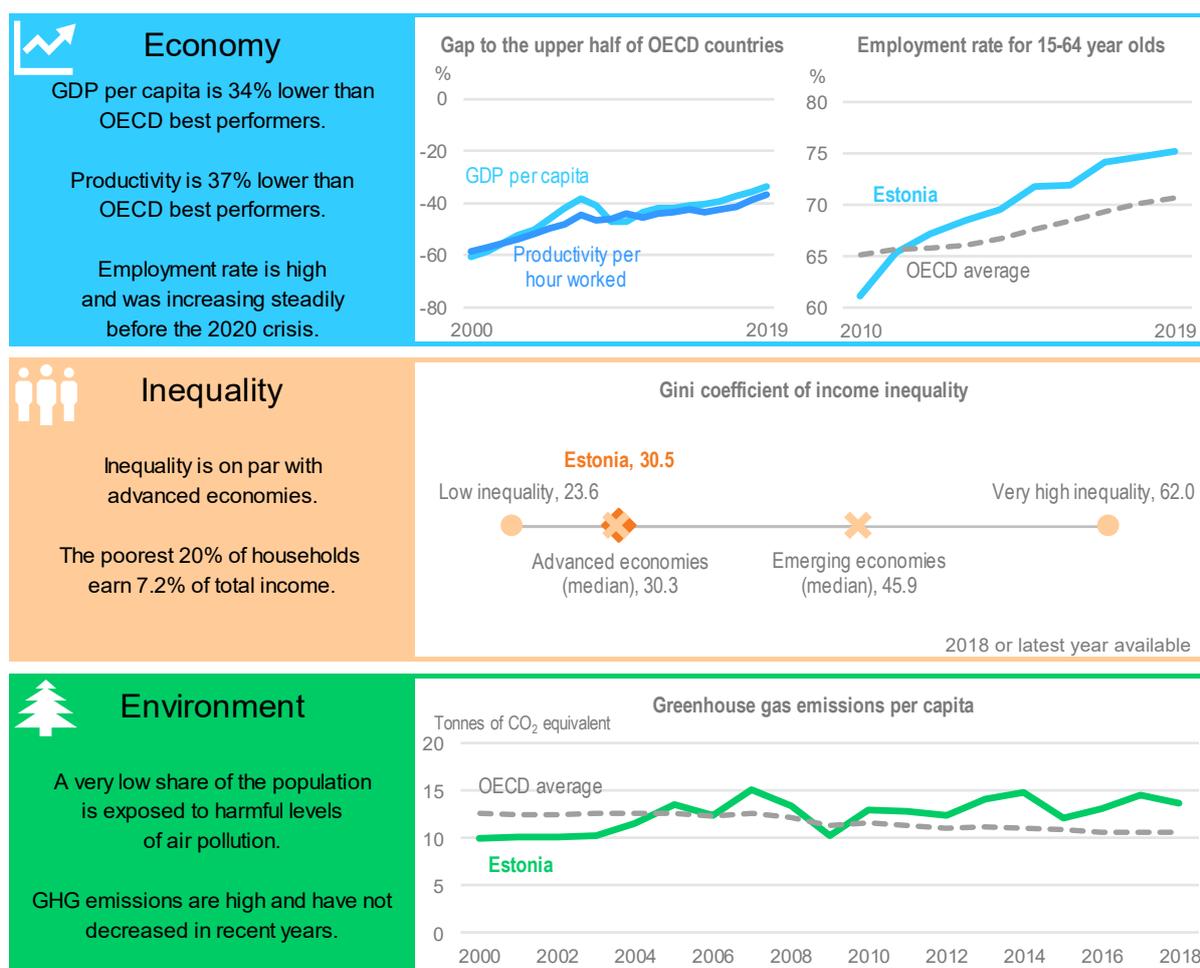


Estonia

The top policy priority is to recover strong labour-market performance while preparing the workforce for greater use of digital technologies and low-carbon economic growth. Unemployment is expected to remain higher than before the pandemic and several categories of workers risk losing attachment to the labour market.

Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

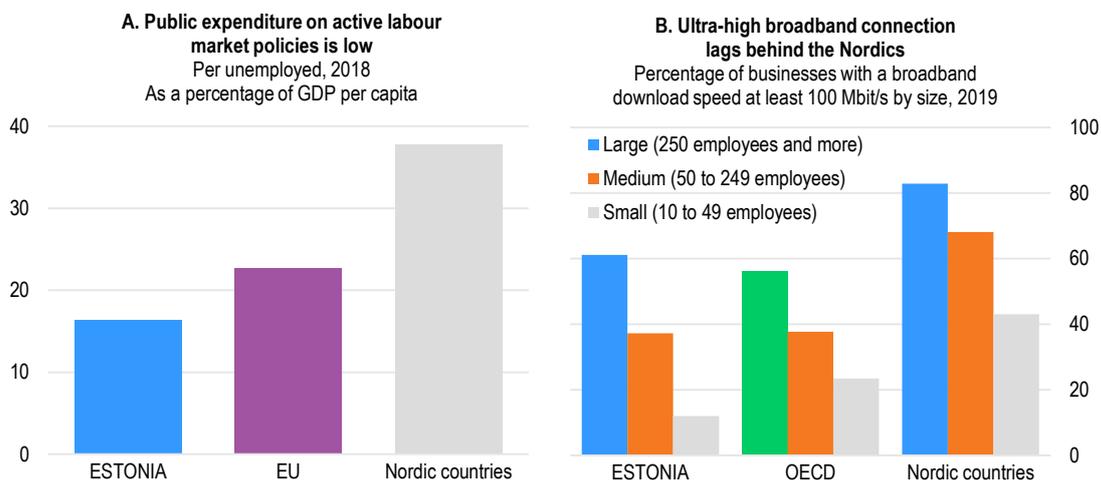
Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

Recovery policies for a strong and up-skilled labour market

To cope with accelerating digital diffusion and the transition toward a climate-neutral economy, **further ramping up of active labour market policies and training activities** for the unemployed, those at risk of unemployment and also displaced workers, is warranted. Spending on active labour market policies (ALMP) during the past few years increased and training is increasingly available to individuals at risk of unemployment, for example in traditional industries in the north-east region. While these measures are welcome, ALMP spending is still low compared with other OECD countries (Panel A). Job-search assistance and training for the low-skilled should be better aligned according to local labour markets needs, notably where carbon-intensive activities are concentrated. Specific interventions should also be put in place for older workers operating in those activities and for which digital skills and re-employment opportunities are relatively lower. Monitoring of training courses can also be further strengthened, by using *ex post* evaluation of training, including the monitoring of labour market outcomes of participants using Estonia government's strong digital capacities. The accreditation, which is used to evaluate all publicly funded learning programmes, should be extended to private programmes to signal and improve their quality.

The crisis has magnified the importance of business digital connectivity. Despite solid and secure digital infrastructure, world-leading e-government and high levels of trust among users of digital services, Estonian companies, in particular small ones, lag behind companies in other OECD countries on this front, hampering digital diffusion (Panel B). Fixed broadband coverage is lower than the EU average and download speeds of fixed broadband are low. **Digital infrastructure needs to be boosted** to improve access to digitalisation and make it a new driver of business growth. Public investment should better support coverage for ultra-fast broadband or other appropriate technology at an affordable cost, including subsidising last-mile rollout for smaller enterprises. Red tape in the application process for digital diagnostics, an exercise to determine digital needs of companies, should also be reduced, to increase take-up rates of technologies and identify gaps in digital infrastructure.

Vulnerabilities and areas for reform



Source: Panel A: OECD, Public expenditure and participant stocks on LMP and Economic Outlook Databases; Panel B: OECD, ICT Access and Usage by Businesses Database.

StatLink  <https://stat.link/uz5qjh>

Transition to a low carbon economy requires **improving energy efficiency and reducing the dependency on oil shale** while minimising social impacts. Estonia has the highest CO₂ emissions per unit of GDP and is the third most energy-intensive economy in the OECD, due to its heavy reliance on oil shale. The oil shale industry meets a dominant share of Estonia's energy needs and is a key employer in

the north-east of the country, where unemployment and poverty rates are high. Taxes and charges on oil shale mining should be reviewed and adjusted to reflect costs and externalities, while addressing social welfare and mitigating energy security concerns. Further inter-connection of the electricity grid with the European Union should be pursued. Incentives for increasing efficiency in district heating should be improved, for instance by applying benchmark regulation. Providing more financial support to low-income households for energy-saving investments would also improve energy efficiency of buildings.

Taxation is relatively growth-friendly but could be made more inclusive and environment-friendly. **The tax structure should be shifted** in a revenue-neutral way **towards property taxes or taxes correcting for environmental externalities**. The increased revenues could be used to lower high labour tax wedges by reducing social security contributions on low-pay workers to encourage employment and support an inclusive recovery.

The success of a green transformation will hinge on its ability to redeploy resources to new, cleaner activities. Moreover, despite the large stimulus provided to preserve firms and capital at the height of the pandemic, some business closures will be unavoidable. Once the recovery is underway, **the insolvency regime should be made less stringent** to promote a quicker recovery and an efficient reallocation of capital and skills. Estonia has ample room for improvement in terms of the framework and outcomes of corporate insolvency proceedings.

Estonia: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Labour market: In the wake of the crisis, activation and training are essential to maintain inclusiveness, particularly for the low skilled	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Since September 2019, support for the creation of regional jobs is provided to employers who created at least five jobs in either Ida-Virumaa county or South-Eastern region of Estonia through the European Social Fund. <input checked="" type="checkbox"/> Since September 2020, employees of the oil shale sector are offered specific in-service training without conditions. 	<ul style="list-style-type: none"> <input type="checkbox"/> Align training programs to local labour markets needs for the low-skilled and where carbon-intensive industries are concentrated. <input type="checkbox"/> Further strengthen the monitoring of training courses, by using ex post evaluation of training including labour market outcomes of participants. <input type="checkbox"/> Extend the accreditation system to all publicly funded learning programmes.
R&D and digitalisation: Boost digital infrastructure to promote business connectivity and dynamism	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> In December 2020, the Government decided to increase investments in high-speed broadband network, notably for sparsely populated areas where companies are not willing to invest themselves. <input checked="" type="checkbox"/> In addition, at least 73 mln euros have been allocated to digital transition in private sector, through supporting manufacturing, logistics, construction and tourism industry digitalization. 	<ul style="list-style-type: none"> <input type="checkbox"/> Direct public investment toward ultra-fast broadband coverage or other appropriate technology at an affordable cost. <input type="checkbox"/> Subsidise last-mile rollout for small firms. <input type="checkbox"/> Reduce red tape in the application process for digital diagnostics.
Energy: Improve energy efficiency to reduce high CO2 emissions	
No action taken.	<ul style="list-style-type: none"> <input type="checkbox"/> Review taxes and charges on oil shale mining to reflect costs and externalities. <input type="checkbox"/> Pursue further the connection to the European Union grid for electricity. <input type="checkbox"/> Apply benchmark regulation to increase efficiency in district heating. <input type="checkbox"/> Provide more financial support to low-income households for energy-saving investments to improve buildings' heating efficiency.

2019-2020 Reforms	Recommendations
Tax system: Tilt taxation away from labour to spur an inclusive recovery	
No action taken.	<input type="checkbox"/> Extend the tax base to residential property by using market values for the tax base. <input type="checkbox"/> Increase environmental taxes such as extraction and waste disposal taxes. <input type="checkbox"/> Reduce social security contributions on low-pay workers and create specific social programs for displaced workers.
Competition and regulation: Reducing the stringency of the insolvency regime to promote a quicker recovery and efficient reallocation of resources	
*New priority *	<input type="checkbox"/> Grant creditors a right to initiate restructuring. <input type="checkbox"/> Introduce early-warning mechanisms and pre-insolvency regimes. <input type="checkbox"/> Reduce the length of the period in insolvency during which creditors cannot continue debt collection.

Recent progress on structural reforms

Progress has been limited. Nevertheless, each of the areas identified are on the agenda of the government that took office in January 2021. The Bankruptcy Act has been adopted in December 2020, revising the existing insolvency legislation, for instance by creating an insolvency service, and aiming at speeding up proceedings. Further measures, such as the right of creditors to initiate restructuring, are scheduled for 2021. A two-stage quality assessment of in-service training institutions and a public feed-back system are under development.