

CHRONICLE OF MONETARY POLICY OF 2000

MARCH AND APRIL

1 March

The Executive Board of the International Monetary Fund (IMF) approved Estonia's Precautionary Stand-By Arrangement and the accompanying Memorandum of Economic Policies for 18 months.

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The World Bank and IMF Financial Sector Assessment Program mission visited Estonia from 1 to 15 March.

7 March

The Banking Supervision Department of Eesti Pank signed a cooperation agreement with colleagues of the *Latvijas Banka* (Bank of Latvia).

8 March

The *Riigikogu* approved the Council of Europe's **Convention on Money Laundering Prevention**.

16 March

The Board of Eesti Pank endorsed the **procedure of electing the Governor of Eesti Pank**, which gives the members of the Board the right to nominate candidates. A candidate has to give his or her written consent for the nomination. The Board nominated the incumbent Governor **Vahur Kraft** and the professor of statistics of Tallinn Technical University **Vello Vensel** as candidates for the office of the Governor.

22 March

Decree of the Governor of Eesti Pank

On Establishing a Project Council and a Working Group for Drafting the New Central Bank Act

Proceeding from Clause 5 of the Strategic Development Plan of Eesti Pank and the decisions of the Executive Management of Eesti Pank from 12 January and 21 February, the Decree provided for the creation of a **five-member project council** and a **seven-member working group** for drafting the new Central Bank Act. The teams were given concrete tasks and responsibilities and the necessary authorisation.

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Columbia University, *Suomen Pankki* (Bank of Finland), the Finnish Ministry of Foreign Affairs and the Estonian School of Diplomacy, with the support of Eesti Pank, organised a real-time videoconference on the Russian presidential elections. Eesti Pank was represented by Deputy Governor **Peter Lõhmus**.

28 March

Estonia and the European Union signed joint assessment of the priorities of the Estonian economic policy, based on the medium-term development plan of Estonian economy for 1999–2003.

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The Estonian government set up an expert commission, which has to draft the **principles of creating an integrated financial supervisory body** by 22 May. Four people, including Deputy Governor **Helo Meigas** represent Eesti Pank in the commission.

30 March

The Board of Eesti Pank elected Vello Vensel as candidate for the next Governor of Eesti Pank. According to Clause 12 of Article 78 of the Constitution and Clause 2, Section 2 of Article 9 and Article 10, the Board submitted a proposal to the President of the Republic of Estonia to **appoint Vello Vensel Governor of Eesti Pank**.

31 March

Proceeding from the Strategic Development Plan of Eesti Pank, the Governor issued a regulation on the **instructions of organising in-service training** and approved the **2000 training programme**.

4 April

With the Regulations of the Governor of Eesti Pank **discount prices** were introduced for some coins and banknote folders sold at the museum of Eesti Pank, which depend on the size of the purchase.

13 April

President of the European Central Bank **Willem Duisenberg** and Vice-President **Christian Noyer** confirmed at a press conference in Frankfurt that **euro-based currency board system is one of the monetary policy alternatives during the ERM2 period**, that is, during the period a country participates in the exchange rate mechanism but is not yet a full member of the Economic and Monetary Union (EMU).

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President of the Republic of Estonia Lennart Meri appointed **Vello Vensel Governor of Eesti Pank as of 28 April 2000**. The term of office of Vahur Kraft ended on 27 April. The President also decided to **confer Vahur Kraft** on the Independence Day of Estonia in 2001 on the **II Class Order of the White Star for maintaining the stability of Estonian monetary policy**.

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Decree of the Governor of Eesti Pank
On Approving the Reporting Form of the Balance of Payments

In accordance with Section 3 of Article 3 of the Official Statistics Act and Section 8 of Article 2 and Article 34 of the Central Bank Act, the Decree endorsed as an official statistical report the quarterly balance of payments Form 10 – Foreign Transactions. The form is introduced from the second reporting period of 2000.

16 April

Deputy Governor of Eesti Pank **Peter Lõhmus** and Head of the International Department **Tanel Ross** took part in the meeting of the IMF Monetary Policy and Financial Committee in Washington where the role of the IMF in shaping the modern economic policy environment was discussed. Representatives of Eesti Pank also had a number of important working meetings.

24 April

Vello Vensel, who was to take up the office of the Governor of Eesti Pank on 28 April, **submitted his withdrawal to the President of the Republic of Estonia and the Board of Eesti Pank on the grounds of ill health.**

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A five-day **training course on economic modelling and forecasting** started at Eesti Pank with technical assistance from the Bank of England. The course was also attended by employees of the Lithuanian and Latvian central banks.

25 April

The Board of Eesti Pank asked the President of the Republic of Estonia to **annul the resolution on the appointment of Vello Vensel the Governor of Eesti Pank**. Under Clause 3.8 of the Statutes of Eesti Pank the Board made **Deputy Governor Peter Lõhmus Acting Governor from 28 April until the appointment of a new Governor**.

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President Lennart Meri **annulled his resolution from 13 April on the appointment of Vello Vensel the Governor of Eesti Pank**.

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Decisions of the Board of Eesti Pank

On the 1999 Annual Report of Eesti Pank

Having examined the 1999 Annual Report of Eesti Pank and taking into account the results of the 1999 audit carried out by the international auditing company PricewaterhouseCoopers, the Board decided, proceeding from Clause 2, Section 8 of Article 9 and Sections 1 to 5 of Article 30 of the Central Bank Act:

1. To **approve the 1999 Annual Report of Eesti Pank** in which assets and liabilities of the central bank stand at 15,134,687,000 kroons and the 1999 loss at 79,400,000 kroons.

2. To **submit the 1999 economic results of Eesti Pank for approval to the Riigikogu** as prescribed by Section 3 of Article 31 of the Central Bank Act.

3. To **cover the 1999 loss of Eesti Pank from reserves** as prescribed by Section 6 of Article 30 of the Central Bank Act.

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On the Revision of the Profit Distribution Strategy of Eesti Pank

Having assessed the profit distribution strategy of Eesti Pank endorsed by the 23 September Decision of the Board of Eesti Pank, taking into account the forecast on Eesti Pank's liabilities-free foreign currency reserves as a ratio to the gross domestic product (GDP) and to the broader monetary aggregate (M2), and proceeding from Clause 1, Section 2 of Article 9 of the Central Bank Act, the Board of Eesti Pank decided to **continue the profit distribution strategy endorsed by the above-mentioned Decision of the Board of Eesti Pank**.

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On the Strategy of the Monetary Policy Operational Framework Reform

Having examined the analysis on the efficiency of the monetary policy instruments of the Estonian monetary system, on the need and strategy of improving the operational framework of monetary policy, deeming it necessary to improve the smooth functioning of the monetary system in the framework of the existing currency board system, keeping in mind the eventual harmonisation of the Estonian monetary policy environment with the Euro system and proceeding from Clause 1, Section 2 of Article 9 of the Central Bank Act, the Board of Eesti Pank decided:

1. To divide the reform of the operational framework of the monetary policy of Estonia into two stages, from 1 July 2000 until 30 June 2001, and from 1 July 2001 until Estonia joins the European Economic and Monetary Union.
2. The aim of the first stage is to improve the reserve requirement system. The goal of the second stage is to prepare the framework of the Estonian monetary policy, including the reserve requirement system, for meeting the requirements of the European Economic and Monetary Union.
3. In order to carry out the first stage of the reform it was decided:
 - 3.1. To divide the reserve requirement system into two parts. By the end of the first stage of the reform banks will be allowed to meet 50% of the reserve requirement with high-rated liquid foreign assets.
 - 3.2. To carry out the reduction of the share of the kroon deposits in reserves and the respective increase of the high-rated liquid foreign assets in two phases – by 1 January 2001 and by 30 June 2001.
 - 3.3. To maintain the calculation in meeting the reserve requirement on the monthly average basis.
 - 3.4. To maintain the current system of interest payments on reserves during the first stage of the reform.
4. During the first stage of the reform to harmonise the additional liquidity requirement with the reserve requirement system, maintaining the liquidity buffers of the monetary system at the current level.

A detailed overview on the reform of the Estonian monetary policy operational framework will be available on Eesti Pank's Web site at <http://www.ee/epbe/> and will be published in Eesti Pank Bulletin.

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On Assets Eligible for Meeting the Reserve Requirement of Credit Institutions

In accordance with Clause 1, Section 2 of Article 9 and Clause 4 of Article 14 of the Central Bank Act, the Board of Eesti Pank decided to change its 7 May 1996 Decision **On the Credit Institutions' Reserve Requirement** (see Eesti Bank Bulletin No 5, 1996, p 6) and rephrase its Clause 1 as follows:

“In order to regulate money supply, secure the liquidity buffers and guarantee the smooth functioning of the payment system, credit institutions must keep a part of their external assets as a reserve on the accounts with Eesti Pank or in the form of high-rated foreign assets specified by Eesti Pank.”

The rate of the reserve requirement was set at **13% of the reserve requirement basis**.

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On Stopping the Issue of Eesti Pank's Short-term Certificates of Deposit

Due to the diminishing role of the CDs of Eesti Pank in supporting the development of the money market and smoothing the liquidity flows caused by the fluctuations of the cash demand, and pursuant to Section 1 of Article 2 and Clause 3 of Article 14 of the Central Bank Act, the Board of Eesti Pank decided to **stop issuing CDs of Eesti Pank** as of 20 May 2000.

Also, the Decision of the Board of Eesti Pank from 7 October 1992 **On Loan Certificates** (see Eesti Pank Quarterly Review 1993:1, p 17) was declared null and void.

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IMF mission (on Article IV) arrived in Estonia and stayed until 4 May.

27 April

An extended **press conference** took place in Eesti Pank's Independence Hall where Governor **Vahur Kraft** gave his programmatic farewell speech. Deputy Governor **Peter Lõhmus** and Director **Valdur Laid** commented on the European Central Bank's statement on the currency board as one possible solution in joining the ERM2, the strategy of the reform of the Estonian monetary policy operational framework, the main factors that affected the 1999 financial results of Eesti Pank, the sale of Eesti Pank's share in Optiva Pank and the decision to stop issuing certificates of deposit.