

## 3.1 General context

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### **Labour market situation in the country**

The National Reform Programme “Estonia 2020” ([Konkurentsivõime kava „Eesti 2020“](#)) provides the following analyses of the main trends over the years.

Since regaining of independence in 1992, the Estonian economy has grown nearly tenfold. Estonia saw extraordinary economic growth from 2001-2007. A correction began already in 2007 when the growth rate began gradually decreasing. After the 2008-2009 crisis, the economy has grown slowly. In 2015, the real growth was slower than its potential and reached 1.1% by the first estimation. According to the evaluation of different institutions, the growth potential in Estonia is 2-3% per year. Estonia’s GDP growth up to 2007 was impacted above all by changes in the number of employed people and the productivity of the workforce. According to the [Statistics Estonia](#), the GDP dropped 5.6% in the second quarter of 2020. This is probably connected to the Covid-19 pandemic and will impact the economy in the future as well.

Estonia’s future demographic trends are similar to the general trends in Europe. The population decrease in the 1990s has not yet impacted the percentage of the working-age population but a noteworthy impact will become evident in the coming years. The decrease in population will take place primarily in the working-age population (15-64-year-olds); and in 20 years, according to Eurostat estimates, Estonia will have more than 100,000 fewer working-age people. To maintain the economy at the current volume, there will be an increasing need for employees each year. Current rising employment and, in the long term, the readiness of those 65 years of age and older to work should help soften the decrease in the working-age population.

Labour market policy in Estonia is formulated by the [Ministry of Social Affairs](#) and delivered by the [National Unemployment Insurance Fund](#). These institutions are also responsible for evaluating labour market policies and programs. Estonia introduced the active labour market measures in 1993. A significant change in

labour market protection took place in July 2009 when the new [Employment Contracts Act](#) came into force. One of the principal goals of the employment law reform was to increase labour market flexibility and improve labour mobility, most important change was the reduction in the cost of terminating an employment relationship i.e. a reduction of the notice period and the amount paid in severance payments. After the reform in labour market protection induced by the economic recession in 2008, it can be said that labour in Estonia does not enjoy a high level of protection. On the contrary, traditional institutions of protection against labour market risks (trade unions, employment contracts law, social security transfers) are weak.

In the Welfare Development Plan ([Heaolu arengukava 2016-2023](#)) lists the following challenges in achieving and maintaining a high level of employment the compliance between the supply and demand of the workforce, and the quality of working life, which ensures sustainability and growth of competitiveness:

- insufficient qualifications, as well as limited occupational and geographical mobility;
- lack of awareness about the different aspects of working life and unequal treatment in hiring and in an employment relationship;
- wage poverty and traps of unemployment and inactivity;
- working conditions that do not consider the changes in the labour market, as well as economic changes, do not support the establishment of smart jobs and the safe movement between various forms of employment;
- changed employment relationships and the formal involvement of employees does not motivate participating in the collective shaping of working conditions.

Target groups defined in the document as groups obstacles of which are participating in the labour market need special attention are young people 15-24, elderly, residents whose native language is not Estonian (mostly Russian-speaking population), new immigrants (including beneficiaries of international protection), people, who have been looking for a job for a long time or who have been away from the labour market for a long time, people with decreased workability.

### Youth employment

In Estonia, after reaching one of the highest levels of youth unemployment rate in Europe during the financial crisis (32.9% in Estonia vs 21.5% in EU-28 in 2010), the situation stabilized fast and the share of youth searching for a job is lower in comparison with most other European countries (11.1% in Estonia and 15.0% in EU in 2019) The level of youth unemployment in Estonia still remains higher compared to the prime-age population, indicating the presence of barriers for youth in entry to the labour market.

Similarly, to other European Union countries, there is a high risk of unemployment in Estonia among young people who have a lower level of education and do not have professional education. The proportion of young people who are neither in employment nor in education (the so-called NEET youngsters) has dropped almost by half in five years (in 2014, it was 11.7% of all young people, in 2019, it was 6.9%). NEET youth have less experience in employment or practical work and they are not as competitive in the labour market, but different measures have improved the situation. The obstacles for young people entering the labour market include the restrictions of labour and tax regulation and the fact that young people are at a higher risk of suffering from work accidents.

Also, youth tend to turn less to the local employment office for support in case of unemployment, for example, in 2015 only 34% of the unemployed youth (age 15-24) turned to the Estonian Unemployment Insurance Fund, while out of the prime-age group 47% turned to the Fund.

During the economic recession 2008-2010 young people, compared older age groups, experienced a higher

increase in unemployment, a decrease in working hours and decrease in wages. National Reform Programme “Estonian 2020” ([Konkurentsivõime kava „Eesti 2020“](#)) defines young people, in the transition from education to the labour market and NEET-youth as risk groups at the labour market.

## **Main concepts**

The Welfare Development Plan ([Heaolu arengukava 2016-2023](#)) states, that employment gives people an opportunity for self-realisation and financial security and is, therefore, one of the main prerequisites for socio-economic development, and a basis for a high-quality life. The approaches and recurrent principles of the plan arise from the principles of a social and welfare state, the framework of fundamental and social rights, and social protection principles. On the one hand, the principle of a social state is ensuring that the strengthening of the state’s economic development and competitive ability takes into account the needs of different social groups. On the other hand, the adherence to the principle of a social state is a premise for the state's economic development and competitive ability, as it prevents and reduces the exclusion of parts of the population from the social and economic life. The document points out, that it is necessary to find solutions in accordance with the general shift of welfare state policies: transferring from the policy that compensates social risks and repairs their consequences, to the policy that empowers and prepares people to cope with the risks. In addition to traditional social protection, increasing people's self-sufficiency and their social and professional activity has become more and more important.

In economic affairs and entrepreneurship, the Government considers important to focus both on raising the ambition of entrepreneurs as well as on enhancing research and development activities, innovation and investments and export. In terms of employment, the focus is on bringing about the structural changes in the labour market by increasing the share of jobs creating higher added value.

## **Definitions in use**

- Economically active population/labour force – persons who wish and are able to work (total of employed and unemployed persons).
- Economically passive/inactive population – persons who do not wish or are not able to work.
- Employed – a person who during the reference period worked and was paid as a wage earner, entrepreneur or a free-lancer; worked without direct payment in a family enterprise or on his / her own farm; was temporarily absent from work.
- Unemployed – a person who fulfils the following three conditions: he or she is without work (does not work anywhere at the moment and is not temporarily absent from work); he or she is currently (in the course of two weeks) available for work if there should be work; he or she is actively seeking work.
- Entrepreneurship – attitude based on personality, characterised by creative and innovative thinking, need for accomplishment and capability to implement thoughts and ideas
- Entrepreneurship education – education developing entrepreneurship and preparing to be an entrepreneur, that deals with the complexity of creating and developing an enterprise.