

# Estonia

In BEEPS V, the top three business environment obstacles identified by Estonian firms were competitors' practices in the informal sector; electricity issues; and workforce skills (Chart 1). Large firms felt most constrained by workforce skills, while young firms complained about electricity issues, tax rates and transport. In BEEPS IV, the top three obstacles were workforce skills, political instability and labour regulations.

## More firms competing with firms in the informal sector; labour market mismatches

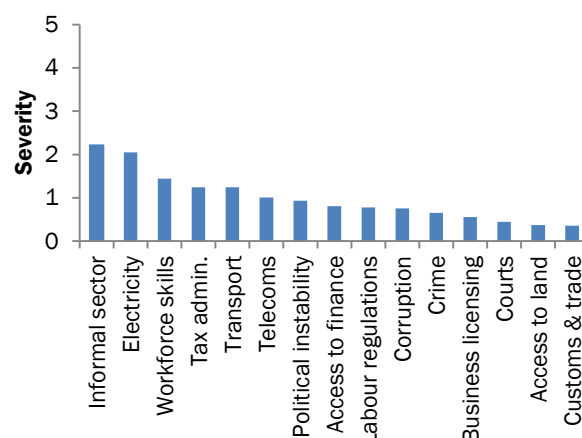
The share of firms that **compete against firms in the informal sector** increased from 26.3% in BEEPS IV to 35.7% in BEEPS V, making it almost equal to the central Europe and the Baltic states (CEB) average of 35% (Chart 2).

When it comes to **electricity**, Estonia performed better than the regional average. In BEEPS V only 1.1% of sales were lost due to power outages compared with a CEB average of 2.3%. The number of power cuts in a typical month was around 1.9 and 1.8 in BEEPS IV and V, respectively. However, electricity issues were ranked as the second biggest obstacle. This could be linked to an increase in electricity prices during the period in which the survey was conducted. Although electricity prices in Estonia are among the cheapest in the European Union, they increased by 22% between the second half of 2012 and the second half of 2013. Electricity prices fell again as a result of the completion of the new electricity link (EstLink2) in early 2014.

**Workforce skills** continued to be among the top three obstacles. One of the main reasons for this concern is that young and well-educated Estonians are migrating to western European countries that offer better career opportunities. According to the Estonian Population and Housing Census, emigration has reduced the country's population number by 6,629 people (0.5% of the total population). Another reason is the existence of labour market mismatches. The existence of such mismatches is a sign that human capital is not being utilised in the most efficient way. As of 2014, 8.4% of Estonia's youth (under the age of 31) are considered to be over-educated (that is, their current level of schooling is higher than the required level to perform the job).

**Tax administration** was also one of the top concerns in the country. On average, the number of inspections by, or meetings with, tax officials increased from 2 to 2.8 – above the regional average of 2.2 and the second highest in the CEB region after Croatia (Chart 3).

Chart 1. Business environment obstacles



Estimated for a hypothetical "average" firm. Higher values correspond to a weaker business environment.

Chart 2. Competition from the informal sector

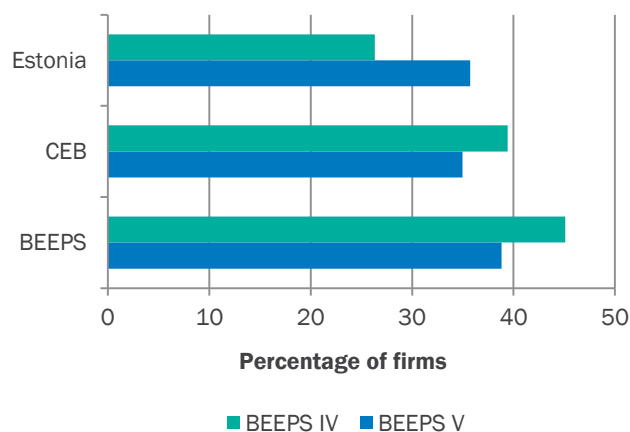


Chart 3. Tax official inspections/meetings

