Labour Market Review

Eesti Pank
EUROSÜSTEEM

2026

The labour market review by experts from Eesti Pank covers developments in the supply and demand of labour in Estonia, and the cost of it in wages. The central bank observes the labour market for two reasons. Firstly, labour is an important production input, as a change in the supply or activity of labour can directly affect potential growth. Secondly, events in the labour market can have a major impact on inflation. As the euro area monetary policy targets price stability and the Estonian economy is very open, the economy adjusts to changes principally through the prices and volumes of production inputs. The labour market consequently needs to be flexible, and wage rises need to correspond to increases in productivity. Rising wages should not push production costs up so that they cause excessively high inflation.

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Summary

There were no major changes in the state of the Estonian labour market in 2025. Economic growth of 0.6% was less than expected and GDP in the final quarter of 2025 was only 0.9% more than at the lowest point of the recession. Employment stopped falling but did not decisively start growing. This was to be expected, since there is a lag before the labour market reacts to changes in economic activity. Companies avoided making employees redundant during the recession and so there is slack in their internal labour supply. This means that output volumes can at first be increased without a lot of new employees being hired.

Demand for labour from the private sector remained modest, but the fall in the number of people receiving a wage slowed throughout the year. There was a slight rise across months in the number receiving a wage in manufacturing and construction, which was encouraged as foreign demand was reviving and interest rates had come down from their high levels of 2023-2024. The expectations of employers for employment and the number of vacancies also indicated that things were improving at the end of the year. Employment continued to decline in the service sector at the same time though, which followed from the weakness in domestic demand in 2025. There were more people receiving a wage in the public sector, but the growth slowed sharply in response to budget limits.

The unemployment rate averaged 7.5% in 2025, which was the same as in 2024. It fell to 6.4% in the fourth quarter, though this was because of a steep drop in the labour force participation rate, not because of an increase in employment. The number registered as unemployed fell across the year in all regions of Estonia, and was down by 8.8% in total. Unemployment for young people has increased relative to that for people in their middle working years, and this was because of the recession and because of an increase in the share of those aged 15–24 that are still of school age. Finland, Sweden and Estonia were in the top five countries in the European Union for the level of unemployment, indicating that the war in Ukraine and the energy crisis hit the economies, and so also the labour markets, of countries in northern Europe disproportionately hard.

The growth in the average wage slowed from 8.1% in 2024 to 5.6% in 2025. Changes to the income tax system exaggerated the size of the slowdown. Growth in wages was slowed in the first quarter of 2025 because wage payments had been shifted to the end of 2024 to avoid the rise in tax, while it was slowed in the fourth quarter because wage payments were postponed to the beginning of 2026, as the tax-free threshold for income stopped depending on the size of wages. Wage growth slowed most in the public sector, where the pay rises in collective wage agreements were small in 2025. The average wage in the private sector rose faster in construction and manufacturing than it did in services, which was mirrored in the changes in the demand for labour.

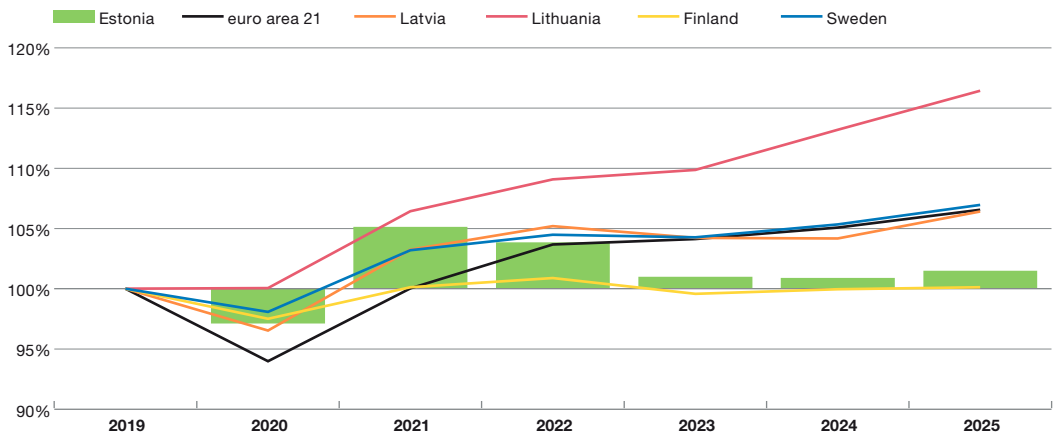
The Eesti Pank March forecast 2026 was moderately optimistic about the outlook for the labour market moving forwards. The economy should grow noticeably faster in 2026, with support from the revival of foreign markets and from the fiscal stimulus. Companies avoided redundancies during the recession and so they can at first expand their production by using the labour they currently employ, so it is likely that employment will rise only slowly. Unemployment will fall slowly, but will approach the natural rate of unemployment. The elimination of the income tax hump will raise the average net wage in 2026, and it will increase by 10%. The main risk to growth in the economy and to the outlook for the labour market is the war between the US and Iran that started in early 2026 and that has raised energy prices and hurt the confidence of households and businesses.

DEMAND FOR LABOUR

EMPLOYMENT

The Estonian economy started to grow again after a couple of years in recession, but it did so more slowly than expected. GDP was only 0.6% larger in 2025 than in 2024, and the rate of growth in GDP slowed in the later quarters of the year (see Figure 1). The recovery across the year in the Latvian and Lithuanian economies, which are Estonia's neighbours and trading partners, gave some support to the Estonian economy, as did the improvement in Sweden in the second half of the year. The Finnish economy however had not yet taken any decisive step on to the road to recovery in 2025. Economic growth picked up throughout the euro area last year, though the trade war started by the USA made businesses and households less certain about the future in the first half of the year.

Figure 1. GDP at constant prices, 2019 = 100%

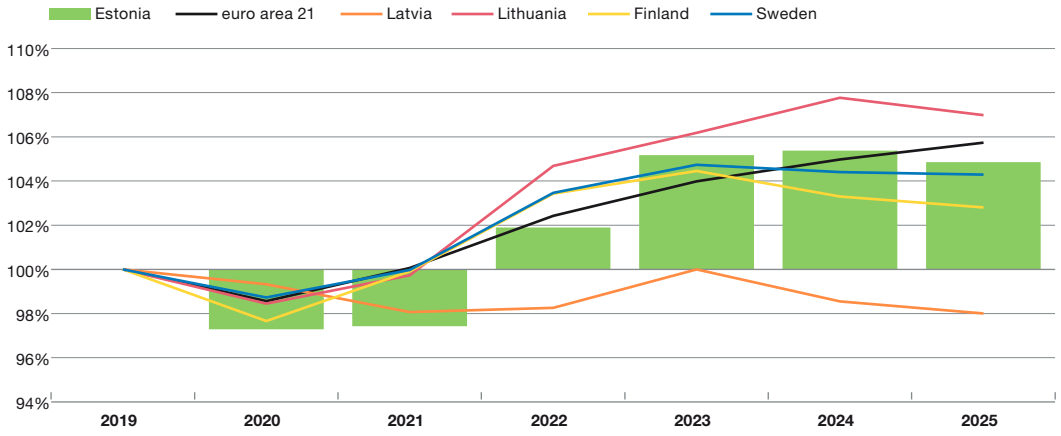


Sources: Eurostat, Eesti Pank calculations

Stronger growth in the economy in 2025 meant that employment fell more slowly in Latvia, Lithuania, Finland and Sweden (see Figure 2). Latvia is different from the other countries because employment fell below where it was in 2019 before the pandemic. The population there fell by around 4% at the same time, despite the arrival of refugees from the war in Ukraine in 2022-2023. Demand for labour in Estonia was relatively stable in 2025, as employment stopped falling and the expectations of employers for the future became more optimistic, though there was still no sign of a decisive turn in additional labour recruitment. Data from tax declarations show that the number of people declared as receiving a wage under an employment contract fell by 0.4% over the whole year, dropping by 0.6% in the first half of the year and 0.3% in the second half. The labour force survey shows that employment at Estonian companies and institutions fell by 0.5% in total, or about 3500 people, though the number working for a wage increased by 0.1%. There were fewer Estonian residents working abroad than in the previous year, and so employment of Estonian residents fell a little more, declining by 0.8% or about 5000 people. The estimate of employment found by the labour force survey varies quite widely from quarter to quarter, but this is probably mainly because of the statistical variation coming from the sample used.

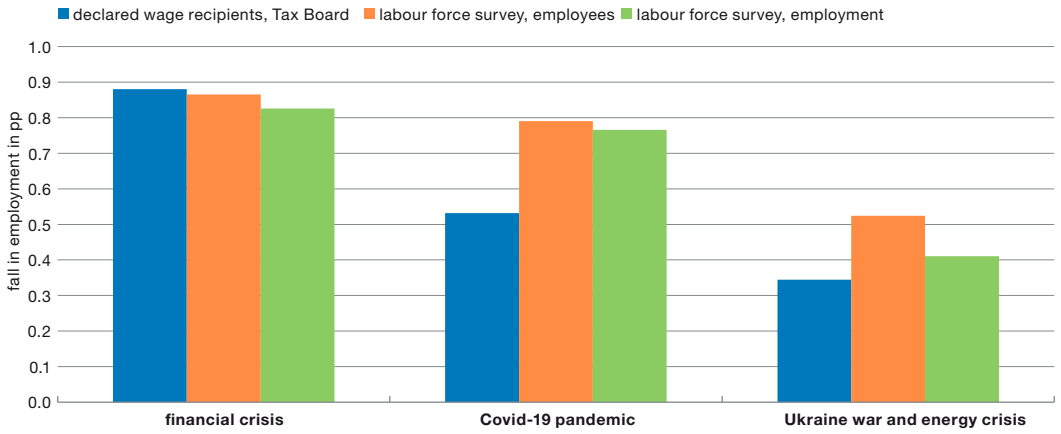
It remains the case that the labour market was more resilient during the recent crisis than in the financial crisis of 2008 and the Covid-19 pandemic, as the fall in employment for each drop of 1% in GDP was smaller this time around (see Figure 3). GDP declined during the seven quarters of recession that started in the first quarter of 2022 by 5.5% from its peak at the start, and it had recovered by 0.9% by the final quarter of 2025. Register data show that the number of employees earning a wage peaked in early 2023, which was about a year after the economy started declining, and that number had fallen by 1.9% by the end of 2025. The labour force survey shows the fall to be slightly larger at 2.9% of salaried employees and 2.3% of those in employment. There are probably several reasons for this difference. The total fall in GDP at current prices during the latest crisis was only 0.5% in the third quarter of 2023, which was

Figure 2. Employment in state companies and institutions, 2019 = 100%



Sources: Eurostat, Eesti Pank calculations

Figure 3. Drop in employment in percentage points for each drop of 1% in GDP during different crises



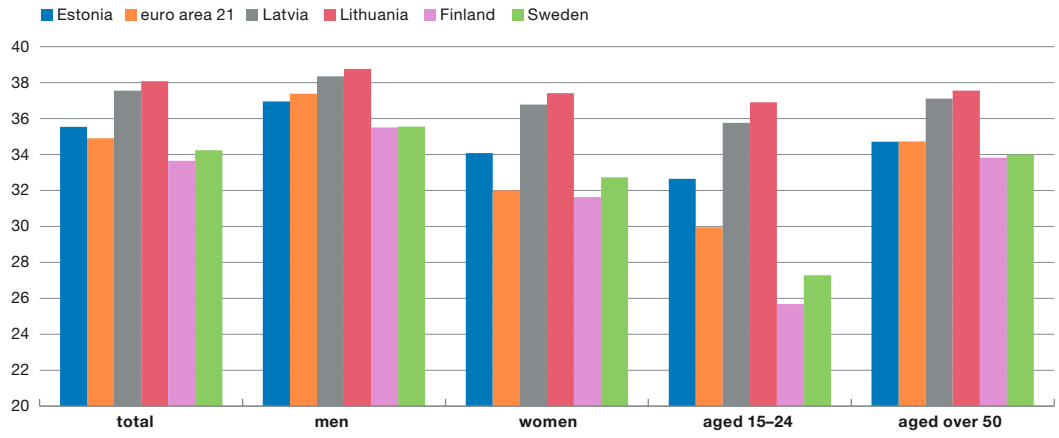
Sources: Statistics Estonia, Tax and Customs Board, Eesti Pank calculations

extraordinarily small, and the fall in real wages meant that the price of labour for companies fell relative to the prices of other production inputs. Experience from the recent pandemic also made employers cautious about reducing their staff numbers, as they have for the most part found themselves facing a shortage of qualified labour for a long time now.

There was no real change either from 2024 to 2025 in the number of hours worked per person employed, which was down 0.2%, or per waged employee, which was down 0.1%. The labour force survey showed that the average number of hours that people actually worked at their main job in a week was 0.9% lower than in 2024 and 5.2% lower than in 2019. This figure has been coming down for a long time because the workload in hours of full-time employees has been shrinking and the proportion of employees working part-time has been increasing. These trends have probably been driven by an increase in the share of people in employment who are aged over 50, the reforms to the social insurance system so that it now encourages work more, and perhaps by people preferring to work fewer hours as their standard of living rises. The number of hours actually worked is now notably lower in Estonia than in Latvia or Lithuania and is close to the average in the Nordic countries and in the euro area (see Figure 4).

The number of hours worked depends on the workload. A little under 85% of those in employment worked full time in their main job in 2025, and that share has remained unchanged since 2022. Over a slightly longer term, part time work has become more common in Estonia, as a decade ago around 10%

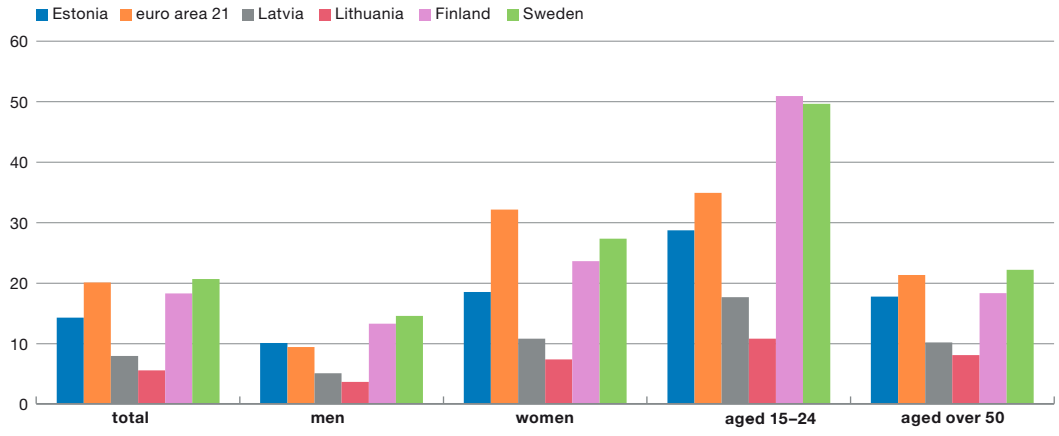
Figure 4. Actual hours worked per employee in the week of the survey in 2025



Sources: Eurostat, Eesti Pank calculations

of all employees were working part time. Women, young people and to some extent those aged over 50 are more likely to work part-time in Estonia, in Estonia's neighbours, and elsewhere in the euro area. A little over a fifth of women in employment in Estonia were working part time last year, while 11% of men were. The rate of part-time working has come much closer to the euro area average in Estonia than it has in either Latvia or Lithuania (see Figure 5).

Figure 5. Share of those in employment who were working part-time in 2025

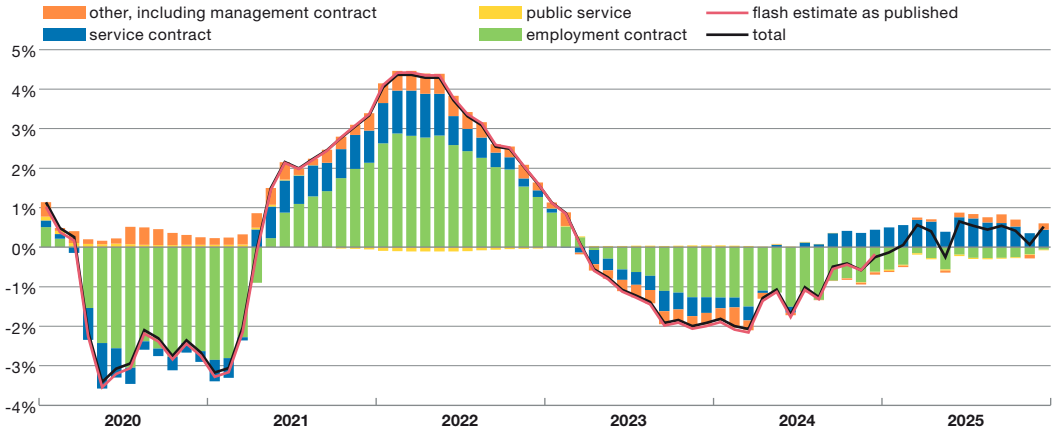


Sources: Eurostat, Eesti Pank calculations

Some 6-7% of people in employment in Estonia have one or more side jobs alongside their main job, meaning that the number of positions filled is also about 6-7% higher than the number of people in employment. Different types of working contract must be registered in the employment register of the Tax and Customs Board, which then gives a picture of changes in the number of current contracts. The number of current employment contracts also stopped falling in 2025 and it is quite notable that the number of service contracts has been rising since the second half of 2024 (see Figure 6). They are now about a tenth of all contracts and there were 5.9% more of them in 2025 than in 2024. It should be noted that Figure 6 only includes contracts that were current at the end of the month, meaning that some very short contracts are not covered by the data.

Employment among Estonian residents aged 15-74 was down by 0.8% in 2025 and the number of residents in that age group fell by 0.2%, so the employment rate came down to 68.5% from 68.9% in 2024. The employment rate is 0.7 percentage point lower than it was when it peaked in 2022-2023. There remain differences between men and women, as the employment rate for men is 1.4 percentage

Figure 6. Yearly growth in the number of employment relationships and the contribution of different contract types

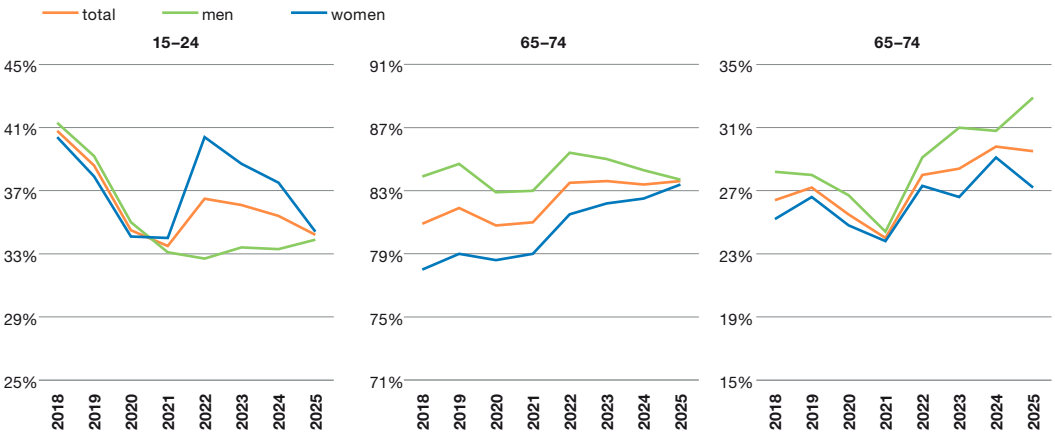


Sources: Tax and Customs Board, Eesti Pank calculations

points down from its peak, while that for women has remained at the same level as in 2022-2023. This means the gender gap in employment has narrowed, which is partly because the sectors that suffered most in the recent recession were those where more men than women work, such as manufacturing and construction. The employment rate for the young age group aged 15-24 has fallen (see Figure 7). The sample for the labour force survey does not allow more granular estimates, but it appears that the employment rate for young men has not recovered from its drop during the pandemic. The employment rate for young women did recover, but has then been sliding in subsequent years. This picture is inverted for people in their middle working years of 25-64, as the employment rate for women has been rising strongly, while the rate for men has remained essentially unchanged. The employment rate has also risen for older workers, as it was 29.5% in 2025 but only 27.2% in 2019. This can be explained by the steady rise in the retirement age and by the motivation to keep on working since pensions are smaller than wages.

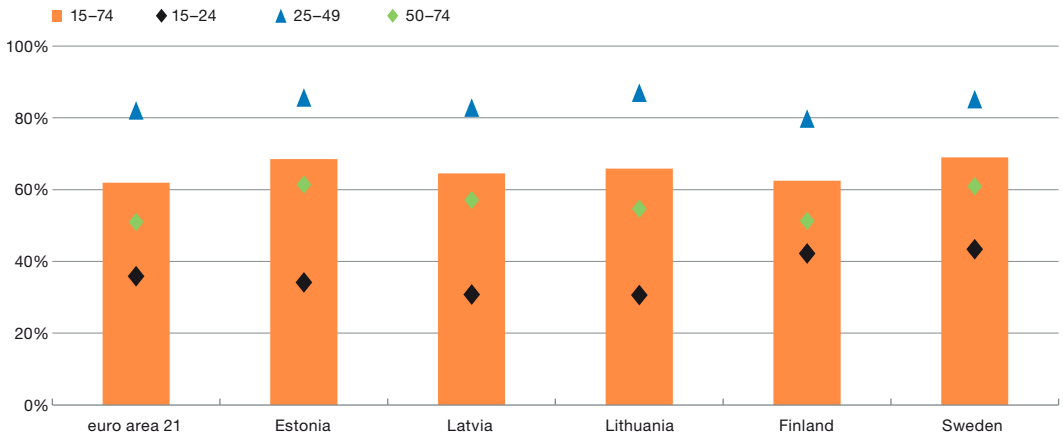
The Estonian employment rate was higher last year than those in Latvia, Lithuania or Finland despite its fall, and it was also higher than the average in the euro area and at the same level as that in Sweden (see Figure 8). The youth employment rate is lower in all the Baltic states than in Finland and Sweden, but it is considerably higher for young people who have completed higher education. Estonia and Sweden are leaders in Europe for the employment rate for the over 50s.

Figure 7. Employment rate by gender and age group



Sources: Statistics Estonia, Eesti Pank calculations

Figure 8. Employment rate by age group in 2025

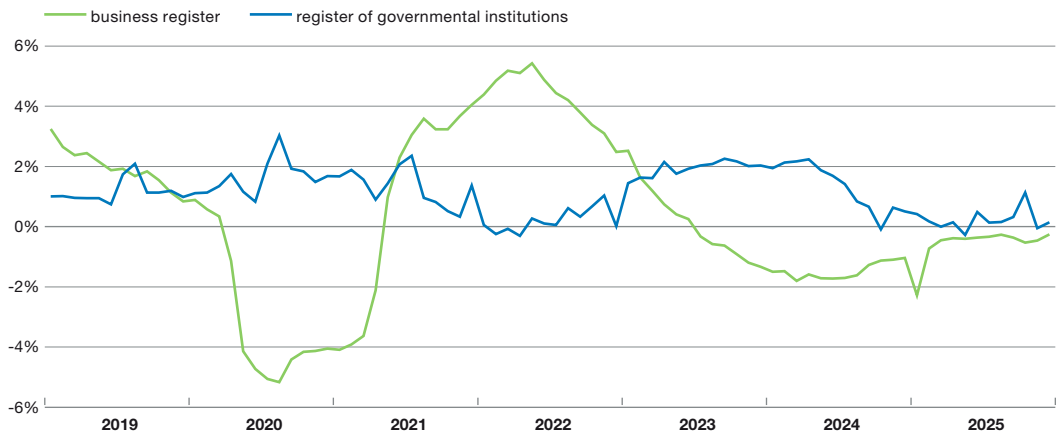


Sources: Eurostat, Eesti Pank calculations

Data from the Tax and Customs Board show that the increase in the number receiving a declared wage from the general government stopped in 2025, and the downward trend in employment in the private sector eased as the economy stabilised (see Figure 9). An average of 101,600 people each month received a declared wage in 2025 from institutions in the government register of institutions, and that number was 0.2% higher than a year previously. A monthly average of 23,900 people were earning a declared wage from foundations, most of which are in the government sector, and their number was up 1.3% over the year.

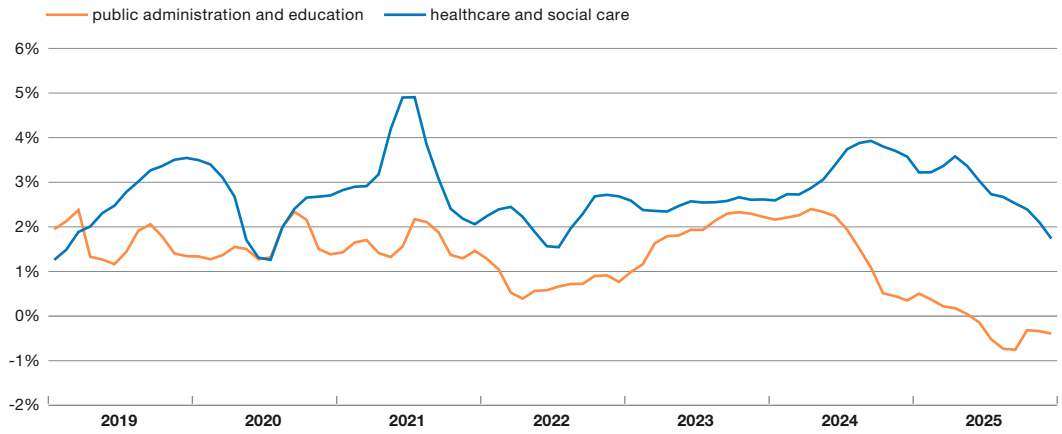
The number of people receiving a wage in public administration and social insurance and in education, which are mostly in the public sector, stopped rising and in total in 2025 it was 0.6% lower than in 2024 (see Figure 10). Data from the Estonian education information system show a fall in the number of teachers in primary education and a rise in the number of teachers in general education. This can be explained by the trend in the number of children, as the fall in the birth rate means the number of children aged 2-6 started to fall, reducing demand for kindergarten services. The number of young people aged 7-20 was still rising in 2025, and although it will start to fall in the near future, the requirement to remain in school until 18 will raise the number of school students. The growth in the number of people employed in healthcare also slowed. Data from the National Institute for Health Development confirm the strong growth in earlier years, as the number of people working in healthcare rose by 12.4% from 2019 to 2024. The number of people working in the public sector was up by 10.1%, while in the private sector, which employed 30.9% of those working in healthcare in 2024, the number rose by a fifth.

Figure 9. Yearly change in recipients of declared wages in the private and public sectors, seasonally adjusted



Sources: Tax and Customs Board, Eesti Pank calculations

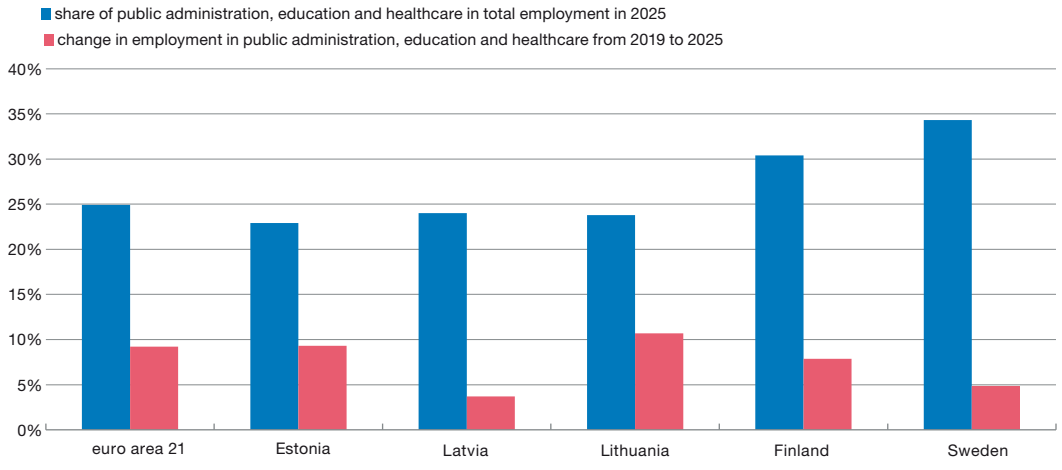
Figure 10. Yearly change in recipients of declared wages, three-month moving average



Sources: Tax and Customs Board, Eesti Pank calculations

The division of healthcare and education between the public and private sectors varies greatly from country to country, but looking at the developments in employment at the level of fields of activity avoids possible institutional changes within a country affecting the overall picture. Estonia, like Latvia and Lithuania, is generally around the euro area level for the share of employment in these services, but well below the level in Finland and Sweden (see Figure 11). Labour force survey data show that the number of people working in public administration, healthcare and education has risen fast since 2019, and that the share of people working in those fields has increased in the euro area as a whole and in Estonia's neighbours.

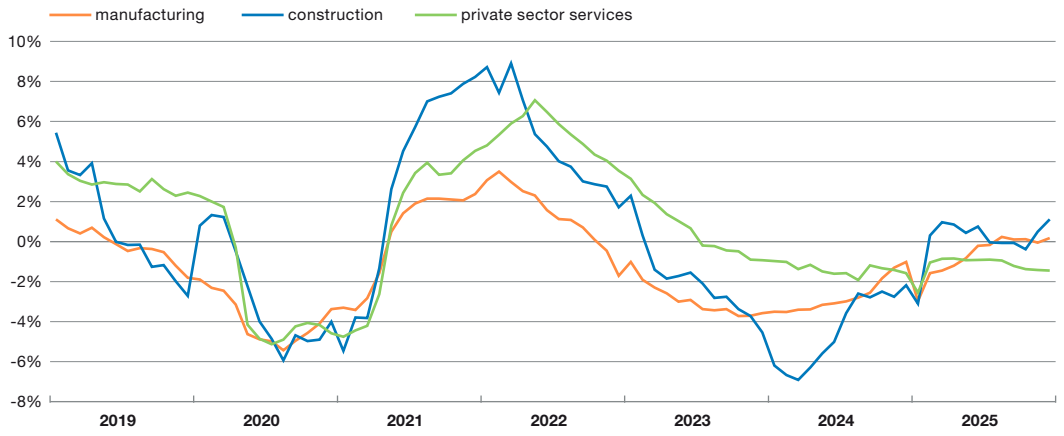
Figure 11. Share of public administration, education and healthcare in total employment in 2025 and change from 2019



Sources: Eurostat, Eesti Pank calculations

Employment fell more slowly in the private sector as a whole in 2025, but estimates using different methodologies give quite different pictures of the rate that it slowed at and of its trajectory in different fields of activity. Further confusion is introduced because there is greater movement between sectors than in earlier years, which may be because of the transition to the new EMTAK25 classification. Some of the change in employment then arises simply because companies have been moved from one sector of activity to another. Employment in the private sector generally reflects the sluggish recovery in the economy from its long recession, which has so far been largely based on the revival of foreign demand while domestic demand has remained weak (see Figure 12).

Figure 12. Yearly change in the number of recipients of declared wages



Sources: Tax and Customs Board, Eesti Pank calculations

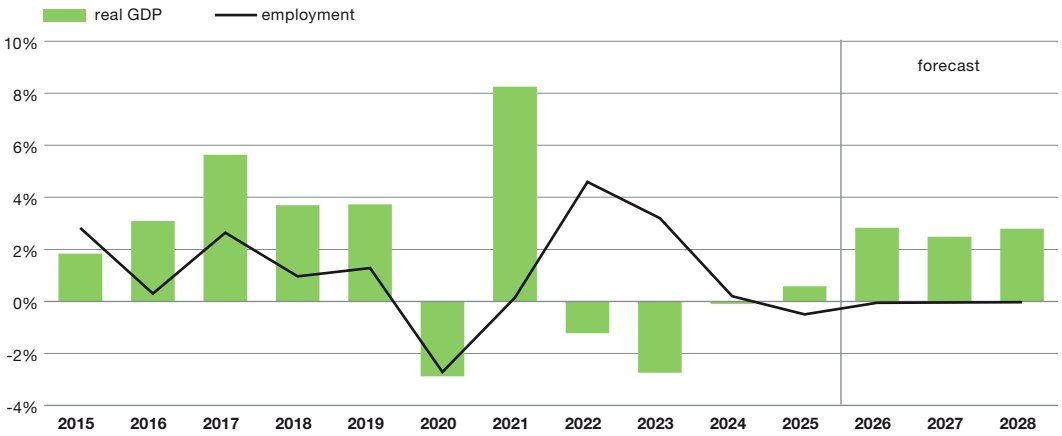
The register data from the Tax and Customs Board show that the number of people employed in manufacturing stopped falling in the second half of 2025 but was still 0.7% lower in 2025 than in 2024. The number of people earning a wage in manufacturing was in total 6.5% lower than before the recession. Real value added in the sector fell at the same time by 27% from peak to trough, but the recovery meant that by the end of 2025 it was only 14% down from its peak before the recession. The labour force survey found a fall of 3% in the number of people earning a wage in manufacturing in 2025, but this was a smaller fall than the 8.9% seen in 2024. Employment also stopped falling in construction, and there were the same number of people earning a wage there in 2025 as in 2024 (see Figure 12). Value added in construction, like that in manufacturing, fell by 27% over the two years of recession from its level before the recession to the end of 2025, but it has not yet started rising again after that. Employment in the service sector started falling in response to the weakness in the economy later than it did in manufacturing, and the sector remained weak in 2025 and the number of people earning a wage there continues to fall.

THE OUTLOOK FOR EMPLOYMENT

The forecast published by Eesti Pank in March 2026 expects growth in the economy to pick up noticeably. It will get support in this from a fiscal policy that stimulates domestic demand, and from continuing growth in exports. The main risk threatening the recovery in the economy is the war between the US and Iran that started in early 2026 and that has again raised energy prices and has undermined the confidence of households and businesses. The contribution of labour is measured in the forecast as the number of hours worked at Estonian companies and institutions, which is found from the Estonian labour force survey. The number of hours worked per person employed was found by applying the assumption that the hours worked per employee move in line with the historical trend and converge towards a certain level. The forecast does not see that the fall in employment at the end of 2025 will endure, and expects rather that employment will recover throughout 2026 until it reaches the average level of 2025. The recovery will be supported in the longer perspective above all by an increase in labour productivity, as employment shrank relatively less than GDP during the recession, meaning that productivity fell and companies found there to be some slack in the labour supply. This will allow production volumes to be increased without large amounts of labour needing to be hired (see Figure 13).

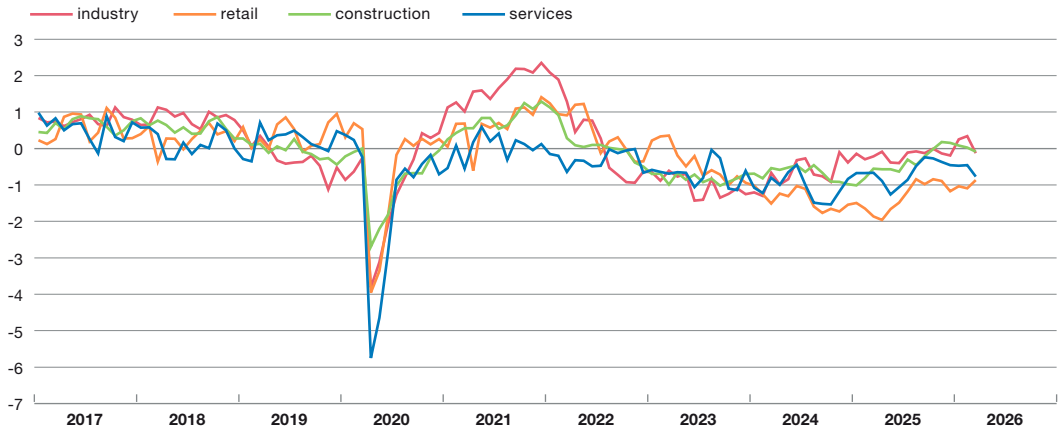
The Eesti Pank forecast covers the whole of the economy in aggregate form, and does not differentiate between different sectors. There are grounds to believe in the short term that manufacturing will continue to grow as the recovery in foreign demand will support an increase in manufacturing output volumes. Further growth in employment is also indicated by the expectations for employment of employers in manufacturing, which were above their historical average level in the early months of 2026 (see Figure 14). There were

Figure 13. March forecast 2026 for economic growth and change in employment



Sources: Statistics Estonia, Eesti Pank calculations

Figure 14. Employment expectations, standardised

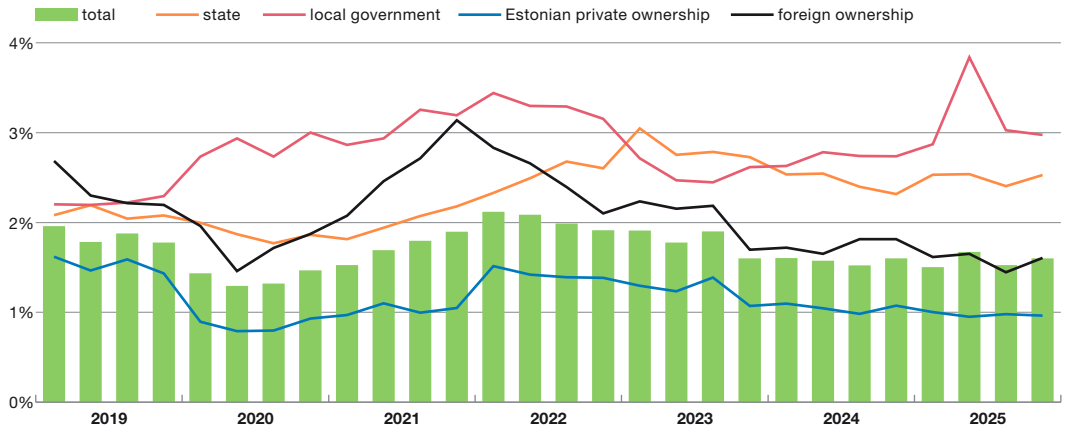


Sources: European Commission, Eesti Pank calculations

however a fifth fewer job vacancies being advertised in manufacturing in early 2026 than there were a year earlier (see Figure 16). Improved confidence among households will lay the ground for construction and real estate to recover, and expectations of employers in the sector for employment also point to demand for labour increasing in the near future. The opposite probably applies in the public sector, where efforts to consolidate the state budget will bring pressure to reduce labour costs. The preliminary indicators for the short-term in retail are giving mixed signals, as surveys show the expectations of employers for employment still to be low, but the number of jobs advertised in the Töötukassa database is rising.

A forward-looking indicator of growth in employment is the change in the number of vacancies, as employers start to look for additional staff before employment increases. Information on the number of vacancies and the vacancy rate can be found from the Statistics Estonia survey of vacancies and labour mobility, and from the statistics on vacancies released by Töötukassa. Data from Statistics Estonia show that the vacancy rate, which shows vacant positions as a share of all vacant and filled positions, was the same at the end of 2025 as it was a year earlier. It had risen a little in state and local government employment and fallen a little in the private sector, but the changes were not large (see Figure 15). These data show falls in both the number of filled positions and the number of vacant positions, of which there were 8553 in the fourth quarter of 2025, or about 500 fewer than a year earlier.

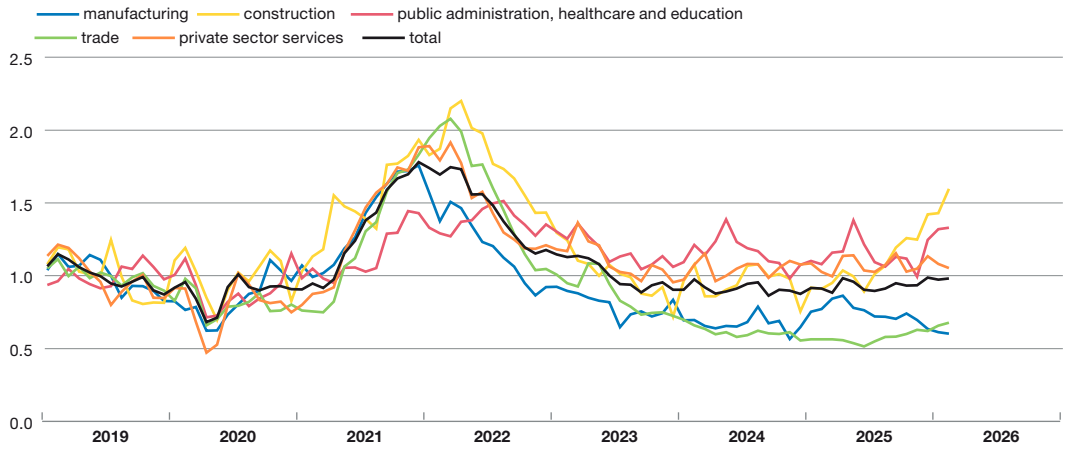
Figure 15. Vacancy rate by ownership of employer, seasonally adjusted



Sources: Statistics Estonia, Eesti Pank calculations

In contrast to the survey-based statistics on vacancies, the data from Töötukassa indicate that the number of registered vacancies that were published during the month increased in the final quarter of 2025 by 6.7%, though this is still substantially less than during the cycle of hiring that followed the pandemic. The increase was largely due to a sharp rise in the number of vacancies in construction, though there were also more jobs advertised in manufacturing, the public sector and retail than there were a year previously (see Figure 16). The number of vacancies in manufacturing fell though at the end of 2025 and in the first months of 2026.

Figure 16. Number of vacancies each month, seasonally adjusted, 2019 = 1

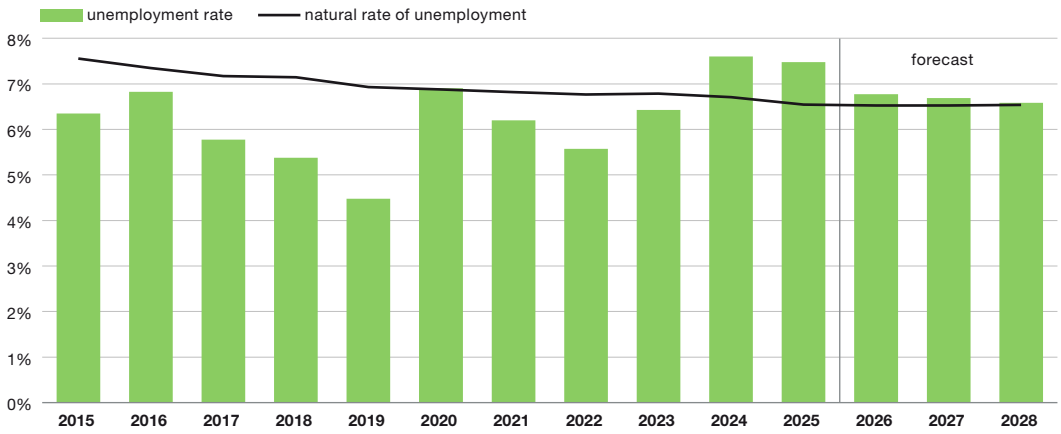


Sources: Töötukassa, Eesti Pank calculations

UNEMPLOYMENT

The estimate of the unemployment rate from the labour force survey was quite volatile in 2025 ranging from a seasonally adjusted 8.3% in the first quarter of the year to 6.5% in the fourth quarter. The unemployment rate for the whole of the year was 7.5%, which was same level as a year earlier. Part of the reason that the unemployment rate was so volatile was that the labour force participation rate varied quite a lot, as there was an unusually large share of people of working age who were inactive at the end of the year for example, as they were not actively looking for work or not ready to start a job within a short time. The situation has been largely the inverse in earlier years, as the labour force participation rate was unusually high, and that raised the number of people unemployed. The monthly data from Eurostat show that the unemployment rate stayed low in early 2026, as the average figure for December 2025 and January and February 2026 was 6.2%. The unemployment rate in 2025 was one percentage point higher than the equilibrium rate where labour shortages in the labour market are not causing wage pressures, but it was about three percentage points higher than before the series of crises. Wage growth at that time exceeded the growth in productivity and employers felt very squeezed by labour shortages, indicating that the labour market was overheated. The Eesti Pank March forecast expects that the unemployment rate will fall only a little in the coming years from its level at the end of 2025 as labour force participation will rebound together with employment (see Figure 17).

Figure 17. March forecast 2026 for unemployment

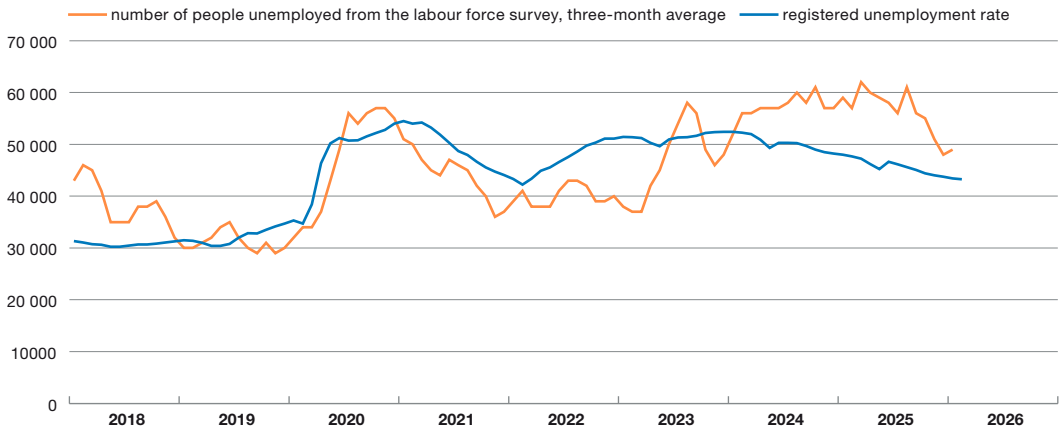


Sources: Statistics Estonia, Eesti Pank calculations

The number of people registered as unemployed was down by 8.8% throughout 2025, and by 9.3% in the early months of 2026 (see Figure 18). The difference between the number of people registered as unemployed and the estimate of the number of people unemployed found from the labour force survey using the methodology of the International Labour Organisation (ILO) narrowed at the end of 2025 as the survey-based figure dropped sharply. It is quite common for there to be a difference between the two figures as it may happen for example during a lasting recession that people have less motivation to register with Töötukassa, as their period of unemployment extends and they lose their right to unemployment benefits. The number of people in the register who were under international protection because of the war in Ukraine has fallen at the same rate as the number of people registered as unemployed. There were 3112 such people at the end of December 2025, which was 7% of all those registered as unemployed, as it had been a year earlier.

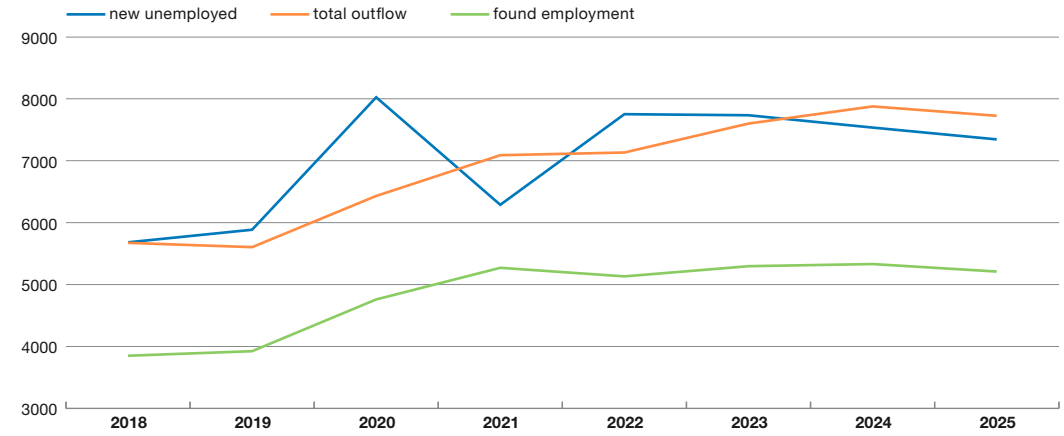
The number of newly unemployed people added to the Töötukassa register fell in 2025 to around 7300 people a month. This figure was 7500 in the previous year. There were on average 8.9% fewer people made redundant each month than a year previously (see Figure 19). The number of people exiting unemployment fell throughout 2025 at the same rate as the number of newly unemployed. As the number of people registered as unemployed was falling faster than this, then the probability of exiting unemployment and of finding a job has actually risen.

Figure 18. Number of people unemployed, seasonally adjusted



Sources: Eurostat, Töötukassa, Eesti Pank calculations

Figure 19. Registered unemployment flows, monthly averages

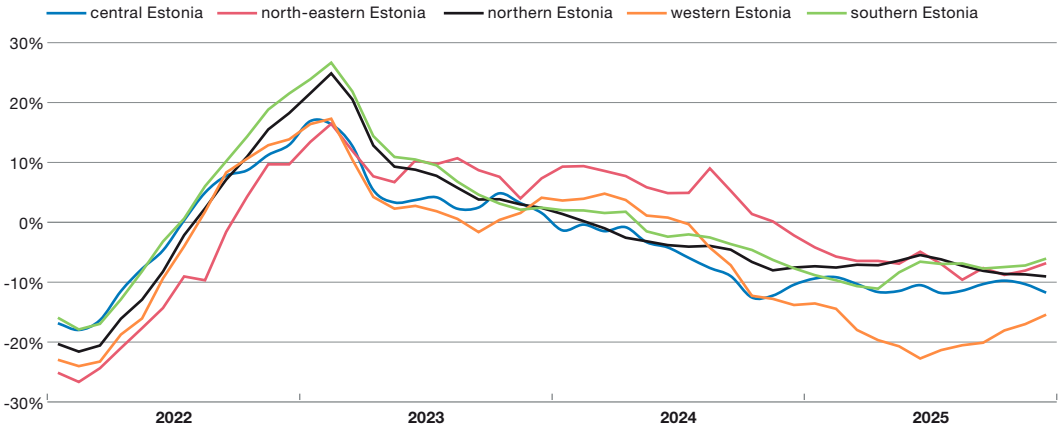


Sources: Töötukassa, Eesti Pank calculations

The region where the unemployment rate was notably higher than in the rest of Estonia was again Ida-Virumaa, where the number registered as unemployed reached 11.5%, and the ILO unemployment rate reached 12.7%. The registered unemployment rate was very similar across all the other regions of Estonia at a little above 6%, with the exception of Western Estonia where it was only 5.5%. The number of people registered as unemployed fell in 2025 in all regions, and did so particularly in Western Estonia (see Figure 20). The number of people unemployed who had earlier done unskilled work or skilled work in agriculture, forestry and fishing fell almost a fifth faster than it did for anyone else, and only the number of people unemployed who had previously worked as senior professionals rose. It was particularly notable across age groups that youth unemployment jumped in the second quarter of the year to close to 25%. Youth unemployment for the year as a whole was at 20.7%, and the confidence bounds of the labour force survey mean that the change from the 19.1% of the previous year was not necessarily statistically significant. Youth unemployment has however remained at a higher level since the pandemic (see Box 1 for more details).

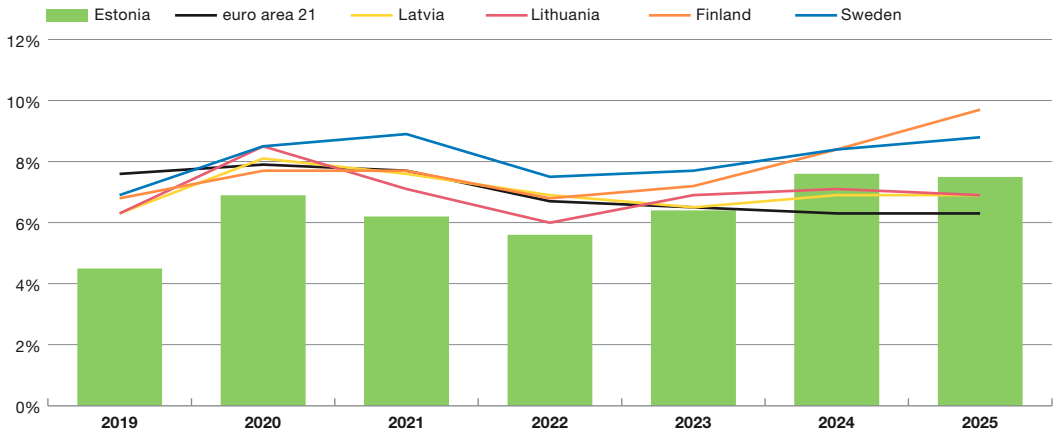
Unemployment in the euro area in recent years has fallen and reached a record low level of 6% (see Figure 21). The economies in Estonia's neighbours were however hit more than the average by the war in Ukraine and the energy crisis, and so unemployment has also risen in the region. The Baltic states stabilised in 2025, but unemployment increased in Finland and Sweden, and Finland, Sweden and Estonia were in the top five countries in the European Union for the level of unemployment.

Figure 20. Yearly change in the registered unemployment rate by region



Sources: Töötukassa, Eesti Pank calculations

Figure 21. ILO unemployment rate ages 15-74



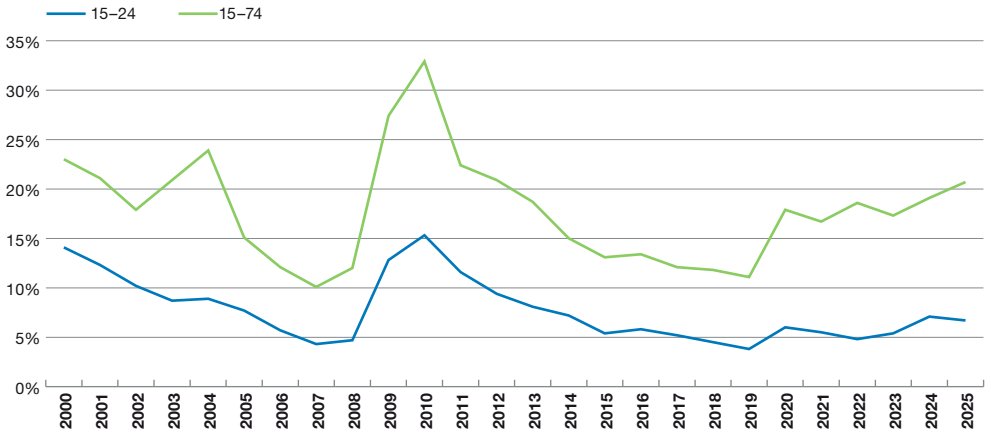
Sources: Eurostat, Eesti Pank calculations

Box 1: Employment and unemployment for those aged 15-24 in Estonia

Unemployment among the young in Estonia leapt up in 2020 in response to the pandemic and has remained high since then. The estimate from the labour force survey shows it reached 20.7% in 2025 (see Figure B1.1) and 8.9% of young people aged 15-24 were unemployed. The youth unemployment rate was on average twice as high as that for those in their middle working years until 2019, but after that it has risen to around three times as high. Estonia was in fifth place among the countries of the European Union for youth unemployment in 2025. This box analyses why youth unemployment has risen.

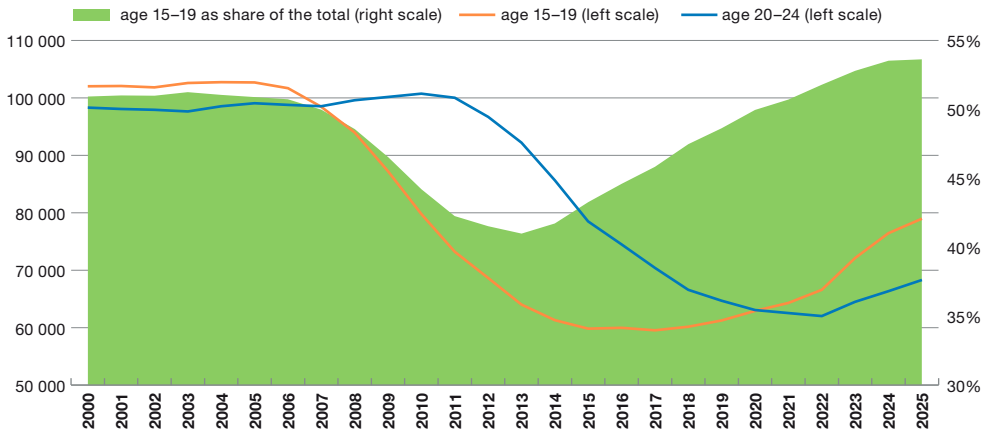
It should be observed when discussing labour market indicators for the young that there was wide fluctuation in the number of births in 1990-2010, and this has strongly impacted the age distribution within the whole age group. The share of those aged 15-19 within the 15-24 age group rose by about 13 percentage points from 2013 (see Figure B1.2). This is important because a very large share of 19-20 year-olds are in general education or professional education and highly unlikely to be participating in the labour market, or if they are then they are probably only looking for their first job.

Figure B1.1. Unemployment rate by age group



Source: Statistics Estonia

Figure B1.2. Size of youth cohorts

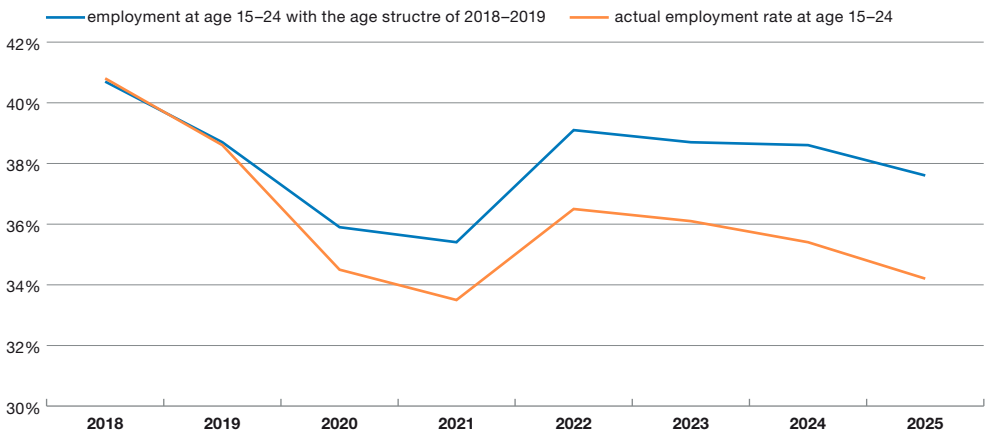


Source: Statistics Estonia

How changes in the age structure among those aged 15-24 affect the employment rate can be shown by calculating a hypothetical employment rate that assumes the age structure of the group remains the same as it was in 2018–2019. It is estimated in this case that the employment rate would have fallen by less, and would have been about 3.5 percentage points higher in 2025 than it currently actually is (see Figure B1.3). The age structure has a similar effect on the labour force participation rate. Unemployment is higher in the younger of the two age groups, and so the increase in the share of younger people within the whole youth group has given a small additional boost each year to the rise in unemployment for the whole group of young people.

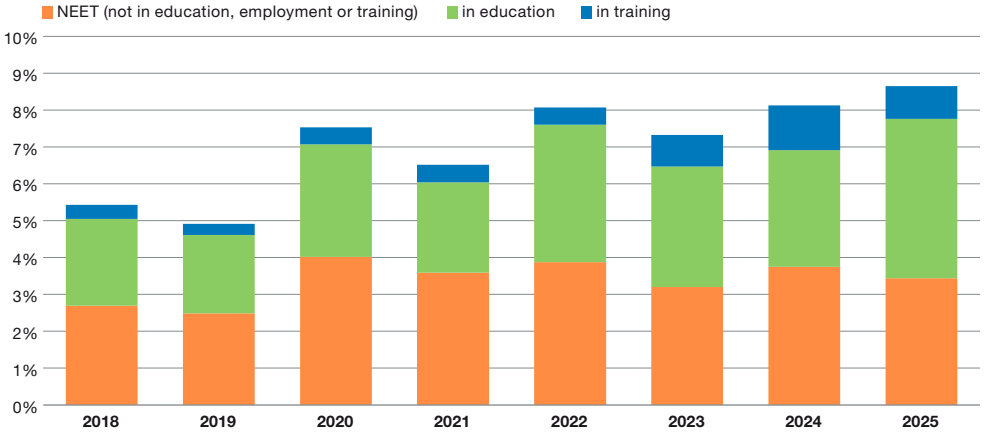
Being unemployed does not necessarily mean that a young person is not in education. Rather the opposite, as the increase in the share of those who are in the 15-19 group was accompanied by an increase in the share of young unemployed people who were studying from 43% in 2018-2019 to 50% in 2025 (see Figure B1.4). Those who are studying in school often look for work during their school holidays, and so youth unemployment fluctuates seasonally across the year and increases in the second quarter. The share of young unemployed people who are engaged in some other form of training has increased rapidly alongside those who are studying, which may be because the labour market services of Töötukassa that are aimed at the young have been expanded. A little under half of the young unemployed are classed as not in education, employment or training, or NEET.

Figure B1.3. Youth employment rate with actual and constant age structures



Sources: Statistics Estonia, Eesti Pank calculations

Figure B1.4. Distribution of the unemployed aged 15–24 as a share in the age group

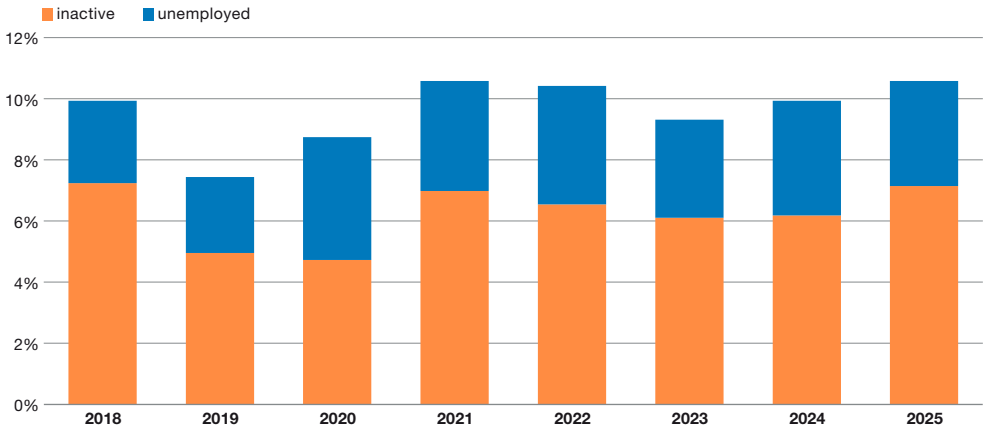


Sources: Statistics Estonia, Eesti Pank calculations

The share of those aged 15–24 who were classed as NEET fluctuated between 7.9% and 10.9% in Estonia in 2018-2025 (see Figure B1.5). Young people abandoning education is often considered a greater problem than young people being unemployed while studying. A distinction can be made among the NEET youth between the one third or so who are engaged in the labour market by looking for work, and the others who are inactive and not looking for a job. The most concerning among the NEET youth are those who are inactive, as it may be assumed that it is harder for them to start work, and harder to support them using the usual labour market measures.

There is though quite a lot of difference between the inactive members of the NEET group. They include those young people who are not in the labour market or perhaps in education for health reasons, and those who are caring for family members or do not want to work for personal or family reasons. NEET status is register-based, and about a fifth of the youth NEET in 2021-2025 defined themselves as school or university students. The number and proportion of NEET youth who consider themselves to be students but are not enrolled in a course generally increases in the third quarter. The observations of NEET youth in consecutive quarters in the labour force survey in 2021–2025 indicate that 78%, with a standard error of 4%, of those identifying themselves

Figure B1.5. Distribution of NEET youth aged 15–24 as a share in the age group



Sources: Statistics Estonia, Eesti Pank calculations

as students did not have the NEET status in the next quarter, while 35%, with a standard error of 2%, of those who did not consider themselves students no longer had the status of NEET in the next quarter. This suggests that some NEET youth hold this status for a short time before continuing with their studies, and are still involved in education. There were still 39%, with a standard error of 2.7%, of young people who were still NEET when they were re-surveyed after a year in the 2021-2025 labour force surveys.

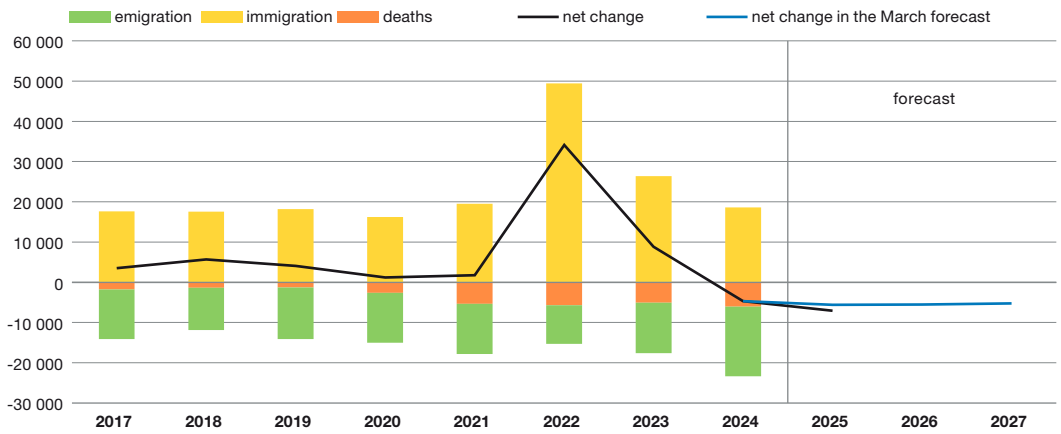
The youth employment rate in 2025 was 6.7 percentage points lower than in 2018, before the pandemic and other crises, and the demographic change explains only about half of the fall. Young people typically have little work experience or are only entering the labour market, and so when companies first reduce hiring because the economic climate has deteriorated, the position of young people in the labour market is affected more than that of people in their middle working years. The employment rate fell in most sectors, and there were very few where the employment rate for young people rose. Some sectors employ young people more, and in 2021–2025, 15.6% of them worked in accommodation and food service, 17.2% in retail, and 13.9% in manufacturing. These sectors suffered more during the pandemic and the energy crisis.

There are several reasons why youth unemployment has increased in Estonia. The situation has been made worse by economic shocks and by changes in the age structure of the young that mean there is a larger proportion of secondary school pupils within the 15-24 age group, who act differently in the labour market to those who are older. A positive point is that a larger and ever-increasing proportion of the young unemployed are studying at the same time as looking for work and that a large number of those who are recorded as not in education, employment or training have moved on from that status in the next quarter. There are however some young people whose unemployment is more permanent in nature and who are not engaged in education or the labour market, and who then need effective support either to return to education or to find a job, or to do both.

THE LABOUR SUPPLY

The labour supply is understood to be people of working age who are active in the labour market, who are either already in a job or looking for work, and who are ready to start a job within a short time. Those people are the labour force. The size of the labour supply in the economy depends on how many residents of working age there are and how many of them are actively participating in the labour market. After growing for quite a long time, the population of Estonia started to shrink in 2024 and throughout 2025, as migration was no longer enough to compensate for the natural decline in population, which had increased further. The full data for 2025 have not yet been released, but migration flows declined for both registered immigration and emigration, and emigration actually exceeded immigration a little. The migration balance may change quite a lot once unregistered migration is considered in the final data that are published. The natural demographic change was further into the negative than it was a year earlier, as there were fewer births (see Figure 22). The number of people of working age without migration has fallen more slowly because of natural demographic changes than the whole population has, as large cohorts have reached working age, while small ones have exited it. The population forecast is an important input for the economic forecast, and it is based on the EUROPOP population forecast of the European Commission, which is updated once a year with new population statistics. The population is forecast to shrink by 0.4% a year in the next three years, while the number of people of working age is forecast to remain unchanged in 2026 and to fall after that by 0.1-0.3% a year.

Figure 22. Change in the population and components of the change and the March 2026 forecast

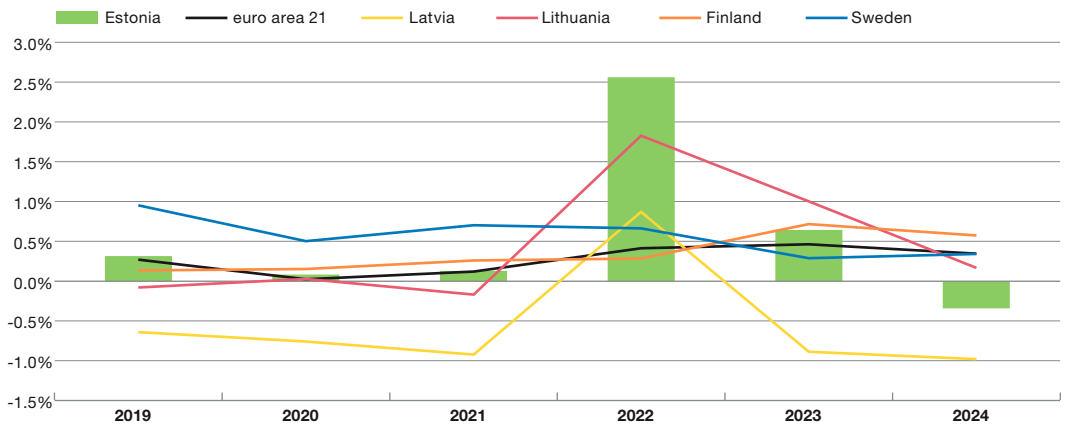


Sources: Statistics Estonia, Eesti Pank calculations

The population increased in 2024 in the euro area, Lithuania, Finland and Sweden, while the trend in Latvia remained quite steeply downwards after being interrupted for one year by the refugees from the war in Ukraine (see Figure 23). The natural rate of population change for all the countries and the euro area taken together was negative, though this was offset by a positive migration balance, except in Latvia, where the migration balance was negative. Ten years ago the Nordic countries stood out in Europe because their birth rates were close to the replacement rate, but by 2024 the birth rate had fallen steeply in those countries to 1.5 children per woman. This illustrates that the declining birth rate is not a phenomenon that is unique to Estonia. Demographic processes have a major impact on the labour market and economic growth and are analysed in Box 2.

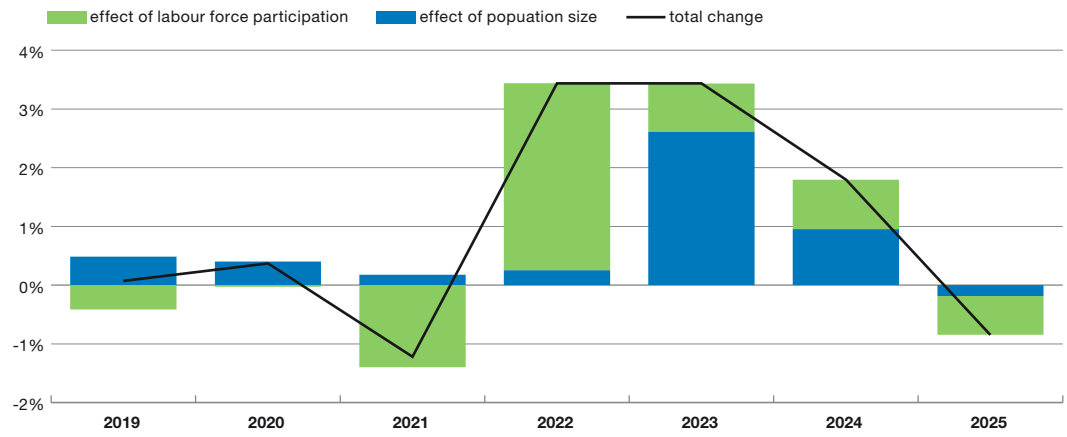
The methodology of the labour force survey means that there is a lag before changes in the number of people of working age in Estonia are reflected in its estimates of employment, unemployment and other indicators. This means that the level indicators for the labour market, such as the estimates of the labour force, increased in 2023 mainly because of the arrival of refugees from the war in Ukraine in 2022. The change in the number of people of working age in 2025 made a small but negative contribution to the labour force. The main contributor to the estimated decline in the amount of labour was the fall of 0.5 percentage point in the labour force participation rate (see Figure 24).

Figure 23. Population change



Sources: Eurostat, Eesti Pank calculations

Figure 24. Yearly change in the labour force and components of the change



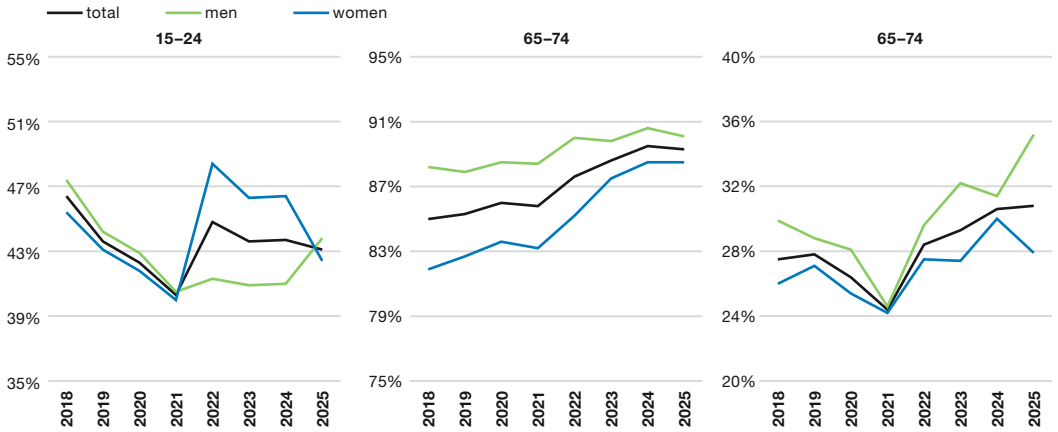
Sources: Statistics Estonia, Eesti Pank calculations

The labour force participation rate reached 74.1% in 2025, but the extraordinarily sharp drop in the fourth quarter of the year contributed a lot to the decline over the year in the participation rate. It averaged 74.5% in the first three quarters which was similar to the 74.7% in the same quarter of the previous year, but in the fourth quarter labour force participation was only 72.9%. Labour force participation was lower than a year earlier for young people, older women, and men in their middle working years (see Figure 25). Participation by men was up a little in total, and it was the lower participation rate of women that caused the overall fall. The gender gap in labour force participation narrowed except among those aged over 65.

There was no clear, single reason why labour force participation declined. The share of people who were inactive increased across all reasons for inactivity (see Figure 26), and it was notable that the proportion who were inactive because they had reached retirement age, which had previously been declining steadily, increased a little. The labour force survey also showed that labour force participation declined among the urban population, while it remained essentially unchanged in the countryside, and that fewer Estonians participated, while there was no change for people of other nationalities.

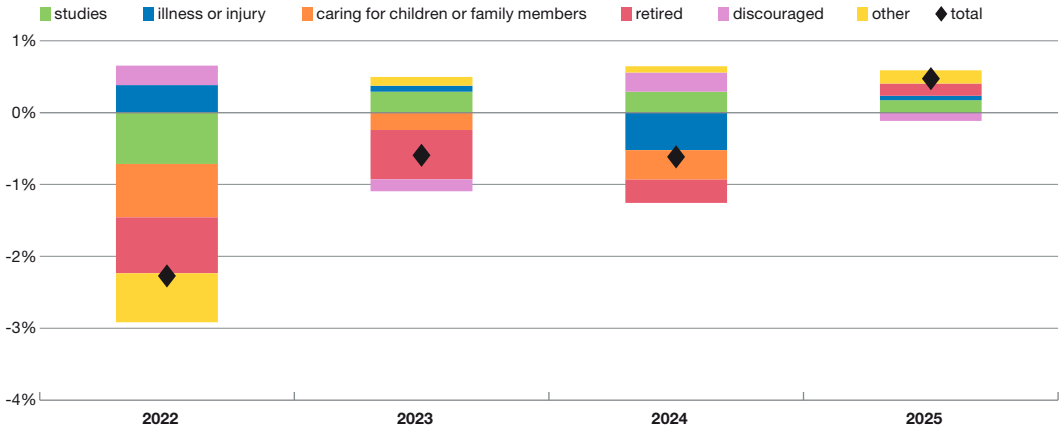
People in Estonia continue to be very active in their participation in the labour force despite the decline in 2025, and Estonia is behind only Sweden and the Netherlands for this in the European Union. Labour force participation for men and women was higher than in 2019 before the series of crises both in the euro area as a whole and in Estonia's neighbours (see Figure 27). There has been an equivalent upward

Figure 25. Labour force participation rate by gender and age group



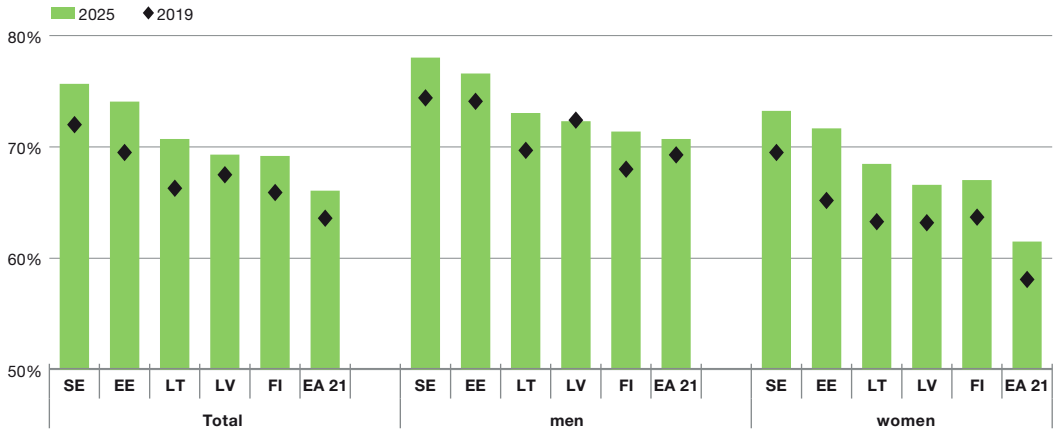
Sources: Statistics Estonia, Eesti Pank calculations

Figure 26. Change in the share of non-participants in the population aged 15 and over by reason for inactivity



Sources: Statistics Estonia, Eesti Pank calculations

Figure 27. Labour force participation in 2025 and 2019 by gender



Sources: Eurostat, Eesti Pank calculations

trend in labour force participation in Sweden as well, even though the level is very high next to those in other European countries. There are always some people of working age who do not participate in the labour market for various reasons, but the participation rate is raised by the increased participation of older people as the retirement age climbs higher and older people are in better health.

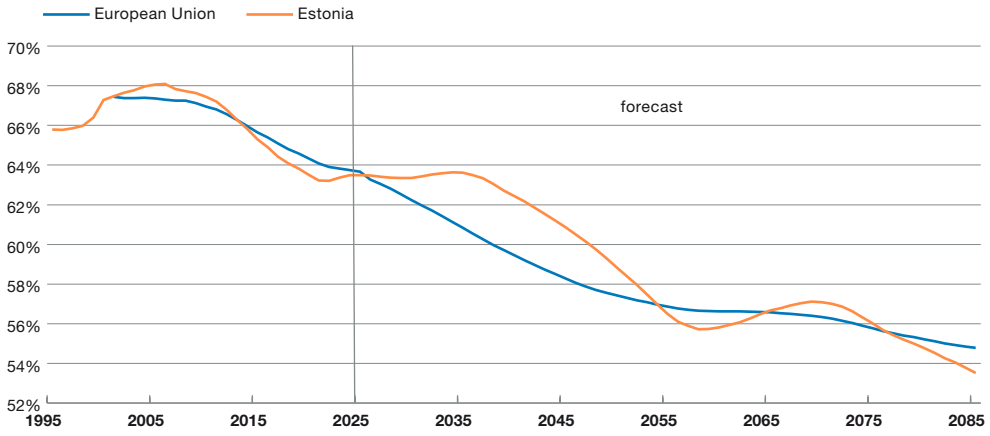
Box 2: How an ageing population impacts the labour market and economic growth

One of the main long-term challenges for the Estonian labour market is that the population is shrinking and ageing. The economy has been weak in recent years largely because of temporary factors like weak foreign demand, high energy prices and general uncertainty, but the demographic change will not disappear as the economic cycle turns, and will continue to weigh on the labour supply and consequently on economic development. This means that labour resources in the labour market will become more limited and maintaining growth in the economy will depend increasingly on how well the impact of ageing can be offset by increased labour force participation and faster growth in productivity.

The share of the working age population aged 15-64 in the European Union as a whole has already started shrinking, and the population forecasts indicate that this trend will continue in the coming decades. The short-term dynamics in Estonia are a little different, because the proportion of the population that is of working age will remain relatively stable until 2035 before the population ages rapidly (see Figure B2.1). This difference arises from the age structure of the population in Estonia, which was shaped by the fluctuations in the birth rate during the Second World War and before and after independence was regained. This difference in timing does not mean that there is no demographic pressure in Estonia, as it will simply be felt slightly later than in a lot of other European Union countries. Estonia is moving in the same direction as those countries in the longer perspective, as the proportion of the population that is of working age will decline while the proportion that is older will increase. Nor is there any reason to expect that the rest of Europe will help ease the constraints in the Estonian labour market, as the European Union as a whole is subject to the same sort of demographic pressure, and so the potential for labour migration within the union is limited.

The ageing of the population is a significant change in absolute terms. There were around 870,000 people aged 15-64 in Estonia on 1 January 2025 but the baseline scenario of the

Figure B2.1. Share of the population that is of working age, 15-64



Sources: Statistics Estonia, Eurostat

population forecast from Statistics Estonia projects the population aged 15-64 will number around 854,000 in 2035 and around 737,000 by 2055, meaning the working age population will shrink by some 133,000 people over the next 30 years. Their larger internal markets and more diversified labour bases allow larger countries to cushion the effects of demographic shifts better, but the small size of the Estonian economy means the same process translates more quickly into recruitment difficulties for firms, skill shortages, and regional problems in the labour market. The population ageing and declining are consequently not only demographic or social policy issues, but also factors that directly constrain the operation of the labour market and the potential level of economic growth.

Decomposing economic growth makes it possible to distinguish the channels through which demographic changes affect GDP growth (see Table B2.1). The change in the size of the population has made a negative contribution to GDP growth over the past 30 years of an average 0.2 percentage point a year, and that contribution will remain negative moving forwards. Structural change in the population at the same time has slowed GDP growth per capita. This means that growth is limited not only by the population ageing, but also by the population shrinking in general. Growth so far has mainly come from increases in labour productivity, but a further substantial positive impact has come from increased participation in the labour market. The participation rate of older people aged 65-74 is of particular note, as this has partly helped to mitigate the demographic headwinds coming from the population ageing.

Tabel B2.1. Decomposition of GDP growth

		1995–2025	1995–2005	2005–2015	2015–2025	2025–2035*	2035–2055*
1.	GDP	3.4	5.8	1.6	1.7		
2.	Population growth	-0.2	-0.6	-0.3	0.4	-0.2	-0.1
3.	GDP per capita	3.5	6.5	1.9	1.3		
3.1	GDP per capita at working age, 15-64	3.7	6.1	2.4	1.6		
3.1.1	labour productivity	3.1	6.4	1.4	0.8		
3.1.2	participation rate at age 15-64	0.4	-0.4	0.9	0.6		
3.1.3	participation rate at age 65-74	0.1	0.2	0.1	0.2		
3.2	Structural change in the population	-0.1	0.3	-0.4	-0.3	0.0	-0.6
3.2.1	ageing	-0.3	-0.3	-0.3	-0.3	-0.3	-0.6
3.2.2	share of the population aged 15 and over	0.2	0.6	-0.1	0.0	0.3	0.0

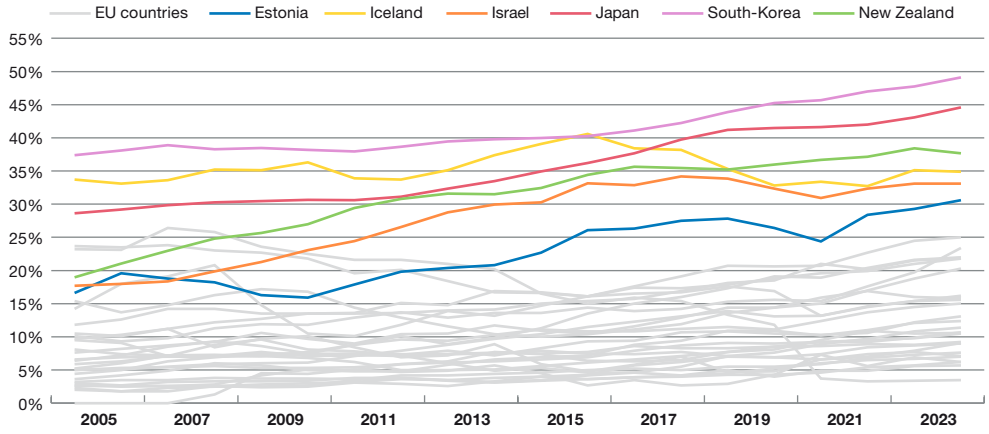
* Calculations from the base scenario of the Statistics Estonia population projection
Sources: Statistics Estonia, Eesti Pank calculations

The component that captures changes in the structure of the population shows how the share of the total population that is of working age, aged 15-64, changes. Two processes can be identified in this. The first is ageing in the narrower sense that the share of those aged 15-64 in the adult population is declining. The contribution of this factor has been constantly negative and the population forecast shows that its impact will strengthen noticeably after 2035. The second factor is the change in the proportion of children within the population. An increase in the share of the population aged 15 and over can improve the figure for GDP per capita in the short-term simply through the composition effect. This cannot however be interpreted as beneficial from an economic standpoint, as a lower birth rate means a smaller working-age generation later on, and stronger pressure from ageing.

The combined negative impact of the population shrinking and ageing on economic growth in the future will become larger and larger (see Table B2.1). The direct impact of ageing in Estonia may be less acute over the coming decade, as the share of the working-age population will remain relatively stable. After that the pressure will increase clearly though, meaning that the current period can be seen as a temporary window for adapting, as the problem is not yet at its sharpest but the effect that it will have is known.

The key question is how much a higher labour force participation rate can continue to ease the impact of ageing in future. Participation has so far been a major channel of adjustment in Estonia, but it does not have unlimited potential. Data from Eurostat show the labour force participation rate in Estonia for those aged 65-74 was the highest in the European Union in 2024 (see Figure B2.2). This means that Estonia is already at the forefront in Europe for labour market participation by older people. The labour force participation rate for those aged 15-64 is also among the highest in Europe.

Figure B2.2. Labour force participation rate of people aged 65-74



Sources: Eurostat, OECD database

The next question is how large the further increase in labour market participation will need to be by 2055 to offset the negative effect of the population ageing on GDP growth per capita. Applying the highest participation rate in Europe, which in 2024 was that in Iceland, across age groups in the population forecast for Estonia in 2055 reveals the average participation rate for those aged 15-64 would need to rise to around 88% from around 82% now. This on its own would not be enough though, and so the labour market participation rate for those aged 65-74 would also need to rise to around 34% from 31% now. This does not necessarily mean that participation would need to increase equally across the whole of this age group. If participation for those aged 70-74 remained around where it is now, the 65-69 age group would have to participate more.

This is the most probable channel through which the impact of ageing can be mitigated. The retirement age in Estonia will be 65 from this year, and from 2027 it will be linked to changes in life expectancy at age 65. This means that policies have already been designed to allow Estonia to adapt to ageing, and labour force participation by older people will increase to some extent as the retirement age rises. If the participation rate at 70-74 does not rise any further, mitigating the negative impact of ageing would need the participation rate at 65-69 to rise to 46% by 2055 from around 40% where it is now. For reference, almost half of those aged 65-69 in Iceland, where the retirement age is 67, are active in the labour market.

Overall the ageing of the population is a clear structural concern for the Estonian labour market. The high labour force participation rate has clearly helped to soften the impact of it so far, including through older people remaining in the labour market for longer. An illustrative calculation indicates that increased participation in the labour market could further mitigate the negative impact of ageing on GDP growth per capita, but the adjustment needed for this would be large, and Estonia's starting position is already very high in European comparison. Increased labour market participation by older people depends partly on whether they are able to work

for longer without health problems or reduced capacity to work forcing them out of the labour market, what incentives the pension and tax system provides, and whether work organisation and the practices of employers support older people in working, including by permitting flexible working arrangements. The more that demographic change restricts growth in the Estonian economy, the more that economic growth in Estonia will come to depend on how successfully productivity can be increased.

AVERAGE WAGES

The average gross monthly wage in 2025 was 2092 euros, and the median wage was 1724 euros. Growth in the average wage slowed in the year overall from 8.1% in the previous year to 5.6%. The growth in wages was affected by tax changes in 2025. The rise in the income tax rate from 20% to 22% reduced the average wage, as some wage payments due at the start of the year were made at the end of 2024 to avoid higher taxes. The average wage was also lower in the fourth quarter because it made sense to pay wages and bonuses in early 2026 once the tax hump was eliminated and the tax-free threshold no longer depended on the amount of income. Data from the Tax and Customs Board on declared wages paid in January show a sharp spike that confirms that this shift probably happened.

The Eesti Pank March forecast 2026 expects the average wage to rise in 2026 at about the same rate as it did in 2025, as the shifts in payments caused by the tax changes will hide the downwards trend (see Figure 28). Wage growth after that in 2027-2028 will be slowed further as inflation falls, but real wages will increase from year to year. The income tax reform in 2026 will give a sharp boost to the growth in net wages and will allow employers to raise gross wages by a little less, as employees will gain most from the changes. Wage growth in the private sector will be held back because companies will not need to hire much additional labour to increase their output. The situation will vary from sector to sector though, and there is a risk in those that are recovering quickly that it will be hard to find employees with the appropriate skills.

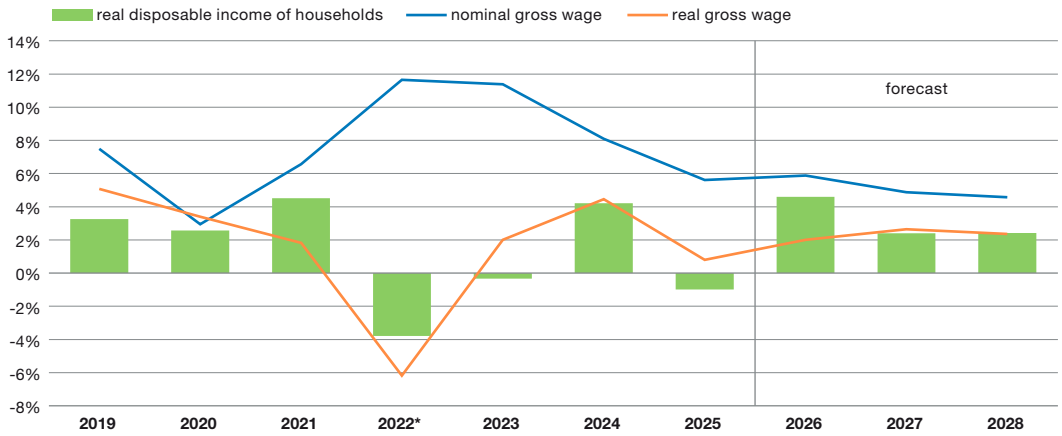
Figure 28. Yearly growth in the average monthly gross wage and the March 2026 forecast

Sources: Statistics Estonia, Tax and Customs Board, Eesti Pank calculations

Higher inflation, which was 4.8% in 2025 and 3.5% in 2024, meant that real wages grew more slowly than nominal wages. Real wages measured using the consumer price index were 0.4% higher in the final quarter of 2025 than at their peak before the recession, while the consumption deflator shows they were 4.2% higher. There was a fall in 2025 in the purchasing power of the total disposable income of households, which covers net wages, pensions, benefits, business income, and interest expenses and income. High inflation and the rise in income tax caused the fall. The opposite to what happened in 2025 will happen in 2026, as falling inflation and the lower average income tax rate will boost growth in the real disposable income of households to around 5% (see Figure 29).

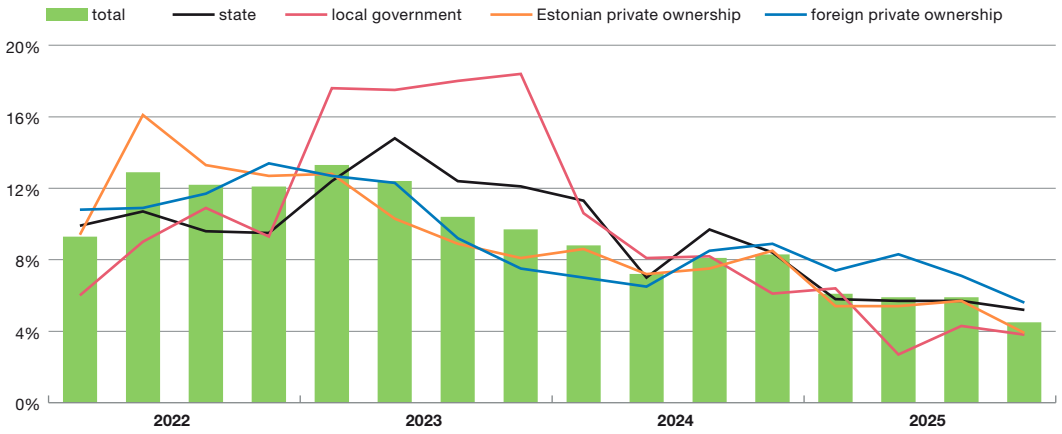
Growth in the average wage slowed more in the public sector than in the private sector in 2025, and especially in local government administration. This was because the collectively agreed pay rises in education and healthcare were small (see Figure 30). Wage growth in the private sector slowed notably more at companies with Estonian owners, which are smaller on average than businesses owned by foreigners.

Figure 29. Change in average wages and the real disposable income of households and the March 2026 forecast



* Change of methodology; time series for 2019–2021 adjusted by Eesti Pank
Sources: Statistics Estonia, Eesti Pank calculations

Figure 30. Yearly change in average wages by employer ownership

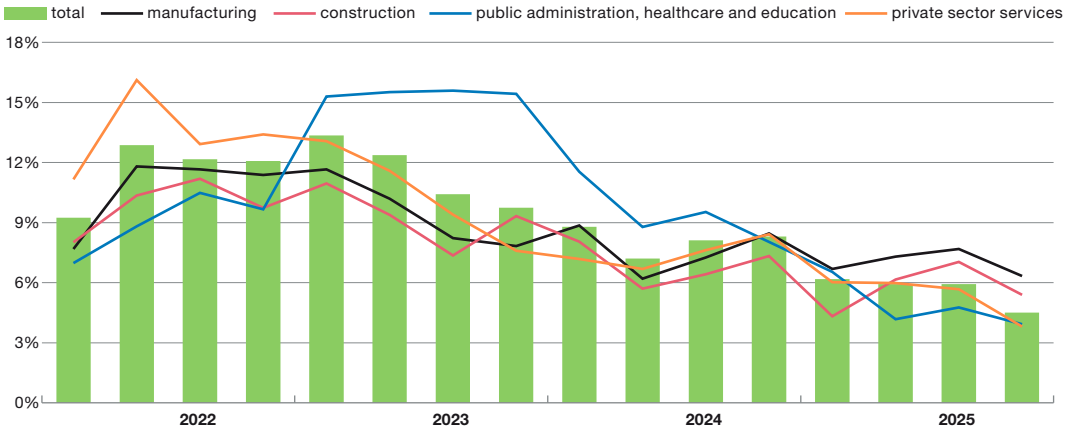


Sources: Statistics Estonia, Eesti Pank calculations

Like the indicators for employment, wage growth showed manufacturing and construction to be doing better than the service sector. Wages grew by more in the service sector during the recession than they did in manufacturing and construction, and so the relative wages of services in the economy increased, but this has now gone into reverse (see Figure 31). The optimisation of the timing of wage payments at the end of 2025 affected the private sector most, as it did at the end of 2024 and the start of 2025. Wage growth in healthcare, about 70% of which is in the public sector, was slowed in 2025 by a collective agreement that raised the minimum hourly pay for doctors, nurses and carers by 1.5%. The minimum pay for healthcare workers will rise by 4.5% from 1 April 2026. Growth in wages was also held back by an agreed pay rise of 0.9% in education in 2025 to be followed by a rise of 10% in 2026. This means that wage growth in education and healthcare will accelerate from the start of 2026, and consequently so will public sector wage growth, and noticeably so.

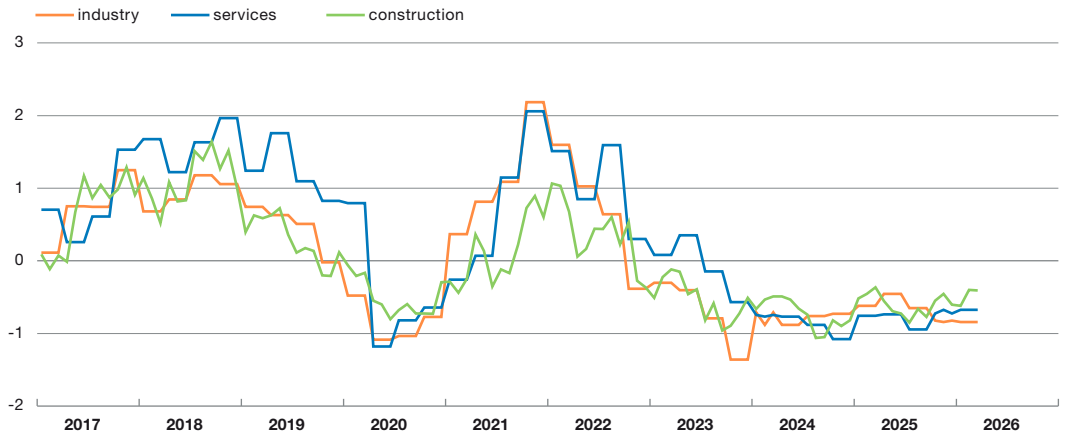
Unlike the expectations of employers for employment, which improved throughout 2025, there was no substantial change in how they perceived labour shortages in any of the sectors observed, and those perceptions remained below their historical average (see Figure 32). The ratio of vacancies to the number of people unemployed does not yet suggest any shortage of available labour, though it did start to rise during 2025 (see Figure 33). Upwards wage pressures in the economy caused by shortages of employees will consequently remain smaller at first than the average, and employers will be able to choose between several candidates when hiring new staff.

Figure 31. Yearly change in average wages by sector



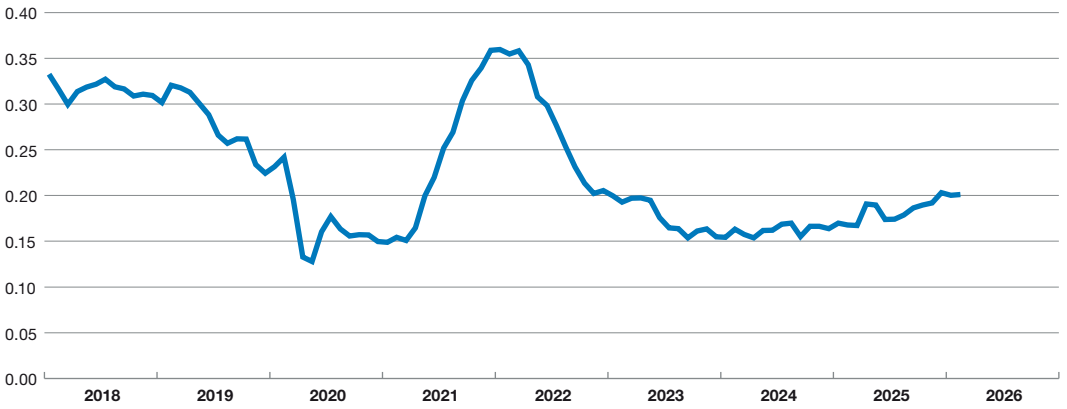
Sources: Statistics Estonia, Eesti Pank calculations

Figure 32. Labour shortages, standardised



Sources: European Commission, Eesti Pank calculations

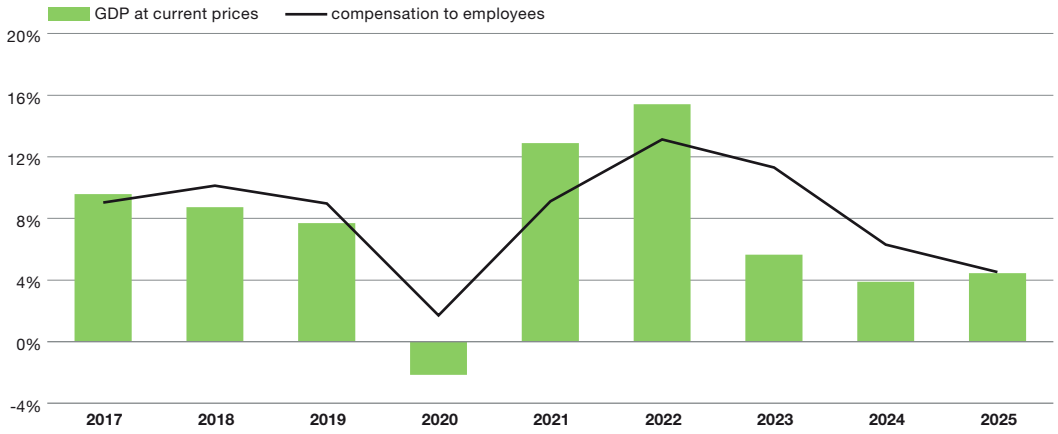
Figure 33. Vacancies per person registered as unemployed, seasonally adjusted



Sources: Töötukassa, Eesti Pank calculations

Slower growth in wages and a small fall in the number of waged employees meant the growth in the payroll slowed in 2025. The rate of growth was the same as that in value added measured at current prices, and so the payroll stopped increasing as a share of GDP after doing so for two years (see Figure 34), though it remained at a historical peak. This is typical of episodes of recession, as profits fall by more in the economy than the payroll of employees does when a recession starts, but as the economy recovers the opposite happens and profits recover faster.

Figure 34. Yearly growth in the payroll and nominal GDP

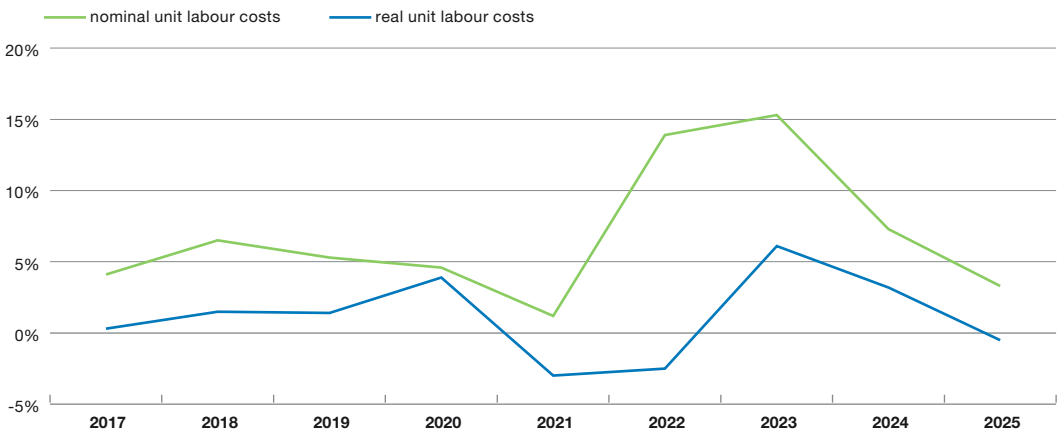


Source: Statistics Estonia

Unit labour costs show the share of value added that is accounted for by labour costs. They are found by dividing the labour costs per employee by the amount of GDP that employee produces. Real and nominal unit labour costs can be found depending on whether GDP is measured in current or constant prices. The indicator is similar to that for the payroll as a share of GDP, as both of them reflect the pressure of labour costs on prices of output and on profitability.

Unit labour costs fluctuate in size with the economic cycle. They usually increase during a recession and move back as the economy recovers towards their long-term level that is fixed by production technology and the level of risk in the economy. Inflation rose fast during the recent recession, but wages followed it with a lag, meaning that nominal unit labour costs rose while real unit labour costs fell throughout 2022. Unit labour costs rose in 2023 and 2024 as is typical of a recession, but they stopped rising in 2025 and real unit labour costs are expected to fall in the near future (see Figure 35).

Figure 35. Yearly change in unit labour costs



Source: Statistics Estonia