LHV Group

Economic Environment
Q3 2025

Economic Environment

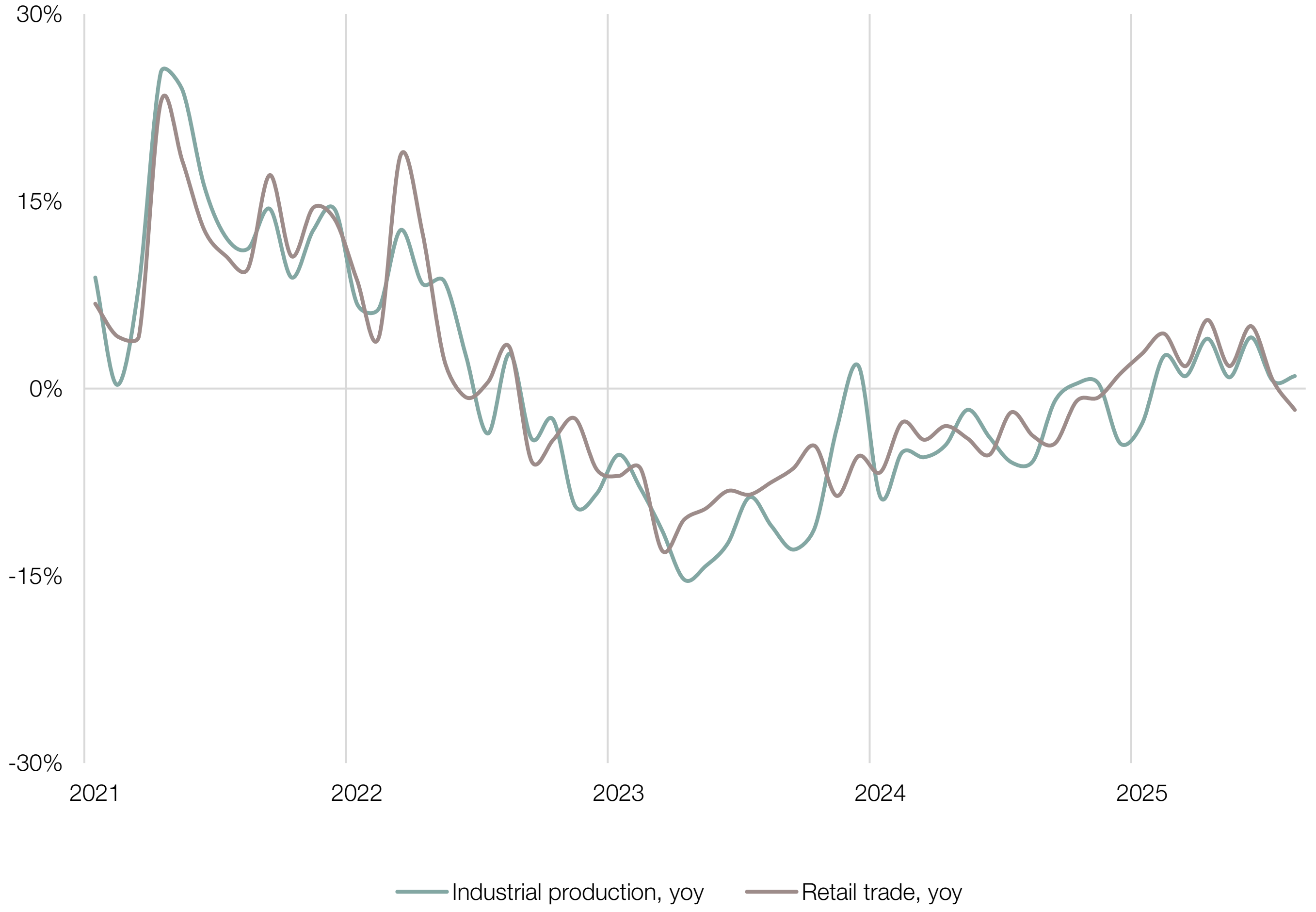
A slow progress towards the recovery phase

Source: Statistics of Estonia, LHV

- In the second quarter of 2025, the economy grew by 0.5%, but overall economic activity remains subdued
- In Q3, the effects of pre-tariff stockpiling became evident
  - nominal annual growth of exports slowed to 4.1%, and to 6.6% for goods of Estonian origin
- Domestic demand remains weak
  - private consumption increased by 0.9% in the second quarter, but this was partly supported by purchases made ahead of the VAT increase that took effect in July
- 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

Economic Environment

Pre-tariff stockpiling is expected to dampen activity in the near term

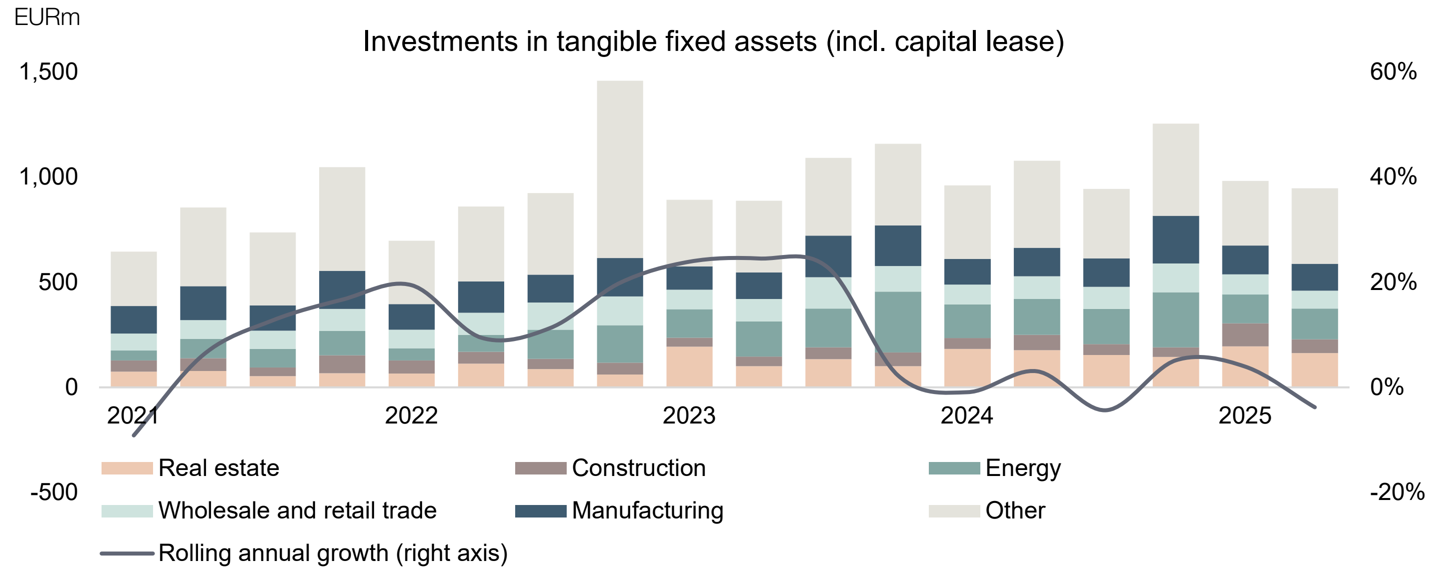


Source: Statistics of Estonia, LHV

- The estimated annual growth in manufacturing output remained around 0.8%
  - food industry -0.3%
  - wood processing -1.9%
  - metal products -0.3%
  - in Q4, production activity is expected to remain subdued due to earlier inventory build-up
- Retail trade continues to be affected by both cyclical weakness in domestic demand and structural shifts in cost base and consumer behaviour
  - estimated annual growth for Q3 - 0.5%
  - inflationary pressures persist, but retailers have increasingly limited room to pass on cost increases to prices
  - decline in energy and oil product prices offers some relief on the cost side

Economic Environment

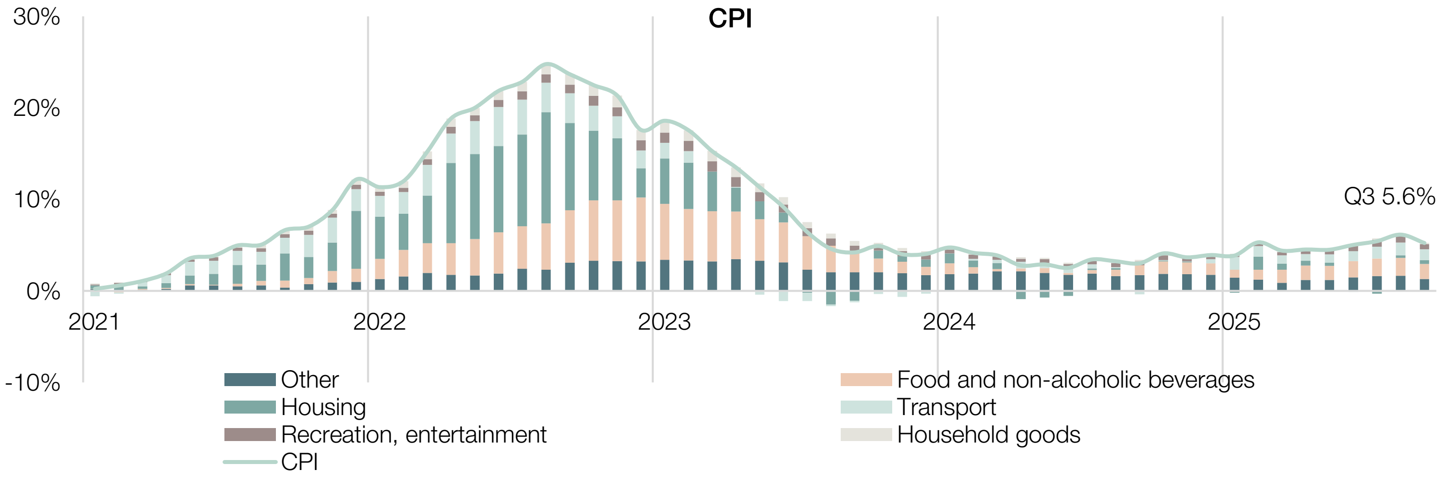
Domestic investment activity remains volatile

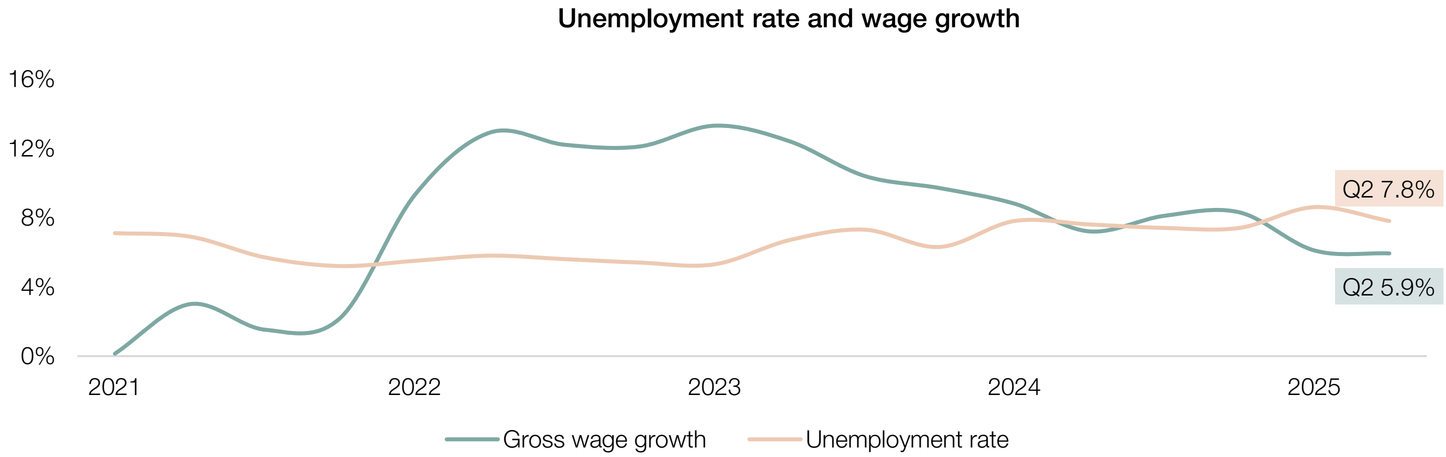


Source: Statistics of Estonia, Bank of Estonia, LHV

- Corporate investment in Estonia declined by 12.3% year-on-year in Q2 2025
  - an exception was the mining sector, where investment increased by 21%
  - investment activity is hindered by weak domestic demand, an uncertain external environment, and continued cost pressures
  - persistently low interest rates leave businesses with more resources for future investments
- Q2 saw an inflow of foreign direct investment amounting to 572.7 EURm, but the cumulative result for the first half of the year remains weak due to the substantial outflow in Q1
  - Estonia’s risk premium, which had risen in recent years, has retreated in 2025 to its 2018 level, standing at 0.94%

Tax hikes and rising producer prices are accelerating inflation



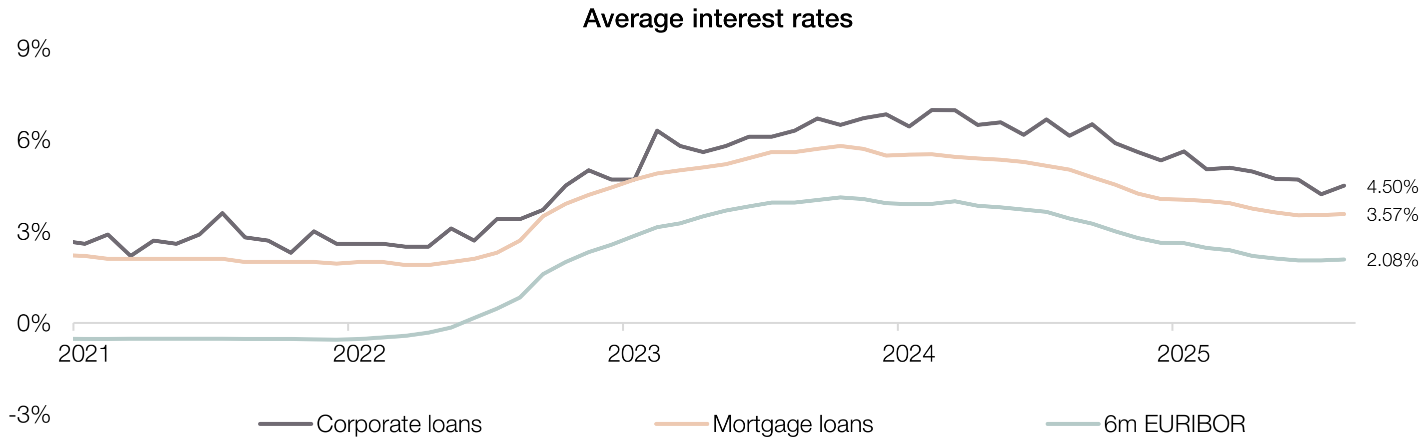


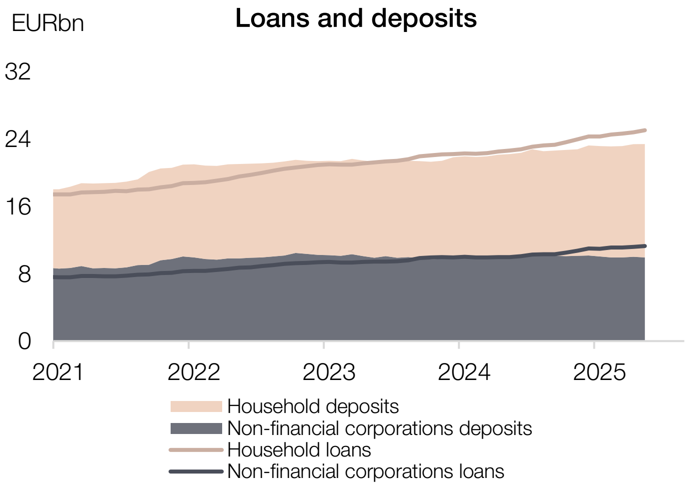
Source: Statistics of Estonia, LHV

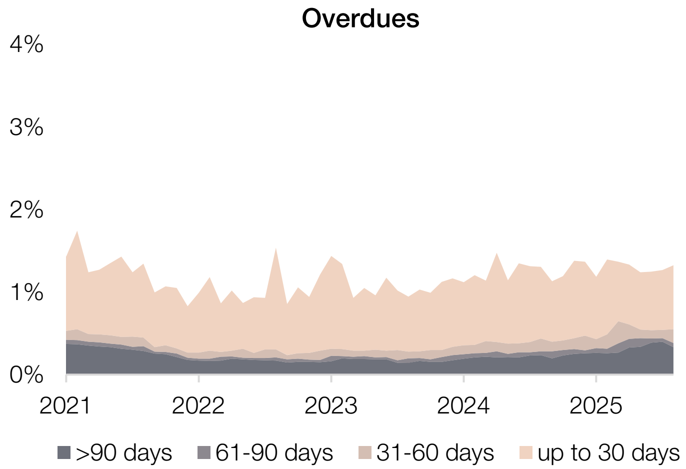
- Estonia continues to record the highest inflation rate in the euro area
  - in Q3 2025, inflation reached +5.6%
  - driven by tax increases and rising commodity prices
  - increase in producer prices suggests that elevated inflation will persist into the second half of the year
  - price pressure will soften in 2026
- Euro area inflation has eased to around 2%, largely due to negative base effects from energy prices
  - core inflation remains at over 2.3%
- The labour market remains relatively stable, but no significant decline in unemployment is expected in the near term
- Wage growth is expected to continue slowing
- The purchasing power of 2020 is expected to recover by late 2026 to early 2027

Economic Environment

Estonian financial sector has remained strong





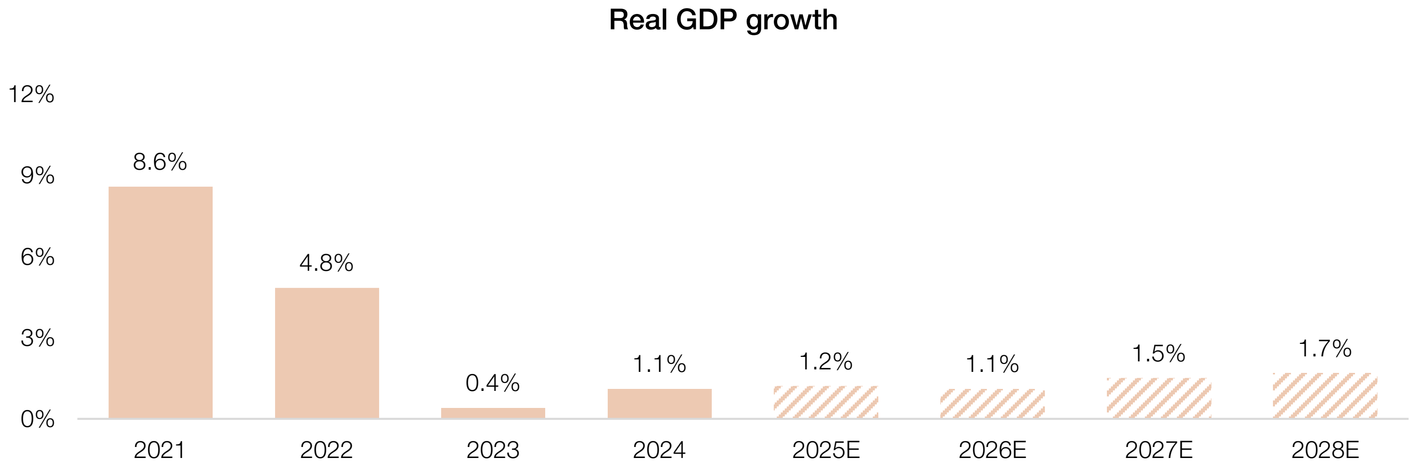


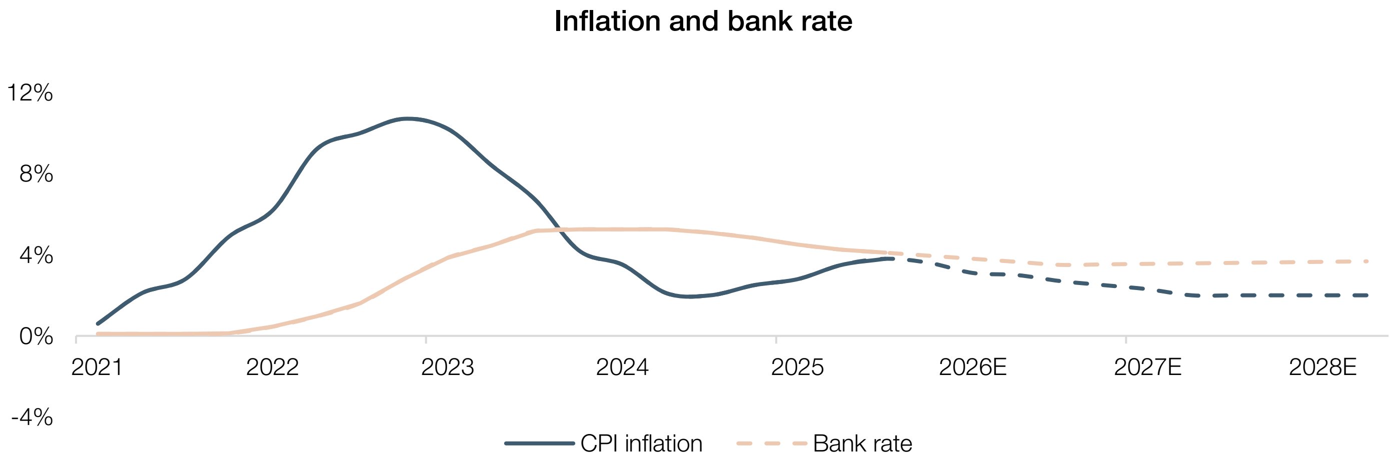
- Lower 6-month Euribor has supported borrowing activity
- In Q3 2025, loan market activity accelerated
  - household loan volumes grew by an average of 9.7% YoY, non-financial corporate loan volumes by 12.4%
- In Q3 2025, deposit growth slowed
  - household deposits increased by 9.3% YoY, deposits by non-financial corporations declined by 2.8%
- The quality of loan portfolio remained solid
  - share of loans over 60 days overdue stood at 0.39% for households and 0.55% for non-financial corporations

Source: Bank of Estonia, LHV

Economic Environment

UK: economy is driven by tariffs and domestic demand





- The UK economy grew by 1.4% in the second quarter of 2025
  - growth was driven by services, construction, household consumption, and investments
  - energy production declined, while manufacturing output increased
- In 2025, inflation is driven by rising energy and food prices
  - in August, inflation stood at 3.8%
  - persistent uncertainty around the inflation outlook is constraining the potential for interest rate cuts
- The unemployment rate is projected to stabilise at 4.8% in 2025, before increasing to 4.9% by 2027

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

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