

Ministry of Economic Affairs and Communications • Ministry of Finance

## **OVERVIEW OF THE ESTONIAN ECONOMY 2013**

Tallinn 2014

## Contents

Macroeconomics .....	3
Foreign Trade.....	6
Exports .....	6
Imports .....	8
Manufacturing Industry.....	10
Food and Beverage Production.....	13
Manufacture of Textiles .....	16
Manufacture of Wearing Apparel.....	18
Wood Processing.....	20
Manufacture of Pulp, Paper and Paper Products .....	22
Chemical Industry .....	24
Manufacturing of Rubber and Plastic Products.....	27
Manufacture of Metals and Metal Products .....	29
Manufacture of Machinery and Equipment .....	31
Manufacture of Electronic and Electrical Equipment.....	33
Manufacturing Means of Transport.....	36
Manufacture of Furniture .....	38
Construction Sector .....	40
Domestic Trade .....	43
Retail Business.....	44
Tourism.....	46
Inbound Tourism .....	48
Domestic Tourism.....	49
Outbound Tourism .....	49
Information and Communication .....	51
Transport .....	55
Annexes.....	59

Abbreviations in text:

y-o-y – year-over-year

r.s. – right scale

l.s. – left scale

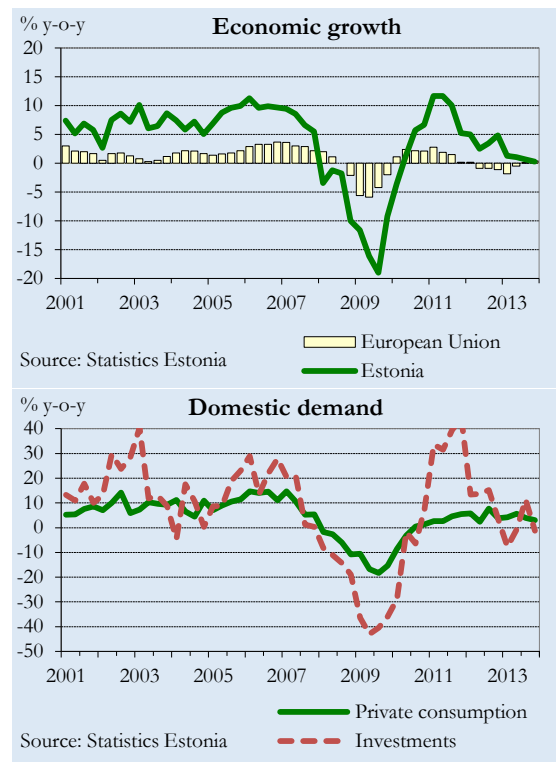
\* – preliminary, short term statistics

## Macroeconomics

Positive trends continued to dominate the economy of Estonia during 2013 - the unemployment rate fell, price increases slowed down, employment continued to increase and the real growth of wage income picked up significantly. Economic growth was faster than the EU average, although it slowed down considerably in the second half of the year. The annual GDP growth in Estonia in 2013 was 0.8%. The growth inhibited mostly the transport and storage sector and added the value that was eventually affected by reduced transit flows. Also, the decrease of the added value of construction and professional and technical activities had an important influence for the economy. GDP growth was supported by domestic demand-oriented sectors to the economy, particularly in wholesale and retail trade and information and communication. Aside from domestic demand, the manufacturing industry contributed to the growth of the value added which grew along with the recovery of external demand.

The growth of domestic demand decelerated in 2013 due to the stalling of the growth in investments (1%) although private consumption continued to grow at a rapid pace (4.2%). In the year 2012 investments made half of the growth of domestic demand, but in the first half of the year 2013 the real investment volumes produced a descent decline. Throughout the year, investment in the growth of residential real estate picked up, accompanied by a significant increase in prices. Regarding enterprises, growth in investment in machinery and equipment continued and due to the low base level the construction of buildings and facilities also rose rapidly. Purchase of new trains increased investment in the means of transport. Government investment in buildings and structures decreased significantly in relation to the ending of the previous period of EU structural funds. The low aggregate level of investments remained below the pre-crisis level mainly because cautious companies established new and renovated buildings on a small scale. Also, investment in housing and transport remained significantly lower. Investments in machinery and equipment grew, however, almost on a pre-crisis trend and exceeded their previous peak levels. The continued rapid growth of private consumption in 2013 received support from accelerating wage increases, moderate employment growth and unemployment reduction. Real income growth came from a sharply slower price rise in the second half of the year. Also, consumer confidence moved in an upward trend for the second year in a row. As income growth was broad-based, then the growth in consumption of non-durable goods, especially food, picked up and growth of the acquisition of durable food, which drove consumption in past years slowed down. Unlike in the previous period, a decline in consumption of semi-permanent goods, especially clothing and

footwear, was still lower by one-fifth from the highs of the boom era.



In 2013, foreign trade was affected by moderate foreign demand and a decrease of re-export. The weighted average the economic growth of trading partners was the lowest in recent years and demand for imports was in decline in several important export markets. The goods and services export growth slowed from 5.6% in the year 2012 to 1.8% in the year 2013. In previous first half of the year, exports remained strong, in the second half exports turned into a small recession. Comparing groups of goods, the growth was driven by wood and wood products, food products and textiles. Export of metals and machinery and equipment was in decline. Across countries, exports increased the most to Latvia, whilst a larger decline in exports to the USA was due to a decrease of re-exports. Due to decreased transits and a decrease of exports in engineering services, the export of services also suffered a small decline. The growth in imports surpassed exports in the year 2013 due to strong import of services and a continued increase of consumer spending.

Despite the weakness of the export markets, the external balance in the year 2013 improved. The **current account** deficit narrowed to 1% of GDP due to lower deficits in revenue. Revenues earned by Estonian enterprises in foreign countries increased while the income earned by foreign investors in Estonia decreased. In addition, due to the weakness of export of transport and construction, surplus of services continued to decrease.

**Inflation** slowed from 3.9% in the year 2012 to 2.8% in the year 2013. The prices in 2013 were influenced both by internal and external factors. The opening of the electricity market had an important effect on inflation, but an offset occurred by a retreat of external price pressures and free-of-charge offers for some services (higher education and public transport for the residents of the capital). Commodity prices fell due to the weakness of the global economy and last year's good yield production contributed to the depreciation of some foods in the second half of the year. In addition, the exchange rate of the euro strengthened which in turn supported the cheapening of energy products (such as fuel) and slowed the increase in the price of manufactured goods for local consumers.

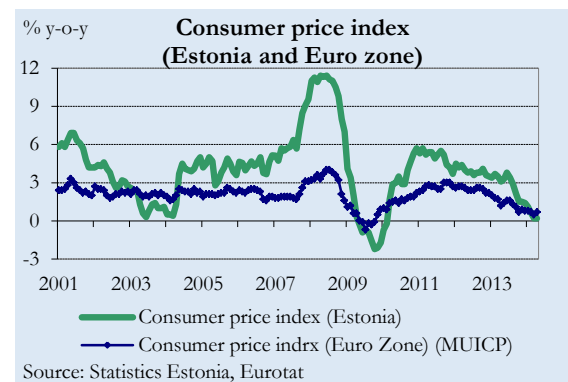
In 2013, expenses on housing increased to a greater extent (8.8%) due to the opening of the electricity market. Another major influence was the cost of food. In terms of many services, such as recreation, catering and housing services, price pressures could be observed due to increased demand and accelerated wage growth. Inflation started to decline rapidly since the summer months and in spring 2014 it fell to the lowest level of the last four years (0.2%).



In 2013, a **boost in the number of employed** (an increase of 1%) and the decrease of the unemployment rate slowed down consistent with the slowdown in economic growth. Employment rose significantly in the accommodation and catering sectors which are linked to the continued growth of both the number of foreign tourists and recovery of domestic tourism. The income growth of employers was rapid despite the modest growth of the real economy and consumption courage remained high while employment in the trade sector also increased. The number of employed were added considerably in professional and technical activities and the arts and entertainment activities. The biggest decrease in employment was in education, mainly at the expense of private sector companies and in transportation and warehousing as a result of declining transit flows. The annual average unemployment rate decreased from 10% in the prior year to 8.6% and the employment rate rose to 62.1% (in the 15-74 age group). Given the rapid decline in the working age population, the

number of people employed may turn back to a decline in the coming years.

**Average wage growth** picked up in the year 2013 to 7.8% and across the activities it was almost as broad as in the previous year. The significantly more homogeneous wage changes compared to the pre-crisis period suggests that the labour supply and demand in different economic activities is similar and there are no major structural tensions in the current phase of exiting from the crisis in labour. However, the number of vacancies is still very small which refers to lower total demand. The annual average wage was declining only in the arts and entertainment sector where real wages have not yet reached the pre-crisis level of the year 2008. The wage has recovered to significantly less than the average wage in the real estate sector, public administration, education and health. Wage growth was the fastest in agriculture (12%) and, surprisingly, in transportation and warehousing, where a big drop took place in added value due to the reduction of profits. In the public sector, wage growth picked up only in the year 2013 and its growth in the last five years has been less than the price increase. The fastest wage growth came in the mining and energy sectors and also largely from the exporting and manufacturing industries.



**The budgetary position of the government sector** was in deficit in the year 2013 - the deficit amounted to EUR 34 million, or 0.2% of GDP. The central government and local authorities ended the year with a deficit of 0.1% and 0.4% of GDP, social security funds were in surplus of 0.3% of GDP. The deficit decreased compared to the previous year thanks to better than expected tax receipts, especially in corporate income tax. However, the investment volume was smaller and the payments of parental benefits and other social benefits, for example, remained more modest. Local governments had deficits more than two times larger than expected which was primarily due to an increase in investment which could be attributed, among other things, to the election in the fall. The government sector structural budgetary balance in 2013 was at a surplus of 0.4% of GDP.

Tax revenues of 5.1 billion euro were collected to the state budget during the year 2013 and the **tax burden** was 32.3% of GDP. The highest shares were labour

taxes (16.5% of GDP), followed by consumption taxes (13.2% of GDP) and capital taxes (2.6% of GDP).

The General Government debt amounted to 10% of GDP as of the 2013 year end, having increased by 0.2 percentage points. The main reasons for the increase in the debt burden were the rise of local government debt burden and the increase of the volume of loans

issued by the EFSF. Out of the 1,845 million euro of the total debt, the debt of the central government, together with the impact of the EFSF (EUR 458 million), was EUR 1,209 million or 66%. The share of the local governments amounted to 636 million euro, which was 70 million euro more than in the year 2012. Compared with other EU countries, Estonia continues to have the lowest debt level.

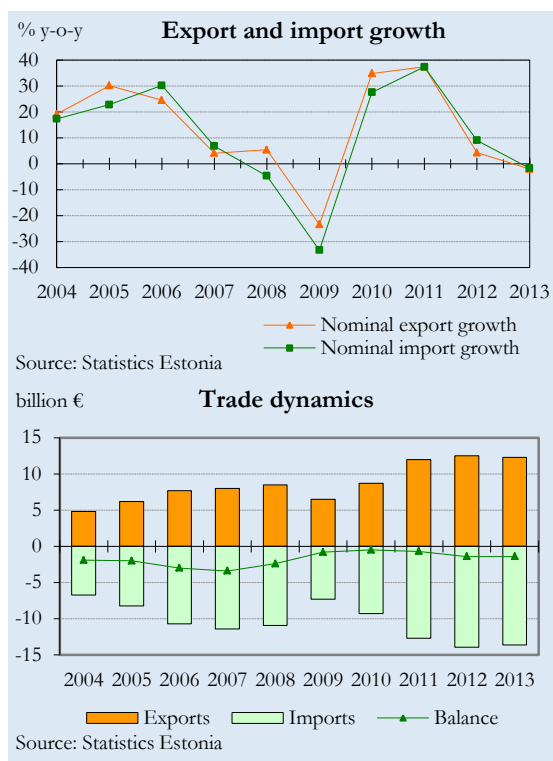
#### Spring 2013 forecast of the Ministry of Finance

%	2013	2014*	2015*	2016*	2017*	2018*
1. Growth of real GDP	0.8	2.0	3.5	3.6	3.4	3.2
2. Growth of nominal GDP	5.9	4.9	6.9	6.8	6.4	6.1
2a. GDP in nominal terms (bn €)	18.4	19.3	20.7	22.1	23.5	24.9
5. Consumer price index	2.8	1.4	2.7	2.8	2.8	2.8
7. Employment (15–74-year-old, thousands)	621	623	625	624	622	619
8. Growth of employment	1.0	0.2	0.3	-0.1	-0.3	-0.5
10. Unemployment rate	8.6	7.9	6.9	6.4	6.0	6.0
11. Average monthly wage (€)	948	1 007	1 071	1 139	1 213	1 293
12. Real growth of average monthly wage	4.9	4.8	3.5	3.5	3.6	3.7
12a. Nominal growth of average monthly wage	7.8	6.2	6.3	6.4	6.5	6.6
15. Current account (% of GDP)	-1.0	-1.6	-1.7	-1.9	-2.1	-2.2

## Foreign Trade

The year 2013 can be considered a year of stabilization of trade. The total of both exports and imports, in current prices, declined by 2% within a year. At the same time, export and import prices also declined and in real terms the trade volumes remained close to the previous year's level. Therefore, the balance of trade deficit also remained at the same magnitude.

In 2013, the global economic recovery turned out to be slower than had been previously predicted. The economies of our major trading partners Latvia and Lithuania remained relatively strong and the Swedish and the German economy showed signs of recovery in the second half of the year. In Finland and Russia, more negative developments took place. Lower than expected foreign demand led the exports of Estonia into recession. Although the reduction in unemployment and wage growth kept private consumption strong, the decline in export demand and the consequent weak investment activity also turned the import growth negative.



In the year 2013, trade turnover was 25.9 billion euro, decreasing in a year by 2%. Export volume was 12.3 billion and import volume was 13.6 billion euro. Since exports and imports showed similar developments, their shares in the total trade turnover of the year also did not change much, reaching 47% and 53%, respectively.

In 2013, export and import prices turned to decline due to decreasing demand in foreign markets, as well as a decrease in commodity prices. The drop in world oil prices was largely due to a weakening of the dollar

against the euro. Export prices fell on average by 1.4% and import prices by 1.8%, making exports declining in real terms less than one per cent and imports remained at the previous year's level.

As export and import volumes stayed on the previous year's level, the trade balance deficit in 2013 was kept stable within 1.4 billion euro. Increased negative balances in trade were transport equipment (-0.6 bn euro), mineral fuels (-0.4 bn euro) and chemical products (-0.4 bn euro). Goods that traded with a larger surplus were timber and wood products (0.7 billion euro) and furniture, pillows, blankets and wooden houses (0.6 billion euro). As for major trading partners, Estonia had a positive trade balance with Sweden (0.7 billion euro) and Russia (0.6 billion euro). Major deficiencies arose from the foreign trade with Germany and Poland, equally with 0.9 billion euro.

In the year 2014 the trade balance, deficit is projected to increase slightly because of faster growth in imports against exports that are expected to come. Promoted by the strengthening of domestic demand and the growth of the import of inputs and semi-finished products required for export. In March 2014, 30% of the experts of the Estonian Institute of Economic Research (EKI) forecast deterioration in the trade balance in the coming six months. 60% of the experts expected the balance to remain about the same and 10% of them thought that the deficit will reduce.

### Exports

Development of export was, in 2013, affected by moderate foreign demand and a decrease of re-export. Economic deterioration of several major trading partners of Estonia and the consequent reduction in import demand in these markets were the causes. When in the first two-quarters of the year exports still showed an upward trend (an increase of 3%), then in the third quarter exports dropped 10%. In the fourth quarter, the decline in exports slowed to 3% and the volume of exports grew as compared to the prior quarter by two percent. The annual exports decreased by 2%.

One major reason for the decline in exports in the year 2013 was the fall in the exports of mineral fuels, since it was nearly a third lower than a year earlier. Behind it was particularly a significant decline in the sales to the United States of America. Removing the petroleum product exports (which was essentially a re-export) from the pit of the statistics, shows that exports compared to the year 2012 increased by 4% at current prices.

In 2013, machinery and equipment were still the largest export volume commodity group and their export decreased by 3% that also influenced the decline in total exports. The sale of mobile devices in



overseas markets that makeup the largest - 40% share, grew by 5%. Also, the export of other major commodities such as insulated electric conductors and power distribution equipment, showed a slight increase. However, export of machinery and equipment was in decline especially by re-exports, which accounted for nearly a third of the exports of the entire group.

In 2013, wood and wood products rose again as the third merchandise group in export volume, the export of which showed a strong 14% growth for the year. A fifth share of the wood group, comprised equally of construction details and lumber, also grew as well as equally 13% for firewood and round wood. Export of untreated wood grew faster.

Export was dragged into recession also by metals and metal products, which were sold 14% fewer to foreign markets than in 2012. Therefore, they had to give up their place in the top three. Behind the export decline of the metal group was a significant decrease in the export of both black metal waste, as well as of processed steel, one reason for which was the closing of a steel processing plant due to weak external demand. There was also a small decline in exports of metal structures.

As for other groups of manufactured goods, wooden houses showed a continued relatively strong one-tenth increase in exports. These manufacturers have been able to increase sales to all major markets, such as Norway, Germany and Sweden, whereas the export to the latter country grew by more than half. Exports of furniture and pillows and blankets remained at the previous year's level.

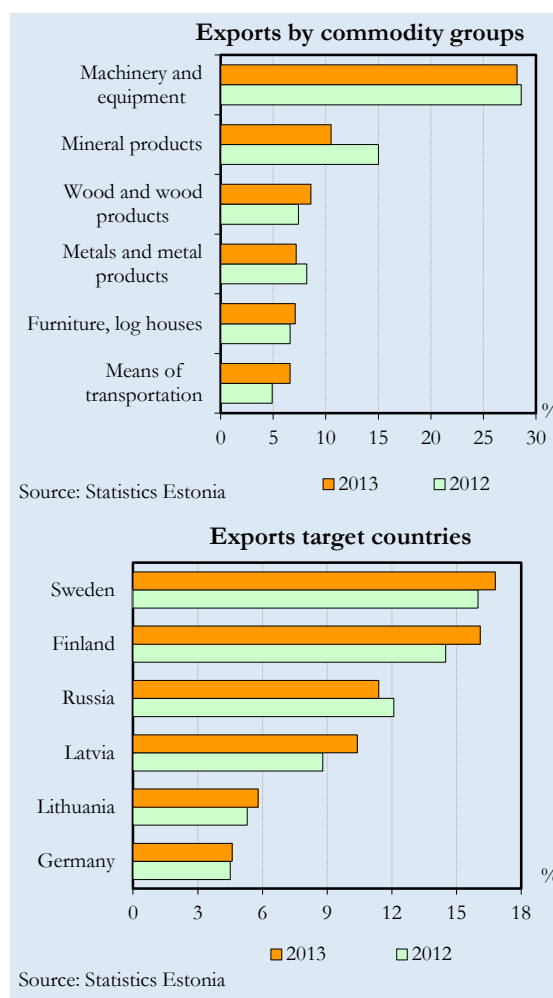
In 2013, the share of the European Union in Estonia's total exports rose to 71%, which was five percentage points higher than a year earlier. Estonian exporters sold to the EU's internal market also 5% more goods compared to the previous year. Out of the major single market partners, exports grew faster to Great Britain, Latvia, France, Poland and Belgium, regarding which, increases ranged from 12-19%, respectively.

When in the year 2012, exports to CIS countries grew by another 15%, then in 2013, exports there turned into a 10% drop. Behind this was particularly the decline of exports to Russia, to where 85% of all the goods were sold to CIS. At the same time, export to most other countries of the Commonwealth decreased, out of the largest, Ukraine by 14% and to Belarus by 10%.

The biggest drop (-40%) was in the export of the year 2013 to NAFTA<sup>1</sup> countries, which lowered their share in total exports to 4%. Exports fell sharply into all the three member states: To United States 39%, to Canada 29% and to Mexico 68%. The sale of petroleum products fell sharply to the first two

countries and to the latter the export of mobile devices was significantly reduced.

No changes took place in the order of the five first target export markets of Estonia in 2013. Sweden remained the largest export partner for the third year with a 17% share of total exports. At the same time, exports to Sweden showed the lowest growth in the top five (except for Russia), being only 3%. The causes for growth slowdown of export targeted towards Sweden were mineral fuel (heating oils), exports fell by more than half within one year. The largest share was the machinery and equipment sales which grew by nearly one-tenth, constituting more than one-half of the exports. Of these, exports of mobile devices made up 80% (12% growth). Wood and wood products accounted for 10%, the export to Sweden showed a strong growth by the size of nearly one-fifth. Equally about one quarter of the wood group was made up of round wood, building components and 13% wood (wood pellets). Out of the group of other manufactured goods, the sale of wooden houses to Sweden rose by one-half.



Although the Finnish economy did not do especially well in the year 2013, exports to Finland grew by 9%, which was significantly faster growth than in the year 2012. This increased the share of Finland in the total

<sup>1</sup>North American Free Trade Agreement.

exports of Estonia to 16%. However, the growth in exports to Finland was driven particularly by means of transport (3.5-fold increase), behind which was the transaction of passenger ship exchange at the beginning of the year. Two groups of the major share were machines and equipment (24%), metals and metal products (12%), which were sold to Finland equally by 4% less than last year. The above-mentioned three groups of goods together accounted for nearly half of total exports to Finland.

The only sector to shrink in the top five in the year 2013 was exports to Russia by 7%. When in the first half of the year sales to the Russian market still increased slightly, then in the second half of the year deterioration of the economy began to increasingly affect the demand for imports therein. Behind the large recession that took place in the third quarter was particularly decreased re-exports of machinery and equipment. At the same time, this group of goods still accounted for a third of total exports to Russia whose sales fell by 16%. Of the second largest volume of exports were agricultural products, food and beverages, that accounted for nearly one-fifth of total exports. In the volume of nearly half of this group were exports of alcoholic beverages, mainly re-exports and within one-fifth of dairy products. The sales of the latter to the Russian market increased roughly by half. The share of chemical products fell to 14% since their exports decreased by one-quarter. Behind the decline were organic chemicals, however the export of paint and mortar, the largest proportion, remained at the previous year's level.

Exports to Latvia continued in 2013, as in previous years, with a strong growth of 15%, which was the highest growth of the first five export partners. This was primarily supported by a nearly two fold increase in the sale of electricity which increased the share of total exports of mineral fuels to Latvia to 18% and they emerged as the largest export commodity. Exports of animal products increased almost by half and export of chemicals and textiles grew equally more than by one-third. However, the machinery and equipment sales to Latvia decreased by 8%.

Lithuania remained, in 2013, as the fifth export partner and its share did not change in the year. Exports to Lithuania grew similarly with Finland by 9%. Although the sale of means of transport, animal products, chemical products and metal products to the Lithuanian market grew by almost 40% within one year, but significantly lower exports (almost by one third) of mineral fuels dragged down the growth of total exports. Behind the latter was a strong decline in electricity sales.

According to forecasts, the growth of export in the year 2014 will remain small. In the first half of the year exports still remain in a slight decline but in the second half external demand is expected to recover and exports will rise gradually. The experts of the Estonian Institute of Economic Research in the survey conducted in 2014 predicted the export

development to be positive for the next half-year, however, the expectations were not met. 55% of the experts forecast export growth, 30% of those expected the volume to remain the same and 15% believed that the volume would decrease.

## Imports

Weak export demand in foreign markets in 2013 also put the imports of imported goods into a decline. Similarly to exports, imports showed a small 2-3% growth in the first two quarters but in the third and fourth quarters an equal 6% shrinkage took place. Thanks to improvements in the first half of the year the annual decline of imports remained at the same level as exports.

Out of groups of goods, decline of imports was most affected by the mineral products whose import fell by one-fifth in a year. The largest decline in petroleum products brought in for processing and re-exporting was the result of lower import demand regarding them in the third countries. However, electricity was purchased by one-tenth more than in the previous year.

The import of the machinery and equipment which is the largest volume of imports declined at the same rate as their exports and its share in imports was on the same level with the exports. One-fifth of this group accounted for mobile devices, most of which went to the input for manufacturing of export goods. A higher share belonged also to the integrated circuits and earth moving mechanisms, the latter were imported mainly for re-export.

Imports of chemical products, metals and metal products were also in a moderate decline (5-6%) in the year 2013. Due to weak external demand, imports of chemicals decreased. Out of the metal groups, however, less untreated steel was imported, the main reason was the stalling of the steel processing plant mentioned earlier.

Out of the major import commodity groups the means of transport and prepared foods and beverages were increasing, 11% and 8%, respectively. The import of the first was driven by the means of maritime transport, behind which was the exchange of passenger ships that had taken place at the beginning of the year, but also the import of cars (that has the largest share) had a moderate growth. The latter was supported by strengthening of domestic consumption.

Similarly to exports in 2013, the share of the European Union in imports rose by four percentage points, reaching 83%. Import of goods from the EU member states grew by 3%, but was two percentage points lower than the growth of exports to the EU internal market. As a result of these developments, the trade balance deficit with the EU remained at the previous year's level of 2.7 billion euro.



There was a moderate decline in exports to the CIS countries, the imports from the CIS also fell by one-third and the share of CIS in Estonia's total imports declined from 11% to 7%. Imports fell from most of the CIS countries, however, decrease of imports from Russia by almost one-third, from where came 80% of the goods which had the greatest impact. Behind the fall of imports from Russia were mainly petroleum products, accounting for half of total imports.

Imports from NAFTA countries showed a strong 17% growth after a sharp drop the previous year. It was driven by imports from the United States higher by nearly one-fifth. More machinery and equipment, medical and measurement instrumentation were brought in from the United States.

In 2013 the sequence of the five Estonian biggest import partners by volume remained also unchanged. Finland's share of Estonia's total imports stood at 15%, the import of goods from Finland grew by only 2%. Equally one-fifth of the imports were comprised of machinery and equipment and mineral fuels. Their imports also fell equally by 7% with the year. Out of equipment, a wider range of electrical equipment was imported. The imports of petroleum products which had the largest share in the fuel group decreased, while electricity was purchased from Finland by 13% more than the year before. As the third group of merchandise in terms of volume of imports, the means of transport rose, their import increased by a quarter within one year. Growth was boosted by the earlier mentioned ships, while also the import of cars from Finland increased by almost one-fifth.

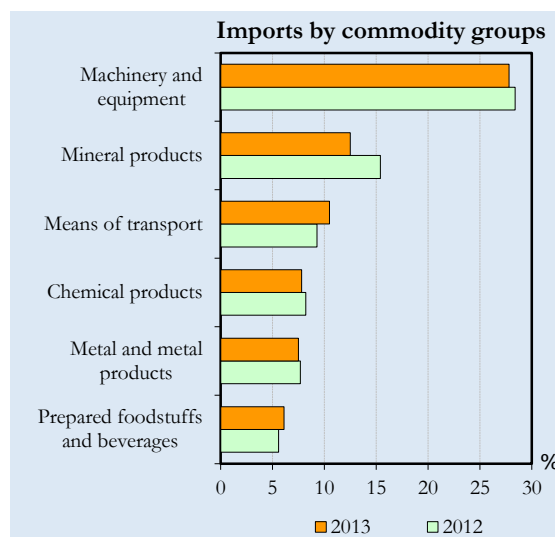
Imports from Germany in 2013 remained at the previous year's level, still making up one tenth of Estonia's total imports. Two merchandise groups of higher shares continued to be machinery and equipment and transport equipment. The import of equipment did not change within one year but 7% more cars were imported. Thanks to a small increase in imports, chemical products rose to third place, as the imports of metals and metal products decreased by a quarter due to the fall in demand.

Out of the top five sending countries, only imports from Sweden decreased by 3% but its share of Estonia's total imports remained at around 10%. In the imports from Sweden, machinery and equipment remained to be one of the largest shares, accounting for half of the import volume. The merchandise articles with a greater share than these continued to be integrated circuits and mobile devices. Imports of equipment fell by 6% within the year. Out of the three key import merchandise group's, a small increase was only in the means of transport, where the major part of which accounted for the cars and their accessories. Import of metals and metal products fell in the year with the same magnitude as the equipment.

Import of goods from Latvia increased in the year of 2013 by 2% similarly to Finland. One-fifth of the

imports accounted for agricultural and food products, nearly one-fifth for machinery and equipment and 9% for transport equipment. Imports from Lithuania showed the fastest growth (of 5%) out of the first of five sender countries while growth was hindered by a 2% drop of the mineral fuels (nearly half) with the largest share. Out of the major import partners, Poland had the most rapid growth from where nearly a quarter more goods were brought into Estonia than in the previous year. Behind this was especially the purchase of train cars

In the year 2014, according to the forecast, import growth is projected to remain low, similar to exports, but in the conditions of a strengthening domestic demand and due to the recovery of export demand in the second half of the year imports may grow faster than exports. Regarding development of imports in the coming six months, in March, the experts of the Estonian Institute of Economic Research have similar expectations as in the case of export: 55% of the experts forecast import growth, 35% of those expected the volume to remain the same and 10% believed that the volume will decrease.



Source: Statistics Estonia



Source: Statistics Estonia

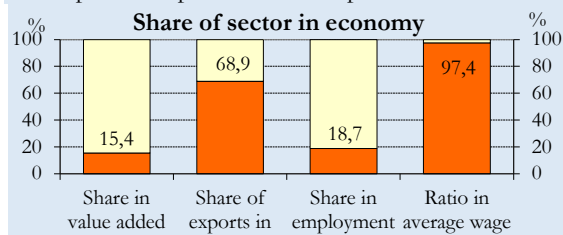
## Manufacturing Industry

Around 6000 companies operate in the Estonian manufacturing industry, the majority of them are small and medium sized. There are over 200 companies with at least 100 employees that make up half of those employed in the industrial sector. The major companies include, for example, the mobile network equipment manufacturer Ericsson Eesti AS, an electrical equipment manufacturer ABB AS, wiring systems manufacturer PKC Eesti AS, shipbuilding and metal processing factory BLRT Grupp AS, wood processor Stora Enso Eesti AS, the manufacturer of automotive safety systems (seat belts) AS Norma and the AS Rakvere Meat Processing Plant.

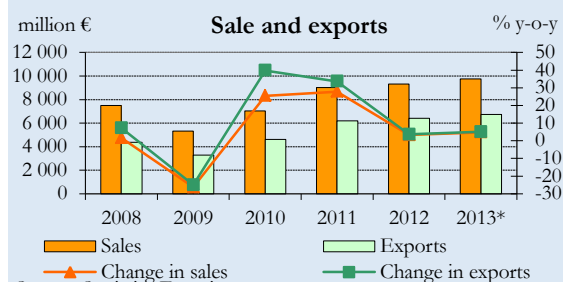
In Estonia the share of the industrial sector in the economy on the basis of added value is as high as in the EU average (about 15%). The share of people employed in manufacturing, however, is one of the highest (about one-fifth) among the EU countries, which indicates that elsewhere, generally, with the same number of employees, more added value can be created.

The processing industry as a whole is the largest employer in Estonia, almost one in five employed people are working in this field. Over the past decade, the number of employees and the share in the economy has declined, however, and the increase in production has led to an increase in productivity. More jobs have been created in the metal industry and manufacturing of electrical equipment, as to production volumes the electronics industry has increased the most. The industries with the highest number of employees are woodworking, the metal industry and food production. The economic crisis led to a loss of jobs, but the processing industry was one of the first in which the situation improved and the additional jobs were created again. Exports played an important role in the recovery. The sector is heavily dependent on foreign markets where nearly 70% of production is sold. The main export markets are Finland and Sweden from which have come the vast majority (over 60%) of foreign investment made in the processing industry in Estonia.

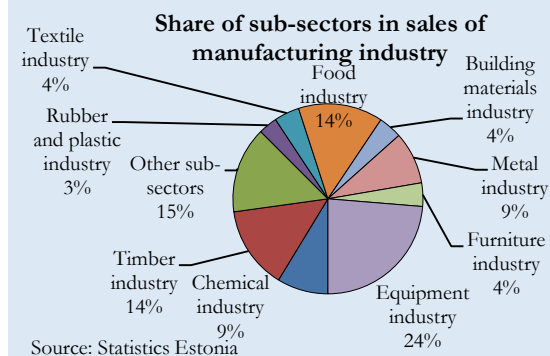
According to the forecast, in the coming years the number of employees in the processing industry will not change significantly but in the more labour intensive industries, employment is expected to continue to fall. The jobs are expected to be added in the sectors creating a higher added value (electronics). However, competitiveness is based on productivity cultivation, which requires continued investment in machinery, equipment, people and the development of products and improvements in the organization of work.



Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia

**Production has increased in the processing industry in 2013 to a modest extent, but in the background of European development it was a rather strong result. Also, the sector gave a relatively large contribution to economic growth, as well as the number of people employed in processing industry increased slightly. The prospects of the main trading partners are generally good but the tensions between Ukraine and Russia may lead to negative effects for Estonian companies.**

According to preliminary data, production volume in the processing industry in the European Union decreased in 2013 by one and a half percentage. In the neighbouring countries, only Lithuania caught the eye in a more positive sense but also there was an increase of less than 5%. Estonian enterprises produced 1.8% more output than in the year 2012. Revenue rose nearly 5%, exports grew somewhat faster.

Rapid growth continued in production of oil, where production increased due to additional production capacity by one tenth with the year. Positive developments were also in other chemical sub-branches, as well as in the timber industry, the electronics industry and the non-metallic mineral products (building material) industry. Production decreased by 5% or more in the textile industry, engineering industry, manufacturing of metal products and manufacturing of electrical equipment.

Changes in other sectors remained within a few percent.

The producer prices in the processing industry rose by an average of 1.2%, the growth rate levelled off as the year progressed. Faster price increases once again characterized the food industry (4.2%), a greater leap occurred also in the drink industry (8.4%). Due to the price increase, corporate revenues rose by slightly more than the volume of production. In most sectors the change in sales reflected largely the export developments, but there were also some notable exceptions, in which the domestic market played an important role.

The number of people employed in processing industry increased by almost 3%. According to the Labour Force Survey, which also includes working abroad, employment growth was more modest. The bigger creator of jobs was again the timber industry, in addition more contribution came from machinery industry, manufacturing of electrical equipment and food processing. The biggest decrease was in the number of people employed in the leather industry.

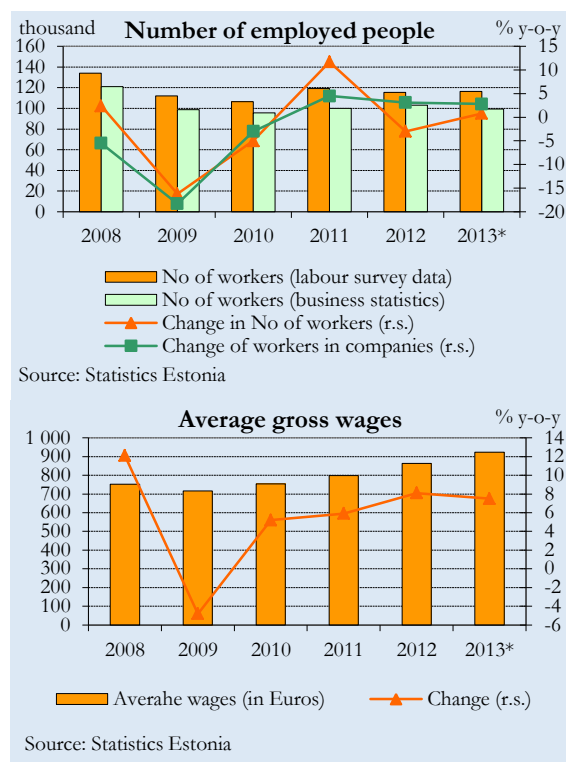
The average salary in Estonia's processing industry grew nearly at the same pace with the Estonian average. Compared to the year 2012, wages increased by 7-8%. Wage growth, with a slight increase in the number of employees increased the labour costs by a tenth, the total expenses grew at a somewhat slower pace. However, costs increased more than the revenues, which took the total profit to about a 5% decrease. Nevertheless, increasing the added value, one component of which, next to labour costs and depreciation, is the profit. At constant prices, the added value generated in the processing industry grew by 5.2%, i.e., much faster than in the Estonian economy as a whole. The costs in productivity indicators calculated on the basis of the added value were slightly below the year-ago levels, but both the sales revenue and the added value per employee and per hours increased.

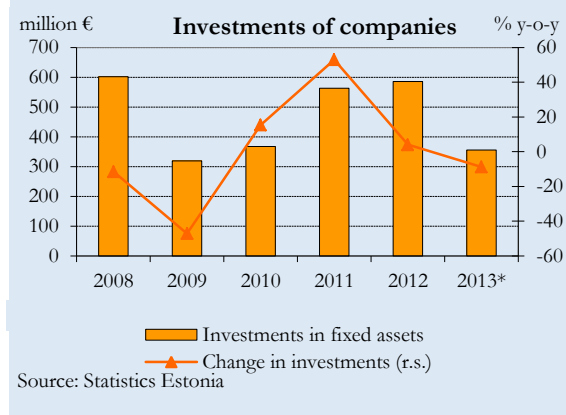
The companies of the processing industry invested in 2013 into tangible fixed assets almost by a tenth less than in the previous year. It was primarily related to the decline of the investments in the oil industry where, despite the continued decline in capital investment work, the new plant construction continued. Investments to the food industry decreased by one-tenth and even more to the engineering industry. In other sectors, investments into fixed assets predominantly increased. Most of the growth characterized were in the paper industry, manufacturing of metal products and the electronics industries. Two-thirds of the investments were made into machinery and equipment, which was slightly less than the year before. The volume of acquisition, construction and renovation of buildings remained at the level of a year ago.

The companies of the processing industry participating in the Estonian Institute of Economic

Research assessed the market situation much like in the year 2012. While demand remained below normal levels and inadequate demand was still a major problem in raising production, the production capacity utilization somewhat improved. At the beginning of the year 2014, the number of orders was still lower than normal. The pressure on the growth rate of sales prices was low, no major changes in staffing levels were predicted.

In the European Union in the year 2014 is expected a slight improvement in the situation. Out of Estonia's main trading partners, Latvia, Lithuania, Germany and Sweden have good prospects. The European Commission estimates that the economic growth of Finland will remain subdued. Also, the economic climate indicators have improved and are in line with the economic growth forecasts. Thus, the general economic environment is slightly more positive for the processing industry, while tensions between Ukraine and Russia have negative impact also on Estonian companies, particularly in the industries more dependent on eastern markets.



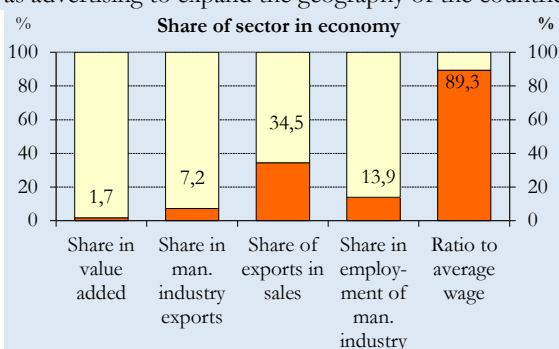


## Food and Beverage Production

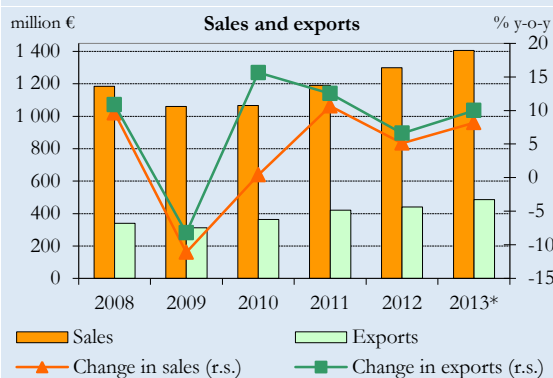
Food production is one of the largest industries in Estonia in terms of production volume. It is the main activity of more than 400 companies. Along with the increase of the competitiveness, the share of exports in the sector has reached more than one-third of the turnover. In total more than 14,000 people find applications in the production of food and beverages.

Food companies are located relatively evenly across Estonia. Among the larger companies of all of the Estonian regions are also food producing companies. The biggest company in the industry is the meat processing industry AS Rakvere Meat Processing Plant in Lääne-Viru County, Atria Group of southern Estonia and poultry meat producer AS Tallegg are slightly smaller. Major bakery industry companies are Fazer Eesti AS, AS Eesti Pagar and AS Leibur. The major food industry companies include manufacturers of beverages AS Saku Brewery in Harju County and AS A. Le Coq in Tartu County, out of the dairy industry are Valio Eesti AS and TERE AS. The largest fish processors are AS Paljassaare Kalatööstus and AS Spratfil located in Harju County. The largest producer of sweets is AS Kalev.

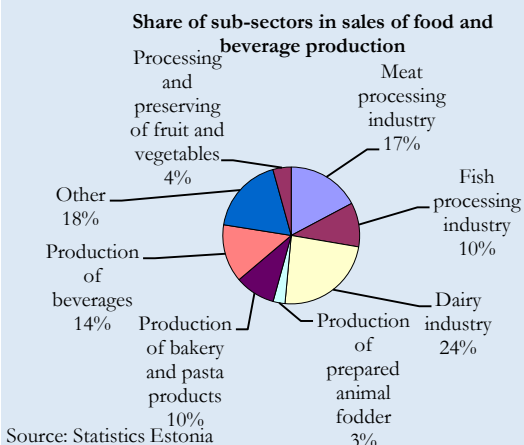
Production of food and beverages in Estonia is fairly competitive, which is why year after year the share of exports in sales revenue has increased. Although in the year 2013, the increase in food prices slowed down and consumption in the domestic market began to grow more rapidly, success in foreign markets remains important. Therefore, the companies of the sector must in the near future become increasingly more involved in product development as well as advertising to expand the geography of the countries of exports and increase sales.



Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia

**The year 2013 was quite successful in the production of food and beverages. Compared to a year earlier, accelerated sales growth was realized in both domestic as well as foreign markets.**

The food industry consists of two major sectors: food production and beverage production. The year 2013 proved to be successful in the food industry, beverage production growth remained modest due to the weakness in export markets. However, sales in the domestic market grew by 8% in the production of beverages, which was slightly faster than the growth of the food industry.

The rise in prices of the main commodities in the year 2013 mostly affected the dairy industry, where the buying-in price of milk rose by almost 13%. At the same time, the price increase in the meat industry slowed considerably. Beef and pork prices increased by 4% and 1.6%, respectively. However, the buying in price of sheep and goat meat cheapened by nearly 2%. In addition to raw materials, the growth of producer prices was affected also by other inputs such as energy and labour costs and, ultimately, producer prices increased by 4% in the food production and 8% in the beverage production.

In food production 37% of its production was exported and this percentage has grown year by year. In 2013, the exports of food and beverages produced in Estonia grew by 9%, reaching 560 million euro. The largest share of the sector's export belongs to dairy products, which accounted for 30% of total sector exports. The biggest export partner was Finland, to where were sold more than one-fifth of the production. However, as for the major trading partners, exports increased to Lithuania, Germany and Russia by about 20%. Main Lithuanian-directional growth came from the sale of dairy products, and the export of frozen fish to Germany became more successful.



In the dairy industry, which has the largest share in the food industry, production volumes returned to an increase after a relatively poor year in 2012. Sales volumes increased by 6% and the production volumes accounted for at constant prices increased by 4%. As for groups of goods, production of butter and other milk fats decreased by a quarter. At the same time, production of cream increased by 17% and the production of drinking milk increased by 2%. Cheese production did not change significantly over the year. Although production volumes increased, the efficiency of the sector decreased. Total profit of the sector decreased by more than a third and the productivity per employee decreased by over 10%, dropping below the Estonian average. Although the number of companies increased by three, the number of employees and the hours worked decreased by a few percent. While so far the main export product of the dairy industry was cheese, then in 2013 milk and cream rose to the first place, which together accounted for nearly half of the total exports of the sector. The exports of this group of goods grew by more than 45% in the year. Dairy export growth was significantly increased by the sales to the Lithuanian market. In summary, Lithuania was also the main export market of the whole sector. Also the Russian market increased significantly.

For the meat industry, the year 2013 was relatively calm. Production volumes declined by nearly three percent but sales rose slightly more than one percent. However, in contrast to the dairy industry, the labour productivity in the meat industry continued to rise and productivity per employee increased by slightly more than one tenth. The value added growth was helped to raise by the total corporate profits that increased by nearly a quarter. Despite the profit growth, the number of employees and the number of hours worked remained almost unchanged. The largest export markets in the meat industry are Latvia and Lithuania and the main export product groups are different sausages, cans and fresh or chilled pork.

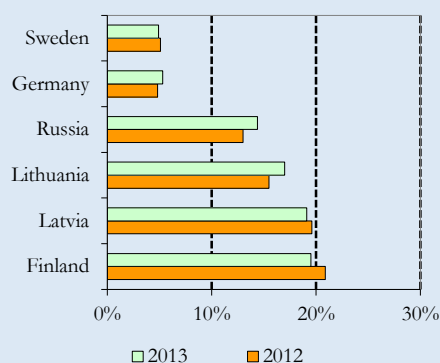
Beverage industry growth in 2013 was somewhat slowed and sales grew by 5%. At the same time, the volume of production calculated at constant prices declined by as much as 3.5%. The main problem for the beverage industry was the weakness of the foreign markets. As 8% more output was sold to the domestic market compared to a year earlier, the export volumes declined by nearly 4%. Total exports in the beverage industry was more than 50 million and Finland became the greatest target market, to where sales increased by nearly 60%. The second target market emerged in Poland, where sales increased by more than 10%, and predominantly due to good sales of malt beer. In the entire sector exports of beer and cider has increased and the segment of soft drinks has declined. Total beer sales in foreign markets provide nearly half of the total exports of the sector. In beverage production a rapid increase in labour costs resumed in 2013, which amounted to nearly 11%. Nonetheless, corporate

profits still rose by nearly 6%, and the productivity per employee also increased by a few percent.

For the manufacturers of bakery and pasta products, the year 2013 turned out to be fairly successful. The exports increased by more than a quarter boosted by the total sale by 7%. However, sales in the domestic market grew by only 3%. Employment in the sector did not change but the labour costs increased by more than a tenth and the total profit declined by more than a quarter. Therefore, the productivity of the sector remained at the same level with the previous year.

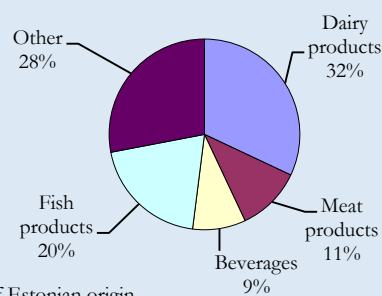
The fishing industry sales increased in 2013 by more than a tenth. Sales growth came from the export market, domestic sales declined by slightly more than one percent. Total sales in foreign markets represent more than three-quarters of the sector's sales. Major export goods were in the year 2013 frozen fish and shrimp, the main target markets of which were Germany and Russia. More fish products were exported to Finland and Ukraine. At the same time can be seen the decline in sales volumes to Russia which has been affected by the weakness of the rouble on the one hand, and by the various restrictions imposed by Russia on the other hand. These factors will probably remain affecting the export sector also in the year 2014.

Exports by main target countries



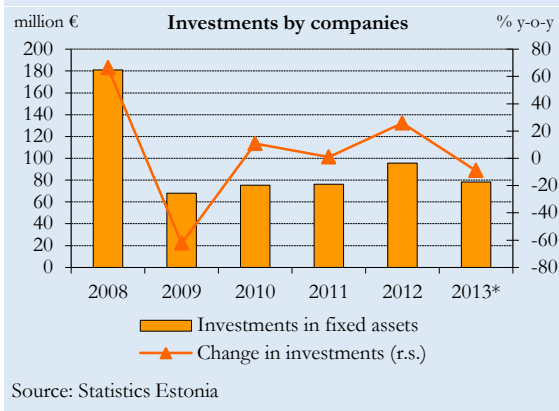
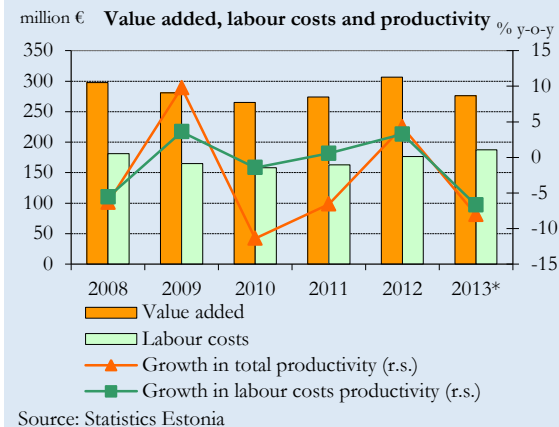
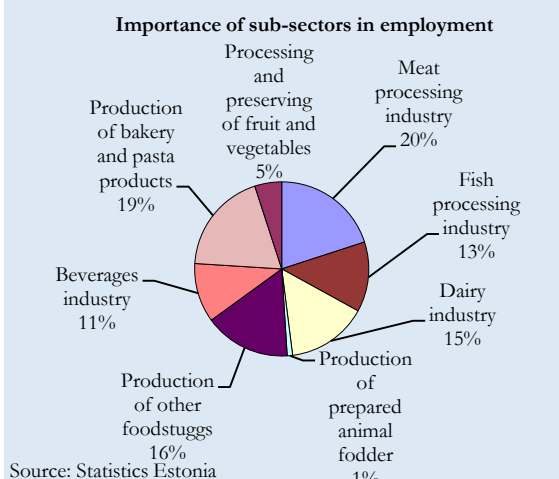
Source: Statistics Estonia

Main export product groups



Goods of Estonian origin  
Source: Statistics Estonia





The employment in the production of food and beverages increased in 2013 by a couple of percentage points. As to the larger sub-sectors, employment grew fastest in the production of other food products (+18%) and decreased in dairy production (-3%). Average wage growth in the food industry compared with the average in Estonia was slightly higher, reaching nearly 11%, but the wage was still lower than the average.

Producers of food and beverages invested in fixed assets in 2013 nearly one tenth less than the year before. More than half of the investments were made in machinery and equipment. Nearly one-fifth of the total investments were made by beverage producers.

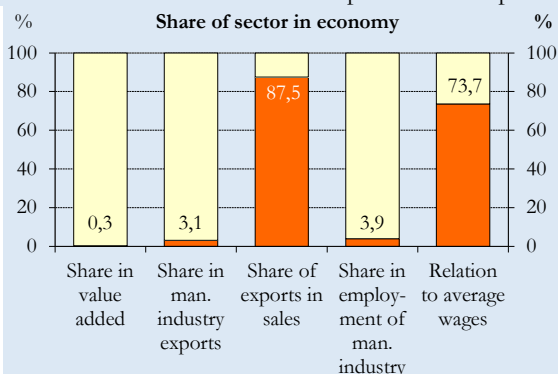
The companies surveyed by the Estonian Institute of Economic Research had a rather positive outlook for the spring of the year 2014. This is especially in the beverage industry. Operating capacity in both areas was higher than a year ago and insufficient demand was pointed out as a factor hampering the production.

## Manufacture of Textiles

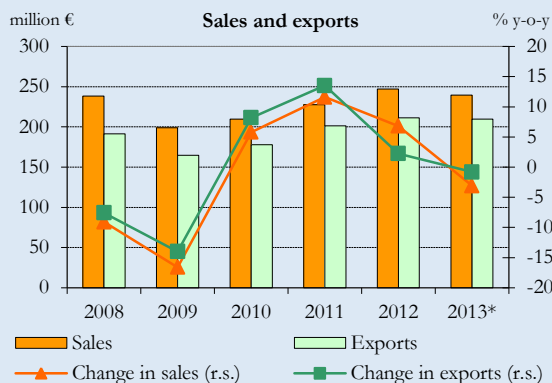
The Estonian textile industry is mainly an export-oriented industry, which includes more than 200 companies. In recent years, the structure of the sector has undergone major changes and this has helped labour productivity to rise from a very low level to a level already quite close to the Estonian average.

The large textile companies are located in many parts of Estonia. The largest manufacturer of finished textile products is AS Wendre in Pärnu County. Out of the home textile producers the largest are Mivar-Viva AS, AS Toom Textiles in Viljandi County and Hilding Anders Baltic AS in Harju County. Carpets and rugs are manufactured in Harju County by Mistra-Autex. The largest textile finisher is Qualitex AS in Pärnu County and the largest twine, rope and netting manufacturer is Saare Frydendahl OÜ in Saaremaa.

The centre of the textile industry of Estonia has in recent years moved from Narva to central and western Estonia. The range of products has also changed and the emphasis has shifted to the production of blankets and pillows. In addition, manufacturing of less classical textile products has increasingly enlarged, such as lifesaving equipment manufactured by OÜ Pakpoord. In the future, the product range is expected to further increase and the addition of various niche manufacturers is expected to take place.

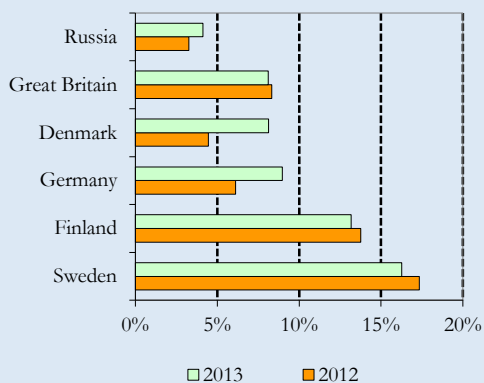


Source: Statistics Estonia



Source: Statistics Estonia

### Exports by main target countries



Source: Statistics Estonia

**The production volumes of the textile industry decreased in 2013 in constant prices nearly by 7%. The main factor was the weakness of the domestic market, where nearly 17% less products were sold compared to a year earlier. Export volumes changed little.**

The development of the Estonian textile industry has mainly depended on its competitiveness in foreign markets. The share of exports in the textile industry's sales has been high and in 2013, it reached 87.5%. At the same time, production is highly concentrated and the turnover of the sector's largest company is about four times larger than that of the next one.

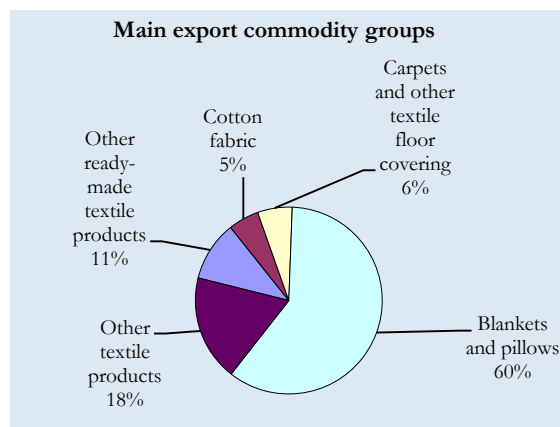
Textile industry companies exported in 2013 a total of 219 million euro, which was 6% more than the year before. In recent years, the share of the Nordic countries has gradually reduced. Less than 30% of production was sold last year to Finland and Sweden. As the third export target market emerged Germany, to where was sold nearly twice as many blankets and pillows than a year earlier. Significantly increased sales in the direction of Denmark, where carded wool was sold for more than 8 million euro, which comprised also the majority of the relevant exports. As to other major merchandise groups, in 2013 exports of lifejackets was almost doubled, which were sold to foreign markets for nearly 7 million euro.

The number of employees in the textile industry declined in 2013 by one percent. Also, wage growth was slightly faster than the Estonian average, ranging to 8.6%. Despite the rapid growth, the average salary of the sector accounted for just less than three-quarters of the Estonian average. Productivity indicators took a reverse direction in the textile industry in the year 2013. Labour productivity per person employed fell by nearly one tenth, despite the fact that it was already lower than the Estonian average. The main reason was the decline in corporate profits in more than a quarter.

The volume of investments in the textile industry continued its rapid growth, increasing by 25%, according to preliminary data. With the year increased

significantly investments in machinery and equipment and in acquisition of buildings. Out of total investments, machinery and equipment were nearly two-thirds of the total investments.

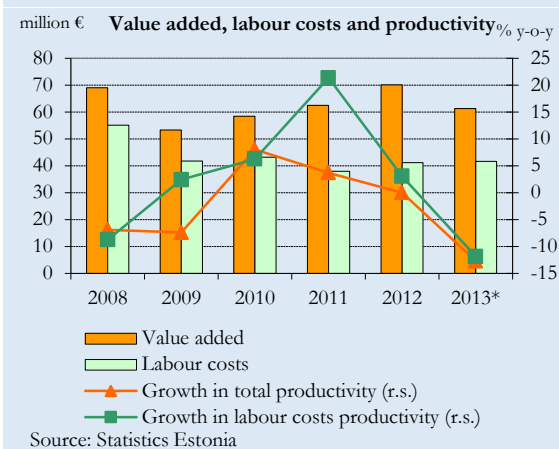
Estimates of the companies of textile industry were in spring 2014 significantly more positive than in the year before. Considerably better were the corporate ratings both for exports as well as for the total orders. At the same time more than a quarter of the companies in the sector pointed out labour shortages as production limitations, which was more than the industry average. At the same time insufficient demand in the textile industry was a smaller problem compared to the entire industry.



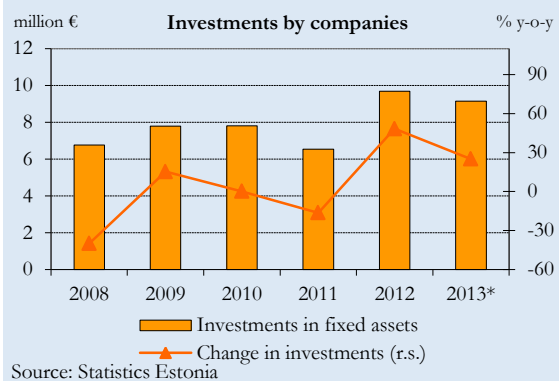
Goods of Estonian origin  
Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia



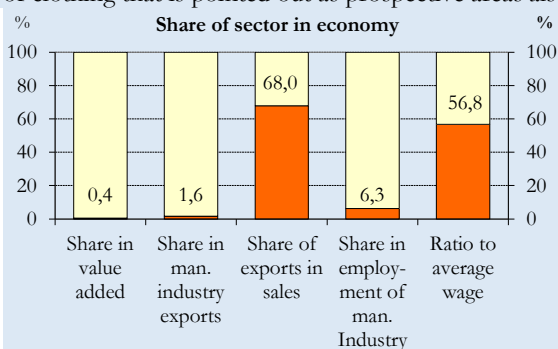
Source: Statistics Estonia

## Manufacture of Wearing Apparel

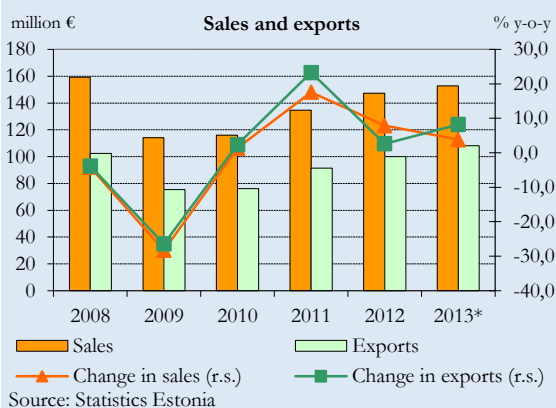
In the apparel industry in Estonia operate more than 400 companies and the sector provides employment for approximately 6,000 people. In recent years, the sector has undergone a number of changes, in less than a decade the number of people employed has fallen by more than two times and the output range has continually expanded.

Major manufacturers of wearing apparel are work wear industry enterprises OÜ PVMP-Ex in Haapsalu, AS SVARMIL in Ida-Viru County and AS Baltika and children's apparel manufacturer OÜ Lenne in Tallinn and enterprises in Tartu, AS Sangar and AS Ilves-Extra.

The sector average wage has shown that the industry is still contributing to the activities for which cheap labour is important. However, this model probably will not work much longer, as the average salary rises increasingly and the cheaper segments will definitely be run over by Asian producers. In the future, more successful will be those companies who are able to deliver products and services that are not only built on cheap labour but with a major component of the design and sales. In many areas of the clothing industry there are opportunities for expansion but will focus on increasing research and development activities. Examples include increasing the protective properties of clothing that is pointed out as prospective areas also by the European Union.

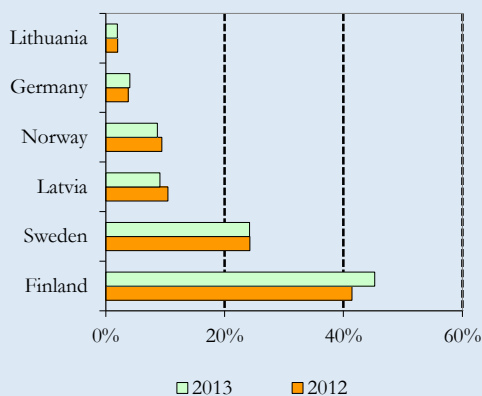


Source: Statistics Estonia



Source: Statistics Estonia

### Exports by main target countries



Source: Statistics Estonia

**In 2013 the clothing industry sales growth slowed slightly and sales volumes increased by approximately 4%. The engine for growth was exports, to the domestic market was sold almost 6% less output compared to a year earlier.**

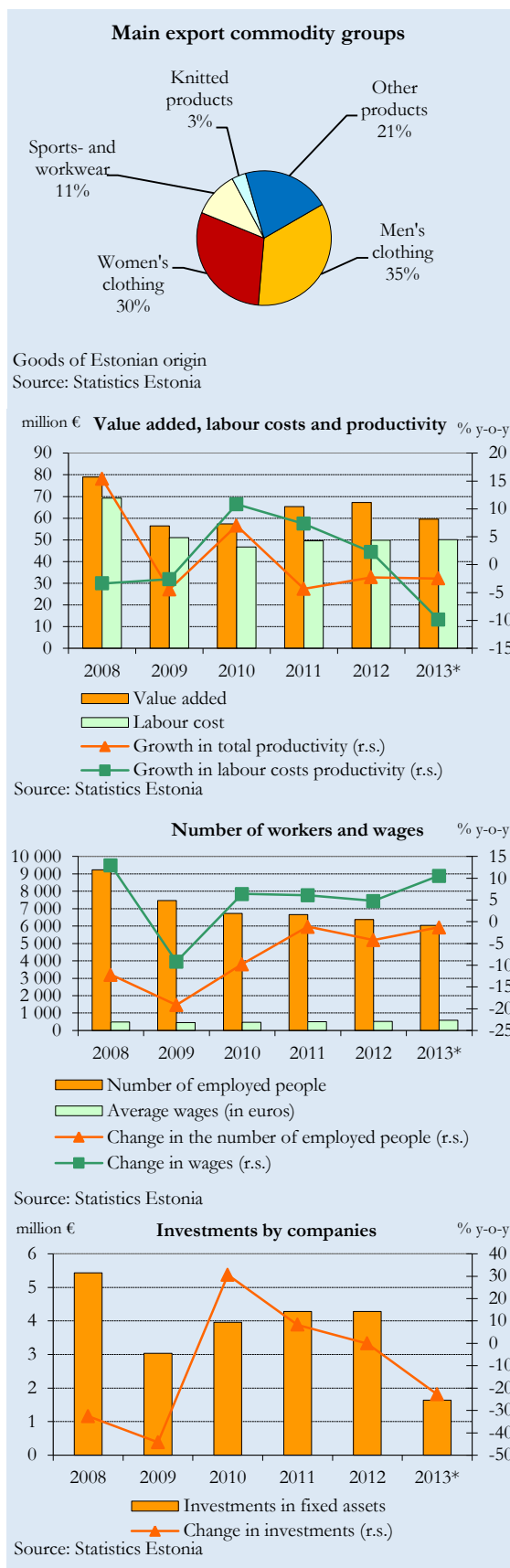
After relatively difficult crisis years, the clothing industry sales have turned to growth in recent years. The increasing sales export markets have an important part because the domestic market is small on the one hand, but on the other hand more foreign brands are entering the domestic market. In addition, the domestic market holds an increasingly important role, the spread of the use of foreign internet stores, which, despite the transport costs are often able to offer goods at very affordable prices, which is difficult for local producers to compete with.

In the year 2013, exports grew much faster than in the domestic market. Clothing industry output is directed primarily to foreign markets, where more than two-thirds of the products are sold. Out of the larger target markets sales are planned only to Finland, the other major export partners showed a decline. As to larger commodity groups the export of men's clothing increased slightly and the exports of women's clothing dropped slightly. The export of work wear that dropped severely a year earlier has also stabilized and even showed a few percentage increase in 2013.

In the apparel industry, the wage grew in 2013 the fastest among the processing industry, more than 10%. Despite the fact the wage level remained lower than in other sectors, accounting for only 57% of the Estonian average. However, the number of people employed fell by a percentage and the labour productivity remained almost unchanged compared to the prior year. Despite the rapid increase in labour costs, labour productivity growth was hampered by a fall of profits by almost one third. Investments in fixed assets fell in the apparel industry by nearly a quarter. The fall was caused by a decrease in investments in transport, as well as in machinery and

equipment. The largest share of investments were still in machinery and equipment giving more than two-thirds of the total investments.

The estimates of the companies surveyed by the Estonian Institute of Economic Research were in spring 2013 somewhat more negative about the near future than they had been the year before. A third of the respondents expected a decrease in output in the coming months. However, more than half of the companies brought out the low demand, as the main limiting factors for the growth and nearly a quarter had a labour shortage problem.

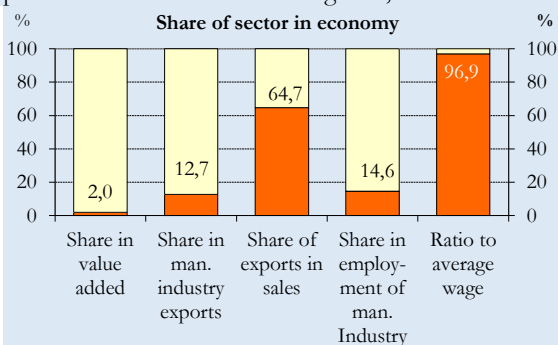


## Wood Processing

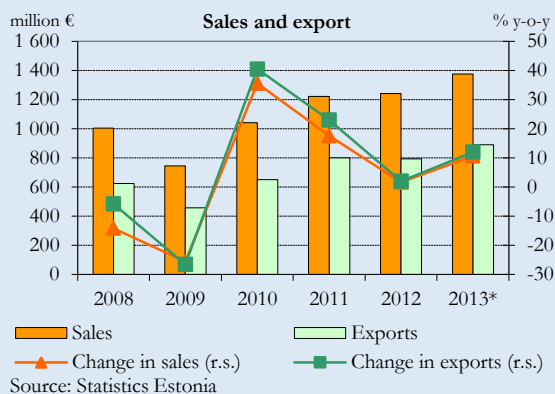
Wood is one of the most important natural resources in Estonia besides oil shale and makes a significant contribution to the balancing of foreign trade. The timber industry is one of the largest industries in Estonia. Nearly one thousand companies, employing more than 15,000 people are dealing with wood processing and manufacturing of wood products. Timely investments have ensured a high level of competitiveness of the sector in foreign markets, which in turn has produced a greater volume of production from year to year.

The timber industry has a wide range of products, from lumber production and processing to manufacturing of wood houses, windows and doors. Most sector workers are employed in JELD-WEN Eesti AS manufacturing wooden doors and windows, in Stora Enso AS manufacturing of sawn, planed timber and laminated beams, and AS Technomar & Adrem manufacturing parquet, packaging and cable drums. Other major companies that could be mentioned are AS Viljandi Aken ja Uks producing wooden doors, windows, shutters and their frames and veneer and plywood manufacturers UPM-Kymmene Otepää AS and Balti Spoon AS. Particleboard is manufactured by Repo Vabrikud AS and sand fibreboard by Skano Group AS. In terms of turnover can also be mentioned AS Toftan producing lumber in Võru County.

The timber industry is one of the sectors in which competitiveness has increased significantly in recent years and productivity in better companies does not remain below Finland. As a positive tendency may be mentioned the growth of the export of wooden houses, in which Estonia has already become the European Union's biggest exporter. In the future it would be necessary to further the search for new opportunities for higher value-added products in the categories, which would leave more added value to Estonia.

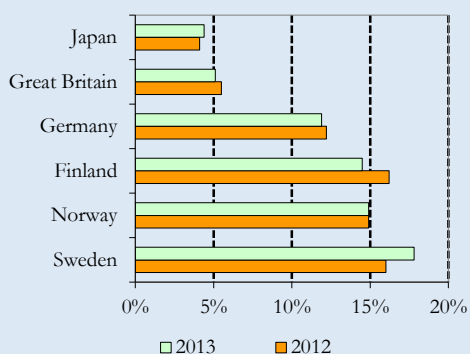


Source: Statistics Estonia



Source: Statistics Estonia

### Exports by main target countries



Source: Statistics Estonia

**The timber industry is characterized in 2013 by positive developments. Growth in exports and total sales sped up and the number of people employed in the sector increased**

When in 2012 the growth of the sector was driven by the domestic market, then the export growth in 2013 was higher. The global economy showed signs of recovery and this led to an increase in the market of the timber industry in different regions. At the same time, Estonia's economic growth slowed down considerably and some of contraction of the construction industry limited the demand for wood products. In total, the sales in the sector rose by 10.7% and the sales for export by 12%. At the same time, the output calculated at constant prices grew by 4.9%, mainly due to a strong second half of the year.

The commodity prices that had cheapened in the year 2012 began to rise again in the year 2013. The main price engines, according to the price statistics of the intermediate depot of the State Forest Management Centre, were pine and spruce log, both of which rose in price by 11%. In total, the main tree species rose in price on an average of 6%. The largest price decline was recorded in the price of a birch veneer log which cheapened by a tenth. Fuel wood price fell by 6%, and the price of wood chips mainly used for heating fell 15%. As the supply remained strong and the months at the end of the year were quite warm, demand remained somewhat weaker than in previous years. In total, the timber industry producer prices increased by 3.1%.

In 2013, the wage growth in the timber industry somewhat slowed down, remaining below the Estonian average. In total the wages in the sector rose by 5.3% compared to a year earlier. However, the increase in the number of people employed by the sector accelerated and employment grew by 6%. At the same time, the workload decreased slightly as the



number of hours worked by employees increased by 5.8%. Despite a lower workload, hourly productivity grew by 8.3%. The increase of sector profit by 13.5% and increase in labour costs by 15.2% led to an increase in value added per employee, which amounted to nearly 8% in annual comparison. However, both the operating cost and total productivity on the basis of the net value added decreased minimally.

The important aspect of the Estonian timber industry has always been exports, which makes up more than two-thirds of the total volume of sales and will be approaching one billion euro. The main export partners in the year 2013 were Sweden, Norway and Finland, to which went almost half of the total exports. At the same time, sales in the direction of Finland that had so far been at the top in terms of volume declined and Finland fell to the third place in terms of export partners. First ranked Sweden, to where a fifth more production was sold compared to a year earlier. The Latvian direction showed a continued strong growth where production was sold for a total of EUR 40 million, which was 44% more than the year before.

Out of larger commodity groups the segment of wooden houses continued strong growth, where exports grew by almost a tenth in the year and the main target market of which was still Norway. In total, houses for nearly 80 million euro were sold to Norway and compared to a year earlier, it was 11% more. More than 50% of the wooden houses than in the previous year were sold to Sweden, which lifted Sweden to the third place in terms of markets. In the same volume as timber houses, Estonia exports construction details (windows, doors, laminated timber, etc.) and their exports increased by 3.3%. The largest target markets for this product group are the Scandinavian countries and Japan, to which mainly laminated timber is sold. The largest growth of export in this product group occurred in the direction of Japan and France, 11% and 30% respectively.

According to preliminary data the investments of the timber industry shrank by 6% in the year 2013. However, on arrival of definitive data in many cases, in this sector investment volumes have been subsequently adjusted upwards. The largest decrease occurred in the construction and the reconstruction of buildings, to which occurred 18% less than in the previous year and nearly by half less was invested in transport. Investments in machinery and equipment increased by a few percent. At the same time the production capacity utilization rate rose during the first quarter of the year 2014 to 85.5%, which was five percentage points higher than the historical average, suggesting that should the demand stay on the same level, increase in investment activity can be expected in the near future.

The expectations of the entrepreneurs surveyed by the Estonian Institute of Economic Research in spring 2014 were significantly more positive

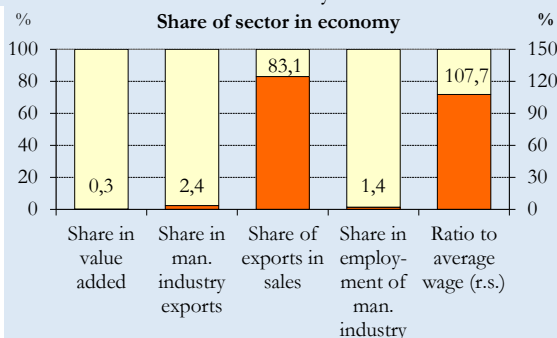
compared to the previous year. More than half of the surveyed companies expected output growth and no company suggested a decrease.



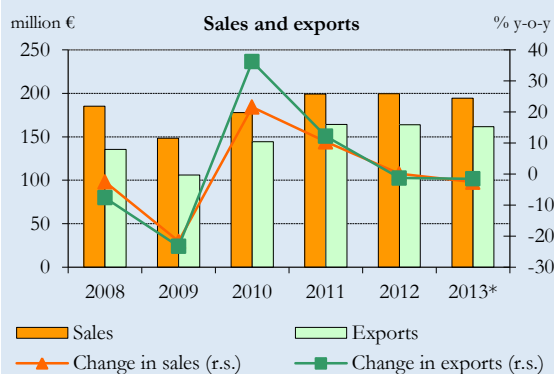
## Manufacture of Pulp, Paper and Paper Products

The paper industry has a long tradition in the Estonian economy and is a relatively consolidated industry. There are about 60 companies in Estonia manufacturing paper, pulp or paper products and employing about 1,400 people. The key output of the sector is export markets, in which are sold more than 80% of the production, the share of the domestic market has decreased year by year.

The sector's main players in Estonia are two companies: pulp producer AS Estonian Cell which made 65 million euro of turnover in the year 2013 and the paper and board manufacturer Horizon Pulp and Paper Ltd with the same magnitude of turnover. Together, they provide more than two-thirds of the sector's revenue. The competitiveness of both large companies, along with the competitiveness of the whole sector at large is largely dependent on foreign markets. Taking the energy intensity of the sector into account, one of the biggest problems of these enterprises is the energy price fluctuations and the producers who are able to lead the energy costs in the product price to the maximum lowest level are likely to be more successful.

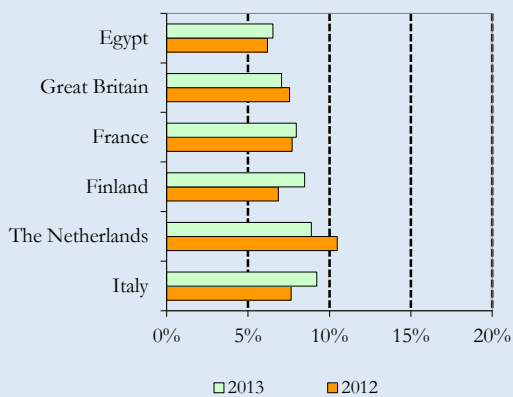


Source: Statistics Estonia



Source: Statistics Estonia

### Exports by main target countries



Source: Statistics Estonia

**In 2013, the sales volumes in the paper industry showed nearly a 3% decline. At the same time, the domestic market behaved somewhat stronger than the export markets.**

Although in the year 2013, the total sales in the paper market declined, production capacity, measured in constant prices, decreased half as much. In addition to some market weakness, the production volumes of the sector were also influenced by the outage caused by the renovations of Estonian Cell, which is why the company's production decreased by 5%.

The fate of Cell, one of the major corporations of the sector, has quite a significant effect on the results of the sector. For several years, the company has not been able to make a profit and therefore, as of the year 2013, the company had accumulated undistributed losses of 22 million euro. As one of the main problems with reaching profitability, the company points out the recent rapidly increased energy prices and the annual investments made despite the company's novelty. Currently is being conducted a 17 million euro investment program, under which in 2013 was deployed a new packing press.

In the paper industry 83% of the production goes for export. The largest export destination countries depend heavily on Estonian Cell's activities as the company's exports account for about 40% of the total exports of the branch. Italy rose to be the biggest export market instead of the Netherlands and the main reason was an increase in exports of wood pulp. Nearly a third of the paper industry's exports consisted mainly of uncoated Kraft paper and paperboard produced by Horizon Pulp and Paper Ltd the exports of which fell by 2% and the main target market was still Egypt. Nearly a tenth of exports were notebooks that went abroad by 8% less than the year before.

In 2013, the paper industry stood out as the industrial sector with the slowest wage growth. Although the average gross monthly salary of the sector was a few percentage points higher than the average of Estonia, the difference has decreased steadily in recent years. The number of employed in the paper industry remained almost unchanged last year and the total profits fell nearly 9%. At the same time, all indicators

of productivity worsened last year, to a greater or lesser extent. The reduction of both the income and labour costs in turn led to the decline in the total added value by around 5%. However, the added value per person employed in the sector was slightly higher than the Estonian average.

Investments in fixed assets increased by more than three times in the paper industry, mainly for machinery and equipment. Taking into account the fact that both large companies of the sector are also planning additional investments in the year 2014, it is likely that investment activity in the sector remains higher than average.

The companies of the paper industry surveyed in spring of the year 2014 by the Estonian Institute of Economic Research were much more positive about the future than they had been a year before. The level of operating capacity is at 83%, which was more than ten percentage points higher than the historical average. Moreover, half of the surveyed companies expected an increase in production volumes in the near term.

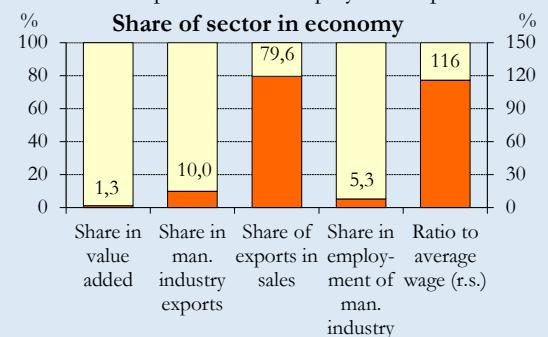


## Chemical Industry

A unique part of the Estonian chemical industry is oil-shale-based industry, the majority of the sector still account for other sub-sectors, such as engineering or applied chemistry. The smallest sub-sector (a few hundred employees) is the pharmaceutical industry. The chemical industry is a capital-intensive area of activity, increase of production levels has not resulted in a significant increase in the number of jobs. Despite the improvement in productivity, lagging behind the developed countries is still significant.

In Estonia operates one hundred companies of chemical industry. More than half of the chemical industry are located in Ida-Viru County, nearly one-third of the workforce is in Tallinn and Harju County. The largest companies of the chemical industry are VKG Oil AS, Kiviõli Keemiatööstuse OÜ and Eesti Energia Õlitööstus AS (production of shale oil), Akzo Nobel Baltics AS, AS Tikkurila and AS Eskaro (paints and varnishes), Molycorp Silmet AS (rare metals), AS Novotrade Invest (reprocessing of petroleum products), OÜ Krimelte and Henkel Makroflex AS (installation foams), Eastman Specialties AS (benzoic acid, sodium benzoate, plasticizers), AS Nitrofert (fertilizers, ammonia and urea), Orica Eesti OÜ (explosives) and AS Takeda Pharma (drugs).

Large investments in oil production create new jobs, but in general terms a significant increase in employment in the sector is not expected. Increase in production volumes in the future is based rather on increasing productivity. The need to increase the efficiency is due to the rising prices of production inputs; the increase in costs related to environmental protection also plays an important role in the chemical industry.

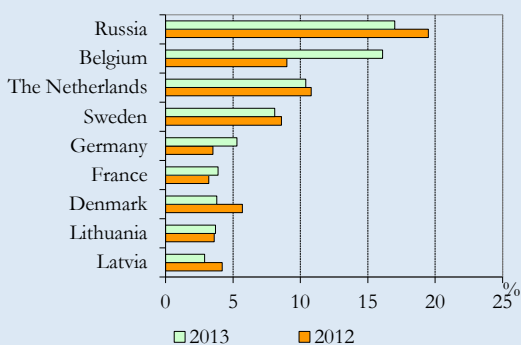


\* Manufacture of chemical products  
Source: Statistics Estonia



Source: Statistics Estonia

### Exports by main target countries



Source: Statistics Estonia

**In the chemical industry<sup>2</sup>, production increased in 2013 in all sub-branches. The fastest-growing was again the oil industry. However, the number of employed persons rose only slightly. The year 2014, however, began modestly for the sector, the demand was lower than usual.**

In the chemical industry in the year 2013 production volume grew by nearly one tenth. The largest growth characterized the oil industry and the pharmaceutical industry, but also in the production of chemical products the volume increased. The addition of production capacity has contributed to oil production. Production of chemical products was affected by the temporary restarting of Nitrofert. However, behind the growth of this branch were also other companies.

Sales growth was less than production, due to the reduction of prices in oil production. As shale oil price depends on the price of oil in the world market, therefore the profits of the companies did not increase despite the increase in production. In the manufacturing of chemical products, producer prices remained at the level of a year ago, although in the second half of the year there could also be seen some price decreases.

The sales were mainly affected by exports, but in the production of chemical products it was strongly supported by domestic demand. Shale oil sales, the sell-off volumes of which grew by two-thirds, helped to boost the exports, but financially it meant nearly half greater export earnings than in the year 2012. The export of urea and ammonia, which was not manufactured or sold in the previous year, also made

<sup>2</sup>Under this sector is covered, besides production of chemicals and chemical products (CEA 20) also the production of fuel oils (CEA 19) and manufacture of basic pharmaceutical products and pharmaceutical preparations (CEA 21).

a major contribution. Mastics exports remained stable. Poorer developments characterized rare earth metals.

As to export destination countries, sales to Russia remained stable (the main product being mastics). The share of Belgium heavily increased (shale oil), also towards the other major trading partners, the export growth was fairly rapid. Developments towards Denmark were in a more negative direction, but this was due to the redirection of shale oil.

The number of employed increased marginally in all sub-branches of the chemical industry (up to a few percent). Wage increases increased labour costs approximately 8%, it was more modest in production of chemical products. The growth of total cost, however, clearly surpassed the growth in labour costs and revenues increased in production of oil and in pharmaceutical industries. In both branches, profit fell more than twice compared to the year 2012. As previous profitability had been extraordinarily high, then despite a decrease in profit, in the year 2013, the profit margin of the oil production remained among the highest in all the industries.

Developments in the added value reflected the changes in the profits. When in the production of chemical products the situation was better, then in the other sub-branches there was a clear fall and it was reflected also in the productivity figures. However, the oil industry maintained its first place in the processing industry in terms of the added value per person employed.

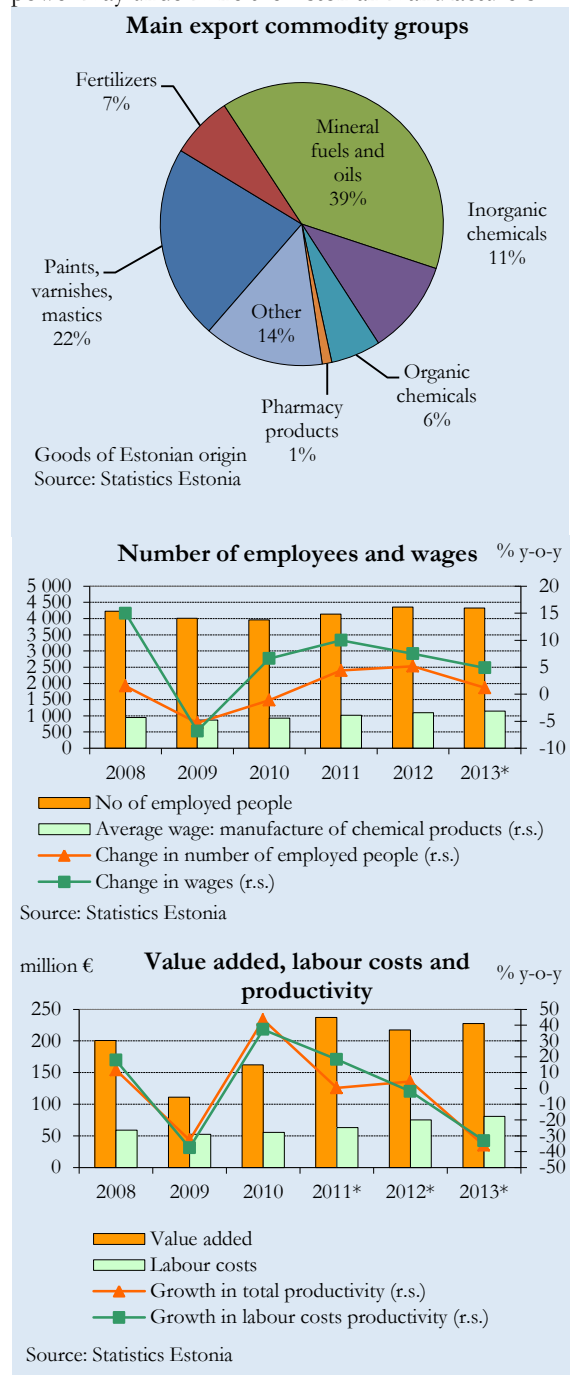
Investments in the chemical industry fell by half in the year 2013 according to preliminary data, primarily on account of oil manufacturing. While volumes decreased, then the last three years have seen an active expansion period for the oil industry and this has resulted in significantly larger investments than in the past. In 2013, the building of another new oil plant of VKG continued, in 2014 building of the third one was started.

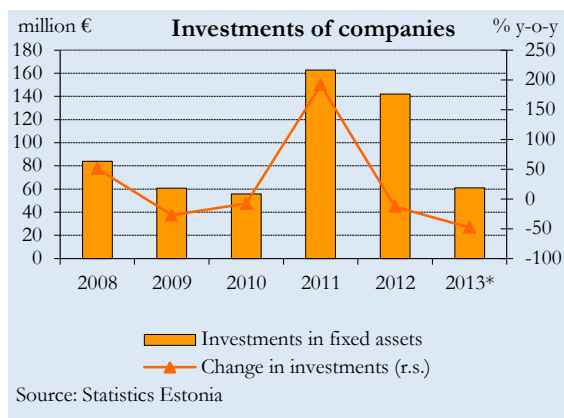
Investment declined also in the manufacture of chemical products. The chemical industry as a whole accounted for about 70% of investments in machinery and equipment and in this respect there was also the biggest setback. The volume of construction and renovation remained at the level of the previous year.

The producers of chemical products surveyed by the Estonian Institute of Economic Research evaluated the year 2013 somewhat more poorly than the year before. At the end of the year there could be spotted a decline in confidence, the main problem was a lack of demand.

Also, at the beginning of the year 2014, there were less orders than usual, many businesses forecast a decline in sales prices. In the second half of the year 2014 should be launched the new oil plant of VKG, also the plant of Eesti Energia has reached the start-

up phase, which is why continued growth can be expected in this area. The income of the companies are however affected by the price of oil, which has remained stable or declined slightly. Stoppage of Nitrofert negatively affects the production volume of chemical products that can however be offset by other companies. As for the chemical industry, Russia is quite an important market, the deterioration of Russia's economy and the decrease in purchasing power may undermine the Estonian manufacturers.



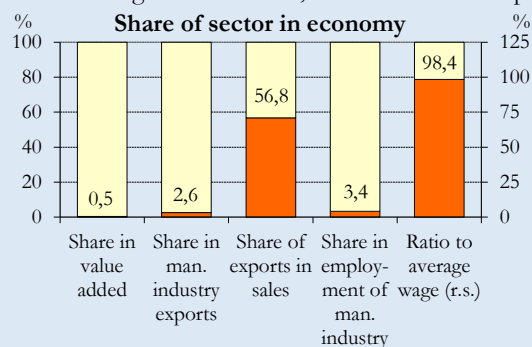




## Manufacturing of Rubber and Plastic Products

Rubber and plastic industry products are used in many areas - from the food industry (packaging) to the automotive or building materials. Estonian rubber and plastics industries account for nearly 200 mostly small and medium-sized companies. The larger companies are Pipelife Eesti AS (plastic pipes), AS Estiko-Plastar (plastic and plastic bags), AS Plasto (plastic windows), Promens AS, Talent Plastics Tallinn AS (plastic products for the automotive industry), Trelleborg Industrial Products Estonia OÜ (rubber and metal components for the automotive and machine industry), Greiner Packaging AS (plastic packaging), OÜ Merinvest (rubber o-rings, diaphragms) and AS Balteco (bathtubs). Larger companies are located in Tallinn and Harju County (half of the workforce) and in Tartu County (about 15% of the workforce), but a lot of workers are also in Hiiumaa and Saaremaa.

In the future, the rubber and plastics industry is expected to slightly increase the number of jobs. However, the production becomes more complex and more labour-intensive activities are replaced by machines. Mass production is now moving out of Estonia, businesses focused particularly on flexible and smaller lots have better prospects.



Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia

**In the rubber and plastics industry decline continued in the year 2013 in production volumes, this was offset by price increases. The year 2014 for the sector began in a slightly better way than the prior year, but the companies had modest expectations for future developments.**

In the rubber and plastics industry there was 3% less production in 2013 compared to a year earlier. Due to price increase sales remained at the level of a year ago. If the first half of the year, the increase in producer prices climbed nearly to 5%, in the second half of the year price increase stalled.

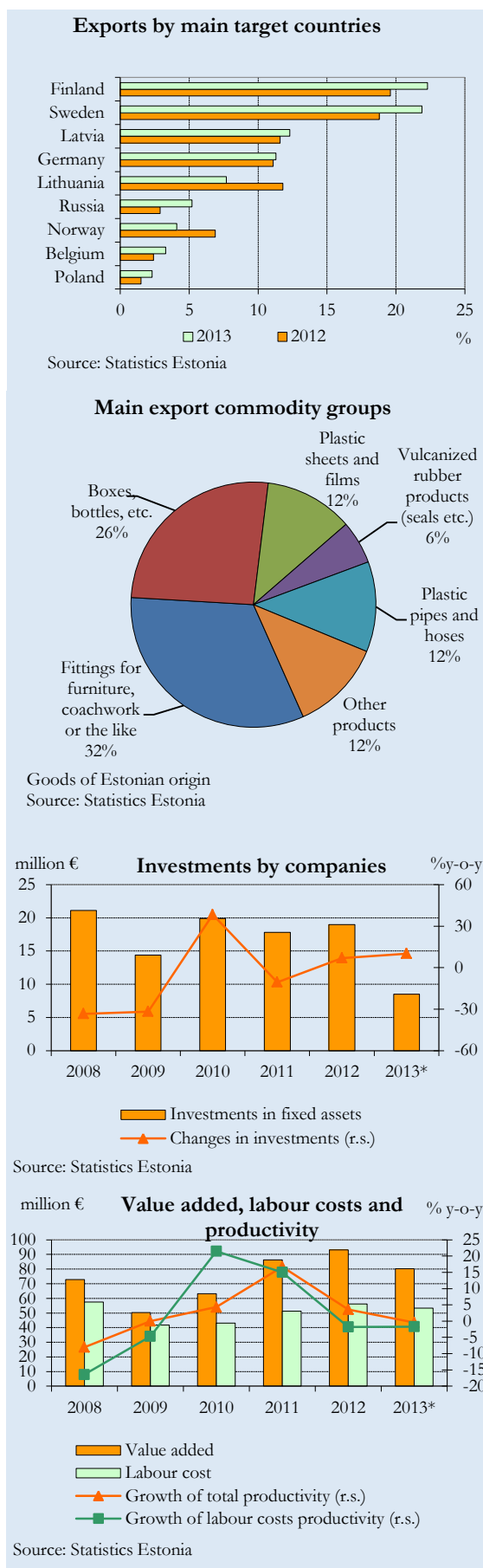
Exports decreased somewhat, but this was compensated by the growth in sales of the domestic market. The exports of main goods remained close to the level of a year ago. Sales in overseas markets grew regarding furniture and fittings for vehicles, however, exports of plastic sheets and films decreased. Sales to major markets remained at the previous year's level, or increased. Export volumes fell more in Lithuania (from the sale of boxes and cartons) and in Norway (plastic sheets and films, crabs and boxes).

The number of people employed in rubber and plastic industry increased by almost 4%, with a somewhat increased staff utilization, or the number of hours worked per employee. Wage increases were relatively modest, which helped to keep back the labour costs. However, labour costs rose faster than total costs. Change of income and expenditure was in balance and therefore profits remained at the previous year's level. Also, the productivity indicators remained steady.

According to preliminary data, investments in the rubber and plastics industry increased somewhat, but the final results can change greatly. Customarily, about 70% of investments were directed in machinery and equipment and this was mainly behind the increase of the capital investments.

The business confidence indicator was, in 2013, relatively low. Based on the study of the Estonian Institute of Economic Research, the problem was largely insufficient demand. At the beginning of the year 2014, there were less orders than usual and expectations for growth were modest. Production

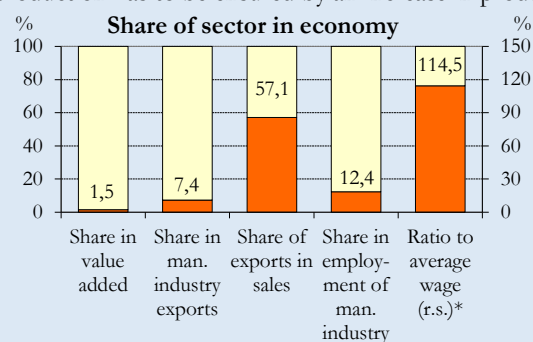
volume somewhat exceeded last year's level, but the comparison base was also quite modest.



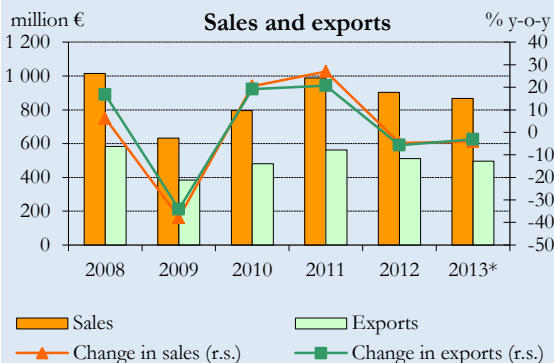
## Manufacture of Metals and Metal Products

The metals industry is related to several fields, such as manufacturing and construction of machinery and equipment. In Estonia, the metal industry employs more than 11 000 people, making it one of the largest industries after the food industry and the timber industry. The industry operates with more than one thousand companies. The metals industry is concentrated in Tallinn and its vicinity (more than half of the workforce), and Ida-Viru County (nearly one-fifth of the workforce). Larger companies are AS Kohimo, Fortaco Estonia AS, OÜ BLTY Marketex, AS Remeksi Keskus, AS E-Profile (metal structures), ArcelorMittal Tallinn OÜ (galvanized steel), Ruukki Ruukki Products AS, AS Saku Metall (building structures), AS HANZA Mechanics Tartu, AS FAVOR, AQ Lasertool OÜ, Metalliset Eesti AS (metalworking) and Metaprint AS (metal packaging manufacturing).

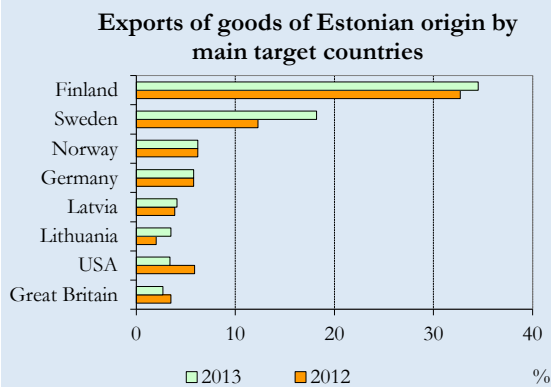
In the metal industry the growth in production volumes is expected to continue in the long term, the main engine being exports. However, a significant change in the number of people employed is not predicted, the increase in production has to be ensured by an increase in productivity.



\* Production of metal products  
Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia

**In the metal industry production declined in the year 2013, albeit more slowly than in the previous year. This was caused by the stopping of production of one large manufacturer. Expectations in relation to the developments for 2014 were modest.**

Metal industry enterprises produced in 2013 nearly 3% less compared to a year earlier, the decline characterized the manufacturing of both metals and metal products. The prices of manufacturing of metal products did not change significantly, the same with export and import prices, which is why the sales figures were moving at the same pace with production. A similar situation prevailed in both the export and domestic markets.

In exports, the sales of galvanized sheet steel fell the most. In September 2012, the Arcelor Mittal plant in Tallinn halted production, the cause that was brought out was too little demand and low steel prices in Europe. Also, the exports of the largest group of products (metal structures) fell. As to major trading partners, sales dropped to a greater extent to Finland and the United States, but grew to Sweden.

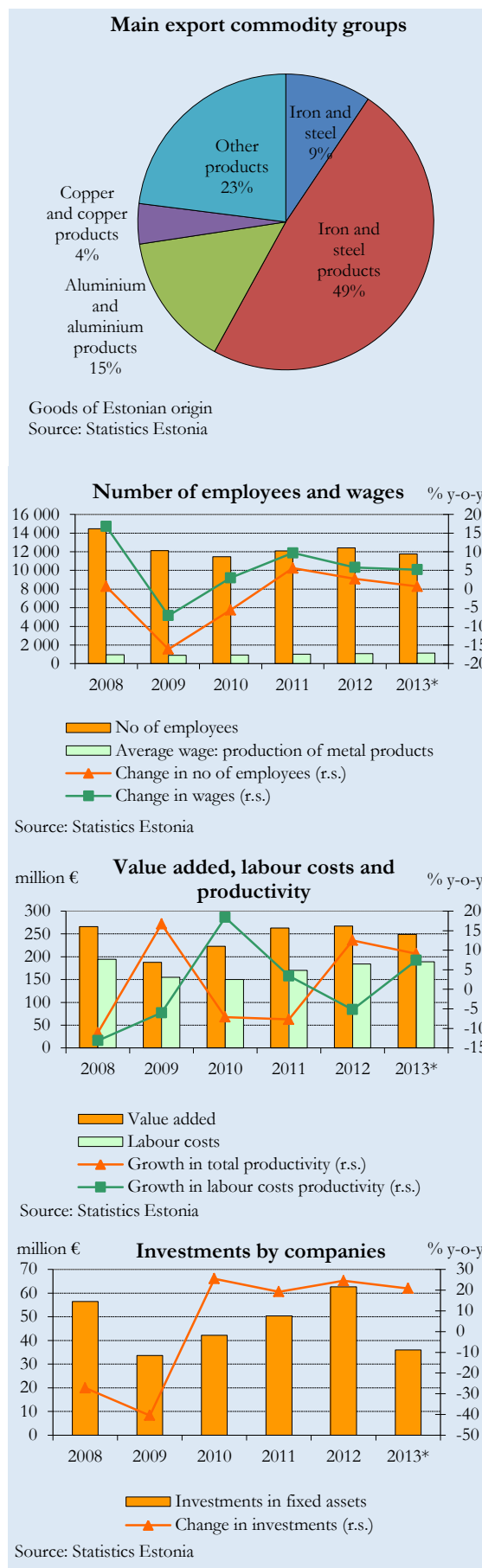
The number of employed in the metal industry did not change significantly, at the end of the year there was a slight setback. The number of hours worked somewhat increased. Wage growth remained below the average, reaching around 5%. In manufacturing of metal products, the average wage is one of the highest among the industries.

Revenue growth exceeded the increase in costs. Based on preliminary statistics, the sector earnings grew by half, so the profitability once again came close to the historical average. The added value increased, as well as productivity in the metal industry improved.

According to the flash estimate, investments increased in production of both metals and metal products but preliminary statistics only cover a part of all businesses. Two-thirds of the investments in

fixed assets were made in machinery and equipment, most of the rest of the investments were associated with construction.

On the estimates of the businesses surveyed by the Estonian Institute of Economic Research, the demand in the year 2013 was lower than usual. In addition, several companies have mentioned the problem of labour shortage. The beginning of the year 2014 did not bring a significant change, while the demand for labour increased slightly. Since the growth of the construction sector is not predicted, it also affects the manufacturers of building structures oriented towards the domestic market.

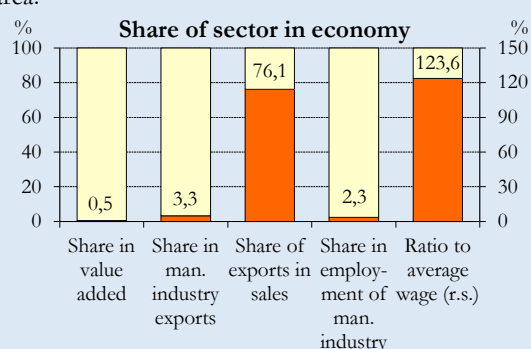


## Manufacture of Machinery and Equipment

The engineering industry production volumes increased at a rapid pace before the global economic crisis but the crisis heavily damaged producers of investment goods, including mechanical engineering. Today, the sector has recovered from the crisis in terms of volume of production, but growth has been achieved with fewer staff. Development of the machine industry is influenced mainly by external markets, the majority of the production is exported.

In Estonia operates around 150 small and medium-sized machinery and equipment manufacturers. The largest companies of machinery industry are AS Hekotek (woodworking equipment), AS Fors MW, OÜ Palmse Mehaanikakoda (forest trailers, log lifts), AS Sami (, construction hoists, forestry machinery), AS Finmec, AS "Rauameister" (handling and lifting equipment and parts thereof), OÜ JOT Estonia (manufacturing automation), AS Paide Masinatehas (various equipment for machinery industry) and Metos AS (industrial kitchen equipment). However, the sector is dominated by smaller companies. Larger companies are located in Tallinn and Harju County, but the machinery industry is represented in nearly every region of Estonia.

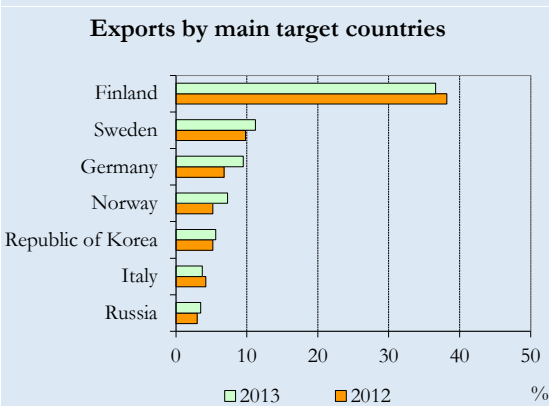
Both the machinery industry exports and domestic sales are projected to grow in the long term. Due to the higher ability of the sector to create added value, expected future increases could be in the number of employees in this area.



Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia

**The production and sales volume in the machinery industry fell in 2013, behind it was the decline in sales to foreign markets. Employment and financial indicators showed a better picture, but the final statistics can bring corrections. At the beginning of 2014, the assessments of the businesses were modest in terms of the developments in the near future.**

In the machinery industry production decreased in 2013 by 5%. Prices remained stable and, therefore, the volume of sales also fell by the same magnitude. Decline in sales led to a decline in exports, domestic sales remained steady.

From the major export markets, the sales fell the most in Finland, the picture regarding the other major countries was better. In case of Finland, the outcome was affected by the decline of the largest product group, lifting and handling equipment and parts thereof.

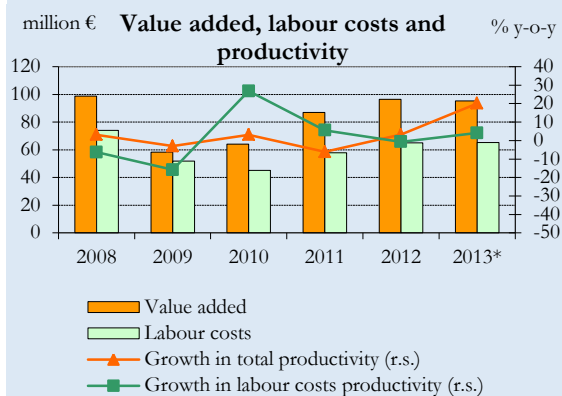
Despite the decrease in production volume, the STS showed that the number of employed in the machinery industry increased by nearly 5% (the number of hours worked increased slightly less). It should be taken into account that at a later adjustment the final data may vary quite a bit. The wages rose at the same pace with Estonia's average. In summary, labour costs increased by more than one tenth, but the total cost somewhat decreased. This contributed to earnings growth, as well as the added value increased faster than the number of people employed, costs and labour costs.

In the machine industry investments fell by one fifth according to the preliminary data, but the final estimate may give an entirely different picture of the situation, particularly given the very high reference base a year ago. More than half of the investments were placed in machinery and equipment, the other major areas were construction, reconstruction and transportation facilities.

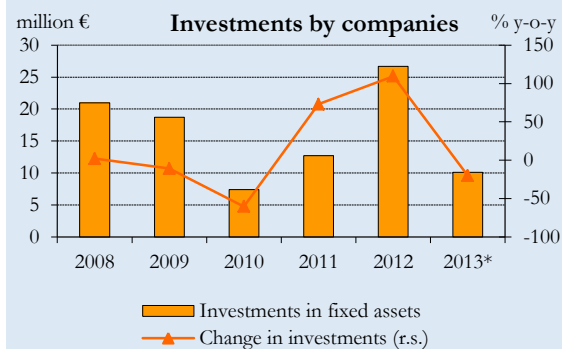
The confidence indicator drawn up by the Estonian Institute of Economic Research in the machinery industry was lower than in the year 2012. There were fewer orders than usual, including orders from foreign markets. The beginning of the year 2014 was similar to a year ago, regarding some parameters (the coverage of orders, production capacity utilization), the picture was slightly better, but the prospects of the near future are still assessed to be quite modest.



Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia



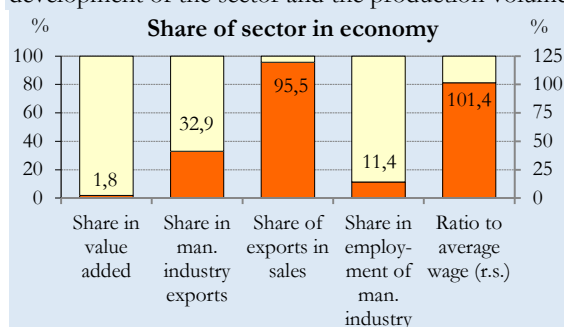
## Manufacture of Electronic and Electrical Equipment

Manufacture of electronic and electrical equipment has been one of the fastest developing industries in Estonia. The sales volume of businesses increased nearly five times in the period 2005-2013. The growth of production volume has been achieved with market penetration of new products with higher added value and with productivity growth. Employment has fluctuated over the years, but with the last eight years it has increased by only 9%. The sector is strongly oriented towards foreign markets since the majority of the largest companies are based on foreign capital. The manufacturing of electronic and electrical equipment operates nearly in 200 companies.

Manufacture of electronic and electrical equipment is characterised by geographical concentration in Tallinn and its vicinity, while it also significantly affects regional development. The electronics industry has been one of the biggest job creators in Saaremaa and Pärnu, Elva and Koeru.

Manufacture of electronic and electrical equipment is divided into two sub-branches. In manufacture of computers, electronic and optical equipment the largest enterprises are Ericsson Eesti AS (manufactures mobile network equipment), Enics Eesti AS (electronic components for industrial and medical devices) and Scanfil OÜ (telecommunications equipment) and the largest computer manufacturer is Ordi AS. In contrast to the industry's main direction, computers are sold mainly in the domestic market. In the manufacturing of electrical equipment, the largest company is ABB AS, whose main activity is production of the electricity distribution equipment and power generators. Other major companies are Ensto Ensek AS (electricity distribution equipment and control apparatuses), AS Konesko (electric motors and equipment) and AS Draka Keila Cables (cables).

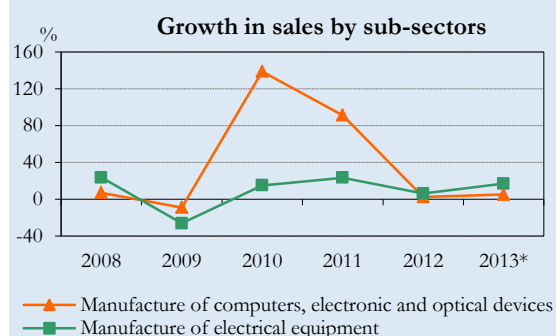
In the years 2010-2011 the manufacture of electronic and electrical equipment was in the fast rising phase. The worsening of the economic climate in external markets in the years 2012 and 2013 also negatively affected the development of the sector and the production volumes growth slowed significantly.



Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia

**Weakened foreign demand in the year 2013 did not let the companies in the electronic and electrical equipment sector significantly increase their production volumes, but the growth of sales including exports picked up slightly compared to the previous year. It also allowed the hiring of more employees.**

In 2013, the production volume at constant prices grew in the sector of electronic and electrical equipment by 8%, which was 3 percentage points more than in the previous year. Also, sales and export growth rates in current prices recovered somewhat, reaching 6-7%, respectively. Since 96% of industry sales accounted for exports and the export prices of electronics products for the whole year were declining and prices of the electrical equipment were at the same level, the increases came largely from the increase of volumes.

In 2013, three-quarters of the total sales in the electronics and electrical equipment sector were continually formed of the sale of manufacture of computers, electronic and optical equipment manufacturing and a quarter was formed of the manufacture of electricity production. If the main part (97%) of the industries production was exported, then in 2013 in the manufacture of electrical equipment the share of export rose by 7 percentage points and amounted to 89%.

In the manufacturing of computers, electronic and optical equipment, exports grew by 5%, which was one and a half percentage point's higher growth than in 2012. Strong sales in overseas markets in the first half of the year helped to accelerate the growth, but the weakening of external demand in the second half

of the year led exports to decline in the last quarter. In the exports of the branch, still the largest share belonged to mobile devices (84%), the sales of which to foreign markets increased by only 2%, due to the significant reduction in demand at the end of the year.

In electrical equipment manufacturing developments took place with increased momentum. Export growth accelerated to 17%, exceeding the previous year's figures by more than two times. Nearly one third of export of the branch accounted for power distribution devices, nearly one-fifth for transformers and static converters and more than one-tenth for insulated electric wires and cables. However, the electric equipment sales in the domestic market declined by 30%, which lowered the total branch sales growth to 9%.

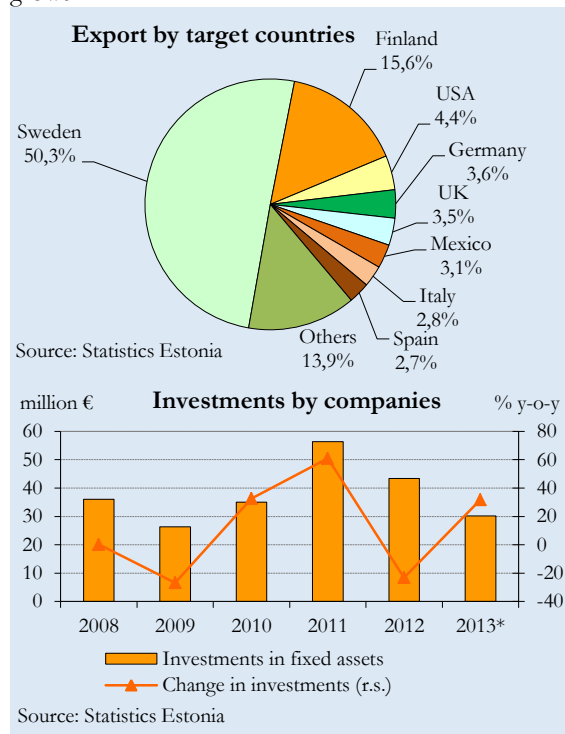
In 2013, Sweden continued to be the biggest market in the electronic and electrical products export to which went half of the sector's total exports. Sales growth to Sweden accelerated to 10%, which was three times higher than the previous year's figure. Out of Sweden's exports 85% accounted for mobile devices, their exports increased by more than one tenth. Other major export items were power distribution equipment and electric wires used in telecommunications. The exports to Finland, in 2013 did not go over as well as the previous year, exports decreased by 5%. Mostly electrical devices were sold in Finland, which led to the decline in total exports. A larger volume of goods were power distribution units, static converters and parts of electric motors and generators. In the top five target markets, exports decreased the most (by a quarter) to the United States, behind which was a significant decrease in demand for mobile devices. Also, exports to Germany was in a slight decline. More mobile devices power distribution devices and AC generators were sold to the German market. As a new country the United Kingdom rose to the forefront of the sector's exports, to where sales of mobile devices grew by leaps and bounds.

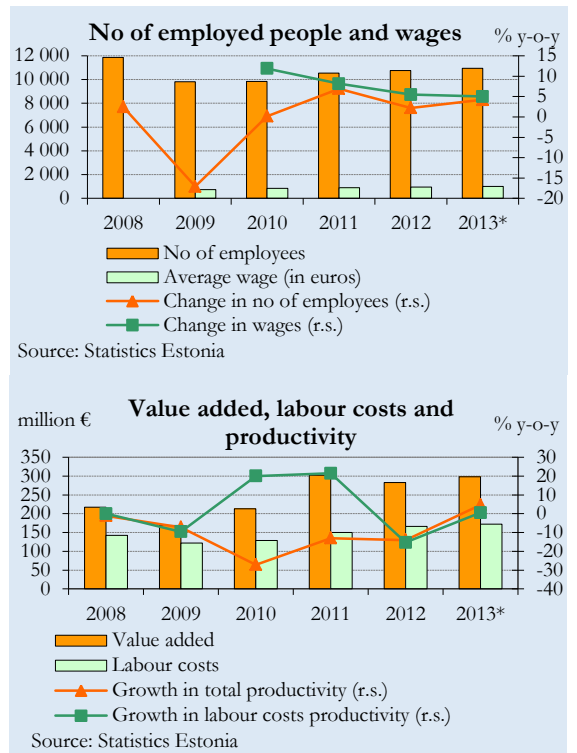
In terms of increased production volumes, the number of employees in the manufacture of electronic and electrical equipment increased in 2013 moderately by 4% according to the business statistics. According to the Labour Force Survey, the number of workers in the sector grew by an even one tenth. Wage growth was as rapid as in the previous year (5%) and the average salary in the branch was 1,006 euro, still outperforming the average salary in Estonia. It was possible to raise wages due to growth in the added value per employee by about one tenth. Also, the added value of productivity indicators turned to a small increase after the strong decline last year.

After a weak investment year in 2012 investments in tangible fixed assets in the manufacture of electronic and electrical equipment in 2013 grew according to

preliminary data, nearly by one third. Strong growth in both sub-branches respectively, 38% and 23%. Three-quarters of the investments went into machinery and equipment, the volume of which increased by nearly one quarter. Of the total investments, 17% was allocated to buildings and facilities, 5% to the acquisition of land and a total of 3% to purchase of means of transport computers to purchase. Between sub-branches, investments were distributed respectively, 62% and 38%.

In the first quarter of the year 2014, manufacture of electronic and electrical equipment did not go particularly well. The sector's sales volume decreased by one tenth compared to the same period last year. However, behind this decline was only the manufacture of electronic and optical equipment, regarding which also the comparison base of the year ago was high. Sales of electrical equipment manufacturing showed a slight increase. The confidence of the businesses of both sub-branches participated in the study of the Estonian Institute of Economic Research for March remained still negative, but was already significantly higher than three months ago. When the electronics industry companies forecast output growth for the next three months, the electrical equipment manufacturers were expecting the volume to remain unchanged. The vast majority of them did not intend to change the number of employees. In the opinion of the businesses of both branches the only obstacle to the growth was the insufficient demand for output growth.



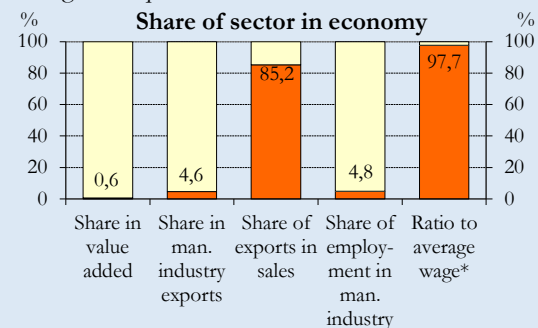


## Manufacturing Means of Transport

Manufacturing means of transport depends mainly on foreign demand, the majority of industry sales is accounted for exports. As a result of the economic crisis sales to both the domestic market and exports fell heavily but this was followed by a rapid recovery.

Vehicle manufacturing companies number more than one hundred in Estonia. The largest are AS Norma (automotive safety systems, seat belts), PKC Eesti AS (wiring harnesses for the automotive industry), Stoneridge Electronics AS (electronics devices for the automotive industry), AS Respo Haagised and AS Bestnet (trailers) OÜ Tarmetec (car accessories), Universal Industries OÜ (silencers) Baltic Workboats AS (aluminum boats), AS Luksusjaht (plastic yachts and launches), Loksa Saevatehase AS (boats and floating structures). Many shipbuilding and repair companies are reflected under the activity of machinery and equipment repair, for example, several subsidiaries of BLRT Grupp AS. Larger companies are concentrated mainly in Tallinn and Harju County (three-quarters of the sector's workforce), in addition are emerging Tartu County and Saaremaa.

According to the long-term strong forecasts for future sales volumes will be driven up by export, the role of domestic market is modest. Behind the growth in production volumes is the increase in productivity, since there is a shortage of a qualified labour force and labour cost increases turn the focus on more expensive products.



\* Production of motor vehicles and trailers  
Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia

**Manufacturing means of transport increased in the year 2013 marginally. The number of employed rose and more investments were made than the previous year. The beginning of the year 2014 was slightly better for the sector than the previous year at the same time.**

Manufacture of both motor vehicles (parts) and other means of transport increased by approximately 3%. Sales volume grew more modestly, especially due to the reduction of the export of other means of transport.

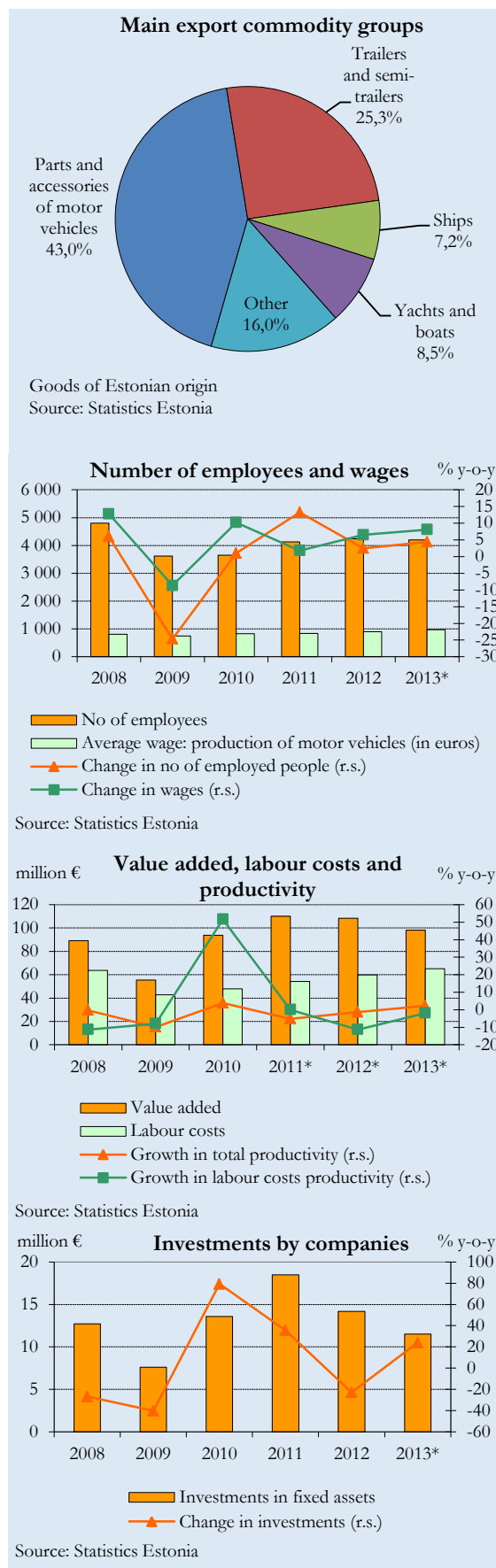
Out of main export commodities, the sales of seat belts declined. Exports of maritime vessels and motorboats was more successful, somewhat more trailers were sold in foreign markets than in the year 2012. The decline in seatbelt sales heavily influenced exports to Russia and this was also reflected in the direction of Sweden and Belgium. Across the countries the picture gets tangled by seat exports, which should cover the seats used in vehicles, but in the reality seats are exported in large volumes for other purposes. Therefore, the statistics across countries does not reflect the situation regarding means of transport correctly.

In the manufacture of both motor vehicles and other means of transport the number of employed increased by approximately 4%. The wages rose at the same pace with Estonia's average. Labour costs rose faster than other costs. In motor vehicle production decreased profits, but equally, they increased in the production of other means of transport, which increased the profitability levels back to normal. Similarly improved productivity in manufacture of other means of transport, but on the side of motor vehicles and trailers a step backwards took place.

Manufacturers of motor vehicles and trailers invested in tangible fixed assets significantly more than in the year 2012. Also, in manufacture of other means of

transport, investments increased according to the preliminary data, but the year 2013 data does not contain all quarters. Three-quarters of the investments went into machinery and equipment, the rest mainly into construction and reconstruction.

The year 2014 began a little better than the previous year for the manufacturers of motor vehicles, trailers and other vehicles parts. The European car market is expected to increase their production and the first months have indeed affirmed it. The situation was worse with other means of transport, but the monthly figures does show grand fluctuations.

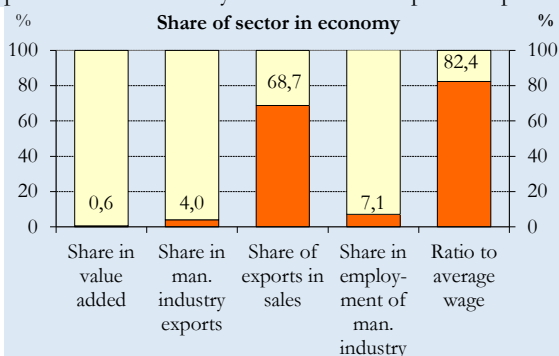


## Manufacture of Furniture

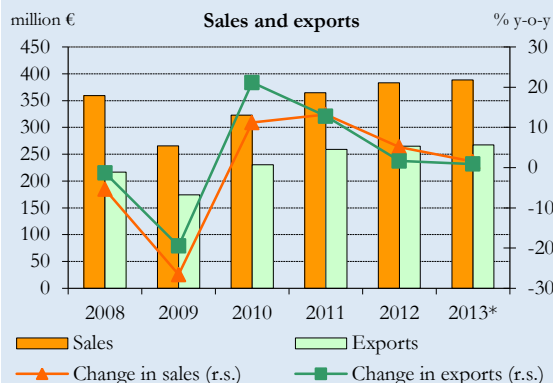
There are about 600 companies in Estonia manufacturing furniture and employing about 7500 people. The furniture industry is a sector with long traditions where the number of companies in the last three years has continued to grow. Mainly these are micro-enterprises, which are important employers in rural areas, but in the sector also operate three major companies with more than 250 employees.

The larger furniture industries in terms of number of employees are located mainly in North and South Estonia. Major furniture manufacturers in 2013 were upholstered furniture manufacturer AS Bellus Furniture, office furniture manufacturer AS Standard, furniture components manufacturer Flexa Eesti AS and wooden furniture manufacturer Valga Gomab Mööbel AS.

In the year 2013 the furniture industry was dominated by stagnation. In the future, greater success will accompany those companies that do not only rely on cheap labour, but are able to offer something more. Design is definitely one area that needs to be strongly developed. Also, furniture made of cheaper raw materials can be sold for a higher price if it looks showy or beats the competitors' products in terms of the ease of use.

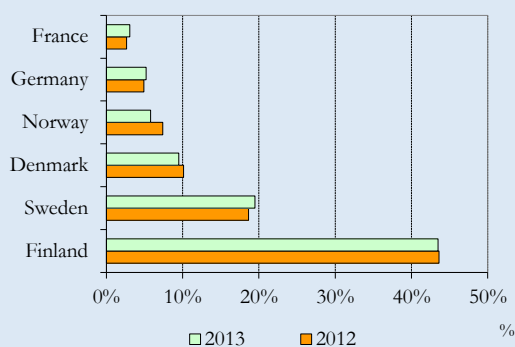


Source: Statistics Estonia



Source: Statistics Estonia

### Exports by main target countries



Source: Statistics Estonia

**The year 2013 was relatively stable for the furniture industry of Estonia. Both total sales and exports grew by about one percent compared to the previous year. The output at constant prices decreased by more than 2% with the year.**

Although production volumes decreased producer prices rose by more than one percent. Increase of prices was contributed to by the increase in energy prices on the one hand, but on the other hand there was a problem with the increase in the price of labour, as in a number of smaller company's labour costs have a significant share of total cost.

In production of furniture competing successfully in foreign markets is important. More than two-thirds of the production is for export but in 2013 this proportion fell as sales in the domestic market increased by about three times faster than exports. The main target countries are the Nordic countries where in the year 2013 went 78% of total sector exports. The proportion of North Europe continued to decrease and the proportion of more distant countries increased. For example, the proportion of China in exports has increased to close to 3%, behind only slightly less than to Lithuania. Out of larger groups of goods, exports of seats fell by nearly 8%.

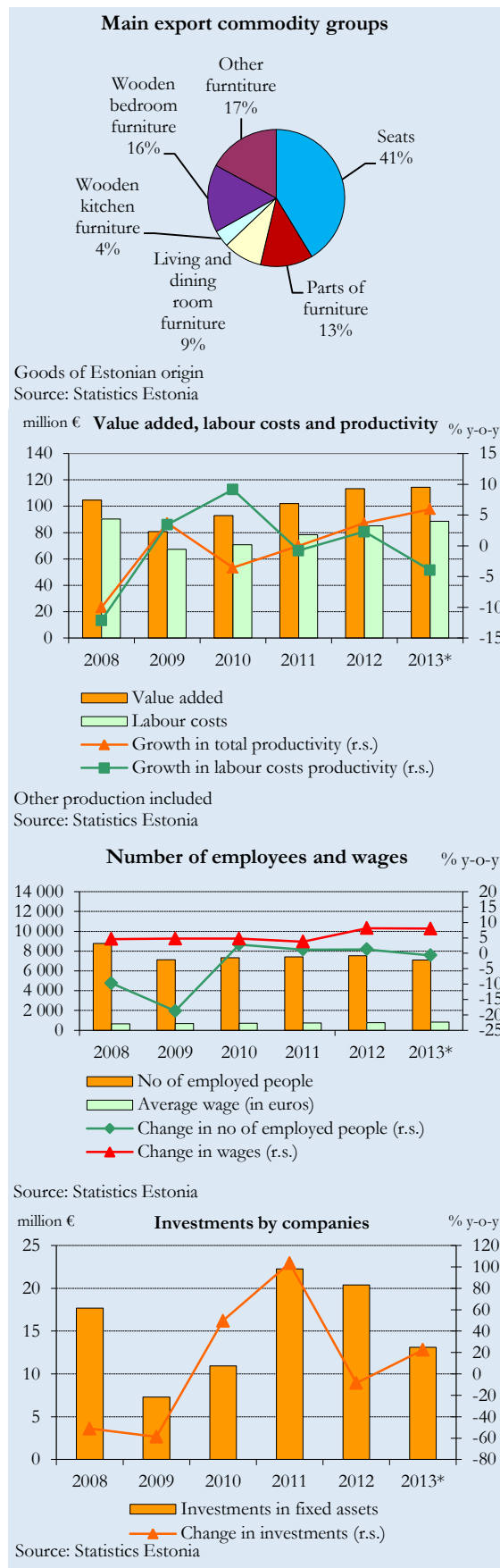
In the year 2013 employment in the furniture industry declined by less than a percentage and the salary growth was slightly faster than the national average. Strong wage growth led to a rapid increase in labour costs, which despite a decrease in profits contributed to an increase of productivity per employee by a couple of percentage points. However, the indicators taking into account the costs of labour productivity fell. As the hours worked decreased by 3%, the hourly productivity calculated on the basis of added value rose more than 5%. Nevertheless, the labour productivity in this sector is by more than a fifth lower than the Estonian average.

Investment activity in the furniture industry rose according to the preliminary data in 2013 by nearly a quarter. A year earlier, investments had decreased by 8% but in the view of the increase of competitiveness, increase of investments was vital.



The engine of the growth was the construction and reconstruction of buildings, into which five times more was invested compared to the previous year. However, one fifth less resources were invested into the machinery and equipment that has the largest share in the total amount.

The survey of the Estonian Institute of Economic Research showed that in spring 2014, furniture manufacturing companies were significantly less confident than a year ago in the same period. Both exports and total orders were lower than normal and half of companies planned to reduce the number of employees. Similarly, the capacity utilization levels remained below the long term average.

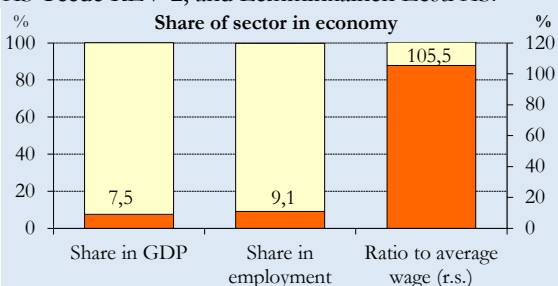


## Construction Sector

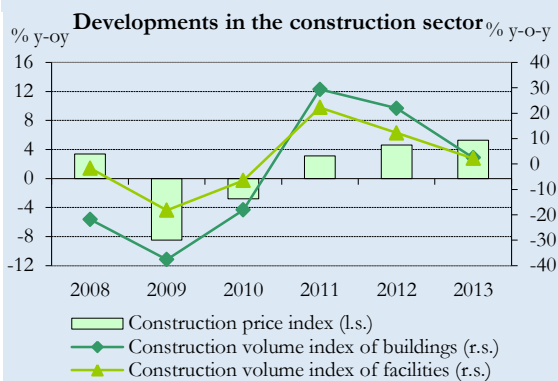
Estonia's construction industry has largely been oriented to the internal market and therefore, its development is closely linked to overall economic development. During the years of economic recession the export of the construction sector also picked up. Although construction responds to changes in the economy with inertia, the speed of recovery of confidence and hence of the market is significantly lower than the market shrinkage and changes in other sectors of the economy. Investments in real estate are often postponed during uncertain times. In economically good times volumes are growing faster and on the slowdown of economy, the construction volumes decrease significantly. The economic crisis affected very strongly the economic performance of the construction sector and the dependent areas such as spatial planning, design, real estate development, etc.

An increase in volumes of structural funds and the work financed from them can be expected from the year of 2015. Although the amounts coming from the structural funds into the construction sector are reduced slightly, this should be offset by the growth of self-financing by the vendors. The construction sector is likely to keep increasing slightly in the next funding period.

In Estonia operates more than 8,000 construction companies, of whom 90% are micro enterprises with less than 10 employees. Larger companies carrying out general building works in Estonia are OÜ Astlanda Ehitus, AS Maru Ehitus, AS YIT Ehitus and AS Ehitusfirma Rand and Tuulberg. In 2013, Skanska AS, one of the largest general construction companies to date, announced that it would complete the last works in 2014 in Estonia and leave the market. In road building, a greater contribution comes from AS MERKO EHITUS, Nordecon AS, AS TREF, AS Teede REV-2, and Lemminkäinen Eesti AS.



Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia

In the year 2013, the construction sector was still low compared to the pre-crisis years, but had continued to see signs of improvement in most indicators, particularly in construction volume

indices of buildings and facilities and in wages and productivity. However, the improvement has been largely stimulated by different state support measures which in 2013 ended or shrank. Return of state's orders in the construction industry can be expected only in 2015, when the structural funds of the new periods open. The number of building permits issued for construction of residential buildings remained essentially unchanged compared with the previous year. The number of building permits issued for construction of non-residential buildings fell, reflecting a quiet withdrawal of the construction market activity. The rating of the confidence and outlook of building market operators in the year 2013, particularly in the second half, was more negative than in the year 2012, but by the spring of the year 2014, the situation of a year before had been restored.

In 2013 the Estonian construction companies built, for a total of 3.26 billion euro, which was 8% higher than the previous year. Construction work was carried out in Estonia for 3.05 billion euro and in foreign countries for 0.22 billion euro. For a total of 2.20 billion was built using the companies own resources, while regarding the rest, subcontracting was used. The volume of the construction works carried out in Estonia increased by 10% compared to the year 2012, while the volume of construction works done abroad decreased by 16.8%.

According to STS, in 2013 in the construction market operated a total of 6,322 companies, which was about 500 less than a year ago. This, however, does not cover all companies and the final number may vary greatly. The number of employed in the construction sector did not change significantly. Decrease in the number of companies may be due to merging of companies specializing in small segments of work. The financial indicators of construction companies

characterized in the year 2013 mostly showed better results. Profits were earned for a total of 272 million euro, which was 6% more than in the year 2012. Total productivity on the basis of net added value decreased by 0.5%, but labour productivity grew by 6.7%. Value added in the construction sector rose by 7%.

Investment activity in the construction market slowed down in 2013 compared to the year 2012. A small slowdown can be expected under the conditions of the drop in the major state's projects, especially when taking into account the fact that in the year 2012, investments had, after several years of recession, undergone a leap of growth. Investments in tangible fixed assets in the construction sector decreased by 22% compared to the year 2012. A similar decline in volumes also took place in investments of buildings, a decrease of 23% compared to last year's levels, investment for the construction and reconstruction, however, decreased by 70%. Similar to the above-mentioned areas investment into means of transport were also cut by construction companies by 30%. However, investments for purchase of machinery and equipment and for supplementing or updating computer systems grew by respectively, 14% and 7%. The largest increase took place in investments for the acquisition of land, which increased by 1.6 times compared to the previous year.

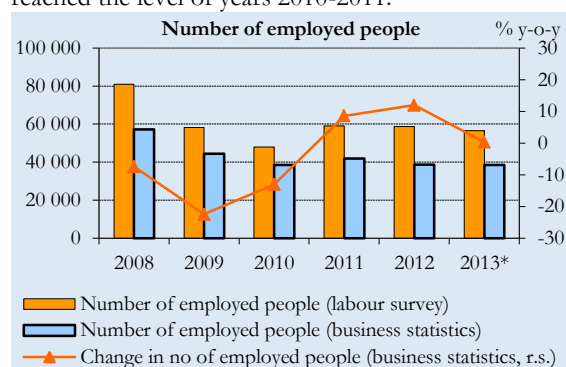
According to a workforce survey, in 2013 in the construction industry worked a total of 56,600 people, representing a slight decrease compared to the year 2012, but the general level was equal to the last year's level and, therefore, continually lower than the number of persons found employment in the construction sector prior to the economic boom. As a result of the massive workforce drain from the construction sector during the recession following the boom, from which the sector is still recovering until today, the construction industry remained in 2013 the third largest sector of the economy in terms of the number of people employed, although the difference with the education sector is very small. The average wage in the construction sector exceeded the average wage level in Estonia. In 2013, the average gross salary of a person working in the construction sector was 1,000 euro per month, which was 7% more than the year before.

After the fall of 2009-2010, construction prices also continued to increase in 2013, growing in the year by 5.2%. However, the described increase in the prices did not result in a significant increase in the margins for construction companies, rather continued recovery of normal prices taking into consideration the risks etc. The labour costs increased faster (7.6%).

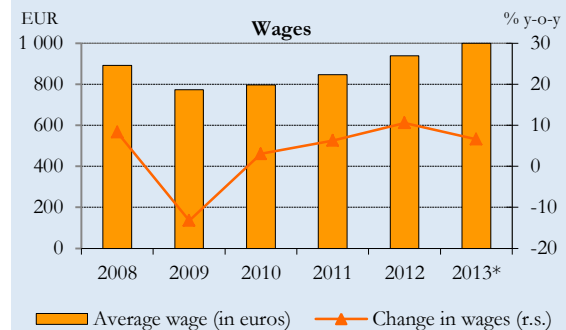
In 2013, permits of use were issued for 2077 units for dwellings and for 887 non-residential buildings, with a total useful floor area of 858,000 square meters. It was 207 permits and 141 thousand square meters more than last year. New or renovated housing, was completed and deployed with the total useful area of

250,000 square meters. Permits of use were issued for dwellings 4% more than last year, but compared to the year 2008, the number of permits did not reach even 50% of the then level.

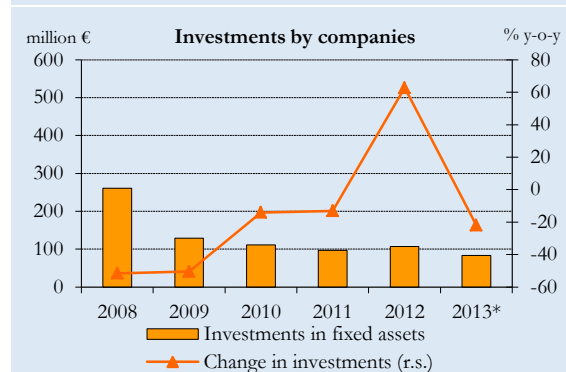
Most permits of use were issued to single-family houses, but the amount of permits of use for two-family homes (1.5 times) and terraced houses (1.8 times) rose the most. Also continued to rise was the average size of a dwelling permitted to use, which suggests that the quality of housing continues to increase. More dwellings were put to use, in addition to larger cities like Tallinn and Tartu, also in Pärnu County and Ida-Viru County. Dwellings were taken into use in particular by private owners and private and non-profit organizations. The number of new municipal housing permitted for use dropped significantly compared to the previous year and again reached the level of years 2010-2011.



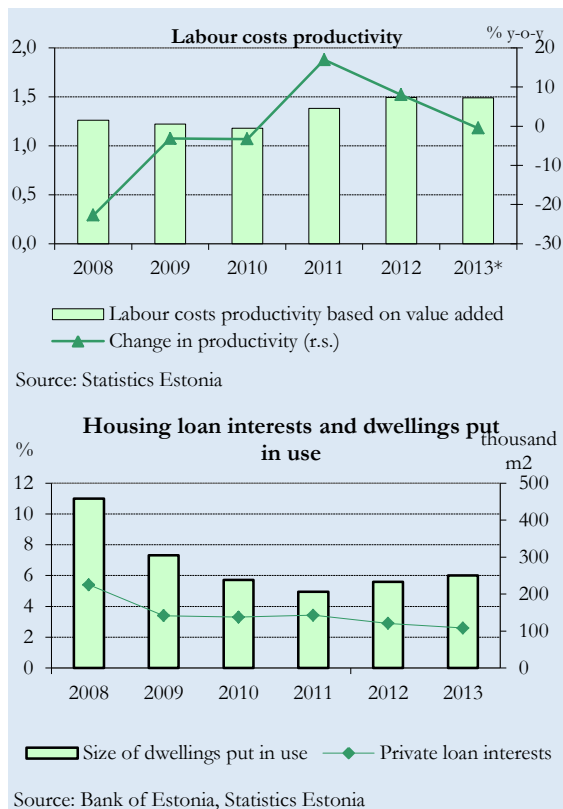
Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia



In 2013, the number of non-residential premises taken into use continued to grow. Compared to the year 2012, the growth slowed down by 10%, reaching the level of 6%. The total useful area of non-residential buildings permitted to use was 607,500 square meters and the cubic capacity was 4.3 million cubic meters, which means that the annual growth rates were respectively 28% and 21%, which indicates the growth of the average size of the projects. Regionally, still more non-residential buildings were taken into use in Harju County and Ida-Viru County, but also Tartu County pulled off a 20% growth in the year and clearly stood out compared to the rest of the counties. By application, agricultural and fishery business buildings and industrial buildings were of the greater proportion.

Both in case of residential buildings and non-residential buildings, the number of issued building permits remained at the same level as the last year. In 2013, building permits were issued for the total of 3,049 dwellings with a useful floor area of 361,000 square meters. The number of non-residential buildings that received a building permit was 2,321. The useful area of new planned non-residential buildings reached 818,000 square meters and the cubic capacity 5.7 million cubic meters, which is a growth of about one-tenth, compared to last year. Most building permits for establishment of non-residential buildings by regions were issued to Harju County (673 permits), while the total number of permits of Ida-Viru County and Tartu County were only slightly lower than the figure for Harju County. By fields of activities, building permits were issued

for non-residential buildings for establishment of agricultural, accommodation and industrial facilities.

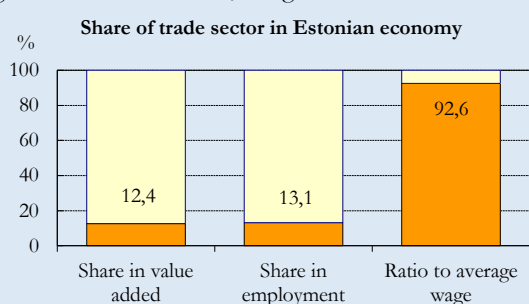
The total indicator of the outlook and confidence of construction companies according to the survey of the Estonian Institute of Economic Research was better in March 2014 than at the end of the previous year. In the last months of the year 2013, the figure dropped very low. Throughout the year 2014, the corresponding figure has steadily improved and is approaching the level recorded in April, last year. As the main alarming factor on the estimates of the construction companies, the insufficient demand is rising clearly above all other categories.

## Domestic Trade

This trade sector includes retail and wholesale enterprises, including the enterprises dealing with the sale of motor vehicles and their spare parts or vehicle trade enterprises. Trade creates 12.4% of the added value and employs 81,000 people in 14,000 enterprises. As of the end of the year 2012, there were 6703 stores in Estonia with a total of approximately 1.6 million square meters of selling space.

Major retail companies in Estonia are ETK (it includes Maksimarket, Konsum, A&O), Maxima Eesti OÜ, Tallinna Kaubamaja AS (Selver), AS Prisma Peremarket, Rimi Eesti Food AS (Rimi, Säästumarket) and AS OG Elektra. Estonia's relatively small market is quite fragmented between several major chains and no one has achieved a dominant position in the market.

In recent years, real wages have risen relatively quickly and have increased the purchasing power of the Estonians. Despite the small size of the country, Estonia has become an increasingly attractive destination for large foreign chains. In addition to the growth of internal trade, the Estonian consumer spends each year more and more money in online purchasing. So far, relatively modest volumes have, thanks to the favourable offers of the Internet shore of China and other developing countries, lacked even from the transportation costs that have increased significantly. As globalization continues, the growth of volumes is likely to continue.



Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia

**In the year 2013, the growth of internal trade decelerated slightly compared with a year earlier, but was nonetheless significantly faster than the European average. The volumes of sales calculated at constant prices have already come close to the levels of the years 2007 and 2008 that were the historical peak and probably in 2014 these volumes will be exceeded.**

Estonian retail trade has increasingly concentrated in the hands of the larger chain stores. In 2013, the majority of the retail sales turnover of non-specialized food stores was given by five store chains: Selver, Maxima, ETK Group, Rimi (including Säästumarket) and Prisma. The market share of the largest chain of these, Rimi fall below 10% in the retail industry. Therefore, it can be said that in the Estonian market has not emerged a dominant chain and compared to some other countries, both consumers and suppliers are in a somewhat stronger position.

The addition of new retail space continued in the year 2013. During the year, 51 new commercial buildings with the total area of 46,000 m<sup>2</sup> received a permit for use. The number of permits for use decreased by 39% compared to the previous year, the usable floor space decreased by 31%. However, 144,000 m<sup>2</sup> of retail spaces were reconstructed and 177,000 m<sup>2</sup> of retail spaces was added by extension. Thus, we can say that the contribution mainly increased to the reconstruction of floor areas which grew more than twice. If previously closing of stores was a rather rare phenomenon, now the tendency has been gradually increasing where inefficient stores are closed in less attractive locations and new ones are opened, where higher sales are hoped for. For example, Rimi closed three stores and Maxima closed one. The biggest expanders in 2013 could be considered Selver, which opened five new stores and Rimi, which opened three new stores. Maxima put more emphasis on sales improvements.

In the market of shopping centres, there can also be seen a trend for expansion. Major alterations occur, for example, in Ülemiste centre, which plans to



significantly increase the sales area. In general, the year occurred to be profitable for the owners of the shopping centres and the year was generally closed with profit. However, Merko announced abandonment of the project of a major shopping and entertainment centre planned for Lasnamäe. It is evident that in this segment, the competition is very tight and every new project requires both a very good location and a very good anchor tenant, otherwise profitability problems may occur.

In 2013, the wage growth in the trade sector remained below the average of Estonia and the gap continued to increase. In total the wages in the trade sector rose by 5.8%. Also, the number of the employed continued to grow in the sector, increasing by 2.5% according to the labour force survey. Increases took place primarily in the vehicle trade, in retail trade the number of the employed remained almost unchanged and in wholesale trade fell by a few percentage points. According to the Business Statistics, the hours worked by employees increased at the same rate with the employment, so it can be concluded that the workload of the employees with the year did not change. Looking at the productivity indicators, the year was successful for the sector. Total profit growth exceeded the growth in labour costs and the added value per employee increased by 8.6%. Due to the rapid growth in net sales, the productivity figures calculated on the basis of sales profit even more than by one tenth.

In the year 2013, the sales period of the stock of goods decreased compared to last year by one day, or by 4%. In addition, it can be seen that due to fierce competition, trade margins have begun to decline, which was more than one percentage point lower than a year earlier, ranging to 15.98%.

Investments continued into the trade sector to rise also in the year 2013. More money (6%) was invested into fixed assets than the year before. Nearly one third of the investments were made in machinery and equipment but the volume decreased in the year by 27%. Nearly twice increased investments in the construction and reconstruction of buildings, with a total volume surging almost as large as with machinery and equipment.

### Retail Business

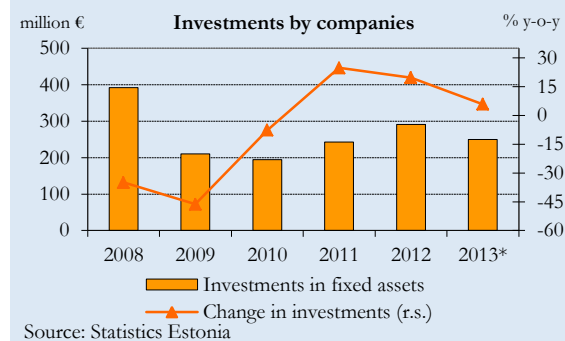
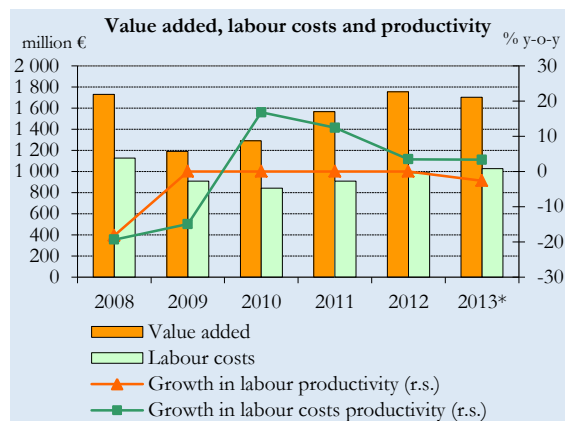
For retail businesses the year 2013 had a slower growth by a few percentage points than the year 2012. Total sales volume increased 4.5% in constant prices equally in both halves of the year. At the same time, inflation slowed significantly and the net sales of enterprises rose by 3.1%.

The total volume of retail in the year 2013 was 4.9 billion euro. Out of this 4.6 billion were the sale of retail businesses and the rest was related to vehicle trade. The growth was fastest in industrial goods where the retail sales of household appliances, hardware and building materials grew by more than

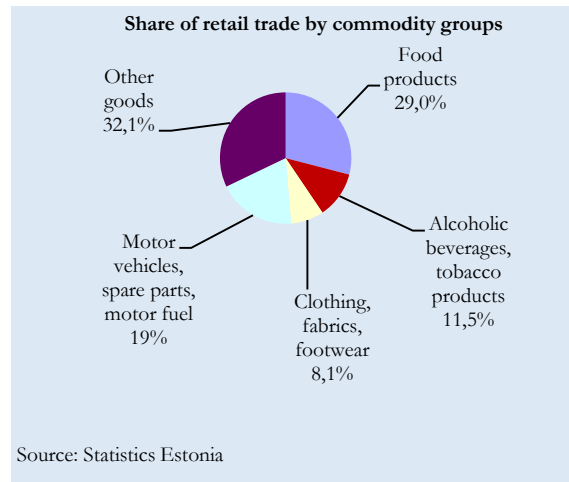
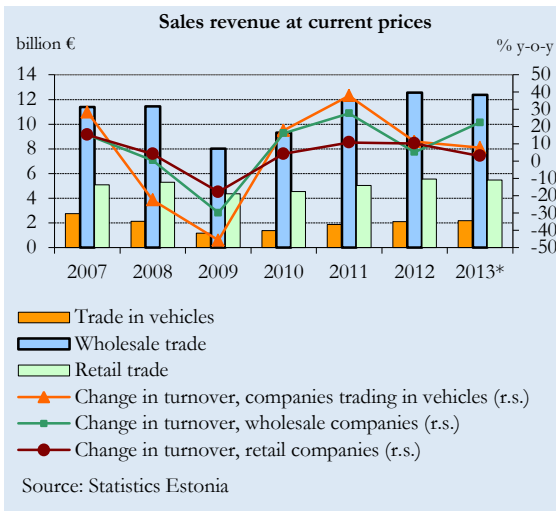
15%. However, the retail sales of textiles, clothing, footwear and leather goods in the year remained unchanged. A significantly stronger growth than average occurred in the retail sales via mail or the Internet, where volumes grew by 17.5%. Very fast growth was also in the retail stores for used goods and other retail sales of outside stores increased by 59%, but this segment accounted for 1.6% of total retail sales and the overall picture was not significantly affected. Nearly half of all retail sales is accounted for food sales in specialist stores, or sales in non-specialized stores where food dominates. There an increase in sales volumes remained by half below the average and the total volumes increased by 1.9%.

Productivity indicators continued improvement in the retail industry also in the year 2013. Although labour costs rose more than 8%, profit growth was even faster, making the total added value of the sector increasing slightly more than by one tenth. Increase in hourly productivity was in the same magnitude.

The year 2013 can be considered successful for the trade sector. However, there is some uncertainty about the future. Economic growth has slowed considerably in Estonia and although the wage growth still continues and the people's deposits have grown at a historically high level, economic uncertainty may spill over to the retail sector.







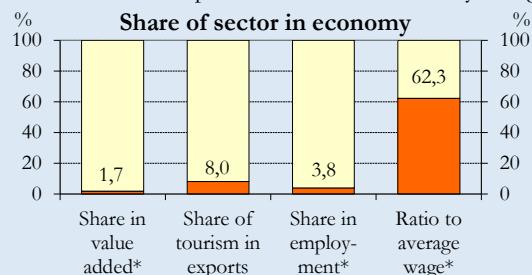
## Tourism

The tourism industry's share of the Estonian GDP and employment is nearly 7% taking into account indirect impact, tourism makes a significant contribution to export earnings. Estonia's tourism economy relies largely on foreign visitors, who account for about 70% of all the overnight stays of accommodation places. A large number of foreign visitors (nearly one fifth) compose of one-day Finns, while in terms of other countries, the number of visits has increased at a faster rate and has reduced the dependence on the Finnish market.

The main tourist attraction is Tallinn, which encompasses a large number of the tourism enterprises. Year-on-year has increased interest in other areas, to which have contributed the addition of rehabilitation centres, hotels and other service facilities.

In Estonia, nearly 600 accommodation establishments are operating (along with a number of sole proprietors and companies whose indicated main activity is some other activities) and there are about fifteen hundred catering companies and over 300 travel agencies and tour operators. Large-scale accommodation companies are Hotell Olümpia AS, AS Sokotel (Hotell Viru), OÜ TLG Hotell (Tallink, Pirita TOP SPA Hotell). The major catering establishments are Premier Restaurants Eesti AS (McDonald's), AS Hesburger and Baltic Restaurants Estonia AS. The major travel agencies and tour operators include AS ESTRAVEL, Novatours OÜ, OÜ TEZ Tour and OÜ GoAdventure. Approximately 60% of workers of the tourism sector are employed in the enterprises of Tallinn, in other regions can be highlighted Tartu and Pärnu, but the tourism industry is represented all over Estonia.

In the future, growth of traveling is expected in Estonia which also supports Estonian businesses. The expected increase in demand is for both domestic and foreign, but long-term growth is slower than before. In particular, thanks to the growth in foreign tourists staying overnight, export revenue is expected to increase. The growth in offers means the growing need for additional labour in the tourism sector. With income growth in the long run, both domestic tourism and outgoing tourism will increase. Tourism policy aims to increase the duration of travel in Estonia and to dissipate the demand seasonally and geographically.



\* indicators characterise the accommodation and catering companies not the whole tourism sector

Source: Statistics Estonia



Source: Bank of Estonia

**For the tourism industry the year 2013 was generally good. Yet another record was set by the number of domestic and foreign tourists staying in accommodation places and the export revenues. In terms of economic indicators, the picture was more diverse, poorer results characterized the accommodation sector. The beginning of the year 2014 was good for tourism, but strained relations with Russia could also affect the destiny of tourism.**

Although the European economy continued to be dominated by a standstill, then the trips for tourists in the region grew more than expected. According to preliminary data from the World Tourism Organization, the number of trips to European countries in the year 2013 grew by 5%. Severely increased by the Russian tourism demand, which also had an impact on Estonia. However, the cuts of the activities of Estonian Air reduced the flow of tourists from several Western European countries.

Despite the growth in demand, the economic indicators of tourism remained rather modest, especially in the accommodation sector. The added value generated in accommodation and catering increased when it was measured in euro but due the strong price increases in constant prices it remained below the figures of a year ago by a percentage. According to the calculation of the consumer price basket, the prices of both the accommodation services and catering prices increased by over 6%. The accommodation sector figures were taken down by the decline in profits, while the added value generated by the catering and travel agents and tour operators increased strongly.

Tourism services exports grew by 8% to 1.3 billion euro. The increase was caused primarily by increased consumption of the travel services (accommodation, in expenditures made in Estonia for goods and services, etc.); export growth of transport services was limited to a few percentage. Around the same situation also characterized imports. In summary, the tourism services exports profit exceeded the profits from imports by more than 500 million euro.

The number of people staying in accommodation places and the number of nights spent there were the largest ever. In 2013 were accommodated nearly 3 million people, the number of overnight stays amounted to over 5.7 million. During the past year the number of people staying overnight increased by 5%, the number of overnight stays increased by 3% or the average duration of the overnight stay fell back slightly (to 1.92 nights). Domestic tourism supported the demand slightly more than foreign tourists.

The number of overnight stays rose in almost all counties. Tallinn accounted for about half of the overnight stays of tourists, but nearly 80% of the increase in demand in the year 2013 came from other regions.

The provision for accommodation services (the number of beds and rooms) increased by approximately 5%. Central and Southern Estonian accommodation places showed a relatively larger increase (over 10%). The preferential growth of offer reduced the average occupancy by a percentage (bed occupancy rate of 36%).

The price increase of the accommodation services was indeed two times slower than a year earlier, but the average cost rose to more than 4% to euro 32. As of the year 2012 the price level of the Estonian hotels and restaurants was a quarter lower than the EU average, but among the new member states of the European Union the Estonian price advantage does not show very much.

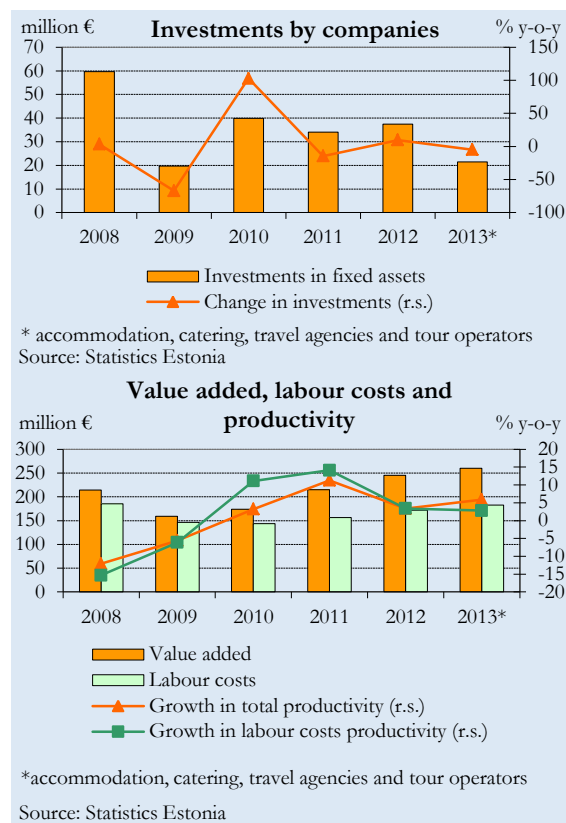
The number of the employed in the tourism sector grew, according to the business statistics, by nearly one tenth, but the increase came mainly from the catering field. The Labour Force Survey shows even more turbulent development, but due to the relatively small study sample the confidence limits for these estimates are quite wide.

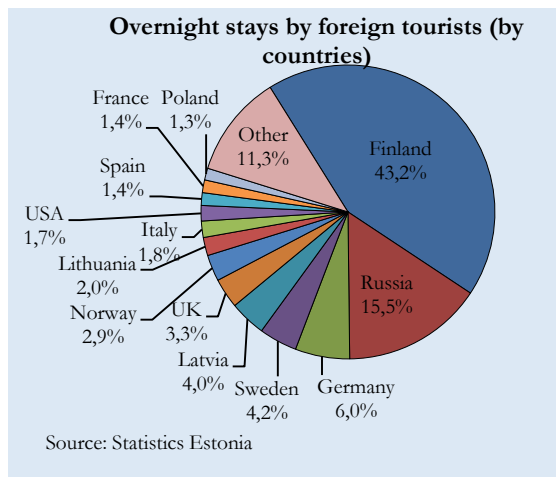
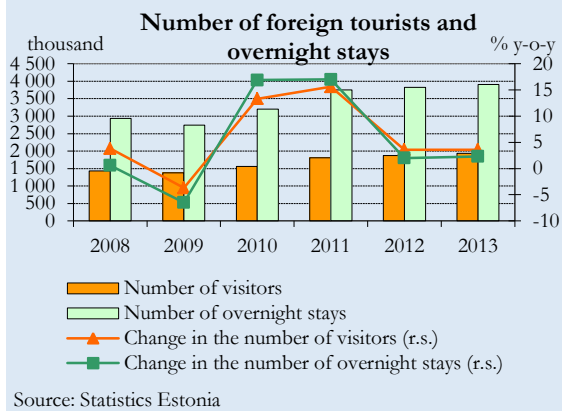
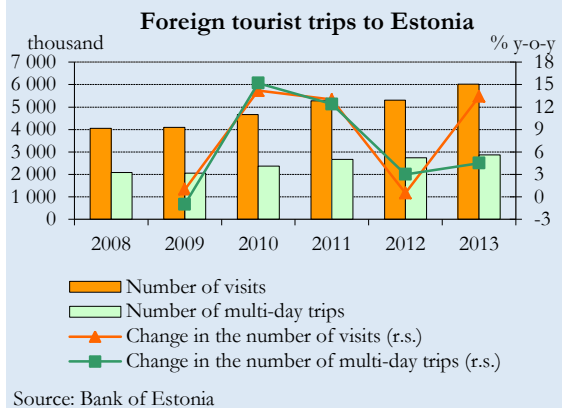
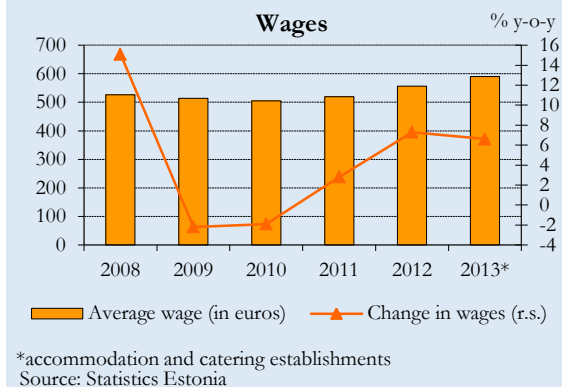
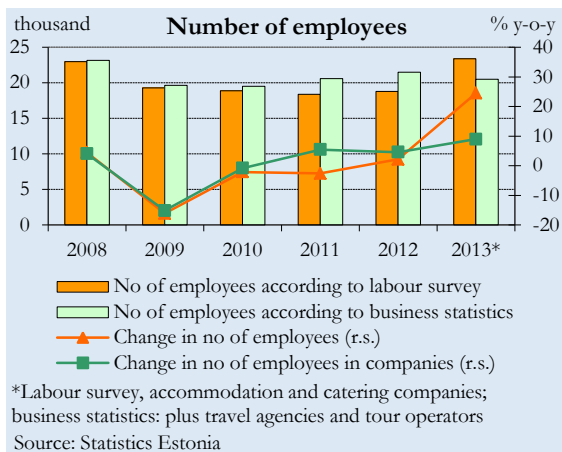
In accommodation and catering, the average salary increased by almost 7%, or slightly slower than the Estonian average. Due to the increase in the number of employees and hours worked, labour costs in catering and travel agencies (which also contains the reservation, etc.) increased significantly, in accommodation the growth was modest. Revenues were moving at the same pace with the cost or increased faster, due to which profits in accommodation remained more or less on the same level as a year earlier, but rose in other branches. Also, productivity remained stable or improved in sub-branches.

STS indicates a slight decline in investment in the tourism sector. Investments fell to both accommodation and travel agencies, but more was invested in the catering industry. Final statistics can change this picture somewhat, however, because the estimates may be significantly corrected.

Half of the investments of accommodation enterprises were related to buildings and the rest went mostly for fittings. In catering, aside from equipment, major investments were made in means of transport. Travel agencies and tour operators primarily invested in buildings and computer systems.

The tourism companies surveyed by the Estonian Institute of Economic Research evaluated the economic situation of the year 2013 as similar to the previous year. The beginning of the year 2014 did not show a different image, short-term expectations were as positive as the year before. However, these estimates did not yet reflect the strained situation with respect to Ukraine and Russia. The World Tourism Organization expected in Europe for the year 2014 growth of 3-4% of international tourism, but this broadcast originated from the time before the Ukrainian crisis.





**Inbound Tourism**

The number of foreign visitors increased in the year 2013 at a fast pace. According to a study based on mobile positioning of the Bank of Estonia, the number of visits to Estonia exceeded the threshold of six million (13% more than in the year 2012). The number of trips increased primarily due to day-trippers, but also number of tourists spending several days in Estonia grew by nearly 5%. Both one-day and multi-day visits were added mostly from Finland and Russia.

In case of visitors from distant cruises, one-day visitors are influenced in particular by cruises. The number of cruise passengers reached a new peak. Tallinn and Saaremaa ports were visited by more than 525,000 cruise passengers in the year, or 84,000 more than the year before. In addition to the traditional summer season, trips were organized to Tallinn also in the winter. The number of plane passengers decreased by one tenth, mainly as a result of shrinking the activities of Estonian Air.

An increase in the number of foreign visitors increased also the export revenues. Visitor spending in Estonia rose by one tenth, the majority of this which is represented expenditures made on private trips. Export earnings from transport services increased modestly, by about 4% compared to the year 2012.

The number of foreign tourists staying in accommodation establishments increased by 3.6%, reaching a new record (1.94 million). The average duration of trips was slightly shorter than in the previous year.

The increasing flow of tourists from Russia continued to support the accommodation sector. The number of Russian tourists staying in accommodation establishments and the number of overnight stays increased by 14%. Numerically, the number of tourists from Finland increased the most, but those trips were shorter. Strong growth in demand characterized Asian countries; interest in Estonia increased also from Latvia and Lithuania. However,

the situation was worse in case of the UK, Germany, Norway, Italy, Ireland and several other countries. This was partially caused by worsened flight connections.

The increased interest of Russian tourists could be observed in most of the counties. Numerically, the number of overnight stays increased more in Tallinn and Ida-Viru County, but also greatly increased the demand in Lääne-Viru County, Tartu County, Valga County and Pärnu County. The main destinations for tourists from Finland are Tallinn and Pärnu and a few percent more time was spent there than in the year 2012. The number of visits to Ida-Viru County grew heavily. All in all, foreign tourists gave more work to the accommodation establishments in almost all counties, a greater setback was in Järva County and Hiiumaa County.

The purposes of the trip of the persons accommodated over the years have remained fairly stable. Over 70% of foreign tourists were on holiday, one-fifth were on a business trip. In 2013, the number of persons accommodated for other purposes, such as for treatment, grew more. At the same time a year ago, this group was in decline.

The first months of the year 2014 for the accommodation establishments began again with an increased number of tourists, also the number of passengers on major international shipping lines grew. Port of Tallinn expected the arrival of 300 cruise ships with 470,000 passengers for the season. After years of cuts in air traffic, Tallinn Airport expected an increase in the number of passengers and flight connections for the year 2014. However, looking at the tourism sector as a whole, uncertainty is caused by the events in Ukraine, which may also affect the number of tourists, especially from Russia. In March, for example, the number of Russian tourists in accommodation establishments decreased by 5% compared with the year-ago period.

**Domestic Tourism**

In 2013, Estonian residents were using accommodation services more actively than a year earlier. The number of overnight visitors increased by nearly 8% and exceeded the one million mark. Also a number of overnight stays hit the peak - grew by 6% compared with the year before. Estonian residents accounted for 35% of total accommodated tourists, by number of overnight stays for a few percent less.

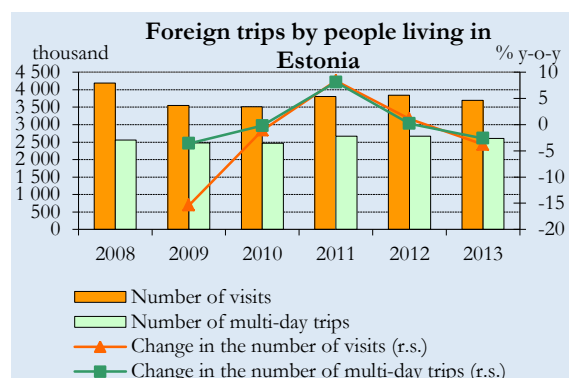
Aside from Tallinn, the number of nights spent by the Estonia's population grew by more than the average in Saaremaa, in western Estonia and in Lääne-Viru County. Developments in other counties were also generally positive. Somewhat less demand characterized the Hiiumaa and Rapla Counties.

The number of persons accommodated grew primarily due to holiday trips. For nearly 60% of the accommodated persons the main objective of the trip

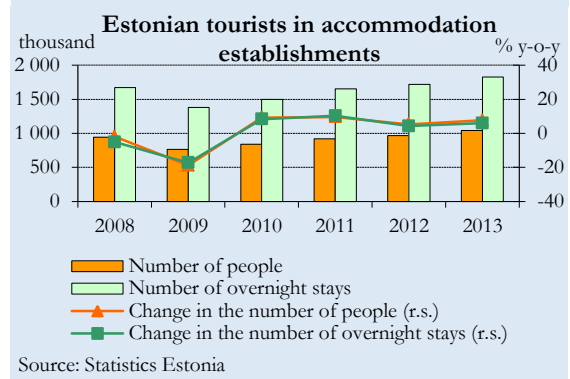
was a holiday. Also, the number of business travellers increased somewhat, however, the number of the accommodated persons for other purposes (including medical) and the number of their overnight stays decreased, but minimally.

The survey of the domestic summer travel of inhabitants of Estonia commissioned by Enterprise Estonia showed that, compared to a few years ago and the previous time, fewer people went on a domestic trip outside their county - an estimated 61% of the population aged 15-74. Although ultimately less trips were made, in the trips with overnight stays increased by the use of paid accommodation (2011: 16%, 2013: 26%). It also explains the significant increase in the consumption of accommodation services. Mostly, however, is used the opportunity to stay with relatives or friends and visiting them is also the most widespread travel purpose. The main reasons why no trip was made was the lack of time and money.

The fate of the domestic tourism depends heavily on the economic situation of the state. Projections for the year 2014 predict a slight overall economic growth and decline in the unemployment rate and wage growth, which should support travel activity. On the other hand, the first signals about the real economic development are rather pessimistic, if the situation deteriorates, domestic tourism can also suffer.



Source: Bank of Estonia



Source: Statistics Estonia

**Outbound Tourism**

Estonian residents made, in the year 2013, somewhat fewer trips abroad than a year ago, but the trips were

longer. On the basis of mobile positioning data, there were estimated 3.7 million trips abroad, which was about 4% less than the prior year. Most of the decline characterised the direction of Finland and Russia.

On the other hand more time was spent abroad, which on the one hand, was due to the change in travel destinations, but also the time spent in the target country increased. Time spent traveling increased by one tenth.

More trips were made to distant locations. Out of nearby countries can be highlighted Latvia, where most of the growth took place in duration of the trip, i.e., much more time was spent there than previously. Increased travel activity characterized Poland, Spain, Turkey (big fall a year ago) and Belarus. Although fewer trips were made to Russia, more time was spent

there than a year earlier. The popularity of Egypt as a travel destination continued to decrease.

Developments of tourism services imports were in line with the time spent abroad, imports increased by almost 12%. Spending on foreign transport companies increased by a few percent, mainly increased passenger spending abroad (consumption of goods and services).

Labour market prospects for the year 2014 were relatively good and consumer confidence at the beginning the year was satisfactory, which is a positive environment for foreign trips. However, in the event of economic downturn, the impact is expected to transfer into foreign tourism.



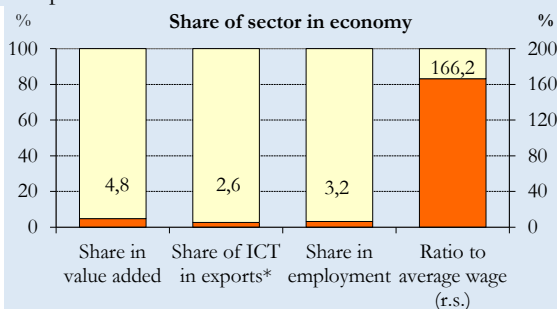
## Information and Communication

Information and Communication activity includes publishing, including software publishing, the production of films and sound recordings, i.e., production and transmission of radio and television programs, telecommunications, information technology and information services. The Information and Communication Technology (ICT) sector, covers not only most of the previously mentioned service areas, but also wholesale sales, information and communication equipment and repair of computers and communications equipment, as well as the company's manufacturing electronics components and circuit boards, computers and computer peripherals communications equipment, consumer electronics and magnetic and optical media within the manufacturing industry. Due to the availability of data the sector development is described below mainly on the basis of information and communications companies. The manufacturing industry part of the ICT sector is covered by the overview of the electronics industry.

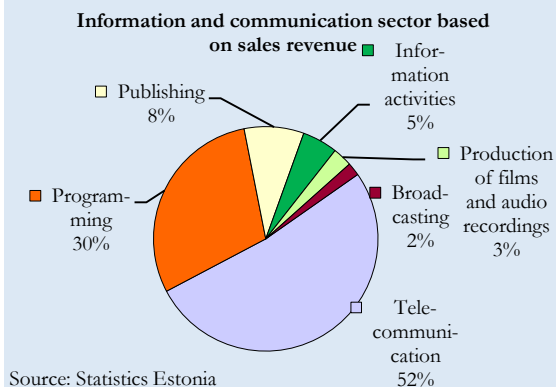
The Information and Communication sector employs nearly 20,000 people, accounting for 3% of the total employment. Of these, three-quarters are employed in ICT services, the rest in the production of ICT goods. The sector's contribution to the economy is significant because it supports, through the use of information technology products and services, the development of other sectors of the economy. The contribution of the information and communication services to the creation of added value is comparable to the OECD average. The companies of the sector are able to pay a significantly higher than average wage in Estonia and also the labour productivity indicators are higher than average.

In 2013 nearly 3,000 companies operated in the information and communications sector. Basically, these are dealing with micro-enterprises in the field of information technology (computer programming, consultancy and related activities) employing fewer than ten persons. More than half of information and communications companies were engaged in programming, 15% in information services and equal one-tenth with production and publishing of cinema, video and sound recordings. 6% of the companies were engaged in telecommunications.

The major mobile service providers are: AS EMT, Tele2 Eesti AS and Elisa Eesti AS. In addition, the leading companies providing landline services in the field of telecommunications are Elion Ettevõtte AS, AS Starman and AS STV, OÜ Top Connect mediating communications services and Viasat AS providing satellite services. In the software industry, the most important enterprises are Skype Technologies OÜ and OÜ Playtech Estonia. The latter provides software products and related solutions to the world's leading gaming operators. The larger companies in newspaper publishing are AS Postimees, AS Eesti Ajalehed and AS Äripäev. Among the major companies in the field of radio broadcasting and information activities (data processing, web hosting) are respectively: AS Trio LSL and AS Ekspress Hotline and AS Andmevara whose turnover magnitudes are smaller than those of the largest companies in the sector.



\* based on Balance of Payments statistics  
Source: Statistics Estonia



Source: Statistics Estonia

**In 2011-2012 the information and communications sector experienced a rapid recovery from the global economic crisis. However, the revenues of companies in the ICT sector as a whole did not grow in 2013. Nevertheless, the sector's sales revenues in the last three years have exceeded the pre-crisis level.**

Telecommunications companies earned in 2013 more than half of the total industry revenue, which characterized also the previous years. Nearly a third of industry sales revenue was accounted for programming and one tenth for publishing. The proportion of other activities was lower.

In 2013, the total sales revenue of the information and communication companies remained at the same level with the 1.51 billion euro of sales revenue of the year 2012. This is somewhat higher than the 1.42 billion sales revenue of the year 2011. If during the recession the sales revenue in the sector fell and the sales revenue of both the year 2010 and the year 2009 could not exceed the threshold of 1.38 billion euro achieved in 2008, then in recent years, the sales revenues have recovered strongly and in the year

2011-2013 they have exceeded the pre-recession figures.

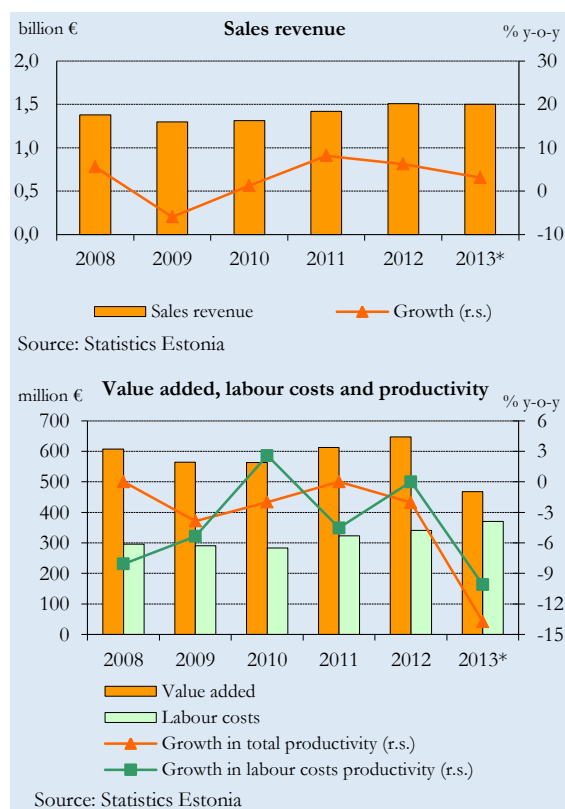
In parallel with the slowdown in the growth of sales revenues, the productivity indicators have moved downwards. In 2013, the total productivity of the enterprises decreased on the basis of added value by nearly 14% and the productivity of labour costs by 10%. Productivity of labour costs decreased in the year 2011 and did not increase in the year 2012, thus reversing the upward trend which occurred during the recession. Total productivity fell in the year 2012 for the first time after the crisis and in 2013, the downward trend continued. Until the year 2012 the added value grew, in 2013 the added value generated by enterprises in the sector began to decrease, dropping below the level of the economic crisis. Parallel to the decline in the added value, the labour costs of the sector have increased. Regarding those two trends it may be noted that the increase in labour costs is starting to drag down the efficiency gains in the companies of the sector, which is supported by data on the number of employees and the nominal wage growth.

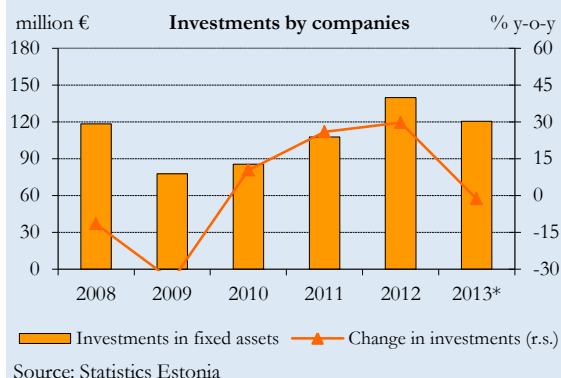
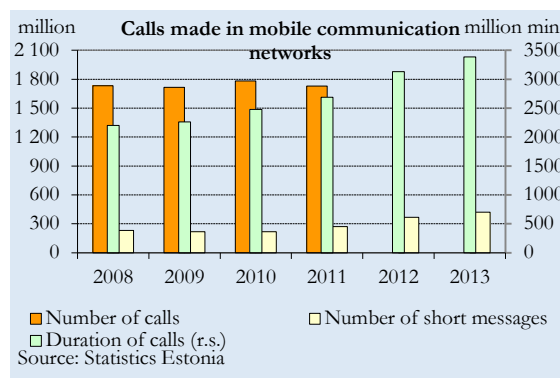
The growth of labour cost has emerged as a result of the recruitment of new employees, as well as of the improvement of existing workers' bargaining power and the associated wage pressures. In the year 2013, the number of employees in the sector amounted to 19,700 people and in the year 2012, to 18,600 people, which suggests that the increase in the number of employees was not as fast as in previous years. In 2010, the sector had 12,400 employees. By comparison, before the recession led to massive job cuts in the sector, in the year 2008 there were 15,300 employees in the sector. In 2013 the number of employees of information and communications companies increased nearly 7% and in 2012, nearly 11%, but the growth of the year 2011 was nearly 32%. If the growth of the average nominal wage in the sector remained moderate in the years following the recession, then in the year 2013, the average nominal wage increased by 10%, amounting to € 1,576 compared to the average gross salary of € 1,448 of the year 2012. Between the years 2008 and 2010, the average salary remained a little below 1300 euro and in 2011, a little below the threshold of 1400 euro.

These figures suggest that the information and communication companies have created seven thousand new jobs between 2010 and 2013, but they have not been able to utilize the staff as effectively as before. To a certain extent this is inevitable as a result of the rapid growth in the number of employees, as the development of workers' skills, as well as the development of new work processes takes time.

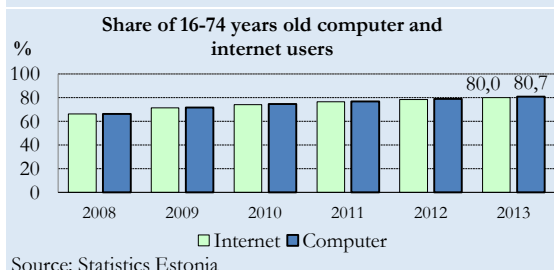
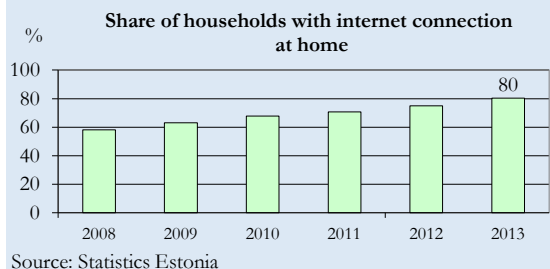
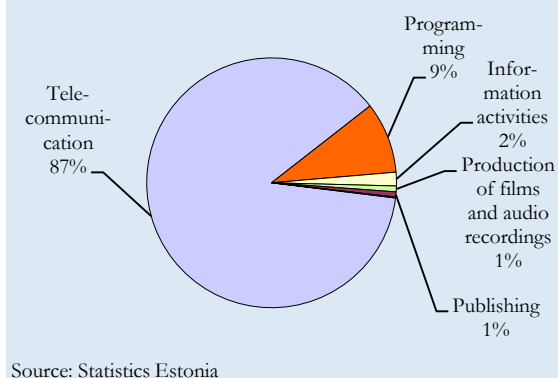
In the years following the recession the investments by the information and communication companies increased, but in the year 2013, investments in fixed assets showed a slight downward trend, falling more than 1%. However, in the year 2012, investments increased by nearly 30%. The largest investments in

fixed assets will continue to be made in telecommunications companies, making up 87% of the total investments in information and communication businesses in the year 2013. As a comparison, in 2010, investments in telecommunications companies accounted for 83% of the total investments in fixed assets of the information and communication sector, but in the year 2012, this share was 79%. According to the OECD, regulatory constraints on competition in the telecom sector have steadily declined. In the year 2008, the index of OECD measuring restrictiveness of telecommunications sector regulations, gave the Estonian telecommunications sector regulations one point on the 6-point scale (the higher the number, the more restrictive are the regulations), in the year 2013, it had dropped to 0.5. At the same time, the average of OECD and EU changed little in the same period, remaining within one point. Certainly the lack of regulatory constraints contributed to the increasing of competition in the sector, which has also called for increasing investments. Similarly to the volume of activity, the second largest area of activity in terms of investments was programming (9%). As a comparison, in 2012, programming accounted for 16% of the total investments in fixed assets of the information and communication sector.





Investments in fixed assets in the information and communication sector 2013



As the investments are mainly made by telecom companies for infrastructure development, it is necessary to look at the outreach and quality of the services achieved through these investments. According to Eurostat, the broadband penetration rate, which is expressed in percentages and it is calculated as the number of broadband access lines divided by population, multiplied by 100 in Estonia is 30%, which is the EU average. Estonia is virtually on the EU average level in terms of proliferation of ultra-fast broadband connections (up to 30Mbps), as measured by the number of subscribers as a percentage of population, which in Estonia is approximately 5% and the EU average is a little over 5%.

In Estonia, the cost of broadband connections in case of 12 to 30 mbps downloading speeds is a little higher than the EU average, accounting for 2.5% of income, compared with 2% of the EU average. The internet connection download speeds as measured by Ookla are similar in Estonia, Latvia and Finland, but the speeds available for the users in Lithuania are significantly higher. However, upload speeds are higher in Latvia and Lithuania; in Finland, they are on the same level as in Estonia. The mobile broadband penetration accounting for user 16 subscribers per 100 inhabitants in Estonia is almost two times higher than in Latvia and Lithuania and the EU average (based on the year 2012 Eurostat data), but several times lower than in Finland.

If the above figures reflect mainly the supply side of the companies of the information and communication sector, then it is furthermore necessary to look at it also from the demand side, which is characterized by, for example, the indicators of Internet connections, internet, mobile telephony and computer usage. The usage of information technology equipment is steadily increasing. The number of households with Internet access at home in the year 2013 reached 80% compared to 75% of the year 2012 and being 71% in the year 2011 and 58% in the year 2008. There were more 16-74 year-old computer and Internet users than in the past - the share of Internet users rose in 2013 to 80% and the share of computer users rose to nearly 81%, while compared to the 78% and 79% of a year ago, respectively. Five years earlier, computer and Internet penetration was 66%. According to Eurostat, in 2013,

99% of households using the Internet had broadband access, which was 2% higher than the EU average. 94% of the companies with more than 10 employees had a broadband connection in 2013, compared to the EU average of 90%. Estonian residents are standing out by using the Internet for more sophisticated services. 73% of the Estonian population aged 16-74 used Internet banking in the year 2013. The EU average was only 42%. In the year 2008, the corresponding figure in Estonia was 55%.

Mobile communications are characterized by increases in call duration and the number of short messages (As of the year 2012, the Statistical Office has stopped publishing the data on the number of calls). In the year 2013, the duration of calls was 3384 million minutes and 422 million SMS messages were sent. In the year 2011, these figures were respectively 3131 million minutes and 368 million SMS messages. Call duration increased steadily also during the recession, regarding sending of short messages, there was a small decline.

Supply and demand, or the creation of infrastructure and utilization of information technologies create interdependence between the various information and communication companies. Without the development of an adequate infrastructure, no new services and content can be provided. It does not make sense to develop infrastructure, if it cannot be used for new services and content. However, it should be pointed out that not only are the

information and communications companies content producers but users create content as well. In this respect the information and communication sector differs from other sectors. Users can create important content, exploiting ICT infrastructure, sending emails and using social networks. According to Eurostat, in 2013, 50% of the Internet users in Estonia used social networks. The EU average figure was 43%. Moreover, in 2011, the users of social networks in Estonia were below the EU average - in Estonia, the share of social networks users was 37% and the EU average was 38%.

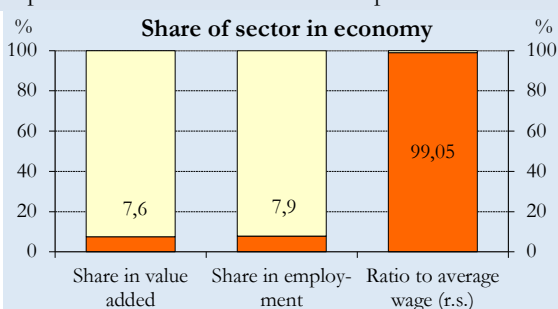
In summary, we can say that there has been a moderate increase in demand for the information and communication services in recent years, as well as during the recession. Estonian residents are increasingly using the Internet. They use it more and more for sophisticated online services such as banking and they also create more their own content that other users can use. On the supply side the sales growth of the companies of the sector has slowed down, investments are in the downward trend, but employment has grown. Recruitment of new staff and wage pressures of the existing staff has led to decreased efficiency of information and communications companies. In terms of the future of the companies of the sector, it is important to improve the productivity, which can be done through improving the work processes and developing the quality of products and services.

## Transport

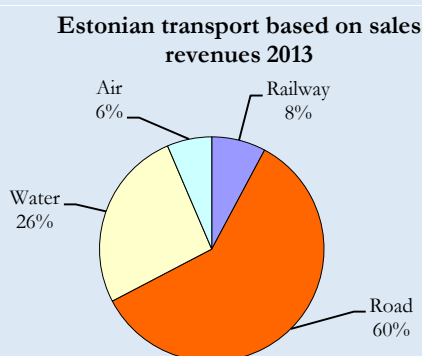
The Estonian transport system includes rail, road, sea, inland waterway and air transport, city electric transport and transport via pipelines. The transport sector employs nearly 47,000 people, or about 8% of the total workforce. Transportation makes a significant contribution to export revenues and balances the Estonia's foreign trade balance.

In passenger road transport, Tallinna Linnatranspordi AS that serves the bus, tram and trolley lines in Tallinn has the largest seating capacity. The national passenger rail transport is organized by AS Eesti Liinirongid (ELRON). In the field of railway transport, in 2013 the biggest change was the total replacement of the electric rolling stock. In the area of freight transport the leading logistics companies are AS Schenker, DSV Transport AS and DHL Estonia AS. The largest company of the entire transport sector is AS Tallink Grupp dealing with the marine transportation of passengers and cargo. The most important port service provider is the Port of Tallinn, which operates the owner and operator of the Muuga Harbour, Old City Harbour, Paldiski South Harbour, Paljassaare Harbour and Saaremaa Harbour. The largest company in the field of air transport is AS Estonian Air that is dealing with international transportation of passengers and goods.

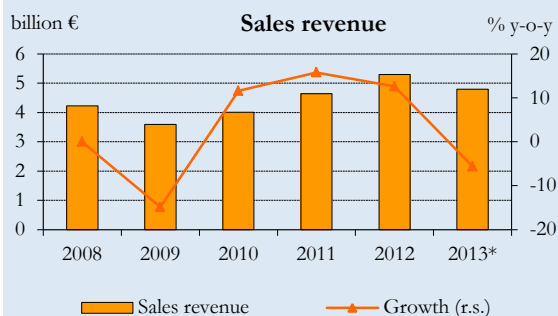
The transport sector employment decreased in 2013. Further developments in employment terms are strongly dependent on the overall economic performance.



Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia

**In 2013, slight decline in capacity and revenue of the Estonian transport enterprises took place compared to the year 2012. Growth in traffic volumes could be observed only in terms of road transport. Also increased the number of users of public transport, especially in terms of users of urban lines.**

The total cargo volume of the Estonian ports decreased 1.4% compared to the year 2012. However, there was a growth in maritime container cargo through the ports. Also transportation of vehicles through the ports grew, regarding which the transit vehicles passing through the port, where the increase compared to the 2012 was over two and one half times, made the biggest jump. 8.8 million people visited Estonian ports in 2013 with tour ships that were 2% higher than in the year 2012.

In 2013, a total of 42.9 million tons of goods were loaded and unloaded in the Estonian ports, which was 1.4% less than the previous year. The amount of loaded and unloaded transit goods was 28.3 million tons, a 4.2% decrease within a year. The decrease in cargo volume is due to a decrease in dry bulk cargo by 19.7%, mainly in terms of fertilizers, gravel and peat. At the same time, the cargo of grain rose by 56.5%. Liquid bulk decreased by 2% to 18.97 million tons. General cargo volumes grew by 3.9% to 567,000 tons. Refined petroleum products continued to be the most important product group.

In 2013 the container traffic reached its record volume of 253,627 TEU which was 11.3% more than the year before. The amount of the goods carried in containers grew to 1.775 million tons, or by 8.3%.

Among the ports being developed, in 2013 the cargo turnover of Port of Sillamäe had a steady growth trend and reached 6.75 million tons. The increase was on account of the dry cargo, the share of petroleum products in the trade turnover fell. During the year, large-scale work continued at Port of Sillamäe in construction of new quays, building of warehouses,



expanding of the railway station to the area of the quays and deepening of the port basin. As a result, conditions have been created for the new container and general cargo terminal to open in 2014 and for further growth of the quantity of goods.

On international shipments 9.6 million passengers and on domestic regular services 2 million passengers passed through the ports of Estonia in 2013. The number of passengers in international traffic has grown steadily over the last five years. 5 million passengers arrived at the ports from abroad and 4.6 million passengers were shipped abroad.

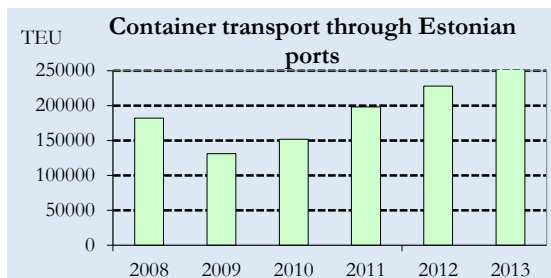
In international traffic there were 4.2% more passengers than in the year 2012. The number of cruise passengers arriving in Estonia was 510,000 that were nearly 20% more than last year.

In 2013, 24.4 million tons of goods were carried in the Estonian Railways Ltd infrastructure, which was about 7% less than in the year 2012. From the quantity of goods, 18.7 million tons came from transits, 1.2 million tons from exports and 1.3 million tons from imports. The major articles transported by rail were coal, lignite, crude oil, natural gas, and oil shale, which accounted for 45% of the total volume of shipments, followed by coke and refined petroleum products with 36.3% and chemical products with 9%. Local transport amounted to 4 million tons. The freight volume in the year 2013 was 6.8% lower than the volume of the year 2012.

The numbers of train passengers declined at the beginning of the year 2013 due to the extensive reconstruction works on different lines, resulting in a drop in quality of service and suffering of the convenience of the passengers, the travel time as well as the service reliability. In the second half of the year, the number of passengers began to grow steadily, but the total number of passengers in the year was still less than in 2012. The number of passengers by rail fell by 5%, dropping to 4.2 million people. Most train journeys were made on domestic routes, foreign trips accounted for only 3%. In the second half of the year, new electric trains were introduced to the line.

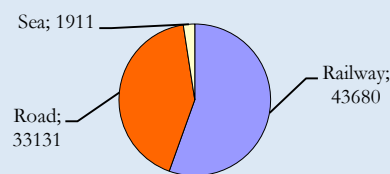
In 2013, air transport showed a slight decline in freight transport. In terms of goods transported by air increased only the proportion of postal items, which as compared to the year 2012 showed 12.8% of growth. There was also a decline from the previous year in passenger traffic, which fell by 11.6% compared to the year 2012, mainly due to the decrease in the volume of activity of Estonian Air. Transport of goods through Estonian airports fell by 12.4% and amounted to 21,000 tons. Airports were used by a total of slightly less than 2 million people, most of which were passengers making foreign flights. The share of passengers of domestic airlines is small (2%), their number decreased by 22% compared to the year 2012.

By far the biggest air gate in Estonia continues to be Tallinn Airport that in 2013 was used by 1.9 million passengers and through which were transported the major part of the goods.

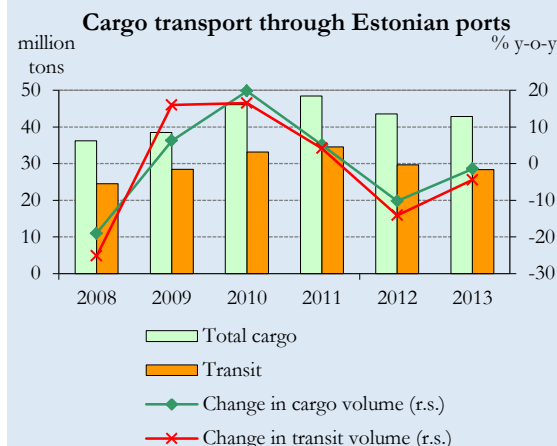


Source: Statistics Estonia

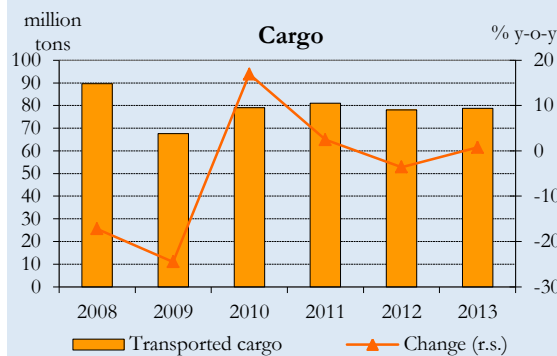
Cargo transport of Estonian companies by modes of transport (th tons)



Source: Statistics Estonia

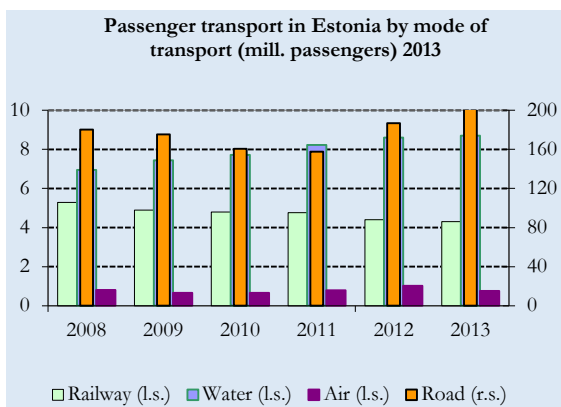


Source: Statistics Estonia

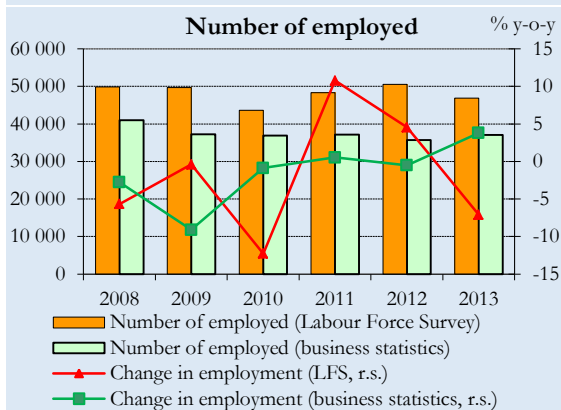


Source: Statistics Estonia

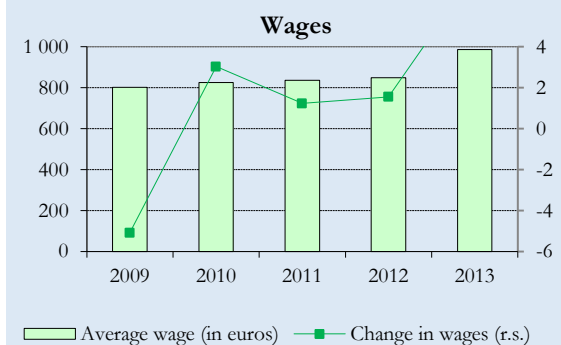




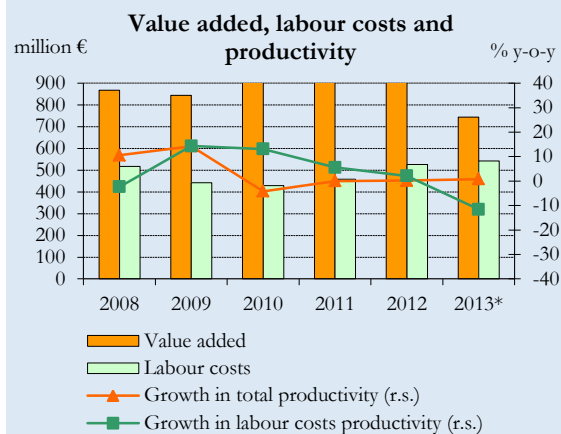
Source: Statistics Estonia



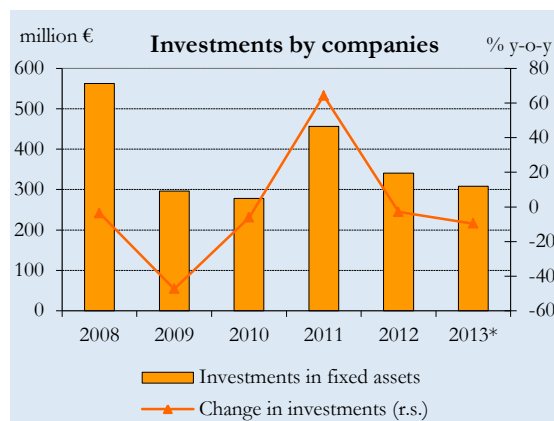
Source: Statistics Estonia



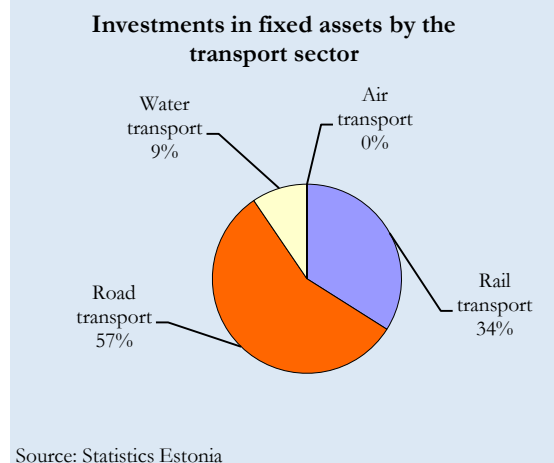
Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia

In 2013, Estonian road transport companies continued to rise with their 4.4% growth rate in a year. The largest growth was in international transport by road transport companies with an increase of 20% compared to the year 2012. Freights totalled 33.1 million tons, of which international transport accounted for one sixth. The freight turnover decreased by 8.8% compared to the previous year from what 12.8% were international freights.

Passenger transport in the road transport showed 8% growth in the year 2013. The number of passengers totalled 202.3 million, of which approximately 87% were passengers of the urban lines, whose number increased by approximately 34%. In part, the number of passengers and passenger turnover growth of urban lines has been affected by the changes in the calculation of passengers in the first quarter of the year 2012 and in the first quarter of the year 2013. On the other hand, the growth is due to the free of charge public transportation available for the residents of Tallinn that was introduced in Tallinn in 2013. Similarly to the year 2012, the number of passengers on county lines decreased to 16.6 million passengers, which was a 7% decline compared with the previous year. On international routes, passenger numbers continued to grow, rising to 734,000. Thus the growth in the international routes was 16% up compared to the last year.

According to the Labour Force Survey, there was a 7% decline in employment in the transport sector (including auxiliary services related to transport and storage) that took place in the year 2013. However, according to business statistics the share of employees in transportation and warehousing rose by 3.8%.

In 2013, average gross salary in Estonia in the transport and storage sector was close to the average wage of Estonia, being 939 euro (the average salary in Estonia in the year 2013 was 948 euro). The real wage growth was 9.1%.

Compared to the year 2012, investments in transportation and warehousing decreased. At the same time investments in water transport increased exponentially, as the increase there compared to the year 2012 was even more than ten-fold, but the data are incomplete and are therefore not directly

comparable. The rise was partly caused by the acquisition of the ships by the Maritime Administration necessary for the connection with Kihnu and Vormsi islands. Of all investments 67% went for acquisition of means of transport, 20% for acquisition, construction and reconstruction of buildings and 9% for the purchase of machinery and equipment.

Due to the strong slowdown in economic growth and thus a resulting low demand (including demand for exports) showed that no significant growth can be anticipated in the transport sector in the year 2014. Freight should to large extent remain within the limits of the previous year's level, whereas a slight decline is not excluded. In rail traffic, due to the new trains to be introduced in 2014 on all routes, both in the year 2014 as well as in the coming years, a significant increase in passengers can be anticipated.

## Annexes

## Annex 1. Trade with associations of countries

Association of countries	Volume (million €)				Share (%)				Change (y-o-y)	
	Exports		Imports		Exports		Imports		Exports	Imports
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
EU	8 266,7	8 712,4	11 051,2	11 377,9	66,0	71,0	79,6	83,4	5,4	3,0
CIS	1 824,2	1 646,1	1 465,2	981,9	14,6	13,4	10,6	7,2	-9,8	-33,0
EFTA	477,6	513,2	286,9	225,6	3,8	4,2	2,1	1,7	7,5	-21,4
NAFTA	772,1	462,1	130,3	151,9	6,2	3,8	0,9	1,1	-40,2	16,6
<b>Association in total</b>	<b>11 340,7</b>	<b>11 333,7</b>	<b>12 933,7</b>	<b>12 737,2</b>	<b>90,6</b>	<b>92,3</b>	<b>93,2</b>	<b>93,3</b>	<b>-0,1</b>	<b>-1,5</b>
<b>Estonia total</b>	<b>12 520,5</b>	<b>12 274,6</b>	<b>13 877,9</b>	<b>13 648,6</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>-2,0</b>	<b>-1,7</b>

Source: Statistics Estonia

## Annex 2. Export commodity groups by main target countries in 2013 (%)

Commodity group	Sweden	Finland	Russia	Latvia	Lithuania	Germany	Norway	USA	UK	Denmark	Total share	
Live animals and animal products	3,8	11,7	15,0	21,1	18,2	5,8	1,0	0,2		0,4	2,0	79,3
Vegetable products	7,6	24,7	3,6	10,8	3,2	3,9	4,4			1,9	3,3	63,3
Animal and vegetable fats and oils	0,0	5,0	2,5	36,7	41,4	4,1	0,1			0,0	0,8	90,6
Prepared foodstuffs; beverages; tobacco	6,2	21,0	30,8	16,1	9,5	0,6	0,9	0,1		0,3	2,7	88,3
Mineral products	6,2	6,6	4,1	18,1	6,5	1,4	0,1	11,6		1,0	2,4	58,0
Chemical products	4,8	6,0	26,9	15,9	11,2	3,8	0,8	3,2		2,2	0,8	75,6
Plastics and articles thereof, rubber products	14,6	19,9	10,0	15,3	11,5	8,6	2,3	1,3		0,4	0,9	84,7
Leather, fur skins and articles thereof	2,9	23,4	25,8	6,8	2,4	1,3	0,3	0,0		0,7	0,1	63,7
Wood and articles of wood	18,7	16,8	1,0	5,5	1,7	9,4	7,6	1,0		4,8	7,9	74,5
Pulp and articles thereof	9,2	14,5	8,4	4,4	4,3	3,8	8,5	0,3		4,3	2,2	59,9
Textiles and textile articles	14,5	19,9	14,8	20,1	6,5	4,1	3,9	0,4		1,3	3,2	88,5
Footwear, headgear, umbrellas	7,1	28,9	20,6	17,3	13,8	0,1	5,0	0,0		0,1	0,3	93,2
Articles of stone; ceramic products and glassware	12,6	29,8	9,6	10,2	5,9	1,5	6,4	0,7		0,2	0,1	77,0
Precious stones, precious metals, jewellery	8,8	5,0	0,6	11,5	3,4	1,2	3,7	0,0		22,3	2,2	58,6
Metals and metal products	10,0	25,7	7,6	11,0	5,9	3,8	3,3	1,5		0,5	1,5	70,9
Machinery and equipment	33,5	13,8	14,3	4,0	2,8	3,2	2,2	2,9		2,4	1,4	80,3
Means of transport	10,0	27,0	6,5	19,6	11,3	4,0	4,5	0,5		0,7	0,4	84,4
Measuring and medical devices	13,3	5,7	19,9	2,9	2,6	19,2	0,6	9,2		1,7	0,8	75,9
Arms and ammunition	5,0	4,1	58,4	11,5	15,9							95,0
Other industrial goods	14,5	22,8	7,1	2,9	1,5	9,2	14,2	2,7		5,1	4,5	84,5
Works of art, antiques	31,5	10,9	19,0				0,1	12,5			20,7	94,7

Source: Statistics Estonia

### Annex 3. Import commodity groups by main countries of consignment in 2013 (%)

Commodity group	Finland	Germany	Sweden	Latvia	Lithuania	Poland	Russia	UK	China	The Netherlands	Total share
Live animals and animal products	13,8	7,9	3,7	28,5	11,4	9,2	0,9	1,4	0,1	3,3	80,2
Vegetable products	9,8	5,6	5,4	25,3	11,2	4,4	0,8	0,1	0,4	17,0	80,1
Animal and vegetable fats and oils	10,3	7,9	4,0	18,6	6,8	9,2	4,4	0,3		6,1	67,6
Prepared foodstuffs; beverages; tobacco	10,8	8,0	3,1	11,7	14,4	8,8	1,2	10,6	0,1	5,6	74,2
Mineral products	23,6	1,6	2,7	6,3	30,0	0,3	23,7	2,4	0,0	1,0	91,6
Chemical products	9,8	13,0	5,3	9,3	12,2	9,5	8,5	2,0	1,0	7,0	77,6
Plastic and articles thereof, rubber products	12,9	18,5	7,7	10,9	6,7	10,9	2,0	1,7	2,8	5,5	79,5
Leather, fur skins and articles thereof	39,8	3,7	3,0	5,2	4,1	2,5	3,5	0,9	5,6	4,3	72,5
Wood and articles of wood	13,4	3,9	4,9	24,4	7,0	2,6	30,6	0,9	0,6	0,5	88,8
Pulp and articles thereof	32,9	6,4	13,8	11,7	4,5	7,1	5,0	2,7	1,0	1,7	86,9
Textiles and textile articles	9,7	10,6	6,1	16,1	4,9	5,0	0,6	2,7	8,4	3,4	67,6
Footwear; headgear; umbrellas	21,4	12,0	5,1	12,8	2,9	6,4	0,8	1,5	4,2	5,3	72,4
Articles of stone; ceramic products and glassware	13,3	16,5	3,1	9,2	6,6	19,9	4,9	0,8	3,2	1,3	78,8
Precious stones, precious metals, jewellery	5,7	15,2	2,0	12,0	1,8	0,4	0,4	0,5	0,4	0,6	39,0
Metals and metal products	21,3	11,3	11,0	6,9	4,1	9,4	7,1	1,0	2,8	1,4	76,3
Machinery and equipment	11,2	10,7	18,0	6,4	3,7	9,0	0,5	7,6	7,7	2,8	77,5
Means of transport	15,9	16,9	15,1	7,7	2,2	14,2	1,5	3,5	0,4	2,2	79,6
Measuring and medical devices	14,7	24,4	11,9	3,9	2,3	3,0	0,8	3,2	1,4	4,0	69,7
Arms and ammunition	1,8	7,2	0,4	0,8	1,0		3,3	0,5	0,1	0,1	15,2
Other industrial goods	20,4	8,5	4,5	11,2	9,4	8,6	0,9	4,7	7,2	1,9	77,2
Works of art, antiques		0,5		0,4	0,1		0,5	0,0	16,3	0,1	17,8

Source: Statistics Estonia

## Annex 4. Accommodation of tourists in Estonian accommodation establishments

	Number of people			Number of overnight stays		
	2011	Change, % y-o-y	Share, %	2011	Change, % y-o-y	Share, %
<b>Total</b>	<b>2 980 865</b>	<b>5,0%</b>	<b>100,0%</b>	<b>5 734 033</b>	<b>3,4%</b>	<b>100,0%</b>
Estonia	1 040 735	7,7%	34,9%	1 824 707	6,0%	31,8%
Finland	894 504	7,9%	30,0%	1 691 035	2,4%	29,5%
Russia	304 644	14,4%	10,2%	679 343	14,4%	11,8%
Latvia	105 480	4,8%	3,5%	158 031	3,6%	2,8%
Germany	101 596	-8,7%	3,4%	210 955	-7,5%	3,7%
Sweden	74 313	-5,2%	2,5%	159 813	-1,0%	2,8%
Lithuania	52 201	10,1%	1,8%	93 784	20,9%	1,6%
UK	43 109	-20,6%	1,4%	99 742	-22,1%	1,7%
Norway	36 918	-23,8%	1,2%	91 451	-17,7%	1,6%
USA	27 442	-7,3%	0,9%	63 690	-4,5%	1,1%
Italy	26 506	-13,3%	0,9%	62 700	-10,5%	1,1%
Poland	26 001	1,9%	0,9%	60 788	20,7%	1,1%
Spain	22 926	-8,3%	0,8%	54 633	2,8%	1,0%
France	22 780	-5,4%	0,8%	52 368	-4,4%	0,9%
The Netherlands	16 358	-10,5%	0,5%	34 117	-12,3%	0,6%
Denmark	11 900	-15,5%	0,4%	24 174	-13,3%	0,4%
Ukraine	11 181	19,1%	0,4%	26 422	22,9%	0,5%
Japan	10 768	22,7%	0,4%	19 272	22,6%	0,3%
Switzerland	9 213	-11,1%	0,3%	17 659	-9,4%	0,3%
Belgium	7 855	-5,5%	0,3%	16 539	-8,9%	0,3%
China	7 806	31,5%	0,3%	15 339	48,4%	0,3%
South Korea	6 925	60,4%	0,2%	8 826	51,9%	0,2%
Austria	6 297	-24,1%	0,2%	15 306	-13,4%	0,3%
Czech Republic	6 184	-4,5%	0,2%	16 890	-19,1%	0,3%
Australia	5 981	8,4%	0,2%	13 133	8,5%	0,2%
Turkey	5 811	12,6%	0,2%	13 948	21,3%	0,2%
Hungary	3 871	9,4%	0,1%	10 280	22,0%	0,2%
Canada	3 823	-15,3%	0,1%	8 935	-14,5%	0,2%
Ireland	3 318	-38,1%	0,1%	8 300	-37,0%	0,1%
Portugal	2 990	-0,7%	0,1%	6 965	-4,0%	0,1%
Brasil	2 975	-6,1%	0,1%	6 267	5,8%	0,1%
Romania	2 717	16,8%	0,1%	10 841	92,5%	0,2%
Slovakia	2 148	-23,6%	0,1%	6 150	-12,0%	0,1%
Greece	2 082	-19,5%	0,1%	5 928	-2,5%	0,1%
Slovenia	1 612	-6,5%	0,1%	4 272	7,8%	0,1%
Bulgaria	1 499	-8,6%	0,1%	3 981	-12,5%	0,1%
Iceland	1 222	37,3%	0,0%	3 178	46,7%	0,1%
Luxembourg	1 042	-29,1%	0,0%	1 844	-36,3%	0,0%
Croatia	727	-35,3%	0,0%	2 509	17,2%	0,0%
Malta	417	3,5%	0,0%	962	12,8%	0,0%
South Africa	410	-10,9%	0,0%	942	-0,4%	0,0%
Cyprus	363	-45,1%	0,0%	931	-43,5%	0,0%
Albania	162	-46,5%	0,0%	447	-22,7%	0,0%
Other	64 053	3,4%	2,1%	126 636	5,6%	2,2%

Source: Statistics Estonia



## Authors

<b>Editor-in chief</b> Mario Lambing	625 6387	mario.lambing@mkm.ee
<b>Macroeconomic situation</b> Irina Bõtskova (Ministry of Finance) Madis Aben (Ministry of Finance) Kristjan Pungas (Ministry of Finance) Margus Täht (Ministry of Finance)	611 3432 611 3506 611 3284 611 3047	irina.botskova@fin.ee madis.aben@fin.ee kristjan.pungas@fin.ee margus.taht@fin.ee
<b>Foreign trade</b> <b>Manufacture of electronic and electrical equipment</b> Merike Riipinen	625 6401	merike.riipinen@mkm.ee
<b>Manufacture of food and beverages</b> <b>Textile industry</b> <b>Manufacture of wearing apparel</b> <b>Wood processing</b> <b>Manufacture of pulp, paper and paper products</b> <b>Furniture industry</b> <b>Domestic trade</b> Karel Lember	625 6402	karel.lember@mkm.ee
<b>Manufacturing industry</b> <b>Manufacture of chemicals and chemical products</b> <b>Manufacture of rubber and plastic products</b> <b>Manufacture of metal and metal products</b> <b>Manufacture of machinery and equipment</b> <b>Manufacture of transport equipment</b> <b>Tourism</b> Mario Lambing	625 6387	mario.lambing@mkm.ee
<b>Construction</b> Margus Tali	639 7672	margus.tali@mkm.ee
<b>Transport</b> Eva Unt	625 6485	eva.unt@mkm.ee
<b>Information and communication</b> Meelis Kitsing	625 6455	meelis.kitsing@mkm.ee