

**FOR
AGENDA**

SM/09/47
Supplement 1

February 17, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Republic of Estonia—Staff Report for the 2008 Article IV Consultation—
Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2008 Article IV consultation with the Republic of Estonia (SM/09/47, 2/17/09), which is tentatively scheduled for discussion on **Monday, March 2, 2009**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of the Republic of Estonia indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Rozwadowski (ext. 37474) and Ms. Choueiri (ext. 34450) 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 WTO Secretariat and the European Central Bank on Wednesday, February 25, 2009; 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 disseminated 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 2008 Article IV Consultation—Informational Annex

Prepared by the European Department

February 17, 2009

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APPENDIX I. ESTONIA: FUND RELATIONS¹
(As of January 31, 2009)

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 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 July 9, 2008, and notified to the Executive Board in accordance with Decision No. 144-(52/51) (EBD/08/73, July 9, 2008).

Article IV Consultation:

The 2007 Article IV consultation was concluded by the Executive Board on July 23, 2007.

FSAP and ROSCs:

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>).

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. An FSAP update mission was fielded in February 2008. An FAD mission to reassess the fiscal transparency ROSC was fielded in November 2007. MONEYVAL has prepared an AML/CFT ROSC which will be circulated to the Board in the near future.

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

APPENDIX II. 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 May 2001 data ROSC mission found that the quality of macroeconomic statistics was generally good; international standards and guidelines were generally followed, although coverage of fiscal and monetary data was not complete.
2. Estonia is a subscriber to the Special Data Dissemination Standard (SDDS). Also, 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.
3. 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 (ECB) standards and regulations.

A. Monetary and Financial Statistics

4. The BoE regularly reports monetary data with minimal delay. The data are also 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.
5. BoE has adopted the framework of the ECB for the compilation of monetary and financial statistics, which is consistent with the IMF's *Monetary and Financial Statistics Manual*. STA and BoE have completed the data work on mapping Estonia's monetary data into the *Standardized Report Forms* which have been published in the June issue of the *IFS Supplement*.
6. Aggregate financial data are compiled by the BoE and reported on a monthly basis. Data for individual banks are also available on a quarterly basis, and consolidated 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 and 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.
7. Estonia participated in the Fund's Coordinated Compilation Exercise for Financial Soundness Indicators. Data and metadata on a benchmark set of indicators for 2005 have been posted on the IMF website.

B. Balance of Payments Statistics

8. Quarterly balance of payments and IIP 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.

C. Government Finance Statistics

9. All fiscal data are published by the Ministry of Finance (MoF). Historical data are also available on SE's website.

- 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, and have recently started to disseminate these data on the National Summary Data Page.
- Comprehensive annual data on central and local government operations (cash basis) are reported in the *GFS Yearbook*. These data include a statement of operations and the government balance sheet, including data on financial assets and liabilities, both domestic and foreign. Quarterly data for general government, based on the *GFSM 2001* framework, are now regularly reported for inclusion in the *International Finance Statistics*.

D. National Accounts

10. 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 reference period. The monthly CPI is available seven days after the end of the reference period. Monthly PPI and export price indices are available four weeks after the end of the reference period. Monthly indicators of retail trade, industrial output, industrial sales, are reported approximately six weeks to two months after the end of the reference 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 January 12, 2009)

	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	January 12, 2009	1/12/09	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	December 2008	1/08/09	M	M	M		
Reserve/Base Money	December 2008	1/08/09	M	M	M	O, LO, LO, LO	O, O, O, NA
Broad Money	Nov. 2008	12/15/08	M	M	M		
Central Bank Balance Sheet	Nov. 2008	12/15/08	M	M	M		
Consolidated Balance Sheet of the Banking System	Nov. 2008	12/15/08	M	M	M		
Interest Rates ²	January 9, 2009	1/12/09	D	W	W		
Consumer Price Index	December 2008	1/08/09	M	M	M	O, O, O, O	LO, LO, O, LO
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	Q4 2007	3/31/08				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	Q3 2008	12/22/08	Q	Q	Q	O, O, LO, O	O, O, O, O
Exports and Imports of Goods and Services	Nov. 2008	1/09/09	M	M	M		
GDP/GNP	Q3 2008	12/09/08	Q	Q	Q	O, O, O, LO	LO, LO, LO, LNO
Gross External Debt	Q3 2008	12/22/08	Q	Q	Q		
International Investment Position ⁹	Q3 2008	12/22/08	Q	Q	Q		

¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately.

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

³ Foreign, domestic bank, and domestic nonbank financing.

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

⁵ Including currency and maturity composition.

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

⁷ Reflects 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).

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

⁹ Includes external gross financial asset and liability positions vis-à-vis nonresidents.