



THE ECONOMY

4. Foreign journalists regularly laud Estonia for its successful market transition. The US government did the same in winding up its aid programme in September. The IMF has consistently approved of Estonia's model: a very liberal trading system, an effective currency board, continued structural reforms, a skilled workforce, and near-complete privatisation. But the Fund's missions showed concern about talk of agricultural protection, especially when Vahi's new government began with it, and about sharply-increased local authority borrowing before the elections. It took several months before the Finance Ministry would admit there was a deficit problem. Vahi has reverted to his earlier fondness for the 'social market economy', though he is still committed to continued reform. The economy has grown by about 3% this year, and inflation is down to near 20%. Ice-blocked harbours restricted first-quarter trade. Yet the high trade deficit is outweighed by considerable investment inflows, though these are increasingly portfolio investment. Too much of the visible wealth is in Tallinn, and the countryside and many towns still look rather woebegone. However the banking system has gone from strength to strength, and the sectoral leader Hansapank expanded into Latvia. The new Stock Exchange, largely created by KHF help, is small but expanding fast. The ports and railways, both critical for the Russian transit trade, are to be privatised and modernised in 1997. The Estonians feel that on any fair economic criteria they should qualify for early EU entry.

ESTONIA AND THE EU

5. Integration into the EU has been a lodestar all year. Estonian leaders see this both as a way of developing the country's identity and prosperity and as a means to strengthen its security. They make no secret of the latter motivation, which is natural enough given the obvious difficulty over NATO. The government set up effective inter-ministerial EU coordination machinery, and succeeded by mid-year in producing an impressive pre-accession Action Plan. A lot was recycled in answer to the Commission's questionnaire. The credit for this work - which showed a welcome emphasis on the need for implementation - must go to Riivo Sinijärvi, who stepped up from being deputy to the top Euro-post in August, only to lose it in November. But his expertise on Third Pillar issues will not be wasted at the Interior Ministry. His successor, Mrs Veidemann, has begun by enthusing about open public debate and a future referendum.

6. Estonians are comfortable with our sort of approach to Europe, and as a near-Nordic country they will be natural allies on many issues. But they had to weather a crisis with their Baltic neighbours, who accused them in the spring of pushing too hard for the first wave on their own and reined them in (at least on paper) at a Baltic meeting. By later in the year, the Estonians had concluded that it was really the problems stemming from their difficult relations with Russia which might relegate them.

ESTONIA AND RUSSIA