

THE STRATEGIC DEVELOPMENT PLAN OF EESTI PANK¹

The Mission of Eesti Pank

Eesti Pank, Estonia's central bank, is entrusted with implementing all the measures at its disposal to increase confidence in the Estonian kroon, the stability and integrity of the Estonian monetary system both at home and abroad.

The Main Objectives of Eesti Pank

1. Maintaining and ensuring the value of the Estonian kroon in fulfilling all the functions of money.
2. Improving the security and stability of the Estonian banking system.
3. Furthering the efficiency and development of the Estonian financial system, particularly the payment and settlement systems.
4. Meeting the cash demand of the public.

The Activity Guidelines of Eesti Pank for 2000-2002

Whereas Eesti Pank is guided by its mission, primary objectives and Estonia's aspiration to access to the European Economic and Monetary Union;

whereas the external shocks characteristic to economies in transition and their susceptibility to the macroeconomic instability underline the importance of institutional development;

whereas Eesti Pank considers it prudent to continue to conduct a monetary policy based on a fixed exchange rate and currency board arrangement;

whereas the experience of earlier years has shown that the Estonian monetary system can successfully weather the impact of the emerging markets crisis,

Eesti Pank will pursue the following guidelines in its activity:

I. Monetary Policy

1. The credibility and stability of the kroon is safeguarded by maintaining a monetary policy based on a fixed exchange rate and currency board arrangement.

¹ Adopted by the Board of Eesti Pank on 16 December 1999.

2. The efficiency of the currency board-based monetary policy depends greatly on the monetary policy transmission mechanism. The aim of Eesti Pank is the continuing development of the operational framework of the monetary policy in the direction that would guarantee the reliable functioning of the currency board in the conditions of a small open economy and reduce market fluctuations in the financial sector.
3. Pursuant to the Central Bank Act, Eesti Pank advises the Government of the Republic of Estonia in monetary and banking policy matters and cooperates actively in European integration. Eesti Pank considers it to be its duty to participate in public discussions on economic policy issues that can influence Eesti Pank in carrying out its constitutional objectives.

II. European Union and Monetary Union

4. Eesti Pank continues working out monetary policy scenarios for the accession to the European Union and the common currency system.
5. Eesti Pank focuses on implementing the principles of the common market, supervision of legality and enhancing of the required administrative ability.
6. Eesti Pank's objective in developing and implementing monetary and banking policy is harmonisation with the respective legal acts of the European Union. Temporary deviations from the *acquis* may occur in the fields where Estonia is seeking a transition period in its accession negotiations with the European Union. In case of such deviations a time schedule and an action plan will be worked out for complete harmonisation of legislation.
7. Being a constitutional institution, Eesti Pank supports the planned amendments of the Estonian Constitution on the basis of the Maastricht Treaty and the provisions of the Statute of the European Central Bank and deems it necessary to include the guarantees of the institutional sovereignty and independence of the central bank in the Constitution.
8. While conducting banking policy, Eesti Pank devotes more attention to the competition in the banking sector. This is aimed at boosting the efficiency of the Estonian banking sector and creating prerequisites for international competitiveness through the openness of the financial sector, promoting of domestic competition and banking regulation. Special attention is paid to the readiness of the financial sector for future accession to the European Economic and Monetary Union.
9. For the purpose of mutually beneficial international cooperation, Eesti Pank widens its activities in international financial organisations. Particular attention is paid to cooperation with the European System of Central Banks and the European Central Bank, with the aim of harmonising the monetary policy of Estonia with that conducted by the European Economic and Monetary Union.

III. Financial Sector and Supervision

10. Eesti Pank deems it necessary to create an integrated financial supervision institution. Taking into account the specific nature of financial supervision, Eesti Pank considers a public legal entity to be the most suitable institutional form for such an integrated supervision. The launch of an integrated financial supervision is vitally important in order to prevent some parts of the financial sector from taking advantage of the low efficiency of supervision. While taking part in establishing integrated financial supervision, Eesti Pank will pay attention to the need to prevent even a temporary decline in the quality of supervision, including the supervision of credit institutions.

11. Eesti Pank proceeds in its supervisory activity from international standards and practice. In view of the susceptibility to micro- and macroeconomic risks, Eesti Pank considers it necessary to maintain prudential ratios and other regulations stricter than required by international standards. Special attention is given to the constant monitoring of the financial markets, with the aim of promptly reacting to changes in the environment.

12. In safeguarding the stability of the financial sector and dividing responsibility between the private and the public sector, Eesti Pank puts greater emphasis on enhancing market discipline through transparency of activities and disclosure of assumed risks. In order to pursue good banking practices, Eesti Pank emphasises the need to strengthen the self-regulation and general management of market participants.

13. In order to safeguard the continuity and credibility of the financial system, Eesti Pank deems it necessary to define a safety net of the financial sector, aimed at guaranteeing a transparent and the cheapest solution for possible systemic problems and minimising the possibility of moral hazard through the responsibility of the owners.

14. In view of the deepening integration of Estonian financial markets into external markets through the widening scope of the activities of credit institutions and internationalisation of ownership, Eesti Pank strengthens cooperation with the supervisory bodies and central banks of other countries. In dividing the supervisory functions and arranging cooperation, the central bank aims at maximising the efficiency of supervision.

15. In addition to formulating the banking policy and to safeguarding the financial stability and the efficiency of the monetary policy, Eesti Pank considers it important to actively participate in working out the principles shaping the activities of other financial intermediaries. In order to have the necessary statistical data, Eesti Pank continues to expand the statistical basis of the entire financial intermediation and collects data directly from the market agents as well as from the competent institutions. Cost-effectiveness is kept in mind while gathering the data.

IV. Other Main Fields of Activity

16. In compilation, generalisation, analysis and distribution of statistics, Eesti Pank strives to improve the dissemination of information to both local and international economic agents, first of all in reference to short-term capital flows and the external debt. Eesti Pank follows the changing

international standards concerning collecting and publishing of statistics, including the requirements of the special data dissemination standard (SDDS) of the International Monetary Fund.

17. Regarding currency circulation, Eesti Pank aims at the least expensive circulation system that would correspond to international requirements and best meet the needs of Estonian society. In cash circulation, Eesti Pank proceeds from international security and quality requirements. In order to increase the efficiency of currency circulation through reducing the share of cash as means of payment, Eesti Pank focuses on providing the necessary infrastructure and legal framework for promoting the use of non-cash means of payment.

18. In view of the need to make transactions in Estonian kroons more secure, faster and efficient and to fulfil the requirements and regulations of the European Union, Eesti Pank implements the real time gross settlement system for large payments and the designated time net settlement system for retail payments. Eesti Pank supports private initiative and pro-active approach to developing the infrastructure of financial markets.

19. In investing the central bank's foreign currency reserves, Eesti Pank proceeds from the conservative risk taking policy suitable for the cover of the Estonian kroon which sets priority on the preservation and liquidity in earning income from investments.

V. Organisation of Eesti Pank

20. Eesti Pank proceeds from the principles of openness and transparency and uses all the means at its disposal to explain its primary objectives and activities' results.

21. Eesti Pank proceeds from modern risk management principles suitable for a public entity in improving its organisational activities and conducting work processes.

22. Eesti Pank develops organisational culture characteristic of a learning organisation and applies personnel policy that supports employee initiative and innovation, encourages continuing self-education and well-planned in-service training.

23. Eesti Pank improves work processes within its organisation and methodology of strategic planning and management accounting in order to use the resources in a more economical and rational way. In measuring the output of its activity, Eesti Pank applies quantitative methods and determines the cost price of services, comparing its expenditures with those of other central banks and organisations.