

Response of Estonia to the questionnaire on recent adjustments of public expenditure and the impact on those living in extreme poverty

1. Has your country adopted, or does it expect to adopt, contractionary fiscal policy in the aftermath of the global economic crisis?

No, Estonia has conservative fiscal policy.

Effective fiscal rules have played and are playing an important part in the achievement of budgetary goals. Strategic development plans and all recent coalition agreements have set the balanced budget as a mid-term goal (this is a “soft” rule which so far has been followed by all governments), although the requirement for the balanced budget of the general government or the central government (surplus) has not been prescribed in any law. In general, however, the basis for Estonian conservative budget policy comes from the Constitution of the Republic of Estonia. The Constitution prescribes that if a proposed amendment to the state budget or to its draft has the effect of decreasing the estimated revenues, increasing the expenditures or reallocating expenditures, then the proponent of the amendment shall append financial calculations to the proposed amendment which demonstrate the sources of revenue necessary to cover the expenditure. The Riigikogu shall also not eliminate or reduce expenditures in the state budget or in its draft which are prescribed by other laws.

The Constitution also limits the expenditures in cases where the Riigikogu has not passed the state budget by the beginning of the budget year – in this situation expenditure of up to one-twelfth of the expenditure of the preceding budget year may be made each month. If the Riigikogu has not passed the state budget within two months after the beginning of the budget year, the President of the Republic shall declare extraordinary elections to the Riigikogu.

On the basis of the Constitution, the State Budget Act was approved which provides the procedure for the drafting, passage and implementation of the state budget, thereby limiting substantially the opportunities for and increase of the credit load and establishing a procedure for adopting resolutions concerning the level of reserves. The current judicial area provides regulations for the state and also for ensuring the financial sustainability of other general government institutions.

2. What percentage, if any, of expenditure reductions are being or will be directed at social expenditure, including education, health, social security, housing, water and sanitation?

From 2009 onwards additional financial burden has been shifted to patients. First, small cash benefits for dental checkups for adults were excluded from the benefit package. Second, the

VAT on pharmaceuticals was increased from 5 to 9% in early 2009. Third, in 2010, a 15% co-insurance for inpatient nursing care was introduced.

From 2008 to 2009 Health Insurance Fund budget has decreased ~ 14 %.

To respond to the decreasing revenues resulting from the crisis, the prices paid to providers for services covered by the Estonian Health Insurance Fund have decreased by 6% until the end of 2010. Moreover, the volume of contracted care was reduced by extending waiting times and by reducing treatment cases in specialist care by 5%, while simultaneously shifting more cases to day care and outpatient settings. At the primary care level, contract volumes have remained stable in order to respond to the most urgent needs adequately.

The number of people without compulsory medical insurance remain stable, the number of insured persons is decreased only 0,17% 31.12.2008 compared to 30.06.2009) and 0,6% 30.06.2008 compared to 30.06.2009

Compared to 2008 in Health Insurance Fund budget for 2011 all prices of health care services are reduced 3-5% because of low social tax fund.

3. Please describe all actual or proposed reductions in expenditure of specific social protection programs, including any reduction of benefits or number of beneficiaries.

Changes in the social security budgets are made in order to meet the current needs – the budget for subsistence benefits has been increased and since 2011, the subsistence level has increased. Schemes of family benefits, parental benefit, subsistence benefit, social benefits for the disabled and compensation for victims of crimes of violence have not been changed.

Compared to previous years, state budget 2009 involved reductions in the social sector budget. The purpose of the reductions is to guarantee the state's long term financial sustainability. The total amount of reduced expenditure in the 2009 state budget was around 4% of GDP. In 2010 and 2011 budget, no more major reductions were foreseen. The main reductions in 2009 were the following.

Pensions

As a part of the package of constraining public expenditures and to guarantee the sustainability of the pension insurance fund, a modification of pension indexation rules was adopted in February 2009. According to the former rules, the pension index depended on increase of social tax revenues and increase of the consumer price index with relative shares respectively 80% and 20%. The amendment allows the Government to adopt an index which is smaller than that calculated according to the above mentioned formula in cases when the expected GDP real growth for the same year is negative or when the deficit of the state pension insurance budget (the difference between expenditures on state pensions and revenues from social tax) for the given year is expected to exceed 1% of GDP. Application of this index increased state pensions from 1 April 2009 by 5%, instead of 13.8% foreseen by the previous index (against the relatively high increase of wages and prices in 2008).

In addition, all contributions (state and private contributions) to II pillar were cancelled for the period from 1st June 2009 until 31st December 2010. People could continue the payment of their contributions from 2010.

Starting from 2011 the contributions to the II pillar are twice smaller compared to the pre-crisis period – the state pays 2% and person 1%. Starting from 2012 the current regulation will be re-established (the state will pay 4% and person 2%). In case the economic growth is 5% or higher, the state is ready to raise its contribution up to 6% to compensate the cancellation of payments. The special rule to continue the II pillar contributions in 2010 and 2011 according to current scheme (the state pays 4% and person 2%) is applied for the persons who were born 1942-1951.

The cancellation of contributions to the II pillar reduces the pension from I and II pillar approximately 1-1,5% and in case of minimum wage, the effect is lower. In case person will continue his/her contribution to II pillar from 2010 and/or obtains the later compensation, the effect of cancellation of contributions from June 2009 until January 2011 is marginal.

Family benefits

The schemes of family benefits and parental benefit have not been changed.

Although most of the family benefits are retained, there have been several changes in the measures concerning families. Most important of these are:

- termination of payment of school allowance. Families with children in financial difficulties have the possibility to obtain subsistence benefit
- payment of benefit during paternity leave is suspended until 2013. The unpaid paternity leave of 10 days will be granted to a father during 2 months before or after the birth of the child
- termination of compensation of study loans for new applicants
- termination of payment of childcare benefit during the period when parent receives birth grant or adoption allowance and parental benefit
- termination of income tax incentives for the first child of the family (continues for families with 2 or more children)
- reduction of care benefits from 100% of the salary to 80%

Health insurance

The system for health insurance benefits has been amended and the incapacity benefits covered by the Health Insurance Fund have been reduced towards more own responsibility of employers and employees. The changes contribute strongly to long-term sustainability of the health insurance system.

According to the changes, the persons' own liability has risen up to 3 days, employer pays benefit from 4 to 8 sickness days and state covers benefit starting from 9th day of sickness. In addition, benefits for temporary incapacity for work are reduced:

- sickness benefit - from 80% of the salary to 70%

- care benefit - from 100% of the salary to 80%

At the same time, pregnant women are insured from the medical identification of pregnancy. The new system motivates women to turn to the doctor at the early stages of the pregnancy. Starting from May 2009, the scope of persons covered with health insurance has been widened and the insurance is guaranteed to all persons who have registered themselves as unemployed at the Unemployment Insurance Fund.

Other schemes

- termination of victim support help line. At the same time, compensation for victims of crimes of violence has not changed
- termination of payment of state funeral grants. Funeral grants are paid only to local municipalities in the case the deceased has no relatives.

5. Have current economic recovery policies taken into account developments in unemployment, food prices and social inequalities?

The economy will be stimulated through investments and support to certain groups. In 2010, the priority areas of the state budget are the support to competitiveness of Estonian economy, education, entrepreneurship and investments were the priority areas of the 2010 state budget. Also, the improvement of effectiveness of public services is one of the priorities of Estonian 2011 state budget.