FitchRatings

Sovereigns
Estonia

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

Estonia

Key Rating Drivers

Weathering the Crisis: Despite its small size and openness, the Estonian economy has shown a degree of resilience to the coronavirus pandemic. This is owing to a high proportion of information and telecommunication technology services in its economic output (7.6% of GDP) and low dependence on accommodation and food services (2% of GDP). The economy contracted by only 2.9% in 2020, which was a much stronger performance than the eurozone and 'AA' rated median, which contracted by 6.6% and 6.9%, respectively.

Strong Post-Pandemic Recovery: Fitch Ratings forecasts the economy will rebound 3.8% in 2021, largely reflecting base effects following a sharp pandemic-driven contraction and our assumption that vaccination progress will ease restrictions and put growth on a firmer footing in 2H21. The effects of pension reform and an expected pick-up in the absorption of EU funds should provide a more substantial boost in 2022, pushing GDP growth to 4.3% in real terms.

Key Risks Relate to Unemployment: The key risk to the growth outlook is a material rise in unemployment, although the recent reintroduction of the wage-subsidy scheme could mitigate it. The Estonian labour market is highly flexible and support from the government was limited (a wage-subsidy scheme running only until July 2020), leading to one of the sharpest unemployment rate increases in Europe to 7.4% at 4Q20 from 4.1% before the pandemic. Other risks relate to a recent resurgence of the coronavirus and possible delays in EU fund absorption.

Revenue Resilience: Estonia's fiscal performance in 2020 was stronger than our and the government's expectations. Despite a sizeable increase in unemployment, the fall in revenue was limited as wages levels continued to rise. Expenditure increased by 11.8%, in line with Fitch and government forecasts, driven by automatic stabilisers and a sizeable stimulus package (around 3.3% of GDP).

We expect the fiscal deficit to temporarily widen to 5.1% of GDP in 2021 before narrowing to 3.4% in 2022 as the supplementary budget measures and pension hikes promised by the previous government will drive an increase in spending.

Fiscal Prudence Commitment: Following the collapse of the previous government over an investigation into alleged corruption, the centre-right Reform Party (ER) and the centre-left Centre Party (KESK) agreed to form a coalition on 26 January. While the government has yet to detail its medium-term fiscal plans, early statements suggest a return to fiscal prudence once the coronavirus shock fades. This follows a more expansionary stance under the previous administration.

Banks Are Well-Positioned: Capital ratios remain among the highest in the EU, with the common equity Tier 1 (CET1) ratio at 26.4% at 3Q20. Profitability also remains very high by international standards (average return on equity rose to 8.4% in 3Q20 from 7.7% at end-2019 and compared favourably with the EU average of 0.5%). Non-performing loans were very low at 0.7% of total loans in 3Q20, and the declining share of loans under debt moratoria means risks to asset quality from the pandemic are abating.

Rating Sensitivities

Convergence Towards Higher Income Levels: Further improvement in structural indicators, including a significant narrowing of the differential in GDP per capita to rating peers, could exert upward rating pressure.

Increasing Debt Burden: Debt remaining on an upward path over the medium term reflecting, for example, a failure to narrow the fiscal deficit after the pandemic subsides, or sustained weak GDP growth, could lead to a negative rating action.

Ratings

Foreign Currency	
Long-Term IDR	AA-
Short-Term IDR	F1+
Local Currency	
Long-Term IDR	AA-
Short-Term IDR	F1+
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Rating Derivation

Component	Outcome
Sovereign Rating Model (SRM)	AA-
Qualitative Overlay (QO)	0
Structural features	0
Macroeconomic	0
Public finances	0
External finances	0
Long-Term Foreign-Currency IDR	AA-

Source: Fitch Ratings

Applicable Criteria

Sovereign Rating Criteria (October 2020)
Country Ceilings Criteria (July 2020)
Sovereign Rating History (March 2021)

Related Research

Global Economic Outlook (March 2021)
Fitch Affirms Estonia at 'AA-'; Outlook Stable (March 2021)
Central and Eastern Europe Sovereign Dashboard: External Finances (February 2021)
Estonia's New Government Restates Fiscal Prudence Commitment (January 2021)

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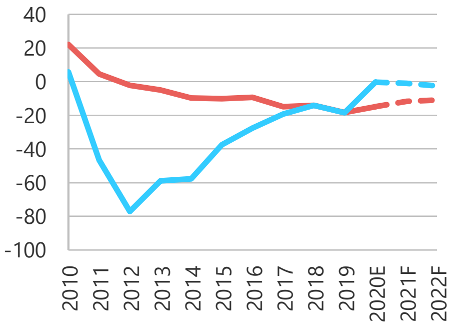
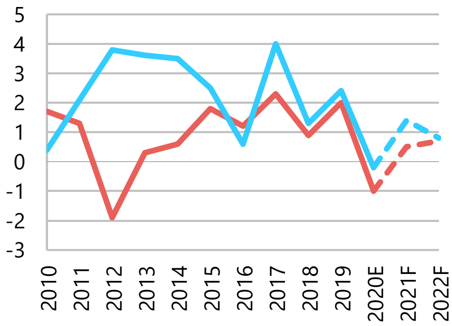
Peer Comparison

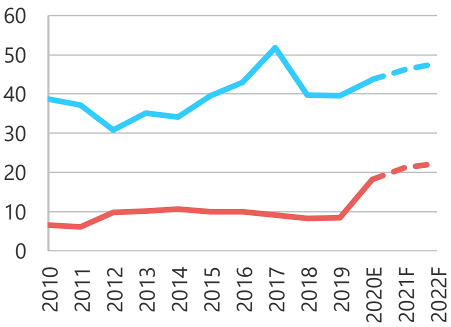
Net External Debt
% of GDP



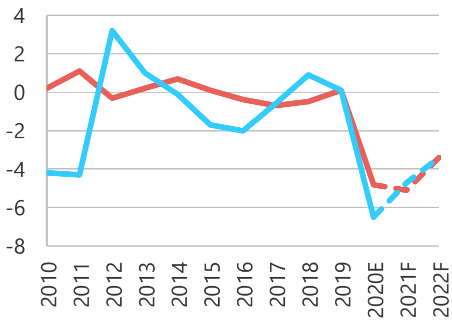
Current Account Balance
% of GDP



General Government Debt
% of GDP

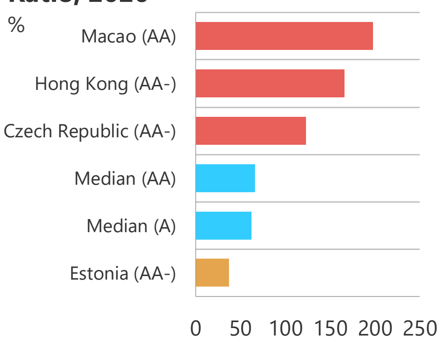


General Government Balance
% of GDP



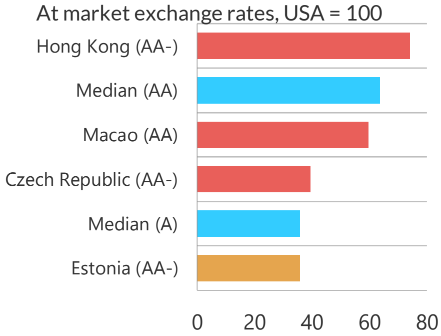
Estonia   Median (AA)

International Liquidity Ratio, 2020



GDP Per Capita Income, 2020

At market exchange rates, USA = 100



Note: Medians based on data for sovereigns in the respective rating category at the end of each year. Latest ratings are used for the current year and forecast period
Source: Fitch Ratings

Financial Data

Estonia

(USDbn)	2020E
GDP	31.0
GDP per head (USD, 000)	23.3
Population (m)	1.3
International reserves	2.2
Net external debt (% GDP)	-14.8
Central government total debt (% GDP)	20.9
CG foreign-currency debt	0.0
CG domestically issued debt (EURbn)	4.8

Source: Fitch Ratings

Rating Factors

Strengths

- A record of sound fiscal policies resulting in one of the lowest general government debt ratios across Fitch-rated sovereigns, at just 8.4% of GDP in 2019 before the pandemic hit ('AA' median at 39.5%).
- A very low cost of debt service (with an interest payments/revenue ratio at 0.1%) and substantial fiscal reserves.
- Strong institutions and quality of governance, underpinned by Estonia's EU and eurozone memberships.
- A favourable business environment, mirrored in Estonia's very high position in the World Bank's Doing Business Report (ranking 18th out of 190 countries).
- The highest foreign direct investment inflows per capita in the EU (an average of 5.5% of GDP over 2018-2020.
- Flexible labour market with very high employment and activity rates, at 79.1% and 83.8% before the pandemic, respectively.
- The strong financial position of the banking sector, as reflected in very strong capitalisation (the highest CET1 ratio in the EU, at 26.4% at 3Q20), high profitability and good quality of assets.
- Stable and sustained current account surpluses, which underpin Estonia's net external creditor position (11.5% of GDP forecast by Fitch in 2021 compared to an 'AA' median net creditor position of 3.6% of GDP).

Weaknesses

- A high income and productivity gap to rating and EU peers, with GDP per capita at USD23,622 estimated for 2020, below the 'AA' rated median at USD39,854.
- Vulnerability to shocks stemming from Estonia's small economy (nominal GDP at USD27.5 billion compared to the 'AA' rated median at USD351.7 billion) and its high openness to trade (at 78%, defined as average of exports and imports relative to GDP, compared to an 'AA' rated median of 57.5%).
- An erosion of cost-competitiveness due to rapid wage growth (6.4% on average over 2016-2020) that exceeded productivity gains, limited investment in research and development.
- A sizeable energy sector (4% of Estonia's GDP and 1% government revenue), which is undergoing a transition from oil shale to renewable energy production.
- An ageing population, with a working-age population projected to shrink by 12% between 2015 and 2035.

Local-Currency Rating

Fitch sets equal Local-Currency and Foreign-Currency Issuer Default Ratings (IDRs) for eurozone sovereigns. This reflects the absence of factors that would usually lead the Local-Currency IDR to be higher than the Foreign-Currency IDR. Eurozone sovereigns have limited ability to monetise their domestic debt stock and lack preferential access to domestic capital markets, while the euro's status as a reserve currency makes the prospect of a currency crisis unlikely.

Country Ceiling

Fitch assigns a 'AAA' Country Ceiling to Estonia. Fitch views the risk of imposition of capital or exchange controls within the eurozone as low but non-negligible. Consequently, the agency imposes a maximum Country Ceiling uplift of six notches above the Long-Term Foreign-Currency IDR for eurozone member states.

Peer Group

Rating	Country
AA	Abu Dhabi
	France
	Kuwait
	Macao
	New Zealand
AA-	**Estonia**
	Belgium
	Czech Republic
	Hong Kong
	Korea
	Qatar
	Taiwan
	UAE
	UK
A+	China
	Ireland
	Israel
	Malta

Source: Fitch Ratings

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
Oct 18	AA-	AA-
Jul 11	A+	A+
Jul 10	A	A
Apr 09	BBB-	A-
Oct 08	A-	A
Jul 04	A	A+
Aug 01	A-	A+
Sep 00	BBB+	A
Sep 97	BBB	A

Strengths and Weaknesses: Comparative Analysis

2020	Estonia AA-	AA median[a]	A median[a]	Macao AA	Czech Republic AA-	Hong Kong AA-
Structural features						
GDP per capita (USD, mkt exchange rates)	23,295	39,854	22,240	37,436	23,660	46,525
GNI per capita (PPP, USD, latest)	38,010	52,970	40,880	127,349	40,660	65,600
GDP (USDbn)	31.0			24.3	253.2	348.9
Human development index (percentile, latest)	84.5	89.1	82.0	-	86.1	97.8
Governance indicator (percentile, latest)[b]	85.4	84.6	76.0	77.2	78.9	78.4
Broad money (% GDP)	78.2	97.3	90.8	356.2	95.5	621.8
Default record (year cured)[c]	-	-	-	-	-	-
Ease of doing business (percentile, latest)	91.1	88.6	83.0	-	78.9	99.0
Trade openness (avg. of CXR + CXP % GDP)	77.8	46.6	63.2	88.1	76.6	231.0
Gross domestic savings (% GDP)	29.0	26.8	27.2	25.4	27.2	21.7
Gross domestic investment (% GDP)	29.6	23.4	24.3	27.6	35.2	19.8
Private credit (% GDP)	64.1	100.3	72.3	283.9	63.1	272.2
Bank systemic risk indicators[d]	-/1			-/2	a/1	a/2
Bank system capital ratio (% assets)	25.3	15.6	14.8	14.6	24.8	-
Foreign bank ownership (% assets)	90.0	26.5	46.0	99.4	86.0	-
Public bank ownership (% assets)	6.0	18.1	19.5	-	2.4	-
Macroeconomic performance and policies						
Real GDP (5yr average % change)	2.9	2.8	4.1	-8.6	1.5	0.3
Volatility of GDP (10yr rolling SD)	2.7	2.0	2.5	22.1	3.2	3.1
Consumer prices (5yr average)	1.9	2.2	2.5	2.0	2.2	1.9
Volatility of CPI (10yr rolling SD)	2.0	1.3	1.8	2.0	1.2	1.5
Unemployment rate (%)	6.8	5.1	6.4	2.6	4.0	6.4
Type of exchange-rate regime	Free floating			Currency board	Floating	Currency board
Dollarisation ratio (% of bank deposits)	5.8	12.3	10.3	86.5	10.8	-
REER volatility (10yr rolling SD)	2.9	4.4	5.1	5.2	3.4	3.3

Source: Fitch Ratings

Strengths and Weaknesses: Comparative Analysis (Continued)

2020	Estonia AA-	AA median[a]	A median[a]	Macao AA	Czech Republic AA-	Hong Kong AA-
Public finances[e]						
Budget balance (% GDP)	-4.8	-0.4	-2.2	-22.2	-6.5	-10.2
Primary balance (% GDP)	-4.8	1.5	-0.4	-22.2	-5.8	-10.2
Gross debt (% revenue)	45.3	118.2	136.0	0.0	97.4	216.6
Gross debt (% GDP)	18.2	39.7	42.3	0.0	39.0	43.4
Net debt (% GDP)	11.5	27.6	37.5	-200.5	34.9	-0.7
Foreign-currency debt (% total debt)	0.0	0.8	10.8	0.0	10.8	0.0
Interest payments (% revenue)	0.1	4.1	4.7	0.0	1.8	0.0
Revenue and grants (% GDP)	40.2	40.1	35.9	24.7	40.0	20.0
Volatility of revenue/GDP ratio	1.6	4.1	5.4	14.6	1.3	6.5
Central govt. debt maturities (% GDP)	0.6	8.2	5.1	0.0	4.1	39.3
External finances						
Current account balance + net FDI (% GDP)	2.1	1.0	2.4	8.3	3.9	8.4
Current account balance (% GDP)	-1.0	1.7	0.9	-2.3	3.6	5.8
Net external debt (% GDP)	-14.8	-8.3	-9.6	-437.7	-25.0	-322.4
Gross external debt (% CXR)	105.3	247.5	103.4	705.1	99.6	215.9
Gross sovereign external debt (% GXD)	20.9	18.1	16.6	0.0	19.5	0.0
Sovereign net foreign assets (% GDP)	22.0	4.7	14.1	424.7	47.3	138.4
Ext. interest service ratio (% CXR)	0.6	5.1	2.3	16.7	0.5	0.5
Ext. debt service ratio (% CXR)	11.0	27.1	12.2	59.8	7.2	17.1
Foreign-exchange reserves (months of CXP)	1.1	2.9	4.4	13.9	10.0	7.4
Liquidity ratio (latest)[f]	37.2	54.4	114.3	197.7	123.1	166.2
Share of currency in global reserves (%)	21	0	0	0	0	0
Commodity export dependence (% CXR, latest)	21.6	15.5	10.6	7.1	7.3	54.6
Sovereign net foreign currency debt (% GDP)	-7.2	-7.8	-12.9	-103.3	-57.9	-140.9

[a] Medians based on actual data since 2000 (excl. forecasts) for all sovereign-year observations where the sovereign was in the respective rating category at year-end. Three-year centred averages are used for the more dynamic variables (e.g. current account and fiscal balance)
[b] Composite of six World Bank Worldwide Governance Indicators used in the Sovereign Rating Model: Government Effectiveness; Rule of Law; Control of Corruption; Voice and Accountability; Regulatory Quality; and Political Stability and Absence of Violence
[c] No recent history of default
[d] Bank systemic indicator, which equates to a weighted average Viability Rating; and macro-prudential indicator, with 1 'low' systemic risk through to 3 'high'
[e] General government unless stated
[f] Ratio of liquid external assets, defined as the stock of official FX reserves including gold at the end of the previous calendar year plus banks' liquid external assets, to liquid external liabilities, defined as scheduled external debt service in the current year, plus the stock of short-term external debt and all non-resident holdings of marketable medium- and long-term local-currency debt at the end of the previous calendar year
Note: Acronyms used: Consumer Price Inflation (CPI), Gross Domestic Product (GDP), Current External Receipts (CXR), Current External Payments (CXP), Gross National Income (GNI), Purchasing Power Parity (PPP), Standard Deviation (SD), Foreign Direct Investment (FDI)
Source: Fitch Ratings

Key Credit Developments

Estonia Weathered the Crisis Relatively Well

Despite its small size and openness, the Estonian economy has shown a degree of resilience to the coronavirus shock owing to a high proportion of information and telecommunication technology services in economic output (7.6% of GDP) and low dependence on accommodation and food services (2% of GDP). As a result, the economy contracted by only 2.9% in 2020, which was a much better performance than the eurozone and 'AA' rated median, which contracted by 6.6% and 6.9%, respectively.

Estonia's successful management of the pandemic, and the high dispersion of the population, led to low levels of infections and fewer restrictions than elsewhere in Europe, which also supported economic activity throughout 2020. However, infections soared in the second half of March this year, to 114 per 100 thousand people, leading the government to impose a national lockdown, which will last for a minimum of one month.

A prolonged lockdown risks delaying the recovery. However, the corporate sector in Estonia has been so far immune to the coronavirus containment measures due to the high digitalisation of the economy, while the sizeable fiscal stimulus was successful in limiting the decline in private consumption (minus 2.5% in real terms 2020).

Post-Pandemic Recovery Will Be Supported by the EU Funds and Pension Reform

Our forecast for a strong economic rebound in 2021 at 3.8% largely reflects base effects following a sharp coronavirus-driven contraction and our assumption that progress on the vaccination campaigns will ease restrictions and put growth on a firmer footing in 2H21. The effects of the pension reform and an expected pick-up in EU fund absorption should provide a more substantial boost in 2022, pushing the growth to 4.3% in real terms.

The controversial pension reform became law in January 2021 following the rejection of the challenge from President Kersti Kaljulaid by the Supreme Court. The reform bill allows for a withdrawal of the second pillar savings, with pay-outs planned for September 2021 (subject to 20% income tax). According to the Pension Centre, EUR1.3 billion (24% of total funds or 3.6% of GDP after the tax) will be withdrawn in September, boosting consumption and residential investments to some extent in 2021, but mostly in 2022. While positive for the short-term economic and fiscal outlook, the abolition of the self-funded second-pillar pension could, in Fitch's view, add to longer-term challenges associated with pension adequacy and associated pressure on the public finances.

We also expect EU fund absorption to accelerate as the current financing cycle under multi-annual financial framework (MFF) 2014-2020 approaches the end in 2023 and the new EU's Next Generation fund (NGEU) worth EUR1.4 billion (4.7% of 2021 GDP) comes on stream. The authorities plan to spend the remaining 40% of the cohesion funds under the MFF 2014-2020 (EUR1.4 billion or 4.6% of 2021 GDP) in equal parts over the next three years, which mirrors the spending pattern under the previous MFF (2007- 2013). In addition, investments in Rail Baltica will enter a crucial phase in 2022, with planned investments increasing to EUR127 million (0.4% of GDP) and around EUR350 million (1.1% of GDP) in both 2023 and 2024. However, delays in fund absorption are possible and represent a downside risk to our forecasts.

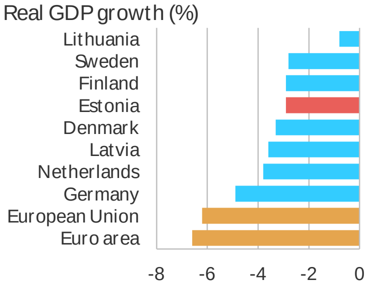
Fitch has yet to make an assessment about the impact of NGEU on longer-term growth potential, as the draft plans have yet to be finalised. An effective programme implementation could help lift Estonia's productivity growth, which lags the regional and rating peers, and therefore offset structural constraints such as ageing population. According to the European Commission, Estonia's working-age population declined by 4% over the last decade and the European Commission projects it to shrink by another 12% between 2015 and 2035.

A Rise in Unemployment Is a Key Risk

Apart from a recent resurgence in the coronavirus and possible delays in EU fund absorption, the key risk to the growth outlook is a material rise in unemployment weighing on private consumption. The Estonian labour market is highly flexible and was supported by the government's wage-subsidy scheme for a relatively short period (only until July 2020). As a result, the unemployment rate increased to 7.4% at 4Q20 from 4.1% before the pandemic according to Statistics Estonia, one of the sharpest increases in the region and the EU as a whole.

Estonia and its Trade Partners Outrun the EU

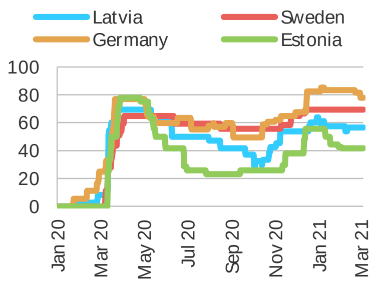
Real GDP growth (%)



Source: Fitch Ratings, Eurostat

Fewer Restrictions in Estonia

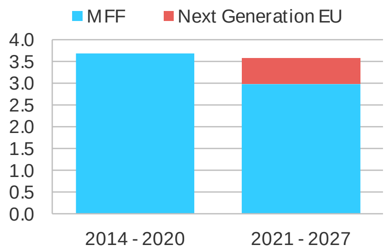
Government stingency index



Source: Fitch Ratings, Our World in Data

EU Funds Will Continue Supporting Growth

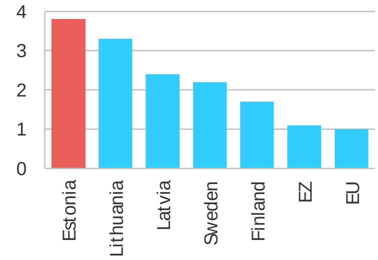
% of GDP



Source: Fitch Ratings, European Commission

Labour Market Took a Hit

Change in unemployment rate, between 3Q19 - 3Q20



Source: Fitch Ratings, Eurostat

We forecast the average unemployment rate to peak this year at 7.6% up from 6.8% in 2020. The renewed coronavirus-containment measures represent a material risk to this forecast, although the government has recently reintroduced the wage-subsidy scheme with effect from March.

Revenue Resilience Limits Fiscal Deficit Widening

Estonia's fiscal performance in 2020 was stronger than expected by Fitch and the government. According to the preliminary data, the general government fiscal deficit was 4.8% of GDP, compared to the government's forecast at 6.6% of GDP and ours at 6.4% of GDP. Despite a sizeable increase in unemployment, the fall in revenue was limited as wage levels continued to rise (2.9% in 2020, compared to a five-year average of 6.4%). Job losses have been concentrated mainly among the low-wage sectors of the economy (trade, accommodation & food services). However, some sectors of the economy recorded very robust growth in wages and salaries.

Expenditure increased by 11.8%, in line with our and the government's forecasts, driven by the automatic stabilisers and a sizeable stimulus package (around 3.3% of GDP). The measures have consisted of a temporary work allowance scheme, loans and other support to sectors most affected by the pandemic, tax exemptions and assistance to local governments.

We revised our 2021 general government fiscal balance forecast, to 5.1% of GDP from 4.2% of GDP, as we expect the parliament to adopt the supplementary budget, which could have a budgetary impact of around EUR533 million (1.9% of GDP) in 2021. The additional Covid-19 measures mostly consist of another round of the wage-subsidy scheme and early compensation for contributions to the second-pillar pension fund that were suspended in 2020 for those who are leaving the system. According to the Ministry of Finance's fiscal projection document published at the beginning of April, the government also incorporated a strong increase in social benefits (EUR259 million or 0.9% of GDP) driven by the pension hikes promised by the previous government.

Revenue will be boosted by the economic rebound in 2021 and a strong increase in EU funds (by EUR365 million or 1.3% of GDP), including ReactEU, Recovery and Resilience funds and Rail Baltica project. We also incorporated an increase in revenues amounting to 0.8% of GDP in 2021, which corresponds to tax receipts on 24% of the second-pillar savings.

Our general government fiscal deficit projection at 5.1% of GDP is more favourable than government's expectation at 6% of GDP, owing to our more benign growth outlook. We also did not incorporate the reserves for additional coronavirus spending that the government has included given the much better-than-expected fiscal outcome in 2020. We expect the fiscal deficit to narrow to 3.4% in 2022 as the health crisis subsides and the support measures are gradually unwound. That supports our forecast of Estonia's gross general government debt (GGGD)-to-GDP stabilising at 23% of GDP around 2023-2024, from 8.4% of GDP prior to the pandemic, before subsequently declining.

Estonia's New Government Restates Fiscal Prudence Commitment

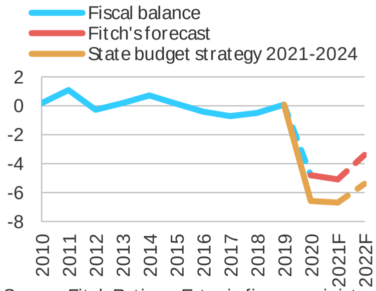
Following the collapse of the previous government over an investigation into alleged corruption, the centre-right Reform Party (ER) and the centre-left Centre Party (KESK) agreed to form a coalition on 26 January. While the government has yet to detail its medium-term fiscal plans, early statements suggest a return to fiscal prudence once the coronavirus shock fades, following a more expansionary stance under the previous administration. However, bringing the deficit to balance will require additional consolidation, as Estonia entered the pandemic with a structural deficit of around 2% of GDP.

Banks Are Well Positioned to Absorb the Pandemic Shock

Estonian banks are well positioned to absorb higher loan losses caused by the pandemic. Capital ratios remain one of the highest in the EU, with the CET1 ratio at 26.4% at 3Q20. Profitability held up and remains very high in the international comparison (return on equity rose to 8.4% in 3Q20 from 7.7% as of end-2019 and compared favourably with the EU average of 0.5%). The non-performing loans were very low at 0.7% of total loans in 3Q20, and the declining share of loans under debt moratoria means the risks to the asset quality from the coronavirus pandemic are abating. At January 2021, only 2.5% of loans were subject to loan holidays, down from a peak at 11.3% in June 2020. However, the non-performing loan ratio could increase due to the renewed restrictions and the expiry of debt moratoria and some government support measures.

Steeper Consolidation Path

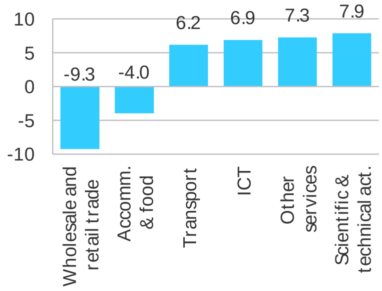
Fiscal balance, % of GDP



Source: Fitch Ratings, Estonia finance ministry

Wage Growth Continued

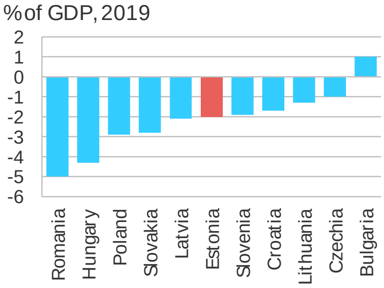
3Q19-3Q20, selected sectors



Source: Fitch Ratings, Statistic Estonia

Estonia Entered the Pandemic With a Structural Deficit

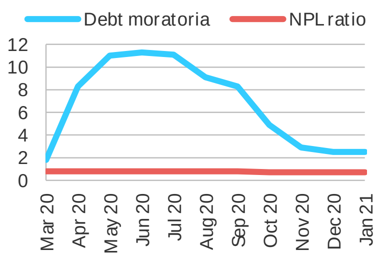
% of GDP, 2019



Source: Fitch Ratings, Eurostat

Debt Moratoria Declined Substantially

% of toal loan book



Source: Fitch Ratings, Finantsinspektsioon

Public Debt Dynamics

According to Fitch's baseline projections, Gross General Government Debt(GGGD) should peak around 23% of GDP in 2023-2024. The main risk to debt sustainability would be a failure to reduce the primary budget deficit. However, in all three shock scenarios described below the government's debt burden is expected to peak in our forecasting horizon.

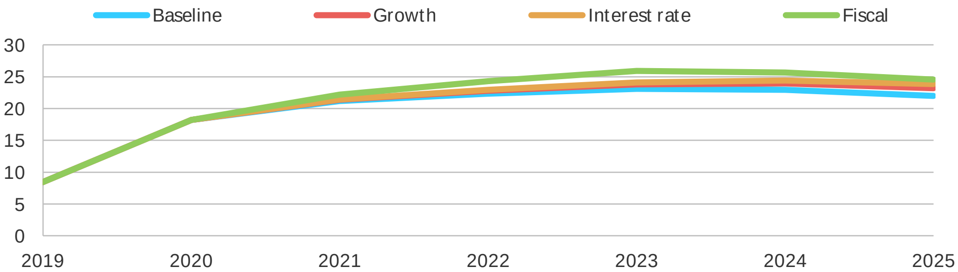
Fitch uses stylised projections for a sovereign's gross general government debt/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

Debt Dynamics: Fitch's Baseline Assumptions

	2019	2020	2021	2022	2023	2024	2029
Gross general government debt (% of GDP)	8.4	18.2	21.2	22.3	23.1	23.0	22.0
Primary balance (% of GDP)	0.1	-4.8	-5.0	-3.4	-2.0	-1.0	0.0
Real GDP growth (%)	5.0	-2.9	3.8	4.3	3.8	3.5	3.0
Avg. nominal effective interest rate (%)	0.4	0.5	0.3	0.2	0.3	0.4	0.5
EUR/USD (annual avg.)	0.9	0.9	0.8	0.8	0.8	0.8	0.8
GDP deflator (%)	3.5	-0.4	3.0	2.6	2.3	2.0	2.0

Source: Fitch Ratings

Sensitivity Analysis
Gross general government debt, % of GDP



Source: Fitch Rating debt dynamics model

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	GDP growth 1.4% lower (half standard deviation lower)
Interest rate	Marginal interest rate 250bp higher
Fiscal	Primary balance deficit of 1% of GDP wider between 2021 - 2023

Source: Fitch Ratings

Forecast Summary

	2016	2017	2018	2019	2020E	2021F	2022F
Macroeconomic indicators and policy							
Real GDP growth (%)	3.2	5.5	4.4	5.0	-2.9	3.8	4.3
Unemployment (%)	6.7	5.8	5.5	4.5	6.8	7.6	7.3
Consumer prices (annual average % change)	0.8	3.7	3.4	2.3	-0.6	1.3	2.1
Short-term interest rate (bank policy annual avg) (%)	0.1	0.0	0.0	0.0	0.0	0.0	0.0
General government balance (% of GDP)	-0.4	-0.7	-0.5	0.1	-4.8	-5.1	-3.4
General government debt (% of GDP)	9.9	9.1	8.2	8.4	18.2	21.2	22.3
EUR per USD (annual average)	0.90	0.89	0.85	0.89	0.88	0.83	0.83
Real effective exchange rate (2000 = 100)	170.7	183.6	192.4	197.1	203.0	209.1	215.3
Real private-sector credit growth (%)	5.7	-2.8	2.1	0.9	5.6	1.7	1.9
External finance							
Current account balance (% of GDP)	1.2	2.3	0.9	2.0	-1.0	0.5	0.7
Current account balance plus net FDI (% of GDP)	3.6	6.4	5.6	5.5	2.1	2.0	2.0
Net external debt (% of GDP)	-9.2	-15.0	-14.0	-18.3	-14.8	-11.5	-10.9
Net external debt (% of CXR)	-10.9	-17.8	-17.1	-22.8	-19.2	-15.4	-15.3
Official international reserves including gold (USDbn)	0.4	0.3	0.8	1.4	2.2	2.6	3.3
Official international reserves (months of CXP cover)	0.2	0.2	0.4	0.7	1.1	1.2	1.5
External interest service (% of CXR)	0.7	0.7	0.7	0.8	0.6	0.5	0.5
Gross external financing requirement (% int. reserves)	375.1	350.7	618.9	237.6	196.9	105.4	90.9
Real GDP growth (%)							
US	1.7	2.3	3.0	2.2	-3.5	6.2	3.3
China	6.7	6.9	6.8	6.0	2.3	8.4	5.5
Eurozone	2.0	2.4	1.9	1.3	-6.6	4.7	4.5
World	2.6	3.4	3.2	2.6	-3.4	6.1	3.9
Oil (USD/barrel)	45.1	54.8	71.5	64.1	41.0	45.0	50.0

Source: Fitch Ratings

Fiscal Accounts Summary

(% of GDP)	2017	2018	2019	2020E	2021F	2022F
General government						
Revenue	38.5	38.8	39.0	40.2	42.2	40.7
Expenditure	39.2	39.3	39.0	45.0	47.3	44.1
O/w interest payments	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance	-0.7	-0.5	0.1	-4.8	-5.0	-3.4
Overall balance	-0.7	-0.5	0.1	-4.8	-5.1	-3.4
General government debt	9.1	8.2	8.4	18.2	21.2	22.3
% of general government revenue	23.7	21.2	21.6	45.3	50.2	54.9
Central government deposits	5.8	4.8	3.9	7.0	5.5	4.2
Net general government debt	3.3	3.4	4.5	11.2	15.7	18.2
Central government						
Revenue	32.8	33.1	33.4	34.4	36.1	34.8
O/w grants	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	33.5	34.1	33.5	38.7	40.7	37.9
O/w current expenditure and transfers	29.5	30.3	30.3	36.2	37.5	34.7
- Interest	0.0	0.0	0.0	0.0	0.0	0.0
O/w capital expenditure	4.0	3.8	3.1	2.5	3.1	3.1
Current balance	3.3	2.8	3.1	-1.7	-1.4	0.1
Primary balance	-0.7	-1.0	-0.1	-4.3	-4.5	-3.1
Overall balance	-0.7	-1.0	-0.1	-4.3	-4.5	-3.1
Central government debt	10.0	9.3	9.7	20.9	24.3	25.6
% of central government revenues	30.5	28.2	28.9	60.6	67.1	73.4
Central government debt (EURbn)	2.4	2.4	2.7	5.7	7.0	7.9
By residency of holder						
Domestic	1.5	1.5	1.7	3.6	4.5	5.1
Foreign	0.9	0.9	1.0	2.1	2.6	2.9
By currency denomination						
Local currency	2.4	2.4	2.7	5.7	7.0	7.9
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0
In USD equivalent (eop exchange rate)	0.0	0.0	0.0	0.0	0.0	0.0
Average maturity (years)	4.0	3.2	4.1	7.0	7.0	7.0
Memo						
Nominal GDP (EURbn)	23.8	25.9	28.1	27.2	29.0	31.1

Source: Fitch Ratings, Ministry of Finance

External Debt and Assets

(USDbn)	2015	2016	2017	2018	2019	2020
Gross external debt	21.0	20.4	24.0	23.9	24.7	25.2
% of GDP	91.0	84.2	89.2	78.2	78.4	81.3
% of CXR	108.2	100.2	106.3	95.1	97.4	105.3
By maturity						
Medium- and long-term	9.3	9.3	12.1	12.1	12.4	12.7
Short-term	11.7	11.1	11.9	11.8	12.2	12.5
% of total debt	55.7	54.5	49.6	49.6	49.6	49.6
By debtor						
Sovereign	3.5	3.5	3.9	3.7	4.1	5.3
Monetary authorities	1.9	1.8	2.0	1.8	1.7	1.6
General government	1.6	1.7	2.0	1.9	2.4	3.7
O/w central government	0.9	0.9	1.0	1.0	1.1	2.5
Banks	7.3	7.1	7.2	7.1	7.2	6.1
Other sectors	10.2	9.9	12.8	13.1	13.4	13.8
Gross external assets (non-equity)	-	-	-	-	-	-
International reserves, incl. gold	0.4	0.4	0.3	0.8	1.4	2.2
Other sovereign assets nes	8.5	8.3	11.2	11.3	10.8	9.8
Deposit money banks' foreign assets	3.4	3.3	2.6	2.0	2.5	2.2
Other sector foreign assets	10.9	10.7	13.9	14.1	15.8	15.6
Net external debt	-2.3	-2.2	-4.0	-4.3	-5.8	-4.6
% of GDP	-9.9	-9.2	-15.0	-14.0	-18.3	-14.8
Net sovereign external debt	-5.4	-5.1	-7.6	-8.4	-8.1	-6.8
Net bank external debt	3.9	3.7	4.6	5.1	4.7	4.0
Net other external debt	-0.8	-0.8	-1.1	-1.0	-2.4	-1.8
Net international investment position	-9.0	-9.0	-9.5	-8.8	-6.8	-8.7
% of GDP	-39.2	-37.3	-35.3	-28.7	-21.5	-28.2
Sovereign net foreign assets	5.5	5.3	7.7	8.4	8.1	6.8
% of GDP	23.8	21.7	28.6	27.4	25.9	22.0
Debt service (principal & interest)	2.3	2.0	2.0	2.6	2.6	2.6
Debt service (% of CXR)	12.0	9.8	8.9	10.3	10.3	11.0
Interest (% of CXR)	0.8	0.7	0.7	0.7	0.8	0.6
Liquidity ratio (%)	30.7	33.0	29.0	18.9	18.5	37.2
Net sovereign FX debt (% of GDP)	-1.8	-1.5	-1.3	-2.5	-4.5	-7.2
Memo						
Nominal GDP	23.0	24.3	26.9	30.6	31.4	31.0
Inter-company loans	3.9	3.8	4.9	5.3	5.6	6.3

Source: Fitch Ratings, central bank, IMF, World Bank

Balance of Payments

(USDbn)	2017	2018	2019	2020E	2021F	2022F
Current account balance	0.6	0.3	0.6	-0.3	0.2	0.3
% of GDP	2.3	0.9	2.0	-1.0	0.5	0.7
% of CXR	2.8	1.1	2.4	-1.3	0.7	1.0
Trade balance	-1.0	-1.4	-1.0	-0.2	0.3	0.4
Exports, fob	13.5	14.9	14.9	15.2	16.7	17.1
Imports, fob	14.6	16.3	15.9	15.4	16.4	16.7
Services, net	2.1	2.2	2.3	0.2	0.6	0.6
Services, credit	6.9	7.8	8.0	6.4	7.3	7.3
Services, debit	4.8	5.6	5.8	6.2	6.6	6.7
Income, net	-0.6	-0.6	-0.7	-0.4	-0.7	-0.6
Income, credit	1.4	1.7	1.7	1.6	1.6	1.7
Income, debit	2.1	2.3	2.4	2.0	2.3	2.3
O/w: Interest payments	0.2	0.2	0.2	0.1	0.1	0.1
Current transfers, net	0.2	0.1	0.1	0.0	-0.1	-0.1
Capital and financial accounts						
Non-debt-creating inflows (net)	0.9	1.0	1.8	0.8	0.1	0.1
O/w equity FDI	1.0	0.8	1.3	0.3	0.2	0.2
O/w portfolio equity	0.0	0.2	0.5	0.5	-0.1	-0.1
O/w other flows	0.3	0.4	0.4	0.5	0.1	0.2
Change in reserves	0.0	-0.5	-0.7	-0.8	-0.4	-0.7
Gross external financing requirement	1.2	2.1	1.8	2.8	2.4	2.4
Stock of international reserves, incl. gold	0.3	0.8	1.4	2.2	2.6	3.3

Source: Fitch Ratings, IMF

The ratings above were unsolicited and have been provided by Fitch as a service to investors.