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COVER NOTE

From:	Matti Maasikas, Permanent Representative, Permanent Representation of the Republic of Estonia to the European Union
date of receipt:	27 October 2015
To:	Mr Carsten PILLATH, Director General, Council of the European Union
Subject:	Estonia: Draft Budgetary Plan of Estonia, as laid down in Article 6(1) of Reg. (EU) 473/2013 on Common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the member states in the euro area

Delegations will find attached Estonia's Draft Budgetary Plan for 2016 in English.

This document is aimed for discussion in the Eurogroup.

RAHANDUS-
MINISTEERIUM

MINISTRY of FINANCE of the REPUBLIC of ESTONIA

2016 Draft Budgetary Plan of Estonia

Tallinn, 15 October 2015

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Introduction

According to the European Parliament and Council Regulation (EU) No 473/2013 entered into force on 30 May 2013 about the common rules of monitoring and evaluation of Member States budget plans and ensuring the correction of their excessive deficit (EU OJ L 140, 27.05.2013) all euro area Member States must submit next year's draft budgetary plans (DBP) by 15 October.

Preparation and assessment of budgetary plans in autumn is an additional step in a framework of coordinated surveillance, which already included presenting and assessing the Stability Programmes by the Council and the Commission in spring. This contributes to coordination of policies between the euro area member states and ensures that the recommendations of the Council and of the Commission are taken into account accordingly in the budgetary processes of the member states. The information provided in the DBP should allow identifying possible discrepancies of the budgetary strategy from the one presented in the last Stability Programme.

The State Budget Strategy for the next four years along with the Stability Programme was approved by the Government on 21 May 2015. **The draft 2016 State Budget with explanatory memorandum was approved on 28 September in the meeting of the Government and was given for proceeding to Parliament on 29 September.**

The draft 2016 State Budget of the Republic of Estonia is based on State Budget Strategy 2016–2019, The Government's Action Programme and The European Commission and the Council recommendations[1] (given according to the Stability Programme and Estonia's 2020 Competitiveness plan) and designed activities according to these. In the formulation of the budgetary policy, the Stability and Growth Pact requirements on the budgetary policy of the EU Member States is being respected.

In compliance with the State Budget Strategy the structurally adjusted budgetary position of general government will be in surplus (0.6% of GDP) in 2016. Thus Estonia holds its MTO set in 2007 – a structural surplus.

[1] Estonia's country-specific recommendations shortly:
(1) Avoid deviating from the medium-term budgetary objective.
(2) Improve work incentives and improve services provided at local level.
(3) Better match of education with the labour market needs and improve the efficiency of publicly funded research and development.
More detailed country-specific recommendations and accompanying analysis can be found from European Commission's website: http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm
Activities to comply with the recommendations of European Commission are published annually: https://riigikantselei.ee/en/supporting-government/national-reform-programme-estonia-2020.

1. Macroeconomic forecast

The Draft of State Budget 2016 of the Republic of Estonia is based on the summer forecast of the Ministry of Finance (MoF), published on 16 September 2015. External assumptions of the forecast were fixed in the beginning of September 2015. Economic forecasts of the Ministry of Finance are public and can be found from the web page of the ministry (http://www.fin.ee/economic-policy).

Economic sentiment in the EU has continued on an upward trend since spring, when the previous MoF forecast was published, therefore confirming that the recovery from the crisis has finally kept momentum. Nevertheless, in Estonia the decline in economic sentiment has been relatively widespread, with this Estonia diverts from our closest neighbours and from the general trends in the EU. Despite the positive signs of recovery in the EU, unemployment remains high (except in Germany), weighing on Europe – the ongoing recession in Europe has not ended according to expert opinion. Demand for Estonia's has been subdued due to worsened economic climate in our trade partners, in particular the continuing stagnation in Finland and deepening recession in Russia. Economic growth in recent years has been consumption-led and supported by strong wage income growth. Stable or even falling consumer prices due to falling energy and food prices have increased purchasing power of households. Labour market situation keeps improving, although this is partially due to statistical effect from employees' registry since mid-2014 that has reduced undeclared work. Wage growth deceleration has been smaller than decline in nominal GDP growth rate, which has resulted in falling profitability of companies. Investment activity of companies remains low due to low demand, declining sentiment and lingering excess production capacity.

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According to the main scenario **Estonia's GDP** will grow by 1.7% in 2015 and 2.6% in 2016. By 2017, we expect growth to pick up to 3.4%, after which the growth rate declines to around 3% due to the closure of output gap and reducing number of employees. The Ministry of Finance has cut GDP forecast of this year compared with spring forecast mainly due to weaker than expected growth of the main trading partners. Growth forecast for the following years has remained broadly unchanged. This year export is projected to fall by 0.5%, while the growth recovers in 2016 and is set to increase in the following years in line with developments in export markets. Domestic demand remains the main growth driver as private consumption is expected to be supported by recovering investments from 2016 onwards. In 2018-19 Estonia's economy is forecast to grow 3%, supported both by export and domestic demand.

Domestic demand growth in 2015 is mainly supported by private consumption, although its' contribution is expected to decline markedly. In 2015, wage income growth remains lower than a year ago as average wage growth slows down and the number of employed persons grows moderately. Reductions in the tax wedge on labour combined with deflating consumer prices result in robust real net income growth. Consumer sentiment has remained high due to positive labour market developments, although it might weaken again as fear for unemployment has increased during the year. In 2016, due to decelerating wage growth, declining employment and resuming inflationary environment, households' aggregated real wage income growth is set to decelerate markedly. As a result of this, **private consumption** growth reduces from 5% in 2015 to 2.8% in 2016 and remains at that level in the following years.

Both public and corporate sectors contributed to falling **investment** volumes in 2014 and developments in the first half of this year show that investment growth is not expected to recur in 2015. While falling investment volumes in the energy sector were the main driver of investment, it is now much more widespread between activities. Public investment started to grow again in 2015, and it is expected to have a positive contribution to growth in coming years due to launching of the next EU programme period. Strong housing investment growth is forecast to continue in 2015 and the following years. In 2015 as a whole, investment is expected to contract by 2%, while at least 4% growth rate is foreseen in the following years due to considerable recovery in export markets.

Strengthening of the economic recovery in the euro-zone only partly compensates declining demand from the eastern market. Outlook for goods **export** in 2015 in the second half of the year is undermined by contracting new orders for communication equipment, which have a significant share in total export. Services export is not expected to grow this year as export of transport and travel services remains weak. In 2015 as a whole, export of goods and services is forecast to decline by 0.5%. Foreign demand is expected to rebound as of 2016 due to strengthening global growth and ending recession in Russia. Export growth is picking up in line with increasing foreign demand, reaching 3.5% in 2016 and stabilising around 5.5% at the end of the forecast horizon. Import of goods and services declines by 1.5% in 2015, while it is forecast to grow by 4% in 2016 due to recovering investment activity and increasing intermediate inputs for export.

Current account surplus is projected to increase to 2.4% of GDP in 2015 as a result of low investment activity and exceptional dividend distribution of foreign companies. In the following years current account surplus is forecast to decline somewhat because of rebounding investment and increasing profitability of foreign investors.

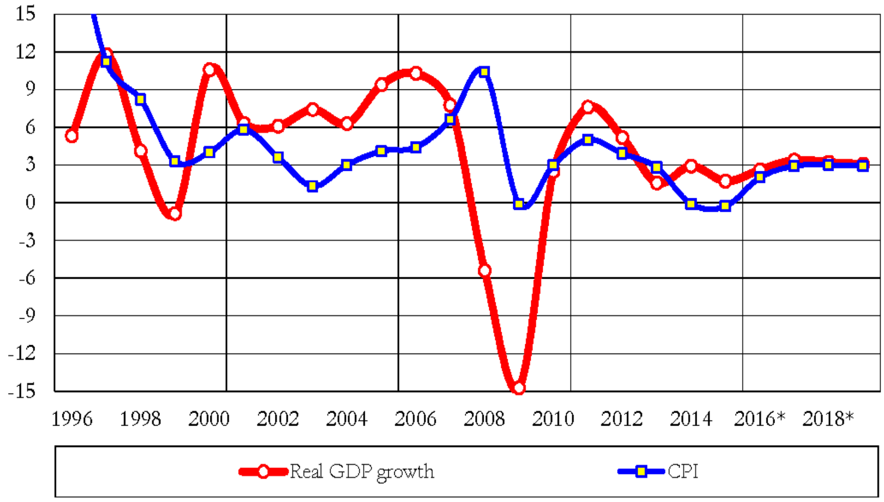
Due to low energy prices **consumer prices** are expected to decline by 0.3% in 2015. Recovery of inflation is expected at the end of the year as a result of low comparison base in 2014, when oil prices were falling rapidly and food prices were at its low. Increases of alcohol prices in early 2015 add inflationary pressures. Services prices are restrained by free higher education, which now covers all three years of bachelor’s level higher education. In 2016 inflation is expected to rebound to 2.0% due to receding negative impact of foreign factors and increasing impact from domestic factors. Declines in motor fuel and electricity prices will fade while gas and heating prices for households continue falling. In 2017 inflation is forecast to pick up to 2.9% as a result of accelerating services price increases due to increasing wage growth and rising food and energy prices. In coming years the role of indirect tax increases is expected to grow, inflationary effect peaks in 2017 when tax increases add 0.9 percentage points to consumer price inflation.

Labour market situation is getting tighter and falling unemployment combined with declining working age population create excess wage pressures. Labour participation and employment rates are at their historical highs, therefore prospects for further employment increases are modest. In 2015 as a whole employment is still expected to grow, although this statistical effect is partially explained by compulsory registration of employees since July 2014, which in addition to tax office data is also picked up by other labour market data sources. Employment is forecast to increase by 1% in 2015, before it starts to decline up to 0.5% per annum. Labour market developments are strongly affected by Work Ability Reform, which starts in mid-2016 and helps people with partial work ability to return to the labour market. It is assumed that remained skills of the people, who are being activated by the reform, are not in line with the labour market needs and employers’ capability to hire such people is low, resulting in increasing unemployment as of 2017. Positive effects from the Work Ability Reform via increased labour supply are expected to gradually increase in time. Wage growth has not sufficiently reacted to a slowdown in nominal GDP growth rates, resulting in increasing labour market imbalances and pushing companies’ profitability below its normal level. Therefore some adjustment in wage growth is expected in 2016. As a result of recovered foreign demand, wage growth starts gradually increasing again in 2017. Cuts in labour taxes help to restore normal wage cost to GDP ratio.

Figure 1

Estonia's economic growth and the change of consumer price index

(per cent)

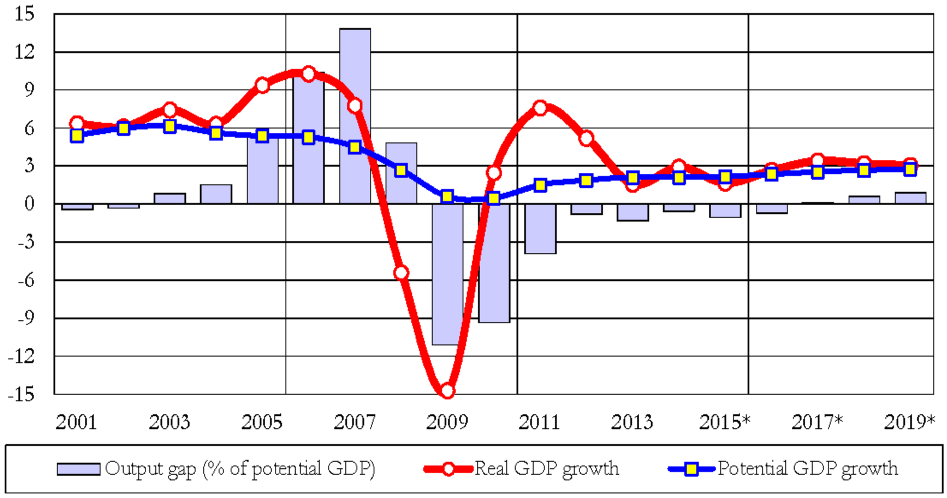


Source: Statistics Estonia, Ministry of Finance.

Figure 2

Development of potential GDP and output gap

(per cent)



Source: Statistics Estonia, Ministry of Finance.

Table 0.i) Basic assumptions

	2014	2015*	2016*
Short-term interest rate (annual average)	0.2	0.0	0.0
Long-term interest rate (annual average)	1.2	0.6	0.8
USD/€ exchange rate (annual average)	0.754	0.896	0.890
Nominal effective exchange rate	1.5	-1.6	0.0
World excluding EU, GDP growth	3.8	3.4	4.0
EU GDP growth	1.3	1.8	2.0
Growth of relevant foreign markets	1.2	0.8	1.6
World import volumes, excluding EU	1.9	2.8	4.0
Oil prices (Brent, USD/barrel)	99.0	54.1	54.8

Source: Ministry of Finance.

Table 1.a. Macroeconomic prospects

	ESA code	2014 Level	2014 rate of change	2015* rate of change	2016* rate of change
1. Real GDP	B1*g	17 408,0	2,9	1,7	2,6
of which					
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth (1/)		–	–	–	–
2. Potential GDP			2.1	2.1	2.3
contributions:					
- labour			1.3	1.2	1.2
- capital			0.1	0.0	-0.1
- total factor productivity			0.7	0.9	1.2
3. Nominal GDP	B1*g	19,962.7	5.0	3.1	5.5
Components of real GDP					
4. Private final consumption expenditure	P.3	8,948.0	3.3	5.0	2.8
5. Government final consumption expenditure	P.3	3,249.4	3.0	1.4	1.5
6. Gross fixed capital formation	P.51	4,483.1	-3.1	-2.0	4.0
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	560.3	2.7	1.1	1.2
8. Exports of goods and services	P.6	15,534.5	1.8	-0.5	3.5
9. Imports of goods and services	P.7	15,226.0	1.4	-1.5	4.0
Contributions to real GDP growth					
10. Final domestic demand			1.5	2.4	2.8
11. Changes in inventories and net acquisition of valuables	P.52 + P.53		2.4	-1.5	0.1
12. External balance of goods and services	B.11		0.4	0.7	-0.2

1/ Implementation of budgetary measures were decided after the completion of macroeconomic forecast and therefore their impact on economic growth is not included in the forecast.

Source: Statistics Estonia, Ministry of Finance.

Table 1.b. Price developments

	ESA code	2014 *level 2010=100*	2014 rate of change	2015* rate of change	2016* rate of change
1. GDP deflator		114.7	2.0	1.4	2.8
2. Private consumption deflator		113.6	0.8	0.1	2.2
3. HICP		113.6	0.5	0.2	2.3
4. Public consumption deflator		117.8	4.2	3.5	3.9
5. Investment deflator		112.4	0.8	3.3	2.3
6. Export price deflator (goods and services)		107.8	-0.3	-1.1	0.6
7. Import price deflator (goods and services)		105.5	-1.4	-1.2	0.4

Source: Statistics Estonia, Ministry of Finance.

Table 1.c. Labour market developments

	ESA code	2014 *Level*	2014 *rate of change*	2015* *rate of change*	2016* *rate of change*
1. Employment, persons		624.8	0.6	1.0	-0.6
2. Employment, hours worked					
3. Unemployment rate (%)		49.6	7.4	6.5	6.3
4. Labour productivity, (real GDP per employed person)		27,861	2.3	0.6	3.2
5. Labour productivity, hours worked					
6. Compensation of employees	D.1	9,218.1	6.9	5.5	4.4
7. Compensation per employee		14,753	6.3	4.5	5.0

Source: Statistics Estonia, Ministry of Finance.

Table 1.d. Sectoral balances

	ESA code	2014 *% of GDP*	2015* *% of GDP*	2016* *% of GDP*
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	2.1	5.0	3.7
of which:				
- balance on goods and services		3.4	4.1	3.8
- balance of primary incomes and secondary incomes		-2.4	-1.7	-2.3
- capital account		1.1	2.6	2.2
2. Net lending/net borrowing of the private sector	B.9			
3. Net lending/net borrowing of general government	B.9	0.8	0.0	-0.1
4. Statistical discrepancy		-0.6	-	-

Source: Statistics Estonia, Ministry of Finance.

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Economic forecast of the Ministry of Finance is prepared by analysts from the Fiscal Policy Department, who belong to personnel of the Ministry. The objectivity and independence of the forecast is assured through the transparency of forecast process, the involvement of different external economists and through continuous comparison of forecasting results. A preliminary version of the forecast will be discussed with the forecasting team of Bank of Estonia. Before finalisation of the forecast of the Ministry of Finance, its main assumptions and results will be discussed in a joint seminar with different forecasters in Estonia, who belong to the central bank, commercial banks and other institutions dealing with economic analysis. There are approximately ten institutions taking part from this seminar. In addition, different comparative tables and figures with the outcome of different independent forecasters can be found from the document of Ministry's economic forecast. On the basis of this it is easy to be convinced of systematical inducement by some forecasters.

Changes to the framework of co-ordination of economic and fiscal policies of EU Member States provide the creation of independent fiscal councils in all euro area member states, which monitor the accordance of fiscal policy to fiscal rules and assess the need to use the correction mechanisms implemented in the framework. Estonia's Fiscal Council, which is attached to the Central Bank, was established in 2014. According to the Treaty of the Fiscal Council, it must provide an assessment of government's economic and fiscal forecast, medium-term budgetary strategy and of achievement of the structural budget balance objective.

The opinion of the Fiscal Council on the summer 2015 economic forecast of the Ministry of Finance on 29.09.2015 says:[2]

- „The view of the new macro forecast from the Ministry of Finance on economic growth is similar to that of other assessments issued in the past couple of months by Estonian and foreign experts, which are based on the expectation that foreign demand for Estonian goods and services will increase next year. Given this assumption, the updated macro forecast gives an adequate picture of the outlook for the Estonian economy and the options for the state budget for next year. The danger remains however, that expectations of faster growth in Europe may be unfulfilled and the exporting sector may prove unable to support the Estonian economy as well as expected."
- „Given the risks related to the assumptions used by the Ministry of Finance, and the possibility that the Estonian economy is currently running at above its potential, the Fiscal Council finds that budgets for the years ahead should be written with a small surplus."

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In the following, there are pointed out most relevant differences between Ministry of Finance's 2015 summer forecast and other institutions latest public macroeconomic forecasts. Comparing them, one should keep in mind that forecasts are compiled in different periods and therefore based on different information, which causes variations in assumptions and results of the forecasts. As the foreign environment (geopolitical risks, commodity prices, euro exchange rate) is uncertain, then one should consider the assumptions of that time while estimating earlier forecasts.

During the last half years, the growth expectations of the institutions for 2015 have been converged near 2%. However there are some exceptions. The differences in the forecasts are partly coming from the fact that if the forecast is taking into account the detailed statistics of Q2 and the revision of time series, where previous year GDP level and growth rate were risen markedly. Latest forecasts have been cut. Ministry of Finance's summer forecast for 2015 is conservative, staying below of the range of GDP growth expectations.

For 2016, institutions expect pickup in economic growth driven by stronger foreign demand and the recovery of investments. Forecasts vary around 3%, however the trend is towards light downward revision. This is the result of the decline in economic sentiment indicators,

[2] More detailed analysis is found on the web page of the Fiscal Council: http://eelarvenoukogu.ee/files/Opinion%20Summer%20Forecast%202015.pdf.

where Estonia differs from trends in EU and close neighbours as well, who has been hit by the same foreign shocks. Ministry of Finance expects economic growth to pick up to 2.6%, which is comparable to the latest conservative forecasts of other institutions.

Table 1.e. Comparison of economic forecasts

	Real GDP growth, %			Nominal GDP growth, %		
	2015*	2016*	2017*	2015*	2016*	2017*
Ministry of Finance	**1.7**	**2.6**	**3.4**	**3.1**	**5.5**	**6.4**
European Commission	2.3	2.9	–	4.0**	5.8**	–
Bank of Estonia	2.2	3.1	3.6	4.8**	6.3**	6.8**
IMF	2.0	2.9	3.0	3.3	5.1	5.6
OECD	2.1	3.3	–	3.2	5.3	–
SEB	1.9	2.7	3.4	–	–	–
Swedbank	1.9	2.8	2.8	4.6**	5.4**	5.6**
Nordea	2.0	3.0	3.2	–	–	–
DNB	1.5	2.5	3.5	–	–	–
Consensus Forecasts	1.9	2.9	–	–	–	–
Estonian Institute of Economic Research	2.0	–	–	5.1**	–	–

	Consumer price index, % (in brackets Harmonised Consumer Price Index)			General government position, % of GDP		
	2015*	2016*	2017*	2015*	2016*	2017*
Ministry of Finance	**-0.3 (0.2*)**	**2.0 (2.3*)**	**2.9 (3.1*)**	**0.0**	**-0.1**	**0.1**
European Commission	0.2*	1.9*	–	-0.2	-0.1	–
Bank of Estonia	0.0 (0.5*)	2.6 (2.8*)	2.7 (3.0*)	-0.1	-0.1	-0.2
IMF	0.2*	1.6*	2.0*	-0.7	-0.5	-0.5
OECD	0.1*	1.8*	–	0.4	0.6	–
SEB	0.5*	2.3*	2.7*	–	–	–
Swedbank	-0.2	1.9	2.5	-0.5	-0.2	-0.1
Nordea	-0.1	2.0	2.5	-0.3	-0.3	-0.2
DNB	0.0*	1.7*	2.2*	–	–	–
Consensus Forecasts	0.0	1.8	–	–	–	–
Estonian Institute of Economic Research	0.2	–	–	–	–	–

* Harmonised Consumer Price Index.
** calculated from the forecast of nominal GDP volume.

Sources:
Ministry of Finance Economic Forecast. Summer 2015. 16.09.2015.
European Commission. European Economic Forecast. Spring 2015. 5.05.2015.
IMF. World Economic Outlook. No 97. June 2015, 03.06.2015.
OECD Economic Outlook. No 97. June 2015, 03.06.2015.
Bank of Estonia. Monetary policy and economy. 10.06.2015.
Estonian Institute of Economic Research. Konjunktuur No 2 (193) 2015. 17.06.2015.
SEB. Eastern European Outlook. October 2015. 07.10.2015.
Swedbank. Swedbank Economic Outlook, August 2015. 24.08.2015.
Nordea. Economic Outlook. 02.09.2015.
DNB. Economic Outlook. 03.09.2015.
Eastern Europe Consensus Forecasts. 14.09.2015.

2. Budgetary targets

The Governments medium-term objective (MTO) is the general government structural surplus. Since 2009, after the global economic crisis the budgetary position of general government has been in structural surplus and the MTO is therefore met.

In 2015 the structurally adjusted budgetary position of general government will remain in considerable surplus (1.0 % of GDP), mainly due to good tax receipts. The general goal of fiscal policy is to preserve neutral or countercyclical budget policy, however, until the correction of the nominal deficit incurred during the crisis, the government intends to implement fiscal policy stricter than economic cycle requires. For coming years the structurally adjusted budgetary position will remain in surplus. **In 2016, the structurally adjusted budgetary position of general government will be in surplus 0.6% of GDP, which is in compliance with targeted outcome set by State Budget Strategy.** Structural surplus indicates that there are no sustainability problems in state budget and the next year nominal deficit is caused by temporary factors. **Thus Estonia holds its MTO set in 2007 – the structural surplus.**

According to Statistics Estonia the budgetary position of the general government was again in surplus in 2014, which amounted 0.8% of GDP or 150 million Euros. The central government was in a surplus of 0.5% of GDP and social security funds 0.3% of GDP, local governments ended the year with a deficit of 3 million Euros (0.01% of GDP). The surplus was achieved due to better than forecasted tax receipts, primarily from corporate income tax and social tax. Also lower than expected investments contributed to surplus. Improved tax collection also reduced the deficit of local governments. The result of social security funds ultimately met the expectations. Unemployment insurance benefits were lower than expected, but the health insurance costs were higher than expected by similar amount.

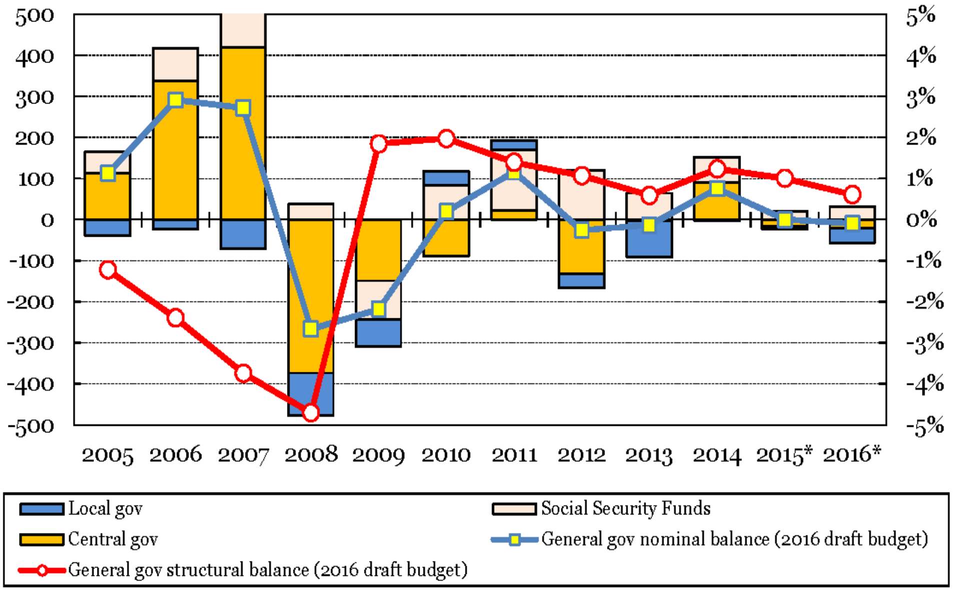
According to the forecast in draft State Budget for 2016, the general government nominal budget will be in balance in 2015. The deficit of central government and local governments will be offset by the surplus of the Unemployment Insurance Fund. For 2016 the draft budget foresees the general government nominal deficit of 0.1% of GDP.

In 2014 general government debt increased to 10.4% of GDP, amounting to 2 071 million Euros. The main reasons for the increase was an increase in loans issued by the European Financial Stability Fund (EFSF) and the increase of debt of local governments. As according to the forecast there is no need to take new loans in 2015-2016, the debt burden is reduced by the end of 2016 to 9.6% of GDP.

Figure 3

General government budgetary position

(% of GDP)

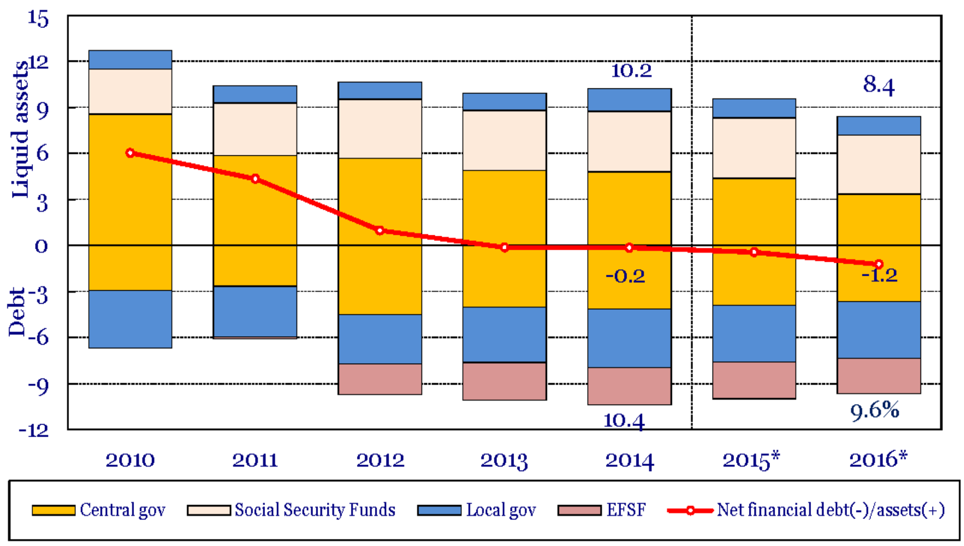


Source: Statistics Estonia, Ministry of Finance.

Figure 4

General government liquid financial assets, gross debt and net financial debt

(% of GDP)

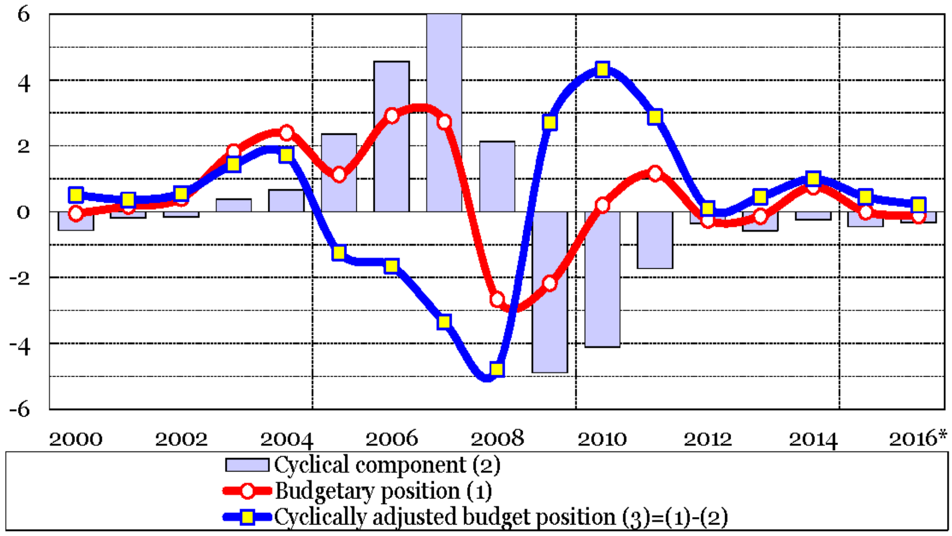


Source: Statistics Estonia, Ministry of Finance.

Figure 5

General government cyclically adjusted budgetary position

(% of GDP)

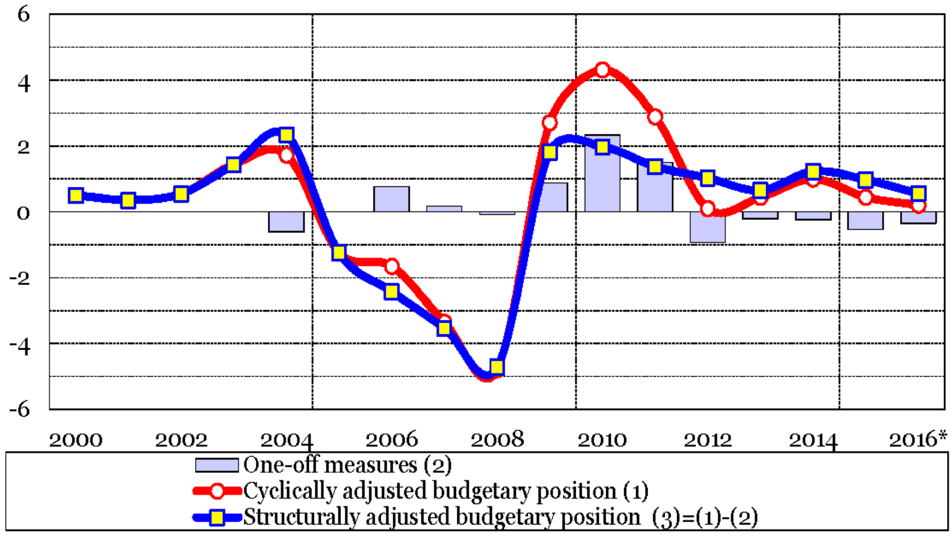


Source: Statistics Estonia, Ministry of Finance.

Figure 6

General government structurally adjusted budgetary position

(% of GDP)



Source: Ministry of Finance.

Table 2.a. Budgetary position objective of the general government by sub-sector

	ESA Code	2015 (1/)	2016*
		% of GDP	*% of GDP*
Net lending (+) / net borrowing (-) (B.9) by sub-sector			
1. General government	S.13	0.0	-0.1
2. Central government	S.1311	-0.1	-0.1
3. State government	S.1312	-	-
4. Local government	S.1313	0.0	-0.2
5. Social security funds	S.1314	0.1	0.1
6. Interest expenditure	D.41	0.1	0.1
7. Primary balance[3]		0.1	0.0
8. One-off and other temporary measures[4]		-0.5	-0.3
9. Real GDP growth (%) (=1. in Table 1a)		1.7	2.6
10. Potential GDP growth (%) (=2 in Table 1.a)		2.1	2.3
contributions:			
- labour		1.2	1.2
- capital		0.0	-0.1
- total factor productivity		0.9	1.2
11. Output gap (% of potential GDP)		-1.0	-0.7
12. Cyclical budgetary component (% of potential GDP)		-0.5	-0.3
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		0.4	0.2
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		0.5	0.3
15. Structural balance (13 - 8) (% of potential GDP)		1.0	0.6

1/ According to State Budget Draft 2016.
2/ TR-TE= B.9.
3/ The primary balance is calculated as (B.9, item 1) plus (D.41, item 6).
4/ A plus sign means deficit-reducing one-off measures.

Source: Ministry of Finance.

Table 2.b. General government debt developments

	ESA code	2015*	2016*
		% of GDP	*% of GDP*
1. Gross debt [3]		10.0	9.6
2. Change in gross debt ratio		-0.4	-0.4
Contributions to changes in gross debt			
3. Primary balance (=item 10 in table 2.a.i))		0.1	0.0
4. Interest expenditure	D.41	0.1	0.1
5. Stock-flow adjustment		-0.1	0.0
of which:			
- Differences between cash and accruals		-	-
- Net accumulation of financial assets		-	-
of which:			
- privatisation proceeds		-	-
- Valuation effects and other		-	-
p.m.: Implicit interest rate on debt (1/)		1.0	1.1
Other relevant variables			
6. Liquid financial assets (2/)		9.5	8.4
7. Net financial debt (7=1-6)		0.4	1.2
8. Debt amortization (existing bonds) since the end of the previous year [4]		0.1	0.1
9. Percentage of debt denominated in foreign currency		0.0	0.0
10.Average maturity[5]		5.2	4.3

1/ Proxied by interest expenditure divided by the debt level of the previous year.
2/ Liquid assets are here defined as AF.1, AF.2, AF.3 (consolidated for general government, i.e. netting out financial positions between government entities), A.F511, AF.52 (only if quoted in stock exchange).

Source: Ministry of Finance.

Table 2.c. Contingent liabilities

	2015*	2016*
	% of GDP	*% of GDP*
Public guarantees	1.5	1.5
Of which: linked to the financial sector	0.0	0.0

Source: Ministry of Finance.

[3] Forecast before Statistics Estonia published new general government debt data in September 2014. Forecast and explanatory note of the budget will be updated according to new time series by the end of year 2014 or at the beginning of year 2015.
[4] Central govenment borrowing without foundations and legal persons governed by public law.
[5] Central government without foundations and legal persons governed by public law.

3. Revenue and Expenditure Projections under a no-policy change scenario

Summer forecast (Table 3) differs from the Stability Programme forecast partly because of general government total revenue in 2015 changed due to revision of 2014 data, which affected also the level of total expenditure. Indicators as percentage of GDP are not comparable as the summer forecast is calculated with the GDP time series revised on 8.09.2015.

Table 3. General government expenditure and revenue projections at unchanged policies broken down by main components

General Government (S13)	ESA Code	2015*	2016*
		% of GDP	*% of GDP*
1. Total revenue at unchanged policies	TR	40.3	38.6
of which			
1.1. Taxes on production and imports	D.2	14.4	14.8
1.2. Current taxes on income, wealth, etc	D.5	7.8	7.2
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	11.3	11.2
1.5. Property income	D.4	1.3	1.0
1.6. Other		5.5	4.3
p.m.: Tax burden (=D.2+D.5+D.61+D.91-D.995)		33.5	33.1
2. Total expenditure at unchanged policies	TE	39.9	38.8
of which			
2.1. Compensation of employees	D.1	10.9	10.7
2.2. Intermediate consumption	P.2	6.7	6.7
2.3. Social payments	D.62 D.632	12.9	13.0
of which Unemployment benefits		0.3	0.3
2.4. Interest expenditure (=9. in Table 2.a)	D.41	0.1	0.1
2.5. Subsidies	D.3	0.4	0.4
2.6. Gross fixes capital formation	P.51	5.5	4.8
2.7. Capital transfers	D.9	1.1	1.1
2.8. Other		2.2	2.0

Source: Ministry of Finance.

4. Expenditure and Revenue targets. General government expenditure by function

The Draft Budgetary Plan (Table 4.a) differs from summer forecast (Table 3) because of revenue and expenditure measures (Table 5.a). In 2015 revenues declined by 0.4% of GDP due to property income deferral and fuel excise increase enforcement shift, expenditures did not change. In 2016 both revenue and expenditure increased by 0.5% of GDP.

Table 4.a. General government expenditure and revenue targets, broken down by main components

General Government (S13)	ESA Code	2015*	2016*
		% of GDP	*% of GDP*
1. Total revenue target	TR	39.9	39.1
of which			
1.1. Taxes on production and imports	D.2	14.3	14.9
1.2. Current taxes on income, wealth, etc	D.5	7.7	7.4
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	11.3	11.2
1.5. Property income	D.4	1.1	1.3
1.6. Other		5.5	4.4
p.m.: Tax burden (=D.2+D.5+D.61+D.91-D.995)		33.2	33.4
2. Total expenditure target	TE	39.9	39.2
of which			
2.1. Compensation of employees	D.1	10.9	10.8
2.2. Intermediate consumption	P.2	6.7	7.1
2.3. Social payments	D.62 D.632	12.9	13.0
of which Unemployment benefits		0.3	0.3
2.4. Interest expenditure (=9. in Table 2.a)	D.41	0.1	0.1
2.5. Subsidies	D.3	0.4	0.4
2.6. Gross fixes capital formation	P.51	5.5	4.8
2.7. Capital transfers	D.9	1.1	1.1
2.8. Other		2.2	2.0

Source: Ministry of Finance.

In accordance with the SGP, the general government expenditure growth of a member state should conform to its GDP growth. This expenditure benchmark is usually the 10 year average potential GDP growth of the member state, which according to the EC forecast is 2.1% for Estonia. If the member state does not fulfil its MTO (general government surplus for Estonia) for current year, the benchmark for the next will be set at a lower level (0.9% for Estonia), which will help the member state adjust its position and fulfil its MTO.

Expenditure growth[6] in 2015 will be 1%, which is in line with the benchmark. However, in 2016 the growth will be 3.2%, which means the benchmark will be exceeded by 1.1 pp, assuming that Estonia is at its MTO. If Estonia will not be at the MTO, lower benchmark will be used, which will be exceeded by 2.3 pp. There was an increase in EU programmes spending in 2015 (Table 4.b). In 2016 they will decline. Discretionary revenue measures increased in 2014 and 2015 mainly due to excise duty rises and better VAT collection. The increase in 2016 will mainly be the result of excise rises, VAT regulation changes and dividend payments.

Table 4.b. Expenditure benchmark

	2014	2014	2015*	2016*
	level (m EUR)	*% of GDP*	*% of GDP*	*% of GDP*
1. Government expenditure on EU programmes fully matched by EU funds revenue	654.0	3.28	4.89	3.79
2. Non-discretionary change in unemployment benefit expenditure [7]	0.0	0.00	0.00	0.00
3. Discretionary revenue measures [8]	13.9	0.07	0.04	1.23
4. Mandated revenue increases	0.0	0.00	0.00	0.00

Source: Ministry of Finance.

[6] In accordance with EC methodology, real expenditure growth is used using the GDP deflator. Excluded are interest expenditure and expenditures from table 4.b, also capital formation is smoothed over time.

[7] It is assumed that unemployment is at the natural rate.

[8] The measures accounted for: lowering the income tax rate; increase of basic and pension income tax allowance; effect of worker registration requirement; changes in car related fringe benefits; government employment reduction; increase in excise duties; abolition of fuel excise reduced rate; lowering the unemployment insurance tax rate; changes in VAT regulation; income tax on dividends; state budget employee wage rise tax receipts; revenue from CO_2 emissions trading; taxation of agricultural subsidies; increase in state duties; reverse charge of precious metals and stones; changes in gambling tax regulation.

Table 4.c. General government expenditures by function

Table 4.c.i) General government expenditure on education, healthcare and employment

	2015*		2016*	
	% of GDP	*% of general government expenditure*	*% of GDP*	*% of general government expenditure*
Education	5.6	14.1	5.2	13.3
Healthcare	5.3	13.4	5.2	13.4
Employment	0.2	0.4	0.1	0.3

Table 4.c.ii) Classification of the functions of the Government

Functions of the Government	**COFOG Code**	**2015***	**2016***
		% of GDP	*% of GDP*
1. General public services	1	3.5	3.7
2. Defence	2	2.0	2.0
3. Public order and safety	3	2.0	1.9
4. Economic affairs	4	5.1	5.1
5. Environmental protection	5	0.5	0.3
6. Housing and community amenities	6	0.4	0.4
7. Health	7	5.3	5.2
8. Recreation, culture and religion	8	2.5	2.3
9. Education	9	5.6	5.2
10. Social protection	10	12.9	13.0
11. Total expenditure (=2. in Table 4.a)	**TE**	**39.9**	**39.2**

Source: Ministry of Finance.

5. Description of discretionary measures included in the draft budget

There are 11 measures that have an impact on state budget revenues and expenditures in 2016. Four of them have an impact on state budget revenues, seven of them affect state budget expenditures. All expenditure measures (total of 104.8 million Euros) are temporary in nature and they are used to cover the priority needs of the ministries.

Table 5.a. Discretionary measures taken by General Government

List of measures	Detailed description	Target (exp / rev component) ESA Code	Accounting principle	Adoption status	Budgetary impact 2015*	Budgetary impact 2016*
					% of GDP	% of GDP
1) Raising dividends and related income tax	Dividend rescheduling from 2015 to 2016, additional dividends and income tax receipt for the 2015 dividends	Revenue, D4, D5	Accrual method	Draft is not required	-0.33	0.43
2) State duty	Raising of e-residency duties	Revenue	Accrual method	Draft is not required	-	0.002
3) Rescheduling the real estate transactions	Rescheduling the sale of state owned land and buildings	Revenue	Accrual method	Draft is not required	-0.02	0.02
4) Reform of the Prosecutor's Office	Greater focus on economic crimes	Revenue	Accrual method	Draft is not required	-	0.02
5) Member fees	NATO, ERIC, Eurocontrol and other international organizations members fee	Expenditure, D7	Accrual method	Draft is not required	-	-0.01
6) Investment property	Transaction suspension	Expenditure, P51	Accrual method	Draft is not required	-	0.01
7) National Defence development plan	Different investments	Expenditure, P5	Accrual method	Draft is not required	-	-0.02
8) Government reserves	Unforeseen costs	Expenditure, P2	Accrual method	Draft is not required	-	-0.11
9) Foreign self-financing funds	National co-financing is additional support by the state, which reduces the self-financing of the project.	Expenditure, P2	Accrual method	Draft is not required	-	-0.03
10) Ministries of additional applications	Expenditure decisions for all ministries	Expenditure, P2, D75	Accrual method	Draft is not required	-	-0.21
11) Wage costs	Compensation of employees	Expenditure, D1	Accrual method	Draft is not required	-	-0.12
Total revenue measures					**-0.35**	**0.47**[9]

[9] Revenue measures have been excluded from the rise in fuel displacement to February instead of January.

Total expenditure measures	**-**	**-0.51**
TOTAL	**-0.35**	**-0.05**

Source: Ministry of Finance.

Table 5.b. Discretionary measures taken by Central Government

List of measures	Detailed description	Target (exp / rev component) ESA Code	Accounting principle	Adoption status	Budgetary impact 2015*	Budgetary impact 2016*
					% of GDP	*% of GDP*
1) Raising dividends and related income tax	Dividend rescheduling from 2015 to 2016, additional dividends and income tax receipt for the 2015 dividends	Revenue, D4, D5	Accrual method	Draft is not required	-0.33	0.43
2) State duty	Raising of e-residency duties	Revenue	Accrual method	Draft is not required	-	0.002
3) Rescheduling the real estate transactions	Rescheduling the sale of state owned land and buildings	Revenue	Accrual method	Draft is not required	-0.02	0.02
4) Reform of the Prosecutor's Office	Greater focus on economic crimes	Revenue	Accrual method	Draft is not required	-	0.02
5) Member fees	NATO, ERIC, Eurocontrol and other international organizations members fee	Expenditure, D7	Accrual method	Draft is not required	-	-0.01
6) Investment property	Transaction suspension	Expenditure, P51	Accrual method	Draft is not required	-	0.01
7) National Defence development plan	Different investments	Expenditure, P5	Accrual method	Draft is not required	-	-0.02
8) Government reserves	Unforeseen costs	Expenditure, P2	Accrual method	Draft is not required	-	-0.11
9) Foreign self-financing funds	National co-financing is additional support by the state, which reduces the self-financing of the project.	Expenditure, P2	Accrual method	Draft is not required	-	-0.03
10) Ministries of additional applications	Expenditure decisions for all ministries	Expenditure, P2, D75	Accrual method	Draft is not required	-	-0.21
11) Wage costs	Compensation of employees	Expenditure, D1	Accrual method	Draft is not required	-	-0.12
Total revenue measures					**-0.35**	**0.47**[10]

[10] Revenue measures have been excluded from the rise in fuel displacement to February instead of January.

Total expenditure measures	**-**	**-0.51**
TOTAL	**-0.35**	**-0.05**

Source: Ministry of Finance.

6. Links between the draft budgetary plan and the targets set by the Union's Strategy for growth and jobs and country specific recommendations

In this chapter information is presented on how the measures in draft budget plan take into account the country-specific recommendations (CSR) and contribute to Europe 2020 objectives for growth and jobs.

More comprehensive and detailed information on the measures implemented is available in the strategy for competitiveness "Estonia 2020" and its action plan (Estonian national reform programme).[11]

Table 6.a. Country-specific recommendations

CSR no	List of measures	Description of direct relevance
1.	a) The new state budget law enters into force	Implementation of the requirement that the structural budget position must be in balance or in surplus: According to the state budget for 2016, the structural budget position of the general government sector is in a surplus of 0.6 percent of GDP. The Fiscal Council assesses the state macroeconomic forecasts and the state financial forecasts and monitors the compliance with the budgetary rules.
2.	a) Supporting participation in labour market, incl capacity for work reform implementation	Capacity for work reform will be implemented from July 2016 and it brings wide range of labour market measures to the target group and employers, and new capacity for work evaluation system Development of social services to improve access to labour market measures (structural resource measure "providence measures supporting participation in labour market")
	b) Providing incentives to work for low wage earners	Low-income workers repayment creates an opportunity to low wage earners to have reimbursed personal income tax paid during the year. Tax-free allowance increases from 154 euros to 170 euros in a month. Human resource development programmes and open application rounds will be continued, with the goal to increase work force through labour market measures, improving labour market services accessibility and quality
	c) Decreasing gender pay gap	Gender pay gap action plan implementation continues (deadline July 2016). To lower gender pay gap Labour Inspectorate will monitor wages and benefits for same kind of job (gender equality law amendment draft will be completed in May 2016).

[11] http://ec.europa.eu/europe2020/pdf/csr2014/ap2014_estonia_en.pdf, http://ec.europa.eu/europe2020/pdf/csr2014/nrp2014_estonia_en.pdf.

		Welfare development plan, which includes gender equality measures, is prepared by January 2016.
	d) Assuring high quality welfare and childcare services	Childcare and basic education conception will be elaborated. Application round applies for 1.4M EUR to increase supply of kindergarten places and to support service offering. Local governments are paid aid for providing social benefits and services. It includes compensating costs associated with subsistence allowance and need-based family benefits. Also additional aid to increase capability in development of social services and paying benefits (incl taking care of disabled children). First and second child allowance increases from 45 euros to 50 euros from January 2016. Allowance for third and every next child is 100 euros. For a child in trusteeship or in care in family the benefit is 240 euros per month. In 2016 new public child care arrangement, which is addressed to prevent and decrease child and youth social and health risks. Families will be provided new support measures, family conciliation service is developing, parental program and child care workers supplementary training continues. Parental vacation and parental benefit system changing analysis and proposals are prepared (to increase flexibility of the system). In 2016 the alimony fund will be elaborated which is implemented from January 2017. Funds goal is to support children who`s parent doesn`t pay alimony. The alimony claim enforcement measures are improved.
3.	a) Increasing vocational education and –training participation	Financing principles of vocational education will be updated to assure quality, decrease suspending and promote vocational education. Career services (career information and councelling) will be provided to youth. To assure availability of vocational training and decrease suspending social benefits will be provided to students. Participation in international networks and international cooperation are supported.
	b) Improving education and labour market needs matching	Vocational education program will be implemented, where output based curriculum development is planned, which originates from professional standards and labour market needs. Using labour demand monitoring and forecasting system to assure more precise training requirements.
	c) Improving availability of workplace training	In order to develop apprenticeship the trainings will be organized and practice information system developed. It will improve communication between educational institution, apprentice and employer and will increase quality of apprenticeship.

		Instructions of arrangement of apprenticeship will be updated and developed. Workplace training will be enlarged and more employers will be involved.
	d) Focusing on smart specialisation fields	In the fields of smart specialisation the growth of scientists and engineers are supported by stipends. In these fields the activities of cooperation networks of enterprises and R&D institutions will be developed. Clusters, technological centres and businesses applied research will be supported.

Table 6.b. Targets set by the Union's Strategy for growth and jobs

National 2020 headline targets	List of measures	Description of direct relevance to address the target
National employment target [76%]	1. Implementation of the employment programme 2014–2015	Extending the range of service users, focusing on young people, the elderly, old-age pensioners, long-term unemployed, people with reduced capacity for work.
	2. Supporting staying in and returning to employment	Ensuring accessible and high-quality health services in order to promote staying in and returning to employment.
	3. Maintaining capacity for work	Reorganizing the systems of occupational health and safety and settlement of labour disputes.
National R&D target [3% of GDP]	1. Institutional research grants	Funding institutional research grants, targeted financing of research topics and infrastructure maintenance costs.
	2. Research agency support	Ensuring the funding of basic and applied research as well as research and development.
	3. Cooperation with the European research excellence infrastructure	Funding the cooperation agreement between the Republic of Estonia and the European Laboratory for Particle Physics (CERN).
GHG emission reduction target [6,269 thousand tons (+10% compared to 2005)] Renewable energy target [25%] National energy efficiency target [2,818 ktoe]	1. Implementation of the new National Development Plan of the Energy Sector until 2030	The objectives of the National Development Plan of the Energy Sector are: 1) to ensure energy supply in the electricity, heat, transport and housing sectors as well as in the sector of the production of domestic fuels; 2) to reduce the energy intensity of the economy (without compromising competitiveness) and increase energy efficiency; 3) to increase energy security through the development of the business environment required for energy production, infrastructure and connections.
	2. Implementing new structural funds	The focus is on increasing the use of alternative fuels in transport, the efficiency of heat production and transmission, energy conservation and the share of renewable energy.
Early leavers from education and training (age 18–24) [9,5%]	1. Reorganisation of the national school network	Continuing the programme of building and renovating upper secondary schools in county centres, including state upper secondary schools, and supporting the optimisation of the use of the premises of schools that abolish the upper secondary level and merging basic schools.

	2. Supporting schools through school meals	Free school meals provided to upper secondary pupils.
National target for tertiary education [40%]	1. Means-tested education allowance and performance scholarships	The provision of means-tested education allowance to a wider range of beneficiaries; increasing the fund of performance scholarships in higher education.
National poverty target [15%[12]]	1. Supporting families with children	The means-tested family allowance to low-income families doubles. The weight of the existence of children in granting subsistence benefits increases from 0.8 to 1.0.
	2. Pensions increase by 5.7% on average; the additional tax-free allowance is increased for pensioners	Poverty indicators are above average among old people and the average old-age pension increases from 375 to 396 Euros. Increasing the additional tax-free allowance for pensioners continues - the amount is 395 Euros per month.

[12] Relative poverty rate after social transfers.

7. Divergence from the latest Stability Programme

Estonia's 2015 Stability Programme was based on spring forecast of the Ministry of Finance, published on 13 April 2015. The 2016 State budget is based on the summer economic forecast, published on 16 September 2015.

According to the spring forecast of the Ministry of Finance economic growth for 2015 was expected to be 2.0%. During 2016–2017 we expected the growth rate to pickup to 2.8% and 3.4%, respectively. However, in the first half of 2015 GDP real growth figures were weaker than expected in the previous forecast because main export markets cut their growth outlook. Therefore economic growth forecasts for 2015-16 were lowered by 0.3% and 0.2% when compared with the spring forecast. The main reason behind this revision is weaker exports, although at the same time domestic demand will grow at smaller rate as well. Growth forecast for 2017 remained unchanged, but the structure has changed. Domestic demand's contribution to growth is increasing, but contribution from net exports is decreasing. Revisions in GDP structure and lower inflation resulted in smaller nominal GDP growth by 1.0pp. At the same time nominal GDP volume has been revised upwards by EUR 0.3 billion in 2015 and in the following years. This is caused by national accounts data revision in September 2015, according to which nominal GDP in 2014 was increased by EUR 0.4 billion.

Growth of domestic demand components is forecast to be significantly lower than expected in spring. Private consumption will be above expectations, but investment will probably decrease also in 2015 due to low aggregate demand, uncertain growth expectations and sufficient production capacity. Lower investment activity will be compensated by stronger consumption, supported by continuing decrease in consumer prices, which supports purchasing power.

Export forecast has been lowered as a result of weaker foreign demand and the weakness of export of communication equipment which constitute large share in total exports. In the second quarter export turned to be smaller than expected, in addition the outlook for coming months is weak, which is indicated by the deepening decline of export orders of communication equipment. Import forecast for 2015 has been lowered to a bigger extent, as besides smaller imports of intermediate inputs for export the investments are contracting as well. Unlike the spring forecast, the current account will remain in surplus in coming years. This is due to upward revision of previous year's current account, low investment activity and as a one-off factor the decline in foreign investor's profitability because of extra dividends.

Inflation forecast will be lower during 2015-2016 and afterwards slightly higher compared to the spring forecast. Foreign environment in conjunction to declining crude oil and food prices are behind the lowering inflation of 2015 and 2016. Decline in electricity prices will be bigger as well. Since 2017, inflation will be higher due to excise duty increases.

Labour market developments have exceeded expectations in 2015, resulting in increased imbalances. Employment growth in the first half-year has been faster than expected. A statistical effect resulting from the employees' registry, that helps to reduce undeclared work, has supported strong employment growth. These developments lead to postponement of contraction in employment to end-2015 and a 0.3pp larger decline in employment in 2016. Implementation of the Work Ability Reform from mid-2016 is behind an upward revision in employment in 2017-19. Without the reform unemployment would stabilise around 6% at the end of the forecast horizon. Wage developments have been in line with spring expectations; however, nominal GDP growth has been lower-than-expected. This would lead to a correction in 2016-17 when wage bill growth is forecast to remain below nominal GDP growth.

Purchasing power of wages has increased more than expected in 2015 due to lower inflation, but it is expected to be smaller by up to 0.8pp in the following years.

The general government budgetary position in 2015 has improved by 0.6 % of GDP to budgetary balance compared to spring forecast. Improvement is caused mainly by increased tax revenues especially due to corporate income tax influenced by extraordinary dividends from financial sector and VAT due to better than expected receipts in the first half of the year. The general government nominal deficit in 2016 has stayed at 0.1 % of GDP as in SP. Like in 2015 the general government budgetary position of 2016 is influenced by increased forecast of tax revenues. However, the lower revenue from social tax caused by weaker labour market reduces positive impact of increased VAT and fuel excise duty revenues. The budgetary position is negatively affected by the faster growth of state pension insurance costs compared to SP.

Compared to the Stability Programme, the forecast of tax burden in 2015 has increased by 0.2% to 33.2% of GDP (expectations for CIT increased due to financial sector dividends). Tax burden in 2016 has increased by 0.1% to 33.4% of GDP (expectations for CIT increased as state dividends and also CIT revenues were shifted from 2015 to 2016).

Forecast of general government debt for years 2015 and 2016 has been decreased by 0.3% of GDP in both years compared to the forecast included in the Stability Programme due to improvement of this year nominal budgetary position.

Table 7.a. Deviation from the last Stability Programme – structural budgetary balance

	ESA Code	**2014**	**2015***	**2016***
		% of GDP	*% of GDP*	*% of GDP*
General government structural balance (1/) target	B.9			
Stability Programme		0,7	0,2	0,6
Draft Budgetary Plan		1,2	0,8	0,6
Difference		0,5	0,6	0,0
General government structural balance projection at unchanged policies	B.9		B.9	
Stability Programme		0,7	0,2	0,6
Draft Budgetary Plan		1,2	1,4	0,5
Difference		0,5	1,2	-0,1

1/ Budgetary position is targeted by structural balance.
Source: Statistics Estonia, Ministry of Finance.

Table 7.b. Deviation from the last Stability Programme – net lending/net borrowing

	ESA Code	**2014**	**2015***	**2016***
		% of GDP	*% of GDP*	*% of GDP*
General government net lending/ net borrowing target	B.9			
Stability Programme		0,0	-0,5	-0,1
Draft Budgetary Plan		0,8	-0,5	-0,1
Difference		0,8	0,0	0,0
General government net lending/ net borrowing projection at unchanged policies	B.9		B.9	
Stability Programme		0,0	-0,5	-0,1
Draft Budgetary Plan (1/)		0,8	0,4	-0,2
Difference		0,8	0,9	-0,1

1/ Actual (t-1) and summer forecast (t, t+1).
Source: Statistics Estonia, Ministry of Finance.

8. Distributional effects of main revenue and expenditure measures

Gini coefficient for Estonia, which indicates the income distribution of the population (larger index denominates larger inequality), was 0.329 in 2013. This is rather large compared to EU as a whole and to northern neighbours of Estonia and it has increased by 2 percentage points during past five years. Countries with larger indices in 2013 were the following: Latvia, Lithuania, Bulgaria, Romania, Greece, Spain and Portugal. However, comparison with member states with different sizes and economic development levels might not always be appropriate because in larger countries the difference of income levels in different regions is less apparent to residents.

Most of the planned revenue and expenditure measures either will not have a distributional effect or the effect is very indirect and non-quantifiable. Examples of these are partial rescheduling of state-owned enterprises' dividends from 2015 to 2016, increasing defence costs or minor raise of expenditure to achieve the ministries operational objectives. Among measures which do have an effect on income distribution, none has such a large effect that it could change the numerical value of the Estonian Gini coefficient or the S80/S20 ratio. None of the measures have an effect on the poverty ratio.

Annex 1: Methodology, economic models and assumptions

Table 8. Methodological aspects

Estimation Technique	Step of the budgetary process for which it was used	Relevant features of the model / technique used	Assumptions
Expert forecast	Compilation of the macroeconomic forecast	GDP forecast is being compiled using the production, expenditure and income approaches and the consistency is controlled with MS Excel. Experts are monitoring economic fields (labour market, economic sectors, prices, lending behaviour, consumption, etc.) and are suggesting possible trends, which will be modified consistent through iterations.	○ Saving rate of households has stabilised and will not change much over the forecast period. ○ Growth of main export markets will speed up gradually. ○ EUR/USD exchange rate will be constant. ○ Oil prices will remain low.