

## Growth should pick up in 2017 with investment

### General Information



<b>GDP</b>	USD22.7bn (World ranking 105, World Bank 2015)
<b>Population</b>	1.31mn (World ranking 154, World Bank 2015)
<b>Form of state</b>	Parliamentary Republic
<b>Head of government</b>	Juri RATAS (Prime Minister)
<b>Next elections</b>	2019, legislative



### Strengths

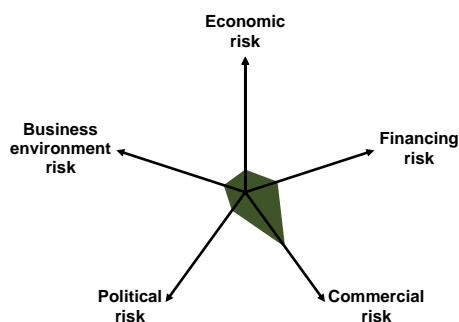
- Low systemic political risk
- Good regional and international relations (except with Russia), EU membership
- One of the most open and liberal economies in the world
- Eurozone membership provides for low transfer and convertibility risk
- Healthy public finances
- Strong business environment, supported by stable institutions and an independent judiciary

### Weaknesses

- High gross external debt
- Trade and energy dependence on Russia

### Country Rating

**AA1**



Source: Euler Hermes

### Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Sweden	16% 1	12% Finland
Finland	13% 2	11% Germany
Russian Federation	13% 3	11% Russian Federation
Latvia	9% 4	7% Latvia
Lithuania	5% 5	7% Poland

By product (% of total)

Exports	Rank	Imports
Telecommunications Equipment	12% 1	12% Refined Petroleum Products
Crude Oil	6% 2	6% Telecommunications Equipment
Electrical Apparatus	6% 3	6% Electrical Apparatus
Refined Petroleum Products	6% 4	4% Cars And Cycles
Non-Edible Agricultural Prod.	4% 5	4% Plastic Articles

Sources: Unctadstat, Chelem (2014)



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### Weak investment holds back growth

Real GDP growth decelerated from +2.8% in 2014 to +1.4% in 2015 and edged up slightly to a still modest +1.6% in 2016. The latter was mainly driven by domestic consumption and inventories. Private consumption increased by +4% and government consumption by +1% in 2016. However, fixed investment decreased again, by -2.8% y/y, though this marked an improvement from -3.4% in 2015 and -8.1% in 2014. Meanwhile, inventories added +0.8pp to 2016 growth, a marked rebound from the drop in 2015 (-1.5pp). External trade activity recovered in 2016 as the adverse effects of the Russia crisis in 2015 faded. Exports grew by +3.6% but were outpaced by imports (+4.9%) so that net exports subtracted -0.8pp from growth in 2016.

Going forward, fixed investment should return to growth mode in 2017, in part because government investment is expected to surge as EU-funded projects will enter the implementation phase. Consumer spending is likely to ease somewhat due to the return of moderate inflation. Still, domestic demand is set to remain the key growth driver in the next two years. Euler Hermes forecasts full-year real GDP growth to accelerate to around +2% in 2017 and +2.2% in 2018.

### Good macroeconomic fundamentals

As expected, deflation gave way to inflation in 2016. After falling in the first seven months, consumer prices have picked up since August and reached an increase of +2.2% y/y in December, taking the average of 2016 to +0.1%. Euler Hermes forecasts average inflation of just over +2% in 2017. Meanwhile, bank lending to the private sector picked up to a healthy +11% y/y in the first 10 months of 2016, boding well for a recovery of private investment in 2017.

Public finances remain favorable. Euler Hermes expects small annual fiscal deficits of up to -0.5% of GDP in 2017-2018 and public debt should remain very low about 10% of GDP.

The current account balance is favorable as well. Surpluses were recorded in 2014-2015 and in the first 10 months of 2016 (EUR387mn). As energy prices are set to pick up gradually, the surplus is forecast to narrow to around +1% of GDP in 2017.

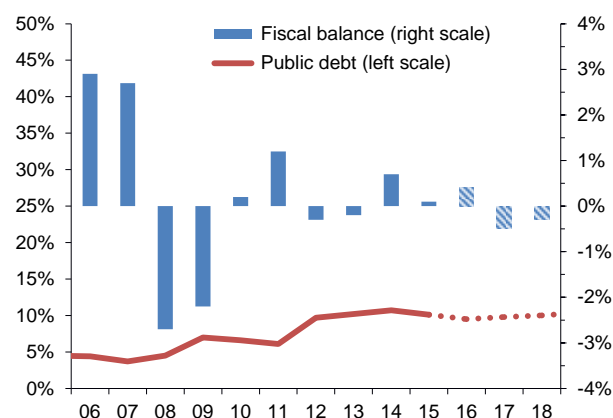
Gross external debt remains the weak spot. It soared to an alarming level of 139% of GDP in 2009, built up by earlier large current account deficits. The ratio fell to a still high 92% in 2015 and should remain around that level in the next two years. Hence external debt remains a cause of some concern and requires close monitoring.

### Key economic forecasts

	2015	2016e	2017f	2018f
GDP growth (% change)	1.4	1.6	2.0	2.2
Inflation (% , end-year)	-0.9	2.2	2.0	2.2
Fiscal balance (% of GDP)	0.1	0.4	-0.5	-0.3
Public debt (% of GDP)	10.1	9.5	9.8	10.0
Current account (% of GDP)	2.1	1.5	1.0	1.0
External debt (% of GDP)	91.9	92.0	91.5	91.0

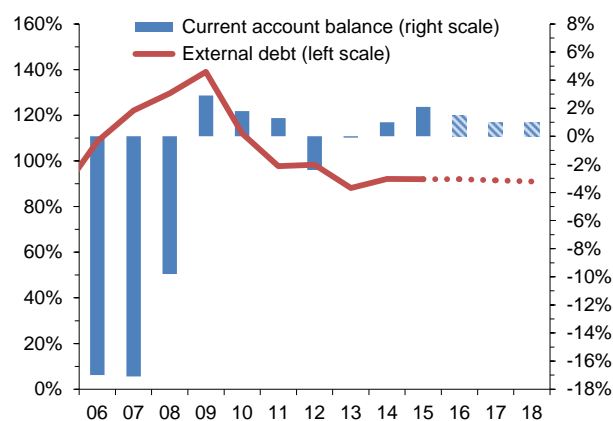
Sources: National statistics, IHS, Euler Hermes

### Public finances (% of GDP)



Sources: Eurostat, Euler Hermes

### Current account and external debt (% of GDP)



Sources: National statistics, IHS, Euler Hermes

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