

Republic of Estonia

Rating report

Rating rationale

Sound institutions: Estonia's effective policymaking is underpinned by its euro area membership, which provides a robust framework for fiscal policy, economic policy and banking supervision. Its EU and NATO memberships provide robust mitigants to external security risks in the present context of heightened geopolitical tensions.

Low public debt: Prudent fiscal policies have resulted in Estonia having one of the lowest debt-to-GDP ratios globally, at 23.3% by end-2024, further backed by high financial reserves (8.6% of GDP). It is set to rise to around 31% by 2029 due to sustained primary deficits, in part driven by ambitious defence spending commitments, all the while remaining very low relative to peers.

Sound growth prospects: The country's solid economic growth and improved resilience have supported its convergence towards euro area income levels. The Estonian economy is facing persistent headwinds from the fallout of Russia-Ukraine war, having caused real output to decline by 3.0% in 2023 and 0.3% last year. We expect real GDP growth to recover to 1.7% in 2025 and 2.6% in 2026, before converging towards an estimated medium-term potential of 2.2% annually in subsequent years.

Rating challenges: i) exposure to external shocks, given the Estonian economy's small size, still comparatively moderate income levels, elevated openness, and geographic proximity to Russia; and ii) adverse demographic trends and high defence spending commitments that add long-term pressures to the fiscal trajectory.

Foreign currency

Long-term issuer rating/Outlook

A+/Stable

Senior unsecured debt

A+/Stable

Short-term issuer rating/Outlook

S-1+/Stable

Local currency

Long-term issuer rating/Outlook

A+/Stable

Senior unsecured debt

A+/Stable

Short-term issuer rating/Outlook

S-1+/Stable

Figure 1: Estonia's sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating
	Weight	Indicative rating	Notches	Notches	Notches	
Domestic economic risk	35%	bbb	EUR	Estonia	0	A+
Public finance risk	20%	aa			1/3	
External economic risk	10%	b-			0	
Financial stability risk	10%	aaa			1/3	
ESG risk	Environmental factors	5%	[+1]	[-0]	- 1/3	
	Social factors	7.5%			0	
	Governance factors	12.5%			- 1/3	
Sovereign Quantitative Model	a+				0	
Additional considerations					0	

*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket.

**The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index.

***The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#).

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Credit strengths and challenges

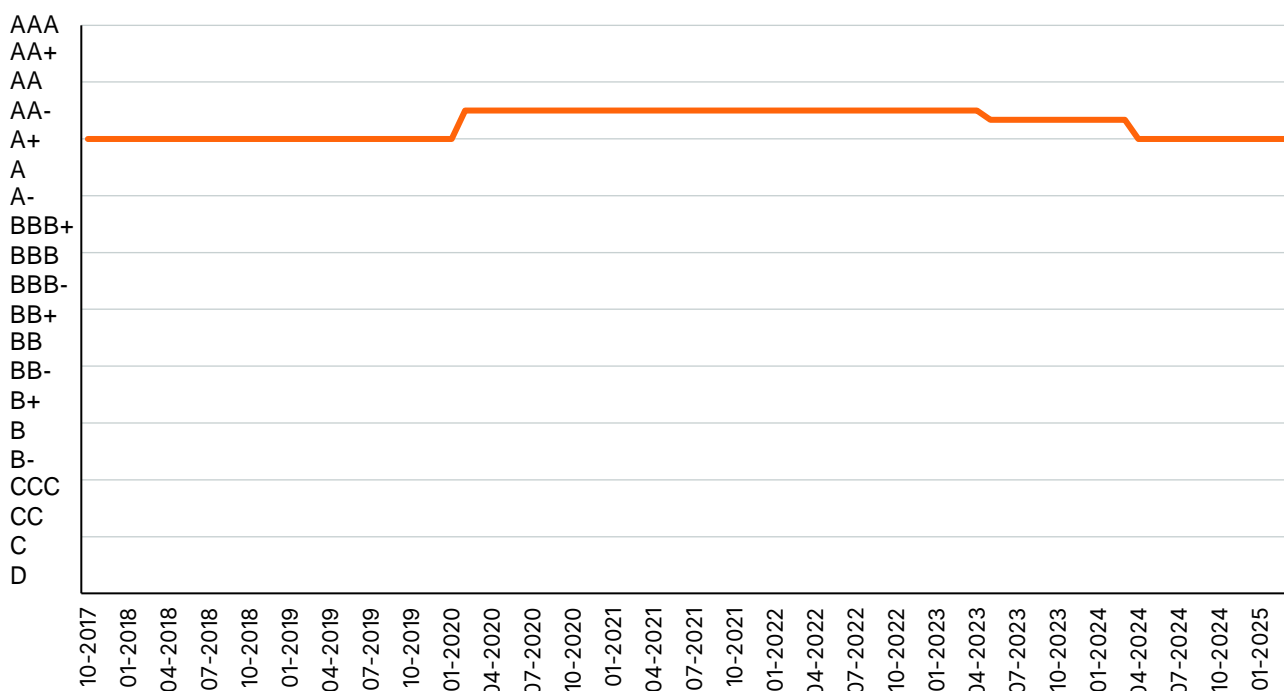
Credit strengths	Credit challenges
<ul style="list-style-type: none"> • Sound institutional set-up underpinned by euro area and NATO memberships • Improved economic resilience and sound medium-run growth prospects • Low public debt 	<ul style="list-style-type: none"> • Exposure to external economic shocks • Adverse demographics and high defence spending commitments, adding pressures to the fiscal trajectory

Outlook and rating triggers

The Stable Outlook reflects Scope’s view that risks to the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> • Solid economic growth and income convergence continuing through structural reform and investment • Improving fiscal outlook, supported by a rebalancing of government finances • External vulnerabilities declining markedly 	<ul style="list-style-type: none"> • Heightened geopolitical risks undermining macroeconomic stability • Deteriorating fiscal outlook leading to accelerated rise in debt-to-GDP ratio • Increased macroeconomic imbalances weakening medium-run growth prospects • External and financial sector vulnerabilities increasing significantly

Figure 2: Rating history



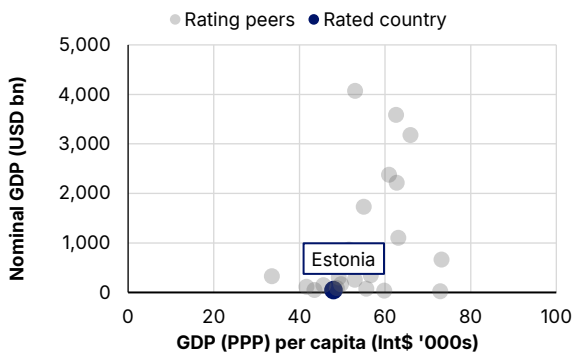
Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

Overview of Scope's assessments of Estonia's Domestic Economic Risk

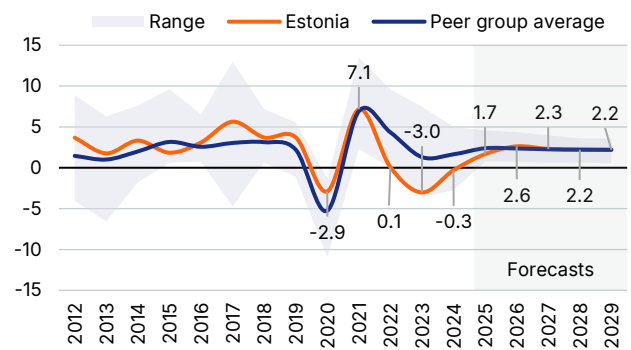
SQM ¹ indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb	Growth potential and outlook	Neutral	0	Sound medium-run economic prospects supported by robust investment; adverse demographic trends are a challenge
	Monetary policy framework	Neutral	0	ECB is a credible and effective central bank; effective policy framework and transmission over the cycle
	Macroeconomic stability and sustainability	Neutral	0	Improved macroeconomic resilience and flexible labour market, but labour shortages and small economy with limited diversification

Figure 3: Nominal GDP and GDP per capita (2024E)



Source: IMF World Economic Outlook (WEO), Scope Ratings

Figure 4: Real GDP growth, %



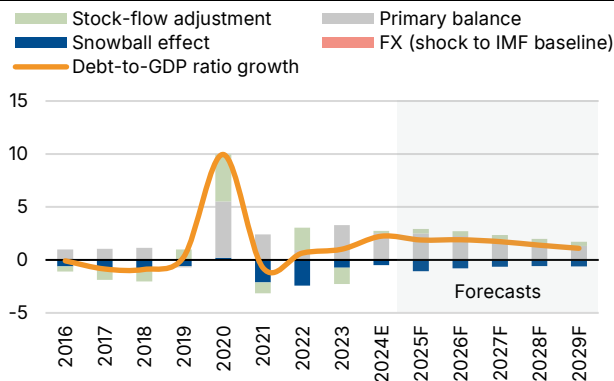
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

Overview of Scope's assessments of Estonia's Public Finance Risk

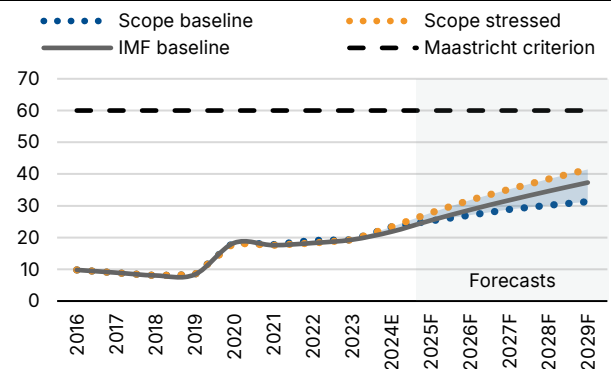
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Fiscal policy framework	Neutral	0	Track record of prudent fiscal policy, but fiscal outlook challenged by the costs of recent shocks and increase defense policy commitments
	Long-term debt trajectory	Strong	+1/3	Still low indebtedness compared to peers, but set to rise over the medium run
	Debt profile and market access	Neutral	0	Moderate funding needs and prudent liquidity management; favourable funding conditions

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

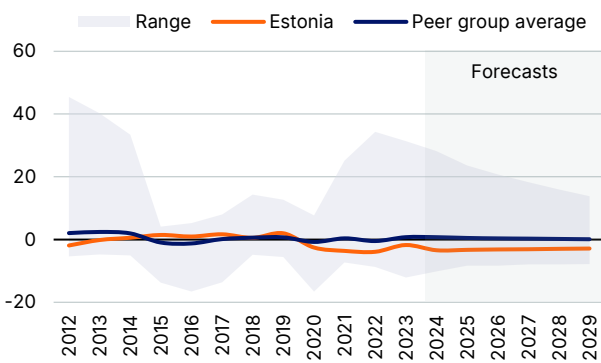
¹ Sovereign Quantitative Model

External economic risk

Overview of Scope's assessments of Estonia's External Economic Risk

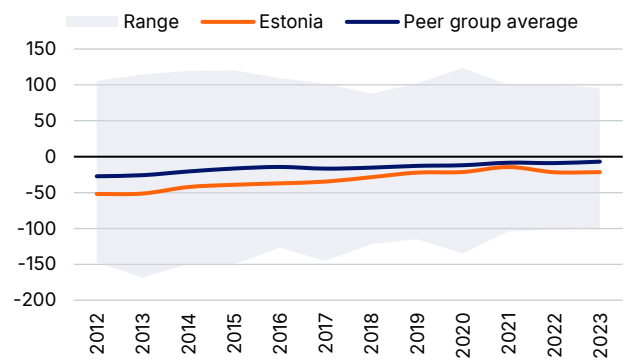
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b-	Current account resilience	Neutral	0	Growing focus on high value-added services exports; recent loss in competitiveness set to weigh on export performance over the medium term
	External debt structure	Strong	+1/3	Moderate net external debtor position, large share of foreign direct investment in net external liabilities reducing exposure to shocks
	Resilience to short-term external shocks	Weak	-1/3	Small and open economy, exposed to ongoing uncertainty on global trade; euro-area membership partly mitigates exposure to external developments

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



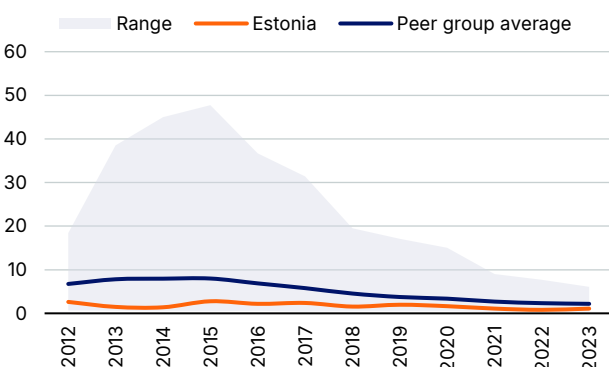
Source: IMF, Scope Ratings

Financial stability risk

Overview of Scope's assessments of Estonia's Financial Stability Risk

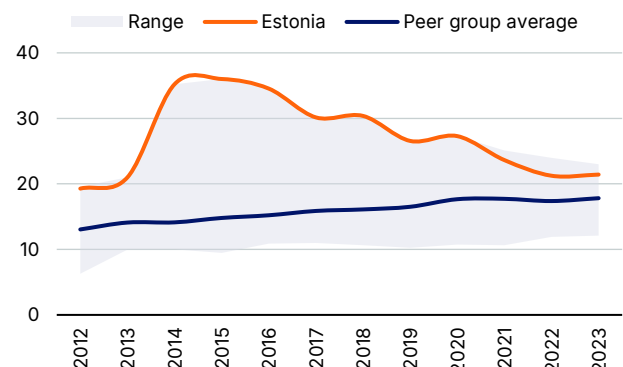
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Strong	+1/3	Well-capitalised and profitable banking sector with moderate non-performing loans
	Financial sector oversight and governance	Neutral	0	Oversight under the Bank of Estonia and the ECB as part of European Banking Union
	Financial imbalances	Neutral	0	Concentration and spillover risks in the banking system from dominant Nordic banking groups, moderate private indebtedness and foreign deposits

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



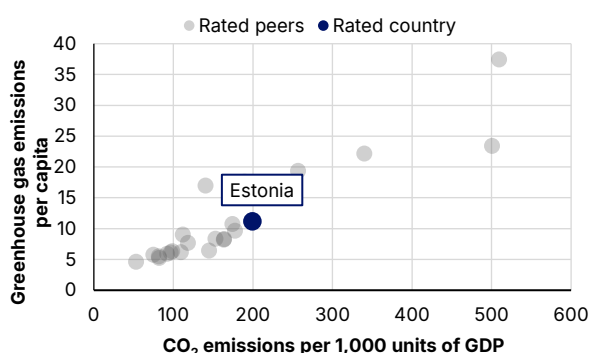
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

Overview of Scope’s assessments of Estonia’s ESG Risk

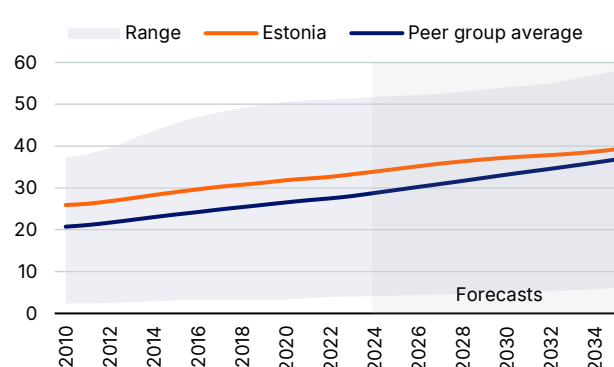
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a+	Environmental factors	Weak	-1/3	High exposure to transition risks due to economically important oil shale industry
	Social factors	Neutral	0	Inclusive labour markets, balanced inequality and poverty risks, adverse demographic trends
	Governance factors	Weak	-1/3	Stable governance, supported by EU, euro area and NATO memberships; heightened geopolitical uncertainty could impact domestic institutional developments

Figure 11: CO₂ emissions per capita/GDP (2023), mtCO₂e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

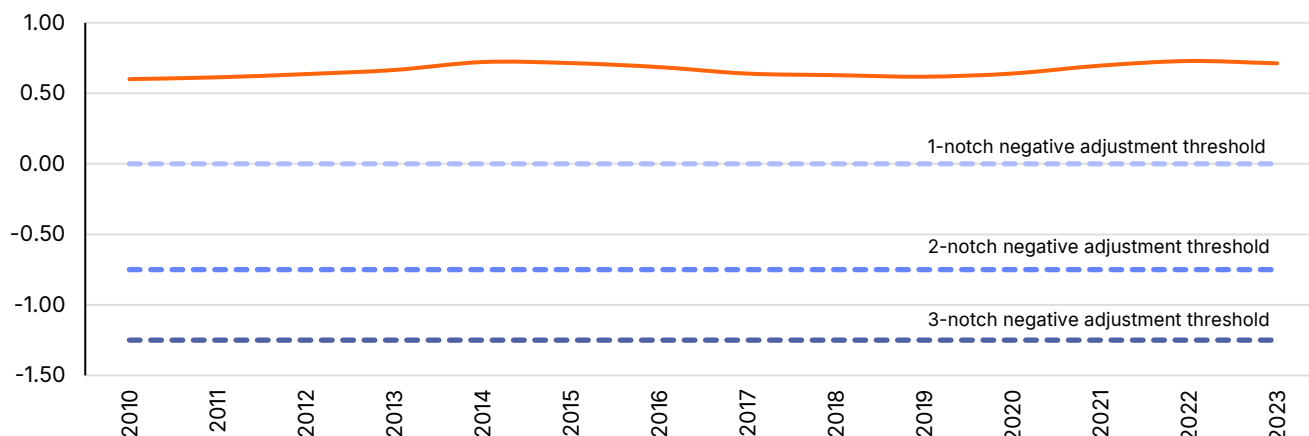
IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

Political-risk adjustment

Figure 13: WB Political Stability & Absence of Violence/Terrorism index, Estonia, 3-year moving average



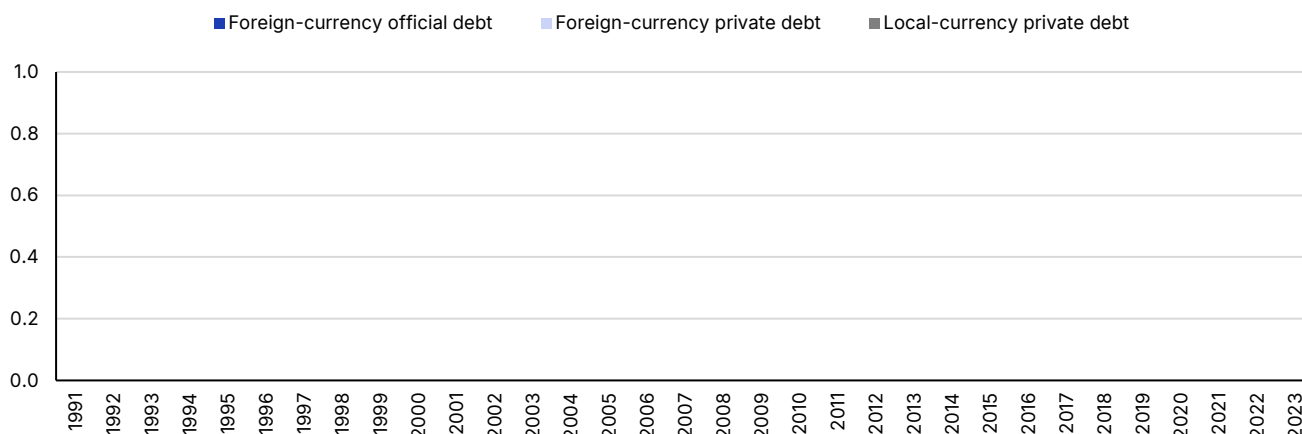
Source: WB, Scope Ratings

Additional considerations

No adjustment was applied to the rating from additional considerations.

Appendix 1. Sovereign default history

Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).

Source: [Bank of Canada-Bank of England Sovereign Default Database](#), Scope Ratings.

Appendix 2. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Belgium
Croatia
Cyprus
Czech Republic
Latvia
Malta
Poland
Portugal
Slovakia
Slovenia

*Select publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix 3. Economic development and default indicators

IMF Development Classification Advanced economy

5y USD CDS spread (bp) as of 14 March 2025 54.01

Appendix 4. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2019	2020	2021	2022	2023	2024E
Domestic Economic	GDP per capita (PPP), Int\$ '000s	IMF	40.6	40.7	45.1	47.7	47.1	48.0
	Nominal GDP, USD bn	IMF	32	32	37	38	41	43
	Real growth, %	IMF	3.7	-2.9	7.1	0.1	-3.0	-0.9
	CPI inflation, %	IMF	2.3	-0.6	4.5	19.4	9.1	3.4
	Unemployment rate, %	WB	4.5	7.0	6.2	5.6	6.3	-
Public Finance	Public debt, % of GDP	IMF	8.3	18.3	17.6	18.3	19.3	21.8
	Net interest payment, % of government revenue	IMF	0.0	0.1	0.1	0.1	0.4	1.0
	Primary balance, % of GDP	IMF	0.1	-5.3	-2.4	-0.9	-3.3	-2.5
External Economic	Current-account balance, % of GDP	IMF	2.0	-2.5	-3.6	-3.9	-1.7	-3.4
	Total reserves, months of imports	WB	0.7	1.0	0.9	0.7	0.9	-
	NIIP, % of GDP	IMF	-22.2	-21.4	-14.4	-21.6	-	-
Financial Stability	NPL ratio, % of total loans	IMF	2.0	1.6	1.1	0.8	1.1	-
	Tier 1 ratio, % of risk-weighted assets	IMF	26.3	26.4	27.4	23.8	21.6	21.4
	Credit to the private sector, % of GDP	WB	59.3	63.4	59.8	57.7	58.7	-
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	262.9	207.2	207.1	212.8	199.3	-
	Income share of bottom 50%, %	WID	16.7	16.7	17.5	17.6	-	-
	Labour-force participation rate, %	WB	78.7	79.1	78.9	80.9	-	-
	Old-age dependency ratio, %	UN	31.3	31.9	32.3	32.7	33.3	33.9
	Composite governance indicators*	WB	1.3	1.4	1.4	1.4	1.4	-
	Political stability, index	WB	0.6	0.6	0.6	0.7	0.7	0.7

*Average of the following five World Bank Worldwide Governance Indicators: Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality.

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Related research

[CEE Sovereign Outlook: Recovering growth, diverging fiscal paths, and persistent geopolitical risks](#), January 2024

[Baltic update: divergence in macro-fiscal outlooks drive recent rating actions](#), December 2024

Applied methodology

[Sovereign Rating Methodology](#), January 2025

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