



Eelarvereegli piiril liikudes on meil  
kriisidega toimetulekuks vähe fiskaalruumi

# RAHANDUSMINISTEERIUMI KEVADINE MAJANDUSPROGNOOS

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## FISCAL POLICY FOREWORD

**This latest forecast, prepared against the backdrop of a prolonged crisis and continued uncertainty, indicates that the general government finances need to be more resilient to shocks.** Over the next four years, the budget deficit is projected to remain close to the limit permitted by law. There is no fiscal buffer to absorb exceptional uncertainty or to accommodate policy decisions that would increase expenditure or reduce revenue. Estonia's public debt has risen rapidly in recent years, reaching EUR 10 billion at the start of this year, and the effective suspension of the fiscal rules in the coming years is expected to push the debt ratio higher still. At the same time, spending pressures have not receded. The security environment remains tense and requires a persistently higher level of defence spending, while expenditure on social policy and healthcare has also increased. A permanent expenditure commitment in the state budget also requires a permanent source of revenue, because the defence escape clause does not bring additional resources into the budget; its purpose is to give countries more time to identify such lasting revenue sources.

**The economy is emerging from recession, but the growth outlook is weaker than in the past.** Before the financial crisis, Estonia's real growth potential was close to 6 per cent and, from the perspective of tax revenue, this was accompanied by inflation of around 3 to 4 per cent. Current estimates suggest that nominal growth of 4 to 5 per cent may now be a more sustainable rate. There are several reasons for this. Estonia's standard of living, and especially its price level, have moved much closer to those of richer countries. Estonia's current level of prosperity, for example, is comparable to that of Finland in 2004, when Estonia joined the European Union, while the price level has moved closer to the EU average. As an economy approaches the level of more advanced countries, sustaining very rapid nominal growth becomes more difficult. In addition, the tense geopolitical environment and the persistently higher cost of production inputs have weakened firms' competitiveness. New sources of growth will require a broader contribution from society and a supportive policy environment, in which sustainable fiscal and tax policy also have an important role.

**This means that fiscal policy needs to take lower growth potential into account.** Under slower economic growth, the natural expansion of the economy no longer improves the fiscal position to any significant extent, so keeping the debt burden under control depends above all on fiscal discipline. That, in turn, requires budgets that are close to balance and leaves room for only a very small deficit. Stabilising the rise in the debt ratio would allow only a very small deficit, of around 0.75 per cent of GDP. Reducing the debt ratio would require balanced budgets or surpluses.

**The main challenge for Estonia's public finances is that expectations of transfers and public services have risen faster than the willingness to finance them.** The problem is compounded by uneven developments in spending priorities. In financing some areas with rapidly growing needs, it has been assumed that other areas can absorb zero growth and cuts. At the same time, expectations of public services in those areas have not been reduced, and spending pressures remain broadly similar across society. This creates pressure that is not sustainable over the longer term: the scope for internal efficiency

gains has largely been exhausted, and new funding pressures are difficult to avoid. One-off, politically driven increases in spending do not resolve this tension. What is needed instead is a longer-term set of decisions and reforms that brings expectations and available resources into better balance. That implies action on both the expenditure and the revenue side. **The approaching general election provides an opportunity for a more substantive and prudent debate on these issues, in which any new spending commitments or tax cuts are accompanied by a clear explanation of how they will be financed.**

**Uncertainty surrounding the forecast remains high.** Since the coronavirus crisis, that has become a persistent feature of the outlook. At present, the further course of events in the Middle East remains unclear, and the path of energy and other commodity prices linked to disruptions in the Strait of Hormuz is highly uncertain. In the baseline scenario, we assume a moderate increase in energy prices. In the risk scenario, we assess the economic effects if the oil price remains at USD 120 per barrel for the next six months. Such an outcome would place additional pressure on the budget, because an oil price shock would weaken the global economy, reduce external demand and lower purchasing power, thereby reducing tax revenue and potentially prompting further mitigation measures.

**The methodology used to assess cyclical conditions in the Estonian economy has been revised.** The aim is to assess the cyclical position of the economy, and its effect on the state budget, as accurately as possible. The Ministry of Finance uses this assessment primarily in calculating the structural budget position. The approach moves away from the European Union's harmonised output gap methodology towards a country-specific framework that combines several methods and provides a more stable and broader-based assessment. If measurement problems arise in one indicator, or if the economy undergoes significant structural change, a broader-based approach is likely to provide a more robust assessment. Under the revised methodology, the overall estimate takes into account the output gap estimate under the EU methodology, the Ministry of Finance's economic dashboard and long-term trends in nominal tax bases. The latter two components add information that is important for the analysis. The economic dashboard is less dependent on the statistical difficulties involved in measuring real GDP and also reflects labour market balance, the external position and developments in household indebtedness. These are factors that need to be considered in the design of demand-side policy. Trends in nominal tax bases add a revenue-side perspective and help distinguish between a genuine weakening in the state's revenue base and a more temporary adjustment.

**Volatile economic conditions and the multiple increase in the scale of budgetary measures have made forecasts** less precise. In recent years, the deficit has turned out smaller than projected in the adopted state budgets, which has given rise to the view that the Ministry of Finance's forecasts are overly conservative and that a budget planned with a deep deficit is therefore not, in practice, as dangerous for the public finances as it appears. The analysis carried out shows that a succession of crises has indeed increased forecast errors, and not only in Estonia. This is reflected in more volatile economic conditions, in which the behaviour of economic agents is less predictable than usual. Volatility in the economic environment directly affects tax receipts: faster-than-expected inflation increased VAT receipts in 2021 and 2022; faster-than-expected employment and wage growth boosted labour tax receipts; and fluctuations in Euribor affected corporate income tax receipts. In addition to external factors, forecasting has been made more difficult by the multiple increase in the scale of fiscal policy measures under the suspension of the fiscal rules, driven by the need to respond to crises. Numerous large decisions taken over a short period, both in the normal budget process and in supplementary budgets, carry the risk that their actual cost on

implementation will differ from the original plan. A case in point is the measures to mitigate the increase in energy prices, which were used less than forecast. Several tax changes have also affected taxpayer behaviour in ways that could not be forecast accurately, for example the extensive distribution of profits before the rise in corporate income tax and the number of people leaving the second pension pillar when participation became voluntary. Overall, it is inevitable that forecast confidence intervals are wider in times of uncertainty. To mitigate risks, the budget should therefore be drawn up with a buffer relative to the maximum permitted deficit, helping to avoid additional cuts or urgent decisions if unexpected deviations occur.

## **Fiscal Policy Department**

*Cover image: Konrad Mägi, "Landscape with a Red Cloud", 1913-1914, Art Museum of Estonia. Cover image: Konrad Mägi, "Landscape with a Red Cloud", 1913-1914, Art Museum of Estonia.*

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## SUMMARY

Table 1. Main forecast indicators1

	2025 actual	2026 forecast	2027 forecast	2028 forecast	2029 forecast	2030 forecast
Real GDP annual growth %	0,6	2,3	2,5	2,3	2,2	2,1
Unemployment %	7,5	6,7	6,4	6,3	6,2	6,1
Inflation %	4,8	4,0	2,7	2,2	2,1	2,0
Wage growth %	5,6	5,2	4,7	4,4	4,3	4,2
<b>General government:</b>						
total revenue (EUR million)	18 315	18 715	19 090	19 833	20 429	21 078
total expenditure (EUR million)	18 806	20 625	21 369	21 934	22 736	23 055
surplus/deficit (EUR million)	-491	-1 911	-2 279	-2 101	-2 307	-1 977
nominal budget position (% of GDP)	-1,2	-4,3	-4,9	-4,3	-4,5	-3,7
structural budget position (% of GDP)	-0,8	-4,2	-4,8	-4,3	-4,5	-3,7
debt ratio (% of GDP)	24,1	26,7	30,6	33,4	36,7	39,0
total reserves (% of GDP)	9,4	8,5	8,3	8,0	7,8	7,5

Source: Ministry of Finance spring forecast

**Uncertainty remains high, but the economy is expected to return to solid growth this year. Real GDP grew by 0.6 per cent in 2025, and growth of 2.3 per cent is projected for 2026.** Growth in 2026 is expected to be driven mainly by domestic demand, particularly public and private consumption and investment. External demand is also expected to continue recovering, with export growth strengthening in 2027. The recovery is likely to be constrained by the conflict in the Middle East, which is pushing up energy prices and increasing uncertainty about supply conditions in commodity markets.

**Household consumption is supported by changes to the income tax system, slower price growth and improving confidence.** Private consumption is expected to return to solid growth in 2026. The introduction of a flat tax-free allowance of EUR 700 per month will significantly increase average disposable income, although the increase in take-home pay will be uneven across income groups.

**Over the next few years, investment growth will be supported mainly by the general government sector through spending related to defence and Rail Baltica.** A gradually improving economic environment has also created the conditions for faster growth in private sector investment.

After two years of decline, during which Estonia's export volumes fell by about one tenth, exports returned to growth in 2025, supported by a recovery in external demand. Export growth outpaced the growth of external demand, which means that Estonia's export market share increased. In the coming years, **we expect Estonia's export growth to broadly track developments in external demand.**

**Consumer prices will rise by 4 per cent in 2026.** Although the conflict in the Middle East will make energy more expensive, slower price growth in food and services, together with a diminishing effect from administrative measures, will allow inflation to moderate.

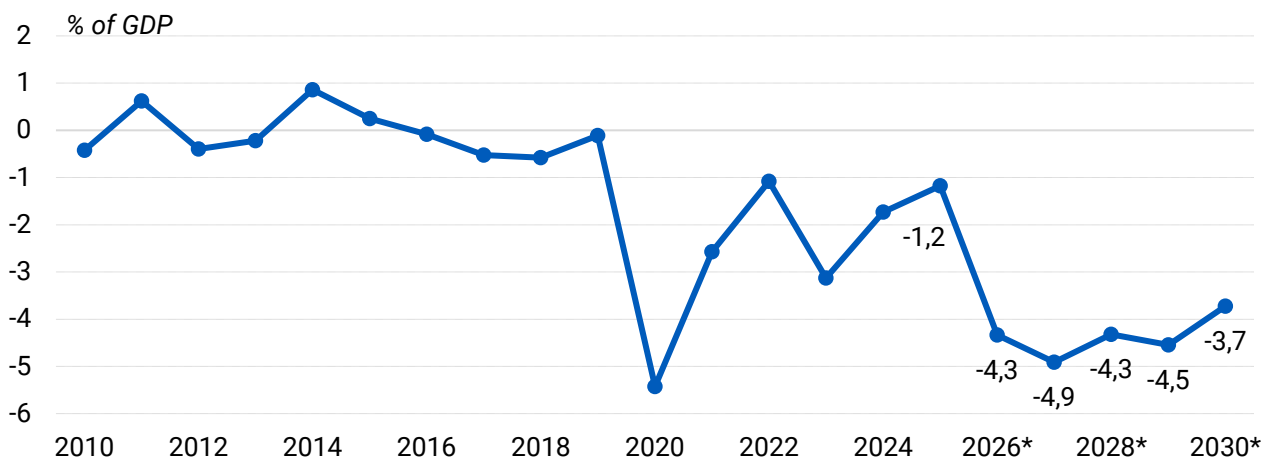
**In the forecast's risk scenario, economic growth this year is significantly slower, at only 0.8 per cent, while price growth is considerably higher.** In this scenario, we assume more persistent disruptions to energy supply, including an oil price of USD 120 per barrel over the next six months.

The fiscal position is expected to remain tight over the next few years. **This year, the budget deficit rises to 4.3 per cent of GDP, driven by higher defence spending and changes to income tax. Next year, the deficit increases further to 4.9 per cent** as defence spending rises again and general government investment reaches a peak: strong absorption of external funds continues

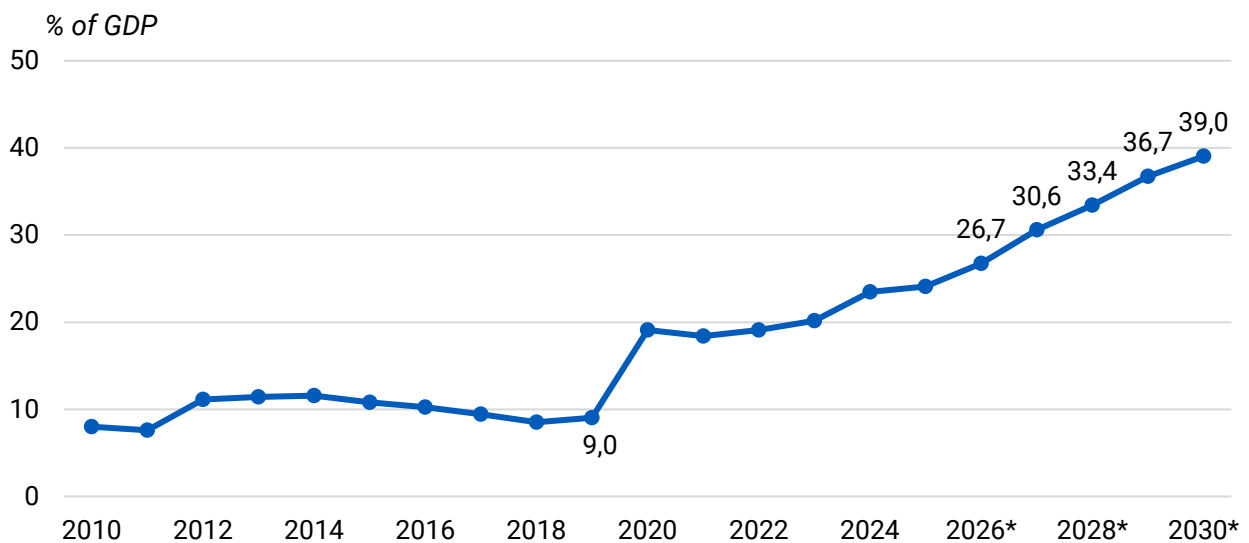
and construction of Rail Baltica proceeds at full scale. Thereafter, the deficit is projected to narrow gradually, reaching 3.7 per cent of GDP by 2030.

The general government debt ratio will rise to 26.7 per cent of GDP in 2026. This reflects the growing deficit and the higher interest rate on debt. Central government interest expenditure will amount to EUR 245 million, somewhat higher than projected in the autumn. In the following years, borrowing will also increase the debt ratio by an average of three percentage points per year. As a result, debt will reach 39 per cent of GDP by 2030.

**Figure 1. General government nominal budget position, % of GDP1**



**Figure 2. General government debt ratio, % of GDP2**



# 1 MACROECONOMIC FORECAST

## 1.1 Economic activity and supply

*The economy is expected to return to more solid growth this year, although the recovery is likely to be constrained by higher energy prices and increased uncertainty arising from the conflict in the Middle East.*

**Real GDP is projected to grow by 2.3 per cent in 2026 and by 2.5 per cent in 2027. Business investment is expected to be supported by recovering external demand, some easing in input cost growth and interest rates that are lower than in recent years. Firms' willingness to recruit remains below its usual level. The recovery is also likely to be constrained by higher energy prices and greater uncertainty stemming from the conflict in the Middle East.**

Industrial output is expected to increase moderately this year and next. In 2025, manufacturing output rose slightly from a year earlier. By the end of 2025, manufacturing output remained around 5 per cent below its 2021 level, while export turnover was about 20 per cent higher. In recent years, producer prices in Estonian manufacturing have risen faster than in several key export markets, suggesting some deterioration in cost competitiveness. Manufacturing investment has declined in recent years, but is expected to strengthen as demand conditions improve.

In the second half of 2025, building permits were issued for a total floor area around 16 per cent larger than a year earlier for residential and non-residential buildings combined. This suggests construction activity may strengthen in the coming quarters. General government investment is also expected to support activity.

**The services sector is likely to continue accounting for a relatively large share of the economy in the coming years.** In Estonia, the information and communication sector accounts for one of the largest shares of GDP in the

European Union. Within that sector, programming is the largest activity, accounting for around 72 per cent of the sector's net value added in 2025. Confidence in programming was weaker than usual in 2025, but improved over the course of the year.

Confidence in land transport also improved in 2025, and producer price growth accelerated over the year. Together, these indicators suggest that demand conditions may have improved somewhat. At the start of the first quarter of 2026, however, firms still identified weak demand as the main constraint on activity. At the same time, the share of firms citing weak demand has fallen slightly in recent quarters, while the share citing labour shortages or other constraints has increased. **The share of transport and storage in the economy has declined and is expected to remain relatively small in the coming years. In the near term, the sector also faces pressure from higher fuel prices linked to the conflict in the Middle East.**

**Sales in accommodation and food services, as well as in retail, are expected to improve this year, reflecting a somewhat better economic environment and changes to the income tax system.** In December 2025, the number of accommodated tourists exceeded its December 2019 level for both domestic and foreign visitors. Retail turnover has increased since autumn 2024 after an earlier decline, although the increase in volumes is smaller once price growth is taken into account.

## 1.2 Domestic demand

*Consumer confidence has improved, but spending remains cautious. Households' disposable income is projected to rise significantly in 2026, although inflation may pick up again. Additional sources of uncertainty could weaken the tentative recovery in investment.*

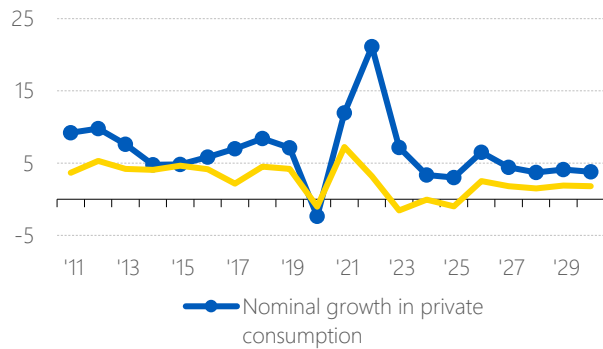
Over the past two years, the volume of private consumption in Estonia has been broadly unchanged. Forced saving during the pandemic, withdrawals from the second pension pillar and the sharp rise in energy prices led to large swings in private consumption between 2020 and 2023. Following the decline in 2023, the volume of private consumption was unchanged in both 2024 and 2025. In 2024, average wage growth eased somewhat, but price growth slowed by much more, despite the increase in VAT. Because consumer confidence remained weak, households increased saving and private consumption did not grow even though households had the capacity to spend more. In 2025, employment declined and the income tax rate increased, so disposable labour income did not rise, while consumer prices increased by 4.8 per cent. Social transfers supported overall household income, but private consumption again remained at the previous year's level. Overall, private consumption in 2025 was almost 8 per cent above its 2019 level, while the population was 3.4 per cent larger.

The introduction of the motor vehicle tax was one factor behind weak private consumption in 2025. The initial forecast assumed that vehicle purchases would stabilise within a year at a somewhat lower level than before the tax was introduced. That did not happen. First, the increase in income tax had not been anticipated when the tax was designed, and this removed growth in disposable labour income. Second, the behavioural response to taxing cars was

**underestimated, even though for most vehicles the registration fee remained below 5 per cent of market value. Third, there was speculation during the year that the motor vehicle tax might be abolished after the next parliamentary elections. Taken together, these factors prevented the car market from stabilising in 2025.**

Private consumption is projected to return to solid growth in 2026. The income tax reform will provide a substantial boost to households' disposable income: a person earning the average wage would receive almost 10 per cent more take-home pay than in 2025 even without any increase in gross pay. This will be accompanied by forecast wage growth of 5 per cent. The gains from the reform will, however, vary across income groups. At a monthly wage of EUR 1,500, the gain from the tax change is 4.7 per cent, compared with 1 per cent at EUR 1,200. Labour market conditions are also expected to improve over the year and employment should begin to rise. The conflict in the Middle East remains a risk to growth in households' purchasing power. Based on the crude oil price assumptions used in the forecast, inflation is projected to remain around 4 per cent in 2026. Although consumer confidence has improved over the past six months, the new war, the uncertainty it has created and faster price growth are likely to restrain consumption. Under the forecast, private consumption growth in 2026 remains below growth in households' purchasing power, although the two are expected to move more closely together thereafter.

**Figure 3. Nominal and real growth in private consumption (%)<sup>3</sup>**



Business investment has been subdued in recent years, although this has been partly offset by the general government sector. Business investment declined for four consecutive years, although the fall came to an end at the close of 2025. The weak level of investment reflects subdued economic conditions, with existing industrial capacity largely sufficient and construction volumes low. Even so, investment in computing equipment and intellectual property has increased. In 2025, business investment in transport equipment fell

by one third, largely reflecting the motor vehicle tax. Housing investment by households recovered last year, supported by lower borrowing rates, and activity in the housing market is on an upward trend. Strong growth in general government investment in 2025 was driven by defence-related spending.

**Over the next few years, investment growth is expected to be driven mainly by the general government sector, reflecting expenditure on defence and Rail Baltica.** A gradually improving economic environment has also created more favourable conditions for faster growth in private sector investment. However, the sharp rise in oil prices in recent weeks, together with related uncertainty and the possibility of higher interest rates, has again clouded the outlook. This means that the external environment may prove weaker than assumed in the baseline forecast, reducing the need for investment. Under the forecast, investment rises in all sectors, but most rapidly in the general government sector in 2026 and 2027.

### 1.3 Exports

*Estonia's export market share increased again in 2025. Against a backdrop of heightened external risks, export growth is expected to moderate this year.*

**In 2025, world trade recorded its fastest growth in recent years**, rising by 4.2 per cent. This reflected a broader recovery in global trade and stronger shipments to the United States ahead of the introduction of tariffs. After tariffs took effect, US import volumes declined, although this was partly offset by firmer trade among Asian economies. Trade in the EU27 also picked up, driven at the end of the year by stronger goods imports, which rose by 5 per cent.

**After two years of decline, during** which Estonia's export volumes fell by almost one tenth, **exports returned to growth in 2025, supported by recovering external** demand. Exports of goods and services increased by 5 per cent, allowing Estonia to regain export market share after two weaker years. Exports of domestically produced goods also began to recover, although a significant share of the growth came from re-exports, that is, goods passing through Estonia.

**Growth in exports of goods of Estonian origin became more broad-based, although it remained modest in most product groups. Exports of wood** and wood products, prefabricated wooden houses, food products, particularly dairy products, and components for machinery and equipment recorded the strongest increases. Growth in re-exports was driven mainly by higher shipments of passenger cars to Latvia and Lithuania, food products, and stronger gas flows between Finland and Latvia.

By destination market, exports of goods of Estonian origin increased most rapidly to Poland, particularly machinery and equipment components and wood products, and to Singapore, mainly shale oil. Exports to traditional markets such as Sweden and Germany returned

to growth. Export growth to Germany was broad-based, while in Sweden it was concentrated largely in telecommunications equipment, reflecting the redirection of exports after US tariffs took effect. Shipments to Finland remained in decline because of weak conditions there. At a time when Nordic markets were still relatively weak and shipments to the United States had fallen after tariffs were introduced, exporting firms found growth opportunities in Central European markets.

The recovery in services exports was strong last year, driven by business services, which increased by 6 per cent. Sales of business services to non-residents rose by one fifth, including business support, consultancy and advertising services. Export revenue also increased from processing services and higher-value-added IT services. Exports of transport services declined for the third consecutive year. In road transport, the growing share of foreign carriers is notable and probably points to weakening competitiveness in the sector.

At the start of the year, forward-looking indicators pointed to a strengthening in the euro area's outlook, and the manufacturing PMI reached its highest level in recent **years, supported by new orders. The March composite PMI, which also captured the first effects of the conflict in the Middle East**, fell to a 10-month low as input prices rose rapidly, delivery times lengthened and the outlook for services weakened.

**Geopolitical developments in the Middle East affect the global economy more broadly** by increasing uncertainty and the downside risks surrounding further developments. The consequences of the Persian Gulf crisis are only

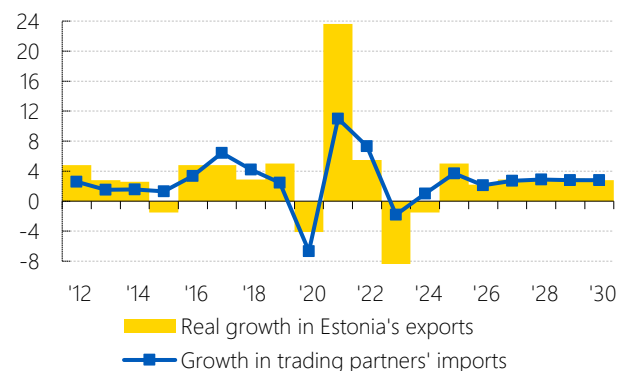
beginning to emerge. Expectations for economic growth and import demand in the euro area and among major trading partners are lower than in previous forecasts. In the baseline forecast, external demand growth slows to 2.1 per cent in 2026 before accelerating to 2.7 per cent in 2027. Although the energy crisis restrains external demand this year, rising defence spending will begin to make a clearer contribution to trading partners' imports.

Last year confirmed the historical relationship that a recovery in import demand is sufficient to return Estonia's exports to a growth path of at least the same magnitude. At the beginning of the year, Estonian exports are affected by a base effect resulting from the surge in trade with the United States before tariffs were **introduced a year earlier**. Taking into account the more **subdued growth in external demand resulting from developments in the Middle East**, Estonia's **export growth slows** to 2.2 per cent in 2026. Assuming the energy crisis eases, 2027 will bring a recovery in growth in external markets and export growth will accelerate to 2.9 per cent, slightly exceeding the import demand of trading partners.

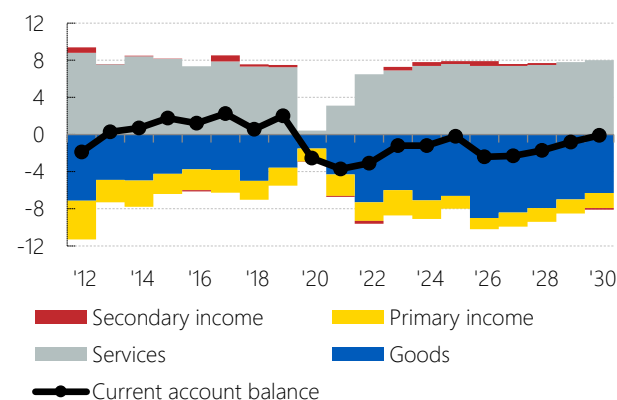
**The current account deficit last year was the smallest in recent years**, at 0.2 per cent of GDP. The recovery in exports and a decline in investment income earned in Estonia by non-residents supported the improvement in the external balance. Large defence investments and

rising investment activity in the general government sector will widen the current account deficit in the near term. Export-led economic growth and a more modest volume of external funds will result in the deficit narrowing again by the end of the forecast period.

**Figure 4. Export developments (%)**<sup>4</sup>



**Figure 5. Structure of the current account (% of GDP)**<sup>5</sup>



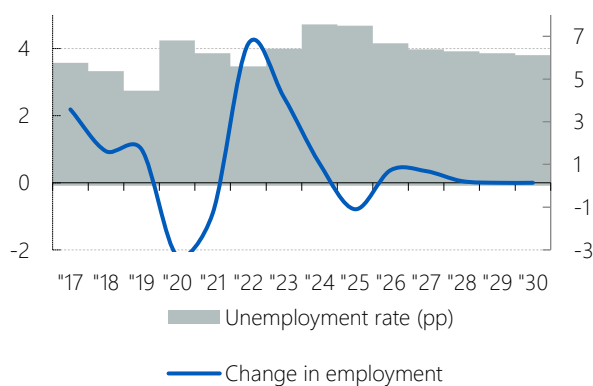
## 1.4 Labour market and wages

*Labour market conditions are improving gradually, and hiring intentions in the private sector have strengthened. The introduction of a flat tax-free allowance is expected to ease wage pressures.*

Labour market conditions are improving gradually. Despite the economy returning to a modest growth path, employment continued to decline moderately in 2025. Firms have learned from the previous crisis not to dismiss workers lightly, because once a new growth cycle begins it may prove difficult to recruit labour. This caution has softened the effect on the labour market, and the unemployment rate is already close to Estonia's estimated natural rate, at around 6 per cent.

Employment is not yet increasing overall. Even so, several sectors are showing positive signs. The number of workers increased last year in several service activities, including retail and wholesale trade and professional, scientific and technical services. Employment has also risen in construction, although it remains a couple of thousand below its 2022 peak. In industry, the decline in employment has broadly come to a halt.

**Figure 6. Labour market developments (%)<sup>6</sup>**

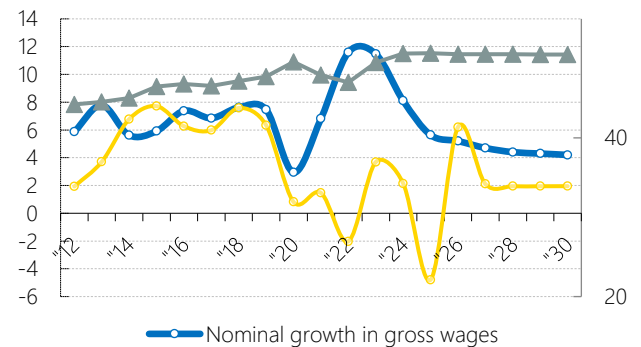


The private sector has positive expectations for employment growth. Taken as a whole, it did not increase the number of jobs last year. Even so, the improvement in firms' expectations suggests that additional workers will be hired as the recovery becomes more established this year. Rapid employment growth is unlikely, however, because

labour force participation is already high and labour supply, particularly skilled labour, is limited, placing a natural ceiling on growth (see Figure 6).

Wage growth is slowing. Whereas nominal wages increased by more than 11 per cent a year in 2022 and 2023 because of inflationary pressures, growth was 5.6 per cent in 2025 and is expected to slow to around 4 per cent by the end of the forecast period (see Figure 7). Whereas growth in 2023 and 2024 was led by the public sector, wage growth in 2025 was driven by the private sector. Public sector wage growth has weakened because of budget cuts and the low increases provided for in the healthcare wage agreement. In 2026, wage growth is expected to slow to 5.2 per cent, reflecting both lower inflation and changes to income taxation.

**Figure 7. Wage developments (%)<sup>7</sup>**



The purchasing power of wages is recovering only gradually. Although gross wages in 2025 were slightly more than 50 per cent higher than before the coronavirus crisis, the purchasing power of wage income has not increased to the same extent. The purchasing power of wage income is affected by both price growth and the taxation of income. Although gross wages rose by 5.6 per cent in 2025, their purchasing power fell by 2.7 per cent, reflecting both higher prices and the

increase in the income tax rate. In 2026, the introduction of a flat tax-free allowance will materially change the path of disposable income. The purchasing power of the average wage earner is expected to increase significantly and return to its 2021 level (see Figure 8). From the perspective of wage income per employee, however, the picture is less favourable: the purchasing power of disposable wage income per employee is not expected to return to its 2021 level until 2027 or 2028. This reflects the fact that the effect of the tax-free allowance is limited for low-wage earners and that the number of employees is also higher than in 2021.

The share of labour costs in the economy remains high. Several factors lie behind this: the economy's shift towards services, income convergence with richer neighbouring countries and wage pressure arising from labour shortages.

## 1.5 Consumer prices

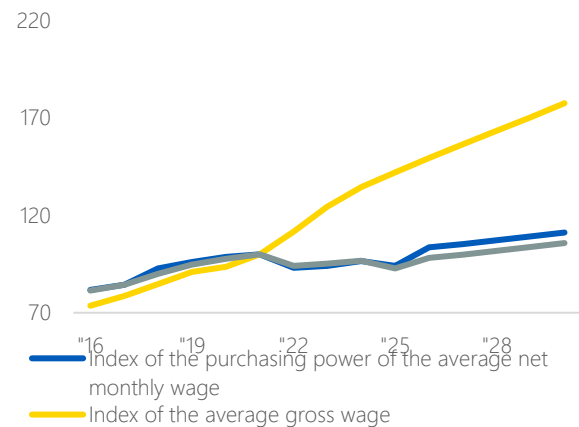
*The conflict in the Middle East has led to a sharp increase in fuel and gas prices. Inflation is expected to ease from 2027 onwards.*

Inflation accelerated in the first half of last year, peaking at around 6 per cent in the summer. Price growth began to ease in the autumn and continued to slow at the start of 2026. In February, before the conflict in the Middle East intensified, consumer price inflation slowed to 3.1 per cent, its lowest rate in the preceding 18 months.

**Higher food commodity prices in foreign markets, rising prices for leisure services and additional tax measures kept inflation elevated last year. Inflation** was moderated by lower energy prices and the strengthening of the euro against the dollar. Owing to higher renewable energy output and restored access to cheaper Nordic electricity, the wholesale electricity price was the lowest in recent years, allowing suppliers to offer cheaper electricity to households. Oil

The private sector is trying to keep growth in employees' incomes above inflation in order to retain workers, which is likely to be one of the main reasons why wage growth has not slowed more sharply.

**Figure 8. Purchasing power of net wages (2021=100)8**



prices were on a downward trend because of excess supply from OPEC+ countries and uncertainty created by US tariffs, a trend reinforced by a price war among filling stations that began in the autumn.

Food price inflation was broad-based and driven mainly by higher import prices. The largest increases were recorded for non-alcoholic beverages such as juices and coffee, as well as for sweeteners and fruit. Commodity prices turned down in the second half of the year, which also supported a moderation in domestic food price growth. Among the main food commodities, dairy prices fell the most from their summer peak because of higher output and rising inventories, and this was partly reflected in retail prices. Although food prices rose by 7 per cent last year, retailers did not derive additional income from

this. Business statistics point in the same direction: retail chains' profits declined last year and margins were below the average of recent years. Given consumers' price sensitivity and the decline in the purchasing power of wage income, retail chains had to offer more promotions to attract customers.

**The increase in core inflation reflected higher service prices.** The update of the price list for medical services had a noticeable effect on consumer prices. Major summer events and volatile weather pushed up travel service prices. By contrast, price growth for industrial goods was modest, at around 1 per cent. The largest offset came from lower prices for clothing and footwear.

Tax measures introduced to strengthen the fiscal position and finance higher security spending also affected inflation last year. This year, the **contribution of tax measures to price growth will diminish as** the effects of the motor vehicle tax and the higher VAT rate drop out of the annual comparison.

Consumer prices are projected to rise by 4 per cent in 2026. Although the intensification of the conflict in the Middle East will make energy more expensive, slower price growth in food and services, together with the waning effect of administrative measures, is expected to allow inflation to moderate.

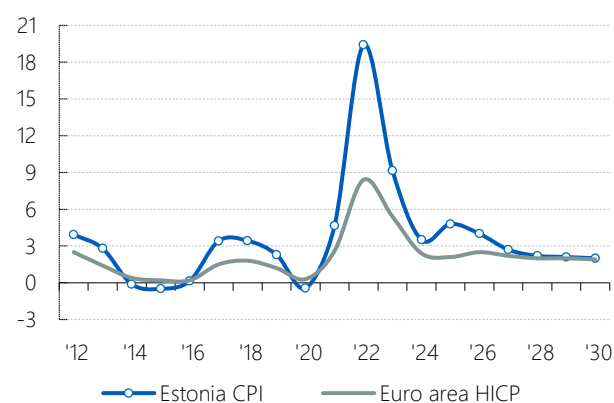
**The effects of the conflict will first be seen in higher fuel prices and will feed through to gas prices with a lag of a couple of months.** Uncertainty around further developments remains high. The longer the Strait of Hormuz remains closed, the more fully higher fuel prices are likely to pass through to other parts of the economy, including transport, agriculture and some branches of industry. Given the substantial price increases seen during the previous energy

crisis, the forecast assumes that firms will pass higher costs through to final prices.

Among other energy carriers, the wholesale electricity price will also be somewhat higher this year, which, together with additional charges, will raise household electricity bills. Food price growth is expected to slow this year, supported by the decline in commodity prices from last year's peak. Core inflation, which reflects price changes in services and industrial goods, is expected to ease as past price increases drop out of the annual comparison. At the same time, the income tax reform will support the economy by allowing households to increase consumption and enabling retailers to rebuild margins. The indirect effects of the energy shock will also feed through into prices over the course of this year.

**Inflation is projected to slow to 2.7 per cent in 2027 and 2.2 per cent in 2028.** Energy prices affected by the conflict in the Middle East are expected to stabilise at a lower level. In 2027, stronger economic activity will contribute to core inflation, while in subsequent years core inflation is expected to slow in line with more moderate wage growth.

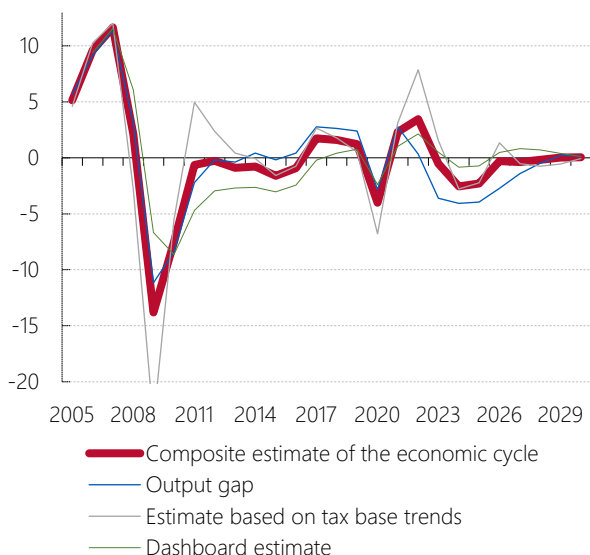
**Figure 9. Price dynamics (%)<sup>9</sup>**



## 1.6 Economic growth potential and the assessment of the economic cycle

The adverse effect of economic conditions on the budget is receding. This assessment is based on the Ministry of Finance's revised methodology for estimating the cyclical impact on the budget (see Annex 2 for more detail), which moves close to balance this year (see Figure 10). Whereas in 2022 to 2024 the economy operated below its potential level, the recovery in growth helps to close the negative output gap, which is also reflected in warmer tones in the indicators underlying the dashboard. In addition, the consumption components that underpin tax receipts, namely private consumption and general government consumption, are expected to grow above trend this year. This implies that the adverse effect of the economic structure on the budget position will diminish significantly this year. The combined assessment of the economic cycle remains close to balance throughout the forecast period.

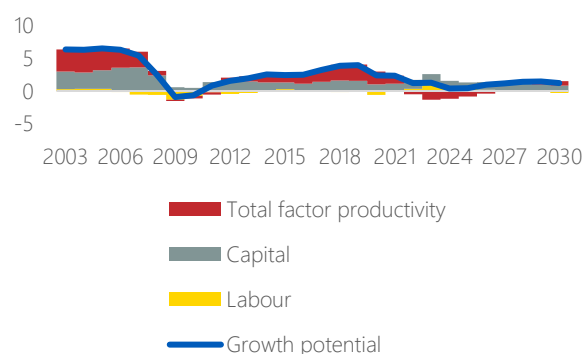
**Figure 10. Composite estimate of the economic cycle and its components (% of GDP)<sup>10</sup>**



The economy's long-term growth potential has weakened. Whereas annual growth of around 6 per cent was considered feasible for Estonia before the financial crisis, and around 3 per cent before the coronavirus crisis, current estimates

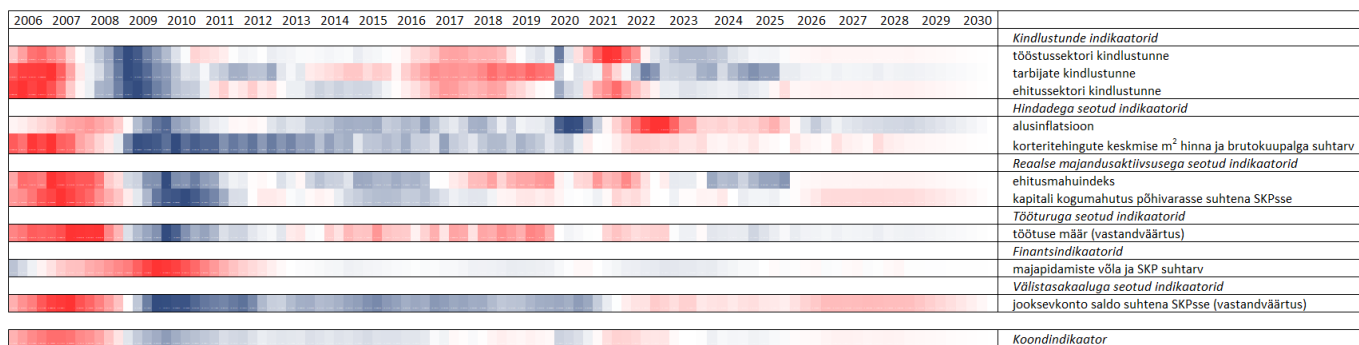
are in the range of 1 to 2 per cent (see Figure 11). This implies that, as the economy catches up with richer countries, the pace of convergence is also slowing. In addition, the economy has been hit hard by recent crises. In technical terms, this is reflected in a smaller contribution from productivity to economic growth. In substantive terms, it reflects disrupted supply chains, a sharply higher price level and a changed security environment. Labour's contribution is also expected to remain modest because of an ageing population, while private sector pessimism is holding back capital investment.

**Figure 11. Contributions to economic growth potential (%)<sup>11</sup>**



**The Ministry of Finance's composite indicator for the Estonian economy, referred to as the economic dashboard, suggests that economic conditions improved in the fourth quarter of 2025, moving from slightly negative territory to a position close to balance. Compared with the third quarter, several dashboard indicators pointed to firmer conditions, including confidence indicators, gross fixed capital formation as a share of GDP and the unemployment rate. In the fourth quarter, price indicators also moved closer to their equilibrium levels. According to the dashboard-based assessment, the economy is expected to strengthen this year and next while remaining broadly close to **balance** (see Figure 12).**

**Figure 12. Dashboard of the Estonian economy12**



Source: calculations and compilation by the Ministry of Finance; data sources: Eesti Pank, European Commission, Eurostat, Land and Spatial Development Board, transaction database, Statistics Estonia, Ministry of Finance forecast

## 2 FISCAL FORECAST

### 2.1 GENERAL GOVERNMENT BUDGET POSITION

*Compared with the budget, both tax revenue and investment expenditure are higher this year, together resulting in a slightly smaller deficit than projected in the budget. In subsequent years, expenditure rises faster than revenue, pushing the deficit above the level set in the budget strategy.*

**Last year, the budget deficit amounted to 1.2 per cent of GDP, in line with the latest fiscal forecast. This year, the deficit rises to 4.3 per cent of GDP, slightly less than projected in the budget. The increase reflects** both the sharp rise in defence spending and changes to income taxation, including the increase in the tax-free allowance, which raises household income but reduces tax receipts for the state. In addition, general government investment reaches a peak this year: alongside defence investment, construction of Rail Baltica is proceeding at full scale with the support of external funds.

Compared with the adopted budget, the forecast shows higher tax revenue, mainly because of stronger receipts from corporate income tax and VAT. At the same time, spending on investment and interest expenditure also increases. The forecast does not yet take into account the decision of the Government of the Republic, not yet enacted in legislation, to cancel the increase in fuel excise duty from May of this year.

The increase in the deficit above the 3 per cent threshold is possible because of the escape clause for defence spending, which temporarily allows a higher deficit, in effect up to 4.5 per cent of GDP. This is a temporary exception, after which the previous fiscal rules are to be reinstated from 2030.

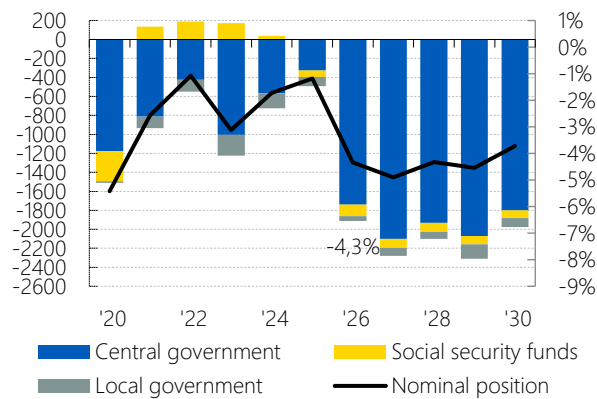
**The deficit is projected to rise further next year to 4.9 per cent of GDP and to remain deeper than the level set in the budget strategy in subsequent**

**years. Growth in tax** revenue slows and no longer covers expenditure growth. Compared with the budget strategy, the negative contribution from the other levels of general government also increases.

Growth in the debt ratio accelerates as the deficit increases. Whereas last year it rose by less than one percentage point, debt will grow more quickly from this year onward. Interest expenditure will rise with it and will be higher over the forecast period than in previous estimates. Every additional euro borrowed creates a permanent future cost and reduces fiscal flexibility.

General government comprises central government, social security funds and local governments. A more detailed breakdown of the revenues and expenditures of these levels is set out in the chapters below, but the overall picture is clear: the smaller deficit recorded last year is replaced this year by deliberate spending growth and a larger deficit, the effects of which carry through into the debt ratio and interest expenditure.

**Figure 13. Nominal budget position (% of GDP)<sup>13</sup>**



Source: Statistics Estonia, Ministry of Finance

**The social security funds** sector comprises the Health Insurance Fund and the Estonian **Unemployment** Insurance Fund. The Health Insurance Fund's initial budget for 2025 envisaged a deficit of EUR 168 million. Social tax receipts exceeded that expectation slightly, and several expenditure lines for healthcare services were also somewhat lower than budgeted. As a result, the year ended with a deficit of nearly EUR 88 million.

We expect a deficit of a similar order of magnitude both this year and in subsequent years, at around EUR 90 million in most years, equivalent to about 3 to 4 per cent of expenditure. As a result of efficiency measures, the Health Insurance Fund has set itself the objective of keeping expenditure growth in line with projected revenue growth. That is a step towards balance, but it is not enough to eliminate the deficit entirely. That would require far more substantial expenditure cuts. Compared with the previous forecast, we have reduced the projected inflow of social tax slightly, so the financial position is somewhat weaker than in the latest state budget strategy. Expenditure growth is expected to be contained through a review of service pricing and stricter assessment of additional higher-cost services.

The financial sustainability of the Health Insurance Fund is currently stronger than earlier forecasts suggested. **The deficit is significant,**

**but reserves are not exhausted during the forecast period.** Even so, undistributed earnings would not be sufficient to continue on this path until the end of 2030. The assessment uses the Health Insurance Fund's 2026 budget, the updated four-year financial plan prepared by the Fund on the basis of last summer's forecast, the Social Insurance Board's forecast of the state budget transfer, and the current forecast for social tax receipts. For 2030, expenditure growth is assumed to continue at the pace projected for 2029.

**The** Unemployment Insurance Fund's financial position has been stable over the past four years. In 2022 to 2024, the surplus was in the range of EUR 20 million to EUR 30 million, which kept reserves stable relative to expenditure. The final outturn for 2025 was a surplus of EUR 19 million. Although this broadly continued the stability of previous years, the result exceeded expectations. Expenditure on labour market services was lower than forecast, as were, to a lesser extent, the Fund's own operating costs.

**In 2026, the Unemployment Insurance Fund's position is affected by** the reform of unemployment assistance, under which the previous state benefit is replaced by - unemployment insurance benefit at the base rate, financed from unemployment insurance funds. The overall cost of the new system is lower and improves the aggregate position of general government, but because the expenditure shifts from central government to the Unemployment Insurance Fund, the Fund records a deficit of around EUR 7 million. This is a temporary situation: in the following years the surplus returns and reserves increase over four years from EUR 600 million to EUR 690 million. The ratio of reserves to annual expenditure remains stable or increases slightly. The assessment uses the Fund's expenditure forecast based on the assumptions of the current forecast, together

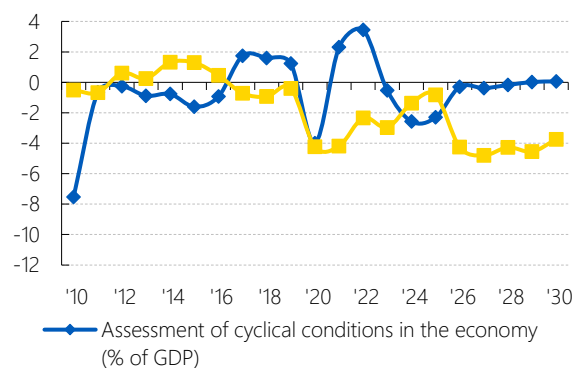
with the current forecast of unemployment insurance contribution receipts.

**The local government** budget deficit, which ranged from 0.23 to 0.39 per cent of GDP in 2021 to 2024, fell to 0.15 per cent of GDP in 2025. For 2026 to 2030, we also **assume that the local government deficit will remain at around 0.2 per cent of GDP on average. On the one hand, the increase in the deficit is constrained by local governments' reduced capacity to take on new obligations. On the other hand, investment is supported by rising external assistance and revenue from CO2 allowances.**

**Last year, the structural budget position of general government** showed a deficit of 0.8 per cent of GDP, but this will widen to 4.2 per cent this year. Whereas in the past two years economic conditions had a negative effect on the budget, in this year and the following years that effect is close to zero. This is because the general economic environment is supportive of strong tax receipts. It reflects labour market conditions close to balance, price growth above trend and faster private consumption. This means that this

year's deterioration in the nominal budget position is of a permanent nature. The structural position is calculated by removing the effect of the economic cycle and one-off factors from the nominal deficit. There are no one-off or temporary factors in the current forecast period. The assessment of the economic cycle is described in Section 1.6 and the methodological change in Annex 2.

**Figure 14. Structural budget position and the assessment of cyclical conditions in the economy (% of GDP)<sup>14</sup>**



Source: Statistics Estonia, Ministry of Finance

## 2.2 FORECAST OF GENERAL GOVERNMENT REVENUE

The share of government revenue in the economy is declining towards the level seen at the beginning of the decade. Revenue growth in the second half of the decade is projected to be around four times slower than in the first half, when several tax increases took effect.

**In 2026, general government revenue grows by 2.2 per cent and declines to 42.4 per cent of GDP compared with 2025. Receipts from direct taxes fall compared with 2025.** Personal income tax is affected by the introduction of a uniform tax-free allowance for the working-age population that is independent of income. Corporate income tax is no longer boosted by the exceptional receipts associated with the rise in the tax rate. At the same time, the effect of the VAT rate increase is visible throughout the year and several excise duty increases take effect.

**By the end of the forecast period, the revenue ratio falls below 40 per cent of GDP.** General government consumption affecting VAT slows, investment declines, and revenue from the sale of emissions allowances falls. By 2030, external support will also have declined significantly, because investments financed from the current EU budget period for 2021 to 2027 will by then have been completed, while investments financed from the next budget period, 2028 to 2034, will

not gather pace until the middle of that period, by 2031.

Revenue grew by an average of 10.9 per cent a year in 2020 to 2025, but in 2026 to 2030 it is projected to grow by an average of 2.9 per cent a year, around four times more slowly, because of the introduction of the uniform tax-free allowance and the absence of major tax increases.

More detailed data on general government revenue and expenditure are presented in Annex 4, Table table 13. general government budget revenue and expenditure and forecast for 2026-203013.

**The state budget accounts for the largest share of general government revenue.** This year, state budget revenue is projected to grow by 2.5 per cent compared with last year, reaching EUR 18.6 billion. Growth is moderated by the introduction of a uniform tax-free allowance for the working-age population. More detailed data are presented in Annex 4, Table 16.

**Table 2. Development of state budget revenue in 2024-2030 (EUR million)<sup>2</sup>**

	2024	2025	2026	2027	2028	2029	2030
Taxes and social contributions	13 976	15 493	15 909	16 624	17 441	18 133	18 877
Non-tax revenue	2 310	2 706	2 740	2 209	2 174	2 207	1 605
<b>Total revenue</b>	<b>16 286</b>	<b>18 199</b>	<b>18 649</b>	<b>18 833</b>	<b>19 615</b>	<b>20 340</b>	<b>20 483</b>
Revenue growth	8,2%	11,7%	2,5%	1,0%	4,2%	3,7%	0,7%

Source: Ministry of Finance

### 2.2.1 Forecast of state budget tax revenue

The income tax changes introduced during the forecast period, together with the absence of major tax increases, are expected to slow revenue growth significantly compared with the beginning of the decade.

The ratio of social tax to GDP remains unchanged over the forecast period. Social tax receipts are projected at EUR 5.42 billion in 2026, slightly below the budget forecast, mainly because of slower employment growth. This year, economic growth gathers pace, wage growth remains moderate and the number of jobs returns to growth. Thereafter, employment is broadly stable and growth in social tax revenue is increasingly determined by slower wage growth.

The ratio of the average old-age pension to the average wage remains slightly above 39 per cent in 2026 to 2030. The ratio of the average net old-age pension to the disposable income, however, falls this year to 45 per cent with the introduction of the uniform tax-free allowance for the working-age population and reaches around 44 per cent by the end of the forecast period.

**Figure 15. Ratio of the average net old-age pension to the average net wage (%)<sup>15</sup>**



**Personal income tax receipts accruing to the state budget return to growth after the introduction this year of a uniform tax-free allowance for the working-age population and its renewed use during the year.** State budget personal income tax receipts are projected at EUR 677 million in 2026, around EUR 60 million above the budget forecast. In addition to the tax change itself, receipts are also affected by the way people claim the tax-free allowance. Until now, many people have not claimed the allowance during the year and have instead received a refund the following spring. Because the allowance no longer depends on income, the forecast assumes

that people will again begin to use it on an ongoing basis. In 2026, the ratio of receipts to GDP falls and then begins to rise again from 2028 onwards, as the allowance remains unchanged while wage and pension growth broadens the tax base.

Local government income tax receipts also increase, but for different reasons. By 2027, the share of income tax collected on pensions is projected to rise to 16 per cent of the income tax accruing to local governments, because the allocation rate on pensions is raised to 10.23 per cent, while the rate on other income is reduced to the same level. For 2026, local government income tax receipts are projected at EUR 2.075 billion, slightly above the budget forecast because of faster growth in income received from abroad. The ratio of receipts to GDP remains broadly unchanged over the forecast period, and from this year onward local government income tax once again accounts for more than 70 per cent of total personal income tax.

Corporate income tax is determined primarily by the volume of distributed profits. Under the forecast, the ratio of distributed profits to GDP falls back to the average level seen in 2021 to 2023. Receipts in 2026 are projected at EUR 948 million, more than EUR 100 million above the budget forecast. The main reason for the high receipts in 2024 was banks' distributed profits, which accounted for around one quarter of total corporate income tax. The start of 2025 was, in turn, affected by record profit distribution in December 2024 ahead of the rise in the tax rate and the abolition of the lower rate on regularly distributed profits; the tax was paid in January. The forecast assumes that this one-off, exceptionally large distribution of profits ahead of the tax increase will reduce dividend payouts in subsequent years. In practice, 2025 receipts significantly exceeded the forecast prepared last summer. In addition, banks' net interest income in the second half of 2025 was higher than expected

and the Euribor forecast was also revised upwards; both factors had a positive effect on the forecast for advance corporate income tax receipts from credit institutions. In 2026, the ratio of corporate income tax receipts to GDP falls back to roughly its 2023 level and then remains there.

**Growth in VAT receipts in 2026 is supported by the introduction of the uniform tax-free allowance, improving consumer confidence and higher general government expenditure.** As inflation slows, nominal private consumption increasingly reflects higher volumes rather than higher prices, which characterised recent years. This means that growth in VAT receipts is also increasingly driven by an expansion in real consumption. Estonia's VAT-to-GDP ratio is high by European Union standards, pointing to the state budget's significant dependence on VAT.

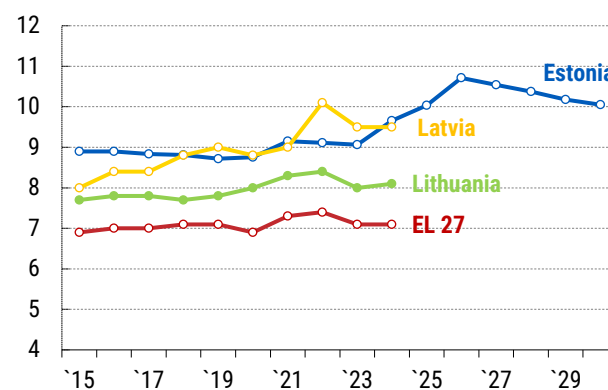
VAT receipts are projected at EUR 4.72 billion in 2026. Compared with the budget forecast, the estimate in the spring forecast has been revised upwards, mainly because of a better outlook for final consumption by general government, including higher defence spending. At the start of the year, VAT payments were temporarily affected by developments in the energy sector, where an exceptionally cold winter month and a high wholesale electricity price increased the VAT collected on the sale of electricity and heat. Because VAT is paid on final consumption, the effect of such price changes on total receipts is relatively short-lived and does not raise them in the long term, as households adjust their consumption.

VAT receipts are also affected by the size of the shadow economy and the tax behaviour of firms. The forecast assumes that the VAT gap remains at around 2 per cent of VAT revenue in 2026 to 2030 and that corporate VAT arrears remain stable. Consumer confidence has improved gradually since the second half of 2025, but

remains well below the level seen before the COVID-19 crisis. According to the European Commission's barometer, Estonian consumers remain among the most pessimistic in Europe, which has held back private consumption growth. At the same time, several indicators reflecting consumption, especially the growth of cross-border e-commerce and VAT payments under OSS<sup>1</sup> and IOSS, have pointed to rising consumption. Cross-border e-commerce has, however, increased structural pressure on Estonian retail trade and reduced the turnover of local merchants. Growth in deposits held by better-off households points to continued high saving.

Over the forecast period, VAT payments grow by an average of 5.1 per cent a year. The share of VAT revenue in GDP peaks in 2026 at 10.7 per cent and then gradually declines as nominal GDP growth outpaces VAT revenue growth. This is due mainly to slower growth in general government expenditure and a decline in investment compared with 2026.

**Figure 16. VAT revenue as a share of GDP (%) in Estonia and the EU16**



The main risks to the forecast are linked primarily to possible changes in consumer confidence. A worsening of geopolitical tensions could weaken private consumption, while a greater use of savings for consumption could increase receipts. Oil and other commodity price fluctuations, the timing of defence procurement and the actual size of the shadow economy could also have an effect.

**Excise duty receipts increase in both 2026 and 2027, mainly because of higher excise rates.** Total excise revenue is projected at EUR 1.15 billion in 2026 and EUR 1.22 billion in 2027, an increase of 5.8 per cent.

**Alcohol excise duty receipts increase as a result of higher rates.** The excise rate rose by 5 per cent from the beginning of 2025, by 10 per cent in 2026, and increases continue in 5 per cent steps in 2027 and 2028. Consumption is affected by general inflation, higher alcohol prices and weaker purchasing power; over the longer term there is a visible shift in consumption towards lower-strength beverages, which remain relatively more affordable for consumers. In 2025, declared quantities of spirits fell by 2.5 per cent, but after adjusting for inventories we estimate the decline in volume at up to 3.8 per cent. For beer, declared quantities fell by 4.7 per cent, while quantities of beer taxed at the reduced rate, such as so-called craft beer, increased by 3.2 per cent. We expect a similar trend to continue this year. No major change in cross-border shopping is apparent this year, but because excise rates are rising faster in Estonia than in Latvia, the risk increases that part of consumption will shift across the border again.

**Tobacco excise duty receipts reflect a structural change in the market towards alternative products.** Declared cigarette quantities fell by 7.1 per cent in 2025 and the decline continues in 2026. At the beginning of 2026, the excise rate rose by 10 per cent and will continue to increase in 5 per cent steps in 2027 and 2028. Declarations of alternative tobacco products increased in 2025, including an 8.1 per cent increase in tobacco liquids, mainly e-cigarettes, a 16.9 per cent increase in tobacco-free nicotine substitutes, such as nicotine pouches, and a 22.1 per cent increase in heated tobacco products. Rapid growth in excise rates and prices has led to an expansion of the illicit market for both cigarettes and alternative products.

**Fuel excise duty receipts increase in the near term mainly because of the gradual rise in tax rates. Changes in volumes consumed are smaller, and for some fuels even negative. The forecast is subject to greater-than-usual uncertainty because of price volatility related to the conflict in the Middle East.** Fuel demand is influenced mainly by economic activity and fuel prices. Although stronger economic activity supports consumption growth, the price increase caused by the conflict in the Middle East limits it. The effect of higher prices on consumption depends above all on how long the period of elevated prices caused by the conflict lasts. Consumers may partly cushion a short-lived increase in prices by drawing on savings, but if the higher prices persist, lower consumption can also be expected.

**Whereas in 2025 cross-border shopping worked in Estonia's favour, particularly because of cheap diesel fuel, the outlook is uncertain under conditions of price volatility.** Since March 2026, diesel prices have been highly volatile, making it harder for lorries entering Estonia from abroad to plan the cheapest place to refuel. In addition, proposals have been made in Latvia to cut fuel excise duty temporarily, which could further alter price dynamics in the Baltic states. The risk is tilted towards the possibility that the benefits from cross-border shopping may temporarily diminish in the near term. Over a longer horizon, however, cross-border shopping should still work in Estonia's favour, because Estonia's diesel excise rate is lower than in Latvia and Lithuania.

It is also important to note that the increases in excise rates on energy carriers scheduled for 1 May 2026 are very likely not to take effect. The direct impact of such a change on excise revenue would be EUR 36 million in 2026 and EUR 21 million in 2027. Because the Ministry of Finance can base its forecast only on legislation currently in force, the baseline forecast does not take into account the possible cancellation of the excise

rate increase that is currently under consideration, although it is taken into account in the risk scenario.

**Projected revenue from the motor vehicle tax is EUR 167 million in 2026, of which EUR 82 million comes from the registration fee and EUR 85 million from the annual motor vehicle tax.** Whereas the annual motor vehicle tax is a relatively stable source of revenue because receipts depend on all taxable vehicles already in the register, the registration fee is much more uncertain because it depends only on current transaction activity. While in last summer's forecast the Ministry of Finance expected registration fee revenue of EUR 120 million in 2026, the expected receipts have been reduced to EUR 82 million because the recovery in vehicle sales has been slower than expected. The main reason for the slow recovery is consumers' uncertainty about whether the registration fee will remain in place, which leads them to postpone

purchase decisions in the hope that it may be repealed. Given that parliamentary elections are due in 2027, the probability of greater uncertainty surrounding the registration fee is considerable.

Because environmental requirements in the EU are becoming stricter, the registration fee is scheduled to increase in 2028 and 2031.

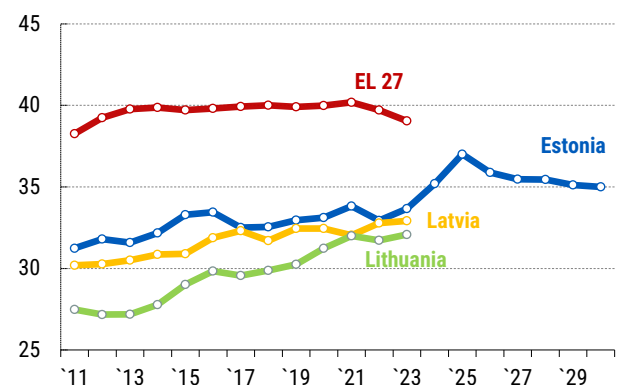
A legal amendment that entered into force in November 2025 provided for a refund of up to EUR 100 per child, including 18-year-olds, to vehicle owners with children. In addition, from 2026, M1-category vehicles with eight to nine seats are taxed at the N1-category rate. Because of these changes, the forecast for motor vehicle tax revenue was revised at the end of 2025. Under the new forecast, annual motor vehicle tax receipts were estimated at EUR 85 million. No change relative to the previous forecast is currently visible, so the expected receipts in the current spring forecast remain at the same level.

### 2.2.2 Tax burden and implicit tax rate

*The tax burden is projected to decline to 35 per cent of GDP by the end of the forecast period.*

**According to the forecast, Estonia's tax burden remains below 36 per cent of GDP and declines to 35 per cent of GDP by 2030.** Historically, Estonia's tax burden has been higher than in Latvia and Lithuania, but well below the European Union average. In making such comparisons, however, it should be borne in mind that Latvia and Lithuania are also likely to move towards higher taxation if defence spending remains permanently elevated. From 2024 onwards, the tax burden began to rise and reached 37 per cent of GDP in 2025, a level already close to the EU average. This year the tax burden begins to decline and reaches 35 per cent of GDP by the end of the forecast period.

**Figure 17. Tax burden in the European Union and the Baltic states (% of GDP)<sup>17</sup>**

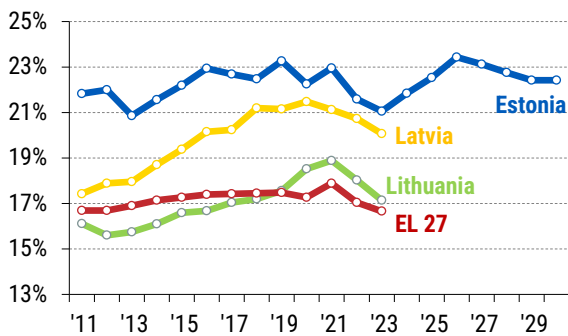


Tax changes affecting the tax burden are presented in Annex 4, Table table 17. main tax changes in 2026 and 2027<sup>17</sup>.

In addition to the share of tax revenue in GDP, the tax burden can also be described by <sup>2</sup>the implicit

tax rate, or ITR, that is, the ratio of tax revenue collected to the corresponding tax base.

**Figure 18. Implicit tax rate on consumption in the European Union and the Baltic states (%)<sup>18</sup>**



**Estonia's implicit tax rate on consumption is among the highest in the European Union.** This year it rises to 23.4 per cent, mainly because of the increase in the VAT rate, the effect of which is visible throughout the year. Over the forecast period, the indicator remains at the same level as in 2015 to 2021 and declines to 22.4 per cent by 2029. Growth in general government consumption affecting VAT slows, although the level remains higher than in the previous forecast, while investment declines and revenue from the sale of emissions allowances falls. A distinctive feature of Estonia is also that VAT contains few exemptions, because such exemptions are regarded as fiscally inefficient measures. Taxes on consumption are generally considered less

### 2.2.3 Forecast of state budget non-tax revenue

**Compared with the current state budget, the forecast for non-tax revenue in 2026 has been revised downwards because of a lower volume of external support (see Table 3).** Even so, non-tax revenue is still projected to increase by 1.5 per cent this year relative to 2025. Growth is driven by both support and revenue from the sale of goods and services. Financial income and revenue from asset sales decline slightly.

harmful for economic growth, but they are regressive and increase inequality.

**Estonia's implicit tax rate on labour is around the European Union average. It falls below 34 per cent this year because of changes to the tax-free allowance and then remains at around 34 per cent over the forecast period.** Although a flat tax rate, as in Estonia, is used in several countries, progressive income taxation is more common in Western Europe and does more to reduce inequality.

**The share of capital taxes in GDP reached a historic high in 2025.** Strong corporate income tax receipts and the introduction of the motor vehicle tax increased the share of capital taxes to a record 4.3 per cent of GDP in 2025. This year it falls to 3.6 per cent and then remains at that level over the forecast period.

That is nevertheless substantially below the European average of 8.5 per cent of GDP in 2023, and only Latvia recorded a lower figure. The reason lies in the specific design of Estonia's corporate income tax: the tax is levied on distributed rather than earned profits. Because of this system, Estonia has for years ranked first in the Tax Foundation's index of the most competitive tax systems.

The volume of support rises to EUR 1.75 billion in 2026. This reflects more active use of resources from the European Union's 2021 to 2027 budget period, including Rail Baltica construction, and the implementation of the Recovery and Resilience Plan. These are time-concentrated cash flows: as projects move into the construction phase, the inflow of external funds also increases.

In subsequent years, total non-tax revenue declines to EUR 2.3 billion as the peak years of

external funding programmes pass and the use of Recovery and Resilience Plan funds recedes.

**Table 3. Change in the spring 2026 forecast of non-tax revenue compared with the 2026 state budget (EUR million)<sup>3</sup>**

	2024	2025	2026		
	Outturn	Outturn	Budget	Forecast	Change
Non-tax revenue	2 310,0	2 705,5	2 935,7	2 740,5	-195,2
Sale of goods and services	537,3	488,3	500,0	523,5	23,5
Received support	1 189,5	1 729,4	2 003,0	1 754,2	-248,8
Other revenue	191,3	234,8	204,0	226,2	22,3
Financial income	391,8	253,0	228,7	236,6	7,8

Source: Ministry of Finance

**The 2026 forecast for revenue from the sale of goods and services has been revised upwards** relative to the budget. The higher inflow comes primarily from other sales revenue, centred on the sale of CO2 emission units. This year, EUR 257 million of such revenue is recorded, and according to the forecast EUR 205 million next year. Even so, expected revenue is lower than in the previous estimate. The main reason is that the forecast no longer includes the new EU emissions trading system planned for 2027, the implementation of which has progressed more slowly than expected. There is very high - uncertainty around the forecast for the auction price of emission units. It is affected both by geopolitical tensions, including developments in the Persian Gulf region, which may shape demand, and by internal European Union decisions affecting supply. As a result, the revenue forecast may have to be revised as early as the next forecast round.

State fees accrue much more steadily and the current forecast has not been changed relative to the budget. At the same time, revenue from the sale of goods and services is increased this year by the vehicle registration fee, the receipts from which are projected to rise by EUR 18 million to EUR 82 million this year and EUR 88 million next year.

**In the near term, the volume of external support is shaped by three factors: the end of the European Union's Recovery and Resilience Plan, the timing of Rail Baltica investment, and the pace of use of the 2021 to 2027 structural funds.** As of 26 March 2026, 83 per cent of the funds from that period had been committed, showing that disbursements are increasingly tied to projects. The use of structural funds peaks in 2026 and partly offsets the effect of the end of the Recovery and Resilience Plan. The volume of structural funds in 2026 has increased by EUR 217 million compared with the summer forecast, mainly because funds have been brought forward from future years. More than half of this reflects changes to structural fund plans, under which in the second half of 2025 a large amount of external support was redirected to support new EU defence objectives, including the EU ReArm initiative. In total, EUR 386 million from structural funds was redirected to ReArm defence and military mobility objectives. From 2027 onwards, the overall volume of external funding begins to decline as Recovery and Resilience Plan investment ends and the timing of Rail Baltica construction becomes more even.

**Compared with the summer forecast, the largest change is the acceleration of the use of the 2021 to 2027 structural funds and the redirection of**

**part of those resources towards defence and military mobility investment.**

**Compared with the budget, the forecast for other revenue in 2026 is EUR 22 million higher, mainly because of stronger fine revenue.** Higher penalty rates raised fine revenue to EUR 50 million last year, which is projected to increase by a further 10 per cent this year. Overall, the forecast for environmental charges increases slightly, including a small decline in oil shale extraction charges relative to the budget, offset by higher projected pollution charges. Revenue from asset sales declines both relative to the budget and to last year's outturn, amounting to only EUR 6 million this year.

**Compared with the budget, the forecast for financial income has been revised upwards because of higher owner income.** Financial income consists mainly of dividends, the profit allocation from Eesti Pank, and interest income of the State Treasury. This year, most of the dividends are paid by RMK, Eesti Energia, Riigi Kinnisvara and Lennuliiklusteenindus. For the latter two, the dividend is larger than planned in the budget because of strong financial results last year. In the following years, however, dividend income declines. By contrast, higher interest rates relative to the previous forecast increase interest income throughout the forecast period.

## 2.3 FORECAST OF GENERAL GOVERNMENT EXPENDITURE

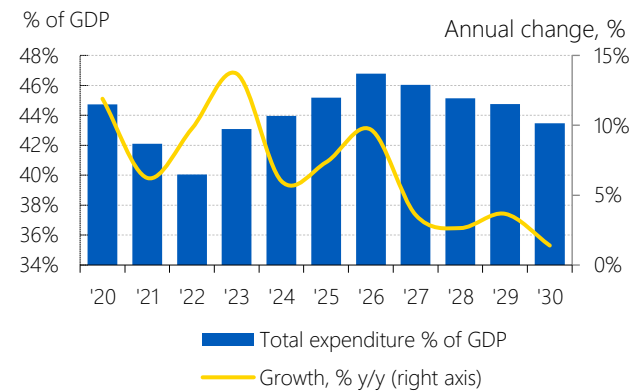
*Growth in general government expenditure slows in the near term, while expenditure declines as a share of the economy.*

**Higher spending on defence and debt servicing, together with the high level of expenditure on social protection, healthcare and education, keeps general government expenditure elevated in the near term.** In 2026, expenditure reaches 46.8 per cent of GDP, the highest figure since 2020. In 2025 it stood at 45.2 per cent, which is 4 percentage points below the European Union average for 2024 (see Figure 37 in Annex 4). At the same time, the composition of expenditure has changed. Defence spending has increased and the cost of servicing public debt has risen; these are not temporary jumps, but more lasting changes.

**Expenditure growth is projected at 9.7 per cent in 2026, or EUR 1.82 billion, driven primarily by investment in defence, the development of Rail Baltica and the active use of European Union structural funds.** Thereafter, the pace slows. In 2027 to 2030, expenditure growth averages 2.8 per cent a year (Figure 19), which is slower than the assumed nominal GDP growth of 4.7 per cent.

The forecast for general government revenue and expenditure is presented in the table 13. general government budget revenue and expenditure and forecast for 2026-2030 (Annex 4).

**Figure 19. General government total expenditure (% of GDP) and annual change in expenditure**



**Compared with the current forecast and with the projections in the current state budget and the budget strategy, changes in expenditure have increased general government expenditure by a total of 1.2 per cent. Total expenditure in 2026 is now EUR 239 million higher, mainly because the forecast for external support has been updated, imputed expenditure arising from legislation has been reassessed and expenditure financed from CO2 quota revenue has been revised. The increase is concentrated mainly in investment and capital transfers, reflecting reallocations both between years and between expenditure items. Interest expenditure has also increased, while the volume of social benefits has been revised downwards.**

**Of the cash social transfers, growth in social benefits over the forecast period is concentrated primarily in old-age pensions.** In 2026, the largest contribution to annual growth in social benefits, EUR 183 million, comes from state pensions, which reach EUR 3.27 billion. In 2027 to 2030, expenditure on old-age pensions increases by an average of EUR 158 million per year. The increase

is driven by the rise in the pension index and the growth in the number of pensioners. Compared with the summer forecast, the forecast for the number of pensioners has been revised downwards. This reflects the actual number of pensioners in 2025 and the increase in the pension age in 2027 and 2028, to 65 years and 1 month in 2027 and 65 years and 3 months in 2028.

**Expenditure on work ability allowance rises by EUR 31.3 million in 2026 and exceeds EUR 525 million. Because the** daily rate of the allowance is linked to the pension index, expenditure also continues to increase in 2027 to 2030 by an average of EUR 30 million per year. Several items of social expenditure therefore increase automatically under indexation, without the need for an additional policy decision each year.

**The forecasts for parental benefit and family benefits have been revised downwards** on the basis of a lower forecast for the number of births. Expenditure on parental benefits remains broadly unchanged over the forecast period because it also reflects growth in the average wage and the minimum wage, but expenditure on family benefits declines by an average of EUR 10 million per year.

**Non-cash social transfers grow by an average of 4.6 per cent a year in 2026 to 2030. A non-cash social transfer** is a benefit that is not paid out in money but is provided in the form of services or benefits in kind. Health services are by far the largest component, accounting for 80 per cent of such transfers and consisting mainly of medical treatment, reimbursement for medicines and medical aids.

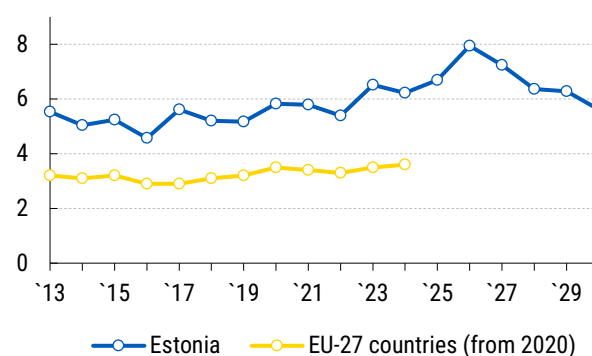
**Compensation of employees increases by 6.6 per cent in 2026.** In 2027 to 2030, growth averages 3.2 per cent a year, below both nominal wage growth and GDP growth. Its share in GDP falls from 12.4 per cent this year to 11.7 per cent by 2030. The faster increase in 2026 reflects

additional funding for defence and higher wage funds for teachers, internal security, cultural workers and special welfare services.

**Intermediate consumption, which consists mainly of day-to-day operating expenditure, reaches 6.7 per cent of GDP in 2026, a historic high. The reason is large-scale** defence-related spending, including ammunition, capability development and broad-based national defence. Defence expenditure keeps the level of intermediate consumption high throughout the forecast period, with the largest volume planned for 2029. In addition, there is a sizeable change in the forecast for Estonia's contributions to the European Union from 2028 onwards, reflecting possible growth in the EU's own resources for the new period.

**The share of general government investment in GDP remains high in Estonia.** Whereas the ratio of gross fixed capital formation was between 4.6 and 6.6 per cent in 2012 to 2024, in 2025 to 2029 it averages 6.7 per cent of GDP. This is well above the European Union average.

**Figure 20. General government gross fixed capital formation in Estonia and the EU, 2012-2030 (% of GDP)<sup>20</sup>**

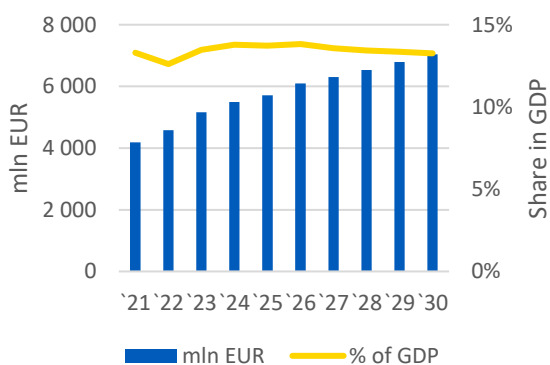


**In 2026, investment reaches a peak of EUR 3.5 billion, or 7.9 per cent of GDP. The main sources** of growth are defence investment and the active use of external funds, including Rail Baltica and Modernisation Fund projects. After 2026, the volume of investment begins to decline as the peak in external financing passes.

**Interest expenditure rises rapidly over the forecast period because of the growth in debt and** the higher level of Euribor. Whereas until 2022 it amounted to only up to 0.1 per cent of GDP, by 2023 it had already reached 0.4 per cent. By 2030, *interest expenditure* under ESA 2010 reaches 1.2 per cent of GDP, or EUR 647 million.

**By function of government, as classified under COFOG, the largest area of expenditure is social protection.** In 2025, it accounted for an estimated 13.8 per cent of GDP (Figure figure 21. social protection expenditure, 2021-2030 (eur million and share of gdp)21) than half of social expenditure consists of old-age pensions and almost **one** fifth of child and family benefits. According to the forecast, expenditure on pensions grows by an average of 4.8 per cent a year in 2026 to 2030. Compared with the previous forecast, the total projection for social protection has been revised downwards, mainly because of a more modest outlook for pension expenditure. Expenditure on parental benefit and family benefits has also been revised downwards.

**Figure 21. Social protection expenditure, 2021-2030 (EUR million and share of GDP)21**

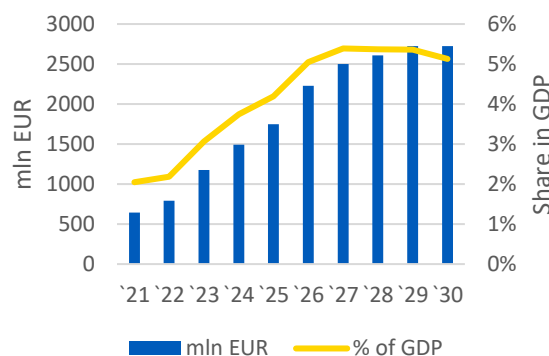


**Healthcare expenditure remains at an average of 6.2 per cent of GDP.** More than 70 per cent of it is related to hospital services. Growth is based on the expenditure path projected by the Health Insurance Fund and reflects both higher service prices and rising demand.

**Defence expenditure exceeds 5 per cent of GDP from 2026 onwards.** In 2025, defence expenditure is estimated at 4.2 per cent of GDP, with investment increasing by more than 50 per cent. In 2026, defence expenditure reaches 5 per cent of GDP and remains above that level throughout the forecast period.

The volume of defence expenditure and its share in GDP are shown in the figure figure 22. defence expenditure, 2021-2030 (eur million and share of gdp)222).

**Figure 22. Defence expenditure, 2021-2030 (EUR million and share of GDP)22**



The forecast for general government expenditure by function is presented in the annexes table 14. general government expenditure by function of government (cofog) (% of gdp)1414 figure 38. general government expenditure by function in estonia, 2012-2030 (% of gdp)38in Annex 4).

## 2.4 IMPACT OF TAX POLICY

### 2.4.1 Maksupoliitilised muudatused

The largest tax policy change during the forecast period is the introduction of a uniform tax-free allowance for the working-age population in 2026.

**The largest effect of tax changes on revenue is felt in 2026 and 2027.** Changes to labour taxes reduce tax revenue by around 1 per cent of GDP, while changes to consumption and capital taxes increase tax revenue by up to a combined 0.2 per cent of GDP.

In 2026, the regressive tax-free allowance is abolished and the general tax-free allowance rises to EUR 700 per month, while for those above the pension age it remains EUR 776. This increases net income, but the effect is not distributed evenly: the greatest gains accrue to people in the seventh to ninth income deciles. The effect is more modest for lower-income groups. The effect of the measure also depends on how people use the tax-free allowance. Because it no

longer depends on the level of income, we assume that the ratio of working-age recipients of the tax-free allowance to the number of recipients subject to social tax will rise from 42 per cent in 2025 to 75 per cent in 2026 and 85 per cent in 2027, returning to the level seen in 2017 before the regressive allowance was introduced.

**From 2028 onwards, the effect of tax changes stabilises at around minus 0.7 to minus 0.8 per cent of GDP.** Tax revenue is reduced by the 2026 change to the tax-free allowance, while continuing increases in several excise duty rates raise tax revenue.

The main tax changes in 2026 and 2027 are presented in Annex 4, Table table 17. main tax changes in 2026 and 202717.

**Table 4. Effect of tax changes on the tax burden by economic function of tax, 2026-2030 (% of GDP)<sup>4</sup>**

	2024 tax burden	2025 tax burden	2026	2027	2028	2029	2030
Total tax revenue	35,2	37,0	-1,0	-1,0	-0,8	-0,7	-0,7
Labour taxes	18,1	19,1	-1,0	-1,2	-1,0	-1,0	-1,0
Capital taxes	3,5	4,3	-0,1	-0,1	-0,1	-0,1	-0,1
Consumption taxes	13,6	13,6	0,1	0,3	0,4	0,4	0,4

\* Effect compared with a continuation of the rates and arrangements in force on 31 December 2025. The effect is recorded on an accrual basis.

Source: Ministry of Finance

## 2.4.2 Tax expenditure

*Tax expenditure, that is, revenue forgone through exemptions and reliefs, remains at around 1 per cent of GDP over the forecast period.*

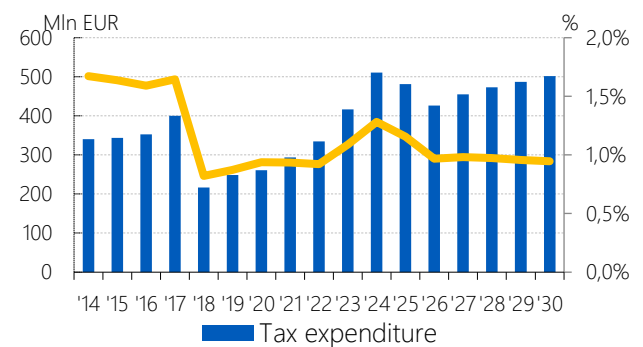
Tax expenditure is, in effect, a hidden line of budget expenditure. When the state grants a tax exemption or relief, it gives up revenue in much the same way as when it pays a subsidy. Tax reliefs should therefore be treated like any other budget line: they should be assessed regularly, justified, and discontinued where necessary. Otherwise, they distort competition, narrow the tax base and shift the tax burden onto those who do not benefit from the <sup>3</sup>relief.

In 2024, tax expenditure still reflected the preferential 14 per cent tax rate on regularly distributed profits and several income tax exemptions. In total, tax expenditure exceeded EUR 500 million. In 2025, the largest item of tax expenditure was the tax-free allowance for those of old-age pension age. The introduction from 2026 of a uniform tax-free allowance of EUR 700 for the working-age population, however, significantly raised the benchmark and reduced the calculated tax expenditure associated with that relief.

**In 2026, state budget receipts are affected by 26 different tax reliefs arising from the VAT Act, the Income Tax Act, and the excise duty legislation covering alcohol, tobacco, fuel and electricity.** The single largest item of tax expenditure is the 9 per cent VAT rate on medicines and medical devices, amounting to EUR 109 million. Total tax expenditure in 2026 is estimated at EUR 426

million, or 1 per cent of GDP and 3.2 per cent of tax revenue. Reliefs mainly support healthcare, through the lower VAT rate on <sup>4</sup>medicines and medical devices; social protection, through the tax-free allowance for those of pension age, pension-related exemptions and the child-related motor vehicle tax relief; and the economy, for example through the reduced excise duty rate on agricultural fuel.

**Figure 23. Tax expenditure (EUR million and % of GDP)<sup>23</sup>**



**Over the forecast period, tax expenditure remains at 1.0 per cent of GDP.** The largest item continues to be the lower VAT rate on medicines and medical devices, the fiscal effect of which amounts to 0.2 per cent of GDP.

A more detailed breakdown of tax expenditure is presented in Annex 4, Table table 18. tax expenditure in the state budget in 2025-2027 (eur million)<sup>188</sup>.

## 2.5 GENERAL GOVERNMENT FINANCING

The debt ratio rises because of the persistent deficit, but remains well below the European Union average. Under the forecast, general government debt reaches 39 per cent of GDP by 2030.

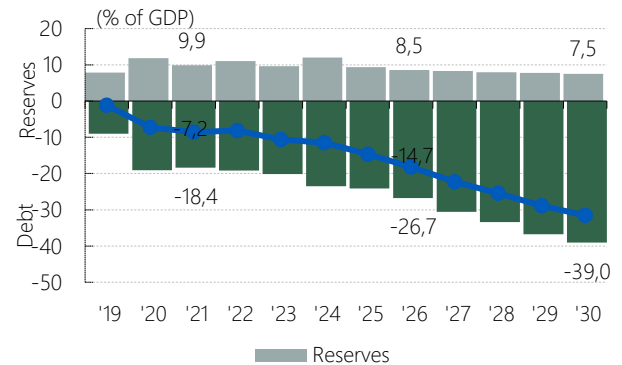
The state's cash flow remains negative throughout the period, as expenditure exceeds receipts. General government's net position, that is, the difference between debt and reserves, worsens this year by almost three and a half percentage points and continues to deteriorate in subsequent years (see Figure 24). This reflects the persistently deficit budget and the need, at the same time, to repay earlier loans.

The spring forecast already incorporates the effect of enacted tax changes on both revenue and expenditure. Despite this, the state budget remains in nominal deficit and overall cash flow is also negative. This reflects the high level of general government expenditure and its rising share in the economy, driven by simultaneous growth across several areas of spending (see Section 2.3).

Cash-flow analysis is not confined to the budget position alone. Financing transactions and the repayment of earlier loans also have an effect, further increasing financing needs. The borrowing requirement therefore arises mainly from two components: the budget deficit and the servicing of the State Treasury's debt obligations.

**Growth in Estonia's general government debt remained below one percentage point of GDP in 2025 and was the slowest in the past three years.** In nominal terms, debt increased by EUR 676 million, reaching 24.1 per cent of GDP, compared with 23.5 per cent in 2024. Debt increased in both central government and local government (see Table 20, Annex 4).

**Figure 24. General government liquid assets, debt ratio and net position (% of GDP)<sup>24</sup>**



Most of the increase came from an additional issue of long-term bonds by the State Treasury in the amount of EUR 500 million.

In 2026 to 2030, the borrowing requirement will be financed through new long-term borrowing and the issuance of short-term and long-term bonds. Short-term bonds will be refinanced on a rolling basis, keeping their volume stable. This approach makes it possible to maintain a diversified and well-distributed debt portfolio and flexibility in the borrowing market.

Financing sources are being deliberately diversified. In addition to market-based borrowing, Estonia plans to use the defence investment loan offered under the European Union's SAFE mechanism in 2026 to 2030. SAFE enables Member States to raise long-term financing, with maturities of up to 45 years and grace periods of up to 10 years, at what is expected to be a more favourable interest rate than under market conditions. Estonia plans to apply for up to EUR 2.3 billion.

The state will continue to issue both Euro Commercial Paper, ECP, and Treasury bills, which allows flexible short-term financing and supports regular market participation and the maintenance of the investor base.

In 2026, growth in the general government debt ratio accelerates and thereafter averages around three percentage points a year, reaching 39 per cent of GDP by the end of the forecast period. This is a faster pace of growth than in previous estimates.

As of the end of February 2026, the State Treasury's debt obligations amounted to EUR 7.3 billion. Of this, EUR 5.8 billion, or 79 per cent, consisted of issued short-term and long-term bonds, and EUR 1.5 billion, or 21 per cent, of long-term loans. Central government's contribution to total general government debt rises over the forecast period from 20 per cent to 35 per cent of GDP. Local government debt also increases, but stabilises at 3.8 per cent of GDP. The social security funds, namely the Health Insurance Fund and the Unemployment Insurance Fund, do not increase their debt burden table 19. change in the general government debt ratio in 202519Annex 4).

**Reserves are an important buffer and balancing factor in the state's finances.** At the end of 2025, central government's financial reserves amounted to more than EUR 2 billion, or 5.4 per cent of GDP. These include the stabilisation reserve, the liquidity reserve and the liquid funds of other institutions.

The stabilisation reserve is intended for crisis situations and stood at EUR 491 million on 2 March 2026. Over the year, the reserve increased

by EUR 36 million, more than half of which came from Eesti Pank's profit allocation. The return on investment was around 3 per cent, comparable to the state's average borrowing rate. The aim is to keep the return at least at the level of the borrowing rate so that holding the reserve does not increase net costs.

**The liquidity reserve is used for day-to-day cash-flow management.** On 2 March 2026, it amounted to EUR 1.9 billion. In addition to central government, the reserve also includes funds held by the Health Insurance Fund, the Unemployment Insurance Fund and other entities. The expected return in 2026 is 2.3 per cent.

This year, the borrowing requirement reduces the level of the liquidity reserve and, according to the forecast, additional financing will be raised, increasing net borrowing by EUR 1.6 billion. In doing so, the State Treasury will use both long-term loans and short-term and long-term bonds.

The weighted average interest rate on State Treasury debt was 2.5 per cent in 2025 and is projected to rise to 3 per cent in 2026. Interest expenditure increases mainly because of the higher interest rate and the growing debt burden: in 2026 it reaches EUR 245 million, or 0.6 per cent of GDP. According to the forecast, interest expenditure rises to 1.2 per cent of GDP by 2030, meaning that an increasing share of the budget will be devoted to servicing debt.

### 3 ADVERSE RISK SCENARIO

The purpose of the risk scenario is to assess how an alternative, less favourable economic path would affect the state budget and the debt ratio. It helps to evaluate how sensitive the budget position is to slower growth, weaker consumption and external shocks.

#### How the summer risk scenario materialised

The central question in the Ministry of Finance's spring economic forecast was Estonia's competitiveness in international markets and the weak willingness to consume and invest, which has been holding back a stronger recovery in the economy. There is still no definitive answer as to the extent of the loss of competitiveness, but moderate export growth last year suggests that firms have adapted to the new environment.

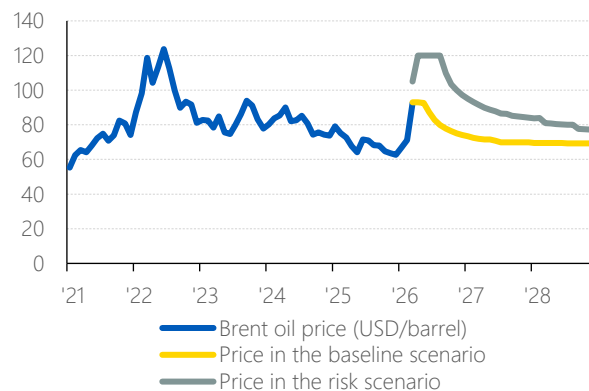
Statistically, economic growth in 2025 was close to the risk scenario, but if the conflict in the Middle East were to escalate further, this year's growth forecasts would still appear relatively optimistic. Sentiment among Estonian firms and consumers has improved since the autumn. For households, this may reflect lower food and motor fuel prices, which provided some relief for strained budgets. Confidence among firms has also improved, and positive developments have been visible in several sectors.

#### Adverse risk scenario in the spring forecast

**The key question in the current forecast is how extensive the economic impact of the conflict in the Middle East will become.** Forecasting in a situation where commodity prices central to the external assumptions fluctuate by more than 10 per cent within a single day, and where each new day can bring fresh price records, is especially difficult. Different assumptions can be made about the scale of the consequences, but it is clear that, regardless of the duration of the

conflict, it will create significant supply disruptions in oil and gas products as well as in other commodities. These developments imply higher inflation and lower economic growth.

Figure 25. Oil price assumption in the risk scenario<sup>25</sup>

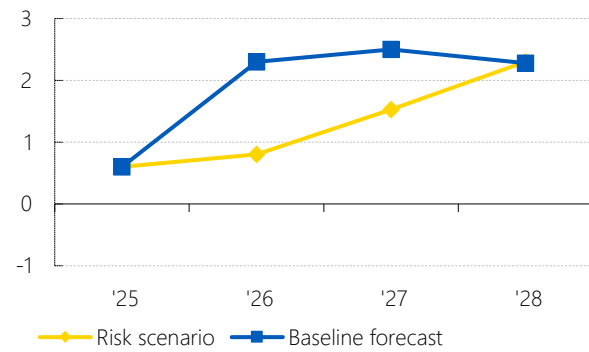


The risk scenario is based on higher oil and other energy prices than in the baseline scenario, easing only gradually in the autumn months (see Figure 25). Because higher commodity prices also imply weaker external demand in addition to faster inflation, the risk scenario assumes a sharp reduction in real economic growth this year and next. Whereas the baseline scenario envisaged growth of around 2.5 per cent this year and next, the risk scenario implies real growth of 0.8 per cent in 2026, accelerating to 1.5 per cent in 2027 as inflation recedes (see Figure 26). Although price growth had been easing in the second half of last year, higher energy prices now trigger a new wave of inflation, so that price growth for this year as a whole remains around 5 per cent, broadly in line with last year's pace.

The overall size of the economy declines under the risk scenario. Whereas the sharp increase in energy prices in 2021 to 2022 ultimately led to growth in the economy in current prices, the current situation is judged more adversely. In the risk scenario, GDP in euro terms is expected to be EUR 0.3 billion lower this year and EUR 0.5 billion

lower next year than in the baseline scenario (see Table 10). First, the economy now has fewer buffers. After the coronavirus crisis, households had accumulated forced savings that could be channelled into consumption. In addition, second-pillar pension assets were released, helping people to cope with rapid inflation. By now, the purchasing power of aggregate wage income has remained unchanged for five to six years, and many savings buffers have been exhausted. Fiscal space has also diminished. Because of the new security environment, countries are directing substantially more public money towards defence and are operating at the limits of the fiscal rules, leaving little room to support the economy on a comparable scale.

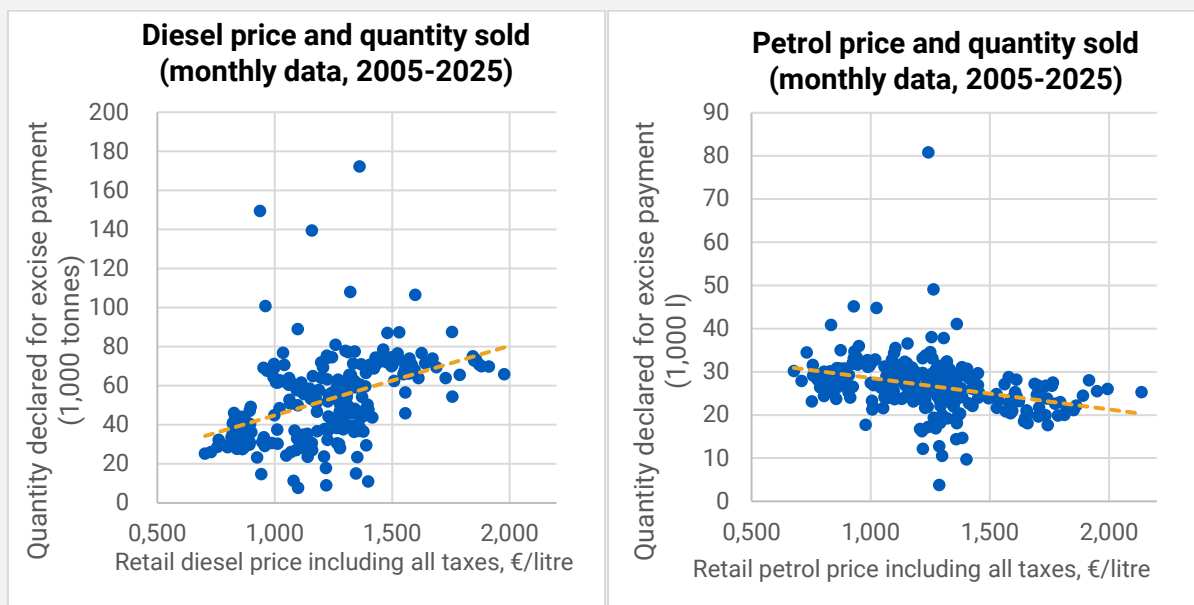
Figure 26. Real economic growth, risk scenario (%)<sup>26</sup>



**Additional topic: How might demand in Estonia react to higher fuel prices?**

When discussing fuel demand, it is important to recognise that price is only one of the factors affecting demand. Although demand falls as prices rise, overall growth in prosperity and living standards increases consumption as a whole. Demand is also influenced by the structure of fuel use across the vehicle stock. This means that a simple historical relationship between price and quantity can, at first sight, produce contradictory results.

Figure 27. Declared fuel quantities and retail price including all taxes. 2005-2025, monthly data<sup>27</sup>



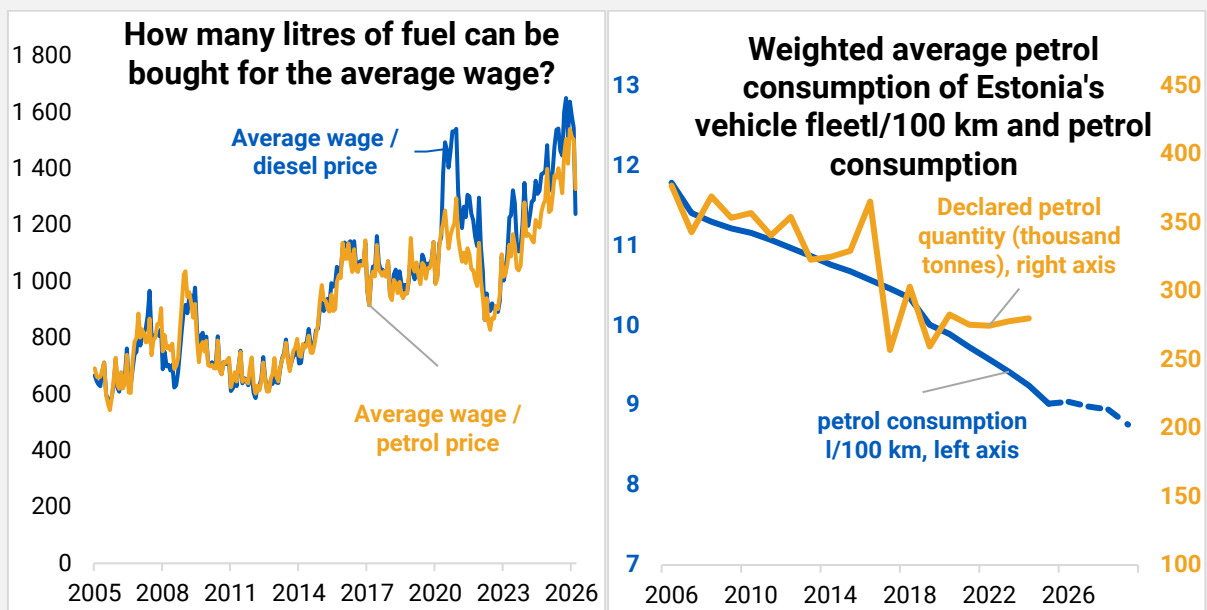
Source: Tax and Customs Board, Oil Bulletin, Ministry of Finance calculations.

Figure 27. Declared fuel quantities and retail price including all taxes. 2005-2025, monthly data  
 Figure 28. how many litres of fuel can be bought for the average wage: the ratio of the average wage to the price per litre (scale in litres), the weighted average petrol consumption of Estonia's vehicle fleet in l/100 km, and the declared quantity of petrol for excise payment (thousand tonnes).

The use of declared quantities to assess the fuel market has the additional limitation that the dataset does not make it possible to distinguish between the consumption behaviour of households and firms. Taking this into account, an indicator of fuel demand was instead constructed on the basis of supply and use tables for 2010 to 2024.

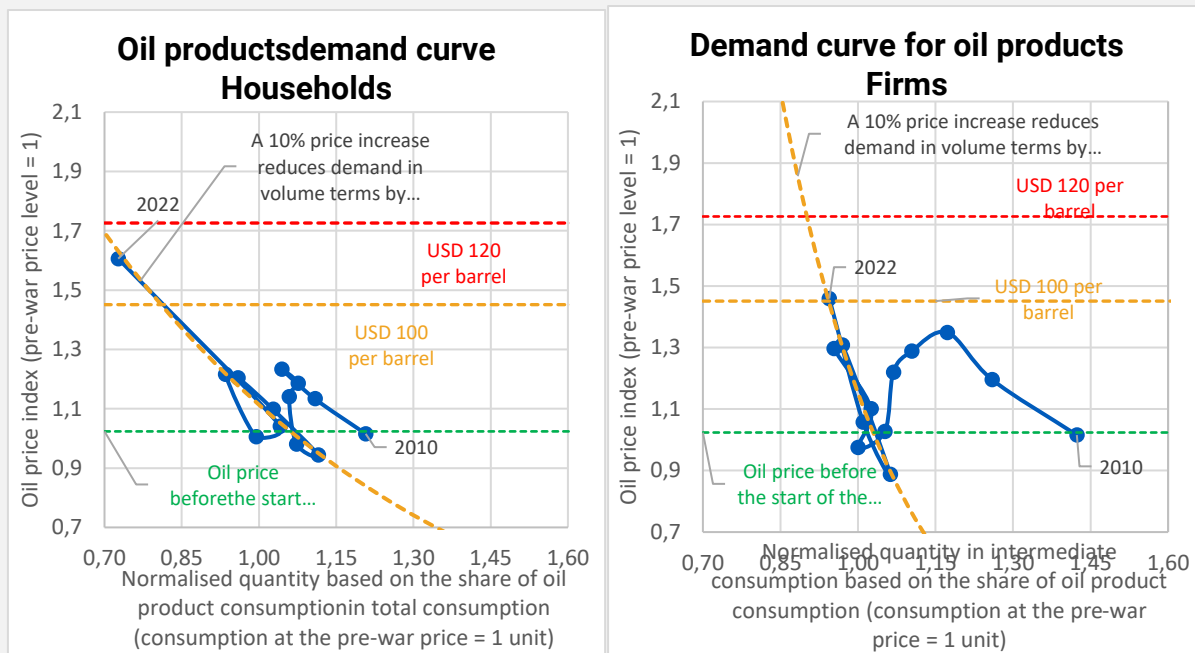
Supply and use tables help to illuminate several important aspects. First, they show that demand for oil products in Estonia is divided broadly as follows: around 25 per cent of oil products brought into Estonia were re-exported, 55 per cent were used by firms as intermediate consumption, and around 20 per cent represented final household consumption. This final component is also important in estimating the VAT revenue generated by oil products, because VAT is not paid on exports and firms reclaim the input VAT paid on the goods and services they purchase, with only around one fifth of total turnover contributing to VAT revenue.

Figure 28. How many litres of fuel can be bought for the average wage: the ratio of the average wage to the price per litre (scale in litres), the weighted average petrol consumption of Estonia's vehicle fleet in l/100 km, and the declared quantity of petrol for excise payment (thousand tonnes).



Source: Road Administration, Tax and Customs Board, Ministry of Finance calculations. To preserve consistency in the historical time series, the calculations include vehicles in suspended status.

Figure 29. Demand curve for oil products by Estonian households and firms29



Source: Statistics Estonia, Bloomberg, Ministry of Finance calculations. Quantity expresses the share of fuel consumption relative to the consumption of all other goods and services, such that the quantity is indexed to 1 at the pre-war oil price. The price shown is the average annual oil price per barrel in euros.

Second, using information on the structure of the whole economy makes it possible to compare the quantity of oil products consumed with the consumption of other goods. This helps to separate the effect of rising prosperity from pure price effects. The resulting demand curves are shown in Figure 29.

Third, the analysis suggests that households are considerably more sensitive to changes in fuel prices than firms. For households, a 10 per cent increase in fuel prices implies a decline in consumption of around 5 to 6 per cent, whereas for firms the decline is only around 2 to 3 per cent. This result is logical and consistent with international experience, because firms are engaged in more activities where operations cannot simply be reduced when fuel prices rise.

If the elasticity estimates presented here are taken at face value, the price increase in the 2026 baseline scenario would reduce household fuel demand by about 5 per cent and business demand by about 2 per cent. Under the risk scenario, however, household fuel demand could fall by more than 15 per cent and business fuel demand by around 6 per cent.

### A larger budget deficit under the risk scenario

Slower economic growth also implies weaker tax receipts. Under the risk scenario, the general government budget position deteriorates this year by 0.6 per cent of GDP and the deficit reaches 4.9 per cent of GDP. The main reason is lower tax revenue, affecting both the state and local governments. The deeper deficit also

reflects faster inflation, which increases operating expenditure and investment costs.

In the following years, slower growth similarly deepens the deficit by around 0.6 per cent of GDP. The structural deficit increases by 0.4 to 0.6 per cent of GDP.

Net debt increases by up to 1.4 percentage points. A weaker budget position in central

government and local governments implies a greater need to borrow, and the general government debt ratio increases by up to 1.4 percentage points of GDP. At the same time, the reserves of the social security funds decline by up to 0.2 percentage points of GDP.

Overall, the risk scenario illustrates the need for fiscal buffers to cope with unexpected economic conditions. When operating at the limits of the fiscal rules, any surprise requires an immediate response on the expenditure side in order to remain within the agreed framework.

**Table 5. General government budget position under the risk scenario, 2026-20285**

	Risk scenario			Difference from the baseline forecast		
	2026	2027	2028	2026	2027	2028
<b>General government budget position (EUR million)</b>	<b>-2157</b>	<b>-2542</b>	<b>-2247</b>	<b>-247</b>	<b>-262</b>	<b>-146</b>
Central government	-1935	-2276	-2007	-198	-175	-73
Social security funds	-157	-161	-148	-36	-66	-54
Local governments	-65	-105	-92	-12	-22	-19
<b>General government budget position (% of GDP)</b>	<b>-4,9</b>	<b>-5,5</b>	<b>-4,7</b>	<b>-0,6</b>	<b>-0,6</b>	<b>-0,3</b>
Central government	-4,4	-5,0	-4,2	-0,5	-0,4	-0,2
Social security funds	-0,4	-0,4	-0,3	-0,1	-0,1	-0,1
Local governments	-0,1	-0,2	-0,2	0,0	0,0	0,0
<b>General government structural budget position (% of GDP)</b>	<b>-4,8</b>	<b>-5,4</b>	<b>-4,6</b>	<b>-0,6</b>	<b>-0,6</b>	<b>-0,3</b>

## Annex 1. PRINCIPLES AND ASSUMPTIONS USED IN PREPARING THE FORECAST 1

The aim of the macroeconomic and fiscal forecast is to provide the most up-to-date and accurate assessment possible of the outlook for the Estonian economy and the state of public finances, taking into account the fiscal policy decisions made so far. This forecast forms the basis for the progress report submitted to the European Commission and the Council under the European Union's fiscal surveillance framework. It will also serve as the basis for impact assessments of legislative changes and fiscal policy measures planned for the coming years. At the same time, it is intended for public use, so that developments in the economy and the public finances, and the assumptions underlying the forecast, are more transparent.

The preparation of the forecast is governed by the State Budget Act. It is based on the latest published macroeconomic and fiscal statistics, and the assessment covers the current year and the following four years. Under the Act, the preparation of the forecast and the methodological choices are independent: assumptions are selected transparently and on the basis of the best available evidence. The forecast includes a comparison with other forecasts and a description of the methodology. The assumptions used in this forecast were fixed in early March 2026.

Under Section 4 of the State Budget Act, the Fiscal Council assesses the state's macroeconomic and fiscal forecasts, issues its opinion within two weeks of publication and publishes it on its website at <https://eelarvenoukogu.ee/>. The Fiscal Council endorsed the Ministry of Finance's summer 2025 forecast.

### Makromajandusproгноosi eeldused

Despite trade tensions and political uncertainty associated with the introduction of protective tariffs, the global economy in 2025 proved more resilient than expected. Productivity growth associated with rising investment in technology, the easing of interest rate policy, and the conclusion of initial trade agreements under a more moderate tariff regime all supported global economic activity.

**The escalation of the conflict in the Middle East in March has materially changed the economic environment. Energy infrastructure in the Persian Gulf has been damaged, while trade flows in oil products, gas and other commodities have been disrupted, causing a sharp rise in energy prices. The effects of the energy shock are only beginning to feed through to the economy and have already caused fuel supply disruptions in some regions. These developments imply weaker economic growth, higher inflation and greater uncertainty about the outlook.**

Oil and gas prices have been highly volatile during March and, depending on news from the conflict, spot prices and futures have fluctuated by more than 10 per cent within a single day. This makes the preparation of forecasts and the selection of the right moment to fix assumptions especially difficult at present.

The external assumptions had to be updated several times, with 10 March as the final date for fixing them. Under current conditions, the further course and duration of the crisis cannot be predicted with confidence, so the forecast relies on developments in energy futures prices. On that basis, energy prices are expected to remain elevated in the second quarter and then ease gradually.

As a result of the events described above, the forecast for euro area growth has been revised down, slowing from 1.4 per cent in 2025 to 0.8 per cent in 2026. The modest growth outlook rests mainly on domestic demand, supported by fiscal stimulus through rising defence and infrastructure expenditure. The euro area inflation forecast for 2026 has been raised by 0.7 percentage points to 2.5 per cent because of higher energy prices.

**Estonia's external demand, that is, the imports of its trading partners, recovered rapidly after two weak years, increasing by 3.7 per cent in 2025. In 2026, neighbouring economies are affected by high energy prices and increased uncertainty, which restrain growth and lead to weaker import demand. External demand growth slows to 2.1 per cent and then accelerates again in 2027, when it could reach 2.7 per cent.**

The European Central Bank last cut policy rates in June 2025, after which the three-month EURIBOR remained around 2 per cent. The energy price shock in March gradually fed through into interest rates, suggesting that the ECB may have to begin raising policy rates again in response to increased inflationary pressure. According to market expectations, the three-month EURIBOR rises to 2.4 per cent by the end of 2026 and to 2.8 per cent by the end of the forecast period.

Following the introduction of US tariffs in the spring of 2025, the US dollar weakened against most currencies. The euro has appreciated by around 11 per cent against the dollar compared with the beginning of last year. The EUR/USD exchange rate is fixed at 1.161 for the forecast period.

Oil prices declined last year and by year-end were close to their lowest level in five years. As a result of the conflict in the Middle East, oil prices have risen by almost 40 per cent, and at the point when the external assumptions were fixed the Brent price stood at USD 97. On the basis of futures

contracts, oil prices are expected to average USD 80.8 in 2026 and USD 70.9 in 2027.

Historically, gas prices have responded more sharply to supply-side shocks. The TTF gas price has doubled relative to the level at the start of the year, reaching EUR 50 to EUR 55 per MWh in March. Based on futures prices, gas is expected to average EUR 43.7 per MWh in 2026 and EUR 32.1 per MWh in 2027.

## Rahandusprognoosi eeldused

The public finance forecast is prepared on a no-policy-change basis and serves as the basis for the government's fiscal policy documents, namely the state budget and the budget strategy. A no-policy-change approach means assuming that current policies and regulations remain in place: no major changes or adjustments are made during the forecast period. The starting point is current legislation and measures approved in sufficient detail, for example the state budget strategy for 2026-2029. As a result, the baseline forecast includes only part of the decisions approved in the budget strategy for 2026-2029. The forecast does not take into account tax changes that have not been enacted into law or vague expenditure decisions whose content or scale are not sufficiently clear.

At the same time, "approved decisions only" does not mean that expenditure is frozen at the same level for the whole forecast period. In the case of operating expenditure, normal growth is assumed even where no separate government decision has been taken. Otherwise, the real volume of expenditure would shrink and the provision of public services would decline, which would in substance amount to a policy change. In addition, account is taken of external factors such as demographics, the economic cycle and environmental effects. The public finance forecast is based on the baseline macroeconomic forecast.

### **Assumptions underlying the state budget revenue forecast:**

- The tax forecast follows the general principles used in preparing the forecast.
- Among the larger tax changes, the forecast takes into account the changes to income tax. The government's decision not to proceed with the fuel excise increase has not been included in the

forecast because the change has not yet been enacted in law.

- In forecasting growth in the minimum wage, the higher of the following is used: twice the growth in labour productivity forecast by Eesti Pank, using Eesti Pank's forecast up to 2027 and the Ministry of Finance's forecast for 2028-2030, or wage growth. The objective is to raise the minimum wage to 40% of the average wage.
- Non-tax revenue is forecast on the basis of past receipts and updated estimates from the areas of government, such as environmental charges, CO2 revenue and owner income.
- The dividend forecast for 2026 is based on the amounts in the government's dividend policy; for 2027-2029 it is based on decisions from the budget strategy process and on companies' financial forecasts and dividend proposals.

### **Assumptions underlying the state budget expenditure forecast:**

- For 2026, the forecast is based on the 2026 budget and updated forecasts from the relevant areas of government.
- The expenditure forecast for 2027-2029 is based on the 2026 budget and the funding plans of the areas of government. For imputed social expenditure and larger expenditure items linked to revenue, such as CO2-related costs, updated forecasts prepared together with the areas of government are used.
- For 2030, the starting point is the 2029 expenditure level, except in the case of imputed expenditure and expenditure dependent on revenue. Separate account is also taken of expenditure decisions, including costs ending in 2029.

- Under the coalition agreement, defence expenditure in 2026-2030 is to amount to at least 5% of GDP.
- The forecast for external funds includes resources from the EU funding period beginning in 2028, together with national co-financing from 2028 onwards.

**Assumptions underlying the budget position of the Unemployment Insurance Fund:**

- The expenditure forecast is based on the latest forecast prepared by the Unemployment Insurance Fund using the indicators in the Ministry of Finance's spring macroeconomic forecast.
- The revenue forecast is based on the Ministry of Finance's forecast for unemployment insurance contributions.

**Assumptions underlying the budget position of the Health Insurance Fund:**

- The budget position is based on the volume of expenditure approved in the 2026 budget; for 2027-2029, expenditure is based on the Health Insurance Fund's four-year financial plan prepared on the basis of the Ministry of Finance's summer 2025 forecast. For 2030, expenditure is assumed to grow in line with the growth rates projected for 2029.

- Throughout the period, the revenue forecast is based on the Ministry of Finance's spring forecast both for social tax and for the transfer relating to non-working pensioners.

**Assumptions underlying the budget position of local governments:**

- The forecast is based on the actual results for 2025 and the macroeconomic forecast, taking into account inflation and average wage growth in projecting local governments' current expenditure.

**Other general government entities:**

- The forecast for central government legal entities, including foundations, public-law institutions and companies, is based on the financial plans they submit, which must comply with the rules on operating balance and net debt burden laid down in the State Budget Act. It is assumed that the operating balance and net debt burden shown in the financial plan will not be changed during the budget year.
- The forecast for Riigi Kinnisvara is based on the company's financial plan and the investments approved by the government. Only signed lease agreements are taken into account, and their consistency with the lease payments planned in the state budget is checked.

## Annex 2. Methodological change in the assessment of cyclical conditions in the economy

**From this year onwards, the Ministry of Finance is revising its methodology for assessing the economic cycle. The aim is to assess as accurately as possible the cyclical position of the Estonian economy and its effect on the state budget. This assessment is used primarily in calculating the structural budget position.**

**Potential GDP is a theoretical concept describing the economy's productive** capacity. Growth in potential GDP is the rate of growth the economy can sustain while maintaining full employment and without causing inflation to accelerate. The meaning of the concept differs depending on whether one looks at the short, medium or long term. In the short term, the economy's productive capacity is more or less fixed. In the medium term, productive capacity can be increased by investment, the preconditions for which are primarily sufficient profitability of firms and growth in labour costs consistent with labour productivity. In the long term, the economy's productive capacity depends largely on technological progress and growth in labour potential.

In practice, GDP often differs from its potential level. The difference between actual and potential GDP is described by the output **gap. Estimates of the output gap involve considerable uncertainty because potential GDP is not directly observable but must be estimated, and because actual GDP data are often revised retrospectively.**

A common methodology is used in the European Union to estimate the output gap. The methodology is based on a Cobb-Douglas production function, and several stages are involved in deriving its components, labour, capital and total factor productivity, using different source data and methods. Until now, <sup>5</sup>the Ministry of Finance has used the European Commission's methodology in assessing the cyclical position of the Estonian economy.

In recent years, the estimate of Estonia's output gap derived under the European Commission's methodology has been fairly negative, while several other indicators do not point to such a large negative output gap. Nominal economic growth, labour market conditions and tax receipts have been relatively strong, while real economic growth has been weak. Because the output gap estimate is used in public finance to assess the structural budget position, it should describe the economic cycle from a public finance perspective. **From this year onward, the Ministry of Finance is using a new approach to assessing cyclical conditions in the economy, combining different methods. The aim is to reduce the uncertainty that arises from relying on a single methodology to estimate the output gap.**

**One way to assess the cyclical position of the economy is to use what may be called an economic dashboard.** The Ministry of Finance's dashboard for the Estonian economy includes ten indicators from different parts of the economy: the confidence indicator for industry, the consumer confidence indicator, the confidence indicator for construction, core inflation, the ratio of the average price per square metre in apartment transactions to the average gross monthly wage, the construction volume index, gross fixed capital formation as a share of GDP, the unemployment rate, the ratio of household debt to GDP, and the ratio of the current account <sup>6</sup>balance to GDP. When forecasting the state of the dashboard for periods for which statistical data are not yet available, we use forecasts for core inflation, the ratio of the average price per square metre in apartment transactions to the average gross monthly wage, the ratio of gross fixed

capital formation to GDP, the unemployment rate, the ratio of household debt to GDP, and the ratio of the current account balance to GDP.

**For the confidence indicator for industry, the consumer confidence indicator and the confidence indicator for construction, we forecast the deviation of those indicators from their equilibrium levels. We have identified variables that the Ministry of Finance forecasts regularly and that are closely correlated with the confidence indicators. We assume that the deviation of the industry confidence indicator from its equilibrium level is the same as the deviation of nominal value added growth in industry from its equilibrium level; that the deviation of the consumer confidence indicator from its equilibrium level is equal to the deviation of the inverse of the unemployment rate from its equilibrium level; and that the deviation of the construction confidence indicator from its equilibrium level is equal to the deviation of nominal value added growth in construction from its equilibrium level. For the construction volume index, we assume that its deviation from equilibrium is equal to the deviation of real value added growth in construction from its equilibrium level.**

**Figure 30. Dashboard of the Estonian economy<sup>30</sup>**



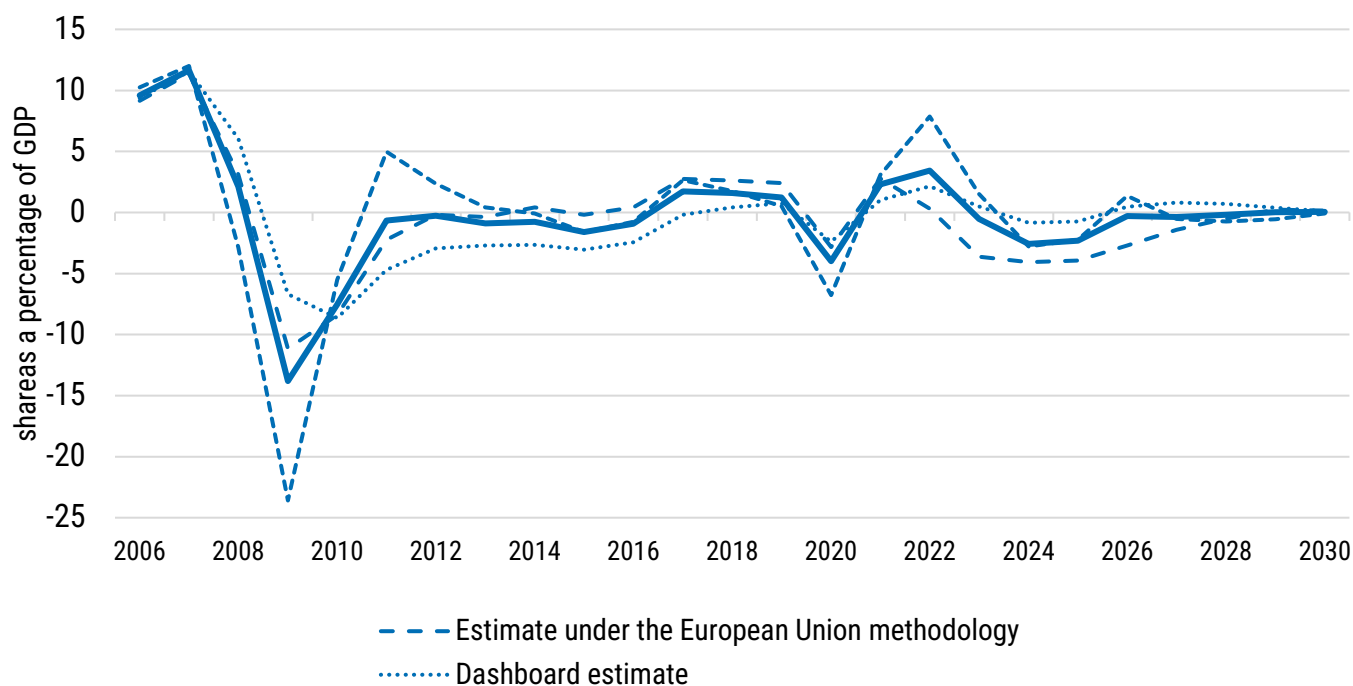
Source: calculations and compilation by the Ministry of Finance; data sources: Eesti Pank, European Commission, Eurostat, Land and Spatial Development Board, transaction database, Statistics Estonia, Ministry of Finance forecast

For the final two years of the forecast period, it is assumed that the estimated deviation of the indicators from their equilibrium levels converges to zero in equal steps over eight quarters. According to the estimate of the dashboard's composite indicator, the temperature of the economy warms in 2026 and 2027 but figure 30. dashboard of the estonian economy<sup>30</sup>broadly close to balance (see Figure 30). An estimate of the output gap has been **derived using the dashboard's composite indicator. That estimate suggests that in recent years the economy has been much closer to its potential level than indicated by the output gap estimate derived under the European Commission's methodology.**

**In addition to the dashboard estimate, two further methods are taken into account in assessing the cyclical position of the economy: an estimate calculated from trends in nominal tax bases and the estimate derived under the European Commission's methodology.** Trends in nominal tax bases add a revenue-side perspective. Three main components are used as nominal tax bases: private and general government consumption as the base for consumption taxes, wage costs as the base for labour taxes, and operating surplus as the base for capital taxes. Their trends help answer the question whether the economy is facing a crisis in which the state's revenue base is genuinely weakening, or rather a temporary

adjustment. This helps assess the extent to which the budget position is being affected by economic developments that most directly influence state revenue, whether those developments may contribute to an under- or over-performance of revenue, and how this should affect budget preparation. Changes in tax rates are not taken into account in the tax base analysis; only developments in the economic indicators underlying taxation are considered. Changes in tax rates can be treated as factors with a lasting effect on the budget, and their impact therefore need not be removed when calculating the structural budget position.

**Figure 31. Estimates of cyclical conditions in the economy derived by different methods and the composite estimate of the economic cycle<sup>31</sup>**



Source: Ministry of Finance calculations

**The Ministry of Finance's estimate of cyclical conditions in the economy is the arithmetic mean of the three estimates described above.** The estimates of cyclical conditions derived from the different methods, and the composite estimate of the economic cycle, are figure 31. estimates of cyclical conditions in the economy derived by different methods and the composite estimate of the economic cycle<sup>31</sup>Figure 31. The composite estimate indicates that the economy is close to balance this year and next.

**We are also introducing an updated coefficient for the cyclical sensitivity of the budget, with a new value of 0.297.** The coefficient of cyclical budget sensitivity shows how strongly budget revenue and expenditure respond to economic developments, that is, the extent to which the nominal budget position is affected by the economic cycle. In calculating the cyclical impact, we have used a coefficient of 0.486 since the spring of 2019. That coefficient is based on an estimate from 2018 and no longer reflects today's economic structure. In the European Union, updates to these coefficients have been postponed repeatedly, mainly because of crises. Last year, the Fiscal Council reassessed the parameter of cyclical budget sensitivity and found that a realistic value would be around 0.3 rather than near the previous level of 0.5. We agree <sup>7</sup>with that analysis. It is likely that when the European Commission revisits the recalculation of the coefficients, it will arrive in the coming years at a similar figure on the basis of the same calculations.



## Annex 3. Analysis of forecast errors

Macroeconomic and public finance forecasts in recent years have been more error-prone than usual, reflecting more volatile economic conditions, under which forecast accuracy inevitably declines. A similar increase in forecast errors can be observed in other European Union countries, which is unsurprising, because the pandemic, the energy crisis and Russia's war have affected all countries in the region in broadly similar ways. Despite weaker-than-expected economic developments and subdued external demand, tax revenue has exceeded expectations, driven by rapid inflation and a relatively strong labour market.

In addition, the forecast of the budget position has been affected by numerous tax policy changes, which have been accompanied by changes in the behaviour of economic agents. The need to mitigate the adverse effects of successive crises has required supplementary budgets to be prepared in almost every year over the past six years. In the crisis years, the scale of measures adopted in preparing the state budget also increased, averaging 2.2 per cent of GDP, almost four times the level seen before the crises. At the same time, the error in the budget position increased almost fivefold, showing that budget measures decided by the Government of the Republic over a short period carry a risk that their eventual cost will differ from the original estimate.

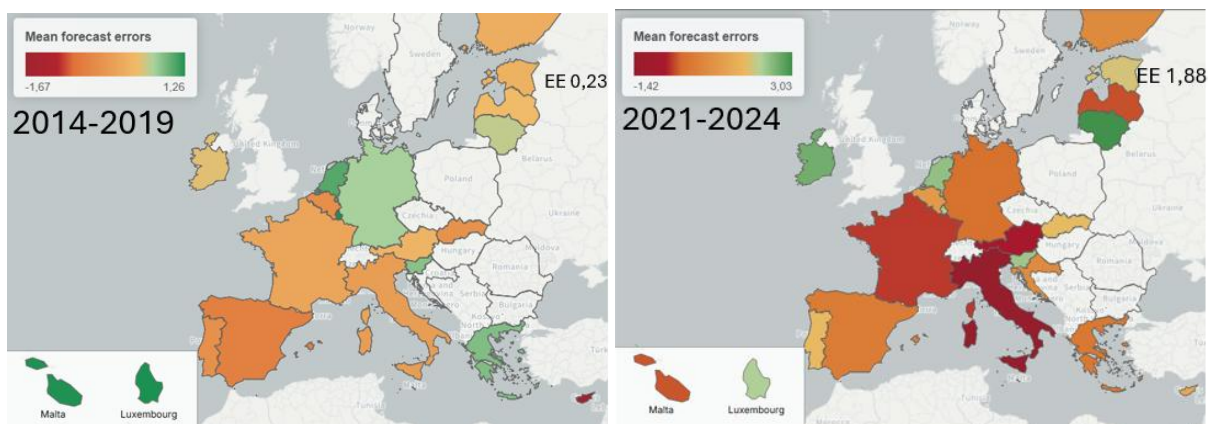
The purpose of the analysis is to identify the difference between the actual general government budget position and that projected in the budget, and to examine the causes of those differences, that is, the forecast errors. The analysis is based on the general government position projected in the state budget prepared in September of the year preceding the year under review and the actual outturn. Observations over a longer period show that macroeconomic and public finance forecasts are more accurate in periods of stable growth and less accurate during periods of rapid expansion or contraction. Forecast errors increased significantly in the crisis years. Figure 32 shows that, in the period between the financial crisis and the COVID-19 crisis, namely 2012 to 2019, the average forecast error was 0.2 per cent of GDP, with errors in both directions. The 2020 budget was prepared in balance in the autumn of 2019, before the outbreak of the COVID-19 crisis, which resulted in a difference of 5.4 per cent of GDP once the crisis emerged, mainly because tax revenue fell under restrictions on economic activity. The 2021 budget was prepared in the midst of the COVID-19 crisis under conditions of considerable uncertainty. The first wave of the crisis proved easier to manage than expected, the economy recovered faster than anticipated, and the deficit was smaller than projected. This was followed by the energy crisis and the start of Russia's war in Ukraine, which prolonged instability in the economic environment. In 2022 to 2025, the average forecast error was 1.3 per cent of GDP, and in every year the forecast was more negative than the actual result. The present analysis focuses on that period.

**Figure 32. Planned and actual general government budget position (% of GDP)<sup>32</sup>**



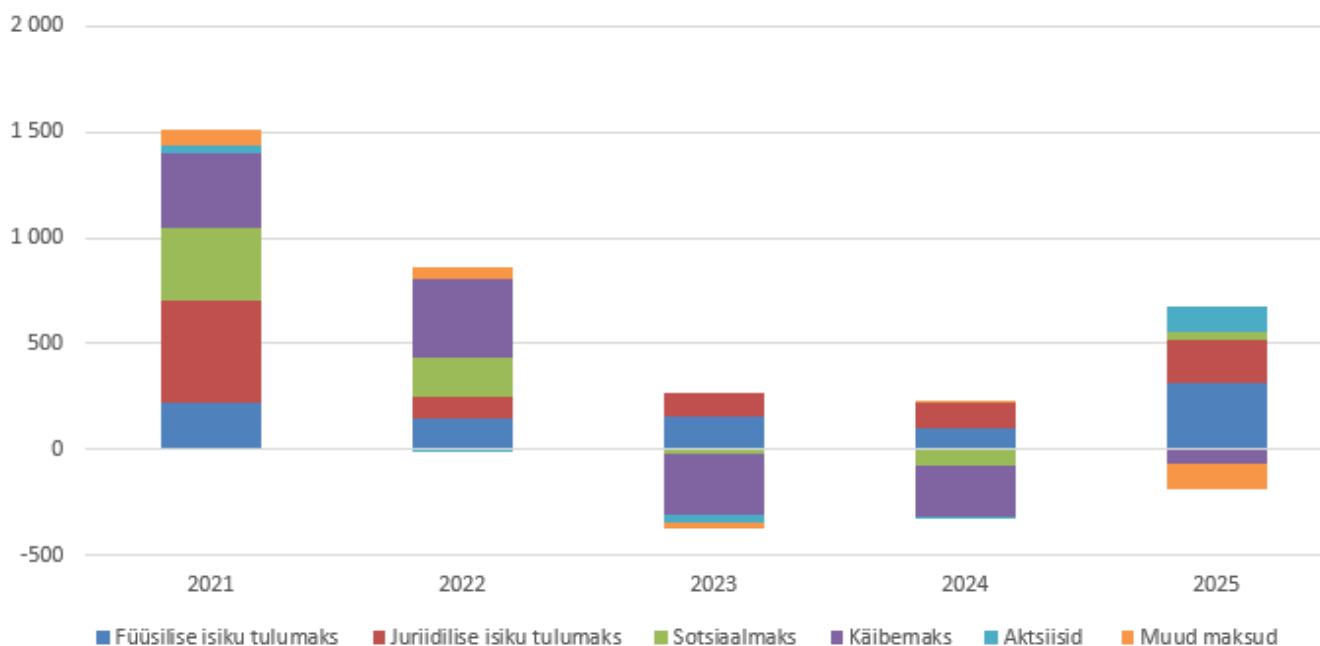
The increase in forecast errors in crisis years is also evident from the experience of other countries. In the years before the crises, Estonia's forecast error was among the smallest compared with other countries and with the euro area. The average error in 2021 to 2024, however, increased significantly and was one-sided both in Estonia and, among neighbouring countries, in Lithuania as well. In Latvia, Germany and Finland, errors occurred in both directions, which is why their average error is significantly smaller.

**Figure 33. Average forecast error of the budget position in euro area countries in 2014-2019 and 2021-2024<sup>33</sup>**



The largest part of general government is the state budget, and the largest part of the forecast error for the general government budget likewise reflects the difference between actual and projected state budget revenue and expenditure. Since 2021, revenue has exceeded the budget in almost every year, while expenditure has come in below forecast, thereby reducing the budget deficit from 2023 onwards. Within revenue, the main component is tax revenue, which affects not only the state budget but also the financial positions of local governments, the Health Insurance Fund and the Unemployment Insurance Fund. Of the tax categories, labour-related income taxes and corporate income tax linked to the distribution of profits have performed better than projected in the budget.

Figure 34. Forecast error for tax revenue (EUR million)<sup>34</sup>



The accuracy of the tax revenue forecast is directly linked to the macroeconomic forecast. Over the period under review, economic volatility has been greater than average, and forecast errors have therefore been significantly larger than the historical average, by a factor of three to four. Whereas in the more stable period from 2011 to 2019 the root mean square error of the Ministry of Finance's summer forecasts for the following year was 3.9 and the average error was minus 0.25, in 2021 to 2025 the corresponding figures were 13.1 and 1.9. Similar errors are also seen in the forecasts of other institutions, meaning that the Ministry of Finance's forecasts do not stand out as either materially less accurate or materially more accurate.

A comparison between forecasts and realised outcomes shows that errors were made both in forecasting the depth of the recession and in forecasting the speed of the recovery:

- No forecasting institution anticipated such rapid inflation and the recession that accompanied it.
- Export markets were disappointing throughout the period under review in terms of GDP growth, though somewhat less so in the final two years. <sup>8</sup>Forecast errors for the import demand of our trading partners were smaller, and the forecasts were essentially correct in 2022 and almost correct in 2025.
- Errors in forecasts of export markets were transmitted directly into the export forecast.
- The contribution of net exports was more negative than expected throughout the period under review, because the coronavirus crisis coincided with the point at which, as a result of greener environmental policy, Estonia moved from being a net exporter of energy and electricity to being a net importer and transit country. Electricity transit from Finland to the other Baltic states increases our external trade turnover, but does not create local value added.

In addition to the instability of the economic environment, the inaccuracy of tax forecasts has been **increased by several policy** changes, such as making the second pension pillar voluntary, changes to the tax-free allowance, postponing the removal of the tax wedge, and increases in tax rates, all of which have led to behavioural changes that are difficult to forecast. The scale of temporary budget measures has also increased in the crisis years. Because the assessment of their impact includes their tax content, actual

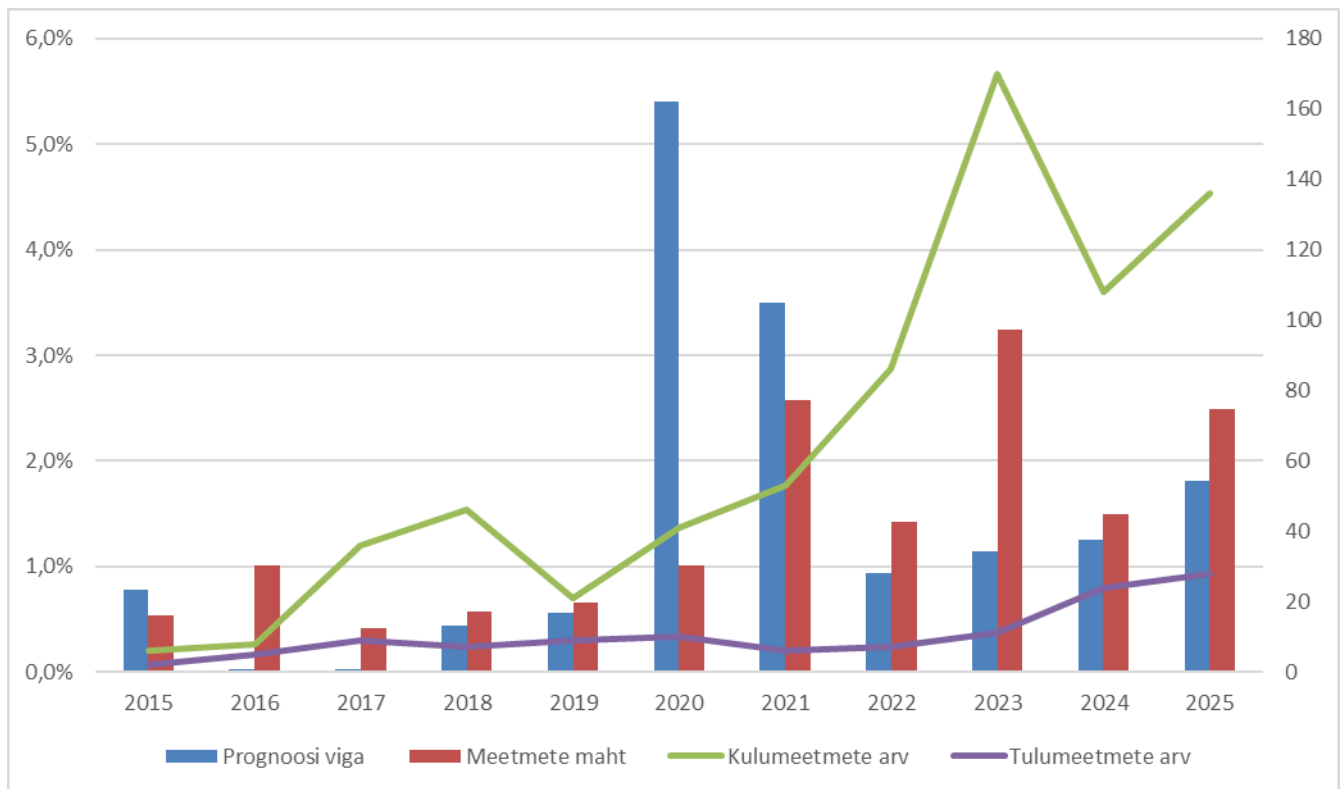
implementation also affects receipts. Tax revenue is additionally influenced by changes in the tax gap and by firms' tax behaviour, which is particularly difficult to forecast in unsettled times. VAT arrears, for example, have increased significantly in recent years.

In addition to tax revenue, the state budget position has also been affected by differences between actual and budgeted non-tax revenue. One of the main reasons is the effects of the energy crisis, which raised revenue from the sale of quotas through a rapidly rising CO2 allowance price, increased oil shale extraction charges through a higher oil price, and enabled Eesti Energia to earn higher profits and pay larger dividends than planned in the budget because of higher electricity prices.

State budget expenditure has **also been affected by the** crises. One reason for the difference between budgeted and actual expenditure is the supplementary budgets adopted **during the budget** year, which have been prepared every year in recent years, except in 2023. Measures decided in the process of adopting the next year's budget also generally affect the current budget year. For example, the 2024 budget was adopted at the end of 2023 with a deficit of 2.9 per cent. In the spring of 2024, a supplementary budget reduced the deficit by 0.4 per cent of GDP through expenditure savings and higher dividend revenue, and in the autumn of that year, during the preparation of the 2025 budget, it was reduced by a further 0.1 per cent of GDP. Of the total change of 1.2 per cent, budget decisions therefore accounted for 0.5 per cent and other factors for 0.7 per cent of GDP. By contrast, the 2022 supplementary budget increased several expenditure items in order to mitigate the effects of the energy crisis, including the creation of a state gas reserve, and to receive refugees from the war in Ukraine. As a result, the budget deficit increased by 1.8 per cent of GDP. The actual deficit turned out to be much smaller, among other things because not all supplementary budget measures were implemented in full.

**The crisis years have significantly increased both the number of measures approved in the preparation of the budget and their** financial scale. Whereas in 2015 to 2019 the average size of measures was 0.6 per cent of GDP and the forecast error 0.4 per cent of GDP, in 2021 to 2025 the corresponding figures were 2.2 per cent and 1.7 per cent of GDP. The growth in the scale of measures and the planning of budgets with large deficits have been made possible by the temporary suspension of the fiscal rules by the European Commission, which over several consecutive budget processes has come to seem almost normal. As a result, the scale of measures has increased almost fourfold and the forecast error almost fivefold compared with the pre-crisis period. This suggests that the sharp increase in the scale of measures has contributed to greater inaccuracy in forecasts. The explanation lies in the specific features of the forecasting and budget preparation processes. The preparation of the macroeconomic and fiscal forecast follows a fixed methodology and a pre-agreed timetable in which all major questions are resolved in sufficient depth. The budgeting process is much shorter in time, and the submission of measures to the Government of the Republic for discussion is not governed by the same degree of procedure. As a result, approved measures may vary greatly in their degree of preparation, and their detailed content and cost estimates may change materially after the budget has been adopted. Taken together, this creates a clear risk of larger forecast errors. Figure 35 presents the forecast error for the budget position in a given year and the scale of measures approved by the government during budget preparation. Both indicators are shown in absolute amounts, because measures can either increase or reduce the deficit, and both types can contribute to forecast errors.

Figure 35. Scale of fiscal policy measures and forecast error in 2015-2025 (% of GDP)<sup>35</sup>



Looking at expenditure by category, it is clear that since the onset of the crises, and especially from 2023 onwards, spending on **defence has increased** rapidly. This has put heavy pressure on defence procurement systems both in Estonia and in other European countries, significantly increasing the uncertainty around the implementation of plans.

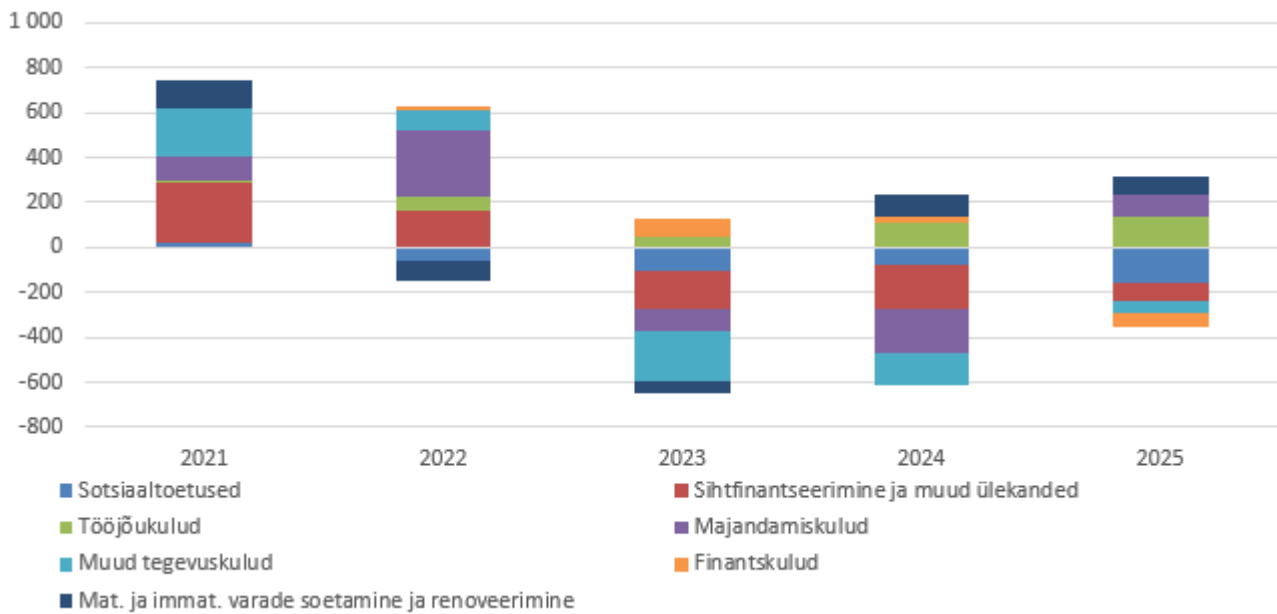
**Expenditure on social** benefits in 2022 to 2025 was lower than projected in the budget by EUR 56 million to EUR 159 million a year. This mainly reflects the two largest components of social expenditure, pensions and parental benefit expenditure. In the case of parental benefit, the forecast for births proved too optimistic, while in the case of pensions, mortality after the coronavirus period has been higher.

**Operating** expenditure, that is, labour costs and administrative expenditure, exceeded the budget in 2021, 2022 and 2025. These items should be considered together, because there is some flexibility in budget execution to transfer these costs from one line to another. Under a frozen wage fund, resources have therefore been found in the administrative expenditure budget to ease wage pressures, which means that actual labour costs have mostly exceeded the planned budget. This makes these costs harder to forecast, because the ministry-level forecasts cannot be taken at face value. Within administrative expenditure, defence-related special equipment costs have risen rapidly over the years and this is the main reason why the budgeted level was exceeded in 2025. The overspending in 2021 and 2022, by contrast, was caused by the rapid rise in energy prices, which could not be anticipated.

**In the case of investment**, it is clear that the final budget has been significantly larger than the original budget. This is mainly due to carry-overs from the previous year, that is, funds not used during the budget year and transferred into the next year. Actual investment execution, however, tends to correspond more closely to the size of the original budget, which suggests that planning does not adequately take carry-over

funds into account. In general, the ability to implement investment corresponds to the volume planned in the budget, but additional resources, whether carry-overs or funds added through supplementary budgets, cannot then be implemented in full or else push newly added resources into subsequent periods.

**Figure 36. Forecast error for state budget expenditure (EUR million)<sup>36</sup>**



## Annex 4. ADDITIONAL TABLES AND FIGURES

**Table 6. GDP forecast, 2026-20306**

%	2013–2023	2024	2025	2026	2027	2028	2029	2030
1. Real GDP growth	2,2	-0,1	0,6	2,3	2,5	2,3	2,2	2,1
1a. GDP at constant prices (EUR billion)		28,9	29,1	29,8	30,5	31,2	31,9	32,6
2. Nominal GDP growth	7,2	3,9	4,4	6,0	5,2	4,7	4,5	4,4
2a. GDP at current prices (EUR billion)		39,8	41,6	44,1	46,4	48,6	50,8	53,0
2b. GNI at current prices (EUR billion)		39,0	41,0	43,6	45,7	47,9	50,0	52,2
Sources of growth								
3. Private consumption expenditure (incl. NPISH)	3,2	0,0	-0,1	2,5	1,8	1,5	1,9	1,8
4. General government final consumption expenditure	2,1	1,8	2,6	9,9	0,2	1,8	-0,6	-0,8
5. Gross fixed capital formation	3,7	-6,5	3,2	10,1	1,9	0,9	-0,3	1,7
6. Domestic demand	3,1	-1,3	1,3	6,1	1,5	1,4	0,8	1,2
7. Exports of goods and services	3,4	-1,5	5,0	2,2	2,9	2,9	3,0	2,8
8. Imports of goods and services	4,1	0,4	5,0	5,8	2,3	2,2	1,5	1,6
Contribution to GDP growth								
9. Domestic demand	2,9	-1,4	1,3	6,1	1,5	1,5	0,8	1,2
10. Balance of goods and services	-0,4	-1,5	-0,3	-3,1	0,3	0,3	1,2	0,9
Value added growth								
11. Primary sector	-4,2	28,5	-10,2	2,0	2,0	2,0	2,0	2,0
12. Industry	0,6	-3,1	5,1	2,6	2,7	2,3	2,3	2,3
13. Construction	2,9	-12,7	-3,3	2,6	3,2	3,2	3,1	3,1
14. Services	2,8	0,1	-0,1	2,0	2,3	2,2	2,0	1,9

**Table 7. Price forecast, 2026-20307**

%	2013–2023	2024	2025	2026	2027	2028	2029	2030
1. GDP deflator	4,9	4,0	3,8	3,6	2,7	2,3	2,3	2,2
2. Private consumption deflator	4,2	3,4	3,0	3,9	2,6	2,2	2,1	2,0
3. Harmonised index of consumer prices	3,8	3,7	4,8	4,0	2,7	2,3	2,2	2,1
3a. Consumer price index	4,0	3,5	4,8	4,0	2,7	2,2	2,1	2,0
4. Deflator of general government consumption expenditure	6,1	5,7	3,9	4,1	3,0	2,6	2,6	2,5
5. Investment deflator	2,6	4,5	2,6	2,5	2,8	2,5	2,5	2,4
6. Export deflator	3,1	2,6	3,1	2,9	2,1	2,0	1,9	2,0
7. Import deflator	2,5	1,6	2,1	2,8	1,9	1,8	2,0	2,0

**Table 8. Labour market forecast, 2026-2030 (ages 15-74)8**

%	2013–2023	2024	2025	2026	2027	2028	2029	2030
1. Employment (thousand persons)	655,0	698,7	693,2	695,8	698,2	698,5	698,5	698,5
1a. Employment growth	1,1	0,6	-0,8	0,4	0,3	0,0	0,0	0,0
2. Unemployment rate	6,3	7,6	7,5	6,7	6,4	6,3	6,2	6,1
3. Growth in labour productivity (by number of employed persons)	1,1	-0,7	1,4	1,9	2,2	2,3	2,2	2,1
4. Real growth in the average wage	3,4	4,4	0,8	1,1	2,0	2,2	2,2	2,1
4a. Average wage (EUR)		1 981	2 092	2 201	2 304	2 405	2 509	2 614
4b. Nominal growth in the average wage	7,4	8,1	5,6	5,2	4,7	4,4	4,3	4,2
4c. Growth in the net wage bill	8,2	5,8	-0,1	10,5	4,8	4,2	4,1	4,0
4d. Growth in the purchasing power of the net wage bill	4,2	2,2	-4,7	6,2	2,1	1,9	1,9	2,0

**Table 9. Balance of payments forecast, 2026-20309**

% of GDP	2013–2023	2024	2025	2026	2027	2028	2029	2030
1. Net liabilities to the rest of the world	1,8	0,4	1,9	0,5	0,1	0,6	1,6	1,7
1a. Current account	-0,3	-1,2	-0,2	-2,4	-2,3	-1,7	-0,8	-0,1
2. Balance of goods and services	1,8	0,3	1,0	-1,6	-1,0	-0,4	0,8	1,7
3. Balance of primary and secondary income	-2,1	-1,5	-1,2	-0,7	-1,3	-1,3	-1,5	-1,9
4. Capital account	2,1	1,7	2,0	2,9	2,4	2,3	2,3	1,8
5. Errors and omissions	-0,1	-0,4	0,2					

**Table 10. Adverse risk scenario10**

%	Risk scenario				Difference from the baseline forecast		
	2025	2026	2027	2028	2026	2027	2028
1. GDP at current prices	41,6	43,8	45,9	48,1	-0,3	-0,5	-0,5
2. Real GDP growth	0,6	0,8	1,5	2,3	-1,5	-1,0	0,0
3. Nominal GDP growth	4,4	5,2	4,8	4,7	-0,8	-0,4	0,0
4. CPI	4,8	5,0	3,2	2,0	1,0	0,5	-0,2
5. Real growth in domestic demand	1,3	4,8	0,6	1,6	-1,3	-0,9	0,2
6. Real export growth	5,0	0,7	1,8	3,1	-1,5	-1,1	0,2
7. Employment growth	-0,8	0,0	0,1	0,2	-0,4	-0,2	0,2
8. Unemployment	7,5	7,0	6,9	6,7	0,3	0,5	0,4
9. Nominal wage growth	5,6	4,8	4,3	4,6	-0,4	-0,4	0,2

Source: Ministry of Finance, Statistics Estonia.

**Table 11. Comparison of economic forecasts (%)<sup>11</sup>**

	Real GDP growth			Nominal GDP growth		
	2026	2027	2028	2026	2027	2028
Rahandusministeerium	2,3	2,5	2,3	6,0	5,2	4,7
Eesti Pank	2,8	2,5	2,8	6,5**	5,3**	5,2**
Swedbank	2,3	2,6	-	5,3**	5,3**	-
SEB	2,7	2,8	-	-	-	-
Luminor	2,0	3,0	3,0	-	-	-
Consensus Forecasts	2,3	2,6	-	-	-	-
Euroopa Komisjon	2,1	2,0	-	6,4**	4,5**	-
IMF	1,5	1,8	1,8	5,6	5,3	4,8
OECD	2,9	2,8	-	6,2**	5,3**	-
Konjunkturiinstituut	2,0	-	-	-	-	-

	Consumer price index			General government position (% of GDP)		
	2026	2027	2028	2026	2027	2028
Rahandusministeerium	4,0 (4,0*)	2,7 (2,7*)	2,2 (2,3*)	-4,3	-4,9	-4,3
Eesti Pank	3,8 (3,9*)	2,2 (2,3*)	2,2 (2,1*)	-4,4	-4,4	-4,1
Swedbank	2,6	2,4	-	-4,4	-4,4	-
SEB	3,0*	2,6*	-	-2,8	-3,0	-
Luminor	3,0	2,0	3,0	-3,0	-3,0	-3,0
Consensus Forecasts	3,2	2,7	-	-4,1	-3,7	-
Euroopa Komisjon	2,8*	2,2*	-	-4,4	-4,4	-
IMF	4,3*	3,3*	2,6*	-4,0	-3,8	-2,9
OECD	3,5*	2,3*	-	-4,5	-4,3	-
Konjunkturiinstituut	3,0	-	-	-	-	-

\* Harmonised index of consumer prices.

\*\* Calculated on the basis of the forecast for nominal GDP or by summing real GDP growth and the deflator.

*Sources:*

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**Table 12. Main external assumptions of the forecast (%)<sup>12</sup>**

	Assumptions in the spring 2026 forecast							
	2013–2023	2024	2025	2026	2027	2028	2029	2030
1. Euro area 3-month interest rate (annual average)	0,2	3,6	2,2	2,2	2,4	2,5	2,6	2,7
2. Euro area long-term interest rate (annual average)	0,6	2,3	2,6	2,9	3,0	3,2	3,3	3,4
3. EUR/USD exchange rate (annual average)	1,159	1,082	1,130	1,164	1,161	1,161	1,161	1,161
4. Euro area HICP	2,1	2,4	2,1	2,5	2,2	2,0	2,0	1,9
5. Oil price (Brent, USD/barrel)	71,8	80,7	69,1	80,8	70,9	69,4	69,3	68,3
6. Oil price (Brent, EUR/barrel)	61,6	74,6	61,2	69,4	61,1	59,7	59,7	58,8
7. Gas price (TTF, EUR/MWh)	33,4	34,6	36,3	43,7	32,1	25,0	21,7	21,0
8. Euro area GDP growth	1,4	0,9	1,4	0,8	1,2	1,4	1,3	1,2
9. Growth in import demand in export markets	2,8	1,0	3,7	2,1	2,7	2,9	2,8	2,8

Sources: Eurostat, Eesti Pank, European Central Bank (ECB), IMF, Consensus Economics (CF), European Commission (COM), OECD, Chatham Financial, Bloomberg.

**Table 13. General government budget revenue and expenditure and forecast for 2026-203013**

	2013-23	2013-23	2024	2024	2025	2026	2027	2028	202	2030
	EUR million	% of GDP	EUR million	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
<b>Budget positions by general government sub-sector</b>										
1. General government	-350,9	-1,10	-688,8	-1,73	-1,18	-4,33	-4,91	-4,32	-4,54	-3,73
2. Central government	-340,3	-1,07	-565,0	-1,42	-0,78	-3,94	-4,53	-3,98	-4,07	-3,40
4. Local governments	-59,8	-0,20	-160,8	-0,40	-0,23	-0,12	-0,18	-0,15	-0,30	-0,18
5. Social security funds	49,2	0,17	37,1	0,09	-0,17	-0,27	-0,21	-0,19	-0,17	-0,15
<b>General government</b>										
6. Total revenue	10511,2	38,97	16827,8	42,23	44,00	42,43	41,13	40,81	40,22	39,74
7. Total expenditure	10862,1	40,07	17516,6	43,96	45,18	46,77	46,04	45,14	44,76	43,47
8. Budget position	-350,9	-1,10	-688,8	-1,73	-1,18	-4,33	-4,91	-4,32	-4,54	-3,73
9. Interest expenditure	27,7	0,09	233,1	0,59	0,49	0,63	0,80	0,94	1,08	1,22
10. Primary balance	-340,9	-1,06	-368,3	-1,14	-0,69	-3,70	-4,11	-3,38	-3,46	-2,51
11. One-off and temporary measures	54,9	0,09	0,0	0,41	0,34	0,00	0,00	0,00	0,00	0,00
<b>Revenue by component</b>										
12. Tax revenue (12=12a+12b+12c)	5749,8	21,35	9120,0	22,86	24,54	23,47	23,06	23,05	22,76	22,63
12a. Taxes on production and imports	3709,8	13,84	5549,1	13,93	14,04	14,71	14,44	14,20	13,78	13,56
12b. Current taxes on income and wealth	2042,1	7,52	3558,4	8,93	10,50	8,77	8,62	8,84	8,97	9,07
12c. Capital taxes	0,00	0,00	0,0	0,00	0,00	0,00	0,00	0,00	0,00	0,00
13. Social contributions	3144,6	11,63	5007,9	12,57	12,70	12,61	12,61	12,60	12,58	12,57
14. Property income	214,0	0,82	438,5	1,10	0,65	0,59	0,48	0,50	0,39	0,38
15. Other revenue	1400,7	5,17	2273,9	5,71	6,12	5,76	4,98	4,67	4,49	4,15
16.=6. Total revenue	10511,2	38,97	16827,8	42,23	44,00	42,43	41,13	40,81	40,22	39,74
Memo: tax burden (D.2 (incl. paid to the EU)+D.5+D.611+D.91-D.995)	8874,3	32,91	14026,4	35,20	37,01	35,88	35,47	35,44	35,13	35,00
<b>Expenditure by component</b>										
17. Compensation of employees + intermediate consumption	4621,8	17,12	7377,9	18,50	18,72	19,11	18,89	19,04	18,55	17,98
17a. Compensation of employees	2902,2	10,72	4871,8	12,23	12,30	12,37	12,13	12,00	11,87	11,69
17b. Intermediate consumption	1720,0	6,41	2500,3	6,27	6,41	6,74	6,76	7,04	6,68	6,29
18. Social transfers (18=18a+18b)	3770,4	13,90	5996,2	15,05	15,26	15,00	14,77	14,64	14,58	14,50
<i>of which unemployment benefits</i>	195,1	0,27	287,9	0,72	0,69	0,68	0,61	0,60	0,59	0,57
18a. Social transfers in kind	551,2	2,00	961,9	2,41	2,51	2,40	2,40	2,41	2,44	2,46
18b. Cash social transfers	3219,2	11,90	5034,3	12,63	12,76	12,61	12,37	12,23	12,14	12,04
19.=9. Interest expenditure	27,8	0,09	233,7	0,59	0,49	0,63	0,80	0,94	1,08	1,22
20. Subsidies	279,3	1,01	287,8	0,72	0,59	0,77	0,76	0,73	0,73	0,69
21. Gross fixed capital formation	1483,7	5,45	2478,4	6,22	6,69	7,94	7,24	6,36	6,29	5,62
22. Capital transfers	144,9	0,56	171,1	1,12	1,42	1,29	1,71	1,31	1,31	1,44
23. Other expenditure	503,4	1,86	701,4	1,76	2,02	2,03	1,87	2,11	2,23	2,02
24.=7. Total expenditure	10879,1	40,12	17379,9	43,96	45,18	46,77	46,04	45,14	44,76	43,47
Memo: general government consumption	5215,8	19,29	8382,5	21,04	21,46	22,66	22,30	22,18	21,72	20,91

Sources: Statistics Estonia, Ministry of Finance.

**Table 14. General government expenditure by function of government (COFOG) (% of GDP)<sup>14</sup>**

		2013- 2023	2013- 2023	2024	2024	2025	2026	2027	2028	2029	2030
		EUR million	% of GDP	EUR million	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. General public services	1	1036	3,8	1725,9	4,3	4,6	4,4	4,5	4,6	4,7	4,7
2. Defence	2	589	2,1	1491,2	3,7	4,2	5,0	5,4	5,4	5,4	5,1
3. Public order and safety	3	494	1,8	732,8	1,8	1,8	1,9	1,9	1,8	1,8	1,8
4. Economic affairs	4	1355	5,0	1843,3	4,6	4,9	5,4	5,1	4,6	4,6	4,2
5. Environmental protection	5	175	0,7	280,4	0,7	0,7	0,7	0,7	0,7	0,7	0,7
6. Housing and community amenities	6	111	0,4	162,8	0,4	0,4	0,4	0,4	0,4	0,4	0,4
7. Health	7	1547	5,7	2520,6	6,3	6,4	6,3	6,3	6,2	6,2	6,2
8. Recreation, culture and religion	8	537	2,0	775,7	1,9	1,9	1,9	1,7	1,6	1,5	1,4
9. Education	9	1586	5,9	2492	6,3	6,5	6,8	6,5	6,4	6,1	5,6
10. Social protection	10	3433	12,6	5492	13,8	13,7	13,8	13,6	13,4	13,4	13,3
11. Total general government expenditure	TE	10 862	40,1	17516,7	44,0	45,2	46,8	46,0	45,1	44,8	43,5

Sources: Statistics Estonia, Ministry of Finance.

**Table 15. Cyclically adjusted budget position in 2024-2030 (% of GDP)<sup>15</sup>**

	2013-23	2024	2025	2026	2027	2028	2029	2030
1. Real GDP growth (%)	2,2	-0,1	0,6	2,3	2,5	2,3	2,2	2,1
2. General government budget position	-1,1	-1,7	-1,2	-4,3	-4,9	-4,3	-4,5	-3,7
3. Interest payments	0,1	0,6	0,5	0,6	0,8	0,9	1,1	1,2
4. Real growth in potential GDP (%)	2,5	0,4	0,4	1,0	1,2	1,4	1,5	1,2
4.a Labour contribution to potential growth (%)	0,1	0,6	0,3	0,2	0,0	-0,1	-0,1	-0,3
4.b Capital contribution to potential growth (%)	1,3	0,9	1,0	1,2	1,1	1,1	1,0	0,8
4.c Productivity contribution to potential growth (%)	1,1	-1,2	-0,9	-0,4	0,0	0,4	0,6	0,7
5. Estimate of the economic cycle (output gap)	0,1	-2,6	-2,3	-0,3	-0,4	-0,2	0,0	0,1
6. Cyclical budget component	0,0	-0,8	-0,7	-0,1	-0,1	-0,1	0,0	0,0
7. Cyclically adjusted budget position (7)=(2)-(6)	-1,2	-1,0	-0,5	-4,2	-4,8	-4,3	-4,5	-3,7
8. Cyclically adjusted primary position (8)=(7)+(3)	-1,1	0,4	0,0	-3,6	-4,0	-3,3	-3,5	-2,5
9. Change in external funds, % of GDP	0,1	-0,1	1,3	0,3	0,1	-1,1	-0,1	0,1
10. Fiscal policy impulse	-	Pro-cyclical	Pro-cyclical	Pro-cyclical	Counter-cyclical	Counter-cyclical	Pro-cyclical	Counter-cyclical

Sources: Statistics Estonia, Ministry of Finance.

**Table 16. Actual state budget outturn in 2024 and 2025 and state budget revenue forecast for 2026-203016**

	2024	2025	2026	2027	2028	2029	2030
<b>Taxes and social contributions</b>	<b>13 976,0</b>	<b>15 493,4</b>	<b>15 908,7</b>	<b>16 624,3</b>	<b>17 441,1</b>	<b>18 133,2</b>	<b>18 877,3</b>
Personal income tax (state budget share)	727,2	1111,6	677,0	657,0	814,0	910,0	1009,0
Personal income tax (local government share)	1868,4	1981,9	2075,0	2170,0	2269,0	2367,0	2466,0
Corporate income tax	962,8	1125,3	948,0	1001,0	1049,0	1086,0	1134,0
Social tax	4889,3	5150,5	5420,0	5705,0	5970,0	6230,0	6500,0
Motor vehicle tax		87,1	85,0	85,0	85,0	85,0	85,0
Heavy goods vehicle tax	4,8	4,6	4,6	4,5	4,3	4,2	4,1
VAT	3846,3	4175,9	4724,4	4890,8	5043,5	5169,0	5332,9
Excise duties	1029,9	1087,6	1154,7	1221,4	1257,2	1279,8	1288,3
Alcohol excise duty	253,6	256,8	255,6	271,9	273,4	290,1	294,4
Tobacco excise duty	249,9	260,2	278,0	279,5	286,3	286,6	287,0
Fuel excise duty	516,3	555,8	598,7	637,3	659,9	664,6	667,7
Packaging excise duty	0,2	0,3	0,3	0,3	0,3	0,3	0,3
Electricity excise duty	9,9	14,5	22,0	32,4	37,4	38,2	39,0
Other excise duty	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Gambling tax	57,1	61,3	59,1	61,8	61,5	61,0	63,1
Customs duties	44,8	50,5	54,1	55,8	57,6	59,2	60,9
Unemployment insurance contributions	308,8	327,3	346,0	364,0	381,0	399,0	417,0
Funded pension contributions	178,0	249,3	271,0	311,0	335,0	360,0	385,0
Land tax	58,5	80,5	90,0	97,0	114,0	123,0	132,0
<b>Non-tax revenue</b>	<b>2 310,0</b>	<b>2 705,5</b>	<b>2 740,5</b>	<b>2 209,0</b>	<b>2 173,8</b>	<b>2 207,2</b>	<b>1 605,4</b>
Received support	1 189,5	1 729,4	1 754,2	1 267,6	1 238,6	1 318,3	688,5
State fees	92,2	83,4	92,3	101,1	103,1	102,6	103,7
Revenue from economic activity	445,1	404,9	431,2	390,8	379,6	356,4	380,4
Revenue from the sale of fixed assets and inventories	28,9	23,4	5,5	4,0	3,1	2,9	2,9
Fines and other pecuniary penalties	28,6	50,1	54,9	54,8	54,6	54,6	54,6
Environmental charges	117,7	142,1	144,9	156,3	153,4	150,7	148,9
Other operating revenue	16,1	19,1	20,9	19,3	19,3	19,3	19,3
Interest and owner income	391,8	253,0	236,6	215,2	222,1	202,5	207,2
<b>Total revenue</b>	<b>16 285,9</b>	<b>18 199,0</b>	<b>18 649,2</b>	<b>18 833,3</b>	<b>19 614,9</b>	<b>20 340,4</b>	<b>20 482,7</b>
<b>Growth (%)</b>	<b>8,2%</b>	<b>11,7%</b>	<b>2,5%</b>	<b>1,0%</b>	<b>4,2%</b>	<b>3,7%</b>	<b>0,7%</b>

**Table 17. Main tax changes in 2026 and 2027<sup>17</sup>**

Tax change	Entry into force	Impact 2026		Impact 2027	
		EUR million	% of GDP	EUR million	% of GDP
Increase in the diesel excise rate by 7.3% in 2026 and 2027	01.05.2026; 01.05.2027	22,4	0,1	57,5	0,1
Increase in excise rates on alcoholic beverages by 10% in 2026 and 5% in 2027	01.01.2026; 01.01.2027	9,0	0,0	30,4	0,1
Increase in excise rates on tobacco products by 10% in 2026 and 5% in 2027	01.01.2026; 01.01.2027	8,9	0,0	9,4	0,0
Increase in the petrol excise rate by 5% in 2026 and 2027	01.05.2026; 01.05.2027	7,3	0,0	17,0	0,0
Increase in the electricity excise rate by 45% in 2026 and 2027	01.05.2026; 01.05.2027	6,1	0,0	18,7	0,0
Increase in the natural gas excise rate by 18% in 2026 and 2027	01.05.2026; 01.05.2027	2,2	0,0	7,7	0,0
Increase in excise rates on other smaller fuel types (linked to the diesel rate) in 2026 and 2027	01.05.2026; 01.05.2027	1,3	0,0	2,0	0,0
Taxing M1 category vehicles with more than seven seats at the N1 category motor vehicle tax rate	01.01.2026	-2,0	0,0	-2,0	0,0
Reductions in gambling tax rates	01.01.2026	-6,0	0,0	-9,0	0,0
General tax-free allowance of EUR 700 for all (except those of old-age pension age)	01.01.2026	-485,8	-1,1	-583,1	-1,3
<b>TOTAL</b>		<b>-436,3</b>	<b>-1,0</b>	<b>-451,4</b>	<b>-1,0</b>

\* *Accrual-based effect compared with the rates and arrangements in force on 31 December 2025.*

**Table 18. Tax expenditure in the state budget in 2025-2027 (EUR million)<sup>18</sup>**

	Tax expenditure	Provision	Function of government <sup>9</sup>	2025	2026	2027
1.	VAT rate of 9% on books, workbooks, periodicals and digital publications	KMS §15 lg 2 p 5	education	16,0	17,7	18,1
2.	VAT rate of 9% on medicines and medical devices	KMS §15 lg 2 p 2	health	99,4	108,8	110,2
3.	VAT rate of 13% on accommodation services	KMS §15 lg 2 p 4	recreation, culture and religion	27,0	30,7	31,4
4.	Change in VAT accounting rules for partially or fully unpaid invoices	KMS § 29 <sup>1</sup>	economic affairs	2,8	2,9	3,1
5.	Lower 14% tax rate on regularly distributed profits	TuMS §4 lg 5, §18 lg 1 <sup>3</sup>	economic affairs	15,8		
6.	Tax-free allowance for those of old-age pension age	TuMS §23 <sup>5</sup>	sotsiaalne kaitse	123,4	42,8	45,5
7.	Deduction of training expenses	TuMS §26	education	18,4	21,5	22,8
8.	Kingitused ja annetused	TuMS §27 lg 1, §49 lg 1, 2, 3, 6, §61 lg 66	recreation, culture and religion	12,6	13,6	14,3
9.	Insurance premiums and the acquisition of pension fund units	TuMS §28	sotsiaalne kaitse	26,1	31,8	34,2
10.	Additional tax-free income for sole proprietors on the sale of agricultural produce or timber	TuMS §32 lg 4, §37 lg 11	economic affairs	12,3	13,0	13,6
11.	Tax-free employee health promotion expenditure	TuMS §48 lg 5 <sup>5</sup>	health	22,4	23,5	24,6
12.	Reliefs for seafarers and shipowners	TuMS §13 lg 6, SMS §2 lg 1 <sup>1</sup> ja lg 4 p 8, TuMS §52 <sup>1</sup>	economic affairs	0,3	0,3	0,4
13.	Income tax exemption on the sale of electricity in excess of own consumption	TuMS §15 lg 4 p 12 ja lg 4 <sup>1</sup>	sotsiaalne kaitse	1,4	1,6	2,0
14.	Second-pillar pension contributions from 2025 of 2, 4 or 6% of wages	KoPS § 9 lg 2	sotsiaalne kaitse	21,8	24,3	34,0
15.	50% excise rate for small beer producers	ATKEAS §46 lg 1 <sup>1</sup>	economic affairs	1,0	1,2	1,2
16.	Reduced excise rate for fermented beverages and wine with an alcohol content up to 6% vol. (43% of the standard rate)	ATKEAS §46 lg 2	economic affairs	14,1	15,1	15,5
17.	Reduced excise rate for marked diesel fuel	ATKEAS §66 lg 7	economic affairs	40,0	47,0	52,0
18.	Fuel excise exemption for fishermen	ATKEAS §27 lg 1 p 22 <sup>2</sup>	economic affairs	1,0	1,0	1,1
19.	Electricity used for chemical reduction and in electrolytic, metallurgical and mineralogical processes	ATKEAS §27 lg 1 p 24, p 28 <sup>4</sup>	economic affairs	0,1	0,1	0,2
20.	Electricity and fuel used to generate electricity, and electricity used to maintain electricity generation capacity	ATKEAS §27 lg 1 p 28 <sup>2</sup>	economic affairs	1,2	1,7	2,4
21.	Fuel used in mineralogical processes	ATKEAS §27 lg 1 p 24	economic affairs	0,9	1,1	1,3
22.	Natural gas used to keep the gas network in operation	ATKEAS §27 lg 1 p 28 <sup>6</sup>	economic affairs	0,0	0,1	0,1

	Tax expenditure	Provision	Function of government <sup>9</sup>	2025	2026	2027
23.	Electricity excise relief for large consumers	ATKEAS §66 lg 12 <sup>1</sup>	economic affairs	0,5	0,9	1,4
24.	Gas excise relief for large consumers	ATKEAS §66 lg 10 <sup>3</sup>	economic affairs	0,9	1,1	1,4
25.	Transferred quantity of biofuel not subject to excise duty	ATKEAS §19 lg 14 p 22	economic affairs	1,1	1,4	1,6
26.	Motor vehicle tax relief for vehicle owners with children	MSMS § 15	sotsiaalne kaitse	21,0	21,0	21,0
27.	Taxing M1 category passenger cars with more than seven seats at the N1 category motor vehicle tax rate	MSMS § 12	sotsiaalne kaitse		2,0	2,0
	<b>TOTAL, EUR million</b>			<b>481,3</b>	<b>426,3</b>	<b>455,4</b>
	<b>Share of GDP, %</b>			<b>1,2%</b>	<b>1,0%</b>	<b>1,0%</b>

**Table 19. Change in the general government debt ratio in 2025<sup>19</sup>**

	31 December 2024		31 December 2025		Change
	EUR million	% of GDP	EUR million	% of GDP	% of GDP
<b>General government</b>	9 353,1	23,5	10 028,9	24,1	0,6
<b>Domestic debt</b>	2241,1	5,6	2700,2	6,5	0,9
<b>External debt</b>	7 112,0	17,8	7 328,7	17,6	-0,2
<b>Central government<sup>[1]</sup></b>	9107,0	22,9	9585,9	23,0	0,2
<b>Domestic debt</b>	2 403,7	6,0	2 683,2	6,4	0,4
<b>External debt</b>	6703,3	16,8	6902,7	16,6	-0,2
<b>Local governments</b>	1 562,7	3,9	1 678,9	4,0	0,1
<b>Domestic debt</b>	1154	2,9	1252,9	3,0	0,1
<b>External debt</b>	408,7	1,0	426,0	1,0	0,0
<b>Social security funds</b>	0	0	0	0	0
<b>Domestic debt</b>	0	0	0	0	0
<b>External debt</b>	0	0	0	0	0

[1] Keskvälitsuse tasemel konsolideeritud number.

Source: Ministry of Finance, Statistics Estonia.

**Table 20. General government debt ratio in 2024-2030 (EUR million, % of GDP)<sup>20</sup>**

	2013-2023 average	2024	2025	2026	2027	2028	2029	2030
<b>Total debt (EUR million)</b>	<b>3 820</b>	<b>9 353</b>	<b>10 029</b>	<b>11 789</b>	<b>14 207</b>	<b>16 244</b>	<b>18 655</b>	<b>20 707</b>
of which central government contribution	2 860	7 790	8 350	10 068	12 419	14 398	16 688	18 665
EFSF effect	470	482	482	467	461	455	450	446
central government excluding EFSF	2 390	7 308	7 868	9 600	11 958	13 943	16 238	18 219
local governments	960	1563	1679	1721	1788	1846	1967	2042
<b>Total debt (% of GDP)</b>	<b>13,4</b>	<b>23,5</b>	<b>24,1</b>	<b>26,7</b>	<b>30,6</b>	<b>33,4</b>	<b>36,7</b>	<b>39,0</b>
of which central government contribution	9,8	19,6	20,1	22,8	26,8	29,6	32,9	35,2
EFSF effect	1,8	1,2	1,2	1,1	1,0	0,9	0,9	0,8
central government excluding EFSF	8,0	18,3	18,9	21,8	25,8	28,7	32,0	34,3
local governments	3,6	3,9	4,0	3,9	3,9	3,8	3,9	3,8

\* Consolidated at the general government level

**Table 21. General government liquid financial assets in 2024-2030 (EUR million, % of GDP)<sup>21</sup>**

	<b>2013- 2023 average</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>
<b>Total financial assets (EUR million)</b>	<b>2 500</b>	<b>4 779</b>	<b>3 910</b>	<b>3 762</b>	<b>3 863</b>	<b>3 871</b>	<b>3 962</b>	<b>3 972</b>
of which central government	1 277	3 035	2 262	2 246	2 458	2 576	2 784	2 866
local governments	295	450	431	420	404	389	359	340
social security funds	928	1 294	1 217	1 096	1 000	907	819	766
<b>Total financial assets (% of GDP)</b>	<b>9,2</b>	<b>12,0</b>	<b>9,4</b>	<b>8,5</b>	<b>8,3</b>	<b>8,0</b>	<b>7,8</b>	<b>7,5</b>
of which central government	4,6	7,6	5,4	5,1	5,3	5,3	5,5	5,4
local governments	1,1	1,1	1,0	1,0	0,9	0,8	0,7	0,6
social security funds	3,5	3,2	2,9	2,5	2,2	1,9	1,6	1,4

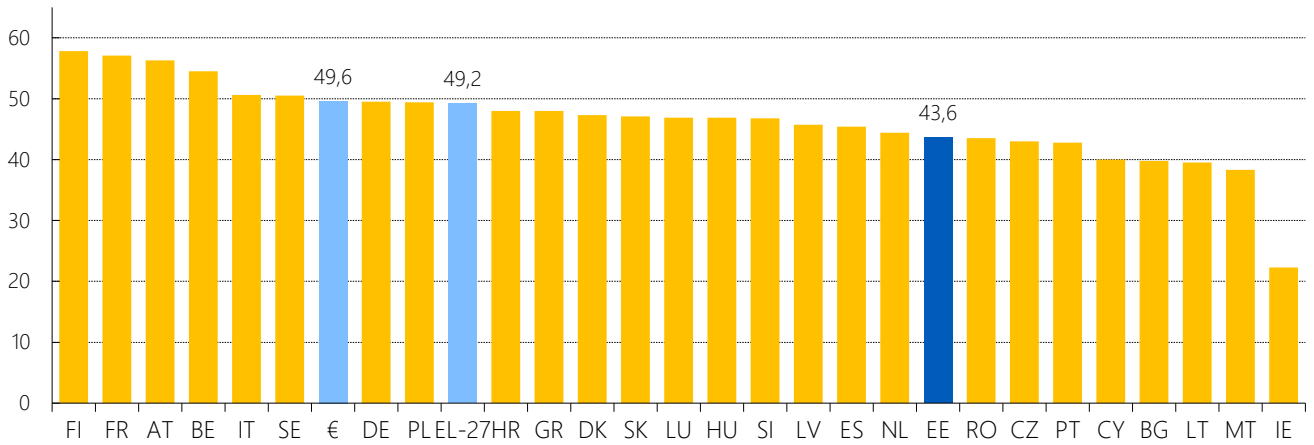
\* Consolidated at the general government level

**Table 22. One-off measures and their impact in 2024-2030 (EUR million)<sup>22</sup>**

Measure	2013-23	2024	2025	2026	2027	2028	2029	2030
Income tax on distributed profits of banks		116	42					
Income tax on distributed profits of companies (excluding banks) before the tax rate increase		48	100					
<b>Total, EUR million</b>	<b>-1</b>	<b>164</b>	<b>142</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total, % of GDP</b>	<b>-0,1%</b>	<b>0,4%</b>	<b>0,3%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>

Source: Ministry of Finance.

**Figure 37. General government expenditure in European Union countries in 2024 (% of GDP)<sup>37</sup>**



**Figure 38. General government expenditure by function in Estonia, 2012-2030 (% of GDP)<sup>38</sup>**

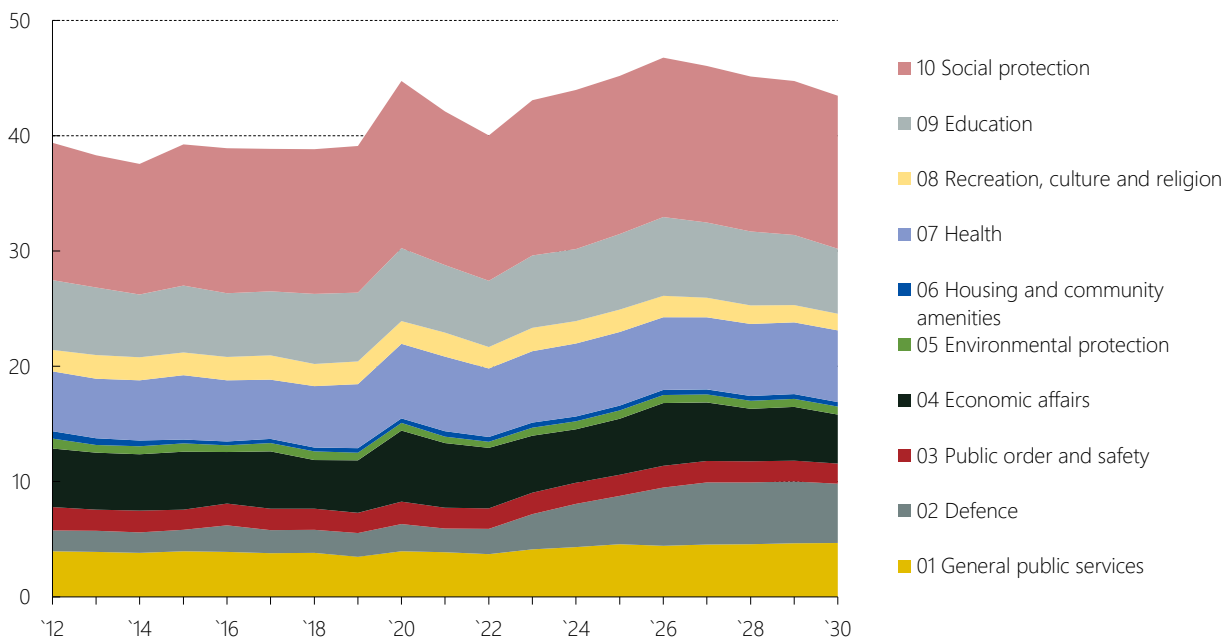
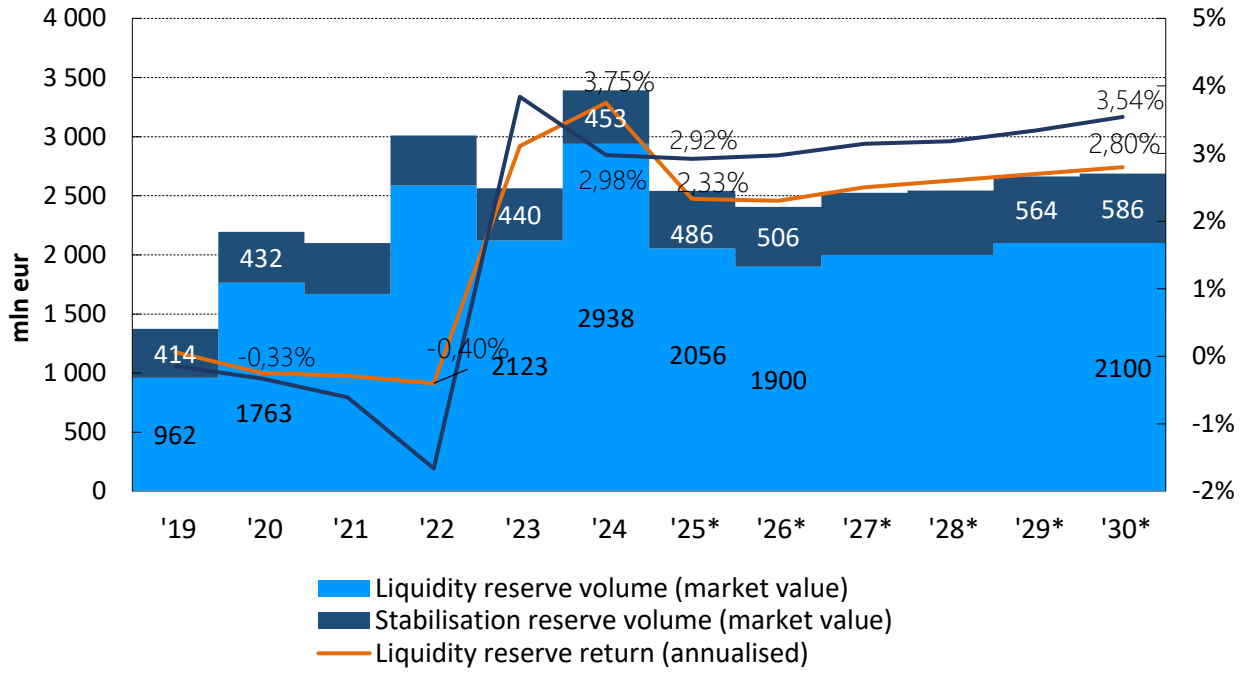


Figure 39. Volume and return of the stabilisation and liquidity reserves<sup>39</sup>



\* Forecast

## NOTES

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<sup>1</sup>OSS (One Stop Shop) and IOSS (Import One Stop Shop) VAT receipts refer to VAT declared and paid under the European Union's special VAT schemes for e-commerce, collected on cross-border B2C transactions and subsequently allocated among Member States according to the location of the final consumer.

<sup>2</sup>It is sometimes also translated as the actual or average tax rate. The preferred term, however, is implicit tax rate, which has a more precise meaning than the alternatives.

<sup>3</sup>The foregone revenue method and cash-based data have been used to estimate the monetary value of tax expenditure, taking into account the lag between the introduction of each tax expenditure provision and its actual application. Only the so-called first-round effects of introducing tax expenditure have been assessed. Because the foregone revenue method is used, the estimates do not take account of behavioural effects or budget constraints. It is important to understand that each tax expenditure provision has been assessed separately, without taking account of interactions between provisions, and therefore the total sum of tax expenditure cannot be derived correctly by simply adding the values of different provisions. Even so, the approach allows the overall trend to be assessed.

<sup>4</sup>Statistics Estonia. Classification of the Functions of Government 1999.

<sup>5</sup>Detailed description of the European Commission's output gap methodology: Havik, K., Mc Morrow, K., Orlandi, F., Planas, C., Raciborski, R., Röger, W., Rossi, A., Thum-Thysen, A., Vandermeulen, V. (2014). The Production Function Methodology for Calculating Potential Growth Rates & Output Gaps. European Commission European Economy Economic Papers 535.

<sup>6</sup>The methodology of the Ministry of Finance's dashboard for the Estonian economy is described at [https://www.fin.ee/sites/default/files/documents/2022-12/Aruanne%20Eesti%20majanduse%20ilmakaart\\_1.pdf](https://www.fin.ee/sites/default/files/documents/2022-12/Aruanne%20Eesti%20majanduse%20ilmakaart_1.pdf)

<sup>7</sup>Fiscal Council. (2025). How sensitive is Estonia's budget deficit to the economic cycle? An analysis of fiscal elasticities. Research author: Liina Rebane.

<sup>8</sup>For external assumptions, including developments in export markets, the Ministry of Finance uses the latest available economic forecasts, adjusted where necessary on an expert basis. The sources include both the forecasts of the countries themselves, such as ministries of finance and central banks, and those of major international institutions, including the ECB, the European Commission, the IMF and the OECD.

<sup>9</sup>Functions of government: 1. general public services; 2. defence; 3. public order and safety; 4. economic affairs; 5. environmental protection; 6. housing and community amenities; 7. health; 8. recreation, culture and religion; 9. education; 10. social protection. (Statistics Estonia. Classification of the Functions of Government 1999)