

Overcoming the crisis: policy response of Estonia

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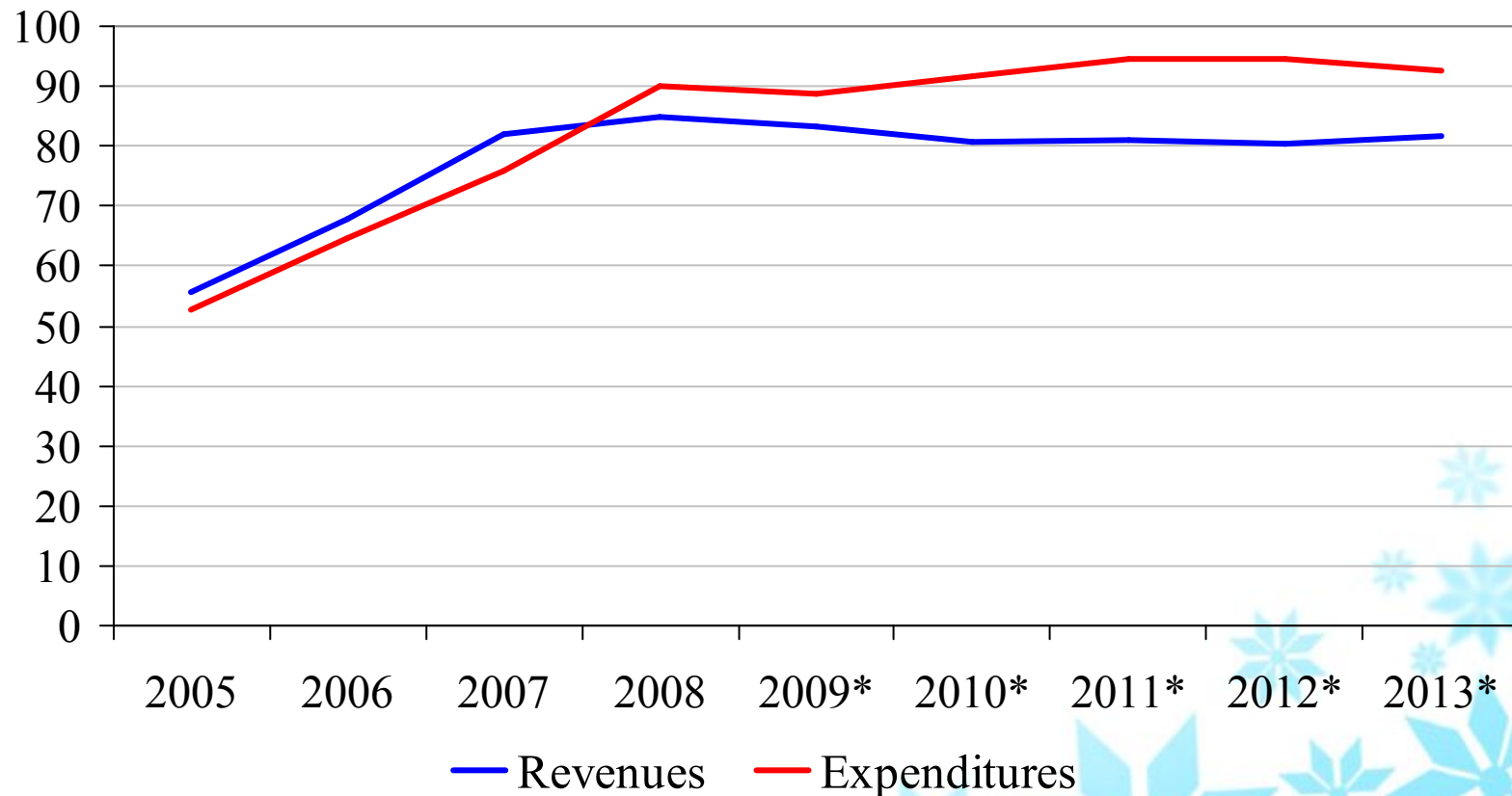
Current challenges and policy response



Main challenge for government is fiscal consolidation

State budget,

bln kroons

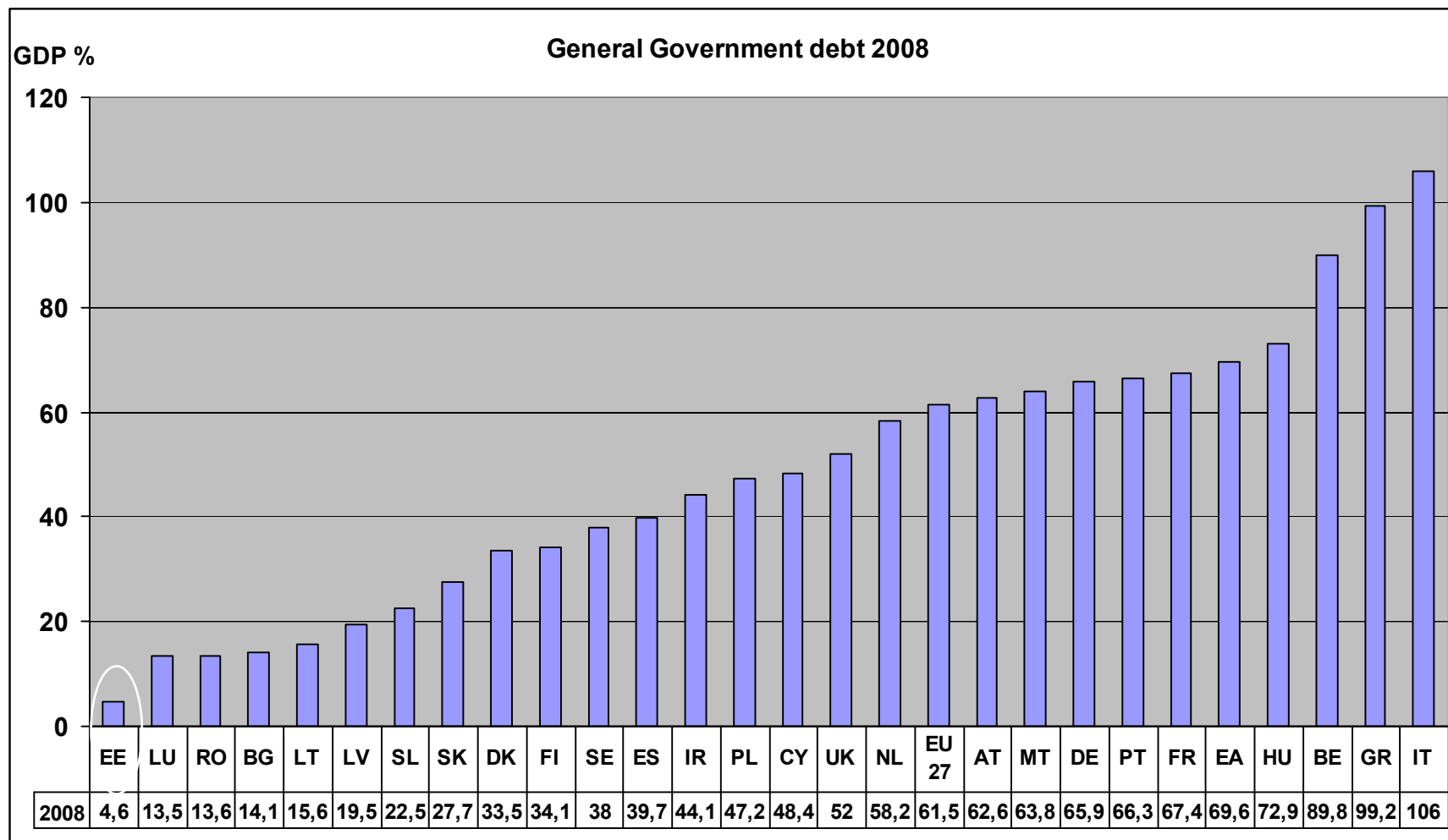


Source: Ministry of Finance

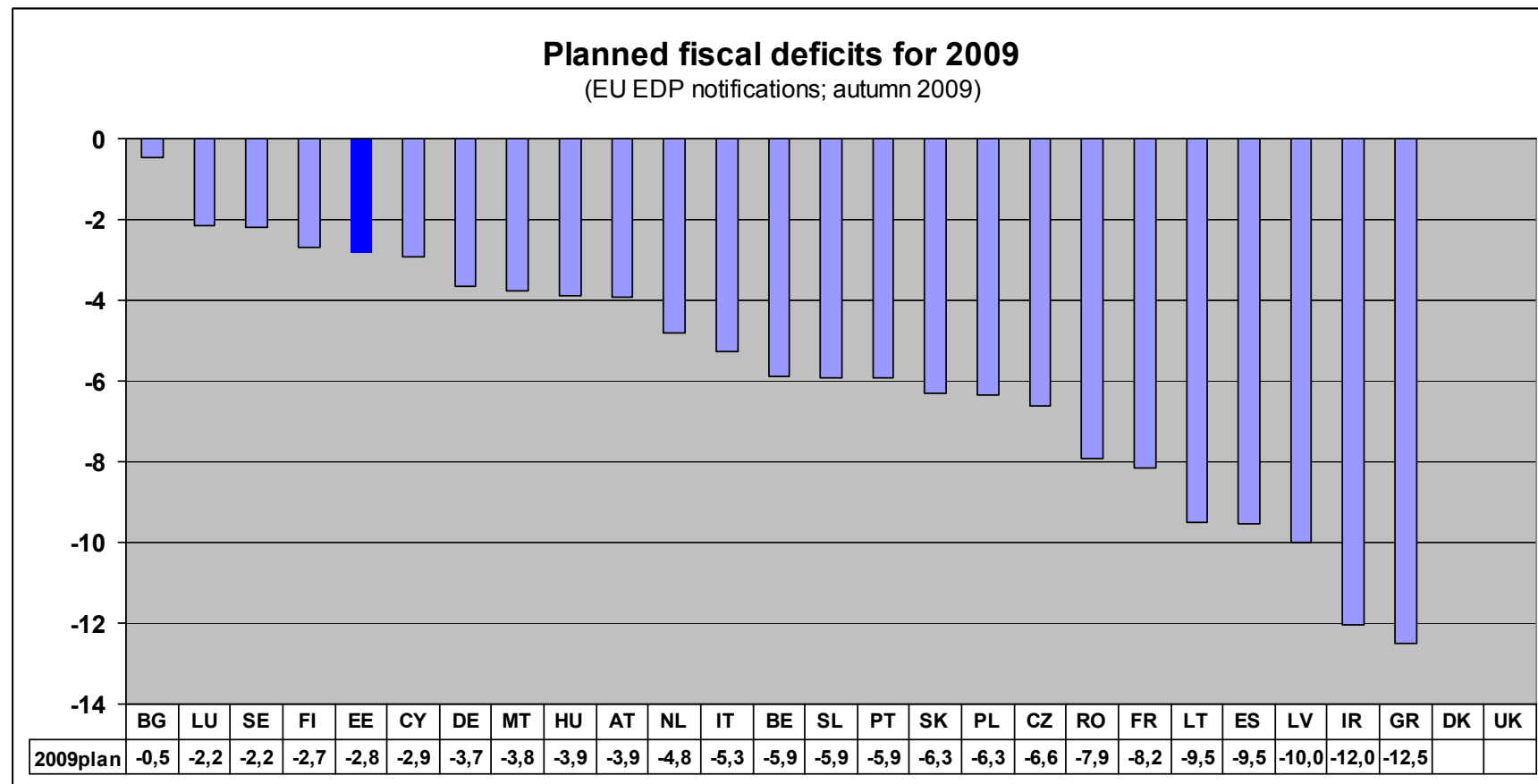
Reactions to changing environment

- February 2009: cuts in expenditures by 6.6 bln kroons (operational costs incl. wages and salaries, pensions, roads)
- April 2009: 2.5 bln kroons (suspending payments by the state into mandatory pension funds, increase in unemployment insurance payment)
- May 2009: improvement of budget position by 3.4 bln kroons (increase of excise on motor fuel and non-tax revenues, cuts in ministries' expenditures)
- August 2009: Estonian Health Insurance Fund budget cut by 1 bln kroons

Estonia's public debt is the lowest in the EU...



...and we are escaping excessive deficit in 2009, contributing to future competitiveness of the economy



Short term challenges for businesses

- Liquidity
- Cutting of costs
- Access to finance

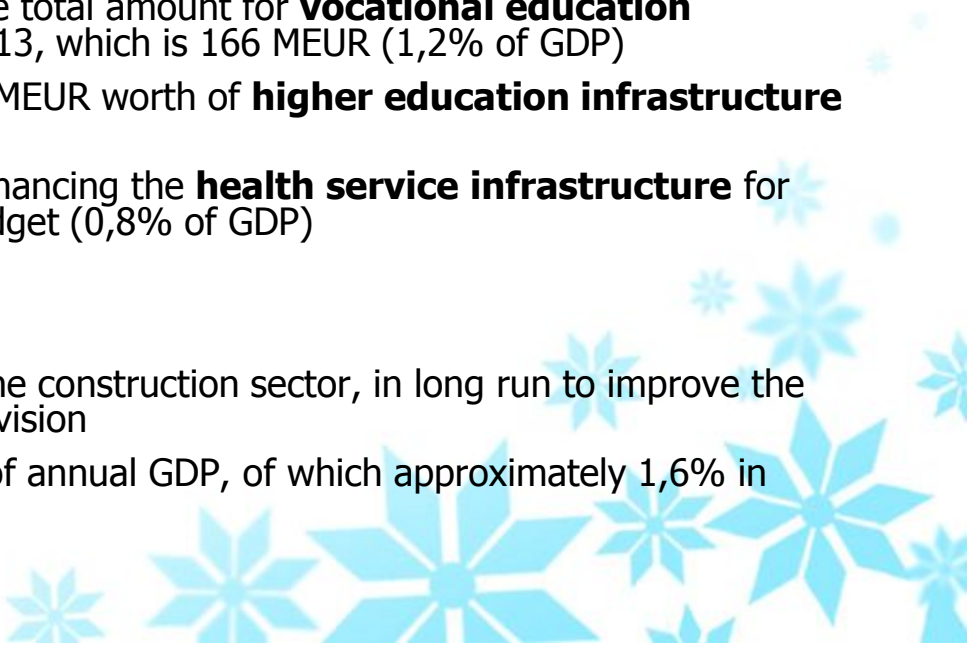


Bringing forward the investments

Investment projects will be started as much as possible in 2009 and 2010:

- In the first half of 2009 new **energy saving measures for housing** are started, financed by EU Structural Funds (19 MEUR) and state guaranteed foreign funding via banks (32 MEUR), overall 51 MEUR (0,4% of GDP)
- Minister of Environment decided in November 2008 to rise the total amount approved in the first round for the **water management infrastructure projects** from 160 MEUR to 313 MEUR, i.e the states contribution grows by 153 MEUR 1,1% of GDP added)
- In the beginning of 2009 Minister of Regions opened call for **municipalities investment projects to public service provision** in amount of 45 MEUR, which was initially planned for year 2011 (0,3% of GDP)
- Government approved in the summer 2008 the total amount for **vocational education infrastructure** regarding the period 2007-2013, which is 166 MEUR (1,2% of GDP)
- In 2008 government also decided almost 128 MEUR worth of **higher education infrastructure** financing (approximately 0,9% of GDP)
- In addition, in 2008 government decided on financing the **health service infrastructure** for 128 MEUR, that is additional to the annual budget (0,8% of GDP)

Estimated impact:

- In short term to soften the fall in demand in the construction sector, in long run to improve the quality of public infrastructure and service provision
 - The overall predicted financial effect is 4,6% of annual GDP, of which approximately 1,6% in 2009 and 3% in 2010
- 

Improving the financing

Extending the existing KredEx schemes:

- **Rising the limit of loan guarantees** by 45 MEUR (from 51 to 96 MEUR), in order to provide more flexible loans with smaller minimum amounts and less special controls (0,3% of GDP)
- **Rising the limit of export guarantees** by 128 MEUR (from 64 to 192 MEUR). The guarantees will have more stability for the exporter and KredEx can be more risk averse. (0,8% of GDP)

New KredEx schemes introduced:

- **Equity capital loan** – contribution by the state is 25 MEUR, on average 0,4 MEUR per company. The loan is for additional equity capital subordinated to bank loan, which improves the accountability and readiness of the banks to provide financing to company (0,2% of GDP)
- **Financing of the banks with state guarantee** – contribution by the state is 25 MEUR and additional foreign financing is 51 MEUR, on average 0,4 MEUR per company. In cooperation with the EIB, state will be able to provide additional resources with good interest rates to give loans to companies (0,5% of GDP)
- **Long-term loans to companies in cooperation with banks** – contribution by the state is 25 MEUR, on average 0,8 MEUR per company. An option is created to allocate long-term resources to banks for financing projects that meet specific criteria (0,5% of GDP)

Estimated impact:

- Improved financing of companies will contribute to preservation existing jobs.
- The total amount of the measures during 2009 and 2010 will be nearly 2,5% of annual GDP

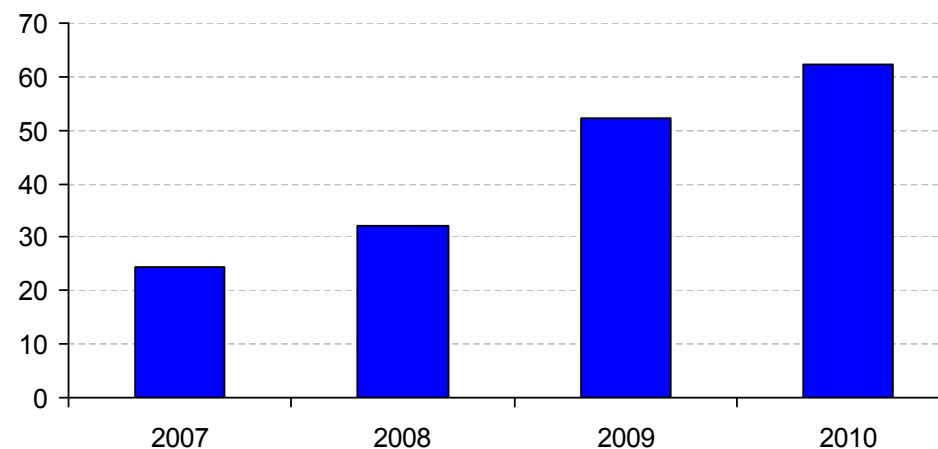
Doubling support measures to companies

Distribution of estimated payments in 2009-2010:

in MEUR

Entrepreneurship and start-up measures	12
Investment in skills of management and staff	12
Support of investments by companies (technology, development)	47
Export and tourism support measures	24
Enhancing cooperation (incl R&D)	20

**Support measure payments to companies
(million EUR)**



Improvement of legislative framework

In order to improve Estonian **business environment** the following laws have been or are currently amended:

- For the companies facing financial difficulties an alternative to the current procedure of bankruptcy has been created, as the **Re-organization Act** was enforced on 26 December 2008. It aims to decrease the number of defunct companies, save jobs (estimated 800 per year) and meet more of the creditors demands
- In 2009 the **Economic Activities Act** is prepared to be enforced in the second half of the year. It foresees cutting down the number of required permits and licenses as well as simplification of relevant procedures
- An analysis of possibilities for **lowering of minimum holdings size for starting a company** and **reduction of reporting obligations** is carried out



Flexibility of labour market

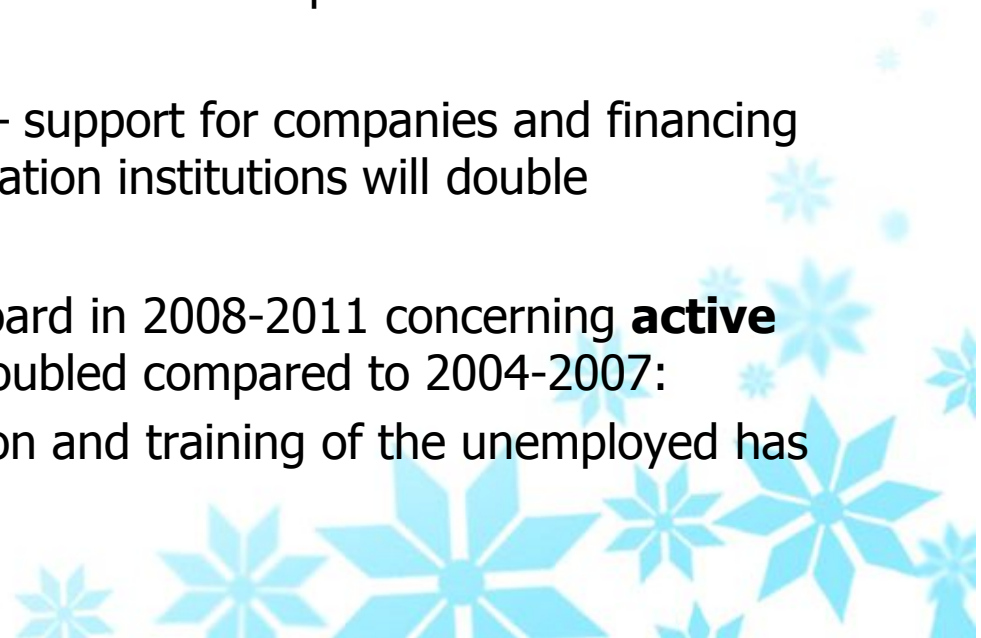
The new **Labour Act** will be enforced on **01 July 2009**, half a year sooner than initially planned. The main improvements to the flexibility of the labour market are:

- expanding the use of part-time and fixed-term contracts
- reduction of the employers obligations concerning redundancy
- regulation of the rented labour
- lengthening the parents unemployment insurance period

Focus on the **occupational training** – support for companies and financing of free trainings via vocational education institutions will double

Funds contributed via labour market board in 2008-2011 concerning **active labour market measures** have doubled compared to 2004-2007:

- Average annual funding for activation and training of the unemployed has grown from 6 to 16 MEUR



Long term challenges not changed

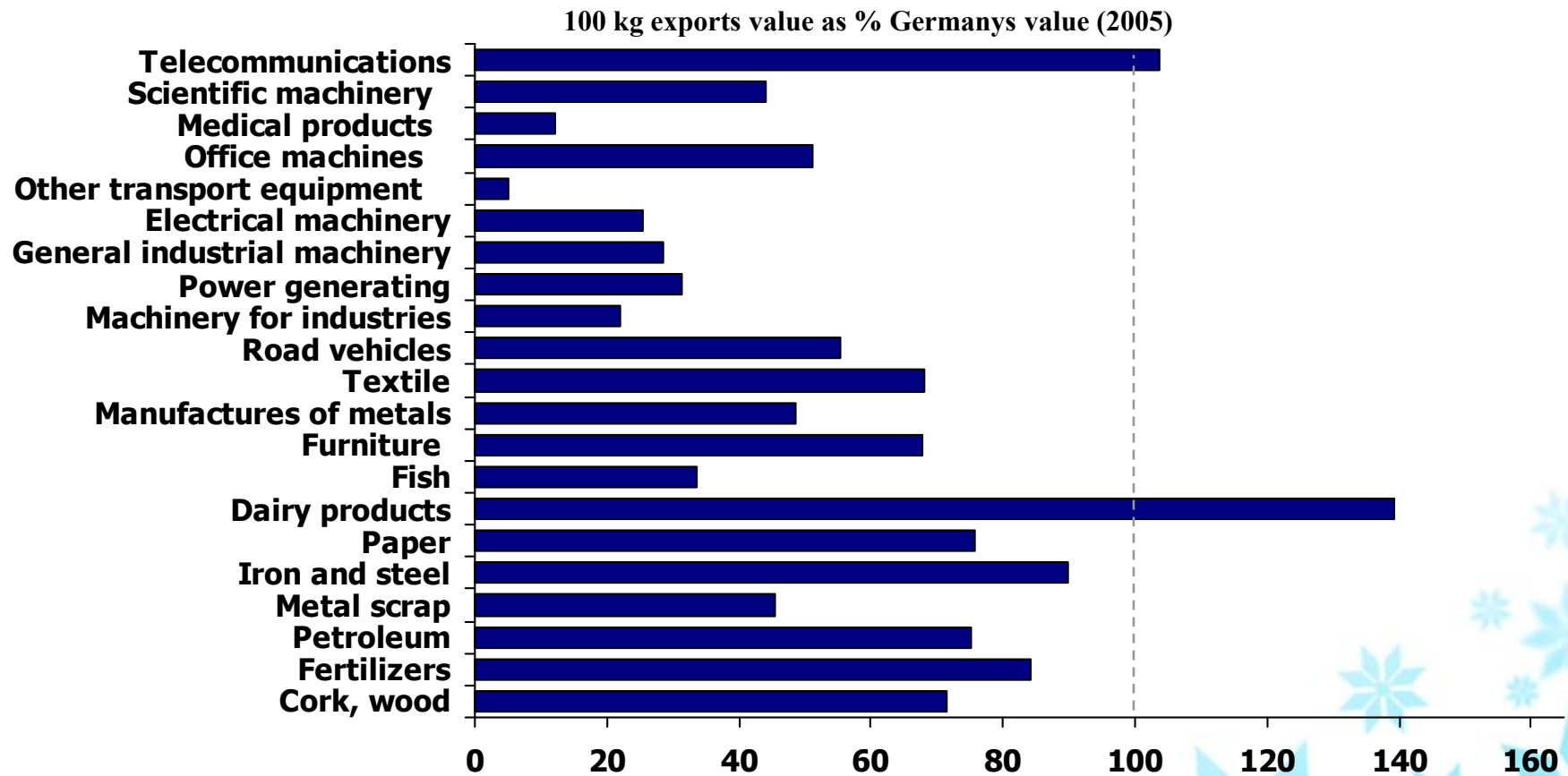
- Higher productivity
- More sophisticated products and services for more up-scale markets
- New knowledge and skills base
- More ambition in internationalisation and export



Recent initiatives

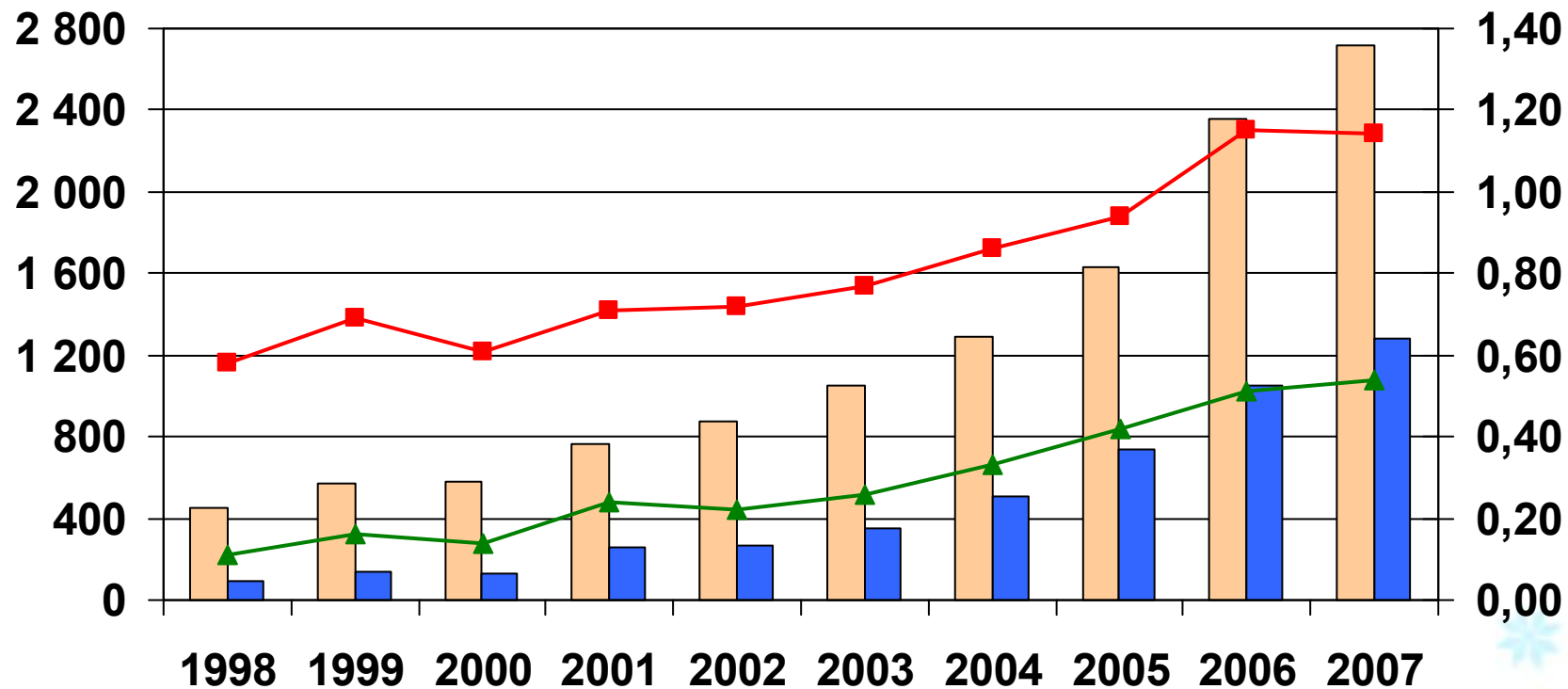
- October 22, 2009 a detailed action plan for increasing exports and FDI for next 3 years was adopted by Estonian government
- November 5, 2009 government adopted “Estonian Strategy for Competitiveness 2009-2011” - adjusted to current realities with the focus on
 - increasing exports and FDI
 - combating unemployment

In long term- key question of economic structure



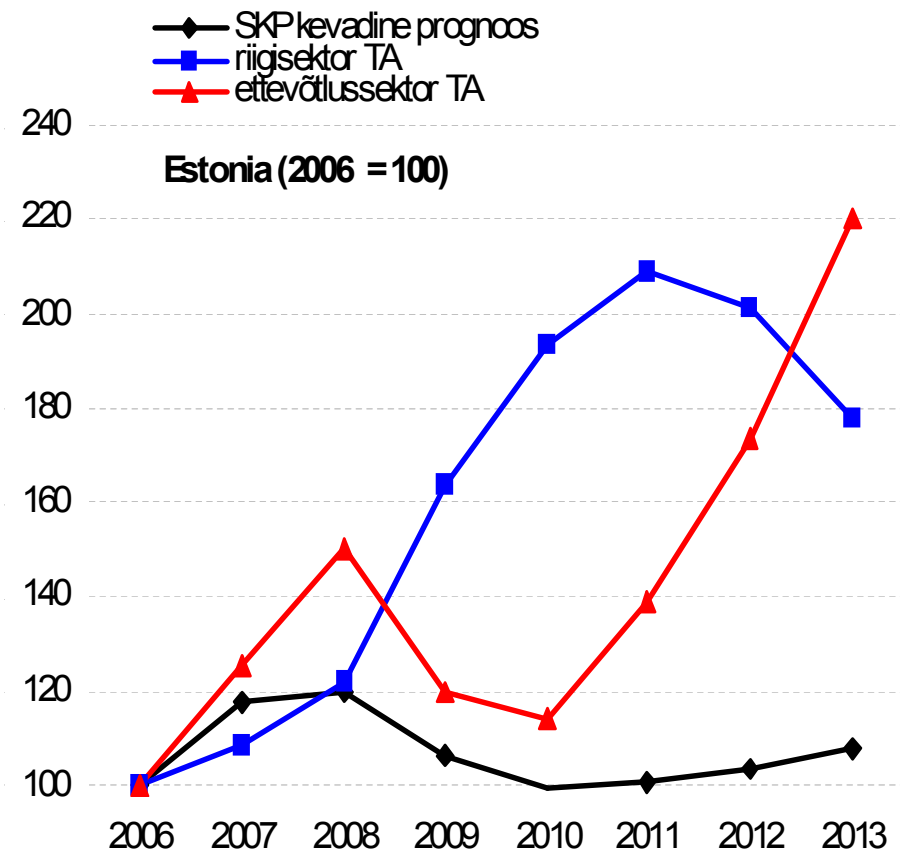
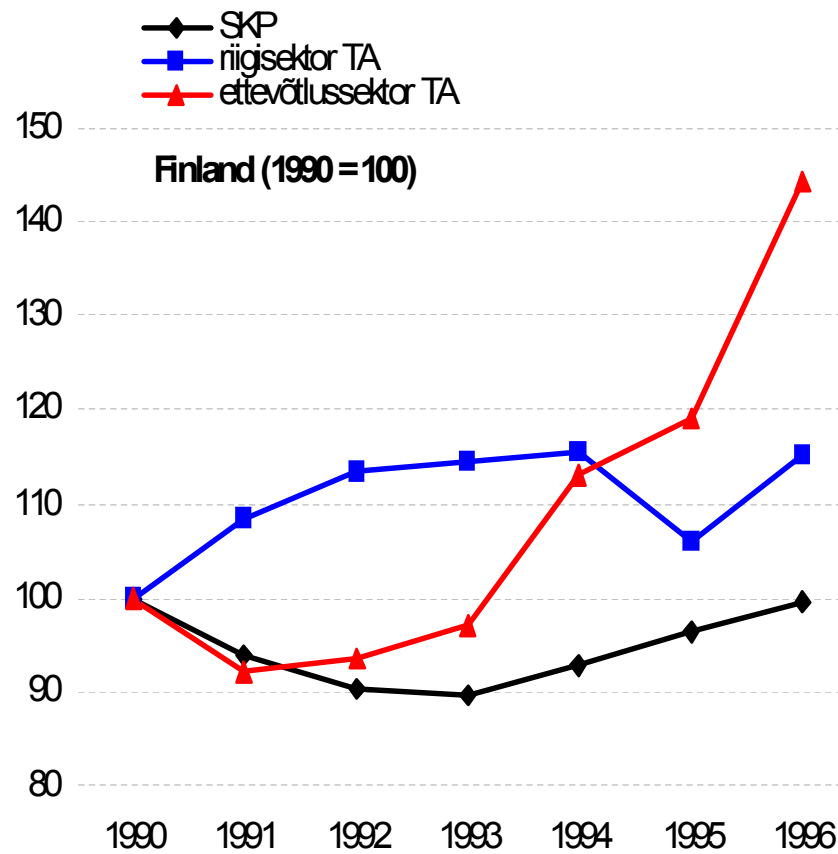
Source: Raoul Lättemäe, 2007

R&D expenditures



- Expenditure on research and development, million kroons
- Business sector expenditure on R&D, million kroons
- Expenditure on research and development as % of GDP (right scale)
- ▲ Business sector expenditure on R&D as % of GDP (right scale)

Estonian policy is similar to the Finnish during the previous recession



Thank you!

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