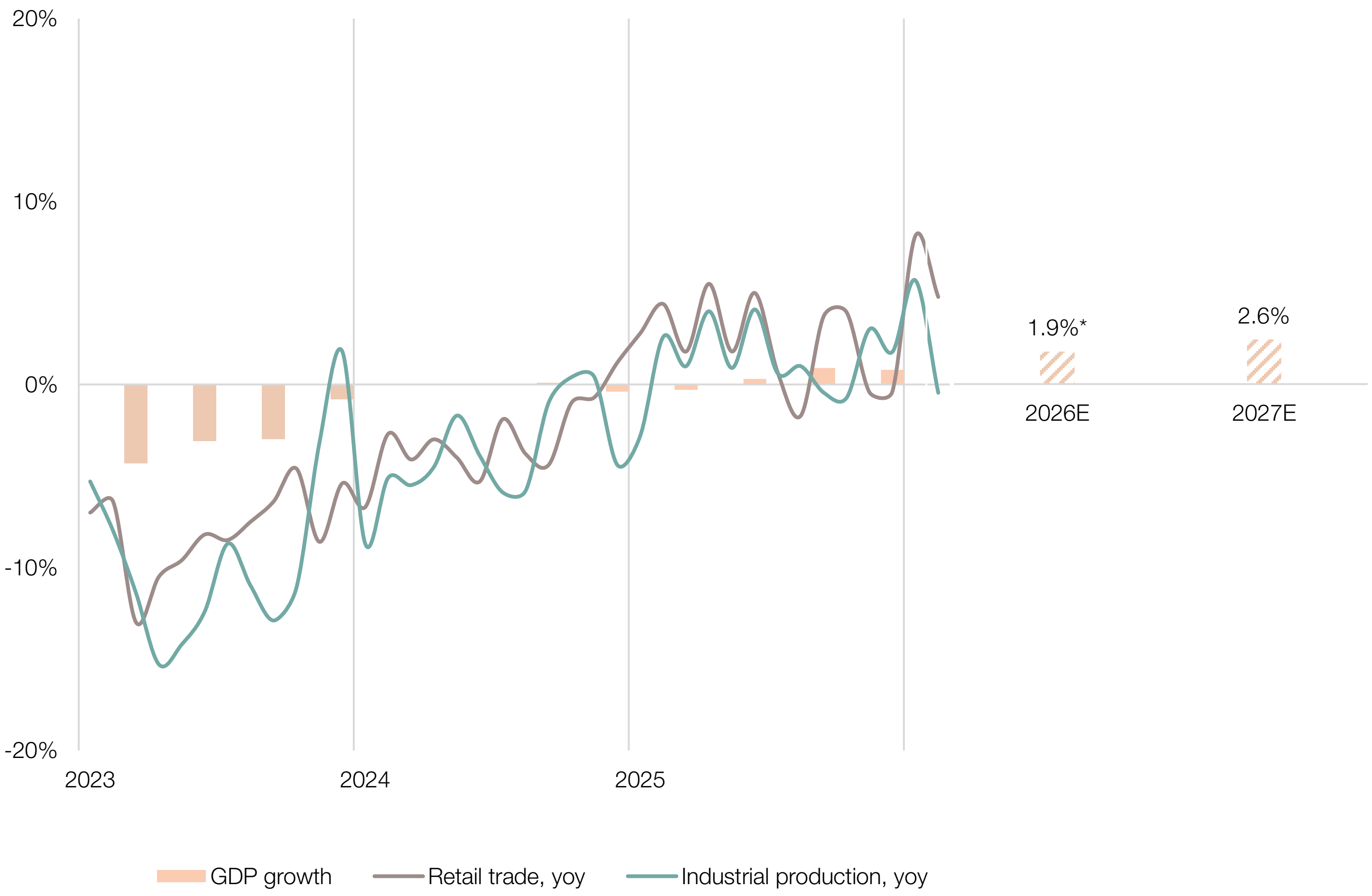
LHV Group

Economic Environment
Q1 2026

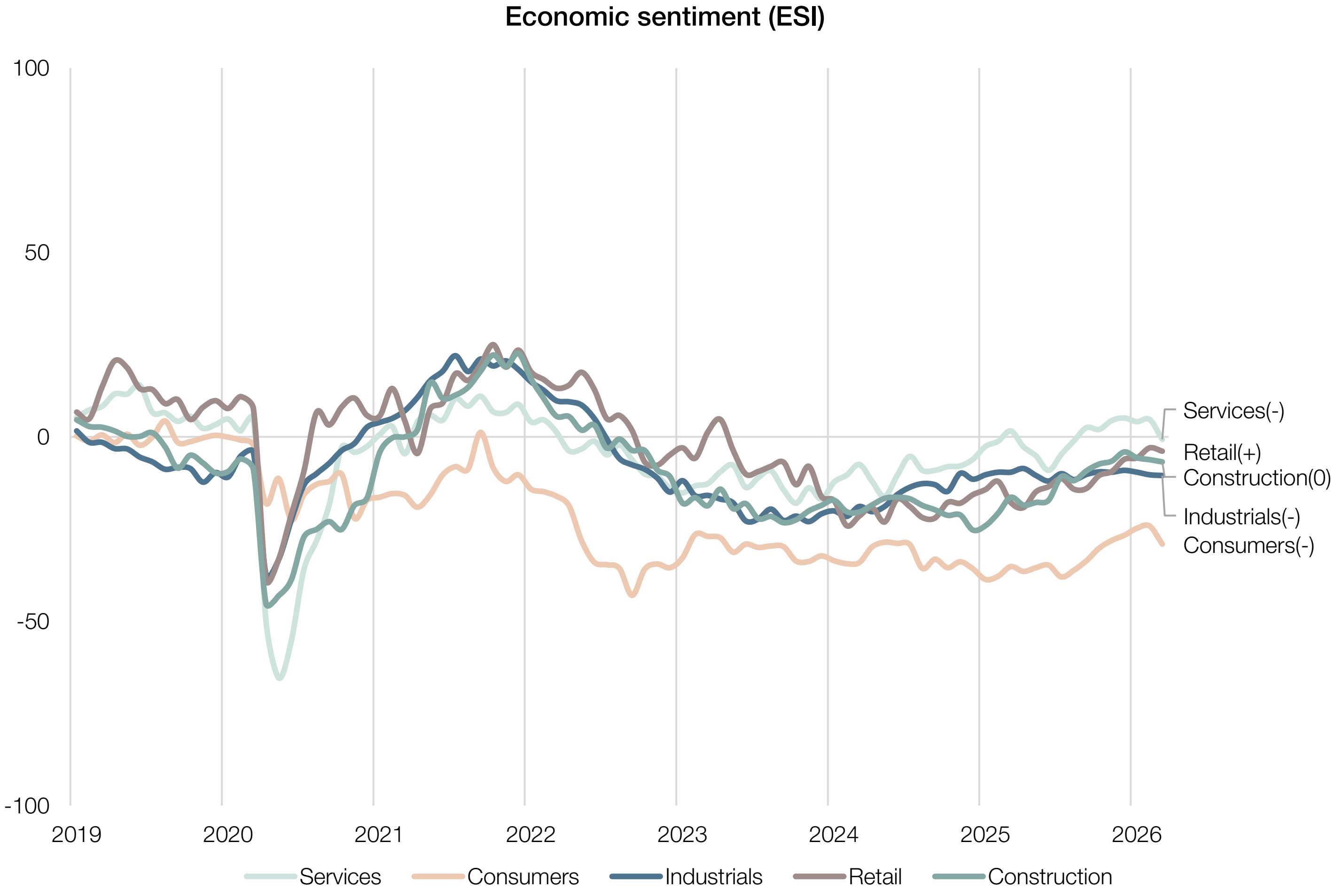
Economic recovery has begun, but is threatened by tensions in the Middle East



- The economy grew by 0.5% in 2025
- Early 2026 (Q1) was weaker in the industrial sector, but stronger in retail
- Energy prices have become the main source of uncertainty
  - risk of higher inflation and slower recovery
- Private consumption is expected to recover slightly in 2026
  - tax changes are expected to support modest growth in consumption and lending
- Manufacturing activity is expected to increase in 2026, supported by a recovery in external demand
  - however, companies' cost base remains structurally higher than before the crisis
- The budget deficit is projected to rise to 4.5%
  - a higher deficit implies reduced fiscal buffers for future crises

Source: Statistics of Estonia, LHV
**As of 16.03.26 assuming: Brent USD 80 (Q1–Q2), USD 75 (Q3–Q4); TTF EUR 53 (Q1–Q2), EUR 38.5 (Q3–Q4)*

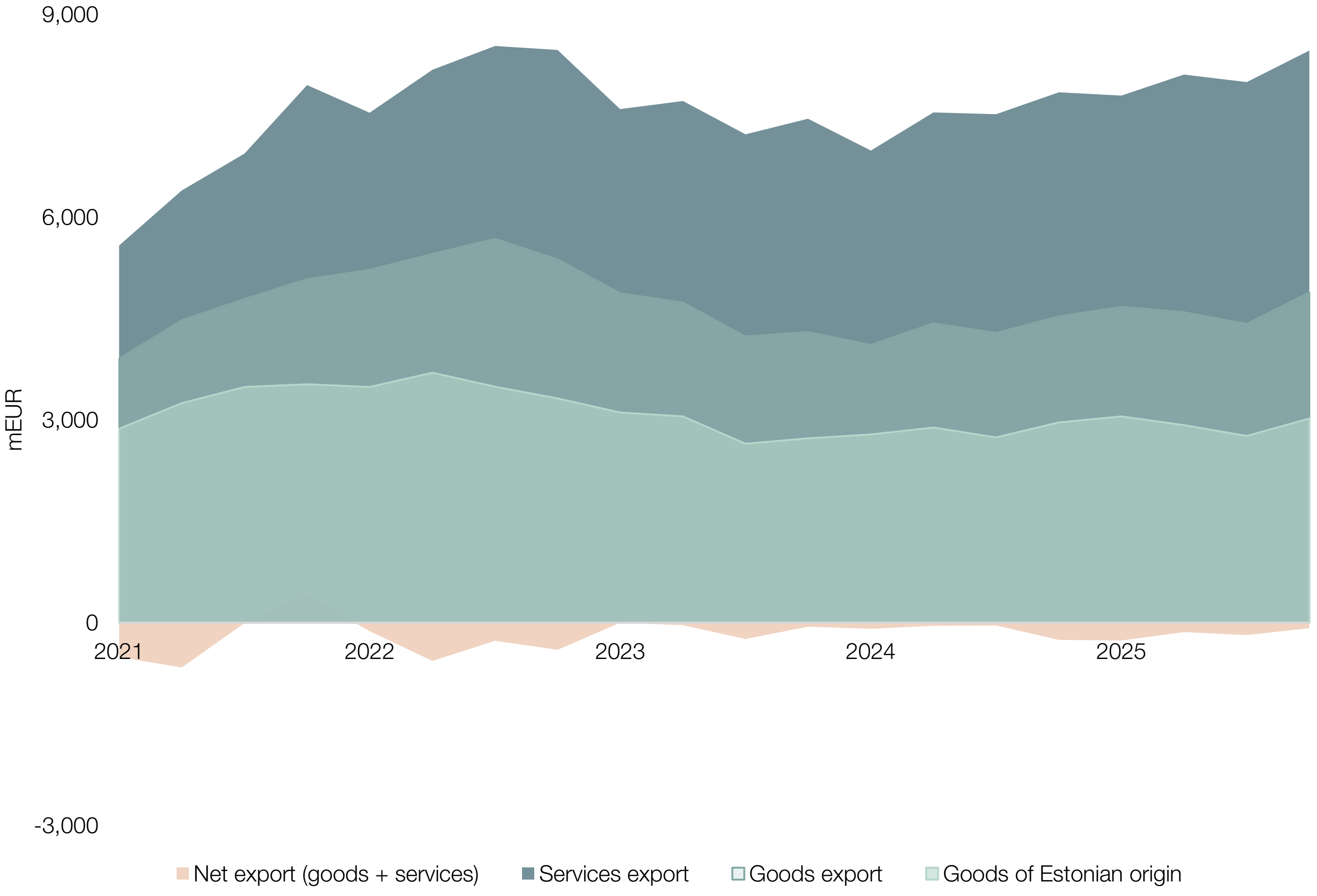
Economic Environment
Confidence weakened in March



Source: European Commission, LHV

- Real estate activities(L):
  - the post-boom correction phase has largely concluded
  - a moderate increase in interest rates is not expected to materially constrain activity
  - financing costs for developers might start to rise, which may prolong sales periods
- Construction (F):
  - supported by increased public investment in infrastructure, incl. road construction
  - remains exposed to energy price volatility and potential weakness in private investment
- Wholesale and retail trade (G):
  - consumption is expected to grow in 2026
  - price sensitivity limits margin expansion
- Manufacturing (C):
  - competitiveness has weakened
  - demand is recovering, but high input and wage costs weigh on performance
  - cost efficiency remains a key priority
  - exporters of construction-related inputs to Finland remain particularly exposed

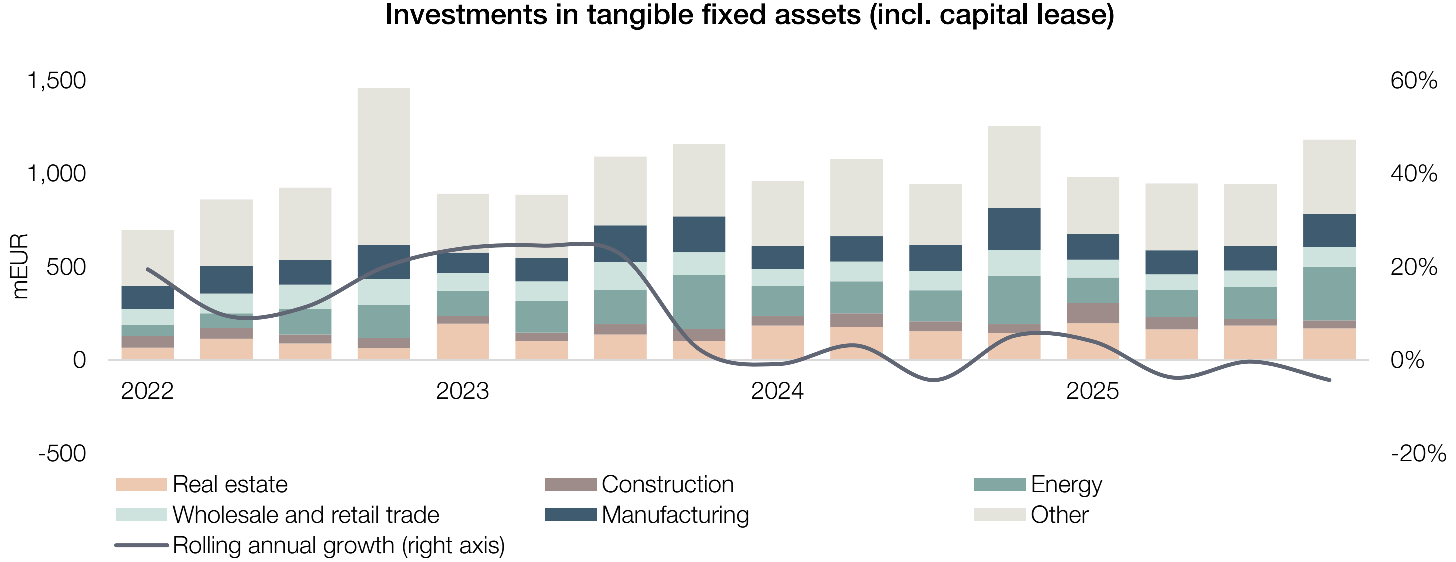
Exports have improved overall, but the year started on a weaker footing

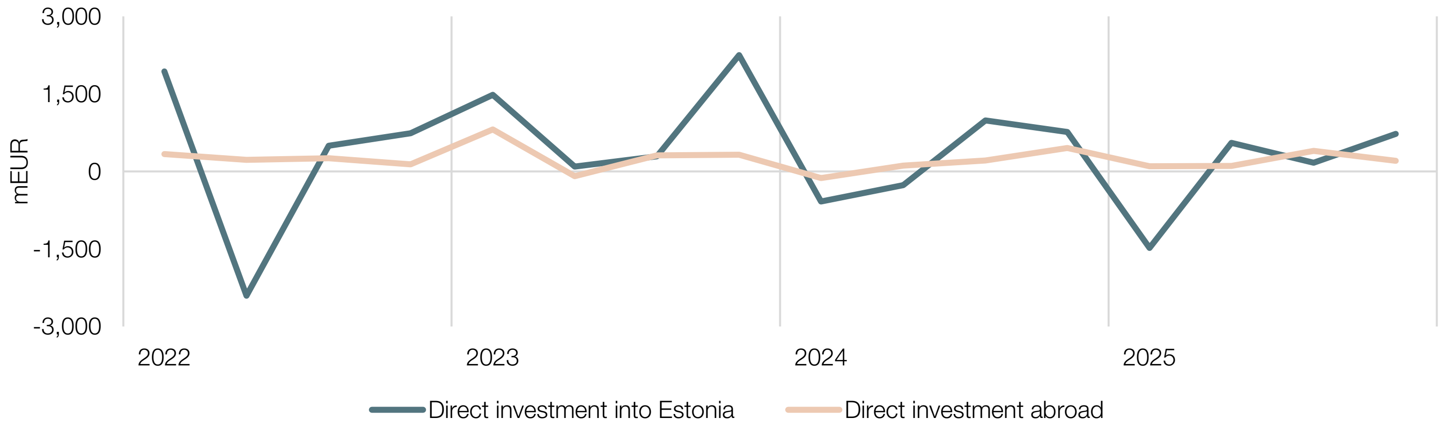


Source: Statistics of Estonia, LHV

- Nominal goods exports increased by 7% in 2025
- Goods' trade growth slowed at the beginning of 2026, with year-on-year growth of 1.3%
  - stronger export categories include machinery, textiles, and agricultural products
  - weaker export categories include metals, rubber and plastics, paper, wood products, and optical instruments
- Nominal services exports grew by 10% in 2025
  - stronger service categories include computer services, business services, healthcare services, and consulting
  - weaker service categories include transport, construction, and telecommunications services

Economic Environment
Domestic investment activity remains volatile

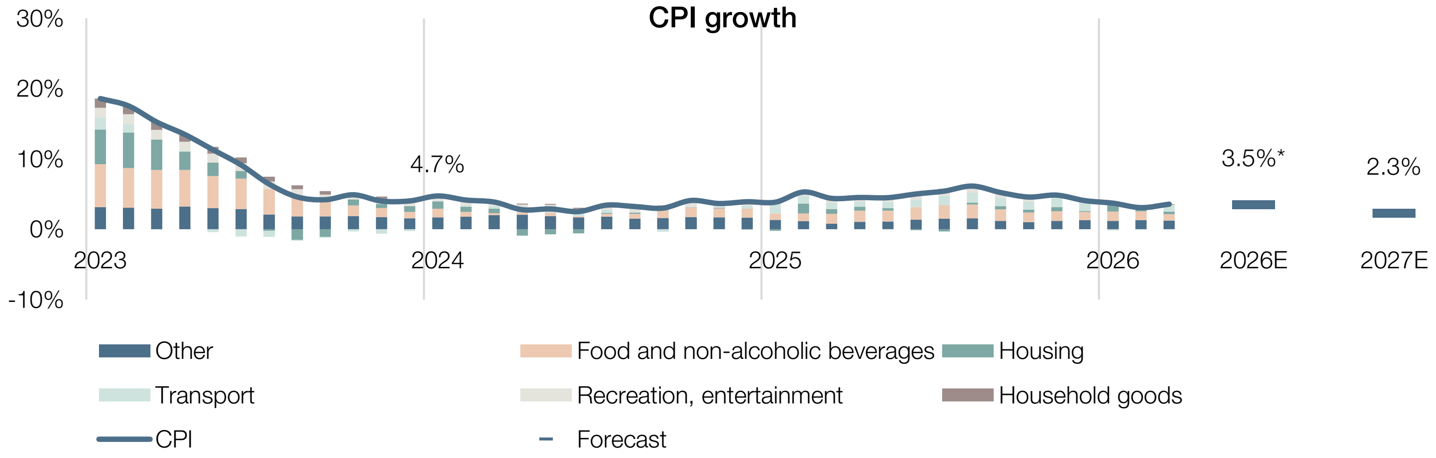


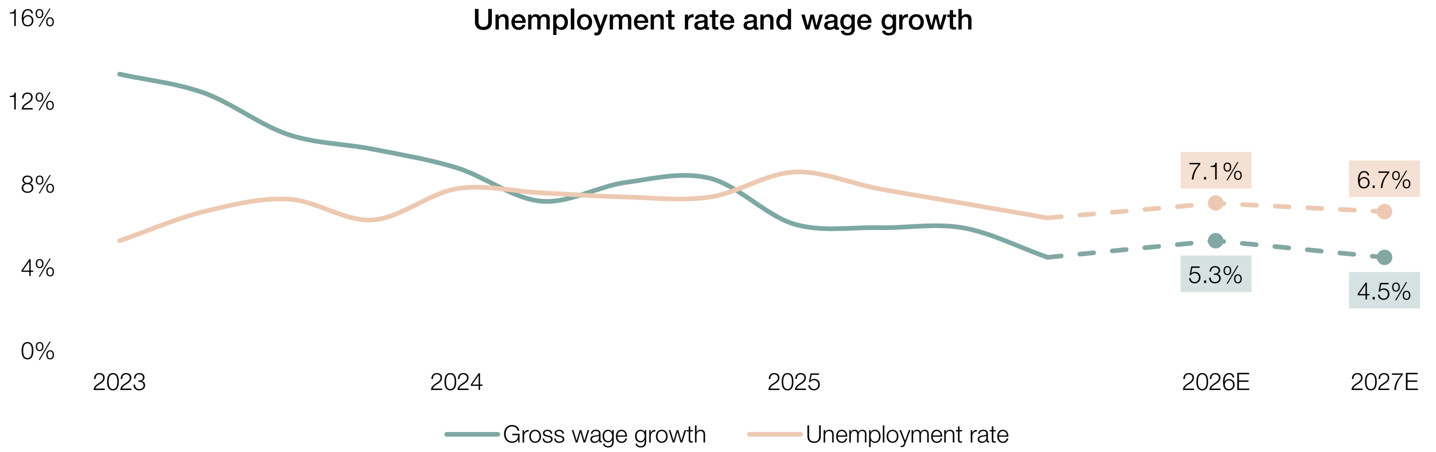


Source: Statistics of Estonia, Bank of Estonia, LHV

- Corporate investment in Estonia declined in 2025
  - as exceptions, investment increased in construction (13.9%) and real estate (8%)
  - investment has been constrained by weak demand, uncertainty, and cost pressures
  - stabilising costs would support higher investment going forward
- In 2025, net outward FDI totalled EUR 837.9 million, impacted by a large Q1 outflow
  - Estonia's sovereign risk premium declined to 0.94%, returning to 2018 levels
- Investment activity is expected to recover modestly in 2026
  - the private sector is likely to pick up only gradually
  - government investment is projected to rise by 31% to EUR 1.3 billion

Inflation outlook remains highly uncertain



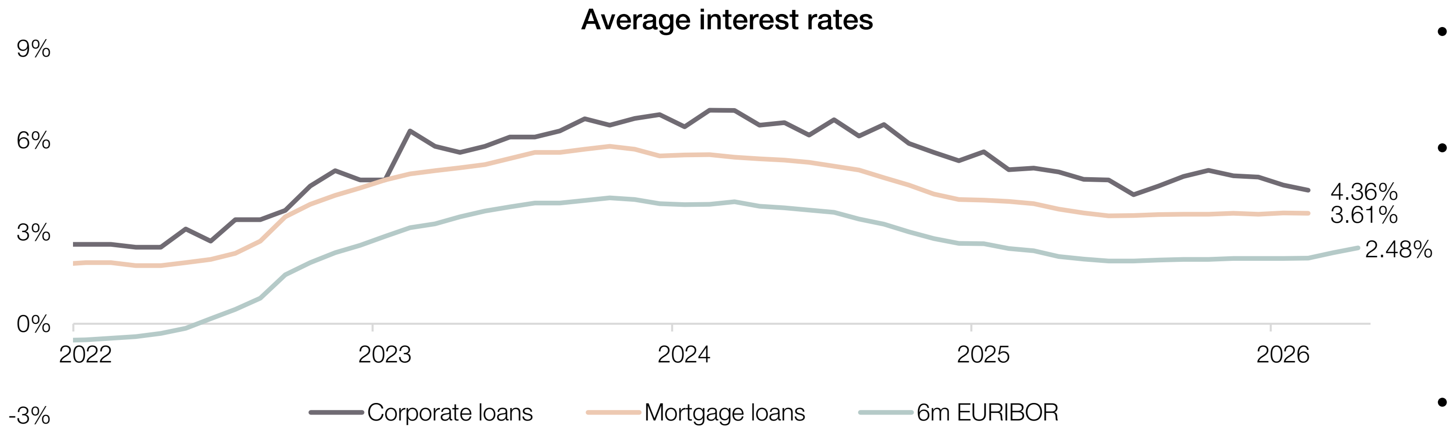


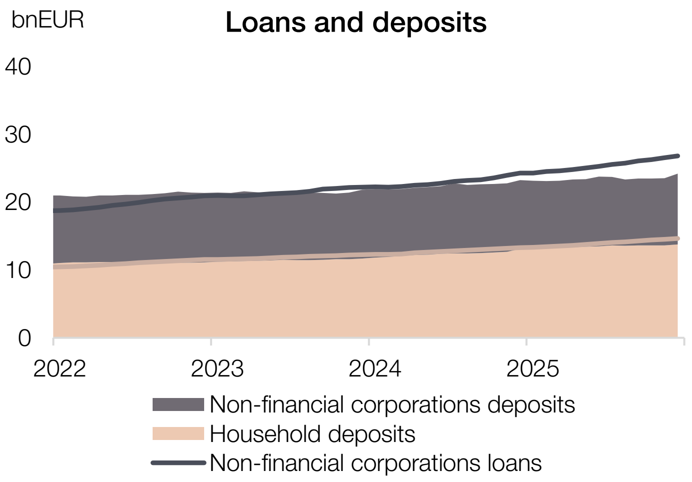
- Inflation in Estonia remained among the highest in the euro area in 2025, at 4.8%
  - tax increases and higher input costs
- In Q1 2026, inflation slowed to 3.5%, mainly due to continued increases in food and services prices
- Inflation in 2026–2027 will largely depend on energy prices, including oil, natural gas, and second-round effects on input costs
- Euro area inflation is expected to rise to around 2.6%, mainly due to higher energy prices, with upside risks
- Labour market remains strong, although the decline in unemployment is gradual
- Wage growth is expected to slow to around 5% in 2026, but cost pressures remain, particularly in lower wage segments (minimum wage +6.8%)
- Average purchasing power is expected to return to 2020 levels by end-2027, assuming inflation does not accelerate further

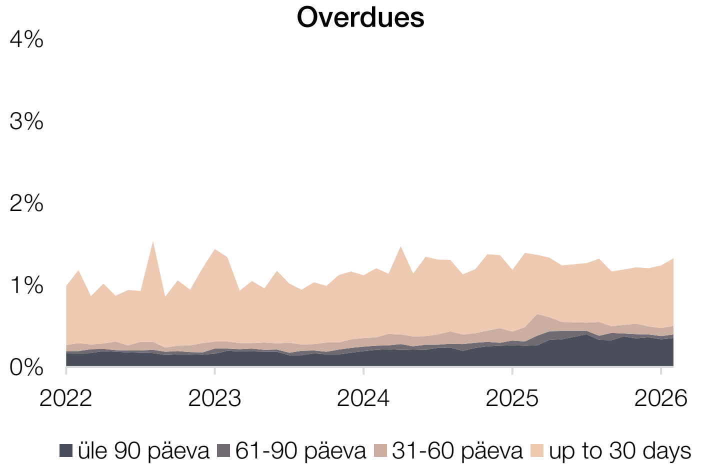
Source: Statistics of Estonia, LHV
As of 16.03.26 assuming: Brent USD 80 (Q1–Q2), USD 75 (Q3–Q4); TTF EUR 53 (Q1–Q2), EUR 38.5 (Q3–Q4)

Economic Environment

The financial sector has remained strong







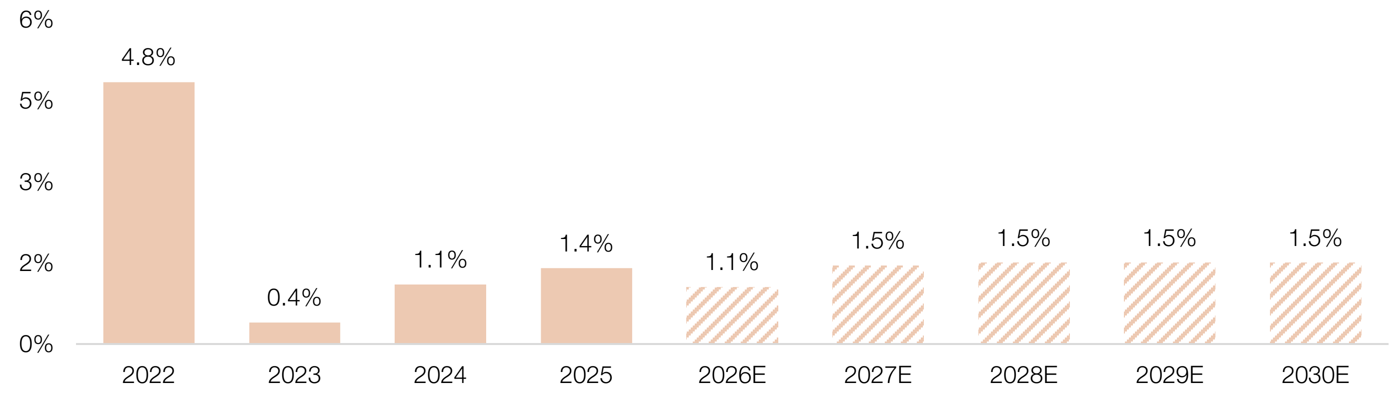
Source: Bank of Estonia, LHV

- The 6-month Euribor has increased in response to developments in the Middle East
- The loan market remained active in the early months of 2026
  - household loan volumes grew by an average of 10% YoY, non-financial corporate loan volumes by 9.7%
- The growth rate of deposits slowed further during the first months of 2026
  - household deposits increased by 6.4% YoY, deposits by non-financial corporations by 1.2%
- The quality of the loan portfolio remained strong
  - at the end of the quarter, the share of loans overdue by more than 60 days stood at 0.40% for households and 0.57% for non-financial corporations

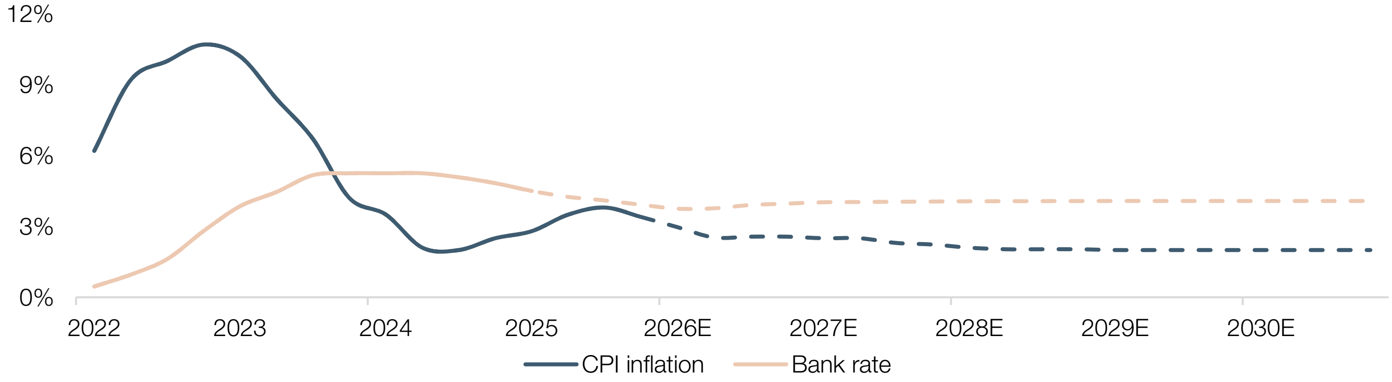
Economic Environment

UK economic growth is being hampered by uncertainty

Real GDP growth



Inflation and bank rate



- The UK economy grew by 1.4% in 2025
  - growth was supported by the public sector and services, particularly transport and hospitality
  - production output declined
- Growth is expected to slow in 2026, but long-term growth potential remains
  - weaker labour market and confidence weigh on the outlook
  - expected improvements in productivity should support growth over time
- The inflation outlook will be driven by energy prices
  - BoE rate expectations have risen to 4.0% by end-2026
- The unemployment rate is projected to increase to 5.3% in 2026

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

Triinu Tapver
LHV Macro Analyst
triinu.tapver@lhv.ee