



EESTI PANK ANNUAL REPORT 2013

2014

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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 common 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

The global economy grew at a moderate rate in 2013 and the euro area economy showed clearer signs of stabilising. Having declined for almost a year and a half, the euro area economy grew by a modest 0.3% in the second quarter, though for the year as a whole it still shrank by 0.4%. Growth was uneven across countries, but generally confidence in the outlook for the euro area has increased and domestic demand has risen.

The monetary policy environment in 2013 was quite complicated as euro area credit markets were quite fragmented but inflationary pressures remained low. For this reason the European Central Bank, like the central banks in many other advanced countries, continued with an accommodative monetary policy. Key interest rates have remained at record low levels, and modest price growth and low interest rates have aided a recovery in investment. It is important for the central banks of the euro area that low interest rates be passed on to the real economy and that good business projects be able to get funding from banks on reasonable terms. This will help stimulate the economy, and ultimately facilitate the maintenance of price stability. In 2013 the central banks started to use even clearer forward guidance about monetary policy measures in order to increase the stability of the economy and of financial markets. Greater transparency in decision making mechanisms will help increase the impact of monetary policy.

The Estonian economy in 2013 reflected the weakness and volatility in the external environment, with economic growth unevenly spread across the quarters and totalling 0.8% for the year. External demand was much smaller than had been expected even only a year earlier, and so growth was driven by domestic demand, which was primarily based on rising household incomes, and through this by consumption. Growth of this sort is not sustainable however. If wages continue to rise rapidly and external demand to remain low, it will start to hold back the capacity of the economy for growth, as Estonia will lose competitiveness in export markets. Maintaining export capacity is the key challenge for the Estonian economy in the coming years and investment in production capital and human capital are crucial if productivity is to be improved.

The second key factor for economic growth in Estonia is the labour market. Imbalances in the labour market, signs of which were mainly seen in 2013 in the excessively fast growth in labour costs given the slowing of economic growth, may also have an effect on public finances. Given the situation in the labour market and the difficulty of assessing the cyclical position, Eesti Pank advised the government in 2013 to observe both the structural balance, without cyclical effects and one-off income or expenditure events, and the nominal balance in planning its short-term fiscal policy. The bank also advised that the general government budget should be brought into nominal surplus as soon as possible and reserves built up, as they could be used to balance the economy in the event of risks being realised.

Eesti Pank must ensure it has sufficient analytical capacity and operational stability in monitoring the economy, economic policy and the banking sector. The decisions, advice and assessments of the bank must be based on thorough analysis and must be presented clearly, and to do this the bank must bring together the best available knowledge in each field. Eesti Pank takes an active and effective role in the Eurosystem, where the European Central Bank and the central banks of the euro area work together, and we contribute to setting the single monetary policy of the euro area and provide top quality advice to advance the domestic economy.

The recent financial crisis has given central banks around the globe a more important role in financial supervision. The European Central Bank is preparing to take over responsibility for supervising banks in the euro area, which means that all the central banks of the euro area will have new duties that will help to ensure financial stability. Eesti Pank's responsibilities in macro-financial supervision are also widening.

Eesti Pank's responsibilities for financial stability have increased, but our role in payments and settlements was reduced somewhat when the Single Euro Payment Area (SEPA) started operating in early 2014. The commercial banks stopped using the local retail payments system run by Eesti Pank once SEPA was operating, and so our role in payments is changing. It is important for Eesti Pank that an Estonian payments market that is integrated with the European payments landscape be secure and economical and that it treat market participants equally. SEPA took the functioning of a single European market for settlements to a new level as it makes possible the smoother movement of payments around Europe.

Although electronic payments have become more popular, cash retains an important role as a means of payment and store of value. Eesti Pank and the other banks of the Eurosystem make sure that demand for euro banknotes and coins is met and sufficient cash reserves are available for circulation, and that cash is of the appropriate quality and protected against counterfeiting. Preparations have been under way for a long time for the changeover to the second series of euro banknotes with an updated design and improved security features. The five-euro banknotes became the first of the new series to enter circulation, and accounted for more than 52% of the five-euro notes in circulation in Estonia by the end of 2013. The next to go into circulation will be the ten-euro note from 23 September 2014.

Extraordinary measures have been taken in Europe and elsewhere in recent years to ease the consequences of the economic crisis, and they have supported economies but at the same time increased the assets of central banks and their risks. The ratio of Eesti Pank's net equity to the assets carrying monetary policy risk is one of the smallest of any of the central banks of the euro area. At the same time it should be remembered that the Eurosystem's monitoring of the risks associated with its single monetary policy is based on the average equity of the central banks, and this is why it was very important that the Supervisory Board decided to continue in 2014 with the current profit distribution strategy, which aims to increase Eesti Pank's net equity as a ratio to risk assets to the average level of the central banks of the euro area.

The Eesti Pank reserves underpin confidence in the monetary system of the euro area, guarantee the bank freedom of action and ensure that it has sufficient capital to cover any possible losses. The bank also has an agreement to manage the investment portfolio of the Guarantee Fund and works with other central banks of the Eurosystem in investing the foreign reserves of the European Central Bank. The central bank is a long-term and conservative investor and has been facing 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 like equities to the investment portfolio and investing money in the sovereign bond markets of more countries than before.

In 2013 the bank's management changed how work is planned and budgeted in order to make the organisation more efficient. The increased efficiency was evident in the reduction in the Eesti Pank budget for 2014, which is 2.5% smaller than that for 2013, without the costs of cash handling, which can vary

greatly from year to year. There were four fewer full-time equivalent employees at Eesti Pank on average in 2013 than in 2012, as the bank employed 233 people.

The year 2013 was a difficult but successful one both for Eesti Pank and for the Estonian economy, but the success was hard-earned, and there can be no question of resting on laurels yet. The risks to the Estonian, European and global economies demand constant vigilance and assessment and keeping what we have gained so far will require an effort from all of us and we need to stand ready as households, companies and a nation to respond flexibly to changes in the economy.

 Governor of Eesti Pank,
Ardo Hansson

EESTI PANK'S KEY DUTIES

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

As a central bank of the Eurosystem, Eesti Pank participates in setting the single monetary policy of the euro area. The decisions needed for the single monetary policy to be implemented are taken jointly by all the central banks of the Eurosystem working together. For this reason high-quality analysis is needed both of the processes that affect the Eurosystem as a whole and of issues that affect only the Estonian economy. Eesti Pank experts analyse and make forecasts for the Estonian economy and take part in analysis, research and forecasting for the euro area economy. 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 our 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 issue loans and take in deposits. Implementing monetary policy means assessing the financial soundness of banks as counterparties and carrying out monetary policy operations.

Further information on this can be found in the chapter [Participation in monetary policy decision-making in the Eurosystem and implementation of decisions](#)

2. Managing currency circulation

Eesti Pank's goal in managing 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.

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 executing 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 environment 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 requirements and to make recommendations where necessary for how the systems could function better.

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. It is necessary for the smooth running of the economy and for the ability of the central bank to implement successfully its monetary policy in order to maintain price stability that the financial system function well.

Eesti Pank maintains financial stability through macro-financial 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 by helping write the law governing it and developing the framework for crisis management.

Maintaining financial stability requires close cooperation with organisations from Europe, the Nordic and Baltic states and Estonia. In 2014 the euro area will start a single supervisory mechanism headed by European Central Bank, which will give additional duties to Eesti Pank in organising banking supervision.

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. Analysis and research by the central bank are used by the government in deciding economic policy, and also by companies and households in making financial decisions. Successful consultation and cooperation requires regular communication within the Eurosystem and also within international organisations and with the media, where Eesti Pank speaks for both Estonia and the Eurosystem as a whole.

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 official 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.

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 obligation to preserve and manage the national foreign currency reserves. The bank also has an agreement to manage the investment portfolio of the Guarantee Fund and is prepared to invest other long-term reserves of the public sector. Eesti Pank actively participates in the management of the ECB's reserves and currently works closely with Suomen Pankki in managing a share of the ECB's dollar-denominated security portfolio.

The central bank is a long-term and conservative investor and is currently facing new challenges in an environment where interest rates on higher rated sovereign bonds have fallen to historically low levels. Eesti Pank has reacted to these changes by diversifying its risks via additional asset classes and investing in a few more bond markets in developed world countries.

Further information on this can be found in the chapter [Investment of financial assets](#)

THE GLOBAL, EURO AREA AND ESTONIAN ECONOMIES

THE EXTERNAL ENVIRONMENT

Growth in the global economy continued at a moderate speed in 2013. The economy stabilised in the first half of the year in advanced countries, while economic activity was strong in developing countries, though somewhat weaker than it had been. The central banks of the larger advanced countries kept monetary policy accommodative in order to revive their economies, and monetary policy rates stayed at record low levels. However there remained uncertainty around the outlook for global economic growth. Financial markets reacted quite strongly in May to the signals by the US Federal Reserve that it would start tapering its programme of quantitative easing. The news mainly affected emerging economies, where increased uncertainty led to higher volatility in financial markets and something of a deterioration in financing conditions. By the second half of the year the risks to the global economy had changed to an extent. The recovery in growth in advanced economies picked up slightly, while the outlook for growth in developing markets was more pessimistic than before. Although confidence indicators and several economic figures point to faster growth in economic activity than has been seen so far, with the International Monetary Fund (IMF) estimating global growth at 3.6% for 2014¹, the risks have not disappeared.

Inflation continued to slow around the world, which was partly because commodity prices were lower, and to a larger extent because of the underutilisation of capacity in response to the weakness of economic activity and because of high levels of unemployment. Inflation slowed in almost all advanced countries, the only exception being Japan, where the firm steps taken by the central bank led inflation to rise in the second half of the year, having been very low for years. Inflation moved in different directions in developing markets; it remained modest in China, while the depreciation of currencies in many other developing countries following a reversal in capital flows led to stronger inflationary pressures. The IMF forecasts that inflation will remain low globally in the next few years.

The euro area economy stabilised as expected in the first half of 2013, and the economic decline that had lasted for six consecutive quarters came to an end in the second quarter as growth of 0.3% was recorded. The economy was supported by a recovery in domestic demand as general confidence improved somewhat, and also by an improvement in the external environment and external demand. For 2013 as a whole the euro area economy still shrank by 0.4%. A major contributor to the declining economy was the continuing reduction in corporate investment. Investment in the euro area in 2013 was 15% below the level of 2008 despite the outlook for growth improving somewhat.

Tensions eased in European financial markets and interest rates continued to fall on the sovereign bonds of countries afflicted by budget difficulties, having risen markedly during the euro area debt crisis. This indicates that confidence is gradually returning to the markets as the countries facing difficulties have striven to meet the targets of their aid programmes, and as economic policy measures have been taken to bring sovereign debt to a sustainable level. Ireland's successful exit from its support programme at the end of 2013 was of symbolic significance, and the prospects for Portugal exiting in the middle of 2014 were good.

The improvement in confidence has not yet been reflected in the euro area credit market and the stock of loans issued to the non-financial sector continued to decline throughout the year. This was mainly be-

¹ International Monetary Fund (IMF). World Economic Outlook, October 2013.

cause the corporate loan stock continued to decline, while the household loan stock remained relatively unchanged. Despite the improvement in financial markets the credit market was also affected by supply side restrictions, particularly in countries more caught in the crisis.

The speed of recovery from the economic crisis and the indicators of economic balance still varied quite substantially between different countries in the euro area. Differences were particularly large in labour markets. The unemployment rate in the euro area stood at a record high of 12.1% in the middle of 2013, but while it reached almost 27% in countries with the highest unemployment rate like Greece and Spain, it remained close to 5% in Austria and Germany, where unemployment is the lowest. Although there is typically a lag in the reaction of the labour market to an improvement in economic activity, data published in the last months of the year already indicated a stabilisation of the situation in the labour market. The European Central Bank forecasts that unemployment in the euro area will remain high in the coming years at close to 12%.

Euro area inflation remained low as growth remained modest, and the average inflation rate in 2013 was 1.5%, which is below the European Central Bank's target for the medium term of below, but close to, 2%. Prices grew less quickly mainly because of falling energy prices, while the decline in food prices at the end of the year also pulled inflation down. Inflation excluding the more volatile components of food and energy averaged 1.1% in the euro area. The growth in monetary aggregates imposed modest price pressures. The European Central Bank forecasts that the annual growth in the harmonised index of consumer prices for the euro area will remain modest in the coming years, and average inflation is expected to be 1.1% in 2014 and 1.3% in 2015.

The recovery in growth in the euro area economy is forecast to continue and growth will accelerate with support from a gradual recovery in domestic demand and improving growth in external demand and exports. An accommodative monetary policy and a normalisation of financial markets will make it possible for financing conditions in the non-financial sector to improve. The European Central Bank forecasts that the economy in the euro area will grow by 1.1% in 2014 and that growth will rise to 1.5% by 2015. The risks surrounding the economic outlook come from possible negative developments in international money markets and financial markets, which would again increase doubt and uncertainty.

THE ESTONIAN ECONOMY AND FINANCIAL SECTOR

The Estonian economy

The Estonian economy followed an irregular path in 2013, with GDP growth and decline alternating from quarter to quarter, reflecting the weakness and volatility of the external environment. During the year it became clear that external demand was significantly smaller than expected, and Eesti Pank had to lower its macroeconomic forecast for growth for 2013 and the two subsequent years. For the year as a whole, GDP grew by 0.8% and Eesti Pank forecast in December 2013 that the recovery in Europe will boost Estonian growth to 2.6% in 2014.

Growth was driven by domestic demand, which was primarily based on rising household incomes, and ensured that the annual growth of private consumption remained over 4%. Investment activity was low in

the first half of the year but started to increase in the second half and for the year as a whole fixed capital investments increased at about the same rate as GDP. All the growth in investment came from the corporate sector and even there it was narrowly based and related to large individual infrastructure projects. General government investment was lower than in 2012, when support from the European Union budget reached record levels and investment was boosted by the large scale of the projects funded from the earlier sales income from emissions quotas.

Estonia was again among the few countries in the euro area, where employment continued to increase. The unemployment rate fell to close to the natural rate of unemployment, calculated at around 8.6%, but developments in the labour market were not as balanced as before. Increased wage pressures and higher unit labour costs reduced the profitability of companies, giving notice of a growing shortage of qualified labour and threatening the competitiveness of the exporting sector.

Inflation continued to fall in Estonia in 2013, but it remained higher on average than in the other countries of the euro area. More than half of the difference between inflation in Estonia and that in the euro area can be accounted for by faster growth in prices for energy. The European Union rules for trading in emission quotas changed and the electricity market opened at a time when the supply of electricity was temporarily reduced in the Baltic states, and so electricity prices for households rose by almost 30%. Higher electricity prices had a major impact on the consumer price index and boosted it by around one percentage point. Inflation stood at 3.8% during the first half of the year, but it dropped in the final months of the year to close to 2%. The fall in inflation was broad-based and was seen in energy and food prices and in core inflation. The main factor holding back inflation was a reduction in price pressures coming from the external environment, while a strengthening of the euro also pushed inflation down. Average growth in the harmonised index of consumer prices, as calculated using the Eurostat methodology, stood at 3.2%.

Low investment activity levels meant the current account in the balance of payments maintained a relatively small deficit by Estonian standards, averaging 1% of GDP for the year. The stock of loans from abroad grew more slowly during the year than debt-related investments abroad, and Estonia's position as a net lender increased by the end of the year to 7% of GDP.

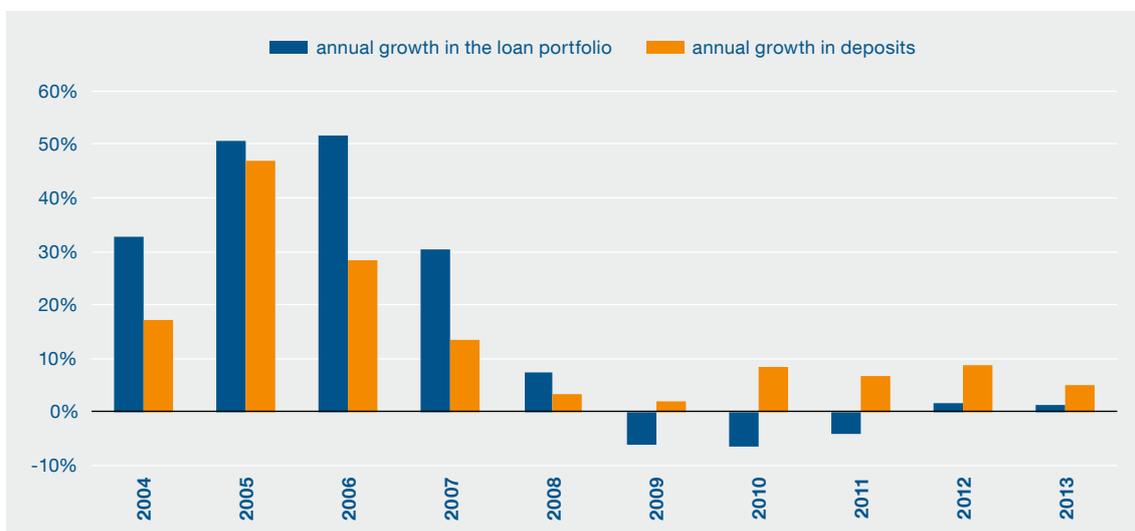
The fiscal position of the general government was dominated by the consequences of decisions taken during the crisis years that had worsened the fiscal position. Although the general government budget remained close to balance in 2013, there remained a small deficit. The structural budget position adjusted for the economic cycle remained in surplus in the estimates of experts, and the debt burden was the smallest in the euro area.

The Estonian financial sector

The loan and leasing portfolio of the non-financial sector grew by 1.3% in 2013 as both companies and households took more loans out than in 2012. The corporate loan portfolio grew more quickly in the first half of the year, and by the end of the year its growth had slowed to 2%. The main growth was in the turnover of long-term loans, but as a large proportion of such loans were refinancing transactions and there was little new investment, the stock of long-term loans grew by only 2.4%. Growth in the turnover of short-term loans was driven by the trade sector, where the recovery in domestic demand increased the

need for operating capital. The need for short-term financing fell in most other sectors however, and the short-term corporate loan stock shrank by 4.5% in total. Households saw a recovery in the use of nearly all credit products, and only overdrafts and credit card loans were used less. The fastest growth was in housing loans, and almost one fifth more were taken than a year earlier. As a result, the housing loan portfolio started to grow again, though only by 0.9% over the year. Lending was aided by loan interest rates, which remained low throughout the year. As the deposits of Estonian companies and households grew faster than the loan portfolio, increasing by 5.1% over the year (see Figure 1), the loan to deposit ratio of the banking sector fell to 104%.

Figure 1. Annual growth in loans and deposits in the non-financial sector in Estonia



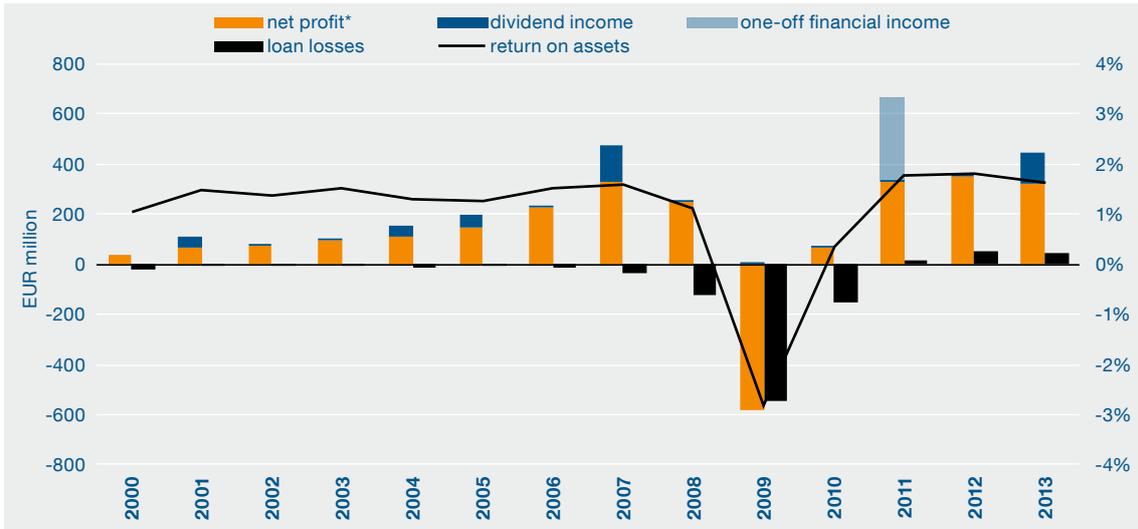
The strengthened financial position of the non-financial sector and write-offs of uncollectible loans meant that the value of loans overdue for more than 60 days fell by 173 million euros, and their share of the total portfolio dropped by 1.3 percentage points to 1.9%. The improvement in the quality of the loan portfolio of banks was also helped by a reduction in the number of loans restructured. In total 3.1% of the loans in the portfolio were restructured or overdue, which was 2.3 percentage points fewer than a year earlier.

Banks operating in Estonia earned a total of 444 million euros in net profit in 2013, 28% of which came from dividends from subsidiaries and 9% from a reduction in written-down loans as credit risk fell (see Figure 2). With base interest rates low, the net interest income of banks was 7% less than a year before, but in the second half of the year interest income started to increase due to higher marginal rates and growth in the loan portfolio, while deposit growth at the same time led to a fall in the cost of resources. If the dividends from subsidiaries are excluded, the profit of the banking sector was 9% smaller than in the previous year and return on assets fell to 1.6%.

Capitalisation in the banking sector increased further with support from the profit earned, and all the banks were able to meet the 10% capital adequacy requirement with only Tier 1 own funds. The stress tests carried out twice a year showed that the banking sector has sufficient capital buffers to cope with

worse economic conditions than those that are forecast. The high capitalisation of the banks and their ability to earn profits mean that they will be able to remain solvent even if they are hit by unexpected losses, and to rebuild their capital buffers later.

Figure 2. Profitability of the banking sector



* excluding dividend income and one-off financial income

ACTIVITIES AND ACHIEVEMENTS OF EESTI PANK IN 2013

PARTICIPATION IN MONETARY POLICY DECISION-MAKING IN THE EUROSYSTEM AND IMPLEMENTATION OF DECISIONS

Monetary policy decisions of the Eurosystem

Since Estonia started using the euro, the Governor of Eesti Pank has participated in the twice-monthly meetings of the Governing Council of the European Central Bank, where decisions are taken on the monetary policy of the euro area and on the other duties of the Eurosystem. Monetary policy in the Eurosystem aims to maintain price stability, which means keeping consumer price increases in the euro area as a whole below but close to 2% a year.

In 2013 the monetary policy of the Eurosystem was accommodative and aimed to lower the general uncertainty and insecurity in the euro area economy. The Governing Council of the European Central Bank lowered the monetary policy interest rates of the Eurosystem to their lowest-ever levels under the economic and monetary union. In May it lowered the minimum bid rate on its main refinancing operations by 25 basis points to 0.50% and the interest rate on the marginal lending facility by 50 basis points to 1.00% and in November both rates were lowered by a further 25 basis points to 0.25% and 0.75%. The interest rate on the deposit facility remained unchanged throughout the year at 0.00%. Key interest rates were lowered because the weakness of economic activity had reduced inflationary pressures. At the same time, the European Central Bank found that inflation expectations were in line with the price stability target of the Eurosystem².

Changes in key interest rates and expectations of future interest rates are passed on to short-term money market interest rates³, which generally followed the European Central Bank interest rates in 2013 and remained low, though their volatility increased noticeably before the summer. This made expectations for future monetary policy developments more susceptible to external shocks that are not directly linked to the dynamics of economic indicators or monetary aggregates. In response, the Governing Council of the European Central Bank used forward guidance for the first time in communicating its monetary policy decisions in July, to indicate that European Central Bank key interest rates would remain at present or lower levels for an extended period of time due to the subdued outlook for inflation and economic growth⁴. The volatility in money market interest rates declined following the forward guidance and financial markets realised that the European Central Bank's monetary policy will remain accommodative for some time to come. The reduction in base interest rates and the normalisation of the financial markets led banks to lower their loan interest rates for companies and households throughout 2013, though the efficiency of the monetary policy transmission mechanism varied greatly from country to country.

On top of its traditional monetary policy measures, the Eurosystem continued with its non-standard measures to ensure sufficient liquidity for euro area banks and to support the functioning of transmission

² The primary objective of the Eurosystem monetary policy is to maintain price stability in the euro area. This is set out in article 127 section 1 of the Treaty on the Functioning of the European Union, which covers monetary policy. Price stability is defined by the Governing Council of the European Central Bank as annual growth in the Harmonised Index of Consumer Prices (HICP) of the euro area of below, but close to, 2% over the medium term.

³ Interest rates fixed for up to one year.

⁴ ECB press conference, 4 July 2013: "The Governing Council expects the key ECB interest rates to remain at present or lower levels for an extended period of time." <http://www.ecb.europa.eu/press/pressconf/2013/html/is130704.en.html>.

channels. The Governing Council of the European Central Bank decided in May to extend its fixed rate full allotment⁵ lending, initially until the summer of 2014 and then until July 2015 following the decision in November⁶. In order to facilitate access by euro area credit institutions to the financing of the Eurosystem and in this way to support lending to the non-financial sector in the euro area, the rules on eligible collateral for monetary policy operations were eased during the year⁷.

Bilateral currency swap transactions are made between the euro area and non-euro area national central banks to make it easier for market participants to execute financial transactions using different currencies, and to contribute to financial stability. These currency swap arrangements earlier had a maturity of one year, but in October the arrangements with the central banks of Canada, the United Kingdom, Japan, the United States and Switzerland were converted into standing arrangements with no expiry limits⁸. In October the Governing Council of the European Central Bank decided to establish a three-year bilateral currency swap agreement with the People's Bank of China as a precautionary measure and to increase the confidence of banks⁹.

Implementing monetary policy decisions in the euro area and Estonia

The Eurosystem's monetary policy framework

The main framework for monetary policy operations in the Eurosystem has not changed in recent years (see Table 1).

Table 1. The Eurosystem's monetary policy framework in 2013

A. Main elements	B. Non-standard measures
1. Open market operations	1. Easing of refinancing conditions
Main refinancing operations	Fixed rate tender procedures with full allotment
Longer-term refinancing operations	Refinancing operations with extended maturity
Fine-tuning operations	Currency swap agreements with leading non-euro area central banks
Structural operations	Easing of the eligibility criteria for collateral assets and extension of the range of assets accepted as collateral
2. Standing facilities	The Covered Bond Purchase Programmes (CBPP and CBPP2)
Deposit facility	2. Support for sovereign bond markets under stress
Marginal lending facility	Securities market programme (SMP)
3. Reserve requirement	Outright Monetary Transactions (OMT)

⁵ The interest rate that is equivalent to the minimum bid rate of main refinancing operations.

⁶ See http://www.ecb.europa.eu/press/pr/date/2013/html/pr130502_2.en.html and http://www.ecb.europa.eu/press/pr/date/2013/html/pr131108_2.en.html.

⁷ For more on the changes in the collateral framework, see the section "The Eurosystem collateral framework in 2013".

⁸ See <http://www.ecb.europa.eu/press/pr/date/2013/html/pr131031.en.html>.

⁹ See <http://www.ecb.europa.eu/press/pr/date/2013/html/pr131010.en.html>.

Credit institutions make use of the standing facilities by borrowing money from the central bank or depositing money at the central bank overnight at their own initiative. Open market operations are initiated by the central bank to increase or decrease the liquid funds available for use by credit institutions. One condition for a bank to participate in the Eurosystem's credit operations is that it must have eligible collateral of sufficient quantity and sufficient quality. The current collateral framework allows a wide range of different assets to be used as collateral¹⁰. Developments in the collateral framework in recent years have mainly focused on making it simpler and easier to understand.

The monetary policy framework still contains non-standard measures that have been taken during and since the crisis in order to alleviate it and to improve the liquidity of credit institutions, and to support the efficient operation of the monetary policy transmission mechanism. The only non-standard measure that has been announced but not actually used is the Outright Monetary Transactions (OMT) programme of 2012.

The announcement of this programme calmed markets, achieving the initially intended effect.

Greater attention than before was focused in 2013 on the financial soundness of counterparties and regular observation of it. Further eligibility criteria were also added for counterparties.

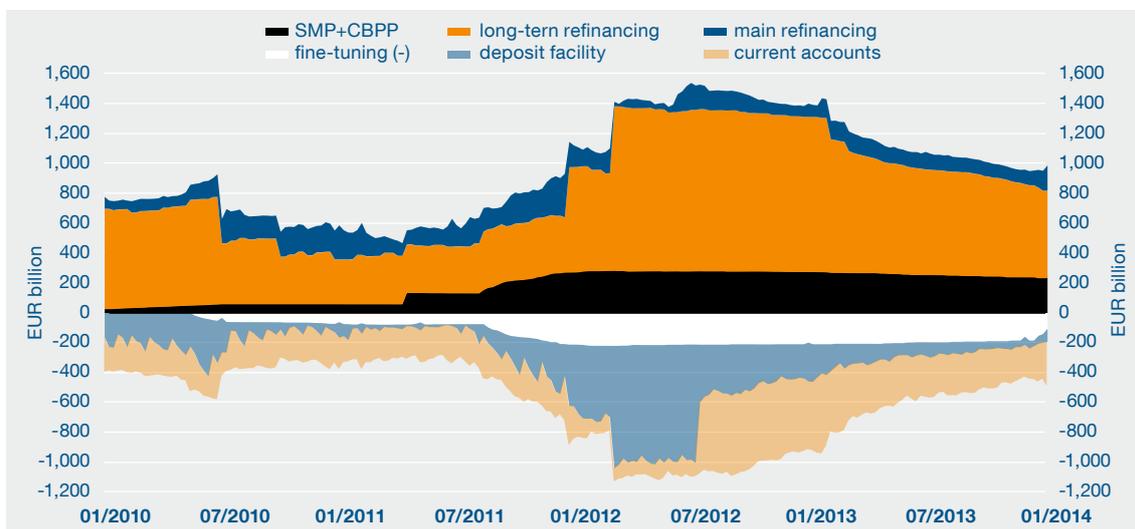
Standing facilities and monetary policy operations of the Eurosystem in 2013

Both the overnight deposit facility and the overnight marginal lending facility were used more modestly than in the previous year, and the interest rates on the overnight marginal lending facility were lowered twice in 2013. The amounts held on the current accounts of banks in the Eurosystem were around half what they were in the preceding year, declining from 447 billion euros at the end of 2012 to 287 billion euros at the end of 2013. There were no remarkable events in monetary policy operations in 2013, though banks were given the chance to repay the three-year refinancing operations of 2011 and 2012 early at the weekly auctions. The first repayments amounted to 198 billion euros and 634 counterparties participated out of 800. By the end of the year, 43% of the total amount borrowed under the two operations, or more than 440 billion euros, had been repaid. The repayments lessened the excess liquidity in the Eurosystem significantly during the year. By the end of 2013 it had declined to where it was before the long-term refinancing operations at 265 billion euros. The change in liquidity during the year led to reactions in other monetary policy operations, as the fine-tuning operations that the Eurosystem uses to mop up the excess liquidity injected into the markets through the securities market programme (SMP) proved unable to reach their target amounts in several auctions at the end of the year. The last successful bid rate from the middle of November to the end of the year was a maximum of 0.25%. The volume of main refinancing operations had fallen steadily during the year but started to increase again in the last months of the year.

Figure 3 shows the changes in volume and the structure of the Eurosystem's monetary policy operations.

¹⁰ See <http://www.ecb.europa.eu/paym/coll/html/index.en.html>.

Figure 3. Changes in volume in the Eurosystem's monetary policy operations 2010–2013



The Securities Market Programme (SMP) was terminated as the technical parameters were announced for the Outright Monetary Transactions (OMT) programme in September 2012, though the Eurosystem will hold the securities it acquired under the SMP to maturity.

However the Eurosystem did participate in the buyback by Ireland 30 days before maturity of sovereign bonds held under the SMP, which reduced the portfolio by 3.5 billion euros. During the year the SMP portfolio shrank to 178.8 billion euros.

Bonds purchased under the Covered Bond Purchase Programmes (CBPP and CBPP2) are also held to maturity. By the end of 2013, the total size of the two programmes had shrunk to 57 billion euros.

The Eurosystem's collateral framework in 2013

The value of eligible collateral held by the Eurosystem stood at 2.2 trillion euros at the end of 2013, having been 2.5 trillion at the end of 2012, and 23% of it was non-marketable assets in the form of credit claims and deposits with central banks. The remainder was spread across various marketable assets. The largest fall from the previous year was in the non-marketable assets. As in previous years, some changes were made in the collateral framework in 2013.

In March the Governing Council of the European Central Bank set a single limit on the use of own used government-guaranteed bank bonds as collateral. As a result, government-guaranteed bank bonds issued by the counterparty or by a closely linked entity for own use are considered as eligible collateral until 1 March 2015. The aim of the change was to harmonise the practice within the Eurosystem and to ensure the principle of equal treatment is followed¹¹. In September it was decided to change the haircuts on marketable and non-marketable assets and own used covered bonds¹², to manage the risks arising from certain asset classes better.

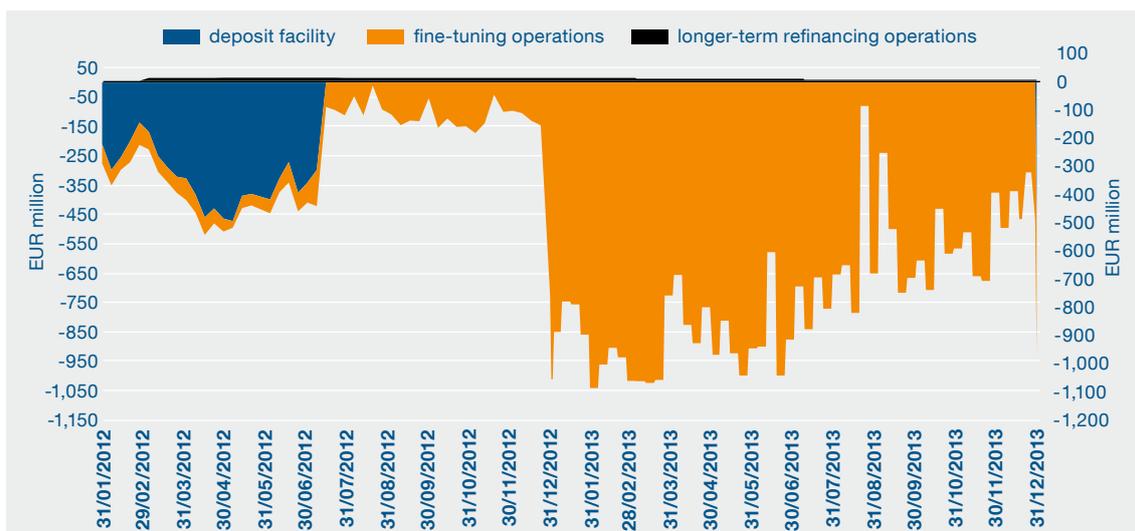
¹¹ See <http://www.ecb.europa.eu/press/pr/date/2013/html/pr130322.en.html>.

¹² See <http://www.ecb.europa.eu/press/pr/date/2013/html/pr130927.en.html>.

Eesti Pank's monetary policy operations

The Estonian counterparties did not use the monetary policy credit operations of the Eurosystem, including the overnight marginal lending facility, in 2013. The main reason for the low take-up in recent years has been that the bank groups use centralised liquidity management and the local banks had sufficient liquidity buffers, meaning that local banks are not very dependent on the liquidity supplied by the central bank. Estonian counterparties did however make use of the chance to repay early the loans taken in the three-year refinancing operations. The deposit facility, which Estonian counterparties had used quite actively in earlier years was barely used at all in 2013, as the interest rate on it was 0%. Banks continue to be interested in depositing money at the central bank but do so using the fine tuning operation conducted weekly as deposit auctions. The final successful bid rate in these auctions changed a lot during the year, remaining stable at 0.01% at the start of the year but at the end of the year reaching ever more frequently the maximum bid rate of 0.25% that applied from November. The amounts deposited in these auctions were sharply higher than in the previous year at between 300 and 900 million euros and averaged 706 million euros (see Figure 4). As liquidity conditions in general tightened, the amounts deposited by Estonian counterparties decreased at the end of the year. Some counterparties of Eesti Pank use intraday credit and have set up a collateral pool in the central bank. This means that the collateral is not linked to a specific credit operation and the individual assets in the collateral pool are not earmarked for individual transactions. In the daily assessment of collateral, the adjusted market value of all the aggregated collateral must cover the total value of all the outstanding credit operations between the central bank and counterparties. Various bonds are used as collateral and deposits placed with the central bank are also used as additional collateral. Bonds purchased under the Covered Bond Purchase Programme and the Securities Market Programme are held to maturity by Eesti Pank. In 2013, no further purchases of bonds were made.

Figure 4. Eesti Pank's monetary policy operations 2012-2013



A positive value indicates addition of liquidity, a negative value indicates absorption of liquidity

MANAGING CURRENCY CIRCULATION

Payment systems

It is important for the maintenance of economic and financial stability, the implementation of monetary policy and the smooth functioning of currency circulation that payment systems operate efficiently.

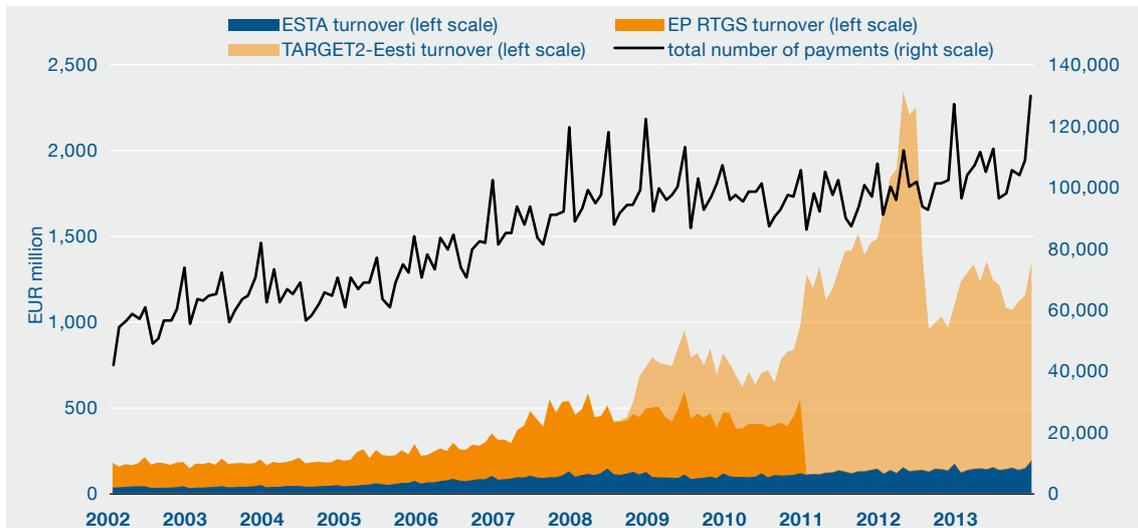
Eesti Pank is responsible for ensuring the security of the payment systems in Estonia and for making sure that they function in a way that meets the needs of system participants with minimum risk exposure and at reasonable cost. Eesti Pank contributes to the efficient functioning of payment systems, oversees the systems and helps to develop the payment environment. The bank has set up several forums to achieve this, and it works in the Eurosystem and various other international committees and working groups, and in the Payment Committee of the Estonian Banking Association and its working groups, and works closely with the Financial Supervision Authority and the Ministry of Finance.

Payment systems of Eesti Pank

Eesti Pank managed two inter-bank payment systems in 2013: TARGET2-Eesti for large-value payments, and ESTA, the settlement system for domestic retail payments. Eesti Pank closed ESTA down on 31 January 2014.

TARGET2-Eesti is part of TARGET2, the Trans-European Automated Real-time Gross Settlement Express Transfer System and 18 credit institutions were members of it in 2013. TARGET2-Eesti settled a daily average of 417 payments in 2013, with a total value of 1.1 billion euros, meaning the number of payments was 15% higher than in 2012 but the total value was 16% lower. The number of payments increased because banks have started to use the system more for client payments, and client payments accounted for 73% of the total number of payments in TARGET2-Eesti in 2013, with an average of 308 payments per day. The main factors affecting the changes in value in TARGET2-Eesti are payments related to the monetary policy transactions of the Eurosystem (see Figure 5).

Figure 5. Payments made through Eesti Pank's payment and settlement systems (daily average)



The main event in TARGET2 in 2013 was the development of the liquidity management interface between TARGET2 and TARGET2-Securities as part of the preparations for the launch of TARGET2-Securities in June 2015.

The retail payment system ESTA had 15 members at the end of 2013. A daily average of 105,781 payments with a total value of 142.3 million euros were settled through ESTA in 2013, meaning the number of payments was 5% higher than in 2012 and the value was 6% higher. The average size of payments made through ESTA in 2013 was 1345 euros, which is 19 euros more than in the previous year.

The closing of ESTA

Eesti Pank and market participants jointly started negotiations in 2010 to find an international or local partner so that Eesti Pank could stop managing the retail payments system for the private sector. The negotiations did not succeed in finding a partner that suited all the market participants and so Eesti Pank was prepared to update ESTA, and started a public procurement in 2012 to find a retail payment service that would suit the Estonian market.

In January 2013 it was announced that STET had won the public procurement, as its payment system would have been as fast as ESTA and could have meant even faster settlements in the future. The price they proposed was one third less than the price at the time, and the system would have allowed SEPA direct debits as well. The conditions in the winning bid in the procurement were not as competitive on price as the bids by other retail payment systems operating in Europe however, and the proposal did not receive sufficient support from the market participants. As a result of the choice made by the banks, Eesti Pank decided to close ESTA and stop providing a retail payments service. In the euro area, retail payment services are generally provided by the private sector.

After ESTA was closed down, interbank payments between Estonian banks started to go through pan-European retail payment systems.

Interbank payments in emergencies

The Emergency Act requires Eesti Pank to "organise" the continuous operation of payment services and cash circulation¹³. Eesti Pank named the following banks as providers of vital services: AS SEB Pank, Swedbank AS, Danske Bank A/S Estonia branch, Nordea Bank Finland PLC Estonia branch, and also issued descriptions and recommendations for continuous operations of payment services and cash circulation. On 1 January 2014 changes to the Emergency Act came into force that require providers of vital services to ensure the continuous operation of the vital service using ways and means that are not dependent on an information system in a foreign country. As a result the banks providing vital services are working with Eesti Pank to prepare appropriate measures for continuous operation.

Oversight of payment and settlement systems

International requirements and best practices call for Eesti Pank as a central bank to guarantee that the payment systems it operates comply fully with international standards and to oversee important financial

¹³ See Emergency Act (RT 2009, 39, 262) § 34(8).

market infrastructure operated by the private sector. The primary aim of oversight is to improve the efficiency, reliability and legal compliance of the operation of financial market infrastructure. Infrastructures overseen by Eesti Pank in 2013 were the ESTA and TARGET2-Eesti payment systems operated by Eesti Pank and the securities settlement system operated by the Estonian Central Securities Depository.

ESTA and TARGET2-Eesti worked without any major incidents in 2013. No incidents arose that could have posed a threat to financial stability or interrupted the functioning of the settlements. In the year as a whole, the average availability of both TARGET2-Eesti and the ESTA retail system was 100%, which is better than the required 99.4% for ESTA and 99.7% for TARGET2-Eesti.

The securities settlement system operated by the Estonian Central Securities Depository also operated without any major incidents in 2013. In 2013 Eesti Pank started an assessment of the securities settlement system in order to establish whether it satisfies the requirements. The assessment continues in 2014. The overseer also monitored the programmes of the Baltic central securities depositories for changing from their current securities settlement and registry system to the new X-stream CSD technical solution. Estonia is planning to start using X-stream in 2017 when it joins the pan-European securities settlement platform TARGET2-Securities.

One of the oversight priorities in the Eurosystem in 2013 was the adoption of the CPSS/IOSCO¹⁴ principles¹⁵ for financial markets infrastructure as requirements for oversight. The Eurosystem adopted the CPSS/IOSCO principles for securities settlement systems, central securities depositories, central counterparties, CCP, and trade repositories, TR. A regulation of the European Central Bank was drawn up for the adoption of the requirements for payment systems and the single methodology for assessing payment systems was prepared.

Overseers and supervisory bodies produced requirements for the security of internet payments as part of the SecuRe Pay forum for secure retail payments, and guidelines for the assessment of compliance with these requirements.

The security requirements apply to providers of payments services and must be implemented by 1 February 2015.

Development of the payment environment

Eesti Pank supports the balanced and sustainable development of the Estonian payment environment and its adjustment to changes in the international payments market through the Estonian Payment Forum. The forum is led by Eesti Pank, working closely with the Ministry of Finance and the Estonian Banking Association. The members of the forum are Estonian credit institutions; users of payment services; representatives of interest groups affected, including some from the public sector; and infrastructure companies. In 2013 the forum focused on helping to implement the requirements of the Single European Payment Area (SEPA).

14 Committee on Payment and Settlement Systems and Technical Committee of the International Organization of Securities Commissions.

15 CPSS-IOSCO "Principles for Financial Market Infrastructures".

Eesti Pank promotes and coordinates the development of the payment systems together with the banks through the Estonian Council of Payment System Experts and its working groups, and the Estonian National User Group of TARGET2-Securities and also works closely with the Financial Supervision Authority.

Changes from 1 February 2014 - the Single Euro Payments Area (SEPA)

Under Regulation (EU) No 260/2012 (the SEPA regulation), all credit transfers and direct debits in euros had to meet the SEPA conditions from February 2014. This meant that all domestic account numbers were converted into the international form, the IBAN, and that banks and a lot of companies started making payments using the new ISO 20022 XML messaging format. The change to SEPA in Estonia led to the decision by the banks to stop providing a domestic direct debit service and to replace it with an e-invoice standing order service, which allows the automatic payment of invoices to continue.

Announcements about the changes brought by the transition to SEPA started to be made at the end of 2012 and a single plan for communications was coordinated by Eesti Pank with the Estonian Banking Association, the Ministry of Finance and the Financial Supervision Authority. The preparations of market participants were observed regularly and the efforts and cooperation of all parties meant that the information campaign ran well.

On 1 February 2014 the banks changed their systems to meet SEPA conditions and the changeover went smoothly. As some companies need extra time to make changes and people need to get used to using the IBAN, all the bank clients in Estonia have been given one additional year for the changeover until 1 February 2015.

Legal proposals with a major impact on the payment environment

Eesti Pank gave its expert opinion on the following legislative proposals from the European Commission published in 2013:

- a directive regulating the comparability of fees associated with payment accounts, the transfer of payment accounts, and access to a basic payment account;
- the updating of a directive regulating payment services on the domestic market;
- regulation of interchange fees for card-based payment transactions.

These expert opinions are one of the inputs used by the Ministry of Finance in deciding the official position of the Estonian government.

TARGET2-Securities

Eesti Pank is participating in the TARGET2-Securities (T2S) project, a single pan-European platform for securities settlement. T2S is being set up to harmonise securities settlement in the euro area and make cross border securities settlement easier, cheaper and more secure for investors.

In 2013 the Latvian depository and the Bank of New York Mellon CSD signed the framework agreement confirming their wish to join T2S, bringing the number of member depositories of T2S to 24. T2S will be launched in 2015 and Estonia will join in the fourth wave in February 2017.

The main events of 2013 were the final preparation of the T2S software and progress on the draft of the Central Securities Depositories Regulation, CSDR. The proposal for the regulation came from the European Commission in 2012 and it should harmonise holding and settlement services for securities and make them more efficient in the fragmented European Union securities market. For this reason it is very important that the regulation come into force before the changeover to T2S.

Cash

Banknotes in circulation in the euro area and Estonia and their structure

Cash still has an important role in society as a means of payment and a store of value despite the increasing share of electronic payments in the last decade. Cash is one of the symbols of stability and confidence in society. The demand for cash and changes in the structure of cash reflect social and economic developments and daily consumption habits.

As the central bank of a euro area country, Eesti Pank is responsible for satisfying the demand for euro banknotes and coins in Estonia and for the safe storage of the cash resources needed for circulation. Eesti Pank's role in organising cash circulation gives it responsibility for ensuring that notes and coins are processed according to the common quality standards of the euro area and that suitability requirements for circulation and authenticity controls are met.

At the end of 2013, 16.51 billion banknotes were circulating in the euro area with a combined total value of 956.2 billion euros. A year earlier, 15.69 billion banknotes were circulating with a combined value of 912.59 billion euros. The value of euro banknotes in circulation was around 4.6% higher in 2013 than in 2012, and the number of them was some 5.2% larger. At the end of 2013, 42.2% of all the euro banknotes in circulation were 50-euro notes and they accounted for 36.4% of the total value in circulation, followed by 500-euro notes on 30.5%.

The euro cash in circulation in Estonia includes both the cash issued by Eesti Pank to meet the cash demand of credit institutions and their customers, and the cash brought to Estonia by companies and individuals. This means that the total value and volume of euro cash in circulation in Estonia can only be estimated.

In 2013 Eesti Pank issued 1466.6 million euros to credit institutions and 1327.0 million euros were returned to Eesti Pank (see Table 2). The net total of euro cash issued by Eesti Pank increased by the end of 2013 to 139.6 million euros, of which 135.7 million euros was in banknotes and 3.9 million euros in coins. Of the notes issued, 36% were 50-euro notes, the largest share, and 31% were 5-euro notes (see Figure 6) and 50-euro notes also accounted for the largest share of the total value in circulation with 52%, followed by 500-euro notes on 28% (see Figure 7).

Table 2. Cash flows between Eesti Pank and credit institutions

Year	Total amount (EUR million)		Number (million)			
	Issued by Eesti Pank	Received by Eesti Pank	Issued by Eesti Pank		Received by Eesti Pank	
			Banknotes	Coins	Banknotes	Coins
2011	1661.2	1045.5	45.0	124.5	34.8	22.3
2012	1441.1	1323.0	43.8	35.9	43.2	5.0
2013	1466.6	1327.0	41.9	34.3	41.1	5.8

Figure 6. Number of euro banknotes issued

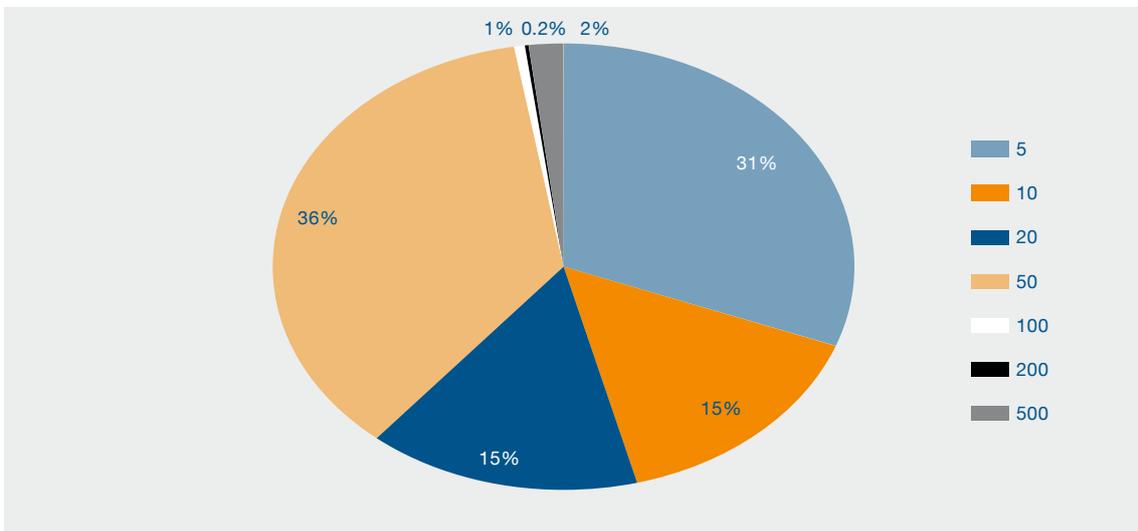
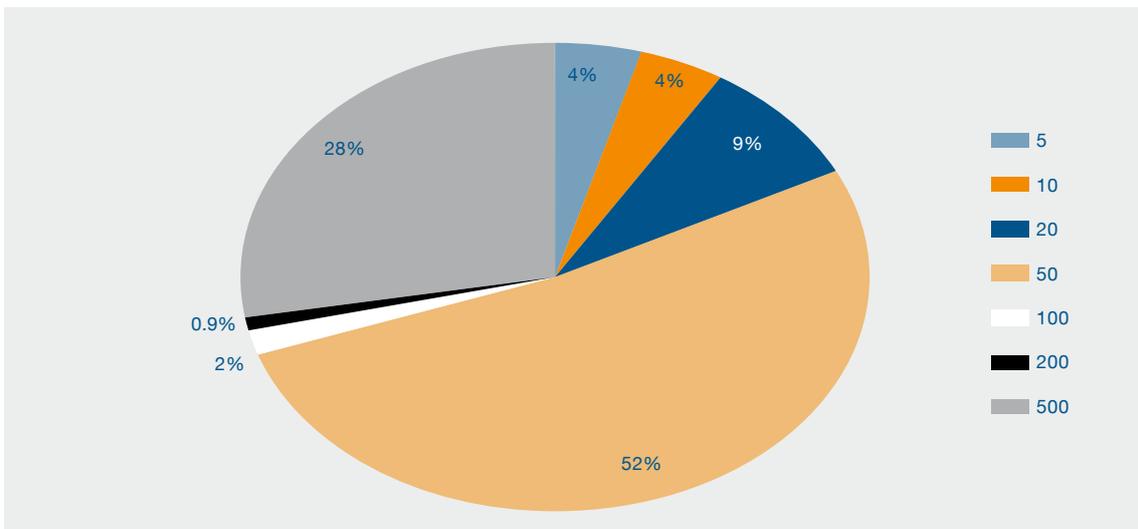


Figure 7. Value of euro banknotes issued



A lot more 20 and 100-euro notes were received back by Eesti Pank than had been issued, which is a reflection of the way that banknotes and people move and come here from other euro area countries.

Of the coins issued, 26% were one-cent coins and 26% were two-cent coins, while 44% of the total value in coins was in two-euro coins, the largest share.

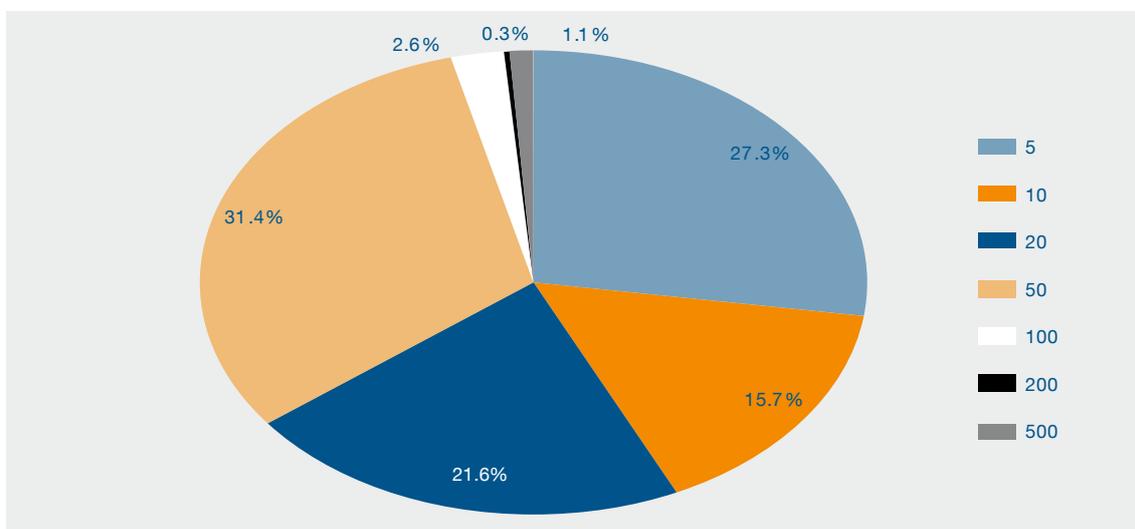
As well as issuing and receiving euro cash, the central bank continued to receive Estonian kroons that had remained in circulation. In 2013, 2.5 million euros worth of kroons in cash was returned to Eesti Pank through credit institutions and the Eesti Pank museum. At the end of 2013 there was still around 48.5 million euros worth of cash in kroons that had not yet been returned to the central bank. Swedbank and SEB continued to exchange kroons with no fees and at the central rate until the end of 2013, but from 2014 only Eesti Pank will exchange Eesti kroon notes and coins for euros at the central rate of 1 EUR = 15.6466 EEK in unlimited amounts and without any limit of time.

Expert analysis and handling of cash

All banknotes returned to Eesti Pank are sorted with fully automatic sorting machines.

A total of 42.3 million banknotes were processed in 2013, which is similar to the number processed in 2012 (see Figure 8). During sorting, banknotes that are worn or have been damaged in circulation are destroyed and those still fit for circulation released back into circulation. In 2013 a total of approximately 6.3 million euro banknotes were withdrawn from circulation and destroyed during processing, which is one third more than in 2012. The number of banknotes withdrawn and destroyed increased last year mainly because five-euro notes from the first series were withdrawn from circulation when they were returned to the central bank, and they accounted for 82% of the notes withdrawn and destroyed. The circulation cycle for five-euro notes is short and they return to the central bank for cash processing after an average of two and a half months, so a large proportion of the five-euro notes in circulation have been replaced with new notes of the second series. Quality indicators for other euro banknotes remain very good, though it was noted that the number of worn ten-euro notes returned from circulation was slightly higher.

Figure 8. Distribution of euro banknotes sorted at Eesti Pank in 2013



In 2013, experts from Eesti Pank analysed 4999 damaged banknotes and 3123 coins. On three occasions, banknotes randomly marked with security ink were revealed in expert analysis by cash handlers with anti-theft devices, and a total of 3368 banknotes were affected.

In 2013 a total of 670,000 counterfeit euro banknotes were removed from circulation, mostly in the euro area and other EU countries apart from Estonia, with 20-euro notes accounting for 41% of the counterfeit notes and 50-euro notes for 39%. The share of high nominal value 200-euro and 500-euro notes among the counterfeit notes remained small, but in the second half of 2013 the number of registered counterfeits of 10-euro notes started to rise. The number of counterfeit euro banknotes removed from circulation in 2013 was 26.2% larger than in 2012, while the number of counterfeit coins fell by 4%. In 2013, 175,900 counterfeit euro coins were discovered in the countries of the euro area, and 68% of them were two-euro coins.

A total of 192 counterfeit euro banknotes were discovered in Estonia in the expert analyses conducted by the Estonian Forensic Science Institute in 2013, and the most common counterfeit note encountered was the 100-euro note, which accounted for 29% of the counterfeits, while a further 27% were 50-euro notes. Two-euro coins accounted for 86% of the counterfeit coins. The number of counterfeit banknotes discovered in Estonia was 5% lower than in the previous year. In 2013, 152 counterfeit euro coins were discovered, down from 161 in 2012, and seven kroon banknotes were confirmed as counterfeit by the expert analysis.

Given how many banknotes and coins are in circulation, the number of counterfeits discovered is negligible.

In 2013 Eesti Pank continued preparations for deployment of the new Cash Single Shared Platform (Cash SSP) accounting and logistics system, and the transition to the new system took place on 30 September 2013. Cash SSP is an IT system specially designed for the needs of central banks and their cash clients that brings cash operations and data exchange about transactions together in a single accounting system. Adoption of the innovative and more modern technology has made the working processes for cash handling more efficient, reduced security risks and operational risks, and simplified cash inventories and controls. Deployment of the new system means meeting the requirements set by the European Central Bank for Data Exchange for Cash Services, DECS, between central banks, and has made it possible for reports from the currency information system CIS 2¹⁶ to be sent automatically to the European Central Bank.

The production of banknotes and coins

Banknotes

On 10 January 2013 the European Central Bank unveiled the second series of euro banknotes for the first time, showing the design of the new notes and the security features to the public. On 2 May 2013 the five-euro note was issued as the first of the new series. Both series of notes will remain in use initially but five-euro notes of the first series are being steadily removed from circulation by central banks. Eesti Pank published information on the second series of banknotes and on their security features in regional and freely distributed newspapers and held 15 training seminars for cash handlers across Estonia. The central

¹⁶ Currency Information System 2

bank explained to cash handlers about the second series of notes, distributing digital material by email and printed publications through an extensive network of partners. The second series five-euro note was introduced into Estonia without any significant disruptions.

Five-euro notes from the new series accounted for more than 52% of those in circulation in Estonia by the end of 2013. The next note of the second series to go into circulation will be the ten-euro note from 23 September 2014.

The first announcement about the second series ten-euro note was made in November 2013. The note has an updated design and more effective security features and will enter circulation in the whole euro area at the end of September 2014, and Eesti Pank is planning an information campaign to teach cash handlers and the general public about the security features. The information campaigns will continue in subsequent years to present the other banknotes of the second series as they enter into circulation.

Each year the central banks of the euro area produce the number of euro banknotes set by the European Central Bank. Eesti Pank organises the production of its banknotes jointly with seven other central banks of the euro area¹⁷, which run a joint procurement for banknotes from accredited printers. In 2013 Eesti Pank fulfilled its banknote production duties to the Eurosystem by printing 20-euro notes to return the euro notes lent for the changeover to the euro in 2010, and meeting its annual production quota. Eesti Pank also contributed to the production of the new series of ten-euro notes that will come into circulation in 2014. The freshly printed new euro notes are added to the joint reserves of the Eurosystem.

Circulation coins

The supply of coins for circulation was sufficient in 2013 at Eesti Pank and no additional circulation coins were ordered.

Collector coins and numismatic products

The year 2013 saw the 100th anniversary of the birth of Raimond Valgre, the famous and much-loved Estonian composer and musician. To commemorate this date, Eesti Pank issued a silver commemorative coin with a nominal value of seven euros in October, dedicated to the music of Raimond Valgre. The obverse side of the coin shows the coat of arms of the Republic of Estonia and the year 2013, and the reverse shows a fragment of the handwritten score for Saaremaa Waltz, the signature of the composer and the nominal value of the coin of seven euros. The silver collector coin was designed by Berbel Lätt, and a total of 7500 of the coins were minted in the Royal Dutch Mint.

The Eesti Pank museum has a shop where Estonian kroons can be exchanged for euros, worn or damaged cash can be submitted to expert analysis for exchange, and collector coins and numismatic products can be bought along with publications and souvenirs from the bank. In 2013 there was an increase in interest among museum visitors for the services of the shop and 1621 people used the services of the museum shop for exchanging kroons for euros, while worn or damaged notes or coins were submitted for analysis on 64 occasions. The most popular item on sale in the shop in 2013 was the seven-euro silver collector coin dedicated to the music of Raimond Valgre.

¹⁷ Estonia, the Netherlands, Cyprus, Luxembourg, Malta, Slovakia, Slovenia and Finland.

SAFEGUARDING FINANCIAL STABILITY

Safeguarding financial stability is one of the principal functions of Eesti Pank. The bank oversees the functioning of the financial system as a whole and so it pays ever increasing attention to macro-financial supervision. Macro-financial supervision covers both analysis and assessment of risks to financial stability and the development and deployment of measures to reduce systemic risks. To clarify Eesti Pank's responsibilities in this more precisely, changes were made to the Eesti Pank Act that set out the aims of macro-financial supervision and defined Eesti Pank's rights and duties in carrying macroprudential policies out.

The global financial crisis that started in 2008 led to several changes in the way that financial stability was ensured and in the requirements placed on the financial sector. The decision to start single banking supervision at the European Central Bank will affect Eesti Pank too. Under the legal framework of single bank supervision, all the central banks of the euro area participate in the decision making process, and macro-financial supervisory measures will be coordinated between the countries affected by the single supervision.

Preventing financial crises is important for the functioning of the financial system, but an effective crisis management system is equally important. In a financial crisis, Eesti Pank is ready to provide emergency liquidity loans to banks if needed. The bank has a set of internal procedures for issuing such loans, and these procedures are regularly updated. European Union legislation is also being prepared that sets out the requirements for crisis management operations, and a single crisis resolution framework for countries joining the single banking supervision.

Macro-financial supervision

Twice a year, Eesti Pank prepares and publishes the Financial Stability Review, which contains forward looking risk assessments. It maps out the key influential factors and estimates the impact on the Estonian financial sector of risks being realised. Expert analysis and impact assessment are used to reach these estimates. Following this risk analysis, Eesti Pank takes measures where needed in its macro-financial supervision to reduce the build-up of risks or the negative impact of them being realised. However Eesti Pank has a limited range of options, as it does not have authority for designing the taxation environment or for supervision of individual market participants and so wide-ranging inter-institutional and cross-border cooperation is needed.

To be better able to achieve results with its macro-financial supervision, Eesti Pank started to develop the principles for implementing various measures. The bank worked with the Ministry of Finance and the Financial Supervision Authority on changes to the Credit Institutions Act, allowing Eesti Pank to apply additional capital requirements for banks and requirements for lending. The planned changes are largely based on the European Union's Capital Requirements Regulation (CRR) and Capital Requirements Directive IV (CRD IV) that came into force at the start of 2014 and are themselves based on the Basel III framework agreed by the Basel Committee on Banking Supervision. The capital requirements directive sets out macro-financial supervisory measures that member states can use to curb the pro-cyclical behaviour of banks and to alleviate risks stemming from the structure of the market.

At the request of Eesti Pank, a minimum capital requirement of 10% applied to banks from October 1997 to December 2013, which was higher than the internationally standard 8% requirement. This was because the relative openness of Estonia's economy and banking system to external risks means that an unexpected downturn in the economy could very quickly lead to loan repayment problems in the private sector, and this could harm the financial position of the banks. It is important for the resilience of the Estonian banking sector that the capitalisation of Estonian banks remain strong under the new regulations too. In the presentation of the Financial Stability Report in October 2013, Eesti Pank announced its intention to apply an additional 2% systemic buffer requirement to banks operating in Estonia in order to maintain the capital requirements at their earlier level.

Eesti Pank works with other national central banks in the European Union in evaluating the risks and activities of integrated financial markets and cross-border financial groups and in designing the operating environment for them, and it participates in the work of the European Systemic Risk Board (ESRB). The main job of the ESRB is to assess the threats to financial stability in the European Union and to make recommendations if needed for reducing risks or the impact of them being realised. The ESRB publishes the results of the risk analysis quarterly in a Risk Map.

Alongside various analyses and positions, the ESRB published recommendations in 2013 on the activities and reporting of money market funds, the funding of credit institutions and supervision of funding, and interim goals for macro-financial supervisory measures. The main development focus remained on the European Union Capital Requirements Regulation (CRR) and Capital Requirements Directive IV regulating banking operations, and also on the principles of implementation for macro-financial instruments unaffected by the single regulation and good practice for information announcements on them.

Eesti Pank is part of a cooperation network bringing together the central banks and supervisory authorities from the Nordic and Baltic countries, and of other pan-European organisations for cooperation. Nordic-Baltic cooperation is particularly important for Estonia because Estonia's economy is closely linked to the economies of neighbouring countries and the cross-border integration of the financial sector is also strong. The degree of integration today means that the impact of spillovers can be significant and so institutions with authority in different countries need to consider cross-border impacts in making their decisions. Country-specific risk estimates were exchanged and the implementation of supervisory requirements in the region were analysed in 2013 at the high-level Nordic-Baltic Macroprudential Forum (NBMF), which brings together the heads of the central banks and supervisory authorities. Experiences of developing an analytical framework for countercyclical measures were also exchanged.

The main systemic risks

In 2013 Eesti Pank classed the majority of risks to Estonian financial stability as low, while risks from the euro area banking system, growth in Nordic real estate prices, and wage growth and real estate price rises in Estonia were classed as medium.

The economy in the euro area started to grow in the second quarter, but the earlier recession there had impaired the quality of the assets of the euro area banks markedly. The result was lower profitability for banks that prevented them raising their capitalisation and could limit the lending that is needed for a

recovery in economic growth. In these circumstances, the level of problem loans in Estonia could rise, though the stress tests done by Eesti Pank showed that the impact of this on the capitalisation of the biggest bank groups in Estonia would only be small.

Real estate prices in the Nordic countries, Norway and Sweden in particular, have continuously risen rapidly with support from loans over the past five years, in contrast to prices in most other European countries. The debt burden of households in those countries has climbed to a very high level, which makes the economy vulnerable to the risks from the real estate market. A fall in real estate prices could amplify any setback in the economy. The risks from developments in the Nordic countries could affect the Estonian financial sector through two main channels. Firstly, a worsening of the economies in Nordic trading partners will damage the outlook for economic growth in Estonia. Secondly, Nordic banking groups have over 90% of the Estonian banking market, meaning that a change in the financing conditions of the parent banks could have an impact on the largest banks in Estonia, and through them on the funding of a large part of the Estonian economy.

If Estonian real estate prices continue to rise at the same rapid rate, it could lead expectations to become overly optimistic, and given low interest rates, this could lead to insufficiently considered financial behaviour and could increase long-term risks and the vulnerability of the financial system. However, households have used larger down payments for financing purchases of real estate and banks are playing a much smaller role than they did in the earlier real estate boom. Wage pressures have also strengthened and this could increase costs to companies to a level where they could have a significant impact on the solvency and profitability of companies. Eesti Pank considers it important that no expectation be created that the rapid growth in real estate prices will continue and that the current conservative approach to housing loans be maintained.

Financial sector policy

Regulation plays an important role in defining the operating environment of the financial sector and Eesti Pank works with the Ministry of Finance and the Financial Supervision Authority in setting the legal frame. This is done under a tripartite agreement, and work is coordinated by a joint commission. The legal framework for the financial sector contains the national laws and regulations, which are generally drafted jointly by several parties, and it increasingly contains the directly applicable regulations and directives from the European Union, on which Estonia has to decide a position. Eesti Pank contributes to this activity within its jurisdiction.

In June 2012 the European Council decided to strengthen the European Union's financial framework and set out the aim of creating a banking union, in which pillar I is the Single Supervisory Mechanism for banks, pillar II is the Single Resolution Mechanism, and pillar III the deposit guarantee scheme. Specific measures were taken in 2013 to set the Single Supervisory Mechanism, the first pillar, in motion in 2014.

The regulation on the mechanism was adopted in October 2013 and will come into effect on 4 November 2014. From then on, the European Central Bank will directly supervise systemically important banks in the euro area. Before it assumes its direct supervisory role, the European Central Bank is working with the national supervisory authorities to carry out comprehensive assessment of the banks to get a sufficiently

clear picture of the financing of the commercial banks. The assessment will cover 124 banking groups operating in the euro area. The banks licensed in Estonia that will be assessed and pass under the direct supervision of the European Central Bank are the three largest, Swedbank, SEB and DNB. The results of the assessment will be released in autumn 2014. Eesti Pank believes it is appropriate and necessary for transparent and comprehensible assessment to be done before the responsibility for supervision is transferred.

In parallel with the preparation of the legal framework, the European Central Bank started drawing up a new methodology for supervision in 2013 and setting up the necessary structural entities. To keep supervisory decision making separate from monetary policy, the European Central Bank set up a separate governing body, the Supervisory Board. It is also planned to create four new specialised departments at the bank, dealing only with supervision. Staff from Eesti Pank were in the Task Force on Supervision that drew up the principles and standards for single banking supervision, and in the High-Level Group on Supervision.

The draft Bank Recovery and Resolution Directive (BRRD) was agreed by the European Parliament, the European Commission and the member states of the EU in December 2013. The proposed Directive establishes a framework for proper resolution of problems for banks facing financial difficulties in order to maintain financial stability, reduce the systemic impact of banking crises and minimise the cost to taxpayers. Eesti Pank has supported the harmonisation of the Union-wide framework for crisis management, which defines common tools and rights for handling banking crises pro-actively, to allow for early intervention and achieve efficient crisis resolution. It has been important for Estonia in discussions that the organisation of cross-border crisis management should ensure that the rights and obligations of the states are balanced. Eesti Pank's position on the division of costs is that the financing of crisis resolution should be based on harmonised principles whereby the costs should first be covered by the bank's owners and creditors and crisis resolution funds should be financed in advance by market participants.

In July the European Commission disclosed the draft regulation for a single crisis resolution mechanism for the financial sector, which will become pillar II of the banking union when passed. The details of the draft were clarified later. At ministerial consultations in December, the part of the regulation that concerned the collection of funds for the crisis resolution fund from the banks, the use of the collected funds during the transition period before the fund reaches its target level, and the length of the transition period was removed. Discussion on these points continued in the first quarter of 2014.

The single resolution mechanism will handle banks that are at risk of insolvency in order to preserve the sustainability of the banking markets of member states of the supervisory mechanism. Crisis resolution will become Europe-wide for countries that have joined the banking union, and a single crisis resolution fund will be set up. Eesti Pank has worked with the Ministry of Finance in discussions on the single resolution mechanism regulation, and considers it important that the individual features of the banking system in each member state be taken into consideration alongside the functioning of the system as a whole when problems with credit institutions are handled. Eesti Pank supports the position that the effective functioning of the single resolution mechanism requires an efficient resolution process to be set up to allow important decisions to be taken quickly, and a single crisis resolution fund to be created.

Preparations for additions to the Deposit Guarantee Schemes Directive began in 2010, and the Council of the European Union reached a joint position on it by summer 2011. Disagreements meant, however, that the procedural process for the draft took time, and only at the end of 2013 was it possible to agree on the basic points. The directive harmonises the definition of guaranteed deposits and shortens the deadline for payouts to seven days, which should clarify for depositors and investors how and in what way they are protected if their bank gets into difficulties. Eesti Pank has supported the harmonisation of deposit insurance systems and of the conditions for use, and the elimination of differences and the pre-funding of deposit guarantees.

CONSULTATION AND COOPERATION ON ISSUES OF ECONOMIC POLICY

Monitoring and economic analysis at Eesti Pank

Monitoring

Eesti Pank conducts monitoring to support the implementation of decisions that set the monetary policy of the Eurosystem and the bank's role as one of the main advisors of the government. The results of the monitoring and the analysis conducted as part of it are one input for the economic forecasting of Eesti Pank.

Eesti Pank's responsibilities within the Eurosystem set the monitoring cycle for the global and euro area economies. The participation of the Governor of Eesti Pank in monetary policy decision making for the euro area is supported by monthly reports on the external economy, which cover developments in the global economy and international financial markets, with an emphasis on factors that affect inflation in the euro area. Where necessary, problems in individual countries are also covered. The report on the external economy gives an assessment of the euro area economy at a given moment and of the risks to economic development. On top of these monthly reports, a twice-yearly review of monetary policy in non-euro area countries started to be produced in 2013 to support the monetary policy decisions of the Eurosystem. If necessary, analyses are also prepared with a narrower focus.

Eesti Pank's monitoring work is an input for the monetary policy committee of the ESCB among others. The job of this committee is to support the implementation of the single monetary policy in the Eurosystem, and to help all the central banks of the European Union coordinate their monetary policy. Two experts from Eesti Pank are involved in the work of the monetary policy committee.

Working reports covering the Estonian economy and neighbouring economies were prepared every two months in 2013. Where necessary, deeper analysis of one or two specific areas was carried out to assess the economic situation.

Eesti Pank has produced reports on the Estonian labour market and its prospects for years. These reports aim to identify possible imbalances like price pressures early, assess the gap between supply and demand for labour, and observe the institutional development of the labour market. Two labour market reviews were published in 2013, in April and October.

It is important for the balanced development of the economy that companies and households can be funded smoothly, without excessive risks. For this reason Eesti Pank publishes an annual review of the financing of the economy, which looks at how Estonian companies and households financed themselves and what effect this has on demand for credit. It also analyses the ability of the banking sector to finance the non-financial sector, and the impact of this on lending conditions. The Lending Review was published in February 2013. Eesti Pank also participates in a quarterly Europe-wide survey of bank lending, which is used to produce a review of the estimates of banks of changes in demand and supply for loans.

The stabilisation of the economy in Europe and Estonia meant that Eesti Pank's monitoring started to focus more on the longer term in 2013, with attention paid to the balanced development and international competitiveness of the Estonian economy. A competitiveness report was introduced in order to provide an assessment of potential growth in the Estonian economy from the perspective of exports. The first competitiveness report was released in March.

In order to play a part in the work of the numerous committees and working groups of the European System of Central Banks and the Council of the European Union, all the departments of Eesti Pank that are directly or indirectly concerned with economic policy follow the institutional development of the European Union. The resulting reviews are discussed in separate meetings and seminars.

The Estonian Economy and Monetary Policy forecast, Financial Stability Review¹⁸, Estonian Competitiveness Report, Lending Review and Labour Market Review are published on the Eesti Pank website, and since 2012 the results of the analysis have also been presented in public lectures.

In addition to these regular publications, the results of Eesti Pank's monitoring work are made public through press releases and through public commentaries and presentations. Eesti Pank releases regular commentaries on key economic indicators¹⁹.

Economic forecasts

Eesti Pank published two economic forecasts in 2013, one in June and one in December. They looked ahead to the current year and the next two years and gave detailed background information on particular points of the Estonian economy and euro area monetary policy. The forecasts were part of the series on the Estonian Economy and Monetary Policy.

Eesti Pank prepared its forecasts as part of the joint broad macroeconomic projection exercise, BMPE, forecast produced with the European Central Bank and the other central banks of the Eurosystem. The central bank of each country produces a report on the outlook of its own economy for the BMPE, and a forecast for the euro area as a whole is compiled from the reports of all the individual member states. To ensure consistency, the forecasts use shared assumptions for expected developments in the world economy and foreign trade in terms of commodity prices, interest rates and exchange rates. Alongside the euro area economic forecast prepared together with the central banks of the Eurosystem, the European Central Bank produces two further conditional forecasts called the macroeconomic projection exercise, MPE, published in March and September.

Economic forecasting at Eesti Pank uses the Estonian macroeconomic econometric model called EMMA. EMMA contains the most important connections between all the Estonian economic figures and the main transfer channels for impacts from the external environment. EMMA is updated before each forecast to make sure that its connections are up to date and to improve the accuracy of the forecast.

¹⁸ For more about financial stability, see the chapter "Safeguarding financial stability".

¹⁹ Some of these were related to Eesti Pank's statistics on the financial and external sectors. For further information, see the chapters "Compiling statistics for the Estonian financial and external sectors" and "International partnerships and public communications".

The production of economic forecasts for the euro area and its member countries is coordinated at the ECB by the monetary policy committee. The ECB's monetary policy committee contains working groups responsible for forecasting, modelling and public finances, and experts from Eesti Pank are part of these working groups. The euro area forecast is an important input for monetary policy decision making and is used by the Governing Council of the ECB for assessing the state of the economy and risks to price stability.

Although Eesti Pank produces forecasts as part of the joint process of the Eurosystem, separate additional forecasts can be produced if necessary to take account of the specific features of the Estonian economy. This was not considered necessary in 2013. On top of their work in preparing the Eurosystem forecasts, experts from Eesti Pank also participate in the forecasting working groups of the European Commission and of the Organisation for Economic Cooperation and Development (OECD).

Economic research

Eesti Pank's economic research is done to a research schedule, which sets the overall framework for research done within the bank. The main areas of research in 2013 were development of the system of macroeconomic and banking models, monetary policy and financial sector research, and analysis of economic growth and the business cycle. Nine research papers were written on these topics.

The research²⁰ covered the European debt crisis, the fiscal performance of the European Union in 2000-2012, the economic adjustment in the Baltic states and the functioning of the euro area monetary policy transmission mechanism in Estonia. Research was also done into the reasons why companies operating in Europe, including Estonia, avoid cutting wages, and the reform of the employment contracts law and its effect on labour mobility in Estonia was analysed, among other topics. To improve the economic models used, updates were made to the EMMA macro model of the Estonian economy, the dynamic stochastic general equilibrium model of Estonia and the euro area, and the credit risk and profitability model for banks.

The results of the central bank's economic research are published in working papers by Eesti Pank and they have also been successfully presented internationally. In 2013 research was published in international academic journals including Applied Economics, Eastern European Economics, and the Journal of Applied Economics and Business, and was presented at international scientific conferences.

Researchers continued working with Estonian and foreign partners in 2013, and participated in the ESCB econometric modelling working group, the ESCB's Macroprudential Research Network and Competitiveness Network, and the Household Finance and Consumption Network run by the central banks of the euro area. They also participated in the 16th doctoral summer school organised jointly by the Doctoral School in Economics and Innovation of the University of Tartu and Tallinn University of Technology in August 2013 and helped organise the international conference on transition economies "Economic Challenges in Enlarged Europe 2013" under the leadership of Tallinn University of Technology in June. The central bank continued working closely with local scientific and research organisations through the Estonian Economic Association. The general meeting of the Association elected Ülo Kaasik, Deputy Governor of Eesti Pank,

²⁰ See also the appendix "Eesti Pank's publications in 2013".

as its Chair and the other members elected to the board were Martti Randveer, Head of the Economics and Research Department at Eesti Pank, and Tairi Rõõm, Head of the Research Division at Eesti Pank.

To augment the research by Eesti Pank staff, foreign experts were also invited to Estonia to talk about their work. A total of 12 seminars were given in 2013, 10 of them by guest speakers from Estonia or abroad and two by the bank's own researchers. Foreign speakers included Mārtiņš Bitāns from the Latvian central bank on the lessons from their comprehensive cost savings programme; Catherine Fuss from the Belgian central bank on the role of multinational organisations in adjustments in employment; and Alari Paulus, a researcher and doctoral student from the University of Essex, on research into factors behind tax evasion and its scale in Estonia, focusing on the individual income tax paid on wages.

The Eesti Pank guest researcher programme continued to play an important role in the research work and two visiting experts took part in the economic research in 2013. The central bank also awarded again its annual prize for young Estonian economic researchers and in 2013 the prize was awarded for the 11th time. The award for doctoral studies went to Anne Lauringson for her work on how unemployment benefits affected labour market outcomes in Estonia in the economic crisis. The master's studies category award went to Kaspar Ojasoo for his work on long-term value investments in falling stock markets.

Advisory functions

Under the Eesti Pank Act and by tradition, Eesti Pank acts as a principal advisor to the government on many important areas of economic policy. The bank's interest in non-financial questions is in the balanced development of the economy, which covers everything that has a direct or indirect impact on ensuring price stability, and in the stability of the Estonian financial sector²¹ and the construction of a more integrated European monetary and economic union.

Analysis by Eesti Pank in 2013 showed that despite the slowdown in economic growth, signs of imbalance started to appear in the labour market, particularly the excessive growth in labour costs. In consequence, Eesti Pank noted the complexity of assessing the cyclical position of the economy and advised the government to observe both the structural and nominal balance in planning its short-term fiscal policy. The bank also advised that the general government budget should be brought into surplus as soon as possible and reserves built up, as they could be used to balance the economy in the event of risks being realised.

One topic of discussion in 2013 was the development of the national budget framework and the creation of an independent Fiscal Council to ensure that budgetary rules are followed and to assess the economic forecasts used as the basis for fiscal policy. As assessments of the economic cycle are not always in agreement, Eesti Pank considered it appropriate to use both structural and nominal indicators in applying the rules about fiscal balance. Eesti Pank and the government were in agreement about the Fiscal Council that existing institutions and procedures should be used as far as possible in setting it up.

In 2013 the main European Union topic of debate was the banking union. Eesti Pank and the government were both of the opinion that in a banking crisis, the costs should first be covered by the bank's owners

²¹ See also the chapter "Safeguarding financial stability".

and creditors. The division of cross-border crisis resolution costs should ensure the rights and responsibilities of the states are balanced. Eesti Pank and the government are both in favour of solutions that cover the whole of the European Union and are supported by market-based mechanisms.

The principle of balancing the rights and responsibilities of member states must be followed, whatever kind of joint funds are created. Whether they are created as part of the banking union or a fiscal union, the joint funds should not be allowed to encourage member states to take less responsibility for fiscal policy.

Both Eesti Pank and the government are open to a debate about the further development of the institutional framework for the European economic and monetary union, though both consider it vitally important that decisions already taken and legislation already passed be enacted.

European Union issues are mainly debated in the inter-ministerial European Union coordination council, which Eesti Pank also attends. Specialists from Eesti Pank also work on EU questions with the Ministry of Finance, the EU Secretariat of the Government Office, and the Foreign Ministry. Economic policy questions are discussed more widely at regular meetings with the Ministry of Finance and the Ministry of Economic Affairs and Communications. The Prime Minister's office and the Office of the President of the Republic are also represented at such meetings. Work on the legal framework for financial stability and the financial sector is done in a joint commission by Eesti Pank, the Ministry of Finance and the Financial Supervision Authority²².

International partnerships and public communications

International cooperation

In 2013 Estonia embarked on its third year of using the euro, and the largest task in Eesti Pank's international communications work was communication with European Union institutions. The most important role of the Governor of Eesti Pank as a decision maker is as a member of the Governing Council of the European Central Bank and the steering committee of the European Systemic Risk Board, ESRB. Eesti Pank staff are heavily involved in the work of the various bodies of the European System of Central Banks (ESCB), the Council of the European Union and the European Commission.

Eesti Pank's most important partner in global financial and economic policy cooperation is the International Monetary Fund (IMF) and its members, and the bank also works with the Bank for International Settlements (BIS) and the Organisation for Economic Cooperation and Development (OECD). More information on Eesti Pank's main international partners can be found on the Eesti Pank website²³.

Besides European Union institutions and international organisations, the central banks of the Nordic and Baltic countries have played a special role among Eesti Pank's most important foreign partners for more than two decades. Estonia is part of the Nordic-Baltic constituency at the IMF, working together on matters of financial stability, payment systems and statistics. Eesti Pank works with the Bank of Finland on reserve management. In 2010 the Bank of Finland supported Eesti Pank in the changeover to the euro,

²² See also the chapter "Safeguarding financial stability".

²³ <http://www.eestipank.ee/en/eesti-pank/international-cooperation>.

and in 2013 Eesti Pank shared its own experience of membership in the Eurosystem and of setting up the required infrastructure with the Bank of Latvia in Latvia's changeover to the euro. The bilateral cooperation covered all the work of a central bank from cash handling and monetary policy operations to legal issues and public relations. Eesti Pank staff also discussed the Estonian experience of membership of the euro area in the Latvian media and at a high-level euro conference.

Work with the European Central Bank

The European Central Bank, the ECB, is Eesti Pank's most important partner in the European Union. Almost everybody at Eesti Pank works with the ECB and the central banks of the member states of the euro area, the Eurosystem, in their daily work. The Governor of Eesti Pank attends the twice-monthly meetings of the Governing Council of the ECB, where decisions are taken on the monetary policy of the euro area²⁴ and on the other duties of the Eurosystem²⁵.

In 2013 the Governing Council of the ECB paid a lot of attention in its discussions to the creation of single banking supervision at the ECB. Eesti Pank's work at the ECB in preparing opinions on the Estonian budget and changes to the Eesti Pank Act were also important for Estonia. In 2013 the ECB wrote a special convergence report on Latvia's fulfilment of the criteria for euro area membership, and the final wording was coordinated with all the central banks of the EU and approved by the General Council of the ECB, where the Governor of Eesti Pank also sits.

The work within the European System of Central Banks takes place in 18 committees and their sub-structures, which cover all the areas of work of a central bank. Staff from banking supervision institutions started working in some committees in 2013 to prepare for the creation of single banking supervision for the European Union. Staff from the central banks work in the committees and working groups to prepare the work of the decision-making bodies, the Governing Council and the General Council of the ECB.

Table 3. Eesti Pank's participation in the work of international organisations and institutions

European System of Central Banks	
Governing Council of the European Central Bank	Ardo Hansson
General Council of the European Central Bank	Ardo Hansson
Supervisory Board of the single supervisory mechanism	Madis Müller
Public Relations Committee	Katrin Kask, Ingrid Mitt
Budget Committee	Kairi Rätsepp, Helga Käärik
Eurosystem IT Steering Committee	Ülo Kaasik, Ahti Roosa
Financial Stability Committee	Jaak Tõrs
Information Technology Committee	Ahti Roosa, Jarmo Inkinen
Committee on Controlling	Helga Käärik, Kairi Rätsepp
Payment and Settlement Systems Committee	Mihkel Nõmmela, Kaire Torsus
Organisational Development Committee	Kairi Rätsepp, Helga Käärik

²⁴ ECB monetary policy decisions can be found at <http://www.ecb.europa.eu/press/govcdec/mopo/2014/html/index.en.html>.

²⁵ Other decisions by the Governing Council of the ECB can be found at <http://www.ecb.europa.eu/press/govcdec/otherdec/2014/html/index.en.html>.

Banknote Committee	Rait Roosve, Margot Luukas
Human Resources Conference	Kadi Kapral, Riina Padar-Leppiman
Accounting and Monetary Income Committee	Liivi Teder, Kairi Rätsepp
Monetary Policy Committee	Martti Randveer, Peeter Luikmel
International Relations Committee	Raoul Lättemäe, Evelin Tamla
Risk Management Committee	Kaari Kumari, Oliver Tamm
Internal Auditors Committee	Henn Oit, Viljar Anek
Statistics Committee	Jaanus Kroon, Ain Paas
Market Operations Committee	Janno Luurmees, Toivo Kuus
Legal Committee	Kadi Kapral, Marek Feldman
High-Level Group on Payment Systems	Madis Müller
High-Level Group on SWIFT and CLS issues	Kaire Torsus, Airi Uiboaid
SEPA High-Level Meeting, SEPA HLM	Madis Müller
TARGET2-Securities Board	Mihkel Nõmmela
Council of the European Union	
Economic and Financial Affairs Council (informal)	Ardo Hansson
Economic and Financial Committee	Madis Müller
European Commission	
Committee on Monetary, Financial and Balance of Payments Statistics	Jaanus Kroon
Balance of Payments Committee	Jaanus Kroon
Organisation for Economic Cooperation and Development	
Economic Policy Committee	Martti Randveer, Ilmar Lepik
Financial Markets Committee	Jana Kask
International Monetary Fund	
Board of Governors	Ardo Hansson
Nordic-Baltic Monetary and Financial Committee	Madis Müller
European Systemic Risk Board	
General Board	Ardo Hansson
Advisory Technical Committee	Jana Kask
European Banking Authority Board of Supervisors	Jaak Tõrs, Jana Kask
Bank for International Settlements	
Board of Governors	Ardo Hansson
Irving Fisher Committee on Central Bank Statistics	Jaanus Kroon

Work with other European Union institutions

Eesti Pank attends the European Union's Economic and Financial Affairs Council (ECOFIN) and its committees and working groups, the numerous committees and working groups of the European Commission, and the European Systemic Risk Board, ESRB, and its substructures^{26, 27}.

26 For more about the ESRB's work in 2013, see the chapter "Safeguarding financial stability".

27 More about the work of these institutions can be found at <http://www.eestipank.ee/en/eesti-pank/international-cooperation>.

In April and September 2013 the Governor of Eesti Pank attended the informal meetings of ECOFIN. The most important topic of discussion for Eesti Pank was the creation of a banking union to ensure financial stability in the European Union, which would include a single supervisory system and a bank resolution mechanism.

Experts from the Ministry of Finance work with Eesti Pank to prepare for the regular meetings of ECOFIN, which only Ministers of Finance attend. In 2013, the key issues were the development of a single legal framework for the financial sector, and the regular review of state finances. Eesti Pank staff were involved in the delegation and preparations for meetings of heads of state and government of the EU in the European Council on the topics of the future of the euro area and the banking union.

Work with the International Monetary Fund

Eesti Pank represents Estonia's interests at the IMF and bears the financial liabilities stemming from Estonia's membership. The attention of the IMF in 2013 was primarily focused on advising countries in crisis, and on supporting global financial and economic stability and economic growth. Eesti Pank joined in the comprehensive discussions on the effects of non-traditional monetary policy and on how to exit non-traditional monetary policy measures, and also in discussions on the restructuring of sovereign debt and macrofinancial supervision. Discussions continued on how the size of the quotas for the member states is calculated.

Full-scale economic policy consultations under Article IV of the IMF statutes were held in March 2013 as part of the monitoring work done jointly by the IMF and Estonia. The IMF found Estonian economic policy to be sound and they found that the financial sector had become even stronger. The balance sheets of the banks were stronger, liquidity was sufficient and capitalisation good, and this all helped to lessen the risks from the external environment. However the IMF emphasised the need to create a fiscal framework for the medium term and the importance of improving competitiveness. To ensure financial stability, it is important to enhance cooperation with the financial supervision authorities, the central banks and the governments of the home countries of the banks operating in Estonia. In 2013 Thomas Dorsey took over as the new Mission Chief.

Since 2012 Estonia has been one of the IMF member states that has a strong external position and is able to use funds from its quota to finance the operations of the IMF. Six million SDRs (6.9 million euros) of Estonia's quota funds have been used for financing lending programmes. Windfall profit of 1.75 billion SDRs earned by the IMF from selling gold was distributed among the members in 2013 for reasons of sustainability of lending. Estonia received 690,099 SDRs, which was contributed to a fund for subsidising the loan interest of low income countries.

One major event in Eesti Pank's international relations was an international conference organised jointly with the Swedish central bank and the IMF in December 2013. The high-level conference focused primarily on the challenges related to the integration of Baltic and Nordic financial markets and cross-border cooperation given developments in the financial sector and changes in regulation. More than 200 policy makers, people from the financial sector, researchers and journalists attended the conference.

Work with the Bank for International Settlements and the Organisation for Economic Cooperation and Development

The Governor of Eesti Pank attends the meetings of the Board of Governors of the Bank for International Settlements (BIS) and working meetings of the heads of central banks, where discussions are held on international issues of monetary policy, the state of the economies and financial markets in different continents, and financial sector management and supervision. Experts from Eesti Pank help develop best practices in statistics and attend the forum on Central and Eastern European monetary policy.

As part of their work with the Organisation for Economic Cooperation and Development (OECD), Eesti Pank experts sat on committees and working groups in 2013 that covered economic policy, policy for the financial sector and statistics.

Public relations

The public relations activities of Eesti Pank support the central bank in its primary role of maintaining price stability in the euro area and in achieving other strategic goals. Public relations and communication help indirectly in managing public and corporate expectations for the economy in Estonia and in the euro area as a whole, which can then affect people's decisions about buying or selling real estate, making investments, taking a bank loan and much more. The better the public and market participants understand the actions of the central bank, the more successfully the Eurosystem, including Eesti Pank, can do its work, as the decisions of central banks have a direct impact on events in the markets. Public support for the central bank's monetary policy is a great help in maintaining stable and sustainable economic development in Estonia and the euro area and in achieving financial stability.

Eesti Pank releases regular and comprehensive announcements about its activities and about various important economic policy issues. Releases of information are more extensive and more frequent than the legal duty to report²⁸ demands. During the past year, the bank issued its opinion on the Estonian economy four times with two reviews of the financial sector and two economic forecasts. A further 22 commentaries were issued on the latest economic figures and various other reviews and analyses²⁹. As a member of the Eurosystem, it is important for Eesti Pank to pass on information about decisions that could have a direct impact on the euro area and Estonia, and so the bank published 27 press releases from the European Central Bank on monetary policy, the single supervisory mechanism, and euro banknotes. Eesti Pank also published the foreword to the ECB's monthly bulletin on its website every month. Major reports on the euro area economy and the work of the European System of Central Banks were published on the Eesti Pank website four times during the year.

In addition to various publications and information published on the website it is possible to send direct inquiries to Eesti Pank. Information can be requested by mail, email or phone. In 2013 the bank received a total of 2720 inquiries, 1808 of which were by telephone and the remainder by email, the "Ask a question" website interface or mail.

28 See also the section on "Central bank accountability".

29 See also the appendix "Eesti Pank's publications in 2013".

At the start of the year, enquirers were most interested in the entry into circulation of the new five-euro note and throughout the year there were enquiries about plans to issue commemorative and collector coins. There were a lot of questions about the planned changes to the payment and settlement systems in February 2014 to make them SEPA compliant.

As ever there was a lot of interest in the statistics published by Eesti Pank and the time series of the main economic indicators. Many of the enquiries concerned currency exchange rates and at the end of the year there were a lot of new questions about changing Estonian kroons into euros. Eesti Pank made a public announcement that from 2014 it will only be possible to exchange kroons for euros in the central bank at the central rate of 15.6466 and with no commission fee.

Media relations and public appearances

Some 5100 written articles, news stories, radio and TV news items and links to Eesti Pank commentaries were published or released in the Estonian media in 2013 referencing the work of Eesti Pank and its economic policy positions, which is almost 1000 more than in the previous year. At the start of the year Eesti Pank drew particular attention from journalists regarding the results of the VEB fund audit, which continued to be discussed on and off throughout the year. The Estonian economy was a permanent topic of interest for the media from various angles, and in the second half of the year the media went deeply into the outlook for growth in the Estonian economy and the impact of developments in the labour market on both economic growth and wage growth. Throughout the year there was a lot of interest in the banking sector in Estonia, particularly in the deposits and savings of private clients. The media talked a lot about the changes in the payment environment related to SEPA, and also about the release into circulation of the second series five-euro banknotes. In the final months of the year there were discussions in the media about the role of cash and the need for it.

In 2013, the central bank held 11 press conferences and presentations, issued 128 press releases and statements, and published 22 longer interviews with managers and experts from the bank, while on 84 occasions topical economic issues were publicly explained in presentations or articles, some of them also in Russian and English. Spokespeople from the bank provided over 240 comments in writing or in spoken form for radio and television interviews.

Eesti Pank Museum

The main role of the Eesti Pank museum is to maintain and cherish the history of Eesti Pank and Estonian money as a part of the Estonian cultural heritage. The museum also provides a detailed introduction to the central bank's role and functions. Besides the general overview that it provides, the museum also has a varied programme that covers these topics in more depth. In 2013 the series of public lectures continued successfully, and 27 lectures were given during the year, mainly on developments in the economy and in the banking industry, wages and productivity, and the changes in the payment environment. The museum also hosted excursions, visits and economics lectures, and guided tours of the museum remained popular, with over 6000 people taking such tours during the year. An average of two pre-booked tours of the museum are held each day. Many of these groups are of schoolchildren in their final year of basic school, but there are also younger schoolchildren and kindergarten groups. During the year more than

19,000 people visited the refurbished Eesti Pank museum. A pleasant surprise was that visitors have started to come to the museum for the purpose of learning and practising Estonian.

In 2013 the Eesti Pank museum hosted two temporary exhibitions, one on the service badges and symbols of the Estonian War of Independence and one on Latvian money.

The Eesti Pank travelling exhibitions "Estonian Money from the Mark to the Euro" and "The Eurosystem" were put up nine times across Estonia during the year, six times in schools, twice in small settlements and once in a museum.

COMPILING STATISTICS FOR THE ESTONIAN FINANCIAL AND EXTERNAL SECTORS

Eesti Pank compiles and publishes monetary, financial, balance of payments and other macroeconomic statistics, which are an input for economic analysis, forecasting, macro and financial stability assessments and economic policy making.

In 2013 the bank succeeded in carrying out all its statistical duties to the European Central Bank, the International Monetary Fund, the Bank for International Settlements, Eurostat and other international organisations. Estonian domestic statistics were equally successfully compiled and disseminated, and the bank did all of its statistical tasks under the official statistical programme. The two figures at the end of the chapter, Figures 9 and 10, give more information on the volume and use of the statistics collected by Eesti Pank.

Wide-ranging changes to international statistical methodologies will come into force in 2014 and so the central bank put a lot of effort and resources into preparing for this in 2013. The changes will affect almost all areas of statistics. The changes for external sector statistics come from the new Balance of Payments Manual, 6th Edition and the updated SNA 2008 and ESA 2010 standards for the system of national accounts. Adjusting the external sector statistics to the new international methodology required changes in the inputs as the statistical reporting forms were modified and new data sources introduced, and in the procedures and structures for compiling statistical outputs that meet international standards. The biggest changes for financial sector statistics respond to the additional needs of users of statistics, which are reflected in the new and updated statistics regulations of the European Central Bank. In the first half of 2013 work started on changes to reporting, as almost all the reports required from credit institutions by decrees of the Governor of Eesti Pank will change. Some of the changes in reporting were a consequence of the transition to the SEPA (Single Euro Payments Area) on 1 February 2014, which lifted the requirement for credit institutions to declare cross-border payments and meant that a new way had to be found of collecting the data required for the balance of payments.

Alongside these preparations for methodological changes steps were taken towards the adoption of a new international data exchange format, SDMX, the Statistical Data and Metadata Exchange. This makes it easier to disseminate statistical outputs and related meta information to international organisations and reduces the burden of data transfer on central banks, as the recipients of data can exchange statistics on countries amongst themselves because there is no difference between the data models used.

The European Central Bank organised several large surveys which needed the help of the national central banks. The largest was the Survey of National Practices, a manual describing the practice of compiling balance sheet statistics of monetary financial institutions in different countries. The manual will be completed and published in 2014. The other surveys were smaller but some of them needed data inputs to be collected from reporting agents like credit institutions and insurance companies, and this made them time consuming. These surveys were carried out to get information on whether it was feasible to collect additional user-defined data, how significant these data are, and what the cost would be of collecting such data. The information from these surveys will be an input in the further development of new areas of statistics at the European Central Bank.

Eesti Pank took part for the first time in the euro area Household Finance and Consumption Survey, HFCS. The survey uses the same methodology across the member states of the euro area and is coordinated by the European Central Bank. Households in Estonia were interviewed in the second quarter of 2013 by Statistics Estonia to an order from Eesti Pank. Data were collected in parallel from various national registers and other sources like the Tax and Customs Board, credit institutions, lease companies, the Estonian Central Securities Depository, Krediidinfo, the land register and life insurance companies, and these data were used to complement the data from the interviews. Analysis is also considering whether in future similar research could be done using only administrative sources of data. If it is shown that this is possible, then it will mean significant savings for the bank in future. The results of the 2013 survey will be published in 2015.

To help it cope with its ever increasing list of duties, Eesti Pank continued developing IT solutions for collecting and processing data and improving its internal processes. This has mainly affected statistics for securities, as the portfolio investment statistics for the balance of payments and the Securities Holding Statistics, SHS, were brought into line with ECB requirements. More effort was put into data quality management in order to improve the quality of the Centralised Securities Database, CSDB, used by the European System of Central Banks for securities statistics.

Close cooperation with Statistics Estonia continued and the main focus in 2013 was on coordinating methodological models, setting a joint vision for classification of institutional units, and making information on institutional units accessible to reporting entities. The Financial Supervision Authority, the Centre of Registers and Information Systems, and the Estonian Central Securities Depository joined in the discussion aiming to find a unified way of classifying institutional units in administrative registers and in statistical and supervisory reporting.

Figure 9. Use of statistics published on the Eesti Pank website

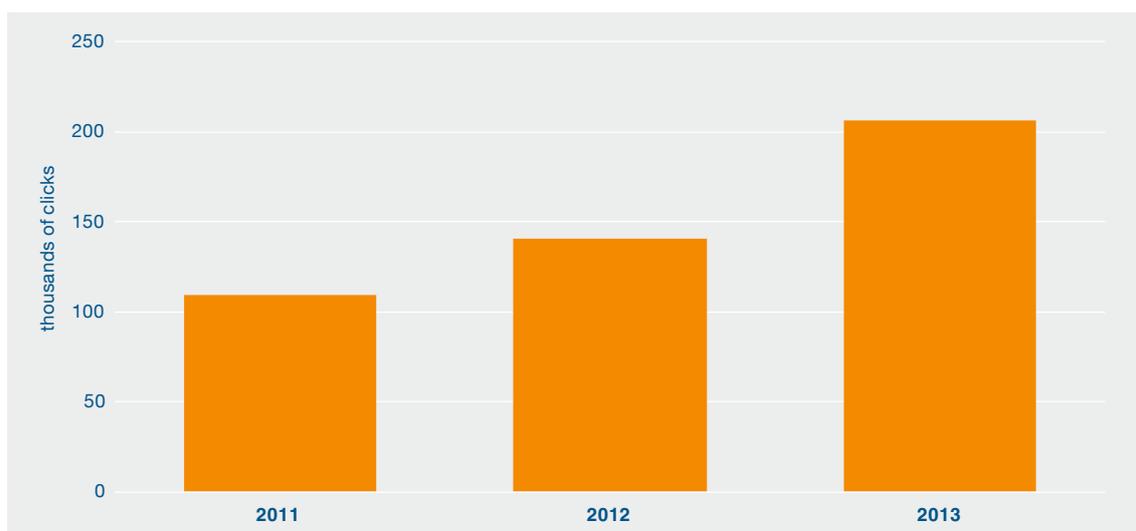
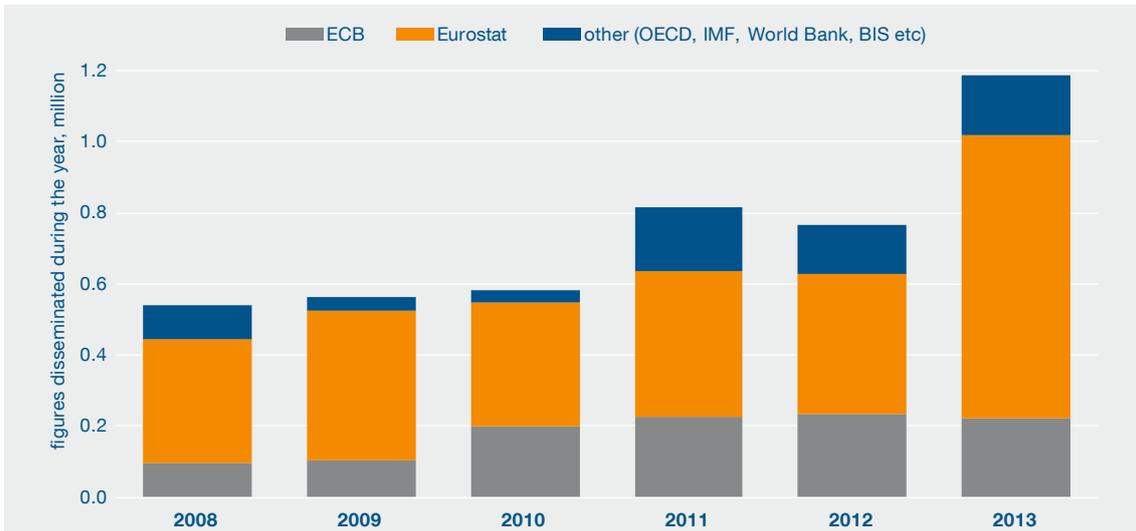


Figure 10. Statistics disseminated to international organisations



INVESTMENT OF FINANCIAL ASSETS

The Eesti Pank reserves underpin confidence in the monetary system of the euro area, guarantee the independence of the bank and ensure that it has sufficient capital to cover any possible losses.

The objective of investing the reserves is to earn stable moderate income while guaranteeing the preservation of reserves over the long term. As Eesti Pank has a long investment horizon, it is able to benefit from the diversification of its investments in a range of asset classes. This allows for better risk diversification without any concessions being made in the expected return on the investments. The investment portfolio is primarily invested in the liquid money and capital markets of advanced countries³⁰.

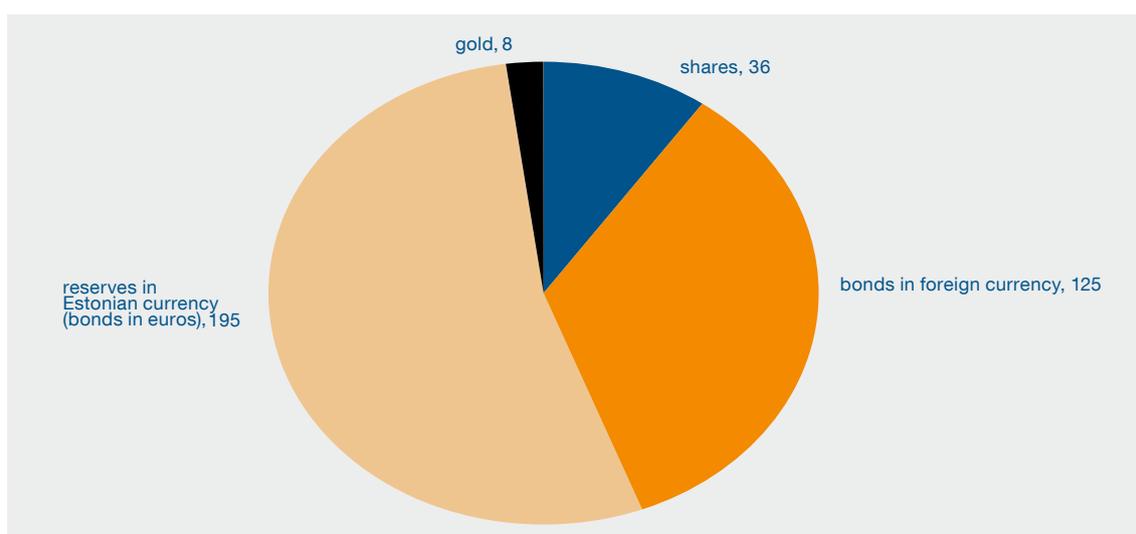
The risk level accepted by Eesti Pank and the expected return are reflected by the benchmark portfolio, which is used for measuring the performance and risks of investments. The Executive Board of Eesti Pank sets the risk level of the benchmark portfolio, basing it on the situation in global financial markets. The benchmark portfolio is reviewed and adjusted to match the appropriate risk level at least once every quarter.

The Structure of Investment Assets

In 2013 the majority of Eesti Pank's invested reserves were in sovereign bonds of euro area countries, with 195 million euros of investment there at the end of 2013. The foreign currency investments outside the euro area stood at 160 million euros. The majority of the foreign currency reserve was in US Treasury Notes, an equivalent of 102 million euros. The equity portfolio increased during 2013 to stand at 36 million euros at the end of the year. A small part of the reserves was also invested in Australian sovereign bonds (see Figure 11).

Eesti Pank continues to hold 8250 ounces or 256.6 kg of gold.

Figure 11. The structure of Eesti Pank's investment assets (million euros)



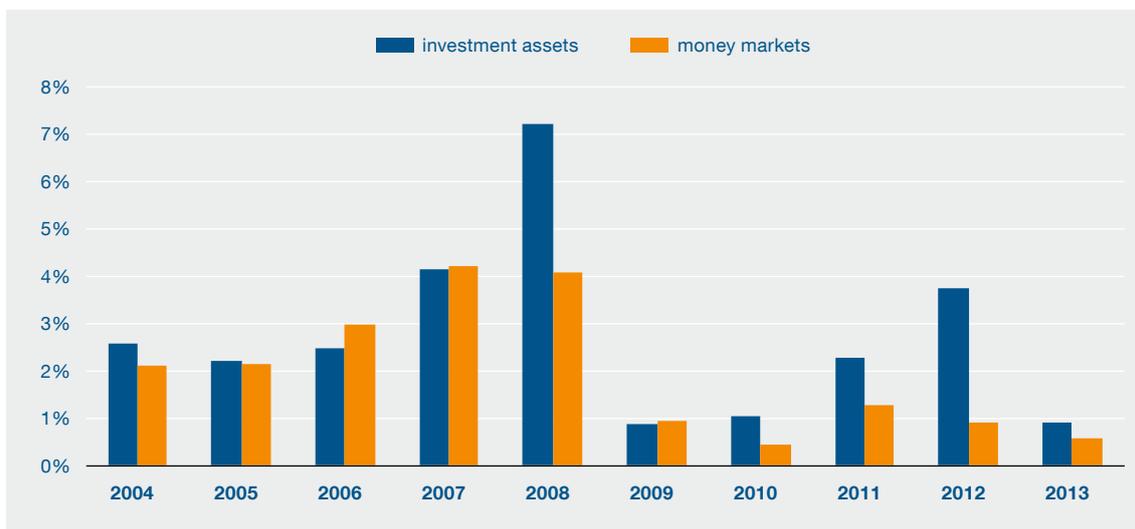
³⁰ More information about the investment process and risks can be found on the Eesti Pank website <http://www.eestipank.ee/en/money-policy/investment>.

Return on investments

As at the end of 2013, Eesti Pank's portfolio of investment assets stood at 357 million euros³¹. During the year a total of 3.2 million euros was earned from investments implying a return of 0.91%, which was higher than the return from money markets (see Figure 12). Positive returns in 2013 came from equities, while the returns on the bonds in the portfolio were slightly negative.

The main drivers of rising bond yields during the year, especially in the US, were a growing economy, improving labour markets and the consequent FOMC decision to start tapering the quantitative easing measures. As a result bond yields rose and increased demand for riskier asset classes, including equities.

Figure 12. Return on foreign exchange reserves and returns on money markets



As a result of active management, the actual portfolios outperformed the benchmark portfolio by 1.4 basis points. External investment managers also have a role in active management and at the end of the year Eesti Pank had four mandates with PIMCO, BlackRock, Informed Portfolio Management, and Nomura Asset Management. The external managers are allocated a portion of the overall risk limit and the overlay mandates allow the execution of strategies via derivative instruments.

Asset management services provided to the public sector

In 2013 Eesti Pank continued working with the public sector as it has for many years. Full asset management services were provided to the Guarantee Fund, whose investment portfolio amounted to 192 million euros at the end of 2013.

³¹ Not including gold and income from gold.

REPORTING, GOVERNANCE AND ORGANISATION, AND HUMAN RESOURCES POLICY

REPORTING, GOVERNANCE AND ORGANISATION, AND HUMAN RESOURCES POLICY

Central bank accountability

The independence of the central bank is an indispensable part of a monetary system that aims to maintain price stability. At the same time, a modern democratic society requires every public institution to report on its activities. As the independent central bank of the Republic of Estonia, Eesti Pank has to explain its opinions and positions on economic policy to the Estonian public and their elected representatives. Central bank accountability and independence are two counterbalancing principles.

Accountability to the Riigikogu

Eesti Pank has a duty to report to the Riigikogu. On top of the Governor's annual presentation to the Riigikogu, the central bank has meetings with members of the parliament and provides explanations and comments to questions posed by Riigikogu members. Managers and staff from Eesti Pank regularly meet with the Riigikogu Finance Committee to explain the bank's understanding of economic processes and to discuss key questions of economic development. Eesti Pank's leaders have made presentations on the central bank's positions on economic policy and its areas of work when factions in the Riigikogu have expressed an interest.

In 2013, members of the Riigikogu submitted two interpellations to the Supervisory Board of Eesti Pank. One on 14 April 2013 submitted by 15 Riigikogu members concerned the activities of the Supervisory Board, and the other, submitted by 4 Riigikogu members on 25 June 2013 concerned the VEB fund. The Chair of the Supervisory Board of Eesti Pank responded to these interpellations.

Regular public presentation of economic policy positions and economic data

Trustworthiness and transparency of the central bank are vital for a successfully functioning monetary system. Both specialists and members of the public need to be able to get regular, detailed and good-quality economic information from Eesti Pank.

It is stated in § 21(5) of the Eesti Pank Act that "Eesti Pank shall periodically publish information concerning its activities and the economy of Estonia and the European Union." Eesti Pank publishes its comments on the latest economic data and economic developments in press releases and comments and more thorough analysis is provided in regular publications³², all of which are accessible from the Eesti Pank website.

The central bank has the right and the duty under the Eesti Pank Act and the Official Statistics Act to collect monetary, financial and balance of payments statistics that fall within its areas of responsibility, and to process them within the applicable regulations. These statistics are then published on the Eesti Pank website in the statistics section³³.

32 See also Appendix 3 "Eesti Pank's publications in 2013".

33 See also the chapter "Compiling statistics for the Estonian financial and external sectors".

Like the central banks of the other euro area countries, Eesti Pank publishes a wide-ranging quarterly review of the euro area economy and the activities of the European System of Central Banks. This duty to publish comes from Protocol No 4 to the Treaty on European Union and the Treaty on the Functioning of the European Union, which concerns the constitution of the ESCB and the ECB in article 15.1.

A more detailed annual review of Eesti Pank's work is published in the annual report under § 31 (4) of the Eesti Pank Act together with the annual accounts. The annual report is approved by the Supervisory Board of Eesti Pank and then presented together with the auditor's opinion to the Riigikogu. The Governor of Eesti Pank presents the central bank's annual report at a hearing held by the Riigikogu.

Duty to report to the Supervisory Board of Eesti Pank

Under § 8 of the Statute of Eesti Pank, the Supervisory Board of Eesti Pank exercises supervision over all activities of the central bank. The Governor and Deputy Governors inform the Supervisory Board members on a regular basis about Eesti Pank's activities and budget and about the Estonian economy and monetary policy and the financial sector.

Governance and organisation

Supervisory Board of Eesti Pank

Membership and responsibilities of the Supervisory Board of Eesti Pank

The highest body of Eesti Pank is the Supervisory Board, which has a Chair 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.

The members of the Supervisory Board are appointed by the Chair at the proposal of the Riigikogu and they have a term of office of five years.

The Supervisory Board has responsibility for³⁴:

- Approving the Statute of Eesti Pank
- Supervising the Eesti Pank budget
- 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 the Deputy Governors of Eesti Pank and the Head of the Internal Audit
- Appointing the members of the Supervisory Board of the Financial Supervision Authority
- Distributing the profit of Eesti Pank as required by law and the profit distribution strategy approved by the Supervisory Board

³⁴ A more detailed description of the responsibilities of the Eesti Pank Supervisory Board on these issues can be found in the Eesti Pank Act §9 (<https://www.riigiteataja.ee/akt/123122011013?leiaKehtiv>) and the Statute of Eesti Pank §8 (<http://www.eestipank.ee/en/eesti-pank/statute-eesti-pank>).

The Eesti Pank Supervisory Board receives regular information from the Governor of Eesti Pank on the economy, monetary policy and financial sector of Estonia and on the Eesti Pank budget and spending. The Supervisory Board comments on the strategic development plan, mission, and core tasks of Eesti Pank.

The Supervisory Board meets whenever necessary, but at least eight times a year. The meetings of the Supervisory Board are closed, unless otherwise decided by the Chair. The Governor of the Bank, and Deputy Governors attend the Supervisory Board meetings and have the right to speak. The Minister of Finance may attend meetings within the provisions of Article 130 of the Treaty on the Functioning of the European Union.

Activities of the Supervisory Board of Eesti Pank in 2013

The sixth Supervisory Board of Eesti Pank was appointed to office by the Riigikogu on 18 February 2009 and its members were Kalev Kallo, Irene Kull, Jürgen Ligi, Enn Listra, Tõnis Palts, Liina Tõnisson and Urmas Varblane. When Jürgen Ligi was appointed as Minister of Finance on 4 June 2009 his membership of the Supervisory Board of Eesti Pank was suspended. The Riigikogu appointed Valdo Randpere as an alternate member of the Supervisory Board from 26 January 2010.

Chair of the Board from 13 June 2008 until his mandate ended on 12 June 2013 was Jaan Männik and from 13 June 2013 the Chair appointed by the Riigikogu was Mart Laar.

The authority of the sixth Supervisory Board of Eesti Pank ran until 25 February 2014.

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

The Supervisory Board met eight times in 2013, four times under Jaan Männik as Chair and four times under Mart Laar, and there was one additional working seminar.

Confirming the Eesti Pank annual report and supervising the budget

The Supervisory Board heard a review of Eesti Pank's financial results for 2012 and approved the annual report proposed by the Governor for 2012. The Board sent the approved report to the Riigikogu and the Governor of Eesti Pank presented it at a hearing held by the Riigikogu.

During the year the Board heard regular reviews of the Eesti Pank budget for 2013, and at the final meeting of the year the Governor presented a draft budget for 2014.

The Board also reviewed the profit distribution strategy of Eesti Pank and decided to continue with the same strategy of transferring up to 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 draft of the strategic document describing the strategic development plan, mission and core tasks.

Appointments to office

The Supervisory Board appointed Janno Kase as internal auditor of Eesti Pank from 8 March 2013.

At the proposal of the Governor of the bank, the Board appointed Aivo Adamson as member of the Supervisory Board of the Financial Supervision Authority from 1 July 2013 to replace Valdo Randpere when his term of office came to an end.

Internal audit

The Supervisory Board changed the work schedule of the internal audit department for 2013 and approved a new work schedule for 2014 and heard reports on the work of the internal audit department. The Board received a separate review of the audit of the VEB fund and there was a discussion of the results and implications of the VEB fund audit at the meeting of the Supervisory Board.

Jaan Männik attended the Riigikogu as Chair of the Board to respond to questions from members of the Riigikogu about the work of the Eesti Pank Supervisory Board, and Mart Laar as Chair of the Board answered questions from members of the Riigikogu about the audit of the VEB fund.

Collector coins

The Eesti Pank Supervisory Board heard, discussed and approved the general principles for the rules for the selection of subjects and nominal values for collector coins and commemorative coins and the approval of designs.

The Board approved the design and nominal value of seven euros for the silver collector coin dedicated to the music of Raimond Valgre and the design and nominal value of ten euros of the collector coin for the participation of Estonian athletes in the Olympic Winter Games in Sochi. The coin dedicated to the music of Raimond Valgre was designed by the painter Berbel Lätt, and the coin for the Sochi games was designed by Taavet Kohal, a student at the Estonian Academy of Arts.

Other activities

The Supervisory Board heard and discussed the risk management report.

At its meetings, the Board heard reports from the Governor of the bank on the economy and the financial sector in the euro area, two reviews and forecasts for the Estonian economy, two reviews of financial stability, and a review of the state of public finances and the draft state budget for 2014.

The Board repealed the conditions for granting consumer loans to employees of the bank, which terminated the provision of consumer loans to employees.

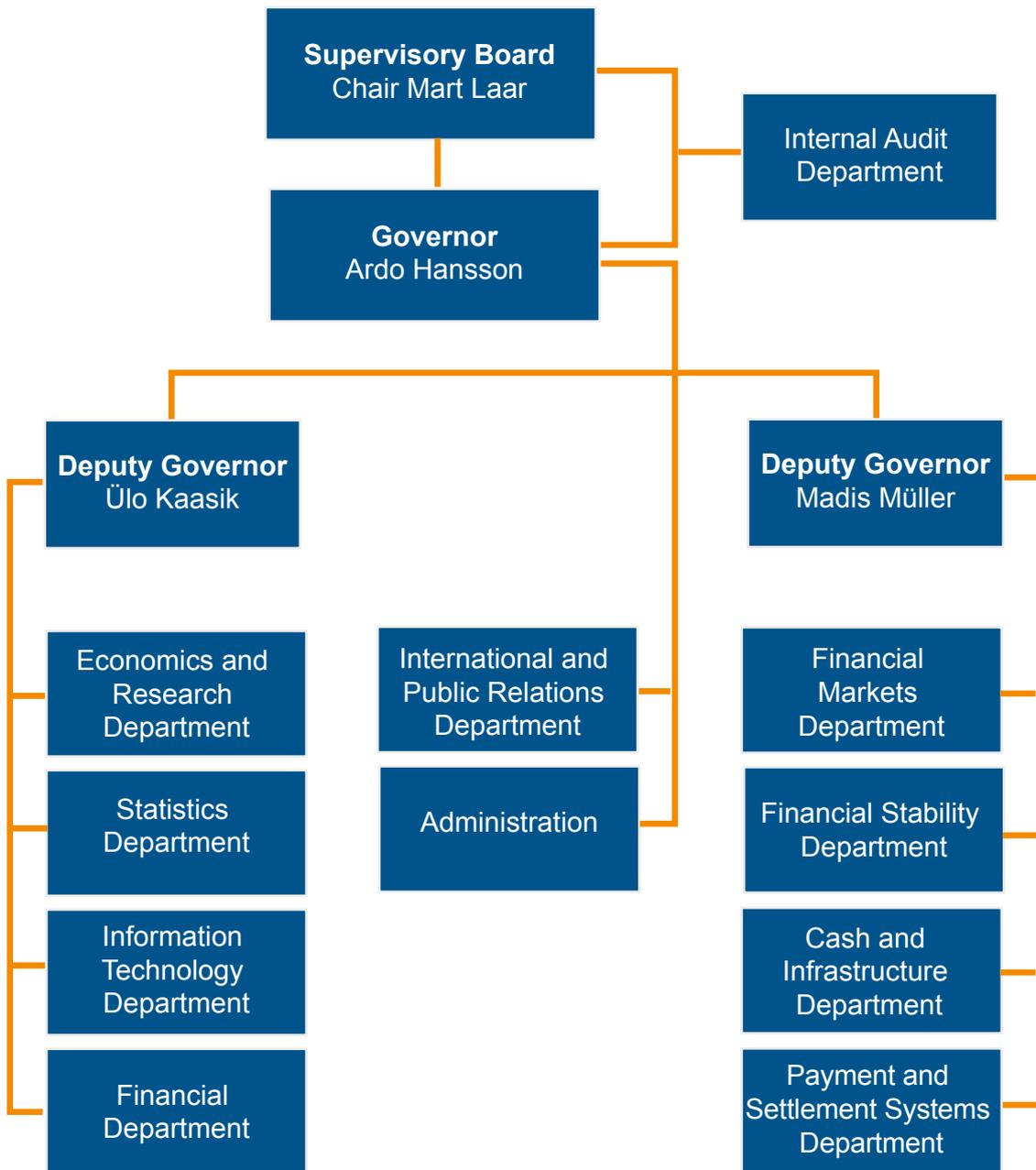
The Board heard a review of the real estate owned by Eesti Pank.

The Chair and members of the Board took an active part in public discussions of various economic subjects.

The Executive Board of Eesti Pank

The Eesti Pank Executive Board manages the work of Eesti Pank. The Executive Board consists of the Governor and Deputy Governors, and in 2013 the Governor was Ardo Hansson and the Deputy Governors were Ülo Kaasik and Madis Müller. The Governor of Eesti Pank is, by virtue of office, the Chair

Figure 13. Eesti Pank Organisation Chart as at 31.12.2013.



of the Executive Board, who has exclusive authority over banking policy, how the bank executes its tasks under the European System of Central Banks, and general management of Eesti Pank's activities, among other things.

Development of the management system and work organisation of Eesti Pank

The year 2013 was the first full year in office of Eesti Pank's new Executive Board and several important changes were made to the organisation of work at the bank and to the management system. In February 2013 the structural changes that had been started in 2012 were completed. The organisation of the bank as a whole has been made more efficient and the work of different departments better coordinated by bringing similar areas together under unified management and making support services as accessible and flexible as possible.

Fundamental changes were made in the working processes of management, making decision-making more open and transparent and speeding the distribution of information about decisions.

Risk management

Risk management at Eesti Pank covers all the processes of the bank and allows various risks to be tackled in a single framework. Risk management aims to reduce the negative effect that unforeseen events can have on the bank's work to achieve its goals. To that end, risk management has been integrated into strategic planning, budgeting and management reporting processes.

Reporting and analysis of risks show that the internal risk level is stable but several external risks remain real. Eesti Pank contributes to risk management for the whole of the euro area through the committees and management bodies of the European System of Central Banks.

Contingency plans for services have been prepared to reduce the impact of any possible interruption to the bank's processes and to ensure the continuity of activity. The organisation of the risk management systems of the bank is assessed regularly by both the internal and external auditors.

Human resources at Eesti Pank

Eesti Pank's human resources policy is to recruit and develop the employees needed for the bank to achieve its main goals, and to motivate the staff and remunerate them competitively.

Number of employees

At the end of 2013, there were 240 employees working at Eesti Pank, the same number as in 2012. On average, there were 233 full-time equivalent employees at Eesti Pank in 2013, down from 237 in 2012.

The average age of Eesti Pank employees in 2013 was 43.7 and they had worked for Eesti Pank for an average of 11.2 years.

Table 4. Number of employees at Eesti Pank on 31.12.2013.

	Total	Men	Women
Number of employees	254	103	151
of which suspended contracts	14	4	10
on maternity leave	8	0	8
other, including secondment to the ECB or other international organisation and studying	6	4	2
Number of effective employment contracts	240	99	141

In 2013 one employee of Eesti Pank was on short term secondment to the ECB and one was at the Austrian central bank, the Österreichische Nationalbank.

Remuneration

Members of the Eesti Pank Supervisory Board were compensated for their work. In 2013 the chairman of the Supervisory Board received 1661.70 euros a month in compensation and other members of the board received 1022.59 euros a month. The total sum paid in compensation to members of the Eesti Pank Supervisory Board in 2013 was 105,838 euros.

The salaries of the Governor of Eesti Pank and the Deputy Governors are set by the Supervisory Board. In 2013 Governor Ardo Hansson received a salary of 8100 euros a month, Deputy Governor Madis Müller's salary was 6500 euros a month and Deputy Governor Ülo Kaasik's salary was 5500 euros a month. In total the members of the Executive Board of Eesti Pank were paid salary of 255,573 euros in 2013.

The average monthly salary at Eesti Pank, including holiday pay and additional pay for working overtime, at night, during holidays and during national holidays, was 1990 euros in 2013, up from 1913 euros in 2012. This figure covers everyone from the top managers to the service staff, but 85% of the bank's employees are professional specialists. A mid-level specialist working at Eesti Pank is required to have a Master's degree, at least three years of professional experience and good spoken and written English. Where necessary they participate in some working groups of the European Central Bank or the European Union. The average salary for these staff was 1605 euros a month in 2013, up from 1528 euros a month in 2012.

Development and training

Staff development costs totalled 139,400 euros in 2013, which is equal to 1.8% of the payroll and 190 employees or 79% of the staff took part in training. On average each employee received 5.2 days of training in the year. Training was most popular in 2013 in management, central banking, and economic theory and policy.

In 2013, 79.1% of Eesti Pank employees had completed higher education.

The sports club and the culture club

At the end of 2013 the Eesti Pank sports club had 245 members from Eesti Pank and the Financial Supervision Authority. During the year, a winter sports event was held in Kääriku and a summer sports event in Toosikannu and players participated in sporting events held by the European central banks for skiing, basketball, cross-country running, badminton, tennis and chess. There was also a friendly basketball match against the Finnish central bank and teams entered a basketball tournament for bank workers and a national volleyball tournament.

Since January 2013 the Eesti Pank culture club has a chamber choir and a dance group. Employees of Eesti Pank and the Financial Supervision Authority are part of the culture club and at the end of 2013 there were 28 singers in the choir and 16 dancers in the dance group, and three people were in both. The choir was conducted by Peeter Perens in 2013 and the dance group was led by Märt Agu.

APPROVAL OF THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 BY THE EXECUTIVE BOARD OF EESTI PANK

The Executive Board recognises its responsibility for the Annual Accounts of Eesti Pank for the financial year ended 31 December 2013.

The Annual Accounts have been drawn up in accordance with the rules based on Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank¹. The parts of the Annual Accounts that are not regulated by ECB guidelines have been drawn up in accordance with the accounting principles generally accepted in Estonia. The Annual Accounts give a true and fair view of the assets and liabilities, equity and financial performance of Eesti Pank.

The preparation of the Annual Accounts in conformity with the above requirements requires the Executive Board to provide estimates of the determinants affecting the assets and liabilities of Eesti Pank as at the accounting date and income and expenses during the accounting period. These estimates are based on the information available about Eesti Pank, its intentions and risks as at the date of preparation of the Annual Accounts. The final outcome of the economic transactions reflected in the Annual Accounts may differ from the estimates of the Executive Board.

On 21 March 2014, all the members of the Executive Board of Eesti Pank on that day signed the Annual Accounts.

Ardo Hansson

Governor of Eesti Pank,
Chairman of the Executive Board



Ülo Kaasik

Deputy Governor of Eesti Pank
Member of the Executive Board



Madis Müller

Deputy Governor of Eesti Pank
Member of the Executive Board



¹ ECB Guideline of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2010/20); ECB Guideline of 21 December 2011 (ECB/2011/27) and ECB Guideline of 10 December 2012 (ECB/2012/29), amending Guideline ECB/2010/20 on the legal framework for accounting and financial reporting in the European System of Central Banks.

BALANCE SHEET AS AT 31 DECEMBER 2013 AND 2012

thousand euros

	Item	31/12/2013	31/12/2012
ASSETS			
Gold and gold receivables	1	7,188	10,405
Claims on non-euro area residents denominated in foreign currency		219,650	215,561
Receivables from the IMF	2	84,115	81,846
Balances with banks, security investments and other external assets	3	135,535	133,715
Claims on euro area residents denominated in foreign currency	4	40,184	21,144
Claims on non-euro area residents denominated in euros	5	2,251	2,714
Lending to euro area credit institutions related to monetary policy operations denominated in euros	6	5,000	13,900
Other claims on euro area credit institutions denominated in euros	7	10,841	9,845
Securities of euro area residents denominated in euros		496,626	564,723
Securities held for monetary policy purposes	8	306,003	373,251
Other securities	9	190,623	191,472
Intra-Eurosystem claims		3,451,361	3,398,491
Participating interest in the European Central Bank	10	82,921	82,895
Claims equivalent to the transfer of foreign reserves	11	103,153	103,116
Net claims related to the allocation of euro banknotes within the Eurosystem	12	1,412,993	1,446,009
Other claims within the Eurosystem (net)	13	1,852,294	1,766,471
Other assets		41,019	44,941
Tangible fixed assets	14	20,161	22,421
Other financial assets	15	217	217
Off-balance-sheet instruments revaluation differences	16	959	927
Accruals and prepaid expenses	17	11,612	12,639
Sundry	18	8,070	8,737
TOTAL ASSETS		4,274,120	4,281,724

The notes on pages 6–31 form an integral part of the Annual Accounts.

thousand euros

	Item	31/12/2013	31/12/2012
LIABILITIES			
Banknotes in circulation	19	2,251,816	2,149,154
Liabilities to euro area credit institutions related to monetary policy operations denominated in euros		1,417,059	1,527,860
Current accounts (including cover for the minimum reserve system)	20	492,059	517,860
Deposit facility	21	455,000	0
Fixed-term deposits	22	470,000	1,010,000
Liabilities to other euro area residents denominated in euros	23	11,863	9,737
Liabilities to non-euro area residents denominated in euros	24	15	15
Liabilities to non-euro area residents denominated in foreign currency	25	0	18,950
Counterpart of the special drawing rights allocated by the IMF	26	69,296	72,232
Other liabilities		88,605	86,153
Off-balance-sheet instruments revaluation differences	16	140	369
Accruals and income collected in advance	27	2,991	3,073
Sundry	28	85,474	82,711
Provisions	29	18,300	11,500
Revaluation accounts	30	9,766	13,679
Capital and reserves	31	383,917	358,337
Capital		172,817	147,237
Reserves		211,100	211,100
Profit for the year		23,483	34,107
TOTAL LIABILITIES		4,274,120	4,281,724

The notes on pages 6–31 form an integral part of the Annual Accounts.

2013 PROFIT AND LOSS ACCOUNT FOR 2013 AND 2012

thousand euros

	Item	2013	2012
Interest income		40,718	38,929
Interest expense		-11,758	-9,188
Net interest income	32	28,960	29,741
Realised gain arising from financial operations		2,335	4,937
Write-downs on financial assets		-2,727	-1,244
Provisions for foreign exchange rate, interest rate and credit risks		-6,800	-11,500
Net result of financial operations, write-downs and risk provisions	33	-7,192	-7,807
Fees and commissions income		900	899
Fees and commissions expenses		-141	-106
Net income from fees and commissions	34	759	793
Income from equity shares and participating interests	35	5,176	1,884
Net result of pooling of monetary income	36	12,362	24,402
Other income	37	951	1,336
Other expenses	38	-115	0
Other income and expenses		836	1,336
Total net income		40,901	50,349
Staff costs	39	-7,845	-7,859
Administrative expenses	40	-4,940	-5,160
Depreciation of tangible fixed assets	14	-2,281	-2,258
Banknote production services	41	-1,794	0
Other operating expenses	42	-558	-965
Operating expenses		-17,418	-16,242
Profit for the year		23,483	34,107

The notes on pages 6–31 form an integral part of the Annual Accounts.

NOTES ON THE ANNUAL ACCOUNTS OF EESTI PANK

ACCOUNTING POLICIES USED IN THE ANNUAL ACCOUNTS

General Principles

The Annual Accounts have been drawn up in accordance with the rules based on Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank². The parts of the Annual Accounts that are not regulated by ECB guidelines have been drawn up in accordance with the accounting principles generally accepted in Estonia.

The preparation of the Annual Accounts requires the Executive Board to provide estimates of the determinants affecting the assets and liabilities of Eesti Pank and income and expenses during the accounting period as at the balance sheet date. These estimates are based on the information available about Eesti Pank and its intentions and risks as at the date of preparation of the Annual Accounts.

No Cash Flow Statement is included as it does not provide significant relevant information to the readers of the Annual Accounts of Eesti Pank, given the bank's role as the central bank.

The Annual Accounts have been prepared in thousands of euros unless indicated otherwise.

The Balance Sheet items are grouped by residency (euro area, non-euro area) and currency (euro, other currency). The assets and liabilities related to the monetary policy are recorded on separate rows.

The Annual Accounts have been prepared on the historical cost basis, except in cases explained in the following accounting principles.

Assets and liabilities

Assets and liabilities are recognised in the Balance Sheet when it is probable that any associated future economic benefit will flow to or from Eesti Pank; almost all of the risks and rewards related to assets and liabilities have been transferred; and the cost or value of an asset or a liability and the resulting gains or losses can be measured reliably.

Financial assets and liabilities

A financial asset is any asset that is cash, or a contractual right to receive cash or any other financial assets from another entity, or a contractual right to exchange financial assets with another entity under conditions that are potentially favourable. A financial liability is any liability that is a legal obligation to deliver cash or any other financial assets to another entity or to exchange financial assets with another entity under conditions that are potentially unfavourable.

Financial assets are initially recorded at their acquisition cost, which is the fair value of the amount paid for

² ECB Guideline of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2010/20); ECB Guideline of 21 December 2011 (ECB/2011/27) and ECB Guideline of 10 December 2012 (ECB/2012/29), amending Guideline ECB/2010/20 on the legal framework for accounting and financial reporting in the European System of Central Banks.

the financial asset in question. Financial liabilities are initially recorded at their acquisition cost, which is the fair value of the amount received for the financial liability in question. Subsequent measurement of financial assets and liabilities is based on the market value, the acquisition cost or amortised cost depending on the type of the asset or liability. Market value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, disinterested and willing parties in an arm's length transaction. Financial assets recorded at market value are revalued on every balance sheet date.

Financial assets recorded at adjusted acquisition cost are written down if the recoverable amount of an asset is likely to be smaller than its carrying amount. The impairment of significant financial assets is measured for each object separately. The impairment of financial assets that are not individually significant and that are not expected to be impaired is measured for all assets together. Write-downs of financial assets are recorded as an expense of the accounting period in the Profit and Loss Account.

Recording of transactions in foreign currency

With the exception of spot transactions in securities, transactions in financial instruments denominated in foreign currency are recorded in off-balance-sheet accounts on the trade date. On the settlement date, off-balance-sheet entries are reversed and transactions are recorded on the Balance Sheet. The purchase and sale of foreign currency affect the net foreign currency position on the trade date; realised results arising from sales are also calculated on the trade date. The interest accrued on financial instruments denominated in foreign currency and the premiums or discounts are calculated and recorded on a daily basis. These receivables also affect the foreign currency position on a daily basis.

Assets and liabilities denominated in foreign currencies are converted to euros at the exchange rate prevailing on the balance sheet date. Income and expenses are converted at the exchange rate prevailing on the recording date. The revaluation of on-balance-sheet and off-balance-sheet instruments and of foreign exchange assets and liabilities is performed on a currency-by-currency basis.

The special drawing right (SDR) of the International Monetary Fund (IMF) is defined in terms of a basket of currencies. To revalue Eesti Pank's holdings of SDRs, the value of the SDR was calculated as the weighted sum of the exchange rates of four major currencies (the US dollar, the euro, the Japanese yen and the British pound sterling) converted into euro as at 31 December 2013.

The exchange rates applied on 31 December 2013 and 2012 were as follows:

	31/12/2013	31/12/2012
USD	1.3791	1.3194
GBP	0.8337	0.8161
JPY	144.72	113.61
SDR	0.8942	0.8579

Gold

Gold is valued at the market price prevailing at the year-end. No distinction is made between the price and currency revaluation differences for gold. Instead, a single gold valuation is accounted for on the basis of the price in euro per fine ounce of gold, which, for the year ending 31 December 2013, was derived from the exchange rate of the euro against the US dollar on 31 December 2013.

Securities

Marketable securities (other than those classified as held-to-maturity) and similar assets are valued either at the mid-market prices or on the basis of the yield curve prevailing on the balance sheet date, on a security-by-security basis. For the year ending 31 December 2013, mid-market prices on 31 December 2013 were used.

Securities held for monetary policy purposes, which are classified as held-to-maturity securities, are valued at amortised cost subject to a Eurosystem impairment framework.

Income recognition

Income and expenses are recorded in the Profit and Loss Account during the accounting period on an accrual basis regardless of when cash was received or paid. Realised gains and losses arising from the sale of foreign exchange, gold and securities are taken to the Profit and Loss Account. Such realised gains and losses are calculated by reference to the average cost of the asset.

Unrealised gains are not taken to the Profit and Loss Account, but are recognised on the Balance Sheet under "Revaluation accounts".

Unrealised losses are recorded in the Profit and Loss Account under "Write-downs on financial assets" if, at the year-end, they exceed previous revaluation gains registered in the corresponding revaluation account. Unrealised losses on any one currency or security or on gold are not netted against unrealised gains on other currencies or securities or gold. In the event of an unrealised loss on any currency or security or on gold at the year-end, the average cost of that item is reduced to the year-end exchange rate or market price.

Premiums or discounts arising on purchased securities are recorded as part of interest income and are amortised over the remaining life of the securities on a straight-line basis.

Reverse transactions

Repurchase transactions (sale/repurchase transactions) are recorded as collateralised loans taken at their fair value, i.e. securities are recorded as assets on the Balance Sheet and the repurchase sum as a liability. Interest payable is recorded on an accrual basis on the Balance Sheet under "Accruals and income collected in advance".

Reverse repurchase transactions (purchase/resale transactions) are recorded as collateralised loans granted. Interest receivable is recorded on an accrual basis on the Balance Sheet under “Accruals and prepaid expenses” and interest income in the Profit and Loss Account. Securities used as collateral for reverse repurchase transactions are not recorded on the Balance Sheet of Eesti Pank.

Investments in shares

Investment in shares is recorded at market value if it can be assessed reliably. The assessment of the market value of shares is not reliable if they are not actively traded and there are no alternative methods for assessing their value reliably. In this case shares are recorded at their acquisition cost. Profits and losses on the sale of shares are recorded in the Profit and Loss Account after all conditions of sale have been fulfilled. Dividend income is recorded as income for the period.

Fixed assets

Fixed assets are assets with a useful life over a year and an acquisition cost in excess of 3200 euros. Fixed assets are recorded at their acquisition cost, which is the purchase price and other expenditure directly related to bringing assets to the location and condition necessary for their intended use. Land, buildings, utility systems of buildings, IT hardware, software, and other assets with long-term useful lives are recorded as fixed assets on the Balance Sheet. Prepayments for fixed assets are also recorded as fixed assets.

Land and objects of art and culture are not depreciable assets. Other fixed assets are depreciated on a straight-line basis over the estimated useful lives of the assets at the following rates

	2013
Land and buildings	3%
Utility systems of buildings	10%
Hardware	20%
Software	15–50%
Other fixed assets	7–20%

The need to differentiate between software depreciation rates arose due to the introduction of application software with high acquisition cost and varying useful life.

Subsequent expenditure incurred for items of fixed asset are recognised as fixed assets when it is probable that Eesti Pank will derive future expected benefits from the asset and the cost of the asset can be measured reliably. Other maintenance and repair costs are recognised as expenses at the time they are incurred.

Provisions for foreign exchange rate, interest risk, credit risk and gold price risk

Given the nature of the operations of a central bank, Eesti Pank may set up provisions on the balance sheet for foreign exchange rate risk, interest rate risk, gold price risk and credit risks. The management of the bank decides on the size and use of the provisions, using a reasonable estimate of the bank’s exposure.

Claims and liabilities to the Financial Supervision Authority

The Balance Sheet of Eesti Pank contains a claim on the Financial Supervision Authority in relation to services provided by Eesti Pank and acquisition of current assets, and a liability to the Financial Supervision Authority in relation to its current account held with Eesti Pank.

Off-balance-sheet instruments

Currency instruments, namely foreign exchange forward instruments, forward legs of foreign exchange swaps and other currency instruments involving an exchange of one currency for another at a future date, are included in the net foreign currency position for the purpose of calculating foreign exchange gains and losses.

Interest rate instruments are revalued on an item-by-item basis. Daily changes in the variation margin of open interest rate futures contracts are recorded in the Profit and Loss Account. The valuation of forward transactions in securities and of interest rate swaps is based on generally accepted valuation methods, using observable market prices and rates and the discount factors from the settlement dates to the valuation date.

Contingent liabilities

Contingent liabilities are recorded in the Notes on the Annual Accounts and include commitments, guarantees and other liabilities which may, under certain conditions, become liabilities in the future, though the probability of their realisation is considered lower by the management of the Bank than the probability of their non-realisation.

Post-Balance-Sheet Events

Assets and liabilities are adjusted for events that occur between the balance sheet date and the date of compilation of the Annual Accounts but are related to transactions during the accounting period or earlier periods or materially affect the condition of assets and liabilities on the balance sheet date. Important post-balance-sheet events that do not affect the condition of assets and liabilities on the balance sheet date are disclosed in the Notes.

Banknotes in circulation

The European Central Bank and the euro area national central banks, which together comprise the Eurosystem, issue euro banknotes³. The total value of euro banknotes in circulation is allocated to the Eurosystem central banks on the last working day of each month in accordance with the banknote allocation key⁴.

³ Decision of the ECB of 13 December 2010 on the issue of euro banknotes (recast) (ECB/2010/29), OJ L 35, 9.2.2011, p. 26.

⁴ Banknote allocation key – the percentages that result from taking the ECB's share in the total euro banknote issue and applying the subscribed capital key to the NCBs' share of that total.

The European Central Bank has been allocated a share of 8% of the total value of euro banknotes in circulation, and the remaining 92% has been allocated to the Eurosystem central banks according to their weightings in the capital key of the ECB. The share of banknotes allocated to each Eurosystem central bank is disclosed under the balance sheet liability item “Banknotes in circulation”.

The difference between the value of euro banknotes allocated to each Eurosystem central bank in accordance with the banknote allocation key and the value of euro banknotes that it actually puts into circulation also gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which bear interest⁵, are disclosed under the sub-item “Intra-Eurosystem balances: net claims/liabilities related to the allocation of euro banknotes within the Eurosystem” (see “Intra-Eurosystem balances” in the notes on accounting policies).

From the cash changeover year⁶ until five years following the cash changeover year the intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted in order to avoid significant changes from previous years in the relative income positions of the central banks in the Eurosystem. The adjustments are effected by taking into account the differences between the average value of banknotes in circulation of each Eurosystem central bank in the reference period⁷ and the average value of the banknotes that would have been allocated to them during that period under the ECB’s capital key. The adjustments are reduced in annual stages until the first day of sixth year after the cash changeover year when income on banknotes is allocated fully in proportion to the Eurosystem central bank’s paid-up shares in the ECB’s capital. The interest income and expense on these balances is cleared through the accounts of the ECB and is disclosed under “Net interest income”.

Interim profit distribution of the ECB

The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, and the ECB’s income arising from securities purchased under the Securities Markets Programme (SMP) shall be due in full to the Eurosystem central banks in the same financial year it accrues. The European Central Bank distributes this income in January of the following year in the form of an interim distribution of profit⁸. The ECB’s income on euro banknotes in circulation may be reduced in accordance with any decision by the Governing Council to charge costs incurred by the ECB in connection with the issue and handling of euro banknotes. Before the end of the year the Governing Council decides whether all or part of the ECB’s income arising from SMP securities and, if necessary, all or part of the ECB’s income on euro banknotes in circulation should be retained to the extent necessary to ensure that the amount of the distributed income does not exceed the ECB’s net profit for that year.

The Governing Council may also decide to transfer all or part of the ECB’s income arising from securities

5 Decision of the ECB of 25 November 2010 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (recast)(ECB/2010/23), OJ L 35, 9.2.2011, p. 17.

6 Cash changeover year refers to the year in which the euro banknotes are introduced as legal tender of a Member State.

7 The reference period is the 24 months that start 30 months before the day on which euro banknotes become legal tender in the Member State. For Eesti Pank this was from July 2008 to June 2010.

8 Decision ECB/2010/24 of 25 November of 2010 on the interim distribution of the income of the European Central Bank on euro banknotes in circulation and arising from securities purchased under the Securities Market Programme (recast), OJ L 6, 11.1.2011, p 35.

purchased under the Securities Market Programme and if necessary all or part of the ECB's income on euro banknotes in circulation to a provision for foreign exchange rate, interest rate, credit and gold price risks. The amount distributed to the Eurosystem central banks is disclosed in the Profit and Loss Account under "Income from equity shares and participating interests".

Intra-Eurosystem balances

Intra-Eurosystem claims arising from Eesti Pank's participating interest in the ECB are reported under "Participating interest in the European Central Bank".

Intra-Eurosystem balances arising from the transfer of foreign reserve assets to the ECB by NCBs joining the Eurosystem are denominated in euros and reported under "Claims equivalent to the transfer of foreign reserves".

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as a net single asset or liability under "Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem" (see "Banknotes in circulation" in the notes on accounting policies).

Intra-Eurosystem balances result primarily from cross-border payments in the European Union that are settled in central bank money in euros. The intra-ESCB transactions are settled primarily in TARGET2 – the Trans-European Automated Real-time Gross Settlement Express Transfer system and give rise to bilateral balances in the TARGET2 accounts of EU central banks. These bilateral balances are assigned to the ECB on a daily basis, leaving each NCB with only a single net bilateral position towards the ECB. Intra-Eurosystem balances of euro area NCBs towards the ECB arising from TARGET2, and other intra-Eurosystem balances denominated in euros such as interim profit distributions to NCBs are presented in the Balance Sheet as a single net asset or liability position and disclosed under "Other claims within the Eurosystem (net)" or "Other liabilities within the Eurosystem (net)".

NOTES ON THE BALANCE SHEET

ITEM 1 - GOLD AND GOLD RECEIVABLES

Changes in the value of Eesti Pank's gold reserves are as follows:

	31/12/2013	31/12/2012
Gold (ounces)	8,250.171	8,250.171
Ounce market value (euros)	871.22	1,261.18
Revaluation (thousand euros)	0	366
Market value (thousand euros)	7,188	10,405

ITEM 2 - RECEIVABLES FROM THE IMF

Receivables from the IMF are the SDR account in the IMF and the reserve position in the IMF.

thousand euros

	31/12/2013	31/12/2012
SDR account in the IMF	69,374	72,308
Reserve position in the IMF	14,741	9,538
Participation in the IMF	104,929	109,471
IMF securities account and IMF No.1 account (liabilities)	-90,188	-99,933
Total	84,115	81,846

The SDR account in the IMF

An SDR account is generated for each IMF member state for conducting loan transactions and various other operations.

Reserve position in the IMF

Eesti Pank represents the Republic of Estonia in the IMF. A quota has been established for each IMF member determining its participation (subscription) and voting power in the IMF. Participation in the IMF is recorded under assets on the Balance Sheet and is equal to the country's quota. At the end of 2013 the quota of the Republic of Estonia was 93,900,000 SDRs.

The reserve position in the IMF comprises the net amount of the quota and the IMF No.1 account. The increase in the reserve position in 2013 was due to Estonia's participation in the IMF's Financial Transactions Plan (FTP) of 5,000,000 SDRs. Estonia has participated in the IMF's FTP since 2012.

ITEM 3 - BALANCES WITH BANKS, SECURITY INVESTMENTS AND OTHER EXTERNAL ASSETS

Item 3 reflects bank balances in foreign currency with credit institutions outside the euro area and security investments denominated in US and Australian dollars of non-euro area residents. In 2013, Eesti Pank's foreign reserves were invested mainly in the low-risk government bonds of the United States.

thousand euros

	31/12/2013	31/12/2012
Securities	119,891	100,718
Fixed-term deposits	9,354	6,139
Reverse repurchase transactions	4,713	21,844
Current accounts	1,577	5,014
Total	135,535	133,715

thousand euros

	31/12/2013	31/12/2012
USD	111,502	133,030
AUD	23,247	108
GBP	420	196
CAD	142	269
JPY	141	38
SEK	53	44
NZD	18	18
CHF	8	7
NOK	2	3
DKK	2	2
Total	135,535	133,715

ITEM 4 - CLAIMS ON EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

Item 4 reflects bank balances in foreign currency with credit institutions in the euro area and investments in equities denominated in US dollars of euro area residents.

thousand euros

	31/12/2013	31/12/2012
Equities	35,578	15,347
Current accounts	4,606	5,797
Total	40,184	21,144

thousand euros

	31/12/2013	31/12/2012
USD	37,441	18,843
GBP	1,100	1,591
CAD	750	7
AUD	502	283
SEK	247	194
JPY	92	217
NOK	32	0
NZD	12	1
CHF	8	8
Total	40,184	21,144

ITEM 5 - CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN EUROS

Item 5 reflects bank balances in euros with credit institutions outside the euro area and security investments denominated in euros of non-euro area residents.

ITEM 6 - LENDING TO EURO AREA CREDIT INSTITUTIONS RELATED TO MONETARY POLICY OPERATIONS DENOMINATED IN EUROS

The total Eurosystem holding of monetary policy assets amounts to 752,288 million euros, of which Eesti Pank holds 5 million euros of long-term refinancing transactions. Under Article 32.4 of the Statute of the ESCB, any risks from monetary policy operations, if they were to materialise, are shared in full by the Eurosystem central banks in proportion to the prevailing ECB capital key shares. Eesti Pank's share as at 30 June 2013 was 0.25582% and from 1 July 2013 it was 0.2559%.

Losses can only materialise if both the counterparty fails and the recovery of funds received from the resolution of the collateral provided by the counterparty is not sufficient. It should be noted that risk sharing has been excluded by the Governing Council of the ECB for specific collateral which can be accepted by NCBs at their own discretion.

ITEM 7 - OTHER CLAIMS ON EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EUROS

Item 7 reflects the balances with banks of euro area credit institutions denominated in euros.

ITEM 8 - SECURITIES HELD FOR MONETARY POLICY PURPOSES

Item 8 reflects securities acquired by Eesti Pank within the scope of the purchase programmes for covered bonds,⁹ and public debt securities acquired in the scope of the Securities Market Programme (SMP).¹⁰

9 Decision ECB/2009/16 of 2 July 2009 on the implementation of the covered bond purchase programme (OJ L 175, 4.7.2009, p 18) and Decision ECB/2011/17 of 3 November 2011 on the implementation of the second covered bond purchase programme (OJ L 297, 16.11.2011, p 70).

10 Decision ECB/2010/5 of 14 May 2010 establishing a securities markets programme (OJ L 124, 20.05.2010, p 8).

thousand euros

	31/12/2013	31/12/2012
SMP	274,086	340,996
CBPP2	31,917	32,255
Total	306,003	373,251

Under the second covered bonds purchase programme (CBPP2) launched in October 2011, the ECB and the NCBs of the euro area purchased covered bonds issued in the euro area in euros in order to ease the financing conditions for credit institutions and companies to encourage credit institutions to maintain and expand lending to customers. The CBPP2 ended on 31 October 2012.

Under the SMP initiated in May 2010, the ECB and NCBs were able to buy euro area public and private debt securities in order to mitigate the malfunctioning of certain segments of the euro area debt securities markets and to restore the proper functioning of the monetary policy transmission mechanism. The reduction in this item in 2013 was due to redemptions. On 6 September 2012 the Governing Council of the ECB decided to terminate the SMP.¹¹

The ECB Governing Council assesses the financial risks associated with the securities held under the SMP and the two covered bond purchase programmes on a regular basis.

The total Eurosystem central banks holding of SMP securities amounts to 178,836 million euros, of which Eesti Pank holds 274 million euros. Under Article 32.4 of the Statute of the ESCB, any risks from holdings of SMP securities, if they were to materialise, are shared in full by the Eurosystem central banks in proportion to the prevailing ECB capital key shares.

Securities purchased under the Securities Market Programme and the covered bond purchase programmes are classified as held-to-maturity securities and are valued on an amortised cost basis subject to impairment (see "Securities" in the notes on the accounting policies). Annual impairment tests are conducted on the basis of information available and estimated recoverable amounts as at the year-end.

In the SMP impairment test at the end of 2013, the Governing Council of the ECB identified three impairment indicators which occurred in the course of 2013. The first was breach of contract in the repayment of interest or principal, the second was the partial restructuring of the Irish government bonds in February, and the third was a breach of the terms of the financial assistance given by the EU or the IMF to countries that had issued bonds. The ECB Governing Council considered these indicators and found from the information available at the end of 2013 that there was no evidence of changes in the estimated future cash flows. For this reason no impairment losses were recorded at the end of the year. Furthermore, no impairment losses were recorded for the other securities purchased under the SMP and the two covered bond purchase programmes.

ITEM 9 - OTHER SECURITIES

Item 9 reflects investments in securities denominated in euros by euro area residents.

¹¹ See the ECB press release of 6 September 2012 for the technical details of the monetary policy transactions.

ITEM 10 – PARTICIPATING INTEREST IN THE ECB

Item 10 reflects the participating interest of Eesti Pank in the European Central Bank (ECB). Article 28 of the Statute of the European System of Central Banks (ESCB) states that the national central banks of the ESCB are the sole subscribers of the capital of the ECB. Subscriptions depend on the capital key weighting, which is set out in Article 29.3 of the ESCB Statute, and which is adjusted every five years. When Croatia joined the European Union on 1 July 2013 and the Croatian central bank joined the ESCB, the capital key was adjusted as shown in the following table.

	Capital key subscriptions from 1 January 2009	Capital key subscriptions from 1 July 2013
	%	%
Nationale Bank van België / Banque Nationale de Belgique	2.4256	2.4176
Deutsche Bundesbank	18.9373	18.7603
Eesti Pank	0.1790	0.1780
Central Bank of Ireland	1.1107	1.1111
Bank of Greece	1.9649	1.9483
Banco de España	8.3040	8.2533
Banque de France	14.2212	14.1342
Banca d'Italia	12.4966	12.4570
Central Bank of Cyprus	0.1369	0.1333
Banque centrale du Luxembourg	0.1747	0.1739
Central Bank of Malta	0.0632	0.0635
De Nederlandsche Bank	3.9882	3.9663
Oesterreichische Nationalbank	1.9417	1.9370
Banco de Portugal	1.7504	1.7636
Banka Slovenije	0.3288	0.3270
Národná banka Slovenska	0.6934	0.6881
Suomen Pankki – Finlands Bank	1.2539	1.2456
Българска народна банка (Bulgarian National Bank)	0.8686	0.8644
Česká národní banka	1.4472	1.4539
Danmarks Nationalbank	1.4835	1.4754
Hrvatska narodna banka		0.5945
Latvijas Banka	0.2837	0.2742
Lietuvos bankas	0.4256	0.4093
Magyar Nemzeti Bank	1.3856	1.3740
Narodowy Bank Polski	4.8954	4.8581
Banca Națională a României	2.4645	2.4449
Sveriges Riksbank	2.2582	2.2612
Bank of England	14.5172	14.4320
Total	100.0000	100.0000

The subscribed and paid up capital contributions of the national central banks are as follows:

	Subscribed capital from 29 December 2010	Paid-in capital until 30 June 2013	Subscribed capital from 1 July 2013	Paid-in capital from 1 July 2013
	€	€	€	€
Nationale Bank van België / Banque Nationale de Belgique	261,010,385	261,010,385	261,705,371	261,705,371
Deutsche Bundesbank	2,037,777,027	2,037,777,027	2,030,803,801	2,030,803,801
Eesti Pank	19,261,568	19,261,568	19,268,513	19,268,513
Central Bank of Ireland	119,518,566	119,518,566	120,276,654	120,276,654
Bank of Greece	211,436,059	211,436,059	210,903,613	210,903,613
Banco de España	893,564,576	893,564,576	893,420,308	893,420,308
Banque de France	1,530,293,899	1,530,293,899	1,530,028,149	1,530,028,149
Banca d'Italia	1,344,715,688	1,344,715,688	1,348,471,131	1,348,471,131
Central Bank of Cyprus	14,731,333	14,731,333	14,429,734	14,429,734
Banque centrale du Luxembourg	18,798,860	18,798,860	18,824,687	18,824,687
Central Bank of Malta	6,800,732	6,800,732	6,873,879	6,873,879
De Nederlandsche Bank	429,156,339	429,156,339	429,352,255	429,352,255
Oesterreichische Nationalbank	208,939,588	208,939,588	209,680,387	209,680,387
Banco de Portugal	188,354,460	188,354,460	190,909,825	190,909,825
Banka Slovenije	35,381,025	35,381,025	35,397,773	35,397,773
Národná banka Slovenska	74,614,364	74,614,364	74,486,874	74,486,874
Suomen Pankki – Finlands Bank	134,927,820	134,927,820	134,836,288	134,836,288
Subtotal – euro area national central banks	7,529,282,289	7,529,282,289	7,529,669,242	7,529,669,242
Българска народна банка (Bulgarian National Bank)	93,467,027	3,505,014	93,571,361	3,508,926
Česká národní banka	155,728,162	5,839,806	157,384,778	5,901,929
Danmarks Nationalbank	159,634,278	5,986,285	159,712,154	5,989,206
Hrvatska narodna banka			64,354,667	2,413,300
Latvijas Banka	30,527,971	1,144,799	29,682,169	1,113,081
Lietuvos bankas	45,797,337	1,717,400	44,306,754	1,661,503
Magyar Nemzeti Bank	149,099,600	5,591,235	148,735,597	5,577,585
Narodowy Bank Polski	526,776,978	19,754,137	525,889,668	19,720,863
Banca Națională a României	265,196,278	9,944,860	264,660,598	9,924,772
Sveriges Riksbank	242,997,053	9,112,389	244,775,060	9,179,065
Bank of England	1,562,145,431	58,580,454	1,562,265,020	58,584,938
Subtotal – non-euro area national central banks	3,231,370,113	121,176,379	3,295,337,827	123,575,169
Total1	10,760,652,403	7,650,458,669	10,825,007,070	7,653,244,411

When Estonia joined the euro area, Article 48.2 of the ESCB's Statute started to apply to Eesti Pank, requiring the central bank to pay a part of the reserves, revaluation accounts and risk provisions of the ECB in proportion to its share in the subscribed capital of the ECB. This item also recognises the total amount paid for the reserves, revaluation accounts and the risk provisions of the ECB of 63,652,996 euros.

ITEM 11 - CLAIMS EQUIVALENT TO THE TRANSFER OF FOREIGN RESERVES

Item 11 reflects claims of Eesti Pank arising from the transfer of foreign reserve assets to the ECB when Eesti Pank joined the Eurosystem. These foreign reserves were 85% in Japanese yen and 15% in gold. The claims are denominated in euros at a value fixed at the time of their transfer. The remuneration is paid on the foreign reserves at the latest available marginal rate for the Eurosystem's main refinancing operations, adjusted to reflect a zero return on the gold component. Following the adjustment of the capital key, Eesti Pank paid an additional 37,178 euros of foreign reserves to the ECB on 1 July 2013.

ITEM 12 - NET CLAIMS RELATED TO THE ALLOCATION OF EURO BANKNOTES WITHIN THE EUROSYSYEM

Item 12 reflects Eesti Pank's claims towards the Eurosystem relating to the allocation of euro banknotes within the Eurosystem (see "Banknotes in circulation" and "Intra-Eurosystem balances" in the notes on the accounting policies)¹². The remuneration is paid on these claims at the latest available rate for the Eurosystem's main refinancing operations.

ITEM 13 - OTHER CLAIMS WITHIN THE EUROSYSYEM (NET)

Item 13 reflects net claims arising from the TARGET2 balance, the amount due to the difference arising from the monetary income pooled from and reallocated to the Eurosystem central banks, and the amount due to the distribution of the ECB's income on euro banknotes.

thousand euros

	31/12/2013	31/12/2012
TARGET2 balance	1,836,427	1,740,599
Monetary income reallocation	12,362	24,402
ECB's interim profit distribution	3,505	1,470
Total	1,852,294	1,766,471

The remuneration of the TARGET2 account is calculated daily using the latest available rate for the Eurosystem's main refinancing operations.

Claims on the ECB in connection with the reallocation of monetary income come from the difference between the amounts pooled and allocated by the Eurosystem NCBs (see item 36 of the Profit and Loss account, "Net result of pooling of monetary income").

¹² In accordance with the accounting methods chosen by the Eurosystem for euro banknotes, 8% of the total value of euro banknotes in circulation is allocated to the ECB on a monthly basis. The remaining 92% of the value of the euro banknotes in circulation are allocated to the national central banks on a monthly basis, and the NCBs reflect their percentages of the euro banknotes in their Balance Sheets in proportion to their paid-up share in the ECB capital. In accordance with these accounting methods, the difference between the value of euro banknotes allocated to a national central bank and the value of euro banknotes issued into circulation is recorded under Intra-Eurosystem net claims/liabilities related to the allocation of euro banknotes within the Eurosystem.

At the decision of the Governing Council of the ECB, the ECB distributed its income in 2013 between the national central banks of the euro area (see item 35 of the Profit and Loss account "Income from equity shares and participating interests").

ITEM 14 - TANGIBLE FIXED ASSETS

thousand euros

Acquisition cost	Buildings	Hardware	Software	Inventory	Total
Balance at the end of 2012	28,218	3,596	4,118	6,227	42,159
Acquisitions	0	208	185	7	400
Disposals	-1,091	-123	-55	-395	-1,664
Balance at the end of 2013	27,127	3,681	4,248	5,839	40,895
Accumulated depreciation					
Balance at the end of 2012	9,777	2,649	3,555	4,257	20,238
Depreciation charge	1,248	295	251	487	2,281
Disposals	-431	-123	-55	-387	-996
Balance at the end of 2013	10,594	2,821	3,751	4,357	21,523
Carrying amount					
Balance at the end of 2012	18,441	947	563	1,970	21,921
Balance at the end of 2013	16,533	860	497	1,482	19,372
Prepayments for fixed assets					
Balance at the end of 2012	5	0	495	0	500
Balance at the end of 2013	137	6	646	0	789
Total fixed assets					
Balance at the end of 2012	18,446	947	1,058	1,970	22,421
Balance at the end of 2013	16,670	866	1,143	1,482	20,161

The cost of fixed assets acquired in 2013 was 0.4 million euros; in 2012 it was 1.2 million euros. The largest share of the procurements on buildings was spent on the renovation of buildings and technical networks. Hardware procurements were held on acquiring servers and network equipment. The largest software procurements were for additional database software and development work to update financial asset management software. The main inventory procurement was on appliances for general use and inventory for the museum. Eesti Pank sold a property in Kuressaare with two buildings for 0.6 million euros, which was less than its residual value (see item 38 "Other expenses" in the profit and loss account).

ITEM 15 - OTHER FINANCIAL ASSETS

Eesti Pank holds 214 shares (200 voting shares) in the Bank for International Settlements at an acquisition cost of 217,118 euros.

ITEM 16 - OFF-BALANCE-SHEET INSTRUMENTS REVALUATION DIFFERENCES

Item 16 reflects valuation changes in swap and forward transactions in foreign currency outstanding at year-end. These valuation changes are the result of the conversion of such transactions into their euro equivalents at the exchange rates prevailing on the balance sheet date, compared with the euro values resulting from the conversion of the transactions at the average rate for the foreign currency on that date.

Valuation gains on outstanding interest rate swap transactions are also included in this item.

ITEM 17 - ACCRUALS AND PREPAID EXPENSES

thousand euros

	31/12/2013	31/12/2012
Interest income	9,768	11,175
Securities	8,149	8,950
Intra-Eurosystem balances	1,231	1,966
Derivative instruments	302	140
Monetary policy operations	65	101
Fixed-term deposits and current accounts	14	9
Loans	7	9
Prepaid expenses	744	575
Claims on the Financial Supervision Authority	728	551
Other claims	372	338
Total	11,612	12,639

ITEM 18 - SUNDRY ASSETS

	31/12/2013	31/12/2012
		thousand euros
Loans to employees of Eesti Pank	6,155	5,899
Numismatic banknotes and coins of the Estonian kroon	936	939
Foreign exchange transactions	606	1,760
Credits related to margin calls	0	23
Other	373	116
Total	8,070	8,737

Housing loans secured by real estate have been granted to employees of Eesti Pank for a maximum of 30 years and consumption loans for up to two years. The Supervisory Board of Eesti Pank sets the interest rate on consumption loans for each year. The interest rate on consumption loans is comparable to the interest rate charged by Estonian credit institutions under similar conditions. The Eesti Pank Supervisory Board decided on 15 January 2013 to stop giving consumer loans to Eesti Pank employees. The conditions and deadlines of loan agreements that have already been signed will not be affected by this decision.

The interest rate on housing loans granted before 2012 is the deposit facility interest payable to credit institutions plus the risk margin but not more than the minimum loan interest rate set by the Minister of Finance. The deposit facility rate equals the ECB deposit interest rate, which was 0% in 2013 and 0-0.25% in 2012. The interest rate on housing loans granted since 2012 is the six-month Euribor plus 0.5% but not more than the minimum loan interest rate set by the Minister of Finance. In addition, study loans have been granted for a maximum of ten years with an interest rate of 5%.

Foreign exchange transactions are converted into their euro equivalents at the average rate for the foreign currency on the balance sheet date, compared to the euro values at which the transactions were initially recorded.

ITEM 19 - BANKNOTES IN CIRCULATION

Item 19 reflects Eesti Pank's share of the total euro banknotes in circulation (see "Banknotes in circulation" in the notes on accounting policies). The value of euro banknotes actually issued by Eesti Pank is smaller than the allocation of such banknotes to Eesti Pank. The claim arising from this difference is reflected in item 12.

	<i>thousand euros</i>	
	31/12/2013	31/12/2012
Euro banknotes	838,823	703,145
Adjustments of euro banknotes	1,608,744	1,632,778
ECB banknotes (8%)	-195,751	-186,769
Total	2,251,816	2,149,154

ITEM 20 - CURRENT ACCOUNTS (INCLUDING COVERING THE MINIMUM RESERVE SYSTEM)

Item 20 reflects the current accounts of credit institutions with Eesti Pank. The remuneration paid on the balance on the current accounts of credit institutions, held to cover the minimum reserve, is the latest available marginal interest rate for the Eurosystem's main refinancing operations. The balances in excess of the minimum reserve are not remunerated.

ITEM 21 - DEPOSIT FACILITY

Item 21 reflects the deposit facility of the Eurosystem available for Estonian credit institutions for overnight depositing with the central bank at an interest rate fixed in advance. The deposit facility rate equals the ECB deposit interest rate, which was 0% in 2013 and 0-0.25% in 2012.

ITEM 22 - FIXED-TERM DEPOSITS

Item 22 reflects the fixed-term deposits of Estonian credit institutions held with the central bank. Fixed-term deposits are collected in a variable rate tender, where counterparties bid the amounts of money and the interest rate at which they want to enter into transactions. The ECB's allocation decision determines the counterparties whose bids are satisfied.

ITEM 23 - LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EUROS

Item 23 reflects mainly the current account of the Financial Supervision Authority held with Eesti Pank, on which interests are calculated quarterly on the basis of the average balance of the current account, in accordance with the deposit facility rate set by the Governing Council of the ECB.

ITEM 24 - LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EUROS

Item 24 reflects the euro deposits of non-euro-area residents. These deposits do not bear interest.

ITEM 25 - LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

Item 25 reflects repo transactions in foreign currency with non-euro area residents.

ITEM 26 - COUNTERPART OF THE SPECIAL DRAWING RIGHTS ALLOCATED BY THE IMF

Item 26 reflects the liability to the IMF arising from the IMF's decision of 7 August 2009 to increase the SDR issues for all of its member states. This was done in order to increase global liquidity using support from the foreign reserves of the member states. As a result, Estonia received 61,965,241 SDRs.

ITEM 27 - ACCRUALS AND DEFERRED INCOME

thousand euros

	31/12/2013	31/12/2012
Accounts payable	813	826
Tax liabilities	783	784
Employee salaries payable	549	526
Recreation reserve	475	568
Interest expense	332	292
Derivative instruments	298	230
Deposits of credit institutions	19	52
SDR allocation	12	9
Monetary policy operations	3	1
Other liabilities	39	77
Total	2,991	3,073

ITEM 28 – SUNDRY LIABILITIES

thousand euros

	31/12/2013	31/12/2012
Estonian kroon banknotes	41,798	44,146
Euro coins	34,958	30,862
Estonian kroon coins	7,501	7,530
Loans to employees of Eesti Pank	214	80
Foreign exchange transactions	61	0
Credits related to margin calls	33	23
Other liabilities	909	70
Total	85,474	82,711

Other liabilities mainly reflect the supervision fees paid to the Financial Supervision Authority.

Foreign exchange transactions are converted into their euro equivalents at the average rate for the foreign currency on the balance sheet date, compared to the euro values at which the transactions were initially recorded.

ITEM 29 – PROVISIONS

Item 29 reflects general risk provisions. The aim of general risk provisions is to cover the financial risks of monetary policy operations and investment assets with provisions for five years, using the risk assessment with 95% probability found using the Value at Risk method. As at 31.12.2013 this method showed Eesti Pank to be exposed to risks of 45.7 million euros from monetary policy operations and investment assets. Under the accounting policies of Eesti Pank, this risk is divided over the five years starting from 2012. The result as at 31.12.2013 is an additional provision of 6.8 million euros from the risk provision of 11.5 million euros of 31.12.2012, meaning the total provision rose to 18.3 million euros.

ITEM 30 – REVALUATION ACCOUNTS

thousand euros

	31/12/2013	31/12/2012
Equities	6,234	839
Securities	2,407	8,234
Foreign currency	603	796
Derivative instruments	522	651
Gold	0	3,159
Total	9,766	13,679

Revaluation accounts represent revaluation reserves that arise from unrealised gains on assets and liabilities.

The unrealised losses at the end of the year are recognised in the Profit and Loss Account as expenses under "Write-downs on financial assets".

ITEM 31 - CAPITAL AND RESERVES

Changes in capital and reserves in 2013:

thousand euros

	31/12/2013	Distribution of profit for 2012	31/12/2012
Fixed Capital	100,000	0	100,000
Reserve capital	72,817	25,580	47,237
Special Reserve	211,100	0	211,100
Total	383,917	25,580	358,337

Under Section 30 of the Eesti Pank Act, at least 25% of the annual profit must be allocated to increasing both statutory and reserve capital. After these allocations, part of the profit can be allocated for establishing and supplementing foundation capital and funds for specific purposes, at the decision of the Supervisory Board of Eesti Pank. The remaining profit is transferred to the state budget.

NOTES ON THE PROFIT AND LOSS ACCOUNT

ITEM 32 - NET INTEREST INCOME

thousand euros

	2013	2012
Net interest income	28,960	29,741
Interest income	40,718	38,929
Intra-Eurosystem balances	26,459	27,134
Securities	9,878	9,506
Derivative instruments	4,223	2,053
Loans to employees of Eesti Pank	80	99
Current accounts	63	90
Reverse repurchase transactions	9	32
Fixed-term deposits	6	15
Interest expense	-11,758	-9,188
Securities	-6,007	-4,845
Derivative instruments	-4,395	-2,367
Intra-Eurosystem balances	-1,232	-1,650
Repurchase transactions	-66	-59
Current accounts	-58	-82
Euro deposit interests	0	-185

thousand euros

	2013	2012
Intra-Eurosystem interest income	26,459	27,134
Monetary policy operations	15,171	16,971
Interest income on TARGET2 accounts	7,877	6,274
Allocation of banknotes within the Eurosystem	2,904	3,097
Transfer of foreign currency reserves	492	785
Monetary income	15	7
Intra-Eurosystem interest expense	-1,232	-1,650
Interest expense from minimum reserves	-712	-1,095
Monetary policy operations	-520	-555

ITEM 33 - NET RESULT OF FINANCIAL OPERATIONS, WRITE-DOWNS AND RISK PROVISIONS

thousand euros

	2013	2012
Net result of financial operations, write-downs and risk provisions	-7,192	-7,807
Realised gain arising from financial operations	2,335	4,937
Securities	3,102	4,375
Derivative instruments	-97	1,344
Financial asset management costs	-141	-294
Exchange rate profit/loss	-529	-488
Write-downs on financial assets	-2,727	-1,244
Securities	-1,416	-46
Exchange rate write-downs	-1,219	-454
Derivative instruments	-97	-350
Net change of loan portfolio write-downs	5	0
Other receivables from the IMF	0	-394
Provisions for foreign exchange rate risk, interest risk and credit risk	-6,800	-11,500

ITEM 34 - NET INCOME FROM FEES AND COMMISSIONS

thousand euros

	2013	2012
Net income from fees and commissions	759	793
Fees and commissions income	900	899
Current accounts service fees	894	860
Fines, arrears and other	5	39
Fees and commissions expenses	-141	-106
Commission fees	-109	-71
TARGET2 fees	-29	-29
Other fees and commissions	-3	-6

ITEM 35 - INCOME FROM EQUITY SHARES AND PARTICIPATING INTERESTS

Item 35 reflects dividends from the shares of the Bank for International Settlements. This item also includes the distribution of the ECB's income from euro banknotes and securities purchased under Securi-

ties Markets Programme of 3.5 million euros (see “Interim profit distribution of the ECB” in the notes on the accounting policies).

At the decision of the Governing Council of the ECB, the ECB distributed its profit in 2013 totalling 1.370 million euros.

ITEM 36 - NET RESULT OF POOLING OF MONETARY INCOME

thousand euros

	2013	2012
Net result of pooling of monetary income	12,362	24,402
Monetary income reallocation	12,362	24,382
Monetary income pooled by Eesti Pank	-30,307	-35,492
Monetary income allocated to Eesti Pank	42,669	59,874
Adjustment for the monetary income of the previous year	0	20

The net result of pooling of monetary income from the Eurosystem central banks in 2013 totalled 16,676,890,145 euros, which includes the share of Eesti Pank. The monetary income pooled by the Eurosystem is allocated among Eurosystem central banks according to the subscribed ECB's capital key. The difference between the monetary income pooled by Eesti Pank of 30,306,952 euros and that reallocated to Eesti Pank of 42,668,900 euros is the net result of 12,361,948 euros in monetary income.

The amount of each national central bank's monetary income is determined by measuring the actual annual income that derives from the earmarkable assets held against its liability base. The liability base consists mainly of: banknotes in circulation; liabilities to euro area credit institutions related to monetary policy operations denominated in euros; net intra-Eurosystem liabilities resulting from TARGET2 transactions; and net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem. Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled.

Earmarkable assets are: lending to euro area credit institutions related to monetary policy operations denominated in euros; securities held for monetary policy purposes; claims equivalent to the transfer of foreign reserve assets to the ECB; net intra-Eurosystem claims resulting from TARGET2 transactions; net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem; and a limited amount of each national central bank's gold holdings in proportion to each national central bank's capital key share.

Gold is considered to generate no income. Securities held for monetary policy purposes under Decision ECB/2009/16 of 2 July 2009 on the implementation of the covered bonds purchase programme and under Decision ECB/2011/17 of 3 November 2011 on the implementation of the second covered bond purchase programme are considered to generate income at the latest available marginal rate for the Eu-

rosystem's main refinancing operations. Where the value of an NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference is offset by applying to the value of the difference the latest available marginal rate for the Eurosystem's main refinancing operations and the total income or expense for the year is considered in the allocation of monetary income.

ITEM 37 - OTHER INCOME

thousand euros

	2013	2012
Other income	951	1,336
Expenses compensated by the Financial Supervision Authority	476	586
Income from the sale of collector coins and numismatic products	216	352
Income on financial asset management	129	118
Income from the sale of coin metal	72	0
Rental income	33	42
Compensation for expenses from the changeover to the euro	0	219
Other income	25	19

Under the cooperation protocol between the Financial Supervision Authority and Eesti Pank, the Financial Supervision Authority reimbursed monthly 100% of the cost of the support services provided by Eesti Pank. Eesti Pank provides the Financial Supervision Authority with information technology, accounting, real estate and administration services. The Financial Supervision Authority covers the depreciation costs of the fixed assets used.

Income from asset management includes the service fee paid by the Guarantee Fund to Eesti Pank for investing their assets. Income from the rent of the training centres of Eesti Pank is recorded under "Rental Income".

ITEM 38 - OTHER EXPENSES

Item 38 reflects the loss arising from the sale of the Kuressaare real property.

ITEM 39 - STAFF COSTS

thousand euros

	2013	2012
Staff costs	-7,845	-7,859
Wages	-5,758	-5,736
Social tax	-1,925	-1,921
Compensations and benefits	-106	-128
Unemployment insurance	-56	-74

Staff costs are mainly wage costs, including taxes.

Compensation and benefits include pension benefits and fringe benefits tax calculated on the preferential interest rate on housing loans and the preferential price for the rent of the training centre.

On average, there were 233 employees at Eesti Pank in full-time equivalent in 2013 (237 in 2012).

ITEM 40 - ADMINISTRATIVE EXPENSES

thousand euros

	2013	2012
Administrative expenses	-4,940	-5,160
Information technology maintenance	-1,271	-1,209
Financial asset management	-993	-916
Real estate renovation and administration	-984	-1,179
Business travel	-472	-561
Economic research	-273	-113
Public relations and publications	-253	-318
Office	-142	-176
Training	-139	-225
External representation	-94	-75
Communications and transport	-84	-113
Legal, expertise and arbitration	-43	-76
Other administrative expenses	-192	-199

The costs of financial asset management comprise the cost of market information, fees and costs for cross-border payments, and management costs of foreign reserves.

The costs of public relations and publications cover the costs of public events, publications, information agencies, the public website and online databases, public relations research polls, information campaigns, and the Museum of Eesti Pank.

Business travel expenses reflect the costs of staff business travel on behalf of Eesti Pank and for work with international organisations and financial institutions. There were a total of 761 business trips in 2013 (762 in 2012).

ITEM 41 - BANKNOTE PRODUCTION SERVICES

Eesti Pank participates in the production of euro banknotes together with other central banks of the euro area. The ECB Governing Council sets the amount of euro cash that must be produced each year for the euro area countries. Eesti Pank procured its euro banknotes through a joint tender with eight other euro area central banks. Under the tender, 20-euro banknotes were produced that went into the joint assets of the Eurosystem.

ITEM 42 - OTHER OPERATING EXPENSES

thousand euros

	2013	2012
Other operating expenses	-558	-965
Production of collector coins and numismatic products	-285	-213
Management of cash circulation	-88	-132
Production of euro coins	0	-438
Other expenses	-185	-182

ITEM 43 - DERIVATIVE INSTRUMENTS

thousand euros

	31/12/2013	31/12/2012
Value of futures contracts		
Purchase	184,394	305,430
Sale	79,989	168,491
Value of interest rate swap contracts	81,442	265,584
Foreign exchange swap and forward transactions		
Claims	281,309	191,377
Liabilities	280,318	189,435

ITEM 44 - CONTINGENT LIABILITIES

thousand euros

	31/12/2013	31/12/2012
Contingent liabilities	1,825	2,345
Contractual obligations to produce banknotes and coins	1,297	1,793
Unpaid share capital (75%) of BIS	528	552

The production of banknotes and coins

At the end of 2013, the contractual liabilities of Eesti Pank for the production of euro banknotes in 2014 amounted to 1.3 million euros.

Bank for International Settlements

Since 1930 Eesti Pank has a contingent liability to the Bank for International Settlements for the unpaid part of the share capital (75%) of the BIS denominated in Swiss gold francs, which totalled 527,923 euros on the balance sheet date (see Item 15).

ITEM 45 – IMPORTANT POST-BALANCE-SHEET EVENTS

Following the regular five-yearly adjustment of the capital key under article 29.3 of the Statute of the ESCB, and the entry of Latvia to the euro area on 1 January 2014, the capital key subscriptions of the NCBs changed.

	Capital key subscriptions from 1 January 2014	Capital key subscriptions until 31 December 2013
	%	%
Nationale Bank van België / Banque Nationale de Belgique	2.4778	2.4176
Deutsche Bundesbank	17.9973	18.7603
Eesti Pank	0.1928	0.1780
Central Bank of Ireland	1.1607	1.1111
Bank of Greece	2.0332	1.9483
Banco de España	8.8409	8.2533
Banque de France	14.1792	14.1342
Banca d'Italia	12.3108	12.4570
Central Bank of Cyprus	0.1513	0.1333
Latvijas Banka	0.2821	-
Banque centrale du Luxembourg	0.2030	0.1739
Central Bank of Malta	0.0648	0.0635
De Nederlandsche Bank	4.0035	3.9663
Oesterreichische Nationalbank	1.9631	1.9370
Banco de Portugal	1.7434	1.7636
Banka Slovenije	0.3455	0.3270
Národná banka Slovenska	0.7725	0.6881
Suomen Pankki – Finlands Bank	1.2564	1.2456
Subtotal – euro area national central banks*	69.9783	69.5581
Българска народна банка (Bulgarian National Bank)	0.8590	0.8644
Česká národní banka	1.6075	1.4539
Danmarks Nationalbank	1.4873	1.4754
Hrvatska narodna banka	0.6023	0.5945
Latvijas Banka	-	0.2742
Lietuvos bankas	0.4132	0.4093
Magyar Nemzeti Bank	1.3798	1.3740
Narodowy Bank Polski	5.1230	4.8581
Banca Națională a României	2.6024	2.4449
Sveriges Riksbank	2.2729	2.2612
Bank of England	13.6743	14.4320
Subtotal – non-euro area national central banks*	30.0217	30.4419
Total*	100.0000	100.0000

* Owing to rounding, the total may not correspond to the sum of all figures shown.

The adjusted capital key was used for revaluing the payments of the central banks of the EU member states to the capital of the ECB and the contributions of the euro area central banks to the foreign currency reserve. Following the adjustment of the capital key, Eesti Pank paid an additional 1,602,101 euros into the ECB's capital on 1 July 2014 and transferred 8,576,754 euros to the ECB's foreign reserve assets.

INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the Supervisory Board of Eesti Pank:

We have audited the accompanying financial statements of Eesti Pank, which comprise the statement of financial position as at 31 December 2013, and the statement of revenues and expenses and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with the guidelines established by the Governing Council of European Central Bank, which are set out in Decision ECB/2010/20 (recast) on 11 November 2010 and Eesti Pank Act, and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Certified Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

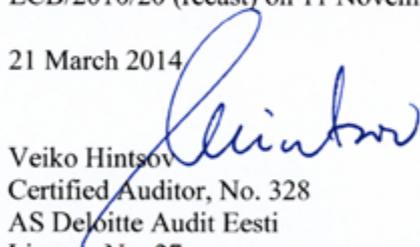
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the certified auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the certified auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Eesti Pank as at 31 December 2013, and its financial performance for the year then ended in accordance with the guidelines established by the Governing Council of European Central Bank, which are set out in Decision ECB/2010/20 (recast) on 11 November 2010 and Eesti Pank Act.

21 March 2014


Veiko Hintsov
Certified Auditor, No. 328
AS Deloitte Audit Eesti
Licence No. 27

APPENDICES

DECREES OF THE GOVERNOR OF EESTI PANK IN 2013

No 1, 7 January 2013

The list of statistical actions of Eesti Pank under the official statistical programme

(officially published: RT I, 11.01.2013, 3)

The decree approves the list of statistical actions of Eesti Pank for 2013–2017. Under the Eesti Pank Act clause 34(1), Eesti Pank collects data for monetary, financial and balance of payments statistics. The statistical work of Eesti Pank is part of the official statistics programme. The decree was passed under clause 16 (1) 2) of the Official Statistics Act.

The decree was repealed by Decree No 5 of the Governor of Eesti Pank of 24 January 2014 “List of statistical actions of Eesti Pank under the official statistical programme”, which sets out a new version of the list (RT I, 29.01.2014, 1).

No 2, 23 January 2013

Amendment of Decree No 4 of the Governor of Eesti Pank of 9 May 2008 “Approval of TARGET2-Eesti rules”

(officially published: RT I, 29.01.2013, 1)

Some of the rules of operation and fees for services for the TARGET2-Eesti run by Eesti Pank as part of TARGET2 were changed in connection with the rewording and changes to the “Guideline of the ECB of 5 December 2012 on a Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET2)”.

The decree was passed under clause 2 (2) and clause 14 (5) of the Eesti Pank Act and clause 87 (2) of the Credit Institutions Act.

No 3, 25 January 2013

List of credit institutions and branches of foreign credit institutions providing a vital service

(officially published: RT I, 29.01.2013, 12)

Eesti Pank named the following banks as providers of vital services as defined in the Emergency Act clause 34 (8) 1) and 2): AS SEB Pank, Swedbank AS, Danske Bank A/S Estonia branch, and Nordea Bank Finland PLC Estonia branch.

This decree is passed under clause 3 (3) of the Credit Institutions Act.

No 4, 8 March 2013

Descriptions and requirements for continuous operation of payment services and cash circulation

(officially published: RT I, 12.03.2013, 13)

The decree set out the descriptions and recommendations for continuous operations of payment services and cash circulation, which must be followed by the institutions listed in Decree No 3 of the Governor of Eesti Pank of 25 January 2013 “List of credit institutions and branches of foreign credit institutions providing vital services”.

This decree is passed under clause 35 4) and 5) of the Emergency Act.

No 5, 18 June 2013

Amendments to Eesti Pank Governor's Decree No 2 of 24 January 2012 "Payments statistics submitted by credit institutions"

(officially published: RT I, 26.06.2013, 2)

The current decree is amended to include SEPA payments, internet bank credit transfers and e-invoices with standing orders, so as to reflect the changes in the provision of payment services.

This decree was passed under clause 91 (1) of the Credit Institutions Act.

No 6, 20 September 2013

Issue of collector coins

(RT I, 26.09.2013, 4)

Under the decree a silver collector coin dedicated to the music of Raimond Valgre with a nominal value of seven euros and a year of issue of 2013 was issued in the Republic of Estonia on 7 October 2013.

This decree was passed under clause 141 (2) of the Eesti Pank Act and decision No 3-4 of the Supervisory Board of Eesti Pank dated 7 May 2013.

No 7, 22 October 2013

Submission of data required for the compilation of the balance of payments

(officially published: RT I, 25.10.2013, 1)

This decree sets requirements on the contents and structure for reporting of payments between the customers of credit institutions and the deadlines and procedure for submission of the reports to Eesti Pank. The aim of the reporting is to collect information that is needed for the compilation of the national balance of payments.

The decree was passed under clause 91 (3) of the Credit Institutions Act and clause 2 (2) of the Eesti Pank Act.

No 8, 20 December 2013

Repeal of Eesti Pank Governor's Decree No 15, 4 November 2005, "Procedure for sending banknotes and coins to Eesti Pank"

(officially published: RT I, 28.12.2013, 2)

Decree No 15 of the Governor of Eesti Pank Governor of 4 November 2005, "Procedure for sending banknotes and coins to Eesti Pank", was repealed. The decree regulated how Eesti kroon banknotes and coins may be sent from credit institutions to Eesti Pank, a procedure which has now ended. Similar procedures to those in the part concerning cash are regulated under Decree No 24 of the Governor of Eesti Pank Governor of 15 December 2010 "The procedure for sending euro banknotes and coins to Eesti Pank".

This decree was passed under clause 93 (1) of the Administrative Procedure Act.

No 9, 20 December 2013

Issue of collector coins

(officially published: RT I, 28.12.2013, 3)

Under the decree a silver collector coin for the Estonian delegation and athletes to the XXII Olympic Winter Games in Sochi with a nominal value of ten euros and a year of issue of 2014 was issued in the Republic of Estonia on 9 January 2014.

This decree was passed under clause 141 (2) of the Eesti Pank Act and decision No 3-4 of the Supervisory Board of Eesti Pank dated 7 May 2013.

DECISIONS OF THE SUPERVISORY BOARD OF EESTI PANK IN 2013

No 1-1, 15 January 2013

Repeal of decision No 11-3 of the Supervisory Board of Eesti Pank of 18 December 2001 on conditions for granting consumer loans to employees of the bank.

No 2-1, 5 March 2013

Appointment of the internal auditor

No 3-1, 7 May 2013

Eesti Pank Annual Report 2012

No 3-2, 7 May 2013

Profit distribution strategy of Eesti Pank

No 3-3, 7 May 2013

Eesti Pank profit distribution for 2012

No 3-4, 7 May 2013

Approval of the designs and nominal values of collector coins

No 4-1, 11 June 2013

Appointment of a member of the Supervisory Board of the Financial Supervision Authority

No 5-1, 3 September 2013

Amendment of the work schedule for 2013 of the Internal Audit Department of Eesti Pank

No 8-1, 17 December 2013

Approval of the work schedule for 2014 of the Internal Audit Department of Eesti Pank

PUBLICATIONS OF EESTI PANK IN 2013

The address of the Eesti Pank website is www.eestipank.ee. The website contains information on Eesti Pank and its activities and on the Estonian monetary system, economy and financial environment. It also features information on banking legislation; information on Estonian banknotes and coins, including guidelines for collectors; Eesti Pank's press releases and publications; information on the European Union and the euro; and much more. There is also a comprehensive statistics database. In addition, there is a virtual library in Estonian only, which links to other libraries of economics texts.

Annual Report

The Annual Report gives a review of the central bank's activities and results during the reporting year and the financial statement. It also reviews the economic and financial environment, decisions adopted by the Eurosystem, a list of decrees of the Governor of Eesti Pank and the decisions of the Supervisory Board, and a list of the publications of the year.

Economic policy statement of Eesti Pank

The statements provide prompt and concise opinions of the central bank on the most relevant issues concerning economic and banking policies. The statements are available on the bank's website, published as press releases and are usually also presented at a press conference.

Four economic policy statements were released in 2013.

Financial Stability Review

The Eesti Pank Financial Stability Review is released twice a year and it examines the financial behaviour of Estonian companies and households, related risks, financial markets, payment systems, and similar.

Issues published in 2013:

Financial Stability Review 1/2013

Financial Stability Review 2/2013

The balance of payments and the international investment position

The balance of payments gives a review of Estonia's foreign trade activities, including the country's international investment position and external debt. It contains a wealth of statistical data.

Issues published in 2013:

Estonia's Balance of Payments for 2012

Estonia's Balance of Payments for the First Quarter of 2013

Estonia's Balance of Payments for the Second Quarter of 2013

Estonia's Balance of Payments for the Third Quarter of 2013

Estonia's Balance of Payments Yearbook 2012

Estonian Economy and Monetary Policy: current state and forecast

The Estonian Economy and Monetary Policy is a biannual publication presenting a thorough economic review and an economic forecast.

Issues published in 2013:

Estonian Economy and Monetary Policy 1/2013.

Estonian Economy and Monetary Policy 2/2013.

Working Papers

The working papers are summaries of the economic studies conducted at Eesti Pank. The target group of the working papers is, above all, economists and economic experts, and the papers are often published in English only.

Issues published in 2013:

- Eesti Pank Working Papers 1/2013: Ardo Hansson, Martti Randveer. Economic Adjustment in the Baltic Countries.
- Eesti Pank Working Papers 2/2013: Philip Du Caju, Theodora Kosma, Martina Lawless, Julián Messina, Tairi Rõõm. Why Firms Avoid Cutting Wages: Survey Evidence from European Firms.
- Eesti Pank Working Papers 3/2013: Michael Ehrmann, Chiara Osbat, Jan Strasky, Lenno Uusküla. The Euro Exchange Rate During the European Sovereign Debt Crisis – Dancing to its Own Tune?
- Eesti Pank Working Papers 4/2013: Liina Malk. Relaxation of Employment Protection and its Effects on Labour Reallocation.
- Eesti Pank Working Papers 5/2013: Guido Baldi, Karsten Staehr. The European Debt Crisis and Fiscal Reaction Functions in Europe 2000–2012.
- Eesti Pank Working Papers 6/2013: Merike Kukk, Karsten Staehr. Income Underreporting by Households with Business Income. Evidence from Estonia.
- Eesti Pank Working Papers 7/2013: Gertrud Errit, Lenno Uusküla. Euro Area Monetary Policy Transmission in Estonia.
- Eesti Pank Working Papers 8/2013: Boris Blagov. Financial Crises and Time-Varying Risk Premia in a Small Open Economy: A Markov-Switching DSGE Model for Estonia.
- Eesti Pank Working Papers 9/2013: Dmitry Kulikov, Aleksei Netšunajev. Identifying Monetary Policy Shocks via Heteroskedasticity: a Bayesian Approach.

Labour Market Review

The Labour Market Review discusses the most important trends in the Estonian labour market, labour supply and demand, labour costs, institutional developments in the labour market, and other related issues.

Issues published in 2013:

Labour Market Review 1/2013

Labour Market Review 2/2013

Lending Review

The review of financing and lending in the non-financial sector covers banking and leasing statistics, financial accounts analysis and credit supply and demand. The review is published once a year.

Issues published in 2013:

Lending Review

Estonian Competitiveness Report

Eesti Pank publishes the Estonian Competitiveness Report once a year starting from 2013. Competitiveness can be analysed in several different ways and each issue considers several widely-used groups of indicators for competitiveness. Competitiveness is assessed through assessment of Estonian export capacity using relative productivity growth, changes in export indicators and similar, and of competitiveness indicators for relative prices and costs.

Issues published in 2013:

Estonian Competitiveness Report

Other publications

Estonian currency from the mark to the euro. Eesti Pank. 2013. Updated version

STRATEGIC FOCUS OF EESTI PANK FOR 2014-2018

1. Macro financial supervision and single banking supervision in the euro area

From 2014 Eesti Pank will have a clearer mandate to act as the macro financial supervisory institution in Estonia. This means that clear criteria and procedures need to be defined that Eesti Pank will use for setting additional capital or other requirements to reduce risks in the financial sector. Eesti Pank will also explain publicly in its regular financial stability review the central bank assessment of the risks to the financial sector and more focused and specific measures that will be taken to mitigate those risks than has been the case before now.

Given the new tasks of the European Central Bank in supervising the banks of the euro area, the Financial Supervision Authority will need to ensure the success of the implementation of banking supervision in Estonia. Eesti Pank's role in the Eurosystem means it will have to work more closely with the Financial Supervision Authority.

Eesti Pank's work with the other central banks, supervisory bodies and ministries of finance in our region will be done in the framework of Nordic-Baltic international partnership. This covers both banking and macro financial supervision and the principles of cooperation for preventing financial crises. The need for changes is made more urgent because several of the parent banks of banks operating in Estonia are based in countries that will probably not be covered by single banking supervision, and the central bank is not responsible for macro financial supervision in all of the neighbouring countries.

2. Eesti Pank as a trusted and active advisor to the government and the public

Eesti Pank analyses and explains developments in the economy, writes an economic forecast for Estonia and assesses financial stability. Experts from Eesti Pank play an active role in the analysis and decision-making processes of the euro area. The role of the bank and the breadth of its analysis are growing and key topics for analysis and research in the coming years will be macro financial supervision, competitiveness and fiscal sustainability. It is important that the quality, independence and political neutrality of analysis be safeguarded so that sound advice can be given. Eesti Pank takes part in international and Estonia-based joint research work so as to ensure the quality of the analysis. Eesti Pank must be a trusted partner for the government and a constructive critic where necessary.

Eesti Pank starts and leads discussions that are important for the bank and for society. This includes explanations of the key trends in development, presentation of economic forecasts and research and analysis, and dissemination of knowledge about central banking and the economy.

3. Eesti Pank's responsibility for the decisions of the Eurosystem

Eesti Pank is jointly responsible with the other central banks of the euro area for all the decisions of the Eurosystem, and the Governor of Eesti Pank is jointly responsible with the other members of the Governing Council of the European Central Bank.

Eesti Pank must be a good partner in the euro area that can affect the policies of the euro area and the positions it takes on important topics. To achieve this, Eesti Pank carries out high-level research work, enhances the professional skills of staff and maintains good relations with partners within Estonia and abroad. The limits to its own resources mean that Eesti Pank focuses on the most important topical issues facing the Eurosystem.

4. The evolving role of Eesti Pank in organising the circulation of cash

Work in the development, supervision and operation of the euro area settlement systems is ever more important for Eesti Pank. This is necessary so that Estonian banks can have an operational environment for participating in the monetary policy transactions of the Eurosystem, and so that bank customers can make payments without interruption.

Eesti Pank will be faced with new challenges by the launch of the TARGET2-Securities settlement platform for securities, which will be owned and operated by the central bank as a member of the Eurosystem. Eesti Pank will continue to operate the TARGET2-Eesti settlement system for express cross-border euro payments.

Eesti Pank supports the integration of the local retail market with the European payment environment by working with market participants and exchanging information.

The main objective for Eesti Pank in organising cash circulation is still to ensure there is sufficient cash in circulation to cover Estonia's needs, and that the cash released into circulation is of sufficient quality. Eesti Pank presents the new banknotes of the second series publicly in accordance with the joint timetable and plan of the central banks of the euro area, makes sure they are released smoothly into circulation in Estonia, and steadily removes the notes of the first series from circulation.

5. A developing organisation

Eesti Pank is only able to succeed in its work and achieve its goals if staff are motivated, keen to work together, and well-trained professionally.

Eesti Pank works to improve its organisational culture and supports the development of staff skills and knowledge, allocating sufficient resources for this and treating the enhancement of skills as one of the most important responsibilities of each employee. Staff development means that Eesti Pank can play a successful role in defining policy and advising the government and the public, and in all its other functions.

As the smallest central bank in the Eurosystem, Eesti Pank must be ready to make choices about the best way to use limited resources when taking on additional tasks. The aim is to ensure the capacity of the organisation to adapt its work and its processes in a constantly changing environment and in the face of new requirements.

As the work of a central bank relies on an information technology system that functions without error, it is important for Eesti Pank to make use of technical innovations to maintain a secure and efficient working environment.

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