

The year 2000 marked probably for the developed as well as emerging countries the peak of the economic cycle. We can admit with satisfaction that this year was successful for Estonia, too, in many aspects. The higher-than-expected real growth of the gross domestic product and the shrinking deficit of the balance of goods and services and contracting consolidated budget deficit of GDP confirm the above statement. In the year under review the Estonian economy achieved fine proportions for sustainable economic growth by several indicators. Good preconditions have been established to continue economic convergence with the European Union in the near future.

The European Union has fixed its firm conditions (the so-called Copenhagen criteria) to be met for the full EU membership. Evaluating compliance with these criteria, the economic policy stability and macroeconomic stability are considered as well as strength of the financial sector, development conditions for businesses, trade policy and liberal price setting. In the Progress Report of 2000 the European Commission recognised that Estonia was a functioning market economy and should be able to cope with competitive pressure and market forces within the European Union in near term.

With slightly better than expected economic indicators, the success in 2000 was based on the very favourable economic environment whereas progress in the European integration would be based on consistent and targeted activities undertaken in previous years.

It is clear that regardless of the date of Estonia's accession to the European Union, in order to cope in today's integrated world, our financial system should comply with internationally accepted requirements and good practice. Due to our openness to (also negative) external implications and monetary policy instruments differing from those of the Eurosystem, the requirements set to Estonia's credit institutions are slightly more stringent than in the Eurosystem countries. All these instruments have the same objective – to ensure sustainable liquidity of banks. It is very significant that in 2000 the European Central Bank, the European Commission and the ECOFIN Council confirmed – Estonia's currency board arrangement as a basis for our long-term price stability-oriented monetary policy, complied, in principle, with ERM2 requirements and Estonia's monetary and exchange rate policy would be applicable after the accession to the European Union as well.

The efficient harmonisation of legislation to the EU acquis communautaire convinced us in 2000 that Estonia's monetary policy legislation

is in compliance with international good practice and is mostly in compliance with the EU requirements. The joint IMF-World Bank Financial Sector Assessment pilot project concluded that Estonia's financial sector policy and supervision complied with internationally recognised norms and the openness and transparency of our monetary and financial policy were good. Parallel to getting positive assessment, Eesti Pank continued reforming the monetary policy operational framework, aligning our rules with EMU requirements. We also updated liquidity system of the banking sector and beginning from 2001 our banks have better access to international securities markets, placing part of the reserve requirement in high-quality foreign assets.

In 2000 Eesti Pank participated actively in the preparation of the unified financial supervision. Apart from banking it will also involve insurance and securities inspection. The objective of the central bank is to have the new system at least as efficient as the current banking supervision and use the relatively limited resources, including the best possible use of specialists mastering proper know-how. The unified financial supervision will operate pursuant to law. The draft law reflects experience and conclusions acquired by the central bank from current supervision.

The banking system itself changed during the year under review as well. One stage in the banking reform came to an end – Eesti Pank wavered fully its holding in commercial banking. The sale of the majority holding in Optiva Pank to a Finnish financial corporation tightened competition on Estonia's banking market and is in the interests of the systemic development and better customer service. The merger of banking and insurance services in equal amounts as implemented by the credit institution undergoing a transition from Optiva Pank to Sampo Pank, is a unique experience for Estonia's market. The total assets in Estonian banking continued to grow and the banks' loan portfolio increased, as did financing of the real sector economy. Progress in leasing activities was especially rapid. As our leasing companies have expanded their activities also into Latvia and Lithuania, signing of the memorandum of co-operation with banking supervision authorities of these countries was really significant. The memorandum with the Finnish supervision authority was also renewed in 2000.

Eesti Pank's international relations became more active. This involved participation in the EU negotiations, co-operation with the European Central Bank and the IMF, other financial institutions, other national central banks and rating agencies. Joint seminars for the European Central Bank and candidate countries' central banks as well as participation in the preparation of the comparative analysis of monetary policy legislation in the candidate countries, several joint projects with international financial institutions were very successful. Considering the changed role of Eesti Pank in co-operation projects, we can say that our central bank has transformed itself from the former grateful recipient of technical assistance into an equal partner in the programmes of international financial institutions.

Eesti Pank has also organised events of international importance. A seminar on the current application and future outlooks of the currency board

arrangement took place in Maardu training centre. Two major international training co-operation projects were organised as well. The partners of Eesti Pank were the Centre of Central Banking Studies at the Bank of England and the IMF Institute. More guest lecturers were invited.

Estonia's successful economic activity is based on analyses and forecasts using reliable data. Eesti Pank has deepened economic research and expanded related co-operation. The Bank adopted Strategic Research Plan for 2001–2005. The central bank has also started to disclose biannual forecasts regularly. In 2000 Eesti Pank broadened its statistics-related activities, improving, thus, the reliability of data and the international comparability of economic indicators. Preparations for monthly balance of payments were continued. It is important for the economic community that the Bank Disclosure Report has made more comprehensive, easily comparable and commented data on all commercial banks accessible. The statistics on the central bank's web site is user-friendly and provides tailor-made length and interval of the time-series for each user. Interactive interfaces simplified communication with the experts of Eesti Pank.

The tasks facing Eesti Pank cannot be solved without reforming the central bank itself. Upgrading the organisational structure we presume that joining the European System of Central Banks requires thorough preparations. The establishment of the unified financial supervision has the largest impact on the central bank reform in short-term. Like any institutions keeping up with changes, Eesti Pank also focuses on enhanced performance, better capacity and better use of all resources. Our reforms target faster and better decision-making, better use of specialists' potential, clearer definition of public functions and output of the central bank. You can see yourselves how comprehensive the reform is as unlike the common practice we had to have the organisation chart as of April 2001 in our Annual Report. The reform continues.

Vahur Kraft
Governor of Eesti Pank

