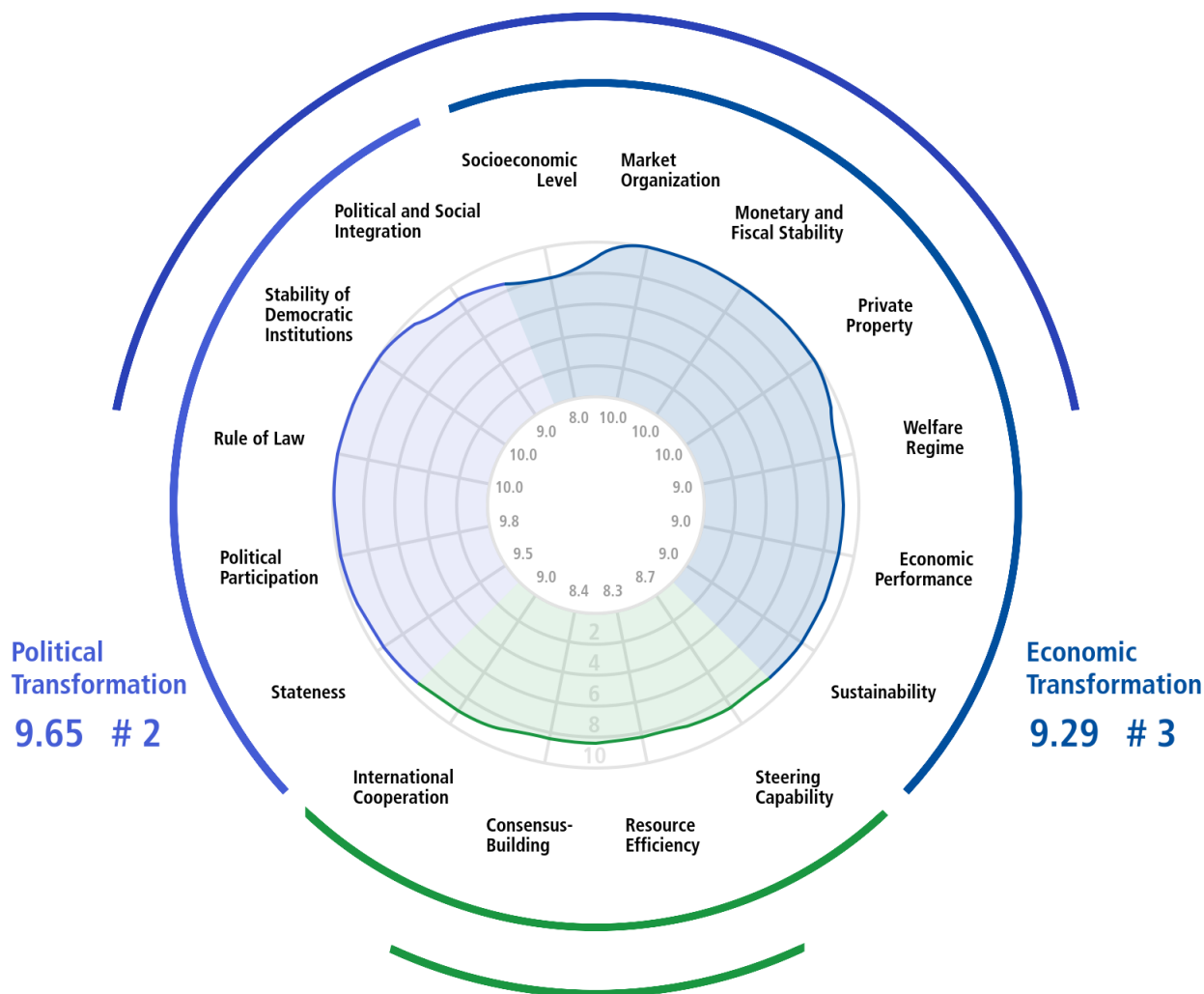


Estonia

Status Index

9.47 # 2

on 1-10 scale out of 137



Political Transformation
9.65 # 2

Economic Transformation
9.29 # 3

Governance Index

7.02 # 7

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	1.3	HDI	0.892	GDP p.c., PPP \$	37925
Pop. growth ¹	% p.a.	0.3	HDI rank of 189	29	Gini Index	30.3
Life expectancy	years	78.5	UN Education Index	0.882	Poverty ³	% 0.5
Urban population	%	69.2	Gender inequality ²	0.086	Aid per capita	\$ -

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

Prime Minister Jüri Ratas (Center Party, KE) remained in office from 2016 to the end of the review period. However, the nature of the government changed considerably following the parliamentary elections in March 2019. The Reform Party (RE) won a third of the seats in the Riigikogu, the Estonian parliament, but was excluded from the governing coalition. Instead, the runner-up, the KE, formed a majority coalition with the far-right Conservative People's Party (EKRE) and its erstwhile junior coalition partner Pro Patria, a more moderate established conservative party.

During the review period, many of the tenets of the previous government policies remained intact, as only moderate changes were made to economic and foreign policies. However, the new coalition was marked by significant turmoil due largely to the provocative rhetoric of the EKRE and an unusually high turnover in ministers. The party espoused a polarizing agenda (particularly on migration and equal rights), fear of the “deep state” and other Trumpian tropes, and a general dislike of liberalism and socialism. In practice, the EKRE had less impact on policies – few of its most controversial ideas made it into the coalition agreement – than on the political atmosphere. Early on, following the signing of the coalition agreement, the EKRE's leadership urged the media to behave more responsibly – to which President Kersti Kaljulaid protested by wearing a jumper stating “Speech is Free” to the government's instauration ceremony.

Disagreements with the EKRE often proved awkward for Ratas, who frequently had to explain and publicly apologize for the EKRE's behavior, while seemingly holding his nose when advancing elements of the EKRE's political agenda that had been incorporated into the coalition agreement. The EKRE's proposal to hold a referendum in 2021 on enshrining marriage as a union between a man and a woman was particularly polarizing and was canceled once the government stood down in January 2021.

The government was remarkably united in its approach to the main governance challenge during the review period – responding to the COVID-19 pandemic. There were very few if any public disagreements within the coalition or even between coalition and opposition parties. It is fair to assume that this was related to the fact that, while certainly very challenging, the economic and public health impacts of the coronavirus were less severe than expected, at least during the first wave. By the end of 2020, Estonia had the fifth lowest COVID-19-related death rate in Europe and the estimated decline in the GDP growth rate for 2020 was modest (-5%). Perhaps one of the most contentious issues of the second Ratas government was its approach to budget sustainability – highlighted by the pension reform that was deemed irresponsible over the long term by many experts and international organizations, and its weak ambition to return to balanced budgets post-COVID-19 in its medium-term budget strategy.

The main tenets of Estonian foreign policy – strong integration into the European Union and NATO, and strong international ties – remain intact. However, the inclusion of the “anti-globalist” EKRE in the governing coalition complicated the country’s international position somewhat. Although the EKRE’s eurosceptic stance has become more moderate, the party has never shied away from showing its disdain for the European Union’s powers and advocacy of Western liberal values. It supports NATO membership but has occasionally voiced skepticism over the effectiveness of the alliance. Particularly troublesome and embarrassing for the government were the EKRE’s leaders’ personal attacks on friendly nations – including a suggestion that the U.S. 2020 election was stolen and President-elect Joe Biden is corrupt. The latter caused a significant backlash, forcing the EKRE’s minister of interior to step down, which did not help the government’s long-term survival. The coalition broke down in January 2021 – partly because of a corruption scandal involving the KE and EKRE, but clearly aided by the KE’s accumulated frustration with its obstreperous coalition partner.

History and Characteristics of Transformation

As the Soviet Union began to weaken under the reforms introduced by Mikhail Gorbachev after 1985, Estonia started to see a glimmer of hope for renewed independence following five decades of Soviet rule. Already by 1988, Estonia enjoyed a fairly free public sphere, with a number of non-communist political organizations mobilizing openly and competing for public support. The main political divide ran between the Communist Party and various pro-independence forces. However, an additional rift soon opened between radical pro-independence forces and moderate popular movements. The last Estonian Supreme Soviet, elected in free elections in 1990, was dominated by moderate lawmakers. The radicals formed a majority in the Congress of Estonia, a rival representative body based on inter-war citizens and their descendants. In August 1991, after the failed coup attempt in Moscow, the two Estonian forces jointly appointed a constitutional assembly, which drafted a new basic law that was subsequently passed in a 1992 referendum. By the early 1990s, the status of the Russian-speaking population – most of whom had migrated to Estonia during the Soviet period, when they enjoyed a more privileged status than the established Estonian-speaking population – was a source of disagreement between the two Estonian factions. The moderates and radicals shared suspicions about the loyalty of the settlers, but the moderates were keener to reach out and integrate Russian-speakers. Following independence, the radicals' policies came to dominate, as relatively restrictive citizenship and language policies were adopted: all Soviet-era migrants to Estonia and their descendants were declared non-citizens subject to naturalization, and Estonian was declared the sole national language.

Faced with these restrictions, many Russian-speakers chose to become citizens of the Russian Federation or remained stateless (a special status of “aliens” was created). Even though the proportion of Estonian citizens has increased over time, about 6% of the population are citizens of a foreign country (mostly the Russian Federation) and 5% remain stateless. Fears that the ethnic divide would develop into a full-blown political cleavage failed to materialize, partly because non-citizens have been granted the right to vote in local elections (though not in national ones).

As support for the old Soviet system was low, the government managed to push through radical economic reforms, and completely reorient the country both in its foreign relations and trade patterns. In the early 1990s, Estonia firmly pursued integration with NATO, the European Union and other Western institutions (e.g., the IMF, WTO and OECD). The country's parallel accession to NATO and the European Union enjoyed strong consensus among elites and elicited consistent determination to conform to the membership criteria. Among the general population, euroscepticism was high compared to most other new member states in Central and Eastern Europe. However, following accession in 2004, public opinion has been increasingly positive about the country's EU membership.

Estonia has followed liberal market economic policies since independence. In the first few years following independence, the country established a free trade regime and underwent a radical privatization program, attracting foreign investors. Following a sharp downturn in the early

1990s, the Estonian economy grew on average by 7.1% a year without interruption from 1995 until the Great Recession in 2008/09. Economic growth returned in 2010 and remained positive until the COVID-19 crisis. Estonia joined the WTO in 1999 and, following rapid economic development over two decades, was the first former Soviet republic to join the OECD (in 2010), and the European Economic and Monetary Union (in 2011).

Government and party system stability were generally low in the 1990s and early 2000s. Parties that had formed shortly before the first parliamentary elections witnessed remarkable success in 1995 (i.e., the Reform Party) and 2003 (i.e., Res Publica), while a leading party in several governments in the 1990s (i.e., Koonderakond) disbanded itself in 2000. However, the overall policy orientation of various governments has been remarkably consistent, and the party system has become more stable over time. The general policy outlook of the government remained fairly intact even when the center-left Center Party (KE) replaced the long-governing market liberal Reform Party (RE) at the helm of the government in 2016. However, the inclusion of the far-right Conservative People's Party (EKRE) in the government in 2019 brought with it increased polarization, frequent ministerial changes and aggressively provocative political rhetoric. This led to the EKRE's coalition partners repeatedly apologizing to domestic and international audiences for the populists' utterings until eventually the coalition government collapsed in January 2021.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The state has a monopoly on the use of force across its territory. There have been no extralegal forces or immediate threats to territorial integrity since the early 1990s when there was a short-lived and localized risk that the northeastern part of the country (inhabited mostly by Russian-speakers) might secede to Russia. Since the beginning of the conflict in Ukraine, Russian military activities (e.g., massive annual military exercises and incursions into Estonian airspace) have increased, raising tensions between Tallinn and Moscow. In response to the heightened risk of future Russian military incursions into Estonia, since 2016, a NATO battalion led by the British army has been deployed in the country. U.S. President Donald Trump's isolationist and pro-Putin views raised concerns about the future of NATO's principle of collective defense – which have been alleviated by the change of administration in United States. Other potential threats include unconventional warfare (e.g., cyber-warfare) and hybrid warfare – including hostile Russian online propaganda and potential meddling in elections.

The state enjoys a high degree of legitimacy among both majority and minority ethnic groups. State identity is rarely questioned, even though state legitimacy is generally stronger among ethnic Estonians than Russian speakers (i.e., ethnic Russians and most other ethnic groups originating in the former Soviet Union). A notable proportion of Russian-speakers are either citizens of the Russian Federation or have no citizenship – the groups constitute about 6% and 5% of Estonia's population, respectively, and make up about 40% of the Slavic population combined (Russians, Ukrainians and Belarussians). The latter group is predominantly composed of former citizens of the Soviet Union who did not automatically qualify for Estonian citizenship in the early 1990s and have not undergone naturalization since then, usually because they lack the required level of proficiency in the Estonian language. In 2015, changes to the law relaxed conditions for naturalization by granting automatic citizenship to the newborn children of non-citizens and introducing simplified language tests for older applicants. However, the rate of naturalization has remained low – in 2020, only 773 persons acquired citizenship by naturalization.

Question Score

Monopoly on the
use of force

10



1

State identity

9



1

In recent years, plans to increase the number of subjects taught in Estonian in Russian-language secondary schools have triggered resistance from some Russian-speaking activists and politicians. The government has insisted that integration is better served by maintaining a network of Russian-language schools, while increasing the share of instruction in the Estonian language.

Estonia is one of the most secular countries in the world. Although Christian (Lutheran) traditions among the ethnic Estonian majority have a modest conservative influence over culture and politics, their effects are indirect in influencing social attitudes toward gender equality and the rights of sexual minorities, for example.

While the 2014 Registered Partnership Act made Estonia the first country from the former Soviet Union to grant legal recognition to same-sex couples, the passage of the acts needed to implement it has stalled in parliament. A consultative referendum on affirming marriage as a union between a man and a woman was planned for 2021 but ended up being scuttled after a change in government. The EKRE (a far-right party included in the previous governing coalition) draws inspiration from traditional Christian doctrines both in their opposition to enhanced recognition of same-sex partnerships and advocacy for severely restricting abortion rights. In 2020, the party controversially pushed through a €140,000 targeted state budget grant to a recently formed anti-abortion NGO.

The Estonian Evangelical Lutheran Church – which comes closest to an “official” church in Estonia – has been clearly opposed to same-sex marriage. However, this could be a case of the church jumping on a popular bandwagon rather than it influencing the public discourse on the matter.

The quality of services is generally very good and only occasionally lags behind more affluent neighboring Northern European countries. A crucial element of Estonia’s administrative capacity is the wide array of e-government services. These have made administrative tasks more efficient and less prone to corruption and the administrative infrastructure highly resistant to the challenges posed by social distancing measures in the wake of COVID-19. Video conferencing (including for schools) has helped to alleviate most pandemic-related restrictions.

No interference of religious dogmas

9



1

Basic administration

10



1

2 | Political Participation

Elections in Estonia – including the 2019 parliamentary and European elections – are free, fair and meaningful in determining public policies and filling political positions. The National Electoral Committee is independent and conducts elections impartially. Most election complaints submitted to the Supreme Court, which is responsible for resolving them, are not supported by enough evidence and are rejected. Polling is highly accessible as early voting periods are long and advanced online voting has been used since 2005, making it available in the last three parliamentary elections. Internet voting is available using electronic ID cards, which the overwhelming majority of the population possesses (as they are also used for other forms of online identification, such as internet banking). For the 2019 parliamentary elections, 44% of the votes were cast online – a marked increase over 2015 when 31% of votes were cast online.

Only registered political parties and independent candidates can contest national elections. In local elections, lists based on citizen alliances are also allowed to stand. All permanent residents, including non-citizens and EU citizens, can vote in local elections, but in parliamentary elections, suffrage is limited to citizens.

All political parties have access to the mainstream media, but smaller parties have often complained about being excluded from the main election debates on public television. Electoral campaigns tend to be expensive, giving an advantage to parties that benefit from state subsidies (mostly those already strongly represented in parliament) and parties that can attract considerable private donations. Many accusations have been made concerning the misuse of administrative resources for election campaigning (most prominently the Center Party in local elections in Tallinn).

In Estonia, democratically elected politicians have the power to govern without any substantial interference from non-elected bodies. Government policies have generally been business-friendly but have not given obvious advantages to particular sectors or individual businesses. Civilian control over the military is well-established and strong. The Lutheran clergy does not exert significant political influence, although it affects public opinion.

Free and fair elections

10



1

Effective power to govern

10



1

The Estonian constitution guarantees civic groups full freedom of association and participation. These rights are protected, not only in theory but also in practice, and the government has not been seriously accused of limiting freedoms. Non-citizens are prohibited from joining political parties. Registration rules for associations are non-discriminatory and clearly established in the Nonprofit Associations Act. However, levels of civic activism are generally low and the influence of NGOs on public policy is limited. The restrictions introduced in the wake of the COVID-19 pandemic were limited compared to many other European countries and posed no notable obstacles to the freedom of speech or assembly rights.

Association /
assembly rights

10



1

Freedom of expression is enshrined in the constitution and is unrestricted. Estonia has ranked consistently high on the World Press Freedom Index, placing 14th in 2020 despite some fears of backsliding following the inclusion of the far-right EKRE party in the governing coalition. Trust in the media in Estonia is considerably higher than the EU average – particularly regarding television. While about 49% of EU citizens trust or tend to trust television, trust is expressed by 61% of Estonians, although this is down from the high of 78% in 2007, according to Eurobarometer (November 2019).

Freedom of
expression

9



1

The Russian-language public media has only a limited ability to cater to the Russian-speaking minority, which is an important concern. There are some Russian-language newspapers, and the public broadcaster ERR runs a Russian-language radio and television channel. However, television channels operating from or controlled by the Russian Federation have been dominant, leaving the minority population exposed to misinformation and propaganda. These concerns have intensified since the beginning of the Russian-Ukrainian conflict, and in 2015 the Estonian government launched ETV+, a public Russian-language television channel. However, it has struggled to win a significant proportion of the audience from the established Russian outlets. In November 2020, ETV+ accounted for just 1% of all viewing time, compared to 12% for the three most popular Russian channels combined.

The media – especially Estonia's public broadcaster – is generally unbiased and represents a wide spectrum of opinions. The Public Broadcasting Council is composed of members nominated by parliamentary political parties and experts selected by the parliament. Private media ownership is transparent. The two most popular private television channels are owned by the local Postimees Grupp and the American company Providence Equity Partners. The Postimees Grupp and Ekspress Group (another Estonian company) own the main newspapers, and the popular internet-based news and entertainment portal Delfi (which also operates news portals in Latvia and Lithuania). In recent years, the Postimees Grupp has increasingly been accused of serving the political agenda of its owner, Margus Linnamäe, a pharmacy magnate and member of Pro Patria, one of the governing parties.

The Conservative People’s Party’s (EKRE) period in government signaled some risks to media freedom, as several of its ministers were aggressively hostile to some (liberal) journalists and relied on unashamedly provocative rhetoric not dissimilar to Donald Trump. President Kersti Kaljulaid wore a jumper emblazoned with “Speech is Free” upon the new government taking its oath in the parliament in response to the incoming interior minister’s (EKRE’s leader at the time) suggestion that media should behave more “responsibly.” The party is either running or affiliated to alt-news websites (Uued Uudised, Objektiiv) and radio stations, generally dismissing the established outlets as “(liberal) mainstream media.” When a radio host left Estonian Public Broadcasting in the wake of the EKRE entering the government and a prominent journalist left Postimees (owned by the Postimees Grupp), one of the main daily broadsheets, it was suggested that they were pushed out by the self-censoring management of the media outlets, who were aiming to please the governing coalition.

Some of the new expert members nominated and voted in to the Public Broadcasting Council by the governing coalition in 2020 have stronger links to governing parties than any previous experts and concerns have been raised that the government now effectively controls the board.

3 | Rule of Law

There is a clear separation of powers in Estonia, and mutual checks and balances generally work well. The judicial system is independent of the executive and administration of the courts is largely free from unjustified party pressure – although it has been subjected to some intimidating rhetoric from the Conservative People’s Party, which was part of the governing coalition formed in 2019. This has included pointed attacks on the judiciary (see “Independent judiciary”), media and journalists (see “Freedom of expression”), the prosecutor general, and the police chief – whose attempted sacking by the EKRE’s interior minister led to an unsuccessful vote of no confidence in the government in 2019.

In the Estonian parliamentary system, executive and legislative powers converge due to the tradition of strong governing coalitions and party discipline; the executive generally dominates the parliament. Parliamentary committees can request information from the government. They put pressure on the government to provide documents and send ministers to parliamentary hearings. The task areas of committees generally coincide with the portfolios of ministries, supporting effective parliamentary oversight. In recent years, the Parliamentary Anti-Corruption Committee has held many hearings on prominent cases of alleged corruption.

A state of emergency was declared by the government on March 13, 2020, following constitutional procedure, in response to the spread of COVID-19 in the country. It led to the temporary restoration of border controls between Estonia and

Separation of powers

10

'06 10 '22 10

1

its neighboring EU member states, and restrictions on movement between the mainland and the islands in the west of the country (which were pandemic hotspots at the time). The institutions of state (including the parliament and courts) continued to perform their essential functions, adjusting to the pandemic by using e-governance tools and platforms. The state of emergency lasted for two months but the measures were largely proportional to the risk and uncertainty of medical advice at the time. However, the ambiguity and undermotivation of the measures was occasionally criticized by the Chancellor of Justice.

The Estonian courts are independent and free from both executive intervention and by-and-large from corruption. When the authorities have discovered acts of corruption, they have investigated and removed judges. Judges of the first and second instance are appointed for life by the president after the Supreme Court proposes them. Parliament appoints Supreme Court justices upon nomination by the chief justice; the chief justice is in turn appointed by the parliament upon nomination by the president. The Supreme Court also performs the functions of a constitutional court. Requests for constitutional review can be initiated by the president, lower courts, local governments, individual petitioners or the chancellor of justice, and the system of judicial review is well-established. The Supreme Court regularly declares acts of parliament or executive-branch decisions unconstitutional and monitors the implementation of its rulings.

The far-right Conservative People's Party (EKRE), which was a member of the governing coalition after April 2019, has been vocal in its criticism of the judicial system and judges (e.g., Martin Helme, the leader of the party as of January 2021, pledged in 2018 that “judges’ heads will roll” when the party comes to power). While skeptical of the legal system and envisaging widespread reforms in its manifesto (e.g., fixed terms for Supreme Judges, parliamentary review of the judiciary and the creation of an institution of special prosecutors named by the parliament), none of these ambitious ideas entered the coalition agreement.

Estonia is widely considered to be the least corrupt country in Central and Eastern Europe. Political and administrative corruption are uncommon and are effectively penalized. Perceptions with regard to corruption are more positive than on average across the European Union. Eurobarometer data from June 2020 indicated that Estonians were among the least pessimistic about corruption. While 60% believed corruption to be widespread, this is significantly lower than the EU average (71%). Only 24% of Estonian respondents saw an increase in the level of corruption over the preceding decade and 18% perceived a decrease (in contrast to the EU averages of 42% and 7%).

Several high-profile cases have been brought to the courts in recent years. In 2014, two former government ministers were found guilty of office abuse and received custodial sentences. Recent high-profile corruption cases also included charges against the former mayor of Tallinn Edgar Savisaar (for taking kickbacks) and

Independent
judiciary

10



1

Prosecution of
office abuse

10



1

former board members of the state-owned Port of Tallinn (for corrupt tendering procedures). However, both court cases were protracted and the charges against Savisaar and one of the defendants in the Port of Tallinn case had to be dropped due to poor health. Some municipal officeholders in bigger cities and judges have also been arrested or investigated in recent years.

A large-scale corruption scandal surfaced at the end of the review period (January 2021), which related to a large favorable loan granted to the real estate development Porto Franco in central Tallinn from the government's COVID-19 relief fund. The secretary-general of the leading Center Party and a leading adviser to the finance minister (the leader of the Conservative People's Party, EKRE) were suspected of eliciting illegal party donations or bribes. Prime Minister Jüri Ratas resigned in the wake of the scandal. As Ratas was not personally incriminated in the scandal, the Centre Party was able to continue in the next coalition. Ratas' resignation was seen by many as a move to shake off the EKRE rather than a genuine response to the accusations.

Civil rights are codified by law and respected by all state institutions. The restrictions on freedom of movement introduced in March 2020 in response to COVID-19 were limited in terms of scope and time, justified, and overall proportional to the risk posed by the pandemic.

The Estonian constitution bans discrimination based on nationality, race, sex, language, religion, political opinion and social status. State institutions respect these rights and individuals are protected effectively. Apart from the court system, there are two national institutions tasked with protecting civil rights.

The chancellor of justice monitors the protection of fundamental rights and freedoms and functions as an ombudsman, including with regard to children's rights; this is in addition to the chancellor's role in constitutional reviews. The Gender Equality and Equal Treatment Commissioner (GEETC) monitors compliance with regulations concerning gender equality (enshrined in the Gender Equality Act and Equal Treatment Act). Both positions, which are currently held by women, have generally been effective and remained independent from the government.

Estonia is one of the least tolerant societies in the European Union, according to Eurobarometer surveys. However, discrimination and crimes motivated by race, ethnicity or sexual orientation are rare. Growing tensions with Russia have the potential to affect the relationship between ethnic Estonians and Russian-speakers by raising mutual distrust. This has the potential to trigger ethnic discrimination, but there is little evidence of that currently happening. Instead, surveys monitoring integration show that relations between members of the ethnic groups have improved, as has the Estonian language proficiency of Russian-speakers.

Civil rights

10



1

4 | Stability of Democratic Institutions

Democratic institutions are robust and follow the procedures established by the constitution and other legal acts. Tensions between different branches of government occasionally surface, but they never significantly undermine democratic governance. Friction used to be common between the national government and Tallinn city authorities as the latter has been led almost continuously by the Center Party, which was in opposition nationally between 2003 and 2016. While the ascent of the Center Party's leader Jüri Ratas to the office of the prime minister abated the conflicts between national and local governments, some tensions arose between the mayor of Tallinn and the government over measures to curtail the spread of the coronavirus and over some of the Conservative People's Party's controversial policy proposals (e.g., the ban on same-sex marriage) that were included in the government coalition agreement.

The efficiency of local governance was bolstered when a large-scale local government reform reduced the number of municipalities from 213 in 2014 to 79 in 2017. The median number of inhabitants per municipality increased from 1,887 to 7,739.

Democratic institutions are accepted as legitimate by all centers of political power and non-governmental associations. There are no significant examples of political players questioning democratic procedures. Some of the rules introduced by the government in its attempts to curtail the spread of the coronavirus (e.g., requirements to wear face masks in indoor public spaces) have been challenged by the chancellor of justice because of ambiguity or a lack of motivation. But there have been no widespread popular campaigns to disobey or flaunt government orders.

5 | Political and Social Integration

The main political parties have developed strong organizational structures, including efficient central offices and local branches. The central offices tend to dominate the parliamentary groups, which are highly disciplined. Genuine intraparty democracy is limited both in terms of policy formulation and candidate selection. Internal conflicts have sometimes led to defections. Members of the Center Party often left the party due to frustrations with the dominance of former party leader Edgar Savisaar. However, since Jüri Ratas became the party leader and then prime minister in 2016, fewer members of parliament have left the party – even after Ratas controversially embraced the Conservative People's Party (EKRE) as a member of the governing coalition following the 2019 parliamentary elections.

Performance of democratic institutions



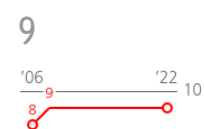
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Commitment to democratic institutions



1

Party system



1

The party system was fairly stable after 2003 when Res Publica, a new party, achieved unprecedented success in the parliamentary elections but soon thereafter merged with Pro Patria, an established party. Electoral volatility has regularly varied between 10 and 20%. However, in 2019, the far-right EKRE became the third largest parliamentary party, having first entered the parliament in 2015. It has polarized political discourse and replaced the controversial Saviisaar as the dominant political pariah in the eyes of Estonia's other main parties due to the party's traditional-nativist and provocative rhetoric. Even its coalition partners have consistently shown unease with the EKRE's behavior.

Programmatic competition dominates party politics at the national level; at the local level, clientelistic practices persist to some extent but seem to have declined in recent decades.

Freedom of association is granted by the constitution, but the system of interest representation and mediation is weak. While the absolute number of NGOs is considerable, the number of active NGOs is low. Those that attempt to influence politics have limited sway, partly because governments very firmly operate based on a politically agreed coalition agreement (and, therefore, interest groups either try to lobby parties before an electoral platform is drawn up or during coalition negotiations).

The Estonian Trade Union Confederation (EAKL) is comprised of 17 branches representing different sectors. In comparison to many Western European countries, its policy-formulating capacity is weak. Trade unions are typically invited to contribute to policymaking process initiated by the government. The Estonian Employers' Confederation (ETKL) has been more active in making policy proposals, especially on tax and industrial policy. Yet, its institutional and analytical capacity is not significantly higher than that of trade unions. In addition, the tradition of tripartite meetings between the government, and employers and employees' associations have effectively been suspended despite an effort in 2018 to resuscitate them.

Trade unions and pressure groups have moderately increased their activities in recent years. Governments have sometimes been dismissive of the political activities of interest groups, arguing that views ought to be expressed at the ballot box and through parties rather than through protests and lobbying. Therefore, interest groups often direct their appeals to the (largely ceremonial) president, calling for the president to veto laws passed by what they see to be an unresponsive parliament.

Civil society actors have become increasingly active in politics. In recent years, protesters have campaigned for and against the legalization of same-sex partnerships and science funding. Meanwhile, the inclusion of the far-right Conservative People's Party (EKRE) in the governing coalition mobilized

Interest groups

8



1

grassroots activism. The mass movement Everyone's Estonia was established in 2019 in opposition to the poisonous, xenophobic rhetoric of, and attempts to politicize the civil service and the media by the Conservative People's Party, which joined the governing coalition in 2019. The movement attracted nearly 30,000 followers on Facebook and 10,000 attended a concert in support of the movement in April 2019. By contrast, the EKRE has held (for some people disconcerting) torchlight processions in the capital Tallinn to celebrate Estonian Independence Day. In addition to these events, there have been many smaller online initiatives and public demonstrations.

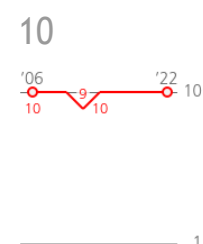
Environmental organizations have also become more active in recent years, including the Estonian chapter of Fridays for Future and the Estonian Forest Aid, which campaigns for sustainable forest management.

Support for democratic norms and political institutions is high even if it still lags behind older democracies. Public satisfaction with the way democracy works in Estonia is close to the EU average. According to a 2019 Eurobarometer survey, the level of satisfaction with democracy at the national level in Estonia (57%) was slightly above the EU average and one of the highest among Central and Eastern European member states, as was trust in national institutions. Estonians' trust both the national government and parliament (at 43% and 40%, respectively) more than the EU average (34% and 34%). Trust in political parties is low and somewhat below the EU average (respectively, 13% and 19%). Levels of trust in the legal system and especially the police were above levels in all other post-communist countries and many Southern European countries according to the 2018 European Social Survey (ESS).

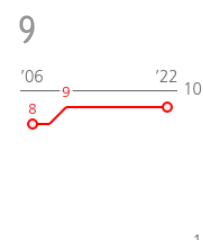
Approval of the democratic system is very high. Support for liberal democracy remains high among the population. In a 2020 Globesc survey, 65% voiced a preference for a liberal democracy with regular elections and a multiparty system, while just 17% voiced support for a strong and decisive leader who can bypass the parliament and elections.

Levels of interpersonal trust in Estonia are high compared to other post-communist countries and many Western European countries. According to the 2018 European Social Survey, 38% of Estonian respondents reported that they trust others (meaning they scored seven or above on a 10-point scale, where 10 stood for "Most people can be trusted"), compared to an average of just 22% across the 12 post-communist countries included in the survey. However, levels of volunteering have clearly lagged behind the European average, according to 2015 Eurostat data, with only a quarter of Estonians having volunteered in the previous year. The COVID-19 pandemic saw evidence of increased volunteerism and mutual support in the form of helping to shield elderly and vulnerable people by shopping for groceries and other essentials as well as collecting ICT equipment for children participating in distance learning courses.

Approval of democracy



Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

Estonia has a very high ranking on the U.N. Human Development Index – 29th in the world, above all Central and East European countries, except for Slovenia and the Czech Republic. Income inequality as measured by the Gini index (30.4) is very close to the EU average (30.7 in 2019 according to Eurostat) and has decreased since 2014. The level of absolute poverty is low (0.5% of the population were living on less than \$3.20 a day PPP in 2017). Relative poverty – measured as the share of population on an income below 60% of the national median – was 21.7% in 2019, somewhat above the EU average (16.5%, according to Eurostat). Relative poverty was some nine percentage points higher among ethnic minorities (25%) than ethnic Estonians (19%).

Gender equality is among the highest in Central and Eastern Europe according to the UNDP Gender Inequality Index. Estonia ranks among the top countries in the region in terms of female labor force participation, but it is dragged down by the widest gender pay gap in the European Union (23% compared to the EU average of 15% in 2018, according to Eurostat). The COVID-19 pandemic was anticipated to impact gender equality negatively due to more job losses in sectors dominated by women and distance learning increasing the amount of female unpaid domestic work more than for men. However, specific evidence remains scarce so far.

At the end of the review period, the impact of COVID-19 on social exclusion was not clear. The decline in per capita GDP as forecasted by the IMF was moderate by European standards (-5.2% in contrast to -7.6%). However, the pandemic and resulting economic downturn increased unemployment – in particular in the tourism and hospitality sectors, where wage levels were overall already modest. The uptick in unemployment has particularly affected under 25 year olds, among whom unemployment increased from 8.1% in October 2019 to 20.7% in September 2020. In addition, it has particularly affected the northeastern region – which has a large concentration of Russian-speaking minority residents – where unemployment reached 12.9% in November (compared to 8.1% nationally).

Question
Score

Socioeconomic
barriers

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Economic indicators		2017	2018	2019	2020
GDP	\$ M	26857.9	30474.6	31045.6	30650.3
GDP growth	%	5.8	4.1	4.1	-3.0
Inflation (CPI)	%	3.4	3.4	2.3	-0.4
Unemployment	%	5.8	5.4	4.5	6.5
Foreign direct investment	% of GDP	6.5	4.0	9.9	-
Export growth	%	4.8	3.9	6.5	-5.0
Import growth	%	4.0	5.7	3.8	0.9
Current account balance	\$ M	621.8	280.1	616.0	-391.5
Public debt	% of GDP	9.1	8.2	8.6	18.5
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-0.5	-0.7	0.2	-
Tax revenue	% of GDP	20.9	21.1	21.3	-
Government consumption	% of GDP	19.3	19.2	19.5	21.3
Public education spending	% of GDP	5.0	5.2	-	-
Public health spending	% of GDP	4.8	4.9	-	-
R&D expenditure	% of GDP	1.3	1.4	-	-
Military expenditure	% of GDP	2.0	2.0	2.0	2.3

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

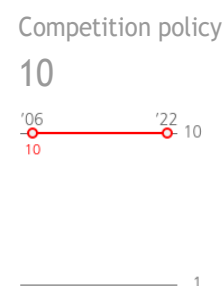
7 | Organization of the Market and Competition

Estonia has pursued liberal free market policies. Foreign investment is actively encouraged, first and foremost by an attractive tax regime, in which reinvested profits are exempted from corporate income tax. Tax revenues as a share of GDP have consistently been well below the EU average since 1997 (31% versus 39% in 2020).

Market access is generally free and entry costs are low. According to the 2020 Doing Business Report, establishing a company in Estonia takes, on average, three procedures and three and a half days, and the average costs of registration are 1% of Estonia's per-capita income. As a result, the country ranks 14 out of 190 in the report's sub-index on starting a business. Prices are fully liberalized. Estonia fully complies with international standards for the equal treatment of companies. Entry and exit barriers to product, factor and capital markets are low or do not exist.

The country is firmly committed to maintaining balanced budgets and currency stability (which its entry into the eurozone in 2011 ensured), although a deficit of 6.6% of GDP is expected for 2021 in response to the COVID-19 pandemic. According to estimates published by the Stockholm School of Economics in Riga, the size of the informal economy in Estonia is not particularly high but has recently crept up from 13% in 2014 to 18% in 2019. Undeclared business revenues and wages are mainly earned in the construction sector.

As an EU member state, Estonia has developed a comprehensive legal framework to prevent monopolistic economic structures and conduct. It is one of the few European countries to impose criminal sanctions on some antitrust infringements (the range of which was narrowed in 2015). Regulations are enforced by the Estonian Competition Authority, which has divisions working on competition (including mergers) and regulation (including railways, postal services, heating, energy and water). In recent years, it has carried out audits on 5G licenses, broadband, notary fees, municipal waste management, event ticket distributions, and the mergers of travel companies, property portals and car park companies, among others. According to a 2017 report by the European Commission, the liberalization of Estonia's electricity and gas markets and construction of new energy infrastructure (Estlink 2) have substantially improved competition in Estonia's energy market.



Estonia's foreign trade is highly liberalized, and the country enjoys membership of the WTO (since 1999) and the European Single Market (since 2004). The country's annual combined volume of exports and imports exceeded 140% of the country's GDP in 2019 (according to the World Bank). Non-tariff barriers are largely removed within the internal market and are aligned with those used by the European Union in relation to third countries.

Liberalization of
foreign trade

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Estonia has implemented most of the European Union's banking and finance regulations. Its 12% capital-to-assets ratio is higher than the Basel III minimum requirement (8%). There are no state-owned commercial credit institutions. The banking sector is competitive and dominated by two subsidiaries of Swedish banks, Swedbank and SEB, which have about 69% of the market share.

Banking system

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The European Central Bank supervises the three largest banks, as well as LHV (the only Estonian-owned bank of notable size with a market share of 11%) and Luminor (headquartered in Tallinn and owned by a consortium in which the Blackstone Group holds a 9% share). In 2018, the moderately-sized Estonian branch of Danske Bank – supervised by Danish authorities – was closed following allegations of large-scale money-laundering. The scandal later spread well beyond Estonia and the Estonian authorities were not necessarily to blame for the improprieties, but it did damage the international reputation of the country's banking sector. The clients of Danske Bank and Nordea, another Nordic bank that has been hit by money-laundering scandals (not related to its Estonian operations), were largely overtaken by Luminor.

The share of non-performing loans began to increase after the onset of the 2008/09 global financial crisis and peaked at 5.4%. However, it has returned to very low levels, falling to 0.4% in 2019. Total household debt is moderate at 76% of gross disposable income, down from 104.7% in 2009. In response to the COVID-19 pandemic, the banks introduced extensive payment holidays. Estonia entered the pandemic with one of the best positions globally (non-performing loans accounted for 0.4% of all bank loans). As the increase in non-performing loans was modest, their share remained below the EU average.

8 | Monetary and fiscal stability

During the last two decades, Estonia has often faced the challenge of controlling inflation. Annual inflation has been volatile following economic cycles. Recently, it fluctuated from very high in 2008 (10.4%) to mild deflation in 2015 (-0.5%) and back to moderate inflation in 2019 (2.3%). The COVID-19 pandemic had a strong deflationary impact, with the annual inflation rate down to -1.7% in October 2020, although this was expected to reverse in 2021. The current account balance has slightly deteriorated (-2% of GDP in Q3 of 2020).

With the adoption of the euro in 2011, an independent foreign exchange policy ceased to exist. However, it was limited even before this point because the kroon (the national currency) was pegged to the euro. Successive governments prioritized monetary stability over other macroeconomic goals before and after the adoption of the euro.

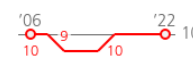
The Estonian economy faced a significant downturn as a consequence of the COVID-19 pandemic (with GDP declining 5.2%, according to an IMF estimate in October 2020), especially the tourism and hospitality sectors, and decreased investor confidence and consumer spending. In response, the parliament passed a supplementary budget to finance a broad basket of measures (e.g., income support, extra funding for health care, and guarantees for bank loans to support loan rescheduling and business loans), bringing the nominal fiscal deficit to 9% of GDP. However, this constitutes a modest level of additional spending by European standards: 3.5% of GDP in contrast to the EU average of 3.8%, according to the IMF (October 2020).

Estonia boasted one of the most prudent public finance systems in the European Union. In addition, Estonia had the lowest debt-to-GDP ratio in the European Union by some distance: 8% of GDP in 2019, compared to the EU average of 78%. State budgets have generally been balanced and often in surplus. During the 2008 financial crisis, the budget returned a deficit (-3% of GDP in 2008), but thereafter remained balanced until the COVID-19 pandemic. Estonia's current account balance turned positive during the Great Recession and has remained close to parity since. Substantial changes to this situation are unlikely, according to IMF projections in October 2020.

Since 2014, a state budget law has obliged the government to prepare structurally balanced budgets. The law also established the independent Fiscal Council, which is attached to the Bank of Estonia. The council assesses the extent to which the Ministry of Finance provides realistic fiscal and macroeconomic forecasts and follows the budgetary rules in its annual budget drafts. The council has occasionally been critical of the government's fiscal prognoses and compliance with the principle of balanced budgets. In September 2020, it emphasized the need to revert

Monetary stability

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Fiscal stability

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back from the budget deficit once the economy has recovered, criticizing government plans for maintaining the deficit beyond 2022 – possibly concerned about a political business cycle, with parliamentary elections due in March 2023.

However, even with a prolonged recovery and additional spending, the debt levels will likely remain modest. While the gross public debt burden rose from 8% of GDP in 2019 to 19% in 2020 (IMF October 2020 estimates), it still remains the lowest in the European Union. The IMF has predicted an increase in public debt for the coming years, but the overall level of public debt is likely to remain one of the lowest in the European Union.

9 | Private Property

Property rights are enshrined in the constitution, widely observed and effectively enforced by the courts. Expropriation follows clearly established rules and compensation is based on market values. The treatment of foreign and domestic capital is equal and there is no discrimination against foreign ownership. Estonia ranks sixth in the world in terms of ease of registering property, which only takes 18 days and requires three procedures (World Bank Doing Business 2020).

The private sector dominates the Estonian economy. Private enterprises benefit from business-friendly economic regulations and a highly flexible labor market. A radical post-independence privatization program was largely completed by the mid-1990s and currently only a small number of strategic companies (such as major power plants, the railways and the postal system) are still state-owned. In 2018, the Port of Tallinn was part-privatized with an initial public offering (IPO) of one-third of its shares.

Estonian Air, the struggling national airline reacquired by the government in 2010, ceased operation in 2015 after the European Commission determined the carrier had received state subsidies illegally. It was replaced by a new state-owned carrier, Nordica. Both Nordica and Tallink (a ferry company that operates routes between Estonia, Latvia, Finland and Sweden) suffered heavily due to the COVID-19 pandemic and received significant amounts of state aid.



10 | Welfare Regime

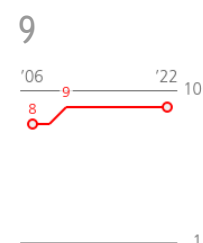
Estonia has developed a comprehensive welfare system based partly on cash transfers from the state budget and partly on insurance payments. Health care and most pensions are funded by a 32.5% social tax on payroll paid by employers. Health care is funded through the Estonian Health Insurance Fund (EHIF), which also covers the cost of services for most non-working people. However, there are some issues with the coverage of health services, as some groups are not insured (e.g., most adults who are out of work but not in receipt of a pension or social benefit, which amounts to 5% of the population). Total public spending on health (5% of GDP) is much lower than the EU average (7.8%), but comparable to most Central and Eastern European member states. Satisfaction with the quality of health care is high but challenges remain, particularly access, waiting times and inequality.

The COVID-19 pandemic put the health care sector under significant pressure, although the sector coped relatively well with the pressure in 2020, as overall infection and death rates until the end of 2020 were some of the lowest in Europe (Ourworldindata). As a temporary safety net for struggling employers and their employees, the government introduced a scheme that topped up 70% of wages. Meanwhile, municipalities set up programs to deliver food to home-schooled children from deprived households. However, the measures were not comprehensive as, for example, they did little to support the self-employed.

The pension system is based on three pillars: (1) state pensions, (2) mandatory funded pensions (2% of gross salary, topped up by 4% from the national insurance payments) invested in private pension funds and (3) private supplementary pensions supported by tax incentives. The second pillar was established in 2002 to ease the future budgetary burden resulting from an aging population. Compulsory payments into this system were suspended during the Great Recession and COVID-19 pandemic. The second pillar performed very poorly between 2002 and 2018, with an average real annual return of 0.3% (Pensionikeskus).

Partly motivated by a frustration with these poor annual returns, in 2019, the government proposed that individuals would be allowed to withdraw from the second pillar pension system and invest their money as they please. The reform was highly controversial, since some feared that it would lead to a rush on pension funds and undermine long-term pension security. After the Supreme Court overruled an attempt by the president to veto the measure, the reform came into effect in October 2020. After 2021, membership in the second pillar became voluntary, and erstwhile members could leave the scheme and claim back their accumulated shares in cash. According to public opinion surveys, about one-fifth of people were determined to withdraw their funds (only half were determined to continue to participate in the scheme) and use the money to pay back loans or for domestic repairs.

Social safety nets



The reform was criticized by the opposition, international organizations (e.g., the OECD and IMF) and many economic experts (including the president of the Bank of Estonia) because of its impact on the future of the funds and, in turn, the long-term sustainability of the whole pension system. It is likely to prove popular in the short term because of its expected boost to the economy and increased government revenue (withdrawals attract personal income tax). However, over the long term, it is likely to result in increased poverty among the (non-insured) elderly due to the limited appetite to make private contributions and prevalence of scam investment schemes that target those leaving the second pillar. Furthermore, if a large proportion of funds are withdrawn, this is likely to lead to a vicious cycle of reducing the value of assets and annual return for those remaining members of the second pillar.

Parental leave and payments from unemployment insurance are generous. Parental leave recipients receive 100% of a parent's prior salary, which is paid for up to three years (the total leave period is 14 months but can be split up rather than taken all at once). The unemployment insurance benefit is paid for up to one year at an initial replacement rate of 50%, which drops to 40% after 100 days. To finance the increase in payments incurred during the Great Recession, the unemployment insurance tax was temporarily increased but has been 2.4% since 2015 (paid partly by the employer and partly by the employee).

Other social benefits are less generous but have experienced significant increases particularly under the governing coalition that entered office in 2019. Old-age pensions and minimum wages have increased considerably. In Q2 of 2020, the average monthly pension was €530 (an increase of 69% compared to Q2 of 2014), while the minimum wage was €584 per month (an increase of 65% over the same period). The unemployment benefit for those not qualifying for insurance payments is only €189 per month and is paid for less than one year. The levels of family, disability and subsistence benefits are also generally low, but have seen some increases in recent years. Since 2015, monthly child benefits have increased incrementally from €45 to €60 in 2019 (€100 from the third child on). Following the birth of a child, families are eligible for a one-off benefit of €320, which is topped up by some municipalities.

The Estonian constitution guarantees equal opportunities regardless of social status, religion or ethnicity. Enrollment rates for girls and boys in primary and secondary education are very good, and tertiary educational attainment is better than the EU average (46% versus 40% among 30- to 34- year-olds in 2019). Notably, Estonia also has one of the highest proportions of female university students in the European Union (59% in 2018).

Estonia also boasts one of the highest female employment levels in Central and Eastern Europe (76% compared to the EU average of 67% in 2019), albeit controversially maintains the highest gender pay gap in the European Union (22% compared to the EU average of 14% in 2019).

Equal opportunity

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The status and future of the Russian language in secondary education and the segregated school network has been a contentious issue since independence. Since 2011, all secondary schools must teach at least 60% of the curriculum in the Estonian language (education prior to the age of 16 can still be provided solely in Russian). On the one hand, this ought to increase Russian-speaking children's Estonian language proficiency and enhance their educational opportunities and career prospects. On the other hand, concerns have been raised about the prospect of a very sizable ethnic minority losing the right to receive an education in its native language (Russian is the first language for about 25% of the population). No governing coalition in recent years has had a unified vision regarding education reform – with the Center Party wishing to maintain the Russian-language school network, while some of its coalition parties have been dedicated to the creation of a unified school network.

The Language Act stipulates that employees must have a certificate of Estonian language proficiency to work in certain public and private positions (e.g., doctors, nurses, lawyers, police officers and various transport workers). These requirements may reduce the opportunities available to some Russian-speakers, even though most of the requirements are justifiable in terms of ensuring the quality of services and public safety. Still, national statistics suggest that ethnic non-Estonians are at a greater risk of unemployment. During the Great Recession, unemployment peaked at 23.9% for ethnic Russians and 13.3% for ethnic Estonians. While both the overall level of unemployment and the gap in numerical terms have decreased, unemployment was still higher among ethnic Russians compared to ethnic Estonians in 2019 (6.0% compared to 3.8%).

In 2014, the parliament narrowly agreed to legalize same-sex partnerships following heated debates. However, most members of parliament elected to the 2019 parliament oppose the law. As such, the parliament has not passed the necessary provisions to implement the decision, partly due to staunch opposition from the far-right Conservative People's Party (EKRE), which was a junior partner in the 2019–2021 governing coalition. The coalition was planning a consultative referendum on enshrining the status of marriage as a union only between a man and a woman – a position that was aggressively promoted by the EKRE and halfheartedly supported by the other coalition parties. The opposition parties and several civil society organizations were strongly opposed to the initiative, which they deemed an unnecessary distraction from more important issues or highly polarizing. The referendum plans were abandoned following the change of coalition government in January 2021.

11 | Economic Performance

The fundamentals of Estonian macroeconomic performance are strong, even in the face of the challenges posed by the COVID-19 pandemic. The country benefits from balanced current accounts, budgets (apart from moderate deficits in crisis years), low levels of public debt and healthy inflows of foreign direct investment.

Following a robust recovery from the Great Recession, economic growth stalled between 2013 and 2015 but was robust between 2016 and 2019 (annual increase of 4.5%). The COVID-19-induced recession resulted in a projected decrease in GDP of 5.2% but growth is expected to resume from 2021 onward. The IMF projected that average annual economic growth would be 3.5% for 2021–25 in October 2020.

In most years since Estonia's accession to the European Union in 2004, Estonia has ranked among the countries with the highest levels of inflation in the bloc. However, the level of inflation declined significantly during the recession and the country has occasionally experienced deflation (in 2014 and 2015, and again in 2020). Unemployment increased considerably during the recession, when Estonia saw some of the European Union's highest levels of joblessness (16.9% in 2009). By 2019, this figure was back down to 5.1%, below the EU average of 7.4%. The COVID-19 crisis has led to an increase in unemployment (7.8% according to IMF in October 2020), but the situation is expected to improve from 2021 on.

In contrast to the pre-recession years, recent economic growth has been less related to the inflow of foreign capital than to increasing domestic and external demand. FDI peaked in 2005 at 22% of GDP and, though it picked up after the recession, FDI inflows have remained around 5–6% on average.

12 | Sustainability

Estonia's environmental performance ranked highly in the Environmental Performance Index until recently when, as a result of the decline in some of the scores and changes in methodology, the country dropped from eighth position in 2016 to 30th position in 2020. The country scores highly for biodiversity, air quality, pollution and wastewater treatment. The country's performance is less exemplary in terms of climate change contribution (in particular, greenhouse gases per capita), tree cover, grassland and species habitat loss, use of solid fuels in households (burning of wood), and some aspects of greenhouse gas emissions.

Estonia has one of the highest levels of CO₂ emissions per capita in Europe and in the OECD, mostly because of the country's continued reliance on oil shale in power generation, which accounts for 72% of domestic energy production. However, this share has dropped considerably since 2007 when oil shale accounted for 94% of

Output strength

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Environmental policy

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electricity production. Furthermore, the carbon footprint has decreased considerably since the late Soviet period, which has allowed the country to sell its CO₂ quotas under the Kyoto protocol (given the 1990 base year). The reduced reliance on oil shale can be largely attributed to increased exploitation of renewable energy – in 2019, 32% of energy consumed came from renewable sources (Eurostat). While this is well above the EU average, concerns have been raised over the fact that this is mostly based on biomass (wood) that, while renewable, may be carbon neutral only over a long-term perspective (because the carbon captured by newly planted trees significantly lags the carbon captured by the felled trees) and contributes to the loss of natural habitats. In October 2019, Estonia signed up to the European Union's goal to achieve climate neutrality by 2050 (the European Green Deal) – after initially hesitating, along with the Czech Republic, Hungary and Poland. The transition will be supported by the European Union's Just Transition Fund (JTF).

A third of energy consumed in Estonia is used in buildings and the government has developed an ambitious program to renovate residential housing. Likewise, many other environmental projects have been funded by auctioning Estonia's CO₂ quotas. Under the Green Investment Scheme, this has funded improvements to the energy efficiency of buildings, use of alternative fuels in transport, renovation of heating networks, the promotion of public transport (including alternative fuels and electric transport), electric cars for social workers and investments in wind energy.

Estonia has invested significantly in renovating and expanding its water management infrastructure. Water pollution has decreased and tap water quality has improved. Apart from deforestation, one of the main risks to biodiversity is increasing traffic and road construction, though the newest roads have been constructed in accordance with environmental protection regulations.

Environmental awareness in the country has been high since the environmental movements of the late Soviet period. In recent years, environmental NGOs have been demanding more ambitious climate neutrality targets and managed to block the building of a €1 billion pulp mill near Tartu after a mass outcry over its alleged pollution of watercourses. On the other hand, the far-right Conservative People's Party (EKRE), which was a junior partner in the governing coalition after 2019, is skeptical of human-caused climate change and even propagated leaving the Paris Climate Accord. In April 2020, Martin Helme (the EKRE's leader) suggested temporarily leaving the European Union's emissions trading system in the hope of reducing the price of electricity.

Estonia ranks among the highest in the region in the U.N. Education Index (0.882 in 2019), with universal literacy (99.9% in 2011). Education enrollment levels and the general quality of education are high in Estonia – secondary and tertiary attainment levels have been above the OECD average and increasing in recent years. In the 2018 PISA assessment, the country ranked fifth globally for science and reading, and eighth for mathematics. The level of public spending on education is above the EU average, and among the highest in Central and Eastern Europe (around 5% of GDP).

The government has pioneered several digital initiatives in the public sector, such as electronic medical records, internet voting and online tax returns. The digitalization of public and private services alike paid dividends during the COVID-19 pandemic, as it easily helped to keep most of the services running smoothly, including moving teaching online during school closures.

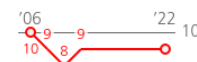
The country has faced the challenges of an aging teacher workforce and the downsizing of schools and higher education institutions due to rural out-migration and fewer university-age students. Many rural schools have closed in recent years while universities have sought to consolidate faculties, degree programs and research teams. Over the years, Estonian governments have been committed to supporting innovation and education, although extra funding has not always been forthcoming. Still, the average salary of teachers has significantly increased in recent years – from €800 per month in 2012 to €1,582 in 2019 – bypassing the country's average wage in 2014.

Expenditure on R&D has more than doubled over the last two decades but has remained stagnant or even decreased in recent years – 1.6% of GDP compares unfavorably with the OECD and EU average of 2.2% in 2019 (Eurostat). In 2018, all the main parties signed a memorandum committing to increase public R&D spending to at least 1% of GDP. This objective was enshrined in the coalition agreement signed in 2019, although the government later backtracked on the promise, triggering protests by academics. A modest increase in the science budget and the COVID-19-induced economic decline ensured that the target will be met in 2021, after all.

Estonia has a vibrant digital economy sector and is the most knowledge-intensive of the Central and Eastern European countries. Around a third of total exports to other EU member states involve hi-tech products and services, but the country still produces mostly low- and medium-level technological goods. In addition, despite increases in R&D spending, collaboration between research institutes and enterprises is suboptimal. Likewise, there have been insufficient efforts to improve the match between the skills provided by the education system and those needed by the labor market. For example, the education system does not provide enough STEM graduates and the overall vocational education framework is weak.

Education policy /
R&D

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Governance

I. Level of Difficulty

The government faces no severe structural constraints that limit governance capacity. Education levels in the country are high, extreme poverty is rare and disease levels are low. The rate of COVID-19-related deaths was among the lowest in Europe at the end of 2020. While Estonia is geographically distant from populous Western European countries, it has access to the sea and enjoys proximity to the affluent Nordic countries, particularly Finland. However, the population is increasingly concentrated in a limited number of urban centers, between which the distances are fairly high given the low overall population density. This poses challenges in terms of infrastructure and rural development.

A significant rate of worker emigration – particularly to Finland – has been another key challenge. The movement of labor has created new social problems, such as children being left behind by parents working abroad. This may lead in the longer term to decreasing human capital (a brain drain) and an increasing elderly dependence ratio. Exacerbated by a low natural birth rate (total fertility was 1.67 in 2018), the population is projected to decrease to 1.2 million by 2080, down from 1.6 million in 1990. However, net migration has turned positive in recent years, mostly due to Estonian nationals returning from Finland and other EU member states.

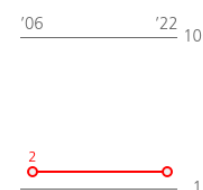
The relationship between Estonia and Russia has remained tense, particularly following the Ukraine conflict. This has adversely affected some sectors of the economy, primarily the agriculture and food industries (due to a Russian embargo on EU food products) and tourism (Estonia had been a popular destination among Russian tourists). However, the share of foreign trade with Russia was quite limited already before the conflict (9% of exports in 2016).

Estonian civil society may be weak compared to its Nordic neighbors, but it is better developed than in most other former communist countries. For example, Estonia boasts the highest level of interpersonal trust in Central and Eastern Europe. According to the 2018 European Social Survey, 38% of Estonians indicated high interpersonal trust, compared to only an average of 22% in the 12 post-communist countries included in the survey (those who scored seven or above out of 20 for “most people can be trusted”).

Various civil society organizations (CSOs) participate actively in public life. Such associations have become more numerous and active since the mid-1990s due to greater affluence and certain policy initiatives. Guidelines for the public funding of civil society projects and studies through the National Foundation of Civil Society

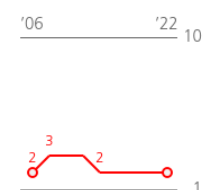
Structural
constraints

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Civil society
traditions

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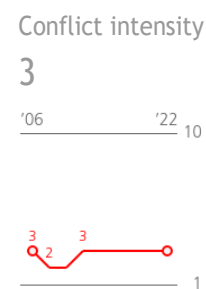
were adopted in 2013. The government has also adopted the Civil Society Development Plan 2015–2020 and is preparing the Population and Cohesive Society Development Plan 2021–2030. President Kersti Kaljulaid employs a well-known civil society leader as a special adviser on civil society affairs.

According to a 2012 study by the Centre for Civil Society Research and Development at Tallinn University, 31% of the Estonian population are members of civil society organizations and slightly more than half of them are active. However, sports, recreational and cultural organizations dominate, and only 20% of the population is engaged in political activities such as contacting officials, signing petitions or campaigning for a cause. Volunteering and charity are not widespread. Estonia ranks only 95th globally on the 2019 World Giving Index, behind many poorer countries (the index reflects how many people donate money to a good cause, help a stranger and volunteer their time).

CSOs have increased their social and political activities in recent years – often outside of the institutional framework provided by the government. Protests – on the streets or online – have become more common, ranging from protests against the U.N. Migration Compact and a planned pulp mill near Tartu in southern Estonia, to protests both in favor of and against the legalization of same-sex partnerships and banning of abortion. The far-right Conservative People’s Party (part of the 2019–2021 governing coalition) often harshly dismisses progressive CSOs as agents of a global liberal conspiracy.

While the style of national and local politics is often confrontational, there have been almost no instances of violent political conflict. There has been very little mobilization on ethnic grounds since the 2007 “Bronze Night,” when groups of Russian-speakers rioted as the government was about to relocate a controversial World War II monument (the Bronze Soldier) from central Tallinn to a military cemetery.

Nevertheless, a poster campaign by Eesti 200 (a liberal extra-parliamentary party) before the 2019 election presented a reminder of the latent ethnic segregation in the country. The anonymous tongue-in-cheek posters, which were placed in tram stops, defined waiting areas for “Estonians only” and “Russians only” – an allegory for segregation in social interactions, housing and, above all, in education. Carried over from Soviet times, Estonia operates a parallel network of Estonian and Russian language-based primary and secondary schools. All secondary schools are required to teach at least 60% of the curriculum and successive governments have proposed moving to a fully Estonian-language secondary education, which has led to tensions between the national government and the Tallinn city government. Since 2016, the Center Party has led both the national government and the Tallinn city council – Mihhail Kõlvart, the mayor of Tallinn since 2019, is the most prominent champion of Russian-language schools. The government has resisted calls to create a unified school system, despite the inclusion of Pro Patria (a moderately nationalist party



and once a strong proponent of such plans) and the far-right Conservative People's Party (EKRE) as junior coalition parties.

While levels of ethnic conflict have declined or at least stabilized, conflict over value orientations has increased with the rise of the EKRE, which entered the parliament in 2015 and the governing coalition in 2019. The EKRE mobilizes support using polarizing rhetoric, especially over issues like same-sex partnerships, migration and abortion. While traditionally an arch-nativist party, the EKRE has in recent years not only downplayed the ethnic and anti-Russian card but even managed to obtain a foothold of support among segments of Russian-speaking voters because of its parallel focus on social conservatism.

II. Governance Performance

14 | Steering Capability

Successive Estonian governments have been able to set priorities and maintain them over time thanks to high levels of political stability. Nearly all governments since independence have been based on coalitions of several parties but they have generally adhered to agreed government programs and coalition agreements. All coalitions have subscribed to key policy priorities such as a prudent fiscal policy and a knowledge-based economy.

The Reform Party's 11-year spell as the leading party of government was brought to an end in 2016 when the Center Party's Jüri Ratas became the prime minister. Despite the change in leadership, the Ratas government completed an ambitious local government reform that drastically reduced the number of municipalities and abolished county governments (unified regional government agencies).

Following the 2019 parliamentary elections, Ratas remained the prime minister but the replacement of the socially liberal Social Democratic Party with the far-right Conservative People's Party (EKRE) in the coalition changed not only the political image of the government but also the ability of the government to abide by and set long-term goals. The coalition often seemed to be held hostage by the pet projects of the EKRE (e.g., referendum on banning same-sex marriages) and Pro Patria (e.g., a significant and short-termist pension reform, see "Social safety nets"), which the Center Party appeared to support only because of its desire to remain at the helm of government.

The government managed the first year of the COVID-19 fairly successfully and without significant concerns over executive overreach. The economic impact of the pandemic was less severe than initially expected. However, concerns have been raised over whether the changed budget strategy, which aims to curtail the

Question
Score

Prioritization

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economic downturn by increased borrowing and budget deficits, may conceal a quiet shift away from the erstwhile strategic aim of balanced budgets (see “Fiscal stability”).

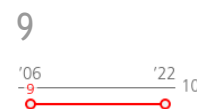
Governments have been effective in implementing policies, as nearly all governing coalitions have enjoyed a parliamentary majority and have benefited from a high degree of party discipline. However, no cabinet has survived a full four-year term in office since independence. Also, coalition partners generally abide by the policies agreed in coalition agreements, but challenges have arisen during times of crisis or in the run-up to elections.

The Center Party (KE) led coalition that entered office after the 2019 election was affected by ideological strains – in particular, because of the inclusion of the far-right Conservative People’s Party (EKRE). However, it systematically pushed through policies agreed in the coalition agreement even with the prime minister seemingly holding his nose at times. When the government fell in January 2021, it was (at least superficially) not over political disagreements but corruption charges affecting the KE and EKRE; though conveniently for the KE, the prime minister resigned on the eve of a decisive parliamentary vote on the planned referendum on banning same-sex marriage (a pet project of the EKRE). However, in the less than two years in office, the government has managed to introduce a controversial pension reform, reverse the duty hikes on alcohol and fuel, and increase the minimum wage, pensions and benefits.

The pandemic had little impact on the implementation of the government program. Indeed, in the final months of the coalition before its breakup in January 2021, the government’s focus seemed to be more on finding ways to arrange parliamentary support for a referendum against same-sex marriage (a pet project of the EKRE, which was endorsed in the coalition agreement) than on the looming second wave of COVID-19 infections.

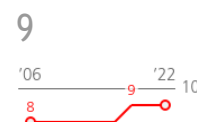
As a member state of the European Union and OECD, Estonia is thoroughly integrated into international policy exchange networks. Hence, policymakers are continually exposed to new and different ideas. Regulatory impact assessments are well-established, cover an increasing number of legal acts and require the involvement of relevant interest groups and public consultations in lawmaking process. There is a strategy unit at the Government Office, but it has limited capacity and impact. The government relies on external academic advice, but the extent to which scholarly findings and recommendations influence policy proposals varies greatly. Since March 2014, the Act on National Government allows ministers to be nominated flexibly, based on current needs – it no longer lists ministers, but rather only sets a maximum number for the government as a whole. On the downside, policymakers often appear to be stubborn and changing one’s mind is generally seen as a sign of weakness, which somewhat reduces the scope for policy learning. In addition, the tradition of abiding strictly by the measures agreed upon in

Implementation



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Policy learning



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the coalition agreements (see “Implementation”) has limited flexibility – as any adjustments potentially open up the whole document for discussion.

However, the government did show considerable flexibility and capacity for learning in responding to the COVID-19 crisis, as it worked closely with the special Scientific Advisory Board for the pandemic, and adjusted restrictions and regulations according to shifts in the situation.

15 | Resource Efficiency

Estonian public administration is generally efficient. There is little political interference in administrative appointments. Because Estonian governments adhere to the principle of balanced budgets, the country has the lowest level of government debt in Europe, which is projected to remain comparatively low even after the COVID-19-induced hike in borrowing. Actual state budget expenditures deviate little from planned expenditures, apart from during years of economic boom and downturns. Businesses and the Reform Party (in opposition during the review period) have increasingly criticized the size of the state bureaucracy. However, the local governance reform completed in 2018 – consolidation of municipalities and abolition of county governments – should improve efficiency.

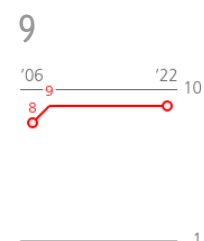
Estonian governments have also become more efficient by pioneering e-governance and introducing a wide variety of online services to both individuals and businesses. Electronic chip-embedded ID cards – held by nearly all adult Estonians – are used extensively, including for securely identifying individuals online. This greatly helped to keep the government and public services running during the COVID-19 restrictions in 2020.

The National Audit Office is an independent constitutional institution that monitors the use of budgetary resources by the state and local governments through both financial and performance audits. It has rigorously critiqued administrative practices, the failure of state innovation funds to boost economic development and the use of public resources for party political campaigns.

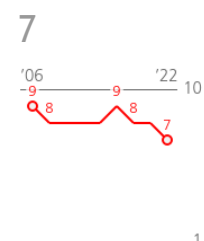
A strategy unit in the Government Office supports policy planning and coordinates the implementation of the government’s action plan as well as strategic development plans. However, the presence of a large number of strategic documents may hinder effective coordination.

Governments have generally been united behind the policies proposed in coalition agreements. There has been limited public friction – at least after an agreement has been signed – about policies, not least because of the small size of the country, which makes it easier to iron out disagreements in private.

Efficient use of assets



Policy coordination



However, some coalitions such as the Reform Party-led coalition in 2015–16 and the Center Party-led coalition in 2019–early 2021 suffered from poorer than usual coordination. The latter was undermined primarily by the regular provocations of the far-right Conservative People’s Party’s (EKRE) leaders. Their controversial views seldom targeted issues agreed upon in the coalition agreement but undermined general policy directions such as those regarding equality, environment or international cooperation (see “Regional cooperation”). The EKRE’s minister of interior also tried to change the country’s police chief behind the cabinet’s back and its minister of finance went solo regarding Estonia’s position on the European Union’s Stability Mechanism (see “Credibility”).

Nevertheless, the COVID-19 pandemic did little to aggravate the situation – instead, the government seemed to pull together during the crisis – at least as far as the government response was concerned.

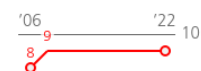
Overall, the government has been successful in containing corruption and integrity mechanisms are in place. The government is very transparent, allowing citizens and the media access to information. For example, on public procurement, access to information is facilitated by excellent electronic registers. In recent years, Estonia has amended a number of anti-corruption laws, such as the Political Parties Act, the Public Service Act and the Anti-Corruption Act, partly in response to concerns raised by the Council of Europe’s Group of States against Corruption (GRECO).

However, challenges remain, the most important of which are related to party funding and the regulation of lobbying. According to a December 2019 Eurobarometer study, half of Estonians believe that corruption is widespread among political parties (50%, down from 59% in 2017), and politicians at the national and local level (44%, down from 56% in 2017) – both less than the EU average. Although legal proceedings over some prominent past cases have helped to clear the air. While prominent corruption charges against Edgar Savisaar, the longtime leader of the Center Party (until 2016) were dropped in 2018 – as the Supreme Court ruled that he was unable to attend the hearing due to poor health – the party has been under an obligation to pay back hundreds of thousands of euros in past illegal donations. In December 2020, a member of parliament, who had solicited bribes on behalf Savisaar, was convicted and had to step down from the parliament.

Since 2011, a special commission (the Political Party Funding Supervision Committee, ERJK) – composed of representatives of parliamentary political parties, the chancellor of justice, the auditor-general and the National Electoral Committee – has been reviewing party funding practices. The commission can force politicians or parties to pay back public funds and illegal anonymous donations. In 2020, the governing coalition proposed to disband the commission and to task the National Audit Office (NAO) with reviewing party finances. The proposal faced

Anti-corruption
policy

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parliamentary obstruction by opposition parties and stirred controversy as the remit of the NAO traditionally only extends to the use of public resources by state and local government institutions, raising the question of whether it was properly suited to monitor the legality of private funding. The proposed reform eventually stalled in parliament.

A prominent corruption case involving the executives of the Port of Tallinn, who had been charged with accepting €4 million in bribes, which started in 2015, became bogged down in the courts because of the health of one of the main defendants. The proceedings were also hit by a controversial decision by a county court to ban all media coverage of the open sessions, which was declared unconstitutional by the Supreme Court at the end of 2020.

International organizations, such as the European Union and the OECD, have also highlighted corruption risks within public procurement procedures, the overlooking of foreign bribery cases by the legal system and an insufficient regulation of lobbying. To address the latter issue, parliament approved a code of ethics for members of parliament, but GRECO still points out issues with members of parliament's declaration of interests and assets, as well as lobbying among ministers, senior civil servants and political advisers.

The government has drafted a law barring outgoing ministers from being appointed to leading positions in companies active in their previous ministerial fields. However, this reform would not address the revolving-door practice between politics and lobbying. Several former senior ministers have in recent years worked as lobbyists for international companies (e.g., for the Chinese technology giant Huawei over 5G networks). A public register of senior officials' meetings with lobbyists was also under consideration but is missing from the proposed Anti-Corruption Action Plan 2021–25, which, nevertheless, prioritizes the creation of a legal framework and code of conduct for lobbying.

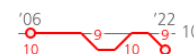
16 | Consensus-Building

Representative democracy is uniformly accepted by all relevant political actors. However, the far-right Conservative People's Party (EKRE), which was included in the governing coalition from April 2019 to January 2021, has challenged the consensus by advocating a more populist form of democracy. The EKRE's leaders (father and son Mart and Martin Helme) have openly derided the concept of liberal democracy, and bullied, by turns, the judiciary, free media and civil society groups.

The liberal market economy enjoys a broad consensus among the major political actors in Estonia. Center-right governments have dominated Estonian governments over the last 30 years and have followed neoliberal economic policies involving balanced budgets, low public borrowing, a flat-rate income tax and currency stability. The main center-left parties (the Center Party and Social Democratic Party) largely agree with these fundamental objectives.

Consensus on goals

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There are no significant anti-democratic political, military or economic actors although the far-right Conservative People's Party (included in the governing coalition since 2019) nurtures views critical of the current model of representative liberal democracy.

Anti-democratic actors

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The main social cleavage is between the ethnic Estonian majority (68% of population) and a sizable Russian-speaking minority (25%). The communities often live separate lives and are divided by latent issues such as their interpretations of the Soviet occupation, Putin's regime and Russian actions in Ukraine. However, the cleavage is only partially politicized, as ethnic Russian parties have been weak and none have been elected to the national parliament since 2003.

Cleavage / conflict management

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Instead, the Russian-speaking community has generally been represented by the Center Party (KE), the leading party of government since 2016, which has been very successful in building up support among the minority community by controlling the municipal government in Tallinn and in northeast Estonia, where most Russians live. In 2019, Mihhail Kõlvart, deputy leader of the KE and a representative of the Russian-speaking community, was appointed as the mayor of Tallinn. However, there have been signs during the review period that the KE's grip over Russian-speaking voters is weakening, benefiting parties across the spectrum.

Polarization along the ethnic cleavage has abated in recent years but conflict over traditional versus progressive values (migration, gender equality and LGBTQ+ rights) has escalated. This has been boosted by the provocative rhetoric of the far-right Conservative People's Party (which was part of the 2019–2021 governing coalition), which culminated in the government plan to hold a consultative referendum on banning same-sex marriage. The plan that failed due to the change in government.

Estonia's political leadership actively enables civil society participation and does respond to their demands. The obligatory consultations with unions and employers' associations are enshrined in several social protection and industrial policy regulations. The Good Practice of Engagement for state institutions involved in policymaking was introduced in 2005. In addition, the Government Office has funded several projects for enhancing the capacity of government departments to engage social partners in policymaking and enhance the capacity of social partners to contribute to it. Furthermore, to promote participation in civil society organizations, the government has created the National Foundation for Civil Society (partially funded by Switzerland) and the Active Citizens Fund (financed by the European Economic Area and Norway Grants framework), which regularly awards grants to NGOs.

Civil society participation

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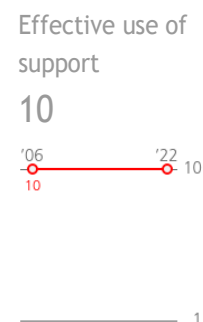
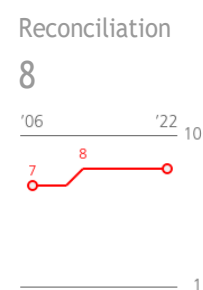
The engagement of social partners in public consultation is facilitated by the online Information System for Draft Legal Acts (Eelnõude infosüsteem). Participation Web (Osalusveeb) and Public Initiative web (rahvaalgatus.ee) provide direct access for individuals to suggest ideas and submit petitions to the parliament and local governments, and hence participate in agenda-setting (though they suffer from being dominated by a handful of online activists). Nevertheless, the direct involvement of CSOs in policymaking and implementation can at times be limited, while the government at times sees their engagement as a necessary inconvenience. At the same time, some CSOs have become deeply integrated into policymaking processes. For example, the Estonian Fund for Nature (established in 1991) is one of the most established NGOs in the country and is regularly consulted by policymakers.

Estonia's political leadership recognizes the need to deal with historical acts of injustice, but the country has not implemented any extensive program of post-communist transitional justice. Interpretation of historical events and periods such as World War II, the Soviet occupation and collaboration with Soviet power structures are of some contemporary political relevance. The events of World War II, in particular, are a frequent source of disagreement between the majority of ethnic Estonians (especially the political elite) and many Russian-speakers; many of the latter are proud of the role of the Red Army, while the former mostly see it as an occupying power that refused to withdraw from Estonia at the end of the war.

Two initiatives from Estonia's presidents have sought to reconcile Estonians with their past: the establishment of the Estonian International Commission for Investigation of Crimes Against Humanity by Lennart Meri in 1998 and the Estonian Institute of Historical Memory (focusing mostly on human rights during the Soviet period) by Toomas Hendrik Ilves in 2008. However, the past is often addressed in an understated manner in Estonia. For example, it was decided in 2016 that the Museum of Occupations in Tallinn would be renamed the Vabamu (roughly, the Museum of Freedom). This move was seen by many as an attempt by younger generations to foster a more future-oriented view of the past.

17 | International Cooperation

Estonia has benefited from generous assistance from the European Union's Structural and Cohesion Funds (net benefits amounted to more than 2% of GDP between 2007 and 2020). Even though the eligibility for some funds has been reduced due to economic growth, the 2021–2027 Multiannual Financial Framework (MFF) adopted at the end of 2020 should not change the status of Estonia as a net beneficiary. Priorities include accessible education, employment, the quality of work-life, a knowledge-intensive economy, efficient use of resources, the environment and sustainable infrastructure. The use of structural funds is linked to long-term strategic plans adopted by parliament and the government, which are



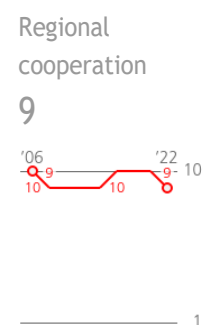
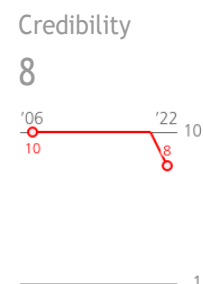
generally well coordinated between ministries. The European Union’s Just Transition Fund signed in late 2020 will likely smooth the path toward achieving climate change targets, specifically the challenging move away from a carbon-intensive oil shale-based energy system.

The government is seen internationally as trustworthy. Estonia has been ranked among the most credible countries in Central and Eastern Europe by international credit rating agencies. Estonia is widely seen as an EU member state that is successfully and tenaciously abiding by EU norms – although its initial resistance to the European Green Deal in 2019 (see “Environmental policy”), and the skeptical views on climate change voiced by the leaders and ministers of the Conservative People’s Party (EKRE) have tarnished this reputation somewhat.

Estonia’s international credibility during the review period was frequently tested by the provocative rhetoric of the Conservative People’s Party (EKRE), which was a junior partner in the 2019–2021 government. Martin Helme, the EKRE’s finance minister, appeared to veto the EU Stabilization Mechanism reform in July 2019, despite the prime minister’s and government’s support. Particularly troublesome and embarrassing for the government was the EKRE leaders hosting Marine Le Pen in 2019 and their personal attacks on friendly nations – referring to the new Finnish prime minister as a “salesgirl,” alleging that the elections in Lithuania and Romania were fixed, and, by far the most controversial, suggesting that the U.S. 2020 election was stolen and President-elect Joe Biden is corrupt. The latter caused a significant backlash, forcing the EKRE’s minister of interior to step down and further diminished the prospects of the coalition surviving a full term. The coalition terminated largely due to other reasons in January 2021.

Since independence, Estonia has been involved in various forms of international cooperation. Over the years, the focus of cooperation has shifted from the other Baltic countries to the Baltic Sea region and the European Union as a whole. Currently, cooperation within various EU frameworks is a priority and more narrowly defined regional cooperation has lost some of its earlier importance.

In recent years, the Baltic states have made joint efforts to increase their energy security. A plan to jointly construct a new nuclear power plant in Lithuania has been mooted with no tangible progress. Regional cooperation has been more successful in terms of diversifying gas supplies through the development of liquid natural gas (LNG) terminals that should end the pipeline monopoly enjoyed by Russia’s Gazprom. A floating terminal has been opened in Lithuania that could, in principle, cover most of the natural gas needs of the Baltic states. In 2020, Balticconnector – an undersea natural gas pipeline to connect the gas grids of the Baltic states and Finland to diversify supply channels. Estlink, an underwater power cable between Estonia and Finland, has been integrating the countries into Nordic electricity markets.



Relations with friendly neighboring countries suffered because of the EKRE's leaders' personal attacks – referring to the new Finnish prime minister as a “salesgirl” and alleging that the elections in Lithuania were fixed.

Relations with the Russian Federation have been increasingly difficult, especially in the wake of the “Bronze Night” troubles of 2007 and the conflict in Ukraine. The countries have failed to ratify a border treaty between the two countries after nearly 30 years of Estonian independence.

Strategic Outlook

Estonia faces few critical challenges in the short- and medium-term. Widespread approval of democratic principles makes political instability unlikely. However, the success of the far-right Conservative People's Party (EKRE) in 2019 when it entered the government highlights potential for political disruptions. The EKRE's participation in government came to an abrupt end in the beginning of 2021, but its capacity for political provocation and stirring up polarization remained intact given its parliamentary and popular strength. While the polarizing referendum on reserving marriage for mixed-sex couples was shelved after the coalition collapsed, the issue of same-sex partnerships' rights is unlikely to go away. The EKRE has also been adamant in politicizing the issue of abortion which has not been controversial since independence. In opposition, the party may also intensify its eurosceptic agenda and is ready to repeat its crusades against migration and refugees should these issues re-emerge. Furthermore, a future government participation of the EKRE cannot be ruled out because of the parliamentary arithmetic – even though its time in the cabinet seems to have made it less coalitionable. However, perhaps surprisingly for a far-right party, the EKRE has refrained from playing the ethnic card, gaining instead a foothold among the more conservative sections of the Russian-speaking population. This may reduce the salience of the ethnic cleavage in Estonian politics further but scope for ethnic divides in politics remains – in particular over the thorny issue of the future of Russian-language education.

The main economic issues have included the continued support of Estonia's flat-rate income tax regime and the low level of social expenditures. The differences between the parties are generally modest, as none of the major parties advocate a radical departure from broadly liberal economic policies and balanced budgets. Personal income tax allowances have been tweaked and the government's COVID-19 response posed some challenges to long- and medium-term budget sustainability. However, the overall outlook remains positive given the very low levels of public debt and the likelihood that the government will likely focus more heavily on macroeconomic management after the departure of the EKRE.

In addition to the commitment to market liberalism, Estonia's memberships in the European Union and the European Economic and Monetary Union have set significant constraints on the policies that the government can pursue. Memberships in these institutions have not faced significant challenges, even when the somewhat eurosceptic the EKRE was included in the governing coalition.

One of the country's main economic risks is its high dependence on exports and foreign investments for economic growth. For a small and open economy, external shocks and credit cycles can pose far more significant risks for economic growth than unfavorable domestic political developments. The country weathered the Great Recession well by adopting a radical austerity program that faced only limited domestic opposition and was buoyed by a widespread understanding that the crisis was not of the government's making. The economic impact of

COVID-19 (at least in 2020) was less severe than initially feared (also in comparison to most other European countries) and is a factor of the prudent economic policies pursued in the run-up to the crisis as well as the country's highly developed online public and private sector infrastructures.

The European Union's structural funds have been an important driver of economic progress for Estonia. However, the country's increased GDP (and the exit of the United Kingdom, a net contributor to the EU budget) means that this assistance will decrease after 2020. The need for increased national funding for socially and economically important projects raises the risk of the state budget coming under increased strain and thus the object of political conflict. The delaying of important projects (e.g., infrastructure or R&D funding), particularly under the circumstances of a COVID-19 induced recession, risks slowing down economic and social progress.

The country also faces the challenge of complying with international and European climate change targets which the new government taking office in 2021 is strongly committed to. This will require phasing out the extensive use of oil shale for power generation which, in turn, is a challenge for sustainably securing energy supplies and will also require that northeast Estonia undergo economic restructuring. The economically disadvantaged region is populated primarily by Russian-speakers; the government needs to use resources (e.g., from the European Union's Just Transition Fund) effectively to promote development and maintain stability in the region.

Finally, Russia's international aggressiveness has raised new medium- and long-term risks. Since 2017, international NATO battalions have been deployed in the Baltic states (led by British forces in Estonia), in addition to increasing air defense patrols. The risk of an imminent armed conflict with Russia is therefore low, but online and media propaganda – most recently targeting the credibility of Western coronavirus vaccines – as well as potential cyber-attacks pose considerable risks. These risks have been somewhat alleviated by the end of Donald Trump's presidency, which posed significant challenges to the future effectiveness of NATO. Nonetheless, the potential for cracks within both the European Union and NATO to widen – manifested by Brexit and the authoritarian turns in Hungary and Poland – may carry longer-term risks for a country whose security fundamentals pivot around deepening integration into Western structures.