

CONTENTS

MAIN FEATURES AND FUNCTIONS OF EESTI PANK	9
FOREWORD BY GOVERNOR OF EESTI PANK	12
ACCOUNTABILITY	16
Legal framework for accountability and compulsory publications of the central bank	16
Accountability vis-à-vis the Riigikogu	16
Interpellations raised by members of the Riigikogu in 2006	16
Regular reporting on economic policy views and publishing economic data	17
STRATEGIC OBJECTIVES FOR PERFORMING THE MAIN FUNCTIONS OF EESTI PANK	20
MAJOR ACTIVITIES AND ACHIEVEMENTS OF EESTI PANK IN 2006	
MONETARY POLICY	24
Ensuring the smooth functioning of Estonia's monetary policy framework	24
Key features of the Estonian monetary system	24
Monetary policy in 2006	25
Preparations for harmonising the Estonian monetary system with requirements for joining the euro area	27
Economic analysis, forecast and research as the basis for monetary and financial policy-making	28
Monitoring	28
Economic reviews	28
Forecasts	28
Research	28
Reserve management	30
Structure of foreign exchange reserves	30
Investment process	30
Investment results in 2006 and related factors	31
Changes in the benchmark portfolio in 2006	32
Asset management services provided to the public sector	32
ENSURING FINANCIAL STABILITY	33
Financial sector analysis and financial stability assessment	33
MEASURES ADOPTED BY EESTI PANK IN 2006	34
Cross-border cooperation and other EU financial policy issues	34
Financial safety net	35
Banking legislation	36
Payment systems oversight	37
DEVELOPMENTS IN STATISTICS	38
Banking and other financial statistics	38
Balance of payments statistics	39
General economic statistics	41

CURRENCY CIRCULATION	42
Development of the payment and settlement environment	42
Payment and Settlement System of Interbank Payments	42
Meeting the cash demand	43
Banknotes and coins in circulation and their structure	43
Expert analysis and handling of cash	45
Defective 100-kroon banknotes	46
Preparation of new banknotes and coins	46
Preparations for the changeover to the euro cash	46
ORGANISATION AND COOPERATION	47
International cooperation	47
Regular cooperation with the European Union institutions	47
European Central Bank	48
Role of Eesti Pank after the adoption of the euro	48
Council of the European Union	49
European Commission	49
Cooperation with the International Monetary Fund	49
SELECTION OF THE KEY TOPICS COVERED IN THE ECB MEETINGS IN 2006	50
SELECTION OF THE KEY TOPICS ON THE 2006 AGENDA OF THE COUNCIL OF THE EUROPEAN UNION	51
Cooperation with rating agencies	53
SELECTION OF TOPICS FROM THE INTERNATIONAL MONETARY FUND FORUMS IN 2006	53
Cooperation within Estonia	54
Cooperation with the Office of the President	54
Cooperation with the Ministry of Finance	55
Cooperation with the Financial Supervision Authority	55
Cooperation with the Estonian Banking Association and Estonian banks	55
ASSESSMENT OF EURO READINESS IN 2006: CONVERGENCE REPORTS	55
Public relations and communications	57
Principles of informing the public	58
Media relations and public appearances	58
Communication on the euro	58
Governance, organisation and personnel policy	60
Eesti Pank's governing bodies and decision-making processes	60
Supervisory Board of Eesti Pank	60
Governor of Eesti Pank	60
Executive Board of Eesti Pank	61
Monetary Policy Committee	62
Financial Supervision Authority	62
Development of the management system and work organisation of Eesti Pank in 2006	62
Strategic management	62
Process management	63
Risk management	63

e-Eesti Pank 2006	63
Renovation of the building of Eesti Pank at Sakala 6	64
Eesti Pank's personnel policy	64
Employees	64
Development and training	65
Hobbies and traditions of the staff	65
ANNUAL ACCOUNTS OF EESTI PANK	
for the Financial Year Ended 31 December 2006	67
ANNEXES	
GLOBAL ECONOMY IN 2006	92
United States and Japan	92
Euro area	93
International financial and commodity markets	94
ESTONIAN ECONOMY IN 2006	95
Non-Financial Sector	95
Monetary policy environment	95
Domestic and external demand	95
Inflation	96
General government	98
RATINGS	99
FINANCIAL SECTOR	100
Banking	100
Institutional development	100
Assets and liabilities of banks	100
Profitability	101
Capital adequacy and risks	102
Securities market.....	102
Debt securities market	102
Stock market	102
Other financial intermediaries	104
Investment and pension funds	104
Insurance	105
Payment methods	105
KEY POINTS OF THE ECONOMIC FORECASTS OF EESTI PANK IN 2006	107
DECREES, DECISIONS AND PUBLICATIONS	111
DECREES OF THE GOVERNOR OF EESTI PANK IN 2006	112
DECISIONS ADOPTED BY THE SUPERVISORY BOARD OF EESTI PANK IN 2006	113
PUBLICATIONS OF EESTI PANK IN 2006	114