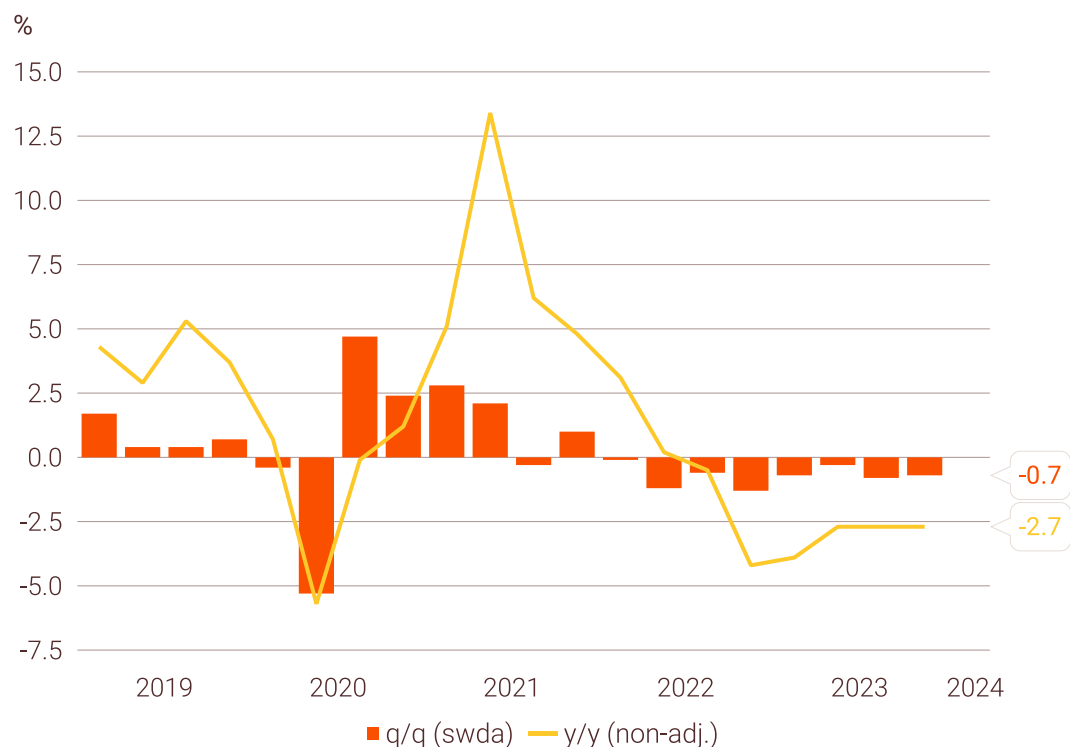


## Estonia: economic recession continued in Q4 2023

- Estonia's GDP dropped 2.7% year-on-year in Q4 2023 and 3.0% in 2023 in real terms (non-adjusted), according to Statistics Estonia.
- In quarter-on-quarter comparison, GDP continued to contract in Q4, falling by 0.7% (swda)

### Real GDP



Sources: Swedbank Research & Macrobond

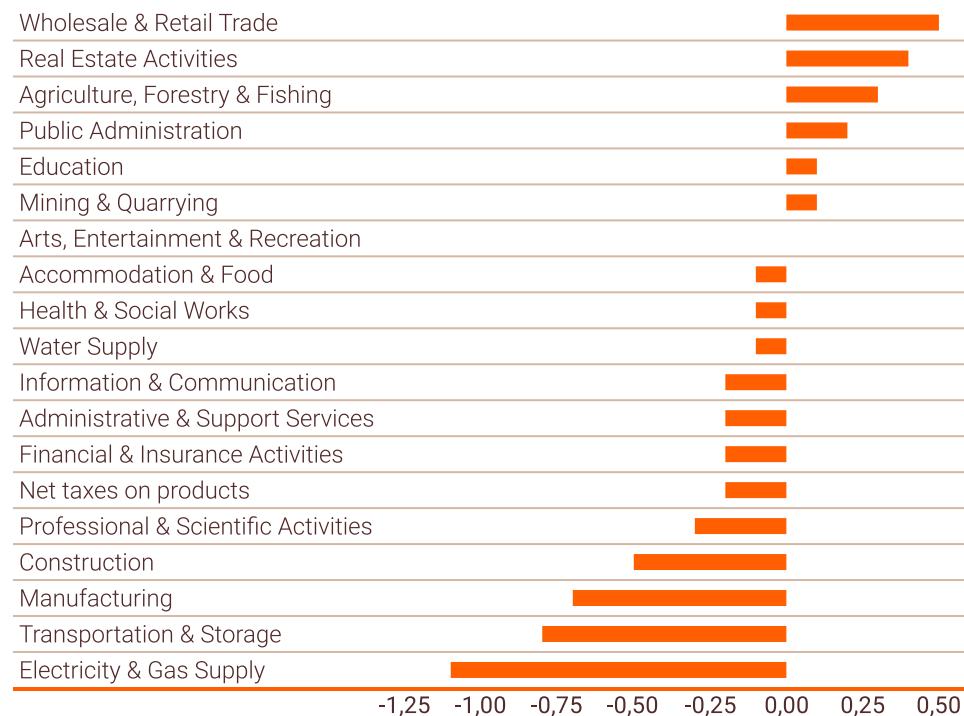
- Estonian GDP has contracted eight quarters in a row in quarter-on-quarter (swda) and six quarters in year-on-year (non-adjusted) comparison.
- As the Statistical Office revised the first three quarters of 2023 GDP, the annual GDP contraction was slightly softer (-3%) compared to our recent forecast (-3.4%).
- At the same time, Q3 GDP upward revision turned Q4 quarter-on-quarter decline larger than expected. This deeper contraction in Q4 will carry over to the first half of 2024 and is expected to make the economic recovery in the first half of 2024 slightly more sluggish than we expected in our recent forecast.
- Nominal GDP growth slowed to 4.6% in 2023, while it was the weakest of the last eight years (excl. 2020).
- Nominal GDP level remained above the long-term trend in 2023, while it fell below it in real terms.
- Labour productivity has fallen substantially in recent years, as employment and worked hours haven't reacted sufficiently to the GDP decline in real terms. This, in turn, has increased the growth of unit labour cost and has worsened cost competitiveness.

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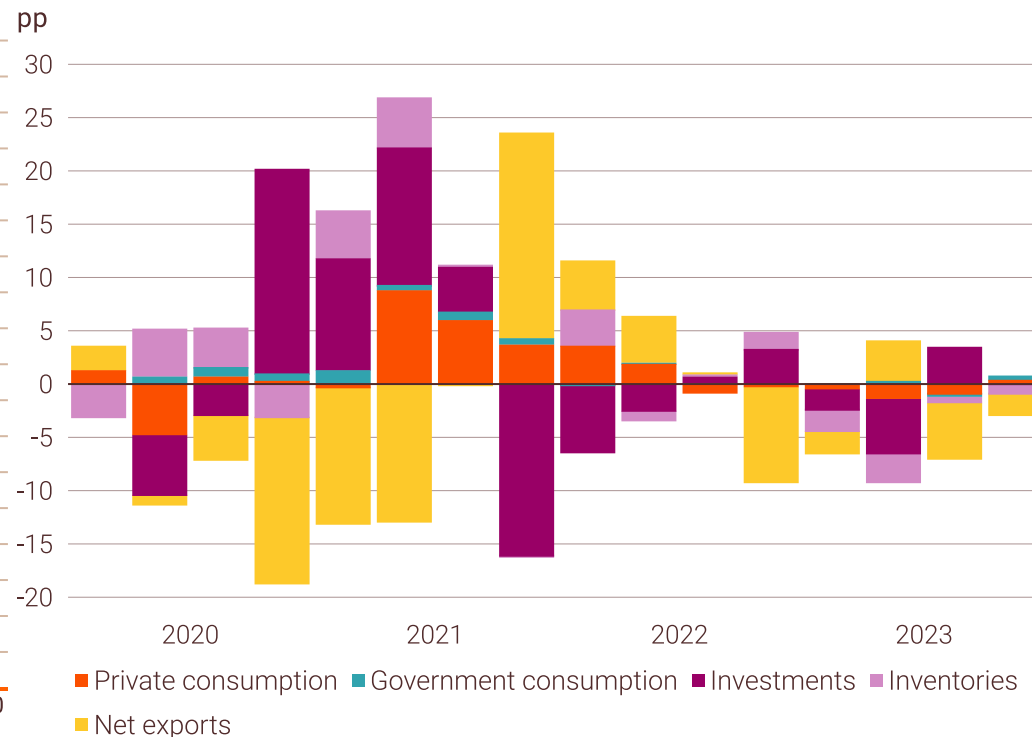
# The largest negative contribution came from the decline in energy production

Contributions to GDP growth, 2023, pp



Sources: Swedbank Research & Macrobond

Contributions to the GDP real growth



Sources: Swedbank Research & Macrobond

More than one third of the GDP decline in 2023 came from energy production, as electricity produced locally largely from fossil fuels (e.g. oil shale) is not competitive. Transportation, manufacturing and construction – economic activities affected by the reduced demand - had larger negative contribution, as well. Despite the decline in manufacturing production volume gradually slowed at the end of last year, the sector’s export expectations are still pessimistic. Insufficient demand limits business activity of roughly three quarters of the Estonia’s manufacturing enterprises. As export of goods and services dropped more than imports, foreign trade deficit expanded and had large negative impact on GDP.

Last year, private consumption fell 1.5% in real terms, while after five quarters in contraction, it turned to a modest growth in Q4. However, despite household real wages are increasing since the summer of last year, their confidence is still deteriorating. This is expected to limit the recovery of private consumption. In 2023, fixed capital investments dropped 3.4% in real terms, while by economic sectors the change was different. Household and government investments increased, while nonfinancial corporations (NFC) invested substantially less compared to 2022. More than half of the decline in the NFC investments came from transport equipment and this was due to the base effect, as there were extraordinary large investments in these assets in 2022.

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