November 2026

Nordic Outlook Update – Estonia



Higher interest rates weigh on growth

The economic recovery has continued broadly as expected, supported by both stronger household consumption and a rebound in exports. However, higher inflation and interest rates cast a shadow over the coming quarters. Rising prices will weigh on real wage growth and consumer sentiment, while higher interest rates will dampen demand as growth slows important export markets. We lower our GDP forecast for next year to 2.2 per cent and expect growth to pick up to close to 3 per cent in 2028.

Key data

Year-on-year percentage change

	2025	2026	2027	2028
GDP	1.3	2.5	2.2	2.7
Houshold consumption	-0.3	2.8	2.0	2.5
Exports	4.8	3.2	4.0	3.0
Unemployment*	7.5	6.6	6.1	5.8
Wages and salaries	5.6	5.8	5.5	5.5
HICP	4.8	3.0	3.0	2.5
Government balance**	-1.2	-3.8	-4.0	-3.5

* % of labour force, * % of GDP.

Source: Macrobond, SEB

- Recent GDP figures show that the economy expanded by 0.6 per cent in the third quarter. This is broadly the same pace as average growth in the previous two quarters.

- Significant revisions to the national accounts at the end of August showed that the economy was also in better shape than previously thought, with GDP growth for 2025 revised up to 1.3 per cent.

- The strong upswing in household consumption in the first quarter of 2026, driven by changes to personal income taxation, faded in subsequent months, but retail sales have continued to grow at a steady pace. However, rising interest rates and inflation will curb growth in 2027.

- Household consumption has benefited from the lowest inflation in years. The average HICP inflation in 2026 will end up around 3 per cent, although surging energy prices have pushed it back above that level. Elevated fuel prices will keep inflation at 3 per cent also in 2027.

- While consumer sentiment had been recovering from very low levels for most of 2026, the recent rise in energy prices has pushed it lower again. Business sentiment is stronger in export-oriented manufacturing, where growth has been gathering pace.

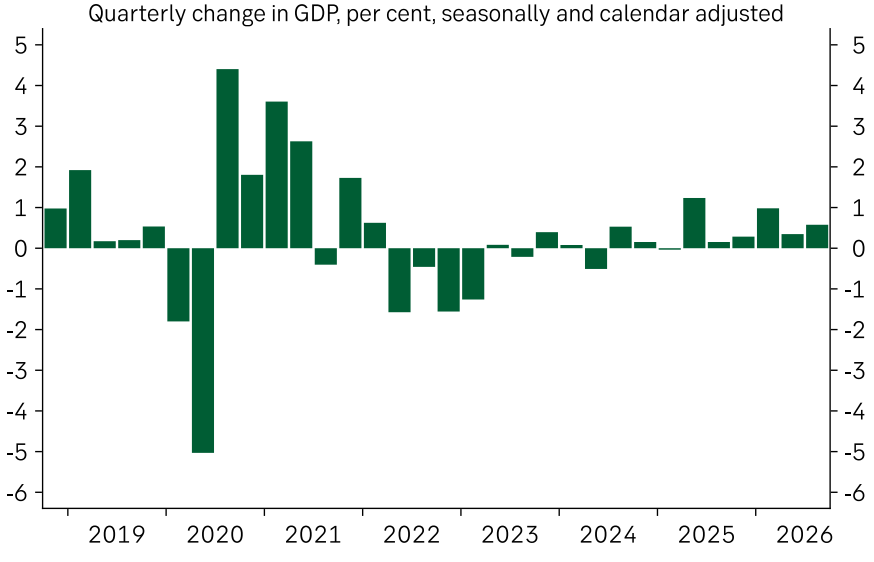
- The labour market has remained stable, with the unemployment rate falling to around 5 per cent, its lowest level since before the pandemic. Wage growth has remained close to 6 per cent, roughly in line with nominal GDP growth. We expect the labour market to remain stable over the forecast horizon.

- The surge in new lending to businesses has yet to translate into stronger investment activity. The prospect of higher interest rates will keep businesses cautious in the coming quarters.

- The March 2027 parliamentary elections are expected to bring a new governing coalition to power. Despite promises to lower taxes, including abolishing the unpopular car tax and cutting VAT on food, the scope for such measures remains limited, given an already large budget deficit of close to 4 per cent.

Growth continues to gather pace

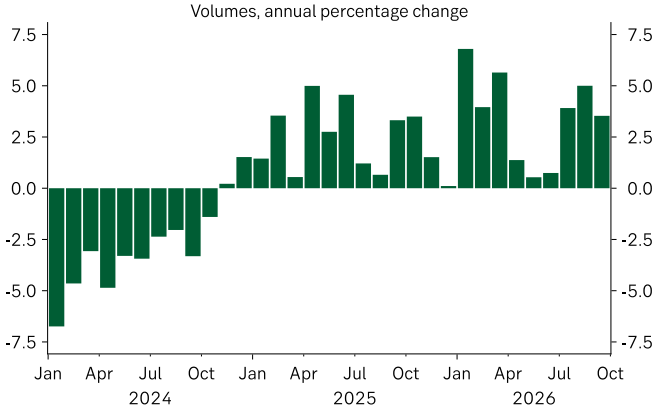
Quarterly change in GDP, per cent, seasonally and calendar adjusted



Source: Eurostat, Macrobond, SEB

Retail sales have been boosted by tax cuts

Volumes, annual percentage change

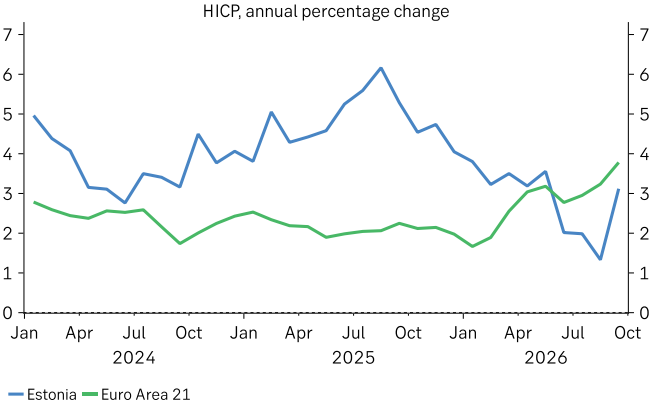


Source: Eurostat, Macrobond, SEB

The income tax reform introduced at the start of 2026 gave retail sales a strong boost. Higher disposable incomes, especially among middle- and higher-income earners, have supported consumer spending.

Inflation remains below the euro area average

HICP, annual percentage change

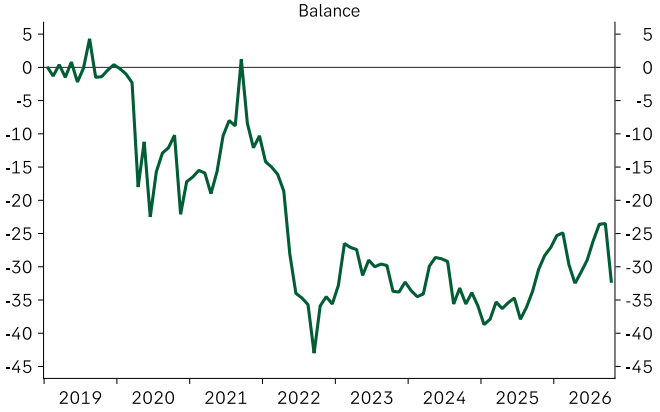


Source: Eurostat, Macrobond, SEB

Falling food prices and strong competition in the local fuel market have kept inflation below the euro area average in recent month.

Energy prices weigh on consumer confidence

Balance

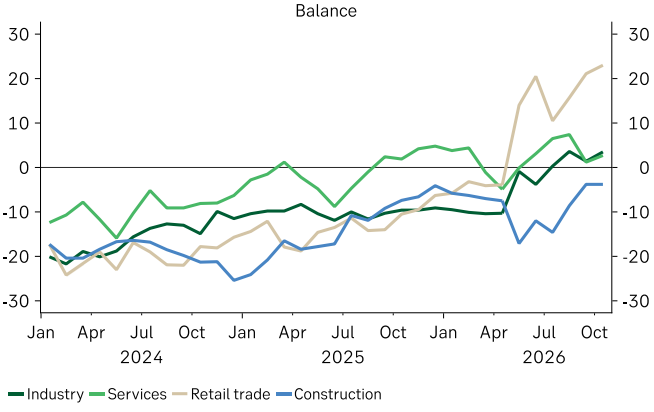


Source: European Commission (DG ECFIN), Macrobond, SEB

Consumer confidence has gradually recovered this year, but the recent rise in fuel prices has triggered another sharp decline.

Business confidence improves across sectors

Balance

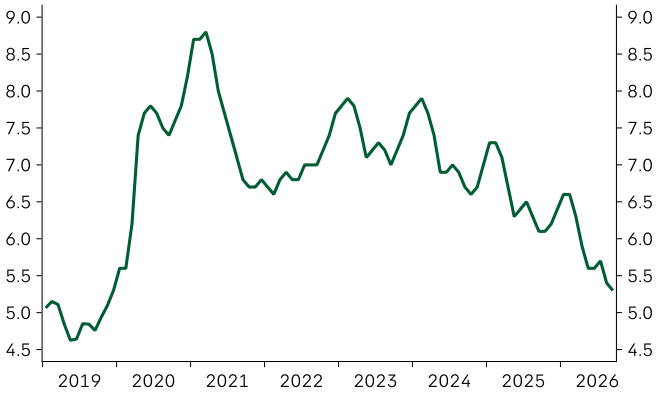


Source: European Commission (DG ECFIN), Macrobond, SEB

Business confidence has improved markedly across sectors, despite persistently weak consumer sentiment.

Registered unemployment at a post-pandemic low

Per cent of labour force

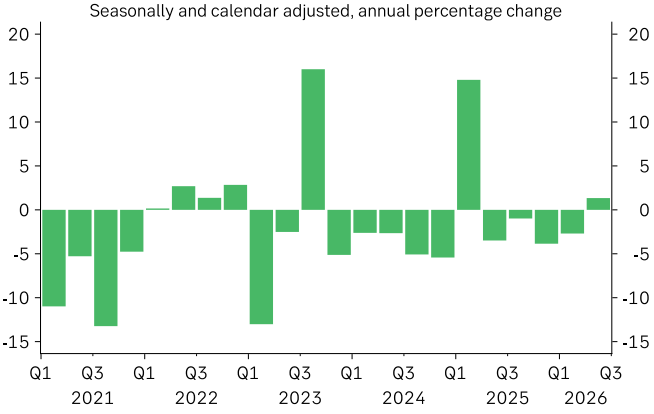


Source: Estonian Labour Market Board (TTA), Macrobond, SEB

Unemployment is back to pre-pandemic levels, but employment still lags behind.

Still waiting for investment to recover

Seasonally and calendar adjusted, annual percentage change



Source: Eurostat, Macrobond, SEB

Despite a clear pick-up in corporate borrowing, stronger lending has yet to translate into higher investment.

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