

EESTI PANK'S MISSION:

As the central bank of the Republic of Estonia and a member of the Eurosystem, we contribute to the sustainable development of the Estonian economy and to increased prosperity for Estonia. We keep price growth moderate, setting a joint monetary policy together with the other central banks of the euro area and implementing it in Estonia. We maintain the stability of the Estonian financial system by helping to set policy for the financial sector. We ensure that cash is of good quality and promote a safe and efficient payment environment. We give an independent assessment of the state and outlook of the economy, we advise the government on important matters of economic policy, and we produce high-quality statistics.

FOREWORD BY THE GOVERNOR OF EESTI PANK

Both inflation and market expectations for inflation were falling in 2014. The economy did grow in the euro area as a whole last year, but the situation varied a lot between different countries, and ultimately growth did not recover as quickly as had been hoped.

Under these circumstances the Eurosystem, which is comprised of the European Central Bank and the central banks of the countries in the euro area, continued its accommodative monetary policy in the second half of 2014 and the start of this year. There were three main elements in the package of policy measures that was followed: the reduction of the base interest rates of the European Central Bank to their lowest ever levels; long-term targeted loans to commercial banks in the euro area; and the start of a programme of purchases of assets, including sovereign bonds, held in the private sector. The general aim of these measures was to increase lending to the real economy, and through this to promote growth in the euro area with the ultimate goal of approaching the main objective of the Eurosystem central banks, which is low and stable inflation in the euro area. The Eurosystem also changed its monetary policy communication. In order to steer expectations it started to disclose more clearly than before what it planned to do so as to meet its goal of low and stable inflation, whatever the projections for the economy.

Alongside managing monetary policy, the other key focus of the central banks of the euro area in 2014 was the start of the single supervisory mechanism for banks, and the comprehensive assessment of the assets of the biggest and most important banks in Europe. This required a lot of resources and effort from both the European Central Bank and the central banks, financial supervisors and banks of the euro area countries.

Looking more closely at the Estonian economy, it can be seen that the growth in Estonia in 2014 came primarily from the domestic market. Domestic consumption was lifted by rising employment, falling unemployment, and strong wage growth with a simultaneous fall in prices. The economy grew faster in 2014 than in 2013, but it should be remembered that no return to the growth rates of the boom years of the last decade will be seen. The Estonian economy and Estonian demographics are in a different phase of development now, and long-term sustainable growth is notably lower at 3–4%.

Consumer price inflation in Estonia fell below zero in June 2014 for the first time since the crisis. Five years ago prices fell across a wide range of goods and services, but last year the fall in prices was mainly caused by cheaper energy and food. The consumer basket is likely to cost about the same in 2015 as it did last year, but higher labour costs will make the prices of domestic goods and services rise faster than those of imported goods and services.

One reason for the rapidly rising labour costs has been the decline in the working age population. Faster growth in wages than in productivity could endanger the competitiveness of the Estonian economy in the longer term. Companies are for now able to cover the rapidly rising labour costs from their profit

buffers, but in the longer perspective this will inevitably cease to be possible. Reduced profits threaten the ability of companies to invest in higher productivity and in the human capital needed for more complex and higher-value work. One of the key questions in the development of the Estonian economy is whether value added can be created with a smaller labour force than before but through increased human capital. The rapid rises in wage income and household consumption boosted tax revenues in 2014, which in turn improved the state finances and helped lift the state budget to a small surplus. Going forward, it is important that the government stick to the target agreed in the budget strategy of running a nominal budget surplus and building up its reserves.

Given the uncertainty in the global economy and a persistent lack of growth in several of the target markets for Estonian exports, the speed of growth of the Estonian economy has still been satisfactory. The tensions in geopolitical relations last year, including the trade sanctions between the European Union and Russia, have left a mark on the Estonian economy, though fortunately not a deep one. Estonian exporters have shown flexibility in finding new markets, and the increase in the market share for Estonian goods and services in the trade with partner countries shows that Estonian export items are competitive in international markets. Exports have managed to increase even as prices have been generally falling in foreign markets, while local production costs have been driven up by rapidly rising wages.

Changes to the Eesti Pank Act came into force in May 2014 giving the central bank a clearer mandate than before to act as a macroprudential authority in Estonia. The aim of macroprudential supervision is to increase the resilience of the financial system to systemic problems and to restrain the accumulation of major risks.

The first macroprudential measure was introduced by Eesti Pank in August 2014 and was the requirement for banks to hold a 2% systemic risk buffer. The systemic risk buffer is needed to manage the banking risks that are specific to a small and open economy. The introduction of the buffer did not imply any major changes for the banks operating in Estonia, as their capitalisation levels were already above that required. The measure was a precautionary step by the central bank to guard against possible risks in the future.

From March 2015, requirements for housing loans were applied by the central bank to the whole banking market in Estonia with the aim of pre-empting possible future credit booms. The requirements do not have any noticeable effect on the loan market as things stand, as the banks are in any case currently acting conservatively. Real estate prices, which have earlier caused problems in the Estonian economy and which may currently be seen to pose some risks, are now a bit more stable than in the middle of last year when prices were rising at around 20% year on year. They are now growing at closer to 10%, which is still fast, but more acceptable. If the risks in the real estate market were to increase significantly in the future, and competing banks were to start taking on too much risk, Eesti Pank would be able to tighten the requirements for housing loans in order to protect borrowers and lenders.

The crisis management measures taken by the Eurosystem in recent years have been successful, both in monetary policy and in the creation of single banking supervision, but they have come at a price. Both the balance sheets of the central banks and the associated risks have increased as a consequence. The ratio of Eesti Pank's increased capital to the assets used for monetary policy remains one of the lowest of any of the central banks of the euro area. The comparison with the other central banks of the euro area is important, as the ratio of risks to capital of the central banks of the euro area and the European Central Bank as a whole is considered when joint monetary policy decisions are made.

This makes it very important that the Supervisory Board of Eesti Pank decided to transfer three quarters of the 17 million euros that the bank made in profit last year to strengthening its capital. One quarter of last year's profit, or 4.3 million euros went to the state budget. Since 1992 Eesti Pank has allocated a total of 133 million euros to the state budget.

For the central bank to be financially independent, it needs to maintain and invest its assets. The current situation in the financial markets, where interest rates on sovereign bonds with high credit ratings have fallen to very low levels, poses new challenges for the central bank as a long-term conservative investor. Eesti Pank has reacted to changes in the operating environment and has spread its risks by adding further asset classes to the investment portfolio and investing money in the sovereign bond markets of more countries than before. Eesti Pank's investment income was several times higher in 2014 than the target set at the start of the year, and reached 22.8 million euros. Falling interest rates throughout the year made investments in bonds profitable and the increasing share portfolio of Eesti Pank meant that significant income was earned from investments in shares.

Eesti Pank is careful to keep control over its spending and to use its money efficiently. For this reason it was decided in 2014 to sell the Maardu manor site, as this is only loosely connected to the core activities of the central bank. The number of people working at Eesti Pank was practically unchanged, even as new responsibilities were added, and at the end of 2014 there were 231 full-time equivalent employees at the bank, down from 233 in 2013. Eesti Pank's operating expenses fell last year to 17 million euros from the 17.4 million of a year before.

The year 2014 was not an easy one for the Estonian economy, and flexibility was required in the economy as a whole and in the financial sector. Looking forward, it is important that we be ready to adapt to changing circumstances while maintaining the same conservative stance on monetary issues. We need to work hard for Estonia to be successful and we need to learn constantly through doing so. Such an approach will deliver the conditions in which households, companies and the state as a whole can be successful.

Ardo Hansson, Governor



THE SUPERVISORY BOARD OF EESTI PANK

In the circumstances left behind in the wake of the financial crisis in Europe and given the important role played by central banks in taking the measures that have been aimed at moving Europe on from its economic hiatus, oversight over how the principles in the core treaties of the European Union are followed and over the activities of central banks themselves has become ever more important. This has brought new challenges and responsibilities for the Eesti Pank Supervisory Board.

The responsibilities of the Supervisory Board of Eesti Pank

The Eesti Pank Supervisory Board oversees the work of Eesti Pank in all its activities. The Supervisory Board has responsibility for:

- approving the Statute of Eesti Pank;
- supervising how the Eesti Pank budget is adhered to;
- approving the Eesti Pank annual report and submitting it to the Riigikogu;
- nominating a candidate for Governor of Eesti Pank to the President of the Republic;
- appointing and removing from office the Deputy Governors of Eesti Pank and the Head of the Internal Audit;
- nominating and removing from office the members of the Supervisory Board of the Financial Supervision Authority at the proposal of the Governor;
- approving the principles for payment of the Executive Board;
- approving the Statute of the Internal Audit Department of Eesti Pank;
- nominating the internal auditors of Eesti Pank and approving the internal audit work schedule;
- setting the salary for the head of the internal audit department of Eesti Pank;
- nominating the independent auditors of Eesti Pank in accordance with the Eesti Pank Act;
- distributing the profit of Eesti Pank as required by law and the profit distribution strategy approved by the Supervisory Board;
- reviewing and approving written proposals and other documents submitted to the Riigikogu in the name of Eesti Pank;
- taking decisions on the design of the national side of euro coins and on the denomination and design of collector coins in accordance with European Union rules;
- approving the design of Eesti Pank's insignia;
- deciding the establishment, reorganisation and liquidation of the independent divisions of Eesti Pank at the proposal of the Governor;
- approving the statutes of the independent divisions and representations of Eesti Pank.

Agreements between the countries of the European Union have led closer scrutiny to be initiated over the compliance of national budgets with the requirements for balanced budgets in the Stability and Growth Pact. In Estonia, the responsibility for setting up the Fiscal Council that would assess compliance with the budget requirements fell to the Supervisory Board of Eesti Pank. From 2014, the Supervisory Board has sole responsibility for approving the statutes of the Fiscal Council and for nominating and recalling members of it.

The members of the Supervisory Board of Eesti Pank

The Supervisory Board consists of a Chairman and seven members. The Chair of the Supervisory Board is appointed to office for a term of five years by the Riigikogu at the proposal of the President of the Republic.

The Chair organises the work of the Supervisory Board, chairs its meetings, ensures that its decisions are enacted, represents the Board, and responds to interpellations from the Riigikogu concerning the Supervisory Board's activities.

Kallo, Kaie Kerem, Enn Listra, Rein Minka, Jaanus Tamkivi, Liina Tõnisson and Urmas Varblane.

The Riigikogu appointed Mart Laar as Chair of the Supervisory Board from 13 June 2013.

The current members of the Supervisory Board were appointed by the Riigikogu on 25 February 2014 when the mandate of the previous Board ended. The members appointed were Kalev

The authority of the current Supervisory Board of Eesti Pank runs for five years until February 2019.

Mart Laar's mandate as Chair runs until 12 June 2018.



The supervisory work of the Supervisory Board of Eesti Pank

The aims of supervision

The Supervisory Board uses the results of its supervision to assess the activities of the bank in a range of areas, levels and subjects.

At the most general level the Board looks at whether the bank's vision is in line with what is expected by domestic and international public interested parties, whether the development strategy being followed and the actions under that strategy are taking the bank closer to the vision it has set, and whether the strategic goals can be achieved with the way work is planned.

At a more detailed level, the Board assesses how appropriate the work plans approved by the bank are in terms of achieving strategic goals, and whether the planned financial, staff or other resources are sufficient for the plans to be executed.

The Board also looks at how well the work of the Executive Board adheres to the principles of good management, and whether and how the Executive Board follows the principles of effectiveness, efficiency and economy.

At an operational level the Board looks at individual decisions taken by the Executive Board and requests explanations where necessary for the choices behind those decisions. The Supervisory Board pays particularly close attention to the decisions that the Executive Board takes based on the results of the internal and external audits, and in doing so it supports the independence of the internal audit department.

The supervision by the Eesti Pank Supervisory Board should help the bank become more effective, efficient and economical.

The resources for supervision

The Supervisory Board collects and analyses information for its supervision work firstly from the bank itself, and also from parties outside the bank.

The Board reviews the strategy, vision and mission of the bank once a year, so not every time there is a change. The role of the Board in handling these documents is limited to advising, consulting and giving opinions.

The Executive Board regularly advises the Supervisory Board of its work in implementing plans of work, executing the budget and running procurements. The reports also cover development of staff and management, including training, the realisation of risks, and the personal contributions of members of the Executive Board.

The internal audit department also reports regularly on its activities to the Supervisory Board. The reports from the internal audit contain reviews of audits carried out at regular intervals and their results and the auditors also inform the Supervisory Board of the recommendations they have made and of how those recommendations have been followed.

The Board gets further information on the management practices of the bank from regular surveys of management quality and satisfaction.

If any failings are discovered or suspected, the Board can use its authority to confirm the annual work plan of the internal audit department, and can

use this work plan to order detailed reports from the internal auditors on matters that are of interest. The Supervisory Board can also order audits or surveys from outside the bank if the internal audit department does not have sufficient resources to investigate everything that is of interest to the Board, as the annual work plan of the internal audit department also has to include audits ordered by the European System of Central Banks and by the Executive Board.

The results of supervision

The Supervisory Board collates the results of its supervision in the annual report of the bank. After the annual report of the bank has been approved by the Supervisory Board, the Chair of the Board presents the report to the Riigikogu.

The report by the Board contains assessments of the bank's activities on a broad scale. Alongside these assessments, the Board can also make observations in its report on the information that it analysed. If these observations identify opportunities for development, the Board may add a text giving its own recommendations to the Executive Board of the bank.

The work of the Supervisory Board of Eesti Pank in 2014

The Supervisory Board had nine regular meetings in 2014 and it also held seminars as an additional forum for its work.

Supervision of the Executive Board of Eesti Pank

The Supervisory Board heard a review of Eesti Pank's financial results for 2013 and approved the annual report proposed by the Governor for 2013.

The Chair of the Board presented the approved report to the Riigikogu

The Board also reviewed the profit distribution strategy of Eesti Pank and decided to continue with the same strategy of transferring 25% of the profit to the state budget each year.

The Supervisory Board heard a review of Eesti Pank's strategic development plan and was presented the drafts of the strategy documents. In a separate seminar it discussed the Eesti Pank strategy for 2014-2018 with the Executive Board.

The Board heard the Executive Board's reports for 2013 and reports from members of the Executive Board on the first half of 2014, which included reports on operations, the execution of the budget, adherence to the work plan, and procurements.

At the last meeting of the year, the Governor of the bank presented the draft budget for 2015 to the Board, and the Board declared itself satisfied with it.

The Board has supported the Executive Board in exiting non-core activities, such as its decision to sell Maardu manor.

Internal audit

The Supervisory Board approved the changes to the work schedule of the internal audit department in 2014 and the new work schedule for 2015 and heard reports on the work of the internal audit department. Members of the Board had meetings with the head of the internal audit department.

The internal audit department of the bank carries out audits of different areas at the instruction of

the Supervisory Board, the Executive Board and the European Central Bank. The department carries out an average of twelve audits each year, six of which are pan-European audits that are carried out simultaneously in the central banks of all the member states of the European Union in the same format. The same number of audits are carried out under the plan approved by the Eesti Pank Supervisory Board.

The audit plan for 2015 listed eleven areas at Eesti Pank, and the Board and the Executive Board together chose six of them. One area that was not chosen was moved into the audit plan for 2016, a report on one area was commissioned from outside the bank, and alternative methods were agreed for finding information on the other three areas.

Internal audit work is assessed from its results, and also using a specific assessment procedure, where an independent auditor audits how well the work of the internal audit department meets the standards every five years.

The bank accepted some 99% of the recommendations made in the audits last year, and only two of the recommendations that had been accepted remained unmet by the deadline of the end of the year. Both these figures are good and show how effective the internal audit function is.

Monetary policy

In its meetings the Board received regular retrospective reviews of how monetary policy is set and implemented at European Union level, and it heard presentations of economic forecasts.

Currency circulation

As Estonia joined the Single Euro Payment Area (SEPA) in 2014, the Supervisory Board added an

audit of settlements and the transition to SEPA to the plan of work of the internal audit department for 2015.

The auditors' assessment of the coordination and communication work done by Eesti Pank for the changeover to SEPA was generally good, and the main criticism concerned the development process for the SEPA connection that the bank needed for itself.

Financial stability

The Supervisory Board heard reviews of financial stability at its meetings.

There was a joint seminar with the Financial Supervision Authority and the Eesti Pank Executive Board that discussed single financial supervision, the new areas of activity for the Financial Supervision Authority, and the prevention of money laundering. There were also seminars on the sustainable provision of services that are vital for the financial sector and on the effect of Russian sanctions on the Estonian economy.

Consultation and cooperation on questions of economic policy

From 2014, the Supervisory Board has sole responsibility for approving the statutes of the Fiscal Council and for nominating and recalling members of it. In consequence, the Supervisory Board approved the statute of the Fiscal Council on 8 April 2014.

At its meetings, the Board heard reports from the Governor of the bank on the economy and the financial sector in the euro area, reviews of the Estonian economy and financial stability, and information on the activities of the Fiscal Council at two meetings and one seminar, in which the state of

public finances and the draft state budget for 2015 were discussed. The Executive Board presented a review to the Supervisory Board of its work at the IMF and the Bank for International Settlements, and of its work with the Nordic, Latvian and Lithuanian central banks.

The Supervisory Board understands the Governor's position on support to the countries receiving assistance provided by the European Union and the IMF. The Board shares the position of Eesti Pank and the government that there are insufficient convincing arguments for making concessions at the moment. The decision of the European Central Bank to start purchasing bonds will increase the Board's responsibility for supervision and its workload.

Organisation

The Supervisory Board approved the draft of the new statute for Eesti Pank, which was then sent for consideration to the European Central Bank.

The Board repealed the earlier and outdated supervisory board decisions no 8-3 of 23.09.2008 confirming the procedure for paying compensation to members of the Eesti Pank Supervisory Board; no 10-1 of 25.11.2008 confirming the conditions for granting Eesti Pank study loans; and no 11-2 of 18.12.2001 confirming the conditions for granting housing loans to staff of Eesti Pank.

The working procedures of the Supervisory Board were changed and approved and there was a separate seminar on the organisation of the work of the Supervisory Board.

Appointments to office

On 14.05.2014 the Supervisory Board appointed Raul Eamets as Chair of the Fiscal Council and Andrus

Alber as Vice-Chair, with Urmas Varblane, Andres Võrk, Ülo Kaasik and Martti Randveer as members.

Collector coins

The Board approved the design of the silver collector coin dedicated to the work of Miina Härma and its nominal value of ten euros. The coin was designed by Jaano Ester.

Assessment of the management of Eesti Pank in 2014

The bank has all the appropriate strategic planning documents and they meet what is expected of them. The Supervisory Board notes that the links between documents of different levels could not be assessed entirely equally. The management of the bank has left the description of the strategic goals quite general. The Board considers it important that metrics be defined during the regular revision of the strategy that will allow the activities of the bank to be assessed.

The bank has work plans at the tactical level and they are managed well. The Executive Board exercises constant supervision over how the plans are executed and updates them if necessary, and the same is done with procurement plans and the budget.

All the main tasks planned for 2014 were executed successfully. Although the procurement plan was not executed in full, this was because of the responsible behaviour of the bank's managers in delaying or cancelling procurements when market conditions were unfavourable, rather than because tasks were simply left undone.

The incomplete execution of the budget has been a running theme in the bank's operations since

the years after the re-establishment of the central bank but this does not mean that too much has been planned or that plans have been left unfulfilled. The incomplete execution of the budget is rather a consequence of how the budget for the bank is drawn up and of the working culture and in many cases because of savings that have been made. In contrast to institutions funded from the state budget, where there is pressure to use up in full the budgeted funds from each budget period because of the incremental system of budget planning where each budget is dependent on the previous one being fully spent, the bank assesses each item of expenditure other than fixed costs each year anew. This means that not spending all of the

budget indicates savings have been made, and so it can be said that the bank operates economically in terms of the resources it uses.

The Supervisory Board will continue to pay close attention to the efficient use of resources by the central bank in future.

The Supervisory Board was witness to explanations, reviews and reports in the international media on the content of the work of the bank that illustrated that Eesti Pank's influence on the decision-making process at the European System of Central Banks has increased.

EESTI PANK'S PRIORITIES

1. Participation in decision-making in the Eurosystem and in implementation of decisions

Eesti Pank participates in setting the single monetary policy of the euro area. The decisions needed for this are taken jointly by all the central banks of the Eurosystem working together. For this reason Eesti Pank needs high-quality analysis both of the processes that affect the Eurosystem as a whole and of issues that affect only the Estonian economy. This covers both economic research and economic forecasting. The purpose of economic research at the bank is to provide information that can be used in decisions on monetary policy and financial stability, and to give support to experts and managers from the central bank in discussions of economic policy.

Eesti Pank contributes to the stable development of the economy. It is the bank's job to ensure that companies and households can make transactions and calculations using a currency with stable purchasing power. This is incompatible with high volatility in prices.

The decisions of the central bank about the price of money and how much of it there should be are passed on to households and businesses through the financial system. Monetary policy is enacted through the transactions of the central bank with the commercial banks, which then issue loans and take in deposits.

The main monetary policy discussions in 2014 were on falling inflation in the euro area and the consequent need for further monetary policy easing. Concerns were amplified by a steadily falling oil price, which affected both inflation and inflation expectations. For this reason, the Governing Council of the European Central Bank lowered the monetary policy interest rates of the Eurosystem in June and November to their lowest-ever levels under the economic and monetary union. A negative interest rate of -0.20% was introduced on the deposit facility for the first time and it was decided to extend the fixed rate tender procedures with full allotment to counterparties of the Eurosystem. In addition, two new securities purchase programmes were started, the asset-backed securities purchase programme (ABSPP) and the third covered bond purchase programme (CBPP3), which supplemented the monetary policy decision taken in June to start granting targeted longer-term refinancing operations (TLTRO) to the banks. There was also a full and frank discussion about the new principles for publishing the discussions on monetary policy topics of the Governing Council of the European Central Bank, with the account of the discussions later published for the first time in February 2015¹. Preparations for a public sector purchase programme (PSPP) to purchase bonds issued by euro-area governments and pan-European institutions and agencies were also started and the decision to launch the programme was taken in January 2015.

Further information on this can be found in the chapter

[Participation in monetary policy decision-making in the Eurosystem and implementation of decisions](#)

¹ The account covers developments in the financial markets, the economy and monetary policy. Alongside a general summary of the discussions it contains economic and monetary analysis and the direction of monetary policy. The account reflects the monetary policy considerations of the Governing Council of the European Central Bank in a fair and balanced way.

2. Managing currency circulation

Eesti Pank's goal in organising the circulation of currency is to ensure that there is a sufficient amount of high-quality currency to meet demand, and that payment systems function reliably and without faults.

Together with the other central banks of the euro area and the European Central Bank, Eesti Pank issues the notes and coins of the legal tender of the euro area. Eesti Pank makes sure that demand for euro banknotes and coins is met and sufficient cash reserves are maintained, and that cash is of the appropriate quality and protected against forgery. At the end of September 2014 the second series of the ten-euro banknote started to be issued, which happened smoothly and without incident. Eesti Pank also received the first twenty-euro banknotes of the second series.

To expand its sales network for collector coins, the bank renewed its agreement with Eesti Post and signed a new agreement with the Estonian History Museum.

The management of Eesti Pank approved the proposal of the commission for commemorative and collector coins to mint a silver collector coin for the 150th anniversary of the birth of Eduard Vilde in 2015 and a specially designed circulating two-euro commemorative coin in 2018 for the 100th anniversary of the Republic of Estonia.

Payment systems are a central part of the financial infrastructure of an economy. Eesti Pank manages the TARGET2-Eesti settlement system, which is a technical platform for implementing monetary policy and which is used for fast and secure interbank transfers of funds. To widen the possibilities offered by TARGET2, Eesti Pank is working with the other central banks of the Eurosystem on the TARGET2-Securities platform for settling securities.

Eesti Pank supports the development of the payment market by participating in designing the legal framework for it, and by working with market participants. It is the responsibility of Eesti Pank as overseer to assess how the payment systems meet international standards and to make recommendations where necessary for how the systems could function better.

In 2014 a framework was created at Eesti Pank to describe the operating principles of payment systems and oversight, and the development of the payment market. The role of Eesti Pank as overseer was refined. A major change was that the card payment system operated by Nets Estonia AS was brought under oversight.

Further information on this can be found in the chapter [Managing currency circulation](#)

3. Safeguarding financial stability

Eesti Pank backs up the functioning of the financial system as a whole. The financial system needs to function well for the economy to run smoothly and for the central bank to be able to implement its monetary policy successfully.

Eesti Pank maintains financial stability through macroprudential supervision by analysing and assessing the systemic risks to the financial sector and setting appropriate policies to manage those risks. The bank also designs policies for the financial sector and helps write the law governing it and develop the framework for crisis management.

The first macroprudential measure was introduced by Eesti Pank on 1 August 2014 and was the requirement for banks to hold a 2% systemic risk buffer. The additional capital requirement will help strengthen the resilience of Estonian banks in the event of an unexpected worsening of the economic environment that could lead to a marked deterioration in the ability of the non-financial sector to service its loans. The second measure Eesti Pank introduced was a set of rules that applied from March 2015 on issuing housing loans and stated that new housing loans granted by the banks could not as a rule be for more than 85% of the value of the collateral; that the maturity of loans could not exceed 30 years; and that the total monthly loan servicing costs of a borrower could not exceed 50% of the borrower's income. Banks were permitted to breach these limits with up to 15% of the loans they issued in each quarter.

Maintaining financial stability requires close cooperation with organisations from Europe, the Nordic and Baltic states and Estonia. Single banking supervision started in the European Union in 2014. This required involvement in the work of the SSM Supervisory Board and public communications work to explain the changes in how banking supervision is organised. Before single banking supervision started, comprehensive stress tests were done for important euro-area banks. There were no capital shortfalls at the Estonian banks covered by the tests carried out by the Financial Supervision Authority and the European Central Bank.

Further information on this can be found in the chapter [Safeguarding financial stability](#)

4. Consultation and cooperation on questions of economic policy

It is Eesti Pank's job to support stable and sustainable economic growth in Estonia and the euro area. To this end, Eesti Pank advises the government and works with research institutions, central banks in other countries and international institutions.

The purpose of economic research and analysis at the bank is to provide information that can be used in decisions on monetary policy and financial stability, and to give support to experts and managers from the central bank in discussions of economic policy. Central bank's research and analysis also offers useful input to setting government policy and to the financial decisions of companies and households.

An unscheduled update to the economic forecast for Estonia was written in September following a quite substantial revision of the GDP statistics, and a short training session was held for journalists on the same subject. The regular Estonian economic forecast was released in June and December in cooperation with the other central banks of the euro area.

Events in Ukraine and Russia made it necessary to assess the impact of the EU and Russian sanctions on the Estonian economy. Internal bank reviews were written and the results of the analysis released publicly. One topic for analysis was the rapid fall in the oil price and its possible impact on the Estonian economy and on inflation.

The Fiscal Council was given technical support by the central bank to help it assess the forecast drawn up by the Ministry of Finance and the autumn state budget.

Meetings were held with the prime minister and the president where the main positions of Eesti Pank on the economy and the outlook for it were presented.

An Eesti Pank research prize of 2300 euros was awarded to the research group of Tarvo Vaarmets, Kristjan Liivamägi and Tõnn Talpsepp for their research article *The Brilliant Mind of Investors*, and a prize of 1300 euros was awarded to Magnus Piirits for his *Analysis of intergenerational effects of the pension system reforms in Estonia based on simulation model*.

Further information on this can be found in the chapter [Consultation and cooperation on questions of economic policy](#)

5. Compiling statistics for the Estonian financial and external sectors

Eesti Pank is responsible for compiling the statistics for the Estonian financial and external sectors and for the financial account. As a compiler of national statistics, the central bank supplies good quality, reliable, up to date and impartial information that is used in analysis, forecasting and policy setting, and is released publicly. Eesti Pank also helps compile statistics for the European economic and monetary union and works in developing new statistical methodologies.

A new statistical standard for external sector statistics and financial account statistics was introduced in 2014 to schedule and without any hitches. The balance of payments yearbook using the new BPM6 methodology was published on the Eesti Pank website.

The changeover of the balance of payments and the GDP accounts to the new methodology meant that one-off corrections became necessary in the balance of payments for 2011-2014Q1 and in GDP for 2010-2014Q1. Work with Statistics Estonia proceeded smoothly and a set of agreements were reached and methodologies and the sources of raw data used were harmonised.

In the financial sector statistics, preparations continued for changes to the reporting of credit institutions and leasing companies, which came into force from the data for December 2014. Preparations also started for the introduction of the updated ECB regulation on financial sector statistics, which applied from the data for January 2015.

Eesti Pank is making preparations for the transition to a regular registry-based survey of household consumption and financial behaviour, for which an estimate of resources has been compiled. The final decision on continuing with the regular registry-based survey will be taken after the first survey has been completed.

Further information on this can be found in the chapter [Compiling statistics for the Estonian financial and external sectors](#)

6. Financial asset investment

For the central bank to be financially independent, it needs to maintain and invest its assets. Eesti Pank has a legal duty to maintain and manage the national foreign currency reserves. The bank also has an agreement to manage the investment portfolio of the Guarantee Fund and is ready to invest other long-term reserves of the public sector. Eesti Pank works with other central banks in the Eurosystem to invest the reserves of the European Central Bank.

The central bank is a long-term and conservative investor and faces new challenges from the situation in the financial markets where interest rates on sovereign bonds with high credit ratings have fallen to very low levels. Eesti Pank has reacted to changes in the operating environment and has spread its risks by adding further asset classes to the investment portfolio and investing money in the sovereign bond markets of more countries than before.

Eesti Pank's investment income was several times higher in 2014 than the target set at the start of the year, and reached 22.8 million euros. Falling interest rates throughout the year made investments in bonds profitable and the increasing equity portfolio of Eesti Pank meant that significant income was earned from investments in equities.

Further information on this can be found in the chapter [Financial asset investment](#)