

# Estonia 2016

**Total: 78.62**

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## Quick facts

Population:	1.313 million
Unemployment rate:	6.1 %
GDP:	21.274 billion EMU
GDP growth rate:	1.1 %
GDP per capita:	16 200 EMU

## Political Freedom

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### Free and Fair Elections : 9.64

Estonia is a constitutional democracy with a 101-seat unicameral parliament. Freedom and fairness of elections in this country is always respected in practice. Last parliamentary elections, held in March 2015, were another proof of that. As a significant improvement at the last elections, 30% of participating voters used opportunity to cast the ballot electronically. Elected government, consisted of the most dominant Reform Party, Social Democratic Party and Union of Pro Patria and Res Publica, held certain disputes at the beginning of the term, which even led Social Democrats (SD) to question their participation in the coalition. After they decided to continue, all ministers from SD were replaced. Non-citizen residents are not allowed to organize or join political parties and do not vote at national elections. This means that ethnic Russian residents whose citizenship is still undetermined - around 7% of the population - can't participate in the political life at the national level.

### Absence of Unconstitutional Veto Players : 9.17

There are no unconstitutional veto players in Estonia, thus nobody could interfere into decision making process. Elected government held effective power to govern the country. Although Estonia almost doesn't have a problem with corruption, two cases that happened during 2015 took this high position into question. First, executives of the state owned Port of Tallinn were arrested on bribery charges, and soon afterwards a leader of the main opposition Center Party has been accused and investigated for taking bribes. Estonian security forces are under civilian control.

## **Freedom of Press : 8.4**

Estonian media landscape, including both traditional and online media outlets, is free and pluralistic, expressing diverse opinions on all questions. Public Broadcasting Council is generally unbiased and professional, although consisting only of people named by the parliament, 4 representatives of the governing parties and 4 experts. Ownership structure of the media outlets is transparent, but a trend of ownership concentration that engulfed Estonia posed a possible threat to press independence. Large Russian minority population finally got a television channel in Russian language, but many accused government that it launched the channel just to counterbalance the propaganda of the Russia-based TV stations.

## **Rule of Law**

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### **Independence of the Judiciary : 6.67**

Amid high levels of political stability, Estonia has, since independence, tremendously advanced in changing the Soviet-era system of full adherence of judiciary to the executive towards the one of judicial independence from daily politics. Recent reforms since 2014 have further improved the performance of courts, accelerated law enforcement and eased the problem of overcrowded prisons. Simplified regulation and reliance on self-regulation of the economy and civil society enabled judiciary to better deal with the tasks necessary for maintenance of the rule of law. In nomination of judges, checks and balances are kept between President, Parliament and judicial bodies. Constitutional Court has proven its independence and non-bias - roughly half of the government measures it deals with are rejected.

### **Corruption : 7**

Estonia is advancing towards the status of a country where corruption is a lesser problem. In 2015, it arrived to the place 23 of 168 countries in the Transparency International Corruption Perception Index, following a rise in previous years. Its score again rose, to 70. It is the least corrupt of all transition countries in Europe. Extensive liberalization of the economy, as well as simplification of administrative procedures by introduction of e-government (even "e-citizenship"), have both largely contributed to this success, on top of the classic institutional anti-corruption mechanisms or of raising the awareness in society. However, in 2015, a large scandal erupted in the city hall of Tallin. The Mayor was suspended by a court. An investigation was opened against him on the charges of bribery, illicit party financing and trans-border money laundering. His political party nevertheless supported him. By spring 2016 the trial was in preparation.

## Protection of Human Rights : 7.63

Estonia maintains high standards regarding human rights. It is ahead of other Baltic countries but still below Scandinavia. Freedom of thought and expression, of the media, or of religion or art or academic research, is well respected. The entire relationship between the citizen and the state is ever more built on democratic and liberal principles. Serious attempts are made to keep security forces checked by society and to protect the privacy of citizens along with their right to access to information. Sexual minorities enjoy better protection than elsewhere in Baltic - among other measures, the Civil Cohabitation Act has been carried. Civil society organizations play a crucial role in shaping and safeguarding the system. In some of the remaining disputable fields, such as identity politics, the policies are changing. Estonian government has agreed to inner-EU quotas for refugees and asylum seekers, despite the negative public opinion, itself increasingly subject to right-wing hate-speech. As Amnesty International noted, in early September 2015 there was an arson attack against the only country's reception center for asylum seekers. Government-funded TV programs in the minority Russian language struggle for their share of the market, itself until recently - due to previous neglect - monopolized by the propaganda coming from Russia. Holocaust denial and Anti-Semitism are actively opposed by the government officials. The official narrative on WW2 history seems to be switching from a complaisance for Nazi collaborators towards the story of "two [subsequent] occupations" and the affirmation of the (however weak) pro-democracy and pro-independence anti-Nazi resistance.

## Economic Freedom

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### Security of Property Rights : 7.26

Property rights are well respected in Estonia. The state has the right of expropriation in certain cases in the public interest (mostly for building public infrastructure), but this right is seldom exercised and the property is exchanged for a market-price compensation. The judiciary is independent from the government influence and integrity of the legal system is not undermined. However, courts are overburdened, leading to prolonged processes of trial, which on average last for 425 days. The courts also unnecessarily deal with enforcement of contracts. Court automation is streamlining paperwork and is ensuring impartiality in court dealings. Arbitration is used in many cases, as cheaper and less time consuming. The police are mostly reliable and business costs of crime are low. Although foreign nationals (outside of the EU) can purchase and own land, there are certain restrictions in this regard - such as permission of the local authorities or even county governor, and bans on acquiring land on small islands or alongside the border with Russia.

### Size of Government: Expenditures, Taxes, and Enterprises : 6.84

Estonia has a government limited in scope. Government expenditures stood at 39% of GDP in 2015, lower than in most EU countries. Public debt is among the lowest in the world, below 10% of GDP, mostly due to a strong fiscal consolidation package implemented in 2009 to eliminate government borrowing. Public finances have been recording minor budget surpluses in recent years. Robust economic growth and a sharp fall of the unemployment rate that followed these

reforms came to a still. Current sluggish growth is mostly the result of a slowdown among Estonia's main economic partners, but growth rates are expected to pick up. Estonia was the first country in Eastern Europe to adopt flat tax system, but minor progressive characteristics such as non-taxable exemption of 2040 EMU make Estonian tax system stand in between proportional and progressive. Personal income tax has been steadily decreasing during the previous decade, from 26% in 2004 to 20% in 2015. The overall tax wedge is slightly above the OECD average, due to high social security contributions for pensions and healthcare (standing at 33%). Estonian privatization program is now considered as completed, with only a small number of companies in state ownership, such as the lottery, power plants, the main port and the national air carrier. Subsidies are very low, below the EU average. However, the debate on the national air company has exposed the state aid provided it by the government after 2010, which was illegal according to the EU rules. Instead of repaying the sum, Estonian Air went bankrupt and was replaced with Nordica air company, also owned by the government.

## **Regulation of Credit, Labour, and Business : 7.21**

Estonia has created and maintained an overall business-friendly environment, attracting high amounts of foreign direct investment, as well as enabling domestic entrepreneurial spirit, thus having one of the highest numbers of entrepreneurs per capita. Starting a business is easy and cheap. Estonia continued cutting bureaucracy by allowing for the minimum capital required to be deposited at the time of company registration. Tax regulation is simplified and considered to be among the most efficient in the world, with simple procedures and high usage of electronic tax filing. Obtaining construction permits and getting electricity is quick, although the latter could be expensive. There are few administrative requirements and licensing in conducting daily business, which helped bring corruption to a low level, which is also to do with widespread usage of ICT among public institutions. Electronic residency is one of the ways of exporting Estonian business-friendly environment abroad: entrepreneurs that are foreign nationals residing abroad can easily register and run a company under Estonian laws. Labour regulation is characterized by flexible and stringent regulation of the work place, with little requirements and costs for redundancy workers, but with notice periods that increase with the duration of worker's tenure (one to three months), and low severance pay. Maximum work week is set at 5 days but with prolonged workweeks in case of workload increase. There are restrictions on night work. Mandatory military service lasts between 8 and 11 months. Monthly minimum wage is high, being increased for more than 10 percentage points, from 390 to 440 euro. This hike is just another in the series of minimum wage increases. Since 2012, the minimum wage has been increased for approximately one half.

## **Freedom to Trade Internationally : 8.8**

Estonia, as a small economy, has been oriented to foreign trade more than many other European countries, since international trade allows for production specialization. Estonia has therefore pursued a very open foreign trade policy since the beginning of the economic and political liberalization, eliminating almost all tariffs and other free trade restrictions. Estonia was the only country who had to increase the tariffs for the sake of harmonization with the common European trade policy prior to EU accession, not to decrease them as was the case of all other CEE countries. A strong contributor to fostering trade links and free trade is transport infrastructure, which is significantly decreasing costs. Quick and easy administration allows for goods to be imported or exported with great efficiency, due to the minimum paperwork and costs. Estonia, alongside France and Germany, set a performance efficiency frontier for border compliance for international trade, both in time required and monetary costs. Estonian main trade partners are its Nordic and Baltic neighbors, as well as Germany and the Russian Federation. Due to shortages in

labour, mostly by demographic developments as well as net emmigration to other EU countries, Estonia has streamlined its immigration procedures in order to allow for easier hiring of qualified immigrant workers.