

Estonia



The European elections of June 2009 were the second in which Estonia has participated since it became a full member of the European Union (EU) in 2004. Of the 392,494 people who voted (43.2% of the eligible population, up from just 26.8% in 2004) 58,669 chose to vote online for the first time. Of the country's six representatives now in the European parliament, two are from the Estonian Centre Party, which led the way in the election with 26% of the vote.

Until 2008 Estonia was one of the fastest growing countries in the region. Following consistent year-on-year growth in consumption averaging 9.5% between 2000 and 2007, Estonian consumers have become significantly more conservative as the economic situation deteriorates. This has, however, had the benefit of increased levels of household savings, which have historically been lower than in other developing countries. This situation is expected to reverse again in 2009, however, as job losses mount and people are forced to use their savings rather than suffer a reduced standard of living.

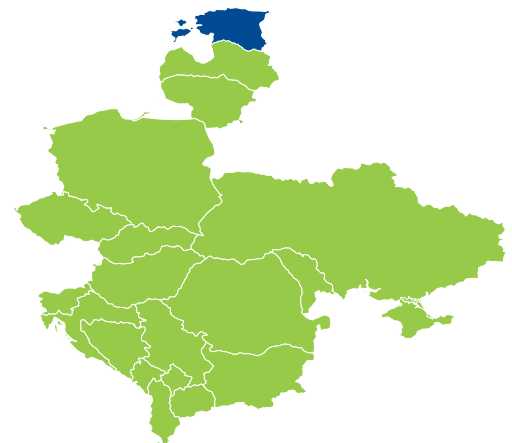
The Estonian economy started to cool in 2007, earlier than many of its neighbours, and moved into recession in mid-2008. By the final quarter, year-on-year decline in GDP stood at 3.6%, with the only sectors showing even modest growth being public administration, social care and education.

Estonia had for some years enjoyed a credit boom, which resulted in an unbalanced economy. Healthy export demand might have enabled an easier transition from

one growth regime to the next, but global recession is continuing to drive further GDP decline during 2009. This in turn, is creating an exceptionally poor array of confidence indicators, indicating weak demand and excessive production capacity, which is driving down prices. These factors are placing upwards pressure on unemployment, which in turn is contributing to further economic contraction.

However, the country is undergoing major economic restructuring designed to bring production capacity in line with demand, which is due for completion by 2011. This, aligned with recovery in neighbouring countries to boost Estonian exports is expected to start a recovery in productivity in late 2009 or early 2010 with a return to growth in 2011.

It is also expected that the banks' high aversion to risk may cause difficulties in gaining access to credit even

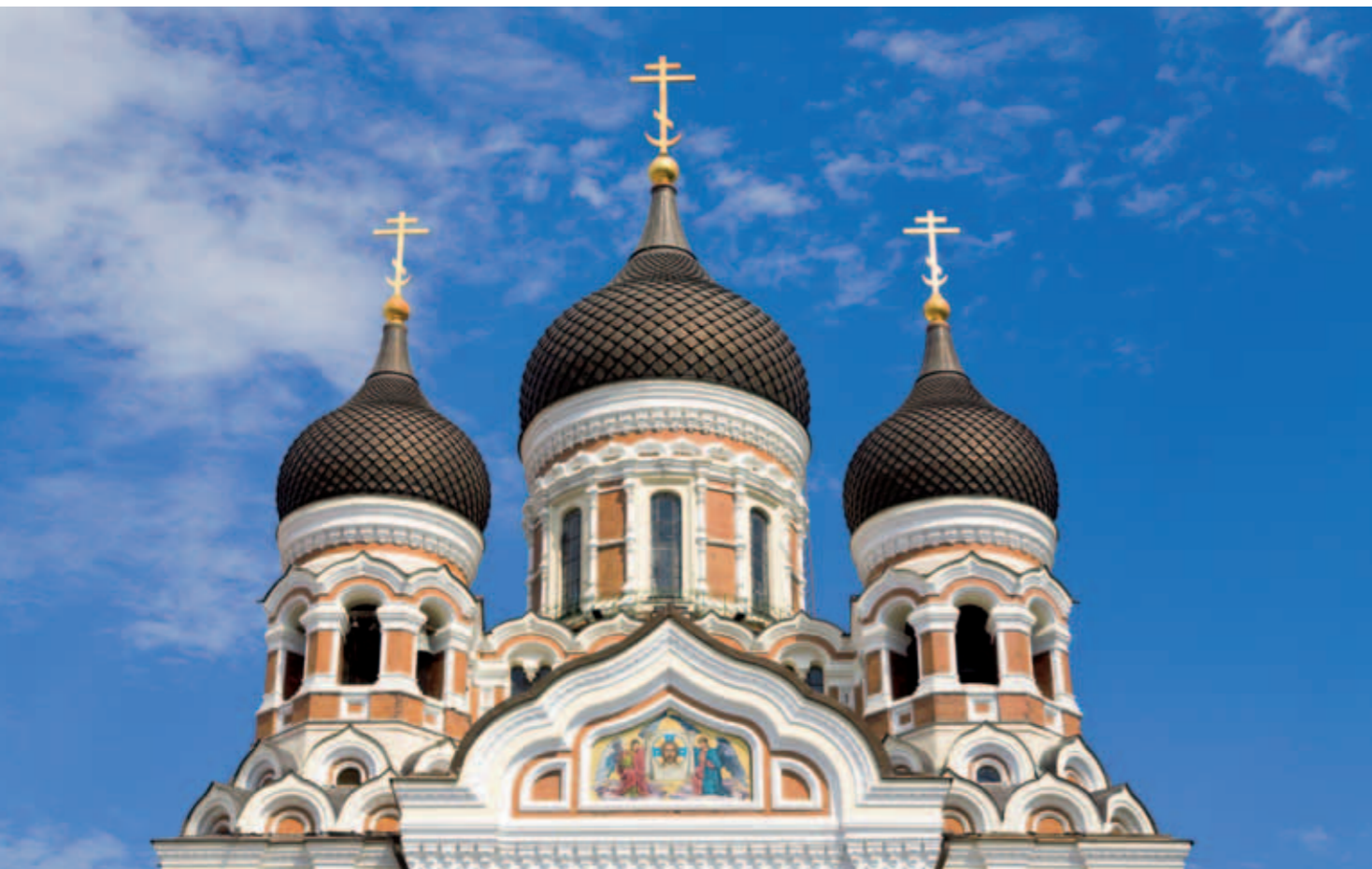


for those businesses with good prospects, potentially restricting lending at precisely the time that the economy needs the banking sector's support.

In 2006, supported by a favourable investment environment and optimistic outlook, investment in Estonia amounted to over a third of GDP with a significant proportion coming from the commercial and domestic property markets. These markets are now in recession and the proportion of investment in GDP is expected to decline to some 22% in 2009, lower even than during the financial crisis of the late 1990s. Little recovery is anticipated until there is some clarification of the situation regarding Estonia's future adoption of the Euro. This would be expected to stimulate investment growth, by providing increased economic confidence at home and abroad, and to enable cheaper lending, thanks to

a reduction in interest rates and decrease in risk margins. There is hardly a sector that has not yet or will not be impacted by the economic slowdown, with the retail, automotive and manufacturing sectors among those which are suffering most severely. It is not possible to accurately assess how large the decline will be by the end of 2009 for the most drastically affected sector of all, construction, which fell in the first quarter of the year by 42% year-on-year. This was due to the collapse of the real estate market, which was previously an important driver of the overheated economy.

On the positive front however, the response of the private sector has been very positive, with salary cuts of up to 30% and a rigorous reduction of over-production driven by lower demand for products and services.



Estonia	2005/2007 Average Values	2007-2008	2008
	Change (%)	Change (%)	
Population (mil.)	-0.6	-0.6	1.3
Average monthly gross wage (EUR)	19.1	1.6	855.6
EUR Exchange rate vis-à-vis	0.0	0.0	15.6
USD Exchange rate vis-à-vis	-1.4	4.3	11.2
	Real change (%)	Real change (%)	EUR mil.
GDP	8.6	-3.6	15,866
Private consumption	10.1	-4.0	8,694
Public consumption	2.5	4.4	3,136
Gross fixed capital investments	11.2	-8.6	4,506
Exports (goods and services)	10.8	-1.1	12,099
Imports (goods and services)	14.0	-7.9	12,804
	Nominal change (EUR mil.)	Nominal change (EUR mil.)	EUR mil.
Trade balance	-490	1,011	-2,395
Current account balance	-563	1,284	-1,499
General government balance	83	-888	-476
General government gross debt	17	227	762
External debt	-3	121	490
Foreign currency reserves	307	585	2,819
	Percentage point change	Percentage point change	%
Economic activity rate	0.5	0.7	61.1
Unemployment rate	-1.5	3.5	7.6
CPI rate (previous year = 100%)	1.5	-2.6	7.0
Central bank interest rate	n/a	n/a	n/a
Interbank TALIBOR 12M	1.7	0.6	8.3
10-year yield on Treasury Bond	n/a	n/a	n/a

Sources used: Reuters EcoWin Pro

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