

**FISCAL COUNCIL OF ESTONIA  
REPORT FOR 2019**

April 2020

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## CHAIRMAN'S FOREWORD

In spring 2019 the current composition of the Fiscal Council was confirmed for a second five-year term of office. The new term of office of the Fiscal Council has been very eventful.

It first became apparent in spring 2019 that the structural deficit for 2018 was larger than expected, at a currently estimated 1.7% of GDP, and was larger than permitted by the rules. The changes to the State Budget Act that were passed in 2017 would have permitted a small structural deficit in 2018, but not one of that size.

Part of the cause was the change in the assessment of the economic cycle as the economy was retrospectively assessed to have been performing better, but that then increased the structural deficit. The Fiscal Council had earlier warned of this danger. The surprise though was the large forecasting error in the revenues and expenses of the government. For this reason we recommended that the National Audit Office of Estonia analyse more closely the monitoring of state finances and the budgeting process. The results of this audit should be published soon.

The deficit being larger than permitted triggered the mechanisms contained in the State Budget Act, which had never previously been necessary when deciding fiscal policy or assessing compliance with the fiscal rules. The rules require the deficit to be gradually reduced until structural balance has again been achieved. After that, surpluses must be planned to rebuild the fiscal buffer that has been used up.

When the government set the fiscal targets in the state budget strategy for the next four years in spring, those rules were only partially considered. The Fiscal Council finds that the targets set for 2020-2021 comply with the rules, but the targets for 2022-2023 do not. This is because a surplus must be planned once structural balance has been achieved, but the target set was only to maintain balance.

This meant the government was planning to comply with the first of the fiscal rules by returning to balance, but not with the second of running a surplus. It was decided to remove that fiscal rule, though this change has not yet been made. This change would be the second loosening of the rules within only a short time, and that is not good for the credibility of Estonian fiscal policy.

The government had to make sure last autumn that the fiscal deficit would be reduced sufficiently in 2019, and a target was set for a structural deficit of 1.2% of GDP. The Fiscal Council found that the structural deficit planned for 2019 was not appropriate given the position of the economic cycle and so we recommended repeatedly that the fiscal position be substantially improved.

Unfortunately though, estimates this spring show that the structural deficit in 2019 was also larger than expected, and the required steps towards structural balance have not been taken. It is also now evident that the emergency situation caused by the coronavirus crisis has put the fiscal rules on pause at least for 2020. The spring forecast of the Ministry of Finance finds the nominal fiscal deficit this year could be up to 10% of GDP, and the debt level could exceed 20% of GDP.

Chairman of the Fiscal Council  
Raul Eamets  
Tartu, 30 April 2020

## 1. BRIEF INTRODUCTION TO THE FISCAL COUNCIL

The Fiscal Council of Estonia is an independent advisory council established in 2014 under the State Budget Act, whose function is to give opinions on the macroeconomic and fiscal forecasts on which Estonia's fiscal policy is based and to observe compliance with national fiscal rules. European Union law makes mandatory for members of the euro area to establish a fiscal council that performs similar functions. In Estonia, the legal basis for the establishment of the Fiscal Council and its functions is the State Budget Act adopted on 19 February 2014<sup>1</sup>. The statutes of the Fiscal Council were approved at the meeting of the Supervisory Board of Eesti Pank held on 9 April 2014<sup>2</sup>. Information is exchanged between the Fiscal Council and the Ministry of Finance under a cooperation agreement signed in February 2018<sup>3</sup>.

Under the amendment to the State Budget Act of 2017, the Fiscal Council gives its opinion as follows:

- in April on the spring economic and fiscal forecast of the Ministry of Finance;
- in April on the achievement of the target for the structural budget position in the previous year and on the targets set out in the state budget strategy for subsequent years;
- in September on the summer economic and fiscal forecast of the Ministry of Finance.

Beyond the opinions required by law, the Fiscal Council is independent in planning its work and may at its own initiative publish opinions or research on the Estonian economy or fiscal policy. The opinions of the Fiscal Council and accompanying press releases, opinion pieces and background information papers are published in Estonian and English on the website of the Fiscal Council at [www.eelarvenoukogu.ee](http://www.eelarvenoukogu.ee).

The Fiscal Council has six members and is led by the Chair and the Vice Chair (see Table 1). The first members of the Fiscal Council were appointed to office on 14 May 2014. Members of the Fiscal Council are appointed at the proposal of the Governor of Eesti Pank and are confirmed in office for five years by the Eesti Pank Supervisory Board. On 26 March 2019 the current composition of the Fiscal Council was confirmed for a second five-year term of office.

*Table 1. Members of Fiscal Council in 2019*

Raul Eamets	Chairman	Dean of the Faculty of Social Sciences of the University of Tartu, Professor of Macroeconomics
Andrus Alber	Vice-chairman	CEO of Finora Capital
Ülo Kaasik	Member	Deputy Governor of Eesti Pank
Martti Randveer	Member	Head of Economics and Research Department of Eesti Pank
Urmas Varblane	Member	Professor of International Business at the University of Tartu
Andres Võrk	Member	Analyst at the Johan Skytte Institute of Political Studies at the University of Tartu

Members of the Fiscal Council are expected to have an unblemished reputation, a Master's degree or equivalent in economics, and experience that will help the Fiscal Council in its work. Members of the Fiscal Council may not have a job or other position that could affect the independence of the Council in its work. Foreign experts may also be members of the Fiscal Council. The work of the Fiscal Council is funded by Eesti Pank. Three economists from Eesti Pank support the work of the Council, one of them in the role of secretary to the Council. The Fiscal Council gets help from Eesti Pank in editing and translating its publications, administering its website and other organisational issues.

<sup>1</sup> <https://www.riigiteataja.ee/en/eli/ee/504072014004/consolide/current>

<sup>2</sup> <https://eelarvenoukogu.ee/about-the-council/statutes>

<sup>3</sup> <https://eelarvenoukogu.ee/news/the-fiscal-council-and-the-ministry-of-finance-have-signed-a-cooperation-agreement>

## 2. ACTIVITY OVERVIEW

### Meetings and opinions of the Fiscal Council

The statutes of the Fiscal Council require it to meet whenever necessary, but at least five times a year. The Fiscal Council met five times in 2019. Four of the meetings were attended by all the members of the Council, and on one occasion five members attended<sup>4</sup>.

#### 7 January

At its first meeting of the year, the Fiscal Council discussed the reserves and debt level of the Estonian general government. Fiscal Council analyst Lauri Punga gave a presentation on the level of the Estonian reserves and the assets in them, the Liquidity Reserve and Stabilisation Reserve Fund, Estonia's loan liabilities, and the developments of the reserves and the debt level in comparison to those of the other Baltic states.

*The opinion of the Fiscal Council on the achievement of the target for the general government structural budget position in 2018 was drafted and agreed by email exchange, and was published on 11 April (see the summary of the opinion in Appendix 1).*

#### 15 April

At its second meeting of the year, the Fiscal Council discussed its opinion on the spring forecast 2019 of the Ministry of Finance.

*The opinion of the Fiscal Council on the spring forecast 2019 of the Ministry of Finance was published on 18 April (see the summary of the opinion in Appendix 2).*

#### 28 May

At its third meeting of the year, the Fiscal Council discussed its opinion on the targets for the structural budget position in the state budget strategy for 2020-2023.

*The opinion of the Fiscal Council on the targets for the structural budget position 2020-2023 was published on 30 May (see the summary of the opinion in Appendix 3).*

#### 16 September

At its fourth meeting of the year, the Fiscal Council discussed its opinion on the summer forecast 2019 of the Ministry of Finance.

*The opinion of the Fiscal Council on the summer forecast of the Ministry of Finance was published on 23 September (see the summary of the opinion in Appendix 4).*

#### 9 December

At its fifth meeting of the year, the Fiscal Council discussed the planned changes to the Estonian pension system. Member of the Fiscal Council Martti Randveer gave a presentation on how making the funded pension voluntary would affect the size of pensions, the tax burden, and the Estonian economy.

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<sup>4</sup> A quorum is reached for meetings of the Fiscal Council if at least four members of the Council are present.

## **Other meetings and presentations**

### 24 January

Chair of the Fiscal Council Raul Eamets attended a seminar organised by the European Commission in Brussels on the sustainability of sovereign debt. The European Commission presented its recently published Fiscal Sustainability Report 2018, and there was a discussion of methodologies for analysing the sustainability of sovereign debt.

### 25 January

Chair of the Fiscal Council Raul Eamets attended the tenth meeting of the European Union Network of Independent Fiscal Institutions (EUNIFI) organised by the European Commission in Brussels. The meeting discussed public communications and auditing of fiscal councils, the annual report of the European Fiscal Board, and the methodological innovations of the European Commission for assessing the cyclical sensitivity of the fiscal position and excess tax receipts.

### 4-5 February

Vice Chair of the Fiscal Council Andrus Alber attended the eleventh annual meeting of parliamentary budget officials and independent fiscal institutions organised by the OECD in Lisbon. The meeting discussed the experience of fiscal councils in assessing the fiscal impact of government programmes, writing long-term forecasts, and using social media.

### 28 February

Chair of the Fiscal Council Raul Eamets attended a seminar in Brussels organised by the European Fiscal Board on the role of fiscal councils in the framework of the European fiscal rules. The seminar discussed the need to coordinate the work of European fiscal councils, the pro-cyclical nature of fiscal rules, and the experience of fiscal councils in assessing government programmes.

### 6 March

Fiscal Council member Martti Randveer and analyst Lauri Punga met officials from the Georgian Ministry of Finance at Eesti Pank to share Estonia's experience of the creation, architecture and role of the Fiscal Council.

### 29 March

Members and analysts from the Fiscal Council met staff of the Ministry of Finance to hear the spring 2019 economic forecast of the ministry.

### 11 April

Chair of the Fiscal Council Raul Eamets gave an interview to Kuku radio on the topic of Estonian fiscal policy in the light of the opinion of the Fiscal Council on the structural fiscal position for 2018.

### 14 May

Chair of the Fiscal Council Raul Eamets and analyst Lauri Punga attended a meeting of the Finance Committee of the Riigikogu to present the opinion of the Fiscal Council on the spring economic forecast of the Ministry of Finance.

### 17 May

Vice Chair of the Fiscal Council Andrus Alber and analyst Lauri Punga met a delegation from the OECD to discuss the position of the Estonian economy and state finances.

### 21 May

Chair of the Fiscal Council Raul Eamets and analyst Lauri Punga attended a meeting with the IMF delegation at Eesti Pank. The meeting discussed the reasons for the budget deficit in 2018, the planned changes to the pension system and the outlook for the Estonian economy.

### 28 May

Chair of the Fiscal Council Raul Eamets presented the report on the council's activities in 2018 and the positions taken by the Fiscal Council in spring 2019 to the Supervisory Board of Eesti Pank.

### 30 May

Chair of the Fiscal Council Raul Eamets and analyst Lauri Punga attended a cabinet meeting of the government to present the opinion of the Fiscal Council on the fiscal targets set in the state budget strategy. Raul Eamets gave interviews on the opinion of the Fiscal Council to TV3, Vikerraadio and the Estonian national broadcaster.

### 16-17 June

Members and analysts of the Fiscal Council attended a meeting of the Baltic and Nordic independent fiscal institutions in Vilnius. Vice Chair of the Fiscal Council Andrus Alber gave a brief presentation on the Estonian state finances. Fiscal Council analyst Lauri Punga explained the changes to Estonian excise policy and the consequent cross-border trade and forecast errors in tax receipts.

### 27 June

Vice Chair of the Fiscal Council Andrus Alber attended a meeting of the Network of European Union Fiscal Institutions in Madrid. The future work and organisation of the new leadership and secretariat of the network were presented at the meeting, and a review was given of the work to date of the working groups of the network. The meeting was followed by a seminar on forecasting tax receipts.

### 29 August

Chair of the Fiscal Council Raul Eamets met the National Audit Office to discuss possible shortcomings in the monitoring of Estonia state finances and in the state budgeting process.

### 6 September

Members and analysts from the Fiscal Council met staff of the Ministry of Finance to hear the summer 2019 economic forecast of the ministry.

### 9 September

Chair of the Fiscal Council Raul Eamets gave an interview to the Estonian national broadcaster and Delfi on the summer 2019 economic forecast of the Ministry of Finance.

#### 17 September

Chair of the Fiscal Council Raul Eamets attended the eleventh meeting of the European Union Network of Independent Fiscal Institutions (EUNIFI) organised by the European Commission in Brussels. The meeting discussed the report of the European Fiscal Board on the operation of the European fiscal rules, the experience of the European Commission and member states in assessing compliance with expenditure rules, and the cooperation between fiscal councils and tax and statistics offices.

#### 24 September

Fiscal Council member Martti Randveer and analyst Lauri Punga attended a cabinet meeting of the government to present the opinion of the Fiscal Council on the summer economic forecast of the Ministry of Finance. Chair of the Fiscal Council Raul Eamets gave interviews on the economic forecast and the state budget for 2020 to the national television news on 25 and 27 September and to the newspaper Äripäev on 26 September.

#### 29 October

Chair of the Fiscal Council Raul Eamets and analyst Lauri Punga attended a meeting with the IMF delegation at Eesti Pank. The meeting discussed the need to improve the fiscal position in 2019 and the outlook for the Estonian state finances and economy for 2020.

Chair of the Fiscal Council Raul Eamets presented the Fiscal Council's positions on the economic forecast for Estonia and the state finances to the Supervisory Board of Eesti Pank.

#### 4 November

Chair of the Fiscal Council Raul Eamets and analyst Lauri Punga attended a meeting of the Finance Committee of the Riigikogu to present the opinion of the Fiscal Council on the economic forecast for Estonia and on the state finances.



## Opinion articles

9 April

The opinion piece 'If you must hurry then do so slowly' by Raul Eamets was published in the newspaper Postimees<sup>5</sup>.

*This spring the Fiscal Council completed five years of work in its role as the assessor of state economic and fiscal forecasts and guardian of the national budget rules. The make-up of the new government coalition also became clear this spring, and one of its first jobs will be to set the national fiscal policy targets for the next four years.*

/.../

*Comparing the forecasts of the Ministry for the output gap for 2013-2018 with estimates based on current knowledge shows that the correction each year has been upwards. In general this has meant that the negative output gap has been replaced by a positive output gap. The change in sign is significant, as it gives a different signal to policy makers about what fiscal policy could be appropriate for the state of the economy. If the economy is wrongly assessed to be currently doing worse, we may start to stimulate it at a time when it really does not need it. This is what happened in 2017 for example. Many people will surely still remember the government programme for additional investment, which was intended to stimulate the economy. The actual rate of growth in 2017 turned out though to be one of the fastest of the preceding decade. For this reason we think it is important when estimating the cyclical position of the economy to look at the output gap together with a broader set of economic indicators.*

26 September

The opinion piece 'Difficult times call for a wise fiscal policy' by Urmas Varblane was published in the newspaper Postimees<sup>6</sup>.

/.../

*Unfortunately, the reduced outlook for economic growth will coincide with the need for the government to improve its fiscal position. We have brought this about for ourselves, because when the economy was doing well in recent years we were not able to keep government spending under control. The tax revenues that could be classed as temporary excess revenues have also been spent. The government now faces an obligation to improve the budget each year from the previous year until we have regained structural balance. At the same time the government has a stack of unfulfilled election promises to carry out, all of which require extra spending.*

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*What should be done to maintain the capacity of the Estonian economy to grow when it is faced with a weakening external environment and a budget that is under pressure? One answer is to invest wisely, and to make preparations so that we would be able to invest at all.*

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<sup>5</sup> Full article: <https://eelarvenoukogu.ee/news/if-you-must-hurry-then-do-so-slowly>

<sup>6</sup> Full article: <https://eelarvenoukogu.ee/news/difficult-times-call-for-a-wise-fiscal-policy>

### 3. BUDGET

The Fiscal Council works on a budget that is drawn up annually and approved by the Governor of Eesti Pank. The work of the Fiscal Council is paid for by Eesti Pank on the principle that the resources given to the Council should be sufficient to let it do its work independently<sup>7</sup>. Table 2 presents a review of the expenses of the Fiscal Council in 2019<sup>8</sup>.

Table 2. Expenses of the Fiscal Council in 2019 (euros)

Remuneration of members	62,750
Business trips	4,729
Seminars and events	1,856
IT expenditure	165
Total expenditure	69,500

Actual expenses for 2019 were 92% of the amount budgeted. Remuneration of members accounted for around 90% of the expenses of the Fiscal Council, business travel for 7% and other expenses for 3%.

The budget planned for the Fiscal Council for 2020 is 82,100 euros (see Figure 1). Planning of the budget takes account of the usual number of business trips to participate in the work of the networks of fiscal councils and the changes to remuneration following the indexing of the official salaries of higher state servants. The Fiscal Council will also contribute financially to the work of the secretariat of the Network of European Union Independent Fiscal Institutions from 2020.

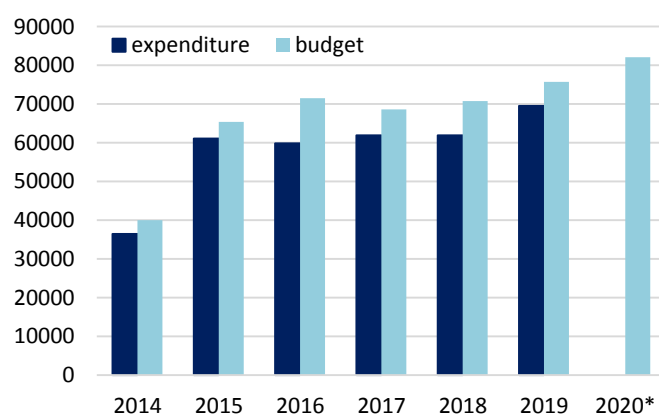


Figure 1. Budget and actual expenses of the Fiscal Council (euros)

<sup>7</sup> The government of Estonia compensates the direct expenses of the Fiscal Council paid for by Eesti Pank at the request of Eesti Pank. The central bank has not yet made use of this right.

<sup>8</sup> Table 2 does not contain the costs of the pay of the Eesti Pank economists working to support the Fiscal Council.

## APPENDIX 1. Opinion on the achievement of the general government structural budget position target in 2018

### Opinion

The state budget strategy for 2018-2021 set a target for the general government structural fiscal position for 2018 of a structural deficit of 0.5% of GDP. A structural deficit was planned for the whole of the next three years in order to stimulate growth in the economy. Expectations for the economic climate in the year ahead had improved when the 2018 state budget was drafted, and so the expected deficit was reduced by half, giving a target of a structural deficit of 0.25% of GDP. The Fiscal Council recommended that the 2018 budget should target a small surplus.

Rapid growth had already returned to the economy in 2017 with the support of foreign demand, and the economy continued to perform well in 2018 as nominal growth in it and growth in tax revenues in the state budget reached around 9%. The most recent expert opinions of the position of the economic cycle in Estonia indicate clearly that the economy is still experiencing good times. Even so the fiscal position of the general government was weaker than expected, and it was in nominal and structural deficit in 2018.

The Ministry of Finance finds that the Estonian general government had a structural deficit of 1.4% of GDP in 2018. The calculations of the Fiscal Council also find a structural deficit. Calculated from the spring economic forecast 2019 of the Ministry of Finance, the general government budget was in structural deficit in 2016 and 2017 as well. The Fiscal Council finds that the target set for the structural fiscal position in 2018 went unmet.

The State Budget Act allows a structural deficit to be planned of up to 0.5% of GDP a year. The actual structural deficit for 2018 was larger than this by more than 0.5 percentage point. The deficit in 2018 meant that the cumulative structural position, which accounts for the total results for 2014-2018, also fell into deficit. The State Budget Act requires that the structural fiscal position be improved immediately in 2019 by at least 0.5 percentage point from 2018. The structural fiscal position must be improved by at least 0.5 percentage point a year until structural balance has again been achieved.

The Fiscal Council finds that the improvement to the fiscal position in 2019 should not aim to be only the minimum required correction, achieving which would leave the fiscal position of the general government in structural deficit of 0.9% of GDP. Given the current state of the economy, it is not justified to have a structural deficit of around 1% that will have to be compensated for later regardless of the cyclical state of the economy. The fiscal framework of the European Union also has the principle that the fiscal position must be improved by larger amounts at times when the economy is doing well.

The Fiscal Council recommends that the target of structural balance set in the state budget for 2019 should still be met, if necessary by restricting the growth in spending. Given the good state of the economy, it would even be appropriate to set a target of a structural surplus for the fiscal position for 2019, so that the cumulative surplus can start to recover more quickly. This is necessary, so that fiscal policy can be used to boost the economy should the economic climate deteriorate. This buffer has now been used up even though the economic situation has been good.

In setting the budget targets in the state budget strategy for 2020-2023, it should be remembered that once structural balance has been achieved, the State Budget Act requires a structural surplus to be

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<sup>9</sup> The full report can be found at: <https://eelarvenoukogu.ee/news/the-general-government-recorded-a-large-deficit-in-2018>

planned. The surplus should be of at least 0.5% of GDP a year, until balance has also been achieved in the cumulative structural position.

Chairman of the Fiscal Council

Raul Eamets

Tallinn, 11 April 2019

## APPENDIX 2. Opinion on the spring forecast 2019 of the Ministry of Finance

### Opinion

Giving an opinion on state macroeconomic and fiscal forecasts is one of the main tasks of the Fiscal Council. The spring economic forecast 2019 of the Ministry of Finance and the Fiscal Council opinion on it were written at a time when the economic policy programme of the new government coalition had not yet been finally agreed.

The spring forecast of the Ministry of Finance shows that the fiscal rules require the general government to take measures to improve the structural fiscal position. In its opinion on the outcome of the structural position of the general government for 2018, the Fiscal Council recommended that the general government should already return to structural balance this year.

The spring economic forecast 2019 of the Ministry of Finance gives a sufficiently credible basis for this. The new macroeconomic forecast for 2019-2023 is similar to other forecasts written this year and takes account of changes in the recent past in the global economy and in the Estonian economy.

Like they did earlier, the experts of the Ministry of Finance expect that growth in the economy will slow to its long-term sustainable level. The only change from the earlier forecast is in the trajectory of the slowdown in growth, as it will slow more sharply than previously expected at the beginning of the period, and more gently in the final years of the forecast horizon.

The structure of GDP and the outlook for future growth in the exporting sector have changed though. It is expected that foreign demand will already slow more sharply than previously expected this year, and so the growth in exports of goods and services from Estonia will slow. Even so, the Estonian economy will be running at above its estimated potential in the years ahead.

The outlook for state revenues is in line with the macroeconomic forecast. The Fiscal Council remains of the opinion that the simultaneous introduction of a large number of tax changes has made the probability of forecast error larger than usual. The fiscal forecast shows that the structural fiscal position of the general government is about to remain in deficit and therefore will require the earliest possible intervention.

Chairman of the Fiscal Council  
Raul Eamets  
Tallinn, 18 April 2019

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<sup>10</sup> The full report can be found at: <https://eelarvenoukogu.ee/news/the-general-government-fiscal-position-needs-to-be-improved>

### APPENDIX 3. Opinion on the targets for the structural budget position for 2020-2023

#### Opinion

The fiscal position of the Estonian general government proved to be weaker than expected in 2018. The estimate of the Ministry of Finance from spring 2019 put the structural deficit last year at 1.4% of GDP. The State Budget Act states that such a large deficit requires the fiscal policy goal of a return to structural balance to be set.

The state budget strategy 2020-2023 sets targets for the structural fiscal position for the next four years. The government aims to achieve structural balance in 2021. While moving towards balance, the fiscal position will be in structural deficit this year and next year as well. The Fiscal Council finds however that budget deficits in 2019 and 2020 are not justified and recommends that the government return to structural balance this year.

The Fiscal Council finds that the targets set for the structural fiscal position in 2020-2021 comply with the State Budget Act. The government proposes several revenue and expenditure measures in the budget strategy in order to achieve these targets. The Fiscal Council considers that the measures proposed may not ensure the required amount of additional revenues for structural balance to be achieved.

The government aims to maintain structural balance in the final years of the budget strategy. However, the State Budget Act requires that structural surpluses be planned after structural balance has been achieved to compensate for the earlier deficits. For this reason the Fiscal Council does not believe that the targets for the fiscal position for 2022-2023 are in line with the requirements of the budget rules.

To remedy this, the government plans to change the State Budget Act by abandoning the requirement for surpluses. This would mean easing the fiscal rules for the second time in recent years. The Fiscal Council considers that it is not good policy to change the fiscal rules so frequently, as this can harm the credibility of Estonian fiscal policy and the fiscal rules. A reliable and stable fiscal policy is necessary for companies and households to be able to make long-term decisions that will support growth in the economy.

Chairman of the Fiscal Council  
Raul Eamets  
Tallinn, 30 May 2019

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<sup>11</sup> The full report can be found at: <https://eelarvenoukogu.ee/news/frequent-changes-to-the-fiscal-rules-harm-the-credibility-of-estonian-fiscal-policy-and-the-economy>

## APPENDIX 4. Opinion on the summer forecast 2019 of the Ministry of Finance

### Opinion

The summer economic forecast of the Ministry of Finance finds that growth in the Estonian economy will slow to 2.2% in 2020. Expectations for economic growth are lower than they were in spring, as the external environment has proved weaker than expected. Even so, the Estonian economy will be running at above its estimated potential in the years ahead.

The Fiscal Council finds that the summer forecast of the Ministry of Finance is in line with the changes in the Estonian economy and the assumptions used for the forecast. The Fiscal Council does consider though that there is a risk that geopolitical and foreign trade tensions may have more of an effect than assumed, and this could lead to economic growth being slower than forecast, and also slower than the risk scenario of the forecast of the ministry.

According to the summer forecast of the Ministry of Finance, the 2019 structural budget deficit will be 1.4% of GDP. The State Budget Act requires the structural fiscal position to be improved by at least 0.5 percentage point a year until structural balance has again been achieved. This means the fiscal position has to be further improved this year to comply with the fiscal rules. The Fiscal Council recommends that the steps to improve the fiscal position be planned with an excess, as revenues in 2019 could prove weaker than expected.

The general government fiscal position for the coming years will be weaker than it seemed in spring, and the structural deficit will remain throughout the whole forecast horizon, standing at -0.7% of GDP in 2020, and -0.6% of GDP in 2021. The structural deficit will remain despite the improved forecast for tax revenues, and the additional measures proposed in the state budget strategy this spring, including the faster use of EU structural funds.

The general government fiscal position was last in structural balance in 2016. This means that the structural deficit is forecast to remain throughout the peak of the economic cycle. The Fiscal Council finds that this is not a suitable fiscal policy given the state of the economy.

The State Budget Strategy for 2020-2023 that was passed in the spring set a structural deficit target for 2020 of 0.4% of GDP, and the target of structural balance for 2021. According to the summer forecast of the Ministry of Finance, these targets will not be met as things currently stand. The Fiscal Council recommends that the government stick to the budget targets set in the state budget strategy in spring, meaning that the fiscal position should be substantially improved in the years ahead and structural balance should already be attained in 2021.

The current State Budget Act requires that once structural balance has been achieved, a structural surplus should be planned to compensate for the earlier deficits that were larger than permitted. The government announced in spring 2019 that it was planning to abandon this requirement in the budget rules. If it is decided to change the fiscal rules once again, the proposed changes must be analysed thoroughly and not simply introduced at the last moment. To ensure that fiscal policy remains credible, it is important that the fiscal rules set out in the state budget act be those that the government plans to follow over the long term when planning and implementing its fiscal policy.

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<sup>12</sup> The full report can be found at: <https://eelarvenoukogu.ee/news/the-general-government-fiscal-position-needs-to-be-improved-1>

Chairman of the Fiscal Council  
Raul Eamets  
Tallinn, 23 September 2019