

The Acting Chair's Summing Up
Republic of Estonia—2019 Article IV Consultation
Executive Board Meeting 20/6
January 17, 2020

Executive Directors broadly agreed with the thrust of the staff appraisal. They commended the authorities for their economic management and structural reforms that have delivered solid economic performance in recent years. Noting the risks arising from the global trade and financial outlook, as well as demographic developments within Estonia, Directors emphasized that policies and reforms should focus on raising productivity, boosting sustainable growth and reducing inequality.

Directors generally called for unwinding of the expansionary fiscal policies in the short term. A few Directors, however, advocated greater emphasis on efficient spending. Over the long term, Directors supported using the substantial fiscal space for more growth-friendly reforms, in particular, to promote productivity growth and enhance labor supply.

Noting that monetary policy is likely to remain expansionary, Directors underscored that macroprudential policies should contain financial sector risks that could arise from the low interest rate environment. They encouraged the authorities to continue to monitor broader macro-financial developments, especially real estate and housing related risks, while enhancing the macroprudential toolkit and standing ready to act, should risks materialize.

Directors emphasized that accelerating ongoing reforms aimed at increasing productivity growth and boosting labor supply are important to raise long-term output. They highlighted that expanding firms' innovation capacity through more investment in research and development would broaden the economy's innovation base and enhance productivity. Directors also called for active labor market policies to support labor supply, particularly among low-income households. To further address inequality, they called for preserving the gains in labor force participation and employment over the last few years. Directors commended the reforms undertaken to increase female labor force participation and agreed that continued efforts to reduce the gender pay gap and further support childcare arrangements would be helpful.

Directors noted that Estonia's pension system plays a critical role in reducing relative poverty and, therefore, encouraged the authorities to preserve its viability and sustainability. They advised caution with regard to the changes being planned to Pillar II of the system as these could complicate macroeconomic management and further slow capital market development, as well as entail longer-term fiscal costs.

Directors welcomed the enhancements to the AML/CFT framework. They agreed that increasing the number of on-site AML/CFT inspections, raising the penalties for AML/CFT violations, and consolidation of supervision at the regional level would contribute to strengthening the AML/CFT regime.

It is expected that the next Article IV Consultation with Republic of Estonia will be held on the standard 12-month cycle.