

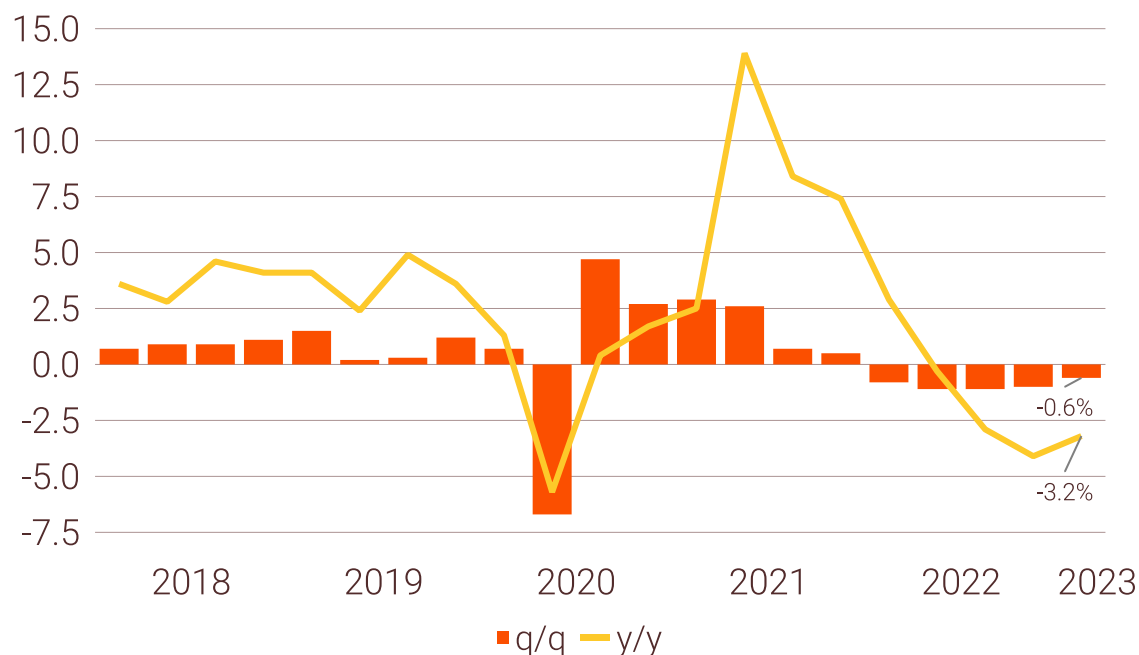
Estonia: GDP fell for the fifth quarter in a row

GDP contraction met our expectations

- In Q1 2023, GDP contracted 3.2% y/y (non-adjusted) and 0.6% q/q (swda) in real terms.
- In nominal terms, Estonian economy expanded 9.3%, above the long-term average.

GDP growth

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



Sources: Swedbank Research & Macrobond

- Estonian economy has contracted five quarters in a row in q/q and four quarters in y/y comparison. However, labour market is strong and wage growth is robust.
- GDP contraction in Q1 met our expectations. We forecast that GDP will continue to fall in Q2 y/y. Although, the economy is expected to show modest expansion in 2H, it will decline 0.8% in 2023.
- Weaker foreign demand has reduced export of goods from Estonia. According to our estimate, cost competitiveness of Estonian exporters has deteriorated. This can slow down the recovery of exports when the demand will improve.
- Although we expect that real wage will return to growth soon, the recovery of consumption growth will have a delay time.
- Estonian new government is preparing tax hikes as of next year to reduce budget deficit. This will prevent inflation from slowing down as we previously estimated. This in turn, will cut some growth from the private consumption, as well as from the GDP in 2024.
- Minimum wage has been agreed to raise gradually from the current 39.5% of average wage to 50% in 2027. This intensive increase can be challenging for the business sector.

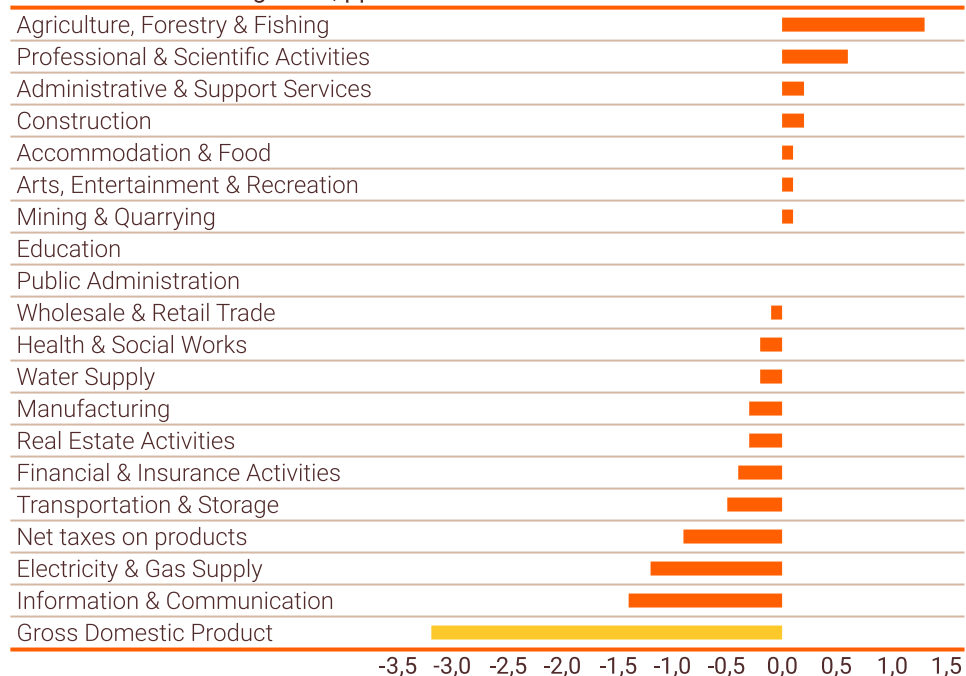
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Mixed picture by economic activities

GDP by production approach, 2023 Q1

Contribution to GDP growth, pp

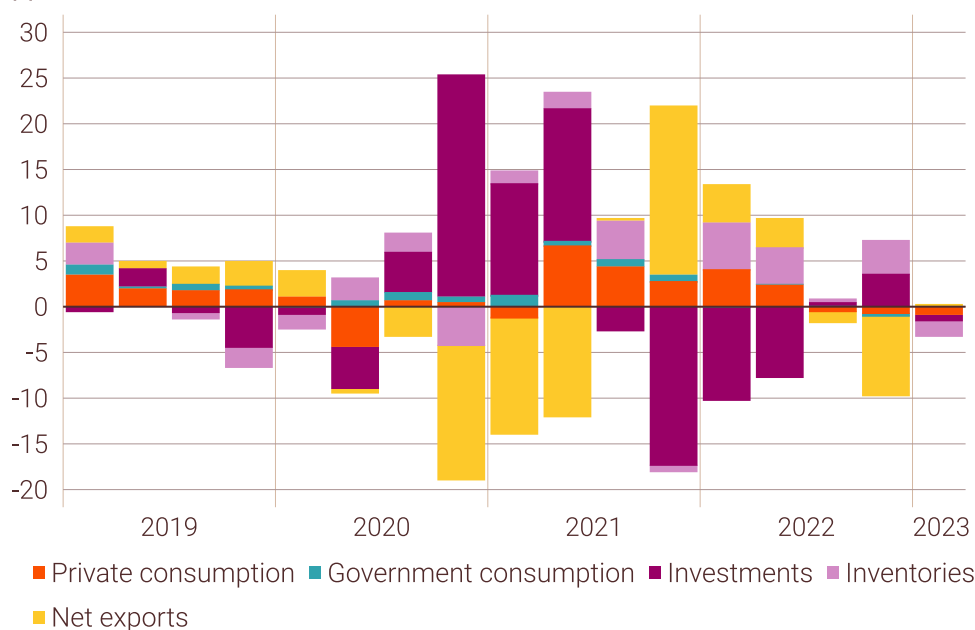


Sources: Swedbank Research & Macrobond

Value added of roughly half of economic activities declined in Q1, while the largest negative contribution came from ICT, energy production and transportation sectors. Value added growth in agriculture and forestry and professional, administrative and support services contributed the most positively. In addition, value added of mining, accommodation and food service and arts and entertainment expanded more robustly. Thus, economic activities that suffered the most during the pandemics have benefited from the larger demand, despite the overall contraction of purchasing power. Value added of construction increased despite its output decreased 11%, as the drop of its production inputs exceeded the drop of its output. The share of total operating surplus in GDP declined only a bit and remained highest since 2015.

Contributions to the GDP growth

pp



Sources: Swedbank Research & Macrobond

Exports and imports declined 7% both. Weaker foreign demand has deteriorated Estonian export of goods, that decreased 12% y/y in Q1. This, in turn, has dealt a blow to the manufacturing sector. At the same time, export of services expanded 2,5% primarily due the increase in maritime transport, computer services and advertising services. Contraction of private consumption intensified in Q1, while it fell 1.9% y/y in real terms. However, in nominal terms, it increased 14%, well above the long-term average. Investments dropped 3%, primarily due to the one-off decline in nonfinancial corporations' investments in transport equipment. Investments of other institutional sectors increased. Inventories were still large, but they contributed negatively to the GDP change due to the higher base a year ago.

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