

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
Regular reporting on economic policy views and making economic data available to the public	17
STRATEGIC OBJECTIVES FOR PERFORMING THE MAIN TASKS OF EESTI PANK	20
MAJOR ACTIVITIES AND ACHIEVEMENTS OF EESTI PANK IN 2005	
MONETARY POLICY	24
Ensuring smooth operation of Estonia's current monetary policy framework.....	24
Primary features of Estonian economic policy in regard to monetary stability	24
Monetary policy in 2005	24
Preparations for bringing Estonian monetary system into accordance with requirements for joining the euro area	25
Economic analysis, forecast and research as the basis for grounding monetary and financial policy decisions	26
Reserve management	27
Structure of foreign exchange reserves	27
Investment process	28
Investment results in 2005 and related factors	28
Changes in the benchmark portfolio in 2005	29
Asset management services to the public sector	29
SAFEGUARDING FINANCIAL STABILITY	30
The role of Eesti Pank in the financial stability framework	30
Financial policy and financial environment in 2005.....	30
Cross-border integration	30
Expansive economic environment and loan growth	30
Regulatory environment	31
Safeguarding financial sector policy and financial stability.....	31
Development of banking regulations in Estonia	31
Financial sector analysis.....	31
Cross-border cooperation and other issues of EU financial policy	32
Financial safety net.....	33
DEVELOPMENTS IN STATISTICS	34
Banking and other financial statistics	34
Balance of payments statistics.....	35
General economic statistics	37

PAYMENT SYSTEMS AND MEANS OF PAYMENT	38
Development of the payment environment	38
Settlement System of Interbank Payments.....	38
Payment methods	40
Payment systems oversight	43
Meeting cash demand	44
Banknotes and coins in circulation and their structure.....	44
Currency circulation	44
Expert analysis of cash	45
Preparations for the euro cash changeover.....	46
PREPARATIONS FOR FULL MEMBERSHIP IN THE EUROPEAN ECONOMIC AND MONETARY UNION (CHANGEOVER TO THE EURO).....	47
Principal features of Estonian economic policy in light of the upcoming accession to the euro area	47
Prerequisites for membership in the euro area.....	47
Technical preparations for full EMU membership	48
Legal framework	48
Payment and currency circulation	49
Internal preparations for the changeover to the euro in Eesti Pank	49
Public communication related to the euro changeover	50
Role of Eesti Pank in ESCB today and after the adoption of the euro	50
European System of Central Banks.....	50
Tasks of Eesti Pank as a central bank of a country within the euro area.....	50
ORGANISATION AND COOPERATION	53
International cooperation	53
Regular cooperation within the European Union structures.....	53
European Central Bank	54
Council of the European Union and its substructures	54
European Commission.....	54
Cooperation with the International Monetary Fund	54
Cooperation within Estonia	55
Public relations and communications	56
Central bank's public relations target groups and user surveys.....	56
Media relations and public appearances	57
Eesti Pank Museum	57
Governance, organisation and personnel policy	57
Eesti Pank's Governing Bodies and Decision-Making Processes.....	57
Governance framework.....	60
Eesti Pank's personnel policy	62
ANNUAL ACCOUNTS OF EESTI PANK	
for the Financial Year Ended 31 December 2005	65
Notes to the Annual Accounts of Eesti Pank.....	70
Independent Auditors' Report.....	87



ANNEXES

Global economy in 2005.....	90
Estonian economy in 2005	93
Key points of economic forecasts of Eesti Pank for 2005.....	108
Decrees of the Governor of Eesti Pank in 2005.....	110
Publications of Eesti Pank in 2005	111