

# Flash Comment

August 14, 2007

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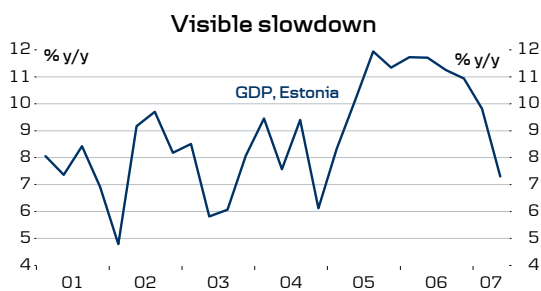
## Estonia: Slowdown gathers momentum

Estonian GDP growth numbers for the second quarter were published this morning. The data clearly indicate that a fairly sharp slowdown is now under way in the Estonian economy – GDP growth eased to 7.3% y/y in Q2 from 9.3% y/y in Q1. While GDP growth remains relatively high, the decline is still fairly strong on a seasonally adjusted quarterly basis. The Statistical Office of Estonia has not published seasonally adjusted numbers for q/q growth, but it should be noted that the current q/q growth in GDP is the lowest for seven years.

The breakdown of the national accounts numbers for GDP has not yet been published, but other data indicate that the slowdown in the economy is fairly broad-based. The major change is probably that consumer and investor sentiment have turned more negative, and private consumption and particularly fixed capital investment – mostly in the construction sector – is now beginning to slow decisively. That said, the numbers are still mixed, but overall we do not think there is any doubt that growth has peaked and a slowdown in the economy is under way. Anecdotal evidence seems to indicate that a slowdown in construction activity, in particular, is leading the general slowdown in the economy.

According to the Statistical Office of Estonia, the slowdown in GDP was also due to lower value added in railways and water transport. This is obviously related to the ongoing political conflict with Russia and the negative impact of this on the transit of Russian goods through Estonia.

It is still too early to say whether there will be a hard or a soft landing in the economy – and we will probably not know this for a couple of quarters yet. The signs of overheating in the Estonian economy have been very clear, and therefore it should not be any great surprise that growth is beginning to slow now.



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