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MINISTEERIUM

MINISTRY of FINANCE of the REPUBLIC of ESTONIA

Overview of State Treasury's Activities

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February 7, 2013

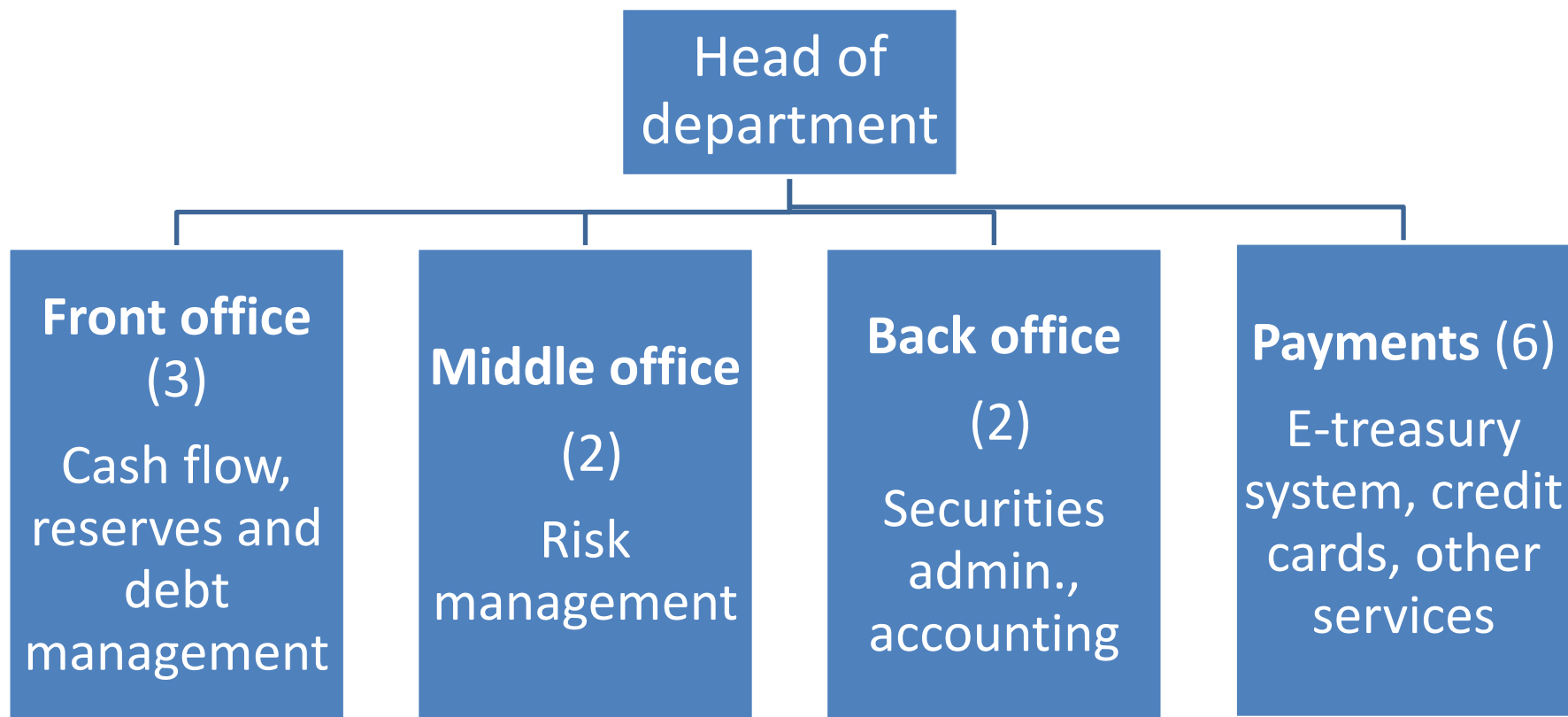
Today's issues

1. State Treasury's responsibilities
2. Overview of state's assets and liabilities
3. Financial risk management

Responsibilities of State Treasury

1. Cash flow management
2. Financial reserves management
3. Debt management
4. On-lending and guarantees management
5. Financial risk management
6. Payments and channeling other banking services
7. General financial advice

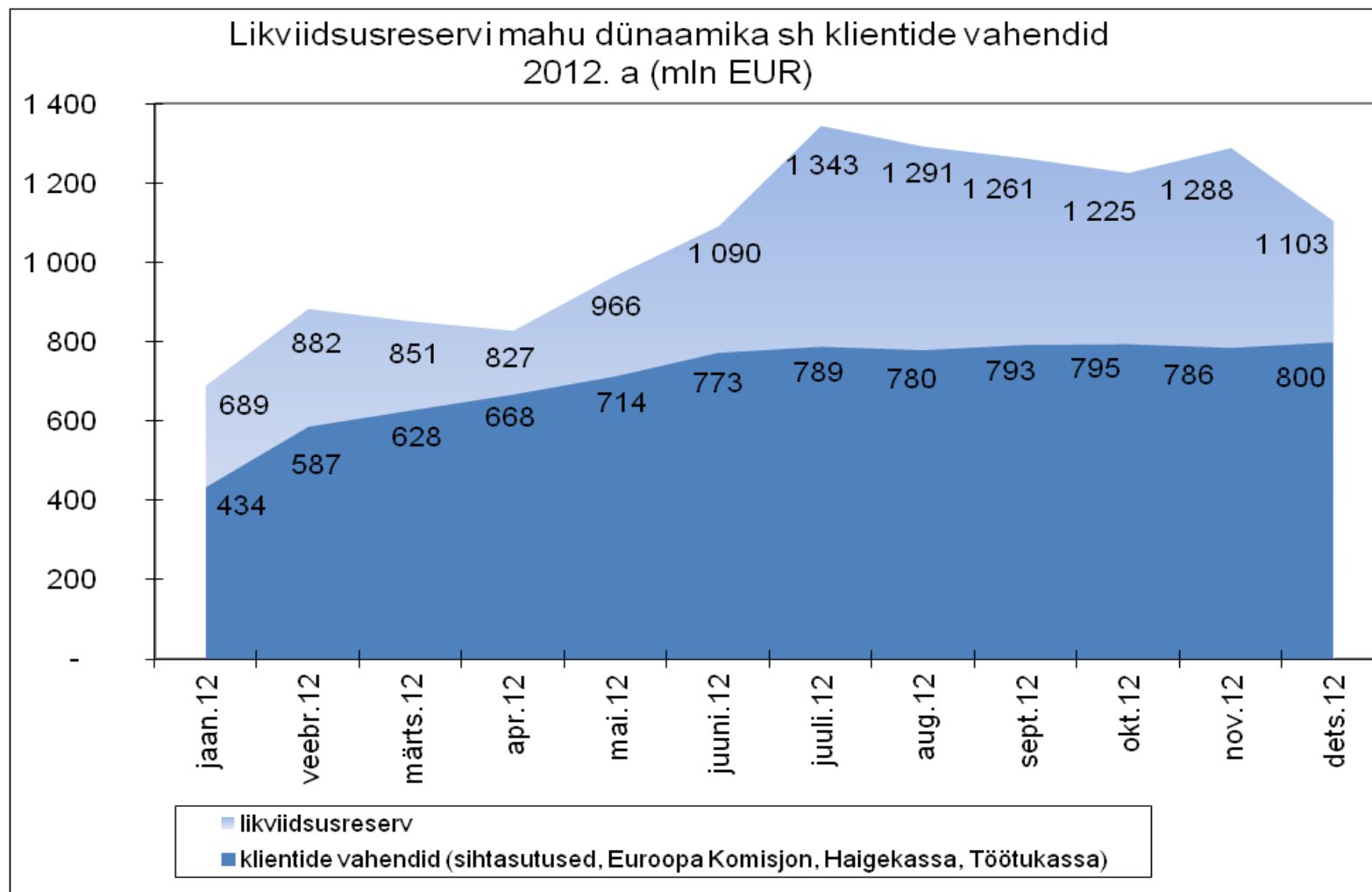
Organizational chart



Consolidated cash management

- Consolidated cash pool:
 - 485 state entities
 - 50 state owned foundations
 - Health Insurance Fund and Unemployment Fund
 - Other public entities ... (on-going process)
- E-treasury system (developed in-house banking system) for internal accounts (*next presentation*).
- Revenues are collected and payments are channelled through 4 local banks. Max term for deposits:
 - Credit rating Prime-1 92 days; Prime-2 35 days and Prime-3 21 days.

Liquidity in 2012, incl. clients deposits



Principles for state entities

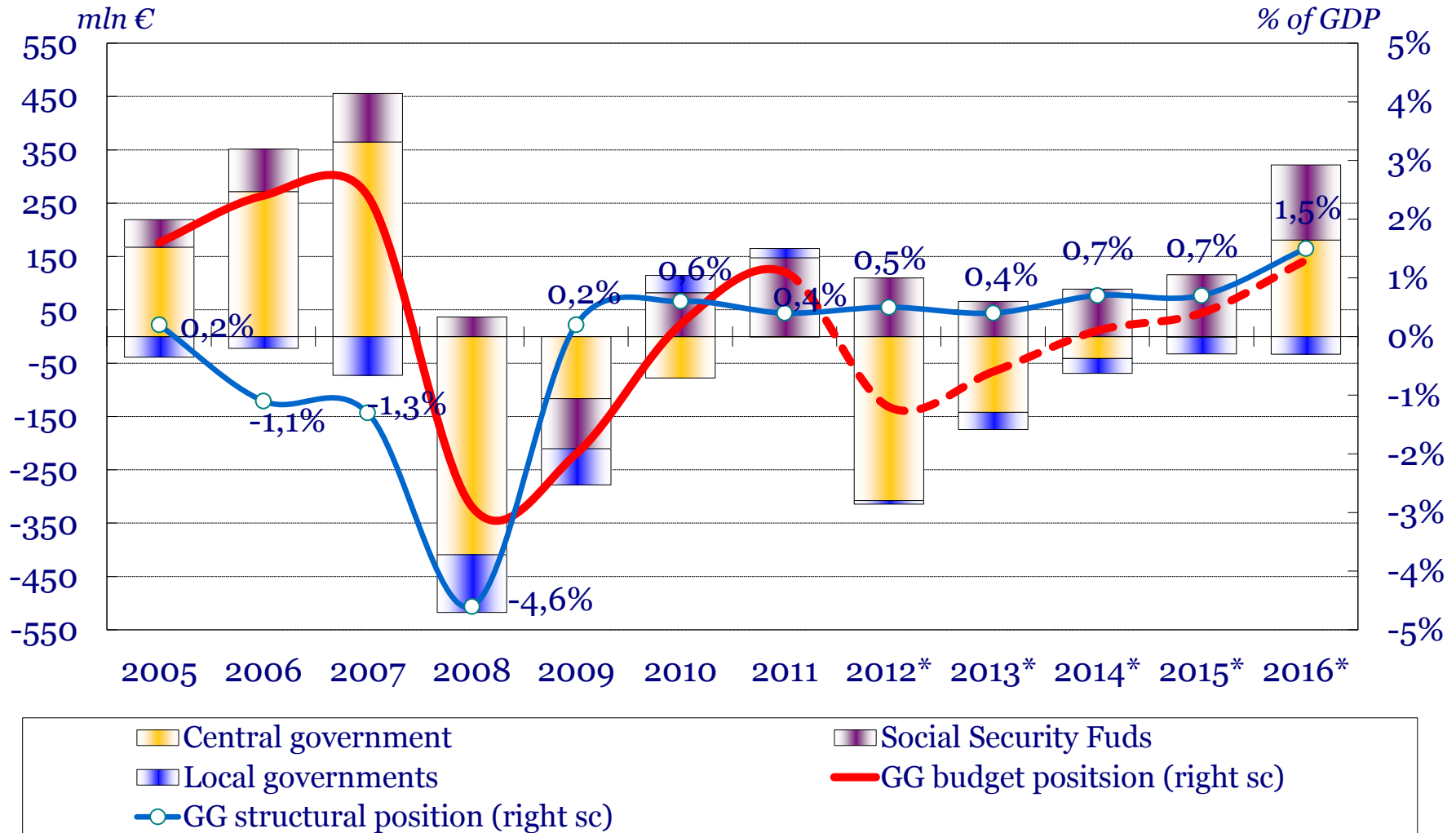
- Ministries and agencies are NOT allowed
 - to have bank accounts (except embassies)
 - to borrow, give loans and guarantees, invest into securities (except if stated in the state budget)
- Treasury pays interest on cash balance of state owned foundations and social insurance funds.
- Treasury covers bank payment fees.
- Treasury arranges centrally bank cards, payment terminals, cash, escrow accounts etc. Costs are charged back to the entity.

Overview of state fin. assets and liabilities

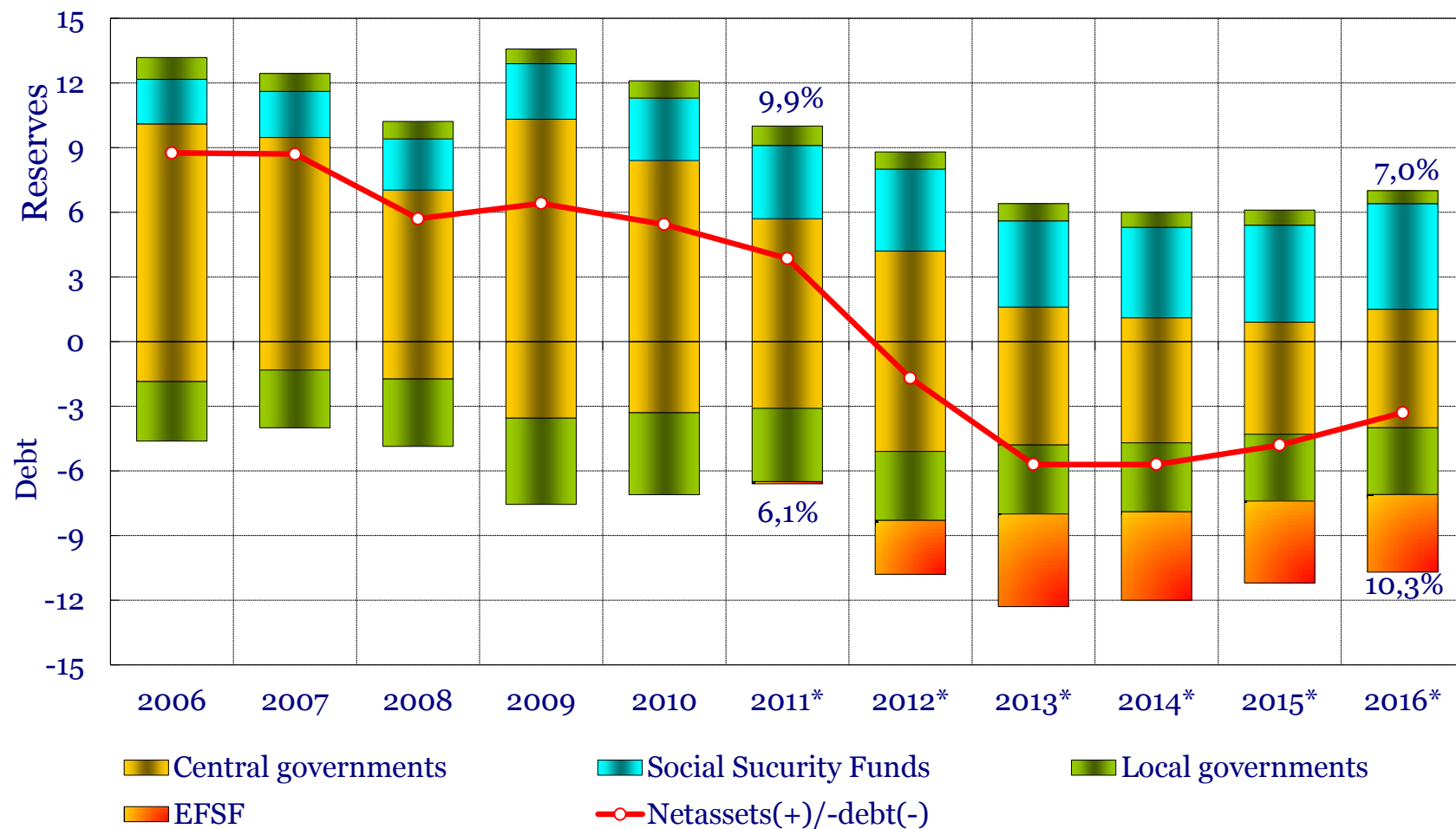
- As of 31 of December 2012

	Mln EUR
Liquidity reserve	1 106
Stabilisation reserve	347
On-lending	51
<i>Total assets under management</i>	<i>1 504</i>
Debt portfolio	554
State guarantees for loans	33

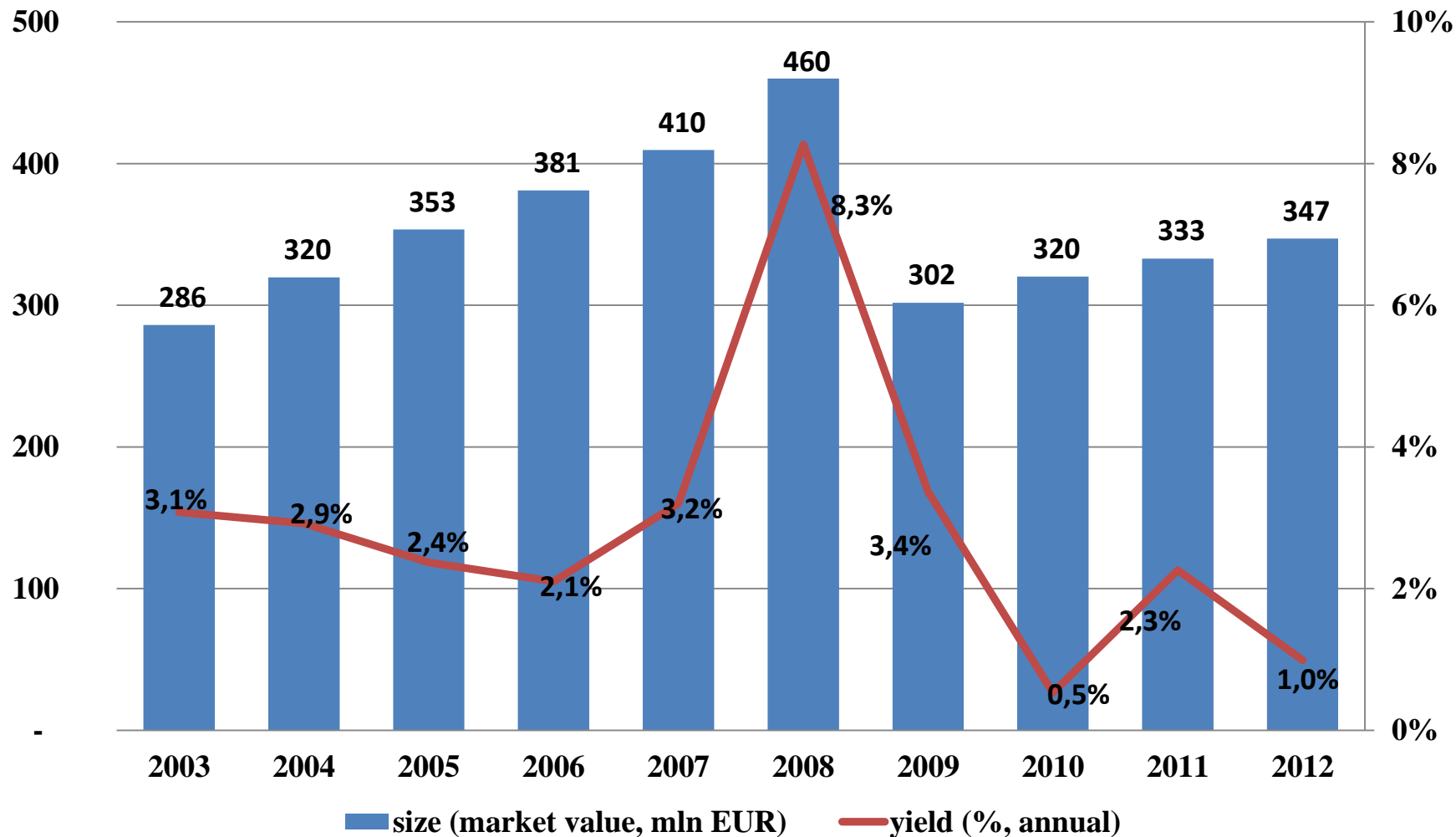
Estonia has run a balanced budget policy over many years



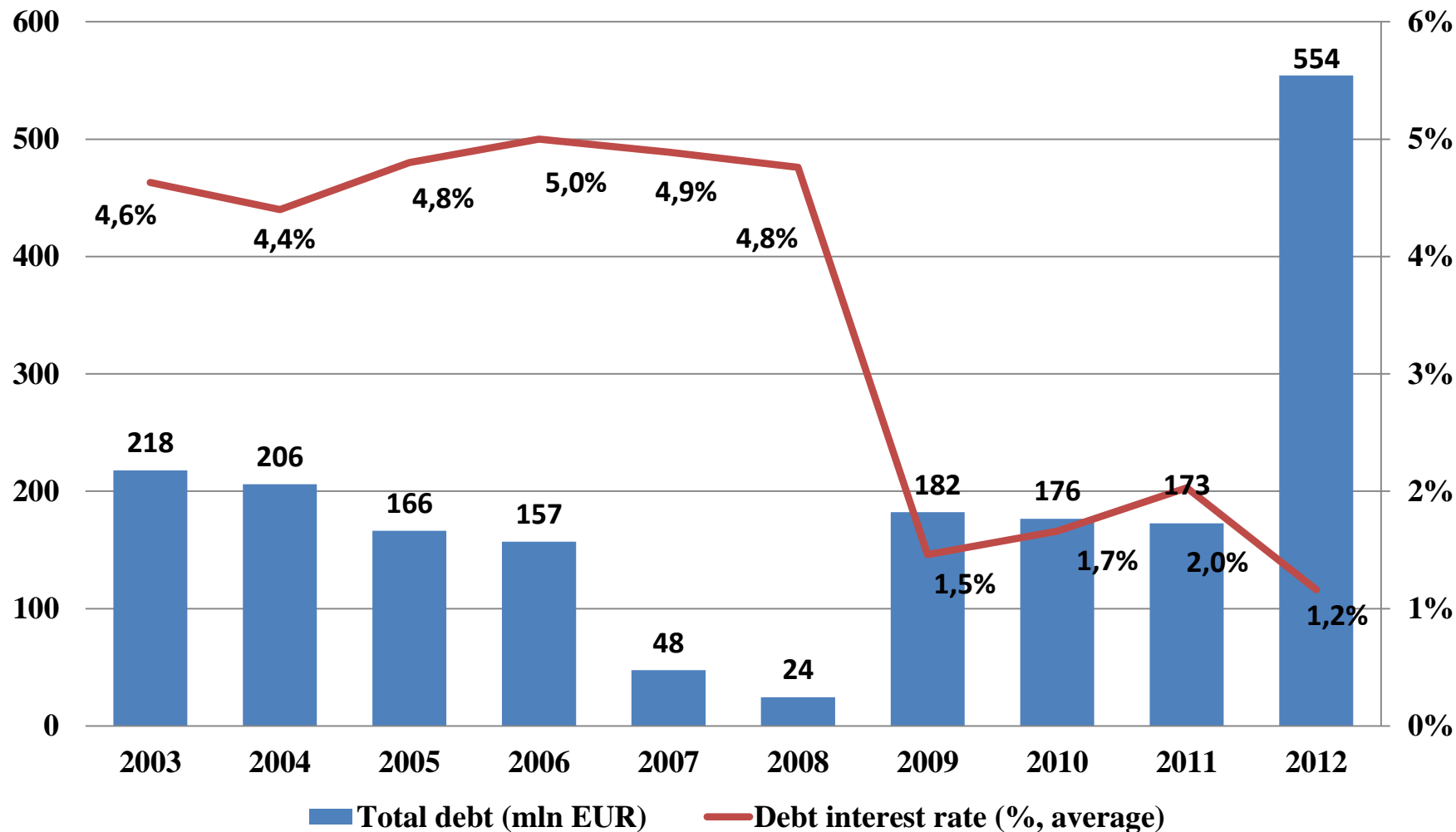
...which has led to extremely low debt levels



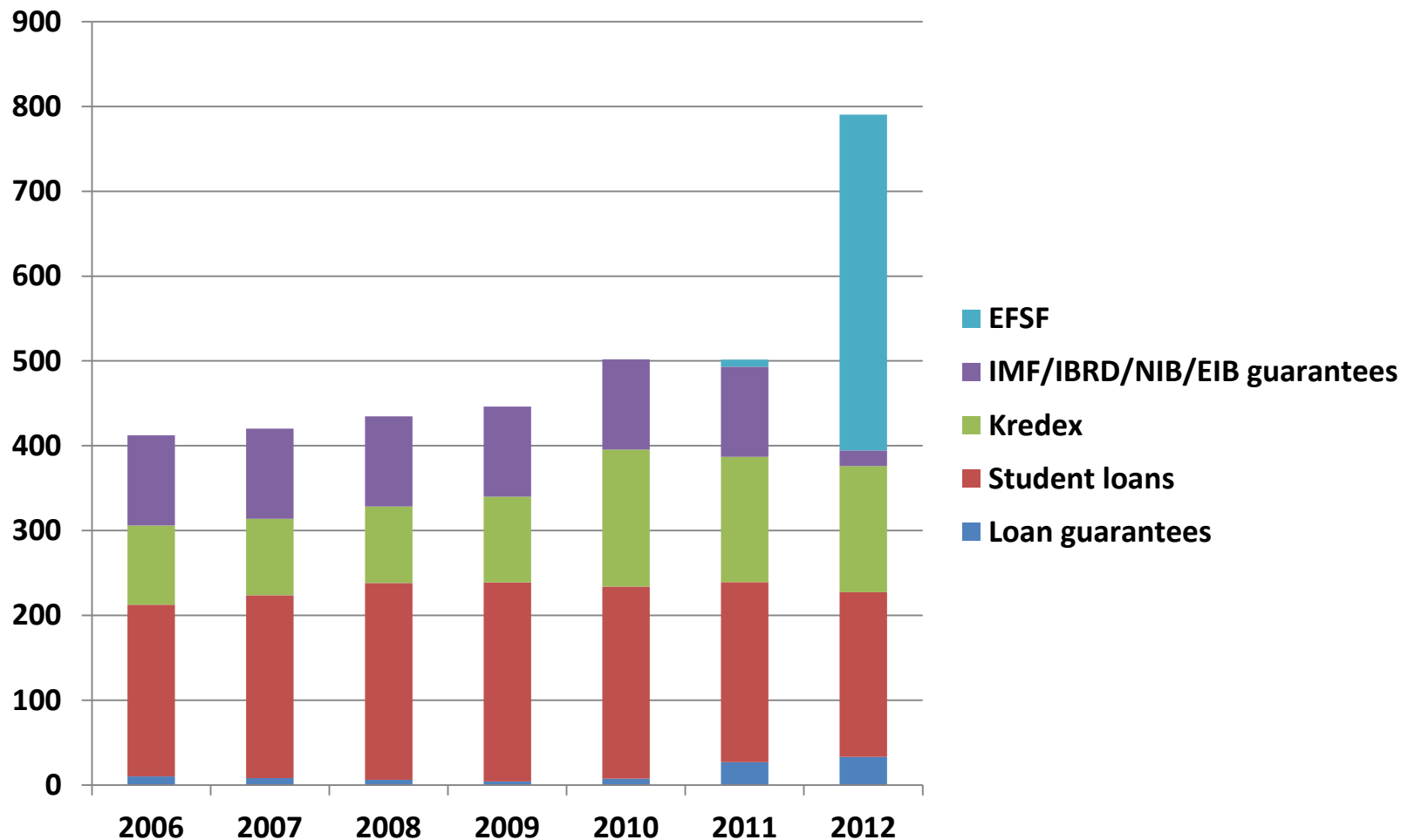
Stabilisation reserve for “rainy days”



Central government debt



We have given a moderate (but growing) amount of state guarantees (mln EUR)



Financial risk management

- Limits set by the Parliament
- Financial instruments
- Liquidity risk
- Currency risk
- Interest rate risk
- Credit risk

Limits set by the Parliament for 2012

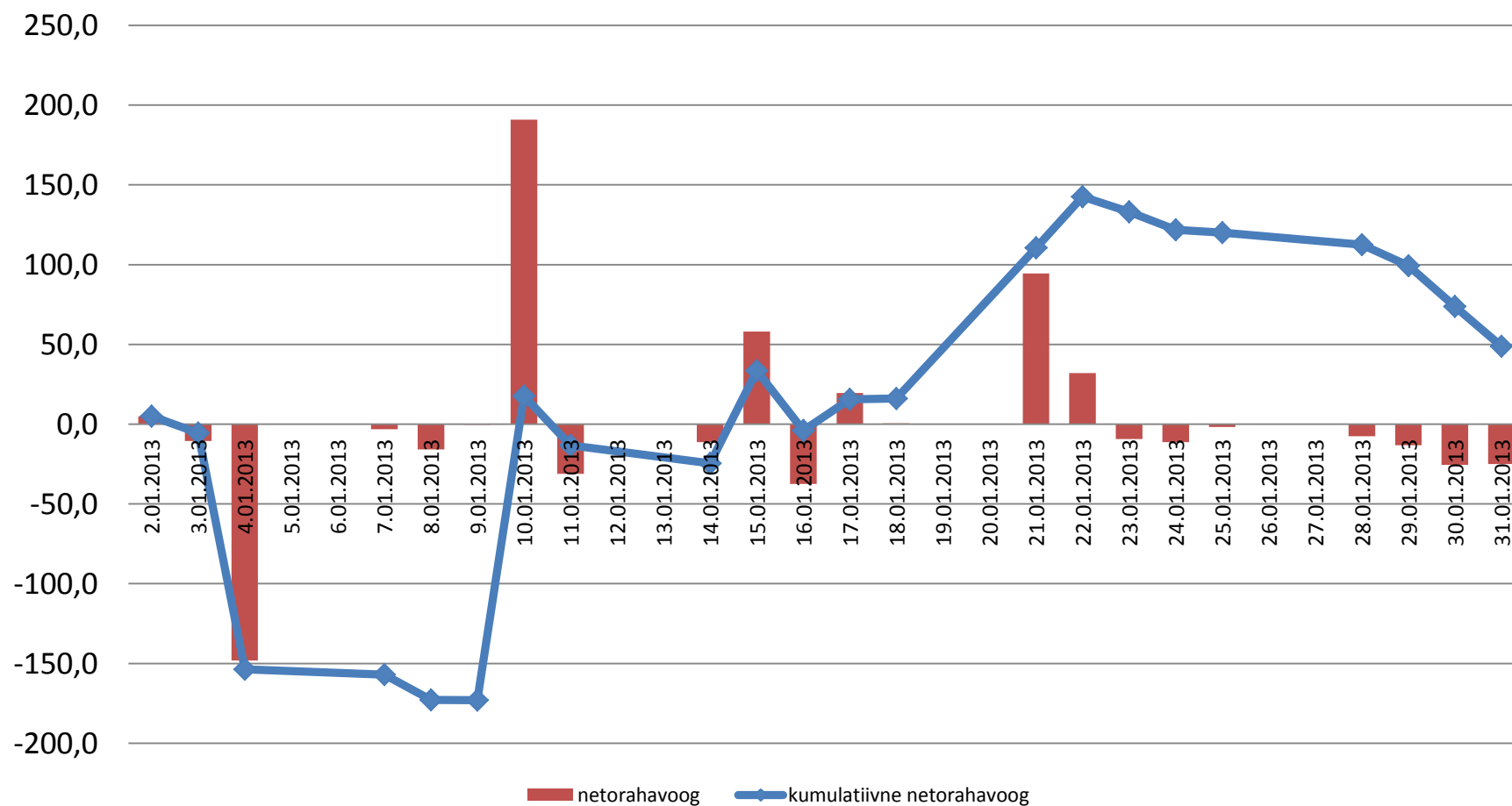
Mln EUR	31 Dec 2012	Limit	Difference
Budget expenditures minus revenues	48	1 100	1 052
EU funds bridge financing	317	483	166
Long term loans	554	1 500	946
Short term loans	-	1 100	-
On-lent loans	51	250	199

Financial instruments

- Financial instruments for asset management:
 - Deposits max 3 months (as of Dec 31 2012 49% of assets)
 - Bonds (51% of assets)
- Derivatives (FX, interest rates) for financial risk management:
 - forwards, swaps, options, caps, floors etc (not active)

Liquidity risk management

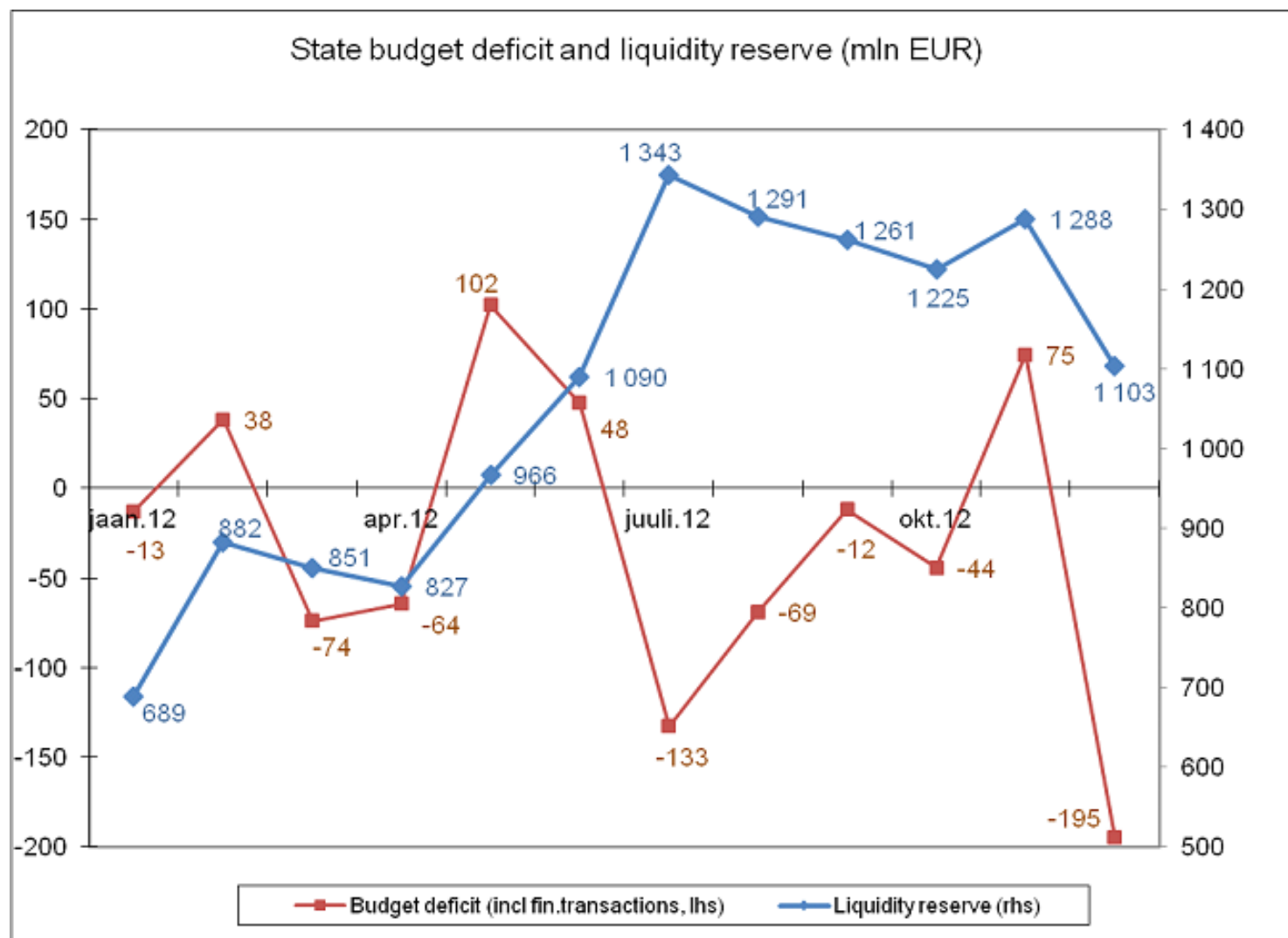
Daily net cash flow and cumulative net cash flow (mEUR) in Jan 2013



Liquidity risk management

- We have internally set that the **minimum liquidity buffer** is 550 mEUR.
- When the liquidity reserve reaches this level, Treasury is ready to act quickly to borrow money if necessary.
- In addition to set minimum liquidity level, we have **back-up lines from banks**:
 - Overdrafts and short-term revolving loans.

Dynamics of monthly cash flows



Interest risk management

- Benchmarks for reserves
 - liquidity portfolio 1 month Eonia
 - stabilisation reserve euro-zone AAA government benchmark bonds
- Debt portfolio
 - Debt's duration 2 months (floating rate debt) to match the liquidity portfolio's duration 2,7 months . No swaps, natural hedging!
 - Average term to maturity 7,7 years (refinancing risk)

Credit risk management

- Minimum credit ratings

Estonian issuer / bank

A3 A-

Foreign issuer / bank

Prime-1/Aa3 AA-

- Max outstanding investment in a single issuer 20% of a portfolio, except AAA

State consolidated risk management principles

- To include all state entities (general government, except local governments) to the Treasury's cash pool in order to avoid people having money to play with themselves and also to increase liquidity;
- No project based loans; loans only for overall cash needs;
- the Treasury advises other state enterprises and agencies on their financial risk management issues.



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Thank you!