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INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Statement by the Hon. **MART OPMANN**,
Governor of the Bank for the **REPUBLIC OF ESTONIA**
on behalf of the Baltic Group,
at the Joint Annual Discussion

Statement by the Hon. Mart Opmann
Minister of Finance, Estonia
on behalf of the Baltic countries (Bank)
at the Joint Annual Discussion

I have the honour of addressing this meeting on behalf of the three Baltic countries – Latvia, Lithuania and Estonia. I also would like to extend our welcome to the new member of the World Bank – the Republic of Palau.

Current Annual Meetings take place in the midst of widespread economic and financial crisis and many ideas and proposals about the future of the Bank and the Fund have been presented. Three Baltic economies, also touched by the global processes, look of course forward to the quickly restored stability in the global financial system. But we also hope that the specific concerns of the small countries would not be left unnoticed because of global problems.

I would like to stress, however, that the present crisis has not affected macroeconomic stability of the Baltic countries, owing to the tight fiscal policies of our Governments. All three countries have experienced high growth rates during the last two years. Particularly, in Estonia's GDP grew by 11,4 per cent in 1997. Concerned by these signs of overheating, the Estonian Government and the Central Bank have implemented strong measures to reduce public expenditures. Estonian Government has targeted fiscal surpluses in 1997 and 1998 and transferred the surplus to the Stabilisation Reserve, which is expected to grow up to 3 per cent of GDP by the end of this year. Implemented measures have reduced the current account deficit, lowered credit expansion and decreased inflation.

Latvia is planning a financially balanced Government budget for the third consecutive year. Lithuania's deficit has been reduced and the country will balance its budget in 1999. Latvia's and Lithuania's inflation rates have reached the annual level of 4 to 5 per cent. All Baltic countries target 5-7% level sustainable growth over the medium term.

Baltic countries have followed with concern the crisis in Russia. We believe that the World Bank and IMF could play a significant role in supporting Russia to overcome instability and keep the country on the track of democratic reforms. We believe that the experience of the Central and Eastern European countries in transition could be utilised by the Bank in this process. We welcome the intended closer cooperation between the World Bank and IMF to fulfil their important mission to strengthen financial and economical stability in the world.

Estonia was included in the list of countries to start the EU membership negotiations this spring. We hope and predict that Latvia and Lithuania will also join these negotiations in the nearest future. In this context, we welcome the Memorandum of Understanding between the World Bank, European Commission and European Bank for Reconstruction

and Development. Memorandum aims at enhancing the effectiveness of assistance to the EU applicant countries, and we are now looking forward to practical implementation of this document.

The challenges of the EU accession process also influence our borrowing priorities from the World Bank and other IFI-s, particularly for the infrastructure and environment sectors, even though the Estonian Government has not borrowed for two years. Latvia and Lithuania are also intending to borrow for social sector and rural development projects, in support of respective Government reform programs.

In this context, I would like to comment on the Bank's new income policies. The approved package for short and long term improvement of income dynamics will increase the costs for the Bank's borrowers. To relieve the Bank's operational costs, the Baltic countries are ready to support various ways to contribute for non-lending services. At the same time, we share the view that emergency lending should neither impair borrowing terms for the Bank's "ordinary" borrowers nor should affect the institution's creditworthiness. It appears to us that emergency lending is more of a responsibility of IDA and IMF than of IBRD. We encourage the Board and the Management to look for balanced solutions meeting the Bank's development goals as well as its clients' interests.