

# ESTONIA FORMS NEW GOVERNMENT AFTER PM KALLAS STEPS DOWN TO SERVE AS EU FOREIGN POLICY CHIEF

## Key takeaways from the formation of the Michal Cabinet

23 July 2024

### SUMMARY

Estonian President Alar Karis has appointed the country's new government into office. Led by former Climate Minister Kristen Michal, a longtime MP of the senior ruling Estonian Reform Party, the new cabinet was appointed after Michal's predecessor, Kaja Kallas, stepped down following her nomination to serve as EU High Representative for Foreign Affairs and Security Policy.

The new cabinet is largely a continuation of the third Kallas Government, both in terms of political composition and policy objectives. Under a revised coalition deal between Michal's centrist Reform, the centre-left Social Democrats and the liberal Estonia 200 movement, the new cabinet is based on gender balance and consists of 14 members.

While most members of the Kallas Cabinet will keep their position, new additions to the government include Finance Minister Jürgen Ligi, Climate Minister Yoko Alender and Justice and Digital Affairs Minister Lisa-Ly Pakosta. A surprise addition is opposition figure Vladimir Svet, who recently joined the Social Democrats to be appointed for the newly created position of Infrastructure Minister.

Security will be high on the new government's agenda, which will include the introduction of several tax changes to raise €3 billion for defence spending by 2028. The coalition deal foresees VAT and income tax increases, as well as a 2% tax on corporate profits.

The formation of the new government comes a year after Estonia's last parliamentary elections (which produced a strong majority for the current ruling bloc) and shortly after the EU parliamentary elections (won by the lead opposition Isamaa party). While Aretera's baseline scenario assumes that the governing coalition will remain stable, policy differences may hinder its stability in the long run.

 Below, Aretera takes a deeper look at Estonia's new government, as well as its political and policy implications.

## EX-CLIMATE MINISTER FORMS NEW GOVERNMENT

On 22<sup>th</sup> July, Estonian President Alar Karis appointed the country's new government, led by former Climate Minister Kristen Michal as Prime Minister. The formation of his cabinet comes after Estonian Prime Minister Kaja Kallas, who led three consecutive centrist coalition governments since 2021, officially announced her resignation following her nomination to serve as Estonia's EU Commissioner and the EU's High Representative for Foreign Affairs and Security Policy.

Preceded by months of speculation as to whether Kallas would succeed incumbent EU High Representative Josep Borrell in the run-up to June's EU parliamentary elections, the announcement immediately triggered coalition talks between Kallas' liberal-centrist Estonian Reform Party and its coalition partners – the centre-left Social Democratic Party (SDE) and the liberal Estonia 200 party – resulting in the formation of the Michal Cabinet.

## THE COMPOSITION OF THE MICHAL CABINET

Cabinet Composition as of 23 <sup>rd</sup> July, 2024		
Cabinet Member	Affiliation	Portfolio
Kristen Michal	Reform	-
Jürgen Ligi	Reform	Finance
Hanno Pevkur	Reform	Defence
Erkki Keldo	Reform	Economy & IT
Yoko Alender	Reform	Climate
Signe Riisalo	Reform	Social Protection
Heidy Purga	Reform	Culture
Lauri Läänemets	SDE	Interior
Riina Sikkut	SDE	Health
Piret Hartman	SDE	Regional Development
Vladimir Svet	SDE	Infrastructure
Margus Tsahkna	Estonia 200	Foreign Affairs
Kristina Kallas	Estonia 200	Education & Research
Lisa-Ly Pakosta	Estonia 200	Justice & Digital Affairs

Source: Government of Estonia

## KEY TAKEAWAYS FROM THE NEW CABINET

A lawyer by profession, Kristen Michal has served as an Estonian MP since 2004. He first entered government in 2011, serving briefly as Justice Minister and later as Economy and Infrastructure Minister (2015-2016). He joined former PM Kallas' third Cabinet as Climate Minister in April 2023 and was widely expected to succeed her as PM and party chair provided Kallas secured the EU nomination for High Representative, which she eventually did following the EU elections.

As widely expected, the coalition talks have resulted in a government that is largely a continuation of the third Kallas Cabinet formed in May 2023, reflecting the balance of power between the three ruling parties in the Riigikogu, Estonia's parliament.

The senior ruling Reform, which holds 39 of the coalition's 66-seat constitutional majority, will control six of the new government's 13 ministries, including those responsible for finance, defence, climate, as well as economy & IT. The Social Democrats (14 MPs) will be in charge of four ministries (interior, health, regional development and infrastructure), while the junior coalition Estonia 200 (13 MPs) will control three (foreign affairs, education and research, as well as justice and digital affairs).

Among the new members of the country's government are Finance Minister Jürgen Ligi (replacing Mart Vörklaev), Climate Minister Yoko Alender (replacing Kristen Michal), Justice and Digital Affairs Minister Lisa-Ly Pakosta (replacing Madis Timpson) and Vladimir Svet, who will lead the newly created Infrastructure Ministry.

Svet's inclusion in the new government came as a surprise to many as he left the opposition Estonian Centre Party to join the Social Democrats and – subsequently – the new government. The remaining figures of the Michal Cabinet were members of the third Kallas Government, while the cabinet itself is gender balanced, with seven female and seven male members.

## POLICY IMPLICATIONS

Given the structural and ideological continuity between the third Kallas Cabinet and the Michal Government, Aretera expects the new cabinet to largely follow in the footsteps of its predecessor when it comes to policy issues, with security to be high on the new government's agenda.

In addition to pledging to continue supporting Ukraine as Russia's aggression continues, the new government – under the revised coalition deal – will introduce a defence tax to cover the country's increasing security costs, in the form of a temporary tax until 2028.

In accordance with the planned tax changes, VAT will increase by 2% from 2025, with income tax set to undergo the same rate change from 2026. Also from 2026, the government will impose a 2% tax on corporate profits. Altogether, Michal hopes to raise €3 billion to cover defence spending.


## LOOKING AHEAD

The formation of the new government comes shortly after [Estonia's EU elections](#), won by the lead opposition Isamaa with 21.5%. The Social Democrats finished second with 19.3%, followed by the senior coalition party Reform (17.9%), the nationalist EKRE (14.8%) and the Estonian Centre Party (12.4%), while the junior coalition Estonia 200 only secured 2.6%.

Given the relatively smooth coalition talks between Reform, the Social Democrats and Estonia 200, Aretera's baseline scenario assumes the Estonian government will remain stable, at least in the short term. Held last March, the country's latest parliamentary elections produced a parliament in which the ruling bloc holds a strong majority (66 of the 101 MPs). PM Michal will likely aspire to keep the coalition together, however policy issues may hinder its stability in the long run, particularly when it comes to tax policy, as reflected during the coalition talks.

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