Estonia

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IN A NUTSHELL

- → GDP increased by 0.6%, after a small contraction in 2024.
- → Mortgage market continued to grow fast, 10% to EUR 13.2bn.
- → Housing prices increased by 5.8%.
- → Covered bond funding increased to EUR 3.5bn.

MACRO-ECONOMIC OVERVIEW

The economy grew by 0.6% in 2025 after a 0.1% decline in 2024. Industrial production increased by 1.7%. Total domestic demand improved by 1.8% with private consumption decreasing by 0.1%, investments increasing by 3.2% and government consumption by 2.6%. The government budget remained in deficit by 2% and government debt remained at 24.1% of GDP, increasing only marginally because of strong nominal growth.

Consumer prices increased by 4.8% mainly because of various tax increases including the increase in the value added tax, various excise duties and introduction of car tax, and administrative changes such as increasing the price of visit to doctors. Wages increased by 5.6%, slightly more than prices, but with the increase in the personal income tax, the purchasing power of net wages decreased. Unemployment decreased from 7.6% a year ago to 7.5%, and the level is elevated due to the inclusion of Ukrainian war immigrants in the statistics. The unemployment rates are lower for longer term residents. Companies maintained staffing levels in anticipation of returning demand and employment levels are very close to historic peak levels.

The economic outlook is more optimistic. Because of the income tax change in 2026, net wages for those earning more than median wage increased substantially. Together with an expected 5% average wage increase, the net income is expected to grow by more than 10% for average wage earners, which is expected to boost private consumption in 2026 by 1-2%. Together with the increase in defence spending the planned budget deficit is over 4% of GDP, giving rise to substantial domestic demand. Economic growth is expected to increase to 2% in 2026 and to 3% in 2027. If this is the case the real estate market is expected to remain active and prices to increase. Employment remains high and unemployment moderate, giving signs that mortgage repayment quality remains high.

HOUSING MARKET

Average residential real estate transaction prices increased by 5.2% in 2025. Prices of flats increased by 5.0% and prices of houses increased by 5.9%. Price growth was lower than the substantial increases seen in 2021 and early 2022 but continued to outpace the broader economy. The overall levels of price increases are likely to overestimate the true increase, as better-renovated houses and flats with fewer square metres, but a higher number of rooms, accounted for more turnover.

Real estate developers continued to put new housing on the market despite demand being quite moderate. The number of new dwellings added to the market grew by 4% to 6,059. The number of building permits increased by 34.6% in 2025, and construction projects started remained at the 2024 level. The size of the average real estate property decreased by 5.7%, confirming the demand for smaller flats and houses.

The affordability index decreased as the house price index increased more than net wages. However, with the decline in interest rates and the better outlook for 2026, the cost of housing improved, which resulted in higher real estate market and mortgage turnover rates.

MORTGAGE MARKETS

MARKET DYNAMICS

The recovery of the economy and the continued decline in interest rates in 2025 supported demand. The number of transactions in apartments increased by about 4% in 2025, while the mortgage market grew by 10% to EUR 13,169 million, a historic high, equal to 32% of GDP. The number of new housing loan contracts increased by 10% compared to the previous year, and the average outstanding housing loan amount grew by 9.1% to EUR 67,815. The housing loan portfolio continued to grow faster than GDP.

Housing loan maturities are up to 30 years. The average interest rate on new housing loans fell from 5.02% to 3.6% in 2025. Borrowers can borrow up to 85% of the property value with a standard contract structure and up to 90% if they qualify for the housing guarantee programme supported by the government. The Estonian Business and Innovation Agency offers state guarantees for purchasing and renovating homes. In cases where a guarantee is applied, the loan-to-value limit can be increased to 90%. In 2025, approximately 16% of all newly issued mortgage loans were issued with an EIS guarantee.

The DSTI requirement states that the ratio of the payments due on the total liabilities of the borrower to their net income may not exceed 50% at the time of the loan decision. The LTV and DSTI limits may be breached for up to 15% of the loans originated in any one quarter.

The mortgage market consists mainly of commercial banks. Housing loans account for approximately 40% of the aggregate loan and lease portfolio of the banks, according to the Bank of Estonia. The banking sector is well capitalised, and the quality of housing loans remained good in 2025. Only 0.1% of housing loans were overdue by more than 90 days at year-end, as reported by the Bank of Estonia. The importance and volume of this type of loan reflect the preference of households for homeownership over renting, as well as the concentration of the domestic market.

NON-MARKET LED INITIATIVES

The Bank of Estonia's macroprudential policies remained broadly unchanged. Macroprudential measures are applied when necessary to prevent risks to the functioning of the financial sector and to increase the resilience of the sector. The requirements setting the maximum LTV of 85%, DSTI of 50%, and a maximum maturity of 30 years have been in place since 2015. The housing loan requirements of the Bank of Estonia require the borrowing capacity of the household to be assessed assuming either the interest rate applied in the loan contract or an annual rate of 6%, whichever is higher. The Bank of Estonia has set a limit of 50% for the DSTI ratio calculated in this way.

Credit institutions operating in Estonia must currently comply with the following macroprudential requirements of the central bank: (1) systemically important banks (Swedbank, Luminor, LHV and SEB Pank) must maintain an additional capital buffer of 2% of risk-weighted assets, whilst smaller banks must maintain a buffer of 0.5%; (2) banks using the internal ratings-based method must apply the minimum risk weight floor for mortgages in their capital calculations; (3) all banks must comply with borrower-specific requirements for issuing housing loans; and (4) a countercyclical capital buffer requirement of 1.5%. The Bank of Estonia raised the countercyclical capital buffer rate to 1.5% because of the risks that followed from the rapid growth in credit in 2021–2022. The new rate started to apply from 1 December 2023.

The systemic risk buffer rate remains at 0%. However, if banks registered in Estonia have granted mortgage loans to residents of Lithuania, then a 2% systemic risk buffer has applied since 1 July 2022 to those exposures.

MORTGAGE FUNDING

The most important source of funds for the Estonian banking sector continues to be deposits. As deposits have grown strongly in recent years, they have been sufficient to finance the demand for credit. The ratio of loans to deposits was around 91% at the end of 2025.

The share of market-based funding increased during 2025 compared to 2024. At the end of 2025, Estonian banks had EUR 3,450 million of covered bonds outstanding, of which EUR 1,650 million was retained and EUR 1,800 million was issued through public issuances, although the portfolios are not exclusively Estonian, as assets in Latvia and Lithuania may also back Estonian covered bonds. In 2025, there were three new public covered bond issuances amounting to EUR 1,050 million.

GREEN FUNDING

EIS provides grants and loans to improve the energy efficiency of apartment buildings.

	ESTONIA 2024	ESTONIA 2025	EU 27 2025
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)*	-0.1	0.6	1.5
Unemployment Rate (LSF), annual average (%) (1)	7.6	7.5	6.0
HICP inflation (%) (1)	3.7	4.8	2.0
HOUSING MARKET			
Owner occupation rate (%) (1)	79.3	79.7	68.5
Gross Fixed Investment in Housing (annual change) (1)	-3.5	4.6	2.8
Building Permits (2015=100) (2)	89.0	n/a	86.9
House Price Index - country (2015=100) (1)	209.8	222	161.92
House Price Index - capital (2015=100) (2)	n/a	n/a	n/a
Nominal house price growth (%) (1)*	6.1	5.8	5.5
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (1)	11,966.8	13,169.2	5,617,435.11
Outstanding Residential Loans per capita over Total Population (EUR) (2)	8,705	9645.15	12,472.10
Outstanding Residential Loans to disposable income ratio (%) (1)	54.4	n/a	81.39
Gross residential lending, annual growth (%) (1)	15.3	10.3	2.8
Typical mortgage rate, annual average (%) (2)	5.02	3.6	3.31

(1) Eurostat Data
(2) European Mortgage Federation – Hypostat 2026, Statistical Tables
* Eurostat Reviewed
** EU 2025 to be confirmed

ESTONIA FACT TABLE

Which entities can issue mortgage loans in your country?	Although the market is dominated by commercial banks, there is no limitation on lenders. Both financial and non-financial entities can offer loans. However, the small size of the Estonian market means that there have always been few suppliers of housing loans.
What is the market share of new mortgage issuances between these entities?	The mortgage market consists mainly of commercial banks. The five banks that issued most of the housing loans in 2025 were Swedbank, SEB Pank, LHV Pank, Luminor Bank and Coop Pank. LHV increased its market share from 13% to 14%, while the market shares of the other banks were unchanged or slightly decreased. Swedbank and SEB Pank remained the leaders in the housing loan market, with market shares of 40% and 27%, respectively, followed by LHV and Luminor with 14% and 8%, respectively.
Which entities hold what proportion of outstanding mortgage loans in your country?	Commercial banks hold the majority of outstanding mortgage loans.
What is the typical LTV ratio on residential mortgage loans in your country?	Eesti Pank has set an LTV limit of 85%. For state-guaranteed housing loans, the LTV ratio may be up to 90%. The average LTV for new mortgage loans issued in 2025 was 68%.
How is the distinction made between loans for residential and non-residential purposes in your country?	Not available.
What is/are the most common mortgage product(s) in your country?	Floating-rate mortgage loans (6-month Euribor plus an interest margin).
What is the typical/average maturity for a mortgage in your country?	Eesti Pank has a set maximum mortgage maturity of 30 years. The average maturity for new mortgage loans issued in 2025 was 26.1 years.
What is/are the most common ways to fund mortgage lending in your country?	Commercial banks' lending activities are covered mainly with domestic deposits. But in addition, local banks have implemented covered bond frameworks to use covered bonds as a contingency funding tool and especially in volatile periods.
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	Not available.
What is the level (if any) of government subsidies for house purchases in your country?	The Estonian Business and Innovation Agency (EIS, formerly known as KredEx) offers state-backed loan guarantees for purchasing and renovating homes. In 2025, approximately 16% of all newly issued mortgage loans were issued with an EIS guarantee.