

# Estonian Economy

ESTONIAN ECONOMIC POLICY .....	1	TRANSPORT .....	4
MAJOR ECONOMIC INDICATORS.....	2	ENERGY .....	5
PRICES .....	2	COMMUNICATION .....	5
FOREIGN ECONOMIC RELATIONS.....	3	INDUSTRY .....	6
DEVELOPMENT BY SECTORS .....	3	REAL ESTATE .....	6
AGRICULTURE.....	3	RETAIL.....	6
		TOURISM.....	6

## ESTONIAN ECONOMIC POLICY

- **A committee of specialists preparing for Estonia's transition to the euro met on 31 October to renew the euro adoption plan to be sent to the government.** A spokesman for the Finance Ministry told that the wording of the plan would be made more general. Until the present it fixes the date of transition to the euro as January 1, 2008. No specified date will apparently be set in the new version. The last changes to the Estonian euro adoption plan were made this May. The commission will submit the renewed euro plan for endorsement to the government, which should discuss issues connected with transition to the euro together with the convergence program in the second half of November.
- **The delay of Estonia's entry into the euro zone has not resulted in negative responses on the markets although two rating agencies have lowered the sovereign rating outlook, the Bank of Estonia says.** The central bank's supervisory council underlined again that Estonia should join the euro zone as soon as possible. The central bank's fall forecast, due at the beginning of November discusses the country's opportunities to meet the Maastricht inflation criterion in the next few years, the Bank of Estonia said.
- **The value of Estonia's stabilization reserve stood at 5.86 billion kroons in acquisition value and at 5.89 billion kroons (EUR 376 mln) in market value as of the end of September.** The reserve's market value had grown by 100.3 million kroons or approximately 1.7 percent compared with the preceding quarter, the Finance Ministry said. Compared with the start of the year the market value had increased by 360.2 million kroons or 6.5 percent.
- **The Estonian confederation of trade unions EAKL believes that it is unnecessary to change unemployment insurance premium rates next year and employers essentially agree with this view.** The leader of the confederation, Harri Taliga, told that there is no sense in lowering the premium rates as they are already close to the minimum prescribed by law. The EAKL has adopted a decision proposing not to alter the premium rates and at the same time suggesting to raise the unemployment insurance benefit paid in the first 100 days to 70 percent and starting from the 101st day, to 50 percent of salary. The benefit currently stands at 50 and 40 percent of salary respectively. Although more money flows into the Unemployment Insurance Fund than is spent on benefits, slight lowering of the premium rates to the prescribed minimum is apparently not justified, manager of the Employers Confederation Tarmo Kriis said. "Today's level is more or less optimal," he added.
- **The Estonian Employers' Confederation is going to propose a minimum monthly pay of 3,500 kroons (EUR 224) for full-time employees in 2007 at upcoming negotiations with unions whereas unions are demanding a minimum of 4,050 kroons.** "Our offer is based on the assumption that the monthly rate of social tax of those insured by the state will be raised at a faster pace and investment support to companies for technological improvement in EU structural funds absorption plans will be substantially increased," the manager of the confederation, Tarmo Kriis, said. "Otherwise we're going to suggest maintaining the minimum pay at 3,000 kroons next year," he added. Basing on unions' data of recipients of minimum wages, a 500 kroon rise in the minimum would increase companies' payroll by nearly 500 million kroons. The taxes paid on this sum represent a net gain for the state and employers are not willing to make that gift. According to the Finance Ministry's forecast, average monthly pay will cross the 10,000 kroon mark in 2007. Currently, the minimum pay is 3,000 kroons a month or 17.80 kroons per hour.

- **Claims of the slow growth of productivity in Estonia could result from a statistical error, the central bank says in its new labor market survey.** Going by the employment growth evaluation of the labor survey, labor productivity in the first and second quarters of this year clearly lagged behind the growth of salaries, the central bank claims. Statistics meanwhile indicate continued decrease of the share of payroll expenses in gross domestic product. "This means that GDP statistics do not confirm that wages have been growing at a faster pace than productivity," the central bank pointed at the discrepancy between the data. The Bank of Estonia suggests that the labor survey statistics underestimate the number of people who have gone to work abroad which in turn leads to an underestimation of the growth of productivity in Estonia.
- **At its meeting on 19 October the Estonian government approved the enterprise policy development plan for the years 2007-2013.** The development plan primarily deals with promoting knowledge based enterprise and enterprise creating a lot of added-value, spokespeople for the government said. Implementing the policy is estimated to cost up to 3.7 billion kroons (EUR 236 mln), the overwhelming majority of which would come from the EU structural funds. Estonia's enterprise policy for the period until 2013 embraces four main fields of activity: development of the skills and know-how of managers and workers for focusing more on value-creating activities, promoting investments to implement modern and innovative technologies, support for globalization to improve Estonian companies' export capacity, and possibilities of offering wider freedoms and opportunities to entrepreneurs through a better legal environment.

## MAJOR ECONOMIC INDICATORS

- **Estonia had the third largest fiscal surplus among the member states of the EU in 2005, according to revised figures published by Eurostat last week.** Having surpluses larger still were Denmark and Finland, whereas on the average EU countries had a government sector deficit of 2.3 percent of GDP and an average debt burden of 63.2 percent of GDP, the Estonian Finance Ministry said. The reduction in Estonia's public debt to 4.5 percent of GDP last year meant that Estonia's debt burden was the EU's lowest. Also with low debt burdens were Luxembourg (6.0 percent of GDP), Latvia (12.1 percent) and Lithuania (18.7 percent). The EU's average budget deficit in 2005 decreased by 0.4 percentage points in comparison with 2004, whereas its fiscal surplus stayed on the 2004 level. In all, seven of the 25 EU member states ran a government surplus last year, ranging from 0.1 percent to four percent of GDP. Estonia's government sector surplus in 2005 was 2.3 percent of GDP. The respective Danish ratio was four percent and the Finnish ratio 2.7 percent.
- **The Finance Ministry announced that 49.4 billion kroons (EUR 3.16 b) of revenue, 80.4 percent of this year's target, was paid into the state budget in January-September.** As of the end of September the budget had a revenue surplus of 5.7 billion kroons (EUR 364 mln). Compared with January-September 2005 inflow of revenue into the state budget increased by 22.4 percent. Payments from the state budget totaled 43.7 billion kroons in the nine months, accounting for 71.1 percent of the budget. By the end of September tax revenue payments into the state budget added up to 39.9 billion kroons which makes up 81.4 percent of the annual target. Compared with last year, inflow of tax revenue increased by about 6.2 billion kroons or 18.4 percent. Growth in the payment of social tax into the budget was by 19.4 against last year. The sum total of subsidies paid into the state budget in September was 458.1 million kroons, and 3.8 billion kroons in January-September. This accounts for 53.2 percent of the annual target, comparing favorably with 51.5 percent of subsidies paid into the state budget in the first nine months last year. As of the end of August 41 percent of the foreign resources planned into the state budget, 2,79 billion kroons, had been paid into the budget. Of this 784.9 million kroons were payments from structural funds.
- **Estonia's foreign trade deficit in August was 3.5 billion kroons (EUR 223.64 mln) compared to a shortfall of 4.4 billion kroons in July and 2.8 billion kroons in August 2005, shows the data by the Statistical Office.** Trade turnover increased 22 percent year-on-year and 7 percent in comparison with July. Imports totaled 13.5 billion kroons, 23 percent more than in August 2005 which is the lowest 12-month growth rate this year. According to preliminary figures the total foreign trade turnover in August was 23.5 billion kroons of which imports made up 57 percent. Compared to July, the increase in imports was 3 percent. Exports totaling 10 billion kroons accounted for 43 percent of the foreign trade turnover in August. Export increased 22 percent year-on-year and 14 percent month-on-month.

## PRICES

- **The consumer price index in Estonia decreased by 0.4 percent in September from August, the Statistical Office reports.** In comparison with September 2005, consumer prices were 3.8 percent higher on the average. Prices of goods dropped 0.8 percent last month, including a rise of 0.4 percent in food prices and a drop of 1.8 percent in manufactured goods. Prices of services climbed 0.4 percent over the month.

- **The Institute for Economic Research forecasts that consumer prices in Estonia will rise by 4.4 percent in 2006.** As reasons for the price rise, the institute named strong economic growth, pay rise pressure, cheap loan money and world market prices of raw materials. Meeting the inflation criterion for joining the euro zone in the next few years is unlikely, the institute says.
- **The consumer price index (CPI) in Estonia in the third quarter of 2006 rose 1.4 percent compared with the second quarter and 4.4 percent compared with the third quarter of 2005, the Statistical Office said.** In quarterly comparison, the prices of goods grew one percent, including those of victuals 2 percent and those of manufactured goods 0.2 percent. The prices of services were 2 percent higher. The change in comparison with the second quarter was influenced the most by increased costs for housing and more expensive food, the Statistical Office said.

## FOREIGN ECONOMIC RELATIONS

- **Economic relations between Estonia and the United States can be characterized as good but there is yet much unused potential in the bilateral relationship, said US Assistant Secretary of State Mark Pekala on a visit to Estonia.** The economic relations are very good but the United States would like to achieve the same level in economic cooperation as the two countries enjoy in political and defense cooperation, said Pekala, who in is charge of European and Eurasian affairs, on 4 October. In his words, the United States ranks fifth in terms of foreign investment in Estonia but would like to take the top place. US officials also find that bilateral trade could be more active.
- **After a meeting with a high-ranking Chinese official on 29 October Estonian Prime Minister expressed his hope that a logistics center for China's European trade will be established in Estonia.** "Estonia's economic climate is favorable to investments and our legal environment is stable and predictable," Andrus Ansip said when presenting the Estonian economic situation to Jia Qinglin, chairman of the National Committee of the Chinese People's Political Consultative Conference (CPPCC) who ranks fourth in the Chinese hierarchy. A considerable part of Chinese exports to the EU already now passes through Estonia, the prime minister's office said. Ansip named the construction of a building for the Estonian embassy in Beijing an important factor in the development of bilateral relations and hoped that the building will be completed by the 2008 Olympic Games. "This would give a strong boost to the development of bilateral relations," the prime minister said. The subjects discussed in the meeting included cooperation in tourism, a necessary precondition for which is alleviation of visa rules, the prime minister's office reports. According to Jia, the medieval Old Town of Tallinn as an "impressive sight" would be a target of great interest for Chinese tourists. In the meeting Ansip showed interest in China's new Binhai economic area. "I hope that also Estonian entrepreneurs will be welcome in the Binhai area as we have people who would be interested in investing in China," the premier said.

---

**Further information is available:**

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

---

## DEVELOPMENT BY SECTORS

### AGRICULTURE

- **Estonia's agriculture needs up to 22 billion kroons (EUR 1.4 b) in investments during the years 2007-2013, a survey conducted by the Estonian Agricultural University finds.** The council of Estonia's Rural Development Foundation, MES, on Wednesday endorsed the foundation's development plan for the period 2007-2013, which also defines the fields where the funds available to the foundation during that period will be used. According to the plan, the foundation will have some 2.6 billion kroons to finance different measures.
- **Mariann Fischer Boel, agriculture commissioner of the EU, said the Estonian accession treaty with the EU did not make it possible to differentiate whether its excess sugar stocks had been created for households or for business.** Estonia has filed suit to the European Court of Justice, asking that its excess sugar stocks, and in this connection also the sugar penalty be cut by half, subtracting from it stocks acquired by domestic households. "The text of the treaty is very clear in that respect -- it is not possible to differentiate

between the sugar that had been acquired for the use of domestic households from that acquired for commercial purposes," Boel told reporters on her visit to Estonia on 11 October. By its suit, the government is applying to contract the excess sugar stocks by nearly a half, subtracting from it 42,371 tons procured by domestic households. In case of the present 91,844 ton excess stock Estonia is liable to a sugar penalty of more than 700 million kroons (EUR). Estonia will pay the first part of the penalty by a scheme where the European Commission deducts the 178 million kroons from this year's structural fund and direct agricultural subsidies.

## TRANSPORT

- **Eesti Raudtee (Estonian Railway) will remain fully state-owned for a minimum of five years, Prime Minister Andrus Ansip said.** According to Ansip, both the rail infrastructure and carriage operation will for the time being stay in state hands. In his words, the first thing to do is to find out the current situation of the railway company and how the state is going to cope with its management. Ansip described railway-related developments of recent years as a negative experience not conducive to a new sale in the near future. In the longer term, however, the government does not intend to compete on the market of carriage services. The premier observed that there are bound to be several interested parties prepared to pay a higher price for Eesti Raudtee shares than the 2.35 billion kroons (EUR 150 mln) the government intends to pay the current majority owner, Baltic Rail Services, for its 66 percent holding.
- **If money for investment in the infrastructure of Eesti Raudtee (Estonian Railway) turns out in short supply, the fees that operators must pay to use the infrastructure have to be raised, Estonian Prime Minister Andrus Ansip said on 19 October.** "One cannot carry on in the old fashion on the railway. The investments made so far are not sufficient, and due to the negotiations on the sell-off of the stake the so far owner lost the moral duty to invest in the railway too," Ansip said. The Prime Minister said that following the buyback of the shares in the rail company the state will be faced with the question of whether to keep a part of the infrastructure in its own hands or sell it again.
- **It would be expedient for the state to divide the operations of Eesti Raudtee (Estonian Railway) into two after repurchase of shares, the minister of economy said at a meeting with the parliamentary Economy Committee on 25 October.** According to Edgar Savisaar, separating of infrastructure management and carriage services would raise efficiency and improve the transparency of the operations, the Ministry of Economy and Communications reports. On 24 October the minister initialed agreements with the current majority owner of Eesti Raudtee, Baltic Rail Services, on the repurchase of its 66 percent holding in the company for 2.35 billion kroons (EUR 150.16 mln).
- **Former Estonian Prime Minister Mart Laar said in an online interview to the daily Postimees that renationalization of Eesti Raudtee (Estonian Railway) could end up in discounts to transit companies based on Russian capital.** Laar said that the state should first learn the price for which the private owners are ready to give up their 66-percent holding in the rail company. "We should also take into consideration the fact that buying back the railway we will have to start putting money into it -- these sums achieve very high figures in European countries," Laar said. "At present, renationalization of the railway is a decision that has not been made with economic consideration, it is rather a populist plan that actually makes discounts to Russian transit capital," claimed the ex-prime minister.
- **The Coordinating Council of Transsiberian Transportation (CCTT) admitted the North Port of Paldiski, Estonia, as its member during the CCTT annual conference in Vilnius.** The purpose of CCTT is to create better possibilities for the movement of freight flows from Europe to the Far East and vice versa, as well as developing economic ties between Southeast and Central Asia, the Far East, countries of the CIS and Europe, spokesperson for the port said. Right now the council consists of 135 members from 24 countries. In collaboration with the container terminal of Gävle, Sweden the Paldiski North Port is about to launch a project for the shipment of containers from Sweden to China and the other way round. The containers arriving in Paldiski by ship will be transported to Russia by rail by Spacecom and from there on to China by TransKonteiner using the Transsiberian rail route.
- **Shareholders in the Estonian oil transit company E.O.S. controlled by the Russian Severstaltrans group intend to seek listing of the firm on the Tallinn stock exchange.** "Severstaltrans will demonstrate with the help of the stock exchange that it has not come to Estonia as a bloodsucker and is prepared to share its gains with the locals," Kalle Norberg representing the largest local shareholder in E.O.S. told the paper. In addition to Trendgate which operates an oil terminal at Estonia's largest merchant port of Muuga east of Tallinn, also Eurodek and Pakterminal are planned to be merged with E.O.S. The unification of four oil terminals based at Muuga would lead to the emergence in Estonia of a company with roughly four billion kroons (EUR 255.6 mln) in assets that is comparable to the shipping group Tallink, for instance.
- **Ports of Estonia's state-owned Tallinna Sadam (Port of Tallinn) received during the past season 299 cruise ships carrying a total of 312,478 passengers.** In Tallinn the company hosted 292 visits by cruise ships

with 307,569 tourists. The figure includes 12 short cruises with 15,846 passengers. The total number of visits to Tallinn was down by 32 from last year. The reason for the drop was a decrease in the number of short cruises. Meanwhile, the number of traditional cruises reached 280, increasing by 7. Passenger numbers of those ships grew by 17 percent from last year, totaling 292,000. Besides Tallinn, the company's new port in the island of Saaremaa that was finished this year received seven visits by cruise boats. All told, 4,909 tourists visited Estonia's largest island.

## ENERGY

- **Eesti Energia (Estonian Energy), the Estonian state-owned energy utility, is about to conduct surveys together with a local partner in Jordan with a view to setting up a shale oil refinery in that country.** Eesti Energia is to have the controlling stake in the joint venture with the Jordanian partner, whose name Eesti Energia has not yet revealed. The corresponding agreements are expected to be signed in early November. The amount of oil shale available for consumption for the joint venture is estimated at 300 million tons. By way of comparison, the reserves of the Eesti Energia oil shale mining subsidiary Eesti Põlevkivi amount to an estimated 500 million tons.
- **Lithuania's Foreign Minister Petras Vaitiekunas who met with executives of Eesti Energia in the end of September, invited the company to take part in the privatization of a Lithuanian power grid Rytu Skirstomieji Tinklai which constitutes half of the Lithuanian power distribution network.** The privatization is at this point rather theoretical than practical, the paper says. The Lithuanian government should within a few months first decide whether to sell the grid into private hands and then fix the conditions.
- **While presenting on 25 October a feasibility study of a project for a new nuclear power plant in Lithuania, leaders of the Baltic countries' power companies said the cost of the plant would be between 2.5 and four billion euros.** According to the feasibility study, the capacity of the plant would be 800-1,600 megawatt, and one kilowatt of capacity would cost 1,300-2,000 euros to build. The decision on investing in the new facility won't be made till 3-4 years from now and the plant could be completed by 2015. The plant would be in operation for 40-60 years. A feasibility study confirmed that the three Baltic energy companies would be able to secure the necessary investments on their own.
- **Estonia wants two months for an evaluation of the environmental impact of the German-Russian gas pipeline to be built under the Baltic Sea, representatives of the Environment, Economy and Foreign ministries and the Council of Environmental NGOs decided at a meeting on 26 October.** Estonia wishes to file in comments on the pipeline's environmental impact evaluation program over eight weeks rather than six as proposed by the countries building the pipeline. "The Estonian and Finnish governments signed in 2002 an agreement on the evaluation of cross-border environmental impact according to which the countries impacted should be given two months to lodge their suggestions. This agreement should be honored," deputy secretary general of the Environment Ministry Harry Liiv said.

## COMMUNICATION

- **According to figures published on the wifi.ee website show, there will be an estimated over 1,000 areas covered by wireless Internet in Estonia by the end of this year, with 869 areas working at this point.** The editor of the WiFi/WiMax.ee portal, Veljo Haamer, was confident that the forecast is correct. Yet he named equipment shortcomings as an obstacle. He said that together with price the quality of WiFi equipment had declined and that often networks with unstable quality of operation had to be subjected to a remake before they could be registered. At the beginning of 2006 there were 680 WiFi covered areas in Estonia, and 132 more were added during the first half of the year. In the course of the year 2005, 250 new WiFi covered areas were established, which means that growth continues approximately at last year's rate.
- **The electronics manufacturer Elcoteq, Estonia's largest exporter, has announced that the company has no plans at this point to relocate production from Estonia to a country of cheaper labor.** Elcoteq made the comment after reports in the Finnish and Estonian media about major changes waiting for the production unit here. "There will not be any of those big changes that the analysts have described," the PR chief for Elcoteq's Estonian operation, Jaanus Pauts said.
- **On 11 October Eesti Post and KazakhstanPost opened a joint venture, Elektronpost.kz, a company to provide information logistics services, and are planning to launch four production lines in the next few years.** The main lines of activity for the joint venture will be digital printing, data administration, direct and e-marketing services. The ten-year practical experience of Eesti Elektronpost (Estonian Electronic Mail) and financial and telecommunications market experience was applied in the launching of the joint venture, Eesti Post said. "The Kazakhstan market has a great development potential and this is a good opportunity for

us to apply our ten-year experience. As Kazakhstan is the ninth world country in terms of its territory, contracting the delivery time of letters is a key issue for their mail service," said Tonu Koiv, chairman of Eesti Elektronpost, a subsidiary of Eesti Post.

## INDUSTRY

- **The Estonian beverages producer A.Le Coq Group that manages Baltic holdings of the Finnish Olvi concern is increasing stakes in the Latvian and Lithuanian subsidiaries and plans to buy out small shareholders of the Lithuanian Ragutis.** This year A.Le Coq Group will increase share capital of the Latvian subsidiary Cesu Alus by 47 million kroons (EUR 3 mln) to make up for previous losses, raising its holding thereby to 98 percent, the group says in the newly-filed financial report for the previous business year. A.Le Coq also plans to invest 123 million kroons in the share capital of Ragutis, which the Lithuanian subsidiary will use to pay back a loan from the group. A.Le Coq's holding in Ragutis was 83 percent at the end of 2005 but it has increased this year.

## REAL ESTATE

- **The Estonian real estate concern Arco Vara is going to open jointly with IPC Real Estate an office in the Romanian capital Bucharest, expanding thereby its operations into the sixth East European country.** Registered in Bucharest earlier this month, Arco Real Estate Consulting S.R.L. is owned equally by Arco Vara and IPC Real Estate. The subsidiary will operate under the international trademark Arco Real Estate. The timing of the entry into Romania is of strategic importance, taking place shortly before the country's accession to the EU, and the region is becoming increasingly attractive to investors, head of Arco Vara's service group Ivar Siimar said. "IPC is already working on several housing development projects which allow our new representation to get off the ground quickly," Siimar said.

## RETAIL

- **The retail chain A-Selver of the Tallinna Kaubamaja group has established a subsidiary in Latvia to develop and operate Selver supermarkets on the Latvian retail market.** The share capital of the firm Selver Latvia founded on 25 October is 200,000 lats (EUR 287,300). The parent company of A-Selver, Tallinna Kaubamaja, established on Wednesday in Latvia a full subsidiary TKM Latvija with the purpose of finding and developing suitable properties for A-Selver. TKM Latvija has share capital of 2,000 Latvian lats (EUR 2,900). Tallinna Kaubamaja announced on 26 October that it was going to start negotiations with the German retail concern Lidl over the acquisition of properties Lidl owns in Latvia to build 10 shopping centers.

## TOURISM

- **About 900,000 tourists stayed in accommodation establishments of Estonia during the three summer months, 70,000 more than during the respective period in 2005, the Statistical Office said.** About a third of the tourists were residents of Estonia and the rest visitors from other countries. About a half of the foreign visitors came from Finland, with Germany and Sweden next on the list. The share of visitors from Finland decreased by three percent compared with the summer months of 2005. Meanwhile, the number of residents of Estonia staying in accommodation establishments was up by one-third year-on-year. It was the hardest to find accommodation in Tallinn and Pärnu, where the room occupancy rate during the period reached 75 percent, and in Tartu, where the occupancy rate was 53 percent. During the three months, Tallinn hosted 64 percent of foreign visitors and 17 percent of the users of accommodation coming from within Estonia. In August, about 292,000 tourists stayed in accommodation establishments of Estonia. There were 764 accommodation establishments with 16,300 rooms and 36,400 beds available for tourists. The average room occupancy rate was 60 percent.
- **Ads started to be aired on Finnish, Swedish and Norwegian television channels and the Internet in mid-October to invite people from these countries to come to Estonia for a spa holiday or a city break.** The 15-million-kroon (EUR 0.96 million) campaign is organized by the Enterprise Estonia foundation in conjunction with the shipping group Tallink and Estonian Air. "The goal is to attract the interest of 25 to 50-year-old North Europeans interested in culture and spas and thus to increase the number of visits outside the peak tourist season," Ülaru Alamets, board member of Enterprise Estonia, said. This is the first ever large-scale joint campaign of this kind by the state and private sector, Alamets added. The ad clips are shown on two TV channels in Finland and Sweden and on four channels in Norway. The campaign aims to attract 50,000 unique visits to its web site from the target markets. The number of tourists from these markets is expected to increase by up to 20,000.