

In Estonia, the impact of the crisis on GDP and employment was severe in 2009 and 2010. Both indicators recovered since 2011, although not yet to pre-crisis levels. While public expenditure was kept in relative control, public revenue fell sharply and by 2013 was still well below 2007 levels. Household disposable income fell considerably in 2009 and, particularly, in 2010, recovering slightly in 2011.

Macro and aggregate statistics, Estonia 2007-2013

Cumulative percentage change between 2007 and 2013 (2007 = 0)

	GDP	Employment rate	Public expenditure	Public revenue	HDI
2008	-5	1	8	-7	3
2009	-19	-8	5	-11	-4
2010	-17	-12	-6	-14	-10
2011	-10	-6	-6	-13	-7
2012	-6	-4	2	-9	-
2013	-5	-2	2	-10	-

Note: GDP: Gross domestic product by volume; Employment: employment rate of working-age population; Public expenditure: does not include general economic, commercial and labour affairs; Public revenue: only includes taxes and social contributions; HDI: mean household disposable income.

Source: OECD data from National Accounts Statistics, Labour Force Surveys and Income Distribution Database (IDD).

Tax-benefit measures implemented in Estonia included a tax cut in 2008; rises in social contribution rates in 2009 to 2011; real term increases in unemployment assistance in 2011 and 2013, housing benefit in all years but 2011, and social assistance in 2008 and 2011. The amounts of family benefits and income tax basic allowance were kept frozen in nominal terms since 2008 (inflation in the period was 25%). Pensions increased well above inflation in 2008 and 2009. In 2010, the indexation rules were changed allowing for lower rates in case of falling nominal wages or low economic growth (De Agostini et al, 2014). VAT standard rate was increased from 18% to 20%, in 2009.

Overall, simulated results suggest that analysed tax-benefit measures had a positive impact on family incomes, due to benefit rises and despite higher taxes and contributions. Families headed by people in long-term unemployment or earnings below the average wage were the main gainers, reflecting the rise in housing, unemployment and social assistance benefits. Families earning around and above the average wage were net losers due to the rise in social contributions.

Simulated effects of tax-benefit reforms on family disposable income, Estonia 2007-2013

Cumulate and annual percentage change of simulated family disposable income (2007 = 0)

	Total	Months in unemployment					% of AW										Pensions	VAT
		0-12	13-24	25-36	37-48	49-60	0-20	21-40	41-60	61-80	81-100	101-120	121-140	141-160	161-180	181-200		
Total	7	-2	24	24	24	24	23	2	2	-3	-3	-3	-2	-2	-2	-2	(+)i	(+)2
Taxes	-1	-1	0	0	0	0	-1	-1	-2	-2	-2	-1	-1	-1	-1	-1		(+)2
Benefits	8	-1	24	24	24	24	23	4	4	-1	-1	-1	-1	-1	-1	-1	(+)i	.
2008	1	1	1	1	1	1	1	-1	-1	1	3	3	2	2	2	2	(+)i	.
2009	2	-1	7	7	7	7	7	1	1	-1	-2	-1	-1	-1	-1	0	(+)i	(+)2
2010	1	-1	5	5	5	5	4	-1	-1	-1	-1	-1	-1	-1	-1	-1	(-)i	.
2011	1	-1	5	5	5	5	4	0	0	-2	-2	-2	-1	-1	-1	-1	(-)i	.
2012	-1	-1	-1	-1	-1	-1	-1	-2	-2	-2	-1	-1	-1	-1	-1	-1		.
2013	3	1	5	5	5	5	5	4	4	1	0	0	0	1	1	1	(+)i	.

Note: See Read Me.

Source: OECD Tax Benefit Model, OECD VAT database, De Agostini et al (2014).