



2017 OECD ECONOMIC SURVEY OF ESTONIA

Acting for stronger and more inclusive growth
Tallinn, 15 September 2017

<http://www.oecd.org/eco/surveys/economic-survey-estonia.htm>



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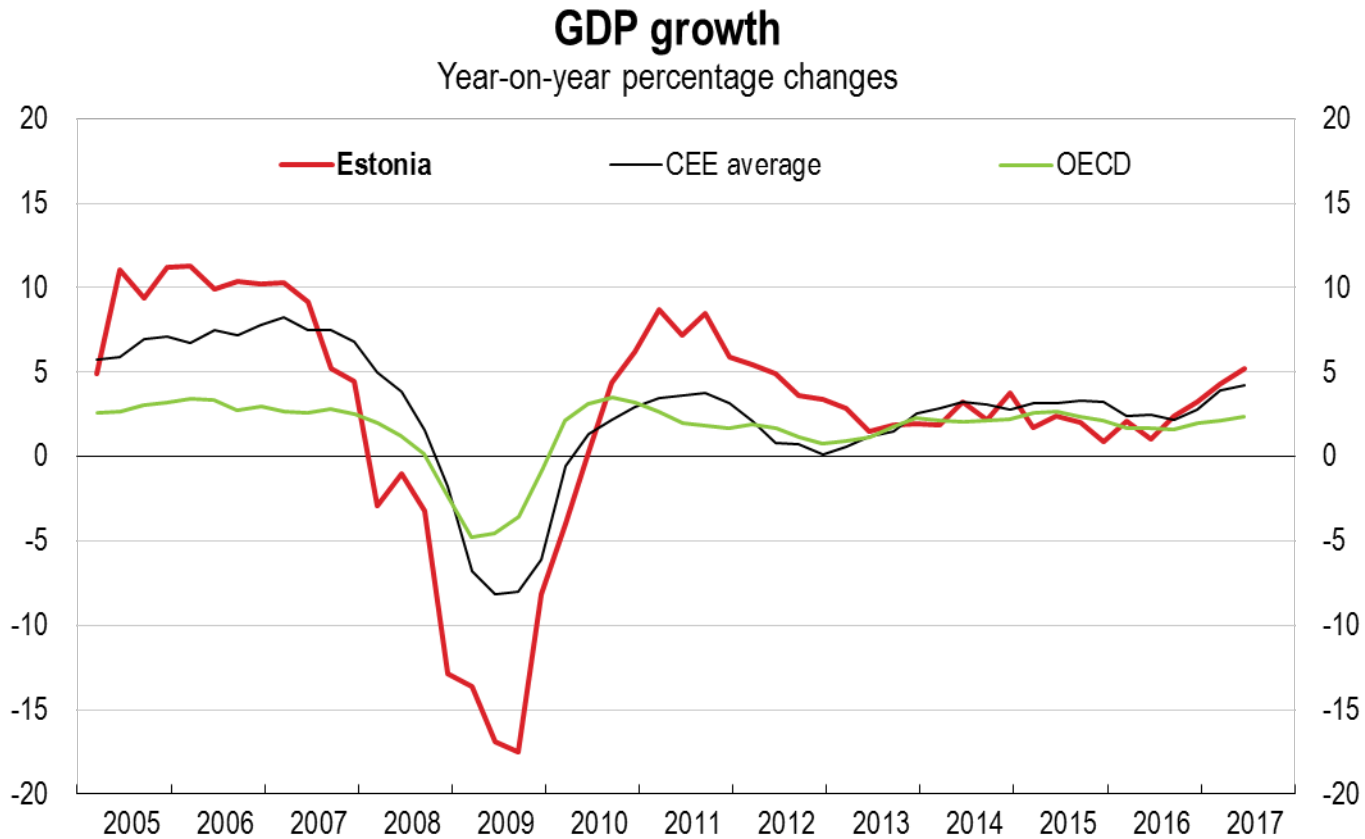


Main messages

- The Estonian economy is gaining momentum, underpinned by strong fundamentals.
- Inequality and poverty remain high. Redistribution in the tax and benefit system is weak.
- Deeper integration into international trade and more productive investment would support productivity growth.



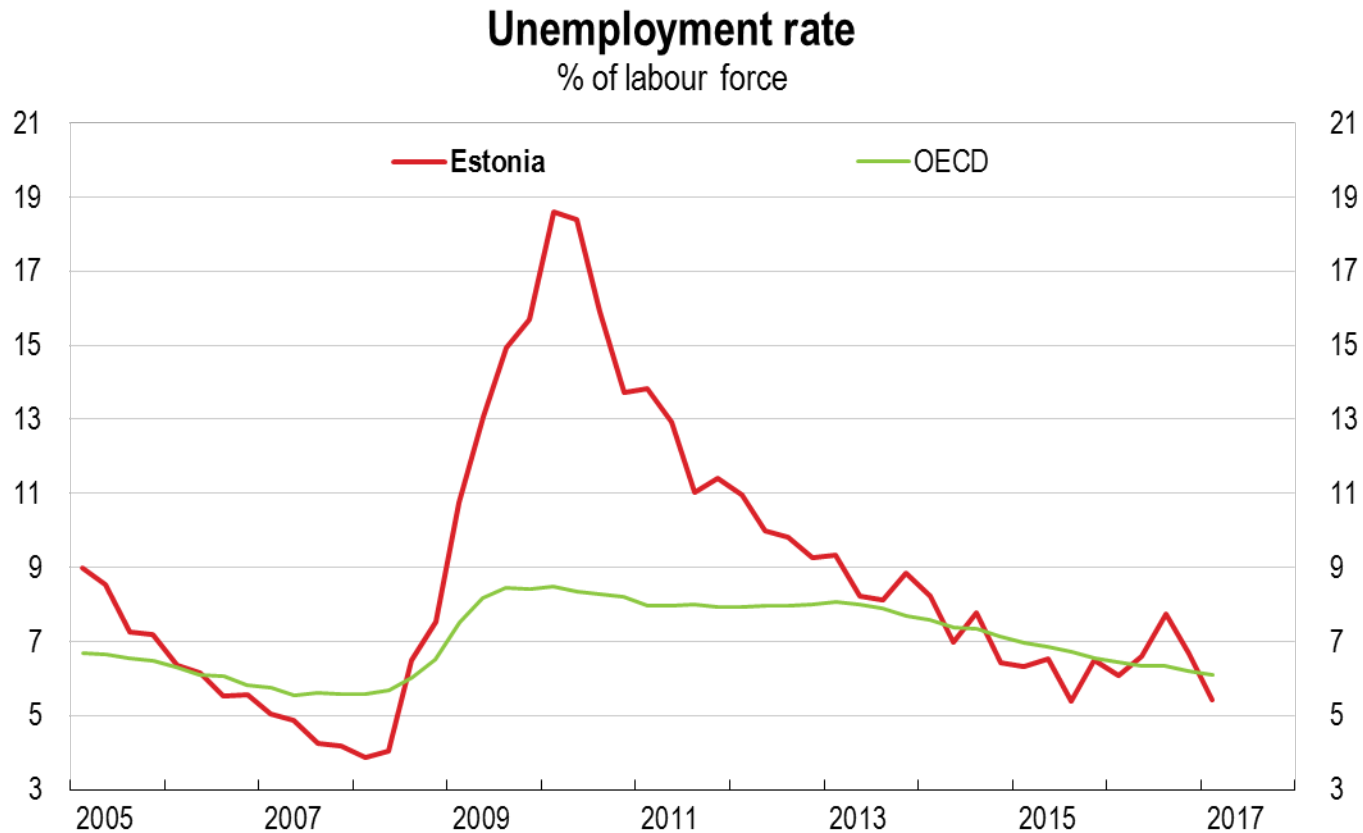
Economic growth is gaining momentum



Source: OECD National Accounts Database.



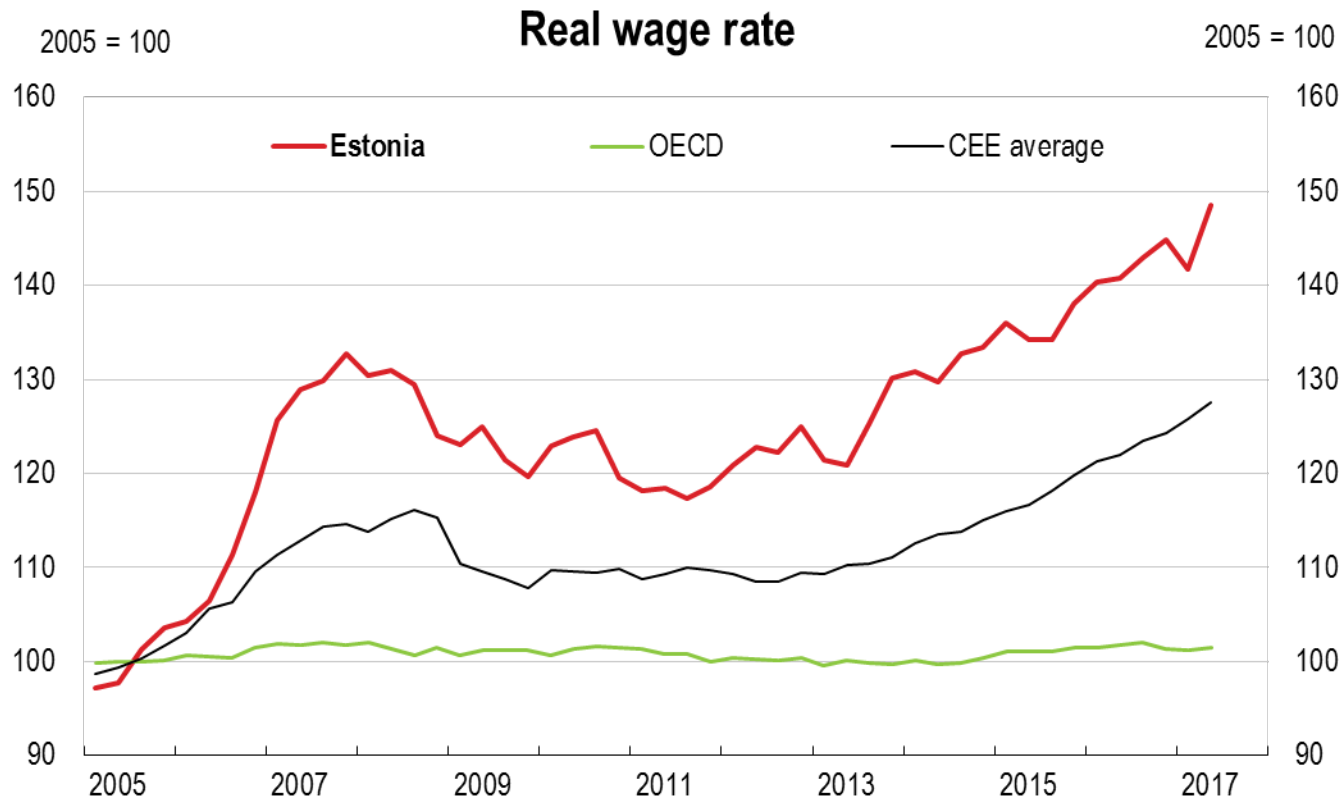
Unemployment has declined significantly



Source: OECD Economic Outlook 101 database (updated with information available on 18 July 2017).



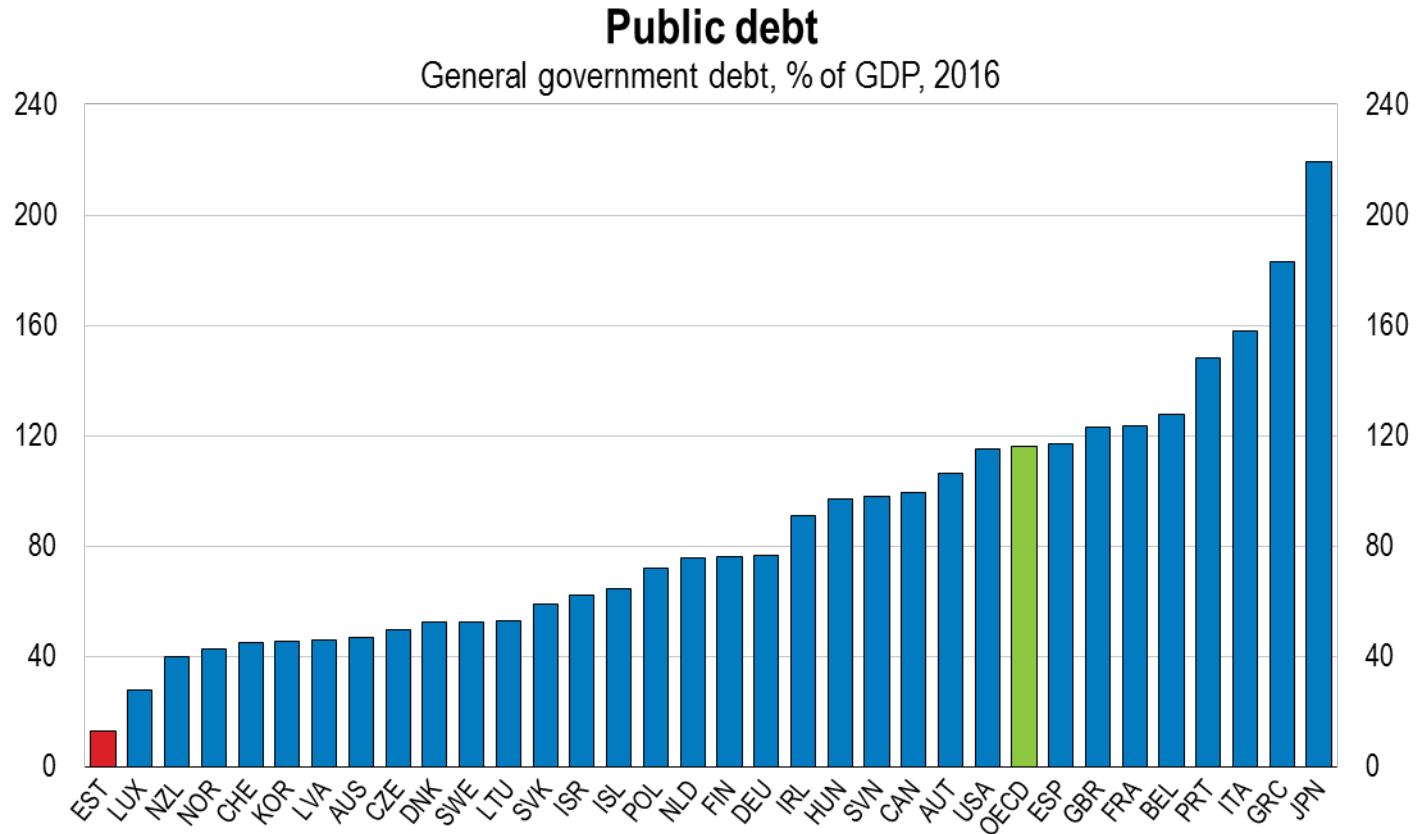
Wages have increased fast



Source: OECD Economic Outlook 101 database (updated with information available on 1 September 2017).



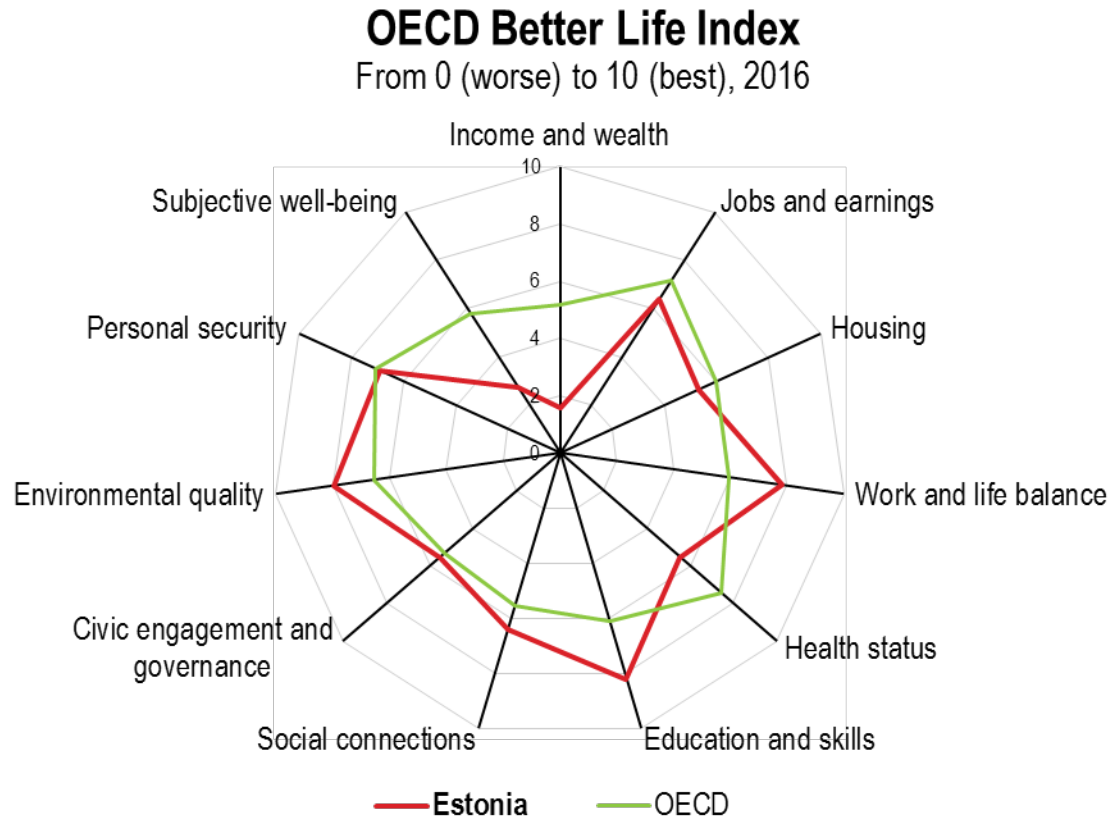
Public debt is the lowest in the OECD



Note: National account definition (not Maastricht).
Source: OECD Economic Outlook 101 database.



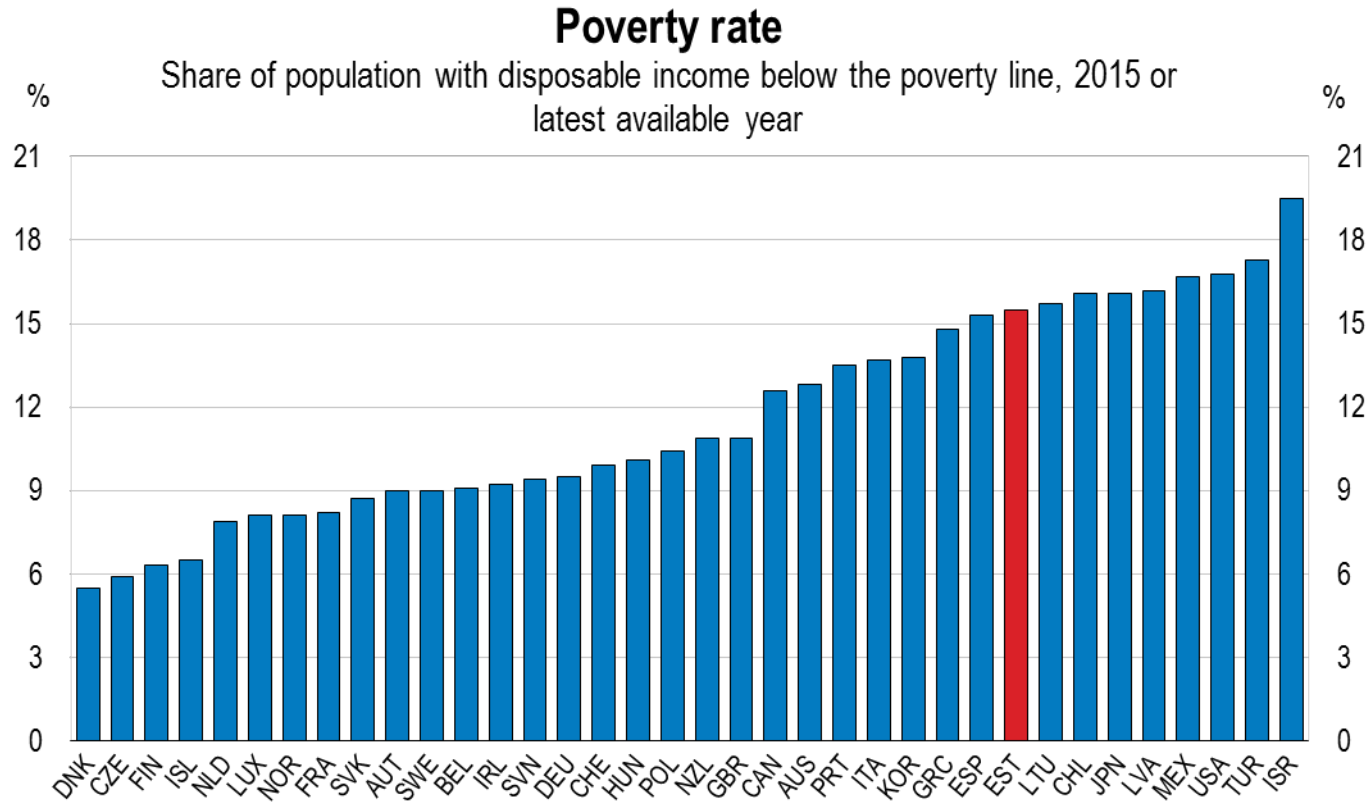
Well-being could improve



Source: OECD Better Life Initiative 2016.



Poverty remains elevated



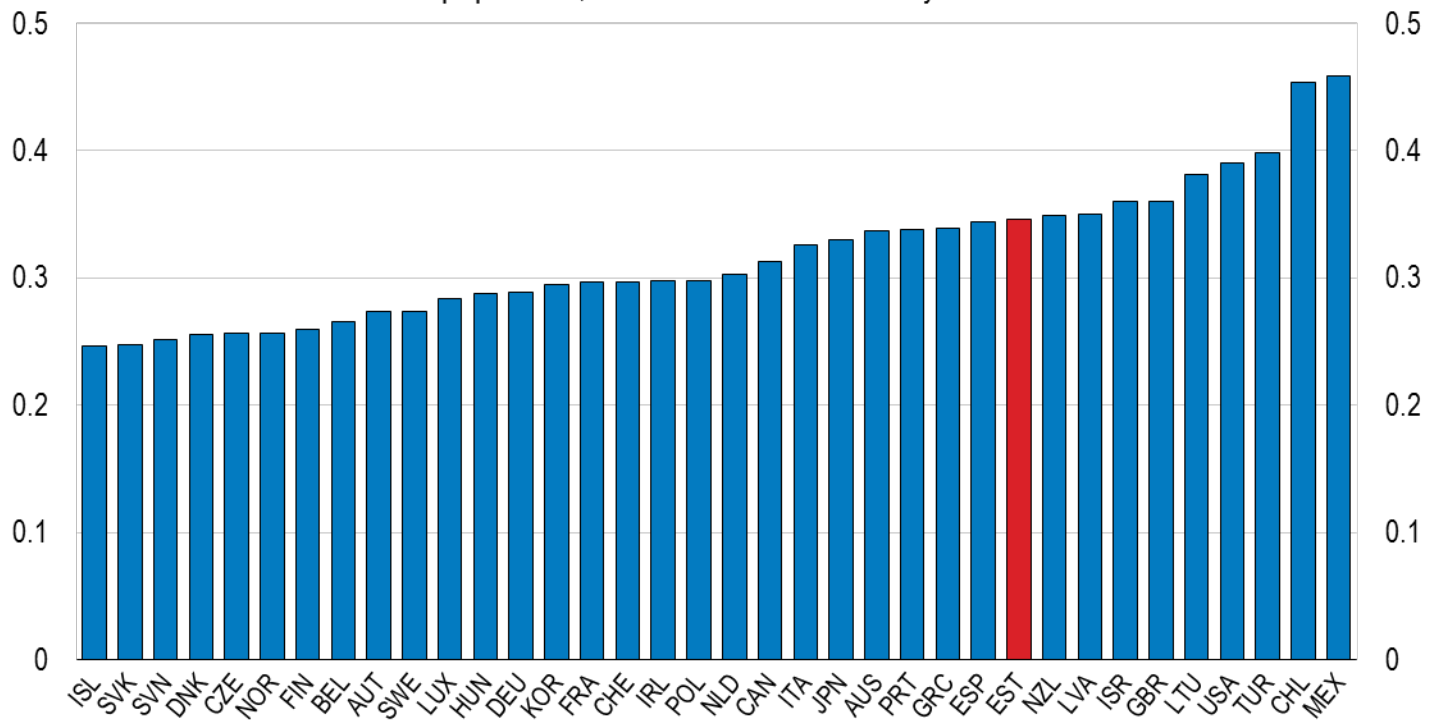
Source: OECD Income Distribution database (IDD).



Income inequality is high

Income inequality

Gini coefficient, scale from 0 "perfect equality" to 1 "perfect inequality", total population, 2015 or latest available year



Source: OECD Income Distribution database (IDD).

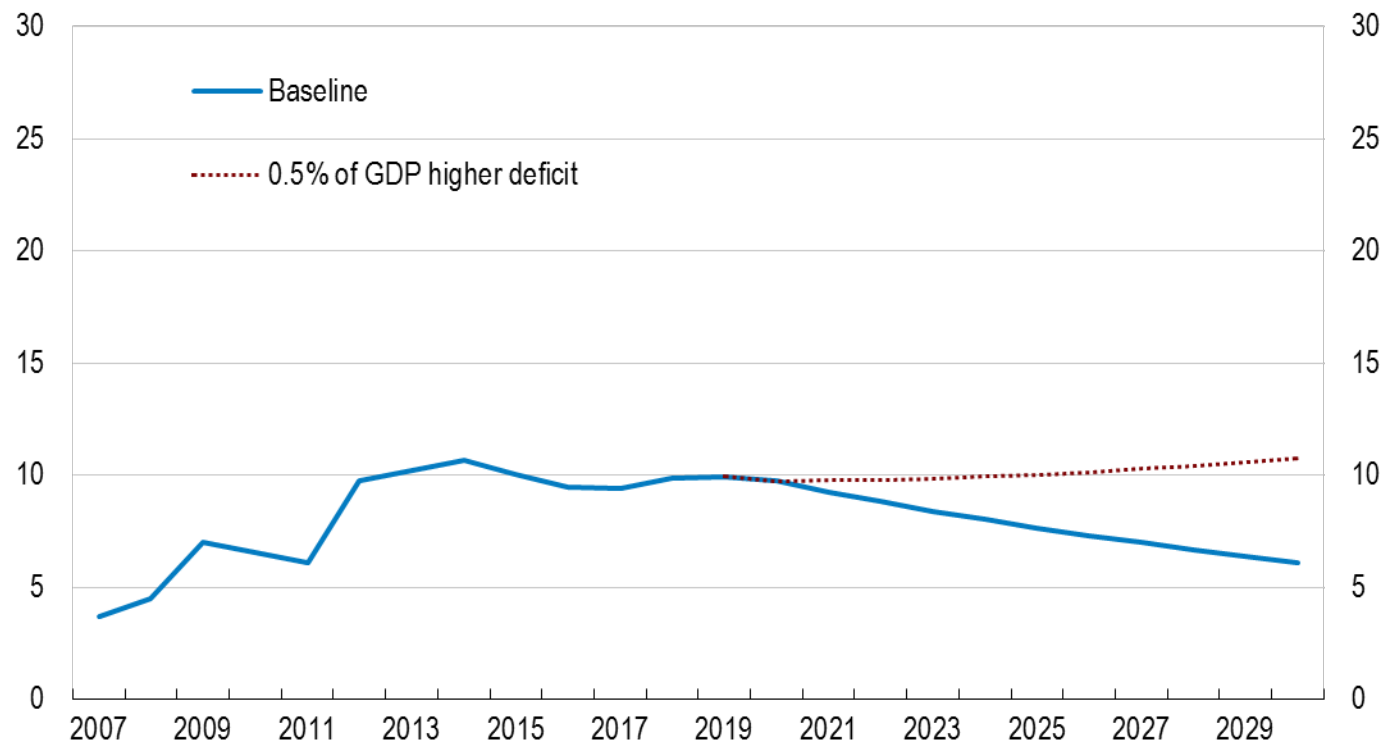


Boosting inclusive and greener growth



Fiscal policy can help foster inclusive growth

Illustrative public debt paths
As a percentage of GDP



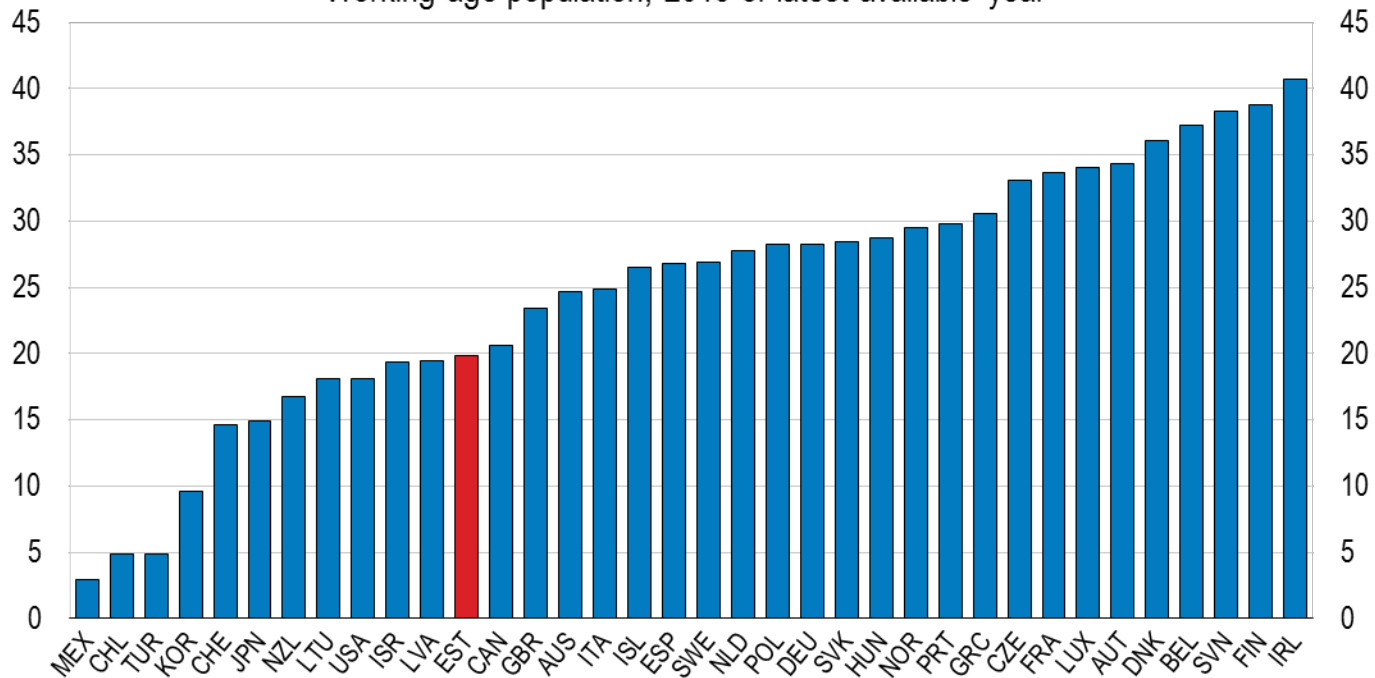
Source: OECD Economic Outlook database; calculations based on OECD (2017), OECD Economic Outlook: Statistics and Projections (database), June.



The tax-benefit system has little redistributive impact

Percentage reduction of market income inequality due to taxes and transfers

Working-age population, 2015 or latest available year



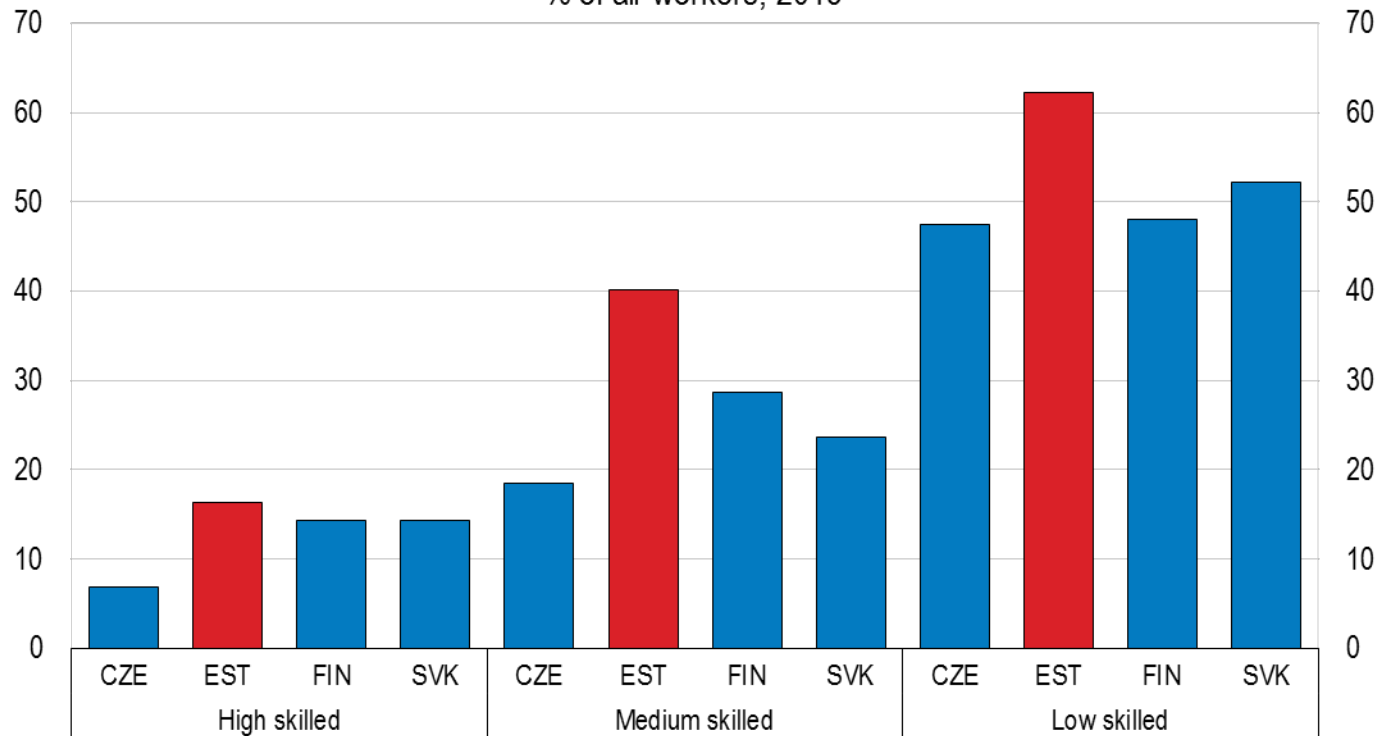
Source: OECD Income Distribution database (IDD).



Workers are exposed to health risks

Workers exposed to physical health risk factors

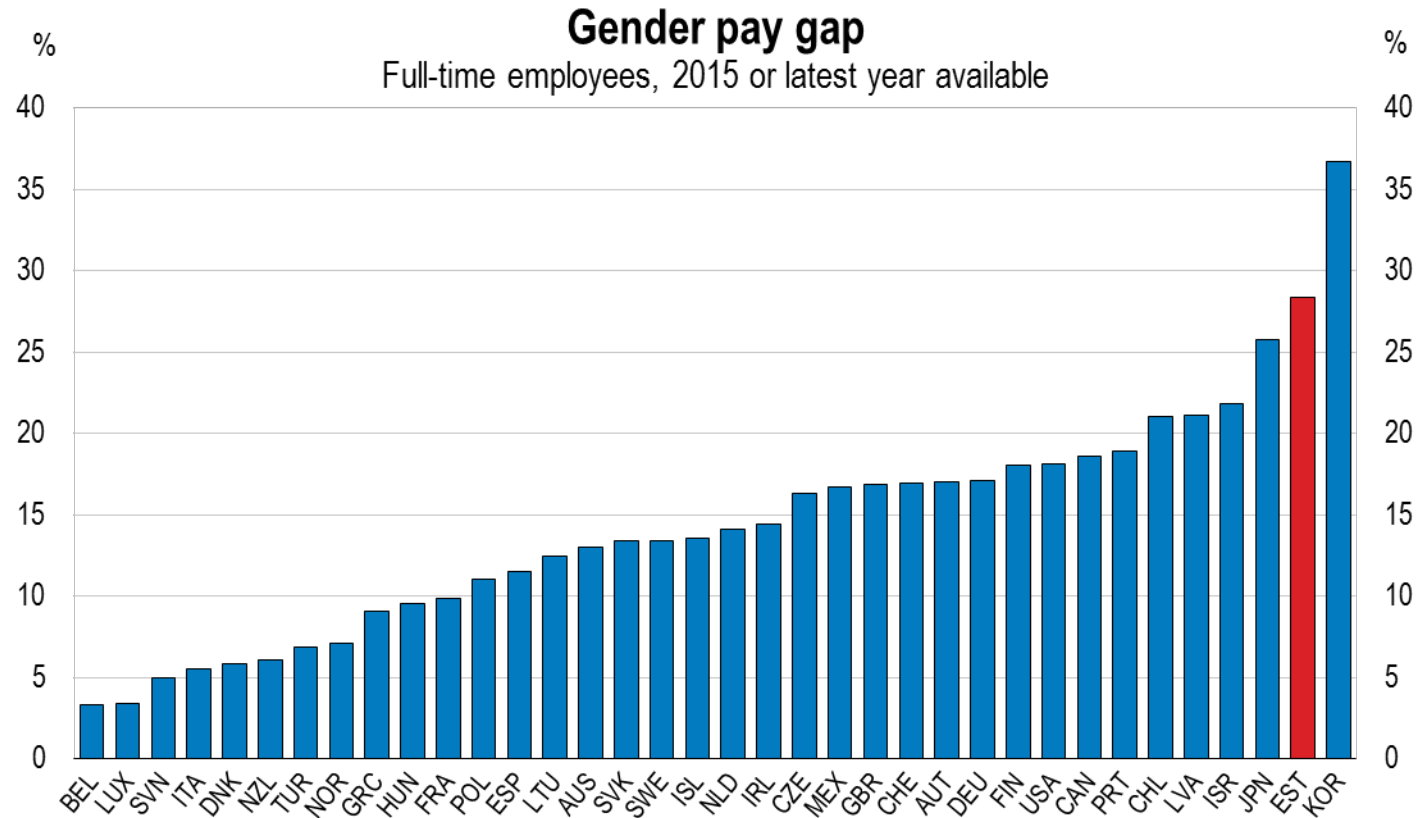
% of all workers, 2015



Source: OECD Job quality indicators database



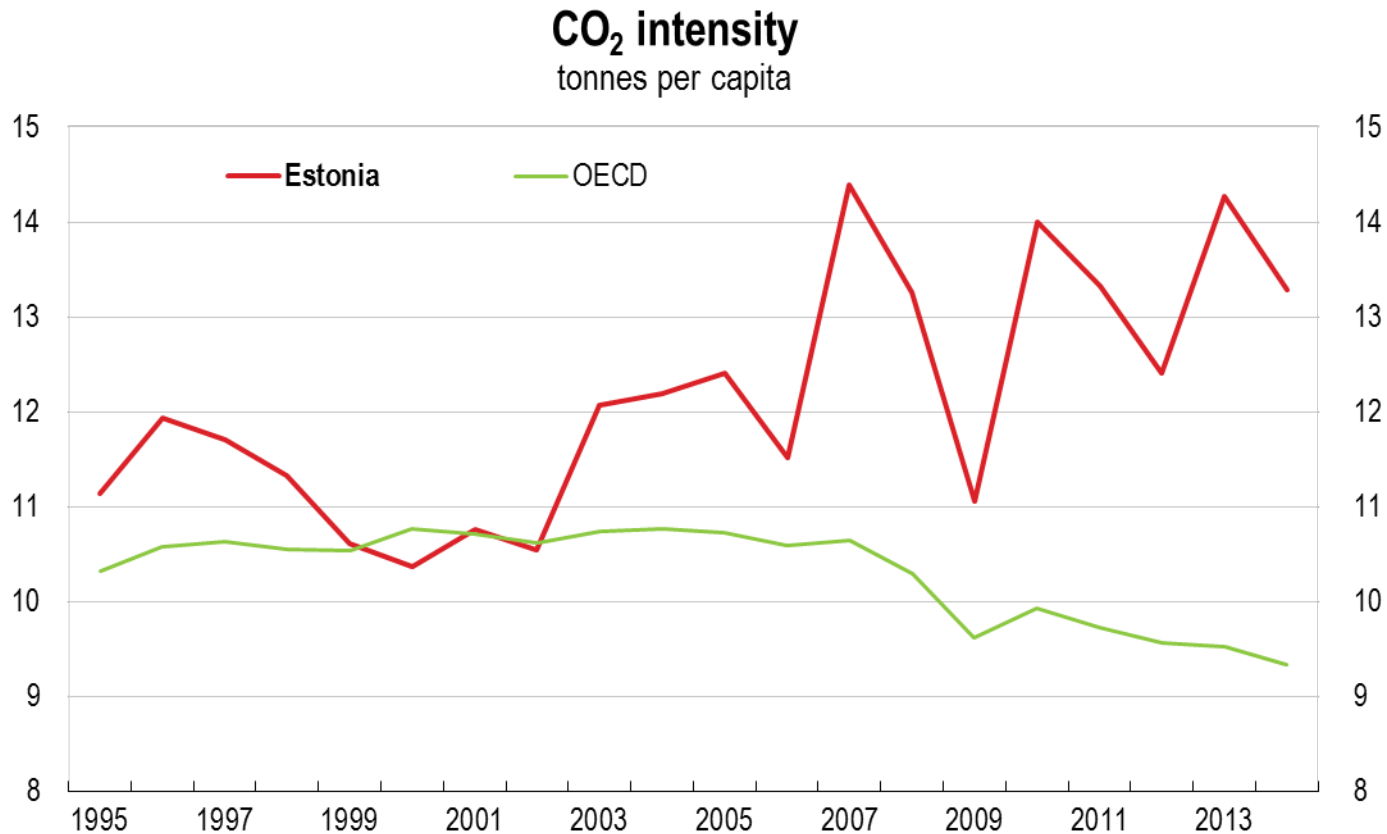
The gender pay gap is high



Source: OECD Employment database.



The transition to a greener economy is key



Source: OECD Green growth indicators database.



Key recommendations for fostering inclusive and greener growth

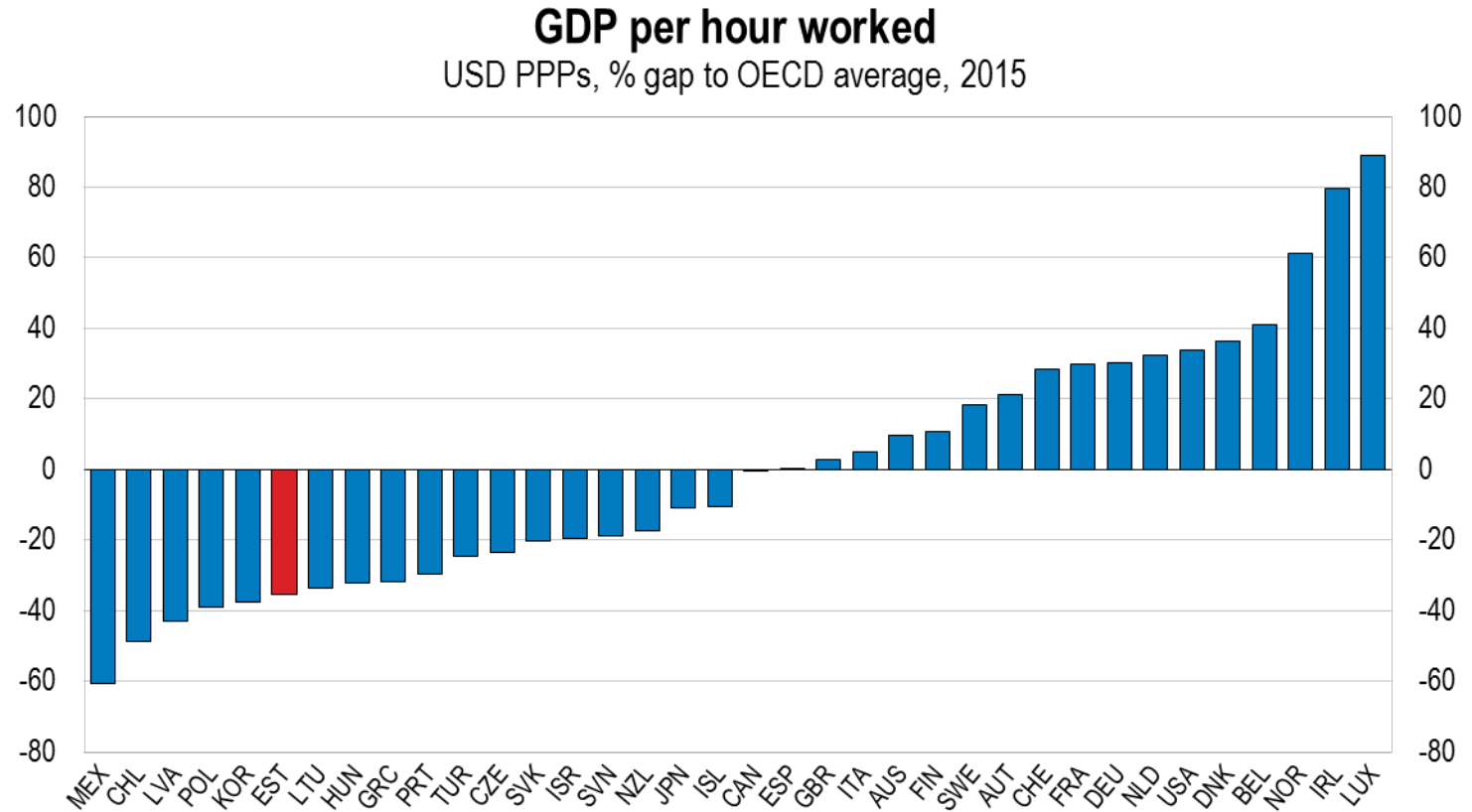
- **Increase spending on measures that boost growth and welfare. Consider allowing a small deficit in the government budget rule in the longer term.**
- **Increase subsistence benefits. Relax eligibility conditions for unemployment benefits.**
- **Increase sanctions for breaches of health and safety regulations. Require that employers purchase occupational accident and disease insurance.**
- **Extend the share of parental leave reserved for fathers.**
- **Set tax rates on oil shale, vehicle and energy use at a level that better reflects the environmental damage they generate.**



Seize trade and investment opportunities



Productivity level and growth have been low

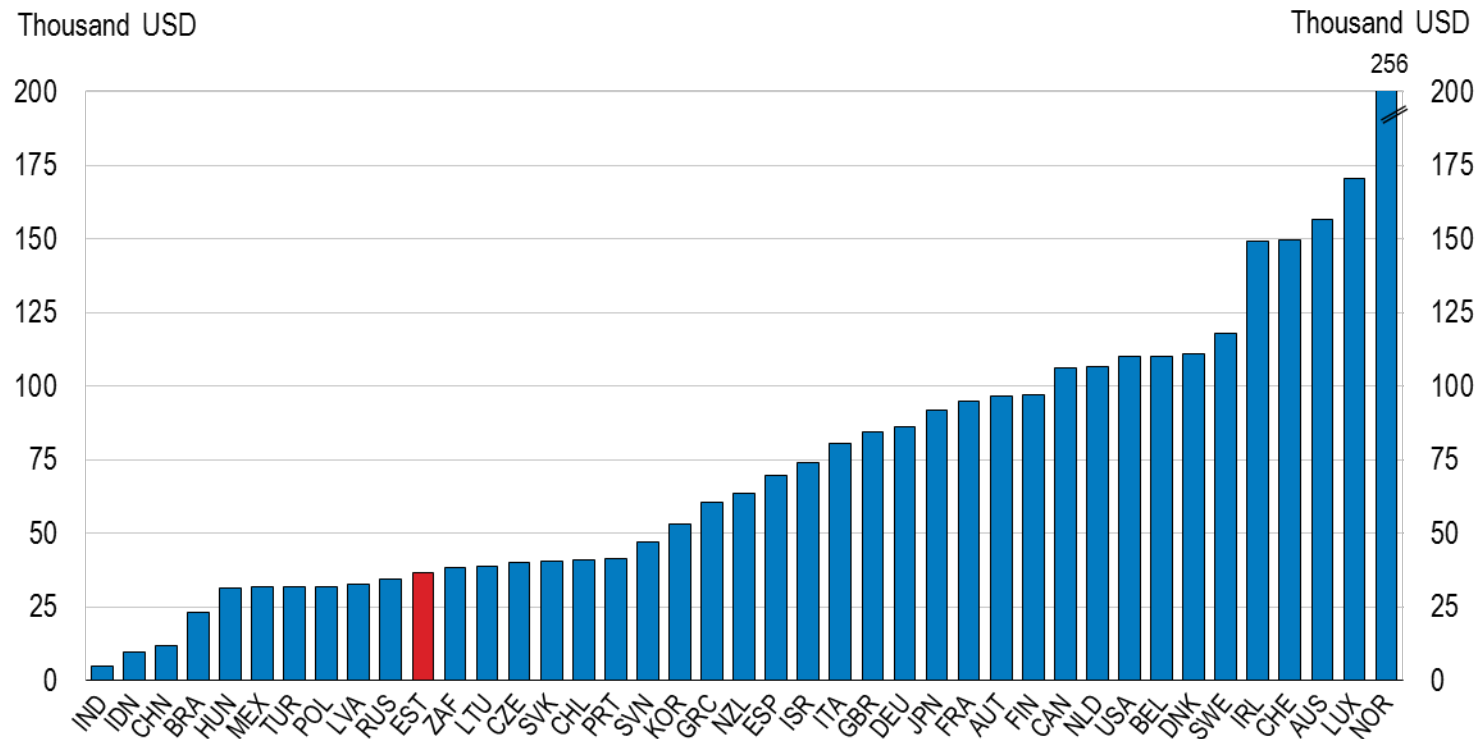


Source: OECD Productivity Database.



Trade could generate more income

Value added per worker of goods and services produced in Estonia and consumed worldwide



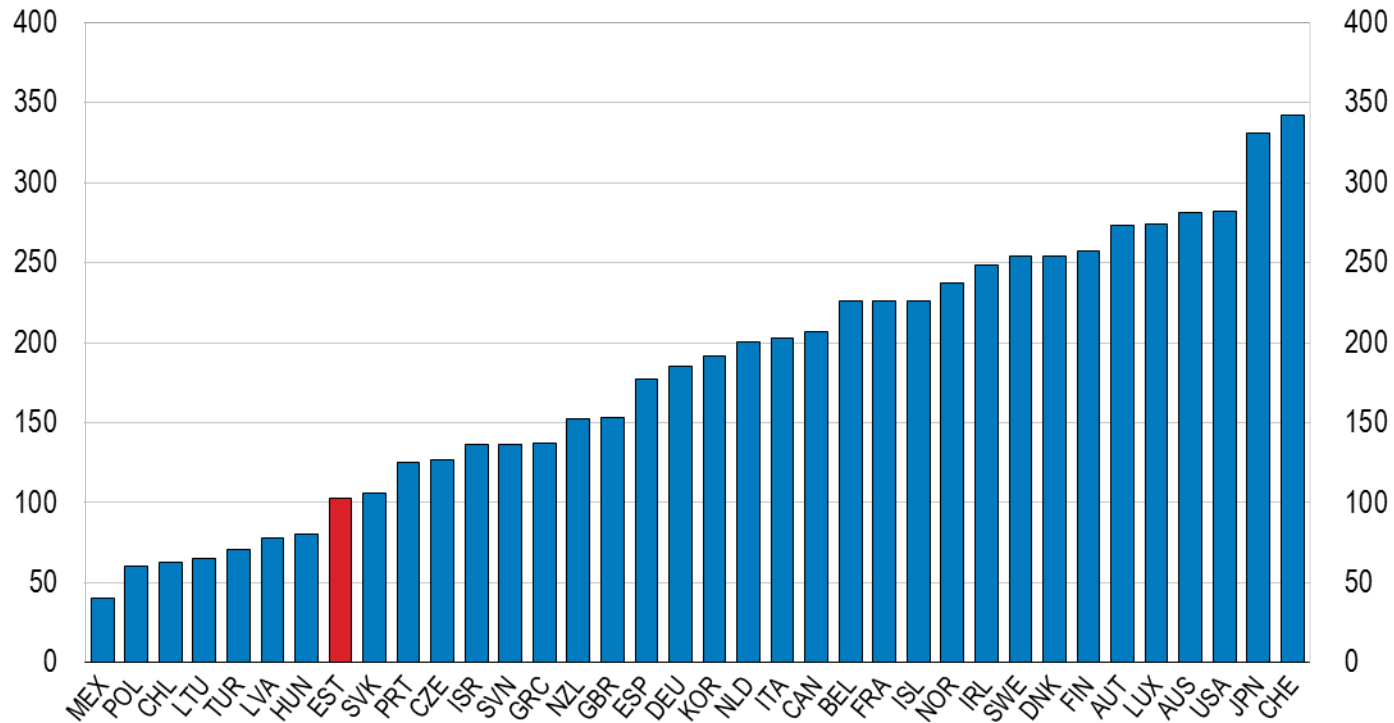
Source: OECD/WTO (2016), Statistics on Trade in Value Added (database) and OECD (2016), "Trade in Employment: Core Indicators" in OECD Structural Analysis (STAN) Databases..



Capital intensity is below the OECD average

Non-residential capital stock per worker

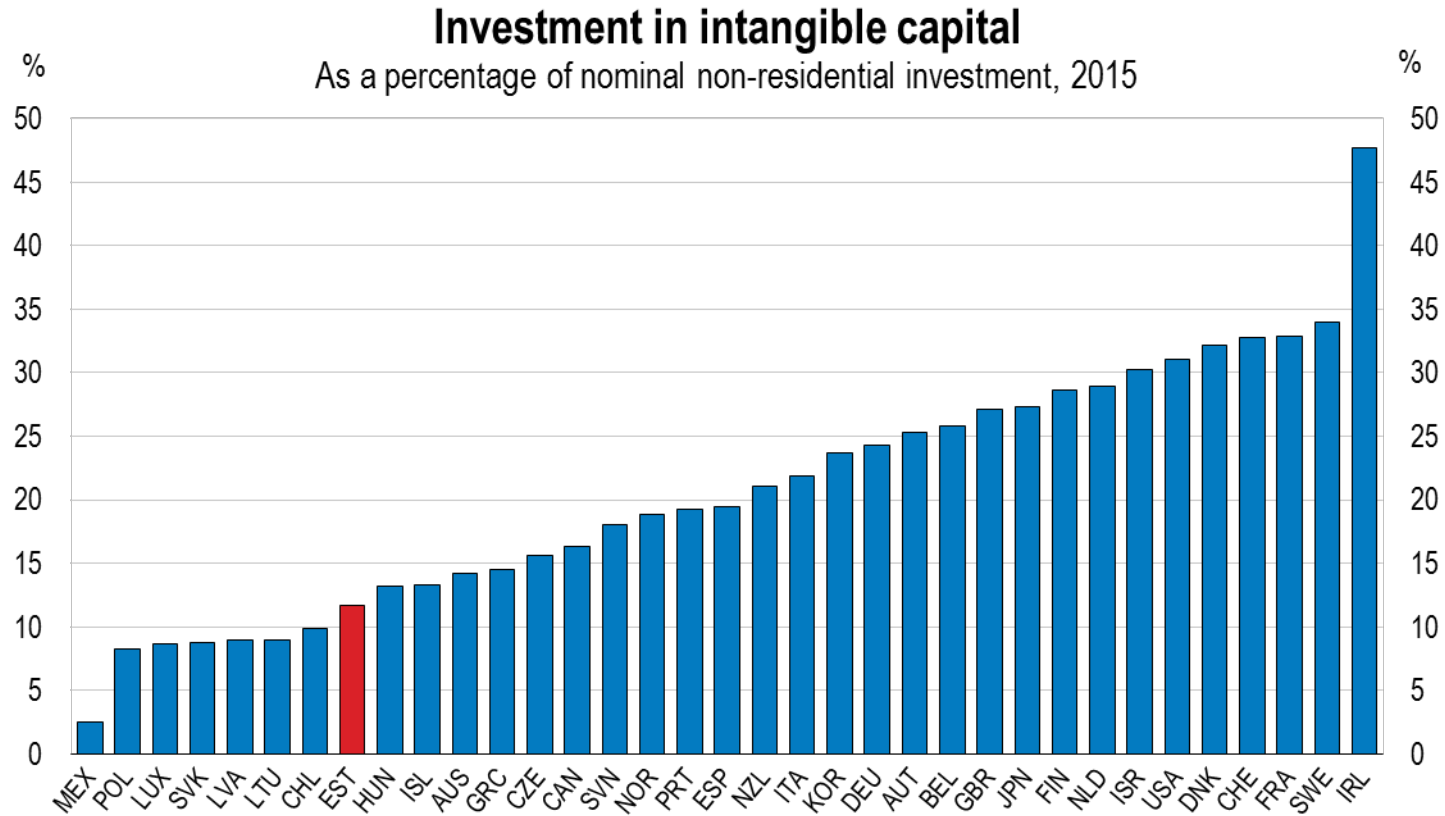
USD thousand, 2016



Source: OECD Economic Outlook 101 database.



Investment in intangible capital is low



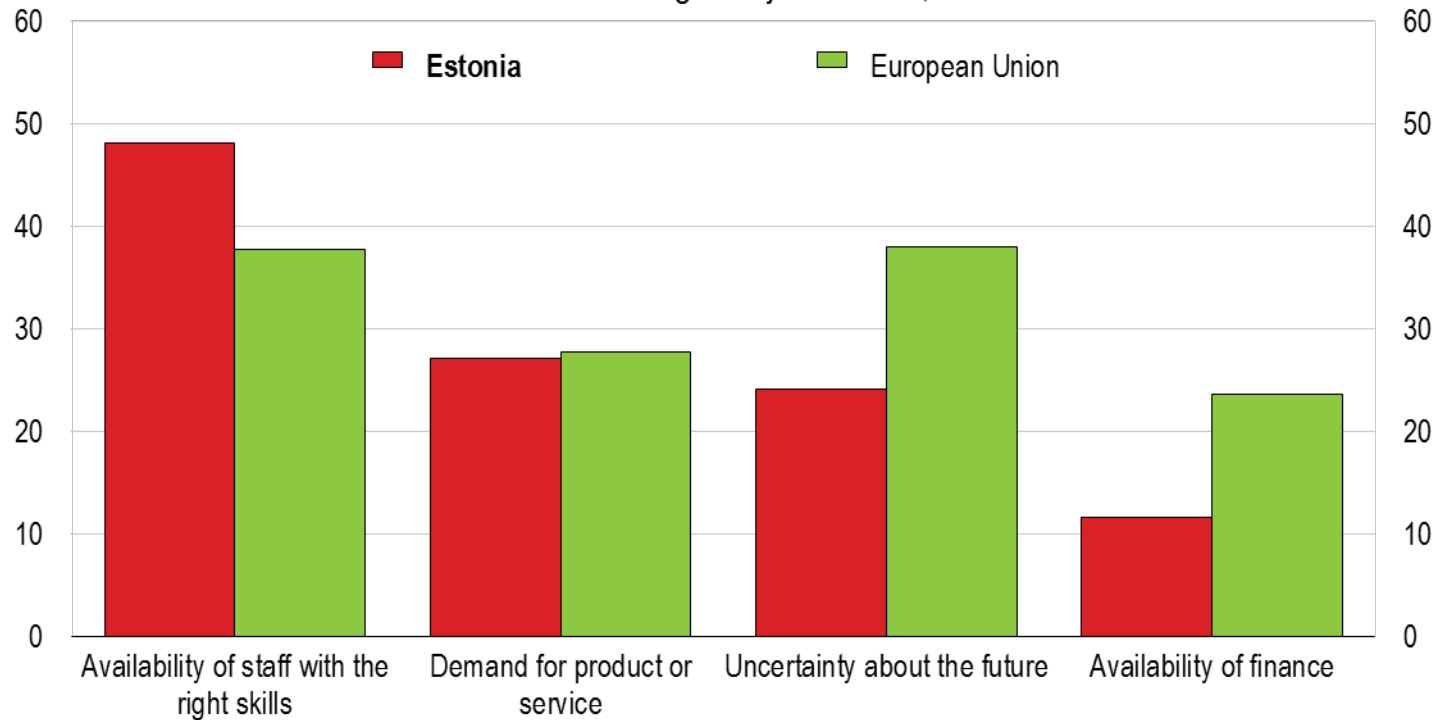
Source: OECD National Accounts database.



Skill shortages impede business growth

Major obstacles to investment

% of all firms citing a major obstacle, 2015

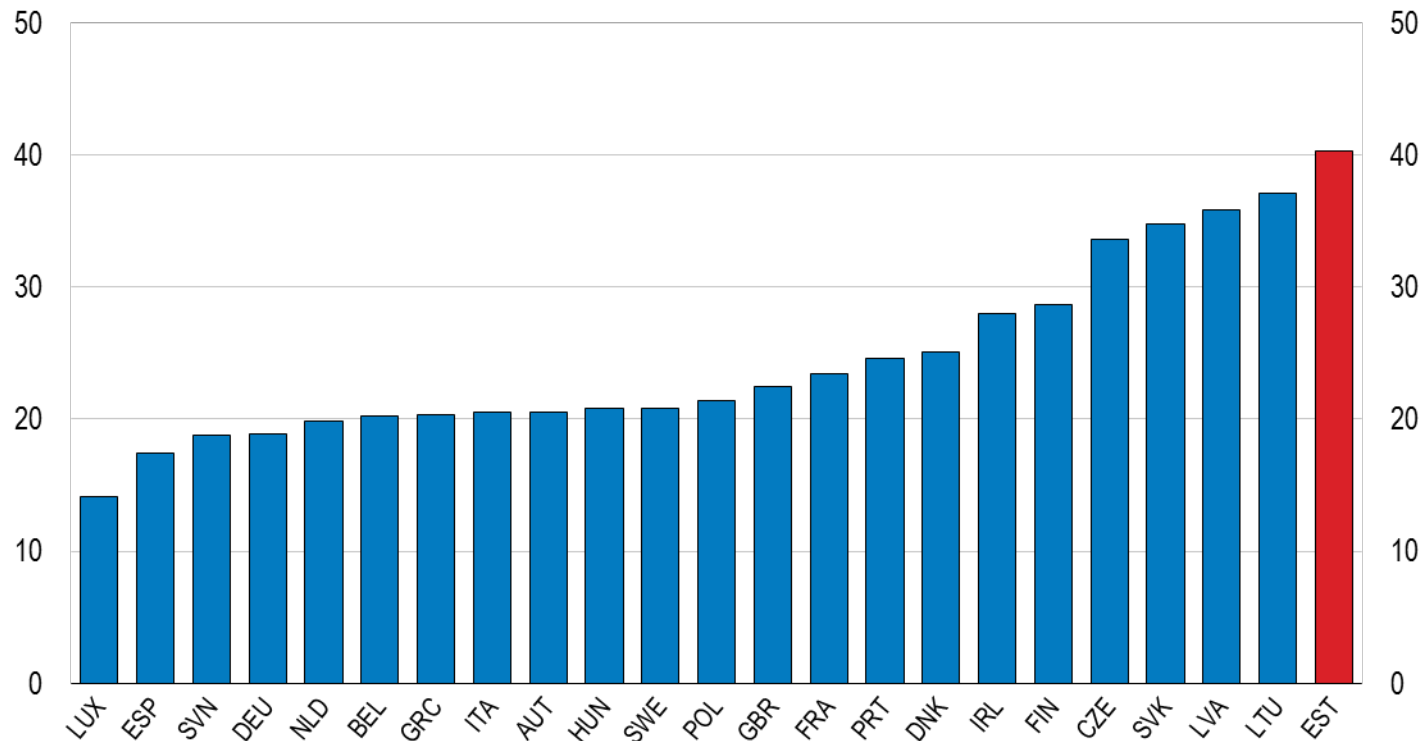


Source: European Investment Bank - EIBIS, EIB Investment Survey.



Many workers feel under-skilled at the time of hiring

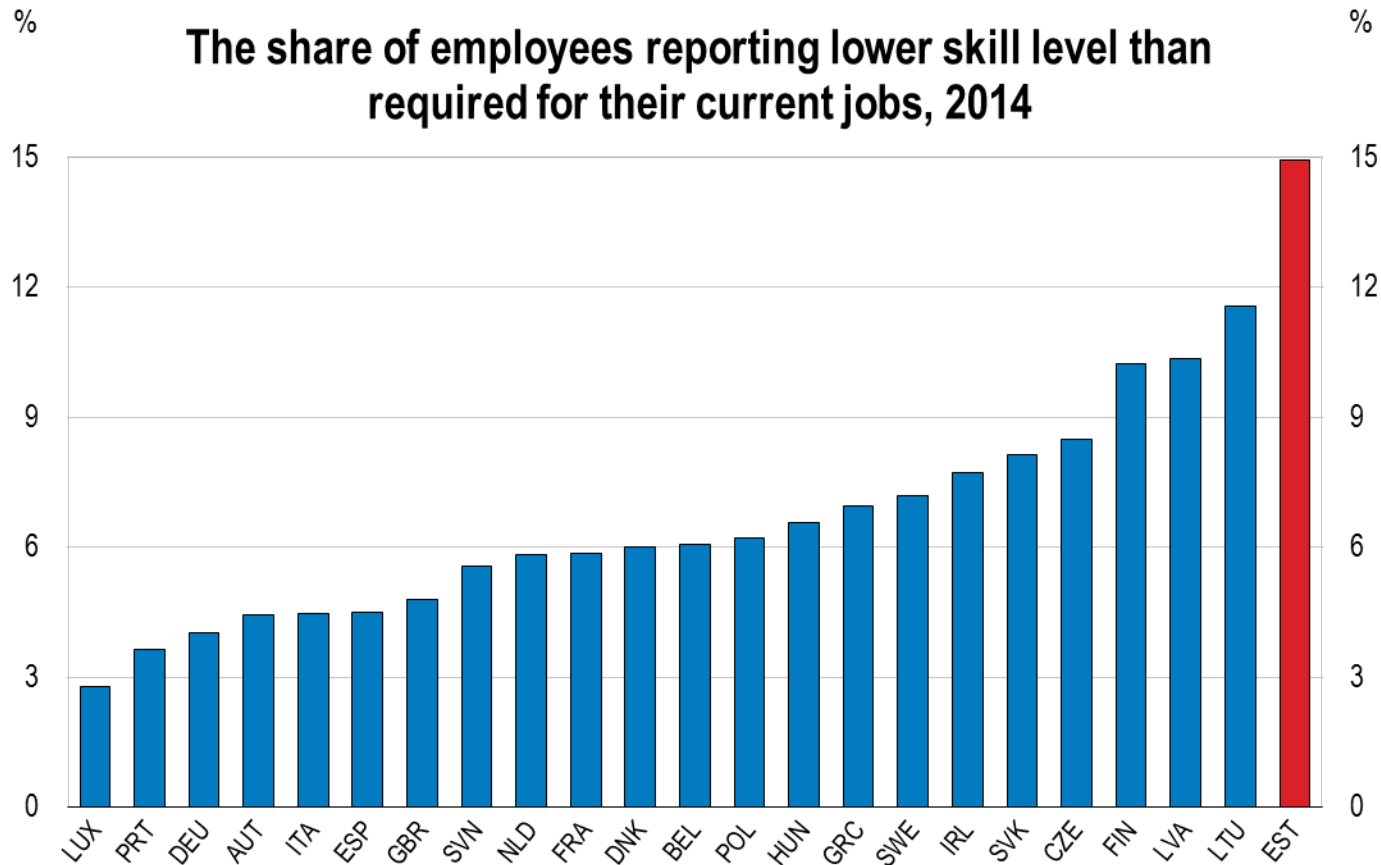
Share of employees reporting lower skill level than required for their jobs at the time of hiring, 2014



Source: CEDEFOP (2016), "Skills Panorama – The EU workforce: under-skilled at hiring" (<http://skillspanorama.cedefop.europa.eu>).



The lack of skills remains an issue after some time in the job

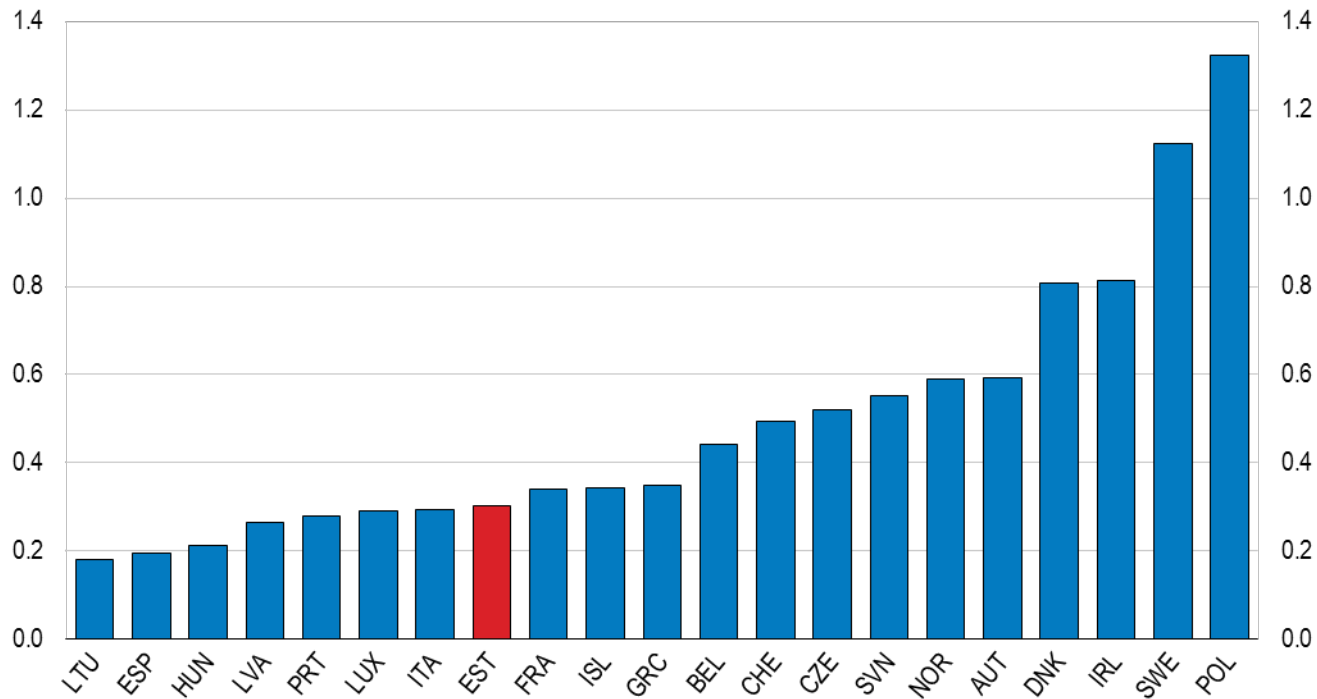


Source: CEDEFOP (2016), "Skills Panorama – The EU workforce: under-skilled at hiring" (<http://skillspanorama.cedefop.europa.eu>).



Migration can help to address shortages

First residency permits granted
2015, % of population



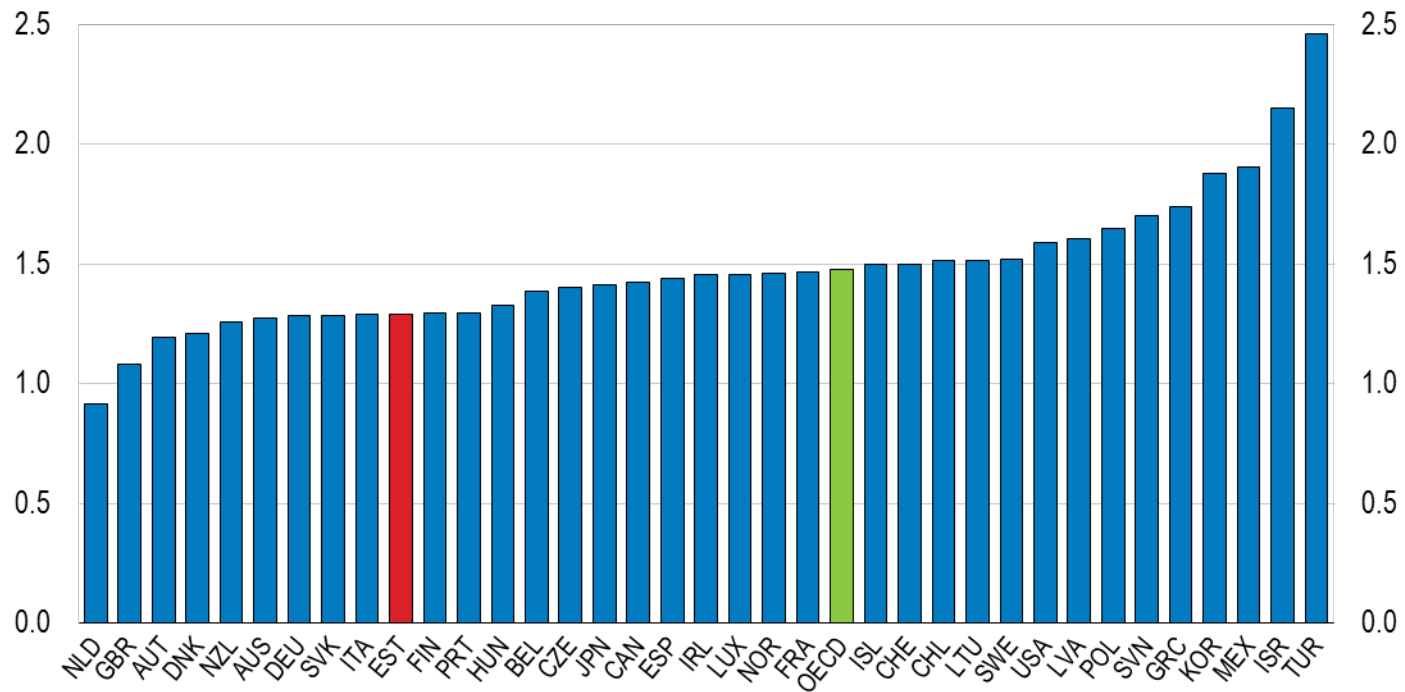
Source: Eurostat, Demography and migration database.



The business environment is favourable

Product Market Regulation, overall indicator

index scale of 0-6 from least to most restrictive, 2013

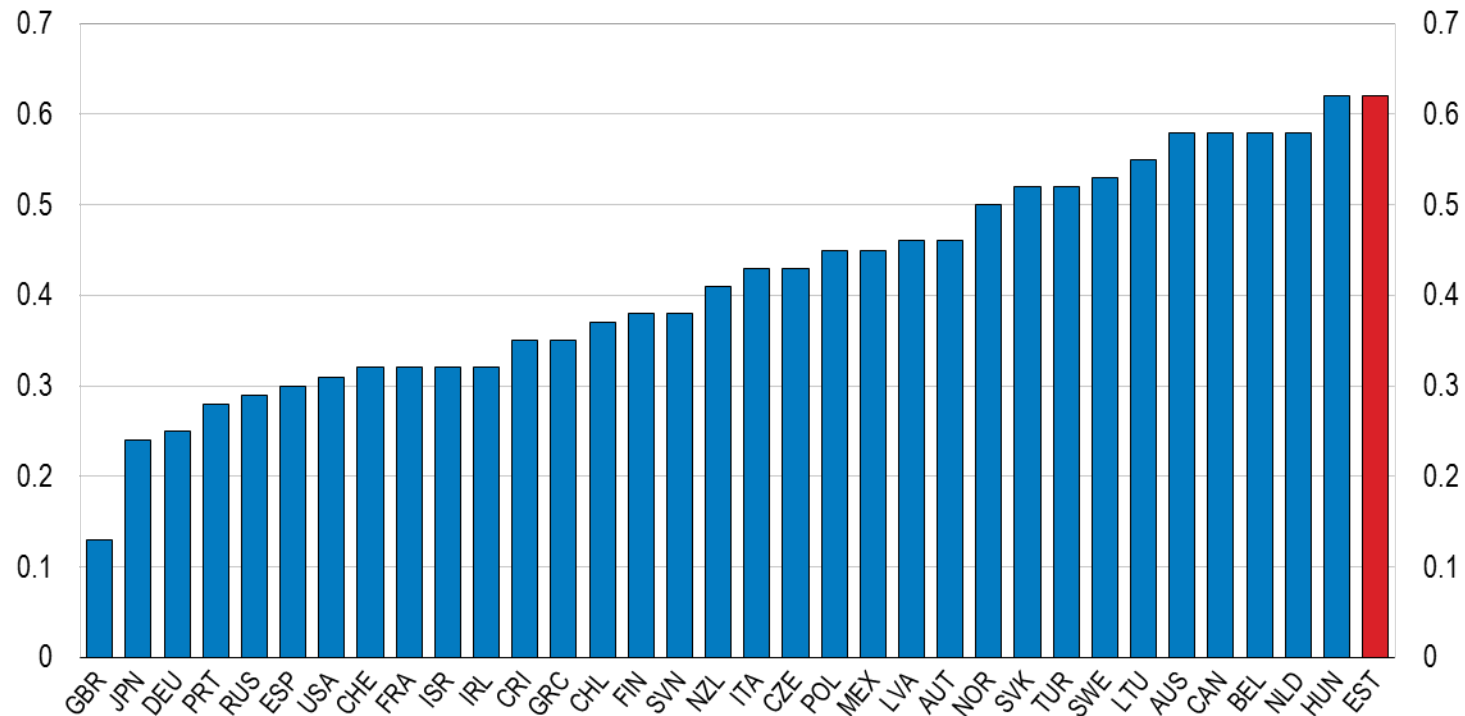


Source: OECD (2013), Product Market Regulation Database.



The insolvency regime is not conducive to firm restructuring

OECD indicator of insolvency regimes, 2016
score from 0 (most efficient) to 1 (least efficient)

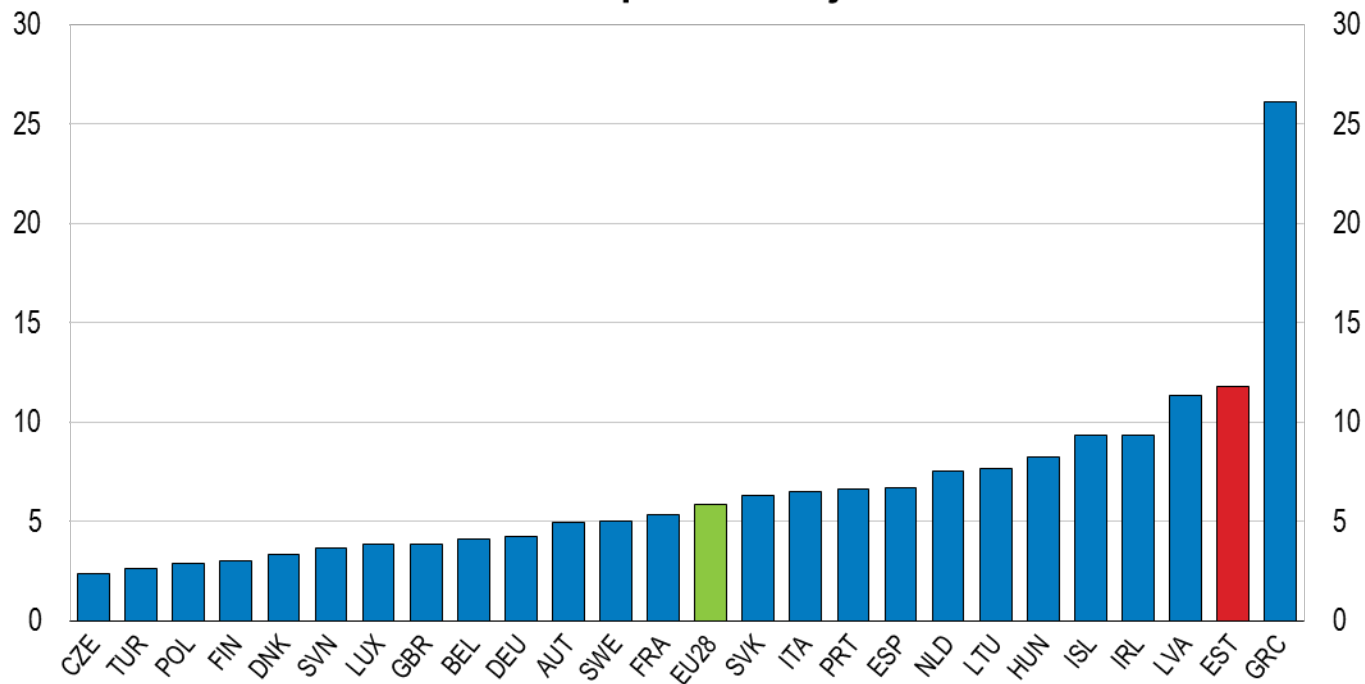


Source: Adalet McGowan, et al. (2017), "Insolvency Regimes, Zombie Firms and Capital Reallocation", OECD Economics Department Working Papers, forthcoming.



Good access to finance is crucial

Percentage of firms that did not apply for bank financing because of possible rejection

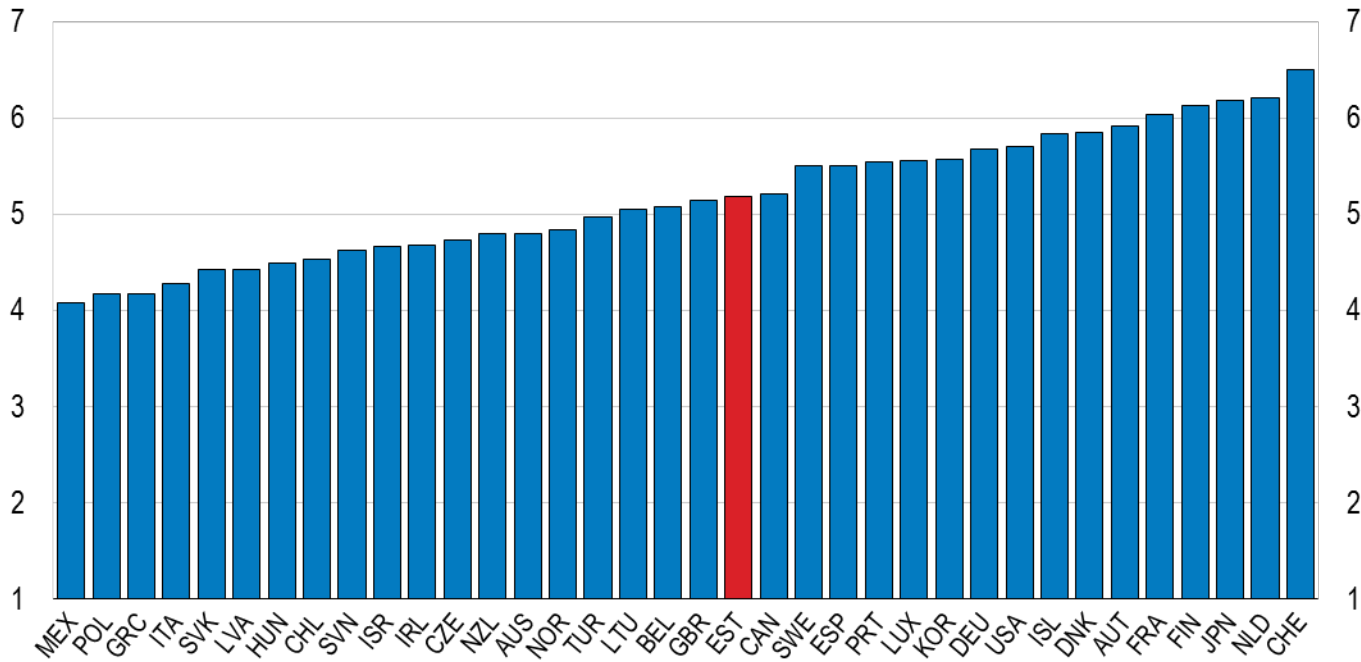


Source: 2016 SAFE Survey on the access to finance of enterprises.



The quality of infrastructure can improve

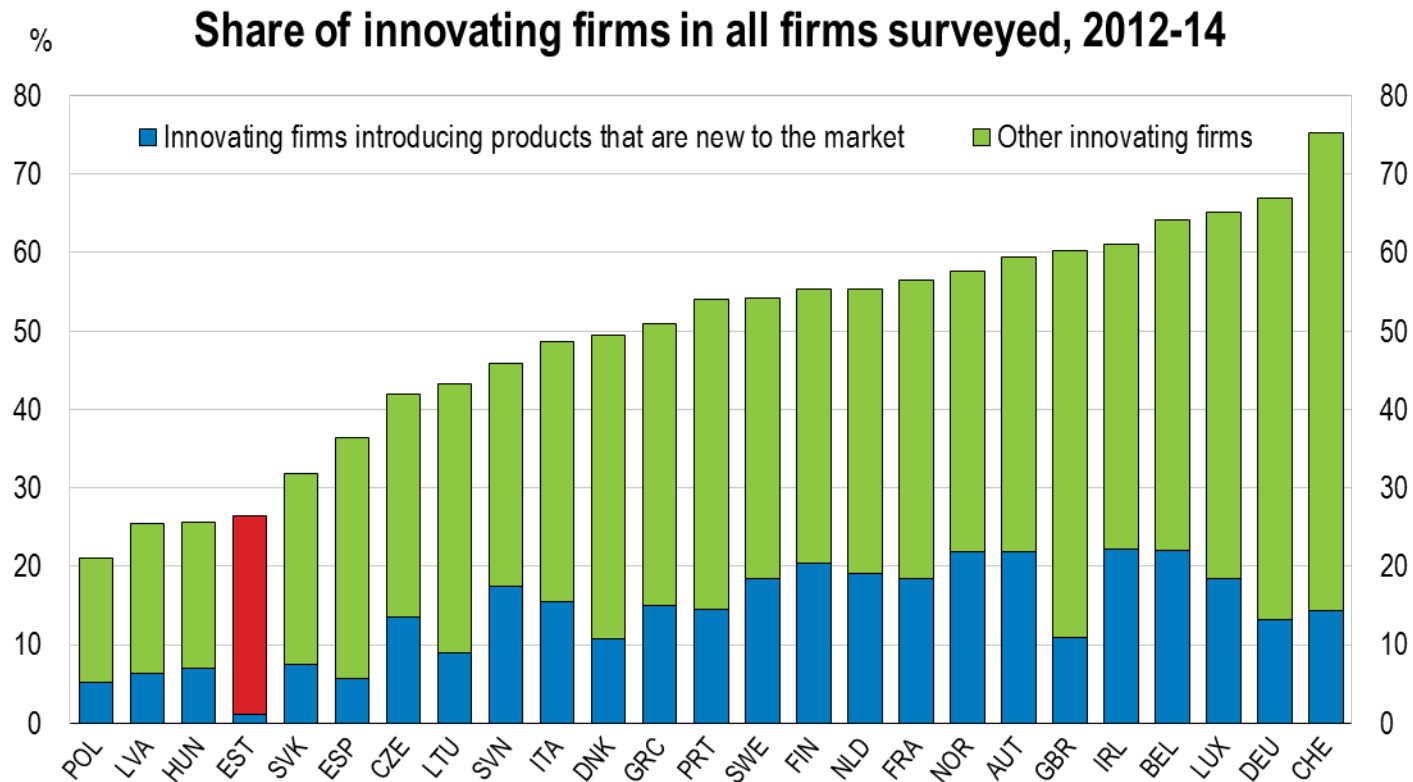
Quality of overall infrastructure score
from 1 (lowest score) to 7 (highest score), 2016-17



Source: World Economic Forum Global Competitiveness Index dataset.



Innovation capacity needs support



Source: Eurostat (2016), Community Innovation Survey (CIS) 2014.



Key recommendations for seizing trade and investment opportunities

- **Complete a one-stop shop for administrative formalities. Improve access to information on trade regulation.**
- **Create a centralised credit bureau that will collect both positive and negative information on creditors**
- **Allow creditors to initiate restructuring. Introduce early warning mechanisms. Develop options for out-of-court settlements.**
- **Establish an independent body to advise on policies to raise productivity.**



Key recommendations for seizing trade and investment opportunities (cont.)

- **Strengthen the monitoring of training courses. Extend the accreditation system to all publicly funded learning programmes.**
- **Relax annual quotas, and simplify conditions for work permits of skilled workers.**
- **Carry out ex ante cost-benefit analyses for all large-scale infrastructure projects based on a uniform methodology.**
- **Give more weight to cooperation with the private sector when allocating funds to public R&D institutions.**



For more information

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