INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/181

REPUBLIC OF ESTONIA

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

July 2025

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with the Republic of Estonia, the following documents have been released and are included in this package:

- A **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse-of-time basis, following discussions that ended on May 19, 2025, with the officials of the Republic of Estonia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 9, 2025.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
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REPUBLIC OF ESTONIA

PRESS RELEASE

PR 25/245

IMF Executive Board Concludes 2025 Article IV Consultation with Estonia

FOR IMMEDIATE RELEASE

- After a long downturn, the Estonian economy is experiencing a gradual recovery, but higher input costs, a legacy of earlier shocks, along with global policy uncertainty and trade barriers are preventing a more vigorous rebound.
- In response to fast-rising defense spending needs, a further fiscal adjustment is needed to stabilize the debt ratio and preserve critical buffers against future shocks.
- Carefully calibrated macroprudential policies, more decisive domestic structural measures, and a deeper EU single market would be instrumental in building resilience and fostering transformation.

Washington, DC – July 14, 2025: On July 9, 2025, IMF Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation with the Republic of Estonia on a lapse of time basis on July 9, 2025.[1] The authorities have consented to the publication of the Staff Report prepared for this consultation.[2]

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. Staff hold separate annual discussions with the regional institutions responsible for common policies in four currency unions—the Euro Area, the Eastern Caribbean Currency Union, the Central African Economic and Monetary Union, and the West African Economic and Monetary Union. For each of the currency unions, staff teams visit the regional institutions responsible for common policies in the currency union, collects economic and financial information, and discusses with officials the currency union's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis of discussion by the Executive Board. Both staff's discussions with the regional institutions and the Board discussion of the annual staff report will be considered an integral part of the Article IV consultation with each member.

[2] *Option 1:* Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/[country] page.

Option 2: Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent.

Option 3: Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The authorities have requested additional time to decide on the publication of the staff report. A final decision is expected not later than 28 days from the Board consideration date.

Option 4 (opt-outs): Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The authorities have not yet communicated their decision on the publication of the staff report.

The Estonian economy is showing signs of a mild recovery. After contracting sharply in 2023, sequential growth returned to positive territory in 2024Q1. Exports of goods expanded, led by stronger demand from the main trading partners, and so did investment. The rebound was also accompanied by a short-lived surge in consumption, as car sales jumped in anticipation of a new motor vehicle tax and then dropped sharply once the tax came into effect in January.

Increases in taxes and services prices are keeping inflation elevated. After averaging 3.7 percent in 2024, headline inflation stood at 4.6 percent in May 2025 as prices were pushed up by the effect of a new motor vehicle tax, which staff estimates to have added 1.2 percentage points to annual inflation. While higher taxes should only lead to temporary increase in inflation, they may have fueled higher wage demands, and fed through higher prices of services, for which labor is a relatively large input.

GDP is projected to expand by only 0.5 percent in 2025 and accelerate to 1.5 percent in 2026. Moderate growth in the euro area and other export markets is seen slowly spilling over to domestic demand, encouraging firms to revisit investment and, to some extent, hiring plans. In turn, better job prospects could support income and consumption. However, growth is expected to remain mild this year with global policy uncertainty hindering a stronger recovery. Inflation is expected at 5.1 percent in 2025, held up by the temporary effects of tax increases and domestic cost pressures.

Executive Board Assessment[3]

Estonia is recovering from a prolonged recession but faces challenges. A mild recovery is expected to continue, supported by a more expansionary policy mix. Higher input costs, a legacy of earlier shocks, and trade barriers are set to prevent a more vigorous rebound. The external position is broadly in line with fundamentals and desirable policies. Inflation is projected to remain elevated, before resuming a downward trend. Near-term risks to growth remain skewed to the downside and could be exacerbated by higher-than-euro area inflation.

Fiscal policy is appropriately calibrated in 2025, but further growth friendly consolidation is needed starting from 2026. In response to fast-rising defense spending needs, staff recommends an adjustment of 0.5 percentage point of GDP per year relative to baseline during 2026-30. This would secure convergence towards a sustained structural deficit of less than 1 percent of GDP by 2032 and stabilize the debt ratio at around 32 percent. In an

[3] [At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in the summing up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.] [The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.]

adverse growth scenario, automatic stabilizers should be allowed to provide economic support, with the debt ratio stabilizing a bit later and at a slightly higher level.

While relying predominantly on revenue-based mobilization, the adjustment should also identify specific spending measures. Staff sees merits in a comprehensive review of Estonia's tax system considering alternative options and potential implications for revenue mobilization and long-run growth. On the spending side, the commitment to contain the growth of the public sector wage bill is welcome but staff recommends limiting the discretion of line ministries and other agencies in setting up wages. Introducing means-testing of existing social benefits and reviewing current indexation mechanisms for pensions can also limit costs.

Financial stability risks warrant vigilance. This is especially the case for developments in commercial and residential real estate, given high bank exposures to this loan segment. Staff encourages supervisory authorities to regularly assess underwriting standards to ensure prudent lending practices. Bank capital remains adequate, but new large dividend payouts should be discouraged, as they divert potential sources of equity from banks and reduce their ability to absorb future shocks. Cyber risk should be monitored closely and continue being reflected in supervisory assessments. Building on recent progress, risk-based supervision of virtual asset service providers should be further enhanced.

The current macroprudential stance remains appropriate. Given rapid credit growth and real estate risks, the decision to maintain the CCyB at 1.5 percent is welcome and caution should be exerted in considering a return to the 1 percent positive neutral rate. Staff recommends that the authorities continue reviewing bank exposures and ensure that credit risk is properly reflected in risk weights across the banking system, especially for IRB banks.

Decisive action is needed to enhance productivity. Against the backdrop of declining allocative efficiency and weak business dynamism, policies should focus on addressing skill shortages, deepening capital markets, reducing regulatory burden, and fostering innovation. Recent efforts to ease quotas for immigrants, cut red tape, and incentivize R&D spending are all welcome initiatives. The targeting of active labor market policies could be further improved. Further progress towards a EU single market combined with domestic policies facilitating investments by second-pillar pension funds would promote capital market deepening and enable young, innovative Estonian firms to access finance more easily and grow. Ensuring energy security is also critical and staff supports ongoing efforts to facilitate development of renewables.

It is recommended that the next Article IV consultation be completed on the standard 12-month cycle.

Estonia: Selected Economic Indicators, 2024-26

(Annual percent change, unless otherwise indicated)

	2024	2025	2026
		Projections	
National accounts	(Percentage change, unless otherwise indicated)		
Real GDP growth	-0.3	0.5	1.5
Private consumption	-0.3	-0.2	1.8
Gross fixed capital formation	-6.9	2.6	2.2
Exports of goods and services	-1.2	4.6	1.2
Imports of goods and services	0.4	4.3	1.0
GDP (nominal; billions of Euros)	39.5	41.5	43.9
HICP inflation			
Headline			
Period average	3.7	5.1	4.4
End-period	3.9	5.3	3.9
Core			
Period average	5.2	6.8	5.9
End-period	5.7	8.0	4.1
Labor market			
Average monthly wage (year-on-year growth in percent)	8.1	8.4	8.1
Unemployment rate (ILO definition, percent, pa)	7.5	8.4	7.9
	(Percent of GDP, unless otherwise indicated)		
General government finances (ESA10)			
Revenue	42.5	43.1	42.9
Expenditure	44.0	45.7	46.6
Fiscal balance	-1.5	-2.6	-3.7
Structural balance	-0.9	-1.9	-3.2
General government gross debt	23.6	25.4	28.1
Balance of Payment			
Current account	-1.1	-2.3	-2.1
Trade balance	0.6	0.2	-0.1
Net FDI	0.5	3.3	3.2
NIIP	-9.5	-9.6	-9.5
Exchange rate			
REER (percent change)	1.4	...	...

Sources: Estonian authorities; and IMF staff estimates and projections.

INTERNATIONAL MONETARY FUND

REPUBLIC OF ESTONIA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

July 9, 2025

KEY ISSUES

Context. The Estonian economy is slowly re-emerging from a prolonged downturn but faces structural challenges. Wages growing faster than productivity and permanent increases in input costs, a legacy of previous shocks, are hindering price-sensitive activities, while production with higher technological content is constrained by lack of skilled labor and limited access to capital markets. Geopolitical developments, rising defense spending needs, and preexisting fiscal imbalances pose significant hurdles.

Outlook and risks. A mild recovery is expected to continue, supported by a looser policy mix. Moderate growth in the euro area and other export markets is seen spilling over to domestic demand, encouraging firms to revisit investment and, to some extent, hiring plans. In turn, better job prospects could support income and consumption. However, the recovery is expected to remain mild this year with global policy uncertainty and trade barriers preventing a more vigorous rebound. Risks are skewed to the downside.

Policy Recommendations. In response to fast-rising defense spending needs, a further fiscal adjustment is needed to stabilize the debt ratio and preserve critical buffers against future shocks. Carefully calibrated macroprudential policies, more decisive domestic structural measures, and a deeper EU single market would be instrumental in building resilience and fostering transformation. More specifically:

- **Fiscal policy.** The 2025 budget strikes an appropriate balance between sustaining spending efforts and containing the deficit, but fiscal imbalances are set to grow over time. Further growth-friendly consolidation, comprising not only revenue but also spending measures, is therefore needed starting from 2026.
- **Financial policies.** While still contained, financial stability risks have increased. Developments in commercial and residential real estate warrant close vigilance and bank capital buffers should be preserved. The current macroprudential stance is appropriate and caution should be exerted in considering policy easing.
- **Structural reforms.** Decisive action is needed to enhance productivity. Against the backdrop of declining allocative efficiency and weak business dynamism, policies should focus on addressing skill shortages, deepening capital markets, reducing regulatory burden, and fostering innovation. Ensuring energy security is also critical.

Approved by
Helge Berger (EUR) and Koshy Mathai (SPR)

Discussions were held in Tallinn during May 6-19, 2025. The team comprised Vincenzo Guzzo (head), Irina Bunda, Carlos de Resende, and Bingjie Hu (all EUR). Krista Kollo (OED) also participated in the mission. Kristel Grace Poh (LEG) and Tibor Hanappi (FAD) supported the team from HQ. Sadhna Naik, Can Ugur, Gefei Zhou, Kelly MacKinnon, Emily Fisher, and Samuel Wilson (all EUR) provided research and administrative assistance. The mission met with Governor of Eesti Pank Madis Müller, Minister of Finance Jürgen Ligi, Minister of Energy and Environment Andres Sutt, Secretary of State Keit Kasemets, Chairman of the Financial Supervision and Resolution Authority Kilvar Kessler, Economic Adviser to the Prime Minister Ardo Hansson, Members of the Finance and Economic Affairs Committees of the Parliament of Estonia, other senior officials, senior representatives of business associations, employers' confederations, trade unions, banks, non-financial corporations, academia, and think-tanks.

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TABLES

ANNEXES

Glossary

ACE	Allowance for Corporate Equity
AE	Advanced Economy
ALM	Asset Liability Management
AML/CFT	Anti-Money Laundering / Combating the Financing of Terrorism
CA	Current Account
CAR	Capital Adequacy Ratio
CCyB	Countercyclical Capital Buffer
CIT	Corporate Income Tax
DPT	Distributed Profit Tax
DSTI	Debt Service-to-Income
DTI	Debt-to-Income
EBA	External Balance Assessment
ECB	European Central Bank
EDP	Excessive Deficit Procedure
EE	Emerging Economy
EU	European Union
FATF	Financial Action Task Force
FCI	Financial Conditions Indicator
GDP	Gross Domestic Product
GFC	Global Financial Crisis
ICT	Information and Communications Technology
IRB	Internal Ratings-Based
LTV	Loan-to-Value
ML/TF	Money Laundering / Terrorism Financing
MR	Marginal Rate
NIIP	Net International Investment Position
NPL	Non-Performing Loan
OSII	Other Systemically Important Institution
P2R	Pillar 2 Requirement
PIT	Personal Income Tax
R&D	Research and Development
RAM	Risk Assessment Matrix
REER	Real Effective Exchange Rate
SIP	Selected Issues Paper
SME	Small- and Medium-Sized Enterprise
STEM	Science, Technology, Engineering, and Mathematics
TA	Taxable Amount
TFP	Total Factor Productivity
ULC	Unit Labor Cost
VAT	Value Added Tax
WID	World Inequality Database

CONTEXT

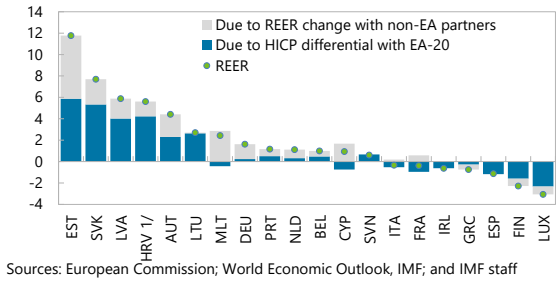
1. Estonia is slowly re-emerging from a prolonged downturn but continues to grapple with structural challenges. Russia's war in Ukraine has exposed the Baltic region to significant supply-side disruptions, high inflation, and real exchange rate appreciation. In Estonia, these shocks, combined with a structural deceleration in productivity, have resulted in loss of competitiveness and a protracted recession. The economy is now re-emerging from the downturn, but faces higher prices and costs, a legacy of previous shocks, while high global policy uncertainty and rising trade barriers hinder a more vigorous rebound. Innovative young firms, a potential growth engine, are constrained by lack of skilled labor and limited access to capital markets.

2. Fast-rising defense spending needs compound preexisting fiscal imbalances. In recent years, tensions between retaining a competitive tax environment and moving towards broader provision of public services and a stronger social safety net have resulted in policy uncertainty and a

Text Figure 1. Competitiveness and Economic Transformation

Russia's war in Ukraine led to large REER appreciation....

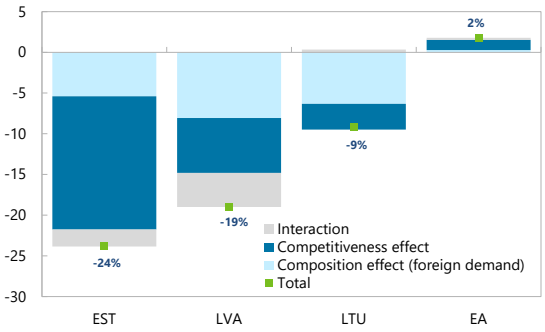
Change in HICP Based REER, 2022Q1-2025Q1
(Percentage points)



Sources: European Commission; World Economic Outlook, IMF; and IMF staff calculations.
1/ For the period between 2022Q1-2025Q1, there is also a bilateral exchange rate effect between the Croatian Kuna and the Euro which is incorporated in the HICP differential component.

... resulting in loss of export market shares...

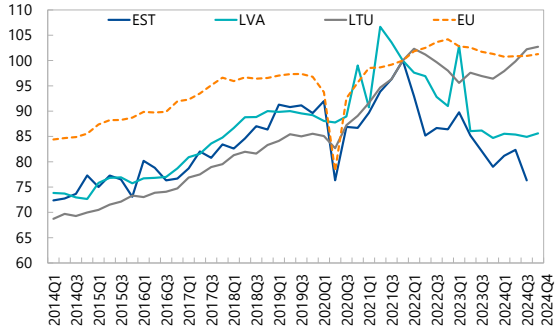
Contribution to Export Share Decline in Goods, 2021Q3-2024Q3
(Percent)



Sources: Direction of Trade Statistics, IMF; and IMF staff calculations.

...and decline in value-added for price-sensitive activities, like manufacturing...

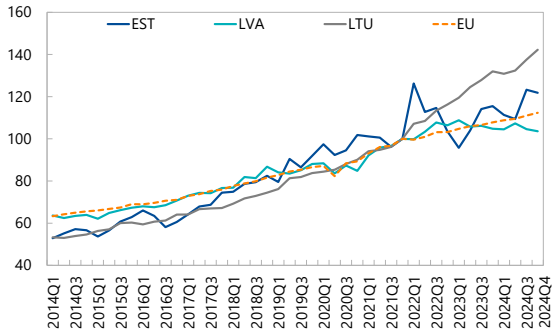
Real Gross Value Added: Manufacturing
(Index based on seasonally-adjusted data; 2021Q4=100)



Sources: Eurostat; Haver Analytics; and IMF staff calculations.

...while production with higher technological content, like ICT, has held up better.

Real Gross Value Added: ICT
(Index based on seasonally-adjusted data; 2021Q4=100)



Sources: Eurostat; Haver Analytics; and IMF staff calculations.

deterioration of Estonia's fiscal position. Pressures from an aging population, energy security and climate change mitigation, along with interest costs are set to intensify over time, while fast-rising defense spending needs will exacerbate imbalances in the near term. The authorities have generally implemented policies in line with Fund's past advice (Annex V).

RECENT DEVELOPMENTS

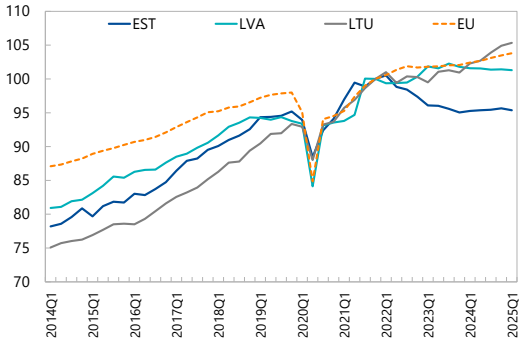
3. The economy is showing signs of a mild recovery. After contracting sharply in 2023, sequential growth returned to positive territory in 2024Q1. Exports of goods expanded, led by stronger demand from the main trading partners, and so did investment. The rebound was also accompanied by a short-lived surge in consumption—and partly imports—as car sales jumped in anticipation of a new motor vehicle tax and then dropped sharply once the tax came into effect in January. Most sentiment indicators have bottomed out except for consumer confidence, which remains depressed.

Text Figure 2. Growth Developments

The economy is showing signs of recovery...

Real GDP

(Index; 2021Q4=100)

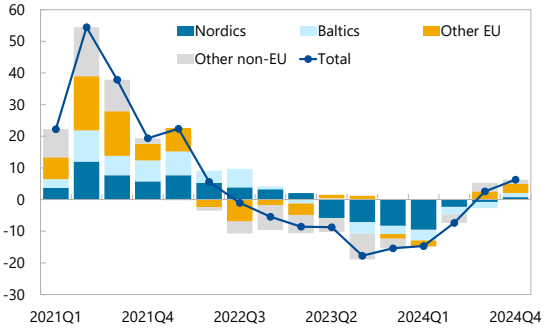


Sources: Eurostat; Haver Analytics; and IMF staff calculations.

...led by stronger demand by main trading partners.

Export Growth by Trading Partners

(Percent; year-on-year growth)

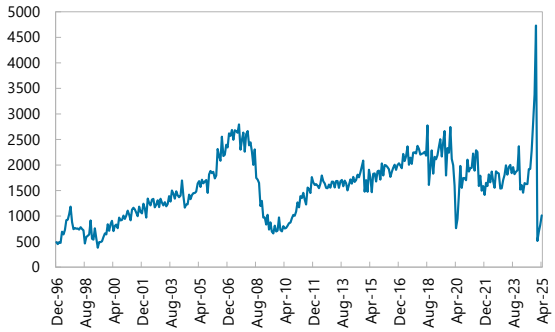


Sources: Direction of Trade Statistics, IMF; and IMF staff calculations.

Car sales jumped in anticipation of a new motor vehicle tax, but dropped sharply once the tax came into effect

New Car Registrations

(Units; seasonally adjusted)

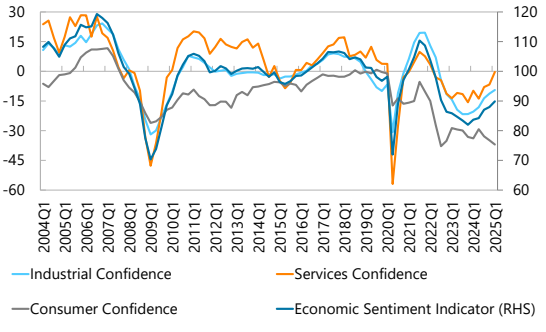


Sources: Statistics Estonia; and Haver Analytics.

Most sentiment indicators have bottomed out, but consumer confidence remains depressed.

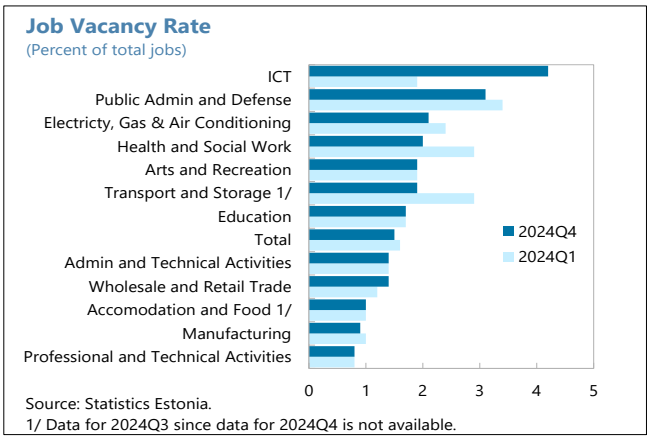
Economic Sentiment Indicators

(LHS - percent balance; RHS - long-term average = 100; seasonally adjusted)



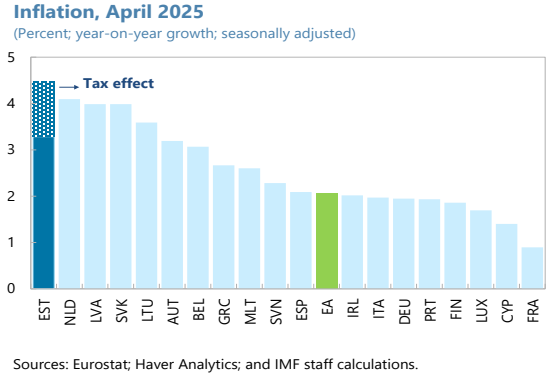
Sources: Eurostat; Haver Analytics; and IMF staff calculations.

4. Labor demand has weakened, but structural shortages in ICT persist. Since the start of the war in Ukraine, the labor force has absorbed large inflows of migrants. Despite the recovery in economic activity, however, the unemployment rate has extended its upward trend, reaching 8.6 percent in 2025Q1, a 3.3 percentage point rise in two years. Registered unemployment data paint a more benign picture with an improvement over the same period, while significant labor shortages persist in certain sectors, especially in ICT.



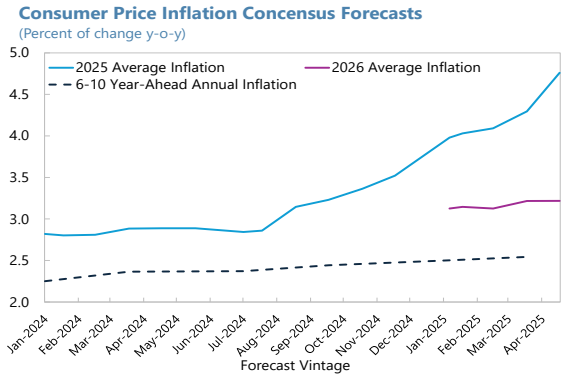
Text Figure 3. Inflation Developments

Inflation is well above euro area average, held up by the effect of a new motor vehicle tax…



Sources: Eurostat; Haver Analytics; and IMF staff calculations.

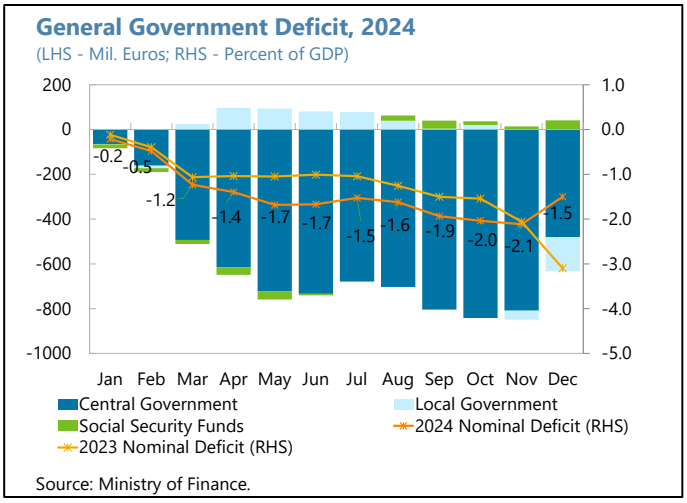
… while largely adaptive survey-based inflation expectations have edged up in recent months.



5. Increases in taxes and services prices are keeping inflation elevated. After averaging 3.7 percent in 2024, headline inflation stood at 4.6 percent in May 2025—and core inflation at 5.3 percent in April—as prices were pushed up by the effect of a new motor vehicle tax, which staff estimates to have added 1.2 percentage points to annual inflation. Electricity prices also spiked earlier in the year following disruptions to undersea power cables. While higher taxes should only lead to temporary increase in inflation, they may have fueled higher wage demands, and fed through higher prices of services, for which labor is a relatively large input. Wage growth accelerated to nearly 10 percent at end-2024, before moderating in early 2025. Services price inflation has been on a gradual upward trend since late 2023 and is approaching 9 percent. Inflation expectations edged up in recent months.

6. The 2024 fiscal position was surprisingly strong. Unusually large salary payments and dividend distribution ahead of upcoming tax increases boosted PIT and CIT revenue above expectations, while the jump in car sales partly mitigated an earlier shortfall in VAT collection. Some spending was under-executed. Preliminary data suggest a 2024 general government deficit of 1.5

percent of GDP, well below expectations and the 3.1 percent recorded in 2023. Public debt remained low at just 23.6 percent of GDP (Annex III).



7. Financial conditions have loosened. The transmission from lower ECB's policy rates to Estonian bank lending rates has been strong, reflecting the prevalence of variable interest rates. Credit growth has picked up rapidly, to over 10 percent in early 2025 from less than 6 percent in 2024Q3. Activity has accelerated especially for commercial real estate loans and household mortgages, which together account for more than ⅔ of banks' total credit portfolio. Meanwhile, after increasing in the last two years, the NPL ratio has eased slightly to 1.2 percent, below EU average. Banks remain adequately capitalized with a CAR above 21 percent, although large dividend payouts in 2024 have reduced buffers.

8. The external position is broadly in line with fundamentals and desirable policies (Annex II). In 2024, the current account deficit narrowed to 1.1 percent of GDP from 1.7 percent a year earlier, as an improved services trade surplus outpaced a broadly stable goods trade deficit. The REER appreciated by a further 1.5 percent, reflecting relatively higher inflation and moderate euro strengthening.

Text Table 1. EBA-lite Model Results, 2024

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-1.1**	
Cyclical contributions (from model) (-)	0.2	
Adjusted CA	**-1.3**	
CA Norm (from model) 2/	**-1.3**	
CA Gap	**-0.1**	**-10.5**
o/w Relative policy gap	3.8	
Elasticity	-0.5	
REER Gap (in percent)	**0.1**	**19.6**

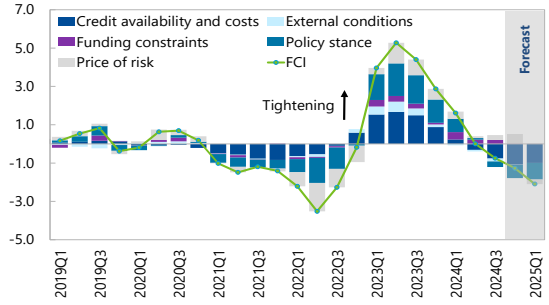
1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Figure 1. Estonia: Financial Sector Developments

Financial conditions have eased for both households…

FCI Changes - Households 1/

(Contribution to quarter-over-quarter first difference of FCI)

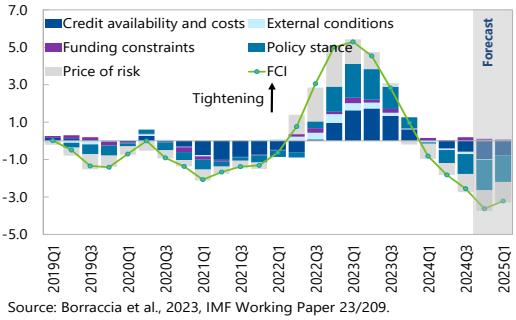


Source: Borraccia et al., 2023, IMF Working Paper 23/209.

… and corporations…

FCI Changes - Nonfinancial Corporations 1/

(Contribution to quarter-over-quarter first difference of FCI)

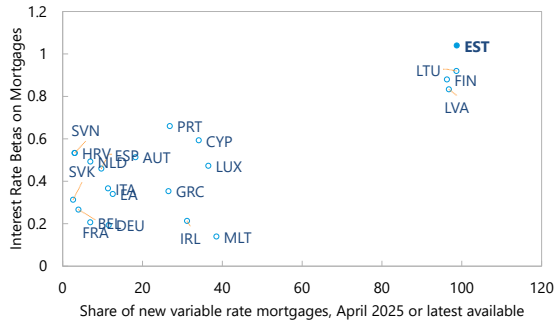


Source: Borraccia et al., 2023, IMF Working Paper 23/209.

…led by strong passthrough from lower ECB's policy rates to Estonian bank lending rates.

Interest Rate Betas on Mortgages

(X-axis: share of new variable rate mortgages; Y-axis: ratio of change in interest rates to change in policy rate between Jun-2024 and Apr-2025)

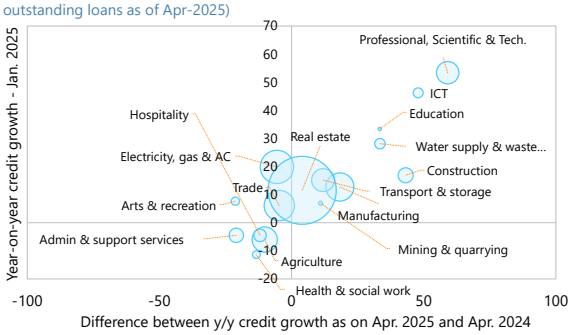


Sources: European Central Bank; Haver Analytics; and IMF staff calculations.

Credit growth has picked up, especially for the real estate sector.

Credit Growth by Sector

(X -axis: percentage points, Y-axis: Percent; bubble size is measured as share of outstanding loans as of Apr-2025)

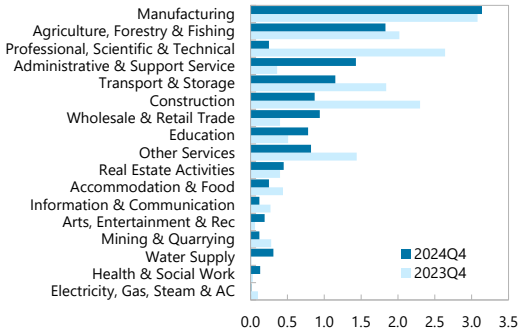


Sources: Eesti Pank; and IMF staff calculations.

NPL ratios have stabilized or started declining for most sectors during except for manufacturing.

NPL Ratios by Sector

(Percent)

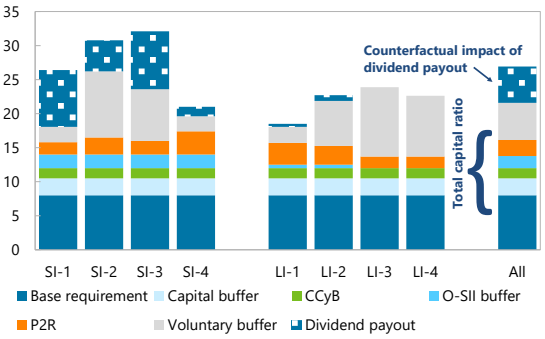


Sources: European Banking Authority; and IMF staff calculations.

Bank capital remains adequate despite large dividend payouts.

Total Capital Ratio, 2024

(Percent)



Sources: Finantsinpektisoon; and IMF staff calculations.

1/ For implementing Partial Least Square, the authors divide the sample into distinct time periods, each with its regression. The indices are then chained together. It is essential to note that the absolute FCI levels may not be entirely comparable to the early 2000s, given variations in available financial indicators. The final index chain covers most of the 2015-2023 period. 2024Q4 and 2025Q1 are forecasts.

OUTLOOK AND RISKS

9. A mild recovery is expected to continue. GDP is projected to expand by only 0.5 percent in 2025 and accelerate to 1.5 percent in 2026, supported by a looser policy mix. Moderate growth in the euro area and other export markets is seen slowly spilling over to domestic demand, encouraging firms to revisit investment and, to some extent, hiring plans. In turn, better job prospects could support income and consumption. However, the recovery is expected to remain mild this year with global policy uncertainty and trade barriers preventing a more vigorous rebound. Moreover, EU fund project investment and fast-rising defense spending (more below) are expected to rewiden the current account deficit, given the high import content.

Text Table 2. Summary Macroframework

	2023	2024	2025	2026
			Projections	
Real GDP growth (percent)	-3.0	-0.3	0.5	1.5
Inflation (percent)	9.1	3.7	5.1	4.4
Unemployment rate (percent)	6.4	7.5	8.4	7.9
CAB (percent of GDP)	-1.7	-1.1	-2.3	-2.1
Fiscal balance (percent of GDP)	-3.1	-1.5	-2.6	-3.7
Cyclically-adjusted primary balance (percent of GDP)	-2.7	-0.6	-1.7	-2.9
General government debt (percent of GDP)	20.2	23.6	25.4	28.1

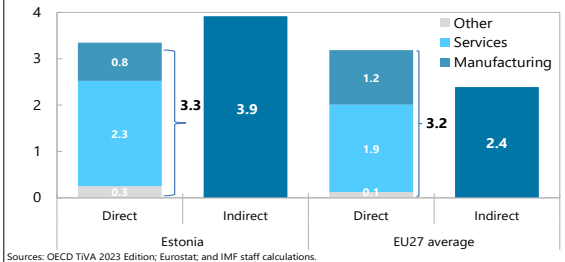
Sources: Estonian authorities; and IMF staff estimates and projections.

10. Inflation is set to remain elevated in the near term. Staff estimates that the new motor vehicle tax along with a VAT hike in July 2025 will add 2 percentage points to 2025 average inflation, which is projected at 5.1 percent. Domestic cost pressures are expected to linger with nominal wage growth staying around 8 percent.

11. In the medium term, growth levels off at potential and disinflation resumes. GDP growth stabilizes around its potential, which staff currently estimates at around 1.7 percent. Under the baseline, the working age population goes back to a mild downward trend, as recent migration flows fade. Capital accumulation stabilizes at a rate consistent with Estonia's residual income convergence. While recovering, TFP growth is estimated to remain well below its pre-GFC average. Disinflation resumes once the effect of various tax increases falls out of the base and underlying supply-side pressures fade, leaving a small positive differential vis-à-vis euro area average inflation.

12. Near-term risks to growth remain skewed to the downside and could be exacerbated by higher-than-euro area inflation. Despite the limited direct trade exposure to the United States (see text chart), a small open economy like Estonia remains vulnerable to higher trade barriers and disruptions in global value chains, which could derail the nascent recovery. Higher-than-euro area average inflation, combined with an appreciation of the euro, could further erode Estonia's external position. An escalation of Russia's war in Ukraine or other geopolitical

Exposure of Domestic Value Added (DVA) Exports to Trade with U.S.
(Percent of total value added, 2020)

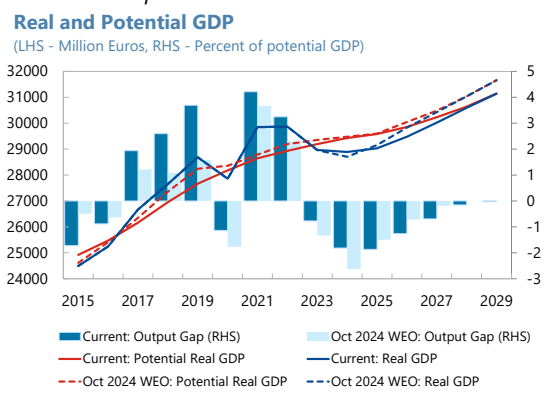


Sources: OECD TiVA 2023 Edition; Eurostat; and IMF staff calculations.
Note: The direct exposure is computed as the product of (i) the share of DVA exports to the US in total DVA exports, and (ii) the share of total DVA exports in total value added. The indirect exposure is computed as (i) the share of EU27's DVA exports to the US in total EU27's DVA exports, (ii) the share of the country's total DVA exports to the EU27 total DVA exports, and (iii) the share of total DVA exports in total value added.

tensions would exacerbate these risks, while increasing commodity price volatility and further raising fiscal pressures. Conversely, a durable reduction of geopolitical tensions, a deepening of the EU single market, and well-targeted domestic structural reforms could sustain growth in the medium term (RAM, Annex I).

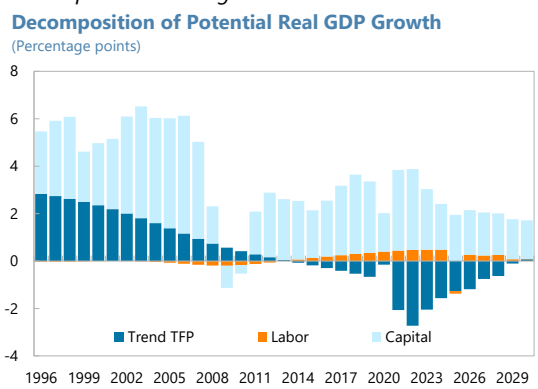
Text Figure 4. Potential Growth

The output gap is expected to close gradually, as GDP growth exceeds potential.



Sources: World Economic Outlook, IMF; and IMF staff calculations.

While recovering, TFP growth is estimated to remain well below its pre-GFC average.



Sources: European Commission; Haver Analytics; and IMF staff calculations.

Authorities' Views

13. The authorities were more optimistic than staff on the near-term growth outlook, even though they broadly agreed on the underlying narrative and risks. After a prolonged recession, Bank of Estonia expects GDP to expand by 1.5 percent in 2025, as the economy slowly adapts to earlier shocks and the ongoing recovery continues to unfold. The Ministry of Finance projects GDP to grow by 1.7 percent this year[1]. However, both institutions recognized that geopolitical developments, high global policy uncertainty, and rising tariffs pose serious challenges to a small open economy like Estonia. The central bank also saw these factors potentially contributing to keep inflation elevated along with tax increases.

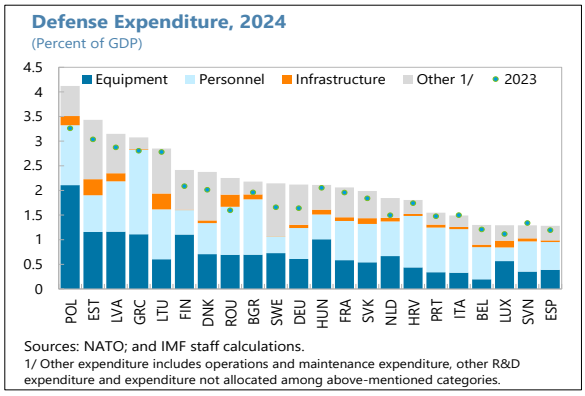
POLICIES—EASING A CHALLENGING TRANSITION

A. Fiscal Policy—Sustaining Spending Efforts While Addressing Medium-Term Imbalances

14. The 2025 budget strikes an appropriate balance between sustaining spending efforts and containing the deficit. Large revenue flows in anticipation of tax hikes and welcomed consolidation efforts have contributed to the strong fiscal performance in 2024. This year, the deficit is projected to increase to 2.6 percent of GDP under staff's baseline, as revenue normalizes after a

[1] The forecasts of Bank of Estonia and the Ministry of Finance predate the release of 2025Q1 data.

period of unusually high inflows. However, the large negative output gap and the absence of demand-driven inflationary pressures advise against further near-term fiscal consolidation.



15. But, given higher defense spending needs, offsetting measures should be considered from 2026. While Estonia features already one of the highest defense spending-to-GDP ratios in the EU, at 3.5 percent of GDP, the authorities recently announced a revised 5.4 percent target. Of this amount, 5 percent of GDP will be funded directly from the state budget and the rest through repurposing of spare capacity in EU cohesion funds (mostly from climate mitigation programs). The spending increase is planned for 2026, except for a minor share phased in already through a small 2025 supplementary budget. To accommodate these new exceptional spending efforts, the authorities requested activation of the national escape clause, which, along with Estonia's low debt ratio, will allow greater flexibility in the near term. However, given increased defense spending, offsetting measures should be considered to avoid abrupt corrections once the country exits from the escape clause.

16. Staff welcomes the decision to extend discretionary revenue measures previously planned only until 2028, but fiscal imbalances are still set to grow over time. To respond to the protracted spending effort, the authorities have extended indefinitely the national security tax, a 2-percentage point hike of PIT, CIT, and VAT rates. The change is estimated to yield annual revenue of about 1.6 percentage of GDP and improve debt dynamics considerably, but it will likely not stabilize the debt ratio yet. To complicate matters, both spending and revenue flows are set to remain very volatile in the coming years, due to uncertainty on procurement of military equipment and on the effect of the various tax hikes. Moreover, reliance on higher tax rates may ultimately narrow the tax base and undermine the objective of mobilizing higher revenue.

Text Table 3. Estonia's Fiscal Rules and EU Economic Governance Framework
(Percent of GDP; except where indicated)

Variable	National	EU
Overall Balance	-	> -3%
Annual Adjustment (EDP)	-	If OB < -3%: Δ OB > 0.5%
Debt	-	< 60%
Annual Adjustment	-	If Debt > 90%: Δ Debt < -1%
		If 60% < Debt < 90%: Δ Debt < -0.5%
Structural Balance	> -1%, >-0.5% if Debt > 30%	> -1.5%
Annual Adjustment	If SB <-1% ΔSB 0-0.75% depending on output gap	If SB < -1.5%: ΔSPB > 0.4% in 4y or ΔSPB > 0.25% in 7y
%Δ Net expenditure (Estonia)	-	< 3.1% (avg. 2025-28)

17. Further growth-friendly consolidation is therefore needed from 2026. Staff recommends a further adjustment of 0.5 percentage point of GDP per year relative to baseline during 2026-30 to secure convergence towards a sustained structural deficit of less than 1 percent of GDP—national fiscal rule (text table 3)—by 2032. This would stabilize the debt ratio at around 32 percent over the medium term, preserving critical fiscal buffers against possible future shocks. While relying predominantly on revenue-based mobilization, the adjustment should also identify specific spending measures (text table 4). Staff sees merits in a comprehensive review of Estonia's tax system considering alternative options and potential implications for revenue mobilization and long-run growth. However, staff's analytical work on fiscal multipliers (box 1 and SIP 1) points also to an important role for spending measures, given the estimated persistent output costs associated to revenue-based consolidations. In an adverse scenario, reflecting a drop in GDP growth of 1 percentage point in 2025 and 1.7 percentage points in 2026, automatic stabilizers should be allowed to provide economic support, with the debt ratio stabilizing a bit later and at a slightly higher level.

Text Table 4. Recommended Measures to Support 2026-31 Adjustment and Potential Yields
(Percent of GDP)

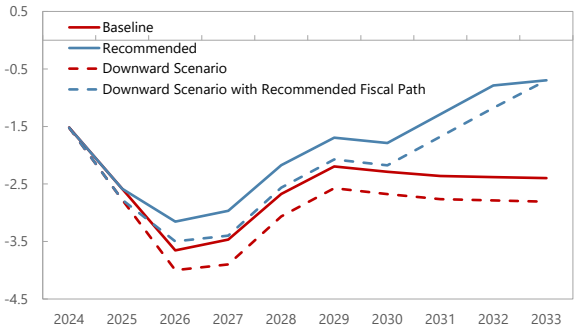
Revenue Measures	
Introducing a PIT revenue-neutral alternative (based on lower allowance/higher rate)	1.0
Accelerating the implementation of the new land values and lift exemptions and introducing an immovable property tax	0.3
Narrowing actionable VAT exemption gaps	0.4
Raising environmental taxes	0.3
Expenditure Measures	
Limiting the discretion of line ministries, local authorities, and other agencies in setting up wages	0.4
Introducing means-testing of existing social benefits	0.3
Reviewing current indexation mechanisms	0.3

Source: IMF staff calculations.

Text Figure 5. Fiscal Balance and Public Debt under Alternative Growth Scenarios

Staff's recommended path would secure convergence towards a deficit of less than 1 percent of GDP…

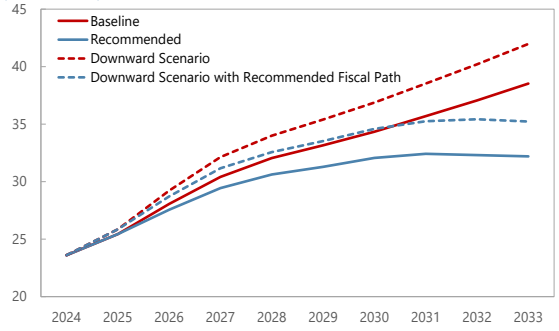
Estonia: Headline Fiscal Balance
(Percent of GDP)



Source: Ministry of Finance; and IMF staff calculations.

… and would stabilize the debt at about 32 percent of GDP

Estonia: Debt Under Different Fiscal Scenarios
(Percent of GDP)



Source: Ministry of Finance; and IMF staff calculations.

Box 1. Fiscal Multipliers in Estonia

Fiscal multipliers—the ratio of a change in real output to an exogenous change in a fiscal variable—measure the short-term impact of *discretionary* fiscal policy on output. Building on previous work (IMF 2021), this Box presents new estimates for Estonia, based on both off-the-shelf methods for general fiscal multipliers and the Structural Vector Autoregressive Regression (SVAR) approach developed by Blanchard and Perotti (2002) for granular multipliers of several fiscal instruments.[1] First-year multiplier estimates tend to fall in the ranges 0.85–1.4 for a general fiscal shock, 0.6–1.2 for total spending, and about -0.2 for fiscal revenues. Moreover, granular spending multipliers suggest initially larger but less persistent short-term output costs of spending cuts relative to tax increases.

The IMF's "Bucket Approach" maps general findings from the literature relating the size of multipliers with selected structural characteristics. Countries are classified into "buckets" of low, medium, or high one-year general multipliers based on scores assigned to six categories empirically associated with larger-size multipliers in "normal times".[2] With high scores on all dimensions, except for two, Estonia is classified in the "high" multiplier bucket, which has a mid-range multiplier of 0.85 in normal times and about 1.4 in periods of sizeable economic slackness.

Box 1. Table 1. Estonia: IMF's Bucket Approach

Factor	Score (0 = no, 1 = yes)
Low trade openness	0
High Labor market rigidity	0.5
Weak automatic stabilizers	1
Quasi-fixed exchange rate	1
Low/safe public debt level	1
Effective PFM and Revenue Administration	1
Bucket: "High" multiplier	**Range:** 0.7 – 1.0

Source: IMF staff.

Static "Keynesian" multipliers also point to sizeable overall spending multipliers. The canonical definition of the multiplier for exogenous expenditure A_i—public consumption or investment—depends on the propensity to consume over the disposable income ($c = 0.62$) and the import contents (m_i) of both private consumption and A_i:[3]

$$\kappa_i = \frac{\Delta Y}{\Delta A_i} = \frac{1 - m_i}{1 - c(1 - m_c)} = \frac{1 - m_i}{1 - (1 - t - s)(1 - m_c)}$$

= 1.44, for public consumption
= 0.96, for public investment
= 1.16, for overall spending

Multiplier estimates from Blanchard-Perotti's SVAR approach, in line with the literature, suggest non-negligible output costs of *both* tax increases and spending cuts. Impulse responses to a one-euro shock, show that real GDP *falls* for 10 quarters following exogenous increases in revenues—with a peak response of -0.25 euro after 4 quarters—and *increases* by about 0.7 euro immediately after a spending shock, with the response gradually decreasing but remaining statistically up to 4 quarters. Considering the cumulative responses over 4 quarters, the one-year aggregate spending multiplier (+0.64) is larger in absolute terms than the total revenue multiplier (-0.19).[4]

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[1] For non-exhaustive reviews of the literature, see IMF (2013), Gechert (2015), and Deb et al (2021). Gechert (2015) and Hlaváček and Ismayilov (2022) conduct formal meta-analyses of available fiscal multiplier estimates.

[2] See Batini et al (2014) for a discussion on which factors, and how, affect the size of fiscal multipliers.

[3] The direct and indirect (i.e., via inputs) import intensities of private consumption ($m_c = 0.37$), public consumption ($m_i = 0.12$), public investment ($m_i = 0.41$), and overall government spending ($m_i = 0.29$) were obtained from the 2020 input-output matrix for Estonia. Due to lack of granular data, for public investment we assumed the same import intensity of total investment.

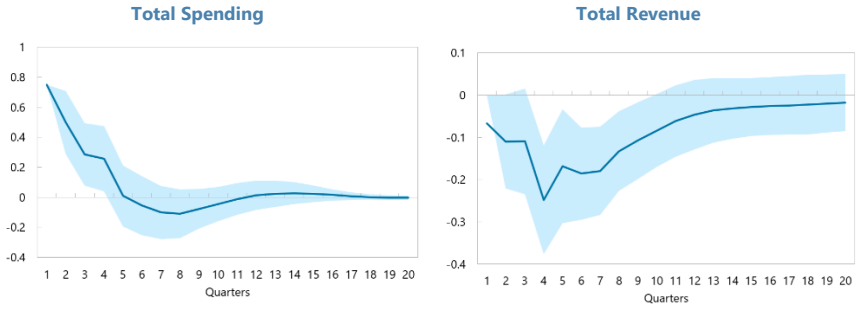
[4] Results for the European Union (Carnot and Castro, 2015) and meta studies of 104 articles by Gersher (2015), and 41 VAR or DSGE studies by Mineshima et al (2014), suggest first-year spending multipliers 2–3 times larger or exceeding tax multipliers by 0.3-0.4 unit in advanced economies.

Box 1. Fiscal Multipliers in Estonia (Concluded)

Multipliers for different instruments indicate nuanced effects of fiscal policy on output. Multipliers vary significantly across fiscal instruments, considering both revenues—i.e., total revenues, direct taxes, its two subcategories of personal (PIT) and corporate income (CIT) taxes, and VAT—and six categories of spending—i.e., total spending, wages and salaries, government consumption, subsidies, transfers, and public capital formation.

Box 1. Figure 1. Estonia: Fiscal Multipliers SVAR Estimates[1]

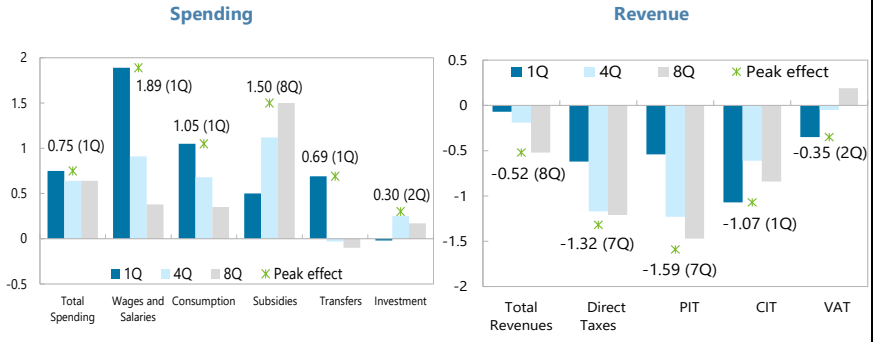
(Responses to a 1-euro fiscal shock, in euros)



Source: IMF staff estimations. Shaded areas reflect 95% confidence bands.
1/ Exclude interest spending and income.

Box 1. Figure 2. Estonia: Granular Fiscal Multipliers SVAR Estimates

(Impact and Cumulative Response to 1-Euro fiscal shock, in euros)



Source: IMF staff estimations.

Note: Only statistically significant responses at the 5 percent level are considered. "Wages and salaries" include employers' social contributions.

Fiscal multipliers for tax shocks are consistently negative on impact and tend to be more persistent than spending multipliers. Except for the VAT and CIT multipliers, tax multipliers build up over time and tend to peak after 7–8 quarters. For example, within two years of a shock, the negative effect of direct taxes on GDP doubles, driven by the effect of PIT which becomes three times as strong.

Spending multipliers are positive on impact but tend to peak sooner after a shock (within one or two quarters), decaying rapidly over time. This possibly reflects crowding out of private spending and Ricardian-equivalence channels. Notable exceptions are public investment (close to zero effect on impact, becoming positive and peaking after two quarters) and subsidies (three times stronger after two years), which can be explained by longer time to build and program maturity. Spending on wages and salaries has the largest immediate impact on GDP but largely fades after two years. The multiplier for transfers shows a similar profile but, as it may be associated with a larger propensity to save, has a smaller initial effect and fades quicker. Public investment multipliers are smaller than government consumption multipliers, confirming the findings from the static multipliers and the literature (Klyviene and Jakaitene, 2022), likely reflecting larger import content of investment relative to government consumption.[5] As for defense spending—assuming to consist of 22 percent consumption (goods and wages) and 78 percent capital expenditures (equipment, military infrastructure)—these results imply one- and two-year multipliers equal to 0.13 and 0.21, respectively.

[5] A more useful comparison is with the fiscal multiplier of government intermediate consumption (see related SIP), which is close to zero both on impact and over the one- and two-year horizons.

18. Options to support revenue mobilization should be explored. Estonia's tax mix has been traditionally reliant on consumption taxes—especially VAT—whereas income taxes are a relatively small share of revenue (figure 2). Recent and expected changes will further shift the tax burden in this direction. Consumption taxes are less distortive than income taxes, but higher spending needs may require a broader revenue base, reaching untapped potential. Staff recommends a review of Estonia's tax system along the following key modules:

- **Personal Income Tax.** The planned introduction of a uniform allowance in 2026 will usefully address the current hump in marginal tax rates but it may also lower revenue significantly. Staff urges the authorities to consider revenue-neutral alternatives (see Box 2 and SIP2) and assess whether the changes meet the intended degree of progressivity.

- **Corporate Income Tax.** The recent decision to backtrack from a levy on profits signals strong preference for Estonia's DPT regime, but higher rates on dividends may lead to further earning retention, eroding the revenue base in the coming years. Staff recommends a review of the corporate tax regime, considering alternative options and potential implications for revenue mobilization and long-run investment. Collection under the current DPT regime could be increased by strengthening the capacity of the tax administration to assess income statements. In addition, other types of rent taxes, building on immediate expensing of capital investments, could be explored, even though such options have rarely been implemented on a broad basis despite their theoretical appeal. Alternatively, a transition toward a standard profit tax with ACE could be considered.

- **VAT.** Estonia's VAT is efficient. Reduced rates are limited in scope, but exemptions are more common, and mainly related to real estate transactions, non-profit activities, online education, online gambling, and some medical procedures not covered under the EU VAT Directive. The registration threshold for small enterprises is also relatively high. Staff estimates that closing actionable exemptions and rate gaps could yield up to 1.4 percent of GDP. Pressure to introduce new reduced rates and exemptions should be resisted, while carefully targeted social benefits should be the preferred instrument to address any cost-of-living concerns.

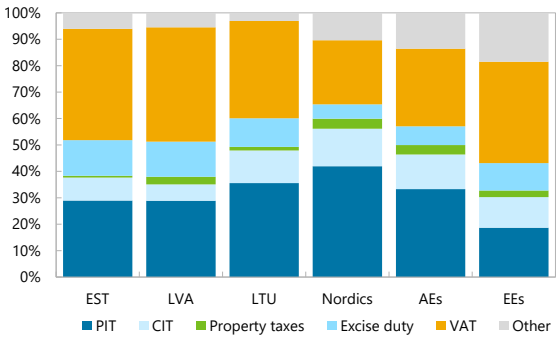
- **Property taxes.** Estonia collects limited property tax revenue. Staff welcomes the introduction of a motor vehicle tax and faster implementation of the new land values. However, residential land is still exempt up to a generous threshold. In the near term, municipalities should be encouraged to limit this exemption. In the medium term, steps should be taken to introduce a modern tax on immovable property, including by setting up a fiscal cadaster. Tax deferment schemes could mitigate the impact on certain households, especially the elderly. Local governments could be incentivized through reduced allocation of shared taxes or grants rewarding collection efforts.

Figure 2. Estonia: Tax Policy

Estonia has one of the highest indirect tax shares among AEs and low revenue diversification.

EU: Tax Revenue, 2023

(Percent; measured as share of total tax revenues)

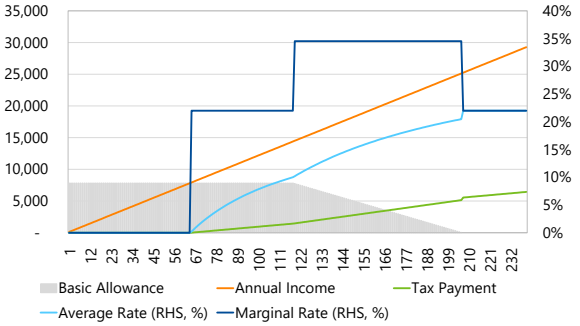


Source: Government Finance Statistics, IMF; and Eurostat.

Personal taxation places the tax burden on middle income adversely impacting work incentives and revenue.

Personal Income Tax Rate Schedule, 2024

(X-axis: euros, Y-axis: LHS- euros RHS: percent)

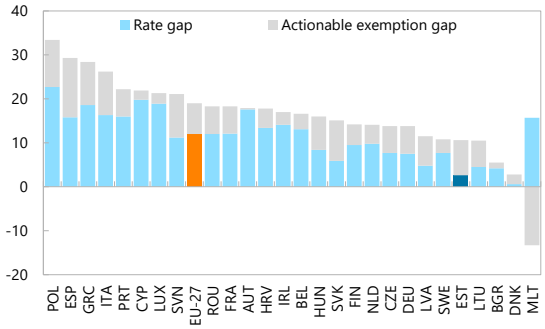


Sources: Statistics Estonia; Ministry of Finance; and IMF staff calculations.

Closing the VAT exemption and rate gap could bring in additional revenue.

EU: Rate and Actionable Exemption VAT Gap, 2022

(Percent of notional ideal revenue)

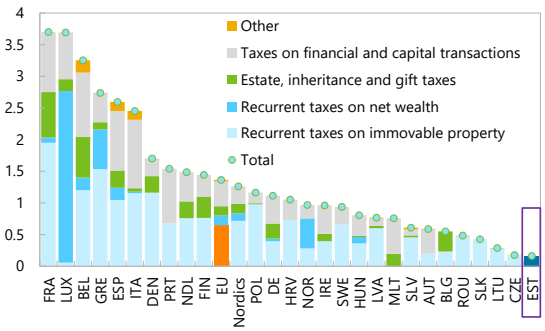


Source: European Commission.

Estonia lacks a modern real property tax.

Taxes on Wealth, 2022

(Percent of GDP)



Source: OECD

Box 2. Beyond the "Hump": Revenue-Neutral Options for Taxing Personal Income

Estonia has a relatively simple PIT structure combining one statutory rate with a basic allowance that is phased out at higher income levels. However, the marginal rate structure is more complex due to the interaction between the phasing out of the allowance and the statutory rate ("Status Quo" in Box 2 Tables 1-2). Using the PITA tool (IMF, 2024),[i] we show that the inverted U-shape of Estonia's PIT marginal rate leads to lower revenue relative to advanced Europe economies and the Nordics and creates disincentives to work for the relatively large share of the population in the middle-income segment. At the same time, marginal rates for top income earners are significantly lower, thus reducing the redistributive capacity of the PIT system.

The reform announced for 2026 usefully tackles the "hump" in marginal tax rates and improves progressivity to some extent but may further lower revenue. Despite the 2 ppts increase in the statutory rate (from 22 percent currently, to 24 percent), we estimate the new system to collect 0.5 percent of GDP less, while the share of people paying the tax is reduced. Several revenue-neutral scenarios are presented below.

We have computed the parameters that would keep the new system aligned with the status quo in terms of revenue by either (i) increasing the single statutory rate from 22 to 26 percent, or (ii) lowering the universal allowance from €8,400 to €6,750 to increase the tax base. The redistributive capacity is higher in (i) and lower in (ii) relative to the status quo. Alternatively, a two-rate scenario—with rates set at 22 and 30 percent—would bring in 0.9 percentage point of GDP additional revenue relative to the status quo and 1.4 percent relative to the announced reform by slightly shifting the burden of taxation to the right of the wage income distribution, from the middle (6th to 8th deciles) to the top 2 deciles. The redistributive capacity would improve, while the average rate increases by 2 ppts relative to the status quo, and by 3.5 ppts relative to the announced reform. Such type of design would generate efficiency and equity gains while also mobilizing additional tax revenue. A two-rate scenario (15 percent in bracket #2, and 29 percent in bracket #3) for the PIT should be considered if Estonia were to move to a standard CIT at a lower rate (e.g., 15 percent) to achieve revenue neutrality while preventing arbitrage. This would imply a lower tax rate for the bottom 90 percent of taxpayers.

Box 2. Table 1. Estonia: Summary of Personal Income Tax Reform Scenarios

(Euros, percent)

	Status Quo		Reform		Revenue Neutral (Lower Allowance)		Revenue Neutral (Higher Rate)		Revenue Neutral (Two Rates)		Two-Rates		More Progressive	
	TA (€)	MR (%)	TA (€)	MR (%)	TA (€)	MR (%)	TA (€)	MR (%)	TA (€)	MR (%)	TA (€)	MR (%)	TA (€)	MR (%)
Bracket #1	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Bracket #2	7,848	22	8,400	24	6,750	24	8,400	26	7,848	15	7,848	22	6,000	10
Bracket #3	14,400	34.5	-	-	-	-	-	-	14,400	29	14,400	30	7,848	15
Bracket #4	25,200	22	-	-	-	-	-	-	-	-	-	-	14,400	25
Bracket #5	-	-	-	-	-	-	-	-	-	-	-	-	25,200	40

Source: IMF staff calculations.
Note: TA refers to taxable amount and MR refers to marginal rate.

[i] IMF's PITA tool combines information on income distributions from WID with PIT rate structures to facilitate the analysis and presentation of the revenue and distributional impacts of PIT reforms.

Box 2. Beyond the "Hump": Revenue-Neutral Options for Taxing Personal Income (Concluded)

Box 2. Table 2. Estonia: Comparison of Personal Income Tax Simulations, 2025

(Percent)

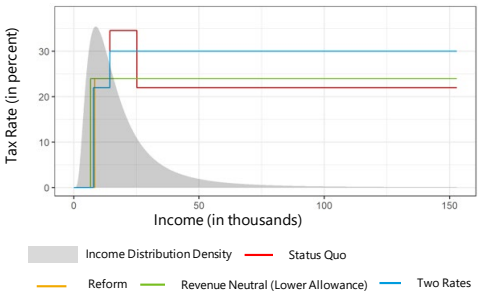
Scenario	PIT/GDP	ΔPIT/GDP	Gini coeff.	Average Rate	Redistributive Capacity	Progressive Capacity	Share Paying Tax
Before tax	0	0	50.8	0	0	0	0
Status Quo	6.9	0.0	47.6	17.9	3.2	14.8	79.2
Reform	6.4	-0.5	47.4	16.6	3.4	17.1	77.2
Revenue Neutral (Lower Allowance)	6.9	0.0	47.9	17.9	2.9	13.5	82.8
(Higher Rate)	6.9	0.0	47.1	18.0	3.7	17.1	77.2
Revenue Neutral (Two Rates)	6.9	0.0	46.2	18.0	4.6	20.9	79.2
Two-Rates	7.8	0.9	45.4	20.2	5.4	21.4	79.2
More Progressive	8.3	1.4	44.5	21.6	6.3	22.9	85.0

Source: IMF staff calculations.

Figure 3. Estonia: Personal Income Tax Reform Scenarios

Various PIT design scenarios could correct the marginal rate hump and low redistribution under the status quo…

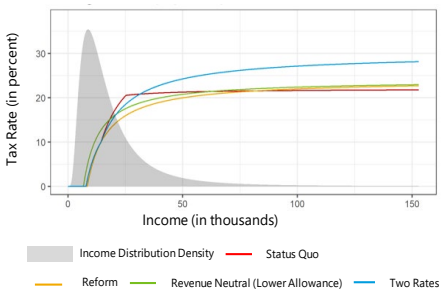
Marginal Tax Rate Schedule
(X-axis: thousand euros; Y-axis: percent)



Source: World Inequality Database; IBFD; and IMF staff calculations.

…at slightly higher average tax rates and thus, also generating higher revenue mobilization.

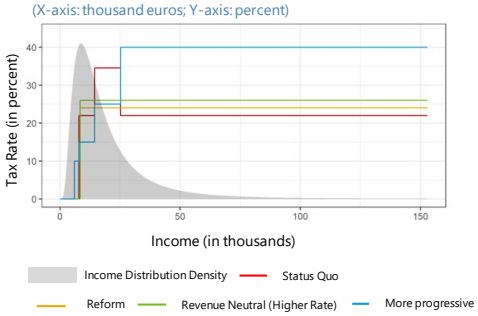
Average Tax Rate Schedule
(X-axis: thousand euros; Y-axis: percent)



Source: World Inequality Database; IBFD; and IMF staff calculations.

Revenue-neutral options would involve either a lower allowance or a higher rate…

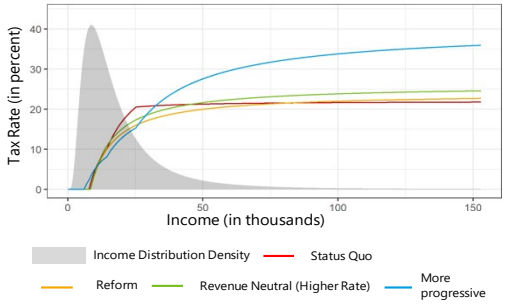
Marginal Tax Rate Schedule
(X-axis: thousand euros; Y-axis: percent)



Source: World Inequality Database; IBFD; and IMF staff calculations.

…while slightly more progressive systems would improve work incentives and revenue mobilization even more.

Average Tax Rate Schedule
(X-axis: thousand euros; Y-axis: percent)



Source: World Inequality Database; IBFD; and IMF staff calculations.

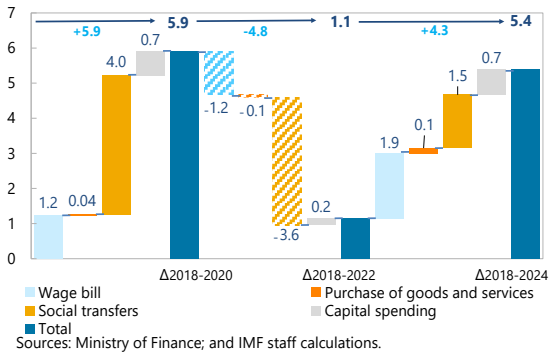
Note: Data from the World Inequality Database is based on household surveys and only approximates actual incomes. Results, thus, need to be interpreted with caution—e.g., income is frequently underreported at the top of the distribution, especially in developing countries.

19. Spending pressures have built up in recent years and need to be addressed. In 2024, the share of public expenditure in GDP exceeded 44 percent, 5 percentage points higher than pre-pandemic (text figure 6). Pressures from an aging population, energy security and climate change mitigation, along with interest costs are set to intensify over time, reinforcing the case for preserving fiscal buffers.

Text Figure 6. Expenditure Policies

Public outlays have gone up as share of GDP relative to pre-pandemic…

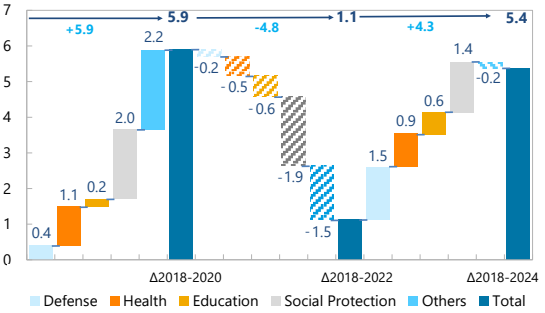
Change in Government Expenditure by Components, 2018-24
(Percentage points; cumulative change in spending in percent of GDP)



Sources: Ministry of Finance; and IMF staff calculations.
Note: Striped bars indicate decline in expenditure.

….and not only in relation to defense

Change in Government Expenditure by Function, 2018-24
(Percentage points; cumulative change in spending in percent of GDP)



Sources: Ministry of Finance; and IMF staff calculations.
Note: Striped bars indicate decline in expenditure.

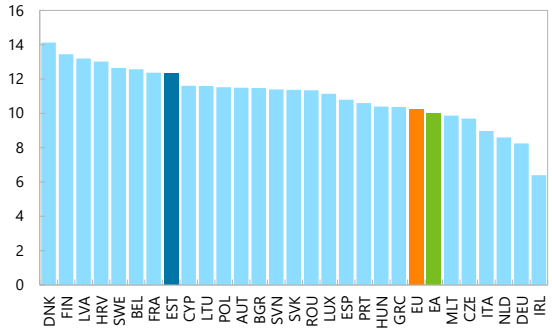
Staff thus recommends to:

- **Limit the discretion of line ministries and other agencies in setting up wages.** The commitment to contain the growth of the public sector wage bill in the current budget strategy is commendable. To deliver on this objective, it will be critical to limit exceptions granted to line ministries and other agencies in setting up wages.

- **Introduce means-testing of existing social benefits.** Family benefits and other social benefits have increased significantly in recent years. A household income registry would allow means-testing and better targeting of these benefits in support of low-income families who are really in need, while achieving some cost savings.

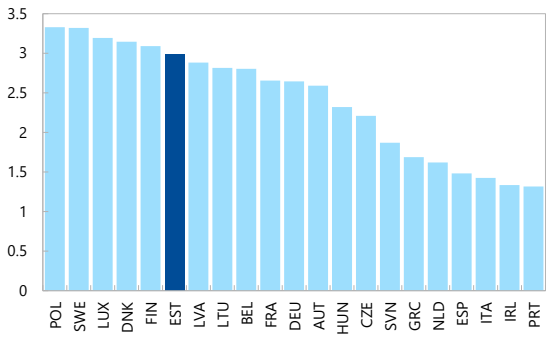
- **Review current indexation mechanisms.** Pensions are linked to prices and wages

General Government Wage Bill, 2024Q4
(Percent of GDP; four-quarter moving average)



Sources: Eurostat; Haver Analytics; and IMF staff calculations.

Family Benefits, 2021
(Percent of GDP)



Source: OECD.

through backward-looking indexation. In recent years, adjustments have been applied on top of one-off increases, leading to large government outlays, and, potentially, inflation persistence. Staff recommends a review of current indexation mechanisms.

Authorities' Views

20. The authorities recognized the fiscal challenges and welcome staff's granular policy advice. The authorities emphasized the flexibility offered by the activation of the escape clause in the near term but agreed with staff on the need to carefully assess the consequences of higher defense spending on debt sustainability. They also noted that sound public finances are critical to the confidence of businesses and their willingness to invest. Therefore, it would be important to secure a sustainable state budget, striking a proper balance between social policy objectives and a tax system that is conducive to growth and investment. Staff's granular policy advice was welcome on both the spending and the revenue side. While noting operational challenges in setting up an income and asset registry, the authorities agreed that social benefits could be better targeted to those in need.

B. Financial Policies—Carefully Calibrating Frameworks to Evolving Risks

21. While still contained, financial stability risks have increased. The improved near-term economic outlook and strong passthrough from lower ECB policy rates to bank lending rates are supporting the repayment capacity of households and firms, but are also triggering a revival in credit growth, especially among less significant institutions. Developments in commercial and residential real estate warrant vigilance, given rising office vacancy rates and high concentration of real estate loans in banks' credit portfolios. Staff encourages supervisory authorities to regularly assess underwriting standards to ensure prudent lending practices.

22. Banks remain adequately capitalized but new large dividend payouts should be avoided. Estonian banks' traditionally high capital ratios have declined in recent years. The introduction in 2019 of a reduced 14 percent tax rate on regularly-distributed profits—raised to 18 percent from 2025—which, unlike the corporate income tax on non-financial corporations, is levied on entire profits, has incentivized banks to prioritize dividend payouts over profit retention, eroding buffers. At 21 percent, capital ratios remain adequate, but new large dividend payouts as those observed in 2024 should be discouraged, as they divert potential sources of capital from banks and reduce their ability to absorb future shocks. Liquidity is generally ample. Estonian banks' reliance on foreign funding remains contained but has grown in recent years and may pose additional risks in case of market dislocations. Staff welcomes supervisors' prudent approach to funding concentration and online deposit platforms. Cyber risk should be monitored closely and continue being reflected in supervisory assessments.

23. The current macroprudential stance remains appropriate. Given rapid credit growth and real estate risks, staff supports the decision to maintain the CCyB at 1.5 percent and asks for caution before returning to the 1 percent positive neutral rate. The upcoming introduction of a Basel III output floor should ensure that the capital requirements for banks using IRB models are not

Text Table 5. Macroprudential Measures

Measure	Estonia		Latvia		Lithuania	
Countercyclical capital buffer		1.5%		1% (from Jun. 2025)		1%
Sectoral systemic risk buffer		-		-		2%
Other systemically important institutions buffer	Swedbank AS	2%	Swedbank AS	2%	Swedbank AB	2%
	AS SEB Pank	2%	AS SEB Banka[2]	2%	AB SEB Bankas	2%
	Luminor Bank AS	2%	AS Citadele Banka	2%	AB Šiaulių Bankas	1%
	AS LHV Pank	2%	AS Rietumu Banka	0.5%	Revolut	2%
	Bigbank AS	0.5% (from Jan.1, 2025)	BluOr Bank AS	0.25%		
	Coop Bank AS	0.5% (from Jan.1, 2025)				
Borrower-based measures	Loan-to-value (LTV) limit	0.85	Loan-to-value (LTV) limit	0.9	Loan-to-value (LTV) limit	0.85; 0.7[iii]
	Debt service-to-income (DSTI) limit	0.5	Debt service-to-income (DSTI) limit	0.4[i]; 0.45[ii]	Debt service-to-income (DSTI) limit	0.4
	Maximum maturity	30 years	Maximum maturity	30 years	Maximum maturity	30 years
			Debt-to-Income (DTI) ratio	6 times; 8 times[ii]		
Risk weight floor for mortgage loans		15%		-		-

Sources: Eesti Pank; Latvijas Banka; and Lietuvos Bankas.
[i] 10 percent of institutions' total newly issuesd loans to households in a quarter may exceed relevant limits.
[ii] For energy efficient housing loans.
[iii] For second and subsequent housing loans.

excessively lower than those using standardized approaches, thus strengthening the regulatory framework. However, the output floor will only be implemented in a gradual manner. Therefore, staff recommends that the authorities continue reviewing bank exposures and ensure that credit risk is properly reflected in risk weights across the banking system, especially for IRB banks.

24. Estonia has made progress in addressing AML/CFT challenges. Compliance with FATF standards has improved, as reflected in the 2024 MONEYVAL report, which upgraded Estonia's rating on targeted financial sanctions related to terrorism and terrorist financing from "partially compliant" to "largely compliant." However, further efforts are needed to achieve full and effective implementation of the FATF standards. Priority should be given to enhancing the ML/TF risk assessment and strengthening the risk-based supervision of virtual asset service providers.

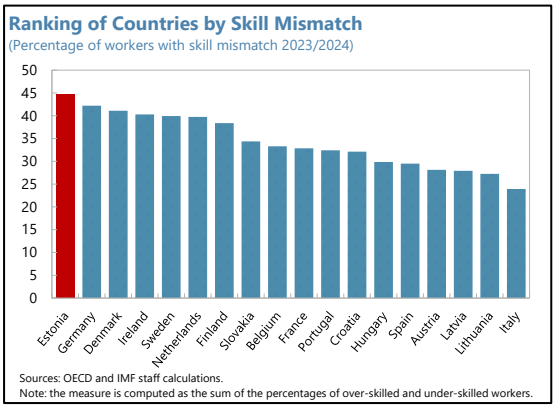
Authorities' Views

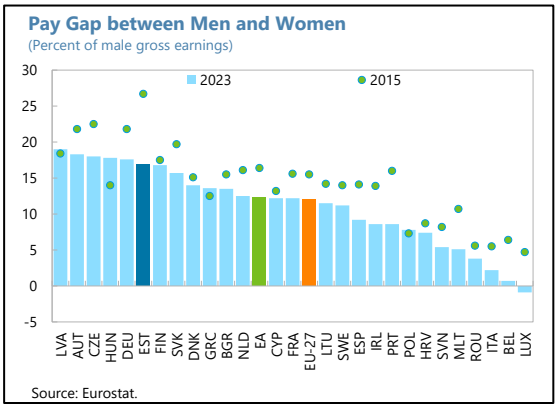
25. The authorities emphasized the resilience of Estonian banks, while agreeing with staff's assessment of financial stability risks. In line with a recently released Financial Stability Review, Bank of Estonia noted that the debt-servicing capacity of households and businesses remains strong. Despite the prolonged economic downturn, the share of non-performing loans is very low, as credit quality is supported by buffers accumulated during favorable years and the moderate unemployment rate. Banks have remained profitable, allowing steady provision of credit. That said, the authorities agreed with staff that exposure to real estate risks has increased, while geopolitical tensions may restrict banks' access funding at times of market dislocation. Accordingly, they deemed the current set of macroprudential measures appropriate to enhance the resilience of the banking system and reduce risks to financial stability. Authorities also highlighted their strong efforts in applying risk-based supervision in the banking sector, including in addressing AML/CFT challenges.

C. Structural Policies—Building Resilience and Fostering Transformation

26. Decisive action is needed to enhance productivity. Earlier work[2] and firm-level data analysis (Box 3 and SIP3) shows that allocative efficiency has declined over time in Estonia, as structural impediments have hindered the flow of labor and capital from less to more productive firms, while declining business dynamism has weighed adversely on productivity. Policies aiming to ease reallocation of labor, deepen capital markets, and reduce regulatory burden would therefore be critical in supporting economic transformation and building resilience.

27. More targeted active labor market policies could address mismatches and skill shortages. Estonia features high skill mismatch rates. Staff welcomes ongoing initiatives aimed at enhancing technical and digital skills, as well as upskilling and reskilling measures. However, collection of granular data on job mismatches could improve the targeting of these schemes. Better aligning education curricula, especially in STEM programs, with labor market needs could further address skill shortages. Universities could consider charging a reasonable tuition fee and provide scholarships for students from low-income families and in STEM programs. Policies should also continue to focus on integrating migrants (especially women) and ensuring they can utilize their skills and knowledge effectively. Recently announced plans to ease quotas for immigrants are welcome, while their salaries should properly reflect skills and qualifications across sectors and regions. Progress could also be made in addressing women's underrepresentation in certain educational fields and occupations, which can further help the recent decline in the pay gap between men and women.





[2] IMF Country Report No. 24/178.

Box 3. Allocative Efficiency, Firm Dynamics, and Productivity

In the last twenty years, labor productivity growth has decelerated significantly across the Baltic region, with Estonia exhibiting the most noticeable drop (Box 3 Figure 1, upper left chart). Using firm-level data, we find that diminishing allocative efficiency has contributed to the decline in productivity growth, while the net effect of firm entry and exit has been generally limited.

Following the methodology introduced by Decker and others (2017), we decompose industry-level labor productivity growth into: i) industry average labor productivity growth for all continuing firms; ii) a covariance term capturing the change in allocative efficiency among the same set of firms; iii) the contribution of firms entering the economy; and iv) the contribution of firm exiting (Equation 1). We use firm-level administrative data from the statistical offices of Estonia, Latvia, and Lithuania, supplemented by other data sources to estimate the following equation:

$$\Delta P_i = \Delta \bar{p}_{i,c} + \Delta cov_c(\theta_f, p_f) + \theta_{E2}(P_{E2} - P_{C2}) + \theta_{X1}(P_{C1} - P_{X1})$$

where *P* represents the log of labor productivity. Subscript *i* represents industry *i*; *c* represents continuing firms; and *f* indicates firm *f*. *Θ* is the employment share; *E2* indicates firms entering in the second year; and *X1* firms exiting in the first year. *C1* and *C2* represent continuing firms in the first and second year.

Our results suggest that at the aggregate level allocative efficiency has generally worsened since 2011. This outcome is accompanied by a negative contribution to productivity growth from firms entering the economy and a positive contribution from firms exiting (Box 3 Figure 1, upper right chart). Industry level results show a similar pattern for key sectors, including manufacturing and information and communication technology. Results for Latvia and Lithuania also exhibit broadly consistent patterns, with only slight differences across countries in terms of the rate of decline of allocative efficiency.

In line with relevant literature, our findings also suggest that young firms, upon entry, tend to have lower productivity levels compared to preexisting firms. However, over time, these new firms exhibit higher productivity growth rates, as they catch up with older firms and contribute to overall productivity gains (Box 3 Figure 1, lower left chart).

Next, we explored the role of young firms in terms of job creation and found that fast-growing young firms encouragingly take up a bigger share of employment than slow-growing young firms. However, the footprint of fast-growing young firms is relatively small for Estonia and the Baltic region compared to other advanced economies and especially the United States. We also found that during the last two decades of declining productivity growth, micro-sized, often unproductive, mature firms have taken up an increasing share of employment in Estonia (Box 3 Figure 1, lower right chart)—and more broadly in Europe.[1] With labor trapped in unproductive micro firms, aggregate productivity has stagnated, despite Estonia's relatively high firm entry and exit rates.

It is critical that structural reforms address bottlenecks, including skill shortages and financial constraints, and allow efficient resource allocation, ultimately enabling young firms to grow and provide greater contribution to aggregate productivity. A more efficient insolvency framework can also accelerate the exit of unviable firms, further contributing to growth and productivity.

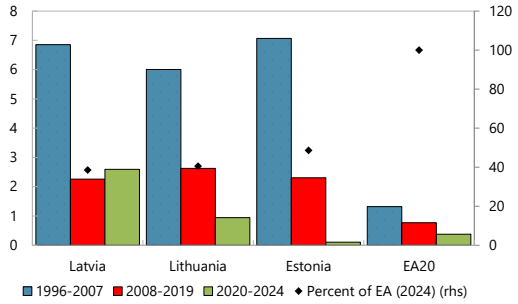
[1] See IMF (2024), Europe Regional Economic Outlook, October 2024.

Box 3. Allocative Efficiency, Firm Dynamics, and Productivity (Concluded)

Box 3. Figure 1. Estonia: Labor Productivity Growth: Evidence from Firm-Level Data[2]

Real Labor Productivity by Hour, Total Economy: Growth Rate and Percent of Euro Area

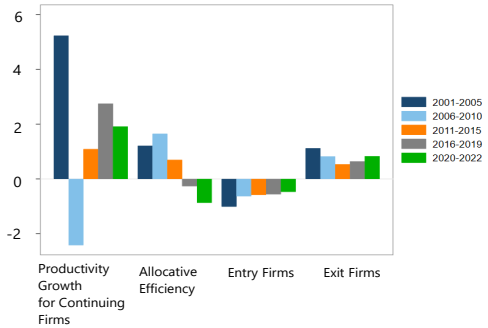
(LHS: percent, annual average growth rate; RHS: index, Euro Area = 100)



Sources: Eurostat; Haver Analytics; and IMF staff calculations.

Labor Productivity Growth Decomposition

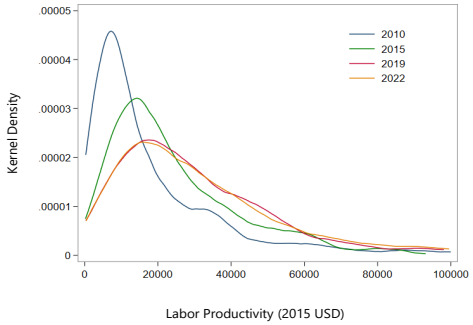
(Percent)



Sources: Statistics Estonia; and IMF staff calculations.

Labor Productivity Distribution of Entrant Firms (2010 Cohort)

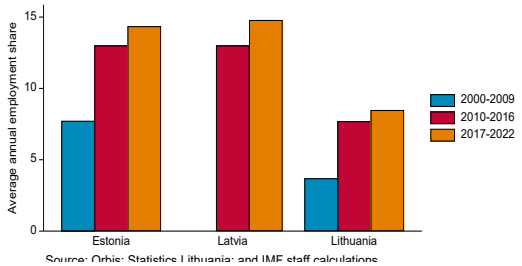
(X-axis: 2015 USD; Y-axis: density)



Sources: Orbis; and IMF staff calculations.

Employment Share of Micro Firms (2-4 Employees)

(Percent of all firms)



Sources: Orbis; and IMF staff calculations.

[2] Firms with only one employee are dropped from the sample.

28. Efforts to address financial constraints, reduce administrative burden, and foster innovation would also support productivity. Deepening the EU single market would let Estonia leverage economies of scale, foster competition, and lower costs, while enabling young firms to access finance more easily and grow. Further developing the pan-Baltic capital market could also help. National structural policies should accompany this progress, supporting business climate and making Estonia a more attractive destination for foreign and domestic capital. Recent efforts to reduce administrative burden and red tape are a welcome initiative. Expediting planning procedures and streamlining reporting requirements would be important steps. Building on recent measures incentivizing R&D spending, innovation could be further supported through programs facilitating SME adoption of new technologies and collaboration between universities and businesses. Expanding the availability of venture capital and equity financing, including by facilitating investments by second-pillar pension funds, would improve access to finance and promote capital market deepening, while alleviating pressure on public finances.

29. Ensuring energy security is critical. Reliable connectivity and sufficient domestic production are strategic objectives for achieving stable energy supply. The recent synchronization with the European electricity grid has been a key step. As the country transitions away from fossil

fuels, it will need to continue replacing oil shale with alternative energy sources. Staff supports ongoing efforts to facilitate development of renewables and advocates for boosting energy efficiency in the building and road transport sectors.

Authorities' Views

30. The authorities welcomed staff's continued focus on structural policies in Estonia, the Baltic region, and the EU. The authorities agreed with staff's policy priorities to ease reallocation of labor, reduce regulatory burden, deepen capital markets, and ensure energy security to support economic transformation and build resilience. In this context, they pointed to actions aligned with these objectives. Among various concrete initiatives, they emphasized programs enhancing technical and digital skills; announced plans to ease quotas for immigrants; efforts to expedite planning procedures and streamline reporting requirements; and measures to incentivize R&D spending.

STAFF APPRAISAL

31. Estonia is recovering from a prolonged recession but faces challenges. A mild recovery is expected to continue, supported by a more expansionary policy mix. Higher input costs, a legacy of earlier shocks and trade barriers are set to prevent a more vigorous rebound. The external position is broadly in line with fundamentals and desirable policies. Inflation is projected to remain elevated, before resuming a downward trend. Near-term risks to growth remain skewed to the downside and could be exacerbated by higher-than-euro area inflation.

32. Fiscal policy is appropriately calibrated in 2025, but further growth friendly consolidation is needed starting from 2026. In response to fast-rising defense spending needs, staff recommends an adjustment of 0.5 percentage point of GDP per year relative to baseline during 2026-30. This would secure convergence towards a sustained structural deficit of less than 1 percent of GDP by 2032 and stabilize the debt ratio at around 32 percent. In an adverse growth scenario, automatic stabilizers should be allowed to provide economic support, with the debt ratio stabilizing a bit later and at a slightly higher level.

33. While relying predominantly on revenue-based mobilization, the adjustment should also identify specific spending measures. Staff sees merits in a comprehensive review of Estonia's tax system considering alternative options and potential implications for revenue mobilization and long-run growth. On the spending side, the commitment to contain the growth of the public sector wage bill is welcome but staff recommends limiting the discretion of line ministries and other agencies in setting up wages. Introducing means-testing of existing social benefits and reviewing current indexation mechanisms for pensions can also limit costs.

34. Financial stability risks warrant vigilance. This is especially the case for developments in commercial and residential real estate, given high bank exposures to this loan segment. Staff encourages supervisory authorities to regularly assess underwriting standards to ensure prudent lending practices. Bank capital remains adequate, but new large dividend payouts should be discouraged, as they divert potential sources of equity from banks and reduce their ability to absorb

future shocks. Cyber risk should be monitored closely and continue being reflected in supervisory assessments. Building on recent progress, risk-based supervision of virtual asset service providers should be further enhanced.

35. The current macroprudential stance remains appropriate. Given rapid credit growth and real estate risks, the decision to maintain the CCyB at 1.5 percent is welcome and caution should be exerted in considering a return to the 1 percent positive neutral rate. Staff recommends that the authorities continue reviewing bank exposures and ensure that credit risk is properly reflected in risk weights across the banking system, especially for IRB banks.

36. Decisive action is needed to enhance productivity. Against the backdrop of declining allocative efficiency and weak business dynamism, policies should focus on addressing skill shortages, deepening capital markets, reducing regulatory burden, and fostering innovation. Recent efforts to ease quotas for immigrants, cut red tape, and incentivize R&D spending are all welcome initiatives. The targeting of active labor market policies could be further improved. Further progress towards a EU single market combined with domestic policies facilitating investments by second-pillar pension funds would promote capital market deepening and enable young, innovative Estonian firms to access finance more easily and grow. Ensuring energy security is also critical and staff supports ongoing efforts to facilitate development of renewables.

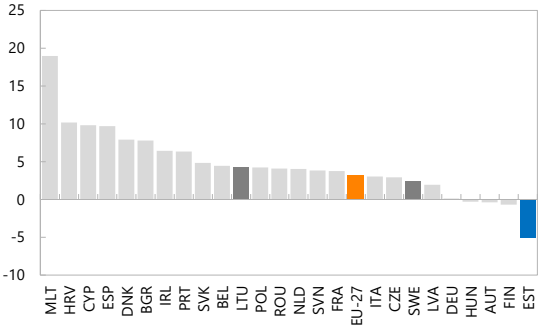
37. It is recommended that the next Article IV consultation be completed on the standard 12-month cycle.

Figure 4. Estonia: Growth Developments

Estonia has exhibited the weakest real GDP growth among EU countries during the last three years...

EU-27: Real GDP Growth, 2025Q1 vs 2022Q1

(Percent)

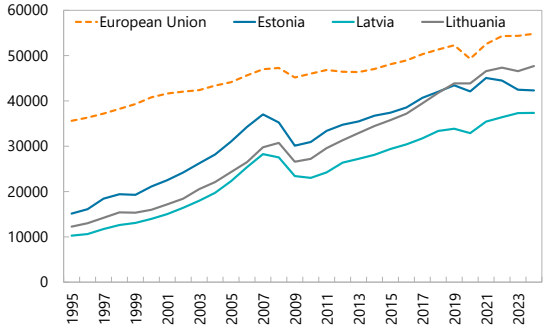


Sources: Eurostat; Haver Analytics; and IMF staff calculations.

... and income convergence has stalled.

GDP Per Capita

(in PPP 2017 international dollars)

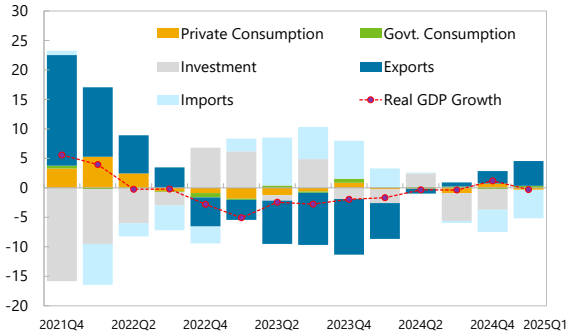


Sources: World Economic Outlook, IMF; and IMF staff calculations.

Signs of an incipient export-led recovery have emerged only lately...

Real GDP Growth and Contributions

(Year-on-year percentage change)

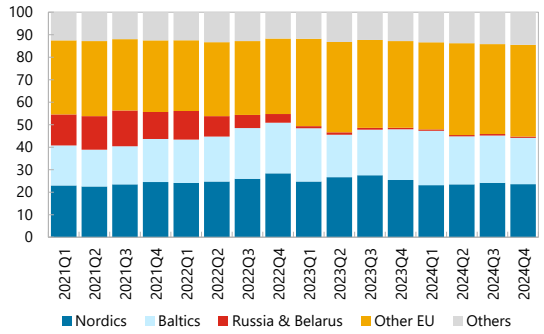


Sources: Statistics Estonia; Haver Analytics; and IMF staff calculations.

...but imports from Russia and Belarus have been replaced with imports from other (more expensive) markets.

Import Shares by Trading Partner

(Percent)

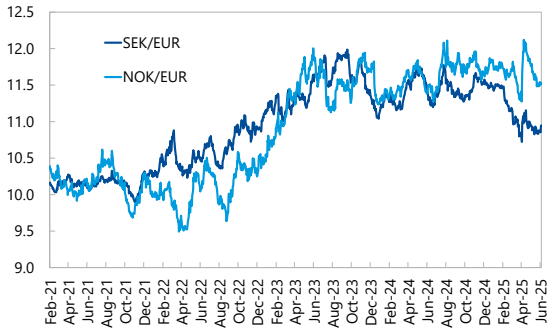


Sources: Direction of Trade Statistics, IMF; and IMF staff calculations.

Exchange rates against traditional Nordic trading partners are stabilizing or becoming more favorable...

Exchange Rates: Sweden and Norway

(Euros, EOP)

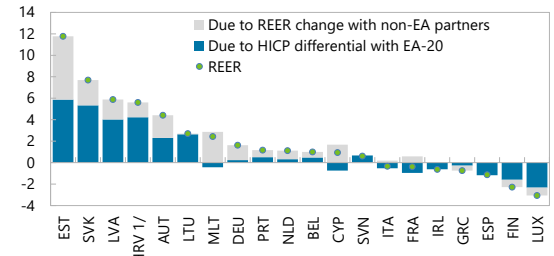


Sources: European Central Bank; Eurostat; and Haver Analytics.

...after a period of large REER appreciation

Change in HICP Based REER, 2022Q1-2025Q1

(Percentage points)



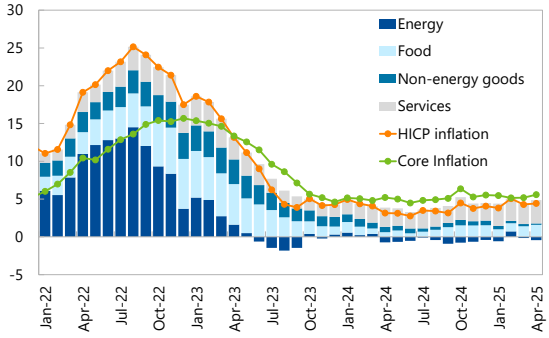
Sources: European Commission; World Economic Outlook, IMF; and IMF staff calculations.

1/ For the period between 2022Q1-2025Q1, there is also a bilateral exchange rate effect between the Croatian Kuna and the Euro which is incorporated in the HICP differential component.

Figure 5. Estonia: Inflation Developments

Estonia's inflation has been mainly driven by services prices and, more recently, electricity prices…

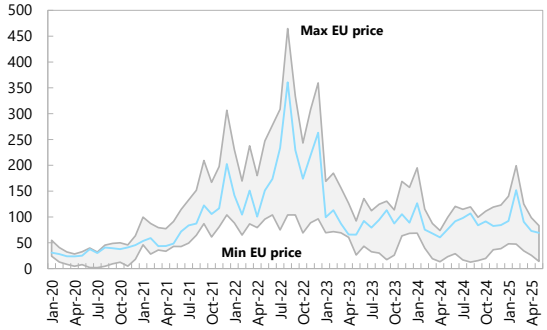
Inflation Decomposition
(Percentage points)



Sources: Eurostat, Haver Analytics, and IMF staff calculations.

…which jumped on disruptions to undersea power cables.

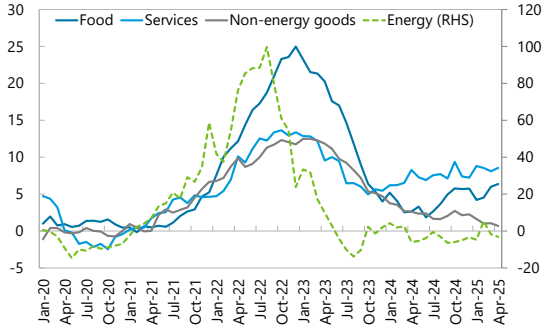
Wholesale Electricity Prices in Estonia
(Euros/MWh)



Sources: ENTSO-e; Ember; and IMF staff calculations.

Services price inflation has been on a gradual upward trend since late 2023.

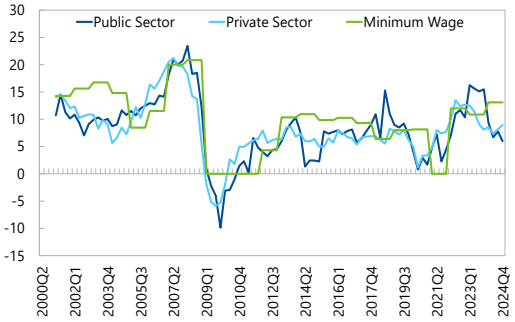
Inflation
(Year-on-year percentage change)



Sources: Eurostat; Haver Analytics; and IMF staff calculations.

Wage inflation remains above price inflation, although is moderating in the public sector…

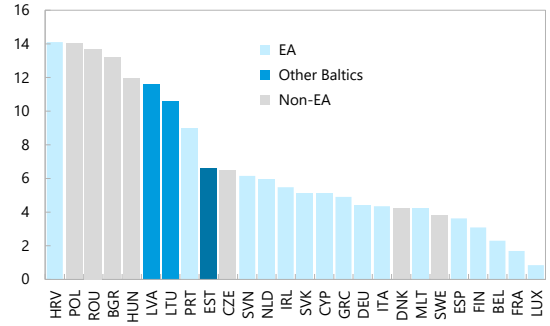
Wages
(year-on-year percentage change)



Sources: Statistics Estonia; Eurostat; and IMF staff calculations.

…and is lower than in other countries in the region.

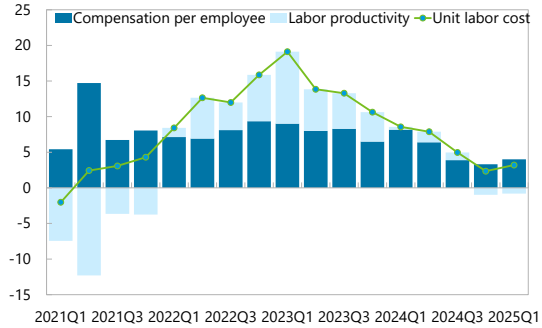
Real Wage Growth, 2024Q4
(Year-on-year percentage change)



Sources: Eurostat; and IMF staff calculations.

ULC is declining as labor productivity normalizes.

Unit Labor Cost
(Percent; year-on-year growth)



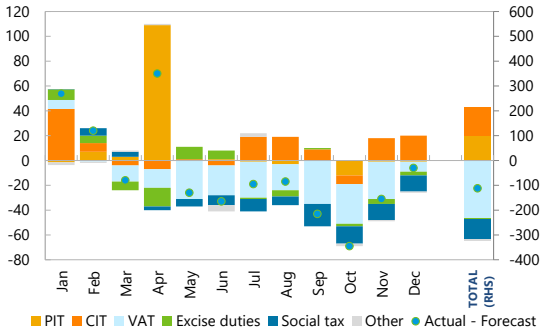
Sources: Statistics Estonia; Eurostat; Haver Analytics; and IMF staff calculations.

Figure 6. Estonia: Fiscal Developments

PIT and CIT revenue collection was unusually strong ahead of upcoming tax increases…

Tax Revenues: Actual vs Budget, 2024

(Mil. Euros)

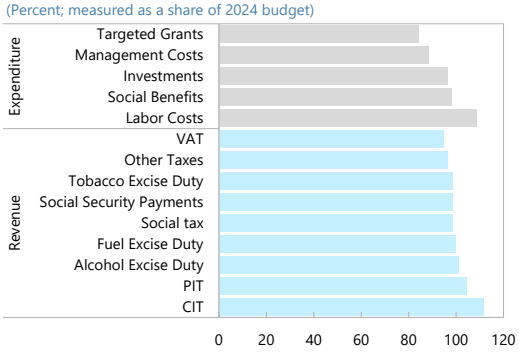


Source: Ministry of Finance.

…while certain spending was under-executed.

State Budget Execution, December 2024

(Percent; measured as a share of 2024 budget)

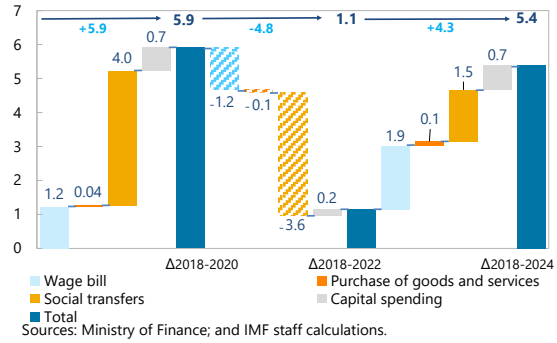


Source: Ministry of Finance.

Large, permanent spending increases have built in recent years…

Change in Government Expenditure by Components, 2018-24

(Percentage points; cumulative change in spending in percent of GDP)

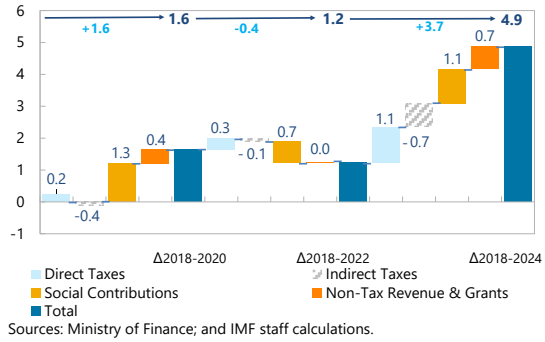


Sources: Ministry of Finance; and IMF staff calculations.
Note: Striped bars indicate decline in expenditure.

…only partly financed by tax increases…

Change in Government Revenue by Components, 2018-24

(Percentage points; cumulative change in revenue in percent of GDP)

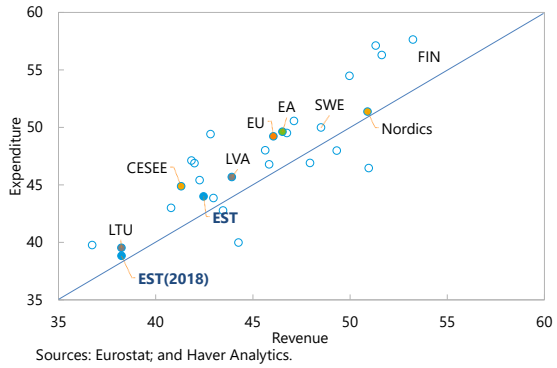


Sources: Ministry of Finance; and IMF staff calculations.
Note: Striped bars indicate decline in revenue.

…as also highlighted by cross-country comparisons…

EU: General Government Revenue and Expenditure, 2024

(Percent of GDP)

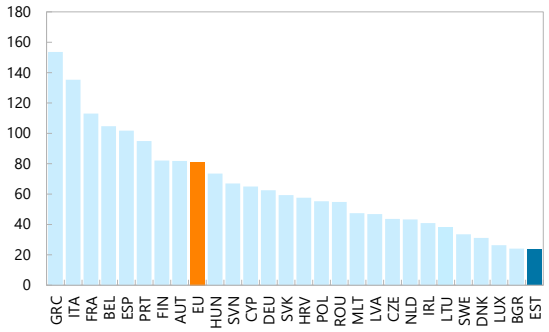


Sources: Eurostat; and Haver Analytics.

…but Estonia's debt-to-GDP ratio remains the lowest in the EU.

General Government Debt, 2024

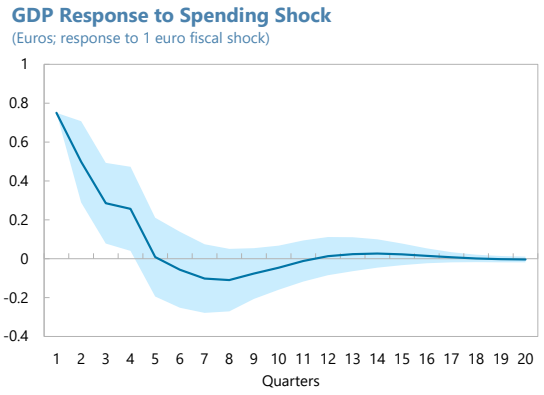
(Percent of GDP)



Sources: Eurostat; and Haver Analytics.

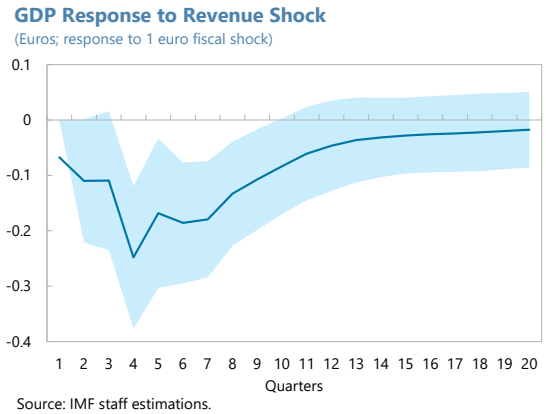
Figure 7. Estonia: Fiscal Multipliers

Spending shocks have a large and immediate effect on GDP, which fades in about 4 quarters…



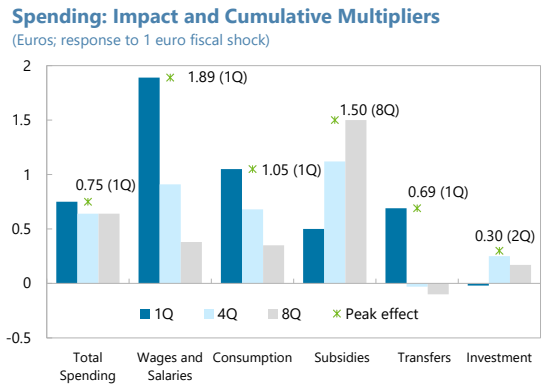
Source: IMF staff estimations.

…while the negative effect of revenue shocks is smaller on impact but more persistent.



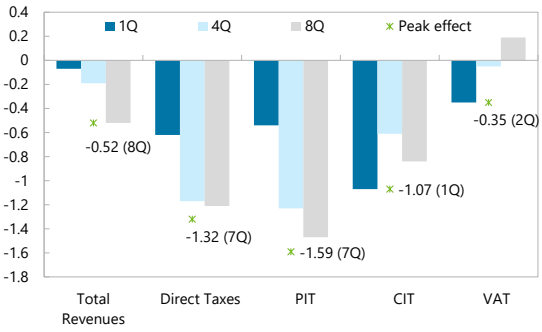
Source: IMF staff estimations.

With lower import content, public consumption (and subitems) shows larger multipliers than public investment.



Source: IMF staff estimations.

Differently from spending multipliers, revenue multipliers build up over time and peak later.



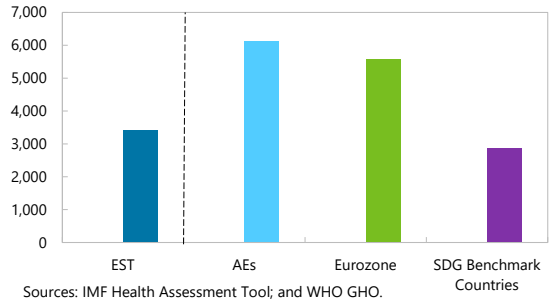
Source: IMF staff estimations.

Figure 8. Estonia: Healthcare Spending Assessment

The annual health spending in Estonia is about half of AEs and EA countries.

Current Health Spending per Capita

(PPP$)

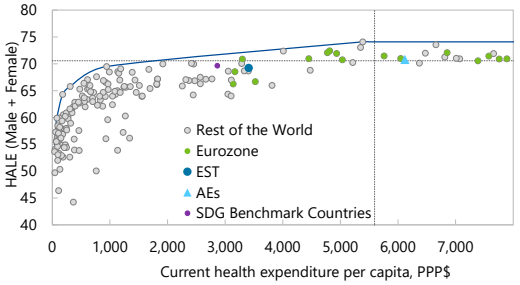


Sources: IMF Health Assessment Tool; and WHO GHO.
Note: Includes both public, private, and external expenditures.
SDG benchmark countries are based on SDG Health Costing Tool benchmark of high performance countries based on their per capita income.

This results in lower healthy life expectancy, while a system efficiency gap persists.

Health Efficiency Frontier, 0-8000 PPP$

(X-axis: PPP$, Y-axis: years; latest value available)

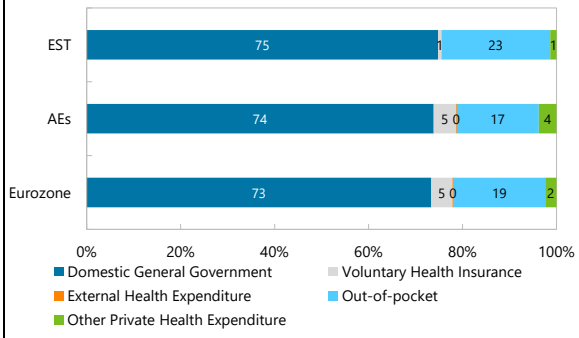


Sources: IMF Health Assessment Tool; and WHO GHO.
Note: Includes both public, private, and external expenditure.
The SDG benchmark countries are based on SDG Health Costing Tool benchmark of high performing countries absed on their per capita income.

The relatively high share of out-of-pocket spending, likely causing financial difficulties for lower income households.

Healthcare Funding

(Percent; share of current health expenditure)

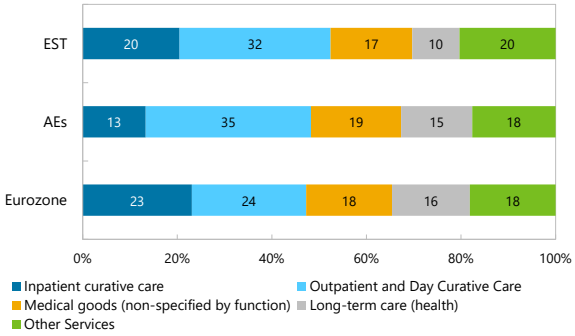


Sources: IMF Health Assessment Tool; and WHO GHED.

Long-term care expenditure is low, and demand is expected to increase with aging population.

Healthcare Care Functions

(Percent; share of current health expenditure)

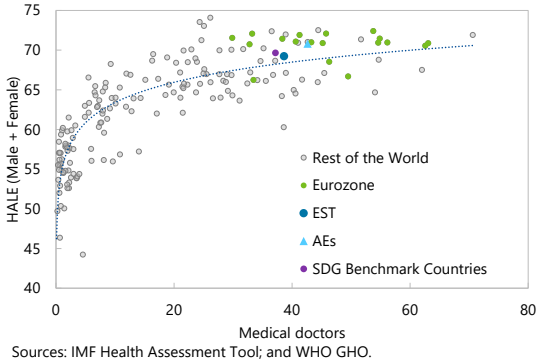


Sources: IMF Health Assessment Tool; and WHO GHED.

There are fewer medical doctors per capita relative to AEs and EA. Regional discrepancies in access persist.

Health Adjusted Life Expectancy and Medical Doctor Density

(X-axis: doctors per 10,000 people; Y-axis: years)

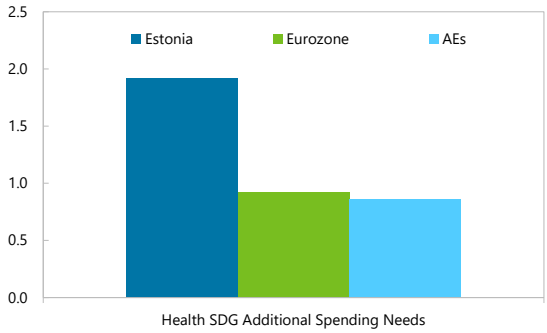


Sources: IMF Health Assessment Tool; and WHO GHO.

Healthcare spending to GDP would need to increase by 2 ppts to achieve UN's SDG3 by 2030.

Additional SDG Spending to Attain SDG 3

(Percent of 2030 GDP)



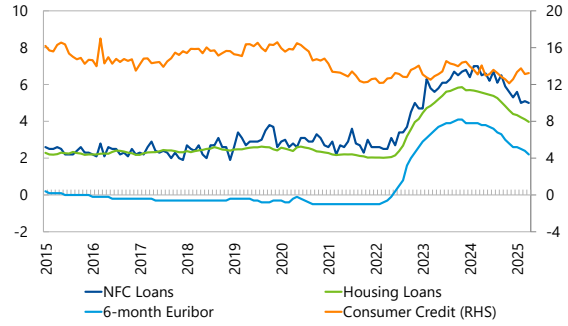
Sources: IMF Health Assessment Tool and FADEP SDG Costing Tool.

Figure 9. Estonia: Banking Sector Developments

Bank lending rates are declining, reflecting ECB's lower policy rates.

Lending Rates

(Percent)

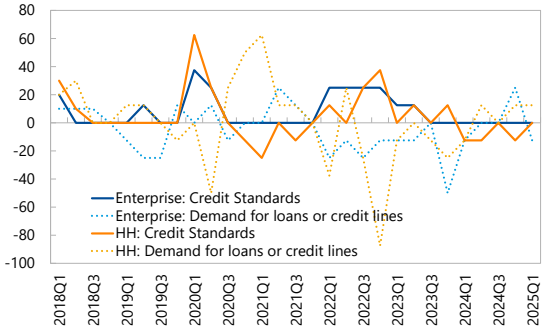


Source: Eesti Pank.

Banks are relaxing lending standards and credit demand is increasing.

Bank Lending Survey

(Diffusion Index measuring changes in past three months, 0+ = tightening)

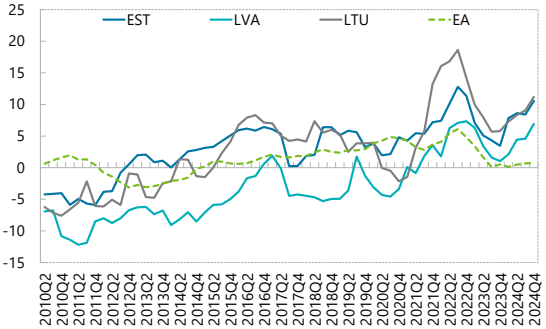


Source: Eesti Pank; and Haver Analytics.

Credit growth has accelerated across the Baltic region...

Credit Growth

(Year-on-year percentage change)

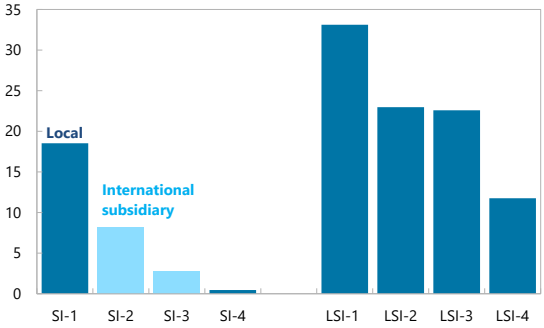


Sources: European Central Bank; and IMF staff calculations.

...and in Estonia especially among LSI.

Credit Growth by Banks, 2024Q4

(Year-on-year percentage change)

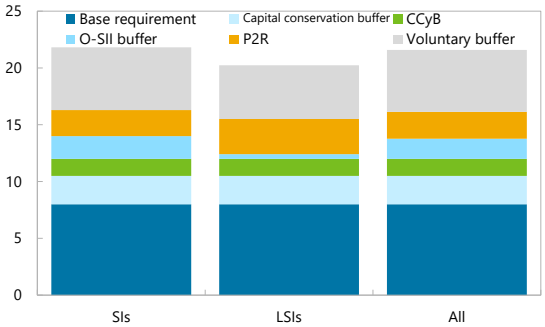


Sources: Financial Supervisory Authority; and IMF staff calculations.

Banks remain adequately capitalized with a CAR of more than 21 percent...

Total Capital Ratio, 2024

(Percent)

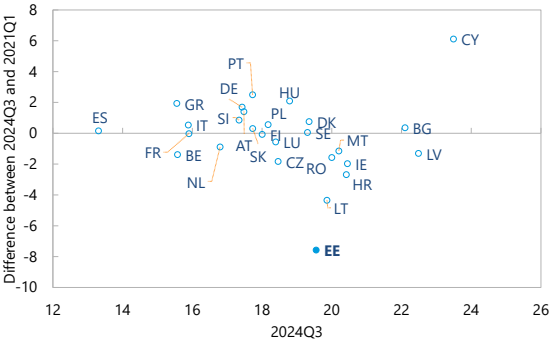


Sources: Finantsinpektisoon; and IMF staff calculations.

...even though large dividend payouts have reduced buffers in recent years.

Common Equity Tier 1 Ratio

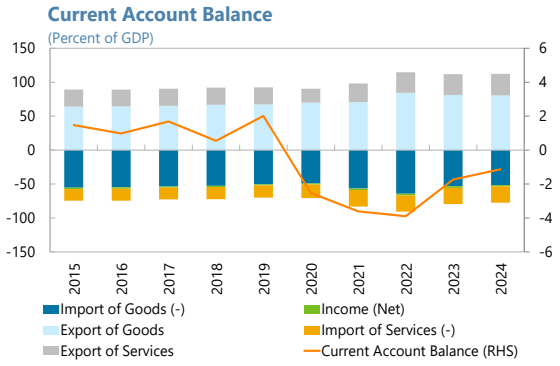
(X-axis: percent; Y-axis: percentage points)



Sources: European Central Bank; Haver Analytics; and IMF staff calculations.

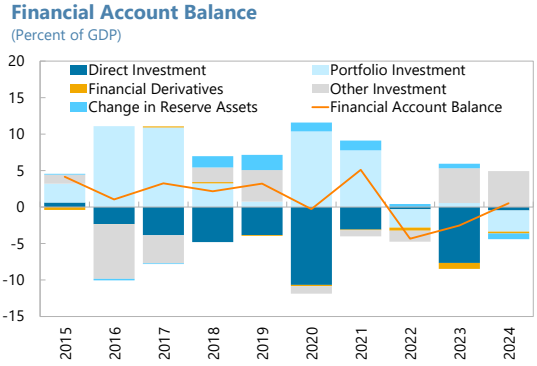
Figure 10. Estonia: External Sector Developments

The current account deficit has narrowed since 2022.



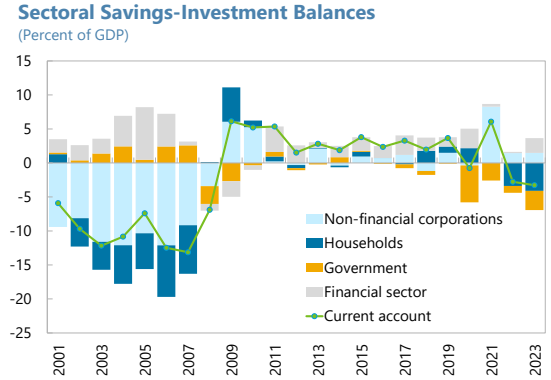
Sources: Statistics Estonia; and IMF staff calculations.

FDI net inflows decreased significantly in 2024.



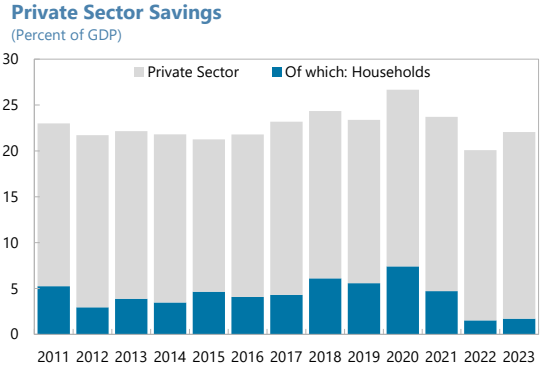
Sources: Haver Analytics; and IMF staff calculations.

Negative savings-investment gaps from households and the government explain most of the CA deficit...



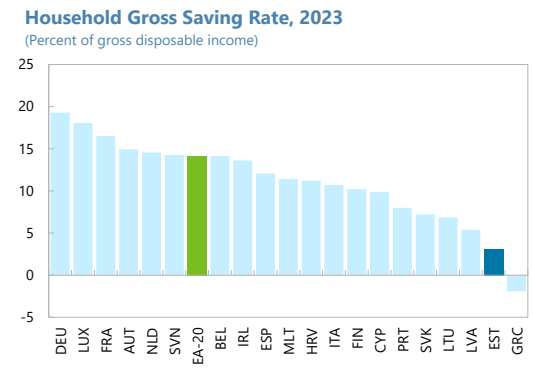
Sources: Eurostat; and IMF staff calculations.

...while private sector savings have declined after 2020 reflecting changes to Pillar 2 pension regulation...



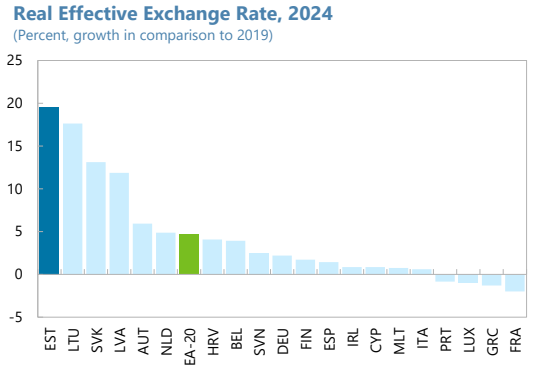
Sources: Statistics Estonia; Eurostat; and IMF staff calculations.

...and the households' savings rate stands as one of the lowest in the Euro Area...



Source: Eurostat.

...while the REER experienced the largest appreciation.

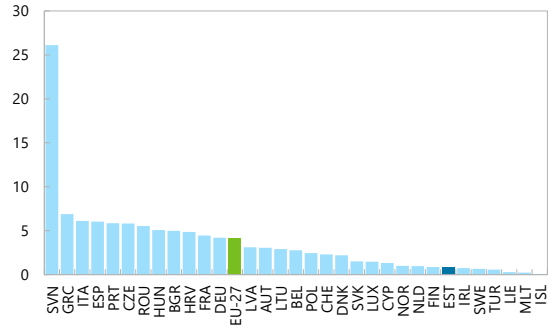


Sources: Information Notice System, IMF; and IMF staff calculations.

Figure 11. Estonia: Climate Change Indicators

Estonia has not been directly affected by climate and extreme weather events.

Economic Losses from Extreme Weather and Climate-Related Events (Cumulative losses over 1988-2023 in percent of 2023 GDP)

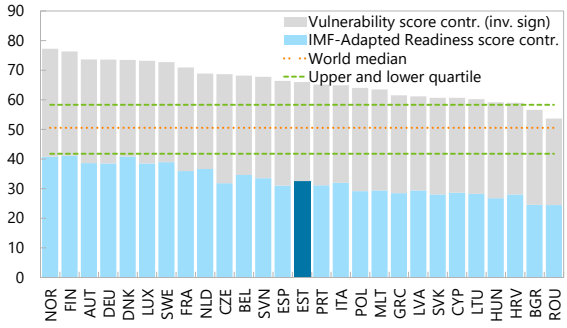


Source: European Environment Agency.

Adaptation challenges exist, but Estonia is well positioned for this.

IMF-Adapted ND-GAIN Index, 2022

(Score from 0 to 100, higher is better)



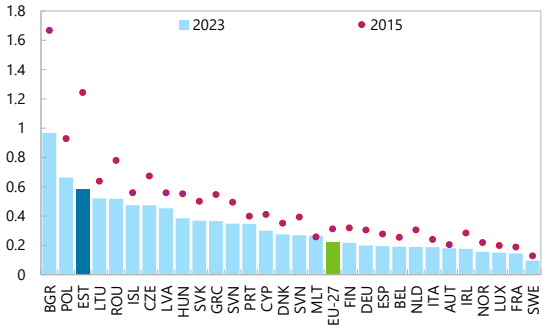
Sources: IMF Climate Change Dashboard; and IMF staff calculations.

Data accessed via IMF Climate Change Dashboard

Emission intensities have reduced since 2015 but remain among the largest in the EU.

Emission Intensities

(Kilograms of GHG equivalent per Euro of GDP, 2010 chain linked volumes)

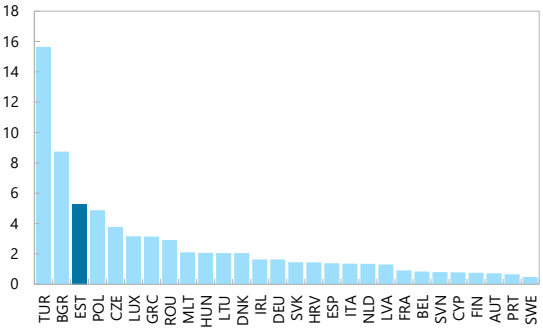


Source: Eurostat.

Fossil fuel subsidies are also large relative to EU peers…

Fossil Fuel Subsidies, 2021

(Percent of GDP)

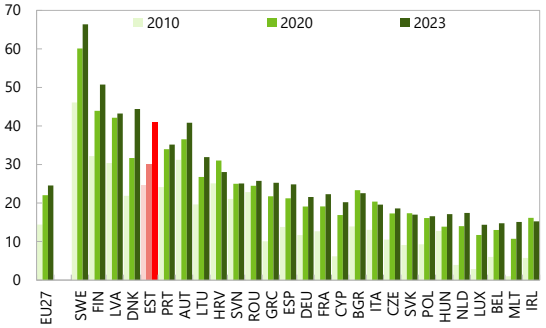


Source: IMF staff calculations.

… despite an increased use of renewable energy sources…

Share of Renewable Energy

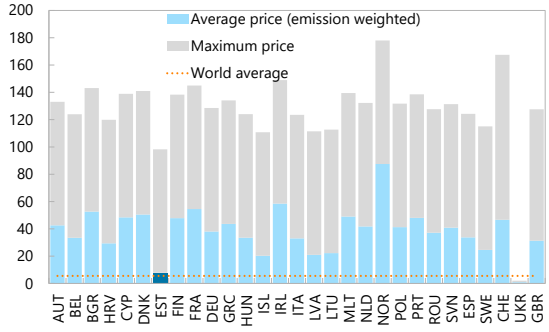
(Percent of gross final energy consumption)



Sources: Eurostat; and IMF staff calculations.

…pointing to low/inadequate pricing of GHG emissions in the retail prices of energy products.

Average and Maximum Carbon Price in European Countries, 2022 (2021 USD per ton of CO2)



Source: IMF staff calculations based on Dolphin and Xiahou (2022).

Table 1. Estonia: Selected Macroeconomic and Social Indicators, 2021–30

(Units as indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					Projections					
National income, prices, and wages										
GDP (nominal; billions of Euro)	31.5	36.4	38.2	39.5	41.5	43.9	46.3	48.5	50.7	53.0
Annual change (in percent)	12.9	15.9	4.8	3.5	5.1	5.8	5.5	4.7	4.6	4.4
Real GDP growth (year-on-year in percent) 1/	7.2	0.1	-3.0	-0.3	0.5	1.5	1.8	1.9	1.8	1.7
Private consumption	7.1	2.9	-1.3	-0.3	-0.2	1.8	2.1	2.0	1.9	1.8
Government consumption	3.9	-1.6	0.9	0.3	-0.6	-0.5	-0.4	0.0	0.4	1.0
Gross fixed capital formation	0.3	-8.1	7.5	-6.9	2.6	2.2	2.1	2.0	1.8	1.8
Exports of goods and services	22.1	5.0	-9.0	-1.2	4.6	1.2	2.2	2.2	2.1	2.0
Imports of goods and services	22.7	5.0	-6.7	0.4	4.3	1.0	1.8	1.8	1.8	1.8
Average HICP (year-on-year change in percent)	4.5	19.4	9.1	3.7	5.1	4.4	3.3	2.7	2.4	2.3
Average Core HICP inflation	2.4	11.8	10.1	5.2	6.8	5.9	4.2	3.3	3.0	2.8
GDP deflator (year-on-year change in percent)	5.4	15.8	8.1	3.7	4.6	4.2	3.6	2.8	2.8	2.6
Average monthly wage (year-on-year growth in percent)	6.8	11.6	11.4	8.1	8.4	8.1	7.3	6.4	5.6	5.4
Unemployment rate (ILO definition, percent, pa)	6.2	5.6	6.4	7.5	8.4	7.9	7.4	6.8	6.6	6.4
Average real ULC (year-on-year growth in percent)	1.6	13.7	14.4	5.2	7.5	6.8	5.6	4.7	3.6	3.4
General government (ESA10 basis; percent of GDP)										
Revenue	39.5	38.9	40.5	42.5	43.1	42.9	42.5	42.5	41.8	41.8
Expenditure	42.1	40.0	43.7	44.0	45.7	46.6	46.0	45.1	44.0	44.1
Fiscal Balance	-2.6	-1.1	-3.1	-1.5	-2.6	-3.7	-3.5	-2.7	-2.2	-2.3
Cyclically-Adjusted Primary Balance	-5.0	-2.2	-2.7	-0.6	-1.7	-2.9	-2.9	-2.2	-1.8	-1.9
Structural balance	-5.0	-2.3	-2.9	-0.9	-1.9	-3.2	-3.2	-2.6	-2.2	-2.3
Total general government debt	18.4	19.1	20.2	23.6	25.4	28.1	30.4	32.1	33.2	34.3
Net government debt 2/	5.1	4.6	7.5	8.9	11.4	14.8	17.9	20.1	21.7	23.4
External sector (percent of GDP)										
Merchandise trade balance	-4.3	-7.8	-6.0	-6.8	-6.3	-6.4	-6.2	-5.9	-5.7	-5.6
Service balance	3.0	6.5	6.8	7.4	6.5	6.2	6.4	6.6	6.8	6.9
Primary income balance	-2.2	-2.4	-3.1	-2.2	-2.6	-2.1	-2.3	-2.6	-2.5	-2.6
Current account	-3.6	-3.9	-1.7	-1.1	-2.3	-2.1	-2.0	-1.8	-1.3	-1.2
Gross external debt/GDP (percent) 3/	84.6	84.4	89.2	98.8	97.5	95.5	93.7	92.5	91.4	90.4
Net external debt/GDP (percent) 4/	-44.5	-32.2	-33.5	-18.0	...	...	...	...	...	...
Exchange rate (US$/Euro - period averages)	1.18	1.05	1.08	1.08	1.08	1.08	1.08	1.08	1.08	1.08
Real effective exchange rate (annual changes in percent)	1.8	6.8	7.6	1.4	...	...	...	...	...	...
Nominal effective exchange rate (annual changes in percent)	0.6	-2.3	4.6	1.2	...	...	...	...	...	...
Money and credit (year-on-year growth in percent)										
Credit to the economy	6.5	11.1	6.0	8.9	...	...	...	...	...	...
Output gap (in percent of potential output)	4.2	3.2	-0.8	-1.8	-1.9	-1.3	-0.7	-0.2	0.0	0.0
Growth rate of potential output (in percent)	1.7	1.0	0.9	0.8	0.5	0.9	1.3	1.4	1.6	1.7

Social Indicators (reference year):
Population (2024): 1.37 million; Per capita GDP (2023): $30,219; Life expectancy at birth: 82.4 (female) and 73.7 (male);
At-risk-of-poverty rate (2023): 20.2 percent; Main exports: machinery and appliances.

Sources: Estonian authorities; Eurostat; and IMF staff estimates and projections.
1/ The difference with the current account reflects differences in factor income data between the national accounts (Statistical Office) and the BOP (Central Bank). Statistics Estonia revised National Accounts series in August 2024 inter alia shifting reference year to 2020 and improving the methodology.
2/ Includes the Stabilization Reserve Fund (SRF).
3/ Includes trade credits.
4/ Net of portfolio assets (including money market instruments, financial derivative assets, other investment assets, and reserve assets held by Estonian residents.

Table 2. Estonia: Summary of General Government Operations, 2021-30

(Percent of GDP)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					Projections					
Revenue and Grants	39.5	38.9	40.5	42.5	43.1	42.9	42.5	42.5	41.8	41.8
Revenue	37.2	36.6	37.9	40.1	39.9	39.8	39.9	40.3	40.3	40.3
Tax revenue	22.0	21.2	21.6	23.1	23.3	23.4	23.4	23.5	23.4	23.4
Direct taxes	8.4	7.9	8.1	9.0	9.1	8.8	8.9	8.9	8.9	8.9
Personal income tax	6.8	6.3	6.3	6.6	6.8	6.5	6.6	6.6	6.6	6.6
Corporate profits tax	1.5	1.6	1.9	2.4	2.3	2.3	2.3	2.3	2.3	2.3
Indirect taxes	13.6	13.3	13.5	14.1	14.2	14.6	14.5	14.5	14.5	14.5
VAT	9.1	9.1	9.1	9.7	9.8	10.1	10.1	10.1	10.0	10.0
Excises	3.1	2.7	2.7	2.6	2.6	2.7	2.7	2.7	2.7	2.7
Other taxes (incl. land tax)	1.3	1.5	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Social contributions	11.9	11.6	12.3	12.7	12.8	12.9	12.9	13.2	13.3	13.3
Pension insurance (net)	5.8	5.8	6.2	6.4	6.5	6.5	6.6	6.7	6.8	6.8
Health insurance	4.4	4.3	4.5	4.7	4.7	4.7	4.7	4.8	4.9	4.9
Unemployment insurance tax	1.4	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Other (incl. self employed)	0.4	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Nontax revenue	3.3	3.8	4.0	4.4	3.9	3.6	3.6	3.7	3.6	3.6
O/w: Interest income	0.0	0.0	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Grants	2.3	2.3	2.7	2.3	3.2	3.1	2.6	2.1	1.5	1.5
O/w: EU	2.0	2.0	2.2	1.7	2.2	2.2	1.8	1.3	0.9	0.9
Expenditure	42.1	40.0	43.7	44.0	45.7	46.6	46.0	45.1	44.0	44.1
Expense (current expenditure)	36.4	33.9	36.9	37.2	38.5	38.6	37.9	37.5	36.8	36.9
Compensation of employees	11.0	10.4	11.7	12.3	12.2	11.9	11.9	11.7	11.7	11.8
Wages and salaries	8.0	7.6	8.5	9.0	8.7	8.3	8.3	8.2	8.2	8.2
Employers' social contributions	3.0	2.8	3.2	3.3	3.6	3.6	3.6	3.5	3.5	3.5
Other goods and services	6.3	6.3	6.5	6.4	6.5	6.8	6.7	6.8	6.8	6.9
Transfers and subsidies	19.1	17.2	18.7	18.5	19.8	19.9	19.3	18.9	18.3	18.3
Subsidies	1.5	1.2	1.0	0.7	0.8	0.8	0.7	0.7	0.7	0.7
Transfers to households	14.9	13.7	14.7	15.1	15.3	15.3	15.2	15.2	15.1	15.1
Social benefits	12.4	11.4	12.5	12.7	13.0	12.8	12.7	12.8	12.7	12.7
Social transfers in kind	2.4	2.3	2.2	2.3	2.4	2.4	2.4	2.4	2.4	2.4
Other transfers	2.7	2.3	3.1	2.7	3.7	3.8	3.5	3.0	2.5	2.5
Property income	0.1	0.1	0.4	0.6	0.5	0.5	0.5	0.6	0.7	0.7
O/w: Interest expenses	0.1	0.1	0.4	0.6	0.5	0.5	0.6	0.6	0.7	0.7
Other current transfers	2.1	1.9	2.3	1.8	1.9	2.0	2.0	1.9	1.6	1.6
Capital transfers	0.5	0.3	0.4	0.4	1.2	1.2	1.0	0.5	0.2	0.2
Net acquisition of NFA (capital expenditure)	5.7	6.1	6.8	6.8	7.2	8.0	8.1	7.7	7.2	7.2
Acquisition	5.8	6.2	...	...	...	...	...	...	...	...
Disposal	-0.1	-0.1	...	...	...	...	...	...	...	...
Financial surplus (+) / deficit (-)	-2.6	-1.1	-3.1	-1.5	-2.6	-3.7	-3.5	-2.7	-2.2	-2.3
One-off items	1.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cyclical adjustment	1.4	1.1	-0.3	-0.6	-0.7	-0.5	-0.3	-0.1	0.0	0.0
Structural balance	-5.0	-2.3	-2.9	-0.9	-1.9	-3.2	-3.2	-2.6	-2.2	-2.3
Financing (accrual basis)	2.3	0.6	3.9	1.8	2.6	3.7	3.5	2.7	2.2	2.3
Net incurrence of liabilities	2.6	4.5	4.0	4.9	3.0	4.0	3.8	3.0	2.5	2.6
Net acquisition of financial assets	0.4	3.9	0.1	3.2	0.4	0.4	0.3	0.3	0.3	0.3
Other and Errors and Omissions	-0.3	-0.5	0.8	0.2	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Eurostat; Statistics Estonia; and IMF staff calculations.

Table 3. Estonia: General Government Financial Assets and Liabilities, 2017–24

(Millions of Euros)

	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	**9,080**	**9,323**	**9,594**	**10,920**	**11,969**	**15,076**	**14,670**	**15,791**
Fiscal reserves	2,163	2,165	2,612	3,004	3,495	4,624	4,457	5,523
Currency and deposits	1,386	1,237	1,798	2,236	2,694	2,323	2,480	2,770
Securities other than shares, excl. financial derivatives	527	645	526	430	475	1,893	1,465	2,180
Short-term securities, excl. financial derivatives	270	256	242	214	132	1,304	793	1,282
Long-term securities, excl. financial derivatives	257	389	284	217	343	589	672	898
Financial derivatives	0	0	0	0	0	0	0	0
Other	251	283	288	337	327	408	512	573
Loans	712	722	717	1,011	1,009	1,067	916	869
Short-term	4	4	3	2	2	2	2	2
Long-term	708	718	714	1,009	1,007	1,065	914	867
Equity	5,201	5,303	5,115	5,555	6,157	7,751	7,247	7,107
Other	1,004	1,134	1,151	1,350	1,307	1,633	2,050	2,292
Total Liabilities 1/	**3,226**	**3,447**	**3,932**	**7,075**	**8,124**	**9,793**	**11,282**	**13,176**
Securities other than shares, excl. financial derivatives	264	194	272	2,263	2,002	2,658	3,473	5,248
O/W: Long-term securities, excl. financial derivatives	264	194	172	1,638	1,603	2,308	2,952	4,264
Loans	1,992	2,026	2,264	3,273	3,713	3,919	4,034	4,051
Short-term	8	5	4	2	3	6	4	2
Long-term	1,983	2,021	2,260	3,270	3,710	3,913	4,030	4,049
Other accounts receivable/payable	908	1,172	1,334	1,474	2,283	3,054	3,634	3,786

Source: Statistics Estonia.
1/ Including commitments under the European Financial Stability Fund.

Table 4. Estonia: Summary Balance of Payments, 2021–30

(Units as indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					Projections					
					(Millions of Euros)					
Current Account	-1,135	-1,419	-663	-447	-955	-944	-933	-850	-653	-626
Primary Current Account 1/	1,350	1,561	3,229	3,507	2,565	2,552	2,707	2,934	3,131	3,234
Trade Balance	-410	-451	327	243	75	-57	98	338	548	689
Goods Balance	-1,363	-2,826	-2,277	-2,688	-2,627	-2,797	-2,872	-2,873	-2,895	-2,965
Exports of goods	16,420	20,559	18,013	17,676	18,836	19,285	19,969	20,667	21,347	22,002
Imports of goods	17,782	23,385	20,290	20,365	21,463	22,082	22,841	23,541	24,242	24,968
Services Balance	953	2,376	2,604	2,931	2,702	2,740	2,970	3,211	3,443	3,654
Exports of services	8,603	11,024	11,719	12,489	13,246	13,826	14,502	15,150	15,789	16,420
Imports of services	7,650	8,648	9,116	9,557	10,544	11,086	11,532	11,939	12,346	12,766
of which: imports of computer services	2,341	1,521	1,762	1,874		...	...	...	...	...
Primary Income	-694	-860	-1,195	-859	-1,071	-944	-1,088	-1,245	-1,258	-1,372
Receipts	1,792	2,121	2,698	3,095	2,449	2,552	2,552	2,539	2,526	2,488
Payments	2,485	2,981	3,893	3,954	3,520	3,496	3,640	3,784	3,784	3,860
Secondary Income	-32	-109	204	169	41	57	57	57	57	58
Capital Account	2,831	129	471	658	705	769	835	831	825	819
Net lending (+) / borrowing (-) balance	1,696	-1,290	-192	211	-250	-175	-98	-19	172	193
Financial Account	1,604	-1,581	-970	205	-250	-175	-98	-19	172	193
Direct investment	-972	-108	-2,924	-186	-1,366	-1,414	-1,462	-1,510	-1,558	-1,606
Assets	5,362	1,813	2,038	-3,448	1,056	1,101	1,146	1,191	1,236	1,281
Liabilities	6,334	1,921	4,962	-3,262	2,422	2,515	2,608	2,701	2,794	2,888
Portfolio investment	2,447	-919	213	-1,146	505	617	637	910	929	948
Financial derivatives	-32	-154	-316	-99	0	0	0	0	0	0
Loans and other investments (net) 2/	-261	-552	1,815	1,947	347	357	463	317	538	588
Change in reserves	421	152	242	-311	264	264	264	264	264	264
Errors and Omissions	-92	-290	-778	-6	0	0	0	0	0	0
					(In percent of GDP, unless otherwise specified)					
Current Account	-3.6	-3.9	-1.7	-1.1	-2.3	-2.1	-2.0	-1.8	-1.3	-1.2
Trade balance	-1.3	-1.2	0.9	0.6	0.2	-0.1	0.2	0.7	1.1	1.3
Goods Balance	-4.3	-7.8	-6.0	-6.8	-6.3	-6.4	-6.2	-5.9	-5.7	-5.6
Service balance	3.0	6.5	6.8	7.4	6.5	6.2	6.4	6.6	6.8	6.9
Primary income balance	-2.2	-2.4	-3.1	-2.2	-2.6	-2.1	-2.3	-2.6	-2.5	-2.6
Secondary income balance	-0.1	-0.3	0.5	0.4	0.1	0.1	0.1	0.1	0.1	0.1
Net lending (+) / borrowing (-) balance	5.4	-3.5	-0.5	0.5	-0.6	-0.4	-0.2	0.0	0.3	0.4
Exports of goods and services (growth in percent	31.8	26.2	-5.9	1.5	6.4	3.2	4.1	3.9	3.7	3.5
Imports of goods and services (growth in percen	31.8	26.0	-8.2	1.8	7.0	3.6	3.6	3.2	3.1	3.1
Net FDI from abroad	3.1	0.3	7.7	0.5	3.3	3.2	3.2	3.1	3.1	3.0
Total external debt 3/										
Gross	84.6	84.4	89.2	98.8	97.5	95.5	93.7	92.5	91.4	90.4

Sources: Bank of Estonia; and IMF staff estimates and projections.

1/ Excluding interest payments and reinvested earnings.

2/ Includes operations in debt securities.

3/ Starting in 2000, the definition of external debt was widened to include money market instruments and financial derivatives.

Table 5. Estonia: Macroeconomic Framework, 2021–30

(Percent of GDP, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					Projections					
Real GDP growth (percent)	7.2	0.1	-3.0	-0.3	0.5	1.5	1.8	1.9	1.8	1.7
Domestic demand real growth (percent)	7.8	0.1	-1.5	-0.8	-0.8	1.4	1.6	1.6	1.6	1.7
Final consumption real growth (percent)	6.2	1.6	-0.7	-0.1	-0.3	1.2	1.4	1.4	1.5	1.6
Capital formation real growth (percent)	11.8	-3.5	-3.4	-2.5	-2.0	2.1	2.1	2.0	1.8	1.8
Fixed capital formation real growth (percent)	0.3	-8.1	7.5	-6.9	2.6	2.2	2.1	2.0	1.8	1.8
Net exports contribution to real GDP (ppts)	-0.7	-0.1	-1.7	-1.2	0.0	0.1	0.2	0.3	0.2	0.0
Exports real growth (percent)	22.1	5.0	-9.0	-1.2	4.6	1.2	2.2	2.2	2.1	2.0
Imports real growth (percent)	22.7	5.0	-6.7	0.4	4.3	1.0	1.8	1.8	1.8	1.8
Statistical discrepancy contribution to real GDP (ppts)	-0.1	0.1	0.2	1.6	1.2	0.0	0.0	0.0	0.0	0.0
Gross saving	26.9	25.1	26.0	25.1	23.2	23.4	23.3	23.4	23.6	23.5
Private	23.7	20.1	22.3	19.8	18.6	19.0	18.7	18.4	18.6	18.6
Public	3.2	5.0	3.6	5.3	4.6	4.4	4.6	5.0	5.0	4.9
Investment	30.5	29.0	27.7	26.2	25.5	25.5	25.3	25.1	24.9	24.7
O/w: Fixed investment	28.7	25.8	27.9	26.1	26.7	26.6	26.4	26.2	26.0	25.8
Private	22.9	19.6	21.1	19.3	19.5	18.6	18.3	18.6	18.8	18.6
Public	5.8	6.2	6.8	6.8	7.2	8.0	8.1	7.7	7.2	7.2
Current account	-3.6	-3.9	-1.7	-1.1	-2.3	-2.1	-2.0	-1.8	-1.3	-1.2
Memorandum items:										
Fiscal balance 1/	-2.6	-1.1	-3.1	-1.5	-2.6	-3.7	-3.5	-2.7	-2.2	-2.3
Revenues	39.5	38.9	40.5	42.5	43.1	42.9	42.5	42.5	41.8	41.8
Expenditure	42.1	40.0	43.7	44.0	45.7	46.6	46.0	45.1	44.0	44.1
Structural balance	-5.0	-2.3	-2.9	-0.9	-1.9	-3.2	-3.2	-2.6	-2.2	-2.3
Total general government debt	18.4	19.1	20.2	23.6	25.4	28.1	30.4	32.1	33.2	34.3
Net non-debt creating capital inflows ("+" inflow)	36.9	3.1	14.8	-9.5	8.7	8.9	8.8	9.2	9.0	8.8
Capital transfers 2/	9.0	0.4	1.2	1.7	1.7	1.7	1.8	1.7	1.6	1.5
Portfolio investment (net)	7.8	-2.5	0.6	-2.9	1.2	1.4	1.4	1.9	1.8	1.8
FDI liabilities	20.1	5.3	13.0	-8.3	5.8	5.7	5.6	5.6	5.5	5.5
Average HICP inflation (percent)	4.5	19.4	9.1	3.7	5.1	4.4	3.3	2.7	2.4	2.3
Unemployment rate (percent)	6.2	5.6	6.4	7.5	8.4	7.9	7.4	6.8	6.6	6.4
Average wage growth (percent)	6.8	11.6	11.4	8.1	8.4	8.1	7.3	6.4	5.6	5.4
Labor compensation share of GDP	47.9	47.0	49.7	50.4	51.8	53.1	54.1	55.2	55.6	56.1
Output gap (in percent of potential output)	4.2	3.2	-0.8	-1.8	-1.9	-1.3	-0.7	-0.2	0.0	0.0
Growth rate of potential output (in percent)	1.7	1.0	0.9	0.8	0.5	0.9	1.3	1.4	1.6	1.7

Sources: Estonian authorities; and IMF staff estimates and projections.

1/ Public savings minus public investment differs from the fiscal balance by the amount of capital transfers received from abroad.
2/ Mainly EU capital grants, all of which are channelled through the budget.

Table 6. Estonia: Summary of Monetary Accounts, 2015-2024

(Millions of Euros, unless otherwise specified)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
CENTRAL BANK										
Net foreign assets	4805	4851	6660	7425	7894	8528	12146	11006	12075	13183
Net domestic assets	1308	1235	908	602	444	2308	1678	681	946	1179
Net domestic claims	129	150	-48	-150	-202	1759	1282	312	508	666
Claims on Central government (net)	0	-7	-209	-204	-229	-252	-794	-203	95	253
Claims on Private Sector	54	71	70	4	4	3	3	2	1	1
Claims on Other Depository Corporations	75	86	91	50	23	2008	2073	513	412	412
Other items net	1179	1085	956	752	646	549	396	369	438	513
Monetary base	6115	6086	7570	8027	8340	10836	13822	11688	13021	14361
OTHER DEPOSITORY CORPORATIONS										
Net foreign assets	-3523	-3452	-3750	-3426	-1196	1352	-256	-1198	-3211	-4398
Net domestic assets	16161	17304	18413	19790	18926	23964	28856	27243	29794	33354
Net domestic claims	19074	20402	22079	23497	23747	26810	31634	31780	35240	38655
Claims on Central government (net)	-600	-662	-788	-589	-1079	-1129	-697	-979	-1113	-1344
Claims on State and Local Government	405	414	461	476	364	577	628	687	796	815
Claims on Private Sector	14175	15109	15215	16061	16578	17400	18647	20772	22114	24106
of which: Private Sector Credit	14147	15081	15187	16030	16544	17367	18627	20739	22084	24074
Claims on Central Bank	3471	3357	4725	5009	5072	7187	9904	7671	9005	10055
Claims on Other Financial Corporations	1623	2184	2466	2540	2812	2775	3152	3629	4438	5023
Other items net	-2913	-3098	-3666	-3707	-4821	-2846	-2778	-4537	-5446	-5301
Liabilities to the Central Bank	75	86	97	62	23	2008	2073	513	412	412
Liquid Liabilities	12284	13500	14267	15672	16800	19726	22850	23140	23771	25334
Transferable deposits	9730	10889	12016	13266	14356	17618	20882	20436	16476	17109
Other deposits	2554	2611	2186	2395	2439	2096	1964	2701	7281	8209
Securities other than shares	0	0	65	11	5	12	4	3	14	16
Non-liquid liabilities	277	265	298	630	905	3583	3677	2397	2398	3227
DEPOSITORY CORPORATIONS										
Net foreign assets	1282	1399	2910	3999	6698	9880	11890	9808	8864	8785
Net domestic assets	13646	14831	14201	14699	13393	13488	14879	17344	18880	20837
Net domestic claims	15657	17109	17215	18288	18450	19374	20939	23908	26331	28854
Claims on Central government (net)	-600	-669	-997	-793	-1308	-1381	-1491	-1182	-1018	-1091
Claims on State and Local Government	405	414	461	476	364	577	628	687	796	815
Claims on Private Sector	14229	15180	15285	16065	16582	17403	18650	20774	22115	24107
of which: Private Sector Credit	14201	15152	15257	16034	16548	17370	18630	20741	22085	24075
Claims on Other Financial Corporations	1623	2184	2466	2540	2812	2775	3152	3629	4438	5023
Other items net	-2011	-2278	-3014	-3589	-5057	-5886	-6060	-6564	-7451	-8017
Broad money	14928	16229	17112	18698	20091	23369	26767	27158	27742	29638
Memorandum items:										
Year-on-year growth (percent)										
Monetary base	12.7	-0.5	24.4	6.0	3.9	29.9	27.6	-15.4	11.4	10.3
Broad money	10.7	8.7	5.4	9.3	7.4	16.3	14.5	1.5	2.2	6.8
Depository Corporations ,Claims on Private Sector	5.5	6.7	0.7	5.1	3.2	5.0	7.2	11.4	6.5	9.0
Depository Corporations, Credit to Private Sector	5.4	6.7	0.7	5.1	3.2	5.0	7.3	11.3	6.5	9.0
Financial Corporations, Credit to Private Sector										
Broad money multiplier (ratio)	2.4	2.7	2.3	2.3	2.4	2.2	1.9	2.3	2.1	2.1

Source: Eesti Pank; European Central Bank; and IMF staff calculations.

Table 7. Estonia: Indicators of External Vulnerability, 2017–24

(Percent of GDP, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024
External Indicators								
Exports of goods and services (year-on-year, percent)	7.9	6.7	6.4	-7.4	31.8	26.2	-5.9	1.5
Imports of goods and services (year-on-year, percent)	7.6	8.2	4.3	-0.9	31.8	26.0	-8.2	1.8
Current account balance	1.7	0.6	2.0	-2.5	-3.6	-3.9	-1.7	-1.1
Capital and financial account balance	2.6	2.0	3.7	-0.7	5.4	-3.5	-0.5	0.5
Total external debt 1/	82.2	76.6	74.4	87.7	84.6	84.4	89.2	98.8
Debt service to exports of GNFS	61.7	51.8	46.7	58.0	49.1	45.1	52.8	57.5
External interest payments to exports of GNFS (percent)	1.7	1.6	1.5	1.7	1.3	1.0	1.1	1.1
External amortization payments to exports of GNFS (percent)	59.9	49.8	44.7	56.0	47.5	43.5	50.0	54.0
Exchange rate (per US$, period average)	1.13	1.18	1.12	1.14	1.18	1.05	1.08	1.08
Financial Market Indicators								
Stock market index 2/	1242	1163	1280	1344	2001	1767	1769	838
Foreign currency debt rating 3/	AA-	AA-	AA-	AA-	AA-	AA-	AA-	AA-

Sources: Estonian authorities; Bloomberg; Standard & Poor's; and IMF staff estimates.

1/ External debt includes money market instruments and financial derivatives.

2/ Tallinn stock exchange index (OMX Tallinn), end of period.

3/ Standard & Poor's long-term foreign exchange sovereign rating.

Table 8. Estonia: Households, Financial Assets and Liabilities, 2017–24

(Millions of euros)

	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	**29,266**	**32,018**	**35,612**	**39,048**	**42,427**	**43,017**	**49,141**	**56,116**
Currency and deposits	7,262	7,983	8,590	9,760	11,583	11,936	12,559	14,099
Securities other than shares	68	83	115	114	125	130	177	239
Shares and other equity	17,144	18,756	20,773	22,348	28,904	29,268	34,637	40,259
Insurance technical reserves	4,150	4,458	5,356	5,910	648	533	528	496
Other	642	738	778	916	1,167	1,150	1,240	1,023
Total Liabilities	**9,679**	**10,298**	**11,043**	**11,514**	**12,324**	**13,340**	**14,466**	**15,599**
Loans	9,045	9,585	10,283	10,722	11,412	12,372	13,471	14,504
Short-term	169	255	279	259	224	231	261	314
Long-term	8,876	9,330	10,003	10,464	11,188	12,141	13,210	14,190
Other	634	713	760	792	912	968	995	1,095
Net Financial Assets	**19,587**	**21,720**	**24,569**	**27,534**	**30,103**	**29,677**	**34,675**	**40,517**
Memorandum item								
Liabilities to gross wages and salaries ratio	113.6	109.7	108.2	111.1	108.8	103.4	101.1	104.0

Sources: Eesti Pank; and Statistics Estonia.

Table 9. Estonia: Financial Soundness Indicators, 2017–24

(Percent)

	2017	2018	2019	2020	2021	2022	2023	2024
Capital adequacy								
Regulatory capital to risk-weighted assets	30.6	31.0	27.0	27.9	24.4	22.0	22.2	21.1
Common Equity Tier 1 capital to risk-weighted assets	30.1	30.4	26.6	27.3	23.6	21.2	21.4	19.1
Tier 1 capital to assets	13.1	12.7	12.1	10.5	9.3	9.5	9.3	8.4
NPLs net of provisions to capital	7.8	5.0	5.8	4.1	2.2	0.5	1.8	3.0
Asset composition and quality								
NPLs to gross loans (non-financial sector)	2.4	1.6	2.0	1.6	1.1	0.8	1.1	1.2
Provisions to Nonperforming loans	38.9	42.6	49.9	56.9	69.8	90.5	76.3	64.9
Sectoral distribution of loans to non-financial sector:								
Loans to households	44.4	44.9	46.2	46.2	45.5	..	..	..
Loans to non-financial corporations	37.7	37.5	35.9	35.7	35.4	..	..	..
Earnings and profitability								
Return on assets	2.2	2.0	1.4	1.1	1.2	1.8	2.8	2.5
Return on equity	11.4	10.8	8.8	7.3	9.4	14.2	21.4	16.7
Interest margin to gross income	57.9	59.8	59.2	60.7	62.6	66.7	76.4	75.4
Noninterest expenses to gross income	46.8	47.2	56.3	55.5	57.2	52.1	41.3	44.8
Liquidity								
Liquid assets to total assets	23.6	22.4	21.5	27.0	27.6	22.7	26.1	26.9
Liquidity coverage Ratio		155.7	147.6	185.1	154.6	145.8	190.5	186.6
Liquid assets to total short-term liabilities	28.1	26.4	25.0	30.6	31.0	25.7	29.7	30.1
Loans to deposits	118.7	114.4	105.5	90.0	93.5	98.8	93.8	96.0
Net stable funding ratio	188.6	187.0	195.7	137.3	142.2	137.9	144.3	144.1
Net open position in foreign exchange to capital	0.4	0.4	1.0	0.5	0.8	0.7	1.3	2.3

Sources: IFS database, Eesti Pank, and Financial Supervisory Authority.

Annex I. Risk Assessment Matrix

Conjunctural risks [1]			
Risks	**Likelihood**	**Impact on Estonia**	**Recommended Policy Response**
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	**High**	**High** Estonia is a small open economy, vulnerable to higher trade barriers and disruptions in global value chains. Shocks to international trade and FDI flows would increase the prices of critical imported inputs, reduce market access to exports, and limit FDI flows, with near- and medium-term negative effects on GDP and investment.	Continue to diversify trade, financial flows, and sources of energy supplies. Enhance investment in energy efficiency and increase reliance on renewable sources of energy.
Tighter financial conditions and systemic instability. Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.	**Medium**	**Medium** As a small open economy, Estonia would be affected by heightened volatility in global financial markets. Tighter financial conditions would make domestic and external financing more expensive and, if long-lasting, impair the ability of households and corporates to service their debt.	Ensure that banks—and especially small banks—are adequately capitalized and discourage excessive dividend payouts. Continue monitoring credit and capital developments closely before releasing macroprudential buffers. Review bank exposures and ensure that credit risk is properly reflected in risk weights across the banking system.
Regional conflicts. Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	**Medium**	**High** An escalation of the conflict in the region along with attacks on physical or digital infrastructure would exacerbate existing risks, while increasing commodity price volatility and further raising fiscal pressures.	Step up AML/CFT and cybersecurity risk monitoring. Ensure that cyber risk is fully reflected in supervisory assessments. Preserve fiscal buffers to build resilience. Ensure energy security during the transition to climate neutrality.
Commodity price volatility. Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	**Medium**	**Medium** High energy price inflation and supply disruptions can fuel food price volatility and increase both production costs and cost-of-living in the region.	Keep participating in European policy responses. Diversify energy and food supply. Incentivize domestic production of food and renewable energy.
Global growth acceleration. Easing of conflicts, positive supply-side surprises (e.g., oil production shocks), productivity gains from AI, or structural reforms raise global demand and trade.	**Low**	**Medium** A durable reduction of geopolitical tensions, a deepening of the EU single market, and well-targeted domestic structural reforms could sustain Estonia's growth in the medium term.	Deepening the EU single market would allow Estonia to better leverage economies of scale, foster competition, and lower costs. Domestic structural policies should accompany this progress.

Structural risks			
Source of Risks, Likelihood, and Time Horizon		**Impact on the Estonia**	**Recommended Policy Response**
Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	**High**	**High** Estonia is a small open economy, vulnerable to geoeconomic fragmentation. Shocks to international trade and FDI flows would increase the prices of critical imported inputs, reduce market access to exports, and limit FDI flows, with near- and medium-term negative effects on GDP and investment.	Continue to diversify trade, financial flows, and sources of energy supplies. Enhance investment in energy efficiency and increase reliance on renewable sources of energy.
Cyberthreats. Cyberattacks on physical or digital infrastructure and service providers (including digital currency and crypto assets) or misuse of AI technologies trigger financial and economic instability.	**High**	**High** Estonia is in a complex geopolitical position. Cyberattacks have already escalated in recent months, along with jamming GPS signals over the Baltic airspace, and disruptions to undersea power cables.	Step up cybersecurity risk monitoring. Ensure that cyber risk is fully reflected in supervisory assessments.
Social discontent. Real income loss, spillovers from conflicts, dissatisfaction with migration, and worsening inequality ignite social unrest, populism, polarization, and resistance to reforms or suboptimal policies. This weakens growth and leads to policy uncertainty and market repricing.	**Medium**	**Medium** Tensions between retaining a competitive tax environment and moving towards broader provision of public services and a stronger social safety net have already resulted in policy uncertainty.	Preserve fiscal buffers to build resilience. A household income registry would allow means-testing and better targeting of benefits in support of low-income families. Policies should also continue to focus on integrating migrants in the most productivity-enhancing way possible.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Annex II. External Sector Assessment

Overall Assessment: *Estonia's external position is in line with the level implied by medium-term fundamentals and desirable policies. In 2024, the current account deficit narrowed to 1.1 percent of GDP from 1.7 percent a year earlier, as primary income deficit narrowed by about 1 percentage point, and the services trade surplus more than offset the goods trade deficit. The real effective exchange rate (REER) appreciated by 1.5 percent, reflecting relatively higher inflation and a moderate strengthening of the euro versus the currencies of Estonia's major trading partners. In the coming years, the current account deficit is expected to widen as imports would likely pick up in line with increasing defense spending and EU fund project investment. Over the medium term, the current account balance is projected to gradually return to the norm as external demand recovers.*

Potential Policy Responses: *The 2025 budget strikes an appropriate balance between sustaining efforts and containing the deficit, but the mission will recommend a moderate adjustment over the medium term to address growing imbalances, stabilize the debt ratio, and preserve buffers. Carefully calibrated macroprudential policies and more decisive domestic structural measures will be instrumental in building resilience and fostering transformation.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Estonia's net international investment position (NIIP) strengthened from -21.1 percent of GDP in 2023 to 9.5 percent in 2024, reflecting large increases in Estonia's equity and other investments abroad. Gross external debt increased from 89 percent of GDP in 2023 to 99 percent in 2024. Government liquidity reserves declined from 11.7 percent of GDP in 2023 to 8.6 percent in 2024.

Assessment. Estonia's NIIP position strengthened on an increase of the value of investments abroad.

2024 (% GDP)	NIIP: -9.5	Gross Assets: 180.4	Debt Assets: 58.0	Gross Liab.: 189.9	Debt Liab.: 20.4

Current Account

Background. In 2024, Estonia's current account (CA) stood at -1.1 percent of GDP, narrowing from -1.7 percent a year earlier. The CA was in deficit for a fifth consecutive year after many years of surpluses. The goods trade deficit widened further to 6.8 percent of GDP, against a pre-pandemic average of 4.2 percent of GDP. The deficit was offset by a 7.4 percent surplus of the services balance, slightly wider than a year earlier. The primary income deficit narrowed by about one percentage point, driven by increase in investment income.

Estonia: EBA-lite Model Results, 2024

	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	**-1.1**	
Cyclical contributions (from model) (-)	0.2	
Adjusted CA	**-1.3**	
CA Norm (from model) 2/	**-1.3**	
CA Gap	**-0.1**	**-10.5**
o/w Relative policy gap	3.8	
Elasticity	-0.5	
REER Gap (in percent)	**0.1**	**19.6**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Assessment. The CA position in 2024 was in line with the level implied by medium-term fundamentals and desirable policies. The EBA-lite CA methodology suggests that Estonia has a multilaterally consistent CA norm of -1.3 percent of GDP (text table). The estimated policy gap is 3.8 percent of GDP, reflecting a gap between public health expenditure and its desirable level, relative to the world average. The cyclically adjusted fiscal balance gap was also positive, due to Estonia's strong fiscal position relative to the world average. Going forward, staff anticipate the current account deficit to widen as import growth accelerates, given the high import content of demand and expected increase

in defense spending and investment. This effect will likely offset the recovery in export growth. As a result, staff expects the external position to be weaker than the level implied by fundamentals and desirable policies in the next few years before gradually converging back to the norm in the medium term.
Real Exchange Rate
Background. The real effective exchange rate appreciated by 1.5 percent in 2024, on higher inflation compared to that for trading partners and a 1.2 percent nominal effective exchange rate appreciation, in turn reflecting moderate strengthening of the euro against the currencies of major trading partners. **Assessment.** The EBA-lite CA method points to a fair valuation for the real effective exchange rate, while the REER method suggests a real exchange rate overvaluation of about 20 percent. Unit labor costs increased by 9 percent in 2024, partly reflecting a decline in labor productivity and pointing to further weakening in Estonia's competitive position. Unit labor costs, productivity, and nonprice competitiveness warrant close monitoring.
Capital and Financial Accounts: Flows and Policy Measures
Background. The capital account balance stood at 1.7 percent of GDP in 2024. The financial account (BPM6 methodology) registered net outflows of 0.5 percent of GDP in 2024, mainly driven by an increase in Estonia's overseas investments other than FDI and portfolio investments. FDI and portfolio net inflows in 2024 were 0.5 and 2.9 percent of GDP, respectively. **Assessment.** Despite rising uncertainty over financial conditions in international capital markets, risks of an abrupt change in capital flows are assessed to be contained.
FX Intervention and Reserves Level
Background. The euro has the status of a global reserve currency. Thus, reserves held by euro area economies are typically low by standard metrics (5.1 percent of GDP for Estonia as of end-2024). **Assessment.** The reserve level is assessed to be adequate.

Annex III. Debt Sustainability Analysis

The fiscal position was unexpectedly strong in 2024, resulting from a supplementary budget implemented mid-year, positive surprises on tax collection later in the year, and some under execution of planned investment spending. However, the fiscal deficit is expected to rise again in 2025, as revenue buoyancy normalizes, and delayed capital plans are executed. Building defense spending pressures and preexisting imbalances are expected to drive the debt up by about 9 percentage points of GDP by 2030, despite the decision to extend indefinitely tax increases previously planned only until 2028. Despite the increasing debt profile, financial risks are expected to remain low, firmly underpinned by strong fiscal institutions and sound financial management.

1. Driven by a sizeable primary deficit, Estonia's debt stock continued to increase in 2024. Due to a negative supplementary budget, unexpected tax windfalls, and underspending in late 2024, the fiscal deficit narrowed from 3.1 percent in 2023 to 1.5 percent of GDP in 2024. New (net) borrowings amounted to EUR 1.8 billion (4.5 percent of GDP) and the general government debt increased by 3.4 ppts of GDP to 23.6 percent of GDP, mainly driven by the primary deficit and negative real GDP growth. The net contributions of other automatic debt dynamics factors (real interest rate and inflation rate) and other flows were negative. Although rapidly increasing, Estonia's public debt remains the lowest in the EU, and mostly consists of long-term instruments, suggesting low fiscal risks in the near term. On the asset side, the government's fiscal reserves are estimated to have increased to 14 percent of GDP in 2024, from 11.7 percent the previous year. Although still low, net government debt increased by 1.4 ppts in 2024, to 8.9 percent of GDP.

2. Debt is projected to increase further in 2025, along with a rising fiscal deficit. Staff estimates that the 2025 fiscal deficit will widen to 2.6 percent of GDP, with a larger primary deficit as the main contributing factor to debt increasing to 25.4 percent of GDP. In addition, reflecting recent debt increases and higher interest rates, interest payments are projected to remain elevated, at 0.5 percent of GDP in 2025, further increasing to 0.7 percent of GDP over the forecasting horizon.

3. Debt is expected to continue rising over the medium term, reflecting substantial new spending pressures. After the downward surprise in 2024, and the expected rebound in 2025, the fiscal deficit is projected to widen further to 3.7 percent in 2026, only to decline again to 2.2 percent of GDP by 2029. Building defense spending pressures will contribute to larger fiscal deficits in 2026-2030. The recently revised national fiscal rule allows for a slower adjustment towards the structural balance target, which was also reduced to -1 percent of GDP (from -0.5 percent of GDP previously). The announced activation of the national escape clause will allow for greater flexibility in accommodating the additional defense spending. As a result of the delayed fiscal consolidation embedded in the baseline, gross financing needs are expected to increase sharply to 5.4 percent of GDP in 2025—reflecting greater amortization costs—and to gradually decrease over time to about 3.8 percent of GDP in 2029. They will pick up again in 2030 due to scheduled amortizations of Eurobonds. Under the baseline, which entails additional defense spending increasing to 5.4 percent of GDP by 2026, Estonia's debt-to-GDP ratio is expected to reach 34.3 percent of GDP by 2030 and not to stabilize. Additional fiscal consolidation efforts—of about 0.5 ppts of GDP (relative to

baseline) per year during 2026-2030, followed by further reductions of 0.5 ppts of GDP per year in 2031 and 2032—and a steady state structural fiscal deficit of 0.7 percent of GDP—are needed to stabilize the debt at about 32 percent of GDP by 2032.

4. Despite persistent fiscal deficits and increasing debt under the baseline, financial risks remain low, supported by strong institutions, favorable amortization profile, and a track record of prudent public finances management. The Treasury's asset-liability management (ALM) principles aim to match the duration of financial assets and liabilities, minimize liquidity and refinancing risks, as well as the potential impact of interest rate changes on the government's balance sheet. Credit risk is mitigated by the requirement to invest financial reserves only in highly rated assets. Although interest rate risk has increased, and it is expected to continue being elevated in the near term, sound interest rate risk management is expected to act as a mitigant. The weighted average interest rate of the debt portfolio, which has continued to increase in 2024, to about 3 percent per annum, will decline in 2025-2026 as ECB monetary policy normalizes, but gradually increase over the medium term reflecting more expensive Eurobonds contracted during a period of high interest rates. No currency risk exists since all debt obligations are denominated in euros. Refinancing risks are contained by financial risk management rules, with the average term to maturity remaining relatively high, at 5.8 years, by end-2024.

Annex III. Figure 1. Estonia: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	**Low**	The overall risk of soverreign stress is low, with low vulnerability in both the near and medium terms, and moderate risk over the long run.
Near-term 1/	**Low**	**Low**	Near-term risk is assessed as low, in line with the mechanical signal, reflecting the low debt level, the lowest in Europe.
Medium-term	**Low**	**Low**	Medium-term risk is assessed as low, in line with the mechanical signal, reflecting the low debt levels projected over the medium term, low-risk GFN profile, prudent public finances management, and strong institutions.
Fanchart	**Moderate**	...	
GFN	**Low**	...	
Stress test		...	
Long-term	...	**Moderate**	The long-term debt levels (beyond 2030), under the baseline scenario, do not stabilize but remain comparable with *current* debt levels in most of Europe. The baseline projections extrapolate a fiscal defict in 2030 that is much larger than historical levels, without assuming any adjustment to keep debt sustainable. However, long-term risk is assessed as moderate, reflecting not only the low initial debt level, but also Estonia's history of prudent public finances management and strong institutions, which provides ensurance that the needed fiscal adjustments to stabilize the debt will occur.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	Not applicable
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: Estonia has the lowest public debt ratio in the European Union, prudent public finances management, and strong institutions. The country is at a low overall risk of sovereign stress. The medium-term liquidity risks as analyzed by the GFN Financeability Module are low. Over the longer run, Estonia should continue to monitor the evolution of new spending needs related to defense, climate, social protection and ageing, make the necessary adjustments to ensure debt sustainability, and focus on investments to enhance productivity growth and safeguard competitiveness.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex III. Figure 2. Estonia: Debt Coverage and Disclosures

							Comments
1. Debt coverage in the DSA: 1/			CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?							n.a.	
2. Subsectors included in the chosen coverage in (1) above:								
			Subsectors captured in the baseline				Inclusion	
CPS	NFPS	GG: expected	CG	1	Budgetary central government		Yes	
				2	Extra budgetary funds (EBFs)		No	Not applicable
				3	Social security funds (SSFs)		Yes	
				4	State governments		Yes	
				5	Local governments		Yes	
				6	Public nonfinancial corporations		Yes	
				7	Central bank		Yes	
				8	Other public financial corporations		Yes	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

r code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

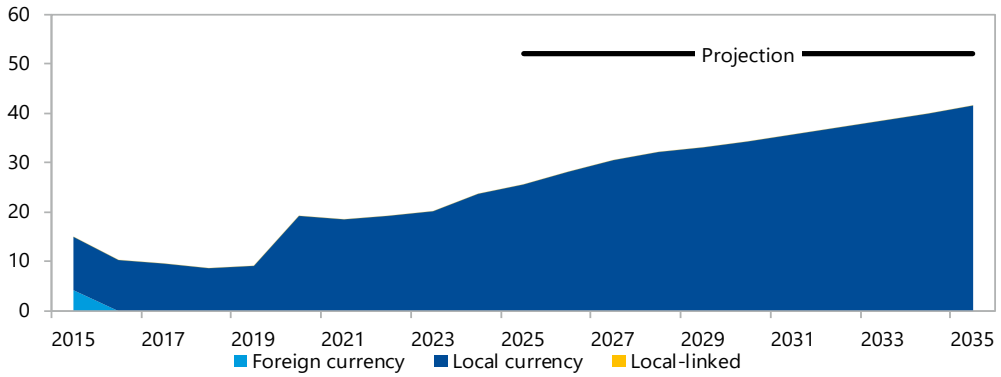
			Holder / Issuer	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State govt.									0
				5	Local govt.									0
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
					Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The fraction of central government's debt held by central bank and social security funds is limited.

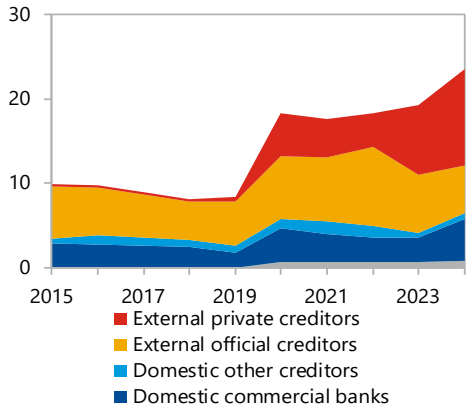
Annex III. Figure 3. Estonia: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



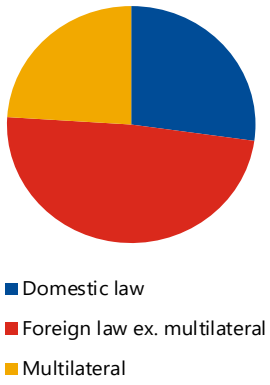
Note: The perimeter shown is consolidated public sector.

Public Debt by Holder (Percent of GDP)



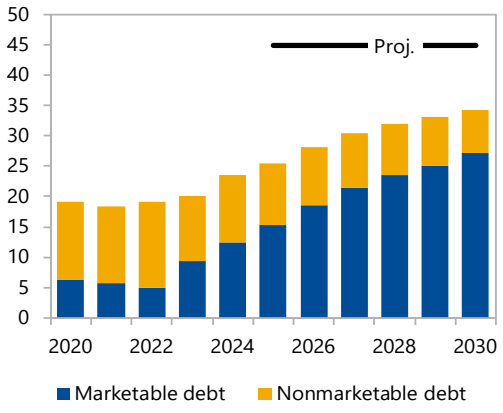
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (Percent)



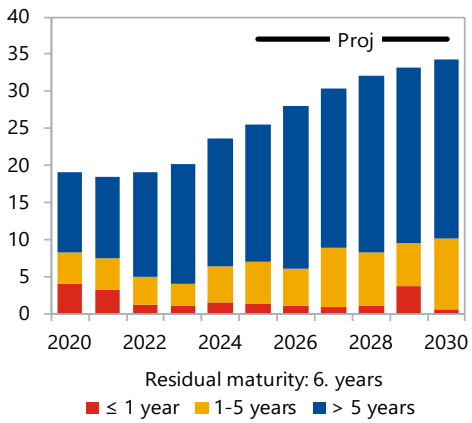
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



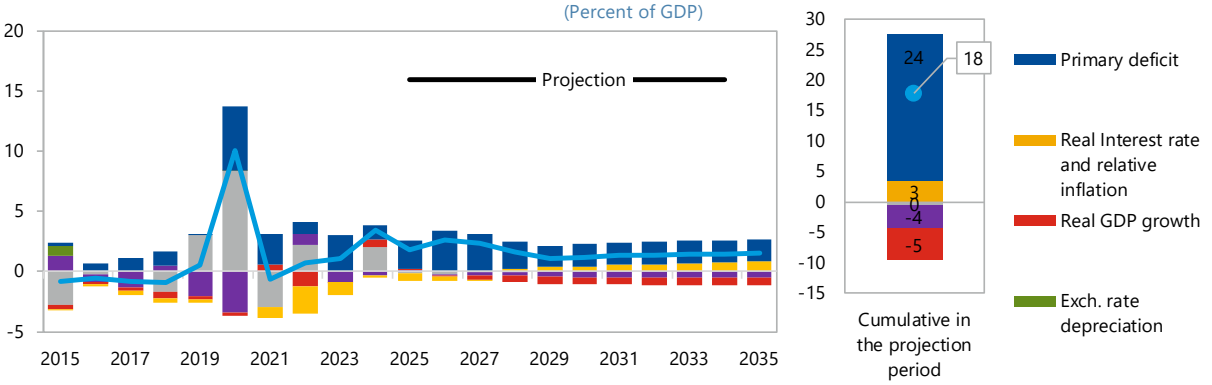
Note: The perimeter shown is general government.

Commentary: General government debt—mostly euro-denominated—increased by about 14.6 percentage points since 2019, with most of the debt held by external creditors (eurobond issuances and International financial institutions). The average maturity of debt stood at about 5.8 years in 2024Q4.

Annex III. Figure 4. Estonia: Baseline Scenario

	Actual	Medium-term projection						Extended projection				
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public debt	23.6	25.4	28.1	30.4	32.1	33.2	34.3	35.7	37.1	38.5	40.0	41.5
Change in public debt	3.4	1.8	2.6	2.4	1.6	1.1	1.2	1.3	1.4	1.5	1.5	1.5
Contribution of identified flows	1.4	2.0	2.9	2.4	1.6	1.1	1.2	1.3	1.4	1.5	1.5	1.5
Primary deficit	1.2	2.4	3.4	3.1	2.3	1.8	1.9	1.9	1.9	1.9	1.9	1.9
Noninterest revenues	42.2	42.8	42.7	42.2	42.2	41.6	41.6	41.6	41.6	41.6	41.6	41.6
Noninterest expenditures	43.4	45.2	46.1	45.4	44.5	43.3	43.4	43.4	43.4	43.4	43.4	43.4
Automatic debt dynamics	0.5	-0.5	-0.5	-0.5	-0.3	-0.3	-0.2	0.0	0.0	0.1	0.1	0.1
Real interest rate and relative inflatio	-0.1	-0.6	-0.3	-0.1	0.2	0.3	0.4	0.6	0.6	0.7	0.8	0.8
Real interest rate	-0.1	-0.6	-0.3	-0.1	0.2	0.3	0.4	0.6	0.6	0.7	0.8	0.8
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	0.6	0.1	-0.1	-0.4	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.7	...
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...	0.0
Other identified flows	-0.3	0.1	0.0	-0.2	-0.3	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Other transactions	0.0	0.4	0.2	0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Contribution of residual	2.0	-0.2	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	3.0	5.4	5.1	4.7	4.0	3.8	6.4	3.7	6.3	3.8	5.5	7.2
of which: debt service	2.1	3.3	2.0	1.8	2.0	2.3	4.8	2.1	4.7	2.2	3.9	5.6
Local currency	2.1	3.3	2.0	1.8	2.0	2.3	4.8	2.1	4.7	2.2	3.9	5.6
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:												
Real GDP growth (percent)	-3.0	-0.3	0.5	1.5	1.8	1.9	1.8	1.7	1.7	1.7	1.7	1.7
Inflation (GDP deflator; percent)	3.7	4.6	4.2	3.6	2.8	2.8	2.6	2.6	2.6	2.6	2.6	2.6
Nominal GDP growth (percent)	3.5	5.1	5.8	5.5	4.7	4.6	4.4	4.4	4.4	4.4	4.4	4.4
Effective interest rate (percent)	3.0	2.1	2.8	3.3	3.6	3.8	3.9	4.4	4.4	4.7	4.7	4.8

Contribution to Change in Public Debt



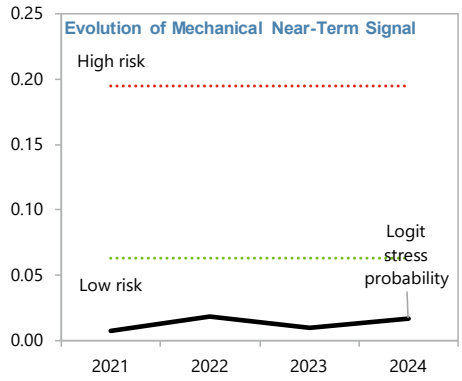
Commentary: Public debt is not expected to stabilize under the baseline scenario. However, under a recommended scenario, which assumes that authorities will follow their historical track record of sound public finances management under a strong intitutional setup, debt would stabilize by 2032, mainly driven by GDP growth and improvements in primary balance.

Annex III. Figure 5. Estonia: Near-Term Risk Analysis

Year of data	**2021**	**2022**	**2023**	**2024**
To predict stress in [t+1, t+2]	*2022-23*	*2023-24*	*2024-25*	*2025-26*
Logit stress probability (LSP)	0.007	0.019	0.010	0.017
Change in LSP	-0.033	0.011	-0.009	0.007
due to:				
Institutional quality	-0.001	0.000	0.001	0.000
Stress history	0.000	0.000	0.000	0.000
Cyclical position	0.000	0.001	0.000	0.000
Debt burden & buffers	-0.010	0.001	0.000	0.002
Global conditions	-0.020	0.009	-0.010	0.005

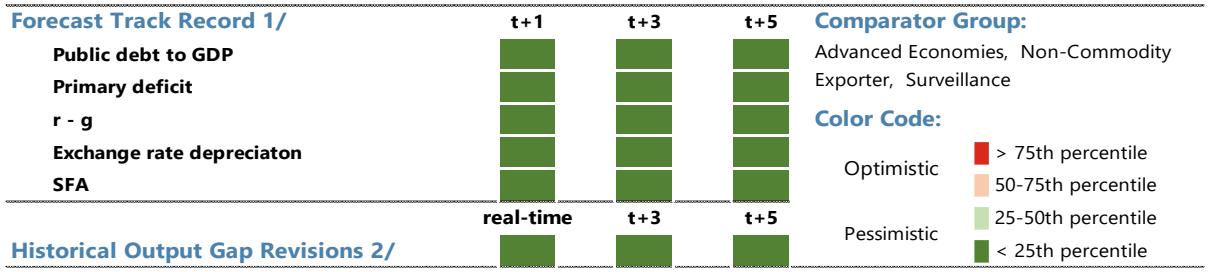
Prob. of missed crisis, 2025-2026 (if stress not predicted): 0.7 pct.

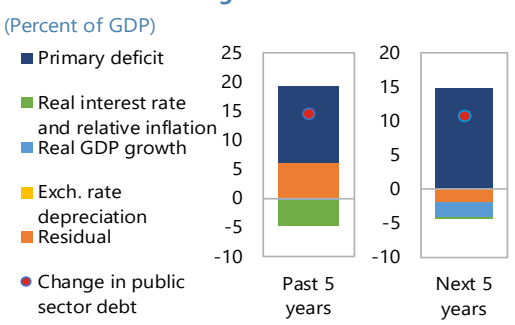
Prob. of false alarm, 2025-2026 (if stress predicted): 65.2 pct.

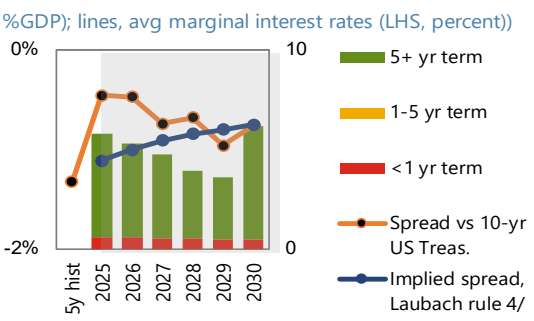


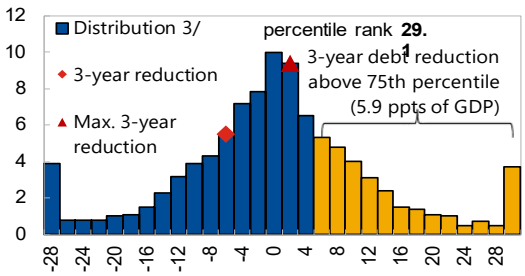
Commentary: Estonia's risk of near-term stress is low, given its current low debt, expected low-risk GFN profile, and its history of strong institutions and sound public finances management.

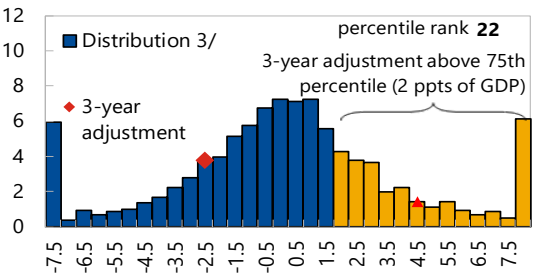
Annex III. Figure 6. Estonia: Realism of Baseline Assumptions

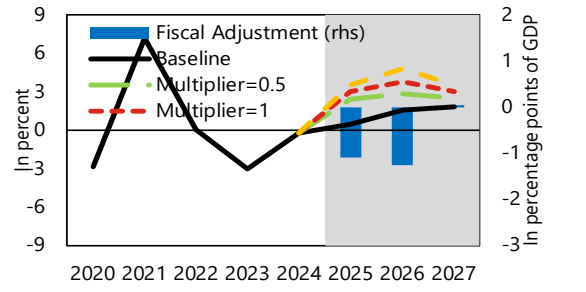


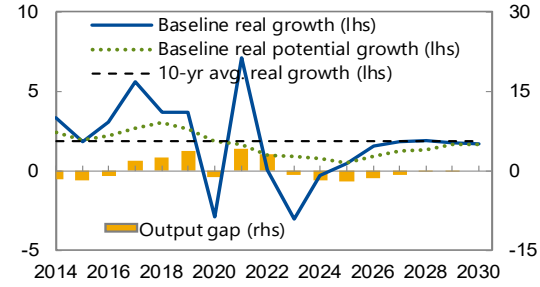












Commentary: The realism analysis does not point to major concerns: past forecast errors do not reveal any systematic biases and both the projected fiscal adjustment and debt reduction are well within norms.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

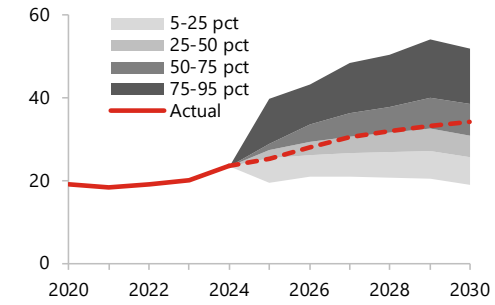
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

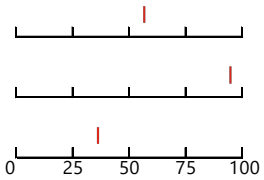
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex III. Figure 7. Estonia: Medium-Term Risk Assessment

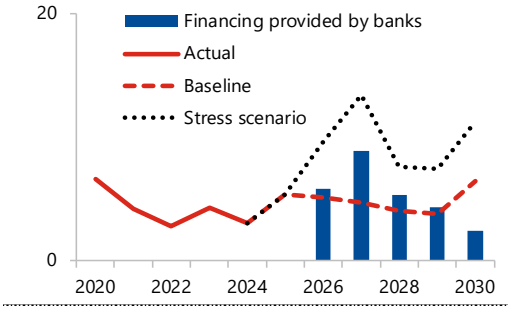
Final Fanchart (Percent of GDP)



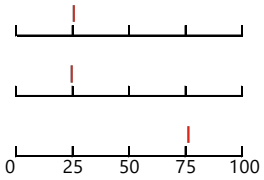
Debt fanchart module	Value	Contrib 1/	Percentile in peer group 2/
Fanchart width *(percent of GDP)*	33.7	0.5	
Probability of debt non-stabilizaiton *(percent)*	98.5	0.8	
Terminal debt-to-GDP x institutions index	7.8	0.2	
Debt fanchart index (DFI)		1.5	
Risk signal: 3/		Moderate	



Gross Financing Needs (Percent of GDP)



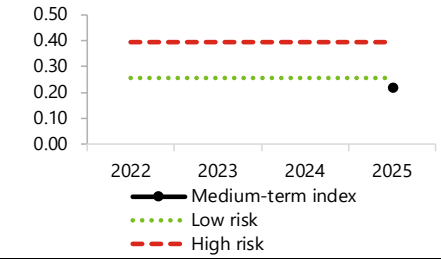
Gross financing needs (GFN) module	Value	Contrib 1/	Percentile in peer group 2/
Average baseline GFN *(percent of GDP)*	4.7	1.6	
Initial Banks' claims on the gen. govt *(pct bank assets)*	2.8	0.9	
Chg. In banks' claims in stress *(pct banks' assets)*	8.6	2.9	
GFN financeability index (GFI)		5.4	
Risk signal: 4/		Low	



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	(normalized)	Weight	Contribution
Debt fanchart index	1.5	0.3	0.5	0.2
GFN finaceability index	5.4	0.1	0.5	0.1
Medium-term index		0.2		
Risk signal: 5/		Low		
Final assessment:		Low		

Prob. of missed crisis, 2025-2030, if stress not predicted: 9.1 pct.
Prob. of false alarms, 2025-2030, if stress predicted: 48.9 pct.

Commentary: Of the two medium-term tools, the Debt Fanchart Module is pointing to moderate level of risk, while the GFN Financeability Module suggests low level of risk. Given Estonia's expected low debt levels over the near term, the low-risk GFN profile, and its history of strong institutions and sound public finances management, staff assess the medium-term risk as low.

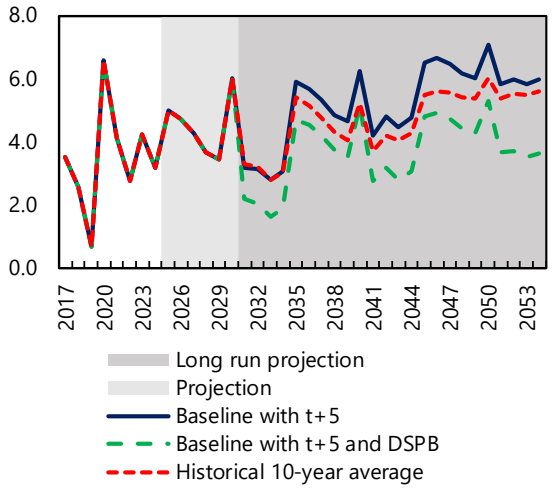
Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

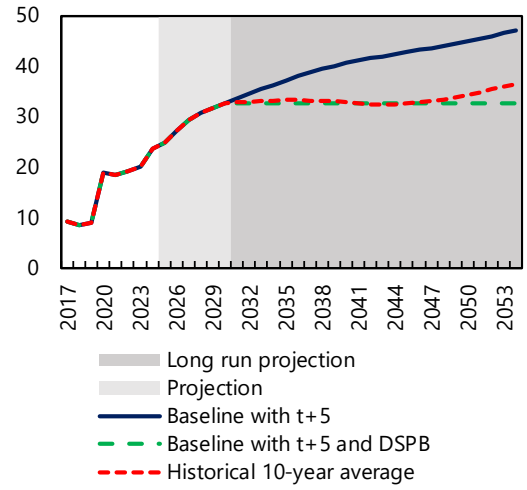
Annex III. Figure 8. Estonia: Long-Term Assessment: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio

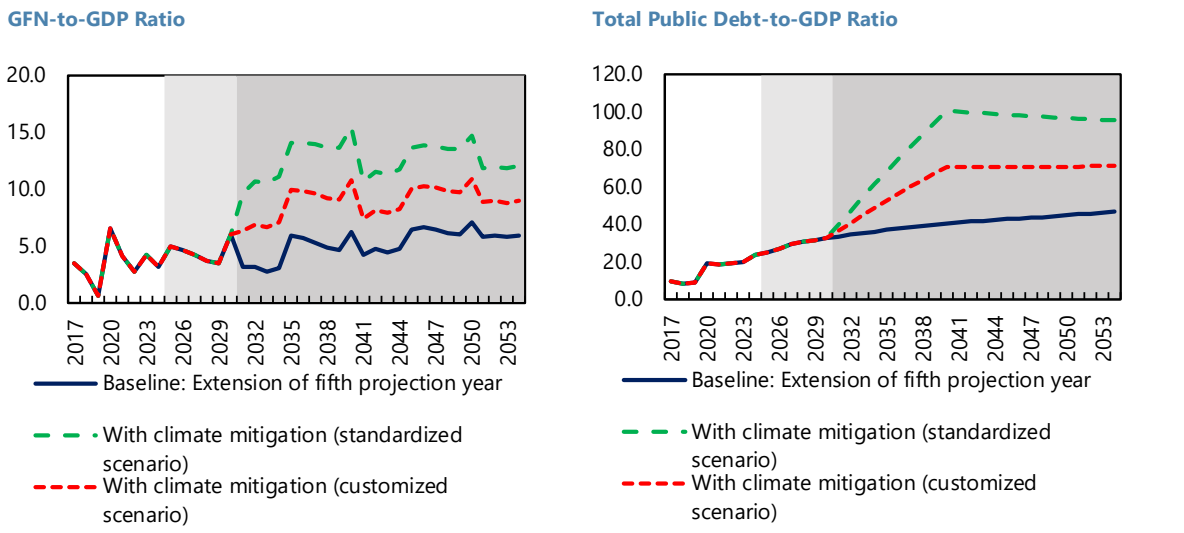


Total Public Debt-to-GDP Ratio



Commentary: In the long term, unusually large shocks and amortizations relative to historical trends can fuel debt sustainability risks.

Annex III. Figure 9. Estonia: Climate Change: Mitigation



Commentary: In the long-term, additional spending needs for climate mitigation can trigger debt sustainability risks.

Annex IV. Data Issues

Table 1. Estonia: Data Adequacy Assessment Rating 1/

A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	A	A	A		
Granularity 3/	B		B	A	A		
			A		A		
Consistency			A	A		A	
Frequency and Timeliness	A	A	A	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Estonia's data provision to the Fund is adequate for surveillance purposes. Surveillance can be strengthened with data quality improvements to resolve the following issues: (1) increase granularity of monthly fiscal data available to the public, to make it consistent with ESA 2010 standards; (2) increase the granularity of publicly available government and external debt data, including on amortizations, to permit additional and enhanced analysis (currently, this issue does not materially affect surveillance because the data is shared by the authorities upon request); (3) disaggregate quarterly public investment data by types of investment, agencies involved, and/or sector of activity and disseminate the data on national websites (currently data are only available through alternative sources); (4) reduce the statistical discrepancy between GDP and the sum of expenditure components, especially at the quarterly frequency; and (5) increase the granularity of data on the secondary income in the current account (in particular, the team would benefit from more granularity in the subitem "miscellaneous", but this issue does not materially affect surveillance to warrant a downgrade).

Changes since the last Article IV consultation. No important new releases or improvements were made since the last Article IV.

Corrective actions and capacity development priorities. Staff recommends the dissemination of more granular data on fiscal flows, debt, and secondary income in the balance of payments, as well as additional disaggregation of investment data. The authorities should continue to work to identify and reduce the statistical discrepancy present in GDP compiled by expenditure.

Use of data and/or estimates different from official statistics in the Article IV consultation. Staff relies on data provided by Eurostat and EU KLEMS for quarterly data on investment disaggregated by type of investment, agencies involved, and sector of the activity

Other data gaps. Data related to climate change, income and gender inequality, and digitalization seem broadly adequate.

Table 2. Estonia: Data Standards Initiatives

Estonia adheres to the Special Data Dissemination Standard (SDDS) Plus since January 2022 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Table 3. Estonia: Table of Common Indicators Required for Surveillance

As of June 5, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Estonia[8]	Expected Timeliness[6,7]	Estonia[8]
Exchange Rates	4-Jun-25	4-Jun-25	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Apr-25	May-25	M	M	M	...	1W	...
Reserve/Base Money	Apr-25	May-25	M	M	M	M	2W	9D
Broad Money	Apr-25	May-25	M	M	M	M	1M	4W
Central Bank Balance Sheet	Ap-25	May-25	M	M	M	M	2W	9D
Consolidated Balance Sheet of the Banking System	Apr-25	May-25	M	M	M	M	1M	4W
Interest Rates[2]	4-Jun-25	4-Jun-25	D	D	D	...	...	...
Consumer Price Index	Apr-25	May-25	M	M	M	M	1M	5D
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	2024Q4	Mar-25	Q	Q	A/Q	A	2Q/12M	85D
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	2024Q4	Mar-25	Q	Q	M	M	1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2024Q4	Mar-25	Q	Q	Q	Q	1Q	1Q
External Current Account Balance	2024Q4	Mar-25	Q	Q	Q	Q	1Q	NLT 6W
Exports and Imports of Goods and Services	Mar-25	May-25	M	M	M	M	8W	40D
GDP/GNP	2025Q1	May-25	Q	Q	Q	Q	1Q	2M
Gross External Debt	2024Q4	Mar-25	Q	Q	Q	Q	1Q	NLT 1Q
International Investment Position	2024Q4	Mar-25	Q	Q	Q	Q	1Q	NLT 1Q

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Annex V. Authorities' Response to Past IMF Policy Recommendations

	Key Recommendations of Past AIV	Recent actions taken
Fiscal policy	Staff expect the budget deficit to reach 3.8 percent of GDP in 2024, but support a neutral fiscal stance, given the prolonged cyclical downturn and the negative output gap. After the announcement of a negative supplementary budget pursuing a fiscal adjustment slightly earlier than anticipated, staff encourage the authorities to focus their action on growth-friendly consolidation measures at a time when signs of economic recovery are still tentative.	The government reached an agreement on a negative supplementary budget of about 0.5 percent of GDP to contain the deficit within 3 percent of GDP in 2024. Savings affected administrative and operational costs across all line ministries. Unusually large salary payments and dividend distribution ahead of upcoming tax increases boosted PIT and CIT revenue above expectations, while the jump in car sales partly mitigated an earlier shortfall in VAT collection. On the spending side, delayed procurement of military equipment was deferred to 2025 while some current spending was also under-executed. Preliminary data suggest a 2024 general government deficit of 2 percent of GDP, well below the 2.9 percent targeted for 2024, after the negative supplementary budget.
	A tighter fiscal stance is needed over the medium term to support competitiveness and preserve buffers. Revenue measures of about 1 percent of GDP per year during 2025-27 are needed to secure convergence towards the new rule's medium-term objective of a structural deficit of 1 percent of GDP.	A 2-percentage point temporary increase in PIT and CIT rates and backloaded, and, so far largely unidentified, cost savings are planned to finance the PIT allowance and keep defense spending within a range of 3.5-4 percent of GDP through 2028. The authorities have backtracked from a levy on all personal incomes and corporate profits. Additional defense spending still needs to be budgeted and no measures are in place beyond 2028, when the tax increases run off.
Macro-financial policies	Recent efforts to improve harmonization of regulatory practices for LSIs are welcome. Scope for higher macro- and micro-prudential buffers should be considered.	A 0.5 percent OSII buffer was introduced for two LSIs.
	Windfall taxes on excess profits and initiatives encouraging higher taxable dividend payouts should be avoided.	No further initiatives aimed at targeting bank profits to secure public funds were taken.
Structural policies	The authorities are encouraged to improve targeting of schemes to support labor mismatches and support reallocation.	A program to re-train oil shale industry workers was launched, but targeting of these schemes could still be improved and outreach strategies could be designed to raise awareness.
	Phasing out the domestic oil shale sector remains key to achieving EU climate objectives.	The authorities are committed to enhancing the energy mix by gradually reducing reliance on oil shale in electricity generation and boosting investment in renewables, especially wind farms, where regulatory and legal constraints are being eased.

INTERNATIONAL MONETARY FUND

REPUBLIC OF ESTONIA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 16, 2025

Prepared By

European Department

CONTENTS

FUND RELATIONS

(As of May 30, 2025)

Membership Status: Joined: May 26, 1992; Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	243.60	100.00
Fund holdings of currency	182.76	75.02
Reserve Tranche Position	60.86	24.98

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	295.44	100.00
Holdings	297.63	100.74

Outstanding Purchases and Loans: None

Latest Financial Arrangements

In millions of SDR

Type	Approval Date	Expiration Date	Amount Approved	Amount Drawn
Stand-by	03/01/2000	08/31/2001	29.34	0.00
Stand-By	12/17/1997	03/16/1999	16.10	0.00
EFF	07/29/1996	08/28/1997	13.95	0.00

Projected Payments to Fund: None

Implementation of HIPC Initiative: Not applicable.

Implementation of MDRI Assistance: Not applicable.

Implementation of CCR Assistance: Not applicable.

Exchange Rate Arrangements: The currency of Estonia is the euro. The exchange rate arrangement of the euro area is free floating. Estonia participates in a currency union (EMU) with 19 other members of the EU and has no separate legal tender. The euro, the common currency, floats freely and independently against other currencies.

Estonia has accepted the obligations under Article VIII, Sections 2(a), 3 and 4 of the IMF's Articles of Agreement, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, except for those measures imposed for security reasons in accordance with Regulations of the Council of the European Union, as

notified to the Executive Board in accordance with Decision No. 144-(52/51). An updated and comprehensive list of all EU restrictions can be found at: http://ec.europa.eu/external_relations/cfsp/sanctions/measures.htm.

Article IV Consultation: Estonia is on the 12-month consultation cycle. The last Article IV consultation was concluded on June 12, 2024. The Executive Board assessment is available at: http://www.imf.org/external/country/EST/index.htm.

FSAP Participation and ROSCs: A review under the Financial Sector Assessment Program (FSAP) was completed at the time of the 2000 Article IV Consultation. Further Reports on Observance of Standards and Codes (ROSC) modules were discussed in the 2001 Article IV Consultations and updated during the 2002 Consultation. A FAD mission concluded a fiscal transparency ROSC in January 2009 and an FSAP update was completed in February 2009.

Technical Assistance: The following table summarizes the technical assistance missions provided by the Fund to Estonia since 2000.

Republic of Estonia: Technical Assistance from the Fund, 2000–24

Department	Issue	Action	Date	Counterpart
FAD	Pension reform	Mission	April 2000	Ministries of Finance and Social Affairs
MAE	Banking Supervision	Staff Visit	December 2000	Bank of Estonia
FAD	Tax Policy	Mission	March 2001	Ministry of Finance
INS	Financial Markets	Training	September 2002	Bank of Estonia
FAD	Medium-term Budget	Technical Assistance	December 2003	Ministry of Finance
FAD	Tax Reform	Technical Assistance	February 2005	Ministry of Finance
FAD	Revenue Administration	Technical Assistance	December 2013	Ministry of Finance
FAD	Public Investment Management	Technical Assistance	December 2018	Ministry of Finance
FAD	Fiscal Transparency Evaluation	Technical Assistance	December 2020	Ministry of Finance
LEG	Corporate Insolvency Law	Technical Assistance	May 2018 – April 2021	Ministry of Justice
STA	BOP and Prices statistics	Regional training	May 2017 – April 2023	Bank of Estonia
LEG	AML/CFT	Regional TA	September 2021-November 2022	Bank of Estonia

COLLABORATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- As of May 30, 2025, Estonia has collaborations with the European Bank for Reconstruction and Development, and the European Investment Bank.
- Further information can be obtained from the following hyperlinks.

International Financial Institution	Hyperlink
The European Bank for Reconstruction and Development (EBRD)	https://www.ebrd.com/estonia.html
The European Investment Bank	https://www.eib.org/en/projects/country/estonia