

MEETING THE CASH DEMAND

Banknotes and coins in circulation and their structure

On 31 December 2010, the total amount of currency in circulation was 5,838 million Estonian kroons. 1,740 million kroons (29.8%) were in the vaults of credit institutions, and savings and loan associations operating in Estonia; 4,098 million kroons (70.2%) was in circulation outside credit institutions and savings and loans associations.

In 2010, the amount of cash in circulation decreased by 3,939 million kroons, or by 40%. This mostly took place in December 2010, just before the adoption of the euro. The number of 500-kroon banknotes dropped the most, by 3,614 million kroons. The amount of 500-kroon banknotes also shrank most rapidly over the year. Other banknotes in circulation decreased considerably less. Consequently, the number of banknotes in circulation diminished by less than 20% with the year: from 80.0 million banknotes to 65.2 million.

The number of coins in circulation remained

relatively stable until October 2010. The beginning of October marked the launch of the coin campaign, which meant that credit institutions accepted coins without a service fee. Great amounts of coins were returned to Eesti Pank, but at year-end there were still 392.8 million coins in circulation; that is, over 290 coins per resident.

At the end of 2010, the average calculated value of a banknote in circulation stood at 87.34 kroons. The average calculated value of a coin in circulation was 33 cents.

Expert analysis and handling of cash

In 2010, Eesti Pank issued 9,918.2 million kroons to credit institutions and received 13,834.6 million kroons (see Table 1). The issue of cash decreased and the amount of returned cash grew compared to previous years, which mainly indicates that the changes in circulation took place due to the approaching euro adoption. It is particularly noteworthy that the volume of coins returned was considerably greater than in previous years.

Table 1. Banknotes and coins in circulation as at year-end

Nominal value	Total amount (EEK million)				Number (million)			
	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2007	31/12/2008	31/12/2009	31/12/2010
1 kroon	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
2 krooni	38.5	39.6	39.2	35.3	19.2	19.8	19.6	17.7
5 krooni	49.5	49.9	48.8	44.9	9.9	10.0	9.8	9.0
10 krooni	94.3	95.0	92.4	83.0	9.4	9.5	9.2	8.3
25 krooni	233.4	232.8	230.8	196.7	9.3	9.3	9.2	7.9
50 krooni	54.4	52.1	48.5	45.0	1.1	1.0	1.0	0.9
100 krooni	1,193.1	1,165.2	1044.7	798.5	11.9	11.7	10.4	8.0
500 krooni	9,942.5	10,194.6	8104.1	4490.5	19.9	20.4	16.2	9.0
Banknotes total	11,610.3	11,833.9	9,613.2	5,698.4	85.4	86.3	80.0	65.2
5 senti	2.1	2.0	2.0	2.0	41.2	40.8	40.4	39.3
10 senti	14.6	15.2	15.4	13.9	146.0	152.1	154.1	139.0
20 senti	24.7	26.1	26.6	22.0	123.4	130.6	132.8	109.9
50 senti	25.1	27.2	28.0	23.1	50.2	54.4	55.9	46.2
1 kroon	69.7	74.8	74.8	56.3	69.7	74.8	74.8	56.3
5 krooni	9.0	9.4	9.7	11.4	1.8	1.9	1.9	2.3
Coins total	145.1	154.9	156.4	128.6	432.3	454.6	460.0	392.8
Collector coins	6.7	7.5	7.9	11.2	0.1	0.1	0.2	0.3
Total	11,762.2	11,996.3	9,777.5	5,838.2	-	-	-	-

Table 2. Cash flows between Eesti Pank and credit institutions

Year	Total amount (EEK million)		Number (million)			
	Issued by Eesti Pank	Received by Eesti Pank	Issued by Eesti Pank		Received by Eesti Pank	
			Banknotes	Coins	Banknotes	Coins
2007	12,474.8	12,472.6	114.6	38.4	110.5	0.3
2008	12,897.5	12,646.9	102.0	24.7	101.1	2.6
2009	10,131.5	12,337.0	77.1	12.0	82.7	6.7
2010	9,918.2	13,834.7	68.5	16.3	83.1	88.0

Table 3. Banknotes unfit for and withdrawn from circulation as at year-end

Nominal value	Total amount (EEK million)				Number (million)			
	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2007	31/12/2008	31/12/2009	31/12/2010
1 kroon	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.0
2 krooni	14.1	11.0	8.1	14.6	7.0	5.5	4.0	7.3
5 krooni	16.5	11.4	11.3	12.0	3.3	2.3	2.3	2.4
10 krooni	61.3	30.8	26.5	82.8	6.1	3.1	2.6	8.3
25 krooni	47.3	154.0	241.2	80.7	1.9	6.2	9.6	3.2
50 krooni	16.0	17.5	5.0	36.8	0.3	0.4	0.1	0.7
100 krooni	284.6	1017.6	902.5	775.8	2.8	10.2	9.0	7.8
500 krooni	124.8	1774.0	1039.0	3514.8	0.2	3.5	2.1	7.0
Total	564.6	3016.3	2233.4	4517.4	21.8	31.2	29.8	36.7

All banknotes that are returned to Eesti Pank are sorted with fully automatic sorting machines. Banknotes that are worn or have been damaged in circulation are destroyed and those still suitable for circulation are released back into circulation. This way the quality of cash is guaranteed. In 2010, 36.7 million banknotes totalling 4,517 million kroons were destroyed (see Table 2).

The number of banknotes destroyed by Eesti Pank increased from 2009, because in the autumn of 2010 the central bank also started to destroy banknotes that were suitable for circulation but became unnecessary due to the adoption of the euro.

In 2010, the experts of Eesti Pank analysed 15,998 damaged and mutilated banknotes and 1,372 coins submitted by credit institutions. Four suspect counterfeit banknotes were discovered and were submitted to the police for further investigation.

In 2010, altogether 161 counterfeit Estonian kroon banknotes were discovered (including the

suspect counterfeit banknotes discovered by Eesti Pank) and were analysed at the Estonian Forensic Science Institute. 500-kroon banknotes accounted for the largest share of counterfeit money at 41.6%. Given the total number of banknotes in circulation, the number of counterfeits is relatively marginal. No counterfeit coins were found in 2010.

There were no failures in the circulation of cash in 2010.

The preparation of new banknotes and coins

No new Estonian kroon banknotes or circulating coins were acquired in 2010 due to the adoption of the euro.

In December 2010, Eesti Pank released a three-coin series of collector coins into circulation, dedicated to the Estonian kroon. The series includes a 25-kroon silver coin with spoke coin features, a 50-kroon coin with limestone core and a 100-kroon gold coin. In total 15,500 25-kroon silver

collector coins were issued, dedicated to the history of Estonia and designed by Kärt Summatavet. The number of 50-kroon silver collector coins totalled 20,000 and they were dedicated to the Estonian nature. The coin is pervaded by a round limestone. Limestone and its outcrops are the most famous natural symbol of Estonia, and since 1992 limestone is also the national stone of Estonia. The silver collector coin was designed by Leonhard Lapin and is dedicated to the Estonian people, with 7,500 coins issued in total. The coin depicts a passage of human DNA. The gold collector coin was designed by Hannes Starkopf. All the new collector coins were produced by the Mint of Finland.

The preparations for the euro changeover and changes in the structure of cash

October 2010 marked the beginning of the **coin collection campaign** of Estonian kroons in cooperation with the Estonian Banking Association, commercial banks, the G4S cash division and charity organisations. From October to January, around 125 million coins with a total weight of over 350 tonnes were returned to Eesti Pank. All the returned coins are sorted and deformed and the resulting metal alloy is auctioned.

In the first days of November, Eesti Pank received the first euro banknotes that were acquired through the European System of Central Banks. The **front loading of euro banknotes** to commercial banks started on 15 November 2010 and lasted until 31 December. During that time, 215 million euros – 187 million banknotes and 28 million coins – were front loaded to commercial banks (see Figure 1-2). Commercial banks, in turn, **sub-front loaded euro banknotes and coins** to their clients in the sum of about 31 million euro.

As set out in the guidelines of the European Central Bank and concluded contracts, the commercial banks that participated in front loading or sub-front loading were prohibited to circulate the euro cash received within the front loading or sub-front loading procedure before 1 January 2011. The fulfilment of this obligation was monitored by Eesti Pank’s **Surveillance Committee**. The committee discovered five companies that had violated the terms of the front loading contract concluded with the commercial bank. All the companies that violated the contract terms received a claim for the payment of a contractual penalty. No credit institutions were found to be in violation of the terms of their concluded front loading contracts.

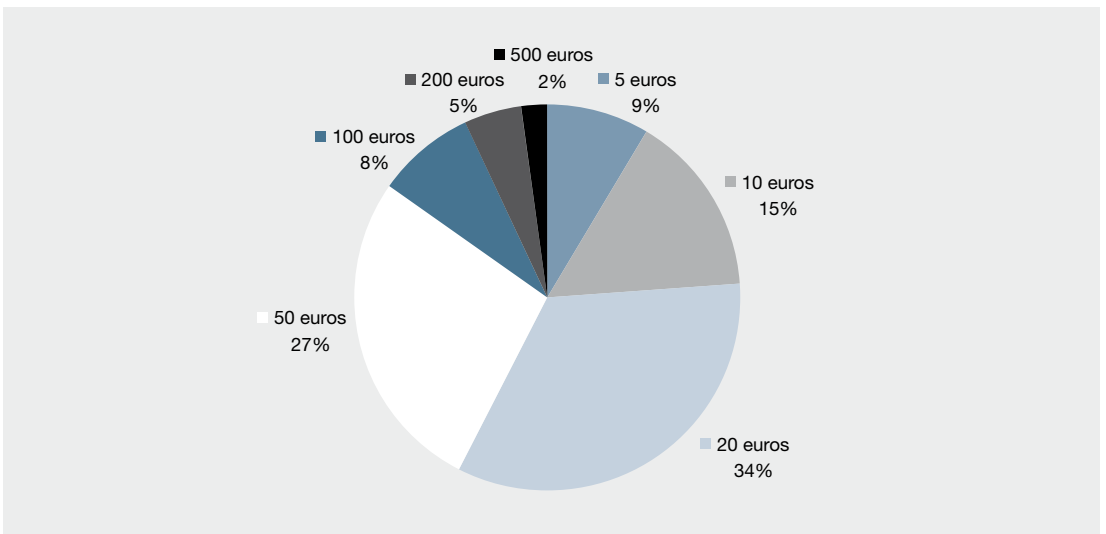


Figure1. Frontloaded banknotes by the total sums of denominations

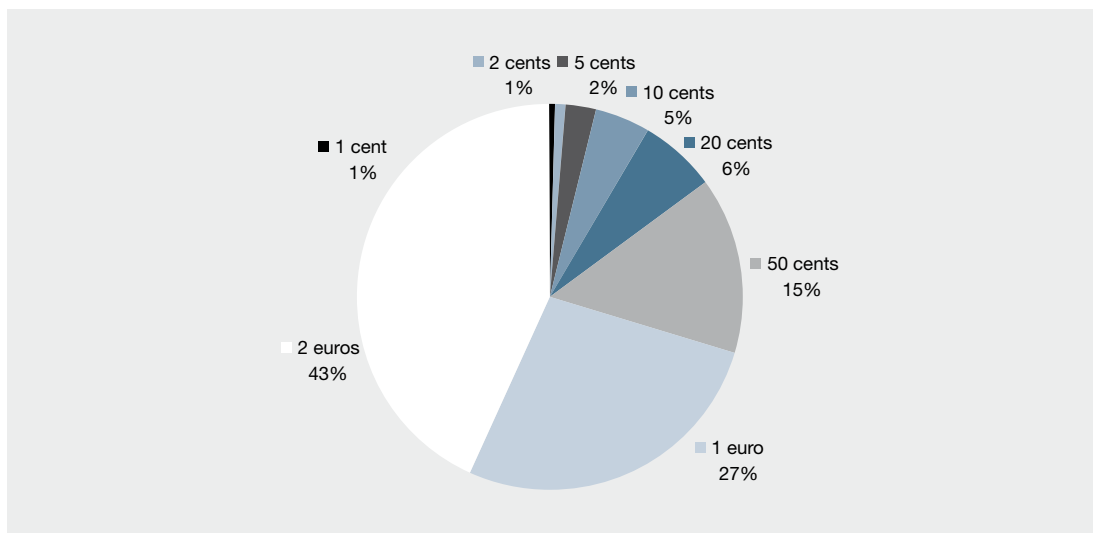


Figure 2. Frontloaded coins by the total sums of denominations

To distribute the workload of cash exchange, Eesti Pank together with commercial banks decided to **offer people an opportunity to exchange kroons at the official exchange rate against euro banknotes already in December**. For that, Eesti Pank made a separate purchase of euro banknotes, as the euro cash obtained for the changeover through the European System of Central Banks could not be circulated before 1 January 2011, and issued these banknotes to commercial banks for exchanging the cash of natural persons at the official exchange rate. In total, Eesti Pank issued 72.5 million euro worth of banknotes to commercial banks.

On 1 December 2010, the euro **starter kits** were made available for sale at the price of 200 kroons (12.79 €) per kit; the kits contained 42 euro coins and a security mark to verify their authenticity. The sale of starter kits in commercial banks and at the post offices of Eesti Post was very successful: nearly 247,000 kits were sold within the first three days. By 31 December 2010, 510,473 had been sold in total (see Figure 3).

Currency exchange is, among other aspects, indicated by the rapid and smooth **adoption of the euro in ATMs**. At the end of December,

867 ATMs were operating in Estonia; 832 of them were refilled by the security company G4S Eesti AS and 35 ATMs were refilled by commercial banks themselves. The refilling of the ATM network was commenced on 30 December during the day and ended in the evening of 31 December, when 99.9% of ATMs were filled with euro banknotes (see Figure 4).

Despite the difficult winter weather, ATMs were filled as planned. There were no failures in the operation of ATMs in terms of the euro changeover, and immediately after midnight, the ATMs of Swedbank, SEB and Nordea issued euro banknotes. The first euro banknote was withdrawn 4 minutes after midnight. On 1 and 2 January 2011, 85,000 withdrawals were made from ATMs with the total value of about 5 million euro.

During the last week of December, **the amount of kroon cash in circulation** decreased rapidly. At the beginning of December, there were still about 8.1 billion kroons in circulation, while at the end of the month this figure stood at about 5.8 billion kroons. Another 4.1 billion kroons were removed from circulation in January 2011, and at the end of the month, kroon cash in circulation totalled 1.7 billion Estonian kroons. By the end of

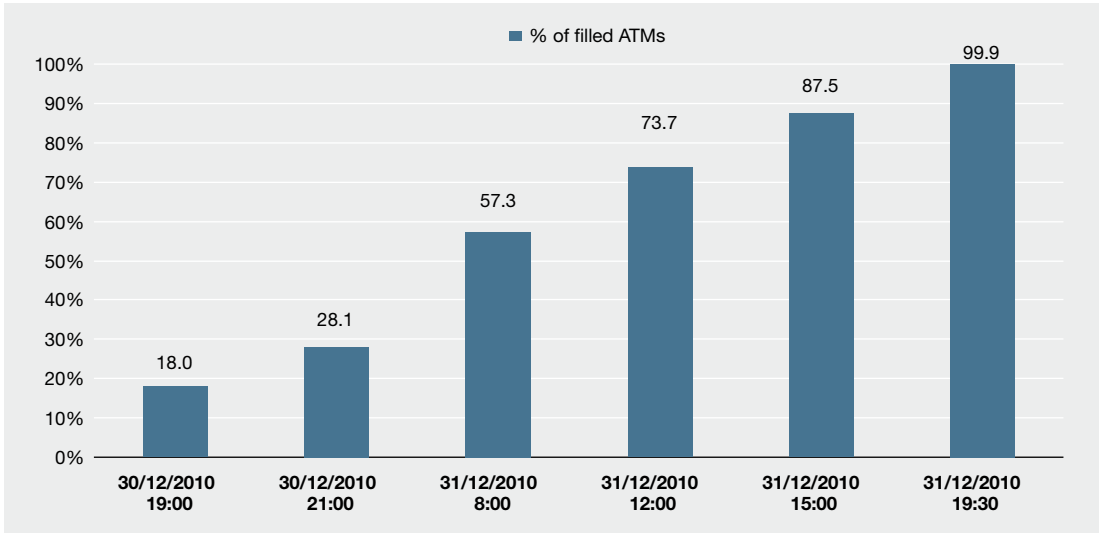


Figure 3. Filling ATMs with euros 30-31/12/2010

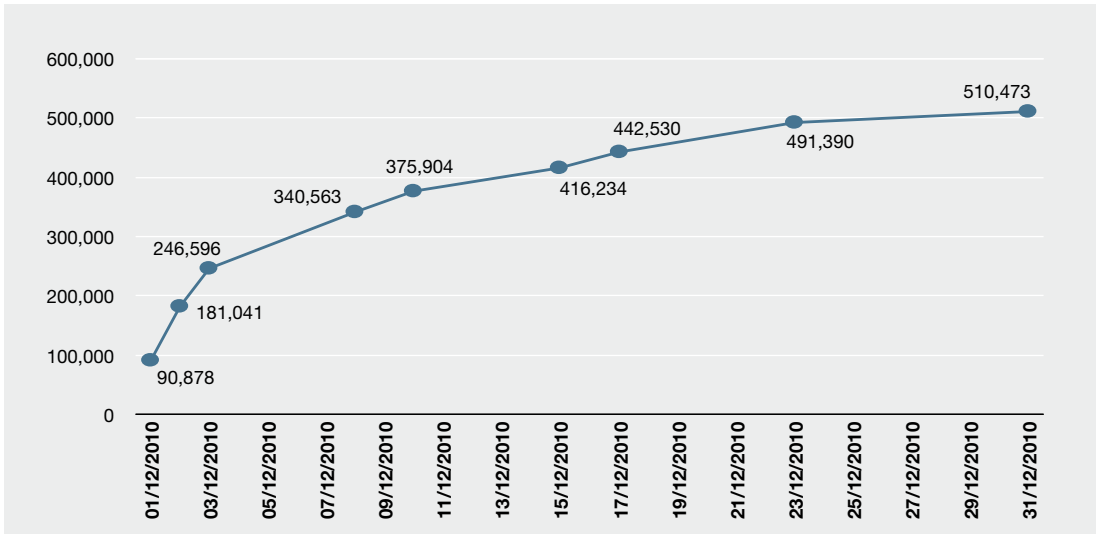


Figure 4. Number of starter kits sold

January, Eesti Pank had issued 245 million euro (net), of which banknotes made up 216 million and coins 29 million euro. The breaking point, when the sum of Estonian kroons in circulation

was smaller than the net issue of euro cash, arrived on the tenth day of the dual circulation period (see Figure 5).

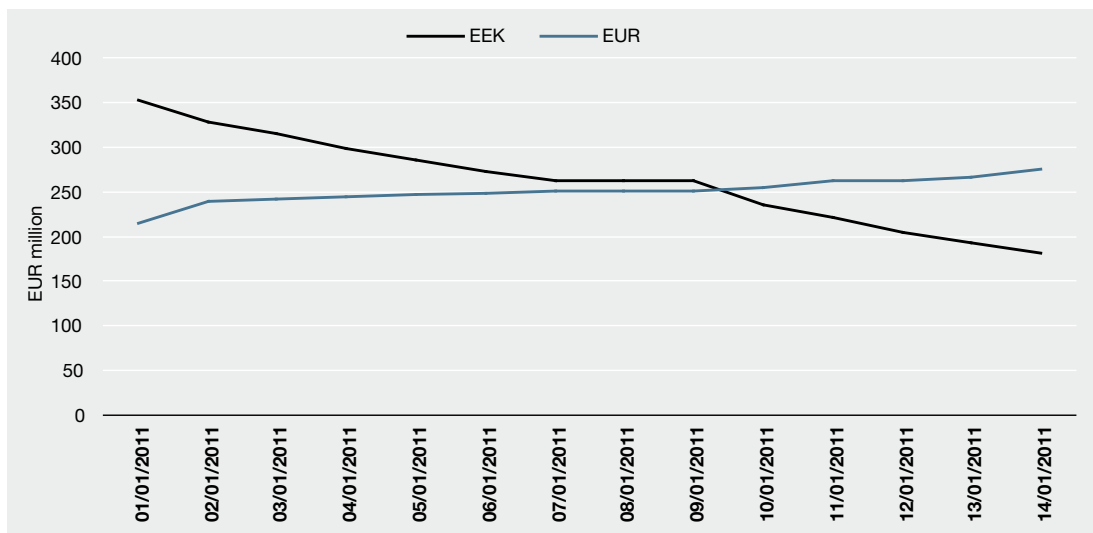


Figure 5. Euros and kroons in circulation