Swedbank

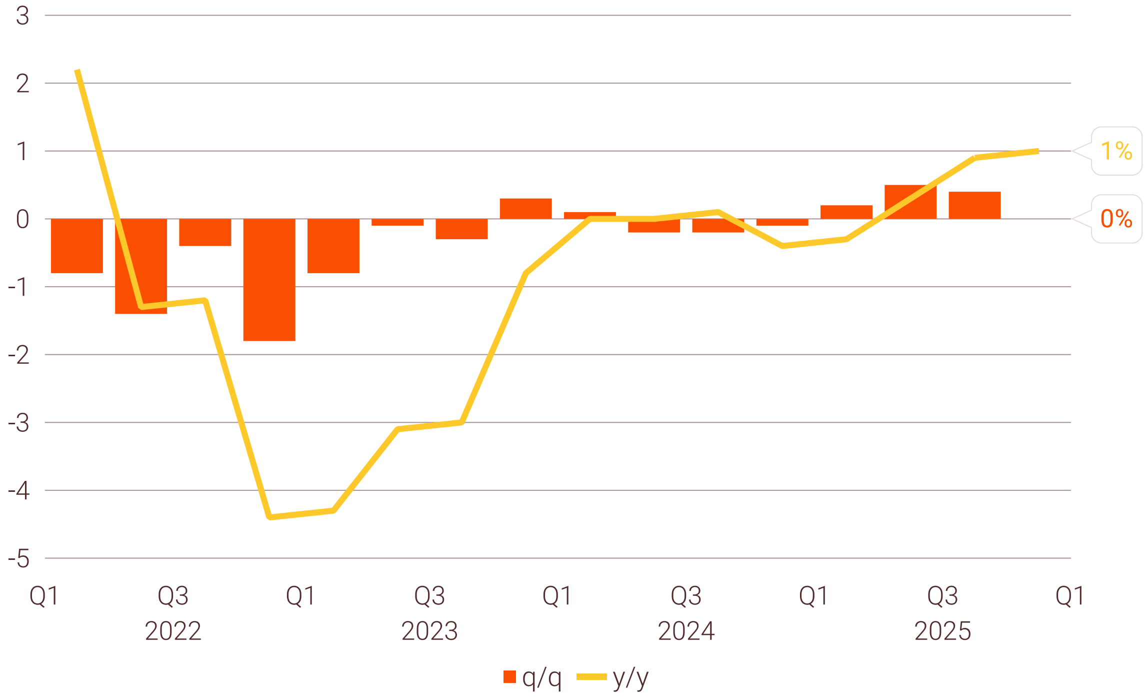
Estonia – economic growth to accelerate in 2026

Stronger private consumption and government investment will boost growth in 2026

- In Q4 2025, Estonia's real GDP increased by 1% y/y and remained unchanged over the quarter (seasonally and working day adjusted - swda), according to the flash estimate from Statistics Estonia.

Estonia: real GDP

%, swda



Sources: Swedbank Research & Macrobond

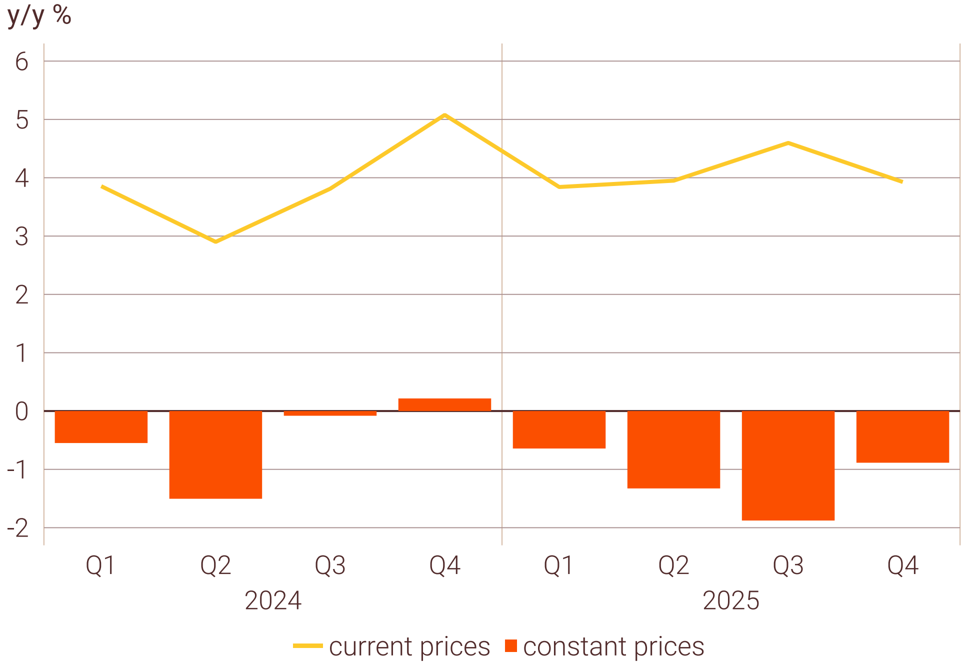
- The Estonian economy emerged from the downturn last year, with GDP growth reaching 0.5% in 2025 (swda), indicating a modest recovery that was close to our expectations (0.6%). Growth should accelerate in 2026 on government investment and stronger private consumption. We forecast Estonian economy to grow by 2.3% this and by 2.6% next year.
- Private consumption remained subdued last year. Swedbank card payments statistics indicate that consumer spending was still weak toward the end of the year. Retail trade, which accounts for nearly one-third of private consumption, showed only marginal expansion from a low base, with growth of around 2% in 2025.
- The personal income tax reform and lower inflation will boost households' purchasing power and support consumption this year. Consumer confidence, a key prerequisite for consumption, improved in the second half of 2025, supported by expectations of lower inflation and taxes.
- The government will swiftly boost public investments, especially in defence and infrastructure. This will be an additional stimulus to the economy in 2026.
- Export growth slowed at the end of the year, but strengthening foreign demand is expected to improve export opportunities in 2026. The export sector will have to improve its competitiveness to take full advantage of foreign demand. However, uncertainties and risks in the external environment persist.

Analysts:
Marianna Rõbinskaja, marianna.robinskaja@swedbank.ee, +372 888 7925

Private consumption at a turning point after three years of contraction

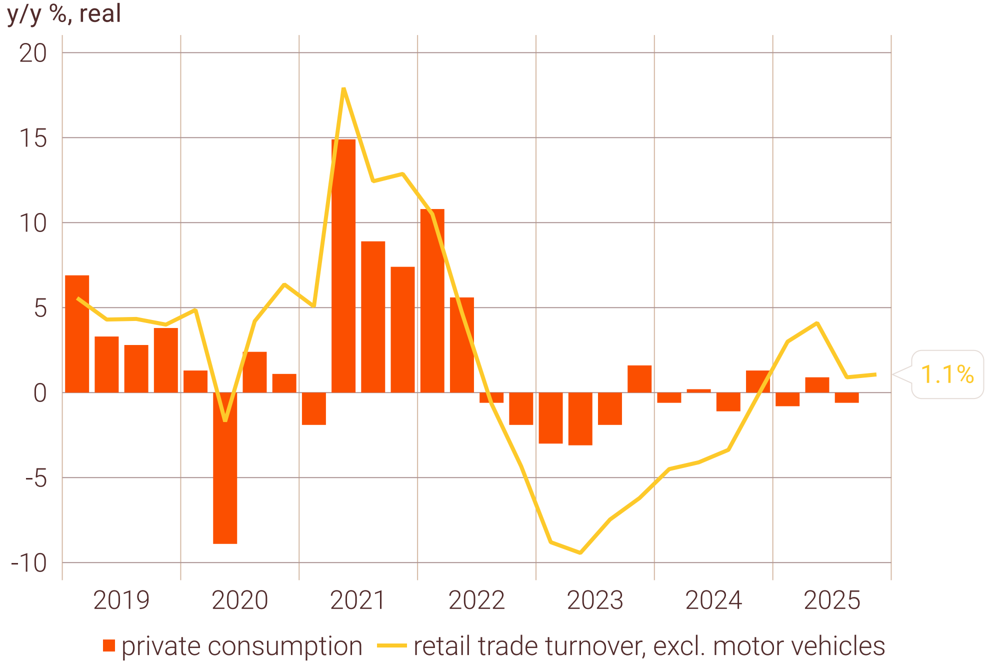
Lower inflation and taxes to boost purchasing power and sentiment

Swedbank card transactions



Sources: Swedbank Research & Macrobond

Private consumption and retail trade



Sources: Swedbank Research & Macrobond

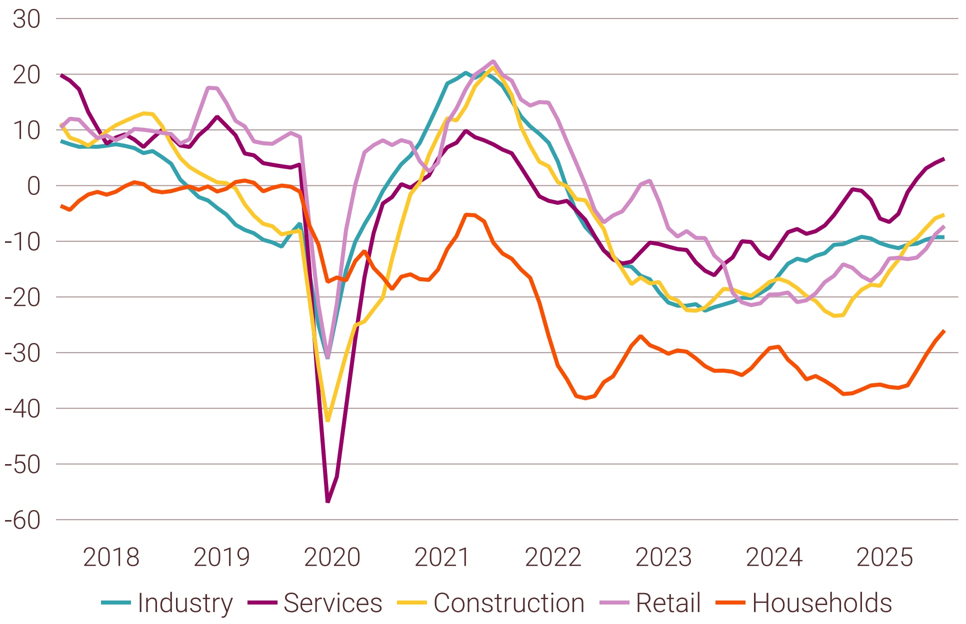
- Private consumption remained subdued last year. Although official data for consumption in the final quarter has not yet been released, Swedbank card payments statistics indicate that consumer spending was still weak toward the end of the year. Retail trade, which accounts for nearly one-third of private consumption, showed only marginal expansion from a low base, with growth of around 2% in 2025. Nevertheless, conditions point to a more favourable outlook for private consumption in 2026.
- Consumer confidence, a key prerequisite for consumption, improved in the second half of 2025, supported by expectations of lower inflation and taxes in 2026.
- The increase in the non-taxable income threshold and its equalisation across all salary levels will leave roughly EUR 700 million, or 1.6% of annual GDP, as additional household income. However, a larger share of the additional income will go to households earning wages above the median. Not all the additional income from the PIT reform will be used for consumption – some of it will be invested in real estate and securities, used to refinance liabilities, or saved in deposits.
- Inflation is expected to ease from 4.8% in 2025 to 2.6% in 2026 as the effects of state tax increases fade. Household inflation expectations have already moderated, and the share of retailers planning to raise prices has also declined.

Sentiment indicators in most sectors are improving

Government investments will be an additional stimulus to the economy

Economic confidence by sectors

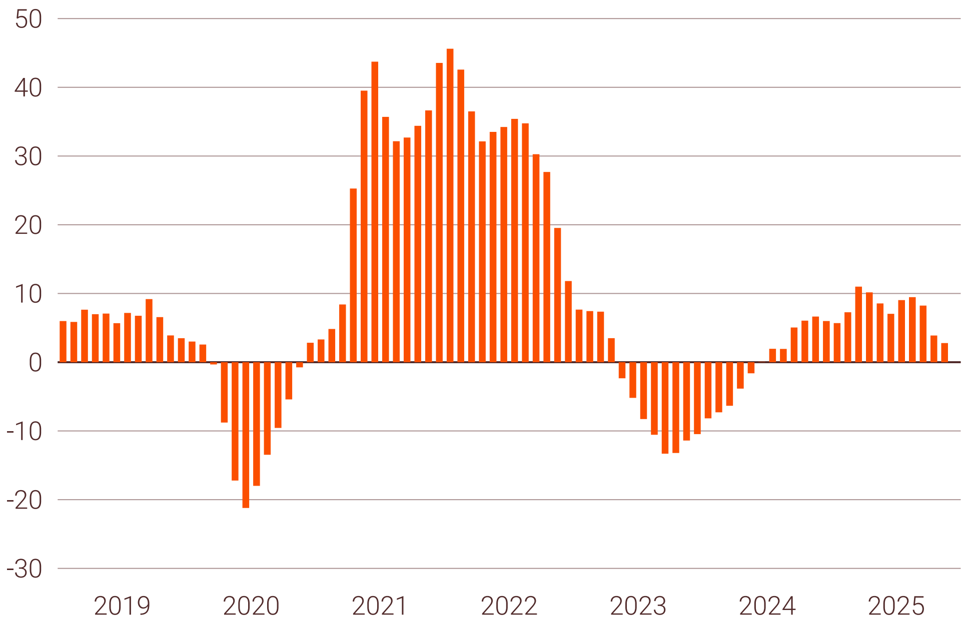
Index, sa, 3 mma



Sources: Swedbank Research & Macrobond

Export of goods and services

y/y %, nominal, 3 mma (balance of payments)



Sources: Swedbank Research & Macrobond

- The government will swiftly boost public investments, especially in defence and infrastructure. This will be an additional stimulus to the economy in 2026, but it will also substantially increase the budget deficit and raise the debt-to-GDP ratio.
- Reduced market interest rates are expected to provide relief to the budgets of households and non-financial corporations, leaving them with more cash for consumption, investments and savings. In 2025, Estonian companies have borrowed 31% more than a year ago, while new mortgage loans have increased by 24% over the year. This growth was from a low base, but rapid loan growth should support investments and economic growth.
- Export growth slowed at the end of the year, but strengthening foreign demand is expected to improve export opportunities in 2026. The export sector will have to improve its competitiveness to take full advantage of foreign demand. However, uncertainties and risks in the external environment persist.

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

Visiting address: Malmskillnadsgatan 23, 111 57 Stockholm.