

Annual Report 2000: Some Progress, But Little Popularity

by [Aksel Kirch](#)

Despite the government's ambitious program and success in EU negotiations, its public support waned.

The year 2000 was the second working year for the government that came to power in Estonia in March 1999. The coalition of the Pro Patria Union, the *Moodukad* Party (Moderates) and the Reform Party, which controls the executive, also has a slim majority in the *Riigikogu*, the Estonian Parliament, as well as in most of the local governments. Throughout the year 2000, the coalition partners repeatedly declared their desire and readiness to collectively assume responsibility for the welfare and the future development of the Estonian state and nation. It has also striven to bring politics and governance closer to the people and to improve dialogue between the state and its citizens.

ECONOMIC STRATEGIES

The budgetary strategy of the Estonian government for 2000 was based on reducing tax burdens, improving the management of state expenditures, speeding up the country's integration into Europe, and the regulating financial obligations. In the years following the 1997-98 Russian crisis, the economies of the country's main trading partners have been on the rise, while Estonia's own economy has gone through substantial and promising reform. At the same time, the ever-present risks to the Estonian economy and budgetary stability have continued to compel caution and prudence in policy making and implementation.

In 2000, the Estonian government made it a priority to reduce the country's vulnerability to disruptions in world markets and international affairs. In order to stimulate the competitiveness of the economy and to enhance social prosperity, short-sighted budgetary policy has been studiously avoided in exchange for reforms aimed at continued economic growth. On a macroeconomic level, the government acted in full accord with the country's currency board and looked set to conclude the balancing of the budget that was initiated in 2000.

Domestic developments and foreign policy goals in 2000 singled out the two major factors that will heavily weigh on Estonia's future budgetary debates and balancing: the completion of the reform of the pension system in the country and Estonia's aspiration for EU accession.

Concomitantly, the need for better fiscal and public policies, especially in the fields of transportation, energy, and the environment have become clear.

Although these foreseen expenditures will no doubt put a serious strain on the national budget and may lead to more pronounced current account deficit, Estonia is also a major recipient of pre-structural funding and subsidies, which will ease off the burden of thorough adaptation and change.

The Transition Report of the European Bank for Reconstruction and Development (EBRD), published on 14 November 2000, estimated a 5 percent real growth in Estonia's GDP for 2000. According to the EBRD, the Consumer Price Index increased by an average of 3.8 percent over the course of the year, registering a 4.6 percent year-on-year increase at the end of 2000. The 2000 budget deficit is estimated at 1.2 percent of the GDP, while the current account deficit came up to 6.9 percent.

Estonian Key Indicators 1995-2000

Key Indicators	1995	1996	1997	1998	1999	2000
Population (million)	1.48	1.47	1.46	1.45	1.44	1.44
GDP at current prices (billion EUR)	2.7	3.4	4.1	4.7	4.8	5.4
Real growth of GDP (%)	4.3	3.9	10.6	4.7	-1.1	6.4
GDP per capita at current prices (EUR)	1 800	2 300	2 800	3 200	3 300	3 748
GDP per capita, PPP (EUR)	5 608	6 124	7 079	7 518	7 682	8 150
Consumer price index (%) compared to previous year	29.0	23.1	11.2	8.2	3.3	4.0
Unemployment rate* (%)	9.7	10.0	9.7	9.9	12.3	13.7
Average monthly wage (EUR)	152	191	228	263	284	312
Current account balance (% of GDP)	-4.4	-9.2	-12.1	-9.2	-5.8	-6.8
Deficit of state budget (% of GDP)	-1.2	-1.9	2.2	-0.3	-4.6	-0.7
Export (million EUR)	1 346.7	1 600.1	2 606.7	2 912.8	2 758.7	3 444.8
Import (million EUR)	1 861.0	2 485.2	3 940.8	4 306.2	3 865.1	4 614.4
Trade balance (million EUR)	-514.3	-885.1	-1 334.1	-1 393.4	-1 106.4	-1 169.6
Total government expenditures (% of GDP)	41.4	40.4	37.7	39.7	41.5	37.1

* Unemployed/labour force according to ILO methodology;

Sources: [Bank of Estonia](#), [Ministry of Finance](#), [Statistical Office of Estonia](#) (Statistical Yearbook of Estonia 2001 - Tallinn, 2001)

The foreign trade deficit and turnover grew in 2000. Estonia's main trading partners in 2000 were Finland (32.4 percent of exports and 27 percent of imports), Sweden (20.5 percent and 9.9 percent respectively), Germany (8.5 percent and 9.5 percent), Latvia (7.1 percent and 2.6 percent), the Russian Federation (2.4 percent and 8.5 percent), Japan, the United Kingdom, Denmark, and China. Compared to the previous year, the shares of Finland, Japan, China, and Germany grew, while the shares of Latvia, Denmark, and the United Kingdom fell. According to the National Statistical Office, the country's main export assets were machinery and equipment (37.4 percent), wood and wood products (13.4 percent), textile (11.3 percent), metals (7.1 percent), and chemical industry raw materials and products (3.7 percent). In exports, the proportion of machinery increased sharply (mainly due to the increase of inward processing activities). In imports, the proportion of machinery and appliances increased considerably (from 27 percent in 1999 to 39 percent in 2000).

Direct Investment Position in Estonia by Countries as of 30 December 2000

Country	million EUR	percent of total
1. Sweden	1 150.4	40.5
2. Finland	847.5	29.8
3. Norway	121.2	4.3
4. USA	119.7	4.2
5. Denmark	115.0	4.0
6. Germany	74.1	2.6
7. United Kingdom	67.2	2.4
8. Netherlands	62.9	2.2
Others	285.2	10.0
Total	2 843.1	100

Source: [Bank of Estonia](#)

Estonia's Direct Investment Position abroad by Countries as of 31 December 2000

Country	million EUR	percent of total
1. Latvia	255.2	53.6
2. Lithuania	148.8	31.3
3. Cyprus	38.7	8.1
4. Ukraine	6.0	1.3
5. Russia	2.7	0.6
6. Sweden	2.0	0.4
Others	22.6	4.7
Total	476.0	100

Source: [Bank of Estonia](#)

As of 2000, Estonia had the most Internet users in Central and Eastern Europe and the most computers per capita. Reportedly, some 40 percent of Estonia's population used the Internet in 2000. The Internet was most often used at work, followed by schools and private homes. About 95 percent of Estonian public sector employees have a computerized workplace, while all Estonian schools have access to the world wide web. Furthermore, 19 percent of the population owns a computer at home and approximately 53 percent of that group has Internet connectivity. The Internet was increasingly used to file tax and income declarations to the national tax board,

and Estonian citizens have the option to track government expenditures in real time via the Internet.

One of the most serious social problems for Estonia in 2000 was rising unemployment rates, especially among young people and the inhabitants of Eastern Estonia. By the end of 2000, 27 percent of young people between the ages of 15 and 24 were unemployed, up from 9.1 percent at the end of 1992.

EU PROGRESS

On 1 July, the European Union launched a new trade regime for agricultural products with Estonia. The conditions of the regime allowed Estonia easier access to the EU market by abolishing the steep 20 percent tariff for a given quota of the Union's dairy imports from Estonia. The agreement was a significant development in Estonia's relations with the European Union.

It should also be noted that despite a doubled number of candidate countries as a result of the formation of the so-called Helsinki group and the considerable rearrangements in the European Commission, the speed of the negotiations has not decreased notably. At the end of June, the Portuguese presidency concluded for Estonia with a number of significant achievements: all chapters, except institutions, have now been opened for negotiations and essential progress has been made in several chapters. By the end of the Portuguese presidency five more chapters were closed: fisheries, foreign relations, CFSP, business law, and free movement of capital. Under the French presidency in the second half of the year three more chapters were closed: free movement of goods, employment and social policy, culture and audio-visual policy.

Despite the satisfactory indicators of Estonia's overall macroeconomic development, public enthusiasm for the coalition government was on the wane by the end of 2000. Opinion polls showed an increase of popular distrust of state institutions and a declining appreciation for the development of democracy in the country. In 2000, the coalition cabinet unsuccessfully tried privatization of state infrastructure enterprises, such as the railways. This failure, together with unresolved social problems--especially in the sphere of unemployment--caused a precipitous fall in public confidence in the country's current leadership in 2000 and estranged Estonian citizens from political life in the country.

Aksel Kirch is the director of the Institute for European Studies in Tallinn.