

APPENDICES

CHRONICLE – 1999¹

1 January

The third stage of the European Economic and Monetary Union (EMU) was launched, with the introduction of the euro as the common account money in eleven countries. The central banks of the EU Member States began quoting the national currencies of the EU applicant countries, including the Estonian kroon.

4 January

Andres Trink was appointed the Head of the Banking Supervision Department and the Member of the Executive Management of Eesti Pank.

15 January

The office of the Director of Eesti Pank was restored. **Valdur Laid** was designated the Director.

21 January

The Board of Eesti Pank approved the **Strategic Development Plan of Eesti Pank** which determines the mission and main goals of Eesti Pank, as well as the activity guidelines for the years 1999–2001.

2 February

The rules for fixing the Estonian inter-bank loan (TALIBOR) and deposit (TALIBID) interest rates were changed.

5 February

The City Court of Tallinn declared *EVEA Pank* bankrupt.

9 February

The *Riigikogu* passed the **revised Credit Institutions Act** and the **Savings and Loan Associations Act**.

18 February

The *Riigikogu* amended the **Advertising Act** so that in future the images of banknotes and coins issued by Eesti Pank can be used in advertising with the prior consent of Eesti Pank only.

19 February

The rating agency Moody's Investors Service rated the Estonian government bonds denominated in kroons with A1.

24 February

The 80th anniversary of Eesti Pank. On February 22 celebrations lasting to 3 May were started. Facsimile publications "*Eesti Pank 1919–1929*" and "*Eesti majandus 1938. a. Eesti Panga aastaraamat*" were presented. The Museum of Eesti Pank opened a sales outlet where Estonian commemorative coins, coin folders and other publications by the bank are sold.

4 March

The Decision of the Board of Eesti Pank on the **Institutional Reform of Financial Sector Supervision** was adopted.

5 March

A provisional Committee for Coordinating Information Technology Problems Related to the Year 2000 was set up.

12 March

The rules for pension contributions of the employees of Eesti Pank and members of the Board were established.

24 March

Credit institutions and undertakings belonging to the same consolidation group were forbidden to grant loans to local governments and buy securities issued by them (also from the secondary market) without first examining the solvency and collateral of the borrower.

26 March

A commemorative gold coin dedicated to the 80th anniversary of Eesti Pank and to the introduction of the European single currency, the euro was issued. The nominal value of the coin is 15.65 kroons, ie 1 euro.

¹ For more detailed information please refer to the Chronicle of Monetary Policy of 1999, Eesti Pank Bulletin, 1999, No 1–6, and 2000, No 1. The most significant Decisions of the Board of Eesti Pank and Decrees of the Governor of Eesti Pank together with Appendices have been published in *Riigi Teataja Lisa* (State Gazette. Supplement).

6 April

The Board of Eesti Pank terminated the moratorium of *ERA Pank* and initiated bankruptcy proceedings against the bank. The credit institution's licence of *ERA Pank* was revoked as of 7 April 1999.

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A project committee, project management and project team were set up to design the Real Time Gross Settlement (RTGS) system and Designated Time Net Settlement (DNS) system.

12 April

The basic principles of managing the foreign currency reserves of Eesti Pank were endorsed.

22 April

The Board of Eesti Pank approved the **Financial Statements of Eesti Pank for 1998** and submitted it to the *Riigikogu* for approval. The profit of Eesti Pank was divided between the reserve capital (136,000,000 EEK) and the special reserve (406,023,000 EEK).

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The *Riigikogu* approved of increasing Estonia's quota in the International Monetary Fund (IMF) by 18.7 million SDR. Previously the quota was 46.5 million SDR.

30 April

The 100kroon banknotes of new design and with enhanced security features were released into circulation.

1 May

Eesti Pank held the first open house for children.

3 May

Eesti Pank marked its 80th anniversary with the international conference "The Role of a Central Bank in Economic Policy Management" at the Concert Hall "Estonia". *Eesti Post* issued a stamp dedicated to the anniversary of Eesti Pank.

4 May

The first issue of Eesti Pank in-house newsletter was published.

7 May

The licence granted to *Latvijas Unibanka* for opening a representative office in Tallinn was revoked.

14 May

The Regulations for Reporting by the Liquidators,

Temporary Administrator and Bankruptcy Administrator of Credit Institutions were endorsed.

20 May

The Board of Eesti Pank resolved on the remuneration of the credit institutions' funds kept on current accounts with Eesti Pank. The respective decrees by the Governor of Eesti Pank were issued on 15 June and enforced on 1 July.

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A new format for a quarterly report to be submitted by the resident insurance companies on their external transactions was endorsed.

27 May

The traditional **joint seminar for Eesti Pank and Suomen Pankki** opened at Saariselkä.

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The *Riigikogu* set up an investigation committee to look into the circumstances of the bankruptcy of *Eesti Maapank* (Land Bank of Estonia) and to guarantee the unbiased bankruptcy procedure.

2 June

A traditional **seminar of the central banks of the Baltic countries** began in Vilnius, Lithuania, focusing on the European integration issues.

7 June

The Tartu City Court declared *ERA Pank* bankrupt.

8 June

The *Riigikogu* approved the appointment of **Kalle Jürgenson** as a substitute member of the Board of Eesti Pank because its regular member **Mihkel Pärnoja** became Minister of Economic Affairs.

15 June

The *Riigikogu* approved the **Financial Statements of Eesti Pank for 1998**.

16 June

Eesti Pank, the Estonian Banking Association and commercial banks organised a round-table meeting "The Year 2000 Problem in Estonian Banking".

18 June

The reception of the Governor of Eesti Pank in the Maardu Manor on the occasion of the seventh anniversary of the reintroduction of the Estonian kroon featured the unveiling of a memorial to Hermann Jensen von Bohn, Maardu estate

owner, who had financed the printing of the first full-length Estonian-language Bible (1739).

22 June

The Board of Eesti Pank appointed **Märten Ross**, Head of the Central Bank Policy Department, as the Member of the Executive Management.

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The Board of Eesti Pank decided to bring the **Procedure for Application for and Grant of Authorisation to Credit Institutions** into line with the new Credit Institutions Act. Pursuant to the new Credit Institutions Act appendices to the Decree on **Reports by Credit Institutions** were amended.

28 June

The *Riigikogu* passed a law on the 1999 negative supplementary budget.

1 July

A commemorative one-kroon coin was put into circulation to mark the 130th anniversary of the first all-Estonian Song Festival.

6 July

The new **Instructions on Calculating Prudential Ratios of Credit Institutions** and the **Procedure of Reporting** were endorsed.

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The procedure for selecting and editing of articles for Working Papers of Eesti Pank and Translation Series and Editorial Board were endorsed.

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The **Approval of Procedure for Application for and Grant of Authorisation to Credit Institutions and Branches of Foreign Credit Institutions**, and of **List of Documents to be Submitted upon Application for Authorisation** was endorsed.

9 July

The **Procedure for Implementation of Internal Security Measures in Credit Institutions for Prevention of Money Laundering**, and of **List of Suspicious and Unusual Transactions** was endorsed.

6 August

An international seminar on economic modelling began in Eesti Pank.

31 August

The European Central Bank disclosed the survey "Payment Systems in Countries that have applied for Membership of the European Union". The so-called Blue Book was compiled in cooperation with the central banks of Bulgaria, Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

10 September

The **Rules on Fixing Daily Exchange Rates of the Estonian Kroon** were approved.

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International experts considered the central banks of Estonia, Lithuania and Czech Republic to be the most transparent ones in Central and Eastern Europe.

15 September

A meeting and an exhibition dedicated to the 100th birth anniversary of the former Governor of Eesti Pank Juhan Vaabel were held in the Museum of Eesti Pank.

16 September

Eesti Pank inaugurated its training and management centre in Kuressaare. From 17 to 18 September the tenth planning seminar of the Bank was held there.

23 September

The Board of Eesti Pank issued a **banking licence to Preatoni Pank** and resolved on the **profit distribution strategy of Eesti Pank**.

28 September

Governor of Eesti Pank **Vahur Kraft**, Deputy Governors **Peter Lõhmus** and **Helo Meigas** and Heads of Departments **Märten** and **Tanel Ross** participated in the annual meeting of the International Monetary Fund and the World Bank in Washington.

30 September

Governor of Eesti Pank Vahur Kraft made a statement at the international Y2K conference, announcing that all information technology measures planned for achieving year 2000 compliance have been completed and the compatibility of the critical systems was achieved by mid-1999.

12 October

The *Riigikogu* appointed **Urmis Kaarlep** and **Gordon Latimir** as auditors of the financial activities of Eesti Pank in 1999.

15 October

The **Procedure for the Application for the Acquisition of Qualifying Holding in Bank** and the **List of Data and Documents to be Submitted when Applying for the Permission to Acquire the Qualifying Holding in Bank** as well as the **Procedure for Submission of Information Certifying Conformity of Persons Specified in Credit Institutions Act and for Declaration of Their Economic Interests** were endorsed.

19 October

The **Procedure for the Preparation of Public Disclosure Reports of Credit Institutions** was endorsed.

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The delegation of the Board of Eesti Pank led by Chairman **Mart Sõrg** visited the central bank of Slovenia from 19 to 22 October.

28 October

The Board of Eesti Pank resolved that due to the potential year 2000 problem in the period from 30 to 31 December 1999 credit institutions are allowed to process the payment orders so that the money would arrive from the payer to the beneficiary within three banking days. The respective Decree of the Governor of Eesti Pank was issued on 15 December.

9 November

The first **joint seminar of the European Central Bank and the EU applicant countries** started in Helsinki. **Vahur Kraft**, Governor of Eesti Pank, also made a presentation.

25 November

The European Commission held a seminar "**Currency Board Arrangements in the EU Accession Context**" in Brussels, with Deputy Governor **Peter Lõhmus** of Eesti Pank making the opening presentation.

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The Board of Eesti Pank approved of the new **Statutes of the Banking Supervision Department of Eesti Bank**.

8 December

The temporary **Year 2000 Coordination Centre** was set up in Eesti Pank.

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The *Riigikogu* amended the **legislation concerning the use of revenue from privatisation** in order to finance the pension reform.

10 December

Eesti Pank approved the reports on year 2000 compatibility of all the commercial banks operating in Estonia.

15 December

The principles and the procedure of involving guest researchers in Eesti Pank were established.

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The *Riigikogu* adopted the **Year 2000 State Budget Act** as well as the new **Income Tax Act**.

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The risk assessment consultancy Merchant International Group considered Estonia, Hong Kong, Japan, Singapore and Slovenia as the top risk-free countries for direct investments in the fourth quarter of 1999.

16 December

The Board of Eesti Pank approved the **Strategic Development Plan of Eesti Pank** (the Activity Guidelines for 2000–2002) and the **Bank's budgetary expenses for the year 2000**.

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The stock exchanges of Estonia, Latvia and Lithuania approved the joint Baltic List consisting of the most attractive stocks listed in the exchanges of the three countries with *Eesti Telekom* (Estonian Telecom), *Eesti Ühispank* (Union Bank of Estonia), *Hansapank*, *Norma* and *Optiva Pank* representing Estonia.

17 December

A new balance sheet reporting form, instructions on compiling the balance sheet and entry codes for credit institutions were approved.

29 December

The Board of the Deposit Guarantee Fund decided to increase the guaranteed limit of deposits from 20,000 kroons to 40,000 kroons from 1 January 2000.

30 December

A work group was set up to analyse the compatibility of the Credit Institutions Act with the European Union banking directives and implementation of the Act and to prepare the draft amendments to the Credit Institutions Act by 1 April 2000.

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Eesti Pank sold its stake in *Hansapank*, earning 88 million kroons of extraordinary income from the sale.

31 December

A procedure was established on the notification of the Banking Supervision Department of Eesti Pank by the credit institution prior to the opening of a representative office in a foreign country.

THE STRATEGIC DEVELOPMENT PLAN OF EESTI PANK¹

The Mission of Eesti Pank

Eesti Pank, Estonia's central bank, is entrusted with implementing all the measures at its disposal to increase confidence in the Estonian kroon, the stability and integrity of the Estonian monetary system both at home and abroad.

The Main Objectives of Eesti Pank

1. Maintaining and ensuring the value of the Estonian kroon in fulfilling all the functions of money.
2. Improving the security and stability of the Estonian banking system.
3. Furthering the efficiency and development of the Estonian financial system, particularly the payment and settlement systems.
4. Meeting the cash demand of the public.

The Activity Guidelines of Eesti Pank for 2000–2002

Whereas Eesti Pank is guided by its mission, primary objectives and Estonia's aspiration to access to the European Economic and Monetary Union;

whereas the external shocks characteristic to economies in transition and their susceptibility to the macroeconomic instability underline the importance of institutional development;

whereas Eesti Pank considers it prudent to continue to conduct a monetary policy based on a fixed exchange rate and currency board arrangement;

whereas the experience of earlier years has shown that the Estonian monetary system can successfully weather the impact of the emerging markets crisis,

Eesti Pank will pursue the following guidelines in its activity:

I. Monetary Policy

1. The credibility and stability of the kroon is safeguarded by maintaining a monetary policy based on a fixed exchange rate and currency board arrangement.

¹ Adopted by the Board of Eesti Pank on 16 December 1999.

2. The efficiency of the currency board-based monetary policy depends greatly on the monetary policy transmission mechanism. The aim of Eesti Pank is the continuing development of the operational framework of the monetary policy in the direction that would guarantee the reliable functioning of the currency board in the conditions of a small open economy and reduce market fluctuations in the financial sector.

3. Pursuant to the Central Bank Act, Eesti Pank advises the Government of the Republic of Estonia in monetary and banking policy matters and cooperates actively in European integration. Eesti Pank considers it to be its duty to participate in public discussions on economic policy issues that can influence Eesti Pank in carrying out its constitutional objectives.

II. European Union and Monetary Union

4. Eesti Pank continues working out monetary policy scenarios for the accession to the European Union and the common currency system.

5. Eesti Pank focuses on implementing the principles of the common market, supervision of legality and enhancing of the required administrative ability.

6. Eesti Pank's objective in developing and implementing monetary and banking policy is harmonisation with the respective legal acts of the European Union. Temporary deviations from the *acquis* may occur in the fields where Estonia is seeking a transition period in its accession negotiations with the European Union. In case of such deviations a time schedule and an action plan will be worked out for complete harmonisation of legislation.

7. Being a constitutional institution, Eesti Pank supports the planned amendments of the Estonian Constitution on the basis of the Maastricht Treaty and the provisions of the Statute of the European Central Bank and deems it necessary to include the guarantees of the institutional sovereignty and independence of the central bank in the Constitution.

8. While conducting banking policy, Eesti Pank devotes more attention to the competition in the banking sector. This is aimed at boosting the efficiency of the Estonian banking sector and creating prerequisites for international competitiveness through the openness of the financial sector, promoting of domestic competition and banking regulation. Special attention is paid to the readiness of the financial sector for future accession to the European Economic and Monetary Union.

9. For the purpose of mutually beneficial international cooperation, Eesti Pank widens its activities in international financial organisations. Particular attention is paid to cooperation with the European System of Central Banks and the European Central Bank, with the aim of harmonising the monetary policy of Estonia with that conducted by the European Economic and Monetary Union.

III. Financial Sector and Supervision

10. Eesti Pank deems it necessary to create an integrated financial supervision institution. Taking into account the specific nature of financial supervision, Eesti Pank considers a public legal entity to be the most suitable institutional form for such an integrated supervision. The launch of an integrated financial supervision is vitally important in order to prevent some parts of the financial sector from taking advantage of the low efficiency of supervision. While taking part

in establishing integrated financial supervision, Eesti Pank will pay attention to the need to prevent even a temporary decline in the quality of supervision, including the supervision of credit institutions.

11. Eesti Pank proceeds in its supervisory activity from international standards and practice. In view of the susceptibility to micro- and macroeconomic risks, Eesti Pank considers it necessary to maintain prudential ratios and other regulations stricter than required by international standards. Special attention is given to the constant monitoring of the financial markets, with the aim of promptly reacting to changes in the environment.

12. In safeguarding the stability of the financial sector and dividing responsibility between the private and the public sector, Eesti Pank puts greater emphasis on enhancing market discipline through transparency of activities and disclosure of assumed risks. In order to pursue good banking practices, Eesti Pank emphasises the need to strengthen the self-regulation and general management of market participants.

13. In order to safeguard the continuity and credibility of the financial system, Eesti Pank deems it necessary to define a safety net of the financial sector, aimed at guaranteeing a transparent and the cheapest solution for possible systemic problems and minimising the possibility of moral hazard through the responsibility of the owners.

14. In view of the deepening integration of Estonian financial markets into external markets through the widening scope of the activities of credit institutions and internationalisation of ownership, Eesti Pank strengthens cooperation with the supervisory bodies and central banks of other countries. In dividing the supervisory functions and arranging cooperation, the central bank aims at maximising the efficiency of supervision.

15. In addition to formulating the banking policy and to safeguarding the financial stability and the efficiency of the monetary policy, Eesti Pank considers it important to actively participate in working out the principles shaping the activities of other financial intermediaries. In order to have the necessary statistical data, Eesti Pank continues to expand the statistical basis of the entire financial intermediation and collects data directly from the market agents as well as from the competent institutions. Cost-effectiveness is kept in mind while gathering the data.

IV. Other Main Fields of Activity

16. In compilation, generalisation, analysis and distribution of statistics, Eesti Pank strives to improve the dissemination of information to both local and international economic agents, first of all in reference to short-term capital flows and the external debt. Eesti Pank follows the changing international standards concerning collecting and publishing of statistics, including the requirements of the special data dissemination standard (SDDS) of the International Monetary Fund.

17. Regarding currency circulation, Eesti Pank aims at the least expensive circulation system that would correspond to international requirements and best meet the needs of Estonian society. In cash circulation, Eesti Pank proceeds from international security and quality requirements. In order to increase the efficiency of currency circulation through reducing the share of cash as means of payment, Eesti Pank focuses on providing the necessary infrastructure and legal framework for promoting the use of non-cash means of payment.

18. In view of the need to make transactions in Estonian kroons more secure, faster and efficient and to fulfil the requirements and regulations of the European Union, Eesti Pank

implements the real time gross settlement system for large payments and the designated time net settlement system for retail payments. Eesti Pank supports private initiative and pro-active approach to developing the infrastructure of financial markets.

19. In investing the central bank's foreign currency reserves, Eesti Pank proceeds from the conservative risk taking policy suitable for the cover of the Estonian kroon which sets priority on the preservation and liquidity in earning income from investments.

V. Organisation of Eesti Pank

20. Eesti Pank proceeds from the principles of openness and transparency and uses all the means at its disposal to explain its primary objectives and activities' results.

21. Eesti Pank proceeds from modern risk management principles suitable for a public entity in improving its organisational activities and conducting work processes.

22. Eesti Pank develops organisational culture characteristic of a learning organisation and applies personnel policy that supports employee initiative and innovation, encourages continuing self-education and well-planned in-service training.

23. Eesti Pank improves work processes within its organisation and methodology of strategic planning and management accounting in order to use the resources in a more economical and rational way. In measuring the output of its activity, Eesti Pank applies quantitative methods and determines the cost price of services, comparing its expenditures with those of other central banks and organisations.

BRIEF OVERVIEW OF RESEARCH YEAR 1999 IN EESTI PANK¹

Constructing **Estonian macroeconomic model (MEM)** the authors (Urmas Sepp, Rasmus Pikkani, Mari Rell, Andres Vesilind) wanted to create a tool for forecasting basic development projections of macro indicators and economy.

As typical for a structural macro-model, the authors tried to use a theoretical model as a basis for the MEM. Originally the MEM was to be specified according to the theoretical model of the transition economy. Unfortunately there were no transition economy models available as yet, providing a complex (and recognised as adequate) explanation of the previous command economy. The professional literature has introduced some models, describing in theory convincingly certain aspects of the transition process (GDP collapse, runaway and hyperinflation, etc) whereas their use is still limited to the theoretical treatment as no analysis and interpretation of the models' empirical validity is accessible.

Due to the lack of an applicable transition economy model for empirical research, the macroeconomic model was based on the macro model describing the (developed) market economy. Although the small structural model focused on Keynesian demand side together with neo-classical supply side, the poor quality of the input information as well as the lack of theoretical and empirical research did not allow implementing such a construction in practice. Thus, the MEM was a short-time model without the supply side.

At the end of the research the MEM had 27 behavioural equations, six of them comprising the core model and the rest detailed satellite models. As mentioned the MEM is a forecasting model. Unfortunately the computation of the model prognosis is insufficient in itself. It has to be adjusted with expert assessment as Estonia's economy is still undergoing structural changes. Taking into consideration the significance of the expert opinion, a number of tools which allow both to modify the model and to improve specific variables, were put together to use the MEM in forecasting. Simulation algorithms to assess elasticity and multipliers, and to analyse impulse reaction were programmed. In order to facilitate consumer friendliness, a programme to generate and compare prognosis variations was compiled and applications for simulation output in the format of tables and charts were programmed.

"Estonian Inflation Model" (authors Urmas Sepp, Andres Vesilind, Ülo Kaasik) was the follow-up to the macroeconomic modelling. The aim was to create a model both for prognosis and simulation of economic policy and development scenarios.

The theoretical setting of the inflation model was confined with the key features of the economy since Estonia is: 1) a transition economy; 2) a small and open economy; 3) using the currency board arrangement; 4) a market economy. All the above facets have a concrete link to inflation, well reflected in specific models. The basic model of Estonian inflation is a combination of relevant models.

¹ See also Research Underlying Decision-Making, pp 45 to 46. Most of the research is published and available only in the Estonian language.

The ideology of the model evaluation lies in differentiating between two components: the basic inflation reflects a long-term balanced process, ie convergence of price levels and relative prices whereas the inflation variance from the balance reflects short-term dynamics. The latter depends on three key factors – the ratio of demand and supply, the exchange rate of the US dollar and administrative actions taken to adjust administered prices. Using this approach the model is to be assessed in two steps: first the basic inflation is to be determined, followed by the assessment of the real inflation variation from the basic inflation and pertinent behaviour models.

The structure of the inflation model is simple. The linkage between the indicators and phenomena refers to a transmission process, characterised by two aspects. Firstly, the impact of producer prices in generating implications in compliance with the supply-side pricing and secondly, the central role of the GDP deflator in the transmission mechanism.

Produce prices play a specific role. The producers set the price pursuant to: a) the price of (imported) input (these price changes are reflected in the change of the exchange rate of the US dollar) or b) demand (reflected in the variance between the potential and real indicators).

The producer price serves as a basis for export prices and through the transmission via GDP also for domestic prices.

The adequacy of the model was assessed by *ex post* and *ex ante* prognoses and the stability by shock responses of exogenous and endogenous variables. The findings led to conclusions that the model is stable and describes inflation sufficiently.

Eesti Pank compiles monthly express evaluation of the balance of payments' indicators. As some evaluation measures had not yielded good results, one of the tasks was **to improve the express evaluation methodology of the balance of payments** (authors Mari Rell, Teet Rajasalu).

The research set forth a new, more precise methodology to evaluate the income balance and improved the methodology to evaluate the services' and transfers' balance. The evaluation of financial account transactions on the basis of indirect information is still problematic. The research concluded that the current evaluation models enable to carry out only approximate express evaluations of the balance of payments. The authors also concluded that in order to get more reliable results, the quality of monthly information, especially on financial account transactions, should be improved and express evaluation of the significant factors describing the economic environment (eg GDP) should be made.

The piece of research "**The Economic Growth Express Evaluation System**" (authors Andres Vesilind, Rasmus Pikkani, Urmas Sepp) is directly related to the above conclusion. The need for such a system arises from the necessity to assess objectively on a monthly basis the economic growth in the near past and future. The assessment would have multiple use. As mentioned, the express economic growth assessment is necessary for Eesti Pank as a monthly balance of payments' express assessment input. On the other hand the objective express evaluation would give a clear picture of the economic performance and enable to respond rapidly and adequately to changes in output growth. Thirdly, the growth forecast for immediate future based on the index of key indicators allows enhancing the accuracy of short-term economic forecasts.

Different methods in express growth assessment as well as the experience of other countries in their implementation were studied in 1999. The conclusion was that under the Estonian circumstances the most expedient way to evaluate economic growth rate would be to use the GDP demand- and supply-side components. Significant supplementary information can be provided also by the index of key growth indicators based on the cyclic changes of the economy.

As regards the mission of Eesti Pank, the key issue of research is **price dynamics**. Apart from the above inflation model more research was done in this field.

As changes in asset prices can have a significant impact both on the price level as well as on the financial sector, this has to be considered in developing monetary policy. Therefore the research "**Asset Pricing in Estonia**" (authors Martti Randveer, Mari Rell) focused on identifying the factors influencing Estonian real estate and stock market price level and assess their implications.

The research handled theoretical and economic policy aspects related to asset pricing, described the asset markets' dynamics from 1994 to the third quarter of 1999 in Estonia and evaluated the trends and scope of the factors influencing real estate and stock market price level. The causal link between real estate and consumer prices, on one hand, and stock and consumer prices, on the other hand, was studied as well.

The research concluded that during the above period the real estate prices were positively dependent on the nominal GDP and the lending by Estonian commercial banks to the private sector, and the stock prices positively on the economic growth expectations as well as the loans issued by the domestic commercial banks to the private sector. The above linkage was statistically relevant. Thereby the authors admitted that the causal link between real estate and consumer prices, on one hand, and stock and consumer prices, on the other hand, is missing in Estonia. Sharp changes in asset prices have, first and foremost, an impact on the financial sector and thereby on the economy as a whole.

The piece of research "**Wage and Productivity Linkage in Different Economic Sectors and their Implications on Inflation**" (authors Mari Rell, Andres Vesilind) was induced by the necessity to evaluate the implications of the Russian crisis on Estonia's labour market. The authors looked for an answer to the question how flexible wages were in the economic reverse from growth to downfall. They also attempted to identify to what extent underlying changes in wages and productivity influenced the competitiveness of Estonian goods.

The authors concluded that wages were flexible in the private sector open to external competition – the shrinking productivity slowed down the wage growth as well. Whereas in the services' sector wages were rigid – the economic downfall did not generate significant slowdown in wage rise. The wage rise in the government sector did not depend on the economic circumstances either.

As in the services' sector the productivity shrank relatively little due to the economic downfall and wages in the open sector maintained their elasticity with productivity falling, it was impossible to define any direct and significant impact of the Russian crisis on the competitiveness of the Estonian goods.

Prices and competitiveness, so important due to the major role of export in Estonian economic development, were also handled in the research "**Export Pricing**" (authors Martti Randveer, Mari Rell). The research focused on evaluating the factors influencing export price setting in Estonia as well as export supply and demand.

According to the empirical evaluation the prices of export goods were positively dependent both on domestic price level and nominal income of main trade partners in the period between 1994 and the third quarter of 1998. Thereby the evaluated economic relations were statistically relevant and equation parameters stable.

Although it was possible in evaluating the export demand and supply model to single out supply-shaping factors (export price and the nominal income of the trade partners), the factors developing export turned unfortunately to be statistically irrelevant.

As the introduction of the euro in settlements on 1 January 1999 had a significant impact on the euro area financial markets, it was necessary to evaluate the preliminary implication of the

adoption of the euro on Estonia. The research “**Implications of the Introduction of the Euro for the Estonian Financial Markets**” (authors Teet Rajasalu, Martti Randveer, Tiina Soosalu) focused on identifying the major impact channels of the adoption of the euro and assessing their significance.

The research handled the share of euro transactions in the current account transactions of Estonian balance of payments, banks' foreign exchange for transactions in the euros, the use of the euro in deposit and loan agreements and the implications of the euro on the volume of derivative transactions. The impact of the euro on Estonian financial markets through external capital flows was considered as well.

The authors concluded that in 1999 the implications of the euro on Estonian financial sector remained relatively modest. Whereas in some areas the introduction of the euro was explicit. In 1999 the euro was adopted in Estonian balance of payments transactions, necessitating the purchase and sale of the euro as an account currency. The euro ranked second in Estonian commercial banks' purchase/sale transactions of the account currency. The use of the euro in deposit and loan agreements grew also in 1999. The share of assets and liabilities quoted in the euros increased significantly in the structure of the banks' foreign assets and liabilities.

Two research works treated financing of Estonian business activities and financial indicators. These topics are relevant as financing of the business sector and the financial status have an ever-increasing implication on the banking trends which is of significance to Eesti Pank in its decision-making process.

The research “**The Movement of the Capital and Financing of Business Activities**” (authors Teet Rajasalu, Martti Randveer, Alar Kangur) evaluated the reliability and compatibility of the financing information and analysed the dynamics of financing Estonian businesses in 1994–1998. The authors described financing by main financial instruments, sectorial requirements and maturities of the liabilities and handled relations between external financing of businesses and investment activities. The volatility of foreign capital flows was touched upon separately.

The authors discovered that in 1994–1998 external financing constituted half of the capital investments in the business sector. External financing through loans has mostly been mediated by the domestic financial sector. Whereas the external financing through increasing equity has been possible through involvement of foreign sector capital. The conclusion was that due to limited internal resources in companies, investments and external financing are closely linked and foreign investments into Estonian businesses have been quite unstable in the indicated period.

The study of “**The Debt Burden and Solvency and Rate of Return Indicators in Estonian Business Sector**” (author Martti Randveer) focused on the analysis of corporate financial conditions and identification of businesses as regards debt burden, solvency and rate of return. The authors compared the corporate financial indicators and debt burden in Estonia to that of other countries.

The research handled Estonian corporate debt burden, solvency and rate of return ratio dynamics from 1996 to the first half of 1999. Financial indicators by industries, size of businesses and type of ownership were also analysed.

Summa summarum, the conclusion is that Estonian corporate debt burden and asset utilisation are close to average whereas the share of long-term liabilities is significantly below the trend. The authors admitted that the above period is characterised by growing debt burden and slightly decreasing solvency. No significant problems in the corporate rate of return, debt burden and solvency were identified.

STATISTICS

Table 1. Indicators of Estonian economy ¹

	Unit	1993	1994	1995	1996	1997	1998	1999
1. Gross domestic product								
1.1. In current prices	EEK mn	21,609	29,600	40,705	52,446	64,324	73,325	
1.2. Change in constant prices	%	...	-2.0	4.3	3.9	10.6	4.7	
2. Sales of industrial products²								
	%	-18.7	-3.0	2.0	3.5	15.2	2.3	-3.9
3. Construction (change in current prices)								
	%	...	80.3	48.8	31.7	32.0	46.3	-25.2
4. Retail trade enterprises' retail sales (1995 = 100)								
	%	72	88	100	106	119	126	132
5. Prices								
5.1. Consumer price index	%	89.8	47.7	29.0	23.1	11.2	8.2	3.3
5.2. Producer price index	%	75.2	36.3	25.6	14.8	8.8	4.2	-1.2
5.3. Export price index	%	...	...	15.2	11.4	7.5	2.1	-0.4
5.4. Real effective exchange rate (REER) index of the kroon	%		10.9	18.0	9.7	3.3	10.4	7.3
6. Labour market and wage								
6.1. Employment rate (based on Labour Force Survey)	%	65.6	64.8	61.8	61.3	58.8	58.1	55.8*
6.2. Unemployment rate (based on Labour Force Survey)	%	6.5	7.6	9.7	10.0	9.7	9.9	11.7*
6.3. Registered unemployed (monthly average)	persons	...	15,598	15,188	18,541	19,250	18,809	28,161
6.4. Monthly average gross wage	EEK	1,066	1,734	2,375	2,985	3,573	4,125	4,418**
6.5. Growth of real wage	%	2.3	10.1	6.2	2.1	7.6	6.7	7.0**
7. Government sector budget								
7.1. Revenue	EEK mn	...	...	...	20,332	25,990	27,980	27,130
7.2. Expenditures	EEK mn	...	...	...	21,344	24,580	28,219	30,670
7.3. Surplus/deficit	EEK mn	...	...	...	-1,011	1,410	-240	-3,540
7.4. Surplus/deficit (against GDP)	%				-1.9	2.2	-0.3	-4.8**
8. Transport								
8.1. Passenger transport	passengers (mn)	437	297	270	265	272	254	
8.2. Freight	mn t	60	58	54	60	64	71	
9. Foreign trade (special trade)								
9.1. Export	EEK mn	...	15,628	19,009	21,247	31,607	37,545	35,813
9.2. Import	EEK mn	...	20,102	27,425	34,667	48,869	55,216	50,477
9.3. Balance	EEK mn	...	-4,474	-8,416	-13,420	-17,262	-17,671	-14,664
10. Balance of payments								
10.1. Current account balance	EEK mn	279	-2,146	-1,811	-4,807	-7,813	-6,752	-4,637
10.2. Current account balance against GDP	%	1.3	-7.2	-4.4	-9.2	-12.1	-9.2	-6.3
10.3. Direct investments' inflow	EEK mn	2,153	2,819	2,313	1,814	3,697	8,071	4,468
10.4. Direct investments' outflow	EEK mn	-82	-30	-29	-485	-1,913	-82	-1,108
11. International investment position³								
11.1. Net international investment position	EEK mn	...	...	...	...	-24,547	-28,852	-42,717
11.2. Against GDP	%					-38.2	-39.4	-58.1
11.3. Direct investments into Estonia	%	...	...	...	...	25.6	33.4	51.7
11.4. Total foreign debt (against GDP)	%	...	...	...	...	57.1	53.1	59.6
11.5. o/w government sector (against GDP)	%	...	...	...	...	4.3	4.3	5.0
12. Weighted average exchange rate of Estonian kroon against US dollar								
	EEK	13.234	12.970	11.464	12.031	13.881	14.065	14.695
13. Annual average population								
	thousand persons	1,516.7	1,499.3	1,483.9	1,469.2	1,458.0	1,450.0	1,442.5

¹ After additional information is received, data of the earlier periods have been updated accordingly.

² Price index of industrial products of 1993 and 1994

³ As of end of year

... no data or data not available

* Data of the 2nd quarter

** Estimation

Table 4. Price indices compared to previous period (%)

	1994	1995	1996	1997	1998	1999
Producer price index	47.7	29.0	23.1	11.2	8.2	3.3
open sector	33.8	17.4	18.6	7.8	6.0	0.3
sheltered sector	89.1	47.9	28.6	15.8	13.6	10.1
o/w regulated priced	98.9	49.7	26.2	14.3	13.4	10.6
non-regulated prices	43.1	38.5	38.5	21.2	13.7	8.4
Real effective exchange rate (REER) index of the kroon	10.9	18.0	9.7	3.3	10.4	7.3
o/w against the currencies of developed industrial countries	40.2	25.3	19.4	8.0	8.3	2.2
against the currencies of transition economies	-30.6	5.1	-9.3	-6.3	17.0	18.6
o/w against Russian ruble	-37.0	4.1	-13.0	-5.0	29.4	34.4
Latvian lats	-8.2	10.4	4.1	-6.6	3.6	-3.4
Lithuanian litas	-24.9	5.1	-6.1	-11.5	1.6	-1.6
Producer price index	36.3	25.6	14.8	8.8	4.2	-1.2
o/w manufacturing	36.9	18.9	14.7	7.4	3.0	-2.6
energy production and mining	35.5	56.6	15.8	14.6	8.0	2.4
Export price index	-	15.2	11.4	7.5	2.1	-0.4
Import price index	-	-	-	-	-	0.4
Construction price index	-	36.0	18.7	10.1	7.7	2.0

Table 5. Estonian balance of payments (EEK mn)¹

	1993	1994	1995	1996	1997	1998	1999
Current account	279	-2,146	-1,811	-4,807	-7,813	-6,752	-4,637
Trade balance	-1,925	-4,616	-7,616	-12,288	-15,655	-15,718	-12,939
Goods: export (f.o.b.)	10,763	15,829	19,428	21,833	31,871	37,786	36,036
Goods: import (f.o.b.)	-12,688	-20,444	-27,044	-34,122	-47,526	-53,505	-48,975
Services: net	997	1,363	4,330	6,245	8,232	8,049	8,643
Services: credit	4,434	6,657	10,023	13,353	18,367	20,804	21,908
Services: debit	-3,437	-5,294	-5,693	-7,108	-10,135	-12,755	-13,265
Income: net	-185	-378	28	26	-2,011	-1,164	-1,783
Income: credit	356	483	728	1,353	1,594	1,872	1,970
Income: debit	-541	-861	-700	-1,326	-3,605	-3,036	-3,753
Transfers: net	1,392	1,486	1,446	1,210	1,620	2,081	1,442
Government transfers	1,398	1,411	1,154	1,005	1,333	1,554	1,205
Private transfers	-6	75	293	205	287	527	237
Capital and financial account	2,909	2,221	2,836	6,396	10,953	6,870	7,115
Capital account	-	-8	-9	-8	-2	25	17
Financial account	2,909	2,230	2,845	6,404	10,955	6,845	7,098
Direct investments	2,071	2,789	2,284	1,330	1,781	7,990	3,361
Abroad	-82	-30	-29	-485	-1,913	-82	-1,108
Into Estonia	2,153	2,819	2,313	1,814	3,694	8,074	4,468
Portfolio investments	-3	-183	-255	1,784	3,655	-23	177
Assets	-5	-288	-382	-628	-2,319	-128	-1,930
Liabilities	2	105	127	2,413	5,974	105	2,107
Other investments	841	-377	817	3,290	5,519	-1,122	3,560
Long-term	1,678	76	824	1,766	3,542	472	2,672
Monetary authorities	419	3	140	-180	-290	-297	508
General government	1,014	258	704	374	-51	63	140
Banks	-	94	159	808	1,631	-113	858
Other sectors	244	-279	-180	764	2,252	820	1,167
Short-term	-837	-453	-8	1,524	1,977	-1,594	888
Monetary authorities	253	84	-141	-41	-12	-3	-193
General government	-221	5	-5	-40	-346	-886	-790
Banks	-501	-893	323	1,529	2,564	681	1,335
Other sectors	-368	352	-184	77	-229	-1,385	536
Errors and omissions	-612	320	175	-361	-369	9	-297
Overall balance	2,576	396	1,200	1,228	2,771	126	2,181
Reserve assets	-2,576	-396	-1,200	-1,228	-2,771	-126	-2,181

¹ After additional information is received, data of the earlier periods have been updated accordingly.

Table 6. Direct investments made into Estonia by spheres of activity (EEK mn)

	1995	1996	1997	1998	1999
Industry	938	496	1,238	1,545	1,139
Energy, gas and water supply	18	-17	81	126	255
Construction	6	39	63	161	8
Wholesale and retail trade	823	895	553	942	381
Transport, storage and communication	321	225	861	300	1,095
Finance	146	26	624	4,309	917
Real estate, leasing and business services	53	127	168	424	336
Other	8	24	107	268	337
Total	2,313	1,814	3,694	8,074	4,468

Table 7. Direct investments made into Estonia by countries (EEK mn)

	1995	1996	1997	1998	1999
Finland	193	629	1,129	1,741	1,649
Sweden	1,141	180	366	4,780	1,468
USA	201	459	139	145	376
Norway	57	76	748	232	157
Denmark	80	168	213	469	291
Great Britain	183	42	188	387	125
Germany	56	80	183	225	88
Other	402	181	729	96	314
Total	2,313	1,814	3,694	8,074	4,468

Table 8. Volume of special export and special import by groups of goods (EEK mn)

	Exports			Imports			Balance		
	1997	1998	1999 ¹	1997	1998	1999 ¹	1997	1998	1999 ¹
Foodstuffs	5,121	4,969	3,176	6,206	6,260	5,454	-1,085	-1,292	-2,278
Mineral products	1,393	977	880	3,857	3,198	3,029	-2,464	-2,222	-2,148
Products of chemical industry	2,674	2,760	2,390	5,980	6,382	6,438	-3,307	-3,621	-4,047
Textiles and textile articles	5,138	6,018	5,946	5,358	6,070	5,666	-220	-52	280
Wood, paper and articles thereof	5,222	6,424	7,065	2,301	2,729	2,642	2,921	3,695	4,423
Metals and articles thereof	2,160	3,022	2,719	4,137	5,114	4,134	-1,978	-2,092	-1,415
Machinery and mechanical appliances, electrical equipment	5,725	8,335	8,478	12,349	16,262	15,525	6,624	-7,927	-7,047
Vehicles, aircrafts, vessels	1,126	1,248	1,042	5,173	5,305	3,830	-4,047	-4,057	-2,788
Furniture, sportswear etc	1,862	2,392	2,756	1,279	1,440	1,289	584	951	1,467
Other	1,187	1,400	1,361	2,228	2,454	2,471	-1,042	-1,054	-1,110
Total	31,607	37,545	35,813	48,869	55,215	50,477	-17,262	-17,670	-14,664

¹ preliminary data

Table 9. Structure of special export and special import by groups of goods (%)

	Exports			Imports		
	1997	1998	1999 ¹	1997	1998	1999 ¹
Foodstuffs	16.2	13.2	8.9	12.7	11.3	10.8
Mineral products	4.4	2.6	2.5	7.9	5.8	6.0
Products of chemical industry	8.5	7.4	6.7	12.2	11.6	12.8
Textiles and textile articles	16.3	16.0	16.6	11.0	11.0	11.2
Wood, paper and articles thereof	16.5	17.1	19.7	4.7	4.9	5.2
Metals and articles thereof	6.8	8.0	7.6	8.5	9.3	8.2
Machinery and mechanical appliances, electrical equipment	18.1	22.2	23.7	25.3	29.5	30.8
Vehicles, aircrafts, vessels	3.6	3.3	2.9	10.6	9.6	7.6
Furniture, sportswear etc	5.9	6.4	7.7	2.6	2.6	2.6
Other	3.8	3.7	3.8	4.6	4.4	4.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

¹ preliminary data**Table 10. Volume of special export and special import by countries (EEK mn)**

	Exports			Imports			Balance		
	1997	1998	1999 ¹	1997	1998	1999 ¹	1997	1998	1999 ¹
1. Finland	5,994	8,310	8,136	18,096	20,543	18,684	-12,101	-12,233	-10,548
2. Sweden	5,395	7,333	7,875	5,169	5,572	5,042	227	1,761	2,833
3. Germany	2,124	2,344	2,968	5,099	5,751	4,775	-2,975	-3,407	-1,807
4. Latvia	2,662	3,295	2,873	1,749	2,194	2,174	913	1,101	699
5. Russia	4,552	3,940	1,884	4,153	4,173	3,933	399	-233	-2,049
6. Denmark	1,215	1,500	1,640	1,546	1,850	1,581	-331	-349	59
7. Great Britain	1,383	1,707	1,599	1,207	1,375	1,026	176	332	573
8. Lithuania	1,449	1,544	1,174	982	1,160	1,052	468	383	122
9. Netherlands	1,032	823	899	1,888	1,941	1,636	-856	-1,118	-737
10. Italy	272	303	394	1,201	1,495	1,434	-929	-1,192	-1,040
Other	5,529	6,446	5,846	7,782	9,162	9,139	-2,253	-2,716	-3,294
Free zone ²			525						525
Total	31,607	37,545	35,813	48,869	55,216	50,476	-17,262	-17,641	-14,664

¹ preliminary data² Free zones were established in 1999. According to the present legislation, goods in a free zone cannot be differentiated by countries.

Table 11. Structure of special export and special import by countries (%)

	Exports			Imports		
	1997	1998	1999 ¹	1997	1998	1999 ¹
1. Finland	19.0	22.1	22.7	37.0	37.2	37.0
2. Sweden	17.1	19.5	22.0	10.6	10.1	10.0
3. Germany	6.7	6.2	8.3	10.4	10.4	9.5
4. Latvia	8.4	8.8	8.0	3.6	4.0	4.3
5. Russia	14.4	10.5	5.3	8.5	7.6	7.8
6. Denmark	3.8	4.0	4.6	3.2	3.3	3.1
7. Great Britain	4.4	4.5	4.5	2.5	2.5	2.0
8. Lithuania	4.6	4.1	3.3	2.0	2.1	2.1
9. Netherlands	3.3	2.2	2.5	3.9	3.5	3.2
10. Italy	0.9	0.8	1.1	2.5	2.7	2.8
Other	17.5	17.2	16.3	15.9	16.6	18.1
Free zone			1.5			
Total	100.0	100.0	100.0	100.0	100.0	100.0

¹ preliminary dataTable 12. Banking survey (EEK mn)¹

ASSETS	31.12.94	31.12.95	31.12.96	31.12.97	31.12.98	31.12.99
Foreign assets (net)	7,114.0	7,544.0	7,170.7	5,535.2	5,513.7	8,234.5
Foreign assets	9,402.4	10,784.8	12,809.2	19,878.9	18,265.8	23,316.3
Eesti Pank	6,381.7	7,480.0	8,788.1	11,801.2	11,784.9	14,718.4
Other depository corporations ² (ODC)	3,020.6	3,304.8	4,021.1	8,077.7	6,480.9	8,597.9
Foreign liabilities	-2,288.4	-3,240.9	-5,638.5	-14,343.7	-12,752.1	-15,081.7
Eesti Pank	-1,644.5	-1,546.7	-1,434.1	-1,253.3	-889.9	-1,399.8
Other depository corporations	-644.0	-1,694.2	-4,204.4	-13,090.4	-11,862.2	-13,682.0
Domestic credit	3,138.9	4,424.9	10,300.6	19,184.5	23,622.3	26,082.0
Claims on general government³ (net)	-1,418.3	-2,341.4	-1,711.9	-2,761.9	-1,469.4	-635.5
Eesti Pank claims on general government	0.0	3.0	3.3	3.6	2.8	3.0
General government deposits in Eesti Pank	-0.6	-0.3	-0.6	-355.6	-6.4	-21.6
ODC claims on general government	405.3	128.7	820.8	1,086.9	945.9	1,170.3
General government deposits in ODC	-1,823.0	-2,472.8	-2,535.4	-3,496.9	-2,411.7	-1,787.2
Claims on non-bank financial institutions	12.2	596.4	2,026.0	4,980.2	6,325.7	6,524.4
Claims on non-financial public enterprises	360.8	317.7	417.4	320.1	225.8	372.5
Claims on private sector	4,184.3	5,852.3	9,569.1	16,646.1	18,540.2	19,820.6
LIABILITIES						
Money	6,319.9	8,203.4	10,756.6	13,223.3	12,750.3	16,909.7
Currency in circulation	3,071.3	3,803.6	4,268.5	4,588.5	4,538.6	5,711.3
Demand deposits	3,248.6	4,399.8	6,488.1	8,634.9	8,211.7	11,198.4
Quasi-money	1,609.2	2,141.7	3,366.6	6,286.0	8,047.5	9,008.3
Time and saving deposits	684.3	1,014.5	1,836.3	3,159.6	4,701.2	5,190.1
Foreign currency deposits	925.0	1,127.2	1,530.3	3,126.4	3,346.3	3,818.2
Bonds	40.0	14.0	67.5	368.9	200.7	447.7
Government lending funds	487.1	819.5	915.2	671.7	555.2	540.7
Other items (net)	1,796.6	1,964.2	2,713.9	4,169.7	7,582.3	7,410.1

¹ Starting from December 1998 Banking Survey is disseminated according to the requirements of IMF's Special Data Dissemination Standard (about standard please see <http://dsbb.imf.org/overview.htm>)² Other depository corporations cover credit institutions and savings and loan associations licenced by Eesti Pank³ General government includes central government, extra-budgetary funds and local governments.

Table 13. Short overview of the consolidated balance sheet of commercial banks (EEK mn)

	31.12.94	% of total	31.12.95	% of total	31.12.96	% of total	31.12.97	% of total	31.12.98	% of total	31.12.99	% of total
ASSETS												
Cash	649.2	6.4%	769.7	5.2%	955.6	4.4%	1,212.4	3.1%	1,065.0	2.6%	1,256.4	2.7%
Claims on central bank	771.7	7.7%	759.1	5.1%	1,201.0	5.5%	2,888.7	7.5%	3,657.5	8.9%	4,853.5	10.3%
Claims on credit institutions	2,587.2	25.7%	3,684.7	24.8%	2,925.2	13.4%	3,458.2	8.9%	3,000.7	7.3%	3,295.5	7.0%
o/w foreign credit institutions	2,206.5	21.9%	2,563.4	17.3%	1,963.4	9.0%	3,135.7	8.1%	2,981.5	7.3%	3,228.9	6.9%
Claims on customers	4,375.8	43.5%	6,734.9	45.3%	11,697.2	53.4%	20,263.9	52.3%	23,898.7	58.3%	26,667.4	56.7%
Claims on general government	41.7	0.4%	118.6	0.8%	170.7	0.8%	273.7	0.7%	277.4	0.7%	502.6	1.1%
o/w central government	6.6	0.1%	1.1	0.0%	10.8	0.0%	12.4	0.0%	15.8	0.0%	145.0	0.3%
local governments	35.1	0.3%	117.6	0.8%	159.9	0.7%	258.3	0.7%	259.2	0.6%	355.6	0.8%
Claims on financial institutions	3.8	0.0%	600.8	4.0%	1,766.5	8.1%	3,272.5	8.4%	4,292.5	10.5%	5,998.5	12.7%
Loans to commercial undertakings of state and local governments	363.2	3.6%	308.9	2.1%	297.5	1.4%	296.6	0.8%	315.3	0.8%	285.1	0.6%
Loans to other commercial undertakings	3,479.3	34.6%	4,970.0	33.5%	7,644.4	34.9%	12,240.2	31.6%	14,748.9	36.0%	14,488.7	30.8%
Loans to non-profit associations					10.7	0.0%	33.6	0.1%	33.1	0.1%	39.2	0.1%
Loans to individuals	487.7	4.8%	736.6	5.0%	1,807.4	8.3%	4,147.3	10.7%	4,231.5	10.3%	5,353.3	11.4%
Allowance for uncollectible claims	-154.8	-1.5%	-165.4	-1.1%	-239.1	-1.1%	-417.6	-1.1%	-951.0	-2.3%	-827.3	-1.8%
Securities	792.7	7.9%	1,488.5	10.0%	3,241.4	14.8%	8,110.1	20.9%	6,345.8	15.5%	7,674.6	16.3%
Debt securities and fixed income securities	643.8	6.4%	1,165.6	7.8%	2,201.5	10.1%	5,349.2	13.8%	5,009.0	12.2%	5,891.9	12.5%
Shares	148.9	1.5%	322.9	2.2%	1,039.8	4.7%	2,760.9	7.1%	1,336.8	3.3%	1,782.7	3.8%
o/w shares in affiliated undertakings	44.8	0.4%	124.1	0.8%	368.0	1.7%	892.5	2.3%	970.0	2.4%	1,170.0	2.5%
shares in associated undertakings	37.5	0.4%	60.8	0.4%	86.5	0.4%	34.7	0.1%	47.0	0.1%	31.5	0.1%
Intangible assets	15.7	0.2%	27.3	0.2%	39.4	0.2%	29.6	0.1%	1,362.0	3.3%	1,177.4	2.5%
Tangible assets	623.7	6.2%	931.8	6.3%	1,244.9	5.7%	1,373.8	3.5%	1,214.8	3.0%	1,383.3	2.9%
Other assets	406.2	4.0%	626.5	4.2%	836.1	3.8%	1,848.9	4.8%	1,401.3	3.4%	1,590.2	3.4%
Total assets	10,067.2	100.0%	14,857.1	100.0%	21,901.7	100.0%	38,767.9	100.0%	40,994.9	100.0%	47,071.0	100.0%
LIABILITIES AND CAPITAL												
Liabilities to credit institutions and central bank	805.3	8.0%	1,652.4	11.1%	2,643.7	12.1%	6,244.2	16.1%	5,355.3	13.1%	6,239.7	13.3%
o/w foreign credit institutions	217.6	2.2%	610.6	4.1%	1,628.0	7.4%	5,773.8	14.9%	5,328.4	13.0%	6,135.6	13.0%
Liabilities to customers	6,943.7	69.0%	9,663.6	65.0%	13,975.6	63.8%	21,278.2	54.9%	21,470.4	52.4%	26,430.7	56.2%
o/w demand deposits	5,666.4	56.3%	7,815.9	52.6%	10,339.0	47.2%	14,499.7	37.4%	12,763.1	31.1%	16,627.2	35.3%
time and savings deposits	1,276.2	12.7%	1,819.9	12.2%	3,393.5	15.5%	6,643.5	17.1%	8,577.0	20.9%	9,553.1	20.3%
Liabilities to general government	1,714.0	17.0%	2,370.8	16.0%	2,477.4	11.3%	3,437.1	8.9%	2,422.1	5.9%	1,808.9	3.8%
o/w central government	361.3	3.6%	802.5	5.4%	991.5	4.5%	1,648.1	4.3%	862.6	2.1%	1,252.8	2.7%
local governments	530.1	5.3%	475.9	3.2%	727.4	3.3%	956.3	2.5%	530.1	1.3%	441.8	0.9%
Liabilities to financial institutions	59.5	0.6%	150.2	1.0%	500.8	2.3%	606.4	1.6%	1,411.8	3.4%	1,472.9	3.1%
Liabilities to commercial undertakings of state and local governments	774.6	7.7%	666.1	4.5%	684.9	3.1%	701.6	1.8%	634.6	1.5%	510.6	1.1%
Liabilities to other commercial undertakings	2,797.6	27.8%	3,771.5	25.4%	5,441.8	24.8%	8,691.5	22.4%	8,052.9	19.6%	10,927.6	23.2%
Liabilities to non-profit associations					147.6	0.7%	338.2	0.9%	497.7	1.2%	676.5	1.4%
Liabilities to individuals	1,598.1	15.9%	2,705.0	18.2%	4,723.0	21.6%	7,503.4	19.4%	8,451.4	20.6%	11,034.2	23.4%
Government lending funds and counterpart funds	519.2	5.2%	779.7	5.2%	873.3	4.0%	699.4	1.8%	554.8	1.4%	539.7	1.1%
Issued debt securities	220.0	2.2%	14.0	0.1%	295.5	1.3%	3,283.9	8.5%	3,923.2	9.6%	3,523.4	7.5%
Other liabilities	890.1	8.8%	1,278.2	8.6%	1,700.2	7.8%	2,130.1	5.5%	1,752.1	4.3%	1,907.2	4.1%
Subordinated liabilities	40.0	0.4%	58.6	0.4%	250.6	1.1%	1,043.8	2.7%	1,157.4	2.8%	1,147.1	2.4%
Provisions	0.8	0.0%	2.4	0.0%	81.3	0.4%	105.7	0.3%	124.0	0.3%	0.0	0.0%
Share capital	598.1	5.9%	1,051.8	7.1%	1,369.6	6.3%	2,418.8	6.2%	6,142.2	15.0%	6,277.1	13.3%
Reserves	111.6	1.1%	202.4	1.4%	308.4	1.4%	502.7	1.3%	675.8	1.6%	706.9	1.5%
Profit or loss retained	-61.5	-0.6%	154.1	1.0%	403.4	1.8%	1,061.1	2.7%	-160.4	-0.4%	299.3	0.6%
Total liabilities and capital	10,067.2	100.0%	14,857.1	100.0%	21,901.7	100.0%	38,767.9	100.0%	40,994.9	100.0%	47,071.0	100.0%

Table 14. Stock and monthly turnover of deposits attracted by banks in a month as of end of year (EEK mn)

	31.12.95	31.12.96	31.12.97	31.12.98	31.12.99
Deposit stock total	9,634.5	13,839.5	21,278.2	21,470.4	26,411.6
o/w non-residents	754.4	1,642.3	3,003.9	2,811.3	4,451.6
Demand deposits	7,814.6	10,377.8	14,499.7	12,763.1	16,627.2
o/w non-residents	607.4	1,265.4	2,157.8	1,482.3	2,500.0
General government			1,830.3	1,365.8	978.8
Financial institutions			275.9	223.6	326.5
Commercial undertakings	5,901.5	7,031.2	7,367.6	6,258.4	8,445.5
Individuals	1,913.1	3,346.6	5,025.8	4,915.3	6,876.5
Other deposits¹	1,819.9	3,461.7	6,778.5	8,707.3	9,784.4
o/w non-residents	147.0	376.9	846.1	1,329.0	1,951.6
General government			1,606.8	1,056.3	830.1
Financial institutions			330.4	1,188.2	1,146.4
Commercial undertakings	1,031.1	2,040.5	2,025.5	2,429.1	2,973.6
Individuals	788.8	1,421.2	2,815.8	4,033.7	4,834.3
Monthly turnover of other deposits	564.8	3,108.5	6,463.6	17,518.2	8,640.9
o/w non-residents			1,052.4	2,145.6	1,288.2
General government			1,780.9	3,633.8	1,121.7
Financial institutions			262.4	2,537.9	239.0
Commercial undertakings	427.7	2,922.9	3,769.3	10,291.0	6,351.4
Individuals	137.1	185.5	651.1	1,055.6	928.8
Structure of deposits by currency					
Deposit stock					
Demand kroon deposits	6,354.4	8,107.9	10,744.1	9,825.5	12,490.3
Demand foreign currency deposits	1,460.2	2,270.0	3,755.6	2,937.6	4,136.9
o/w DEM			861.0	764.9	652.3
EUR			45.9	53.5	240.3
USD			2,371.8	1,692.5	2,699.1
Other kroon deposits	1,473.7	2,746.0	4,856.1	5,572.1	5,713.4
Other foreign currency deposits	346.2	715.7	1,922.4	3,135.2	4,071.0
o/w DEM			425.5	1,685.3	1,620.7
EUR			24.2	77.6	191.0
USD			1,344.8	1,165.1	2,119.4
Monthly turnover					
Kroon deposits	400.8	1,125.1	3,945.5	12,375.7	4,206.5
Foreign currency deposits	163.9	1,983.4	2,518.2	5,142.6	4,434.5
o/w DEM			588.5	2,243.9	677.9
EUR			23.6	448.5	767.4
USD			1,623.4	2,115.5	2,807.1

¹ Other deposits comprise time, savings and other deposits
Full data series available from 1 April 1997. From that date on data is available on all customer groups (prior to that date - natural persons/legal persons) and resources by currency (prior to that date - Estonian kroon/other currencies) as well as residents/non-residents (see tables 14-19)

Table 15. Stock and monthly turnover of deposits attracted by banks in a month by maturity (EEK mn)

	31.12.95	31.12.96	31.12.97	31.12.98	31.12.99
Kroon and foreign currency deposit stock total	9,634.5	13,839.5	21,278.2	21,470.4	26,411.6
Demand deposits	7,814.6	10,377.8	14,499.7	12,763.1	16,627.2
Other deposits	1,819.9	3,461.7	6,778.5	8,707.3	9,784.4
Kroon deposits	7,828.1	10,853.9	15,600.2	15,397.6	18,203.7
Demand deposits	6,354.4	8,107.9	10,744.1	9,825.5	12,490.3
Other deposits	1,473.7	2,746.0	4,856.1	5,572.1	5,713.4
returned at demand and without maturity			2.3	0.0	7.2
up to 3 months	469.6	800.6	1,799.0	1,984.7	1,830.3
3 - 6 months			475.8	620.2	718.1
6 - 12 months	678.6	1,428.5	1,804.6	2,373.3	2,463.4
over 1 year	325.5	516.9	774.4	593.8	694.4
Foreign currency deposits	1,806.5	2,985.7	5,678.0	6,072.8	8,207.9
Demand deposits	1,460.2	2,270.0	3,755.6	2,937.6	4,136.9
Other deposits	346.2	715.7	1,922.4	3,135.2	4,071.0
returned at demand and without maturity			0.4	0.0	–
up to 3 months	167.8	269.9	965.2	1,358.4	1,666.6
3 - 6 months			288.8	347.4	416.9
6 - 12 months	167.5	430.8	505.1	695.1	920.1
over 1 year	10.9	15.0	162.9	734.3	1,067.4
Monthly turnover of kroon and foreign currency deposits	564.8	3,108.5	6,463.6	17,518.2	8,640.9
Kroon deposits	400.8	1,125.1	3,945.5	12,375.7	4,206.5
returned at demand and without maturity			0.1	–	1.1
up to 3 months	242.1	958.5	3,512.6	12,034.7	3,763.9
3 - 6 months			94.0	69.5	145.5
6 - 12 months	134.0	141.7	263.7	216.1	241.9
over 1 year	24.7	24.9	75.0	55.5	54.0
Foreign currency deposits	163.9	1,983.4	2,518.2	5,142.6	4,434.5
returned at demand and without maturity			313.0	–	–
up to 3 months	123.7	1,888.5	2,031.8	4,428.6	4,202.8
3 - 6 months			48.3	167.0	69.3
6 - 12 months	39.4	91.3	102.5	156.2	149.4
over 1 year	0.8	3.5	22.7	390.8	13.0

Table 16. Stock and turnover of loans granted to customers by banks in a month (EEK mn)

	31.12.95	31.12.96	31.12.97	31.12.98	31.12.99
Loan stock total	6,733.1	11,475.8	20,263.0	23,898.3	26,660.5
o/w non-residents	274.4	599.6	1,526.2	1,183.9	1,260.9
General government			273.7	277.4	502.6
Financial institutions			3,271.5	4,292.2	5,991.6
Commercial undertakings	5,996.7	9,678.5	12,536.8	15,064.0	14,773.8
Individuals	736.4	1,797.3	4,180.9	4,264.6	5,392.5
Loans granted during a month total	952.7	2,350.8	1,717.1	1,595.2	3,447.9
o/w non-residents			120.6	58.3	191.4
General government			17.8	32.3	144.9
Financial institutions			534.9	391.0	1,181.8
Commercial undertakings	870.9	2,173.2	1,002.4	1,057.4	1,927.2
Individuals	81.9	177.6	162.0	114.4	194.0
Structure of loans by currency					
Loan stock					
Kroon loans	5,899.0	7,789.4	8,779.7	5,705.0	6,359.1
Foreign currency loans	834.1	3,686.4	11,483.3	18,193.3	20,301.5
o/w DEM			9,763.2	16,360.0	15,568.1
EUR			7.0	35.6	2,291.4
USD					2,184.6
Monthly turnover					
Kroon loans	852.6	1,151.3	863.9	393.5	614.2
Foreign currency loans	100.1	1,199.6	853.2	1,201.7	2,833.7
o/w DEM			708.7	1,143.7	1,230.4
EUR			–	–	1,218.5
USD			142.7	37.0	376.0

Table 17. Loan stock of kroon and foreign currency loans granted to customers in a month by maturity (EEK mn)

	31.12.95	31.12.96	31.12.97	31.12.98	31.12.99
Kroon and foreign currency loan stock total	6,733.1	11,475.8	20,263.0	23,898.3	26,660.5
Short-term loans	2,194.3	2,878.3	4,689.1	3,201.0	3,829.1
Long-term loans	4,538.8	8,597.5	15,421.4	20,697.2	22,828.8
Returned at demand and without maturity			152.5	0.0	2.6
Kroon loans total	5,899.0	7,789.4	8,779.7	5,705.0	6,359.1
Returned at demand and without maturity			83.2	0.0	0.4
Long-term loans	1,878.0	1,910.2	2,585.8	1,182.0	1,049.6
up to 3 months	329.2	412.7	1,170.1	517.9	372.9
3 - 6 months	294.2	269.8	552.3	162.4	207.9
6 - 12 months	1,254.6	1,227.7	863.5	501.6	468.8
Long-term loans	4,021.0	5,879.3	6,110.6	4,523.0	5,309.0
1 - 2 years			1,395.1	1,036.5	729.8
2 - 3 years	2,059.1	2,655.6	964.7	535.7	626.8
3 - 5 years	1,201.0	1,866.8	2,051.5	1,329.2	1,258.5
5 - 10 years	760.9	1,356.8	1,200.1	1,003.4	1,546.8
over 10 years			499.2	618.2	1,147.1
Foreign currency loans total	834.1	3,686.4	11,483.3	18,193.3	20,301.5
Returned at demand and without maturity			69.2	0.0	2.2
Short-term loans	316.3	968.1	2,103.3	2,019.1	2,779.5
o/w DEM			1,454.7	1,718.6	1,803.0
EUR ¹			0.7	0.0	273.2
USD			587.6	228.1	644.3
up to 3 months	52.8	261.8	381.7	373.0	742.5
3 - 6 months	47.0	252.6	506.6	410.8	1,027.8
6 - 12 months	216.5	453.7	1,215.0	1,235.2	1,009.2
Long-term loans	517.8	2,718.2	9,310.8	16,174.2	17,519.8
o/w DEM			8,283.4	14,641.5	13,762.9
EUR ¹			5.1	5.1	1,013.1
USD			778.1	1,254.7	1,540.3
1 - 2 years			1,667.7	2,614.3	2,459.4
2 - 3 years	205.9	764.5	1,167.4	2,128.2	1,658.8
3 - 5 years	161.7	706.9	2,181.3	4,040.5	4,593.1
5 - 10 years	150.1	1,246.9	3,246.6	5,484.0	5,960.7
over 10 years			1,047.8	1,907.3	2,847.8

¹ until the end of 1998 XEU, since 1999 EUR.

Table 18. Weighted average annual interest rates of kroon and foreign currency time deposits by maturity

	31.12.95	31.12.96	31.12.97	31.12.98	31.12.99
Kroon deposits total	7.21%	5.30%	12.17%	8.05%	3.25%
up to 3 months	5.94%	4.71%	12.19%	7.94%	2.95%
3 - 6 months			11.87%	10.66%	4.36%
6 months - 1 year	9.22%	8.36%	12.43%	12.93%	6.12%
over 1 year	8.73%	10.46%	10.78%	8.93%	8.88%
DEM			4.63%	4.69%	2.93%
up to 3 months			4.37%	4.01%	2.89%
3 - 6 months			6.76%	6.71%	3.28%
6 months - 1 year			7.71%	8.10%	3.82%
over 1 year			7.66%	5.83%	4.01%
EUR			4.08%	3.57%	3.03%
up to 3 months			4.08%	3.57%	3.02%
3 - 6 months			–	4.20%	3.30%
6 months - 1 year			–	4.19%	3.51%
over 1 year			–	–	3.77%
USD			5.84%	4.75%	5.11%
up to 3 months			5.64%	4.71%	5.12%
3 - 6 months			6.82%	5.23%	5.52%
6 months - 1 year			8.13%	6.08%	4.83%
over 1 year			9.94%	8.32%	6.33%

Table 19. Weighted average annual interest rates of kroon and foreign currency loans granted to customers in a month by maturity (%)

	31.12.95	31.12.96	31.12.97	31.12.98	31.12.99
Kroon loans total	15.92%	13.76%	18.37%	16.54%	8.62%
Short-term loans	15.95%	13.67%	19.96%	16.67%	8.70%
up to 3 months	15.50%	13.55%	20.75%	15.87%	8.24%
3 - 6 months	16.30%	13.80%	13.97%	17.62%	9.55%
6 months - 1 year	16.12%	13.75%	15.12%	17.07%	10.23%
Long-term loans	15.84%	13.88%	11.18%	16.30%	8.56%
1 - 5 years	16.10%	15.88%	11.96%	16.55%	7.89%
5 - 10 years	12.99%	11.12%	10.94%	14.73%	9.02%
over 10 years			7.37%	14.51%	10.60%
DEM			11.19%	11.05%	9.02%
Short-term loans			10.24%	14.06%	9.84%
Long-term loans			12.13%	10.53%	8.69%
EUR			–	–	7.08%
Short-term loans			–	–	4.61%
Long-term loans			–	–	7.86%
USD			11.67%	12.78%	10.06%
Short-term loans			12.81%	12.50%	10.32%
Long-term loans			9.49%	21.20%	9.13%

Table 20. Tallinn Inter-bank Bid Rate (TALIBID) and Tallinn Inter-bank Offered Rate (TALIBOR) (yearly and monthly arithmetic means)¹

	TALIBID							TALIBOR						
	1 week	1 month	2 months	3 months	6 months	9 months	12 months	1 week	1 month	2 months	3 months	6 months	9 months	12 months
1996	3.70%	4.83%		7.07%				4.62%	5.79%		8.05%			
1997	5.29%	6.44%		7.67%				6.29%	7.44%		8.67%			
1998	7.82%	11.32%		12.48%	16.12%			8.82%	12.69%		13.88%	18.18%		
01.99		14.52%		15.26%	15.71%				16.40%		17.13%	17.58%		
02.99		9.35%		10.61%	11.63%				10.91%		12.16%	13.19%		
03.99		6.35%	6.98%	7.48%	8.36%	8.88%	9.46%		7.70%	8.33%	8.83%	9.71%	10.24%	10.85%
04.99		4.56%	5.43%	6.01%	6.97%	7.49%	8.19%		5.69%	6.58%	7.15%	8.13%	8.66%	9.40%
05.99		4.46%	5.28%	5.76%	6.83%	7.31%	7.88%		5.49%	6.33%	6.81%	7.98%	8.48%	9.05%
06.99		4.27%	5.02%	5.52%	6.34%	6.97%	7.43%		5.27%	6.09%	6.64%	7.51%	8.13%	8.59%
07.99		4.27%	4.76%	5.43%	6.20%	6.75%	7.17%		5.27%	5.77%	6.60%	7.37%	7.92%	8.33%
08.99		4.34%	4.79%	5.30%	6.08%	6.50%	6.87%		5.39%	5.84%	6.42%	7.22%	7.67%	8.04%
09.99		3.97%	4.45%	4.93%	5.63%	5.94%	6.22%		4.97%	5.48%	5.97%	6.71%	8.48%	7.38%
10.99		3.80%	4.36%	4.81%	5.53%	5.79%	6.11%		4.80%	5.41%	5.91%	6.62%	8.13%	7.25%
11.99		3.24%	3.76%	4.21%	5.02%	5.29%	5.57%		4.24%	4.78%	5.24%	6.09%	6.44%	6.65%
12.99		3.35%	3.70%	4.09%	4.88%	5.13%	5.38%		4.32%	4.70%	5.09%	5.88%	6.22%	6.47%

¹ Until January 1999 Eesti Pank published all the weekly Talibid and Talibor fixings. From 8 February 1999 the rates are fixed daily and that makes publishing all the individual fixings in this statistical dataset unfeasible. Arithmetical averages of daily fixed rates calculated on the basis of quotations by Hansapank, Eesti Ühispank, Optiva Pank, Merita Pank Plc Tallinn Branch and Svenska Handelsbanken.

Table 21. Money supply (EEK mn)

	31.12.93	31.12.94	31.12.95	31.12.96	31.12.97	31.12.98	31.03.99	30.06.99	30.09.99	31.12.99
M0	3,859.4	4,314.1	5,094.4	6,194.8	8,477.5	9,048.5	7,756.4	9,290.9	9,698.4	11,503.1
Cash issued	2,730.2	3,512.3	4,337.1	4,986.8	5,438.5	5,390.7	5,233.3	5,927.7	5,856.0	6,648.8
Cash in circulation in the economy	2,380.9	3,071.3	3,803.6	4,268.5	4,588.5	4,538.6	4,495.3	4,901.5	5,084.3	5,711.3
Vault cash of credit institutions and savings and loan associations	349.3	441.0	533.5	718.3	850.1	852.1	738.0	1,026.2	771.7	937.5
Accounts of credit institutions held with Eesti Pank + Eesti Pank CDs + EEK accounts of non-residents held with Eesti Pank	1,129.2	801.7	757.3	1,208.1	3,038.9	3,657.8	2,523.2	3,363.2	3,842.4	4,854.4
M1	6,119.8	7,857.1	10,162.0	12,358.0	15,339.7	14,370.5	14,336.9	16,754.3	17,056.9	18,209.9
Cash in circulation in the economy	2,380.9	3,071.3	3,803.6	4,268.5	4,588.5	4,538.6	4,495.3	4,901.5	5,084.3	5,711.3
Demand (EEK) deposits	3,738.9	4,785.8	6,358.3	8,089.5	10,751.2	9,831.9	9,841.6	11,852.8	11,972.7	12,498.6
o/w non-residents	74.5	118.9	135.7	270.2	488.1	378.5	328.2	387.4	382.6	433.2
general government	818.8	1,415.2	1,822.9	1,332.9	1,680.6	1,245.6	745.2	984.4	948.8	890.7
M2	7,149.1	10,018.6	13,471.9	18,271.8	25,997.1	26,016.8	27,299.7	29,493.2	30,117.4	32,152.2
M1	6,119.8	7,857.1	10,162.0	12,358.0	15,339.7	14,370.5	14,336.9	16,754.3	17,056.9	18,209.9
Time and savings (EEK) deposits	679.4	990.4	1,487.5	2,857.4	4,872.3	5,573.5	6,112.2	5,468.2	5,774.5	5,715.3
o/w non-residents	13.4	12.8	33.1	75.0	195.2	152.9	178.1	173.2	184.2	138.1
general government	94.0	292.3	439.9	946.1	1,517.5	719.5	1,408.2	594.3	569.8	387.1
Foreign currency deposits	349.9	1,171.2	1,822.4	3,056.5	5,785.1	6,072.8	6,850.6	7,270.6	7,286.0	8,227.0
o/w non-residents	66.4	239.0	587.1	1,342.2	2,427.9	2,279.9	2,415.3	2,652.6	3,035.1	3,899.4
general government	3.9	6.6	108.0	183.9	230.7	446.6	703.3	670.3	606.9	509.4

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