

Republic of Estonia

This annex refers to the release of the monitoring note of 2 July 2021

 Annex I: Summary of core variable scorecard, reserve currency adjustment and qualitative scorecard¹

| Implied rating of core variable scorecard (CVS) | | aa- |
|--|--|----------------|
| Reserve currency adjustment | | 1 |
| Weight | Qualitative scorecard (QS) for long-term issuer ratings | |
| 20% | Growth potential of the economy | Neutral |
| | Monetary policy framework | Neutral |
| | Macro-economic stability and sustainability | Weak |
| 20% | Fiscal policy framework | Strong |
| | Debt sustainability | Neutral |
| | Debt profile and market access | Neutral |
| 20% | Current account resilience | Neutral |
| | External debt structure | Neutral |
| | Resilience to short-term shocks | Weak |
| 20% | Banking sector performance | Neutral |
| | Banking sector oversight | Neutral |
| | Financial imbalances | Weak |
| 20% | Environmental risks | Neutral |
| | Social risks | Neutral |
| | Institutional and political risks | Neutral |
| QS adjustment (notches) | | -1 |
| Additional considerations (notches) | | 0 |
| Final rating | | AA- STA |

Annex II: Selected indicators

| | 2016 | 2017 | 2018 | 2019 | 2020E | 2021F | 2022F |
|--|------|------|------|------|-------|-------|-------|
| GDP per capita (USD '000s) | 18.4 | 20.5 | 23.2 | 23.7 | 23.3 | 26.5 | 28.8 |
| Real GDP, % change | 3.2 | 5.5 | 4.4 | 5.0 | -2.9 | 3.0 | 4.5 |
| Unemployment rate, % | 6.8 | 5.8 | 5.4 | 4.4 | 6.8 | 7.0 | 5.8 |
| HICP, % change | 0.8 | 3.7 | 3.4 | 2.3 | -0.6 | 1.7 | 2.3 |
| Policy rate, %, EOP* | -0.4 | -0.4 | -0.4 | -0.5 | -0.5 | -0.5 | - |
| Fiscal balance, % of GDP | -0.4 | -0.7 | -0.6 | 0.1 | -4.9 | -6.0 | -3.5 |
| Government debt, % of GDP, EOP | 9.9 | 9.1 | 8.2 | 8.4 | 18.2 | 22.0 | 25.0 |
| Current account balance, % of GDP | 1.3 | 2.4 | 1.0 | 2.2 | -1.0 | 1.0 | 1.0 |

 Yearly averages except where stated otherwise. *Shown for the ECB deposit facility rate
 Source: Macrobond, IMF, European Commission, Statistics Estonia, Scope Ratings GmbH

Annex III: Economic development and default indicators

 IMF Development Classification²

AE

5y USD CDS spread (bps) as of 28 June 2021

68

¹ The weighting and explanation of all rating factors are described in Scope's 'Sovereign Ratings' methodology, available on www.scooperatings.com
² AE = advanced economy; EMDE = emerging market and developing economy

Annex IV: Analytical rationale for QS assessments

| Estonia | July 2021 | Assessment | Rationale |
|--------------------------|---|------------|---|
| Peers* | Latvia, Lithuania, Slovenia, Czech Republic, Malta, Belgium | | |
| Domestic economic risk | Growth potential | Neutral | Medium-run growth potential in line with peer average, but moderate productivity growth |
| | Monetary policy framework | Neutral | ECB is a highly credible and effective central bank; appropriate central bank response to the pandemic crisis |
| | Macro-economic stability & sustainability | Weak | Limited economic diversification |
| Public finance risk | Fiscal policy framework | Strong | Record of robust fiscal policies |
| | Debt sustainability | Neutral | Low but rising debt levels over the medium-term |
| | Debt profile & market access | Neutral | Strong debt structure, return to long-term debt capital markets in 2020 for the first time since 2002 |
| External economic risk | Current account resilience | Neutral | Low current account volatility, but limited export diversification |
| | External debt structure | Neutral | Substantial share of FDI in total external liabilities |
| | Resilience to short-term shocks | Weak | Very small-open economy |
| Financial stability risk | Banking sector performance | Neutral | Largely Nordic-owned banking sector, which has a high level of capitalisation and low NPL ratio |
| | Banking sector oversight | Neutral | Oversight under the Bank of Estonia and the ECB as part of Banking Union |
| | Financial imbalances | Weak | Financial spill-over risks from Nordics |
| ESG risk | Environmental risks | Neutral | Effective action against high exposure to transition risks (economically important oil shale industry) |
| | Social risks | Neutral | High rates of employment, net immigration since 2015, income inequality levels around the EU-average and slightly higher poverty levels than the EU average |
| | Institutional and political risks | Neutral | Record of effective policymaking and strong governance performance |

*Peers relate to selected sovereigns with a similar indicative rating per Scope's Core Variable Scorecard.