

Restoring the public finances

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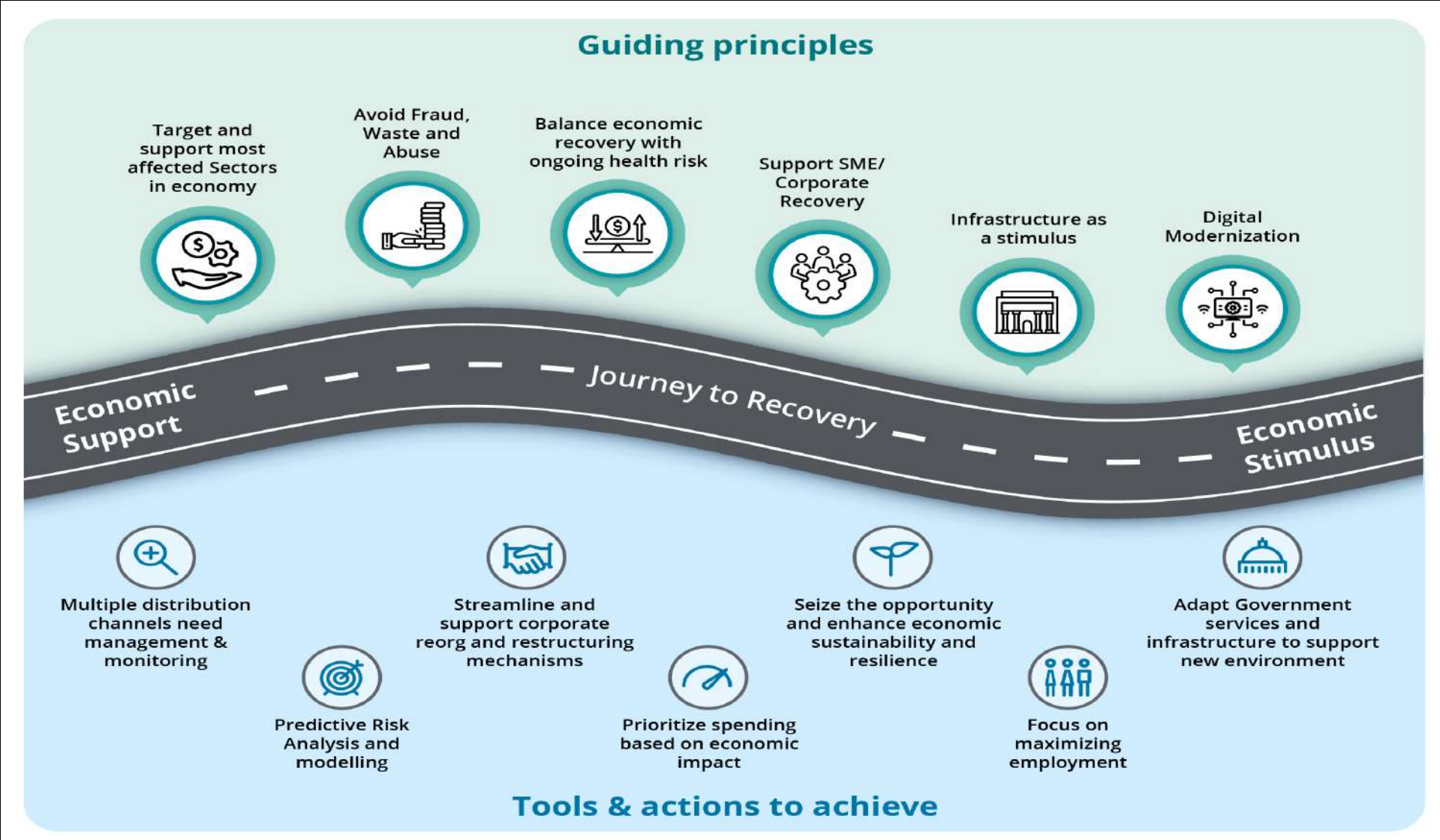
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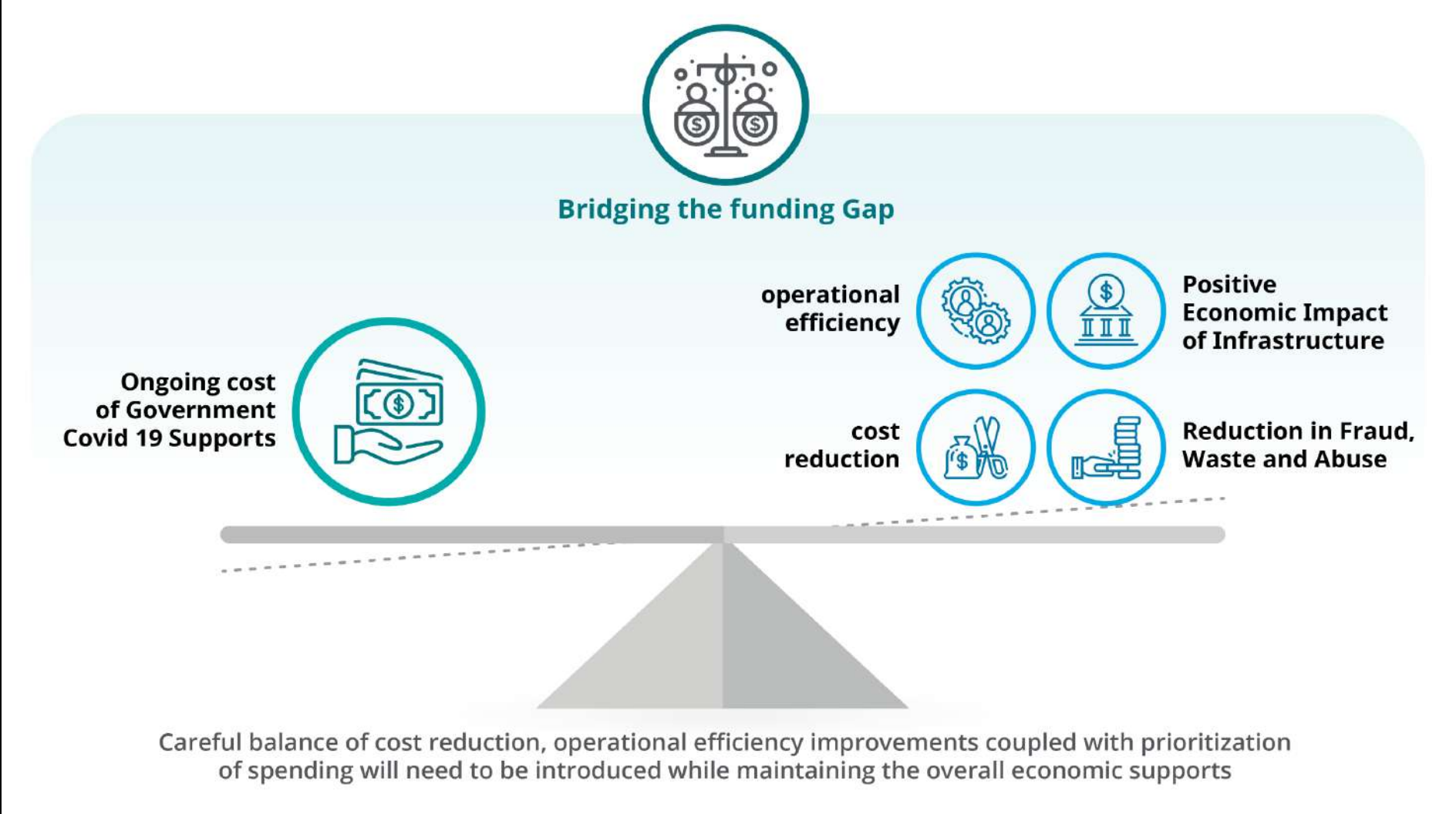
Government & Public Services

October 2020

The journey of Economic support into Economic Stimulus



Balancing the funding gap





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Restoring the Public Finances

Estonian experience

Veiko Tali

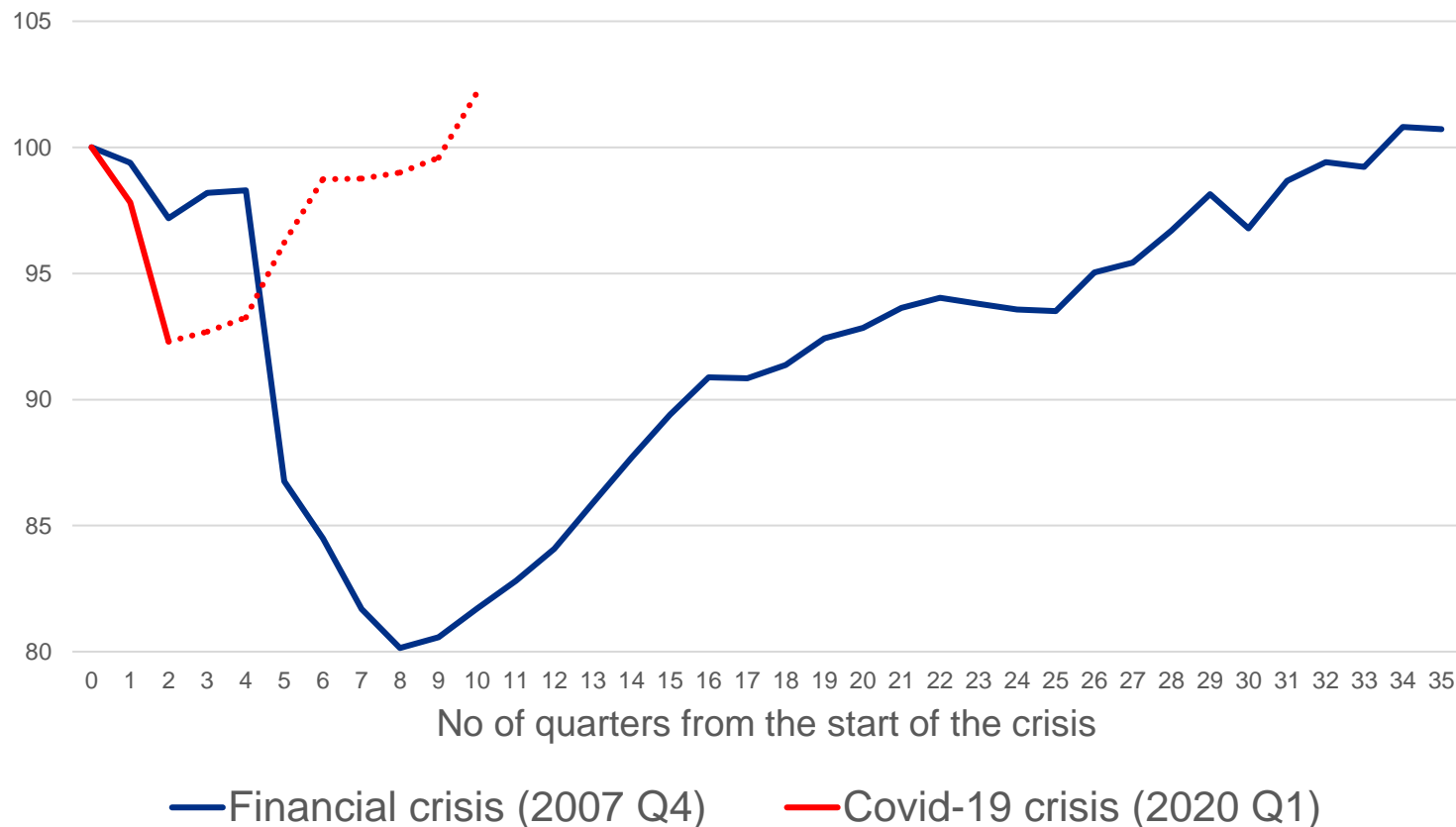
Secretary General, Ministry of Finance

October 6, 2020



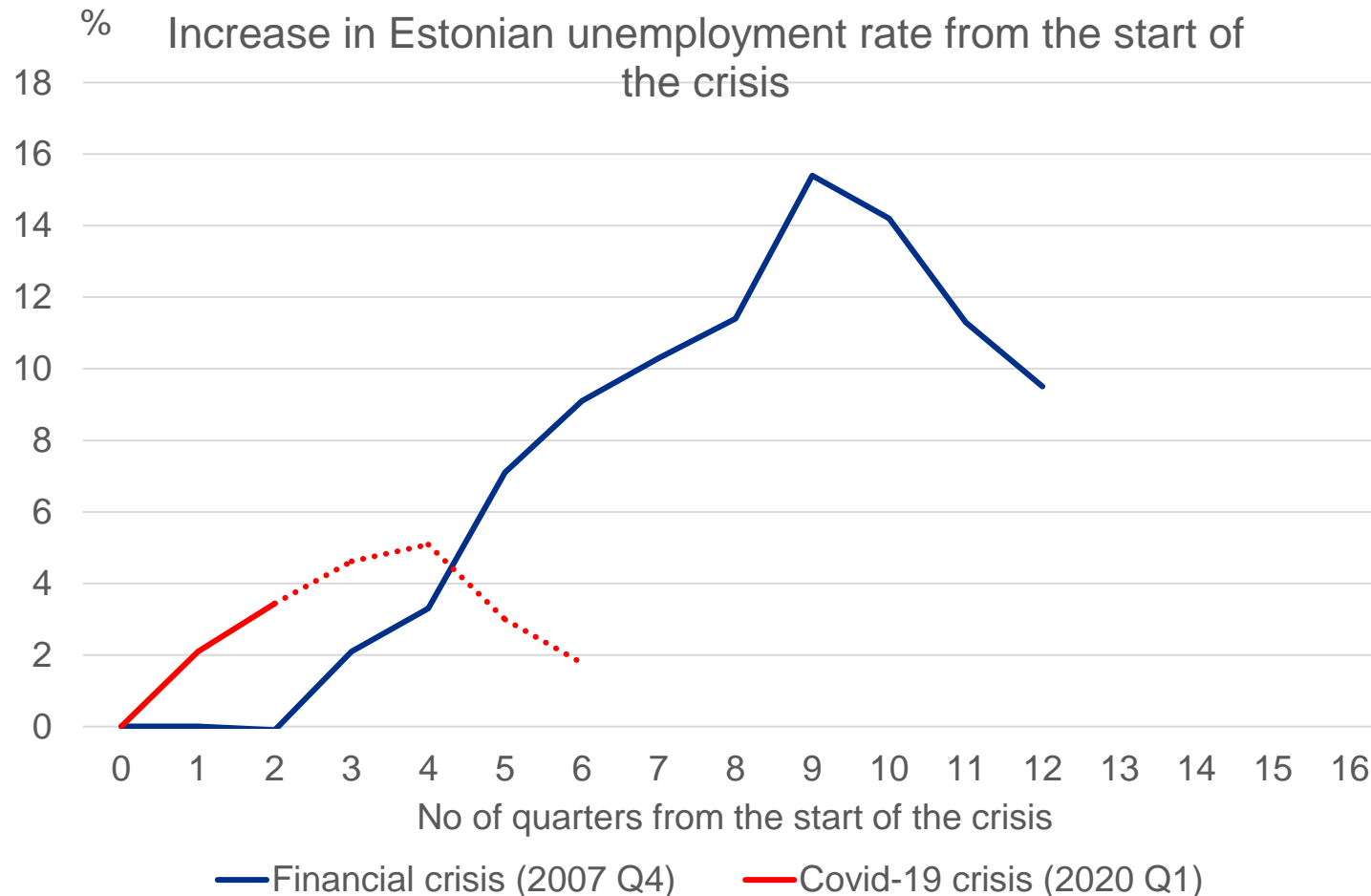
2008 vs 2020 – GDP

Estonian GDP during crisis episodes,
level



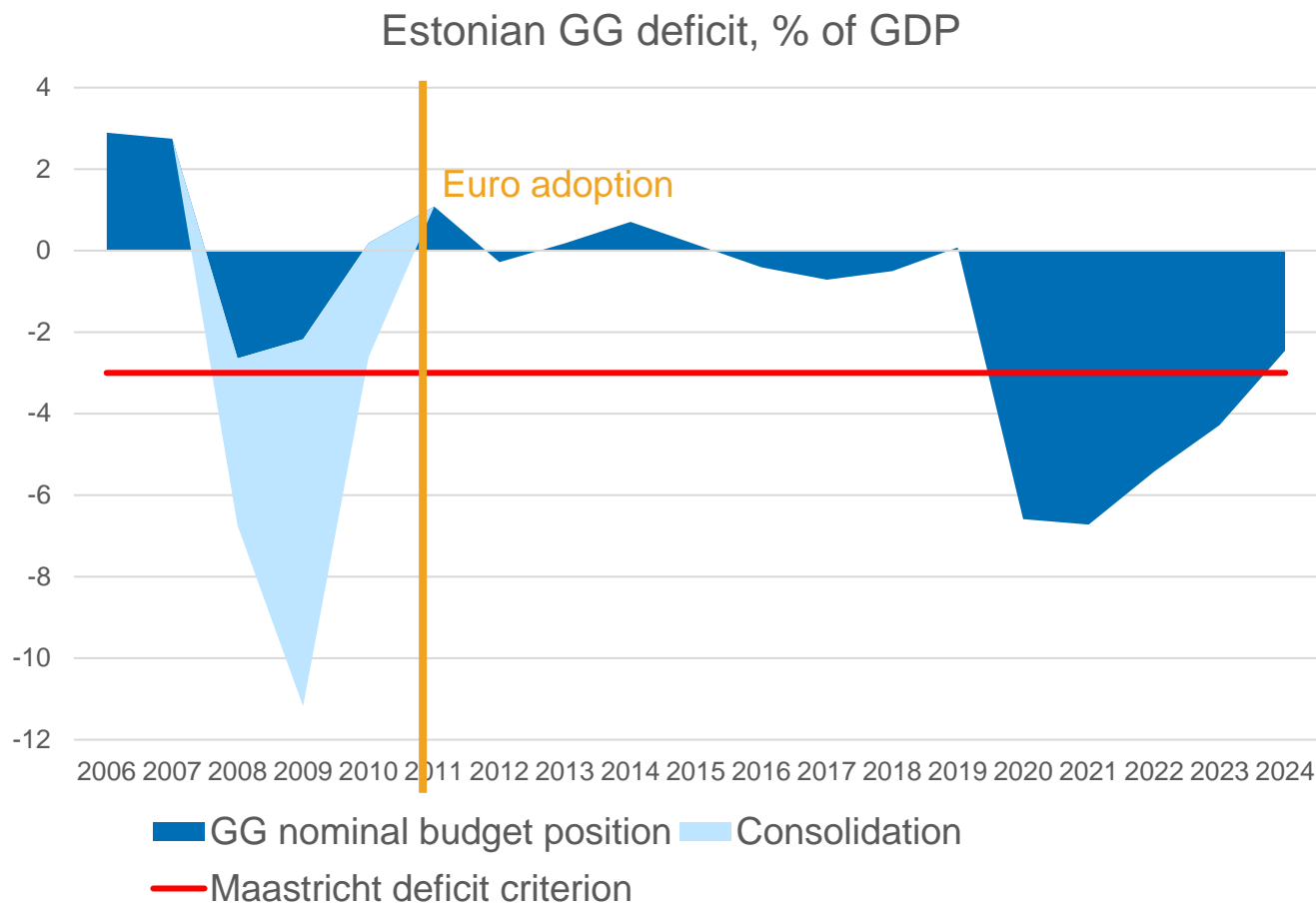
- Crisis in Estonia started 3-4 quarters before the big hit (Lehman Brothers)
- Dynamics of the crisis somewhat similar, but the extent not
- Partly due to less heated economy before the shock

2008 vs 2020 - unemployment



- Labour market reaction much faster despite the government support measures

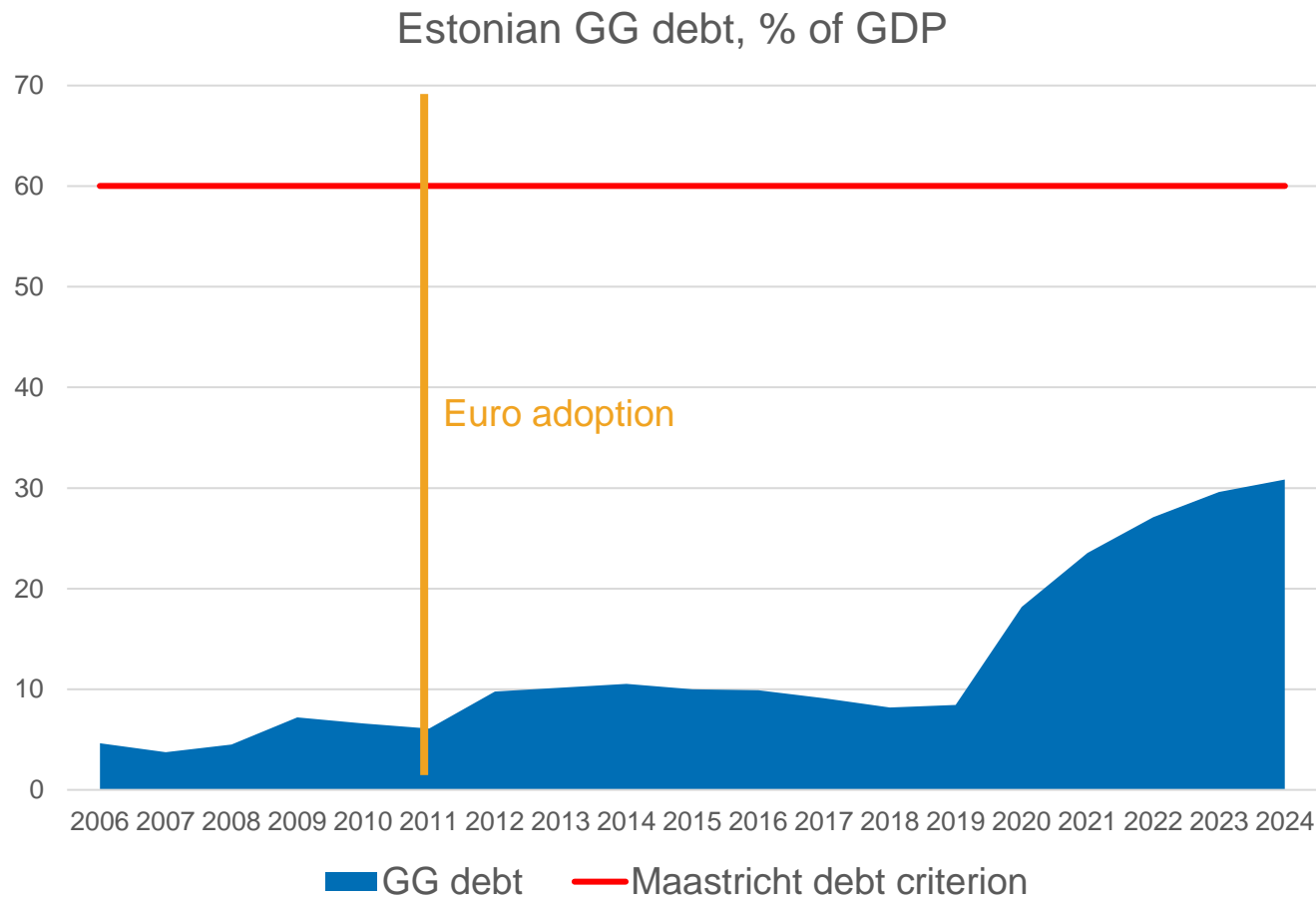
Government reaction to the crisis very different



2009: window of opportunity to meet Euro criteria
Massive expenditure cuts and tax hikes (~16% of GDP in 2008-2010)

2020: Activation of Escape Clause and focus on crisis mitigation measures

Government reaction to the crisis very different (2)

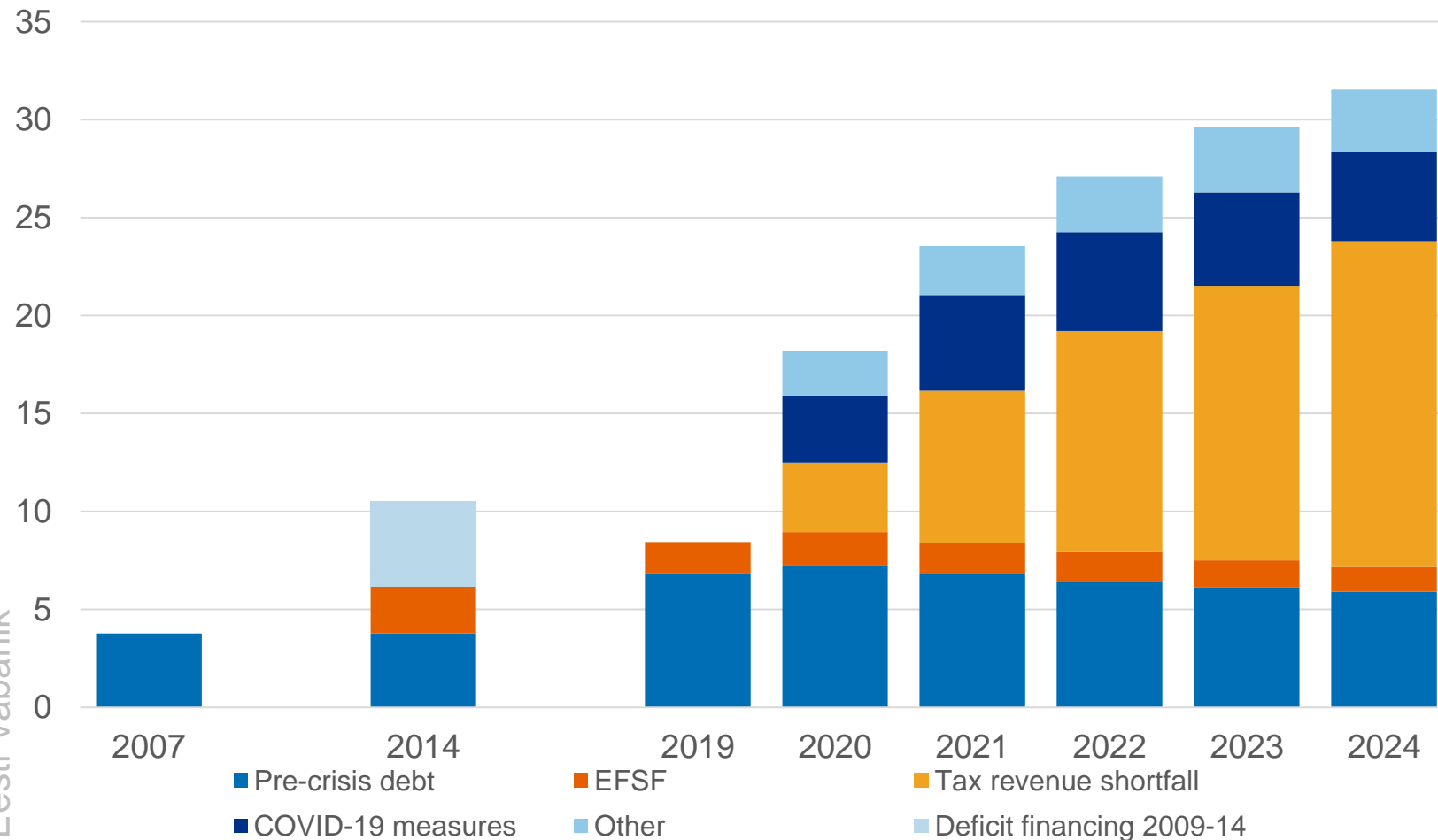


Debt raise after 2009 crisis was moderate, and partly because of problems in other EU MS.

Massive fiscal stimulus in 2020-2021 results in substantially higher debt levels

No EU fiscal rules = higher permanent debt levels

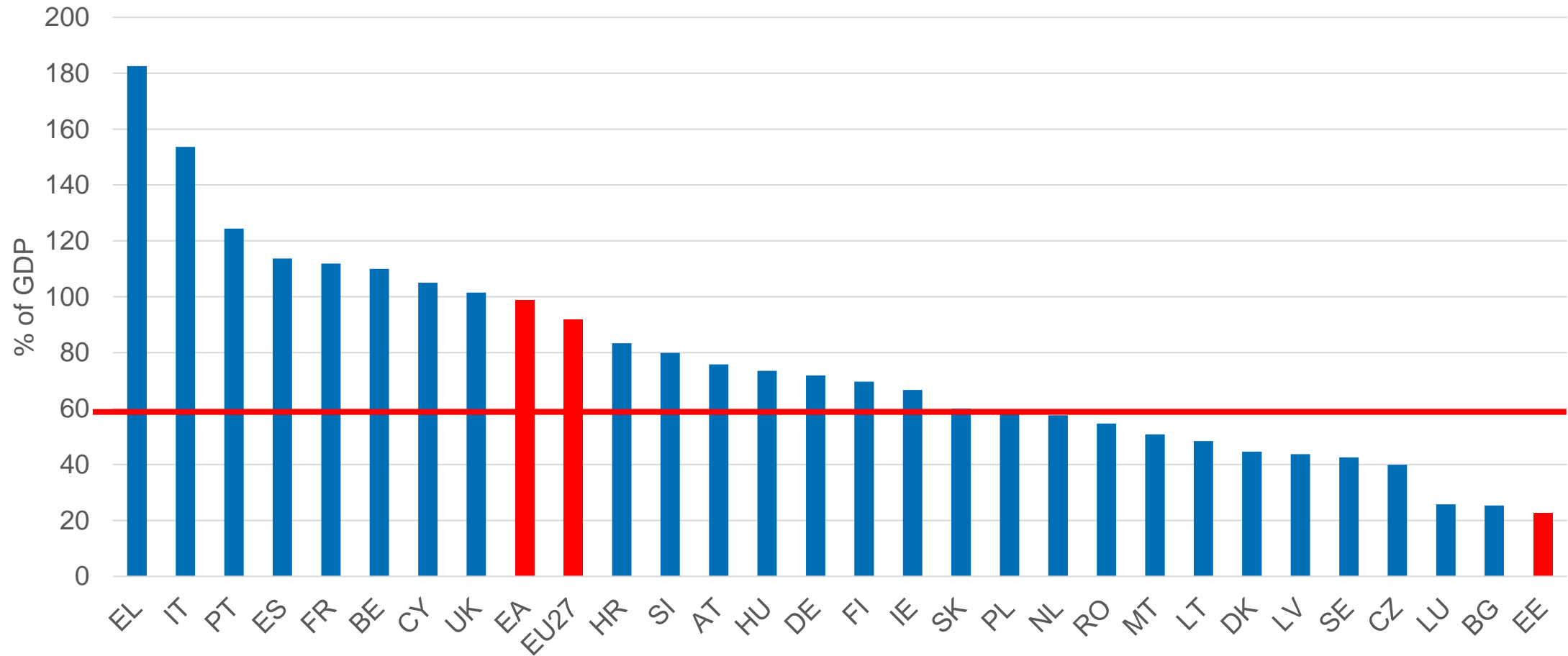
General government debt burden decomposed (% of GDP)



- COVID-19 has a permanent effect on debt levels
- COVID-19 measures up to 5% of GDP
- ½ of 2024 debt (16% of GDP) from non-reaction to fallen revenue levels

Estonia is expected to remain with the lowest public debt in the EU

General Government debt in 2021, DG ECFIN Spring Forecast 2020

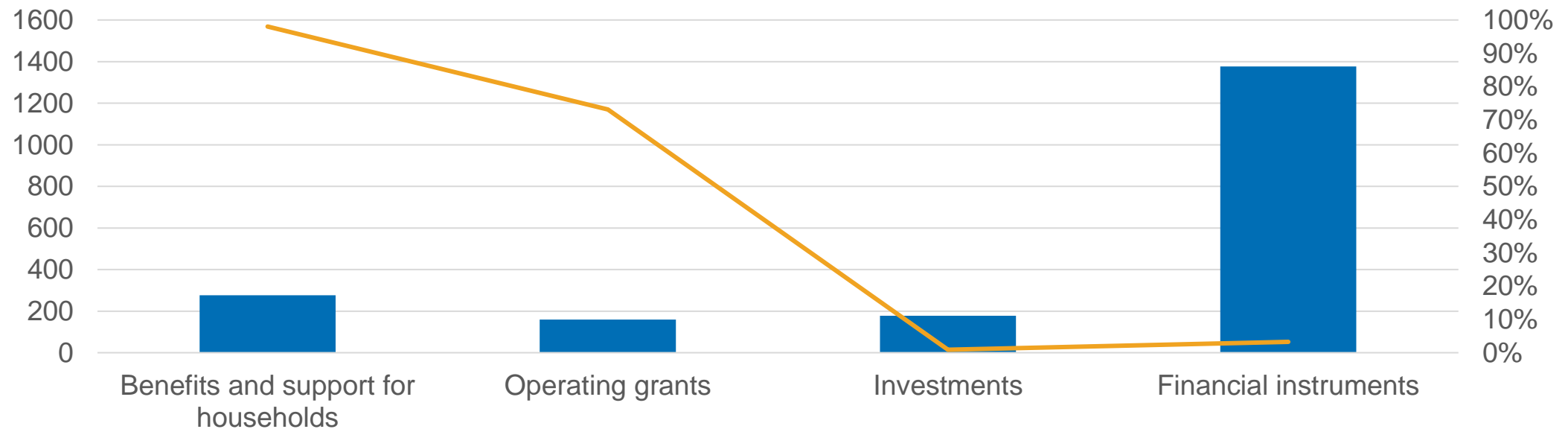


Estonian COVID-19 crisis mitigation measures

~2 billion euros (~7,5% of GDP); 22% used by 31. August

Distribution and disbursement of COVID-19 mitigation measures

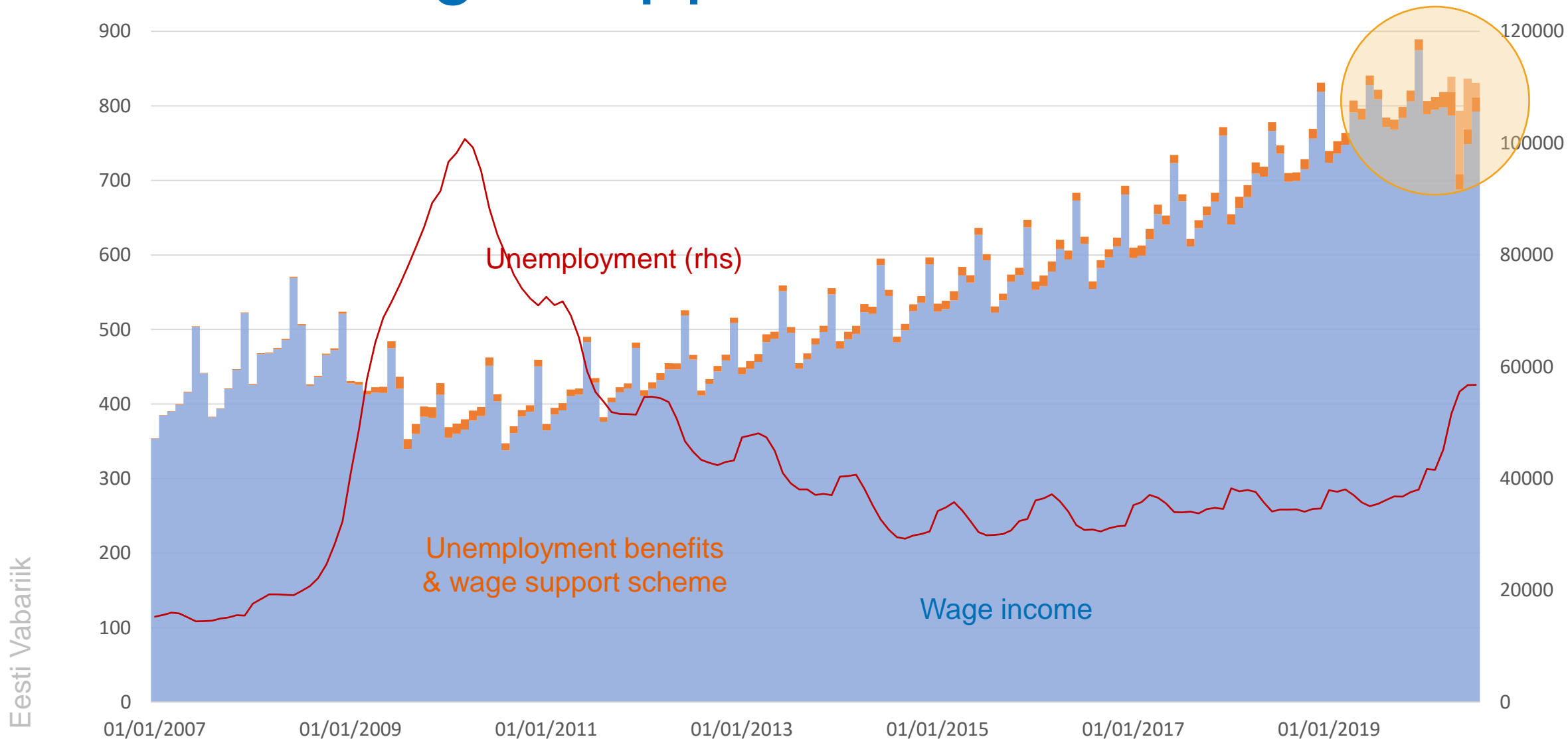
EUR million



■ COVID-19 measures

— Disbursement rate (31.08.2020)

Quick wage support scheme's

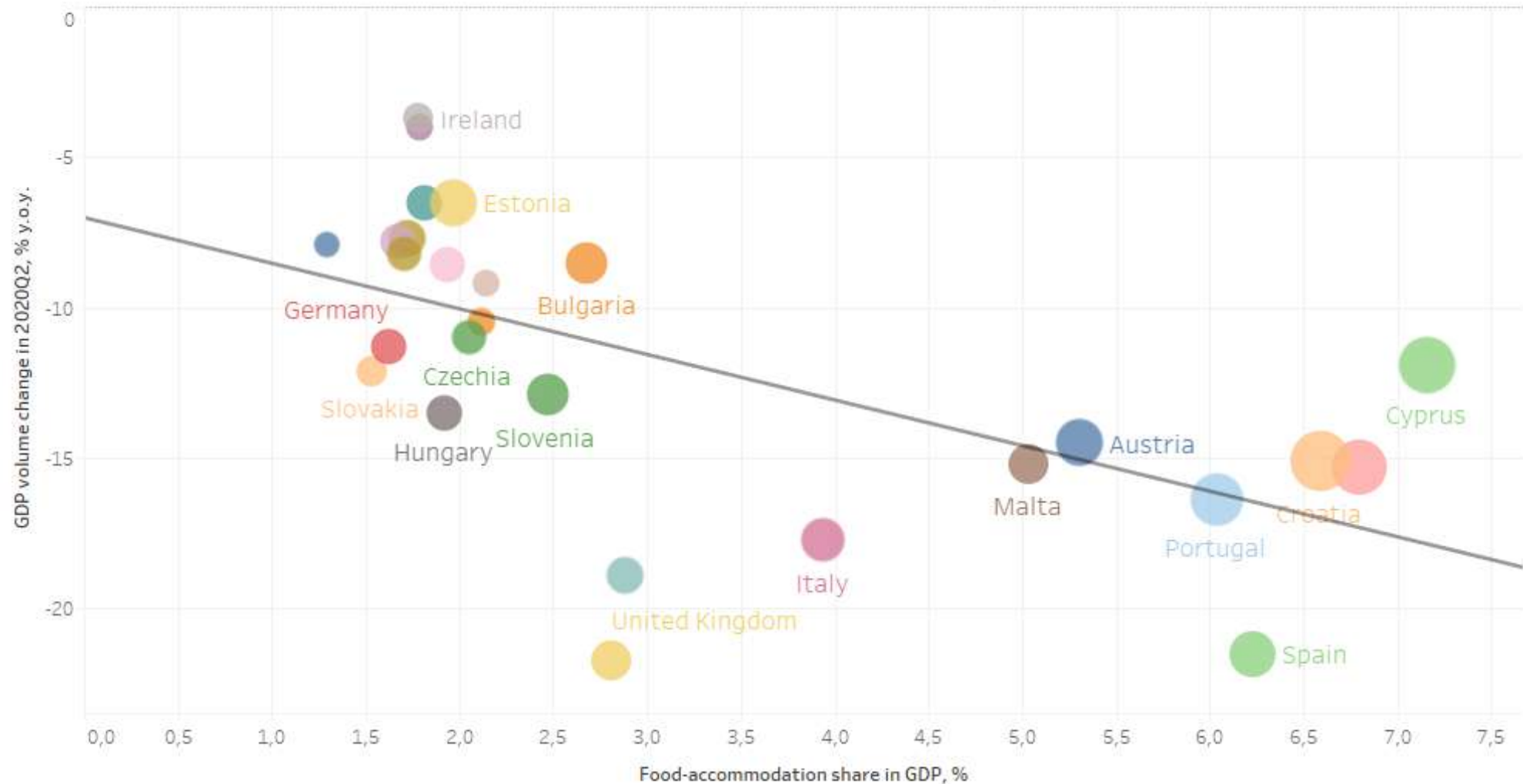


Main challenges

- How to design government intervention / deficit stimulus (subsidies, vouchers, investments, loans, guarantees) ?
- How to raise growth potential and future tax base vs spreading money and fulfilling political agenda?
- How to amplify structural changes of new economy instead of investing government money into old industries and business models ?

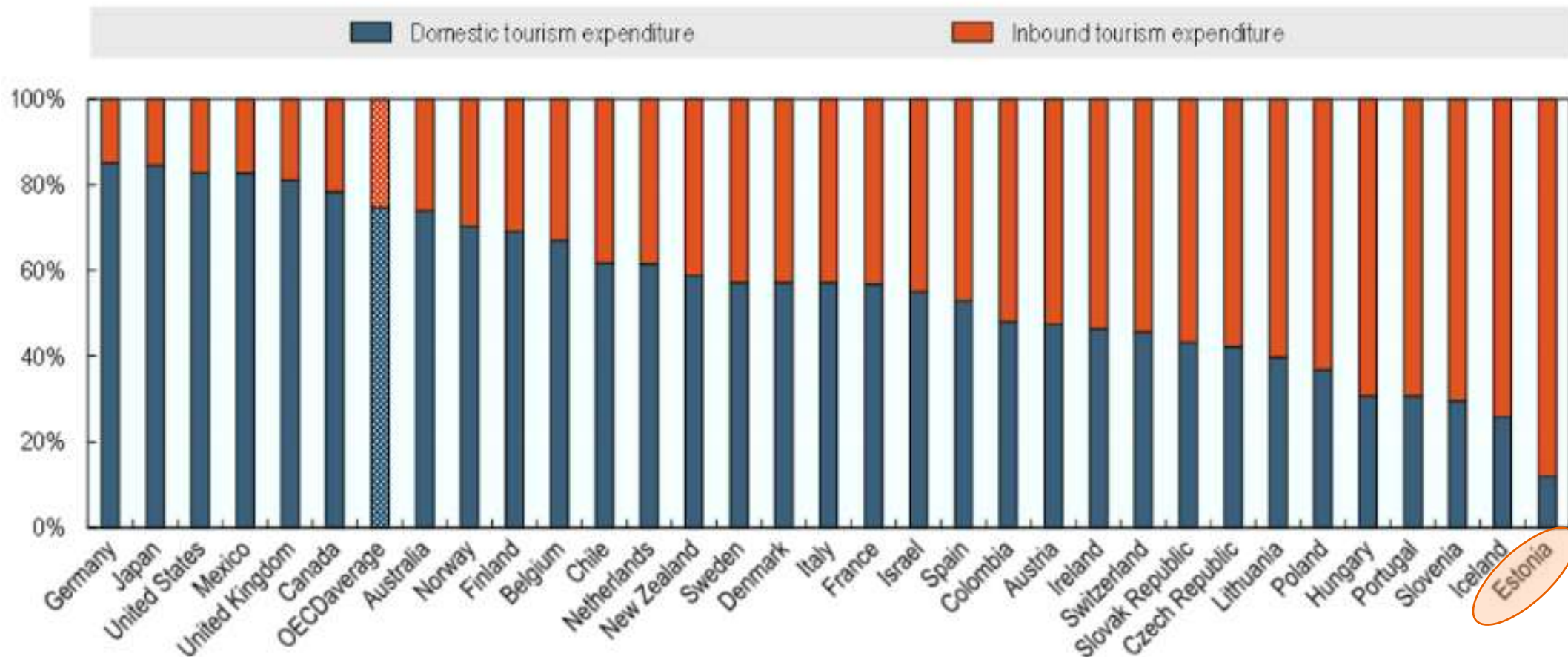
Food-accommodation services share explaining GDP in Q2

Share of food-accommodation services explaining GDP decrease in 2020Q2
(Bubble size shows tourism share in GDP)



Share of inbound tourism huge in Estonia

Figure 3. Relative importance of domestic tourism in selected OECD countries



Source: OECD Tourism Statistics (Database).