

BANK OF LATVIA: ANNUAL REPORT 2001



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2001 was marked by continued growth in the Latvian economy, although external demand declined and growth in transit slowed in the latter half of the year. Domestic demand continued to rise and the stock of loans increased. Growth across the major sectors of the national economy ranked Latvia high among the countries of Central and Eastern Europe in terms of GDP growth. In 2001, GDP increased by 7.6% in Latvia. No marked changes were observed in the unemployment rate, which was 7.7% in December 2001. Influenced by external factors, average annual inflation rose slightly. During the year, inflation ranged between 0.7% and 3.6%, and in December, the annual rate of inflation was 3.2%.

The country's fiscal position improved in the reporting year: the fiscal deficit in the general government budget was 87.2 million lats (a year-on-year decrease of 27.3%) 1.8% of GDP (2.8% in 2000).

In 2001, the balance-of-payments current account deficit equalled 10.1% of GDP (6.9% in 2000). A year-on-year increase was reported in the services surplus. The foreign trade deficit increased, as imports of goods rose at a more rapid pace than exports. Capital and intermediate goods were dominating in imports, which promoted modernization and growth in the national economy. Foreign currency inflow into Latvia was larger than needed to cover the current account deficit; and therefore, the balance of payments was in surplus. The Bank of Latvia's net foreign assets equalled 4.1 months' imports in December 2001.

Major banking indicators continued to grow. The significant growth of credit institutions' assets, loans granted, deposits received and equity capital reflected increasing confidence in the Latvian banking sector.

A decrease in lending rates, the successful issuance of government bonds of 3- and 5-year maturity, which took place in the first half of 2001, and the huge interest in the November issue of 7-year eurobonds (200 million euros) were indicative of diminishing credit risks. The international rating agencies *Standard & Poor's*, *Moody's Investors Service* and *Fitch Ratings* reaffirmed the ratings previously assigned to Latvia, confirming the positive outlook of the country. In 2001, two of the international rating agencies upgraded Latvia's outlook in respect of long-term obligations in foreign currency from stable to positive. Hence, in next twelve months Latvia's credit ratings might be upgraded.

As of July 1, 2001, the Financial and Capital Market Commission supervises participants of the financial and capital markets, and the Bank of Latvia no longer supervises credit institutions.

With the completion of the new building of the Bank of Latvia's Riga Branch in the last quarter of 2001, Latvia has acquired a modern vault that satisfies security standards. The Riga Branch building also houses the Bank of Latvia's interbank payment systems and a modern computer centre. Tribute should be paid to the *Deutsche Bundesbank* for assistance in implementing the project, which was sophisticated in terms of construction and technologies applied.

In December 2001, Mr. Einars Repše resigned from the post of the Bank of Latvia's Governor. Mr. Repše was elected Governor in 1991 and reelected in 1997. It was under his guidance that the Bank of Latvia evolved into a modern central bank pursuing strict monetary policy. During his office, banking supervision in Latvia was changed to conform with the Basle Core Principles for Effective Banking Supervision. In 1993, the Monetary Reform Committee, whose member was Mr. Repše, restored the national currency, the lats. The Saeima of the Republic of Latvia has appointed Mr. Ilmārs Rimšēvičs as Governor, recognizing his great

contribution as Chairman of the Bank's Executive Board and Deputy Governor (elected in 1992; reelected in 1998).

With a view to Latvia's commitment to political and economic integration in the European Union (EU), at the end of 2001 the Bank of Latvia focused on informing the general public about the euro cash changeover in twelve member states of the EU, outlining the changes that users of the new single European currency, both individuals and legal persons, might also face in Latvia.





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

GLOBAL ECONOMIC ENVIRONMENT

In 2001, the pace of global economic growth slowed. Economic slowdown was observed simultaneously in a number of developed economies, and among them the United States, Japan and Germany. Such trend was visible already at the end of 2000, but in 2001 the overall situation was further aggravated and demand on the global market was impaired by the aftermath of the terrorist attacks of September 11 on the United States. As a result, international trade was weakened. In 2001, world GDP growth was about 2.4% (4.7% in 2000).

Given unbalanced growth across the national economy, the US economy started to slow down in March 2001. The most pronounced difficulties were in the sector of information technologies, which experienced a significant downturn in investment that was associated with a sharp fall in share prices. With inventory stock growing, output narrowed, pushing up unemployment and affecting private consumption. Expansionary monetary policy (during the year, the Federal Reserve System lowered its target for the federal funds rate to the low of forty years, from 6.5% to 1.75%) and a considerable fiscal stimulus sustained economic growth in the first half of the year. GDP decreased by 1.3% in the third quarter, while rising by 1.7% in the fourth quarter. As a result, GDP growth was only about 1.2% in the United States in 2001 (4.1% in 2000).

The Japanese economy continued to weaken. The Japanese GDP was by about 0.5% lower in 2001 than in 2000. Structural problems in the financial sector, the country's unfavourable fiscal position and deflation were the main factors hindering the recovery process in Japan.

The economies of the euro area also were affected by the global economic slowdown, and in 2001, GDP growth was about 1.5% (3.4% in 2000). The negative effects that the slowdown in the German and the Finnish economies had on growth in the euro area were partly offset by stable GDP growth in France, Spain and Italy, and the high GDP growth reported by Luxembourg and Ireland (6.7% and 5.6%, respectively). The Greek economy grew because of investment inflow after the country joined the Economic and Monetary Union in 2001. As international trade weakened somewhat, the growth rate of exports and investment fell in the euro area. In the euro area, as in other regions, private consumption was adversely influenced by the September 11 events in the United States. During the year, the labour market and the fiscal sector weakened. Influenced by growing food prices, inflation peaked in the euro area in May, while decreasing in the latter half of 2001 (to 2.1% in December), owing to a fall in world oil prices.

The economies of EU accession countries stabilized in 2001; however, economic growth was slightly slower than in the previous year, owing to extensive trade ties of the economies of Central and Eastern Europe with the developed economies, where economic growth slowed. Lithuania and Estonia reported considerable continued economic growth (annual GDP growth of 5.9% and about 5.4%, respectively). In both countries, export and output growth even accelerated at the end of 2001. In the rest of the economies of Central and Eastern Europe, GDP growth was about 3%.

The external economic environment was positively influenced by the Russian economy, which reported stable growth despite the downward trend in oil prices. The country had trade surplus and succeeded in ensuring surplus in the government budget. Average annual inflation slightly rose above its 2000 level, while in the last months of the year, it fell to 18.6%. The average annual growth of GDP and the value added of the manufacturing sector was about 5%. In view of the positive

trends in the Russian economy, the rating agency *Standard & Poor's* upgraded Russia's rating on long-term obligations in foreign currency to B+ (from B).

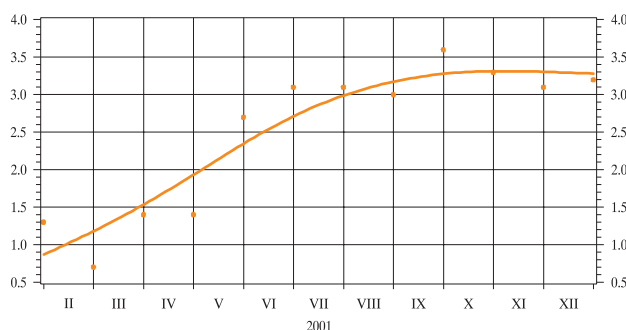
The rating agency *Moody's Investors Service* upgraded Ukraine's credit rating to B2. For the second consecutive year, the Ukrainian economy reports rapid growth. In 2001, GDP growth was 9.1% in Ukraine (5.8% in 2000).

INFLATION AND PRICES

The consumer price index (CPI) rose by 3.2% in Latvia in 2001 (see Chart 1; by 1.8% in 2000), with a more pronounced rise in the latter half of the year. On average, the year-on-year rise in the CPI was 2.5% (2.6% in 2000).

Chart 1

CHANGES IN THE CONSUMER PRICE INDEX
(year-on-year basis; %)



Source: Central Statistical Bureau of Latvia.

In 2001, in contrast to previous years, inflation was mainly determined by an increase in the prices of goods (3.7%). At the same time, the prices of services rose by only 1.6%. The prices of goods were mainly pushed up by food prices, which accounted for a 2.5 percentage points increase in annual consumer price inflation.

In December, the core inflation rate, which is the difference between total inflation and changes in indirect taxes, administratively regulated prices and fuel prices, was 3.3%, slightly higher than the annual inflation rate. The most significant factors underlying inflation were a marked decrease in fuel prices and a slower increase in administratively regulated prices.

Potato, vegetable and fruit prices were the most markedly rising food prices, and they accounted for a 1.1 percentage point increase in annual consumer price inflation. Vegetable and fruit prices grew, mainly influenced by rising import prices. Higher potato prices were a result of a lower supply in the domestic market, owing to unfavourable weather conditions, and import prices, as more expensive potatoes were increasingly imported. (In twelve months, potato prices doubled.)

The prices of meat and meat products also rose significantly, accounting for an 0.8 percentage point increase in annual consumer price inflation. Domestic prices were mainly influenced by changes in import prices, because the domestic output of livestock products narrowed, while imports of such products grew. At the beginning of 2001, import prices rose, since the foot-and-mouth disease had spread in a number of European countries. The increase in the prices of meat and meat products of domestic origin could be attributed to a considerable rise in the average buying price of livestock products in the first half of the year (by about 30%).

In the group of non-food goods, the prices of medicine and health care (out-patient services) grew. Tuition fees at the Latvian universities were increased substantially.

Fuel prices fell (by 9.8%) in line with changes in world oil prices during 2001. The prices of telephone equipment and telephone services continued to decline (by 4.1%; owing to competition in the market for mobile phone communications).

The rise in annual inflation was largely determined by external factors, mainly growing food prices in Latvia's major trading partner countries. The highest rate of annual inflation was observed in September (3.6%), while the lowest in February (0.7%). The highest rise in the CPI was in May (1.0%), but the index fell in February, July and August.

In 2001, the average monthly gross and net wages of persons employed in the national economy increased over the previous year (by 7.0% to LVL 160.07 and by 6.6% to LVL 115.70, respectively). The average monthly net wage was 72.2% of the average monthly gross wage. Since the rise in the average wage exceeded the rate of annual inflation, the annual growth of the real gross wage was 4.4% and that of the real net wage was 4.0%.

With demand growing, the sales of manufactured goods improved and the upward trend of producer prices continued. In 2001, producer prices in the manufacturing sector were higher than in 2000 on both goods exported (by 3.1%) and goods sold on the domestic market (by 1.1%). Producer prices also rose in electricity, gas and water supply (by 1.3%). In 2001, the total producer price index increased by 1.7% (by 0.6% in 2000).

With the prices of construction materials declining, the construction cost index fell by 5.0% in 2001 (by 1.9% in 2000).

Having declined in the previous three years, the export unit value rose by 2.6% in 2001. The export unit value of prepared foodstuffs, including alcoholic and non-alcoholic beverages and tobacco products, rose most substantially (by 32.1%). The export unit value also increased in mineral products (by 9.3%), pulp of wood, paper and paperboard (by 5.4%), and base metals and articles of base metals (by 5.0%). At the same time, the export unit value decreased in machinery and mechanical appliances, electrical equipment, miscellaneous manufactured articles, and wood and articles of wood (by 4.4%, 3.0% and 1.0%, respectively). The volume of exports increased by 8.2%.

The import unit value increased by 1.7% (by 6.7% in 2000). Slower growth in the total import unit value was attributable to decreases recorded in the import unit value of machinery and mechanical appliances, electrical equipment, and mineral products, which are product groups dominant in terms of imports (2.6% and 6.3%, respectively). The import unit value of other significant product groups rose: by 8.8% in vegetable products, by 6.5% in transport vehicles, and by 3.8% in textiles and textile articles. The volume of imports increased by 11.9%.

With the export unit value increasing in excess of the import unit value, the terms of trade improved in 2001 (by 0.9%).

GROSS DOMESTIC PRODUCT

In 2001, GDP at current prices totalled 4 740.8 million lats, and annual GDP growth (at constant prices) was 7.6% (see Table 1). The rapid growth rate was determined by significant growth across the sectors of the national economy in the first half of 2001. A 14.0% increase in the value added of transport, storage and communications, which was recorded in the first half of 2001 due to growing transportation by rail and ports, contributed considerably to real growth in the

total value added. In the latter half of the year, in particular in the fourth quarter, cargo traffic by rail declined, as Russia changed its policy concerning tariffs on transportation by rail and world oil prices fell. Year-on-year, cargo traffic by rail increased by 11.3% in the first half of 2001, while decreasing by 10.6% in the fourth quarter. This had adverse effects on port indicators. The annual growth rate of cargoes loaded and unloaded at Latvian ports was 12.6% in the first nine months of 2001 and only 1.0% in the fourth quarter. In the fourth quarter, cargoes loaded and unloaded at the Ventspils port declined 1.2% below the level a year earlier. High real growth, however, was reported in the value added of transportation, storage and communications (9.5%).

Table 1

GROSS DOMESTIC PRODUCT AND GROSS VALUE ADDED

(at constant prices; year-on-year basis; %)

	1999	2000	2001
GDP	1.1	6.8	7.6
Goods-producing sector	-4.2	6.5	8.0
Service sector	5.1	7.1	8.1

Source: Central Statistical Bureau of Latvia.

Slower growth in the trade sector in the latter half of 2001 could be explained partly with the high basis. In 2001, the retail trade turnover (at constant prices) rose by 9.0%. The other areas of the service sector showed considerable growth throughout the year. Value added increased in real estate, renting and business activities (by 13.9%), financial intermediation (by 7.3%), and hotels and restaurants (by 13.7%). The value added of the service sector (at constant prices) grew by 8.1%.

Growth in the goods-producing sector (an 8.0% increase in value added at constant prices) was determined by manufacturing, its most significant area, whose value added increased by 9.5%, owing to high domestic and foreign demand. The largest increases in the volume index of industrial output were observed in the manufacture of chemicals and chemical products (34.6%), the manufacture of other non-metallic mineral products (31.4%), and the manufacture of furniture and manufacture not elsewhere classified (23.5%). The value added of construction, electricity, gas and water supply, and agriculture, forestry and hunting continued to increase (by 6.1%, 6.6% and 6.8% at constant prices, respectively).

In 2001, the number of unemployed persons registered with the State Employment Service declined by 1.8%, and the unemployment rate fell to 7.7% in December (7.8% in December 2000).

With economic activity in the country increasing, the unemployment level stabilized and was less influenced by seasonal factors. The unemployment rate, however, rose seasonally in the first quarter, reaching 8.1% in March. It fell subsequently, remaining relatively stable in July–December (7.6%–7.7%; the lowest unemployment level since September 1998). The number of long-term unemployed decreased. The ratio characterizing the number of unemployed per vacancy rose to 53 (41 at the end of 2001). The highest unemployment level persisted in the Rēzekne, Balvi and Preiļi districts (26.5%, 21.6% and 20.2%, respectively), while the lowest one was in the Saldus, Ogre and Riga districts (5.9%, 6.2% and 6.6%, respectively). In Riga, the unemployment rate was only 3.6% in December.

FOREIGN TRADE AND THE BALANCE OF PAYMENTS

In 2001, Latvia's foreign trade turnover amounted to 3 458.0 million lats. Exports grew by 11.1% and imports by 13.8%. The excess of imports over exports increased to 75.2% (from 70.9% in 2000). Although, influenced by falling demand in Europe, growth in exports slowed in the latter half of 2001, the annual growth rate of exports was nearly the same as in 2000. A more rapid increase in imports could be explained with rising domestic demand.

The foreign trade deficit increased to 945.2 million lats (see Table 2). The largest contributors to the trade deficit were machinery and mechanical appliances, electrical equipment, mineral products, transport vehicles, and products of the chemical and allied industries. With imports growing, the negative balances of machinery and mechanical appliances, electrical equipment and transport vehicles rose significantly. The negative balance of vegetable products and prepared foodstuffs (including alcoholic and non-alcoholic beverages, and tobacco products) declined, owing to an increase in exports of these products. The trade surplus on wood and articles of wood did not change substantially, covering 42.1% of the foreign trade deficit (49.8% in 2000).

Table 2

LATVIA'S FOREIGN TRADE

(exports in FOB prices; imports in CIF prices;
in millions of lats)

	1999	2000	2001
Exports	1 008.3	1 131.3	1 256.4
Imports	1 723.9	1 933.9	2 201.6
Balance	-715.6	-802.6	-945.2

Source: Central Statistical Bureau of Latvia.

Latvia's principal foreign trade partners were the EU member states (55.7% of foreign trade turnover). In total exports, the share of exports to this group of countries narrowed to 61.2% (from 64.6% in 2000), with the growth rate falling to 5.2%. Of Latvia's exports to the EU member states, the largest increase was observed in exports to Germany (15.2 million lats). Exports to the CIS countries and other countries rose significantly. Of these, the most pronounced increases were recorded in exports to Russia (26.2 million lats), Lithuania (16.3 million lats) and Estonia (12.0 million lats). Imports from the EU member states and other countries increased, while imports from the CIS countries remained at the previous year's level. Latvia exported its goods mainly to Germany, the United Kingdom, Sweden, Lithuania and Russia, while importing goods predominantly from Germany, Russia, Lithuania, Finland and Sweden.

In 2001, Latvia exported mainly wood and articles of wood (34.0% of total exports), textiles and textile articles (14.1%), base metals and articles of base metals (12.7%), machinery and mechanical appliances, electrical equipment (6.4%), and products of the chemical and allied industries (6.3%). Exports of prepared foodstuffs (including alcoholic and non-alcoholic beverages, and tobacco products), textiles and textile articles, machinery and mechanical appliances, electrical equipment, and miscellaneous manufactured articles (predominantly furniture) rose significantly (by 32.4 million lats, 18.8 million lats, 17.8 million lats and 10.8 million lats, respectively). Exports of wood and articles of wood, which accounted for the bulk of Latvia's export goods, did not change significantly over the previous year's level, making the growth rate of exports slow. The main countries to which Latvia exported wood and articles of wood were the United Kingdom (37.0% of exports of

these goods), Sweden (17.2%) and Germany (13.3%). The country profile of exports of wood and articles of wood revealed a slight fall in exports to the United Kingdom, Sweden and Ireland and an increase in exports to Finland, France and Estonia. Textiles and textile articles were exported mainly to Germany (17.9%), Sweden (13.3%) and Denmark (13.1%). Their exports to Germany, the Netherlands and Slovakia declined, while increasing in the group of other countries. Producers of base metals and articles thereof continued to seek new markets. As before, Germany accounted for the largest share in exports of base metals and articles of base metals (35.4%). The largest growth in such exports was recorded for Iran and Algeria (15.7 million lats), and the growth was so robust that it almost fully offset a fall observed in exports to the United States. The bulk of machinery, mechanical appliances, electrical equipment went to Lithuania (17.3%), Russia (16.4%), Germany (14.2%) and Estonia (9.3%), owing to rising demand in these countries. Likewise, the demand for machinery, mechanical appliances and electrical equipment rose in Ukraine. The principal markets for products of the chemical and allied industries were Lithuania (25.9%), Estonia (17.6%) and Russia (11.7%). Growth in exports of prepared foodstuffs (including alcoholic and non-alcoholic beverages, and tobacco products) was attributable to larger exports of these products to Russia, the United States (increases of 15.9 million lats and 7.2 million lats, respectively), and Lithuania. The principal markets for furniture were Germany (30.9%) and Denmark (22.2%), where demand continued to rise.

In 2001, Latvia's most significant import goods were machinery and mechanical appliances, electrical equipment (21.1% of total imports), mineral products (11.1%), products of the chemical and allied industries (10.5%), transport vehicles (9.4%), base metals and articles of base metals (8.3%), and textiles and textile articles (7.4%). Imports of all product groups increased, except for mineral and vegetable products. The largest growth was recorded in imports of machinery and mechanical appliances, electrical equipment (64.2 million lats), transport vehicles (56.4 million lats), products of the chemical and allied industries (24.9 million lats), prepared foodstuffs (including alcoholic and non-alcoholic beverages, and tobacco products; 20.4 million lats), and base metals and articles of base metals (19.7 million lats). Germany, Finland and Sweden accounted for the largest shares in imports of machinery and mechanical appliances, electrical equipment (22.0%, 16.9% and 7.3%, respectively). Imports of these goods from Germany, Finland, Italy, Lithuania and the Netherlands increased most markedly.

Imports of mineral products from Russia decreased most significantly (by 27.6 million lats). The decrease was partly offset by larger imports from Belarus and Lithuania. Of all mineral products, 41.2% came from Russia. Products of the chemical and allied industries were mainly imported from Germany (14.9%). Russia, Switzerland, Poland, Finland and Estonia had smaller shares of the total. Major countries from which Latvia imported transport vehicles were Germany (35.5%), Sweden (14.9%) and Finland (9.0%). The largest growth in imports of transport vehicles was observed for Germany (23.8 million lats) and Sweden (11.8 million lats). Russia, Germany, Lithuania and Estonia accounted for the bulk of imports of base metals and articles of base metals (18.6%, 14.4%, 8.8% and 7.8%, respectively). Imports of base metals and articles of base metals from Lithuania, Belarus and Germany grew most pronouncedly. Textiles and textile articles were imported mainly from Germany (18.6%), Sweden (13.6%), Denmark (11.1%) and Italy (9.4%). Imports of textiles and textile articles from Italy showed the largest increase.

In foreign trade transactions, the share of transactions in euros increased in 2001, while that of transactions in US dollars decreased. The shares of transactions in

the EMU currencies and euros reached 40.7% (35.5% in 2000), while that of transactions in US dollars contracted from 43.6% to 38.8%.

The real effective exchange rate of the lats, as measured against the currencies of ten Latvia's principal trading partner countries, fell by 2.2% in 2001. At the same time, the nominal effective exchange rate of the lats rose by 0.4%. The real effective exchange rate of the lats increased against the currencies of developed countries (by 1.3%), due to an increase in the nominal effective exchange rate of the lats against these currencies. Against the currencies of transition economies, it dropped by 8.9%, mainly as a result of higher inflation in transition economies.

In 2001, the balance of payments current account deficit was 476.8 million lats or 10.1% of GDP (6.9% in 2000). This could be attributed to a relatively low foreign demand and growing domestic demand. The purchases of three ships by the joint-stock company in privatization *Latvijas kuģniecība* pushed up imports, which increased in excess of exports (by 18.4% and 11.5%, respectively). The goods deficit increased (by 205.0 million lats). The income surplus slightly rose (by 2.8 million lats), while the current transfers surplus declined (by 9.3 million lats). With services rendered growing more rapidly than services received, the services surplus rose by 35.6 million lats, covering 35.7% of the goods deficit.

The current account deficit was mainly financed with foreign investment and long-term borrowing (including eurobonds issued by the Government). Net inflows were reported for direct investment, portfolio investment and other investment (121.6 million lats, 81.4 million lats and 419.1 million lats, respectively). In 2001, Latvia witnessed a larger foreign currency inflow than was needed to cover the current account deficit; and therefore, reserve assets grew by 192.7 million lats, and the balance of payments was in surplus.

FISCAL POLICY

In 2001, the general government consolidated budget posted a fiscal deficit of 87.2 million lats or 1.8% of the country's GDP, which was below the 2000 level (2.8% of GDP) and smaller than projected. A lower fiscal deficit was a result of higher-than-projected GDP growth and the Government's policy to cut expenditures (restrictions on the receipt of pensions by working pensioners in full amount were not lifted; limits were established on the increasing of remuneration in several sectors, etc.). The financial deficit of the general government consolidated budget totalled 89.5 million lats.

Year-on-year, the general government consolidated budget revenue increased at a more rapid pace than expenditure (increases of 5.5% and 3.2%, respectively). All tax revenues, except for revenue from the excise tax, grew in the reporting year. The largest growth was observed in revenue from the personal income tax and the value added tax (9.1% and 3.8%, respectively). Revenue from social security contributions, which accounts for a large part of the general government consolidated budget revenue, increased by 3.2%. Revenue from the enterprise income tax (5.7% of total revenue) rose 33.5% over its 2000 level, while revenue from customs duties and the taxes on property increased by 6.4% and 6.3%, respectively. At the same time, revenue from the excise tax was 1.9% lower than in 2000, owing to a decrease in the tax rate on diesel oil (gas oil) and difficulties in administering the tax.

In 2001, the central government basic budget revenue was 739.9 million lats (a year-on-year increase of 8.6%) and expenditure, including net lending, 809.9 million lats (a year-on-year increase of 0.9%). The budget's fiscal deficit totalled 70.0

million lats (a year-on-year decrease of 1.7 times). In the central government basic budget, tax revenue increased by 7.6%.

Year-on-year growth in the central government special budget revenue and expenditure was 3.1% and 0.6%, respectively. The budget's fiscal deficit of 23.0 million lats (39.7 million lats in 2000) was financed by borrowing from the central government basic budget. The social security budget posted a fiscal deficit of only 9.2 million lats (29.2 million lats in 2000), which was three times smaller than projected. Revenue from social security contributions rose by 3.2%, while expenditure declined by 1.0%.

A fiscal deficit of 26.7 million lats was recorded in the local government consolidated budget (a year-on-year increase of 13.6 million lats; including a 23.0 million lats deficit of the Riga local government). The local government consolidated budget was the only budget whose expenditure increased in excess of revenue (increases of 6.4% and 3.4%, respectively).

In 2001, the Government's debt increased by 141.8 million lats (to 712.7 million lats), owing mainly to the issuance of 7-year eurobonds in the amount of 200 million euros in November. External debt grew by 108.7 million lats, totalling 456.7 million lats at the end of 2001, while domestic debt increased by 33.1 million lats, reaching 256.0 million lats at the end of 2001. Domestic debt was resultant from the issuance of government bills and bonds.

SYSTEM OF CREDIT INSTITUTIONS

At the end of the reporting year, 45 credit institutions were registered in the Republic of Latvia, comprising 22 banks, 22 credit unions and the Latvia Branch of *Nordea Bank Finland Plc*. Likewise, a representative office of *Dresdner Bank AG* operated in Riga.

Nearly the whole banking industry is in private hands in Latvia. At the end of 2001, the Government's stake in the banking sector's paid-up share capital was only 4.5%. The Latvian state is the sole owner of the joint-stock company *Latvijas Hipotēku un zemes banka*. The Government also has a holding in the joint-stock company *Latvijas Krājbanka*, a bank whose privatization has not yet been completed.

In the first half of 2001, the Bank of Latvia licensed a new credit institution, the joint-stock company *Akciju komercbanka "Baltikums"* and four credit unions—*Pūres Kooperatīvā krājaizdevu sabiedrība*, *Straupes Kooperatīvā krājaizdevu sabiedrība*, *Kandavas novada Kooperatīvā krājaizdevu sabiedrība* and *Āgenskalns*.

A new institution, the Financial and Capital Market Commission, started operating in Latvia on July 1, 2001. Its operations are governed by the Law "On the Financial and Capital Market Commission". The Commission regulates and supervises the financial and capital markets and activities of their participants. The aim of the Commission is to provide for the protection of interests of investors, depositors and insured persons, and promote the development and stability of the financial and capital markets. As of the day the Commission started operating, the Bank of Latvia no longer supervises credit institutions.

At the end of 2001, the total paid-up share capital of credit institutions was 237.4 million lats (a year-on-year increase of 17.8%). The share of foreign investment in banks' paid-up share capital decreased slightly, reaching 67.7% at end-2001.

In 2001, the positive trends in the development of Latvian banks and credit unions were confirmed by rapid growth in all major indicators characterizing the industry: assets (excluding trust assets) increased by 28.2% (to 3 460.1 million lats), loans (including transit credit) grew by 50.5% (to 1 637.0 million lats), and deposits rose by 25.0% (to 2 330.7 million lats).

The banking sector's profit for 2001 totalled 49.6 million lats (a year-on-year increase of 29.5%). Credit institutions' equity capital grew by 35.4%, amounting to 308.9 million lats at the end of 2001.

At the end of 2001, the structure of banks' assets was slightly different from that at the end of the previous year. The share of claims on credit institutions decreased by 4.1 percentage points (including a decrease of 4.3 percentage points in the share of claims on credit institutions in the OECD countries). The share of loans expanded by 7.0 percentage points (to 47.3% of banks' assets). Of all loans, 85.9% was loans to domestic enterprises and private persons.

At the end of 2001, banks' liquid assets (vault cash, claims on the Bank of Latvia and credit institutions, government securities) accounted for 35.8% of total assets, and this amount was adequate to meet depositors' claims. Of liquid assets, 63.6% was claims on credit institutions in the OECD countries.

Compared with the end of 2000, the share of medium-term loans (maturity of 1 year to 5 years) decreased from 50.7% to 44.8%, and that of short-term loans declined from 27.2% to 26.2%. The share of long-term loans (maturity of over 5 years) increased from 22.1% to 29.0%.

At the end of 2001, total non-bank deposits with banks amounted to 2 330.7 million lats, confirming an increase in private persons' confidence in the Latvian banking sector. In total deposits, the share of deposits received from domestic private persons expanded from 21.3% to 24.0%. The share of medium-term deposits (maturity of 1 year to 5 years) grew from 5.1% to 5.5%. The share of demand deposits increased (from 65.1% to 68.1%), while that of short-term deposits declined (from 29.0% to 25.4%).

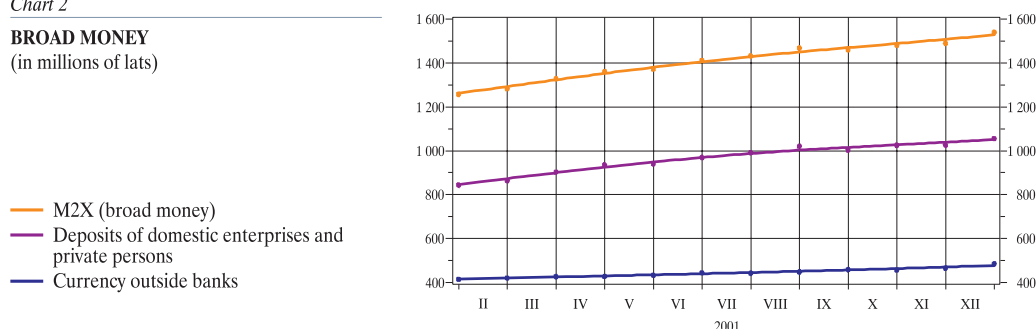
In the reporting year, the assets of credit unions grew by 61.2%; however, they accounted for only 0.05% of credit institutions' total assets.

MONEY SUPPLY

The principal monetary indicators of the Latvian banking system and the Bank of Latvia have been reflected in Appendix 1 of the Report. Broad money M2X¹ increased by 20.8%, amounting to 1 541.4 million lats at the end of 2001 (see Chart 2). The stable development of the Latvian economy facilitated a decrease in the rate of growth in the money supply (M2X increased by 27.9% in 2000). Broad money increased smoothly throughout the year (by 10.8% in the first half of the year; by 9.1% in the latter half); however, it fell seasonally in January, and in the wake of the terrorist attacks on the United States, decreased slightly in September. The most rapid rise in broad money was recorded in March (3.6%), when deposits received from domestic enterprises and private persons increased sharply, and December (3.4%), when the demand for cash was higher than in previous years.

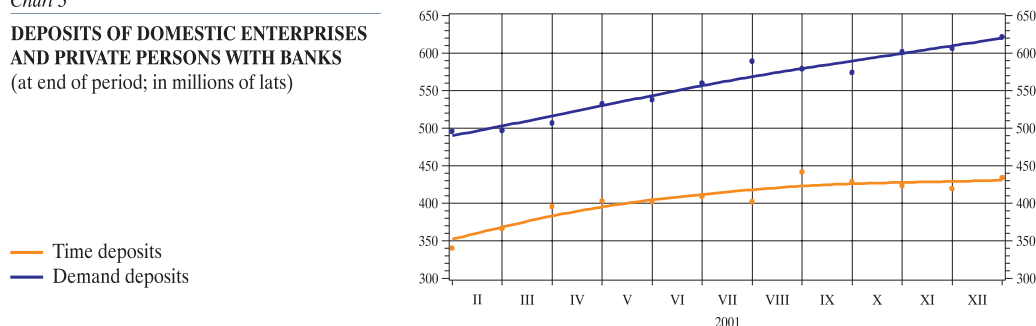
¹ Currency outside banks + deposits in lats and foreign currencies received from domestic enterprises and private persons.

Chart 2

BROAD MONEY
(in millions of lats)

The soundness of the banking sector, the stability of the national currency, the population's increasing welfare and a further strengthening of the real sector of the national economy allowed the banking sector to attract more deposits from domestic enterprises and private persons (by 208.1 million lats or 24.5%; see Chart 3). Currency outside banks increased by 57.5 million lats or 13.4%, with its growth rate remaining at the 2000 level. The most rapid rise in currency outside banks was recorded in June and December, owing to seasonal factors, and September (2.5%, 4.4% and 2.3%, respectively). Cashless payment instruments continued to evolve, and the cash component of broad money fell to 31.5% at the end of 2001 (33.5% at the end of 2000). In broad money, the share of demand deposits increased insignificantly (by 0.5 percentage points, to 40.3%), while that of time deposits grew at a slightly more rapid pace (by 1.5 percentage points, to 28.2%), confirming expectations for continued economic stability in the country. In time deposits, the share of deposits by domestic private persons expanded (by 10.7 percentage points, to 69.8%). At the same time, deposits by domestic enterprises accounted for the largest part of demand deposits (56.3%), although the share of deposits by domestic private persons increased. Deposits by domestic private persons reached 54.4% of total deposits (48.4% at the end of 2000).

Chart 3

DEPOSITS OF DOMESTIC ENTERPRISES AND PRIVATE PERSONS WITH BANKS
(at end of period; in millions of lats)

Higher returns and the stability of the lats were the reasons why deposits in lats grew more markedly than deposits in foreign currencies (by 29.0% and 19.5%, respectively). Deposits in lats, therefore, constituted as much as 55.0% of total deposits at the end of 2001 (53.1% at the end of 2000).

Quasi-money¹, the less liquid component of broad money, increased at a more rapid pace than M1², its more liquid component (by 31.7% and 13.0%, respectively).

Although the Bank of Latvia's foreign reserves grew significantly in 2001, the banking system's net foreign assets declined by 5.3 million lats. This could be

¹ Time deposits in lats received from domestic enterprises and private persons + deposits in foreign currencies received from domestic enterprises and private persons.

² Currency outside banks + demand deposits in lats received from domestic enterprises and private persons.

attributed to the prevailing trend followed by banks in 2001: part of funds received from non-residents were invested in domestic assets, mainly in loans to domestic enterprises and private persons. The banking sector's foreign liabilities increased at a considerably more rapid pace than foreign assets (by 378.0 million lats and 154.0 million lats, respectively), and at the end of the year, they accounted for 49.8% and 42.7% of the consolidated balance sheet of credit institutions, respectively.

Claims on credit institutions, the largest item in foreign assets, grew by 1.1%, and investment in debt securities of foreign credit institutions rose by 19.8%. Claims on foreign non-banks increased by 29.0% (to 501.2 million lats), including a 57.0% increase in loans and a 14.3% increase in investment in debt securities. Influenced by the euro cash changeover, banks' vault cash in foreign currencies grew substantially (by 43.8%). The most significant items of the banking sector's foreign liabilities increased, of which liabilities to foreign credit institutions, by 53.8%, and deposits of foreign non-banks, by 24.8%.

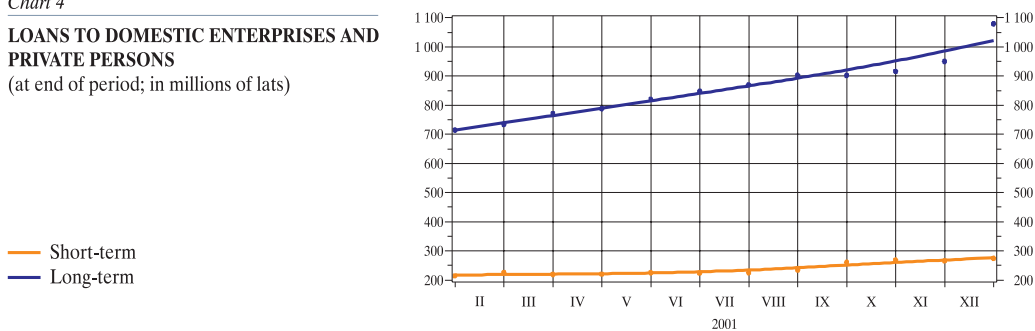
In 2001, growth in the money supply was determined by an increase in domestic loans (by 376.5 million lats or 35.6%). Loans to domestic enterprises and private persons rose by 450.5 million lats or 49.8%, whereas the banking system's net claims on the central government declined 1.9 times.

A more rapid increase in loans, in particular long-term loans, was fostered by growing economic activity, an increase in deposits with banks, favourable lending rates, which fell because of diminishing credit risk and the improving quality of collateral, the introduction of new banking products, and an increase in purchasing power. At the end of 2001, loans to domestic enterprises and private persons accounted for 39.9% of credit institutions' consolidated assets (33.5% at the end of 2000).

Long-term and short-term loans granted to domestic enterprises and private persons increased (by 383.1 million lats or 55.0% and by 67.4 million lats or 32.5%, respectively; see Chart 4). As a result, at the end of 2001, long-term loans accounted for 79.7% of total loans (77.1% at the end of 2000). The increase in long-term loans was driven by mortgage loans, which grew by 124.4 million lats or 2.1 times (to 235.9 million lats). Commercial credit and industrial credit also rose significantly (by 198.3 million lats or 65.9% and by 86.7 million lats or 31.0%, respectively). In loans to residents, commercial credit, industrial credit and mortgage loans continued to account for the largest part (36.8%, 27.0% and 17.4%, respectively).

Chart 4

LOANS TO DOMESTIC ENTERPRISES AND PRIVATE PERSONS
(at end of period; in millions of lats)



A marked increase of 145.8 million lats or 33.4% was observed in loans in lats; however, loans in foreign currencies grew more rapidly (by 304.6 million lats or 65.1%), as their interest rates were considerably lower. Hence, the share of loans in lats decreased by 5.3 percentage points in 2001, reaching 43.0% of the total.

Loans granted increased substantially in the following sectors of the national

economy: trade (by 61.6 million lats or 31.5%), construction (by 44.0 million lats or 2.3 times), manufacturing (by 29.9 million lats or 17.8%), other services (by 27.1 million lats or 29.5%), and hotels and restaurants (by 25.2 million lats or 2.7 times). The largest growth was observed in loans to financial intermediation (136.2 million lats or 3.5 times), and it was caused by a sizeable loan that a Latvian bank granted in December to a financial institution whose foreign source of financing was changed for a domestic one within the financial group. At the end of 2001, the largest stock of loans was in trade (23.1% of loans to domestic enterprises), manufacturing (17.8%) and financial intermediation (17.0%). Trade and manufacturing received the largest part of short-term loans (35.6% and 24.4%, respectively), but long-term loans were used predominantly by trade and financial intermediation (19.6% and 18.7%, respectively).

LENDING AND DEPOSIT RATES

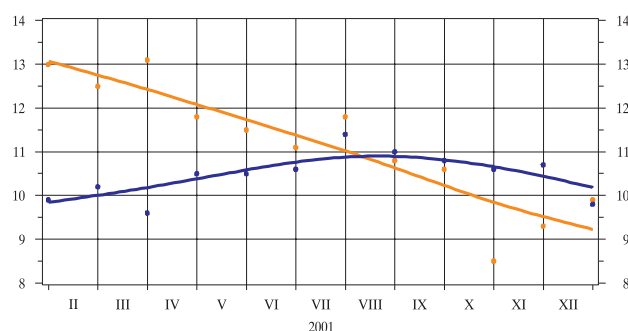
The country's stable macroeconomic position fostered greater bank competition, as a result of which lending rates fell, leading to a rapid increase in loans.

The weighted average interest rate of short-term loans in lats dropped by 1.9 percentage points (to 9.9% in December 2001; see Chart 5). The weighted average interest rates of short-term loans to both domestic enterprises and domestic private persons fell (from 11.6% to 9.7% and from 15.0% to 12.8%, respectively).

Chart 5

WEIGHTED AVERAGE INTEREST RATES ON LOANS IN LATS GRANTED TO DOMESTIC ENTERPRISES AND PRIVATE PERSONS (%)

— Short-term
— Long-term



The weighted average interest rate of long-term loans in lats to domestic enterprises and private persons fluctuated within a range of 9.6% to 11.4%, and in December, it was at approximately the same level as a year earlier (9.8%).

Influenced mainly by external factors, the weighted average interest rate of loans in the currencies of the OECD countries dropped more markedly than that of loans in lats. In 2000, the weighted average interest rate of loans in lats had been lower. In 2001, with the official interest rates decreasing in all major economies, the price of relevant money resources fell on world markets, also on the Latvian financial market; and therefore, the demand for loans in the currencies of the OECD countries rose. The weighted average interest rate of short-term loans in these currencies fell (from 12.1% in December 2000 to 7.1% in December 2001), as did that of such long-term loans (from 10.4% to 5.6%).

The weighted average interest rates of lats deposits by domestic enterprises and private persons remained relatively high (see Chart 6). The weighted average interest rate of long-term deposits ranged between 6.7% and 7.2%, while that of short-term deposits rose from 4.2% in December 2000 to 5.7% in December 2001.

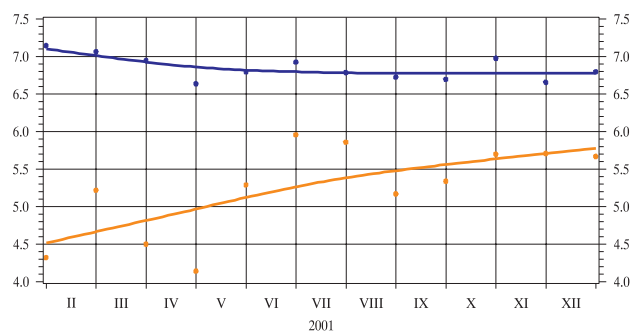
Interest rates of deposits received in the currencies of the OECD countries continued to drop. The weighted average interest rate of short-term deposits in these

currencies fell gradually (from 5.9% in December 2000 to 3.0% in December 2001), and that of such long-term deposits declined from 6.5% to 4.8%, respectively.

Chart 6

WEIGHTED AVERAGE INTEREST RATES
ON LATS DEPOSITS OF DOMESTIC
ENTERPRISES AND PRIVATE PERSONS
(%)

— Short-term
— Long-term



With lending rates decreasing at a rapid pace, the spread between lending and deposit rates narrowed, which indicated an increasing efficiency of banks. The spread on short-term transactions in lats narrowed by 3.3 percentage points (to 4.2 percentage points). The spread on transactions in the currencies of the OECD countries decreased by 2 to 3 percentage points. The spread on long-term transactions in lats did not change significantly (3.0 percentage points in December 2001).

With inflation rising slightly in the latter half of the year, real interest rates on loans and deposits in lats decreased, the decrease in the real interest rate of deposits in lats being less marked. The real interest rate on short-term loans declined by 3.3 percentage points (to 6.7%), while that of long-term loans was down by 1.4 percentage points (to 6.6%). The real interest rate of short-term deposits (2.5%) did not change substantially, while that of long-term deposits decreased by 1.6 percentage points (to 3.6%).

THE INTERBANK MARKET

The amount of loans granted on the interbank market increased 1.7 times during 2001, reaching 4.5 billion lats. The average monthly amount of interbank loans granted to domestic banks was 374.4 million lats (222.2 million lats in 2000).

Economic growth, the rising demand for funds in lats in the private and the government sectors and an increase in the amount of funds held under the reserve requirement, which was attributable to growth in deposits received by banks, were the factors sustaining the demand for funds in lats at a high level since the beginning of the year. Banks, therefore, had to manage the available funds in lats more efficiently by transacting on the interbank market and to use more actively the Bank of Latvia's lending facility. The interbank market turnover rose significantly, owing to the growing turnover of both loans in lats and loans in the currencies of the OECD countries. Loans in lats accounted for 76.5% of the turnover of loans on the domestic interbank market (78.1% in 2000). The bulk of interbank loans was overnight loans (77.4%) and loans with maturity of up to 1 month (21.8%). The domestic interbank market turnover, along with money market rates, was on the rise since the beginning of the year. In October, the monthly interbank market turnover peaked at 548.3 million lats.

The increased demand for funds in lats was also promoted by a trend characteristic of 2001: in the money market, the interest rate spread on transactions in lats and the currencies of the OECD countries increased. This caused an upward trend in interest rates on funds in lats in the money market, while interest rates on trans-

actions with shorter maturity fluctuated in a wide range. The weighted average interest rate of overnight loans in lats reached its high in June (7.1%), owing to a seasonally high demand for cash. At the same time, interest rates on loans in the currencies of the OECD countries dropped, and the weighted average interest rate of such overnight loans fell from 5.4% in January to 2.8% in December.

The money market index RIGIBOR on 3-month loans was 6.9% in 2001 (5.4% in 2000).

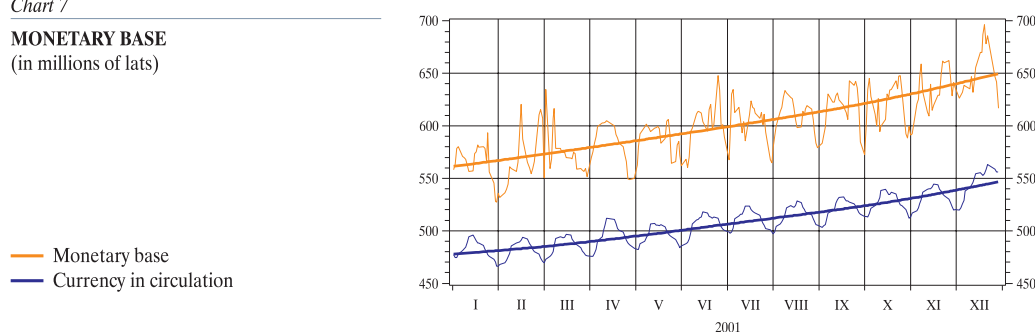
The banking sector's loans to foreign credit institutions increased 1.4 times (to 72.5 billion lats). Of these, 97.4% was loans in the currencies of the OECD countries and predominantly overnight.

MONETARY BASE

The monetary base, $M0^1$, grew by 8.9% (by 7.7% in 2000), amounting to 617.1 million lats at the end of 2001 (see Chart 7). As the demand for cash rose (currency in circulation increased by 73.7 million lats or 15.3% in 2001), credit institutions' deposits with the Bank of Latvia declined (by 23.4 million lats or 27.7%). The average end-of-day balance on such deposits, 89.3 million lats, was 3.7% higher than in 2000, because, with the deposit base increasing, the amounts to be held under the reserve requirement were larger. The cash component of the monetary base increased to 90.1% (85.1% at the end of 2000).

Chart 7

MONETARY BASE (in millions of lats)



The growth in the monetary base was mainly effected by an increase of 218.7 million lats or 40.5% in net foreign assets, which resulted from the Bank of Latvia's purchases of foreign currencies (in the reporting year, the net amount of foreign currencies bought was 131.7 million lats, the largest amount since 1993) and the inclusion of the Government's proceeds from the November issue of eurobonds in the Bank of Latvia's foreign assets. A 17.5 million lats increase in the currency swap balance also contributed to the growth in the money supply. As a result, the Bank's net foreign assets reached a historical high of 759.2 million lats at the end of 2001 (see Chart 8), equalling 4.1 months' imports in December (3.4 months' imports in December 2000). The backing of the national currency with the Bank's net foreign assets reached 123.0% (95.4% at the end of 2000).

The Government's deposit with the Bank of Latvia increased by 73.7 million lats. The Bank's portfolio of government securities declined by 27.0 million lats. Although, the Bank of Latvia's credit to banks, as at the end of year, decreased by 23.7 million lats, the total amount of credit extended by the Bank of Latvia to banks during the year increased 10.0 times over the 2000 level (to 3 233.1 million lats), because banks used the Bank of Latvia's lending facility (in particular

¹ Currency in circulation + deposits with the Bank of Latvia.

Lombard loans) to offset liquidity fluctuations and meet the reserve requirement. Of the Bank of Latvia's credit to banks, 72.3% was demand Lombard loans, 27.1% was loans under repurchase agreements and 0.6% was automatic Lombard loans (for monthly average balances on the Bank's credit, see Table 3).

Chart 8

NET FOREIGN ASSETS OF THE BANK OF LATVIA

(in millions of lats)

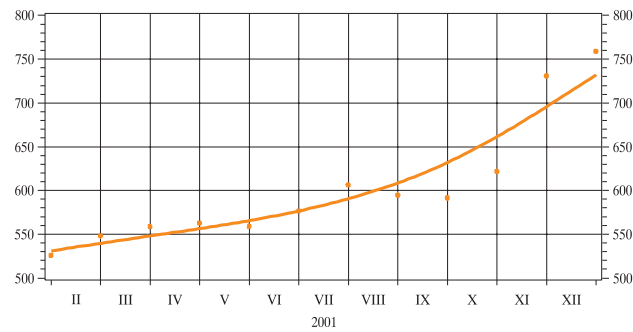


Table 3

THE BANK OF LATVIA'S CREDIT TO BANKS

(average balances; in millions of lats)

	1999	2000	2001
January	42.5	54.9	42.5
February	60.7	41.5	74.8
March	74.9	39.6	41.6
April	71.0	38.6	39.6
May	55.7	46.3	66.3
June	48.7	43.2	89.2
July	42.4	43.5	73.2
August	37.9	36.1	63.2
September	48.1	37.0	70.0
October	38.2	36.6	76.8
November	40.0	31.5	69.8
December	53.1	38.7	63.5

Loans under repurchase agreements were predominantly of 7-day maturity (804.3 million lats). Repo loans of 28-day maturity and 91-day maturity were issued in the amount of 59.7 million lats and 12.7 million lats, respectively. Year-on-year growth was observed in loans under repurchase agreements (3.0 times), demand Lombard loans (99.4 times; to 2 336.9 million lats) and automatic Lombard loans (4.1 times; to 19.5 million lats).

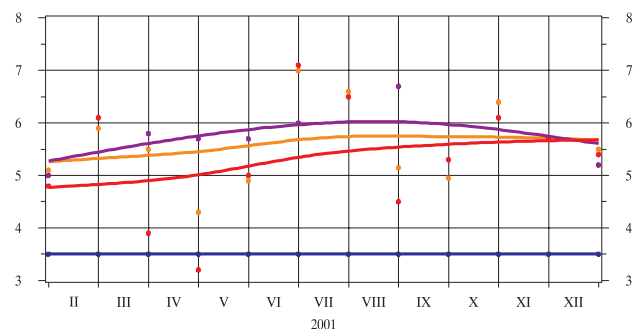
In 2001, the Bank of Latvia's refinancing rate remained at 3.5% (see Chart 9). The repo rate changed in line with lending rates on the interbank market; however, on the average, it was higher than in 2000.

Chart 9

INTEREST RATES IN THE MONEY MARKET

(%)

- The Bank of Latvia's refinancing rate
- Weighted average repo rate
- Weighted average yield on 6-month bills
- Weighted average interest rate on domestic interbank loans in lats

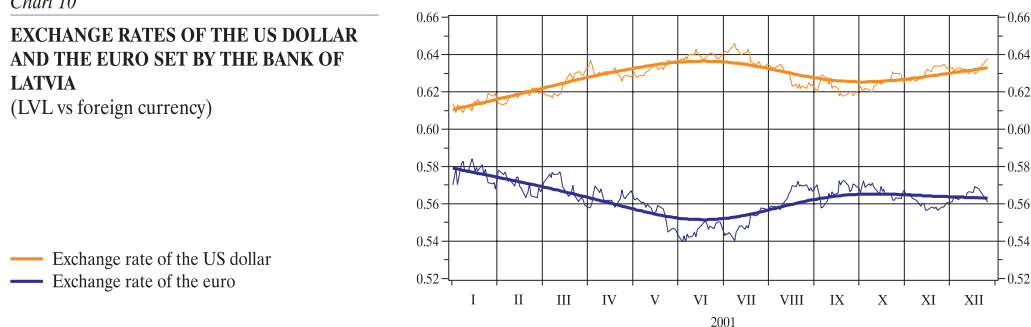


THE FOREIGN EXCHANGE MARKET AND LATVIA'S EXTERNAL DEBT

In 2001, foreign reserves increased, amounting to 1 218.4 million US dollars at the end of the year. The Bank of Latvia purchased net 208.0 million US dollars from credit institutions and the Government. (The largest amounts were purchased in November, when the Republic of Latvia Ministry of Finance exchanged for lats a part of proceeds received from the issuance of eurobonds, and in December, when the Bank of Latvia purchased from banks the largest amount of US dollars.) Under currency swap arrangements, the Bank of Latvia raised 32.5 million US dollars. With the US dollar appreciating against the lats (from 0.613 to 0.638; see Chart 10), foreign reserves, as translated in US dollars, grew less markedly. In 2001, balances of the Ministry of Finance held with the Bank of Latvia increased (mainly proceeds from the issuance of eurobonds, which were not exchanged for lats), as did income on investing foreign reserves in foreign financial markets in accordance with the guidelines adopted by the Bank of Latvia's Board of Governors.

Chart 10

EXCHANGE RATES OF THE US DOLLAR AND THE EURO SET BY THE BANK OF LATVIA (LVL vs foreign currency)



In 2001, the global foreign exchange market was volatile. Movements of the SDR basket currencies were largely prompted by partly resolved economic and political difficulties in the EU member states, by stagnation in the Japanese economy and failure to implement restructuring policies, and by the trends in the US economy.

In the reporting year, the exchange rate of the euro against the US dollar fell by 5.6% (from 0.9427 at the end of 2000 to 0.8895 at the end of 2001), reaching its low on July 6 (0.8352). Although economic indicators in the United States were weak and the Federal Reserve System significantly reduced interest rates, the US dollar continued to appreciate against the other currencies of the SDR basket. This was probably attributable to market participants' expectations for a rapid positive change in the US economy. The US dollar rose against the Japanese yen (from 114.41 at the end of 2000 to 131.65 at the end of 2001; up by 15.1%). This was a result of the Japanese Government's inability to initiate economic reforms, which would reverse the economic slowdown. Likewise, the Japanese economy felt the negative effects of the global economic stagnation. The Japanese yen remained weak throughout the year, fluctuating most pronouncedly on the very first and last days of the year. The exchange rate of the Japanese yen plummeted at the end of the year. The British pound depreciated against the US dollar (down by 2.6%; from 1.4930 at the end of 2000 to 1.4546 at the end of 2001), reaching its low on June 12 (1.3682), while its highest level was registered on January 1 (1.4932).

Since the US dollar strengthened against the other currencies of the SDR basket, its exchange rate rose against the lats in the Latvian foreign exchange market (from 0.6192 at the end of 2000 to 0.6305 at the end of 2001; by 1.8%). The US dollar peaked against the lats on July 5, 2001 (0.6399).

According to the international investment position, Latvia's gross external debt

increased by 541.2 million lats, totalling 3 428.9 million lats at the end of 2001 (72.3% of GDP). At the end of the year, foreign assets amounted to 2 538.2 million lats, and net external debt was 890.6 million lats (18.8% of GDP). Long-term debt was 1 490.3 million lats, and short-term debt, 1 938.5 million lats. The share of long-term debt in the total slightly rose over its 2000 level (from 39.7% to 43.5%).

At the end of 2001, the sectoral breakdown of external debt was as follows: general government 13.7%, banks 49.3% and enterprises 37.0%.

At the end of 2001, the government external debt was 470.7 million lats (9.9% of GDP). In 2001, the Government received foreign loans in the amount of 129.0 million lats (including the issuance of eurobonds in the amount of 200.0 million euros or 112.2 million lats). To service foreign borrowing, 37.7 million lats were used in 2001; this amount equals 3.0% of annual exports. Loans received from international financial institutions were repaid gradually. Repayments under the loan from the World Bank were made in the amount of 7.0 million lats, and repayments under the Systemic Transformation Facility of the International Monetary Fund were made in the amount of 7.6 million XDR (6.1 million lats).

At the end of 2001, the banking sector's external debt was 1 690.6 million lats (including long-term liabilities in the amount of 229.4 million lats and short-term liabilities in the amount of 1 461.2 million lats). Deposits accounted for the bulk of the banking sector's short-term liabilities, which totalled 1 034.1 million lats. The share of long-term liabilities increased (from 10.0% at the end of 2000 to 13.6% at the end of 2001). The banking sector's net external debt was 272.8 million lats at the end of 2001.

The enterprise sector accounted for a larger part of long-term liabilities than the banking sector (54.8% of long-term liabilities was loans from affiliated enterprises). At the end of 2001, enterprises' foreign liabilities totalled 1 267.6 million lats, of which 792.5 million lats was long-term liabilities (62.5% of enterprises' debt) and 475.2 million lats was short-term liabilities (mainly trade credits).

THE SECURITIES MARKET

The Bank of Latvia continued to act as the Government's agent in organizing auctions of and accounting for government securities in the primary market for Latvian government securities. Auctions are organized by a special auction commission formed by the Bank of Latvia and the Republic of Latvia Ministry of Finance.

Supply and banks' demand in the government securities market were considerably lower than in 2000, as were the sales of government securities. In 2001, the State Treasury supplied government securities in the amount of 207.5 million lats to banks in the primary market (a year-on-year decrease of 17.8%). The largest part of securities issued was long-term bonds.

In the primary market for government securities, the sales of securities were 41.3% lower than in 2000 (137.1 million lats). In the first half of 2001, the issuance of government securities totalled 122.2 million lats. With a view to the issuance of eurobonds, the State Treasury significantly reduced the issuance of securities in the latter half of 2001. The Government was not interested in the sales of government securities; and therefore, low maximum discount rates were set. In 2000, 18 banks participated in auctions of government securities, and in 2001, 15 banks. The demand and supply ratio declined from 2.2 in 2000 to 1.3 in 2001. In conditions of the private sector's high demand for loans and in view of the policies of the State Treasury, the demand by banks, whose liquidity was declining, fell in the primary market.

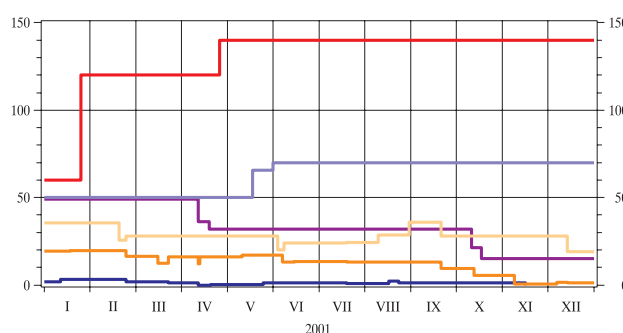
In the reporting year, four auctions of 3-month bills, seven of 6-month bills and six of 12-month bills were held. Likewise, two auctions of 5-year bonds were organized, and the issue of 3-year bonds was sold in two auctions. Several auctions failed to take place because there was no demand.

In 2001, the stock of government securities outstanding grew by 14.1%, amounting to 257.8 million lats. The stock of bills outstanding declined by 54.4%, but that of bonds outstanding increased by 42.4%. The shares of 2-year bonds and 6- and 12-month bills decreased most markedly (to 5.8%, 2.1% and 9.4% of government securities outstanding, respectively). At the same time, 3- and 5-year bonds accounted for 27.5% and 55.1% of the total at the end of the year, respectively (for the stock of individual government securities outstanding, see Chart 11).

Chart 11

STOCK OF LATVIAN GOVERNMENT SECURITIES OUTSTANDING
(in millions of lats)

- 3-month bills
- 6-month bills
- 12-month bills
- 2-year bonds
- 3-year bonds
- 5-year bonds

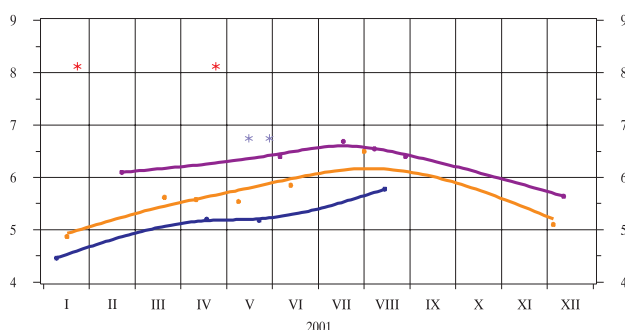


Yields on government securities fluctuated in the reporting year (see Chart 12). Yields on bills rose: the weighted average discount rate of 6-month bills rose from 4.84% in December 2000 to 5.10% in December 2001, and that of 12-month bills increased from 5.53% to 5.64%, respectively. The weighted average yield on government bonds declined in 2001: to 6.86% on 3-year bonds and 8.07% on 5-year bonds (1.2 and 0.9 percentage points lower than in 2000, respectively). Discount rates of bills rose, owing to the upward trend in money market rates, which was induced by rapid economic growth and expansion in lending. A decrease in the weighted average yields of bonds and foreign investors' participation in auctions of securities confirmed the positive outlook for the Latvian financial market in the medium term.

Chart 12

WEIGHTED AVERAGE DISCOUNT RATES AND FIXED INCOME RATES OF GOVERNMENT SECURITIES
(%)

- 3-month bills
- 6-month bills
- 12-month bills
- * 3-year bonds
- * 5-year bonds



The breakdown of government securities by holder revealed that the Bank of Latvia's share in the total was smaller in 2001 (15.9%) than in 2000 (32.2%), while the shares of non-residents and resident enterprises expanded (from 2.8% to 9.2% and from 4.3% to 11.9%, respectively). Transactions with government securities became more attractive to bank customers, because with the maturity of securities becoming longer, customers had more possibilities for diversifying their long-term investment portfolio. The share of banks' transactions in the market for government securities changed only slightly (55.8% at the end of 2001).

At the Riga Stock Exchange (RSE), the turnover of debt securities (predominantly government securities) totalled 424.4 million lats in 2001 (a year-on-year increase of 9.6%). The Bank of Latvia intervened in the secondary market for government securities in August, September and October, selling securities in the amount of 10.5 million lats and buying in the amount 9.9 million lats.

In 2001, the Latvian Government successfully placed the second issue of eurobonds. (The first one took place in 1999.) Eurobonds of the first issue were of 5-year maturity, but those of the second issue were of 7-year maturity. The original weighted average yield of second-issue eurobonds was 5.64% per annum, and the premium of the second issue securities that was charged over the yield on relevant German securities was considerably smaller than that of the first issue securities. In Europe, Latvian 7-year eurobonds were evaluated positively and the structure of buyers was diversified. International rating agencies assigned to Latvian eurobonds of the second issue the same rating, BBB, as was assigned to first-issue eurobonds and Latvia's long-term obligations in foreign currency.

In 2001, activity on the market for private sector securities and the RSE continued to grow. Some of the RSE indicators, however, were weaker than in 2000.

A number of new public issues of shares were registered with the Latvian Central Depository (LCD). Their total nominal value was 3.7 million lats; however, the total nominal value of the registered shares slightly decreased. Capitalization on the market for these shares rose by 27.6%, to 351.9 million lats. Growth was mainly determined by shares in the joint-stock company *Latvijas Gāze*, whose price increased by 85.6%.

In 2001, the first corporate securities of 7- and 10-year maturity were issued. The state joint-stock company *Latvijas Hipotēku un zemes banka* issued 7- and 10-year mortgage bonds in the amount of 8.0 million lats, and the joint-stock company *Mūsa Motors Grupa* issued 10-year bonds in the amount of 1.2 million lats. Of issues, the largest one was that of 5-year bonds in the amount of 11.0 million lats by *Norddeutsche Landesbank Girozentrale*, which is the strategic investor in the joint-stock company *Pirmā banka*. Nevertheless, the total of nominal values of the private sector's fixed-income securities denominated in lats, registered with the LCD, increased by only 2.3% (to 48.2 million lats), because *Svensk Eksportkredit* redeemed its 3-year bonds in the amount of 15.0 million lats.

Turnover on the RSE share market declined 24.8% below the 2000 level, totalling 99.6 million lats (excluding auctions of shares). The most significant transactions on the secondary market for shares were related to investments made by strategic investors. For example, the Danish insurance company *Codan* repurchased shares in the joint-stock company *Balta*, and the limited liability company *Itera Latvija* purchased shares in the joint-stock company *Latvijas Gāze*. Another important event on the RSE share market was the auction of the Government's stake in the joint-stock company *Latvijas Gāze* (2% of the company's shares) in July, which was followed by sharp changes in the price of these shares.

The Dow Jones Riga Stock Exchange Index rose by 44.0% during the year, reflecting changes in the price of the joint-stock company *Latvijas Gāze*.

In 2001, the turnover of private debt securities on the RSE amounted to 26.7 million lats or 4.1% of total turnover on the RSE (6.3% in 2000). The bulk of transactions was with bonds issued by the Nordic Investment Bank.

The market for privatization vouchers was much influenced by amendments to the Republic of Latvia Law "On Privatization Vouchers", pursuant to which the

deadline for using vouchers has been postponed for December 31, 2002, while the deadline for using compensation vouchers, for December 31, 2003.

In mid-December, the RSE announced major changes in the range of listed companies. As of January 1, 2002, the shares of the joint-stock companies *Latvijas Gāze* and *Ventspils Nafta* are only quoted on the official list, and only ten companies have been left on the second list. Likewise, it announced its intention to establish more rigorous requirements for issuers to be included on the official and second lists.

2001 HIGHLIGHTS OF NORMATIVE ACTS ADOPTED IN PURSUIT OF THE BANK OF LATVIA'S MAIN TASKS

January 11

The Board of Governors of the Bank of Latvia adopted "Regulation for Preparing 'Quarterly Report on Transportation and Intermediary Services' ". Respondents are to submit the report beginning with data of the first quarter of 2001.

The Board of Governors of the Bank of Latvia made amendments (in effect as of February 1, 2001) to the following documents: Board of Governors Resolution No. 73/3 "On Long-Term Currency Swaps" of March 24, 2000, "Regulation for Long-Term Currency Swaps", "Regulation for the Security Settlement System Organized by the Bank of Latvia", "Regulation for Receiving Bank Time Deposits at the Bank of Latvia" and "Regulation for Granting Lombard Loans".

March 15

The Board of Governors of the Bank of Latvia adopted the "Recommendations for Managing Credit Risk" (in effect as of April 1, 2001).

The Board of Governors of the Bank of Latvia amended the "Regulation for Receiving a Cash Collection Licence".

The Board of Governors of the Bank of Latvia adopted the Resolution "On the Amount Allotted in Tenders of Long-Term Currency Swaps" (in effect as of April 1, 2001).

May 17

The Board of Governors of the Bank of Latvia adopted amendments to the "Regulation for Buying and Selling Cash Foreign Currency" (in effect as of July 1, 2001).

The Board of Governors of the Bank of Latvia adopted an amendment to the "Regulation for Assessing Assets and Off-Balance-Sheet Liabilities" (in effect as of June 1, 2001).

May 24

The Executive Board of the Bank of Latvia adopted amendments to the Resolution "On Reports on Transactions with Republic of Latvia Treasury Bonds in the Secondary Market for Securities" (in effect as of June 1, 2001).

The Executive Board of the Bank of Latvia adopted amendments to the Resolution "On 'Report on Transactions with Republic of Latvia Treasury Bills in the Secondary Market for Securities' and 'Report on Republic of Latvia Treasury Bills' " (in effect as of June 1, 2001).

June 14

The Executive Board of the Bank of Latvia adopted an amendment to the "Regulation for Tenders of the Secondary Market for Securities Organized by the Bank of Latvia" (in effect as of August 1, 2001).

The Executive Board of the Bank of Latvia adopted an amendment to the "Regulation for Repo Tenders of Securities at the Bank of Latvia" (in effect as of August 1, 2001).

The Executive Board of the Bank of Latvia adopted amendments to the "Regulation for Tenders of Short-Term Currency Swaps" (in effect as of August 1, 2001).

The Executive Board of the Bank of Latvia adopted an amendment to the "Regulation for Reverse Repo Tenders of Securities at the Bank of Latvia" (in effect as of August 1, 2001).

July 12

The Board of Governors of the Bank of Latvia made amendments (in effect as of August 1, 2001) to the following documents: "Regulation for the Security Settlement System Organized by the Bank of Latvia", "Regulation for Long-Term Currency Swaps" and "Regulation for Granting Lombard Loans".

The Board of Governors of the Bank of Latvia adopted the new versions of the "Monthly Financial Position Report" and the "Regulation for Compiling Monthly Financial Position Report of Credit Institutions and Its Appendixes" (in effect as of January 1, 2002).

August 2

The Executive Board of the Bank of Latvia adopted the "Regulation for Calculating RIGIBID and RIGIBOR" (in effect as of September 1, 2001).

September 13

The Board of Governors of the Bank of Latvia adopted the "Regulation for Calculating and Fulfilling the Minimum Reserve Requirement for Banks" (in effect as of January 1, 2002), requiring that banks and branches of foreign banks registered in the Republic of Latvia observe the following: the average lats balance on cash in hand (including automated teller machines) and cash in transit may not rise above 30% of the calculated minimum reserve requirement (previously 40%).

The Board of Governors of the Bank of Latvia adopted "The Bank of Latvia's Payment System Policy".

The Board of Governors of the Bank of Latvia adopted the "Recommendations for Transactions Effected by Means of Electronic Payment Instruments".

The Board of Governors of the Bank of Latvia adopted the "Regulation for Compiling the Report and Projections on Long-Term Foreign Loans by Credit Institutions" (in effect as of January 1, 2002).

The Board of Governors of the Bank of Latvia adopted the new version of the "Regulation for Compiling the 'Quarterly Report on Foreign Investment' " (in effect as of January 1, 2002).

The Board of Governors of the Bank of Latvia adopted the "Regulation for Compiling the 'Annual Report on Foreign Investment' ".

The Board of Governors of the Bank of Latvia adopted the new version of the "Regulation for Receiving a Cash Collection Licence" (in effect as of October 15, 2001).

September 27

The Executive Board of the Bank of Latvia made amendments to the "Regulation for Interbank Settlements Effected by the Bank of Latvia" (part of amendments in effect as of October 26, 2001 and the other as of February 1, 2002).

October 11

The Executive Board of the Bank of Latvia adopted the new version of the "Regulation for Administering the Interbank Information Exchange System" (in effect as of November 1, 2001).

October 25

The Executive Board of the Bank of Latvia made an amendment to the "Regulation for Buying and Selling Non-Cash Foreign Currency" (in effect as of November 1, 2001).

November 15

The Board of Governors of the Bank of Latvia lowered, by 1.0 percentage point

(to 5.0%), the reserve requirement for banks and branches of foreign banks registered in the Republic of Latvia (in effect as of January 1, 2002).

The Board of Governors of the Bank of Latvia passed the Resolution "On Interest Rates" (in effect as of November 19, 2001), increasing interest rates on bank deposits with the Bank of Latvia by 1.5 percentage points: to 3.0% per annum on 7-day deposits and to 3.25% per annum on 14-day deposits.

The Board of Governors of the Bank of Latvia made amendments to the "Regulation for the Security Settlement System Organized by the Bank of Latvia" (in effect as of December 1, 2001).

The Board of Governors of the Bank of Latvia resolved to cease holding of tenders of long-term currency swaps as of December 1, 2001.

The Board of Governors of the Bank of Latvia made amendments to the "Regulation for Buying and Selling Cash Foreign Currency" (in effect as of December 15, 2001).

The Board of Governors of the Bank of Latvia adopted the "Recommendations to Currency Exchange Bureaus for Developing Procedures for Identification of Suspicious and Unusual Transactions" (in effect as of December 1, 2001).

December 27

The Executive Board of the Bank of Latvia made amendments to the "Regulation for Tenders of Short-Term Currency Swaps" (in effect as of February 15, 2002).

INTERNATIONAL FINANCIAL INSTITUTIONS

In 2001 Latvia, as a member country, continued its activity within the International Monetary Fund, the International Bank for Reconstruction and Development, the International Development Association and the International Finance Corporation, as well as the European Bank for Reconstruction and Development. The Bank also continued its participation in the Bank for International Settlements.

The Stand-By Arrangement signed between Latvia and the International Monetary Fund to support the Latvian Government's economic policy was effective until April 9, 2001; on April 20, a new agreement on the Stand-By Arrangement was signed (33 million XDR for a period of 20 months). The Arrangement, however, was not utilized during the reporting year. Latvia's quota in the International Monetary Fund totalled 126.8 million XDR at the end of 2001.

In 2001, the International Monetary Fund and the World Bank jointly carried out the Financial Sector Assessment Program, assessing operational risks of Latvian banks and other financial institutions and the conformity of the practices pursued by the Bank of Latvia with the internationally accepted standards and codes.

COOPERATION WITH FOREIGN CENTRAL BANKS AND TECHNICAL ASSISTANCE

The Bank of Latvia continued to cooperate and exchange information with other central banks. In April 2001, the Bank of Latvia hosted in Riga the Eighth seminar for central bankers of the Baltic countries, who met to discuss issues relating to monetary policy, foreign exchange operations and public relations.

Representatives from the Bank of Latvia participated in the work of the Nordic-Baltic Monetary and Financial Committee and the annual Nordic-Baltic payment system seminar, during which a number of current issues were discussed (development of electronic money, the role of the central bank in retail payment systems, oversight of securities settlement systems).

The Bank of Latvia cooperated, on a regular basis, with the group of RTGS users, comprising representatives of all central banks that have introduced the system developed by *Logica UK Limited*. During the meetings, scenarios for the development of the RTGS and the necessary changes to the system were discussed. RTGS users received information about the latest modules and functionality of the RTGS, as well as the latest developments and projects in respect of S.W.I.F.T.

In the reporting year, the Bank of Latvia continued to receive technical assistance from international financial organizations and foreign central banks. The assistance mainly took the form of participation in seminars and courses organized and consultations provided by these institutions.

Within the framework of technical assistance programs, the Bank of Latvia's employees participated in a number of courses held by the IMF Institute and the Joint Vienna Institute, as well as seminars organized by *Österreichische Nationalbank*, *Banque de France*, *Banca d'Italia*, the Bank of England, *Banque Nationale Suisse* and *Deutsche Bundesbank*. Within the framework of ongoing cooperation, *Deutsche Bundesbank* provided consultations to the Bank of Latvia on a number of central banking issues.

The Bank of Latvia also provided technical assistance by extending consultations to the employees of the National Bank of Georgia on issues relating to public relations and activities of a press centre.

PREPARATION FOR THE EUROPEAN UNION

In 2001, the Bank of Latvia continued its cooperation with the Latvian Government and governmental institutions to promote Latvia's integration in the EU. In accession negotiations concerning issues that fall, in part or in full, within the Bank of Latvia's competency (the Economic and Monetary Union, free movement of capital, freedom to provide services, and statistics), both parties have reached a consensus and negotiations in respect of these chapters have been closed provisionally.

The Bank prepared amendments to Latvian laws and regulatory documents as well as improved regulations governing the operation of payment systems so as to harmonize them with the requirements of EC directives. The Bank of Latvia continued to cooperate with the European Commission, debating issues pertaining to improvements in the legal framework for payment systems and introducing the relevant EU laws and regulations in Latvia.

A regular exchange of information and cooperation with the European Central Bank was continued. The Bank of Latvia Governor participated in the meeting of central bankers from EU accession countries in Brussels, which was organized by the European Central Bank. Working contacts between the European Central Bank and the Bank of Latvia were maintained and expanded in the field of statistics, payment systems and central banking laws. Likewise, the exchange of information concerning accounting and information systems was begun.

In 2001, developments in the Latvian economy were influenced by major trends in the global economic and political environment and prevailing movements in world financial markets. The slowing pace of global economic growth, which had started at the end of 2000, continued in 2001. The overall situation was further aggravated by the aftermath of the terrorist attacks of September 11 on the United States. For the first time in the last 20 years, economic slowdown was observed simultaneously in the United States, Japan and Germany. The economies of the euro area weakened mainly as a result of slowdown in the pace of economic growth in Germany and a dwindling total demand.

On the whole, the Latvian economy was not substantially affected by global economic slowdown in 2001, and given balanced growth across the principal areas of the national economy, Latvia reported one of the most pronounced GDP growths among the countries of Central and Eastern Europe. Further structural reforms were continued in the Latvian economy with a view to accession to the European Union (EU), and this ensured foreign investors' interest in the country and an increase in direct investment. Despite growth in exports of services, which could not offset the trade deficit, the current account deficit increased; however, the current account deficit was fully financed by the inflow of foreign capital. As a result, Latvia's balance of payments was in surplus. The country's fiscal position improved: fiscal deficit in the general government consolidated budget was considerably smaller in 2001 than in 2000. The Bank of Latvia's monetary policy kept inflation low, reinforced the stability of the national currency, and supported the banking sector's liquidity. The interaction of the above factors shaped Latvia's macroeconomic environment so as to promote development.

The Bank of Latvia's Executive Board conducted the daily activities of the Bank, following the requirements of the Law "On the Bank of Latvia" and other laws and regulations in force in the Republic of Latvia, and decisions of the Bank of Latvia's Board of Governors on monetary policy and other activities of the Bank. In the reporting year, the Bank of Latvia's Executive Board convened 47 meetings and passed 26 resolutions on the utilization of monetary policy instruments and 267 resolutions on conducting other day-to-day business of the Bank. The Executive Board drafted 44 resolutions for the Bank's Board of Governors and submitted 18 reports concerning central banking to the Board of Governors.

THE BANK OF LATVIA'S FOREIGN EXCHANGE RATE POLICY AND FOREIGN RESERVES

In 2001, the Bank of Latvia did not change its foreign exchange rate policy, retaining the fixing of the lats against the SDR basket of currencies (XDR 1 = LVL 0.7997 since 1994). Fluctuations in the exchange rates of foreign currencies against the lats reflected trends in the global foreign exchange market.

The Bank's foreign reserves consist of gold, convertible foreign currencies and SDR. Foreign reserves amounted to 777.3 million lats at the end of 2001 (563.4 million lats at the end of 2000).

The Bank of Latvia's foreign reserves are managed in accordance with the guidelines adopted by the Bank's Board of Governors, and are invested in safe and liquid financial instruments, predominantly in government and government agency debt securities of the United States, Germany, France, the United Kingdom and Japan, as well as in debt securities of international institutions. The Bank also introduced new financial instruments and entered new markets. Pursuant to the guidelines, the Bank's foreign reserves were invested in high quality debt securities

issued by credit institutions and enterprises, in asset-backed debt securities, revocable bonds and interest rate future contracts.

The Bank's gold reserves were invested as short-term deposits at foreign credit institutions with a high credit rating. Since October 1994, the Bank of Latvia has been employing three fund managers in the United Kingdom and the United States. The fund managers operate in compliance with the guidelines established by the Bank of Latvia's Board of Governors.

THE BANK OF LATVIA'S MONETARY POLICY INSTRUMENTS

The range of the Bank of Latvia's monetary policy instruments as well as their usage approximated the practice of the European System of Central Banks (ESCB). The Bank continued to revise and amend its regulations to ensure that regulations for monetary policy operations are compatible with the relevant requirements adopted by the European Central Bank (ECB).

The central banks of developed countries lowered official interest rates for a number of times during the reporting year; however, the Bank of Latvia did not change its refinancing rate and Lombard rates in consideration of high economic growth and the rising demand for credit in the country, which had resulted in an upward trend of money market rates. Since March 17, 2000, the refinancing rate has been at 3.5% and the interest rates on Lombard loans at 5.5% during the first ten days of credit utilization, 6.5% as of the eleventh to the twentieth day, and 7.5% as of the twenty-first day.

With a view to a rise in money market rates over the 2000 level, the Bank of Latvia increased interest rates on the time deposit facility, which serve as the lower limit for interbank market rates. As of November 19, 2001, the interest rate of time deposits was raised: that of 7-day deposits from 1.5% to 3.0% and that of 14-day deposits from 1.75% to 3.25%. By increasing interest rates on time deposits, the Bank of Latvia aimed to decrease the margin between the Lombard rates and interest rates on the time deposit facility, narrowing fluctuations of money market rates.

The high level of money market interest rates on transactions in lats was also determined by growth in currency in circulation and an increase in the volume of reserve requirement (by 15.3% and 16.3%, respectively). The reserve requirement for banks was higher, owing to an increase in deposits held with banks, which increased the money supply. The demand for the national currency was higher also because of the fact that banks' liabilities denominated in foreign currencies (predominantly, deposits) grew more rapidly than those denominated in lats.

In 2001, the most often used monetary policy instruments were loans under repurchase agreements and Lombard loans. These types of credit were granted to banks against collateral of either government securities or private sector securities whose issuers' ratings, assigned by international rating agencies approved by the Bank of Latvia, were not below the rating accorded to Latvia in respect of long-term liabilities in lats.

Loans under repurchase agreements were of 7-, 28- and 91-day maturity. In 2001, loans granted under repurchase agreements amounted to 876.6 million lats, and the average balance on such loans, as at the end of day, was 25.0 million lats (year-on-year growth of 3.0 times and 9.5%, respectively). The weighted average repo rate was higher (5.40%) than in the previous year (4.11%).

Lombard loans were granted in a larger amount (2 356.4 million lats) than in previous years. The average balance on such loans, as at the end of day, was 22.2 million lats. Banks' demand for Lombard loans was particularly high in June, July, October and November.

Compared with 2000, the amount allotted under currency swap tenders decreased by 26.6%, while the average currency swap balance, as at the end of day, increased by 98.7 million lats (to 136.3 million lats). As of April 1, 2001, the Bank of Latvia's Board of Governors decreased the amount allotted under long-term currency swap arrangement, and as of December 1, 2001, holding of tenders of long-term currency swaps was ceased. The largest amounts allotted under currency swaps were registered in February and March, when banks' demand was high due to high issues of government bonds in the primary market. In the reporting year, 212.7 million lats were allotted under short-term currency swaps (a year-on-year decrease of 33.4%), and 59.0 million lats, under long-term currency swaps (a year-on-year increase of 16.1%). The weighted average interest rate of short-term currency swaps was 6.4%, while that of long-term currency swaps was 6.6% (in 2000, 4.8% and 6.5%, respectively).

In the reporting year, the Bank of Latvia bought government securities in the amount of 9.9 million lats, while selling such securities in the amount of 10.5 million lats. The Bank's interventions in the secondary market for government securities were less pronounced; and therefore, the Bank's average portfolio of securities (35.1 million lats) was 1.8 times below its 2000 level. Banks had no interest in selling government bills, and the Bank of Latvia bought mainly government bonds.

The Latvian Government deposited its available funds as demand and time deposits with the Bank of Latvia.

The Bank of Latvia received from banks time deposits with maturity of 7 and 14 days in the amount of 111.3 million lats during 2001; however, the average balance on such deposits remained low (3.4 million lats), showing a year-on-year decrease of 2.0 times. The balance on banks' time deposits held with the Bank of Latvia increased on two occasions during the year: in March, when banks' available funds were ample, owing to currency swap deals; and in December, when banks chose to deposit their excess reserves, accumulated from the sales of foreign currencies, as time deposits with the Bank of Latvia. The Bank had raised interest rates on time deposits in November.

In the reporting year, the Bank of Latvia supplied to banks reverse repurchase agreements only once, in January, to lower their liquidity.

In 2001, banks and branches of foreign banks registered in the Republic of Latvia were subject to the reserve requirement of 6% of the average funds received (irrespective of currency and maturity, and excluding liabilities to credit institutions, the State budget and funds received by foreign branches of Latvian banks). The reserve requirement was met with balances on accounts of credit institutions with the Bank of Latvia and average vault cash balances in lats (the cash component was not to exceed 40%). To meet the requirements established in the member states of the Economic and Monetary Union (EMU), the reserve requirement has been reduced to 5% as of January 1, 2002 (the cash component may not exceed 30%).

In the reporting year, the Bank of Latvia continued to calculate two money market indexes: RIGIBID (deposit rates in the interbank market) and RIGIBOR (lending rates in the interbank market) in accordance with the "Regulation for Calculating

RIGIBID and RIGIBOR" (in effect as of September 1, 2001). The indexes are based on the quotes of those banks that are active in the interbank market and are able to conduct their market operations at money market rates that they quote for operations in lats, even if the interbank market is volatile, whose transactions account for a significant part of total transactions on the interbank market, and whose repute is good. (At the end of the reporting year, the following banks were included on the list: the joint-stock companies *Hansabanka*, *Latvijas Krājbanka*, *Latvijas Unibanka*, *Pareks-s-banka*, *Vereinsbank Rīga* and the Latvia Branch of *Nordea Bank Finland Plc.*)

CASH MANAGEMENT

The new building of the Bank of Latvia's Riga Branch was completed in November 2001. Its vault is spacious and meets the needs and security standards of a modern central bank. The concept of the building's project was worked out jointly with experts of the *Deutsche Bundesbank*. The architectural bureau *Kronbergs, Kārklīņš un partneri* designed the architectural solution of the project. The architects firm *Held & Partner* and the engineering firm *Alhäuser+Hönig* prepared the detailed working drafts and supervised the building process. The general contractor was the full liability company *E. Heitkamp Lettland un Rīgas Būvapvienība*. The processing of banknotes and coins takes place in the new building. Likewise, banks deposit and withdraw cash there. The Riga Branch building also houses the Bank's computer centre and the disaster recovery site that ensures the mirroring of all significant Bank's information systems in real time. The interbank automated payment and electronic clearing (net settlement) systems, which are based in the new building, meet the ECB security standards for payment systems.

The Bank of Latvia has adopted a new version of the "Regulation for Receiving a Cash Collection Licence" (in effect as of October 15, 2001). This Regulation, which is based on Republic of Latvia Cabinet of Ministers' Regulation No. 348 "Regulation for Licensing Selected Types of Entrepreneurship" of October 7, 1997, establishes procedures for granting cash collection licences as well as requirements for collection. The Bank of Latvia grants such licences to enterprises registered in the Republic of Latvia, provided the founders and owners of the enterprise are of good repute.

To follow the recommendations of the Committee on Crime Problems of the Council of Europe, the Bank of Latvia has adopted the "Recommendations to Currency Exchange Bureaus for Developing Procedures for Identification of Suspicious and Unusual Transactions" (in effect as of December 1, 2001) and amended the "Regulation for Buying and Selling Non-Cash Foreign Currency" (in effect as of December 15, 2001), establishing that the owners of a currency exchange bureau are to be of good repute. The Recommendations lay down the core principles to be followed by enterprises that have been registered in the Republic of Latvia and have received a licence for buying and selling cash foreign currencies when developing and recording their internal audit procedures for identifying and avoiding from suspicious and unusual financial transactions. The Recommendations also require that such enterprises identify customers in cases established by the Law "On Prevention of Laundering of Proceeds Derived from Criminal Activity" and whenever the transaction is characterised by at least one of the features included on the list of indicators pertaining to unusual transactions or there are other suspicious circumstances indicating that the transaction may be money laundering or an attempt at money laundering.

The new 5-lats banknote with enhanced security features was put into circulation

as of February 2001. In December, the Bank introduced the 1-lats coin featuring a stork on the reverse, to diversify the circulation coins.

In 2001, currency in circulation increased by 15.3% (from 482.3 million lats to 556.0 million lats). Over the last five years, currency in circulation has grown 1.6 times.

Banknotes and coins received from the banking system were checked for authenticity and fitness for circulation by using automated cash processing machines. In 2001, the amount of processed cash (797.8 million lats) exceeded that of currency in circulation 1.4 times (1.3 times in 2000). Of the amount of cash processed, 203.5 million lats or 25.5% was withdrawn from circulation (114.5 million lats or 18.9% in 2000). As in 2000, the total nominal value of counterfeit banknotes and coins (15.0 thousand lats) accounted for only 0.003% of currency in circulation.

In 2001, the Bank of Latvia participated in two international coin programs by issuing two commemorative coins. The 1-lats silver coin *Ice Hockey* was minted to commemorate the 2002 Winter Games in Salt Lake City (in circulation as of June 21, 2001). Within the framework of the international commemorative coin program *Hansa Cities* organized by the Mint of Finland Ltd., the Bank issued the 1-lats silver coin *Cēsis* (in circulation as of June 29, 2001). The Bank of Latvia commenced to implement the national commemorative coin program *Latvia. Times and Values*. Two 1-lats silver coins were issued in the program's first series *Roots: Earth* (in circulation as of March 8, 2001) and *Heaven* (in circulation as of December 19, 2001). Likewise, the Bank issued the 1-lats silver commemorative coin *Coin of Fortune* (in circulation as of December 19, 2001), whose obverse is gold plated. In 2001, 7 525 commemorative coins were sold in Latvia, and 14 930 commemorative coins, outside Latvia.

BALANCE OF PAYMENTS AND FINANCIAL STATISTICS

In 2001, the Bank of Latvia started publishing the key items of the balance of payments on a monthly basis, to provide for a timely analysis of macroeconomic processes and the disclosure of information on Latvian residents' economic transactions with other countries' residents.

The scope of work performed in respect of the methodology for compiling the balance of payments allowed the Bank to improve the collection of data on foreign investment, and transportation and intermediary services. Cognizant of the need to widen the data coverage for the balance of payments purposes, the Bank introduced two new reporting forms in 2001. The "Quarterly Report on Foreign Investment" has been worked out to cover a wider range of statistical data on enterprises' foreign investment by using the sampling method. The introduction of the "Quarterly Report on Transportation and Intermediary Services" allows the Bank to obtain a wider range of data on transportation services provided and received by residents and on intermediary services rendered in transportation. When elaborating the new reporting forms, the Bank cooperated with the to-be-respondents, auditing companies, the relevant professional associations and the Central Statistical Bureau of Latvia to create and introduce reporting forms of good quality.

With a view to advancing the compilation of the annual balance of payments and revising the selected range of respondents to the quarterly report on foreign investment, the Bank of Latvia adopted the "Regulation for Compiling the 'Annual Report on Foreign Investment'".

The Bank of Latvia improved the system for collecting data for the purposes of foreign debt statistics, establishing a procedure to be followed by respondents when reporting on long-term loans received and their three-year projections, repayment and interest payments.

The Bank of Latvia continued to work so as to reach conformity with the ECB requirements for the methodology for banking and monetary statistics. The Bank adopted a new version of the "Regulation for Compiling the Monthly Financial Position Report of Credit Institutions and Its Appendixes" (in effect as of January 1, 2002), which contains a revised institutional breakdown, a more detailed breakdown by instrument and maturity. This will allow the Bank to enhance the quality of statistics and improve the precision of information used for the purposes of the balance of payments and the international investment position.

To expand research on economic processes and ensure quality in compiling statistical data, the Bank of Latvia cooperated with respondents.

Since the Financial and Capital Market Commission started operating on July 1, 2001, a system for exchanging information between the Bank of Latvia and the Commission was set up. This was done to avoid the possibility that respondents report one and the same data to several institutions and to receive information for the balance of payments purposes.

The Bank remained committed to integration in the EU in respect of financial and balance of payments statistics, and its employees participated in seminars and meetings of the relevant working groups organized by the ECB and the Eurostat. In the reporting year, the Bank of Latvia prepared information on the methodology for compiling banking and monetary statistics for the ECB publication *Money and Banking Statistics in the Accession Countries: Methodological Manual* as well as information on the methodology for compiling the balance of payments and the international investment position for the draft publication *Accession Countries Balance of Payments/International Investment Position Statistical Methods*. Both publications contain a chapter devoted to Latvia. Likewise, the Bank prepared an overview of the Latvian securities market for inclusion in the ECB publication *Bond Markets and Long-term Interest Rates in European Union Accession Countries*. The Bank drew up a list of monetary institutions for the ECB publication *Provisional List of Monetary Financial Institutions of the Accession Countries*, which is subject to regular revision and is available on the ECB website.

The Bank of Latvia disseminated financial and balance of payments statistics through its regular publications and Internet site, as well as the Dissemination Standards Bulletin Board of the International Monetary Fund (IMF), the IMF publications *International Financial Statistics* and *Balance of Payments Statistics Yearbook*, as well as with the help of the Bank for International Settlements (BIS) and the Eurostat.

PAYMENT SYSTEMS

The amendments made to the Law "On the Bank of Latvia" in the reporting year detail the Bank of Latvia's role and tasks in the area of payment systems and approximate them to the relevant tasks of the ESCB, which are set out in Article 105 of the Maastricht Treaty. Pursuant to these amendments, the Bank of Latvia promotes the smooth operation of the payment systems in the Republic of Latvia, and is entitled to approve regulations to achieve the efficient and sound functioning of the clearing and payment systems.

The Bank of Latvia has adopted its payment system policy, formulating oversight principles it intends to pursue in promoting the smooth operation of the national payment system and determining payment systems to be subject to the Bank's oversight, as well as the Bank's responsibility and tasks in addressing specific issues concerning payment systems.

The first and foremost emphasis of the Bank of Latvia's oversight is on large-value interbank payment systems, which are of great importance for the monetary policy transmission mechanism, and may be the largest source of risks in the national payment system, as they handle considerable cash flows. In EU member states, the oversight of systemically important payment systems is conducted in accordance with the Core Principles for Systemically Important Payment Systems, worked out by the BIS. The Bank of Latvia oversees the interbank automated payment system (SAMS) and the electronic clearing (net settlement) system (EKS), evaluating their compliance with the Core Principles. In accordance with the internationally accepted standards and practice, currently only the SAMS is regarded as a systemically important payment system in Latvia. Nevertheless, the Bank of Latvia also oversees the EKS in accordance with the Core Principles, because it is the only retail payment clearing system that processes a large number of customer payments and disruptions in its functioning might affect numerous customers. The Bank of Latvia conducts a day-to-day oversight of the SAMS and the EKS, monitoring their operation. Likewise, the Bank adopts regulations governing the operation of payment systems. In the reporting year, the Bank of Latvia also assessed risks inherent in both interbank payment systems.

An efficient and secure operation of payment systems is important not only to banks, but also to their customers, who use payment instruments offered by banks. In the reporting year, the Bank of Latvia continued to gather and analyse information on payment instruments used in Latvia.

To promote a secure and efficient usage of electronic payment instruments, in the reporting year the Bank of Latvia adopted the "Recommendations for Transactions Effected by Means of Electronic Payment Instruments", which outline overall obligations and responsibility of credit institutions and their customers when dealing with electronic payment instruments. The Recommendations have been worked out with a view to establishing the minimum requirements for the issuance, service and usage of electronic payment instruments in the Republic of Latvia. The Recommendations comply with EU practices, which provide for the protection of consumer rights and promotion of a wide use of electronic payment instruments. The requirements of EC Commission Recommendation 97/489/EC concerning transactions carried out by electronic payment instruments and in particular the relationship between issuer and holder have been incorporated in the Recommendations.

As of July 1, 2001, the oversight of payment systems and the supervision of financial market participants are conducted by two different institutions. To ensure a successful oversight of payment systems, the Bank of Latvia collaborated with the Financial and Capital Market Commission and concluded an agreement envisaging that both institutions freely exchange information on issues related to payment systems. Such cooperation reduces risks in the financial system and reinforces its stability.

In the reporting year, the Bank of Latvia continued to cooperate with payment system participants and providers of payment services, addressing various issues in respect of payment systems. The Bank of Latvia exchanged views with banks on the possibility of working out a uniform format for customers' payment orders in

Latvia. Likewise, the Bank discussed the possible ways of developing electronic money with a number of institutions interested in introducing this payment instrument. With regard to collection and analysis of information on payment system developments in Latvia, the Bank of Latvia cooperated with institutions that are operators of specialized retail payment systems and providers of payment services to customers.

With a view to facilitating the public understanding of the role of payment systems, the Bank of Latvia published *Oversight of the Payment System in Latvia*. The publication introduces the Bank of Latvia's policy for payment systems oversight, and examines the structure of the national payment system and the relevant risks.

In 2001 the Bank of Latvia, in cooperation with banks and operators of payment and securities settlement systems, prepared a report on payment and settlement systems in Latvia. The report is envisaged for enclosure in the ECB publication *Blue Book. Payment systems in countries that have applied for membership of the European Union*.

In the reporting year, the Bank of Latvia continued to ensure the operation of the SAMS and the EKS. The SAMS is the Bank of Latvia's real-time gross settlement system used for large-value and urgent payments, which are related to interbank market transactions and the Bank of Latvia's monetary operations. The EKS is a net settlement system used to process bulk retail electronic payments.

In 2001, the Bank of Latvia made a number of changes in the operation of payment systems, reflecting them in the amendments to the "Regulation for Interbank Settlements Effected by the Bank of Latvia".

In the Bank of Latvia's interbank payment systems, a transfer to the new S.W.I.F.T. standard (MT103) was begun to facilitate an automated processing of customer payments by standardizing, as far as possible, information necessary for processing incoming payments. Transition to the new standard will allow banks to enhance significantly the automation of the process of handling the incoming payments. This will reduce the time necessary for the execution of payments and costs for the processing of payments. In the SAMS, the processing of MT103 messages was started already in September 2001 (in the EKS, on February 1, 2002).

With a view to improving the compilation of the country's balance of payments, an obligatory requirement to show the domicile of the originator in customer payment messages submitted in the Bank of Latvia's interbank payment systems was introduced.

The Bank of Latvia has laid down the obligation of the beneficiary's bank to credit the full amount stated in the payment order to the beneficiary's account free of any deductions unless the originator has specified that charges, in full or in part, are to be borne by the beneficiary. This requirement conforms with EC Directive 97/5/EC on cross-border credit transfers.

To reduce risks, the Bank of Latvia has established limits on the value of a payment (in effect as of February 1, 2002): the EKS processes payments whose value does not exceed LVL 50 000. Payments whose value exceeds LVL 50 000 are to be sent to the SAMS.

In the reporting year, the assessment of the Latvian payment system was conducted within the framework of the Financial Sector Assessment Program of the IMF and the World Bank (WB). The country's payment system was recognized to be well developed and protected from potential financial risks. Several remarks were

made concerning the need to improve the legal framework for the payment system in Latvia. The experts from the IMF and the WB expressed positive evaluation on the operation of the SAMS and the EKS, recognizing their conformity with the Core Principles for Systemically Important Payment Systems. Likewise, the assessors acknowledged that the Bank of Latvia followed international practices in promoting the smooth operation of the payment systems, and expressed their positive evaluation thereon. The need of formulating and publishing the Bank of Latvia's principles for payment systems oversight was also pointed out. This was done in September 2001 by adopting the Bank of Latvia's payment system policy.

In the reporting year, the total value of payments processed by the SAMS increased by 72.6% (to 26.3 billion lats), owing to banks' activity in the money market and transactions with the Bank of Latvia. The total volume of payments handled by the SAMS also continued to grow: the volume of payments was 11.1% higher than in 2000, reaching about 85.2 thousand. In 2001, the average value of a payment processed by the SAMS was 308.3 thousand lats.

In Latvia, the number of individuals and small enterprises using cashless payment instruments to make settlement increased, and consequently, the volume of customer payments effected by banks rose in the reporting year. Hence, in 2001 the value of payments processed by the EKS was 8.7% higher than in the previous year, amounting to 7.3 billion lats. At the same time, the volume of payments grew by 16.0% (to 14.5 million).

INFORMATION SYSTEMS

In 2001, a number of information systems in use were replaced (information systems for tenders of the secondary market of government securities, reverse repurchase agreements and currency swaps), ensuring a considerably higher level of automation and security. The Bank plans to continue this process and replace the securities settlement system. The analysis of risks inherent in all Bank of Latvia's information systems was conducted with the aim of detecting potential risks, assess their probable influence on the Bank of Latvia's operational activities and prevent the occurrence of such risks.

The introduction of the Bank's integrated information system *Globus* was continued in the reporting year. The new system will ensure a uniform registration of the Bank of Latvia's financial transactions, significantly reducing the inherent risks.

In the reporting year, the introduction of a system for the management of electronic documents was started with the aim of creating a uniform database comprising all Bank of Latvia's regulations and regulatory requirements. The system will also allow the participants of meetings of the Bank's Board of Governors and Executive Board to benefit from modern information technologies.

INFORMATION TO THE PUBLIC

In the reporting year, communication with the general public was built on the Bank's publications and information disseminated via the press, Internet, television and radio.

In 2001, the Bank of Latvia published its annual report for 2000 to reflect its activity and financial results for that year. The Bank of Latvia issued *Monetary Bulletin* and *Monetary Review* to inform about the dynamics of monetary and economic indicators. In 2001, the Bank started to publish the monthly *Latvia's Balance of Payments (Principal Items)* to meet the ECB requirements and the

deadline for compiling the balance of payments. Likewise, the Bank continued to publish the quarterly *Latvia's Balance of Payments*. In 2001, the Bank also published the working paper *Price Dynamics in Latvia: Experience and Future Prospects* by experts from the Monetary Policy Department. The booklet *Questions Frequently Asked to the Bank of Latvia* was published to briefly introduce the Bank's monetary policy, the fixing of the lats to the SDR, currency circulation, operation of payment systems and to answer other questions frequently asked by the general public. The bulletin *Averss un Reverss* discussed economic developments in Latvia and abroad and informed about the resolutions of the Bank's Board of Governors and Executive Board.

All the Bank of Latvia's publications and the schedule for meetings of the Bank's Board of Governors were available on the Bank's Internet site (<http://www.bank.lv>). Information published on the Bank's site covered a wide variety of issues relating to the Bank of Latvia, the regulations adopted by the Bank, financial statistics, payment and settlement systems, Latvian notes and coins, and other areas of interest. All information was continually updated and expanded.

Press releases covered information about resolutions passed by the Bank's Board of Governors and Executive Board and the Bank's activities. The Bank's employees prepared materials discussing issues falling within the competency of the central bank for publication in Latvian and foreign newspapers and journals.

Press conferences, during which the Bank of Latvia's Governor and the Chairman of the Executive Board gave information on developments in the national economy and the banking sector, were held on a regular basis. The official exchange rates quoted and regulations worked out by the Bank as well as other official information were disseminated in the official newspaper *Latvijas Vēstnesis*.

In the reporting year, the emphasis was on informing the general public about the policy pursued by the EMU. In collaboration with the ECB and the *Deutsche Bundesbank*, the Bank of Latvia prepared and published two booklets informing about the design of the euro, its security features and exchange rates against other currencies, possibility of exchanging the new notes and coins, and other issues that might be of interest to the users of the new currency. Extensive information on the euro was made available on the Bank of Latvia's website (www.eiro.lv) in a special section devoted to the euro.

The Bank's employees lectured on activities of the central bank and developments in the national economy to students, students of secondary schools and teachers of economics. In the summer of 2001, the Bank organized an excursion to the ECB and the *Deutsche Bundesbank* for those students of secondary schools who had won the nation-wide competition in essentials of business. This was done with the aim of introducing to the students activities of these major financial institutions and the idea of single monetary policy. At the end of the reporting year, the Bank commissioned a visit of teachers of economics to the Bank of Finland, where they could learn about activities of the Bank of Finland within the ESCB; likewise, they had an opportunity of visiting the Mint of Finland Ltd.

The Bank of Latvia participated in creating the TV broadcast *Kā bankā* and the radio broadcast *Lata spoguļi*, which reflect financial and economic developments in Latvia and abroad.

QUALITY MANAGEMENT AT THE BANK OF LATVIA

In the reporting year, a number of procedures forming the Bank's quality management system were improved to ensure a more detailed description of the Bank's operational process, and new procedures were developed in the field of payment operations and information systems.

In 2001, two internal quality audits of the Bank's quality management system were conducted (one in April and May, and the other in October and November). In June and December, *Bureau Veritas Latvia* conducted two surveillance audits, during which no serious deficiencies and major non-compliance with the standard ISO 9002:1994 were detected in the Bank's quality management system.

Since the Bank of Latvia has to ensure its quality management system's compliance with the quality management and quality assurance standard ISO 9000:2000 in next two years with a subsequent certification audit, the necessary modifications in the quality management system have been started.

MANAGEMENT OF THE BANK OF LATVIA'S BUDGET

The budget and plan for capital expenditure of the Bank of Latvia was prepared, approved and implemented in accordance with the procedures adopted by the Bank's Board of Governors.

In the process of preparing the Bank of Latvia's budget and plan for capital expenditure, the Executive Board reviewed the projections for the domestic and global economy and financial market, draft projects in respect of expenditure and long-term investment submitted by the Bank's organizational units and expenses of previous years. The draft budget and plan for capital expenditure of the Bank of Latvia with the accompanying notes were forwarded to the Bank's Budgetary Commission.

The Budgetary Commission reviewed the draft budget and plan for capital expenditure of the Bank of Latvia with the accompanying notes, received explanations from the Chairman of the Bank's Executive Board and the heads of the Bank's organizational units, and forwarded its opinion to the Bank's Board of Governors for approval.

In the reporting year, expenses were incurred and long-term investments made in accordance with the 2001 budget and plan for capital expenditure. The Executive Board reported regularly to the Board of Governors and the Budgetary Commission about the execution of the budget and plan for capital expenditure of the Bank of Latvia.

FINANCIAL RESULTS OF THE BANK OF LATVIA

In 2001, the Bank of Latvia's net interest income amounted to 39 484 thousand lats. The Bank's interest income was earned mainly by investing gold and convertible foreign currency reserves in secure and profitable financial instruments of high liquidity and conducting transactions in the market for Latvian government securities and the money market. Interest on government deposits accounted for the bulk of the Bank's interest expense. In 2001, the Bank of Latvia's profit amounted to 22 154 thousand lats.

THE BANK OF LATVIA'S ORGANIZATIONAL STRUCTURE

The composition of the Board of Governors of the Bank of Latvia, as at the end of 2001, was as follows:

- Governor **Ilmārs Rimšēvičs;**
- Deputy Governor¹
- Members of the Board of Governors **Harry Bush,
Valentīna Kolotova,
Arvils Sautiņš,
Vita Pilsuma,
Varis Zariņš,
Valentīna Zeile.**

The Bank of Latvia's Executive Board, as at the end of 2001, was as follows:

- Chairman of the Executive Board **Ilmārs Rimšēvičs²;**
- Deputy Chairperson of the Executive Board³ **Māra Raubiško;**
- Members of the Executive Board: **Helmūts Ancāns,
Roberts L. Grava,
Reinis Jakovļevs,
Māris Kālis.**

Having received a letter of resignation from Mr. Einars Repše, whose great contribution as the Bank of Latvia's Governor during ten years of office deserves tribute, the Republic of Latvia Saeima discharged him from office as of December 21, 2001. The Saeima elected Mr. Ilmārs Rimšēvičs, the Bank's Deputy Governor, as Governor for a period of six years. On September 13, 2001, the Bank of Latvia's Board of Governors appointed Mr. Māris Kālis, Chief Accountant, as Member of the Executive Board, and concurrently, discharged Ms. Antonija Sileniece from office.

At the end of 2001, the number of permanent Bank of Latvia's employees was 732 (739 at the end of 2000).

In the reporting year, the Bank's structure was further improved. As the new building of the Bank's Riga Branch (3 Bezdēliģu Street) was put into operation, structural changes were necessary in the Bank's Riga Branch, the General Service Department, the Security Department and the Construction Department. As a number of new projects had to be implemented (projects for enhancing security of payment systems, harmonizing regulations and regulatory requirements with EU requirements), the organizational structure of the Payment Systems Department was changed.

As of July 1, 2001, the Credit Institutions Supervision Department was no longer an organizational unit of the Bank of Latvia, as, pursuant to the Law "On the Financial and Capital Market Commission", it was incorporated into the Financial and Capital Market Commission.

To ensure a uniform oversight of the security of information and information systems at the Bank of Latvia, a post of manager of information systems security

¹ Vacancy as of December 21, 2001. Mr. Andris Ruselis was appointed to the post on February 14, 2002.

² Ms. Māra Raubiško was appointed to the post on January 21, 2002.

³ Eliminated as of December 21, 2001.

was created. The responsibility of the manager of information systems security was to coordinate the process of risk analysis and to oversee and coordinate the issues that relate to the security of the Bank of Latvia's information systems and the relevant resources.

PERSONNEL TRAINING

In the reporting year, employees of the Bank of Latvia participated in seminars, courses and conferences in Latvia and abroad to improve expertise and follow the latest developments in monetary policy, techniques of macroeconomic and monetary analyses, foreign exchange operations, payment systems and bank accounting.

In the reporting year, the Bank's employees upgraded their knowledge of English and French, improved their computer skills and skills in personnel management, project management, communication psychology and business etiquette. Likewise, employees broadened their understanding of EU-related issues. Special seminars were organized for recently hired employees to inform them about the Bank's tasks and their fulfilment. The Monetary Policy Department held a seminar, introducing the work done at the said Department.

In 2001, the Bank's cooperation with the International Banking and Finance Institute of the *Banque de France* became closer, and the Bank's employees participated in two specialized seminars on financial instruments and follow-up and analysis of firms by a central bank.

**THE BANK OF LATVIA'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001**



THE BANK OF LATVIA'S BALANCE SHEET

(at the end of the year; in thousands of lats)

ASSETS	Notes ¹	2001	2000
FOREIGN ASSETS		881 489	669 551
Gold	4	44 443	41 917
Special Drawing Rights		54	3
Convertible foreign currencies	5	732 799	521 512
International Monetary Fund	6	101 144	101 144
Shares in the Bank for International Settlements	7	1 043	983
Other foreign assets	8	2 006	3 992
DOMESTIC ASSETS		98 121	143 859
Loans to credit institutions	9	18 833	42 530
Transit credits	10	18 612	23 835
Government securities	11	24 715	51 725 ^{2,3}
Fixed assets	12	32 819	22 657
Other domestic assets	13	3 142	3 112 ³
TOTAL ASSETS		979 610	813 410

¹ The accompanying notes set out on pages 54 to 77 are an integral part of these financial statements.

² Restated to account for the revaluation result of 929 thousand lats arising after revaluing Latvian government securities in accordance with the revised Latvian government securities valuation policy (see Notes 3 and 11).

³ Accrued interest income on Latvian government bonds in the amount of 1 157 thousand lats, which was reported under the caption "Other domestic assets" in the financial statements for the year ended December 31, 2000, is included in the balance sheet caption "Government securities" in accordance with the revised Latvian government securities valuation policy (see Notes 3 and 11).

(cont.)	(at the end of the year; in thousands of lats)		
LIABILITIES, CAPITAL AND RESERVES	Notes	2001	2000
FOREIGN LIABILITIES		122 306	129 053
International Monetary Fund	14	116 012	122 014
Foreign bank deposits in lats		454	158
Non-convertible currencies		41	42
Other foreign liabilities	15	5 799	6 839
LATS IN CIRCULATION	16	556 003	482 314
DOMESTIC LIABILITIES		226 374	140 723
Balances due to credit institutions		82 433	80 453
Balances due to the Government		119 587	45 926
Balances due to other financial institutions		3 441	3 950
Other domestic liabilities	17	20 913	10 394
CAPITAL AND RESERVES		74 927	61 320
Nominal capital	18	10 100	4 750
Reserve capital	18	5 512	3 297
Other reserves	18	38 224	32 497
Valuation account	19	20 567	20 254 ²
European Union grant		524	522
TOTAL LIABILITIES, CAPITAL AND RESERVES		979 610	813 410
MEMORANDUM ITEMS	24, 25		

These financial statements, which are set out on pages 48 to 77, were approved by the Bank of Latvia's Executive Board on February 25, 2002.

BANK OF LATVIA'S EXECUTIVE BOARD

Māra Raubiško
Helmūts Ancāns
Roberts L. Grava
Reinis Jakovļevs
Māris Kālis

THE BANK OF LATVIA'S PROFIT AND LOSS STATEMENT

	Notes	2001	2000
(in thousands of lats)			
INTEREST INCOME			
Foreign operations			
Interest on deposits with foreign credit institutions and other foreign financial institutions		3 056	5 001
Income from debt securities		32 805	22 949 ¹
Dividends on shares in the Bank for International Settlements		124	125
GROSS foreign interest income		35 985	28 075
Domestic operations			
Interest on loans to credit institutions		3 275	1 721
Income from transit credits		58	93
Income from government securities		3 007	3 659
Other income		–	23
GROSS domestic interest income		6 340	5 496
INTEREST EXPENSE			
Foreign operations			
Interest on deposits		44	55
GROSS foreign interest expense		44	55
Domestic operations			
Interest on credit institutions' deposits		32	214
Interest on government deposits		2 709	3 530
Interest on other financial institutions' deposits		56	10
GROSS domestic interest expense		2 797	3 754
NET INTEREST INCOME		39 484	29 762

¹ The amount reported under the caption "Income from debt securities" has decreased by 384 thousand lats as a result of including foreign securities transaction costs, which were reported under the interest expense caption "Other expense" in the financial statements for the year ended December 31, 2000.

(cont.)	(in thousands of lats)		
	Notes	2001	2000
SPECIFIC PROVISIONS		–	290
LOSS ON DISPOSAL OF INVESTMENT IN ASSOCIATE		–	2 030
OTHER OPERATING INCOME	20	520	527
OTHER OPERATING EXPENSE			
Salaries, wages and other personnel costs		8 794	7 744
Social security costs		1 910	1 815
Costs of financing the Financial and Capital Market Commission	21	1 288	–
Depreciation charge	12	1 244	1 223
Renovation and repair costs		568	566
Banknote production and coinage costs		79	1 468
Other operating expense	22	3 967	3 993
TOTAL other operating expense		17 850	16 809
PROFIT BEFORE APPROPRIATION		22 154	11 160
APPROPRIATION OF PROFIT			
Profit appropriated to the State budget		8 862	2 790
Nominal capital		5 350	–
Reserve capital		2 215	1 116
Other reserves		5 727	7 254

THE BANK OF LATVIA'S STATEMENT OF RECOGNISED GAINS AND LOSSES

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		(in thousands of lats)	
	Notes	2001	2000
RESULT ON REVALUATION			
Increase/decrease (-) arising from revaluation of gold and shares in the Bank for International Settlements	19	2 606	-212
Increase/decrease (-) in financial instruments' market value	19	-1 176	8 983 ¹
Decrease (-) arising from revaluation of assets and liabilities denominated in foreign currency	19	-1 117	-2 149
NET RESULT ON REVALUATION		313	6 622
PROFIT BEFORE APPROPRIATION		22 154	11 160
TOTAL		22 467	17 782

¹ Restated to account for the revaluation result of 929 thousand lats arising after revaluing Latvian government securities in accordance with the revised Latvian government securities valuation policy (see Notes 3 and 11).

THE BANK OF LATVIA'S CASH FLOW STATEMENT

		(in thousands of lats)	
	Notes	2001	2000
Net cash and cash equivalents inflow arising from operating activities	23 (1)	92 112	2 373 ¹
Disposal of investment in associate		-	2 696
Acquisition of fixed assets		-11 455	-8 785
Acquisition of intangible assets		-463	-1 433
Repayment of the credit facility provided by the International Monetary Fund		-6 098	-6 098
Net cash and cash equivalents inflow/outflow (-)	23 (2)	74 096	-11 247 ¹

¹ The respective figures for the year ended December 31, 2000 are restated in accordance with the revised cash and cash equivalents determination policy (see Notes 3 and 23).

1. FOUNDATION AND PRINCIPAL ACTIVITIES

The Bank of Latvia was established on July 31, 1990. The Bank of Latvia operates under the Law "On the Bank of Latvia" and its primary objectives are as follows:

- implementation of monetary policy;
- issue of the national currency, both banknotes and coins;
- organisation and management of the interbank settlement system and promotion of a smooth functioning of the payment system in Latvia;
- compiling and publishing of financial statistics and the country's balance of payments.

2. RISK MANAGEMENT

The main risks associated with the Bank of Latvia's activities are financial and operational risks arising from a range of activities in pursuit of the Bank's primary functions. Therefore, the Bank of Latvia's Executive Board has established appropriate risk management framework under the principles and guidelines established by the Board of Governors of the Bank of Latvia. At the Bank of Latvia, the process of risk analysis is coordinated by the manager of the security of the Bank of Latvia's information systems. The risk management framework is continuously upgraded in line with financial market and the Bank of Latvia's operational developments and is subject to review by the Internal Audit Department personnel on a regular basis. At least quarterly, the Bank of Latvia's Audit Committee, which is comprised of three members of the Board of Governors of the Bank of Latvia and Head of Internal Audit Department, reviews auditors' findings and recommendations, as well as improvements to the risk management framework made by the Bank of Latvia.

FINANCIAL RISKS

Price (interest rate and exchange risks), credit and liquidity risks are among the most significant financial risks. The Bank of Latvia manages these risks in accordance with the "Principles and Guidelines for Investing the Bank of Latvia's Gold and Foreign Reserves" (hereinafter, the Guidelines), as approved by the Board of Governors of the Bank of Latvia.

For the purposes of financial risks management, the Bank of Latvia has established the Investment Committee that develops the investment management strategy, approves the investment tactics and sets detailed limits for financial risks in accordance with the Guidelines. The Investment Committee reviews the investment strategy once a quarter. Once a week, the Investment Committee reviews reports and forecasts by foreign reserves portfolio managers on developments in financial markets and approves the investment management tactics for the forthcoming week.

PRICE RISK

Price risk is exposure to losses due to adverse changes in the financial markets (for example, movements in interest rates or exchange rates). The Bank of Latvia manages interest rate risk inherent mainly in foreign assets sensitive to interest rate fluctuations by using modified duration limits. To avoid losses resulting from adverse changes in exchange rates, the Bank of Latvia monitors exchange risks by applying limits to open foreign exchange positions. Every day the Risk Control Division of the Foreign Exchange Department monitors the compliance of the modified duration limits and open foreign exchange positions with the Guidelines and the respective resolutions passed by the Investment Committee.

The analysis of the Bank of Latvia's price risk, as at December 31, 2001, is provided in Notes 26 and 27.

CREDIT RISK

Credit risk is exposure to losses resulting from a counterparty's default. The Bank of Latvia is exposed to credit risk as a result of investments in foreign debt securities and short-term cash and gold deposits, as well as short-term lending to domestic credit institutions.

The Bank of Latvia minimises exposure to credit risk related to investments made in foreign debt securities and short-term cash and gold deposits by establishing limits on investments with different credit quality. Credit quality is evaluated on the basis of the ratings set by the international rating agencies *Fitch Ratings*, *Moody's Investors Service* and *Standard & Poor's*. In order to minimise the Bank's exposure to credit risk associated with its foreign operations, the Risk Control Division of the Foreign Exchange Department is involved in the daily monitoring of the Bank of Latvia's compliance with the Guidelines.

Short-term loans granted to domestic credit institutions are secured by collateral of either Latvian government securities or private sector securities whose issuers' ratings, assigned by international rating agencies approved by the Bank of Latvia, are not below the rating assigned to Latvia in respect of long-term liabilities in lats. The Open Market Operations Division of the Monetary Policy Department of the Bank of Latvia monitors the adequacy of collateral on a regular basis.

The analysis of the Bank of Latvia's credit risk, as at December 31, 2001, is provided in Notes 28 to 30.

LIQUIDITY RISK

Liquidity risk is associated with inability to meet liabilities timely and efficiently. The Bank of Latvia manages liquidity risk by investing its foreign exchange reserves in liquid debt securities and other financial instruments issued by international institutions, foreign governments, credit institutions and corporate entities, while investing its gold reserves in short-term deposits with foreign financial institutions.

OPERATIONAL RISK

Operational risk is exposure to losses resulting from unexpected interruption of operation, unauthorised use of information, non-compliance with security requirements, theft of assets, fraud and other circumstances related to inadequate internal controls or external factors. To minimise operational risk inherent in security and information systems, the Bank of Latvia has established the Committee for Managing the Development of the Bank of Latvia's Complex Security Strategy and the Committee for Managing the Bank of Latvia's Information Systems, which review, on a regular basis, the operational risk management system. The Bank of Latvia's management reviews, on a regular basis, the adequacy and availability of resources for ensuring the continuity of the Bank's operations in case of emergency.

In order to improve the organisation of the Bank of Latvia's operational activities and to mitigate operational risk, the Bank of Latvia has designed a quality management system in accordance with the quality management system standard ISO 9002:1994. The Bank of Latvia's quality management system is upgraded on a continuous basis. Within the framework of measures for minimising total operational risk, the Bank of Latvia has insured certain operational risks.

3. PRINCIPAL ACCOUNTING POLICIES

A summary of the principal accounting policies adopted by the Bank of Latvia in the preparation of these financial statements is set out below. Except for changes in the Latvian government securities valuation policy and the cash and cash equivalents determination policy, which are described in this Note and in Notes 11 and 23, the adopted accounting policies have been applied consistently throughout the years ended December 31, 2001 and December 31, 2000.

Comparative figures from the last year reported in these financial statements, except for income from Latvian government securities (see section "Latvian government securities" of this Note), have been restated as a result of retrospectively applying the aforementioned valuation policy.

BASIS OF PRESENTATION

These financial statements have been prepared in accordance with the historical cost basis of accounting, modified for the revaluation of certain assets and liabilities as referred to in the accompanying notes.

FOREIGN CURRENCY TRANSLATION

Transactions denominated in foreign currencies are recorded in lats at the rates of exchange as quoted by the Bank of Latvia for the day of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into lats at the rates of exchange set forth by the Bank of Latvia at the end of the year. Gains and losses resulting from the translation of monetary assets and liabilities denominated in foreign currencies are credited or charged directly to the balance sheet caption "Valuation account".

The principal Bank of Latvia exchange rates, used in compiling the balance sheet, are as follows.

	(at the end of the year)	
	2001	2000
XDR	0.7997	0.7997
USD	0.638	0.613
EUR	0.560856	0.570042
GBP	0.924	0.917
JPY	0.00485	0.00536

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount at which a financial asset could be exchanged or a financial liability settled on an arm's length basis between knowledgeable, willing parties. Where the fair values of financial assets and liabilities differ materially from their book values, such fair values are separately disclosed in the notes to the financial statements.

The fair value of the Bank of Latvia's financial assets and liabilities did not differ materially from the reported book value of the respective assets and liabilities for the years ended December 31, 2001 and December 31, 2000.

OFFSETTING FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are offset and the net amount reported in the

financial statements when there is only a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

GOLD

Gold reserves are recorded in the balance sheet at their market value. Any surplus or deficit arising from the revaluation of gold reserves is credited or charged to the balance sheet caption "Valuation account".

FINANCIAL INSTRUMENTS DENOMINATED IN FOREIGN CURRENCIES

Financial instruments denominated in foreign currencies are marked to market. Any surplus or deficit arising on valuation is credited or charged to the balance sheet caption "Valuation account". Upon disposal of financial instruments, the market value adjustment is transferred from the balance sheet caption "Valuation account" to the profit and loss statement.

The Bank of Latvia enters into commitments involving forward exchange rate contracts, currency and interest rate swap arrangements and interest rate future contracts, which are carried in off-balance sheet accounts at their contract or notional amount. Subsequent to initial recognition and measurement, financial assets and liabilities arising from these derivative financial instruments are revalued on a regular basis and reported in the balance sheet at their fair value. The fair values of the respective financial assets and financial liabilities are obtained from quoted market prices and discounted cash flow models as appropriate.

Any surplus or deficit arising from a change in the fair value of forward exchange rate contracts and currency and interest rate swap arrangements is credited or charged to the balance sheet caption "Valuation account". Realised gains or losses arising from a change in the fair value of interest rate future contracts are transferred to the profit and loss statement upon settlement.

In order to offset the effect of exchange risk associated with contracted commitments, the Bank of Latvia establishes a hedging financial instrument portfolio. Gains or losses on the respective hedging instruments are initially recognised in the balance sheet caption "Valuation account". The associated gains or losses on the financial instruments, which are considered to be an effective hedge, are removed from the balance sheet caption "Valuation account" and included in the amount of the corresponding asset after meeting the relevant contractual liabilities.

LOANS TO CREDIT INSTITUTIONS AND THE PROVISIONS FOR LOAN IMPAIRMENT

Loans to credit institutions are recorded in the balance sheet at the outstanding principal, adjusted for specific credit risk provisions for loan impairment.

The Bank of Latvia's management reassesses the quality of loans to credit institutions on a regular basis. As soon as the recovery of an exposure or any part thereof is identified as doubtful, specific credit risk provisions for loan impairment are established to provide for credit losses. These provisions for loan impairment are reported in the profit and loss statement as specific provisions. Loans to credit institutions are maintained in the balance sheet until they are recovered or written off. The outstanding loan balances are written off only after all the necessary legal measures to recover them have been taken and the amount of loss has been finalised.

LATVIAN GOVERNMENT SECURITIES

In view of the international practice and the growth of the market for Latvian government securities, in 2001 the Bank of Latvia revised its Latvian government securities valuation policy: Latvian government securities, which were previously recognised at their amortised cost, are currently reported at their fair value.

Pursuant to the aforementioned revised policy, Latvian Treasury bills and bonds are stated in the balance sheet at their fair value. Adjustments to the fair value of Latvian government securities arising from revaluation of these financial instruments are reported in the balance sheet caption "Valuation account" until their disposal. Upon disposal of such securities, the accumulated revaluation adjustment is transferred from the balance sheet caption "Valuation account" to the profit and loss statement caption "Income from government securities".

The revision of the aforementioned valuation policy has been applied retrospectively. The book value of Latvian government securities as at December 31, 2000 has been restated in accordance with the revised Latvian government securities valuation policy. The relevant profit and loss statement item "Income from government securities" for the year ended December 31, 2000 has not been restated due to immateriality.

REVERSE REPURCHASE AGREEMENTS

Reverse repurchase agreements are accounted for as financing transactions. Securities purchased under reverse repurchase agreements are not included in the Bank of Latvia's balance sheet. The related funding provided to the counterparty is included in the balance sheet as claims on domestic credit institutions, foreign credit institutions and other foreign financial institutions, as appropriate.

The difference between the purchase and resale price of securities is treated as interest income and recognised in the profit and loss statement over the term of the agreement.

REPURCHASE AGREEMENTS

Repurchase agreements are accounted for as financing transactions. Securities sold under repurchase agreements are retained in the Bank of Latvia's balance sheet along with other securities that are not involved in these transactions. Funding received from such sales is included in the balance sheet as a liability to the counterparty.

The difference between the sale and repurchase price of securities is treated as interest expense and recognised in the profit and loss statement over the term of the agreement.

FIXED ASSETS

Fixed assets are recorded at historical cost less accumulated depreciation. If the net selling price or value in use of a fixed asset is lower than its carrying amount, the carrying amount of the fixed asset is reduced to the higher of the asset's net selling price or its value in use accordingly.

Depreciation is provided using the straight-line method over the estimated useful life of the asset. Assets under construction or development, land and works of art are not depreciated.

The following depreciation rates have been applied on an annual basis.

	(percentage)
Buildings	1–3
Transport vehicles	20
Office furniture	10
Computer equipment	25–33
Other office equipment	20
Cash processing equipment	20
Tools	50
Other fixed assets	14–20

In accordance with generally accepted principles for hedge accounting, construction costs include a result arising from financial instruments designated as effective hedges of exchange risk associated with the paid for construction works.

Costs associated with the maintenance and repairs of fixed assets are recognised in the profit and loss statement when incurred.

Loss on disposal of fixed assets is determined on the basis of the carrying amount of the fixed assets as at the time of disposal and is reported under the profit and loss statement caption "Other operating expense".

INTANGIBLE ASSETS

Intangible assets include costs related to the acquisition of the rights to use specialised software for bank information systems, adjusted for accrued amortisation and impairment of value. The acquisition costs of such software are amortised over the period of the licensed software use as specified in the relevant agreements; however, this period may not exceed 10 years.

Other costs related to the acquisition of the rights to use software and to software developed by the Bank of Latvia are recognised in the profit and loss statement as expense on the maintenance of information systems when incurred. Expense on the maintenance of information systems software is recognised in the profit and loss statement for the relevant period.

LATS IN CIRCULATION

Lats banknotes and coins in circulation issued by the Bank of Latvia, except for gold circulation coins, are included in the balance sheet caption "Lats in circulation" at their nominal value. The balance sheet caption "Lats in circulation" reports the Bank of Latvia's liabilities to holders of the respective banknotes and coins.

GOLD CIRCULATION COINS

Gold circulation coins (fineness .999) held in the vaults of the Bank of Latvia are included in the balance sheet caption "Other domestic assets", since their nominal value is directly supported by their content of gold. These coins are stated in the balance sheet at the market value of their content of gold.

When gold circulation coins are issued, they are written off the balance sheet caption "Other domestic assets". The respective coins in circulation are not included in the balance sheet caption "Lats in circulation", as their nominal value is directly supported by their content of gold.

CASH AND CASH EQUIVALENTS

To improve the presentation of the Bank of Latvia's liquidity and its cash flows, in 2001 the Bank of Latvia revised the contents of its cash and cash equivalents, excluding time deposits with foreign financial institutions and time deposits from domestic credit institutions with the residual maturity of 90 days or less. Moreover, the Bank of Latvia has recognised the following items as cash and cash equivalents: demand deposits of foreign financial institutions, Latvian Government and other financial institutions, as well as foreign debt securities, which are readily convertible to cash within twenty-four hours and are subject to insignificant risk of changes in value.

In accordance with the revised policy, for the purposes of the cash flow statement, cash and cash equivalents are defined as the amounts comprising convertible foreign currency in cash, demand deposits with foreign credit institutions and other foreign financial institutions, foreign debt securities, which are readily convertible to cash within twenty-four hours, excluding demand deposits from foreign financial institutions, domestic credit institutions, Latvian Government and other financial institutions.

The aforementioned revised policy has been applied retrospectively. Therefore, the restated total amount of cash and cash equivalents as at December 31, 2000 exceeds, by 33 678 thousand lats, the corresponding amount reported in the financial statements for the year ended December 31, 2000.

INTEREST INCOME AND EXPENSE

Interest income and expense are recognised in the profit and loss statement on an accrual basis.

Interest income includes interest on bonds purchased, loans granted and deposits made, as well as the result arising from disposal of debt securities.

Interest expense includes interest on time deposits attracted from credit institutions, deposits from the Government and other financial institutions and loans of other financial institutions.

FEES

Fees are charged or credited to the profit and loss statement on an accrual basis.

BANKNOTE PRODUCTION AND COINAGE COSTS

Banknote production and coinage costs are charged to the profit and loss statement as incurred.

4. GOLD

At the end of 2001 and 2000, the Bank of Latvia's gold reserves were placed in gold short-term deposits.

Movements in gold reserves during 2001 were as follows.

	Troy ounces	Amount in thousands of lats
As at December 31, 2000	248 664	41 917
Net changes resulting from gold deposits and their withdrawals	-17	-3
Surplus arising from revaluation of gold	-	2 529
As at December 31, 2001	248 647	44 443

5. CONVERTIBLE FOREIGN CURRENCIES

Convertible foreign currency assets of the Bank of Latvia are invested primarily in short-term cash deposits and debt securities of high liquidity.

Interest bearing debt securities include both interest income purchased at the date of acquisition and interest income accrued subsequent to the date of acquisition of the securities (9 768 thousand lats at the end of 2001 and 9 435 thousand lats at the end of 2000).

At the end of the year, the balance sheet caption "Convertible foreign currencies" was comprised of the following assets.

	(in thousands of lats)	
	2001	2000
Debt securities of foreign governments	293 139	238 028
Debt securities of foreign credit institutions	111 926	76 818
Debt securities of foreign corporate entities	174 148	126 312
Other debt securities	46 591	30 524
Short-term deposits with foreign credit institutions and other foreign financial institutions	106 438	49 218
Foreign currency in cash	557	612
Total	732 799	521 512

6. INTERNATIONAL MONETARY FUND

The Republic of Latvia's quota in the International Monetary Fund (IMF), secured by promissory notes issued by the Government of Latvia, is recorded as an asset denominated in XDR and recognised in the balance sheet assets. The IMF holdings in lats and the Systemic Transformation Facility (STF) granted by the IMF are stated as a balance sheet liability (see Note 14).

At the end of 2001 and 2000, the Republic of Latvia's quota in the IMF was 126 478 thousand XDR (101 144 thousand lats).

As at December 31, 2001 and 2000, the Republic of Latvia's total quota in the IMF was 126 800 thousand XDR.

7. SHARES IN THE BANK FOR INTERNATIONAL SETTLEMENTS

The Bank of Latvia owns one thousand shares in the Bank for International Settlements (BIS). These shares are denominated in the gold equivalent (5 834 troy ounces).

As a result of changes in gold market value, the value of the shares in the BIS increased by 60 thousand lats during 2001. As at December 31, 2001, the value of the BIS shares owned by the Bank of Latvia was 1 043 thousand lats (983 thousand lats at the end of 2000).

8. OTHER FOREIGN ASSETS

At the end of the year, other foreign assets consisted of the following items.

	(in thousands of lats)	
	2001	2000
Forward exchange rate contracts and interest rate swap arrangements with foreign financial institutions	1 554	3 452
Accrued interest income on deposits with foreign credit institutions and other foreign financial institutions	420	509
Other foreign assets	32	31
Total	2 006	3 992

9. LOANS TO CREDIT INSTITUTIONS

At the end of the year, credit facilities provided to domestic credit institutions were as follows.

	(in thousands of lats)	
	2001	2000
Claims under repurchase agreements	18 700	24 395
Refinancing credit facilities	–	18 000
Credit facilities provided in respect of the European Union grant	133	135
Total	18 833	42 530

10. TRANSIT CREDITS

The Bank of Latvia acts as agent for the Government of the Republic of Latvia for distribution of funds received from various international institutions. These funds are used to support the government investment programmes. As the Bank of Latvia is exposed to exchange risk associated with these funds, both transit credits and related funding are included in the balance sheet. The Bank of Latvia is not exposed to any credit risk arising from transit credits.

11. GOVERNMENT SECURITIES

At the end of the year, the Bank of Latvia held the following Latvian government securities.

	(in thousands of lats)	
Residual maturity	2001	2000
Within 3 months	640	8 945
3–6 months	490	10 572
6–12 months	1 450	661
1–3 years	13 677	12 478
Over 3 years	8 458	19 069
Total	24 715	51 725

Latvian Treasury bills and bonds held by the Bank of Latvia are stated at fair value in accordance with the Latvian government securities valuation policy revised in the year ended December 31, 2001. As the revised policy has been applied retrospectively, the carrying amount of Latvian government securities held by the Bank of Latvia as at December 31, 2000 exceeds, by 929 thousand lats, the carrying amount of the securities stated in the financial statements for the year ended December 31, 2000, including accrued interest income on Latvian government bonds, which in the financial statements for the year ended December 31, 2000 was reported under the balance sheet caption "Other domestic assets".

12. FIXED ASSETS

The following changes in fixed assets took place in 2001.

	(in thousands of lats)						
	Construction	Buildings and land	Furniture and office equipment	Cash processing equipment	Transport vehicles	Other	Total
As at December 31, 2000							
Cost	16 579	3 615	4 597	1 784	1 009	2 018	29 602
Accumulated depreciation	–	–405	–2 671	–1 511	–754	–1 604	–6 945
Net book value	16 579	3 210	1 926	273	255	414	22 657
During 2001							
Additions	9 006	95	1 318	181	53	802	11 455
Commissioned	–25 585	25 585	–	–	–	–	–
Disposals	–	–	–457	–	–31	–14	–502
Net change in cost	–16 579	25 680	861	181	22	788	10 953
Depreciation charge	–	–128	–738	–95	–90	–193	–1 244
Depreciation on disposals	–	–	422	–	18	13	453
Net change in accumulated depreciation	–	–128	–316	–95	–72	–180	–791
As at December 31, 2001							
Cost	–	29 295	5 458	1 965	1 031	2 806	40 555
Accumulated depreciation	–	–533	–2 987	–1 606	–826	–1 784	–7 736
Net book value	–	28 762	2 471	359	205	1 022	32 819

13. OTHER DOMESTIC ASSETS

At the end of the year, other domestic assets consisted of the following items.

	(in thousands of lats)	
	2001	2000
Intangible assets	2 214	1 893
Gold circulation coins in vault	179	406
Currency swap arrangements with domestic credit institutions	43	168
Spot exchange rate contracts with domestic credit institutions	15	59
Accrued interest income on loans to domestic credit institutions	20	84
Other domestic assets	671	502
Total	3 142	3 112

Intangible assets include the rights to use specialised software for bank information systems acquired by the Bank of Latvia.

In 2001, the following movements were observed in intangible assets.

	(in thousands of lats)
As at December 31, 2000	
Cost	2 015
Accumulated amortisation	-122
Net book value	1 893
During 2001	
Additions	463
Intangible investments written off	-143
Net change in cost	320
Amortisation charge	-142
Amortisation on intangible assets written off	143
Net change in accumulated amortisation	1
As at December 31, 2001	
Cost	2 335
Accumulated amortisation	-121
Net book value	2 214

14. INTERNATIONAL MONETARY FUND

At the end of 2001, liabilities to the IMF were comprised of the STF and IMF holdings in lats (see Note 6).

The credit facility under the STF has been provided to the Republic of Latvia with the aim of supporting the Government's economic and financial programme. The respective facility is scheduled for repayment in instalments until July 2004.

Movements in liabilities to the IMF during 2001 were as follows.

	(in thousands of lats)		
	STF	Holdings in lats	Total
As at December 31, 2000	21 342	100 672	122 014
Increase in holdings in lats	–	96	96
Repayment	–6 098	–	–6 098
As at December 31, 2001	15 244	100 768	116 012

15. OTHER FOREIGN LIABILITIES

At the end of the year, other foreign liabilities consisted of the following items.

	(in thousands of lats)	
	2001	2000
Forward exchange rate contracts with foreign financial institutions	4 585	6 117
Spot exchange rate contracts with foreign financial institutions	–	4
Accrued expense	736	95
Other foreign liabilities	478	623
Total	5 799	6 839

16. LATS IN CIRCULATION

At the end of the year, the following units of lats (LVL) and santims (s) were in circulation.

Nominal	Amount (in thousands of lats)		Number (in thousands of units)		Percentage	
	2001	2000	2001	2000	2001	2000
Banknotes						
LVL 500	54 175	34 370	108	69	9.8	7.1
LVL 100	99 691	79 480	997	795	17.9	16.5
LVL 50	58 647	56 233	1 173	1 125	10.6	11.7
LVL 20	183 947	157 694	9 197	7 885	33.1	32.7
LVL 10	81 354	82 069	8 135	8 207	14.6	17.0
LVL 5	51 931	48 142	10 386	9 628	9.3	10.0
Total banknotes	529 745	457 988	–	–	95.3	95.0
Coins						
LVL 100	301	303	3	3	0.1	0.1
LVL 10	137	136	14	14	0	0
LVL 2	6 547	6 712	3 274	3 356	1.2	1.4
LVL 1	8 880	7 892	8 880	7 892	1.6	1.6
50 s	4 295	3 797	8 590	7 594	0.8	0.8
20 s	2 173	1 925	10 865	9 625	0.4	0.4
10 s	1 365	1 245	13 650	12 450	0.2	0.3
5 s	1 020	938	20 400	18 760	0.2	0.2
2 s	827	733	41 350	36 650	0.1	0.1
1 s	713	645	71 300	64 500	0.1	0.1
Total coins	26 258	24 326	–	–	4.7	5.0
Total lats in circulation	556 003	482 314	–	–	100.0	100.0

In 2001, the Bank of Latvia continued to issue gold circulation coins (fineness .999) with a nominal value of LVL 100. As a result, the total nominal value of such coins in circulation increased from 1 542 thousand lats at the end of 2000 to 1 813 thousand lats at the end of 2001. The respective coins in circulation are not included in the balance sheet caption "Lats in circulation", since their nominal value is directly supported by their content of gold.

17. OTHER DOMESTIC LIABILITIES

At the end of the year, other domestic liabilities consisted of the following items.

	(in thousands of lats)	
	2001	2000
Profit appropriated to the State budget	8 862	2 790
Currency swap arrangements with domestic credit institutions	7 093	2 512
Accrued expenditure on completed construction works	1 559	2 278
Deferred liabilities to constructors	778	449
Accrued interest expense on government deposits	395	158
Other accrued expense	977	939
Deferred income	429	400
Tax liabilities	21	31
Other domestic liabilities	799	837
Total	20 913	10 394

18. NOMINAL CAPITAL, RESERVE CAPITAL AND OTHER RESERVES

The Law "On the Bank of Latvia" prescribes the authorised nominal capital of the Bank of Latvia at 25 million lats.

The nominal capital is comprised of the State allotted resources and the Bank of Latvia's profit allocations.

10 per cent of the Bank of Latvia's profit is annually appropriated to the reserve capital, which is established to cover potential losses, until one-fourth of the authorised nominal capital is reached.

The Law "On the Bank of Latvia" establishes that part of the Bank of Latvia's annual profit, calculated by applying the tax rate set for residents by the Law "On Enterprise Income Tax", and a payment in the amount of 15 per cent of the profit earned during the reporting year for the usage of State capital shall be transferred to the State budget. On December 31, 2001, the enterprise income tax rate applicable to residents of the Republic of Latvia was 25 per cent. Hence, 40 per cent of the Bank of Latvia's profit earned during the year ended December 31, 2001 shall be transferred to the State budget.

Other reserves are comprised of the residual amount of the profit after the aforementioned appropriations to the nominal capital, reserve capital and the State budget.

19. VALUATION ACCOUNT

Movements in the valuation account during 2001 were as follows.

	(in thousands of lats)			
	Surplus on revaluation of gold and shares in the BIS	Surplus/deficit (-) on changes in financial instruments' market value	Deficit (-) on revaluation of assets and liabilities in foreign currency	Total
As at December 31, 2000 (as previously reported)	48 271	4 091	-33 037	19 325
Result of the revision of accounting policy (see Note 11)	-	929	-	929
As at December 31, 2000 (as restated)	48 271	5 020	-33 037	20 254
Increase/decrease (-)	2 606	-1 176	-1 117	313
As at December 31, 2001	50 877	3 844	-34 154	20 567

20. OTHER OPERATING INCOME

Other operating income consisted of the following items.

	(in thousands of lats)	
	2001	2000
Income from cash and securities settlement services	278	240
Income from the sales of commemorative coins	105	128
Other operating income	137	159
Total	520	527

21. FINANCING OF THE FINANCIAL AND CAPITAL MARKET COMMISSION

Pursuant to Article 4 of the Transition Rules of the Law "On the Financial and Capital Market Commission", expenses related to the establishment of the Commission and commencement of its activities shall be proportionally covered from the funds of the Bank of Latvia, the Securities Market Commission and the Insurance Supervision Inspectorate. In 2001, the Bank of Latvia covered such expenses in the amount of 688 thousand lats.

Pursuant to Article 5 of the Transition Rules of the above Law, the operation of the Financial and Capital Market Commission shall be financed from payments made by financial and capital market participants, the State budget and the Bank of Latvia. In 2001, the Bank of Latvia covered expenses pertaining to the supervision of credit institutions in the amount of 600 thousand lats. The Bank of Latvia is to make such payments from 2002 until 2006 according to the following schedule: 1 200 thousand lats in 2002 and 2003, 960 thousand lats in 2004, 600 thousand lats in 2005, and 240 thousand lats in 2006.

22. OTHER OPERATING EXPENSE

Other operating expense was as follows.

	(in thousands of lats)	
	2001	2000
Maintenance of information systems	573	474
Acquisition of low value office supplies	433	354
Business travel	312	342
Communications services	309	397
Municipal services and rent of premises	284	282
Publications (including publications in mass media)	237	189
Insurance	235	365
Personnel training	200	187
Transportation of valuables	167	96
Amortisation charge	142	58
Legal and other professional fees	140	358
Maintenance of transport vehicles	123	144
Other operating expense	812	747
Total	3 967	3 993

23. CASH FLOW STATEMENT

(1) Reconciliation of profit before appropriation to net cash and cash equivalents inflow or outflow (-) arising from operating activities

	(in thousands of lats)	
	2001	2000
Profit before appropriation	22 154	11 160
Depreciation of fixed assets and amortisation of intangible assets	1 386	1 281
Loss on disposal of fixed assets	49	22
Increase in specific provisions	-	290
Loss on disposal of investment in associate	-	2 030
Net surplus/deficit (-) arising from revaluation and financial instruments' market value adjustment	-2 293	6 820
Net decrease in gold	3	99
Net increase (-)/decrease in Special Drawing Rights	-51	1 785
Net increase (-) in foreign debt securities and other foreign investments	-163 816	-55 053
Net increase (-)/decrease in other foreign assets	1 986	-681
Net decrease in loans to domestic credit institutions	23 697	20 792
Decrease in transit credits	5 223	26 275
Net increase (-)/decrease in government securities	27 010	-21 415
Net increase (-)/decrease in other domestic assets	307	-226
Net decrease (-) in lats deposits of foreign banks	-26	-
Net increase/decrease (-) in IMF holdings in lats	56	-558
Net increase/decrease (-) in other foreign liabilities	-1 040	1 248
Net increase in lats in circulation	73 689	56 213
Net increase/decrease (-) in time deposits of domestic credit institutions	22 000	-1 000
Net increase/decrease (-) in the Government's time deposits	79 915	-50 421
Net increase/decrease (-) in time deposits of other financial institutions	-200	50
Net increase in other domestic liabilities	2 061	3 655
Increase in European Union grant	2	7
Net cash and cash equivalents inflow arising from operating activities	92 112	2 373

(2) Analysis of cash and cash equivalents

To present the Bank of Latvia's liquidity and its cash flows on a more fair basis, in 2001 the Bank of Latvia revised the contents of its cash and cash equivalents, excluding time deposits with foreign financial institutions and time deposits from domestic credit institutions with the residual maturity of 90 days or less. Moreover, the Bank of Latvia has recognised the following items as cash and cash equivalents: demand deposits of foreign financial institutions, Latvian Government and other financial institutions, as well as foreign debt securities, which are readily convertible to cash within twenty-four hours and are subject to insignificant risk of changes in value.

The revision of the aforementioned policy has been applied retrospectively. Therefore, the total restated amount of cash and cash equivalents as at December 31, 2000 exceeds, by 33 678 thousand lats, the corresponding amount reported in the financial statements for the year ended December 31, 2000.

	(at the end of the year; in thousands of lats)		
	2001	Change	2000
Assets			
Convertible foreign currencies in cash	557	-55	612
Demand deposits with foreign credit institutions and other foreign financial institutions	35 565	25 341	10 224
Foreign debt securities, which are readily convertible to cash within twenty-four hours	115 091	22 185	92 906
Liabilities			
Demand deposits from foreign financial institutions	-344	42	-386
Demand deposits from domestic credit institutions	-60 433	20 020	-80 453
Demand deposits from Latvian Government	-14 867	6 254	-21 121
Demand deposits from other financial institutions	-641	309	-950
Total	74 928	74 096	-832

24. CONTRACTED CAPITAL OFF-BALANCE SHEET COMMITMENTS

At the end of 2001, the Bank of Latvia had no capital off-balance sheet commitments (9 048 thousand lats at the end of 2000) in respect of the acquisition of fixed assets.

25. FINANCIAL INSTRUMENTS' OFF-BALANCE SHEET ACCOUNTS

The Bank of Latvia enters into forward and spot exchange rate contracts, interest rate swap arrangements and interest rate future contracts in order to manage interest rate and exchange risks associated with its foreign reserves. As part of its monetary policy, the Bank of Latvia also engages in currency swap arrangements.

At the end of the year, the Bank of Latvia had entered into the following spot exchange and financial derivative contracts.

(in thousands of lats)

	Contract or notional amount		Fair value			
			Assets		Liabilities	
	2001	2000	2001	2000	2001	2000
Spot exchange rate contracts						
with foreign financial institutions	85	1 299	-	-	-	4
with domestic credit institutions	1 512	5 116	15	59	-	-
Derivative exchange rate contracts						
Forward exchange rate contracts						
with foreign financial institutions	220 547	246 752	1 375	3 452	4 585	6 117
Currency swap arrangements						
with domestic credit institutions	127 471	109 636	43	168	7 093	2 512
Gold interest rate swap arrangements						
with foreign financial institutions	22 879	10 788	179	1	-	-
Total derivative exchange rate contracts, and currency and interest rate swap arrangements						
with foreign financial institutions	x	x	1 554	3 453	4 585	6 121
with domestic credit institutions	x	x	58	227	7 093	2 512
Interest rate future contracts						
with foreign financial institutions	66 542	33 127	62	46	43	28

26. CURRENCY PROFILE

At the end of the year, the currency profile of the Bank of Latvia's assets, liabilities and memorandum items was as follows.

	(in thousands of lats)								
	LVL	XDR	USD	EUR	GBP	JPY	Gold	Other	Total
As at December 31, 2001									
Foreign assets									
Gold	-	-	-	-	-	-	44 443	-	44 443
Special Drawing Rights	-	54	-	-	-	-	-	-	54
Convertible foreign currencies	-	-	399 821	246 478	56 079	15 445	-	14 976	732 799
International Monetary Fund	-	101 144	-	-	-	-	-	-	101 144
Shares in the BIS	-	-	-	-	-	-	1 043	-	1 043
Other foreign assets	1 554	-	260	166	-	-	-	26	2 006
Domestic assets									
Loans to credit institutions	18 700	-	-	133	-	-	-	-	18 833
Transit credits	-	-	18 612	-	-	-	-	-	18 612
Government securities	24 715	-	-	-	-	-	-	-	24 715
Fixed assets	32 819	-	-	-	-	-	-	-	32 819
Other domestic assets	2 953	-	10	-	-	-	179	-	3 142
TOTAL ASSETS	80 741	101 198	418 703	246 777	56 079	15 445	45 665	15 002	979 610
Foreign liabilities									
International Monetary Fund	100 768	15 244	-	-	-	-	-	-	116 012
Foreign bank deposits in lats	454	-	-	-	-	-	-	-	454
Non-convertible currencies	-	-	-	-	-	-	-	41	41
Other foreign liabilities	4 585	-	524	690	-	-	-	-	5 799
Lats in circulation	556 003	-	-	-	-	-	-	-	556 003
Domestic liabilities									
Balances due to credit institutions	82 433	-	-	-	-	-	-	-	82 433
Balances due to the Government	59 125	54	4 375	56 033	-	-	-	-	119 587
Balances due to other financial institutions	3 405	-	32	3	1	-	-	-	3 441
Other domestic liabilities	18 720	-	27	2 166	-	-	-	-	20 913
TOTAL LIABILITIES	825 493	15 298	4 958	58 892	1	-	-	41	904 683
Net position on balance sheet	-744 752	85 900	413 745	187 885	56 078	15 445	45 665	14 961	74 927
Net position on financial instruments' off-balance sheet accounts	128 196	-	-130 181	-7 083	5 214	43 779	-44 571	-5 420	-10 066
As at December 31, 2000									
TOTAL ASSETS	122 923	101 147	304 544	169 897	38 175	25 027	43 306	8 391	813 410
TOTAL LIABILITIES	706 194	21 345	8 818	15 683	2	-	-	48	752 090
Net position on balance sheet	-583 271	79 802	295 726	154 214	38 173	25 027	43 306	8 343	61 320
Net position on financial instruments' off-balance sheet accounts	114 909	-	-96 550	-27 390	8 637	40 150	-41 961	-2 749	-4 954
Net position on capital commitments	1 513	-	-	7 535	-	-	-	-	9 048

27. REPRICING MATURITY OF ASSETS AND LIABILITIES

(in thousands of lats)

	Interest bearing					Non-interest bearing	Total
	Within 3 months	3-6 months	6-12 months	1-3 years	Over 3 years		
As at December 31, 2001							
Foreign assets							
Gold	38 748	5 695	-	-	-	-	44 443
Special Drawing Rights	54	-	-	-	-	-	54
Convertible foreign currencies	162 541	50 014	54 558	280 232	174 558	10 896	732 799
International Monetary Fund	-	-	-	-	-	101 144	101 144
Shares in the BIS	-	-	-	-	-	1 043	1 043
Other foreign assets	-	-	-	-	-	2 006	2 006
Domestic assets							
Loans to credit institutions	18 700	-	-	133	-	-	18 833
Transit credits	-	-	-	-	-	18 612	18 612
Government securities	640	490	1 450	13 677	8 458	-	24 715
Fixed assets	-	-	-	-	-	32 819	32 819
Other domestic assets	-	-	-	-	-	3 142	3 142
TOTAL ASSETS	220 683	56 199	56 008	294 042	183 016	169 662	979 610
Foreign liabilities							
International Monetary Fund	-	-	-	-	-	116 012	116 012
Foreign bank deposits in lats	367	-	-	-	-	87	454
Non-convertible currencies	-	-	-	-	-	41	41
Other foreign liabilities	-	-	-	-	-	5 799	5 799
Lats in circulation	-	-	-	-	-	556 003	556 003
Domestic liabilities							
Balances due to credit institutions	22 000	-	-	-	-	60 433	82 433
Balances due to the Government	81 074	25 105	9 214	-	-	4 194	119 587
Balances due to other financial institutions	2 800	-	-	-	-	641	3 441
Other domestic liabilities	-	-	-	-	-	20 913	20 913
TOTAL LIABILITIES	106 241	25 105	9 214	-	-	764 123	904 683
Net position on balance sheet	114 442	31 094	46 794	294 042	183 016	x	x
Net position on financial instruments' off-balance sheet accounts	-3 368	-495	-3 413	-2 771	-	x	x
As at December 31, 2000							
TOTAL ASSETS	169 286	64 877	69 124	216 593	136 902	156 628	813 410
TOTAL LIABILITIES	49 671	912	-	-	-	701 507	752 090
Net position on balance sheet	119 615	63 965	69 124	216 593	136 902	x	x
Net position on financial instruments' off-balance sheet accounts	-3 408	-487	-	-1 041	-	x	x

The table above analyses the sensitivity of the Bank of Latvia's financial position to a change in interest rates. Assets and liabilities reported in this table are stated at carrying amounts, categorised by the earlier of contractual interest re-fixing or residual maturity dates.

In accordance with interest rate future contracts dealing requirements, the Bank of Latvia has pledged securities in the amount of 3 330 thousand lats (2 930 thousand lats at the end of 2000), which are included in the balance sheet caption "Convertible foreign currencies". All other balances included in the balance sheet caption "Convertible foreign currencies" represent investments of high liquidity, which are subject to disposal at the Bank of Latvia's discretion.

28. SECTORAL PROFILE OF ASSETS

The sectoral profile of the Bank of Latvia's assets at the end of the year was as follows.

	Amount (in thousands of lats)		Percentage	
	2001	2000	2001	2000
Foreign central governments	293 139	238 028	29.9	29.3
Foreign local governments	14 256	9 430	1.5	1.2
Foreign credit institutions	257 997	169 684	26.3	20.9
Foreign corporate entities	174 148	126 311	17.8	15.5
International institutions	141 917	126 073	14.5	15.5
Latvian Government	62 057	100 033	6.3	12.2
Domestic credit institutions	133	18 141	0	2.2
Others	35 963	25 710	3.7	3.2
Total	979 610	813 410	100.0	100.0

For the purposes of credit risk analysis, in the above table claims arising from securities purchased under repurchase agreements are classified according to the issuer of the security. As a result, claims arising from Latvian government securities purchased under agreements to resell to domestic credit institutions in the amount of 18 700 thousand lats (24 395 thousand lats at the end of 2000) and the related accrued interest income in the amount of 20 thousand lats (60 thousand lats at the end of 2000) are reported as exposure to the Latvian Government.

29. FOREIGN ASSETS BY THEIR LOCATION OR THE COUNTERPARTY'S DOMICILE

At the end of the year, the Bank of Latvia's foreign assets broken down by their location or the counterparty's domicile were as follows.

	Amount (in thousands of lats)		Percentage	
	2001	2000	2001	2000
European Union	408 031	280 533	46.3	41.9
United States of America	214 349	173 111	24.3	25.8
Japan	44 640	49 979	5.1	7.5
Other countries	72 552	39 855	8.2	6.0
International institutions	141 917	126 073	16.1	18.8
Total	881 489	669 551	100.0	100.0

30. ASSETS BY CREDIT RATINGS SET TO THE COUNTERPARTY

At the end of the year, the Bank of Latvia's assets broken down by categories of credit ratings set to the counterparty were as follows.

	Credit rating	Amount (in thousands of lats)		Percentage	
		2001	2000	2001	2000
FOREIGN ASSETS					
Gold	AAA	9 740	9 281	1.0	1.1
	AA+	17 475	16 367	1.8	2.0
	AA	11 530	16 269	1.2	2.0
	AA-	5 698	-	0.6	-
Special Drawing Rights	AAA	54	3	0	0
Foreign debt securities	AAA	362 163	284 878	37.0	35.0
	AA+	54 792	56 744	5.6	7.0
	AA	54 628	50 523	5.6	6.2
	AA-	93 560	42 517	9.5	5.2
	A+	37 200	23 812	3.8	2.9
	A	14 495	13 208	1.5	1.6
	A-	8 966	-	0.9	-
Deposits with foreign credit institutions and other foreign financial institutions	AAA	11 121	3 132	1.1	0.4
	AA+	7 628	10 319	0.8	1.3
	AA	14 599	22 308	1.5	2.7
	AA-	52 749	7 784	5.4	1.0
	A+	5 101	5 194	0.5	0.6
	A	15 240	481	1.6	0.1
Foreign currency in cash	AAA	557	602	0.1	0.1
	Different	0	10	0	0
International Monetary Fund	AAA	101 144	101 144	10.3	12.4
Shares in the BIS	AAA	1 043	983	0.1	0.1
Derivative financial instruments	AAA	-	1	-	0
	AA+	270	1 315	0	0.2
	AA	1 009	1 192	0.1	0.2
	AA-	-	67	-	0
	A+	275	877	0	0.1
Accrued interest income	Different	420	509	0	0.1
Other foreign assets	Different	32	31	0	0
DOMESTIC ASSETS					
Loans to credit institutions	Different	18 833	42 530	1.9	5.2
Transit credits	BBB ¹	18 612	23 835	1.9	2.9
Government securities	A-	24 715	51 725	2.5	6.4
Other domestic assets	-	35 961	25 769	3.7	3.2
TOTAL		979 610	813 410	100.0	100.0

¹ The Bank of Latvia is not exposed to any credit risk arising from transit credits (see Note 10).

At the end of the year, the Bank of Latvia's foreign assets broken down by major categories of credit ratings set to the counterparty were as follows.

	Credit rating	Amount (in thousands of lats)		Percentage	
		2001	2000	2001	2000
Foreign assets	AAA	485 822	400 024	55.1	59.7
	AA	313 938	225 405	35.6	33.7
	A	81 277	43 572	9.2	6.5
	Different	452	550	0.1	0.1
Total		881 489	669 551	100.0	100.0

Based on *Standard & Poor's* credit ratings or other equivalent credit ratings set by other international credit rating agency to the counterparty, the above tables show the breakdown of the Bank of Latvia's assets as at the end of the year. The rating "AAA" is the highest possible long-term creditworthiness rating, which indicates an extremely strong capacity of the counterparty to meet its financial commitments. The rating "AA" confirms the counterparty's very strong capacity and the rating "A" the counterparty's strong capacity to meet its financial commitments. Ratings below "AAA" are modified by marks "+" or "-" to show the relative standing within the major categories of an agency's ratings.

REPORT OF THE AUDIT COMMISSION TO THE BANK OF LATVIA'S BOARD OF GOVERNORS

We have audited the balance sheet of the Bank of Latvia as at 31 December 2001, and the related statements of profit and loss, recognised gains and losses, and cash flows for the year then ended and the accompanying notes (hereinafter, the financial statements). These financial statements, which are set out on pages 48 to 77, are the responsibility of the Bank of Latvia's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. 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 referred to above present fairly, in all material respects, the financial position of the Bank of Latvia as at 31 December 2001, and the results of its operations and its cash flows for the year then ended in conformity with the accounting principles adopted by the Bank of Latvia and the Law "On the Bank of Latvia".

ANDERSEN

THE STATE AUDIT OFFICE
OF THE REPUBLIC OF LATVIA

Riga
25 February 2002

RESOLUTION OF THE BANK OF LATVIA'S BOARD OF GOVERNORS

On March 25, 2002, the Bank of Latvia's Board of Governors passed Resolution No. 93/1 "On the Bank of Latvia's Annual Report for 2001".

Having reviewed the results of the audit of the Bank of Latvia's economic activity in 2001, the Bank of Latvia's Board of Governors resolves:

1 To approve the Bank of Latvia's annual report for 2001, including the balance sheet, profit and loss statement, statement of recognised gains and losses and cash flow statement.

2 To appropriate the Bank of Latvia's profit for 2001 in the following way.

2.1 8 862 thousand lats to be transferred to the state revenue.

2.2 5 350 thousand lats to be transferred to the Bank's nominal capital.

2.3 2 215 thousand lats to be transferred to the Bank's reserve capital.

2.4 5 727 thousand lats to be transferred to the Bank's other reserves.

ILMĀRS RIMŠĒVIČS
GOVERNOR
BANK OF LATVIA

APPENDIXES



MONETARY INDICATORS IN 2001

(at end of month; in millions of lats)

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
BANK OF LATVIA												
Monetary base M0	524.3	604.1	541.9	547.2	568.9	586.7	561.7	576.1	581.9	596.5	633.6	617.1
Currency in circulation	466.2	470.7	476.4	483.6	483.7	500.4	498.7	505.5	515.8	512.1	520.1	556.0
Deposits with the Bank of Latvia	58.1	133.4	65.5	63.6	85.2	86.3	63.0	70.6	66.1	84.3	113.5	61.1
Currency vs monetary base (%)	88.9	77.9	87.9	88.4	85.0	85.3	88.8	87.7	88.6	85.9	82.1	90.1
Net foreign assets	526.0	548.3	558.9	563.0	559.2	576.8	606.5	594.8	591.7	622.0	731.1	759.2
Net domestic assets	-1.7	55.8	-17.0	-15.9	9.6	9.9	-44.8	-18.7	-9.8	-25.5	-97.5	-142.1
Credits	48.4	107.4	42.7	36.0	62.4	64.3	17.3	36.6	48.7	37.7	-35.3	-57.4
To banks	56.4	106.9	35.0	39.4	60.1	102.0	30.4	40.2	60.8	59.9	79.9	18.8
To the Government (net)	-8.0	0.5	7.7	-3.4	2.2	-37.7	-13.1	-3.6	-12.1	-22.2	-115.3	-76.3
Other items (net)	-50.1	-51.5	-59.6	-51.9	-52.7	-54.5	-62.1	-55.3	-58.4	-63.3	-62.1	-84.7
BANKING SYSTEM												
Broad money M2X	1 258.3	1 283.2	1 329.5	1 362.5	1 373.3	1 413.1	1 433.6	1 469.4	1 461.7	1 482.1	1 491.3	1 541.4
Currency outside banks	414.1	419.6	426.1	426.9	432.3	443.3	441.6	447.8	458.0	456.2	464.8	485.2
Deposits of domestic enterprises and private persons	844.2	863.6	903.3	935.7	941.0	969.8	992.0	1 021.6	1 003.6	1 025.8	1 026.6	1 056.3
In foreign currencies	410.6	412.8	419.3	432.3	439.5	455.2	455.7	481.4	464.6	475.1	480.8	475.6
Domestic money supply M2D ¹	847.7	870.4	910.2	930.3	933.8	958.0	977.9	988.0	997.1	1 007.0	1 010.5	1 065.9
Net foreign assets	532.1	507.8	507.6	547.0	565.4	554.5	541.5	548.6	524.6	550.3	658.7	517.9
Net domestic assets	726.2	775.4	821.8	815.5	808.0	858.6	892.1	920.8	937.0	931.8	832.6	1 023.6
Loans of domestic enterprises and private persons	929.9	961.1	991.2	1 009.3	1 046.3	1 072.9	1 096.1	1 137.9	1 163.8	1 185.0	1 216.9	1 354.7
Bank of Latvia refinancing rate (at end of month; %)	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Weighted average interest rates on transactions in lats (%)												
Interbank loans	4.8	6.1	3.9	3.2	5.0	7.1	6.5	4.5	5.3	6.1	5.7	5.4
Long-term loans to enterprises and private persons	9.9	10.2	9.6	10.5	10.5	10.6	11.4	11.0	10.8	10.6	10.7	9.8
Time deposits of enterprises and private persons	4.4	5.3	4.6	4.3	5.4	6.1	5.9	5.3	5.5	5.8	5.9	5.9
LVL vs USD (at end of month)	0.619	0.620	0.631	0.628	0.636	0.639	0.635	0.624	0.619	0.626	0.632	0.638
LVL vs EUR (at end of month)	0.568	0.566	0.559	0.567	0.545	0.550	0.556	0.567	0.570	0.566	0.560	0.561

¹ Currency outside banks + deposits of domestic enterprises and private persons in the national currency.

THE BANK OF LATVIA'S MONTH-END BALANCE SHEETS FOR 2001

(in thousands of lats)

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
FOREIGN ASSETS	649 277	670 715	682 585	690 639	683 774	700 894	727 660	715 458	714 331	742 764	850 995	881 489
Gold	40 577	41 285	40 803	41 320	43 456	43 066	42 195	42 432	44 973	43 670	43 093	44 443
Special Drawing Rights	398	93	111	281	46	64	299	95	95	295	139	54
Convertible foreign currencies	502 644	526 062	537 878	546 003	536 179	554 142	581 393	569 277	565 675	593 402	702 933	732 799
International Monetary Fund	101 144	101 144	101 144	101 144	101 144	101 144	101 144	101 144	101 144	101 144	101 144	101 144
Shares in the BIS	952	969	957	969	1 020	1 010	990	996	1 055	1 025	1 011	1 043
Other foreign assets	3 562	1 162	1 692	922	1 929	1 468	1 639	1 514	1 389	3 228	2 675	2 006
DOMESTIC ASSETS	155 595	198 546	126 921	120 853	142 400	184 518	112 702	127 415	155 753	142 028	161 935	98 121
Loans to credit institutions	56 419	106 853	34 983	39 427	60 128	101 999	30 432	40 195	60 756	59 934	79 945	18 833
Transit credits	22 526	22 562	22 955	22 843	23 123	21 707	20 062	19 722	19 567	19 777	19 963	18 612
Government securities ^{1, 2}	51 127	43 296	42 734	32 273	32 556	32 644	32 232	36 368	40 119	26 787	26 542	24 715
Fixed assets	22 639	22 682	22 954	22 952	22 919	24 705	26 650	27 432	31 652	32 140	32 247	32 819
Other domestic assets ²	2 884	3 153	3 295	3 358	3 674	3 463	3 326	3 698	3 659	3 390	3 238	3 142
TOTAL ASSETS	804 872	869 261	809 506	811 492	826 174	885 412	840 362	842 873	870 084	884 792	1 012 930	979 610
FOREIGN LIABILITIES	123 263	122 413	123 733	127 602	124 551	124 082	121 197	120 657	122 613	120 785	119 899	122 306
International Monetary Fund	120 490	120 490	120 490	120 490	120 586	119 061	117 537	117 537	117 537	117 537	117 537	116 012
Foreign bank deposits in lats	308	87	95	93	485	455	460	456	451	452	452	454
Non-convertible currencies	43	42	43	42	43	43	42	41	41	41	41	41
Other foreign liabilities	2 422	1 794	3 105	6 977	3 437	4 523	3 158	2 623	4 584	2 755	1 869	5 799
LATS IN CIRCULATION	466 208	470 713	476 414	483 606	483 677	500 393	498 667	505 539	515 802	512 139	520 110	556 003
DOMESTIC LIABILITIES	153 989	215 369	147 177	140 306	159 385	202 572	160 511	155 016	168 833	186 680	309 963	226 374
Balances due to credit institutions	57 528	132 523	71 601	59 139	80 756	85 366	61 404	65 479	61 291	82 960	112 378	82 433
Balances due to the Government	80 110	63 454	56 589	57 435	52 045	90 513	64 287	58 205	70 726	67 958	160 832	119 587
Balances due to other financial institutions	3 904	3 861	3 868	7 436	7 400	3 875	4 574	8 029	7 668	4 307	3 932	3 441
Other domestic liabilities	12 447	15 531	15 119	16 296	19 184	22 818	30 246	23 303	29 148	31 455	32 821	20 913
CAPITAL AND RESERVES	61 412	60 766	62 182	59 978	58 561	58 365	59 987	61 661	62 836	65 188	62 958	74 927
Nominal capital	4 750	4 750	4 750	4 750	4 750	4 750	4 750	4 750	4 750	4 750	4 750	10 100
Reserve capital	3 297	3 297	3 297	3 297	3 297	3 297	3 297	3 297	3 297	3 297	3 297	5 512
Other reserves	32 497	32 497	32 497	32 497	32 497	32 497	32 497	32 497	32 497	32 497	32 497	38 224
Valuation account ¹	20 345	19 699	21 115	18 911	17 494	17 298	18 920	20 594	21 769	24 120	21 890	20 567
European Union grant	523	523	523	523	523	523	523	523	523	524	524	524
TOTAL LIABILITIES, CAPITAL AND RESERVES	804 872	869 261	809 506	811 492	826 174	885 412	840 362	842 873	870 084	884 792	1 012 930	979 610

¹ Restated in accordance with the Latvian government securities valuation policy, which was revised in December 2001, to include the result arising after revaluing Latvian government securities.

² Accrued interest income on Latvian government securities, which were included under the caption "Other domestic assets" in the previously published balance sheets for January–November 2001, is reported under the caption "Government securities" in accordance with the Latvian government securities valuation policy, which was revised in December 2001.

THE BANK OF LATVIA'S YEAR-END BALANCE SHEETS FOR THE YEARS 1997–2001

(in thousands of lats)

	1997	1998	1999	2000	2001
FOREIGN ASSETS	572 038	576 205	656 304	669 551	881 489
Gold	43 147 ¹	40 651	42 215	41 917	44 443
Special Drawing Rights	1 201	165	1 788	3	54
Convertible foreign currencies	447 318 ²	455 729	506 582	521 512	732 799
International Monetary Fund	72 929	72 929	101 144	101 144	101 144
Shares in the BIS	1 010 ³	951	988	983	1 043
Non-convertible currencies	1 364	346	276	–	–
Other foreign assets	5 069 ^{4, 5}	5 434 ⁵	3 311	3 992	2 006
DOMESTIC ASSETS	115 074	166 112	165 181	143 859	98 121
Loans to credit institutions	7 551	52 040	63 322	42 530	18 833
Transit credits	59 394	54 344	50 110	23 835	18 612
Government securities	40 998	49 416	30 387 ^{6, 7}	51 725 ^{6, 7}	24 715
Investment in associate	–	–	4 726	–	–
Fixed assets	6 274	9 243	15 117	22 657	32 819
Other domestic assets	857	1 069 ⁵	1 519 ^{7, 8}	3 117 ⁷	3 142
TOTAL ASSETS	687 112	742 317	821 485	813 410	979 610
FOREIGN LIABILITIES	127 015	110 784	134 653	129 053	122 306
International Monetary Fund	124 134	109 418	128 699	122 014	116 012
Foreign bank deposits in lats	251	250	321	158	454
Non-convertible currencies	231	53	42	42	41
Other foreign liabilities	2 399 ⁵	1 063 ⁵	5 591	6 839	5 799
LATS IN CIRCULATION	359 353	374 448	426 101	482 314	556 003
DOMESTIC LIABILITIES	155 153	202 601	214 333	140 723	226 374
Balances due to credit institutions	80 531	95 669	95 765	80 453	82 433
Balances due to the Government	69 689 ⁹	101 639	110 278	45 926	119 587
Balances due to other financial institutions	1 857	1 336	4 341	3 950	3 441
Other domestic liabilities	3 076	3 957 ⁵	3 949	10 394	20 913
CAPITAL AND RESERVES	45 591	54 484	46 398	61 320	74 927
Nominal capital	4 455	4 750	4 750	4 750	10 100
Reserve capital	1 407	2 181	2 181	3 297	5 512
Other reserves	18 577	25 243	25 243	32 497	38 224
Valuation account	20 713 ^{10, 11}	21 864	13 709 ¹²	20 254 ¹²	20 567
European Union grant	439	446	515	522	524
TOTAL LIABILITIES, CAPITAL AND RESERVES	687 112	742 317	821 485	813 410	979 610

¹ Gold reserves, which were valued at LVL 175.50 per troy ounce in the financial statements for 1997, are stated at their market value, applying the current gold valuation policy retrospectively.

² Restated to include accrued interest income on foreign securities and funds held on behalf of the government, which were reported under the captions "Other assets" and "Other foreign assets" in the financial statements for 1997.

³ The value of shares, which was stated at gold equivalent (LVL 175.50 LVL per troy ounce), is stated at market value of gold, applying the current shares valuation policy retrospectively.

⁴ Restated to include accrued interest income on deposits with foreign banks and other foreign financial institutions, which was reported under the caption "Other assets" in the financial statements for 1997.

⁵ Forward contracts and currency swap arrangements are reported at their fair value, applying the current accounting policy for derivative financial instruments retrospectively.

⁶ Latvian government securities, which in the financial statements for 1999 and 2000 were reported at amortized acquisition cost, are stated at their fair value, applying the current Latvian government securities valuation policy.

⁷ Restated to include accrued interest income on Latvian government bonds, which was reported under the caption "Other domestic assets" in the financial statements for 1999 and 2000.

⁸ Restated to include intangible assets, which were reported under "Fixed assets" in the financial statements for 1999.

⁹ In the financial statements for 1997, the Government's foreign borrowings and deposits as well as humanitarian aid deposits were stated separately.

¹⁰ Restated to account for a change in the value of gold reserves and in the shares in the Bank for International Settlements as a result of retrospectively valuing gold at market rate in accordance with the current gold valuation policy.

¹¹ Restated to include the revaluation result arising after retrospectively revaluing forward contracts and currency swap arrangements in accordance with the current accounting policy for derivative financial instruments.

¹² Restated to include the revaluation result arising after retrospectively revaluing Latvian government securities in accordance with the current Latvian government securities valuation policy.

Appendix 4

**THE BANK OF LATVIA'S PROFIT AND LOSS STATEMENTS
FOR THE YEARS 1997–2001**

(in thousands of lats)

	1997	1998	1999	2000	2001
INTEREST INCOME					
Foreign operations ¹	23 063	25 473	21 771	28 075	35 985
Domestic operations	3 558	5 588	6 096	5 496	6 340
INTEREST EXPENSE					
Foreign operations ¹	1 198	363	33	55	44
Domestic operations	2 750	5 113	4 870	3 754	2 797
NET INTEREST INCOME	22 673	25 585	22 964	29 762	39 484
SPECIFIC PROVISIONS	2 658	3 000	10 748	290	–
LOSS ON DISPOSAL OF INVESTMENT IN ASSOCIATE	–	–	–	2 030	–
OTHER OPERATING INCOME	622	482	3 884	527	520
OTHER OPERATING EXPENSE	12 817	15 332	16 100	16 809	17 850
PROFIT BEFORE APPROPRIATION	7 820	7 735	–	11 160	22 154

Appendix 5

**THE BANK OF LATVIA'S EXCHANGE RATES FOR THE EURO, THE BRITISH
POUND, THE JAPANESE YEN AND THE US DOLLAR**

(LVL vs foreign currency)

2001	EUR			GBP			100 JPY			USD		
	Maximum	Average	Minimum	Maximum	Average	Minimum	Maximum	Average	Minimum	Maximum	Average	Minimum
I	0.5840	0.5765	0.5679	0.9170	0.9090	0.9010	0.5390	0.5261	0.5160	0.6190	0.6138	0.6090
II	0.5781	0.5702	0.5632	0.9060	0.8993	0.8950	0.5370	0.5319	0.5240	0.6220	0.6180	0.6130
III	0.5772	0.5691	0.5593	0.9090	0.9022	0.8930	0.5340	0.5165	0.5090	0.6310	0.6240	0.6170
IV	0.5695	0.5631	0.5578	0.9110	0.9046	0.9000	0.5170	0.5091	0.5010	0.6370	0.6305	0.6260
V	0.5630	0.5554	0.5449	0.9120	0.9036	0.8970	0.5310	0.5189	0.5090	0.6370	0.6329	0.6280
VI	0.5508	0.5460	0.5396	0.9070	0.8970	0.8800	0.5370	0.5241	0.5120	0.6430	0.6391	0.6360
VII	0.5578	0.5492	0.5402	0.9080	0.9037	0.8970	0.5180	0.5134	0.5100	0.6460	0.6395	0.6330
VIII	0.5718	0.5644	0.5562	0.9080	0.9012	0.8950	0.5200	0.5153	0.5080	0.6350	0.6280	0.6220
IX	0.5725	0.5667	0.5577	0.9170	0.9094	0.9030	0.5330	0.5234	0.5150	0.6290	0.6220	0.6180
X	0.5722	0.5668	0.5618	0.9190	0.9082	0.8980	0.5200	0.5159	0.5120	0.6310	0.6248	0.6200
XI	0.5673	0.5602	0.5565	0.9170	0.9068	0.8960	0.5220	0.5152	0.5100	0.6350	0.6302	0.6250
XII	0.5693	0.5651	0.5609	0.9240	0.9087	0.8960	0.5100	0.4997	0.4850	0.6380	0.6319	0.6300

¹ The amounts reported under the interest income caption "Foreign operations" for the period from 1997 until 2000 have been reduced by including expense on transactions with foreign debt securities, which were reported under the interest expense caption "Foreign operations" in the financial statements for 2000.

*Appendix 6***THE BANK OF LATVIA'S ORGANIZATIONAL UNITS AT THE END OF 2001****1 ACCOUNTING DEPARTMENT**

(Head of Department, Chief Accountant – Māris Kālis; Deputy Chief Accountants – Maija Kurpniece, Antonija Sileniece)

1.1 Internal Banking Operations Division (Head of Division – Anita Jakāne)

1.2 Central Accounting Division (Head of Division – Jānis Caune)

2 CASHIER'S AND MONEY OPERATIONS DEPARTMENT

(Head of Department – Uldis M. Klauss; Deputy Head of Department – Veneranda Kausa)

2.1 Cash Operations Division (Head of Division – Oskars Zaltans)

2.2 Money Operations Division (Head of Division – Alīte Grobiņa)

2.3 Coin Division (Head of Division – Maruta Brūkle)

3 CONSTRUCTION DEPARTMENT

(Head of Department – Juris Kozlovskis)

4 FOREIGN EXCHANGE DEPARTMENT

(Head of Department – Roberts L. Grava)

4.1 Payments and Settlements Division (Head of Division – Una Ruka)

4.2 Trading and Investment Division (Head of Division, Deputy Head of Department – Toms Siliņš)

4.3 External Debt Management Division (Head of Division – Agita Birka)

4.4 Analysis Division (Head of Division, Deputy Head of Department – Aigars Egle)

4.5 Risk Control Division (Head of Division – Daira Brunere)

5 FOREIGN RELATIONS DEPARTMENT

(Head of Department – Guntis Valujevs; Deputy Head of Department – Juris Kravalis)

6 GENERAL OFFICE

(Head of Department – Elvīra Kulberga)

6.1 Division for Translation and Business Travel Services (Head of Division – Gundega Vizule)

6.2 Clerical Office (Head of Clerical Office – Dace Mūrniece)

6.3 Library (Manager of Library, Deputy Head of Department – Dace Gasiņa)

7 GENERAL SERVICE DEPARTMENT

(Head of Department – Einārs Cišs)

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

7.2 Building Exploitation Division (Head of Division – Arnis Bērziņš)

7.3 Transport Division (Head of Division – Imants Vācietis)

7.4 Division of Riga Branch (Head of Division – Jānis Komisars)

8 INFORMATION SYSTEMS DEPARTMENT

(Head of Department – Harijs Ozols; Deputy Head of Department – Ivo Oditis)

8.1 System Design and Programming Division (Head of Division – Ilgvars Apinis)

8.2 System Maintenance Division (Head of Division – Edvīns Mauriņš)

8.3 System Security and Quality Assurance Division (Head of Division – Ilona Etmāne)

Appendix 6
(cont.)

8.4 Computer Network and Server Systems Division (Head of Division – Egons Bušs)

9 INTERNAL AUDITING DEPARTMENT

(Head of Department – Modris Briedis)

9.1 Bank Audit Division (Head of Division, Deputy Head of Department – Anita Hāznere)

9.2 Information Systems Audit Division (Head of Division – Juris Ziediņš)

10 LEGAL DEPARTMENT

(Head of Department – Reinis Jakovļevs; Deputy Head of Department – Bruno Mačs)

11 MONETARY POLICY DEPARTMENT

(Head of Department – Helmūts Ancāns; Deputy Heads of Department – Zoja Medvedevskiha, Ēriks Āboliņš)

11.1 Macroeconomic Analysis Division (Head of Division – Vilnis Purviņš)

11.2 Open Market Operations Division (Head of Division – Anda Kalniņa)

11.3 Financial Market Analysis Division (Head of Division – Jeļena Zubkova)

11.4 Monetary Research and Forecasting Division (Head of Division – Mārtiņš Bitāns)

12 PAYMENT SYSTEMS DEPARTMENT

(Head of Department – Egons Gailītis; Deputy Head of Department – Agnija Hāzenfuss)

12.1 Payment Systems Policy Division (Head of Division – Anda Zalmane)

12.2 Payment Systems Operations Division (Head of Division – Aigars Tatarčuks)

12.3 Account Service and Maintenance Division (Head of Division – Natālija Popova)

13 PERSONNEL DEPARTMENT

(Head of Department – Inta Lovnika; Deputy Head of Department – Vineta Veikmane)

14 PUBLIC RELATIONS DEPARTMENT

(Head of Department, Press Secretary – Edžus Vējiņš; Deputy Head of Department – Kristaps Otersons)

15 PUBLICATIONS DEPARTMENT

(Head of Department – Aina Raņķe; Deputy Head of Department – Aija Grīnfelde)

16 SECURITY DEPARTMENT

(Head of Department – Aldis Liekniņš; Deputy Head of Department – Andis Bērziņš; Chief of Staff – Igors Fleitmanis)

16.1 Daugavpils Division (Head of Division – Ilmārs Suhockis)

16.2 Liepāja Division (Head of Division – Gints Liepiņš)

16.3 Rīga Division (Head of Division – Kristaps Liepiņš)

16.4 Rēzekne Division (Head of Division – Arnis Stirna)

16.5 Valmiera Division (Head of Division – Aldis Zimmers)

*Appendix 6
(cont.)*

17 STATISTICS DEPARTMENT

(Head of Department – Agris Caune; Deputy Head of Department – Ilmārs Skarbnieks)

17.1 Banking and Monetary Statistics Division (Head of Division – Zigrīda Aušta)

17.2 Balance-of-Payments Statistics Division (Head of Division – Daiga Gaigala-Ližbovska)

17.3 Statistics Analysis Division (Head of Division – Inta Gaile)

18 RIGA BRANCH

(Branch Manager – Jānis Strēlnieks)

19 DAUGAVPILS BRANCH

(Branch Manager – Jolanda Mateša)

20 LIEPĀJA BRANCH

(Branch Manager – Gundars Lazdāns)

21 RĒZEKNE BRANCH

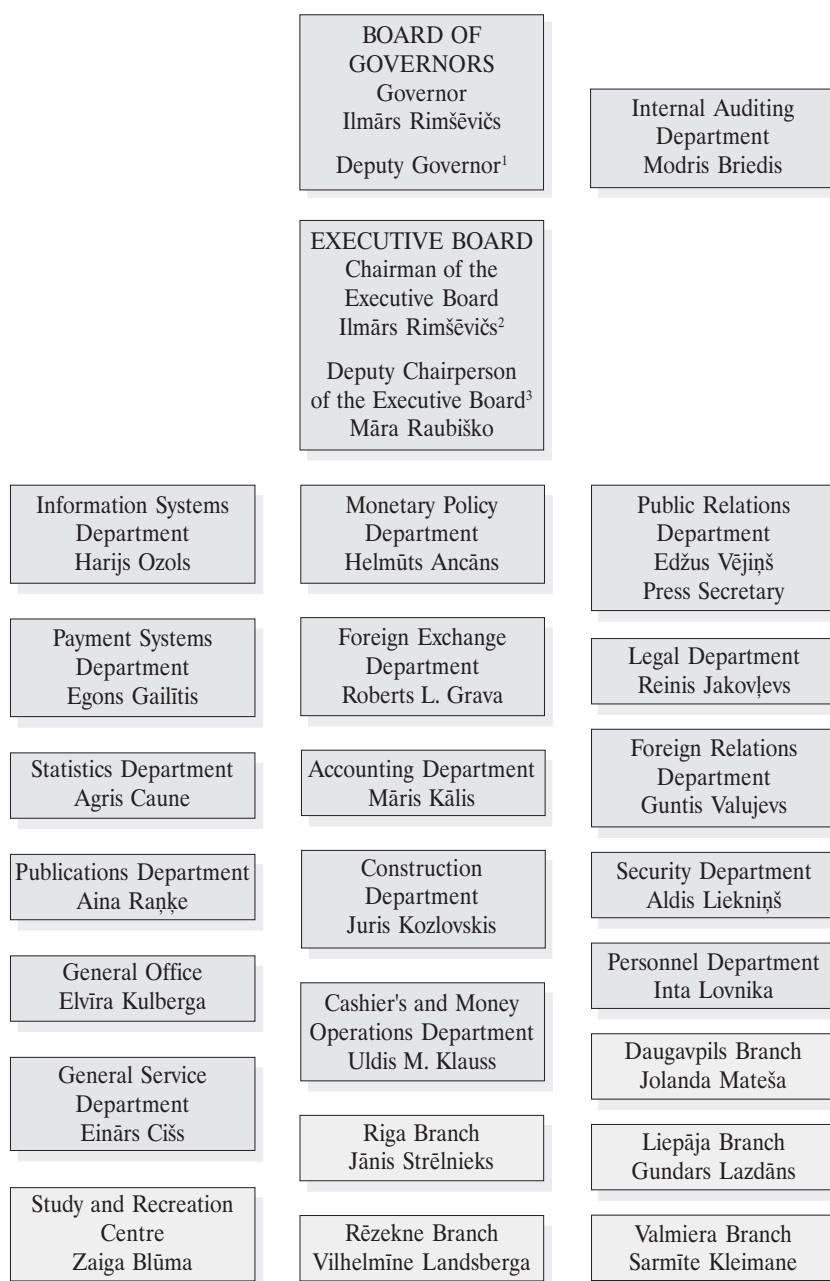
(Branch Manager – Vilhelmīne Landsberga)

22 VALMIERA BRANCH

(Branch Manager – Sarmīte Kleimane)

23 STUDY AND RECREATION CENTRE

(Director – Zaiga Blūma)



¹ Vacancy as of December 21, 2001. Mr. Andris Ruselis was appointed to the post on February 14, 2002.

² Ms. Māra Raubiško was appointed to the post on January 21, 2002.

³ Eliminated as of December 21, 2001.

Bank of Latvia: Annual Report 2001

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