

Andres Lipstok: The Estonian economy

Speech by Mr Andres Lipstok, Governor of Bank of Estonia, at a lunch for the EU Deputies, organised by the Ambassador of the Czech Republic, Mr A Langer, Tallinn, 28 May 2009.

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Excellencies,

Ladies and gentlemen,

I am genuinely pleased for the invitation of Ambassador Langer to join you here at the working lunch.

First of all, I would like to provide a short overview of Estonia's current economic situation and the plans related to the adoption of the euro. Afterwards I would be glad to discuss these issues with you.

The global crisis has had a strong impact on Estonia's small and open economy via trade channel. Collapse of world trade and decreasing demand in Estonia's main trading partners has decreased considerably also Estonia's exports.

Although financial channel is also somewhat strained, we have not witnessed particularly excessive tightening of credit inside the banking groups that operate in Estonia. Estonian banking market is fully integrated into Scandinavian groups, which has provided stability. Estonia's banking sector has enough capital and liquidity to support restructuring in the real economy.

The global turmoil is clearly not over yet, though there have been some signs of stabilisation over the past months. Estonia, too, is showing some signs of stabilisation and confidence indicators have also slightly improved. However, it has to be stressed that outlooks for this and next year are highly uncertain everywhere in the world. This is also reflected by the growth figures of the EU and single Member States.

According to Eesti Pank's spring forecast, this year's economic downturn in Estonia will be around 12%. Estonian economy may start to recover towards the end of 2009, albeit the resumption of growth is very much dependent on the state of economies of our main trading partners. In 2011, Estonia's economic growth should recover to almost 5%.

I would like to stress that Estonia has undergone considerable economic adjustment, which started already at the end of 2007 and several risk factors are withdrawing rapidly.

Estonia's current account – the spread between savings and investment – is practically in balance. Thus, the financing of the economy's current expenditure is ensured by current income. Any external current financing needs will be covered by official EU funds. The correction of labour market and the rapid decline in inflation are just as important. The sharp increase in prices and wages following Estonia's accession to the EU is over. Price level in Estonia will decrease moderately both this and next year. This is an important factor supporting productivity growth in the economy.

Let me now turn to euro adoption. The clear perspective of joining the euro area increases markedly Estonia's credibility and serves as the main factor supporting our economy in the near future. We are likely to meet the numerical values of the Maastricht criteria by the end of 2009 and Estonia expects to join the euro area in 2011, in full accordance with the Treaty provisions.

It is clear that in order to adopt the euro, the key issue of Estonia's fiscal policy is ensuring sustainable public finances in the next years. Looking at longer-term growth potential, it would be advisable not to achieve this by excessive increases in the tax burden.

Finally, the way out from the current crisis depends critically on further strengthening of the EU Single Market for goods, services and production factors (including capital, labour and know-how).

To conclude I would like to assure that Eesti Pank is always open for your inquiries and cooperation.

Thank you for your attention!