

Fastest growing eurozone member



General Information

Form of state	USD22.2bn (World ranking 103, World Bank 2011)
Population	1.34 millions (World ranking 153, World Bank 2011)
Form of state	Parliamentary Republic
Head of government	Andrus ANSIP
Next elections	2015, legislative



Strengths

- Low systemic political risk.
- Good regional and international relations (except with Russia), EU membership.
- One of the most open and liberal economies in the world.
- Eurozone membership provides for low transfer and convertibility risk.
- Healthy public finances.
- Strong business environment, supported by stable institutions and an independent judiciary as confirmed in his re-election in late-2012.

Weaknesses

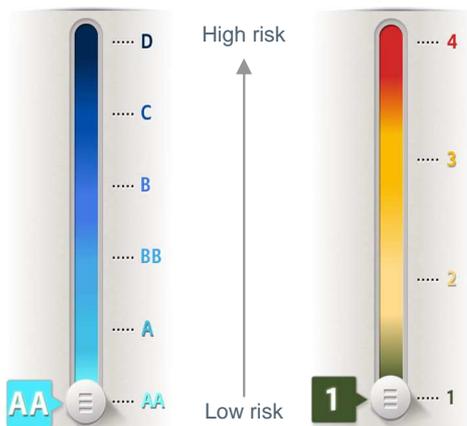
- High gross external debt.
- Several vulnerabilities in the banking sector.

Country Rating

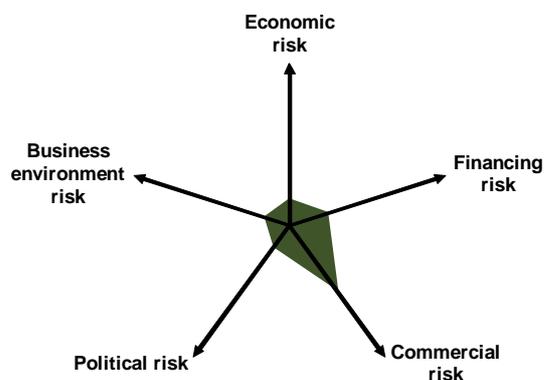
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Country Grade

Country Risk Level



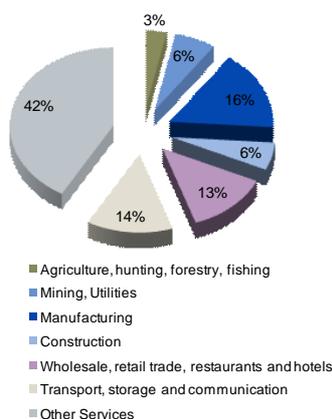
Risk Dimensions



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Economic Structure

GDP breakdown (% of total, 2010)



Trade structure (% of total, 2010)

By destination/origin

Exports	Rank	Imports
Sweden	15% 1	12% Germany
Finland	14% 2	11% Finland
Russia	9% 3	11% Russia
Latvia	8% 4	9% Sweden
Lithuania	6% 5	7% Lithuania

By product

Exports	Rank	Imports
Telecommunications Equipment	11% 1	13% Refined Petroleum Products
Refined Petroleum Products	11% 2	6% Electrical Apparatus
Electrical Apparatus	6% 3	5% N.E.S. Products
N.E.S. Products	5% 4	4% Plastic Articles
Non-Edible Agricultural Prod.	5% 5	4% Telecommunications Equipment

Sources: Chelem, IHS Global Insight, Euler Hermes

Economic Forecasts

	Average 2000-08	2009	2010	2011	2012f	2013f	2014f
GDP growth (% change)	6.5	-14.1	3.3	8.3	3.2	2.0	3.4
Inflation (% end-year)	4.8	-1.7	5.4	4.1	3.7	3.5	2.8
Fiscal balance (% of GDP)	1.1	-2.1	0.4	1.0	-2.0	-1.4	-0.4
Public debt (% of GDP)	4.8	7.2	6.7	6.0	10.5	11.9	11.2
Current account (% of GDP)	-10.5	3.4	2.9	2.1	-2.1	-3.6	-4.1
External debt (% of GDP)	79.3	125.0	114.5	97.2	96.0	97.5	100.2

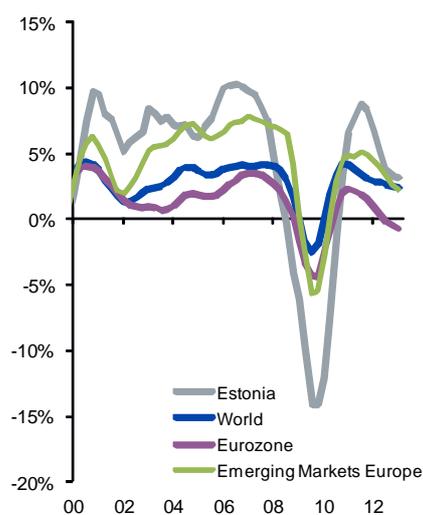
Sources: IHS Global Insight, National sources, Euler Hermes

Economic Growth

Economic growth is forecasted to slow in 2013.

Following the financial crisis and deep recession in 2008-2009, the Estonian economy has rebounded strongly and shown resilience to the ongoing eurozone crisis that emerged at end-2009, growing by an average annual +5% in 2010-2012, clearly outpacing the rest of the eurozone. Real GDP growth in 2012 of +3.2% was entirely driven by domestic demand, with private consumption expanding by +4.5%, government consumption +4% and fixed investment surging by +20.9%. Inventories subtracted -0.3pps from 2012 growth. External trade activity decelerated in 2012 owing to weakening demand from the eurozone. Net exports subtracted -2.9pps from growth as exports increased by +5.6% while imports grew by +8%. As the eurozone remains weak for now, we forecast growth in Estonia to ease to about +2% in 2013 before picking up again in 2014.

GDP growth (y/y, 4 qtrs cumulated %)



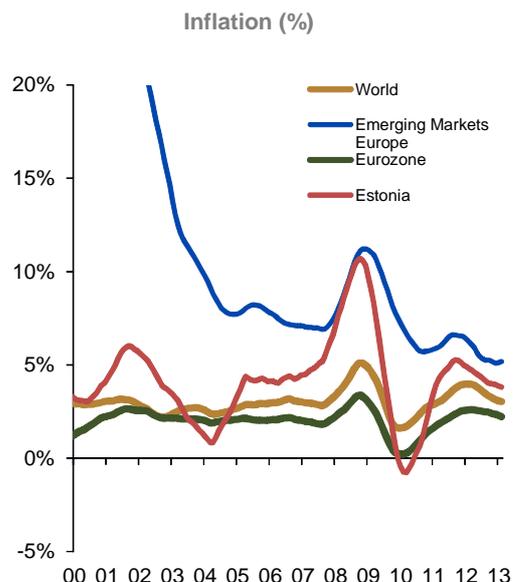
Sources: IHS Global Insight, Euler Hermes

Economic Policies

Thanks to retention of favourable fiscal indicators as well as to low inflation and exchange rate stability, Estonia was able to join the eurozone at the start of 2011. While monetary policy is now conducted by the European Central Bank (ECB), membership of the eurozone provides for low transfer and convertibility risk (as long as the eurozone remains intact) and has substantially decreased external vulnerabilities related to exchange rate risk.

Inflation is forecast to remain above eurozone average.

Headline consumer price inflation has gradually moderated from a high of 5.7% y/y at end-2010 to 3.7% y/y in February 2013. We expect inflation to remain above the eurozone average in the near future, averaging about 3.5% in 2013.



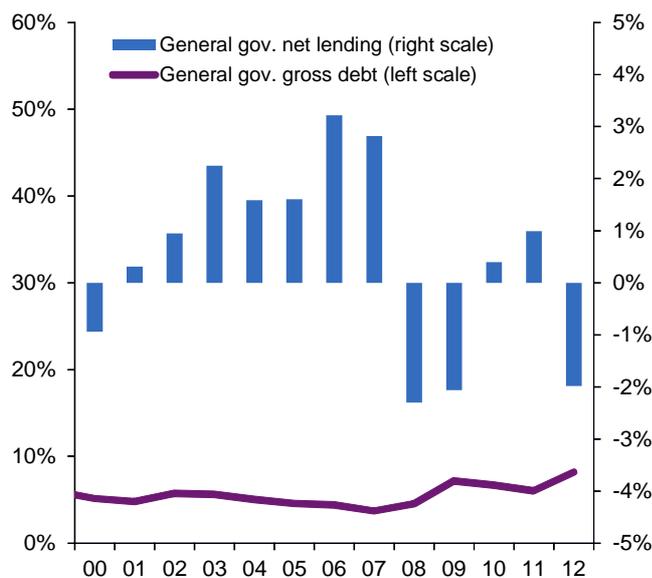
Sources: IHS Global Insight, Euler Hermes

Very healthy public finances.

Estonia has had a long-lasting commitment to budgetary prudence, reflected in many years of large fiscal surpluses. But in the wake of the economic downturn in 2008 the fiscal account shifted into a deficit of 2.7% of GDP. Thanks to sharp fiscal tightening, the government achieved a remarkably low 2% of GDP fiscal deficit in 2009, despite the steep -14% contraction of GDP which eroded the tax base. Thanks to sizeable sales of so-called "Kyoto units" (representing an allowance to emit greenhouse gases), the fiscal balance shifted to small surpluses in 2010 and 2011. However, environmental investments funded by these revenues are likely to push back the fiscal balance into deficits of 1-2% of GDP in 2012 and 2013, which do not pose any problem.

Gross public debt has remained very low, estimated at about 10% of GDP at end-2012, and the government has remained a net external creditor.

Fiscal balance and general government debt (% GDP)



Sources: IHS Global Insight, Euler Hermes

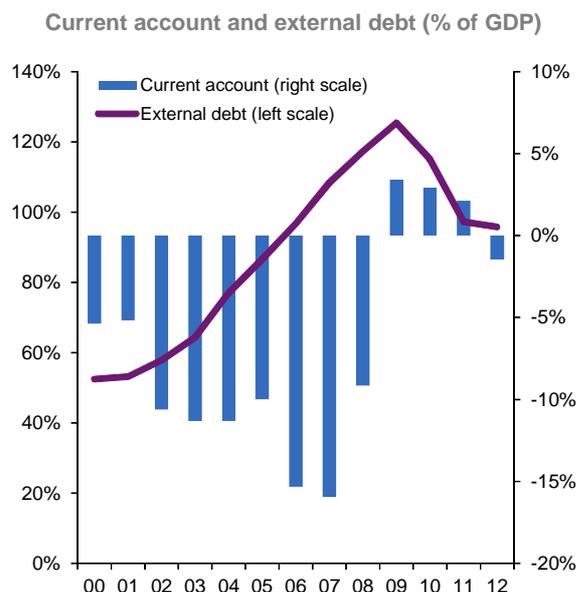
External Sector

Current account shifted back into moderate deficit.

Following years of unsustainably high deficits until 2008, the current account swung to a 3.4% of GDP surplus in 2009, as imports (in line with domestic demand) contracted even sharper than exports. The surplus narrowed to 2.9% in 2010 and 2.1% in 2011 and shifted back to a moderate deficit of 2.1% in 2012 as external demand weakened. We forecast the annual deficit to rise further to still acceptable ratios of 3-4% of GDP in 2013-2014.

High gross external debt, but net external creditor position reached in 2012.

Gross external debt stood at EUR16.7bn at end-2012. This was still relatively high in relation to GDP (approximately 96%), however, that ratio has improved from a peak of 125% in 2009. Moreover, external assets have increased substantially in recent years and reached EUR17bn at end-2012, i.e. Estonia has become a net external creditor (in 2010, net external debt stood at about 31% of GDP). Around 42% of gross external debt is short-term, which together with principal repayments due in 2013 is estimated at about EUR8bn.



Sources: IHS Global Insight, Euler Hermes

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