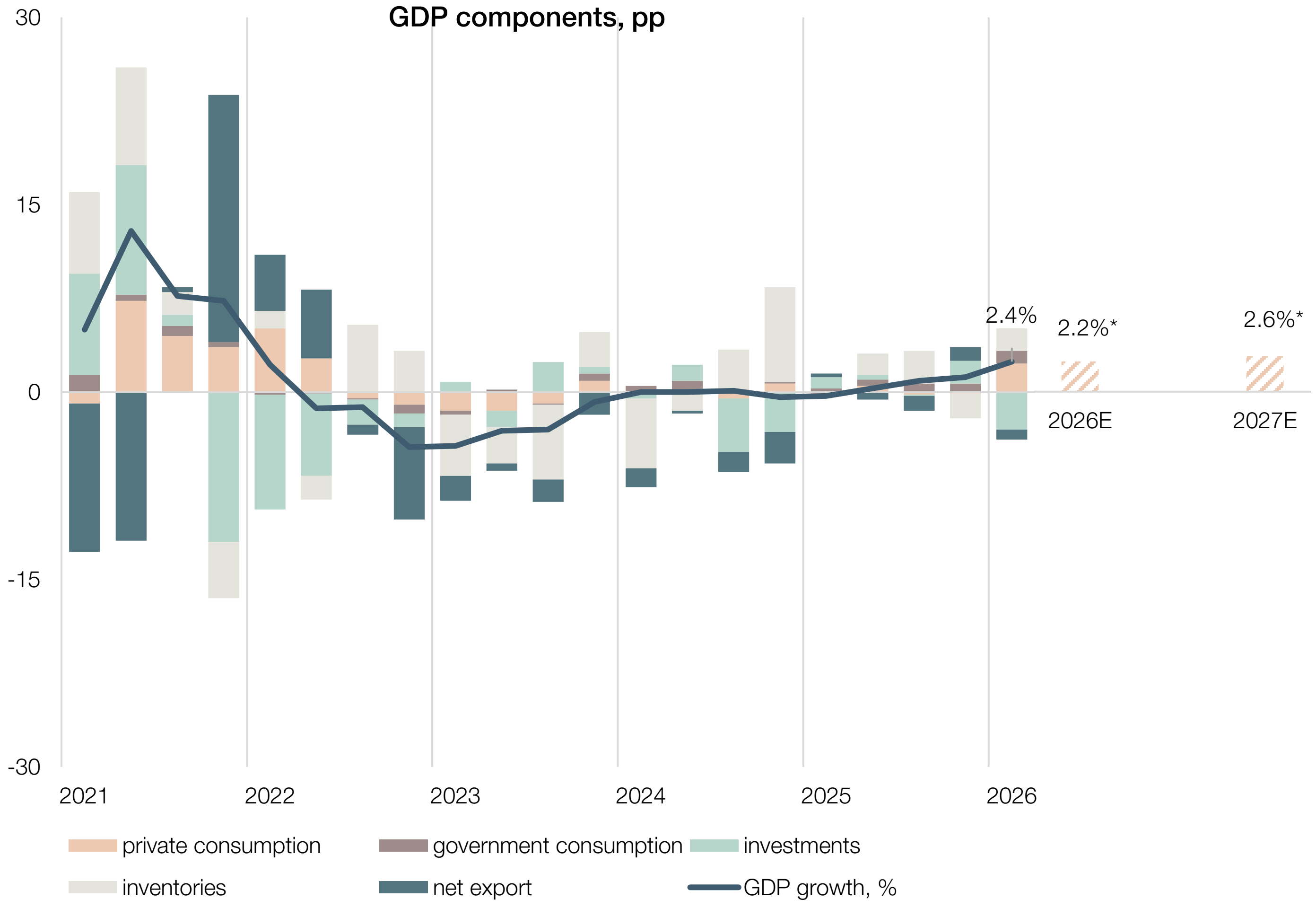
LHV Group

Economic Environment
Q2 2026

Economic Environment

Recovery continues, but remains uneven



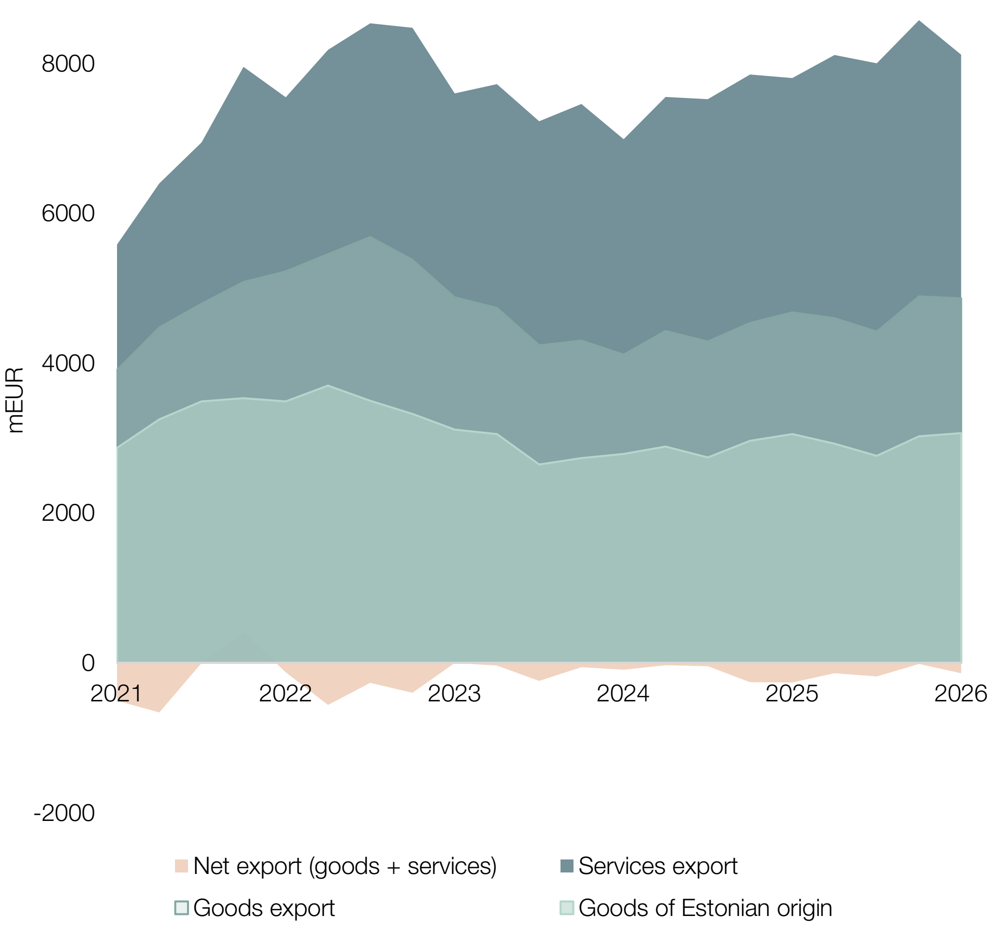
Source: Statistics of Estonia, LHV

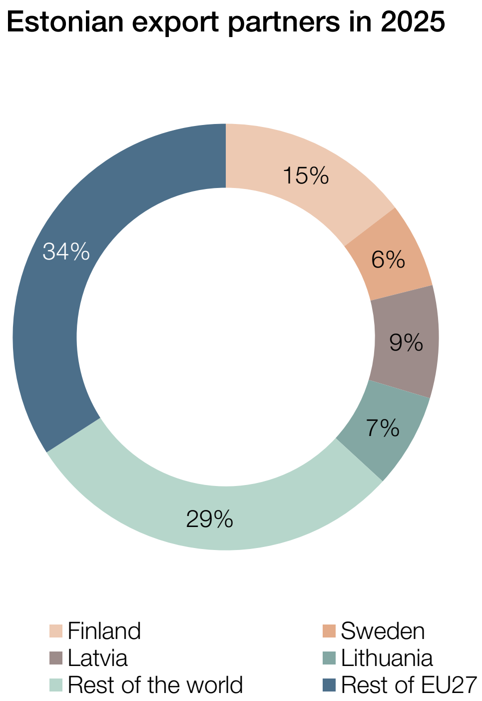
**As of 10.07.26 assuming: Brent USD 75 (2026 Q3-Q4); TTF EUR 48 (2026 Q3-Q4)*

- GDP grew by 2.4% in Q1 2026
  - growth was driven by private consumption and government consumption
  - more than 60% of consumption came from energy and transport spending
  - investment and net exports weighed on growth
- Q2 developments were mixed
  - export revenue growth accelerated
  - consumption growth slowed
  - industrial production continued to decline
- The Estonian economy is expected to continue its gradual recovery in 2026
  - growth will be supported by defence related fiscal stimulus and a gradual recovery in private consumption
  - energy prices remain the main source of uncertainty
- The budget deficit is projected to increase to 4.5%
  - a larger fiscal deficit reduces buffers for future crises

Economic Environment

Exports are recovering, but performance varies across sectors



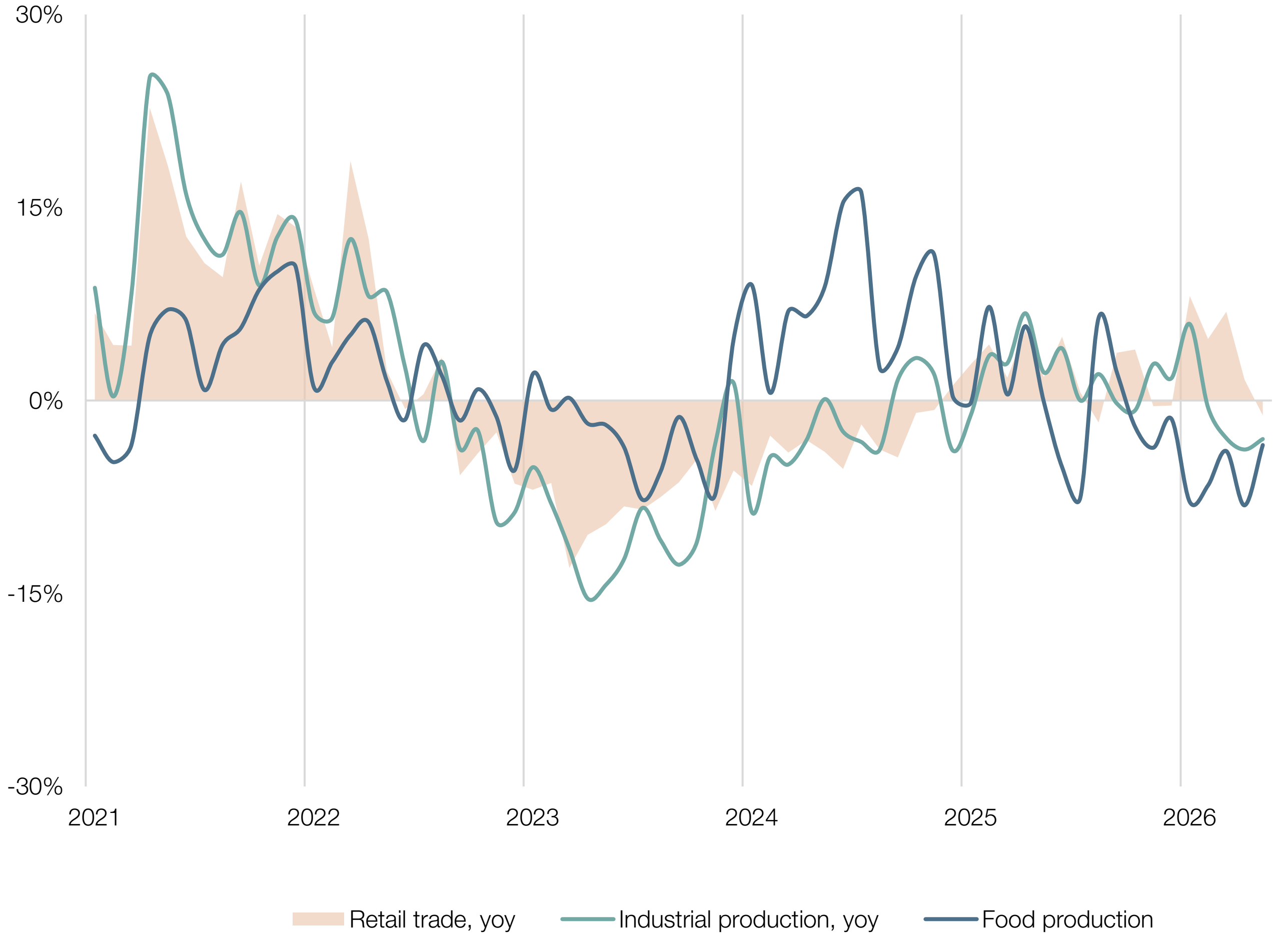


- Nominal goods exports accelerated to 13.2% YoY in April
  - exports of Estonian-origin goods increased by 9.9%
- The recovery remains uneven across sectors
  - manufacturing exports improved in general, while food exports remained in decline
- Export growth will be supported by stronger demand in neighbouring markets
  - the outlook remains highly dependent on geopolitical developments
  - Sweden: growth is expected to accelerate in the second half of the year
  - Finland: GDP growth is forecast at 0.7% in 2026
  - Latvia: GDP growth of 2.0%, supported by defence investment
  - Lithuania: GDP growth of 2.7%, supported by defence investment and the temporary effects of pension reform

Source: Statistics of Estonia, LHV

Economic Environment

Recovery remains uneven across sectors

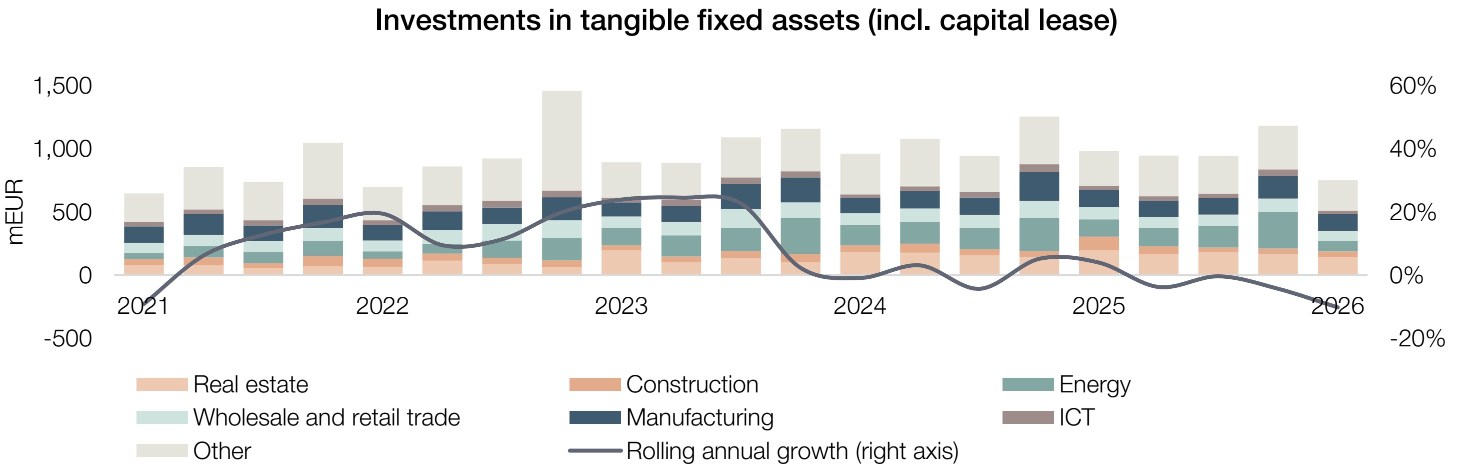


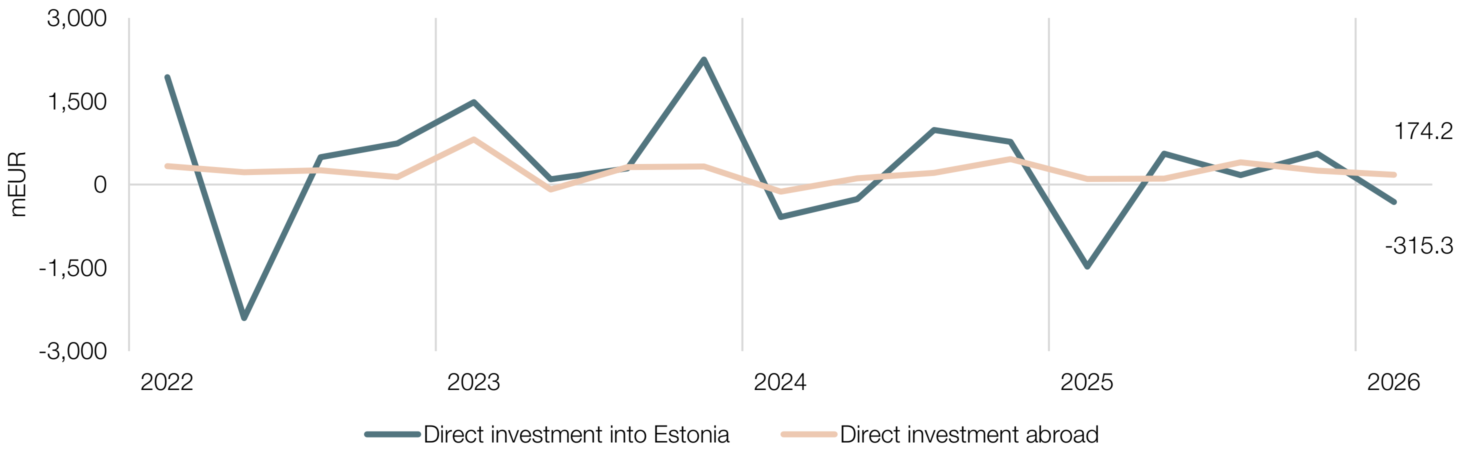
Source: Statistics of Estonia, LHV

- Industry
  - industrial production declined by 3.0–3.8% in Q2
  - the decline was driven mainly by energy production and the food industry
  - most other manufacturing industries and mining continued to record modest growth
- Retail trade
  - growth in retail sales slowed
  - the decline in food sales moderated to 0.5% in April and May
  - sales of manufactured goods continued to decline, indicating that consumers remain cautious about major purchases

Economic Environment

Investment activity remains under pressure

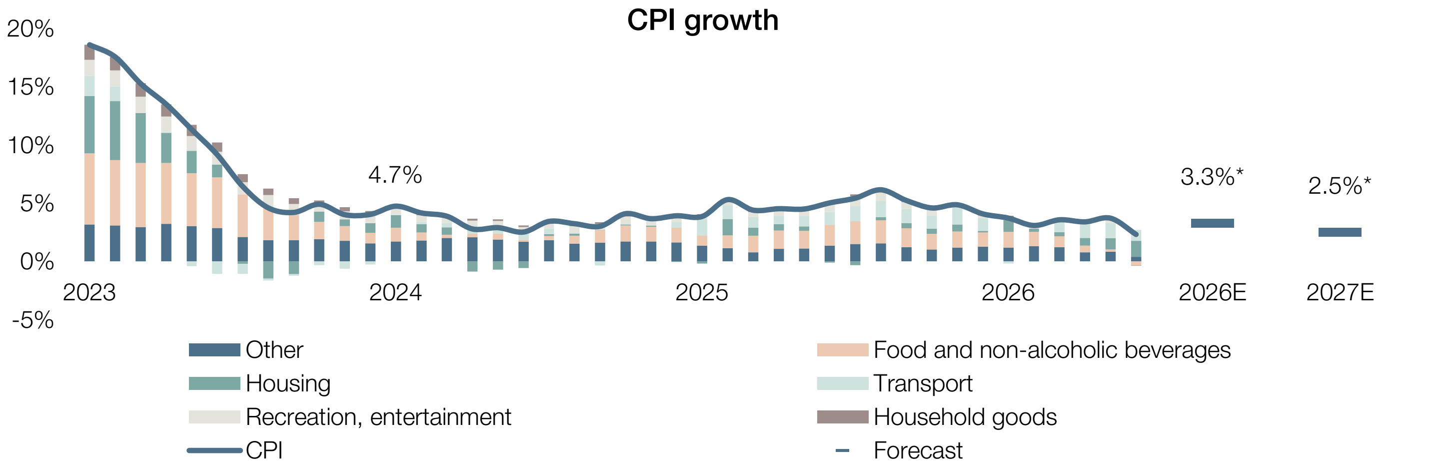


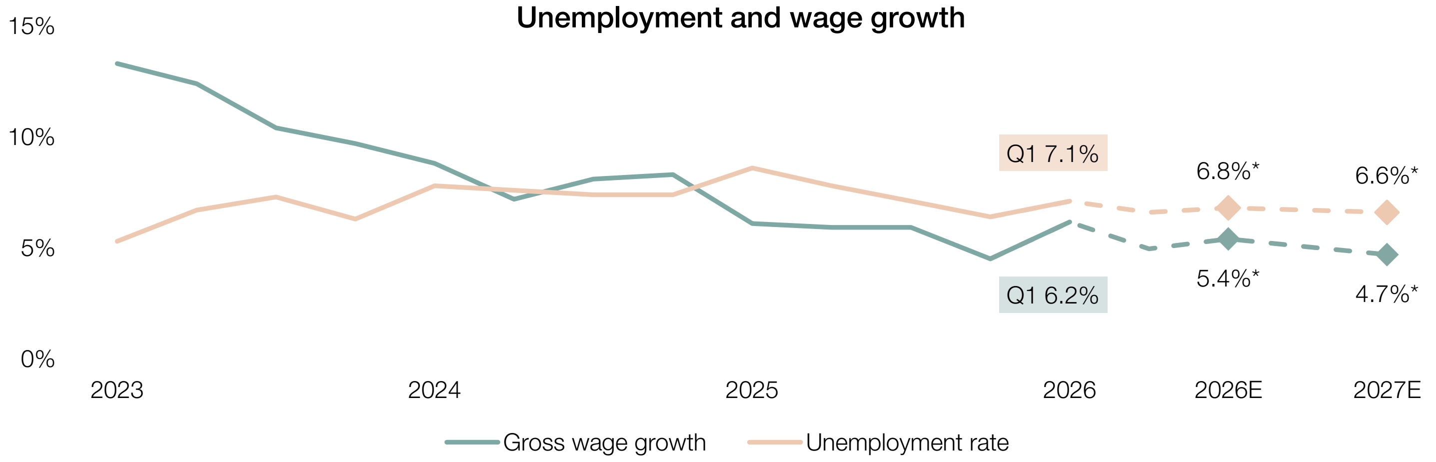


- Corporate investment
  - investment in fixed assets declined by 26% YoY and 36% QoQ in Q1 2026
  - investment increased only in mining (+54% YoY) and ICT (+11% YoY)
  - weak domestic demand, uncertainty, and cost pressures continue to constrain investment
- Foreign direct investment
  - in Q1 2026, outward FDI totalled EUR 315.3 million, while inward FDI amounted to EUR 174.2 million
- Investment activity is expected to recover gradually in 2026
  - private sector is likely to pick up only gradually
  - government investment is projected to rise by 31% to EUR 1.3 billion
  - stabilising cost pressures should support stronger corporate investment

Source: Statistics of Estonia, Bank of Estonia, LHV

Economic Environment
Inflation has eased, but risks remain



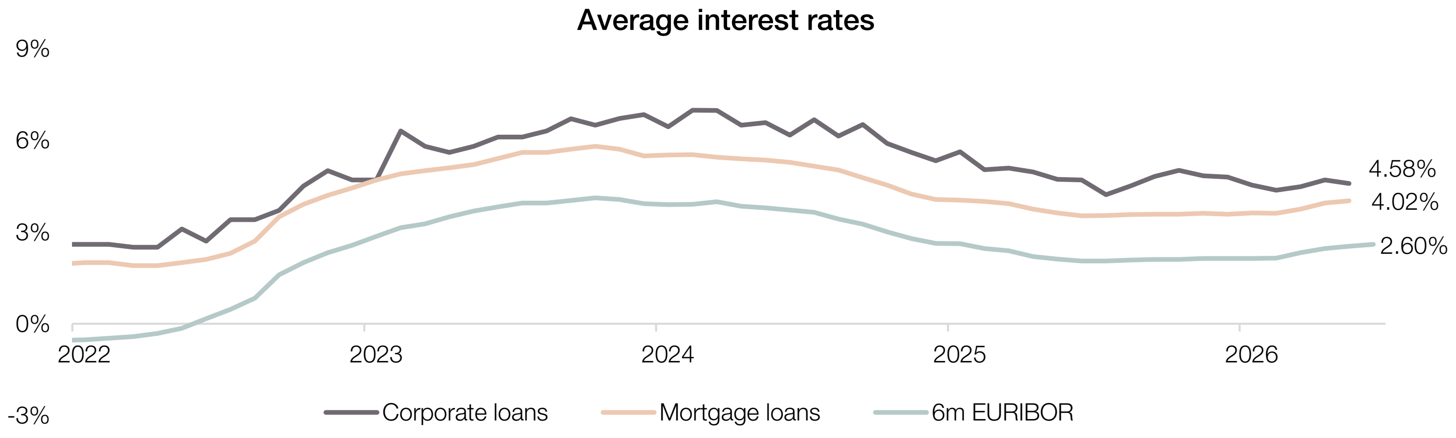


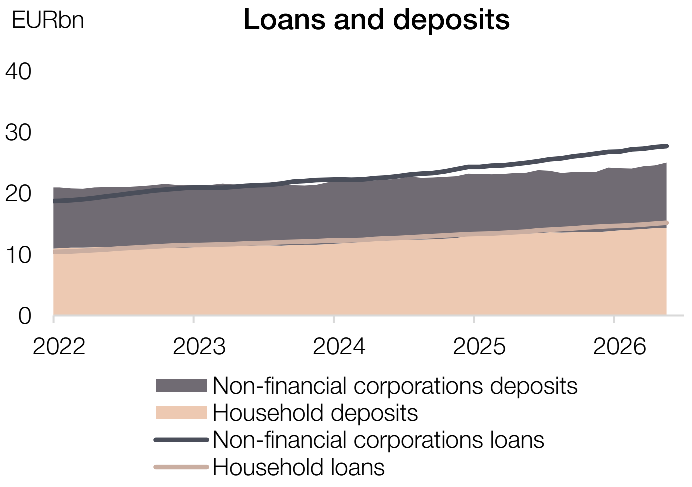
Source: Statistics of Estonia, LHV
As of 10.07.26 assuming: Brent USD 75 (2026 Q3-Q4); TTF EUR 48 (2026 Q3-Q4)

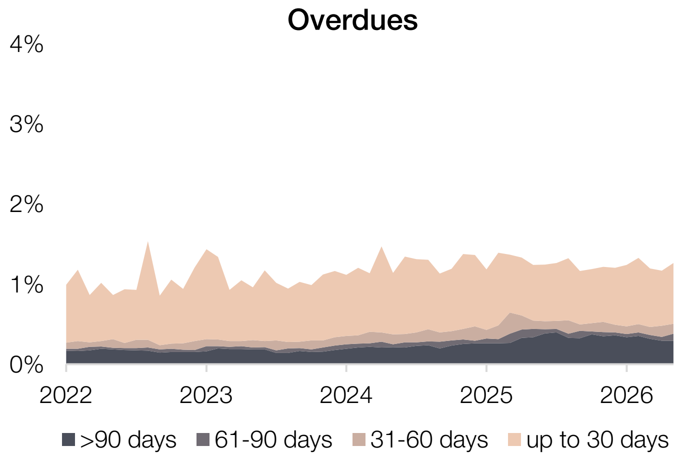
- Inflation continued to slow in Q2 despite elevated energy prices
  - inflation eased to 2.3% in June
  - lower food and clothing prices were the main drivers of disinflation
  - competition in the domestic fuel market limited the pass-through of higher energy prices to transport costs
- Inflation in 2026–2027 will largely depend on energy prices
  - key risks include oil, natural gas, and second-round effects on input costs
  - Euro area inflation is expected to accelerate to 3.0%, mainly due to higher energy prices
- Labour market
  - conditions remain resilient, although unemployment is declining only gradually
  - wage growth is expected to slow to around 5% in 2026
  - labour cost pressures remain elevated in lower wage brackets (minimum wage +6.8%)

Economic Environment

Loan growth remains strong and credit quality resilient





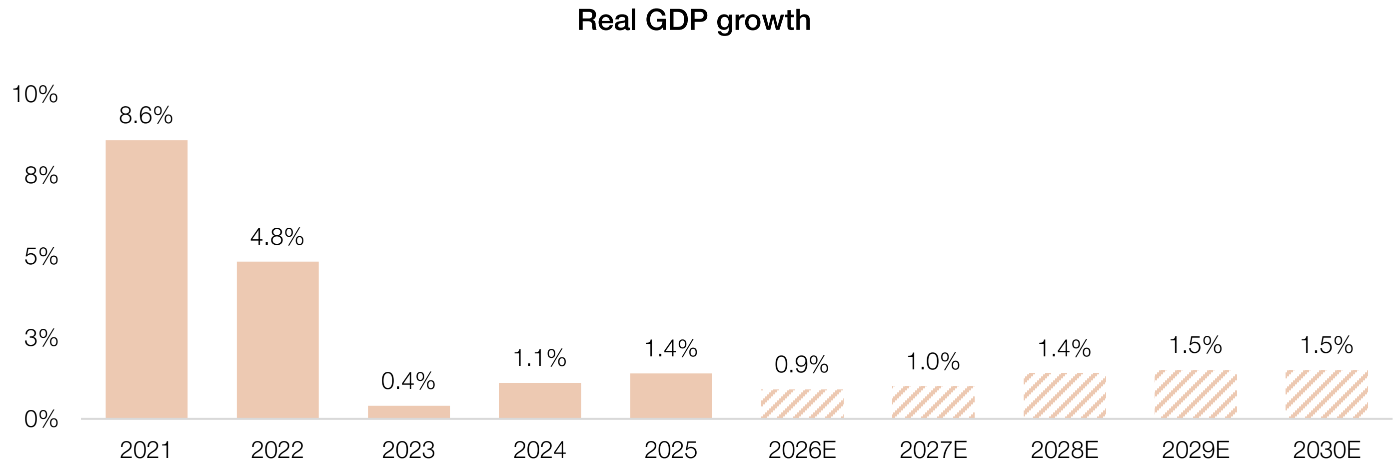


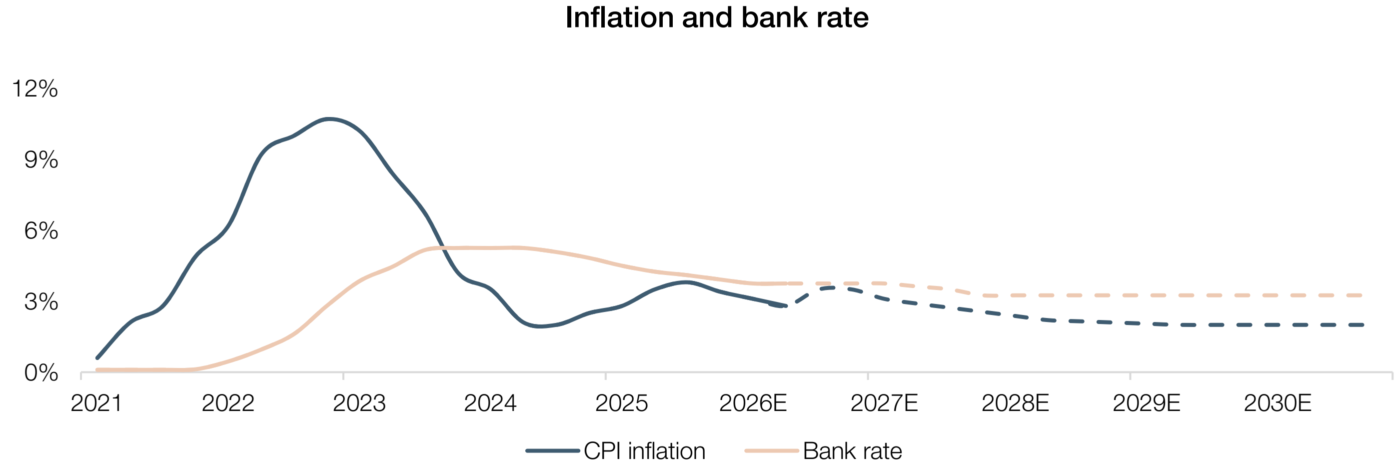
Source: Bank of Estonia, LHV

- The 6-month Euribor increased during Q2, reflecting the conflict in the Middle East and higher inflation expectations
- Lending activity remained strong in Q2
  - household loan portfolio grew by 10.5% YoY in May, non-financial corporate lending by 11.2%
- Deposit growth accelerated modestly
  - household deposits grey by 7.2% YoY in May, corporate deposits by 7.0%
- Credit quality remained strong
  - Loans overdue by more than 60 days accounted for 0.39% of household loans and 0.55% of corporate loans in May
  - deterioration was limited to consumer lending, where the share of overdue loans increased to 2.85%

Economic Environment

Uncertainty continues to weigh on UK growth





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

- UK economy grew by 0.9% in Q1 2026
- April and May pointed to slower economic activity
  - industrial production remained flat
  - services weakened, while construction continued to grow modestly
- Energy prices remain the key driver of inflation
  - markets expect the Bank of England policy rate to remain at 3.75% by end-2026
- Outlook
  - GDP growth is forecast at 0.9% in 2026
  - unemployment is projected to rise to 5.4%
  - weaker labour markets, higher energy prices, and business uncertainty continue to weigh on growth
  - long-term growth potential remains intact

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