COMMISSION OPINION

of 16.11.2016

on the Draft Budgetary Plan of Estonia
COMMISSION OPINION

of 16.11.2016

on the Draft Budgetary Plan of Estonia

GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING ESTONIA

3. On the basis of the Draft Budgetary Plan for 2017 submitted on 17 October 2016 by Estonia, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. The Commission opinion is to be seen in light of the latest economic and budgetary data. In this context, as indicated in the Commission recommendation for a Council Recommendation on the economic policy of the euro area as well as in the Commission Communication 'Towards a positive fiscal stance for the euro area', it is important that the aggregate fiscal stance of the euro area is positive and supports the ongoing recovery, while ensuring the long-term sustainability of national public finances.

5. Estonia is subject to the preventive arm of the SGP and should preserve a sound fiscal position which ensures compliance with its medium term budgetary objective (MTO) of a structural balance of 0% of GDP.

6. Overall, the Draft Budgetary Plan is based on plausible macroeconomic projections. Estonia's real GDP growth reached 1.4% in 2015. The Draft Budgetary Plan projects GDP growth to remain low at 1.3% in 2016, but to accelerate to 2.5% in 2017 on the back of rebounding investments and a rise in exports in line with an improved outlook for the external environment. The forecast for both 2016 and 2017 has been revised downwards compared to the Stability Programme presented in spring 2016, principally due to slightly weaker-than-expected domestic demand. That scenario is broadly in line with the Commission 2016 autumn forecast, which expects slightly lower real GDP growth for 2016 at 1.1% and 2.4% in 2017.

7. Estonia complies with the requirement of Regulation (EU) No 473/2013 that the draft budget must be based on independently endorsed or produced macroeconomic forecasts. The macroeconomic forecast underlying the Draft Budgetary Plan has been endorsed by the Estonian Fiscal Council. In its endorsement of the forecast the Fiscal Council, however, flagged that there is significant uncertainty regarding the estimates of the output gap given the contradicting performances of the labour market and GDP growth. According to the Fiscal Council, that uncertainty might
indicate that the structural position of the budget might be weaker than estimated in the Draft Budgetary Plan.

8. Estonia's Draft Budgetary Plan projects the general government surplus to increase from 0.1% of GDP in 2015 to 0.3% of GDP in 2016. The projection for 2016 shows a significant improvement compared to -0.4% of GDP in the 2016 Stability Programme, mainly due to better-than-expected labour tax income and lower investment expenditure due to delays in investment programmes. In 2017, public finances are projected to turn sharply into a deficit of 0.6% of GDP, 0.1% worse compared to the target set in the Stability Programme. The weakening compared with the previous year mainly reflects the assumed rebound in investment expenditure, some new social measures and expenses related to the Estonian EU Council Presidency being brought forward. The recalculated structural balance is estimated to weaken from a surplus of 0.5% of GDP in 2016 to a deficit of 0.2% of GDP in 2017. The currently low interest rate environment has a negligible effect on the fiscal position of Estonia, given that total interest expenditure amounts to only 0.1% of GDP and gross debt amounts to about 10% of GDP.

9. The Draft Budgetary Plan presents only those discretionary measures which were announced by the government in the draft 2017 budget, leaving out changes already legislated or decisions taken in the Stability Programme in spring 2016. The measures presented in the Draft Budgetary Plan have a net deficit-increasing effect of 0.1% of GDP in 2016, and a net deficit-decreasing effect of 0.2% of GDP in 2017. The main new measure is a sale of 5G mobile network licences in 2017 (deficit-decreasing effect of 0.1% of GDP).

10. The Commission 2016 autumn forecast projects a more favourable fiscal position than the Draft Budgetary Plan, i.e. better by 0.2% of GDP in both 2016 and 2017. This is mainly linked to more optimistic revenue projections for 2016 (based on the budgetary outcome as of September 2016), which also carry into 2017. At the same time, the Commission's structural balance projections are similar to the Draft Budgetary Plan for 2016 and 2017. Overall, the risks to the Draft Budgetary Plan's fiscal targets are assessed to be balanced, considering that they are based on a macroeconomic scenario which is in line with the Commissions' projections.

11. According to the information provided in the Draft Budgetary Plan, the recalculated structural balance is estimated to improve to a surplus of 0.5% of GDP in 2016, well above the MTO. This is also confirmed by the Commission forecast.

In 2017, the recalculated structural balance is estimated by the Draft Budgetary Plan to weaken to -0.2% of GDP, similarly to the Commission forecast. Based on the Draft Budgetary Plan, the structural balance points to some deviation (gap of 0.1% of GDP), while the expenditure benchmark points to compliance (positive margin of 0.7% of GDP). This is broadly in line with the Commission forecast. The main difference between the structural balance and expenditure benchmark indicator stems from the volatility of public investment in 2016 and 2017. The postponement of investment from 2016 to 2017 is captured in the structural balance, while it is smoothed in the expenditure benchmark indicator. In the current case, the smoothed investment profile gives a better indication of the underlying structural position. On the basis of that overall assessment, Estonia is expected to comply with the requirements of the preventive arm of the Pact.

12. The Draft Budgetary Plan presents measures in response to the Country Specific Recommendations issued by the Council in the context of the 2015 European
Semester, notably regarding local government reform and public services at local level, the gender pay gap, and investment in research, development and innovation (the country-specific recommendations did not include fiscal-structural issues). Most of those measures concern legislative changes and strategic development plans with medium term fiscal implications, also affecting the 2017 budget.

13. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Estonia, which is currently under the preventive arm, is compliant with the provisions of the SGP. In line with the Commission Communication 'Towards a positive fiscal stance for the euro area', Estonia is invited to implement its 2017 budget.

Done at Brussels, 16.11.2016

For the Commission
Pierre MOSCOVICI
Member of the Commission