

Foreword by the Governor of Eesti Pank

In 2010, Eesti Pank's work in managing the country's monetary system and fulfilling the duties of a central bank went flawlessly and smoothly. We not only did all of our ordinary work, but we also made major preparations for the adoption of the euro, which involved thorough preparations for our work in the Eurosystem where we must carry out the tasks of a national central bank in the euro area. Indeed, in 2010 Eesti Pank's main agenda was the introduction of the euro.

The preparations for the changeover had actually already been going on for years. The adoption of the euro became a strategic goal of Estonia and Eesti Pank in autumn 2003, when the Estonian people voted in a public referendum in favour of joining the European Union, which also meant agreeing to join the euro area. Estonia joined the exchange rate mechanism ERM II immediately after becoming a member of the European Union in 2004, as this was one of the conditions of the transition to the euro. A National Changeover Committee was established in January 2005 to prepare Estonia for the euro and systematic preparations began in all areas.

Estonia became a member of the Eurosystem on 1 January 2011. This day changed the real life of people in Estonia as the euro became legal tender. During the two-week dual circulation period, Estonians became accustomed to using euro banknotes and coins alongside their kroons, then gradually Eesti Pank eliminated the kroon banknotes and coins from circulation and replaced them with the new currency. By the end of the second week of 2011, the value of the euro banknotes issued by the central bank exceeded the amount in kroons still in circulation. Households, the retail trade, businesses and banks all coped equally successfully with the transition and the exceptional period. The adoption of the euro was seen as positive by 87% of Estonian residents, who considered the transition to have been smooth and efficient.

Since the day when Eesti Pank became one of the seventeen central banks of the Eurosystem, it has also assumed a share of the responsibility for the monetary policy of the euro area. Eesti Pank started to answer for the whole euro area's price stability together with other euro area countries. This means that as the Governor of Eesti Pank, I have been participating since the beginning of 2011 in making decisions that concern not only Estonians but all 331 million people in the euro area. In consequence, the operation range of the central bank has expanded dramatically. In 2010, we prepared ourselves for the new role by participating as observers in the European Central Bank's Governing Council, committees and working groups. Our final adjustment to the new range of our operations and tasks will be achieved over a few years through actually doing the work of the Eurosystem.

The key goal of Eesti Pank was and still is to maintain price stability. The year 2010, the year of transition to the euro for Estonia, saw relatively rapid global economic growth that was nevertheless threatened by several risks. In the second half of the year, inflationary pressures started to grow following a hike in the price of energy and food. This led to a rather swift rise in prices in Estonia too, where prices grew by 3%, year-on-year. Moreover, in the last quarter of 2010, food prices climbed by 10.8%. This also left a mark on the preparations for the euro changeover and required additional efforts to alleviate the price rise anxiety and explain the inflation mechanism. The display of prices in two currencies turned out to be essential, and this practice will continue until 30 June 2011.

In addition to alleviating fears about price rises, the nation-wide information campaign and Eesti Pank's pre-changeover information distribution focused on practical points. According to surveys, the national euro information campaign was successful across all target groups and nearly 95% of the population was sufficiently informed about the practical aspects of the euro changeover. The smooth changeover boosted popular support for the euro to 60% and this was definitely a major success.

In 2010, Eesti Pank finished implementing one of its most important strategic goals as the euro was adopted successfully and a development stage in Estonian monetary and economic policy came to an end. With the adoption of the euro, a new era began for Eesti Pank in an expanded and changed environment with much greater responsibility. Our final identification as a member of the Eurosystem still lies ahead; in this respect, Eesti Pank's preparations for the adoption are still continuing.

The adoption of the euro means more for Estonia than merely replacing one currency with another. The introduction of the euro has changed our economic context considerably. The adoption process involved companies, organisations, state agencies and also the Estonian people, but during the extensive and time-consuming preparations, ordinary operations also had to continue on their usual scale. Everybody had to make an effort and we all coped very well, and everybody deserves the deepest gratitude and praise for this! It was a remarkable and successful year.

Andres Lipstok
Governor

