

INTERNATIONAL PARTNERSHIP

The central bank's international communications play an important role in protecting Estonia's economic policy interests and explaining the issues related to the country's economic development to the international public and foreign investors. The central topic of 2010 was naturally Estonia's preparations for joining the euro area. This added to the usual areas of cooperation through many bi- and multilateral meetings, where we needed to explain our positions on the suitability of the Estonian economy and economic policy for accession to the euro area. There was close cooperation to handle the practical issues related to the adoption of the euro at every level.

Communication with various European Union institutions makes up the largest share of Eesti Pank's external communication and this already took on a new and deeper dimension six months before the actual accession to the euro area. In addition, new forums for partnership were added in 2010 as the new financial supervision system was established in the European Union (for more details see "Ensuring financial stability", p 43). Eesti Pank represents the interests of Estonia in the International Monetary Fund (IMF) and coordinates national cooperation in this area. In 2010, Estonia joined the Organisation for Economic Cooperation and Development (OECD), and Eesti Pank's personnel participate in its working groups. Working with the Bank for International Settlements (BIS) remains important for Eesti Pank.

Nordic and Baltic central banks have held a special place among Eesti Pank's communication partners for nearly twenty years. Cooperation with Nordic and Baltic countries is also closer because Estonia is in a single constituency with these countries in the IMF and the World Bank. Cooperation takes place through bilateral meetings, presentations of research projects and

seminars, and meetings for management members. The connection of the Estonian financial sector to those of neighbouring countries makes it necessary to work more closely on financial stability (for further information see "Ensuring financial stability", p 43).

Cooperation with European Union institutions

European Central Bank

The European Central Bank (ECB) is the most significant partner for Eesti Pank in the European Union. The euro area's monetary policy decisions are made in the Governing Council of the ECB, and the decision-making bodies of the ECB also discuss various other important issues that concern the work of central banks. Eesti Pank is a fully-fledged member of the European System of Central Banks (ESCB) and the Governor of Eesti Pank participates in the ECB General Council's meetings, which are held four times a year. After the decision by the EU Ministers of Finance on 13 July 2010 to accept Estonia accession to the euro area, the Governor of Eesti Pank also participated in the meetings of the ECB Governing Council as an observer until the end of 2010. As of the start of 2011, Eesti Pank is a member of the Eurosystem and the Governor of Eesti Pank is a member of the ECB Governing Council. The meetings of the Governing Council are usually held twice a month.

Day-to-day work takes place in the seventeen committees of the Eurosystem and the ESCB and their substructures, where joint analyses are written, positions are discussed and various documents are prepared in consultation with representatives of the NCBs. The committees help the decision-making bodies of the ECB to gather information so that they can make and implement the decisions. The committees cover all the fields of activity of the central bank. Besides the Governor of Eesti Pank, other rep-

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

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| Committees and other Bodies of the Council of the European Union | Informal meeting of the Economic and Financial Affairs Council Economic and Financial Committee |
| Committees and other Bodies of the European Commission | European Banking Committee Committee on Monetary, Financial and Balance of Payments Statistics Balance of Payments Committee |
| Committees and other Bodies of the Eurosystem and the European System of Central Banks | Governing Council of the European Central Bank General Council of the European Central Bank Accounting and Monetary Income Committee Financial Stability Committee Budget Committee Cost Methodology Committee Eurosystem IT Steering Committee Risk Management Committee Banknote Committee Eurosystem/ESCB 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 |
| Committees of the European Systemic Risk Board | The Steering Committee of the ESRB Advisory Technical Committee |
| European Banking Authority | Committee of European Banking Supervisors |
| International Monetary Fund | Board of Governors of the IMF Nordic-Baltic Monetary and Financial Committee |
| Organisation for Economic Cooperation and Development | Economic Policy Committee Investments Committee Financial Markets Committee Statistics Committee |
| Bank for International Settlements | Board of Governors of BIS Meetings of BIS central bank governors BIS Monetary Policy Working Party |

representatives of Eesti Pank also participated as observers in the Eurosystem's committees and substructures from the second half of 2010.

For a more detailed overview of the activities of the ESCB and Eesti Pank's preparations for joining the Eurosystem, see the other chapters of the annual report.

The new European financial supervision system

The Council of the European Union, the European Parliament and the European Commission reached an agreement at the end of 2010 to establish the European Systemic Risk Board (ESRB) and three European supervision institutions: the European Banking Authority, the

European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA). The new framework entered into force on 1 January 2011. The aim of the reform is to be more efficient at preventing financial crises, and it lays down the role of central banks in the joint work of ensuring financial stability more precisely and formally. Eesti Pank's representative in the General Board of the ESRB is Eesti Pank's Governor Andres Lipstok. On the level of experts, Eesti Pank is involved in the Advisory Technical Committee of the ESRB, and the bank participates as an observer in the Committee of European Banking Supervisors (for further information see "Ensuring financial stability", p 43).

Council of the European Union

Eesti Pank's representatives attend various committees and working groups set up by the Council of the European Union, that is the Council of Ministers. In April and September 2010, the Governor of Eesti Pank attended the informal meetings of the Economic and Financial Affairs Council (ECOFIN). The topics discussed included the European and global economic situation and outlook; issues related to EU financial stability; harmonisation of the supervisory practices of the EU's financial sector; the termination of the extraordinary measures adopted during the crisis; and improving public finances. The principles for assisting euro area countries with unbalanced public finances and unstable financial sectors became particularly important. At the European Council in December, the EU heads of states agreed to establish a European Stability Mechanism (ESM) after the termination of the temporary European Financial Stability Facility (EFSF) in June 2013.

In addition, central bank experts advise the officials of the Ministry of Finance who participate in the monthly ECOFIN meetings on matters that fall under the competence of Eesti Pank. In 2010, such matters included ensuring the sustainability of public finances; an assessment of the Member States' economic and monetary policy, which includes Estonia's convergence report; and financial market supervision and cross-border crisis management, including an assessment of the financial sector's stress test results. ECOFIN also approved the positions of the European Union for the international meetings with the IMF and G20. Membership of the euro area also gave the Minister of Finance the opportunity to participate in the meetings of the euro area's Ministers of Finance, or the Eurogroup.

One of the most important substructures of the Council of the European Union that Eesti Pank's representatives participate in is the Economic

and Financial Committee (EFC) and its working groups dealing with questions of the international economy and coins. Since the EFC prepares the meetings of ECOFIN, all the important issues listed above were discussed in the ECF meetings of 2010 too.

European Commission

Representatives of Eesti Pank participate in the Banking Advisory Committee, the Banking Supervisory Committee, the Balance of Payments Committee, and the Committee on Monetary, Financial and Balance of Payments Statistics set up by the European Commission. These committees 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 are held in both Estonia and Brussels to specify the data the Commission needs to produce its economic forecasts for EU Member States. In 2010, the long-term outlooks of the Estonian economy within the framework of the Lisbon Strategy EU 2020 were discussed for the first time.

Cooperation with the International Monetary Fund

The International Monetary Fund is an important forum for international cooperation with 187 members or most of the countries in the world. The main objectives of the IMF are to ensure the stability of the international monetary and financial system, to support stable and sustainable economic growth, and through this, to prevent financial and balance of payments crises, and to facilitate international trade. The Republic of Estonia has been a member of the IMF since 1992 and the interests of Estonia in the IMF are represented by Eesti Pank.

In March 2011, the reform of the system of quotas and voting power approved in 2008 by the

IMF Board of Governors entered into force. Previously, Estonia's quota had been 65.2 million SDRs, or 0.03% of the total of the IMF's quotas, giving Estonia 902 votes, or 0.04% of total votes. After the reform, Estonia's quota in the IMF increased by 31% to 93.9 million SDRs and our voting weight rose by 46% to 0.067% of total votes. The Riigikogu approved the amendments to the IMF's Articles of Agreement in October 2010.

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. The Secretary General of the Ministry of Finance is the alternate member of the Board of Governors, or the Deputy Governor of Estonia. Both members attend the IMF Annual Meeting every year. The International Monetary and Financial Committee (IMFC), the advisory board to the Board of Governors, meets twice a year in April and September, where Estonia is represented by the Nordic-Baltic Constituency. In 2010, the Nordic-Baltic Constituency was represented by Denmark.

Day-to-day work with the IMF is conducted first and foremost through the Nordic-Baltic Constituency, which represents Estonia among others. Strategic issues and related problems 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 one of the central bank.

In 2010, representatives of the IMF paid three visits to Estonia within the framework of bilateral surveillance. On 2–13 December, regular economic policy consultations were carried out under Article IV of the IMF Articles of Agreement. In December, the IMF focused on the adjustment of the Estonian economy and its outlook for growth in the more distant future. The long-term

sustainability of our fiscal policy and the stability of the financial system were also scrutinised. After a discussion in the IMF Executive Board, a report completed from the visit (Article IV report) was published on the websites of both the IMF and Eesti Pank.

Against the backdrop of insecurity in the global economy, the focus in 2010 was on supporting countries that were affected by the crisis, and so the discussions among the IMF's Member States centred on the **IMF's lending capacity and credit instruments**. To increase the loan resources of the IMF, many Member States contributed additional funds to the fund. A new borrowing arrangement was adopted and the flexibility of several loan instruments was improved in order to guarantee the accessibility of financial aid. Due to changes in the global economy, **updating the IMF's mandate and surveillance activities** was also discussed. The goal was to find solutions to balance the surveillance by allowing a focus on multilateral surveillance without endangering the quality of bilateral surveillance.

In autumn 2010, the Board of Governors of the IMF passed a **reform of the IMF's principles of governance**, as a result of which:

- all the members of the IMF's Executive Board shall be elected;
- the Executive Board shall include 24 members and its composition shall be reviewed after every eight years;
- the representation of advanced European economies shall be reduced in the Executive Board by two chairs;
- a second Alternate Executive Director's position shall be established in Constituencies that include seven or more Member States.

The reform also included the completion of the general **review of the Member States' quotas**. As a result of the reform, an agreement

was reached to double the quotas to 476.8 billion SDRs and redistribute over 6% of the quota shares to under-represented and dynamic emerging markets and developing countries. The parliaments of the Member States must approve this reform for it to come into force.

Cooperation with the Bank for International Settlements

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

The meeting agendas mostly contain topical monetary policy issues (including the role of central banks), the situation of economic and financial markets in different regions, and financial sector management and supervision.

In February 2010, Eesti Pank hosted the BIS's Working Party on Monetary Policy in Central and Eastern Europe in Tallinn.

Cooperation with rating agencies

Since 1997, Estonia has been assessed by three major international rating agencies: Moody's Investors Service, Standard & Poor's and Fitch Ratings. Eesti Pank coordinates relations between Estonia and the rating agencies. This includes rating agencies' visits once a year and day-to-day communication with the analysts. Rating agencies' annual reports on Estonia are available on the website of Eesti Pank. Read more about the agencies' decisions regarding Estonia's rating and their assessments of Estonia's economic situation in "Sovereign rating", p 111.