

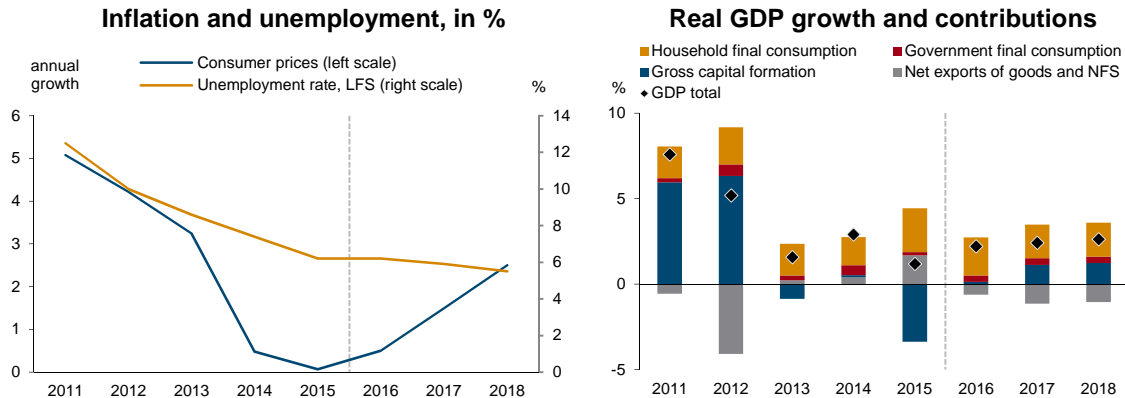


ESTONIA: Exports and investment to recover slightly

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Household consumption remains the strongest driver of economic activity in Estonia, the major push factor being the rapid growth in both minimum and overall real wages. For the coming two years, we expect trade destined for Western countries to recover, while the decline in exports to Russia should come to a halt. Moreover, an upswing in public investments should also lead to GDP growth picking up speed slightly: to 2.2% and 2.4% in 2016 and 2017, respectively.

Figure 42 / Estonia: main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

Although the Russian economy is expected to stabilise towards the end of 2016, Estonia's goods and services exports to the Eastern neighbour, slumping by more than a third in 2015, will grow only in 2017. Thus, the transport and tourism sectors will also continue to suffer from the Russian recession this year. In addition, the ongoing stagnation in Finland drags down exports and the slump in the price of crude oil results in the Estonian shale oil production being inefficient. However, exports to the rest of the European Union are on the upswing. Although foreign demand from Sweden developed below potential in 2015, the expected 3% GDP growth rate of the Scandinavian neighbour in 2016 gives rise to hope. Overall, we expect exports to rise again slightly this year, as well as imports, however at a lower rate given the reduced average price of oil in 2016 and the still low investment activity.

On account of the overall rather sluggish growth of external demand and industrial production, investment activity of the enterprise sector will recover only marginally in 2016 after declining in the past two years – there is still idle capacity in the manufacturing sector. Also, construction output will only stabilise this year. The number of building permits and mortgage loans indicates that dwelling construction will rise only slightly in 2016. However, public investments will gain momentum towards the end of 2016 and in 2017, when EU funds will allow their financing.

The number of employed rose by 2.6% in 2015, year on year. This strong increase was driven by the introduction of the new employment register that forces enterprises to register their workers before employment starts. Thus the employment rate of the population aged 15-64 years reached the pre-crisis level of 70% and the unemployment rate fell to 6.2% in 2015. Nevertheless, towards the end of the year the declining economic activity in manufacturing, transport and construction resulted in rising registered unemployment. Given the only slight upswing in economic growth, we expect job growth to come to a halt this year and to be slightly positive only from 2017 onwards. However, labour supply will gradually decline due to the decrease in the working-age population.

The rise in employment and the strong increase in real net wages pushed household consumption. Forward-looking sentiment indicators of households remained stable towards the beginning of 2016 and most recent retail and credit figures show an increasing spending propensity. Thus we expect growth of household consumption to remain lively also in 2016 and thereafter. Minimum wages have been increased by 10% at the beginning of this year and will be hiked by the same amount in 2017. Furthermore, the labour tax burden will be reduced slightly. However, in the coming years, stagnant employment will most probably reduce the strong dynamism of household spending.

The decline in import prices particularly of oil and gas as well as home-produced food (caused inter alia by the Russian embargo) led to consumer price stagnation throughout 2015. The strong growth in wages has raised core inflation to more than 1% only in the last quarter of the past year. The further fall in the oil price level will still keep inflation subdued in 2016. Only thereafter consumer prices will rise again more swiftly, driven inter alia by hikes in excise taxes.

The Estonian government attained a budget surplus of 0.3% of GDP in 2015, driven mainly by strongly increasing VAT income, but also by the hike in employment figures, which resulted in social security contributions rising by more than 7% year on year. Although public investment is planned to increase and the tax burden to be reduced, we expect a budget deficit of not more 0.3% of GDP in 2016. Also thereafter fiscal policies will follow the close-to-balance approach. The 2016 budget plan foresees an increase in the personal income tax-exempt threshold, a rise in pensions by 5.5% on average and higher child benefits – measures which will keep household consumption developing at a good pace.

Our forecast for GDP growth in 2016 has been slightly revised downwards to 2.2% in real terms, particularly due to lower expectations for external demand from Finland and Russia. For 2017 and 2018, we forecast a meagre upswing to 2.4% and 2.6%, respectively. We expect a recovery of external demand mostly from Western trading partners, while the decline in exports to Russia should come to a halt. An upswing in investments will be facilitated by public investments co-financed by EU funds.

Table 11 / Estonia: selected economic indicators

	2011	2012	2013	2014	2015 ¹⁾	2016	2017 Forecast	2018
Population, th pers., average	1,327	1,323	1,318	1,315	1,312	1,310	1,305	1,300
Gross domestic product, EUR mn, nom.	16,668	18,006	19,015	19,963	20,200	20,700	21,500	22,600
annual change in % (real)	7.6	5.2	1.6	2.9	1.2	2.2	2.4	2.6
GDP/capita (EUR at exchange rate)	12,500	13,600	14,400	15,200	15,400	15,800	16,500	17,400
GDP/capita (EUR at PPP)	18,000	19,600	20,000	20,900	21,800	.	.	.
Consumption of households, EUR mn, nom.	8,195	8,850	9,463	9,861	10,400	.	.	.
annual change in % (real)	3.6	4.4	3.8	3.3	5.2	4.5	4.0	4.0
Gross fixed capital form., EUR mn, nom.	4,367	4,761	5,153	5,033	4,700	.	.	.
annual change in % (real)	34.4	6.7	3.2	-3.1	-7.0	3.0	4.5	5.0
Gross industrial production								
annual change in % (real)	19.9	1.1	4.1	1.9	-2.2	3.0	4.0	3.0
Gross agricultural production								
annual change in % (real)	9.7	5.6	4.7	4.6	4.0	.	.	.
Construction industry								
annual change in % (real)	27.3	16.6	-0.1	-2.6	-5.0	.	.	.
Employed persons, LFS, th, average ²⁾	609.1	614.9	621.3	624.8	641.0	641	645	648
annual change in %	6.7	1.9	1.0	0.6	2.6	0.0	0.6	0.5
Unemployed persons, LFS, th, average ²⁾	86.8	68.5	58.7	49.6	41.0	42	40	38
Unemployment rate, LFS, in %, average ²⁾	12.5	10.0	8.6	7.4	6.2	6.2	5.9	5.5
Reg. unemployment rate, in %, end of period ³⁾	7.4	6.2	5.3	4.4	4.7	.	.	.
Average monthly gross wages, EUR	839	887	949	1,005	1,060	1,120	1,190	1,280
annual change in % (real, gross)	0.9	1.7	4.1	6.0	6.0	5.0	4.5	5.0
Average monthly net wages, EUR	672	706	757	799	855	910	970	1,040
annual change in % (real, net)	0.5	1.1	4.3	5.7	7.5	6.0	4.5	5.0
Consumer prices (HICP), % p.a.	5.1	4.2	3.2	0.5	0.1	0.5	1.5	2.5
Producer prices in industry, % p.a.	4.2	2.6	7.3	-2.7	-3.0	-2.0	1.0	2.0
General governm. budget, EU-def., % of GDP								
Revenues	38.6	38.8	38.1	38.7	39.0	38.7	38.5	38.6
Expenditures	37.4	39.1	38.3	38.0	38.5	39.0	38.7	38.6
Net lending (+) / net borrowing (-)	1.2	-0.3	-0.1	0.7	0.5	-0.3	-0.2	0.0
Public debt, EU-def., % of GDP	5.9	9.5	9.9	10.4	10.1	10.0	9.0	8.0
Central bank policy rate, % p.a., end of period ⁴⁾	1.00	0.75	0.25	0.05	0.05	.	.	.
Current account, EUR mn	223	-438	-20	205	515	-50	-400	-800
Current account, % of GDP	1.3	-2.4	-0.1	1.0	2.5	-0.2	-1.9	-3.5
Exports of goods, BOP, EUR mn	10,384	11,104	11,624	11,430	11,035	11,500	12,000	12,350
annual change in %	38.8	6.9	4.7	-1.7	-3.5	4.2	4.3	2.9
Imports of goods, BOP, EUR mn	10,735	12,283	12,522	12,429	11,875	12,230	12,800	13,400
annual change in %	36.1	14.4	1.9	-0.7	-4.5	3.0	4.7	4.7
Exports of services, BOP, EUR mn	4,040	4,486	4,876	5,320	5,304	5,480	5,770	6,000
annual change in %	13.3	11.0	8.7	9.1	-0.3	3.3	5.3	4.0
Imports of services, BOP, EUR mn	2,734	3,131	3,556	3,639	3,633	3,690	3,840	4,000
annual change in %	22.9	14.5	13.6	2.3	-0.2	1.6	4.1	4.2
FDI liabilities (inflow), EUR mn	818	1,394	664	1,172	166	.	.	.
FDI assets (outflow), EUR mn	-951	996	578	617	68	.	.	.
Gross reserves of NB excl. gold, EUR mn	150	218	222	352	373	.	.	.
Gross external debt, EUR mn	16,721	17,957	17,455	18,902	18,800	19,500	19,800	20,800
Gross external debt, % of GDP	100.3	99.7	91.8	94.7	93.1	94.0	92.0	92.0
Purchasing power parity EUR/EUR	0.6948	0.6944	0.7195	0.7252	0.7047	.	.	.

1) Preliminary and wiiw estimates. - 2) From 2012 according to census March 2011. - 3) In % of labour force (LFS) and according to census March 2011. - 4) Official refinancing operation rate for euro area (ECB).

Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.