

## ANALYTICAL HIGHLIGHT


 PROSPECTS FOR  
**Estonia**

- Estonian's employment rate was 73% in 2013 – bypassing the 2015 target (72%) and slightly below the national EU2020 target of 76%.<sup>1</sup>
- The numbers of working-age population as well as youth entering the labour market are continuously decreasing.
- Employment grew primarily in services, which increased the dominance of the tertiary sector compared to other sectors.
- Emigration and working abroad are severely affecting the labour market as the population overall is declining.
- There is a growing demand for high-skilled labour in Estonia – while the local labour market and education system will face difficulties to meet the expected demand, the issue of attracting foreign talents has become more important.

**Shrinking demographics coupled with emigration underscore the importance of every individual at the labour market**

Due to population decline, the labour force (i.e. both the employed and unemployed) has diminished by 1% in Estonia compared to five years ago (i.e. 7,000 persons; a decline from 687,000 to 680,000). The decline has been caused by demographic trends and external migration. As a counterbalance to population decline, a growing part of the working-age population is economically active which increases the labour force participation rate. The higher level of economic activity is, among other things, related to the rising retirement age, the slightly declining birth rate and improved labour market conditions.<sup>2</sup>

The employment rate recovered quickly after the economic crisis, but the growth rate was notably slower in 2013 with the number of employed persons growing by 6,000 compared to 12,000 in 2012. The employment

rate of 15–74 year olds in 2013 was 62.1% (there were 621,000 employed persons). This means that the employment rate, which dropped sharply during the economic crisis, has reached the pre-boom level of 2006. Nevertheless, this employment rate has developed in a different context – there are more Estonian residents working abroad and the retirement age has been raised gradually.<sup>3</sup>

The number of residents working abroad has grown fourfold in the ten years since Estonia joined the European Union (EU). It is estimated that 23,000 Estonian residents (3.7% of employed persons) worked abroad; two thirds of them worked in Finland. Middle-aged men with general or vocational secondary education and working in construction and transportation form the majority of cross-border workers. Although emigration still exceeds immigration in Estonia, the share of Estonians planning to work abroad has decreased compared to 2010 – mostly due to wider employment opportunities in the local labour market.<sup>4</sup>

<sup>1</sup> National Reform Programme "ESTONIA 2020" (updated version 08.05.2014)

<sup>2</sup> Statistics Estonia (2014), Statistical yearbook of Estonia 2014, pp. 149-150

<sup>3</sup> Ibid.

<sup>4</sup> Tarum H. (2014), Emigration potential of Estonian working age population in 2013, Policy Analysis, Proceeding of the Ministry of Social Affairs no 2/2014

In Estonia, 73% of 20–64 year olds were employed in 2013 exceeding the EU and euro-area average. The European Employment Strategy has set the goal to increase the employment rate of 20–64 year olds to at least 75% by the year 2020. Estonia achieved this target in the boom years 2006–2008, but in the last five years it has fallen below 75%. Approximately 16,000 currently unemployed or inactive persons need to enter employment to reach the target employment rate in Estonia. Estonia has also initiated a reform on occupational disability to facilitate the transition to the labour market for disabled persons.<sup>5</sup>

Employment grew primarily in services increasing the dominance of the tertiary sector compared to other sectors. In 2013, 65.5% of those in employment worked in services and 30.2% in industries. The rapid increase in the share of the services sector in employment (which began during the recession) continued in 2013, supported by increased employment in accommodation and food services, professional, scientific and technical activities, wholesale and retail trade, and arts, entertainment and recreation. Employment in manufacturing, the largest economic activity in the industrial sector, changed marginally; employment in construction and energy production decreased. After the decline in the previous decade, the share of the primary sector (agriculture, fishing and forestry) in employment has stabilised at around 4% of total employment.<sup>6</sup>

In 2013, older age groups experienced the biggest growth in employment while the number of young employed persons declined. The number of employed persons aged 50+ grew by more than 6,000 in 2013, but the number of employed persons aged under 30 diminished slightly. This is a long-term trend – in the previous ten years, the number of older employed persons grew by 43,000, while the number of young employed persons decreased by 10,000. This has changed the proportions of the age groups in employment: in 2013 the share of under 30 year olds was 20% and the share of employees aged 50+ was 33% (the corresponding figures ten years ago were 22% and 27%).<sup>7</sup>

The decrease in the number of younger employees is expected to continue for at least five years, as the reduced size of the generation born in the early nineties enters the labour market. The growing employment rate of the elderly is supported by the gradual increase in the age of retirement, changing attitudes towards employment in retirement age and improving health indicators.<sup>8</sup>

Although the number of men and women in employment is almost equal, the labour market in Estonia is heavily gender-segregated in terms of economic activities and occupations. In 2013, female employees constituted 91% of the labour force in health and social work activities and 79% in education. The outstanding majority of men in mining and quarrying and in construction (94% in each) is understandable, but men also constituted more than 75% of employees in energy, water supply, transportation and storage. More than three quarters of clerks, service and sales workers were women, while men

accounted for three quarters of skilled workers. That partly explains the big gender pay gap in Estonia which is the largest in the EU.<sup>9</sup>

## The highest growing sectors in Estonia are ICT and accommodation and food service

In 2014, the Ministry of Economic Affairs updated the labour demand and supply forecast extending it to 2022.<sup>10</sup> It also developed the current forecast further, elaborating on the detail of the prognosis. The following will provide an overview of the most recent analysis.

According to the forecast, the number of employed people is not expected to grow for 2022 compared to 2013 with the numbers employed expected to fall to 617,000 in 2022 from 621,000 in 2013. The number of working age individuals is dropping and every year the number of young people entering the labour market is decreasing. The number of people exiting is expected to outnumber the number of individuals entering the labour market.

As for specific sectors, employment is estimated to be in decline in agriculture and wearing apparel as well as in the public sector. The highest growing sectors are most likely to be the ICT, accommodation and food service. In ICT, the labour force is expected to rise from 18,300 (2011–2013 average) to 22,400 (2022) while in accommodation and food service the respective numbers will increase from 20,200 to 23,200. The increase of the share of older age groups in society is expected to influence higher demand for health and social services where an increase of 2,300 in numbers employed is forecast.

The changing economic structure is also reflected in developments concerning the occupational structure: the demand for specialists is rising, there is some increase in the demand for service employees, and the need for manual and unskilled labour is decreasing. For instance, compared to 2003, employment of top specialists in 2013 has grown 40% while the demand for manual workers has decreased by 15%.<sup>11</sup> Labour shortages are also directly felt by small and medium-sized enterprises (SMEs) in Estonia, as a recent study reflects. According to the representatives of SMEs, only 8% agreed that finding an employee for an executive position is easy (compared to 27% in 2005). Furthermore, it has become increasingly difficult to fill positions of mid-level specialists and technicians.<sup>12</sup> According to PriceWaterhouseCoopers CEO Survey (2013), 76% of Estonian CEOs disagree that the government has been effective in helping create a skilled workforce and 85% are concerned about the availability of key skills.<sup>13</sup> Even though skilled employees are very hard to find from the local labour market, the employers still seem reluctant to employ foreign labour. According to the Foreign Labour Force

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

<sup>10</sup> Ministry of Economic Affairs and Communications (2014), Labour demand and supply forecast 2022. Short description. [https://www.mkm.ee/sites/default/files/toojouprognosis\\_2022\\_lyhikirjeldus.pdf](https://www.mkm.ee/sites/default/files/toojouprognosis_2022_lyhikirjeldus.pdf).

<sup>11</sup> Statistics Estonia data.

<sup>12</sup> Kaarna, R., Masso, M., and Rell, M. (2012), The developments of SMEs. Tallinn: Praxis Center for Policy Studies

<sup>13</sup> PricewaterhouseCoopers (2013), 16th Annual Global CEO Survey Country summary: Key findings in Estonia

Demand Survey only 6% of enterprises have hired foreign labour and 4% are planning to do so.

Overall, changes in the number of persons employed in Estonia are expected to be small. The main driver of job opportunities in the coming years will therefore be replacement demand. Each year, approximately 12,000 mostly older persons are leaving the work force. The main sectors most affected by aging and work force exit are agriculture and fishing, mining, energy, transportation and real estate.<sup>14</sup>

### Need for more highly skilled workers across almost all sectors

In view of the occupational forecasts, the most intensive labour demand is expected to affect the following areas: motor vehicle drivers, specialists in technical and life sciences, specialists in business and management, managers in various fields, sales personnel, metal and machinery operators and skilled personnel, education professionals, health professionals, construction workers and personal service specialists. Above average demand is forecast for ICT, electricity and electronics and personal care specialists as well as for various types of unskilled labour.<sup>15</sup>

The total number of graduates in vocational and higher education during the last years exceeds the total demand for labour but in the coming years the shrinking number of youth is also expected to affect the graduation numbers; also not all graduates are transferring to the labour market (in Estonia). Compared to 2008–2013, the number of upper secondary, vocational and higher education graduates is forecast to drop by 15–30% (assuming the rate of graduation does not change). This trend is mostly expected to affect upper secondary and vocational education and to a lesser extent tertiary education. Thus, this trend in graduation is most likely to be reflected in the unbalanced supply and demand situation in occupations requiring vocational education. In higher education, even though the supply of graduates seems to cover the required demand, structural imbalances are expected to appear. Namely, young graduates are highly likely to be unsuitable for positions requiring long term work experience (e.g. manufacturing managers or supervisors). The Ministry of Economic Affairs and Communications has outlined in its forecast some occupations which could be more likely be affected by decreases in graduates and thus suffer from lack of qualified employees. These are forecast to be, for instance, mid-level specialists in life sciences and engineering and health, workers in metal and machinery, equipment and machinery operators. The supply of labour is expected to be sufficient in occupations such as business and management specialists, legal, social and cultural top-level professionals.<sup>16</sup>

A large percentage of Estonia’s workforce (age group 25–64) has a basic or general secondary education only and does not hold a professional education (vocational or higher education). The number of people who

lack a professional education is highest in the youngest age group, among those 25–34 years of age – 35% in 2012.<sup>17</sup>

According to PIAAC data, Estonia’s literacy and numeracy skills are above average compared to the participating countries. Estonia is ranked 7th for literacy (5th for youth) and 11th for numeracy (7th for youth). Problem-solving skills in technology rich environment are somewhat lower than might be expected: almost a third of Estonian people at the age of 16–65 are unable or unwilling to use a computer in order to solve problems that require IT application. Among people aged 50 and above this percentage rises to over 50%. This might be caused by the “use it or lose it” principle with regard to skills – almost a third of the workforce doesn’t require using IT at their workplace, but those who do, do so rather frequently and hone their skills, contributing to the image of Estonia as that of an IT country.<sup>18</sup>

Judging from information processing skills, it can be said that Estonian education is good: people with basic and secondary education scored above average, and those with higher education similar to the average score of the other participating countries. Middle aged and older generations with higher education scored below average when compared to other participating countries. Research also showed that a person’s level of education impacts both employment and salary options more than acquired skills.<sup>19</sup>

With regard to geography, higher skills’ scores and work opportunities tend to gravitate toward densely populated areas in northern and southern Estonia.

In addition to the above mentioned expected imbalances in the occupational structure and sectors, the analysis of data and studies recently published in Estonia reveals that a lot of employers are complaining about the lack of practical knowledge owned by their employees. Additionally, the number of jobs requiring a good understanding of information technologies is on a steady rise, so those skills are growing in demand. Some dissatisfaction with the level of general skills is also present among employers, for example, with such skills as problem solving, communication or collaboration skills.<sup>20</sup>

In 2012, a Task Force was established at the Government Office of Estonia to address and better manage the situation concerning skill needs and labour market imbalances. With the involvement of all the relevant ministries and social partners a coordination system of the surveillance and forecasting of the labour market and the development of skills (the OSKA system) was proposed. The OSKA system should create a regular cooperation platform in order to plan the structure, volume, and the content of educational services between employers and parties

<sup>14</sup> Ibid.10; Ministry of Economic Affairs and Communications (2014), Labour demand and supply forecast 2022. Data tables.

<sup>15</sup> Ibid.

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

<sup>18</sup> Ministry of Education (2013), The Survey of Adult Skills: First Results from the Survey of Adult Skills and Ministry of Education (2013), The Survey of Adult Skills: First Results from the Survey of Adult Skills. Short summary.

<sup>19</sup> Ibid.

<sup>20</sup> Randma, T. (2014), Estonian labour market today and tomorrow. People’s skills and labour market requirements unification task force; Järve, J., Lepik, K-L., Mägi, A. (2014), Development and test-driving methodology for unification of quantitative forecasting labor demand data and labor market monitoring. Analytical summary of qualitative workforce demands by areas; Teder, M. (2014), Labour demand study: more and more positions require IT-skills.

offering educational services. The Minister of Education and Research will be responsible for implementing the system and the activity will be organised by the Estonian Qualifications Authority.<sup>21</sup>

In addition to proposing the OSKA system, the Task Force published an analysis of the Estonian labour market (today and tomorrow) and commissioned a study on forecasting labour demand by qualitative methods. The study put forward proposals on methodology concerning forecasting labour demand by qualitative methods and tested it for ten sectors.

The Estonian Entrepreneurship Growth Strategy 2014-2020<sup>22</sup> recognises the immediacy of the lack of highly qualified labour and the importance of increasing the supply of labour with the help of foreign employees, foreseeing several measures in this aspect. The strategy claims that an effective talent policy will be developed to include measures such as simplifying the processes or procedures of finding, hiring and employing talents; also increasing the attractiveness of Estonia as a place of residence and employment for talents; improving support services for adjustment; development of talent networks, etc. The implementation plan for the strategy is being developed and will reveal the specific activities planned to facilitate the development of the policy field.

**Better use of skills provided by the education system and addressing the rise in the number of employees without any professional qualification are primary challenges**

The PIAAC study outlined that comparatively young adults in Estonia have lower skills than their somewhat younger counterparts after graduating from education (especially those who have obtained higher education). According to the study, this could be related to the flaws of the education system that tends to focus too much on knowledge and less on skills which results in losing their relevance soon after education completion.<sup>23</sup> Alternatively, it could be related to the labour market and the lack of use of skills there. The skills obtained in education are not used in employment and thus are soon depleted. Moreover, according to the PIAAC analysis it is possible that the best talent may be leaving Estonia and employing their skills elsewhere.<sup>24</sup> While emigration is the hardest factor to tackle, it is important that the education system keeps paying attention to skills, especially on the aspect of skills’ long-term value. In addition, it is important that the economy and employers focus on better skills utilisation (knowledge intensive work places). As the authors of the PIAAC analysis claim, there is potential for Estonian employers to improve the use of information processing skills of younger employees who are prepared to perform much more complicated work tasks than they are currently permitted to do.<sup>25</sup>

Another challenge that PIAAC underlined is the lack of problem solving skills that are low even among the youth that are used to using technology on a day-to-day basis. The authors hypothesise that this primarily stems from a weakness in the education system that tends to ignore creativity as well as failing to combine different skills in new unfamiliar situations.<sup>26</sup> The development of these particular skills has already been largely defined in the new national framework curricula of Estonian school education but the implementation has not really taken place, as the new Estonian Lifelong Learning Strategy 2020 concedes.<sup>27</sup> Thus, the next steps in school education are clearly concentrating on improving the situation in this regard. This issue is becoming all the more important as the need for specialists with a wider skills profile is becoming more important (e.g. capacity to utilise information technologies and specialised tools at the same time).

Since one third of Estonia’s employees do not hold any professional qualification and training, it is important to focus on a) updating and improving the skills of this unskilled group of people so that they do not drop out of the labour market; b) it is vital to support the learning and education of current students so that they do not leave the education system without any qualification. For these purposes, the retraining programmes for unskilled and low-skilled adults continue to be supported by the government as well improving the development of career counselling for. Also, the internship programmes are further developed.<sup>28</sup>

One of the emerging trends in the Estonian labour market concerns the location choices of young people. In essence, Estonia has only two attraction centres – Tallinn together with Harju County and Tartu with Tartu County. These two regions attract the majority of youth leaving the rest of the regions without young and new generation employees.<sup>29</sup> Thus, the other regions are constantly facing challenges to attract youth back to their regions to provide labour to the needed employment posts and facilitate development. Here the state has also tried to provide incentives for youth to take up employment in rural regions and outside the main centres; for example, there exists a scholarship scheme for young teachers as well as for young doctors. The former has proved more successful than the latter as the incentives have not proven to be sufficient and the conditions of the scholarship have been viewed to be too restrictive. ■

21 Government Office of the Republic of Estonia (2014), News. Government Office presented the results of the first Task Force to the Government, Postimees.

22 Ministry of Economic Affairs and Communications. (2013). Estonian Entrepreneurship Growth Strategy 2014-2020. [http://kasvustrateegia.mkm.ee/index\\_eng.html](http://kasvustrateegia.mkm.ee/index_eng.html).

23 Ibid.

24 Ibid.

25 Ibid.

26 Ibid.

27 Republic of Estonia Ministry of Education and Research, (2014). The Estonian Lifelong Learning Strategy 2020.

28 Ibid.

29 Ibid.



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