MOODY’S ISSUES ANNUAL REPORT ON ESTONIA

In its annual report on Estonia, Moody's Investors Service says the A1 rating and positive outlook on the government's long- term bonds reflect the nation’s unparalleled success in economic stabilization and impressive structural transformation, especially among its fellow EU-transition countries. Moody's adds that its “ratings balance Estonia's strong fiscal and institutional strength against its widening current account deficit and the country’s high and rising external debt.”
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“We believe that the prospect of entry into EMU is a deterrent to destabilizing capital flows, thereby strengthening the government's creditworthiness," said Senior Vice President Nina Ramondelli, author of the report. “Enhanced exchange rate stability means that any currency mismatches will not prove costly for the government and that the economy and fiscal revenues will not be subject to a significant contractionary cycle,” she adds.

The analyst explains that the real GDP has been rising faster than expected, reaching almost 10% in 2005. “Rapid credit expansion, booming asset prices, and the stubbornly large external current-account deficit have combined to signal growing economic imbalances,” Ms. Ramondelli says -- “imbalances that could threaten macroeconomic stability if not properly contained.”

Higher-than-expected inflation recently compelled the government to announce a one-year delay in its target date for EMU accession until January 2008. “At present,” the analyst states,” the country comfortably meets all Maastricht criteria --all except the inflation threshold; nevertheless, inflationary pressures arising from the relentless expansion of internal demand means that EU accession in 2008 is not guaranteed.”

In May 2006, Estonia's foreign-currency ceiling on bonds was raised to Aa1, positive outlook, as a result of Moody’s new rating methodology. This methodology no longer premises that a foreign- currency bond default by a government would automatically be accompanied by a moratorium on foreign-currency payments.

The government bond ratings and the foreign-currency ceiling on bank deposits were not affected by this action and remain with a positive outlook. At the time of adoption of the euro, which would mean elimination of currency transfer risk, Estonia's country ceilings would be raised to the Eurozone's Aaa.

The rating agency's report, "Estonia: 2006 Credit Analysis," is a yearly update to the markets and is not a rating action.

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