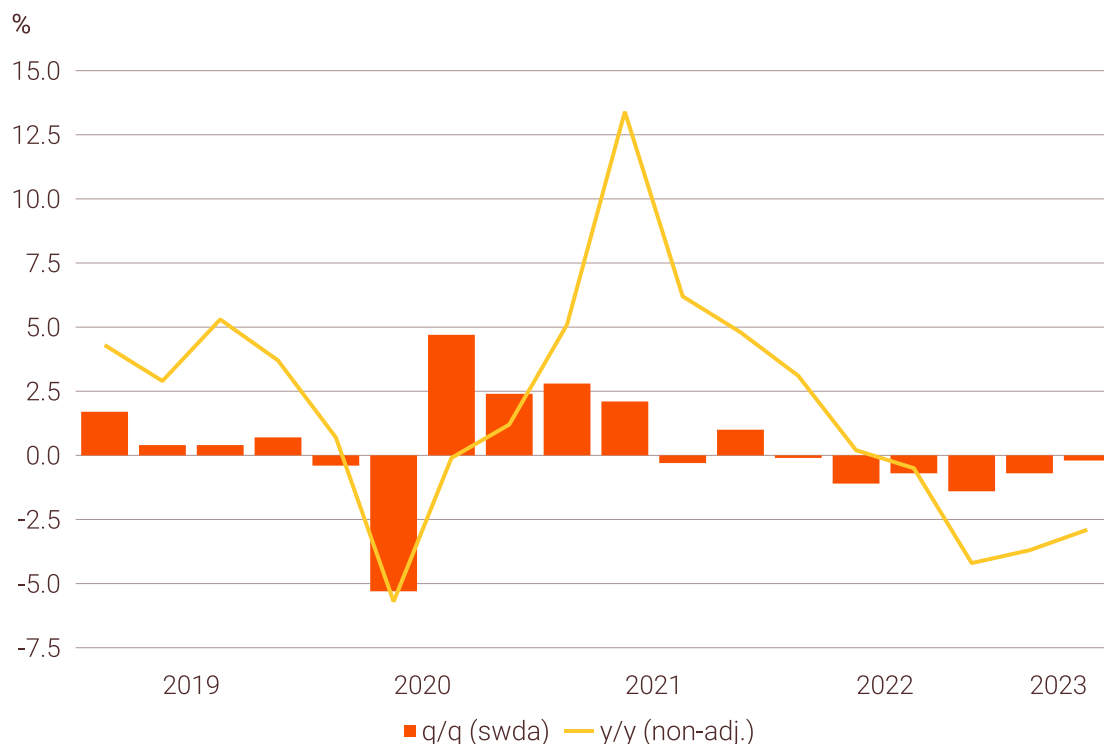


Estonian economy has contracted six quarters in a row

- In Q2 2023, GDP dropped 2.9% y/y (non-adjusted) and 0.2% q/q (swda) in real terms, according to Statistics Estonia.
- GDP contraction is receding gradually.

Estonia: real GDP



Sources: Swedbank Research & Macrobond

- Estonian GDP has contracted six quarters in a row in quarter-on-quarter and four quarters in year-on-year comparison. GDP has declined 3.3% in real terms in 1H 2023 and in Q2 it dropped to the level we saw between 4Q2020-1Q2021.
- Economic sentiment is still weak, mainly driven by worsening confidence of industrial and construction sectors.
- The GDP decline has receded gradually, while the largest contraction remained in 4Q 2022. We forecast 2% GDP decline in real terms in 2023, while it will recover to 2% growth next year.
- Recovering real wages will increase private consumption with a certain time delay, while weak foreign demand will limit the recovery of export sector.
- In nominal terms, GDP growth slowed to 5.1% in Q2. We expect that nominal year-on-year growth will continue in the next two years, but it will remain below long-term average.
- Non-financial corporations' profit growth has slowed down from the robust pace of 2Q2021-3Q2022.
- Despite the prolonged recession, labour market has remained strong, and we expect that unemployment rate will pick up only moderately.

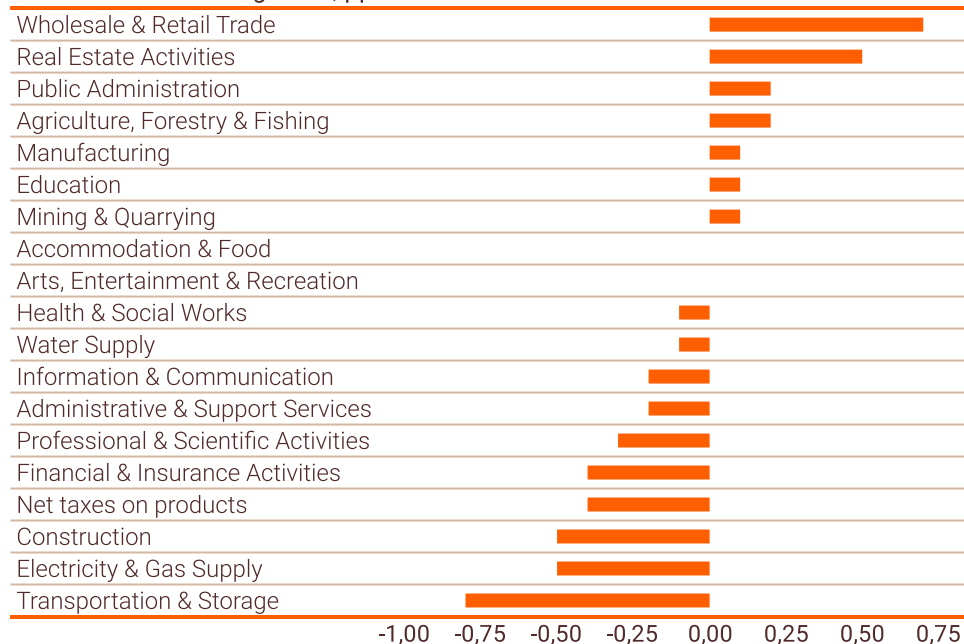
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The decline of private consumption, investments and export of goods has intensified

GDP by production approach, 2023 Q2

Contribution to GDP growth, pp

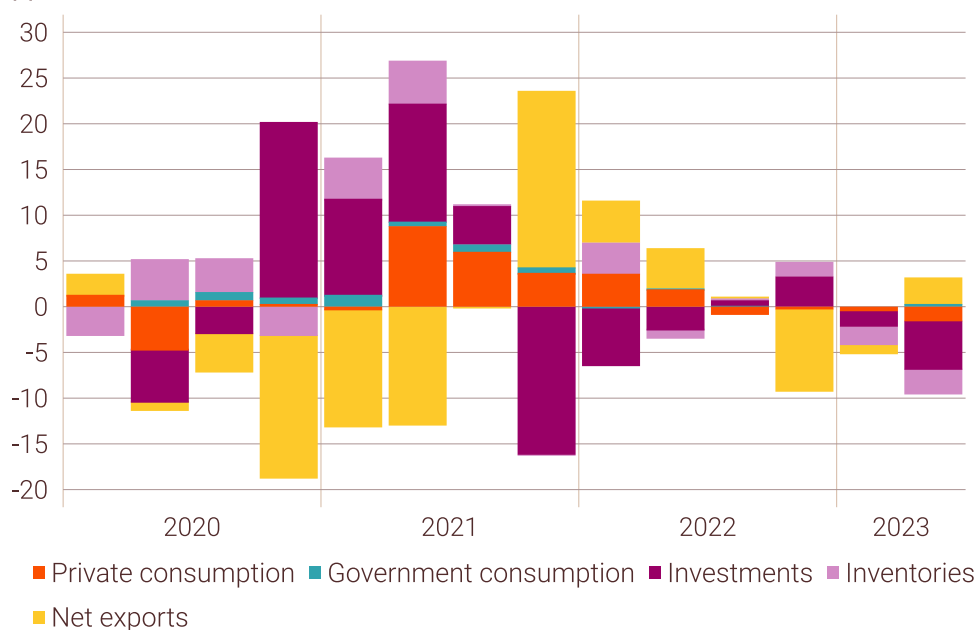


Sources: Swedbank Research & Macrobond

In Q2, as well as in the last four quarters, the largest negative contribution to the GDP decline has come from transportation, energy production, construction, forestry and financial services. The largest positive contribution has come from the growth of value added in wholesale and retail trade and real estate activities. Despite manufacturing output volume has plunged, its value added increased slightly in real terms. Both in manufacturing and trade, value added could increase as the decline of production costs exceeded the decline of output. The growth of real estate activity came largely from the base effect, as its value added had exceptional decline in 2Q2022.

Contributions to the GDP growth

pp



Sources: Swedbank Research & Macrobond

Private consumption has contracted already since 2H2022 in real terms and the decline has intensified. In 2Q, it contracted 3.3% y/y and dropped to the level of two years ago. Investments declined 19% y/y in real terms, while the major share of the decline came from nonfinancial corporations' investments in buildings and structures and machinery and equipment. Export of goods and services dropped 6% y/y. The decline of export of goods has intensified, while export of services has increased, contributed primarily by transport, computer and advertising services. Negative balance of net exports decreased in Q2. Although enterprises increased significantly their inventories, their expansion was considerably smaller than a year ago.

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