

COUNTRY PROFILE:
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REPUBLIC OF ESTONIA
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Recent Political Highlights

- ❑ Chief of state since October 2006 has been President Toomas Hendrik Ilves, with head of Government since April 2005 being Prime Minister Andrus Ansip. The president is elected by Parliament for a five-year term and is eligible for a second term. The next election is due in September 2011.
- ❑ Disagreements within the ruling coalition over the best method to narrow the budget deficit have become increasingly regular. The prime minister has dismissed calls for an early election.
- ❑ Political relations with Russia are expected to remain tense and this will have an adverse effect on Estonia's oil transit business. The new heavy oil terminal that will start operation in Ust-Luuga, Russia, in 2009 is envisaged to cut the heavy oil transit through Estonia by 25%. The Port of Tallinn is the only hub in which big tankers cannot ashore ensuring that some of the heavy oil will continuously pass through Estonia. The port plans to maintain the last year's level through-put of 29m tons and net profit was 40m kroons, as other goods replace the heavy oil.

Recent Economic Highlights

- ❑ Estonia has a population of 1.3m people with an expected growth rate of -0.6% in 2009.
- ❑ Although the Government budget is likely to remain in deficit in 2009 and 2010, public debt is not excessive. The weakness of the economy is expected to delay Government's tax cuts and despite further spending cuts, the budget deficit is likely to surpass the 3% limit in 2009. Estonia's large budget deficit means that Government will not meet its 2011 target for joining the euro zone with entry in 2012 more likely.
- ❑ The Economist expects GDP to fall in 2009 and 2010 as fears about higher unemployment, a weak property market and difficulties in accessing credit restrain domestic demand and a weak foreign demand leads to a fall in exports. Economic expansion is expected to resume in 2011.
- ❑ The economy contracted 15.1% in the first quarter due to low domestic and foreign demand depressing overall output in the Baltic state. The Baltic state's plight hurt Nordic banks, many of which had expanded their loan portfolios and helped inflate prices and overheat the small open economies. The contraction reflected a decrease in activity in manufacturing, construction, retail and wholesale trade and transport, storage and communications. Domestic demand dropped by 21.4% from the first quarter of 2008. The Estonian central bank forecast that in a worst-case scenario, the overall economy would contract 15.3% over 2009.
- ❑ The rate of unemployment has continued to increase, reaching 8.4% in March from 2.7% a year earlier. Eurostat data puts the rate at 10%. Contributions to the second-tier pension scheme will be suspended for most workers until 2011. Unemployment insurance premiums are set to rise to the current maximum permitted level in June and further increases are possible.
- ❑ Statistics Estonia reported that the fall in tourism numbers was evident by the number of days tourists spent in accommodation establishments falling 14% in the first quarter compared to the previous year.
- ❑ Eesti Energia, the state-owned oil-shale energy company announced that it will commission a new 3bn kroon (€190m) plant that should open in 2011. The project is expected to boost the local economy and ensure the company's future and it will revive the regional economy of eastern Estonia.

Latest Trade Developments

- ❑ Main export commodities: machinery and equipment, wood and paper, metals, food products, textiles and chemical products.
- ❑ Main import commodities: machinery and equipment, textiles, mineral fuels, chemical products and food items.
- ❑ Major trading partners: Finland, Sweden, Latvia, Russia, Lithuania, Germany, US and Poland.
- ❑ Main agricultural products: potatoes, vegetables, livestock, dairy products and fish.
- ❑ Main industries: engineering, electronics, wood and wood products, textiles, information technology and telecommunications.
- ❑ Estonia has an open market with exports of goods and services totaling 76% of GDP in 2008 and imports 81%. The value of exports (fob) amounted to \$12.3bn, while imports amounted to \$16.1bn. The current account deficit was 9.4% of GDP in 2008, almost half that of the 18.1% in 2007.
- ❑ SA's exports to the Estonia totaled R38m in 2007, R48m in 2008 and R7.8m in the year to March 2009.
- ❑ SA's imports from Estonia totaled R22m in 2007, R33m in 2008 and R6m in the year to March 2009.