

Estonian Economy

ESTONIAN ECONOMIC POLICY.....	1	BANKING	3
MAJOR ECONOMIC INDICATORS.....	2	TRANSPORTS.....	4
FOREIGN ECONOMIC RELATIONS.....	3	ENERGY	4
DEVELOPMENT BY SECTORS	3	AGRICULTURE	5
		IT.....	5
		INDUSTRY	5

ESTONIAN ECONOMIC POLICY

- **Estonia's GDP is set to grow at an annual rate of 7.5 pct in 2008, according to a tentative forecast by the Estonian Institute of Economic Research.** Consumer prices are about to go up at exactly the same rate, or 7.5 pct. The latest forecast by the Estonian Finance Ministry suggests a GDP growth rate of 7 pct and a CPI growth rate of 7.4 pct for 2008.
- **Industrial companies in Estonia still see shortage of labor as the main obstacle to increasing output, it appears from a survey carried out by the Estonian Institute of Economic Research.** Shortage of labor was named as the main hindering factor by 42 pct of the managers interviewed by the institute. The survey shows this to be a growing trend, as the respective ratio was 39 pct in the 3rd quarter of 2006 and 38 pct in the 2nd quarter of this year. Productivity has grown faster than wages this year at 8.5 pct of the companies. Wages grew faster at 45.1 pct, while at 46.3 pct of companies the two grew synchronously.
- **Speaking at a forum for public servants in Narva, PM Andrus Ansip said on October 4 that Estonia can effectively choose between 4 strategies as regards energy policy.** "Today's decisions on energy policy will have an effect on Estonia's competitiveness and security also 10 and 20 years from now," Ansip said. The options that Estonia can choose from are either to invest in the reconstruction of oil shale burning power plants, substantially increase the share of renewable energy, look toward nuclear energy, or start massive import of electric energy, which would increase Estonia's dependence on suppliers. Right now Estonia's dependence on external suppliers of energy is one of the lowest in Europe, being about 3 times lower than Latvia's, for instance. Estonia cannot choose only one of these options, Ansip said. "All options have to be used," he said, explaining that the question is how much of each of them should be put into the equation.
- **Estonian PM Ansip reaffirmed the importance of joining the euro zone and said he sees a chance for the country to adopt the common currency early in the next decade.** Acceding to the euro zone at the first opportunity has high importance for the government and whole Estonian economy but unfortunately the inflation rate does not depend much on the government's activity, Ansip said.
- **EU support in the amount of 53.3 billion kroons (EUR 3.4 b) that is to flow into Estonia in 2007-13 will have a similar impact on the economy as the sale of Hansabank to Swedbank a couple of years ago, the minister of economy Juhan Parts said.** The European support will be channeled mainly into infrastructure, research and development, and human resources, Parts added.
- **The Estonian government is in favor of opening the postal market to competition in 2009 rather than at the end of 2010, the minister of economy Juhan Parts said.** Local media have misinterpreted the part of the EU ministers' agreement on the opening of the postal market that concerns Estonia. "The government's position is that there is no point in putting off the liberalization of the postal market. We shall open the market on January 1, 2009," Parts said. This requires amending of the postal law, he noted. Cyprus, the Czech Republic, Greece, Hungary, Latvia, Lithuania, Luxembourg, Malta, Poland, Romania and Slovakia wished a period of grace for full liberalization of the market.
- **Employers as well as former Finance Minister Aivar Soerd at an economic seminar organized by the Confederation of Estonian Employers repeatedly criticized growth in public sector wages.** The rhetoric of the government in connection with the public sector pay rise was to speak about how much the salaries of rescue workers, policemen and teachers would rise, while the lion's shares of the money would actually go to cover a rise in the pay of the 50,000 public servants. In the state budget bill for 2008 the government has planned 20 pct more money for a rise in public sector wages as compared with this year. Soerd raised the issue of the public sector pay

rise speaking about inflation; in his opinion the public sector pay rise would have a very serious effect on inflation and the wage rise has been planned for a very wrong time.

- **Estonia has not established a work group to mull parallel use of the euro currency with the kroon and the matter is not topical in Estonia at the moment, the Finance Ministry said.** Reports in the media about possible simultaneous use of the two currencies are erroneous and euro will be adopted here when the country meets the conditions set out for accession to the common currency. The Bank of Estonia meanwhile says that parallel circulation of two currencies would be costly for the society and require additional investments.
- **Estonia ranks 27th in this year's global competitiveness scoreboard released by the World Economic Forum (WEF), one place lower than in the rankings for 2006.** Lithuania placed 38th and Latvia 45th. The former improved its position by one notch whereas the latter dropped one place. The table was topped by the United States, followed by Switzerland and Denmark. Of Estonia's neighbors, Sweden ranked 4th and Finland 6th. Russia placed 58th among 131 countries surveyed.
- **Going by internal factors of the Estonian economy, on October 31 Hansabank Markets judges the most critical period to be over but nonetheless predicts the approaching winter too will be problematic.** The fast price rise will significantly weaken consumers' purchasing power and the structural shifts in the economy will cause a short-term decline in investments and exports, the bank evaluates impending developments in its newly released macroeconomic review. Estonia's economic growth will in Hansabank Markets' judgment slow from 11.2 pct in 2006 to 6.8 pct in the present year and to 5.5 pct in 2008. In 2009 the bank expects the economy to expand by 6.5 pct. If the main reason behind the slowdown of economic growth is domestic demand, then the recovery will in 2008-09 be driven mainly by export, the bank says. The Baltic region has been the target of numerous risk evaluations which have made external financing here more expensive and harder to obtain.

MAJOR ECONOMIC INDICATORS

- **The 7.2 pct annual rise in Estonia's consumer price index in September, announced by the Statistical Office, widely surpasses the estimate of 6.4 pct held out by analysts at Hansabank Markets.** Inflation estimates for the coming months remain high, with October inflation expected to end up between 7.3 and 7.7 pct, and that the figure's surpassing 8 pct cannot be ruled out.
- **Tallinn ranks low on a list of EU cities and regions in terms of the ease of finding a good dwelling at an acceptable cost, it appears from a survey by Eurostat.** In the survey, residents from 268 regions of the EU were asked to evaluate the chances that they can find a suitable dwelling at an acceptable cost. Only 19 pct of the respondents in Tallinn answered that finding such a dwelling was not a problem. The list was topped by Leipzig, Germany, where 78 pct of respondents described finding a good dwelling as simple. Next came Denmark's Aalborg with 71 pct and Braga, Portugal with 68 pct. Residents of Paris were the most dissatisfied, with only 3 pct saying it is simple to find a good dwelling. Respondents thinking the same made up 18 pct in Vilnius, 11 pct in Riga and 9 pct in Helsinki.
- **In the first 9 months of this year revenues in the amount of 4.6 billion kroons (EUR 293.9 mln) flowed into the budget of Tallinn which makes up 69.8 pct of the target for the full year.** In September the revenue intake amounted to 425.3 million kroons.
- **There were 12,929 unemployed registered with the Estonian Labor Market Board at the end of September, 2.1 pct more than at the same time last year; unemployment rose last in Estonia in 2001.** Compared to August, the number of registered jobless grew by two last month, the Labor Market Board said. The registered unemployed made up 2 pct of the labor force from age 16 to pension age.
- **The board of the Confederation of Estonian Trade Unions decided to continue negotiations with employers with a new minimum pay demand of 4,800 kroons (EUR 307).** The minimum pay stands at 3,600 kroons a month in Estonia at present.
- **Estonia's inflation rate will drop to 5 pct in 2008 and 3 pct in 2009, SEB Eesti Uhispank predicts, forecasting 6.5 pct inflation for the current year.** Inflation will slow because of the shrinking of money supply and slowdown of wage rise. The drop will happen despite high fuel prices and the excise tax hikes scheduled for next year.
- **In the opinion of SEB Eesti Uhispank, Estonia's state budget may after an interim of several years fall into negative territory in 2008.** Adoption in conditions of slowdown of the economy of a budget that envisions a 25 pct increase in expenditure from the previous year while the state is planning nominal growth of the economy at 15 pct could lead into trouble.
- **If in the second quarter of 2006 there were 17,140 job vacancies recorded in Estonia, then in the same period of this year the number was 21 pct bigger at 20,744.** The manufacturing sector had the biggest number of vacancies - 4,521. Next came public administration and national defense - 3,354, wholesale and retail trade - 2,838, and real estate -1,994. Year on year, the number of vacancies grew the most in forestry, increasing 4.6 times to 219.

- **The percentage of people for whom real estate is the most attractive saving instrument has declined in Estonia compared with 2006, a survey by TNS Emor indicates.** The percentage of respondents seeing investment in real estate as the most attractive option was 9 pct in the latest survey, compared with 14 pct a year ago. The survey points to a number of significant trends in the financial behavior of residents of Estonia.

FOREIGN ECONOMIC RELATIONS

- **The Estonian Ministry of Environment informed its Finnish counterpart ministry that Estonia wishes to participate in the environmental impact study of the expansion of the Loviisa nuclear power plant in Finland.** Estonia wants to know how high is the probability that the operation of the nuclear reactor may result in accidents having a cross-border impact. It also wants to know what security requirements would have to be applied if transportation of radioactive materials through the territory of Estonia should prove necessary in the event of an emergency. The Finnish energy group Fortum is planning to start the construction of a third generating unit at Loviisa on the country's southern Coast in 2012. The power unit is due operational in 2018.
- **The laying of a second undersea power cable linking Estonia and Finland will be financed by the Estonian power utility Eesti Energia and Fingrid, the operator of the Finnish national grid.** The Estlink 2 cable is planned with a capacity of 635 megawatts and it is estimated to cost around 250 million euros. The cable should be ready by 2013. Eesti Energia said the Baltic power markets need a reference price and common market rules, and for that new power links between the Baltic countries and Scandinavia would be key. The first Estonia-Finland power bridge, the 350-megawatt Estlink 1, was launched at the beginning of 2007.
- **The building materials producer Silbet based in Kohtla-Jarve has started exporting porous concrete blocks to Lithuania.** Silbet plans to export 2,500 cubic meters of wall blocks a month on the average which makes up 15 pct of the plant's present capacity. "We have at the moment 4 partners in Lithuania and the agreements we have with them allow us to hope that export to Lithuania will grow further next year," chairman of the board Vyacheslav Shlyk said. Latvia and Russia have so far been the company's main export markets. Silbet exports roughly 90 pct of all its output of building blocks.
- **The European Commission (EC) has launched infringement procedures vis a vis member countries, including Estonia, for failure to correctly transpose EU legislation to tackle waste of electrical and electronic equipment and directives on the energy economy.** The EC has sent to Estonia and the other Baltic countries an official warning letter, as the countries have failed to transpose by the required deadline legislation to put in place take-back and recycling systems. Besides, Estonia is in a list of 12 countries against which the EC has taken infringement procedures as the countries have failed to notify it of their national energy efficiency actions plans by 30 June 2007.
- **Estonian Minister of Economy and Communications Juhan Parts, who will fly to China on a visit, has said that Estonia could serve as one of the gateways for China to the EU.** Parts will present Estonia as a transit country and search for possibilities to promote business contacts between the Estonian state-owned companies Port of Tallinn and Tallinn Airport and partners in China. China has expressed the wish to work closely with Estonian ports in container shipments. The idea to introduce direct flights between Estonia and China has been described as being of interest.
- **Estonia's foreign trade deficit totaled 3.4 billion kroons (EUR 217 mln) in August, down from 3.5 billion kroons in August 2006 and 3.6 billion kroons in July this year, the Statistical Office said.** In August exports amounted to 10.25 billion kroons or 43 pct of foreign trade while imports made up 13.66 billion kroons or 57 pct of the total trade volume. Exports were down 1 pct from August 2006 but 2 pct higher than in July this year. Imports also saw a decline of 1 pct in year-on-year terms, being roughly unchanged from July 2007.
- **Eesti Raudtee (Estonian Railway) will dispatch its first container train to Kazakhstan by which the rail company launches regular freight shipments to that country.** Five years earlier trains to Kazakhstan were jointly composed in cooperation with the other Baltic countries, Eesti Raudtee said. The 44 containers loaded on the train contain foodstuffs and cars.
- **The Lithuanian real estate developer Akropolis plans to build an 800 million kroon (EUR 51.12 mln) shopping mall in Narva.** The nearly 40,000 square meter shopping center Akropolis should be finished in the second half of 2009. The Akropolis will have 36,000 square meters of rental space and two car parks, one above and the other below the ground, for a total of 1,200 cars. The cornerstone of the center will be laid in March 2008. At this point tenants include the retailer Maxima XXX, Euroapteek pharmacy and Delano restaurants.

DEVELOPMENT BY SECTORS

BANKING

- **The share of loans worth less than a million kroons (EUR 64,000) declined at Hansapank in the first half of 2007 both in the new loans portfolio as well as in terms of the number of agreements, executives said.** Loans

worth more than 2 million and more than 3 million kroons meanwhile have been displaying a slight upward trend in the portfolio of new loans. The changes are in direct correlation with the changes in the prices of real estate. The biggest decline has taken place in the percentage of loans worth from 101,000 to 400,000 kroons. More clients are taking out a housing loan to finance the purchase of an apartment and fewer to buy a private home.

- **In an economic growth forecast the Bank of Estonia estimated the growth in the GDP at 4.3 pct in 2008.** According to the Central Bank's forecast the rate of economic growth will start climbing in the second half of 2008 and the growth of 2009 will be 5.7 pct. This year's overall growth in Estonia's GDP will be 7.3 pct. In the opinion of the Bank of Estonia leveling of the income plane with that of wealthy industrial countries will continue at the previous fast pace. Together with the lowering of the growth rate of the Estonian economy inflation will start falling and will calm down to the moderate level by 2009.
- **Estonian Finance Minister Ivari Padar and governor of the Bank of Estonia Andres Lipstok attend the annual meeting of the World Bank and the IMF in Washington.** "One of the issues at the meetings to take place in the framework of the annual congress will certainly be the recently published economic forecast for the years 2007-2009. We will underline that according to our forecasts adaptation of the economy will take place smoothly," Lipstok said. "Estonia is prepared to contribute more than before to assisting developing countries, and to achieve it we want to accede to the International Development Association," said Padar, adding that the aim of various meetings would be to agree on more detailed terms of becoming a donor country and Estonia's possible contribution.

TRANSPORTS

- **Container shipments of transit goods routed through Estonia almost doubled in September compared to the same month a year ago, the state-owned rail company Eesti Raudtee said.** The monthly number of containers handled by Eesti Raudtee was 867 in September 2006 and 1,645 in September this year. In the first 9 months of this year Eesti Raudtee shipped 11,563 containers, which is a bigger number than in the 12 months of 2006. Eesti Raudtee expects the steep increase in container shipments to continue in Russian and Central Asian shipments alike, largely as a result of a shorter shipping time and more competitive pricing. Nearly 60 pct of the container shipments passing through Estonia are headed to Russia. The rest of the shipments are headed to Kazakhstan and other countries of Central Asia, where a growth trend can be observed as well.
- **The state-owned company Tallinna Sadam (Port of Tallinn) expects Tallinn to receive about 300 cruise ship visits with an estimated 350,000 passengers next year.** During the past season cruise ships called in ports of Tallinna Sadam on 274 occasions, bringing nearly 295,000 tourists. While the number of ship visits is expected to remain on the present year's level, the ships operating Baltic Sea cruises are becoming larger all the time, which is why a significant increase is expected to take place in the number of tourists. Figures provided by the border guard show that people from 138 countries visited Estonia as cruise tourists during this year.
- **A split of the state-owned rail company Eesti Raudtee into 3 companies would be a direct path to the company's bankruptcy, Oleg Tshubarov, chairman of the rail workers trade union, has said.** The trade union is against the plan of the Ministry of Economy to divide the company. While Minister of Economy Juhan Parts has suggested setting up 3 companies in the place of the present Eesti Raudtee, the Reform Party and its leader, PM Andrus Ansip, have said that 2 companies would be enough. The measure is intended to make the revenues and expenditures of the state-owned company more transparent.
- **The winter schedule of flights of the Tallinn Airport has 4 regular destinations fewer than the summer flight plan.** Estonian Air will operate no flights to Dubrovnik, Croatia; Paris, France; Simferopol, Ukraine; and Barcelona, Spain, during the winter.

ENERGY

- On October 16 the Estonian parliament rejected, on the votes of the ruling coalition, a proposal by the oppositional Center Party on a referendum concerning **Estonia's participation in the Ignalina nuclear power plant.**
- **The Estonian power utility Eesti Energia (Estonian Energy) is going to make an official appeal to the Finnish energy company Teollisuuden Voima in order to express its wish to take part in the construction of Finland's 6th nuclear reactor.** Teollisuuden Voima Oy is planning the construction of the 4th nuclear power plant at Olkilouto. A process of the environmental impact assessment has been launched for the construction of the new power plant, and the plans are to conclude it in summer 2008.
- **A representative of the EU's energy commissioner, Andris Piebalgs, said the European Commission would not interfere into the discussion over the track of a new gas pipeline from Russia, leaving it to the consortium building the gas pipeline to decide.** It became public that Estonia together with Latvia, Lithuania and Poland was attempting to persuade other Baltic Sea countries to reject the building of the Nord Stream gas pipeline on the bottom of the Baltic Sea and the four countries were planning to send a respective joint letter to the European Commission. Kalev Vapper, head of the public relations department at the Economic Affairs Ministry

said the letter had not been sent yet as the Latvian economic affairs minister's signature was still missing from it due to a reshuffle of government posts.

- **The Estonian Eesti Energia (Estonian Energy) power utility will start studying opportunities of the production of electricity from oil shale at Jordan's commission.** Eesti Energia is currently carrying out studies in Jordan in order to find out opportunities of the generation of oil from that country's oil shale reserves. The Jordanian side is expecting Estonia's assessment on the preliminary conditions of the construction of an oil-shale fuelled electric power plant in Jordan and what the timetable of the gearing of electricity generation would be.

AGRICULTURE

- **The purchase price of crude milk in the Baltic countries is among the lowest in Europe, figures provided by the European Commission show.** In August a kilogram of crude milk fetched 4.10 kroons (26.2 eurocents) in Estonia, 3.98 kroons in Latvia and 3.32 kroons in Lithuania. Cyprus had the highest price for crude milk -- 6.15 kroons per kilogram. The average price was close to that level also in Finland, Spain, Greece, Austria, Holland, Belgium and Luxembourg. The EU average price of a kilogram of crude milk was 4.88 kroons in August.
- **The EU's Executive Commission passed a regulation to apply common market measures and support private storage of pork in member countries, Estonia included, to ensure stability of meat prices.** Since the beginning of the last week of October applications for the private storage aid can be lodged with the agricultural registers and information board PRIA. Estonia first encountered private storage this year after the European Commission announced a butter and cream private storage program. The EU private storage measures are applied when the average price of pig meat on typical markets of the bloc is below 103 pct of the base price and likely to stay lower.

IT

- **The state intends to finish the internetization of the entire territory of Estonia still before the end of 2007, the Ministry of Economy and Communications said.** Within the framework of the Kulatee 3 (Village Road 3) program the state will set up nearly 20 base stations in various parts of the country. Internet is available in most of Estonia's territory right now.
- **On October 4, the Estonian government endorsed a draft regulation filed by State Secretary Heiki Loot which calls for scrapping paper in public sector document handling by 2011.** The purpose of the draft is to speed up the shift to electronic document handling by institutions of the public sector. According to the draft, most ministries and the State Chancellery must switch to digital exchange of documents between their document management systems by Dec. 3, 2007 at the latest.

INDUSTRY

- **Estonia's industrial output in August 2007 increased compared to August of the previous year as well as compared to July 2007, yet the growth has slowed down, the Statistical Office said.** Seasonally adjusted industrial output in Estonia grew by one pct month on month in August. The production of food remained more or less on the level of August 2006. The output of fish meanwhile continued to decrease. The fastest increase in the food branch took place in the production of meat (8 pct) and beverages (4 pct). The increase was highest in the manufacture of metal products (20 pct). The production of electricity increased 15 pct year on year while the production of heat decreased 7 pct.