

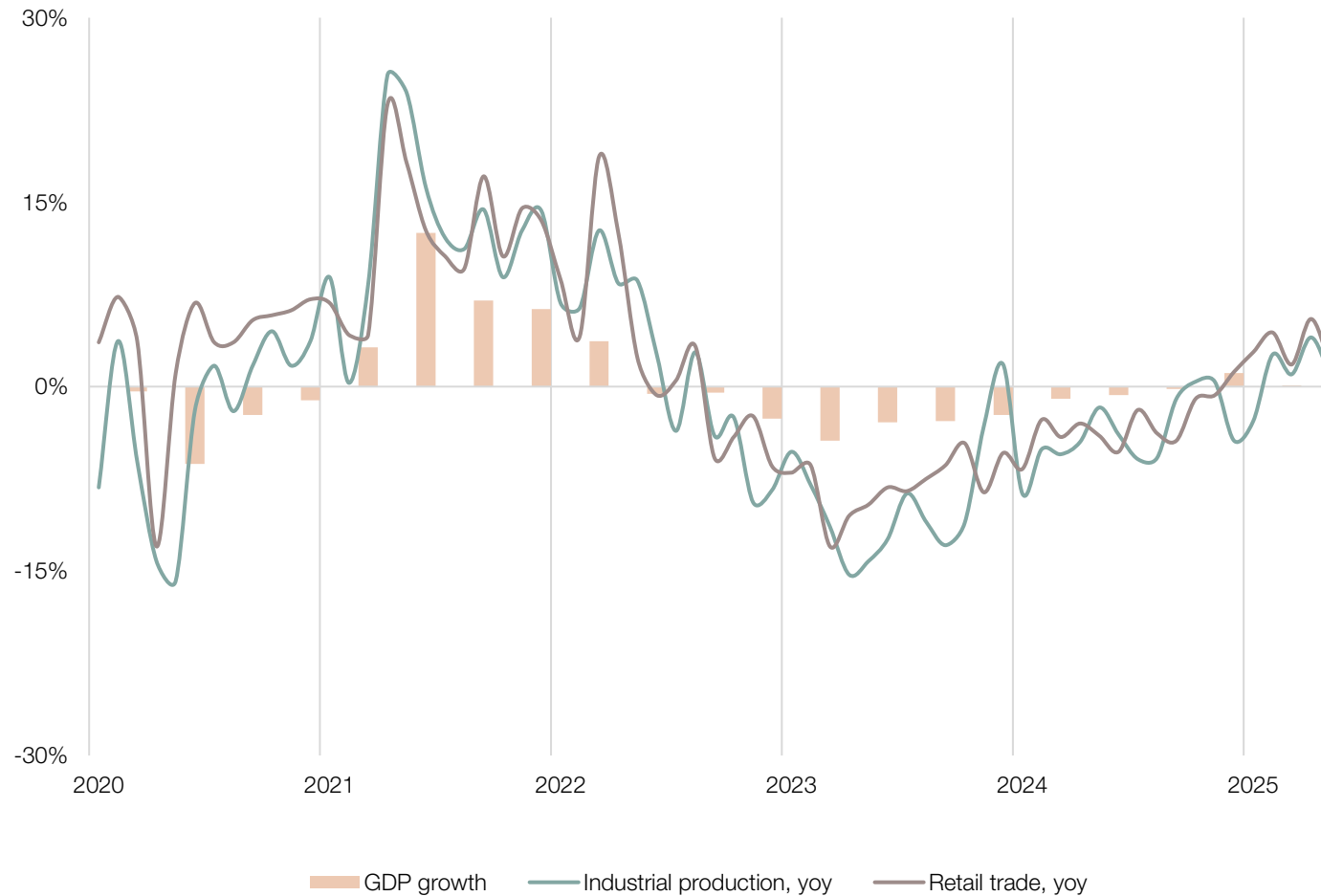
LHV Group

Economic Environment
Q2 2025



Economic Environment

Slow progress towards the recovery phase

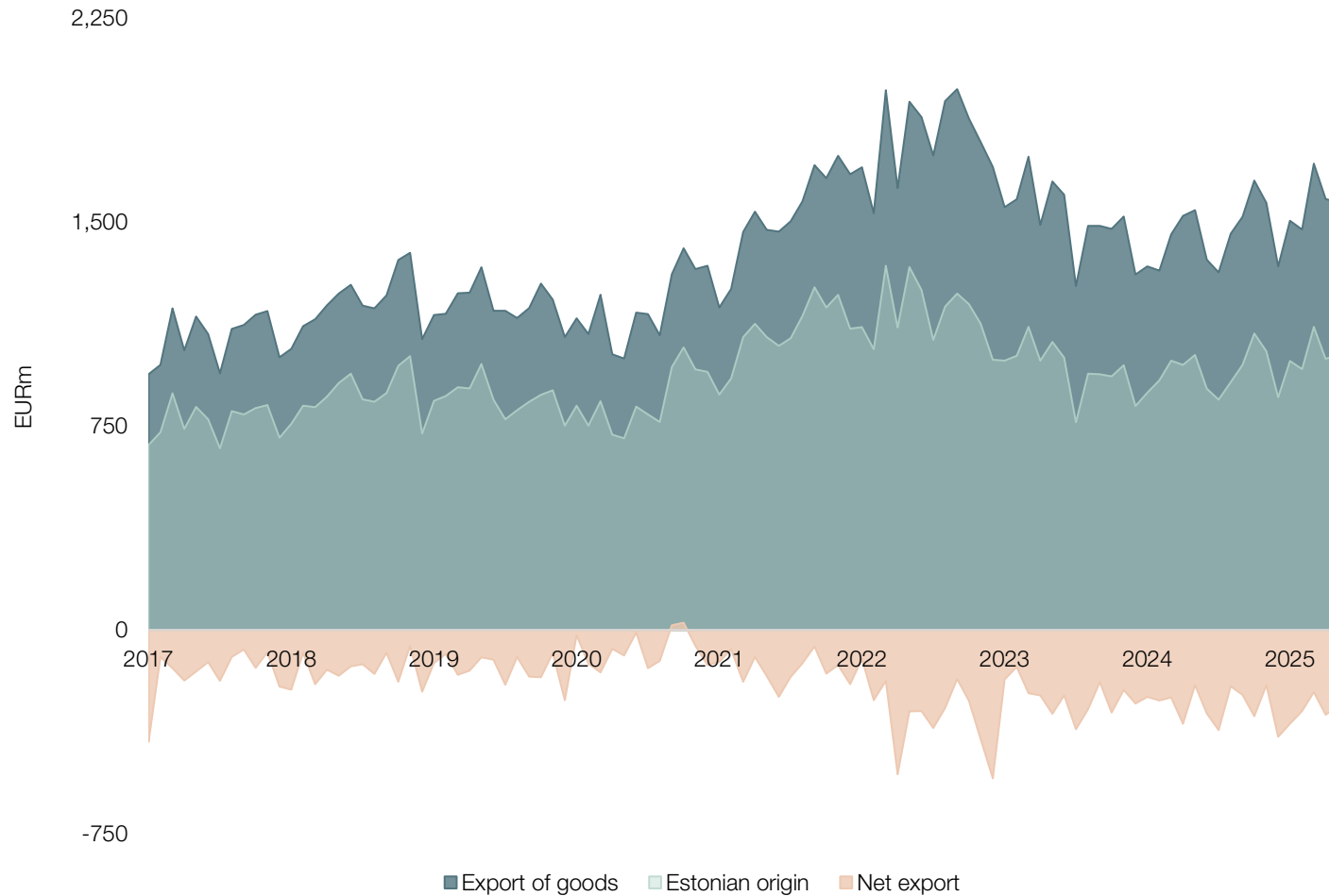


- In the first quarter of 2025, the economy grew by 0.1%, though overall economic activity remains subdued
- The effects of pre-tariff stockpiling were strongly evident in the first and second quarters, temporarily boosting output
 - manufacturing volumes increased by approximately 2.5% in Q2 YoY
 - production activity is expected to decline in the second half of the year as the impact of stockpiling fades
- Retail indicators remain weak, primarily due to low sales volumes of food products
- 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

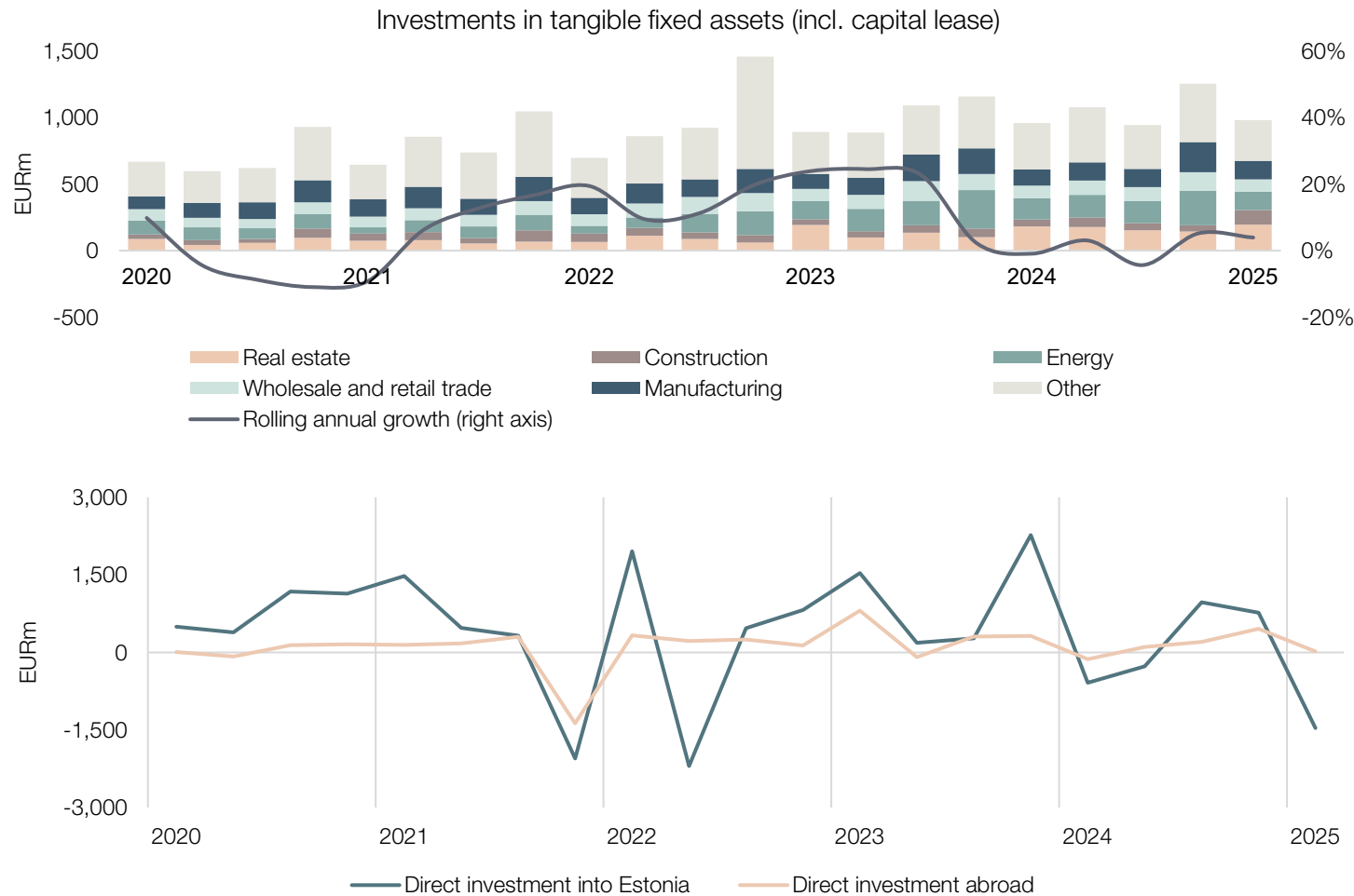


- In Q2, both exports and imports continued to grow
 - export growth slowed compared to the previous quarter
 - YoY export increases were notable in several key product groups: wood products +6.8%, electrical equipment +6.4%, furniture +9.6% and dairy products +35%
 - net exports remained strongly negative
 - due to pre-tariff stockpiling in Q1-Q2, export growth is expected to slow in the second half of the year
- Business confidence has started to decline again in the final months of Q2
- International trade policy affects Estonia primarily through weaker demand from key trading partners
 - confidence in Germany's manufacturing sector remains below the historical average

Source: Statistics of Estonia, LHV

Economic Environment

Domestic investments has started to increase

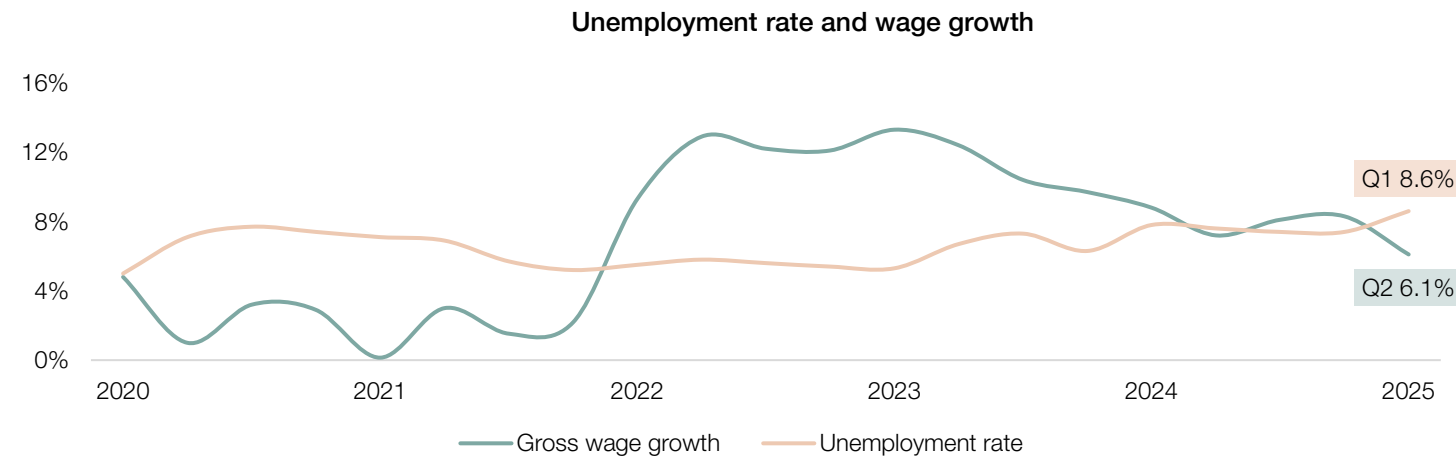
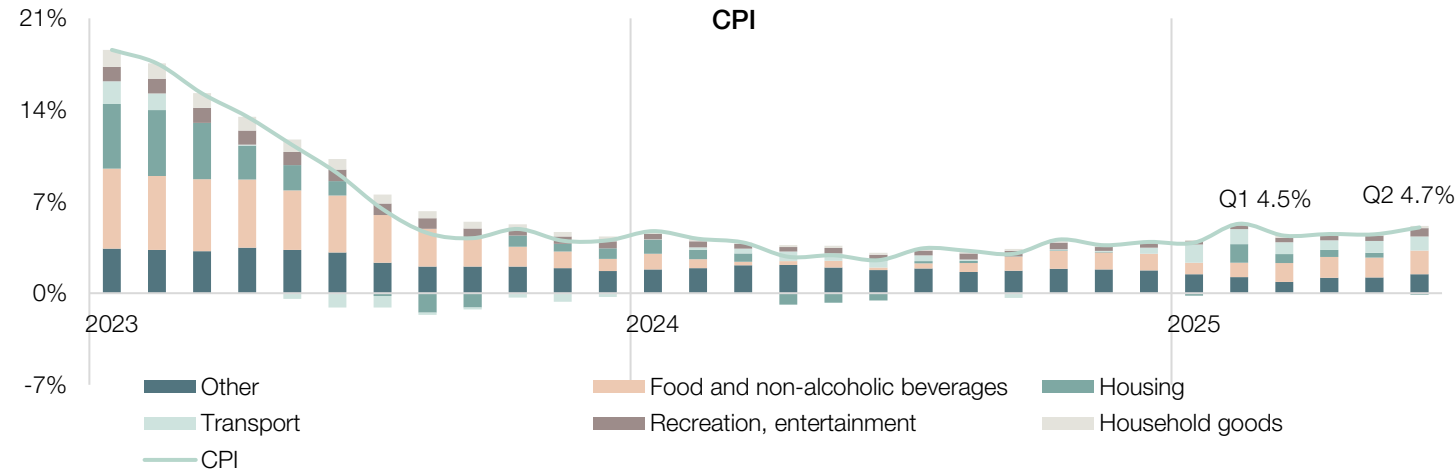


- Estonian corporate investment is growing, but at a very slow pace
 - In Q2, investments increased by just 2.3%
 - growth is being held back by weak domestic demand and an uncertain external environment
 - however, the ongoing decline in interest rates is expected to ease financing conditions and leave firms with more resources for investment in the future
- Outflow of foreign investment persisted in the first half of 2025
 - net FDI stood at -1.48 EURb in Q1

Source: Statistics of Estonia, Bank of Estonia, LHV

Economic Environment

Tax hikes and rising producer prices are accelerating inflation

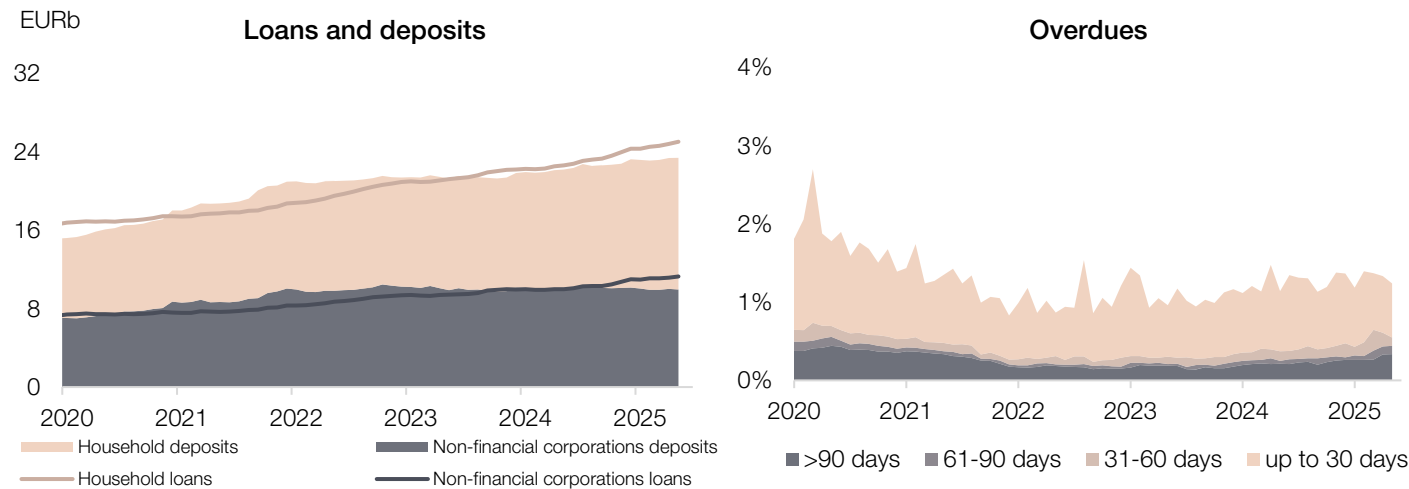
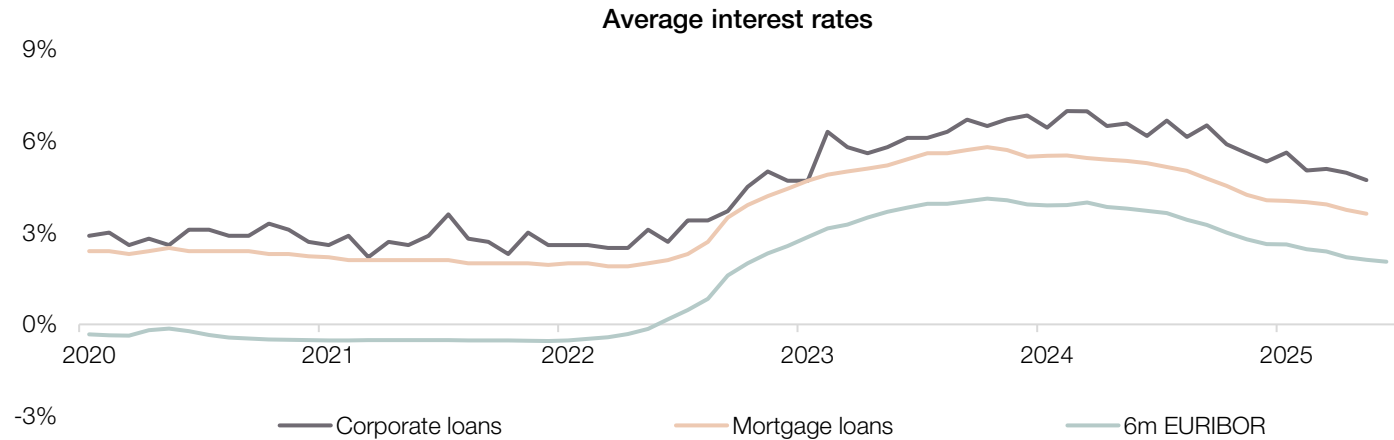


- Estonia continues to record the highest inflation rate in the euro area
 - in the first half of 2025, inflation reached +4.6%, with the pace of growth accelerating
 - driven by tax increases and rising commodity prices
 - increase in producer prices suggests that elevated inflation will persist into the second half of the year
- Euro area inflation has eased to around 2%, largely due to negative base effects from energy prices
 - core inflation remains elevated at over 2.3%
- The labour market remains relatively stable, but no significant decline in unemployment is expected in the near term
- Consumer confidence remained weak in Q2 2025
- The purchasing power of 2020 is expected to recover by late 2026 to early 2027

Source: Statistics of Estonia, LHV

Economic Environment

Estonian financial sector has remained strong



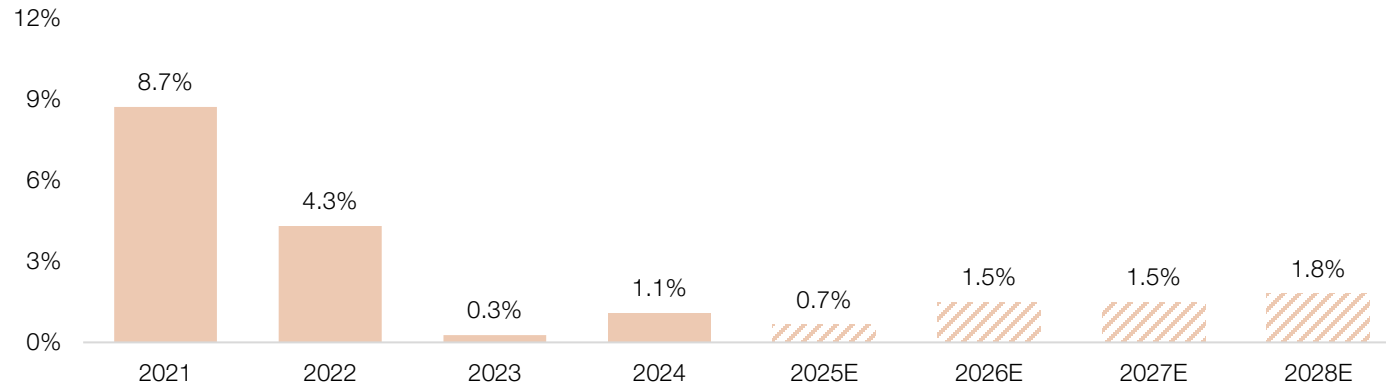
- The decline in the 6-month Euribor has supported borrowing activity
- In Q2 2025, loan market activity was largely driven by the upcoming VAT increase to 24% in July
 - household loan volumes grew by an average of 8.8% YoY, non-financial corporate loan volumes by 12.6%
- In Q2 2025, deposit growth slowed
 - household deposits increased by 9.5% YoY, deposits by non-financial corporations grew by just 0.4%
- The quality of the loan portfolio remained solid
 - the share of loans over 60 days overdue stood at 0.36% for households and 0.76% for non-financial corporations

Source: Bank of Estonia, LHV

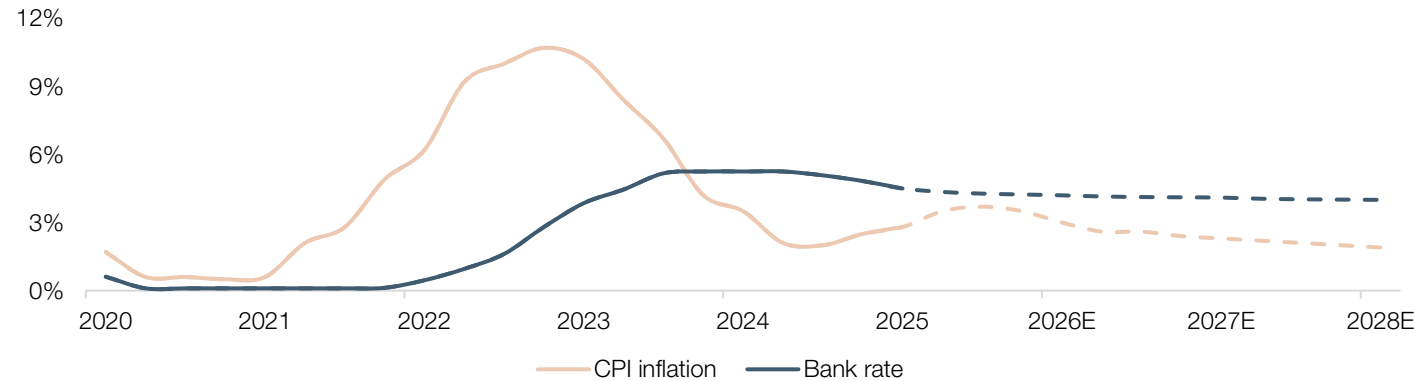
Economic Environment

UK economy is driven by tariffs and domestic demand

Real GDP growth



Inflation and bank rate



- The UK economy grew by 1.2% in the first quarter of 2025
 - growth was driven by services, household consumption, and temporary boosts from investment and net exports due to pre-tariff stockpiling
 - investment growth is expected to remain subdued
- In 2025, inflation is driven by rising energy and food prices
 - in June, inflation accelerated to 4.1%
 - persistent uncertainty around the inflation outlook is constraining the potential for interest rate cuts
- The unemployment rate is projected to stabilise at 4.6% in 2025, before increasing to 4.8% by 2027
- At the end of June, the UK and the United States signed a trade agreement, offering a modest improvement to the UK's economic outlook

Source: Office for National Statistics, Bank of England, LHV

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