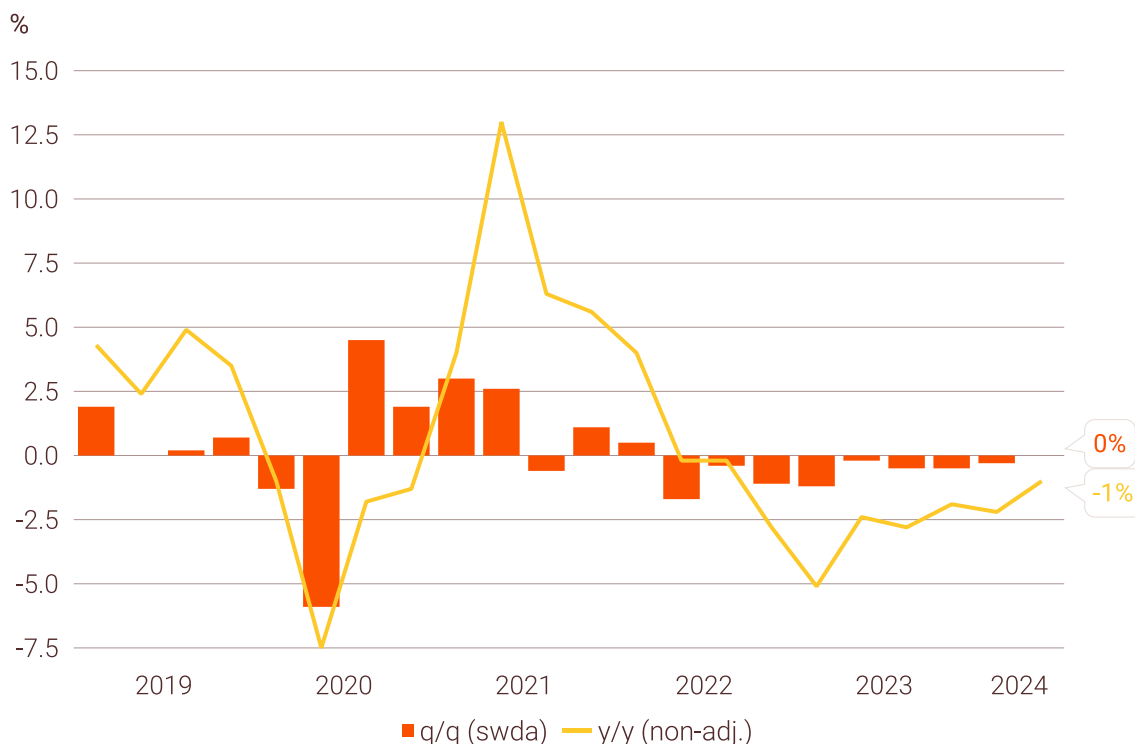


Estonian economy - still weak, but there are signs of improvement

In Q2 2024, Estonian GDP dropped 1% y/y in real terms (seasonally non-adjusted) and it remained at the same level compared to the previous quarter (seasonally and working day adjusted - swda), according to the updated estimate of Statistics Estonia.

Estonia: real GDP



Sources: Swedbank Research & Macrobond

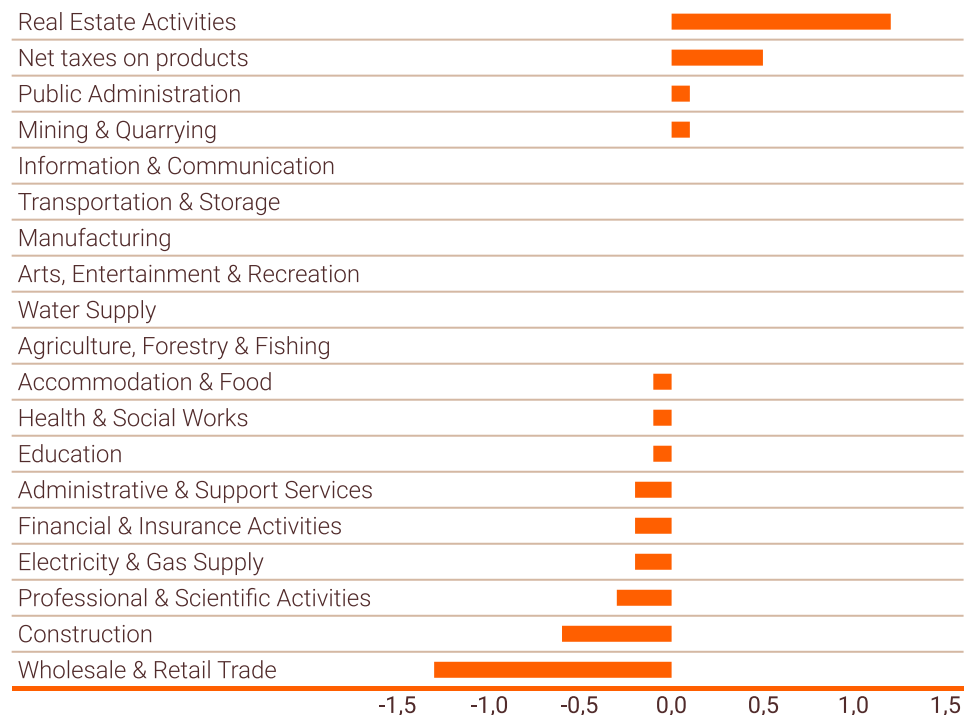
- Economic recession in Estonia, that lasted eight quarters in a row, has ended.
- Estonian economy contracted 1.6% y/y in the first half of the year, but we expect it will improve gradually in the second half of the year.
- In nominal terms, GDP growth picked up to 2.8% y/y in Q2.
- Economic recovery is mainly supported by external factors – improving foreign demand and falling interest rates, while weak confidence and planned fiscal consolidation will slow the growth, especially next year.
- We expect that the Estonian economy will decline 0.6% in real terms, this year. The proposed taxes together with the government spending cuts are expected to reduce GDP growth by more than a percentage point in 2025. We forecast 1.5% GDP growth next year.
- The recovery of the Estonian economy requires, among other things, a significant improvement in confidence.

Analyst:

Tõnu Mertsina, tonu.mertsina@swedbank.ee, +372 888 7589

The decline in exports has slowed, but private consumption is still falling

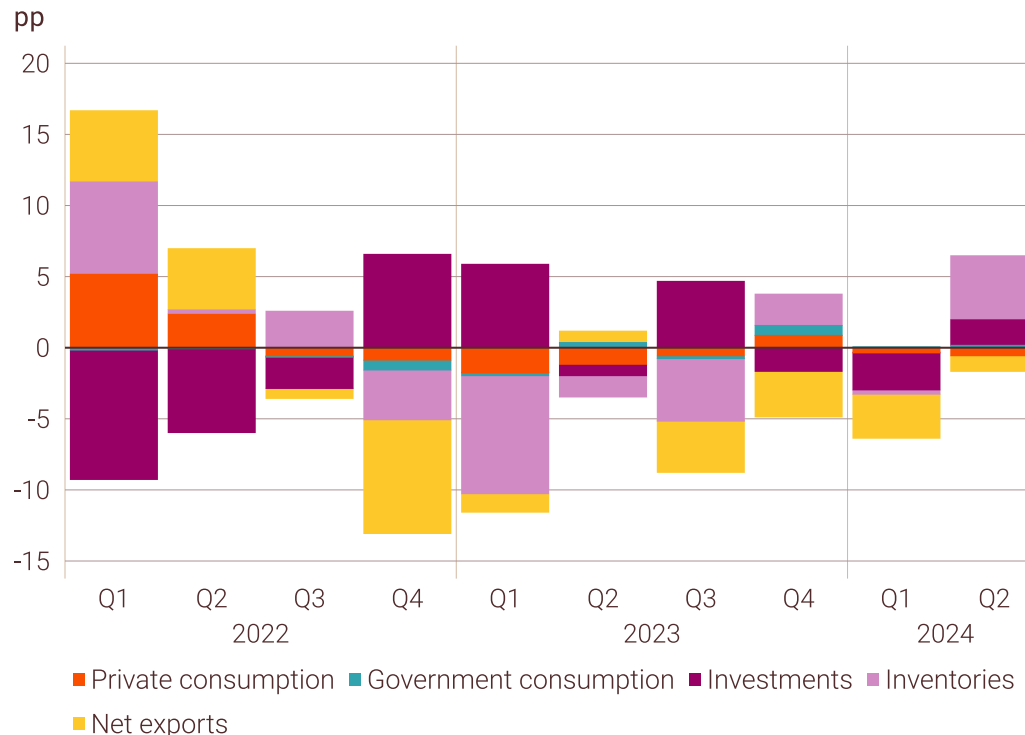
Contributions to GDP growth, 2024Q1, pp



Sources: Swedbank Research & Macrobond

Value added of only eight economic activities out of 21 increased in Q2. The largest positive contribution came from the real estate activities, despite the weakness of the RE market (net interest income of the commercial banks have large impact on the calculation). The largest negative contribution came from the wholesale and retail trade, followed by the decline in construction. The large decline in the domestic trade came because of the base effect. At the same time, retail volumes are still in contraction. Value added in manufacturing remained flat compared to the same quarter a year ago, supported by the improving export opportunities, while the sales on the domestic market decreased.

Contributions to the GDP real growth



Sources: Swedbank Research & Macrobond

Private consumption declined 1.3% y/y and had the large negative contribution to the GDP (private consumption is roughly half of the total economy). The decline in export of goods slowed and export of services increased a little year-on-year. However, foreign trade deficit increased somewhat, and it had negative impact on the GDP. Large positive contribution came from investments and change in inventories. Non-financial corporations' (NFC) investments increased 18% and government investments +10% y/y, while households investments decreased 15%. Buildings and structures were primarily behind the robust growth of NFC investments.

IMPORTANT INFORMATION

This report (the "Report") has been compiled by analyst(s) at Swedbank Macro Research, a unit within Swedbank Research that is part of Large Corporates & Institutions ("Swedbank Macro Research"). Swedbank Macro Research are responsible for preparing reports on economic developments in the global and domestic markets. Swedbank Macro Research consists of research departments in Sweden, Norway, Finland, Estonia, Latvia, and Lithuania.

What our research is based on

Swedbank Macro Research bases its research on a variety of aspects and analysis, for example, a fundamental assessment of the cyclical and structural economic, current or expected market sentiment, expected or actual changes in credit rating, and internal or external circumstances affecting the pricing of selected FX and fixed-income instruments.

Recommendation structure

Recommendations in FX and fixed-income instruments are done both in the cash market and in derivatives. Recommendations can be expressed in absolute terms, for example, attractive price, yield, or volatility levels. They can also be expressed in relative terms, for example, long positions versus short positions. Regarding the cash market, our recommendations include an entry level, and our recommendation updates include profit and often, but not necessarily, exit levels. Regarding recommendations in derivative instruments, our recommendations include suggested entry cost, strike level, and maturity. In FX, we will only use options as directional bets and volatility bets with the restriction that we will not sell options on a net basis, i.e., we will only recommend positions that have a fixed maximum loss.

Analyst's certification

The analyst(s) responsible for the content of this report hereby confirm that notwithstanding the existence of any such potential conflicts of interest referred to herein, the views expressed in this Report accurately reflect their personal views about the financial instruments and/or capital markets covered. The analyst(s) further confirm not to have been, nor are or will be, receiving direct or indirect compensation in exchange for expressing any of the views or the specific recommendation contained in the report.

Distribution & recipients

This Report is distributed by Swedbank Macro Research within Swedbank AB (publ) ("Swedbank"). Swedbank is under the supervision of the Swedish Financial Supervisory Authority (Finansinspektionen). In no instance is this report altered by the distributor before distribution.

In Finland this report is distributed by Swedbank's branch in Helsinki, which is under the supervision of the Finnish Financial Supervisory Authority (Finanssivalvonta).

In Norway this report is distributed by Swedbank's branch in Oslo, which is under the supervision of the Financial Supervisory Authority of Norway (Finanstilsynet).

In Estonia this report is distributed by Swedbank AS, which is under the supervision of the Estonian Financial Supervisory Authority (Finantsinspektsioon).

In Lithuania this report is distributed by "Swedbank" AB, which is under the supervision of the Central Bank of the Republic of Lithuania (Lietuvos bankas).

In Latvia this report is distributed by Swedbank AS, which is under the supervision of The Financial and Capital Market Commission (Finanšu un kapitāla tirgus komisija).

If you are not a client of ours, you are not entitled to this research report.

This Report is not intended for physical or legal persons who are citizens of, or have domicile in, a country in which dissemination is not permitted according to applicable legislation or other decisions.

This Report or any information in it is not for release, publication, or distribution, directly or indirectly, in or into the United States or any other jurisdiction in which such distribution would be unlawful or would require registration or other measures.

In the United Kingdom this communication is for distribution only to and directed only at "relevant persons." This communication must not be acted on – or relied on – by persons who are not "relevant persons." Any investment or investment activity to which this document relates is available only to "relevant persons" and will be engaged in only with "relevant persons." By "relevant persons" we mean persons who:

- Have professional experience in matters relating to investments falling within Article 19(5) of the Financial Promotions Order.
- Are persons falling within Article 49(2)(a) to (d) of the Financial Promotion Order ("high net worth companies, unincorporated associations etc").
- Are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) – in connection with the issue or sale of any securities – may otherwise lawfully be communicated or caused to be communicated.

Limitation of liability

All information, including statements of fact, contained in this Report has been obtained and compiled in good faith from sources believed to be reliable. However, no representation or warranty, express or implied, is made by Swedbank with respect to the completeness or accuracy of its contents, and it is not to be relied upon as authoritative and should not be taken in substitution for the exercise of reasoned, independent judgment by you.

Be aware that investments in capital markets, such as those described in this Report, carry economic risks and that statements regarding future assessments comprise an element of uncertainty. You are responsible for such risks alone and Swedbank recommend that you supplement your decision-making with material which is assessed to be necessary, including (but not limited to) knowledge of the financial instruments in question and the prevailing requirements as regards trading in financial instruments.

Opinions contained in this Report represent the analyst's present opinion only and may be subject to change. In the event that the analyst's opinion should change or a new analyst with a different opinion becomes responsible for Swedbank Macro Research's coverage, Swedbank will endeavour (but do not undertake) to disseminate any such change, within the constraints of any regulations, applicable laws, internal procedures within Swedbank, or other circumstances.

If you are in doubt as to the meaning of the recommendation structure used by Swedbank in its research, please refer to "Recommendation structure."

Swedbank is not advising or soliciting any action based upon this report. This report is not, and should not be construed as, an offer to sell or as a solicitation of an offer to buy any securities.

To the extent permitted by applicable law, no liability whatsoever is accepted by Swedbank for any direct or consequential loss arising from the use of this report.

Conflicts of interest

In Swedbank Macro Research, internal guidelines are implemented in order to ensure the integrity and independence of the research analysts. For example:

- Research reports are independent and based solely on publicly available information.
- The analysts are not permitted, in general, to have any holdings or any positions (long or short, direct or via derivatives) in such financial instruments that they recommend in their investment analysis.
- The remuneration of staff within the Swedbank Macro Research department may include discretionary awards based on the firm's total earnings, which include investment banking income. However, no such staff shall receive remuneration based upon specific investment banking transactions.

Planned updates

An investment recommendation is normally updated twice a month. This material may not be reproduced without permission from Swedbank Research, a unit within LC&I.

Producer

Produced by Swedbank Macro Research.

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

Visiting address: Malmkillnadsgatan 23, 111 57 Stockholm.