

Estonian Economy

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ESTONIAN ECONOMIC POLICY

- **The Confederation of Estonian Employers, the Chamber of Trade and Industry and the Confederation of Estonian Trade Unions have made a joint appeal to the government and the parliament, demanding that the state budget for 2008 take into consideration manifestations of risk for the economy.** "It does not happen every day that employers and trade unions are so firmly in one mind in some issue. I hope that the application handed in will make those responsible for leadership of the country think that we no longer have time for discussions at meetings and in the press. We have to pass decisions that ensure sustainable development and save Estonia from economic depression," Enn Veskimagi, chairman of the extended board of the Confederation of Estonian Employers, explained the reasons for handing in the application. The social partnership organizations find that the extremely fast growth that has characterized Estonia's economic development in recent years has brought manifestations of imbalance, the deepening of which could gear a negative scenario. "The public sector and the government should have a more conservative budgetary strategy, not the previous years' slacker one. For this purpose it is necessary to strive for a budget surplus of at least 3 percent of the GDP," the appeal said. "Stable, transparent and accepted pay policy in the public sector is absolutely necessary. As one of the measures growth of public institutions' personnel costs should be curbed by contracting the number of vacancies." The employers and the trade unions forecast that as a result of a fast rise in the cost of living productivity will lag even farther behind the growth in wages, which may compel companies to leave Estonia in great numbers, triggering a steep rise in unemployment. Once the tax revenue intake has gone into a sharp fall the state must cut back expenditures or sharply raise the tax burden. This may question financing of the rise in pensions, continuation of the parent benefit at the present terms and taking advantage of structural resources if the state has no funds for cofinancing. To avoid the negative scenario described above the social partnership organizations find it necessary to increase labor productivity. "Offer of labor can be increased by bringing to the labor market risk groups, attracting back workers who have left to work in other countries and bringing in qualified labor from abroad. Raising of the workers' qualifications must be exempted from income tax; it is necessary to give state support for workers' requalification and upgrading, which will improve the opportunity that they will soon find a new job if the earlier one disappears for some reason." The government, members of parliament and representatives of the Bank of Estonia, the employers and trade unions found, would have to make their best effort in order to explain to foreign banks the reasons of the economic processes taking place in Estonia and the negative consequences of the limitation of loan offers.
- **The Estonian parliament with votes 76-0 and one abstention on December 5 passed a supplementary budget boosting the state's expenditures this year by 2.7 billion kroons (EUR 172.5 mln).** The extra budget became possible thanks to better-than-expected intake of revenue. Estonia's revenue surplus stands at 5.8 billion kroons at this point. The biggest recipients of extra money under the supplementary budget are the ministries of defense and social affairs. The overall size of the supplementary budget is 6.2 billion kroons and it comes with a surplus of 3.5 billion kroons. The surplus is channeled into the reserve.

- **Even lower economic growth figures could be expected in the last quarter of 2007 and in Q1 of 2008.** "Economic growth should start recovering again in the second half of next year, but very much will depend on whether companies will invest into the modernization of production and how the world economy, above all European economy, develops," Hansabank analyst Maris Lauri said. Commenting on the 6.4 percent economic growth of Q3, Lauri said that the result was as had been expected. It was also expected that the slowdown in the growth rate had been due to reduction in households' growth in consumption. Production had significantly been influenced by rapidly growing expenses, and not by expenses on wages alone, but also raw material, energy, land, rental and other prices. The price hike had not affected consumers alone. Several branches of the economy had also lost as a result of rapidly climbing prices bringing down growth in added value.
- **A large part of Estonians considers next year's rise in public servants' pay unfair.** Some 79 percent of the 500 respondents of a nationwide survey answered in the negative to the question, "Do you consider the government's plan to spend next year 22.4 percent more money than this year on the pay of ministry officials to be fair?" The pay rise was judged to be fair by 8 percent of the polled. Finance Minister Ivari Padar, commenting on the survey results through a spokesperson, said there's nothing criminal in paying public servants a decent salary in comparison with the private sector. "Our aim is not to feed bureaucracy and spend money by the bucket. Analyses show that the pay rise in Estonia is driven by the private sector," he added. Excluding the growth in the wages of police officers, teachers, border guards and officials of ministries' subordinate institutions, salaries of employees of 12 ministries, State Chancellery, offices of the parliament and the justice chancellor, State Audit Office and Supreme Court alone will rise by 320 million kroons (EUR 20.45 mln). The public sector payroll would thereby increase by one fourth.
- **The Estonian government approved a bill to simplify the employment of foreign labor.** The draft law adjusts the rules of working in Estonia both for a short time and on a term residence permit. One of the conditions for the registration of short-time employment of a foreigner is going to be that he or she be paid the average gross monthly salary of the sector. The bill lists positions to which the requirement does not apply. For work on a term residence permit, the state obligates the employer to pay a foreigner wages at least equaling the national annual average pay multiplied by a coefficient of 1.24. The bill also expands a list of foreigners who are not required to have a work permit for employment in this country. The bill raises the immigration quota from the present 0.05 percent to 0.1 percent of Estonia's permanent population. The government is sending the bill to parliament for consideration.
- **Estonian Finance Minister Ivari Padar signed a framework agreement of an Estonian-Swiss cooperation program, under which Estonia can receive a subsidy of more than 370 million kroons.** The framework agreement will make it possible for Estonia to receive subsidies from the Estonian-Swiss cooperation program until the year 2012. The aim of the framework agreement is to define the areas to be subsidized and the general distribution of funds and to agree on the general terms of using the subsidy.
- **The Estonian parliament passed a bill on money-laundering and prevention of the financing of terrorism, which is supposed to protect the Estonian economic space and financial sector against terrorist activity and to rein in SMS loan providers.** The law extends the circle of persons compelled to apply requirements of the money laundering and prevention of the financing of terrorism act. The obligated parties are banks and all entrepreneurs providing financial services, lottery organizers, persons engaged in real estate brokerage, pawn-shop keepers, auditors and providers of accounting or consultancy services. Also all traders must bear in mind requirements of the act, if they are paid more than 200,000 kroons in cash or as big a sum in some other currency, in some cases also notaries, lawyers, bailiffs, trustees in bankruptcy or other providers of legal services. As a new requirement a person, with the exception of a crediting institution, must inform the money-laundering information bureau of any deal in which 500,000 kroons or more is paid either in cash or in another currency. To crediting institutions such an obligation is applied only in case if its activity is of currency exchange. Also the companies' obligation to put them down in the commercial register is an important change. Among others also SMS loans providers have the obligation to register themselves.
- **The external debt of Estonia grew by 18 billion kroons or 8 percent in the third quarter of 2007 to stand at 254 billion kroons (EUR 16.23 b) at the end of the period, the Bank of Estonia said.** The gross external debt surpassed the country's GDP of the last four quarters by 8 percent. The gross foreign debt grew mainly as a result of an increase in the long-term liabilities of credit institutions. The debt liabilities of credit institutions made up 56 percent of gross foreign debt while the debt liabilities of other sectors made up 24 percent. The general government's debt made up three billion kroons, or roughly one percent of the country's gross debt. Net foreign debt, or the difference between external claims and liabilities, increased 12 percent during the quarter to 79 billion kroons.

MAJOR ECONOMIC INDICATORS

- **While inflation slowed down somewhat in December, a rise in excise duties from the start of the new year will accelerate growth in the consumer price index (CPI) again, analysts say.** In January 2008 a

significant price increase is due. According to an estimate by the Bank of Estonia from this fall, inflation will slow down to 7.4 percent next year, even though the excise hikes taking effect from the start of the year will put off the slowing down of inflation somewhat. The increases in food prices mainly happen as a result of external factors and are linked to rises in the prices of grain and dairy products. The CPI rise in Estonia in November was influenced by the rise in the world market prices for food and fuel, whereas price increases for other goods and services slowed down. The growth of Estonia's CPI has accelerated, according to the latest figures. The year-on-year rate of increase in monthly CPI was 8.5 percent in October, 7.2 percent in September and 5.7 percent in August.

- **The best performer among the world's stock markets in 2007 was China by a wide margin, whereas Tallinn, Riga and Stockholm all ended up among the bottom ten, the Swedish newspaper Dagens Industri reported.** The Chinese CSI 300 index, reflecting the performance of the stocks of the 300 largest companies of Shanghai and Shenzhen, surged 162.98 percent during the year. In second place followed Ukraine, whose PFTS index went up 132.60. The Dhaka index of Bangladesh saw gains of 86.63 percent, Slovenia's Total Market 78.62 percent, Nigeria's Lagos index 64.75 percent and Croatia's Crobex 60.07 percent. Ireland's Overall index was second from the bottom with a loss of 26.01 percent and Tallinn third with 14.41 percent.

GDP

- **According to preliminary information the Estonian GDP grew by 6.4 percent in Q3 against the same period last year, the Statistical Office said.** The GDP growth rate has been slowing down every quarter this year. In Q1 this year the growth rate in GDP was 10.1 percent in stable prices and 7.6 percent on Q2. In Q3 GDP in current prices was 61.7 billion kroons (EUR 3.9 b) and in stable prices of 2000 42.6 billion kroons. The slowdown in the gross domestic product in stable prices was due to significantly lower growth in domestic demand and growth in added value, as well as decline in export and import. Besides, a price rise over the past few quarters have significantly affected the calculation in stable prices. Domestic economy demand grew by 7.2 percent in stable prices. Its slowdown compared with Q3 of the previous year was effected by a sharp fall in private consumption costs to 5.1 percent and contraction of investment into fixed assets, which fell by 5.7 percent. The growth in the export and import of goods and services in stable prices has been falling since the beginning of 2006. In Q3 this year the export of goods and services fell by 2.9 percent and import by 0.4 percent on year in Q3.
- **Eurostat and the European Commission's directorate general for regional policy have estimated that Estonia's per capita GDP adjusted to purchasing power parity will reach a level exceeding 90 percent of the EU average by 2019.** By the year 2011, Estonia's per capita GDP is expected to surpass 75 percent of the EU average, it appears from the recently published Commission report on economic and social cohesion. Estonia's per capita GDP in 2004 equaled 55.7 percent of the EU average level, according to the report. The report, which covers the period until 2024, holds out no prospect of reaching 90 percent of the EU's average per capita GDP figure for Latvia and Lithuania, or even for Hungary and Poland, by that time. The Czech Republic is seen to cross that threshold in 2012 and Slovenia and Cyprus in 2009.
- **In the years 1996-2005 Estonia saw a higher growth rate in productivity than any other current member of the EU, it appears from the recently published Commission report on economic and social cohesion.** Real GDP per employee grew at a rate of nearly 8 percent per year in Estonia during the period from 1996-2005, figures by Eurostat show. Next came Latvia and Lithuania with growth rates of more than 6 percent. The average growth rate for Poland was nearly 5 percent.

PRICES

- **Several excise duties will be hiked in Estonia and some new duties applied from the start of 2008, as a result of which electricity, gas, motor fuel, alcohol and tobacco are to become more expensive.** From Jan. 1 2008 an excise duty of 5.90 cents per kilowatt-hour is to be slapped on electricity, which will add 17 kroons to the monthly electricity bill of an average household, the national power utility Eesti Energia has said.

LABOUR MARKET

- **While wages will not keep growing at the same rate as this year in 2008, the expectations of workers who have got used to a situation of labor shortage will not change so quickly, Peeter Vork, manager of the PW Partners consultancy, said.** "People will be asking for bigger wages quite boldly next year, but managers will already be aware of the changed economic situation," Vork said. "Unfortunately it's always the ordinary people who are the last to know. After several years the word unemployment will be in use again, but only in a few sectors. Like in construction, where workers are already asking for work," he said. Vork described the changes on the labor market as positive, as a lasting boom is not a good thing.
- **It appears from a recent report by the European Foundation for the Improvement of Living and Working Conditions (Eurofound) that working in Estonia considerably increases health risks**

connected with work. According to the report, Gender and working conditions in the EU, which focuses on occupational segregation by gender and how it impacts on the quality of men's and women's lives, the total time European women spend on work, including paid work, travel between the place of work and home and unpaid work at home, is longer than that of men, while men work longer paid hours. But the likelihood of women troubled with matters of work outside working hours is half lower than that of men. The occupational rifts by gender are the smallest in Finland, Estonia, Sweden and Lithuania and the biggest in Malta, Greece, Italy and Spain. On the basis of the relative rate of representation, women are not underrepresented at the senior management level in 6 countries, the Czech Republic, Estonia, Latvia, Malta, the Netherlands and in Portugal, while there is overrepresentation in that respect in Bulgaria. Working in Bulgaria, Denmark, Estonia, Greece, Latvia, Lithuania, Malta, Poland, Slovenia, Slovenia and Sweden significantly increases health risks connected with work. Furthermore, working in Estonia, Greece or Slovenia doubles the risk of work-related damages to health and trebles them in Latvia and Poland.

- **According to the Labor Market Board there were 13,874 registered unemployed in Estonia as of November 30, 2.2 percent of the labor aged from 16 to pension age, 13.7 percent higher than in the same period last year.** The number of jobless increased by 3.3 percent compared with the end of October.
- **The higher tax-free income and reduction of the rate of personal income tax effective from 2008 will raise the monthly net income of earners of the average wage in Estonia by approximately 140 kroons (EUR 9).** The average monthly gross wage in Estonia in the third quarter of 2007 was 10,899 kroons. The figure was higher than 11,100 kroons in September. The tax-free part of personal income will starting from 2008 rise from 24,000 to 27,000 kroons a year, or from 2,000 to 2,250 kroons a month. The personal income tax rate will meanwhile drop from 22 percent to 21 percent. For earners of a monthly gross wage of 20,000 kroons the net income will rise by roughly 230 kroons, whereas to the net income of people earning a gross wage of 30,000 kroons approximately 330 kroons will be added. The calculations apply to employees who have joined the mandatory second pillar of pension insurance. The tax-free income is set to rise and the personal income tax rate to move lower also in the coming years. Under an amendment passed earlier this year, the income exempted from taxation will rise to 3,000 kroons a month by 2011 while the taxation rate will drop to 18 percent.

FISCAL POLICY STATE BUDGET

- **Estonia and other countries of eastern Europe should have earlier tightened their fiscal policy to cut domestic demand, Bengt Dennis, former governor of the Swedish central bank, said.** It is late for Estonia to tighten fiscal policy now, and it's also very difficult to forecast at this point how soft the landing for the Estonian economy will be or how long the correction in the economy could last, Dennis said. Non-interference by the government and high domestic demand resulted in faster inflation, which has postponed the adoption of the euro for an indefinite period of time. Dennis described Latvia as one of the threats for Estonia, as a fall of that country's economy might grasp Estonia with itself. "Investors to a large degree view the Baltic states as a single market," Dennis said. He described big current account imbalances, the second main macro indicator beside inflation, as a further weakness of Estonia and Latvia. Dennis said he doesn't advise Estonia to take the same path as Sweden did and devalue its national currency. "That will not solve your problems," he said.
- **On December 12, the Estonian parliament adopted the state budget for 2008.** The budget bill passed with 55 votes in favor, one against and four abstentions in the 101-member chamber. The budget projects revenues of 96.3 billion kroons (EUR6.15 b) and outlines expenditures in the amount of 93.6 billion kroons in 2008. Revenues are expected to increase by 25.17 percent compared to the main budget for this year.
- **Revenues of Estonia's state budget in the first 11 months of this year totaled 74.1 billion kroons (EUR 4.73 mln) which is 90.2 percent of the target set in the main and supplementary budgets for 2007.** Revenues exceeded outlays by 7.8 billion kroons. Compared with the same period last year, revenue intake grew by 20.6 percent. By the end of November 2006 budget receipts stood at 61.5 billion kroons and the difference between revenues and outlays was 7.2 billion kroons. As of the end of November, expenditures to the tune of 66.3 billion kroons had been funded from the state budget, which makes up 81 percent of the spending planned for the full year. Compared to the first 11 months of 2006, outlays were up by 22.2 percent. The largest expenditure categories were various allocations (social benefits, allocations for a specific purpose) and operating expenses (personnel costs, administration expenses), which accounted respectively for 72.6 percent and 20.2 percent of total spending. Allocations increased by 21.5 percent and operating expenses by 23.2 percent year-on-year.
- **A comparison of the state budgets that the all three Baltic parliaments have passed by now reveals that Lithuania will have the smallest state coffers per capita next year.** Translated into Estonian kroons, the volume of the Lithuanian budget for 2008 is 115.8 billion kroons (EUR 7.4 b), or about 34,200 kroons per

capita given the country's population of approximately 3.39 million. The projected size of Estonia's state budget is 96.3 billion kroons or roughly 71,800 kroons per resident, which is more than double the Lithuanian figure. Budgetary revenues in Latvia are planned to reach 123.5 billion kroons, corresponding to 54,100 kroons per resident. Latvia and Estonia have drafted their 2008 budgets with a surplus, whereas the Lithuanian budget would according to the state budget law have a deficit corresponding to about half a percent of GDP.

FOREIGN ECONOMIC RELATIONS

- **Olympic Entertainment Group that has expanded vigorously in Ukraine over the past 2 years may take a blow as the authorities in Kiev are mulling a plan to exile casinos to areas situated at least 30 km from the city center.** The plan to banish casinos as well as slot machine halls from the central part of Kiev was submitted to the mayor of Kiev by President Viktor Yushchenko in the first week of December. Ukrainian operations accounted for 6.4 percent of Olympic's revenues in the first nine months of this year. In two years Olympic has raised its nine-month revenues in the capital Kiev from 14 million to more than 100 million kroons (EUR 0.9-6.4 mln).
- **Claiming about 400 million kroons (EUR 256 mln) from Estonian companies for excess sugar stocks will be suspended for at least two years, because the Tallinn Administrative Court has asked assistance from the European Court of Justice in the interpretation of Estonian law.** There are more than 20 cases suspended in Estonian courts where companies have protested penalties demanded from them. Some of the debates have already reached the Supreme Court. The sum total the state is hoping to get from companies is 400 million kroons. At the end of November the Tallinn Administrative Court decided to ask the European Court of Justice to give a preliminary decision about how Estonian law concerning the collection of penalties should be interpreted in connection with icecream maker Balbiino vs Estonia. Questions have also risen in connection with the date as of when the excess stocks should be calculated -- as of May 1 when Estonia acceded to the EU or should also the growth in the companies' later sales, production and turnover be taken into consideration. In all the penalty the European Commission is asking from Estonia for its total of 91,464 tons of excess sugar stocks is 45.7 million euros.
- **An amendment to the income tax law Estonia has in the pipeline may not be in conformity with the requirements of the EU's parent-subsidiary directive, a leading tax consultant with Pricewaterhouse Coopers warns.** The existing European Court of Justice rulings do not clearly back Estonia's position and even if this Baltic state reaches agreement with the EU's executive Commission the possibility of some foreign company taking legal action against Estonia cannot be ruled out. It is also unfortunate that Estonia did not consult the Commission when drawing up the amendment. In Estonia's judgment, the amendment should in any event ensure that the EU's requirements are met, Finance Minister Ivari Padar said. As the introduced changes in substance change little, Estonia is highly likely facing a legal battle at the European Court which will prolong unclarity by two or three years. The government approved the income tax law amendment which in its opinion will fully harmonize the order of taxation of Estonian enterprises with income tax with the EU's parent-subsidiary directive. The amendment is subject to endorsement by parliament.
- **The proposed changes to the income tax law offer a good solution for companies in Estonia, but at the same time Estonia must be ready for accusations of non-compliance with the EU's tax system conformity directive and lengthy court proceedings, former Finance Minister Taavi Veskimägi said.** The proposed solution will in one way or another end up in the European Court of Justice. Therefore, the Finance Ministry must be ready to defend Estonia's positions both in a possible dispute with the Commission as well as in disputes with corporations whose subsidiaries here will continue to have to pay income tax on the dividends assigned to the parent company. The discussions that lie ahead also should deal with the risks, such as the possibility that the solution that Estonia is planning to adopt would get stuck in the European court for three or more years and what kind of effect this would have on Estonia's attractiveness as an investment environment. A bill of amendments to the income tax law has been drafted in the Finance Ministry that would make the income tax of companies calculable on a per-annum basis and introduce the obligation to make advance tax payments. At the same time it would preserve the possibility to put off the moment of taxation until the time when the owner takes out money from a business as dividends.
- **The Estonian Taxpayers' Association believes the Estonian government must be prepared to go to the European Court of Justice in order to defend its income tax system.** The taxpayers say Estonia has no reason for dazzling optimism concerning the Estonian income tax system. The government released and endorsed on December 13 an important and long-awaited income tax bill to revise the procedure of taxation of legal persons' profit. The bill should remove the alleged contradictions with the EU directive under which a period of transition was granted to Estonia until the end of 2008. At the same time a covering letter to the bill states that according to recent practice of the European Court of Justice there are no contradictions with European law, the Taxpayers' Association said, referring to a discord. The taxpayers expressed recognition to the Finance Ministry as well as the hope that also European institutions share the interpretation included in the covering letter. According to the government's tax amendment proposal Estonia is planning to pass from

taxation of corporate income by the month to taxation by the year. The state is planning to abolish income tax from dividends companies operating in Estonia will pay to their owners in EU countries who control a share of less than 15 percent in an Estonian company paying out dividends.

- **The Enterprise Estonia Foundation (EAS) is looking for 4 senior officials -- director of the international division and 3 representatives at offices in London, Kiev and Moscow.** Support to Estonian companies' activity on foreign markets and bringing into Estonia foreign investments that create added value is an activity of growing importance for the Estonian economy and EAS and therefore EAS wants to strengthen its international division. The government endorsed the development plan of foreign representations of EAS in spring 2006. EAS has foreign representations in Helsinki, Stockholm, Hamburg, London, St. Petersburg, Moscow, Kiev, Tokyo, Shanghai and San Jose.
- **Estonia's foreign trade deficit totaled 3.6 billion kroons (EUR 230 mln) in October, down from 4.6 billion kroons in October 2006 and 4.2 billion kroons in September this year.** Estonia's foreign trade turnover in October was 27.6 billion kroons, according to the preliminary figures. This marks an increase of 8 percent over October a year ago and 16 percent in comparison with September 2007. In October exports amounted to 12 billion kroons or 43 percent of foreign trade while imports made up 15.6 billion kroons or 57 percent of the total trade volume. Exports were up 15 percent over October 2006 and 23 percent bigger than in September 2007. Imports saw an increase of four percent in year-on-year terms and 12 percent month-on-month. Exports to EU countries made up 70 percent and exports to CIS countries 13 percent of total exports in October. The main countries of destination for exports were Finland (20 percent), Sweden (13 percent) and Latvia (10 percent). Imports from the EU accounted for 83 percent and imports from CIS countries for 9 percent of all imports. Of imports, 16 percent came from Finland, 14 percent from Germany and 10 percent from Sweden.
- **Citing a CIS agreement on tariff policy, Russia has decided to cancel from Jan. 1 2008 preferential rail transit tariffs for Tajik produced aluminium exported via Baltic ports.** Under the document, the cut-rate tariffs using a coefficient of 0.9 will be introduced for aluminum transit from Tajikistan to the Russian ports on the Baltic Sea. The sole producer of aluminium in Tajikistan is the state-owned Tajik Aluminum Company, which produced 414,000 tons of aluminum in 2006 and is estimated to produce 418,000 tons in 2007. According to spokespeople for the state-owned company Eesti Raudtee (Estonian Railway), shipments of aluminium from Tajikistan to Estonia earlier used to amount to 20,000-25,000 tons per month. Lately the amount has been half smaller. The spokespeople also said that while the shipment of aluminium from Tajikistan northwards has not increased, there has been a rise in the amounts exported through Iran.

Further information is available:

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

DEVELOPMENT BY SECTORS

BANKING

- **The Estonian economy has all the makings to grow at an average annual rate of about 6 percent over the next 5 years, Bank of Estonia Vice Governor Andres Sutt said** at the annual convention of the Estonian Wood Industry Association. Rapid GDP growth is being replaced by a moderate rate of growth, export is moving up and private consumption has decreased.
- **Hansabank, the biggest bank in Estonia, is offering the opportunity of signing both mortgage and other loan contracts given on real estate guarantees in the Internet.** To get a loan the client must file an application over the Internet or hand it over to a loan consultant; if necessary he or she has to meet a loan consultant. The loan contract can be signed using the ID card. In case a mortgage has already been set and it suffices for the issue of a new loan, the loan will be transferred to the borrower's account immediately after signing of the loan in the Internet bank. Since 2004 Hansabank signed over the Internet state student loan and security contracts as well as small financing product contracts.
- **The Baltic states, Bulgaria and Romania are the most likely countries to face a hard landing in the economy and experience financial distress, Danske Bank said** in an update on its economic analysis from February. While the risks are lower in Poland, the Czech Republic and Slovakia, these countries are now also showing clear signs of overheating. Hence, the boom-bust risk in Central and Eastern Europe has become more widespread than in February.

- **Denmark's Danske Bank, which acquired the whole Sampo banking group at the beginning of 2007, is going to merge with it AS Sampo Bank, turning it into a branch of Danske.** Danske Bank and its Estonian subsidiary signed the merger agreement on December 18. Danske Bank's banks in Norway, Sweden and Ireland operate as branches but under their own names.

INDUSTRY

- **Development of the unbuilt area next to the Admiralty Basin between the Old Town and the passenger port of Tallinn will cost an estimated 3 billion kroons (EUR 192 mln).** An international architecture competition for the first two plots, Kuunari 5 and Laeva 3, is about to start soon. The results of the competition are due to be announced at the end of February 2008 and construction is about to start in the second half of that year. The project is estimated to take at least 5 years to complete.
- **Baltic Panel Group, which launched a plywood factory in the central Estonian small town of Kohila earlier this year, has been forced to buy wood from Russia via Sweden and Finland following the street riots over the removal of the Soviet monument in Tallinn in late April.** The company had lost three million kroons from April to December as a result of decreased availability of wood. Wood bought from Sweden and Finland is by 300 kroons (EUR 19.2) more expensive per cubic meter. Correspondingly, Baltic Panel Group has raised the price of its output. The Kohila plant exports 70 percent of its output to Western Europe. Other destinations include Indonesia and Singapore, for instance.
- **Heikki Maki, manager of the Estonian operation of the Finnish electronics manufacturer Elcoteq, finds that the rapid development of recent years has made Estonians forget the value of a lasting job.** "One's used to a life that is too easy. There's been more and more money around with every new year. That has spoiled the labor market. In many respects people don't have their feet on the ground any more," Maki said. The rapid wage growth in Estonia is a difficult challenge for Elcoteq should it continue. Elcoteq has on the average 2,500 people on its payroll in Tallinn. In Estonia Elcoteq does not rely exclusively on cheap labor. Development of productivity and of methods of production have an important place, in which the Tallinn plant is playing a key role in the group.
- **Production is about to start in 2008 at the Russian plant of the Estonian producer of joint sealants and insulating foams Krimelte OU, which has invested 4.5 million euros in the project so far.** Test batches have already been produced at the plant near Moscow and basically the same products as in Estonia would be produced there. The new plant has a floor area of a couple of thousand square meters. For reasons of cost efficiency the product range of the Russian plant will be narrower than that of the Estonian plant. The length of the payback period of the Russian plant can be assessed a couple of years from now. It is possible that when a good opportunity opens up similar production units could be acquired elsewhere too, such as in the Balkans, by buying up competitors.
- **As many developers have put their projects on hold, the freshest estimate by experts is that about 100,000 square meters of new office space will be added in Tallinn in 2008.** Experts aren't predicting over-supply of commercial real estate, however, as many projects have been frozen and developers carefully weigh every new launch. Besides, in the case of new projects banks require preliminary agreements covering at least one-third of the area to be developed. In downtown Tallinn demand for office premises exceeds supply and there are almost no vacancies, especially in what regards newer developments in the city center. Yet shortage of parking space and problems with access pose a problem for central Tallinn. Since most of the 50,000 square meters of new office space added during 2007 are situated outside the city center and the same trend is about to continue in 2008, prices are due to continue to rise for centrally located properties also in the future.
- **M.A.S.I Company OY, a Finnish manufacturer and seller of youth and leisure clothing, signed an agreement with the Estonian garment company Sangar to buy the latter's production facility in Valga.** Sangar said it was selling Sangar Valga Vabrik (Sangar Valga Factory) because subcontracting for M.A.S.I already accounted for 80 percent of the plant's output. Therefore, Sangar decided to concentrate the manufacture of shirts under its own brand in Tartu, its traditional base. The new owner is planning to invest money in new equipment in Valga and will focus primarily on the manufacture of trousers. The number of employees at the factory will not be reduced, Sangar said.
- **Heads of building machinery and equipment rental companies Cramo Estonia and Ramirent estimate that the construction market has cooled which is more evident with regard to small companies.** The construction market has cooled by about 10 percent, but by the second half of next year the market will be back at the pre-cooling level, managing director of Cramo Estonia Ivar Valdmaa said. Both executives predict a change in the structure of the market in that the share of building construction will decline and that of engineering and road construction rise. Medium and small construction companies which concentrated too much on housing construction and related development activities are in the most complicated situation.

- **Two leading law firms in Estonia, Tark & Co and Law Office Aivar Pilv, are going to merge into law office Tark, Pilv & Co.** The emerging law firm will start operating under the new name at the beginning of 2008 and under the same roof, in April 2008. With 45 law specialists, the firm will according to the merger parties be the largest law firm in Estonia. Together with the Latvian Loze, Grunte & Cers and the Lithuanian Sutkiene, Pilkauskas & Partners the new firm will form the second-largest group of law offices in the Baltic countries.
- **The dismissal of 1,500 workers at the Narva-based textile plant Kreenholm is about to raise the unemployment rate in East-Viru County by two percentage points to 10 percent, calculations by the Ministry of Economy and Communications show.** The ministry sees finding a capable new foreign investor as a way out for Kreenholm and is recommending textile companies elsewhere in Estonia that are suffering from labor shortages to weigh moving some of their manufacturing operations to Narva.
- **Elme Messer Gaas, a subsidiary of the Estonian Balti Laevaremonditohase Grupp (BLRT, Baltic Ship Repairers) and the German Messer Group will build a EUR 32 mln industrial gases facility in the heavy industry area in Ukraine.** The facility, to be put up in Dnipropetrovsk, will have a capacity of more than 120 million cubic meters of industrial gases a year, about one tenth of the Ukrainian market. The gases will be used in the metallurgical, chemical and oil industries. The industrial gases facility will be part of a nearly EUR 1 b Ukrainian metal pipes and wheelsets manufacturing complex. The works should be completed in about summer 2009. It will employ nine people, but according to Berman the capacity of the works is ten times as high as that of an existing gas works in Kharkiv of 62 employees. The new facility would mainly produce oxygen and nitrogen as well as argon and noble gases such as neon, xenon and krypton. Three large North and West-European banks will help the company finance construction of the facility.
- **Estonian alcohol producers say the wider definition of vodka adopted by the EU, according to which vodka can be produced also from other raw materials besides potatoes and grain, would not have a significant effect on the local alcohol market.** "I believe that the effect is relatively indirect," board member of Liviko Janek Kalvi said, adding that if there was some kind of effect, it would develop over a very long period of time. The new vodkas need not be cheaper than the traditional vodkas, but to look at developments on the world grain market, the prices of grain would rise even higher in the next few years and for example in 10-20 years vodka made of grain could really be more expensive than vodka made from some other raw material.

TRANSPORT

- **The average daily run of a passenger car in Estonia dropped to 53.8 kilometers in 2006 from 57.2 kilometers in the year before, it appears from figures published by the Statistical Office.** The average daily run per passenger car was 54.9 kilometers in 2004. Last year, the average length of a man's daily drive was 55.5 kilometers while women drove 50 kilometers on average. The average distance driven for men declined by 11.7 percent year-on-year, whereas for women it grew by 6.6 percent. People aged 25-49 were the most intense users of passenger cars, driving on the average 55.9 kilometers per day in 2006. Next came 15 to 24-year-olds with 51.3 kilometers and 50 to 74-year-olds with 49.3 kilometers per day.
- **Head of Russian Railways Valdimir Yakunin, who visited Estonia on December 8, said the company would increase investments into infrastructure leading to Ust-Luga Port in order to support use of the Russian port in the export of goods.** Yakunin met with Economic Affairs Minister Juhan Parts and board chairman of Eesti Raudtee Kaido Simmermann, the proposal for the meeting came from Eesti Raudtee. "Yakunin intimated that Russian Railway would set no obstructions to the movement of goods in transit through Russia to Estonia," public relations officer of Eesti Raudtee Urmas Glase said. But Yakunin added that Russian Railway would continue to make extensive investments in the St Petersburg region for the improvement and construction of infrastructure in order to support development of the Ust-Luga Port. If this year the Russian rail company invested five billion rubles into the St. Petersburg region, then next year the volume of investments will grow to 13 billion roubles. The aim of Eesti Railway is to replace the westbound oil products transit, which is declining in connection with the development of Russia's Gulf of Finland ports, by container shipments from Estonia to St Petersburg and Moscow areas and elsewhere.
- **A compromise accepted by both the Estonian transport workers' trade union and the association of transport enterprises puts bus drivers' minimum wage at 7,060 kroons (EUR 451) a month.** To the minimum will be added extras for nighttime work and overtime, as well as a motivation payment. The current minimum, effective since 2006, is 5,400 kroons. The new minimum will step into effect from the new year on, following an adjustment period, from February 2008.
- **Starting from December 14, traffic of vehicles longer than 12 meters and articulated trucks is banned between 1 p.m. and 8 p.m. Fridays on the stretch of the Tallinn-Tartu highway between Juri outside Tallinn and the Karevere junction near Tartu; the ban is in force till April 2008.** The Road Administration's aim in introducing the restriction on the traffic of large vehicles is to increase road safety and

the police will be monitoring observance of the ban especially sharply. The restriction does not apply to intercity coaches and an exception has been made also for milk cars.

ENVIRONMENT

- **On December 13, Estonian lawmakers adopted a Greens-initiated amendment to the Packaging Act designed to increase the recycling and reuse of packaging from next year.** The law prescribed till now recycling of half of packaging waste. Under the amended law, 60 percent of packaging waste is to be recycled in the future. In absolute figures this means an increase of about 10,000 tons in recycled materials annually. Starting from 2010, 70 percent of packaging waste has to be recycled. One of the reasons for increasing the amount of recycling is that producer responsibility organizations have coped fairly well with the current recycling obligation and are already collecting and reusing packaging at the required level. For consumers the amendment means above all better opportunities to dispose of packaging waste as in order to comply with the higher recycling and reuse norms more containers need to be installed. The amendment involves additional expenses to the tune of about 15 million kroons (EUR 0.96 mln) for packaging entrepreneurs.
- **According to an agreement of the Estonian Waste Handlers Association waste dumps will in 2008 start checking waste arriving at the dumps to see that no waste not categorized as household waste is dumped there.** As of the new year hazardous waste, old tires, biodecomposing garden waste and electronic apparatus or their parts are not admitted as household waste.
- **The Estonian government endorsed the limits of greenhouse gases emission quota by Estonian companies and their distribution for the period from 2008 to 2012.** By a decision of the European Commission the annual amount of the Estonian emission quota is 12.7 million tons. The decree endorsed by the government provides the ground for the issue of trading licenses to Estonian companies without which they are not permitted to emit greenhouse gases. The government allocated the most quota to the Eesti and Balti power plants -- respectively 7.21 and 1.45 million tons a year. Several industrial companies have earlier said that the low level of the pollution quota will make companies contract their production quota and investments or buy more quota from the market.

IT TELECOMMUNICATION

- **EMT has given up a plan to introduce per-minute pricing in the private and corporate subscriber segments. Customers using prepaid cards will start to be billed on the basis of full minutes starting from Jan. 1, 2008 as planned.** For all contractual customers of EMT second-based pricing will remain in effect. "We listened to our customers and understood that the market is not ready to abandon per-second pricing," EMT Board Chairman Valdo Kalm said. EMT nevertheless sees per-minute pricing as having good prospects and will already in January introduce packages where the price of a phone call is calculated at one-minute precision. That will offer customers the possibility to choose between different pricing models.
- **Tele2 has described the planned switch to per-minute pricing by EMT and its eventual backing out of the scheme as "marketing act of the year" for Tele2.** "Even though the marketing campaign of the year for Tele2 ended so quickly, I believe that during these four days many clients of EMT became seriously interested to get to know how much they are paying for the service today," Kristjan Seema, marketing director with Tele2 Estonia, said.
- **The intention to switch to per-minute billing in the mobile network of EMT and the subsequent dropping of the plan were decisions of the management board of EMT,** the operator's board chairman Valdo Kalm said. The decision was made by the local level of management and it didn't come as a result of pressure by the majority owner TeliaSonera as has been suggested by competitors. EMT tested the change in pricing on focus groups, but the outcome of the test didn't indicate so critical a reaction. Kalm denied EMT's losing any significant number of customers during the few days. As Kalm said, the trend nevertheless is that per-second billing is being abandoned and in the future there will be no counting of call time at all as customers will pay a fixed monthly fee.
- **Estonian information technology and biotechnology companies are actively looking for possibilities to find markets and financiers for their ideas in the United States,** the manager of the newly opened representation of Enterprise Estonia in Silicon Valley said. "The Estonian state is very interested that our technology companies would look beyond our domestic market and become more global," the manager, Andrus Viirg, told. Technology companies in the United States are interested not so much in marketing of products that have been produced in other countries but in buying technological solutions or patents, on the basis of which they would develop their own products and sell them. The main aim of the representation of Enterprise Estonia in San Jose, California, is to support Estonian companies and research institutions active primarily in the fields of information technology and biotechnology in the search for markets and investors. The office of the Estonian national foundation for the promotion of enterprise and new technologies was

opened in the capital of Silicon Valley by Estonian PM Andrus Ansip during his visit to the United States in the end of November.

- **The terminal computing solutions developer Smartlink has bought a shareholding in the South African business of another Estonian IT company, Revnetek.** The companies earlier used to work together as partners. The transaction was carried out for an undisclosed sum earlier in December and in November. Smartlink has been active in South Africa already for one and a half years. In addition to Estonia Smartlink has sold its products to Poland and the United States.
- **In December there were 1,151 WiFi wireless Internet covered areas meant for public use in Estonia, data available from the wifi.ee portal shows.** Harju County, which includes Tallinn, has currently 418 wifi covered areas cleared as public by the portal, 365 of which are situated in Tallinn. The first public WiFi covered area was opened in Estonia in May 2001.
- **EMT said on December 7 it intends to have its 3.5G network enabling high-speed data communication and video calls cover all of Estonia's county capitals by year-end.** In the beginning of December EMT's 3.5G network was available in Tallinn and its close environs, Tartu, Parnu, Narva, Haapsalu, Kuressaare, Rakvere, Johvi, Viljandi, Paide, Keila, Jogeva, Otepaa, Voru, Polva, Rapla, Saue and Saku. EMT's 3.5G network also supported a maximum download speed of up to 7.2 megabits per second and a maximum upload speed of up to 1.5 megabits per second. The first modems enabling such speeds have been available from the EMT retail network since the beginning of December.
- **A bill of amendment to the Estonian broadcasting law drawn up by the Ministry of Culture would from February 2010 eliminate the fee payable by holders of licenses for broadcasting television programs via a digital network.** Privately-run television stations at present pay the state 20 million kroons (EUR 1.3 mln) annually for the broadcasting license. The ministry explained that a new situation would emerge on the advertising market and also frequency resource limitations would be smaller with digital broadcasting. "In order to ensure equal treatment of holders of all types of licenses, it's expedient to abolish license fees," the ministry's explanation said. To motivate television channels currently operating on the basis of a nationwide license to transmit their analog programs in a freely accessible digital broadcasting network, the bill provides for substantial concessions to them. Nationwide TV stations broadcasting digitally from March 1, 2008 at the latest will be exempted from the law-prescribed license fee as of Jan. 1, 2009.
- **The Internet telephone company Skype is laying off about 30 staff in London and Tallinn.** The head of Skype Eesti, Sten Tamkivi, said that 20 or so people across the world have indeed lost their jobs. "Dismissal is not quite the word, we're constantly regulating our organization. Last week, too, a minor restructuring took place," he said. Besides dismissals the company is also recruiting new staff. Skype is at present looking for 45 new employees, of them 27 based in Tallinn.
- **Estonian mobile communications operator Tele2 has been granted 14 new GSM 1800 licenses in Russia and hopes to offer additional incentives to its customers visiting that country.** The new licenses enable Tele2 to cover a total of 34 Russian regions with a population of roughly 60 million. "We hope that we'll soon be able together with our sister company to offer new incentives in Russia," Tele2 marketing director Kristjan Seema said. The company lets its Estonian contractual clients receive calls for free in the network of Tele2 in Russia.

TOURISM

- **The international hotel chain Swissotel Hotels & Resorts opened its Tallinn hotel on December 10.** Opening of the Swissotel was delayed several months. The delay was due to the labor shortage in connection with the real estate market boom. Swissotel Tallinn is 30 stories high and it has 238 rooms. The hotel is part of a multifunctional center including apartments, offices and stores. In addition to a restaurant and cafe the hotel has a leisure and relaxation center with swimming pool, workout hall and saunas. The conference and banqueting floor of the hotel has two meeting rooms, a conference room and one of the biggest ballrooms in Estonia.
- **The euro will become the legal tender in Cyprus and Malta as of January 1, 2008, replacing the national currencies, the Cypriot pound and the Maltese lira.** In that connection one of the leading Estonian currency exchangers, Tavid, will stop exchanging these currencies at the beginning of 2008.

ENERGY

- **Eesti Energia will have to buy an estimated 290 million kroons' (EUR 18.5 mln) worth of carbon dioxide quota additionally in the final quarter of the current financial year ending March, the state-owned energy company says in its interim report for six months.** January, when the fourth quarter of the financial year starts for Eesti Energia, also marks the start of a new period of EU emission quota allocations. A government regulation drafted in November sets out for Eesti Energia about 60 percent of the annual quota sought by the group for the next five-year period. The cut comes after Eesti Energia had operated with a hefty surplus in its emissions rights for many years. Sale of the surplus quota allowed Eesti Energia to earn several

billion kroons in profit and the state to extract a billion kroons in dividend from the company this year. The decision of the European Commission to cut Estonia's emission quotas means that in the coming five-year period the company won't have a big enough quota even to meet Estonia's own demand for electric energy. The shortfall to meet domestic generating needs amounts to 1-1.5 million tons annually and has to be bridged by buying quota from other parties as Eesti Energia cannot start generating less energy than is required by the domestic market.

- **The Iru power plant on the outskirts of Tallinn owned by Eesti Energia (Estonian Energy) is about to announce an international tender for building a waste-fired cogeneration unit.** "The new cogeneration block, with an electrical capacity of 19 megawatts and thermal capacity of 50 megawatts, combines on the principle of sustainable development two large spheres -- environmental protection and energy efficiency," the manager of the plant, Toomas Niinemae, said. Burning waste reduces the need of establishing new dumps to store waste, he said. The company is going to announce the tender in January.
- **As a result of higher excise duty rates, a liter of gasoline is set to become 1.32 kroons (8.4 eurocents) more expensive and a liter of diesel 1.56 kroons (10 eurocents) more expensive in Estonia from the start of 2008, the Estonian Oil Union said.** From the beginning of 2008, the share of duty and VAT on the duty in the price of a liter of motor fuel will be 6.63 kroons in the case of gasoline and 6.09 kroons in the case of diesel. While Estonia is establishing higher fuel tax rates than Latvia, Lithuania or Poland, having the rates on the EU minimum level still leave Estonia a country of cheap motor fuel. The measure also has its positive sides, as the state will be able to channel more money received as excise duty into the construction of roads.
- **According to the Estonian state-owned oil shale extraction company Eesti Põlevkivi the company extracted 1.6 million tons of oil shale both in October and November, the biggest monthly amount in the past ten years.** Similar to the past few months the company hoped to extract 1.6 million tons of oil shaled also in December. In the previous financial year ending in March the company extracted a total of 12.89 million tons of oil shale, an average of 1.07 million tons a month. In this financial year the monthly extraction has been at least 1.3 million tons per month. Sale of electricity has been going well and ever bigger and bigger orders are being placed with the Eesti Energia (Estonian Energy) power utility.