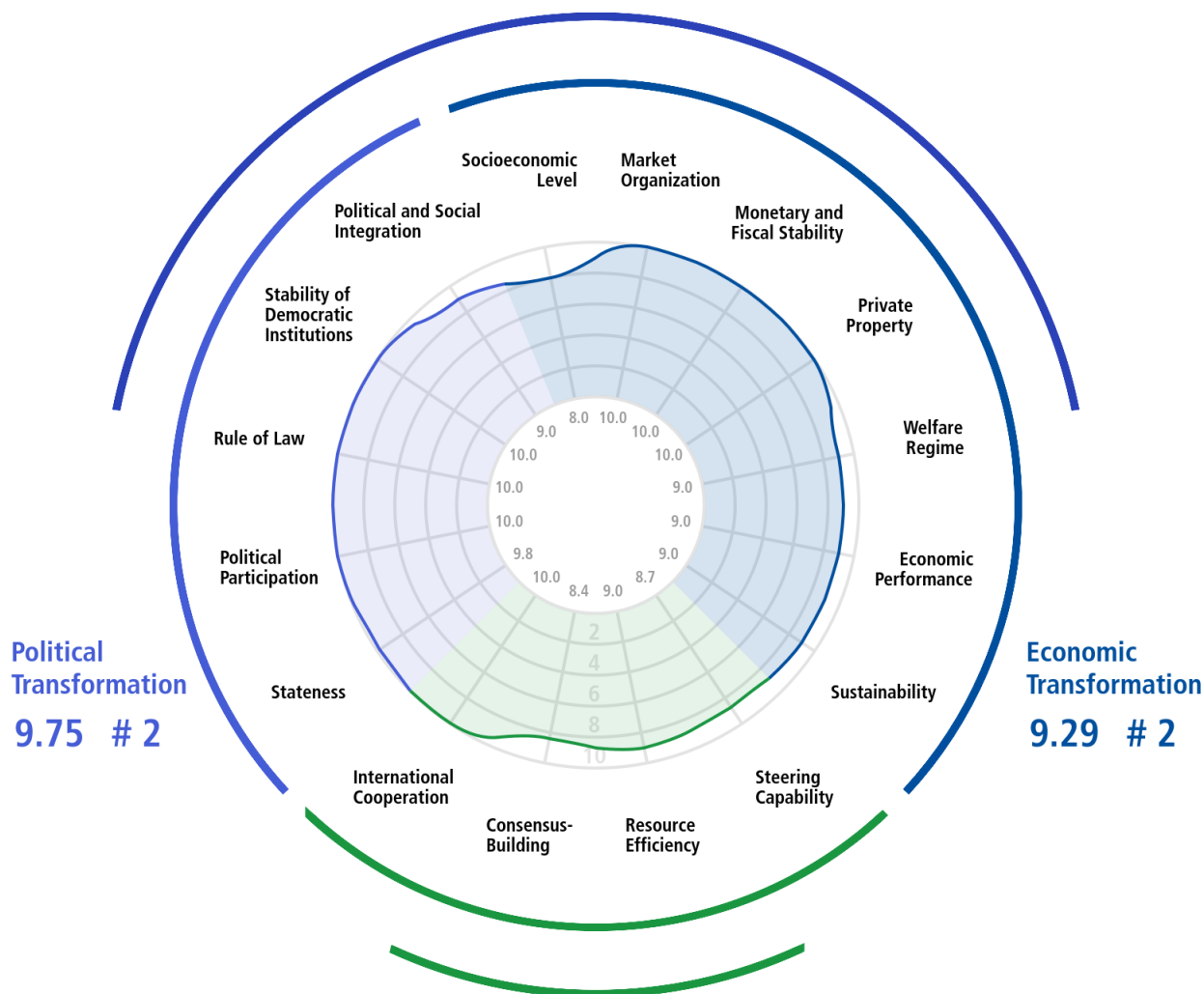


# Estonia

## Status Index

**9.52 # 1**

on 1-10 scale out of 137



**Political Transformation**  
**9.75 # 2**

**Economic Transformation**  
**9.29 # 2**

## Governance Index

**7.35 # 4**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2024**. It covers the period from February 1, 2021 to January 31, 2023. 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	<b>1.3</b>	HDI	<b>0.890</b>	GDP p.c., PPP \$	<b>46697</b>
Pop. growth <sup>1</sup>	% p.a.	<b>1.0</b>	HDI rank of 189	<b>31</b>	Gini Index	<b>30.7</b>
Life expectancy	years	<b>76.7</b>	UN Education Index	<b>0.894</b>	Poverty <sup>3</sup>	% <b>0.5</b>
Urban population	%	<b>69.6</b>	Gender inequality <sup>2</sup>	<b>0.100</b>	Aid per capita \$	-

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

## Executive Summary

The review period was marked by the transition from one crisis – COVID-19 – to another – Russia’s brutal and full-scale invasion of Ukraine. Together with its partners and allies in the European Union and NATO, Estonia has been at the forefront of ensuring security in Europe and respect for democracy and human rights.

There have also been difficult times in domestic politics. In early 2021, a new coalition was formed between the liberal Reform Party and the center-left Centre Party. The coalition soon struggled to build a consensus, and the Centre Party was removed from the governing coalition in July 2022. The leader of the Reform Party, Prime Minister Kaja Kallas, included the conservative Pro Patria and the Social Democrats in the following coalition, which governed until the general election in March 2023.

Although the Conservative People’s Party was removed from the governing coalition in 2021, the rise of this far-right party has changed the political culture of the country. Its divisive and insulting rhetoric has influenced the way politics is conducted, but a full-blown slide to the populist far right has not materialized. Meanwhile, the parliamentary election campaign in early 2023 revealed ethnic tensions and a deepening divide in Estonian society – especially in the northeast of the country. Concerns were also raised about the rising cost of living in the wake of Russia’s war in Ukraine.

Despite the political turmoil, there have been no major changes in domestic or foreign policy. State identity is rarely questioned, human rights are respected, and democratic processes and effective systems of checks and balances are in place. Confidence in democratic institutions remains solid, and administrative structures are well developed. While some high-profile corruption scandals, such as the Porto Franco case that broke the governing coalition in 2021, have sent shock waves through the country’s political culture, they have also demonstrated the effectiveness of the system for detecting corruption. There are solid mechanisms to prevent corruption, and the overall level of corruption is low.

The COVID-19 pandemic did not hit the Estonian economy as hard as predicted. However, the ensuing security crisis in Europe and economic sanctions against Russia led to rapid price increases, driven in particular by energy price hikes. Despite very high inflation and a decline in real GDP in 2022, the unemployment rate decreased and remained below the EU average. While the gross public debt increased, it remained the lowest in the European Union and euro area. Overall, the fundamentals of Estonia's macroeconomic performance remain strong.

The war in Ukraine has brought large numbers of refugees to Europe. Relative to its population, Estonia has received more Ukrainian refugees than any other EU country. This poses a major challenge to the government's administrative capacity. However, times of crisis have also provided a window of opportunity to implement necessary reforms that have long been mired in administrative or political obstacles and resistance, such as the reform of Russian-language schools and the transition to Estonian-language education in all public schools or securing energy independence from Russia. The turbulent economic and security situation has helped to focus various political actors on consensus-building.

## History and Characteristics of Transformation

Estonia's history is marked by periods of autonomy and subjugation. The country declared its independence from the Russian Empire in 1918, following the Russian Revolution. However, Estonia's independence was short-lived, as it was annexed by the Soviet Union in 1940 and occupied in turns by the Soviet Union and Nazi Germany during World War II, remaining occupied by the Soviet Union until 1991.

During the 1980s, Estonia's national consciousness began to reawaken, and calls for independence grew louder. In 1988, the Estonian Popular Front was formed, playing a key role in the country's independence movement. The following year, the Estonian Supreme Soviet declared the restoration of Estonia's independence on August 20, 1991, which was subsequently recognized by the international community. Estonia's independence has been recognized and supported by the international community, and the country has become a member of various international organizations, including the United Nations, the IMF, WTO, and OECD.

In 2004, Estonia joined NATO and the European Union. Accessions to the European Union and NATO enjoyed strong consensus among elites and determination to conform to the membership criteria. Despite some euroskepticism among certain groups of the population, including hardline nationalists, public opinion has expressed support for the country's EU membership, and at a level higher than that observed in most other new member states in Central and Eastern Europe. An annual population survey commissioned by the Government Office in December 2022 indicated that 86% of Estonian residents support Estonia's EU membership. Support for NATO membership was 72% in 2022 (Globsec Trends 2022). The current geopolitical and security situation has underscored the importance of EU and NATO membership to Estonian independence and sovereignty.

The process of transitioning from a Soviet Socialist Republic to an independent democratic country was marked by widespread political and social changes, including the establishment of new political parties, the adoption of a new constitution, and the holding of free and fair elections. In 1992, Estonia held its first post-independence parliamentary elections, and the country has since developed into a stable and prosperous democracy.

The return to independence in 1991 was firmly grounded in restorationist ideas and the principle of legal continuity with the inter-war republic. In particular, citizenship was automatically granted only to the citizens of the inter-war republic and their descendants. A significant portion of the population – mostly those who had moved to Estonia during the Soviet period – could only obtain citizenship through naturalization. Many instead chose to become citizens of the Russian Federation (open to all former citizens of the Soviet Union) or remained stateless (a special status of “aliens” was created by the Estonian parliament). Even though the proportion of Estonian citizens has increased over time, about 10% of the population are citizens of a foreign country (mostly the Russian Federation), and 6% remain stateless.

Additionally, Estonia underwent significant economic changes as it transitioned from a centrally planned economy to a market-oriented economy. As a result, Estonia has one of the highest GDP per capita levels in Eastern Europe and has become a leading destination for foreign investment. The country also has a strong technology sector and is known for its advanced e-government and digital infrastructure. However, like other small, open economies, Estonia is also facing challenges such as a high level of income inequality and dependence on foreign trade.

Government and party system stability were generally low in the 1990s and early 2000s. Since then, the policies of various governments have been remarkably consistent, and the multiparty system has become more stable. The longest-governing market-liberal Reform Party was replaced at the top of the government by the center-left Center Party from 2016 to 2021. The Reform Party led the government into the 2023 general election in a coalition with the conservative Pro Patria and the Social Democrats. However, the radical-right Conservative People’s Party has recently become the second-most popular party in the country. It has polarized the political rhetoric and poses a challenge to political stability.

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 maintains a monopoly on the use of force throughout the entire territory, with no claims for military power or threats to territorial integrity from any domestic paramilitary groups.

However, the security situation in Europe has changed since Russia invaded Ukraine. Russia now openly targets Estonia with its aggressive rhetoric and intimidation.

As a small NATO member state, Estonia relies heavily on its allies but also contributes to collective defense to the best of its ability. The Estonian defense budget for 2023 is 2.85% of GDP.

NATO has increased its presence in the Baltic Sea region. A NATO battalion battle group consisting of nearly 1,200 servicemen is stationed in Estonia. Ämari Air Base serves as a NATO Baltic air-policing mission base. Additionally, Estonia hosts a NATO Force Integration Unit and the Cooperative Cyber Defence Centre of Excellence.

The government and the population are well aware of the increased security risks. The Estonian Defense Forces frequently organize defense readiness exercises in collaboration with NATO allies and the Estonian Defense League.

Since the beginning of the war in Ukraine, the number of members in the Estonian Defense League has skyrocketed. The Estonian Defense League is a voluntary national military self-defense organization operating under the Estonian Ministry of Defense and regulated by the Estonian Defense League Act. Its purpose is to enhance the nation's readiness to defend the independence of Estonia and its constitutional order.

Question  
Score

Monopoly on the  
use of force

10



1

Estonia identifies itself as a nation-state. The constitution declares that the republic is founded on the indelible right of the people of Estonia to national self-determination and ensures the preservation of the Estonian nation, language, and culture throughout history.

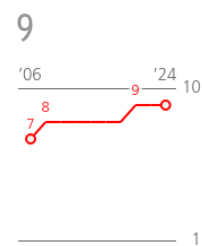
State identity is rarely questioned, although state legitimacy is generally stronger among ethnic Estonians than among Russian speakers (including ethnic Russians and most other ethnic groups originating in the former Soviet Union). A notable proportion of Russian speakers are either citizens of the Russian Federation or stateless, making up approximately 6% and 5% of Estonia's population, respectively, and accounting for about 40% of the Slavic population combined (including Russians, Ukrainians, and Belarusians). The latter group primarily consists 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. However, only 7% of Russians in Estonia identified themselves as solely Russian in 2022.

Approximately 85% of the population are Estonian citizens. Estonian citizenship is primarily acquired by birth or through naturalization. Individuals born to at least one Estonian parent receive Estonian citizenship at birth. Citizenship can also be obtained through naturalization after residing in the country for a minimum of eight years as a permanent resident or under a valid long-term residence permit, demonstrating proficiency in the Estonian language, and passing an examination on the Estonian constitution. To reduce the number of stateless residents, citizenship is automatically granted to children born in Estonia to non-citizens, and language tests for older applicants have been simplified since 2015. However, the rate of naturalization has remained low. The Estonian Integration Monitoring 2020 report highlighted that residents do not apply for Estonian citizenship primarily because it is not necessary for living in Estonia, and they already hold another citizenship (as dual citizenship is not permitted in Estonia). Additionally, Russian citizenship facilitates visits to Russia. Nevertheless, the number of applications for Estonian citizenship has significantly increased following Russia's invasion of Ukraine.

According to the constitution, foreigners (non-citizens) who are permanent residents can vote in local elections. Due to the war in Ukraine and hostile Russian propaganda targeting Estonia, some political parties (such as Pro Patria and the Reform Party) included proposals in their 2023 electoral programs to withdraw the voting rights of citizens from hostile countries (mainly Russia and Belarus) in local elections. This would require an amendment to the Estonian constitution and may face constitutional challenges.

In March 2022, in response to Russia's invasion of Ukraine, Estonia implemented a ban on broadcasting pro-Kremlin Russian-language TV channels to counter Russian propaganda.

#### State identity



Since regaining independence, Estonia has grappled with reforming the Soviet legacy of Russian-language schools. In December 2022, the parliament decided that Estonian would be the language of instruction in all schools and kindergartens, and a transition to Estonian-language education in Russian-language schools is set to begin in the 2024/2025 school year. This is another measure taken in response to Russia's aggressive actions.

Estonia is one of the most secular countries in the world. The constitution makes no mention of a state church. According to Statistics Estonia, about 28% of the people in Estonia considered themselves religious in 2021. Although over half of those self-identifying as religious are Orthodox, Estonia is traditionally a Lutheran country. Christian (Lutheran) traditions and ethical beliefs are rooted in Estonian culture. Until recently, religious beliefs and associations have not played an important role in politics. The state and churches, especially the Estonian Evangelical Lutheran Church (EELC), have mostly disputed over the return or compensation of the churches' historical property (real estate and art treasures).

However, religious and conservative ideology has played a more visible role in political life since the rise of a far-right party, EKRE, after the 2019 parliamentary elections and the inclusion of a conservative party, Pro Patria, in several government coalitions. The EELC has also become more politically active since the appointment of a new archbishop, Urmas Viilma, in 2015.

The subject of same-sex partnerships has deeply divided society. Estonia was the first country from the former Soviet Union to legally recognize same-sex couples in 2014 through the Registered Partnership Act. EKRE and EELC proposed to amend the constitution and affirm that only a man and a woman may get married. A consultative referendum on the issue was planned for 2021 but ended up being scuttled after a change in government.

After the Russian Orthodox Church justified the Russian invasion of Ukraine, the Estonian government demanded a position from the Apostolic Orthodox Church in Estonia. Its metropolitan Stefanus stated that Russia's war in Ukraine is an unprovoked war of conquest, and unlike the words of Patriarch Kirill of Moscow, according to Orthodox tradition, death in war does not forgive a person's sins, and approving the war also contradicts the church's teachings.

Estonia is a highly developed country that features effective administrative structures. Estonia ranks 30th in the 2021/2022 Human Development Report with an HDI index of 0.882. Countries with scores over 0.800 are considered to have very high levels of human development.

The quality and accessibility of public services are generally very good. Its e-government initiatives are well-known. The Estonian government has developed a brand called e-Estonia, which aims to keep the government working seamlessly 24/7. Some 99% of all government public services are online. The U.N. E-Government Survey 2022 has evaluated Estonia as the leading country in e-government development.

No interference of religious dogmas

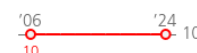
10



1

Basic administration

10



1



Local government administration benefits from a large-scale local government reform that 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. The reform increased the competence and ability of local governments to ensure high-quality public services for residents.

The most recent administrative challenges are posed by the war in Ukraine. By the beginning of 2023, Estonia had allegedly accepted over 66,000 Ukrainian refugees (the exact number of refugees who have stayed in Estonia is not known, exactly) – 5% as a share of the population, more than any other EU country. The huge number of refugees has tested the administrative capability of the government and the cooperation with the local government. The administrative challenge is managed with the help of volunteers and NGOs.

The war in Russia also accelerated efforts to establish energy independence in the Baltic Sea region.

## 2 | Political Participation

Estonia boasts a multiparty system, with nine political parties submitting their slates for the 2023 parliamentary elections, five of which already hold seats in parliament. In national elections, participation is limited to registered political parties and independent candidates. However, in local elections, citizen alliances can also field their lists. Notably, all permanent residents, encompassing non-citizens and EU citizens, enjoy the right to vote in local elections. In contrast, parliamentary elections are restricted to Estonian citizens.

Estonian elections uphold the principles of being free, general, uniform, and direct. The allocation of political positions within the parliament and government is based on the results of these elections. The process ensures the secrecy of the vote, allowing voters to cast their ballots without coercion or hindrance. This confidentiality is maintained through the rules governing polling stations and voting booths. Internet voting, introduced in Estonia as early as 2005, has gained widespread acceptance and usage. In the 2021 local elections, an impressive 47% of votes were cast online. Oversight and organization of elections fall under the purview of an impartial National Electoral Committee, consisting of representatives from distinct and independent institutions.

Occasionally, concerns regarding the security of internet voting surface, with some political parties and activist groups, notably EKRE, questioning its control and reliability. It is important to note that all such complaints have been dismissed, although the Supreme Court has recommended that the detailed procedures for counting electronic votes be codified in law (currently regulated by lower-level implementation acts). Various working groups and independent institutions have scrutinized the system's reliability. In 2019, an inter-ministerial working group proposed several measures to enhance the system's reliability and risk management, ultimately finding no significant flaws.

Free and fair elections

10



Political parties that secure a minimum of 2% of the votes in general elections receive funding from the state budget, with allocation increasing proportionally for those surpassing the parliamentary representation threshold of 5%. To ensure fair treatment of candidates and parties during election campaigns, Estonian Public Broadcasting has established regulations. Notably, since the 2021 local elections, the ban on outdoor advertising during active campaigning has been lifted. This change is anticipated to assist political parties with limited financial resources, as outdoor advertising may offer a more cost-effective alternative to media, TV, radio or internet advertising.

In Estonia, democratically elected politicians have the power to govern without any substantial interference from non-elected bodies. Interest groups, business associations or any other individuals or corporate bodies do not exert significant political influence over the majority of the elected democratic institutions. Estonia is a plural society. Financial donations to political parties are allowed only by private individuals. These single donors may have an influence on the execution of power. Civilian control over the military is firmly established and strong. The Lutheran Church participates in political discussions but is not a veto player.

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. Registration rules for associations are non-discriminatory and clearly established in the Nonprofit Associations Act.

A party must have at least 500 members (the rule was at least 1,000 members before 2014). Non-citizens are prohibited from joining political parties as formal party members.

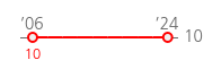
Associations (including political parties) may be dissolved by a court if their aims or activities are in contradiction with constitutional order, the law, morality or the declared aims of the association, as well as for carrying on profit-making activities and in the event of bankruptcy.

In the wake of the COVID-19 pandemic, all public gatherings were banned during the two months of the declared emergency (from March 12 to May 17, 2020). The constitution allows restrictions on the freedom of assembly to prevent the spread of an infectious disease. The restrictions were for the short term to protect people's lives and health and to avoid physical accumulation and accompanying movement.

Civic activism is generally not very high, and the influence of NGOs on public policy is limited. However, civil society is active during politically pivotal times and with regard to topics of great importance. For example, after the inclusion of the far-right EKRE party in the governing coalition in 2019, a civic movement called "My Estonia Too" organized smaller gatherings and a big concert to promote the concept of an inclusive society that respects everyone living in Estonia – regardless of location, age, sex or gender, skin color, language, creed or other differences.

Effective power to govern

10



Association / assembly rights

10



Right after the Russian invasion of Ukraine, the largest demonstration in Estonia since the end of the Soviet Union took place on Freedom Square. Once the war broke out, Estonian civil society became more active than it had been in years.

Freedom of expression is protected by the constitution. Everyone has the right to express themselves freely through speech, writing and other forms of communication without censorship or fear of retaliation. The media in Estonia is considered to be diverse and independent, with a variety of newspapers, television and radio stations, and online news outlets.

The government generally respects the rights to freedom of expression and press freedom. The media operates independently, and journalists can report on a wide range of topics without fear of censorship or retaliation. The media – especially the 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 parliament. Private media ownership is transparent. However, there have been some concerns about the concentration of media ownership and the impact of disinformation and fake news on the democratic process.

The impartiality of private media has been questioned occasionally. The Postimees Grupp (one of the biggest private media houses) has often been accused of serving the political agenda of its owner, Margus Linnamäe, a member and donor of Pro Patria, one of the governing parties. To keep their voters in the biased information field, the EKRE party is either running or affiliated with alt-news websites (Uued Uudised, Objektiiv) and radio stations (TRE Radio), generally dismissing established outlets as “(liberal) mainstream media.”

Estonia has consistently ranked high on the World Press Freedom Index, ranking fourth in 2022. Overall trust in the media is relatively high, with around 70% of respondents trusting the news media (European Broadcasting Union in 2019). However, trust varies by source, with public broadcasters generally enjoying higher levels of trust than private or online-only news outlets. The Eurobarometer Media & News 2022 survey shows that Estonians trust traditional broadcast and print media, including their online presence, more than online news platforms and social media channels (67% and 49%, respectively). However, as in many other countries, an increasing number of people rely on social media as their primary source of news, leading to an encapsulation and fragmentation of people’s media space (along ethnic lines as well). In addition, disinformation and fake news are becoming more prevalent on social media, which can create confusion and undermine trust in the media. Russian propaganda has been a concern in Estonia, particularly in relation to the country’s large Russian-speaking minority, which lives in a media space distinct from that experienced by ethnic Estonians. Since the Soviet era, Russia has spread propaganda in Estonia to influence public opinion and create divisions within the country.

Freedom of  
expression

10



1

Russian media, which was widely available in Estonia, has been heavily biased in favor of the Russian government and openly hostile and belligerent toward Estonia, especially since Estonia's strong support for Ukraine since the Russian invasion. The government has countered Russian propaganda, for example, by launching its own Russian-language news service. Shortly after the invasion of Ukraine, Estonia banned re-transmission on Russian TV channels on Estonian territory. As a result, the share of non-ethnic Estonians who regard Russian media channels as important sources of information dropped notably (poll by Turu-uuringute AS).

The country has high internet penetration, and citizens are free to access and share information online without government interference. However, concerns have been raised about the potential for online censorship, particularly in relation to hate speech, disinformation and cyberattacks. Hate speech promoting or inciting hate or discrimination against a particular group of people based on their race, religion, ethnicity, sexual orientation or other characteristics is illegal. Though punishable under the criminal code, punishment is rare. Public insults have become more common. It is usually followed by public condemnation, but the overall quality of political debate suffers.

### 3 | Rule of Law

There is a clear separation of powers in Estonia, and mutual checks and balances generally work well. The powers of the legislative branch (parliament) and the executive branch (the government) are balanced with several independent constitutional institutions – the judicial system, the (largely ceremonial) president, the chancellor of justice, the National Audit Office, the National Bank and local governments. The system of checks and balances among the branches and other independent institutions prevents the concentration of power and ensures that no one institution can dominate the others.

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.

Although there is an effective system of checks and balances in place, the disparity of available resources, in terms of both financial and human resources, leads to the dominance of the executive branch in governance. The government and its subordinate agencies formulate most of the policies, strategic documents and legal acts. Parliament's resources are incomparably smaller in quantity and quality.

Separation of powers

10



Estonia's court system consists of county and administrative courts (the first instance courts), circuit courts (the second instance), and the Supreme Court. The Supreme Court is the highest court of general jurisdiction, the supreme administrative court and the constitutional court. As an independent constitutional institution, the Supreme Court administers itself and is financed directly from the state budget.

Estonia has an independent judiciary that operates separately from the legislative and executive branches of government. Judges in the first and second instances 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 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. In 2021, the Supreme Court processed 34 cases of constitutional review, and the court found a contradiction with the constitution in seven cases.

A survey conducted in 2018 among the participants in the court proceedings revealed that 88% of lawyers and as many as 97% of prosecutors consider the Estonian judicial system rather or very reliable. On average, 80% of people who appealed to the court and went to court considered the judicial system reliable. Corruption among judges is very rare. There have been only a few corruption cases concerning judges in the last 10 years.

According to the Global Corruption Barometer 2021, people in Estonia are confronted with less corruption than any other EU country. Most officials act with integrity and are not subjected to political interference. There are anti-corruption strategies, and the government is effective in tackling corruption. New guidelines on lobbying, revolving doors and conflicts of interest have been introduced recently.

Several high-profile corruption cases have been brought to court in recent years. At the end of the last review period (January 2021), a major corruption scandal surfaced involving the Porto Franco real estate development in central Tallinn, involving a former adviser to the Minister of Finance of the EKRE, the Center Party (K), and specifically Mihhail Korb, its former Secretary General. The scandal led to the collapse of the coalition between K, EKRE and Pro Patria in January 2021. Korb was accused of using his position and closeness to the mayor of Tallinn, Mihhail Kõlvart, to obtain favorable development conditions. In return, K was allegedly promised a €1 million donation. The prosecutor also alleged that the city government failed to follow standard practices and principles for setting prices when setting an easement fee for the development. This corruption case is still pending in court.

Shortly before the Porto Franco scandal, a corruption case came to light, involving Mailis Reps (K), Minister of Education and Research. Reps allegedly used ministry property and staff for personal purposes. Reps resigned in November 2020, and her parliamentary immunity was waived in October 2021 in order to conduct a criminal trial on corruption charges. This case is also still pending.

Independent  
judiciary

10



1

Prosecution of  
office abuse

10



1

In December 2021, former Tartu deputy mayor Kajar Lember was acquitted of charges related to violating procedural restrictions and bribery. It demonstrates that the judiciary is independent of the influence of state institutions. However, the Prosecutor's Office appealed against the decision by Tartu County Court and proceedings continue.

Besides political corruption cases, corruption in the health care sector has drawn attention in recent years. Specific to the COVID-19 crisis, some health care workers were under investigation for selling vaccination certificates. Overall, the emergence of such high-profile corruption cases demonstrates that a system of effective detection and prosecution of corruption is in place.

The Committee for the Supervision of Financing of Political Parties (ERJK) has proven to be an effective tool for controlling the financing of political parties, detecting illegal donations and preventing political corruption. The committee has the right to order candidates and parties to return prohibited donations or to transfer the prohibited donations to the state budget. In 2022, the Center Party had to return €843,000 in donations. This put the party in a difficult financial situation, from which it did not recover until the 2023 elections.

Civil rights are enshrined in law and respected by state institutions. The constitution prohibits discrimination on the basis of nationality, race, sex, language, religion, political opinion and social status. State institutions respect these rights, and individuals are effectively protected. Two institutions, in addition to the courts, are charged with protecting civil rights. In addition to its role in constitutional review, the Chancellor of Justice (CoJ) monitors the protection of fundamental rights and freedoms and acts as an ombudsman, including for children's rights. The Gender Equality and Equal Treatment Commissioner (GEETC) monitors compliance with gender equality legislation (enshrined in the Gender Equality Act and the Equal Treatment Act). Both bodies have generally been effective and have remained independent of the government. There are also active NGOs that monitor and protect human rights in Estonia.

Between 2020 and 2022, during the COVID-19 pandemic, several civic rights – including freedom of movement, assembly rights, and freedom to conduct a business – were subject to severe restrictions. Estonia followed the example of other countries, although the restrictions here were generally limited and shorter-term than elsewhere. However, the CoJ criticized the ambiguity and lack of motivation behind the measures, and there were some court cases against the restrictions that were generally found to be lawful and justified. In 2022, the Constitutional Supervisory Board of the Supreme Court ruled that the coronavirus passport requirement did not violate the constitution. The Administrative Court ruled in only a few cases that the dismissal of police, border guard, and military personnel for non-compliance with the vaccination requirement was unjustified.

Civil rights

10

'06 -9 '24 10

1

The regulations stipulated that only those who had recovered from COVID-19 or were fully vaccinated would be allowed to participate in events and activities. The restriction evoked outrage, often encouraged by the far-right Conservative People's Party (EKRE) or its supporters. A demonstration in February 2022 ended up in a clash with the police, and the organizer was fined for not complying with the requirements of a public event.

Tensions with Russia have affected the relationship between ethnic Estonians and Russian speakers by raising mutual distrust. The political tendency against immigration has the potential to trigger ethnic discrimination, but there is little evidence of this.

#### 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 never significantly undermine democratic governance.

Estonia is a parliamentary representative democracy where the parliament (Riigikogu) enacts laws, oversees the work of the government and appoints some senior officials (heads of other constitutional bodies). The judiciary is independent and operates based on the constitution and the laws of the country. The Supreme Court is an independent constitutional institution that is both a court of the highest instance and a constitutional court. Municipalities are autonomous democratic constitutional institutions. 79 municipalities are responsible for providing public services and implementing policies at the local level. However, the division of tasks and responsibilities between the central and local governments is an ongoing debate. The influx of Ukrainian war refugees in 2022 put considerable pressure on local governments, and the central government was criticized for poorly coordinating its measures.

Increased inflation and energy prices resulting from Russia's war in Ukraine put financial pressure on public sector institutions. Central government institutions have met the challenge, but there are financial concerns in some municipalities. The large-scale territorial administration reform, which reduced the number of municipalities from 213 in 2014 to 79 in 2017, has improved the overall efficiency of local governments. However, some mergers, especially those resulting from political intervention, did not go well. In 2023, some municipalities were expected to apply for financial support from the state budget.

Performance of democratic institutions

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Democratic institutions are accepted as legitimate by all political powers and non-governmental associations. Democratic institutions are regularly criticized for not meeting high performance standards, but generally, the legitimacy of democratic institutions and the democratic process are not in question. There are no significant examples of political players questioning democratic procedures.

In international comparison, Estonians express solid trust in their democratic institutions. According to the Eurobarometer (as of February 2023), 32% of Europeans tend to trust national governments, while 36% of Estonians trust their government. Some 33% of Europeans tend to trust national parliaments, while 26% of Estonians trust their parliament. In January 2023, the parliament was the least trusted political institution (Turu-uuringute AS poll commissioned by the Government Office). Some 71% of the population trust the president, 69% trust their local governments and 52% have trust in the Estonian government. Only 49% trusted the parliament, while 43% expressed distrust.

## 5 | Political and Social Integration

Estonia has a fairly stable multiparty system. Usually, nine to 10 political parties participate in the general elections, including one or two newcomers. A total of 12 political parties are registered in Estonia. Nine political parties contested the 2023 parliamentary election. Polls predicted that six parties would enter the parliament, including the liberal newcomer Eesti200 (Estonia200) that fell just below the electoral threshold in the 2019 parliamentary elections. Most of the political-ideological spectrum is represented in the Estonian party system. Electoral volatility has regularly varied between 10 and 20%.

Due to the multiparty system and the proportional electoral system, Estonian governments have always been coalition governments. The center-right liberal Reform Party (RE) has held the office of prime minister the longest. Andrus Ansip (RE) was prime minister between 2005 and 2014, becoming the EU's longest-serving prime minister at the end of his term. The Center Party (K) was traditionally in close competition with the Reform Party to win the parliamentary elections, but in the 2023 election campaign, the Conservative People's Party (EKRE) emerged as RE's main opponent.

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. The main drivers of the change in party politics are the formation of new parties and coalition-building, as both have an immediate effect on how the image of the parties is perceived by voters. The opinions about ethnic and geographical factors in electoral behavior are contradictory. Some experts say that

Commitment to democratic institutions

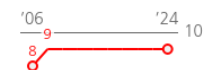
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Party system

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the effect of ethnic and geographical factors is diminishing as a civil society based on civic rather than ethnic principles emerges in the country. However, the effect of Russian aggression toward its neighbors is unknown. And there are regional differences in voter preferences. Voters in eastern parts of Estonia and the capital Tallinn tended to prefer the Center Party, and EKRE has been more popular in southern Estonia.

Freedom of association is granted by the constitution, but the system of interest representation and mediation through NGOs is weak. Interest representation is often fragmented, more ad hoc and has only limited resources. While the absolute number of NGOs is considerable, the number of active NGOs is low. As characteristic for a small country and small society, political lobbying is conducted mostly at the interpersonal level.

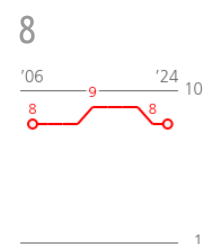
The Estonian Trade Union Confederation (EAKL) is comprised of 17 branches representing different sectors. In comparison to many Western European countries, its policy-formulating capacity is weak. Trade unions are typically invited to contribute to the policymaking process initiated by the government. The Estonian Employers' Confederation (ETKL) has been more active in making policy proposals. Yet, its institutional and analytical capacity is not significantly higher than that of trade unions.

Pressure groups have moderately increased their activities in recent years. In recent years, protesters have campaigned for and against the legalization of same-sex partnerships and science funding. Often, interest groups activate in “not in my backyard” cases when one’s own private space or property is affected. Also, environmental issues are becoming more and more significant in civil society. Especially any decisions concerning Estonian forestry policy meet strong pressure from interest groups.

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. As a result, the Estonian e-participation portal [rahvaalgatus.ee](http://rahvaalgatus.ee) is increasingly popular. Some high-profile successful cases lead the way to political participation in interest groups.

There is a tendency for some political parties to initiate and finance NGO’s to support their political agenda. For example, the Conservative People’s Party (EKRE), while in the coalition government, pushed through a targeted state budget grant to a recently formed anti-abortion NGO “The March of Life.” The Pro Patria party has allocated public funding to a foundation that advocates for families with many children (Pere Sihtkapital).

Interest groups



Although many international surveys and think tanks have warned that democracy in the world is in decline and authoritarianism is on the rise, approval of the democratic system in Estonia remains very high. Support for liberal democracy remains solid among the population. The Globsec Trends 2022 report revealed that Estonia has one of the highest levels of satisfaction with democracy in the region. The greatest upward shift concerning satisfaction with democracy was measured in Czechia, Estonia and Latvia.

The World Values Survey (Wave 7, data collected from 2017 to 2021) revealed that on a 10-point scale, Estonia scored 8.65 on the question “How important is it for you to live in a country that is governed democratically?” and 6.36 on the question “And how democratically is your country being governed today?” This data indicates that Estonians appear to be committed to living in a democracy, while satisfaction with democracy is relatively lower than in Western role models.

The war in Ukraine came as a shock, even though Estonia has long been acutely aware of the security risks. Estonia is a strong supporter of Ukraine and a leader in international cooperation in providing assistance. Russia will continue to play an important role in maintaining the Baltic states’ commitment to democracy. An undemocratic and aggressive neighbor makes Estonians value democracy even more.

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 10 for “most people can be trusted”).

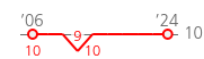
As is characteristic of a post-communist country, volunteering and charity have not been widespread in Estonia. However, in recent years, people have been more willing to donate money and participate in voluntary actions. Estonia ranks 64th globally on the 2022 CAF World Giving Index, which marked a significant improvement from its ranking of 95th in 2019, but it remains behind many poorer countries.

The COVID-19 pandemic saw evidence of 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.

People in Estonia are very active in cultural activities, with more than 73% participating in cultural life and more than 73,000 participating in folk culture activities. Singing in a choir is the most popular activity (Statistics Estonia 2020).

### Approval of democracy

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### Social capital

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## II. Economic Transformation

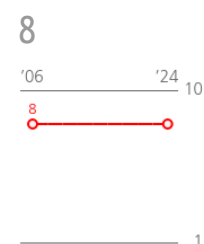
### 6 | Level of Socioeconomic Development

Estonia is ranked 31st on the U.N. Human Development Index, surpassing all Central and Eastern European nations except Slovenia. The incidence of extreme poverty is low, with only 0.5% of the population living on less than \$3.65 PPP per day in 2020. However, relative poverty, measured as the percentage of people with incomes below 60% of the national median, stood at 22.8% in 2021. Between 2020 and 2021, relative poverty increased by 2.2 percentage points, surpassing the EU average and reaching its highest level in the past decade. The elderly population, especially those over 65, faces the highest risk of relative poverty. Additionally, ethnic minorities (28%) experience a higher incidence of relative poverty compared to ethnic Estonians (20%). Notable regional disparities in economic well-being exist, with northern Estonia (including Tallinn) reporting a relative poverty rate of 18.1%, while northeastern Estonia has a significantly higher rate at 36.6%, and southern Estonia stands at 25.8%. In December 2022, 71% of residents expressed general life satisfaction. However, 27% of residents encountered significant economic challenges, and 52% felt uncertain about their economic future, as reported by a Turu-uuringute AS poll commissioned by the Government Office. According to the Estonian Human Development Report for 2023, life satisfaction is influenced by various mental health factors, such as depression and stress related to the coronavirus, as well as optimism and a hopeful outlook on the future. Mental health issues may explain the slight decline in average life satisfaction observed at the beginning of 2022. The prevalence of mental health problems is higher than commonly perceived and has further increased during the pandemic.

As of 2021, Eurostat reported that 23.4% of adults in Estonia were at risk of poverty or social exclusion, exceeding the EU average of 21.1%. Among children, 17.4% were at risk of poverty or social exclusion, compared to the EU average of 24.4%. Estonia stands out for having one of the largest disparities between adults and children in this regard. The Gini index, a measure of income inequality, was slightly higher than the EU average at 30.6 in 2021, although it has decreased since 2013. According to the UNDP Gender Inequality Index, Estonia exhibits some of the highest gender inequality in Central and Eastern Europe, with a Gender Inequality Index of 0.1 in 2021. The gender pay gap in 2021 was 14.9%.

Question  
Score

Socioeconomic  
barriers



Economic indicators		2019	2020	2021	2022
GDP	\$ M	31081.9	31370.4	37191.2	<b>38100.8</b>
GDP growth	%	3.7	-0.6	8.0	<b>-1.3</b>
Inflation (CPI)	%	2.3	-0.4	4.7	<b>19.4</b>
Unemployment	%	4.5	7.0	6.2	<b>5.9</b>
Foreign direct investment	% of GDP	9.8	11.5	19.8	<b>4.0</b>
Export growth	%	6.1	-5.3	19.9	<b>5.0</b>
Import growth	%	3.8	0.4	21.0	<b>5.8</b>
Current account balance	\$ M	735.8	-370.2	-709.3	<b>-1104.3</b>
Public debt	% of GDP	8.5	18.6	17.8	<b>18.5</b>
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	0.2	-5.5	-2.1	-
Tax revenue	% of GDP	21.3	20.7	21.4	-
Government consumption	% of GDP	19.5	20.8	19.8	<b>19.4</b>
Public education spending	% of GDP	5.3	5.5	5.9	-
Public health spending	% of GDP	5.1	6.0	-	-
R&D expenditure	% of GDP	1.6	1.8	-	-
Military expenditure	% of GDP	2.0	2.3	2.0	<b>2.1</b>

Sources (as of December 2023): 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 boasts a competitive market economy characterized by a relatively high degree of economic freedom. The nation has a rich tradition of fostering entrepreneurship and innovation, consistently earning high rankings in various economic freedom and ease-of-doing-business indices. In fact, Estonia clinched the top spot in the 2022 International Tax Competitiveness Index worldwide. Foreign investment is actively encouraged, primarily through an appealing tax system that exempts reinvested profits from corporate income tax. Both foreign and domestic investments enjoy equal legal treatment in Estonia. Market forces predominantly determine prices, and there is ample flexibility for the movement of capital, including currency conversion, as well as the mobility of labor, albeit with some restrictions for non-EU workers.

As reported by the International Labour Organization (ILO), informal employment accounted for 9.1% of the total employment in Estonia in 2021. According to the Quarterly Informal Economy Survey (QIES) conducted by World Economics, Estonia's informal economy is estimated to comprise 22.5% of the total economy, roughly aligning with the European average (e.g., 24.9% in Latvia and 14.6% in Finland).

As an EU member state, Estonia has developed a comprehensive legal framework to prevent monopolistic economic structures and activity. 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). The Estonian Competition Authority has recently processed cases from very different areas of life. More and more competition concerns are emerging in different digital markets. In 2022, the energy sector gained a lot of attention due to the energy crisis.

In 2022, an amendment to the Competition Act entered into force, according to which a part of the Estonian Competition Authority's budget is financed from the supervision fees paid by monopolistic companies with regulated prices. The purpose of the amendment to the law is to improve the ability of the Estonian Competition Authority to perform its tasks and to enhance supervision with additional funding.

In 2021, a completely new administrative fine procedure for competition infringement proceedings was created with the transposition of the ECN+ Directive. This directive, a fundamental reform of EU competition law, aimed to streamline and harmonize infringement procedures in EU member states. Estonia was one of the few member states where infringements had been prosecuted in the context of criminal or misdemeanor proceedings. As a result of the directive, this procedure has been replaced with administrative proceedings that are intended to increase the efficiency of the procedure.

Market  
organization

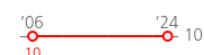
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Competition policy

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Estonia's foreign trade is highly liberalized, and the country has been a member of the WTO since 1999 and the European Single Market since 2004. The foreign trade balance in 2022 was -17.1%. Non-tariff barriers have been largely removed from the internal market and are aligned with those used by the European Union in relation to third countries.

Liberalization of foreign trade

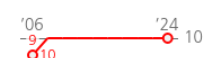
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Estonia has implemented most of the EU's banking and finance regulations. Its 12% capital-to-assets ratio is higher than the Basel III minimum requirement (8%).

Banking system

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There are no state-owned commercial credit institutions. The banking market is competitive, but the overall concentration of the banking sector remains among the highest in Europe as the sector continues to be dominated by two Swedish subsidiaries, Swedbank and SEB, which comprise more than 60% of the market share. Altogether, 13 credit institutions operated in Estonia at the end of 2022, four of which were branches of foreign credit institutions. Cross-border banking services can also be provided in Estonia by around 320 financial institutions from the EU.

One particular feature of the Estonian banking sector is that equity makes up a large share of the balance sheet. The capitalization in the figures for Estonian banking groups is higher than the EU average because of the earlier income tax system, under which banks, like other businesses, paid income tax when they distributed profit, not when they earned it. Banks now have to pay income tax on the profit earned in each quarter.

The recent rise in interest rates is seen as an opportunity for banks to improve results and increase the market value of listed companies. At the same time, an economic downturn can increase loan losses and lead to a reduction in overall lending, which reduces the value of banks.

Total household debt in Estonia is moderate, at 70.3% of gross income in 2021. Estonia has one of the best positions globally in non-performing loans (accounted for 1.1% of total gross loans in 2021).

Contrary to expectations, the COVID-19 pandemic did not worsen the situation, partly because banks introduced extensive payment holidays.

Despite massive money laundering scandals in the 2010s, Estonia achieved the lowest risk score out of the 125 countries in the Public Edition of the Basel AML Index in 2019. It has strengthened its efforts in the prevention and detection of money laundering. However, the Council of Europe anti-money laundering body MONEYVAL advised in its 2023 report that Estonia should continue strengthening private sector capacities and improve its law enforcement efforts in combating money laundering and terrorism financing.

As nearly 99% of banking transactions in Estonia are conducted electronically, implementing prevention mechanisms against cyberattacks has been a priority in the banking system. The law obliges the Bank of Estonia to organize continuity of financial services – payment services and cash circulation. Bank of Estonia supervises that banks can provide vital financial services (making payments, paying by bank card and withdrawing cash) under any circumstances.

The sanctions imposed on Russia have a direct impact on the Estonian financial sector mainly through two channels: the direct positions of the Estonian financial sector in Russia and increasing uncertainty in financial markets. However, the direct connection of the Estonian financial sector with Russia is small, and therefore the immediate systemic risk resulting from Russian aggression and economic sanctions is also limited.

## 8 | Monetary and fiscal stability

Estonia has a stable monetary system. The country has been a member of the eurozone since 2011 and uses the euro as its currency. The European Central Bank is responsible for monetary policy in the eurozone, and the Bank of Estonia is responsible for implementing it in Estonia.

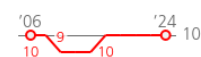
As a result of the economic sanctions imposed on Russia following its military aggression in Ukraine, Estonia's inflation rate spiked in 2022, peaking in August (25.2%) and ending at 17.5% in December 2022. The eurozone average was 9.6% at the end of 2022. A rapid rise in prices has reduced the competitiveness of Estonian companies. The Bank of Estonia forecasts that food prices will continue to rise, but energy prices and the price of oil and gas have fallen significantly. Inflation is expected to decline and be close to more normal levels in 2023.

The European Central Bank raised key interest rates in the eurozone by 2.5 percentage points by the end of 2022 and is expected to continue raising rates until eurozone inflation is convincingly close to its 2% target. Rising interest rates obviously increase costs for borrowers, but they also help prevent inflation from becoming entrenched for a long time.

The Budget Council forecasts that if the structural deficit of the government sector does not increase in 2023, then the nominal deficit will increase by approximately half a billion euros compared to this year. Such a stance on fiscal policy does not support monetary policy in the fight against inflation.

### Monetary stability

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Estonia has boasted one of the most prudent public finance systems in the EU. State budgets have generally been balanced and often in surplus. However, recent governments have considerably loosened fiscal discipline. The main drivers of the additional deficit were COVID-19, the war in Ukraine and the rapid rise in prices. The government increased defense spending and family allowances, while also providing compensation for the increase in electricity prices.

While the gross public debt burden rose from 8.5% of GDP in 2019 to 18.5% in 2020 and 17.6% in 2021, it still remains the lowest in the European Union and eurozone (93.0% in the eurozone, 85.1% in the EU).

High inflation has increased receipts of tax revenues and improved the country's fiscal position, but inflation will pass through into a lot of state spending starting in 2023. In 2023, several decisions that will come into force next year, including a rise in family benefits, an increase in the tax-free threshold, and an extraordinary rise in pensions and a tax exemption for them, will widen the budget deficit considerably.

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 2022, the council criticized the government for deviating from the target of reducing the structural deficit in the coming years, which was considered important in the stability program. When preparing the state budget strategy for the years 2023 to 2026, the government has decided neither to improve nor worsen the budget position compared to 2022. The budget strategy includes new costs of a permanent nature but not new permanent revenue types.

Despite some drawbacks in fiscal policy during recent turbulent years, the Estonian position in fiscal stability is still strong.

## 9 | Private Property

Estonia has a well-established system of property rights that is protected by the constitution, the Land Act, and the Cadastral Act, among other legislation. These laws provide for the protection of private property and establish procedures for the registration and transfer of property.

Estonia's property rights system is considered transparent and efficient by international organizations.

In the International Property Rights Index, Estonia ranks first in the region and 24th in the global ranking.

### Fiscal stability

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### Property rights

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The country's digital land registry system, which allows for online property transactions, has been cited as a key factor in this ranking.

In Estonia, private individuals, legal entities and the state can own property. There are some restrictions for foreigners in the acquisition of land, especially in the border areas. The state has the right to expropriate property for public use, but it must provide fair compensation to the owner.

Estonia has a well-developed private enterprise sector. The country has a market-based economy, and the government's role is mainly to create a favorable environment for businesses through policies such as low taxes, minimal regulation, effective administrative processes and an open trade regime. Since gaining independence from the Soviet Union in 1991, Estonia has undertaken significant economic reforms, including the privatization of state-owned enterprises and the liberalization of trade and investment. These policies have led to the development of a dynamic and competitive private enterprise sector.

According to the Commercial Code, a large selection of different business entities has been created (including private limited company, public limited company, general partnership, limited partnership, commercial association and sole proprietor).

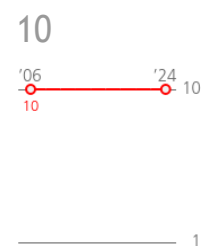
The private enterprise sector in Estonia is diverse, though it is largely dominated by small and medium-sized enterprises. Over 90% of Estonian companies employ less than 10 individuals, and only around 0.1% of companies employ more than 150 individuals. The main employers are wholesale and retail trade companies, manufacturing companies and companies engaged in professional, scientific and technical activities.

Estonia's business environment is considered to be friendly to foreign investors, and the country has attracted a significant amount of foreign direct investment. Registering a company in Estonia takes only several minutes. The process may be completed 100% online via remote authentication with a digital ID.

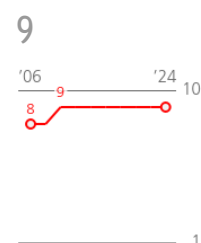
## 10 | Welfare Regime

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 33% 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 (e.g., children, seniors, mothers raising small children at home, the unemployed and pregnant women). A health insurance system built on the principle of solidarity means that everyone covered by public insurance is entitled to the same quality health care, regardless of whether or not they pay the health insurance tax and regardless of their health risks. However, there are some issues with the coverage of health services, as some groups are not insured (e.g.,

### Private enterprise



### Social safety nets



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 (6.7% of GDP in 2020) is much lower than the EU average (8.0%) 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. In 2022, 65% of Estonian residents were satisfied with the Estonian health care system, and the availability of medical care was approved by more than half of the population, according to a survey conducted by the Health Insurance Fund and Kantar Emor.

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. After pension reform in 2021, fundraising in the second pillar became voluntary, and erstwhile members could leave the scheme and claim back their accumulated shares in cash. The average monthly old-age pension payment was €669 in 2022. The Ministry of Finance and the Ministry of Social Affairs have determined that inequality in the pension system is increasing. Most people's salaries are lower than the average salary, and more and more people work part-time, while the pension depends more and more on the size of the salary. Those with a lower-than-average salary will start receiving a pension smaller than the current average pension. The unemployment insurance benefit is paid for up to one year at an initial replacement rate of 60%, which drops to 40% after 100 days. Other social benefits are less generous but have experienced significant increases.

Parental and family benefits are very generous in Estonia. Parents who work full-time can be eligible for seven types of parental leave and six types of allowances or benefits financed by the state and through the National Health Insurance Fund. For example, maternity leave can be taken as early as 70 days before birth and is paid for a total of 140 days. The parental benefit is paid to guarantee your previous income and is paid for 435 days, or until the child is one and a half years old. Fathers, too, have the right to 10 days of paternity leave and may receive the parental benefit after the child is at least 70 days old. Following the birth of a child, families are eligible for a one-off benefit of €320, which is topped up by some municipalities.

Estonia has a universal family benefits system, but the amount of child benefits depends on the number of children in the family. In addition, there are various allowances for families with many children, the single parent's child allowance, etc. Recent governments have paid special attention to families with many children. In 2023, the support for large families increased to €650 for a family with three to six children and €850 for a family with seven or more children. The increased benefits for families with at least three children were criticized for creating huge inequalities in the family benefits system and undervaluing first and second children. Despite very generous benefits for families with children, total public spending on social protection (15% of GDP) remains lower than the EU average (21.8% of GDP).

The Estonian constitution ensures equal opportunities for all, regardless of social status, religion, or ethnicity. An independent Equal Opportunities Ombudsman offers guidance and investigates claims of discrimination based on various factors, including gender, age, nationality, and more. Notably, the majority of complaints lodged with the Ombudsman pertain to gender discrimination.

Estonian women exhibit high levels of education. In 2021, 53% of women aged 25 to 64 held tertiary degrees, ranking third highest in the EU, where the average stood at 36%. Among men in this age group, 34% possessed tertiary education, surpassing the European average of 31%. Women also dominated public service jobs in 2021, comprising 56% of the workforce in this sector. Female labor force participation in Estonia ranks among the highest in Europe, reaching 77.5% compared to the EU average of 67.7% in 2021. However, despite these achievements, the gender pay gap in Estonia remains the highest in the EU. According to Eurostat, in 2020, the gender pay gap stood at 21.1% in Estonia, contrasting with the EU average of 13.0%. Encouragingly, Statistics Estonia reported a significant improvement in 2021, with the gender pay gap narrowing to 14.9%.

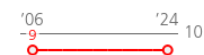
In 2016, Estonia introduced the work ability reform, designed to systematically activate individuals with disabilities or work-related health constraints. Prior to this reform, only a limited number of such individuals were registered as jobseekers. According to 2021 data, 43% of newly registered jobseekers with reduced work ability secure employment within 12 months after registration, compared to 54% of all other jobseekers. Ethnic minorities faced greater economic challenges during the turbulent economic climate than ethnic Estonians, with 34% of the former group reporting difficulties compared to 23% of the latter. Ethnic minorities also reported significantly higher levels of insecurity, with 61% feeling uncertain compared to 49% among ethnic Estonians. It's important to note that proficiency in the Estonian language is a prerequisite for Estonian citizenship to enter the civil service, ensuring equal opportunities in this regard.

## 11 | Economic Performance

The foundational elements of Estonia's macroeconomic performance continue to exhibit strength. In 2021, the GDP per capita (PPP) reached \$42,192. Interestingly, despite initial predictions of a more severe impact from the COVID-19 pandemic, Estonia's economy was not as adversely affected. However, the subsequent security crisis in Europe and economic sanctions imposed on Russia led to a rapid surge in prices, creating a turbulent and unpredictable economic environment. Consequently, in 2022, the real GDP growth rate dipped to -4.1%. Notably, inflation spiked significantly in 2022, peaking at an average of 19.4% for the year. Despite these challenges, the general government consolidated deficit reached 280.1 million euros, reflecting a relatively solid budget position, thanks to robust tax revenues and lower-than-expected cost growth.

### Equal opportunity

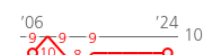
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### Output strength

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Anticipated impacts from Russia's war of aggression against Ukraine are expected to significantly weaken the economy. This will manifest in a slowdown in real GDP growth in 2023, driven by diminished domestic demand and a deteriorating external environment. However, there is optimism for a rebound in growth by 2024.

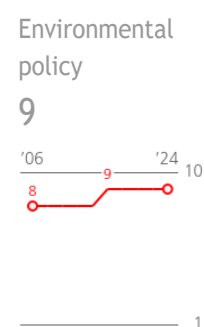
In 2022, the unemployment rate in Estonia stood at 5.6%, a decrease from 6.2% in the previous year, and it remained below the EU average. Nevertheless, with the economy cooling, unemployment is projected to rise in 2023. It's worth noting that a portion of this increase is attributed to refugees from Ukraine seeking employment opportunities in Estonia.

## 12 | Sustainability

Estonia has made remarkable strides in its environmental performance, climbing from the 30th position in 2020 to a commendable 15th place in the Environmental Performance Index for 2022. The nation excels in various aspects, earning high marks for its biodiversity, air quality, and pollution control. However, it faces challenges in areas such as climate change mitigation, particularly in terms of greenhouse gas emissions per capita, tree cover, grassland and species habitat preservation, and the household use of solid fuels, notably wood burning. Interestingly, Estonia stands as one of the few OECD member states that have yet to implement green budgeting tools. The management of forests has recently emerged as a contentious issue where competing economic and environmental interests collide.

The green transition brings forth a series of social and economic challenges, particularly in the phase-out of oil shale usage. The government has committed to transforming its relatively carbon-intensive economy by slashing greenhouse gas emissions by 70% by 2030 (in comparison to 1990 levels) and striving for climate neutrality by 2050. Achieving this goal necessitates the reduction of oil shale dependency and the diversification of renewable energy sources, which already contribute one-third of Estonia's energy supply. However, the imperative to replace Russian energy, especially since 2022, has expedited the transition to renewables while also delaying a significant reduction in domestic oil shale consumption.

Despite having one of the highest per capita CO<sub>2</sub> emissions in Europe due to its reliance on oil shale, Estonia is witnessing a decline in emissions. Several factors contribute to this trend, including the expansion of district heating, increased capacity in renewable energy, and efforts to enhance energy efficiency through building renovations. However, emissions from the agricultural sector are gradually increasing, and the transport sector requires greater attention. Estonia is recognized for its heavy reliance on private cars, boasting the second-highest car ownership rate in the EU, with 33.2% in 2021, as reported by Eurostat.



To boost electricity production from renewable sources, the government organizes tenders for renewable energy projects. Additionally, the Center for Environmental Investments (KIK) and KredEx oversee several support programs for both private households and businesses in the realm of renewable energy.

The education system in Estonia operates under a shared governance structure involving both central and local authorities. Local authorities oversee early childhood education and care, while the state sets national standards, funding principles, and regulations for quality assurance. Schools, however, enjoy a substantial degree of autonomy in resource allocation. The country also witnesses a growing number of private schools. Estonia's government allocates a significant portion of its budget to education, with spending amounting to 6.6% of GDP, one of the highest figures in the EU, exceeding the EU average of 5.0%. Despite its strong performance overall, the education system grapples with challenges stemming from lagging public financing.

Estonia's commitment to education is evident in its universal literacy rate and high ranking in the U.N. Education Index, consistently outperforming most countries in the PISA assessments. In the 2018 PISA evaluation, the country ranked globally in the top five for science and reading and in the top eight for mathematics. A substantial proportion of the adult population has attained secondary and tertiary education, with only a fifth having less than primary education or holding a master's degree. Lifelong learning is on the rise, with 21% of individuals aged 25 to 64 participating in such activities, doubling since 2009, according to the Estonian Labor Force Survey 2022.

Estonia faces challenges arising from an aging workforce and a shortage of teachers. The government has prioritized increasing teacher salaries, but as of 2022, the average teacher's salary remains at 80% of the average salary of professionals with higher education. Preschool teachers in Estonia earn 30.2% less than their tertiary-educated counterparts.

Russian-language schools in Estonia have generated persistent political controversy. Among the 514 general education schools in Estonia, there are 20 Russian-language and 56 Russian-Estonian-language schools. A challenge faced by students in Russian-language schools is the inadequacy of Estonian language instruction, which limits their access to further education and employment opportunities. In 2022, the parliament passed a law stipulating a full transition to Estonian as the language of instruction, with the process set to begin in 2024 and conclude by 2030.

In 2013, Estonia made university programs taught in Estonian free for full-time students who completed the required curriculum, aiming to increase access to higher education for economically disadvantaged youth, reduce work during studies, and promote on-time graduation. However, a recent study by the Parliamentary Foresight Center found that these objectives had not been met. Restricting universities' ability to charge tuition fees, coupled with insufficient public funding, led to the underfunding of higher education. Before the reform, government spending on higher education accounted for 1.6% of GDP, which decreased to 1.01% of GDP by 2019.

Education policy /  
R&D

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In a 2018 memorandum, the government committed to increasing public R&D spending to at least 1% of GDP. While expenditure on R&D as a percentage of GDP has steadily increased since 2016, reaching 1.75% of GDP in 2020 and 2021, it still lags significantly behind the EU average of 2.3%.

## Governance

### I. Level of Difficulty

Estonia boasts a high level of educational attainment, rare instances of extreme poverty, and an impressive employment rate. However, the country faces significant structural challenges rooted in its small size and unique geographical and geopolitical circumstances.

In essence, being a small state with a population of just 1.33 million, Estonia is tasked with fulfilling the same responsibilities as larger nations but with notably fewer resources. The inherent limitations of small states become evident in their ability to provide public goods and services, hindered by constrained resources and the absence of economies of scale. Moreover, the relatively small talent pool in Estonia poses challenges in terms of specialization within public administration. Geographically, Estonia's expansive land area of 45,228 square kilometers coupled with a low population density of 31 per square kilometer creates obstacles for regional development. The population is increasingly concentrated in the capital and its environs, posing infrastructural, rural development, and public service accessibility challenges.

Estonia grapples with demographic concerns, including an aging population, a low natural birth rate (with a total fertility rate of 1.61 in 2021), and recent anti-immigration policies that have impacted human capital. However, in 2023, Estonia's population saw a 2% increase, attributed in large part to the arrival of Ukrainian refugees, who accounted for 75% of all immigrants in 2022.

Despite its geographical distance from Western Europe's populous nations, Estonia benefits from its access to the sea and proximity to affluent Nordic countries, particularly Finland. Nevertheless, a significant threat to Estonia's regional security and social cohesion emanates from the Russian Federation. Estonia's relationship with Russia has long been strained, with Russia employing hostile propaganda and harboring imperialist ambitions aimed at dividing Estonian society. Prior to the invasion of Ukraine and subsequent economic sanctions, Russia served as an important foreign trade partner, ranking as Estonia's eighth largest export partner and second largest import partner. However, following the invasion, Russia's aggressive rhetoric, hostile propaganda against Estonia and terroristic behavior have deepened the divisions between the two countries.

Structural  
constraints

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Estonia embarked on the path of building a modern civil society during the 1990s, following over five decades under communist rule that had prohibited free civic associations. In 2002, the Estonian parliament adopted the Estonian Civil Society Concept, which outlined the roles of public authorities and civic initiatives, established principles for cooperation, and laid the foundation for the development of civil society. Subsequently, the NGO Code of Ethics and Codes of Good Practice were introduced to provide guidance on civic engagement, public service delivery, funding, and volunteerism. More recently, the government has endorsed the Cohesive Estonia Development Plan (2021 – 2030), aimed at bolstering civil society and fostering the growth of NGOs.

As of 2021, there were 24,953 registered associations and foundations in Estonia, accounting for 7.22% of all legal entities in the country. While sustainable organizations are spread throughout the nation, a significant concentration is found in and around the capital city of Tallinn. Recreational activities are the most prevalent focus area for civic organizations.

Estonia performs well in the Civil Society Organization Sustainability Index (2021), scoring a high 2.1 on a scale where lower scores indicate greater sustainability. The country excels in sectoral infrastructure, advocacy, and the legal environment but faces challenges in organizational capacity, financial stability and service provision. Overall, Estonian civil society is perceived as competent and reliable, assisting both the government and those in need through campaigns, fundraising efforts, and volunteer work. Estonia stands out with the highest level of interpersonal trust in Central and Eastern Europe, achieving a score of 5.4.

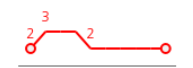
Nevertheless, the level of volunteering in Estonia falls below the European average. The 2022 CAF World Giving Index ranks Estonia 64th globally. About 55% of respondents reported helping a stranger in the past year, 43% made monetary donations, and 20% engaged in volunteer activities. According to surveys conducted by Statistics Estonia from 2019 to 2021, roughly 38% of the population made donations, and 14% were involved in volunteering. In Estonia, informal volunteering is more common than formal volunteering.

The conflict in Ukraine has spurred increased civil society engagement. Estonians have displayed remarkable hospitality, opening their homes to a substantial number of Ukrainian refugees, assisting them in finding employment, collecting donations, and volunteering for various initiatives. A remarkable 74% of the population supports the admission of Ukrainian war refugees, while only 21% are against it, with 6% expressing no clear opinion (Turu-uuringute AS, December 2022). Reportedly, voluntary associations have managed to collect at least 33 million euros in donations as of early 2023 (Maaleht, January 19, 2023).

## Civil society traditions

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While the tone of national and local politics often leans toward confrontation, recent history has seen minimal instances of violent political conflict in Estonia. The notable exception was the “Bronze Night” incident in 2007, when Russian-speaking groups engaged in riots following the government’s decision to relocate a contentious World War II monument, the Bronze Soldier, from Tallinn’s center to a military cemetery.

However, the situation has become more strained due to the war in Ukraine and the ascent of the far-right populist Conservative People’s Party of Estonia (EKRE).

In response to Russia’s invasion of Ukraine in February 2022, the Estonian government opted to remove any symbols, displays, or insignia in public spaces that could be perceived as glorifying Russian militarism. While the relocation of a controversial World War II tank from the predominantly Russian-speaking city of Narva to a museum near Tallinn led to some local residents confronting the police, the operation ultimately transpired without violence. Prime Minister Kaja Kallas emphasized that Soviet-era war monuments were no longer just a local concern but a matter of national security, and their presence should not be exploited by foreign powers, particularly the Russian Federation, to stoke tensions or divide Estonian society.

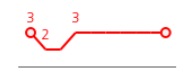
Russian media, known for its aggressive propaganda, has long influenced Russian speakers in Estonia. The ethnic divide, to some extent, persists due to the parallel network of Estonian and Russian-language primary and secondary schools, a legacy of the Soviet era. Since 2011, all Russian-language secondary schools have been required to deliver at least 60% of the curriculum in Estonian. However, compliance and teaching quality have not been effectively monitored. In 2022, the parliament approved a transition to full Estonian-language instruction in Russian-language schools starting in 2024. Estonia also banned the broadcast of Russian and Russia-sponsored TV channels with the aim of undermining Russian propaganda among Russian-speaking residents and reducing the potential for ethnic conflicts.

Estonian political culture has witnessed increased conflicts and polarization, particularly after the emergence of the Conservative People’s Party of Estonia (EKRE), which entered the parliament in 2015 and was part of the governing coalition from 2019 to 2021. EKRE garners support through polarizing rhetoric, especially concerning topics such as immigration, same-sex partnerships, and abortion. During the COVID-19 restrictions, party supporters protested against the requirement for a COVID vaccination pass for certain activities. The presence of a substantial number of Ukrainian refugees in Estonia has provided fertile ground for EKRE’s anti-immigration policy proposals. However, EKRE is most notable for its aggressive political discourse, which undermines social cohesion and interpersonal relations.

Conflict intensity

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'06 '24 10



## II. Governance Performance

### 14 | Steering Capability

Estonia has enjoyed a remarkable degree of political stability and a well-defined set of priorities over time. These long-term governance objectives are encapsulated in the “Estonia 2035” strategy, which was adopted in 2021. This strategy outlines five key goals that take into account Estonia’s developmental needs, global trends, the European Union’s policy framework, and global sustainable development objectives. Nevertheless, compared to the previous three decades of independence, there is currently less consensus on the specific pathways to achieve these goals.

Estonia has consistently shown a strong commitment to advancing liberal freedoms, fostering an open and knowledge-based economy, embracing digital transformation, upholding rigorous fiscal discipline, and enhancing internal and external security. In the current decade, security remains a paramount concern, yet there is a less unified stance on other policy priorities. While liberal, centrist and social liberal factions have traditionally held a parliamentary majority, recent developments have been increasingly influenced by right-wing politics, which places a premium on safeguarding the nation-state. This shift has been accompanied by more generous and widespread state budget support, leading to a relaxation of fiscal discipline. Mounting borrowing and budget deficits have obscured a subtle departure from the earlier strategic objective of maintaining balanced budgets.

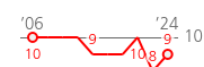
Throughout its history of independence, Estonia has consistently operated with coalition governments, typically comprised of multiple parties. This coalition format necessitates consensus-building and has generally prevented radical shifts in policy priorities. In coalition governments where each partner seeks to advance its own agenda, a wide range of priorities are addressed to cater to the diverse political spectrum of voters.

The Government Office and various ministries have established strategy units and strategic planning systems, with regulatory acts specifying impact assessment requirements. However, there is room for improvement in terms of conducting impact assessments or prioritization based on expected outcomes. Challenges such as rushed decision-making or resource limitations, including expertise and skills, sometimes hinder this process, as political aims and will often take precedence.

Question  
Score

Prioritization

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In general, governments in Estonia have demonstrated effectiveness in policy implementation. Coalition partners typically adhere to the policies outlined in coalition agreements, benefiting from the presence of a parliamentary majority and a high degree of party discipline. However, there have been instances of cooperation issues, as seen in the case of the Reform Party and the Center Party coalition in 2021/2022, which ultimately led to the Center Party's removal from the government.

More recently, the unstable political, economic, and security landscape has posed challenges to the realization of long-term policy objectives across various sectors. In the years 2020-2022, the focus primarily shifted toward health care, largely due to the COVID-19 pandemic, and subsequently toward security from 2022 onwards. Consequently, many other policy areas received comparatively less attention from the government.

Nevertheless, periods of crisis have also presented opportunities to enact necessary reforms that had long been impeded by administrative or political hurdles and resistance. For instance, reforms related to Russian-language schools and the transition to Estonian-language education in all public schools gained significant momentum following Russia's aggression in Ukraine and the heightened intensity of its hostile propaganda against Estonia. Additionally, the energy crisis expedited efforts to transition toward renewable energy sources and bolster energy security.

As a member state of the European Union and OECD, Estonia is deeply integrated into international networks for policy exchange and learning. Estonia has actively sought out various country models, foreign best practices, and innovative ideas, both in response to demand and through proactive efforts. This approach has significantly influenced the development of Estonia's central and local government structures since regaining independence.

The government has made a clear commitment to knowledge-based policymaking. For instance, during the COVID-19 pandemic, a dedicated Scientific Advisory Board was established to provide guidance on restriction policies. Estonia has also established well-established practices, such as conducting regulatory impact assessments, involving relevant interest groups, and engaging in public consultations throughout the legislative process. Furthermore, thorough policy analysis is a mandated component of the policymaking process.

However, there is a growing trend where policy initiatives are labeled as urgent and deemed essential political priorities. In such cases, crucial steps in the policymaking process, including stakeholder engagement and policy analysis, are sometimes omitted. Coalition agreements, often formulated without comprehensive policy analysis, tend to lack flexibility. As a result, numerous political priorities are fast-tracked through the policy process without adequate consideration of potential alternatives.

## Implementation

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## Policy learning

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## 15 | Resource Efficiency

The challenge of limited resources in a small state has driven the Estonian government to seek efficient and effective administrative solutions. In 2020, public expenditure on general public services amounted to 4.0% of GDP, which is below the EU average of 6.2%. Estonian governments have consistently adhered to the principle of maintaining balanced budgets. Despite increased public spending and borrowing in recent years, Estonia boasts the lowest level of government debt in Europe. The country places a strong emphasis on merit-based appointments in the public service, with minimal political interference in administrative appointments.

The share of total government expenditure stands at approximately 45% of GDP, slightly exceeding the OECD average but falling below the EU average. This signifies a remarkably efficient utilization of resources, considering that a small state must perform all the same functions as its larger counterparts, where one might expect a higher share of GDP to be allocated to public spending. However, notable government employment figures reveal that one in five employees works within the general government sector, as per data from Statistics Estonia and the Ministry of Finance.

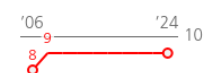
Estonia has earned recognition for its adept use of technology, employing e-services, e-voting, and digital signatures to streamline administrative processes and enhance efficiency. The government has also undertaken measures to simplify regulations and procedures while reducing bureaucratic complexities. The digitalization of administrative procedures contributes to increased transparency.

The organization of public administration underwent a downsizing effort in 2020 through the merger of central government agencies, a result of the state governance reform initiative initiated in 2015. Additionally, local governments were amalgamated in 2017 to enhance efficiency.

The National Audit Office, functioning as an independent constitutional institution, plays a crucial role in monitoring the utilization of budgetary resources by both the state and local governments. This oversight extends to financial and performance audits, ensuring accountability and responsible resource management.

Efficient use of assets

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Critics have frequently highlighted the lack of cooperation and coordination within the Estonian public sector. Ministries and other government agencies often function in isolation, with inadequate efforts directed toward adopting a holistic “whole-of-government” approach. There is often a failure to unite various government bodies and stakeholders in the alignment and integration of policies aimed at achieving shared objectives.

Estonia, like many other countries, possesses a hybrid governance structure that blends various vertical and horizontal arrangements with numerous informal networks and personal connections. However, there has been insufficient recognition of the imperative to invest in coordination efforts and the development of coordination skills.

The Estonian government facilitates policy coordination through a range of mechanisms, including regular inter-agency meetings, cross-ministerial working groups, and synchronized planning and implementation processes. Furthermore, the government actively engages with stakeholders, encompassing businesses, civil society organizations, and local governments, to ensure that their perspectives and needs are incorporated into policy development and implementation. The responsibilities for policy coordination are divided between the center of government and other relevant bodies.

Challenges in achieving a unified government approach have been compounded by recent political conflicts and a lack of trust between coalition partners.

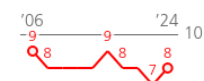
Recent experiences, such as the coordination of nationwide vaccination efforts during the COVID-19 pandemic and the reception of war refugees from Ukraine, have underscored the deficiencies in multilevel governance in Estonia. Insufficient task distribution and coordination between central and local governments have become evident in these instances.

The Estonian government has achieved notable success in curbing corruption by implementing a range of integrity mechanisms and corruption prevention regulations. These measures include the Anti-Corruption Act, which delineates the responsibilities of public servants and imposes penalties for corruption offenses. The Public Procurement Act is aimed at preventing corruption in the allocation of public contracts, while the State Assets Act focuses on averting corruption in the management of public assets. Additionally, the Political Parties Act serves to deter political corruption.

In 2021, Estonia took further steps to bolster its anti-corruption efforts. The government introduced “Good Practices for Officials on Communication with Lobbyists” and expanded the requirement to submit declarations of interest to include political advisers, as mandated by the Anti-Corruption Act. In 2022, the public gained free access to business register data, enhancing the ability to identify corruption and

## Policy coordination

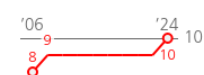
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## Anti-corruption policy

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money laundering risks by disclosing company ownership relationships. Simultaneously, certain initiatives, such as the whistleblower protection bill, amendments to the Political Parties Act, and the adoption of best practices in lobbyist communication within the parliament and local governments, have encountered delays.

In its 2021 compliance report, GRECO (Group of States against Corruption) recognized Estonia's satisfactory implementation, or partial implementation, of its recommendations for preventing corruption and promoting integrity within central government (particularly top executive functions) and law enforcement agencies.

The digitalization of government operations has significantly increased transparency in public governance. Estonia maintains a range of independent monitoring bodies, including the National Audit Office, the Political Party Funding Supervision Committee, responsible for monitoring and enforcing compliance, and the State Budget Control Select Committee in the parliament.

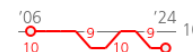
## 16 | Consensus-Building

Representative democracy is widely embraced by all relevant political stakeholders in Estonia. There exists a consensus regarding the overarching, long-term societal and statehood goals. However, there is a diversity of views on how to attain prosperity, with a prevailing inclination toward fostering a free and pluralistic society. The security challenges stemming from Russian aggression in Europe have forged unity among disparate political actors, prompting a focus on consensus-building. Recent subjects of political discourse encompass immigration policy and climate policy. According to a 2022 poll, 60% of Estonians either support or strongly support a green transition. The far-right Conservative People's Party (EKRE), which was a part of the ruling coalition from April 2019 to January 2021, has posed the most significant challenge to this consensus by advocating for a more populist form of democracy.

The ideology of a liberal market economy, characterized by tenets such as balanced budgets, limited public borrowing, and a flat income tax, no longer enjoys as wide-ranging support among major political actors as it once did. While the Reform Party maintains its commitment to balanced budgets, several other political players, notably EKRE, Pro Patria, and the Center Party, are open to increasing public borrowing.

Consensus on goals

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There are no significant domestic anti-democratic political, military or economic actors. The democratic framework is upheld by democratic institutions, the rule of law, and a system of checks and balances, ensuring the smooth operation of the democratic process. However, during the reporting period, the far-right Conservative People's Party (EKRE), which garnered support ranging from 17% to 25%, has posed a challenge to the existing model of representative liberal democracy. EKRE has pursued a populist strategy aimed at undermining democratic institutions, questioning the rule of law, and eroding public trust in these institutions. There have even been accusations of EKRE spreading Russian propaganda in an attempt to destabilize the country.

The primary social division in Estonia is between the ethnic Estonian majority, constituting 69% of the population, and a sizable Russian-speaking minority, making up 25%. These two communities often lead separate lives and are marked by underlying tensions related to their differing perspectives on the Soviet occupation, Putin's regime, and Russian actions in Ukraine. While this divide exists, it is only partially politicized, as ethnic Russian political parties are weak and none have secured seats in the national parliament since 2003. Many ethnic Russians are well-integrated into Estonian society and do not exclusively identify themselves with this divide. According to a 2022 survey commissioned by the Government Office, 63% of ethnic Russians identified as Estonian Russians, while only 27% identified solely as Russians.

Traditionally, the Russian-speaking community has found representation through the Centre Party (K), which held the leading government position or was part of coalitions from 2016 to 2021. K maintains control over the municipal government in Tallinn and, until recently, effectively blocked policy decisions that were not favorable to the Russian-speaking community, such as the reform of Russian-language schools in Estonia.

Furthermore, there has been an increase in polarization along lines of traditional versus progressive values, specifically concerning issues like migration, gender equality, and LGBTQ+ rights. This polarization has been amplified by the provocative rhetoric of the far-right Conservative People's Party. In general, political conflicts are managed democratically, with some occasional populist but still relatively peaceful exceptions.

Anti-democratic actors



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Cleavage / conflict management



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Estonia's political leadership actively encourages civil society participation and is responsive to their demands. Obligatory consultations with unions and employers' associations are established in various social protection and industrial policy regulations. The Good Practice of Engagement for state institutions involved in policymaking was introduced in 2005. Moreover, the Government Office has funded several projects aimed at enhancing the capacity of government departments to engage with social partners in policymaking and strengthening the capacity of social partners to contribute to these processes. Additionally, to promote participation in civil society organizations, the government has established 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 provide grants to NGOs. In practice, the consultation process is occasionally expedited to facilitate swift policymaking or to efficiently implement clauses in government coalition agreements.

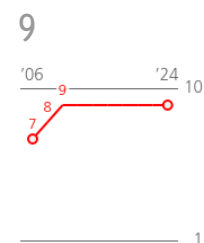
In the Government at a Glance 2021 report, the OECD noted that, as in most countries, early consultation in the regulation-making process is not systematic in Estonia. About 37% of citizens believed that they have a say in government affairs, compared to an average of 40% in OECD countries. However, the central government did consult with stakeholders on strategies to manage the COVID-19 crisis and recovery.

The right to collective petition exists at both the national and local levels. A collective initiative submitted to parliament must be endorsed by at least 1,000 citizens. For local governments, the initiative must be supported by at least 1% of the registered population. Since 2014, Estonia has had an e-participation portal called The Citizen Initiative Portal (Rahvaalgatus.ee) for submitting proposals, conducting discussions, and creating and sending digitally signed collective addresses to the parliament and local government (the latter since 2020). The progress of initiatives can be tracked on the portal, which has gained popularity, particularly for addressing proposals to local governments. As of October 2022, The Citizen Initiative had garnered a total of 400,000 signatures, processed around 300 initiatives, and forwarded approximately 170 initiatives to the parliament or local governments.

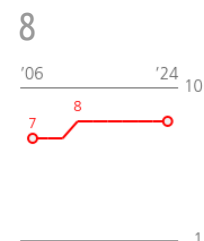
One of the most significant reforms undertaken after regaining independence in the 1990s was the property reform, which sought to address the return and compensation of property that had been illegally expropriated by the Soviet regime.

The interpretation of historical events and periods, such as World War II, the Soviet occupation, and collaboration with Soviet power structures, holds contemporary political relevance. World War II events, in particular, often lead to disagreements between the majority of ethnic Estonians, especially the political elite, and many Russian speakers. While many in the latter group take pride in the role of the Red Army, the former mostly view it as an occupying force that refused to leave Estonia at the war's end. The Russian invasion of Ukraine and aggressive propaganda have underscored the need to address these historical interpretation gaps that have long been overlooked.

## Public consultation



## Reconciliation





In 2009, the Republic of Estonia, along with 46 other countries worldwide, including all European Union member states, signed the Terezin (Prague) Declaration. This commitment was aimed at returning and compensating for property that had been expropriated from Jews during World War II. Estonia, as one of the few countries from the former Soviet bloc, has already partially fulfilled many of these obligations through property reform, regardless of whether the crimes against property were committed by the Nazi or Communist regime. Estonia's restitution policy has received appreciation from Israel and international organizations.

As one of its final decisions, the parliament elected in 2019 passed a law intended to outlaw and remove all symbols associated with an occupying (Soviet) regime from public spaces. However, the president vetoed the law, deeming it unconstitutional, and sent it back to the parliament for amendments.

## 17 | International Cooperation

Estonia continues to be the net beneficiary of generous assistance from the EU's Structural and Cohesion Funds. During the EU financing period from 2014 to 2021, 96% of the European funds allocated to Estonia were assigned to projects, and 68% of the planned amounts were disbursed. The State Shared Service Centre, which acts as the managing authority for EU structural funds in Estonia, has calculated that Estonia spent 2.52 cents on technical assistance for every euro allocated. It is considered to be a very good result and indicates that the country is absorbing the support efficiently.

The high level of support has made many sectors and activities dependent on EU funding. There is a large disparity in the availability of resources between those sectors that are heavily supported by EU assistance and other activities (often the basic functions of government, including salaries for teachers, police or rescue workers).

Estonia is a member of various international organizations, including the United Nations, the IMF, the WTO, the OECD, the OSCE, the Council of Europe, the EU, and NATO. Its non-permanent membership in the U.N. Security Council from 2020 to 2021 was a significant recognition of the country's international standing and diplomatic efforts. Estonia has also joined institutions such as the European Court of Human Rights and the International Criminal Court, and it has held rotating membership in the U.N. Human Rights Council, among others. Estonia is committed to upholding international agreements, including the Universal Declaration of Human Rights, the Paris Agreement on Climate Change, various ILO Conventions, and the UNESCO World Heritage Convention.

Estonia takes its international obligations seriously, and adherence to the terms of these agreements is a powerful argument in domestic political discussions. The country has played a leading role in security-related dialogues and has provided substantial military aid to Ukraine. As of the beginning of 2023, Estonia has contributed a total of 250 million euros in military assistance to Ukraine, surpassing other countries on a per capita basis.

Effective use of support

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Credibility

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Despite the unstable economic environment in 2022, S&P Global, a credit rating agency, affirmed Estonia's credit rating as AA-/A-1+. This rating reflects the country's strong creditworthiness and its ability to repay loans without encountering significant issues.

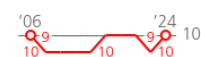
Due to its small size and reliance on international partners, Estonia has placed significant emphasis on international cooperation for its socioeconomic development and the preservation of its autonomous statehood. Since gaining independence, Estonia has actively engaged in various forms of international collaboration. Initially, cooperation was primarily focused on the other Baltic countries, but over time, the country's attention has shifted toward the broader Baltic Sea region and the European Union as a whole. While regional cooperation remains important, Estonia places a strong priority on engagement within various EU frameworks.

The current security situation in Europe has underscored the significance of Estonia's cooperation with NATO and its allies. Estonia played a leading role in rallying EU member states and NATO allies to impose economic sanctions on Russia and provide military support to Ukraine. Efforts to enhance energy security in the region have also gained increased attention and importance.

Estonia actively participates in various regional cooperation formats, including the Baltic Council of Ministers and the Baltic Assembly, Nordic-Baltic cooperation (NB8), the Council of the Baltic Sea States, the Three Seas Initiative, and the Nordic Council of Ministers.

#### Regional cooperation

10



## Strategic Outlook

Estonia's strategic outlook depends very much on security developments in Europe. The West's previous failure to respond decisively to Russian aggression in Georgia in 2008 and in Ukraine since 2014 has emboldened Russia to persist in forcefully imposing its vision of European security. The European Union and NATO have indeed learned valuable lessons from these experiences and are actively working to defend Europe against the Russian threat. However, it is not anticipated that the conflict will escalate to directly involve NATO member states.

Estonia's strategic outlook is centered on further strengthening its relationships with the European Union and NATO, with a strong focus on enhancing national defense. Estonia must continue its commendable efforts to lead and build partnerships within NATO, as the country remains steadfastly committed to fulfilling its obligations to its allies. Notably, Estonia has consistently exceeded the NATO defense spending target of 2% of GDP since 2015, with the 2023 defense budget planned at 2.85% of GDP and expected to reach 3% in the coming years.

The economic sanctions imposed on Russia, coupled with Russia's manipulation of energy exports, have exerted pressure on Estonia's economy. This has resulted in high inflation and weakened economic growth in 2022. The war has also led to increased expenditures on defense, energy, and refugee aid, which have impeded Estonia's fiscal consolidation efforts during a period when fiscal stability was already challenged by deficits.

Despite these challenges, the overall economic outlook for Estonia remains positive and stable. The Bank of Estonia and international rating agencies believe that the country's economy can absorb temporary slower growth and increased fiscal spending over the next few years without compromising the government's fiscal position. Estonia is well-positioned to manage the economic repercussions of Russia's war in Ukraine, thanks to its relatively low gross public debt and substantial EU transfers supporting economic expansion. However, Estonia's small, open economy is sensitive to external factors, including trade disruptions, supply chain bottlenecks, and reduced foreign demand. Therefore, it is essential for Estonia to maintain efforts to combat inflation and ensure energy security. Striking a balance between supporting individuals and businesses while mitigating inflationary pressures is a key governmental challenge.

On the domestic political front, the 2023 parliamentary elections have provided Estonia with a stable political landscape for charting the future course of its democratic, economic, and social development. Nonetheless, economic and security uncertainties, coupled with the challenges of transitioning to a green economy and ethnic tensions in certain regions, exacerbated by Russian propaganda, may heighten societal tensions. The political imperative will be to de-escalate rather than exacerbate these tensions. Moreover, addressing fake news and countering aggressive Russian propaganda will remain an ongoing task for future governments. Building consensus on promoting human rights and the rule of law, both domestically and internationally, is another challenge that Estonia must address.