Spring 2025 Economic Forecast of the Ministry of Finance.

16. April 2025

Table 1. Main economic indicators

	2024 actual	2025 forecast	2026 forecast	2027 forecast	2028 forecast	2029 forecast
Real GDP growth, %	-0,3	1,7	2,5	2,2	2,2	2,2 (3,2)
Unemployment rate, %	7,6	7,1	6,6	6,4	6,3	6,2
Inflation, %	3,5	5,2	3,3	2,4	2,2	2,0 (1,1)
Wage growth, %	8,1	4,9	5,1	4,7	4,5	4,4
General government:						
Total revenue (million euros)	16803	18169	18763	19522	20215	19744
Total expenditure (million euros)	17469	18801	19856	20463	20748	20974
Deficit/surplus (million euros)	-666	-632	-1 093	-941	-533	-1 230
Nominal budgetary position (% of GDP)	-1,7	-1,5	-2,5	-2,0	-1,1	-2,4
Structural budgetary position (% of GDP)	0,5	0,2	-1,5	-1,6	-1,1	-2,7
Debt burden (%of GDP)	23,6	22,6	24,0	24,9	25,3	26,4
Total reserves (%of GDP)	11,3	8,3	7,8	7,5	7,4	7,0

Source: Ministry of Finance of Estonia.

There is significant uncertainty surrounding the preparation of this forecast, both externally and domestically. We have attempted to map some of the factors through various scenarios in the main forecast report. International trade is influenced by U.S. tariff policies, which have created uncertainty and could limit global growth prospects. On the other hand, the European Union is in the process of making important decisions to strengthen defence capability, which along the way bring fiscal policy challenges for all the Member States. Following the change of Estonian government in March, large-scale budget decisions are in the process of making that will significantly impact economic development in the coming years. We expect to gain more clarity on the government's decisions from the coalition agreement likely to be concluded at the end of May. The exact volume and details of the measures will become clear by the end of September, when the government presents the draft 2026 State Budget and the State Budget Strategy for 2026–2029.

The mandatory forecast scenario describes economic and budget developments based on current legislation. As no funding sources have been decided for the planned abolition of the temporary security tax by 2029, we separately show the economic impact of the tax cut (in brackets in table 1). Other scenarios can be found from the forecast report.

Summary of the forecast

There have been signs of economic recovery in Estonia since the second half of last year. We forecast that the recovery will continue this year, albeit gradually, due to the uncertain external environment and increased price level. We expect 1.7% economic growth in 2025, accelerating to 2.5% in 2026.

Producer prices in Estonia's manufacturing industry have risen more than those of many key trading partners in recent years, which means that the cost-competitiveness of Estonian manufacturing has deteriorated. In the forecast, we expect that external demand for Estonia's export sector will improve, and competitiveness issues will gradually ease. The value added in the manufacturing sector will grow in 2025 and the growth will accelerate in 2026.

A clearer recovery in the export of Estonian-origin goods was observed in the fourth quarter of 2024. The growth has become broad-based, with faster export recovery seen especially in goods that experienced greater declines beforehand. In terms of export markets, companies have found growth opportunities somewhat further afield instead of relying solely on traditional Nordic markets. **We forecast that exports of goods and services will increase by 2.5% this year, slightly exceeding the import demand of trading partners.**

IT services will make a significant contribution to the growth of services exports. The share of value added from the ICT sector in GDP is expected to remain relatively high this year and in the coming years. Business services have recovered from previous weakness, and increasing number of foreign tourists supports the export of travel services.

Employment growth is expected by the end of 2025. Unemployment will continue to decline. While companies' expectations for growth and hiring have slowly improved, we expect employment growth toward the end of this year only. The labour market has remained relatively strong because companies have retained employees in preparation for the next growth cycle. Therefore, during the initial phase of economic recovery, workloads will increase first before new hiring begins.

Wage growth is slowing down, and the recovery of net wage purchasing power will take time. We expect wage growth to slow to around 5% this year, with better wage growth prospects in the private sector than in the public sector. According to current tax laws, the purchasing power of net wages will return to pre-full-scale-war levels (before Russia's invasion of Ukraine) by the end of 2026.

Private consumption declined slightly in 2024 despite improvements in real income. Due to decreased purchasing power and low consumer sentiment, private consumption is expected to decline in 2025. A clear recovery in private consumption (1.5%) is expected in 2026 as net income grows faster than gross wages due to income tax reform, and inflation slows significantly.

Although growth prospects in Estonia and its export markets have improved, geopolitical tensions persist, and the future of free trade remains uncertain. This leads to modest expectations for private sector investment. However, the forecast does not foresee a significant decline in private investment. In 2025, public sector investments will grow strongly due to the end of the EU budget cycle, followed by a slight decrease.

Inflation will accelerate in 2025 due to both internal and external factors and tax measures. In 2025, inflation will be significantly driven by rising food prices, the increase in VAT rate, the introduction of vehicle registration fee, and improving economic conditions. A slowdown in inflation is expected in 2026 as the impact of tax measures diminishes and food price growth stabilises.

This year's budget deficit will decline to 1.5% of GDP thanks to one-off tax revenues and will remain below the level set in the State Budget Strategy throughout the forecast period. Last year's lower-than-expected deficit will decrease further this year due to fast-growing tax revenues. In 2026, the deficit will increase due to changes in income tax and growing defence spending. In the following years, the deficit will gradually decrease due to growing tax revenues and spending cuts but will temporarily rise again to 2.4% of GDP in 2029 as temporary tax increases expire.

The public debt burden will decrease to 22.6% of GDP this year due to the lower budget deficit. With reduced borrowing needs, the 2025 interest cost for the state treasury will be €195 million, which is €40 million less than planned in the State Budget Strategy. In the following years, the debt burden will increase by an average of one percentage point per year due to negative cash flow, reaching 26.4% of GDP by 2029.

Figure 1. Nominal budgetary position of the general government, % of GDP

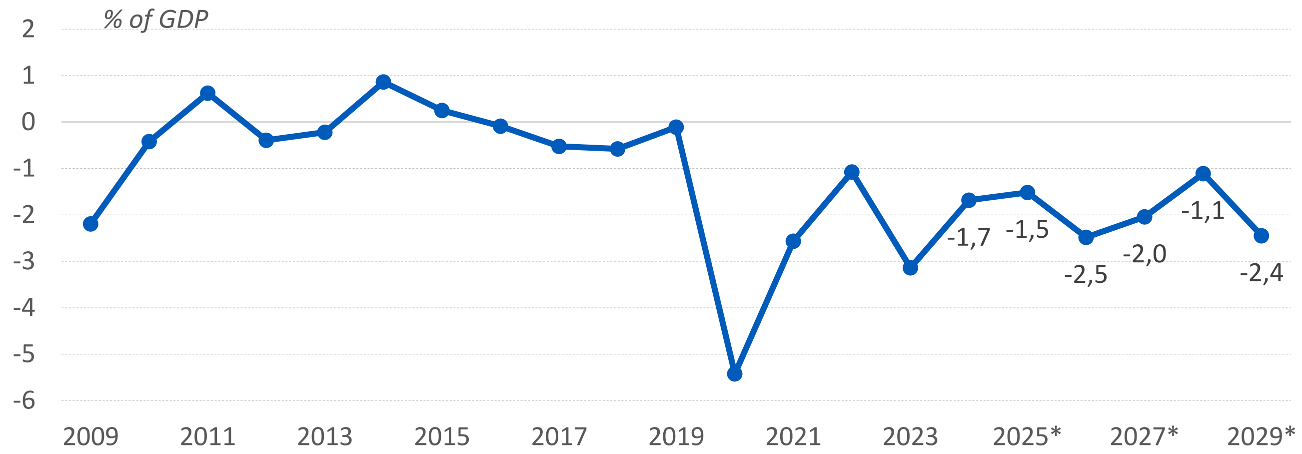

Figure 2. General government debt burden, % of GDP