**COUNCIL OF
THE EUROPEAN UNION**

**Brussels, 20 November 2013
(OR. en)**

**16541/13
ADD 1**

**ECOFIN 1039
UEM 385
EUROGROUP 17**

COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	15 November 2013
To:	Mr Uwe CORSEPIUS, Secretary-General of the Council of the European Union
No. Cion doc.:	SWD(2013) 602 final
Subject:	COMMISSION STAFF WORKING DOCUMENT Analysis of the Draft Budgetary Plan of ESTONIA Accompanying the document COMMISSION OPINION on the Draft Budgetary Plan of ESTONIA

Delegations will find attached document SWD(2013) 602 final.

This document is aimed for discussion in the **Eurogroup.**

Encl.: SWD(2013) 602 final

EUROPEAN
COMMISSION

Brussels, 15.11.2013
SWD(2013) 602 final

COMMISSION STAFF WORKING DOCUMENT

Analysis of the Draft Budgetary Plan of ESTONIA

Accompanying the document

COMMISSION OPINION

on the Draft Budgetary Plan of ESTONIA

{C(2013) 8002 final}

COMMISSION STAFF WORKING DOCUMENT

Analysis of the Draft Budgetary Plan of ESTONIA

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COMMISSION OPINION

on the Draft Budgetary Plan of ESTONIA

1. INTRODUCTION

Estonia has submitted its Draft Budgetary Plan (DBP) for 2014 on 15 October 2013 in compliance with Regulation 5EU) No 473/2013 of the Two-Pack. Estonia is subject to the preventive arm of the Pact and should preserve a sound fiscal position which ensures compliance with the medium-term objective (MTO).

Section 2 of this document presents the macroeconomic outlook underlying the Draft Budgetary Plan and provides an assessment based on the Commission Forecast. The following section presents the recent and planned fiscal developments, according to the Draft Budgetary Plan, including an analysis of risks to their achievement based on Commission Forecast. In particular, it also includes an assessment of the measures underpinning the Draft Budgetary Plan. Section 4 assesses the recent and planned fiscal developments in 2013-2014 (also taking into account the risks to their achievement) against the obligations stemming from the Stability and Growth Pact. Section 5 summarises the main conclusions of the present document.

2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

The macroeconomic forecast, which is incorporated in the 2014 Draft Budgetary Plan, was published on 2nd September and therefore does not include the revision of the National Accounts data and the latest information available now, especially on foreign trade. After an impressive rebound in 2011, Estonia's real GDP growth moderated to 3.9% in 2012, supported by robust domestic demand but held back by slower export growth. With a progressive recovery of Estonia's main trading partners expected from the second half of 2013, economic growth is projected at 1.5% in 2013. In 2014 growth is expected to accelerate to 3.6%, supported by external and internal demand.

The forecast for 2013 has been halved compared with the Stability Programme presented in spring 2013. The main reason for the significant downward revision is a lower-than-expected outcome in the first half of 2013, as real GDP growth dropped to 1.2% y-o-y owing to falling public investment and services exports. In spite of this, the forecast for 2014 has remained unchanged.

The unemployment rate has continued to fall substantially since 2011 and is projected in the Draft Budgetary Plan at just above 9% in 2013 and below 9% in 2014. Annual HICP inflation is forecast to recede from 4.2% in 2012 to 3.5% in 2013 and to decline further to 3% in 2014.

The inflation slowdown is supported by external factors, while recent wage hikes add pressure to core inflation.

The economic projections in the Draft Budgetary Plan are broadly in line with the Commission's autumn forecast but for 2014 forecast higher real GDP growth than the Commission (3.6% versus 3.0%). However, the difference between forecasts is less marked for the nominal GDP growth (6.8% versus 6.5% for 2014) as higher deflators are expected in the Commission forecast. The Commission is notably less optimistic regarding export developments as high wage increases threaten competitiveness; furthermore, increasing labour market tensions may result in even higher wage growth than expected in the Commission forecast and thus constitute a downside risk to the macroeconomic scenario.

Table 1. Comparison of macroeconomic developments and forecasts

	2012	2013			2014		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	3.9	3.0	1.5	1.3	3.6	3.6	3.0
Private consumption (% change)	4.9	3.8	3.5	4.7	3.8	4.1	3.8
Gross fixed capital formation (% change)	10.9	5.2	1.2	0.0	5.8	3.0	3.6
Exports of goods and services (% change)	5.6	4.5	6.0	0.5	6.0	6.2	4.8
Imports of goods and services (% change)	8.8	5.1	6.8	1.7	5.9	5.5	5.0
Contributions to real GDP growth:							
- Final domestic demand	5.8	3.4	2.2	2.4	3.5	2.9	2.9
- Change in inventories	-0.5	0.0	0.0	-0.1	-0.1	-0.1	0.2
- Net exports	-2.6	-0.5	-0.7	-1.1	0.1	0.7	-0.2
Output gap[1]	2.9	1.4	1.3	1.2	1.1	1.2	0.7
Employment (% change)	2.2	0.3	1.3	1.6	0.4	0.4	0.3
Unemployment rate (%)	10.2	9.1	9.3	9.3	8.3	8.3	9.0
Labour productivity (% change)	1.7	2.7	0.2	-0.3	3.2	3.2	2.7
HICP inflation (%)	4.2	3.6	3.5	3.4	2.9	3.0	2.8
GDP deflator (% change)	3.3	3.5	4.4	4.9	3.1	3.0	3.4
Comp. of employees (per head, % change)	6.0	4.9	6.0	6.7	4.9	6.2	6.9
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	0.7	2.0	2.7	0.8	1.4	2.5	0.3

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source :

Stability programme (SP); Draft Budgetary Plan (DBP); Commission services' 2013 Autumn Forecast (COM); Commission services' calculations.

Box 1: The macro economic forecast underpinning the budget in Estonia

The macroeconomic forecast underlying the Draft Budgetary Plan was prepared by the Fiscal Policy Department in the Ministry of Finance of Estonia. Although the staff preparing the forecast is part of the Ministry, and no independent body effectively endorsed the forecast, its objectivity benefits from the transparency of the forecasting process. Moreover, via seminars, independent forecasters in the Bank of Estonia (central bank) and in the private sector are involved in the elaboration of the forecasts. The joint seminars with independent forecasters have been taking place since 2008 and are expected to continue in the future.

As of 2014 it is envisaged that the Bank of Estonia will assume the function of independent fiscal supervisory body (Fiscal Council) and will be responsible inter alia for endorsing the macroeconomic forecasts of the Ministry of Finance of Estonia.

3. RECENT AND PLANNED FISCAL DEVELOPMENTS

3.1. Deficit developments

Estonia's Draft Budgetary Plan projects the general government deficit to widen to 0.6% of GDP in 2013. This is marginally higher than the 0.5% of GDP target set in the Stability Programme in spring 2013, mainly due to the rescheduling of dividend distributions from state-owned enterprises from 2013 to 2014 and 2015 decided in the Draft Budgetary Plan[1]. Disappointing economic growth in the first half of 2013 did not have a significant negative impact on tax revenue as lower real GDP growth was compensated by higher deflators. Furthermore, the corporate income tax revenue was significantly better than expected due to exceptionally high dividend distributions in the private sector, while pension expenditure was lower than projected. That said, without the government decision on the dividend distribution the outcome for 2013 would have been better than targeted in the Stability Programme. The 2013 deficit outcome in the Commission’s 2013 autumn forecast (0.4% of GDP) is slightly better than projected in the Draft Budgetary Plan mainly because some delays are foreseen for public investment projects.

The 2014 deficit target in the Draft Budgetary Plan is set at 0.4% of GDP. This is weaker than the position of nominal balance targeted in the Stability Programme[2]. The weaker base in 2013, the postponement of some one-off environmental investment projects from 2013 and higher than previously envisaged expenditure growth (mostly related to discretionary increases in investment and in the public wage bill) are behind the correction of the nominal target. The planned revenue-increasing discretionary measures and the rescheduled dividend payments by public sector companies provide a partial offset (see Section 3.3 below).

The Commission forecasts a smaller headline deficit than the Draft Budgetary Plan, of 0.1% of GDP, mainly owing to lower public investment. Risks to the fiscal target for 2014 seem balanced overall, with some positive risks reflected in the Commission forecast, but with downside risk to the macroeconomic scenario presented in the Draft Budgetary Plan. Implementation risks in view of upcoming general elections in spring 2015 are low, although it added some pressures during the 2014 budget preparation process.

1 The government reconsidered the decision on dividend distribution from the state-owned enterprises by reducing the dividend amount in 2013 and by introducing additional dividend distributions for 2014 and 2015. In total this decision has a negative effect on government revenue by 0.4% of GDP in 2013 and a positive effect of 0.3% of GDP annually in 2014 and 2015.

2 According to the authorities there is no change in the fiscal target for 2014 compared to the Stability Programme because the Draft Budgetary Plan targets a structural surplus of 0.7% of GDP, unchanged from the Stability Programme. However, the authorities’ calculation of the structural balance differs from the one used in the Commission’s assessments of the commonly agreed methodology (see footnote 3 and Section 3.3 for details).

Table 2. Composition of the budgetary adjustment

(% of GDP)	2012	2013			2014			Change: 2012-2014
	COM	SP	DBP	COM[5]	SP	DBP	COM[5]	DBP
Revenue	**39.2**	**39.4**	***37.7***	**38.2**	**37.3**	***36.7***	**37.5**	**-2.5**
of which:								
- Taxes on production and imports	13.9	14.1	*13.6*	13.4	13.8	*13.4*	13.2	-0.5
- Current taxes on income, wealth, etc.	6.8	7.1	*7.3*	7.2	7.0	*7.3*	6.8	0.5
- Capital taxes	0.0	0.0	*0.0*	0.0	0.0	*0.0*	0.0	0.0
- Social contributions	11.6	11.5	*11.3*	11.4	11.2	*11.3*	11.2	-0.3
- Other (residual)	6.9	6.7	*5.5*	6.3	5.3	*4.7*	6.2	-2.2
Expenditure	**39.5**	**39.9**	**38.3**	**38.6**	**37.3**	**37.1**	**37.6**	**-2.4**
of which:								
- Primary expenditure	39.3	39.7	38.1	38.4	37.1	36.9	37.4	-2.4
of which:								
Compensation of employees	10.5	10.6	10.4	10.5	10.3	10.2	10.5	-0.3
Intermediate consumption	7.1	7.3	7.1	7.1	7.1	6.9	6.7	-0.2
Social payments	12.8	12.9	12.7	12.7	12.7	12.5	12.7	-0.3
Subsidies	0.9	1.0	1.0	1.1	1.1	1.0	1.1	0.1
Gross fixed capital formation	5.4	5.2	5.2	4.6	3.8	4.7	4.1	-0.7
Other (residual)	2.5	2.7	1.7	2.5	2.1	1.6	2.4	-0.9
- Interest expenditure	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.0
General government balance (GGB)	**-0.2**	**-0.5**	**-0.6**	**-0.4**	**0.0**	**-0.4**	**-0.1**	**-0.2**
Primary balance	**-0.1**	**-0.4**	**-0.4**	**-0.2**	**0.1**	**-0.2**	**0.1**	**-0.1**
One-off and other temporary measures	-1.0	-0.5	-0.4	-0.3	-0.6	-0.7	-0.3	0.3
GGB excl. one-offs	**0.7**	**0.0**	**-0.2**	**-0.1**	**0.6**	**0.3**	**0.3**	**-0.4**
Output gap[1]	2.9	1.4	1.3	1.2	1.1	1.2	0.7	-1.7
Cyclically-adjusted balance[1]	-1.1	-0.9	-1.0	-0.7	-0.3	-0.7	-0.3	0.3
Structural balance (SB)[2]	**-0.1**	**-0.4**	**-0.6**	**-0.5**	**0.3**	**0.0**	**0.0**	**0.1**
Change in SB	*0.6*	*-0.5*	*-0.5*	*-0.4*	*0.7*	*0.5*	*0.5*	-
Two year average change in SB	*0.4*	*0.1*	*0.1*	*0.1*	*0.1*	*0.0*	*0.1*	-
Structural primary balance[2]	0.0	-0.2	-0.4	-0.3	0.5	0.2	0.2	0.1
Change in structural primary balance		*-0.5*	*-0.4*	*-0.4*	*0.7*	*0.5*	*0.5*	-
Expenditure benchmark								
Applicable reference rate[3]	1.01	2.3	2.3	2.3	0.85	0.85	0.85	-
Deviation[4] (% GDP)	-0.2	-0.8	-0.8	0.8	0.8	0.8	0.1	-
Two-year average deviation (% GDP)	1.0	-1.0	-1.0	0.3	0.0	0.0	0.5	-

Notes:

[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

[3] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t.The reference rates applicable to 2014 onwards have been updated in 2013.

[4] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A positive sign implies that expenditure growth exceeds the applicable reference rate.

[5] The estimate of discretionary revenue measures in the Table 4.b. of the Draft Budget Plan of Estonia excludes the incremental impact of the systemic pension reform whereas this impact is included in the Commission's estimate of discretionary revenue measures.

Source:

Stability programme (SP); Draft Budgetary Plan (DBP); Commission services' 2013 Autumn Forecast (COM); Commission services' calculations.

In 2012 Estonia had basically reached its medium-term objective for the budgetary position of a structural surplus. According to the Draft Budgetary Plan, the (recalculated) structural balance[3] is expected to deteriorate in 2013 to -0.6% of GDP, before improving to 0.0% of

[3] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the Draft Budgetary Plan, using the commonly agreed methodology. There is a discrepancy with the calculations of the structural balance presented in

GDP in 2014. The Commission autumn forecast projects a slightly stronger structural balance for 2013, which is expected to revert to balance in 2014. In both years the structural position is somewhat weaker than in the Stability Programme.

3.2. Debt developments

The government debt-to-GDP ratio will remain close to 10% in 2013-14. According to the Draft Budgetary Plan, general government debt, which is the lowest in EU, is projected to increase marginally to 10.1% of GDP in 2013, before declining to 10% of GDP in 2014; these forecasts are broadly in line with the ones presented in the Stability Programme. The slightly lower debt projection in the Commission 2013 Autumn Forecast is linked to lower deficit expectations for the years concerned. The central government is using its previously accumulated financial assets for financing its deficits. The deficit of local the governments and additional contribution to the EFSF are the main reason behind the small increase in nominal debt in 2013-14.

Table 3. Debt developments

(% of GDP)	2012	2013			2014		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**9.8**	**10.2**	**10.1**	**10.0**	**9.9**	**10.0**	**9.7**
Change in the ratio	3.8	0.4	0.3	0.1	-0.3	-0.1	-0.3
Contributions[2]:							
1. Primary balance	**0.1**	**0.4**	**0.5**	**0.2**	**-0.1**	**0.2**	**-0.1**
2. "Snow-ball" effect	**-0.2**	**-0.5**	**-0.5**	**-0.4**	**-0.5**	**-0.4**	**-0.4**
Of which:							
Interest expenditure	0.2	0.1	0.1	0.2	0.1	0.2	0.1
Growth effect	-0.2	-0.3	-0.1	-0.1	-0.3	-0.3	-0.3
Inflation effect	-0.2	-0.3	-0.4	-0.4	-0.3	-0.3	-0.3
3. Stock-flow adjustment	**4.0**	**0.5**	**0.2**	**0.4**	**0.3**	**0.1**	**0.2**
Of which:							
Cash/accruals difference		n.a.	n.a.		n.a.	n.a.	
Net accumulation of financial		n.a.	n.a.		n.a.	n.a.	
of which privatisation proceeds		n.a.	n.a.		n.a	n.a.	
Valuation effect & residual		n.a.	n.a.		n.a.	n.a.	

Notes:

[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source:

Stability programme (SP); Draft Budgetary Plan (DBP); Commission services' 2013 Autumn Forecast (COM); Commission services' calculations.

Risks related to the debt projections are low with general government deficits close to balance. Contingent liabilities are low (0.8% of GDP in 2013-14) in Estonia and mainly consist of state guarantees to the private sector. At 0% of GDP in 2012, Estonia's net debt

the Draft Budgetary Plan, mainly due to a difference in the assessment of the cyclical position of the economy between the commonly agreed methodology and the approach taken in the programme. Moreover, not all measures identified by the authorities as one-offs meet the criteria used by the Commission (see Section 3.3 for details).

level was considerably lower than gross debt. According to the authorities, the net debt level is projected to increase to 3% of GDP by 2014 as the central government's financial assets will be used for covering its negative cash flows.

3.3. Measures underpinning the Draft Budgetary Plan

The Draft Budgetary Plan presents only those discretionary measures which were announced by the government in the draft budget (See Table 4). According to the authorities, the measures have a net deficit-increasing effect of 0.4% of GDP in 2013 and a net deficit-decreasing effect of 0.7% of GDP in 2014. The main focus is on revenue measures.

Table 4. Main discretionary measures reported in the DBP

Discretionary measures taken by General Government - revenue side

Components	Budgetary impact (% GDP) (as reported by the authorities)		
	2013	**2014**	**2015**
Taxes on production and imports	n.a.	0.2	0.2
Current taxes on income, wealth, etc.	-0.1	0.1	0
Capital taxes	n.a.	n.a.	n.a.
Social contributions	n.a.	0.1	n.a.
Property Income	-0.3	0.6	0
Other	n.a.	0.1	0
Total	-0.4	1.1	0.2

Note:

The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that revenue increases as a consequence of this measure.

Source: Draft Budgetary Plan

Discretionary measures taken by General Government - expenditure side

Components	Budgetary impact (% GDP) (as reported by the authorities)		
	2013	**2014**	**2015**
Compensation of employees	n.a.	0.2	0
Intermediate consumption	n.a.	n.a.	n.a.
Social payments	n.a.	n.a.	n.a.
Interest Expenditure	n.a.	n.a.	n.a.
Subsidies	n.a.	n.a.	n.a.
Gross fixed capital formation	n.a.	0.3	-0.2
Capital transfers	n.a.	n.a.	n.a.
Other	n.a.	-0.1	-0.1
Total	n.a.	0.4	-0.3

Note:

The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that expenditure increases as a consequence of this measure.

Source: Draft Budgetary Plan

On the revenue side the total incremental effect of discretionary measures decided in the context of the Draft Budgetary Plan is -0.4% of GDP in 2013 and +1.1% of GDP in 2014. The government decided to reschedule the dividend distribution from state-owned enterprises from 2013 to 2014 and 2015 (see footnote 1). It plans to implement measures to improve tax collection and combat the shadow economy by introducing registries for employees and by imposing more detailed VAT declaration data. In addition , tax exemptions related to the use of company passenger cars for private purposes will be limited, with VAT deductibility reduced to 50% with a ceiling of EUR 2000. Adequate control by the Tax and Customs Board is essential to guarantee that the tax-enhancing measures yield the expected effect.

On the expenditure side the total incremental (deficit-increasing) effect of discretionary measures decided in the context of the Draft Budgetary Plan is 0.4% of GDP in 2014. These measures mostly consist of non-recurrent investment projects and exceptional wage increases for public sector employees.

The Draft Budgetary Plan reports one-off measures amounting to -0.4% of GDP in 2013 and to -0.7% of GDP in 2014. However, not all these measures meet the criteria used by the Commission for one-offs. This concerns namely capital injections into the state-owned national airline company in financial difficulties in 2013-14 and a temporary increase in the second pillar pension contributions in 2014-17. After excluding these measures, the overall impact of one-off measures amounts to -0.3% of GDP both in 2013 and 2014.

Estonia’s headline budget deficit is affected by the systemic pension reform. Estonia has gradually restored second pillar pension fund contributions over 2011-13 period. These contributions had been temporarily suspended during the crisis years. The incremental effect of the restoration of the second pillar pension fund contributions was an increase in the deficit by 0.4% of GDP in both 2011 and 2012 and an additional 0.1% of GDP in 2013. Moreover, a compensation mechanism will be launched for 2014-2017 to offset the negative effect from the suspension. This will have a further incremental effect of 0.3% of GDP in 2014.

4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

Box 2. Council recommendations addressed to Estonia

On 9 July, the Council addressed recommendations to Estonia in the context of the European Semester. In particular, in the area of public finances the Council recommended to Estonia to:

“pursue a growth-friendly fiscal policy and preserve a sound fiscal position as envisaged, ensuring compliance with the medium-term budgetary objective over the programme horizon. Complement the planned budget rule with more binding multi-annual expenditure rules within the medium-term budgetary framework and continue enhancing the efficiency of public spending”.

4.1. Compliance with the MTO

With a marginal structural deficit estimated at -0.1% of GDP, Estonia had basically reached its MTO of a structural surplus in 2012. The MTO more than adequately reflects the objectives of the Pact.

The (recalculated) structural position is expected to worsen in 2013 by 0.5 pp. of GDP according to the Draft Budgetary Plan and by 0.4 pp. of GDP according to the Commission 2013 Autumn Forecast. The worsening is mainly caused by the postponement of the dividend distribution from state-owned companies from 2013 to 2014 and 2015 which was announced in the Draft Budgetary Plan. The growth rate of government expenditure, net of discretionary revenue measures, is projected to exceed the reference medium-term rate of potential GDP growth of 2.3%, according to the Commission forecast, contributing to the worsening of the structural balance. The conclusion is different under the Draft Budgetary Plan scenario, because of a smaller impact from discretionary revenue measures in the Commission forecast, but also reflecting the volatility of public investment. According to the Commission forecast, the excess of expenditure growth over the medium term growth rate of potential GDP is expected to contribute to a deterioration of the structural balance in excess of 0.5 pp. of GDP and is therefore significant. In addition, it may contribute to a significant deviation when repeated in 2014.

In 2014, the (recalculated) structural balance is reverting to the MTO according to both the Draft Budgetary Plan and the Commission forecast. At face value, the (recalculated) structural position presented in the Draft Budgetary Plan is improving by 0.5% of GDP and is expected to reach a balance in 2014. However, the authorities exclude one-off measures from the nominal balance which do not meet the criteria used by the Commission for one-offs (see Section 3.3). In spite of this, the improvement in the structural position and a balanced position in 2014 is confirmed by the Commission 2013 Autumn Forecast. According to the information provided in the Draft Budgetary Plan, the growth rate of government expenditure, net of discretionary revenue measures, in 2014 is not expected to contribute to an annual structural adjustment towards the MTO by 0.5% of GDP. This is because the growth rate of this expenditure is above 0.9%, the lower rate under the expenditure benchmark. This is confirmed by the Commission forecast. However, this is not expected to undermine the achievement of the MTO in 2014, reflecting the volatility of public investment and falling usage of EU funds after the end of the 2007-13 programming period. In addition, a marked upward trend in the potential GDP growth over 2010-14 period is making the expenditure benchmark, which is based on 10-year average potential GDP growth, more restrictive.

Following an overall assessment of the Draft Budgetary Plan, with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures, after a temporary deviation from the MTO in 2013, the adjustment path towards the MTO in 2014 seems to be appropriate and compliant with the requirement of the preventive arm of the Pact. That said, the government's commitment to a further lowering of the tax burden could create pressure on the budgetary position and the continued respect of the MTO in the coming years as this would need to be offset by expenditure growth lower than potential GDP growth or by other revenue measures.

4.2. Other considerations

As recalled in Box 2, Estonia was recommended to improve the setup of the fiscal framework by introducing a budget balance rule and by strenthening the binding nature of multi-annual expenditure rules. As a response to the recommendation and to the need to transpose the Fiscal Compact into the national legislation, Estonia's government adopted the new State Budget Act (SBA), which introduces a (structural) budget balance rule for the general government. The SBA is envisaged to take effect on 1 January 2014.

However, the binding nature of the expenditure ceilings in the medium-term budgetary framework and/or to introducing multi-annual expenditure rules has not yet been strengthened. Although the new SBA stipulates that expenditure ceilings will be put in place in the medium-term state budget strategy for the next four years, it contains no provisions on making them binding. Similarly to the current situation, expenditure ceilings set in the budget strategy are the starting point for the following year's state budget, but they can be revised during the state budget preparation process. Moreover, the expenditure limits can also be revised in the following year's update of the budget strategy.

A specific section of the Draft Budgetary Plan makes an explicit reference to every structural country-specific recommendation issued by the Council in the context of the 2013 European Semester, giving details on a number of measures of direct relevance that will be financed in the 2014 budget. A number of measures aim to improve incentives to work and ensure more effective social benefit provision, enhance the quality of the education and training systems, tackle the low energy efficiency of the economy and foster access to quality local services. Finally, although not highlighted specifically in the Draft Budgetary Plan, the planned limitations on VAT exemptions for company cars are expected to help address somewhat the Council recommendation aimed to improve energy efficiency in transport and strengthen environmental incentives concerning vehicles.

5. SUMMARY

Following an overall analysis of the Draft Budgetary Plan, with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures, a temporary deviation from the MTO in 2013 is expected to be corrected by 2014. However, the adoption of deficit-increasing measures in the course of the 2013 budget year increases the risk of a significant deviation from the MTO this year. Moreover, the tax-enhancing measures implemented in the 2014 budget depend on close monitoring in order to deliver the intended yields.

Regarding the fiscal framework, the (structural) budget balance rule is expected to be adopted before the end of the 2013. However, the binding nature of expenditure ceilings in the medium-term budgetary framework and/or to introducing multi-annual expenditure rules has not yet been strengthened.