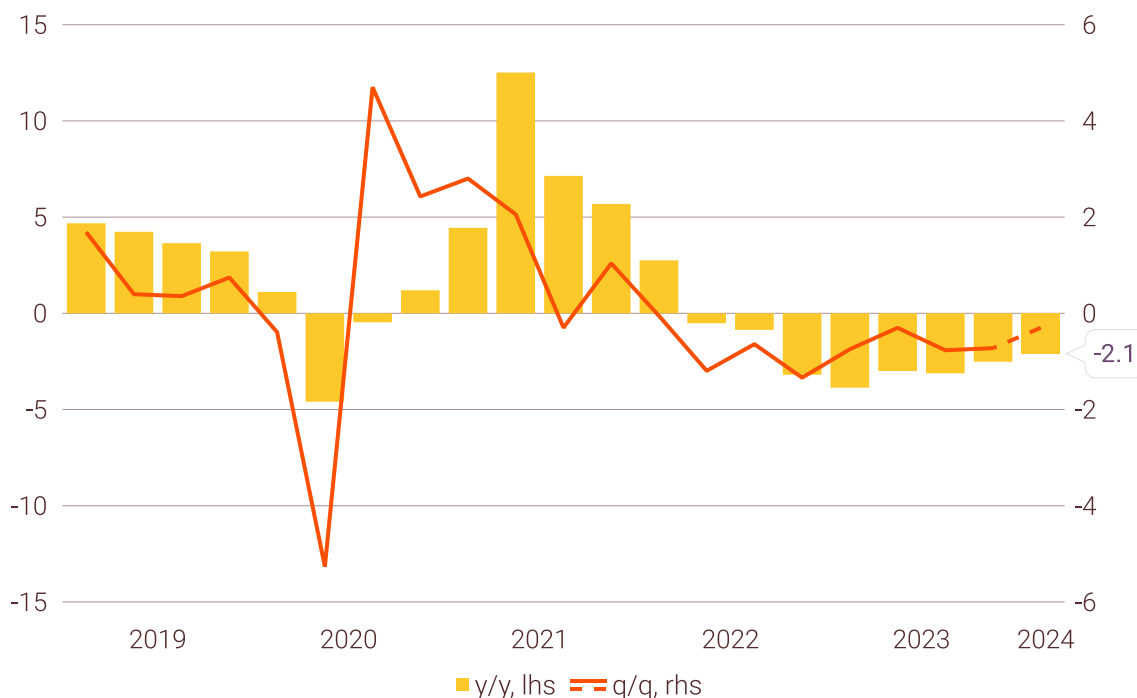


Estonian economic recession is only barely receding

- In Q1 2024, GDP dropped 2.1% y/y in real terms and was slightly lower than in Q4 (seasonally and working-day adjusted - swda), according to the flash estimate of Statistics Estonia

Estonia: real GDP

%, swda



Sources: Swedbank Research & Macrobond

- The GDP flash estimate was close to our expectations.
- Despite Statistics Estonia wrote in its press release that the Q1 2024 GDP remained on the same level as in Q4 2023, it later explained that it still contracted somewhat. Our preliminary calculations, based on the published data, show that the GDP declined 0.3% quarter-on-quarter in Q1.
- Thus, economic recession continued in Estonia in Q1, while the decline has slowed.
- Economic confidence is still weak, but it has improved somewhat, recently. The decline of the industrial production volume and the contraction of export of goods and services are receding. Households' purchasing power is improving and it has slowed the decline of retail volume (ex.vehicles).
- We forecast that the Estonian economy will rebound to the year-on-year growth in the second half of this year, but it will decline 0.5% over the full year of 2024.
- The Estonian government is looking for the ways to improve the public finances, which include spending cuts and tax hikes.

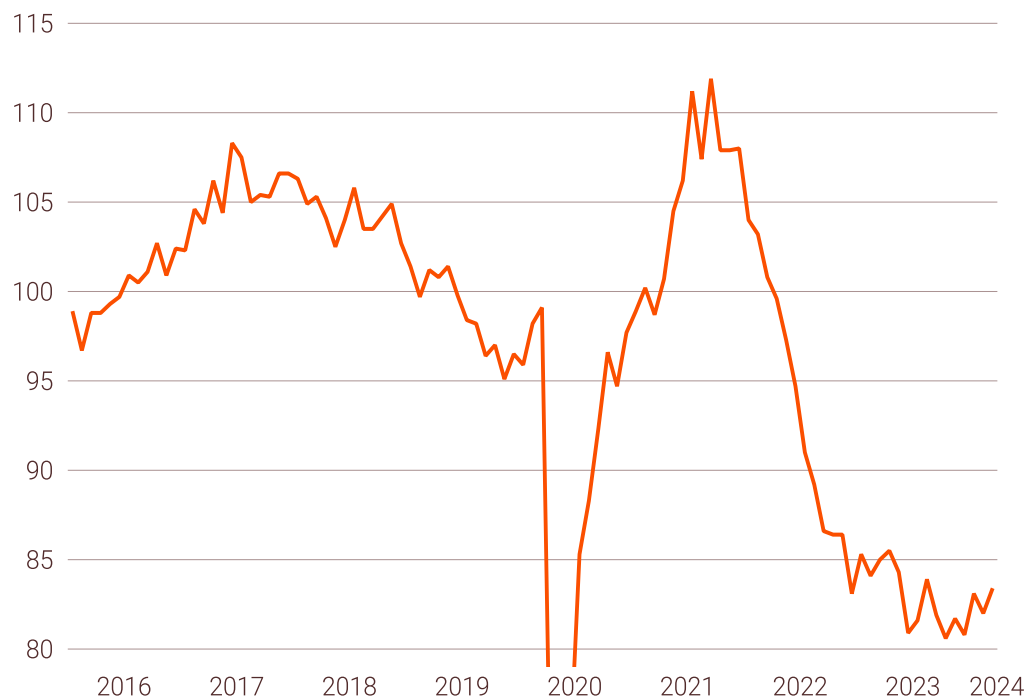
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Economic confidence improves, while the decline in industrial production has slowed

Economic sentiment

Index, SA

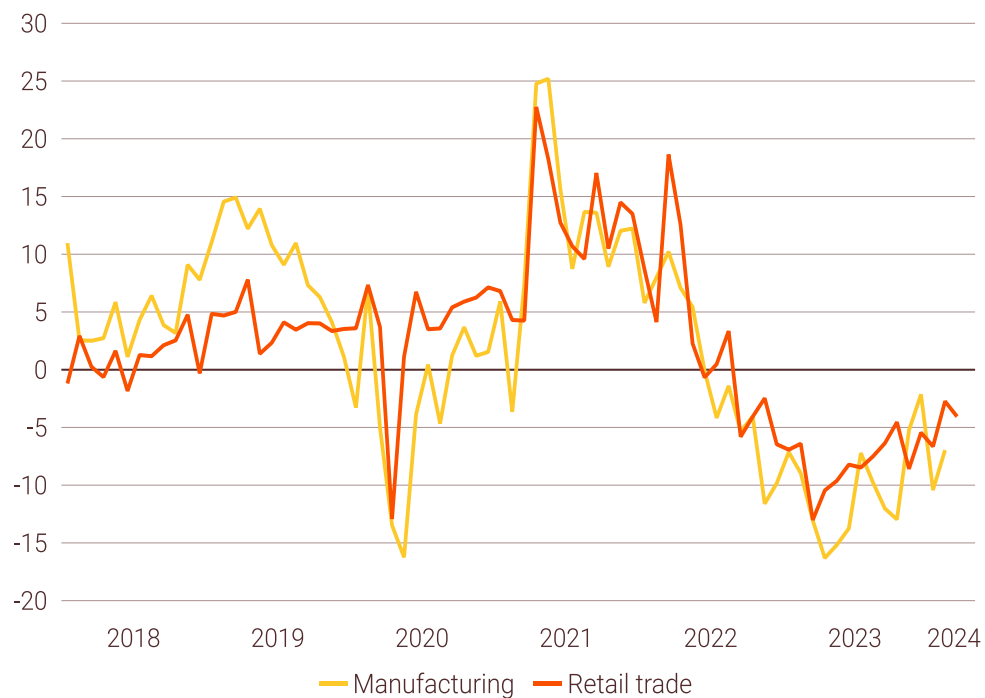


Sources: Swedbank Research & Macrobond

Economic confidence is still weak in Estonia, but it has recently improved somewhat, contributed primarily by services. Despite household confidence hasn't picked up steadily yet, real wages are increasing since the middle of last year and labour market has been relatively resilient, especially in the context of the protracted economic recession. The decline of the retail volumes, except vehicles, is receding, but including vehicles, the decline deepened in Q1. The long-lasting contraction of the industrial production volumes slowed in the first two months of 2024. Energy production and mining volumes increased, while the decline of the manufacturing production volume slowed just a little.

Manufacturing output and retail trade

y/y %, real



Sources: Swedbank Research & Macrobond

The growth of the manufacturing production is largely limited by the weak demand from Sweden and Finland, especially from these countries' construction and real estate market. While the export of goods decreased, the export of services increased, in nominal terms, in the first two months of the year and it is still above the long-term average trend. Falling interest rates will bring gradually more relief to the households and corporations, but its positive impact on the Estonian economy, in general, is expected to be modest this year. The government is trapped with the deteriorated public finances and is looking for spending cuts and tax hikes.

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