ECONOMIC GROWTH IN ESTONIA INCREASED SIGNIFICANTLY

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Economic growth in Estonia was broad-based. In the previous years, the growth was largely due to internal consumption, whereas in 2017, the growth became more broad-based. The role of household consumption decreased. After years of decline, investments began to increase again as a result of improved economic climate, indicating a positive mind-set of entrepreneurs.

In 2017, the global economic growth increased slightly. In previous years, the annual global economic growth had remained around 3%, whereas in 2017, it increased to 3.5%. The growth accelerated primarily because the economies of the developed world fared better. The economic growth in OECD countries was 2.5% last year, whereas the year before it was 1.8%. In the last two years, GDP growth in the United States was 2.3% and 1.5%, respectively. China’s economy, on the other hand, is exhibiting a continuously declining growth rate. Nevertheless, China’s economy grew by 6.8% last year. Russia finally managed to escape international sanctions and the economic crisis driven by the low price of petroleum last year. After two years, its economy was on the rise again, with a growth rate of 1.8%.

Regardless of the favourable economic environment, the global government debt is still on the rise, reaching 59.9% of the gross world product last year. While Estonia has labour shortage, unemployment is a growing issue on the global level. Global unemployment increased from 7.5% to 7.9% in 2017. Following the difficult year of 2016, international trade has increased again. The 1.5 trillion additional dollars in exports increased the total export volume to 17.3 trillion dollars. Imports have increased in the same magnitude as well.

The EU economy is in its best shape of recent years. The EU economy plays a significant part in the economy of the developed world, and in 2017, it yielded the highest growth rate of recent years – 2.5%. Even though in prior years the growth has been primarily sustained by new member states, in 2017, the economy of the euro area grew as much as that of the entire EU. Nevertheless, the growth rate in Eastern Europe is faster than that of old member states. The fastest economic growth in the EU was still in Ireland, with GDP increase of 7.8%, followed by Romania (6.9%) and Malta (6.6%). Last year was also positive for the economy of Greece, the last EU country to have experienced economic decline – its GDP increased 1.4%. It was also the slowest growth rate in the EU. Greece was followed by Italy (1.5%) and Belgium (1.7%).

As was the case with the global economy, economic growth in the EU was also facilitated by growing foreign trade. Foreign trade grew fastest in Lithuania, where exports increased by 13.2% and imports by 12.8%. It was followed by Slovenia (10.6% and 10.1%) and Romania (9.7% and 11.3%). The deceleration of the growth rate in investments, which amounted to 3.4%, is, however, somewhat alarming. In 2017, investments increased the most in Cyprus (27.8%), Hungary (16.8%) and Latvia (16.0%), whereas in Ireland investments declined by an astonishing 22.6%. Malta also experienced a significant decline (7.6%). The growth of final consumption expenditure, which increased by 1.7% last year, decelerated as well. The growth of final consumption expenditure was highest in Romania (8.4%), followed by Latvia (4.8%) and Bulgaria (4.5%).

GDP chain-linked volume change, 2010–2017

Source: Statistics Estonia

Economic growth in Estonia increased significantly and the Estonian economy was one of the fastest growing economies in the EU in 2017. Despite the local labour shortage and intense wage pressure, Estonia’s GDP grew by 4.9% last year. Although the growth of unit labour cost (indicates the ratio of labour compensations to GDP) has slightly declined despite continuous wage pressure, the growth is still relatively rapid at 12.6%. The change of this indicator was faster only in Latvia.
(14.8%) and Lithuania (16.2%). According to the Macroeconomic Imbalances Procedure scoreboard of the European Commission, which evaluates the average change in unit labour cost over three years, this trend is unsustainable for the Baltic countries. The accelerated economic growth was also accompanied by a slight productivity growth in 2017. The growth of labour productivity per person employed increased by 2.0% and per working hour by 1.9%.

Economic growth in Estonia was broad-based in 2017. The value added in manufacturing, the largest economic activity, increased 3.9%. Even though the growth decelerated slightly in the second quarter (1.4%), manufacturing displayed great overall improvement throughout the entire year. The fastest growth in value added was in mining and quarrying, which emerged from a short-term crisis and where value added increased by as much as 46.1%. This economic activity also experienced strong growth throughout the year. The largest contributor to GDP growth was construction with a 17.8% growth of value added, contributing almost a fifth (0.9%) of the GDP growth. The rapidly developing economic activities of information and communication (15.6% and 0.8% of GDP growth), and professional, scientific and technical activities (13.9% and 0.6% of the GDP growth) contributed substantially as well. Trade increased by a modest 1.8% last year.

Only a few activities affected economic growth negatively in 2017. Value added of agriculture, forestry and fishing decreased 1.1%. However, the decline occurred only in the first half of the year, as the value added began to increase at the same pace as the rest of the economy in the second half. Value added also declined in real estate activities (1%) and in other service activities (2.1%).

Domestic demand increased by 4.2% last year, which was slightly slower than economic growth. Private consumption in Estonia increased by 2%, which was similar to the general trend in Europe. Private expenditures increased the most on communication (7.7%) and clothing and footwear (5.7%). Expenditures on food and non-alcoholic beverages increased merely by 0.5%. Expenditures on alcohol and tobacco were still on decline (7.1%) due to a rise of excise duty. Expenditures on education decreased by a significant 5.8% as well. By commodity chapter, expenditure increased the most on durable goods (6.9%), followed by semi-durable goods (6.4%). Expenditures on non-durable goods decreased by 0.7%. Expenditures on services increased by 3.4%.

After several years of decline, investments began to grow again. Aside from modest growth in consumption, domestic demand was driven by gross fixed capital formation. Following a three-year decline, investments grew by 13.1% last year. All major types of investments exhibited growth: investments increased in buildings and structures, transport equipment as well as machinery and equipment. However, the picture was more diverse across activities. Investments declined in trade and construction, whereas the growth of investments was rapid in manufacturing as well as transportation and storage (34.6% and 39.7%, respectively).

The improved economic climate was also reflected in the economic sentiment index measured by the Estonian Institute of Economic Research, which has not been as high since 2011. Manufacturing, construction as well as trade enterprises are optimistic about the future. Consumers are the most cautious about the future, but even their confidence increased last year.

Estonia’s foreign trade increased along with overall economic growth. Exports increased by 3.5% and imports saw a slightly more rapid increase than usual at 3.9%. Even though the turnaround of manufacturing and investments has facilitated the foreign trade of goods, services are becoming increasingly important. Goods and services increased at a similar rate in imports (3.6% and 4.7%, respectively), whereas exports was mainly driven by the outward sale of services. The export of goods increased by 2.0%, whereas the export of services increased as much as 6.5%. Estonia’s main exported services are business, travel and transport services.

The consumption of the general government sector increased by a mere 0.8%, despite the increased expenditures in the second half of the year due to the EU Presidency. The government consolidated debt also continued to decrease last year. At 9% of the GDP in 2017, it was the lowest in the EU. In terms of the ratio of government debt to the GDP, Estonia is closest to Luxembourg, where it accounts for 23% of the GDP. The largest government debt in the EU is in the crisis-torn Greece, where it was as high as 179% of the GDP. Even though Estonia’s government debt is the lowest in the EU, it is not the only country where the debt is showing a decreasing trend.