

Estonia/Eesti*

INTRODUCTION

General

<i>Capital/Other major cities:</i>	Tallinn/Tartu, Pärnu
<i>Area:</i>	45,226 km ²
<i>Population:</i>	1.32m
<i>Language:</i>	Estonian
<i>Currency:</i>	Estonian kroon (EEK)
<i>Country telephone code:</i>	372
<i>National holidays:</i>	
2006 –	1 Jan, 24 Feb, 14, 16 Apr, 1 May, 4, 23–24 Jun, 20 Aug, 24–26 Dec.
2007 –	1 Jan, 24 Feb, 6, 8 Apr, 1, 27 May, 23–24 Jun, 20 Aug, 24–26 Dec.
<i>Business/Banking hours:</i>	09:00–17:00 (Mon–Fri)
<i>Stock exchange:</i>	Tallinn Stock Exchange (TSE)
<i>Leading share indices:</i>	BALTIX index, OMXT index

Government

Legislature

- Parliamentary republic with a unicameral parliament (Riigikogu).
- Riigikogu – 101 members elected by popular vote for four-year terms.
- The president is elected every five years.
- Estonia joined the EU in May 2004.

Head of state

- Arnold Rüütel, president since 8 October 2001.

Political leader

- Andrus Ansip, PM since 13 April 2005.
- Head of a three-party coalition government including his Reform Party, the Centre Party and the People's Union.

* Please note that rules and regulations and market practice are evolving rapidly. As a result, they may diverge from the formal regulatory framework described in this country profile and their interpretation may differ accordingly. If you are planning any business activity in the country, we would recommend that you seek independent advice on the latest market and regulatory developments as well as legal and tax advice.

Economy

	2000	2001	2002	2003	2004	2005			2006	
						Q2	Q3	Q4	YEAR	Q1
Exchange rate* (EEK/USD)	16.969	17.564	16.612	13.856	12.596	12.419	12.826	13.155	12.584	13.008
Interest rate* (MMR) (%)	5.68	5.31	3.88	2.92	2.50	2.38	2.33	2.41	2.38	2.70
Consumer inflation (%)	+ 4.1	+ 5.7	+ 3.6	+ 1.3	+ 3.1	+ 3.5	+ 4.3	+ 4.0	+ 4.1	+ 4.4
Unemployment (%)	13.6	12.6	10.3	10.0	9.7	8.1	7.0	7.0	7.9	NA
GDP volume growth (%)	+ 7.9	+ 6.5	+ 7.2	+ 6.7	+ 7.8	+ 9.9	+ 10.6	+ 11.1	+ 9.8	NA
GDP (EEKbn)	92.9	104.5	116.9	127.3	141.5	-	-	-	164.9	-
GDP (USDm)	5,477	5,977	7,038	9,190	11,233	-	-	-	13,105	-
GDP per capita (USD)	3,998	4,395	5,213	6,858	8,383	-	-	-	9,780	-
BoP (goods/services/income) as % GDP	- 7.5	- 8.2	- 11.8	- 13.5	- 14.2	-	-	-	- 11.3	-

* Period average.

Source: International Financial Statistics, IMF July 2006.

Sectoral distribution of GDP (% of GDP)

- Agriculture 4%
- Industry 29.4%
- Services 66.6% (2005 estimate)

COUNTRY CREDIT RATING

Fitch Ratings rates Estonia's issuer credit as:-

Term	Local Currency Rating	Foreign Currency Rating
Short	-	F1
Long	A +	A
Long term rating alert	Outlook Positive	

Source: www.fitchratings.com August 2006

LEGAL AND REGULATORY

Central bank

- Re-established in 1990 after a break of 50 years, the Estonian central bank, the Bank of Estonia (Eesti Pank) is a government-independent institution which only reports to parliament and operates in accordance with the Eesti Pank Act and its amendments.

Bank supervision

- The Financial Supervision Authority (Finansinpektioon) supervises the banking sector within Estonia.

Resident/Non-resident status

- A resident company is a company incorporated under Estonian law.

Bank accounts

- Foreign currency accounts can be held by residents both domestically and abroad, and accounts in domestic currency (EEK) are convertible into foreign currency.
- Non-resident bank accounts are permitted in Estonia, denominated in either domestic or foreign currency, and accounts in domestic currency (EEK) are convertible into foreign currency.
- Interest can be offered on both resident and non-resident current or deposit accounts.

Reporting

Reporting regulations

- Reporting regulations require all transactions between residents and non-residents made via resident accounts to be reported in detail every 15 days to the Eesti Pank if they exceed EEK 100,000 (nostro and vostro accounts) or EEK 200,000 (other resident accounts). All those transactions exceeding the simplification threshold of EEK 200,000 must be reported in detail to the Eesti Pank.

Reporting method

- Banks undertake the reporting on behalf of their corporate clients. Data is reported electronically.
- However, the reported information and its accuracy are ultimately the resident's responsibility.

Anti-money laundering / Counter-terrorist financing*

- Estonia has implemented the relevant EU anti-money laundering legislation ('The Penal Code' of 2001, amended in 2004. 'Money Laundering and Terrorist Financing Prevention Act' of 1998, most recently amended in January 2004).
- Estonia is a member of the Council of Europe's MONEYVAL Committee.
- Estonia has established a financial intelligence unit (FIU), Rahapesu Andmebüro ('Money Laundering Information Bureau') which is a member of The Egmont Group.
- All financial institutions in the broadest sense have to record and report suspicious transactions to the FIU.
- All credit and financial institutions have to identify clients for non-cash transactions exceeding EEK 200,000 or cash transactions exceeding EEK 100,000, or for linked transactions exceeding these amounts.
- Individuals wishing to perform currency exchanges of more than EEK100,000 in a single or linked transactions must be identified.
- Account opening procedures require formal identification of the account holder.
- For identification purposes an Estonian legal entity must submit a copy of the registry card from the commercial registry. A foreign company must submit either an extract from the similar register of the foreign state or a notarised copy of its certificate of registration. The extract of certificate must specify: the business name, area of activity, address of the undertaking, the registration number, and the names, residences and personal identification codes of the members of the management body.
- Beneficial owners of funds or assets must be identified and where the customer is a legal entity, all owners, controllers and signatories must be verified.
- All customer data must be updated at least once a year.

- Records must be kept for at least five years after the end of the contractual relationship with the customer.
- *Supplied by BCL Burton Copeland (www.burtoncopeland.co.uk for background explanatory article). Data as at July 2006.

Exchange controls

- The Estonian kroon (EEK) is Estonia's official currency.
- Estonia participates in ERM II*, and the exchange rate of the EEK is pegged to the EUR at a rate of EEK15.6466: EUR1.
- The Eesti Pank is responsible for exchanging EEK for EUR, and vice versa.
- Commercial banks can freely effect transactions in convertible currencies and may freely quote their own exchange rates.
- There is a forward exchange market.

*** ERM II**

The Exchange Rate Mechanism II (ERM II) aims to ensure exchange-rate stability between the eurozone and the EU Member States which have not introduced the single currency. Participation in ERM II is voluntary and there are currently eight participants in ERM II - Cyprus, Denmark, Estonia, Latvia, Lithuania, Malta, Slovakia and Slovenia.

ERM II is a fixed-exchange-rate system whereby each participating country's currency is fixed at a central rate vis-à-vis the euro within a fluctuation band. Should a participating country's exchange rate exceed the margins of the fluctuation band the ECB and the ERM II member's central bank are obliged to hold the exchange rate within the fluctuation band through foreign-exchange market intervention. The intervention obligation may be suspended, however, should this be in conflict with the ECB's or the relevant central bank's primary object of price stability.

TAXATION*

Resident/Non-resident

- A company is considered to be resident in Estonia if it is founded or formed under Estonian law. A company is considered to be non-resident if the above criteria do not apply. Branches and permanent establishments are non-residents but are taxed as though they are resident legal entities.

Tax year

- The Estonian tax year corresponds to the calendar year (which is also the Estonian financial year).

Corporate taxation

- Resident companies and permanent establishments of non-resident companies registered with the Estonian authorities are not subject to tax on their income. They are only subject to tax on the following: dividends paid, fringe benefits provided, gifts, and expenses not related to the business of the payer. Any resident company or permanent establishment of a non-resident is subject to tax on the payments described above at a rate of 23/77 (approximately 30%), or 23% on the gross amount.
- Non-resident companies without a registered permanent establishment in Estonia pay withholding tax at the rate of 23% on dividends and other profit distributions. However, if (at the moment when dividends are announced or paid) a non-resident legal person, except a legal person located in a low-tax-rate territory, owns at least 20% of the share capital or voting rights of the resident company distributing the dividends, such dividends are not subject to income tax.
- Incoming dividends are automatically exempted from taxation on receipt from a subsidiary. However, when they are subsequently redistributed by the parent company in Estonia, there is a distribution tax on the distribution (23/77 – 30%). In this case, in order to avoid double taxation on the incoming dividends, credit relief is given for the foreign tax paid. It should be noted that the foreign tax credit only applies to the distribution tax liability of the Estonian company and cannot be used against any other local tax liability.

Advance tax ruling availability

- Binding advance tax rulings are not available in Estonia. It is possible to obtain an opinion from the tax authorities but it is not binding.

Thin capitalisation

- There are no thin capitalisation provisions in Estonia.

Transfer pricing

- According to the existing legislation, if the value of a transaction between a resident company and a related non-resident company, or a related resident or non-resident individual differs from the value that would be used for similar transactions between unrelated persons, the tax authorities may adjust the amounts to reflect that which would have been used by the latter under similar conditions. The methods applied are, among others, comparable uncontrolled price method, cost-plus method and resale price method. In general, Estonia follows the OECD guidelines.
- There is an outstanding Minister of Finance Decree, which would expand transfer pricing regulations to transactions between a resident legal person and all related persons, regardless of their residency. Once accepted, this Decree is to enter into force on 1 January 2007.

Capital gains tax

- Capital gains are not taxed separately. Gains derived by a company are not taxed if retained. Upon distribution of the gain, tax at a rate of 23/77 (30%) applies on top of the net amount of the distribution.

Stamp duty

- No stamp duty is levied on loan agreements.

Withholding tax (subject to tax treaties)

Payments to:	Interest	Dividends	Royalties	Other income
Resident Companies	N/A	N/A	N/A	N/A
Non-resident Companies	N/A	23%	0-15%	N/A

- A withholding tax of 23% (or a lower rate, if a tax treaty exists) is levied on dividends paid to corporate non-residents owning less than 20% of the payer's share capital, and non-residents in low-tax jurisdictions. Withholding tax is not applied to any payments made to resident companies (e.g. dividends, royalties, interest payments, etc.).
- Interest payments are not subject to withholding tax in Estonia, irrespective of whether the interest payments are made to non-residents located in a tax treaty or non-tax treaty country. In addition, there are no participation or holding requirements. However, there are anti-abuse provisions which require that interest paid to a non-resident company is subject to tax if the loan interest rate significantly exceeds the market interest rate.
- Royalties are not subject to withholding tax if paid to non-resident companies within the European Union or Switzerland owning 25% or more of the payer's share capital for at least 2 years before the date of paying the royalties. The relief also applies if an EU or Swiss resident company that owns at least 25% of the share capital of the Estonian resident company paying the royalty and another EU resident company owned by the same company receives the royalties.
- In circumstances other than those described above, royalties paid to a non-resident company are subject to withholding tax at the rate of 15%. If there is a tax treaty between Estonia and the recipient's country, then the withholding tax rate can be reduced to 5% or 10%, depending on the type of royalties paid.

Tax treaties

- Estonia has concluded tax treaties with over 30 countries worldwide.

Sales taxes/VAT (incl. financial services)

- Companies with an annual turnover in Estonia exceeding EEK 250,000 (EUR 15,978) are required to register for VAT.
- VAT is levied on individuals and legal entities on the sale price of goods and services supplied by the taxpayer and on the customs value of imported and exported goods at the following rates:
 - 18% standard rate.
 - 18% on imported goods and services.
 - 5% on books, entertainment, medicine, funeral services.
 - 0% on exports.
- Exempt supplies of goods and services include real estate, medicine services, training and education, rental services, postal services, various imported goods including goods received by way of inheritance, prizes and awards, lottery tickets, arranging of gambling, insurance, services rendered by credit and financing institutions, and the import of goods by a natural person within the limits established by the Minister of Finance.

Payroll and social security taxes

- Employers in Estonia must make social security contributions on all payments made to individuals. Also, social security contributions are due by Estonian registered entities making payments to their members of the management and supervisory boards or to sole contractors who are not employees and who are not registered with the tax authorities as self-employed individuals.
- Certain payments are specifically exempt from social security tax by law. The rate of social security contributions is 33% (20% to the state pension Fund and 13% to the state health insurance).

- Only the employer is liable to make social security contributions and no ceiling amount exists for such social security contributions, except for self-employed persons.
- Unemployment insurance contributions must also be paid both by employers and employees. The liability to make contributions is not related to the tax residence of the employee. Therefore, contributions are due by non-resident employees working in Estonia as well as by employers having such non-resident employees. The law provides that the rates of the contribution are 0.6% for the employee and 0.3% for the employer. The exact rates are determined annually by the government.

*All tax information supplied by Deloitte (www.deloitte.com). Data as at 1 May 2006.

BANKING

Major banks

Bank	Total Assets (USDm)
	31 Dec. 2005
Hansapank	15,028
SEB Eesti Ühispank (Union Bank of Estonia)	3,757
AS Sampo Pank	1,059

Source: www.bankersalmanac.com

Overview

- The Estonian banking sector is characterised by a high level of concentration.
- At present, there are only seven licensed banks, seven branches of foreign banks and five foreign bank representative offices in Estonia.
- The largest commercial banks are: Hansapank, Union Bank of Estonia and AS Sampo Pank.
- Following its merger with the Estonia Savings Bank, Hansapank has been the dominant bank in Estonia and is expanding rapidly in Latvia and Lithuania and is currently the leading pan-Baltic bank.
- Foreign investment has had an enormous impact in the Estonian banking sector and over 90% of Estonia's banking sector is now controlled by Scandinavian banks. Swedbank currently holds a 100% stake in Estonia's largest bank, Hansapank. In addition, the Union Bank of Estonia is wholly owned by Swedish banking group, SEB, while AS Sampo Pank is part of the Finnish Sampo-Leonia Group.

PAYMENT INSTRUMENTS

Payment statistics

	Millions of transactions			% change 2004/2003	Traffic (EEK billion)		
	2003	2004	2004/2003		2003	2004	2004/2003
Cheques	0.03	0.03	∅	0.21	0.22	3.0	
Debit/Credit card payments	43.4	60.2	38.7	10.3	14.6	42.8	
Credit transfers	54.6	64.0	17.2	827.9	1,064.0	28.5	
Direct debits	8.6	10.3	20.7	2.9	4.3	49.5	
Others	0.01	0.01	∅	3.8	neg	-	
Total	106.6	134.5	26.2	845.0	1,083.2	28.2	

Source: ECB Blue Book statistical update, March 2006

Credit transfers

- The credit transfer is the dominant payment instrument in Estonia in terms of both volume and value.
- Although both electronic and paper-based credit transfers are used in Estonia, over 95% are effected electronically.
- Credit transfer usage is widespread among both companies (via electronic banking systems) and private individuals (via telephone and internet banking).
- It is anticipated that the increasing use of direct debits and payment cards will lead to a decline in the use of credit transfers for retail purposes.

Direct debits

- The usage of direct debits has been standardised in recent years and the total volume of direct debit transactions has increased significantly.
- Direct debits are particularly used for regular low-value recurring payments such as utility bills.
- Usage remains limited by the fact that direct debits are currently only available if both payor and payee hold accounts at the same credit institution. However, an interbank scheme is expected to be introduced in May 2007.

Cheques

- Cheque usage has been on the decline as a consequence of the rapid increase in the usage of electronic payment instruments.
- Cheque items are delivered in paper form, but are cleared electronically.

Card payments

- There were around 1.4m payment cards in circulation at the end of 2005.
- The vast majority of all bank cards in Estonia (81% in 2005) are debit cards. Debit cards are the most widely used debit instruments in Estonia.
- The majority of debit cards issued carry Visa Electron or Cirrus/Maestro trademarks.
- Credit card volumes are increasing rapidly but their usage remains low.
- The Card Centre of Banks (CCB) operates an automated clearing house (ACH) that authorises card transactions, collects card transaction data and calculates the gross balance of each bank.
- Managed jointly by the credit institutions, ATMs have seen their range of services significantly expand over recent years, with around 84% of machines permitting cross-usage of locally issued cards, Visa, and Eurocard/MasterCard.
- A growing number of Estonia's ATMs (of which there were 841 in 2005) both accept and dispense cash.
- The majority of retailers now have EFTPOS terminals at their premises.

PAYMENT SYSTEMS

Type

- Owned and operated by the Eesti Pank, the Estonian Interbank Settlement System is composed of:
 - A national RTGS system, fully compliant with TARGET, and
 - the Settlement System of Ordinary Payments (ESTA), a multilateral designated-time net settlement (DNS) system.

Participants

- The RTGS system currently has around 13 direct participants.
- ESTA also currently has around 13 direct participants.

Transaction types processed

- The RTGS system processes high-value and urgent interbank transactions in real time. All transactions exceeding EUR 1 million must be processed via this system. However, there is no minimum threshold for payments processed within the system.
- ESTA clears batches of a large amount of retail and non-urgent transactions below EUR 1 million.

Operating hours

- The operating hours of RTGS are currently 08:00–18:00 EET.
- ESTA system operates from 08:15 until 17:00 EET.

Clearing cycle details

RTGS system

- Orders are accepted and processed by the RTGS system before final settlement.
- All transactions are processed via SWIFT.
- The RTGS system settles transactions on a same-day basis and with immediate finality.
- All payments are settled in real time across the participants' accounts held at the Eesti Pank.

ESTA

- Credit orders are sent electronically in batches to ESTA via a virtual private network.
- Incoming payment reports are sent nine times a day (on the hour every hour) by ESTA to its participants.
- Each participant's net balance is fixed at 17:00 before being forwarded to the RTGS system for final settlement.

CASH MANAGEMENT

Domestic

Notional pooling

- Notional pooling is possible in Estonia but is not widely offered.

Cash concentration

- Cash concentration techniques, such as single legal account pooling (balance netting), zero-balancing, target-balancing and threshold-balancing, are permitted and used to some extent in Estonia.

Cross-border

- Cross-border cash concentration techniques are permitted and offered in Estonia.
- Cross-border notional pooling is also theoretically possible but is rarely offered as banks are not generally allowed to offset notionally pooled credit and debit balances.

Lifting fees

- Funds transfers between resident and non-resident accounts are charged on a per-item transaction basis.

Short-term investments

- Interest can be paid on current accounts and short-term deposits.
- Time deposits are the most frequent method of short-term investment and have maturities of one day to two years.
- The Estonian government has not tended to issue Treasury bills or other short-term securities.
- Certificates of deposit (CDs) are offered by commercial banks with maturities up to one year. Short-term CDs have not been issued by the Bank of Estonia since 2000.
- Commercial paper is usually offered with a maturity of three to six months.
- Money market funds are increasing in popularity.
- Repurchase agreements are also available for short-term investment purposes.

ELECTRONIC BANKING

- Electronic banking is common practice in Estonia.
- Electronic banking products are widely available from most banks.
- There is no bank-independent electronic banking standard in Estonia. Each bank offers its own proprietary system for corporate banking purposes.
- Most of these systems provide companies with balance and transaction reporting and transaction initiation services.
- Internet banking is commonplace among retail customers.

TRADE FINANCE

Trading partners

Import

- Finland 19.8%, Germany 13.8%, Russia 9.4%, Sweden 8.8%, Lithuania 6.1%, Latvia 4.7%.

Export

- Finland 26.4%, Sweden 12.9%, Latvia 8.8%, Russia 6.5%, Germany 6.2%, Lithuania 4.8%.

Imports/Exports

- Estonia applies the European Union customs code and all associated regulations and commercial policies.

USEFUL CONTACTS

Bank of Estonia (Eesti Pank)		www.bankofestonia.info
Financial Supervision Authority		www.fi.ee
Leading banks	Hansapank	www.hansa.ee
	SEB Eesti Ühispank	www.seb.ee
	Sampo Pank	www.sampo.ee
Estonian Banking Association		www.pangaliit.ee
Ministry of Finance		www.fin.ee
Ministry of Economic Affairs and Communications		www.mkm.ee
Estonian Chamber of Commerce and Industry		www.koda.ee
Estonian Investment Agency		www.investinestonia.com
Enterprise Estonia		www.eas.ee
Tallinn Stock Exchange		www.ee.omxgroup.com
Card Centre of Banks Ltd		www.estcard.ee

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