

[REDACTED]

Vähi's party pulled out of the coalition and he had to resign. But he soon returned heading a new coalition, this time involving the Agrarians again and Siim Kallas's free-market Reform party. The joke was that Vähi had first been PM in Savisaar's government, and now held the same post in Kallas's. There is something in this: Vähi's authority is weak. His government ran into trouble in November with its budget bill, and various scandals blew up - the most worrying concerning gun-running by general staff officers in and out of Russia - but again the policy direction was unchanged. The impression of coalition instability was increased by more rumours of sleaze (Vähi's business interests obstructing port privatisation, and Kallas's role in selling off old roubles to Chechnya in 1992) and by the public row between the Defence Minister and the overweening Estonian-American General Einseln.

4. The focus of politics in 1996 will be the autumn Presidential election. Meri's popularity-rating is high and he plans to run again, just after he has presided at a conference of UN small states in Tallinn - an initiative he launched at UNGA, to his Foreign Ministry's consternation. Meri's opponents will include Rüütel, and maybe others. Meri has become a symbol abroad of Estonia, known for his intellect, his linguistic skills, his hobnobbing with Western leaders, and his caustic wit about Russia. His latest passion - developed during his US visit in October - is to get Estonia to jump the hurdle of its small size and Soviet-induced backwardness by intensified reliance on IT. That means linking all the country's secondary schools to the Internet and further increasing computer use in business (Estonian banks are already impressive). The Education Minister tells me worriedly that no one has costed the proposal, but that will not stop Meri and his slogan 'computers will make Estonia big'.

## THE ECONOMY

5. The EBRD and various central Europe business reports give Estonia consistently good marks for its visibly successful transition to a market economy. Despite a domestic argument in mid-year about the exact statistics, it is likely that the economy will have grown by 5% this year, and more next year. The high trade deficit is outweighed by a strong services surplus - because of the transit trade with Russia - and heavy capital-account investment inflows. Most of the imports are investment goods, though too much is imported Finnish food, snapped up by the hordes of Finnish day-trippers who crowd out the locals. Although 30% of the retail business in Tallinn was done with these 3.5 million visiting Finns, the dumping has intensified the problems of Estonian agriculture, and no effective way of boosting farmers' incomes has been found. Vähi admits that the land reform process is badly stuck, and Meri underlined this in his New Year message. The government is also worried that far too much foreign investment is concentrated in Tallinn. Inflation is still too high this year (at nearly 30%), though it should come down to 15% in 1996. There are still many state employees on painfully low salaries, but the share of the private sector in GDP is now about 65% and virtually all large firms have been privatised, with the utilities due to follow next year. 12,000 new businesses have been set up