

ORGANISATION AND COOPERATION

INTERNATIONAL COOPERATION

The developments taking place in Estonia, a small and open economy, are normally closely tied to external processes. All the principal fields of activity of Eesti Pank are involved in international cooperation. The central bank's international communications play an important role in protecting Estonia's economic policy interests and explaining the problems related to the country's economic development to the international public and foreign investors.

Eesti Pank's international communication framework includes regular economic policy reviews of various countries and regions (especially EU Member States and Estonia's neighbouring countries); discussions to prepare for the meetings of EU committees and working groups and to obtain an overview of recent developments; management of the external communication database and participation in various meetings and events. Prior to sessions of high-level bodies, working meetings are held where experts from different departments together with Eesti Pank's representatives

attending such sessions discuss relevant information, specify the national positions and, if necessary, make proposals for comments.

Communication with various **European institutions** and participation in EU meetings constitute the largest share of Eesti Pank's external communication and provide an additional dimension to cooperation with the central banks of Estonia's neighbouring countries. The **central banks of the Nordic and Baltic States** have held a special place among the communication partners of Eesti Pank for nearly fifteen years already. Several joint seminars of the Baltic central banks and meetings at the level of presidents and vice presidents were held also in 2007. The traditional high-level joint seminar with Suomen Pankki (Bank of Finland) was held in Helsinki this time. The seminar covered Finland's and Estonia's economic developments and economic policy and issues related to the integration of the Nordic and Baltic financial sector, focusing mainly on challenges that it offers to the central banks and financial supervision authorities.

**Table 1. Eesti Pank's participation in the work of international organisations and institutions
Cooperation bodies of the Council of the European Union**

Cooperation bodies of the Council of the European Union	<ul style="list-style-type: none"> • Informal Council of Economics and Finance Ministers • Economic and Financial Committee
Cooperation bodies of the European Commission	<ul style="list-style-type: none"> • European Banking Committee • Committee of European Banking Supervisors • Committee on Monetary, Financial and Balance of Payments Statistics • Balance of Payments Committee
Cooperation bodies of the European System of Central Banks	<ul style="list-style-type: none"> • 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
International Monetary Fund (IMF)	<ul style="list-style-type: none"> • Board of Governors of the IMF • Nordic-Baltic Monetary and Financial Committee, incl. the Committee of Alternates • Meetings of coordinators of the Nordic-Baltic Constituency
Bank for International Settlements (BIS)	<ul style="list-style-type: none"> • Board of Governors of the BIS • Meetings of BIS central bank governors • BIS Monetary Policy Working Party • Meetings of Coordinators of Technical Assistance, organised by the BIS

Regular 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 1). In 2007, Eesti Pank executives and experts participated in about 260 meetings in various EU institutions. Collaboration in committees and working groups provides a good opportunity to the Member States for discussing 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, is the most significant cooperation partner for Eesti Pank in the EU. Eesti Pank is a full member of the European System of Central Banks.

Until Estonia has not yet adopted the euro, the main fields of cooperation are the economic policy of the EU, the monetary policy of the non-euro area countries, and preparations for the euro area enlargement, including drafting of the so-called Convergence Report – an account of meeting the euro area accession criteria. The Governor of Eesti Pank participates together with the governors of other EU national central banks (NCB) 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 common analyses are composed, information exchanged and preparations for the work of the decision-making bodies – the Governing Council and the General Council of the ECB – are made together with representatives of NCBs. The committees cover all the fields of activity of the central bank. In 2007, representatives of Eesti Pank took part in over 230 working meetings, which shows that cooperation is very close.

Selection of the key topics covered in the ECB meetings in 2007

Selection of a suitable economic policy strategy in an economy converging towards the EU level. In 2007, EU institutions expressed continuous interest in Member States' economic policy strategies in the period of nominal convergence. As a result of the discussions, it was found that the economic policy package ensuring stable and sustainable development still depends on the specifics of each country. Fiscal and structural policy measures as well as the preventive and supervisory measures of the financial sector were regarded as very important.

Eesti Pank considers the measures taken by new EU countries to ensure stable economic development important, as they facilitate the recognition and shaping of best practice and policies in the Member States. The Estonian central bank explained Estonia's economic developments in 2007 and the importance of supporting the ongoing smooth economic adjustment. Estonia's economy is based on the currency board arrangement, which means that the fixed exchange rate allows to maintain long-term inflation low.

Economic policy framework ensuring the exchange rate stability and the flexibility of the economy and markets (incl. 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 who have joined the ERM II. The report prepared by the ECB analyses the economic developments of the ERM II member countries with the aim of assessing their readiness to join the euro area. Estonia joined the ERM II on June 28, 2004 and has not encountered any difficulties during the time of participation so far. In 2007, the topic of ERM II was added also to the agenda of the meetings of the Council of the European Union (see page 64).



Aspects of the Economic and Monetary Union in the EU Lisbon Treaty. On December 13, 2007 EU leaders signed the Lisbon Treaty, which will become the new founding treaty of the European Union. EU leaders have expressed their expectation that the Treaty will enter into force before the next European Parliament elections in June 2009. Estonia intends to ratify the Lisbon Treaty in the first half of 2008.

The ECB has stated that the changes in economy and finance brought about by the new Treaty are rather institutional and that, in general, the Treaty supports the current structure of the Economic and Monetary Union. The ECB is one of the seven main institutions of the European Union and maintains its independence under the new Treaty as well. The Lisbon Treaty has separate provisions for the euro area countries. At the same time, the role of the so-called Eurogroup (finance ministers of the euro area) in the decision-making process will increase and strengthen.

Uncertainty in financial markets started in summer 2007. Problems that arose in summer 2007 in the US real estate and financial sector rapidly spread also to the European financial markets. The assessment of the positions of European banks exposed to the risks surrounding the US real estate market through complicated financial instruments became impossible, which is why trust between market participants faded, the money market shrunk and the ECB was forced to make several liquidity injections into the market. Europe's economic outlook is still considered to be relatively good, although the slowdown in US economic growth and continuous decline of the dollar are undoubtedly risk factors. Despite the ECB's concern about inflation pressures, it was decided to suspend the upward cycle of interest rates until the influence of the financial crisis on real economy has become clear.

Council of the European Union

Besides participating in the cooperation bodies of the European System of Central Banks, Eesti Pank's representatives also partake in the work of committees and working groups set up by the **Council of the European Union**, i.e. the Council of Ministers. For example, in April and September 2007, the Governor of Eesti Pank attended the informal meetings of the **Economic and Financial Affairs Council (ECOFIN)**. Subjects of discussion included the European and global economic situation and outlook; issues related to the EU financial stability, such as harmonisation of the supervisory practices of the EU financial sector and financial crisis management; the code of conduct for the securities clearing and settlement approved under an agreement between the market participants; rationalisation of public finances, and formation of common positions for the annual meeting of the International Monetary Fund.

In addition, central bank experts advise the officials of the Ministry of Finance participating in the monthly ECOFIN meetings in matters within the competence of Eesti Pank. In 2007, such matters included ensuring the sustainability of public finances against the background of ageing population; assessment of Member States' economic policy; preparation and fundamental approval of the code of conduct for the EU securities payment and settlement system; creation of the Single Euro Payments Area; cross-border mergers and acquisitions in the financial sector; financial markets supervision and cross-border crisis management.

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 dealing with issues of international economy and coins. Since the EFC prepares the meetings of the Council of Economic and Financial Ministers (ECOFIN), all important ECOFIN issues were also discussed in the meetings of 2007. One of the main

¹ Since Estonia's accession to the EU, Eesti Pank has been taking part in the work of the so-called transition body or General Council of the ECB, where representatives of the NCBs of all EU Member States participate.

discussion subjects was the harmonisation of the supervisory practices of the EU financial sector and financial crisis management.

Selected topics on the 2007 agenda of the Council of the European Union

Economic situation in the European Union.

Eesti Pank's statements concentrated mainly on topics related to the economic policy of Estonia and other ERM II members, including long-term fiscal sustainability, inflation and structural policies, developments in the credit and real estate markets and their influence on the economy.

Euro area expansion. In 2007, the economic development of several new EU Member States was assessed in special convergence reports prepared at their request. Eesti Pank finds that it is in the interests of the entire EU that expansion of the euro area should take place in compliance with the provisions of the Treaty establishing the European Community and according to 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 as well as in the EU. Eesti Pank considers it important that the concept of ERM II commitments would be objective and that the interpretation of the criteria would not become restrictive. The importance of the equal treatment of the old and new Member States must also be stressed.

Strengthening the EU financial stability framework.

Finance ministers and representatives of Eesti Pank and supervision authorities have been discussing prevention of financial crises and organisation of crisis cooperation for years already. The topicality of this issue increased along with the uncertainty in global financial markets that had started in 2007 and by related implications on the EU monetary system. In October 2007, the finance ministers agreed on further steps to be taken by

the Member States and the European Commission. Planned activities cover the period 2007–2009. Supervisory issues were also discussed in 2007 and in connection with that, decisions were taken at the December meeting of ECOFIN to improve the so-called Lamfalussy framework (for more details, see “Ensuring financial stability” p. 47).

Cross-border cooperation and division of tasks between financial supervision authorities in the European Union.

Given the specifics of Estonia's financial system, it is vital for us to enhance cross-border cooperation in financial supervision. Eesti Pank supports the approach that requires clear division of roles between the home and host country's (Estonia's) national institutions in organising supervision related to cross-border banks and in managing financial crises. The central bank also supports consistent implementation and development of the Lamfalussy framework, including strengthening cooperation in supervision at the EU level (for more details, see “Ensuring financial stability” p. 47).

Common position of the EU on issues of the International Monetary Fund.

In 2007, Eesti Pank participated actively in various discussions on topics like IMF quotas, representation in the IMF and strengthening the monitoring of economic policy in the Member States. Eesti Pank was similarly involved in the spring and autumn meetings of the IMF's International Monetary and Financial Committee (IMFC), where common positions of the EU were specified.

Statistics.

For years Eesti Pank has supported the development and application of best practices in the field of statistics. A lot of attention was paid to the quality of statistics and its harmonisation in all EU countries also in 2007. In addition, the Bank supported efficient use of resources for collecting, processing and publication statistics by defining specific priorities for that purpose (for more details, see “Developments in statistics” p. 52).



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, as well as in working groups covering statistics, economic forecasting, payment systems, banking issues, issuance of banknotes and coins, counterfeit money, and communication.

Regular meetings with Commission experts take place twice a year to discuss Estonia's economic outlook and specify the forecast assumptions drawn up for all Member States by the Commission.

Role of Eesti Pank after the adoption of the euro

Until accession to the euro area, Eesti Pank is in charge of implementing Estonia's monetary policy, arranging currency circulation, contributing to financial stability, and ensuring the operation of reliable and well-functioning payment and settlement systems. The goal is to maintain the stability of the economy and the Estonian kroon, which form the foundation of a strong state.

When Estonia adopts the euro, the tasks of Eesti Pank will be largely the same, but the international significance of the institution will increase, as Estonia starts to participate in the euro area financial policy making hand in hand with other national central banks and the ECB. Eesti Pank is currently responsible for ensuring the reliability of the Estonian kroon, whereas in the future, the central bank will be engaged in ensuring the reliability of the euro. As transition to the euro means that one currency will be replaced by another one, the issuer of the euro in Estonia will be Eesti Pank as agreed with the European Central Bank.

Eesti Pank will continue to perform all the tasks of a central bank in the Eurosystem. The objective of the euro area national central banks is to ensure price

stability and to this end they implement the single monetary policy in the euro area. Eesti Pank will be participating in the monetary policy decision-making (e.g. fixing of interest rates), where the Governor of Eesti Pank as a member of the Governing Council of the ECB¹ has the same role as, for example, the Governors of the Deutsche Bundesbank or Banca d'Italia.

Eesti Pank is already analysing the economic indicators of Estonia as well as the rest of the world. Euro area membership and participation in the euro area monetary policy decision-making means that the central bank will have to deepen and expand international economic analysis even further. As a member of the euro area, Eesti Pank will participate in the joint management of reserves and development of settlement systems.

As a member of the Eurosystem, Eesti Pank will maintain its important role in communication with other central banks and international organisations (e.g. the IMF, rating agencies).

Eesti Pank will be ensuring the smooth operation of payment and settlement systems also in the future so as to guarantee fast and efficient inter-bank transfers, contribute to the sustainability of the financial system, and compile Estonia's balance of payments.

Cooperation with the International Monetary Fund

The International Monetary Fund is a very important forum of international cooperation involving most of the countries in the world (185 to be more specific). The main objectives of the IMF include ensuring the stability of the international monetary and financial system, supporting stable and sustainable economic growth, and through this, preventing financial and balance of payments crises, and promotion of 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, and 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).

Day-to-day cooperation with the IMF is conducted, first and foremost, through the **Nordic-Baltic Constituency** representing inter alia Estonia. The Constituency includes eight countries (Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden) that elect a common representative to the Executive Board of the IMF. As of January 2007, the position of the Director of the Constituency has been held by a Swedish representative Jens Henriksson. To participate in the daily decision-making process of the IMF, the Constituency coordinates the positions of the eight countries on issues discussed in the Executive Board.

The 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 of the central bank. The experts daily involved in coordinating the work of the Constituency, i.e. the coordinators, meet once a year.

In 2006, the IMF approved of a new strategy, which brings along changes in both the day-to-day work in achieving the key objectives of the Fund and the operating principles of the organisation. A major part of the IMF's activities is related to **monitoring the economic policies** of its member countries. The implementation of the new strategy includes streamlining the policy and methods for monitoring.

The main objective is to facilitate the ensuring of external stability.

Preparations to change the operating principles of the IMF are currently under way. At the Annual Meeting 2006 held in Singapore the member countries decided to **reform the system of quotas and voting power**. The aim is to simplify the formula used for calculating quotas, increase quotas for under-represented countries and also the role of basic votes, which will bring about a change in the IMF Articles of Agreement. This presumes an approval from the parliament in several member countries, including Estonia. Discussions to change the operating principles of the IMF continued also in 2007. At the 2008 spring meeting of the International Monetary and Financial Committee (IMFC), final proposals as regards the IMF's income model as well as reform of quota and voting power will be made; these proposals are expected to be approved at the annual meeting in autumn.

In the framework of cooperation in monitoring between the IMF and Estonia, the representatives of the IMF paid one visit to Estonia in 2007. On May 2–14, regular economic policy consultations were carried out under Article IV of the IMF Articles of Agreement. After a discussion in the IMF Executive Board, the main report and a report dealing with special issues of the Estonian economy based on these consultations were published on the websites of both the IMF and Eesti Pank. The next IMF spring mission to Estonia takes place in May 2008.

Selected topics from the International Monetary Fund forums in 2007
Economic developments in the new EU Member States. One of the topics attracting a lot of attention was identification of the specifics of economic developments in Estonia and other rapidly growing countries that are catching up with the average living standard in the European Union. Inflation and current account developments



in countries with fixed exchange rate were similarly explained.

Eesti Pank has discussed these questions with the IMF analysts, has submitted statements for the IMF World Economic Outlook but also concerning specific research papers of the IMF, and has invited the IMF representatives to introduce their positions on topics important to the economic policy conducted in Estonia. In November 2007, Philip Schellekens and Juha Kähkönen, representatives of the IMF European Department, gave a presentation in Tallinn on the growth outlook for the Central and Eastern European countries.

IMF reform. The distribution of the IMF quotas and voting power is an important issue for Estonia. The current quota for Estonia is approximately 84% lower than it would be according to the quota formula. The ongoing discussion on increasing the role of basic votes supports strengthening the voting power of smaller and less advanced countries. The reform of quota and voting power is planned to be finished in 2008, after which the current participation of the IMF member states will be adjusted according to the new quota formula. Changing the quota formula would increase Estonia's quota as well.

Changes in the principles of funding IMF's administrative costs. The planned changes may bring about the establishment of principles that differ from those used so far in obtaining funds from the member countries. As a member of the Nordic-Baltic Constituency, Estonia has supported zero per cent real growth of the Fund's budget and a more transparent funding of different fields of activity.

Economic policy monitoring in member countries. In June 2007, the new Decision on Bilateral Surveillance, which included also specifications of the exchange rate policy surveillance, was approved by the Executive Board of the IMF. In principle, the IMF is now obliged to clearly assess in the final report of every Article IV consultation, whether and how much a country's real exchange rate is over-

estimated or underestimated as far as long-term balance is concerned, and whether a country's external position (current and capital accounts) is in line with economic development. In conclusion, the IMF assesses whether the country's exchange rate policy is in compliance with the objective of maintaining stable economic development and external balance.

Crisis prevention. The uncertainty in financial markets that started in the summer months of 2007 has led the IMF to actively participate in discussions on the liquidity and risk management of the global financial sector and also on financial sector supervision. According to the IMF, both the market participants and supervision authorities should learn from the current problems. Above all, the IMF has stressed that better information on the positions of financial institutions and on the development of the prices of financial instruments is required.

In the field of crisis prevention, work continued on the development of a new credit line, which would serve as a kind of security instrument and would help the developing countries with strong economic policy to avoid liquidity crises.

Cooperation with rating agencies

Since 1997, Estonia is being assessed by three major international rating agencies: Moody's Investors Service, Standard&Poor's and Fitch-Ratings. Eesti Pank manages relations between Estonia and the rating agencies. This includes rating agencies' visits once a year and day-to-day communication with the analysts (for more details, see "Sovereign rating" p. 115).

COOPERATION WITHIN ESTONIA

Experts and executives of Eesti Pank participate in different cooperation bodies in Estonia (see Table 2).

The quarterly four-partite meetings held on Eesti Pank's initiative, where officials of the central bank, the Ministry of Finance, the Ministry of Economic Affairs and Communications and the Prime Minister's Office discuss various topical issues of economic policy, serves as an example of domestic high-level cooperation. Issues covered include the economic situation and forecast, budget strategy, financial stability, Estonia's labour market situation, etc. Joint committee meetings of Eesti Pank, the Ministry of Finance and the Financial Supervision Authority on financial sector policy issues should also be mentioned here.

Eesti Pank participates in the committee of experts chaired by the Ministry of Finance, which deals with preparations for the adoption of the euro in Estonia. In 2007, Eesti Pank together with representatives of other state institutions and the private sector continued with preparations in the field of communication on the changeover to the euro. The communications working group under the expert committee for the euro changeover, which was established in 2004 by the Government to ensure a smooth adoption of the euro, had regular discussions on the issues related to informing the public and updated the communication action plan. Technical preparations for starting the euro campaign continued at the beginning of 2007.

The presidency of the European Union changes in every six months. National policy priorities and short-term objectives are always determined for the new presidency period. The Government's long-term objectives are established in a three-year framework programme to achieve Estonia's general objectives in the European Union. For the national coordination of participation in the EU decision-making process, the European Union Coordination Council has been set up. Eesti Pank participates in the work of that council. The Council deals with the coordination of the transposition of European Union legislation and the discussion of EU-related positions submitted to the Government, solves problems between state agencies and exchanges information on EU-related matters.

Cooperation with the Office of the President of the Republic

A member of the Executive Board of Eesti Pank, Märt Ross, is a member of President's Academic Advisory Board. Members of the Executive Board of Eesti Pank also accompanied the President during state visits; for instance, in 2007 a visit was paid to Georgia.

Cooperation with the Ministry of Finance

Eesti Pank and the Ministry of Finance cooperate on a daily basis in legislative drafting, international communication and several other fields.

Similar to previous years, a joint seminar of Eesti Pank and the Ministry of Finance was organised in 2007, this time on the fulfilment of the Maastricht inflation criterion.

Table 2. Eesti Pank's participation in internal cooperation

- European Union Coordination Council
- Lisbon Working Group
- Expert committee for the euro changeover
- Working Group on Financial Services Legislation
- Coordination committee for the prevention of money laundering
- 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



Cooperation with the Financial Supervision Authority

In December, Eesti Pank, the Financial Supervision Authority and the Ministry of Finance updated the three-party Memorandum of Understanding (MoU) that determines the division of tasks between state agencies in financial crisis management and lays the foundation for developing financial sector related legislation and procedures. National MoUs on crisis management are an integral part of the EU crisis management framework.

Cooperation with the Financial Supervision Authority operating by Eesti Pank has focused on monitoring financial system developments, discussions on financial sector regulation and, to a large extent, also on international cooperation. In the latter case the joint activities of Eesti Pank and the Financial Supervision Authority are similar to those of the central bank and the Ministry of Finance: if necessary, joint preparations are made for meetings with foreign experts (e.g. officials from the International Monetary Fund or rating agencies) or for participation at meetings of EU institutions.

Cooperation with the Estonian Banking Association and Estonian banks

In 2007, there were several high-level meetings with members of the Estonian Banking Association; that is, representatives of commercial banks operating in Estonia. These meetings form a basis for cooperation and information exchange with the private sector. Experts of commercial banks often meet with representatives of Eesti Pank in order to specify the technical issues related to the development of the Estonian banking infrastructure.

PUBLIC RELATIONS AND COMMUNICATION

The main objective of central bank communication is maintaining relations with financial markets and other important target groups. Markets observe central bank communication and shape their expectations according to the relevant messages.

Eesti Pank operates in the framework of the currency board system with a fixed exchange rate.

The objective of central bank communication is to support with its messages the stability of Estonia's monetary system, economy and financial system. The strategic objectives of the bank and the organisation's understanding of the central bank's role form the basis for communication.

The communication policy of Eesti Pank proceeds from the following objectives:

- To ensure public understanding of and sufficient support to the monetary policy pursued by the central bank;
- To maintain and value the reputation of Eesti Pank as a competent, independent, and credible institution that plays a significant role in guiding Estonia's economic policy and economic development, whose activities are transparent and monitored, and that is willing to communicate with all social groups;
- To ensure the best possible access for economic agents to background information necessary for making economic decisions.

Principles of informing the public

Transparency and reliability are vital in the central bank's activities. The general public but also more specific target groups, both domestic and foreign, must be able to receive regular, sufficient and high-quality information on economic policy from Eesti Pank.

Eesti Pank has undertaken the commitment to notify the public of Estonia's economic situation and developments at least six times a year. The notification includes Eesti Pank's economic forecasts presented twice a year and more in-depth financial stability reviews.

The central bank considers it important to provide as up-to-date information as possible in the most convenient and the least expensive way. For example, Eesti Pank's regular publications are

free of charge for subscribers and among others all the county libraries receive them. In addition to various publications and information published on the website it is possible to send direct inquiries to Eesti Pank. Information can be requested by mail, e-mail or phone. In 2007, Eesti Pank received 2,440 inquiries, 72 of which were registered as requests for information.

Media relations and public appearances

Approximately 4100 writings, news texts, radio and TV news reflecting the activities of Eesti Pank and its economic policy standpoints were published or released in the Estonian media in 2007. The central bank held 7 press conferences, issued 98 press releases, 37 statements and a large number of interviews and answers to inquiries. Moreover, 13 economic policy articles were published.

In 2007, the media focused mainly on issues related to the general development of the economic environment. When in the first half-year, the media focused mainly on the loan market (real estate market and interest rates), in the second half-year, it concentrated mostly on the slowdown in Estonia's economic growth. But the event that was addressed the most at the end of the year was the panic in connection with the alleged devaluation of the kroon, which managed to excite even the international media. Opinions of the IMF and rating agencies on the Estonian economy also deserved a lot of attention, as did the labour market issues.

During the year, central bank representatives made presentations at a number of conferences and events mainly on the topics of the current economic situation and the economic development in Estonia.

On 23 May 2007, Eesti Pank held an international conference titled "Opportunities of the Estonian Economy in Global Competition" to mark the 15th anniversary of the re-establishment of the Estonian kroon. Presentations and discussions were focused

on the opportunities of Europe in the context of international competition, about which the views were expressed by the representatives of international institutions, and on the competitiveness of Europe and the Nordic-Baltic region, which was discussed by the representatives of the private sector.

The conference started an annual series of lectures dedicated to the internationally renowned Estonian economist Professor Ragnar Nurkse. The first economic policy lecture was delivered by Siim Kallas, European Commission Vice-President.

Top-level speakers from Europe, the United States and China participated in the conference. The conference was attended by the representatives of international organisations, Estonia's public and private sector, financial institutions, academic institutions, and the press.

On September 8, the sixth Open Door Day of Eesti Pank took place, which was also dedicated to the 15th anniversary of the Estonian kroon. During the four-hour event, visitors could get acquainted with Eesti Pank and its activities, have conversations with the employees and executives of the central bank on topical economic issues, mint coins and do many other things. The Open Door Day of Eesti Pank was visited by more than 1,100 people.

The opening of the memorial stone in Käru in the honour of the 100th anniversary of birth of the economist Ragnar Nurkse also took place in autumn. The event was initiated and organised by Eesti Pank.

In the second half-year, a photo gallery of the members of Otto Tief's Government was opened in Eesti Pank to celebrate the 63rd anniversary of the establishment of Otto Tief's² Government. The portraits of fifteen members of the Government were set up in the room where the then Government was established and where it held its meetings. The room is in the former Maapank building, which is now the oldest building in the Eesti Pank quarter.



In 2007, Eesti Pank participated also in the Investment fair in October, where bank representatives introduced the Bank's activities and the history of money, and made a presentation, which turned out very popular.

Museum of Eesti Pank

In 2007, it was the 10th anniversary of the Museum of Eesti Pank: on June 12, 1997 the Museum opened its doors to visitors.

The mission of the Museum is to introduce to the public the functions of Eesti Pank as the central bank of the Republic of Estonia and as a central bank of the EU member countries, to record the history of Eesti Pank and to collect, preserve and introduce the means of payment in circulation in the Republic of Estonia from 1918 until today.

The permanent exhibition reflects the history of Eesti Pank and provides a thorough introduction to different currencies that have been in circulation in the territory of Estonia since the establishment of the Republic of Estonia.

The Museum has 55.5 metres of exhibition area; the permanent exhibition presents 418 museum objects. The Museum's fund has currently 7,587 museum objects, including a collection of most of the different currencies that have been in circulation in Estonia in different times.

The Museum also sells commemorative coins and banknotes and provides the publications issued by Eesti Pank. The sales turnover of 2007 was about 6.5 million kroons.

In the jubilee year, the Museum opened three temporary exhibitions.

From March 21 until April 21, there was an exhibition titled "**Estonian honorary decorations – selection of honorary decorations of agencies and organisations**". The exhibition displayed a selection of the honorary decorations of the Defence Forces of Estonia, the National Defence League, the Female Civil Defence, the Rescue Board, the Border Guard Administration, the Police Board and other institutions as well as honorary decorations of local governments, citizens' associations and other organisations.

On June 12, the 10th anniversary of the Museum of Eesti Pank, the Museum opened an exhibition titled "**Designs of the Estonian kroon**", dedicated to the 15th anniversary of the Estonian kroon. The exhibition gave an overview of entries received for the design competition for Estonian banknotes in 1989. On the birthday week, the Museum also opened its jubilee exhibition "**Exhibition of exhibitions**", which gave an overview of exhibitions that had taken place over the last ten years.

From November 2007 until February 2008, there was an exhibition on the history of Latvian money from ancient times to today. The visiting exhibition "**Money in Latvia: History and Today**" was prepared in cooperation with Eesti Pank, the National History Museum of Latvia, the Bank of Latvia and the Latvian Embassy in Estonia.

In 2007, the Museum of Eesti Pank was visited by over 6,500 people.

² Prime Minister of the last Estonian Government before Estonia regained independence from Soviet occupation

GOVERNANCE, ORGANISATION AND PERSONNEL POLICY

Eesti Pank's governing and decision-making bodies

Supervisory Board of Eesti Pank

Pursuant to the Eesti Pank Act, the **Supervisory Board of Eesti Pank** is the highest body of Eesti Pank, exercising supervision over all activities of the central bank. The Supervisory Board of Eesti Pank has the exclusive competence in the following issues:

- making a proposal to the President of the Republic for appointment of the Governor of Eesti Pank;
- Appointment to office and release of Deputy Governors of Eesti Pank, heads of the independent divisions and representative offices and Head of the Internal Audit Department of Eesti Pank, as well as the two members of the Supervisor Board of the Financial Supervision Authority¹ appointed by Eesti Pank on the proposal of the Governor of Eesti Pank;
- Approval of the Statute of Eesti Pank, the statutes of its independent divisions and representations and the Statute of the Internal Audit Department;
- supervision of the implementation of the budget of Eesti Pank;
- Appointment of the internal auditors of Eesti Pank and approval of the internal audit work schedule;
- Appointment of the independent auditors of Eesti Pank;
- Approval of Eesti Pank's Annual Report on the proposal of the Governor;
- Decision-making regarding the denomination and design of new banknotes and coins;

- Deciding on the establishment, reorganisation and liquidation of the independent divisions of Eesti Pank on the proposal of the Governor;
- Review and approval of written proposals and other documents submitted to the Riigikogu in the name of Eesti Pank.

The Governor of Eesti Pank reports regularly to the Supervisory Board on the situation in Estonia's economy, monetary policy and financial sector as well as on the implementation of the central bank's budget.

The Riigikogu appointed the current Supervisory Board of Eesti Pank to office on February 17, 2004. The Board comprises Professor **Mart Sõrg** (Chairman of the Board, appointed to office on June 12, 2003), Faculty of Economics of the University of Tartu; Professor **Raul Eamets**, Faculty of Economics of the University of Tartu; Professor **Enn Listra**, Faculty of Economics of the Tallinn University of Technology; **Mart Opmann**, public figure and economist; **Tõnis Palts**, public figure and economist; Professor **Jüri Sepp**, Faculty of Economics of the University of Tartu; **Liina Tõnisson**, public figure, and **Harri Õunapuu**, Member of the Riigikogu.

Governor of Eesti Pank

Andres Lipstok commenced his duties as Governor of Eesti Pank on June 7, 2005.

Executive Board of Eesti Pank

Pursuant to the Eesti Pank Act, the Executive Board of Eesti Pank is responsible for planning and organising the central bank's activities. The Governor of Eesti Pank is the Chairman of the Executive Board by virtue of office.

¹ The Supervisory Board of the Financial Supervision Authority comprises six members: two of them – the Minister of Finance and the Governor of Eesti Pank – are members by virtue of office while four are appointed. The Board is chaired by the Minister of Finance. Half of the members are appointed and released by the Government of Estonia on the proposal of the Minister of Finance and half by the Supervisory Board of Eesti Pank on the proposal of the Governor of Eesti Pank.



In 2007, the Executive Board comprised **Governor Andres Lipstok** and **Deputy Governors Rein Minka, Märten Ross** and **Andres Sutt**.

Governor Andres Lipstok is in charge of the **overall governance** of the activities of Eesti Pank. His exclusive competence involves organising the designing of monetary and banking policies and the overall governance of the activities of Eesti Pank; supervision of the enforcement of the decisions passed by the Supervisory Board and implementation of measures necessary for that purpose; approval of Eesti Pank's budget, and supervision of the execution of the tasks of the European System of Central Banks.

The Governor reports to the Riigikogu and responds to interpellations concerning Eesti Pank's activities submitted. The Governor regularly reports on his activities to the Supervisory Board of Eesti Pank.

The Governor controls the work of Deputy Governors and is responsible for supervising the Bank's management mechanisms.

Deputy Governor Rein Minka is responsible for coordinating the activities related to currency circulation; safety of the working environment; reliable, cost-efficient and integrated development of the settlement system of Eesti Pank; development of the information technology working environment and legal environment, as well as personnel management.

Deputy Governor Märten Ross is responsible for the preparation and implementation of monetary policy decisions; management of the financial assets of Eesti Pank; coordination of collection, compilation, and disclosure of national statistics, and for the coordination of economic research and activities related to in-service economic training.

Deputy Governor Andres Sutt is responsible for international and public relations of Eesti Pank; development and implementation of financial sector policies; coordination of collection, handling and disclosure of financial sector information; supervision of payment and settlement systems, as well as for financial accounting and reporting, internal

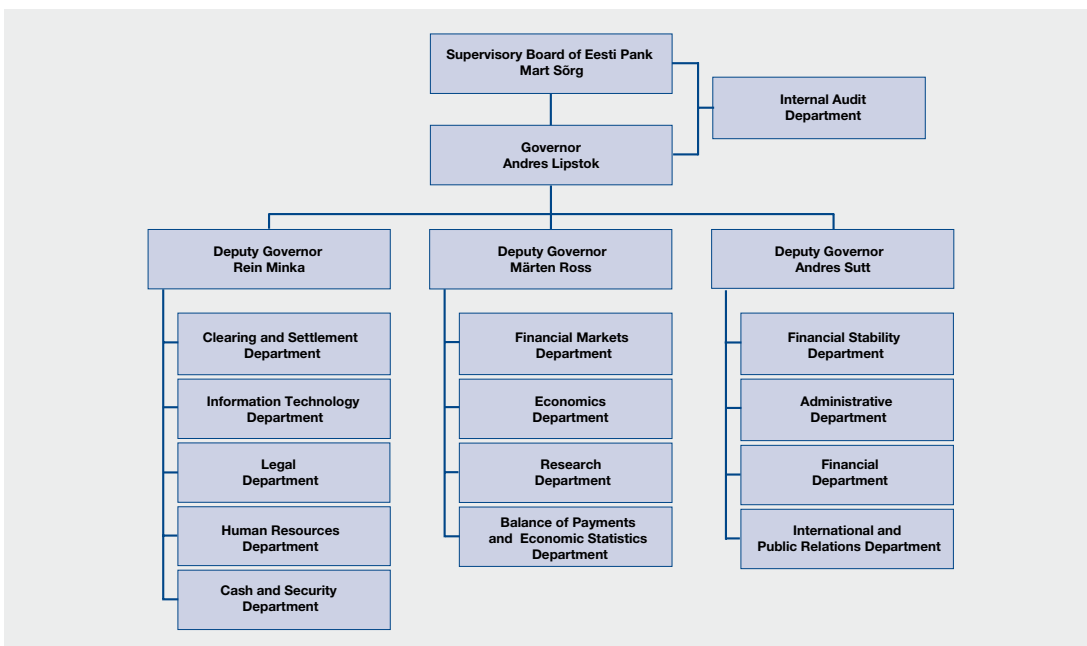


Figure 1. Organisation chart of Eesti Pank as at 29 February 2008

administrative services, and operational working environment at Eesti Pank.

Monetary Policy Committee

A standing Monetary Policy Committee has been established to develop positions on monetary, economic and financial policies and coordinate the activities of Eesti Pank.

In 2007, the Monetary Policy Committee of Eesti Pank included members of the Executive Board, namely Governor Andres Lipstok and Deputy Governors Rein Minka, Märten Ross and Andres Sutt, as well as Janno Luurmees, Head of the Financial Markets Department, Ülo Kaasik, Head of Economics Department (since February 14, 2007), Tanel Ross, Head of the International and Public Relations Department, Rait Roosve, Head of the Cash and Security Department, and Sven Meimer, Head of the Financial Stability Department.

Cooperation with the Financial Supervision Authority

The Financial Supervision Authority² operates as an agency of Eesti Pank. It exercises national supervision over banks, insurance companies, financial intermediaries, investment funds and management companies licensed³ and operating in Estonia as well as the securities market.

The supervision activities of the Financial Supervision Authority are aimed at protecting the interests of clients and investors and ensuring by safeguarding their financial resources, and thereby supporting the stability of the Estonian monetary system. The Authority helps to enhance the efficiency of the Estonian financial sector, reduce systemic risks and prevent the abuse of the financial sector for criminal purposes.

The Financial Supervision Authority is governed by the Management Board chaired by Raul

Malmstein. The Authority's activities are planned by the Supervisory Board chaired by the Minister of Finance by virtue of office (by Aivar Sõerd at the beginning of 2007 and by Ivari Padar since April 2007). Members of the Supervisory Board include Governor of Eesti Pank Andres Lipstok and Deputy Governor Andres Sutt.

DEVELOPMENT OF THE MANAGEMENT SYSTEM AND WORK ORGANISATION OF EESTI PANK IN 2007

Definition of organisational values and value-based management

Preparations for the definition of the values of Eesti Pank started already at the end of 2006. The Bank's cooperation partner in this project was OÜ Implement Baltic, who has experience and know-how in that field, including with respect to public sector organisations.

The definition of values consisted of several stages. At the end of 2006 and the beginning of 2007, there were a number of brainstorming sessions together with the management to introduce the issue of values and make a preliminary selection.

At the beginning of 2007, the Human Resources Department introduced the topic in all other departments. Among other things, the strengths of value-based management were outlined as well as the positive impacts it would have on increasing the efficiency of the Bank's activities. In addition, a further action plan was outlined.

Then, consultants of OÜ Implement Baltic had brainstorming sessions on value-based management, which were open for participation for all employees of the central bank. Based on the collected information, the Bank's management defined the following values of Eesti Pank.

² See § 4 of the Financial Supervision Authority Act.

³ Supervision over branches of banks, insurance companies and investment funds operating in Estonia is exercised by the supervision authority of the country of origin of the branch.



Competence

- We keep ourselves informed on our long-term goals and follow them in our activities
- The messages we communicate are clear and understandable
- Our employees have the best qualification and a broad basis of knowledge
- We value self-education and individual development and we learn from the best
- The sharing of employee skills and knowledge is skilfully organised
- We are committed to fulfilling our main goals and we are prudent in our activities

Cooperation orientation

- We are flexible and innovative
- We engage the necessary expertise and make contributions where relevant
- We act in good will and trust each other
- We work as a team

Reliability

- We are loyal to our organisation and committed to our work
- Our words match with our deeds
- We are candid and self-critical
- We are consistent

Consideration

- We keep each other informed in regard with our work and give feedback
- We give recognition to good employees
- We have consideration for others and we are helpful and obliging

These values are part of the Bank's management system. They are used in the daily and case-by-case analysis of work as well as in more general analysis conducted in annual appraisal interviews.

Regular study of management quality and appraisal interviews

In 2007, TNS Emor conducted a regular study on commitment and quality of management. This study has been conducted since 2001 and involves

the entire organisation. Its purpose is to identify the strengths and development needs of the Bank in terms of the key determinants of management quality. The feedback from employees on the structural and human capital of management has provided useful input for management decisions. Feedback on commitment and its key determinants is valuable information for top executives and the Human Resources Department with regard to motivation of employees.

In 2007, 70% of the employees participated in the study, which enabled to produce representative results. One of the most significant indicators, namely the indicator of general commitment, was similar to the 2005 figure. What is important here is that the main factors affecting the commitment indicator were different in the last two studies. For the first time feedback was given on the values of the Bank; more precisely on how employees perceive the validity of these values. Departments could compare their own valuation with the Bank's average and top executives could see whether the values are perceived similarly or whether there are considerable differences across departments. Members of management received personal feedback across management competencies. This feedback is used also in their appraisal interviews for planning their personal development.

The results of the study and further use of them attracted a lot of interest in the Bank, proving that such studies should be conducted also in the future.

In 2007, the appraisal interviews were held in the traditional form but somewhat later than usual. This was due to the definition of organisational values. Thus, it was the first time when the manager and employee could give mutual feedback on whether their work had been in line with the values.

Process management

The Internal Audit Department audited process management in the first half of 2007. To this end,

the process management activities laid down in the Bank's management system were examined, including whether these activities were being carried out in a similar way in the organisation. The auditors also identified organisational improvements that would enhance process management.

As a consequence of the audit, several immediate reorganisations were implemented. In addition, a number of issues remained on the agenda to be solved by the process management development committee established for that purpose and chaired by Deputy Governor Rein Minka.

In 2007, Bureau Veritas Eesti OÜ carried out a compliance audit in Eesti Pank and validated the ISO 9001:2000 Quality Certificate issued to the Cash and Security Department in 2002. The certificate serves as a proof that cash handling and security processes in Eesti Pank are compliant with the requirements set forth in the standard.

Management accounting

Financial and management accounting was developed further. In 2007, the accounting information system and internal control measures were enhanced. In order to improve the quality of data on process-based budget drafting, the rules for describing participation in processes were harmonised and the calculation model refined.

Risk management

Eesti Pank has launched a risk management process that comprises all Bank's functions and is aimed at reducing the adverse impact of accidental events on accomplishing Bank's objectives.

In 2007, various risk descriptions and their parameters were revised. The risks were revised primarily owing to changes in the external environment and in order to assess the impacts of these risks in greater detail. A report on the materialisation of risks provided information about the incidence of risks. Based on that, also the likelihood of a number of

risks was reassessed. All in all, the risks surrounding Eesti Pank did not change considerably.

As regards risk management measures, in 2007 the focus was on planning the business continuity of the Bank's main processes. To this end, the requirements and principles of business continuity were defined. More specific business continuity and recovery plans are drawn, tested and supplemented in 2008.

e-Eesti Pank 2007

The main activities related to the development strategy for document and information management (e-Eesti Pank) in 2007 included renewal of technology and preparations for the next stage of development. A new database engine Oracle and Version 9.7 of the document management software LiveLink were implemented. Moreover, one component of the management system, namely the regulation workflow, was prepared and tested, and the creation of a complex application of correspondence was started.

At the autumn seminar, the key activities of the next development stage of e-Eesti Pank for 2008–2010 were introduced:

- further reorganisation of information assets;
- creation of applications necessary for the joint management of information and business processes (correspondence, business trips, etc.);
- increasing the capabilities of users of e-Eesti Pank;
- assessment of risks and implementation of supervision procedures.

The implementation of e-Eesti Pank was also introduced at the joint seminar of Baltic central banks in March and the joint seminar of Estonian and Finnish central banks in October.

Eesti Pank's personnel policy

The aim of Eesti Pank's personnel policy is to ensure the recruitment of employees needed for accomplishing the main objectives of the bank, to develop



and train as well as motivate and provide fair remuneration to the staff.

Employees

Internal competition is preferred in **recruitment** in order to motivate the staff by providing horizontal career opportunities within the bank. External competition is used in case internal competition has failed or in case an employee with different experience is looked for. When recruiting for executives or other highly responsible posts, a competency model is used, which provides the best opportunity to evaluate candidates' knowledge, skills, and personal characteristics.

Staff remuneration derives from the need to recruit and retain highly competent staff and motivate them to work effectively and contribute to the good reputation of the bank. The average compensation should be competitive in the labour market where the bank competes for employees. Generally, it means the financial sector labour market in Tallinn.

When determining the remuneration of the top management, the Supervisory Board of Eesti Pank takes into consideration top executives' wages in state and private enterprises with turnovers larger than 500 million kroons. The size of the remuneration paid to top executives is affected by changes in the wage market data in the financial sector of Harju County. The remuneration of the Governor of Eesti Pank should not be smaller than the average wages of top executives in comparable enterprises and agencies.

In 2007, the total remuneration (basic wages and additional remuneration) paid to the members of the Supervisory Board amounted to 2,408,000 kroons and that of the Executive Board to 6,129,423 kroons.

Non-managerial positions have been assessed on the basis of the Hay method. Depending on the assessment results, all posts have been divided into

wage groups listed in the classification of central bank posts. Eesti Pank has implemented a wage scale comprising all wage grades. The employees (members of the Executive Board excluded) receive remuneration on the basis of their wage grade, comparable by groups of similar work within as well as outside the bank.

In 2007, the average monthly wage of a specialist stood at approximately 20,800 kroons.

At the beginning of 2007, the bank had contracts of employment with 253 employees (235 were actually working, as contracts with 18 employees had been suspended), whereas at the end of the year the respective figure was 254 (236 were actually working and 18 contracts had been suspended). The main reasons for suspending contracts of employment were maternity leave, work at the European Central Bank or other international organisations.

The average age of the staff in 2007 was 42 years. The employees included 98 men (39%) and 156 women (61%).

Development and training

For 2007, Eesti Pank had planned 4.3% of the wage budget on training. By the end of the year, nearly 4 million kroons had been spent on training activities, which accounts for 3.75% of the staff's payroll. All in all 188 employees were engaged in trainings, that is 80% of the total staff. Every employee spent an average of seven days on training over the year. The training costs per employee were 17,000 kroons (incl. travel expenses).

Traditionally, the most common fields of training were economic theory and policy, management/communication and language studies. Many of the trainings in core fields take place abroad. Group trainings mostly include in-house training courses and open seminars.

38 employees were engaged in academic studies in 2007: about half of them were acquiring the

Master's degree, eleven the Doctor's degree and the rest the Bachelor's degree or a diploma.

Three employees participated in trainee programs on financial accounting and financial markets at the European Central Bank. Two of them continue at the ECB also in 2008. One economist went to work for the ECB for a longer period (3 years).

Hobbies and traditions of the staff

At the end of 2007, Eesti Pank's Sports Club had 217 members. Swimming, basketball, aerobics, volleyball, gym, yoga and tennis were the most popular fields of sport. In 2007, also winter and summer sports days were held. In addition, the staff practices bowling, sport dancing, chess, skiing, cycling and kayaking. Competitions between public officials were held in basketball, volleyball and football. In-house competitions were held in bowling and chess. In the sport events of European central banks, representatives of Eesti Pank took part in a skiing competition in Italy, track and field and basketball events in Portugal, and a chess tournament in Germany.

The chamber choir of the employees of Eesti Pank and the Financial Supervision Authority first gathered on May 15, 1998. The choir has nearly 25 members and is conducted by Peeter Perens. Its activities are coordinated by the board which is elected every year.

In 2007, the choir had concerts in the Tallinn Art Hall, St George church in Tori and at the 15th anniversary of the Estonian kroon. In autumn, the choir gave a concert of the favourite songs of its members together with composer Mart Siimer, soprano Iris Oja from the Estonian Philharmonic Chamber Choir and saxophonist Danel Aljo. At Christmas, a traditional concert was held at the Swedish St Michael's Congregation in Tallinn.