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Doing Business in Estonia & Estonia's Economic Perspectives

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Estonian economy



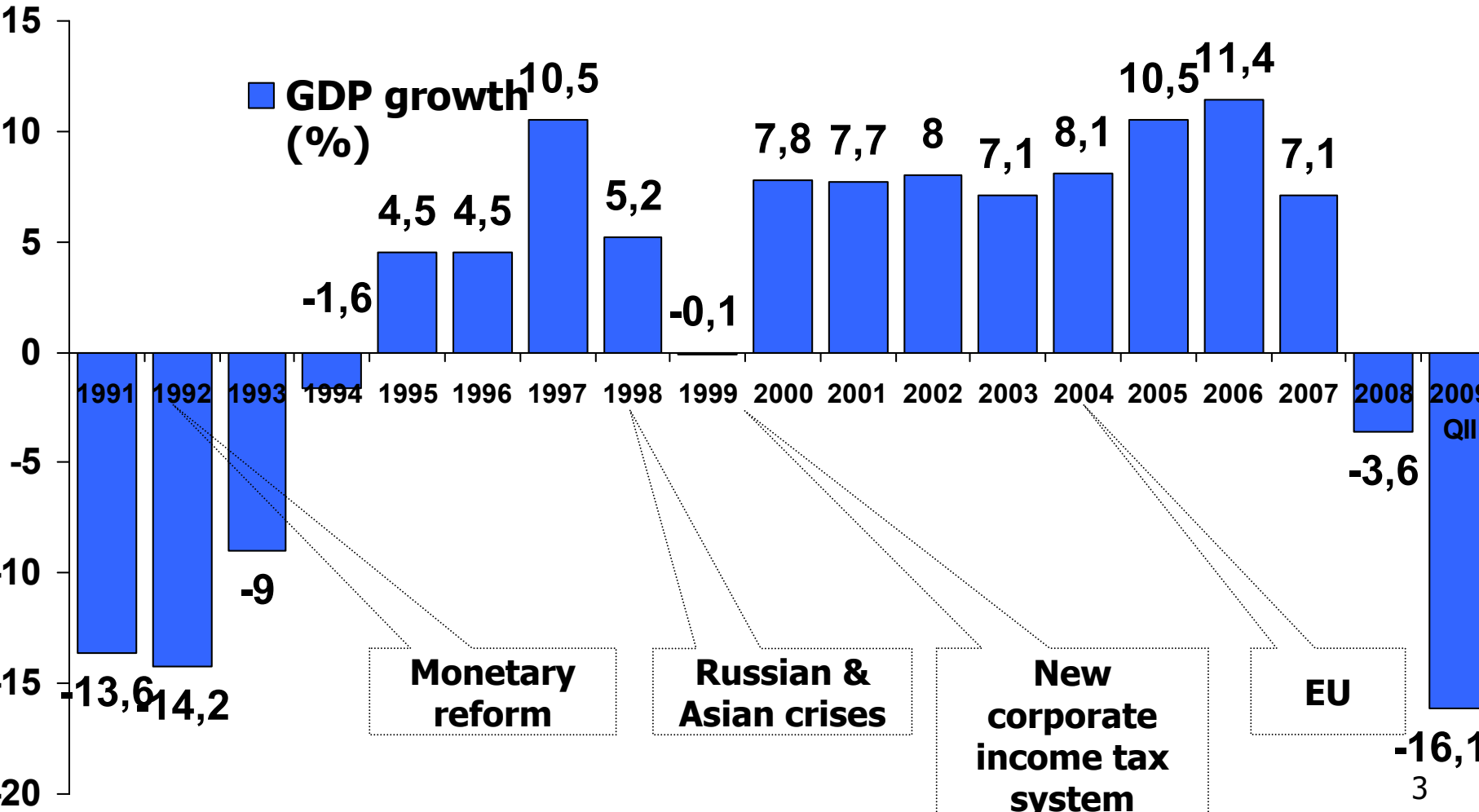
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- Active companies 2008 – **44 800**
- GDP 2008 – **15,85** bln EUR
- GDP per capita 2008 – **11 800** EUR
- GDP per capita by PPP 2008 – **14 500** EUR
- GDP per capita by PPP - **72%** of EU average

Economic growth



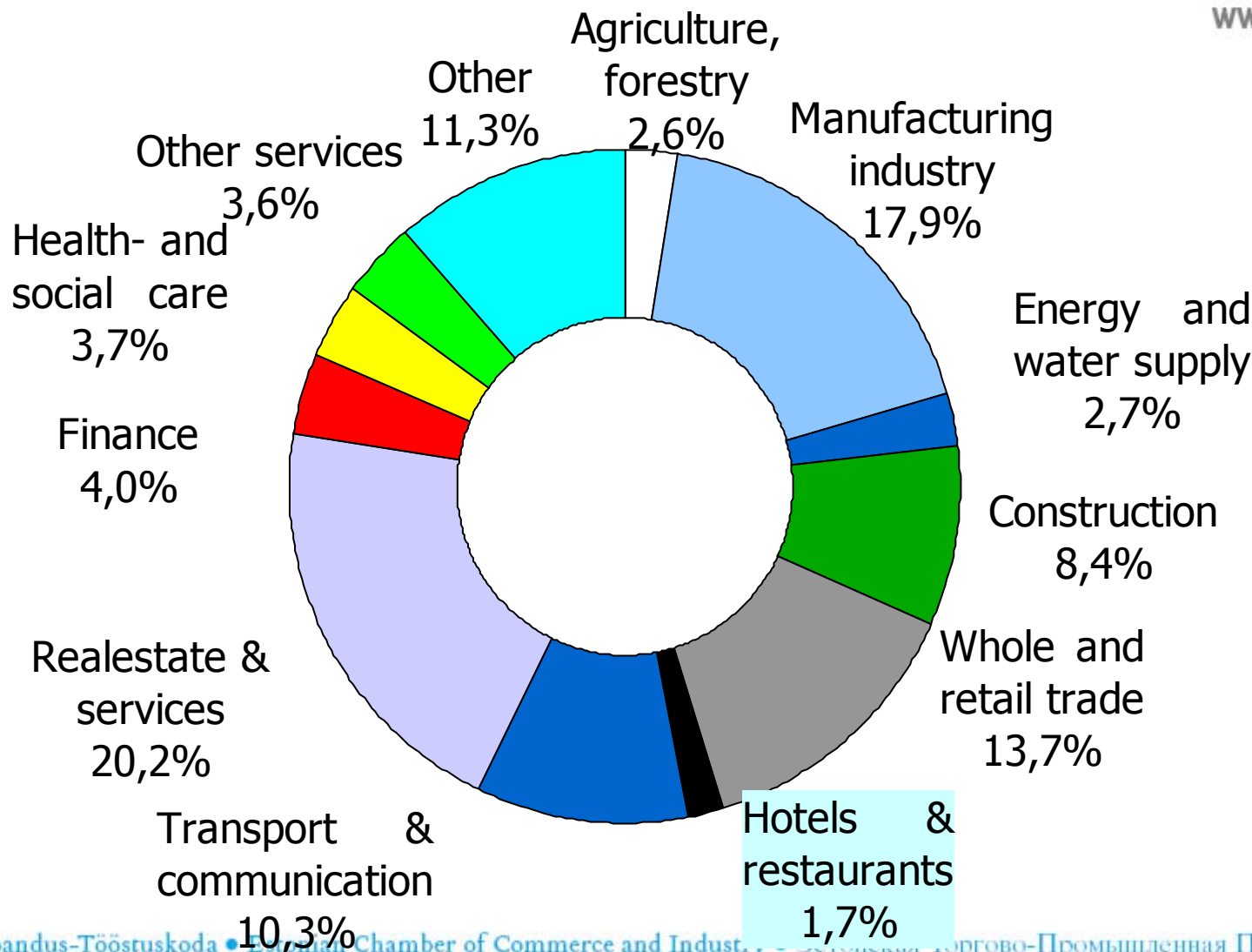
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GDP composition 2008 (%)



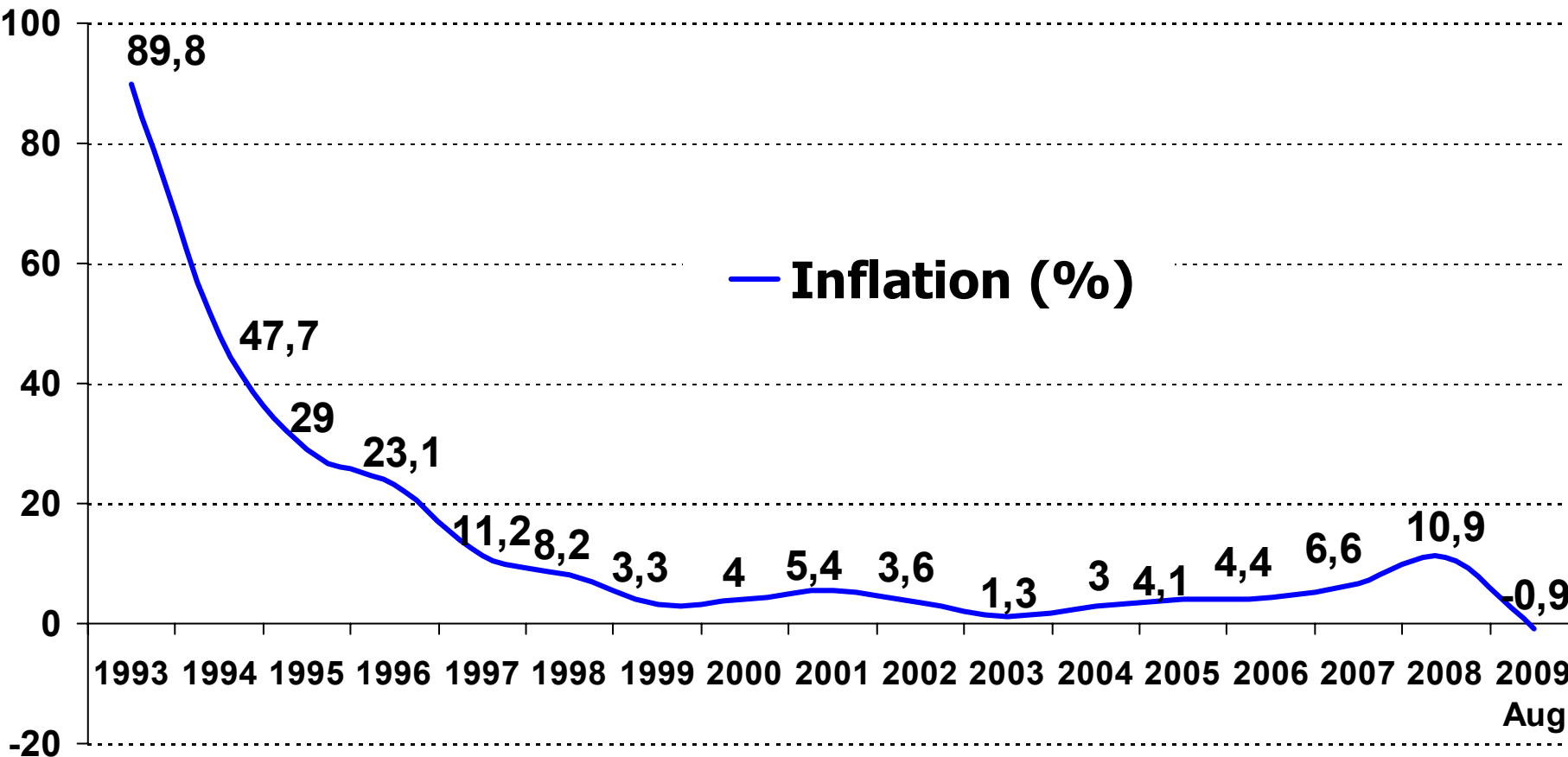
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Current Stage



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Cornerstones of Economic Success



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- **Monetary reform** – since 1992 currency board arrangement (fixed exchange rate 1 Euro = 15,65 Kroons)
- **Privatization** – completed, 4 infrastructure companies in state ownership
- **Liberal foreign trade regime** – market is open for competition (Up until May 1st 2004 no import taxes, quotas, tariffs)
- **Modern Tax system**

Doing Business in Estonia



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- The World Bank “**Doing Business in 2009**” report places **Estonia** on **22th** rank among **181** countries, because:

- starting a business is easy
- taxation is simple and transparent
- investors feel secure
- trading across borders is active
- communication is easy

but:

- firing workers is not easy

Starting a Business



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- Number of procedures – **5**
- Minimum starting capital of most wide-used company form (Ltd.) – only **2550** Euros
- 2007 – **electronic registering** – max **2 hours**
- Companies can be **100% foreign owned**
- Business registry is **public**

Active companies in 2008



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Companies 2008 (EMTA declarations)	No	%	employed
Micro 1-9 employees	36250	80,8	118 817
Small 10-49	7088	15,8	143 622
Medium 50-249	1 327	3,0	132 284
Large +250	188	0,4	117 318
Sum:	44853	100	512 041

Paying Taxes



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- **Estonian Tax system:**
 - is simple, motivating and transparent
 - is focused on taxing consumption
 - has very few exemptions and deductibles
- **Corporate Income Tax**
 - **0%** on all reinvested profits or profits retained in the company
 - Any **profit distribution** and similar disbursement is **taxable event** (21% of income tax is paid when profit is taken out of the company)

Tax system



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- **Value Added Tax –20% (July 09)**
- **Social Tax – 33%:** paid by the employer
(20% for social security and 13% for health insurance)
+ unemployment security tax 4,2% (July 09)
- **Income Tax – flat 21%** rate for individuals,
income-tax free – 2250 eek/month
- **0% Corporate Income Tax** on all reinvested
profits or profits retained in the company

Investors Feel Secure



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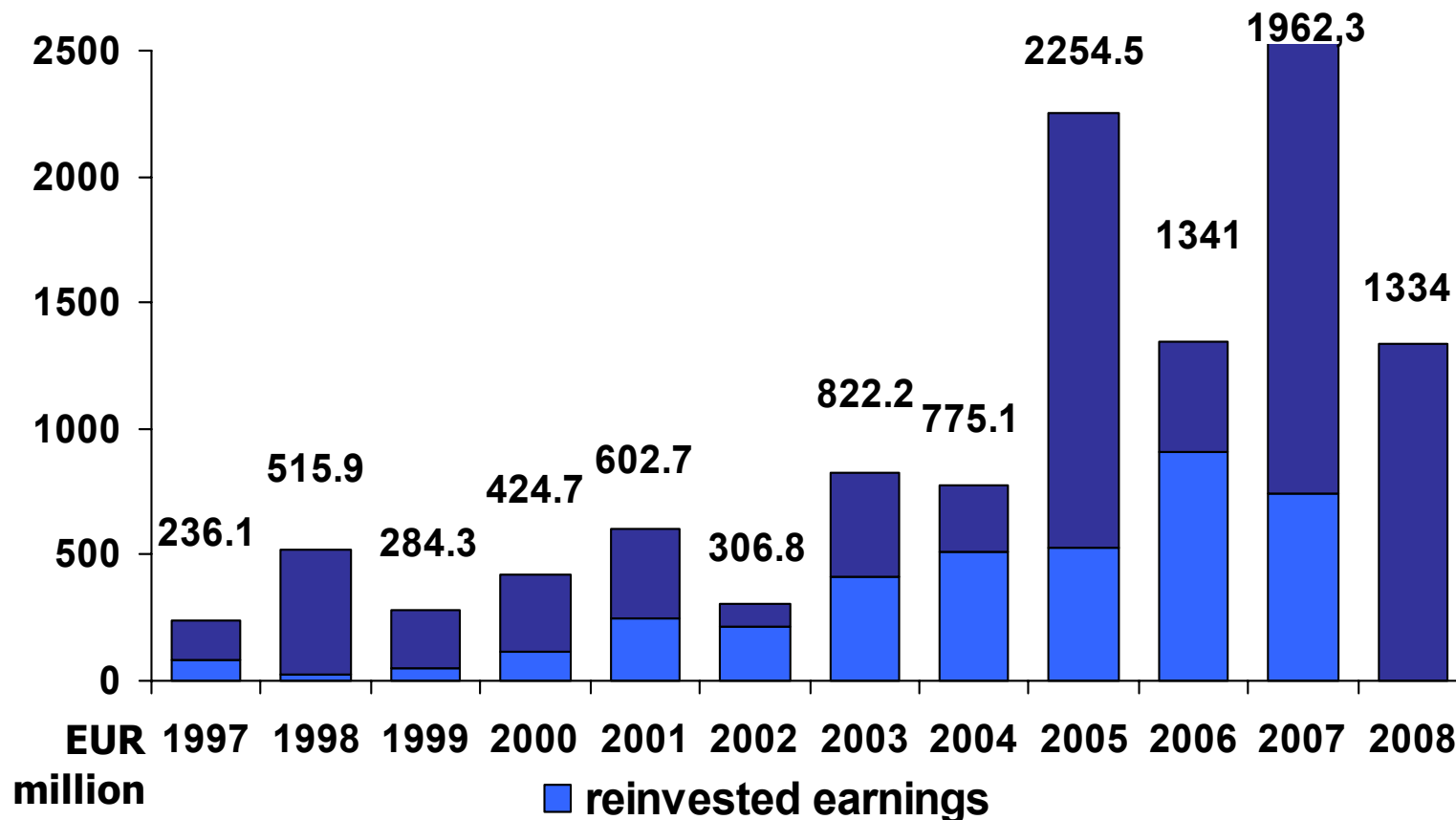
- **Private ownership** is inviolable
- Foreign investors have **equal rights** with local
- Right to purchase and **own land**
- **Continental** European commercial legislation
- Shareholders **control over management**
- Investors prefer to **reinvest** than repatriate profits
- Total: over **12 bln Euros** of **FDI**
- Stable **monetary system**

Foreign Direct Investments



FDI Total (2008): **11,8** Bln EUR

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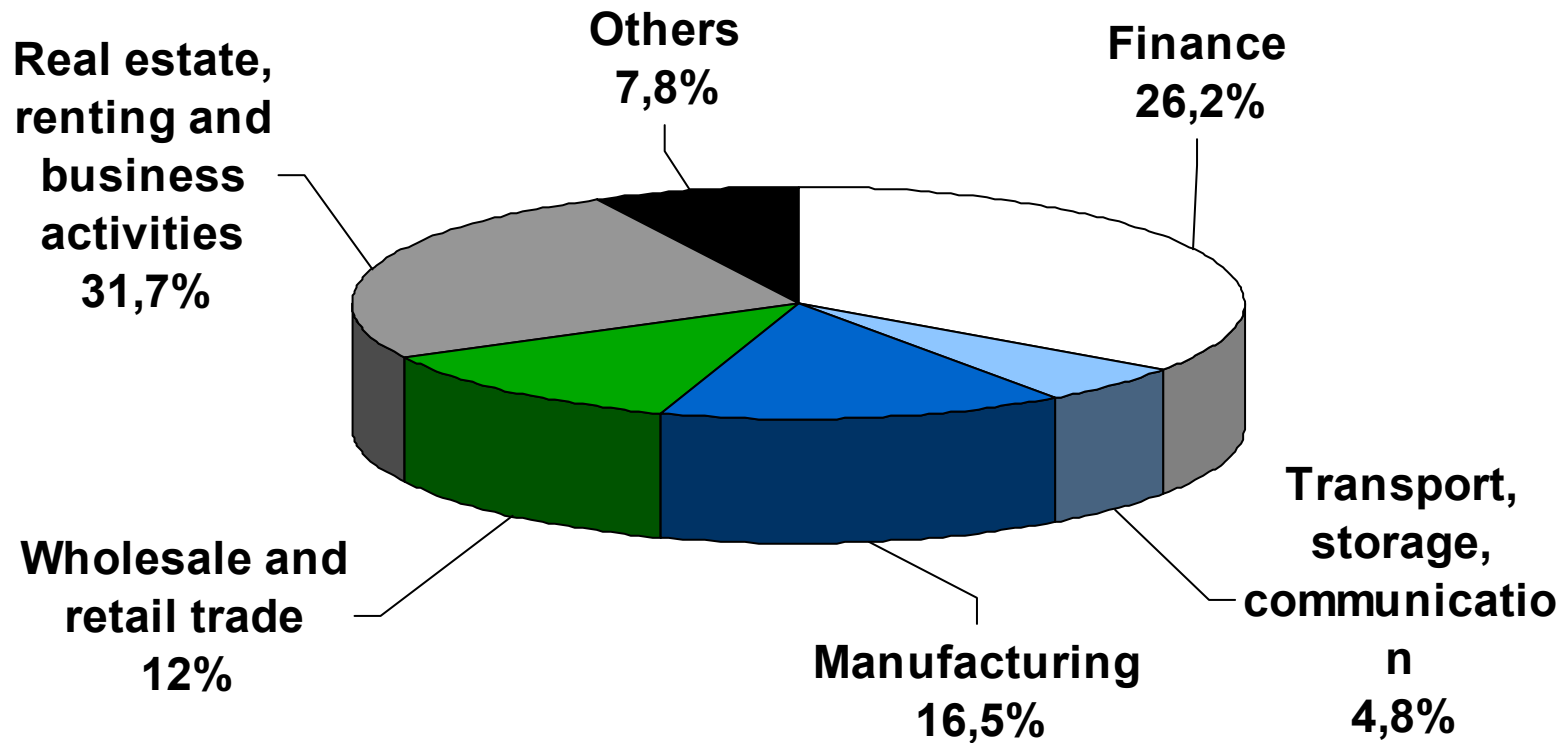


Foreign Direct Investments

FDI Stock by Activities 2008



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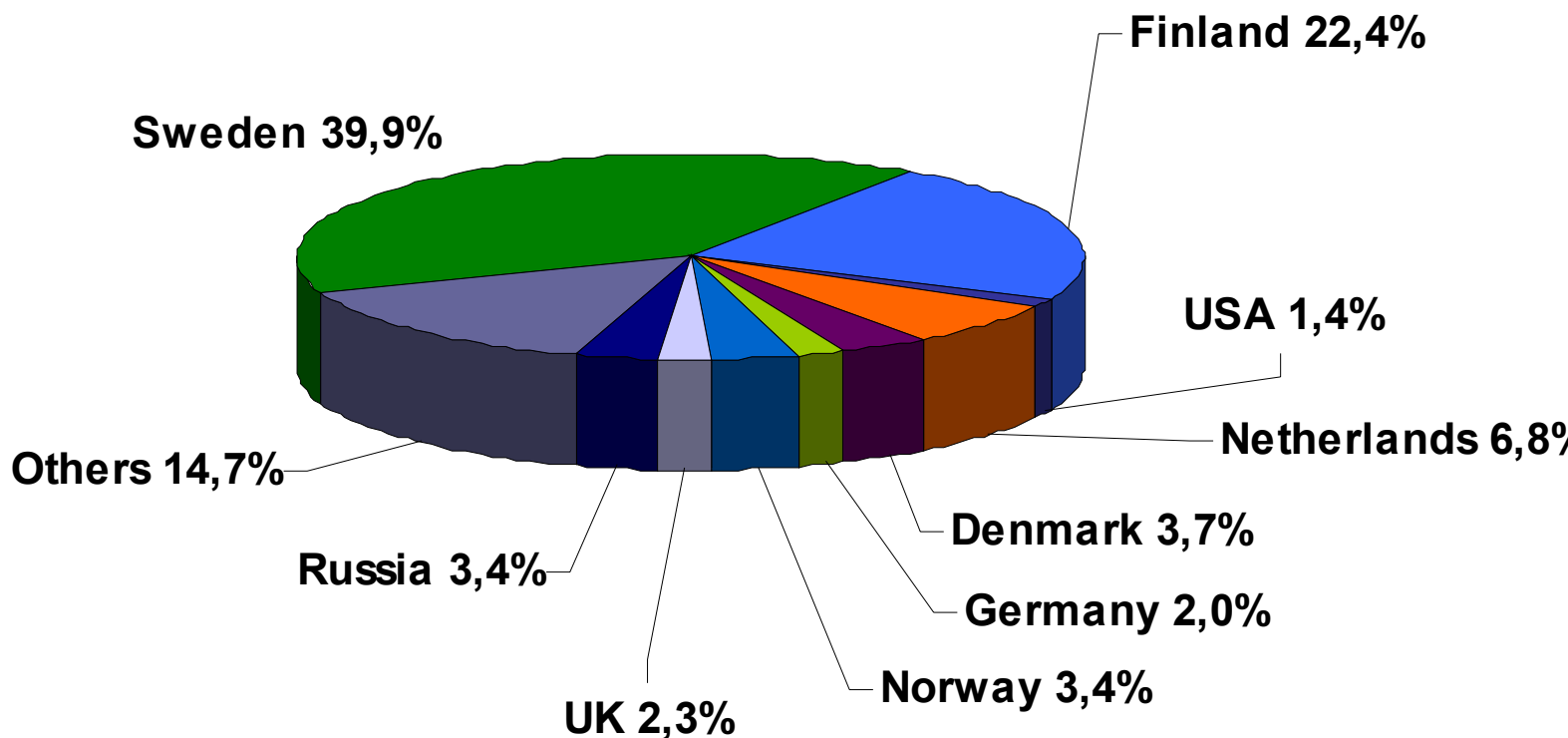


Foreign Direct Investments

FDI Stock by Countries 2008



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Trading Across Borders



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- Up until EU-accession (2004) **most liberal foreign trade regime in the world** – no import taxes, quotas, tariffs
- Market is open for competition – increased competitiveness of local businesses
- Good **geographic location** for trade with Scandinavia, the Baltic Countries and North-West Russia

Foreign Trade

by Country 2008 (MEEK)



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2008

EXP: 8 452 MEUR (70% EU)

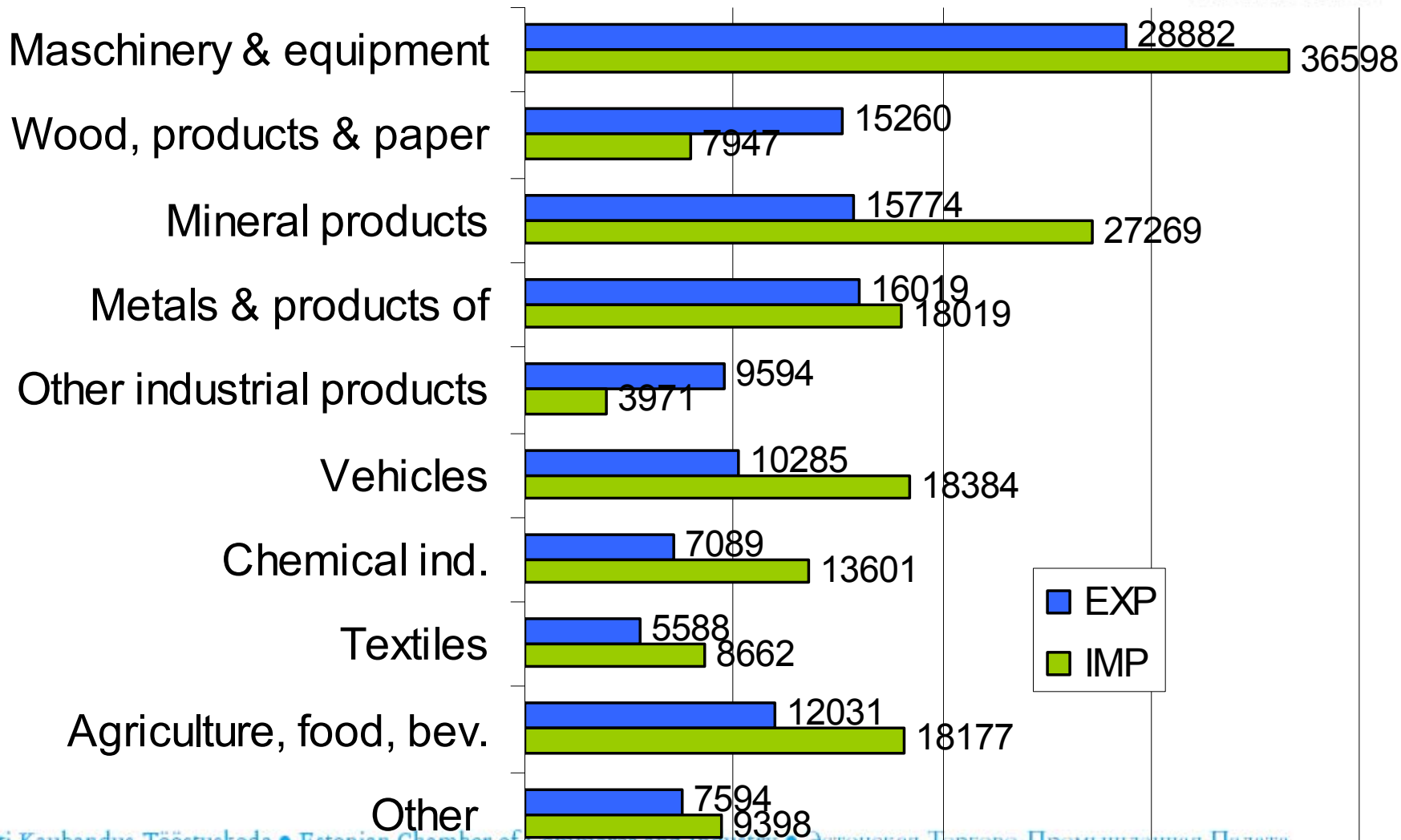
IMP: 10 870 MEUR (80% EU)

Foreign Trade

by Commodity Groups 2008 MEEK



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- Business-to-business:
 - over 95% of banking transactions are electronic
 - **98%** of companies have internet connection
 - mobile penetration rate **123%**
- Government-to-citizen:
 - **92%** income tax statements submitted online
 - e-tax-board for companies
 - **e-elections**
- Advanced knowledge of **foreign languages**

Labour Market Challenges



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Past:

- High economic growth = high wage pressure
 - 2007 real wage growth **20%**
- Deficit of skilled labour
- Labour market inflexible (costly) when firing

Now:

- New Labour contract law
- Employed people: 590 000
- Unemployment (ILO) 2009 QII: 13,5%

Business ethics and culture



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- **Hand shaking is common**
- Deriving from strong Scandinavian values, **undue physical** contact is unnecessary
- **Punctuality** is important in Estonian business
- Discussions may start with weather, but always end with **business or politics**
- Jokes are **self-ironic** and sarcastic

Business ethics and culture



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- Interrupting conversations is very impolite, hence long pauses in conversations are common
- As the Estonian mentality is combined with scepticism, thus rushing through negotiations is not common – **completing negotiations** might take longer than in Western Europe, during negotiations honesty and forthrightness are well respected
- Combine **politeness with competence** and you are on your way to success in Estonia

Ratings and Rankings



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- **Country Credit Ratings:**

Fitch IBCA **BBB+**; Standard & Poor **A**; Moody's **A1**

- **13th in Index of Economic Freedom 2009**

(Wall Street Journal; The Heritage Foundation)

- **32nd in Global Competitiveness Report 2008/09**

(World Economic Forum)

- **27th in Corruption Perceptions Index 2008**

(Transparency International)

- **22nd in Doing Business in 2009 Report**

(World Bank)

Perspectives



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- Taking Euro into use in 2011 = credibility + stability
- Export development – new markets & new products
- Skilled labour + flexible legislation = easier job creation
- Entrepreneurial spirit is needed everywhere, also in municipal level



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