

STATUS AND PROSPCTS OF THE ESTONIAN ECONOMY 2025
Report of the Competitiveness Expert Council to the Riigikogu
Summary

September 2025

INTRODUCTION

At the initiative of the Riigikogu's Economic Affairs Committee, a council of experts was convened at the end of 2023. They were asked to analyse the competitiveness of the Estonian economy and offer ideas for improving it.

The expert council worked on the principle of science-based assessment of the country's competitiveness, based on the results of both international and Estonian research and extending them to what is happening in the Estonian economy and society at large. The first report was completed in June 2024. In addition to analysing Estonia's competitiveness in the world, it discussed the Estonian labour market, digitalisation and automation of companies, the green transition, economic openness, the cost of capital and bottlenecks related to bureaucracy as special topics. In conclusion of the report, the expert council made several specific recommendations for each field.

This competitiveness report, published in 2025, follows the structure of the previous overview, addressing both recent changes and trends in the global economy and the competitive position of the Estonian economy compared to other countries, as well as providing food for thought for further discussions on specific topics. This report provides an in-depth analysis of the functioning of the energy system and the transition to renewable energy, electronic communications as an important competitiveness factor, companies' equity financing, as well as value chains and productivity in agriculture.

The individual chapters of the report primarily reflect the personal views of their authors. Estonia's competitiveness and future prospects are a multifaceted topic that can be looked at through different perspectives, so it is understandable that the members of the expert council may disagree on the details of some topics or approaches. The recommendations in the report, however, are the joint work of the expert council, agreed upon and supported by all members of the group.

The expert council is made up of representatives from four institutions – Uku Varblane from the Foresight Centre, Ülo Kaasik from Eesti Pank, Kadri Männasoo from the Tallinn University of Technology, and Urmas Varblane from the University of Tartu. Other experts were also involved in the activities of the working group. Thus, Rein Taagepera from the University of Tartu; Arvi Hamburg and Einari Kisel from Tallinn University of Technology; Rando Värnik, Olga Aleksandrova, Jüri Lillemets, Katrin Lemsalu, Kristina Hiir and Taavi Kiisk from the Estonian University of Life Sciences; Erik Terk from Tallinn University; Martin Vallimäe from the Consumer Protection and Technical Regulatory Authority; Mari Pärnamäe, Mari Rell, Ilmar Lepik, Martti Randveer and Liina Kulu from Eesti Pank and Tea Danilov from the Foresight Centre also contributed to the report with analyses and opinions. As part of the preparation of the chapter on equity financing of companies, meetings were held with representatives of SmartCap, EstBAN, EstVCA, BaltCap, Startup Estonia and LHV Asset Management.

The members of the expert council would like to thank everyone who contributed to the completion of the report!

RECOMMENDATIONS FROM THE COMPETITIVENESS EXPERT COUNCIL 2025 REPORT

General observation:

- The Riigikogu (European Union Affairs Committee) should take a position on a course of action the European Union should follow in a situation where US trade policy is characterised by the tariffs imposed by US President Donald Trump and the uncertainty that comes with it.

Recommendations regarding the Estonian electricity market:

- Recommendation 1. Plan the share of variable renewable electricity in Estonia to be between 60–80% of total electricity consumption, considering the costs and associated benefits for consumers, producers and the energy system.
- Recommendation 2. Consider differentiating electricity excise duties and fees aiming to reduce the final price of electricity for those segments of business consumers whose unit cost of electricity exceeds that of competing companies in neighbouring countries.
- Recommendation 3. Consider conducting a thorough meteorological study to map long-term deviations in wind speed in different regions of Estonia, or even better, in all Baltic states.
- Recommendation 4. Turn attention to research and development and investments in efficient, controllable electricity generation capacities that have low CO₂ emissions and/or that allow for optimal use of existing infrastructure and resources.

Recommendations regarding communication services:

- Recommendation 1. Make taking communications infrastructure into account a routine and legally required part of all construction projects, including roads and buildings.
- Recommendation 2. Raise awareness among local governments and landowners on modern communications in order to avoid unjustified requirements when building communications networks and encourage the construction of in-house fibre optic networks, which provides more options and helps lower the price of fixed internet connections.
- Recommendation 3. Increase the fines applicable under the Electronic Communications Act in the event of unfair market conduct and strengthen the market surveillance capacity for fixed internet connections in order to enhance competition in the fixed communications market.

Recommendations regarding agriculture:

- Recommendation 1. To ensure food security, support self-sufficiency (in key commodity groups), making sure that there are domestic alternatives to inputs, and ensuring that Estonia has possibilities to process agricultural raw materials to make final products.
- Recommendation 2. Support industrial symbioses and the circular economy to promote the valorisation of agricultural and food production by-products into biogas or in other ways.
- Recommendation 3. Reduce the fragmentation of grants and support measures.

Recommendations regarding financing of companies:

- Recommendation 1. We recommend that the state, as an important anchor investor, promote cross-border fund-of-funds initiatives, involving the Nordic countries in addition to the Baltic states.

1. A look at what is happening in the world and in Estonia: operating environment and trends

Urmas Varblane (University of Tartu), Uku Varblane (Foresight Centre), Rein Taagepera (University of Tartu)

Summary:

- Besides geopolitical tensions, the global economy is increasingly affected by disruptions in trade policies and relations.
- Due to the international trade and foreign investment liberalisation that accelerated primarily in the 1990s, global value chains developed and transnational dependence grew.
- The benefits of globalisation are not distributed evenly across countries and population groups.
- In the fight for economic supremacy, China has been able to use globalisation to its advantage better than the United States (US). China is seeking to become economically and technologically independent through the two-way circulation model.
- Since Donald Trump's inauguration as US president in early 2025, his aggressive tariff policies have caused widespread uncertainty in the global economy.
- The purpose of suspending tariffs temporarily may be to force countries to compete with each other so that the best outcome can be achieved for the United States. However, hasty steps indicate a lack of consistency in US trade policy.
- Increased customs duties and trade restrictions means higher costs for both exporting and importing Estonian companies, directly affecting competitiveness.
- Besides the daily turbulent economic environment, we must not ignore trends impacting society and the population in the long term. Estonia's demographic transition is part of a global trend where the population structure is moving from a high proportion of children and a low proportion of elderly people to a low proportion of children and a high proportion of elderly people. This is primarily influenced by healthcare development, the rise in women's educational level and economic development combined with urbanisation.
- The support burden of working-age Estonians was historically low in the 2000s. Projections show that by 2050, the proportion of working-age people in Estonia will decrease significantly, increasing the social support burden. Immigration may mitigate the impact of ageing in the short term, but it does not change the long-term logic of the transition, which is why it is crucial to invest in human capital and adapt economic policies to an ageing society.

2. Insight into the Estonian economy: exports and competitiveness

Mari Rell (Eesti Pank)

Summary:

- As is typical of an open economy, we are more sensitive to changes in demand in foreign markets than, for instance, Finland, Sweden or Germany.
- There have been divergences in the development of the Baltic countries during the last economic cycle, and the differences between the three countries have deepened. Lithuania and Latvia experienced a short and superficial economic recession, but in Estonia, the recession was deeper and lasted longer.
- The long economic recession and the lasting crisis caused structural changes in the economy. This led to a declined share of manufacturing in value added.
- Our export market share has fallen for three consecutive years, with the largest decline in 2023.

- The export of goods and services has developed along different paths in Estonia. Throughout the past crisis period, exports of goods fell significantly, while exports of services increased both in turnover and volume.
- Exporters have spread risks by redirecting goods from the more struggling Nordic markets to markets that are further away in Central and Western Europe and the USA.
- In Estonia, cost pressure in production persisted in 2024 and hampered the competitiveness of companies.
- In the last three years, competitiveness in Estonia, Latvia and Lithuania has lowered mainly due to the faster growing labour costs.

3. Competitiveness of the Estonian economy beyond price competition: what distinguished the economies of the Baltic states in 2019–2024?

Ilmar Lepik (Eesti Pank)

Summary:

- The indicators of the Baltic countries' international competitiveness beyond price competition diverge and there is no clear leader. Considering a fairly even overall picture, Estonia has not lost many positions, Lithuania has just developed faster.
- The main target markets for Estonian goods exports are more concentrated and mostly in the Nordic countries, where demand is weaker. Western Europe and other parts of the world account for a larger share among the target markets of Latvia and Lithuania. Estonia clearly lags behind the other Baltic countries in terms of growth in goods exported to the European Union.
- The impact of the Estonian goods exports structure on export growth is neutral in intra-EU trade and is not the cause of weakened competitiveness. In extra-EU trade, the impact of the goods structure is slightly negative. In the case of Lithuania and Latvia, recent shifts in market structure do not allow for firm conclusions, but their situation is broadly similar.
- Service exports have grown more in Estonia and Lithuania. The main target markets for service exports of the Baltic countries are predominantly in Western Europe. In the case of Estonia, they are equally situated in the Nordic countries and Western Europe. Estonian service exports are more knowledge-intensive and not as focused on transportation services as in the other Baltic countries.
- Manufacturing investments are almost equal in relation to gross domestic product (GDP) in all three Baltic countries. Looking at the structure of investments, in Estonia, capital investment is smaller in industry than in the other Baltic countries and larger in real estate.
- Economic and export complexity is at a higher level in Estonia than in the other Baltic countries. However, Lithuania's economy is more diversified than that of the other Baltic countries. Estonia has a lead in the overall digitalisation index, but in the economic sub-indices, Estonia and Lithuania are mostly equal. Estonia is ahead of the other Baltic countries in spending on research and development, but the gap with the Nordic countries remains large.

4. In Focus: Who wins and who pays for the transition to renewable energy, and how do we find a balance between the functioning of the energy system and the interests of consumers and producers?

Kadri Männasoo (Tallinn University of Technology), Einari Kisel (Tallinn University of Technology)

Summary:

- The functioning of the energy system and the profitability of electricity production are supported by economies of scale. The consolidation of energy producers both in Estonia and in other markets confirms the importance of economies of scale. Scale can also be provided by consumption. Greater electrification helps to improve the efficiency of the energy system and the use of renewable energy, especially in the industrial sector, where there is more room for growth than in households.
- For Estonian household consumers, the price of electricity is low compared to other European countries, especially for households with low consumption and probably also for those who are more price-sensitive. Many countries with higher electricity excise rates than those in Estonia differentiate the tax burden between household and large consumers, imposing significantly lower excise rates on the latter. We recommend considering differentiating electricity excise duties and fees to lower the final price in certain business consumer segments where the current unit cost of electricity exceeds that of competing companies in neighbouring countries. The fees collected from the electricity excise duty could be used for targeted purposes, such as to support electrification, renovate buildings, or conduct research and development in energetics.
- Estonia's unique location on the border of maritime and continental climate zones offers good opportunities for more uniform production of wind energy as well as solar energy by dispersing and distributing production capacities across different regions of Estonia. Conducting a thorough meteorological study should be considered, with the purpose of mapping wind speed deviations over a long period of time in different regions of Estonia, or even better in all the Baltic countries. The study would help to plan renewable energy production capacities and external connections in a way that would help minimise fluctuations in renewable energy volumes and shortages during critical periods.
- We recommend focusing on research, development and investment in efficient, controllable capacities that have low CO₂ emissions and/or that make optimal use of existing infrastructure and resources. The offered solutions include combined heat and power stations, biogas-powered gas power stations, pumped hydropower stations that act as energy storage, hydrogen fuel cells, and heat storage tanks built next to district heating boiler plants. The construction of a nuclear power plant in Estonia requires separate consideration. As long as these solutions do not provide sufficient reserve capacity, oil shale power plants must be kept operational.
- The higher the share of solar and wind power, the less sensitive the average electricity price for the period is to CO₂ charges and the price of natural gas. The transition to solar and wind power is accompanied by a fall in market and consumer prices, but the latter stagnates when the share of variable electricity reaches 80%. With the transition to solar and wind power and the falling market prices, the net revenues of the electricity system and the state also decrease, as the lower market price pushes out the controllable capacities offered by the system and reduces tax revenues collected from electricity consumption. Considering the cost of the increase in the share of variable electricity to the continuity of the electricity system operation and the loss of revenue from electricity sales to the state, depending on the price of the CO₂ emission quota, the price of natural gas and other factors affecting the market price, the economic gain from solar and wind power may begin to decline at the level where the share of variable and non-storable solar and wind electricity in consumption exceeds 60%.

5. In Focus: Electronic communications as a factor in the competitiveness of the Estonian economy

Martin Vallimäe (Consumer Protection and Technical Regulatory Authority)

Summary:

- Estonian companies are using increasingly higher internet connection speeds, but usage is still below the network's technical potential.
- There are around 123,000 buildings that are not connected to the fibre optic network. However, the situation is very good in Estonia compared to many other countries: most buildings that have not yet been connected are less than 10 km away from a base network. Estonia's fibre optic cable coverage is about 86%, which is more than in many other European countries.
- In Estonia, mobile internet is affordable and internationally very competitive, but compared to neighbouring countries, cable connection prices are expensive, especially for high speeds.
- Pricing for services offered to business clients is not transparent, depending on the client's size and ability to negotiate.
- The complex and outdated design and construction process makes laying fibre optic cable expensive and slow.
- The reliability of price and quality comparisons between countries is limited. The reasons for this are different contract terms (fixed period vs. indefinite period, fines, discounts), differences in service packages (including speed, extra services), and the fact that declared speeds may not correspond to real speeds.
- According to Statistics Estonia, 91% of Estonian companies use fixed internet connections, and over 86% of them are satisfied with the connection speed.

6. In Focus: Equity financing of companies

Mari Pärnamäe (Eesti Pank)

Summary:

- Companies operating in Estonia, as well as elsewhere in the euro zone, rely mainly on bank loans to satisfy their external financing needs. However, the equity market, especially the venture and private capital market, would be more suitable for financing innovative and riskier projects.
- For structural reasons, the Estonian capital market is small, but over the past ten years, the volume of financing through investment and pension funds in the economy has nevertheless grown considerably.
- The directing of pension capital into private and venture capital funds slowed down due to the 2020 pension reform, and there are no simple solutions for increasing its share.
- By now, Estonia has developed a substantial base for the startup sector's financing and smaller funding rounds, but it is often necessary to turn to international investors to raise larger sums.
- Involving local capital helps to make sure that the value and management of companies remain in Estonia. It also provides stability during economic crises or geopolitical changes when foreign capital may become less available. A local investor understands local conditions and companies better.
- Compared to the European average, the state's share is very large in the Estonian private and venture capital market, accounting for about half of the money placed in funds. Thus,

the government's choices regarding the goals and criteria for venture capital investments have a considerable effect on the development of the entire local market.

- The state plays a significant role in market development through public sector venture capital programmes. In order to increase investment opportunities for local venture and private equity funds and ensure a better flow of investment opportunities, the state, as an important anchor investor, could promote cross-border fund-of-funds initiatives, involving the Nordic countries in addition to the Baltic states.

7. In Focus: Value chains and productivity in agriculture

Rando Värnik, Olga Aleksandrova, Jüri Lillemets, Katrin Lemsalu, Kristina Hiir, Taavi Kiisk (Estonian University of Life Sciences), Erik Terk (Tallinn University)

Summary:

- The agricultural sector's profitability has been unstable for years. It has become more and more difficult for companies to manage escalating costs. Employment has declined, but production has become more efficient and automated.
- Over the past decade, the overall level of valorisation of Estonian agricultural products has not changed significantly. However, the share of valorised products in exports has decreased since 2018, mainly due to the growth in exports of low value-added grain products. At the same time, the share of higher-value meat products in exports has increased.
- The future of agricultural production lies in the use of secondary raw materials (by-products, production losses, etc.), but its potential remains unused due to factors such as the lack of systematic data collection, as companies do not include this in their internal reporting. Biogas production is a common secondary use. Its greater strategic value lies in the possibility of supporting diversified production models (e.g. combining grain, dairy and energy production), which increase added value and investor interest.
- The yields of cereal crops are more stable, which makes them a choice with a lower risk for Estonian farmers compared to vegetable, fruit and berry crops with much more volatile yields.
- For the proportion of organic agricultural land, Estonia ranks second in Europe, but limited valorisation opportunities prevent the full use of its potential. Further development calls for specialisation in suitable crops, such as organic oats.
- Over the past decade, Estonia has been able to cover its need for cereal and dairy products mainly by domestic production. However, Estonia has largely relied on imports for meat and vegetables. Compared to neighbouring countries, Estonian agricultural production relies more on imported inputs and creates less domestic added value in exports. Therefore, the sector is more vulnerable and lagging behind in value chain development, especially compared to Finland and Sweden.
- The competitiveness of Estonian cereal farmers depends on targeted crop selection and the wider use of mixed production. The rise in land tax increases the costs of agricultural land use and threatens the sector's profitability.
- The long-term competitiveness of the dairy sector requires strengthening domestic processing capacities, linking research and development with product development, and maintaining production scale, as small producers have limited opportunities outside of certain niches.
- Pig farming requires support for breeding activities and maintaining a high level of biosecurity, as well as investments in the renovation of abattoirs and the establishment of new slaughter capacities.

- The horticultural producers' position is worsened by seasonal work restrictions, a limited selection of plant protection agents, and the lack of VAT differentiations compared to competing countries.