

- Britain chooses "hard" BREXIT
- Lithuania ahead of Baltic neighbours on Bloomberg Innovation Index
- Lithuania and Latvia exports decline in Jan-Nov 2017

1 Key economic indicators

Key Economic indicators of Estonia							
Variable / Date	2014	2015	2016	2016			
				Q1	Q2	Q3	Q4
Real sector							
Real GDP, yoy, %, sca	2.8	1.4	-	1.5	0.6	1.3	-
Nominal GDP per capita, EUR thou., nsa	15000	15400	-	3700	4000	4000	-
Industrial production index, yoy, %, ca	4.3	-2.4	-	-2.3	-1.8	3.2	9.3 (Nov)
Volume index of construction production, yoy, %, ca	-2.1	-5.3	-	3.4	4.2	0.5	-
Retail trade, deflated turnover, yoy, %, ca	7.1	4.5	-	5.6	4.4	2.1	6.5 (Nov)
Gross fixed capital formation, yoy, %, sca	-8.1	-3.3	-	-1.5	4.8	-7.7	-
Prices							
GDP deflator, SCA	1.7	1.0	-	1.4	2	1.6	-
HICP, eop, yoy, %	0.1	-0.2	2.4	0.5	0.4	1.7	2.4
PPI, eop, yoy, %	-1.6	-2.3	-	-2	-1.5	-0.9	1.5 (Nov)
House price index, yoy, %, eop	10.1	5.1	-	2	1.8	7.4	-
Labour market							
Minimum wage, EUR, biannual, eop	355	390	430	430		370	
Unemployment rate, LFS, %, sa	7.4	6.2	-	6.3	6.7	7.3	7.4 (Oct)
Real labour productivity per hour worked, yoy, %, nsa	2.4	-1	-	1.6	-2.2	1.1	-
Labour market							
Exports of goods, yoy, %, sca	3.1	-0.6	-	0.2	5.5	5.8	-
Imports of goods, yoy, %, sca	2.2	-1.4	-	2.9	10	4.2	-
Current account balance, % of GDP, sca	3.5	4.1	-	2.5	3.5	5.8	-
FDI inflow, % of GDP, nsa	2.3	0.6	-	2.9	2.2	2.8	-
Economic sentiments							
Economic sentiment indicator, SA, eop	102.2	100.2	103.9	99.2	100.3	102.9	103.9
Industrial confidence indicator, SA, eop	-1.2	-0.2	4.5	0.6	-0.4	5	4.5
Construction confidence indicator, SA, eop	-17.3	-5.3	9.5	-5.5	-5.7	4.7	9.5
Retail confidence indicator, SA, eop	17.7	13.1	13.8	17.2	14.1	9.3	13.8
Services Confidence Indicator, SA, eop	5.6	0	6	0	5.4	3.9	6
Consumer confidence indicator, SA, eop	-0.6	-6	-3.3	-15	-8.9	-4.7	-3.3

[Source: Eurostat, Bank of Estonia, author's calculations]

2 Economic news of past week

Britain chooses "hard" brexit	Britain will quit the EU single market when it leaves the European Union, Prime Minister Theresa May said on Tuesday (2017-01-17) in a decisive speech that set a course for a clean break with the world's largest trading bloc. May promised to seek the greatest possible access to European markets but said Britain would aim to establish its own free trade deals with countries far beyond Europe, and impose limits on immigration from the continent. For the first time, she acknowledged that those measures would require withdrawing from the market of 500 million people, founded on principles of free movement of goods and people. (reuters.com)
Euro area international trade in goods surplus € 25.9 bn	The first estimate for euro area (EA19) exports of goods to the rest of the world in November 2016 was € 184.2 billion, an increase of 6 % compared with November 2015 (€ 173.8 bn). Imports from the rest of the world stood at € 158.3 bn, a rise of 5% compared with November 2015 (€ 150.9 bn). As a result, the euro area recorded a € 25.9 bn surplus in trade in goods with the rest of the world in November 2016, ompared with € 22.9 bn in November 2015. Intra-euro area trade rose to € 154.0 bn in November 2016, up by 5% compared with November 2015. (Eurostat)
Lithuania and Latvia exports decline in Jan-Nov 2016 among Balts	Exports dropped by 2% to € 20.5 bn in Lithuania and by 1% to € 9.9 bn in Latvia in the first 11 months of last year from 2015, while Estonia posted an increase by 2% to € 10.9 bn. Lithuania's imports dropped 4% to € 22.3 bn over the period and Latvia's imports fell 3% to € 11.6 bn, growing by 3% to € 12.4 bn in Estonia. Among the Baltic states, the biggest trade deficit was reported in Lithuania (€ 1.8 bn), followed by € 1.7 bn in Latvia and € 1.5 bn in Estonia. (baltic-course.com)
Lithuania ahead of Baltic neighbors on Bloomberg Innovation Index	Prepared by the Bloomberg news agency, the rating scores economies using factors including research and development spending and the concentration of high-tech public companies. Lithuania ranks 32nd among 50 countries, while Estonia went up by one position to 33rd, while Latvia ranks 39th after climbing one position since 2016. Poland also improved its standing by one place to 22nd, while Russia dropped 14 places to 26th and Ukraine lost one place to 42nd. The list is topped by South Korea, just like it did in 2016, followed by Sweden, Germany, Switzerland, Finland, Singapore, Japan, Denmark, the United States and Israel. (baltic-course.com)
Estonia lost €10 mln due to border trade in 2016	According to the Estonian Breweries Association, in 2016 the share of Estonia's beer market was 8 % and other soft liquor market 13 % smaller than in 2015, and respectively 9 mln and 3.4 mln liters less was sold in Estonia. According to the association's calculations the state failed to receive around € 10.1 mln in excise duty and VAT last year. As a result of different hikes in the taxes of soft and hard liquor Estonia is to lose around € 150 mln of excise duty and VAT, the association said. Last year excise duty receipts increased by 13.1 % on year to € 251 mln, which is 1.2% more than the government expected. (baltic-course.com)

3 Economic insights

The annual average inflation (12 months of 2016 compared to 12 months of 2015) in EU-28 was 0.3 percent, in euro area 0.2, in Estonia 0.8 percent, in Latvia 0.1 percent in Lithuania 0.7 percent and in Poland -0.2 percent (see table 3).

In Estonia the increased prices of alcoholic beverages (due to increased excise taxes) contributed to the annual average inflation 0.6 percentage points (ppt). Rise in prices of restaurants' and hotels' prices contributed 0.4 ppt and clothing and footwear price increase - 0.3 ppt. Negative contribution to annual average inflation was recorded in transport (0.4 ppt) and housing, water, electricity, gas and other fuels (-0.2 ppt) due to drop in energy prices.

Lithuania recorded the second highest annual average inflation. Food and non-alcoholic as well as alcoholic beverages contributed each 0.3 ppt to annual average inflation, whereas transport, housing, water, electricity, gas and other fuels where the main reduced the annual average inflation by -0.5 ppt and -0.1 ppt respectively.

Latvia recorded the lowest annual average inflation among Balts. Food and non-alcoholic as well as alcoholic beverages contributed each 0.3 ppt to annual average inflation, whereas transport, housing, water, electricity, gas and other fuels where the main reduced the annual average inflation by -0.4 ppt each.

COICOP/GEO	EU-28	EA	Estonia	Latvia	Lithuania	Poland
All-items HICP	0.3	0.2	0.8	0.1	0.7	-0.2
Food and non-alcoholic beverages	0.0	0.1	0.0	0.3	0.3	0.2
Alcoholic beverages, tobacco and narcotics	0.1	0.1	0.6	0.3	0.3	0.1
Clothing and footwear	0.0	0.0	0.3	0.0	0.1	-0.2
Housing, water, electricity, gas and other fuels	-0.1	-0.1	-0.2	-0.4	-0.2	-0.1
Furnishings, household equipment and routine household maintenance	0.0	0.0	0.0	0.0	0.1	0.0
Health	0.0	0.0	0.1	0.1	0.2	-0.1
Transport	-0.2	-0.2	-0.4	-0.4	-0.5	-0.4
Communications	0.0	0.0	-0.1	0.1	-0.1	0.0
Recreation and culture	0.0	0.1	0.1	0.1	0.1	-0.3
Education	0.0	0.0	-0.1	0.0	0.0	0.0
Restaurants and hotels	0.2	0.2	0.4	0.0	0.2	0.1
Miscellaneous goods and services	0.1	0.1	0.1	0.0	0.2	0.5

Table 1: Contribution to annual average inflation (Harmonised Index of Consumer Prices) in percentage points by COICOP (Classification of Individual Consumption According to Purpose) in 2017. Source: Eurostat, author's calculations.

For the coming year it can be expected, that the oil price will gain some momentum and will contribute positively to annual average inflation in 2017. Worldwide food prices show also signs of strengthening, which may lead to higher inflation in eastern European countries, as food has a greater weight in their statistical baskets. All in all 1.5-2.5 % inflation can be expected in the Baltic countries for the coming year, far below the expected average wage growth, thus further strengthening the purchasing power and increasing the living standards.