

Estonian Economy

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ESTONIAN ECONOMIC POLICY

- **The state of the Estonian economy is changing from abnormal to normal, the minister for economic affairs told journalists at the presentation of the six-month prognosis drawn up by the Institute of Economic Research.** "All that we have seen -- a real estate price hike, wage reforms and daring repurchase of the railway -- is the level of Azerbaijan, around 30 percent annual economic growth. We are reverting from abnormal to normal," Juhan Parts said. In Parts' words, Estonia must brace itself for the closure of a part of enterprises and their employees having to retrain. "In the conditions of competition one needs to change, import of labor would be giving in to competition conditions and the state needs to exercise caution in this regard," the minister said. All in all, the minister viewed the economic slowdown as a good and sobering trend.
- **Estonia's budget surplus depends on the revenue projection to be ready by the end of August and the course of budget negotiations, Finance Minister Ivari Padar said in a comment on a rating agency recommendation to increase the surplus.** "Estonia's budget policy remains one of the most conservative in the EU and the country's fresh budget strategy (for 2008-2011) for the first time includes the target of bringing in budgets with a surplus," Padar told BNS through a spokesperson. "It (the surplus) will definitely not be smaller than planned in the budget strategy."
- **On 5 July The Estonian government approved income tax-related changes to bring the country's taxation system into line with the EU's parent-subsidiary directive and harmonize the taxation of private individuals' income from securities with that applied to companies.** Finance Minister Ivari Padar said at the governmental press conference that reinvested corporate profit will remain tax-exempt. The amendments in preparation would at the same time exclude double taxation of profit in different EU countries.
- **The International Monetary Fund's final report on consultations with Estonia released on 30 July commended the country's tight fiscal policy but noted that budget surplus targets could be even more ambitious.** The signal sent by the budget strategy would be clearer if the specified floors were more ambitious given the significantly larger surpluses achieved in recent years, the report said. The IMF cautioned that the rapid growth of credit in the past few years calls for continued vigilance in financial supervision, including a more systematic use of stress tests. As to supervision of banks, the IMF stressed that close cooperation with the Nordic authorities is essential, given Estonia's mostly Nordic-owned banking sector
- **The international rating agency Fitch Ratings has affirmed Estonia's long-term foreign currency and local currency issuer default ratings at previous levels with a stable outlook.** According to the statement released today, Fitch affirmed the long-term foreign currency rating at A and the local currency rating at A+. The outlook is stable. The country ceiling was affirmed at AA and the short-term foreign currency rating, at F1. However, while not changing the outlook, the agency pointed in its analysis at the growing risks posed by imbalances of the Estonian economy, Bank of Estonia Vice President Andres Sutt noted.
- **On 2 July the rating agency Standard & Poor's changed the outlook on Estonia's sovereign rating from stable to negative.** The agency at the same time affirmed the long-term credit rating at A and the short-term credit rating at A-1, the Bank of Estonia reports. The agency's decision demonstrates a potential change in investors' expectations, indicating growth of risks related to strong domestic demand, Bank of Estonia Vice President Andres Sutt said.
- **The analysis released on 2 July by the international rating agency Standard & Poor's should be mainly read as an admonition to curb borrowing rather than an expression of concern about a too small budget surplus, the head of the Estonian government said.** "If borrowing and consumption continue at previous rates we'll apparently be facing a downgrade of the actual sovereign rating and not just the rating outlook," Andrus Ansip said.

In Ansip's words, such a move could entail certain consequences. "Our loan interest rates might go up. Even if they rise by just half a percentage point, it will translate into a billion kroons (EUR 64 million) annually for our borrowers," the prime minister observed.

- **Downgrading of the Estonian sovereign rating outlook from stable to negative by Standard & Poor's is a warning to the government not to slacken its budget policy, Hansabank Markets says.** "We anticipated the possibility of a rating downgrade but hoped Standard & Poor's would wait with it until the government's budget plan crystallizes in August or September. Downgrading of the rating will be ruled out in case the government comes out with a more responsible budget plan already in the next couple of weeks and clearly expresses its will to raise taxes," Hansabank Markets said in a comment on the rating action.
- **A soft landing for Estonia's overheated economy is seen as a highly realistic scenario by 12 percent, rather realistic by 64 percent and rather unrealistic by 24 percent of experts interviewed by the Institute of Economic Research.** It appears from the June survey that in the experts' judgment the economic climate will stay favorable in the next six months. Market barometers indicate a slow cooling of the economy. Domestic limitedness of the labor resource is seen as a serious problem. In industry 39 percent of enterprises have more orders on their books than usual and 47 percent have the usual amount. The existing orders ensure production for 4.9 months compared to 4.5 months a year ago.
- **A soft landing of the economy has started in Estonia and Latvia, while Lithuania is set to see accelerating economic growth also this year, Hansabank Markets said in its overview of Baltic economies released on 26 July.** The main risk highlighted by analysts at Hansabank is the governments' fiscal policy that tends to be expansionist and fuel consumption growth. Driven by growing employment and an extremely fast increase in incomes and loans, the rapid rise in consumption is causing concern the the case of all three countries, Hansabank Markets said.
- **Interviews conducted by the business daily Äripäev revealed that leaders of all the major Estonian banks doubt the possibility of the adoption of the euro in 2011 and believe loan interest rates are on the way up, the newspaper reports.** Bank leaders don't think devaluation of the national currency the kroon is likely right now, but the delay of the switch to the euro increases uncertainty and it cannot be ruled out that the subject will crop up in a few years' time, the daily says.
- **Estonia's Minister of Economy and Communications Juhan Parts plans to unite by next year five supervisory bodies with the aim of cost-saving and more efficient control of monopolies, the business daily Äripäev reports.** The minister intends to combine the Competition Board, Communications Board, Railway Inspectorate, Energy Market Inspectorate and Technical Inspectorate into one watchdog body.
- **Slightly more than half or 53 percent of Estonians consider their personal financial situation to be good and 4 percent, excellent, it appears from a study by AC Nielsen pollsters.** The prospects of finding work are seen as very good by 15 percent and as good, by 52 percent of respondents. The global survey places Estonia in the middle of the consumer confidence index scoreboard. Estonian consumers see the future in rosier colors than those in other Baltic countries. The Estonian consumer confidence index is 100 points compared to 94 and 92 points in Latvia and Lithuania, respectively.

MAJOR ECONOMIC INDICATORS

- **Estonia's fiscal revenues in the first six months of this year totaled 37.2 billion kroons (EUR 2.38 b), making up 49 percent of the target for the whole year, the Finance Ministry said.** At the end of June revenues surpassed expenditures by 1.7 billion kroons. Compared with the same period of 2006, fiscal intake was up by 20.8 percent. At the end of June 2006 revenue receipts added up to 30.8 billion kroons.
- **Estonia's foreign trade shortfall in May 2007 amounted to four billion kroons (EUR 0.26 b), compared to 3.5 billion kroons in May 2006 and 4.8 billion kroons in April.** The turnover of foreign trade totaled 27.2 billion kroons in May. Compared to May 2006, foreign trade turnover increased by 11 percent while compared to April 2007 it increased by 7 percent, according to preliminary data by the Statistical Office. Exports totaled 11.6 billion kroons in May, accounting for 43 percent of the foreign trade turnover. Imports came to 15.6 billion kroons, or 57 percent. Exports of goods increased by 10 percent compared to May 2006 and by 13 percent compared to April 2007. Imports were up by 11 percent over May 2006 and by 4 percent over April 2007.
- **Estonia's current account shortfall will in Hansabank Markets' estimate decrease to 12.5-15.5 percent of gross domestic product by the end of the year.** For this forecast to come true, economic developments must happen in accordance with the so-called soft landing scenario. In Hansabank Markets' judgment, current developments are precisely such. The bank said it does not agree with the rating agency Standard and Poor's' forecast of 17 percent deficit in 2007.
- **There were 12,640 unemployed persons registered with the Estonian Labor Market Board at the end of June, 12.2 percent fewer than at the same time last year and 3.3 percent fewer than at the end of the**

preceding month. Registered unemployed accounted for 1.5 percent of the working age population from age 16 to pension age, the Labor Market Board said. The Labor Market Board provided labor market services to 1,078 people during the month, and 782 unemployed people found occupation.

- **Estonian exports have in the last five years grown 2.1 times compared to twofold growth in Latvian and Lithuanian exports, the Statistical Office reports.** Imports have at the same time increased 2.1 times in Estonia and Latvia and 1.9 times in Lithuania. While import continued growing at a fast pace also in 2006 the growth in exports slowed down somewhat which had a negative impact on the countries' foreign trade balance.
- **A survey based on data from the Tax and Customs Board shows a difference of three times between the incomes of residents in the wealthy residential area of Viimsi bordering the capital Tallinn and the fishing and agricultural community of Piirissaar, a Lake Peipsi island.** The difference was 3.2-fold judging by residents' average gross income in 2006 and 2.8-fold on the basis of figures for the first four months of this year.
- **The price level of food and nonalcoholic beverages in Estonia made up 75 percent of the average price level for the 27 EU member states in 2006, a survey by Eurostat indicates.** Denmark, Ireland and Finland had the highest prices for food and nonalcoholic beverages, surpassing the EU average by respectively 42 percent, 25 percent and 20 percent.

PRICES

- **The consumer price index in Estonia in the second quarter of this year increased 5.7 percent year on year, the Statistical Office reports.** Goods were 3.9 percent more expensive than in the second quarter of 2006. Food prices rose 7 and those of manufactured goods, 1.2 percent. Services cost 9.1 percent more. The CPI was most influenced by rises in housing expenses and food prices.
- **Consumer prices in Estonia rose 5.8 percent in June compared to the same month a year ago, the Statistical Office reports.** Administratively regulated prices went up by 4.1 percent and non-administered prices, 6.4 percent year-on-year. Food prices climbed 6.6 percent, manufactured goods 1.8 percent and services 9.4 percent. The consumer price index was most affected by an increase in housing costs and the rise in food prices.
- **Expectations as regards a further increase in prices have been declining since February among the Estonian businesses interviewed by the Institute of Economic Research, with a quarter of the enterprises interviewed in June anticipating a rise in producer prices.** That is compared with nearly half of enterprises in a similar survey at the beginning of 2007. In the June survey the estimates as regards price developments were comparable with those from June a year ago, the Ministry of Economy and Communications said on Monday.
- **The Estonian construction price index increased in the second quarter of 2007 by 2.1 percent compared to the first quarter and by 15.2 percent year-on-year, the Statistical Office reports.** The rise in the construction price index on both quarterly and annual comparison was mainly the result of increased labor costs. Labor costs soared by 26.5 percent year-on-year. Prices of building materials at the same time climbed by 9.9 percent and building machines by 9.1 percent.
- **Several factors indicate that price rise will not slow down significantly in Estonia this year, an analyst with Hansabank Markets said.** VAT on distant heating was rising in July, thermal energy prices can be expected to go up in numerous self-government units in the fall, and transportation services also will probably become more expensive, Maris Lauri told BNS. "The extensive rise might hold back a rise in prices of other goods, but certainly not to any significant extent, because employment and wages keep growing as before," she said. According to Lauri, Hansabank Markets forecasts a rise of 5.1-5.2 percent on the average in consumer prices this year provided the world market price of oil will not rise substantially but will in keeping with current forecasts come down slightly in the second half of the year.

Further information is available:

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

DEVELOPMENT BY SECTORS

AGRICULTURE

- **On 19 July the government endorsed a list of Estonia's goals for the period of the Portuguese presidency of the EU, which names as important the need to review the system of EU direct agricultural subsidies in the long term.** Estonia is planning to launch in the EU an evaluation of the implementation, or so-called health check, of the common agricultural policy reformed in 2003, the Ministry of Agriculture said.

BANKING

- **Assets of the Bank of Estonia increased in June by 413.2 million kroons (EUR 26.4 million) or 1.2 percent, totaling 34.6 billion kroons at the end of the month.** The bank's gold and net foreign currency reserve stood at the end of June at 30.3 billion kroons, down by 107 million kroons or 0.4 percent from May, the central bank said. Unencumbered reserve decreased by 50.3 million kroons or 1.3 percent to stand at 3.7 billion kroons at the end of the month.
- **Assets of Estonian commercial banks increased by 11.8 billion kroons (EUR 0.75 billion) in June and amounted to 287.02 billion kroons at the end of the month, data by the central bank show.** The annual increase in bank assets was 73 billion kroons or 34 percent. Banks' claims to clients totaled 213.9 billion kroons, claims to credit institutions 25.3 billion and claims to the central bank 14.5 billion kroons at the end of last month.
- **The open net foreign exchange position of Estonian banks strengthened in June by 233 million kroons to 33.12 billion kroons (EUR 2.12 b), data by the central bank show.** At the end of May the open net foreign exchange position was 32.89 billion kroons and a month earlier, 33.37 billion kroons. Foreign currency assets of Estonian banks grew last month by 9.83 billion kroons to 200.59 billion kroons while foreign currency liabilities increased by 9.42 billion kroons to 151.16 billion kroons.
- **Outstanding loans to private individuals issued by commercial banks in Estonia totalled 7 billion kroons (EUR 6.2 billion) at the end of June, an increase by one-fifth over the end of 2006.** In comparison with the end of June 2006, loans to individuals grew by 53 percent, the central bank said on Tuesday. Loans to companies grew by 14.6 percent during the six months to 96 billion kroons. The annual rate of growth was 43 percent.
- **Interest rates on loans issued in euros moved higher in Estonia in June while the rates applicable to kroon loans fell in comparison with the end of May.** The average annual interest rate for euro loans climbed from 5.16 percent at the end of May to 5.6 percent at the end of June. For kroon loans the respective rates were 7.87 percent and 7.61 percent. At the end of 2006 the average rate for euro loans was 5.01 percent, while at the end on June 2006 it was 4.17 percent. For kroon loans the average annual rate was 7.04 at the end of 2006 and 6.7 percent at the end of June 2006. The average rate for loans to individuals was 5.49 percent in euro loans and 10.44 percent in kroon loans.
- **Estonian commercial banks had at the end of June 1,413,920 Internet banking customers, 11,602 more than a month earlier.** The number of customers entitled to use Estonian banks' telephone banking services grew last month to 393,462.
- **Estonian residents made in the first half of this year transactions worth 53.8 billion kroons (EUR 3.44 b) using bankcards, an increase of 25.7 percent compared to the same period in 2006, figures by the Bank of Estonia show.** Transactions using debit cards were worth nearly 50 billion kroons while transactions with credit cards soared 40 percent year-on-year to 4.2 billion kroons.

ENERGY

- **On 12 July the Estonian government decided to formally contest the European Commission's decision to reduce the quota of industrial carbon dioxide emissions for Estonia for the next five-year period.** At its Cabinet session the government discussed Estonia's position as regards the Commission's decision to reject Estonia's wish to be given an annual emissions quota of 24 million tons for the years 2008-2012. Under the Commission's plan Estonia would get a quota of 12.7 million tons per year.
- **Estonia already now meets the 20-percent minimum requirement as regards the use of energy produced from renewable sources, set out in the European Commission's guidelines for the development of renewable energy.** The draft paper seeks the above average ratio to be achieved in the EU by 2020. Einari Kisel, chief of the energy department at the Estonian Ministry of Economy and Communications, told BNS that in the basic guidelines which are soon going to be completed by the Commission the ratio is calculated exclusively on the basis of actual final consumption, leaving aside exports of electricity and other kinds of energy as well as losses in networks and power generating plants.

IT

- **There are at present in Estonia 1,092 certified WiFi networks meant for public use, data by the Internet portal WiFi.ee show.** Thanks to competition, free wireless Internet networks by now outnumber those made available to users for a charge, initiator of the nonprofit association Wi-Fi.ee Veljo Haamer said. In his words, a WiFi network in hotels and restaurants is the rule rather than the exception.

INDUSTRY

- **Industrial production in Estonia increased in May by 8 percent year-on-year, including 5 percent growth in manufacturing, the Statistical Office reports.** By seasonally adjusted statistics, industrial production increased by 1 percent compared to April. If in the first months of this year the growth in industrial production was 8-9 percent on annual comparison then in May the pace of growth slowed down somewhat, the Statistical Office observed.
- **Production of industrial output in Estonia was in June 8.3 percent more expensive than in the same month last year, the Statistical Office said on 20 July.** Month on month, producer prices were up by 0.1 percent. Compared to May, the producer price index was influenced the most by an increase in prices in the manufacture of leather and leather products and wood and wood products. Compared to June 2006, prices grew the most in the manufacture of wood and wood products.
- **If at the beginning of this year industrial production in Estonia kept growing at a rate of 8-9 percent compared to the same period a year earlier then in June year-on-year growth of 4.5 percent was recorded, the Statistical Office reports.** Production increased by 2.7 percent in manufacturing, 24.3 percent in the energy sector and 12.2 percent in mining. By seasonally adjusted statistics, industrial production decreased by 1.2 percent compared to May. The slowdown of the pace of growth of production is above all due to the woodworking industry that has been on a downward course since the beginning of the year because of a shortage of raw material.

REAL ESTATE

- **According to the Statistical Office, 2,105 new dwellings were cleared to be taken into use in Estonia in the second quarter of this year, 2.3 times more than during the same period a year ago.** In comparison with the first quarter of this year, the number of dwellings in new buildings permitted to be taken into use increased by 46 percent. The total floor area of the dwellings authorized for use in the second quarter doubled year on year to 164,700 square meters.

RETAIL

- **Retail sales by retail trade enterprises in Estonia grew 16 percent in constant prices in May compared to the same month of 2006 and 8 percent in comparison with April, the Statistical Office reports.** Retail sales of goods accounted for nearly 85 percent of the 5.4 billion kroon (EUR 345.05 million) sales revenue of retail enterprises in May. Compared to May 2006, sales increased by 21 percent in current prices, while in comparison with April the rate of increase was 9 percent.
- **Retail sale of goods at constant prices by retail trade enterprises in Estonia grew in June 16 percent year-on-year, the Statistical Office reports.** Retail trade enterprises sold in June by retail 4.7 billion kroons' (EUR 300.32 million) worth of goods. Shops selling manufactured goods again posted the most robust sales growth at 21 percent. Sales by grocer's shops increased by 11 percent from June 2006. Growth has been stable since the beginning of the year. Due to the large share of grocer's shops, they accounted for nearly 45 percent of the total increase in retail sales.

TOURISM

- **In May the number of foreign tourists staying in Estonian accommodation establishments dropped by 8,000 compared to the same month last year, with declines recorded in the number of both Finnish and Russian tourists, the Statistical Office reports.** Compared to May 2006, fewer tourists arrived from the main partner countries of the Estonian tourism sector -- Finland, Sweden and Germany. At the same time the number of tourists from other neighboring countries -- Latvia, Lithuania and Norway -- increased.