



Estonia



Did you know...?

Geography It is estimated that Estonia has 1,500 islands and islets, as well as over 1,400 lakes. The average annual temperature is 41.4°F (5.2°C).

History Under the Treaty of Nystad of 1721, Sweden formally sold Estonia to Russia. The Treaty manifested a decisive shift in the European balance of power: Sweden entered The Age of Liberty, while Russia emerged as a new empire.

Language The Estonian language is closely related to Finnish, but bears no resemblance to the languages of the other Baltic republics, Latvia and Lithuania, or to Russian.

Culture Estonians consider themselves Nordic people rather than Baltics, due to their close post-independence ties to the Nordic countries, especially Finland and Sweden.

Fun Fact Estonia has the highest number of meteorite craters per land area in the world. The largest recent crater is called Kaali.

An overview of Estonia's economy

Estonia's economy was hit hard during the financial crisis, but it is now recovering, thanks to economy's flexibility and governmental decisions.

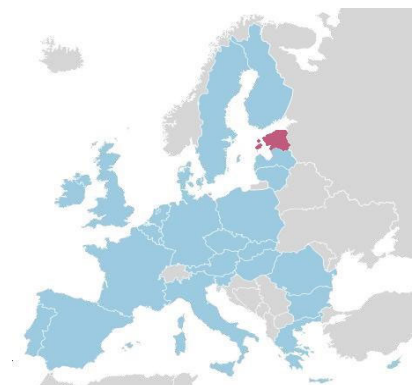
Estonia joined the European Union in 2004 together with nine other states as part of the largest single EU expansion both in terms of territory and population. Along with Latvia and Lithuania, Estonia was formerly part of the Soviet Union, and regained its freedom in 1991. It is the most recent country to adopt the euro, on the 1st January, 2011.

Ever since obtaining becoming independent from the Soviet Union, Estonia started to move away from the system of a centrally planned economy, under which the Soviet government allocated and priced resources (as opposed to market forces). After years of privatization and setting up western-style institutions, Estonia has become a modern market economy, which boasts one of the higher per capita GDP levels in Central Europe and the Baltic region. The World Bank ranks Estonia as a high income country, and it has often been described as the "Baltic Tiger". Estonia is ranked 14th in the 2011 Index of Economic Freedom, higher than any other former Soviet country and even above other euro area member states.

The country was hit hard during the 2007–2009 economic crisis. After growing at an average of

8.3% per year for most of the previous decade, Estonia contracted by 17.7% during the downturn (second largest EU contraction after Latvia), following a collapse of the property bubble and troubles in the banking sector. Since then, Estonia underwent a painful yet successful downward adjustment of prices and wages (the so-called "internal devaluation") while keeping its exchange rate aligned to the Euro in order to regain competitiveness. As the result, the country returned to growth in 2010, and it expected to grow by 5.1 % in 2011.

According to the International Monetary Fund, Estonia should now focus on restoring economic stability and laying the foundations for more balanced growth. Although Estonia does not suffer from fiscal problems unlike many of its Eastern European neighbors, the IMF suggests that the country's large stock of household and corporate debt could weigh on its growth.





Estonia's Economy – Key Facts

- Despite high post-independence growth and improving market dynamics, Estonia's GDP per capital is one of the lowest in both the EU and the euro zone. It is almost 40% lower than the EU-27 average. It deteriorated during the crisis from €12,000 per person to €10,200 per person, but has since improved.
- The World Economic Forum's (WEF) Global Competitiveness Report for 2011/2012 ranked Estonia 33th out of 139 countries in terms of competitiveness, improving from last year's 35th place. Nevertheless the country continued to be characterized by efficient institutions, well-functioning markets, and strong uptake of new technologies. By far the most problematic factor for doing business is access to financing.
- The World Bank's Doing Business Report ranked Estonia 17th out of 183 countries in 2011.
- According to the European Commission's Spring 2011 forecast, economic growth is expected to be 4.9% in 2011, but decelerate to 4.0% in 2012. Exports are expected to be the main growth driver in the short term. The Commission also states that the pace of recovery will be determined by the health of the banking sector.
- Three austerity packages were passed in 2009, totaling over 9% of GDP. They included cuts in public consumption, slower growth in social benefits, and increases in various taxes. The Estonian government is running either small budget deficits (0.6% of GDP in both 2011 and 2.4% 2011), and has low government debt (6.1 percent of GDP in 2011 which is expected to rise to 6.9% in 2012).

References

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Inflation The harmonized inflation rate declined sharply and turned negative in mid-2009. This was essential to restore the country's competitiveness. Inflation is expected to be at 3.0% in 2011 and 2.9% in 2012.

Labor market Despite the introduction of legislation increasing flexibility in the labor market and efficiency of public employment services, unemployment remains at a high 14.2%, down from 16.8% in 2010.

Labor force Despite population ageing, participation rates (i.e. labor force as a share of population) appear to be resilient, reflecting a growing share of second wage earners and a tendency to work longer.

Trade Exports and imports together comprise over 150% of Estonia's GDP, which means that the country heavily relies on trade.

Tourism The capital, Tallinn, is one of the best-preserved medieval cities in Europe, and tourism accounts for 15% of Estonian GDP.