



Economic policy statement of Eesti Pank

15 June 2011



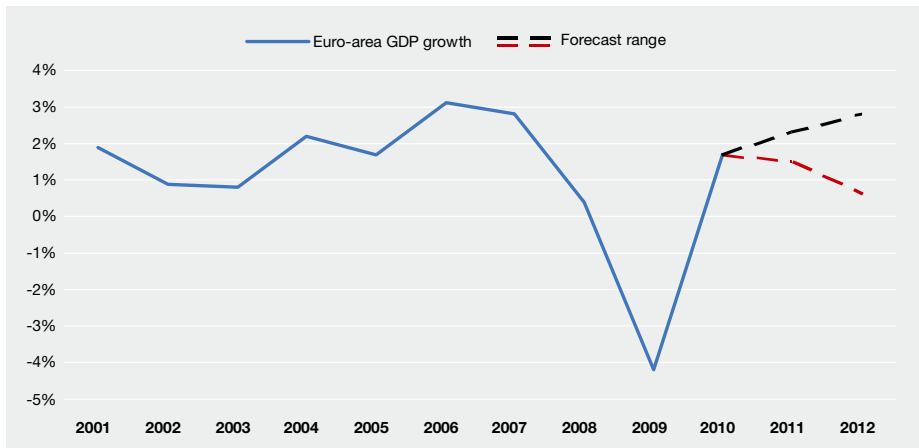
The global economy has been on the mend irrespective of difficulties



- Global trade has recovered rapidly from the downturn
- Further growth in many countries needs more support from domestic demand
 - This requires that public finances are kept in check
- The prices of energy and other commodities (incl. food) have risen along with the recovery of growth
 - The retail price increase has in many developed countries remained "standard"
- Recent economic indicators show that the growth trend is set to persist in Europe
 - Inflation expectations are well in check
 - The public finances crisis in Greece entails rather high risks for the entire euro area, but the actual impact of the crisis on the euro-area economy has been small



The euro-area economy has recovered rapidly from the downturn

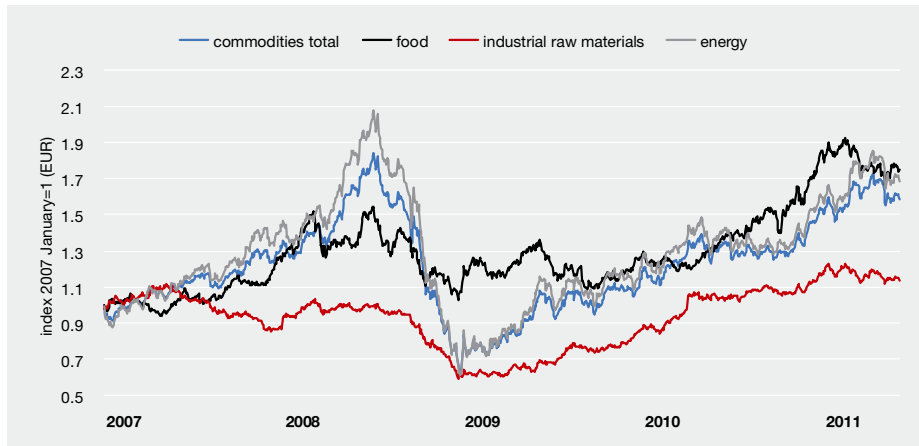


Sources: Eurostat, the European Central Bank



Commodity price rise is expected to abate, but volatility may persist

Price indices of commodities in the global market

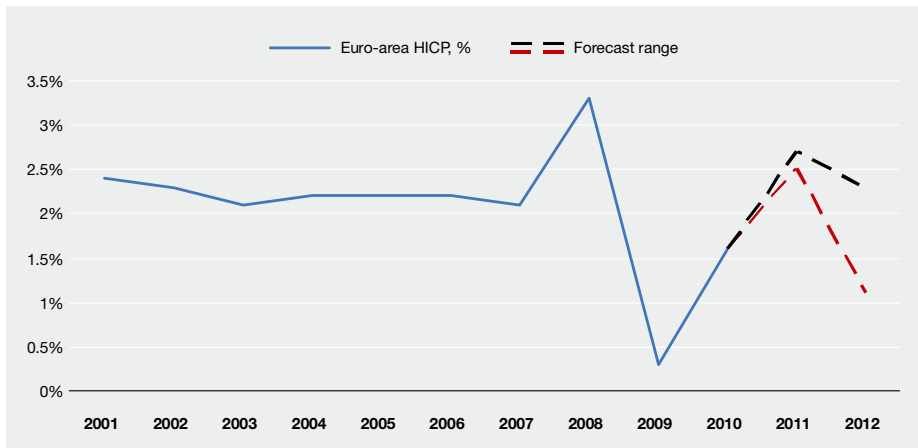


Source: HWWI



Euro-area inflation may drop below 2% in 2012.

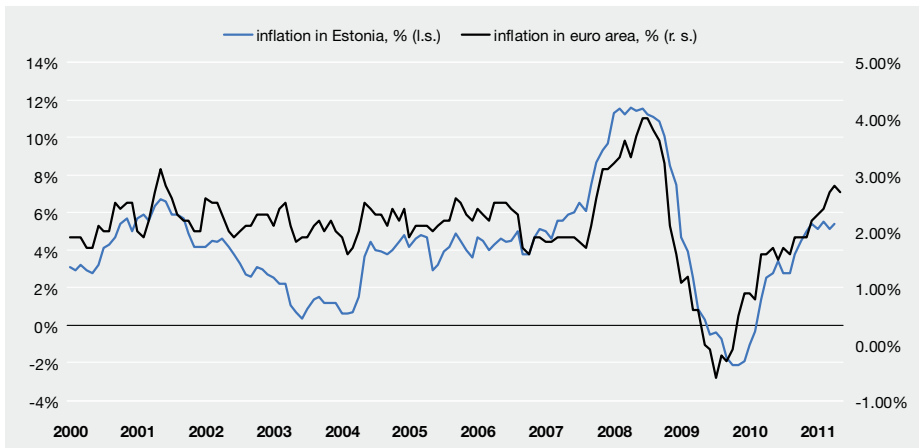
NB! Market expectations of a rise in interest rates have been taken into account.



Sources: Eurostat, the European Central Bank



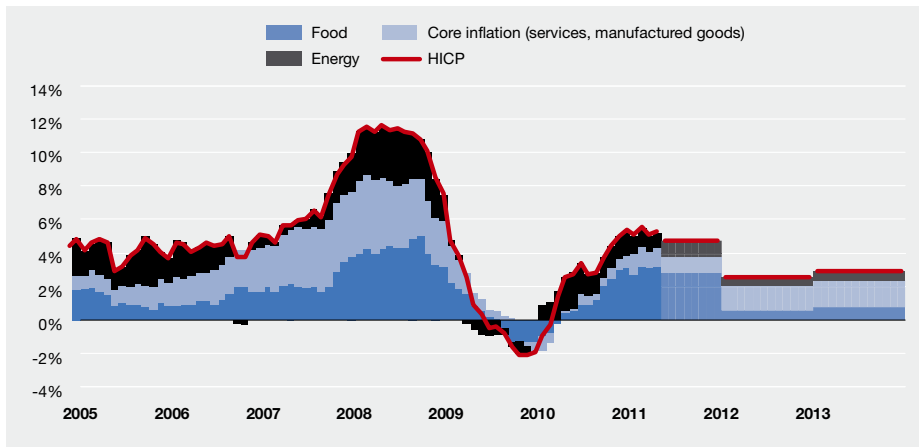
Inflation in Estonia has been more volatile than in the euro area, but similar by nature



Sources: Eurostat, Eesti Pank



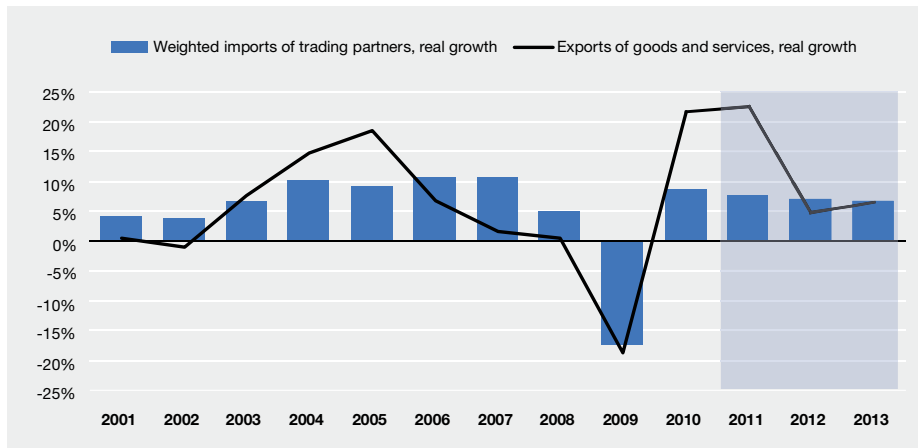
Thus, similarly to the euro area, inflation will slow here as well



Sources: Statistics Estonia, Eesti Pank



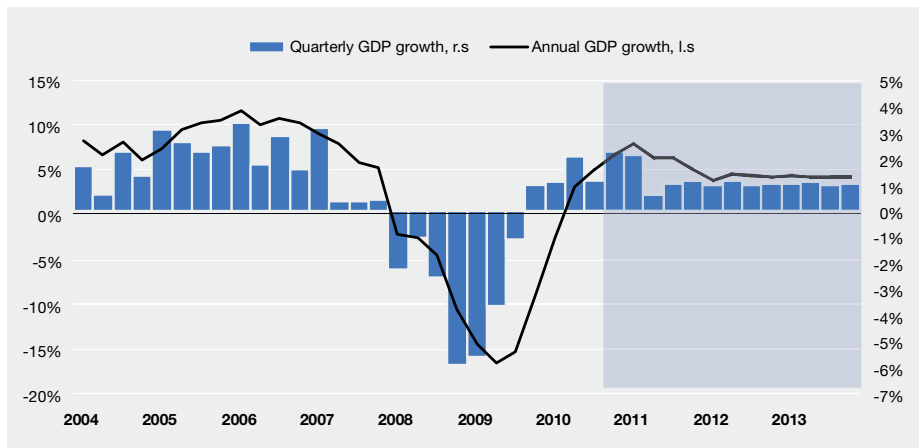
The post-downturn hike in exports is coming to an end



Sources: Statistics Estonia, Eesti Pank



The current growth rate is temporary and a slowdown is needed to ensure long-term growth



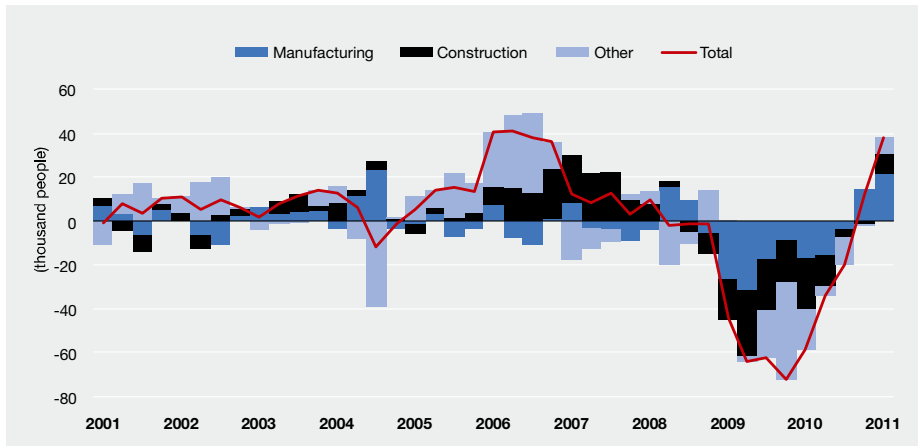
Sources: Statistics Estonia, Eesti Pank



Employment growth has been somewhat faster than expected



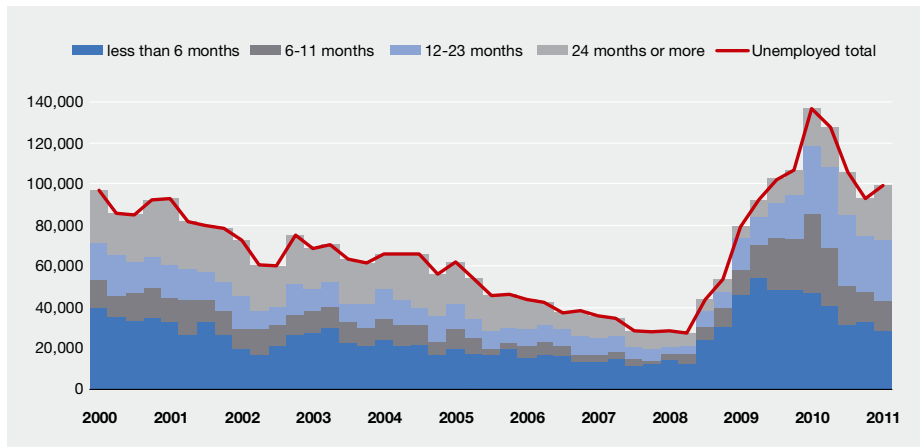
Employment across fields of activity, y-o-y change



Sources: Statistics Estonia, Eesti Pank



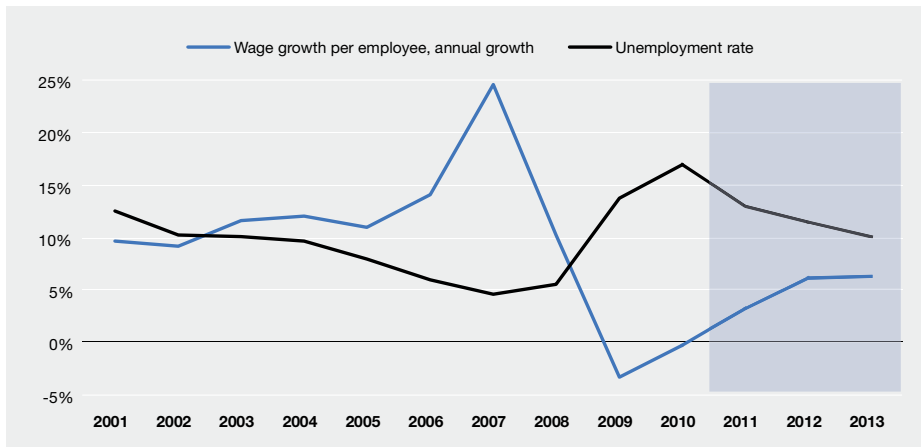
Long-term unemployment, however, persists, exerting wage pressures



Source: Statistics Estonia



Wages and productivity gap should be avoided



Sources: Statistics Estonia, Eesti Pank



- The external environment may not be calmed down
- Possible labour market pressures may harm the longer-term economic growth potential
- Therefore:
 - we should remain vigilant towards the external environment
 - the improving economic situation should be used to restore savings
 - the financing activity of banks should contribute to the easing of shocks in the future



Conclusions



The euro-area economic situation continues to improve



- Economic growth in the euro area has recovered faster than expected. Growth continues, but it is slower
- Recovery is supported by low interest rates
- The recent months' rapid inflation is mostly the result of global factors. Their impact is expected to wane
- The ECB's inflation forecast for 2011 is 2.5–2.7%
 - For 2012, the inflation forecast is 1.1–2.3%
- Possible domestic price pressures are a concern which is carefully monitored



Growth in Estonia should not set too optimistic expectations



- The Estonian economy has recovered rapidly from the downturn, but the growth pace is slowing
- Balanced economic development should be supported:
 - the labour-market situation should not burden the economy
 - wage growth should depend on productivity
 - better than expected tax revenues should be put aside



Key indicators of Eesti Pank's forecast

	2011	2012	2013
GDP (billion euros)	15.9	17.1	18.4
GDP, chain-linked volume change (%)	6,3	4,2	4.2
HICP (%)	4.7	2.5	2.9
Exports, chain-linked volume change (%)	22.5	4.7	6.4
Budget balance (% of GDP)	0	-1.6	0.4



Thank you!

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