

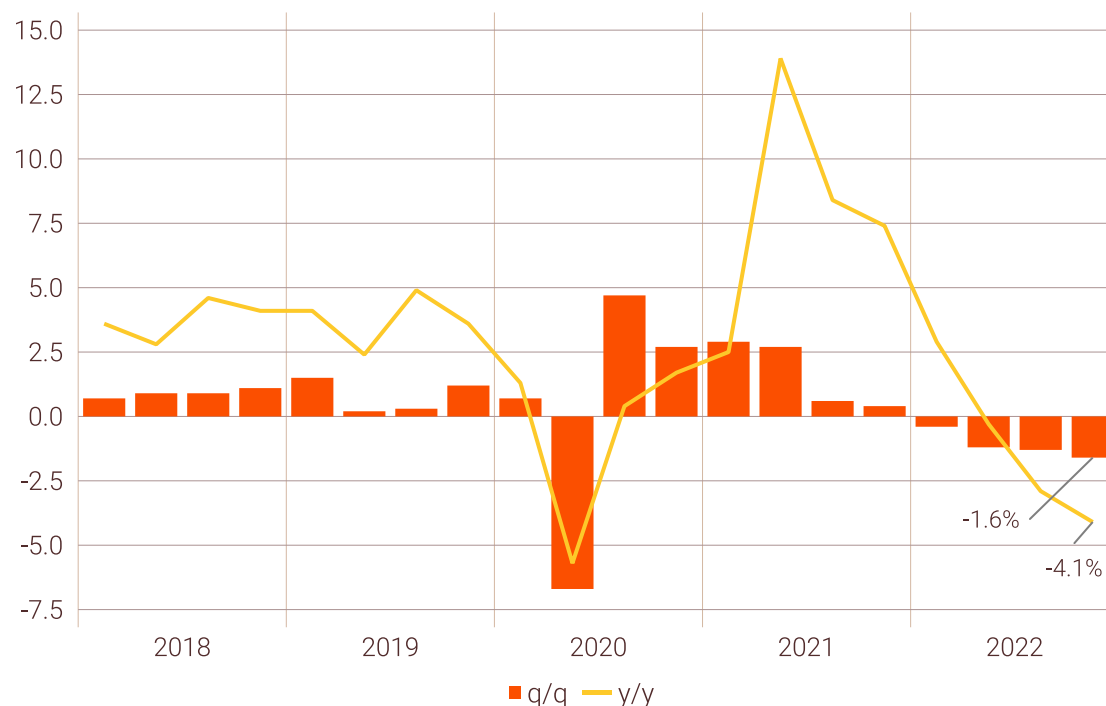
# Estonia: recession deepened towards the end of 2022

## Quarter-on-quarter GDP fell throughout 2022

- In Q4 2022, GDP contracted 4.1% y/y (non-adjusted) and 1.6% q/q (swda) in real terms.
- In 2022, GDP fell 1.3% in real terms, but expanded 15.1% in nominal terms – the fastest result of the last 14 years.

### GDP growth

y/y % (non-adjusted), q/q % (swda), real



Sources: Swedbank Research & Macrobond

- According to the preliminary data, Estonian economy was the only one in the EU, where annual GDP contracted in real terms in 2022.
- GDP contraction in Q4 met our expectations. However, the full year of 2022 remained below it as Statistics Estonia revised down previous quarters of the year by 0.9 percentage points, on average.
- Recession became more broad-based in Q4, i.e., value added of 13 economic activities out of 20 dropped. The largest negative contribution came from ICT sector, whereas agriculture gave the largest positive contribution.
- Contraction of private consumption deepened as purchasing power deteriorated. Q4 hid some unexpected results (fast increase in households' housing investments despite sharp drop of transactions), one-off transactions (corporations' investments in transport equipment) and base effects (the decline in export of services due to the export of VW software licenses in Q4 2021).
- In 2022, inventories' contribution to the GDP change was the strongest of the last seven years.
- We expect that year-on-year economic recession in Estonia will continue at least in H1 this year.

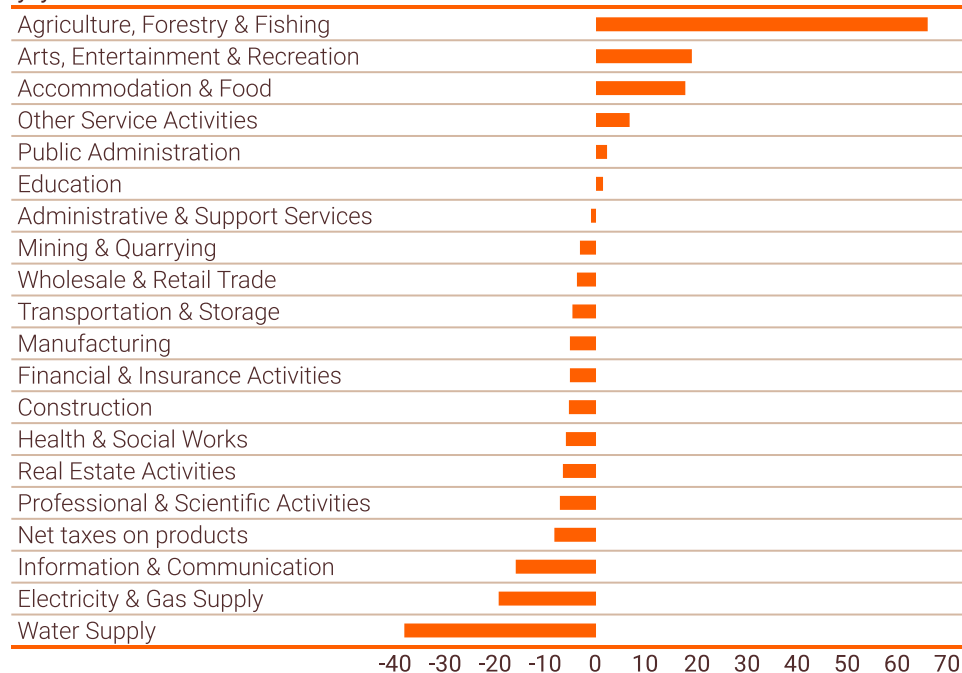
#### Analyst:

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

# GDP contraction has become more broad-based

## GDP by production approach, 2022 Q4

y/y %

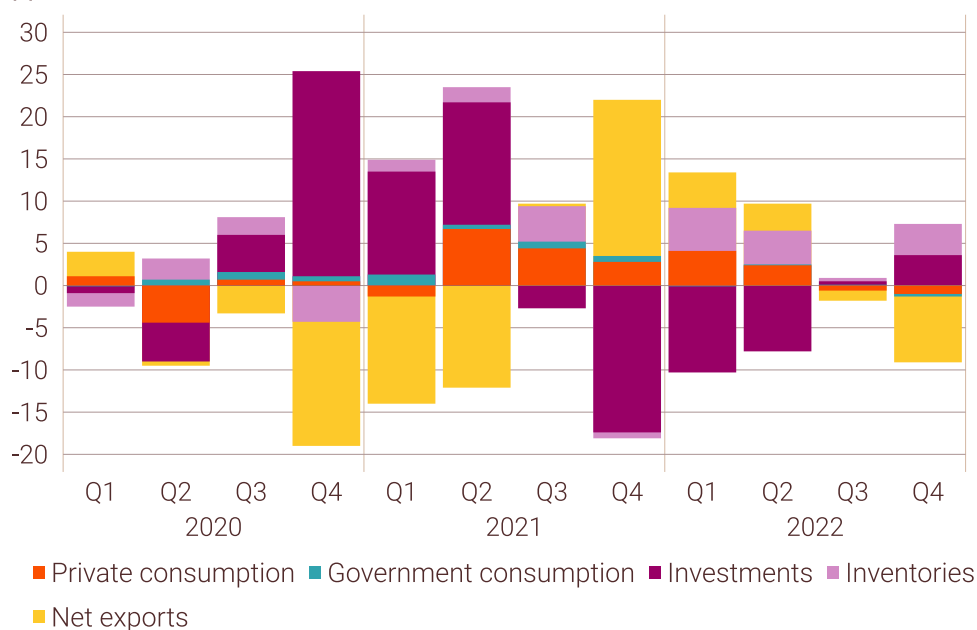


Sources: Swedbank Research & Macrobond

Recession became more broad-based in Q4. After the strong contraction in the first three quarters of 2022, the largest positive contribution to the GDP growth in Q4 came from agriculture. Accommodation and food and arts and entertainment – economic activities recovering from the pandemic - expanded faster, as well. Value added of ICT has expanded robustly since Q1 2017, but it decreased in Q4 due to the weak demand. Manufacturing contracted with the weaker foreign demand. In 2022, the largest positive contribution to the GDP came from accommodation and food, followed by administrative and support services, whereas the largest negative contribution came from real estate activities, energy production, wholesale and retail trade.

## Contributions to the GDP growth

pp



Sources: Swedbank Research & Macrobond

Deteriorating purchasing power deepened the contraction of private consumption in Q4, while weaker foreign demand decreased export of goods. Net exports fell as exports contracted, while imports continued to expand. This had larger negative impact on GDP. Investments' growth accelerated in Q4 primarily due to the stronger one-off growth of non-financial corporations' investments in transport equipment. Households' housing investments increased robustly, as well – it was unexpected, as the number of transactions dropped sharply. In H1, the large drop of investments was affected by the discontinuation of VW software investments made in H1 2020-H2 2021. Inventories continued to have strongly positive contribution to the GDP in Q4.

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

Visiting address: Malmkillnadsgatan 23, 111 57 Stockholm.