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**COMMISSION OPINION**

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**on the Draft Budgetary Plan of ESTONIA**

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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 2016 submitted on 15 October 2015 by Estonia, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. Estonia is subject to the preventive arm of the Pact and should avoid deviating from the medium-term budgetary objective (MTO) in 2015 and 2016.

5. The national macroeconomic forecast, which is incorporated in the 2016 Draft Budgetary Plan, projects GDP growth to moderate from 2.9% in 2014 to 1.7% in 2015 before accelerating to 2.6% in 2016. The forecast for both 2015 and 2016 has been revised downwards compared to the 2015 Stability Programme, principally due to the weaker external outlook. This scenario is broadly in line with the Commission 2015 autumn forecast, which expects slightly higher real GDP growth for 2015 at 1.9%, but the same growth rate as in the Draft Budgetary Plan for 2016. Similarly, both forecasts expect domestic demand to drive growth, with relatively strong wage growth. Inflation is forecast by the Draft Budgetary Plan to increase from about zero in 2015 to 2.3% in 2016. The Commission also expects an acceleration of inflation in 2016, reaching 1.8% on average. Overall, the Draft Budgetary Plan’s outlook is based on plausible macroeconomic assumptions.

6. Regulation (EU) No 473/2013 requires the draft budget to be based on independently endorsed or produced macroeconomic forecasts. The macroeconomic forecasts underlying the Draft Budgetary Plan have been endorsed by the Fiscal Council which is an independent body. In its endorsement of the forecasts, the Fiscal Council flagged downside risks to the macroeconomic scenario stemming from the external economic environment in 2016.

7. Estonia's Draft Budgetary Plan projects the general government surplus to fall from 0.7% in 2014 to 0.0% of GDP in 2015 and turn into a deficit of 0.1% of GDP in 2016. The projection for 2015 is significantly better than expected in the 2015 Stability Programme, mainly due to better-than-expected revenue collection and extraordinary revenues from corporate income tax amounting to 0.5% of GDP. The headline target for 2016 is unchanged compared to the Stability Programme.

The currently low interest rate environment has only a negligible effect on the fiscal position in Estonia, given that total interest expenditure amounts to only 0.1% of GDP. The (recalculated) structural balance is estimated at a surplus of 0.3% of GDP in 2015 and at 0.0% of GDP in 2016.

8. The Commission 2015 autumn forecast projects a higher headline surplus than the Draft Budgetary Plan, i.e. 0.2% of GDP in both 2015 and 2016, mainly owing to somewhat more optimistic revenue assumptions. At the same time, the Commission's structural balance projections are similar for 2015 and slightly higher for 2016. Overall, the risks to the Draft Budgetary Plan's fiscal targets can be considered as limited. Also, implementation risks for 2016 are low as most of the tax measures have already been legislated. Still, the tax measures require close monitoring in order to fully deliver their intended yields.

9. The debt-to-GDP ratio is projected to decrease to 9.6% of GDP in 2016, which is fully in line with the Commission 2015 autumn forecast. Risks related to the debt projections are low as the general government fiscal position is close to balance.

10. The measures presented in the Draft Budgetary Plan have a net deficit-increasing effect of over 0.3% of GDP in 2015 and below 0.1% of GDP in 2016. In essence, the new measures entail lower dividend revenues from state owned enterprises in 2015, but higher dividend revenues in 2016, as well as various expenditure increases in 2016. The dividend distributions from state-owned enterprises constitute a high degree of uncertainty for the medium-term planning.

11. Estonia registered a structural surplus of 0.3% of GDP in 2014, which is above its MTO of a structural balance. According to the information provided in the Draft Budgetary Plan, with a structural surplus of 0.3% in 2015 and 0.0% of GDP in 2016, Estonia is expected to continue be above its MTO also in those years, which is confirmed by the Commission 2015 autumn forecast.

12. The Draft Budgetary plan contains measures that affect the tax burden on labour, lowering the tax wedge both for the average wage earners and the low wage earners. The Draft Budgetary Plan also lists a number of measures that respond to the structural country-specific recommendations issued by the Council in the context of the 2015 European Semester. The bulk of the measures aim at strengthening labour supply by lowering the labour tax burden, Work Ability Reform, as well as strengthening active labour market policies, childcare policies and vocational training.

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 Stability and Growth Pact. A comprehensive assessment of progress made with the implementation of the CSRs will be made in the 2016 Country Reports and in the context of the Country Specific Recommendations adopted by the Commission in May.

Done at Brussels, 16.11.2015

*For the Commission*
*Pierre MOSCOVICI*
*Member of the Commission*

CERTIFIED COPY
For the Secretary-General,

Jordi AYET PUIGARNAU
Director of the Registry
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