

# LHV Group

Economic Environment  
Q1 2025

# Economic Environment

## A slow progress towards the recovery phase

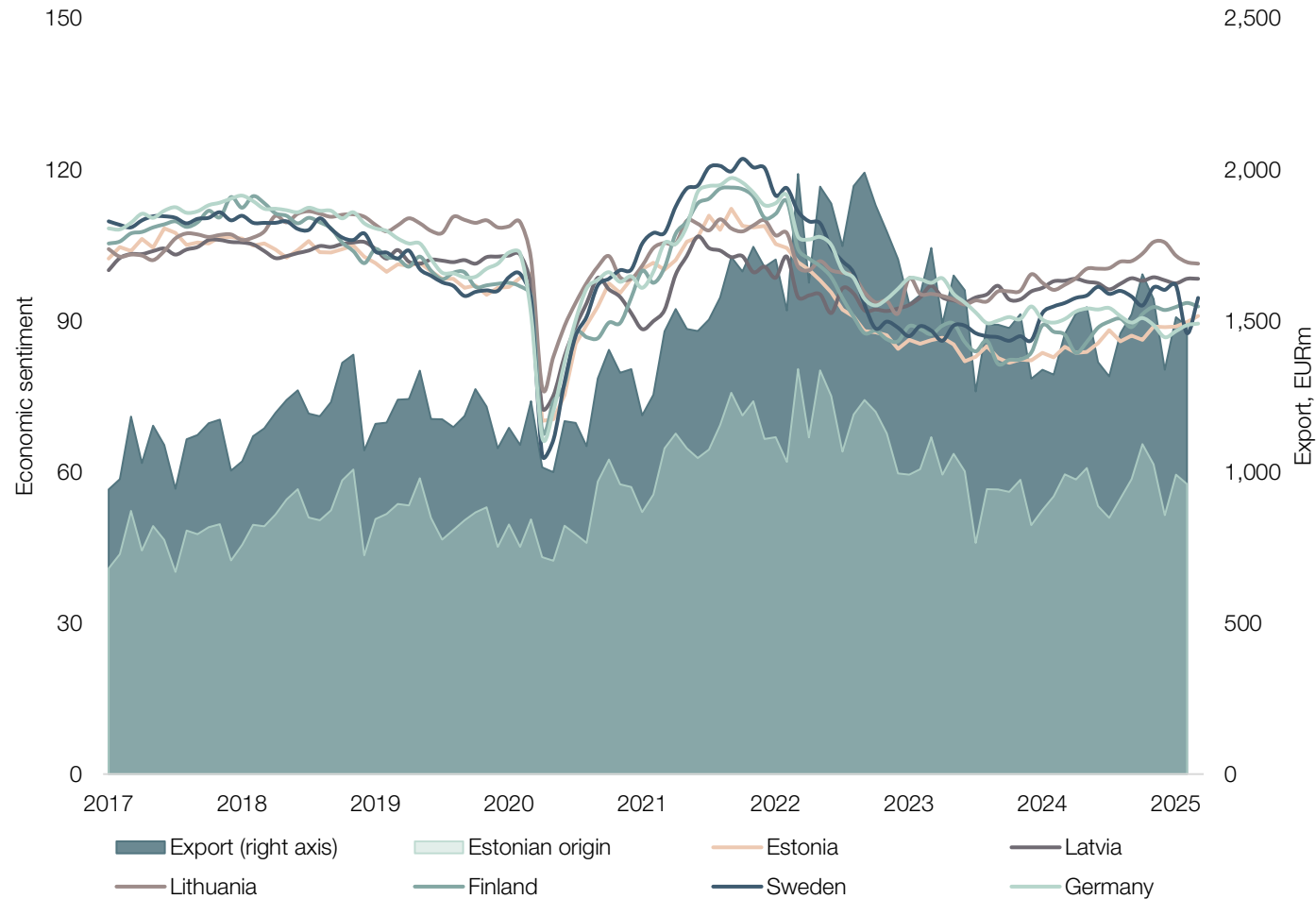


- Economy contracted 0.2% in 2024, with a growth of 1.1% in Q4. However, overall economic activity remains subdued
- Value added has returned to growth in most key sectors, with the exception of construction (-12.9%) and transportation and storage (-7.1%)
- The manufacturing sector has entered a phase of slow growth
  - industrial output increased approximately 1.5% in the first quarter compared to the same period last year
- Retail indicators have started to improve gradually, although food sales remain weak
  - in the first months of the year, food sales declined by 24% year-on-year
- The recovery is expected to be very slow and heavily reliant on the external environment:
  - domestic demand remains weak
  - (geo)political uncertainty does not favour economic growth

Source: Statistics of Estonia, LHV

# Economic Environment

## Export growth will be driven by developments in key trading partners

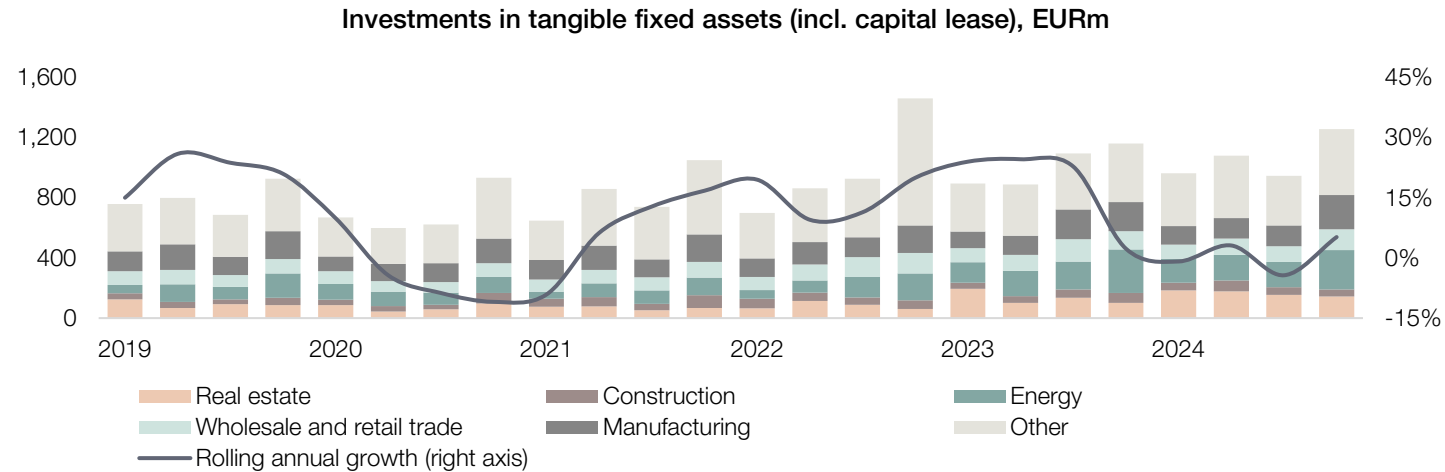


- Exports have been growing since September 2024
  - the annual growth reached 12.5% in the early months of 2025
  - the gradual recovery of the Scandinavian economies has boosted external demand
- Business confidence has improved across most sectors, with the exception of retail trade and construction
- In Germany, confidence remains below the historical average
- The outlook for exports and economic growth will depend on trade policy developments and the performance of key trading partners

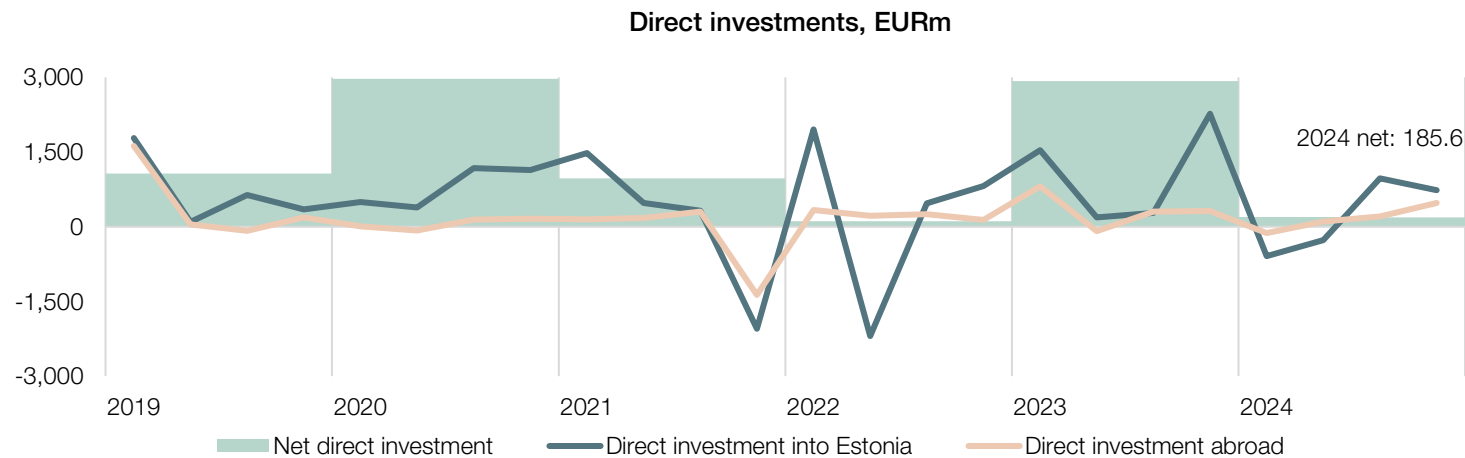
Source: Statistics of Estonia, LHV

# Economic Environment

## Domestic investment has started to increase



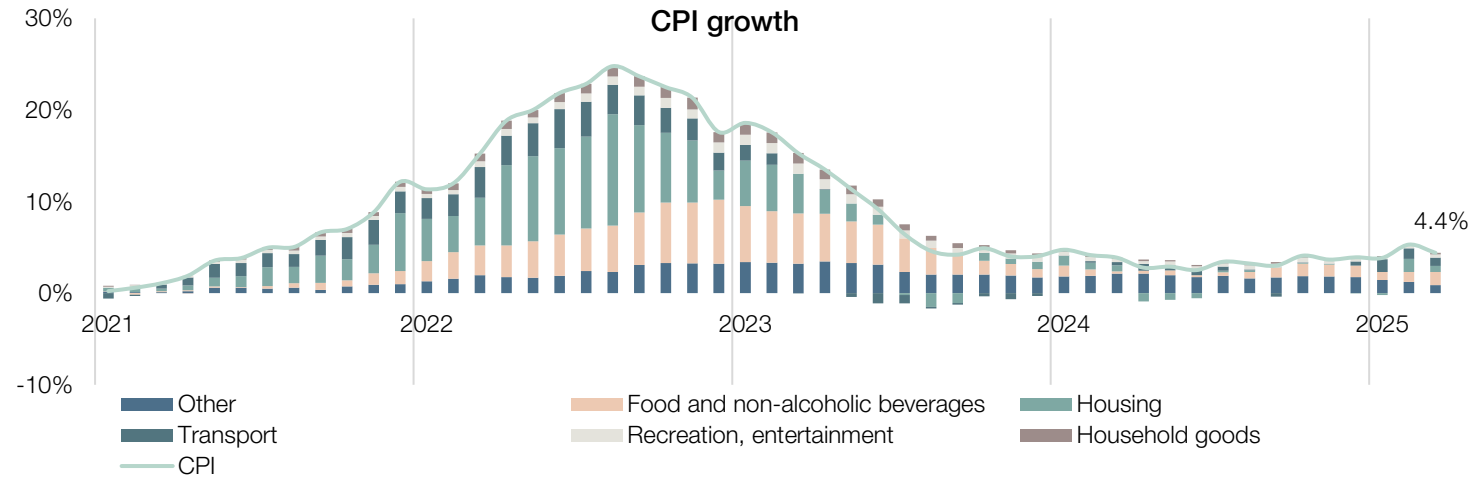
- Investment by Estonian companies has begun to grow modestly
  - in 2024, investments increased by 5.1%, though the growth rate remains below the historical average
  - the main driver of growth was real estate activities, which saw an annual increase of 24.1%
- Growth in foreign investment remains below the historical average
  - net inflows declined by 93.7% in 2024



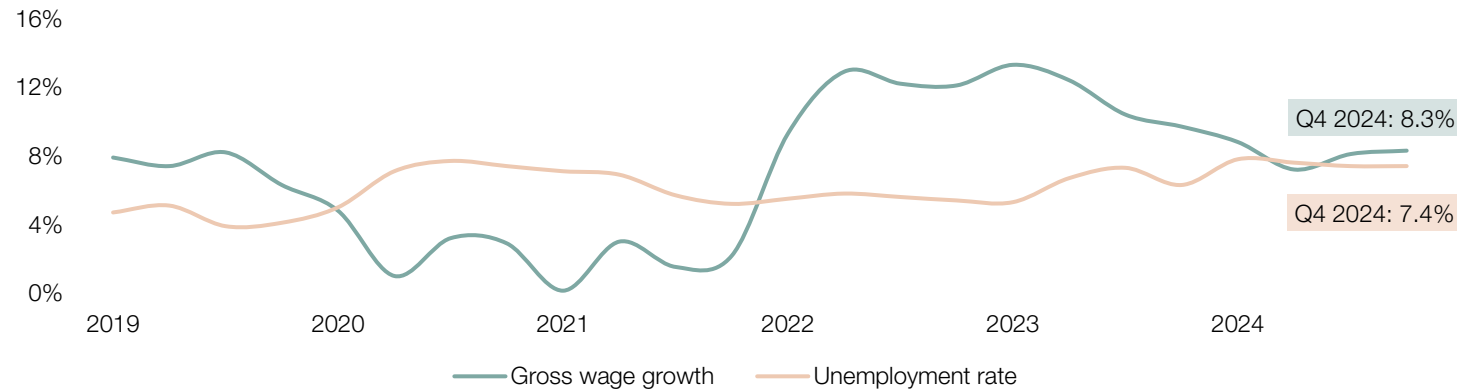
Source: Bank of Estonia, LHV

## Economic Environment

# Tax hikes will contribute to faster price growth



### Unemployment rate and wage growth

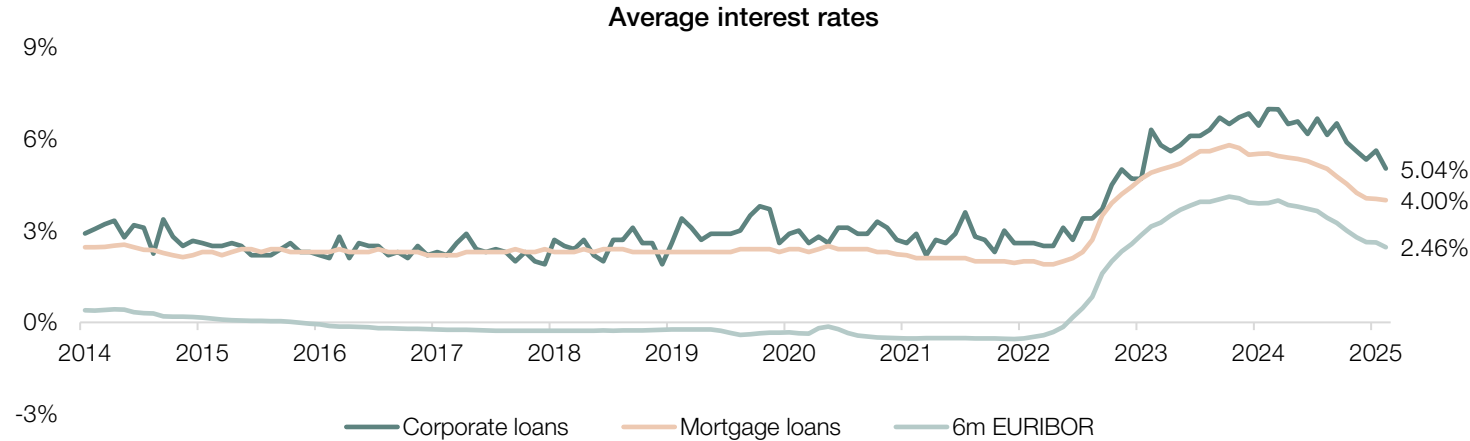


- The tax increases in 2024 have kept price growth in Estonia above the euro area average (2.4%)
- Core inflation, which excludes food and energy prices, has remained relatively high due to rising service costs
- The labour market has held up well, but unemployment is expected to remain stable for the next couple of years.
- Consumer confidence remained weak in Q1 2025
  - the decline reflects ongoing concerns about high inflation, tax increases, and weak purchasing power
- The purchasing power of 2020 is expected to recover by late 2026 to early 2027

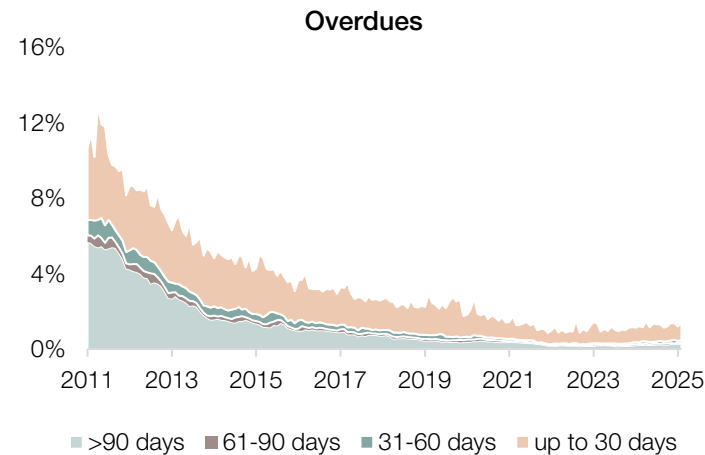
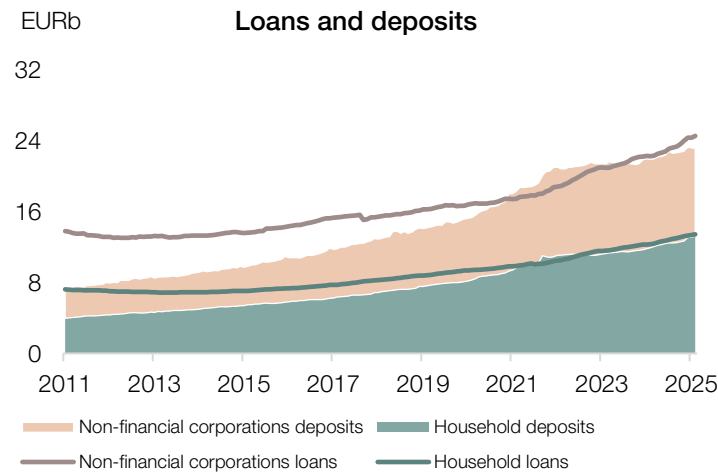
Source: Statistics of Estonia, LHV

# Economic Environment

## The financial sector has remained strong



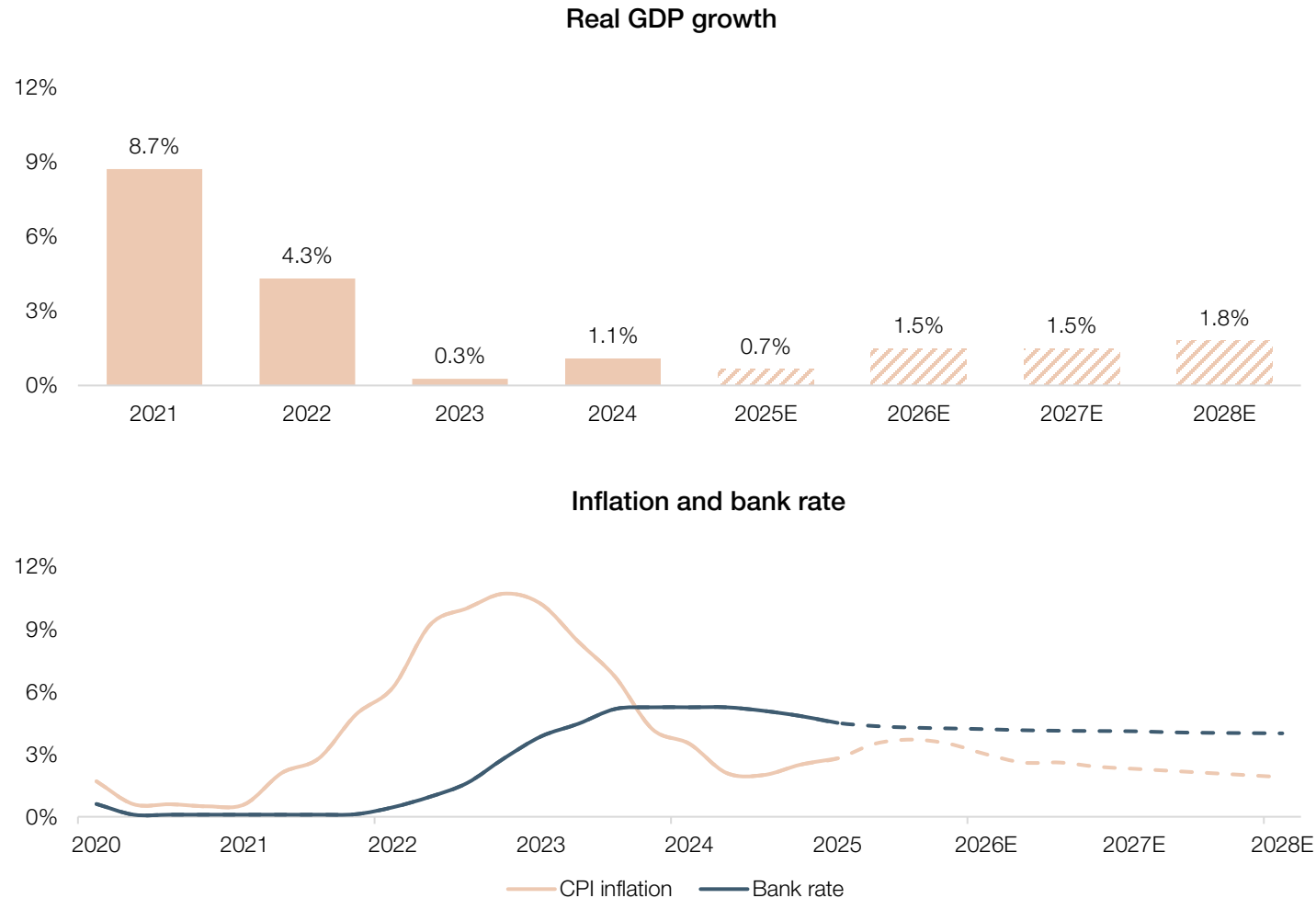
- The decline in the 6-month Euribor has been supportive
- Household loan volumes grew by an average of 8.9% year-on-year in the first quarter, while non-financial corporations saw growth of 10.7%
- The quality of the loan portfolio remained stable
  - the share of loans over 60 days overdue stood at 0.36% for households and 0.40% for non-financial corporations



Source: Bank of Estonia, LHV

# Economic Environment

## UK: slow economic recovery



Source: Bank of England, LHV

- The UK economy grew by 1.1% in 2024, but expanded by just 0.2% in the first quarter of 2025
- Economic growth is constrained by external uncertainty and weak productivity gains
  - a 10% tariff poses a risk to export-dependent sectors
- In 2025, inflation is expected to accelerate due to rising energy and food prices
- The unemployment rate is projected to stabilise at 4.5% in 2025 and rise to 4.8% by 2027
- Planned government reforms will accelerate the recovery of residential construction

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