INTERNATIONAL MONETARY FUND

PRESS RELEASE NO. 92/69

FOR IMMEDIATE RELEASE
September 16, 1992

The International Monetary Fund has approved a stand-by credit for the Republic of Estonia, authorizing drawings up to the equivalent of SDR 27.9 million (about US$41 million) over the next 12 months in support of the Government's stabilization and reform program.

The Estonian economy is currently experiencing a severe contraction, not only because of the collapse of the command economy at home, but also because of a sharp reduction in trade with the states of the former U.S.S.R., and the need to adjust to a substantial worsening of the terms of trade arising from the shift of energy prices toward world market levels. Despite these difficulties, the Government has put in place the basic elements of a strong stabilization and structural reform program. Fiscal balance has been maintained despite a sharp fall in output, laying a strong foundation for the currency reform of June 20, 1992, when the ruble was replaced by the new Estonian currency, the kroon. The successful establishment of a currency board has contributed to a more stable monetary environment, and the price liberalization process has been largely completed. Finally, the privatization of a large number of enterprises and the adoption of legislation to support a market economy have contributed to developing a rapidly expanding private sector, albeit from a very small base.

Recognizing that further measures were needed to stabilize and restructure the economy, and in order to facilitate obtaining the external financing required to ensure a successful transition to a market economy and set the stage for sustainable growth, the Government adopted a comprehensive economic program for the year beginning July 1, 1992. The program seeks to limit the fall in real output to 15 percent during the program period, slow the annual rate of inflation to about 6 percent by the end of the period, and raise Estonia's gross foreign reserves by mid-1993 to a level equivalent to more than two months of imports.

The authorities hope to stabilize the economy through completion of price reform, restrictive fiscal policies, maintenance of monetary discipline, a tax-based incomes policy to contain excessive wage increases, and further liberalization of the exchange and trade system. The structural reform effort will include accelerating privatization through the establishment of a Treuhand-like privatization bureau, substantially completing restitution, reforming the financial sector, improving the social safety net, restructuring or closing nonviable enterprises and banks, and establishing a legal framework consistent with a market economy.

- over -

External Relations Department • Washington, D.C. 20431 • Telephone 202-623-7100

As part of the program, the Estonian Government has undertaken to review, by the end of 1992, the entire social security system, consistent with budgetary constraints. Its goal is to provide adequate benefits to the most vulnerable groups, rationalize the pension system, and design a system to retrain displaced workers.

Estonia joined the IMF on May 26, 1992, and its initial quota 1/ is SDR 31 million (about US$45 million). Estonia has not previously used IMF resources.

1/ A member's quota in the IMF determines, in particular, its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.