

**Republic of Estonia: 2004 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for the Republic of Estonia**

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2004 Article IV consultation with the Republic of Estonia, the following documents have been released and are included in this package:

- the staff report for the 2004 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on June 18, 2004, with the officials of the Republic of Estonia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on September 29, 2004. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its November 8, 2004 discussion of the staff report that concluded the Article IV consultation.
- a statement by the Executive Director for the Republic of Estonia.

The document listed below have been or will be separately released.

Selected Issues Paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF ESTONIA

**Staff Report for the 2004 Article IV Consultation**

Prepared by Staff Representatives for the 2004 Consultation with Estonia

Approved by Alessandro Leipold and Matthew Fisher

September 29, 2004

- A staff team comprising Messrs. Haas (Head), Lutz, and Stavrev (all EUR) visited Tallinn during June 7–18, 2004.
- The mission met the Governor of the Bank of Estonia, the Ministers of Finance, of Economy, of Social Affairs, and members of their staffs, as well as representatives of trade unions, and the private financial sector. Mr. Ross, Senior Advisor, Nordic-Baltic Executive Director's Office, participated in the concluding discussions. On the way back from Tallinn, Mr. Haas met in Brussels with EC officials to discuss ERM II entry issues.
- Estonia acceded to the European Union on May 1, 2004, and entered into the exchange rate mechanism (ERM II) on June 27, 2004, while unilaterally maintaining its currency board which fixes the Estonian kroon to the euro.
- The authorities published the Concluding Statement of the mission and intend to publish this staff report.
- The right of center coalition government (Res Publica, the Reform Party, and the People's Union) has been in power since April 2003. The next parliamentary elections are scheduled for 2007.
- Estonia has accepted the obligations of Article VIII (Sections 2, 3, and 4), and maintains no restrictions on payments and transfers for current international transactions, except for those imposed in compliance with relevant UN Security Council resolutions and the measures adopted by the EU within the framework of the Common Foreign and Security Policy. All such restrictions have been notified to the Fund pursuant to Decision 144-(52/51).
- Estonia subscribes to the Special Data Dissemination Standard. Data provision is timely and facilitates effective surveillance (Appendix I).
- In concluding the 2003 Article IV consultation on October 22, Directors commended the authorities for their commitment to a prudent fiscal policy. However, in light of the large current account deficit and Estonia's currency board, most Directors were of the view that a more proactive fiscal policy would be required to maintain macroeconomic stability. Directors also noted that the country's currency board had served the country well and noted that confidence in it continued to be strong.