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Political insight:

Spring awakening, new government embracing  
green transition and new taxes



# The new government of Estonia gave oath at Riigikogu this Monday



The new government with the President of Estonia, photo by ERR/Priit Mürk

Following general elections on March 5th and 5 weeks of coalition negotiations the Reform Party, Eesti 200 and Social Democratic Party form the new government.



## One step back: elections summary

As a reminder let's take a look where did we stand right after elections. The elections produced a clear winner with even a surprisingly large majority - the Reform Party won 31% of the vote. Some were expecting a much closer fight between Reform and the Conservatives, but the latter fell far behind.

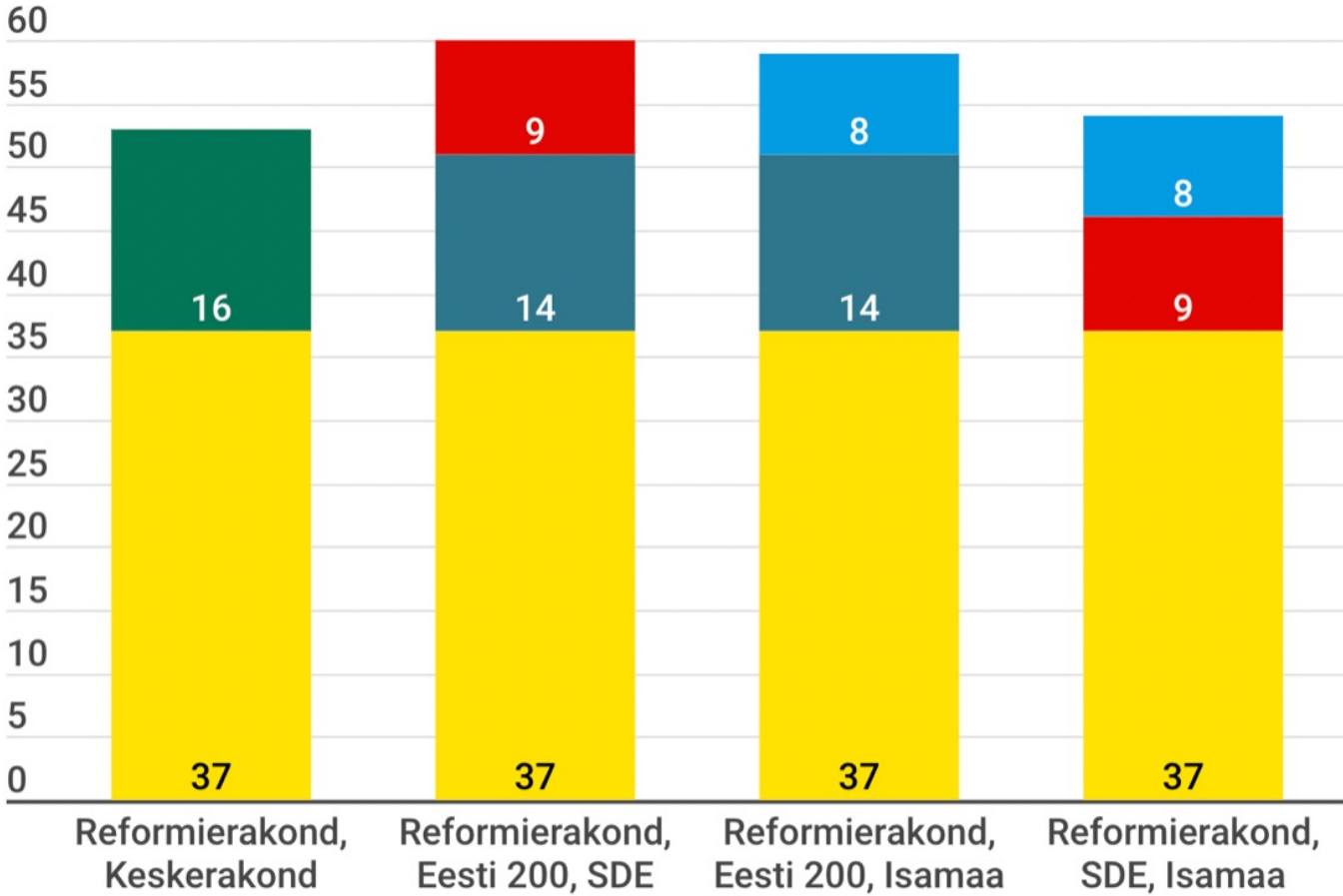
<b>Reform Party</b> (ALDE) 37 seats	<b>Conservative Party</b> (ID Party) 17 seats	<b>Center Party</b> (ALDE) 16 seats	<b>Eesti 200</b> (non-aligned) 14 seats	<b>Social Democrats</b> (PES) 9 seats	<b>Isamaa</b> (EPP) 8 seats
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**Total: 101 seats**

### What to note?

- **Voters hit new record:** 63,5% of votes took part in the elections (615 009 voters in total)
- **E-voting hit new record:** 313 514 voters participated in elections electronically
- **New personal record:** Current Prime Minister Kaja Kallas set a new record for the number of personal votes with 31 821 votes.
- **Women hit new record:** a total on 30 women won seats, which constitutes the best result for women in Riigikogu electoral history
- **New force in the parliament:** Eesti 200 is the newcomer in the Riigiikogu. Last elections they didn't exceed the electoral threshold of 5%, staying at 4,4%

# Possible coalitions after elections: what did Reform Party choose from?



- Reform Party
- Centre Party
- Eesti 200
- Social Democrats
- Isamaa

As the Reform Party already ruled out cooperation with the Conservative Party before the elections, it is not included in the possible combinations.

\*graph by Postimees

## Decided on March 7th:

## Reform Party suggested Eesti200 and Social Democrats to kick off with negotiations

Coalition talks lasted nearly one month. Regular updates were given in the first weeks of the negotiations, but when in the last phase it came to budgetary issues, coalition partners stayed quiet until revealing the coalition agreement. Recent developments:

### Saturday, April 8th

All three parties had their internal discussions on the new cabinet positions and coalition agreement and approved those.

### Monday, April 10th

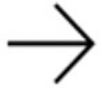
The new government's coalition agreement was signed in the Riigikogu by the chairman of the Reform Party and prime minister Kaja Kallas, chairman of the Eesti 200 Lauri Hussar and chairman of Social-Democrats Lauri Läänemets.

### Monday, April 17th

President Alar Karis appoints the coalition. New ministers took the oath of office, starting their term in power.



Party leader at first press conference after coalition kick off talks on March 8th.  
*Photo by Delfi.*



## Prime Minister: Kaja Kallas

- Prime Minister since January 2021, received a new mandate following last elections
- First female Prime Minister of Estonia
- Chairman of the Reform Party since April 2018
- Member of the Estonian Parliament 2011-2014 and 2019-2021 (January)
- Member of the European Parliament 2014-2018
- Attorney-at-law until 2011
- MA degree in law, EMBA degree in economics

Kick off as a Prime Minister within her first government 2 years ago was not easy for Kaja Kallas. Lack of prior governmental experience, the COVID crisis, tensions within the own party and high electricity prices led to polling at her lowest prime ministerial approval rating (16%).

The picture changed following the start of the war against Ukraine. Satisfaction with the PM went up sharply since January and stayed high till the elections. Concerning the security situation Kallas has acted strongly and decisively, receiving the title of a new “Iron lady” of Europe. Security was also focus topic for the Reform Party campaign during the elections and it proved to be the one which resonated the most among the voters.



## What else to note about the new government?

- The new government of Estonia will have 12 ministers in addition to the Reform Party chairwoman as Prime Minister. In previous government there were 14 minister position.
- The Reform Party gets 7 ministerial posts, Estonia200 and Social Democrats 3 each. Estonia200 also got the position of the speaker of Riigikogu.
- Seven ministers are returning from the previous administration, either to the same role or to a new one. By gender, five of the ministers are women and eight are men, compared with seven women out of 15 in the preceding coalition.
- Coalition parties together have **60 seats in the 101-seat** Riigikogu.

### **Government will reorganize work at five ministries:**

- The Ministry of Economic Affairs and Communications will be replaced with an economic affairs and IT ministry to which structural units from the Ministry of Social Affairs will be added.
- The coalition agreement prescribes reorganizing the work of five ministries. Because this requires laws to be amended, the process should be finished by the start of the next year.
- The Ministry of the Environment will serve as the foundation for the new Ministry of Climate. Certain fields under the Ministry of Economic Affairs and Communications, such as energy and transport, will fall into the responsibility of the new climate minister.

# What does coalition agreement bring us?

The new coalition is set to focus on security, sustainability of the state budget, green reforms, reducing regional backwardness and reducing income inequality.

## Most surprising?

To cope with rising costs, the coalition decided to start with significant tax increases, which came as a surprise to many people, since there was no discussion about tax increases before the election. Heavy critics came from media side as well, many articles

## Most positive?

Green coalition agreement is what we have been waiting for and this is what we see in the current document. But what else - granting the same legal status to same-sex marriages as that enjoyed by opposite-sex unions is included in the coalition agreement!



# What can you find in the coalition agreement?

## New taxes, much more than expected

- The coalition agreement prescribes hiking VAT from 20 percent to 22 percent starting from January 1, 2024, and income tax from 20 percent to 22 percent January 1, 2025. The basic exemption will rise to €700 a month.
- Accommodation providers' VAT exception will be abolished.
- A car tax will be introduced, the exact content of which is not yet clear.
- Municipalities are given greater powers to impose taxes.
- Waste, packaging and plastic will be taxed with the aim of waste reduction and on the principle of increasing the producer responsibility.
- With the coalition agreement, additional tax exemptions for children, spouse and housing loan interest will be abolished from 2024.

## Security and foreign policy

- According to the security policy document, the government guarantees long-term **national defense costs of 3%** of GDP for four years, plus the costs related to the reception of allies.
- Compulsory military service will be prolonged.
- **Estonia supports Ukraine in restoring its territorial integrity and repelling Russian aggression.** Estonia stands for the tightening of **sanctions against Russia** in the European Union and supports Ukraine **economically, politically and militarily**, including **Ukraine's NATO and EU efforts**.

## Green transition

Coalition promises to **carry out the green reform** in cooperation between the public, private and third sectors. Together with entrepreneurs, coalition wants to make the Estonian economic model **climate-neutral and sustainable**. Green reform will be led by the newly created **Ministry of Climate**.

- One of the main challenges is **passing a climate law**.
- The coalition promises to improve the quality of forestry data in order to monitor the state of Estonian forests more precisely than before. It is aimed that the stock of economic forests must not decrease.
- The coalition wants to **renovate as many buildings as possible** to seek energy efficiency, which includes the public sector. "We will introduce a principle based on which new public buildings should ideally be constructed of wood. That constitutes climate-neutral construction and carbon storage."

## Energy

- The coalition regards **renewable energy as an overriding public interest**. The planning, construction and ability to access the grid of renewable capacities will be made faster.
- The development of distributed energy production projects of communities, landowners and companies, including microgrids, and the creation of energy cooperatives are supported.
- In addition to the establishment of renewable energy capacities, attention is paid to the establishment of **storage capacities**.
- Based on the report of the nuclear energy working group, it will be decided whether and in what role could nuclear energy be in the energy portfolio.
- The coalition has significant plans for national energy company Eesti Energia from which distribution system operator (DSO) Elektrilevi and oil shale mining operations will be separated. This raises questions regarding the future of Eesti Energia in general. A separate entity will be created to oversee oil shale mining, which will give all market participants equal access to the resource at a cost-based price.

## Transport and infrastructure

- The government will continue reconstructing currently traffic-dangerous sections of the **Tallinn-Tartu and Tallinn-Pärnu highways** in the agreed volume to have 2+2 or 2+1 lanes.
- The coalition continues to **build Rail Baltic**.
- **Free county public transport will be abolished**, free rides will be available only to children, the elderly and people with disabilities.
- **Electrification of the railways continues**. The coalition supports the European Commission's initiative of switching rail traffic to the European track width in the Baltic region.

## Regional policy

- **The revenue base of municipalities will be balanced** in order to **reduce the negative effects of urban sprawl and regional backwardness**, taking into account, among other things, the distribution of the population and the location of jobs.
- **A regional investment program** will be created and the **direct investments decided by MPs will be abolished**.
- In order to better manage the challenges related to Ida-Virumaa, **a government representative is appointed to Ida-Virumaa**.

## Education

- In accordance with the already established law, the government intends to continue with the plan to **change education to Estonian**.
- **The compulsory schooling age is set to raise to 18 years** of age or until the acquisition of post-primary education or a profession.
- The coalition promises to **invest public funds in research and development activities at 1% of GDP** and to support the entrepreneurs so that **the private sector invests at least 2% of GDP in research and development activities**.
- The operating support for higher education will be increased by 15% in the next three years. The possibilities of attracting private money will also be increased in order to increase the financing of higher education to 1.5% of GDP.

## Social policy

- A reform of the personal state is being carried out, the goal of which is to create an integrated and unified healthcare and social welfare system based on a personal approach, proactive service provision, comprehensive assessment of a person and smart use of big data for the sake of people's well-being.
- A parent returning to work from parental leave will be compensated for sick and care days in the future based on the parent's past income, not the minimum wage.
- Amending the family benefits system which came into force only at the beginning of this year in reducing the family allowance by 200€ for families with three to six children paid €650 and those with seven or more children €850 a month. The first and second child benefit will be retained at €80 per month and that for the third and consecutive children at €100.
- The coalition promises to change the family law by **allowing same-sex marriage and to adopt the needed implementing acts on civil union**.

## Public administration and constitutional matters

- **Privatization of non-strategic state-owned enterprises** will continue and a list of enterprises to be privatized will be drawn up by the end of 2023.
- The coalition will introduce an amendment to **reduce the state budget support of political parties that have a criminal conviction.**
- The law on the election of the president will be amended to allow earlier nomination of the candidate, and a political consensus will be sought in the Riigikogu to change the process of the presidential election.
- The coalition is looking for a political consensus in the Riigikogu so that **16- and 17-year-olds can participate in Riigikogu elections.**
- There are plans to **reshuffle electoral districts for parliamentary elections in order to ensure pan-Estonian representation and the balance of districts.**
- In cooperation with constitutional and other legal experts, a legal framework is foreseen to be developed to **suspend the voting rights of citizens of the Russian Federation and Belarus in local elections** without amending the Constitution.
- In full respect to the Constitution, the new coalition **will aim to make inciting hatred punishable** in order to ensure the dignity and sense of security of all Estonian people.

Please find our overview about background of the ministers in additional file attached.



## → Take-aways

- The Reform Party is setting the scene in the coming years with a focus on national security and green transition.
- The cumulating taxation changes will affect every person and business in Estonia and could lead to greater social incoherence.
- Due to decision on changing the family law by allowing same-sex marriage some turbulence might take place in the society. Opposition parties, especially Conservatives, will use it in their fight against the government.
- Inexperience of Eesti 200, which has never been neither in the parliament nor in the government can serve both advantage and disadvantage. Though we rather expect peaceful moods in the new government all in all.
- Estonia will keep its strong profile on the global arena.



→ **Thank you for reading!**

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