduct investigations in order to improve effectiveness of political and campaign finance oversight.

The police may also receive complaints from individuals on issues related to election finance, and may open criminal investigations. Several such investigations were initiated with regard to these elections. Police enforce the ban on outdoor political advertising and can issue fines up to EUR 400 for violations or up to EUR 9,600 if a police order is not complied with. They also issued guidelines on outdoor political advertising. Police reported to the OSCE/ODIHR EET, however, that enforcement requires substantial resources and they are forced to adjudicate difficult and sometimes politically sensitive issues. Police received some 75 complaints during the campaign period, in addition to acting on their own. They issued many warnings and instructions to remove material and instituted misdemeanour procedures in five cases. All OSCE/ODIHR EET stakeholders expressed full confidence in the integrity and impartiality of the police.

The authorities could consider giving the NEC the responsibility to provide guidance and make judgements on what constitutes outdoor political advertising.

In 2014, the Penal Code was amended to re-criminalize the making or receiving of “prohibited large-scale donations”, as previously recommended by the OSCE/ODIHR. However, the amendment did not define the amount of a “large-scale” donation from a prohibited source, and did not specify the amount of a possible fine. Although several cases related to party financing received public attention in recent years, according to OSCE/ODIHR EET interlocutors, few if any violators have been prosecuted.

²⁷ Under [Substitutive Enforcement and Penalty Payment Act](#), penalties for non-compliance with precepts are not considered to be fines or punishments.

Consideration could be given to clearly defining in law the amount of a “prohibited large-scale donation” and the penalty for making or receiving one, while ensuring that the penalty is sufficient to dissuade would-be violators.

VI. PARTICIPATION OF NATIONAL MINORITIES

Ethnic Estonians make up 69 per cent of the population. The largest national minorities are Russians (25 per cent), Ukrainians (1.7 per cent) and Belarusians (1 per cent). Other groups, including Finns, Tatars, Latvians and Poles each make up less than one per cent of the population. The government established a national programme to promote the integration of national minorities, and maintains that encouraging national minorities to participate more actively in social and political life is the cornerstone of its integration policy.²⁸ International bodies have recommended increased efforts to ensure greater participation of persons belonging to national minorities in public life, including in parliament.²⁹

OSCE/ODIHR EET interlocutors noted positive trends in terms of parties across the political spectrum placing candidates belonging to national minorities on party lists, in some cases in prominent positions, and greater efforts by parties and candidates to reach out to Russian-speaking voters, including with campaign information in Russian. It appeared that candidates of minority background made up less than ten per cent of candidates on all but two party lists.³⁰ Unlike during previous elections, none of the contesting parties explicitly identified itself along ethnic lines.

Issues related to national minorities did not feature prominently in the campaign, with the exception of Russian-language education. According to most OSCE/ODIHR EET interlocutors, divisive rhetoric concerning minority issues featured less than in previous elections. A torchlight procession to commemorate Estonia’s Independence Day on 24 February, organized by the youth wing of a party contesting the elections was viewed by some OSCE/ODIHR EET interlocutors and media commentators as having nationalistic and anti-Semitic overtones.

The Constitution stipulates that Estonian is the only official language. Approximately 30 per cent of the population speak Russian as their mother tongue, according to 2011 census data. The NEC website featured detailed election information only in Estonian, with some general election-related information also available in English. Voting instructions sent to all voters and information in polling stations and on ballots was only in Estonian. The NEC maintained that as only Estonian citizens have the right to vote in parliamentary elections, they should possess sufficient Estonian language proficiency to understand information about voting. Information about Internet voting was available in Estonian, and to a limited extent in Russian and English. Despite a previous OSCE/ODIHR recommendation, the electronic voting interface was only in Estonian. Internet voting levels were lowest in Ida Viru County, which has Estonia’s highest proportion of Russian speakers.

²⁸ See the [fourth report](#) submitted by Estonia on the CoE Framework Convention for the Protection of National Minorities, May 2014.

²⁹ See: [Concluding observations on the combined tenth and eleventh periodic reports of Estonia](#) by the UN Committee on the Elimination of Racial Discrimination, 22 September 2014.

³⁰ Candidates were not required to declare their ethnicity when registering as candidates; therefore no official statistics on candidates’ ethnic backgrounds were available.

According to most OSCE/ODIHR EET interlocutors, including minority representatives, the lack of Estonian language proficiency was generally not an obstacle for minority voters in terms of understanding the voting process and casting their votes. In addition, Russian-language print and broadcast media provided information about voting procedures. However, it was noted that greater availability of official voter information in Russian would make such information more accessible to minority voters and would send a positive message about their inclusion in Estonian political life, as well as bringing practice into line with international standards.³¹

The Language Act requires that if a foreign language is used in outdoor campaign advertisements, the same text should be included in Estonian and should be no less visible than the other language. The Language Inspectorate oversees compliance with language legislation and receives and follows up complaints about possible violations. Before the start of the campaign period, when outdoor political advertising was still allowed, one verbal warning was issued to a party for an outdoor campaign advertisement where the Russian-language text was more prominent than the text in Estonian. Estonia's public broadcaster aired election debates in Russian on TV and radio. Some private media outlets also organized Russian-language debates.

As of 1 February 2014, persons of undetermined citizenship made up 6.5 per cent of Estonia's population.³² According to the Ministry of Interior, as of 1 February 2015, they numbered more than 85,000 people, almost all of whom are of voting age. The vast majority of persons of undetermined citizenship belong to national minorities.³³ These persons have the right to vote in local elections but not the right to vote nor stand as candidates in parliamentary elections. While they could participate in party activities and donate funds to parties or candidates, despite a previous OSCE/ODIHR recommendation, they do not have the right to join political parties. The restriction on party membership is not consistent with international standards and recommendations concerning freedom of association.³⁴

³¹ Paragraph 12 of United Nations Human Rights Committee General Comment 25 on the ICCPR states that "information and materials about voting should be available in minority languages". Paragraph 32.5 of the 1990 OSCE Copenhagen Document states that "persons belonging to national minorities have the right [...] to disseminate, have access to and exchange information in their mother tongue". The Advisory Committee to the Framework Convention for the Protection of National Minorities, *Commentary on the Language Rights of Persons Belonging to National Minorities under the Framework Convention*, adopted on 24 May 2012, states that "The authorities should also consider providing opportunities for the use of minority languages in public service television and radio programmes devoted to election campaigns and on ballot slips and other electoral material in areas inhabited by persons belonging to national minorities traditionally or in substantial numbers."

³² After the restoration of Estonian independence in 1991, citizenship was granted automatically to holders of Estonian citizenship prior to 16 June 1940 and their descendants. Long-term residents of Estonia and their descendants who did not receive Estonian citizenship automatically, obtain another citizenship, or naturalize as Estonian citizens, are referred to as persons of undetermined citizenship.

³³ According to 2011 census data, only about 2,000 of the more than 85,000 persons of undetermined citizenship are ethnic Estonians.

³⁴ Article 22.1 of the ICCPR states that "Everyone shall have the right to freedom of association", while Article 2.1 notes that this right is not limited to citizens but applies to "all individuals" within a State's "territory and subject to its jurisdiction" and Article 22.2 specifies that this right cannot be restricted unless "necessary in a democratic society" for a specific and limited set of circumstances. Paragraph 9.3 of the 1990 OSCE Copenhagen Document reaffirms freedom of association. According to the [Commentary on the Effective Participation of Persons Belonging to National Minorities in Cultural, Social and Economic Life and Public Affairs](#) by the Advisory Committee on the Framework Convention for the Protection of National Minorities, adopted on 27 February 2008, "Citizenship should not be a condition for persons belonging to national minorities to join trade unions and other civil society associations."

Persons of undetermined citizenship may acquire Estonian citizenship through naturalization, requirements for which are residency for at least eight years (including continuous residence for at least five years), and knowledge of the Estonian language and Constitution. Since 2009, the naturalization rate has dropped to less than 2,000 people per year.

On 21 January, the parliament adopted a number of positive amendments to the Citizenship Act. As of 1 January 2016, children born in Estonia to parents of undetermined citizenship, and children who are under 15 years of age, will receive Estonian citizenship through naturalization without an application by the parents. Another amendment provides that persons over 65 years of age are exempt from the written language examination. Previously, this applied only to persons born before 1 January 1930.

Authorities should maintain and enhance their efforts to stimulate the naturalization rate among the still-large group of persons of undetermined citizenship with a view to granting them suffrage rights.

VII. RECOMMENDATIONS

The recommendations contained throughout the text are offered with a view to enhancing the conduct of elections in Estonia and bringing them fully in line with OSCE commitments, other international obligations, standards and good practice for democratic elections. These recommendations should be read in conjunction with past OSCE/ODIHR recommendations that remain to be addressed. The OSCE/ODIHR stands ready to assist the authorities of Estonia to further improve the electoral process and in following up on the recommendations contained in this and previous reports.³⁵

A. PRIORITY RECOMMENDATIONS

1. The authorities could continue efforts to include end-to-end verifiability in the Internet voting system to enhance system accountability through verification that votes are counted as recorded.
2. Authorities could consider establishing a formal process for end-to-end certification of the Internet voting system by an independent body, in line with the CoE guidelines, with its report made public.
3. The authorities could consider limiting the amount a single donor may contribute to a candidate or political party in a year, in order to ensure that the democratic process is not distorted by political influence through financial advantages.
4. Authorities could consider amending the law to provide the PPFSC with more resources and authority to conduct investigations in order to improve effectiveness of political and campaign finance oversight.
5. Authorities should maintain and enhance their efforts to stimulate the naturalization rate among the still-large group of persons of undetermined citizenship with a view to granting them suffrage rights.

³⁵ In paragraph 24 of the 1999 OSCE Istanbul Document, OSCE participating States committed themselves “to follow up promptly the ODIHR’s election assessment and recommendations.”

B. OTHER RECOMMENDATIONS

6. To maintain and further strengthen confidence in the EVC, consideration could be given to formalizing the qualifications or other possible requirements for its members.
7. To increase accountability of its work, the EVC should hold regular meetings and formally adopt and publish all decisions related to Internet voting in sessions open to observers.
8. The NEC could consider adopting and publishing detailed and formal procedures and deadlines for software development, testing, and updates of the Internet voting system.
9. The EVC could consider reviewing its security practices related to server maintenance and backup.
10. To increase transparency and accountability, the NEC could consider publishing full audit reports of the Internet voting system.
11. To increase accountability of the Internet voting process, the EVC could consider producing and retaining records at all stages of the process.
12. To address concerns with regard to the alleged misuse of administrative resources, the authorities could consider clarifying relevant provisions regulating the use of public funds during the campaign period.
13. To enhance transparency of campaign finance, the authorities could consider amending the law to require reporting on election-related expenditures by third-parties.
14. The parliament could consider amending the law to secure the tenure of PPFSC members, in order to enhance the independence of the Committee and its members.
15. The authorities could consider giving the NEC the authority to provide guidance and make judgements on what constitutes outdoor political advertising.
16. Consideration could be given to clearly defining in law the amount of a “prohibited large-scale donation” and the penalty for making or receiving one, while ensuring that the penalty is sufficient to dissuade would-be violators.

ANNEX: ELECTION RESULTS

Political party	Number of votes	% of votes	Number of mandates
Estonian Reform Party	158,965	27.7	30
Estonian Central Party	142,438	24.8	27
Social Democratic Party	87,186	15.2	15
Pro-Patria Union-Res Publica	78,707	13.7	14
Estonian Free Party	49,885	8.7	8
Estonian Conservative Party	46,772	8.1	7
Greens of Estonia	5,193	0.9	0
Party of People's Unity	2,289	0.4	0
Estonian Independence Party	1,046	0.2	0
Independent Candidates	887	0.2	0
Estonian United Left Party	764	0.1	0
Number of eligible voters	899,793		
Total votes cast	577,929		
Valid votes cast	574,132		
Turnout (%)	64.23		
Internet voting			
Internet votes cast including repeated votes	181,084		
Repeated Internet votes	4,593		
Number of Internet votes	176,491		
Number of Internet votes cancelled due to advanced voting	162		
Internet votes counted	176,329		
Share of the Internet votes among all votes (%)	30.5		

A total of 24 women were elected to the parliament, representing 23.8 per cent of the total number of members.

ABOUT THE OSCE/ODIHR

The Office for Democratic Institutions and Human Rights (OSCE/ODIHR) is the OSCE's principal institution to assist participating States "to ensure full respect for human rights and fundamental freedoms, to abide by the rule of law, to promote principles of democracy and (...) to build, strengthen and protect democratic institutions, as well as promote tolerance throughout society" (1992 Helsinki Summit Document). This is referred to as the OSCE human dimension.

The OSCE/ODIHR, based in Warsaw (Poland) was created as the Office for Free Elections at the 1990 Paris Summit and started operating in May 1991. One year later, the name of the Office was changed to reflect an expanded mandate to include human rights and democratization. Today it employs over 130 staff.

The OSCE/ODIHR is the lead agency in Europe in the field of **election observation**. Every year, it co-ordinates and organizes the deployment of thousands of observers to assess whether elections in the OSCE region are conducted in line with OSCE Commitments, other international obligations and standards for democratic elections and with national legislation. Its unique methodology provides an in-depth insight into the electoral process in its entirety. Through assistance projects, the OSCE/ODIHR helps participating States to improve their electoral framework.

The Office's **democratization** activities include: rule of law, legislative support, democratic governance, migration and freedom of movement, and gender equality. The OSCE/ODIHR implements a number of targeted assistance programs annually, seeking to develop democratic structures.

The OSCE/ODIHR also assists participating States' in fulfilling their obligations to promote and protect **human rights** and fundamental freedoms consistent with OSCE human dimension commitments. This is achieved by working with a variety of partners to foster collaboration, build capacity and provide expertise in thematic areas including human rights in the fight against terrorism, enhancing the human rights protection of trafficked persons, human rights education and training, human rights monitoring and reporting, and women's human rights and security.

Within the field of **tolerance** and **non-discrimination**, the OSCE/ODIHR provides support to the participating States in strengthening their response to hate crimes and incidents of racism, xenophobia, anti-Semitism and other forms of intolerance. The OSCE/ODIHR's activities related to tolerance and non-discrimination are focused on the following areas: legislation; law enforcement training; monitoring, reporting on, and following up on responses to hate-motivated crimes and incidents; as well as educational activities to promote tolerance, respect, and mutual understanding.

The OSCE/ODIHR provides advice to participating States on their policies on **Roma and Sinti**. It promotes capacity-building and networking among Roma and Sinti communities, and encourages the participation of Roma and Sinti representatives in policy-making bodies.

All ODIHR activities are carried out in close co-ordination and co-operation with OSCE participating States, OSCE institutions and field operations, as well as with other international organizations.

More information is available on the ODIHR website (www.osce.org/odihr).



VI. ECONOMY IN ESTONIA

**1. COMMISSION COUNTRY REPORT ESTONIA
2017**

2. STANDARD EURO BAROMETER 84 - ESTONIA



VI. Economy in Estonia¹⁸

In Estonia, the relative importance of the service sector across the economy is complemented by the significant importance of the manufacturing sector in the national economy. In recent years the trade, transport, storage and communications, financial and, finally, public administration sectors have maintained a stable relative share in the generation of the gross value added of Estonian production. Together with the strength of these services sectors, both the manufacturing and construction sectors account for a significant part of economic activity.

Between 2004 and 2007, the Estonian inflation rate has increased significantly to 6.6% in the last year of this period. The latest year-on-year rates reported indicate an acceleration in the pace of price growth since early 2008. Although lower economic growth during the second half of 2008 is likely to cause inflation to moderate somewhat, the lack of a national monetary policy of its own due to the existence of a fixed exchange rate regime between the euro and the Estonian kroon makes it more necessary to adopt structural reforms with the ultimate long-term objective of a fall in inflation.

The dynamism of the Estonian economy over the last few years is reflected in a sustained fall in the unemployment rate between 2004 and 2007. This last year closed with an unemployment rate of 4.7%. The various branches of the service sector have absorbed most of the increase in employment these years. There is a slowdown in the increase in the labor force observed between 2004 and 2007 and a slight reduction in the unemployment rate as a function of the evolution of the economic cycle.

The main sectors of the Estonian economy are food, wood processing, chemical, electronic engineering and transportation industries.

Estonia, with an extension comparable to Denmark and a population of only 1.300.000 inhabitants, is one of the most digitized countries in the world that makes flag and takes advantage of this condition to improve the economy and the standard of living of its inhabitants. Thanks to a recent Study Trip organized by the European Union of Science Journalists' Associations (EUSJA) to which I belong through the Catalan Association of Scientific Communication (ACCC) I have personally verified the model and the reasons for its impressive development.

The ICT sector is very important, represents 9% of GDP and is the engine of the economy although it only employs 4.5% of the workforce. Students at centers such as Tallinn University of Technology or the Institute of Computer Science at Tartu University are immediately attracted by companies even before they graduate. Attracting foreign talent is, however, very difficult because of the climate and wages.

This situation has led them to prioritize efficiency and ingenuity in ICT solutions. The main characteristic of the digital projects that they have carried out is maximum investment of talent with the minimum resources.

¹⁸ <http://www.oecd.org/eco/outlook/estonia-economic-forecast-summary.htm>



The commitment to the information society at the time of independence is related to the will to democratize and modernize the country. Estonian scientists were also crucial in technological development. Although they have been their source of inspiration, they are very proud to have surpassed Sweden and Finland in some respects and to belong to the EU.



Brussels, 22.2.2017
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COMMISSION STAFF WORKING DOCUMENT

Country Report Estonia 2017

Accompanying the document

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN CENTRAL BANK AND THE
EUROGROUP**

**2017 European Semester: Assessment of progress on structural reforms,
prevention and correction of macroeconomic imbalances, and results of in-depth reviews
under Regulation (EU) No 1176/2011**

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EXECUTIVE SUMMARY

This report assesses Estonia's economy in the light of the European Commission's Annual Growth Survey published on 16 November 2016. In the survey, the Commission calls on EU Member States to redouble their efforts on the three elements of the virtuous triangle of economic policy — boosting investment, pursuing structural reforms and ensuring responsible fiscal policies. In so doing, Member States should focus on enhancing social fairness in order to deliver more inclusive growth.

Real GDP growth in Estonia slipped to 1.1 % in 2016, but is expected to recover to above 2 % from 2017.

In 2016, Estonia's economy suffered from weak external demand and investment, both public and private, while persistently strong wage growth kept private consumption and house building at a relatively high level. In 2016, growth was at a rate of 1.1 % but it is projected to accelerate to more than 2 % in the coming years as external demand and business investment are expected to recover gradually. At the same time, household consumption is projected to slow down to more sustainable levels due to less dynamic wage growth linked to a policy of limiting wage increases in the public sector and to various reforms to expand labour supply. The fiscal position remains strong, with a budget in surplus and negligible government debt. However, some weakening of Estonia's fiscal position is expected in 2018, as the new government in office intends to implement a more expansionary budgetary policy.

Estonia has one of the best performing labour markets in the EU, but its declining working-age population is a challenge.

The Estonian labour market is characterised by its flexibility, high participation and employment rates, and low unemployment. At the same time, ageing combined with prolonged low fertility rates are set to shrink the working-age population over the next decade. This will contribute to the ongoing tightening of the labour market, creating a continued upward pressure on wage growth. This poses a risk for businesses' profitability, competitiveness and overall long-term economic growth.

However, ongoing labour market reforms are expected to boost labour supply and prevent excessive wage growth. The entry into force of the Work Ability reform is bringing

work-incapacity pensioners back to the labour market. This increased labour supply is expected to slow the wage growth. Labour supply will benefit from further ongoing reforms creating further incentives to work, reducing the gender pay gap and providing more accessible childcare. Also, the ongoing local government reform is projected to make labour market activation policies more effective, as local social services are made more efficient. Finally, labour and skills shortages are expected to decrease, as measures are being taken to address them. Notably, constraints on economic immigration have recently been relaxed.

Estonia is generally performing well on education and training.

Estonia has high rates of tertiary education attainment and performs well in international skills surveys. Also, participation in lifelong learning is above the EU average. However, early school leaving remains above the Europe 2020 target.

The Estonian economy is well integrated with its Nordic neighbours and the euro area, but its foreign direct investment remains below the long-term average.

The close relationship between Estonia and its neighbours is characterised by a large share of intra-industry trade flows. However, in recent years, foreign direct investment growth in the manufacturing sector and in professional, scientific and technical activities has remained below Estonia's long-term average.

After falling in 2015, Estonia's exports recovered in 2016 and further improvements are expected.

In 2015, the market share losses mainly resulted from a sharp currency depreciation in neighbouring Russia and falling international oil prices, which made Estonia's oil shale sector less competitive. None of these factors are expected to recur. In 2016, as exports of goods recovered strongly, the country's trade surplus increased.

Nevertheless, Estonia's industry remains dominated by traditional sectors with low R&D intensity.

In manufacturing, Estonia's exports structure seems to continue shifting towards lower-value goods. Also, the capital stock per worker remains relatively low. In particular, in 2015, investment flows in intellectual property products remained largely below the EU average and, in the manufacturing sector, appeared to be

already affected by a gradual decline in business profits. However, business R&D expenditure has recently resumed its upward trend, suggesting new potential for better innovation performance. Overall, the importance for Estonia of strategic investment in research and development remains high.

Risks stemming from the housing market can be considered as contained. In 2016, lending growth for house purchases was robust, but housing prices stabilised as supply caught up with demand. Also, financial regulations to mitigate the risk of the financial system as a whole have been tightened and the possibility of deducting mortgage interest payments from tax bills reduced. Spill-over risks from the real estate sector to economic and financial sector stability appear low. Financial soundness indicators suggest that the banking sector is stable.

Overall, Estonia made some progress in addressing the 2016 country-specific recommendations. On labour market and social policy issues, some progress was made on providing high-quality local social services, including by adopting and implementing local government reform. Limited progress was made on adopting and implementing measures to reduce the gender pay gap. Some progress was made on promoting private investment in research, development and innovation, including by strengthening cooperation between academia and businesses.

Estonia has already achieved a number of its objectives as regards its national targets under the Europe 2020 strategy, but some areas remain a source of concern. The country surpassed its employment target, although its shrinking working-age population aided progress. On R&D, Estonia is moving away from its national target. On energy, the country is expected to meet its greenhouse gas emission and renewable energy targets by a large margin. Estonia has met its energy efficiency targets, but keeping the levels until 2020 will be a challenge. On education, Estonia has already reached its tertiary education target, although with a significant gender gap in favour of women. The early school leaving target remains a source of concern, while the country is moving further away from its national 'at risk of poverty' reduction target of 15 %.

The main findings of this country report, and the related policy challenges, are as follows:

- **The shrinking working age population may result in a tight labour market over several years.** The persistent demographic challenge highlights the importance of the on-going policies to integrate low-income earners, people with disabilities and mothers with young children into the labour market. Greater incentives to work have been introduced so as to increase activity rates. The 'Work Ability' reform is aimed at increasing the labour supply by bringing a significant number of currently inactive people back to the labour market. The implementation of the reform started in 2016 and early indications seem positive, with a reported increase in the overall labour supply. However, the workforce is expected to grow faster than employment over the coming years. Also, several restrictions on economic immigration have recently been eased. In parallel, accessibility of childcare services is being improved. However, the gender pay gap remains a matter for concern. Though some measures to address this challenge have already been taken, legislative changes to the Gender Equality Act and to the system of parental leaves are still pending. The drop-out in vocational education has improved.
- **Inequality, relative poverty and social exclusion continued increasing gradually, and health outcomes remain significant challenges.** Inequality has increased in recent years and is now well above EU averages. Benefits (mostly pensions, social assistance and unemployment benefits) have not kept pace with growth in market incomes. Moreover, Estonia's flat tax regime has a limited ability to redistribute wealth, but recent measures will make the tax system more progressive by increasing the tax free allowance, which will vary with the income level. In parallel, life expectancy, healthy life expectancy and preventable mortality remain worse than the EU

averages, while Estonia faces challenges over care integration and accessibility to nursing and to specialised medical care.

- **Labour costs per worker continued to increase in 2016, posing a risk to competitiveness.** Increases in labour costs per worker were mainly driven by strong wage growth, but negative productivity growth also contributed. As Estonia's small and open economy is mostly a "price-taker", subject to foreign prices, strong wage increases are at first reflected in falling profitability. In the short run, this can lead to downward pressures on investment, especially in Estonia's manufacturing sector. Continued strong wage increases outpacing productivity developments could undermine competitiveness in the medium term.
- **Still-low business investment in technological development and weak commercialisation of research achievements remain challenges for productivity growth, for increasing the value-added of exports of goods and for strengthening potential output.** The volume of contract research between academia and businesses increased in 2015, but the cooperation between the two sectors remains limited. This also resulted in a still-low level of patent applications. An entrepreneurial discovery process has not yet been re-launched. The low attractiveness of research careers and the relatively low level of scientific excellence are interlinked challenges.
- **Estonia has further improved its business environment, but in a few areas challenges remain.** Estonia is running several projects to reduce the regulatory burden, bureaucracy and overlapping functions of different public bodies. However, a continuing lack of national rules for transferring companies' registered offices into and out of Estonia weakens the business environment. Furthermore, lengthy insolvency procedures and inadequately protected minority shareholders' rights in corporate governance remain institutional barriers to investment.
- **Overall, the tax system is growth-friendly, but categories of taxation that are considered least detrimental to growth are still only used to a limited extent.** Tax collection remains overall efficient and recent measures to increase tax compliance have been successful. However, Estonia still under uses some growth-friendly tax categories such as property taxes and transport taxes.
- **Carbon emissions and resource intensity remain high.** This is mainly because Estonia is a producer of electricity and heating from oil shale. Also, greenhouse gas emissions and energy consumption from transport have increased since 2005, while transport taxes are almost inexistent, which does not support energy efficiency in road transport. There are ongoing discussions on the possibility of introducing an emission-based car registration tax.
- **Estonia is currently undertaking local government reform to improve local public services and governance, and achieve efficiency gains.** Legislation on the division of tasks between municipalities and central government, as well as on the financing principles of local governments, is in preparation. So far, incentives for local government to encourage local development and entrepreneurship have not been adopted.

1. ECONOMIC SITUATION AND OUTLOOK

GDP growth

Estonia's economic growth slowed to about 1.1 % in 2016, after 1.4 % in 2015 (Graph 1.1). Private consumption remained the main growth driver, supported by fast and sustained wage growth. However, it only had a limited positive impact on GDP growth, given that imports make up a high proportion of its content, in particular car imports. While exports recovered thanks to higher demand from Estonia's main trading partners, investment growth disappointed for a third year in a row. This mainly reflected a very gradual implementation of EU-funds and still lower business investment in equipment and construction. Public consumption barely grew, allowing public finances to remain strong.

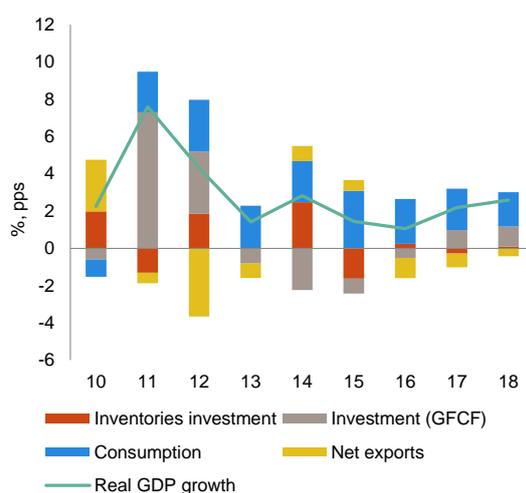
Estonia's real GDP is forecast to grow by 2.2 % in 2017 and 2.6 % in 2018 as regional demand growth is expected to pick up. External demand, especially from Finland and the other two Baltic States, is projected to gather pace. In parallel, Estonia's oil shale sector and related exports are set to benefit from the rise in oil prices. In services, buoyant high-tech exports are expected to largely compensate for the losses in transport services resulting from the decline in transit trade with neighbouring Russia. Overall, the external balance of goods and services is set to remain positive over the forecast period. However, as import-intensive investments are projected to resume, the contribution of net exports to growth is set to remain negative this year and next.

Overall investment is expected to recover in 2017 and 2018 as the new EU programming period hits cruising speed and industry confidence rises. The improving regional demand is expected to support industry confidence. As a result, Estonian businesses are projected to increase investment this year and next. In parallel, public investment is projected to surge, as the bulk of projects under the new programming period of EU Funds have started being implemented.

Private consumption growth is projected to slow down slightly in 2017 and 2018 as rising consumer prices dampen the increase in real incomes. Nevertheless, domestic demand is envisaged to remain the main driver of growth

over the period covered by the forecast, bolstered by continued strong wage increases.

Graph 1.1: Real GDP growth and contributions



(1) Forecasts for 2016-2018 based on the assumption of no change in policy.

Source: European Commission

Potential growth

Overall though, Estonia's potential growth rate seems to be on a declining trend. While the catching-up process of the country with the EU's more advanced economies is expected to continue, the persistent decline in working-age population is expected to weigh on growth potential.

Inflation

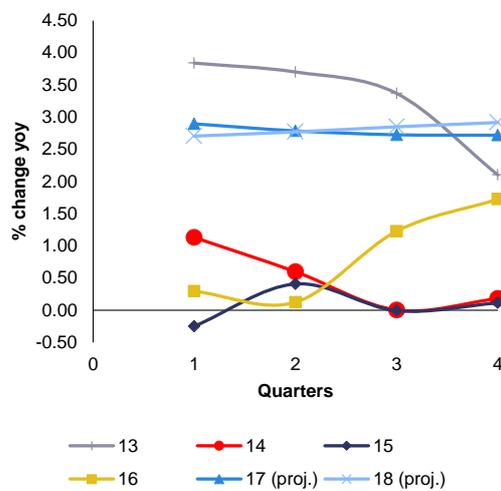
Inflation is set to increase in the coming years, after a protracted period of low inflation (see Graph 1.2). As a result of a projected rise in global energy prices, strong wage growth and a significant rise in excise tax rates, inflation is projected to accelerate to almost 3 % in 2017 and 2018.

Labour market

The labour market has remained strong, but improvements in employment and unemployment indicators have stalled in recent months, reflecting the lacklustre GDP growth. The labour market participation rate has reached historically high levels of 70 %, which has so far compensated for the decline in the working-age

population. Owing to the work ability reform (see Section 3.3 for details), employment is expected to continue growing slightly in 2017-2018. At the same time, unemployment is projected to rise significantly from about 6½ % in 2016 to over 8 % in 2018. This is because many people receiving work-incapacity pensions need training before re-joining the labour market after a long absence.

Graph 1.2: Quarterly harmonised index of consumer prices (HICP) inflation (yoy % change)



Source: European Commission

Social issues

Income inequality has increased and is one of the highest in the EU, while recent poverty indicators show mixed trends. The ratio of incomes of the richest 20 % of households to that of the poorest 20 % rose from 5.4 in 2012 to 6.2 in 2015, and is now the seventh highest in the EU. The key driver appears to be high wage dispersion as a result of strong income growth among the higher skilled. In absolute terms, the incomes of the poorest 10 % of households have lagged behind the growth in median incomes ⁽¹⁾. A contributing factor is that benefits (particularly pensions and unemployment benefits) are not keeping pace with the growth in market incomes. This has also resulted in a gradual increase of the at-risk-of-poverty rate from 15.8 % in 2010 to

⁽¹⁾ While real growth in disposable income for the bottom decile was 7 % (2015 SILC data), this is below the median income growth of 9 %.

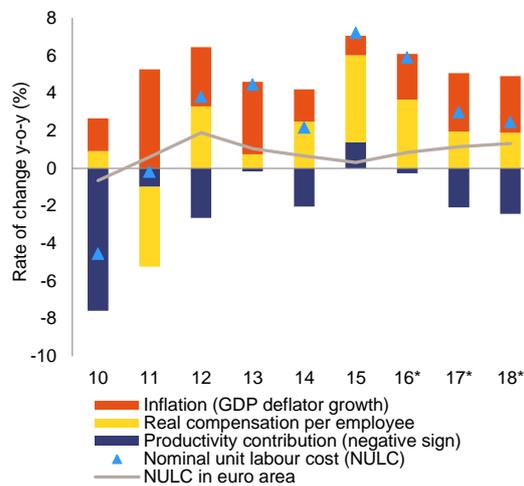
21.6 % in 2015, 4.3 pps above the EU average ⁽²⁾ (see Section 3.3). Inequality is further exacerbated by the flat tax regime, which has a limited distributional function. While wage growth among high-skilled workers has led to growing market income inequalities, the tax-benefit system has proven relatively ineffective in mitigating this. ⁽³⁾ That said, when it comes to net wealth (difference between total assets and total liabilities), in 2014, Estonian households generally owned more than they owed. Overall, Estonia has one of the highest net wealth ⁽⁴⁾ inequality in the EU (ECB, 2016).

⁽²⁾ The share of the population living in severe material deprivation and in households with very low work intensity is, however, well below European averages and declining.

⁽³⁾ The Gini coefficient before taxes and benefits (including pensions) for 2014 data was 51.6, while after taxes and benefits it fell to 35.6. The gap (of 16.0 for Estonia) measures the effectiveness of the tax-benefit system in reducing inequality. This is well below the EU average gap of 19.3. The Gini coefficient is a commonly used measure for monitoring trends in income inequality. A coefficient of 100 expresses total inequality (meaning all the income is earned by one person) and a coefficient of 0 expresses perfect equality (meaning everyone earns the same income).

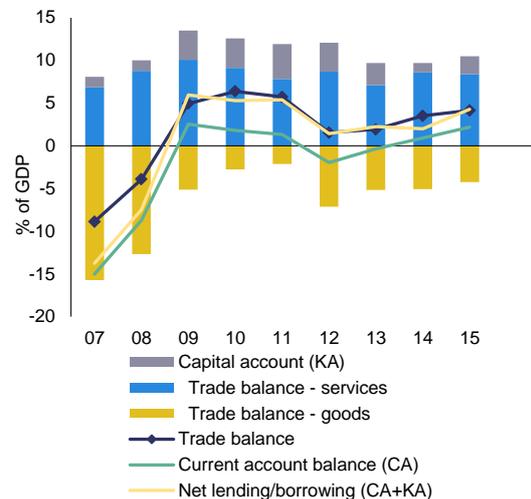
⁽⁴⁾ Difference between total assets and total liabilities.

Graph 1.3: Breakdown of rate of change of unit labour costs (ULC) in Estonia (and euro area)



Source: AMECO

Graph 1.4: Breakdown of external position (current and capital accounts)



Source: European Commission – Eurostat

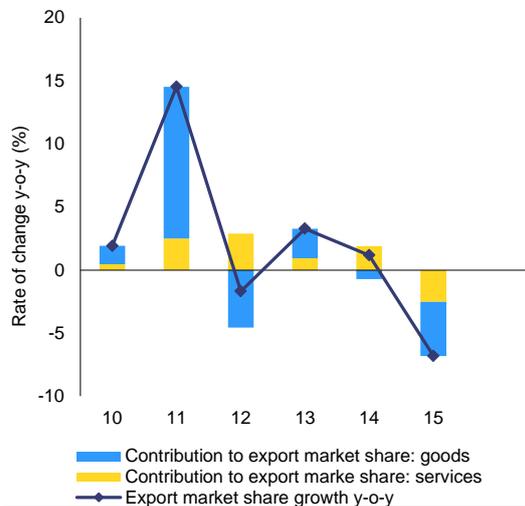
Competitiveness

Unit labour costs continued to rise strongly over the past year, driven by strong wage growth and decreasing productivity (Graph 1.3). Wage growth was triggered by a limited labour supply linked to the decline in working-age population. In 2017 and 2018, nominal unit labour cost growth is expected to slow down as a result of productivity increases as external trade recovers. Moreover, policy efforts to boost labour supply are expected to start bearing fruit, while net migration has turned positive. However, the rapidly rising wages and slow productivity growth are issues that will still warrant close monitoring for some time in terms of their effect on competitiveness (see Section 3.4. for an in-depth look).

Current account

Estonia is expected to post a continued, but declining, current account surplus. The surplus of 2.1 % of GDP in 2015 (Graph 1.4) decreased to 0.6 % of GDP in 2016 and is expected to decrease further to 0.3 % in 2017 and 0.0 % in 2018. The surplus mainly comes from the trade balance, especially from exports of services. With the expected recovery of imports linked to the resuming investment growth, the trade balance is projected to decline somewhat over the coming years.

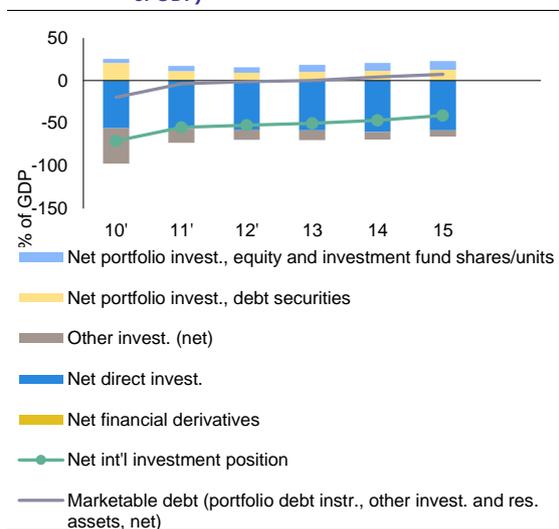
Graph 1.5: Exports market share breakdown – Estonia



Source: European Commission

Estonia has been losing export market share (see Graph 1.5). Estonia achieved large market share gains immediately after the end of the financial crisis, which had led to productivity gains and a downward correction to wages, but, in 2015, it lost market share both in value (-7.9 %) and volumes (-3.3 %). In particular, Estonia's exports to neighbouring Russia were strongly affected by the rouble depreciation, while the country's oil shale sector suffered from low oil prices. Also, exports of services decreased as transit trade with Russia further contracted. In 2016, export growth resumed as the impact of the negative external shocks faded away. In the longer term, export prospects could, however, suffer due to the continued divergence between wage and productivity developments affecting Estonia's competitiveness. The competitiveness is looked at more in-depth in Section 3.4.

Graph 1.6: Net international investment position (NIIP) (% of GDP)



Source: European Commission

Overall external position

The negative net international investment position (NIIP) of Estonia continues to improve (Graph 1.6). In 2015, at -40.9 % of GDP, the NIIP position remained above the MIP Scoreboard threshold of -35 % of GDP, but was on a downward path (see Graph 1.7). It is expected to continue to improve in the coming years, especially with a projected current account surplus and a related positive net lending to the rest of the world. Furthermore, much of the NIIP reflects foreign direct investment (FDI), which is a stable component, and Estonia has limited net assets in terms of marketable debt. This contributes significantly to reducing market and volatility risks associated with the negative NIIP. In recent years, FDI inflows have been on a downward path: in 2015, FDI inflows into Estonia amounted to only one quarter of the 2014 inflow, but, in 2016, partly recovered. This issue is more closely looked at in Section 3.4.

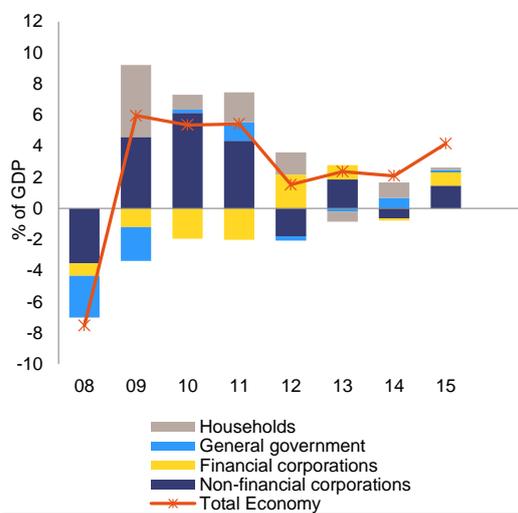
Financial sector

The banking sector is robust, supported by a strengthened prudential framework. Profitability remains sound and non-performing loans are limited. Lending to the corporate sector increased significantly in 2016 on the back of recovering investment growth.

Housing market

House price increases slowed down in 2016, as supply caught up with demand. House prices in Estonia halved following the economic and financial crisis, but since then the housing market has experienced a robust recovery. House prices increased again by about 10 % per year on average between 2010 and 2014. However, following a sharp increase in supply, house price increases slowed down in 2015 and 2016.

Graph 1.7: **Net lending/net borrowing by sector (% of GDP)**



(1) NPISH: non-profit institutions serving households.

Source: European Commission

Public finance

The budget is expected to have remained in surplus in 2016, as tax revenues held up despite slower economic growth. The composition of GDP growth has been very favourable to government revenue, with rapid wage growth boosting labour and consumption taxes. Also, public investment expenditure was lower than planned in 2016 due to delays in implementing EU funded projects. In 2017, in spite of strong expected revenues, expenditure pressures are projected to leave public finances with a deficit of about 0.5% of GDP. Expenditure pressures stem from several factors: local government elections in 2017 (which typically lead to additional domestically-funded investments), some social expenditure measures, and costs related to Estonia's holding the presidency of the Council of the European Union in the second half of 2017.

According to the Commission winter forecast, in 2018, the fiscal position is projected to improve slightly to a deficit of 0.2% of GDP, as a temporary increase in state transfers to the pension funds comes to an end and reduces expenditure commitments. However, this forecast did not yet include the new government's announced investment plan, since sufficient details were not yet known about the specific investment projects and their timing. The investment plan likely costs about 0.5% of GDP in 2018, and it would add to the fiscal deficit figures. In this context, the government has also announced that it would commensurately lower its medium term fiscal targets.

Table 1.1: Key economic, financial and social indicators - Estonia

	2004-2008	2009	2010	2011	2012	2013	2014	2015	forecast		
									2016	2017	2018
Real GDP (y-o-y)	5.7	-14.7	2.3	7.6	4.3	1.4	2.8	1.4	1.1	2.2	2.6
Private consumption (y-o-y)	8.4	-15.3	-1.6	3.7	4.3	3.8	3.3	4.7	4.0	3.4	2.8
Public consumption (y-o-y)	4.5	-3.2	-0.4	1.3	3.2	1.9	2.7	3.4	1.5	1.9	1.6
Gross fixed capital formation (y-o-y)	8.2	-36.7	-2.7	34.4	12.7	-2.8	-8.1	-3.3	-2.2	4.4	4.7
Exports of goods and services (y-o-y)	12.1	-20.3	24.0	24.2	4.8	2.3	3.1	-0.6	3.7	3.1	3.4
Imports of goods and services (y-o-y)	12.1	-30.6	21.2	27.2	9.7	3.2	2.2	-1.4	5.4	4.3	4.1
Output gap	8.1	-9.0	-6.6	-0.7	1.9	1.4	2.1	1.2	0.1	-0.1	0.1
Potential growth (y-o-y)	4.9	-0.9	-0.4	1.3	1.6	1.9	2.1	2.4	2.2	2.4	2.4
Contribution to GDP growth:											
Domestic demand (y-o-y)	7.1	-20.3	-1.5	9.5	6.1	1.5	0.0	2.3	1.9	3.2	2.9
Inventories (y-o-y)	-0.4	-1.4	2.0	-1.3	1.8	0.0	2.5	-1.6	0.2	-0.3	0.1
Net exports (y-o-y)	-1.0	8.1	2.8	-0.6	-3.7	-0.8	0.8	0.6	-1.1	-0.7	-0.4
Contribution to potential GDP growth:											
Total Labour (hours) (y-o-y)	-0.1	-2.0	-1.2	-0.3	-0.4	0.0	0.5	0.9	0.8	0.8	0.6
Capital accumulation (y-o-y)	3.3	0.7	0.6	1.5	1.7	1.5	1.1	0.9	0.8	0.8	0.9
Total factor productivity (y-o-y)	1.8	0.4	0.2	0.1	0.3	0.4	0.5	0.6	0.6	0.8	0.9
Current account balance (% of GDP), balance of payments	-11.9	2.5	1.8	1.3	-1.9	-0.4	0.9	2.2	.	.	.
Trade balance (% of GDP), balance of payments	-7.2	5.0	6.4	5.7	1.5	1.9	3.5	4.1	.	.	.
Terms of trade of goods and services (y-o-y)	1.4	0.4	-1.9	0.4	-0.5	1.4	1.1	0.3	1.3	0.2	0.1
Capital account balance (% of GDP)	1.2	3.4	3.5	4.1	3.4	2.6	1.1	2.1	.	.	.
Net international investment position (% of GDP)	-78.2	-80.1	-71.2	-54.8	-51.1	-50.1	-46.7	-40.9	.	.	.
Net marketable external debt (% of GDP) (1)	-21.9*	-33.0*	-19.6*	-3.9*	-1.3*	0.2	4.2	7.3	.	.	.
Gross marketable external debt (% of GDP) (1)	81.4	104.5	90.4	81.4	82.0	75.5	77.8	77.3	.	.	.
Export performance vs. advanced countries (% change over 5 years)	56.5	26.1	18.3	35.7	19.6	20.3	30.3	10.83	.	.	.
Export market share, goods and services (y-o-y)	6.6	-7.9	2.8	15.2	-2.3	3.7	1.0	-7.9	.	.	.
Net FDI flows (% of GDP)	-5.7	-2.4	-6.9	-10.6	-2.2	-1.0	-2.9	0.9	.	.	.
Savings rate of households (net saving as percentage of net disposable income)	-6.8	7.2	4.2	4.8	4.1	1.2	4.8	4.3	.	.	.
Private credit flow, consolidated (% of GDP)	19.3	-6.0	-7.6	-1.0	6.8	4.1	4.6	3.3	.	.	.
Private sector debt, consolidated (% of GDP)	111.1	153.2	140.4	120.4	117.8	115.9	116.7	116.6	.	.	.
of which household debt, consolidated (% of GDP)	39.0	57.0	53.4	45.6	41.9	40.2	39.7	40.7	.	.	.
of which non-financial corporate debt, consolidated (% of GDP)	72.2	96.2	87.0	74.8	75.9	75.7	77.0	75.9	.	.	.
Corporations, net lending (+) or net borrowing (-) (% of GDP)	-6.8	3.3	3.2	2.1	0.2	2.6	-0.8	3.4	1.0	1.5	1.3
Corporations, gross operating surplus (% of GDP)	31.9	25.1	29.8	32.9	32.6	32.5	31.5	28.2	26.3	26.1	26.3
Households, net lending (+) or net borrowing (-) (% of GDP)	-5.3	4.7	2.0	2.1	1.6	-0.5	1.0	-1.0	0.3	0.6	0.6
Deflated house price index (y-o-y)	12.2	-37.1	2.1	2.6	3.2	7.7	13.1	6.8	.	.	.
Residential investment (% of GDP)	5.2	3.1	2.7	2.7	2.9	3.4	3.9	4.4	.	.	.
GDP deflator (y-o-y)	7.8	0.4	1.7	5.3	3.2	3.9	1.7	1.0	2.4	3.1	3.0
Harmonised index of consumer prices (HICP, y-o-y)	5.8	0.2	2.7	5.1	4.2	3.2	0.5	0.1	0.8	2.8	2.8
Nominal compensation per employee (y-o-y)	14.7	-2.9	2.7	0.8	6.6	4.6	4.2	5.7	6.2	5.1	5.0
Labour productivity (real, person employed, y-o-y)	4.2	-5.0	7.6	1.0	2.6	0.2	2.0	-1.4	.	.	.
Unit labour costs (ULC, whole economy, y-o-y)	10.2	2.2	-4.6	-0.2	3.8	4.5	2.2	7.2	5.9	3.0	2.5
Real unit labour costs (y-o-y)	2.3	1.8	-6.2	-5.2	0.6	0.6	0.4	6.1	3.4	-0.1	-0.5
Real effective exchange rate (ULC, y-o-y)	7.8	1.1	-6.0	-2.0	-1.0	4.3	2.1	5.0	5.2	2.0	0.6
Real effective exchange rate (HICP, y-o-y)	2.9	2.0	-3.7	1.0	-0.8	2.9	2.6	0.8	1.6	-2.0	.
Tax rate for a single person earning the average wage (%)	19.4	18.6	19.4	19.6	19.9	19.5	19.6	18.4	.	.	.
Tax rate for a single person earning 50% of the average wage (%)	15.0*	14.8	15.5	15.9	16.6	16.4	16.7	15.6	.	.	.
Total Financial sector liabilities, non-consolidated (y-o-y)	25.4	-6.8	-2.6	-1.5	6.2	10.2	9.0	5.7	.	.	.
Tier 1 ratio (%) (2)	.	20.9	20.0	16.8	18.7	17.9	19.3	20.4	.	.	.
Return on equity (%) (3)	.	-0.5	7.5	-4.0	6.5	15.3	13.1	13.1	.	.	.
Gross non-performing debt (% of total debt instruments and total loans and advances) (4)	.	8.9	9.3	4.5	3.0	1.9	2.6	1.9	.	.	.
Unemployment rate	6.8	13.5	16.7	12.3	10.0	8.6	7.4	6.2	6.9	7.9	8.7
Long-term unemployment rate (% of active population)	3.3	3.7	7.6	7.1	5.5	3.8	3.3	2.4	.	.	.
Youth unemployment rate (% of active population in the same age group)	14.6	27.4	32.9	22.4	20.9	18.7	15.0	13.1	.	.	.
Activity rate (15-64 year-olds)	72.3	74.0	73.9	74.7	74.8	75.1	75.2	76.7	.	.	.
People at risk of poverty or social exclusion (% total population)	23.6	23.4	21.7	23.1	23.4	23.5	26.0	24.2	.	.	.
Persons living in households with very low work intensity (% of total population aged below 60)	7.6	5.6	9.0	10.0	9.1	8.4	7.6	6.6	.	.	.
General government balance (% of GDP)	1.3	-2.2	0.2	1.2	-0.3	-0.2	0.7	0.1	0.1	-0.5	-0.2
Tax-to-GDP ratio (%)	31.0	35.1	33.5	31.7	31.9	31.9	32.8	34.1	34.8	34.9	34.9
Structural budget balance (% of GDP)	.	.	0.1	0.0	-0.1	-0.6	-0.1	-0.1	0.2	-0.4	-0.2
General government gross debt (% of GDP)	4.4	7.0	6.6	5.9	9.7	10.2	10.7	10.1	9.9	10.1	10.0

(1) Sum of portfolio debt instruments, other investment and reserve assets.

(2,3) domestic banking groups and stand-alone banks.

(4) domestic banking groups and stand-alone banks, EU and non-EU foreign-controlled subsidiaries and EU and non-EU foreign-controlled branches.

(*) Indicates BPM5 and/or ESA95.

Source: European Commission, European Central Bank

2. PROGRESS WITH COUNTRY-SPECIFIC RECOMMENDATIONS

Progress with implementing the recommendations addressed to Estonia in 2016 has to be seen as part of a process which started with the introduction of the European Semester in 2011.

Estonia has achieved some progress on stabilising its labour supply. Since 2012, the country has been able to increase incentives to work, leading to a marked increase in labour market participation. In the context of local government reform, for which a country-specific recommendation was already in place in 2012, minimum requirements have been set for social services. These should result in higher quality services at local level and higher efficiency in implementing active labour market policies. In parallel, the merging of municipalities is continuing, which is expected to lead to economies of scale and efficiency gains. Progress has been slower on the gender pay gap, for which a country-specific recommendation exists since 2015. However, some progress has been made on the accessibility of childcare places and facilities. On the relevance of education and training systems (a challenge already identified in 2011), some progress has been made on vocational education and training. However, the fall in working-age population has only just started and may result in a tight labour market over several years.

Estonia has made some progress on R&D investment. Estonia has adopted and started implementing its R&D and innovation strategy and its entrepreneurship growth strategy, which together comprise its framework for cooperation between businesses and academia and for smart specialisation. Nevertheless, the Estonian research and innovation ecosystem remains fragile and faces persistent key challenges: low private investment in R&D, insufficient cooperation between businesses and academia, lack of an ongoing entrepreneurial discovery process, low efficiency of public R&D spending and shortage of skills.

Estonia has made some progress on energy efficiency. Between 2012 and 2014, substantial progress was made on major legislative initiatives aiming to reduce energy intensity, mainly in private and public buildings. However, progress remains limited on energy intensity in transport,

especially as new vehicles purchased in Estonia remain the most environmentally unfriendly in the EU. Finally, despite progress, Estonia will likely remain the most carbon-intensive economy in the EU, and keep one of the highest carbon intensity in energy use.

Overall, Estonia has made some progress in addressing the 2016 country-specific recommendations. Under **CSR 1**, some progress has been registered on adopting and implementing the local government reform and on ensuring the provision and accessibility of high-quality social services at local level. Specific examples of progress include: (i) adoption of the Administrative Reform Act in July 2016; (ii) successful completion of the voluntary phase of the merger of local municipalities in December 2016; (iii) ongoing implementation of the Social Welfare Act. Limited progress has been made on reducing the gender pay gap.

Under **CSR 2**, some progress has been made on promoting private investment in R&D and strengthening cooperation between business and academia. Notably, public research bodies have been given incentives to establish research contracts with businesses.

Table 2.1: Summary table on 2016 CSRs assessment

Estonia	Overall assessment of progress with 2016 CSRs: Some
<p>CSR 1: <i>Ensure the provision and accessibility of high-quality public services, especially social services, at local level, inter alia by adopting and implementing the proposed local government reform. Adopt and implement measures to narrow the gender pay gap, including those foreseen in the Welfare Plan</i></p>	<p>Some progress</p> <ul style="list-style-type: none"> • Some progress in ensuring the provision and accessibility of high-quality social services at local level • Some progress in adopting and implementing the local government reform • Limited progress in reducing the gender pay gap
<p>CSR 2: <i>Promote private investment in research, development and innovation, including by strengthening cooperation between academia and businesses</i></p>	<p>Some progress</p> <ul style="list-style-type: none"> • Some progress in promoting private investment in research, development and innovation • Some progress in strengthening cooperation between academia and businesses

Source: European Commission

Box 2.1: Contribution of the EU Budget to structural change in Estonia

Estonia is a major beneficiary of the European Structural and Investment Funds (ESI Funds) with an allocation up to EUR 4.5 billion till 2020. This is equivalent to 2.8% of GDP (over 2014-2017) and 47% of the expected national public investment¹. By 31 December 2016, an estimated EUR 1.8 billion, which represents about 40 % of the total allocation for ESI Funds, have already been allocated to concrete projects. Compared with 2007-2013 the use of financial instrument is planned to increase by 43%.

Financing under the European Fund for Strategic Investments, Horizon 2020, the Connecting Europe Facility and other directly managed EU funds is additional to the ESI Funds. By end 2016, Estonia has signed agreements for EUR 204 million for projects under the Connecting Europe Facility. The EIB Group approved financing under EFSI amounts to EUR 95 million, which is expected to trigger nearly EUR 628 million in total investments (as of end 2016)

ESI Funds helped progress on a number of structural reforms in 2015 and 2016 via **ex-ante conditionalities² and targeted investment**. Examples include the mapping of the healthcare infrastructure investment needs which has helped to re-launch investment and enhances the cost-effectiveness of and access to health care systems; the development of transport investment plans which have facilitated the development of mature road and railway projects; and revision and implementation of the OECD Public Governance review action plan, contributing to the on-going state reform (see section 3.6). These reforms have prepared the ground for better implementation of public investment projects in general, including those financed from national sources and from the other EU instruments mentioned above. Estonia has reported the completion of all ex ante conditionalities, except for the national climate change adaptation strategy (adoption planned in spring 2017). Administrative reform support is available through targeted financing under the European Social Fund, advice from the Structural Reform Support Service and, indirectly, through technical assistance.

The relevant CSRs focusing on structural issues were taken into account when designing the 2014-2020 programmes, such as prioritisation and specialisation in research and innovation systems and enhancing cooperation between businesses and academia (a programming target being to increase private sector R&D expenditure up to 2% of the GDP by 2023). Public services quality at local level, including via local government reform, is also being improved. The Work Ability Reform is expected to bring an estimated 15000 currently unemployed or inactive persons, with reduced work ability, to employment by 2020 (see sections 3.2.1 and box 3.5.1).

In addition to the challenges identified in past CSRs, **ESI Funds address wider structural obstacles to growth and competitiveness**. These include ensuring access to high-speed internet for the whole population, investment in sustainable transport with the aim of doubling the number of train passengers per year (from 4.2m in 2013 to 8.4m in 2023) and increasing the share of public transport users to 50% by 2023 (42.8% in 2015), as well as helping to improve the labour market

¹ National public investment is defined as gross capital formation + investment grants + national expenditure on agriculture and fisheries

² At the adoption of programmes, Member States are required to comply with a number of ex-ante conditionalities. For Members States that do not fulfil all the EACs by the end 2016, the Commission has the possibility to propose the temporary suspension of all or part of interim payments. The analysis of the fulfilment of the EACs will be finalised in the course of 2017.

(Continued on the next page)

Box (continued)

relevance of education and training systems and reforming the general education school network.

<https://cohesiondata.ec.europa.eu/countries/EE>

3. REFORM PRIORITIES

3.1. PUBLIC FINANCES AND TAXATION

3.1.1. FISCAL FRAMEWORK

Estonia's public finances are sound with a very low public debt and a general government fiscal position in surplus. The fiscal framework has been strengthened by the State Budget Act that entered into force on 23 March 2014, establishing the Fiscal Council and making the long-standing commitment to prudent budgeting part of the law.

Estonia's fiscal framework relies on the structural balanced budget rule, but it does not make use of binding multi-annual expenditure targets or expenditure rules, which may limit the counter-cyclicality of the fiscal framework. The cornerstone of Estonia's medium-term fiscal planning is the balanced budget rule in structural terms. By contrast, expenditure rules and binding expenditure targets are underused. The difficulties in establishing precisely the real-time cyclical position in a very open small economy like Estonia may, however, create uncertainty and limit the counter-cyclical properties of the fiscal framework.

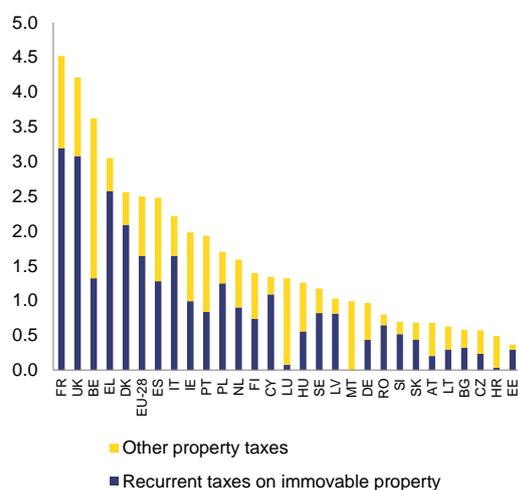
An independent Fiscal Council is fully operational, but practical experience has revealed some procedural shortcomings in the current operational setup. The mandate of the Fiscal Council is to assess the economic forecasts that serve as a base for Estonian fiscal policy and to observe whether the national fiscal rules are followed. In its September 2016 opinion, the Fiscal Council pointed to a procedural issue in the assessment of the forecasts: the current operational setup does not ensure that the Fiscal Council's opinion reaches the government before it approves the draft budget for the next year. This was notably the case with the 2017 draft budget, due to some delays in the usual state budget preparation schedule.

3.1.2. TAXATION FRAMEWORK

In 2016, Estonia's tax revenue is projected to be 34.0 % of GDP (33.7 % in 2015), well below the 40 % average for the EU-28. The tax system is relatively growth-friendly, with indirect taxes

above the EU-28 average and labour taxes below the average. The corporate income tax system is investment-friendly as companies benefit from a complete deferral of tax obligations until the profits are distributed. The new government plans to introduce a reduced rate — 14 % vs the standard 20 % — for companies that distribute profits regularly.

Graph 3.1.1: Tax revenues from property taxes as percentage of GDP (2014)



(1) Data does not include personal income tax on imputed rents.

(2) There is no recurrent real estate tax in Malta.

Source: European Commission (2016a)

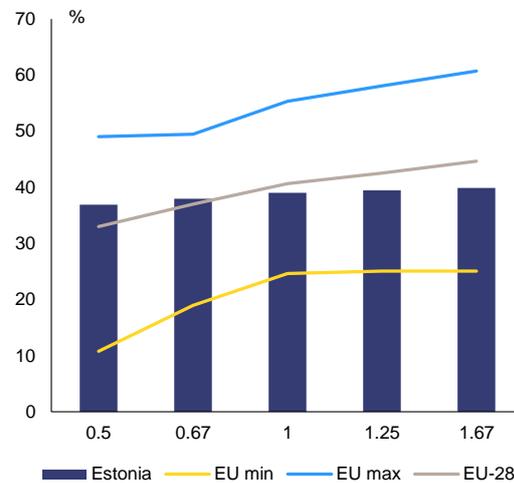
The Estonian tax system regularly ranks high on the competitiveness index (Tax Foundation, 2016) and performs well on measures of tax administration efficiency. In 2014, it took 81 hours a year for a medium-sized company to comply with tax obligations, which is the second lowest indicator in the EU-28 (World Bank, 2016). In 2013, the administrative costs of tax authorities amounted to 0.4 % of tax collected, again the second lowest in the EU-28. Over recent years, Estonia has introduced a number of measures to increase compliance, such as an employment register and additional reporting obligations for VAT. These were described in more detail in the 2016 Country Report. In 2014, the VAT gap stood at 10 % of the VAT total tax liability, down by over a third from the year before and below the

EU-27 average of 14 % (European Commission, 2016b).

Estonia continues to pursue a policy of shifting its tax burden away from labour and the government is taking measures to reduce the tax wedge on low-income earners to improve work incentives. In 2015, the income tax rate was lowered by 1 pp. to 20 %, unemployment insurance tax was reduced from 3 % to 2.4 % and the tax free allowance was increased. However, the previous government's reduction of social security tax by 1 pp. by 2018 was repealed and the social security tax will remain at 33 %. Due to the flat personal income tax system and relatively low tax free allowance, the tax wedge on low-income earners in Estonia is above the EU average, while it is below the EU average for high income earners (see Graph 3.3.3).

To further reduce the tax wedge on low-income earners, the government plans to raise the tax free allowance to EUR 500 per month by 2018 from EUR 170 per month in 2016. The tax free allowance for people earning more than the average salary will decrease gradually and reach zero once a person's salary exceeds EUR 2 100 per month, adding an element of progressivity to Estonia's income tax system. As a result, the tax wedge for a single earner with no children earning 50 % of the average wage is expected to decrease to around 30 % from 37 % in 2015. The government plans to abolish the refund scheme that was introduced in 2016 targeting low-income earners as the increase in the tax free allowance makes this mechanism redundant.

Graph 3.1.2: Tax wedge on single earners, various income levels (2015)



Source: European Commission on OECD Tax-benefit models

Estonia underuses tax categories like recurrent property taxes and transport taxes, which are among the least detrimental to economic growth. Total revenue from property taxes stood at 0.4 % of GDP in 2014. This was the second lowest in the EU and considerably lower than the EU-28 average of 2.5 %. In 2014, environmental taxes were above the EU-28 average. Most environmental taxes came from taxes on energy. By contrast, transport taxes were the lowest in the EU-28, accounting for 0.17 % of total tax revenue. Estonia does not have any vehicle taxation apart from a circulation tax for heavy goods vehicles. However, there are concrete plans to introduce a time-based road charging scheme for heavy goods vehicles and discussions are ongoing on the possibility of introducing a CO₂ emission-based car registration tax (see Section 3

3.2. FINANCIAL SECTOR

3.2.1. BANKING SECTOR

Credit growth is strong in Estonia, opening up the prospect of a future funding gap. Average private-sector loan growth reached 10.1 % in November 2016. Apart from a considerable rise of lending to households and non-financial corporations (NFCs), the increase was driven by the surge in loans to financial intermediaries, in particular car leasing companies. The growth in car leases was stimulated by rising household incomes, demand for new cars in light of the relatively old vehicle stock as well as by low interest rates (Bank of Estonia, 2016). At the same time, private sector deposits increased 9.3 % y-o-y. The financial sector has not felt funding constraints, but, if the trends continue, local deposits may prove insufficient to cover the future credit expansion. Loans from foreign parent banks are so far filling in the gap.

Financial soundness indicators suggest that the banking sector is stable. Banks were well capitalised, with an average Tier 1 ratio of 34.3 % in mid-2016, the highest level in the EU (Table 3.2.1). The quality of bank assets remains good. The average ratio of non-performing loans (NPLs) decreased from 2.6 % in 2014 to 1.8 % in 2016. Loan-loss provisions covered 58 % of outstanding NPLs, a level above the euro area average (49 %). The share of non-resident deposits, which accounts for about 11 % of total deposits in the banking system, has slightly diminished, thus reducing the banking sector's exposure to volatility risks. Since 2011, the banking sector has been highly profitable. In 2015, both the return on equity (6.8 %) and on assets (1.1 %) were far above their euro area averages (4.4 % and 0.3 % respectively).

Specific external risks stem from the dominant position of Nordic financial groups in Estonia. Potential financial stress in the Swedish banking system, e.g. caused by a correction in housing prices, could have an indirect adverse impact on Estonia (Bank of Estonia, 2016)⁽⁵⁾.

⁽⁵⁾ For an analysis of potential financial spill-overs in the Baltic-Nordic region, see the 2016 Country Report for Sweden (European Commission, 2016c).

Table 3.2.1: **Financial soundness indicators – All banks in Estonia**

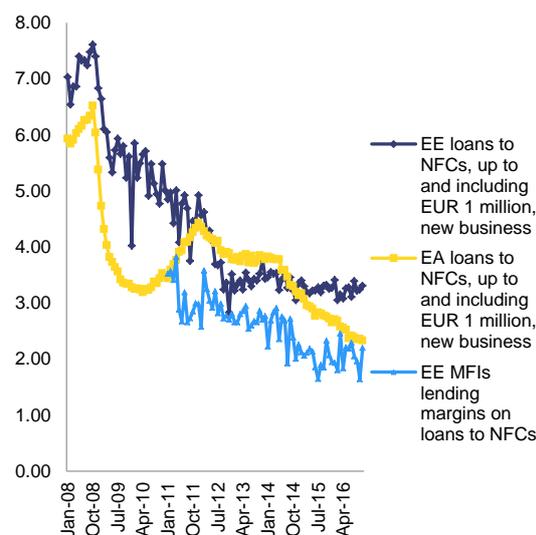
(%)	2010	2011	2012	2013	2014	2015	2016Q2
Non-performing loans	9.3	4.5	3.0	1.9	2.6	1.9	1.8
Coverage ratio	85.0	53.4	75.0	75.3	43.9	52.2	57.7
Loan to deposit ratio*	162.8	144.5	134.4	128.9	124.0	122.1	123.5
Tier 1 ratio	12.7	18.5	22.8	22.7	41.3	34.9	34.3
Return on equity	3.6	22.9	11.7	10.7	9.7	6.8	-
Return on assets	0.4	3.1	2.0	1.8	1.6	1.1	-

(1) ECB aggregated balance sheet: loans excl. to gov. and MFI / deposits excl. from gov. and MFIs.

Source: ECB CBD

The cost of credit for Estonian companies remained relatively high, despite falling interest rates in the euro area (Graph 3.2.1). While the average interest on corporate loans in the euro area was falling until end-2016, in Estonia both the interest charged and the margins were unchanged.

Graph 3.2.1: **Credit cost for firms**



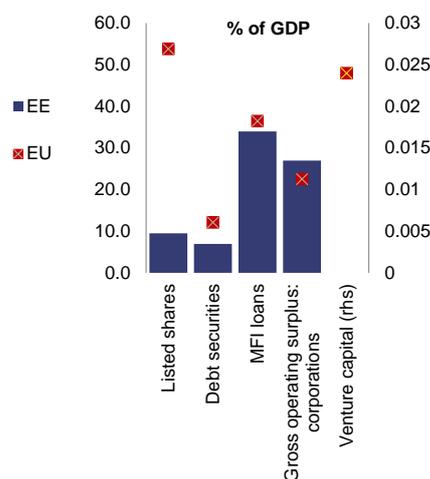
Source: European Central Bank

The relatively high cost of credit might be linked to the high degree of concentration of the Estonian banking sector. With four dominant banks sharing a relatively small market, the level of competition is rather low.

The Estonian capital market has substantial development potential. Equity, debt securities and venture capital may complement bank loans as a source of funding for companies. Currently, however, banks still play a dominant role. The total loans stock is equivalent to 34 % of GDP (Graph 3.2.2). Funds raised by companies on the stock market amount to 9.5 % of GDP. The equity

market is shallow when measured in terms of local capitalisation, but the stock exchange is fully integrated into the Nordic OMX-Nasdaq group, giving it a higher development potential. The role of corporate bond issuing is relatively high compared to the other Baltic markets. The outstanding stock of corporate bonds amounted to 6.9 % of GDP, a little below the EU average. The annual gross operating surplus of Estonian companies is higher than on average in the EU, suggesting that companies have the potential to finance investment from their retained profits. However, profits are declining, limiting investment in riskier or intangible assets (see Section 3.4).

Graph 3.2.2: Funding of non-financial corporations (2015)



Source: European Central Bank, AMECO

3.2.2. ACCESS TO FINANCE

Access to finance in Estonia remains good, but the proportion of the SMEs seeking external financing is below the EU average⁽⁶⁾. According to the European Commission's Small Business Act factsheet for Estonia, the country is among the best performers in the EU on access to finance, with a steady improvement trend since 2008. Collateral requirements and guarantees are still considered a problem by smaller and newly created companies.

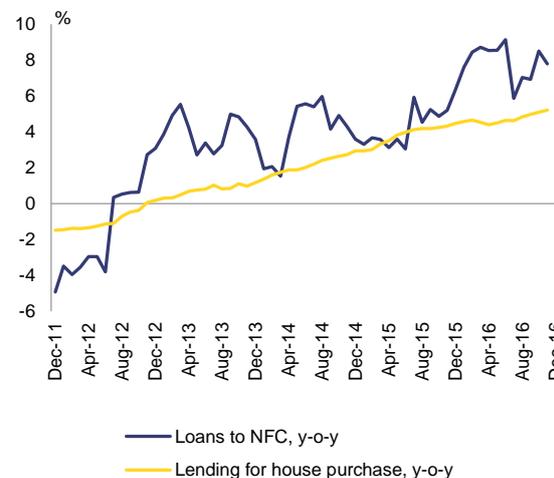
⁽⁶⁾ According to the SAFE survey 2016, 74 % of Estonian SMEs find debt financing an accessible option while for the EU average the share is 85 %. Debt financing includes credit line, bank overdraft or credit cards overdraft + leasing or hire-purchase + factoring + trade credit + bank loan + other loan + grants or subsidised bank loan + debt securities issued.

However, the Estonian Government is addressing this issue by providing additional loan guarantees through KredEx. At the end of 2015, KredEx raised the maximum amount that can be guaranteed to EUR 5 million.

Estonia is a leading EU Member State in venture capital investments (0.136 % of GDP)⁽⁷⁾, despite a deteriorating performance.

In 2016, to support start-ups in the country, a new Fund of Funds, EstFund, was launched by the Ministry of Economic Affairs and Communications, KredEx and the European Investment Fund. It will invest EUR 60 million from the European Regional Development Fund and the European Fund for Strategic Investments, and plans to attract an additional EUR 40 million from private investors. It will complement the Baltic Innovation Fund by providing smaller equity investments, mainly to earlier stage innovative companies with high-growth potential.

Graph 3.2.3: Lending trends - To non-financial corporations (NFC) and for house purchases



Source: European Central Bank

3.2.3. HOUSING MARKET

Risks stemming from the housing market persist, but can be considered as contained. Lending growth for house purchases increased (see

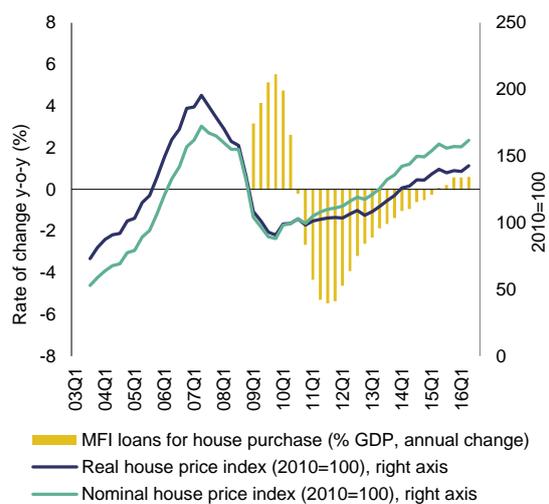
⁽⁷⁾ The definition of Venture capital investments is based on market statistics. Three-year averages have been used to reduce volatility. Venture capital statistics are obtained directly from Invest Europe (European Commission, 2016d).

Graph 3.2.3) but remained moderate as a share of GDP (see Graph 3.2.4), while house price increases have slowed in 2016, as supply caught up with demand.

Mortgage borrowing is controlled by the macro-prudential measures adopted by Estonia's central bank. The measures were tightened in 2015⁽⁸⁾, but since then the central bank has kept them stable.

The new government's programme includes reducing mortgage debt incentives for households, notably through a substantial reduction in the possibility to deduct mortgage interest from tax bills. The income tax deductibility ceiling is set to decrease from EUR 1 200 per year to EUR 300.

Graph 3.2.4: **Changes in the house price index and commercial loans for house purchase - Estonia**



(1) MFIs: monetary financial institutions.

Source: Eurostat, ECB, European Commission.

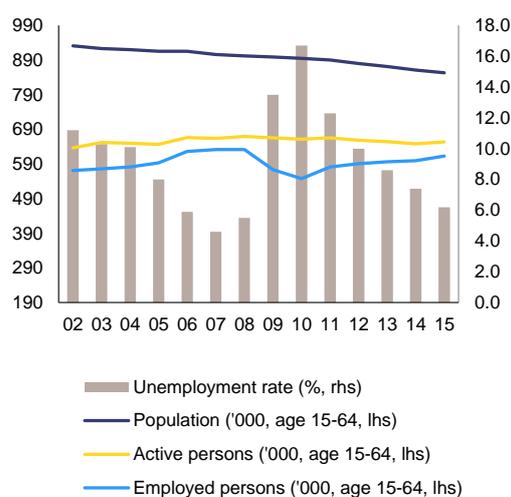
⁽⁸⁾ For analysis of the macro-prudential measures, see European Commission (2016e).

3.3. LABOUR MARKET, EDUCATION AND SOCIAL POLICIES

3.3.1. LABOUR MARKET CHALLENGES

Estonia has one of the best performing labour markets in the EU. Activity and employment rates are above the EU average and rising. At the same time, the unemployment rate (including the long-term and youth unemployment rate) and the number of people not in education, employment or training (NEET) rate are below the EU average and continue to decrease. For high-skilled workers, unemployment was as low as 5.3 % in Q3-2016. Recently, the rising activity rate among the elderly has helped to boost labour supply. However, as the ‘Work Ability’ reform aims to entice retirees back to the labour market (see below), the workforce is expected to grow faster than employment over the coming years. As a result, unemployment is projected to increase from about 6.8% in 2016 to above 8.0% in 2018.

Graph 3.3.1: **Tightening of the workforce**



Source: Eurostat

The main challenges stem from the declining working-age population, mostly due to negative natural change (see Graph 3.3.1). Negative net migration was a contributing factor over the past decade, but has now reversed, likely due to rising wages, less employment opportunities in Finland and more at home. In 2016, 13.6 % of employers in industry reported that a shortage of labour is constraining their business⁽⁹⁾. Reflecting the tightening labour supply, strong wage pressures

⁽⁹⁾ Based on European Business Survey data, available through Eurostat, variable ei_bsin_q_r2. The corresponding EU average stood at 10.6 %.

have built up (see Section 3.4 for additional analysis).

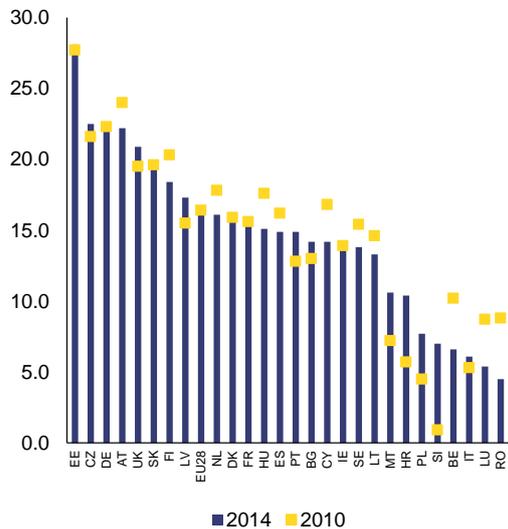
The ‘Work Ability’ reform

The ‘Work Ability’ reform, which took effect in January 2016, is expected to bring a significant number of people on work-incapacity pensions back to the labour market. The reform offers targeted activation support services for individuals with reduced work ability (European Commission, 2016e). The methodology for assessing the ability to work has been changed, the benefits scheme has been revised, and entitlements to allowances have been made more conditional on people who still have some ability to work actually searching for a job. Individuals with reduced ability to work are making extensive use of active labour market policies. Between January and December 2016, the share of individuals with reduced ability to work among the unemployed rose from 12.8 % to 18.7 %. As of 1 January 2017, all beneficiaries under the old incapacity pension scheme will have their ability to work reassessed under the new Work Ability Allowance Act.

Gender pay gap and employment of young mothers

While Estonia has one of the highest employment rates of women across the EU, it also has the highest gender pay gap in the EU. Data from the Structure of Earnings survey show that between 2010 and 2014, the unadjusted gender pay gap slightly increased from 27.7 % to 28.1 % (see Graph 3.3.2). The high gap in wages between men and women is driven to a large extent by sectoral and occupational segregation, but a large proportion of the difference in wages remains unexplained by observable factors (European Commission, 2016e, p. 42-43). The government is taking several actions to address this challenge, and additional measures are currently under discussion.

Graph 3.3.2: Gender pay gap in unadjusted form



Note: The gender pay gap is calculated as the difference between the average gross hourly wages of male and female paid employees, as a % of wages of male employees. Data are based on data from the Structure of Earnings data and cover the Industry, construction and services sector (exc. public administration, defence and social security) and excludes workers from companies with less than 10 employees.

Source: Eurostat

The 2016-2023 welfare development plan, which also covers gender equality, was adopted in June 2016 and is now being implemented. One out of the plan's four main areas is gender equality and the aim to ensure equal rights, responsibilities and opportunities for men and women in all areas of society. Measures are planned to: (i) improve the gender balance among teachers; (ii) tackle gender stereotypes at school in career counselling and entrepreneurship studies; and (iii) raise awareness among entrepreneurs and through media channels. A guidance note to help using transparent and objective criteria for assessing and comparing work is being finalised and a study on gender equality monitoring is also under way. In addition, changes to the Gender Equality Act are being discussed. These would give the Labour Inspectorate the task of monitoring gender equality in the private sector more closely, including by collecting gender-disaggregated wage data. The Labour Inspectorate would also offer training on how to address the gender pay gap and disseminate wage gap information publicly. The amendment is planned to be submitted to the government in spring 2017 and will come into force by 2018 at the earliest.

Changes to the parental leave system are currently under discussion. Since 2016, the parental leave system comes under the Family Benefits Act, which consolidates all previous legislation on family benefits. The parental leave system in Estonia is generous compared to other countries, entitling parents to 18 months of leave at full wage replacement rates and giving them the right to return to their old job until their child's third birthday. These long parental leaves, which are almost always fully taken up by women, contribute to gender pay gaps⁽¹⁰⁾. The Ministry of Social Affairs has ordered an analysis of the system, involving social partners and relevant stakeholders. In February, the government discussed the analysis and proposals on making one part of the parental leave entitlement flexible and divide the other part between parents, on a non-transferable basis, and will continue discussions in March. These proposals would support the participation of women in the labour market and the sharing of child-raising duties between parents.

Measures being considered by the Estonian authorities in order to improve access to childcare and long-term care may boost the labour supply of women and mitigate the gender pay gap. Labour force survey data indicate that around 3.8 % of the population aged 20-64 is inactive because they are taking care of children or incapacitated adults. This is the sixth highest level in the EU, after the UK, Slovakia, the Czech Republic, Ireland and Hungary. As these responsibilities usually fall on women, they may contribute to gender inequalities in the labour market. Access to long-term care is still weak in Estonia, more particularly due to a shortage of staff, especially nurses, in rural areas. At the same time, institutional long-term care is too expensive and does not include provision for services on demand. The 2016-2023 welfare development plan includes a number of measures to relieve this care burden. The task force on analysing long-term care burden is expected to prepare policy guidelines and solutions by the end of 2017. Provision shortages have still been signalled in childcare for 0-3 year-olds. However, provision of childcare is

⁽¹⁰⁾ Estonia has a very significant impact of parenthood on employment among women (-22.1 percentage points for mothers of one child under 6 compared to women without children, whereas the EU average is -8.6 percentage points).

improving, there are 400 vacancies in Tallinn, including for 1.5-3 year olds.⁽¹¹⁾ The European Regional Development Fund is used to create up to 2 300 new childcare places in bigger cities and suburbs and the European Social Fund to finance support person services, various care services and transportation services of disabled children and adult people in 2015-2020.

Pension reform and labour supply

In recent years, the employment rate of older people has increased substantially, reflecting also the gradual rise in the statutory pension age. The previous government agreed to link the official retirement age to life expectancy as of 2027⁽¹²⁾ and to abolish special pensions for members of the defence forces, prosecutors, police and border guard officials and retirement regimes for workers in arduous or hazardous jobs. The employment rate of workers in the age group 55-64 increased from 53.8 % in 2010 to 64.5 % in 2015 and is now among the highest in the EU. Employment rates for older female workers are particularly high compared with the EU average. High employment rates of individuals past retirement age may also be motivated by financial reasons. There are some plans to raise pension adequacy (see Section 3.3.3).

3.3.2. EDUCATION AND SKILLS

Performance in basic skills remains one of the highest in the EU and worldwide. The 2015 OECD Programme for International Student Assessment (PISA) shows that among EU countries Estonia has the lowest proportion of low achievers in mathematics (11 %) and science (9 %) and the second lowest in reading (11 %). However, the proportion has slightly increased in all three tested subjects since 2012. Gender gaps and the impact of socioeconomic status on performance are one of the lowest in the EU, indicating that the education system is equitable at this level. The average scores obtained by Estonian students are some of the highest in the world, and the share of high performing students increased in reading (11 %) and science (13.5 %). These show the high

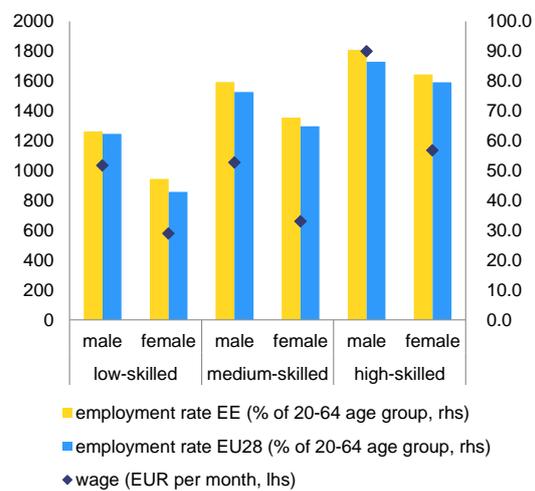
⁽¹¹⁾ <https://info.haridus.ee/Asutused/Nimekiri/LF>

⁽¹²⁾ The retirement age is already due to rise gradually to 65 in 2026 from 63 currently.

quality of the Estonian basic education system. However, the gap between Estonian and Russian-medium schools remains important.

Reducing early school leaving remains a challenge in the context of the increasing demand for high-skilled workers. The share of early school leavers was 11.2 % in 2015 and is around the EU average, but above Estonia's 2020 target (9.5 %). The figure masks significant differences between rural and urban areas and remains significantly higher for men than for women (13.2 % vs 9 % in 2015). Drop-outs are particularly a problem in the first year of upper secondary vocational educational training (VET) (22.4 % in 2016), but it is on a decreasing trend. Contributing factors are insufficient counselling and alternative labour market opportunities. Authorities are financing 16 projects totalling EUR 2.6 million (0.01 % of GDP) to increase the number of early school leavers returning to education.

Graph 3.3.3: Labour market outcomes by skills level and by gender



(1) Wages are measured as gross monthly fulltime equivalent wages, based on self-reported data. They mostly refer to 2013 incomes (latest available data). Employment rates refer to 2015 (latest available annual data).

Source: Eurostat – Labour Force Survey data - 2015

Despite recent improvements, vocational education and training remains relatively unattractive. Estonian authorities aim for a 35 %-65 % share of basic school graduates pursuing VET as opposed to general secondary education. In practice, the ratio remains around 27 %-73 %. There was some progress on implementing

measures to raise the proportion of VET students in apprenticeships⁽¹³⁾. The drop-outs of students enrolled in apprenticeship programmes show improvement, having dropped from 31.4 % in 2010/11 to 21.4 % in 2015/16 (the lowest point in six years).

Part of this lack of attractiveness may stem from the fact that VET skills at the upper secondary level are not strongly rewarded in the labour market. While employment rates in Estonia are strongly correlated with qualification levels, this correlation is not observed in wages: low- and medium-skilled workers obtain similar wages, whereas high-skilled workers earn around 70 % more (see Graph 3.3.3)⁽¹⁴⁾.

To mitigate skills shortages, the government is taking measures to strengthen the higher education funding model. The level of tertiary attainment (ages 30-34) exceeds the EU average (45.3 % in 2015 compared to 38.7 %), but the gender gap remains significant, with 56.7 % of women obtaining tertiary education compared to 34.5 % for men. However, the high drop-out rate from Bachelor's programmes is a challenge. The government revised the tertiary education funding model to improve stability of funding and improve performance-based indicators.

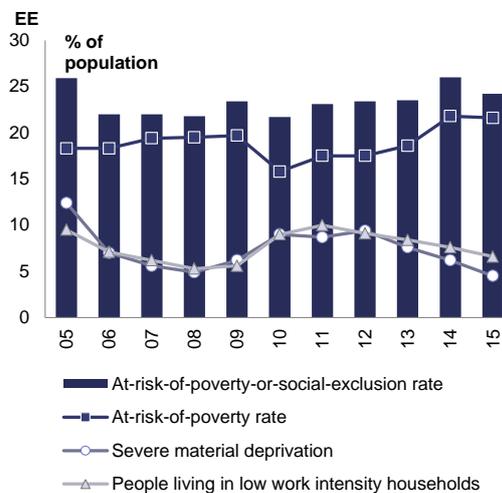
A public system for monitoring and forecasting labour market needs and skills (OSKA) is being developed to improve the labour market relevance of education. Overall, employability of recent tertiary education graduates (86.1 % in 2015) and upper secondary VET graduates (83.5 %) is above the 2015 EU averages of 81.9 % and 73 % respectively. Nonetheless, OSKA identified shortages in certain fields and pointed to the need to update skills to meet the changing labour market demands. This is the first time different Estonian economic sectors are being systematically analysed using the same methodology. The aim is to stimulate discussion on how the sectors and skills needed in these sectors are expected to change in the next 10 years.

⁽¹³⁾ The number of participants almost doubled to over 1 200 in 2016 and the number of educational establishments that offer the training is higher than ever before.

⁽¹⁴⁾ Other sources, based on recent graduate figures, point to a ratio of only 50 % (Estonian Ministry of Education and Research).

To address skills shortages, Parliament eased existing restrictions on economic immigration in December 2016. The wage requirement has been lowered to the level of the average wage for certain categories of workers. An important step from the perspective of Estonia's IT sector was taken already in May 2016, when ICT sector specialists were excluded from the immigration quota.

Graph 3.3.4: At-risk-of-poverty or social exclusion rate and its components (AROP, SMD, LWI)



AROPE: At-risk-of-poverty or social exclusion rate (% of total population). People who are at-risk-of-poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI). AROP: At-risk-of-poverty rate (% of total population). People who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week or holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv set, or ix) have a telephone. LWI: People in low work intensity households (% of population 0-59). People living in households where the adults (excluding dependent children) work less than 20% of their total work-time potential during the previous 12 months. AROPE, AROP: previous year income, SMD: current year, JLH: previous year. Source: Eurostat, EU-SILC

3.3.3. SOCIAL POLICY (POVERTY, SOCIAL ASPECTS OF SOCIAL SECURITY SYSTEMS)

In 2015, the at-risk-of-poverty-or-social-exclusion (AROPE) rate in Estonia stood at 24.2 %, down from 26 % in 2014 but still slightly above the EU average (see Graph 3.3.4). The severe material deprivation rate declined from 6.2 to 4.5 %, significantly below the EU average.

The AROP rate is particularly high for people living on benefits (54.8 % for the unemployed, one of the highest figures in the EU in 2015, and 39.8 % for retired people above 65, also among the highest in the EU in 2015). However, the rate of in-work poverty (10.3 % for age group 18-64) is also above the EU average. The poverty reducing effect of social transfers fell sharply between 2010 and 2015, going from over 36 % in 2010 to just 22 % in 2015, one of the lowest figures in the EU.

The level of the unemployment benefits is comparatively low in Estonia (Langenbacher, 2015). These have two components: an earnings-related unemployment insurance benefit and a means-tested unemployment allowance funded from the state budget. The levels of both benefits are comparatively low. The minimum levels of the unemployment insurance benefits and the unemployment allowance are set 50% and 35% respectively of the minimum wage. From 2017 the daily rate of unemployment allowance is EUR 4.86, up from EUR 4.41 in 2016, and the rate for 31 days EUR 150.66, which is lower than the absolute poverty line.

Benefits under the minimum income scheme are low, but have increased recently. The subsistence benefit scheme provides a top-up to household income (after paying for housing costs) to reach a certain threshold meant to guarantee families or single people a certain minimum subsistence level. This threshold level was raised in 2016 from EUR 90 to EUR 130 for the first person in a household and for every child and has remained unchanged in 2017.

Child-related benefits have also recently increased. Estonia is unusual in that it shows higher poverty and material deprivation rates for households without children than for those with children. A possible explanation for this is that while spending on general social safety nets is very low in Estonia, spending on family benefits is more in line with that of other EU countries.

The at-risk-of-poverty (AROP) rate for the retired elderly (65+) has increased since 2010 and stood at 39.8 % in 2015, one of the highest rates in the EU. Severe material deprivation for this group stood at 5.7 % in 2015, down from 6.7 % in 2014 and slightly above the EU average of 5.1 %. At 70 %, the median replacement rate of

old-age pensions is among the lowest in the EU. With rapid wage growth witnessed over the past decades, previous wage levels are no longer in line with current living standards, even if pensions are regularly indexed. On 19th of January, the Government gave guidance for drafting a legislative package on increasing the adequacy of the pension system. It agreed to raising solidarity of the first pillar by making the benefit levels contingent on only contribution periods from 2037 (and not on previous wage levels) and by changing the pension index (e.g. by basing it 100% on social security budget growth and the number of pensioners from 2023). Furthermore, from 2017 an additional annual allowance of EUR 115 will be paid to pensioners who live alone.

Implementation has started of the Social Welfare Act, which governs the new minimum standards for social services provision. The possibility of centralised monitoring of local-level services (for example by the Social Insurance Board) is currently being discussed, with possible implementation as of 2018. The 2016-2020 action plan for the 2016-2023 welfare development plan contains measures to make social services more effective. Accessibility to social services has already been increased by ESF-funded projects that set joint provision of services between municipalities as a precondition for participation.

3.3.4. HEALTHCARE SYSTEM

Life expectancy, healthy life expectancy, preventable mortality and mortality from cardiovascular disease and cancer in Estonia are worse than the EU average⁽¹⁵⁾. The associated health problems impact adversely on the work ability and productivity of the population and on economic growth. Lifestyle factors are a major cause of these health problems. In response, Estonia's 2009-2020 national health plan puts major emphasis on health promotion and disease prevention.

⁽¹⁵⁾ In Estonia, life expectancy at birth in 2014 was 77.4 years compared to an EU average of 80.9. Preventable mortality in 2013 in Estonia was at 302 deaths per 100 000 inhabitants, with the EU average being 204. In 2014, mortality in Estonia due to diseases of the circulatory system was at 718 deaths per 100 000 inhabitants, as opposed to an EU average of 383.

Estonia faces challenges in achieving care integration, coupled with a shortage of nurses (World Bank, 2015 – OECD/EU, 2016). There are weaknesses in the coordination of care, sometimes leading to unnecessary hospitalisation and ambulatory specialist care, and reduced quality of patient care after a hospital stay. These are important aspects in the context of an ageing population with an increasing prevalence of non-communicable diseases. The authorities have started taking action, with their priority being to strengthen the capacity and coordination role of primary care. The 2016 national reform programme included the development of patient-centred integrated healthcare and social services. A pilot project has begun to develop an integrated model of social, primary care and county hospital services. The Estonian Health Insurance Fund has published indicators to measure the integration of treatment as part of the hospital network development plan. The new eHealth strategy also addresses the integration of health and social care services. However, Estonia faces a shortage of nurses, which can pose risks to the success of plans for care integration and management of chronic diseases⁽¹⁶⁾.

Unmet needs for medical examination due to waiting time continue to be the highest among all Member States. The percentage of people in Estonia who reported these unmet needs is 10.1 % of the population, versus an EU average of 1.1 %. Access difficulties exist in relation to specialised medical care, for instance in areas such as narrow surgical specialties, ophthalmology, rehabilitation and specialist paediatrics. Major reasons for the long waiting times are scarce financing affecting the capacity of the system, over-demand by patients and lack of mandatory referral from primary care for some specialties. Action by the authorities to improve the situation includes: enhancing collaboration between primary care, regional hospitals and county hospitals in ensuring availability of specialised medical care (with investments from the European Regional Development Fund); training and financial support to strengthen the healthcare workforce; taking advantage of eHealth services (more e-

consultations and e-referrals, and a central e-registration system for all public hospitals to be in place by 2017).

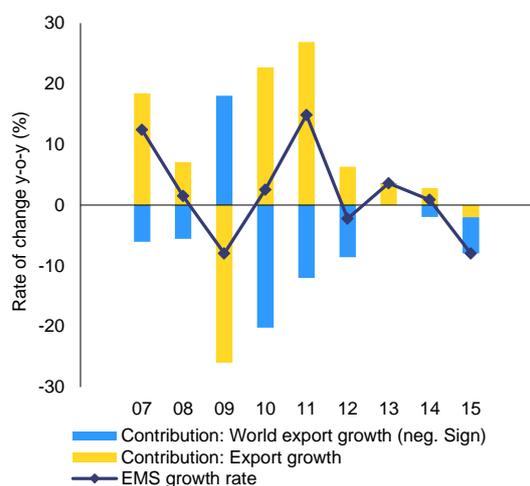
The health system is fiscally sustainable in the long run, but the adequacy of its financing is an issue of concern. In the medium to long term, healthcare spending is expected to increase by 0.6 pp. to 1.3 pp. of GDP by 2060, according to the 2015 Ageing Report's baseline and higher risk scenario respectively. These increases are lower than in other EU countries and show that the system in its current form is sustainable in purely fiscal terms. However, the need for care is set to increase in the context of an ageing population and a growing number of chronically ill people. For instance, the age-standardised prevalence of diabetes in Estonia's male population rose from around 6 % to approximately 8 % between 1980 and 2014 (WHO Diabetes country profiles 2016). The Estonian Health Insurance Fund has already been experiencing some budgetary deficits in recent years, which are for the time being covered by its reserves. Since the Fund is currently financed from social contributions, a projected increase in the share of financially non-contributing individuals due to population ageing could exhaust the Fund's reserves. These factors suggest that the financial resources of the health system may be too limited to provide sufficient care to the population. The government has started discussing options to expand the revenue base for healthcare financing.

⁽¹⁶⁾ With 566 practising nurses per 100 000 population, the figure for Estonia is below the EU average of 839. The ratio of nurses to doctors is 1.7, compared to an EU average of 2.5 (OECD/EU, 2016).

3.4. INVESTMENT

3.4.1. COMPETITIVENESS AND INVESTMENT

Graph 3.4.1: Export market share growth by value of goods and services

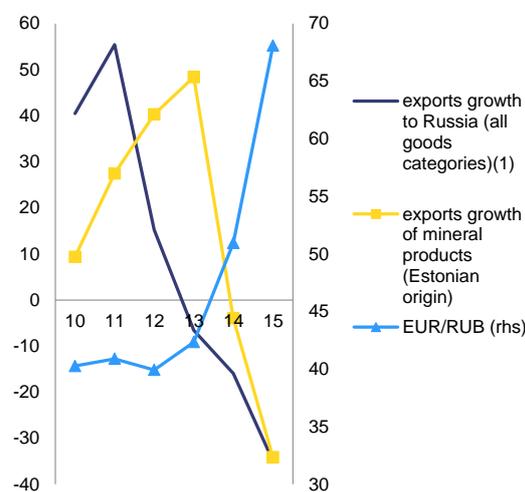


Source: European Commission

Market share developments

After falling in 2015, Estonia's exports recovered in 2016 and further improvements are expected going forward. The fall in exports in 2015 (Graph 3.4.1) took place against the background of two adverse factors: (i) Estonia's energy production based on oil shale suffered as global energy prices fell by around 40 %; (ii) in parallel, a sharp depreciation of the Russian rouble in late 2014-early 2015 exacerbated the decline in exports to neighbouring Russia, which had been initiated by trade sanctions and countersanctions (Graph 3.4.2). In 2015, exports of goods to Russia dropped by 35 %, even more than in the two previous years. Moreover, exports of services decreased by almost 22 %, as transit trade with Russia further contracted. However, while both factors have been fading in importance, expansion to other markets already outweighs the weak trade with Russia. Consequently, the country's total exports are estimated to have grown by around 3.3 % in 2016 and are expected to accelerate further in the medium term.

Graph 3.4.2: Estonia's exports of goods to Russia and exports of mineral fuels (y-o-y change in %) – euro/rouble exchange rate



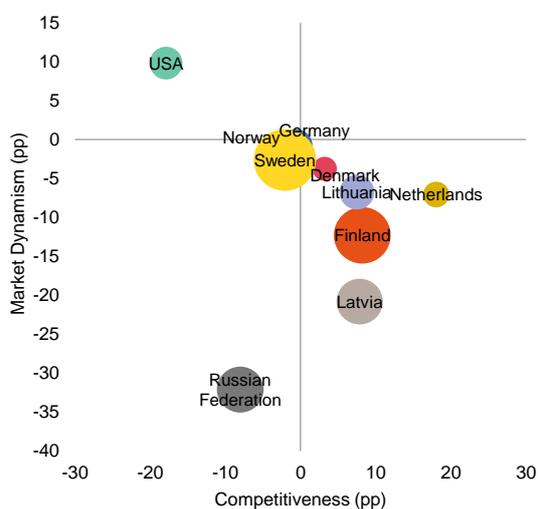
(1) * About 9% of Estonia's exports are directed to Russia.

Source: Statistics Estonia

Estonia maintained its overall competitiveness vis-à-vis western European trading partners, (Graph 3.4.3). In 2015, Estonia gained competitiveness towards Finland, Latvia, Lithuania, the Netherlands and Denmark. Conversely, it lost competitiveness towards Sweden and Norway, which underwent currency depreciation, although less severely than Russia.

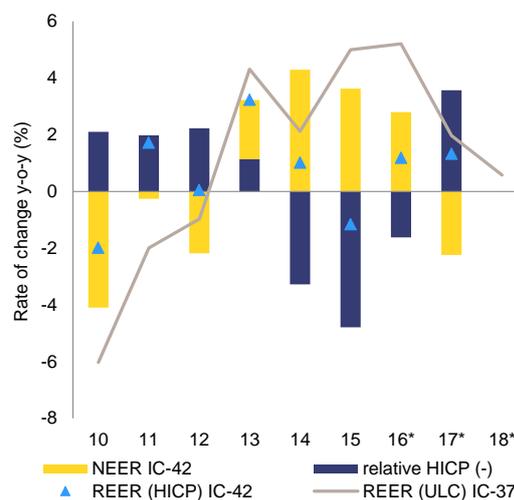
Despite some setbacks in Estonia's competitiveness, the impact of high wage growth on Estonia's exported value has been limited so far. Labour cost developments had a moderate impact on export growth from 2006 to 2014. Being a small and open country, Estonia's economy is rather an international price-taker and does not easily transfer its labour cost increases to foreign customers. In 2015, this was reflected in Estonia's stable terms of trade and in the large discrepancy between its real effective exchange rates (unit labour costs-based and harmonised index of consumer prices-based) in Graph 3.4.4. Estonian companies mostly internalise rapid wage increases, either by reducing profits, especially in the manufacturing sector, or by substituting capital for expensive labour. In this respect, the flexibility and mobility of Estonia's labour market constitute an advantage. Nevertheless, the evolution of Estonian companies' investments and profits needs to be monitored.

Graph 3.4.3: **Dynamism and competitiveness of exports (goods) on top-10 country destinations (2014-2015) - Estonia**



Source: COMTRADE data (HS 1992 commodity classification), European Commission calculations.

Graph 3.4.4: **Breakdown of real effective exchange rate (REER), nominal effective exchange rate (NEER), relative harmonised index of consumer prices (HICP) - Estonia**



(1) IC-42: towards 42 industrial countries, IC-37: towards 37 industrial countries.

Source: AMECO

Labour costs developments

In recent years, wages have increased at a rapid pace in Estonia. In 2015, the average salary increased by 6 % y-o-y. Wage growth was mostly driven by an increase in real compensation per employee, and is yet not backed up by commensurate productivity growth. As a consequence, real unit labour costs grew 6 % in 2015, the highest rate observed across EU Member States.

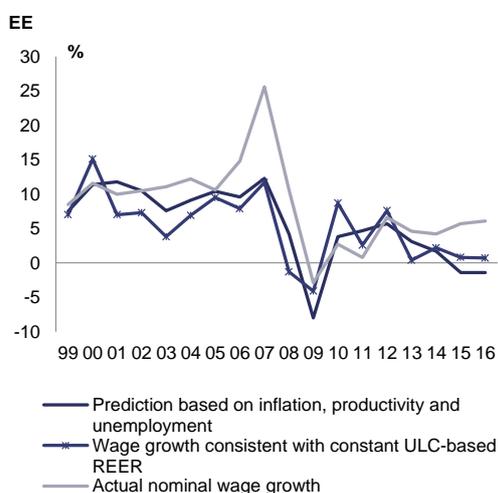
In fact, nominal wage growth in Estonia is currently faster than justified by economic fundamentals. Nominal wage growth in Estonia has consistently been above two benchmarks⁽¹⁷⁾ since 2013 (Graph 3.4.5): it is higher than productivity growth and higher than what would have been required to keep the real effective exchange rate at the same level.

⁽¹⁷⁾ The first benchmark reflects the wage growth that would be predicted on the basis of changes in labour productivity, prices and the unemployment rate. The second benchmark reflects the wage growth that would be consistent with a constant real effective exchange rate based on unit labour costs.

Wage growth appears to be driven by labour market tightening, especially as Estonia's working-age population swiftly shrinks. However, Estonia is currently implementing a number of far-reaching reforms to stabilise its total labour supply (see Section 3.3). This is expected to contribute to keeping excessive wage growth under control in the years to come. Income convergence towards the higher wage levels in Finland and Sweden also plays a role.

Minimum wages are increasing fast as well, outpacing overall wage growth over recent years. Due to large income disparities across the country, minimum wage increases can have a significant impact on the wage bill in the poorest regions. Overall, though, the minimum wage and its coverage are still relatively low in Estonia. In 2016, the minimum wage stood at around 38 % of the average wage, among the lowest levels in the EU. The minimum wage is set in annual bipartite agreements between the social partners and is brought into effect by a government decree.

Graph 3.4.5: **Nominal wage growth in Estonia in comparison with wage benchmarks**



Source: Update of Arpaia and Kiss (2015)

Unit labour costs are also rising, due to an exceptional recent fall in productivity. The combined effect of the fall in oil prices and the depreciation of the rouble, which curtailed the country's exports, led to a 1.5 % decrease in output per hour worked. However, the most affected sectors were not labour-intensive. In addition, a stricter obligation for employers to register their workforce pushed overall employment up (+1.8 % in 2015), lowering measured productivity. In 2016, unit labour costs are estimated to have grown by around 5.9 %, marking only a marginal deceleration from the previous year. A more substantial slowdown to around 3.0 % is forecast in 2017-2018 as the impact of the mandatory job registrations should fade away. Meanwhile, productivity is expected to improve on the basis of better prospects for exports of goods and services, especially to Estonia's Baltic peers and Finland.

Investment situation

Estonia displays a relatively high investment rate, but this has recently declined. As a catching-up economy, Estonia has a high productive investment rate (excluding dwellings): around 25 % in the period preceding the economic and financial crisis and 22 % since the recovery, compared to 15 % for the euro area. In recent times, however, the rate seems to have stalled at 20

%, while FDI has come down to nearly zero in net terms (see also Box 3.4.1).

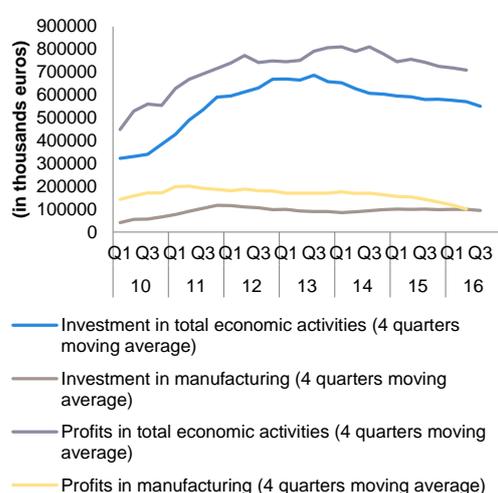
The recent weak productivity growth is partly linked to a decline in investment by non-financial corporations in Estonia, especially in the utilities sector (water, electricity, etc.). In 2015, the lower investment activity partly reflected the completion of major investment projects in the shale oil and electricity sectors in 2013 and 2014. Also, investment has been affected by lower payments of EU funds since the end of the previous financing framework (2007-2013). In 2017, by contrast, public investment is expected to rebound as the bulk of EU funded projects from the new programming period (2014-2020) take off.

At almost 75 %, capacity utilisation in Estonia appears still low to prompt further investment, but the share is unevenly spread across sectors and is hiding investment needs in higher productivity areas of the economy. In an EU comparison, there seems to be room for a more optimal use of existing investment. Nevertheless, the level of capital per worker in Estonia remains largely below EU average. This is true for machinery equipment, ICT equipment in the manufacturing sector, but most strikingly for intellectual property investment, whose level is about half the EU average. Inefficient allocation of funds likely has an impact on total factor productivity.

Looking ahead, one of the risks for investment in Estonia's manufacturing sector could be the decline in companies' profits. While profits are overall still above the EU average, they have been on a declining trend since 2013. In manufacturing, the decline averaged almost 5.5 % y-o-y in 2012-2013 and accelerated further to 16 % in 2015. However, the recent weakness of capital-intensive sectors⁽¹⁸⁾ was not shared by labour-intensive industries.

⁽¹⁸⁾ Oil shale-related activities account for 3 % of Estonia's GDP.

Graph 3.4.6: **Profits and investment by companies in Estonia - Total economic activities and manufacturing sector**



Source: Statistics Estonia

In 2015-2016, profitability constrained tangible investment in capital-intensive industries (utilities, mining and agriculture), but half of the manufacturing subsectors also started feeling the strain (see Graph 3.4.6). In 2016, overall profits in the manufacturing sector continued to decrease and fell below the level of tangible investment in the sector. Conversely, most non-tradable sectors, except transport and the information and communication sectors (but including construction), registered considerable and growing profits. This enabled them to build stable tangible investment and still expand already sizeable precautionary financial buffers, a new phenomenon since the 2008-2010 financial crisis. These buffers are likely motivated by the uncertain external environment.

Foreign direct investment growth in Estonia has fallen by half in recent years, which could lead to more limited internal sources for financing growth ambitions and also to less technology transfers. FDI growth fell from about 6 % of GDP in 2012 to 0.6 % in 2015, but partly recovered to 2.6 % of GDP in 2016. This mostly reflected specific lending practices and repatriation of profits towards foreign parent companies in the well-capitalised banking sector. However, FDI growth in the manufacturing sector remained below Estonia's long-term average. Uncertain business conditions, including a weak economic situation in neighbouring Finland and Russia, are

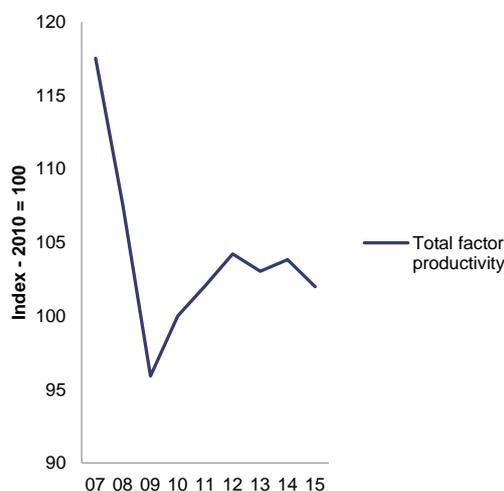
behind these developments. However, the small size of Estonia's market and the prospect of higher profits abroad also played a role. Indeed, the increase in nominal unit labour costs has been so far comparatively faster in Estonia than in its Baltic peers, while the country's FDI claims abroad have increased almost as fast as liabilities since the end of the 2008-2010 crisis.

Declining growth in the gross operating surplus of companies can be a risk for investment in intangible assets. Banks are often reluctant to finance R&D and innovation activities as they are generally considered risky operations. As a consequence, these activities are mostly funded from retained earnings, so a fall in gross operating surpluses constitutes a risk. In Estonia, after several years of progressive decline, the growth in the gross operating surplus turned negative in 2015, in the manufacturing sector as a whole, but also in most of its subsectors. A comparable situation prevailed in Estonia's Baltic peers, while the euro area as a whole witnessed a relatively rapid recovery. Nevertheless, investment in intangible assets has so far continued to grow in Estonia's manufacturing sector and in about half of its subsectors, albeit at an overall declining pace (still 10 % in 2015).

Technological progress

Since the crisis in 2007, Estonia registered a substantial loss in total factor productivity (-13 %). This is one of the highest in the EU, second only to Greece (-18 %). After the crisis, the recovery in total factor productivity appeared rather short-lived (see Graph 3.4.7). In addition, there are indications that Estonia's export structure in manufactured goods is shifting towards the lower quality ranks (European Commission, 2016e). Also, the total productivity of the manufacturing sector (on the basis of value added) has constantly declined over the years. In 2016, it passed for the first time below the average productivity of Estonia's total activities (see Graph 3.4.8).

Graph 3.4.7: Total factor productivity in Estonia over 2007-2015 - Index (2010 = 100)

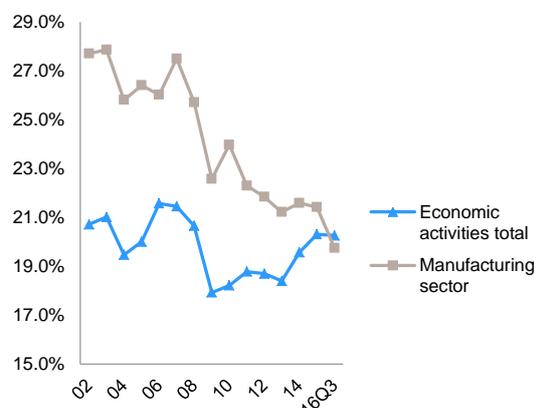


Source: AMECO

3.4.2. BUSINESS ENVIRONMENT

Estonia has taken steps to further improve its business environment by running several projects under an extensive state administration reform. ‘Zero bureaucracy’ aims to reduce regulatory burden, bureaucracy and overlapping functions between different public bodies. In the World Bank ‘Doing business’ report 2017, Estonia ranks 12 out of 190 economies. Its weakest indicators remain protecting minority investors (rank 53) and resolving insolvency (rank 42). A project to improve the insolvency framework was launched in 2016. Its main objectives are to make the process faster and more efficient, and to improve the rate of successful demands. The business environment is also weakened by the continuing lack of national rules for transferring companies’ registered offices into and out of Estonia.

Graph 3.4.8: Total productivity on the basis of value-added - Estonia's total economy and manufacturing sector



(1) Total productivity on the basis of value added = $((\text{turnover} - \text{total costs}) + \text{labour costs}) / \text{total costs} = \text{value added} / \text{total costs}$

Source: Statistics Estonia

3.4.3. INFRASTRUCTURE INVESTMENT

There is insufficient funding for Estonia’s transport infrastructure to make it sustainable. Investments into transport infrastructure depend mainly on EU funds and are chiefly focused on small number of large projects such as Rail Baltica. No budget revenue has been earmarked for transport infrastructure improvements, and thus investment into secondary infrastructure and maintenance of existing infrastructure is not actually ensured.

Coordinated implementation of the Rail Baltica railway project is progressing, with the target completion date set at 2026. This project is of strategic importance to all three Baltic States and is a high priority project under the Connecting Europe Facility instrument. The governments concerned have already agreed measures on the contracting scheme of the joint venture to run Rail Baltica, on appointments to its management board and on staffing. The announced ratification of the intergovernmental agreement between the Baltic states will contribute to meeting a long-term commitment at Member State-level as well as to smoother implementation of the project.

Box 3.4.1: **Investment challenges and reforms in Estonia**

Macroeconomic perspective

Estonia has one of the highest ratios of investment to GDP in the EU, for both the public and the private sector (see Section 3.4). Based on the 2017 winter forecast, the investment ratio is expected to increase slightly from 2017. In terms of the assets invested in dwellings construction, investment has soared in recent years, closing in on the EU average (in % of GDP). In parallel, Estonia invests substantially more than the EU average in ‘equipment’ and ‘other construction’ (the latter reflecting construction activity by enterprises and infrastructure construction). However, Estonia invests 40 % less than the EU average in the ‘other’ category, which includes investment in intangible assets.

Structural barriers to investment

Estonia has relatively few barriers to investment compared to most other EU countries, as outlined in the table below:

Table 1:

Public administration Business environment	Regulatory/ administrative burden		Financial Sector / Taxation	Taxation	
	Public administration			Access to finance	
	Public procurement /PPPs		R&D&I	Cooperation btw academia, research and business	CSR
	Judicial system			Financing of R&D&I	CSR
	Insolvency framework		Sector specific regulation	Business services / Regulated professions	
	Competition and regulatory framework			Retail	
Labour market Education	EPL & framework for labour contracts			Construction	
	Wages & wage setting			Digital Economy / Telecom	
	Education			Energy	
				Transport	

Legend:

	No barrier to investment identified		
CSR	Investment barriers that are also subject to a CSR		
	No progress		Some progress
	Limited progress		Substantial progress
			Fully addressed

Source:

1) *Labour and skill shortages* are considered a barrier to higher investment in fast growing sectors. Shortages of some types of skilled labour are more acute in a few sectors, for example IT workers. Estonia has been successful in attracting IT companies and demand for the relevant professionals has therefore increased. Although the number of IT employees has increased substantially in recent years, ⁽¹⁾ it is hard to satisfy the rising demand for workers from the domestic labour market only.

2) *The efficiency of the allocation of investment* (investment in activities with higher value added) remains an issue, as investment in Estonia has been geared towards capital-intensive production with relatively low value added (see Section 3.4). The Commission analysis on investment barriers highlighted *limited cooperation between businesses and academia* and *low RDI private investment* (see Section 3.5). Also, financing options for riskier early-stage projects remain limited (see Section 3.2), but Estonia has continued to make efforts to improve these aspects.

⁽¹⁾ With 5 % of the workforce in IT activities (of which 3pps in the IT sector itself), the country currently ranks 4th among Member States.

(Continued on the next page)

Box (continued)

3) The Commission analysis also highlighted the *burdensome insolvency framework* as an institutional barrier that might discourage investment. No changes have been made to the insolvency framework recently, as the analysis is still ongoing at Estonian level (see Section 3.4).

3.5. SECTORAL POLICIES

3.5.1. R&D AND INNOVATION

Despite progress in implementing R&D and enterprise growth strategies, Estonia's research and innovation ecosystem remains fragile. Estonia has in place strategies to strengthen its productivity, supported by the 'implementation plan' for 2016-2019. Nevertheless, key challenges remain: low private investment in R&D, insufficient cooperation between businesses and academia, low efficiency of public R&D spending, shortage of skills, insufficient prioritisation of research and innovation investment and lack of entrepreneurial discovery process. Besides this, rapidly rising wages require further improvement in non-cost competitiveness. To face these challenges, during the years 2015-2020 more than 600 million euros will be invested in R&D, innovation and business development.

Investment in R&D

Business investment in R&D remains low, mainly due to a low share of high technology and knowledge-intensive companies⁽¹⁹⁾. In 2015, R&D intensity increased marginally to 1.50 % of GDP (from 1.45 % in 2014) and business enterprise expenditure in R&D reached 0.69 % (from 0.63 in 2014). The Estonian economy remains dominated by SMEs in traditional sectors with limited needs for R&D. Investment is concentrated in a few large companies. Many firms are involved in contract manufacturing as a prevalent business model and foreign investment in business R&D in Estonia remains low (0.06 % of GDP in 2015).

Investment in intangible assets in Estonia is low. It accounts for 9.5 % of total investment compared to an EU average of 19.6 %. According to the 2016 Innobarometer ⁽²⁰⁾, Estonian companies are less likely to invest in research and development. However, the share of companies investing in software development is increasing. Only half of companies reported that they had

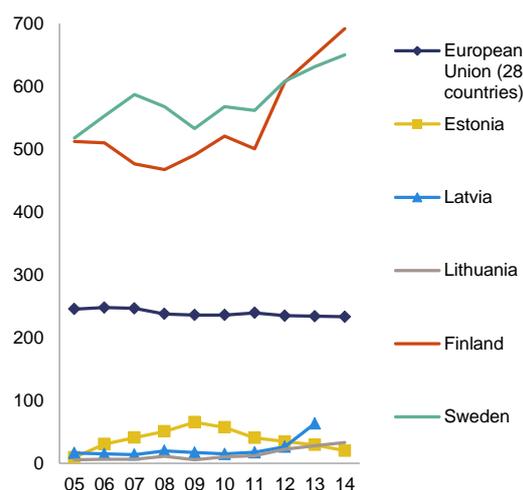
⁽¹⁹⁾ The value added in medium high-tech manufacturing stands at 2.8 % of total value added in 2014, well below the EU average of 5.5 %.

⁽²⁰⁾ Flash Eurobarometer 433 — Innobarometer 2016 — EU business innovation trends: the Innobarometer is a survey on activities and attitudes related to innovation. Each year, it gathers opinions and feedback from the general public and European businesses and provides a unique source of direct information on innovation for policymakers.

introduced some innovation since 2013, up by 6 pp. on the previous survey.

To support R&D, the government launched several measures in 2016: (i) the high-growth business development programme for firms with strong potential; (ii) support for public procurement of innovation; (iii) measures to boost the use of financial instruments. In addition, an 'Industrial Policy Green Book' is being developed by the Ministry of Economic Affairs. The Book includes proposals for R&D, with the aim of raising Estonia's R&D investment and position in the value chain.

Graph 3.5.1: Patent application to the European Patent Office (by priority year and per million people of active population)



Source: Eurostat

Cooperation between business and academia

The cooperation between public R&D institutions and private companies increased in 2015, but its volume remains limited. Research contract between public R&D institutions and the private sector increased by 24 %. However the share of R&D funded by business and performed by public research organisations (as a percentage of total R&D expenditure) was 2.4 % in 2015, well below the EU-28 average. Patent application from Estonia was low and continued its downward trend (Graph 3.5.1). Also, the royalties and licence fees paid abroad by Estonian companies were far below those of Nordic countries and declining (see Graph 3.5.2). Finally, the number of public-private

scientific co-publications per million population is one of the lowest in the EU⁽²¹⁾.

The Estonian Government has launched measures to improve science-business cooperation. These include support to public research organisations for applied research and development of products in cooperation with business in areas addressed by the smart specialisation strategy ('NUTIKAS'). Additionally, from 2017 the government is changing the baseline funding formula of research institutions to provide incentives for public- and private-sector contract research. A specialised ad hoc expert group formed by the Estonian Research Council has recommended increasing the baseline funding to 50 % (from the current 20 % in 2015). In 2016, the share of baseline funding constituted 27 % and it is gradually increasing. In addition, the 'ADAPTER' platform was launched in April 2016 as a one-stop shop for companies willing to engage in research with Estonian universities. Finally, doctoral studies in cooperation with enterprises and support for business to participate in technology development centers and clusters are being implemented.

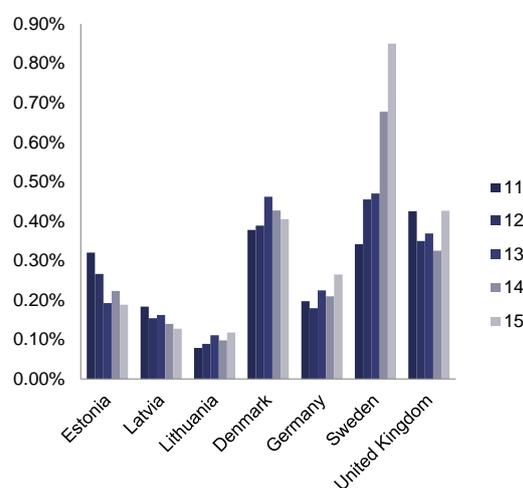
Higher education and research

The ageing population and the low attractiveness of research careers in Estonia remain key bottlenecks. Estonia has a comparatively low number of PhD graduates⁽²²⁾. The number of new graduates in science and engineering (per 1000 population aged 25-34) is also low. Estonia has launched initiatives in recent years to address the scarcity of highly qualified employees and improve researchers' mobility between the public and private sectors. The ruling coalition agreement includes provision for more scholarships for doctoral students and the aim is also to double the monthly sum of scholarship. However, the national target of 300 PhD graduates per year by 2020 remains ambitious.

⁽²¹⁾ Estonia ranks 22nd and was on a downward trend of 17.9 % during 2007-2015.

⁽²²⁾ Estonia ranked 20th in the EU-28 for new doctoral graduates in 2014.

Graph 3.5.2: Charge for the use of intellectual property from abroad as % of GDP



Source: Eurostat

Internationalisation and excellence

The relatively low efficiency of public R&D spending is linked to a lack of economies of scale and of critical mass in research areas. Estonia has to some extent improved the quality of its scientific production since 2000. However the low level of scientific excellence remains a challenge as highly cited publications⁽²³⁾ remain below EU average (compared to the level of public R&D intensity that is above EU average). Estonia also showed progress in the internationalisation of its research system. Despite the close economic integration of Estonia's manufacturing industry with the Nordic economies there is insufficient cooperation in R&D and innovation.

The smart specialisation framework

Estonia is working to improve implementation of smart specialisation. The task of running the entrepreneurial discovery process was transferred from the Estonian Development Fund to the Ministry of Economic Affairs in June 2016. Subsequently, Estonia developed an action plan for securing a continuous entrepreneurial discovery process. The plan for 2017 is to enhance monitoring of growth areas, update the growth area reports from 2014 and strengthen links with other

⁽²³⁾ The share of Estonian scientific publications among the top 10 % most cited worldwide was only 7.3 % in 2013 vs an EU average of 10.5 %.

regions. Estonia is also planning to launch value chain research. Successfully implementing these plans is likely to help prioritise investments in R&D and innovation in domains with potential for growth. Under the 2016 'RITA' programme, specialised R&D civil servant profiles have been created in line ministries to help deliver R&D priorities closer to business needs in smart specialisation areas. It should also contribute to less fragmented R&D governance, although success will depend on the availability of R&D funds in line ministries.

R&D funding streams after 2020

From 2007 to 2013, Structural Funds accounted for 50 to 60 % of all public R&D spending and continue being a major share of it during the 2014-2020 programming period. This raises questions as to the medium-term to longer-term sustainability of public R&D investments. The government launched in June 2016 a task force on research funding and management, which is expected to make proposals in 2017 on the long-term financing and management of Estonia's research and higher education system.

3.5.2. DIGITAL ECONOMY AND SOCIETY

The fast uptake of digital technology by the public sector continues. In the Digital Economy and Society Index 2016 Estonia ranks seventh in the EU. It is the best performing country in digital public services, climbing from fourth place in 2015 to first in 2016. The country also ranks high in digital skills and internet use, including for online cross-border shopping (22 %). In contrast, the uptake of digital technology by businesses is well below the EU average (22nd). Only 12 % of SMEs sell online and 6 % use the internet for cross-border sales. According to Eurostat data⁽²⁴⁾, the main reasons preventing Estonian companies from online sales are: (i) the nature of their goods or services (i.e. not suitable for web sales); and (ii) logistics.

⁽²⁴⁾ Eurostat, Obstacles for web sales, all enterprises without financial sector with 10 or more employees.

3.5.3. COMPETITION IN PRODUCT AND SERVICES MARKETS

Estonia performs well on the OECD product market regulation index. It ranks seventh in the EU and its score has improved from 1.37 in 2008 to 1.29 in 2013. Competition in Estonia's energy market has substantially improved in recent years with the liberalisation of the country's electricity and gas markets and the construction of new energy infrastructure (Estlink 2). Improved electricity interconnection with Latvia will further strengthen security of supply and boost the effectiveness and competitiveness of energy markets in the entire Baltic region. Constructing the Baltic connector natural gas pipeline between Finland and Estonia is vital for increasing diversification and security of supply and ending Estonia's isolation in the gas sector. The Connecting Europe Facility's financing agreement on the Baltic connector pipeline project has ensured that there is agreement to build this gas pipeline linking Finland and Estonia.

The level of restrictiveness⁽²⁵⁾ of regulated professions in Estonia is generally low. It is lower than the EU average among the seven professions analysed,⁽²⁶⁾ except for the profession of patent agent, where it is higher⁽²⁷⁾. The national action plan submitted by Estonia under a mutual evaluation exercise of regulated professions states that there is no need for major reforms, while at the same time it acknowledges a possibility for even further reduction in regulation.

Estonia has become the first EU Member State to cooperate with collaborative economy platforms for tax purposes. The Estonian Tax and Customs Board has established a cooperation strategy with transport sector collaborative

⁽²⁵⁾ Regulatory barriers include, for example, reserves of activities, shareholding and voting requirements, multidisciplinary restrictions, compulsory chamber membership, authorisation schemes and professional indemnity insurance.

⁽²⁶⁾ Tourist guide, real estate agent, patent agent, lawyer, civil engineer, architect, accountant.

⁽²⁷⁾ The European Commission has developed a new composite indicator on restrictiveness of most existing barriers to the access to and exercise of regulated professions. It is based on data collected from Member States, complemented by desk research. This new indicator has many similarities with the Commission's indicator assessing the barriers in business services published in 2015, but also differs from it in certain aspects. See European Commission (2016f).

economy platforms such as Uber and Taxify to simplify tax declaration processes for drivers and prevent tax evasion. The agreement allows car-sharing drivers to opt into a system where drivers' income data can be sent to the tax office and automatically added to the tax return.

3.5.4. ENERGY, RESOURCE AND CLIMATE CHANGE

Estonia is on track to reach its 2020 targets on greenhouse gas emissions and renewable energy. For the greenhouse gas reduction target, national projections indicate Estonia will exceed its 2020 target by about 13 percentage points with existing measures⁽²⁸⁾. For renewable energy, Estonia is already above its 25 % target for 2020.

Estonia has achieved levels of primary and final energy consumption that are below its national targets, but keeping these levels until 2020 will remain a challenge. As a producer of electricity and heating from oil shale, Estonia will likely remain the most carbon-intensive economy in the EU, and keep one of the highest carbon intensity in energy use. Indeed, international oil prices are on the rise, making the country's oil shale sector competitive again. Therefore, Estonia's primary energy consumption is expected to increase again. In parallel, there is a big energy saving potential in residential buildings, energy distribution, service sector and transport. Estonia has made some progress on a number of legislative initiatives fostering energy efficiency⁽²⁹⁾. Furthermore, the government has prepared three climate- and energy-related long-term strategy documents, which are currently under discussion in the Parliament⁽³⁰⁾.

Furthermore, greenhouse gas emissions and energy consumption from transport have increased since 2005. The proportion of transport emissions has increased to 11.8 %⁽³¹⁾. In

particular, new vehicles purchased in Estonia remain the most environmentally unfriendly in the EU with an average CO₂ emission of 137 grams per kilometre compared to the EU-28 average of 119 grams in 2015. An energy labelling scheme for new passenger cars has been introduced, requiring all new cars to be labelled based on their consumption of fuel and CO₂ emission. However, transport-related taxation (excluding fuel taxes) that could improve energy efficiency or reduce emissions remains among the lowest in the EU. There is, however, government discussion about introducing a car registration tax and a road charging scheme for goods vehicles above 12 t in 2017. There are no plans to introduce a road charging scheme for vehicles under 12 t.

Estonia has made progress on promoting public transport. The introduction of new inter-city and suburban trains and upgrades to support infrastructure (such as waiting room) has brought about a sizeable (57 %) increase in the use of passenger trains. Similarly, the introduction of free public transport in Tallinn has increased the use of public transport by 13 %. Estonia is also promoting country-wide multimodal ticketing and fast payment solutions and is in the process of changing its Public Transport Law to legalise the use of the collaborative economy in passenger transport.

Waste management

Recycling has increased. The amount of municipal waste generated in Estonia in 2015 was below the EU average. Estonia has significantly increased recycling rate of municipal waste from 18 % in 2013 to 31 % in 2014, however this tendency was not maintained in 2015 (it decreased to 28 %). A recent study assessing separate collection in EU capitals has rated Tallinn as the second best performing capital in the EU. In parallel, the construction of an incineration plant and several mechanical biological treatment facilities has led to a significant reduction of landfilled municipal waste: from 14 % of the total waste in 2013 to 8 % in 2015. As a result, the incineration of municipal waste has increased dramatically from 18 % in 2012 to 59 % in 2015, becoming the main municipal waste treatment option. However, this hinders recycling and poses a risk to Estonia's attainment of its 2020 recycling target of 50 %.

⁽²⁸⁾ European Environment Agency (2016a).

⁽²⁹⁾ The Energy Sector Regulation draft act, draft amendments to the Electricity Market Act, the District heating draft act, amendment proposal to the Liquid Fuel Act, Estonia is also proceeding with a wide-scale roll-out of smart metering systems for electricity.

⁽³⁰⁾ Estonian Climate Policy 2050. Estonian Climate Change Adaptation Development Plan 2030, Energy Development Plan 2030.

⁽³¹⁾ European Environment Agency (2016b).

3.6. PUBLIC ADMINISTRATION

3.6.1. LOCAL GOVERNMENT REFORM

Estonia is currently undertaking local government reform to improve local public services and governance and achieve efficiency gains. The previous structure of local governance led to uneven quality and access to public services. This was explained by the small size of many municipalities and their resulting limited financial means and ability to attract a competent workforce at municipal level.

As part of Estonia's local government reform, the Administrative Reform Act was adopted in July 2016. The aim of the Act is to make it easier to create viable local municipalities that can finance their own activities, plan development and growth, and offer quality services. The Act governs the process of merging municipalities, which had a voluntary phase until the end of 2016 and a compulsory phase starting from 1 January 2017)⁽³²⁾. During the compulsory phase of the reform, the government will submit merger proposals to municipalities that do not meet the minimum size criterion laid down in the Act. The usual merger grants already in place before the reform were doubled during the voluntary phase of the reform. However, during the compulsory phase no merger grants will be paid.

The Administrative Reform Act includes several support measures intended to make implementation more straightforward. The Act has provisions on compensating municipal heads made redundant, and support is also available for consultancy and analysis on merger options. Municipalities retain the right to file legal challenges against government decisions to issue merger proposals. The mergers are expected to be in force as of the local elections on 15 October 2017. A proposal to abolish county governments was adopted in January. Under the proposal, new collective tasks on public transportation, regional development and business promotion are assigned to the new local governments, e.g. through joint municipal bodies.

⁽³²⁾ During the voluntary merger process 160 local municipalities out of total 213 decided to merge, reducing the number of municipalities to 100. Four islands have applied for exemption and 23 local municipalities exceed the minimum criterion without having to merge. Only 26 local municipalities will receive merger proposals from the government.

The ongoing local government reform initiated by the previous government is continuing under the new administration. The legislative acts on the responsibilities and division of tasks between municipalities and central government are in preparation. Also, there is no proposal yet on revising the financing scheme for municipalities. The new administration announced in its coalition agreement that it intends to increase the revenue base and financial autonomy of local governments, but no details are known yet.

Currently, local government has very limited powers and incentives to increase revenues⁽³³⁾. The personal income tax rate and the share of income tax transferred to local government authorities are set by central government. Local government can set the land tax rate applied to their territory with a ceiling at 2.5 % of the taxable land value. However, the taxable land value has not been re-evaluated since 2001. Apart from tax revenue, the Equalisation Fund scheme ensures quasi-automatic redistribution of revenue to the poorest municipalities. The current financing mix of local government does not create strong incentives for attracting businesses and developing entrepreneurship. Also, the low autonomy in setting the tax base might limit local governments' ability to provide services. Nevertheless, local government's aggregate fiscal performance is sound, due to legal restrictions imposed on individual municipalities limiting the size of their deficits and how much debt they can incur.

3.6.2. PUBLIC EMPLOYMENT

In addition to the local government reform, another notable ongoing initiative is to reduce public employment in step with the decline in the working-age population. The previous government set a target to limit employment in the general government sector to 12 % of the labour force (which is approximately the current level). As the population and labour force are shrinking, this implies that a further reduction in the government sector will be needed. The policy is aimed at mitigating the mounting labour shortages

⁽³³⁾ Currently, local government revenues mainly rely on personal income tax and central government transfers. Tax revenue comes predominantly from personal income tax (92.3 %) and a smaller share from land tax (6.3 %).

in the private (business) sectors and keeping longer term public expenditure pressures in check. The new government has not announced any major changes to the previous policy. Beyond the local government reform, several measures are planned as part of the effort to reduce public-sector employment: these include consolidating school and hospital networks, centralising state support services and several other public functions and making provision for a wider range of ‘smart’ public services (e-services). In addition, the government has launched a ‘zero bureaucracy task force’ to reduce red tape in public administration and beyond.

9% of procedures an Estonian public entity buys on behalf of another. Aggregated purchasing at demand level does not only lead to better prices (savings ranging from 15% to 50%), but, more importantly, to better quality thanks to economics of scale also in terms of expertise, human resources and know-how. Moreover, under the state administration reform some steps have been taken to expand the narrow scope of the Centralised Purchasing Body. This would improve the professionalisation of public procurement around the country. In particular, public procurement in the health sector still needs improvement in terms of professionalisation and the correct application of rules.

3.6.3. PROCUREMENT

Price is still the preferred criterion by the Estonian contracting authorities. Estonia scores well above the EU average for its publication rate of public tenders. As a result of the ongoing reform, in 2016, the country improved significantly with regards to the use of the most economically advantageous tender criteria for evaluating public tenders. Yet, in about 65% of the public procurement procedures, the price was the only award criteria thus discouraging competition on the basis of quality and innovation.⁽³⁴⁾ In addition, Estonia is one of the few countries which has not adopted a national action plan on green public procurement. The target for uptake of green public procurement is set at 15 % by 2018.

More innovative solutions in the public sector are on the way. In 2016, the government implemented a pilot project for procurement of innovation solutions. The project aimed to encourage public bodies to introduce more innovation by providing them with financial incentives to procure innovative solutions and guidance on how to go about doing this. An awareness campaign ran in parallel. After its successful conclusion, a new round is under preparation. In addition, a new e-procurement module providing information about innovation in tenders is being developed.

Estonia is in line with the EU average with regards to cooperative procurement. In about

⁽³⁴⁾ (European Commission, forthcoming)

Box 3.6.1: Selected highlights: 'Work Ability' reform and high performance in international skills survey

'Work Ability' reform:

Estonia's working-age population and labour force continue to shrink, particularly as a result of low birth rates, ageing and health-related exits from the labour force. Due to a rapid increase in the take-up of incapacity for work pensions and the need to bring back people to the labour market and keep them there, a reform was necessary and was recommended by the Commission in 2013 and 2014 country-specific recommendations. Estonia has committed itself to carrying out a 'Work Ability' reform, which concerns around 10 % of the Estonian working-age population, with better activation support services based on an individual approach. Implementation started in 2016. From January of that year, labour market rehabilitation services have been offered and, from July, assessments of work ability have started. The reform is fully operational since January 2017 and includes re-assessments of earlier claimants' health conditions. Transition from the old scheme to the new one should last until 2021, but the reform has already positively changed attitudes towards people with reduced working ability, making it easier for them to find and keep a job. Outcomes of the reform will be more visible in the next couple of years. The Estonian target is for approximately 15 000 people with reduced work ability to have found a job presumably by 2020.

High performance in international skills survey:

Estonia's success in PISA (see Section 3.3.1) can be explained by a mix of policy measures and the overall societal context, which places great value on education. Public spending on education is traditionally high and several efforts to improve efficiency have been made.

Curricula were revised to emphasise problem-solving and critical thinking. Overall, Estonian schools have considerable autonomy, including decisions about school finances, education priorities, implementation of the curricula and defining learning outcomes. Several measures were taken to ensure equity and inclusiveness of the system. Investments targeted at Russian-language schools seek to close the performance gap between Estonian and Russian speaking students. Providing counselling and personalised support for weaker students were embedded into school policy. To increase the quality of instruction and support teachers' professional development, counselling centres were developed. At the same time, salaries have been increasing steadily in an attempt to increase the attractiveness of the teaching profession.

ANNEX A

Overview Table

2016 Country-specific recommendations (CSRs)	
Commitments	Summary assessment ⁽³⁵⁾
<p>CSR 1:</p> <p>Ensure the provision and accessibility of high-quality public services, especially social services, at local level, inter alia by adopting and implementing the proposed local government reform.</p> <p>Adopt and implement measures to narrow the gender pay gap, including those foreseen in the Welfare Plan.</p>	<p>Estonia has made some progress in addressing CSR 1:</p> <p>Some progress in ensuring the provision and accessibility of high-quality social services at local level. Implementation is ongoing for the Social Welfare Act and the measures under the 2016-2020 action plan for the 2016-2023 welfare development plan.</p> <p>Some progress in adopting and implementing the local government reform. The Administrative Reform Act was adopted in July 2016. The voluntary merger of municipalities, lasting until the end of 2016 was successful, leading to an initial decrease in the number of municipalities from 213 to 100.</p> <p>Limited progress in reducing the gender pay gap. The 2016-2023 welfare development plan and its 2016-2020 action plan were adopted in June 2016. One out of the plan's four main areas aims at ensuring equal rights, responsibilities and opportunities for men and women in all areas of society. Due to the late approvals, the progress on implementing specific measures to reduce the gender pay gap is delayed.</p> <p>The amendments to the Gender Equality Act are</p>

⁽³⁵⁾ The following categories are used to assess progress in implementing the 2016 country-specific recommendations:

No progress: The Member State has not credibly announced nor adopted any measures to address the CSR. Below a number of non-exhaustive typical situations that could be covered under this, to be interpreted on a case by case basis taking into account country-specific conditions:

- no legal, administrative, or budgetary measures have been announced in the National Reform Programme or in other official communication to the national Parliament / relevant parliamentary committees, the European Commission, or announced in public (e.g. in a press statement, information on government's website);
- no non-legislative acts have been presented by the governing or legislator body;
- the Member State has taken initial steps in addressing the CSR, such as commissioning a study or setting up a study group to analyse possible measures that would need to be taken (unless the CSR explicitly asks for orientations or exploratory actions), while clearly-specified measure(s) to address the CSR has not been proposed.

Limited progress: The Member State has:

- announced certain measures but these only address the CSR to a limited extent; and/or
- presented legislative acts in the governing or legislator body but these have not been adopted yet and substantial non-legislative further work is needed before the CSR will be implemented;
- presented non-legislative acts, yet with no further follow-up in terms of implementation which is needed to address the CSR.

Some progress: The Member State has adopted measures that partly address the CSR

and/or the Member State has adopted measures that address the CSR, but a fair amount of work is still needed to fully address the CSR as only a few of the adopted measures have been implemented. For instance: adopted by national parliament; by ministerial decision; but no implementing decisions are in place.

Substantial progress: The Member State has adopted measures that go a long way in addressing the CSR and most of which have been implemented.

Full implementation: The Member State has implemented all measures needed to address the CSR appropriately.

	<p>expected to enable the Labour Inspectorate to monitor gender equality in the private sector. They are planned for March. Also important are changes to the parental leave system to improve flexibility and ensure more equal sharing of care responsibilities between women and men. The government discussed and gave political guidelines on the scope and timetable of the parental leave system on 26th January.</p>
<p>CSR 2:</p> <p>Promote private investment in research, development and innovation, including by strengthening cooperation between academia and businesses.</p>	<p>Estonia has made some progress in addressing CSR 2:</p> <p>Private investment in R&D is bottoming out at 0.69 % GDP. Cooperation between businesses and academia remains weak. However, Estonia has made some progress in addressing the CSR:</p> <p>At the end of 2016, Estonia had already selected ERDF operations worth EUR 277 million under the priority axis on research, technological development and innovation of the Operational Programme for Cohesion Policy Funds 2014-2020. This is equivalent to 43 % of the total ERDF budget (EUR 642 million) for the axis concerned. Estonia also finalised in 2016 the remaining legal acts for the activities under this axis.</p> <p>In 2016, the government launched a business development programme for firms with high-growth potential, launched specific support for the public procurement of innovation and promoted the increased use of financial instruments. An ‘Industrial Policy Green Book’ is also being developed.</p> <p>There will be further support to public research organisations for applied research and development of products in cooperation with business, in areas addressed by the smart specialisation strategy. Changes are being introduced to the baseline funding of public research organisations to provide incentives for contract research with business. The share of institutional funding and project-based financing for research will be gradually raised to 50/50 (under the ruling coalition agreement).</p> <p>Specialised R&D civil servant profiles have been created in line ministries in 2016 under the ‘RITA’ programme. The aim is to help deliver R&D priorities closer to business needs in smart</p>

	<p>specialisation areas.</p> <p>Finally, doctoral studies in cooperation with enterprises and support for business to participate in technology development centres and clusters are being implemented.</p>
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Europe 2020 (national targets and progress)	
Employment rate target set in the 2013 NRP: 76 %	The Estonian national target for employment (20-64 age group) is set at 76 %, which means bringing an additional 38 000 people into employment compared to 2009. In 2013 the employment rate was 73.3 %; in 2014 it was 74.0 % and in 2015 76.5 %. In the first three quarters of 2016, the figure was 76.7 % on average. The 2020 target rate of 76 % was surpassed in 2015, and will be surpassed again in 2016. For Q1-Q3 2015, the figure was 76.5 %.
R&D target set in the 2013 NRP: 3 % of GDP, of which 2 % for the private sector.	In 2015, R&D investment in Estonia recovered slightly to 1.5 % of GDP, up from 1.43 % in 2014, but remained below the EU average of 2 % of GDP. Business enterprise expenditure in R&D increased from 0.63 in 2014 to 0.69% in 2015.
Greenhouse gas emissions, base year 1990: +11 % in 2020 compared to 2005 (in non-ETS sectors)	2020 target:+11 % According to preliminary estimates, greenhouse gas emissions in sectors not covered by the EU Emissions Trading System decreased by 3 % between 2005 and 2015. According to the latest national projections based on existing measures, non-ETS emissions will decrease by 2 % between 2005 and 2020. The target is consequently expected to be met with a margin of 13 pps.
Renewable energy target set in the 2013 NRP: 25 %	With a renewable energy share of 27.9 % in 2015, Estonia is already above its 25 % target for 2020. Between 2011 and 2015, Estonia was the first EU Member State to develop a nationwide network of fast-charging points for electric vehicles.

<p>Energy efficiency target: stabilisation of the final energy consumption at the 2010 level, i.e. 2.8 Mtoe (or the derived primary energy consumption of 6.5 Mtoe).</p>	<p>Estonia reduced its primary energy consumption by -6.3% from 6.57 Mtoe in 2014 to 6.16 Mtoe in 2015. Final energy consumption decreased by -2% from 2.82 Mtoe in 2014 to 2.77 Mtoe in 2015.</p> <p>Even if Estonia has already achieved levels of primary and final energy consumption which are below the indicative national 2020 targets (6.5 Mtoe in primary energy consumption and 2.8 Mtoe in final energy consumption), keeping these levels until 2020 will remain a challenge.</p>						
<p>Early school leaving target: 9.5 % of the 18-24 year-olds with at most lower secondary education and who are currently not in further education or training.</p>	<p>The EU 2020 target is 9.5 %. In 2014, the rate was 11.4 % and in 2015 11.2 %.</p> <p>The early school leaving rate was 16.8 % in rural areas and 12.5 % in towns and suburbs, as compared with 4.9 % in cities. The rate for men (13.2 %) was still higher than the rate for women (9 %) (2015 Eurostat data).</p>						
<p>Tertiary education target: 40 % of those aged 30-34 having successfully completed tertiary education</p>	<p>In 2015, the rate was 45.3 %. However, there is a significant gender gap (56.7 % for women compared with 34.5 % for men).</p>						
<p>Target for the reduction of population at risk of poverty: 15 % in 2020</p>	<p>A reduction in the at-risk-of-poverty rate from 17.5 % in 2010 (income year) to 15 % in 2020 (income year) would equate to there being 36 248 fewer people at risk of poverty in absolute terms.</p> <p>The number of people at risk of poverty in 2015 increased (partly because income growth in the bottom deciles was below median income growth). This meant that the country moved further away from its national poverty reduction target of 15 %.</p> <p>At-risk-of-poverty rate (survey year): 2015: 21.6 %</p> <table data-bbox="798 1769 1364 1863"> <tr> <td>2013:</td> <td>18.6 %</td> </tr> <tr> <td>2014:</td> <td>21.8 %</td> </tr> <tr> <td>2015:</td> <td>21.6 %</td> </tr> </table>	2013:	18.6 %	2014:	21.8 %	2015:	21.6 %
2013:	18.6 %						
2014:	21.8 %						
2015:	21.6 %						

See additional contextual indicators at: <http://ec.europa.eu/education/monitor>.

See additional contextual indicators at: <http://ec.europa.eu/education/monitor>

ANNEX B

MIP Scoreboard

Table B.1: **MIP SCOREBOARD for Estonia**

			Thresholds	2010	2011	2012	2013	2014	2015	
External imbalances and competitiveness	Current account balance, (% of GDP)	3 year average	-4%/6%	-1.5	1.9	0.4	-0.3	-0.5	0.9	
	Net international investment position (% of GDP)			-35%	-71.2	-54.8	-51.1	-50.1	-46.7	-40.9
	Real effective exchange rate - 42 trading partners, HICP deflator	3 years % change	±5% & ±11%	4.6	-0.8	-3.6	3.1	4.7	6.4	
	Export market share - % of world exports	5 years % change	-6%	9.7	24.8	7.6	10.4	21.2	8.5	
	Nominal unit labour cost index (2010=100)	3 years % change	9% & 12%	13.8	-2.6	-1.1	8.2	10.8	14.4	
Deflated house prices (% y-o-y change)			6%	2.1	2.6	3.2	7.7	13.1	6.8	
Private sector credit flow as % of GDP, consolidated			14%	-7.6	-1.1	6.8	4.0	4.5	3.3	
Internal imbalances	Private sector debt as % of GDP, consolidated			133%	140.4	120.4	117.8	115.9	116.7	116.6
	General government sector debt as % of GDP			60%	6.6	6.1	9.7	10.2	10.7	10.1
	Unemployment rate	3 year average	10%	11.9	14.2	13.0	10.3	8.7	7.4	
	Total financial sector liabilities (% y-o-y change)			16.5%	-8.9	-0.6	10.4	10.5	13.0	8.1
Activity rate - % of total population aged 15-64 (3 years change in p.p)			-0.2%	0.7	0.5	0.8	1.2	0.5	1.9	
New employment indicators	Long-term unemployment rate - % of active population aged 15-74 (3 years change in p.p)			0.5%	5.3	5.4	1.8	-3.8	-3.8	-3.1
	Youth unemployment rate - % of active population aged 15-24 (3 years change in p.p)			2%	22.8	10.4	-6.5	-14.2	-7.4	-7.8

Flags: i: see metadata.

(1) Unemployment rate: for 2008 i = Eurostat back-calculation to include 2011 Population Census results. 2) Youth unemployment rate: for 2008 i = Eurostat back-calculation to include 2011 Population Census results.

Source: European Commission, Eurostat and Directorate-General for Economic and Financial Affairs (for real effective exchange rate), and International Monetary Fund

ANNEX C

Standard Tables

Table C.1: **Financial market indicators**

	2011	2012	2013	2014	2015	2016
Total assets of the banking sector (% of GDP)	114.1	109.7	105.6	108.6	114.8	115.0
Share of assets of the five largest banks (% of total assets)	90.6	89.6	89.7	89.9	88.6	-
Foreign ownership of banking system (% of total assets)	89.2	34.3	33.3	32.0	32.5	-
Financial soundness indicators: ¹⁾						
- non-performing loans (% of total loans)	4.5	3.0	1.9	2.6	1.9	1.8
- capital adequacy ratio (%)	19.4	23.2	23.1	41.8	35.4	34.8
- return on equity (%) ²⁾	22.9	11.7	10.7	9.7	6.8	6.7
Bank loans to the private sector (year-on-year % change)	-3.5	-0.4	2.7	4.5	9.3	10.1
Lending for house purchase (year-on-year % change)	-1.5	0.2	1.2	2.9	4.5	5.2
Loan to deposit ratio	144.5	134.4	128.9	124.0	122.1	125.7
Central Bank liquidity as % of liabilities	0.1	0.3	0.2	0.3	0.4	0.2
Private debt (% of GDP)	120.4	117.8	115.9	116.7	116.6	-
Gross external debt (% of GDP) ¹⁾ - public	3.1	7.0	7.7	8.0	7.2	7.5
- private	46.0	49.4	47.5	49.3	46.2	44.8
Long-term interest rate spread versus Bund (basis points)*	-	-	-	-	-	-
Credit default swap spreads for sovereign securities (5-year)*	102.4	101.3	58.6	57.1	58.3	58.5

(1) Latest data Q2-2016.

(2) Quarterly values are not annualised.

* Measured in basis points.

Source: European Commission (long-term interest rates); World Bank (gross external debt); Eurostat (private debt); ECB (all other indicators)

Table C.2: Labour market and social indicators

	2011	2012	2013	2014	2015	2016 ⁴
Employment rate (% of population aged 20-64)	70.6	72.2	73.3	74.3	76.5	76.7
Employment growth (% change from previous year)	6.5	1.6	1.2	0.8	2.9	0.6
Employment rate of women (% of female population aged 20-64)	67.8	69.4	70.1	70.6	72.6	72.6
Employment rate of men (% of male population aged 20-64)	73.5	75.1	76.7	78.3	80.5	81.0
Employment rate of older workers (% of population aged 55-64)	57.5	60.5	62.6	64.0	64.5	66.0
Part-time employment (% of total employment, aged 15-64)	9.3	9.2	8.9	8.3	9.5	9.9
Fixed-term employment (% of employees with a fixed term contract, aged 15-64)	4.5	3.5	3.5	3.1	3.4	3.9
Transitions from temporary to permanent employment	60.5	63.4	65.0	59.1	42.9	:
Unemployment rate ¹ (% active population, age group 15-74)	12.3	10.0	8.6	7.4	6.2	6.7
Long-term unemployment rate ² (% of labour force)	7.1	5.5	3.8	3.3	2.4	2.0
Youth unemployment rate (% active population aged 15-24)	22.4	20.9	18.7	15.0	13.1	13.7
Youth NEET ³ rate (% of population aged 15-24)	11.6	12.2	11.3	11.7	10.8	:
Early leavers from education and training (% of pop. aged 18-24 with at most lower sec. educ. and not in further education or training)	10.6	10.3	9.7	11.4	11.2	:
Tertiary educational attainment (% of population aged 30-34 having successfully completed tertiary education)	40.2	39.5	42.5	43.2	45.3	:
Formal childcare (30 hours or over; % of population aged less than 3 years)	15.0	14.0	18.0	14.0	:	:

(1) The unemployed persons are all those who were not employed but had actively sought work and were ready to begin working immediately or within 2 weeks.

(2) Long-term unemployed are those who have been unemployed for at least 12 months.

(3) Not in education, employment or training.

(4) Average of first three quarters of 2016. Data for total unemployment and youth unemployment rates are seasonally adjusted.

Source: European Commission (EU Labour Force Survey).

Table C.3: Labour market and social indicators (continued)

Expenditure on social protection benefits (% of GDP)	2010	2011	2012	2013	2014	2015
Sickness/healthcare	4,7	4,3	4,2	4,1	4,4	:
Disability	1,9	1,8	1,7	1,8	1,8	:
Old age and survivors	7,7	6,8	6,6	6,6	6,6	:
Family/children	2,2	1,9	1,7	1,6	1,6	:
Unemployment	0,7	0,5	0,5	0,5	0,4	:
Housing	0,0	0,0	0,0	0,0	0,0	:
Social exclusion n.e.c.	0,1	0,1	0,1	0,1	0,1	:
Total	17,4	15,5	14,8	14,7	14,9	:
of which: means-tested benefits	0,1	0,2	0,1	0,1	0,1	:
Social inclusion indicators	2010	2011	2012	2013	2014	2015
People at risk of poverty or social exclusion ¹ (% of total population)	21,7	23,1	23,4	23,5	26,0	24,2
Children at risk of poverty or social exclusion (% of people aged 0-17)	24,0	24,8	22,4	22,3	23,8	22,5
At-risk-of-poverty rate ² (% of total population)	15,8	17,5	17,5	18,6	21,8	21,6
Severe material deprivation rate ³ (% of total population)	9,0	8,7	9,4	7,6	6,2	4,5
Proportion of people living in low work intensity households ⁴ (% of people aged 0-59)	9,0	10,0	9,1	8,4	7,6	6,6
In-work at-risk-of-poverty rate (% of persons employed)	6,5	7,9	8,3	7,6	11,8	10,0
Impact of social transfers (excluding pensions) on reducing poverty	36,5	29,7	29,4	26,8	23,2	22,3
Poverty thresholds, expressed in national currency at constant prices ⁵	2904	2764	2812	2965	3151	3428
Gross disposable income (households; growth %)	-0,9	9,4	6,0	3,1	6,9	3,5
Inequality of income distribution (S80/S20 income quintile share ratio)	5,0	5,3	5,4	5,5	6,5	6,2
GINI coefficient before taxes and transfers	48,4	49,2	48,6	48,9	51,6	:
GINI coefficient after taxes and transfers	31,3	31,9	32,5	32,9	35,6	:

(1) People at risk of poverty or social exclusion: individuals who are at risk of poverty and/or suffering from severe material deprivation and/or living in households with zero or very low work intensity.

(2) At-risk-of-poverty rate: proportion of people with an equivalised disposable income below 60 % of the national equivalised median income.

(3) Proportion of people who experience at least four of the following forms of deprivation: not being able to afford to i) pay their rent or utility bills ii) keep their home adequately warm iii) face unexpected expenses iv) eat meat, fish or a protein equivalent every second day v) enjoy a week of holiday away from home once a year vi) have a car vii) have a washing machine viii) have a colour TV or ix) have a telephone.

(4) People living in households with very low work intensity: proportion of people aged 0-59 living in households where the adults (excluding dependent children) worked less than 20 % of their total work-time potential in the previous 12 months.

(5) For EE, CY, MT, SI and SK, thresholds in nominal values in euros; harmonised index of consumer prices = 100 in 2006 (2007 survey refers to 2006 incomes).

Source: For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.

Table C.4: Product market performance and policy indicators

Performance Indicators	2010	2011	2012	2013	2014	2015
Labour productivity (real, per person employed, year-on-year % change)						
Labour productivity in industry	12.60	-1.81	5.99	7.79	9.26	-3.02
Labour productivity in construction	23.68	-5.68	7.84	-8.57	-8.33	-13.22
Labour productivity in market services	4.68	-0.99	5.65	0.21	-0.38	-2.04
Unit labour costs (ULC) (whole economy, year-on-year % change)						
ULC in industry	-12.63	-0.66	7.56	2.89	-3.87	4.84
ULC in construction	-6.98	-11.12	3.45	15.91	2.82	3.54
ULC in market services	-5.04	0.09	3.43	0.73	5.11	11.68
Business Environment	2010	2011	2012	2013	2014	2015
Time needed to enforce contracts ¹ (days)	425.0	425.0	425.0	425.0	425.0	425.0
Time needed to start a business ¹ (days)	6.5	6.5	6.5	6.5	4.5	3.5
Outcome of applications by SMEs for bank loans ²	na	0.89	na	0.91	0.66	0.19
Research and innovation	2010	2011	2012	2013	2014	2015
R&D intensity	1.58	2.31	2.12	1.73	1.45	1.50
Total public expenditure on education as % of GDP, for all levels of education combined	5.66	5.16	4.82	4.92	na	na
Number of science & technology people employed as % of total employment	50	50	51	51	51	51
Population having completed tertiary education ³	30	31	32	32	33	33
Young people with upper secondary level education ⁴	84	83	81	84	84	83
Trade balance of high technology products as % of GDP	-1.58	-0.67	-0.88	-0.32	-0.33	-0.35
Product and service markets and competition				2003	2008	2013
OECD product market regulation (PMR) ⁵ , overall				na	1.37	1.29
OECD PMR ⁵ , retail				na	1.40	1.50
OECD PMR ⁵ , professional services				na	1.81	1.79
OECD PMR ⁵ , network industries ⁶				3.34	2.60	2.40

(1) The methodologies for this indicator, including the assumptions, are shown in detail at:

<http://www.doingbusiness.org/methodology>.

(2) Average of the answer to question Q7B_a. [Bank loan]: If you applied and tried to negotiate for this type of financing over the past six months, what was the outcome? Answers were scored as follows: zero if received everything, one if received most of it, two if only received a limited part of it, three if refused or rejected and treated as missing values if the application is still pending or the outcome is not known.

(3) Percentage population aged 15-64 having completed tertiary education.

(4) Percentage population aged 20-24 having attained at least upper secondary education.

(5) Index: 0 = not regulated; 6 = most regulated. The methodologies of the OECD product market regulation indicators are shown in detail at: <http://www.oecd.org/competition/reform/indicatorsofproductmarketregulationhomepage.htm>.

(6) Aggregate OECD indicators of regulation in energy, transport and communications.

Source: European Commission; World Bank — Doing Business (for enforcing contracts and time to start a business); OECD (for the product market regulation indicators); SAFE (for outcome of SMEs' applications for bank loans).

Table C.5: Green growth

Green growth performance		2010	2011	2012	2013	2014	2015
Macroeconomic							
Energy intensity	kgoe / €	0,42	0,39	0,37	0,40	0,39	0,36
Carbon intensity	kg / €	1,80	1,73	1,57	1,73	1,63	-
Resource intensity (reciprocal of resource productivity)	kg / €	3,02	2,99	2,87	3,02	2,87	2,71
Waste intensity	kg / €	1,72	-	1,78	-	1,69	-
Energy balance of trade	% GDP	-1,5	-0,4	-1,3	-2,2	-2,1	-
Weighting of energy in HICP	%	13,26	13,93	14,69	14,42	14,43	13,65
Difference between energy price change and inflation	%	3,9	1,3	7,2	7,4	-4,6	-4,1
Real unit of energy cost	% of value added	15,2	14,9	15,6	15,7	14,6	-
Ratio of environmental taxes to labour taxes	ratio	0,17	0,17	0,17	0,16	0,16	-
Environmental taxes	% GDP	2,9	2,7	2,7	2,5	2,7	-
Sectoral							
Industry energy intensity	kgoe / €	0,26	0,25	0,23	0,25	0,20	0,19
Real unit energy cost for manufacturing industry excl. refining	% of value added	13,9	13,5	13,5	14,2	13,3	-
Share of energy-intensive industries in the economy	% GDP	12,22	12,24	11,76	12,60	13,57	13,42
Electricity prices for medium-sized industrial users	€ / kWh	0,07	0,07	0,08	0,10	0,09	0,09
Gas prices for medium-sized industrial users	€ / kWh	0,03	0,03	0,04	0,04	0,04	0,03
Public R&D for energy	% GDP	0,02	0,02	0,02	0,01	0,01	0,01
Public R&D for environmental protection	% GDP	0,07	0,05	0,03	0,04	0,04	0,05
Municipal waste recycling rate	%	18,2	23,3	19,1	17,9	31,3	28,3
Share of GHG emissions covered by ETS*	%	72,9	72,3	69,7	73,5	71,1	67,7
Transport energy intensity	kgoe / €	1,01	0,95	0,94	0,93	0,98	1,05
Transport carbon intensity	kg / €	2,90	2,77	2,72	2,73	2,86	-
Security of energy supply							
Energy import dependency	%	13,6	12,0	17,0	11,9	8,9	7,4
Aggregated supplier concentration index	HHI	80,2	74,7	79,6	73,0	76,7	-
Diversification of energy mix	HHI	0,47	0,49	0,45	0,48	0,49	-

General explanation of the table items:

All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2005 prices):

- Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)
- Carbon intensity: greenhouse gas emissions (in kg CO₂ equivalents) divided by GDP (in EUR)
- Resource intensity: domestic material consumption (in kg) divided by GDP (in EUR)
- Waste intensity: waste (in kg) divided by GDP (in EUR)

Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP

Weighting of energy in HICP: the proportion of "energy" items in the consumption basket used for the construction of the HICP

Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual % change)

Real unit energy cost: real energy costs as a percentage of total value added for the economy

Environmental taxes over labour taxes and GDP: from European Commission's database, 'Taxation trends in the European Union'

Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2005 EUR)

Real unit energy costs for manufacturing industry excluding refining: real costs as a percentage of value added for manufacturing sectors

Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP

Electricity and gas prices for medium-sized industrial users: consumption band 500–20 000 MWh and 10 000–100 000 GJ; figures excl. VAT.

Recycling rate of municipal waste: ratio of recycled and composted municipal waste to total municipal waste

Public R&D for energy or for the environment: government spending on R&D for these categories as % of GDP

Proportion of greenhouse gas (GHG) emissions covered by EU Emission Trading System (ETS) (excluding aviation): based on greenhouse gas emissions (excl land use, land use change and forestry) as reported by Member States to the European Environment Agency

Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transport industry gross value added (in 2005 EUR)

Transport carbon intensity: greenhouse gas emissions in transport activity divided by gross value added of the transport sector

Energy import dependency: net energy imports divided by gross inland energy consumption incl. consumption of international bunker fuels

Aggregated supplier concentration index: covers oil, gas and coal. Smaller values indicate larger diversification and hence lower risk

Diversification of the energy mix: Herfindahl index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels.

* European Commission and European Environment Agency

Source: European Commission (Eurostat) unless indicated otherwise

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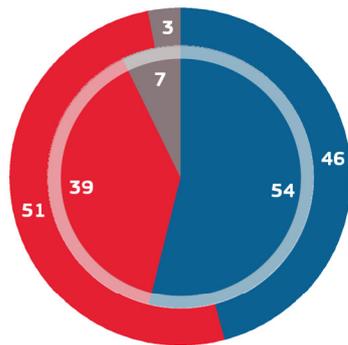
28.007 interviews
20 > 29 / 05 / 2017

1.010 interviews
20 > 29 / 05 / 2017

Methodology: face-to-face

1. LIFE IN THE EUROPEAN UNION

QA1a.1 How would you judge the current situation in each of the following?
The situation of the (NATIONALITY) economy (%)



EU28 Outer pie EE Inner pie

	EU28		EE	
	EB87 Sp.2017	EB86 Aut.2016	EB87 Sp.2017	EB86 Aut.2016
Total 'Good'	46	+ 5	54	+ 7
Total 'Bad'	51	- 5	39	- 9
Don't know	3	=	7	+ 2

Evolution Spring 2017 / Autumn 2016

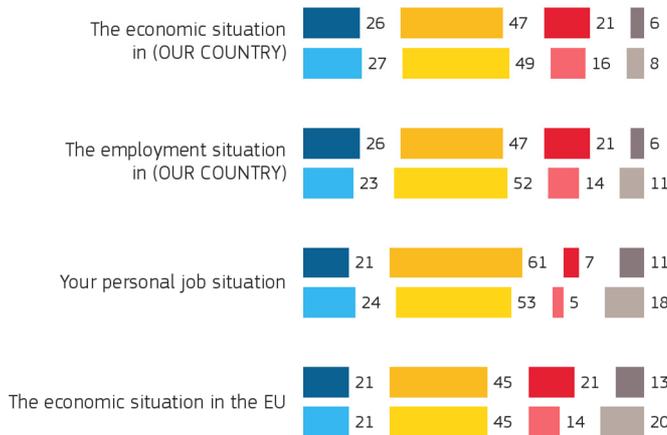
QA1a How would you judge the current situation in each of the following?
(%)



EU28
EE

Total 'Good' Total 'Bad' Don't know

QA2a What are your expectations for the next twelve months: will the next twelve months be better, worse or the same, when it comes to...?
(%)



EU28
EE

Better Same Worse Don't know

Evolution Spring 2017 / Autumn 2016

QA2a.2 What are your expectations for the next twelve months: will the next twelve months be better, worse or the same, when it comes to...?
The economic situation in (OUR COUNTRY) (%)

	EU28		EE	
	EB87	EB87- EB86	EB87	EB87- EB86
Better	26	+ 4	27	- 3
Same	47	=	49	+ 3
Worse	21	- 5	16	+ 1
Don't know	6	+ 1	8	- 1

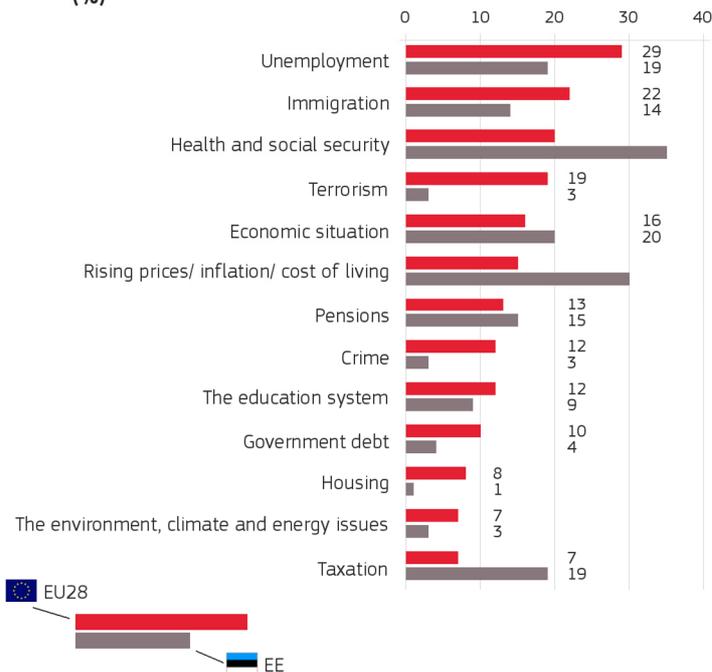
28.007 interviews
20 > 29 / 05 / 2017

1.010 interviews
20 > 29 / 05 / 2017

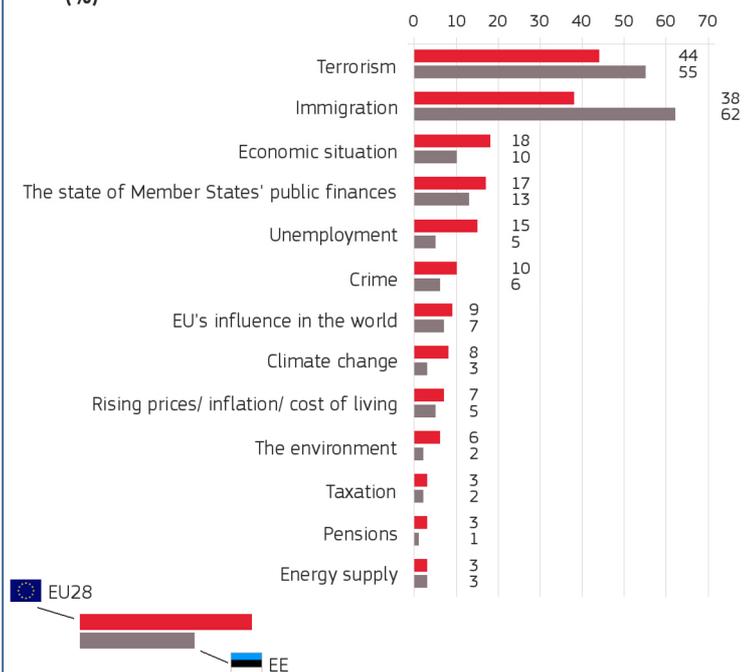
Methodology: face-to-face

1. LIFE IN THE EUROPEAN UNION

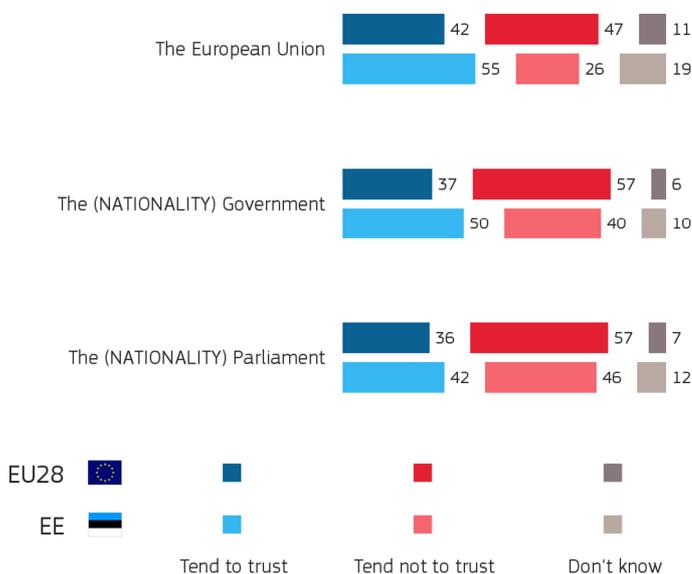
QA3a What do you think are the two most important issues facing (OUR COUNTRY) at the moment? (%)



QA5 What do you think are the two most important issues facing the EU at the moment? (%)



QA8a I would like to ask you a question about how much trust you have in certain institutions. For each of the following institutions, please tell me if you tend to trust it or tend not to trust it. (%)



Evolution Spring 2017 / Autumn 2016

QA8a.9 I would like to ask you a question about how much trust you have in certain institutions. For each of the following institutions, please tell me if you tend to trust it or tend not to trust it.

The European Union (%)

	EU28		EE	
	EB87	EB87-EB86	EB87	EB87-EB86
Tend to trust	42	+ 6	55	+ 11
Tend not to trust	47	- 7	26	- 10
Don't know	11	+ 1	19	- 1

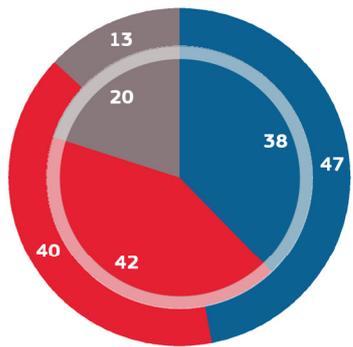
28.007 interviews
20 > 29 / 05 / 2017

1.010 interviews
20 > 29 / 05 / 2017

Methodology: face-to-face

1. LIFE IN THE EUROPEAN UNION

QC1 Some analysts say that the impact of the economic crisis on the job market has already reached its peak and things will recover little by little. Others, on the contrary, say that the worst is still to come. Which of the two statements is closer to your opinion?
(%)

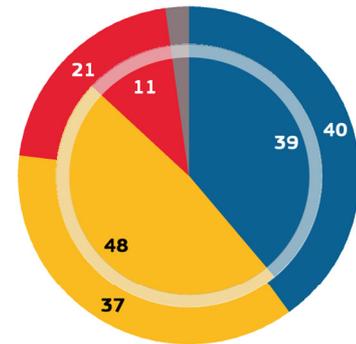


EU28 Outer pie EE Inner pie

	EU28		EE	
	EB87 Sp.2017	EB86 Aut.2016	EB87 Sp.2017	EB86 Aut.2016
The impact of the crisis on jobs has already reached its peak	47	+ 5	38	+ 5
The worst is still to come	40	- 5	42	- 7
Don't know	13	=	20	+ 2

Evolution Spring 2017 / Autumn 2016

QA9 In general, does the EU conjure up for you a very positive, fairly positive, neutral, fairly negative or very negative image?
(%)

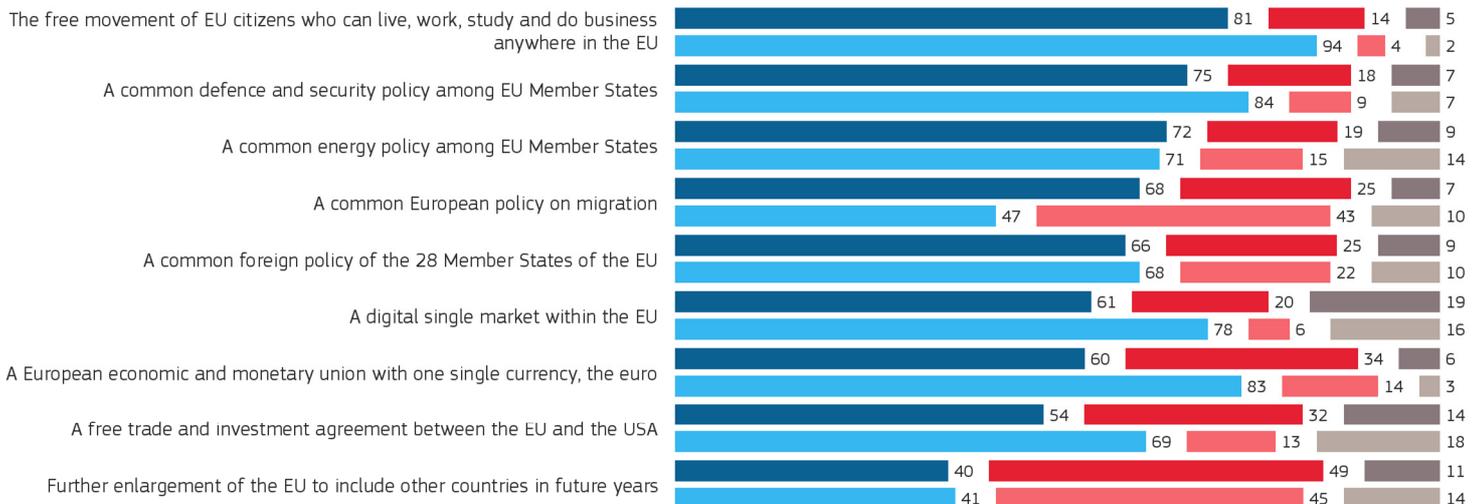


EU28 Outer pie EE Inner pie

	EU28		EE	
	EB87 Sp.2017	EB86 Aut.2016	EB87 Sp.2017	EB86 Aut.2016
Total 'Positive'	40	+ 5	39	+ 4
Neutral	37	- 1	48	- 1
Total 'Negative'	21	- 4	11	- 3
Don't know	2	=	2	=

Evolution Spring 2017 / Autumn 2016

QA16 What is your opinion on each of the following statements? Please tell me for each statement, whether you are for it or against it.
(%)



EU28 For Against Don't know
EE For Against Don't know

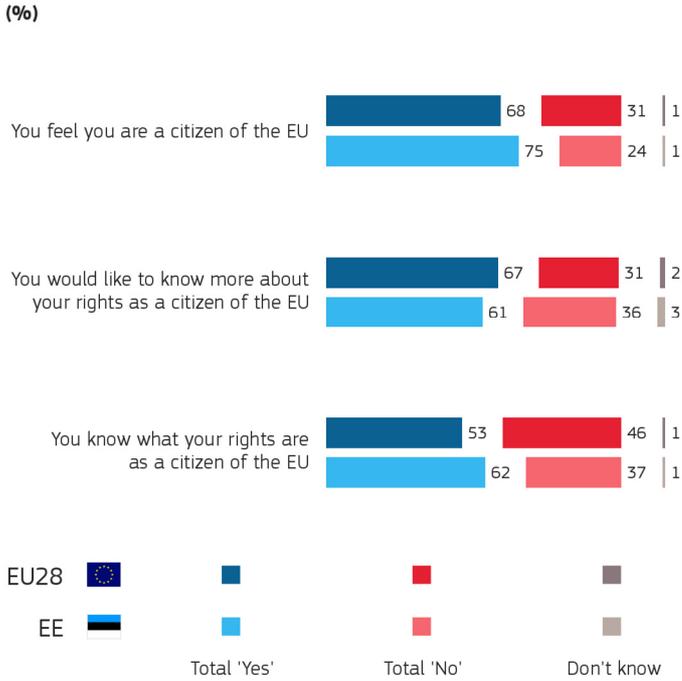
28.007 interviews
20 > 29 / 05 / 2017

1.010 interviews
20 > 29 / 05 / 2017

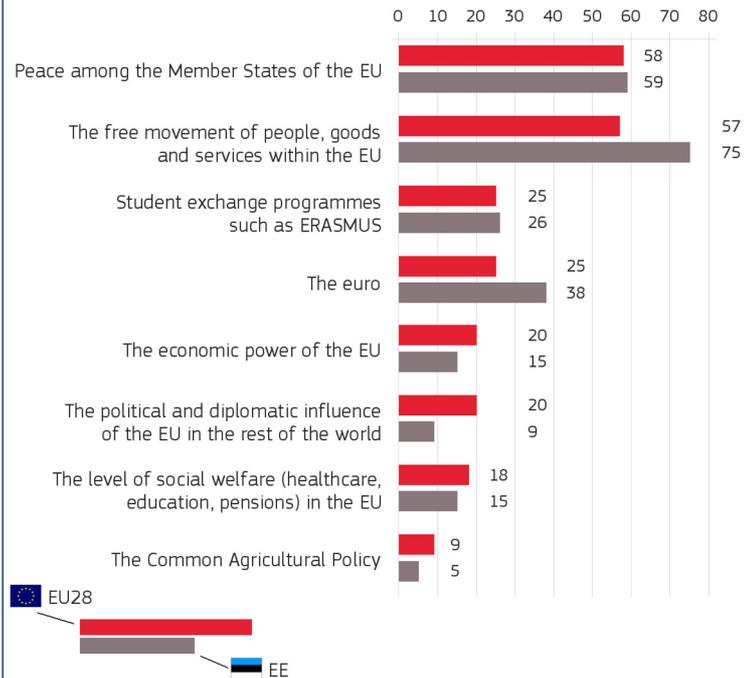
Methodology: face-to-face

2. EUROPEAN UNION CITIZENSHIP

QD2 For each of the following statements, please tell me to what extent it corresponds or not to your own opinion.

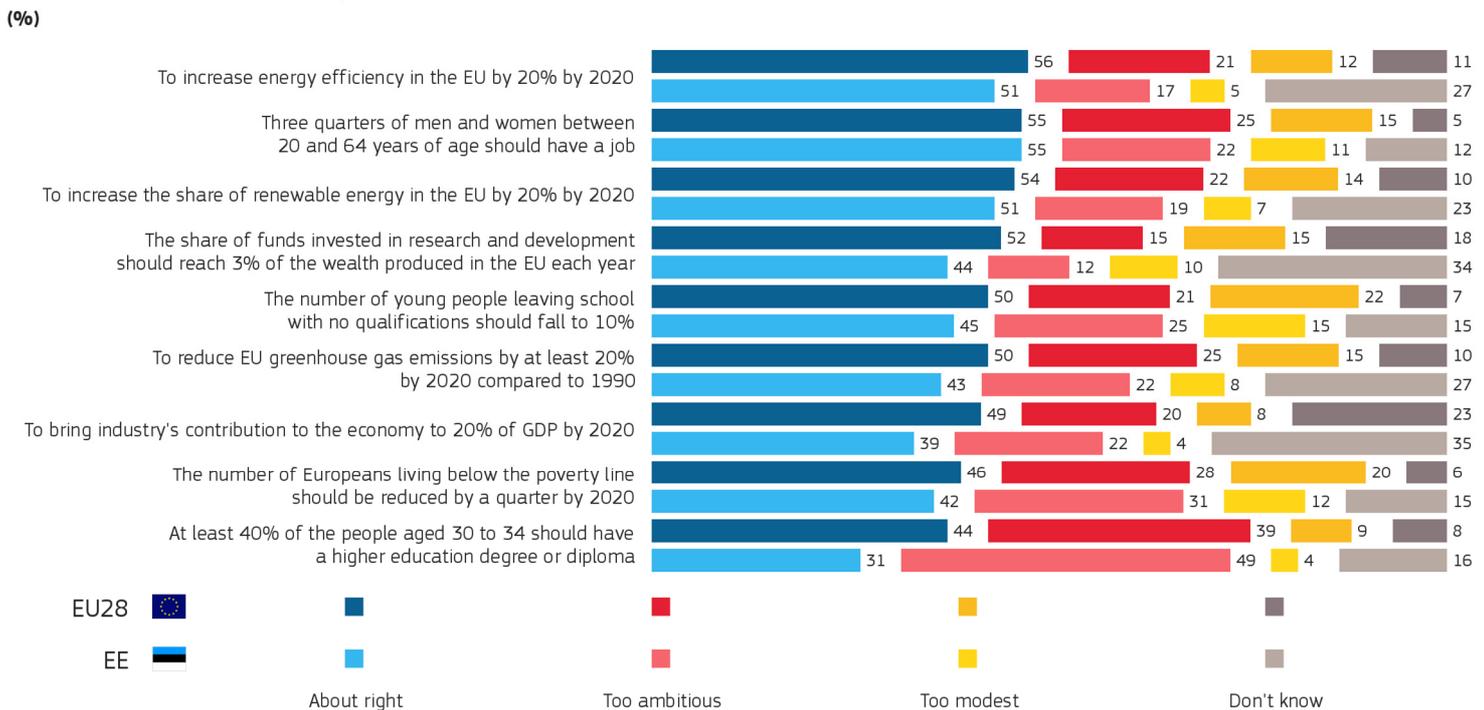


QD4T Which of the following do you think is the most positive result of the EU? (%)



3. EUROPE 2020

QB1 Thinking about each of the following objectives to be reached by 2020 in the EU, would you say that it is too ambitious, about right or too modest?





VI. VISITING ESTONIA

1. MAIN ATTRACTIONS

2. PRACTICAL INFORMATION



VII. Visiting Estonia¹⁹

The old town of Tallinn is easy to explore on foot due to its small size. The rest of places of interest, on the other hand, can be visited by urban bus, trolleybuses or taxis. The center of the city, enclosed by the remains of the medieval wall and its defensive towers, some of which have remained intact over time, is part of the World Heritage List of the UNESCO and is a beautiful network of cobbled alleys, high spiers of churches and colorful buildings. In the heart of this old town you will find the Town Hall Square, a large cobbled extension full of terraces of cafes in the warmer months on which the imposing rises building of the town hall. The *Toompea* neighborhood looms over the panorama with its castle, its churches and its majestic buildings; the two platforms of observation located in the upper part of the neighborhood offer ample views of the city and allow the visitor to get an idea of the urban design.

Toompea is also the place where the Cathedral is located *Alexander Nevsky*, one of the architectural gems of Tallinn. Far from the center, in *Paldiski*, lies the former Soviet naval base, whose access was forbidden, but which is now visited by tourists in one of the most visited interesting that the Estonian capital offers.

1. Main attractions²⁰

1.1 Old Town



The Old Town of Tallinn is one of the most attractive and complete in Europe and has earned the capital the nickname of "Prague in miniature". It has a small size, making it easy to move around. Most of the buildings have been restored and there are plenty of cafes, restaurants, hotels and tourist-oriented shops, although the neighborhood is not a museums and many inhabitants of the capital are still living and working in its streets.

1.2 City Hall (*Raekoda*)



With its omnipresent spire that rises on the square of the same name, it is impossible not to find this monument. The original town hall was built in the fourteenth century, but a large part of the building today dates from the fifteenth century. A small cafeteria has been opened inside the building, although its interior is often closed due to the celebration of official meetings. However, visitors can take a look at the pharmacy, according to one of the oldest in Europe.

¹⁹ <https://www.visitestonia.com/en/where-to-go/tallinn>

²⁰ <https://www.visitestonia.com/en/>



Address: *Raekoja plats 1, Tallinn*

Prices

Ticket 5.00€

Child ticket 2.00€

Family ticket 10.00€

Free with Tallinn Card

More information: <http://raekoda.tallinn.ee/town-hall>

1.3 Alexander Nevsky Cathedral



Located on *Toompea Hill*, this impressive Orthodox Cathedral dominates the city with its domes of black color. Its construction was commissioned by *Tsar Alexander III* and was inaugurated in 1900. The local legend that the cause of all the structural problems cathedral since its opening is that, although the temple was built to commemorating a Russian hero, the building actually rises above the grave of an Estonian hero.

Address: *Lossi plats 10, Tallinn*

Open/Available: Mon-Fri 8-18.

More information: <http://tallinnanevskikatedraal.eu/tallinnski-aleksandro-nevski-sobor/>

1.4 Museum of the Occupation



This museum revives the dark days of Nazi and Soviet occupation. Its collection contains old uniforms and photographic and audiovisual exhibitions which recreate the tortuous decades prior to independence in 1991.

Address: *Toompea tänav 8, Kesklinna linnaosa, Tallin*

Open/Available: Tue–Sun 11.00–18.00 (last admission 17.30). Closed on public holidays.

More information: <http://www.okupatsioon.ee/index.php/et/>



1.5 Municipal Museum



It houses a complete exhibition that describes the long history of the city. Housed in a 14th-century building, its collection traces through the period of German and Soviet occupation by means of interesting photographs. The museum also hosts temporary art exhibitions.

Address: Vene tn 17, Tallinn

Open/Available: 1.03-31.10 Tue-Sun 10.30-18 / 1.11-28.02 Tue-Sun 10-17.30.

Fees

Ticket 4.00€

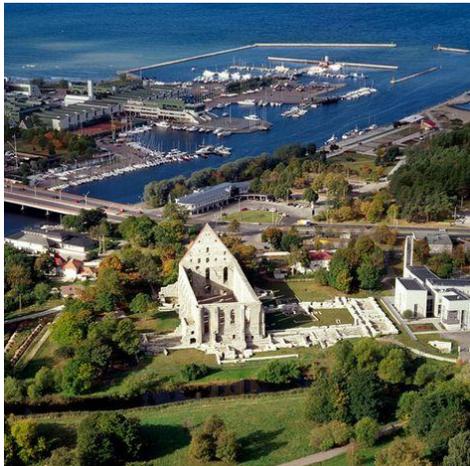
Child ticket 3.00€

Family ticket 8.00€

Free with Tallinn Card

More information: <http://www.linnamuseum.ee/en/linnamuseum/>

1.6 Pirita



Pirita is one of the eight administrative districts (Estonian: *linnaosa*) of Tallinn, the capital of Estonia.

Pirita occupies a relatively big area, but compared to other districts of Tallinn its population of 16,636 is relatively small. It mostly consists of private houses, instead of the large blocks of flats typical of some other districts of Tallinn, such as *Lasnamäe* and *Mustamäe*. Large parts of the district consist of newly built, modern buildings and houses. *Pirita* beach is located in *Pirita*.

Pirita is one of the most prestigious and wealthiest districts of Tallinn, partly thanks to natural benefits such as its beach and yachting harbour. *Pirita* beach is the largest in Tallinn, and in the summer can attract up to 30,000 visitors a day.



13.7 Kadriorg

Kadriorg is a quiet, leafy area within easy walking distance of Old Town. After Russian tsar Peter the Great conquered the Baltics in the early 1700s, he established an estate with a public park on this spot.



He named the area *Ekaterinenthal* (Catherine's Valley, or *Kadriorg* in Estonian) after his wife, Catherine I. The Baroque palace he had built – along with the surrounding forests, ponds and fountains – are still the neighbourhood's prime draw.

Over the next two centuries, the streets near the park became lined with ornate wooden mansions as *Kadriorg* developed into an upscale residential district. Unsurprisingly, the area also played a role in the early development of Estonia's spa culture – it was here in 1813 that a Doctor *Benedikt Georg Witte* established what would be the first seaside resort of the Russian Empire. Even today, having a *Kadriorg* address is a sign of prestige. The Estonian president's residence and many foreign embassies are located in the area.



2. Practical information

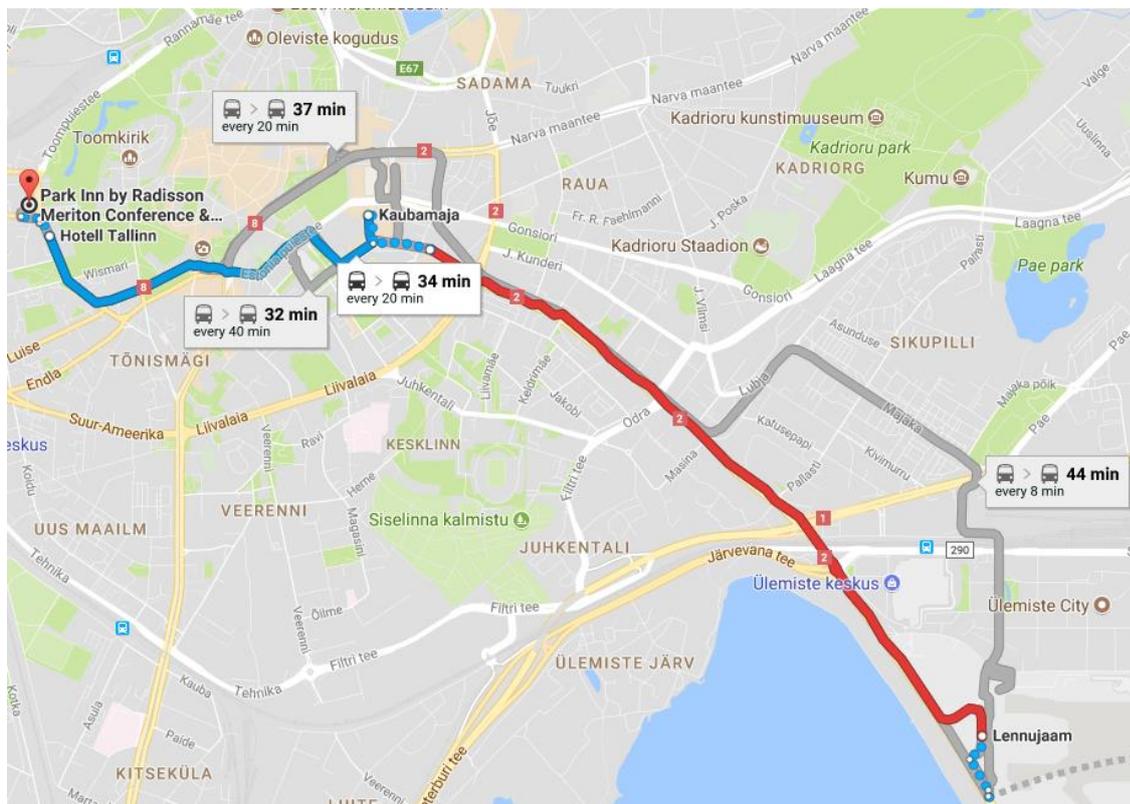
1. How to reach the hotel from the airport

The hotel address is *Toompuiestee 27, Paldiski Mantee 4, Tallinn, 10149*. From the airport there are two main options: going by bus or by taxi.

- **By bus**

If you choose to go by bus, you will find the bus stop of **line 2** which is the one you need to get. The stop is called *Lennujaam*. You have to do 5 stops and get down at **Tornimäe**. Then, you need to walk for about 4 minutes, heading west on *Rävala puiestee* towards *Kivisilla* and turn right onto *Kaubamaja*. The stop is called *Kaubamaja* and it will be on your left. You need to get the line number 1. You need to get down at the 4th stop, called *Hotel Tallinn*. Finally you have to walk for about two minutes. Head northwest on *Toompuiestee/Route 8*. Turn left towards *Toompuiestee/Route 8*. Turn right onto *Toompuiestee/Route 8*. Turn left onto *Paldiski maantee/Route 8*. Turn right and you will find the Park Inn by Radisson Meriton Conference & Spa Hotel Tallinn.

In total, the trip will take around 35 minutes.





- **By taxi**

The approximate price is 12€ and the trip is about 15 minutes.

2. Hotel

*Park Inn by Radisson Meritor Conference & Spa Hotel Tallinn*****
Toompuiestee 27, Paldiski Mantee 4, Tallinn, 10149
Estonia

Tel: + 372 62 88 100

Email: info.meriton.tallinn@rezidorparkinn.com

Website: <https://www.parkinn.com/>

3. Transports

Consists of bus, tram, trolleybus, train and ferry services. Bus, tram and trolleybus routes are mainly operated by Tallinna Linnatranspordi AS, but since 1995 MRP Linna Liinid is also operating several lines. Electric train services are offered by Elron and the ferry service to Aegna island is operated by Kihnu Veeteed.

Tallinn is the only city in Estonia to have ever used trams or trolleybuses. The first tram route was opened in 1888, and in 2008 the tram celebrated its 120th anniversary. Trolleybuses were first planned for Tallinn in 1946, but the first route to open commenced services in 1965. Since then the trolleybus network was expanded to nine routes however operations began to be scaled back. In 2000 one route was closed followed by another in 2012 followed by two further routes closing in 2015, leaving five lines remaining.

4. Telephone

Estonia international country code: +372

5. List of useful contacts

FMA Secretariat

Office JAN 2 Q 73

European Parliament

B-1047 Brussels

Tel: +322 2840703 Fax: +322 2840989

Email: formermembers@europarl.europa.eu

Elisabetta FONCK

Mobile phone: +32 473 646746



Embassies and consulates in Estonia

- **Spanish Embassy in Estonia**
Liivalaia 13/15 - 6^e
10118 Tallinn
Estonia
+372 667 6658
- **British Embassy in Estonia**
Wismari 6
Tallinn
15098
Estonia
+372 667 4700
- **Dutch Embassy in Estonia**
Rahukohtu 4-I - 10130 Tallinn
Estonia
+372 680 5500
- **Italian Embassy in Estonia**
Vene 2, 3rd floor 15075 Tallinn
Estonia
+372 627 6160
- **French Embassy in Estonia**
20 rue Toom Kuninga
15185 Tallinn
Estonia
+372 631 1492
- **German Embassy in Estonia**
Toom-Kuninga 11
15048 Tallinn, Estonia
+372 687 5300
- **Consulate of Luxembourg in Estonia**
Liivalaia 45 10145 Tallinn
Estonia
+372 628 3210/+372 628 3332
- **Hungary Honorary Consulate in Estonia**
Estonia pst 5A
10143 Tallinn
Estonia
+372 631 3791



- **Embassy of the Republic of Poland in Estonia**

Sur Karja 1/Vana Turg 2/4
110140 Tallinn
Estonia
+372 62 78 201/+372 62 78 206

6. Climate in Tallinn

Tallinn has a humid continental climate with warm, mild summers and cold, snowy winters. Winters are cold but mild for its latitude, owing to its coastal location. The average temperature in November is 7 °C (44 °F).

7. Electric power supply

The electrical current is 220 volts AC, 50 Hz, European-style 2-pin plugs are in use.

8. Languages

Estonian is the first language that absolute majority of the population is able to use.

20-25% of the population is Russian-speaking, big part of them are able to speak or at least understand Estonian and majority of Estonians are able to understand and speak at least some Russian.

English is widely and fluently spoken and expats and tourists should have no problem whatsoever except in faraway rural communities and with elderly people. Young generation (teens) are often pretty much bilingual.

Finnish is understood and spoken to some extent due to (much overstated) similarity with Estonian, especially in Northern Estonia.

9. Local time

The time changes for Tallinn over the year. Tallinn observes EEST (UTC+3) during the summer and observes EET (UTC+2) during the other part of the year.

10. Money

Estonia uses the euro as its official currency. Larger hotels, stores and restaurants accept Visa, MasterCard, Euro card and American Express debit and credit cards.

However, it is advisable to carry some cash with you. Most banks are open from 9:00 to 18:00 on weekdays. Western Union service is available in most post offices and banks in Tallinn.

11. Emergency Numbers

The number for all emergency services in Estonia (ambulance, fire and police) is 112.



12. Smoking in Estonia

In force since Jan. 1, the Estonian tobacco law bans smoking in a number of places and sets requirements for pubs and tobacco sellers.

According to the law, it is prohibited to smoke in buildings and land used for sports, health care, educational, cultural and governmental institutions, tunnels, stairwells and offices and rented apartments (if the landlord bans it). There is no smoking in public transport as well. Consumer Protection Board police officers and officials will enforce the law.

13. Tips

At cafés and restaurants it customary to tip between 5-10% of the bill. In some reputable establishments the tip can be included in the total account.