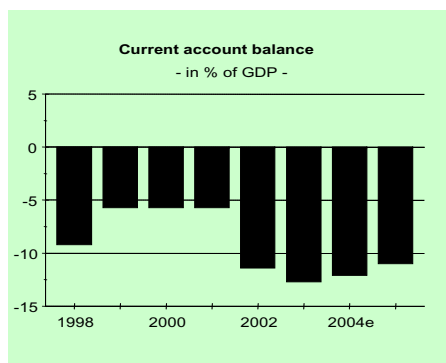
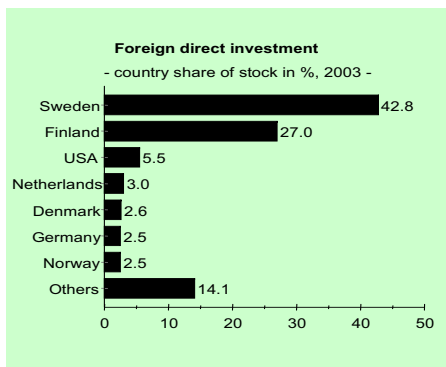


Estonia



Political situation

- ▶ Since the parliamentary elections in spring 2003 conservative coalition government under Prime Minister Parts. Continuation of reform policy.
- ▶ EU member since May 2004

Domestic economy

- ▶ Robust economic growth, spearheaded by investment and private consumption. This year economic growth will accelerate to 6 % real. In the medium term we expect economic growth of between 5 and 6 %.
- ▶ In 2003 inflation touched an all-time low, up by only 1.3 %. Average inflation in 2004 likely to be just under 3 % due mainly to the adjustment of indirect taxes in the course of EU accession, hikes in administered prices as well as higher energy prices.
- ▶ Sound fiscal policy with in part substantial budget surpluses.
- ▶ Stable banking sector dominated by Scandinavian banks.
- ▶ Economy dominated by service sector (share of GDP: about 65 %), with transport and communications (16 %) and distributive trades (14 %) leading the way.

External sector

- ▶ Marked rise in exports on back of economic rebound in the EU. At the same time ongoing brisk domestic demand is fueling buoyant import demand. In 2004 current account deficit will rise to USD 1.3bn or 12 % of GDP. Although inflow of foreign direct investment has increased significantly since 2002, it is by no means sufficient to plug the gap. The result is a sharp rise in foreign debt but this has not yet reached a critical level.
- ▶ In merchandise trade and capital transactions Estonia benefits from its geographical proximity to Scandinavia.
- ▶ The exchange rate peg to the euro remains stable. At the end of June 2004 Estonia joined the European Exchange Rate Mechanism II (ERM II). The government intends to introduce the euro in 2007 at the latest. As the country already fulfils almost all the formal requirements, this does not look over-ambitious.

ESTONIA	2001	2002	2003	2004e	2005f
Population (m)	1.4	1.4	1.4	1.4	1.3
GDP (US\$ bn)	6.0	7.0	9.1	10.8	11.9
GDP per capita (US\$)	4,389	5,170	6,730	7,982	8,854
GDP change in % (real)	6.4	7.2	5.1	6.0	5.7
Inflation in % (annual average)	5.8	3.6	1.3	2.8	2.5
Budget balance in % of GDP	0.3	1.8	2.6	1.0	0.5
Merchandise exports (US\$ bn)	3.4	3.5	4.6	5.6	6.3
Merchandise imports (US\$ bn)	4.1	4.6	6.2	7.6	8.5
Current account balance (US\$ bn)	-0.3	-0.8	-1.1	-1.3	-1.3
Current account balance in % of GDP	-5.7	-11.4	-12.7	-12.1	-11.0
Foreign direct investment (US\$ bn)	0.3	0.2	0.7	0.5	0.5
Foreign direct investment in % of GDP	5.7	2.2	7.6	4.6	4.2
Gross foreign debt (US\$ bn)	3.3	4.7	7.1	8.4	9.4
Foreign debt in % of exports *	63	87	101	97	97
Foreign exchange reserves (US\$ bn)	0.8	1.0	1.4	1.6	1.7
Import cover (months) *	1.7	1.9	2.0	1.9	1.8
Exchange rate year-end (Estonian kroon per EUR)	15.65	15.65	15.65	15.65	15.65
Exchange rate annual average (Estonian kroon per EUR)	15.65	15.65	15.65	15.65	15.65
* goods, services and income					e = estimate; f = forecast

Estonia

Basic conditions for foreign investors

General legal system:

Fulfillment of standardized EU legislation since May 1, 2004. Transition periods concerning free movement of labor and in the law on real estate (agricultural sector) are still applicable. Investment legislation does not differentiate between local and foreign investors.

Possible company structures/minimum capital requirement:

Joint stock company (Estonian: AS)/400,000 Estonian kroon, private limited company (Estonian: OÜ)/40,000 Estonian kroon, one-man joint stock company and private limited company possible, general commercial partnership (Estonian: TÜ), limited commercial partnership (Estonian: UÜ), individual proprietorship (Estonian: FIE). For foreign investors also branch office (Estonian: filiaal).

Permissible holding:

Up to 100 %. Privatizations completed.

Approval/establishment procedures:

Official commercial register entry. All matters of liability and power of representation need to be registered.

Capital contribution:

Foreign investors can bring in financial or real capital. Financial capital either in Estonian currency or in other convertible currency. Imports of real capital are exempt from VAT.

Land/real estate acquisition:

For foreign individuals and legal persons from European Union member states and EFTA countries no restrictions on acquisition of urban landed property (houses or buildings) nor on agricultural and forest properties under 10 hectares (transition agreement, conformity to EU standards latest by 2011). Permission of the municipal administration required. To foreigners of other states restrictions in border areas, for some islands and in coastal regions apply. Land register entry.

Qualification of labor force:

High level of education, low but rapidly increasing wages. Official languages: Estonian, English, Russian and German.

Labor costs (per hour worked, national average):

3.87 euro (industry and service sector, estimate, 2003). Compared with EU: 19.65 euro, Germany: 25.98 euro.

Wage level/personnel costs:

Statutory monthly minimum wage:	2,473 Estonian kroon.
Average monthly gross wage:	6,900 Estonian kroon.
Average monthly net wage:	5,100 Estonian kroon.

Besides the basic wage, there are additional benefits and perks, such as commissions and bonuses. Employees of foreign companies expect to earn more.

Average monthly gross wage (compared with Germany/EU, 2003):

441 euro (Germany: 2,460 euro, EU: 2,396 euro).

Social security contributions:

Employer's contribution: 33.5 % of gross wages
(20 % social insurance, 13 % health insurance, 0.5 % unemployment insurance).

Employee's contribution: 1 % of gross wages
(1 % unemployment insurance). Further social security contributions under discussion.

Legal forms to protect foreign investments:

Foreign investment act (1991) abolished in order to facilitate free flow of capital within the EU.

Agreement with European Union:

Association agreement since February 1, 1998. EU member since May 1, 2004.

Profit and capital repatriation:

Free for foreign investors after taxes.

Taxation:

Income tax: 26 % (flat rate with tax free allowance of 24,000 Estonian kroon). Until 2006 gradual reduction to 20 % envisaged.

Corporation tax: 26 % on distributed profits. Reinvested profits are tax-exempt.

VAT: 18 % (standard rate), 0-5 % on selected goods and services.

Withholding tax: 26 % (e.g. on dividends).

Customs tariff:

Accession to customs tariffs of the European Union as of May 1, 2004, i.e. free traffic of goods between the old and new European Union member states; customs declarations are not required. For supplies from third countries uniform customs tariffs of the European Union are applicable. Free trade zone (BAFTA) with the two other Baltic states abolished on May 1, 2004 since the accession of Estonia, Latvia and Lithuania to the European Union. WTO member since November 1999.

Special economic zones:

None. There are merely free zones, such as the ice-free Port Muuga (largest sea port of the Baltic States) near Tallin, Sillamae at the Finnish Gulf and Valga at the border to Latvia.

Tax concessions for foreign investors/EU grants:

No differentiation between local and foreign investors. Therefore, tax concessions have been abolished. Exceptions: Tax and duty relief in free zones. Furthermore, foreign investors with minimum of 25 % stake in a company are exempted from withholding tax on dividends. For the period 2004-2006 we estimate, after deduction of the contributions to the EU budget, 2.8 % per year of GDP is expected from the EU agricultural fund as well as the EU structural and cohesion funds (infrastructure, environment).

Foreign exchange regulations:

The Estonian kroon is pegged to the euro at rate of 15.64664 : 1 (Currency Board). The Estonian currency is fully convertible. At the end of June 2004 accession to the European Exchange Rate Mechanism II (ERM II) by maintaining a currency board. Introduction of the euro expected 2007.

Inflow of foreign direct investment (gross, 2003): 756.0m euro

Main countries of origin:

Finland (57.4 %), Sweden (38.1 %), United Kingdom (6.7 %), Germany (4.9 %), Belgium (2.7 %), Denmark (2.7 %), Austria (2.5 %).

Main sectors:

Wholesale and retail trade (37.9 %), production industry (16.8 %), real estate (14.9 %), financial sector (13.8 %) and transport and communications (4.6 %)

Forthcoming privatizations:

Privatizations completed. The state-owned privatization agency was dissolved in autumn 2001.

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