

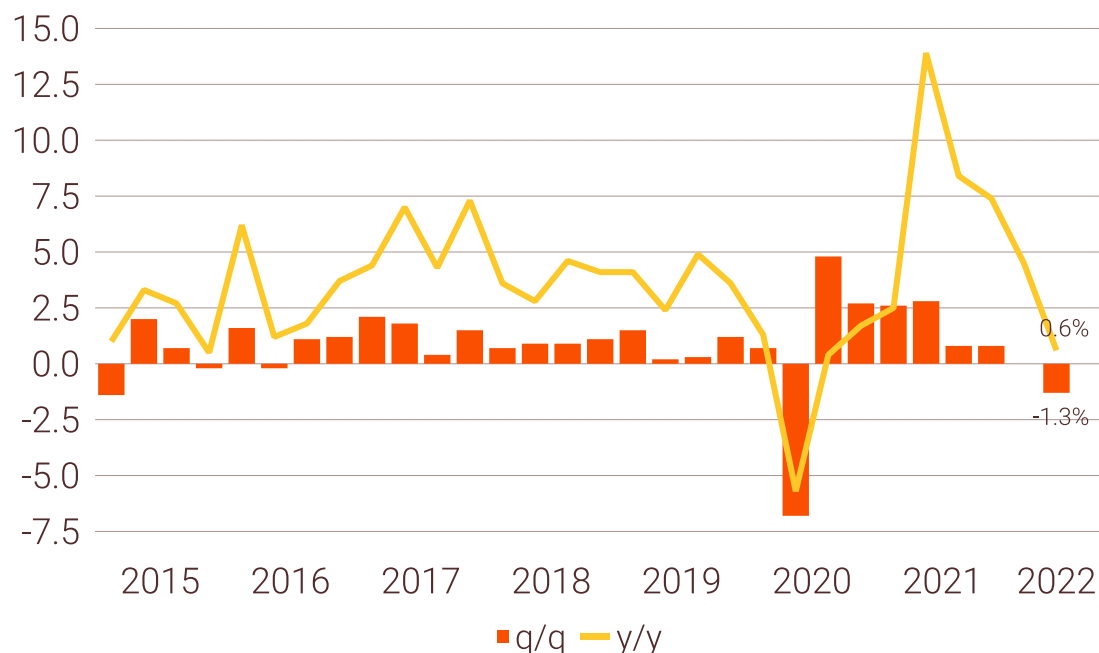
## Estonia: GDP growth outlook has deteriorated faster than expected

### Despite the sluggish GDP y/y growth in real terms, nominal growth was robust in Q2

- GDP expanded only 0.6% y/y (non-adjusted), but contracted 1.3% q/q (swda) in Q2, in real terms
- GDP nominal growth was still strong at 17.8% y/y.

### GDP growth

y/y % (non-adjusted), q/q % (swda), real



Sources: Swedbank Research & Macrobond

- GDP has expanded 2.4% in H1 in real terms, but we forecast that H2 will be considerably weaker. Swedbank recent GDP forecast for 2022 is 1.7% and 0.5% for 2023.
- The largest positive contribution to the GDP growth came from ICT sector and professional services, whereas the largest negative contribution came from manufacturing and real estate activities.
- The growth of private consumption slowed to 4.8% in real terms, but picked up to 23% in nominal terms, the largest growth of the last 15 years.
- Investments contracted 23%, due to the high base effect from the large investments by Volkswagen into its Estonian subsidiary in 2H2020-1H2021.
- Total exports increased 5.3% in real terms, whereas imports dropped by 0.2%. Despite the deficit of net exports expanded in Q2 compared to Q1, it was almost half as small as a year ago.
- Inventories were still exceptionally large in Q2 and gave a strong contribution to the GDP growth. They reached to 6% of GDP in nominal terms, but 21% in real terms.

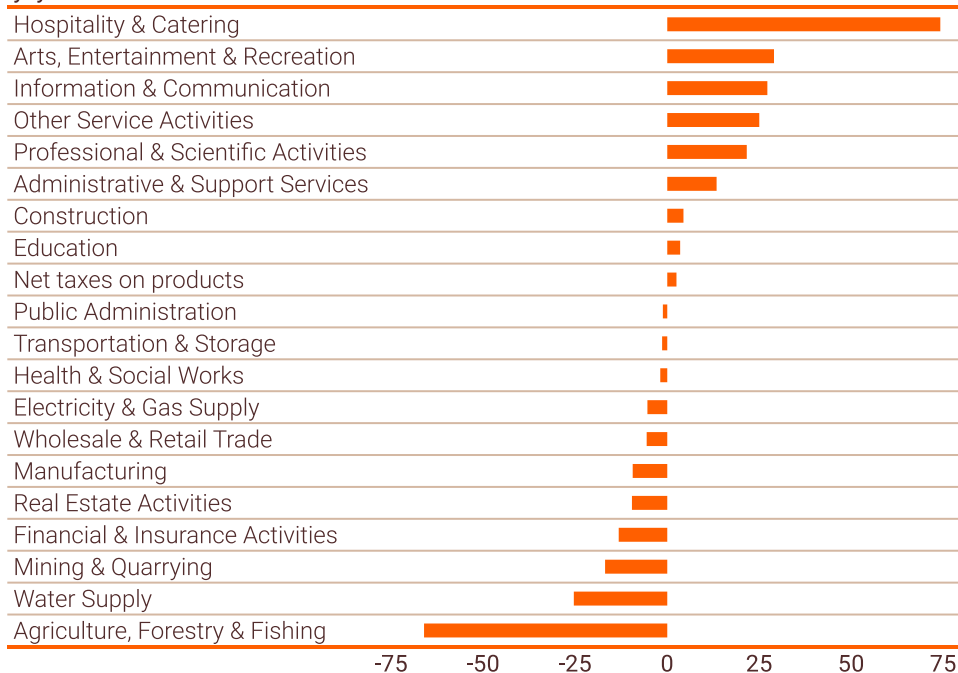
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# Robust growth of private consumption, inventories and net exports in Q1

## GDP by production approach, 2022 Q2

y/y %



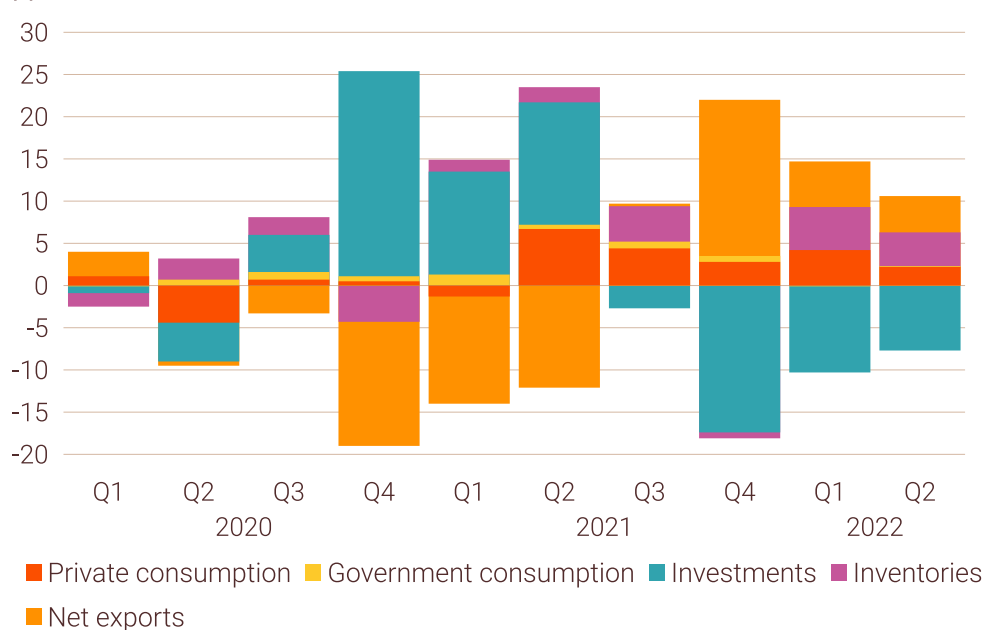
Sources: Swedbank Research & Macrobond

Value added in manufacturing dropped 9% y/y as foreign demand has deteriorated and export of goods contracted in Q2. However, total exports increased 5% with the support of robust growth of export of services. ICT sector, which gave the largest positive contribution to the GDP growth and has expanded permanently since mid-2017, has reached to the third largest economic activity in Estonia after manufacturing and trade.

Despite the deteriorated purchasing power private consumption has expanded robustly in nominal terms this year with the support of large savings, money withdrawn from the pension fund and the influence of high inflation expectation.

## Contributions to the GDP growth

pp



Sources: Swedbank Research & Macrobond

We expect that high inflation and weaker purchasing power will have larger impact on private consumption with delay time.

The share of the decline in investments, which are related to the base effect from VW investments, have been recorded in import of services and thus, have neutral or minor impact on GDP. This effect will cease from Q3 this year.

Inventories have picked up. Primarily raw materials and merchandise purchased for resale are behind the increased inventories of nonfinancial enterprises. We expect that inventories will decrease gradually as enterprises will adjust with the changes in demand.

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