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By Hellmuth Tromm and Ott Ummelas

May 23 (Bloomberg) -- The European Union should implement austerity as a means of firing economic expansion and not view the two ideas as mutually exclusive, said the president of Estonia, which grew at the bloc's quickest pace last year after slashing spending.

"You can achieve growth through austerity. Estonia has done that," President Toomas Ilves said today in an interview in the capital, Tallinn. "Growth policy - that doesn't make sense to me."

The European Union should enforce debt and spending limits and embrace the free movement of services, according to Ilves. Greece should meet its bailout terms to unlock further funds or risk support for its euro-area membership ebbing in countries such as Estonia, where wages and pensions are lower, he said.

EU leaders are meeting in Brussels today to discuss how to stem a debt crisis that's threatening the euro's survival. French President Francois Hollande has pledged to blunt the German-led austerity drive in Europe, seeking to discuss joint euro-area bonds to help stimulate economic growth.

Estonia, along with Baltic neighbors Latvia and Lithuania, cut spending and raised taxes to trim budget deficits by more than 10 percent of gross domestic product in 2009-2010, even as foreign financing dried up and export demand plunged, triggering the deepest recessions in the world.

Growth Agenda

Buoyed by Nordic demand for its goods and improved competitiveness after wage cuts, Estonia, which last January became the latest country to adopt the euro, expanded 7.6 percent in 2011, outpacing the other 26 EU members.

"If you look at the list of things on the so-called growth agenda, the last line is the internal market," Ilves said. "That should be the first line. The other solutions, primary solutions, basically mean more of what we're already doing wrong, which is borrowing money to pay for things."

Furthermore, European institutions are failing, with all 17 euro-area members except Luxembourg, Finland and Estonia violating fiscal and borrowing limits, he said.

"We're fixating on the issue of do we bail out Greece, what do we do for Greece, do we have contagion," he said. "More broadly, the issue is what's the point of the euro zone or the EU if some countries have to follow the rules and some countries don't?"

Solidarity with Greece among voters in Estonia, the poorest euro-area member, won't last in the longer term unless the EU's most-indebted nation adheres to its bailout terms, Ilves said. Estonia's average salary is 10 percent lower than Greece's minimum wage, while Greeks can retire 10 years before Estonians on pensions that are four times larger, he said.

"If in the name of solidarity you exploit responsibility and you get to the point where you're asking people poorer than you to bail you out for following policies that poorer people never even thought of following, then that's not sustainable," he said.

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