

CHRONICLE OF 2005

JANUARY–OCTOBER

18 January

At its meeting the Supervisory Board reviewed the improved risk management framework, authorised a new internal auditor to office, discussed the procedure of electing the Governor of Eesti Pank, and endorsed the Supervisory Board's work schedule for the first half-year of 2005.

22 February

The Supervisory Board of Eesti Pank held a meeting, where applicants for the position of Governor of Eesti Pank were introduced, the work statement of the Internal Audit Department of 2004 was reviewed, and an internal auditor was authorised to office.

Vahur Kraft and Andres Lipstok were presented as candidates for the position of Governor of Eesti Pank.

24 February

On the anniversary of the Republic of Estonia, the exhibition of general Johan Laidoner's badges of honour, which displayed 21 badges, was reopened for a day.

22 March

The Supervisory Board of Eesti Pank received an overview of **preparations for joining the euro area** and examined the regular economic review.

4 April

Eesti Pank and the Tallinn Unit of the National Defence League signed a cooperation agreement by which the Eesti Pank Unit of the National Defence League, which was established 80 years ago and disbanded 65 years ago, was restored.

20 April

The Eesti Pank Museum opened an exhibition dedicated to the 10th anniversary of the Order of the Cross of Terra Mariana called "The Cross of Terra Mariana and Other New Estonian Decorations".

The Cross of Terra Mariana, which was established on May 16 ten years ago, is bestowed on foreigners as a decoration of the highest class for their services to the Republic of Estonia. In addition, the exhibition displayed the first order of Estonia, the Cross of Freedom, as well as a selection of honorary decorations of the Defence Forces of Estonia, the National Defence League, the Female Civil Defence, the Rescue Board, the Police, local governments, non-governmental organisations, and other organisations and institutions.

28 April

The Supervisory Board of Eesti Pank **approved the 2004 Annual Report of Eesti Pank and was provided an**

overview of the implementation of the budget of the previous year.

The Supervisory Board decided to continue the Eesti Pank's profit-sharing strategy, pursuant to which the central bank transfers up to 25% of its profit to the state budget. The Supervisory Board considered it relevant to use the ratio of the Eesti Pank's excess reserve above the currency board to GDP and to the monetary aggregate M2 as the primary economic indicators in defining the profit-sharing strategy until accession to the euro area.

10 May

The Supervisory Board elected **Andres Lipstok** by majority vote **the candidate for the position of Governor of Eesti Pank**. Both of the candidates for the position of Governor, Vahur Kraft and Andres Lipstok, had previously presented their positions on Estonia's monetary and banking policy, obtaining full membership in the European Economic and Monetary Union, and management of Eesti Pank, and answered questions from the members of the Supervisory Board.

26 May

The 2005 laureate of Eesti Pank's **research award** (30,000 kroons) was Ott-Siim Toomet, doctoral candidate at the University of Tartu, with his research "*Does an Increase in Unemployment Income Lead to Longer Unemployment Spells? Evidence using Danish Unemployment Assistance Data*".

The research paper of Otto-Siim Toomet concentrated on the analysis of the impact

of high social benefits on unemployment. By relying on duration models and the search theory, the author enquires into the connections between unemployment benefits, unemployment periods and risk rates of individuals.

31 May

Governor of Eesti Pank, Vahur Kraft, presented the Riigikogu with the **2004 Eesti Pank Annual Report**, provided an **overview of the changing function of Eesti Pank**, and **warned about such economic political measures, which could impede the planned adoption of the euro**.

When summarising his term of office, Mr Kraft admitted Estonia's economic success would not have materialised without the well-functioning cooperation between the Riigikogu, the government, and the central bank. He expressed his gratitude to everyone who have shown continuous support for and trust in the central bank.

A meeting of the Supervisory Board of Eesti Pank took place. The Supervisory Board received an overview of **implementing the budget, the financial stability review**, and development of the **framework for handling financial crises** in the EU and Estonia.

1 June

An exhibition called "Savings Boxes" was opened at the Museum of Eesti Pank. The exhibition displayed various savings and collection boxes throughout the times, from the 17th century to today.

6 June

The term of office of Vahur Kraft, who had been Governor of Eesti Pank for ten years, came to an end. The Supervisory Board of Eesti Pank expressed their gratitude to Mr Kraft for the outstanding results in managing and developing Eesti Pank.

7 June

Andres Lipstok assumed office as Governor of Eesti Pank.

10 June

At its meeting the Supervisory Board of Eesti Pank examined the economic review, discussed the bases for making amendments to the Eesti Pank Act, and approved the work schedule for the second half-year.

27 June

Eesti Pank published the preliminary balance of payments for the first quarter of 2005, according to which the **current account deficit constituted ca 10 per cent of the expected GDP**.

21 July

Rating agency Standard&Poor's upgraded **Estonia's sovereign rating outlook to positive**, and raised the long-term foreign currency rating to level A and the short-term foreign currency rating to A-1. The agency outlined better than expected economic results and strong prospects for obtaining full membership of the Economic and Monetary Union (EMU), i.e. joining the euro area, as the underlying reasons for upgrading the rating outlook.

22 July

The International Monetary Fund (IMF) mission completed their two-week visit to Estonia. The mission was satisfied with Estonia's progress and commended the authorities for their achievements. The mission also **supported the plan to introduce the euro as soon as possible** and stressed the great importance of fiscal policy in achieving balanced economic development.

23 August

At the meeting of the Supervisory Board of Eesti Pank, the Board took note of the overview of the bank's budget implementation and discussed **amendments to the Eesti Pank Act**. Arising from the proposals outlined in the Convergence Reports published by the European Central Bank and the European Commission on 20 October 2004, amendments to the clauses on the objectives and tasks of Eesti Pank are necessary so as to bring the Act into full compliance with the provisions of the Treaty establishing the European Community and the Statute of the European System of Central Banks.

30 August

At the meeting of the Supervisory Board of Eesti Pank, the Board continued with the discussions on amendments to the Eesti Pank Act and agreed upon the proposals for amendments. Board members Liina Tõnisson and Mart Opmann will submit the draft act at the autumn session of Riigikogu. Pursuant to the draft, the amendments should enter into force as of the moment Estonia becomes a member of the euro area.

3 September

Another **Open Door Day** of Eesti Pank took place. Visitors could see the various buildings of the central bank, the historical treasury and cash sorting process. Moreover, the production process of cash and identifying counterfeit money were introduced. For the first time, guests could see the designs submitted to the design competition for the Estonian euro coins, which did not make it in the ten best final designs but which featured exciting images and ideas.

19 September

An **open seminar** was held in Eesti Pank with David Laidler, a well-known monetary economics expert and Professor Emeritus of the Western Ontario University, making a presentation “Theoretical Foundations for Monetary Policy: Money After Woodford”.

21 September

Eesti Pank held a briefing to present the **quarterly economic policy comment**. Andres Lipstok, Governor of Eesti Pank, and Märten Ross, Deputy Governor of Eesti Pank, gave an overview of the current situation of the Estonian economy, future risks, and compliance with the Maastricht inflation criterion.

Eesti Pank signed a contract with AS Merko Ehitus to renovate the office building at Sakala 6 so as to improve the functionality of the whole complex and enhance technical and security standards. With the completion of this building, planned for July 2006, the whole quarter of Eesti Pank will be in compliance with the requirements of the European System of Central Banks and be ready for the euro changeover.

26 September

According to the preliminary balance of payments for the second quarter of 2005 published by Eesti Pank, the **current account deficit formed nearly 10% of the expected GDP**. Although export growth was faster than expected, this did not bring along further improvement of the external balance, which most likely indicates stronger domestic demand. Year-on-year, the current account deficit was smaller but this does not really reflect economic processes, as exceptional stocking up took place in April 2005 prior to the EU accession. The balance of payments shows that the profitability of foreign direct investment has remained high and that more dividends were paid when compared to the year-ago period. The capital flows were again largely influenced by the takeover of Hansapank, just like in the first quarter.

27 September

At the meeting of the Supervisory Board of Eesti Pank, the Board took note of the **statement of the first half-year of the Internal Audit Department** and the regular **economic review**.

3 October

Eesti Pank launched an **interbank Settlement System of Ordinary Payments (ESTA)**, which is an updated version of the Designated Time Net Settlement System (DNS) used so far. ESTA allows for faster movement of interbank payments. The operating time of the system was extended by three hours. Another significant development is that banks now receive settled payments more frequently than before (nine times

a day instead of the earlier three), which accelerates the movement of money from one bank to another. ESTA enables the use of international bank account numbers (IBAN) instead of the local ones. Payment originators no longer have to consider whether they are making a domestic or an international payment when entering the account number. This is an innovation aimed at transition to the usage of IBAN, as Estonian banks have decided to stop using local account numbers by 2010 at the latest. The next step towards improving the quality of settlement services will take place in mid-2006 when Eesti Pank in cooperation with commercial banks is going to enhance the settlement of direct debit.

4 October

An open seminar was held in Eesti Pank on the integration of labour markets. Elli Heikkilä, director of the Finnish Migration Institute, introduced the research "Labour Market Integration in the Baltic Sea Region: Before and After EU Enlargement" completed in 2004. Reelika Leetmaa, director of the labour and social policy programme of PRAXIS, the Centre for Policy Studies, gave an overview of similar researches conducted in Estonia. She presented the results of the research on the employment potential of the Estonian labour force in the EU countries.

18 October

Another open seminar held in Eesti Pank introduced the joint research of Professor Lars Ljunqvist of the Stockholm School of Economics and Thomas J. Sargent on "The European Unemployment Experience: Uncertainty and Heterogeneity".

19 October

Eesti Pank and the Police Board concluded a cooperation agreement for coordinating joint activities in the prevention of counterfeit money and securing safe euro cash distribution. This enables the Police Board to enhance the effectiveness of counterfeit money identification and Estonia's credibility in the euro changeover.

21 October

PRAXIS Centre for Policy Studies, Eesti Pank and Tallinn University of Technology held a seminar on "Technology Transfer and Innovation: General Evidence and the Case of Estonia".

25 October

At the meeting of the Supervisory Board of Eesti Pank, the legislative proceeding of the **Eesti Pank Act draft amendment** submitted to the Riigikogu and the risk management system of Eesti Pank were presented, followed by a seminar on Estonia's preparations for the introduction of the euro.