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obliged Estonia to take two measures essential for survival: first, to float her own currency and, second, to divert the patterns and direction of her trade from East to West.

12. On 20 June the kroon replaced the rouble and became the only valid medium of exchange in Estonia. Pegged to the Deutschemark, the kroon has been an almost unqualified success, largely due to its management by an independent Currency Board whose terms of reference require every kroon in circulation to be fully backed by gold or foreign exchange reserves and forbid indiscriminate lending to government, banks or other institutions. Its value has appreciated against most major currencies and Eesti Pank's reserves, published monthly, show a healthy increase. It is freely exchangeable for other currency on departure from Estonia and, by mid-August, it was being quoted in both Helsinki and Stockholm. After an initial surge an added benefit has been a fall in the inflation rate. And the need for the Russian authorities to expend hard currency to sustain their troops has doubtless contributed to the quickened rate of withdrawal.

13. The re-directing of external trade has also been remarkably successful. While the volume of exports to and imports from the CIS and other Baltic States are estimated to show decreases of 47 and 57 per cent respectively in comparison with 1991, the figures for the rest of the world are plus 87 and plus 10 per cent. This means Estonia's total trade is more or less half and half with East and West. Most of this is accounted for by the Scandinavian countries and Germany but it is a healthy sign and a development which cannot but help the transition to a market economy.

14. Vahi's caretaker government introduced a stabilisation and reform programme which gained IMF backing in August and which has been inherited unchanged by the Laar government in October. This has been prosecuted at great social cost: the consumer price index rose by more than 1,000 per cent in 1992 and real wages halved. In November a banking crisis involving three commercial banks has resulted in one going into liquidation and the others merging and could have serious repercussions if not resolved soon. There is a worrying growth in tax arrears which could undermine a budgetary position already under pressure from falling output. This pressure is likely to increase when the expected bankruptcies of unprofitable state enterprises demand a strengthened safety net for the unemployed.

15. Mismanagement caused a hiccup in the privatisation programme