

# Flash Comment

## Estonia: contraction deepens

- GDP dropped by 15.6% y/y in Q1 09 – much more than the consensus forecast of a drop of 12.8 % y/y and our forecast of 14.6% y/y.
- The latest Lithuanian and Latvian GDP numbers indicate extremely weak Q1 numbers; thus, in general, the decline by 15% y/y on average was expected taking into account sharp deteriorating industrial production and retail trade performance.

### Details

The Estonian statistical office released its flash estimate on GDP growth in Q1 09 today. GDP dropped by 15.6% y/y compared with a decline of 9.6% y/y in Q4 08. The latest developments in general support our expectation that economy might decline by more than 15% y/y on average in this year. However, we believe that the full-year outlook depends on the coming quarter's performance. If we see an even steeper slowdown, the annual data might be worse than our forecast.

### Assessment and outlook

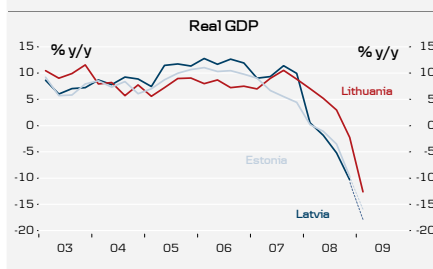
Estonian GDP dropped by 15.6% y/y – much more than the consensus forecast and our expectation of a drop of 14.6% y/y – and a pretty significant deterioration from Q4 08, in which GDP dropped by almost 10% y/y.

As was broadly expected, the value added decreased in the majority of economic activities, but the steep decrease was observed in manufacturing, construction and retail trade. The weak external demand further contributed to negative export-oriented manufacturing performance.

The very weak GDP numbers indicate that the budget situation will have deteriorated further and, in order to match the deficit target of 3% of GDP, the Estonian government should implement significant tightening as soon as possible. However, it is still unclear how it will be achieved.

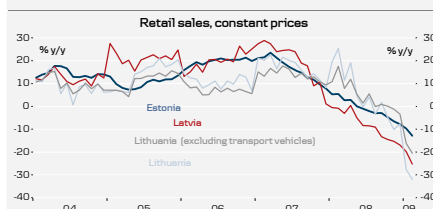
In general, Estonia has the same chance to fulfil the Maastricht criteria this year, but uncertainties with regard to the budget situation have increased significantly.

### Worsening economic outlook



Source: EcoWin

### Retail trade is in freefall



Source: EcoWin

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