

ESTONIA

There has been rapid catch-up in the wake of EU entry, but the large gap in GDP per capita vis-à-vis the upper half of OECD countries has widened again recently. This gap in living standards reflects a productivity shortfall, while labour utilisation is relatively high. To reach a higher trend productivity growth rate, structural reforms in the areas below are needed.

Priorities supported by indicators

Reduce entry barriers in network industries

Due to energy security concerns, barriers to entry in network industries remain high, with detrimental effects on economic efficiency.

Actions taken: Interconnection capacity with the Nordic electricity market has been increased and electricity generation from the only domestic energy source (oil shale production) is being upgraded on environmental grounds.

Recommendations: Open the electricity market for more suppliers. Use more market incentives to increase energy efficiency, including a better public/private mix in passenger transport.

Reduce administrative burdens on businesses

Although regulatory procedures are more streamlined and transparent than those of regional peers, they are more burdensome than in the average OECD country. Such remaining regulatory and administrative opacity in the business environment hampers entrepreneurship and productivity.

Actions taken: No action taken.

Recommendations: Consider whether restrictions on land purchases by non-EU citizens for strategic reasons can be relaxed for permanent residents.

Improve the attractiveness for FDI in export-oriented manufacturing

Barriers to foreign ownership have been reduced, but still exceed EU-21 levels and hamper FDI flows, technological spillovers and productivity growth in the tradable sector.

Actions taken: Enterprise Estonia was created, merging various state agencies for supporting businesses.

Recommendations: Monitor the effectiveness of implemented policies, and in particular that of the grants-based approach which requires the ability to pick winners.

Other key priorities

Improve the quantity and quality of placement services

Given the current elevated levels of unemployment, the risk of long-term unemployment is increasing.

Actions taken: The employment office (under administration of the unemployment fund) has received more funds to deal with the surge of unemployment after the crisis struck.

Recommendations: Further improve the capacity of the unemployment fund to provide efficient job-search assistance, including for those unemployed whose benefits have expired.

Improve private bankruptcy procedures

The recent rapid credit growth during the boom years results in households trapped in unaffordable loan-financed housing, thus constraining domestic consumption and growth.

Actions taken: No action taken.

Recommendations: Actively manage restructuring, including relocating owner-occupiers to smaller, more affordable housing. Make sure banks cannot develop and exercise monopsonistic practices, such as exorbitant interest rates or unfair fee structures. Review private bankruptcy procedures.

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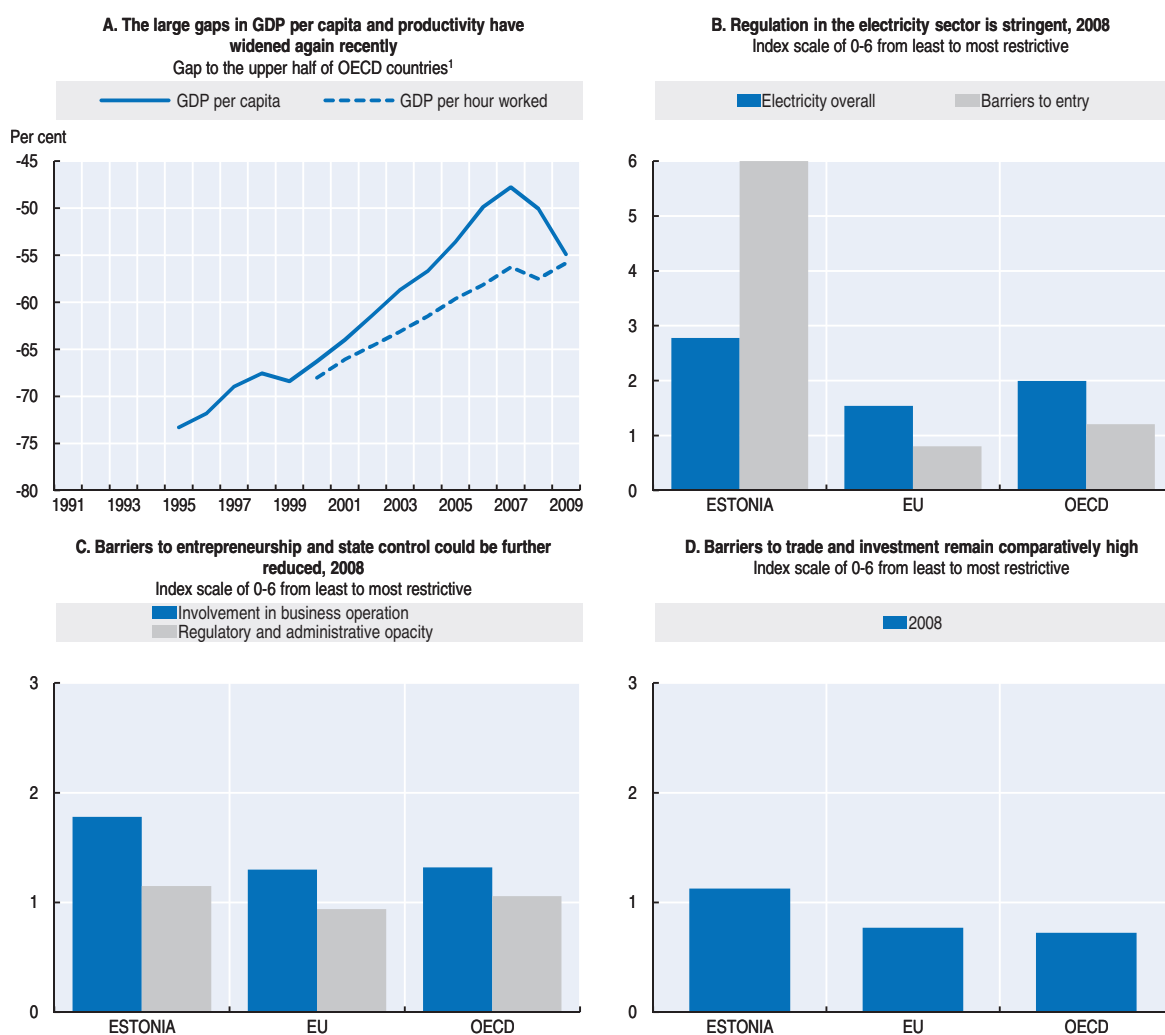
Structural indicators

Average annual trend growth rates, per cent

	2000-2009	2000-2004	2004-09
GDP per capita	5.5	7.6	3.8
Labour utilisation	..	..	..
of which: Employment rate	0.5	1.3	0.0
Average hours	..	..	..
Labour productivity ¹	4.9	6.3	3.9
of which: Capital intensity	..	..	..
Multifactor productivity	..	..	..

1. Labour productivity is measured as GDP per employee.

Source: Estimates based on OECD (2010), OECD Economic Outlook No. 88: Statistics and Projections Database.



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs).

Source: Chart A: OECD, National Accounts and OECD Economic Outlook No. 88 Databases; Charts B, C and D: OECD, Product Market Regulation Database.

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