Estonian Economy during the recent crisis

2nd Japan-Baltic Seminar

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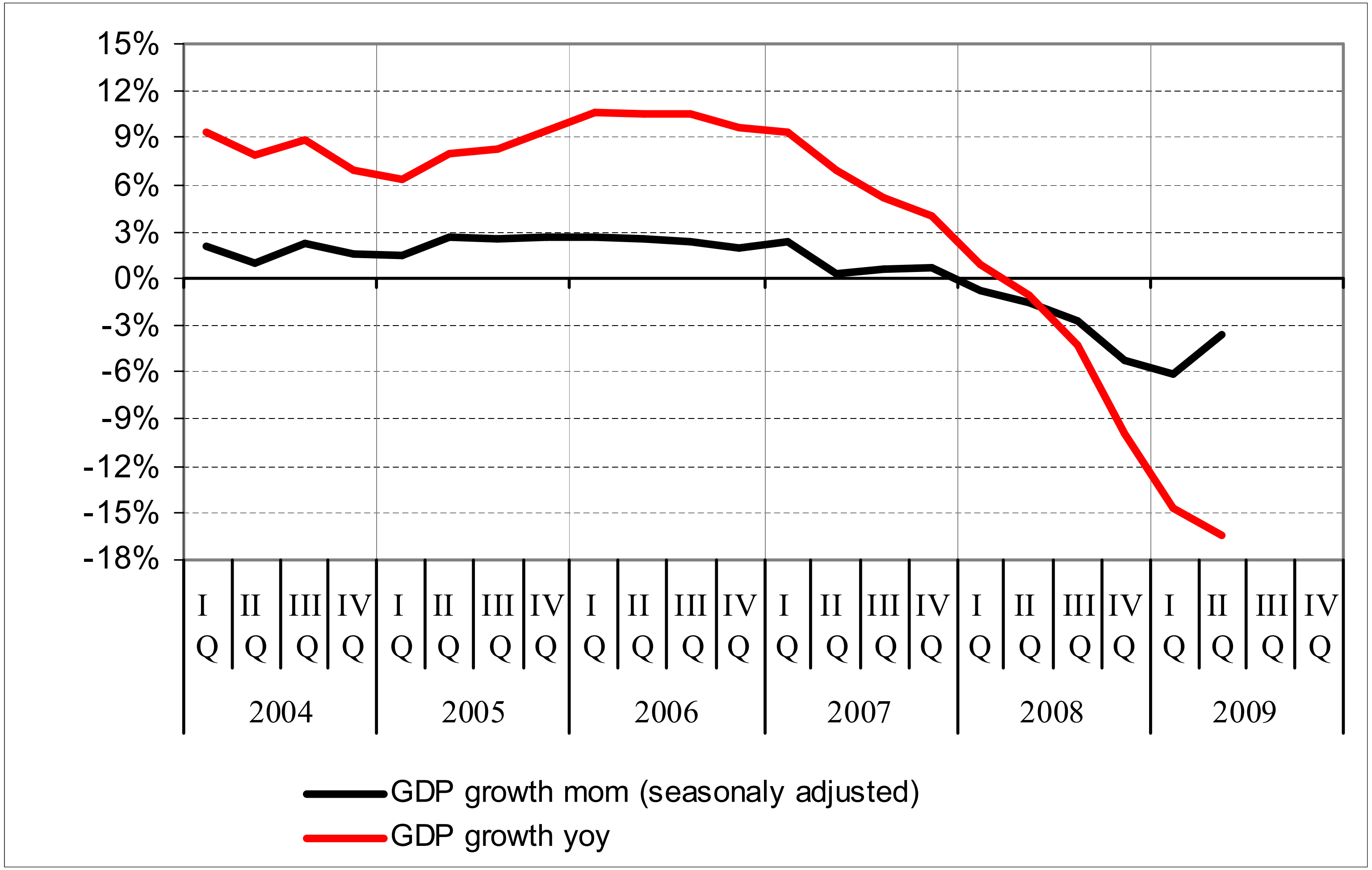
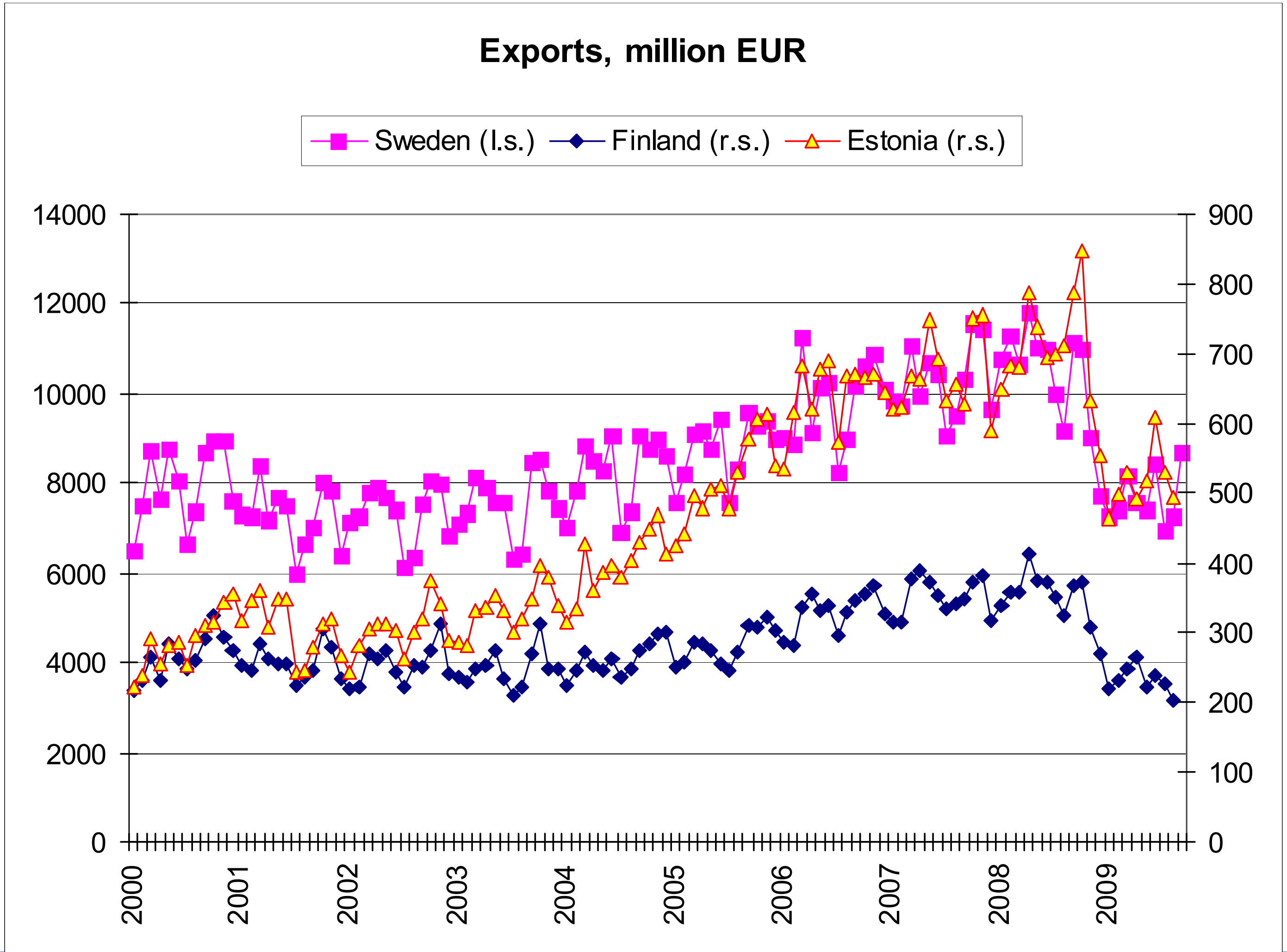
Estonia has been hit hard from the world crisis



Buffers from the past have helped to come through the crisis, although its not over yet…

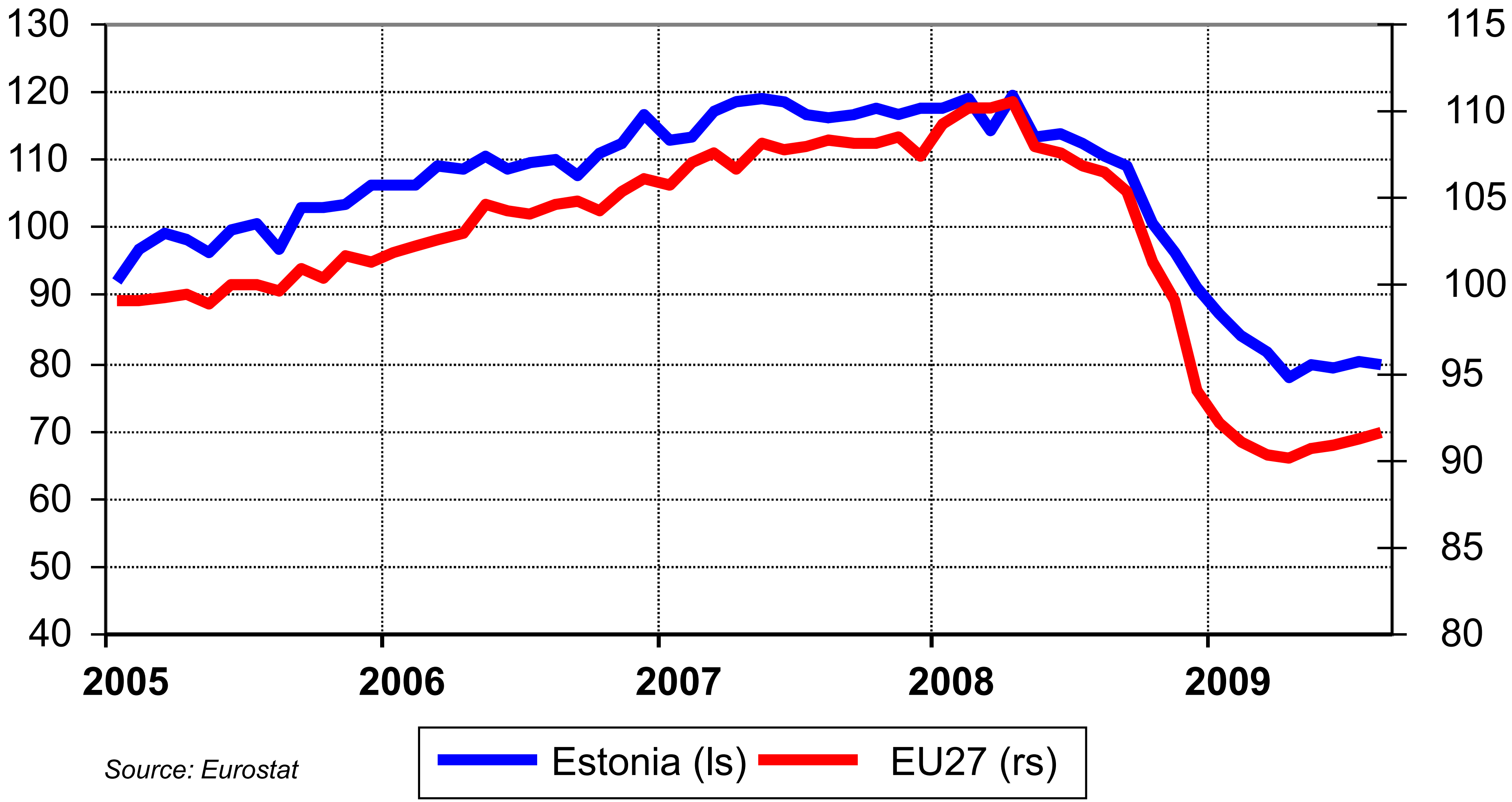
- Currency board and fixed exchange rate have helped to keep inflation expectations under control and have given clear anchor for restructuring
- Economy has shown its flexibility, and has adjusted to the new reality
- Fiscal prudence has paid off:
  - Deficits now are manageable
  - Reserves provide room for manoeuvring
- No extraordinary stress in financial sector:
  - High reserve requirements and higher capital adequacy requirements have been very valuable
  - Integration have helped a lot

Exports are following the same pattern as in our main trade partners



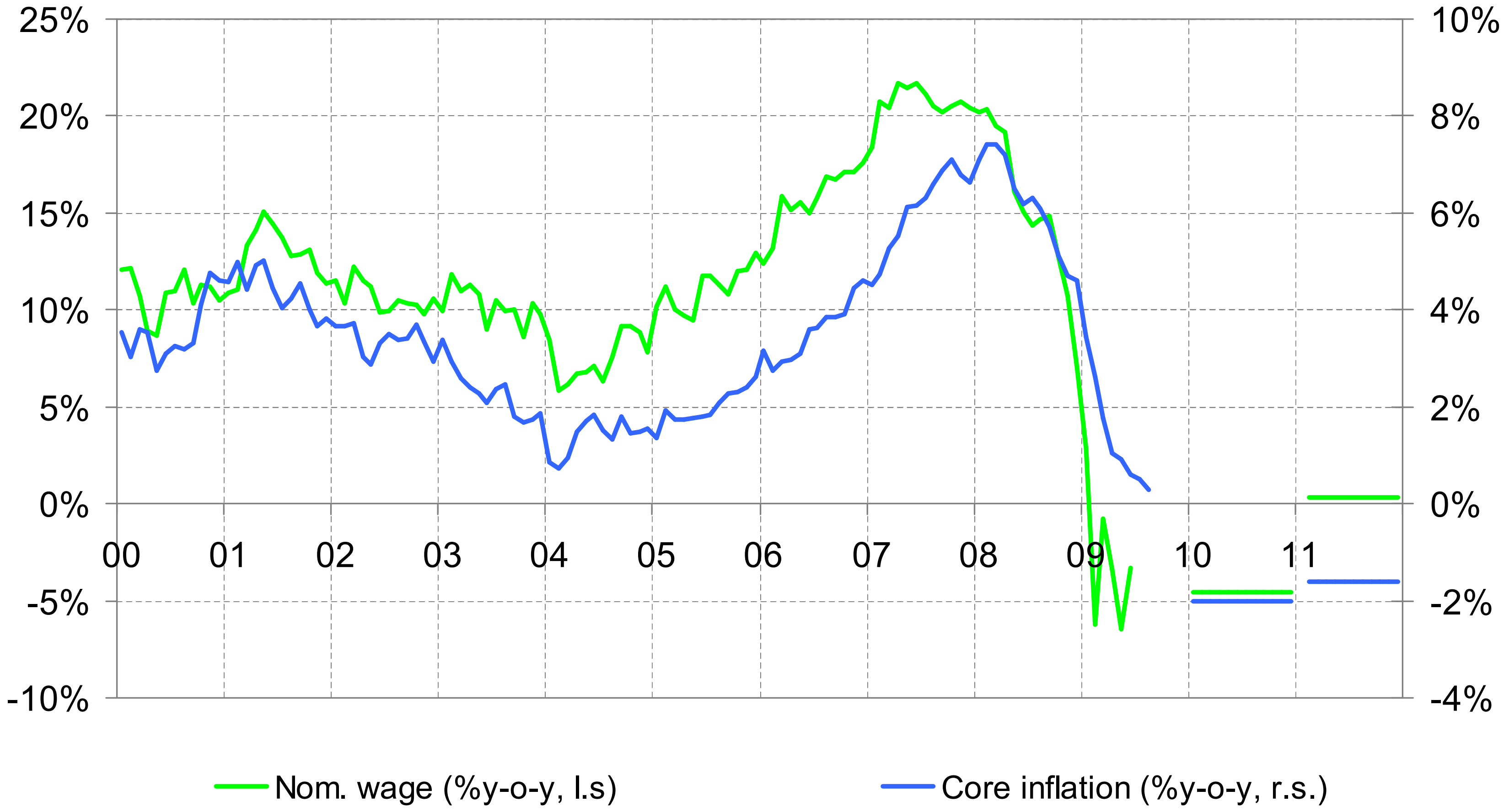
Industrial output volumes have stabilised

(2005=100)



Source: Eurostat

Lower wages predict lower inflation



No extra stress in financial sector (beside the global one)

- Buffers accumulated in previous years
  - High reserve requirement (15% of all liabilities), effective since 2006
  - High capital buffers: aggregated capital adequacy 21% (lowest indicator of the market 14%)
- Ownership structure of the banks operating in Estonia
  - Centralized liquidity risk management at the banking group level (commitment of 100% roll-over)
  - Measures adopted in the banks' home countries to support the financial system
- Cross-border cooperation between authorities

It is possible to meet all Maastricht criteria and join euro area in 2011

Biggest challenge is to keep budget deficit below 3% of GDP, but government has taken several steps in order to keep budget deficit on track

- Tax receipts are generally in line with the spring forecast expectations
- Austerity measures have been substantial. The general government's wage and final consumption costs started declining in the second quarter.

Eesti Pank's economic forecast by key indicators

	2009	2010	2011
GDP (EEK bn)	214	212	224
Real export growth	-12%	5%	10%
Real GDP growth	-14%	1%	5%
Inflation	0%	0%	2%
Budget balance (% of GDP)	-3%	-3%	-1%

Thank you!

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