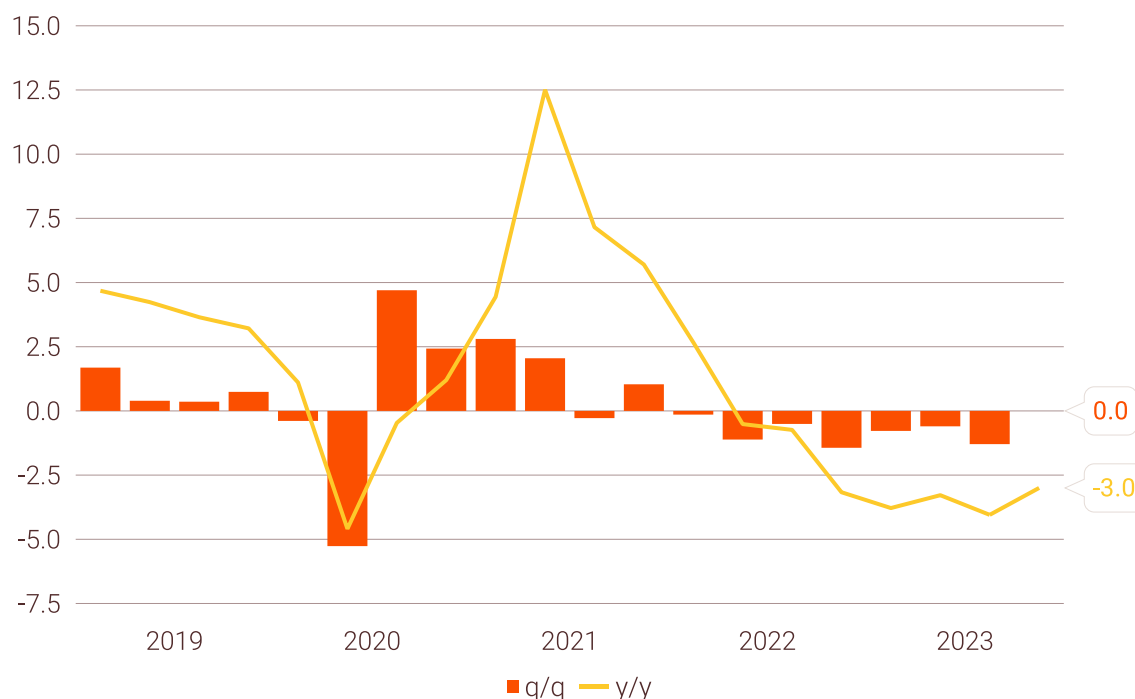


Estonia: prolonged GDP decline stopped in the last quarter of 2023

- In Q4 2023, GDP dropped 3.0% y/y in real terms and remained on the same level compared to the previous quarter (seasonally and working day adjusted - swda), according to the flash estimate of Statistics Estonia.
- Estonian GDP contracted 3.5% y/y (swda) and 3.4% (non-adjusted) in 2023.

Real GDP

%, swda



Sources: Swedbank Research & Macrobond

- The GDP flash estimate was close to our expectations. Quarterly contraction of the Estonian economy that started already in Q1 2022 discontinued in Q4 2023. However, flash estimate should be considered as a preliminary and statistical office can revise it with the next and more precise GDP release.
- The recent deep contraction of manufacturing output and retail volumes is slowing. The decline in the receipts of product taxes (VAT and excise taxes), which has relatively large share in GDP, has retreated in real terms, as well.
- However, Estonian overall economic sentiment has continued to deteriorate. The worsening of services', industrial and construction sectors' confidence has stabilised, while the worsening of retail and household confidence has continued.
- 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 0.3% over the full year of 2024.
- The Estonian government will have limited options to expand spending and to stimulate economy.

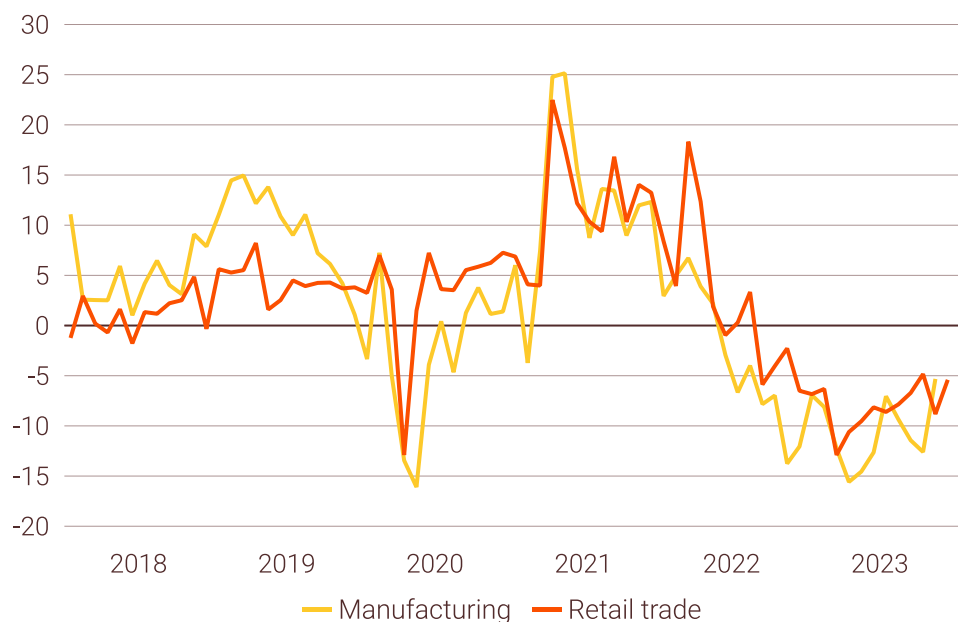
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The contraction of manufacturing output and retail volumes is slowing down.

Industrial output, exports, and retail trade

y/y %, real



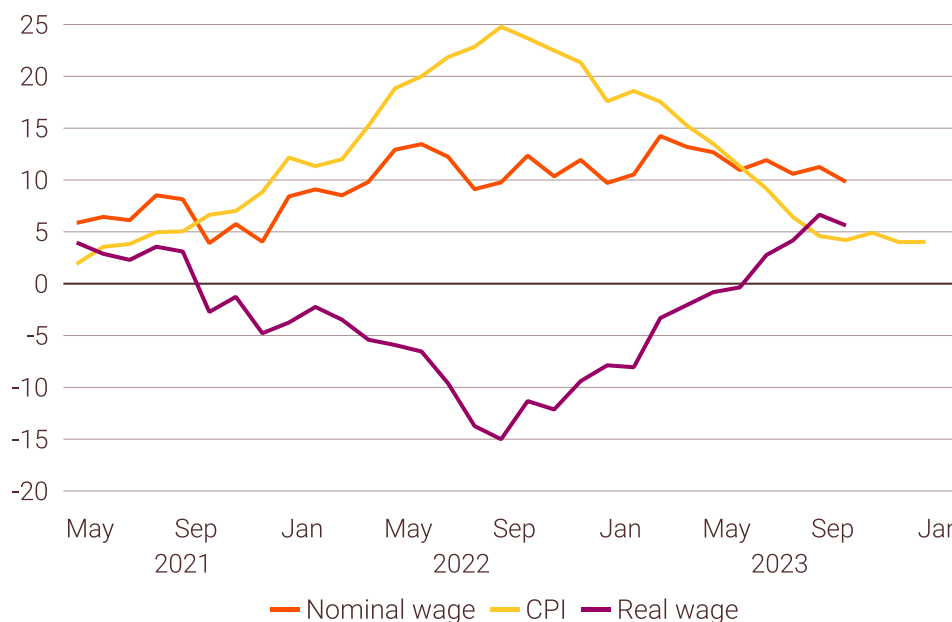
Sources: Swedbank Research & Macrobond

The recent deep contraction of manufacturing output and retail volumes is slowing gradually. Last year, roughly one third of the manufacturing output decline came from wood industry, followed by large contribution by the decline in the production of construction materials and electronics. Estonia has got stronger blow from the weakening demand of construction and real estate sectors in the Nordics.

Weak foreign demand has led to a large drop in export of goods. Weak domestic demand and contraction of import of intermediate goods refer to the continued decline in production volumes, at least in the next few months. However, the expected improvement of the Estonian trade partners' economies and the gradual recovery of their demand will give an opportunity to increase exports in the second half of 2024.

Gross and real wages

y/y %, 3 mma



Sources: Swedbank Research & Macrobond

Real wages are increasing since mid-2023, as nominal wage growth has been robust, while inflation has slowed. However, household confidence has continued to deteriorate, as they are increasingly more worried about unemployment and worsening of their financial situation going forward. Therefore, we expect that improving purchasing power will begin to expand households' final consumption with a delay.

In addition, households have shifted more of their savings to term deposits, which can limit their consumption spending in the next few months, at least. The decline in interest rates will be a relief for households and nonfinancial corporations.

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