

Estonia, a 2004 European Union entrant, has a modern market-based economy and one of the highest per capita income levels in central Europe. The economy benefits from strong electronics and telecommunications sectors and strong trade ties with Finland, Sweden and Germany.

The current government has pursued relatively sound fiscal policies, resulting in balanced budgets and low public debt. In 2007, however, a large current account deficit and rising inflation put pressure on Estonia's currency, which is pegged to the euro, highlighting the need for growth in export-generating industries.

Estonia's priority has been to sustain high growth rates – on average 8% per year from 2003 to 2007. But then the economy slowed markedly and fell into recession in mid-2008, primarily as a result of an investment and consumption slump following the bursting of the real estate market bubble. From GDP growth of 7.1% and unemployment of 4.7% in 2007, GDP growth slumped to -5.1% with unemployment at 6.2% in 2008. GDP contraction in 2009 – nearly 14% – was among the world's highest rates that year.

Main trading partners are Finland, Sweden, Latvia, Russia and Germany. Main industries are electronics and telecoms, timber and timber products, textiles and information technology.

Export trading partners are: Finland (18.5%), Sweden (12.5%), Latvia (9.5%), Russia (9.3%), Germany (6.1%), Lithuania (4.7%), US (4.3%) (2009 figures). Import partners are: Finland (14.5%), Lithuania (10.9%), Latvia (10.6%), Germany (10.5%), Sweden (8.4%), Russia (8%), Poland (5.7%) (2009 figures).

The government raised excise duties sharply in 2008, aiming to make it easier to meet the Maastricht inflation criterion. On 1 January 2011 Estonia joined the eurozone.

Estonia is the smallest of the Baltic nations with a population of 1.3 million. Russians account for around one-quarter of the population. The official language is Estonian, which is closely related to Finnish. Russian, German and English are also widely used, especially in business settings.

Andrus Ansip, leader of the centre-right reform party, was elected in 2005. His party formed a coalition with the social democrats and the conservative party. The coalition was re-elected in March 2011.