Rahandusministeerium

ECONOMIC FORECAST
MINISTRY OF FINANCE

2026

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FISCAL POLICY FOREWORD

The economy is moving towards balance, but the public finances are not.

The forecast shows an increasing divergence between developments in the private sector and in the public finances. Following several difficult years, the private sector is gradually returning towards a more normal economic balance. In the public finances, however, the imbalance remains significant. The budget continues to be in substantial deficit, there is as yet no clear political consensus on how the deficit should be reduced over the coming years and, in the absence of policy changes, government debt is projected to increase from just under 25% of GDP at present to almost 40% of GDP.

There are nevertheless grounds for cautious optimism regarding the outlook for the Estonian economy. Revised GDP data confirm what several other indicators had already suggested: the underlying position of the economy in recent years was not as weak as earlier statistics indicated. The external environment has also proved more resilient than was feared in the spring. The conflict in the Middle East remains unresolved and energy prices are still high, but the impact on the global economy has so far been more limited than initially expected. At the same time, inflation in Estonia has declined to one of the lowest rates in the euro area.

Domestic demand is receiving considerable support from fiscal policy this year. Over the coming years, however, the Estonian economy is not expected to require fiscal stimulus on the same scale. From the perspective of fiscal policy, it would therefore be appropriate to reduce the budget deficit gradually, slow the increase in government debt, withdraw fiscal support as economic conditions normalise and restore room for the government to respond to future crises.

The adjustment is complicated by the increase in defence expenditure. Defence spending has contributed to the deficit, but its effect on the domestic economy differs from that of more conventional fiscal stimulus. A significant share of military equipment is purchased from abroad and therefore has a more limited direct effect on domestic demand. Nevertheless, a sustained and rapid increase in government debt would weaken fiscal credibility. It would also not be appropriate to finance Estonia's long-term defence capability primarily through borrowing. The European Union's four-year escape clause should therefore be regarded as a transition period during which a more sustainable financing model for higher defence expenditure should be established.

Election promises should form a coherent and deliverable fiscal plan

As before the previous five Riigikogu elections, we will assess the fiscal cost of parties' election promises next spring. The purpose of this work is not to evaluate political or ideological preferences, but to make the budgetary consequences of the proposals transparent and to assess whether they can be implemented, whether they are likely to produce the expected effects and whether they are consistent with the fiscal position.

It is positive that, as the elections approach, there appears to be broad agreement on several aspects of the starting point for Estonia's public finances. There is a general objective of stabilising government debt by the beginning of the next decade at the latest, maintaining a stable tax environment and improving the efficiency of the public sector while ensuring that public expenditure does not grow persistently faster than the private economy.

Such agreement is important, but agreement on the desired outcome does not in itself constitute an implementable plan. The proposals that have so far entered the public debate do not yet provide a sufficiently coherent and credible path for stabilising government debt. There are many individual measures under discussion, but their fiscal and economic effects are sometimes overstated, and taken together they do not yet form a comprehensive solution.

From the perspective of the public finances, measures that reduce revenue or increase permanent expenditure are particularly challenging when the budget is already in deficit. Tax reductions and tax reliefs may be justified on economic or social grounds, but each measure has a fiscal cost. If the tax base is narrowed, the resulting revenue loss must ultimately be offset either through higher revenue elsewhere or lower expenditure. The tax and benefits systems should therefore be assessed as a whole so that the effectiveness, cost and distributional impact of alternative measures can be properly compared.

The same applies to public expenditure. Improving public-sector efficiency is necessary, but efficiency cannot be achieved through uniform expenditure reductions or broad freezes alone. Different sectors and functions have different responsibilities and cost structures. Most government expenditure is directed towards social benefits, health care, education, investment and security. A meaningful debate on reducing the size of the public sector therefore also requires clarity about which services, benefits or functions would be reduced or discontinued.

General commitments to reduce bureaucracy are not sufficient on their own. Effective expenditure management begins by determining which functions the state must continue to perform, which can be delivered more efficiently, and which may no longer be necessary. Political priorities should be established first, after which decisions can be taken on the institutions, programmes and activities required to implement them. Reversing this sequence may achieve short-term savings, but it does not necessarily lead to a more effective public sector.

Economic growth also cannot be expected to resolve the fiscal imbalance by itself. Stronger growth is essential, and public policy should support productivity, entrepreneurship and investment. However, the current structural imbalance in the budget is too large to be eliminated solely through moderately faster economic growth. Similarly, tax reductions do not generally generate sufficient additional growth to compensate fully for the resulting loss of tax revenue.

Credible economic policy requires consistent and sustainable choices

Economic policy is most effective when decisions are based on careful analysis, realistic fiscal assumptions and a clear assessment of long-term needs. Public debate, however, has become increasingly rapid, polarised and simplified. This can make it more difficult to distinguish between measures that are politically attractive in the short term and those that are financially and economically sustainable.

Experience elsewhere in the European Union demonstrates the risks of postponing necessary fiscal choices or relying on measures whose longer-term effects have not been sufficiently assessed. Tax reductions, spending commitments or consolidation measures that are not supported by a coherent fiscal framework can leave public finances on an unsustainable path for an extended period. The underlying problems then remain unresolved and the eventual adjustment becomes more difficult. Estonia has the opportunity to avoid such an outcome by addressing the fiscal imbalance in a timely and gradual manner. Delaying adjustment would increase the likelihood that more difficult decisions would have to be taken later and under less favourable circumstances.

The credibility of economic policy affects investment decisions, consumer and business confidence, the sovereign credit rating and the government's borrowing costs. If there is uncertainty over whether long-term expenditure commitments are matched by sustainable revenue, that uncertainty can affect the broader economy and weaken the investment environment.

Estonia therefore needs a substantive debate on the long-term direction of fiscal policy before the 2027 Riigikogu elections. Fiscal prudence does not mean that the government should never borrow. It means maintaining a clear distinction between temporary and permanent expenditure, ensuring that long-term commitments have sustainable sources of financing and preserving sufficient fiscal capacity to respond when exceptional circumstances arise. The central objective should be to ensure that Estonia retains the ability to make independent policy choices in future crises rather than allowing those choices to be constrained by an already excessive debt burden.

Fiscal Policy Department

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Table 1. Main forecast indicators

	2025 actual	2026 forecast	2027 forecast	2028 forecast	2029 forecast	2030 forecast
Real GDP annual growth %	1.3	2.5	2.3	2.4	2.2	2.1
Unemployment %	7.5	6.7	6.4	6.3	6.2	6.1
Inflation %	4.8	3.2	2.8	2.2	2.1	2.0
Wage growth %	5.6	5.6	4.7	4.4	4.3	4.2
General government:						
total revenue (EUR million)	18 080	18 713	19 198	19 988	20 542	21 303
total expenditure (EUR million)	18 905	20 683	21 307	22 126	22 731	22 851
surplus/deficit (EUR million)	-825	-1 970	-2 108	-2 138	-2 189	-1 547
nominal budget position (% of GDP)	-2.0	-4.4	-4.5	-4.4	-4.3	-2.9
structural budget position (% of GDP)	-1.5	-4.4	-4.4	-4.3	-4.3	-3.0
debt ratio (% of GDP)	24.0	25.9	29.7	34.0	37.3	38.6
total reserves (% of GDP)	9.7	8.8	8.8	8.6	8.4	8.0

Source: Ministry of Finance summer forecast

Economic growth is accelerating this year. The economic impact of the conflict in the Middle East has so far proved smaller than expected in the spring, and economic conditions in key destination markets for Estonian exports have proved stronger.

GDP grew by 1.3 per cent in 2025, and we expect growth of 2.5 per cent this year and 2.3 per cent in 2027. Growth is supported this year primarily by domestic demand, but also by exports. Domestic demand is receiving a significant boost this year from the introduction of a uniform tax-free allowance, as a result of which growth in the net wage bill is around 10 per cent. Economic conditions in the economies of our key export partners have improved, creating better export opportunities for Estonia.

So far, the impact of the conflict in the Middle East has not fed through more broadly into prices. Although we expect price growth to pick up in the autumn months of this year, **inflation in 2026 as a whole is projected to be markedly slower than in 2025**.

Household consumption is supported by changes to the income tax system, slower price growth and improving confidence. The introduction of a uniform tax-free allowance of 700 euros per month significantly raises the average net wage, although growth in take-home pay is uneven across people with different income levels. Part of the additional income resulting from the income tax change is saved. The unemployment rate is expected to decline over the coming years towards its natural rate, to around 6 per cent.

Investment is projected to remain slightly below its long-term average over the coming years. In particular, investment in new housing is subdued compared with a few years ago. The average interest rate on housing loans is higher than it was before the onset of rapid price growth in 2021-2022, which was accompanied by rising interest rates. Over the coming years, construction activity is, however, likely to be supported by Rail Baltica construction and renovation of buildings.

We expect Estonian exports to grow over the coming years broadly in line with external demand. We project manufacturing production volumes to increase and the industrial sector to recover some of the share it has lost in the economy in recent years.

Public finances are likely to remain under strain in the near term. **This year, the budget deficit is expected to increase to 4.4 per cent of GDP owing to higher defence spending and changes to income taxation. Next year, the deficit is projected to reach 4.5 per cent**, as defence spending increases further and general government investment remains high: supported by high disbursements under EU cohesion policy programmes, the intensive use of EU funds continues, and Rail Baltica construction proceeds at full scale. Thereafter, the deficit is projected to narrow gradually, reaching 2.9 per cent of GDP by 2030.

General government debt is projected to rise to 25.9 per cent of GDP in 2026. The increase in the debt ratio is mainly driven by the large budget deficit, which increases the government's borrowing needs. Interest expenditure on government debt is projected to amount to EUR 239 million this year, broadly in line with the spring forecast. Persistent financing needs are expected to increase the debt ratio by almost 3 percentage points per year on average over the coming years, with general government debt projected to reach 38.6 per cent of GDP by 2030. Although Estonia's general government debt ratio remains one of the lowest in the European Union, it is increasing at one of the fastest rates in the EU.

Figure 1. General government nominal budget position, % of GDP

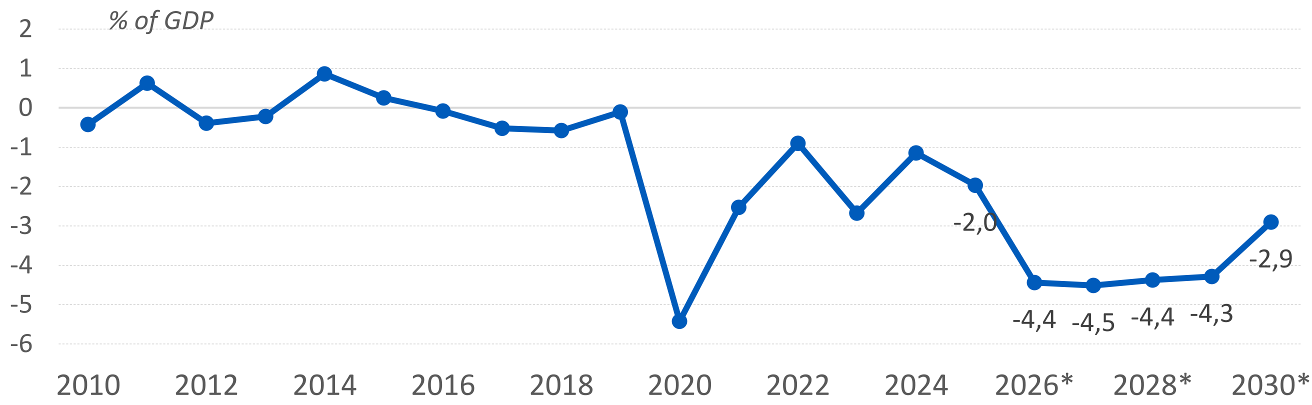
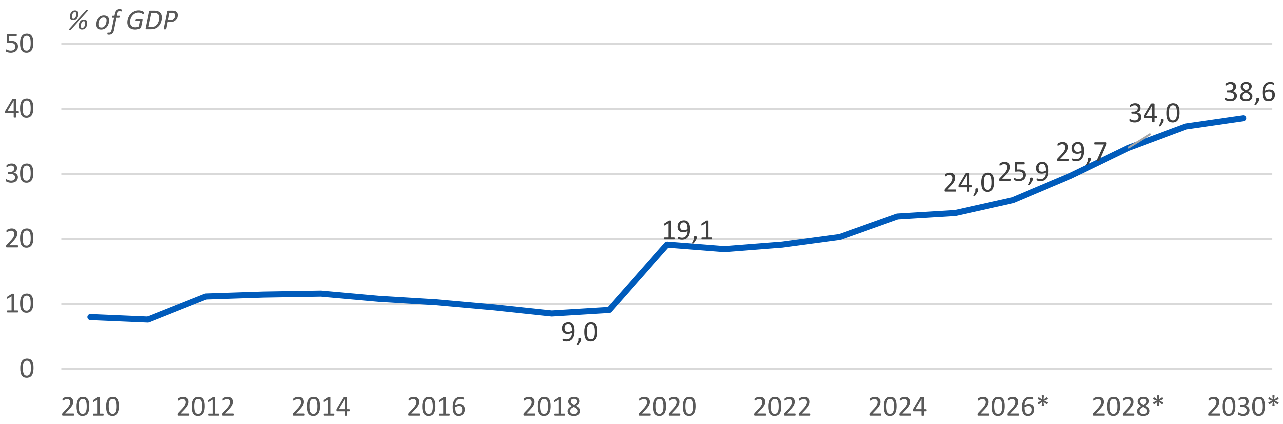


Figure 2. General government debt ratio, % of GDP



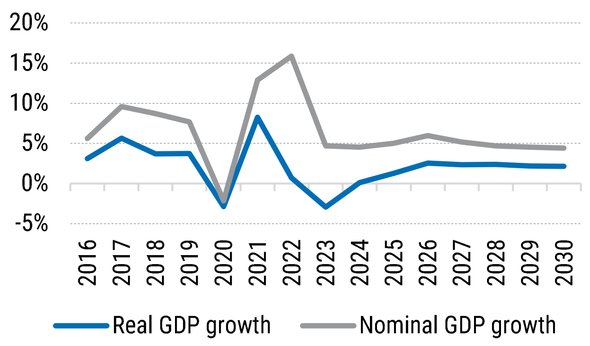
1 MACROECONOMIC FORECAST

1.1 Economic activity and supply

Economic growth is expected to accelerate this year, supported by domestic demand. The external environment is strengthening.

GDP growth accelerated in the first quarter of 2026. The number of corporate bankruptcies fell, while the number of company registrations increased. Moderate economic growth (see Figure 3) is likely to be broad-based this year and in the following years, extending across most activities. Domestic demand is expected to grow faster than exports this year.

Figure 3. GDP growth



Source: Statistics Estonia, Ministry of Finance forecast

Retail sales growth accelerated in the first months of 2026, but slowed again in the second quarter. The growth in retail volume was probably driven to a large extent by the introduction of a uniform tax-free allowance at the start of 2026, with forecast growth in the net wage bill therefore standing at around 10 per cent in 2026. The introduction of the uniform tax-free allowance left households with more money than before, particularly in the upper half of the income distribution. Retail trade statistics show that sales volumes in food shops fell in the first quarter of this year, while real sales in non-food shops increased. **The expected slowdown in price growth should allow real value added in the trade sector to increase this year and in the following years.**

Manufacturing production volumes in the first six months of 2026 were lower than at the end of 2025. Over the six-month period, one of the larger branches of manufacturing where production volumes fell was food manufacturing. Output increased, however, in wood processing, the manufacture of metal products, and the manufacture of computers, electronic and optical equipment. The terms of trade for manufacturing have deteriorated since March as a result of the conflict in the Middle East, as import prices have risen faster than export prices in recent months. The share of industry in the economy has declined in recent years. **We project that the industrial sector will recover some of its share over the coming years. This will also be supported by an improvement in external demand.**

Operating conditions in the construction sector are somewhat less favourable than before the rapid rise in prices began in 2021–22, which was accompanied by an increase in interest rates. Although interest rates fell for a time, the average interest rate on housing loans has started to rise again. The average interest rate on long-term bank loans to the construction sector is more volatile from month to month and depends largely on the specific projects being financed, but the average rate in June 2026 was slightly lower than at the end of 2025 or the beginning of 2026. Growth in construction prices picked up slightly in the second quarter of 2026, mainly owing to higher prices for imported construction materials. Fewer housing transactions were completed in the second quarter of 2026 than in the second quarter of 2025, and the share of new flats in apartment transactions fell compared with a year earlier. In the coming years, construction activity should be boosted by the construction of Rail Baltica and the renovation of buildings. We expect moderate growth in construction-sector value added.

In the services sector, real sales grew quite rapidly in the first five months of 2026 in a range of business support activities, including management consultancy, advertising, office administration, employment services and renting. We project that the share of services in the economy will remain high over the coming years, but is unlikely to increase further, as it has grown rapidly in recent years against the backdrop of weakness in industry and construction.

1.2 Domestic demand

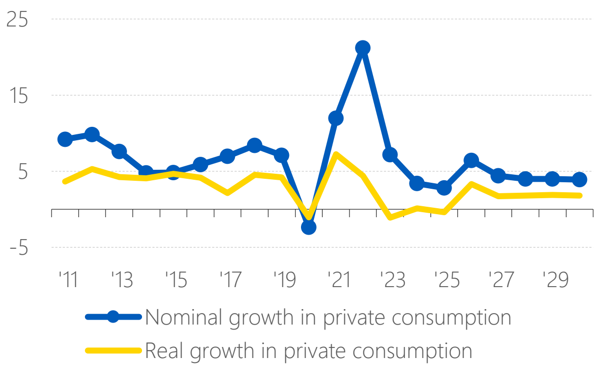
Private consumption is expected to return to growth as the income tax burden declines and price growth slows. Rapid income growth will nevertheless also result in higher saving in 2026. General government investment is growing rapidly in connection with national defence and the construction of Rail Baltica, while household purchases of new housing are initially subdued. Corporate investment should be boosted by an improvement in economic conditions.

Private consumption by Estonian residents, at home and abroad, has not grown over the past three years and remained below its 2022 level in 2025 as well. The decline in 2023 was caused by rapid price increases which, unlike in 2022, could no longer be offset by savings accumulated during the pandemic and by assets released from the second pension pillar. In 2025, the increase in the income tax rate reduced income growth, leaving net wage growth minimal while price growth accelerated. The introduction of the motor vehicle tax at the beginning of 2025 also made a significant contribution to the decline in consumption. This brought car purchases forward to the end of the previous year, raising the level of consumption in 2024 but causing a decline at the beginning of 2025. By the summer of 2026, sales of passenger cars and vans had recovered to close to their 2024 level before the introduction of the motor vehicle tax, but speculation about its abolition continues to hold back a full recovery in the market.

Private consumption has probably also been held back by households' uncertainty about their economic prospects, which has been clearly reflected in consumer confidence indicators in recent years. This uncertainty has been compounded by unusually negative economic statistics for Estonia in recent years. However, the revision to the national accounts published in August 2026 showed that the statistics for 2022–25 had been unduly weak: whereas it had previously been understood that the real size of Estonia's economy in 2025 was 3.5 per cent lower than in 2021, the revised data show a shortfall relative to 2021 of only 0.9 per cent.

There are good grounds for consumption to return to growth in 2026. The substantial reduction in the income tax burden through the extension of the tax-free allowance to all income recipients in 2026 will leave households with nearly EUR 700 million more in disposable income. For an average wage earner, this means a 10 per cent increase in net income from the tax change, in addition to an average forecast pay rise of 5.6 per cent from employers. It should nevertheless be borne in mind that, for those earning less than the average wage, both the cash and percentage increases in net pay will be smaller. The proportional increase in net income will also be smaller for higher earners. At the same time, pensions and family benefits are increasing much more slowly. According to the forecast, growth in consumption expenditure will remain well below income growth in 2026, as rapid income growth allows saving to increase alongside living standards. In Estonia, consumption expenditure has typically grown more slowly than income, except in a few individual years. In the following years, however, we expect growth in income and consumption expenditure to converge.

Figure 4. Nominal and real growth in private consumption (% year on year)



Business-sector investment as a whole has declined over the past four years. At the same time, the structure of investment is changing: in 2025, capital expenditure on buildings and structures and on transport equipment decreased, while investment in computing and communications equipment, for example, increased several-fold. These items of equipment also become relatively cheaper each year, meaning that a decline in the aggregate volume of investment does not in itself imply that the production capacity of the business sector has not increased. Household housing investment has been rather weak in recent years. The real estate and housing market has recently been active, but mainly in the secondary market; the share of new flats in real estate transactions has fallen to one tenth. The dynamics of general government investment have recently been driven by defence procurement.

In 2026, general government investment will increase by one fifth, mainly through defence procurement. If these projects materialise according to the schedule currently planned, the volume of general government investment may decline next year and the year after. Household investment is likely to remain in decline in 2026, but should recover markedly from next year as economic conditions improve. A clear improvement in economic conditions, supported by a stronger external environment, particularly in the Nordic countries, should support a return to growth in corporate investment from next year.

1.3 Exports

World trade has remained strong despite the continuing conflict in the Middle East and high oil prices, supporting Estonia's export outlook. Supported by an improvement in economic conditions in the Nordic countries, export growth is expected to accelerate in the second half of the year.

World trade recovered strongly in 2025, partly supported by stockpiling ahead of US tariffs, **and growth strengthened further in the first half of 2026, reaching 5.3** per cent. This has largely been driven by stronger exports from the United States and China. Trade in the EU27 has also picked up this year, especially as a result of more buoyant intra-EU trade.

Estonian exports returned to growth in 2025, supported by firmer external demand. Exports of goods and services increased by 4.8 per cent, enabling Estonia to regain market share in external markets after a three-year pause. Although exports of domestically produced goods began to recover, a significant share of the growth came from re-exports, that is, goods transported through Estonia.

Whereas export growth last year was driven mainly by wood products, including wooden houses, and food products, then **machinery and mechanical equipment, telecommunications equipment and wooden houses led growth in the first half of 2026.** Export growth in these groups of goods has been in double digits.

By destination market, exports to the traditional markets of Finland and Sweden have started to recover, after export volumes to those destinations had declined in recent years. In Finland, economic conditions have strengthened clearly, confidence has recovered from last year's low level, and trade growth is among the strongest in the euro area, although this is partly supported by one-off transactions. Stronger demand has also allowed Estonian exporting firms to increase volumes to the Nordic countries. Growth in exports to Finland has been driven by machinery and equipment and metal products, whereas exports to Sweden have been more centred on communications equipment.

Exports of Estonian-origin goods increased most to the Netherlands in the first half of the year, supported by fuels. Last year, exports to the United States were held back by the introduction of higher customs tariffs; this year, trade flows to the United States have also started to recover. Among the main external markets, Germany has been weaker, with export volumes remaining at last year's level.

The recovery in services exports last year was strong, supported by business services. **Double-digit growth in business-services exports continued in the first quarter of 2026,** but overall growth in services exports slowed owing to weakness in IT and construction services. A high comparison base and a cold winter may have constrained these services at the start of the year. Export revenue from travel and processing services has shown stable growth.

The outlook for world trade has remained strong despite the conflict in the Middle East and the supply problems arising from it. Forward-looking indicators also point to an improvement in the **euro-area** outlook: the **composite PMI rose to 52.1 in August, its highest level in 9 months.** Within this, the services index recovered from its spring decline, while the manufacturing index rose to its highest level in recent years.

The impact of the Middle East crisis on the global economy has so far been more modest than feared. Although the conflict has lasted for almost half a year, market participants have adapted to the changed conditions, and the effects have been evident mainly in higher energy prices. Uncertainty about the further course of the conflict remains, and a prolongation would increase, above all, the risk of an energy crisis in Europe as the heating season begins. If it lasts longer, the effects of the conflict would spread more broadly through the economy.

Given the resilience of the global economy and world trade in the face of the conflict in the Middle East, **the forecast for external demand in 2026 has been revised upwards from the conservatively low level in the spring forecast**. Considering the improving economic conditions in Estonia's neighbouring countries, especially Finland, export growth in Estonia is expected to accelerate in the second half of the year. For the year as a whole, exports of goods and services will increase by 2.5 per cent. Next year, the effects of the conflict are expected to recede, implying a strengthening of economic activity in the euro area and neighbouring countries, which will in turn contribute to faster export growth in Estonia. In the remaining forecast years, export growth is expected to move broadly in line with external demand, implying growth close to 3 per cent going forward.

After five years of deficit, the current account returned to surplus last year, at 0.3 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. The current account is expected to return to deficit in the near term as general government investment activity increases and large-scale defence investment proceeds. However, subdued private-sector investment activity implies weak import prospects and will rebalance the current account towards the end of the forecast period.

Figure 5. Export developments (%)

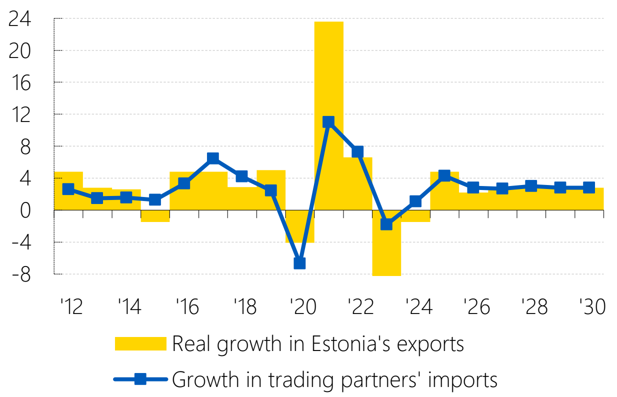
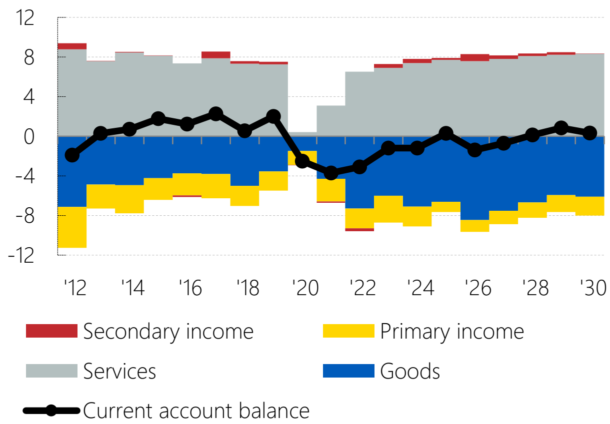


Figure 6. Structure of the current account (% of GDP)



1.4 Labour market and wages

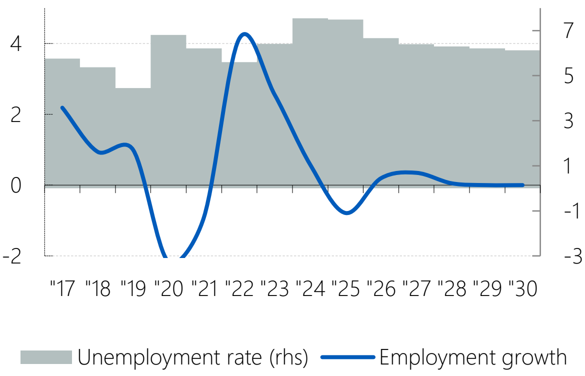
Firms are cautious about hiring, even though the economic outlook has improved. Wage growth pressures persist despite the introduction of the uniform tax-free allowance and the sharp increase in the purchasing power of wage income.

Labour market conditions are improving. The decline in the number of employees is slowing and unemployment is gradually falling, supported by the economy's return to growth. Having learned from the coronavirus crisis, companies are more reluctant to lay off employees, anticipating difficulties in recruiting labour when economic growth resumes. This caution has mitigated the impact on the labour market, with the result that the unemployment rate is already close to Estonia's natural rate of unemployment, which is around 6 per cent.

Private-sector employment as a whole is not yet increasing. According to the Labour Force Survey, the number of employees was essentially unchanged in the first half of this year, falling by 0.1 per cent only. Tax and Customs Board data show a similar development, namely a small decline in the number of employees. Construction, administrative and support service activities (including temporary agency work), and trade stand out positively, with employment increasing in the first half of the year. The outlook for industry has also become more positive, and hiring picked up during the summer months.

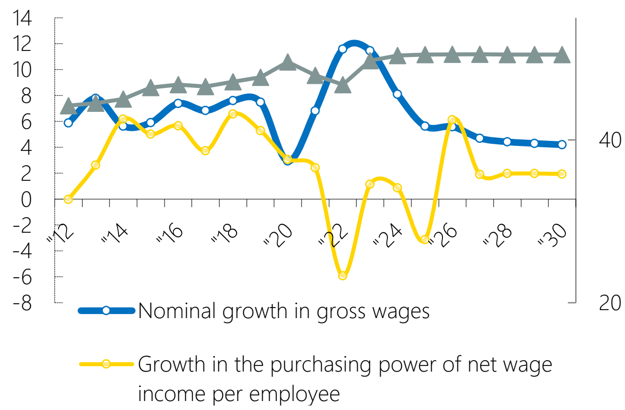
Because companies retained labour through the crisis, employment growth is expected to remain marginal over the forecast period as the economy recovers (see Figure 7).

Figure 7. Labour market developments (%)



Wage growth has not slowed materially, even though price growth is slowing markedly this year and the tax changes have given an additional boost to the purchasing power of labour income. For most of last year, wage growth remained fairly stable at around 6 per cent, and Tax and Customs Board data show similar wage growth in recent months. Although wage growth slowed to 4.5 per cent at the end of last year, the slowdown was temporary and most likely reflected companies' efforts optimise labour costs in response to the income tax changes. Wage growth accelerated again to 6.2 per cent in the first quarter of this year. The introduction of a uniform tax-free allowance from January this year enabled the private sector to optimise labour taxes by shifting the timing of wage payments. Since the number of wage recipients was at a normal level in December, this probably affected the variable component, namely the timing of year-end bonus payments.

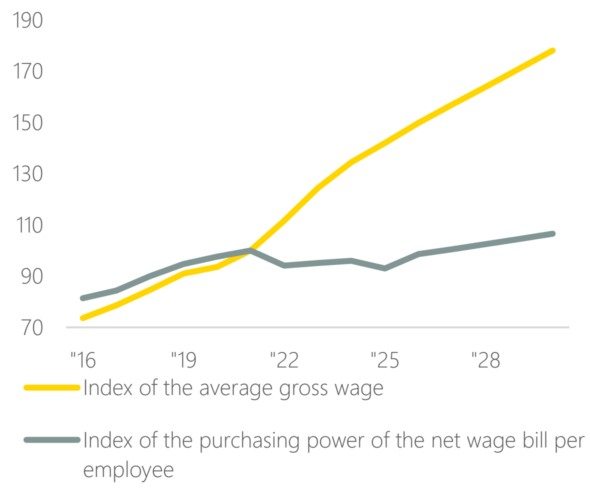
Figure 8. Wage developments (%)



The purchasing power of labour income increases sharply this year and thereafter grows in line with economic developments. The real purchasing power of labour income, which is influenced both by price growth and by the taxation of income, increases by 6 per cent this year (see Figure 8). In 2026, the introduction of a uniform tax-free allowance materially changes net wage dynamics. However, despite gross wages being 50 per cent higher than in 2021, the purchasing power of net wages per employee remains slightly below its 2021 level this year (see Figure 9). The purchasing power of wages has been eroded by both rapid price growth and the increase in the income tax rate. No further income tax changes are envisaged for the coming years, so future growth in the purchasing power of wages will be determined by nominal wage growth and price inflation, both of which remain moderate. Over the following years, the purchasing power of wages is expected to increase by around 2 per cent a year.

The share of labour costs in the economy remains high. Several factors lie behind this: the economy's shift towards a more service-based structure, income convergence with wealthier neighbouring countries, and wage pressure arising from labour shortages. To retain workers, the private sector seeks to keep income growth above inflation, which is probably the main reason why wage growth has not slowed significantly.

Figure 9. Developments in wage purchasing power (2021=100)



1.5 Consumer prices

Events in the Middle East have pushed up energy prices, but have not passed through more broadly into the prices of other goods and services. The low rate of inflation, with annual growth of the index among the lowest in the euro area, is expected to persist through the summer months.

Inflation has been on a slowing trend since the summer of last year. Although the conflict in the Middle East led to higher energy prices, its impact has been cushioned by decline in food prices and the fading effects of tax measures. **Inflation reached a subdued 2.2 per cent in July, the lowest in the euro area.**

Energy prices have been highly volatile this year. At the start of the year, excess supply in the oil market kept oil prices at low level, but military action in the Persian Gulf region caused a significant rise in oil and gas prices in the spring. While the effects were passed through immediately to motor fuel prices, the higher price level was spread in household gas prices in May. In Estonia, the rise in fuel prices has been contained to some extent by intense competition between petrol stations and the cancellation of the planned spring excise increase. Electricity prices have also increased in the first half of the year, reflecting weather conditions, the low level of European gas inventories and additional fees. Energy prices were 4.7 per cent higher in the first half of the year than a year earlier.

Last year's decline in food commodity prices on external markets has fed through to domestic food prices with some lag. **Import prices for food fell by nearly 3 per cent in the first half of the year.** As a result, food prices were lower in the summer months than a year earlier. In shops, the largest price declines have been in fruit and vegetables and dairy products, while price increases for grain and meat products have come to a halt.

Core inflation, which reflects price changes in services and industrial goods, slowed in the first half of the year. **The prices of some leisure services are lower than a year ago because of a high comparison base,** as several major events, strong demand for travel services and tax changes lifted service price levels a year ago. Price growth in industrial goods was subdued, at below 1 per cent. Falling prices for clothing and footwear had the largest effect.

The low level in inflation will occur during summer months. Price developments in the coming months will depend to a large extent on the further course of events in the Middle East, which intensified again in August. If the crisis persists for longer, higher energy prices are likely to feed through into the prices of other goods and services as well, which has not happened so far. A pick-up in inflation can be expected in autumn.

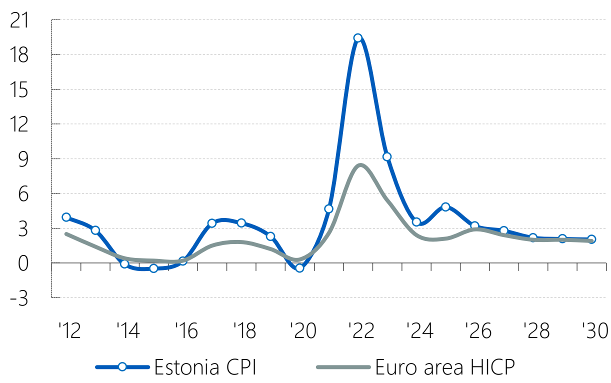
Based on futures prices, energy prices may continue to rise, particularly for gas and electricity. In addition, the higher price level is expected to feed through to the prices of district heating and wood fuel. A particular risk is emerging in relation to European gas inventories, which are at their lowest level in the past ten years. The filling of gas storage facilities ahead of the heating season has been hampered by developments in the Strait of Hormuz and by heatwaves persisting in Europe.

The fall in food prices appears likely to be coming to an end. Given higher energy prices and a turn upwards in the prices of some food commodities on external markets, domestic food prices will also start to rise with some lag.

Although the war in the Middle East caused a significant rise in energy prices and substantial uncertainty regarding further developments remains, the adverse effects **have been smaller than feared, and the increase in energy prices** and occasional supply difficulties resulting from the closure of the strait **have not fed through more broadly into the economy.**

Taking the above into account, inflation slows from 4.8 per cent in 2025 to 3.2 per cent in 2026. In 2027, inflation will be affected by faster price growth in food and services, while the energy price shock is expected to ease; for the year as a whole, inflation slows to 2.8 per cent.

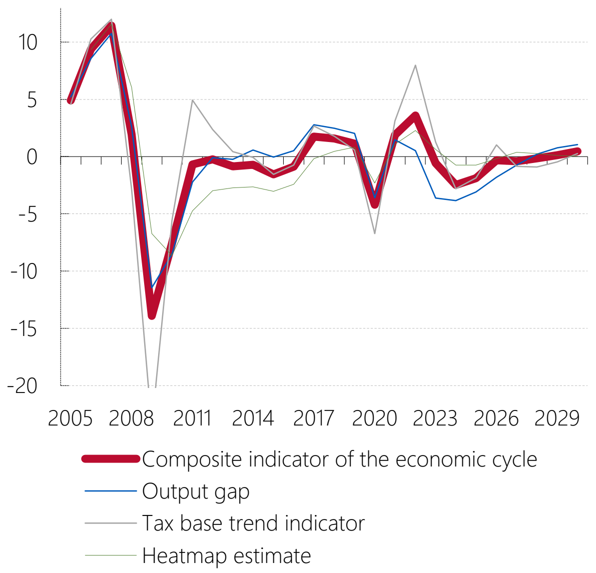
Figure 10. Price dynamics (%)



1.6 Potential growth and the assessment of the economic cycle

The negative impact on the budget arising from economic conditions is receding. The assessment is based on the Ministry of Finance's estimate of the cyclical component on the budget under its new methodology, which comes close to balance this year (see Figure 11 and for the methodology Annex 2 to the Ministry of Finance's Spring Forecast 2026). While the economy operated clearly below potential in 2022–24, the recovery in economic growth is helping to close the negative output gap, as also reflected in warmer tones in the indicators underlying the economic heatmap. This year, the consumption tax base components – private consumption and general government consumption – are also growing above their trend rate. This means that the negative impact on the budget position arising from the structure of the economy is receding significantly this year. The combined indicator of the economic cycle remains close to zero throughout the forecast period, implying that the economy is close to balance and does not require fiscal support.

Figure 11. Composite indicator of the economic cycle and its components (% of GDP)



The economy's long-term growth capacity has declined. This has been influenced both by the convergence already achieved with wealthier neighbouring countries and by the prolonged recovery from the latest crisis. Whereas annual growth of around 6 per cent was considered attainable for Estonia before the financial crisis, and growth of around 3 per cent before the coronavirus crisis, current potential growth estimates lie between 1 and 2 per cent (see Figure 12). Nevertheless, compared with the previous forecast, we have assessed Estonia's growth potential slightly more positively. This assessment is based on the revised National Accounts data, according to which the recession was milder in real terms than previously understood. The reassessment of potential growth also affects the outlook, allowing for a stronger contribution from total factor productivity[1] to economic growth than previously assumed (see Figure 13). Going forward, growth capacity is not high, as an ageing population limits the contribution of labour and private-sector pessimism restrains capital investment.

Figure 12. Revision to the estimate of the economy's growth potential (%)

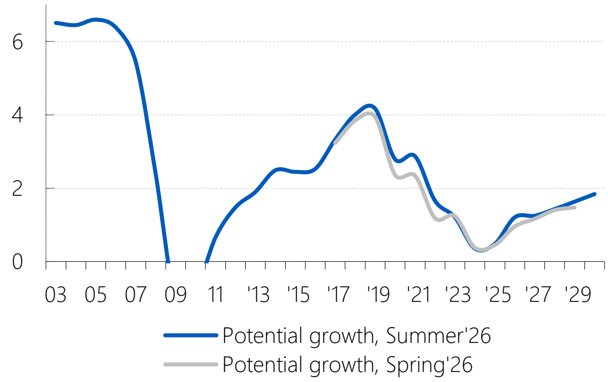
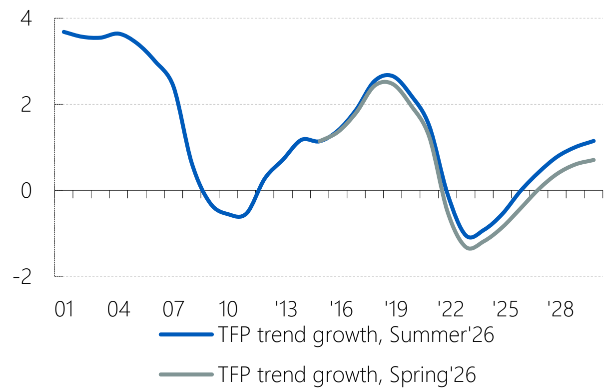


Figure 13. Revision to the estimate of total factor productivity (TFP) (%)



The Ministry of Finance's composite indicator from Estonia's economic heatmap points to an economy that is close to balance over the coming years (see Figure). Some warming towards the end of this year and next year may be observed above all in construction volumes and the current account balance**.**

Figure 14. Heatmap of Estonia's economy

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

2 Fiscal Forecast

2.1 General Government Budget Position

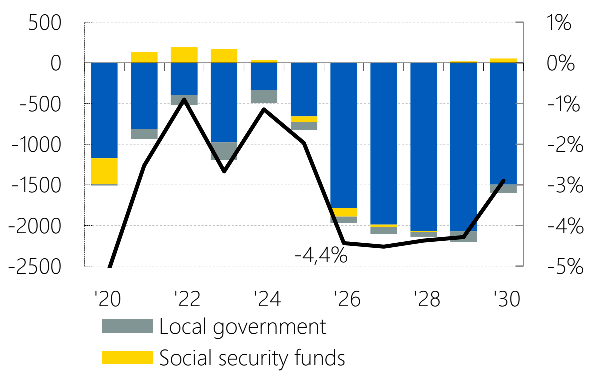
Next year's budget deficit is projected at 4.5 per cent of GDP, below the level expected in the previous forecast owing to lower expenditure. Even so, the deficit is still causing public debt to rise rapidly, which is not fiscally sustainable over the longer term.

In the current year, the budget deficit is projected to widen to 4.4 per cent of GDP owing to defence expenditure and a record volume of investment, and to remain above 4 per cent until 2029. After narrowing to 1.1 per cent in 2024, the deficit increased to 2 per cent of GDP last year. Although tax revenue grew almost as rapidly as in the previous year and motor vehicle tax was introduced, expenditure growth accelerated in national defence and construction of Rail Baltica gathered pace. The same factors are increasing the deficit this year: defence expenditure rises by a quarter, reaching 5 per cent of GDP, while, supported by Rail Baltica, general government investment reaches a record 3.5 billion euros. This year's deficit is also increased by the rise in the tax-free allowance, which raises employees' income but reduces tax revenue flowing into the state budget. The increase in the budget deficit above the three per cent limit permitted under the EU Treaty is made possible by the defence expenditure escape clause, which allows expenditure to be increased temporarily and to a limited extent. The escape clause expires and the fiscal rules will again apply in full in 2029, subject to the additional condition that, if goods ordered in 2025-2028 are delivered in later years and the defence expenditure escape clause has not been used in full, it will be possible to deviate from the targets in those years by an amount corresponding to the cost of those specific deliveries.

In 2027, the deficit is projected to reach 4.5 per cent of GDP, remaining essentially at the current year's level despite further growth in defence expenditure. Some acceleration in tax revenue growth is expected next year, mainly in corporate income tax and excise duties. On the expenditure side, the level of investment declines. In the following years, the deficit narrows slightly, supported by tax revenue growth and some easing in investment levels, reaching 4.3 per cent of GDP in 2029. In 2030, the budget deficit narrows more markedly to 2.9 per cent of GDP, as few expenditure decisions have yet been taken for the final year of the forecast period.

General government comprises central government, social security funds and local governments. The forecast for general government revenue and expenditure is described in greater detail in the following sections.

Figure 15. Nominal budget position (EUR million, per cent of GDP)



Source: Statistics Estonia, Ministry of Finance

The social security funds sector comprises Tervisekassa and Eesti Töötukassa. **Tervisekassa's budget** for the current year was prepared with a deficit of 105 million euros, but owing to lower-than-expected expenditure we expect the outturn for the year as a whole to be a deficit of 90 million euros. Over the next four years, **Tervisekassa aims to keep expenditure growth under control and achieve a balanced budget by the end of the period.** To this end, the system will be made more efficient and payment models will be updated. The planned activities and developments are extensive and complex, but represent an important change from the perspective of the institution's financial sustainability. At the same time, some changes planned for the period are not included in the forecast because they have not yet been enacted.

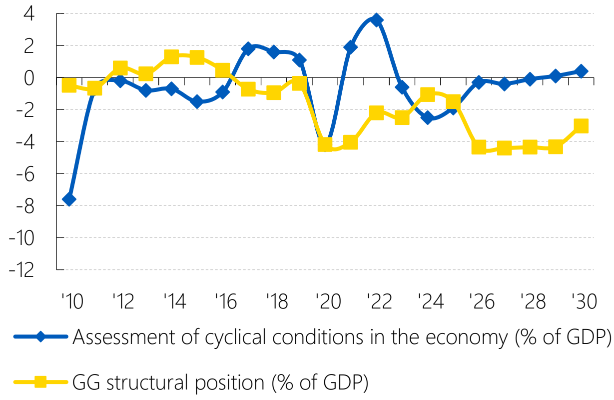
Eesti Töötukassa's financial position has been stable in recent years. In 2022-2025, the surplus was in the range of 20-30 million euros, which kept reserves stable relative to expenditure.

In 2026, Eesti Töötukassa is affected by the unemployment support reform, under which the previous state benefit was replaced by unemployment insurance benefit at the basic rate, financed from unemployment insurance funds. The overall cost of the new system is lower and improves the general government aggregate position, but because expenditure shifts from central government to Eesti Töötukassa, a deficit of around 10 million euros arises in Eesti Töötukassa. This is temporary: in the following years, the surplus is restored and reserves increase from 600 million euros to 740 million euros over four years. The ratio of reserves to annual expenditure rises slightly.

The local government budget deficit, which was in the range of 0.34-0.57 per cent of GDP in 2021-2024, fell to 0.23 per cent of GDP in 2025. In 2026-2030, we also expect the local government deficit to remain around 0.2 per cent of GDP on average. On the one hand, any increase in the deficit is constrained by local governments' reduced capacity to take on new commitments; on the other hand, investment is supported by rising external support and revenue from CO2 allowance sales.

The structural budget position of general government was a deficit of 1.5 per cent last year, but the deficit is projected to rise to 4.4 per cent of GDP this year. Economic growth is recovering and the overall economic environment is supportive of strong tax receipts. This reflects a labour market that is broadly balanced, price growth running slightly above trend, and a pick-up in private consumption. On the basis of the assessment of the cyclical position of the economy, the economy no longer requires fiscal support on this scale, and the nominal budget deficit should have declined both last year and this year. In practice, the opposite has occurred, and this loosening of the budget position is lasting, as is also reflected in the deterioration of the estimate of the structural budget position. The structural position is calculated by removing the effects 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.

Figure 16. Structural budget position and the assessment of the cyclical position of the economy (per cent of GDP)



Source: Statistics Estonia, Ministry of Finance

2.2 General Government Revenue Forecast

The share of government revenue in the economy falls back close to the level at the start of the decade owing to the decline in external support.

In 2026, general government revenue grows by 4 per cent. Direct tax receipts decline compared with 2025. Personal income tax is affected by the introduction of a uniform basic allowance for the working-age population, independent of income. At the same time, indirect tax receipts increase strongly this year, with the effect of the VAT rate rise being felt throughout 2026.

The revenue ratio falls from 43.2 per cent of GDP in 2025 to around 40 per cent by the end of the forecast period. Compared with the spring forecast, VAT receipts are slowed by the VAT exemption for defence procurement and by downward revisions to household investment and general government consumption.

By 2030, external support declines significantly, as investment financed from the European Union's current 2021-2027 budget period will by then have been completed, while investment financed from the next 2028-2034 budget period is expected to rise only by the third year of that period, 2031. Revenue from the sale of emissions allowances also declines by 2030 compared with 2025.

In 2021-25, revenue grew by an average of 10.6 per cent a year; in 2026-30, revenue is projected to grow by an average of 3.2 per cent a year, at less than one-third the rate, owing to the introduction of the uniform basic allowance and the absence of major tax rises.

More detailed data on general government revenue and expenditure are presented in Annex 3 (Table 14).

According to the State Budget Act, **state budget revenue** comprises all funds that the state collects or receives as support in carrying out its functions. A large share of the revenue received is transferred onward to other levels of general government and partly outside general government as well: local governments' share of personal income tax and land tax, part of social tax to Tervisekassa, part of social tax and funded pension contributions to individuals' second-pillar pension accounts, and unemployment insurance contributions to Töötukassa.

State budget revenue grows by 2.9 per cent this year compared with last year and reaches 18.6 billion euros. Growth is slowed by the introduction of the uniform basic allowance for the working-age population. More detailed data are presented in Annex 3 (Table 17).

Table 2. Developments in state budget revenue in 2024-2030 (EUR million)

	2024	2025	2026	2027	2028	2029	2030
Taxes and social contributions	14 207	15 259	15 818	16 579	17 370	18 075	18 929
Non-tax revenue	2 310	2 766	2 735	2 441	2 323	2 230	1 860
Total revenue	16 517	18 024	18 553	19 021	19 693	20 305	20 789
Revenue growth	9.5%	9.1%	2.9%	2.5%	3.5%	3.1%	2.4%

Source: Ministry of Finance

2.2.1 Tax Revenue Forecast

Tax revenue growth is in line with economic growth.

The ratio of social tax to GDP remains unchanged over the forecast period. For 2026, we project social tax receipts of more than 5.4 billion euros, slightly above the spring forecast, mainly owing to faster wage growth. This year the economy is growing at its fastest pace in the past four years, wage growth remains moderate, and the number of jobs returns to growth. Employment is expected to increase slightly next year too and then remain stable. Over the forecast period, social tax receipts are affected mainly by slowing wage growth.

Personal income tax received by the state budget declines this year owing to the introduction of a uniform basic allowance for the working-age population, but is expected to return to brisk growth from 2028. For 2026, we project state budget personal income tax receipts of 743 million euros, 66 million euros more than in the spring forecast. Receipts are affected by how people use the basic allowance. So far, many have not used the basic allowance during the year, instead receiving a tax refund in the spring of the following year. Although the basic allowance no longer depends on income level, around 85,000 people have not yet started to use it during the year. Accordingly, we do not project a fall in tax refunds next year. In 2026-27, the ratio of receipts to GDP declines and from 2028 begins to rise again: the basic allowance remains unchanged, but wage and pension growth broadens the tax base.

Local governments' personal income tax receipts increase, but for different reasons. The share of personal income tax received from pensions rises to almost 16 per cent of local governments' personal income tax by 2027, as the rate allocated from pensions is raised to 10.23 per cent, while the rate allocated from other income is also reduced to 10.23 per cent. For 2026, we project local governments' personal income tax receipts at nearly 2.1 billion euros, slightly above the spring forecast because of faster wage growth. Local governments' share of personal income tax accounts for more than 70 per cent of total personal income tax over the forecast period. The ratio of receipts to GDP declines slightly towards the end of the forecast period.

Corporate income tax is shaped primarily by the volume of distributed profits, which was unusually high in 2024-25. According to the forecast, the ratio of distributed profits to GDP declines from the current year to the average level of 2019-20. For 2026, we project receipts of 913 million euros, 35 million euros less than in the spring forecast. The main reason for the downward revision was actual receipts to date, which after seven months were more than 50 million euros below the spring forecast.

The main reason for the high receipts in 2024 was distributed profits by banks: they accounted for around a quarter of all corporate income tax. Because of a methodological change, the previously record January 2025 receipts, ahead of the rate increase and the abolition of the lower rate on regularly distributed profits, were also shifted into December 2024. We assume that such a one-off, very large distribution of profits ahead of the tax increase will reduce dividend payouts in the following years.

In 2026, the ratio of corporate income tax to GDP remains at 2.1 per cent and stays there until the end of the forecast period. The dampening effect on private-sector tax on distributed profits is offset by a higher Euribor forecast, which increases advance corporate income tax receipts from credit institutions from 2027.

Growth in VAT receipts in 2026 is supported by the full-year effect of the higher VAT rate, the introduction of the uniform basic allowance and the gradual recovery of the economy. VAT revenue is projected to grow by 10.7 per cent in 2026 to EUR 4.62 billion. Growth in private consumption expenditure, the largest component of the VAT base, remains at 6.4 per cent, broadly in line with the spring forecast. Estonia's VAT revenue as a share of GDP remains among the highest in the European Union, pointing to the state budget's significant reliance on VAT.

Compared with the spring forecast, the 2026 VAT forecast has been revised down for two main reasons. First, the VAT base is growing more slowly than projected in the spring because of a more subdued outlook for household investment. Second, VAT revenue is reduced by the VAT exemption for defence procurement related to the European Union's SAFE (Security Action for Europe) financing instrument, which had not yet been incorporated in the spring forecast. The SAFE loan and implementation agreement was concluded on 15 July 2026, so the impact of the exemption can materialise from the second half of 2026 onwards. The forecast assumes that close to half of the maximum potential impact will materialise, corresponding to procurement of an estimated EUR 1.1 billion over the forecast period, with a VAT effect of EUR 264 million. This forecast assumption reflects uncertainty over the extent to whether compliance with these criteria planned procurement can be demonstrated.

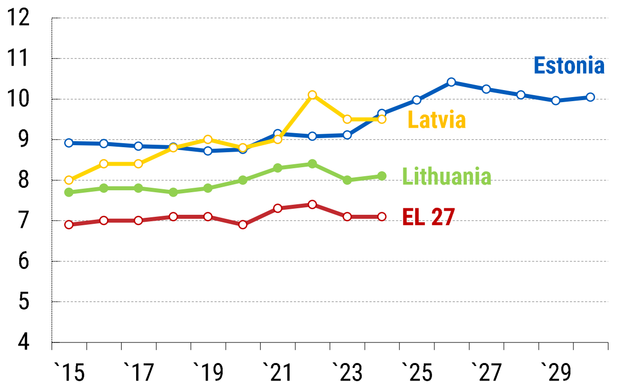
In the first half of the year, VAT revenue grew, supported both by the higher rate and by growth in the tax base. Over six months, nearly 2.2 billion euros of VAT was paid, 12.3 per cent more than a year earlier, but VAT revenue was 46 million euros below the spring forecast. Growth was boosted by the increase in the standard rate from 22 per cent to 24 per cent, which came into force in July 2025, meaning the higher rate applied throughout the first half of this year.

VAT payments continue to be affected by the size of the shadow economy and taxpayers' compliance behaviour. The forecast assumes that the VAT gap remains around 2 per cent of VAT revenue over the forecast period and that companies' VAT debt remains relatively stable. In the first half of the year, VAT debt rose moderately, by less than 4 per cent year on year, but its share in VAT revenue declined to below 9 per cent.

Economic confidence improved somewhat in the first half of the year, but consumer confidence remains weak. At the same time, VAT paid through the OSS/IOSS special schemes for cross-border e-commerce[2] has continued to rise, increasing by more than a quarter in the first half of 2026 compared with the same period year earlier. Cross-border e-commerce is also increasing competitive pressure on Estonia's retail sector. Continued caution among households limits the extent to which the increase in net income resulting from the introduction of the uniform basic allowance translates into higher consumption, and consequently, VAT revenue in 2026.

Over the forecast period, VAT revenue is projected to grow by an average of 5.1 per cent a year. VAT revenue as a share of GDP peaks in 2026 at 10.4 per cent and then gradually declines, as nominal GDP growth outpaces growth in VAT revenue. The slowdown in VAT revenue growth is driven mainly by slower growth in general government expenditure and declining investment in 2028 and 2029 compared with 2026.

Figure 17. VAT revenue as a share of GDP in Estonia and the EU (%)



The main risks to the forecast are related primarily to the actual path of consumer confidence and private consumption, and to the implementation of the SAFE financing instrument. A faster improvement in consumer confidence and a greater use of savings for consumption could increase VAT revenue, while weaker consumption would reduce the tax base. The impact of SAFE depends on the scale and timing of the planned defence procurement, the extent to which it is actually carried out and whether it meets the conditions for the VAT exemption. Energy and other commodity price fluctuations, as well as the actual scale of the shadow economy, may also have an impact.

Excise duty payments increase in both 2026 and 2027, mainly because of increases in excise duty rates. Total excise revenue is projected at 1.1 billion euros in 2026 and 1.2 billion euros in 2027, or 8.1 per cent more.

Alcohol excise duty payments increase as a result of excise duty rises. In 2026, the duty increased by 10 per cent, and in 2027-2028 further increases continue in steps of 5 per cent. Consumption is affected by overall price growth, higher alcohol prices and weaker purchasing power; over the longer term, a shift in consumption preferences towards lower-strength drinks is visible, as these are relatively more affordable for consumers. The alcohol excise duty forecast has not changed materially compared with the Ministry of Finance's previous forecast. According to the current forecast, stock-adjusted declared quantities of spirits decline by 3.2 per cent in 2026. For beer, we project a stock-adjusted decline of 1.3 per cent in 2026, but quantities of beer taxed at the reduced rate, for example so-called craft beers, increase by 1.7 per cent. We project a similar trend for 2027-2028, and from 2029 the situation stabilises as no further excise increases take place. There does not appear to be a major change in cross-border trade this year, but as excise duty rises faster in Estonia than in Latvia, the risk increases that some consumption will again shift across the border.

Tobacco excise duty receipts reflect a structural shift in the market towards alternative products and growth in the illicit market. At the start of 2026, excise duties on tobacco products rose by 10 per cent, and in 2027-2028 further increases continue in steps of 5 per cent. We project a 13.8 per cent decline in declared cigarette quantities in 2026, and the decline continues in 2027 and 2028 alongside the excise **rises.** At the same time, the declaration of alternative tobacco products increases in 2026: volumes of tobacco liquids, mainly e-cigarettes, rose by 8.5 per cent, and solid tobacco substitutes, for example nicotine pouches, by 12.1 per cent. Rapid increases in excise duty and prices have led to a larger illicit market both for cigarettes and for alternative products.

Fuel excise duty revenue is expected to increase in the coming years, mainly because of the gradual rise in the excise duty rates. Changes in consumption volumes are smaller and for some fuels even negative. The forecast is subject to greater-than-usual uncertainty due to fuel price volatility related to the military conflict in the Strait of Hormuz. Fuel demand is driven primarily by economic activity and fuel prices. While the improvement in economic activity supports consumption, this effect is partly offset by the higher fuel prices. The impact of higher prices on consumption will depend largely on how long the elevated price level exists. Consumers may absorb a short-lived increase partly through lower savings, whereas a prolonged period of higher prices is more likely to lead to a structural change in consumer behaviour.

In the first half of 2026, cross-border fuel trade has been favourable to Estonia, as diesel prices have remained lower than in the other Baltic states. The price difference with Latvia was around 10 cents per litre at the start of the year but has narrowed to about 5 cents in recent months. This has been caused by Latvia's temporary reduction in the diesel excise duty rate, which remains in force until the end of 2026. Although Latvia has a lower diesel excise duty rate than Estonia, diesel remains more expensive in Latvia. Once the temporary reduction expires, Estonia's benefit from cross-border trade may increase. The diesel price difference with Lithuania has varied by month but has been around 15 cents per litre.

The forecast for fuel excise duty revenue has been reduced for 2026 and 2027 because the excise duty increases originally planned for 1 May 2026 were postponed to May 2027. Fuel excise duty revenue is expected to amount to 581 million euros in 2026 and 634 million euros in 2027. The increase in revenue in 2027 comes primarily from the excise duty increases that will take effect on 1 May 2027**.**

Revenue from the motor vehicle tax is projected at 159 million euros in 2026, of which 75 million euros comes from the registration fee and 84 million euros from the motor vehicle tax. The motor vehicle tax is a relatively stable source of tax revenue, because revenue depends on all taxable vehicles already in the register. However, the registration fee revenue if considerably more uncertain because it depends only on current vehicle transaction activity. In the spring forecast the Ministry of Finance expected a registration fee revenue of 82 million euros in 2026. As the recovery of the vehicle market has been slower than anticipated, the forecast has now been reduced to 75 million euros. The main reason for the slow recovery is consumers' uncertainty over whether the registration fee will remain in force, causing purchase decisions to be postponed in the hope that the fee may be abolished.

Because of tightening environmental requirements in the EU, increases in the registration fee will take effect at the start of 2028 and 2031.

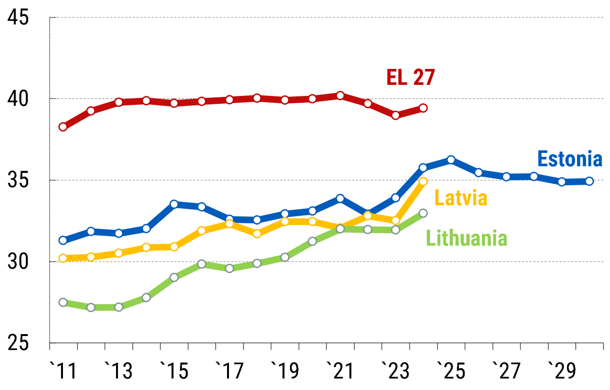
For the motor vehicle tax, from 2026 M1-category vehicles with 8 to 9 seats are taxed at the N1-category rate. In addition, the number of taxable vehicles has declined slightly, so the expected revenue from the motor vehicle tax has been reduced by 1 million euros for 2026 and by 1.5 million euros in subsequent years.

2.2.2 Tax Burden and Implicit Tax Rate

The tax burden remains at 35 per cent of GDP. The implicit tax rate on consumption is among the highest in Europe.

According to the forecast, Estonia's tax burden remains at 35 per cent of GDP. Historically, Estonia's tax burden has been higher than Latvia's and Lithuania's, but clearly below the European Union average. In making the comparison, however, it should be borne in mind that Latvia and Lithuania are also likely to move towards tax increases if defence expenditure continues to rise structurally. From 2023, Estonia's tax burden started to rise and exceeded 36 per cent of GDP in 2025, a level already close to the EU average. In the current year, the tax burden starts to decline and remains at around 35 per cent of GDP throughout the forecast period (see Figure 18).

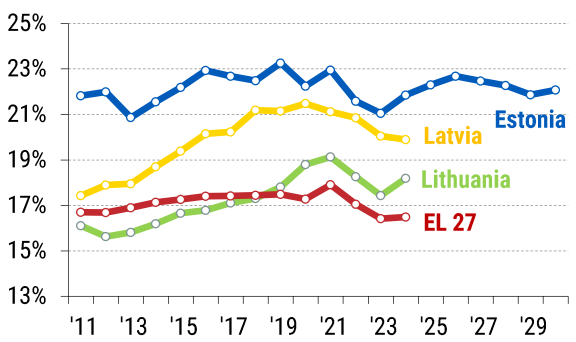
Figure 18. Tax burden in the European Union and the Baltic states (% of GDP)



Tax changes affecting the tax burden are presented in Annex 3 (Table 18).

In addition to the share of tax revenue in GDP, the tax burden is also described by the implicit tax rate (ITR), that is, the ratio of tax revenue received to the relevant tax base.

Figure 19. Implicit tax rate on consumption in the European Union and the Baltic states (% of tax base)



Estonia's implicit tax rate on consumption is among the five highest in the European Union (see Figure 19). In the current year, it rises to 22.7 per cent, mainly because of the increase in the VAT rate, whose effect is felt throughout the year. Over the forecast period, the indicator remains below its 2015-2021 level and reaches 22.1 per cent by 2030. VAT receipts are slowed by the VAT exemption for defence procurement and downward revisions to household investment and general government consumption; revenue from the sale of emissions allowances also declines. A further feature of Estonia is that VAT contains few exemptions, as these are regarded as tax-policy measures that are inefficient. Consumption taxes are considered less harmful to economic growth, but they are regressive and increase inequality.

The implicit tax rate on labour in Estonia is broadly around the European Union average. It falls below 34 per cent this year owing to the changes to the tax-free allowance and remains around 34 per cent over the forecast period. Although a flat rate is used in several countries, as in Estonia, progressive income taxation is more common in Western Europe and reduces 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 historic high of 4.2 per cent of GDP in 2025. This year it falls to 3.5 per cent and remains close to that level over the forecast period.

However, this is well below the European average level of 8.5 per cent of GDP in 2024, and Estonia ranked last. The reason lies in the specific design of our corporate income tax: tax is paid on distributed rather than earned profits. Because of this system, Estonia has for years ranked first in the Tax Foundation think tank's index of the most competitive tax systems.

2.2.3 Forecast for State Budget Non-tax Revenue

The forecast for non-tax revenue has increased over the next two years, supported by faster absorption of external support and higher financial income.

Compared with the current state budget, the 2026 forecast for non-tax revenue has been revised down owing to the smaller volume of external support (see Table 3). Compared with 2025, non-tax revenue declines by 1.1 per cent this year, again because of a lower level of external support and a fall in revenue from asset sales. Revenue from the sale of goods and services and property income increases slightly.

The amount of support reaches 1.73 billion euros in 2026, only slightly below last year's peak level. This is supported by more active use of funds from the European Union's 2021-2027 budget period, including the construction of Rail Baltica, and in 2026 also by the implementation of Recovery Plan funds. These are time-concentrated cash flows: as projects reach the construction phase, inflows of external funding also increase.

Next year, the total amount of non-tax revenue falls to 2.5 billion euros, as the peaks of the external funds programme period pass and the use of Recovery Plan funds ends in 2026.

Table 3. Change in the 2026 summer forecast for non-tax revenue compared with the 2026 state budget (EUR million)

	2024	2025	2026		
	Outturn	Outturn	Budget	Forecast	Change
Non-tax revenue	2 310.0	2 765.6	2 935.7	2 735.0	-200.6
Sale of goods and services	537.3	492.1	500.0	526.3	26.4
Received support	1189.5	1793.2	2003.0	1734.7	-268.3
Other revenue	191.3	227.3	204.0	220.6	16.6
Financial income	391.8	253.0	228.7	253.4	24.7

Source: Ministry of Finance

The forecast for revenue from the sale of goods and services in 2026 has been raised relative to the budget. The higher receipts come mainly from other sales revenue, centred on the CO2 emission allowances trading revenue. This year, 257 million euros of revenue is recorded from this source, and 209 million euros next year according to the forecast. Compared with the earlier estimate, however, the expected revenue is lower. This is primarily because the forecast no longer includes the new EU emissions trading system planned for 2027, the introduction of which has progressed more slowly than expected. There is very high uncertainty around the forecast for the emissions auction unit price. This is affected both by geopolitical tensions, including those in the Persian Gulf region, which influence demand, and by internal European Union decisions, which influence supply. The effect on the revenue forecast of the amendment to the EU emissions trading system presented in July 2026 will become clear after completing negotiations in 2027; this will materially affect the trading revenue forecast updated in subsequent forecasts.

State fees accrue much more steadily, increasing by an average of 4 per cent a year. Compared with the current budget, the forecast has been reduced by 2.7 million euros, including because of lower receipts in the first half of the year from state fees collected mainly for issuing visas by the Ministry of Foreign Affairs' area of government. Since last year, revenue from the sale of goods and services has also included the registration fee for motor vehicles, from which we expect receipts of 75 million euros this year and 82 million euros next year.

The volume of external support in the coming years is shaped by three factors: the completion of the European Union Recovery Plan, the timing of Rail Baltica investment, and the pace of use of the 2021-2027 structural funds. As of 18 August 2026, 87 per cent of the funds from that period had been covered by commitments, indicating that disbursements are increasingly closely tied to projects. The use of structural funds peaks in 2026 and partly mitigates the effect of the end of the Recovery Plan. The volume of structural funds available in 2026 and 2027 has increased significantly, mainly due to the frontloading of funds from subsequent years. More than half of this reflects changes to structural fund plans, under which a large volume of external support was reallocated to support new EU defence objectives, including the EU ReArm initiative. The total use of external funds peaks in 2026 and then begins to decline from 2027. The implementation period of the EU Recovery and Resilience Facility (RRF) also ends in 2026, bringing RRF-financed investments to an end.

Compared with the spring forecast, the largest change is related to faster use of the structural funds from the 2021-2027 budget period and the reallocation of part of those funds to defence investment.

The forecast for other revenue is 17 million euros higher than in the 2026 budget, mainly as a result of growth in fine revenue. The increase in fine rates raised receipts from fines to 45 million euros last year, and these remain at almost the same level over the forecast period. The forecast for environmental charges rises slightly compared with the previous year because of pollution charges. At the same time, the forecast for the oil shale extraction fee declines because of a fall in the rate of the oil shale mining right fee in relation to the price of heavy fuel oil. Revenue from asset sales declines compared with both the budget and last year's receipts, amounting to only 6 million euros this year.

The forecast for financial income has been revised up relative to the budget because of growth in property income. Financial income consists mainly of dividends, the Bank of Estonia's profit allocation and Riigikassa's interest income. This year, most dividends are paid by RMK, AS Eesti Energia, Riigi Kinnisvara AS and AS Lennuliiklusteenindus. Except for AS Eesti Energia, the dividends of the other companies have increased relative to the budget owing to good economic results last year. In subsequent years, however, dividend income declines. Higher interest rates and growth in reserve volumes increase the forecast for interest income in the coming years.

2.3 General Government Expenditure Forecast

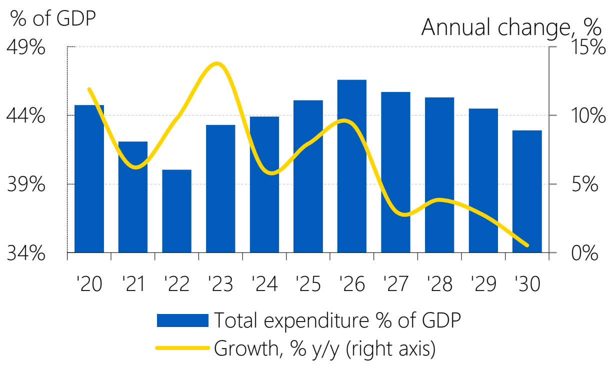
Expenditure growth slows, but the composition of expenditure increasingly reflects more permanent and less flexible commitments, such as national defence, public debt servicing and indexed social expenditure.

Growth in expenditure on national defence and the servicing of public debt, investment in Rail Baltica, and the level of expenditure on social protection, healthcare and education keep general government expenditure elevated in the near term. In 2026, general government expenditure amounts to 46.6 per cent of GDP. Last year, it stood at 45.2 per cent, 4 percentage points below the European Union average for 2024 (see Figure 31, Annex 3). At the same time, the structure of expenditure has changed. Defence expenditure has increased and the cost of servicing public debt has risen; these are not temporary spikes but lasting changes.

Expenditure growth in 2026 is 9.4 per cent, or 1.78 billion euros, 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 2027-2030, expenditure growth averages around 2.5 per cent a year (Figure 20), which is slower than the projected 4.7 per cent growth in nominal GDP.

The forecast for general government revenue and expenditure is presented in the annex (see Table 14, Annex 3).

Figure 20. General government total expenditure (% of GDP) and annual change in expenditure

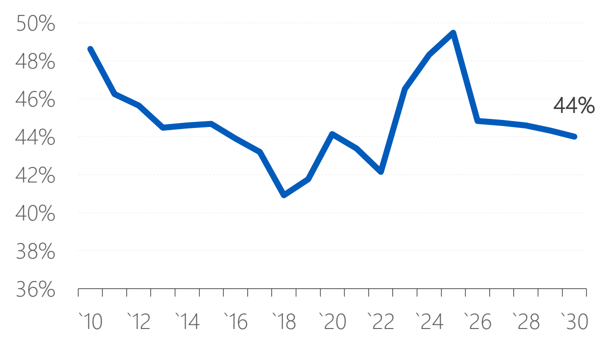


Compared with the spring forecast, in the current year, expenditure is 49,4 million euros higher than in the spring forecast. Compared with the spring forecast, expenditure in 2027 and 2030 is lower, mainly because some expenditure has been rephased to 2028. The changes reflect updates to the forecast for external support, a reassessment of estimated statutory expenditure, and expenditure financed from CO2 emissions trading revenue. The increase is concentrated mainly in investment and capital transfers, as a result both of rephasing between years and of shifts between expenditure categories. Interest expenditure has also increased, while the volume of social benefits has been revised down.

Within monetary social transfers, growth in social benefits over the forecast period is concentrated mainly in old-age pensions. In 2026, the largest contribution to annual growth in social benefits, 175 million euros, comes from the state pension, taking it to 3.16 billion euros. In 2027-2030, old-age pension expenditure increases by an average of 155 million euros a year. This reflects the rise in the pension index and the growing number of pensioners. Compared with the spring forecast, the projection for the number of pensioners has been revised down. This is influenced by the actual number of pensioners in 2025 and by increases in the old-age pension age in 2027 and 2028, to 65 years and 1 month in 2027 and 65 years and 3 months in 2028.

Pension growth next year is determined largely by the growth rate of social tax payments and is also affected by consumer price inflation. The average old-age pension remains close to 39 per cent of the average wage in 2026-30. The ratio of the average net old-age pension to the average net wage, however, falls to 45 per cent this year with the introduction of the uniform tax-free allowance for the working-age population and declines to 44 per cent by the end of the forecast period.

Figure 21. Ratio of the average net old-age pension to the average net wage (%)



Expenditure on the work ability allowance increases by 26.3 million euros in 2026 and exceeds 520 million euros. As the daily rate of the work ability allowance is linked to the pension index, growth continues in 2027-2030 at an average of 25 million euros a year. Several items of social expenditure therefore move upwards automatically because of indexation, without any need for an additional policy decision each year.

The forecasts for parental benefit and family benefits have been revised down, reflecting a downward revision to the number of births. Expenditure **on** parental benefits remains at a similar level over the forecast period, as it also reflects growth in average and minimum wages, but expenditure on family benefits declines by an average of 5 million euros a year.

In-kind social transfers grow by an average of 5.1 per cent a year in 2026-2030. An in-kind social transfer is support that is not paid out in cash but provided in the form of services or benefits. Health services have the largest effect, accounting for 80 per cent of such support, mainly treatment services and the reimbursement of medicines and medical aids.

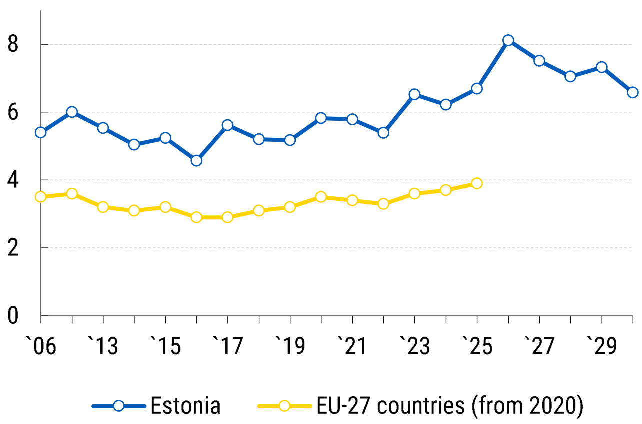
Tervisekassa's projected budget deficit for the current year declines from 105 million euros to 90 million euros. To this end, the system will be made more efficient and payment models will be updated, and indebtedness will not be increased. Healthcare expenditure remains at an average of 6.1 per cent of GDP.

General government compensation of employees, that is, expenditure on pay, increases by 6.5 per cent in 2026. In 2027-2030, growth averages 3.1 per cent a year, which is below both nominal wage growth and GDP growth, and the share of GDP declines from 12.3 per cent this year to 11.5 per cent by 2030. The faster growth in 2026 reflects additional funding for the defence sector and increases in the wage bill for teachers, internal security, cultural workers and special care services.

Intermediate consumption, which consists mainly of day-to-day operating expenditure, reaches 6.48 per cent of GDP in 2026 driven primarily by extensive defence-related spending on 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 2028. In addition, there is a larger change in the forecast for Estonia's contribution to the EU budget, which from 2028 takes into account the European Commission's proposal for the new long-term EU budget for 2028-2034 and the proposal for new own resources as a source of revenue, which would significantly increase Estonia's contribution compared with the current budget period of 2021-2027. The higher contribution reflects both the European Union budget's rising financing needs, including new priorities, and the increasing debt-servicing costs of the NextGenerationEU recovery instrument, because from 2028 principal repayments will be added to the interest costs already being paid.

General government investment as a share of GDP remains high in Estonia. Whereas in 2012-2024 the share of gross fixed capital formation was between 4.6 and 6.6 per cent, in 2026-2030 it averages 7.3 per cent of GDP. This is clearly above the European Union average.

Figure 22. General government gross fixed capital formation in Estonia and the EU, 2006-2030 (% of GDP)



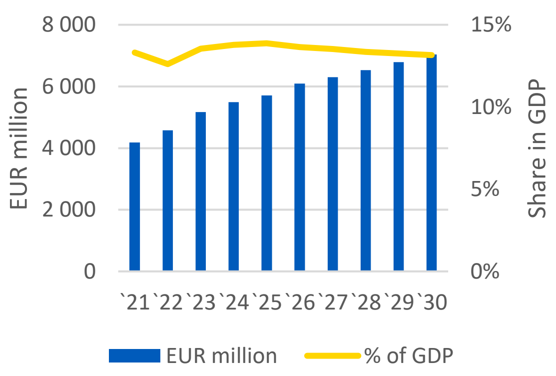
In 2026, the annual volume of investment reaches its peak at 3.5 billion euros, or 8.1 per cent of GDP, and remains at a similar level until

the end of the forecast period. Growth is driven mainly by defence investment and the active use of EU funds, including rising disbursements from cohesion policy programmes, construction of Rail Baltica and and projects under the Modernisation Fund.

Interest expenditure rises rapidly over the forecast period owing to the increase in the debt stock and a higher level of Euribor. Until 2022, it amounted to only up to 0.1 per cent of GDP, but by 2023 it had already reached 0.6 per cent of GDP. By 2030, interest expenditure under the ESA 2010 (European System of Accounts - ESA 2010) methodology reaches 1.2 per cent of GDP, or 656 million euros.

By government function (COFOG), the largest area of general government expenditure is social protection. In 2025, this is estimated at 13.9 per cent of GDP (Figure 23). More than half of social expenditure consists of old-age pensions and almost one fifth consists of child and family benefits. Pension expenditure is projected to grow by an average of 4.7 per cent a year in 2026-2030.

Figure 23. Social protection expenditure in 2021-2030 (EUR million and share of GDP)

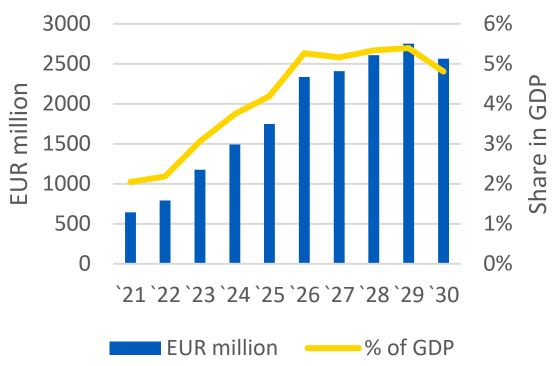


Healthcare expenditure remains at an average of 6.1 per cent of GDP. More than 70 per cent of this is related to hospital services. Growth is based on the pace of spending projected by Tervisekassa (Estonian health care fund) and reflects both higher service costs and rising demand.

Defence expenditure exceeds 5 per cent of GDP from 2026. This year, defence expenditure is estimated at 5.3 per cent of GDP. The level of defence expenditure remains above 5 per cent for the following three years as well and falls to 4.8 per cent in 2030.

The volume of defence expenditure and its share in GDP are shown in the figure below (Figure 24).

Figure 24. Defence expenditure, 2021-2030 (EUR million and share of GDP)



The forecast for general government expenditure by function is presented in the annex (see Table 15 and Figure 32, Annex 3).

2.4 Tax Policy Impact

The tax environment is stable over the forecast period; the largest change was the introduction of the uniform basic allowance this year.

2.4.1 Tax Policy Changes

This chapter treats as tax changes those changes that entered into force from 1 January of the current year or will enter into force later. Their effect on tax receipts over the forecast period is assessed relative to the situation as at 31 December 2025.

The largest effect of tax changes on tax receipts is seen in 2026. Changes to labour taxes reduce tax revenue by about 1 per cent of GDP. As part of personal income tax is classified as a capital tax, capital tax receipts also decline by 0.1 per cent because of the change in the tax-free allowance.

In 2026, the regressive basic allowance is abolished and the uniform basic allowance rises to 700 euros a month, remaining at 776 euros for people of old-age pension age. This increases net income, but the effect is not evenly distributed: those in the seventh to ninth income deciles benefit the most. For lower-income groups, the change is more modest. The effect of the change on current tax receipts also depends on how people use the basic allowance. Although the basic allowance no longer depends on income level, data for the first half of the current year show that around 85,000 people do not use it during the year.

By 2029, the effect of tax changes on tax receipts falls to 0.7 per cent of GDP. Tax revenue is reduced by the 2026 change in the basic allowance, while the continued increases in several excise duty rates raise tax revenue.

The main tax changes in 2026-27 are presented in Annex 3 (Table 18).

Table 4. Impact of tax changes on the tax burden by economic function of tax, 2026-2030 (% of GDP)

	2024 tax burden	2025 tax burden	2026	2027	2028	2029	2030
Total tax revenue	35.7	36.2	-1.0	-0.9	-0.8	-0.7	-0.7
Labour taxes	18.1	19.0	-1.0	-1.0	-1.0	-1.0	-1.0
Capital taxes	4.1	3.7	-0.1	-0.1	-0.1	-0.1	-0.1
Consumption taxes	13.5	13.6	0.0	0.2	0.3	0.3	0.3

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

Source: Ministry of Finance

2.4.2 Tax Expenditure

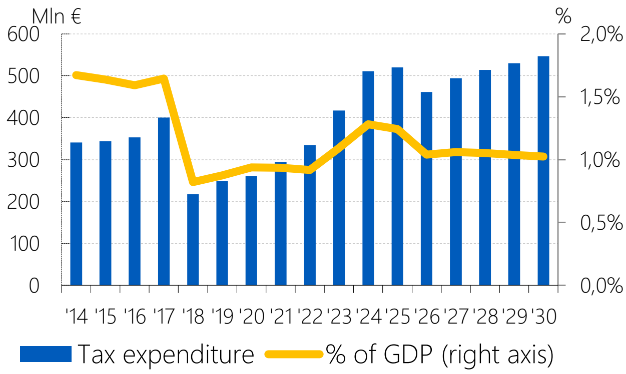
Tax expenditure is an implicit budget expenditure item. When the state grants a tax exemption or relief, it forgoes revenue in the same way as when it pays a subsidy. Tax reliefs should therefore be treated like any other budget line: they should be assessed regularly, justified and, where necessary, discontinued. Otherwise, they distort competition, narrow the tax base and shift the tax burden onto those who do not receive the relief[3].

In 2024, total tax expenditure exceeded 500 million euros. The size of tax expenditure was still affected at that time by the preferential 14 per cent rate on regularly distributed profits and by several income tax exemptions. In 2025, the largest tax expenditure was the basic allowance applying at old-age pension age. However, the introduction from 2026 of a uniform 700-euro basic allowance for the working-age population raised the benchmark significantly and reduced the estimated tax expenditure of 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 acts on **alcohol, tobacco, fuel and electricity.** The largest single tax expenditure is the 9 per cent VAT rate on medicines and medical devices, amounting to

157 million euros. Total tax expenditure in 2026 is estimated at 462 million euros, or 1 per cent of GDP and 3.5 per cent of tax revenue. Reliefs provide the greatest support to healthcare, through the reduced VAT rate on medicines and medical devices; to social protection, through the tax-free allowance for pension-age people, funded pension exemptions and the child relief in the motor vehicle tax; and to the economy, for example through the excise relief on agricultural fuel.

Figure 25. Tax expenditure (EUR million and % of GDP)



Over the forecast period, tax expenditure remains close to 1 per cent of GDP. The largest tax expenditure continues to be the lower VAT rate on medicines and medical devices, whose fiscal effect reaches 0.3 per cent of GDP from 2027.

A more detailed breakdown of tax expenditure is presented in Annex 3 (Table 19).

2.5 General Government Financing

High level of defence expenditure and the persistent budget deficit are projected to raise the general government debt ratio to 38.6 per cent of GDP by 2030. Estonia's debt ratio is increasing at one of the fastest rates in the European Union.

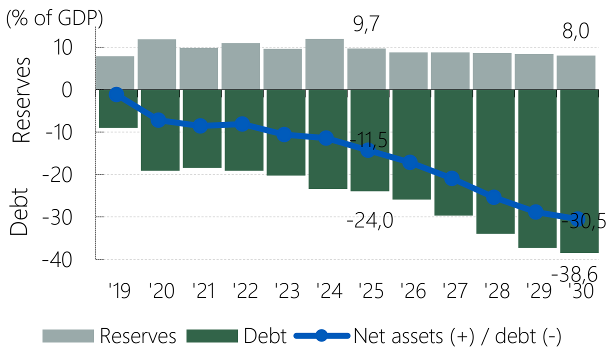
The state's cash flow remains negative throughout the forecast period, while its borrowing needs increase. The general government debt ratio rises in every year of the forecast period as borrowing is required to cover the persistent budget deficit and other cash-flow financing needs. The general government's net position, i.e. the difference between debt and reserves, deteriorates by almost 3 percentage points this year and continues to deteriorate in the following years (see Figure 26).

The summer forecast incorporates the impact of tax changes that have already entered into force on both revenue and expenditure. The state budget remains in nominal deficit throughout the forecast period, mainly due to the high level of expenditure. The share of expenditure in the economy also increases this year (see Section 2.3).

In addition to the budget deficit, State Treasury's financing need is also affected by financing transactions and repayments of previously raised loans, which further increase the cash requirements. The latter, i.e. the refinancing of maturing debt, does not increase the debt burden. As a result, the state's cash-flow financing needs are greater than the budget deficit.

Estonia's general government debt ratio increased by only 0.5 percentage points of GDP in 2025, as part of the year's financing need had already been covered by funding raised in 2024. In nominal terms, debt increased by EUR 682 million and reached 24 per cent of GDP, compared with 23.5 per cent of GDP in 2024. The debt burden increased at both central and local government level (see Table 21, Annex 3).

Figure 26. General government liquid assets, debt ratio and net position (% of GDP)



Most of the increase resulted from an additional EUR 500 million issuance of long-term bonds by the State Treasury.

In 2026, growth in the general government debt ratio accelerates, and debt continues to rise throughout the forecast period. Owing to the persistent budget deficit and other cash-flow financing needs, the debt ratio increases by almost 15 percentage points relative to 2025 by the end of the forecast period, reaching 38.6 per cent of GDP. The pace of increase is among the fastest in the European Union.

The growing financing needs are met through bonds and loans with different maturities. Over the forecast period, the State Treasury continues to diversify its funding sources and debt maturities to limit refinancing risk and maintain flexibility in cash-flow management. Short-term bonds are used primarily to cover short-term cash needs and are refinanced on a rolling basis. Long-term financing is provided through both bond issuance and loans.

SAFE provides an additional source of long-term financing for defence expenditure. The European Union's SAFE financing instrument allows Estonia to use up to EUR 2.3 billion in long-term borrowing to finance defence investment. This represents the maximum amount available, while actual borrowing will depend on the extent to which the planned defence procurement meets the SAFE eligibility criteria. SAFE provides for loans with maturities of up to 45 years, and their long maturities and more favourable interest rates help reduce financing costs and refinancing risk.

The rapid increase in the debt burden also raises the state's financing risks over the medium term. A persistently large budget deficit and rising debt burden could lead to a deterioration in Estonia's sovereign credit rating and increase the cost of new borrowing through a higher risk premium. Combined with growing refinancing needs, this would make government financing more expensive. The current summer forecast does not assume a change in Estonia's credit rating.

As of early August 2026, the State Treasury's debt liabilities amounted to EUR 8.60 billion. Of this amount, EUR 6.9 billion, or 81 per cent, consisted of issued short- and long-term bonds, while EUR 1.7 billion, or 19 per cent, consisted of long-term loans. The central government's contribution to total general government debt increases over the forecast period from 20 per cent of GDP to close to 35 per cent. Local government debt also increases but stabilises at 3.9 per cent of GDP. The social security funds, Tervisekassa and Töötukassa, are not expected to increase their debt burden (see Table 20, Annex 3).

Reserves reduce the state's liquidity and financing risks. At the end of 2025, central government's financial reserves amounted to more than EUR 2 billion, or 5.6 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 use in crisis situations and amounted to EUR 498.5 million as of 3 August 2026. Over the preceding year, the reserve increased by EUR 19 million, of which slightly less than one third came from the allocation of Eesti Pank's profit. The return on investments was approximately 3 per cent, broadly in line with the state's average borrowing rate. The objective is to maintain the return at least at the level of the borrowing rate so that maintaining the stabilisation reserve does not increase the state's net financing cost.

The liquidity reserve is used for day-to-day cash-flow management. As of 3 August 2026, it amounted to EUR 2.6 billion. In addition to central government, the reserve also includes the funds held by Töötukassa and other entities. The expected return in 2026 is 2.2 per cent.

According to the forecast, net borrowing increases by EUR 1.35 billion. The weighted average interest rate on the State Treasury's debt was 2.5 per cent in 2025 and is projected to rise to 3.0 per cent in 2026. Interest expenditure increases as a result of the higher interest rate and the growing debt burden, reaching EUR 239 million, or 0.5 per cent of GDP in 2026. According to the forecast, interest expenditure rises to 1.2 per cent of GDP by 2030. This increases the debt-servicing burden on the state budget and reduces the fiscal space available for financing other expenditure.

3 Negative 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 burden. This helps to gauge how sensitive the budget position is to slower growth, weaker consumption or external shocks.

Realisation of the Spring Forecast Risk Scenario

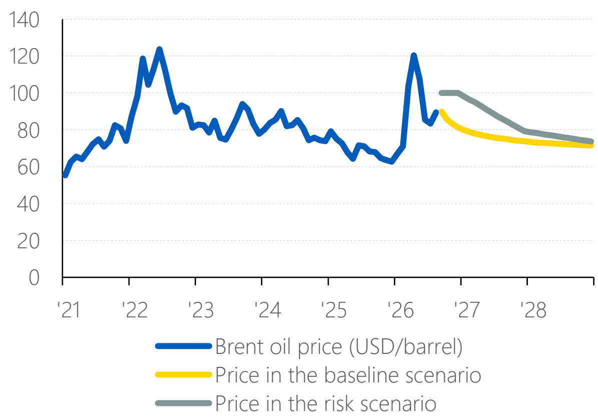
The Ministry of Finance's spring economic forecast was once again prepared against a backdrop of considerable uncertainty. The conflict in the Middle East was still in its early stages, making its potential economic impact particularly difficult to gauge. Producing forecasts in a situation where commodity prices important for the external assumptions fluctuate by more than a tenth within a day, and each new day may bring fresh price records, is challenging, to say the least. There were differing assumptions about how extensive the consequences of the Middle East conflict might become, but it was clear that these developments would be associated with higher inflation and lower economic growth.

The Middle East conflict has now lasted six months and no end is visible in the foreseeable future. Therefore, irrespective of how long the conflict continues, ongoing significant supply problems in oil and gas products and other commodities need to be taken into account. At the same time, Estonia's performance over this period has been surprisingly positive. Inflation did accelerate because of higher oil product prices, but was lower than expected. The outlook for growth in our export demand is also better, as the economies of our main export partners, Finland and Sweden, are gathering pace. These developments have occurred independently of the situation in the Middle East and have helped to offset the negative impact.

Negative Risk Scenario in the Summer Forecast

Despite the more favourable-than-expected outturn, the economic effect of the Middle East conflict remains one of the larger risk factors in the current forecast. The world economy has temporarily adapted to the supply problems, but partly at the cost of releasing countries' inventories onto the market. The situation may become more strained during the autumn and winter if demand for energy products increases. Another price shock could also undermine confidence, which is already on fragile ground. It therefore remains likely that over the coming year we will see further increases in energy prices, with inflation above the baseline forecast and economic growth below it.

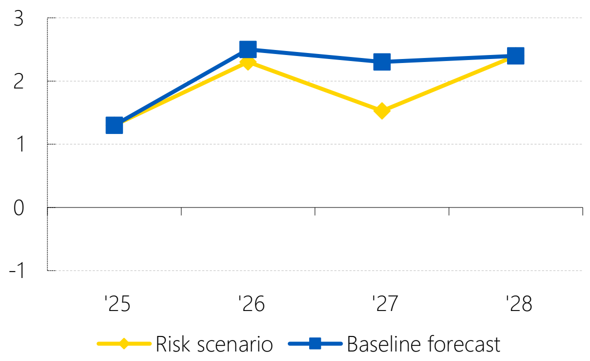
Figure 27. Oil price assumption in the risk scenario



The risk scenario is based on higher prices for oil and other energy products than in the baseline scenario, with these only beginning to recede in the spring of next year (see Figure 27). As higher commodity prices bring not only faster inflation but also a relative weakening in external demand, we have materially reduced the expected real growth of the economy next year in the risk scenario. Whereas in the baseline scenario we saw economic growth this year and next at around 2.5 per cent, in the risk scenario we expect

1.5 per cent real growth in 2027, which could accelerate to 2.4 per cent in 2028 as price growth eases (see Figure 28). Although inflation has eased this summer, higher energy prices bring a new wave of price increases, and in the risk scenario we could see inflation for 2027 as a whole at a pace similar to that of the current year, at around 3.4 per cent.

Figure 28. Real economic growth, risk scenario (per cent)



The size of the economy declines. Whereas the sharp rise in energy prices in 2021-22 ultimately led to an increase in the economy's size at current prices, we are more pessimistic in the current situation. In the risk scenario, we expect GDP in nominal terms to be 0.4 billion euros lower next year and 0.5 billion euros lower in 2028 than in the baseline scenario (see Table 11). First, there are fewer buffers in the economy: after the coronavirus crisis, households had accumulated forced savings that could be directed to consumption. In addition, funds released from the second pension pillar in 2021 helped households to cope with rapid price growth. By now, the purchasing power of aggregate wage income has remained at the same level for 5-6 years and many households' savings have been exhausted. Fiscal space has also been exhausted. Because of the new security environment, countries are directing significantly more public money to defence spending and are operating at the limit of the fiscal rules, so there is no longer scope to provide equivalent fiscal support to the economy.

Larger Budget Deficit in the Risk Scenario

Slower economic growth also means weaker tax receipts. According to the risk scenario, the general government budget position deteriorates by 0.1 per cent of GDP this year and by 0.5 per cent of GDP next year and the year after. The main reason is lower tax revenue, affecting both the state and local governments. A deeper deficit is also caused by faster inflation, which increases operating expenditure and investment.

The weaker budget position of central government and local governments implies a greater borrowing need. As a result, the debt ratio is 0.1 percentage points of GDP higher this year and 1.1 percentage points higher by the end of 2028. 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 budget buffers to cope with unexpected economic conditions. When operating at the limit of the fiscal rules, every shock requires an immediate response on the expenditure side as well, in order to remain within the agreed framework.

Table 5. General government budget position under the risk scenario, 2026-2028

	Risk scenario			Difference from the baseline forecast		
	2026	2027	2028	2026	2027	2028
General government budget position (EUR million)	-2011	-2323	-2337	-41	-215	-199
Central government	-1821	-2148	-2212	-31	-157	-142
Social security funds	-108	-73	-51	-8	-44	-41
Local governments	-82	-102	-74	-2	-14	-16
General government budget position (% of GDP)	-4.5	-5.0	-4.8	-0.1	-0.5	-0.5
Central government	-4.1	-4.6	-4.6	-0.1	-0.4	-0.3
Social security funds	-0.2	-0.2	-0.1	0.0	-0.1	-0.1
Local governments	-0.2	-0.2	-0.2	0.0	0.0	0.0
General government structural budget position (% of GDP)	-4.5	-4.9	-4.8	-0.1	-0.5	-0.5

Annex 1. Principles and assumptions underpinning the forecast

The purpose of the economic and fiscal forecast is to provide as up-to-date and accurate an assessment as possible of the outlook for the Estonian economy and public finances, based on budget policy decisions taken to date. This forecast forms the basis for preparing the progress report to be 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 amendments and budget policy measures planned for the coming years. It is also intended for public use, to provide a clearer picture of what is happening in the economy and public finances and of the assumptions underpinning the forecast.

The preparation of the forecast is governed by the State Budget Act. It is based on the latest published economic and fiscal statistics, and the assessment is prepared for 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 knowledge. The forecast includes a comparison with other forecasts and a description of the methodology. The assumptions used in this forecast were fixed as at mid-August 2026.

Under Section 4 of the State Budget Act, the state's macroeconomic and fiscal forecasts are assessed by the Fiscal Council, which issues its opinion on the forecast within two weeks of publication and makes it available on its website at https://eelarvenoukogu.ee/ The Fiscal Council endorsed the Ministry of Finance's spring 2026 forecast.

Assumptions underlying the macroeconomic forecast

The global economy proved more resilient than expected in 2025. Growth is expected to slow this year to slightly below its long-term average. **The adverse effects of the Middle East conflict and increased geopolitical uncertainty are likely to be partly offset by rising technology investment related to artificial intelligence**.

Half a year has now passed since the outbreak of the Middle East conflict, but uncertainty about its further course and duration remains high. **The longer disruptions in the Strait of Hormuz persist, the greater their economic impact is likely to be.** So far, events in the region have caused energy prices and commodity prices originating there to rise rapidly, led to supply disruptions and fed through into higher input prices. A number of countries have introduced temporary measures to ease the energy shock for households and businesses. Central banks have had to start raising interest rates again, or are planning to do so in the coming months, in order to ease inflationary pressures.

The external assumptions were fixed on 12 August. The Persian Gulf crisis has now lasted for almost half a year, during which tensions have at times intensified and then eased again. In current conditions, the further course of the conflict is impossible to predict, and the forecast therefore incorporates the market-based dynamics of energy-price futures. Based on 14-day average futures prices, energy prices are on a downward path from the autumn onwards, which is expected to indicate an easing of tensions.

Euro area growth is projected to slow from 1.4 per cent in 2025 to 0.8 per cent in 2026, as higher energy prices and increased uncertainty weigh on domestic demand. At the same time, fiscal stimulus and investment related to artificial intelligence support domestic demand. Inflation in the euro area has remained around 3 per cent since the start of the Persian Gulf conflict. The 2026 inflation forecast has been revised up to 2.9 per cent, reflecting high energy prices.

Estonia's external demand – that is, imports by trading partners – showed a rapid recovery last year, increasing by 4.3 per cent in 2025. In 2026, the economies of neighbouring countries are affected by high energy prices and increased uncertainty, which is reflected in more subdued import demand. In several external markets, large increases in defence expenditure are helping to raise import volumes. Stockpiling in anticipation of possible supply disruptions arising from the Persian Gulf conflict may also affect trade volumes. Growth in external demand is projected to slow to 2.8 per cent this year, broadly in line with the long-term average.

The energy price shock in spring caused inflation to rise rapidly in the euro area, and interest rates have increased. The three-month EURIBOR has risen by almost 0.5 percentage points compared with the period before the Middle East conflict, reaching 2.5 per cent in mid-August. In response to growing inflationary pressures, the European Central Bank raised key policy rates in June, and markets expect one further rate increase in September. Based on market expectations**, the three-month EURIBOR will rise to 2.9 per cent by the end of 2027 and remains around that level until the end of the forecast period.**

The US dollar weakened against most currencies in 2025, owing to the imposition of US tariffs. This year, dollar, as a safe-haven currency, has strengthened somewhat against the euro, reflecting the Middle East conflict. The EUR/USD exchange rate is fixed at 1.155 for the forecast period.

Owing to the oversupply that prevailed in the oil market, the oil price reached a five-year low at the end of last year (USD 63 per barrel). The escalation of the Middle East conflict led to a rapid increase in oil prices, peaking at a monthly average of USD 120 per barrel in April. Thereafter, oil traded at somewhat lower levels amid expectations of an easing in Persian Gulf tensions, and **at the point when the external assumptions were fixed the oil price stood at around USD 90**.

Given the high volatility of energy prices, the average prices over the last 14 days at the point when the external assumptions were fixed have been used as the basis for oil and gas. On that basis, the oil price in the futures market is projected at USD 89.0 and USD 76.2 in 2026 and 2027 respectively.

The TTF gas price has doubled compared with its level at the beginning of the year, standing at around EUR 60/MWh in August when the assumptions were fixed. Based on futures prices, gas is projected to average EUR 50.1/MWh in 2026 and EUR 41.9/MWh in 2027. **Gas inventories in Europe are at their lowest level in almost 10 years, and stockbuilding has been hampered by supply interruptions and high consumption caused by heatwaves.** As a result, gas prices have remained on an upward trend, with price peaks occurring at the end of the summer. This also implies an increased risk of an energy crisis as the heating season begins.

Assumptions underlying the fiscal forecast

The public finance forecast is prepared on a no-policy-change basis and serves as the basis for the government's budget policy documents – the state budget and the budget strategy. A no-policy-change approach means that current policies and regulations are assumed to remain in place: no major changes or adjustments are made over the forecast period. The starting point is current legislation and measures approved in sufficient detail, for example the State Budget Strategy 2026–2029. Accordingly, the baseline scenario of the forecast incorporates only part of the decisions approved in the State Budget Strategy 2026–2029. The forecast does not take into account tax changes that have not been enacted or expenditure decisions whose content or scale is not sufficiently clear.

At the same time, "approved decisions only" does not mean that expenditure is assumed to remain frozen at the same level throughout the forecast period. In the case of operating expenditure, normal growth is assumed even where no separate government decision has been taken. Otherwise, the real value of expenditure would decline and the provision of public services would be reduced, which would in effect already constitute a policy change. In addition, account is taken of factors arising from the external environment, such as demographics, the economic cycle and environmental impacts. The public finance forecast is based on the baseline scenario of the macroeconomic forecast.

Assumptions underlying the state budget revenue forecast:

- The tax forecast is based on the general principles governing the forecast.
- Of the larger tax changes, the forecast takes into account the changes to tax-free income that came into force at the beginning of the year and the cancellation of the increase in fuel excise duty.
- 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 per cent of the average wage.
- Non-tax revenues are projected on the basis of receipts to date and updated estimates from the areas of government, such as environmental charges, CO_2 emissions trading revenue and owner income.
- The dividend forecast for 2026 is based on the amounts in the government's dividend order; for 2027–2030, it is based on decisions taken in the RE 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, the supplementary budget and updated forecasts from the areas of government.
- The expenditure forecast for 2027–2030 is based on the 2026 budget, the supplementary budget and the funding plans of the areas of government. For imputed social expenditure and larger expenditure items linked to revenue, such as CO_2-related costs, updated forecasts prepared together with the areas of government are used.
- Under the coalition agreement, defence expenditure is set at no less than 5 per cent of GDP in 2026–2030.
- The forecast for external funds takes into account resources from the EU's new

long-term budget period for 2028–2034, which begins in 2028, together with national co-financing from 2028 onwards.

Assumptions underlying the budget position of the Unemployment Insurance Fund:

- The expenditure forecast uses the latest forecast prepared by the Unemployment Insurance Fund on the basis of the indicators in the Ministry of Finance's summer 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 amount of expenditure approved in the 2026 budget; for expenditure in 2027–2030, it is based on the Health Insurance Fund's four-year financial plan, prepared on the basis of the Ministry of Finance's summer forecast, and on the forecast for the state budget transfer prepared by the Social Insurance Board.
- Throughout the period, the revenue forecast is based on the Ministry of Finance's summer forecast for both social tax and the transfer for non-working pensioners.

Assumptions underlying the budget position of local governments:

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

Other general government institutions:

- 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 results and net debt burden laid down in the State Budget Act. It is assumed that the operating result and net debt burden shown in the financial plan will not be changed during the budget year.
- The forecast for Riigi Kinnisvara AS is based on the company's financial plan and the investments approved by the government. Only lease agreements already entered into are taken into account, and their consistency with the lease payments planned in the state budget is checked.

Annex 2. Links between taxes, social benefits and people's subjective well-being

The Ministry of Finance has assessed the impact of introducing a uniform annual tax-free allowance of 8,400 euros on people's subjective well-being. In conducting this analysis, we have drawn on OECD research[4] focused on the relationship between taxes and benefits and people's subjective well-being. This is a relatively new but growing field of research, which analyses and measures people's well-being more broadly than through direct indicators of their financial circumstances alone.

The research uses indicators at both the micro and macro levels. Micro-level variables are personal indicators relating to individuals or households. Macro-level indicators characterise the country or society as a whole. The research uses people's assessment of their overall satisfaction with life on a 10-point scale as a proxy for subjective well-being.

The study finds that unemployment is strongly negatively associated with subjective well-being, particularly an individual's own unemployment, but also the country's overall unemployment rate. Positive net transfers (transfers minus taxes) in the lower half of the income distribution are associated with greater well-being gains than the well-being losses from net taxes (taxes minus transfers) in the upper half of the income distribution. The macro-level tax burden is negatively associated with well-being, but this negative relationship is weaker or absent in countries where people perceive the quality of governance and public services to be high. The research did not find a strong relationship between income inequality and well-being, but it did find that being personally relatively poor is strongly negatively associated with well-being.

We have applied the framework described above in Estonia to analyse the introduction of a uniform tax-free allowance, as this is one of the largest tax policy changes in Estonia in recent years. When interpreting the results of the analysis, it should be borne in mind that, under the OECD methodology, the effects of the variables are estimated from panel data for 25 European countries and are not Estonia-specific[5]. In addition, the effects of macro-level indicators are not differentiated across disposable income deciles; rather, they are the same for all deciles. Differences in changes in well-being across disposable income deciles therefore arise only from micro-level indicators. Here, the change in well-being, expressed in terms of an equivalent change in disposable income, is described as the sum of six components. The micro-level components are a household's personal relative poverty[6] and the household's net taxes. The macro-level components are the overall tax burden, the interaction between the overall tax burden and government-sector efficiency, the share of social transfers in disposable income, and average household disposable income. For context and to compare Estonia with other countries, the latest known statistics for some macro-level indicators are presented in the table below (Table 6).

The results show that people place considerable value on the reduction in the macro-level tax burden associated with the introduction of a uniform tax-free allowance (see Figure 29). The effect of the change in households' personal net taxes is smaller. The government-sector efficiency indicator neither materially reduces nor increases the effect of the tax burden on subjective well-being. As relative poverty increased as a result of the policy change, the individual relative poverty indicator reduces well-being. Overall, the change in subjective well-being, expressed in terms of an equivalent change in disposable income, is greater than the change in disposable income associated with the policy change.

An analysis of changes in subjective well-being across disposable income deciles shows that, for all deciles, the change in well-being associated with micro-level indicators, expressed in terms of an equivalent change in disposable income, is smaller than the change in disposable income (see Figure 30). In the second decile, well-being can be seen to decline as a result of the policy change.

One interesting finding of the OECD research is that the effect of several macro-level indicators on people's well-being is comparable in magnitude to, or even greater than, the effect of people's personal indicators. This can also be seen in the analysis described above of the impact in Estonia of introducing a uniform tax-free allowance.

Table 6. Selected macro-level indicators

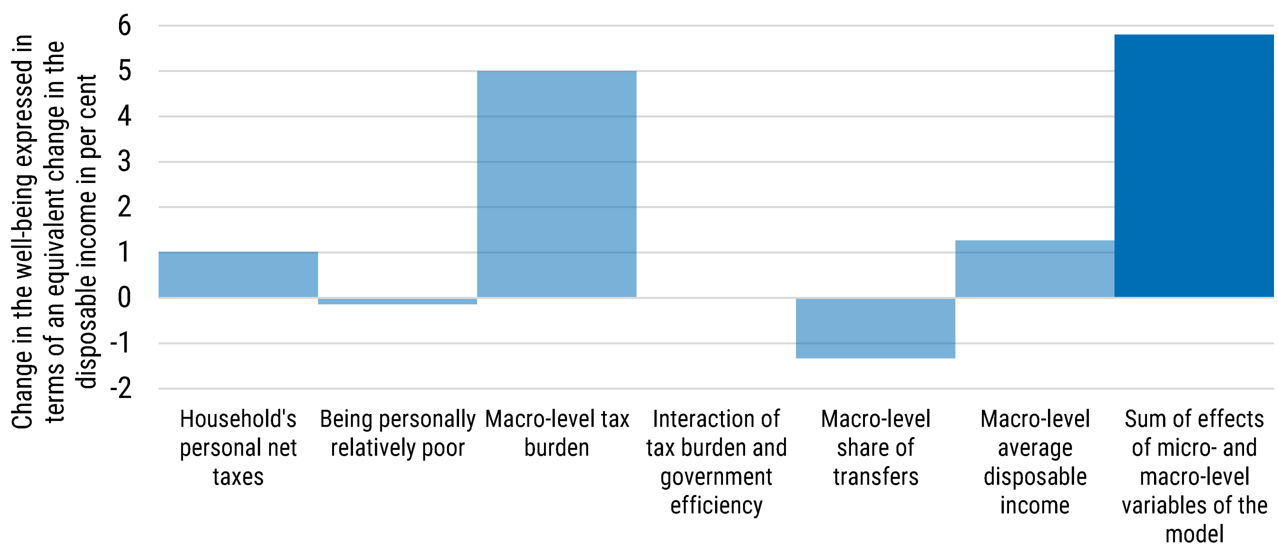
	Average life-satisfaction score on a 10-point scale (2025)	Average monthly disposable income of households in euros[a] (2025)	Tax revenue as a share of GDP, % (2024)	General government effectiveness score on a scale from 0 to 100 (2024)
Estonia	7.3	1597	35.2	76.6
Latvia	6.9	1458	34.9	65.8
Lithuania	7.3	1708	33.1	74.7
Finland	7.8	2780	42.2	86.7
Sweden	7.4	2715[b]	41.4	85.8
Germany	7.0	3222	38.0	81.4

[a]Disposable incomes across different households have been made comparable by taking account of household size and composition.

[b]The figure expressed in Swedish kronor has been converted into euros using the average exchange rate for 2025.

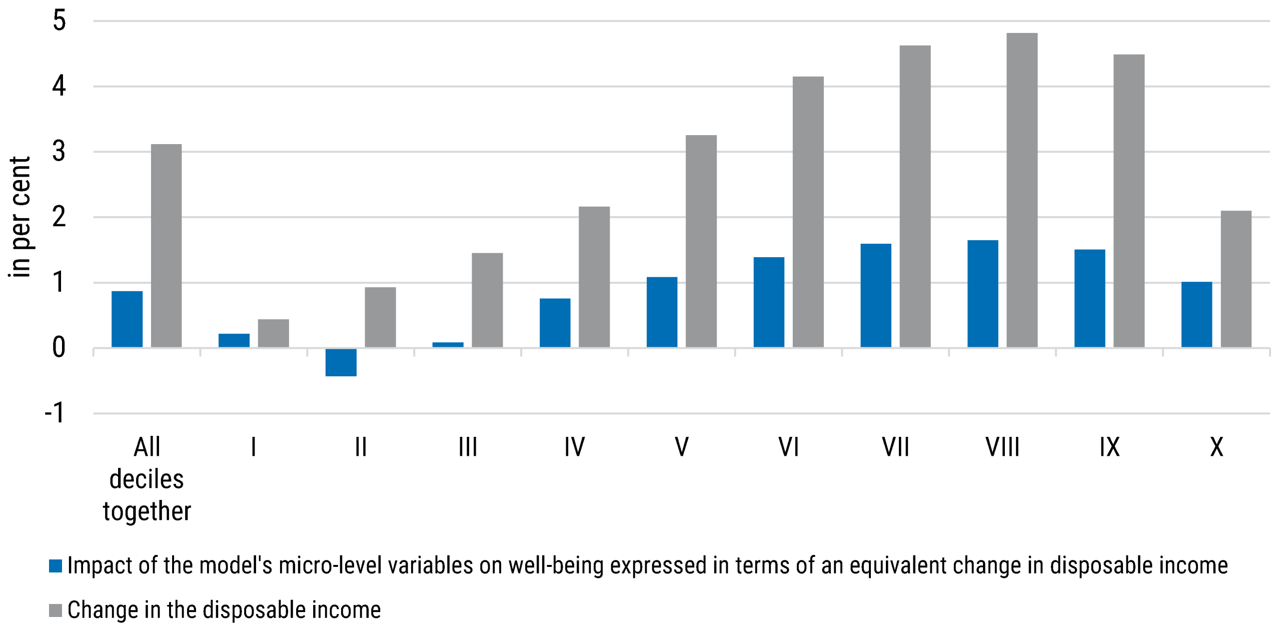
Source: Eurostat (EU-SILC data on life satisfaction assessments), EUROMOD Indicators website https://euromod-web.jrc.ec.europa.eu/resources/indicators (average household disposable income, based on EUROMOD version J2.0+), OECD Data Explorer (tax revenue as a share of GDP), World Bank (Worldwide Governance Indicators), European Central Bank (exchange rate data)

Figure 29. Estimated impact of the introduction of a uniform tax-free allowance on people's subjective well-being, by model component



Source: EUROMOD based on Estonian administrative data (calculations based on a sample of 100,000 households), OECD framework, Ministry of Finance calculations

Figure 30. Estimated impact of the introduction of a uniform tax-free allowance on people's subjective well-being and disposable income, by disposable income deciles[a]



[a]The I decile has the lowest disposable income and the X decile the highest disposable income.
Source: EUROMOD based on Estonian administrative data (calculations based on a sample of 100,000 households), OECD framework, Ministry of Finance calculations

Annex 3. ADDITIONAL TABLES AND FIGURES

Table 7. Gross domestic product forecast 2026–2030

%	2013–2023	2024	2025	2026	2027	2028	2029	2030
1. Real GDP growth	2.4	0.1	1.3	2.5	2.3	2.4	2.2	2.1
1a. GDP at constant prices (EUR billion)		29.5	29.9	30.6	31.4	32.1	32.8	33.5
2. Nominal GDP growth	7.1	4.5	5.0	6.0	5.2	4.7	4.5	4.4
2a. GDP at current prices (EUR billion)		39.9	41.9	44.4	46.7	48.9	51.1	53.3
2b. GNI at current prices (EUR billion)		39.1	41.5	43.8	46.0	48.1	50.2	52.3
Sources of growth								
3. Private consumption expenditure (incl. NPISH)	3.4	0.1	-0.4	3.3	1.7	1.8	1.9	1.8
4. General government final consumption expenditure	2.3	1.5	2.4	7.7	-0.3	1.7	-0.7	-1.0
5. Gross fixed capital formation	3.6	-6.5	2.4	5.1	2.0	0.3	2.5	5.2
6. Domestic demand	3.2	-1.3	0.9	4.7	1.3	1.4	1.5	2.1
7. Exports of goods and services	3.3	-1.5	4.8	2.5	2.8	3.2	2.8	2.7
8. Imports of goods and services	4.1	0.6	4.7	4.9	1.6	2.1	1.8	3.1
Contribution to GDP growth								
9. Domestic demand	3.0	-1.3	0.9	4.6	1.3	1.4	1.5	2.1
10. Balance of goods and services	-0.5	-1.6	-0.2	-2.0	0.8	0.7	0.7	-0.4
Value added growth								
11. Primary sector	-3.2	34.1	-11.7	4.0	2.0	2.0	2.0	2.0
12. Industry	1.0	-0.4	5.4	3.8	2.7	2.5	2.3	2.3
13. Construction	3.1	-10.3	-7.1	2.9	3.2	3.2	3.1	3.1
14. Services	2.8	0.7	1.2	1.9	2.2	2.2	2.0	1.9

Table 8. Price forecast 2026–2030

%	2013–2023	2024	2025	2026	2027	2028	2029	2030
1. GDP deflator	4.6	4.4	3.7	3.3	2.7	2.3	2.3	2.2
2. Private consumption deflator	4.0	3.3	3.2	3.0	2.7	2.1	2.0	2.0
3. Harmonised index of consumer prices	4.2	3.7	4.8	3.1	2.8	2.3	2.1	2.1
3a. Consumer price index	4.0	3.5	4.8	3.2	2.8	2.2	2.1	2.0
4. Deflator of general government consumption expenditure	5.9	5.7	3.9	3.8	3.1	2.6	2.6	2.6
5. Investment deflator	2.7	3.9	2.6	2.6	2.7	2.4	2.3	2.3
6. Export deflator	3.2	2.6	3.6	2.9	2.4	2.2	2.0	2.0
7. Import deflator	2.5	1.7	2.1	3.2	2.1	1.8	1.8	1.9

Table 9. Labour market forecast 2026–2030 (aged 15–74)

%	2013–2023	2024	2025	2026	2027	2028	2029	2030
1. Employment (thousand persons)	655.0	698.7	693.2	694.5	696.9	697.2	697.2	697.2
1a. Employment growth	1.1	0.6	-0.8	0.2	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)	1.3	-0.5	2.1	2.3	2.0	2.3	2.2	2.1
4. Real growth in the average wage	3.4	4.4	0.8	2.3	1.9	2.2	2.2	2.1
4a. Average wage (EUR)		1 981	2 092	2 209	2 312	2 415	2 518	2 624
4b. Nominal growth in the average wage	7.4	8.1	5.6	5.6	4.7	4.4	4.3	4.2
4c. Growth in the net wage bill	8.2	5.1	0.9	9.9	5.1	4.2	4.1	4.0
4d. Growth in the purchasing power of the net wage bill	4.2	1.5	-3.8	6.5	2.2	2.0	2.0	1.9

Table 10. Balance of payments forecast 2026–2030

% of GDP	2013–2023	2024	2025	2026	2027	2028	2029	2030
1. Net liabilities to the rest of the world	1.8	0.4	2.3	1.6	1.8	2.3	3.1	2.4
1a. Current account	-0.3	-1.2	0.3	-1.4	-0.7	0.1	0.8	0.3
2. Balance of goods and services	1.8	0.3	1.1	-0.9	0.2	0.5	0.7	0.0
3. Balance of primary and secondary income	-2.1	-1.5	-0.8	-0.5	-0.5	-0.5	-0.6	0.0
4. Capital account	2.1	1.7	2.1	2.9	2.5	2.2	2.3	2.1

Table 11. Negative risk scenario

	Risk scenario				Difference from the baseline forecast		
%	2025	2026	2027	2028	2026	2027	2028
1. GDP at current prices (EUR billion)	41.9	44.3	46.2	48.4	-0.1	-0.4	-0.5
2. Real GDP growth	1.3	2.3	1.5	2.4	-0.2	-0.8	0.0
3. Nominal GDP growth	5.0	5.8	4.4	4.7	-0.2	-0.8	0.0
4. CPI growth	4.8	3.4	3.4	2.1	0.2	0.6	-0.1
5. Real growth in domestic demand	0.9	4.4	0.2	1.4	-0.3	-1.1	0.0
6. Real export growth	4.8	2.1	1.9	3.0	-0.4	-0.9	-0.2
7. Employment growth	-0.8	0.1	0.0	0.1	-0.1	-0.3	0.1
8. Unemployment	7.5	6.8	6.8	6.6	0.1	0.4	0.3
9. Nominal wage growth	5.6	5.6	4.2	4.3	0.0	-0.5	-0.1

Source: Ministry of Finance, Statistics Estonia.

Table 12. Comparison of economic forecasts (per cent)

	Real GDP growth			Nominal GDP growth		
	2026	2027	2028	2026	2027	2028
Ministry of Finance	2.5	2.3	2.4	6.0	5.2	4.7
Eesti Pank	2.4	2.5	2.4	6.1**	5.5**	4.9**
Swedbank	2.0	2.5	2.4	4.8**	5.2**	4.8**
SEB	2.5	2.8	2.7	-	-	-
Luminor	2.0	3.0	3.0	-	-	-
Consensus Forecasts	2.0	2.5	-	-	-	-
European Commission	1.6	1.7	-	5.1**	4.9**	-
IMF	1.4	1.9	2.3	5.2	5.2	5.6
OECD	1.8	2.7	-	5.5**	5.4**	-
Institute of Economic Research	2.0	-	-	-	-	-

	Consumer price index			General government position (% of GDP)		
	2026	2027	2028	2026	2027	2028
Ministry of Finance	3.2 (3.1*)	2.8 (2.8*)	2.2 (2.3*)	-4.4	-4.5	-4.3
Eesti Pank	3.4 (3.4*)	2.6 (2.7*)	2.3 (2.3*)	-4.2	-4.9	-4.2
Swedbank	3.4	2.7	2.2	-3.7	-4.4	-4.2
SEB	3.0*	2.5*	2.4*	-3.8	-4.0	-3.5
Luminor	3.0	2.0	3.0	-3.0	-3.0	-3.0
Consensus Forecasts	3.9	2.8	-	-4.2	-3.8	-
European Commission	4.4*	2.9*	-	-4.5	-4.8	-
IMF	3.8*	3.0*	2.8*	-4.5	-4.5	-4.2
OECD	4.1*	2.6*	-	-4.3	-4.7	-
Institute of Economic Research	3.5	-	-	-	-	-

** Harmonised Index of Consumer Prices.*

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

Sources:

Ministry of Finance Summer Economic Forecast 2026. 27.08.2026.

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IMF. 2026 World Economic Outlook. April 2026. 14.04.2026.

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Estonian Institute of Economic Research. Konjunktuur No. 2 (237) 2026. 06.07.2026.

Table 13. Key external assumptions underpinning the forecast (per cent)

	Assumptions in the summer 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	2.4	2.9	2.9	2.9	2.9
2. Euro area long-term interest rate (annual average)	0.6	2.3	2.6	3.1	3.2	3.4	3.5	3.6
3. EUR/USD exchange rate (annual average)	1.159	1.082	1.130	1.160	1.155	1.155	1.155	1.155
4. Euro area HICP	2.1	2.4	2.1	2.9	2.4	2.0	2.0	1.9
5. Oil price (Brent, USD/barrel)	71.8	80.7	69.1	89.0	76.2	72.4	70.9	70.1
6. Oil price (Brent, EUR/barrel)	61.6	74.6	61.2	76.7	66.0	62.7	61.4	60.7
7. Gas price (TTF, EUR/MWh)	33.4	34.6	36.3	50.1	41.9	31.1	25.4	23.4
8. Euro area GDP growth	1.4	0.9	1.4	0.8	1.2	1.5	1.3	1.2
9. Growth in import demand in export markets	2.8	1.1	4.3	2.8	2.7	3.0	2.8	2.8

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

Table 14. General government budget revenue and expenditure, and forecast for 2026–2030

	2013-23	2013-23	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*
Budget positions by general government sub-sector										
1. General government	-350.9	-1.10	-457.9	-1.15	-1.97	-4.44	-4.52	-4.38	-4.29	-2.90
2. Central government	-340.3	-1.07	-334.2	-0.8	-1.58	-4.03	-4.27	-4.24	-4.06	-2.81
4. Local governments	-59.8	-0.20	-160.8	-0.40	-0.23	-0.18	-0.19	-0.12	-0.27	-0.20
5. Social security funds	49.2	0.17	37.1	0.09	-0.16	-0.23	-0.06	-0.02	0.04	0.10
General government										
6. Total revenue	10511.2	38.97	16827.8	42.19	43.18	42.37	41.52	41.21	40.41	40.24
7. Total expenditure	10862.1	40.07	17516.6	43.92	45.15	46.81	46.04	45.58	44.70	43.14
8. Budget position	-350.9	-1.10	-688.8	-1.73	-1.97	-4.44	-4.52	-4.38	-4.29	-2.90
9. Interest expenditure	27.7	0.09	233.7	0.59	0.48	0.62	0.80	0.96	1.11	1.23
10. Primary balance	-340.9	-1.06	-455.1	-1.14	-1.49	-3.82	-3.72	-3.42	-3.18	-1.67
11. One-off and temporary measures	54.9	0.09	264.4	0.66	0.58	0.00	0.00	0.00	0.00	0.00
Revenue by component										
12. Tax revenue (12=12a+12b+12c)	5749.8	21.35	9338.2	23.41	23.83	23.08	22.81	22.84	22.54	22.60
12a. Taxes on production and imports	3709.8	13.84	5549.1	13.91	13.95	14.29	14.10	13.99	13.58	13.56
12b. Current taxes on income and wealth	2042.1	7.52	3789.1	9.50	9.88	8.78	8.72	8.85	8.95	9.04
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	12.56	12.62	12.56	12.57	12.56	12.53	12.52
14. Property income	214.0	0.82	438.5	1.10	0.65	0.60	0.50	0.52	0.45	0.50
15. Other revenue	1400.7	5.17	2154.1	5.40	6.08	6.12	5.63	5.29	4.89	4.63
16.=6. Total revenue	10511.2	38.97	16827.8	42.19	43.18	42.37	41.52	41.21	40.41	40.24
Memo: tax burden (D.2 (incl. paid to the EU)+D.5+D.611+D.91-D.995)	8874.3	32.91	14257.2	35.75	36.23	35.45	35.20	35.21	34.88	34.93
Expenditure by component										
17. Compensation of employees + intermediate consumption	4621.8	17.12	7 372.1	18.48	18.60	18.76	18.41	18.82	17.88	17.36
17a. Compensation of employees	2902.2	10.72	4871.8	12.22	12.23	12.29	12.13	11.92	11.77	11.54
17b. Intermediate consumption	1720.0	6.41	2500.3	6.27	6.37	6.48	6.27	6.89	6.12	5.82
18. Social transfers (18=18a+18b)	3770.4	13.90	5996.2	15.03	15.17	14.77	14.55	14.45	14.36	14.23
of which unemployment benefits	195.1	0.27	221.6	0.56	0.56	0.48	0.41	0.40	0.38	0.36
18a. Social transfers in kind	551.2	2.00	961.9	2.41	2.49	2.32	2.23	2.30	2.31	2.29
18b. Cash social transfers	3219.2	11.90	5034.3	12.62	12.68	12.45	12.32	12.16	12.05	11.94
19.=9. Interest expenditure	27.8	0.09	233.7	0.59	0.48	0.62	0.80	0.96	1.11	1.23
20. Subsidies	279.3	1.01	287.8	0.72	0.58	0.77	0.76	0.72	0.73	0.70
21. Gross fixed capital formation	1483.7	5.45	2478.4	6.21	6.65	7.84	7.26	6.81	7.09	6.36
22. Capital transfers	144.9	0.56	447.0	1.12	1.65	1.97	2.31	1.92	1.53	1.39
23. Other expenditure	503.4	1.86	701.4	1.76	2.01	2.07	1.96	1.91	1.99	1.88
24.=7. Total expenditure	10879.1	40.12	17516.6	43.92	45.15	46.81	46.04	45.58	44.70	43.14
Memo: general government consumption	5215.8	19.29	8382.5	21.02	21.33	22.52	22.18	22.06	21.60	20.80

Sources: Statistics Estonia, Ministry of Finance.

Table 15. General government expenditure by function (COFOG) (per cent of GDP)

		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	4.5	4.4	4.4	4.6	4.7	4.6
2. Defence	2	589	2.1	1491.2	3.7	4.2	5.3	5.2	5.3	5.4	4.8
3. Public order and safety	3	494	1.8	732.8	1.8	1.8	1.9	1.8	1.8	1.8	1.7
4. Economic affairs	4	1355	5.0	1843.3	4.6	4.9	5.2	5.1	4.8	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	6.3	6.2	6.1	6.1	6.0	6.0
8. Recreation, culture and religion	8	537	2.0	775.7	1.9	1.%	1.9	1.7	1.6	1.5	1.5
9. Education	9	1586	5.9	2492	6.2	6.5	7.0	6.7	6.6	6.2	5.8
10. Social protection	10	3433	12.6	5492	13.8	13.9	13.6	13.5	13.4	13.3	13.2
11. Total general government expenditure	TE	10 862	40.1	17516.7	43.9	45.1	46.6	45.7	45.3	44.5	42.9

Sources: Statistics Estonia, Ministry of Finance.

Table 16. Cyclically adjusted budget balance, 2024–2030 (per cent of GDP)

	2013–23	2024	2025	2026	2027	2028	2029	2030
1. Real GDP growth (%)	2.4	0.1	1.3	2.5	2.3	2.4	2.2	2.1
2. General government budget position	-1.1	-1.1	-2.0	-4.4	-4.5	-4.3	-4.1	-2.7
3. Interest payments	0.1	0.6	0.5	0.6	0.8	1.0	1.1	1.2
4. Real growth in potential GDP (%)	2.7	0.4	0.5	1.2	1.2	1.4	1.6	1.8
4.a Labour contribution to potential growth (%)	0.1	0.5	0.3	0.4	0.0	-0.1	-0.2	-0.2
4.b Capital contribution to potential growth (%)	1.3	0.8	0.8	0.9	0.8	0.8	0.8	0.9
4.c Productivity contribution to potential growth (%)	1.3	-0.9	-0.5	0.0	0.4	0.8	1.0	1.1
5. Estimate of the economic cycle (output gap)	0.1	-2.5	-1.9	-0.3	-0.4	-0.1	0.1	0.4
6. Cyclical budget component	0.0	-0.7	-0.6	-0.1	-0.1	0.0	0.0	0.1
7. Cyclically adjusted budget position (7)=(2)-(6)	-1.1	-0.4	-1.4	-4.4	-4.4	-4.3	-4.3	-3.0
8. Cyclically adjusted primary position (8)=(7)+(3)	-1.0	0.2	-0.9	-3.7	-3.6	-3.4	-3.2	-1.8
9. Change in external funds, % of GDP	0.1	-0.1	1.5	0.4	-0.2	-0.6	-0.4	-0.1
10. Fiscal policy impulse	-	Pro-cyclical	Pro-cyclical	Pro-cyclical	Pro-cyclical	Counter-cyclical	Counter-cyclical	Counter-cyclical

Sources: Statistics Estonia, Ministry of Finance.

Table 17. State budget outturn in 2024–2025 and forecast state budget revenue for 2026–2030

	2024	2025	2026	2027	2028	2029	2030
Taxes and social contributions	14 206.7	15 258.9	15 817.7	16 579.2	17 369.9	18 074.7	18 929.2
Personal income tax (state budget share)	727.2	1 111.6	743.0	738.0	845.0	938.0	1 036.0
Personal income tax (local government share)	1 868.4	1 981.9	2 077.0	2 172.0	2 272.0	2 368.0	2 466.0
Corporate income tax	1 193.6	890.8	919.0	992.0	1 044.0	1 074.0	1 123.0
Social tax	4 889.3	5 150.5	5 430.0	5 710.0	5 975.0	6 235.0	6 505.0
Motor vehicle tax		87.1	84.0	83.5	83.5	83.5	83.5
Heavy goods vehicle tax	4.8	4.6	4.6	4.5	4.4	4.4	4.3
VAT	3 846.3	4 175.9	4 620.6	4 780.7	4 935.1	5 085.3	5 357.6
Excise duties	1 029.9	1 087.6	1 115.1	1 204.9	1 255.7	1 278.8	1 287.1
Alcohol excise duty	253.6	256.8	255.5	269.0	269.9	286.5	290.7
Tobacco excise duty	249.9	260.2	261.3	271.5	278.0	278.7	279.4
Fuel excise duty	516.3	555.8	580.7	634.0	669.0	674.0	676.7
Packaging excise duty	0.2	0.3	0.2	0.3	0.3	0.3	0.3
Electricity excise duty	9.9	14.5	17.3	30.2	38.5	39.3	40.2
Other excise duty	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gambling tax	57.1	61.3	58.2	60.6	60.2	59.7	61.7
Customs duties	44.8	50.5	60.1	62.9	65.0	67.1	70.0
Unemployment insurance contributions	308.8	327.3	346.0	365.0	382.0	399.0	417.0
Funded pension contributions	178.0	249.3	269.0	307.0	333.0	358.0	385.0
Land tax	58.5	80.5	91.0	98.0	115.0	124.0	133.0
Non-tax revenue	2 310.0	2 765.6	2 735.0	2 441.4	2 322.8	2 230.1	1 859.2
Received support	1 189.5	1 793.2	1 734.7	1 474.4	1 316.8	1 275.8	864.9
State fees	92.2	83.5	89.6	100.4	101.8	101.3	96.6
Revenue from economic activity	445.1	408.6	436.8	414.2	440.3	404.3	422.4
Revenue from the sale of fixed assets and inventories	28.9	25.8	6.1	4.4	3.4	3.2	3.2
Fines and other pecuniary penalties	28.6	44.5	42.7	44.6	44.5	44.5	44.5
Environmental charges	117.7	139.9	151.9	166.7	163.1	162.3	156.7
Other operating revenue	16.1	17.1	19.8	16.9	16.9	16.9	16.7
Interest and owner income	391.8	253.0	253.4	219.7	236.1	221.9	254.3
Total revenue	16 516.7	18 024.5	18 552.7	19 020.5	19 692.7	20 304.8	20 788.4
Growth (%)	9.5%	9.1%	2.9%	2.5%	3.5%	3.1%	2.4%

Table 18. Main tax changes in 2026 and 2027

Tax change	Entry into force	Impact 2026		Impact 2027	
		EUR million	% of GDP	EUR million	% of GDP
Increasing excise duty rates on alcoholic beverages by 10% in 2026 and by 5% in 2027 and 2028	01.01.2026; 01.01.2027; 01.01.2028	10.0	0.0	30.4	0.1
Increasing excise duty rates on tobacco products by 10% in 2026 and by 5% in 2027 and 2028	01.01.2026; 01.01.2027; 01.01.2028	4.1	0.0	5.0	0.0
Increasing the excise duty rate on diesel by 15% in 2027	01.05.2027			47.0	0.1
Increasing the excise duty rate on electricity by 113% in 2027	01.05.2027			15.4	0.0
Increasing the excise duty rate on petrol by 10% in 2027 and by 5% in 2028	01.05.2027; 01.05.2028			14.2	0.0
Increasing the excise duty rate on natural gas by 40% in 2027	01.05.2027			5.5	0.0
Increasing the excise duty rates on other minor fuel types (which depend on the diesel rate) in 2027	01.05.2027			0.1	0.0
Taxing M1-category vehicles with more than seven seats at the motor vehicle tax rate for N1-category vehicles in 2026	01.01.2026	-2.0	0.0	-2.0	0.0
Reducing gambling tax rates in 2026	01.01.2026	-6.0	0.0	-6.0	0.0
Uniform basic allowance of EUR 700 for all (except those of old-age pension age)	01.01.2026	-461.2	-1.0	-523.8	-1.1
TOTAL		-455.3	-1.0	-414.2	-0.9

** Accrual-based impact compared with a baseline in which the rates/situation as at 31.12.2025 remained in force.*

Table 19. Tax expenditures in the state budget, 2025–2027 (EUR million)

	Tax expenditure	Provision	Function of government[7]	2025	2026	2027
1.	VAT rate of 9% on books, workbooks, periodicals and digital publications	KMS §15 lg 2 p 1 ja 5	education	17.1	19.5	20.4
2.	VAT rate of 9% on medicines and medical devices	KMS §15 lg 2 p 2	health	144.3	157.1	159.3
3.	VAT rate of 13% on accommodation services	KMS §15 lg 1[1]	recreation, culture and religion	21.5	25.1	26.2
4.	The right to adjust VAT related to partially or wholly unpaid invoices (bad debts)	KMS § 29[1]	economic affairs	2.8	2.9	3.1
5.	Lower 14% tax rate on regularly distributed profits	TuMS §4 lg 5, §18 lg 1[3]	economic affairs	15.8		
6.	Basic allowance for those of old-age pension age	TuMS §23[5]	social protection	123.4	42.8	45.5
7.	Deduction of training expenses	TuMS §26	education	18.4	20.3	21.4
8.	Gifts and donations	TuMS §27 lg 1, §49 lg 1, 2, 3, 6, §61 lg 66	recreation, culture and religion	12.6	13.5	14.1
9.	Insurance premiums and the acquisition of pension fund units	TuMS §28	social protection	26.1	31.4	34.3
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	10.6	11.2	11.7
11.	Tax-free employee health promotion expenditure	TuMS §48 lg 5[5]	health	22.4	23.6	24.7
12.	Reliefs for seafarers and shipowners	TuMS §13 lg 6, SMS §2 lg 1[1] ja lg 4 p 8, TuMS §52[1]	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[1]	social protection	1.4	1.6	2.1
14.	Second-pillar pension contributions from 2025 of 2, 4 or 6% of wages	KoPS § 9 lg 2	social protection	21.8	24.9	34.9
15.	50% excise rate for small beer producers	ATKEAS §46 lg 1[1]	economic affairs	1.0	1.1	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	14.7	15.1
17.	Reduced excise rate for marked diesel fuel	ATKEAS §66 lg 7	economic affairs	40.0	41.5	47.4
18.	Fuel excise exemption for fishermen	ATKEAS §27 lg 1 p 22[2]	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[4]	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[2]	economic affairs	1.2	1.4	2.3
21.	Fuel used in mineralogical processes	ATKEAS §27 lg 1 p 24	economic affairs	1.0	1.3	1.4
22.	Natural gas used to keep the gas network in operation	ATKEAS §27 lg 1 p 28[6]	economic affairs	0.0	0.0	0.1

	Tax expenditure	Provision	Function of government[7]	2025	2026	2027
23.	Electricity excise relief for large consumers	ATKEAS §66 lg 12[1]	economic affairs	0.5	0.6	1.5
24.	Gas excise relief for large consumers	ATKEAS §66 lg 10[3]	economic affairs	0.9	1.0	1.2
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[1]	social protection	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	social protection		2.0	2.0
	TOTAL, EUR million			520.2	461.5	494.1
	Share of GDP, %			1.2%	1.0%	1.1%

Table 20. Change in general government debt in 2025

	31 December 2024		31 December 2025		Change
	EUR million	% of GDP	EUR million	% of GDP	% of GDP
General government	9 353.1	23.5	10 035.2	24.0	0.5
Domestic debt	2241.1	5.6	2703.9	6.5	0.8
External debt	7 112.0	17.8	7 331.3	17.5	-0.3
Central government*	9107	22.8	9589.3	22.9	0.1
Domestic debt	2 403.7	6.0	2 683.2	6.4	0.4
External debt	6703.3	16.8	6906.1	16.5	-0.3
Local governments	1 562.7	3.9	1 681.8	4.0	0.1
Domestic debt	1154	2.9	1256.6	3.0	0.1
External debt	408.7	1.0	425.2	1.0	0.0
Social security funds	0	0	0	0	0
Domestic debt	0	0	0	0	0
External debt	0	0	0	0	0

**Consolidated figure at the central government level.*
Source: Ministry of Finance, Statistics Estonia.

Table 21. General government debt, 2024–2030 (EUR million, per cent of GDP)

	2013-2023 average	2024	2025	2026	2027	2028	2029	2030
Total debt (EUR million)	3 820	9 353	10 035	11 514	13 863	16 607	19 046	20 559
of which central government contribution	2 860	7 790	8 353	9 768	12 046	14 744	17 075	18 504
EFSF effect	470	482	482	467	461	455	451	447
central government excluding EFSF	2 390	7 308	7 871	9 301	11 585	14 289	16 624	18 058
local governments	960	1563	1682	1746	1816	1863	1971	2055
Total debt (% of GDP)	13.4	23.5	24.0	25.9	29.7	34.0	37.3	38.6
of which central government contribution	9.8	19.5	19.9	22.0	25.8	30.2	33.4	34.7
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	18.8	21.0	24.8	29.2	32.6	33.9
local governments	3.6	3.9	4.0	3.9	3.9	3.8	3.9	3.9

** Consolidated at the general government level*

Table 22. General government liquid financial assets, 2024–2030 (EUR million, per cent of GDP)

	2013-2023 average	2024	2025	2026	2027	2028	2029	2030
Total financial assets (EUR million)	2 500	4 779	4 050	3 890	4 095	4 200	4 294	4 286
of which central government	1 277	3 035	2 358	2 314	2 566	2 693	2 795	2 754
local governments	295	450	475	459	442	430	403	382
social security funds	928	1 294	1 217	1 117	1 087	1 078	1 096	1 150
Total financial assets (% of GDP)	9.2	12.0	9.7	8.8	8.8	8.6	8.4	8.0
of which central government	4.6	7.6	5.6	5.2	5.5	5.5	5.5	5.2
local governments	1.1	1.1	1.1	1.0	0.9	0.9	0.8	0.7
social security funds	3.5	3.2	2.9	2.5	2.3	2.2	2.1	2.2

** Consolidated at the general government level*

Table 23. One-off measures and their impact, 2024–2030 (EUR million)

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		148						
Total, EUR million	-1	264	42	0	0	0	0	0
Total, % of GDP	-0.1%	0.7%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Ministry of Finance.

Figure 31. General government expenditure in European Union countries in 2025 (per cent of GDP)

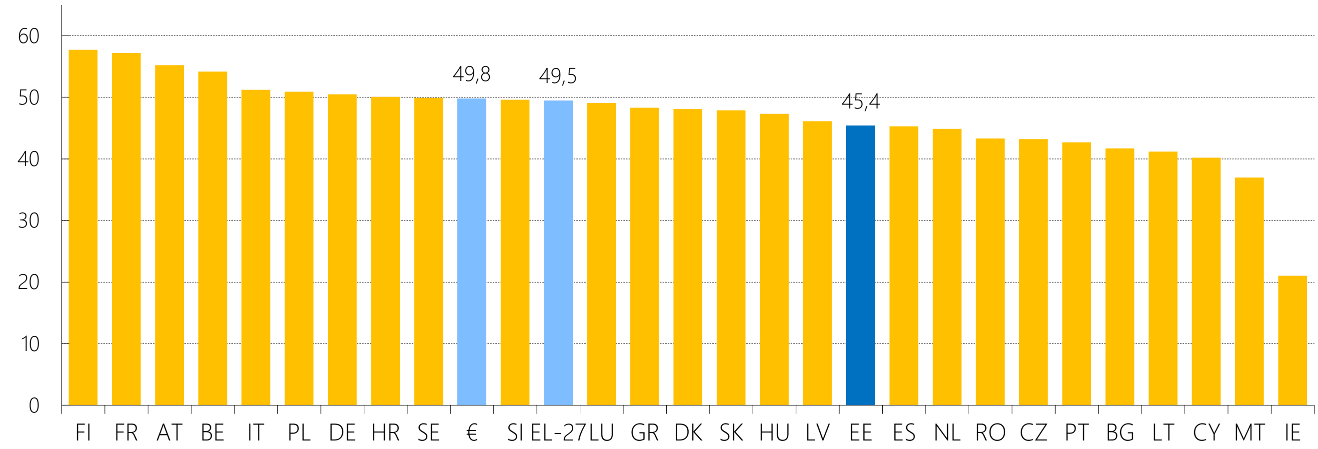


Figure 32. General government expenditure by function in Estonia, 2012–2030 (per cent of GDP)

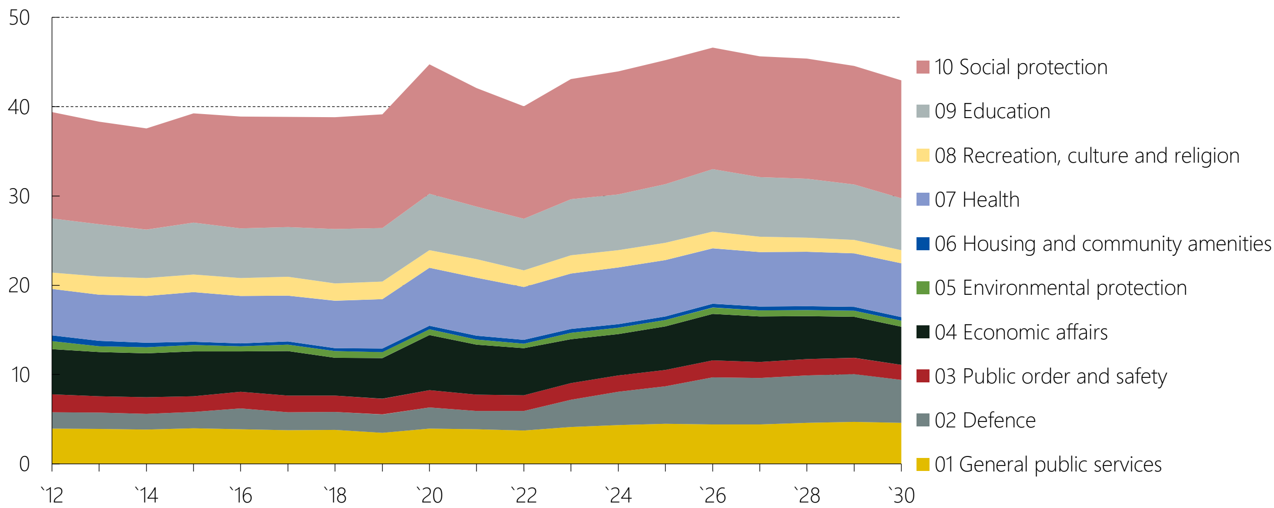
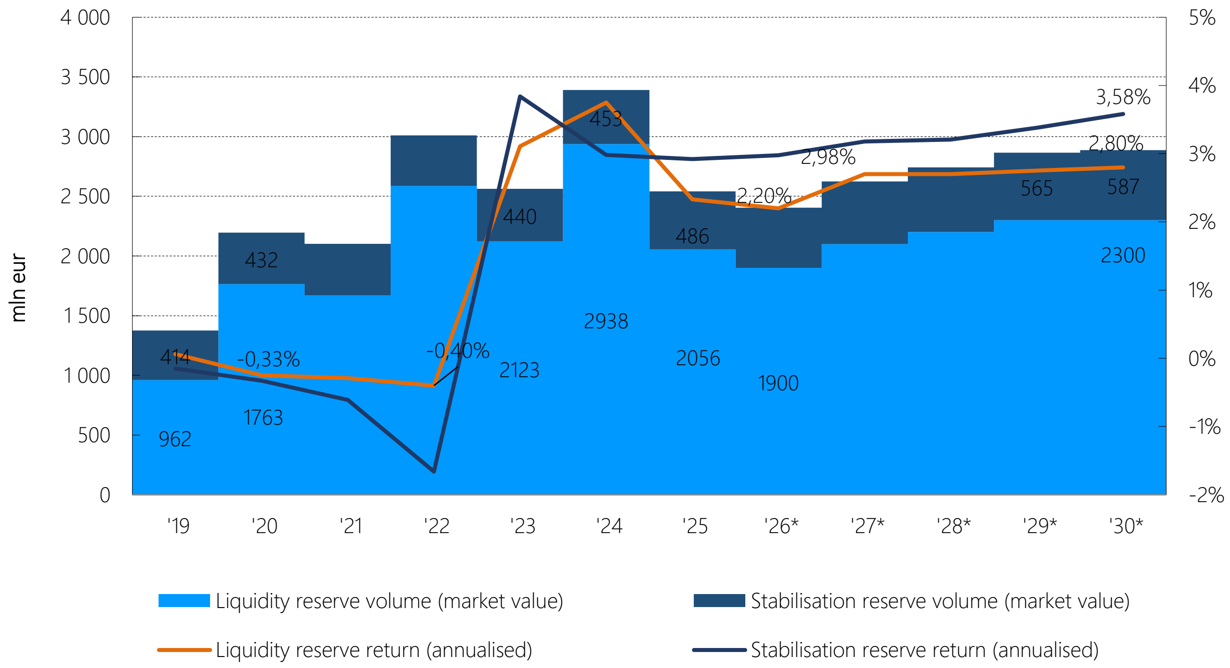


Figure 33. Size and return of the stabilisation reserve and liquidity reserve



** Forecast*

NOTES

[1] Total Factor Productivity (TFP) is combined productivity of capital and labour.

[2] 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. The VAT is collected on cross-border B2C transactions and subsequently distributed among Member States according to the location of the final consumer.

[3] The "foregone revenue" method and cash-based data were used to estimate the monetary value of tax expenditures, with the time lag between the implementation of a provision and its actual application taken into account for each specific provision. Only the so-called "first-round effects" of establishing the tax expenditures were assessed. Due to the use of the foregone revenue method, the valuation of tax expenditures does not account for various behavioral effects or budgetary constraints. When calculating the value of tax expenditures, it is important to note that each individual provision was assessed separately—without considering the interactions between different provisions—and therefore, simply summing the values of the various provisions does not yield a correct aggregate total. Nevertheless, this approach allows for an assessment of the general trend.

[4] OECD (2026), “The relationship between taxes, benefits and life satisfaction: Evidence from European countries”, *OECD Papers on Well-being and Inequalities*, No. 39, OECD Publishing, Paris, https://doi.org/10.1787/952ba2a2-en

[5] In the models estimated by OECD, country fixed effects are used which, to some extent, take into account cultural and other specifics of a country; however the effects of main variables under observation are not estimated for different countries separately.

[6] Household is relatively poor if its equivalised disposable income is smaller than 60% of the median value of equivalised disposable income of all households.

[7] 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)