Analyses OSW

CENTRE FOR EASTERN STUDIES 26.03.2025 www.osw.waw.pl

Estonia: Michal's new centre-right government

Bartosz Chmielewski

On 25 March, the Estonian parliament passed a vote of confidence in Kristen Michal's new government. The previous cabinet, comprising representatives from the Reform Party, Estonia 200, and the Social Democratic Party, had been in place since the June 2023 elections. It collapsed after months of internal conflict that had plagued the coalition from the outset (see: '*Estonia: The Reform Party wins the parliamentary election*'). The new government will now consist solely of the Reform Party and Estonia 200. The Social Democrats were excluded on the grounds of allegedly obstructing reforms proposed by the economically liberal core of the coalition. As a result of the cabinet reshuffle, Estonia 200 gained two new portfolios: Regional and Agricultural Affairs, and the Interior. The Reform Party took over the Ministry of Infrastructure, and new leadership was installed in the ministries responsible for social affairs, energy, and the environment. Key reforms outlined in the new coalition agreement, described by the Prime Minister as a 'rightward shift', include raising defence spending to 5% of GDP, developing a domestic defence industry, cutting corporate taxes, and reducing public administration staff.

Michal's decision to restructure the cabinet, announced on 11 March, was driven by the government's declining popularity. The Reform Party, which has been the coalition's main pillar since autumn 2024, is experiencing a deep crisis. It is polling at its lowest level in two decades, and public support for Michal is at a record low. By excluding the Social Democrats from the coalition, the party is attempting to shift responsibility for its recent failures onto them.

Commentary

- **The new cabinet will not alter Estonia's foreign policy course.** This is ensured by the decision to retain Margus Tsahkna as Foreign Minister, a position he has held since 2023. Estonia will continue to support Ukraine and, on the European stage, seek to deepen ties with Paris and London while strengthening cooperation with the Baltic Sea states. Maintaining the current strategic relationship with Washington remains a key objective.
- **By declaring a 'rightward shift' in domestic policy, Michal is attempting to contain the crisis engulfing the Reform Party.** Decisions made by the party's leadership since autumn 2023 have met with growing public dissatisfaction. A significant decline in polling began in late 2024, when support for the Prime Minister fell to around 30% – the lowest approval rating for any Estonian head of government in nearly a decade. Michal's cabinet has been criticised for its ineffectiveness in implementing reforms. The

'rightward shift' is intended to win back voters lost to the centre-right Isamaa (Fatherland) party and strengthen the Reform Party's position ahead of the autumn 2025 local elections. The outcome of those elections will determine the government's stability and whether Michal can retain de facto leadership of the Reform Party through to the 2027 parliamentary elections.

- **The new government's pledges appear difficult to fulfil in light of Estonia's stagnant economy.** Securing budgetary resources for increased defence expenditure will be particularly challenging. The current level of 3.43% of GDP was achieved only through cuts in other sectors and the introduction of a special defence tax last year. The country's challenging economic situation may hinder any further increases in such spending.
- **The Estonian economy remains stagnant for a second consecutive year.** In 2024, GDP contracted by 0.3%, and a slight increase in the fourth quarter failed to translate into a broader recovery. The stagnation stems from the lingering effects of the pandemic, Russia's ongoing invasion of Ukraine, and reduced demand for Estonian exports in Nordic countries – particularly Sweden and Finland.