

**FOR
AGENDA**

SM/07/242
Supplement 1

July 10, 2007

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Estonia—Staff Report for the 2007 Article IV Consultation—
Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2007 Article IV consultation with the Republic of Estonia (SM/07/242, 7/10/07), which is tentatively scheduled for discussion on **Monday, July 23, 2007**. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of the Republic of Estonia indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Rozwadowski (ext. 37474) and Ms. Tan (ext. 37472) in EUR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the European Central Bank forthwith; the WTO Secretariat on Wednesday, July 18, 2007; and to the European Bank for Reconstruction and Development, the European Commission, the European Investment Bank, and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF ESTONIA

Staff Report for the 2007 Article IV Consultation—Informational Annexes

Prepared by the European Department

July 10, 2007

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ANNEX I. ESTONIA: FUND RELATIONS¹
(As of May 31, 2007)

The 2007 Article IV consultation discussions were held in Tallinn during May 2–14, 2007. The staff team comprised Mr. Rozwadowski (head), Ms. Choueiri, Ms. Moreno Badia, and Ms. Tan (all EUR), and Mr. Skaarup (FAD). Mr. Rosenberg (Warsaw Office) and Mr. Kosenko (Advisor, OED) attended a number of meetings. The mission met President Ilves, Prime Minister Ansip, Eesti Pank Governor Lipstok, Finance Minister Padar, senior officials, parliamentarians, and private sector representatives. A press conference was held at the mission's end.

The authorities released the mission's concluding statement (http://www.eestipank.info/pub/en/majandus/IMF/_20070514.html?objId=962774) and have expressed their intention to publish the staff report.

Membership Status: Joined May 26, 1992; Article VIII.

General Resources Account:	SDR Million	Percent of Quota
Quota	65.20	100.00
Fund holdings of currency	65.19	99.99
Reserve position in Fund	0.01	0.01

SDR Department:	SDR Million	Percent of Allocation
Holdings	0.06	N.A.

Outstanding Purchases and Loans: None

Financial Arrangements: None

Projected Obligations to Fund: None

Exchange Rate Arrangements:

The currency of Estonia is the kroon. The kroon replaced the ruble on June 20, 1992. Since that date, the Bank of Estonia has guaranteed the conversion of kroon bank notes, coins, and reserve deposits of commercial banks at a fixed rate of exchange of EEK 15.6466 per euro (and EEK 8 per deutsche mark until 31 December, 2001). The de facto exchange rate regime is a “currency board arrangement,” which corresponds to the de jure classification. Estonia

¹ Updated information relating to members' positions in the Fund can be found on the IMF web site (<http://www.imf.org/external/np/fin/tad/exfin1.aspx>).

has accepted the obligations under Article VIII, Sections 2(a), 3, and 4 of the Fund's Articles of Agreement, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions, except for those imposed for security reasons in accordance with the European Council Regulations set forth in the letter from the Bank of Estonia dated November 17, 2006, and notified to the Executive Board in accordance with Decision No. 144-(52/51) (EBD/06/131, November 17, 2006).

Article IV Consultation:

The 2006 Article IV consultation was concluded by the Executive Board on November 17, 2006.

FSAP and ROSCs:

A review under the Financial Sector Assessment Program (FSAP) was completed at the time of the 2000 Article IV Consultation. Further Reports on Observance of Standards and Codes (ROSC) modules were discussed in the 2001 Article IV Consultations and updated during the 2002 Consultation.

Technical Assistance:

TECHNICAL ASSISTANCE FROM THE FUND, 2000–07

DEPT	Project	Action	Timing	Counterpart
FAD	Pension Reform	Mission	April 2000	Ministries of Finance and Social Affairs
MAE	Banking Supervision	Staff Visit	December 2000	Bank of Estonia
FAD	Tax Policy	Mission	March 2001	Ministry of Finance
INS	Financial Markets	Training	September 2002	Bank of Estonia
FAD	Medium-term Budget	Technical Assistance	December 2003	Ministry of Finance
FAD	Tax Reform	Technical Assistance	February 2005	Ministry of Finance

ANNEX II. RELATIONS WITH THE WORLD BANK

1. Estonia became a member of the World Bank on June 23, 1992. The World Bank's early involvement in Estonia included work on public expenditure issues (1994), local government financing (1995), and the impact of the transition process on living standards (1996). In June 1997, the Bank completed a Public Expenditure Review Update.
2. In June 1999, the World Bank completed a Country Economic Memorandum entitled "*Estonia: Implementing the EU Accession Agenda.*" In February 2000, the World Bank initiated work on a Regional Development Program for the northeastern-most county of Estonia, Ida Virumaa. The work included the development of an action program designed to: (a) strengthen regional institutions providing labor and education services, as well as other social services; (b) support the development of small and medium enterprises; and (c) mitigate past environmental damages, contributing to sustainable development. The work was completed in June 2000.
3. The Board of Executive Directors approved the first World Bank lending operation in Estonia, a Rehabilitation Loan for US\$30 million, in October 1992. In May 1994, loans to support district heating rehabilitation (US\$38.4 million) and highway maintenance (US\$12 million) were approved. A US\$10 million Financial Institutions Development Loan (FIDL) was approved in October 1994, a health project (US\$18 million) in January 1995, followed in April 1995 by an environment loan (US\$2 million), and an agricultural loan (US\$16 million) in March 1996. All the above-mentioned projects have already been completed and closed. In March 2000, the Board approved a Transport Sector Project (US\$25 million), focusing primarily on road improvements. The project closing date is December 31, 2005.
4. The Bank's local office in Tallinn was closed in June 2001. In late 2003 Estonia opted to cancel the undisbursed World Bank loan balances, and the Bank's last active project (Transport Sector Project) was closed in December 2005. On September 17, 2006, Estonia changed from World Bank borrower status to donor status.

APPENDIX III. ESTONIA: STATISTICAL ISSUES

1. Data provision to the Fund is generally adequate for surveillance purposes, although fiscal data on general government operations are not always timely. A data ROSC mission visited Tallinn during May 10–18, 2001 and found that the quality of macroeconomic statistics was generally good. It noted that international standards and guidelines were generally followed. However, the quality of fiscal and monetary data was affected by incomplete coverage.

Estonia is a subscriber to the Special Data Dissemination Standard (SDDS). The Bank of Estonia (BoE) and the Statistical Office of Estonia (SE) periodically update on their websites a wide variety of data on the key variables for the monetary, fiscal, real, and external sectors.

As a member of the European Union and a candidate to join the European Monetary Union, Estonia has markedly upgraded its statistics to comply with European Central Bank standards and regulations.

A. Monetary Statistics

2. Monetary data are collected with a frequency of 10 days and are available to Fund staff upon request. The data are published by the BoE on its website. The BoE balance-sheet data (base money and net international reserves) are reported monthly, and are available on the eighth day of the following month. Broad money and its components are available monthly from the BoE on the thirteenth banking day from the beginning of the month. Interest rate updates on domestic and foreign currency transactions are provided monthly on the seventeenth banking day of the month.

B. Financial Statistics

3. Financial data are compiled by the BoE and reported on a monthly basis. (Data for individual banks are also available on a quarterly basis.) Data on commercial bank reserves, NFAs, and net open foreign exchange positions are available on the eleventh banking day of the month. Commercial bank off-balance sheet data, leverage ratios, liquidity ratios, and short term external debt are available on the eighteenth banking day of the month. Average capital adequacy ratios are available on the thirteenth banking day of the month. Data on non-performing loans are available on the seventeenth banking day of the month.

C. Financial Soundness Indicators

4. Estonia participated in the Coordinated Compilation Exercise for Financial Soundness Indicators (FSIs). Data and metadata on a benchmark set of indicators for 2005 have been posted on the IMF website.

D. Balance of Payments

5. All balance of payments data are compiled by the BoE. Daily exchange rate data are available with a one working day lag. Monthly import/export data are available with a two

month lag. Quarterly balance of payments and public and private external debt data are available with a quarterly lag.

E. Government Finance

6. All fiscal data are published by the Ministry of Finance (MoF). Historical data are also available on SE's website. SDDS data for central government operations have not been disseminated since December 2002.

- Monthly central government operations data are available with a lag of up to 25 days after the end of the month. The government began reporting monthly data on a consolidated government basis in January 1999 on its Estonian-language web site. Quarterly data on foreign loans and guarantees by the central government are published in Estonian with a monthly lag. The MoF is using one of its two allowed SDDS flexibility options on the timeliness of monthly central government operations data, but it plans to begin disseminating these data in the near future.
- Comprehensive annual data on central and local government operations (case basis) are reported in the *GFS Yearbook 2005*. The government balance sheet only reports liabilities, both domestic and foreign. Only annual data are reported in the *International Finance Statistics* up to and including 2001. Cumulative annual general government operation data for 2002–05 are available on Estonia's National Summary Data Page (NSDP).

F. National Accounts

- Data on GDP (quarterly, by semester, and annually) are published by SE with a lag of three months after the end of the quarter. Flash estimates of aggregate GDP are available two months after the end of the accounting period. Monthly CPI inflation data are available seven days after the end of the accounting period. Monthly PPI and export price index data are available four weeks after the end of the accounting period. Monthly indicators of output, i.e., retail trade, industrial output, industrial sales, are reported approximately six weeks to two months after the end of the accounting period. Nominal monthly wage data and quarterly nominal and real wage data are published with a two-month lag.

ESTONIA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(As of June 19, 2007)

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication ⁶	Memo Items:	
						Data Quality – Methodological soundness ⁷	Data Quality – Accuracy and reliability ⁸
Exchange Rates	6/18/07	6/19/07	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	5/31/07	6/07/07					
Reserve/Base Money	5/31/07	6/07/07	M	M	M	O, LO, LO, LO	O, O, O, NA
Broad Money	4/30/07	5/24/07	M	M	M		
Central Bank Balance Sheet	5/31/07	6/07/07	M	M	M		
Consolidated Balance Sheet of the Banking System	4/30/07	5/24/07	M	M	M		
Interest Rates ²	4/30/07	5/23/07	M	M	M		
Consumer Price Index	5/31/07	6/08/07	M	M	M	O, O, O, O	LO, LO, O, LO
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴						LO, LO, O, O	LO, LO, O, NO
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government							
Stocks of Central Government and Central Government-Guaranteed Debt ⁵							
External Current Account Balance	Q4 2006	3/26/07	Q	Q	Q	O, O, LO, O	O, O, O, O
Exports and Imports of Goods and Services	Apr 2007	6/12/07	M	M	M		
GDP/GNP	Q1 2007	6/11/07	Q	Q	Q	O, O, O, LO	LO, LO, LO, LNO
Gross External Debt	Q4 2006	3/26/07	Q	Q	Q		

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

⁷Reflects the assessment provided in the data ROSC published on November 6, 2001 and based on the findings of the mission that took place during May 10-18, 2001 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

⁸Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation, and revision studies.