

CHRONICLE OF MONETARY POLICY OF 2001

JANUARY

1 January

Greece became the 12th member of the European Monetary Union. The exchange rate of the drachma to the euro is 340.75:1 and to the Estonian kroon 21.7779 GRD = 1 EEK.

4 January

The international rating agency Moody's Investors Service in its 2000 report estimated Estonia's rating outlook to be *stable*.

In September 1997, Moody's assigned Estonia's long-term foreign currency rating **Baa1**, which is also the ceiling rating for bonds, notes and bank deposits. Among Central and East European countries the same rating has been assigned to Poland and the Czech Republic, the ratings of Hungary and Slovenia are one notch higher. Latvia's rating is slightly lower, at Baa2, and Lithuania's is Ba1. Estonia's short-term rating is **P-2**.

In its report Moody's gives a positive evaluation to Estonia's market economy reforms, but expects the results of several ongoing reforms (the pension reform, creation of a unified financial supervision authority) and clarity in the timeframe of EU accession.

Moody's points to the positive developments in the Estonian economy, such as

- radical reforms, good business climate, well-developed infrastructure and skilled workforce that have attracted foreign investments. Foreign investments, in turn, have had a considerable impact on the technological basis of industry and reorientation to Western markets. In exports, the share of high-tech and higher value-added products is increasing;
- although the private sector's foreign debt has increased relatively rapidly, its ratio to the GDP remains moderate. Special mention is made of the low debt burden of the public sector;
- Estonian economy has demonstrated adequate flexibility in successfully and relatively quickly overcoming the recession that resulted from the Russian economic crisis;
- consolidation, foreign ownership and improved supervision have considerably strengthened the banking sector after 1998.

Under problems Moody's mentions the following aspects:

- The current account deficit is still large and can increase vulnerability to external shocks. In recent years, foreign direct investments have considerably increased external debt. Nearly 35% of foreign debt is short-term;
- it is important to maintain competitiveness. Although productivity has recently increased faster than real wages it should not be forgotten that in other Baltic countries the labour costs are lower. The increase of the real exchange rate of the kroon has also been remarkable;
- Estonia's fiscal policy has to remain conservative. In view of the pension and health care reforms and costs related to joining NATO and the European Union, lowering of the tax burden in the coming years is quite an ambitious plan;
- in order to lower structural unemployment it is important to constantly adjust the education system and liberalise the labour market.

For more, see Moody's Investors Service web site at <http://www.moody.com>

9 January

The Bank for International Settlements (BIS) announced the withdrawal of all shares held by its private shareholders. The ownership of BIS shares is restricted exclusively to central banks. 13.7% of the BIS shares were held privately.

11 January

Kristjan-Erik Suurväli was appointed General Director of the Securities Inspection; his earlier post was lawyer of the Banking Supervision Department of Eesti Pank.

25 January

Decisions of the Board of Eesti Pank

On the Strategic Development Plan of Eesti Pank

The Board of Eesti Pank approved the Strategic Development Plan and Activity Guidelines of Eesti Pank for 2001–2003, which put a clear emphasis on the priority of issues related to the European Union.

* * * * *

On Releasing Members of the Executive Management of Eesti Pank

From 1 January 2001, the Board released from the duties of the member of the Executive Management the Head of the Central Accounting Department **Andres Penjam** and the former Director of the Bank **Valdur Laid**. The contract of the latter has been suspended for his training period in Switzerland. The Decision of the Board derived from changes in the Statute of Eesti Pank and the resulting changes in the organisational structure of the bank.

* * * * *

The Board of Eesti Pank approved in principle the creation of the Strategic Initiative Centre.

31 January

Decree of the Governor of Eesti Pank

On Changes in the Governor of Eesti Pank Decree from 19 October 1999 On Public Disclosure Reports of Credit Institutions

Proceeding from the Decrees of the Governor of Eesti Pank from 28 June 2000 *On Changes in Deadlines for Submitting Consolidated Reports of Credit Institutions* (see Eesti Pank Bulletin No 6, 2000, p 18) and from 22 December 2000 *On Reports of Credit Institutions* (see Eesti Pank Bulletin No 1, 2001, pp 7 to 8), and Article 91, Sections 1 and 3, and Article 92, Section 2 of the Credit Institutions Act:

1. The following amendments were made in Chapter II (Content of Public Disclosure Reports) of the *Procedure for the Preparation of Public Disclosure Reports of Credit Institutions*, endorsed by the Decree of the Governor of Eesti Pank from 19 October 1999 *On Public Disclosure Reports of Credit Institutions* (see Eesti Pank Bulletin No 6, 1999, p 13 and the web site of Eesti Pank at <http://www.ee/epbe>):

1) Subclause 6 of Clause 4.9.5 was reworded as follows:

“6) Earnings per share (EPS) is calculated pursuant to the instruction “Calculating and indication of the financial figure – earnings per share” approved by protocolar resolution No 4-2 of the meeting of the Accounting Standards Board of the Republic of Estonia held on 11 March 2000.”;

2) Clause 5.4.1 was reworded as follows:

“5.4.1. The balance sheet of the credit institution shall be prepared based on the Decree of the Governor of

Eesti Pank of 22 December 2000 No 12 *Reports of Credit Institutions.*”;

3) Clause 5.4.2 was reworded as follows:

“5.4.2. The balance sheet of the Group of credit institutions shall be prepared based on the Decree of the Governor of Eesti Pank of 6 March 1998 No 9 *Preparation of Consolidated Reports of Credit Institutions.*”;

4) Clause 5.4.4 was added:

“5.4.4. In the Interim Disclosure Report, the credit institution’s balance sheet entries confirmed by the Decree of the Governor of Eesti Pank of 22 December 2000 No 12 *Reports of Credit Institutions* shall be presented, and only the row “Total” shall be disclosed.”;

5) Clause 5.6.2 was reworded as follows:

“5.6.2. The profit and loss statement (income statement) of the Group shall be prepared based on the Decree of the Governor of Eesti Pank of 6 March 1998 No 9 *Preparation of Consolidated Reports of Credit Institutions.*”;

6) Clause 5.9.4 was reworded as follows:

“5.9.4. In notes to the Interim Disclosure Report, the impact of changes in accounting policies on the economic results of recent and prior periods shall be explained based on the requirements of the guideline “Preparing interim financial statements”, approved by the protocolar resolution No 4-1 of the meeting of the Accounting Standards Board of the Republic of Estonia held on 11 March 2000.”

2. Regarding the 12 months of 2000, credit institutions shall prepare the Interim Disclosure Report based on the changes introduced by Clause 1 of this Decree.