

## **MEASURES OF EESTI PANK IMPLEMENTED IN 2006**

*Contrary to expectations, Estonia's economic growth did not decelerate in the autumn of 2005 but rather picked up. The external balance, which had improved in the first half-year, began deteriorating. In order to minimise risks and promote balanced development, Eesti Pank made a decision at the end of 2005 to enforce new procedures for calculating capital adequacy as of March 2006.*

*According to the new procedure, banks had to increase the risk weight used for calculating capital adequacy to 100% from the earlier 50%. This amendment increased the share of banks' own funds in financing housing loans.<sup>1</sup> Banks reacted by increasing their own funds at the expense of retained earnings. Money from the parent banks abroad was also further included.*

*Although banks' increased liquidity buffers added to the stability of the financial sector, the growth rate of housing loans showed no sign of slowing down. Therefore, Eesti Pank decided at the beginning of July to raise banks' reserve requirement from 13% to 15% from 1 September 2006. This also aimed to limit risks to the Estonian economy arising from the rapidly growing domestic demand and mortgage borrowing.*

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<sup>1</sup> See the background information "Regulations on housing loans" of the Monetary Developments and Policy Survey, March 2006.