

## **Benefits of the euro for Estonia**

*The euro will help cement macroeconomic stability in Estonia, ensuring low inflation and low interest rates in the long term that are a pre-condition for durable economic prosperity. The single currency will bring stable prices for citizens and more opportunities for businesses. Moreover, being part of the single currency and the euro area will also create greater trade opportunities in the global economy and attract foreign investment.*

- **Price stability**

By adopting the single currency, Estonia will join an economic and monetary union of stable prices and low interest rates. The euro area has a proven track record of maintaining price stability. Before the euro, it was not rare for many Member States to have inflation rates well above 10% or even 20%.

Beyond the impact of the recent global crisis, the political determination to join the euro area has been an important element of domestic policy in Estonia contributing to much reduced inflation levels. As euro area inflation has remained only just above 2% in the last 10 years, the EMU's culture of economic stability should help maintain stable price expectations in Estonia.

- **Job creation**

The benefits brought by the euro will help sustain robust economic growth and create more jobs for Estonian citizens. Membership of economic and monetary union means a stable economy that supports business, boosts trade and inspires the confidence of foreign investors.

Combined, these advantages will help support the recovery of the Estonian economy and foster a swifter decline in its currently high unemployment. In the euro area, job creation has been significantly higher since the introduction of the euro; nearly 16 million jobs have been created since the launch of the single currency in 1999 compared to only 3 million in the 8 preceding years.

- **Low interest rates**

Estonia will benefit from the low interest rates in the long term that are a pre-condition for durable economic prosperity. This will bring very practical benefits, allowing Estonian citizens and businesses to borrow with more confidence and security.

Membership of the euro area will help shield Estonia against economic turbulence and significant interest rate increases.

- **Reduced costs for travellers**

With the disappearance of transaction costs, Estonian citizens will be able to travel in the euro area for leisure or business at lower expense. They will not only be relieved of the hassle of changing money at borders but can expect to make considerable savings. While abroad, and thanks to the euro, citizens can now send money home to friends and family at a fraction of

the cost. Before the euro, the average bank fee to transfer the equivalent of €100 to another country was €24. Now the average cost has been reduced to just €2.50.

- **Lower costs for businesses**

The euro saves money for Estonian enterprises and supports a dynamic business environment. Following the introduction of the euro and the disappearance of transaction costs, businesses in the European Union have been relieved of an estimated €20-25 billion in costs. In Estonia, a considerable amount of transaction costs will also be saved after the changeover to the euro.

This will allow Estonian companies to invest more in job creation and to become more competitive.

- **Increased trade**

The euro will facilitate trade by eliminating transaction costs and exchange rate risks, making Estonia a more attractive trading partner for existing euro area members. It is estimated that the euro has already increased trade within the euro area by 4-10% since its launch. For Estonia, this represents a significant advantage due to the high openness of its economy as, in 2008, external trade represented over 180% of GDP, while around 35% of Estonian exports were to euro area members.

- **A strong and attractive international currency**

With the euro, Estonia will have a currency of global rank. The role of the euro in international trade, the global bond market and as an official reserve currency has increased substantially and will continue to grow in importance. On some measures, the euro has even overtaken the US dollar in the international bond market, representing almost 49% of outstanding bonds as opposed to 35% for the dollar at the end of 2007.

Euro cash is also increasingly used outside the euro area, with 10-20% of the total value of euro banknotes in circulation currently held outside the euro area, while for the US dollar the value reaches an estimated 60%. The attractiveness of the euro as a world currency means that tourists can increasingly travel all over the world with euro in their pockets while businesses are increasingly able to trade in euro beyond the borders of the euro area. The value of euro coins and bills in circulation recently overtook that of US dollars, with 1,075.8 billion US dollar worth of euro coins and bills in circulation versus 816.9 billion US dollar coins and bills in March 2008.

### **How can Estonia maximise the benefits of the euro?**

Consolidating public finances, ensuring smoothly functioning product and labour markets as well as introducing more competition to the economy will help to maintain price stability in Estonia and preserve competitiveness and growth.