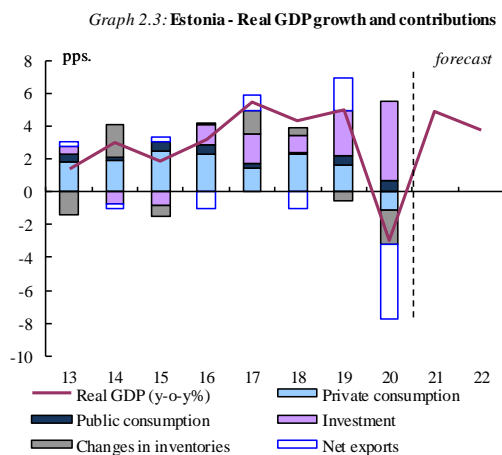


2.3. ESTONIA

Estonia's economy grew strongly in the first months of 2021, despite a tightening of restrictions at the end of 2020, placing the country among the fastest growing economies in the EU. Growth in the first quarter reached 4.8% q-o-q, mainly driven by strong government spending and exports. Employment has not yet recovered, with restrictions continuing to affect in particular employment-intensive sectors such as catering and tourism.

Continued improvement in business and consumer sentiment up to May, including in the hard hit services sector, suggests that the economic activity will expand considerably in the coming months. The accelerating pace of vaccination and improvement in the health situation have also prompted a significant relaxation of the restrictions since mid-June, contributing positively to the outlook for the second half of the year. On an annual basis, real GDP growth is expected to increase to 4.9% in 2021 on the back of recovering consumption and exports.

Looking ahead, favourable prospects for domestic and external demand, as well as the implementation of the Recovery and Resilience Plan are set to strengthen investment. Private consumption is forecast to remain a main driver of growth due to expected spending of accumulated household savings and recent changes to the second pillar of the pension system, which allows savers to withdraw their pension assets at any point in time. Overall, real GDP growth is forecast to reach 3.8% in 2022.



Following a drop in consumer prices by 0.6% in 2020, notably due to a fall in global fuel prices, inflation started to pick up again in January. Rising energy prices were accompanied by increasing prices for services. However, continued slack in the labour market should limit price pressures. After picking up to 2.2% in 2021, inflation is expected to increase further in 2022 to 2.4%.