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ECONOMIC AND POLITICAL OVERVIEW

ECONOMIC OVERVIEW

After its recovery from the crisis, Estonian growth was affected by an unfavorable regional situation (European sanctions against Russia and the following counter-sanctions), but it grew at a fast pace in recent years until the breakout of the COVID-19 pandemic. After returning to growth in 2021, the country recorded two consecutive years of recession in 2022 (-0.5%) and 2023 (-2.5%). The decline became widespread, affecting not only investment but also private consumption, with exports being particularly impacted as weak external demand and depreciations of major trading partners' currencies contributed to the downturn. Early signs suggest a sluggish beginning to 2024. With higher VAT and excise taxes in place, coupled with persistent inflation and elevated borrowing costs, consumers anticipate a deterioration in their financial situations, resulting in low domestic demand in the first half of the year. Alongside subdued external demand from key trading partners, this leads to a projected real GDP growth of 2.4% in 2024 (IMF, only 0.6% as per the EU Commission). Growth is anticipated to accelerate in 2025, driven by improving external conditions, better financing terms, and increasing consumption (to 2.7%).

Estonia became a member of the European Union on May 1, 2004, and was the first former Soviet country to join the OECD in May 2010. This Baltic republic has managed to move from a state-run and centralized economy to a dynamic market economy, liberalized by a succession of governments observing strict budgetary orthodoxy and modernizing the country. The country has stood out, mainly thanks to its IT sector (the invention of Skype, mobile payment systems, internet voting, multifunctional electronic identity cards, and initiatives in the sphere of cybersecurity), as well as its performances in the green energy sector. Furthermore, Estonia enjoys relative energy independence through the exploitation of shale oil, of which the country is one of the world's largest producers and which covers a large part of its electricity needs. In general, the country has stable public finances; in 2023, the general government fiscal deficit was estimated at 2.5% of GDP by the IMF, with a similar outlook over the forecast horizon (2.3% this year and 2.3% in 2025). As a result of widening fiscal deficits and weaker growth, the general government debt-to-GDP ratio increased to 21.6% in 2023, from 18.5% one year earlier. Albeit low, it is expected to increase to 25.9% by 2025 (IMF). In 2023, Estonia saw a 10% increase in HICP inflation, a decrease compared to the first half of the year, despite substantial drops in global energy prices and a moderation in food and industrial goods inflation. The implementation of higher VAT rates starting January 1, 2024, is anticipated to sustain elevated prices; however, inflation is forecasted to gradually decrease in alignment with global patterns, averaging 3.8% in 2024 and 3.2% in 2025 (IMF).

In recent years, the Estonian labor market has been characterized by labor shortages and consequently rising nominal wages. While wages experienced significant growth in 2023, they have not completely offset the decline in purchasing power resulting from high inflation in recent years. Throughout the year, the unemployment rate remained low (6.7%), with an increase in employment noted during the second half. The IMF expects a rise to 7.1% in 2024. In 2022, the Estonian real GDP per capita (PPP) was estimated at USD 46,697 by the World Bank, still 14% below the EU average. According to the latest data published by Eurostat, about 25% of the population is at risk of poverty.

Main Indicators	2022	2023 (E)	2024 (E)	2025 (E)	2026 (E)
GDP <i>(billions USD)</i>	37.95	41.80	44.50	47.10	49.78
GDP <i>(Constant Prices, Annual % Change)</i>	-0.5	-2.3	2.4	2.7	2.9
GDP per Capita <i>(USD)</i>	28,136	30,998	33,018	34,976	37,002
General Government Balance <i>(in % of GDP)</i>	-0.7	-2.5	-2.3	-2.2	-2.5
General Government Gross Debt <i>(in % of GDP)</i>	18.5	21.6	24.0	25.9	27.5
Inflation Rate <i>(%)</i>	n/a	10.0	3.8	3.2	2.8
Unemployment Rate <i>(% of the Labour Force)</i>	5.6	6.7	7.1	6.8	6.6
Current Account <i>(billions USD)</i>	-1.10	0.77	1.15	1.07	0.96
Current Account <i>(in % of GDP)</i>	-2.9	1.8	2.6	2.3	1.9

Source: IMF – World Economic Outlook Database , October 2021

Country Risk

See the country [risk analysis](#) provided by [La Coface](#).

MAIN SECTORS OF INDUSTRY

Agriculture accounts for only 2.5% of the country's GDP and employs around 3% of the workforce (World Bank, latest data available). With rich reserves of shale oil, Estonia draws a considerable part of its energy production (around 60%) from this resource, which gives it self-sufficiency in terms of electricity. Arable land and permanent crops cover almost 1 million ha, with 2.4 million ha under forest and 226 ha of organic crops. The main crops include cereals, potatoes, and vegetables. According to the latest figures from Statistics Estonia, in 2023, total cereal production decreased by 21.5% y-o-y (to 1.2 million tonnes), while the total agricultural output stood at EUR 1.36 billion, down by 16.6%.

The industrial sector represents around 24% of the GDP and accounts for 29% of total employment. The main industrial subsectors are the food industry (dairy products and meat processing), electronics & IT (a traditional sector), and the chemical and wood processing industries. Altogether, the manufacturing sector alone contributes to an estimated 13% of the country's GDP (World Bank) and is export-oriented. Preliminary figures from Statistics Estonia show that in 2023, industrial production fell by 10.5% year-on-year. According to the agency, there was a decrease in output across all three industrial sectors: a 21% drop in electricity production, a 9.8% decline in manufacturing, and a 4.7% decrease in mining.

The services sector is the most developed (in particular transport and logistics, biotechnology, and financial services) and accounts for roughly 61.5% of the Estonian GDP, employing 69% of the active population. The ICT segment shows the strongest performance, accounting for nearly 7% of total GDP and employment (the country invested in this sector and created the TalTech's School of Information Technologies and the Centre of Excellence in ICT Research - EXCITE). Concerning the country's banking sector, it comprises 14 banks, of which nine are licensed credit institutions in Estonia and five are operating as branches of foreign credit institutions. The sector is dominated by foreign capital holding more than 80% of assets. The market is chiefly divided between Swedbank, SEB Bank, LHV Bank, and Luminor Bank (data European Banking Federation).

Breakdown of Economic Activity By Sector	Agriculture	Industry	Services
Employment By Sector <i>(in % of Total Employment)</i>	2.7	29.0	68.3

Breakdown of Economic Activity By Sector	Agriculture	Industry	Services
Value Added <i>(in % of GDP)</i>	2.5	24.0	61.5
Value Added <i>(Annual % Change)</i>	-24.9	-3.0	0.1

Source: World Bank - Latest available data.

Monetary Indicators	2016	2017	2018	2019	2020
Euro (EUR) - Average Annual Exchange Rate For 1 USD	0.94	0.89	0.85	0.89	0.88

Source: World Bank - Latest available data.

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FOREIGN TRADE

Estonia is considered one of the most liberal countries in the world and is very open to trade, which represents 172% of GDP (World Bank, latest edition). In 2023, the country's primary exports included cars (EUR 895 million), communication equipment (EUR 883 million), electricity (EUR 433 million), prefabricated buildings, whether complete or assembled (EUR 429 million), and refined petroleum products (EUR 418 million). Its main imports comprised cars (EUR 1.56 billion), refined petroleum products (EUR 961 million), electricity (EUR 741 million), communication equipment (EUR 713 million), and packaged medicaments (EUR 596 million - data Statistics Estonia).

Over the same period, the leading export destinations for Estonia were Finland (EUR 3.07 billion), Latvia (EUR 2.16 billion), Sweden (EUR 1.7 billion), Lithuania (EUR 1.49 billion), and Germany (EUR 1.2 billion). The top countries of origin for imports were Finland (EUR 3.29 billion), Germany (EUR 2.47 billion), Latvia (EUR 2.32 billion), Lithuania (EUR 2.18 billion), and Sweden (EUR 1.63 billion - data Statistics Estonia). Overall, Estonia's main trading partners in 2023 were the member states of the European Union, accounting for 74% of exports and 86% of imports.

Estonia's merchandise trade balance is structurally negative. According to figures from the WTO, in 2022, the country exported goods worth USD 22.4 billion (+4% y-o-y), while imports totaled USD 26.2 billion (+10.9%). In terms of services, Estonia is a net exporter: in 2022, exports reached USD 11.4 billion against USD 8.8 billion in imports. According to the World Bank, the country's trade balance was negative by 0.6% of GDP. According to figures from the national statistics agency, exports of goods totaled EUR 18.2 billion in 2023, against EUR 21.2 billion in imports.

Foreign Trade Values	2018	2019	2020	2021	2022
Imports of Goods <i>(million USD)</i>	19,140	18,025	17,323	23,652	26,228
Exports of Goods <i>(million USD)</i>	17,017	16,101	16,340	21,541	22,405
Imports of Services <i>(million USD)</i>	5,606	5,770	6,247	8,365	8,826
Exports of Services <i>(million USD)</i>	7,891	8,057	6,552	9,762	11,420

Source: World Trade Organisation (WTO) ; Latest available data

Foreign Trade Indicators	2018	2019	2020	2021	2022
Foreign Trade <i>(in % of GDP)</i>	145.9	143.8	138.5	157.0	171.6
Trade Balance <i>(million USD)</i>	-1,436	-1,035	-279	-1,535	-2,793
Trade Balance (Including Service) <i>(million USD)</i>	842	1,249	-44	-178	-249

Foreign Trade Indicators	2018	2019	2020	2021	2022
Imports of Goods and Services <i>(Annual % Change)</i>	5.9	3.8	0.4	21.0	5.8
Exports of Goods and Services <i>(Annual % Change)</i>	2.9	6.1	-5.3	19.9	5.0
Imports of Goods and Services <i>(in % of GDP)</i>	71.6	69.9	69.2	78.7	86.1
Exports of Goods and Services <i>(in % of GDP)</i>	74.3	73.9	69.3	78.3	85.5

Source: World Bank ; Latest available data

Foreign Trade Forecasts	2023	2024 (e)	2025 (e)	2026 (e)	2027 (e)
Volume of exports of goods and services (Annual % change)	-3.4	2.7	4.5	4.7	4.7
Volume of imports of goods and services (Annual % change)	-7.7	1.3	5.1	5.3	5.3

Source: IMF, World Economic Outlook ; Latest available data

Note: (e) Estimated Data

International Economic Cooperation

Estonia belongs to about 180 international organizations. Estonia has bilateral investment promotion and protection agreements with the USA, Switzerland, Germany, Great Britain, the Czech republic, Austria, Ukraine, Belgium and Luxembourg.

Main Partner Countries

Main Customers <i>(% of Exports)</i>	2022
Finland	14.1%
Latvia	13.6%
Sweden	8.9%
Lithuania	5.9%
Germany	5.6%
See More Countries	52.0%

Main Suppliers <i>(% of Imports)</i>	2022
Germany	9.4%
Finland	9.1%
China	8.8%
Lithuania	6.7%
Poland	5.4%
See More Countries	60.6%

POLITICAL OUTLINE

Current Political Leaders

President: Alar KARIS (since 11 October 2021)

Prime Minister: Kaja KALLAS (since 26 January 2021)

Next Election Dates

Presidential: 2026

Parliament: March 2027

Main Political Parties

Estonia has a multi-party system. Political parties often work together to form coalition governments. The major political forces in the country are:

- **Reform Party**: centre-right, conservative liberalism, largest represented political faction
- **Estonian Centre Party** (K): centre-left, populist, has always secured parliamentary representation following independence. It is part of the ruling coalition
- **Estonia 200** (E200): liberal, supports the government coalition
- **Conservative People's Party of Estonia** (EKRE): national conservatism, Estonian nationalism. It is part of the ruling coalition
- **Isamaa** (I): national conservatism, Christian democracy. It is part of the ruling coalition
- **Social Democratic Party** (SDE): centre-left, promotes social democracy.

Executive Power

The **President** is the chief of the state and is elected by the parliament for a five-year term (renewable once). The President is the commander-in-chief of the armed forces. He/she nominates the **Prime Minister** after approval by the parliament (generally the leader of the majority party or coalition), for a 4-year term. The Prime Minister is the head of the government and also holds the executive powers, which include the implementation of the law in the country and running the day-to-day affairs. The **Council of Ministers** is appointed by the Prime Minister and approved by the parliament.

Legislative Power

The legislature in Estonia is unicameral. The parliament is called the State Assembly (or **Riigikogu**), it has 101 seats with its members elected by popular vote to serve four-year terms. The State Assembly is the highest organ of state authority. It initiates and approves legislation sponsored by the Prime Minister. The government is directly or indirectly dependent on the support of the parliament, often expressed through a vote of confidence. The government cannot dissolve the parliament but can recommend the same to the President who has to take parliament into confidence before making a decision. The citizens of Estonia enjoy considerable political rights. Estonia is among the world's leaders in e-governance and features an impressively transparent system in which government decisions are almost instantly made available on the Internet.

The Judiciary is independent in Estonia, and generally free from government influence. The main source of the law is the [Constitution](#) of June 1992. The legal system is based on the civil law system. No judicial review of legislative acts takes place in the country. Estonia is a member of the European Union, and the national law in the country needs to comply with the conditions of the Community legislation. Estonia accepts compulsory ICJ jurisdiction but with reservations.

COVID-19 COUNTRY RESPONSE

Travel restrictions

Regularly updated travel information for all countries with regards to Covid-19 related entry regulations, flight bans, test and vaccines requirements is available on [TravelDoc Infopage](#).

To find information about the current travel regulations, including health requirements, it is also advised to consult Travel Regulations Map provided and updated on a daily basis by [IATA](#).

Import & export restrictions

A general overview of trade restrictions which were adopted by different countries during the COVID-19 pandemic is available on the [International Trade Centre's COVID-19 Temporary Trade Measures](#) webpage.

Economic recovery plan

The summary of the EU's economic response to the COVID-19 pandemic is available on the website of the [European Council](#).

For the general overview of the key economic policy responses to the COVID-19 outbreak (fiscal, monetary and macroeconomic), please consult the country's dedicated section in the [IMF's Policy Tracker platform](#).

Support plan for businesses

For an evaluation of impact of the Covid pandemic on SMEs and an inventory of country responses to foster SME resilience, refer to the OECD's [SME Covid-19 Policy Responses](#) document.

You can also consult the World Bank's [Map of SME-Support Measures in Response to COVID-19](#).