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# Regulatory Convergence, Financialization and Hollowing-Out of the State: The Case of the Financial System in Estonia

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**Abstract**

This paper addresses the effects of regulatory convergence and international capital flows on national institutions, policies and concepts on the functioning of the economy and the financial system in particular. Based on the case of Estonia it is shown how these two factors – foreign investments and international integration – have affected and essentially hollowed out policy-makers’ institutional understanding of money, finance, banking and the market economy in general. Moreover, the financial system in Estonia has been riddled with institutional incompatibilities, while the macroeconomic strategy, based on the harmonization process and the restrictive monetary regime, has reduced policy autonomy for financial-stability purposes. Likewise, in light of the harmonization process, one can detect dissonance in the perceptions of financial regulators, fragmentation of policies and inadequate financial governance in terms of steering the developments in the finance sphere. Policy-making that has resulted both in over- and misregulation has lacked a holistic, system-wide view on the relationship between the financial industry and other institutional sectors.

**Keywords:** discursive institutionalism, financialization, regulatory convergence, financial system, financial bureaucracy, policy-making, Estonia

## 1. Introduction

Economists often differentiate between financial and production capital (see, e.g., Reinert 2009; Perez 2002; Mazzucato and Wray 2015). It is safe to assume that this also means that policy capacities exist on both sides of the economy: there are public organizations dealing with finance and there are also organizations dealing with production. The Varieties of Capitalism literature exemplified how these two public-private systems co-evolve in different settings (particularly well developed in Zysman 1983). What this and other institutionalist analyses are missing so far is the question of how the evolving patterns of financial and production capital impact the capacities of the public sector, particularly how bureaucracies function.

Over the past decades we have seen a rapid increase in what has been called *financialization*; in other words, the dominance of financial capital over production capital, but also growth in cross-border capital flows, a rise in both financial investments and household indebtedness as well as shareholder value orientation as the features of the *financialization* process (see Lazonick and O'Sullivan 2000; Sawyer 2015; Epstein 2005). How these shifts have impacted financial bureaucracies and regulators, however, is yet to be studied. This question is perhaps of particular importance within the euro area, where most member states are to a large extent policy-takers, i.e. they have somewhat limited policy independence (Kattel et al. 2016). This – limited policy scope – is of particular importance in the case of recent members within the euro area, as these economies tend also to be very open to and dependent on foreign-capital inflows, which is the most evident characteristic of the *financialization* process there (see Juuse 2015; Juuse 2016a). In this article, we use Estonia as an example of new euro-area members to exemplify how financial bureaucracies[1] are influenced by shifts in the makeup of the capital structure of the economy and the EU regulatory convergence. And, in particular, what makes Estonia an extreme and insightful case to study is a relatively heavy reliance on both public and private foreign-capital inflows in the capital development of the economy, and the country is also seen as an exemplary case in transposing and adopting the EU policies, which reflects "simple polities" and has even led to "outsourcing" some of the key public policy areas, such as monetary policy, to external actors (see Juuse 2016b; Kattel and Raudla 2012). Thus, the Estonian case could be a lesson to be learned for those countries aspiring to become the euro area members and especially those in the transition process to a market economy that try to emulate the development strategies of other nation-states. In the current euro architecture, the common economic hazards and challenges for periphery countries are well established (see Wray 2012 on the euro-area problems). Political and administrative aspects, however, bring forth diversity and context specificity (see Karo and Kattel 2010; Kattel and Raudla 2012) that pose constraints on making generalizations due to the socio-political uniqueness of a studied country case. Yet, exploring the financial bureaucracy in a small open economy sheds new light on the EU convergence discourse.

Literature on both Europeanization and international finance has offered insights into how the policies of the European Union (EU) and reliance on foreign capital in the reconstruction of national political economy tend to entail a loss of control and national autonomy in terms of an inability to make independent decisions on economic and monetary goals and thereby to affect socio-economic developments in the desired way (see Schmidt 2002a; Evans 1985; Kregel 1996). Yet, after regaining independence in 1991, Estonia aspired to become a member of leading international organizations, primarily the EU, and that implied the transposition and adoption of international legislation and practices, including in the field of banking. At the same

[1] Financial bureaucracy represents that part of the government that deals with the matter of financial stability and development. In this analysis, financial bureaucracy consists of civil servants of the "troika" – the Ministry of Finance, the Central Bank and the Financial Supervision Authority – who are responsible for regulating and supervising financial markets.

time, transformation towards a liberal-market economy incurred radical openness to foreign capital and trade and hence triggered a significant inflow of foreign direct investments (FDI) and other flows, which was further supported by the introduction of political and socio-economic institutions along the lines of Western standards. Several studies (see Juuse 2015; Juuse 2016b; Kattel 2010) have elaborated on the rationale as well as implications of the harmonization of the Estonian banking regulation, but also on the impact of foreign capital[2] on the economic growth and financial stability in Estonia during the last two decades since the early 1990s. This article, however, aims to take a step further in the analysis of legal harmonization and openness to FDI by looking at the ideational side behind the policies and practices. We thus seek to understand the policy feedback linkages between the political economy of the euro-area integration and market openness, workings of financial regulators and the financial system. The rationale for this stems from the argument that the concept of the European integration, accompanied by the globalization discourse, has been increasingly internalized at the national level in terms of introducing the discursive context for local policy-makers (see e.g. Hay and Rosamond 2002; Lynggaard 2013). In this regard, we analyze financial bureaucracy's conceptions in the context of the euro area integration and openness to FDI by using broad heterodox ideas on monetary capitalist economies and macroeconomic policies (see Wray 2015; Godley and Lavoie 2012 on economic heterodoxy) as a canvas to tell the story, which enables us to contrast ideational evolution in the sharpest possible sense. That way, the shortcomings of the implemented economic orthodoxy enable us to gauge on alternatives to macro-economic and regulatory policies in sovereign monetary systems.

As this research endeavors to establish a relationship between ideas, institutions and policy-making, the methodological approach follows the traits of discursive institutionalism (DI) with the focus on both the ideational and discursive interaction sides, i.e. on a set of broader frames[3], paradigms[4], values, norms, etc. as policy ideas and their usage through interactive processes in policy design (see Schmidt 2000, 2002a, 2013; Campbell 1998, 2002). DI is used as the theoretical grounds, because it incorporates many sound theoretical assumptions across theories and helps to explain the role of ideas in the policy process while agreeing that institutional rules affect actors' behavior. In other words, DI is used as a platform for better understanding national policy-making processes and explaining the Estonian case by bringing together ideational and institutional aspects (see Schmidt and Radaelli 2004, 192 on integrating institutional and actor-centered analyses). In other words, we discuss and interpret actors' common frame of reference, their perceptions and preferences, but also their modes of interaction that are shaped by institutional setting, where they operate. In particular, the focus is on the EU as an institutional constraint that affects

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2 The banking sector in particular has absorbed the majority of foreign capital inflows, and this has resulted in nearly 95 percent of the banking sector being controlled by foreign capital in terms of both total assets and share capital (Juuse 2015).

3 For instance, the notions of globalization and Europeanization as well as the European integration could be seen as frames for legitimizing and justifying neoliberal policies (Campbell 2002).

4 Keynesianism and monetarism (neo-liberalism) are examples of paradigms, i.e. economic premises, which support and question present policies as well as institutions (Beland 2009, 705).

the discourse, which in turn leads to reflections, but also potential contradictions between the institutional structure and bureaucracy's ideas as perceptions, sentiments and understandings. On the bureaucracy level, we try to understand the underlying philosophical ideas and prevailing paradigms about the role of the state in the financial-stability area and in the economy in general.

Thus, by looking at the discourse – seen as statements made and positions taken by policy-makers on public policies and their coordination as well as communication – it is possible to understand policy problems, actors' policy preferences and their capacity to implement policies (see Schmidt 2002a, 6; Schmidt and Radaelli 2004, 188), but also to give a meaning on a broader scale to economic practices and the dynamics in the socio-economic environment. Moreover, as ideas have a long-term impact on policy-making through their embeddedness in regulations and in bureaucratic routines (Goldstein and Keohane 1993; Pierson 1993; Thelen and Steinmo 1992), such institutionalized ideas give way to path-dependent policy continuity or become self-enforcing. Thus, aside from ideas and discourse, institutional path-dependencies and historically shaped patterns of development have an explanatory power as well. In this regard, given that historical institutionalism sheds light on structures and discursive institutionalism explains agency (Schmidt 2008, 314-317), we rely on both streams for framing the discourse – broadly defined as consisting of whatever policy actors say about a policy programme (Schmidt 2002a, 6). One can note then that institutions as sets of formal rules and procedures that govern policy-making are on the one hand outcomes of policy discourse and on the other hand constraints on policy change (see Campbell 2002, 20; Schmidt and Radaelli 2004, 197). In particular, institutional arrangements[5], including organizational structures, affect both policies and (in)capacities through the unequal distribution of resources and power to different actors (Mahoney and Thelen 2010, 8; Hancke et al. 2007, 20; Evans 1985, 351). All of this implies bringing the focus onto the interaction of both institutional and ideational variables that underlie policy formation. Thus, from the institutionalist perspective, the paper addresses the effects of the Europeanization process and foreign actors as institutional factors on the finance and banking-related policy discourse in terms of policy formation, its institutional context and policy content in Estonia.

Given the central role of institutions in policy discourse, money and banking as the core social institutions in the financial system have been elaborated upon in terms of their political and institutional setting in Estonia. The first section outlines the prevailing ideological affiliation in macroeconomic perspective and, in particular, in the adopted monetary regime, followed by their implications for policy formation and policy measures. The monetary framework discussed in the first part of the article sets the frames for the interpretation of the views and ideas of policy-makers in the field of finance and banking. The second section directly addresses the effects of the regulatory convergence and foreign capital on the bureaucracy's perceptions.

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5 These institutional arrangements could be seen in terms of the political rules of conduct (consensual vs. conflictual), governance structures (unitary vs. federal), governance processes (corporatist vs. non-corporatist), regimes of industrial relations (coordinated vs. fragmented), knowledge regimes etc. that affect both the content and the formation of policies (see Schmidt and Radaelli 2004; Campbell 2002; Beland 2009; Schmidt 2002b; Campbell and Pedersen 2010).

Insights into the domain of finance, banking and financial stability were gained through interviews with civil servants from the Central Bank (CB), the Ministry of Finance (MoF) and the Financial Supervision Authority (FSA); altogether, we conducted eight interviews[6] during the autumn of 2014. The paper ends with a concluding discussion on the missing elements of financial policies within the established economic regime, which have rendered the Estonian macro-financial environment fragile.

## 2. Macroeconomic Policies and Institutions in Estonia – Unperceived Fallacies within the Currency Board System

In light of the process of transition to a market economy that necessitates a long-term structural transformation, there are theoretical justifications for a co-coordinated state intervention and autonomy in order to introduce both economic and financial institutions, alleviate negative distributional effects and sustain capital accumulation and allocation through the central bank's policy instruments (see Bhaduri et al. 1992; Zysman 1983; Amsden 2001; Reuschemeyer and Evans 1985, 44-49). The model of macroeconomic policies adopted in Estonia, however, was based on the opposite principles (Kattel 2010, 1). Here, the central role was played by the EU, whose ideological support and imparted stance of economic liberalization in terms of fiscal constraints, monetary inflexibility and the logic of free competitive environment was unquestionably embraced by Central and Eastern European countries (CEECs), including Estonia.[7] As found by Schmidt (2002a, 303), Europeanization has promoted convergence in national politics through neo-liberal ideas and discourse. Hence, under the umbrella of the *Washington Consensus* paradigm, which conceptually was simple enough to be easily grasped by different stakeholders[8] (see Campbell 1998), the supply-side macroeconomic policies, such as the currency board system and the accompanying fiscal doctrine, were adhered to in Estonia throughout the last two decades for the achievement of macroeconomic stability. Yet, such an approach had dire consequences for macroeconomic management in the context of weak state capacities and under-institutionalized financial system, as seen below. The following section focuses on the currency-

[6] For getting detailed and abundant information, semi-structured expert interviews were conducted with experts and persons from different institutions who are relevant to the study and whose understanding of financial stability policy makes it possible to provide substantial information. The interviews were based on the issues of the pre-arranged agenda, which focused on five main sub-topics – key policy ideas; policy coordination; reasons and sources of policy change; macro-prudential regulation; and the Global Financial Crisis – but questions were adjusted according to the role and expertise of the interviewee. Interviews lasted for around 1.5 hours, were transcribed and analyzed by establishing repeating ideas as well as patterns based on the conceptual categories derived from economic heterodoxy, i.e. aiming for a conceptualization of underlying patterns.

[7] See Jessop (2002); Hancke et al. (2007); Abdelal (2007); Streeck and Thelen (2005).

[8] One cannot underestimate the Soviet legacy, which made neoliberal ideas appealing to the Estonian political elite and led to the aspiration for the accession to the EU and adoption of the EU principles. Furthermore, it could be observed that these ideas have had a tremendous power, as they have informed preferences and behavior far more than research, as evidenced in Estonia in the 1990s when the political elite was influenced by mainstream think-tanks and scholars such as Milton Friedman (Laar 2007).

board system, which was one of the key institutional variables that shaped the understanding of the role and functions of the state in relation to the financial system from 1992 to 2011.

### 2.1 Estonian monetary regime and its implications for central banking

In contrast to a *chartalist* approach to monetary and fiscal policies (see Wray 1998; Knapp 1973), Estonia adopted a currency-board arrangement in 1992, as suggested by international advisers, and implemented it to fight inflation but also to encourage international trade and foreign inward investments. While such an approach supported the foreign-savings-led restructuring of the economy, the state's capacities, its autonomy and hence the possibilities for steering the economic development have been constrained (see Kattel 2010; also Evans 1985, 205-207). In fact, some leading actors at the time have argued that this was done on purpose (see Kallas 2003, 511; Knöbl et al. 2002, 11-12) in order to fit the country into a golden straitjacket of macroeconomic stability.

Under the currency-board system, a central bank was deprived of the right to credit commercial banks or governments with either advances or purchases of government securities, respectively (see Godley and Lavoie 2012, 214 on the currency-board system in general). In turn, the conservative monetary regime adopted and also a banking industry dominated by foreign capital entailed a commitment to fiscal prudence in Estonia (Hansson 1994 cited in Feldmann 2013, 361). Hence, the neoliberal agenda with a currency-board arrangement in Estonia implied the loss of monetary sovereignty and a gradual degradation of the welfare state. In that respect, countercyclical demand management and active industrial policies as the inherent elements of Keynesianism (see Soskice 2007; Davies and Green 2010) have been eschewed in Estonia and replaced by an emphasis on the improvement of supply-side conditions, such as the labor market and business environment. It is the monetarist argument of inflation targeting[9] rather than employment and output which has been adhered to in the political rhetoric, while monetary flexibility in terms of interest-rate and money-supply adjustment, credit loosening and currency devaluation has been given up. Likewise, capital controls were dismantled at the early stage of development. This contradicts the view that "… the whole management of the domestic economy depends upon being free to have the appropriate rate of interest without reference to the rates prevailing elsewhere in the world. Capital control is a corollary to this" (Keynes 1980, 149).

Furthermore, the currency-board system has diminished the institutional role and hollowed out some of the essential functions of the central bank in Estonia (see Singleton 2011; Davies and Green 2010; Goodhart 1991 on the central bank's conventional functions). *Inter alia*, the implementation and formulation of monetary policy through interest rates, open market operations or loan facilities has been renounced or outsourced to external actors – liquidity provision is under the control

[9] One could question the argument of inflation fighting by the central bank, given the tendency of a fixed-exchange-rate regime to be deflationary via internal devaluation in order to keep up the international competitiveness of the economy, especially when it is made possible by weakening the position of labor unions and workers.

of foreign financial institutions that essentially control monetary and credit conditions, the aggregate level of spending and other key economic variables. Further, the function of a lender of last resort has been severely limited, and the central bank has not been mandated to promote economic development by financing development projects or corporations. Cooperation between the Eesti Pank and other financial institutions on the provision of industrial finance was never on the agenda for overcoming long-term financing bottlenecks, typical for a transition economy (see Singleton 2011, 139). In addition, the space for discretionary financial policies has been restricted by gradual phasing-out of the financial-sector regulation (Juuse 2016b). Thus, the takeover of commercial banking by foreign financial institutions and also the anchoring of monetary targets to external institutions and developments have confined the functions of a central bank primarily to the operation of payment systems.

### 2.2 Policy approach with self-imposed constraints

While the macroeconomic strategy adopted in Estonia can be seen as a success in the context of other CEECs, it also introduced underlying fragility into the system: such stability-oriented and foreign-savings-based strategy has a self-reversing logic built into it, i.e. growth relies on foreign savings, but once these are not forthcoming, growth recedes, turning the economy effectively into a *Ponzi* scheme (see Kregel 2004). Thereby, in such institutional setting, several pieces of macro-finance (see Burlamaqui and Kattel 2014, 177) as prerequisites for macroeconomic stability and economic development have gone missing. First, any valid macroeconomic policy-making under the currency-board system was constrained by legal prohibition on financing the government deficit. The central bank has not rendered any banking or agency services to the government for crediting the government either directly or on the secondary market. Thus, complementary to a currency-board arrangement, the Estonian government has adhered to fiscal conservatism with a piecemeal reduction in tax burden and has diminished possibilities to perform tax-based income redistribution. The lower-taxes argument[10] has particularly been justified on the grounds of attracting foreign capital (Kattel 2010, 11). In this regard, there has been a lack of institutions in the Estonian political economy for addressing the issue of distribution or of how to allocate economic returns between capital and labor with a minimum of industrial conflict; but also for addressing the balances between financial and production capital. Moreover, under the auspices of financial regionalization, we can observe tax-base erosion, associated with legal loopholes allowing for tax avoidance (Juuse 2016b), which is a clear indication of legitimacy issues and another evidence of lost monetary sovereignty (see Wray 1998, 36 on "taxes drive money" arguments).

Second, without taking into account the dynamics of asset prices, a singular focus on consumer-price inflation does not serve the purpose of stabilization or development (Singleton 2011, 242; Epstein 2015; Epstein and Yeldan 2009). Given

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[10] With the accumulation of retained earnings from FDI, the anticipation of reversed capital movements can put further pressures on taxes (see, e.g., Kregel 1996; Cerny 1994).

the focus on inflation for macroeconomic stability, there has been no need for coordination with other government policies, e.g. those concerning employment[11], wages or export objectives in order to sustain levels of demand consistent with growth (Kattel 2010, 9). This is also reflected in the position that "… the Eesti Pank should not play any role in the fiscal policy. The Fiscal Council at the Eesti Pank already has a role to play in the budgeting process." (Interviewee A) The intersection of the central bank's mandate and the fiscal policy implemented by the Ministry of Finance is the Fiscal Council, which was established in 2014, but once again was driven by the developments at the EU level (Fiscal Council 2016). As an advisory body, it is a "backroom or analysis center. … the central bank as an independent institution will not present opinions on fiscal policy issues, it will rather do the analytical work" (Interviewee E). Similar non-coordination of the financial stability policy with other policies could also be observed within the Ministry of Finance:

> Maybe inside the house [Ministry of Finance] there is not so much cooperation. As one of the main roles of the Ministry of Finance is the budgeting and tax policy, but as the financial sector is pretty much out of this, we are not directly engaged in state budgeting and taxation, perhaps, to some extent, we do deal with taxes, whereas within the Ministry there is not much communication. All the communication is targeted outwards [towards the EU and Nordic countries] (Interviewee B).

Thus, as a testimony to the dominance of foreign capital in the banking industry in Estonia, "… the Ministry of Finance and the Eesti Pank do cooperate, but maybe not as intensively [as with foreign public institutions in cross-border banking supervision]" (Interviewee B).

The focus on abstract macroeconomic indicators has likewise driven the bureaucracy away from the social partners and has undermined their administrative capacity to engage in any meaningful cooperation with the representatives of the industry or research arena, which limits the possibilities for a consensus-based new or refurbished policy toolbox (Kattel 2010; Karo et al. 2015; see below on engagement). This reveals a connection between the capacities of the state and the character of policy goals (see Skocpol 1985), whereby reliance on simple economic orthodoxy, which could fairly easily be transferred from abroad, has implied a policy-making style with little research, relatively short deliberation and lacking consultation and hence, the incapacity to deal with complex issues in Estonia.

Finally, with inactive monetary policy, the Eesti Pank has not been able to influence monetary aggregates on financial markets and, hence, the financial stability. By leaving both the interest rates and the distribution of credit to particular sectors and also the liabilities (leverage) of commercial banks out of the central bank's purview and thereby to be determined by foreign actors, including foreign-owned subsidiaries

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[11] This is a particularly sensitive issue, given the Estonian trade-balance deficit for approximately the last two decades as a counterpart for heavy reliance on foreign-capital inflows that implies a net transfer of employment to trading partners and hence a loss for some circles of workers and businesses (see Friedman 2008, 56).

and their parent banks, the central bank has not tackled the complexities and uncertainties in the relations between the productive economy and finance. In particular, not enough attention has been paid to the flows of funds in aggregate and between the sectors. Hence, the negative effects of debt accumulation on the economy and ensuing imbalances between assets and liabilities, but also in currency and maturity positions, have gone unaddressed.[12] Moreover, the anti-inflationary policy followed by the central bank has implicitly favored financial institutions that despise inflation more than other actors (see Jayadev 2006; Epstein 2015). In other words, for about two decades there was an insufficient focus on wider sectoral and system-wide risks[13] stemming from unfettered finance with no use of macroprudential instruments. With regard to macroprudential regulation and supervision, there was a "… conceptual change, and policy direction started to deal with it four or five years ago after the crisis. The central bank's role in Estonia has been supplemented, as before, there was no direct macro-financial supervision. … [former] banking regulation was applied to manage the disequilibria risks in the economy" (Interviewee E). As with the rest of the financial regulation, macroprudential supervision with the implementation of different measures by the central bank has been undertaken as a result of the reforms at the EU level. Yet, the necessity and relevance of it in Estonia has still been questioned:

> … it [macroprudential regulation and supervision] certainly increases the credibility, and it is particularly important and useful in the context of large financial institutions, which we do not have on the market. … insofar the market is concentrated and small, the 'odor' of a systemic crisis immediately arises once a larger market actor faces some troubles (Interviewee C).
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> In a small environment like ours, those boundaries [between micro- and macroprudential supervision] are blurred. … for example, what the Financial Supervision Authority is able to achieve with a micro-surveillance, is exactly the same as it would do with macro-instruments. There are so few actors on the market and those few have at the same time a large market share. The whole topic is so unimportant for Estonia (Interviewee F).

As seen, the FDI-aligned "monetarist" policies have focused on abstract targets without factoring in the variables and systemic aspects of the real economy or, even worse, have tended to be fragmented.[14] Such "linear" thinking – foreign savings as a solution to scarce domestic savings to undertake investment activities under the liberalized capital account regime – did not reckon the risks and systemic interde-

[12] See Davies and Green (2010), also Crockett (2003) on the central banks' monetary and stability policies in general.

[13] One of the few instances of acknowledging this issue, although only within the financial sector, can be found in the explanatory memorandum 795 SE of Creditors and Credit Intermediaries Act of 2014. It stated that considering the complexities of financial markets and interrelatedness of economic agents, indications of lost credibility in one segment of the financial market can be spread to and negatively affect other actors in the financial market.

[14] See Bhaduri et al. (1992) on similar issues in CEECs; also Reuschemeyer and Evans (1985), Skocpol (1985) and Hudson (2006) on the general discussion.

pendencies it causes within the complex system of feedback loops and unintended consequences. In this respect, the ideational position and institutional understanding of the economy in Estonia could be described as reflecting equilibrium, where causes are linear and change comes from exogenous variables (see Blyth 2010; Cartwright 2007 on the features inherent to non-ideational theories). Therefore, the possibilities of reducing uncertainty by meeting the institutional actors' expectations, e.g. on prices and liquidity (see Minsky 2008; Thabet 2006; Chwieroth 2009), or of addressing the issues of exchange rate appreciation and external imbalances (see Bresser-Pereira 2014), but also of disequilibrating saving preferences and debt-deflationary developments (see Kregel 2010; Wray 1998; Hudson 2006), have been severely impaired due to self-imposed (demand) constraints. In fact, none of the issues listed above are part of the financial policy discussion. All this reflects the lack of Keynesian consensus (see Menz 2005, 28; Chwieroth 2009, 84 on that), as manifest in missing capital controls, aggregate demand management, state interventionism and neo-corporatist elements.

These choices, which were made for the monetary and fiscal regime, shaped institutions and practices, which in turn took a path-dependent nature in Estonia in terms of worldview or paradigmatic continuity (see Raudla and Kattel 2011; Feldmann 2007). The set-up of key institutions was established by right-wing coalitions in the 1990s, and ever since no shifts have occurred in the balance of power that would have allowed for radical shifts in institutions. Coming up with novel policy solutions to socio-economic problems has been restrained by a dogmatic stance, vested interests and historical legacies that put the brakes on institutional transformation.[15] What has taken place is institutional conversion (see Streeck and Thelen 2005), i.e. policy adaptation and alignment of institutions along the interests of new actors.[16] Hence, different problems and challenges have been approached with *one-size-fits-all* solutions in Estonia. In this regard, one can observe institutional complementarities (see Hall and Soskice 2001) in terms of the transferability of the institutional approach from the whole economy to the financial sector, in particular. The next section takes a closer look at the bureaucracy's ideas on the financial sector and how these have been affected by both the regulatory convergence and the dominance of foreign capital in banking.

## 3. The Implication of the Regulatory Convergence and Capital Inflows – Standing of the Estonian Financial Bureaucracy

As was shown above, adherence to neoliberal ideas in domestic macroeconomic policies has to a great extent been supported by the internationalization processes (see also Mjøset 1996). Likewise, decision makers' discourse in justifying financial

[15] For instance, even if policy-makers have turned their focus to advocating an alternative SME-focused development strategy, such post-FDI policy has been built around the support of the EU Structural Funds. Thereby, one could observe an institutional gearing towards financial support dependency (Varblane 2013).

[16] This is revealed in the central bank's adjusted operations after joining the eurozone, including also in activities related to the ECB's policy of quantitative easing, as well as post-2004 period practices after joining the EU with the incentive for public institutions to reconfigure their focus on absorbing the EU funds.

reforms in Estonia was built around the EU conditionality for the transposition of the EU legislation as a prerequisite for accession into the EU (Feldmann 2013).[17] In this respect, the EU regulations could be seen as an exogenous entity to explain the regulatory transformation at the national level. As commented by one of the interviewees:

> if you look at the share of Estonian law in the financial-sector legislation, 95 percent of it is European Union law. There is hardly any domestic invention … thus, the Parliament's role in Estonia will disappear altogether. … in legislative terms, as far as the banks' capital issues are concerned, the role of member states has shrunk. Also, the role of the Ministry of Finance in this regard has decreased (Interviewee F).

The EU-driven developments in the financial regulation in Estonia could be summed up with the statement: "… because the regulation of the financial sector has been largely formulated at the EU level, the initiatives and changes generally start from there. In this sense, we cannot talk about very independent Estonian reforms and initiatives" (Interviewee B). On top of that, even "… in our own initiatives, we did not perceive how much the frames of the European Union actually restricted us" (Interviewee E). These statements raise the issue of lost national autonomy in relation to the harmonization process and indicate that the reliance on the EU makes the adoption of other practices and conditions less likely, as asserted by one of the interviewees: "… insofar there are various directives on the board to be addressed, other things get in a jam, so to say" (Interviewee D).

### 3.1 Small states, legalism and policy coordination

On the one hand, such a path-dependency in policy devising, i.e. anchoring the content of regulatory policies to the EU, could be explained from the *small-states* perspective (see Randma-Liiv 2002; Kattel et al. 2011, 8-11), but on the other hand, with the *legalist* reasoning in the financial regulation. The *small-states* argument is associated with the issue of lacking human resources and capabilities. As attested by interviewees, "I do not see that state capacities would grow. … officials will have to adjust. … the administrative burden is really high and because of that, fewer other things can be undertaken. For me this is the biggest problem" (Interviewee E) or "… some of the [EU-posed] requirements and obligations might be beyond our capabilities" (Interviewee B). On top of this, two senior civil servants interviewed at the Ministry of Finance admitted that their educational background was not in any way connected with the tasks assigned to them at work. As a testimony to that "… [with regard to] the financial sector, I basically began [working for the Ministry of Finance] from scratch" (Interviewee D). Or in the words of another official,

> I have not come across many of those who are familiar with the financial sector regulation and supervision peculiarities, when hired. The situation at

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[17] Such a practice has resembled older EU member states, where domestic actors have used European integration and globalization discourses to implement banking-sector reforms (see Lynggaard 2013).

> the Eesti Pank is even worse, because usually people have not heard anything on the topic of macroprudential supervision, and in this sense practical experience is needed, and for that we send people to learn these things abroad (Interviewee E).

The legalist approach, on the other hand, is related to the dominance of law in the educational background of financial regulators. This explains to some extent, why civil servants follow law-related rather than economics-related academic discussions (Interviewees C and B) and why the Ministry of Finance, which is responsible for shaping the legal environment of the financial sector, does not use any model for financial stability indicators or as a tool for obtaining input into the legislative process (Interviewees A, C and D). As one official noted, "… the impact analysis was there [in legal drafts], which is mandatory in the legislative drafting … but I did not come to any contact with such models in my work [at the MoF]" (Interviewee D). Even when the analyses are conducted, the impacts on the local financial market, state budget and economic growth are mainly assessed in the explanatory memos to legal acts. Thus, the understanding of the financial regulation primarily reflects the legal-normative perspective and less the macro-financial perspective, which in turn explains why there is little coordination across ministries and various policy domains (see above), except for coordination within the "troika" of the MoF, the central bank and the FSA (Interviewees B and E). Still, from the institutional perspective, there are issues such as the division of tasks and financial stability mechanisms where consensus is yet to be reached. For instance, the views expressed on the mandates and functions of the FSA in areas such as payday loans and cyber currencies, or the institutional status and affiliation of a Guarantee Fund, still cause discontent and also tend to be different (Interviewees B, E and F).

Likewise, anchoring to the EU regulations has not necessitated the build-up of coalitions or networks for achieving compromises or opening ways for institutional change. As explained above, this discloses meager coordinative discourse, which has been backed by some peculiar institutional features such as centralized and unitary state, power concentration in the executive branch and statist policy-making.[18] That said, all interviewees stated that the engagement of social partners such as the representatives of the financial sector in the policy formation process has been quite extensive, particularly for the last ten years. However, this has rather taken place due to legal requirements and hence tends to bear the character of a mere formality. One of the interviewees stated:

> it [drafting of legal acts] is often done quietly in the Cabinet's back office based on their [policy-makers] own discretion. … I felt then and still feel today that it often happens that you work on a draft and talk to people at the ministry and one moment you just come out with it, but in fact, one could have involved [stakeholders] in the formalization of ideas beforehand so to get feedback and save energy (Interviewee D).

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18 See Schmidt (2002a, 230-246), Campbell and Pedersen (2010), Swank (2002) on the inherent elements of coordinative and communicative discourses.

Another official noted that "there are quite many and various partners, but it [communication with and involvement of stakeholders] has not been our main function here [at the MoF], it is rather a secondary task, although in the future we intend to put more emphasis on that" (Interviewee B).

In addition, one of the interviewees pointed out that the engagement of external experts is both administratively and financially burdensome to public institutions. Namely, "if [external experts are] involved, one has to pay remuneration. There are also administrative restrictions that are troublesome. At the same time, the value added from the engagement [of external experts] might not be significant at all. Partly, it [financial regulation] is a very specific topic, and so not everyone can contribute to it" (Interviewee A). The last aspect has been particularly emphasized, as attested by one of the respondents:

> … it often happens that because of the small financial sector and a narrow range of financial services … and also a lack of complex financial instruments on the market, there is no expert knowledge available. People do not know what to think about some kind of proposal and then it happens that there is nobody to have a discussion with (Interviewee B).

In that respect, neither the Ministry of Finance nor the central bank hold discussions with academic circles or other external expert groups, as these institutions rely mostly on the in-house expertise and analyses (Interviewees E and B).

At the same time, the technicality of the financial regulation has gradually taken the issue off the political agenda. Policy formation at the political level is not very systematic, as the topic of financial regulation is considered not to be important or is not understood at all (Interviewee A). This is because "the initiatives of the European Union and the resulting documents are so voluminous, specific and linguistically complex that most politicians are not even able to read the materials (Interviewee C), not to mention the low appeal of the topic and hence the lack of political motives: "… the area is such that it is not politically very sexy … it is such a niche topic you could say" (Interviewee D) or "… the area is sufficiently specific and complex, the effect of which is great, but it is not easy to sell it to voters. … politicians understand that you would not gain votes with these topics, so they do not interfere" (Interviewee B).

In light of such institutional tendencies for non-corporatist interest mediation, the *knowledge regime* (see Campbell and Pedersen 2010, 179) tends to be determined externally through adherence to outside rules and standards. At the same time, the financing of economic growth has also been subjected to strategies and decisions made by non-residents, as any activist industrial policies have been relinquished (Feldmann and Sally 2002; Kattel 2015, 141; King 2007). In this regard, the foreign-controlled financial sector poses challenges for policy-makers in terms of steering the developments in banking and finance in a desired way. In particular, the "autopiloting" nature of the financial regulation in Estonia through the attachment to EU law (see Juuse 2016b) has not enabled it to properly address the changing contextual conditions, including those related to the issues of resolution, solvency and liquidity provision in light of cross-border banking activities.

### 3.2 Misplaced financial (banking) policies and adverse outcomes

One of the problems of the EU-driven banking legislation is related to the operational functionality of regulations. Although the Estonian banking legislation had adopted the universal banking model in line with the EU directives, the understanding of the economy, which was based on arm's-length business relationships, gradually penetrated, as increasingly more emphasis was put on quarterly reports, greater transparency and the quality of information, reasoned by the need to reduce risks and enable better-informed lending decisions (see Chwieroth 2009; also Hall and Soskice 2001 on similar trends in advanced Western economies). This implied a gradual shift towards commercial banking activities and from the logic of voice to the logic of exit in the late 1990s, i.e. during the takeovers by Nordic banks. Thus, despite regulatory harmonization, investment banking in Estonia did not take off, which was constrained by an increasing share of deposits in the banks' structure of liabilities and the central bank's limited function of the lender of last resort (see Forsyth 2003 on factors affecting the banking models). Similarly, shallow securities markets, the restructuring of the economy towards light manufacturing and services, and mass privatization[19] that broke the existing linkages, reduced the need for universal banking services with tight links between the productive economy and finance. This demonstrates how financial regulation and the banking business got diverged.[20] In this respect one can observe both over- and misregulation of the financial sector in the case of Estonia. This problem was pointed out by most civil servants interviewed who are involved in the financial-stability policy-making and implementation, especially on the EU part. As claimed by one respondent, "the fact is that there is too much legislation and at the same time, the Estonian market is very small and trivial" (Interviewee F). And as an indication of misregulation, "of course, there must be basic capital requirements in place. For example, it was extremely strange that at one point there were no liquidity requirements [from the EU]. It was inappropriate liberalism" (Interviewee C). On the other hand, it has been noted that

> … it is often the case in Estonia that we want to be an exemplary student at any cost. If there is a need for some kind of directive to be harmonized with, then we do the maximum, as foreseen in the Directive. … it seems that we have placed the emphasis on the quantity rather than the quality. All that comes from Europe is presented as critically important. Inevitably, there are examples of such directives, instructions and regulations that Estonia simply takes over and says that we will apply them, even though we do not have that kind of market, and this is a total waste of resources (Interviewee D).

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[19] The *Treuhand* privatization strategy for restructuring implied reliance on international financial markets and foreign investors rather than local banks (see Terk 1999; also Deeg 1999 on a similar case of Germany), which deterred the provision of bank credit to businesses. Furthermore, a negative net worth of newly privatized enterprises due to the inherited liabilities of previous state-owned companies implied a hoarding of bad loans on the balance sheets of banks that were thus unwilling to extend any new loans to businesses (Bhaduri et al. 1992, 12).

[20] On other mismatches between the regulatory framework and real-life banking, see Juuse (2015).

In this regard, one can notice cognitive dissonance or ambiguity in the positions of regulators on the transposition of the EU legislation. And where not dictated by the EU legislation, financial regulation has been reactive, which indicates the presumption of self-regulatory mechanisms in a free market environment. In general, policy-makers have rarely relied upon economic heterodoxy in presenting rationales for state intervention, partly due to their educational background. As stated by one civil servant, "the name [Keynes] came through, but otherwise it did not play any role [in the academic education]" (Interviewee D). Moreover, the pursuance of Keynesianism in the financial regulation has been seriously questioned (Interviewee A). Accordingly, the analysis of the factors that affect the shape of the regulatory environment does not reveal that economy is treated as inherently cyclical and unstable. Even the aftermath of the recent crisis has not led to drastic changes in policy-making practices (see Kivisikk 2015) or even ideas behind financial policies.[21] As noted by one official, "perhaps policy objectives have not changed, but the attitude has. If before it was thought that regulations harassed and interfered with development, then now there is a perception that they seek to ensure stability" (Interviewee E).

Thus, in view of the institutionalization of policies that favor the absorption of foreign savings – as opposed to Keynesianism – and the embeddedness of the EU rules, it is not surprising that Estonia has virtually given up all administrative controls over the permissible quantity and direction of bank lending, which could have been imposed on banks. As admitted by one respondent, "if you wonder, why the bubble burst and whether one could have done something, then probably no one could have foreseen it to such an extent. And the instruments for controlling the boom did not exist in the same form as in some other countries, such as Sweden and Denmark, which had more options" (Interviewee B). Essentially, by anchoring financial policy to external developments and allowing the takeover of financial institutions by non-residents, the ability of public authorities to affect the links between banks, government, firms and households through directed credit supply and industrial policy tools has been eschewed[22] (see Avaro and Sterdyniak 2014 on a similar discussion on the Banking Union in the EU; also Skocpol 1985). This way, the Estonian financial bureaucracy does not deal with financialization in almost any form, while the development of productive capital has been abandoned to be dictated by external factors, i.e. foreign investors. The issue has further been aggravated by the ineffectiveness and avoidance of policy instruments via "regulatory arbitrage" (see Cerny 1994; Schmidt 2002a). When adopted, some of the monetary policy instruments have been inoperative, as the Nordic banks who own Estonian subsidiaries have had the option to channel credit directly to local customers and thereby bypass all credit controls (Feldmann 2013, 358). While the financial stability policy

21 Even when significant institutional changes have been made on the regulatory landscape, e.g. the enactment of the Financial Crisis Prevention and Resolution Act in 2015, which enabled public authorities to apply early intervention measures with resolution tools, as a rule, these policies have been enforced in consequence of the EU requirements.

22 From a historical perspective, the indifference of foreign banks towards the needs of domestic industries is nothing peculiar in the liberalized economic environments, where dividend and interest payments by foreign subsidiaries constitute a significant share in net factor service (see, e.g., Levy 1991).

in Estonia has been considered successful, it has been admitted that "… at the same time, there are indirect factors that Estonia cannot steer" (Interviewee B). Namely, the way how the parent banks of subsidiaries and branches are managed abroad has a direct impact also on financial developments in Estonia. And furthermore, reserve and liquidity requirements as a key measure for exerting monetary control were also void in the pre-euro period, as reserve positions could have been adjusted through access to parent bank funding or international wholesale markets, which also revealed the misconception of money creation through money multiplication by the central bank (see Wray 1998, 68, 107; Singleton 2011, 131-132; McLeay et al. 2014 on money creation). This indicates the so-called "financial trilemma" issue[23] in terms of the incompatibility of financial stability, cross-border banking, and national financial regulation and supervision (Juuse 2016b; also Schoenmaker 2011).

Thus, inadequate regulation and supervision under the general liberalization agenda have not contributed to robust "productivity-biased" financial governance, which is essential for development and financial stability (see Burlamaqui and Kattel 2014, 189-190). On the contrary, the approach taken in financial policies has exposed the economy to several hazards. For instance, exuberant confidence building took place in light of the EU accession and embracing of the EU standards as clear signals for investors that were not factored in by policy-makers – the issue of euphoric expectations in the Minskyan sense (see Minsky 2015). Consequently, foreign capital poured into Estonia, and banks enjoyed a rapid growth of assets with the expected higher returns from credit allocation into a booming real estate business. At the same time, the economy suffered from the weakening of labor-cost competitiveness and exchange-rate appreciation (Gabrisch 2011; Gabrisch and Staehr 2014). Furthermore, excessive growth of assets, portfolio concentration in real-estate business and leveraged positions increased the fragility of the banking sector (Kattel 2010; Juuse 2015; also Tonveronachi 2016 on the fragility of banks in general). Until 2011, the vulnerability of macro-finance was further affected by the maturity and currency mismatch[24] – in 2007, unhedged foreign-currency borrowing constituted more than 70 percent of all private sector loans in Estonia (Miklaszewska et al. 2014, 255). All these developments exposed the economy to systemic risks, influenced by the activities of banks. In particular, it was the changing financial structure (balance sheets) of economic entities that went unnoticed during the housing boom-bust cycle in the mid-2000s. Likewise, the business of payday loan operators has not been considered essential from the financial stability perspective, as "… when [such] a company goes bankrupt, it will not have a major impact" (Interviewee B). Such a micro-view, however, neglects the systemic ramifications of the increasing stock of short-term debt and hence the indebtedness of the household sector for the overall financial (in)stability (see Juuse 2015). Therefore, without a holistic understanding of the dynamics and transforming financial structures of the economy, i.e. without adequate macroprudential measures and the coordination of countercyclical monetary, fiscal

23 This is similar to the arguments made in the monetary-regime section on the incompatibility between fixed-exchange-rate regime, liberalized capital movements and national policy space for countercyclical monetary and fiscal policies (see Chwieroth 2009, 64; Abdelal 2007, 75; also Wray 2014, 81).

24 The case of "the original sin" – the loss of exchange-rate adjustment due to currency mismatch in cash flows (see Eichengreen and Hausmann 1999; Herr and Priewe 2006).

and other regulatory policies, which would provide systemic safety cushions (see Tonveronachi 2016 on the latter), the government is left with bleak perspectives for mitigating the negative effects of emerging imbalances or financial crises.

## 4. The Missing Pieces and Concluding Remarks

Given the supply-side bias in the policy approach to the economy, it is not surprising that economic practices and market relations in Estonia have been of the type of liberal market economy (LME).[25] As described by Feldmann (2007, 331-335), LME in Estonia is revealed in low union membership, decentralized wage bargaining, low coverage of wage agreements, no social dialogue, limited coordination and underdeveloped cooperation among businesses and an education system that fosters general skills, which form institutional complementarities in relation to each other. It is important to note that these institutional aspects, conducive for FDI-directed economic activities have underpinned disintegrated modular production processes (see Kattel 2010, 7; Kregel 1994, 37), which hinder industrialization in general and increase in technological intensity with productivity upsurges in particular.[26] Moreover, acquisitions by foreign investors have gradually displaced local input suppliers and have outsourced market-making to non-residents (Juuse et al. 2014; Bhaduri et al. 1992). On that account, it is evident that the overall institutional setting in terms of industrial policy, fiscal incentives, infrastructure development, public education, R&D, etc. has neither fostered cooperation nor integrated foreign businesses into local supply chains, but has instead laid grounds for *institutional arbitrage* (see Hall and Soskice 2001, 56) for attracting foreign capital without acknowledging its hazards for economic sustainability.

So, which pieces in the understanding of the economy have gone lost, given the adopted policy approach and embedded economic practices? Aside from the EU-driven initiatives in the innovation policy area, economic policies have in general delivered a micro-level perspective by aiming at isolated, abstract categories rather than interrelated structures on the sectoral (meso) level. This gives rise to a fallacy of composition issue, but also reflects an inadequate institutional approach, i.e. a lacking realization of the compound structure of the economy with multiple interdependent relations through transactions, balance sheets and financial balances (see Godley and Lavoie 2012 on capitalist institutional complexities). Policy-makers have lacked a *Minskyan* systemic view (see Minsky 1996, 77; also Burlamaqui and Kattel 2014, 189; Dos Santos and Macedo e Silva 2009) in terms of not considering the relationships between the balance sheets of various sectors and the changing stocks of assets and liabilities, accompanied by concurrent adjustments in cash flows and debt payments. In Estonia's case, there has been a mere focus on GDP growth figures without factoring in the institutional creditor and debtor relations and, hence, the implications of financial imbalances of institutional sectors – households, financial institutions, government and non-financial corporate sector – for financial stabil-

[25] See Soskice (2007), Schmidt (2002a), Hall (2007), Hancke et al. (2007) on the main features of LME.

[26] Corresponds to an argument of a non-concurrency of interests of *developmentalist* states and FDI companies (Evans 1985).

ity. In this regard, the institutionalization of monetary and fiscal conservatism, including an insufficient focus on asset-price movements, has been at odds with the essence of public finance within the frames of the financial-balances identity.[27] In other words, the capacity of policy-makers to affect balance-sheet operations and flows of funds for the purpose of addressing insolvency and illiquidity problems that stem from balance-sheet disequilibrium has been limited. The most apparent indication of this is a missing *buffer-stock policy* in Estonia (see Lavoie and Godley 2006; Godley and Lavoie 2012 on institutional buffers) – there have been no government securities such as bonds or bills to offset the economic agents' unfulfilled saving expectations. And while there is a potential for a currency-board arrangement to act as a buffer stock policy (see Wray 1998, 10), it was inoperative due to liberalized capital-account transactions and passive employment coordination in the export sector, implying hardly any automatic stabilizers in Estonia.

Likewise, indifference towards the institutions of public finance has rendered the government incapable of addressing the boom-bust cyclicality stemming from the changing financial structures of economic entities. In view of unfettered credit creation by foreign-owned banks and the recycling of accumulated savings, the economy has been made vulnerable to the cycle of asset-price inflation and debt deflation, accompanied by both internal and external imbalances.[28] The latter have been affected by cross-border capital flows, which are geared at meeting domestic demand and banking finance that increasingly targets households[29], implying the double effect on the speculative position of the economy. At the same time, industrial frames in terms of output structure, the level of competition and capital ownership configuration have been left out of purview (see Bhaduri et al. 1992 on CEECs' experience), which is a testimony to the non-existent industrial policy in terms of no credit rationing or channeling, no use of devaluation and non-existent subsidies, except for those funded by the EU in some sectors. It thus follows that little consideration has been given to the institutional profile of the country from its innovation or financial position regardless of the fact that the speculative profile[30] of the Estonian economy would require a robust structure of assets in terms of technological level and production profile, which would suffice to cover foreign liabilities.

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27 Sectoral financial balances identity – Private Financial Balance (net saving) = -Government Financial Balance (government budget deficit) + Current Account Balance (surplus) – as a proxy of adjustments in net financial assets and hence financial fragility (Dos Santos and Macedo e Silva 2010; Wray 1998; Tymoigne 2014). See also Kregel (2010) on fiscal responsibility.

28 Development strategy built around foreign investments, including profit reinvestments from FDI, implies an allocation of an increasing share of national income to servicing foreign liabilities, which accumulate at compound rates and thereby give rise to a deteriorating balance of payments position with increasing claims on reserves (Kregel 1996, 58-59; Friedman 2008, 56; Piketty 2014; similar arguments by Palley 1996, 213; Hudson 2006, 108-116; Davies and Green 2010, 125).

29 In light of soaring housing and consumption credit, the impaired *hedge* financing profile of households implies increasing financial fragility that may culminate in the cross-sectoral crisis, as happened during the 2007/09 financial meltdown in Estonia.

30 See Juuse (2015) on Estonia's case and Minsky (1992), Kregel (2006), Kattel (2015) on a general discussion on financing profiles.

## 4.1 Concluding remarks

It is a combination of tying one's hands in the adopted monetary regime and relying extensively on foreign-capital inflows as well as the Europeanization and convergence processes from the early years of independence in the first half of the 1990s that have gradually hollowed out policy-makers' institutional understanding of money, finance, banking and the market economy in general. More importantly, the state and its capacities have been impaired as a result of the established institutional constraints and policy-making processes. The formed institutional environment has not equipped the government with many options or tools to reduce uncertainty and fluctuations, absorb financial shocks or bring stability into expectations.[31] On the contrary, one can observe self-imposed constraints for affecting the developments in the economy or for alleviating internal and external imbalances. Both the degree of uncertainty and disequilibrating tendencies have further been aggravated by uncoordinated policy-making in economic affairs and also by inadequate financial governance in terms of steering the developments in the sphere of finance. Without a coordinated approach to labor, financial and product markets, the exposure of the economy to systemic risks and financial fragility is amplified, in particular in the context of a low diversity of economic activities and privatized Keynesianism (Kattel 2010, 5; Juuse 2015). The latter is revealed in the rising household indebtedness, developments dictated by foreign capital and the speculative profile of the economy as some manifestations of the financialization phenomenon, which public authorities have disregarded. In this respect it can be observed how an insufficient systemic approach in financial, industrial, employment and other policies corresponds to the fragmented and disintegrated productive economy that has slowly detached from the local financial industry. On the whole, policy-making that has resulted both in over- and misregulation has first and foremost lacked a holistic, system-wide view on the relationship between the financial sector and other institutional sectors; and second, it has missed the implications of market and non-market institutions for the financial and development profile of a country.

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[31] To some extent, this explains the absence of sophisticated financial instruments on the market, despite those instruments being regulated due to the harmonization with the EU directives (see Juuse 2016b).

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## Interviews

Interviewee A: Higher civil servant at the Ministry of Finance, 22 September 2014.
Interviewee B: Higher civil servant at the Ministry of Finance, 25 September 2014.
Interviewee C: Senior civil servant at the Ministry of Finance, 30 September 2014.
Interviewee D: Former senior civil servant at Ministry of Finance/banking representative at the Estonian Banking Association, 16 October 2014.
Interviewee E: Higher civil servant at the Bank of Estonia, 9 October 2014.
Interviewee F: Higher civil servant at the Financial Supervision Authority, 6 October 2014.

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