90 years ago: the beginning

In 1929, on the tenth anniversary of Eesti Pank, looking back at the emergence of an independent Estonia, Juhan Kukk, the former Governor of the Central Bank, said,

The foundation of every independent and sovereign state is its economic independence. /–/ In 1919, the country's financial expenses amounted to 713,952,000 marks. /–/ To cover these expenses, the State Treasury had at its disposal: a) state taxes and incomes from public undertakings in the sum of 150,700,000 marks; b) a domestic loan amounting to 9,500,000 marks; and c) a foreign loan of 322,000,000 marks, making 482,200,000 marks in total. The missing share, 583,892,000 marks, was covered by cash. /–/

Private banks actually had no capital: some had left it in Russian banks, while others had lost it in various ways in the turmoil of war and revolution. Nobody dared or wanted to deposit their money in banks because of the ever-looming question of whether and in which sums funds could be withdrawn in case of need. The old Russian rouble was the most highly valued currency among people. /–/ All other currencies were accepted only involuntarily. /–/

Initially, only government bonds circulated as Estonian currency, although this did not boost respect towards it. Foreigners mockingly called them "vabamaa" (freeland) and Estonians dubbed them "kuked" (roosters) and "pätsud" (after President Päts).

Under such circumstances, on 24 February 1919, at a meeting celebrating the first anniversary of the Republic of Estonia, the Provisional Government resolved to establish Eesti Pank, approved the Statutes of the bank and decided to start issuing their own currency. Juhan Kukk proceeds:

The Provisional Government knew that these tasks could not be executed by the Parliament or Government, but an autonomous institution had to be created where all the country's key economic fields would be represented and where purely political interests could not be enforced on the account of economic interests, which would be detrimental to politics as well as to the economy.[1]

The first means of payment in the newly-independent Estonia, the first national currency

During the initial years of the newly-independent Republic of Estonia, multiple securities issued by various institutions were used as means of national payment.

On 4 January 1919, the Provisional Government declared the payment notes of the Clearing House of Tallinn, which had initially been intended for intra-agency use only, as the national means of payment.

On 23 November 1918, the Estonian National Council (Eesti Maapäev) decided to issue 5% short-term Government bonds to acquire cash for the immediate expenses of the state, which obtained the status of legal tender on 16 January 1919. On 9 December 1918, the Provisional Government gave the Ministry of Finance the right to issue national treasury notes. The currency of the Estonian Republic was named the mark after the currency of our Nordic neighbours.

Eesti Pank commenced issuing the Estonian Republic's first "real" money alongside the State Treasury in 1919. The sole right to issue bank notes was given to Eesti Pank only by the new Bank Act passed in 1928. (The sole right was referred to before as well; e.g., the 100-mark bank note issued in 1921 boasts a notation concerning Eesti Pank's sole right to issue currency in the

[1] J. Kukk. Kui Eesti Pangale alus pandi. Eesti Pank 1919–1929, pp 11–13.

bottom left corner.) Pursuant to the Statutes of Eesti Pank, the mark was supposed to be equal to the French gold franc: 0.2903225 grams of pure gold. However, there were no assets backing the kroon neither in gold nor in trustworthy foreign currencies. The gold clause was annulled in 1922. The reliability and stability of Estonia's first very own currency was also undermined by the extensive national defence expenses resulting from the War of Independence.

Eesti Pank commenced operating as the Central Bank of the Government, while simultaneously operating as a commercial loan bank. Commercial assets also served as provisions for the bank notes issued. Due to the dire economic circumstances no other solution was feasible for the time being. The bank notes issued during that first period were basically uncovered paper that did not gain the trust of market participants. According to its official gold content, a dollar equalled 5.2 marks, but the official dollar exchange rate determined by Eesti Pank's exchange rate committee at the beginning of 1919 set it equal to 45 marks, while the free market exchange rate was 120 marks to the dollar.

The situation was not improved by the 15 million gold roubles received from Russia upon the conclusion of the Tartu Peace Treaty. The gold went to the Government and through the State Treasury it was used to cover the Government's operational costs, including communicating with the external world to obtain the necessary converted external funds. At the beginning of 1920, fixing the Estonian mark's exchange rate became the responsibility of the Tallinn Committee of Banks and a year later that of the Tallinn Stock Exchange. In 1924, the dollar's stock exchange rate had already exceeded 400 marks. In addition, the mark's drop rate was also influenced by currency speculation.

Preparations for the monetary reform – updating the framework

On 20 June 1924, the Riigikogu enforced a new currency – the Estonian gold kroon. The gold kroon was subdivided into a hundred Estonian marks and equalled 0.403226 grams of pure gold. All loans in Eesti Pank and private banks were revalued in kroons. Thereafter, loan contracts could be concluded and securities issued in kroons. In reality, the gold kroon never went into circulation and thus ordinary settlements were made with marks using the daily exchange rates determined by the Stock Exchange. This reduced currency speculation and increased trust in the circulating mark.

One of the main goals of the planned monetary reform was to replace the Estonian mark with a real and internationally recognised national currency backed by reserves. The years 1925–1927 were economically favourable for preparing the monetary reform: Estonian exports exceeded imports, state budget revenues surpassed expenditures and money circulation remained stable. The reserves backing the mark still consisted mainly of commercial assets.

The idea that external borrowing was the only solution had already been developed at the beginning of the 1920s. Eesti Pank turned to the government with a respective proposal and a plan was devised to reorganize the bank as a central bank. In 1927, the Republic of Estonia received a foreign loan of 1,350,000 pounds sterling with the support of the League of Nations. 1,000,000 of that was transferred to Eesti Pank in order to base the domestic currency on gold. Meanwhile, the Government and bank's liabilities and claims were also settled. Thus, neither party had any remaining claims or liabilities pertaining to the other party. The Currency Act that took effect on 1 January 1928, and the Statutes of Eesti

Pank that were enforced as a legislative instrument, laid the foundation for the new monetary system. The gold content of the kroon was fixed at 0.403226 grams, similar to that of the gold kroon. Thereon, only gold, liability-free and freely convertible foreign currencies were included in the reserves backing the kroon. The new Statutes of the Central Bank demanded provisions for at least 40% of the circulating bank notes and other continuous liabilities. The operations of Eesti Pank were changed from commercial to central bank principles (in the form that had been internationally established at the time). The fixed capital of Eesti Pank was increased to five million kroons. The measures taken provided suitable conditions for launching a stable currency.

Economic crisis

The first signs of crisis appeared in the global economy soon after the launching of the kroon. The effects of the crisis first appeared in the decrease of goods exports, which had already begun in 1929. At the time, over half of Estonian exports were agricultural products, which were mostly exported to England and secondly, to Germany. Regarding imports, the main trading partner was Germany, followed by the USA and England. With regard to the extent of economic liaisons and the stability of economic partners, the largest share of the reserves backing the kroon was placed in pounds sterling.

In 1931, England abandoned the gold standard. This caused a steep fall in the exchange rate of the pound sterling. In the financial results of Eesti Pank that year, this was reflected as a deficit of 3.9 million kroons, which could have been redeemed by devaluing the kroon. However, this was avoided primarily because it would have been seriously detrimental to the reliability of the relatively recently launched currency. In the meantime, import restrictions and several extraordinary measures were applied. For instance, propaganda for devaluation was banned. The stability of the kroon could formally be maintained for a while.

However, as production volumes diminished sharply and especially as the foreign trade balance turned negative, the devaluation of the kroon became inevitable. On 23 June 1933, the kroon was devalued by approximately 35%. Initially, the new value was set according to the exchange rate of the Swedish kroon, which was pegged to the pound sterling. However, considering the leading position of England in Estonian exports, on 1 November 1933, the kroon was directly pegged to the pound sterling: 1 pound sterling equalled 18.35 kroons.

In the increasingly complex circumstances of the end of the 1930s, the Estonian kroon remained stable and reliable both internationally and domestically. The kroon's peg to the pound sterling remained unchanged until 1940.

The economic crisis and the measures adopted to cope with it proved to the central bank's management the importance of having reliable reserves backing the kroon for the smooth operation of the monetary system. At the time, the best option was gold. Thereafter, the share of gold in the reserves was deliberately increased from 33% in 1931 to 66% in 1939. It was unforeseeably essential to the later resurrection of the kroon.

War and period of occupation

The violent incorporation of Estonia into the Soviet Union interrupted the operations of Eesti Pank for half a century. It began on 10 October 1940, when the State Bank of the USSR took over Eesti Pank. This was followed by exchanging kroons and converting kroon accounts to roubles.

Already at the beginning of July 1940, immediately after the coup of 21 June, the authorities of the Soviet Union started making efforts to acquire the Estonian gold and foreign exchange reserves of Eesti Pank that were deposited abroad. The Soviet-friendly government of Johannes Vares that came to power adopted several secret resolutions regarding the gold and foreign exchange reserves, giving orders that were illegal pursuant to the legal framework of the time. Eesti Pank was forced to sell its gold to the State Bank of the USSR and transfer its foreign exchange reserves to Eesti Pank's account in the State Bank of the USSR in Moscow. The bank's justified objections were ignored, but international defence mechanisms stepped in and disrupted the initiated process. Largely thanks to the protest of the USA, the central bank's gold reserves remained untouched with one exception.

Half a century later, after regaining independence, the Estonian central bank got back the gold deposited abroad, which amounted to approximately 11.3 tonnes. This laid the foundation for the reserves backing the new Estonian kroon in 1992. The relatively large share of gold among the reserves helped to keep it through the years of occupation. The accounts in convertible currencies had considerably better liquidity; they were harder to protect. However, preserving the gold was not easy either. The Soviet Union's authorities aggressively continued trying to retrieve Estonia's gold from the BIS (the Bank for International Settlements) until the end of the 1980s.

Instead of trustworthy money, the currencies circulating on Estonian territory were roubles and German marks without real reserves backing them up.

Re-establishment of Eesti Pank, resurrection of the kroon

Eesti Pank was re-established when Estonia was still a part of the Soviet Union. It was done pursuant to the Bank Act of Soviet Estonia adopted in December 1989. The first Governor of the newly re-founded Eesti Pank, Rein Otsason, was appointed to office on the day of the law's passage.

On 1 January 1990, Eesti Pank started operating again after a pause of fifty years. It began under quite peculiar conditions: in two little rooms at a time when Estonia was not yet independent and while another central bank was also operating in Estonia besides Eesti Pank.

Preparations for future changes in the monetary system started almost immediately after the re-establishment of Eesti Pank, although the initial idea – to have already adopted our own currency by the end of 1990 – could not be realised. Rebuilding Eesti Pank as an organisation also started at the same time, a process that had to be done nearly from nothing.

The first Supervisory Board of Eesti Pank was appointed by the Presidium of the Supreme Council on 22 January 1990, with 5 members. By their office, both the Governor of the bank as well as the Minister of Financial Affairs belonged to the Supervisory Board. The offices of the Chairman of the Supervisory Board and that of the Governor were separated by the Amendment Resolution of the Bank Act on 26 June 1990.

One of the first major organisational tasks was to formulate the Statutes of Eesti Pank. The Supreme Council approved them on 15 March 1990. In addition to the Statutes, the Bank Act was also amended and resolutions regulating the foundation and operation of banks were adopted. The council fulfilled tasks that are nowadays fulfilled by the central bank's management; therefore, the council also discussed Eesti Pank's structure and organisation of work.

In the beginning, the range of tasks of the re-established Eesti Pank was also slightly obscure.

Supervisory Board and Executive Board of Eesti Pank in 1919–2009

Supervisory Board of Eesti Pank before World War II	
1921	E. Aule, J. Sihver, L. Sepp, K. Baars, A. Janson, E. Kuusik, J. Laidoner, M. Luther, A. Teetsov, A. Uibopuu, A. Uesson, K. Wirma
1922	E. Aule, J. Sihver, L. Sepp, K. Baars, A. Janson, E. Kuusik, J. Laidoner, M. Luther, A. Teetsov, A. Uibopuu, A. Uesson, K. Wirma
1923	E. Aule, J. Sihver, L. Sepp, K. Baars, E. Kuusik, J. Laidoner, M. Luther, A. Teetsov, J. Tõnnisson, A. Uibopuu, A. Uesson, K. Wirma
1924	E. Aule, J. Kukk, T. Vares, K. Baars, J. Laidoner, M. Luther, J. Puchk, A. Teetsov, A. Tofer, J. Tõnnisson, K. Wirma
1925	A. Uibopuu, J. Kukk, P. Öpik, A. Jürmann, J. Laidoner, H. Leesment, M. Luther, J. Puhk, O. Strandman, A. Tofer, J. Tõnisson, K. Virma
1926	A. Uibopuu, J. Jaakson, P. Öpik, J. Kivisild, A. Jürmann, J. Laidoner, H. Leesment, M. Luther, J. Puhk, O. Strandman, A. Tofer, J. Tõnisson, K. Virma
1927	J. Jaakson, P. Öpik, J. Kivisild, A. Jürmann, J. Laidoner, H. Leesment, M. Luther, J. Puhk, O. Strandman (until September), A. Tofer, J. Tõnisson, K. Virma
1928	J. Jaakson, J. Hansen, Chr. Kaarna, A. Kask, J. Kivisild, R. Kuris, M. Luther, G. Vestel, K. Virma
1929	J. Jaakson, J. Hansen, Chr. Kaarna, A. Kask, J. Kivisild, M. Luther, J. Puhk, J. Veske, G. Vestel, K. Virma
1930	J. Jaakson, J. Hansen, Chr. Kaarna, A. Kask, J. Kivisild, M. Luther, J. Puhk, J. Veske, G. Vestel, K. Virma
1931	J. Jaakson, J. Hansen, Chr. Kaarna, A. Kask, J. Kivisild, M. Luther, J. Puhk, J. Veske, G. Vestel, K. Virma
1932	J. Jaakson, J. Hansen, Chr. Kaarna, A. Kask, J. Kivisild, M. Köstner, M. Luther, J. Puhk, J. Veske, G. Vestel, K. Virma
1933	J. Jaakson, M. Jänes, J. Hansen, Chr. Kaarna, J. Kivisild, M. Köstner, J. Laidoner, M. Luther, J. Puhk, J. Veske, K. Virma
1934	J. Jaakson, J. Hansen, Chr. Kaarna, M. Köstner, J. Laidoner, M. Luther, J. Puhk, J. Rosenfeldt, J. Sihver, J. Veske, K. Virma
1935	J. Jaakson, J. Rosenfeldt, Chr. Kaarna, J. Hansen, M. Köstner, M. Luther, J. Puhk, J. Sihver, J. Veske, K. Virma
1936	J. Jaakson, E. Arnover, K. Kaarna, M. Köstner, M. Luther, J. Puhk, J. Rosenfeldt, E. Saar, J. Sihver, N. Teliste, J. Veske, K. Virma
1937	J. Jaakson, E. Arnover, A. Eslas, K. Kaarna, A. Kuller, M. Köstner, R. Käsper, M. Luther, J. Rosenfeldt, E. Saar, J. Sihver, N. Teliste, K. Virma
1938	J. Jaakson, E. Arnover, A. Eslas, K. Kaarna, M. Käbin, R. Käsper, M. Köstner, M. Luther, J. Rosenfeldt, J. Sihver, N. Teliste, M. Vinnal
1939	J. Jaakson, K. Kaarna, P. Kurvits, M. Käbin, R. Käsper, M. Köstner, M. Luther, J. Raudava, J. Rumberg (in place of N. Teliste), N. Teliste, A. Tõnisson (in place of M. Luther), M. Vinnal
1940	J. Jaakson, K. Kaarna, J. Rosenfeldt, P. Kurvits, M. Köstner, M. Käbin, R. Käsper, A. Tõnisson, M. Vinnal, J. Rumberg
Re-independent republic	
22.01.1990–14.11.1990	
	R. Otsason (Governor 28.12.1989–18.09.1991), R. Hagelberg, E. Mändmaa, S. Kallas, V. Porfirjev (substitute: M. Sõrg)
15.11.1990–23.06.1993	
	R. Otsason, S. Kallas (Governor as of 23.09.1991), A. Veetõusme (Chairman as of 13.05.1991), R. Hagelberg, R. Jalakas (Adviser as of 26.10.1993), R. Miller, I. Proos, M. Sõrg, Ü. Uluots, U. Mereste (Member as of 23.09.1991, Chairman as of 16.12.1992), M. Üürike (as of 21.10.1992)
1993	U. Mereste (Chairman), R. Hagelberg, R. Jalakas, S. Kallas, I. Proos, M. Sõrg, Ü. Uluots, A. Veetõusme, M. Üürike
23.06.1993–13.10.1998	
1993	U. Mereste (Chairman), A. Erm, R. Hagelberg, A. Hansson, S. Kallas, H. Kranich, K. Kukk, I. Pärtelpoeg, M. Üürike
1994	U. Mereste (Chairman), A. Erm, R. Hagelberg, A. Hansson, S. Kallas, H. Kranich, K. Kukk, I. Pärtelpoeg, M. Sõrg, M. Üürike
1995	U. Mereste (Chairman), A. Erm, R. Hagelberg, A. Hansson, S. Kallas (until 21.03), V. Kraft, H. Kranich, K. Kukk, I. Pärtelpoeg
1996	U. Mereste (Chairman), A. Erm, R. Hagelberg, A. Hansson, V. Kraft, H. Kranich, K. Kukk (substitute: H. Siigur), I. Pärtelpoeg, M. Sõrg
1997	U. Mereste (Chairman until 21.12), A. Erm, R. Hagelberg, A. Hansson, V. Kraft, H. Kranich, K. Kukk, I. Pärtelpoeg (Chairman after U. Mereste), M. Sõrg
13.10.1998–16.02.2004	
1998	M. Sõrg (Chairman as of 18.06), I. Pärtelpoeg, A. Järvesaar, V. Kraft, K. Kukk, M. Meos, H. Meri, M. Pärnoja, J. Sepp, E. Terk
1999	M. Sõrg (Chairman), A. Järvesaar, K. Kukk, V. Kraft, M. Meos, H. Meri, J. Sepp, E. Terk, M. Pärnoja (substitute: K. Jürgenson)
2000	M. Sõrg (Chairman), A. Järvesaar, K. Jürgenson, K. Kukk, V. Kraft, M. Meos, H. Meri, J. Sepp, E. Terk
2001	M. Sõrg (Chairman), A. Järvesaar, K. Kukk, V. Kraft, M. Meos, H. Meri, M. Pärnoja (as of 01.10), J. Sepp, E. Terk
2002	M. Sõrg (Chairman), A. Järvesaar, K. Kukk, V. Kraft, M. Meos, H. Meri, M. Pärnoja, J. Sepp, E. Terk

2003	M. Sõrg (Chairman), A. Järvesaar, K. Kukk, M. Meos, H. Meri, M. Pärnoja, J. Sepp, E. Terk, V. Kraft
17.02.2004–16.02.2009	
2004	M. Sõrg (Chairman), R. Eamets, A. Lipstok, E. Listra, M. Opmann, T. Palts, J. Sepp, L. Tõnisson, V. Kraft
2005	M. Sõrg (Chairman), R. Eamets, V. Kraft (until 07.06), A. Lipstok (as of 07.06), E. Listra, M. Opmann, T. Palts, J. Sepp, L. Tõnisson, H. Õunapuu
2006	M. Sõrg (Chairman), R. Eamets, E. Listra, M. Opmann, T. Palts, J. Sepp, L. Tõnisson, H. Õunapuu, A. Lipstok (until 08.07)
2007	M. Sõrg (Chairman), R. Eamets, E. Listra, M. Opmann, T. Palts, J. Sepp, L. Tõnisson, H. Õunapuu
2008	M. Sõrg (Chairman until 13.06), J. Männik (Chairman as of 13.06), R. Eamets, E. Listra, M. Opmann, T. Palts, J. Sepp, L. Tõnisson, H. Õunapuu
18.02.2009	J. Männik (Chairman), K. Kallo, I. Kull, J. Ligi, E. Listra, T. Palts, L. Tõnisson, U. Varblane
Executive Board of Eesti Pank before World War II	
1919	M. Pung, E. Aule, J. Sihver
1920	E. Aule, J. Sihver, G. Vestel
1921	E. Aule, J. Sihver, L. Sepp
1922	E. Aule, J. Sihver, L. Sepp
1923	E. Aule, J. Sihver, L. Sepp
1924	E. Aule, J. Kukk, T. Vares
1925	A. Uibopuu, J. Kukk, P. Öpik, T. Pielbaum (Acting Director)
1926	J. Jaakson, P. Öpik, J. Kivisild, T. Pielbaum (Acting Director)
1927	J. Jaakson, P. Öpik, J. Kivisild, T. Pielbaum (Acting Director) (Government's Superintendent: N. Köstner, Adviser to the Central Bank: Sir W. Williamson)
1928	J. Jaakson, J. Kivisild, T. Pielbaum (Acting Director), C. Kaarna (Government's Superintendent: N. Köstner, Adviser to the Central Bank: Sir W. Williamson)
1929	J. Jaakson, C. Kaarna, J. Kivisild, F. Tannebaum (Government's Superintendent: N. Köstner, Adviser to the Central Bank: Sir W. Williamson)
1930	J. Jaakson, C. Kaarna, J. Kivisild, F. Tannebaum (Government's Superintendent: N. Köstner)
1931	J. Jaakson, C. Kaarna, J. Kivisild, F. Tannebaum (Government's Superintendent: N. Köstner)
1932	J. Jaakson, C. Kaarna, J. Kivisild, F. Tannebaum (Government's Superintendent: N. Köstner)
1933	J. Jaakson, C. Kaarna, J. Kivisild, J. Rosenfeldt
1934	J. Jaakson, C. Kaarna, J. Rosenfeldt
1935	J. Jaakson, C. Kaarna, J. Rosenfeldt
1936	J. Jaakson, K. Kaarna, J. Rosenfeldt
1937	J. Jaakson, K. Kaarna, J. Rosenfeldt
1938	J. Jaakson, K. Kaarna, J. Rosenfeldt
1939	J. Jaakson, K. Kaarna, J. Raudava
1940	J. Jaakson (until 17.07), K. Kaarna, J. Rosenfeldt, from the coup to the abolishment of Eesti Pank on 10.10.1940 J. Vaabel (Governor), H. Pärtelpoeg (Acting Director), H. Raesaar (Deputy Director)
Re-independent republic	
21.12.1993	S. Kallas (Chairman), V. Kraft, E. Teimann, A. Järvan, U. Kaju
1994	S. Kallas (Chairman), V. Kraft, E. Teimann, A. Järvan, U. Kaju
1995	S. Kallas (Chairman until 21.03), V. Kraft (Chairman as of 27.04), A. Järvan, U. Kaju, H. Meerits, E. Teimann
1996	V. Kraft (Chairman), H. Meerits, E. Teimann, U. Kaju, P. Nirgi, A. Järvan, A. Penjam
1997	V. Kraft, H. Meerits (until 31.12), P. Lõhmus (as of 05.03), U. Kaju (until 18.02), P. Nirgi, A. Järvan, A. Penjam, V. Laid (as of 19.02), R. Minka (as of 19.02)
1998	V. Kraft, P. Lõhmus, H. Meigas (as of 01.06), P. Nirgi (until 13.05), A. Järvan (until 01.07), A. Penjam, V. Laid, R. Minka
1999	V. Kraft, P. Lõhmus, H. Meigas, V. Laid, A. Trink (as of 04.01), M. Ross (as of 22.06), A. Penjam, R. Minka
2000	V. Kraft, R. Minka, M. Ross, A. Trink
2001	V. Kraft, R. Minka, M. Ross, A. Sutt, A. Trink
2002	V. Kraft, R. Minka, M. Ross, A. Sutt
2003	V. Kraft, R. Minka, M. Ross, A. Sutt
2004	V. Kraft, R. Minka, M. Ross, A. Sutt
2005	A. Lipstok, V. Kraft (until 06.06), R. Minka, M. Ross, A. Sutt
2006	A. Lipstok, R. Minka, M. Ross, A. Sutt
2007	A. Lipstok, R. Minka, M. Ross, A. Sutt
2008	A. Lipstok, R. Minka, M. Ross, A. Sutt
2009	A. Lipstok, R. Minka, M. Ross, A. Sutt

By the decision of the Council, state and private enterprises were given credit but later the maturities of the loans had to be extended due to a deep economic crisis; some of the non-recoverable debts even had to be written off. The first Governor of Eesti Pank believed that a major commercial bank should be joined with the central bank – this would provide an opportunity to be financially stronger and more independent. The council firmly opposed this approach, but the Tallinn department of the Soviet Union's Vnesheconombank was nevertheless reformed to manage Eesti Pank's external operations. Later, after the monetary reform, it served as the basis for founding the North Estonian Share Bank.

In November 1989, currency auctions started taking place in the former Soviet Union (Moscow). The first currency auction of Eesti Pank was arranged on 28 June 1990. There were three sellers and buyers. The US dollars offered were bought at the price of 27 roubles. The official dollar exchange rate of the Soviet Union was still 62 kopecks to the dollar – thus, the auction of Eesti Pank showed a 43.5 times difference from the official rate. The first official response of Moscow to the auction's results was painful. The auctions of Eesti Pank nevertheless turned out to be successful and became an acknowledged place for currency exchange in the entire former Soviet Union, with the number of participants reaching 120–140 people. Eesti Pank arranged currency auctions until August 1991. The experience received from this was later useful for the preparation and implementation of the monetary reform.

After the Proposal of Four Men...

The impetus to re-establish Eesti Pank and launch our own currency had again emerged from the Proposal of Four Men,[2] issued in the newspaper *Edasi* on 26 September 1987 under the heading "Complete self-sufficiency for the whole of Soviet Estonia". By developing the thoughts presented and the concept of a self-sufficient Estonia in numerous discussions, the idea of convertible roubles was also generated, which seems quite utopian in hindsight. More importantly, though, the Estonian leadership in developing the territorial self-sufficiency of the Soviet states and all the other consequences that sprung up from the Proposal of Four Men gave a strong impetus towards restoring independence and preparing for the adoption of our own currency.

In the summer of 1990, the Supreme Council of the Republic of Estonia gave Eesti Pank a task to present a specific concept and programme for carrying out the monetary reform to Parliament by 15 November. On 19 July Eesti Pank formed eight working groups with a total of 46 members to develop the reform concept. No members of the Government were included in these working groups. In September, the Government established a committee to arrange the monetary reform.

It was too soon to present the specific principles and programme of the monetary reform – however, several problems that needed to be solved were identified. Both the Government and Eesti Pank concluded that Parliament and the Government were not the most suitable institutions for preparing the detailed plan of the monetary reform. Thus, a proposal to establish a monetary reform committee with extensive powers was added to the Government's concept, with a recommendation to authorise the committee to decide upon any matters linked with the monetary reform. It was presumed that a small team of experts could make important decisions faster and more effectively. The committee was recommended to include the Prime Minister, the Governor of Eesti Pank and a "neutral arbitrator". The concept of Eesti Pank also included a similar proposal.

[2] S. Kallas, T. Made, E. Savisaar, M. Titma.

On 23 January 1991, the concepts and draft acts reached the Parliament's (Supreme Council's) Budget and Economic Affairs Committee. The Committee recommended using both concepts as the basis for the monetary reform and decided to establish a monetary reform committee. On 27 March 1991, the Supreme Council of the Republic of Estonia (Parliament) decided to establish a monetary reform committee with members Edgar Savisaar (later Tiit Vähi and Mart Laar), the Governor of Eesti Pank (Rein Otsason) and an independent scientific member, initially Siim Kallas (later Rudolf Jalakas and Ardo Hansson). The committee was fully authorised to conduct the monetary reform in the Republic of Estonia. Its powers remained valid until 29 June 1995 and it had to report to Parliament.

The building up of our own monetary system started gaining momentum from 20 August 1991, when Estonian independence was restored. Eesti Pank commenced solving all the conceptual, strategic, tactical and technical issues necessary to carry out the monetary reform in the first half of 1992.

Reserves backing the new Estonian kroon

The reserves backing the kroon were created from the pre-war gold of the Republic of Estonia that was returned by the Bank of England and the Bank for International Settlements (BIS), as well as with the foreign funds which the Central Bank of Sweden (Sveriges Riksbank) compensated Estonia for regarding the Estonian gold that had been deposited there before the war.

In October 1991, the Governor of Eesti Pank, Siim Kallas, was authorised by the Chairman of the Supreme Council of the Republic of Estonia, Arnold Rüütel, to represent the Republic of Estonia in negotiations with the BIS and countries where Eesti Pank's gold had been deposited to back the kroon. The powers were legally approved by the Supreme Council of the Republic of Estonia in December of the same year, when the then current Eesti Pank was declared the legal successor of the original Eesti Pank founded in 1919.

The government of Great Britain restored the gold transferred to the Soviet Union in 1967 as a gold account and was also the first to open it in December 1991. Sweden returned the gold given to the Soviet Union in 1940 in equivalent German marks.

Opening the gold accounts was time-consuming and it was no longer sensible to postpone the execution of the monetary reform. Thus, it became necessary to form temporary reserves to back the kroon. At a meeting with the Chairman of the Supreme Council, Arnold Rüütel, a proposal was made to establish the currency reserves of the Republic of Estonia by using the reserve cutting areas of the national forest fund. The Supreme Council approved the formation of the reserves that became known as the "kroon forest" by the decision of 23 January 1992. The reserve was supposed to include reserve cutting areas totalling 150 million US dollars. However, it was not necessary to use these reserves and their importance remained limited to developing a favourable emotional environment. In June 1997, the Riigikogu declared the Supreme Council's decision of 1992, by which a part of the national forest fund had been given to Eesti Pank to form the currency reserve, null and void.

The last gold account – in the New York bank of the US Federal Reserve – was opened on 23 January 1993.

Monetary reform in 1992

On 20 June 1992, Estonia underwent the first and most radical monetary reform among the former countries of the rouble zone. This date meant the actual restoration of Estonia's economic independence. The Estonian kroon was deemed the only legal tender and Eesti Pank the only manager of monetary relations in Estonia. The official exchange rate of the Estonian kroon against the German mark was fixed at 8 EEK = 1 DEM.

Every resident natural person could convert up to 1,500 roubles to kroons within three days at the rate 1 kroon = 10 roubles; i.e., the exchange rate corresponded to the market rate of the German mark and Soviet rouble at the time. The same exchange rate was also used to convert almost all the roubles circulating in Estonia into kroons: deposits, corporate finances, etc. All the laws and other legislation scheduled for the beginning of the monetary reform took effect. Eesti Pank started publishing the daily exchange rates of the Estonian kroon against major foreign currencies. As of the execution of the monetary reform, Estonia adopted a monetary system based on the strict rules of the currency board, which has continued to operate successfully to this day.

Fundamentals of the Estonian monetary system and its development during reindependence

Pursuant to Section 111 of the Constitution, Eesti Pank bears responsibility for currency circulation along with maintaining the stability of the national currency. In addition, the central bank's mission has been phrased pursuant to this heavy responsibility: to guarantee price stability in Estonia. A stable price level offers both companies and individuals a sense of security, thus enabling them to plan their savings, consumption and investment behaviour over a long period. A stable currency is the foundation of a community's successful long-term economic development.

In the Estonian monetary system, price stability is guaranteed by a stable exchange rate. The exchange rate is managed pursuant to the principles of the currency board. The exchange rate of the Estonian kroon is pegged at 1 euro = 15.6466 kroons.[3] The Estonian kroon is freely convertible; i.e., there are no restrictions on the free movement of capital.

The currency board is an automatic system based on stringent rules. In order to maintain the fixed rate of the Estonian kroon, the central bank's liabilities (incl. the monetary base in the economy) must be fully guaranteed by foreign exchange or gold reserves (see Figure 1). The Estonian currency board is not a separate institution but operates as a part of the central bank. Thus, it is not enough for Estonia to have foreign currency reserves only to back the monetary base (as is the case with some different currency boards), but all Eesti Pank's liabilities and given guarantees have to be covered by reserves too.

Eesti Pank operates independently from other state agencies. Under the currency board arrangement, the central bank is prohibited by law to directly or indirectly credit the central government and local governments. Pursuant to the Security of the Estonian Kroon Act, Eesti Pank has no right to devaluate the exchange rate of the kroon.

[3] This is equivalent to the exchange rate of the Estonian kroon to the German mark (1 mark = 8 kroons) established by the monetary reform of 1992.

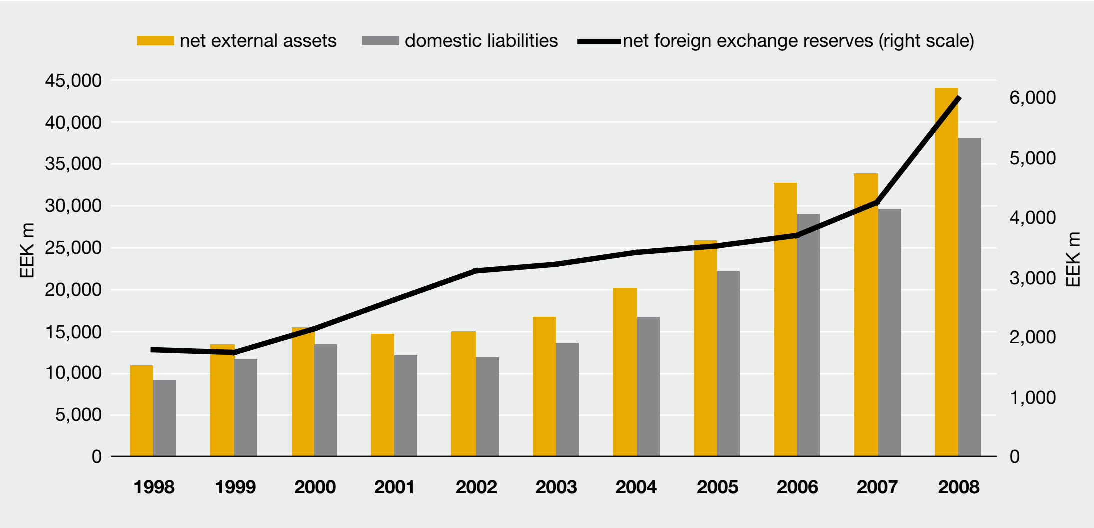

Figure 1. Net external assets, domestic liabilities and net foreign exchange reserves of Eesti Pank

WHAT IS A CURRENCY BOARD?

Despite the relative diversity of modern currency board systems they usually have three common characteristics:

- a fixed exchange rate against the anchor currency;
- currency board obligations – cash and deposits – are fully covered by interest-bearing and high-quality foreign currency reserves;
- the currency is fully convertible for current as well as capital and financial account transactions.

Monetary policy instruments available to Eesti Pank

The **standing facility of buying/selling foreign currency (forex window) and the reserve requirement** for banks are Eesti Pank's key monetary policy instruments. The forex window was created to provide sufficient kroon liquidity to banks. The reserve requirement was established to regulate the liquidity reserves of the financial system.

Because of the fixed exchange-rate system, the Government's fiscal policy plays an essential role in stabilising the Estonian economy. A conservative and balance-oriented budgetary policy is thus vital to ensure the sustainability of the economy. An important precondition for the smooth operation of the currency board is the flexibility of the non-financial sector, especially the labour market. As the exchange rate is fixed, the economy cannot be balanced by exchange rate changes. Therefore, adjustments have to take place in the non-financial sector – in wages and prices.

Reserve requirement and excess reserves (deposit facility)

The reserve requirement for banks was established to regulate the liquidity reserves of the financial system. In a currency board arrangement, a sufficient liquidity reserve is the best means of hedging the liquidity risks of the settlement system and the entire financial system. Compared to other frameworks, the currency board thus gives a much greater weight to the Estonian reserve requirement instrument, which slightly helps to compensate for the lack or limited nature of other instruments.

For these reasons, in Estonia the reserve requirement rate applied under the currency board conditions – currently 15% – is higher than in other EU Member States. Reserves deposited with Eesti Pank are subject to the deposit interest rates of the European Central Bank (ECB) in order to reduce the negative impact of the high reserve requirement rate on the structure of financial intermediation, the interest margin and service charges, and to adapt the operational framework of monetary policy more to the market. In order to create a larger buffer for daily settlements that would help banks reduce the liquidity risk and stabilise the interest rates on the interbank money market, the fulfilment of the reserve requirement is based on the principle of monthly averaging.

To reduce potential market distortions while maintaining large liquidity buffers, foreign assets can be used to meet the reserve requirement. It makes no essential difference from the liquidity aspect whether the reserve requirement is met by kroon deposits or high-quality and liquid foreign assets. This also decreases market distortions, since a part of the reserve requirement is met by market instruments. Accepting foreign assets as a means of meeting the reserve requirement also helps to reduce the minimum reserve level of kroons quite easily, while maintaining sufficient liquidity buffers.

Eesti Pank's forex window

In Estonia's monetary system based on the currency board arrangement, the liquidity of banks is mainly managed via a standing facility of buying/selling foreign currency. Credit institutions holding a licence to operate in Estonia may, according to the applicable procedure,[4] enter into unlimited buying and selling transactions with Eesti Pank regarding the Estonian kroon and foreign currencies (currently ten different currencies). In addition, Eesti Pank may enter into buying and selling transactions with credit institutions regarding any other currencies officially quoted by Eesti Pank and the Estonian kroon or two different foreign currencies officially quoted by Eesti Pank. Banks have the facility to sell securities to Eesti Pank for kroons.[5] So far, the banks have not used that option.

To maintain the high liquidity of the Estonian kroon and facilitate the free movement of capital, there is no difference in the buying and selling rates being applied to transactions regarding the Estonian kroon and the euro. Transactions between the Estonian kroon and the anchor currency – the euro – are performed by Eesti Pank and credit institutions at the rate quoted by Eesti Pank (1 euro = 15.6466 kroons). The absence of exchange rate differences eases the creation of foreign currency liquidity buffers (and using the inclusion of foreign assets to meet the reserve requirement), stabilises interest rates on the

---

[4] Decree No 5 of 14 March 2002 of the Governor of Eesti Pank, "Procedure for exchange transactions between Eesti Pank and credit institutions operating in Estonia".

[5] Regulation No 15 of 29 December 2000 of the Governor of Eesti Pank, "Procedure for securities transactions between Eesti Pank and Estonian credit institutions".

Estonian loan market and reduces the role of the domestic interbank market. For foreign banks, the lack of a rate difference simplifies the acquisition of funds from the parent bank. Transactions with any other currencies are made based on the market rates of these currencies and the exchange rate of the Estonian kroon to the euro.

Transactions in the forex window determine the monetary base or money supply in the economy. As money supply changes, an equivalent change occurs in the central bank's foreign exchange reserves. The central bank does not establish monetary policy interest rates or otherwise manage the money supply. Under the currency board arrangement, Eesti Pank can theoretically lend money to credit institutions only from reserves in excess of the assets backing the kroon.

CHRONOLOGY: THE DEVELOPMENT OF THE MONETARY POLICY FRAMEWORK DURING REINDEPENDENCE

1992: CREATING A MODERN MONETARY AND BANKING SYSTEM

The time preceding and following the monetary reform of 1992 was difficult both for the Estonian economy and financial system. The central bank's foreign exchange reserves only amounted to 2.5 billion kroons, of which the liability-free reserve contributed about 590 million kroons. The average monthly wage slightly exceeded 1,000 kroons and the inflation rate shot to 1,077% in 1992. The banking framework needed adjustments and a legal framework for market economy circumstances had to be created.

On 17 June 1992, the Supervisory Board of Eesti Pank decided to set a 15% **reserve requirement** rate for banks on all demand, time, and savings deposits. The requirement was applicable to **banks that no longer used the account plan enforced by the former State Bank of the USSR**. A separate reserve requirement was applied to the Savings Bank (Hoiupank). (With minor changes this system remained operational until the middle of 1994.)

On 18 June 1992, **guidelines for foreign exchange transactions** between Eesti Pank and licensed banks, new foreign exchange import and export regulations, and a number of other documents concerning foreign exchange transactions were approved by the decision of the Supervisory Board of Eesti Pank.

On 20 June 1992, the **monetary reform** was carried out.

By the directive of Eesti Pank, the official exchange rate of the Estonian kroon against the German mark was fixed at 1 EEK = 0.1250 DEM; i.e., 8 EEK = 1 DEM.

On the day of the monetary reform the **Foreign Currency Act**, the **Currency Act**, and the **Security of the Estonian Kroon Act** of the Estonian Republic took effect.

1992–1994: GUARANTEEING STABILITY AND DEVELOPING TRUST IN THE MONETARY SYSTEM

First years after the monetary reform

In the first years after the monetary reform the key goals were to **create a stable financial environment and develop trust in the financial system**, which had been severely damaged by the excessive inflation and banking crisis at the beginning of the 1990s. Guaranteeing stability was also necessary to ensure that the developing banking system would meet the requirements of the market economy.

1993

In January 1993, Eesti Pank launched **a short-term money market project**. This gave the banks an opportunity to offer their short-term liquidity excesses on the market and obtain short-term loans from other banks in case of need. The aim of this project was apparently to also reduce the unfounded hopes of being financed by the central bank that was so commonplace in the banking culture of the preceding decades (see also “Chronology: settlement systems and cash”, p 54).

To boost trust between banks, Eesti Pank started issuing **28-day discounted certificates of deposits** with a nominal value of 100,000 kroons. They were first sold at biweekly auctions. The certificates gave the banks an opportunity to perform fully guaranteed secondary market transactions and boosted the development of the interbank money market and mutual trust.

1994

The final abolition of restrictions on foreign currency transactions

The system of legislation regulating foreign currency transactions that took effect along with the monetary reform (including restrictions on capital account transactions, foreign currency import and export restrictions, the prohibition of exchanging non-convertible foreign currencies, the registration requirement of foreign loans, etc.) was gradually relaxed and was completely abolished in 1994. In the summer of 1994, Estonia made a commitment not to apply foreign exchange restrictions pursuant to Article VIII of the Statutes of the International Monetary Fund. Estonia was one of the first transitional countries in Eastern and Central Europe that eliminated the restrictions on the free movement of capital.

In February 1994, the restrictions on the German mark’s open position of commercial banks were abolished.

In March 1994, the Riigikogu repealed the Foreign Currency Act, thus abolishing the last formal restrictions on foreign currency transactions and also allowing private residents to open foreign currency accounts.

Measures to boost the efficacy and reliability of the monetary system

In order to increase trust in the Estonian kroon and minimise speculation concerning the potential devaluation of the kroon, on **4 April 1994, Eesti Pank started selling futures and swaps of the Estonian kroon and German mark with maturities of up to seven years**. These transactions ceased in March 1995, when the need for such instruments disappeared.

Amending the calculation and usage procedures of the reserve requirement in July 1994 gave banks an **opportunity to also include cash in Estonian kroons among their required reserves** in the amount of up to 50% of the total required reserves.

1995–1998: THE STABILISATION AND DEVELOPMENT OF THE MONETARY POLICY ENVIRONMENT

In 1995–1998, the rigidly fixed exchange rate of the Estonian kroon to the German mark spread the stability of international prices to the Estonian economy. Three processes played a crucial role in the development of the monetary policy environment: the continuing inflow of foreign capital, exchange rate changes in major currencies and the impact of the interest rates of the German mark on the interest rate of the Estonian kroon.

1995

With the stabilisation of the monetary policy situation, the need for Eesti Pank's **future and swap transactions** initiated in 1994 waned. Having started to limit the performance of these transactions at the end of 1994, **the execution of new transactions stopped in March 1995**.

1996

Commencing TALIBID/TALIBOR quotations

On 9 January 1996, the TALIBID/TALIBOR quotation regulations were approved.

Major conceptual changes in the operational framework of monetary policy

In the middle of 1996, Eesti Pank made several significant changes to the operational framework of monetary policy in order to boost the credibility and transparency of monetary policy, reduce the systemic financial risk stemming from the expansion of the financial sector and strengthen the liquidity system.

On 1 July 1996, the constant reserve requirement of banks was replaced by the **obligation to maintain the balance of a settlement account in Eesti Pank at a required level based on monthly averaging**. Thus, banks got a much greater monetary base buffer for daily settlements. This helped to reduce the liquidity risk and stabilise the interbank money market interest rates. In order to discipline the liquidity management of banks, 20% of the reserve requirement still remained in effect on a daily basis and this could be used only for interest penalties.

The share of cash used in fulfilling the reserve requirement was reduced to 40% of the reserve requirement.

On 1 July 1996, Eesti Pank abolished the purchase and selling rate difference in the transactions performed between the Estonian kroon and the German mark. The earlier minor exchange-rate difference mostly hindered short-term interest-rate arbitration due to greater transaction costs. As the backdrop of progressing integration, such transaction cost reductions helped to increase the currency turnover of the banking system – in December 1997, the monthly turnover of currency transactions exceeded that of June 1996 by 14 times.

In order to give banks an additional stimulus to stabilise the monetary base demand, in the second half of 1996 Eesti Pank **started offering banks a standing deposit facility** for the first time. In order to avoid market disturbances and increase the reliability of the currency board, the interest rate paid on the banks' account surplus at the end of the month was less than the Estonian money market interest rate and was linked to the discount rate of the Deutsche Bundesbank.

1997

Eesti Pank's measures to strengthen the liquidity system

In 1997, several hazards accompanying the rapid economic expansion emerged in the macroeconomic environment. The growth rate of the money supply (except cash) was relatively high; in addition, the investments of banks in domestic loans and other equal debt instruments grew quickly. This created a need to adjust the monetary policy framework. Hence, Eesti Pank adopted several measures to strengthen the liquidity system.

Considering the great inflow of foreign capital, as of 1 July 1997, **the sums by which the loans of banks obtained from foreign credit institutions exceeded the sums deposited in them were included in the reserve requirement calculation base**.

In November 1997, a **temporary additional liquidity requirement** of 2% (3% in December) of the reserve requirement calculation base was imposed on banks.

In order to stabilise the banks' intra-month kroon liquidity and reduce potential settlement risks, on 1 November Eesti Pank raised **the daily reserve requirement from 2% to 4% of the calculation base. Additionally, the penalty interest rate applied upon failure to meet the reserve requirement rose to 20%**.

On the other hand, the interest rate paid on the deposits exceeding the minimum reserve requirement was also raised to the discount level of Deutsche Bundesbank (since January 1999, the reference interest rate is the European Central Bank's deposit interest rate).

1998

Until autumn 1997, the interest rate level steadily converged with German interest rates, especially the short-term rates. This trend was disrupted by the instability of global financial markets caused by the Asian crisis. The Asian and Russian crises hindered the capital flows invested in developing markets and in many countries shook the trust of foreign investors. Due to the monetary system being based on the currency board arrangement and the small scale of our money market, the short-term interest rates in Estonia responded swiftly to the changes in foreign capital flows and speculative attacks on the kroon, as the central bank did not interfere directly with the liquidity and interest rate developments in the money market. **At the end of 1997 and in August 1998, the currency board system proved its ability to persevere in an unstable economic environment.**

The rapid economic expansion and hectic growth of money and loan aggregates in 1997 was followed by a slight stabilisation in 1998 and, during the second half of the year, **a significant toughening of the economic environment**. External demand dropped, and so did foreign funding and loan supplies that had become so customary during the past period. The increases in the interest rates stemming from limited loan resources caused an increase in real interest rates along with a faster drop in inflation.

Measures for increasing domestic liquidity buffers

As an additional measure to increase banks' liquidity buffers and limit loan growth, in August-September 1998, Eesti Pank extended its reserve requirement calculation base by the sum in which banks have granted guarantees to financial institutions and non-resident credit institutions.

Considering the falling demand for cash and a need to increase settlement system buffers, on 19 June Eesti Pank reduced the banks' inclusion of cash in meeting the reserve requirement from 30% to 20%.

From 1 September, the **financial collateral** given to financial institutions and non-resident credit institutions were also fully included in the reserve requirement calculation base.

New TALIBID/TALIBOR quotation principles

On 1 September 1998, the quotation principles of the interbank money market interest rates were changed. Eesti Pank started calculating TALIBOR and TALIBID based on the quotations of three banks (Hansapank, Eesti Ühispank and Eesti Forekspank) for monthly, three-month and six-month periods. The weekly quotation and the restriction on the loan and deposit interest margin for the same period were abolished. The sum in which quoting banks were obligated to receive deposits or grant loans according to their quotations was increased from 1 million kroons to 10 million. TALIBID/TALIBOR quotations continued to be updated once a week.

1999–2004: PREPARATIONS FOR JOINING THE EUROPEAN UNION

The economic policy goals of 1999–2004 were a stable macroeconomic environment, steady confidence in the currency board and successful preparations for joining the European Union. The efficiency of the Estonian monetary and banking policy was proved by the fact that despite international crises all the international ratings given to Estonia in 1998 remained unchanged.

During 1994–2004, Estonia developed from an EU candidate country to an accession country and finally became a Member State. One of the entities responsible for the accession negotiations was Eesti Pank. The central bank had a significant role in preparing the issues addressed in chapters regarding the free movement of services and capital, the Economic and Monetary Union, institutions and statistics.

In 2002, the European Central Bank (ECB) sent an invitation to the central banks of candidate countries (incl. Eesti Pank) to participate as observers in the work of the ECB General Council and the committees of the European System of Central Banks as of the signing of the Treaty of Accession to the European Union. The non-voting observer status lasted until the Treaty of Accession took effect.

In December 2002, the European Union sent an official accession invitation to ten candidate countries. The Treaty of Accession was signed in Athens on 16 April 2003 and entered into force on 1 May 2004.

At the referendum on joining the European Union held in Estonia, 66.9% of voters favoured accession to the EU.

1999

Changes related to the beginning of the third stage of the Economic and Monetary Union

Due to the start of the third stage of the Economic and Monetary Union, on 1 January 1999, the currencies of 11 European Union states, including the anchor currency of the Estonian kroon (the German mark), were irreversibly bound to each other and the single European currency, the euro, was adopted.

On 31 December 1998, Eesti Pank fixed the exchange rate of the Estonian kroon at 1 euro = 15.6466 kroons. This equals the official exchange rate of the Estonian kroon against the German mark (1 DEM = 8 EEK).

In 1999, a new procedure for currency exchange transactions between Eesti Pank and credit institutions operating in Estonia took effect. Eesti Pank started performing purchase and sales transactions with banks operating in Estonia between the euro and Eesti kroon, and the national currencies of the euro area countries (a parallel currency system remained in effect for a while after the adoption of the euro) and the Estonian kroon without a price spread. The list of currencies in which Eesti Pank performed purchase and sales transactions with banks included all the national currencies of the euro area countries.

On 1 January, Eesti Pank started applying the European Central Bank's deposit interest rate instead of the discount rate of the Deutsche Bundesbank on banks' monthly average balance of settlement accounts in excess of the monthly reserve requirement.

Remuneration for required reserves and the central bank's profit distribution strategy

Since 1999, the stabilisation of international financial markets and waning tensions in Estonia's real economy and monetary environment enabled it to concentrate more on long-term strategic questions in monetary policy.

As of 1 July 1999, Eesti Pank started **remunerating all the funds deposited by credit institutions in the settlement accounts of the central bank**. Earlier, the central bank paid interest only on deposits exceeding the reserve requirement minimum.

In September 1999, the Supervisory Board of Eesti Pank approved **the central bank's profit distribution strategy** for three years. The strategy's monetary policy was based on the principle of avoiding an excessively rapid decrease of Eesti Pank's own capital and net foreign exchange reserves against key economic indicators before Estonia joined the Economic and Monetary Union. The Supervisory Board relied on the fact that the central bank's profit distribution principles should also support the key monetary policy goals in the future and that the distribution of profit should by no means hinder the guaranteeing of the monetary system's stability.

Daily quotations of TALIBID and TALIBOR

On 8 February 1999, **the TALIBID and TALIBOR quotation regulations were changed**. Eesti Pank started fixing the TALIBOR and TALIBID rates every working day at 11 a.m. The quoting banks also included Merita Bank Plc and Svenska Handelsbanken. The quotations of Talibor and Talibid were now calculated as an arithmetic average of quotations, excluding the highest and lowest quotations. Two quotation periods were also added: nine and twelve months. In addition, the obligation of quoting banks to grant loans or accept deposits within their quotations was abolished.

2000

Reforming the monetary policy operational framework

On 25 April 2000, the Supervisory Board of Eesti Pank approved the **reform strategy of the operational framework of the Estonian monetary policy**, which prescribed a thorough rearrangement of the credit institutions' required reserve system. The most immediate goal of the reform was to guarantee the smooth operation of the pegged exchange rate within the currency board arrangement and reduce market distortions. In the long-term, this was the first step in the gradual harmonisation of the Estonian monetary policy framework with that of the euro area.

The beginning of the first reform stage, aimed at updating the liquidity system, was marked by Eesti Pank's **decision to cease arranging the auctions of certificates of deposits** as of 20 May 2000. (The certificates had served their initial purpose – to foster the development of the kroon's money market. However, due to the more efficient liquidity management of banks and the increased volume of the money market, this instrument with severe interest rate and volume restrictions was no longer suitable for balancing the seasonal deviations of the money market.)

On 1 July 2000, **the additional liquidity requirement was united with the banks' reserve requirement**. The latter increased from 10% to 13% on account of the abolition of the additional requirement. With this decision, a common legal framework and penalty mechanism was created for all the reserves kept in the central bank. (The remuneration for all reserves since 1 July 1999 had made different types of reserve requirements pointless; meanwhile, the penalty for failure to fulfil the additional liquidity requirement – the application of a triple reserve requirement during the next month – became useless in a stable environment.)

2001

Rendering the reserve requirement system more market-based

As of 1 January 2001, banks were **permitted to fulfil up to 25% of their reserve requirement with high-quality liquid foreign assets**. On 1 July 2001, the inclusion limit of foreign assets rose to 50% of the reserve requirement.

2002/2003

Converging the calculation of the Estonian reserve requirement base to the Eurosystem's framework

In 2002, Eesti Pank prepared the technical changes applied in March 2003 to harmonise the calculation of the reserve requirement base with the Eurosystem's framework (the Supervisory Board of Eesti Pank adopted this decision on 31 October 2002). Besides the **harmonisation of balance sheet items** included in the reserve requirement base, the changes also entailed the application of the principle of due date calculation: liabilities were now **categorised in terms of maturity structure** (maturity over or under two years) and **type**. In similar fashion to the Eurosystem, Estonia also basically adopted two reserve requirement rates: the **general rate** for liabilities with maturities of up to two years and a **special rate** for liabilities with longer maturities and repurchase transactions.

Eesti Pank also emphasised that the preparations for harmonising the monetary policy framework with that of the euro area are continuing, but that they primarily proceed from Estonia and the European Union's economic situations. The goal is to avoid monetary policy steps that contradict the economic environment.

New procedures for currency transactions

In 2002, new procedures for buying and selling foreign currency between Eesti Pank and credit institutions operating in Estonia came into force, based on which US dollars, Australian dollars, euros, Japanese yen, Canadian dollars, Norwegian krones, Swedish kronas, British pounds sterling, Swiss francs and Danish krones could be bought and sold for Estonian kroons.

2004

Further changes in the reserve requirement system

In March 2004, several changes in the reserve requirement system took effect, rendering it more market-based and converging it towards the Eurosystem.

Since 1 March 2004, **high-quality debt securities with floating rates were included among the suitable foreign assets that can be used to** meet the reserve requirement.

Banks **could no longer take their cash into account to fulfil the reserve requirement**. (In the Eurosystem, banks' cash is also not regarded as a part of their required reserves.)

Measures to hedge risks related to the rapid growth in loan volume

In 2004, Eesti Pank repeatedly drew the attention of the public, financial sector and the Government to the risks accompanying the rapid growth in loan volumes.

Due to the hectic growth of loan volumes and the extensive current account deficit, in 2004 Eesti Pank retained both the specific and general rate of the reserve requirement at 13%, while the general rate in the euro area was 2% and the specific rate 0%.

Together with Eesti Pank, the Government reviewed the national support policy of the housing loan market. As a result of this, the role of KredEx in fostering the availability of housing loans was specified.

Estonia joined the European Exchange Rate Mechanism (ERM II) on 27 June 2004.

2005–2007: FIRST YEARS AS A MEMBER OF THE EUROPEAN UNION

2005

In 2005, Estonia's average annual inflation rate reached 4.1%. In the context of converging income levels, the 3.4% rise in consumer prices accompanying the rapid – and, considering the increase in labour productivity, also balanced – economic growth could be regarded as natural. Nevertheless, Eesti Pank frequently drew the attention of the public, financial sector and the Government to the external and domestic risks threatening the balanced development. By external risks, the central bank mainly meant the developments related to the global rise in oil prices. As regards domestic risks, the central bank emphasised the **need to monitor the proportion of supply and demand across sectors**, both in the labour and services markets. **One of the key issues for the central bank was the ongoing rapid growth of the household debt burden.** In December 2005, Eesti Pank decided to take measures to tighten the legal framework related to housing loans.

2006

Measures for managing threats stemming from strong domestic demand

In 2006, the central bank mainly focused on **managing the threats stemming from strong domestic demand**. Eesti Pank repeatedly drew the public's attention to the hazards related to excessively optimistic consumption and loan behaviour.

Amendments to banking regulations took effect in March 2006 with an aim to reduce the risks related to housing loans (see also "Chronology: the legal framework and regulation of banking", p 46). However, as these changes did not diminish the risks enough, **Eesti Pank decided to raise the reserve requirement of banks from 13% to 15% on 1 September 2006. With this decision, the central bank also sent a clear message about the severity of the overheating threat to the economy.**

2007

In 2007, domestic demand in Estonia started waning rapidly, the growth in loan volumes halted and wage growth began decelerating. Towards the end of the year, the external balance also started improving. Meanwhile, price rise pressures strengthened remarkably during the year and the growth in wages continued to exceed that of productivity. Thus, the points of emphasis significant for monetary policy shifted during the year.

Considering the persistent great economic imbalances and high inflation, the **reserve requirement rate remained unchanged at 15% despite the slowdown in the growth in loan volumes**.

At the beginning of 2007, the **daily minimum requirement of the settlement account** that had so far been included in the reserve requirement calculation was abolished, the penalty interest for the failure to fulfil the reserve requirement was updated and the procedure for the enforcement of the reserve requirement amendments was specified.

CHRONOLOGY: THE LEGAL FRAMEWORK AND REGULATION OF BANKING

FROM THE BEGINNING OF REINDEPENDENCE UNTIL THE MONETARY REFORM IN 1992

Eesti Pank was re-established under the Soviet regime pursuant to the **Bank Act of Soviet Estonia** adopted in December 1989. (The central bank operated pursuant to this Act until June 1993 and the commercial banks until January 1995.) During the period preceding the monetary reform and even later, the banks adhered to the norms and account plan enforced by the State Bank of the USSR.

1992–1994: MODERNISING AND ORGANISING THE BANKING SYSTEM

The transition to new reporting regulations and prudential norms complying with market economy conditions started in the first half of 1993. This process was urgent, because according to the reporting review of seven major commercial banks conducted by the auditing company **Price Waterhouse** in cooperation with the banking supervision personnel within the PHARE aid scheme, the asset risk level of Estonian commercial banks was relatively high. Eesti Pank emphasised that the actual risk level of assets should also be reflected in the reporting of banks.

During the first years following the monetary reform, the underdeveloped legal environment was a major problem for Estonian banking supervision; the lag in preparing legislation concerning the general arrangement of the economic environment was especially crippling. Until the end of 1994, Estonia lacked a proper modern Accounting Act and a Commercial Code (the Accounting Act took effect on 1 January 1995; the Commercial Code was proclaimed by the President of the Republic of Estonia on 8 March 1995). The minimal norm base to monitor the operation of investment funds was created by the regulations of the Ministry of Finance only towards the end of 1994. The retardation of the general economic regulatory environment compared to banking regulations significantly restricted the legal opportunities of banking supervision authorities to demand adherence to modern risk management. The outdated accounting regulations also hindered the objective assessment of the data presented in the banks' reports.

The culmination and end of this period was the enforcement of the modern Credit Institutions Act in January 1995.

1993

On 1 January 1993, new reporting procedures were laid down for Estonian banks, replacing the former reporting regulations of the State Bank of the USSR. The old reporting procedures were based on the principles of socialist planning and did not reflect the actual financial situation of the banks. In practice this meant that banks interpreted the balance sheet requirements differently, which made the comparison of data difficult.
On 16 February 1993, the **procedure for the establishment, operation and liquidation**

of savings and loan associations was adopted by the decision of the Supervisory Board of Eesti Pank.

On 11 May 1993, new stricter requirements were prescribed for the minimum size of banks' share capital.[6]

The **Eesti Pank Act** entered into force on 18 June 1993.

As of **1 July 1993, new prudential norms** were prescribed for banks: the solvency rate, liquidity rate and the risk concentration limit of customers and banks. Their elaborators took into account the development level of Estonian banking as well as the norms of the European Union.

To reduce the currency risk a **limit was set on the net foreign exchange position** – the ratio of the difference between the foreign currency assets and liabilities of a bank and the transactions performed on agreed dates (for which money has yet to be transferred) to the bank's equity capital. The limit of the total open net foreign exchange position of the banks was 30%, including up to 10% with some currencies and 250% in the case of the German mark (since February 1994, the position of the German mark has been free).

1994

At the beginning of 1994, the **write-off procedure of uncollectible loans** was specified. Loans with a repayment due date exceeding 150 days had to be written off from the loan risk reserve. If this did not suffice, the sums had to be written off as the unrealised loss from revaluations. In essence, this was the first step to obligate banks to revaluate their assets.

In February, the calculation of the net foreign exchange position was changed. The most important part of the change was **the total abolishment of restrictions on the open position of the German mark**, which emanated logically from the monetary and exchange rate policy of Eesti Pank.

The Supervisory Board of Eesti Pank laid down **due dates for banks to reach the minimum amounts of own funds** through its decision of September 1994: 1 January 1996 – 50 million kroons; January 1997 – 60 million kroons; 1 January 1998 – 75 kroons. The aim was to strengthen the banks' capital base and foster intra-system consolidation, which would enable banks to fulfil the role of financial intermediaries more efficiently.
In order to avoid excessive risk concentration and decrease potential conflicts of interests, in

[6] Share capital had to reach 15 million kroons as of 1 April 1995, 25 million as of 1 April 1996, and 35 million as of 1 April 1997. The decision on establishing commercial and cooperative banks adopted during the Soviet regime stated that share capital had to amount to at least 5 million roubles in commercial banks and 1.5 million roubles in cooperative banks. The Supervisory Board of Eesti Pank laid down 5 million roubles as the minimum of the statute funds of commercial banks through its decision of 19 February 1990. In essence, the Soviet norms were retained. In the meantime, hyperinflation had made 5 million roubles a ridiculously small sum for banks, raising the minimum capital rate to 6 million Estonian kroons (through the Supervisory Board's decision of 7 October 1992) and laying down the schedule for further increases in 1993 was certainly justified.

September 1994, the **maximum allowed liabilities of a client or related parties were reduced from 50% to 25% of the own funds of credit institutions. Additional norms** were also established for the so-called **internal interest groups**.[7]

The legal base of banking and banking supervision was strengthened by the adoption of the **Credit Institutions Act** in December 1994 and its enforcement in January 1995. The Act was prepared on the basis of the legislation of European Union Member States banking, but also took the development level of Estonian banking into account.

1995–1998: IMPROVING THE CRISIS RESISTANCE OF THE FINANCIAL SYSTEM AND FURTHER COORDINATION OF BANKING

The enforcement of the Credit Institutions Act in January 1995 entailed a need to amend the prudential norms and related reporting procedures. The capital adequacy calculation rules were thoroughly changed (market risk was included) and Tier 3 was added to the calculation.[8] All prudential norms were also applied in consolidated calculations. Meanwhile, the risk concentration rules, currency risk calculation and the reporting of off-balance-sheet items were also amended. Liquidity reporting changed significantly and investment reporting was added.

The security of information systems became one of the key goals of supervision, because the rising popularity of ATMs and the introduction of telebanking and Internet banking required increasing attention to guaranteeing high-level data protection. Thus, the obligation to perform information technology audits of and specific requirements for the information systems of credit institutions were imposed.

Procedural requirements were laid down for credit institutions to prevent money laundering.

At the end of this period the legislation applied to Estonian credit institutions was generally similar to that of more developed countries and the comparability of indicators was guaranteed. The next goal was to bring the legal framework of Estonian banking into compliance with the requirements of the European Union.

1995/1996

At the beginning of 1996, **new guidelines for the calculation of prudential norms and reporting procedures of credit institutions** took effect. The regulations on capital adequacy and risk concentration were thoroughly updated, liquidity reporting changed significantly

---

[7] Subdivisions of credit institutions, the liabilities of parent companies and other subdivisions of parent companies could not exceed 20% of the own funds of credit institutions; the liabilities of the members of the management board or other employees of credit institutions, shareholders representing a share capital of 5% or more or representing votes, and also the liabilities of companies related to them could not exceed 20% of the own funds of credit institutions. The loan portfolios of banks had to be harmonised with the new requirements by 1 January 1996.
[8] Own funds to cover the market risks of trade portfolios.

and investment reporting was introduced.

By the Decree of the Governor of Eesti Pank, in May 1996, the **diligence and procedural requirements of credit institutions upon the application of provisions pertaining to the prevention of money laundering** took effect. (Adding a chapter on the prevention of money laundering in the version of the Credit Institutions Act that entered into force at the beginning of 1995 was the first step in creating the framework for combating money laundering.)

1997

Of the changes that took place in 1997, the most important one was increasing the **capital adequacy minimum from 8% to 10%** on 1 October 1997.

In July 1997, the risk weight applied to Estonian local governments and their secured exposures was increased from 50% to 100%.

In October 1997, the **obligation to perform information technology audits** and the general requirements for the information systems of credit institutions were laid down.

In order to increase the liquidity of credit institutions, at the end of the year an **additional liquidity requirement** was imposed on them (remaining valid until the end of 1999). The additional liquidity requirement supplemented the reserve requirement framework, which was also developed further during that period (see also “Chronology: the development of the monetary policy framework during the period of reindependence”, p 36).

1998

In April 1998, the Riigikogu passed the Deposit Guarantee Fund Act, which laid the foundation for the deposit guarantee system of Estonia. This Act entered into force in October 1998. Pursuant to the Act, a fund had to be created to guarantee the payment of deposits in the amount of and according to the procedures prescribed by law in case of a credit institution’s insolvency. Upon the enforcement of the Act, the deposits of both natural and legal persons were guaranteed in the amount of 20,000 Estonian kroons per depositor. The final deposit guarantee sum – ECU 20,000 – was to be reached within 15 years. (The Deposit Guarantee Fund operated until the foundation of the Guarantee Fund in 2002.)

In November 1998, the Riigikogu passed the Money Laundering Prevention Act, by which the respective provisions of the Credit Institutions Act were repealed. Pursuant to the Money Laundering Prevention Act, besides credit institutions the obligations to prevent money laundering were also extended to financing institutions, including insurance companies, investment funds and professional participants in the securities market.

The major changes of 1998 regarding the prudential norms were **the inclusion of market risk**

in calculating the capital adequacy indicator, the adoption of Tier 3 capital and the enforcement of prudential norms on a consolidated basis.

The **currency risk calculation** previously applied was updated, prescribing 15% of net own funds as the limit on the joint position of the German mark and Estonian kroon, in similar fashion to all other A-zone currencies.[9]

The **reporting of off-balance-sheet items** was updated.

In 1998, an action plan to have completed preparations for the "Readiness for 2000" by mid-1999 was elaborated.

The halt in the exceptionally fast growth of the banks' balance sheet totals and the sudden plunge of the stock market at the end of 1997 caused serious problems for banks and led to extensive operational losses by the end of 1998. **An analysis of the events showed that this largely emanated from the drawbacks in the general management and internal control of banks.** The results of the analysis were reflected in the new Credit Institutions Act which was passed and entered into force in 1999.

1999–2004: DEVELOPING THE OPERATION ENVIRONMENT OF THE FINANCIAL SYSTEM BEFORE JOINING THE EUROPEAN UNION

Due to the perspective of acceding to the European Union and the improvement of international banking contacts, the priority of this period was to **harmonise the legislation of banking and supervisory methods with international standards**.

1999

On 9 February 1999, the Riigikogu passed the new version of the Credit Institutions Act, which entered into force on 1 July. This new version complied with the requirements of the EU directives regulating the operation and supervision of credit institutions and expanded the rights and authorisations of banking supervision in accordance with the internationally acknowledged requirements. Banking supervisors were granted greater rights to obtain information and inspect the banks and other companies of a consolidation group on-site. The impact of the new version on the development of the modern banking environment in Estonia was remarkable and it was followed by the enforcement of several important provisions of implementation:

- Reporting procedures for the liquidators of credit institutions, interim trustees of credit institutions and trustees in bankruptcy (May 1999);
- The new version of the prudential norms of credit institutions (July 1999);

[9] The currency limit of B-zone countries remained at 5% of net own funds, with the exception of Latvia and Lithuania at 10% of net own funds. Due to the adoption of the single currency of the European Union, the euro, since January 1999 a joint position was formed by the euro and the Estonian kroon (with the limit of 15% of net own funds).

- Procedure for the application for and granting of the licence for credit institutions and branches of foreign credit institutions and the list of documents submitted on applying for the licence (July 1999);
- Procedure for applying for the obtainment of a qualified holding in a bank and requirements for documents submitted upon applying for the licence (October 1999);
- Procedure for presenting data regarding the suitability of the managers of credit institutions and other personnel employed in the positions provided for in the Credit Institutions Act as well as the procedure for the declaration of the economic interests of these persons (October 1999);
- Public reporting procedures of credit institutions (October 1999).

2000

In order to improve the credit risk management of credit institutions and obtain a better overview of the quality of credit institutions' loan portfolios, loan structures, values and the risks therein, **minimum requirements of loan evaluations and the write-off procedures of uncollectible claims** were laid down for credit institutions.

At the beginning of 2000, the **procedure for the general risk reserve calculation** that had entered into force at the beginning of 1998 was repealed. It was concluded that considering the development of the banking sector's legal framework and the improvement of the internal risk management of credit institutions, the need for a restriction determined by an estimated risk reserve had expired.

2001/2002

In order to facilitate the monitoring of the new risks accompanying the development of banking and to adopt the updated EU directives, it became essential to amend the existing procedure for calculating the capital adequacy of credit institutions that had been in effect since 1999. The amendments of the Credit Institutions Act that were necessary to adopt the new framework were passed by the Riigikogu in autumn 2001 and **the new procedure for calculating capital adequacy** entered into force on 1 July 2002. The renewed framework was in complete compliance with the updated EU directives. The most important amendments concerned the opportunity to use **netting with instruments similar in terms of maturities and other features** in order to reduce credit risk exposure. In addition, the previously non-existent risk calculation of **commodities and their derivatives** was added.

In order to improve the security network of the financial sector and increase the confidence of small depositors and investors in the financial sector, a **Draft Act on the Guarantee Fund Act** was compiled in cooperation with the Ministry of Finance and Eesti Pank in 2001. The Riigikogu passed the Act at the beginning of 2002. The Guarantee Fund was founded in July 2002.

2003

The years 2001–2003 were characterised by a more extensive involvement of foreign funds by banks and increased household borrowing. Thus, Eesti Pank considered it necessary to adopt some measures and inform the public of the potential problems. **The Financial Supervision Authority and Eesti Pank reminded banks of the risks accompanying the rapid growth in loan volumes. They emphasised the need to inform clients of the risks accompanying borrowing** and to draw the clients' attention to the potential rise in loan servicing costs in the future.

Eesti Pank made a proposal to the Government to **review the existing state-offered instruments fostering household borrowing**.

In 2003, the consolidated estimation of the currency and market risks in the banks' capital adequacy framework was amended. **The possibility of netting positions reflecting market and currency risks between subsidiaries was abolished.**

2004–2007: INTEGRATION WITH THE BANKING FRAMEWORK OF THE EUROPEAN UNION

On the one hand, this period was characterised by Estonia's accession to the European Union and the resulting developmental leap; on the other hand, it was characterised by the beginning of an economic cooling and the first signs of insecurity in global financial markets. International cooperation in financial supervision became increasingly important.

A great conceptual change in the normative environment of banking was the adoption of the framework of prudential norms based on Basel II (the updated, more risk-sensitive procedure for calculating capital adequacy).

2004

In 2004, the changes in the banking legislation were primarily related to Estonia's accession to the European Union. The amendments to the Credit Institutions Act were related to the harmonisation of the directive on the winding-up and reorganisation of credit institutions; the procedures for applying for activity licenses and relations between the market participants and the Financial Supervision Authority were also specified. One of the key changes was the adoption of the **single EU activity licence principle** – in the case of a credit institution's branch operating in another Member State, the requirement for the application of an activity licence was replaced by a notification requirement.

Estonia's accession to the European Union also entailed changes in banks' prudential norms. Upon calculating credit and currency risk, **all new EU Member States were included among the countries bearing a lower risk; i.e.**, **the A-zone countries**. The earlier 50% risk weighting laid down for local governments and investment companies was reduced to 20% in accordance with the EU directive.

2005

In October 2005, the Riigikogu passed the **Electronic Money Institutions Act**.

The most important amendment to banking regulations in 2005 was the increase **of the risk weighting applied to housing loans** from 50% to 100% upon calculating capital adequacy.

2006

In 2006, the transposition of the **new EU directive on the capital adequacy calculation to the Estonian legal framework** was completed. This meant extensive amendments to the existing Credit Institutions Act and the elaboration of a new decree on prudential norms. The decree of Eesti Pank established detailed rules for the calculation of capital adequacy pursuant to the new capital adequacy calculation framework. The key difference compared to the EU directive is that **in Estonia the general capital adequacy requirement for both credit and market risks has remained at 10%**.

2007

The procedure for the implementation and calculation of the prudential norms based on Basel II that had entered into force on 1 January the same year was amended at the end of 2007. Although the growth in loan volumes was falling rapidly and the ratio of the loan burden to the disposable incomes of households was stabilising, the risks related to the rapid growth in loan burdens still remained high. Thus, **in the procedure for implementing the prudential norms based on Basel II, Eesti Pank decided to apply a risk weighting of 60% on household loans for the year 2008**.

CHRONOLOGY: SETTLEMENT SYSTEMS AND CASH

In the 1990s, prior to the monetary reform, interbank **settlements were performed in the Clearing Division of Eesti Pank** via the omnibus accounts open to banks and their branches. The payment documents were submitted to Eesti Pank on paper. Thereafter, the data was recorded on a punched card or tape and entered into a computer. The account statements were delivered to banks on the next day. The settlements of more distant branches could take days. Eesti Pank automatically granted settlement loans at the interest rate of 0.1% per day – thus, banks did not have to pay attention to their settlement account balance. It was also useful for banks, because the credit they had given to companies carried a higher interest rate.

Along with the preparations of the monetary reform new settlement procedures were also compiled and preparations were also made for the commencement of electronic settlements. During the period 1 April – October 1992, the banks that used computers gradually joined the common computer network. Compared to earlier times, the transfer of money from a payer's bank account without his/her order was restricted. The rule that settlements could only be performed within the limitations of the credit balance of the bank's omnibus account was laid down. In order to accelerate the execution of settlements another requirement was adopted, according to which domestic settlements had to be completed within 48 hours. While before, the branches of banks had been regarded as separate banks with independent omnibus accounts, from 1 October 1992 parent banks and their branches were treated as one and settlements were thus performed within the same credit balance. This gave parent banks an opportunity to constantly monitor the activity of branches and regulate the cash flows between them.

In October 1992, **Eesti Pank's net settlement system EPNAS** was launched. All payment information was forwarded by modem and payment orders were accepted until 2 p.m. Thereafter, the settlement system started calculating the banks' reciprocal net receivables and payables based on the payment orders. The first interim summary of the netting was issued to banks an hour later. From 3 p.m. to 5 p.m. banks performed money market operations, after which the final netting took place. The Clearing Division constantly watched that the banks' settlement account balances would not drop below the reserve requirement level. (EPNAS operated until the adoption of new settlement systems in January 2002.)

In October 1993, the **first ATMs of the Baltic States** started operating in Tallinn.

On 6 December 1993, Eesti Pank commenced performing international settlements via the interbank messaging network **SWIFT**. As of the end of the year, 675 SWIFT messages had been forwarded. Meanwhile, five Estonian commercial banks had joined SWIFT.

In 1993, **foreign banks started receiving information concerning the bank notes of the Republic of Estonia**.

According to the decision of the Supervisory Board of Eesti Pank, the coining and issuing of **five-cent coins** was terminated in 1996, but they were to remain in circulation for an unspecified term.

In 1998, for the first time since the monetary reform, the central bank did not have to release additional cash into circulation; in fact, the amount of circulating cash even decreased.

In 1998, Eesti Pank stopped releasing the **one-kroon coins** issued in 1992, 1993 and 1995 into circulation. A new one-kroon coin was issued (from a new alloy and with different dimensions compared to before) and the issue of **one-kroon bank notes** to credit institutions was terminated.

In 1999, Eesti Pank issued a gold collector coin to celebrate the 80th anniversary of Eesti Pank and the adoption of the euro, the single European currency. The **extraordinary nominal value of this coin – 15.65 kroons** – reflects the exchange rate of the euro against the Estonian kroon (1 euro = 15.6466 kroons).

In January 2002, Eesti Pank launched a new interbank settlement system that met international requirements. Contrary to before, the new system was composed of two subsystems: the Designated Time Net Settlement System (**DNS**) meant for settling retail payments and the Real-Time Gross Settlement System (**RTGS**) for express transfers.

In 2002, the Cash and Security Department of Eesti Pank was granted the **international quality certificate ISO 9001:2000** for managing, handling, and safeguarding cash reserves.

In 2004, a **new cash calculation system** was adopted by Eesti Pank, which enables it to monitor and issue data concerning two currencies simultaneously and can thus be used upon the adoption of the euro.

In January 2004, Estonia was the 28th European country to apply the **international account number standard IBAN**. This helped to accelerate international payments.

In October 2005, Eesti Pank updated the Designated Time Net Settlement System (DNS) by launching the Settlement System of Ordinary Payments (**ESTA**). In the new system the settlements are faster, the working hours of the system are longer and the entire system is more effective.

In 2005, Eesti Pank and the Police Board entered into a cooperation agreement to prevent the circulation of counterfeit cash and to ensure the security of euro cash distribution. **Since December 2005, the expert analyses of banknotes suspected of being counterfeit are performed by the police.**

In November 2006, along with the Estonian Central Register of Securities and three commercial banks, Eesti Pank joined the **TARGET**, the settlement system of euro-area central banks. Due to this, the working day of the Settlement System of Ordinary Payments (ESTA) was extended by one hour.

Since 30 April 2007, the cash leg of claims and liabilities resulting from securities transactions can be settled with the help of the Real-Time Delivery Versus Payment (**RT DVP**) service.

Since 14 June 2007, most commercial banks started **offering the interbank direct debit service**.

To celebrate the 15th anniversary of the re-launching of the Estonian kroon and the monetary reform, **a triangular gold coin with a nominal value of one-hundred kroons was released into circulation** in 2007.

On 19 May 2008, Eesti Pank acceded to the new TARGET system; i.e., **TARGET2**. TARGET2 is a settlement system operating on a single shared platform that offers uniform services through a central IT-platform. **Besides Eesti Pank, seven Estonian commercial banks also joined TARGET2** (incl. major banks). Thus, most Estonian bank clients have an alternative for settling express payments in euros.