

OVERVIEW OF ESTONIA'S ECONOMY

Note: The government strategies/plans described in this document generally cover the period from 2014-2020. A new national reform strategy for 2021-2035, as well as revised sectoral strategies for 2035, are expected in 2020. Details are not yet publicly available in English.

Economic Context

Estonia's economy ranks as one of the most open in the world. Paired with a system of low, flat tax rates, it has been an attractive environment for investment. The open economy also means that Estonia is vulnerable to changes happening outside its borders, both environmental and economic. After the 2008 financial crisis, Estonia experienced one of the most pronounced declines in the ratio of foreign investment to GDP despite the favorable business environment and advantageous financial conditions. This was likely a result of the weak outlook for Estonia's main trading partners, notably Finland and Russia. Estonia's GDP growth gained momentum in 2018, after two years of relatively weak activity.

Estonia has limited quantities of tradable natural resources, and is therefore pushing for more entrepreneurship and innovation. The Estonian Entrepreneurship Growth Strategy 2014-2020, included in these background materials, is the center of the country's economic strategy. Specific goals of that strategy include:

- Turning Estonia into the center of start-ups in the Baltic states, Nordic countries, and northwestern Russia; and
- Making Estonia the most attractive country for major corporations' development centers in Europe.

Employment

Estonia's unemployment in the first quarter of 2019 dipped below 5 percent to 4.5 percent. It averaged 5.4 percent in 2018. This rate is at about the OECD average (5.3 percent). Youth unemployment was 11.8 percent in 2018, slightly higher than the OECD average of 11.1 percent.

According to the OECD, the coverage of unemployment benefit schemes in Estonia is relatively low. Female participation in the workforce in Estonia is relatively high among OECD nations, but the gender pay gap is relatively large. This is thought to be primarily due to mothers taking most of the very generous parental leave offered in Estonia. There are efforts now to extend leave for fathers and encourage parents to share child-rearing responsibilities more equitably.

Key Workforce Issues

Estonia faces workforce challenges, including an expected decline in the working age population over the next two decades. The low birthrate in the country is at the heart of this issue. In addition, labor shortages have also been identified in sectors such as

science, technology, and engineering and in managerial positions, whereas sectors such as manufacturing are facing a surplus. In recent years, there has also been a shortage of unskilled workers needed for the tourism industry, which has led to consideration of importing unskilled foreign workers. Estonia's migration policies are flexible, allowing visitors on tourist visas to find employment and become residents with very low requirements. As a result, as of January 2018, 188,678 persons (14 percent of Estonia's total population) possessed valid residence permits.

Legislation was passed in 2015 to launch a system for labor market monitoring and forecasting skill demands to address some of these issues. The government also launched a lifelong learning strategy (The Estonian Lifelong Learning Strategy 2014-2020, included in these background materials) to encourage citizens to continue learning to be prepared for a changing global economy.

Economic Future Strategy

The Estonia Entrepreneurship Growth Strategy 2014-2020, described above, has focused on information and communications technology (ICT) as well as health technology and services and using the country's resources more efficiently. ICT has been a focus in Estonia since its independence, and its transition to digitalization in the public sector is more advanced than in virtually any other OECD country. The Entrepreneurship strategy operates alongside a Regional Development Strategy, a Rural Development Plan, and a Tourism Development Plan. The goals of all of these plans are tied to a Research and Development and Innovation Strategy and the Lifelong Learning Strategy, which are aimed at supporting research and development and building the workforce needed to support economic development priorities.

Economic Forecast¹

Growth is expected to slow in Estonia (from 3.2 percent in 2019 to 2.2 percent in 2020 and 2021), as exports are hit by weak global demand. Consumption is projected to hold up despite slowing real wage growth, as household finances are strong after years of increasing wages and real employment. Labor force and employment growth are moderating, as business confidence has fallen and employers are more reluctant to hire.

¹ Excerpted from "Estonia," in *OECD Economic Outlook, Volume 2019 Issue 2: Preliminary Version* (OECD, November 2019)