



Summer 2014 forecast Summary

1. Macroeconomic forecast

According to the main scenario **Estonian GDP** will grow by 0.5 in 2014 and 2.5% in 2015. By 2016, we expect growth to pick up to 3.5%. Ministry of Finance has cut the GDP forecast of this year compared to the spring forecast mainly due to weak growth rate of the first half of the year and also weaker growth outlook of the main trading partners. This year GDP growth will be supported primarily by the increase of domestic demand, but exports' growth will pick up in the second half of this year. Growth of imports will be faster compared to exports and therefore the contribution of net exports will increase. 2015 and 2016 growth forecasts have also been revised downwards compared to the previous forecast. 2015 and the two following years we expect export growth to pick up, but also the support of domestic demand remains strong, which is why net exports to GDP growth will remain negative.

Exports of goods and services will grow by 2.0% in 2014. The growth is driven by strong services exports. Furthermore, favored by weak comparison basis, the increase in goods exports can be expected in the second half of 2014. Foreign demand will start to pick up in 2015 and the growth opportunities of manufacturing companies will be expanded by a gradual recovery of Finnish economy as well. Growth of exports will pick up at the similar pace like foreign demand, reaching 3.5% in 2015 and stabilizing in the end of the forecast horizon at 6%. Imports of goods and services will accelerate as a result of relatively high import content of exports and stronger domestic demand. During the forecast period growth of imports will be somewhat faster compared to exports due to high investments needs of companies and continuous wage increases, resulting in growing imports of capital and consumer goods.

Current account deficit will increase to 2.3% of GDP in 2014 as a result of reserved export performance and stronger domestic demand. During the forecast period foreign balance will worsen somewhat because of increasing investment activity. Balance of services will improve slightly this year, but will remain stable afterwards. Current transfers will be influenced largely by contributions from EU funds, surplus of current transfers will remain around 1% of GDP in coming years.

Consumer price **inflation** (CPI) will reach 0.3% in 2014, then accelerating to 1.9% in 2015 and to 2.5% in 2016. Inflation will pick up gradually in autumn due to slowdown of energy price decrease and slightly growing food prices as a result of low price level of fruits and vegetables a year ago. During 2015-2016 administrative prices will push the inflation as well, from which excise duty increases of alcohol and tobacco constitute the biggest part. Core inflation will start to pick up in line with the price pressures from higher wage increases, growing prices of imported industrial goods and a slowdown of declining communication service prices. In addition, growing food prices in foreign markets will start to affect the inflation in coming years. In the end of forecast period inflation will reach 3% as a result of increasing contribution of foreign factors, administrative measures and stronger increases of service prices.

Table 1. GDP forecast for 2013–2018 (per cent)

	2013	2014*	2015*	2016*	2017*	2018*
1. Growth of real GDP	0.8	0.5	2.5	3.5	3.4	3.2
1a. GDP in real terms (bln EUR)	12.8	12.9	13.2	13.7	14.1	14.6
2. Growth of nominal GDP	5.9	3.0	5.8	6.6	6.4	6.1
2a. GDP in nominal terms (bln EUR)	18.4	19.0	20.1	21.4	22.8	24.2
2b. GNI in nominal terms (bln EUR)	17.7	18.3	19.4	20.7	22.0	23.3
Components of real GDP						
3. Private consumption expenditure (incl. non-profit organisations)	4.2	3.6	3.8	3.7	3.1	3.0
4. Government final consumption expenditure	1.3	1.0	1.0	1.0	1.0	1.0
5. Gross fixed capital formation	1.0	-0.4	5.2	5.5	7.0	5.3
6. Changes in inventories (% of GDP)	1.6	1.8	1.7	1.8	1.7	1.8
7. Exports of goods and services	1.8	2.0	3.5	5.0	6.0	6.0
8. Imports of goods and services	2.6	3.9	4.3	4.9	6.3	6.2
Contributions to real GDP growth ¹⁾						
9. Domestic demand (without inventories)	2.7	2.0	3.5	3.6	3.7	3.2
10. Changes in inventories	-1.2	0.1	-0.3	-0.1	0.1	0.2
11. External balance of goods and services	-0.7	-1.7	-0.7	0.0	-0.4	-0.3
Value added growth						
12. Primary sector	-3.5	-0.1	1.7	2.3	2.1	2.0
13. Industry	4.5	2.6	5.1	5.0	4.8	4.3
14. Construction	-5.7	-6.8	-0.6	4.6	4.2	4.0
15. Other services	2.0	0.8	2.0	2.9	2.8	2.8

1) Contribution to GDP growth indicates the share of a specific field in the economic growth. It is calculated by multiplying the field's growth with its share in GDP. The sum of the fields' share makes up the economic growth (the reason for a little difference is a statistical error – the part of GDP that could not be divided between the fields).

Source: Ministry of Finance of Estonia, Statistics Estonia.

Table 2. Price forecast for 2013–2018 (per cent)

	2013	2014*	2015*	2016*	2017*	2018*
1. GDP deflator	5.0	2.6	3.1	3.0	2.9	2.8
2. Private consumption deflator	3.4	1.0	2.3	2.6	3.0	3.0
3. Harmonised consumer price index	3.2	0.8	2.3	2.8	3.2	3.2
3a. Consumer price index	2.8	0.3	1.9	2.5	3.0	3.0
4. Public consumption deflator	6.1	4.6	4.5	4.5	4.5	4.5
5. Investment deflator	5.0	2.8	2.3	2.1	2.2	2.1
6. Export price deflator	1.0	-0.2	1.0	1.4	1.7	1.8
7. Import price deflator	-0.4	-0.5	0.8	1.4	1.8	1.9

Source: Ministry of Finance of Estonia, Statistics Estonia.

Table 3. Labour Market Forecast for 2013–2018 (15–74- year-old) (per cent)

	2013	2014*	2015*	2016*	2017*	2018*
1. Employment. thousands	621.4	622.1	622.1	620.9	628.4	614.7
1a. Growth of employment	1.0	0.1	0	-0.2	-0.4	-0.6
2. Unemployment rate	8.6	7.5	6.8	6.4	6.1	6.1
3. Growth of labour productivity (per person)	-0.2	0.3	2.5	3.7	3.8	3.8
4. Real growth of average monthly wage	4.9	5.7	4.1	3.8	3.4	3.5
4a. Average monthly wage (EUR)	948	1005	1066	1134	1208	1288
4b. Nominal growth of average monthly wage	7.8	6.0	6.1	6.4	6.5	6.6

Source: Ministry of Finance of Estonia, Statistics Estonia.

Table 4. Balance of Payments Forecast for 2013–2018 (% of GDP)

	2013	2014*	2015*	2016*	2017*	2018*
1. Net lending/borrowing vis-à-vis the rest of the world	1.6	0.4	0.2	-0.4	-0.8	-1.0
1a. Current account	-1.1	-2.3	-2.8	-2.8	-3.3	-3.6
2. Balance of goods and services	1.8	0.2	-0.4	-0.3	-0.7	-1.1
3. Balance of primary incomes and transfers	-2.9	-2.5	-2.4	-2.5	-2.5	-2.5
4. Capital account	2.7	2.7	3.0	2.4	2.5	2.5
5. Errors and omissions	0.7					

Source: Ministry of Finance of Estonia, Bank of Estonia.

Table 5. Comparison of economic forecasts

	Real GDP growth, %			Nominal GDP growth, %		
	2014*	2015*	2016*	2014*	2015*	2016*
Ministry of Finance	0.5	2.5	3.5	3.0	5.8	6.6
European Commission	1.9	3.0	–	4.7	6.5	–
Bank of Estonia	0.7	3.9	3.6	4.1**	6.6**	6.6**
IMF	2.4	3.2	–	–	–	–
OECD	1.2	3.1	–	3.2	5.2	–
SEB	0.5	1.8	3.0	–	–	–
Swedbank	0.8	2.3	3.0	3.9	5.7	6.3
Nordea	0.7	2.7	3.5	–	–	–
Consensus Forecasts	0.8	2.6	–	–	–	–
Estonian Institute of Economic Research	2.7	–	–	–	–	–

	Consumer price index, %			General government budgetary position, % of GDP		
	2014*	2015*	2016*	2014*	2015*	2016*
Ministry of Finance	0.3 (0.8*)	1.9 (2.3*)	2.5 (2.8*)	-0.2	-0.5	0.0
European Commission	1.5*	3.0*	-	-0.5	-0.6	-
Bank of Estonia	0.8 (1.3*)	2.4 (2.8*)	2.7 (3.0*)	-0.6	-0.8	-0.3
IMF	3.2*	2.8*	-	-	-	-
OECD	0.7*	1.7*	-	-0.2	-0.1	-
SEB	0.1	1.6	1.9	-	-	-
Swedbank	0.3	2.5	2.7	-0.5	-0.4	-0.2
Nordea	0.4	2.0	2.5	-0.5	-0.9	-0.5
Consensus Forecasts	0.9	2.3	-	-	-	-
Estonian Institute of Economic Research	2.2	-	-	-	-	-

* Harmonised Consumer Price Index (HICP)

** Calculated on the basis of the forecast of GDP volume

Sources:

Ministry of Finance Economic Forecast. Summer 2014. 01/09/2014.

European Commission. Economic Forecast. Spring 2014. 05/05/2014.

IMF. World Economic Outlook. April 2014. 08/04/2014.

OECD Economic Outlook. No 95. May 2014, 06/05/2014.

Bank of Estonia. Monetary policy and economy. 11/06/2014.

SEB. Nordic Outlook. August 2014. 26/08/2014.

Swedbank. Swedbank Economic Outlook. 26/08/2014.

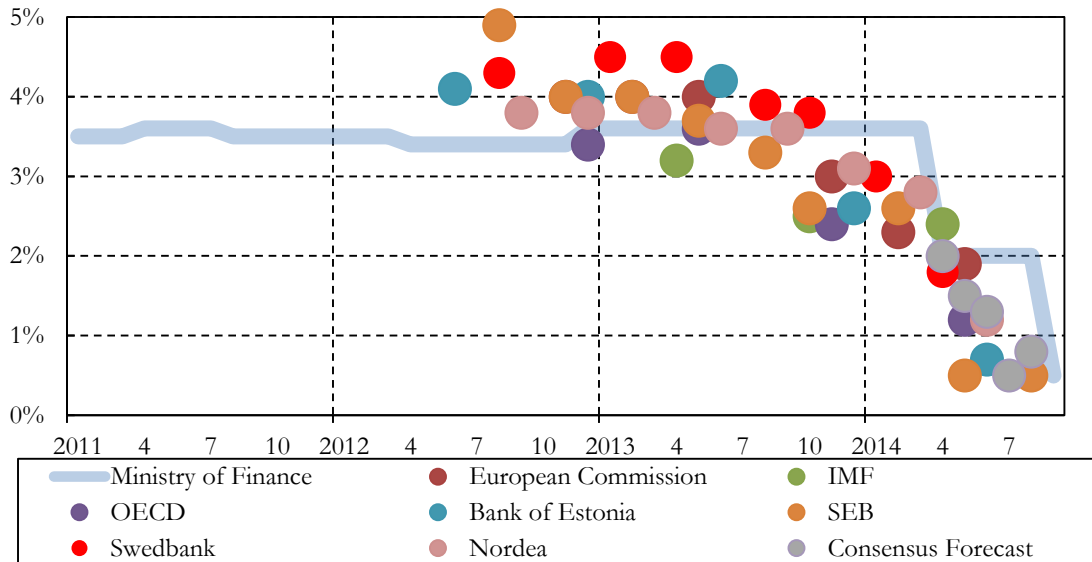
Nordea. Estonia overview. 03/09/2014.

Eastern Europe Consensus Forecasts. 18/08/2014.

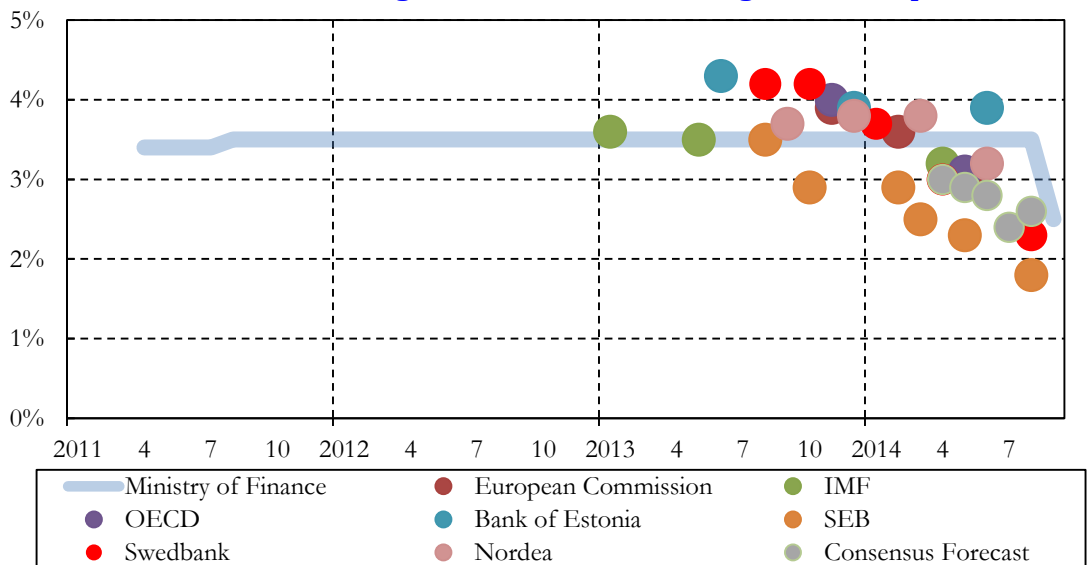
Estonian Institute of Economic Research. Konjunktuur No 1 (188) 2014. 07/04/2014.

Figure 1. Change in Estonia's economic growth forecasts (per cent)

A. Forecasts of Estonia's economic growth for 2014 according to forecast publication date



B. Forecasts of Estonia's economic growth for 2015 according to forecast publication date



Sources: Ministry of Finance, Bank of Estonia, European Commission, IMF, OECD, Swedbank, SEB, Nordea, Eastern Europe Consensus Forecasts.

2. Fiscal forecast

In 2014 general government **budgetary position** is in deficit by 0.2% of GDP. Most of the deficit comes from central government but also local governments will be in deficit. The central government deficit is affected by investments which are linked to the revenue of CO₂ quotas and extra contributions of II pillar pensions (together -0.5% of GDP in 2014). Social security funds are still in surplus due to Unemployment Insurance Fund (0.2% of

GDP in 2014). In 2015 the general government budget deficit increases to 0.5% of GDP. Most of the deficit comes still from central government, because state budget expenditure growth exceeds revenue growth partly due to reduction of income tax rate and unemployment insurance contribution rate. At local government's level the budgetary deficit remain the same level (0.2% of GDP). At the same time social security funds contribution to the budgetary position is increasingly positive. According to forecast the budget surplus 0.8% of GDP will be achieved in 2018.

In 2014 the **tax burden** is forecasted to be at 33.3% of GDP which is 1.0 percentage points higher than in 2013. In comparison with spring forecast the consumption taxes were increased taking account of actual receipts, at the same time nominal GDP was corrected downwards. It can be partly explained by the Tax and Customs board effective work, also in case of export oriented economy the slowing nominal GDP does not reflect entirely in tax receipts. During 2015–2018 the tax changes will decrease labour taxes and increase consumption taxes, in total tax burden stays at 2014 level remaining at 33.2% of GDP in 2018.

Table 7. Structural balance 2013–2018 (% of GDP)

	2013	2014*	2015*	2016*	2017*	2018*
1. Cyclically adjusted balance	0.1	0.7	0.3	0.3	0.3	0.5
2. One-off measures	-0.2	-0.2	-0.5	-0.3	-0.3	0.0
3. Structural balance (3)=(1)-(2)	0.3	0.9	0.8	0.6	0.5	0.5

**forecast.*

Source: Ministry of Finance of Estonia, Statistics Estonia.