

ESTONIA 2002

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Introduction

In general, last year was successful for Estonian Republic. During 2002 Estonia made two big steps on international arena - Estonia is closing negotiations with European Union and got invitation to NATO negotiations.

Of course, this doesn't mean that economic and social development has been smooth and there were no big problem at all. One of the principle messages of Estonian President Arnold Rüütel's New Year's message was the demographic fate of the Estonian people, whereby the president appealed to the people to have more children. The president pointed out that side-by-side with demographic issues, one of the priorities next year should be setting the Estonian educational system on a sound and flexible basis.

President Arnold Rüütel wants to make public the memorandum of the national agreement before the upcoming Riigikogu (Parliament) elections. The four main aspects of the memorandum, which may be signed in February, are the demographic situation, education, economic security and legal principles of the build-up and correlation of powers. The national agreement places equal responsibility for the future of Estonia on the shoulders of the people, government and political parties.

Political developments

Year 2002 was last full working year for the Estonian Parliament - Riigikogu - elected in 1999. (Next National elections will be on the 2nd of March 2003). In January 2002 there was a change of coalition parties and of course due to that event also the change of the Cabinet of ministers that have been in power since March 1999.

The reason for disintegration of the coalition was growing discredit inside of the coalition because of results of local elections where the Central Party and Reform Party made a coalition in Tallinn City Council. Concrete inducement for disintegration of former coalition was "reformer's" objection to the plan of Isamaliit (Pro Patria Union) to negotiate too big international loan for Tallinn local government (for reconstruction of municipal school buildings).

The Centre Party and the Reform Party made surprisingly a new coalition also in the Parliament. This coalition was surprising because of quite controversial goals and conceptions proclaimed by these two parties before, especially those concerning taxation. The Reform Party supports reduction of rate of Estonian proportional income tax (from 26% to 20%). The Central Party supports conceptions of new gradual taxation scheme.

The Coalition has a slight majority in the Riigikogu (Parliament) and holds ruling position also in majority local governments. After formation a new coalition parties declared their collective desire (coalition agreement) that shelved all contradictory problems between these two political parties (liability to taxation etc).

In October 2002 there were regular local elections in Estonia and many new political leaders came to power on local level. Participation in elections was 52,5%. In Tallinn the Centre Party scored predominantly, despite the coalition in the capital city was formed again by the Central Party and the Reform party. In the second big city of Estonia - Tartu - the Reform Party triumphed. The new political power - Res Publica - emerged vigorously and got second result after the Centre Party. Some people who had lost trust in politics of coalition parties very often voted for a new political power, which was 'tabula rasa' for voters. Res Publica was very successful on local elections and some analysts prognosticate a good chance for this party also on national elections.

International relations

In December 2002 at the Copenhagen Summit Estonia, as mentioned before, along with nine other European countries finished accession negotiations with the European Union. The conclusion of the talks is followed by the finalisation of the Accession Treaty, which will be signed in April 2003. The acceding countries can become full-fledged members of the European Union on May 1, 2004, after the ratification of the Treaty by the current Member States and the new Member States as well as by the European Parliament. The referendum on joining the European Union will take place in Estonia in September 14, 2003. Active membership in the European Union will continue to be one of the Estonian government's main priorities.

Negotiations about accession with EU have been successful, although, the public opinion about EU possible membership in Estonia has been quite unstable for years. Current support for joining the European Union among the Estonian population is around 57%, whereas 36% of the people clearly opposed it (public opinion poll, Emor, November 2002). Those people who are against the EU integration are in fact not against EU but express through this opinion their attitude towards several socio-economic processes in Estonia. People are fatigued by fast transformation and they very often reveal their disappointment over personal economic hardship. The transformation period has been too difficult for a big part of society and there is apprehension that EU will bring along new social problems and especially economic difficulties (for example, people are afraid of increase in consumer good prices etc).

Furthermore, the estimation given to economic development and well being are closely related to democratic process and people's trust in Estonian national institutions. People whose income is over average are more pro-EU and they also have greater trust in state institutions. Most of respondents have formed their opinion (either supportive or opposing about EU), but as the correlation between welfare status of person and opinion about EU is strong, it reveals that the opinions of both - supporters and opposition is clearly settled on.

In November 2002 NATO invited Estonia and six other Central and Eastern European countries to start accession negotiations. Estonia and the six other countries plan to finish accession negotiations with NATO in 2003, and they can become full-fledged members of NATO after the ratification procedures are completed, expected by spring 2004.

Accession to the North Atlantic Treaty Organisation and active membership in the Alliance has been and will continue to be Estonia's main security and defence policy priority. Accession to NATO has been included in the coalition agreements of every Estonian government since the restoration of independence, including the present government. The same objective is also stated in the National Security Concept of the Republic of Estonia, approved by the Parliament in March 2001. As stipulated by this concept and according to practice of other recent NATO members Estonian State Budget 2002 allocates 2% of the GDP for defence expenditures, and this level of expenditures will be maintained in the coming years

Economic relations with Russia – Estonia's biggest neighbour - are quite stable. According to analysts the flows of Russian goods in transit through Estonia continues growing. The increase in Russian transit will first and foremost depend on the relations between Russia and the European Union. Russia is admittedly building new ports, but freight volumes are on the increase at the same time.

Political relations with Russia have been quite stable but this means also that no positive developments have happened in this sphere - the agreement about state borders (ready to sign about 2-3 years) is still not signed.

Co-operation between the three Baltic and five Nordic countries is of particular relevance to regional integration. This has resulted in regular meetings between the heads of the governments, the foreign ministers, the co-operation ministers of the Baltic Council of Ministers etc. The main issues discussed are European integration and regional co-operation with the aim of promoting sustainable and responsible development in the common region. At the recent meeting of prime ministers in October 2001 in Copenhagen, Denmark, the topics under discussion included the fight against global terrorism, EU and NATO enlargement and regional co-operation. Energy matters were also discussed at this meeting, related to which, Estonia would help prepare a project due in 2003 for the development of the regional energy network.

The Nordic countries, in particular Finland and Sweden, continue to be Estonia's most significant trade partners. Estonia has concluded all basic agreements concerning trade and economic co-operation with the Nordic countries. Trade with these countries amounts to about 40% of Estonia's total foreign trade. Also the greatest part of foreign investments - about 75% - comes from the Nordic countries.

The economy

The average forecast for GDP growth in 2002 was 5.7 per cent (see Table - Estonian Key Indicators 1995-2002). The average forecast of the consumer price index was 3.6 per cent, while the average monthly salary was 390 euros (352 EUR in 2001). Estonia's 2002 state budget was 105.59 percent full, cited finalised data of the Estonian Finance Ministry.

The inflation slowed down up to 2, 7 per cent (in the end of the year) and this was first time when Estonia fulfilled Maastricht criteria of European Union.

Estonian key Indicators 1995-2002

Key Indicators	1995	1996	1997	1998	1999	2000	2001	2002
Population (million)	1.44	1.42	1.40	1.39	1.38	1.37	1.36	1.36
GDP at current prices (bill EUR)	2.7	3.4	4.1	4.7	4.8	5.6	5.9	6.4
Real growth of GDP (%)	4.3	3.9	9.8	4.6	-0.6	7.1	5.0	5,7 (6.0)*
GDP per capita at current prices (EUR)	1800	2300	2800	3200	3300	4070	4300	4700*
GDP per capita PPP (EUR)	5608	6124	7079	7518	7682	9470	10010	10940 *
Consumer price index compared to prev. year (%)	29.0	23.1	11.2	8.2	3.3	4.0	3.5	3.6
Unemployment rate** (%)	9.7	9.9	9.7	9.9	12.3	13.7	12.7	10.4
Average monthly wage (EUR)	152	191	228	263	284	314	352	390
Export (million EUR)	1343.7	1600.1	2606.7	2912.8	2758.7	3568.5	3696.0	3345,8 ***
Import (million EUR)	1861.0	2485.2	3940.8	4306.2	3865.1	4615.4	4797.8	4652,9 ***
Trade balance (million EUR)	-514.3	-885.1	- 1334.1	- 1393.4	- 1106.4	- 1046.9	- 1101.8	- 1307,1 ***

* Estimation **Unemployed/labour force according to ILO methodology; *** Jan -Nov 2002

Estonian GDP per capita (at current prices) was 4700 EUR which is somewhat bigger than in 2001 (4300) but still quite low comparing with EU average (about 40% of EU average). Average monthly wage was 390 EUR (352 EUR in 2001).

One of the macroeconomic problems in Estonia has been for several last years negative trade balance (-1307,1 million EUR in 2002), which was bigger than in 2001 (-1101,8 EUR). The reason of negative trade balance is interpreted very often by big share of direct foreign investments.

Output of industrial production in Estonia in 2002 grew 4.5 per cent; the increase in manufacturing was 4.4 per cent, data of the Statistical Office showed. In some fields of production and business success has been even more significant. Estonian manufacturing companies boosted their 2002 sales by 9 per cent, somewhat more than the growth in 2001.

Estonian unemployment rate in 2002 was quite high (10.4 % - unemployed / labour force according to ILO methodology) but the situation is now better than in 2001 (12.7%) and in 2000 (13.7%).

As mentioned before Estonia's main trading partners in 2002 were Finland (25.1 percent of exports and 17,4 percent of imports), Sweden (15,4 percent and 9.6 percent

respectively), Germany (9.6 percent and 11.3 percent), Latvia (7.5 percent and 2.0 percent) and the Russian Federation (3.2 percent and 7.3 percent). According to the Statistical Office of Estonia (www.stat.ee) main exports in 2002 were machinery and equipment -24,1%, wood and products of wood -15,4%, textile products -12.3%, other products of industry (furniture etc) - 9,7%, metals and products of metals - 7,4%. Main imports in 2002: machinery and equipment (29,1% of total trade).

In January-November 2002 the share of EU countries in exports was 60-68%. Exports to CIS countries formed 5% of total exports. In January- November 2002 the share of EU countries in imports was 55%. Imports from CIS countries formed 10% of total imports.

The number of computer and Internet users in Estonia surged at the end of 2002 according to a study by the social and market research firm EMOR. More than one third of people (in the age group 15-74) have had some contact with computers. The number of Internet users has grown at the same rate: 43% of inhabitants, or 455,000 people, have used it during the past half-year. Newcomers to the computer and Internet world include primarily people 25-35 year old people living in rural areas, who have high school education and who earn over 2,000 croons (130 EUR) a month per household member. They usually do not use the computer at work, but rather at home or at their acquaintances. A year ago a quarter of Estonia's residents in the age group of 15-74 years had a computer at home, while today the share is one third. As people's income is still very low (according to European living standards) then we suggest this demeanour rather reflection of people priorities than well-being. Young people prefer purchase a computer on credit instead of spending the money to different services (for example dining out etc).

Due to the ruling role of Estonian Reform Party in Political Coalition reformation ideas are quite popular on the state level. For example, Estonian Prime Minister Siim Kallas promised to try to reform the EU once the country joins the block in order to lower taxes and remove market restrictions. Kallas have said publicly, that Estonia is prepared to stand for such a EU, which does not have an agricultural system that is archaic and unfair to our farmers, and which has market restrictions. We will be fighting in the EU for low taxes, a flat income tax and the abolishment of the corporate income tax - has promised Kallas.

According to The Heritage Foundation - Wall Street Journal's 2002 Index of Economic Freedom, Estonia ranks as the 4th freest economy in the world, equalling the ranking given to the United States, Netherlands, Ireland and Luxembourg.

The media

Estonia has a liberal policy regarding the print media: no license or permit is required to set up a newspaper. The same applies for using the services of a printing plant or the distribution of a publication. Readers can choose between the 39 newspapers from which 12 are Russian-language newspapers published in Estonia. Special efforts are made to support Russian-language media. Two of the three Estonian-language TV stations in Estonia include the public broadcast service, have regular Russian broadcasts. These stations provide near nation-wide coverage. Every year, based on submitted projects, subsidies are granted from the Estonian state budget for the

publishing of the Russian-language cultural and literary magazines *Raduga, Tallinn and Võshgorod*. In addition to the local Russian-language print media, newspapers and other periodicals published in Russia are also widely available in Estonia.

Estonian media situation is quite stable. Only new newspaper, which started in 2002 - was sport news - issued by assistance of Estonian Olympic Committee. There is 'innumerable quantity' of private radio stations plus public Estonian Radio. The media in Estonia is quite independent and has clearly achieved a role of 'fourth power' in society.

Social issues

Corruption is not substantial problem in Estonia. All international studies have shown that corruption in Estonia is smallest among Eastern-European countries. According to Transparency International, Estonia is the least corrupt state in East and Central Europe.

Estonian Civil Society Development Concept was treated in the Riigikogu (Parliament) and this was adopted in November 2002. The document should be now a basis for communication between the state and NGO-s. People involved to his process hope that this will consolidate Estonian weak organisations of third sector and to take initiative in co-operation with state authorities if necessary.

Estonian Pension Reform started successfully. The success report of the European Union praises the Estonian three-pillar pension reform and finds that Estonia has all the legal acts necessary to carry out the pension reform and the reform should be completed. . Idea of the reform has been creation of the three-pillar pension system. Now the pension system consists in three so-called pillars. The first pillar of the pension found – sc state pension is very small and will not guarantee well being for elderly people. Idea of the second pillar is that people pay 2% of their income and in addition 4% will be supplemented by the Government.

In the end of October 2002 more than 200,000 people joined with the second pillar, which was twice more than expected by the Government. This created some problems for next year state budget. This money is stored in different private pension founds. Joining with the second pillar is compulsory for young people and voluntary for elder people. There is also third pillar pension fund offering voluntary joining for all people.

Conclusion

Despite of good macroeconomic indicators of Estonia's development, in general, the domestic social and moral picture hasn't been so glamorise. There is active public discussion of serious social problems (unemployment, demographic issues and social protection of children, low pensions, homelessness etc) in media and at different meetings and conferences. Social analysts have spoken about successful people (sc First Estonia) and less successful part of society (Second Estonia).

However, economic analysts predict in 2003 a growth similar to 2002. Experts expect economic growth in Estonia in the year 2003 to be similar to 2002, with the average

growth figure being 5.4 per cent. Analysts responded with rather conservative expectations, which did not differ greatly from the estimates for 2002.

The average forecast for GDP growth in 2003 is 5.4 per cent. The average forecast of the consumer price index is 3.75 per cent, while the average monthly salary is expected to be 430 euros, up from 390 euros in 2002. Unemployment is expected to stay at 9.0 per cent, slightly down from last years 10.4 per cent.

In general, the year 2002 was very successful for Estonia in macro-economical level but rather complicated in aspects of social integration of society. Negotiations between the Government, representatives of employers and trade unions failed first time. This bargaining between three partners have been a procedure where three parties usually negotiate on important social indicators (for example agreement about minimum wage) and reach agreement respected by all partners. This year the representatives of the Government suspended social dialogue between three partners, because they didn't agree with approach of trade unions.

The country moved rapidly forward paying high social price for rapid movement. And the price was – people's growing discontentment with state institutions. As Estonian demographic situation is very tight (decrease of the population) all big parties have proclaimed demographic issues in their election campaign. Another important issue differentiating votes on coming elections will be the taxation system (proportional or gradual).

***Elections on the 3rd of March:** Eleven parties plus 16 single candidates will participate in approaching parliamentary elections on the 2nd of March. Most of public opinion polls and analysts predict success for the Centre Party. According to a survey by Emor pollsters in January 2002 the Centre Party and Res Publica remain the two most popular parties in Estonia. These parties are followed in popularity by the Reform Party and Pro Patria Union.*

This was surprising also that the leader of the Reform Party, Prime Minister Siim Kallas, was one of the top four of Estonia's most popular politicians according to the January poll, behind Pro Patria Union Chairman Tunne Kelam and Res Publica's head Juhan Parts. Centre Party leader and Mayor of Tallinn Edgar Savisaar has risen ahead of Kallas, although on the eve of the October local elections both men enjoyed a more or less equal standing for a while. Pro Patria Union's rise can be attributed to national aspects that the party's political rhetoric is once again emphasizing.

The Centre Party, Reform Party, Pro Patria Union, Moderates, People's Union and Res Publica have all presented the maximum possible number of candidates: 125; the Estonian United People's Party candidates' list includes 106 candidates; the Independence Party 37 candidates; the Christian People's Party 30 candidates; the Estonian Social-Democratic Labour Party has presented a list of 12 candidates and the Russian Party in Estonia also has 12 candidates nominated.