

Estonia Business Forecast Report Q1 2015

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Abstracts

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Core Views

Although Estonia's current account flipped into surplus in Q214, the positive balance will not be experienced for long with EU economic sanctions on Russia suppressing exports and the accelerating economic recovery boosting import levels. The deficit will remain manageable in 2015 and 2016, with the services account set to remain a significant positive contributor. The Estonian Reform Party is on course to retain first place in the March 2015 general election, boosted by its competent economic management and the hard line taken with Russia during the Ukraine crisis. The identity of the junior coalition partner is more uncertain with three parties competing for second spot, and a fractious election campaign could result in more aggressive political discourse following the vote.

The economy has turned the corner and will post relatively strong real GDP growth over the next two years. Rising domestic demand will more than offset lower export growth, as relations with Russia remain strained.

Estonia's economic recovery help the country's budget deficit remains within EU Maastricht criteria limits. Rising revenue will cancel out the impact of a pre-election tax cut and an escalation in defence spending, amidst potential Russian aggression on Estonia's eastern border.

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Few Risks To Structural Stability Over Long Term

Estonia is among the most structurally stable countries among the emerging markets, as reflected in its very high 84.8 (out of 100) BMI long-term political risk rating. Having fully converged to all major multilateral European institutions (European Union, European Monetary Union and Schengen Agreement), Estonia will continue to benefit from a strong policy anchor and high degree of institutional capacity over the long run. The country's often fractious relationship with neighbouring Russia, undermined by domestic divisions between ethnic Estonian and ethnic Russians, presents the one key risk to stability.

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis

BMI Economic Risk Ratings

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Estonia's economy has turned the corner and will post relatively strong real GDP growth over the next two years. Rising domestic

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Estonia's current account will return to deficit in 2015 with EU economic sanctions on Russia suppressing exports and the accelerating economic recovery boosting import levels. However, the deficit will not widen significantly in 2015 and 2016, with the services account set to remain a notable positive contributor.

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Trend Growth To Average Lower In 2017-2023

Trend average growth in Estonia is forecast to average 2.8% between 2017-2023, well below the 7.6% from 2001-2007. That said, we stress that the worst effects of the 2008-2010 recession are now passed and the economy is well positioned for sustainable long-term growth.

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