

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 NATO membership strongly mitigates external security risks, which have risen amid the heightened geopolitical tensions in the region caused by Russia's war in Ukraine.

Solid growth prospects: The country's solid economic growth and improved resilience have supported its convergence to euro area income levels. The Estonian economy is particularly exposed to the fallout from the Russia-Ukraine war, however, with contractions of 0.5% in 2022 and 3.0% in 2023. We expect growth to remain negative this year (-0.3%), before recovering to 3.2% in 2025 and gradually converging towards an estimated potential of 2.2% annually in subsequent years.

Low public debt: Prudent fiscal policies have resulted in Estonia having one of the lowest debt-to-GDP ratios globally, at 19.6% by end-2023, further backed by high financial reserves. It is set to rise materially over coming years due to sustained, large primary deficits, up to around 33% by 2028, all the while remaining very low relative to peers.

Rating challenges: i) still moderate per-capita income relative to the euro-area average, which, together with the economy's small size and openness, increases Estonia's vulnerability to external shocks; and ii) an ageing population and labour shortages that are constraining the medium-term growth outlook and are likely to exacerbate fiscal pressures.

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%	bb	EUR	Estonia	0	A+
Public finance risk		20%	aa			1/3	
External economic risk		10%	bb			1/3	
Financial stability risk		10%	aaa			2/3	
ESG risk	Environmental factors	5%	a-	[+1]	[-0]	- 1/3	
	Social factors	7.5%	b-			0	
	Governance factors	12.5%	aaa			- 1/3	
Sovereign Quantitative Model		a			+1		
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](#). Source: Scope Ratings.

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

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Credit strengths and challenges

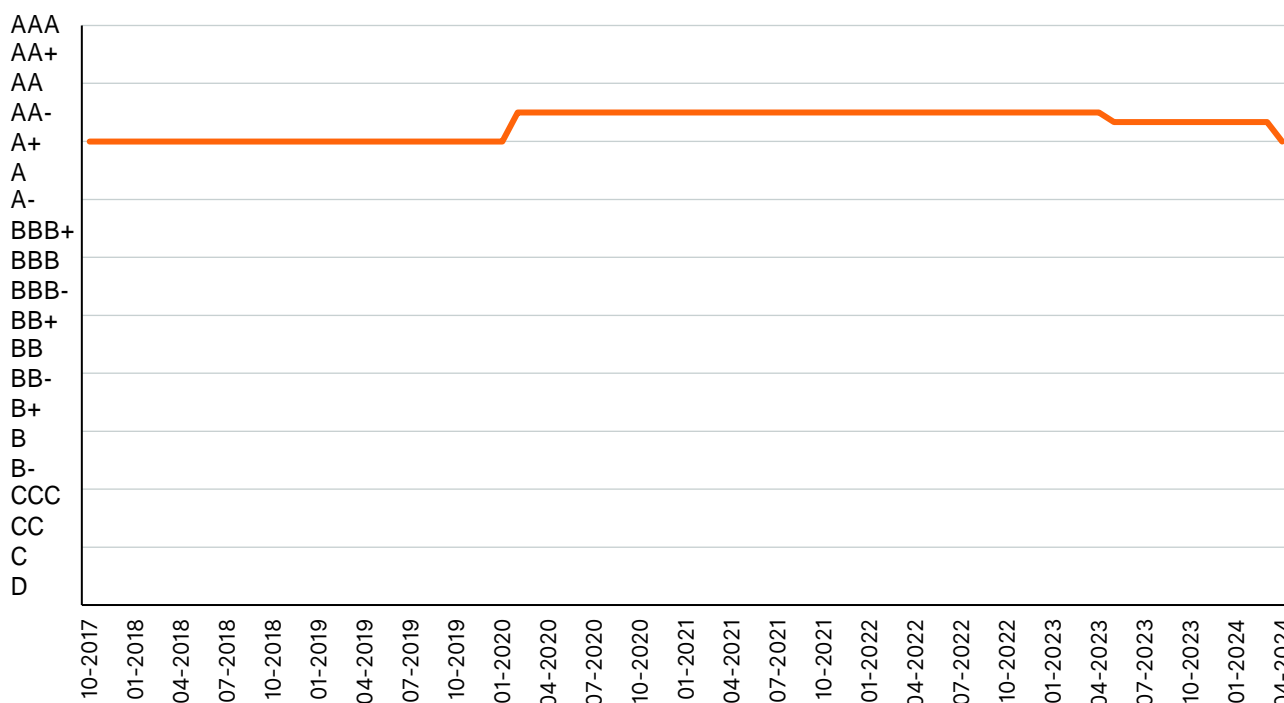
Credit strengths	Credit challenges
<ul style="list-style-type: none"> • Sound institutional set-up underpinned by EU, euro area and NATO memberships • Improved economic resilience and solid medium-run growth prospects • Low public debt 	<ul style="list-style-type: none"> • Exposure to external shocks • Still comparatively moderate income levels • Adverse demographics and skill shortages weighing on labour market prospects

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"> • Geopolitical risks in the region declining • 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 risk 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 history¹



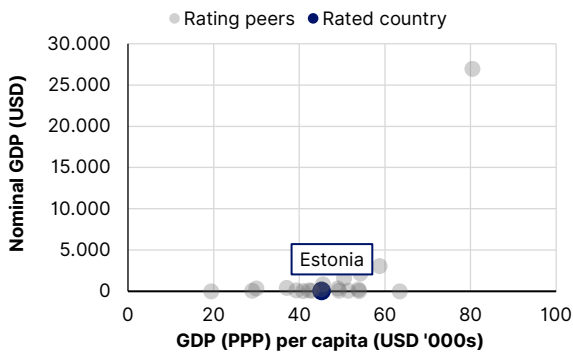
¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

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

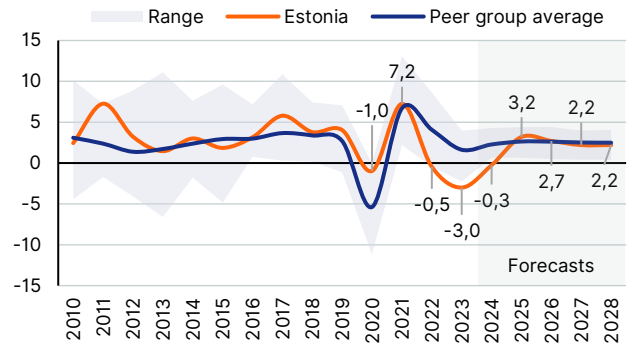
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb	Growth potential and outlook	Neutral	0	Solid medium-run economic prospects supported by robust investment; adverse demographic trends are a challenge
	Monetary policy framework	Neutral	0	ECB is a credible and effective 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



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

Figure 4: Real GDP growth, %



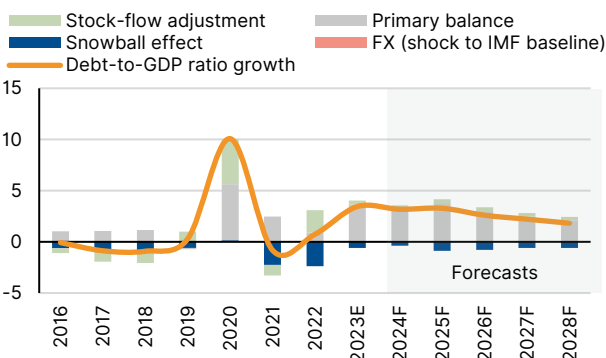
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

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

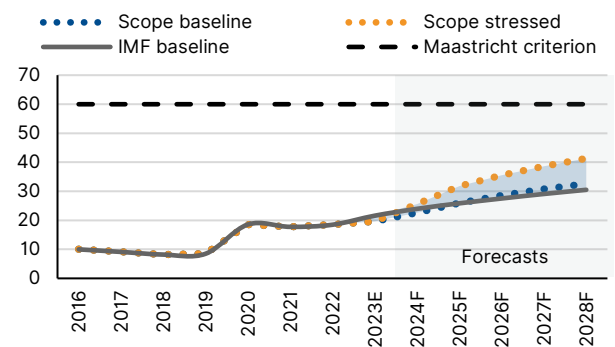
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Fiscal policy framework	Neutral	0	Pre-pandemic record of prudent fiscal policy, but fiscal outlook challenged by the costs of recent shocks
	Long-term debt trajectory	Strong	+1/3	Still low indebtedness compared to peers, 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 despite infrequent issuance

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

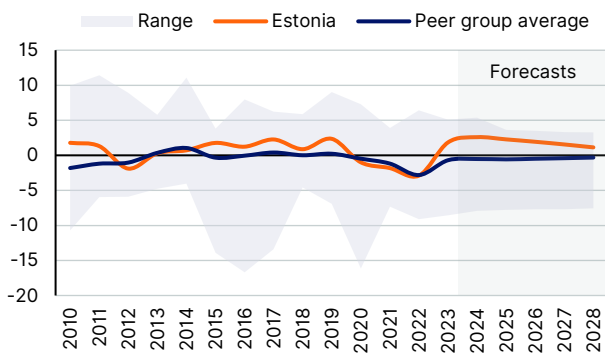
*Sovereign Quantitative Model.

External economic risk

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

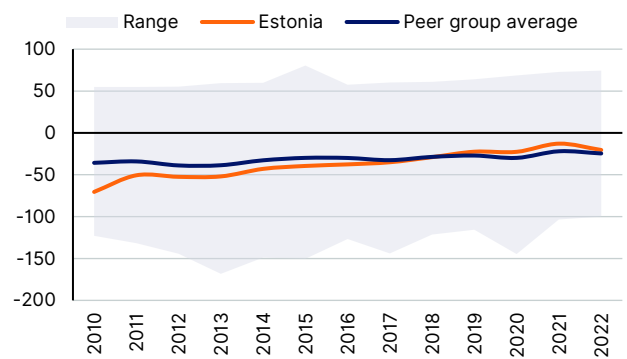
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb	Current account resilience	Neutral	0	Robust export competitiveness and growing focus on high value-added services exports
	External debt structure	Strong	+1/3	Declining net external debtor position, large share of foreign direct investment in net external liabilities reducing exposure to shocks
	Resilience to short-term external shocks	Neutral	0	Small-size and open economy; euro-area membership mitigates exposure to international markets

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

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



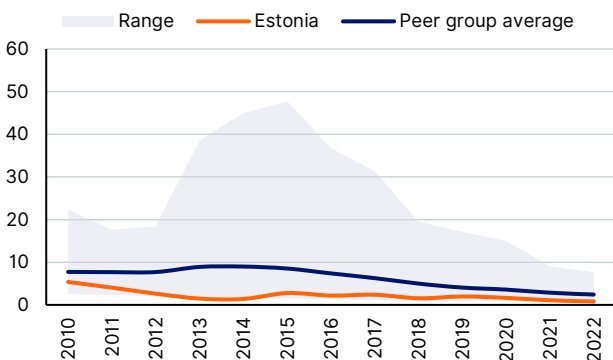
Source: IMF, Scope Ratings

Financial stability risk

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

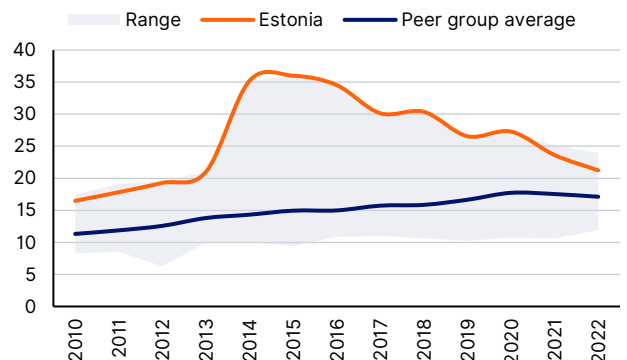
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Strong	+1/3	Well-capitalised and profitable banking sector with moderate non-performing loans
	Financial sector oversight and governance	Neutral	0	Oversight under the Bank of Estonia and the ECB as part of European Banking Union
	Financial imbalances	Strong	+1/3	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



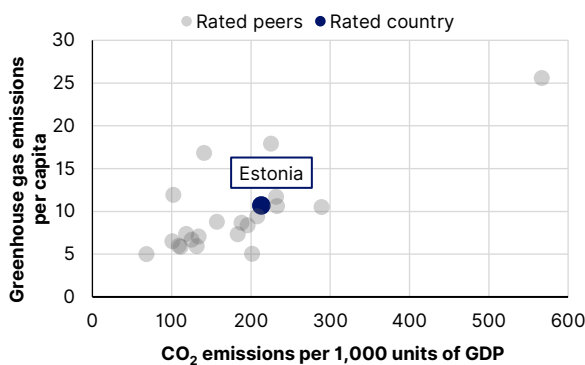
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

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

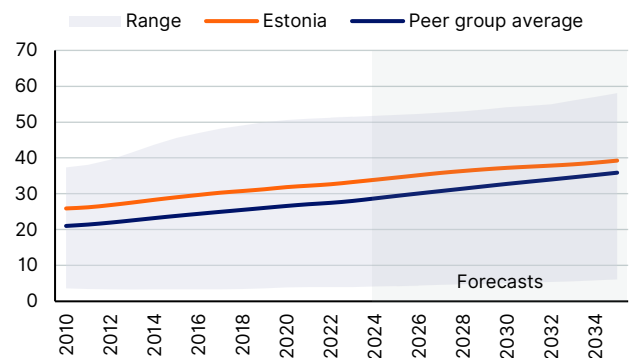
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a+	Environmental factors	Weak	-1/3	High exposure to transition risks due to economically important oil shale industry
	Social factors	Neutral	0	Inclusive labour markets, balanced inequality and poverty risks, adverse demographic 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 GDP, mtCO₂e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

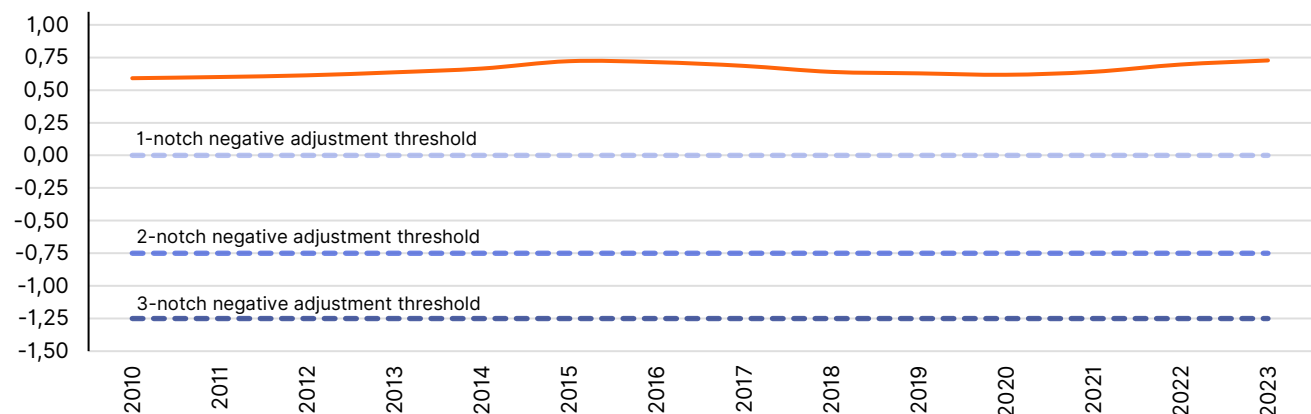
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

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 14: 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 I. Sovereign default history

Figure 15: 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 II. 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*
Croatia
Cyprus
Czech Republic
Latvia
Lithuania
Malta
Poland
Portugal
Slovakia
Slovenia

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

Appendix III. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bp) as of 16 April 2024	55.07

Appendix IV. 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	2018	2019	2020	2021	2022	2023E
Domestic Economic	GDP per capita (PPP), USD '000s	IMF	35.9	37.9	37.9	42.5	44.6	45.2
	Nominal GDP, USD bn	IMF	30.6	31.3	31.3	36.9	38.0	41.8
	Real growth, %	IMF	3.8	4.0	-1.0	7.2	-0.5	-2.3
	CPI inflation, %	IMF	3.4	2.3	-0.6	4.5	19.4	10.0
	Unemployment rate, %	WB	5.4	4.5	7.0	6.2	5.9	-
Public Finance	Public debt, % of GDP	IMF	8.2	8.5	18.6	17.8	18.5	21.6
	Net interest payments, % of government revenue	IMF	-0.1	0.0	0.0	0.0	0.1	0.7
	Primary balance, % of GDP	IMF	-1.2	0.1	-5.5	-2.5	-0.9	-3.6
External Economic	Current-account balance, % of GDP	IMF	0.9	2.4	-1.0	-1.8	-2.9	1.8
	Total reserves, months of imports	WB	0.4	0.7	1.0	0.9	0.7	-
	NIIP, % of GDP	IMF	-28.9	-22.5	-22.6	-12.8	-20.4	-
Financial Stability	NPL ratio, % of total loans	IMF	1.6	2.0	1.6	1.1	0.8	-
	Tier 1 ratio, % of risk-weighted assets	IMF	31.3	26.3	26.4	27.4	23.8	21.6
	Credit to the private sector, % of GDP	WB	62.0	59.7	63.4	59.3	57.4	-
ESG	CO₂ per EUR 1,000 of GDP, mtCO₂e	EC	483.1	306.7	241.9	225.8	213.3	-
	Income share of bottom 50%, %	WID	17.6	16.1	16.0	16.8	16.9	-
	Labour-force participation rate, %	WB	78.7	78.3	78.6	78.9	-	-
	Old-age dependency ratio, %	UN	30.8	31.3	31.9	32.3	32.7	33.3
	Composite governance indicators*	WB	1.3	1.3	1.4	1.4	1.4	-
	Political stability, index	WB	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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