*By Peter Spiegel*

The most significant EU-related development over the holidays was Estonia’s official entry into the eurozone on New Year’s Day, an event that is worth revisiting as the single currency prepares for what is likely to be another year of turmoil.

As Fredrik Erixon, director of the Brussels-based European Centre for International Political Economy, notes in a new “ Obituary for the Estonian kroon ”, it wasn’t too long ago that the Estonian government was being advised to drop its peg to the euro and let its currency float in order to save its economy from the ravages of the European debt crisis.

But Tallinn hung tough, and as we noted in an article last month , is now poised for gross domestic product growth that is the pride of the EU. According to
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orecasts by Eurostat, its 4.4 per cent 2011 real GDP growth would make it the best performer in the eurozone.

When I talked to Estonian President Toomas Hendrik Ilves last month, he recalled with hard-to-contain smugness the amount of pressure the country resisted to devalue during the early days of the euro crisis. “All three Baltic economies were in serious trouble, and all kinds of people said devalue, devalue, devalue,” he said.

In his paper, Erixon cites U.S.-baed economic giants like Paul Krugman and Nouriel Roubini as among those who advocated devaluation, but officials recently told me that the International Monetary Fund was also in the Baltic devaluation camp.

Ilves argued that devaluation, even for an export-reliant economy, wasn’t a panacea. It could have reduced the price of Estonian exports and relative labour costs, he said, but because

Estonia imported so many of the components that go into its exports, the gains would be marginal.

In addition, Ilves argued, Estonian home mortgages and commercial loans were largely denominated in euros. So a devaluation would have sent borrowing costs skyrocketing.

“You decapitate all those who are doing the right thing,” he said. “You’re doing in the people who are the most successful, the most economically active, the people who are doing what you want them to be doing.”

Instead, Estonia cut budgets early and deeply. Does the fact that it is now poised for a rebound bode well for other recent takers of the austerity medicine, like Greece, Ireland, Spain and Portugal? Perhaps, but the Estonians also had a few things going for them that these others – particularly Portugal and Greece – do not: an open, competitive economy and crucially, in the view of Ilves, a reserve fund that carried them through the rough times.

“We resisted the populist pressure in the good years to go and spend the reserves, and we went into the recession with strong reserves which tides us over,” he said. Other Baltics, particularly Latvia, which was forced to rely on an international bailout, were less cautious.

As a new member of the eurozone, Ilves said Estonia was ready to play its part in helping the countries who have fared less well during the recent crisis. Even though it is small and comparatively poor, Ilves said his country is well aware of what shared responsibility means – as a new member of NATO, he noted, Estonia relies on the alliance’s defence guarantees, which allows Tallinn to save more than a bit on military spending.

But if there’s one thing the euro’s 17$^{th}$ member won’t tolerate, he said, it’s a lecture. Here, I’ll just let Ilves speak for himself:

"*The poorer countries that are fiscally responsible end up paying out richer countries that are not. This would be even ok except for the occasional arrogance and haughtiness of the rich countries towards us poor east Europeans. You can’t be haughty towards us because we’re not* *so rich, and at the same time [argue] it's time to bail them out. Ultimately, let's face it: Being richer wasn't based on being more productive. It was based on bigger loans. Wealth based on loans is not wealth.* "

Estonia could prove an interesting new voice in the deabte over the single currency's future.

Original article on Financial Times homepage .