



ANNUAL REPORT 1995



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CONTENTS

Introduction	5
The National Economy and the Bank of Latvia's Monetary Policy	6
Inflation and Prices	6
Gross Domestic Product	8
Foreign Trade	9
Fiscal Policy	10
Money Supply	11
Lending and Deposit Rates	13
The Interbank Market	15
Required Reserves	16
Reserve Money	16
The Foreign Exchange Market	20
Government Foreign Borrowings	21
The Securities Market	21
Payment and Settlement Systems	23
Money Circulation	24
Commemorative Coins	25
Supervision of Credit Institutions	26
System of Credit Institutions	26
Origins of the Banking Crisis	26
Regulations Governing the Activity of Credit Institutions	28
Examinations of the Activity of Credit Institutions	29
Monetary Policy Highlights–1995	31
International Cooperation	34
International Financial Organizations	34
Cooperation with Foreign Central Banks	34
Technical Assistance	34
Cooperation in the Area of International Statistics	35
The Bank of Latvia's Administration and Personnel Training	36
The Bank of Latvia's Financial Statements for the Year Ended December 31, 1995	39
The Bank of Latvia's Balance Sheet	40
The Bank of Latvia's Profit and Loss Statement	42
Notes to the Financial Statements	44
Report of the Audit Commission	50
Appendixes	51
1. Monetary Indicators in 1995	52
2. The Bank of Latvia's Month-End Balance Sheets	54
3. The Bank of Latvia's Exchange Rates for German Mark, British Pound, French Franc, US Dollar, Japanese Yen and ECU	56
4. List of Credit Institutions at the End of 1995	57
5. The Bank of Latvia's Structure at the End of 1995	59

INTRODUCTION

In 1995, Latvia maintained its commitment to reform-oriented economic policy. However, the slight upturn of the national economy observed in 1994 was short-lived. The banking crisis and the prolonged exigency of the state budget negatively influenced the economic situation. The political uncertainty before the Saeima elections in autumn 1995 and the slow government formation process hindered decisions vital to the national economy. Although GDP grew in the first quarter, it declined by 1.6% over the reporting year. The monetary policy implemented by the Bank of Latvia provided for the stability of the lats and relatively low inflation, thus ensuring a reasonably stable macroeconomic situation in the country.

Inflation continued to decelerate, it was 23.1% in 1995 (26.3%, in 1994). The average (gross) wage of persons employed in the public sector increased by 10.1% during the year beginning December 1994. In 1995, unemployment decreased slightly (6.7% at the beginning of the year, and 6.6% at the end of the year).

The state budget deficit in 1995 reached 3.8% of GDP and was twice as large as estimated originally. The deficit was financed mainly with the proceeds from sales of Treasury bills, as well as with borrowings from the Bank of Latvia, domestic banks and foreign institutions.

The exchange rate of the lats against the SDR was stable during the reporting year. Fluctuations in the exchange rates of foreign currencies against the lats were prompted by developments in the world currency markets. In 1995, the lats appreciated against the British pound, Japanese yen and US dollar, but depreciated against the French franc and German mark. In 1995, foreign currency reserves declined due to the increase of foreign currency sales, as a result of the banking crisis.

The Saeima of the Republic of Latvia passed the Law "On Credit Institutions" in October 1995, replacing the Law "On Banks". The amendments to the Code of Administrative Offenses of Latvia and the Criminal Code of Latvia elaborated the responsibilities and obligations of those involved in banking transactions. The Bank of Latvia set increasingly restrictive standards regulating the activities of credit institutions. With the Law "On Credit Institutions" coming into force, these standards were harmonized with EU directives in the reporting year. The Bank of Latvia's efforts in supervising credit institutions limited the adverse consequences of the banking crisis, and ensured the further development of those banks which operated in accordance with the existing legislation and complied with standards established by the Bank of Latvia.

In the reporting year, the Bank of Latvia participated in preparing financial information in accordance with the international statistical standards

for publication in *International Financial Statistics*.

During the reporting year, the Bank of Latvia introduced new, more flexible monetary policy instruments, improved payment and settlement systems and granted credits to banks through repo auctions.

The monetary policy results presented in the Annual Report are derived from the analysis of monetary and banking statistics performed by the Bank of Latvia. The economic situation in the country has been analyzed utilizing data provided by the Central Statistical Bureau of Latvia.

THE NATIONAL ECONOMY AND THE BANK OF LATVIA'S MONETARY POLICY

INFLATION AND PRICES

The macroeconomic situation in the country remained stable. The Bank of Latvia's monetary policy ensured the stability of the lats and relatively low inflation, even during the financial and banking crisis.

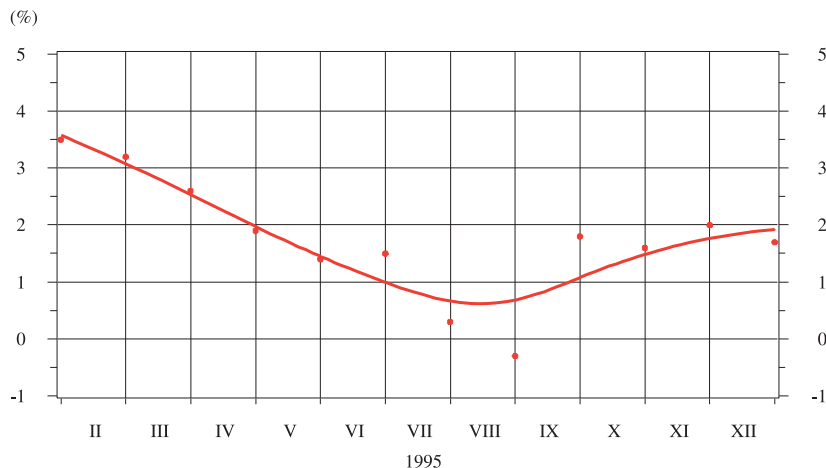
The consumer price index (CPI) showed a slightly smaller increase in 1995 than in the preceding year. Inflation was 23.1% (26.3%, in 1994). No significant month-on-month fluctuations were observed in the CPI during the reporting year (see Chart 1), except for January and February, when monthly inflation exceeded 3%. Hence, in the first quarter, inflation was 9.6% and exceeded the inflation level in the corresponding period of the previous year. In the second quarter, inflation was 4.9%, in the third quarter 1.8% and in the fourth quarter 5.4% (lower than in the corresponding periods of the previous year).

Consumer prices were mainly influenced by an increase in administered (i.e., monopoly) prices, by measures undertaken to protect the domestic market, and by seasonal fluctuations in the prices of food and communal services which occurred at the beginning and end of the year.

Prices of services increased by about 30% over the year, but prices of goods rose by 20%. Price increases in commodity groups comprising the fixed consumer basket differed: prices of food increased by 18.0% (the lowest

Chart 1

CHANGES IN CONSUMER PRICE INDEX (MONTH-ON-MONTH BASIS)



Source: Central Statistical Bureau of Latvia.

price increase); increases in prices of leisure, cultural, educational goods and activities, in expenses for housing maintenance and rent, and in prices of health care were approximately twice as high as the increase registered in food prices (39.6%, 35.4% and 32.3%, respectively).

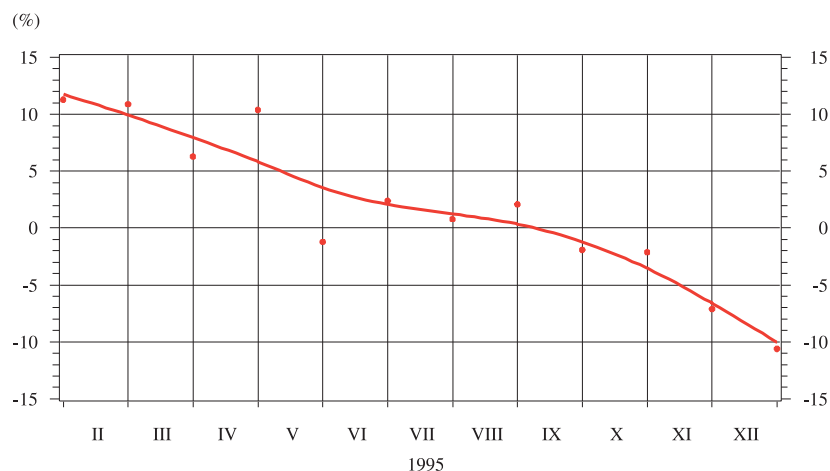
The real purchasing power of persons employed in the public sector decreased by 10.6% in the reporting year. This happened because the growth in the average wage index was slower than in the CPI (see Chart 2). The average monthly (gross) wage in this sector of the national economy, amounting to LVL 114.34 (USD 208.65) in the last month of the reporting year under the influence of seasonal factors, exceeded the level of December 1994 (LVL 103.82 or USD 189.45).

Over the reporting year, the producer price index increased by 15.9% (by 10.8% in 1994). A rise in the prices of imported raw materials accounted for an increase of producer prices in all branches of industry, the most rapid being in the manufacture of electrical machinery and apparatus (by 29.0%), publishing, printing and reproduction of recorded media (by 26.8%), as well as in the manufacture of other transport equipment (by 26.1%). The construction and installation price index rose by 40.6% in 1995.

The export unit value index increased by 16.1% in 1995, and did not substantially exceed the level recorded in the previous year (15.2%). Compared with the previous year, the most significant growth in the export unit value index was recorded for textiles and textile articles (by 32.4%), and transport vehicles (by 23.0%), whereas the lowest increase was for prepared foodstuffs (including alcoholic and non-alcoholic beverages, and tobacco products; by 6.2%).

Chart 2

**CHANGES IN REAL WAGE OF PERSONS EMPLOYED IN PUBLIC SECTOR
(VS CORRESPONDING PERIOD OF PREVIOUS YEAR)**



Source: Central Statistical Bureau of Latvia.

GROSS DOMESTIC PRODUCT

GDP at constant prices decreased slightly in 1995, totalling 1 453.2 million lats (1.6% less than in 1994). Of this amount, 1 321.8 million lats were total gross added value (see Table 1) and 131.4 million lats related to taxes on products.

GDP at current prices amounted to 2 360.7 million lats, having increased by 15.6%, mainly as a result of inflation.

Although the national economy did not show any distinct signs of an upturn, a somewhat slower decline of industrial output (by 6.3%) and a less marked contraction in some sectors of agriculture (meat production decreased by 15.5%, milk production by 5.6%) indicated a stabilization process. An upward trend was observed in several sectors: investments in construction increased by 12.6%, construction and installation by 18.2%, and egg production by 17.0%.

With the purchasing power of population decreasing, retail trade turnover (at constant prices) decreased by 6.6%. A decline in cargo traffic by road and by sea, and shorter distances to be covered during shipment contributed to a decrease of 16.4% in total cargo turnover. Cargo turnover at ports increased by 11.2%.

At the end of 1995, the number of registered unemployed persons in Latvia was 83 231 or 6.6% of the economically active population (at the end of 1994, 83 946 or 6.5%). The number of unemployed decreased in summer

Table 1
GROSS DOMESTIC PRODUCT (AT CONSTANT PRICES) AND ITS STRUCTURE
(in millions of lats)

	1993		1994 ¹		1995	
		%		%		%
Total	1 331.8	100.0	1 342.1	100.0	1 321.8	100.0
Services	708.7	53.2	770.3	57.4	763.7	57.8
Manufacturing	307.1	23.1	274.7	20.5	253.7	19.2
Agriculture, hunting and forestry	155.5	11.7	131.2	9.8	128.4	9.7
Electricity, gas and water supply	100.2	7.5	98.2	7.3	98.1	7.4
Construction	56.6	4.2	63.1	4.7	73.6	5.6
Mining and quarrying	2.4	0.2	3.4	0.2	2.9	0.2
Fishing	1.3	0.1	1.2	0.1	1.4	0.1

¹ Data have been revised.

Source: Central Statistical Bureau of Latvia.

and at the beginning of autumn, falling to 76 559 or 6.0% of the economically active population in September, but it again increased in the final months of the year. At the beginning of the year, the number of persons registered as long-term unemployed totalled 36 075, and at the end of the year, 37 452.

FOREIGN TRADE

The foreign trade turnover of Latvia totalled 1 611.8 million lats in 1995. Compared with the previous year, it increased by 29.1%, including an increase of 24.4% in exports and 32.9% in imports. The main increase was registered for articles of stone, plaster, cement, glassware and ceramic products (by 74.3%), plastics and articles thereof, rubber and articles thereof (by 67.8%), wood and articles of wood (by 63.3%), and prepared foodstuffs (including alcoholic and non-alcoholic beverages, and tobacco products; by 47.9%). A decrease in trade turnover was observed only for mineral products (by 0.9%).

In 1995, Latvia had trade arrangements with 124 countries. The foreign trade balance was negative (see Table 2), and the trade deficit reached 14.6% of total trade turnover (in the previous year, 11.3%) or 10.0% of GDP (in 1994, 6.9%). In 1994, imports exceeded exports by 25.5%, but in 1995, by 34.1%. The main contributors to the negative foreign trade balance were the following product groups: mineral products; machinery and mechanical appliances, electric equipment; products of the chemical and allied industries. Balances of two groups – transport vehicles, and base metals and articles of base metals – deteriorated significantly.

In 1995, Latvia's major trading partners were the EU and the CIS. Trade turnover with the EU increased, whereas it decreased with the CIS. The share of exports to the EU increased from 39.2% of total exports in 1994 to 44.1% in 1995, and that of imports increased from 40.6% to 49.8%, respectively. The share of exports to the CIS decreased from 42.7% to 38.3%, and the

Table 2
FOREIGN TRADE TURNOVER
(in millions of lats)

	1993	1994	1995
Exports	675.6	553.4	688.4
Imports	639.2	694.6	923.4
Balance	36.4	-141.2	-235.0

Source: Central Statistical Bureau of Latvia.

share of imports from 30.4% to 28.2%. The largest trade turnover was with Russia, Germany, Sweden, Finland, Lithuania and the United Kingdom.

In the reporting year, Latvia's main exports were wood and articles of wood (26.4% of total exports), textiles and textile articles (14.0%), prepared foodstuffs (including alcoholic and non-alcoholic beverages, and tobacco products; 11.1%). During the year, the share of the following products in total exports increased: wood and articles of wood, prepared foodstuffs, and live animals and animal products. The share of transport vehicles, base metals and articles of base metals decreased.

In 1995, the main imports were mineral products (21.6% of total imports), machinery and mechanical appliances, electrical equipment (17.5%), and products of the chemical and allied industries (11.3%). Mineral products was the only product group whose share in total imports decreased year-on-year (in 1994, 29.4%).

FISCAL POLICY

The fiscal situation in 1995 was considerably worse than in the previous year. The state budget deficit, exceeding the target deficit more than twice, amounted to 89.9 million lats or 3.8% of GDP. In 1994, the budget deficit totalled 41.3 million lats or 2.0% of GDP. The deficit was financed mainly with proceeds from sales of Treasury bills (42.9% of the deficit), proceeds from sales of Government securities abroad (24.0%), and by borrowings from the Bank of Latvia (17.5%), domestic banks (7.9%) and foreign institutions (6.7%).

The state budget revenue, like in the previous year, was comprised mainly of taxes (90.6%). In the reporting year, the structure of the state budget revenue changed: the share of value added tax revenue continued to increase and constituted 61.7% of budget revenue (in 1994, 50.4%). The share of revenue from enterprise income tax and customs duties in total revenue decreased: in 1994, 22.0% and 6.8% of total revenue, respectively; in 1995, only 13.4% and 5.1%. These structural changes were brought forth, to a great extent, due to the changes in tax legislation – the new Law "On Enterprise Income Tax" came into effect on April 1, 1995, and the Law "On Value Added Tax" on May 1, 1995.

In 1995, a decline in total state budget revenue occurred largely because of enterprises' financial difficulties that were exacerbated by the banking crisis, and because of ineffective tax administration and tax avoidance. Tax payment arrears increased by 31.5 million lats in the reporting year, amounting to 107.4 million lats at the end of the year.

The largest part of the state budget revenue (95.4%) was utilized to finance current expenditure. The level of public investment was very low

(2.6% of total expenditure or 0.5% of GDP). Expenditure to meet domestic and foreign obligations grew alongside an increase in foreign borrowing and issue of Government securities, and amounted to 9.0% of total expenditure (in 1994, 4.6%).

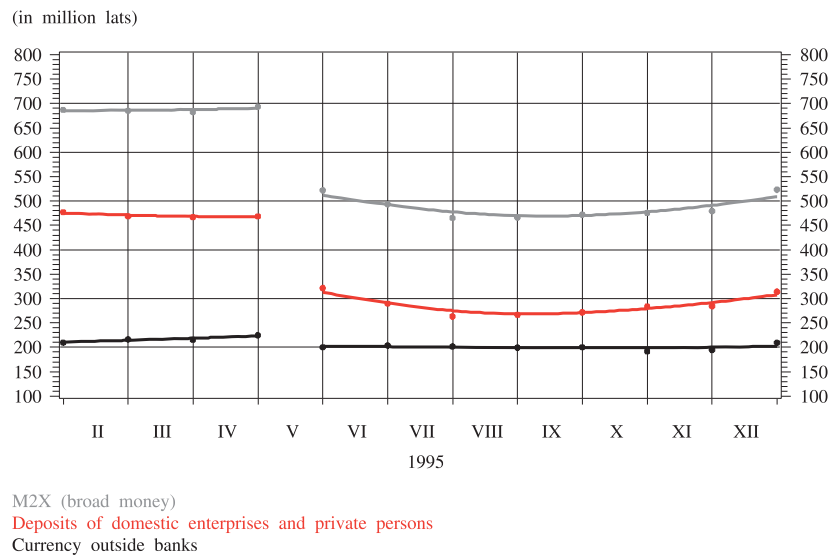
MONEY SUPPLY

The prolonged exigency of the state budget and the banking crisis which originated in May caused a financial crisis in Latvia. The Bank of Latvia restricted and suspended activities of several banks (including *Banka Baltija*), and revoked licenses of several banks in the succeeding months.

The banking crisis substantially affected M2X¹. Data from the banks whose activities had been suspended during the reporting year were excluded in calculating monetary indicators. Therefore, broad money decreased to 523.8 million lats at the end of 1995. A decrease in broad money, which resulted from the crisis in the banking system, continued only in June and partly in July. From August, broad money was on the increase (in the fourth quarter, an increase of 50.8 million lats or 10.7%; see Chart 3). Nonbank deposits decreased by one third, and currency outside banks by only 1.7% during the year. The monetary indicators of the Latvian banking system and

Chart 3

BROAD MONEY*



* Since May 1995, less respective indicators of the banks whose activities have been suspended.

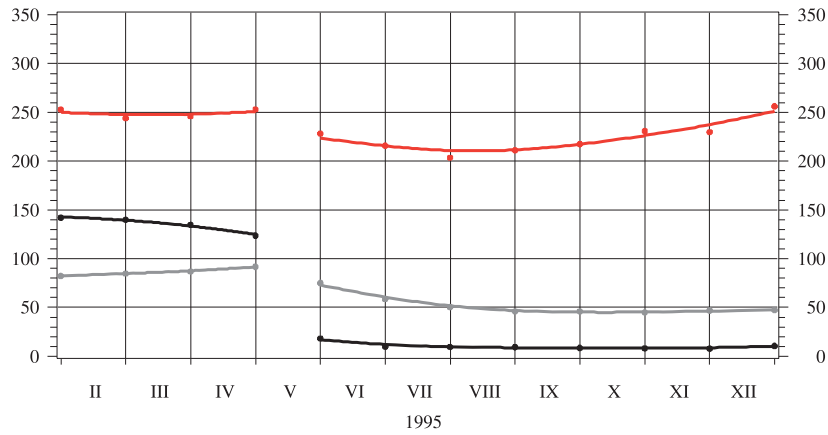
¹ Currency outside banks plus deposits of domestic enterprises and private persons in national and foreign currencies.

the Bank of Latvia are presented in Appendix 1 to the Annual Report (except for Charts 3 to 5, respective indicators include data of banks whose activities have been suspended).

Chart 4

DEPOSITS OF DOMESTIC ENTERPRISES AND PRIVATE PERSONS IN NATIONAL AND FOREIGN CURRENCIES*

(in million lats)



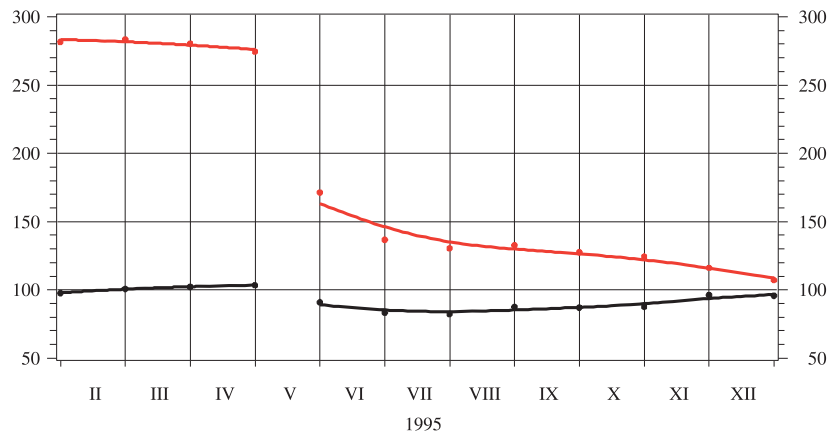
Demand
Short-term
Long-term

* Since May 1995, less respective indicators of the banks whose activity had been suspended.

Chart 5

CREDITS TO DOMESTIC ENTERPRISES AND PRIVATE PERSONS IN NATIONAL AND FOREIGN CURRENCIES*

(balances at end of period; in million lats)



Short-term
Long-term

* Since May 1995, less respective indicators of the banks whose activity had been suspended.

The structure of broad money underwent changes during the reporting year: the share of time deposits decreased from 32.8% at the end of 1994 to 11.1% at the end of 1995 (see Chart 4); deposits of private persons still dominated (over 80% of total time deposits). At the end of the year, demand deposits comprised about half of broad money (at the end of the previous year, 35.9%), and consisted mainly of enterprises' deposits.

The currency structure of deposits also changed during the reporting year: at the end of the year, somewhat less than 50% of total deposits were comprised of deposits in lats (at the end of 1994, about 60%).

The proportion of currency outside banks in the money supply increased from 31.3% at the end of 1994 to 40.0% at the end of 1995. In the reporting year, vault cash in the national currency decreased by 14.2%, and its share of currency in circulation decreased from 8.2% to 7.2%.

Although the financial and banking crisis fueled foreign currency demand and caused a subsequent decrease in net foreign assets of the banking system (by 64.5 million lats or 17.4% over the year), the consistent monetary policy of the Bank of Latvia provided for the stability of monetary system.

Credits to residents declined by 162.2 million lats or 44.4% in 1995. Unlike deposits which had been on the rise since August, credits continued a slow decrease into the second half of the year (in August–December, by 10.0 million lats or 4.7%; see Chart 5). Credits to private and public sectors decreased by 45.3% and 37.6%, respectively.

Although still dominating (over half of total credits were short-term), short-term lending declined significantly during the year. However, credits with a maturity of 1–5 years did not change substantially. At the end of the year, long-term credits comprised 47.2% of total credits (in 1994, 26.6%).

In the reporting year, credits granted in lats increased from 39.9% to 45.0% of total credits. The structure of credits by sector also underwent changes: credits to trade decreased from 37.5% of total credits at the end of 1994 to 33.5% at the end of 1995, whereas credits to manufacturing, and electricity, gas and water supply increased from 15.4% to 24.6% and from 4.9% to 9.9%, respectively.

In 1995, net credit of the banking sector to the Government grew by 48.3 million lats.

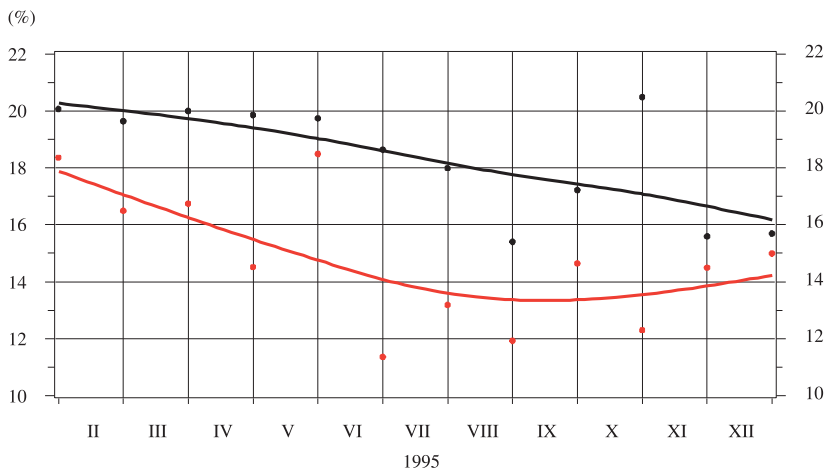
LENDING AND DEPOSIT RATES

In the reporting year, a sustained downward trend in deposit and lending rates was observed. It affected deposits and credits of all maturities in lats and foreign currencies. However, the process was not steady and the extent to which the rates decreased differed by the currency and term structure of deposits and credits.

The average weighted interest rate on long-term deposits in lats decreased from 20.1% at the beginning of 1995 to 15.7% at the end of the year (see Chart 6), and on long-term deposits in foreign currency from 17.6% to 12.0%. A decrease was registered also in interest rates on short-term deposits in lats (from 18.4% in January to 15.0% in December) and in foreign currency (from 16.3% to 9.8%, respectively).

Chart 6

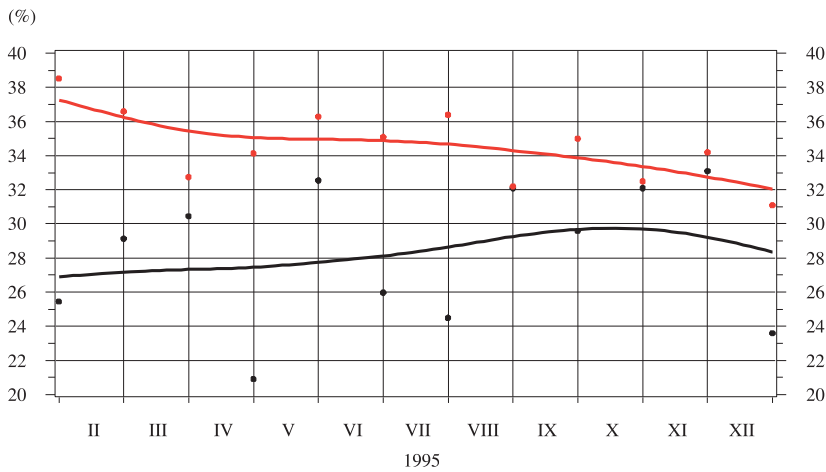
AVERAGE WEIGHTED INTEREST RATES ON DEPOSITS OF DOMESTIC ENTERPRISES AND PRIVATE PERSONS IN LATS



Short-term
Long-term

Chart 7

AVERAGE WEIGHTED INTEREST RATES ON CREDITS GRANTED IN LATS



Short-term
Long-term

Interest rates on deposits in foreign currency were lower than those on deposits in lats throughout the year.

Interest rates on short-term credits, both in lats and foreign currency, fell over the year. The average weighted interest rate on credits in lats decreased from 38.5% to 31.1% (see Chart 7), and on credits in foreign currency from 37.1% to 28.2% during the year. The credit market was characterized by a wide range of interest rate fluctuations.

During the year, the average weighted interest rates on long-term credits also fluctuated, and decreased on credits in lats from 25.5% at the beginning of the year to 23.6% at the end of the year, and on credits in foreign currency from 21.9% to 17.5%.

The main factor underlying the decrease in lending rates was a decrease both in the inflation rate and deposit rates.

THE INTERBANK MARKET

In the reporting year, the banks' activity in the domestic interbank market slackened substantially (especially in June and the fourth quarter). The following factors also contributed to the process: distrust among the banks which was fueled by the crisis, and the possibility to invest profitably available resources in Government securities, which appeared due to the growing state budget deficit. In 1994, the monthly average of credits to domestic banks was 10–15 million lats or about 10% of similar investments with foreign banks, whereas at the beginning of the reporting year, the monthly average for this type of credits amounted to 22–28 million lats. After the banking crisis had begun, credits granted in the domestic interbank market decreased to 7.4 million lats in June and, after an upturn in July, reached the lowest level during the fourth quarter (4.7–6.1 million lats or only 1%–2% of total credits to foreign banks). In the first half of the year, credits were granted also for a time exceeding one month, but during the second half of the year, only overnight credits and credits with a maturity up to one month were granted. In 1995, the average weighted interest rate on credits in lats granted in the interbank market fluctuated between 16% and 25%. Moreover, compared with the previous year, a tendency towards a reduction in lending rates appeared.

The most common credits in foreign convertible currency granted to foreign banks were overnight credits and credits with a maturity up to one month. Interest rates on these credits fluctuated between 5% and 7% during the year. Banks' activity in this type of operations increased gradually over the year and peaked in the fourth quarter, when the monthly average of these credits exceeded 370 million lats. In the second half of 1995, banks were

more active in granting overnight credits in non-convertible currency (the monthly average was 40 million lats).

REQUIRED RESERVES

Since more flexible monetary policy instruments were used to control the money supply, in 1995 the Bank of Latvia maintained the reserve requirement at the level of 8% of average deposits acquired by the bank (irrespective of currency and maturity, and excluding liabilities to domestic credit institutions and the state budget, as well as deposits raised by foreign branches of Latvian banks). The reserve requirement was met with balances on correspondent accounts of credit institutions with the Bank of Latvia and average vault cash balances in lats (the cash component was not to exceed 50% of required reserves). The cash component of the required reserves ranged from 26% to 39% during the year.

A decrease in the number of banks caused a decline in total reserves held by banks with the Bank of Latvia. At the beginning of the reporting year, such reserves totalled 37.3 million lats, and at the end of the year, only 24.2 million lats.

RESERVE MONEY

At the end of 1995, reserve money, M0¹ totalled 273.6 million lats (see Chart 8). It grew by only 1.6% over the year because the Bank of Latvia's net foreign assets decreased as a result of a growth in the demand for foreign currency. A decrease in the currency issuance and an increase in the average annual level of bank deposits held with the Bank of Latvia contracted the share of currency in circulation relative to reserve money to 82.6% at the end of 1995 (at the end of 1994, 86.2%).

Net foreign assets of the Bank of Latvia decreased by 10.1%, and covered three months' imports at the end of the year. During the financial crisis, selling of foreign currency prevailed, and net foreign assets of the Bank of Latvia decreased to 187.2 million lats (at the end of July). However, in the succeeding months, net foreign assets increased, to total 227.2 million lats at the end of the year (see Chart 9).

During the reporting year, net domestic assets of the Bank of Latvia grew by 29.6 million lats. With the fiscal situation deteriorating, the Bank of Latvia's credit to the Government increased substantially (see Chart 10). The Ministry of Finance of the Republic of Latvia utilized the short-term credit facility at the Bank of Latvia in accordance with the Law "On the

¹ Currency in circulation plus bank deposits with the Bank of Latvia.

Bank of Latvia" and the Law "On the Budget and Financial Management". The Bank of Latvia and the Ministry of Finance agreed on the end-month limit of the credit line, the maximum daily and average monthly credit. In the second and third quarters, the Ministry of Finance utilized the credit line more actively than in the final months of the year when the budget deficit was increasingly financed by issuing Treasury bills. To improve the state budgetary position and to ensure the stability of the domestic securities market, the Bank of Latvia granted an extra credit (22.0 million lats) to the

Chart 8

RESERVE MONEY

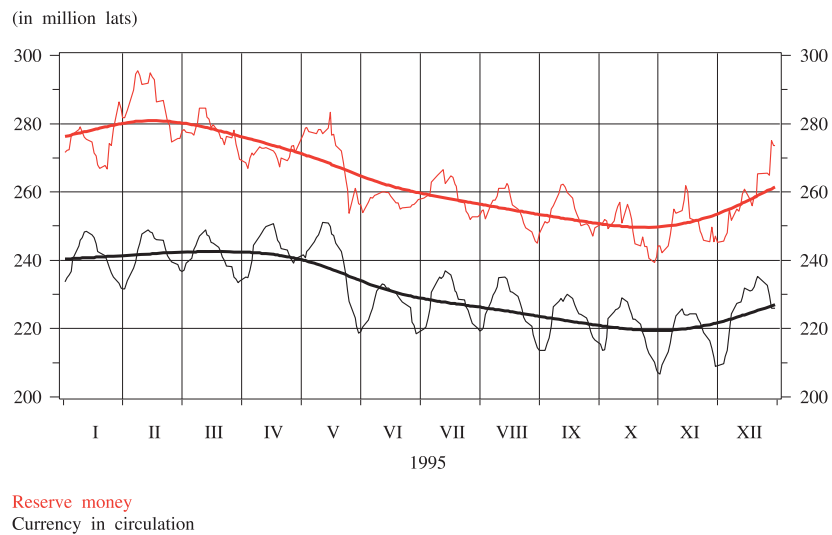
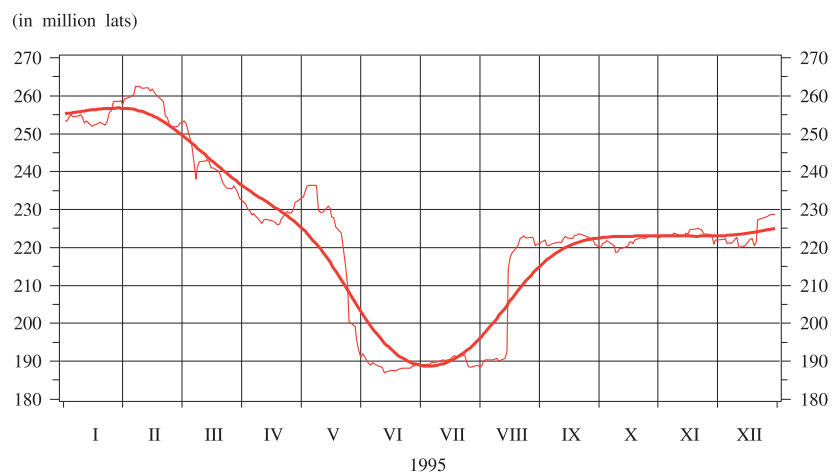


Chart 9

NET FOREIGN ASSETS OF THE BANK OF LATVIA



Government in May 1995 on condition that the Government would submit a balanced budget draft to the Saeima.

During the reporting year, the Bank of Latvia improved the existing and introduced new, more flexible, monetary policy instruments. In September, to improve the interbank payment and settlement system, the Bank of Latvia passed new regulations on granting collateralized (lombard) credits. In October, the Bank of Latvia began to grant credits to banks, using repurchases of Treasury bills. As of October 1, 1995, the Bank of Latvia granted credits only against a collateral of Treasury bills. Repo auctions replaced short-term credit auctions organized by the Bank of Latvia; moreover, repo auctions were organized more often.

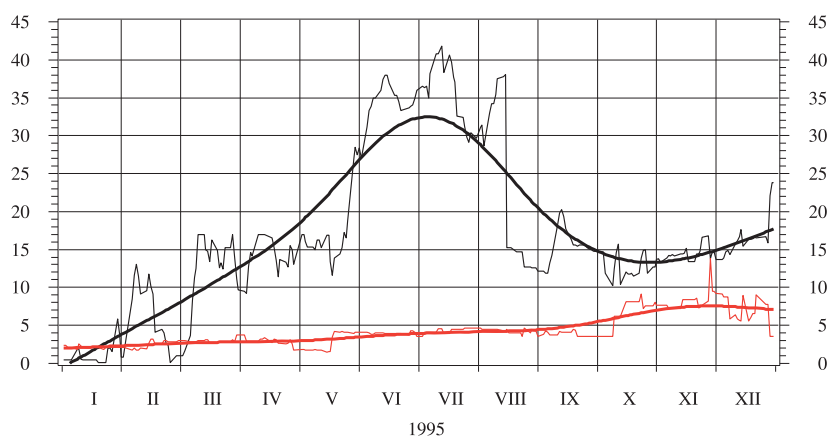
In 1995, the Bank of Latvia's credits to banks totalled 45.8 million lats, and the monthly average credits increased gradually (see Table 3). The annual average weighted interest rate on the credits was 27.5% (see Chart 11). Collateralized (lombard) credits accounted for 36.9% of the Bank of Latvia's total credits, credits granted in repo auctions were 24.8%, credits granted in short-term credit auctions were 19.6%, and extraordinary credits to banks in financial difficulties were 18.7%.

To stabilize the macroeconomic situation in the country, the Bank of Latvia increased the refinancing rate to 26.5% as of June 1, 1995. With the situation in the banking sector stabilizing and the annual inflation level decreasing, the Bank of Latvia reduced the refinancing rate to 25% as of November 20, and to 24% as of December 15. Hence, the annual average refinancing rate was 25.7%.

Chart 10

THE BANK OF LATVIA'S CREDITS TO BANKS AND THE GOVERNMENT

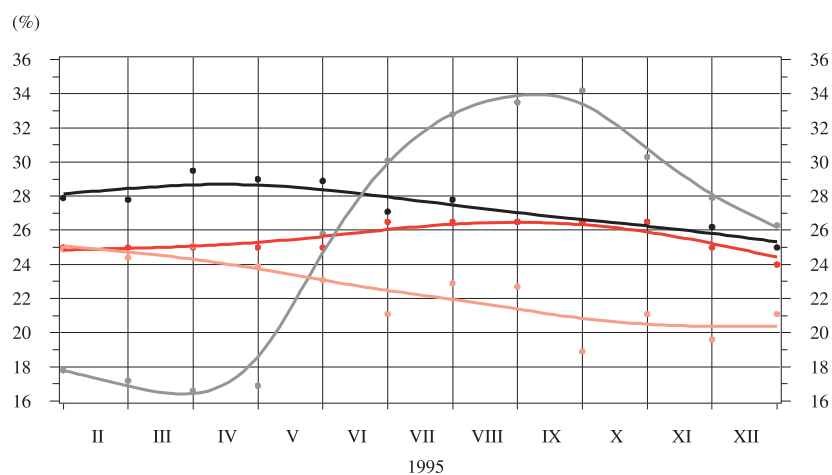
(in million lats)



Credits to banks
Credits to the Government

Chart 11

INTEREST RATES IN THE MONEY MARKET



Refinancing rate set by the Bank of Latvia

Average weighted interest rate of the Bank of Latvia credits granted in auctions

Average weighted interest rate of Treasury bills with a maturity of 28 days

Average weighted interest rate of credits in lats granted in the interbank market

Table 3

THE BANK OF LATVIA'S CREDITS TO BANKS

(average balances; in million lats)

	1993	1994	1995
January	51.9	6.1	1.3
February	46.4	5.9	1.8
March	40.6	2.3	2.2
April	38.0	2.3	2.3
May	37.2	3.0	2.7
June	32.5	2.5	3.9
July	27.2	1.8	4.2
August	18.6	1.7	4.2
September	11.3	1.6	3.8
October	8.9	1.9	6.2
November	6.8	1.6	8.1
December	6.3	1.9	7.4

THE FOREIGN EXCHANGE MARKET

Foreign currency reserves decreased by 42.0 million US dollars in 1995 – from 622.1 million US dollars at the beginning of the year to 580.1 million US dollars at the end of the year. This was prompted by political and economic processes going on in the country, especially during the first month of the banking crisis when net foreign currency sold in one month totalled 69.8 million US dollars. With the situation stabilizing, net sold foreign currency totalled 67.5 million US dollars at the end of the year.

Due to profits gained as a result of the Bank of Latvia's successful management of foreign currency reserves, the decrease in foreign currency reserves was smaller than the net amount of sold currency. The Bank of Latvia managed its foreign currency reserves in accordance with the guidelines approved by the Board of Governors of the Bank of Latvia, emphasizing preservation of value and reserve liquidity. The Bank of Latvia invests its foreign currency reserves in safe and liquid financial instruments. In 1995, increased participation in the world financial markets was ensured by improving the Bank of Latvia's access to world economic and financial information through an on-line system. Improved in-house information systems provided for an opportunity to process information more accurately and to perform better analyses of the currency reserves portfolio, thus improving the quality and results of foreign reserves management.

The foreign exchange rate policy implemented by the Bank of Latvia did not change, and stability of the lats against the SDR currency basket was maintained. The exchange rate of the lats against the SDR has not changed since February 1994 (1 SDR = 0.7997 LVL). During the reporting year, the Bank of Latvia continued to purchase from and sell to banks the five SDR basket currencies (the US dollar, German mark, French franc, British pound, Japanese yen). In order to set more efficient buying and selling rates, the Bank of Latvia started quoting live buying and selling rates at the moment of a transaction. The Executive Board of the Bank of Latvia approved "Provisions on Purchasing and Selling of Non-Cash Foreign Currency" governing foreign exchange operations in the domestic market, which came into effect as of March 1, 1996. The Bank of Latvia set the exchange rates of 22 foreign convertible currencies and of a troy ounce of gold against the lats daily. The exchange rate of foreign currencies against the lats fluctuated in line with the fluctuations of the exchange rates of SDR basket currencies in the global foreign exchange market (see Appendix 2).

GOVERNMENT FOREIGN BORROWINGS

The Ministry of Finance of the Republic of Latvia is responsible for Latvia's foreign borrowing, but the Bank of Latvia, being the financial agent of the Government, participated in the receipt and disbursement of foreign loans.

Government foreign debt amounted to 231.1 million lats (of which 216.4 million lats were foreign borrowings and 14.7 million lats were Government guarantees). By the end of 1995, the Latvian Government had concluded credit agreements and issued guarantees totalling 350.5 million lats.

In the reporting year, the Ministry of Finance specified the amount of foreign debt at the end of 1994 (196.7 million lats). In 1995, foreign borrowing increased by 27.7 million lats, and Government guarantees by 6.7 million lats. Government foreign debt increased mainly as a result of sales of Treasury bills totalling 22.0 million lats by the financial corporation *Nomura International plc*.

During 1995, 17.4 million lats have been spent to service Government foreign debt. This amount equals to 2.5% of total exports in 1995.

THE SECURITIES MARKET

In the reporting year, the securities market for Republic of Latvia Treasury bills continued to develop, and the Bank of Latvia acted as the Government's agent, organizing auctions for securities and booking transactions. Compared with 1994, the supply of securities increased 2.2 times, the banks' demand 1.5 times, and Treasury bills sold rose by a factor of 1.6. However, market development was not smooth. In the first months of the year the securities market continued to expand, but as a result of the banking crisis it contracted drastically, thus aggravating the fiscal position of the Government (especially in the second quarter, when the sales comprised only 12% of the total amount of bills sold during the year). With stabilization tendencies emerging, since September the demand for Treasury bills has been on the rise, peaking in October – November.

Treasury bills with maturities of 28 and 91 days were issued throughout the year, whereas bills with a maturity of 182 days were issued since March. The Ministry of Finance lowered the face value of short-term bills from 100 000 LVL in May to 10 000 LVL, to 1 000 LVL in June and to 100 LVL in September, stipulating that banks could participate in auctions only if they were ready to purchase bills totalling 10 000 LVL. The use of smaller denominations provided an opportunity for individual investors to obtain Treasury bills in the secondary securities market.

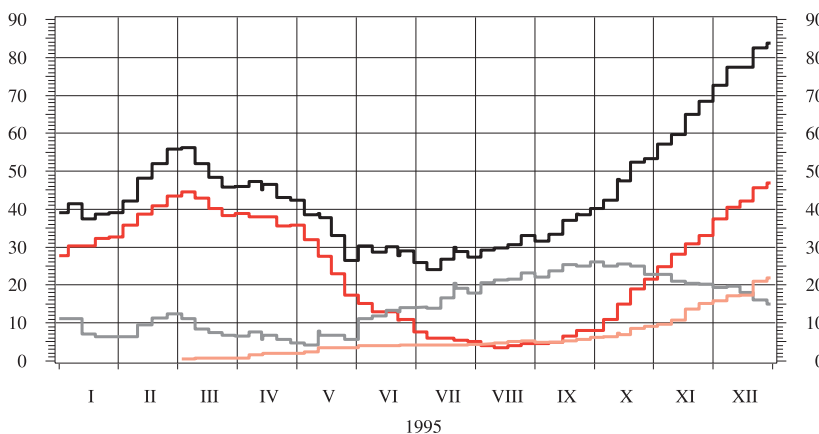
In 1995, 52 auctions of Government short-term securities were held. Total supply of Treasury bills amounted to 573.5 million lats; of which 45.8% were bills with a maturity of 28 days, 38.7% were bills with a maturity of 91 days and 15.5% were bills with a maturity of 182 days. Banks' demand met 64.4% of the supply; however, in the second half of the year, demand increased due to high discount rates, and amounted to 77.2% of supply. During the year, sales of Treasury bills totalled 326.3 million lats, of which bills with a maturity of 28 days were 60.5%, bills with a maturity of 91 days 31.5% and bills with a maturity of 182 days 8.0%. At the end of the year, Treasury bills outstanding totalled 83.9 million lats (see Chart 12).

In the first quarter of the reporting year, average weighted discount rates were on a falling trend which had already begun in 1994 (The average weighted discount rate on bills with a maturity of 28 days fell from 17.8% at the beginning of January to 16.8% at the end of March, and on bills with a maturity of 91 days from 20.9% to 19.7%). To activate the securities market, the Ministry of Finance increased maximum discount rates in May. At the end of August and beginning of September, they reached 37.0% for bills with a maturity of 28 days, 36.0% for bills with a maturity of 91 days and 35.0% for bills with a maturity of 182 days. The average weighted discount rates increased to 33%–34%. In the last quarter of the year, the Ministry of Finance started to lower maximum discount rates. Discount rates of bills with a maturity of 28 days were reduced most significantly; concurrently

Chart 12

TOTAL ISSUE OF TREASURY BILLS

(in million lats)



Total
Maturity 28 days
Maturity 91 days
Maturity 182 days

the supply of these bills was reduced in order to encourage the sales of Treasury bills with a longer maturity. Therefore, at the end of the year the average weighted discount rate on Treasury bills with a maturity of 28 days was 25.7%, on bills with a maturity of 91 days 33.5% and on bills with a maturity of 182 days 33.7%.

To support the liquidity of Government securities, the Bank of Latvia expanded its activity in the secondary market for Treasury bills. Total transactions in the secondary market amounted to 141.9 million lats (compared with 1994, an increase of 4.4 times). Of this amount, 93.1 million lats were the Bank of Latvia's transactions (an increase of 4.5 times).

PAYMENT AND SETTLEMENT SYSTEMS

In 1995, the Bank of Latvia continued to improve the interbank payment and settlement systems in order to promote the development of the interbank money market, to ensure fast and efficient settlement function, and to reduce risks in the payment system.

In the reporting year, the Bank of Latvia elaborated new regulations on granting collateralized (lombard) credits which provide limited daylight overdrafts on banks' correspondent accounts with the Bank of Latvia. At the end of the operational day, the Bank of Latvia grants to banks an automatic collateralized (lombard) credit in the overdraft amount, concurrently pledging Treasury bills, which are in an unencumbered ownership of the bank.

To ensure efficiency of large-value interbank payment system, the Bank of Latvia introduced electronic funds transfer service as of October 1995, using S.W.I.F.T. technology.

To promote the development of the secondary market for Government securities and to provide for the utilization of the Bank of Latvia's monetary policy instruments, in the reporting year the Bank of Latvia designed a book-entry transfer system for Treasury bills. Joining of the book-entry system to the payment and settlement systems allows the Bank of Latvia to perform immediate and simultaneous transfer of securities and settlement in same-day funds (delivery-versus-payment gross settlement system).

To ensure the organized secondary market for securities, in August 1995 the Bank of Latvia, in collaboration with the Central Depository of Latvia, began to effect cash settlements connected with securities transactions for the Riga Stock Exchange.

MONEY CIRCULATION

The exclusive rights of currency issue are vested with the Bank of Latvia. Lats banknotes in denominations of 5, 10, 20, 50 and 100 lats, and coins of lats and santims were in circulation. In December 1995, the Executive Board of the Bank of Latvia approved "Rules Governing Activities of Treasuries of the Bank of Latvia Branches, and Custody and Transportation of Valuables". The supply of cash to the banking system was ensured through five branches of the Bank of Latvia in Riga, Liepaja, Daugavpils, Rezekne and Valmiera.

The Riga Branch of the Bank of Latvia checked cash received from the banking system for authenticity and fitness for circulation. During the reporting year, the amount of processed cash (413.1 million lats, of which 96.6 million lats were destroyed) was almost twice as that of currency in circulation. The banking system, therefore, received only good quality and fraudless notes. In the reporting year, counterfeit banknotes and coins withdrawn from circulation only slightly exceeded the amount of one thousand lats. This testified to the fact that the security features incorporated in lats banknotes ensured the reliability of Latvian currency.

The reconstruction of the Valmiera and Rezekne Branches was completed, and work on the project for the rebuilding of the Daugavpils Branch was begun to ensure safe custody of cash, and a fast, comfortable and safe service of customers.

COMMEMORATIVE COINS

The Bank of Latvia's participation in international coin programs has resulted in the issue of a number of coins: a commemorative silver coin of 10 lats denomination, dedicated to the Atlanta Olympic Games of 1996 (1994; in circulation since October 1, 1995); a coin of 1 lats denomination, commemorating the 50th anniversary of the United Nations Organization (1995); a coin of 10 lats denomination, dedicated to the world history of seafaring (1995).

A series of 8 silver coins (denomination of 10 lats) commemorating the 800th anniversary of the foundation of Riga has been begun. Each of the series' coins will be devoted to one century in the history of Riga and will depict the city coat of arms characteristic of that century on the obverse and a historic event on the reverse. The design of the coins devoted to the 13th and 14th centuries has been completed in the reporting year, and the coins cast in plaster of Paris have been submitted to the British Royal Mint.

The Bank of Latvia continued to sell coins commemorating the 75th anniversary of the Republic of Latvia and souvenir sets of 8 circulation coins in a new, specially designed holder.

The present collector coins, being a part of Latvian coinage history, have found their place in the book *Coins and Banknotes in Latvia* by K. Ducmane and E. Vecins, which gives an overview of the history of coins and banknotes in Latvia, covering a period of about two thousand years. The book was published by the Bank of Latvia in 1995.

SUPERVISION OF CREDIT INSTITUTIONS

SYSTEM OF CREDIT INSTITUTIONS

At the end of the reporting year, there were 42 credit institutions licensed by the Bank of Latvia and the representative office of *Dresdner Bank* operating in Latvia. In 1995, the Bank of Latvia granted only one license (to the credit union *Dzelzcelnieks KS*).

At the end of the reporting year, 38 banks, one credit union and one branch of a foreign bank, *Societe Generale*, were operating in Latvia. One bank was in liquidation, and activities of one bank were restricted.

The Government was the sole owner of 2 banks – *Latvijas Krajbanka* and *Latvijas Hipoteku un zemes banka*. The total initial capital of these banks amounted to 2.6 million lats, and total assets were 83.0 million lats. During the reporting year, the privatization of the state owned bank *Latvijas Unibanka* was initiated and successfully continued; as a result, the Government holding in this bank contracted to 47.8% of the bank's initial capital.

Fifteen banks received permission to increase their initial capital in 1995. At the end of 1995, total initial capital of banks amounted to 91.9 million lats, and total assets were 783.0 million lats.

The number of credit institutions decreased drastically in the reporting year. The Bank of Latvia revoked the licenses of 2 credit unions and 15 banks (of which 7 licenses were revoked in December). Among these seven were also large banks which had been in the top-ten banks in Latvia: *Banka Baltija*, *Latvijas Depozitu banka* and *Centra banka*. The Law "On Credit Institutions", which altered the definition of the term "credit institution", excluded pawnshops from the banking system. Consequently, the number of credit institutions decreased by 19 in 1995, and the Bank of Latvia was not obliged to supervise activities of pawnshops.

ORIGINS OF THE BANKING CRISIS

A dramatic expansion of the banking sector occurred within a period of 2–3 years after Latvia had regained its independence. Sixty-seven banks were granted a license (in 1991, 14 banks; in 1992, 36 banks; in 1993, 16 banks; in 1994, 1 bank). From December 1992 to December 1994, deposits held with banks increased more than 2.4 times, and bank assets more than 3 times. Such development of the banking sector was inevitable in a national economy in transition to a market economy. However, the rapidity of this process led to a banking crisis.

Enterprises and individual customers increasingly deposited their funds

with banks. This occurred partly because there were no alternatives for money investment – no Government securities, shares of enterprises, etc. It was difficult, however, to utilize these funds efficiently, since the banking sector developed more swiftly than the economic environment in which it operated. In Latvia ownership transfer was not carried out consistently enough and aptly. Since there was no market for real estate and securities in the country, banks had difficulty in obtaining collateral for credits and in selling them. The private sector was in development, and banks were not able to compile information about a customer's capability to pay interest and repay credit in time. On the whole, enterprises' business plans did not comply with market requirements, and were not safe and efficient.

Banks, anticipating huge profit, granted loans, even if the documents submitted to the bank testified to a high risk. Profitable alternative was lending to finance transit trade, which originally ensured a fast funds turnover and considerable profit. However, the saturation of the CIS market, the liberalization of prices of electricity and raw materials, as well as increased competition in the oil market considerably increased the risks of lending for trade transactions, and decreased banks' profits at the end of 1993 and in 1994. Credit portfolios of many banks, therefore, deteriorated and this was the main reason behind the banking crisis.

The Bank of Latvia already required banks to make provisions for bad and non-performing loans in December 1993. In 1994, banks had to make provisions totalling more than 87 million lats (29.9% of gross income), but in the first half of 1995, 43 million lats (39.3%). Banks ended the first half of 1995 showing a loss of 32 million lats.

Banks' credit portfolios were most negatively influenced by lending to shareholders. Although Bank of Latvia regulations curbed lending to persons related to banks, credit institutions continued insider lending through off-shore companies, affiliated companies and using other indirect methods of crediting, thus violating the regulations. The influence of negative external conditions was still aggravated by the fact that shareholders tended to regard banks as an easily available source for financing their own businesses. In case their activity was unsuccessful, losses were borne by the bank and depositors, and not by the unsuccessful shareholders. Hazardous lending to shareholders, in many cases, had to be classified as a deliberate wrongful act which is subject to the law. The financial position of banks deteriorated as a result of mistakes committed by bankers and external influences, and the actions of bankers and shareholders breached the boundaries of the law. In cases of bankruptcy, the Bank of Latvia applied to the Office of the Prosecutor General of the Republic of Latvia for an examination of the compliance of the activity of the respective banks' management with the effective legislation. Several such cases were instituted.

Most of bank employees did not have experience and know-how in banking in the environment of a market economy. This resulted in incorrect lending, insufficient assessment of business plans, and an inability to foresee the developments in the financial market and fluctuations of foreign exchange rates.

Although the insolvency of several banks caused problems for other banks, there were no grounds to speak about a general breakdown in the financial market in 1995. The Bank of Latvia was ready to provide assistance to the banks if the financial difficulties had occurred due to conditions beyond their control; however, many banks overcame the difficulties themselves, proving that the core of the Latvian banking system was sound enough and stable. Banks ended the reporting year with profit.

REGULATIONS GOVERNING THE ACTIVITIES OF CREDIT INSTITUTIONS

Already in 1993 and 1994, the Bank of Latvia had elaborated standards for the activity of credit institutions, as well as announced the necessity to perform accounting in accordance with International Accounting Standards. In the reporting year, the Bank of Latvia set still firmer restrictions to risk exposure and open foreign exchange positions. The Bank of Latvia stipulated that exposure to a single customer (or a group of connected customers) shall be reduced from 50% to 35% of the credit institution's own funds, and to persons related to the credit institution, from 50% to 25%. At the beginning of the reporting year, the open foreign exchange position for a single foreign currency was allowed to reach 30% of the credit institutions' own funds, but at the end of the year 20%, whereas total open foreign exchange position could reach 60% and 40%, respectively.

The Bank of Latvia harmonized standards for the activities of banks with EU directives, but these standards did not have legal force. The Saeima of the Republic of Latvia passed the Law "On Credit Institutions" on October 5, 1995, which replaced the Law "On Banks" passed on May 19, 1992, and provided for the following main standards for the activity of credit institutions:

- minimum initial capital;
- capital adequacy;
- liquidity;
- exposure;
- restriction on open foreign exchange positions.

In accordance with the Law "On Credit Institutions", the minimum initial capital of a bank shall be in lats equal to 5 million ECU, but that of a credit

union to 50 thousand ECU. The transition period, during which credit institutions that had been registered before the Law "On Credit Institutions" took effect will have to increase gradually their initial capital, has been specified to last until the end of 1999.

The credit institution's own funds shall not be less than 10% of total off-balance sheet liabilities and risk-weighted assets, and it shall not fall below the minimum initial capital stipulated by the law. Exposure to any single customer (or a group of connected customers) shall not exceed 25%¹ of the credit institution's own funds, but to persons related to the credit institution shall not exceed a total of 15%¹ of the credit institution's own funds. Total of exposures exceeding 10% of credit institution's own funds shall not exceed the credit institution's own funds more than 8 times.

The holding of a bank in the capital of an undertaking (business venture) that is not a bank shall not exceed 15% of the credit institution's own funds, but total holdings shall not exceed 60%. Total investment of a credit institution in movable property and real estate, as well as a holding in the capital of an undertaking that is not a bank shall not exceed the credit institution's own funds.

The open foreign exchange position for any single foreign currency shall not exceed 10%¹ of the credit institution's own funds, and 20%¹ for the total of all foreign currencies.

The Bank of Latvia set increasingly restrictive standards for the activities of credit institutions in 1995. The standards for the activity of credit institutions were harmonized with the EU directives as a result of the Law "On Credit Institutions" coming into force.

The Law "On Credit Institutions" and amendments to the Code of Administrative Offenses of Latvia and the Criminal Code of Latvia elaborated responsibilities of credit institutions, their shareholders, management, employees as well as customers. These laws provide for administrative and criminal liability for deliberate rendering of incorrect or incomplete information, for concealing information required by the law, for utilizing a credit for the purpose not stipulated in the credit agreement, and for non-observance of the law governing the activity of credit institutions and of binding regulations established by the Bank of Latvia.

EXAMINATIONS OF THE ACTIVITIES OF CREDIT INSTITUTIONS

The Bank of Latvia performed supervision of credit institutions, analyzing monthly, quarterly and annual financial statements submitted to

¹ Requirement effective as of January 1, 1996.

the central bank, as well as performing on-site examinations. The Bank of Latvia has created an assessment system, using information received from banks and opinion of the Bank of Latvia's experts on the quality of the management of a credit institution and financial statements.

Arthur Andersen, Coopers & Lybrand, Deloitte Touche Tohmatsu International, Ernst & Young, KPMG and Price Waterhouse were the companies which audited 1994 financial statements of 34 Latvian banks. Auditors chartered in Latvia expressed their opinion on financial statements of 13 banks. Five banks were not able to submit audited financial statements for 1994.

In 1995, the Bank of Latvia's experts performed 96 on-site examinations, of which 86 in banks, covering the entire banking system. Experts in credit institutions' supervision directed their attention mainly to the assessment of credits and other risk assets, pointing to a necessity to make additional provisions for non-performing loans. During examinations, serious drawbacks and a poor performance of internal auditing departments of several banks were detected.

To strengthen the supervision of the 16 banks which were allowed to accept deposits of private persons during the respective period, companies *Arthur Andersen, Coopers & Lybrand, Deloitte Touche Tohmatsu International* and *Price Waterhouse* performed special audits upon the Bank of Latvia's request, evaluating quality of a bank's credit portfolio, internal audit and management.

The Credit Institution Supervision Committee of the Bank of Latvia continued its work. Together with the representatives of the management from 35 banks, it analyzed the performance of banks, detected drawbacks, assessed development prospects for particular banks, discussed banks' operational problems and possibilities to improve the Latvian banking system.

During the reporting year, the Bank of Latvia reached an agreement with EU institutions about the financing of audits in Latvian banks within the framework of PHARE program.

MONETARY POLICY HIGHLIGHTS – 1995

- February 10 The Executive Board of the Bank of Latvia approved "The Bank of Latvia Provisions on Extending Extraordinary Credits to Commercial Banks".
- March 9 The Governor of the Bank of Latvia approved "Provisions on Accepting Time Deposits of Commercial Banks at the Bank of Latvia".
- March 20 The Bank of Latvia started accepting time deposits from banks.
- April 6 The Executive Board of the Bank of Latvia approved "Regulations on Issue and Registration of Commercial Banks' Guarantees".
- June 1 The Bank of Latvia increased the refinancing rate from 25% to 26.5% per year.
- June 8 The Executive Board of the Bank of Latvia passed a Resolution "On Interest Rates of Collateralized (Lombard) Credits."
- July 13 The Board of Governors of the Bank of Latvia passed a Resolution "On Amendments to 'Economic Standards to the Activities of Credit Institutions' ".
- July 17 The Board of Governors of the Bank of Latvia passed a Resolution "On Amendments to 'Regulations on Amending the Charter, Changing the Shareholders, the Capital, the Management, the Chief Accountant, the Legal Address and the Name of Credit Institutions' ".
- August 11 The Executive Board of the Bank of Latvia passed a Resolution "On Amendments to 'Regulations on Calculating the Economic Standards to the Activities of Credit Institutions' ".
- August 17 The Executive Board of the Bank of Latvia approved "Provisions on Purchasing and Selling Cash Foreign Currency".

- September 7 The Executive Board of the Bank of Latvia approved "Provisions According to which the Bank of Latvia Grants Collateralized (Lombard) Credits".
The Executive Board of the Bank of Latvia passed a Resolution "On Interest Rates of Collateralized (Lombard) Credits".
- September 14 The Board of Governors of the Bank of Latvia passed a Resolution "On the Monetary Policy of the Bank of Latvia".
The Board of Governors of the Bank of Latvia passed a Resolution "On Amendments to 'Regulations on Granting and Revoking Licenses of Credit Institutions' ".
- September 18 The Executive Board of the Bank of Latvia approved "The Bank of Latvia Provisions on Performing Settlements".
The Executive Board of the Bank of Latvia approved "The Bank of Latvia Provisions on Acceptance and Handling of Interbank Electronic Payment Orders".
- October 2 The Executive Board of the Bank of Latvia approved "Provisions on Accounting and Circulation of Treasury Bills in the Bank of Latvia".
The Executive Board of the Bank of Latvia approved "Provisions Governing Repo Auctions of Treasury Bills".
- October 5 The Saeima of the Republic of Latvia passed the Law "On Credit Institutions" (effective October 24, 1995).
- November 16 The Board of Governors of the Bank of Latvia passed a Resolution on amendments to the general principles with which annual reports of credit institutions have to comply.
The Board of Governors of the Bank of Latvia passed a Resolution "On Audits of Annual Reports of Credit Institutions".
The Board of Governors of the Bank of Latvia passed a Resolution on amendments to "Regulations on Amending the Charter, Changing the Shareholders, the Capital, the Management, the Chief Accountant, the Legal Address and the Name of Credit Institutions".
- November 20 The Bank of Latvia lowered the refinancing rate from 26.5% to 25% per year.

- November 30 The Executive Board of the Bank of Latvia passed a Resolution on amendments to "Procedure of Calculating the Reserve Requirement".
- December 7 The Executive Board of the Bank of Latvia approved "Regulations on Monitoring Foreign Exchange Positions".
- December 15 The Bank of Latvia decreased the refinancing rate from 25% to 24% per year.
- December 28 The Executive Board of the Bank of Latvia approved a Resolution on amendments to "Provisions on Purchasing and Selling of Non-Cash Foreign Currency".
- December 29 The Executive Board of the Bank of Latvia passed a Resolution on amendments to "Provisions on Purchasing and Selling of Cash Foreign Currency".
The Executive Board of the Bank of Latvia approved "Report on Purchasing and Selling Foreign Currency".

INTERNATIONAL COOPERATION

INTERNATIONAL FINANCIAL ORGANIZATIONS

In 1995, Latvia, as a member country, continued its activity within the International Monetary Fund (IMF), the International Bank for Reconstruction and Development, the International Development Association and the International Finance Corporation. The Bank of Latvia as a shareholder continued to participate in Bank for International Settlements (BIS).

Latvia's quota in the IMF totals 91.5 million SDR, which comprises 0.06% of the financial resources of the IMF. Pursuant to the IMF Articles of Agreement, the IMF Mission held annual consultations with the Government and the Bank of Latvia in July and August 1995 about the fulfillment of the Article IV of the IMF Articles of Agreement.

After the memorandum on the economic policy of the Latvian Government had been elaborated, a stand-by arrangement (27.45 million SDR) was signed between Latvia and the IMF on April 21, 1995 for the period until May 20, 1996. However, the credit facility was not utilized in the reporting year.

COOPERATION WITH FOREIGN CENTRAL BANKS

During the reporting year, the Bank of Latvia continued the cooperation, and exchange of know-how and information with central banks in other countries.

Personnel of the Bank of Latvia visited the central banks of Denmark, Finland, Germany, Norway and Sweden with the aim of studying and exchanging experience on different areas of central banking. Representatives of the central banks of Kyrgyzstan and Hungary visited the Bank of Latvia.

In June 1995, a seminar for the exchange of operational information was held in Jurmala for the staff of central banks of Estonia, Latvia and Lithuania. Issues concerning monetary policy, credit institutions supervision and foreign reserves management were discussed.

TECHNICAL ASSISTANCE

In the reporting year, the Bank of Latvia continued to receive technical assistance from international financial organizations and foreign central banks. The IMF Technical Assistance Mission comprising representatives from the central bank of Ireland, from supervisory authorities of Canada

and Sweden, and the IMF experts visited the Bank of Latvia. Within the framework of the mission, consultations were extended mainly on credit institutions supervision and monetary policy.

Regular technical assistance was provided by the central bank of Germany. Within the framework of technical assistance programs, the representatives of the Bank of Latvia participated in several courses organized at the IMF Institute and the Joint Vienna Institute, as well as in seminars organized by the central banks of Austria, Germany, Italy, Switzerland, Sweden and the United Kingdom.

During the reporting year, three resident advisors continued or began their work at the Bank of Latvia. They were financed by the EU PHARE program (advisor on bank accounting and reporting issues) and the US Agency for International Development (advisor on supervisory issues, and since June 1995, advisor on credit institution insolvency and liquidation issues).

The Bank of Latvia's representatives took part in regular meetings held by the Bank for International Settlements, which were devoted to the issues of coordination and planning of technical assistance.

COOPERATION IN THE AREA OF INTERNATIONAL STATISTICS

The monetary indicators of the Bank of Latvia and the Latvian banking sector and their analysis were communicated to Latvian and international audiences by the Bank of Latvia's regular publications – the quarterly *Monetary Review* and the monthly *Monetary Bulletin*.

The Bank of Latvia, in cooperation with the IMF advisor on issues of statistics in the Baltic states, the Central Statistical Bureau of Latvia and the Ministry of Finance, commenced and coordinated a regular compiling of the financial indicators and prepared them for publishing in *International Financial Statistics*, a regular publication of the IMF. Statistical data for the period beginning July 1993 were assembled according to the international statistical standards and published for the first time in the December 1995 issue.

In October 1995, Bank of Latvia representatives participated in a joint meeting of Central and East European countries organized by the Secretariat of the Monetary, Finance and Balance of Payments Statistics Committee of the EU. The aim of cooperation is to establish comparable statistics in Europe.

Coopers & Lybrand organized a special program "Analysis of Audit and Financial Statements" for the employees of the Credit Institutions Supervision Department.

In the reporting year, 62 employees took part in courses and workshops organized by the central banks of Austria, Sweden, the United Kingdom, Germany, Switzerland and Italy, and different international organizations and institutions (the IMF, the Joint Vienna Institute, etc.), during which they updated their knowledge of monetary policy, techniques of economic and monetary analysis, foreign exchange transactions, foreign reserves management, bank supervision, management and accounting.

The Bank of Latvia employees also upgraded their knowledge at the Dalhousie University, Canada, the Stockholm School of Economics, Sweden, and the London School of Economics and Political Sciences, the United Kingdom. In the reporting year, seven employees participated in the second stage of the two-stage program on re-orientation of the Latvian financial sector, organized jointly by the Stockholm School of Economics and the central bank of Sweden.

In 1995, the Latvian Banking College offered education in banking and finance in both day and correspondence departments, qualifying bank managers and tax inspectors for the needs of the Revenue Service. In 1995, the college enrolled 170 students, and 120 students graduated from the college. To raise theoretical knowledge and professional skills, about 1 200 specialists attended various courses and workshops organized by the Latvian Banking College during the year. The instruction of government officers was performed upon the request of the Latvian School of Public Administration. The activities of the Latvian Banking College were supervised by the Committee of Trustees, established on August 4, 1995.

**THE BANK OF LATVIA'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1995**

**THE BANK OF LATVIA'S BALANCE SHEET
AS OF DECEMBER 31, 1995**

		(in thousand lats)	
ASSETS	Notes*	1995	1994
FOREIGN ASSETS		389 487	416 177
Gold	1	40 150	40 972
Special Drawing Rights		1 195	174
Convertible currencies	2	270 910	298 919
International Monetary Fund	3	72 929	72 929
Shares in the Bank for International Settlements	4	940	959
Other foreign assets	5	2 556	958
Correspondent accounts		–	10
Non-convertible currencies	6	807	1 256
DOMESTIC CREDITS		100 818	67 979
To banks	7	24 579	54 468
To the Government	8	51 585	13 126
Government securities	9	5 774	385
Other credits	10	18 880	–
OTHER ASSETS	11	13 464	9 098
TOTAL ASSETS		503 769	493 254

* See pages 44–49.

(cont.)	(in thousand lats)		
LIABILITIES			
Foreign liabilities		159 622	161 913
International Monetary Fund accounts	3	159 163	161 289
Other foreign liabilities		6	6
Foreign bank deposits in lats		198	219
Non-convertible currencies	6	255	399
LATS IN CIRCULATION	12	225 871	232 100
DOMESTIC DEPOSITS		92 416	88 706
From banks		46 908	37 326
From the Government		2 623	10 105
Government foreign borrowings	13	41 049	40 604
Humanitarian aid accounts		996	671
Other		840	–
CAPITAL AND RESERVES		18 070	8 020
Nominal capital	14	2 500	2 500
Reserve capital	14	625	625
Other reserves	14	9 093	4 160
Valuation account	15	5 425	4
EU grant	16	427	731
OTHER LIABILITIES	17	7 790	2 515
TOTAL LIABILITIES		503 769	493 254

**THE BANK OF LATVIA'S PROFIT AND LOSS STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 1995**

		(in thousand lats)	
	Notes*	1995	1994
INTEREST INCOME			
Foreign operations			
Interest on bank deposits		1 306	5 706
Income from securities		19 907	4 639
Other foreign income		268	1 540
Dividends on BIS shares		111	99
GROSS foreign interest income	18	21 592	11 984
Domestic operations			
Interest on loans to banks		561	1 748
Interest on other loans		7 089	1 630
Other domestic income		2 403	1 168
GROSS domestic interest income	18	10 053	4 546
INTEREST EXPENSE			
Foreign operations			
Interest on loans		2 700	2 909
Other foreign expense		260	73
GROSS foreign interest expense	18	2 960	2 982
Domestic operations			
Interest on deposits		3 159	712
Other domestic expense		–	1 043
GROSS domestic interest expense	18	3 159	1 755
NET INTEREST INCOME		25 526	11 793

* See page 49.

(cont.)		(in thousand lats)	
	Notes	1995	1994
Net foreign exchange profit/loss	19	-20	-2 354
NET INTEREST INCOME AND VALUATION ADJUSTMENTS		25 506	9 439
Special provisions	20	7 825	-
OPERATING INCOME		604	2 379
OPERATING EXPENSES			
Salaries, wages and other personnel costs		3 438	2 429
Social security		1 258	890
Money printing		23	599
Depreciation		837	311
Other operating expenses	21	6 296	3 429
TOTAL operating expenses		11 852	7 658
NET OPERATING EXPENSES		11 248	5 279
PROFIT BEFORE APPROPRIATION		6 433	4 160
APPROPRIATION OF PROFIT			
Other reserves	22	4 933	4 160
Remaining profit appropriated to the State budget	22	1 500	-

NOTES TO THE FINANCIAL STATEMENTS

FORM OF PRESENTATION OF ACCOUNTS

The Bank of Latvia's financial statements have been prepared so as to fairly present the financial position of the Bank of Latvia in accordance with International Accounting Standards (IAS) as they may be applied to central banks. Certain central bank accounting practices were followed as set out below.

TREASURY BILLS AND BONDS

Treasury bills and bonds are stated at cost plus accrued interest as the intention is to hold these instruments until maturity.

FOREIGN CURRENCY TRANSLATION

Assets and liabilities denominated in foreign currencies are translated into lats at the rates set by the Bank of Latvia at year end.

Gains or losses on translation are credited or charged to the valuation account.

INCOME RECOGNITION

Interest income and expenses are recognized on an accruals basis. Interest income is recognized on non-performing loans, simultaneously making provisions for such loans and interest income.

FIXED ASSETS

Fixed assets are recorded at cost less accumulated depreciation. Depreciation is calculated using the straight-line method of depreciation based on the estimated useful life of the asset, as follows:

Computer equipment	20%
Furniture and fittings	10%
Motor vehicles	20%–33%
Buildings	1%–2%

NOTES TO THE BALANCE SHEET AND PROFIT AND LOSS STATEMENT

1. GOLD

As in previous years, gold has been valued at USD 300 per troy ounce.

The official fixing of the gold price in London on December 29, 1995, was USD 386.7 per troy ounce. The market value of the Bank of Latvia's gold reserves at the end of 1995 was therefore 51 753 thousand lats.

Movements in gold reserves in 1995 were as follows:

	Ounces	Amount in thousand lats
Gold at December 31, 1994	249 223	40 972
Exchange rate difference	–	–822
Gold at December 31, 1995	249 223	40 150

2. CONVERTIBLE CURRENCIES

At the end of 1995, the Bank of Latvia's foreign convertible currency assets, translated into lats, consisted of the following items: accounts with foreign banks and other financial institutions – 205 174 thousand lats, Treasury bills and bonds – 64 360 thousand lats, cash on hand – 1 376 thousand lats, total 270 910 thousand lats. The Bank of Latvia's foreign assets invested in foreign banks and other financial institutions consisted of cash deposits and securities of high liquidity.

The analysis by currency of the foreign convertible currency reserves of the Bank of Latvia was as follows:

	(percentage)	
	1995	1994
US dollars	47	77
German marks	37	14
British pounds	5	2
Japanese yen	6	5
French francs	4	2
Other foreign currencies	1	–
Total	100	100

3. INTERNATIONAL MONETARY FUND ACCOUNTS

This item contains claims on the International Monetary Fund (IMF) arising from Latvia's membership in the IMF. The IMF accounts and amounts received under the IMF stand-by arrangement and the Systemic Transformation Facility are recorded as a liability. The quota of the Special Drawing Rights (SDR) allocated to the Republic of Latvia in the IMF is 91.5 million SDR. The lats subscription and the corresponding lats accounts are linked to the exchange rate of the SDR.

4. SHARES IN THE BANK FOR INTERNATIONAL SETTLEMENTS

The Bank of Latvia owns 1 000 shares in the Bank for International Settlements (BIS). The shares are denominated in the gold equivalent and are valued at USD 300 per troy ounce.

5. OTHER FOREIGN ASSETS

This item represents deposits with foreign financial institutions made on the behalf of the Government in the amount of 2 530 thousand lats and other foreign assets in the amount of 26 thousand lats.

6. NON-CONVERTIBLE CURRENCIES

This item comprises balances of the accounts opened during 1991 and 1992 in order to settle payments between CIS countries.

7. DOMESTIC CREDITS TO BANKS

The Bank of Latvia was acting as an agent for the distribution of a large part of foreign loans received by the Republic of Latvia. This item comprises foreign loans for 21 058 thousand lats that were distributed to domestic banks for further distribution of these funds as loans to final borrowers.

8. DOMESTIC CREDITS TO THE GOVERNMENT

This item consists of credits granted by the Bank of Latvia to the Government, and the foreign credits for 35 835 thousand lats utilized by the Government to finance enterprises in the public sector and to ensure the government investment programs.

9. GOVERNMENT SECURITIES

The Bank of Latvia is a market-maker for Treasury bills issued by the Ministry of Finance. The Bank of Latvia has set a limit of 7.0 million lats for buying Treasury bills. Of that limit, the Bank of Latvia at December 31, 1995 held Treasury bills in the amount of 5.8 million lats.

10. OTHER CREDITS

This item comprises the foreign loans granted to the banks whose licenses have been revoked in 1995. No provisions have been established for these loans due to the fact that the Government has agreed to repay the loan balances outstanding in the case of insolvency or bankruptcy of these banks.

11. OTHER ASSETS

Other assets comprise fixed assets, prepayments to equipment suppliers, accrued interest and receivables regarding settlements with CIS countries as described below:

	(in thousand lats)
Furniture and fittings	2 518
Machinery and equipment	818
Buildings	845
Prepayments to equipment suppliers	325
Accrued interest	3 771
Receivables regarding settlements with CIS countries	4 468
Other assets	719
Total other assets	13 464

12. LATS IN CIRCULATION

At the end of 1995, the following units of lats (Ls) and santims (s) were in circulation:

Nominal	Amount (in thousand lats)		Number (in thousand units)		Percentage (%)	
	1995	1994	1995	1994	1995	1994
BANK NOTES						
Ls 100	14 186	9 093	142	91	6.3	3.9
Ls 50	17 745	11 122	355	222	7.9	4.8
Ls 20	56 779	58 432	2 839	2 922	25.2	25.2
Ls 10	63 514	63 448	6 351	6 345	28.2	27.4
Ls 5	56 953	73 625	11 390	14 725	25.3	31.8
AMOUNT	209 177	215 720	–	–	92.9	93.1
COINS						
Ls 2	4 839	5 220	2 420	2 610	2.1	2.3
Ls 1	5 131	4 764	5 130	4 764	2.3	2.1
50 s	2 910	2 941	5 820	5 882	1.3	1.3
20 s	1 190	1 110	5 951	5 548	0.5	0.5
10 s	848	757	8 476	7 568	0.4	0.3
5 s	566	508	11 324	10 162	0.2	0.2
2 s	366	296	18 286	14 784	0.2	0.1
1 s	306	232	30 572	23 157	0.1	0.1
AMOUNT	16 156	15 828	–	–	7.1	6.9
TOTAL	225 333	231 548	–	–	100.0	100.0

At the end of 1995, silver 10 lats collector coins and gold 100 lats collector coins were in circulation along with the souvenir sets of coins in circulation of total value 538 thousand lats.

13. GOVERNMENT FOREIGN BORROWINGS

This item comprises the G-24 loans received by the Government of the Republic of Latvia. The loans have been distributed to banks for further distribution of these funds in the form of loans to final commercial borrowers. The loans are guaranteed by the Government of Latvia.

14. NOMINAL CAPITAL, RESERVE CAPITAL, OTHER RESERVES

The Law "On the Bank of Latvia" sets a maximum level of nominal and reserve capital. The Bank of Latvia achieved this maximum level set by the Law "On the Bank of Latvia" in 1993. Accordingly, nominal and reserve capital remained unchanged in 1995. Pursuant to Article 20 of the Law "On the Bank of Latvia", the other reserves were increased in 1995.

15. VALUATION ACCOUNT

Movements in the valuation account in 1995 were as follows:

(in thousand lats)

	Gold	Foreign currencies		Total
		Conver- tible	Non- convertible	
Valuation account at December 31, 1994	47 279 ²	-16 177	-31 098	4
Exchange loss	-822	-	-	-822
Revaluation	-	2 743 ¹	3 500 ¹	6 243
Valuation account at December 31, 1995	46 457 ²	-13 434	-27 598	5 425

16. EU GRANT

This item comprises a grant by the EU to the Bank of Latvia for the purpose of supporting the development of small and medium size businesses in Latvia. The loans were distributed through three commercial banks in

¹ Unrealized exchange gains and losses in both convertible and non-convertible currencies.

² The valuation account for gold includes 6 307 thousand lats realized as sales during 1993.

Latvia selected by the EU. The amount of the EU grant was reduced in 1995 to establish a provision for a loan which was granted to a bank whose license has been revoked.

17. OTHER LIABILITIES

Other liabilities include special provisions in the amount of 4 468 thousand lats, accrued expenses in the amount of 1 199 thousand lats, the remaining profit of 1 500 thousand lats to be transferred to the state budget revenue and other liabilities in the amount of 623 thousand lats.

18. INTEREST INCOME AND EXPENSES

Interest income and expenses are recognized on an accrual basis. Interest income is recognized on non-performing loans as well, simultaneously making provisions for these loans. In 1995, interest income from domestic operations increased because the Government utilized the Bank of Latvia's extra credit facility, whereas interest expenses grew because of interest payments to the Government.

Interest income from international operations increased due to the more efficient and successful investment of the Bank of Latvia's foreign exchange reserves in more profitable financial instruments. In addition, favorable conditions within the global securities markets also contributed to this increase.

19. NET FOREIGN EXCHANGE PROFIT/LOSS

The Bank of Latvia recorded foreign currency exchange rate differences to the valuation account in the balance sheet.

20. SPECIAL PROVISIONS

In 1995, the Bank of Latvia recorded special provisions for loans issued to banks, whose licenses have been revoked, which were not guaranteed by the Government and for the related interest. The Bank of Latvia also recorded provisions for receivables regarding settlements with CIS countries in 1991 and 1992.

21. OTHER OPERATING EXPENSES

An increase in other operating expenses is due to additional expenses for organizing the supervision of credit institutions performed by the Bank of Latvia.

22. APPROPRIATION OF PROFIT

Pursuant to Article 20 of the Republic of Latvia Law "On the Bank of Latvia", net profit was appropriated to the other reserves and remaining profit will be transferred to the state budget.

REPORT OF THE AUDIT COMMISSION

We have audited the financial statements of the Bank of Latvia as of December 31, 1995, together with the related notes . The financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with International Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements and related notes present fairly the financial position of the Bank of Latvia as of December 31, 1995, in accordance with accounting and related disclosures appropriate for a central bank.

ARTHUR ANDERSEN

THE REPUBLIC OF LATVIA STATE CONTROL

Riga
March 12, 1996

APPENDIXES

APPENDIX 1. MONETARY INDICATORS IN 1995

(at end of month; in million lats)

	I	II	III	IV	V	VI
Bank of Latvia						
Reserve money M0	284.5	275.7	270.3	271.7	257.2	257.9
Currency in circulation	231.8	237.1	233.8	240.4	218.7	218.9
Bank deposits	52.7	38.6	36.4	31.3	38.5	39.0
Currency vs reserve money (%)	81.5	86.0	86.5	88.5	85.0	84.9
Net foreign assets	257.2	251.4	231.5	230.2	193.7	187.7
Net domestic assets	27.3	24.3	38.7	41.5	63.5	70.2
Credits	70.3	63.4	71.9	71.7	97.7	106.0
To banks	53.7	53.3	49.8	46.6	48.7	48.1
To Central Government (net)	16.6	10.2	22.1	25.1	49.1	57.8
Credit line	3.3	0	6.2	9.5	22.5	31.9
Other credits	–	–	–	–	–	–
Other items (net)	–43.0	–39.2	–33.1	–30.2	–34.2	–35.7
Banking system¹						
Broad money M2X	687.3	685.4	682.8	693.7	657.1	637.6
Currency in circulation ²	209.9	216.5	215.6	224.9	200.4	204.0
Nonbank ³ deposits (total)	477.4	468.9	467.2	468.8	456.7	433.6
In foreign currencies	192.8	187.6	187.3	197.4	203.6	191.6
Domestic money supply M2D ⁴	494.5	497.9	495.6	496.3	453.4	446.1
Net foreign assets	337.0	319.4	293.0	290.6	258.1	245.7
Net domestic assets	350.3	366.0	389.8	403.1	399.0	391.9
Credits	379.5	384.4	382.8	378.2	382.5	367.6
Bank of Latvia refinancing rate (%)	25.0	25.0	25.0	25.0	25.0	26.5
Average weighted interest rates (%)						
In the interbank market	25.0	24.0	25.1	23.9	23.1	21.1
In the nonbank sector						
Short-term credits granted in lats	38.5	36.6	32.8	34.1	36.3	35.1
Long-term deposits in lats	19.2	18.1	18.4	17.2	19.1	15.0
LVL vs USD	0.543	0.535	0.517	0.508	0.508	0.512

¹ Drastic changes in the data for December 1995 in comparison with the previous month have been prompted by the contraction of the banking system, which occurred due to the fact that licenses of several banks were revoked.

² Less vault cash balances.

³ Enterprises and private persons.

⁴ Currency outside banks plus deposits of domestic enterprises and private persons in national currency.

(cont.)

(at end of month; in million lats)

	VII	VIII	IX	X	XI	XII
Bank of Latvia						
Reserve money M0	253.2	245.2	249.7	241.5	247.8	273.6
Currency in circulation	220.1	214.4	216.6	208.0	209.0	225.9
Bank deposits	33.1	30.8	33.1	33.5	38.8	47.7
Currency vs reserve money (%)	86.9	87.5	86.8	86.1	84.3	82.6
Net foreign assets	187.2	219.2	221.1	221.1	218.6	227.2
Net domestic assets	66.1	25.9	28.5	20.4	29.2	46.3
Credits	104.5	78.5	84.3	77.3	85.0	100.3
To banks	49.3	50.9	45.0	49.0	49.7	24.6
To Central Government (net)	55.2	27.6	39.3	28.2	35.4	56.9
Credit line	26.1	9.5	9.5	9.5	9.5	15.8
Other credits	–	–	–	–	–	18.9
Other items (net)	–38.5	–52.5	–55.7	–56.9	–55.9	–54.0
Banking system¹						
Broad money M2X	612.7	617.8	624.8	631.2	634.5	524.0
Currency in circulation ²	202.1	199.5	200.4	192.1	195.0	209.5
Nonbank ³ deposits (total)	410.7	418.3	424.4	439.0	439.5	314.4
In foreign currencies	171.6	177.3	179.9	190.0	190.2	166.0
Domestic money supply M2D ⁴	441.1	440.5	444.9	441.2	444.3	357.9
Net foreign assets	247.9	291.5	279.2	290.1	293.2	306.3
Net domestic assets	364.8	326.3	345.6	341.1	341.3	217.7
Credits	345.5	356.3	348.9	346.1	345.2	204.3
Bank of Latvia refinancing rate (%)	26.5	26.5	26.5	26.5	25.0	24.0
Average weighted interest rates (%)						
In the interbank market	22.9	22.7	18.9	21.1	19.6	21.1
In the nonbank sector						
Short-term credits granted in lats	36.4	32.2	35.0	32.5	34.2	31.1
Long-term deposits in lats	15.6	13.7	15.9	16.4	15.0	15.4
LVL vs USD	0.515	0.538	0.533	0.534	0.536	0.537

APPENDIX 2. THE BANK OF LATVIA'S MONTH-END BALANCE SHEETS

(in million lats)

	1995					
	I	II	III	IV	V	VI
ASSETS						
FOREIGN ASSETS	420 404	414 535	394 534	392 872	356 313	350 417
Gold	40 598	40 000	38 654	37 832	37 982	38 281
Special Drawing Rights	1 451	182	182	1 577	597	671
Convertible currencies	300 679	295 594	276 060	273 107	239 109	232 393
International Monetary Fund	72 929	72 929	72 929	72 929	72 929	72 929
Shares in the Bank for International Settlements	950	936	905	886	889	896
Other foreign assets	2 728	3 935	4 967	5 772	4 004	4 385
Correspondent accounts	7	3	2	2	2	–
Non-convertible currencies	1 062	956	835	767	801	862
DOMESTIC CREDITS	70 361	67 122	71 905	71 716	100 550	108 706
To banks	53 736	53 251	49 814	46 563	48 666	48 151
To the Government	16 331	12 882	18 692	21 750	47 191	56 780
Government securities	294	989	3 399	3 403	4 693	3 775
Other credits	–	–	–	–	–	–
OTHER ASSETS	6 850	6 628	7 667	7 379	7 409	7 522
TOTAL ASSETS	497 615	488 285	474 106	471 967	464 272	466 645
LIABILITIES						
FOREIGN LIABILITIES	161 729	161 690	161 660	161 057	160 981	161 001
International Monetary Fund accounts	161 289	161 289	161 289	160 687	160 687	160 687
Other foreign liabilities	6	6	6	6	6	6
Foreign bank deposits in lats	168	145	144	162	86	89
Non-convertible currencies	266	250	221	202	202	219
LATS IN CIRCULATION	231 796	237 114	233 845	240 441	218 729	218 925
DOMESTIC DEPOSITS	96 152	85 678	78 504	73 497	83 405	84 122
From banks	52 587	38 444	36 254	31 089	38 311	38 893
From the Government	2 070	5 728	1 258	1 859	4 614	4 568
Government foreign borrowings	40 717	40 676	40 223	39 786	39 716	39 897
Humanitarian aid accounts	672	682	607	602	611	617
Other	106	148	162	161	153	147
CAPITAL AND RESERVES	5 275	1 317	–1 452	–4 756	–3 695	–1 918
Nominal capital	2 500	2 500	2 500	2 500	2 500	2 500
Reserve capital	625	625	625	625	625	625
Other reserves	4 160	4 160	4 160	4 160	4 160	4 160
Valuation account	–2 741	–6 699	–9 468	–12 772	–11 711	–9 934
EU grant	731	731	731	731	731	731
OTHER LIABILITIES	2 663	2 486	1 549	1 728	4 852	4 515
Total liabilities	497 615	488 285	474 106	471 967	464 272	466 645

(cont.)

(in million lats)

	1995					
	VII	VIII	IX	X	XI	XII
ASSETS						
FOREIGN ASSETS	349 933	382 201	384 184	384 124	381 961	389 487
Gold	38 505	40 225	39 851	39 926	40 075	40 150
Special Drawing Rights	671	392	392	1 192	160	1 195
Convertible currencies	232 055	262 626	265 875	264 830	263 502	270 910
International Monetary Fund	72 929	72 929	72 929	72 929	72 929	72 929
Shares in the Bank for International Settlements	901	942	933	935	938	940
Other foreign assets	4 001	4 153	3 293	3 433	3 484	2 556
Correspondent accounts	–	–	–	–	–	–
Non-convertible currencies	871	934	911	879	873	807
DOMESTIC CREDITS	107 315	92 945	94 080	96 970	99 524	100 818
To banks	49 320	50 914	44 966	49 048	49 663	24 579
To the Government	54 711	39 205	44 109	44 972	45 000	51 585
Government securities	3 284	2 826	5 005	2 950	4 861	5 774
Other credits	–	–	–	–	–	18 880
OTHER ASSETS	7 251	5 884	5 944	5 838	5 794	13 464
TOTAL ASSETS	464 499	481 030	484 208	486 932	487 279	503 769
LIABILITIES						
FOREIGN LIABILITIES	161 055	161 133	161 343	160 994	161 086	159 622
International Monetary Fund accounts	160 687	160 687	160 687	160 687	160 687	159 163
Other foreign liabilities	6	6	6	6	6	6
Foreign bank deposits in lats	140	201	411	70	164	198
Non-convertible currencies	222	239	239	231	229	255
LATS IN CIRCULATION	220 123	214 403	216 596	207 967	208 956	225 871
DOMESTIC DEPOSITS	78 924	88 690	86 734	97 770	97 354	92 416
From banks	32 933	30 571	32 818	33 106	38 213	46 908
From the Government	4 626	16 449	11 473	21 949	16 320	2 623
Government foreign borrowings	40 532	40 831	41 185	41 250	41 184	41 049
Humanitarian aid accounts	628	628	1 004	1 023	988	996
Other	205	211	254	442	649	840
CAPITAL AND RESERVES	–283	9 784	10 401	12 512	12 285	18 070
Nominal capital	2 500	2 500	2 500	2 500	2 500	2 500
Reserve capital	625	625	625	625	625	625
Other reserves	4 160	4 160	4 160	4 160	4 160	9 093
Valuation account	–8 299	1 768	2 385	4 496	4 269	5 425
EU grant	731	731	731	731	731	427
OTHER LIABILITIES	4 680	7 020	9 134	7 689	7 598	7 790
TOTAL LIABILITIES	464 499	481 030	484 208	486 932	487 279	503 769

**APPENDIX 3. THE BANK OF LATVIA'S EXCHANGE RATES FOR
GERMAN MARK, BRITISH POUND, FRENCH FRANC, US DOLLAR,
JAPANESE YEN AND ECU**

(in lats)

	Maximum	Average	Minimum	Maximum	Average	Minimum	Maximum	Average	Minimum
1995	DEM			GBP			FRF		
I	0.3600	0.3560	0.3520	0.8680	0.8589	0.8520	0.1039	0.1030	0.1023
II	0.3670	0.3600	0.3560	0.8630	0.8511	0.8460	0.1046	0.1036	0.1028
III	0.3760	0.3701	0.3650	0.8600	0.8341	0.8200	0.1060	0.1045	0.1037
IV	0.3710	0.3677	0.3630	0.8270	0.8164	0.8100	0.1063	0.1048	0.1038
V	0.3710	0.3644	0.3590	0.8220	0.8160	0.8080	0.1046	0.1030	0.1015
VI	0.3680	0.3648	0.3610	0.8210	0.8162	0.8060	0.1048	0.1039	0.1027
VII	0.3720	0.3694	0.3670	0.8240	0.8182	0.8110	0.1073	0.1061	0.1050
VIII	0.3730	0.3670	0.3610	0.8370	0.8298	0.8210	0.1079	0.1066	0.1055
IX	0.3760	0.3680	0.3650	0.8460	0.8394	0.8330	0.1085	0.1068	0.1060
X	0.3820	0.3773	0.3730	0.8490	0.8423	0.8370	0.1093	0.1080	0.1072
XI	0.3800	0.3780	0.3740	0.8500	0.8380	0.8290	0.1101	0.1096	0.1089
XII	0.3760	0.3739	0.3720	0.8370	0.8288	0.8250	0.1098	0.1085	0.1076
1995	USD			100 JPY			ECU		
I	0.5510	0.5460	0.5420	0.5530	0.5473	0.5440	0.6800	0.6747	0.6710
II	0.5460	0.5413	0.5350	0.5530	0.5506	0.5460	0.6830	0.6771	0.6720
III	0.5360	0.5218	0.5140	0.5860	0.5735	0.5530	0.6880	0.6784	0.6710
IV	0.5120	0.5077	0.5020	0.6170	0.6058	0.5880	0.6780	0.6740	0.6670
V	0.5220	0.5140	0.5060	0.6120	0.6036	0.5970	0.6790	0.6714	0.6650
VI	0.5170	0.5117	0.5080	0.6120	0.6055	0.6040	0.6770	0.6738	0.6680
VII	0.5160	0.5132	0.5090	0.6020	0.5896	0.5810	0.6900	0.6837	0.6790
VIII	0.5390	0.5284	0.5130	0.5830	0.5617	0.5480	0.6920	0.6859	0.6790
IX	0.5460	0.5398	0.5330	0.5510	0.5368	0.5250	0.6970	0.6876	0.6830
X	0.5370	0.5334	0.5300	0.5410	0.5309	0.5240	0.6970	0.6930	0.6890
XI	0.5370	0.5349	0.5320	0.5310	0.5247	0.5170	0.6970	0.6939	0.6900
XII	0.5400	0.5384	0.5370	0.5330	0.5294	0.5240	0.6920	0.6875	0.6820

APPENDIX 4. LIST OF CREDIT INSTITUTIONS AT THE END OF 1995

BANKS

1. Stockholding Company "Aizkraukles Banka"
2. Stockholding Company "Ako Banka"
3. Stockholding Company "Baltijas Starptautiska Banka"
4. Stockholding Commercial Bank "Baltijas Tranzitu Banka"
5. Stockholding Company "Banka Atmoda"
6. Stockholding Company "Bauskas Banka"
7. Stockholding Company "Daugavas Banka"
8. Stockholding Commercial Bank "Doma Banka"¹
9. Stockholding Commercial Bank "Jelgava"
10. Stockholding Company "Komercbanka "Dinastija""
11. Stockholding Company Bank "Land"
12. Stockholding Company "Latvijas Biznesa Banka"
13. Stockholding Company "Latvijas Ekonomiska Komercbanka"
14. State Stockholding Company "Latvijas Hipoteku un Zemes Banka"
15. Stockholding Company Commercial Bank "Latvijas Industriala Banka"
16. Stockholding Company "Latvijas Investiciju Banka"
17. Stockholding Company "Latvijas Kapital-Banka"
18. State Stockholding Company "Latvijas Krajbanka"
19. Stockholding Company "Latvijas Kreditbanka"
20. Stockholding Commercial Bank "Latvijas Privatbanka"
21. Stockholding Company "Latvijas Tirdzniecibas Banka"
22. Stockholding Company "Latvijas Unibanka"
23. Stockholding Company "Latvijas Zemes Banka"
24. Stockholding Company "Multibanka"
25. Stockholding Company "Ogres Komercbanka"
26. Stockholding Company "Parekss-Banka"
27. Stockholding Commercial Bank "Paritate"
28. Stockholding Company "Rietumu Banka"
29. Stockholding Commercial Bank "Rigas Apvienota Baltijas Banka"
30. Stockholding Company "Rigas Komercbanka"
31. Stockholding Company "Rigas Naftas un Kimijas Banka"
32. Latvian Commercial Bank Stockholding Company "Sakaru Banka"
33. Stockholding Company "Saules Banka"
34. Stockholding Company "Talsu Komercbanka"²
35. Stockholding Company "Trasta Komercbanka"
36. Stockholding Company "Tukuma Banka"

¹ License suspended on December 4, 1995. License renewed on February 23, 1996.

² License suspended on November 2, 1995. License revoked on February 9, 1996.

37. Stockholding Company "Vacijas–Latvijas Banka"
38. Stockholding Company Commercial Bank "VEF Banka"
39. Stockholding Company Commercial Bank "Ventspils Apvienota Baltijas Banka"
40. Stockholding Company Commercial Bank "Viktorija"

CREDIT UNION

1. Credit Union "Dzelzcelnieks KS"

BRANCH OF FOREIGN BANK

1. Riga Branch of Stockholding Company "Société Générale" (France)

APPENDIX 5. THE BANK OF LATVIA'S ORGANIZATIONAL UNITS AT THE END OF 1995

1. ACCOUNTING AND SETTLEMENTS DEPARTMENT

(Chief Accountant – Antonija Sileniece; Deputy Chief Accountant – Maija Kurpniece):

- 1.1. Internal Banking Operations Division (Head of Division – Anita Jakane);
- 1.2. Central Accounting Division (Head of Division – Marite Orlovska);
- 1.3. Settlements Division (Head of Division – Natalija Popova).

2. CASHIER'S AND MONEY OPERATIONS DEPARTMENT

(Head of Department – Uldis Klauss; Deputy Head of Department – Oskars Zaltans):

- 2.1. Cash Operations Division (Head of Division – Veneranda Kausa);
- 2.2. Money Operations Division (Head of Division – Alite Grobina);
- 2.3. Collector Coin Division (Head of Division – Maruta Balduncika).

3. CREDIT INSTITUTIONS SUPERVISION DEPARTMENT

(Head of Department – Armands Steinbergs; Deputy Head of Department (Credit Institutions Supervision) – Janis Placis; Deputy Head of Department (Methodology and Licensing) – Ainars Gutmanis):

- 3.1. Supervision Division (Head of Division – Jelena Lebedeva);
- 3.2. Licensing Division (Head of Division – Sandra Sedleniece);
- 3.3. Methodological and Analytical Division (Head of Division – Ludmila Vojevoda);
- 3.4. Legal Division (Head of Division – Kuno Buss).

4. FOREIGN EXCHANGE DEPARTMENT

(Head of Department – Roberts L. Grava):

- 4.1. Payments and Settlements Division (Head of Division, Deputy Head of Department – Una Ruka);
- 4.2. Trading and Investment Division (Head of Division – Daira Brunere);
- 4.3. Foreign Loan Division (Head of Division – Agita Birka).

5. FOREIGN RELATIONS DEPARTMENT

(Head of Department – Guntis Valujevs; Deputy Head of Department – Linda Vitola).

6. GENERAL OFFICE

(Head of Department – Guntis Didrihsons):

- 6.1. Division for Guests Reception and Translation Services (Head of Division, Deputy Head of Department – Leons Brunavs);
- 6.2. Clerical Office (Head of Clerical Office – Ilga Strasburga).

7. GENERAL SERVICE DEPARTMENT

(Head of Department – Einars Ciss):

7.1. Communications and Service Division (Head of Division, Deputy Head of Department – Juris Liepa);

7.2. Building Exploitation Division (Head of Division – Arnis Berzins);

7.3. Construction and Repairs Division (Head of Division – Dijs Okolovics);

7.4. Transport Division (Head of Division – Imants Vacietis).

8. INFORMATION SYSTEMS DEPARTMENT

(Head of Department – Mara Raubisko):

8.1. System Design and Programming Division (Head of Division, Deputy Head of Department – Harijs Ozols);

8.2. System Maintenance Division (Head of Division – Edvins Maurins);

8.3. System Security and Quality Assurance Division (Head of Division – Janis Liepins).

9. INTERNAL AUDITING DEPARTMENT

(Head of Department – Modris Briedis).

10. LEGAL DEPARTMENT

(Head of Department – Reinis Jakovlevs; Deputy Head of Department – Bruno Macs).

11. MONETARY POLICY DEPARTMENT

(Head of Department – Laila Ruse; Deputy Head of Department – Zoja Medvedevskiha):

11.1. Analysis Division (Head of Division – Vilnis Purvins);

11.2. Securities Division (Head of Division – Uldis Pauksens);

11.3. Refinancing Division (Head of Division – Brigita Kauke).

12. PERSONNEL DEPARTMENT

(Head of Department – Inta Lovnika; Deputy Head of Department – Elita Osmuciece).

13. PUBLICATIONS DEPARTMENT

(Head of Department – Aina Ranke).

14. SECURITY DEPARTMENT

(Head of Department – Armands Steinbergs; Deputy Head of Department – Laimonis Veinsteins; Deputy Head of Department (Personnel Training) – Aldis Lieknins):

14.1. Analytical Division (Head of Division – Alvis Zirins);

14.2. Armament Division (Head of Division – Andris Purmalis);

14.3. Cash Transport Division (Head of Division – Janis Osis);

14.4. DAUGAVPILS DIVISION
(Head of Division – Ivars Veliks);

14.5. LIEPAJA DIVISION
(Head of Division – Ivars Vilcans);

14.6. REZEKNE DIVISION
(Head of Division – Arnis Stirna);

14.7. VALMIERA DIVISION
(Head of Division – Aldis Zemmers).

15. STATISTICS DEPARTMENT
(Head of Department – Agris Caune):

15.1. STATISTICS DIVISION
(Head of Division – Zigrīda Austa);

15.2. STATISTICS ANALYSIS DIVISION
(Head of Division – Inta Gaile).

16. RIGA BRANCH
(Branch Manager – Janis Strelnieks).

17. DAUGAVPILS BRANCH
(Branch Manager – Jolanda Matesa).

18. LIEPAJA BRANCH
(Branch Manager – Gundars Lazdans).

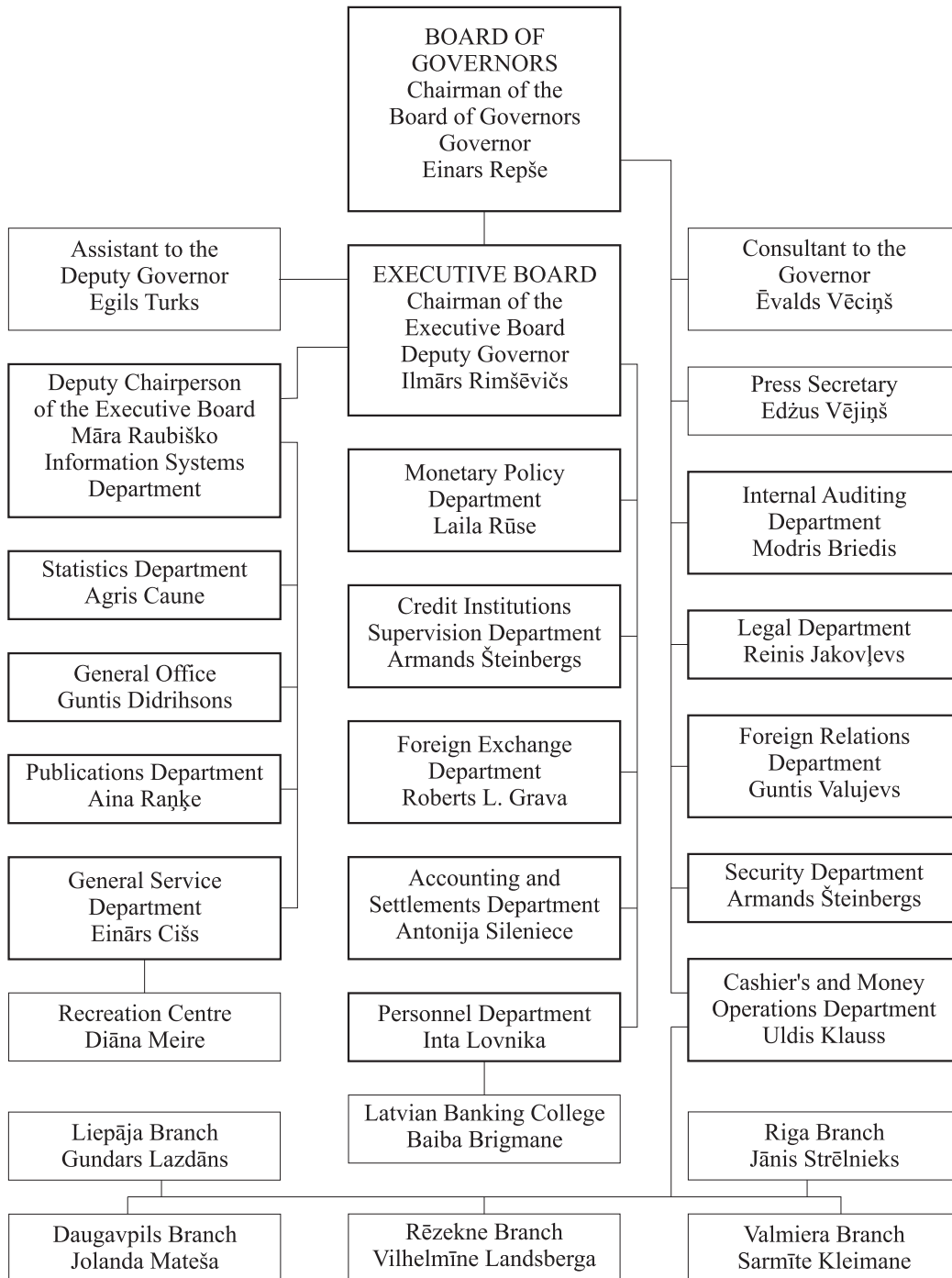
19. REZEKNE BRANCH
(Branch Manager – Vilhelmine Landsberga).

20. VALMIERA BRANCH
(Branch Manager – Sarmite Kleimane).

21. LATVIAN BANKING COLLEGE
(Principal – Baiba Brigmane; Vice Principal – Inese Vingre).

22. RECREATION CENTRE "PUMPURI"
(Director – Diana Meire; Deputy Director – Vilnis Vasilevskis).

THE BANK OF LATVIA'S STRUCTURE AT THE END OF 1995



Bank of Latvia. Annual Report 1995

Latvijas Banka (Bank of Latvia)
K. Valdemāra ielā 2a, Rīga, LV-1050, Latvia
Tel.: (371) 702 2300 Fax: (371) 702 2420
<http://www.bank.lv>
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