

Republic of Estonia Rating Report



Credit strengths

- Sound institutional set-up underpinned by EU, euro area and NATO memberships
- Improved economic resilience and solid medium-run growth prospects
- Low public debt

Credit challenges

- Moderate income levels
- Exposure to external shocks
- Adverse demographics and skill shortages weighing on labour market prospects

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, however, is particularly exposed to the ongoing cost-of-living crisis, with contractions of 0.5% in 2022 and 1.9% (expected) also this year. We estimate a robust medium-run growth potential for Estonia at 2.2%.

Low public debt: Prudent fiscal policies have resulted in Estonia having one of the lowest debt-to-GDP ratios globally, at 18.5% by end-2022, further backed by high financial reserves.

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

Estonia's sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency	Qualitative*	Final rating	
	Weight	Indicative rating	Notches	Notches		
Domestic Economic Risk	35%	bb+	EUR [+1]	+1/3	AA-	
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		-1/3
	Social Factors	7.5%		b		0
	Governance Factors	12.5%		aaa		0
Indicative outcome				a+	+1	
Additional considerations					0	

Note: *The reserve-currency adjustment applies to currencies in the IMF's SDR basket. **The qualitative-scorecard 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.

Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are tilted to the downside.

Positive rating-change drivers

- Geopolitical risks in the region declining
- Improving fiscal outlook, supported by the rebalancing of government finances
- Solid growth and income convergence continuing through reform and investment
- External vulnerabilities declining

Negative rating-change drivers

- Weaker fiscal fundamentals preventing stabilisation of debt-to-GDP
- Increased macroeconomic imbalances weakening medium-run growth prospects
- External and financial sector vulnerabilities increasing significantly
- Higher geopolitical risks undermining macroeconomic stability

Ratings and Outlook

Foreign currency

Long-term issuer rating AA-/Negative
Senior unsecured debt AA-/Negative
Short-term issuer rating S-1+/Stable

Local currency

Long-term issuer rating AA-/Negative
Senior unsecured debt AA-/Negative
Short-term issuer rating S-1+/Stable

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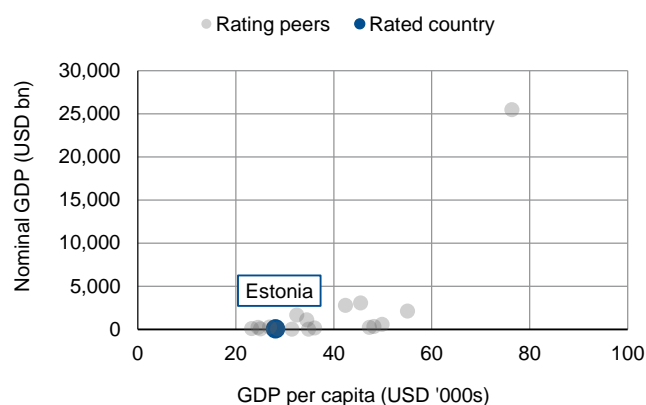
Bloomberg: RESP SCOP

Domestic Economic Risk

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

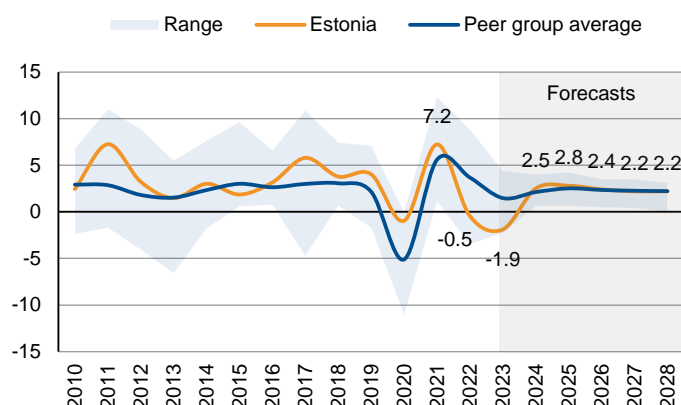
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb+	Growth potential of the economy	Strong	+1/3	Robust economic prospects in the medium run supported by EU funds, although adverse demographic trends are a challenge
	Monetary policy framework	Neutral	0	ECB is a credible and effective central bank over the cycle
	Macro-economic stability and sustainability	Neutral	0	Improved macroeconomic resilience and flexible labour market, but labour shortages and small economy with limited diversification

Nominal GDP and GDP per capita



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

Real GDP growth, %



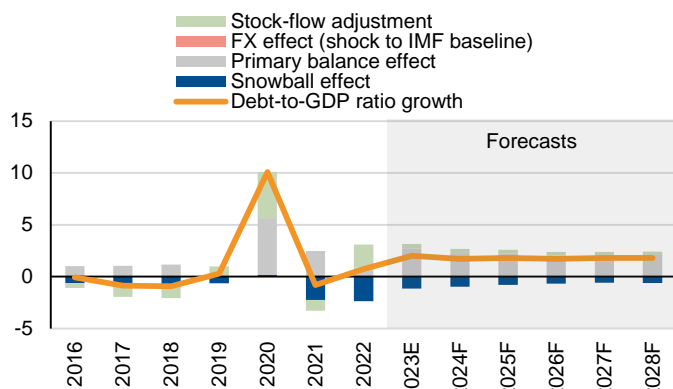
Source: IMF WEO, Scope Ratings forecasts

Public Finance Risk

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

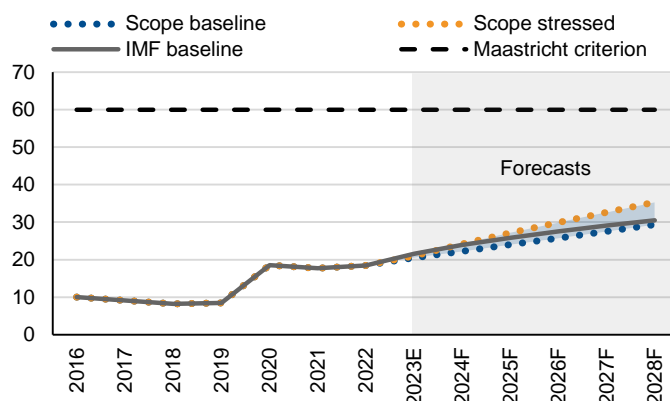
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Fiscal policy framework	Neutral	0	Record of prudent fiscal policy before Covid-19, but fiscal outlook challenged by the costs of the war and the energy crisis
	Debt sustainability	Strong	+1/3	Rising debt trajectory but debt burden set to remain much lower than that of peers
	Debt profile and market access	Neutral	0	Moderate funding needs and prudent liquidity management; favourable funding conditions despite infrequent issuance

Contributions to changes in debt levels, pp of GDP



Source: IMF WEO, Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



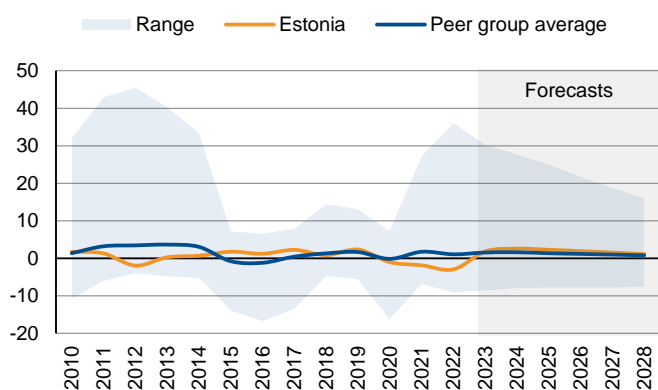
Source: IMF WEO, Scope Ratings forecasts

External Economic Risk

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

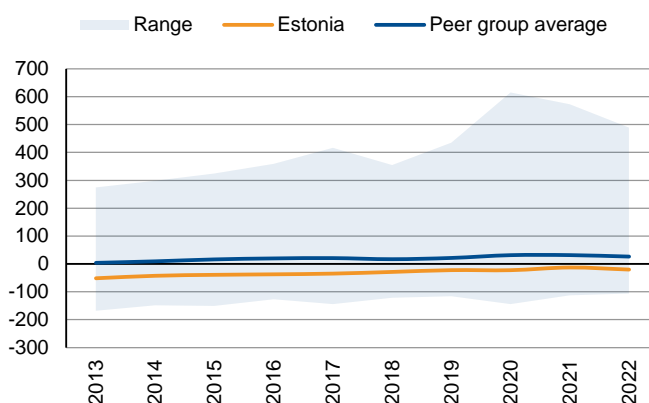
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb+	Current account resilience	Neutral	0	Improved export competitiveness and focus on value-added segments
	External debt structure	Strong	+1/3	Declining net external debtor position, large share of foreign direct investment 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

Current-account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



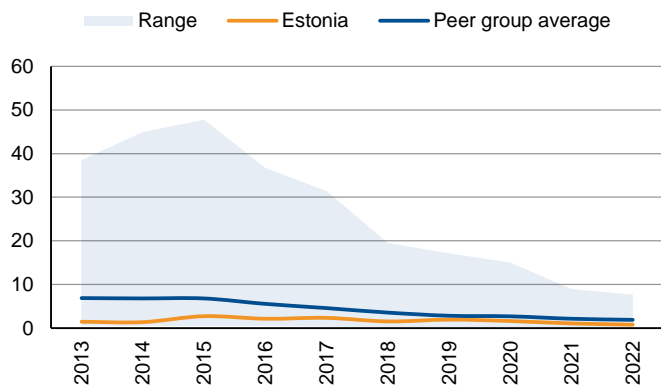
Source: IMF, Scope Ratings

Financial Stability Risk

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

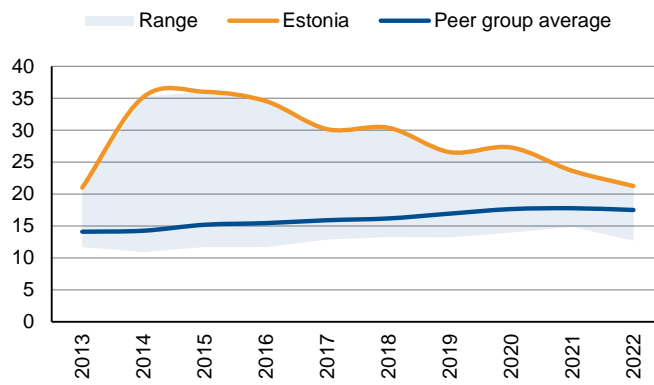
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Strong	+1/3	Highly capitalised and profitable banking sector
	Banking sector oversight	Neutral	0	Oversight under the Bank of Estonia and the ECB as part of European Banking Union
	Financial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

Non-performing loans (NPLs), % of total loans



Source: World Bank, Scope Ratings

Tier 1 capital, % of risk-weighted assets



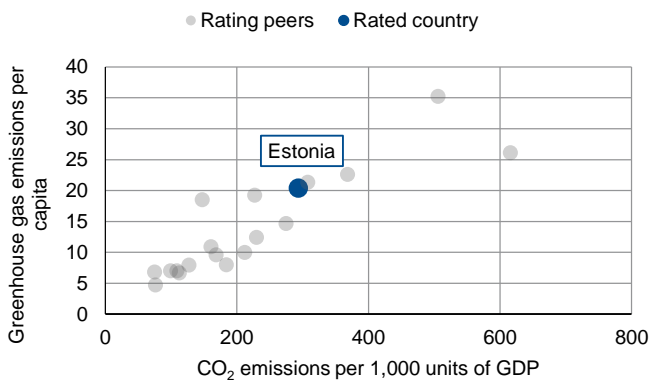
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) Risk

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

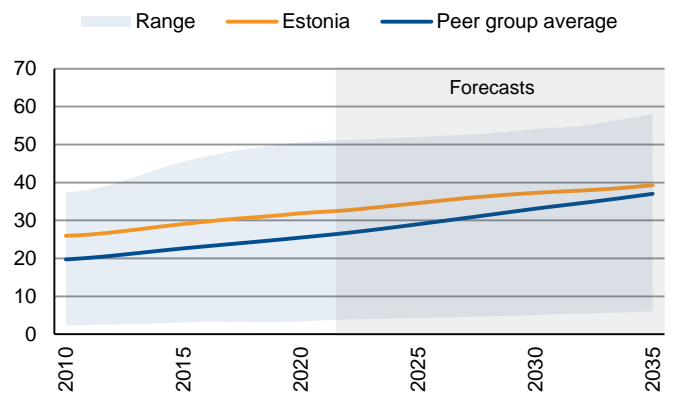
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a	Environmental factors	Weak	-1/3	High exposure to transition risks due to economically important oil shale industry
	Social factors	Neutral	0	Inclusive labour markets, balanced inequality and poverty risks, adverse demographic trends
	Governance factors	Neutral	0	Effective policymaking and governance supported by euro area memberships; external security risks mitigated by NATO membership

CO₂ emissions per GDP, mtCO₂e



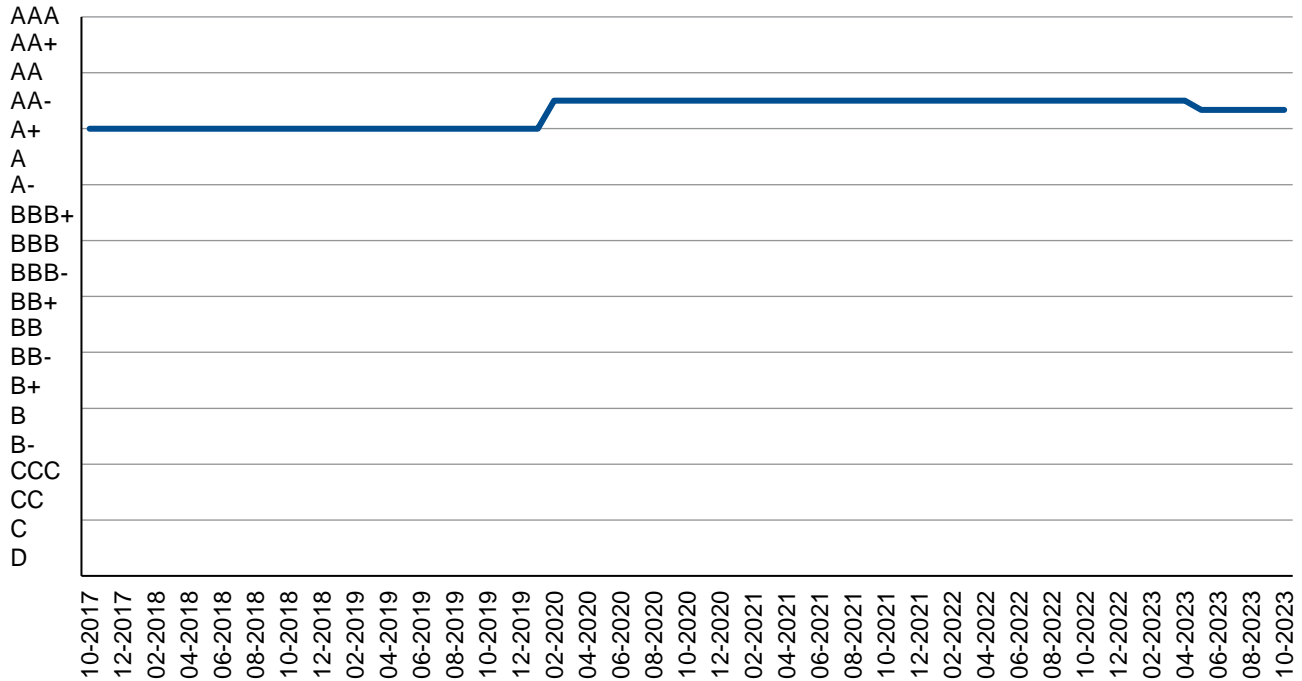
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history (foreign-currency long-term issuer rating)



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

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 core variable scorecard after accounting for a methodological reserve-currency adjustment.

Peer group*
Belgium
Cyprus
Czech Republic
France
Japan
Lithuania
Malta
Portugal
Slovenia
United Kingdom
United States

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

Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, 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
Domestic Economic	GDP per capita, USD '000s	IMF	23.2	23.6	23.5	27.7	28.1
	Nominal GDP, USD bn	IMF	30.6	31.3	31.3	36.9	38.0
	Real growth, %	IMF	3.8	4.0	-1.0	7.2	-0.5
	CPI inflation, %	IMF	3.4	2.3	-0.6	4.5	19.4
	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
	Net interest payment, % of revenue	IMF	-0.1	0.0	0.0	0.0	0.1
	Primary balance, % of GDP	IMF	-1.2	0.1	-5.5	-2.5	-0.9
External Economic	Current-account balance, % of GDP	IMF	0.9	2.4	-1.0	-1.8	-2.9
	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
	Credit to the private sector, % of GDP	WB	62.0	59.7	63.4	59.3	-
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	466.4	311.5	295.7	293.5	-
	Income share of bottom 50%, %	WID	18.1	16.6	16.8	16.8	-
	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
	Composite governance indicators*	WB	1.2	1.2	1.3	1.3	1.3

* Average of the six World Bank Worldwide Governance Indicators.

Appendix IV. Economic development and default indicators

IMF Development Classification

Advanced economy

5y USD CDS spread (bps) as of 25 October 2023

55.45



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