

Estonian Economy

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ESTONIAN ECONOMIC POLICY

- **According to the Bank of Estonia forecast presented on 18 April there is a great probability that Estonia will not be able to meet the Maastricht inflation criterion in the period 2007-2009 and as a result the Euro cannot be adopted in 2010.** But Bank of Estonia governor Andres Lipstok underlined that adoption of the Euro was still an important priority and Estonia would have to set a clear Euro adoption target. It will be possible to fix the date after the recently installed government has drawn up its budget, Lipstok said. The budget strategy must fix the forthcoming rises in excise taxes, which will significantly influence inflation.
- **A poll carried out by the Estonian Consumer Protection Association (ETL) revealed that 60 percent of respondents were satisfied that accession to the Euro was postponed, while 20 percent would gladly have adopted the Euro now.** Concerning the time of accession, 30 percent wanted as late a date as possible, while 32 percent of the consumers said they were ready to accede at the first opportunity. Quarter (25 percent) of the respondents do not want to have the Euro adopted at all, while 13 percent have no stance concerning accession to the Euro.
- **Estonia might adopt the common currency Euro in 2011, Nordea Bank suggests in its new economic review Baltic Rim Outlook.** In Nordea's view, Estonia will not meet the Maastricht criteria for the adoption of the Euro before 2010 and consequently could switch to the Euro in 2011, the governor of the bank, Vahur Kraft, said on 23 April. In order to raise confidence, the government should map out concrete steps for transition to the common currency and also put in place a clear timetable, Kraft said. Nordea predicts that the consumer price index will rise by 4.9 percent in the current year and 5.4 percent in 2008.
- **There are no plans to take special measures to curb inflation, the Bank of Estonia said on 11 April.** "Admittedly, inflation is somewhat higher than we'd like, but it's nothing that would require taking urgent extraordinary steps," the head of the central bank's PR service, Janno Toots, said. According to Toots, Estonia must resolutely stick to its previous successful economic policy based on an open economy, fixed exchange rate of the national currency kroon, and a balanced or surplus budget. The inflation rate in Estonia has been changeable over the last few months but in agreement with the country's approach to the living and price standards of old member states of the EU, the central bank finds. In view of the rapid harmonization of the income level, inflation will stay relatively high both in the current year and the next and be further increased by tax hikes, the Bank of Estonia estimates.
- **At its Cabinet meeting on 19 April the Estonian government endorsed the timetable of drawing up the state budget strategy for the next four years and the next year's budget; the strategy should arrive in the government on May 24.** "As we had elections this year, the strategy will be drawn up in a shorter time than usual," a spokesman reported Finance Minister Ivari Padar as saying. The next year's state budget should be introduced to the parliament in September.
- **The European Commission has in a bill made known the size of the fines for new members related to surplus stocks of commodities, setting the fine for Estonia at close to 118 million kroons (EUR 7.54 mln) instead of the previously announced 330 million kroons.** That fine does not include the penalty for surplus stocks of sugar, the size of which for Estonia stands at 45.7 million Euros. Andres Oopkaup, vice secretary of the Estonian Ministry of Agriculture in charge of agricultural and trade policy, said the quantities deemed as excessive have been substantially reduced as a result of communication between the Commission and the Estonian side.
- **Meeting with members of the US Chamber of Commerce on 20 April Estonian Prime Minister Andrus Ansip said that compared with 2000 the difference between the income of the wealthiest and the poorest fifth of the population had contracted.** "If in 2000 the difference between the income of the richest 20 percent

was 6.68 times as high as that of the poorest 20 percent, then by today the difference has contracted to 5.3 times," the government communication office reported Ansip as saying. Ansip said contraction of inequality in the society was an important figure of the improvement of competitiveness. The head of government also pointed out that last year productivity in Estonia per employee achieved the level of 61 percent of the EU average.

- **Estonia's foreign trade deficit reached 45.8 billion kroons (EUR 2.93 b) last year which is 45 percent more than a year earlier, the Statistical Office reports.** The annual trade turnover totaled 284.8 billion kroons, with exports making up 119.5 billion kroons or 42 percent and imports 165.3 billion kroons or 58 percent. The turnover increased 27 percent year-on-year, exports grew by 24 percent and imports, by 29 percent. In 2006 Estonia exported goods to 151 countries and imported goods from 126 countries. The trade balance was positive with 94 countries.
- **The share of CIS countries in Estonia's foreign trade balance increased in both export and import last year whereas the share of EU countries declined.** It appears from data by the Statistical Office that if in 2005 the share of EU member states in exports was 78 percent then last year it dropped to 65 percent. At the same time the share of CIS countries increased to 11 percent from 9 percent in 2005. Export into EU countries grew last year by 2.2 billion kroons or 3 percent, and into CIS countries by 4.2 billion kroons or 50 percent.
- **The government's control of state-owned companies and foundations should be more careful as otherwise scandals relating to the oil producer Werol and Eesti Viljasalv (Estonian Grain Board) could be repeated, the State Audit Office finds.** An audit of companies and foundations in the areas of governance of the Economy and Agriculture ministries showed that state guidance and supervision of their work is not effective and functioning. The auditors' conclusion is that in order to improve the level of supervision a state involvement policy together with main goals has to be decided, supervisory duties of ministers and company councils set, and the functioning of the chain of guidance ensured.
- **Estonian Finance Minister Ivari Padar promises to increase transparency of state-owned companies and stricter control of their operations.** To increase control, the Finance Ministry is planning reorganizations within the ministry, Padar told BNS on 16 April. Also the process of renewal of state-owned companies' supervisory boards will start within the next couple of weeks. He said the good specialists working on the supervisory boards should continue that work. Padar said that some of the members of state-owned companies' supervisory boards would be appointed on the basis of political agreements and the respective talks between the coalition partners could begin the next week.
- **On 12 April the Estonian government approved amendments to the State Pension Insurance Act which will increase both the base amount of pension and the national pension rate this year.** Under the bill, the base amount of pension would rise by 250 kroons (EUR 16) and the national pension rate, by 150 kroons from July 1. The enactment of the bill would raise pension expenditure by 671 million kroons, the governmental press service said. The draft law will now be sent to parliament for deliberation.
- **Estonian companies operating in Latvia have established the Estonian Chamber of Commerce.** The aim of the Estonian Chamber of Commerce is to develop and simplify the birth of business relations between companies of the two neighboring countries and provide to its members advice in economic and trade matters, the Foreign Ministry reported. According to the statutes of the Chamber of Commerce the Estonian ambassador to Latvia is a member of the board and honorary chairman of the chamber.

MAJOR ECONOMIC INDICATORS

- **The Estonian economy will grow by 8.4 percent this year according to the spring forecast of the Bank of Estonia; the growth will be by 6.5 percent next year and by 5.6 percent in 2009.** Last October the central bank forecast that the Estonian economy would grow by 8.3 percent in 2007. In the opinion of the central bank the living standards will continue to rapidly approach those of the leading European industrial countries in the long term and Estonia's economic growth should be of 7-8 percent. "Estonia must continue implementation of the economic policy that has brought success to it so far, because adaptation of the economy will take place through natural market development and will not require a different policy than at present," the central bank said.
- **Estonian economy will expand by 7.9 percent in the current year and 8.3 percent in 2008, Nordea Bank's fresh economic review of the Baltic region, Baltic Rim Outlook, suggests.** The head of the bank's analysis department, Sander Klaos, told reporters on 23 April that the Estonian economy is largely fed by the closed sector such as construction and private consumption. The slowdown of economic growth in coming years is supported by the decline of domestic consumption and export, Klaos said. In Nordea's estimate, unemployment should drop to 5.5 percent in the current year and 5.2 percent in 2008.
- **In 2006, the average monthly expenditure per household member in Estonia was 3,712 kroons (EUR 237) while average monthly disposable income totaled 4,343 kroons (EUR 278), the Statistical Office said. Compared to 2006, average monthly expenditure increased 16 percent and average monthly disposable income 25 percent.** Expenditures for food made up the largest separate expenditure item with 919 kroons per household member, accounting for 25 percent of total expenditure. Next came expenditures for dwelling, transport

and leisure time. During the year, the share of food expenditures decreased and the share of expenditures on transport, leisure and on health care rose.

- **At the end of March the number of jobless registered with the Estonian Labor Market Board stood at 14,257, down by 25.8 percent from the same period last year.** Compared with the end of February, the number of registered jobless was up by 182, the Labor Market Board said. During March 16,066 people looked for work via the Labor Market Board. Some 982 jobless found work and 2,307 people were registered as new jobless. The number of young jobless (aged 16-24) registered with the Labor Market Board as of March 31 was 1,746, while older jobless aged above 50 numbered 4,537. Women made up 60.7 percent of the unemployed registered at the end of last month.
- **Estonia's government surplus in 2006, at 3.8 percent of gross domestic product, was the third-largest in the EU, it appears from preliminary data by the bloc's statistical office Eurostat.** Larger government surpluses than in Estonia were recorded in Denmark and Finland, respectively 4.2 and 3.9 percent of GDP, the Finance Ministry reported. Latvia's budget surplus was 0.4 percent of GDP. Hungary had the largest deficit in percentage of GDP -- 9.2 percent. The average surplus for the EU27 was 1.7 percent of GDP.
- **The foreign trade shortfall of Estonia in February 2007 totaled 2.5 billion kroons (EUR 160 mln) compared to 2.6 billion kroons (EUR 166 mln) in the same month a year ago, the Statistical Office said.** According to the preliminary figures, the value of Estonia's foreign trade in February was 21.7 billion kroons. Compared to February 2006, the value of foreign trade remained on the same level but decreased by four percent in comparison with January 2007. Exports in February totaled 9.6 billion kroons (44 percent of the volume of trade) and imports 12.1 billion kroons (56 percent).

PRICES

- **The Bank of Estonia said inflation is likely to slow down to some extent on year in the next few months, as the effect of the fast rises in motor fuel prices last spring receded.** "But this will not yet be a sign to usher in a slowdown trend, as the application of a higher value-added tax rate on distant heating should start speeding up the inflation once again in the summer. Although inflation pressures will persist high through the year due to a higher economic growth rate, pressure on prices is expected to decline in the long term," said Martin Lindpere, head of the economic forecasts sub-department at the central bank.
- **The prices of consumer goods and services went up by an average of 5.7 percent in March against the same month in 2006, the Statistical Office said.** In February the rise in consumer prices was by 4.7 percent. The rise in administratively regulated prices of goods and services went up by 3.2 percent and of non-regulated prices by 6.5 percent. Expenses on housing went up by 14.5 percent, on food and non-alcoholic beverages by 7.7 percent and on eating out and accommodation by 7.4 percent. The expenses on communication were reduced by 2 percent on year.
- **According to the Estonian Statistical Office the prices of consumer goods and services were an average of 5.2 percent more expensive in Q1 this year than in the first three months of 2006.** Compared with the last quarter of 2006, the prices of consumer goods and services were 1.8 percent higher in Q1. In Q1 this year the consumer price index was influenced more than the average by higher prices food and expenses on housing compared with Q4 2006. Quarter on quarter the price hike was by 1.4 percent for goods, by 2.4 percent for groceries, by 0.5 percent for manufactured goods and by 2.5 percent for services.

Further information is available:

<http://www.eestipank.info/pub/en/dokumendid/statistika/>

DEVELOPMENT BY SECTORS

BANKING

- **Assets of the Bank of Estonia declined by 3.2 billion kroons (EUR 2.04) or 8.5 percent during March, amounting to 34.5 billion kroons as of the end of the month.** The Bank of Estonia gold and net foreign currency reserves made up 31.2 billion kroons by the end of March after falling by 950 million kroons or 3 percent during the month, the Bank of Estonia said. The Bank of Estonia unencumbered reserve increased by 7.7 million kroons or 0.2 percent during March, amounting to 3.8 billion kroons.
- **Loans to private individuals made up 45 percent of the total volume of the loan portfolio of Estonian banks at the turn of the year, a survey compiled by the Financial Supervision Authority shows.** A year earlier the ratio had been 39 percent. The ratio of real estate related loans in the banks' total portfolio grew from 15 percent in 2005 to 20 percent last year. Hansapank boosted its market share in loans to non-finance sector from 46.2 percent in 2005 to 47.8 percent in 2006. The market share of Ühispank meanwhile dropped from 31.8 percent to 29.7 percent. Nordea saw its market share slide from 10.3 percent to 9.5 percent while Sampo upped its market share from 8.6 percent to 9.0 percent. The total volume of the loan portfolio of Estonian banks was 178 billion kroons (EUR 11.37 b) at the end of last year.
- **Outstanding loans to private individuals issued by commercial banks in Estonia totaled 88.5 billion kroons (EUR 5.65 b) at the end of March, an increase of 59 percent over the same time a year ago.** In comparison with February, loans to individuals grew by 2.8 billion kroons or 3.2 percent, the central bank said. Loans to companies grew by 55.8 percent during the year to 90.6 billion kroons while loans to financing institutions fell by nearly a half to 10.2 billion kroons.
- **The Bank of Estonia said the quality of commercial banks' loan portfolio was good at present, and although it could deteriorate, no major problems could be foreseen.** Bank of Estonia Governor Andres Lipstok said that the major Estonian commercial banks had received loan portfolio management training from their Swedish mother banks and the portfolios were well managed. Lipstok said that he could see no problems concerning the loan quality even in the future.
- **According to the Bank of Estonia the net foreign currency position of Estonian banks fell by 8.6 billion kroons to minus 8.8 billion kroons (EUR 562 mln).** As of the end of February the open net foreign currency position was 194 million kroons in the red, while in January the position was 4.4 billion kroons positive and last October the position was plus 14.7 billion kroons. The foreign currency assets of Estonian banks grew in March by 3.18 billion kroons to 172.68 billion kroons, while foreign currency liabilities increased by 1.77 billion to 127.8 billion kroons.

INDUSTRY

- **Production of industrial output became 7.3 percent more expensive on year this March in Estonia, the Statistical Office said.** The rise in the producer price index against February was 0.4 percent. In March against February, the producer price index was influenced more than the average by a price rise in the food and building materials industry. The export price index grew by 0.1 percent this March against February and by 5.9 percent against March 2006. The import price index grew by 0.5 percent in March against February and by 3.5 percent against March 2006.

TRANSPORT

- **Of the total 424,249 passengers who passed through the Port of Tallinn in March 228,098 or 54 percent were clients of Tallink.** Viking Line followed it with 109,186 passengers and a market share of 26 percent. Eckerö Line's passengers passing through the Port of Tallinn numbered 79,459 and accounted for 19 percent of the total. Other shipping companies served 7,506 passengers that passed through the Port of Tallinn in March. In Q1 this year Tallink carried 597,116 passengers against 590,843 in the same period last year. In the first three months this year 1,109 thousand passengers passed through the Port of Tallinn, 3 percent more than in the same period last year.
- **Vessels of the Estonian shipping group Tallink carried 472,467 passengers in March, 2.2 times more than in the same month a year ago.** The number of cargo units carried last month soared more than 2.5 times to 31,124, and the number of passenger vehicles carried by Tallink grew nearly twice to 35,790. Passengers traveling between Estonia and Finland numbered 178,321 in March, up by nearly 6 percent year-on-year. Replacement of M/S Romantika with the Galaxy to serve the route had an impact on passenger numbers, Tallink said in its press release.
- **Sales of the listed Estonian shipping group Tallink Grupp in the first half of the financial year starting September totaled 5.449 billion kroons (EUR 348.2 mln), more than three times the figure for the same**

period in the preceding financial year. EBITDA of the group also more than tripled to 789 million kroons. The period's net profit was 2.6 million kroons, against 55 million kroons in the same period a year ago. In the first half of the previous financial year, which started in September 2005, Tallink had not yet acquired the shipper Silja Line and the Superfast ships plying the Germany route. In the second quarter of the financial year sales came to 2.471 billion kroons and the company suffered a loss of 112 million kroons. In the same period a year earlier sales totaled 794 million kroons and Tallink suffered a loss of 7.6 billion kroons.

- **The CEO of the Estonian state-owned port company Port of Tallinn and the president of the Ningbo port of China signed a cooperation agreement on container shipments on 23 April.** Ningbo port is the fourth largest port in the world, Port of Tallinn said in a press release. The agreement signed by Port of Tallinn CEO Ain Kaljurand and the president of the Ningbo port, Li Linghong, lays the groundwork for cooperation in the shipment of Chinese goods to Scandinavia and elsewhere in northern Europe, as well as to northwestern Russia, by making use of the possibilities offered by the Port of Tallinn, the company said. Kaljurand said that signing of the agreement was a logical follow-up to the launch of cooperation between the two ports in January this year. In January representatives of the two sides signed a cooperation memorandum in Tallinn.
- **Freight shipment on the infrastructure of Eesti Raudtee (Estonian Railway) during March amounted to a record 4.5 million tons, an increase of 14 percent over the same month a year ago.** Freight shipment by rail in the first quarter of the year grew 16 percent in comparison with the same period of 2006 to reach 12.81 million tons. "We've gone past the four million ton mark for four months in a row," the state-owned rail company's marketing director Rene Varek told BNS.
- **Austrian Airlines will launch flights on the Tallinn-Vienna route as of June 4.** The code sharing flights in cooperation with Estonian Air will take place on Monday, Wednesday, Friday and Sunday, the PressZoom news portal reported. By adding flights to Tallinn to its earlier timetable Austrian Airlines will be providing services in the whole Baltic region; in the two other Baltic capitals services of the carrier were available before. Austrian Airlines flies twice daily from Vienna to Riga and once daily to Vilnius. Austrian Airlines has had flights to Tallinn before -- from October 1997 until mid-2003.
- **The Scandinavian aviation group SAS would be interested in acquiring the 34-percent holding of the Estonian state in the national carrier Estonian Air.** Hans Ollongren, head of public relations in the SAS group, told BNS that if the Estonian government decided to sell its holding the company would certainly be prepared to discuss it. "At the moment we must wait and see," he added. The daily Postimees wrote on 20 April that several politicians find the state should consider selling its holding in Estonian Air as it is not possible for the state to influence the welfare of the company. The Estonian state has a holding of 34 percent in Estonian Air and the Cresco investment bank 17 percent, while SAS is the biggest shareholder controlling 49 percent of the shares.

ENERGY

- **Taking care of the security of supply in Estonia will remain the key objective of Estonia's energy policy, and the government intends to go on with the modernization of the Narva power plants, Minister of Economy Juhan Parts said on 25 April.** "Even though the opening of the energy market will open up significantly wider opportunities for businesses, ensuring of security of supply will remain the basis of the national energy policy," Parts said in his speech at the annual conference of the Estonian power generating and remote heating association.
- **Consumers in Estonia are paying an extra charge in the amount of 2.18 cents (0.14 Eurocents) per kilowatt-hour of electric energy, exclusive of VAT, starting from May 1 to support the generating of energy from renewable sources.** The price of electricity for customers is actually not rising that much because in April Eesti Energia lowered transmission fees, the state-owned power utility said. It said the money collected in this way will be spent to help finance the operations of producers of renewable energy in Estonia. The move will bring about changes in the electricity bills of all consumers. The price rise for household customers will be on the average 0.7 percent of the bill, or 1.3 kroons a month for a household living in an apartment of average size and 2.6 kroons a month for a household living in an average private home.
- **According to representatives of the Russian-German energy company Nord Stream AG planning a natural gas pipeline on the bottom of the Baltic Sea, the firm is considering a southward shift of the pipeline's route in the Gulf of Finland which would bring it into the Estonian economic zone.** In February Finland criticized the choice of the route of the pipeline in the Gulf of Finland, suggesting out of environmental concerns that it be built further south as the bottom of the sea is too uneven in the waters of the Finnish economic zone. "For the entire length of the pipeline, this is one of four route choice proposals that Nord Stream is considering. It would bring the pipeline into the waters of the Estonian economic zone where the bottom of the sea is indeed more even and deeper," Neel Stroebak from Nord Stream management told journalists in Tallinn on 11 April.
- **Building a branch into Estonia of a natural gas pipeline running from Russia to Germany along the bottom of the Baltic Sea depends on local demand for gas and economic feasibility, officials of Nord**

Stream AG, the Russian-German joint venture behind the project, said in Tallinn on 11 April. "For the construction of a branch, a local gas company such as Eesti Gaas (Estonian Gas) would have to make a corresponding proposal and justify its viability. This would serve as the basis for the investor decision," Barbara Kallnik representing the Nord Stream management told reporters. At the moment plans for the Russian-German pipeline include no branches and economic viability analyses for them have not been made, Kallnik added. "The analysis should be carried out by local gas companies," she said.

- **In the first three months this year power companies exported 557.6 Gigawatt-hours of electricity via the Estlink undersea power cable linking the electricity systems of the Nordic and Baltic countries.** CEO of Nordic Energy Link Indrek Aarna told BNS that physically electricity only moved from Estonia to Finland but there were also periods when some traders used the cable in the opposite direction. "But this did not change the summary direction of the use of the cable," he added. Aarna said the average burden of the cable was 76 percent of its full capacity. "As a result the cable was not fully in use during the period, due to the circumstance that electricity prices had been very low in the Nordic countries. In case of higher prices, higher use of the cable could have been expected," Aarna said.
- **According to an Environment Ministry draft development plan the annual oil shale mining limit will be set at 20 million tons in 2007-2015 in Estonia.** Besides, the draft underlines the need of finding opportunities of gradually reducing the use of oil shale as well as the circumstance that if this amount of oil shale is mined and used Estonia can realistically meet the environment protection obligations it has taken. According to the development plan, oil shale is to be used for the production of electrical energy, shale oil and cement, the ministry said.
- **After the Latvian and Lithuanian electricity markets open in July, the Estonian power utility Eesti Energia (Estonian Energy) will start offering competition to local power companies and selling electricity directly to customers, the business daily Äripäev reports.** At the same time Latvenergia, Latvia's monopolistic electricity producer and seller, will remain Eesti Energia's largest customer in that country. " We'll continue selling to them and we'll also start selling directly to clients," member of Eesti Energia board and director for sales and trading Tiit Nigul said.

IT

- **As many as 1,000 new businesses have been established in Estonia using online registration via the portal launched by the authorities on January 2 this year.** In the course of the first quarter of the year, 2,080 applications for entry were filed, including 774 meant to be handled using ordinary proceedings and 1,306 applications for expedited proceedings. Two new general partnerships, 10 self-employed persons and 30 nonprofit organizations were entered into the register on the basis of applications filed over the Internet using ordinary procedures.

REAL ESTATE

- **Building was 15.6 percent more expensive in Q1 this year than in the same quarter the year before, the Statistical Office said.** Compared with Q4 last year building was 3.6 percent more expensive in Q1 2007. The consumer price index was influenced most of all in this Q1 against Q4 2006 by higher labor costs. In this Q1, the price rise in repair and reconstruction work was by 15.9 percent on year and by 3.2 percent against Q4 2006.