

THE STRATEGIC DEVELOPMENT PLAN OF EESTI PANK¹

The Mission of Eesti Pank

The mission of Eesti Pank as the central bank of Estonia is to strengthen both domestic and international confidence in the stability and integrity of the Estonian currency and the Estonian monetary system.

The Main Objectives of Eesti Pank

- I. To maintain and ensure the value and integrity of the Estonian kroon in fulfilling the functions of the currency.
- II. To promote the security and stability of the Estonian banking system.
- III. To support the efficiency and development of the Estonian financial system, primarily as regards the payment and settlement systems.
- IV. To meet the cash demand of the public.

The Activity Guidelines of Eesti Pank for 2001–2003

I. Key Principles

1. Pursuant to the main objectives of Eesti Pank and the necessity to ensure economic stability and smooth convergence with the European Economic Area, Eesti Pank considers the continuity of the monetary policy based on the fixed exchange rate and currency board arrangement, justified.

2. The objective of monetary and banking policy of Eesti Pank is to ensure Estonia's preparedness to accede the European Union, Economic and Monetary Union and Eurosystem. Eesti Pank enhances co-operation with the European System of Central Banks, European Central Bank and other EU institutions.

3. Eesti Pank does its utmost to ensure the compliance

¹ The Board of Eesti Pank approved The Strategic Development Plan on 25 January 2001.

of monetary and banking policy laws and regulations with the relevant EU legislation. To cope with temporary deviations from the *acquis* in the fields where Estonia is applying for a transition period a relevant schedule and action plan will be prepared for the harmonisation of legislation.

4. Eesti Pank actively participates in the work of international financial organisations within the frame of mutually beneficial international co-operation. The activities of Eesti Pank comply with internationally accepted principles of openness and transparency.

II. Monetary Policy

5. Eesti Pank ensures until Estonia's accession to the European Economic and Monetary Union the credibility and stability of the Estonian kroon by pursuing the fixed exchange rate and currency board arrangement-based monetary policy. The accession of the Estonian monetary system to the EMU will encompass three distinct phases: (1) pre-accession or preparatory phase; (2) after joining the EMU – the status of “the Member State with a derogation”; (3) full participation in the Eurosystem.

6. To increase the efficiency of the currency-board-based monetary policy, Eesti Pank continues to develop the monetary policy framework to converge it with that of the EMU in mid-term and ensure both the domestic and international credibility of the monetary system in a small open economy.

7. Eesti Pank advises the government in monetary and banking policy issues. The bank participates in public economic policy discussions, which influence the fulfilment of the central bank's constitutional objectives, and in drawing up Estonia's long-term economic programme to ensure long-term monetary policy consistency.

8. Eesti Pank has an integral approach to basic economic and monetary policy issues and its economic and monetary policy analyses and discussions are based on sophisticated analysis and forecast methods.

III. Financial Sector and Supervision

9. The objective of Eesti Pank's financial sector policy, including banking policy is to ensure the credibility of the financial sector and its full preparedness to join the European Union and the European single market.

10. Eesti Pank supports the formation of unified financial supervision to achieve efficient supervision in all parts

of the financial sector. Setting up unified financial supervision, the prime objective of Eesti Pank is to ensure that during and after the unification process the capability of supervision, first and foremost, that of banking supervision will not decrease. Eesti Pank maintains supervision know-how at the central bank if necessary.

11. Eesti Pank pursues international standards and practice in its supervision activities. Considering the susceptibility of the financial sector to micro and macro risks, Eesti Pank maintains tighter than international prudential ratios and other regulations if necessary.

12. Safeguarding the financial sector stability and dividing responsibility between the private and public sectors, Eesti Pank puts greater emphasis on enhancing market discipline through transparent activity and disclosure of the risks taken. Eesti Pank underlines the necessity to pursue good banking practice as well as to strengthen the self-control and corporate governance of market participants.

13. Shaping banking policy, Eesti Pank pays more attention to competition in the banking sector in order to establish prerequisites for increasing the banking sector efficiency and make it internationally competitive through financial sector openness, enhanced domestic competition and normative base.

14. Eesti Pank helps to develop the operational framework of the financial system, which should ensure financial sector stability, credibility and transparency as well as the cheapest possible solution for the society in case of potential systemic concerns.

15. Considering the deepening integration of Estonian financial markets with foreign markets through credit institutions' operational expansion and internationalisation of owners, Eesti Pank is going to strengthen co-operation with supervisory authorities and central banks of other countries. The central bank focuses on maximum supervisory effectiveness in distributing functions and arranging co-operation.

16. In order to ensure monetary policy efficiency and financial stability Eesti Pank takes part in developing operational framework for other financial intermediaries as well.

IV. Other Main Fields of Activity

17. Eesti Pank strives to improve the awareness of the public through its statistics-related activities. Apart from banking statistics the bank continues expansion of the statistical base of financial intermediation and gathering

of data directly from market participants and competent authorities. Collecting and publishing statistics, Eesti Pank is cost effective and follows recognised international standards, recommendations and best practice.

18. Eesti Pank aims at the least expensive currency circulation system complying with international requirements and meeting best the needs of Estonian society. The central bank supports reduction of cash in currency circulation in order to enhance the efficiency of currency circulation and promotes developing of necessary infrastructure and legal environment for the use of non-cash payment instruments. In cash circulation, Eesti Pank proceeds from international security and quality requirements.

19. Eesti Pank establishes Real-Time Gross Settlement System (RTGS) for large-value transactions and launches Designated Time Net Settlement System (DNS) for low-value transactions to make the Estonian kroon settlement systems more secure, faster and efficient and to comply with the requirements and regulations of the European Union. The bank supports private initiative in developing and administering other infrastructure components of financial intermediation acting, if necessary, as a directing and controlling party to the process.

20. Investing the central bank's foreign currency reserves, Eesti Pank proceeds from the conservative risk restrictions, preferring the preservation and liquidity of

instruments in earning investment income.

V. Organisation of Eesti Pank

21. Eesti Pank improves its administrative capacity and aims at developing a more expedient and sustainable organisation in the changing environment.

22. In order to enhance its organisational activity and performance, Eesti Pank develops strategic planning, improves operational risk management and work processes as well as makes use of resources more economical and rational.

23. Eesti Pank continues bringing its organisational structure and job management step by step into compliance with the requirements arising from accession to the European Union and European Economic and Monetary Union.

24. Eesti Pank applies human resources management policy which complies with up-to-date requirements, central bank and other public sector organisations, supports member initiative and innovativeness as well as on-going studies in compliance with the above and the needs of the organisation.

25. Eesti Pank uses all the means at its disposal to make the public aware of its main objectives and efficiency of operational performance.