

ESTONIA



HIGHLIGHTS

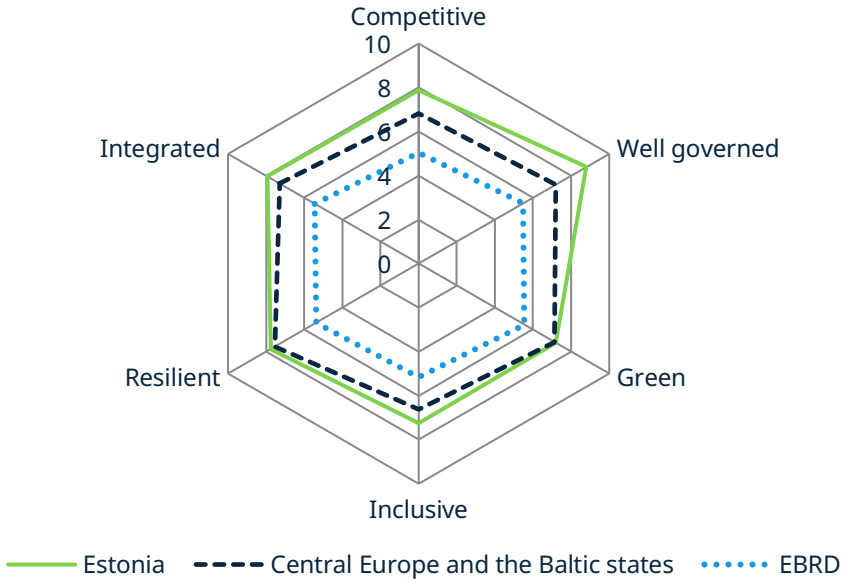
- **Economic growth picked up as household consumption recovered, while investment fell and net exports turned negative.** Real gross domestic product (GDP) grew by 2.3 per cent year on year in the first half of 2026, supported by a higher tax-free income threshold introduced in January. The 2026 budget allocated 5.4 per cent of GDP to defence, although much of it was expected to be spent on imported equipment. Inflation rose to an estimated 3.6 per cent in October 2026, driven by higher fuel and electricity prices.
- **An energy plan adopted in January 2026 envisages oil-shale power generation being phased out by market forces by 2035.** Oil shale supplies about a quarter of Estonia's energy and leaves the country among the most carbon-intensive economies in the European Union (EU). The first large-scale onshore wind auction followed in March 2026.
- **A national artificial intelligence (AI) programme aims to double labour productivity by 2035, responding to a decade of weak productivity growth.** Eesti.ai, launched by the government in January 2026, helps companies to adopt AI and train their workers.

For more information about country macroeconomic developments, please consult our latest Regional Economic Prospects report.

KEY PRIORITIES FOR 2027

- **Deepen capital markets so that recent legal reforms lead to more stock-market listings and domestic investment.** Index providers rate the Baltic region as "strong" on accessibility but "frontier" on size and liquidity. The 2021 pension reform took €1.29 billion, a quarter of second-pillar assets, out of the funded system. Meanwhile, the fastest-growing companies tend to raise capital and exit abroad.
- **Give wind developers a stable long-term framework and clear the planning and grid bottlenecks.** Permitting, environmental data and grid capacity slow the delivery of projects. Elering, the country's electricity and gas network operator, estimates that Estonia will need about 2,100 megawatts (MW) of dispatchable (on-demand) capacity by 2035, including around 1,000 MW of new capacity as oil-shale units retire.
- **Facilitate exits for unviable companies and restructuring for viable ones.** Baltic insolvency systems have low recovery rates and long procedures compared with their Nordic peers, and out-of-court settlements for small firms are not widely available. Total factor productivity has declined in recent years, pointing to weaker efficiency gains and competitiveness challenges.

ASSESSMENT OF TRANSITION QUALITIES (1-10)



For more on reforms and transition qualities, see Chapter 5 of the Transition Report 2026-27.

KEY REFORMS AND POLICY DEVELOPMENTS[1]

Income-tax reform

- From January 2026 a uniform tax-free allowance of €700 a month replaced the previous tapered allowance. The rise in the income-tax rate to 24 per cent that had been planned for 2026 was cancelled in December 2025.

1 From the fourth quarter of 2025 to October 2026.

- The uniform allowance raises household disposable income but reduces personal income-tax receipts. Partly as a result, the government deficit is forecast to widen from 2.0 per cent of GDP in 2025 to 4.4 per cent in 2026.

Defence financing

- In August 2026 Estonia signed a 45-year loan agreement of up to €2.34 billion under the EU's Security Action for Europe instrument, including €352 million in pre-financing.
- The loan will pay for air defence, military vehicles and artillery ammunition, and complements a budget-funded defence investment plan of more than €10 billion for 2026-29.

Oil-shale phasing out and climate law

- The National Energy Development Plan 2035, adopted in January 2026, expects market forces to end the direct burning of oil shale for electricity by 2035, with plants held in strategic reserve if replacement capacity is delayed.
- A climate framework bill sent to parliament in May 2026 sets economy-wide emissions targets for 2030, 2035 and 2040, with sector pathways agreed separately.

Onshore wind auction

- A reverse auction opened in March 2026 for 1 terawatt hour (TWh) a year of onshore wind, with an option to double that volume. Winning bidders will receive support of up to €20 per megawatt hour (MWh) for 12 years.
- Since January 2026 grid and renewable charges on batteries have been levied on net rather than gross consumption, cutting storage costs.

AI adoption programme

- Eesti.ai, launched by the government in January 2026, had 15 flagship projects approved by its council in April, with €11 million allocated for their initial implementation in 2026.
- Companies can claim vouchers of up to €20,000 and grants of up to €500,000. As many as 100,000 people of working age are to be trained by the end of 2027.

Unemployment insurance and pension reform

- Unemployment insurance was extended from January 2026 to cover people providing services under non-standard contracts.
- In May 2026 the government approved a bill cutting the wait to rejoin the second pension pillar from 10 to 5 years. More than a third of members withdrew their savings between 2021 and 2025, and the assets that remain are largely invested abroad.

Rail Baltica

- Estonia, Latvia and Lithuania launched a joint tender to procure regional trains in March 2026, with the first deliveries due in 2029 and services to be provided from the end of 2030.
- Estonia budgeted €684 million for Rail Baltica and other rail projects in 2026 and remains committed to a 2030 opening, but slow progress in Latvia puts that timetable in doubt.