

REFORM OF MONETARY POLICY OPERATIONAL FRAMEWORK CONTINUES

FACT

The Governor of Eesti Pank's Decree No 1 from 3 February 2003 established the **reserve** and **standing deposit facility interest rates** for credit institutions, and Decree No 2 endorsed the **procedure for calculating and meeting the reserve requirement**.

In accordance with the provisions of Decision No 11-2 "Credit Institutions Reserve Requirement"¹ adopted on 31 October 2002, the Board of Eesti Pank on 18 February 2003 decided to **maintain the special ratio of credit institutions' reserve requirement on the same level as the general ratio of the reserve requirement (13%)**.

COMMENT

The main aim of the reserve requirement of credit institutions is to sustain adequate liquidity buffers in the Estonian financial sector and smooth the functioning of the settlement system.

The Decree 'Procedure for Calculating and Meeting the Reserve Requirement' regulates the reserve requirement calculation base and the respective reporting format for credit institutions. Changes in the calculation base of the reserve requirement arise from the reserve requirement calculation principles of the European System of Central Banks. This is a step towards gradual convergence of the Estonian monetary policy operational framework to the ESCB rules and the requirements of the European Economic and Monetary Union.

The Decree is based on the 31 October 2002 Decision No 11-2 'Credit Institutions Reserve Requirement' of the Board of Eesti Pank, and it replaces a similar decree dating from 2000. Credit institutions submitted their first reports under the new format on 25 February 2003.

¹ See Kroon & Economy, No 1, 2003, pp 88–89.

The aim of the **Decree ‘Establishing the Reserve and Standing Deposit Facility Interest Rates’** is to distinguish between the reserve interest rate and the standing deposit facility interest rate as separate monetary policy instruments. Similar instruments are being used in the ESCB member countries. Eesti Pank pays reserve interest rate to credit institutions for their monthly average reserve holdings with Eesti Pank that did not exceed the minimum level of the reserve requirement, and standing deposit facility interest rate for monthly average reserves that exceeded the minimum level of the reserve requirement. Both rates equal the deposit interest rate of the European Central Bank of the final banking day of the month. The central bank proceeds from the 360-day year and 30-day month in calculating the interest rates.

The Decree is based on the 31 October 2002 Decision No 11-1 of the Board of Eesti Pank ‘Remuneration of Funds Held at the Credit Institutions’ Settlement Accounts with Eesti Pank’ and replaces an earlier similar decree. The new legal act straightened the structure of the decrees, leaving interest rates unchanged.

On 31 October 2002 the Board of Eesti Pank decided that **under the regulations enforced from 1 March 2003, when calculating the reserve requirement base, liabilities are distinguished by the structure of maturities and by categories, and different ratios of reserve requirement are applied, similar to the practice used by the ESCB.** On 18 February 2003, the Board of Eesti Pank established the special and general ratio of the reserve requirement, which both amount to 13%.