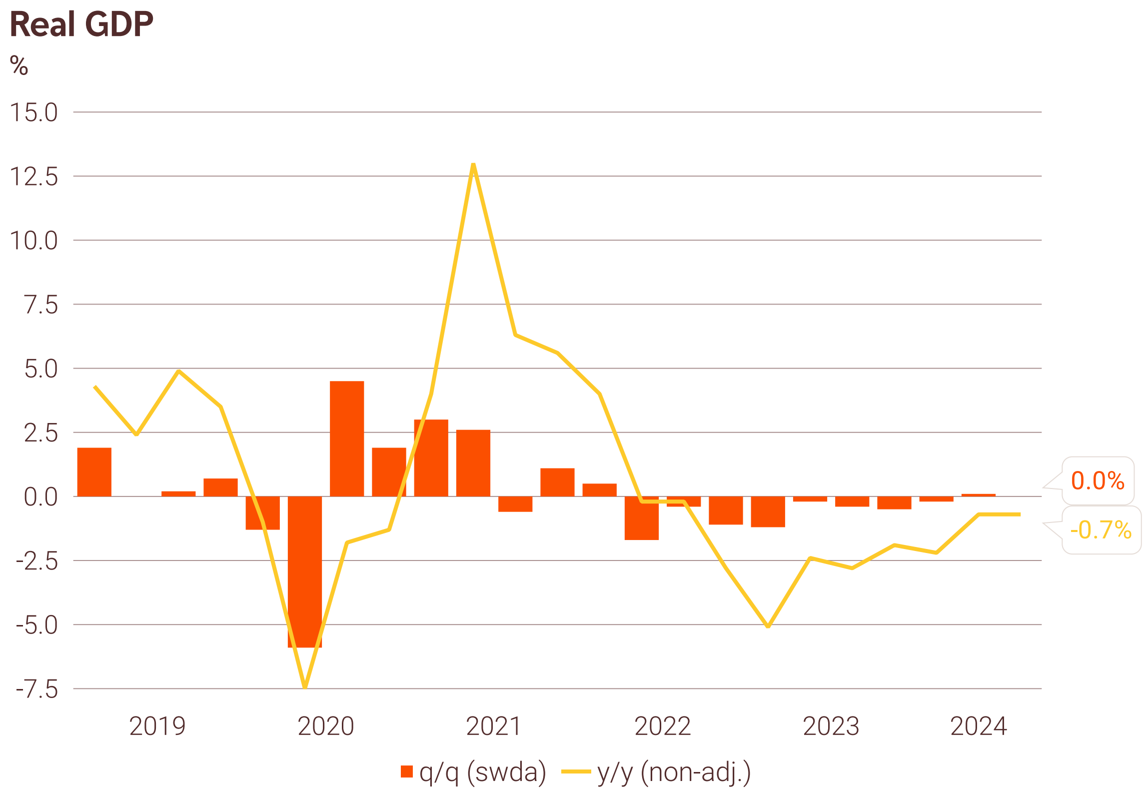
Swedbank

The Estonian economy is gradually improving

Private consumption and investments fell, while exports increased over the year



Sources: Swedbank Research & Macrobond

- In the third quarter of 2024, Estonian GDP dropped by 0.7% y/y in real terms (seasonally non-adjusted), while remained at the same level compared to the previous quarter (seasonally and working day adjusted), according to the updated estimate of Statistics Estonia. In nominal terms, GDP growth accelerated to 3.9% y/y in the third quarter.
- Despite real wages are growing and falling interest rates have brought some relief to the households with loans, private consumption still fell in the third quarter. Consumer confidence is weak. Next year's tax increases will decrease households' purchasing power. However, falling interest rates will continue to alleviate obligations for households with loans. Swedbank card payments suggest that private consumption fell in October. For 2025, we forecast only a modest recovery of consumption.
- Large negative contribution to the GDP came from investments, as non-financial corporations' and households' investments declined in the third quarter. Government investments also fell over the year, largely due to a base effect. We expect falling interest rates and improving demand to contribute to a pick-up in housing investments by individuals and in the corporate sector investments.
- The decline in exports of goods continued to slow as foreign demand is improving. Net exports contributed positively to the GDP growth in the third quarter.
- We expect that the Estonian economy will decline 0.8% in real terms, this year. While government fiscal consolidation will hold back economic expansion in 2025 and 2026, growth will be supported by falling interest rates and increasing foreign demand. We forecast 1.5% GDP growth next year.

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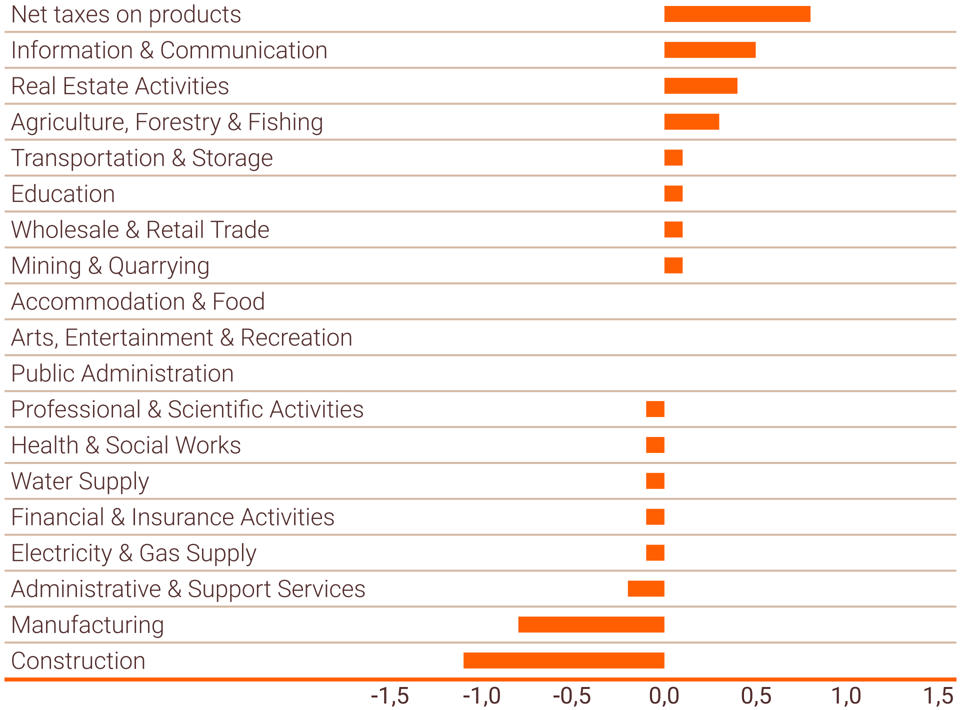
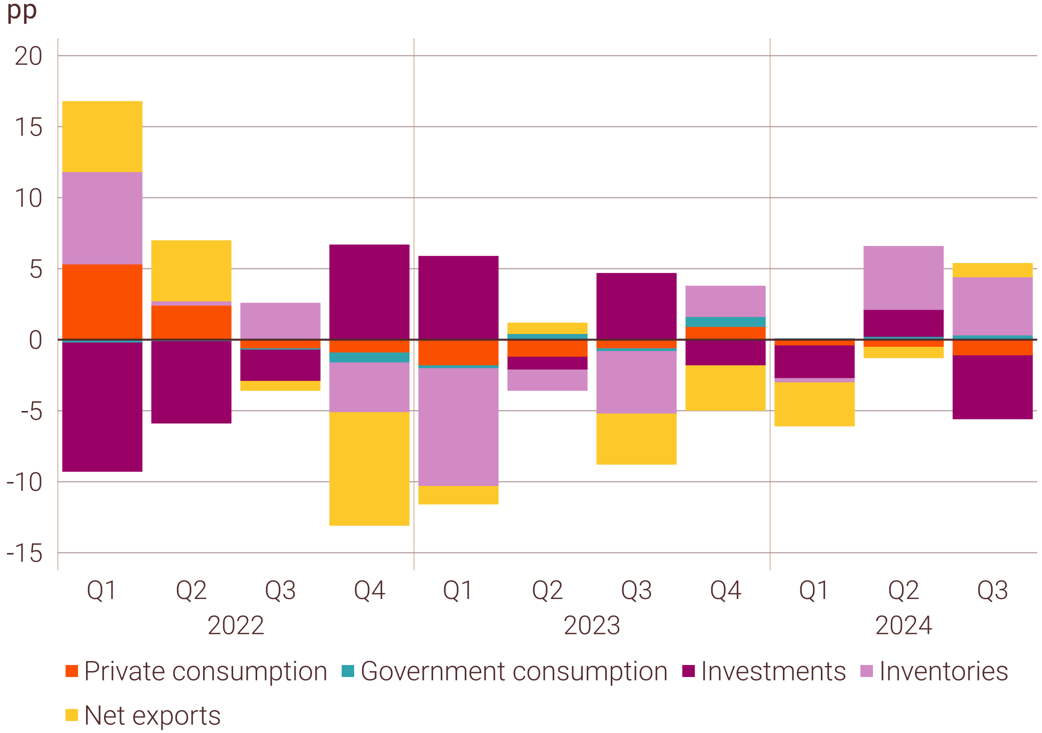
The decline in exports of goods continued to slow as foreign demand is improving

Contributions to GDP growth, 2024Q3, pp



Sources: Swedbank Research & Macrobond

Contributions to the real growth of GDP



Sources: Swedbank Research & Macrobond

Value added of only seven economic activities out of 21 increased in Q3. The largest positive contribution to the GDP came from ICT, real estate activities and agriculture.

The largest negative contribution came from construction. The fall of construction sector value-added deepened and was 18% y/y, however, the decline of the construction volume was milder, 5% y/y in the third quarter. The volume of building construction is falling since 2022 Q2, and it has fallen to the level of 2017. The volume of construction of facilities has fallen only in a few quarters in recent years and is higher than the levels seen in 2021.

Manufacturing also gave strong negative contribution to the economy. Although, the production is contracting since the second half of 2022 or nine quarters in a row, the deepest decline was in spring 2023. We expect foreign demand to improve next year.

Private consumption declined by 2% y/y and had negative contribution to the GDP (private consumption is roughly half of the total economy). Consumer confidence is weak. Next year's tax increases will decrease households' purchasing power, while falling interest rates will alleviate obligations for households with loans. For 2025, we forecast only a modest recovery of consumption.

Large negative contribution came from investments, while change in inventories had large positive contribution. Non-financial corporations' investments declined by 18%, while households' investments decreased by 17%. Government investments fell by 9% y/y, partly due to a base effect. We expect falling interest rates and improving demand to contribute to a pick-up in housing investments by individuals and in the corporate sector investments.

Exports increased by 0.1% y/y - the fall in export of goods slowed to -1.2% y/y, export of services rose by 1.8% y/y. Imports fell by 1.3% y/y. Net exports contributed positively to the GDP growth.

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