

# COOPERATION

## INTERNATIONAL COOPERATION

International cooperation is an important part of the central bank's work. What happens in a small and open economy like Estonia's is closely related to events in the external environment. The central bank's international communications play a significant role in representing Estonia's economic policy interests and explaining developments in the country's economy to the international community and to foreign investors.

Well-coordinated and considered communications are of great importance for Eesti Pank and efficient collaboration is dependent on the international communication framework of the Bank. This framework includes regular economic policy reviews, particularly with EU Member States and Estonia's neighbours: working meetings to prepare for the meetings of EU committees and working groups, and to keep the Bank well informed of recent developments; management of the external communication database; and participation in various international meetings and events.

Prior to sessions of high-level bodies, working meetings are held where experts from different departments and the Eesti Pank representatives attending the sessions discuss the agenda items, set out the Bank's positions and make proposals for comments.

Communication with various European institutions and participation in EU meetings constitute the largest share of Eesti Pank's external com-

munications and reinforce cooperation with the central banks of Estonia's neighbours. In 2009, Estonia came very close to the conclusion of accession negotiations with the OECD, in which experts from Eesti Pank also took part.

Nordic and Baltic central banks have been among the major communication partners for Eesti Pank for over sixteen years. As in previous years, several seminars and meetings of the governors and vice governors of Baltic central banks were organised in 2009 too. The traditional high-level joint seminar with Suomen Pankki (Bank of Finland) was held in Estonia this time and focused on economic developments and policies in Finland and Estonia. Other topics of discussion included Nordic and Baltic financial sector policies and cooperation on crisis management. Stefan Ingves, Governor of Sveriges Riksbank (central bank of Sweden), gave a public lecture at Eesti Pank at the beginning of 2010 entitled Exit Strategies – The Importance of Coordinated Solutions After the Crisis. The lecture was part of the memorial lecture series dedicated to the internationally renowned Estonian economist Professor Ragnar Nurkse.

## Cooperation with European Union institutions

Eesti Pank's representatives participate in around seventy committees and working groups set up by the European System of Central Banks (ESCB), the Council of the European Union or the Council of Ministers and the European Commission (see Table 2). In 2009, Eesti Pank exec-

**Table 1. Business travel for Eesti Pank in 2008-2009**

	2009			2008		
	Total	European Commission, ESCB	Other	Total	European Commission, ESCB	Other
Number of trips	594	315	279	735	327	408
Employees sent on business trip	138	81	109	148	80	117
Days spent on business trips	1,661	914	747	1,932	978	954
Cost (EEK m)	6.3	3.7	2.6	7.8	4.3	3.5
Average cost (EEK thousand)	10.7	11.8	9.3	10.7	13.2	8.6
Average length (days)	2.8	2.9	2.7	2.6	3.0	2.3

**Table 2. Eesti Pank's participation in the work of international organisations and institutions**

<b>Committees and other bodies of the Council of the European Union</b>	Informal Council of Economics and Finance Ministers Economic and Financial Committee
<b>Cooperation bodies of the European Commission</b>	European Banking Committee Committee of European Banking Supervisors Committee on Monetary, Financial and Balance of Payments Statistics Balance of Payments Committee
<b>Cooperation bodies of the European System of Central Banks</b>	General Council of the European Central Bank Accounting and Monetary Income Committee Banking Supervision Committee Banknote Committee External Communications Committee Human Resources Conference Information Technology Committee Internal Auditors Committee International Relations Committee Legal Committee Market Operations Committee Monetary Policy Committee Payment and Settlement Systems Committee Statistics Committee
<b>Organisation for Economic Cooperation and Development (OECD) – participation as an observer until accession to the OECD</b>	Economic Policy Committee Economic Development and Review Committee Committee on Financial Markets Committee on Statistics Investment Committee
<b>Bank for International Settlements (BIS)</b>	Board of Governors of the BIS Meetings of BIS central bank governors BIS Monetary Policy Working Party Irving Fisher Committee on Central Bank Statistics Meetings of Coordinators of Technical Assistance, organised by the BIS Heads of Security Committee

atives and experts participated in about 315 meetings in various EU institutions. Committees and working groups give Member States a good opportunity to discuss their political and expert views, enabling each participant to substantiate and clarify their standpoints.

### **European Central Bank**

The European Central Bank (ECB), where euro area monetary policy decisions are made by the central bank governors of the Eurosystem, is Eesti Pank's most significant partner in the EU. Eesti Pank is a full member of the European System of Central Banks (ESCB).

Until Estonia adopts the euro, the main areas for cooperation remain the economic policy of the EU, the monetary policy of the non-euro area countries, and preparations for the enlargement of the euro area including drafting of the Convergence Report. This is a report on Member States' progress in meeting the criteria for accession to

the euro area. The Governor of Eesti Pank participates together with the governors of other EU national central banks (NCBs) in the meetings of the ECB General Council, which are held four times a year. Day-to-day cooperation takes place in the thirteen committees of the ESCB and their substructures, where joint analyses are written, information is exchanged and preparations are made jointly with representatives of NCBs for the work of the decision-making bodies, the Governing Council and the General Council of the ECB. The committees cover all the areas of responsibility of the central bank.

### **Key topics covered in the ECB meetings in 2009**

**Choosing an appropriate economic policy strategy in a period of nominal convergence** was on the agenda for EU institutions in 2009. It is important for Estonia to have its economic growth and inflation rate assessed in the context of a financial system with a currency-board-based

fixed exchange rate regime and strong cross-border integration, and in the same way, these circumstances are also the backdrop for the financing of Estonia's economy. To this end, central bank experts have explained the specific features of Estonia's economic developments at the meetings of ECB committees and working groups.

**The economic policy framework behind exchange rate stability and the flexibility of the economy and markets, including the labour market, within the exchange rate mechanism ERM II.** Once a year, the ECB assesses the functioning of the exchange rate mechanism ERM II and the fulfilment of commitments by the countries that have joined the ERM II. The report prepared by the ECB analyses the economic developments of the ERM II member countries to assess their readiness for joining the euro area. Estonia joined the ERM II on 28 June 2004. Estonia's representatives have stressed the need to keep the focus of analysis on issues that are vital for the functioning of the ERM II. The topics related to the ERM II were also on the agenda of the meetings of the Council of the European Union (see pp 63).

#### ***European Systemic Risk Board***

In February 2009, the high-level working group set up by the European Commission and chaired by Jacques de Larosière issued 31 recommendations regarding the organisational structure of the supervision of EU financial institutions and markets. The working group made suggestions for how to strengthen supervision over financial stability in Europe and for early warning mechanisms and crisis management. In May 2009, the European Commission issued a notice on financial supervision in Europe, which included recommendations for revising the EU supervision framework and for establishing the European Systemic Risk Board (ESRB). The ESRB should start operating in 2011 (for further information see pp 41).

#### ***Council of the European Union***

Besides participating in the committees and

other bodies of the European System of Central Banks, Eesti Pank's representatives also attend various committees and working groups set up by the Council of the European Union, or the Council of Ministers. In April and October 2009, the Governor of Eesti Pank attended the informal meetings of the Economic and Financial Affairs Council (ECOFIN). Topics of discussion included the European and global economic situation and outlook; issues related to EU financial stability, such as harmonisation of the supervisory practices of the EU financial sector; the planning of exit strategies for crisis-related measures; improvement of public finances; and developments in the five years since the EU enlargement.

In addition, central bank experts advise the officials of the Ministry of Finance preparing for the monthly ECOFIN meetings on matters within the competence of Eesti Pank. In 2009, such matters included ensuring the sustainability of public finances; assessment of Member States' economic and monetary policies; supervision of financial markets; and cross-border crisis management, including assessment of financial sector stress test results. At the end of the year, exit strategies for the financial crisis and future economic strategies were high on the agenda. The ECOFIN also adopted common EU positions for meetings with the IMF and the G20.

One of the most important substructures of the Council of the European Union, where Eesti Pank's representatives participate, is the Economic and Financial Committee (EFC) and its working groups that deal with issues of the international economy and coins. Since the EFC prepares the meetings of the ECOFIN, all important ECOFIN issues were also discussed in the meetings of 2009.

#### ***Topics of discussion in the Council of the European Union in 2009***

**The economic situation in the European Union.** The year 2009 witnessed rapid changes in the economy, including the first signs of recovery in the second half of the year. Work also became more intense at EU level, with the

assessment of measures taken under the European Economic Recovery Plan and the development of exit strategies for the crisis.

Eesti Pank's statements focused on economic policy issues that concern Estonia and other ERM II members, including long-term fiscal sustainability, inflation and structural policies. It was important for Estonia to receive an adequate and objective assessment from the EU, which was ultimately generally in line with the central bank's expectations.

**Euro area expansion.** Eesti Pank finds that it is in the interests of the whole of the EU that expansion of the euro area should take place in accordance with the terms of the Foundation Treaties of the European Community and under uniform rules. Otherwise, the credibility of the euro as an international reserve currency would be compromised.

Eesti Pank observed closely the economically meaningful interpretation of the criteria for joining the euro area at different meetings in Estonia and the EU. The central bank considers it important that the concept of ERM II commitments be objective and that the interpretation of the criteria not become restrictive. The importance of the equal treatment of the old and new Member States must also be stressed.

**Financial supervision and crisis management at EU level.** Cross-border partnership in financial supervision and crisis management strengthened in 2009, leading to the first results from the reform of the financial supervision framework, such as the agreement to set up the European Systemic Risk Board. Given the way Estonia's financial system operates, closer cross-border cooperation in financial supervision is of utmost importance. Eesti Pank supports the clear division of roles between the national institutions of the home and host countries (Estonia is a host) in supervision over cross-border banks and financial crisis management.

Representatives of Eesti Pank participated in a high-level working group in 2009, which was initially established to prepare a pan-European crisis simulation exercise. When the global crisis erupted, the working group started to monitor the bottlenecks in the organisational aspects of financial regulation at EU level.

**Common position of the EU on issues related to the IMF.** The central bank made an active contribution to discussions on strengthening the monitoring of economic policies and revising credit policies in IMF member states, during which countries made joint efforts to address the global economic and financial crisis and to help restore economic and financial stability. A special focus was on strengthening the credit lines of the IMF to increase the Fund's resources, and boosting global liquidity by issuing SDRs<sup>1</sup> to IMF member countries. Other topics on the agenda included reform of the governance of the IMF, which also covered the issue of quotas and representation. Eesti Pank was also involved in the spring and autumn meetings of the IMF's International Monetary and Financial Committee (IMFC), for which the common positions of the EU are shaped.

Statistics. Eesti Pank has for years supported the development and application of best practice in statistics. In 2009, a lot of attention was paid to the quality and harmonisation of statistics in the EU countries. The central bank contributed to the efficient use of the resources, which are needed for collecting, processing and publishing statistics by setting the priorities for this work (see also "Statistics", pp 44).

#### **European Commission**

Representatives of Eesti Pank participate in the Banking Advisory Committee, Banking Supervisory Committee, Balance of Payments Committee, and Committee on Monetary, Financial and Balance of Payments Statistics set up by the European Commission. These committees

<sup>1</sup> SDRs (special drawing rights) are units of account created by the IMF in 1969. The value of SDRs is based on a basket of four currencies (USD, EUR, JPY and GBP).

address issues related to communications, statistics, economic forecasts, payment and settlement systems, banking, banknotes and coins, and counterfeit money. Regular meetings with European Commission experts take place in Estonia and Brussels to discuss Estonia's economic outlook and to identify the data that the Commission needs to produce economic forecasts for EU Member States.

### **Cooperation with the International Monetary Fund**

The International Monetary Fund is a very important forum for international cooperation involving 186 countries, representing most of the world. The main objectives of the IMF are to ensure the stability of the international monetary and financial system, support stable and sustainable economic growth, and through this, prevent financial and balance of payments crises, and facilitate international trade. Eesti Pank is responsible for representing the interests of Estonia in the IMF.

The Governor of Eesti Pank is a member of the highest decision-making body of the IMF, the Board of Governors, which makes him the Governor of Estonia, while the Secretary General of the Ministry of Finance is the alternate member of the Board of Governors, or the Alternate Governor of Estonia. Both members attend the IMF Annual Meetings. The International Monetary and Financial Committee (IMFC), the advisory board to the Board of Governors, meets twice a year, in spring and in autumn.

Day-to-day cooperation with the IMF traditionally takes place in the Nordic-Baltic Constituency, which represents Estonia. The Constituency contains eight countries, Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden, which elect a joint representative to the Executive Board of the IMF. In 2009 the Director of the Constituency was Jens Henriksson from Sweden and since January 2010 the Director has been Per Callesen from Denmark. The Constituency coordinates the positions of the eight countries on issues discussed in the Executive Board

for participation in the daily decision-making process of the IMF.

Strategic issues within the sphere of interests of the Nordic and Baltic countries are discussed twice a year in the Nordic-Baltic Monetary and Financial Committee (NBMFC). Each constituent country is represented in the Committee by a representative of the government and of the central bank. The daily coordinators of the Constituency meet once a year.

In 2009, IMF representatives made two visits to Estonia within the framework of bilateral surveillance. The IMF Mission visited Estonia on 12–18 May and regular economic policy consultations under Article IV of the IMF Articles of Agreement were held on 14–26 October. The Article IV Report on the autumn visit was published in January 2010 on the websites of the IMF and Eesti Pank after a discussion in the IMF Executive Board.

The next mission to Estonia is planned in autumn 2010 after a short visit in spring.

### **Key topics in the IMF forums in 2009**

Given that the mandate of the IMF is to cover the full range of macroeconomic and financial sector policies that bear on global stability, the Fund has played a central role since the start of the global economic crisis by responding to the crisis and reforming the international financial architecture.

**The IMF's lending facilities.** The IMF has mainly been focusing on supporting the countries that have been most affected by the crisis. A number of IMF member states have provided additional funding to the IMF through bilateral loan agreements in order to ensure that the Fund has sufficient lending facilities and guarantees to meet the increased demand for financial aid. In addition, the IMF has decided to strengthen its credit lines by selling a limited amount of its gold reserves and issuing IMF bonds for the first time in the Fund's history. Since the global economic

environment has significantly changed and the risks to the economy remain high, the IMF has revised its lending policies and credit lines.

The Fund allocated a total of 283 billion USD worth of SDRs to its member states<sup>2</sup> to boost global liquidity. The Fund aimed to prevent a global stagnation or even recession and maintain liquidity.

**IMF surveillance.** Global financial tensions are gradually easing and the focus of the IMF now lies on the exit strategies. Nevertheless, surveillance remains high on the Fund's agenda. The key point of discussion is how to merge the IMF's bilateral surveillance (Article IV consultations) and its multilateral surveillance and achieve greater conformity between the macroeconomic and financial sectors. It is also important to enhance the mechanisms for detecting and analysing economic vulnerabilities and to improve risk assessments in order to avoid future crises. The IMF and the Financial Stability Board (FSB)<sup>3</sup> are developing a more reliable early-warning system. Both organisations use their expert knowledge to identify global risks and the bottlenecks in the international financial sector more accurately.

The IMF is also included in the implementation of the Framework for Strong, Sustainable and Balanced Growth, which was adopted in September 2009 at the Summit of the G20. The G20 strives to shape the policies and strategies of its member states, so as to ensure sustainable and balanced global growth and to achieve this, the analytical skills of both the IMF and the World Bank are needed. The Fund has been required to assess the conformity of the action plans of the G20 countries and, where necessary, recommend additional policy measures. The first interim results are expected for the G20 Summit in June 2010.

Surveillance is one of the key responsibilities of

the IMF, as laid down in its mandate. Therefore Eesti Pank considers it important to strengthen IMF surveillance, in particular as regards closer monitoring of the financial sector and closer links between the surveillance outcomes and general economic surveillance. In assessing global financial and funding risks, Eesti Pank considers it crucial to develop global risk assessments at regional and group level, rather than relying on the country-based approach. In addition, cross-border crisis management should be better coordinated between countries.

**Reforming the system and principles of management.** Discussions on the reform of the IMF's governance also continued in 2009. The current crisis has demonstrated the ability of the IMF Executive Board to respond rapidly to the needs and expectations of the member countries. However, increasing the legitimacy of the IMF and enhancing political support by strengthening the voting power of low-income countries are still on the agenda as steps towards compliance with the mandate of the IMF.

At this point, the priority is to complete the reform of quotas and voting power that was adopted in 2008. The reform will simplify the formula for calculating the quotas and increase the quotas and voting powers of under-represented countries. The reform will be completed as soon as the member states have ratified the necessary amendments to the IMF Articles of Agreement by 30 April 2010.<sup>4</sup>

The next revision of quotas will take place before January 2011, two years before a regular revision, to increase the IMF's legitimacy even further. The leaders of the G20 and the IMFC have proposed raising the quotas of emerging and developing countries by at least 5% at the expense of over-represented member states. The proposal is under review in 2010.

<sup>2</sup> Estonia received 63.7 million SDRs from the IMF as a result of two allocations.

<sup>3</sup> The Financial Stability Board was established in April 2009 to replace the Financial Stability Forum (FSF).

<sup>4</sup> After the reform, Estonia's quota and voting power in the IMF will increase by 31% and 16% respectively. Under the present formula, the quota for Estonia is 65.2 million SDRs (about 1.1 billion kroons), which represents 0.03% of total quotas. Estonia currently has 902 votes (0.04% of total votes).

As a member of the Nordic-Baltic Constituency, Estonia has always supported moves to make the governance of the IMF more effective, while also ensuring appropriate representation of the European Union, including Estonia, in the governing bodies of the IMF.

### **Cooperation with the Bank for International Settlements**

The Bank for International Settlements (BIS) is one of the oldest forums for cooperation among central banks. Eesti Pank was one of the founders of the BIS in the 1930s and the Governor of Eesti Pank attends regular meetings of the heads of central banks.

The meetings address topical monetary policy issues, including the role of the central bank, the economic and financial situation in different regions, and financial sector management and supervision.

### **Cooperation with rating agencies**

Since 1997, Estonia has been assessed by three major international rating agencies, Moody's Investors Service, Standard & Poor's and FitchRatings. Eesti Pank coordinates relations

between Estonia and the rating agencies. This includes annual visits of the rating agencies to Estonia once a year and day-to-day communication with the analysts of the agencies (see also "Sovereign rating", pp 113).

### **DOMESTIC COOPERATION**

Experts and executives of Eesti Pank participate in various bodies for cooperation in Estonia (see Table 3).

Quarterly meetings are held by Eesti Pank for officials of the central bank, the Ministry of Finance, the Ministry of Economic Affairs and Communications, the Prime Minister's Office, and the Economic Adviser to the President of the Republic. The topics of discussion include Estonia's economic situation and forecast, fiscal strategy, financial stability, the labour market, international cooperation, and similar issues. Joint committee meetings of Eesti Pank, the Ministry of Finance and the Financial Supervision Authority discuss financial sector policy issues.

Eesti Pank participates in the committee of experts chaired by the Ministry of Finance which is preparing for the changeover to the euro in Estonia. The last months of 2009 were especially

**Table 3. Domestic cooperation of Eesti Pank**

- European Union Coordination Council
- Lisbon Working Group
- National Changeover Committee and its sub-working groups
- Working Party of Foreign Relations Counsellors
- Estonian working group of the European Payments Council (EPC)
- Working Group on Financial Services Legislation
- Coordination Committee for Combating Money Laundering and Terrorism
- Development Cooperation and Development Assistance Working Group
- Accession negotiations committee of the Organisation for Economic Cooperation and Development (OECD)
- Working group for the development of national positions for representing Estonia in the European Commission, the European Court of Justice and the Court of First Instance
- Working group for the future enlargement of the European Union

busy for the committee and its working groups. As the date for the expected changeover to the euro is approaching, the experts of the central bank and other state institutions and private sector representatives have stepped up preparations in cash circulation, harmonisation of payment and settlement systems, legal issues, and public communication. The latest detailed version of the Estonian National Changeover Plan was completed and submitted to the Government in February 2010.

The Governor of Eesti Pank also belongs to the political working group that is chaired by the Prime Minister and that is responsible for monitoring compliance with the Maastricht criteria and coordinating Estonia's accession to the euro area.

The presidency of the European Union changes every six months, which means that Estonia's national policy priorities and short-term objectives must be revised for each new presidency. Eesti Pank sets the central bank's fields of priorities in the European Union and informs the Government about them. The Government's long-term objectives are established in a three-year framework programme that aims to achieve Estonia's general objectives in the European Union.

Participation in the EU decision-making process is coordinated by the European Union Coordination Council, which was set up in 2005 and which includes representatives of all ministries and the central bank. The Council coordinates the transposition of European Union legislation, discussion of EU-related positions submitted to the Government, and the exchange of information between state agencies on EU matters.

#### ***Cooperation with the Office of the President***

A member of the Executive Board of Eesti Pank, Märten Ross, is a member of the President's Academic Advisory Board. The Board analyses various sides of life in Estonia and makes recom-

mendations for the balanced development of the country.

#### ***Cooperation with the Ministry of Finance***

Eesti Pank and the Ministry of Finance collaborate on a daily basis on drafting legislation, in international communications and in several other areas.

A traditional joint seminar was held in 2009, with the focus on the long-term sustainability of economic and fiscal policies.

#### ***Cooperation with the Financial Supervision Authority***

Cooperation with the Financial Supervision Authority involves the surveillance of financial system developments, financial sector regulation and international cooperation.

#### ***Cooperation with the Estonian Banking Association and commercial banks***

Eesti Pank had several high-level meetings with members of the Estonian Banking Association (commercial banks operating in Estonia) in 2009. These meetings form a basis for cooperation and information exchange with the private sector. Experts of commercial banks often meet representatives of the central bank to clarify technical issues regarding the Estonian banking infrastructure.