

The Bundesbank's technical central bank cooperation with countries in transition

Ever since the economic and political reforms in eastern Europe, the Bundesbank has been lending support to the new central banks and to those undergoing restructuring in the countries in transition. This support is of a technical, rather than financial, nature and largely comprises consultation and training services (known as "technical central bank cooperation"). The Bundesbank conducts its operations for the most part bilaterally, acting in its own name, with its own experts and its own resources. The present article is intended to provide an overview of this cooperation with central banks in countries in transition, of the shifts that have occurred in respect of subject matter and geography since the beginning of the programme, and of the prospects that are beginning to emerge.

Conditions underlying the cooperation

Since the beginning of the process of economic transition in the countries which used to have centrally planned economies, the Deutsche Bundesbank has been supporting those countries' central banks in their efforts to establish and expand market-oriented central banking systems. The central banks concerned (some of them newly established, some completely redesigned) are the outcome of the restructuring of the financial systems in those countries from a one-tier, centrally administered banking sector to a two-

Necessity of restructuring central banks in countries in transition as the starting point of cooperation with the Bundesbank

tier banking system with separate commercial banking and central banking functions. Viable, largely independent central banks equipped with an effective arsenal of instruments and able to foster the process of monetary reform and economic stabilisation in the countries in transition are needed at the apex of the restructured banking systems. During this process of reform, some countries were able to build on the foundation of their existing state banks, whereas others faced the need for reconstruction from scratch.

In both cases, great challenges had to be met in a relatively short time, since for the most part these countries had no experience of their own of market-oriented management mechanisms or indirect monetary policy instruments, nor of the corresponding theoretical and practical knowledge on the part of staff members and executives; in some cases, the requisite political support was lacking, too. The fact that the process of reform has nevertheless been pretty successful up to now is borne out by the dramatic decline in inflation rates in most of the countries in transition, with some countries having already made their currencies convertible. In addition, there has been considerable success in the establishment and supervision of commercial banks and financial markets.

Partnership-based approach to cooperation

The Bundesbank's cooperation with central banks in the countries in transition largely takes place at a bilateral level. Occasionally, the Bundesbank also participates in multilateral cooperative efforts along with the central banks of other industrial countries, for example, under the auspices of the International

Monetary Fund or the European Community. The large number of requests for cooperation received by the Bundesbank reflects not only the strong demand of partner central banks for technical cooperation but also the great interest in the "Bundesbank model", i.e. in an independent central bank geared primarily to the objective of monetary stability.

As already mentioned, the Bundesbank provides support as part of its technical central bank cooperation only to central banks. Such cooperation focuses on the central banks of countries in transition, but also includes the central banks of developing countries. The training and further training of staff in executive positions and project consultation form the centrepiece of those activities; the objective is to transfer expertise, and to enhance the potential of the staff of the partner central banks.

Cooperation encompasses the entire range of economic, banking and statutory instruments involved in present-day central bank management. In the first few years of cooperation, the focus was mainly on basic problems confronting central banks, questions of central bank legislation, and of domestic and external monetary policy. In the meantime, the attention of many partner central banks has increasingly shifted to more specific issues; at present, there is particular interest in banking supervision, payments, the provision of currency, foreign exchange dealing and investment, and questions relating to internal organisation.

Focal points in respect of the subject matter

Forms of cooperation

Coordination and execution of the activities

The activities of the Deutsche Bundesbank are coordinated by the Technical Central Bank Cooperation Division, which forms part of the Department of International Relations at the Central Office. Experts from the entire Bundesbank are engaged in the implementation of technical central bank cooperation, i.e. both the Central Office and the Land Central Banks are involved. Even the Training College of the Deutsche Bundesbank in Hachenburg is regularly involved in technical cooperation. This internal division of labour has proved its worth in the past, since it promotes the complete utilisation of the resources and the technical expertise of the Bank at all levels. Despite this burden-sharing among several bodies, such technical cooperation keeps the Bank and its staff very busy.

Tailor-made forms of cooperation

With respect to the forms of training and consultation activities, the Bundesbank attaches particular significance to tailoring its measures to the individual needs of the central bank receiving the assistance. Hence the activities are largely demand-oriented and thus virtually tailor-made for each specific case. Depending on the concrete requirements, training measures are conducted either in the form of information visits to Germany or in the shape of seminars. During information visits (to which in general staff in executive positions are invited), discussions with the responsible Bundesbank experts can address specific problems and focal points of interest. If more broadly defined topic areas are to be addressed, and if at the same time a larger number of foreign central bank staff

members are to take part, then specialist seminars become appropriate. Such seminars, which generally last around one week, are mostly held in Germany if the range of participants is small; owing to cost considerations, seminars for larger groups are usually held in the country of the central bank being assisted.

In order to supplement the individual project-specific support given to foreign central banks, the Bundesbank offers what are known as "standard seminars" for junior executive staff in Frankfurt. The subjects include general and fundamental topics of present-day central banking, such as issues of monetary and exchange rate policy, with particular stress being placed on the presentation of the theoretical foundations. Recently, topics from the field of European monetary union have been added. The standard seminars are designed for a wide range of interested central banks in countries in transition and developing countries, and at the same time they offer a forum for young central bank staff members to meet.

For project consultation, i.e. to foster the search for solutions to specific central banking problems, Bundesbank experts are seconded to the foreign partner central bank. In this case, too, the Bundesbank only deploys its own experts from all areas of central banking – experts who have solid theoretical knowledge, didactic ability and many years of practical experience in the field involved. The consultation work takes place mainly on the basis of short-term assignments, i.e. stays of one to two weeks, and

*Project
consultation*

occasionally also in the form of long-term consultation work.

Course of activities

Numerous participants in training measures

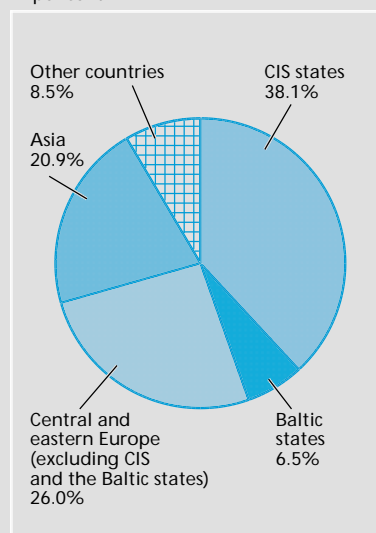
Since the Bundesbank significantly expanded the scale of its technical central bank cooperation in 1992, in response to increasing demand from countries in transition, nearly 4,500 staff members of foreign central banks have participated in a total of over 500 training measures provided by the Bundesbank. Specifically, 94 seminars (with some 2,500 participants) have been held abroad, as well as 60 seminars (with over 800 participants) and 353 information visits (with some 1,100 participants) in Germany. Each foreign seminar averages some 26 participants; each domestic seminar about 14, and some three participants attend each information visit to Germany. The trend towards holding seminars with large numbers of participants abroad has gathered pace. Seminars in Germany, by contrast, are generally restricted to five participants per seminar. The eight standard seminars held in Frankfurt since the beginning of 1995, which have been attended by over 100 foreign guests to date, constitute an exception.

Over 300 project consultation assignments

During the same period, Bundesbank experts have been seconded to partner central banks in 306 cases for on-site project consultation. In addition to the ongoing short-term consultation work, three Bundesbank staff members are currently abroad on multi-year consultation assignments, namely at the central banks of Eritrea, Tanzania and Ukraine.

Number of training measures from 1992 to 1996, by region *

in per cent



* Excluding consultation measures, which mainly affect Latvia, the Slovak Republic, Ukraine and Vietnam.

Deutsche Bundesbank

Of the over 500 seminars and information visits between 1992 and 1996, around one-third involved the western part of the CIS countries (Russian Federation, Ukraine and Belarus), another third involved the central European countries in transition, and about one-eighth involved China, Vietnam and Mongolia. In all, there was cooperation with some 30 countries in transition and about another 30 countries, with the countries in transition accounting for a share of some 85 %.

Cooperation with 30 countries in transition

In regional terms, there has been a distinct shift in demand. Whereas in the first half of the nineties cooperation took place mainly with central and east European countries in transition, the focal point has meanwhile shifted eastward, incorporating countries

Regional shift in demand

from the trans-Caucasian regions and from central and east Asia. This has owed something, not least, to the positive trend in central banking in most of the central European countries in transition. The success of the technical cooperation is thus rendering such cooperation increasingly superfluous.

*Rising interest
in European
issues*

The interest of central and south-east European as well as Baltic countries in transition in central-bank-related issues, in connection with the preparations for possible EU membership, has risen conspicuously. At the invitation of the Bundesbank, the first "Europe seminar" for executive staff from the central banks of these countries was held in October 1996 to address this subject; it will be continued in mid-1997. Since there is still a considerable economic and institutional gap between the majority of these countries and the EU, this seminar is especially designed to provide interested central banks with information on the ongoing preparatory work regarding EMU, and to make clear to them what a long way they still have to go before they catch up.

Evaluation of success

*Difficult to
measure
success*

It is difficult to measure the success of the Bundesbank's technical central bank cooperation efforts with countries in transition, especially since the implementation of the consultation work must be left to the central banks involved. At all events, in a number of countries in transition not only has considerable success been scored in setting up an up-to-date central banking system, but, as pre-



viously mentioned, conspicuous success has also been achieved in fighting inflation and stabilising the banking system. The consultation work and technical support provided by the Bundesbank, other central banks and other institutions have made a material contribution to this end, without it being possible to give due credit to any specific agency.

The cooperation on the part of central banks in countries in transition with western central banks and international institutions, such as the International Monetary Fund (IMF), has definitely underscored calls for central bank independence and for compliance with stability requirements in the countries in transition. The growing consensus that monetary stability is the basic prerequisite for economic prosperity is likely to be buttressed appreciably by

the close cooperation with the Bundesbank and other western central banks.

*Encouraging
signs of effective
support*

A further important point is that many countries in transition have modelled their own draft banking legislation on the Bundesbank Act and the German Banking Act. As a result, many of the countries which have received assistance from the Bundesbank have since been able to make distinct improvements in the legal framework and overall status of their banking and central banking sectors. In the meantime, some central banks have actually started passing on these newly acquired lessons to less advanced central banks by setting up their own consultation and training programmes.

In this manner, the Bundesbank's technical central bank cooperation scheme is an integral part of the comprehensive international efforts to support market-oriented reform forces in countries in transition, as well as in other parts of the world.

Outlook

In some countries, particularly in central Europe, welcome success in the transition process is visible. In other cases, this process is moving rather sluggishly, which is often due to a difficult political and economic environment and to considerable macroeconomic imbalances. Occasionally, standstills or even setbacks must be accepted. Although the economic and institutional orientation towards market-economy structures in the countries in transition is probably irreversible, the central banks of many countries in transition are still faced with a variety of problems which warrant expectations of a considerable need for support in the future as well.

*Sustained need
for cooperation
despite success*

As far as it is within its powers, the Bundesbank will continue to offer its active support to those central banks that seek its assistance in establishing an efficient, up-to-date central banking system.