



Estonian Lobby Says Euro to Boost Investment, SMEs (Update1)

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By Ott Ummelas

Dec. 7 (Bloomberg) -- Estonia's euro adoption in 2011 would "very likely" boost investment from abroad and attract more foreigners to set up small and medium-sized companies, a foreign investors' lobby group in the Baltic country said.

"All the signals are showing Estonia will adopt the euro in 2011," said Martin Breuer, the chairman of the [Foreign Investors' Council in Estonia](#), in an interview in Tallinn today. "It would take something unexpected to disrupt that. Fortunately the government seems to be quite stable and the opposition also seems to be" less of an obstacle.

Estonia has cut its budget at the expense of domestic demand, exacerbating the second-deepest recession in the [European Union](#), to ensure euro adoption by its target date of January 2011. Prime Minister [Andrus Ansip's](#) minority government expects the move to attract foreign companies by removing currency risks. Estonia would become the third east European state to join the monetary union after Slovenia and Slovakia.

The government forecasts this year's fiscal deficit at 2.8 percent of gross domestic product, below the 3 percent EU ceiling for euro candidates. Parliament is set to approve the 2010 state budget which aims to keep the gap at the same level in the final reading on Dec. 9.

Deficit Trimming

Estonia has cut its budget deficit by 410 million krooni, (\$39 million) or about 0.2 percent of GDP, ahead of the third reading, Taavi Roivas, the head of the parliament's finance committee said in a statement today. The move was made to accommodate the European Commission's forecast last month for Estonia's budget deficit to increase to 3.2 percent of GDP, he said.

The budget-shortfall terms are Estonia's last obstacle to meeting euro-entry criteria after inflation slowed in November, according to the central bank and Finance Ministry.

The eight countries represented on the council account for more than 80 percent of the total foreign direct investment in Estonia.

"Euro adoption will show that the Estonian government, and also society, can get their house in order," Breuer said. "So it is not only about currency risk that we will avoid, but it's placing Estonia on the map as a society that can overcome a very difficult situation with hardship, cleverness and in a resolute manner, and that gives trust to foreign investors."

FDI Boost

Estonia is one of the top destinations in east Europe in terms of foreign direct investment per capita. It stood at 10.8 billion euros at the end of the second quarter, according to central bank data. This equals 8,040 euros (\$11,889) of investment per capita, according to Bloomberg calculations.

Outgoing EU Monetary Affairs Commissioner [Joaquin Almunia](#) said the bid may be approved in June 2010, Austria's Profil magazine reported on Nov. 23, citing an interview. This mirrors similar statements in recent weeks from the World Bank and International Monetary Fund.

Still, Breuer said euro adoption alone will not be enough for sustainable economic growth.

The \$23 billion economy needs a more widespread use of best practices in its industries, ensure

English-language education on all levels and consider reducing high labor taxes to attract skilled foreigners. Estonia also needs more efforts to re-engage with Russia, he said.

Credit-default swap spreads on five-year Estonian debt fell one basis point to 184 on Dec. 4, the lowest level in 15 months, according to Bloomberg data. The spread has narrowed since hitting a record high of 737 in February, with Estonia being the third-best performer globally over the last month, signaling improved investor confidence.

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