

# Estonia Quarterly Review

**Strong recovery continued in Q4/2020; Estonia is forecast to reach pre-crisis GDP level by the end of this year.** Positive economic performance continued in Q4/2020, with Estonian GDP increasing by 2.1% q.o.q. compared to a 0.7% decline in the Euro area. This was supported by restrictions on economic activity and mobility being among the mildest in the EU. Our April 2021 forecast envisages a relatively sharp recovery of the economy starting from the second half of 2021 and the pre-pandemic level is expected to be reached by the end of 2021. The economy is forecast to grow by 2.5% and 4.8% in 2021 and 2022 respectively.

The **labour market** saw a sharp increase in unemployment in 2021 but this already seems to be starting to reverse. Wage growth slowed down only temporarily and declined only in a few sectors most affected by the pandemic.

**The general government budget deficit for Jan-Feb 21 was slightly lower than for the corresponding months in 2020. Tax revenue** was in fact 15.9% higher in February 2021 yoy. The rapid increase in tax collection is due to the temporary exemption of interest on tax arrears during the emergency situation last year, which lowered the base level.

According to the State Budget Strategy 2022-2025, adopted by the government in April, the general government **budget deficit** for 2021 is forecast at 6.0% of GDP and, with the end of crisis mitigation measures, the government targets a deficit of 3.8% of GDP in 2022.

**Estonia's credit ratings:** S&P (AA-), Moody's (A1), Fitch (AA-), all stable.

Estonia's projected **financing needs** for 2021 and 2022 are EUR 1.6 billion (5.6% of GDP) and EUR 1.8 billion (5.9% of GDP) respectively, which will be covered through various debt instruments, likely to include a Eurobond issue later in the year.

