

**FISCAL COUNCIL OF ESTONIA
REPORT FOR 2020**

April 2021

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CHAIRMAN'S FOREWORD

The Estonian government drafted a budget for 2020 where revenues and expenditures were in balance, and it was forecast at the time that *structural* balance would be approached by 2021. Forecasts do not always come true though, and rather than achieving balance we have moved further away from it.

The spread of the coronavirus in early 2020 rapidly changed the economic environment around us. The state of the economy and forecasts for it started to depend more on the healthcare situation and on government decisions regulating economic activity. Rather than searching for budget balance, balance had to be found between protecting public health and economic growth. The government also had to find a balance in how much the state should use borrowed money to support the economy.

The outbreak of the pandemic caused the Ministry of Finance to compile its spring economic forecast in 2020 earlier than usual. An indication of the rapidly changing circumstances and great uncertainty was that two forecasts were written in a short space of time, and they looked forward only one year rather than the usual four. For the first time in a long time the forecasts expected a recession in Estonia.

The preparation of the state budget strategy last spring was abandoned. The preparation of the long-term plan for the state finances was postponed until the autumn in the hope that by then the situation with the virus would be clearer and it would be easier to plan for the future. Many other European Union member states did the same thing. This also changed the organisation of the work of the Fiscal Council a little, as one analysis was shifted from the spring to the autumn.

One important fiscal policy document was confirmed last spring though and that was the negative supplementary budget, a tool that the Estonian government had not used since 2009. The supplementary budget reflected the sharp deterioration in the economy and contained a wide-ranging programme of state support measures. A fiscal stimulus of this size had never before been planned in Estonia. When the supplementary budget was written, a contraction of 8% in the economy and a budget deficit of 10% were assumed.

As the depth of the crisis became apparent, the European Union introduced a general escape clause for the fiscal rules that temporarily removed the numerical requirements for budget deficits and state debt. This allowed national governments to focus on their approaches to the coronavirus crisis. The Fiscal Council however lost an important reference point for assessing the condition of state finances. In consequence less attention was paid in spring to the Estonian budget deficit in 2019 exceeding its permitted size. The escape clause for the fiscal rules remains in force.

To finance the unexpectedly large expenses with reduced revenues, Estonian government had to rely on public borrowing, which had rarely been done before. The usual debt level of 8-10% of GDP was now forecast to rise to as much as 30%, and by the end of 2020 the Estonian government debt had doubled.

Forecasts of budget deficits in the billions now became the new reality in the place of balanced budgets. The Estonian budget deficit did not at any point exceed 3% of GDP during the previous economic crisis, but the current forecasts for this crisis are that the deficit will not fall below 3% even in 2023.

As the spread of the virus was successfully restrained in summer 2020 and the Estonian economy showed signs of rapid adjustment, the ministry released an economic forecast in September that was notably more optimistic about the depth of the crisis and the recovery of growth. Economic experts were no longer talking about double-digit economic contractions or budget deficits, and the government was able to produce a budget strategy that showed the deficit gradually narrowing. Unfortunately the forecast also

contained cost savings without any measures to achieve them, and so the outlook for the state finances at that time was still a little overestimated.

It is by now known that the decline in the Estonian economy and the fiscal deficit in Estonia were both smaller in 2020 than feared. It remains the case though that GDP fell by almost 3% and the general government budget was 1.3 billion euros in deficit. Although forecasters consider that the Estonian economy will start growing again this year, the consequences of the coronavirus crisis will be felt at least in the state finances for a long time yet. There is no sign yet in the current fiscal forecasts of the budget returning to balance.

Chairman of the Fiscal Council

Raul Eamets

Tallinn, 30 April 2021

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 2014¹. The statutes of the Fiscal Council were approved at the meeting of the Supervisory Board of Eesti Pank held on 9 April 2014². Information is exchanged between the Fiscal Council and the Ministry of Finance under a cooperation agreement signed in February 2018 and reviewed in spring 2021³.

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 occasional papers are published in Estonian and English on the website of the Fiscal Council at 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 2020

| | | |
|-----------------|---------------|--|
| 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 Vörk | 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.

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

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

³ <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 four times in 2020, and one of the meetings was held online⁴. All of the meetings were attended by all of the members of the council.

13 April

At its first meeting of the year, the Fiscal Council discussed its opinion of the spring forecast 2020 of the Ministry of Finance.

The opinion of the Fiscal Council on the spring forecast 2020 of the Ministry of Finance was published on 15 April (see the summary of the opinion in Appendix 1).

The opinion of the Fiscal Council on the achievement of the target for the general government structural budget position in 2019 was drafted and agreed by email exchange, and was published on 30 April (see the summary of the opinion in Appendix 2).

27 May

The second meeting of the Fiscal Council discussed with representatives of the Ministry of Finance the report by the National Audit Office on the risks related to forecasting and monitoring the state finances.

4 September

At the third meeting of the Fiscal Council the Ministry of Finance presented its summer 2020 economic forecast to the Fiscal Council.

16 September

At its fourth meeting of the year, the Fiscal Council discussed its opinion on the summer forecast 2020 of the Ministry of Finance.

The opinion of the Fiscal Council on the summer forecast 2020 of the Ministry of Finance was published on 21 September (see the summary of the opinion in Appendix 3).

The opinion of the Fiscal Council on the targets for the general government structural budget position for 2021-2024 was drafted and agreed by email exchange, and was published on 29 September (see the summary of the opinion in Appendix 4).

Other meetings and presentations

29 January

Fiscal Council analyst Lauri Punga attended the twelfth meeting of the European Union Network of Independent Fiscal Institutions (EUNIFI) organised by the European Commission in Brussels. The meeting discussed the different mandates that fiscal councils have for assessing economic forecasts, the annual report of the European Fiscal Board, and the report by the European Court of Auditors on the European fiscal framework.

⁴ A quorum is reached for meetings of the Fiscal Council if at least four members of the Council are present. The restrictions introduced because of the Covid-19 pandemic meant that exceptionally the Fiscal Council held fewer meetings in 2020 than required by the statutes, as several of the usual events were cancelled.

6 February

Fiscal Council member Ülo Kaasik and analyst Lauri Punga met Asgeir B. Torfason of the Icelandic fiscal council to describe the work of the Estonian Fiscal Council and the organisation of its work, and developments in the Estonian economy and state finances.

13 February

Fiscal Council members Ülo Kaasik and Martti Randveer and analysts Lauri Punga and Andres Saarniit met representatives of the National Audit Office at Eesti Pank to discuss the shortcomings in the Estonian budgeting process and proposals for changes.

28 February

Fiscal Council analyst Ricardo Vicente attended the conference *Rethinking the European fiscal framework* organised by the European Fiscal Board in Brussels. The meeting discussed the features and shortcomings of the European fiscal framework and proposals for improvement in the low interest rate environment.

2 March

Chair of the Fiscal Council Raul Eamets attended a joint seminar of the European Central Bank and fiscal councils in Frankfurt. The meeting discussed the state of the European fiscal framework, methods for fiscal risk analysis, and current issues in fiscal policy.

20 April

Chair of the Fiscal Council Raul Eamets attended an online meeting of the State Budget Control Select Committee of the Riigikogu to present the opinion of the Fiscal Council on the spring 2020 economic forecast of the Ministry of Finance.

5 May

Chair of the Fiscal Council Raul Eamets and analyst Lauri Punga attended an online meeting of the Finance Committee of the Riigikogu to present the opinion of the Fiscal Council on the spring 2020 economic forecast of the Ministry of Finance and the general government budget position for 2019.

25 May

Fiscal Council member Martti Randveer attended an online meeting of the State Budget Control Select Committee of the Riigikogu. The meeting discussed the report by the National Audit Office on the risks related to forecasting and monitoring the state finances.

25 May

Fiscal Council analyst Lauri Punga attended the online seminar *Independent Fiscal Institutions' responses to the COVID-19 crisis* organised by the OECD. The meeting discussed the analytical contribution of fiscal councils and changes to the organisation of work during the pandemic.

26 May

Chair of the Fiscal Council Raul Eamets attended an online meeting of the supervisory board of Eesti Pank to present the opinion of the Fiscal Council on the spring 2020 economic forecast of the Ministry of Finance and the general government budget position for 2019.

9 June

Chair of the Fiscal Council Raul Eamets gave a presentation to the Riigikogu on Estonian fiscal policy, which discussed it as a question of national importance. The presentation by the Fiscal Council focused on the state of public finances and compliance with the fiscal rules in 2014-2020.

8 July

Fiscal Council analyst Lauri Punga attended an online meeting of the Network of European Union Independent Fiscal Institutions. The meeting approved the new management of the network and discussed the communication strategy of the network. A representative of the European Fiscal Board presented the new database on compliance with the fiscal rules.

23 September

Chair of the Fiscal Council Raul Eamets met minister of finance Martin Helme and chair of the Isamaa party Helir-Valdor Seeder. The meeting discussed the outlooks for the Estonian economy and state finances and the opinion of the council on the summer 2020 economic forecast of the Ministry of Finance.

29 September

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 summer 2020 economic forecast of the Ministry of Finance and the budgetary targets set in the state budget strategy 2021-2024.

6 October

Fiscal Council analyst Lauri Punga attended the thirteenth meeting of the European Union Network of Independent Fiscal Institutions (EUNIFI) organised by the European Commission. The online meeting discussed the crisis assistance measures of the European Commission, the role of fiscal councils in drafting national recovery and resilience plans, the opinions of fiscal councils on state support measures, and the application of the escape clause for the fiscal rules.

21 October

Vice Chair of the Fiscal Council Andrus Alber and analyst Lauri Punga attended an online meeting of the Network of European Union Independent Fiscal Institutions. The meeting heard the new communications strategy of the network and the principles for membership. It also discussed ongoing research work and setting up an editorial board for the publications of the network.

26 October

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 summer 2020 economic forecast of the Ministry of Finance and the budgetary targets set in the state budget strategy 2021-2024.

3 November

Chair of the Fiscal Council Raul Eamets attended an online meeting of the supervisory board of Eesti Pank to present the opinion of the Fiscal Council on the summer 2020 economic forecast of the Ministry of Finance and the budgetary targets set in the state budget strategy 2021-2024.

2 December

Vice Chair of the Fiscal Council Andrus Alber and analyst Lauri Punga attended an online meeting with the delegation from the IMF that was producing the *Fiscal Transparency Evaluation* report on Estonia. The Fiscal Council presented its responsibilities and organisation of work and its positions on the forecasting and monitoring of the Estonian state finances and compliance with the fiscal rules.

Opinion articles and occasional papers

17 March

An opinion article 'Let us use our gunpowder wisely' by Fiscal Council member Urmas Varblane was published in Postimees⁵.

The Estonian government has announced a package of aid measures worth some 1.5-2 billion euros to mitigate the crisis and possible recession caused by the coronavirus, and has made preparations to borrow up to one billion euros initially.

Support measures in other countries have generally been directed more at sectors in need of help rather than at the whole economy, have generally been temporary rather than permanent, and have generally had an immediate impact rather than offering long-term respite. This could also be the basis for the Estonian package of measures, given the specific features of our legislation and our fiscal capacity.

The state cannot absorb the full impact of the hit, but it can soften the blow in those sectors that have been hit the hardest. Although our fiscal reserves and ability to borrow give us plenty of gunpowder, we should use it wisely.

28 July

An occasional paper 'The business cycle, potential output and the output gap: different theories, different rules' by analyst Ricardo Vicente was published on the website of the Fiscal Council⁶.

The paper presents some fundamental macroeconomic concepts and discusses how they fit with the existing fiscal rules if alternative business cycle theories are applied. Concepts such as potential output and the structural budget position are prominent in the fiscal rules and, thus, they are central in the work of the Fiscal Council. The paper considers how those rules can be improved in general and in the specific case of the Estonian economy. The relevance of these topics has just grown significantly as the European Union and national governments are planning to deploy massive fiscal stimulus programs as a reaction to the ongoing economic crisis.

2 October

An opinion piece 'Is the debt foreign?' by Raul Eamets, Chair of the Fiscal Council, was published in Postimees⁷.

The government has borrowed around 2.8 billion euros this year to cover the deficit. A fifth of that is in short-term bonds, and the rest is in long-term liabilities. This is more than is needed to cover the costs of this year, but the forecasts in the spring led the government to prepare for the worst. What is left in the reserve this year though will be spent next year.

The financial sector considers the international ratings of the Estonian state to be very good, and the loan burden is small, meaning that it is easy for us to borrow. Adding in low interest rates and the need to escape from the economic crisis makes it quite appropriate to use a loan to stimulate the economy. We should be clear with ourselves though what the risks are of acting like this and what dangers they could pose to our future. Warnings can be found in the many negative examples from the European Union.

⁵ Full article: <https://leht.postimees.ee/6925058/urmas-varblane-kasutagem-pussirohtu-targalt>

⁶ Full paper: <https://eelarvenoukogu.ee/news/fiscal-council-paper-discusses-revision-of-the-fiscal-rules-and-their-adequacy-for-estonia>

⁷ Full article: <https://leht.postimees.ee/7076028/raul-eamets-kas-volg-on-voora-oma>

3. BUDGET

The Fiscal Council works on a budget that is drawn up annually and approved by the Governor of Eesti Pank. The activities of the Fiscal Council are financed by Eesti Pank from its budget on the principle that the funds allocated must be sufficient for the Fiscal Council to be able to perform its functions independently⁸. Table 2 presents a review of the expenses of the Fiscal Council in 2020⁹.

Table 2. Expenses of the Fiscal Council in 2020 (euros)

| | |
|-------------------------|---------------|
| Remuneration of members | 67,830 |
| Business trips | 690 |
| Seminars and events | 380 |
| Other expenses | 210 |
| Total expenses | 69,110 |

Actual expenses for 2020 were 84% of the amount budgeted. Expenses on business travel above all were lower than expected, as the spread of Covid-19 and the restrictions because of it meant that many events were cancelled or were held online. Remuneration of members accounted for around 98% of the expenses of the Fiscal Council, business travel for 1% and other expenses for 1%.

The budget planned for the Fiscal Council for 2021 is 83,800 euros (see Figure 1). The budget was prepared with the assumption that normal work and travel will return in 2021 and the number of business trips will in consequence be similar to what it was in 2019 before the crisis. The remuneration of the members of the Fiscal Council is calculated by indexing in accordance with the Salaries of Higher State Servants Act. The Estonian Fiscal Council also contributes since 2020 to the work of the secretariat of the Network of European Union Independent Fiscal Institutions.

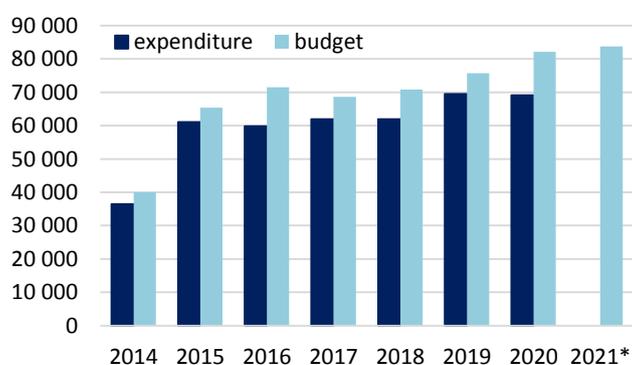


Figure 1. Budget and expenditure of the Fiscal Council (euros)

⁸ 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.

⁹ 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 spring forecast 2020 of the Ministry of Finance

Opinion

Forecasters are all now in agreement that the emergency situation caused by the spread of the coronavirus will push the Estonian economy into recession. The only question is the depth of the recession. The spring forecast 2020 of the Ministry of Finance projects that GDP in Estonia will be 8% lower in 2020 than in the previous year and private consumption will be down 11.8%. The rapid wage growth of previous years will stop almost entirely this year, and inflation will be braked.

The ministry forecast assumes that the emergency situation and the current restrictions will remain in place until the end of May, and that economic activity will recover relatively quickly after that. The Fiscal Council finds that the recovery from the crisis could take longer though, as the production capacity of the economy and trade relations may be interrupted for longer. Given the current circumstances it should be remembered that the assumptions used for any economic forecast become out of date quickly, and any possible extension of the emergency situation will make it necessary to update forecasts.

The spring forecast 2020 of the Ministry of Finance served as the starting point for the supplementary budget. The government is not planning to produce a state budget strategy with a four-year outlook this spring because of the general uncertainty. For this reason the spring forecast only describes the possible developments in the economy and in state finances for this year and next. The Fiscal Council finds that the forecast of the Ministry of Finance is a suitable base for the supplementary budget, but that there is understandably a large amount of uncertainty surrounding the forecast.

The supplementary budget contained a stimulus package of measures designed to ease the economic impact of the coronavirus that the Ministry of Finance did not consider in its macroeconomic forecast but that should lessen the extent of the recession all else being equal.

The government has decided to take loans to fund the stimulus package. The Ministry of Finance considers that the debt level of the Estonian general government could climb from its current 8% of GDP to 22% of GDP after the crisis has passed. To avoid the state taking on more liabilities than it can handle, the Fiscal Council finds that the stimulus package for the economy should be well targeted and focus on the measures with the largest short-term impact.

The general government fiscal position for 2020 will be made worse by the weaker economic environment and by the stimulus package for the economy. The Ministry of Finance estimates that the changes to the economic environment will increase the budget deficit by 1.5 billion euros, while the stimulus package will cost the 2020 fiscal position more than 1.1 billion euros. The spring forecast notes that rather than nominal balance, there will be a nominal deficit of 10% of GDP in 2020. On top of the pressure put on state finances by the restrictions, the Fiscal Council finds that an additional negative risk on the revenue side of the budget is an increase in tax arrears and weaker tax discipline, as is generally the case in a recession.

As the budget deficit was larger than permitted in 2018, the planning for the structural fiscal position of the Estonian general government has since 2019 had to allow for an improvement of at least 0.5% over the previous year. The application of the escape clause in the fiscal rules allows this requirement to be overlooked in 2020. The spring forecast projects a structural deficit for 2020 of more than 5% of GDP. If

¹⁰ The Fiscal Council's opinion and a more thorough explanatory report can be found [here](#).

the recession harms the potential production capacity of the Estonian economy, the structural deficit will be larger.

Chairman of the Fiscal Council

Raul Eamets

Tartu, 15 April 2020

APPENDIX 2. Opinion on the achievement of the general government structural budget position target in 2019

Opinion

It became clear in spring 2019 that the general government structural deficit in 2018 was larger than permitted by the fiscal rules. This engaged the correction mechanism in the State Budget Act that requires the structural fiscal deficit to be reduced each year by at least 0.5 percentage point until structural balance has again been achieved.

The summer 2019 economic forecast of the Ministry of Finance put the structural budget deficit at 1.7% of GDP in 2018. For the fiscal deficit to be reduced by 0.5 percentage point, the government should have planned in autumn 2019 to improve its fiscal position for the current year by 50 million euros. The government set a target for the structural fiscal position of a deficit of 1.2% of GDP for 2019.

The spring 2020 assessment put the structural budget deficit for the general government at 1.9% of GDP for 2019. This deficit is 0.7 percentage point larger than the target set by the government, with 0.4 percentage point coming from the changed assessment of the economic cycle, and 0.3 percentage point coming because the nominal budget deficit was larger than expected.

This means the structural fiscal position has not improved from 2018. The Fiscal Council finds that the government did not meet its budget targets for 2019 or the requirements of the correction mechanism that are necessary if structural balance is to be regained.

There has been a structural deficit in the past three years and the fiscal rules have been broken for two years in a row. The emergency situation caused by the outbreak of the coronavirus activated the escape clauses in the European Union and Estonian fiscal rules in spring 2020. The escape clause allows the government to overlook the correction mechanism for this year.

Abiding by the fiscal rules and building up reserves when the economy is doing well is important if the economy is to be supported during difficult times. The Fiscal Council finds it important that by autumn 2020 at the latest the government submit a long-term outlook for the state finances together with the steps to be taken to return the budget to balance.

Chairman of the Fiscal Council

Raul Eamets

Tartu, 30 April 2020

¹¹ The Fiscal Council's opinion and a more thorough explanatory report can be found [here](#).

APPENDIX 3. Opinion on the summer forecast 2020 of the Ministry of Finance

Opinion

The summer 2020 forecast of the Ministry of Finance shows that the coronavirus has affected the economy less than was expected in spring, and it forecasts an economic decline of 5.5% for 2020. Growth in the economy will recover to 4.5% in 2021 and GDP at current prices will reach its level from before the crisis. Several economic indicators will recover more weakly than was earlier forecast though, as growth in wages and employment will not yet recover next year and growth in private consumption will be slower than that in the economy.

The Ministry of Finance finds that the output of the Estonian economy will this year be 3% below its capacity, and will not return to full capacity by the end of the forecast horizon. The Fiscal Council finds it may be assumed that the economy will have recovered by 2024, and the output gap will have closed.

The Fiscal Council finds that the summer forecast of the Ministry of Finance gives an adequate picture of the possible development of the Estonian economy, and so is a suitable basis for planning fiscal policy. The Fiscal Council sees a downside risk that unemployment may be higher in 2020 than forecast, and an upside risk that wage growth may be faster than expected in the coming years, which will contribute to growth in private consumption. It should also be remembered that the uncertainty around the economic forecast is greater than usual.

Expectations for tax revenues in 2020 have improved. The summer forecast finds that tax revenues in the state budget will be down around 6% this year, and general government revenues by around 4%. Growth in spending has however been faster than usual at more than 11%, and so the general government budget for 2020 will be in the nominal deficit by 6.6% of GDP. The ministry estimates that budget spending on measures to help the economy will amount to 3% of GDP this year.

This high level of spending is forecast to continue in the future. Tax revenues meanwhile will grow more slowly than earlier, and dependence on foreign funds will increase. The fiscal forecast shows a large deficit in the general government fiscal position throughout the forecast horizon, leading to rapid growth in the debt burden.

As the fiscal rules have been suspended temporarily, the Fiscal Council considers that any possible deviations from the rules should also be temporary. The summer forecast puts the budget deficit for 2021 at 1.7 billion euros, or 6% of GDP, even though the lowest point of the fall in the economy and the largest part of the spending on assistance packages will fall in 2020 in the estimate of the Ministry of Finance.

The Fiscal Council considers that the fiscal deficit in 2021 may only exceed 3% of GDP if this comes from the cyclical components of revenues and expenditures and the additional healthcare spending and direct economic assistance measures provoked by the coronavirus crisis. The current forecast indicators do not justify the fiscal deficit exceeding the 3% limit in 2022 in the opinion of the Fiscal Council, and structural balance should be restored in the later years of the forecast horizon.

The Fiscal Council believes it important that general government spending be brought in line with expected revenues and that large-scale budget deficits to support the economy remain a crisis measure only. If excessive fiscal stimulus is delivered when the production capacity of the economy is already

¹² The Fiscal Council's opinion and a more thorough explanatory report can be found [here](#).

nearing its potential and the labour market has stabilised, it could cause unnecessary pressure on wages and the price level, and this could then harm the competitiveness of the Estonian business sector.

Chairman of the Fiscal Council

Raul Eamets

Tallinn, 21 September 2020

APPENDIX 4. Opinion on the targets for the structural budget position for 2021-2024

Opinion

Under the state budget strategy 2021-2024, the Estonian general government fiscal deficit for this year should be 1.75 billion euros and that for 2021 should total 1.9 billion euros, or 6.6-6.7% of GDP. After this the deficit should start to narrow and the government target is that it should reach 2.5% of GDP by 2024.

The government has not set a numerical target for the size of the deficit for this year or next year, when the fiscal rules of the European Union have temporarily been suspended. As the lowest point of the recession and the most expensive measures to support the economy will both fall in 2020 according to the forecast of the Ministry of Finance, the Fiscal Council does not find any reason for the budget deficit to be deepened in 2021.

In 2022, when the economy is forecast to have returned to its level of before the crisis, the fiscal deficit will reach 1.6 billion euros or 5.4% of GDP. The Fiscal Council does not find that there is any reason for the budget deficit to exceed the 3% limit from 2022.

The Fiscal Council recommends that the government recover structural fiscal balance in 2023-2024. The structural fiscal deficit of the general government will start to narrow from 2022, but balance will not yet have been reached by 2024.

The government is planning to introduce a programme of savings worth one billion euros to improve the fiscal position after the crisis, of which half will be introduced in 2024. Unfortunately the budget strategy does not explain the measures that will be taken to achieve these cost savings, and for this reason the Fiscal Council doubts that the budget targets set for 2024 will be achieved.

The improvement in their fiscal position planned in the state budget strategy 2021-2024 is not consequently sufficient in the opinion of the Fiscal Council, and it is based partly on measures that are only starting to be decided.

The Fiscal Council believes it important that general government spending be brought in line with expected revenues in the near future, and that large-scale budget deficits to support the economy remain a crisis measure only. Using borrowed money to cover current expenses is not wise once the crisis is over nor sustainable in the long term.

Chairman of the Fiscal Council

Raul Eamets

Tallinn, 29 September 2020

¹³ The Fiscal Council's opinion and a more thorough explanatory report can be found [here](#).