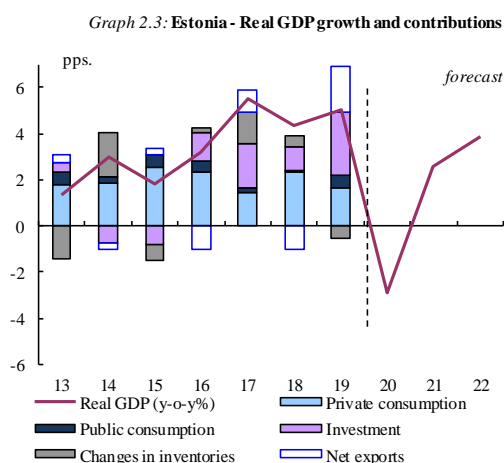


2.3. ESTONIA

Real GDP is expected to show a contraction of about 3% in 2020, which is less than average in the EU. This is due to a relatively limited contraction in private consumption and the resilience of exports. Employment weakened mostly in the sectors directly affected, such as hotels and restaurants. Restrictions in response to the second wave of the COVID-19 pandemic were introduced in December 2020, primarily affecting indoor dining and educational, cultural and sporting facilities. With these measures limiting economic activity much less than those taken in the spring of 2020, the negative impact on GDP is projected to be smaller.

As COVID-19 restrictions are assumed to be lifted gradually, GDP is forecast to grow by 2.6% in 2021, with growth expected to strengthen towards the second half of the year. Growth momentum is forecast to drive annual GDP up by 3.8% in 2022. In both years, growth is expected to be driven mainly by private consumption and a gradual resumption of private investment. In spite of the economic crisis, aggregate household savings accumulated over 2020, which should boost consumption once the COVID-19 restrictions are lifted. Future spending related to the Recovery and Resilience Facility is not included in this forecast and constitutes an upside risk. The recent changes to the second pillar of the pension system, which allow savers to withdraw their accumulated pension assets before pension age, also present a positive risk to private consumption and growth over the second half of 2021 and 2022.



Inflation turned negative in 2020, with the annual rate falling to -0.6% due to factors such as the temporary cuts to diesel excise taxes (which will be reinstated in 2022) and lower restaurant and accommodation prices. Inflation is forecast to increase to just over 1% in 2021, dampened by the persisting slack in the labour market and the economy following the 2020 crisis. As private consumption picks up and the excise taxes on diesel return to their previous rates, inflation is forecast to rise above 2% in 2022.