

# Estonia 2017

**Total: 78.71**

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## Political Freedom

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### **Free and Fair Elections : 9.64**

There were no elections during the reviewed period, thus Estonia maintained its very high score regarding level of freedom and fairness of the electoral process. However, political life in this country was very turbulent during the previous year. First, parties had very hard times to elect new President, through indirect elections, failing to approve any of the candidates in several attempts. Agreement was reached in the parliament in early October 2016, electing Kersti Kaljulaid for the next president of Estonia. Internal disputes that followed Government from the very beginning were even more deepened during this presidential race. Together with increase of the coalition potential of the Center Party, by replacing their long time leader Edgar Savisaar, these disputes led to a no-confidence vote to the Prime Minister Taavi Roivas in November. A new government was created, consisting of Center Party, Social Democratic Party and Union of Pro Patria and Res Publica. Law still prohibits non-citizen residents from obtaining office at any level, or voting at national elections. This way, ethnic Russian minority of around 7% of population, whose citizenship remained undetermined, have limited access to political life in Estonia. They are allowed to vote only at local elections.

### **Absence of Unconstitutional Veto Players : 9.17**

Estonia doesn't have unconstitutional veto players which could influence the decision making process. System of checks and balances is in place and democratically elected government has power to govern. Estonia is scoring very well in corruption indexes, which emphasize efficient tools for combating graft. However, there are still some cases of corruption by the authorities. Investigation of Edgar Savisaar, Mayor of Tallinn and former leader of the Center Party, for taking bribes, led to the criminal charges against him in November 2016.

### **Freedom of Press : 8.4**

Freedom of the press is granted by the Estonian constitution and largely respected in practice. Wide range of media outlets in this country allows citizens access to diverse spectrum of opinions. Although concentrated in the hands of a few companies, ownership of the privately owned outlets is transparent. Body that supervises public service broadcasting – The Public Broadcasting Council, is marked as impartial and professional, but the presence of the government in this body remains high. Journalists could be imprisoned by the law if they refused to reveal their sources in cases of serious crimes, thus putting pressure on independent journalism. A state-supported

television channel in Russian language was launched in 2015 and has remained active since. This move was often characterized as a government response to Russian propaganda which had targeted Russian speaking minority in the country. On the other side, two print editions of national newspaper in Russian language were closed at the end of the last year, due to company's business strategy.

## Rule of Law

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### **Independence of the Judiciary : 6.5**

Following regain of its independence in 1991, Estonia tremendously advanced in changing the Soviet-era system of full submission of judiciary to the executive power towards one of judicial independence from daily politics. Reforms as of 2014 have further improved the performance of courts, accelerated law enforcement and eased the problem of overcrowded prisons. Simplified regulation and reliance on self-regulation of the economy and civil society enabled judiciary to better deal with the tasks necessary for maintenance of the rule of law. In nomination of judges, checks and balances are kept between President, Parliament and judicial bodies. Political changes in 2016 that allowed centre-left political parties, for the first time since independence, to dominate government, did not seem to have endangered the established position of judiciary. The reforms resumed, aiming at more mobility and flexibility within the legal sphere. As Freedom House noticed, the citizen trust in the judicial system has remained high.

### **Corruption : 7**

Estonia is advancing towards the status of a country where corruption is a small problem, at least as compared to any other Central European country in transition. Transparency International Corruption Perceptions Index 2016 put it to the place 22 of 176 countries of the world. It is 11th best within the EU-28, ahead of, for instance, France, Spain or Italy. Bold liberalization of the economy, as well as simplification of administrative procedures by introduction of e-government, have both largely contributed to this success, atop the classic institutional anti-corruption mechanisms and raised anti-graft awareness in society. However, a few big scandals, especially in the remaining public sector at the local level of government, still shake its image as the corruption-ridden place. One of such were corruption charges against the Mayor of the capital Tallinn, which have dragged on for long, yet finally ousted him from the top of his political party. Charges included bribery, money laundering and illicit party financing. Another scandal involved two officials of the Port of Tallinn, whose investigation for graft committed since 2009 has started in 2015, while the trial (or a plea bargain) was about to take place during 2017.

### **Protection of Human Rights : 7.85**

Estonia maintains high standards regarding human rights. Freedom of thought and expression, or of the media, or of religion or art or academic research, is well respected. The entire relationship between a citizen and the state is ever more built on democratic and liberal principles. Serious attempts are made to keep security forces checked by society and to protect the privacy of citizens along with their right to access to information. Moreover, in September 2016, changes to the Code

of Criminal Procedure mandated that criminal searches must be court-approved and reduced the maximum time in custody from six to four months. In December 2016, Estonia became the first EU country to legally ban human rights violators of entering the country. The gesture was symbolic, but since Estonia belonged to the Schengen zone it was more far-reaching than it seemed at the first glance. Sexual minorities enjoy better protection than in other two Baltic countries, e.g. Civil Cohabitation Act was carried in 2014 and went into force in 2016, while, also, same-sex marriages concluded abroad have been, since January 2017, recognized as valid in Estonia. Amid heated debate and opposition by far-right activists, the country accepted a small number of refugees, yet it made serious and costly efforts (mainly by local governments and civil society) to integrate them. Gender wage gap in Estonia is the highest in the EU (ca. 30%).

## Economic Freedom

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### Security of Property Rights : 7.47

Property rights are well respected in Estonia. The state has the right of expropriation in certain cases in public interest (mostly for building public infrastructure), but expropriations are very rare and the property is exchanged for a market-price compensation. The judiciary is independent from the government influence. The legal system is considered to have a high level of integrity. However, courts are often overburdened, leading to prolonged trials, which on average last for 425 days. Court automation is well used in streamlining paperwork, but the lack of stand-alone commercial courts and the maximum number of adjournments can impact process length. Arbitration is often used, because it is both less time consuming and more affordable. The use of e-services, especially in the cadastre, enables efficient and transparent process of property registration. The police are mostly reliable and business costs of crime are low. There are no limitations to foreign ownership and investments, which also includes ownership over land. However, conducting business in some industries, such as banking, transportation, mining, etc., is preconditioned by obtaining a license. Non-EU nationals also have the right to own land, but this can be restricted due to necessary permission by local authorities, as well as due to the bans on acquisition of small islands or plots of land alongside the Russian border, which is justified by reasons of defense policy.

### Size of Government: Expenditures, Taxes, and Enterprises : 6.85

Government expenditures in Estonia stood at 40% of GDP in 2016, much lower than in most EU countries. Public debt is among the lowest in the world - below 10% of GDP - due to prudent fiscal policies with balanced government budgets. Robust economic growth that came to effect after the recession in 2009 came to a halt, resulting in sluggish economic growth rate of 2%. Labour force developments due to demographic changes and high emigration rate are considered as strong constraint factors on future growth. Estonia was the first country in Eastern Europe to adopt flat tax system, but minor progressive characteristics such as non-taxable exemption make Estonian tax system stand in between proportional and progressive. Personal income tax has been steadily decreasing during the previous decade, from 26% in 2004 to current 20%. The overall tax wedge is slightly above the OECD average, due to high social security contributions of 33% for pensions

and healthcare. Estonian privatization program might be considered as completed, since there are only 31 companies left in predominantly state ownership. The biggest among them are the electricity provider, electricity grid transporter and transportation. Subsidies are very low, below the EU average - for example, the state rail company subsidies have decreased almost by half. However, it remained as an open issue if the Nordic Aviation Group, which in fact has been the rebranded post-bankruptcy Estonian Air, could operate without subsidies.

## **Regulation of Credit, Labour, and Business : 7.13**

High level of economic freedom in Estonia has translated into an overall business-friendly environment. Regulations and restrictions on businesses are not burdensome, and they are evenly applied to all business entities. Starting a new business is easy and cheap, itself lasting only three days due to waiting for the designated VAT number (the online registration takes just a couple of minutes). Estonia continued cutting bureaucracy by allowing for the minimum capital required to be deposited at the time of company registration. Estonia has one of the highest numbers of entrepreneurs per capita. Tax regulation is considered to be among the most efficient in the world, with simple procedures and high usage of electronic tax filing, both for corporate tax and VAT. Obtaining construction permits is quick and inexpensive, but fire department rules in practice prolong this process unnecessarily. Corruption in administration has been held back by a widespread usage of ICT among public institutions. In fact, since December 2014 electronic residency has been the way of exporting Estonian business-friendly environment abroad: entrepreneurs that are foreign nationals residing abroad can easily register and run a company under Estonian laws. Third party notification in redundancy cases has been lifted, but notice periods increase with the duration of worker tenure (one to three months), and there are redundancy rules and reassignment priorities. Fixed term contracts are prohibited for permanent tasks, but these contracts can be long (up to 120 months in total). Maximum work week is set at 5 days, albeit with prolonged workweeks in case of workload. Monthly minimum wage is high, being increased for more than 10 percentage points, from 430 to 470 euro in January 2017. The increase of the threshold for a VAT payer status is envisaged, from 16 000 to 40 000 euros, which will further streamline bureaucracy for SMEs.

## **Freedom to Trade Internationally : 8.7**

Estonia has always been, as a small country, oriented to foreign trade more than many other European countries. This is well depicted by the fact that Estonia was the only country that had to increase (and not decrease) its import tariffs when joining the EU. Good transport infrastructure contributes strongly to fostering trade links and free trade, significantly decreasing transportation costs. This is followed by efficient border administration, which is allowing goods to be imported or exported timely and cheaply, due to the minimum paperwork and costs. Estonia's main trade partners are its Nordic and Baltic neighbors, as well as Germany and the Russian Federation. The main vehicle of Estonia's economic growth have, traditionally, been export oriented industries - exports significantly helped in alleviating the recession in 2009. Due to shortages in labour, mostly by demographic developments as well as net emigration to other EU countries, Estonia has recently streamlined its immigration procedures in order to allow for easier hiring of qualified immigrant workers, with implementation that started in January 2016. Capital controls on movement of capital are often considered too stringent.