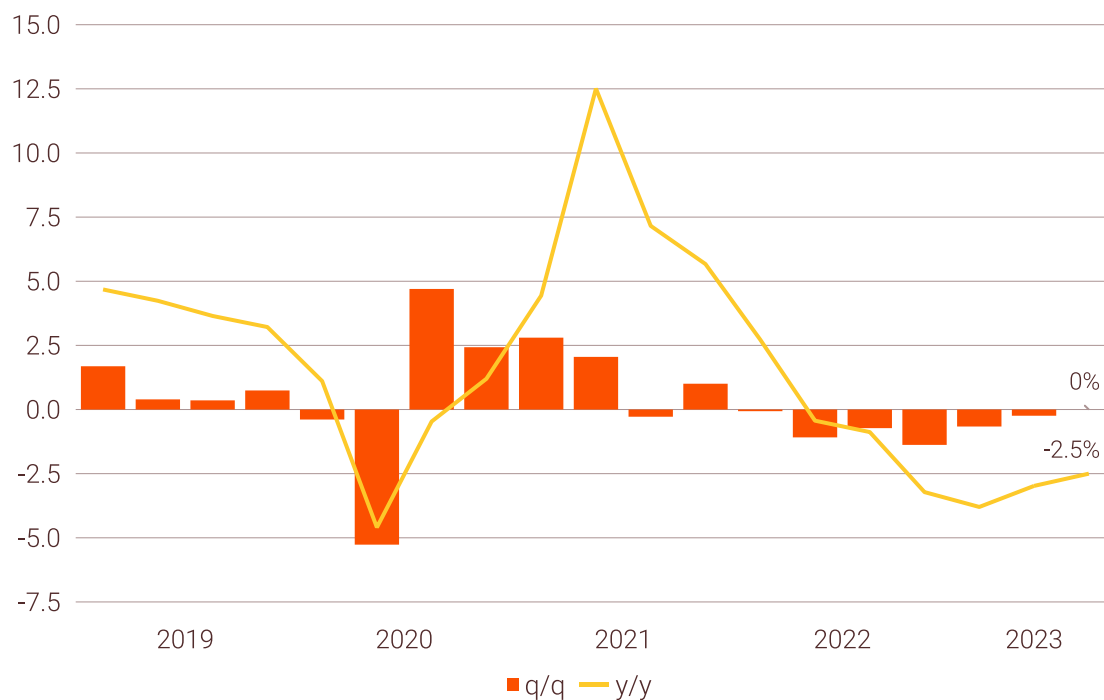


## Estonia: the economic recession is receding gradually

- In Q3 2023, GDP dropped 2.5% y/y in real terms and remained on the same level compared with the previous quarter (seasonally and calendar adjusted), according to the flash estimate of Statistics Estonia
- Estonian GDP has contracted 3% y/y in the first three quarters of the year

### Estonia: real GDP

%, swda



Sources: Swedbank Research & Macrobond

- The GDP flash estimate was close to our expectations. Quarterly contraction of Estonian economy that started already in Q1 2022 discontinued in Q3 this year. Estonian economy has contracted already six quarters in a row year-on-year, while the decline has receded.
- The slowdown of the decline is expected to continue in Q4 this year and we forecast sluggish economic recovery in 2024.
- The recent deep contraction of manufacturing output, export and retail volumes have stabilised.
- Estonian overall economic sentiment has continued to deteriorate. The worsening of services' sector, retail and households' confidence has stabilised on a low level, while the decline in industrial and construction confidence has continued.
- Despite the prolonged recession, Estonian labour market has remained strong. Unemployment is moderate, employment rate is high and wage growth is robust. We expect that situation on the labour market will deteriorate. Unemployment will pick up, but not to an alarming rate.

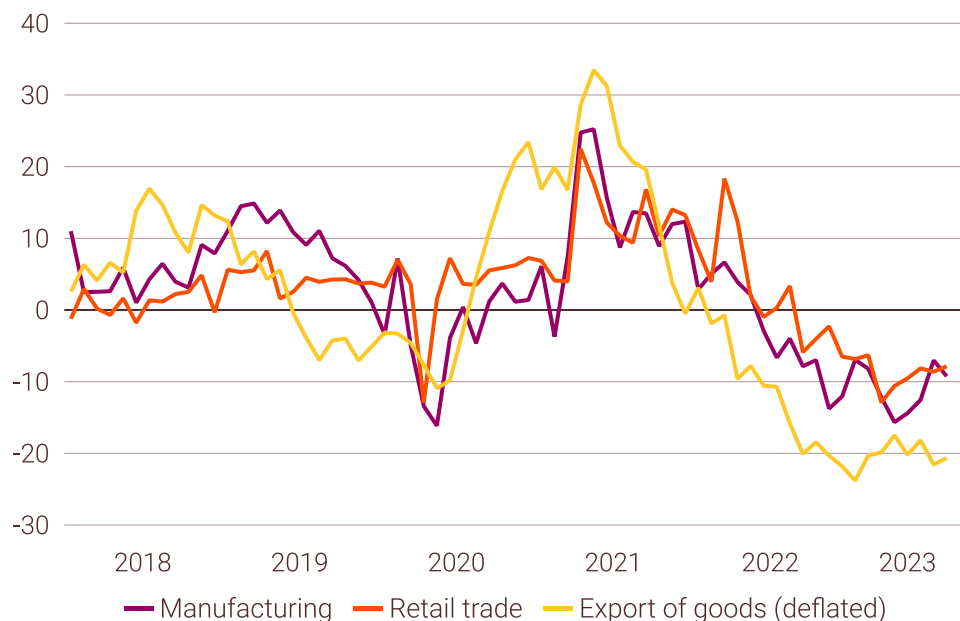
### Analyst:

Tõnu Mertsina, [tonu.mertsina@swedbank.ee](mailto:tonu.mertsina@swedbank.ee), +372 888 7589

# Contraction of manufacturing and retail volumes have stabilised, real wages are picking up

## Industrial output, exports, and retail trade

y/y %, real; export of goods 3 mma



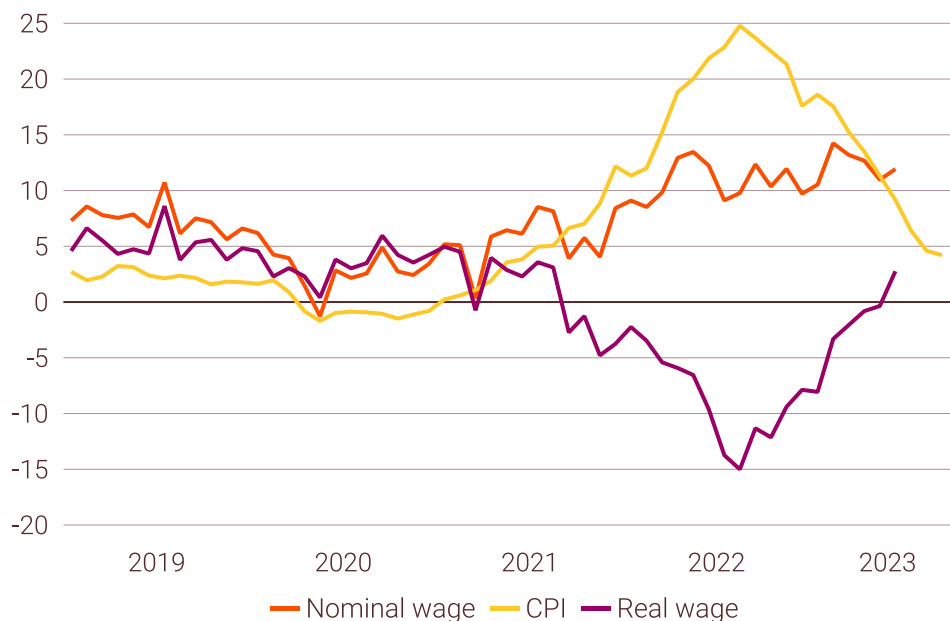
Sources: Swedbank Research & Macrobond

The recent deep contraction of manufacturing output, export and retail volumes have stabilised. The volume decline of energy production, that contributed roughly half of the GDP contraction in 1H this year, was still large. Excluding corona crisis in 2020, manufacturing output volume has dropped to the level we had five years ago. The largest contribution to the decline of manufacturing output this year has come from wood, metal and chemical industries and the production of construction materials. Estonia has got especially strong blow from the weakening demand of construction and real estate sectors in the Nordics.

The decline of receipts of taxes on products (VAT and excises), included in GDP calculation, has slowed in real terms.

## Gross and real wages

y/y %, 3 mma



Sources: Swedbank Research & Macrobond

Real wages are increasing again, as nominal wage growth is robust, while inflation has slowed. However, household confidence has not improved yet and we expect that increasing purchasing power will start to expand consumption volume only in a certain time delay. Households worry about their job and financial situation going forward. We expect that tax hikes as of 2024 will have some minor boost to the consumption at the end of this year.

Demand for loans, both from households and non-financial corporations has declined and investments have dropped likely in Q3. At the same time, business sector competitiveness has deteriorated and they need more investments in efficiency.

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Swedbank LC&I, Swedbank AB (publ), SE-105 34 Stockholm.

Visiting address: Malmkillnadsgatan 23, 111 57 Stockholm.