

Estonia services snapshot

Key data

Services value added as % of GDP 2012: 67%

Employment in services (2012) 64%

Exports of commercial services 2012: USD 5.6 billion

Imports of commercial services 2012: USD 3.9 billion

Commercial services balance 2012: USD 1.7 billion

Principal services exports: transport (39.6%), travel (22.6%), and other commercial services (37.8%)

Principal services imports: transport (38.5%), travel (20.5%), and other commercial services (40.9%)

FDI net inflow 2013: USD 909.9 million

Current account balance (2012): USD -397 million

Key markets: EU, Russia, US, Norway, Germany, Finland, Sweden, Belgium

Services contribute 66.9% value added to GDP. Estonia has a surplus of USD 1.7 billion in its commercial services account. In fact, Estonia has a surplus in all major services sectors apart from construction services.

Services sector is the biggest source of employment in Estonia (64.1%, whereas industry 31.1% and agriculture only 4.7%). More than 40% of Estonian enterprises are active in the services sector. Around 36% of those enterprises specialize in professional, scientific as well as technical activities and more than a quarter of value added of the sector was created by enterprises in ICT sector. 95% of these companies are micro enterprises with less than 10 employees.

The key sectors for the economy are transport, tourism and ICT.

Estonia's services exports are mainly directed to the EU, Russia, the US, Norway and Singapore.

A boosting factor for enterprises in services sectors has been a tax system with flat income tax (21%) and no tax on reinvested profits. Estonia has a conducive pro-business environment and a company can be set up with only 15 minutes online. Estonia is also called an e-State, it is one of the most advanced e-countries in the world - all major activities, from paying for parking and filing tax returns to voting can be done online. Digital signature given with the help of an ID-card with a personal chip has the same value as a normal signature and has facilitated online services even further.

Trade in services balance in selected sectors, USD Million

	2007	2008	2009	2010	2011	2012
Transport services	564.0	826.6	848.3	851.2	844.0	650.0
Tourism services	365.0	376.8	482.5	439.3	442.7	430.4
Financial services	43.3	37.9	33.3	43.6	38.6	38.0
Communication services	9.4	-9.8	21.6	4.0	7.5	7.3
Business services	355.0	437.4	467.4	345.0	447.8	464.0

Source: ITC Trade Map

Transport

The share of Estonia's transport services exports and imports of total commercial services export and import are almost equal, 38.4% and 38.9% respectively.¹ 8% of Estonia's total work force is employed in the transport sector. It is a sector that makes a significant contribution to Estonia's export earnings and has a balancing effect on the trade deficit.

Estonia benefits from its geographical location between the Northern and Central, Eastern and Western Europe. Transit and logistics services are very important and around 50% of all exports to Russia are actually re-exports from other EU countries.

Road and rail transport are almost equally important for goods transport in the country, however the latter plays a bigger role in freight transport. There is a Rail Baltica project underway between the Baltic States with the aim of connecting Finland, the Baltic States and Poland with a modern rail network and improve the rail connection between the Northern and Central Europe.

Estonia has a modern infrastructure, but the quality of some secondary roads remains below European standards.

Companies supplying rail transport (*AS Eesti Raudtee*) and the biggest port (*Tallinna Sadam*) are state owned. Cargo-handling in the port, however, is done by private enterprises.

Tourism

As of 2008, Estonia has registered annually over 2 million international tourist arrivals. In 2012, the number of arrivals reached 2.7 million, which is double the population of Estonia (approximately 1.3 million). Joining the EU has had a boosting effect on Estonian tourism sector. In 2004, the number of tourists staying in lodging enterprises in Estonia increased by a third compared to the year before.

One fifth of all international tourists are Finnish one day tourists. At the same time other international tourists' visits have been increasing faster and the dependency on Finnish tourists has somewhat declined.

Tourism services earnings in 2013 reached EUR 1.3 billion and the sector's export grew by 8%.²

Financial services

Estonia's banking sector is very concentrated and dominated by foreign banks' branches, which operate as universal banks. Swedish, Finnish and Danish banks account for roughly a third of the whole banking market.³ Financial services are mainly directed towards domestic market, financial services export accounting only for 2% of total services exports.⁴

Communication services

Estonia is one of the most digitally advanced economies in the world. The country has been called even an e-State, as the population is extremely internet savvy and accustomed to using e-healthcare, e-banking, e-school, e-taxes, e-police and e-elections options on a daily basis. Estonia was the first country in the world to have held the general internet election in 2007. Income tax declarations can be filed online within minutes – in 2012, over 94% of all declarations was filed via e-Tax Board. Estonia is also the country where m-parking system was commissioned first in the world.

¹ WB databank, available online: <http://databank.worldbank.org>

² Republic of Estonia Ministry of Economic Affairs and Communications data, available online: <https://www.mkm.ee/en>

³ OECD, Review of the Estonian Financial System, p. 12.

⁴ *Eesti finantssektori hetkeseis ja tulevikuvõimalused*, p. 42.

ICT employs approximately 3% of the total work force, three thirds of which is involved in services sector and the rest in production.

All in all, 78% of Estonian population uses internet and there are around 1200 free Wi-Fi zones in the country, including in most trains and long-distance buses. The whole country is covered by 3G digital mobile phone network and 4G network is available in the cities and is spreading quickly.⁵ The biggest companies operating in the telecommunications sector are AS EMT, Tele2 Eesti and Elisa Eesti. There are 159.7 mobile cellular subscriptions per 100 inhabitants in Estonia.⁶

Estonians are also known for software development. For example Skype was developed in Estonia as well as Transfer Wise. Estonia is active in wholesale of information and communication technology, software publishing, telecommunications, programming, consultation, data processing, web-hosting, website operations, and restoring computers and communication devices services.

Business services

Business sector has been developing rapidly. Approximately 16 000 companies provide a big variety of business services in Estonia. Companies active in this sector are generally local and small-scale companies in addition to some subsidiaries of international corporations. In 2013, the biggest surplus in Estonia's services account was in business sector, amounting to USD 618 million, surpassing even transport and tourism sectors for the first time. The sector exports only roughly 19% of its services. The majority of exported business services are directed to EU, Russia, the US, Norway and Switzerland.⁷

There are more than 40 captive and BPO Share Service centers in Estonia, the sizes ranging from small centers of excellence to large multi-functional centers employing over 300 people in total.⁸

Foreign service suppliers take advantage of Estonian e-commerce platforms. In 2015, there is a possibility to become an e-resident of Estonia, which means that foreigners are able to sign contracts and take care of other bureaucratic issues for their business enterprises remotely and online like Estonian citizens do.⁹

Foreign direct investment

	2005	2006	2007	2008	2009	2010	2011	2012	2013
FDI, net inflows (% of GDP)	22.5	13.2	15.6	7.9	9.6	10.8	2.3	7.4	3.7
FDI, net inflow (current USD billion)	3.1	2.2	3.4	1.8	1.8	2.0	0.5	1.6	0.9

Estonia is an attractive FDI destination with a conducive business environment and a flat income tax system without tax on reinvested earnings. Estonia ranked 22nd in the World Bank Ease of Doing Business Index in 2013. Nevertheless, net inflows of investment have been fluctuating considerably. In 2013, Estonia attracted USD 909 million, down from USD 1.6 billion in 2012. Sectors attracting the biggest amount of investment are financial and insurance services (24.4%), followed by manufacturing (16.4%) and real estate services (15.5%). The major investors came from the Nordic region, from Sweden (27.6%) and Finland (23.3%).¹⁰

⁵ E-Estonia, Estonian ICT Export Cluster, p. 4, available online: <http://e-estonia.com/sites/e-estonia/files/CompanyProfiles-Feb2013.pdf>

⁶ World Bank databank

⁷ WTO, i-TIP database

⁸ Estonian Investment Agency, available online: www.investinestonia.com

⁹ Estonian Investment Agency, available online: www.investinestonia.com

¹⁰ Estonia.eu, available online: <http://estonia.eu/index.html>