ESTONIA

UNITARY COUNTRY

EUROPE

BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **Euro (EUR)**

POPULATION AND GEOGRAPHY

AREA: **43 432** km²

POPULATION: **1.316** million inhabitants (2014), a decrease of -0.3% per year (2010-14)

DENSITY: **30** inhabitants/km²

URBAN POPULATION: **67.6%** of national population

CAPITAL CITY: **Tallinn** (30.5% of national population)

Sources: OECD, Eurostat, World Bank, UNDP, ILO

ECONOMIC DATA

GDP: **36.99** billion (current PPP international dollars) i.e. 28 113 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.9%** (2014 vs 2013)

UNEMPLOYMENT RATE: **7.4%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **1 571** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **25%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.861** (very high), **rank 30**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
213 MUNICIPALITIES AVERAGE MUNICIPAL SIZE: 6 165 INHABITANTS	-	-	213

MAIN FEATURES OF TERRITORIAL ORGANISATION. Estonia has a single tier of local government comprising 213 municipalities recognised as self-governing by the 1992 Constitution. They include cities (*linnad*) and rural municipalities (*vallad*), all with the same legal status. The number of municipalities has gradually decreased since the 2004 Act on the Promotion of Local Government Mergers, however very slowly. Therefore, in 2014 the central government launched a new local government reform promoting, among other things, municipal mergers for 2015-18 (voluntary in a first phase through financial incentives, then compulsory) for municipalities under 5 000 inhabitants. Inter-municipal co-operation will be also promoted. All municipalities have the legal possibility to create sub-municipal entities (districts in cities and parishes in rural municipalities), with limited self-governing status. Only two cities and two rural municipalities have seized this opportunity. Estonia is also divided into 15 counties, which are administrative subdivisions led by governors appointed by the central government.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. Local government responsibilities are set by the Constitution and the Local Government Organisation Act of 1993. Municipalities are responsible for education (nursery, primary and secondary education), social welfare (services for the elderly, inclusion), housing and utilities, water supply and sewerage, waste, local planning, local roads and public transport, sports and culture (municipal libraries and museums), etc. The Local Government Reform, under preparation since 2014, provides for a possible reorganisation of functions between the central government and the municipalities, in particular in the secondary education sector, to allow for balancing the functions assigned to local authorities and their capacity to perform.

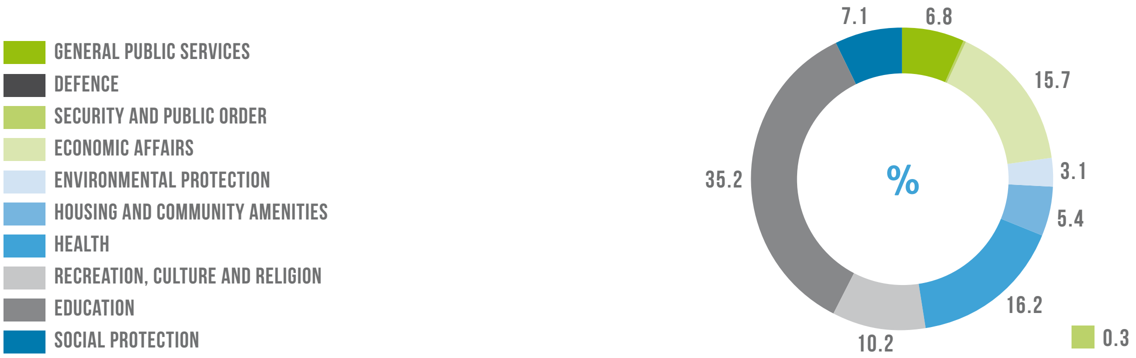
SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	**9.9%**	**25.8%**	**100%**
CURRENT EXPENDITURE	7.7%	-	78.3%
STAFF EXPENDITURE	4.2%	39.5%	42.2%
INVESTMENT	1.9%	35.9%	19.0%

Estonia ranks below OECD unitary countries regarding SNG share in GDP and total public spending, which accounted for 13% of GDP and 29% of general government on average in 2013. The share of municipalities in public staff spending is however significant, as municipalities are responsible for teacher salaries. Municipal share in public investment is also below the average of OECD unitary countries (56% of public investment) although capital expenditure represents an important portion of SNG expenditure.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE



The largest SNG expenditure category is by far education, as municipalities are responsible for both current and capital expenditure in this area, accounting for 3.5% of GDP. Health care and economic affairs/transport are the two second most important spending items, followed by recreation and culture.

REVENUE BY TYPE

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	**9.4%**	**24.7%**	**100.0%**
TAX REVENUE	0.4%	1.8%	3.8%
GRANTS AND SUBSIDIES	8.0%	-	85.2%
OTHER REVENUES	1.0%	-	11.0%

Municipalities depend highly on central government transfers, the share of taxes being negligible since the implementation in 2014 of the 2008 SNA methodology which reclassified some shared taxes as transfers and no longer as taxes. The local government reform initiated in 2014 includes a revision of the local financing system. The reform would foresee more leeway for municipalities in designing their own tax revenues and a reform of the equalisation system.

TAX REVENUE. Own-source taxes include the land tax on which municipalities have a certain leeway to set the rates which range from 0.1% to 2.5% of cadastral value of land excluding buildings. (0.3% of GDP). They also collect other minor local taxes which are optional according to the Local Taxation Act and rarely availed of (tax on advertising, parking fees, road tax, etc.).

GRANTS AND SUBSIDIES. Most municipal revenue (around 50% of municipal revenue) comes from the sharing with the central government, of the PIT receipts. The share for municipalities, which increased in 2013, was 11.6% of taxable income in 2014. Other grants are a block grant from the State Budget (17% of municipal revenue), an equalisation fund (6%) and other earmarked grants for current and capital expenditures from State Budget. Equalisation transfers are defined in the yearly state budget and are formula-based. They are distributed according to two main principles: an average spending need, based on the population size and age structure, and the revenues of each local government."

OTHER REVENUES. Other revenues for local governments include user charges and fees and revenues from economic activities (around 10% of municipal revenues), the remaining part being property income (rents and sales of assets).

OUTSTANDING DEBT

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	4.6%	34.1%

The 2014 State Budget Act introduced a budget balance rule for the general government, with a breakdown by level of government. Municipalities can contract long-term loans or bonds but only to fund investment projects (golden rule). Limits for local debt were introduced from 2009 to 2012. According to the Financial Management of Local Authorities Act of 2012, the debt ceiling for local governments ranges from 60% to 100% of the current year operational revenues (depending on SNG self-financing capacity). While the weight of local debt in GDP is significantly lower than OECD unitary country averages (15% of GDP in 2013), its share in total public debt is high, central government debt being in turn limited. In 2013, the share of loans for municipal outstanding debt accounted for 56%, that of bonds, 22%, the remaining part being made up "other accounts payable."

A joint- study of:

UCLG United Cities and Local Governments

OECD

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Sources: OECD National Accounts Statistics • OECD (2015 and 2016), Subnational Governments in OECD Countries: Key data • Chatry I., Hulbert C. (2016), Multi-level governance reforms: Overview of OECD country experiences, OECD publishing • OECD (2015), The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries • National Audit Office (2014), Report of the National Audit Office for the Riigikogu, Tallinn 2014 Overview of the use and preservation of state assets in 2013-2014 Summary of Problems in the Development and Economy of Estonia • European Committee of the Regions (2014), Division of Powers Between the European Union, Member States, Candidate and some Potential Candidate Countries, and Local and Regional Authorities: Fiscal Decentralisation or Federalism • Dexia (2008), Subnational governments in the European Union: organisation, responsibilities and finance.