EESTI PANK CHANGED CREDIT INSTITUTIONS' RESERVE REQUIREMENT CALCULATION BASE

FACT

From Decision No 11-2 of the Board of Eesti Pank
Credit institutions' reserve requirement
(Adopted on 31 October 2002)

1. In order to secure liquidity buffers, stabilise money market interest rates and ensure smooth operation of the payment system the reserve requirement is established to credit institutions.
2. The reserve requirement calculation base:
   2.1. the reserve requirement calculation base includes all balance sheet liabilities obtained by way of incorporation of external liabilities, including subordinated liabilities and amounts payable to other credit institutions;
   2.2. off-balance sheet liabilities are calculated into the reserve requirement calculation base according to the procedure established by the Governor of Eesti Pank;
   2.3. the reserve requirement calculation base does not include amounts payable to domestic credit institutions and to Eesti Pank.
3. The reserve requirement has general ratio and special ratio. The reserve requirement general ratio forms 13% of the reserve requirement calculation base. The general ratio is used as special ratio until special ratio is established.
4. The reserve requirement special ratio is applied to the following liabilities belonging to the reserve requirement calculation base:
   4.1. time deposits, savings deposits and other deposits with the maturity of over two years and amounts owed;
   4.2. repurchase agreements;
   4.3. issued debt securities with maturity of over two years;
   4.4. amounts owed to foreign credit institutions.
5. The reserve requirement general ratio is applied to all other liabilities belonging to the reserve requirement calculation base.
6. Credit institutions have to keep the reserve requirement on the account with Eesti Pank or in high quality external assets determined by Eesti Pank. In meeting the reserve requirement, the calculation of EEK cash and external liabilities shall be established by the Governor of Eesti Pank proceeding from the following conditions:
   6.1. in meeting the reserve requirement, the calculation of external assets is allowed to be up to 50% of the total reserve requirement;
   6.2. in meeting the reserve requirement, the calculation of EEK cash is allowed to be up to 20% of the total reserve requirement.

7. The reserve requirement is met as a monthly average.
8. To declare invalid Decision No 5-2 of the Board of Eesti Pank "Reserve requirement of credit institutions" of 7 May 1996; Decision No 7-2 of the Board of Eesti Pank "Amendment to the credit institutions' reserve requirement calculation base" from 15 June 1998; Decision No 7-6 of the Board of Eesti Pank "Credit institutions' reserve requirement ratio and assets accepted in meeting the reserve requirement" of 25 April 2000 and Clause 3 of Decision No 5-2 "Amendment to the capital adequacy ratio" from 15 April 1997.
9. The Decision enters into force on 1 March 2003.

COMMENTS

Within Stage II of the Estonian monetary policy operational framework reform the Board of Eesti Pank resolved to change the reserve requirement calculation base. The changes proceed from the reform strategy approved by the Board on 25 April 2000 the aim of which was to approximate the Estonian reserve requirement framework to that of the European System of Central Banks.

Stage I of the reform lasted until end of June 2001. From 1 July 2001 when Stage II of the reform began, the Estonian credit institutions were allowed to invest up to 50% of their reserve requirement into high quality liquid debt securities tradable on international markets. Stage II of the reform lasts until Estonia's accession to the European Economic and Monetary Union and its aim is to harmonise our monetary policy framework, including the reserve requirement system, with that of the European Economic and Monetary Union.

The Board of Eesti Pank resolved that from 1 March 2003, in calculating the reserve requirement base the liabilities will be differentiated according to their term and type. In the eurosystem different ratios of the reserve requirement are applied to the liabilities. Analogous principle will be applied in Estonia too.

In addition, it was resolved that the so-far net debt to foreign credit institutions will be replaced with a gross claim, ie Estonian credit institutions cannot deduct the claims to foreign credit institutions from the liabilities to foreign banks. Subordinated liabilities and government lending and counterpart funds will also be included in the reserve requirement calculation base.

The Decision of the Board of Eesti Pank is not related to the measures taken by the central bank in autumn 2002 to balance the Estonian economy but proceeds from the reform strategy only. The principles of the Estonian monetary policy and fixed exchange rate of the kroon remain unchanged until the accession to the European Economic and Monetary Union.