

# Estonian Economy

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## ESTONIAN ECONOMIC POLICY

- **Standard & Poor's is assessing the impact of the US recession on emerging European economies, among them Estonia, and has created for this a new index called the Cyclical Sensitivity Index (CSI).** The worsening growth outlook for the US and the global economy will create significant challenges for capital-addicted emerging European sovereigns, particularly those with large economic imbalances such as Estonia, Iceland, and Latvia. The CSI aims to measure the relative vulnerability of 18 non-EMU European countries in the event of a protracted US or global recession. It is no coincidence that the four highest scorers in the CSI study - Latvia, Iceland, Estonia, and Kazakhstan - are all showing the first symptoms in 2008 of decelerating growth. It is noteworthy that the ratings on Latvia, Iceland, and Estonia are all currently on negative outlook, while Kazakhstan was recently downgraded.
- **A recession in the US will have a negative impact on the Estonian economy as well, causing uncertainty in the financial sector especially if the slump lasts long.** The US economic crisis will definitely have negative consequences for Estonia even if there are not very many direct channels of impact between the two. Financial crises have the bad habit of spreading quickly across national borders even if there is not much of a direct connection. The spread of the crisis will be expressed in overall loss of confidence and global slowdown of economic growth. Swedish banks, the principal source of Estonian money flows, will not suffer greatly from the US subprime mortgage crisis. But the negative effects of the financial crisis could spread from the US to Estonia because of an overall loss of confidence in the financial sector as a result of which credit volumes will be curbed here, too.
- **Cuts in public spending cannot be avoided this year, Estonia's PM Andrus Ansip said.** Ansip also hinted at a possible negative supplementary budget. He added that going by the inflow of budget revenue in the first two months of the year he takes a pessimistic rather than optimistic view of public revenue. VAT inflow has been modest in March like it was also in January and February, Ansip noted. And there are no clear signs at present the situation could take a turn for the better quickly. Debates about where to cut costs if necessary are still ahead in the Cabinet, but certain activities should be suspended. And if expenses have to be cut back, ways for this must be sought in all spheres of governance. Ansip pointed out that certain positive signs can be seen in the economy. January's export growth was robust, that's a strong signal that the economy is recovering. It's also positive that deposit growth has outstripped loan growth.
- **Estonia's Consumer Protection Board and the EU consumer counseling center have launched a nationwide campaign to raise people's awareness of the risks of e-commerce.** The experience of the consumer watchdog and the counseling center operating under it shows that more and more people are disappointed with transactions concluded over the Internet. The main problem consumers have encountered when purchasing goods via the Internet is that the vendor neither delivers the goods nor refunds the money. Over the past year the Consumer Protection Board has had to deal with about 200 respective complaints. The

problem concerns both domestic sellers and vendors operating in other EU member states who have failed to satisfy Estonian consumers' claims.

- **The SEB Bank has lowered Estonia's economic growth forecast for this year and has raised the expectation of inflation.** The state budget will remain in balance according to the bank's East European economic overview. The bank forecasts Estonia's economic growth at 3.5 percent in 2008 and at 4.5 percent in 2009 with the inflation index respectively at 7.6 and 4.0 percent. Last November the bank forecast that Estonia's economic growth would be 4.0 percent this year and the inflation figure at 5.0 percent. According to the March forecast unemployment will increase to respectively 6.5 and 6.0 percent this and the next year, but will remain lower than the average figure for the decade. According to the forecast the current account deficit will be respectively 12.5 and 12.0 percent of the gross domestic product (GDP). The state budget will remain in balance according to the forecast and the loan burden of the public sector will be 2.7 percent of GDP this year and 2.5 percent next year. Last year the bank forecast that the general government debt would stay at 4.0 percent of GDP. Similar to Latvia and Lithuania the Estonian economy has started to show lower growth rates.
- **Estonian Economic Affairs and Communications Minister Juhan Parts said at the opening of an energy forum that decisions made in the development of the energy sphere should not reduce Estonia's security.** The issue of security was important when speaking about the use of natural gas or the import of electricity. In that context the minister also mentioned the EU's climate package that contracted Estonia's choices. Opening of the energy market was inevitable and with private capital emerging on the market Estonia was moving in the right direction. In electric power generation Estonia must keep in step with new technologies and the scenario for the diversification of the electricity generation portfolio would have to be learned. Oil shale energy is an Estonian strength at present and in the future new opportunities for the use of oil shale can be created.
- **The EU summit agreed about the principles of the union's climate and energy policy, taking into account the proposals submitted by Estonia.** At Estonia's proposal, the European Council decided that the Commission must in the shaping of further measures consider the situation and the needs of small and isolated energy markets. Also at the proposal of Estonia, the text of the summit's conclusions regarding environment-friendly storage of carbon was changed. The agreement takes into account the favorable conditions existing in Estonia for chemical storage of carbon dioxide through the use of oil shale ashes neutralized with carbon dioxide for filling open-pit and underground mines. That allows to develop the corresponding technology in Estonia with the help of EU research programs. Estonian PM Andrus Ansip voiced satisfaction with the developments concerning the EU energy policy, stressing how important it is to speak with one voice in matters concerning energy. Estonia is interested in preventing carbon leakage, that is, the transfer of polluting energy production to third countries. It is also interested in subjecting the import of energy to clear criteria. One must definitely not permit the emergence of unfair competition. In a situation where EU energy producers must in the future buy their entire carbon emissions quota in auctions and no such obligation is applied to producers in third countries, the output of the latter will be clearly more competitive.
- **Fitch Ratings has left the sovereign ratings of Estonia and outlooks on the ratings unchanged.** Fitch has issued a foreign currency long-term rating of A and a local currency long-term rating of A+ on Estonia with Negative outlooks on both. The agency revised the outlooks on Estonia's long-term issuer default ratings to Negative from Stable in January 2008. Fitch said that Estonia's ratings are supported by its consistent budget surpluses, very low public debt levels and strong growth rates, which have delivered per capita income levels that were equivalent to 36 percent of the EU15 median in 2007, up from 24 percent in 2003. Sustained fiscal conservatism has brought Estonia's public debt stock down to just 2.7 percent of GDP, the lowest in the EU and the third-lowest of any sovereign rated by Fitch (after San Marino and Hong Kong). However, Estonia's rating dynamics have deteriorated, weakened by a large current account deficit against the backdrop of a more challenging financing environment following the global credit shock, coupled with other signs of an overheating economy -- rising inflation, a tightening labor market and rapid credit growth. The Estonian economy has become more vulnerable to an abrupt stop to capital and financial flows, a sharp slowdown in economic growth and a stalling of the convergence process. Although inflation is continuing to rise, an adjustment to a more sustainable growth rate has clearly started in Estonia. Property prices have begun to fall, while there are some indications that the pace of wage growth peaked in the second quarter of 2007. While the Estonian economy has clearly started to slow, it is too early to be confident that the economy is certain to experience an orderly unwinding of its macroeconomic imbalances -- a soft landing scenario. The slowdown is from an extended starting point and it will take time for slower demand to feed through to the current account deficit, inflation, wages and debt dynamics, Fitch said.
- **The Estonian general government sector's budgetary surplus equaled 2.8 percent of GDP in 2007 and the consolidated gross debt level was 3.4 percent of GDP.** Like in previous years, the general government's gross debt level continued to decline in 2007. The general government's gross debt level in 2007 decreased compared to the two preceding years. In the same period the central government's debt level decreased 10

percent compared to 2006, while borrowing by the local government sector increased by 9 percent, accounting for 69 percent of gross debt. Total revenues of the general government sector's consolidated budget surpassed expenditures by 6.9 billion kroons (EUR 441 mln). The central government sector's surplus equaled 2.5 percent of GDP and the surplus of social security funds was 0.6 percent of GDP. After posting a surplus in 2006, the local government sector's consolidated budgets fell into the red again in 2007 by a margin equaling 0.3 percent of GDP.

## MAJOR ECONOMIC INDICATORS

- **Export growth is seen by analysts as playing a crucial role in Estonia's economic growth this year, as domestic demand remains weak.** According to the forecast the Estonian economy will grow at a rate of about 4.5-5.5 percent this year, with a lot depending on how one will succeed in boosting exports. A deceleration of the growth of domestic demand is set to continue this year and negative private consumption growth figures in the early part of the year would not be a surprise. The growth of investments, too, may turn out very modest and even negative in individual quarters.
- **The producer price index of industrial production in Estonia in February was by 8.3 percent higher than in February 2007 while the monthly rate of increase compared to January was 0.7 percent.** The export price index firmed 0.1 percent compared to January 2008 and climbed 6.4 percent in comparison with February 2007. Compared to January, the export price index was mainly influenced by an increase in prices in the manufacture of plastic products and metal products and by a decrease in prices in the manufacture of electrical machinery and apparatuses. The import price index declined 0.6 percent compared to January 2008 but went up 4.6 percent compared to February 2007. Compared to January, the import price index was mainly influenced by a decrease in prices in the production of mineral fuels and in the manufacture of electrical machinery and apparatuses.

## FISCAL POLICY

- **Tax receipts of Estonia's state budget formed 13.3 percent of the year's target at the end of February; a year ago 13.97 percent of the tax revenue planned for the full year had come in.** February's tax revenues were 4.8 billion kroons (EUR 306.71 mln). Tax receipts in the first two months of this year total 10.6 billion kroons after income tax refunds last month. Last year 9.5 billion kroons of taxes had been paid into the state budget by the end of February. Tax refunds to private individuals, which at the end of February totaled 996.2 million kroons or 40 percent more than in 2007, had a significant impact on personal income tax receipts of the state budget that were negative in the sum of 626.8 million kroons last month.
- **Estonian lawmakers passed amendments to the income tax law aimed at harmonizing national legislation with the EU's parent-daughter directive.** The bill was passed with votes 52-30. The adopted amendment preserves the main feature of the Estonian corporate taxation system: exemption of reinvested profit from income tax. The change concerns the time of taxation. Estonia is switching to taxation of income on an annual basis, but companies will be making monthly advance payments. At the same time the double taxation of dividends of foreign companies with a small participation in Estonian businesses will be eliminated.

## GDP

- **The shortfall in Estonia's current account expanded by nearly one-third in 2007 to stand at 17.4 percent of GDP for the 12-month period.** In absolute terms, the deficit amounted to 42 billion kroons (EUR 2.68 b). In the final quarter of last year the gap narrowed to 14.5 percent of GDP. Although the growth of domestic demand started to slow in 2007, it did not have a considerable effect on Estonia's foreign trade balance yet. The deficit in the goods account -- the largest component in the current account deficit -- increased more than 10 percent year-on-year and, at 41 billion kroons, almost equaled the size of the current account gap.
- **Estonia's GDP in the final quarter of last year was by 4.8 percent bigger than in the same quarter a year ago.** The economic growth rate for the whole year was 7.1 percent. A rapid estimate of fourth quarter economic growth offered by the Statistical Office in February was 4.5 percent, a lower figure than the actual preliminary growth rate. Estonia's economy grew 9.8 percent year-on-year in the first quarter of 2007, 7.3 percent in the second quarter and 6.4 percent in the third quarter.

## LABOUR MARKET

- **The number of registered unemployed people in Estonia grew by 982 people or 6.2 percent in February compared with the preceding month to stand at 16,740 at the end of the month.** Year-on-year, the rate of increase was 18 percent. Unemployed people registered with the Labor Market Board made up 2.6 percent of the entire capable population from age 16 to pension age. In the course of the month of February

18,590 people sought a job via the Labor Market Board and 1,006 previously unemployed people became employed. The number of new job-seekers registered was 3,210.

- **According to a poll, most residents of Estonia are against the introduction of immigrant labor.** Two in three Estonian residents (65.9 percent) are not in favor of the introduction of immigrant labor, while 15.1 percent favor it on certain conditions and 9.1 percent are certainly not in favor. 9.9 percent of the polled were unable to give an answer to the question. The respondent's attitude is influenced by his or her nationality, whereas ethnic Estonians are more tolerant compared with representatives of other ethnic communities. The main arguments against the introduction of labor are the need for different specialists and inevitability. The arguments against are the wish not to see foreigners, fear of the disappearance of Estonians and the conviction that there are still many unused resources in the country. The poll was carried out last month on the basis of interviews with 505 residents aged from 18 to 74.
- **The Estonian Statistical Office released information on gross average wages by county for Q4 last year; in Tallinn the gross average monthly wages went up to 13,997 kroons (EUR 864).** In the metropolitan Harju county, which also includes the figures for Tallinn, the average gross wages in Q4 2007 stood at 13,804 kroons. The growth in the wages on year was 18 percent both in Tallinn and the county as whole in Q4 -- the lowest annual growth in the gross monthly wages among Estonian counties. Tartu County, where the climb was 20 percent to 12,213 kroons in Q 2007, followed Harju in terms of the average monthly wages. The average wages were the lowest in Valga County, 8,988 kroons. The average gross wages in Estonia in Q4 stood at 12,270 kroons in Q4, 20 percent higher than in Q4 2006.

## PRICES

- **The Bank of Estonia predicts that price growth will slow considerably in the second half of 2008 and the Finance Ministry judges the peak of inflation to be over by now.** The monthly rise in prices was in February significantly slower in comparison with January's 2.2 percent. Consumer prices rose last month by 0.4 percent month-on-month and by 11.3 percent compared to February 2007. Inflationary pressures were reduced by the cooling of the economy which is expressed in the rapid slowdown of growth in retail trade and industrial production. Wage growth is no longer as fast as at the end of last year, but the government should support further slowing more strongly through budget policies. The Finance Ministry said inflation in the euro zone was unchanged at 3.2 percent. External factors that caused inflation to soar since last fall are gradually receding and the peak of inflation is over. The monthly price rise was the slowest in the last six months and the ministry sees gradual deceleration of inflation ahead.
- **Tallinn is the most expensive city in the Baltic states to live in, whereas Vilnius is the cheapest, a recent survey by the Swiss bank UBS indicates.** In the list of 71 cities from around the world, Tallinn placed 43rd, Riga 48th and Vilnius 58th. Stockholm placed sixth and Helsinki seventh in the latest survey. The world's most expensive cities to live in are Oslo, Copenhagen and London. At the bottom of the list come Kuala Lumpur, Buenos Aires and Mumbai.
- **Estonian consumer prices rose by 11.3 percent year-on-year in February.** Goods were last month 10.3 percent more expensive than in the same month a year ago. Food prices climbed by 15.1 percent and those of manufactured goods, by 6.6 percent. The cost of services increased by 13.0 percent. In January the year-on-year growth in the consumer price index was 11 percent. Administratively regulated prices of goods and services surged by 20.8 percent and non-administered prices grew by 8.6 percent last month in annual comparison. The inflation was powered mainly by rising food prices, housing costs and the price of motor fuel.

## STATE BUDGET

- **Revenue of 12.9 billion kroons (EUR 325.8 mln) was paid into the Estonian state budget in the first two months of 2008, of this 5.1 billion kroons in February.** According to the Finance Ministry the revenue intake was 13.5 percent of the annual budget. Last year the same figure was 15.1 percent. Of the total intake of 12.9 billion kroons in the first two months of the year tax revenue accounted for 10.6 billion and non-tax revenue 2.4 billion kroons. Compared with the same period last year revenue intake increased by 13.1 percent. The sum total of non-tax revenue paid into the state budget in February was 1.3 billion kroons, 2.4 billion kroons in the first two months of the year and 14.1 percent of the annual target.

## FOREIGN ECONOMIC RELATIONS

- **The chief executive of Tallinna Sadam told a transit commission meeting at the Ministry of Economy and Communications the state-owned port company hopes to sign investment agreements with China in the fall.** The Baltic Sea is one of the fastest-developing regions investing in which China is considering. Plans are being made for a container terminal at Estonia's main merchant port of Muuga east of Tallinn. For

handling containers, two kilometers of wharves need to be built. The terminal with an area of 100 hectares could receive ships carrying up to 8,000 containers.

- **The EU has entered into effect a new liquor regulation according to which vodka produced in Estonia is protected in the EU by its geographic designation, Estonian vodka.** The EU will apply the regulation as of May 20. All Estonian vodka makers can apply for the designation from the Agriculture Ministry. In addition to Estonia also the other traditional vodka making countries -- Finland, Sweden, Slovakia, Latvia, Lithuania and Poland -- will get their geographical vodka designations. The EU has debated over the definition of vodka for years. Several countries, including Estonia, applied for restricting the raw material of vodka to grain and potatoes but the EU favored a more liberal version. The regulation to be applied from May does not restrict the use of raw material, but if the spirits used for the production of vodka is other than grain or potatoes, the raw material must be clearly indicated on the label.
- **Estonian Finance Minister Ivari Padar met in Iceland with Robert B. Zoellick, President of the World Bank, and discussed development cooperation with Nordic and Baltic countries' representatives of the World Bank.** Economic support to developing countries, issues connected with climate change and giving women more right of economic decision were discussed in the framework of the the annual meeting. During the meeting, Zoellick gave an overview of changes made in the bank and new strategic guidelines and welcomed in his speech the Baltic countries' participation for the first time in financing the International Development Association. The World Bank's role in issues connected with climate change was discussed in closer detail. During the meeting the finance minister also met with Iceland's Finance Minister Arni Mathiesen and central bank governor Eiríkur Guðnason. The countries' economic development and outlooks were discussed at the meetings. Padar said there were many common features in the development and problems in Iceland and Estonia and therefore exchange of experience was very useful.
- **The narrowing of Estonia's foreign trade gap in January slightly surpassed expectations, the mainstays of export are in good health, and the trend is positive.** The foreign trade numbers for January suggest that the share of net export in the GDP growth could increase this year. If import expanded considerably faster than export since the beginning of 2006, then the trend was reversed in the last quarter. The contraction of consumption and investment has resulted in negative import growth while export continues to be fairly strong. The 4 percent growth in total export may not appear large at first sight, but all the main pillars of export continue in good health. Growth continues to be held back by the export of mineral products and electronics, and a drop in the export of passenger cars to Latvia also makes a certain contribution. But this concerns mediation rather than Estonian producers. On the other hand, import has been declining in almost all goods categories for a couple of months already, with food and chemical products as the exception. The reason for the two exceptions is apparently world market prices, but also an increase in the import of dairy products from Latvia and Lithuania can be seen.

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**Further information is available:**

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

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## DEVELOPMENT BY SECTORS

### AGRICULTURE

- **Researchers judge the state of sprat and Baltic herring stocks in the Gulf of Riga to be still robust even if they have decreased a little in the last few years.** Harvesting depends in the first place on procurement prices of fish. Sprat and Baltic herring harvesting was profitable last year. Trawling is however mostly done on the open sea as it is more complicated in the Gulf of Riga. If Latvian fishermen caught 96 percent of the quota assigned them last year then in Estonia a part of the quota remained unused in both coastal fishing and trawling. Estonia and Latvia have practically no common ground regarding other species of fish as the Gulf of Riga populations of bass and pike perch live mostly in Estonian waters and are not very mobile. It is necessary to deepen cooperation with Latvia to monitor sprat and Baltic herring harvesting.

### BANKING

- **Compared with January 2007, the growth in the volume of consumption loans issued in Estonia slowed by half, but the yearly pace of consumption loan growth exceeded 40 percent.** The volume of consumption loans has significantly decreased in the last few months. Similarly to the last months of 2007,

borrowing activity of private individuals and enterprises was in January more modest than in previous years. The aggregate volume of private and corporate loans and leases grew in January by 1.3 percent month-on-month. In annual comparison, the growth rate came down to 29 percent.

- **The Tallinn City Government is this year planning to open in Nordea Bank a settlement credit making it possible to borrow up to 320 million kroons (EUR 20.45 mln).** According to a preliminary forecast the city may develop the need for use a settlement credit only on a few days, but it is likely that the settlement credit will not be used at all this year. Last year the city had a settlement credit limit in Hansabank and it wasn't used at all. The Nordea Bank settlement credit limit of 20.45 million euros would be open by December 21, 2008.
- **The Lithuanian Snoras Bank, which opened its doors in Tallinn in March, is planning to open up to 10 minibanks in Estonia during this year.** In Latvia and Lithuania minibanks denote electronic bank offices where both private and corporate clients can exchange currency, make bank transfers and pay bills. Snoras currently has 231 such minibanks in Lithuania and 30 in Latvia. There has been a representation of Snoras Bank in Tallinn for three years, and during that time the bank prepared for coming to the market and learned to know business opportunities.
- **A comparison of the interest rates of fixed-term deposits in Estonian banks shows that few market participants are offering an annual rate of 6 percent or higher and that the rates offered by the leading players are close to 5.5 percent.** Hansapank and SEB, the market leaders, are paying an interest of 5.25 to 5.40 percent on one-year, fixed-term deposits in kroons. Nordea and Sampo are offering an annual rate of 5.60 percent, just like Tallinna Aripank. Krediidipank offers to pay 5.80 percent in annual interest, while DNB Nord offers 6.00 percent. The offer by SBM Pank stands at 6.15 percent. The Estonian operation of Latvia's Parex Bank is paying an interest of 6.50 percent on one-year kroon deposits.

## ENERGY

- **Eesti Energia threatened legal action against Latvia and Lithuania for alleged violation of competition conditions.** Eesti Energia has 5 customers in Latvia and started supplying electricity to its first client in Lithuania, the Estonian embassy, at the beginning of March. As Eesti Energia sees it, power companies of the neighboring countries are creating obstacles to prevent the Estonian company from competing on an equal basis with them in a free market situation. The company claims that electricity and network charges in Lithuania cost the local power utility Lietuvos Energija less than the network charge alone for Eesti Energia. In Latvia Eesti Energia reportedly is required to equip each customer with a 900 euro meter. In both countries imported electricity allegedly has to be first sold to the local "former" monopoly at auction, then repurchased and only thereafter can it be sold to the customer.
- **According to preliminary calculations the average rate of the electricity price rise in Estonia will be 5 percent, Eesti Energia said.** Eesti Energia initially sought a rise several times bigger. The lower-than-planned hike results from differences with the competition watchdog. The two sides stuck to their different positions to the end as regards the price of oil shale and the output price of electricity at the Eesti Energia generating subsidiary Narva Elektriijaamad, which have the biggest effect on the price of electricity. Considering that the Competition Board did not endorse the price of oil shale at the desired level and made very substantial cuts in the labor, repair and maintenance costs of Narva Elektriijaamad, it will be significantly more difficult for Eesti Energia to ensure competitive wages for its employees and take care of existing production equipment. Definitely the profitability of the company's economic activity for the owner will be lower than in previous years. After the power grid companies have calculated their new transmission fees Eesti Energia will endorse new price packages for customers.
- **Estonia does not support Lithuanian efforts to extend the life of the Ignalina nuclear power plant beyond 2009 when Lithuania has to shut it down according to an agreement with the EU.** The Lithuanians will have a sufficient number of power plants also after Ignalina shuts down. The problem is rather that other Lithuanian plants are mostly gas-fired and because of that the price of electricity in Lithuania will rise significantly. Ignalina's closure is also bound to prod Lithuania into faster action regarding the construction of a new nuclear plant. Ignalina's closure is not going to have a big impact on the opportunities of Eesti Energia to sell electricity to Lithuania. It's rather Russia that will be selling electric power to Lithuania.
- **Eesti Energia is looking for a specialist to focus on the nuclear energy sphere and to deal with Lithuanian, Finnish and Estonian projects.** According to the CEO of Eesti Energia Sandor Liive, Estonia is seriously interested in a nuclear power plant. A nuclear power project leader is needed because we must have somebody with competence in the nuclear power sphere to focus on the issue and to be able to speak on the subject. Eesti Energia could even find an Estonian to the post. There could be quite a few Estonians with the qualifications for the nuclear power project leader's post. But the suitable candidate must have worked abroad. In case of such a specialty work experience abroad is a must.

- **Eesti Energia** which earlier sold some of its Narva-generated electricity to the Nordic countries, has now started to import electricity as this is cheaper than to generate electricity by using emissions quota bought from the free market. The reason is that the price endorsed by the competition authority does not ensure production of electricity for the whole of Estonia. To cover the needs of the domestic market, Narva Elektriijaamad are about one million tons (emissions quota) short per year and at present it is not calculated into the electricity price. In such a situation it was sensible to import the share not covered with the carbon dioxide quota.
- **The former owner of the Virtsu and Rouste wind farms in Estonia, Roheline Ring, separated the farms into a company called Roheline Ring Tuulepargid OU and sold the latter in November 2007 to Freenergy AS that is developing several wind park projects.** Roheline Ring earned a profit of 36.7 million kroons (EUR 2.35 mln) from the sale. Before the sale of the wind farms, from the beginning of last year till the end of November, Roheline Ring's revenues from the sale of wind energy were 21.6 million kroons. In 2006 the company's electricity sales revenues were 18.5 million kroons. The profit from the sale of the wind farms included, Roheline Ring netted 44.1 million kroons in 2007.

## INDUSTRY

- **La Ferme Arenduse OU (La Ferme Development Ltd), a company of the Estonian media businessman Hans H. Luik, has launched a feasibility study in order to build a biethanol facility attached to new blocks of the Narva Power Plants.** The project will go ahead in cooperation with the Eesti Energia power utility. If the preliminary project is completed by this summer, the 100,000 ton capacity facility will go into operation already in 2010. The bioethanol facility will be working in a symbiosis with the oil shale-fuelled builder of the power plants. While the ethanol installation uses the steam created in the power plant, it will give the distillery wash away to the power plant for burning together with oil shale. The facility will generate nearly 130,000 tons of distillery wash a year. This will add a biofuel factor to the oil shale-fueled boilers, and the power plant will be able to get some highly taxed CO2 quota as the result. The nearly 800 million kroons (EUR 51 mln) biethanol plant will use rye as its raw material, planning to buy it from what is left over of the Estonian food market. The facility will need 300,000 tons of rye as raw material a year -- five times the Estonian rye harvest in 2007. La Ferme is holding talks with grain growers and plant breeders for extension of the area sown with rye.

## IT

- **The Estonian software company Now! Innovations will gear mobile parking in Kiev and will next set its target at the northwestern United States.** The company also wishes to expand to South America. Kiev is the ninth city where Now! Innovations, a subsidiary of Helmes, is providing its services. The company operates in six Belgian cities and in Velenje, Slovenia. Arho Anttila, CEO of Now! Innovation, said that by the end of this year the company could be among the top three companies in the world in terms of users.

## MEDIA. TELECOMMUNICATIONS

- **The number of payments made using a mobile phone to pay for purchases in stores has been declining in Estonia since peaking at a modest monthly figure of 792 in last March.** By now it has dropped to fewer than 500 payments per month, which corresponds to about 15 purchases per day. Payments using a mobile telephone can be made also in other places than stores in Estonia, including from one private individual to another. The card clearance center of Estonian commercial banks has said that approximately 12,000 transactions using a mobile telephone are made every month with a combined turnover of more than 400,000 kroons (EUR 26,000). The area where mobile payments are finding the most use is parking. The total value of parking bills paid using the m-parking service of EMT made up about 55 percent of the total turnover of parking fees in Tallinn.

## REAL ESTATE

- **The Baltic real estate market is cooling but investors' interest is not flagging, says Newsec, a provider of analysis and valuation of property in Nordic and Baltic countries.** After several years of fast economic growth and record investments in the real estate sector, Baltic economies have been hit by growing inflation. This has created the need for measures to cool the economy down, particularly in Estonia and Latvia. The company predicts that investors will not lose interest in the Baltic region which they still judge to have a great future potential. But the Swedish property adviser points out in its spring 2008 review that investors have put off finalization of a large part of transactions until the economic situation is again under control. Waiting for the arrival of a more favorable market situation, the consensus is that Estonia will not manage to bring its inflation rate down to the level of the Maastricht criterion before 2010.

**RETAIL**

- **Retail sales by retail trade enterprises in February this year grew 4 percent in constant prices compared with the same month a year ago.** The growth in retail sales, which had stopped in January, sped up slightly in February. Retail sales of goods by retail trade enterprises in February totaled 4.2 billion kroons (EUR 268.4 mln), which is half billion kroons more than in the same month a year ago. If in January 2008 compared to January of the previous year the rate of growth of retail sales slipped to zero then in February the annual rate of increase in retail sales in constant prices was as big as in December 2007. The rate of growth in grocery stores was slightly higher in February than in the preceding months, or 4 percent year-on-year. Due to their large share, grocery stores accounted for more than 65 percent of the total increase in the sales by retail trade enterprises. Retail sales of pharmaceutical goods and cosmetics increased 9 percent, while retail sales in non-specialized stores selling industrial goods and stores selling textiles, clothing and footwear increased 7 percent compared to February of the previous year. The growth of retail sales by non-specialized stores selling industrial goods and stores selling textiles, clothing and footwear was a result of sales campaigns.

**TOURISM**

- **Estonia is the 26th most conducive environment for developing the travel and tourism industry, considerably ahead of its Baltic neighbors, according to the 2nd annual Travel & Tourism Competitiveness Report published by the World Economic Forum.** Estonia climbed two places compared with the 2007 report in the table ranking 130 countries from around the globe. In the categories examined, Estonia achieved best scores for tourism infrastructure, health and hygiene, and safety and security. It trailed in terms of human, cultural and natural resources for travel and tourism, and air transport infrastructure. Estonia's southern neighbor Latvia placed 45th and Lithuania 47th overall. Switzerland, Austria and Germany still topped the rankings. Sweden placed 8th and Finland 12th.

**TRANSPORT**

- **The Estonian government confirmed a plan of investments to develop the transport infrastructure according to which about 6.5 billion kroons (EUR 415.34 mln) of mostly European structural fund monies will be channeled into the development of transport hubs, railway, local airfields and ports.** The state plans to invest 1.8 billion kroons in infrastructure development in the capital Tallinn as a key transport hub in Estonia. The plan outlines investment of 2.6 billion kroons in railway. In the next few years all passenger trains will be replaced. The railway between Tallinn and Tartu is to be reconstructed to enable trains to develop a speed of 120 kilometers per hour by 2011. A further 274 million kroons was earmarked for the airfields of Kardla, Kuressaare, Ruhnu and Tartu. Slightly more than one billion kroons will be plowed into ports in the coming years. Some 5.2 billion kroons of the transport investments in the 2007-13 period comes from European structural funds and the rest from the state budget, enterprises with a state interest and local government budgets. In addition, 4.6 billion kroons of EU funds meant for investment in transport will remain in reserve for the present.
- **The Estonian government ruled not to include for the time being EU funding for the capital city's streetcar project in a transport investment plan, questioning the usefulness of the project.** The building of a new streetcar line into the Lasnamae traffic corridor will not prove that new quality has been achieved. As regards streetcar traffic in Tallinn, it would make sense to extend the existing streetcar line to the airport on the outskirts of the city, considering the growth in the number of air passengers which is predicted to continue at a fast pace also in coming years.
- **A christening and launching ceremony for the Estonian shipper Tallink's new cruise boat Baltic Princess took place at the Helsinki shipyard of Aker Yards at the beginning of March.** Tallink placed an order for the ship that is 212 meters long, has a beam of 29 meters and can accommodate 2,800 passengers in December 2005. The Baltic Princess will be one of the biggest cruise ferries in the Baltic Sea. Its maximum speed is 24.5 knots. Plans are for the Baltic Princess to begin sailing between Tallinn and Helsinki in the summer. The new boat will replace the Galaxy on the Tallinn-Helsinki route. The Galaxy will be transferred to the Turku-Stockholm line and the Silja Festival that currently serves that route will in turn be put into service on the Riga-Stockholm line. The Baltic Princess that cost 2.5 billion kroons (EUR 160 mln) to build is the fourth modern cruise boat built by Aker Yards for Tallink. Construction of a fifth cruise ferry has started at the Rauma shipyard of Aker Yards.
- **Estonian Air is about to get three new-generation Bombardier CRJ900s as an addition to its existing fleet of aircraft this spring.** Estonian Air's current fleet is made up of two 142-seat Boeing 737-300 planes and four 118-seat Boeing 737-500 planes. The Bombardier CRJ900 is designed to hold 86-90 passengers with

two lavatories and a galley as standard equipment. The plane is 36.2 meters long with a wing span of 24.9 meters.

- **Eesti Raudtee despatched to Kazakhstan the first full container train of 57 cars carrying forty-one 40 TEU containers.** The container train to the Kazakh city of Almaty carries mainly passenger cars and tobacco products. According to preliminary plans a container train will go to Kazakhstan three times a month. Estonian Railway despatched the first test container train to Kazakhstan last fall. Since summer 2007 a full container train has been leaving from Tallinn to Moscow twice a week. According to the Eesti Raudtee business plan container shipments are the priority development type of shipments for the company.
- **The carriage of goods by road increased last year by a fifth from 2006 to 10.6 billion ton-kilometers whereas rail freight volumes shrank by 22 percent to 8.4 billion ton-kilometers.** The volume of goods carried by Estonian transport enterprises totaled 20.4 billion ton-kilometers in 2007 or 1 percent less than a year ago. Sea transport accounted for 1.4 billion ton-kilometers. The freight turnover of international traffic was 17.1 billion ton-kilometers, making up 84 percent of the total freight turnover and down by 4 percent year-on-year. In 2007 the use of services of passenger transport enterprises remained on the same level as a year earlier. Estonian transport enterprises carried last year around 213 million passengers, 97 percent of them in domestic traffic like in previous years.