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INTRODUCTION

The economic situation in Latvia during 1993 was complicated. The volume of production continued to decline in nearly all the branches of the national economy, and the level of unemployment rose.

Nevertheless, a considerable reduction in inflation should be noted as a positive development alongside with the successful completion of currency reform. This may reasonably be considered the main achievement of the monetary policy implemented by the Bank of Latvia during the reporting year.

On March 5, 1993, the national currency was renewed by placing in circulation the first Republic of Latvia national currency note, the 5 lats note. A gradual replacement of Latvian rubles by lats started simultaneously, and proceeded until June 28, 1993, when the regulation came into effect stating that all prices, tariffs and balances of accounts shall be calculated in lats. This marked the completion of the currency reform initiated in 1992.

During the fiscal year, the Bank of Latvia looked for new monetary instruments and improved its existing ones. The Bank also activated its participation in the foreign exchange market.

If people do not trust the existing currency, they avoid it by either buying goods or obtaining foreign currency, thus often causing inflation and devaluation of the national currency. But inflation in 1993 was not the result of avoiding the local currency. It was mainly caused by the rapid growth in prices for imported goods, an increase in tax payments as well as seasonal factors at the end of the year. People trusted in lats from the very beginning, and their trust became even stronger over the course of time. The amount of foreign exchange purchased by the Bank of Latvia exceeded the amount sold; the exchange value of lats grew considerably in the currency market.

In 1993, the Bank Privatization Fund of Latvia performed both the separation and privatization of the former Bank of Latvia commercial branches. The number of newly licensed commercial banks was lower than in previous years. This may be explained by the increased competition among the commercial banks, higher regulatory requirements on banks, as well as the intensified supervision by the Bank of Latvia.

One of the main objectives was to make the supervision of credit institutions more efficient by auditing not only the accuracy of the financial statements, but also the compliance with the prudential requirements set by the Bank of Latvia.

The Bank of Latvia continued its cooperation with the IMF, the World Bank, other international financial institutions, and foreign central banks.

The above is only a short survey of the activity of the Bank of Latvia in 1993. The following chapters give more detailed information. The monetary policy results discussed in this Annual Report are based on monetary and banking statistics compiled by the Bank of Latvia. The economic conditions in Latvia are analyzed using information supplied by the Republic of Latvia State Committee of Statistics.

THE BANK OF LATVIA MONETARY POLICY AND ECONOMIC CONDITIONS IN THE REPUBLIC OF LATVIA INFLATION AND PRICES

In 1993, the main objective of the monetary policy pursued by the Bank of Latvia was to ensure a low rate of inflation and a stable exchange rate for the national currency.

The consumer price index in 1993 was relatively low – 134.9%, compared to 1992 when it was 1 058.6%. The average monthly rate of inflation was only 1.5% during the first nine months of 1993. However, during the last quarter of 1993, the rate grew to 6.2% monthly. The growth may be explained by the increase in the turnover tax and the excise tax, seasonal price fluctuations and measures taken to protect the domestic market. Therefore, the average growth of consumer prices was 2.9% per month in 1993 (see Chart 1). With the average salary index in 1993 at 161.6%, the actual purchasing power of individuals rose by 19.8% (see Chart 2). The rate of increase in prices was slower, reflecting an overall decrease in demand.

Food items formed the largest percentage (54.37%) of the basket of goods and services used as the basis for calculating the consumer price index. Prices for this group of goods increased by 36.6% during the year.

In 1993, the largest price increases were in recreation and education (the price index was 180.2%) as well as goods and services for personal needs (174.4%); the lowest price increase was in transport (109.9%), and alcohol and tobacco (113.8%).

Compared to December 1992, the producer price index was 136.3% in December of 1993, and there were no significant differences from the consumer price index. The producer price index was 320.8% in 1993 when compared to 1992; the major price increases were in the supply of electricity, steam and hot water (690.0%), and peat extraction (517.6%). The least increases were in the production of radio and communication equipment (150.6%), and the production of chemicals (153.6%).

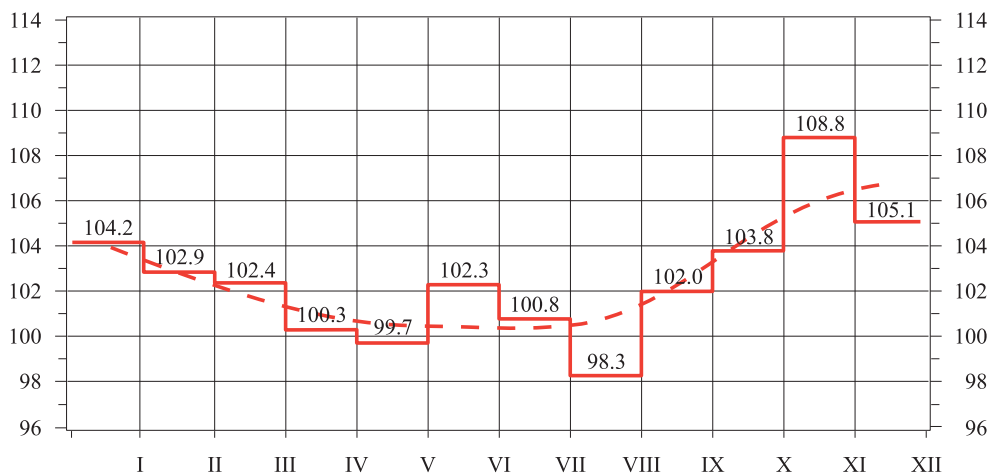
The main reason for the growing producer price index was that raw materials and semi-finished goods, both imported and local, became more expensive. It should be noted that the inflation was imported with the imported goods (mainly from the CIS suppliers).

DEVELOPMENT OF THE NATIONAL ECONOMY

Gross domestic product (GDP) at constant prices continuously declined. By the end of the reporting year, it was 80.1% of the previous year's level. When we examine different categories and in comparison with 1992, the highest level of GDP (i.e., the smallest percentage decrease) was reached for services (89.5%), supply of electricity, water and gas (89.0%), but the lowest – for construction (50.2%) and the mining industry (50.0%).

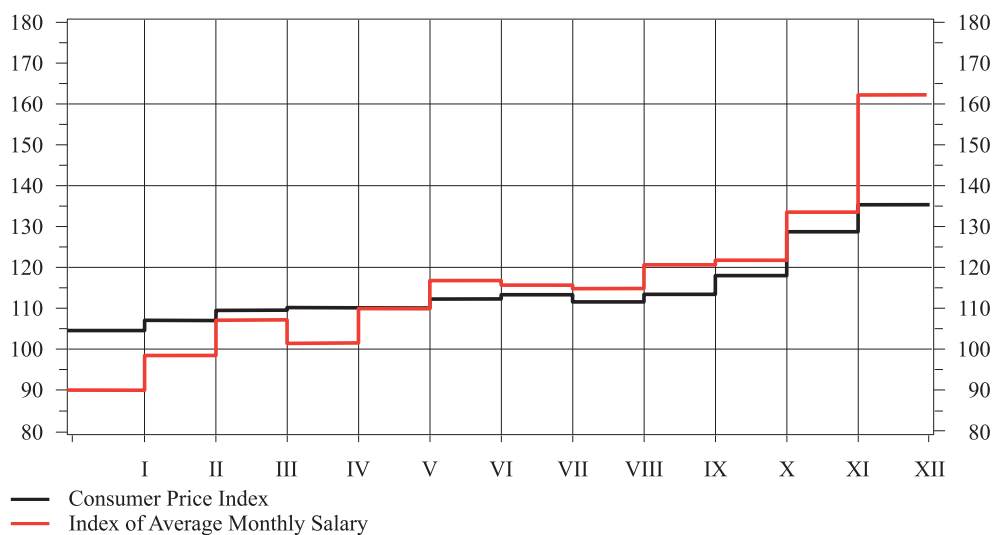
The previous year's level remained unattained in agriculture as well; GDP reached 85.9% of that level. Production of the major products in the livestock and animal husbandry sector decreased by 24.2% for meat, 17.6% for dairy products, and 35.0% for eggs.

Chart 1. Consumer Price Index in 1993 (month-on-month basis)
(%)



Source: the Republic of Latvia State Committee of Statistics.

Chart 2. Consumer Price Index, and Index of Average Monthly Salary in the Public Sector in 1993 (compared to December 1992)
(%)



Source: the Republic of Latvia State Committee of Statistics.

Industrial output in terms of constant prices decreased by 38.1%. When we examine the growth in industrial output per month, the decline had apparently leveled out in the period from September until November, but decreased again by 6% in December compared to November.

As a result of inflation, nominal GDP increased by 44.7%. The growth in prices mainly influenced GDP in supply of electricity, gas and water, fishing and construction, but it affected agriculture the least.

At the end of 1993, 76 700 unemployed persons were registered in Latvia, which was 5.8% of the employable population. The number of persons out of work grew approximately 2.5 times. Slightly more than 25 000 people (32.9% of all unemployed) have been out of work for more than 6 months. 53.2% of all unemployed were women.

During the first half-year, the number of unemployed grew rapidly. In the first seven months of 1993 it was on average 14.1% monthly, in August–October the number remained steady, and started growing again by 2.9% in November, and by 2.3% in December.

BALANCE OF PAYMENTS

The foreign trade turnover of the Republic of Latvia reached 1 349 million lats (2 267 million US dollars) in 1993. Total trade, thus, increased by 20.4% compared to the previous year. The foreign trade balance was positive – 54.1 million lats or 2.5% of GDP in 1993 (see Table 1).

Table 1. Foreign Trade in 1992 and 1993, incl. Re-export and Re-import

	(in million lats)	
	1992	1993
Exports	576.9	701.6
Imports	543.3	647.5
Balance	33.6	54.1

Source: the Republic of Latvia State Committee of Statistics.

The major partners for imports were the CIS countries (38% of total imports; the number was the same in 1992) and the European Union (17% vs 22% in 1992). The major partners for exports were the CIS countries (48% vs 45% in 1992) and the European Union (25% vs 28% in 1992). The largest trade turnover was with Russia, Germany, Lithuania and Sweden.

Latvia mainly imported mineral fuel (43% of imports), road vehicles (9%), mechanical appliances and equipment (7%), food products (6%) and textiles (5%).

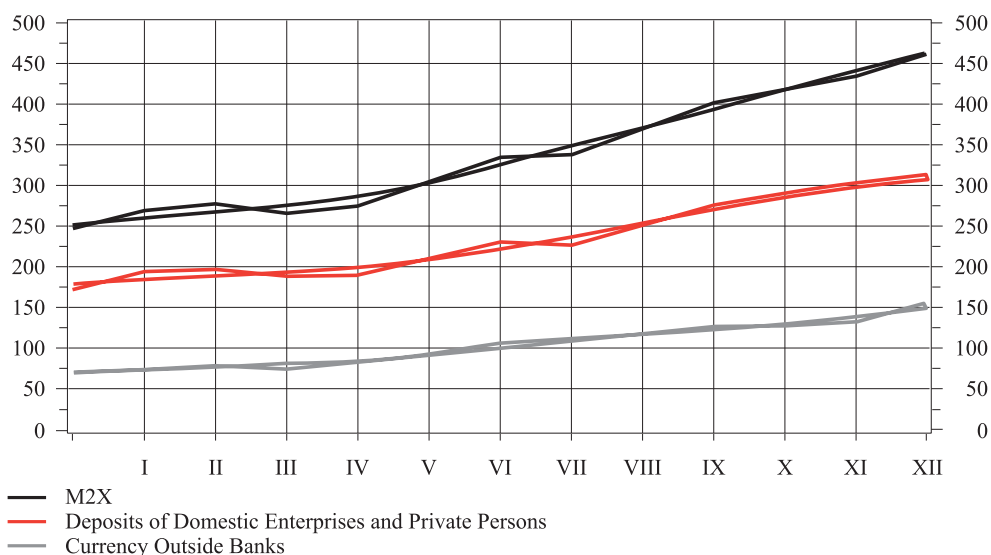
Exports mainly included food products (15%), textiles (13%), road vehicles (11%), pulp and wood products (9%). The analyses of export structure show that exports still largely consisted of goods not produced in Latvia (e.g., mineral fuel comprised 13% of all goods exported).

MONEY SUPPLY

Money supply M2X¹ grew by 192.6 million lats, or 6.5% on average per month, reaching 462.4 million lats at the end of the year (see Chart 3). Monetary indicators of Latvian banking system and the Bank of Latvia are presented in Annex 1 of the Annual Report.

Chart 3. Currency Outside Banks and Deposits of Domestic Enterprises and Private Persons in National and Foreign Currencies (M2X) in 1993

(in million lats)



The structure of M2X changed considerably during the reporting year. The high level of interest rates caused a rapid increase in time deposits, especially those with maturity of one year and more. In the first months of 1993, the time deposit index (time deposits vs demand deposits) was 0.158, but it reached 0.759 by the end of the year.

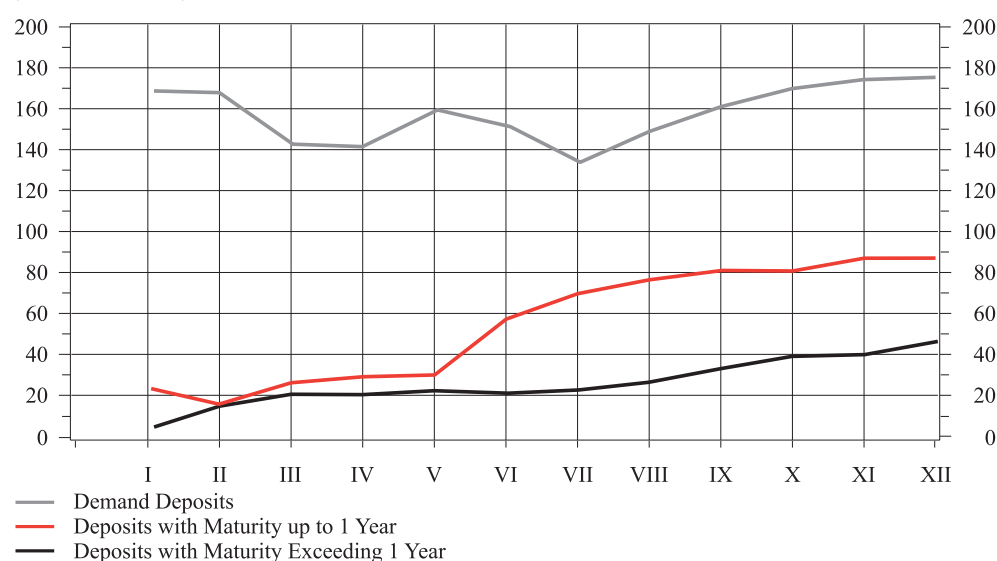
In general, deposits increased 1.6 times or 5.3% per month on average. Long-term deposits grew 11.9 times or 99.3% per month on average. Long-term deposits as a percent of total deposits increased from 1.9% in January to 15.0% in December. The growth in demand deposits was 4.4% per year or 0.4% per month, their share in total deposits changed from 86.4% to 56.8% (see Chart 4).

¹ M2X is currency in circulation minus vault cash of banks plus deposits of domestic enterprises and private persons in national and foreign currencies.

Time deposits of private persons grew from 15.9 million lats in January to 117.9 million lats at the end of 1993; at the same time, time deposits of enterprises increased from 10.7 million to 15.7 million lats.

Chart 4. Deposits of Domestic Enterprises and Private Persons (in National and Foreign Currencies) with Commercial Banks in 1993 (at the end of the month)

(in million lats)



Deposits in lats dominated the structure of time deposits. Total deposits held in foreign currencies increased from 96.1 million to 125.5 million lats. Nevertheless, foreign currency deposits decreased from 49.2% to 40.5% of total deposits, and from 78.3% to 47.6% of quasi-money¹. This illustrates that the confidence of people in both the national currency and the national banking system was growing.

The increase in currency (excluding vault cash of banks) within M2X by 9.0% on average per month, was lower than the overall increase in currency issued by the Bank of Latvia; in 1993, the amount of issued currency reached 10.9% per month. The amount of this difference equalled the amount by which vault cash of banks increased during the reporting year. The amount of currency issued by the Bank of Latvia increased 2.3 times: currency in circulation (excluding vault cash) grew 2.1 times, lats in vaults of banks grew 6.4 times. This brought the increased share of cash balances within total currency from 8.6% in January–February to 14.7% in December (on average, commercial banks stored in vaults 10.8% of currency in circulation). Vault cash balances increased by 45.3% on average per month.

¹ Quasi-money is time deposits of domestic enterprises and private persons in lats plus all deposits of domestic enterprises and private persons in foreign currency.

The stability of the monetary system, the liberal policy regarding foreign currency, and the development of the private sector promoted a rapid inflow of convertible currencies into Latvia. The demand for lats in exchange for foreign currency remained high throughout the year. The inflow of foreign currencies was affected by the limitation of foreign currency circulation in Russia and some other countries.

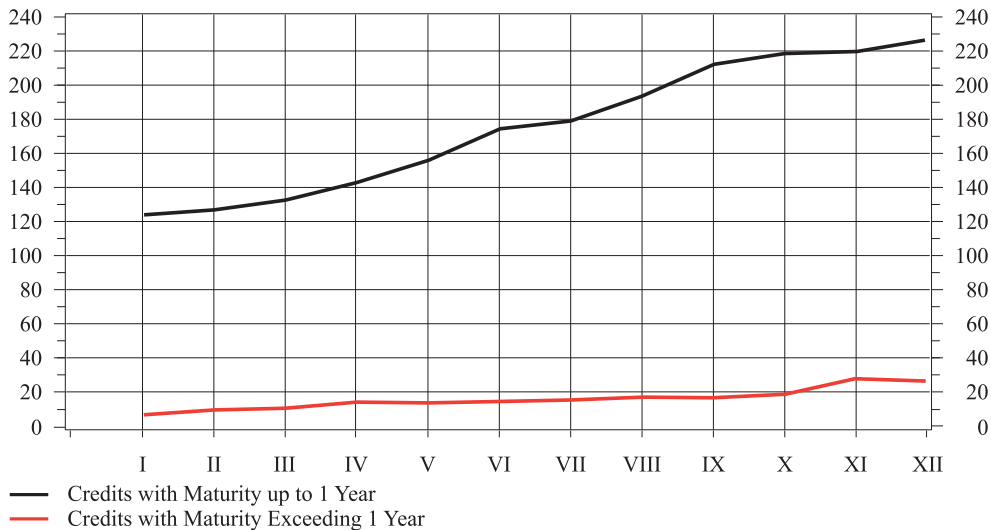
During the reporting year, the net foreign assets of Latvian banks increased by 118.3 million lats. The amount of foreign currency purchased by the Bank of Latvia and the gold reserves grew by 172.0 million lats.

Non-resident enterprises and private persons ensured an increased inflow of foreign currency into bank deposits during the year. Nevertheless, this amount was moderate (20%) when compared to resident deposits in foreign currency.

Credits granted by banks to enterprises doubled within domestic assets from 124.0 million lats at the end of January to 251.7 million lats at the end of December. Credits granted to private persons increased nearly 4 times from 4.6 million lats to 17.4 million lats during the same period. Long-term credits grew slowly during 1993. At the end of 1993, short-term credits amounted to 89.6% (95.9% in January), but long-term credits amounted to 10.4% (4.1%) of total credits (see Chart 5).

Chart 5. Credits Extended by Commercial Banks to Domestic Enterprises and Private Persons in National and Foreign Currencies (at the end of the month)

(in million lats)



In 1993, government financing from domestic banks fell from 15.5 million lats (net) at the end of January to 0.9 million lats (net) at the end of December. The Government of Latvia supported the tight monetary policy initiated by the Bank of

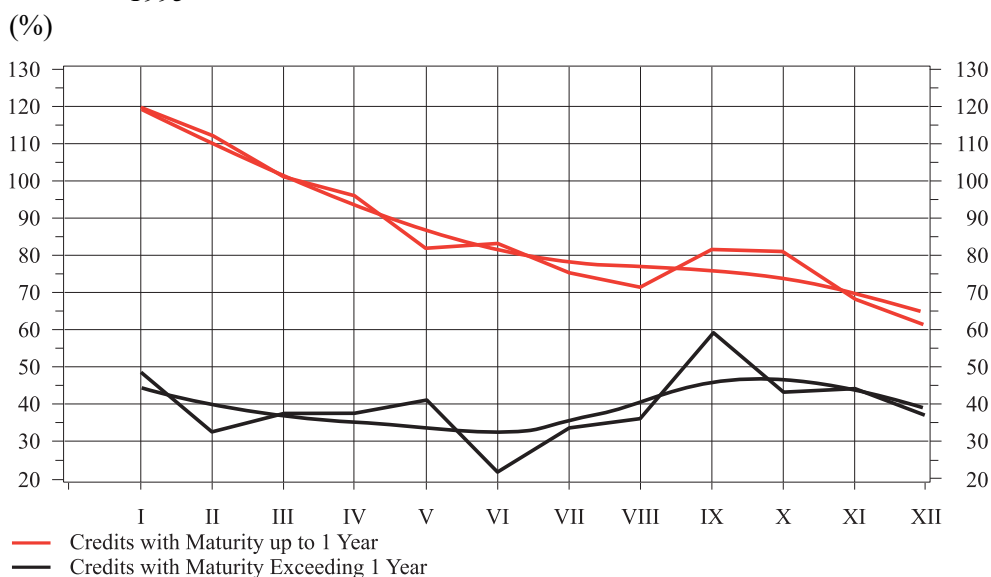
Latvia, and used very little of the credit line provided by the Bank. The Government looked for other possibilities to finance the budget. Consequently, the turnover tax and the excise tax were increased in November 1993, and Treasury bills were issued in December.

After the tax increases, only a small amount of the credit line at the Bank of Latvia was used, causing a change in demand for credit from the government sector to the enterprise sector.

INTEREST RATES

There was a slow though definite reduction in interest rates charged by commercial banks on credits during 1993. With inflation falling, the Bank of Latvia cut its refinancing rate eight times during the reporting year – from 120% at the beginning of the year to 27% in October. Commercial banks followed this reduction much more slowly, keeping interest rates on short-term credits quite high (see Chart 6).

Chart 6. Average Weighted Interest Rates on Credits in National Currency Granted by Commercial Banks to Domestic Enterprises and Private Persons in 1993



Interbank rates charged on short-term credits were lower than rates on credits granted to enterprises and private persons, ranging from 45% to 60% per year. Since commercial banks rarely offered long-term credits and the amount of such credits was not large, the interest rates on such credits fluctuated between 30%–45% on average per year.

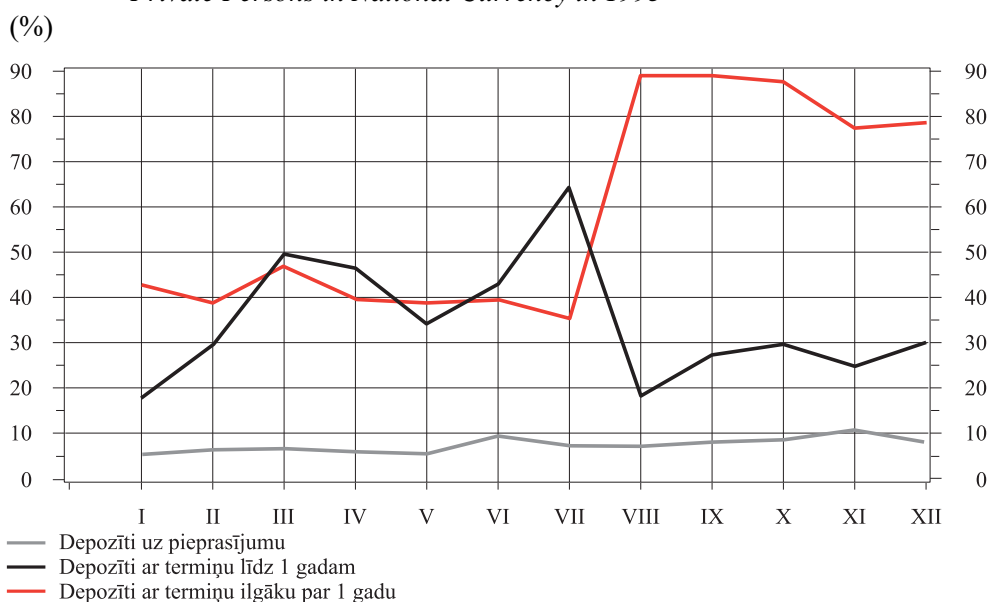
Annual interest rates on credits to enterprises and private persons were generally above 100% at the beginning of the year; they were around 80% during the third quarter, and fell to 60%–70% on average toward the end of the year. The high interest rates on credits imposed by commercial banks may be explained by the very high levels of risk incurred due to economic instability in the commercial sector, as well as the high interest levied by already signed deposit agreements. The range of interest margins imposed by various commercial banks was extremely wide, sometimes from 6% to 360%.

The average interest rates on short-term credits granted in foreign currencies were between 50% and 100%. There were no signs of the rates falling significantly.

During the first half of the reporting year, the interest incurred on credits granted in foreign currencies was lower than the interest on credits in lats; the difference evened out towards the end of the year, even tending to higher interest rates on credits in foreign currencies.

At first, the average weighted interest on short-term deposits in lats (with maturity up to 1 year) increased considerably (from 18% in January to 64% in July), later decreasing, and tending to stabilize within the average annual inflation limits 25%–33% (see Chart 7).

Chart 7. Average Weighted Interest Rates on Deposits of Domestic Enterprises and Private Persons in National Currency in 1993



In the first half-year, the rate of interest on long-term deposits (with maturity over 1 year) did not differ much from the rate of interest on short-term deposits, but it grew rapidly to 87%–89% in the period from August until October, decreasing again to 77%–78% in November–December. Therefore, the rate of interest on long-term deposits considerably exceeded the rate of inflation in the country.

High interest rates on deposits led to an increase in the amount of deposits and growth in the M2X indicator in the second half-year of 1993.

The average interest rates on demand deposits in lats were significantly lower, fluctuating between 5% and 10%.

The rate of interest on deposits in foreign currencies was relatively stable and lower than the rate of interest on deposits in lats. In 1993, the rate of interest on demand deposits in foreign currency fluctuated between 2.2% and 3.3%, on short-term deposits it was between 16.8% and 29.1%, and between 13.2% and 30.6% on long-term deposits.

REQUIRED RESERVES

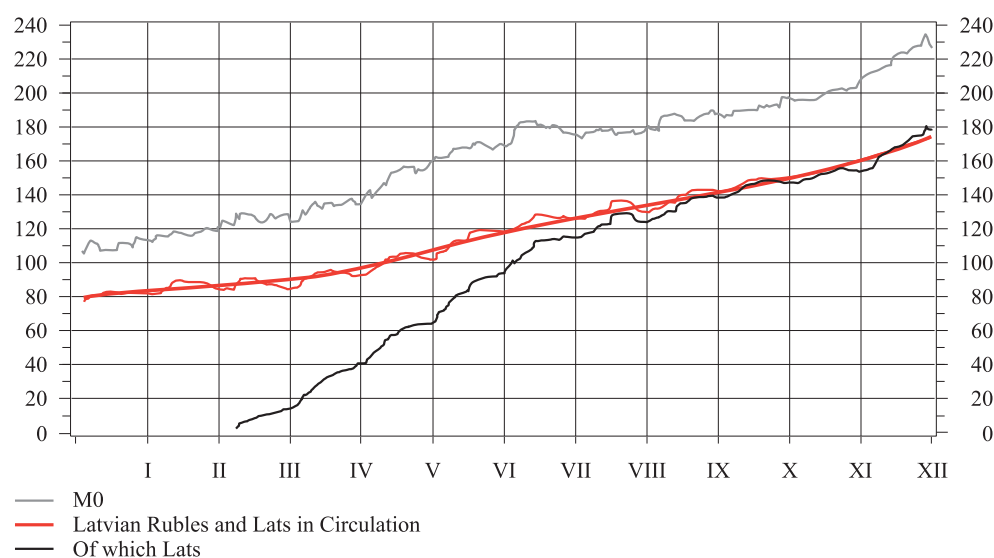
On August 15, 1993, the Bank of Latvia altered the procedure for the commercial banks' calculation of the required reserve; a decision was passed that commercial banks must keep the 8% average of total deposits of all kinds and maturities (after this amount is reduced by the average balances in the form of vault cash in lats) as required reserves in their accounts with the Bank of Latvia. At the end of 1993, the holdings of commercial banks with the Bank of Latvia constituted 51.4 million lats, thus exceeding by 3.6 times the amount held with the Bank of Latvia at the beginning of the year.

RESERVE MONEY

The reserve money M0¹ increased by 117.1 million lats, reaching 224.9 million lats at the end of the year (see Chart 8).

Chart 8. Latvian Rubles and Lats in Circulation, and Deposits of Banks in National Currency with the Bank of Latvia (M0) in 1993

(in million lats)



¹ M0 is currency in circulation plus deposits of banks with the Bank of Latvia.

The monthly growth rates of the reserve money varied from 0.7% in August to 17.7% in May. The average monthly growth rate of M0 was 9.1%, thus exceeding the average monthly increase in M2X, which was 6.5%. During the third quarter, as the deposits of enterprises and private persons grew most rapidly, M2X increased more rapidly than M0; on average, it was respectively 6.5% and 3.3% per month.

The structure of the reserve money indicated the increase in the share of currency (from 71.9% at the beginning of the reporting year to 79.6% at the end of the year), and the corresponding decrease in the share of bank deposits.

The main reason for money demand was the necessity to convert foreign currency into lats. The Bank of Latvia's foreign reserves grew from 61.5 million to 233.6 million lats or 3.8 times, though the rate of growth diminished somewhat during the second half-year.

The average monthly growth rate of net foreign reserves was 28.9% in the first half-year, slowing down to 6.5% monthly on average during the second half-year, though significant purchases of currency still continued. The seeming loss in value of foreign assets was due to the increase in the relative exchange value of lats as the Bank of Latvia currency resources were re-valued on regular basis at market rates.

As the Bank of Latvia's foreign reserves increased, credits granted to commercial banks were reduced from 53.2 million to 13.3 million lats, or by about 4 times.

The Bank of Latvia closely monitored the loans previously extended to its former branches. Repayment agreements were signed at the beginning of 1993. Those agreements envisaged complete repayment of the loans by April 1, 1994 (see Table 2 and Chart 9).

Table 2. Credits Granted by the Bank of Latvia to Commercial Banks in 1992 and 1993 (average monthly balances)
(in million lats)

Months	1992	1993	of which in 1993	
			credits in auctions	lombard credits
January	13.4	51.9	x	x
February	17.6	46.4	x	x
March	20.4	40.6	x	x
April	20.4	38.0	x	x
May	21.3	37.2	x	x
June	28.3	32.5	x	x
July	39.2	27.2	x	x
August	48.3	18.6	x	x
September	46.0	11.3	x	x
October	47.6	8.9	x	x
November	51.8	6.8	0.1	0.2
December	55.7	6.3	0.7	0

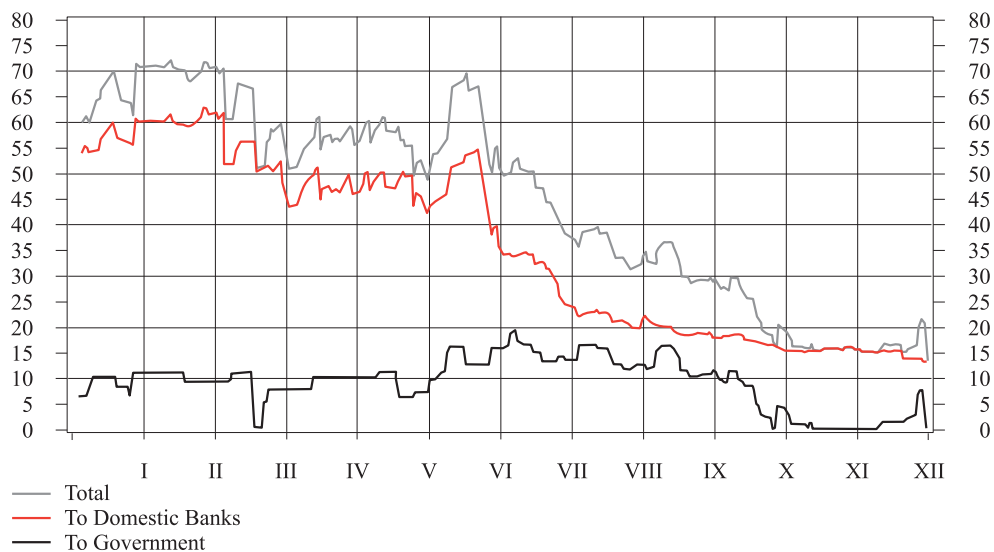
At the end of 1993, interest-free credits comprised 54.2% (7.2 million lats) of total refinancing credits; they had been granted in 1992 to the former Bank of Latvia branches for the purchase of grain. According to the guarantee issued by the Government, their repayment was extended until July 1, 1994.

The Bank of Latvia initiated credit auctions and granted liquidity credits to commercial banks. Following temporary provisions passed by the Bank of Latvia Board, two credit auctions were organized in November to sell credits with a repayment period up to 60 days, in the total amount of 0.7 million lats. The average weighted price of credits was 60.0% per year in the first auction, but it was reduced to 35.8% per year in the second auction. The first liquidity credit of 0.4 million lats was given in November.

When signing loan agreements with commercial banks, the Bank of Latvia followed the refinancing limits set for the commercial banks as well as the performance of the repayment terms for loans already granted.

Chart 9. Domestic Credits Granted by the Bank of Latvia in 1993 (at the end of the month)

(in million lats)



SECURITIES MARKET

The first Government securities of the renewed Republic of Latvia were issued in 1993. The Republic of Latvia Ministry of Finance (Treasury) passed a decision on issuing the securities, but the Bank of Latvia organized the auctions of Government securities and carried out the accounting as the financial agent of the Government. All Latvian commercial banks could participate in the auction, and nonbanks were allowed to act in the secondary market. The bills were issued with maturity of 28 days with a minimum nominal value of 100 000 lats. The first auction of Treasury bills took place on December 15, 1993; during this auction, four commercial banks purchased bills for the amount of 1.6 million lats, and the average annual discount rate of 24.47%.

TRANSITION FROM LATVIAN RUBLE TO LATS

The currency reform, initiated in 1992, was continued in the reporting year. The transition to a permanent national currency was gradual, and there were no restrictions on the exchange of the old money for the new.

On February 12, 1993, the Republic of Latvia Currency Reform Committee passed a Resolution "On Issuing the 5 Lats Note". This marked the gradual introduction of lats into circulation, with the conversion of 1 lats for 200 Latvian rubles. The first 5 lats notes were put into circulation on March 5, 1993. Simultaneously, the withdrawal of notes of the denomination 500 Latvian rubles was started.

On March 16, 1993, the Currency Reform Committee passed a Resolution "On Issuing the 50 Santims, 1 Lats and 2 Lats Coins". According to this Resolution, the Bank of Latvia initiated the emission of the 1 lats coin on March 25, the 2 lats coin on April 15, and the 50 santims coin on April 22. Notes of 200 Latvian rubles were gradually withdrawn starting March 25.

On May 27, 1993, the Currency Reform Committee passed a Resolution "On Transition to Lats", according to which all other notes of denominations 10, 20, 50¹, 100¹ and 500 lats, and coins of denominations 1, 2, 5, 10 and 20 santims will gradually be introduced in circulation starting June 28, 1993. Coins of all santims denominations and notes of 10 and 20 lats were introduced into circulation on June 28, 1993. The notes of Latvian rubles were still preserved in circulation, but prices, tariffs, and account balances were calculated in lats starting June 28, 1993, according to the rate 1 LVL = 200 LVR. The same resolution prohibited displaying prices for goods and services in foreign currencies.

On May 27, 1993, one more Resolution was passed – "On Settling All Payments of Taxes, Duties and Non-Taxes in Lats and Santims". According to this Resolution, starting July 1, 1993, all payments into the budget shall be performed only in lats and santims, and in foreign currency only with a special permit issued by the Council of Ministers.

On September 14, 1993, the Bank of Latvia issued a Regulation "On Complete Withdrawal of Latvian Rubles". According to this Regulation, Latvian ruble ceased to be legal tender starting October 18, but the exchange of Latvian rubles for lats will not be restricted after the date mentioned until Latvian rubles will be completely withdrawn.

FISCAL POLICY

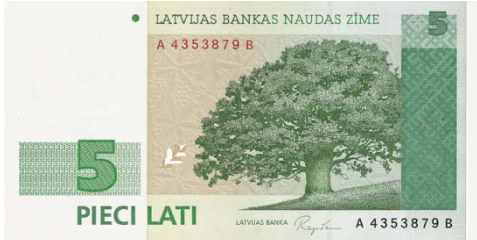
The results of fiscal policy appeared to be more successful than forecasts at the beginning of 1993. The budget deficit had been projected at 30 million lats (about 1.5% of GDP), but in fact there was a small surplus at the end of the year.

Taxes formed the major part of budget revenue; namely, 92.1%. The profit tax and the social tax constituted more than half of tax revenue.

¹ Introduced on May 2, 1994.



Coins of Santims and Lats in Circulation



Bank Notes of Lats in Circulation.



Bank Notes of Lats in Circulation.



The Commemorative Coins for the 75th Anniversary of the Republic of Latvia.

In 1993, the share of indirect taxes (the turnover tax and the excise tax) grew within the budget revenue. The percentage of the turnover tax in the revenue was 19%. The share of taxes levied on consumption increased.

State enterprises were both the major tax payers and the major debtors to the budget. The debts of enterprises (excluding arrears of the social tax) increased from 17.9 million lats in January to 26.0 million lats in August, decreasing during the last four months of the reporting year, and reaching 22.6 million lats in December. Enterprise debts are closely connected to the disintegration of economic interrelations among enterprises, large mutual debts, and devaluation of non-convertible currencies.

According to the Law "On the Bank of Latvia", the central bank has the right to grant short-term credits to the Government, but these credits may not exceed 1/12 of the budget revenue for the current year. The Republic of Latvia Ministry of Finance made use of these rights in the reporting year. It should be pointed out that the Government utilized a smaller amount of its credit line starting October, when budget revenue gradually increased.

69.0% of budget expenditure was for financing social and cultural activities (out of those, 60.7% – payments of pension and benefits, 20.8% – spending for education, 9.8% – spending for health protection), 9.0% – for maintaining institutions protecting the rights of people and institutions of defense.

FOREIGN EXCHANGE MARKET IN THE REPUBLIC OF LATVIA

In 1993, the Bank of Latvia freely bought and sold convertible foreign currencies in non-cash transactions; these were mainly US dollars, German marks, Great Britain pounds, French francs, Japanese yen, and Estonian kroon. Most of the trading took place with currencies of the USA and Germany.

1993 was characterized by a rapid inflow of convertible currencies to Latvia. The Bank of Latvia purchased 272.2 million US dollars more than it sold (see Chart 10), while in 1992 the Bank had bought only 20.9 million US dollars more than it had sold.

Considering the possibility that the growing exchange value of lats can negatively affect exports, the Bank of Latvia did not let the value of lats appreciate rapidly, thus ensuring stability in the currency market. On December 30, 1993, the buying rate of the US dollar was 0.5919 lats (0.835 lats at the end of 1992), but the selling rate was 0.5954 lats. As to the German mark, the buying rate was 0.3471 lats (0.5090 lats at the end of 1992), and the selling rate was 0.3492 lats (see Chart 11). Table 3 contains data on buying/selling rates of separate foreign currencies.

Chart 10. Net Convertible Currency Purchased by the Bank of Latvia (cumulative from the beginning of the year)

(in million USD)

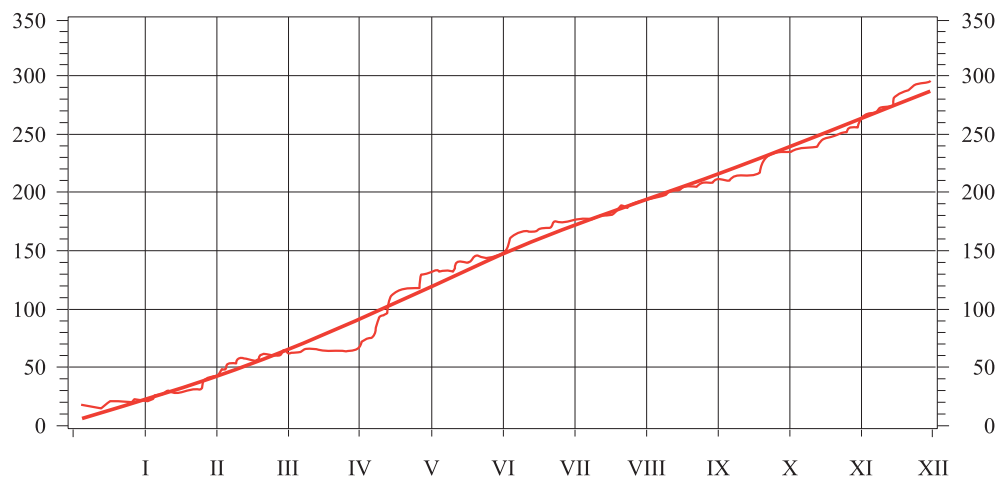
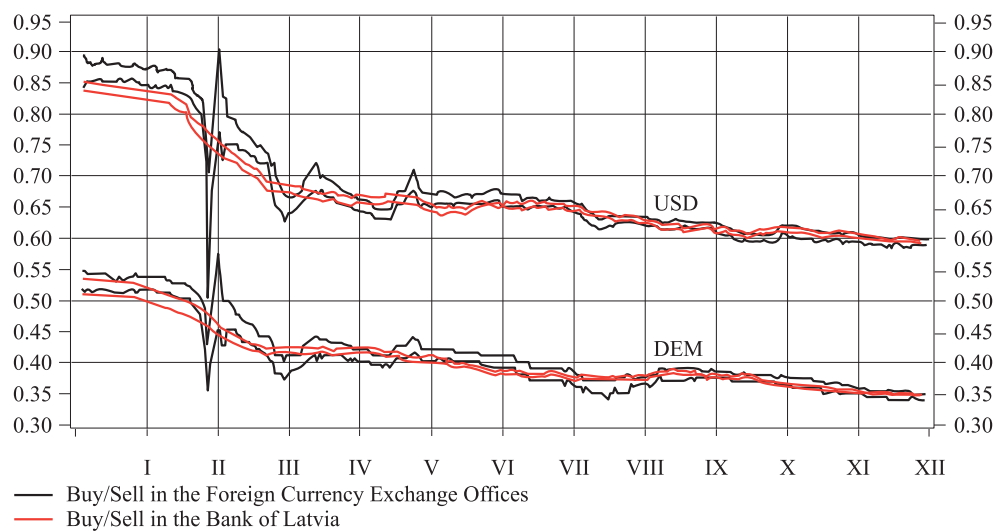


Chart 11. The Buying/Selling Rates of the US Dollar and the German Mark in 1993

(in lats)



Until May 1993, the Bank of Latvia had determined the buying/selling rate for foreign convertible currencies on a weekly basis. Starting May, these rates were determined daily.

Table 3. The Buying/Selling Rates of Separate Foreign Currencies Set by the Bank of Latvia in 1993 (at the end of the month)

	US dollar		German mark		GB pound	
	buy	sell	buy	sell	buy	sell
Rate in Latvian Rubles						
January	165.00	168.00	103.20	107.96	249.82	261.33
February	149.00	154.00	91.38	95.59	214.28	224.15
March	134.67	137.39	82.53	84.53	198.62	204.67
April	131.37	133.76	82.65	84.23	206.70	210.88
May	128.58	130.91	80.19	81.73	200.00	204.04
Rate in Lats						
June	0.6472	0.6553	0.3817	0.3865	0.9681	0.9794
July	0.6421	0.6498	0.3737	0.3782	0.9584	0.9710
August	0.6234	0.6309	0.3742	0.3787	0.9322	0.9443
September	0.6068	0.6141	0.3765	0.3810	0.9189	0.9310
October	0.6107	0.6180	0.3635	0.3679	0.9036	0.9155
November	0.6021	0.6093	0.3509	0.3551	0.8900	0.9017
December	0.5919	0.5954	0.3471	0.3492	0.8902	0.8955

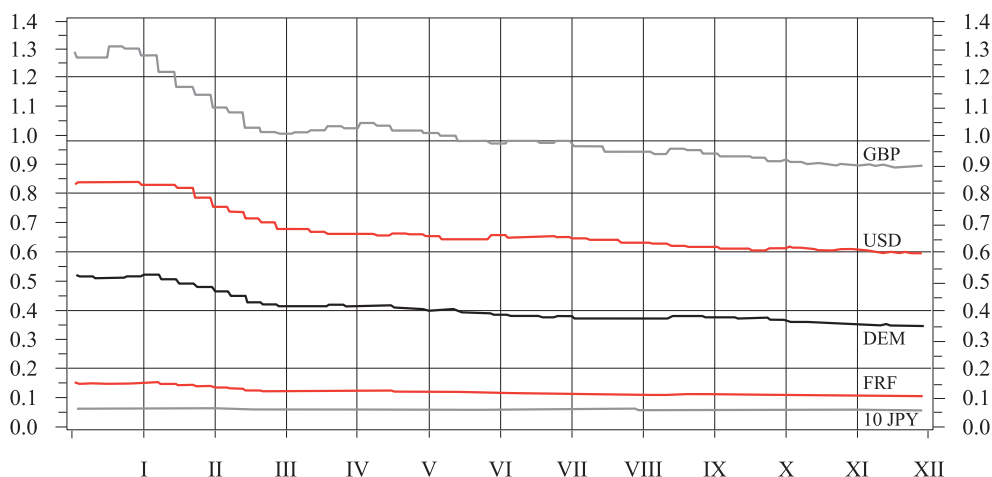
At the same time, the Bank of Latvia set rates for 21 convertible currencies (see Chart 12 for several currencies). Until November 1, 1993, these rates were set every Wednesday for the following week; after that, the rates were set every afternoon for the next day.

The rates for non-convertible currencies were set once a week, based upon the relation of the respective currency to the US dollar in the home country of each currency. On December 30, 1993, the rate of the Russian ruble was 1 000 RUR = 0.478 LVL (on December 30, 1992, the rate had been 1 000 RUR = 1.80 LVL). The Bank of Latvia ceased buying non-convertible currencies on January 22, 1993.

In 1993, the basic principles and guidelines for investing the foreign currency reserves were developed; they were approved by the Bank of Latvia Council on November 16, 1993. The management of foreign currency reserves is based on three basic principles: preserving the value of reserves, maintaining the liquidity of reserves, and investment profitability.

Chart 12. The Exchange Rates of Several Convertible Currencies Set by the Bank of Latvia in 1993

(in lats)



THE GOVERNMENT'S FOREIGN DEBT

During the transition to a market economy, foreign borrowings are of relevance to the development and restructuring of the national economy. Since the Republic of Latvia is undergoing this process, foreign borrowings are also utilized.

According to the data provided by the Republic of Latvia Ministry of Finance, the institution responsible for foreign debt, the Republic of Latvia Government has signed international credit agreements for 341.7 million US dollars. As at the end of 1993, the foreign debt of the Government totalled 223.8 million US dollars (132.9 million lats).

As the financial agent of the Government, the Bank of Latvia has participated in the receiving and utilization of foreign credits.

On March 31, 1993, the Republic of Latvia received an EU loan within the framework of G-24 credits to finance the deficit of the balance of payments; the amount of the loan was 40 million ECU or 48.1 million US dollars.

The loan was distributed following the Government regulations on utilizing the G-24 credits. The Bank of Latvia Board examined loan applications and extended credits to commercial banks, provided that the amount applied for did not exceed 500 thousand US dollars, and the commercial bank guaranteed repayment. The purpose of each submitted project was considered as well, since priorities were given to obtaining energy resources, raw materials, equipment and technology. The Bank of Latvia Board passed decisions to extend loans in the amount of 11.0 million US dollars. The remaining part of the loan in the amount of 37.1 million US dollars was granted to the direct credit users in accordance with decisions signed by either the Government commission for the implementation of the provided foreign assistance, or the Council of Ministers.

The Government in collaboration with the Bank of Latvia has worked out a program for the development of the national economy; it has been submitted to the IMF. The program has been successfully implemented during the reporting year. This made it possible to receive the IMF stand-by arrangement of 54.9 million SDR (45.1 million lats). A further development program was worked out, which was supported by a stand-by arrangement and the Systemic Transformation Facility (STF). The amount of 22.9 million SDR (18.8 million lats) as the first purchase under the STF was received in December 1993.

In September 1993, the Bank of Latvia received an EU grant in the amount of 1.0 million ECU or 1.88 million German marks (0.65 million lats). This grant will be used for crediting small and medium size enterprises.

Each of the commercial banks selected by the EU (namely, "Parekss-Banka", "Olimpija", "Latvijas Kredītbanka") received from the Bank of Latvia an amount equivalent to 150 thousand ECU (846.9 thousand German marks in total) for further granting to direct credit users. When granting credits, the commercial banks must observe the limit of 100 thousand German marks for a single loan, and a 12% interest rate as the maximum applicable rate.

By the end of 1993, commercial banks had granted 728 thousand German marks to enterprises. The Bank of Latvia will extend the rest of the grant (1.03 million German marks) to commercial banks after they will have used the first credits.

SUPERVISION OF CREDIT INSTITUTIONS

BASIC PRINCIPLES IN THE SUPERVISION OF CREDIT INSTITUTIONS

According to the procedures set forth by the Republic of Latvia legislation, the Bank of Latvia is responsible for granting licences to and the supervision of credit institutions. The objective of supervision is to ensure the development of a stable and efficient banking system, to service the needs of the national economy, as well as to attract investment capital from foreign institutions into Latvia.

The Republic of Latvia Laws "On the Bank of Latvia" and "On Banks" state the rights of the Bank of Latvia regarding supervision. The Bank of Latvia shall set the requirements for granting a licence and establish regulations pertaining to the performance of the bank, request the necessary information and carry out on-site examinations of the performance of the bank. The establishment of credit institutions is regulated by several laws, the most important of which are Law "On the Bank of Latvia", Law "On Banks", Law "On Stockholding Companies", Law "On Entrepreneurial Activity", and Law "On Foreign Investments in the Republic of Latvia".

ESTABLISHING OF THE NETWORK OF CREDIT INSTITUTIONS

1991 and 1992 were remarkable for the rapid establishment of credit institutions; 50 commercial banks, 3 pawnshops and 1 savings and loan association have been registered in Latvia during those years.

This may be explained by the fact that the Law "On Stockholding Companies" adopted in December of 1990 set the minimum basic capital of 5 million rubles for establishment of a commercial bank. Inflation greatly reduced the effective value of this amount. To rectify the situation, the Bank of Latvia Council on March 19, 1993 passed a resolution on increasing the founding capital to 50 million Latvian rubles. At present, the founding basic capital for a commercial bank is 100 thousand lats (according to the revised version of the Republic of Latvia Law "On Stockholding Companies" passed on May 18, 1993).¹

In 1993, the Bank of Latvia granted licences to 27 credit institutions, including 16 banks and 11 pawnshops, but rejected granting new licences to 7 banks, 2 pawnshops and 2 savings and loan associations. The Bank of Latvia refused to renew licences of 2 registered banks that had not begun operations. The licence issued to stockholding commercial bank "Dalderis" to perform banking operations was revoked, since this bank had merged with the stockholding commercial bank "Sakaru Banka".

During the reporting year, the Bank of Latvia supervised a total of 79 licensed credit institutions, including 63 commercial banks, 15 pawnshops and 1 savings and loan association.

All Latvian commercial banks are stockholding companies, the total of their paid-up share capital at the end of 1993 was 53 million lats. Their total assets were 572 million lats. The founders of commercial banks in most cases represent local private capital. The Republic of Latvia legislation does not set any restriction to foreign investments in banking sector; as a result, about 15 commercial banks have been established by attracting foreign, mainly Russian, capital.

GOVERNMENT-ESTABLISHED BANKS

Government was the sole shareholder in four banks. The total paid-up capital of these banks was 8 million lats and the total assets – 152 million lats. Those banks were:

- the Investment Bank of Latvia, whose main task is to attract capital to the Republic of Latvia to promote investments in the national economy²;
- the Mortgage and Land Bank of Latvia, whose activity is directed toward the renewal and development of mortgage crediting in Latvia;
- the Latvian Savings Bank, which is the owner of the largest network of branches (600 offices located throughout Latvia); it has been engaged in attracting deposits from private persons for over 70 years;
- the Universal Bank of Latvia, which has been established by merging the non-privatized branches of the Bank of Latvia.

¹ The founding basic capital will be enlarged to 2 million lats in 1994.

² In 1994 the EBRD has expressed a wish to become a stockholder in the Investment Bank of Latvia.

CHANGES IN THE STRUCTURE OF THE BANKING SYSTEM

1993 was characterized by significant structural changes within the Latvian banking system, following the privatization of the former Bank of Latvia branches.

Since 1992 when the Republic of Latvia Law "On the Bank of Latvia" was passed, the Bank of Latvia has legally ceased commercial banking activities. The actual separation took place in 1993. The process was carried out by the Bank Privatization Commission of Latvia, and the Bank Privatization Fund of Latvia, which organized and implemented the process.

In 1992, the Bank of Latvia had comprised forty nine branches which were engaged in commercial banking. On May 10, 1993, the Bank of Latvia passed these branches to the Bank Privatization Fund of Latvia with their claims and liabilities, for further monitoring. In 1993, eleven of these were sold in auctions to functioning commercial banks, namely, "Banka Baltija", "Parekss-Banka", and "Olimpija". Eight independent commercial banks were formed out of fifteen former branches by attracting new private capital. At the end of 1993, the recently established Rēzekne Commercial Bank (formed out of five former branches) was merged with the commercial bank "Banka Baltija". One of the branches was liquidated, and the privatization of one branch had not yet been completed by the end of the reporting year. The remaining twenty one branches were united in a new government-owned commercial bank "Latvijas Universālā Banka".

The Bank Privatization Fund of Latvia received payments totalling 4.6 million lats from the privatization of the branches. Out of this amount, 2.3 million lats were applied to cover losses arising from guarantees issued by Saldus Branch, and to make provisions in the Universal Bank of Latvia for the bad debts of these privatized branches. The rest of this revenue (2.3 million lats) was used to augment the statutory capital of the Universal Bank of Latvia.

The share of the Universal Bank of Latvia in the national banking system was considerable; it ranked among the ten largest Latvian banks. Nevertheless, the successful performance of this bank was hindered by the bad credits in its credit portfolio alongside with other problems. As a result, the World Bank has offered assistance to rectify the situation, and to develop it further.

REGULATIONS FOR MONITORING THE ACTIVITY OF CREDIT INSTITUTIONS

The Bank of Latvia improved the supervision of credit institutions by developing and implementing regulations for granting licences to credit institutions, the requirements for supervising their activity, and regulations regarding accounting and bank financial reports.

Regulations on granting a licence to perform banking transactions were approved by the Bank of Latvia Council on July 15, 1993. In accordance with these regulations, the Bank of Latvia required the credit institutions applying for a licence to submit documents supporting the reasons for establishing this credit institution, the legal aspects of this establishment, its appropriate legal and economic form as well as the professional competence of the key management. The Bank of Latvia licence granted

to a credit institution is valid at first for only one year, and is extended for those credit institutions that have followed the Bank of Latvia regulations and have carried out proper banking operations.

In 1993, instructions and provisions for monitoring the activities of credit institutions were designed using the experience accumulated by developed countries, and also following international monitoring requirements set forth by the Basle Committee, EU Directives and International Accounting Standards.

The following aspects of a credit institution's activities were subject to supervision:

- minimum amount of founding capital;
- capital adequacy;
- liquidity;
- concentration of credits granted;
- quality of the credit portfolio;
- creation of loan loss provisions¹;
- open foreign currency positions¹.

Credit institutions were required to perform their activities in such a way that the own capital was not less than 10% of total risk-weighted assets, including off-balance sheet liabilities.

Credit granted to one borrower (or group of associated enterprises) must not exceed 50% of the own capital of the credit institution, while credit granted to a single stockholder shall not exceed 25%. The total of major risk credit exposures shall not exceed the own capital of the credit institution by more than six times.

During the reporting year, all credit institutions were required to begin evaluating their own credit portfolios on a regular basis in order to determine the "standard", "close watch", "substandard", "doubtful" and "lost" credits.

AUDITS OF THE PERFORMANCE OF CREDIT INSTITUTIONS

In 1993, the Bank of Latvia worked out and amended different reporting forms to ensure more efficient and more effective supervision of credit institutions. The main emphasis was directed towards the preparation of the monthly balance sheet report and associated annexes, so as to direct the attention of the credit institution itself to possible risks in its activities.

In 1993, the Bank of Latvia designed a new format for the annual accounts of banks that came into effect for compiling the annual accounts for 1993. This form has been designed following EU Directives and International Accounting Standards.

The Bank of Latvia Credit Institution Supervision Department not only examined the reports and documents submitted by credit institutions, but also carried out on-site examinations to determine that the regulations established for the activities of the credit institutions are being observed.

¹ To come into effect in 1994.

The on-site examinations were carried out in order to:

- get a better idea of the true financial situation of a credit institution;
- assist in the formation of sufficient monitoring for accounting and management;
- disclose risk in the activities of a credit institution;
- establish working relations with the management of each bank, and to explain the role and requirements of the Bank of Latvia regarding supervision.

COMMEMORATIVE COINS

COINS FOR THE 75TH ANNIVERSARY OF THE REPUBLIC OF LATVIA

On November 10, 1993, the Bank of Latvia issued collector coins for the 75th Anniversary of Independence of Latvia. The project regarding collector coins has been implemented in close cooperation with the Commission for Coin Design established by the Republic of Latvia Supreme Council and chaired by Imants Daudiss. The Commission announced a contest, and on April 13, 1993, accepted the design submitted by artists Aivars Kruklis and Edgars Grinfelds; their designs utilized various ancient elements from Latvian folklore.

The Bank of Latvia signed an arrangement with the Mint of Finland for the minting and packaging of coins. The Mint of Finland made:

- 3 500 gold coins of highest proof for denomination of 100 lats, made of gold of standard 583.3 (14 carat);
- 30 000 silver coins of highest proof for denomination of 10 lats, made of silver of standard 925;
- 40 000 copper-nickel coins of semi-proof for denomination of 2 lats, made of a copper-nickel alloy.

Additionally, 4 160 000 extra-polished coins for denomination of 2 lats without numismatic packaging were issued.

The commemorative coins were distributed in Latvia by financial institutions (commercial banks), and Latvian central organizations in the USA, Australia, Canada, Great Britain, Germany and Sweden. The respective wholesale companies assisted the distribution of coins in the international numismatic market. The first collector coins of the Republic of Latvia have generated considerable interest among the public, especially Latvians.

A SET OF COINS IN CIRCULATION "LATVIAN COINAGE 1992"

In December 1993, the Bank of Latvia also put into circulation a set of coins – brilliant uncirculated coins in a special numismatic packaging with information on coin minting history in Latvia. Artist Gunārs Lūsis designed the packaging. The coins arranged in the set have been minted in Germany.

50 000 sets of coins have been made available to public, with the assistance of financial institutions and post-office branches situated throughout Latvia.

MONETARY POLICY HIGHLIGHTS – 1993

January 7

The Republic of Latvia Supreme Council adopted a Resolution "On Instituting the Regulation "On the Bank of Latvia Reorganization and Privatization Commission" ".

January 15

The Bank of Latvia Board approved "The Regulation on Calculating the Required Reserves for the First Half-Year of 1993".

January 22

The Bank of Latvia ceased purchasing non-convertible currencies.

January 27

The Bank of Latvia Council passed a Resolution "On Adopting the Procedure for the Discount of Promissory Notes".

February 1

The Bank of Latvia reduced its refinancing rate from 120% to 100% per year.

February 12

The Republic of Latvia Currency Reform Committee adopted Resolution No. 5 "On Issuing the 5 Lats Note".

February 16

The Republic of Latvia Supreme Council passed a Resolution "On the Procedure of Privatization of the Bank of Latvia Branches".

March 1

The Bank of Latvia reduced its refinancing rate from 100% to 80% per year.

March 3

The Republic of Latvia Supreme Council passed a Resolution "On Ratifying Loan Agreement Signed by the EU, the Republic of Latvia, and the Bank of Latvia".

March 5

The issue of the 5 lats note commenced with the value corresponding to 1 000 Latvian rubles (with the conversion rate of 1 LVL = 200 LVR). (See "February 12".) This started the withdrawal of the 500 Latvian ruble note.

March 16

The Republic of Latvia Currency Reform Committee passed Resolution No. 6 "On Issuing the 50 Santims, 1 Lats and 2 Lats Coins".

March 18

The Bank of Latvia Council passed a Resolution "On Accepting the Procedure to Grant Licence to Perform Credit Transactions with Precious Metals and Items Made of Precious Metals".

March 19

The Bank of Latvia Council passed a Resolution "On Determining the Basic Capital of Newly Established Banks" increasing the basic capital to 50 million Latvian rubles.

March 23

The Republic of Latvia Supreme Council passed the Law "On the State Budget for 1993".

March 25

The Bank of Latvia introduced into circulation the 1 lats coin. (See "March 16".) This started the withdrawal of the 200 Latvian ruble note.

April 1

The Bank of Latvia reduced its refinancing rate from 80% to 60% per year.

April 15

The Bank of Latvia introduced into circulation the 2 lats coin. (See "March 16".)

April 22

The Bank of Latvia introduced into circulation the 50 santims coin. (See "March 16".)
The Republic of Latvia Council of Ministers passed a Resolution "On G-24 Credit Risk Quotas".

April 29

The Bank of Latvia Board passed a Resolution "On the Procedure to Grant G-24 Credit" and approved "The Regulation on the Bank of Latvia Observer in the Stock Exchange".

May 18

The Republic of Latvia Supreme Council passed the Law "On Stockholding Companies".

May 24

The Bank of Latvia reduced its refinancing rate from 60% to 55% per year.

May 27

The Republic of Latvia Currency Reform Committee passed Resolution No. 7 "On Transition to Lats", and No. 8 "On Settling All Payments of Taxes, Duties, and Non-Taxes in Lats and Santims".

May 28

The Bank of Latvia Board passed a Resolution "On Introducing the Statistical Report for Interest Rates" (effective June 1, 1993).

June 1

The Republic of Latvia Supreme Council passed a Resolution "On Approving the Maximum Government Internal and Foreign Debt".

June 10

The Bank of Latvia Board passed a Resolution "On Setting Limits to Refinancing of Credit Institutions".

June 11

The Bank of Latvia reduced its refinancing rate from 55% to 42% per year.

June 18

The Republic of Latvia Council of Ministers passed Resolutions "On the Borrowing Agreement Signed by the Republic of Latvia, the Bank of Latvia, and the 'AB Svensk Exportkredit' ", "On the Borrowing Agreement Signed by the Republic of Latvia, the Bank of Latvia, and the Republic of Austria", and "On Authorization to Sign Bilateral Agreements with G-24 Countries on Behalf of the Republic of Latvia on Extending Loans to the Republic of Latvia".

June 28

The Bank of Latvia introduced into circulation the 10 and 20 lats notes, and the 1, 2, 5, 10, and 20 santims coins. (See "March 16" and "May 27".)

A Regulation came into effect that all prices, tariffs and balances of accounts shall be calculated in lats according to the rate 1 LVL = 200 LVR, as well as a prohibition for trade and service organizations to display prices quoted in foreign currencies. (See "May 27".)

July 15

The Bank of Latvia Council passed a Resolution "On the Regulation to Grant Licence to Perform Banking Transactions".

July 16

The Bank of Latvia Board passed a Resolution "On the Procedure to Calculate the Required Reserves as from August 15, 1993".

July 19

The Bank of Latvia reduced its refinancing rate from 42% to 38% per year.

August 12

The Bank of Latvia Board passed "The Resolution on Credit Classification" and "The Bank of Latvia Proposal on Elaborating the Credit Policy in Credit Institutions in the Republic of Latvia".

September 10

The Bank of Latvia reduced its refinancing rate from 38% to 30% per year.

September 14

The Republic of Latvia Cabinet of Ministers issued a Regulation "On Utilization of G-24 Credits".

The Bank of Latvia issued Regulation No. 11 "On Complete Withdrawal of Latvian Rubles" (effective October 18, 1993).

September 21

The Bank of Latvia Council passed a Resolution "On General Principles Regarding the Annual Report, Balance Sheet and Profit and Loss Account of Credit Institutions" (effective January 1, 1994).

September 30

The Bank of Latvia Board passed "The Temporary Provisions for Organizing Auctions of Credit Resources".

October 18

The Latvian ruble ceased to be a legal tender, though the Bank of Latvia continued exchange of Latvian rubles for lats with no restrictions.

October 22

The Bank of Latvia reduced its refinancing rate from 30% to 27% per year.

November 5

The Bank of Latvia Board passed "Regulation on the Bank of Latvia Branches".

November 10

The Bank of Latvia issued the collector coins for the 75th Anniversary of the Republic of Latvia; the coins were of denominations 100, 10, and 2 lats.

November 11

The Bank of Latvia Council passed a Resolution "On Provisions to Attract Time Deposits of the Commercial Banks".

November 16

The Bank of Latvia Council passed a Resolution "On Sample Statutory Regulations of the Savings and Loan Associations".

November 23

The Bank of Latvia Board passed a Resolution "On Extending Lombard Credits".

November 25

The Bank of Latvia Board passed a Resolution "On Amendments in the Procedure of Calculating the Required Reserves" (effective December 1, 1993).

November 26

The Bank of Latvia Board passed a Resolution "On Compulsory Audit of the Annual Reports of Credit Institutions in the Republic of Latvia".

November 30

The Republic of Latvia Cabinet of Ministers passed Provisions "On Utilization of the Republic of Latvia Internal Borrowing".

December 15

The first auction of Treasury bills took place.

The Bank of Latvia Council passed a Resolution "On the Audit of the Bank of Latvia Activity in 1993".

December 24

The Bank of Latvia Board approved "The Regulations on Special Provisions for Doubtful Debts" (effective December 31, 1993).

December 30

The Bank of Latvia Board passed a Resolution "On the Write-Off of the Former Soviet Union Currency Notes".

MULTILATERAL COOPERATION

INTERNATIONAL FINANCIAL ORGANIZATIONS

During 1993, Latvia continued activity as a member country in the International Monetary Fund, the International Bank for Reconstruction and Development, and the International Development Association. The Bank of Latvia continued its participation in the Bank for International Settlements.

With the developing cooperation between the IMF and the Republic of Latvia, on December 15, 1993, the IMF approved the National Economy Development Program for 1994 worked out by the Republic of Latvia Government and the Bank of Latvia. According to the provisions of the Program, the Government of Latvia is permitted to use the IMF stand-by arrangement of 22.9 million SDR during the period from December 15, 1993 until March 14, 1995. Furthermore, a loan of 22.9 million SDR was approved for a systemic transformation of the national economy (it is 25% of the loan quota of Latvia).

BILATERAL COOPERATION WITH FOREIGN CENTRAL BANKS

During the reporting year, the Bank of Latvia expanded cooperation and exchange of know-how and information with central banks in other countries. The major partners in such cooperation in 1993 were the central banks of Germany, Sweden, Finland, Denmark, Switzerland, the USA, Estonia and Lithuania.

The Governors of Sveriges Riksbank and Suomen Pankki visited the Bank of Latvia. The President of the Bank of Latvia visited Deutsche Bundesbank, Sveriges Riksbank and Lietuvos Bankas.

TECHNICAL ASSISTANCE

In 1993, international financial organizations and foreign central banks continued providing technical assistance to the Bank of Latvia.

The IMF technical assistance mission visited the Bank of Latvia; it was comprised of representatives of Danmarks Nationalbank, Norges Bank, Suomen Pankki and Sveriges Riksbank as well as staff members of the IMF. The mission extended consultations on supervision of credit institutions, accounting procedures of a central bank, subjects relating to monetary policy and foreign exchange transactions. During separate visits the Bank of Latvia staff were consulted on accounting and bank statistics by the IMF representatives.

The Bank of Latvia continued to receive technical assistance from the Deutsche Bundesbank; it was directed towards the subjects of monetary policy, establishment of a market for Government securities, development of network of branches of the central bank, improvement of banking legislation, and foreign exchange transactions. The consultations were provided both at the Bank of Latvia and the Bundesbank.

In 1993, experts financed by the Swiss Government completed their work on evaluating credit portfolios of the former branches of the Bank of Latvia. At present, the consultations on the improvement of the credit mechanism of commercial banks are proceeding.

The Government of Norway financially supported the assistance provided by the National Settlement and Clearing Centre of Norway to the Bank of Latvia for working out the concept of clearing and settlement system in Latvia.

Four resident advisors either continued or started their activity in the Bank of Latvia in 1993; they are financed by the IMF (the consultant on supervision of credit institutions), the EU-PHARE program (the consultant on accounting and reporting procedures of commercial banks), and the US Treasury (two consultants: on general activity of a central bank, and supervision of credit institutions).

The Bank of Latvia for the first time participated in the seminars organized by the BIS alongside with other technical assistance donor and recipient central banks; the seminars contributed to the better coordination of the technical assistance provided.

In 1993, the Bank of Latvia organized a seminar for the representatives of central banks of the CIS countries (Kazakhstan, Central Asia and Transcaucasia); it discussed problems relating to the introduction of national currencies and other subjects of central banking.

THE BANK OF LATVIA STRUCTURE, AND PERSONNEL TRAINING

The Bank of Latvia personnel have increased by 205 employees during the reporting year. At the end of 1993, 397 persons were employed by the Bank of Latvia; the distribution of personnel within structural units was:

	1993	1992
Management	8	7
Advisors, assistants	8	2
Main departments	155	86
Service departments	118	87
Security Department	63	10
Branches	45	x
Total	397	192

There have been several changes in the structure of the Bank. A new Department of Statistics has been established. Five Bank of Latvia branches were established in October, 1993; they are located in Daugavpils, Rezekne, Jelgava, Valmiera, and Liepaja. At present, the main task of the branches is to supply cash to credit institutions in the respective region.

The Bank of Latvia Council at the end of 1993:

Einars Repše,	Chairman of the Council, President of the Bank of Latvia;
Ilmārs Rimšēvičs,	Chairman of the Board, Vice President of the Bank of Latvia;
Harijs Bušs, Valentīna Kolotova, Vita Pilsuma, Bruno Rubess, Varis Zariņš, Valentīna Zeile,	members of the Council.

The following changes within the Council have taken place in 1993:

Galina Alijeva – has left her position on March 5, 1993, due to retirement;
Vita Pilsuma – has been approved as the Bank of Latvia Council member by the Republic of Latvia Supreme Council Resolution of March 31, 1993;

Guntis Ulmanis – has been approved as the Bank of Latvia Council member by the Republic of Latvia Supreme Council Resolution of March 31, 1993, but left the position on July 7, 1993, due to being elected as the President of the Republic of Latvia;

Valentina Zeile – has been approved as the Bank of Latvia Council member by the Republic of Latvia Parliament (Saeima) on August 12, 1993.

During the reporting year, the Bank of Latvia daily activities were managed by the Bank of Latvia Board:

Ilmārs Rimšēvičs,	Chairman of the Board;
Silvija Lejniece, Māra Raubiško, Laila Rūse, Antonija Sileniece, Guna Varslavāne,	members of the Board.

On September 16, 1993, the Bank of Latvia approved Guna Varslavane as the Bank of Latvia Board member, releasing Ēriks Blūms from the position due to his leaving the Bank of Latvia.

During 1993, the Bank of Latvia personnel training and strengthening of know-how have been directed towards supervision of credit institutions, payments system, money and banking statistics, accounting, researching the financial market, foreign exchange transactions of a central bank, and other important items.

The training has taken place within training sessions and workshops organized by the IMF, the World Bank, central banks of the USA, Austria, Switzerland and Germany.

The Bank of Latvia personnel have acquired additional experience and knowledge at Columbia (USA), Iowa (USA), Northwood (USA), and York (Canada) Universities, Stockholm School of Economics, and London School of Economics and Political Sciences.

The employees of the Credit Institution Supervision Department, the Monetary Policy Department, and other departments obtained additional knowledge in accounting. The training was carried out by the resident advisor, financed by the EU-PHARE programme. The resident advisor financed by the IMF assisted the Bank of Latvia staff in performing on-site examination of the activity of credit institutions.

The Bank of Latvia personnel have improved their knowledge of English and German, as well as their computing skills.

THE BANK OF LATVIA BALANCE SHEET AT DECEMBER 31,
1993
(in thousand lats)

Assets	Notes	1993	1992
Foreign assets		385 358	108 476
Gold	1	43 268	16 902
Special Drawing Rights (SDR)		58 359	22 419
Other convertible currencies	2	201 543	36 636
International Monetary Fund	3	74 853	–
Shares	4	1 040	1 461
Other foreign assets		2 053	–
Correspondent accounts	5	467	41
Receivables from CIS	6	145	8 152
Non-convertible currencies	7	3 630	22 865
Cash		–	42
Domestic credits		54 357	62 055
To banks	8	51 981	56 055
To the Government	9	2 376	6 000
Other assets	10	4 603	12 615
Total assets		444 318	183 188
Liabilities			
Foreign liabilities		149 585	36 592
IMF accounts	3	146 042	29 581
Other foreign liabilities		6	–
Foreign bank deposits in lats		2 421	–
Non-convertible currencies	7	1 116	7 011
Lats in circulation	11	179 132	77 467
Domestic deposits		91 342	39 770
Banks		46 423	36 582
Government		2 140	480
Government risk fund		237	–
Government foreign debt	12	41 842	–
Humanitarian aid		700	2 708
Capital and reserves		14 702	17 134
Capital	13	2 500	1 829
Reserve capital	13	625	290
Valuation account	14	10 904	15 015 ¹
EU grant	15	673	–
Other liabilities	16	9 557	12 225
Total liabilities		444 318	183 188

¹ In the Annual Report 1992, the valuation account was shown separately for convertible and non-convertible currencies.

THE BANK OF LATVIA PROFIT AND LOSS ACCOUNT
AT DECEMBER 31, 1993

(in thousand lats)

	Notes	1993	1992
INTEREST INCOME			
Foreign operations			
Interest on bank deposits		3 938	301
Income from securities		915	54
Other income		620	47
Dividends on BIS shares		105	143
Gross foreign income		5 578	545
Domestic operations			
Interest on loans to banks	17	18 876	10 894
Interest on other loans		3 596	1 372
Other income		239	–
Gross domestic interest income		22 711	12 266
INTEREST EXPENSES			
Foreign operations			
Interest on bank credits		1 991	–
Other income		54	289
Gross foreign interest expenses		2 045	289
Domestic operations			
Other expenses		51	31
Gross domestic interest expenses		51	31
NET INTEREST INCOME		26 193	12 491
Net foreign exchange profit/loss		–185	–5 261
Net valuation adjustments		–185	–5 261
NET INTEREST INCOME AFTER VALUATION ADJUSTMENTS		26 008	7 230

(in thousand lats)			
	Notes	1993	1992
OPERATING INCOME			
Other operating income		393	10
Total operating income		393	10
OPERATING EXPENDITURE			
Salaries, wages and other personnel costs		1 010	89
Social security		373	37
Currency printing	18	5 686	4 497
Depreciation		43	10
Other operating expenses		1 821	171
Total operating expenses		8 933	4 804
Net operating expenses		8 540	4 794
Exceptional items	19	9 497	–
PROFIT BEFORE APPROPRIATION		7 971	2 436
APPROPRIATION OF PROFIT			
Capital		–	1 339
Reserve capital		58	244
State budget, donations		–	853
Remaining profit appropriated to the State budget		7 913	–

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1993

ACCOUNTING POLICIES

The principal accounting policies adopted for the preparation of the Financial Statements are set out below:

BASIS OF ACCOUNTING

The Financial Statements have been prepared in accordance with the historical cost convention except that gold reserves and shares are carried at a valuation (see further note 1).

CURRENCY TRANSLATION

Assets and liabilities denominated in foreign currencies are translated into lats according to the exchange rate specified by the Bank of Latvia on December 30, 1993, except for the IMF quota that has been translated at the exchange rate specified by the IMF.

Exchange gains and losses have been taken to the Valuation Account except that profits and losses on foreign exchange transactions with commercial banks are taken to the profit and loss account.

TREASURY AND OTHER BILLS

Treasury and other bills are valued at adjusted cost as the intention is to hold such instruments to maturity.

INTEREST INCOME AND EXPENSES

Interest income and expenses are accounted on accrual basis.

GOVERNMENT FOREIGN DEBT

The Bank of Latvia acts in an agency capacity for those foreign loans received by the Republic of Latvia Government which are used to provide domestic credits to commercial banks in Latvia. The Bank of Latvia Balance Sheet includes both the foreign debt and the domestic credits.

FIXED ASSETS

Depreciation is provided on a straight line basis over the estimated useful lives of assets, as follows:

Computer equipment	11–12%
Furniture and fittings	6–12%
Motor vehicles	11–14%
Buildings	1–2%
Land	0%

NOTES TO THE FINANCIAL STATEMENTS

1. GOLD

Gold reserves deposited with the Bank of England before the occupation in 1940 were returned to the ownership of the Bank of Latvia in March 1993. Movements in gold reserves in 1993 were as follows:

	in ounces	in thousand lats
Gold reserves at December 31, 1992	67 474	16 902
Deposits from Bank of England	210 719	37 550
Sales of gold	35 390	6 307
Exchange rate differences	–	–4 877
Gold reserves at December 31, 1993	242 803	43 268

The gold reserves were valued at 300 USD per ounce at the end of both 1992 and 1993.

The official fixing of the gold price on December 30, 1993 in London was 390.47 USD per ounce. The market value of the gold reserves at the end of 1993 was therefore 56 315 thousand lats.

2. CONVERTIBLE CURRENCIES

Convertible currencies comprise:	(in thousand lats)
Vault cash	1 517
Bank accounts	128 724
Securities	71 302
	<u>201 543</u>

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

	(percentage)	
	1993	1992
US dollars	78	78
German marks	8	22
British pounds	1	–
ECU	13	–
Total	100	100

3. IMF ACCOUNTS

Balances with the IMF were shown net in the 1992 Balance Sheet. For the 1993 Balance Sheet the IMF balances have been grossed up to show the SDR holdings and special borrowing rights not used as assets and the loan and special borrowing rights as liabilities. The quota of Special Drawing Rights (SDR) allocated to the Republic of Latvia in the IMF is 91.5 million SDR.

4. SHARES

The Bank of Latvia owns 1 000 shares in the Bank for International Settlements (BIS). The balance sheet reflects the paid-in amount of 1 040 thousand lats.

5. CORRESPONDENT ACCOUNTS

Correspondent accounts opened with Estonia and Lithuania after monetary reform are shown separately, since the currencies of these countries are deemed as convertible.

6. RECEIVABLES FROM THE CIS

The amount consists of receivables from the CIS in order to settle payments with Latvia.

7. NON-CONVERTIBLE CURRENCIES

The Bank of Latvia has issued regulations requiring the commercial banks in Latvia to settle any payments with the CIS countries by establishing correspondent accounts directly with the commercial banks in the respective country.

Negotiations regarding the settlement of old correspondent account balances have taken place during 1993, and will continue in 1994. Management considers that provisions are not required against the receivable balances while discussions on settlement are continuing.

8. DOMESTIC CREDITS

Domestic credits to banks represent balances due from Latvian commercial banks. As explained in the accounting policies, the Bank of Latvia is acting in an agency capacity for a large part of these loans which are received from the G-24 countries by the Republic of Latvia Government.

9. DOMESTIC CREDIT TO THE GOVERNMENT

This comprises the portion of the G-24 loan received by the Republic of Latvia Ministry of Finance for the purpose of participation in shares of the Investment Bank of Latvia.

10. OTHER ASSETS

Other assets comprise principally fixed assets, prepayments to equipment suppliers, and stocks of office supplies:

	(in thousand lats)
Machinery and equipment	918
Real estate	645
Prepayments to equipment suppliers	841
Office supplies	445
Other	1 754
Total	<u>4 603</u>

11. LATS IN CIRCULATION

At the end of 1993, the following units of lats (Ls) and santims (s) were in circulation:

Nominal	Amount (in thousand lats)	Number (in thousand units)	Percentage (%)
Bank notes			
Ls 20	32 234.0	1 612	18.0
Ls 10	23 028.0	2 303	12.9
Ls 5	104 000.4	20 800	58.2
Coins			
Ls 2	7 235.5	3 617	4.0
Ls 1	5 693.2	5 693	3.2
s 50	3 620.3	7 240	2.0
s 20	1 072.4	5 360	0.6
s 10	864.8	8 640	0.5
s 5	538.5	10 760	0.3
s 2	279.1	13 950	0.2
s 1	158.0	15 800	0.1
Total	178 721.2	x	100.0

At the end of 1993, Latvian rubles were also in circulation, totalling 410.4 thousand lats. Thus, the national currency in circulation constituted 179 136.6 thousand lats.

12. FOREIGN DEBT OF THE GOVERNMENT

This comprises the G-24 loans received by the Republic of Latvia Government, for which the Bank of Latvia acts in an agency capacity to provide domestic credits to commercial banks.

13. CAPITAL AND RESERVE CAPITAL

In 1993, the Bank of Latvia commenced applying the accounting principles according to the Republic of Latvia Law "On Bookkeeping". An amount of 671 thousand lats was transferred to the capital account of the Bank of Latvia (until it reached the amount required by the Law "On the Bank of Latvia"), and 277 thousand lats was transferred to the reserve capital. 58 thousand lats was transferred to the reserve capital from the profit made during 1993.

14. VALUATION ACCOUNT

Changes in the valuation account in 1993 were as follows:

(in thousand lats)

	Gold	Foreign currencies		Total
		Convertible	Non-convertible	
Valuation account at December 31, 1992	16 902	20 238	-22 125	15 015
Deposit from Bank of England	37 550	x	x	37 550
Exchange loss	-4 877	x	x	-4 877
Revaluation	x	-29 170 ¹	-7 614 ¹	-36 784
Valuation account at December 31, 1993	49 575 ²	-8 932	-29 739	10 904

¹ Realised and unrealised exchange gains and losses in both convertible and non-convertible currencies are taken to the valuation account.

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

15. EU GRANT

This item comprises grant by the EU to the Bank of Latvia for the purpose of supporting the development of small and medium size businesses in Latvia.

16. OTHER LIABILITIES

Other liabilities include the proposed transfer to the state budget for 1994 of the profit of 7 913 thousand lats for the year.

17. INTEREST RECEIVED

In 1993, the Bank of Latvia received interest on loans to commercial banks:
(in thousand lats)

1st quarter	7 608
2nd quarter	7 320
3rd quarter	3 101
4th quarter	847
	<hr/>
	18 876

18. CURRENCY PRINTING

The Bank of Latvia introduced lats in 1993 which replaced Latvian rubles. Notes were produced and delivered in 1993 at a cost of 5 686 thousand lats.

19. EXCEPTIONAL ITEMS

During 1993, the Bank of Latvia wrote off the following amounts: Soviet Union bank notes for 7 429 thousand lats, and costs of the Universal Bank Ventspils Branch for 2 068 thousand lats.

Russian ruble notes, which were withdrawn from circulation, were returned to the Central Bank of Russia without value to the Bank of Latvia. 7 429 thousand lats has been written off in the profit and loss account for 1993 as one exceptional cost. The Bank of Latvia will continue to seek a recovery of value from the Central Bank of Russia for the amount of the returned notes.

The costs for the Universal Bank Ventspils Branch relate to restructuring costs regarding the privatization of the former Bank of Latvia branches.

REPORT OF THE AUDIT COMMISSION

REPORT OF THE AUDITORS TO THE BANK OF LATVIA COUNCIL

We have audited the financial statements of the Bank of Latvia as at December 31, 1993 together with the related notes. The financial statements are the responsibility of the Bank's management. Our responsibility is to express the opinion of the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. 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.

We have not performed the audit of the balance sheet as at December 31, 1992, and accordingly we express no opinion on the comparative figures in the balance sheet.

In our opinion the financial statements and related notes present fairly the financial position of the Bank of Latvia as at December 31, 1993, in accordance with accounting and related disclosures appropriate for a central bank.

Coopers & Lybrand Latvia
Riga, May 6, 1994

THE OPINION OF THE REPUBLIC OF LATVIA STATE CONTROL ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE BANK OF LATVIA

The State Control agrees to the results obtained by the Audit Company Coopers & Lybrand in the course of performing the audit of the Bank of Latvia Financial Statements and the related notes for 1993.

The Bank of Latvia Financial Statements for 1993 are subject to the approval by the Bank of Latvia Council.

The Republic of Latvia State Control
Riga, May 12, 1994

ANNEX 1. MONETARY INDICATORS IN 1993

(at the end of each month, in million lats)

Indicators	Jan	Feb	Mar	Apr	May	Jun
A. Bank of Latvia						
Reserve money	114.9	120.6	128.3	135.0	158.9	170.5
Currency in circulation	81.6	87.3	84.7	92.9	101.6	117.1
Bank deposits	33.3	33.3	43.6	42.1	57.3	53.4
Currency vs reserve money (%)	71.0	72.4	66.0	68.8	63.9	68.7
Net foreign assets	108.1	118.1	82.5	150.6	169.9	168.3
In convertible currencies	49.3	58.4	69.9	139.9	163.6	163.3
In non-convertible currencies	58.8	59.7	12.6	10.7	6.3	5.0
Net domestic assets	6.8	2.5	45.8	-15.6	-110.0	2.2
Credits	61.9	59.8	50.4	64.9	68.0	76.8
To banks	60.0	61.4	45.3	56.9	63.4	61.7
To Central Government (net)	1.9	-1.6	5.1	8.0	4.6	15.1
Credit line	10.8	9.0	7.5	10.0	7.0	15.7
Grain credit	0	0	0	0	0	0
Other items (net)	-55.1	-57.3	-4.6	-80.5	-79.0	-74.6
B. Banking system						
Broad money M2X	269.8	278.4	266.9	275.4	304.3	335.6
Currency (excl. vault cash)	74.6	79.8	77.0	84.6	92.6	104.7
Nonbank ¹ deposits (total)	195.2	198.6	189.9	190.8	211.7	230.9
In convertible currencies	96.2	102.1	88.1	90.9	97.9	107.9
Domestic money supply M2D ²	173.6	176.3	178.8	184.5	206.3	227.7
Net foreign assets	194.7	197.4	139.6	208.1	229.8	236.8
Net domestic assets	75.1	81.0	127.3	67.3	74.5	98.8
Credits	144.1	145.6	154.8	160.2	185.7	213.3
Bank of Latvia refinancing rate (%)	120	100	80	60	55	42
Average interest on credits and deposits (%)						
In the interbank market
On short-term credits in lats to nonbanks	119.6	112.6	101.4	96.3	82.1	83.2
On nonbank time deposits in lats	30.4	34.4	48.4	43.3	36.5	41.4
LVL vs USD	0.843	0.788	0.702	0.663	0.656	0.658

¹ Nonbanks are enterprises and private persons.² M2D is currency in circulation minus vault cash of banks plus deposits of domestic enterprises and private persons in national currency.

.. – data not available.

ANNEX 1 (cont.)

(at the end of each month, in million lats)

Indicators	Jul	Aug	Sep	Oct	Nov	Dec
A. Bank of Latvia						
Reserve money	175.7	177.1	187.2	196.2	204.6	224.9
Currency in circulation	125.8	130.0	141.8	147.6	154.1	179.1
Bank deposits	49.9	47.1	45.4	48.6	50.5	45.8
Currency vs reserve money (%)	71.6	73.4	75.7	75.2	75.3	79.6
Net foreign assets	186.1	183.8	204.0	213.8	214.8	233.6
In convertible currencies	183.8	184.4	204.7	214.8	216.0	235.3
In non-convertible currencies	2.3	-0.6	-0.7	-1.0	-1.2	-1.7
Net domestic assets	-10.4	-6.7	-16.8	-17.6	-10.2	-8.7
Credits	66.6	57.5	55.9	51.3	54.0	52.2
To banks	53.2	46.6	38.7	39.0	48.3	44.8
To Central Government (net)	13.4	10.9	9.4	4.5	-2.1	0.2
Credit line	13.4	12.5	10.7	4.5	0	0
Grain credit	0	0	7.8	7.8	7.8	7.2
Other items (net)	-77.0	-64.2	-72.7	-68.9	-64.2	-60.9
B. Banking system						
Broad money M2X	338.0	370.0	401.4	417.7	434.6	462.4
Currency (excl. vault cash)	111.5	117.5	125.9	127.5	132.5	152.8
Nonbank ¹ deposits (total)	226.5	252.5	275.5	290.2	302.1	309.6
In convertible currencies	105.1	122.7	123.8	139.7	139.8	121.3
Domestic money supply M2D ²	230.2	243.4	268.2	271.6	290.7	336.9
Net foreign assets	246.5	250.7	270.6	273.9	295.8	313.0
Net domestic assets	91.5	119.3	130.8	143.8	138.8	149.4
Credits	215.0	225.6	242.0	248.8	248.8	268.2
Bank of Latvia refinancing rate (%)	38	38	30	27	27	27
Average interest on credits and deposits (%)						
In the interbank market	..	52.3	47.2	45.5	55.4	56.6
On short-term credits in lats to nonbanks	75.7	71.5	81.7	81.5	69.0	61.8
On nonbank time deposits in lats	50.1	53.8	58.3	58.8	51.2	54.4
LVL vs USD	0.650	0.630	0.616	0.610	0.606	0.595

¹ Nonbanks are enterprises and private persons.² M2D is currency in circulation minus vault cash of banks plus deposits of domestic enterprises and private persons in national currency.

.. – data not available.

ANNEX 2. CREDIT INSTITUTIONS THAT AT THE END OF 1993 HAD A VALID
LICENCE ISSUED BY THE BANK OF LATVIA

COMMERCIAL BANKS

1. Stockholding Company "Aizkraukles Banka"
2. Stockholding Company "Ako Banka"
3. Stockholding Company "Alejas Komercbanka"
4. Stockholding Commercial Bank "Avia-Banka"
5. Stockholding Company "Baltijas Rekonstrukcijas un Attīstības Banka"
6. Stockholding Company "Baltijas Starptautiskā Banka"
7. Stockholding Commercial Bank "Baltijas Tranzītu Banka"
8. Stockholding Company "Banka Atmoda"
9. Stockholding Company "Banka Baltija"
10. Stockholding Company "Banka Sigulda"
11. Stockholding Company "Bauskas Banka"
12. Stockholding Company "Centra Banka"
13. Stockholding Commercial Bank "Dinastija"
14. Stockholding Company "Daugavas Banka"
15. Stockholding Commercial Bank "Doma Banka"
16. Stockholding Commercial Bank "Jelgava"
17. Stockholding Company "Latvijas Komercbanka "Kredo-Banka" "
18. Stockholding Commercial Bank "Kurzeme"¹
19. Stockholding Company Bank "Land"
20. Latgale Stockholding Commercial Bank
21. Stockholding Company "Latintreid-Banka"
22. Stockholding Company "Latvijas Biznesa Banka"
23. Stockholding Company "Latvijas Depozītu Banka"
24. Stockholding "Latvijas Ekonomiskā Komercbanka"
25. State Commercial Bank "Latvijas Hipotēku un Zemes Banka"
26. Stockholding Commercial Bank "Latvijas Industriālā Banka"
27. Stockholding Company "Latvijas Investīciju Banka"
28. Stockholding Company "Latvijas Kapitāl-Banka"
29. Stockholding Company "Latvijas Kredītbanka"
30. Stockholding Commercial Bank "Latvijas Privātbanka"
31. Stockholding Commercial Bank "Latvijas Rekonstrukcijas un Attīstības Banka"²
32. State Commercial Bank "Latvijas Republikas Valsts Krājbanka"³
33. Stockholding Company "Latvijas Tautas Banka"
34. Stockholding Company "Latvijas Tirdzniecības Komercbanka"
35. Stockholding Company "Latvijas Universālā Banka"
36. Stockholding Company Commercial Bank "Lettika"

¹ Licence revoked on March 31, 1994.

² Licence revoked on March 18, 1994.

³ Title changed to State Stockholding Company "Latvijas Krājbanka" in March 1994.

37. Stockholding Company "Liepājas Komer banka"
38. Stockholding Company "LTN-Skonto Banka"
39. Stockholding Company "Ogres Komer banka"
40. Stockholding Commercial Bank "Olimpija"
41. Stockholding Company "Olti-Bank"
42. Stockholding Company "Akciju komer banka "Parekss-Banka" "
43. Stockholding Commercial Bank "Paritāte"
44. Stockholding Commercial Bank "Polār zvaigzne"
45. Stockholding Company "Rietumu Banka"
46. Stockholding Commercial Bank "Rīga-Bank"
47. Stockholding Company "Rīgas Komer banka"
48. Stockholding Commercial Bank "Rīgas Naftas un Ķīmijas Banka"
49. Stockholding Commercial Bank "Rīgas Starptautiskā Banka"
50. Stockholding Commercial Bank "Sakaru Banka"
51. Stockholding Commercial Bank "Saules Banka"
52. Stockholding Company "Talsu Komer banka"
53. Stockholding Commercial Bank "Topbanka"
54. Stockholding Company "Tukuma Banka"
55. Stockholding Commercial Bank "Rīgas Apvienotā Baltijas Banka"
56. Stockholding Company "Vācijas–Latvijas Banka"
57. Stockholding Commercial Bank "VEF-Banka"
58. Stockholding Commercial Bank "Ventspils Apvienotā Baltijas Banka"
59. Stockholding Commercial Bank "Vesta"¹
60. Stockholding Commercial Bank "Viktorija"
61. Commercial Bank "Zemes Banka"

¹ Licence to perform activity only in national currency. Licence revoked on January 27, 1994.

PAWNSHOPS

1. Stockholding Company "Pirmais Privātais Lombards Rīgā"
2. Stockholding Company "Vecpilsētas Lombards"
3. Stockholding Company "Rīgas Komerclombards"¹
4. Stockholding Company Pawnshop "Unions"
5. Stockholding Company Pawnshop "Margerts"
6. Stockholding Company Pawnshop "Baltijas Pērle"
7. Stockholding Company Pawnshop "Pilārs & Co"²
8. Stockholding Company Pawnshop "Dagne"
9. Stockholding Company "Lombards Laterna"
10. Stockholding Company Pawnshop "Nauda un Labklājība"
11. Stockholding Company Pawnshop "Louan"
12. Stockholding Company Pawnshop "Aizdevums"
13. Stockholding Company Pawnshop "Velve"
14. Stockholding Company "Apvienotais Lombards"

SAVINGS AND LOAN ASSOCIATION

Cooperative Company "Latvijas Krājaizdevu Biedrība"

¹ Licence revoked on February 17, 1994.

² Title changed to Stockholding Company "Lombards Laimdota" in April 1994.

ANNEX 3. STRUCTURE OF THE BANK OF LATVIA DEPARTMENTS AT THE END OF 1993

Monetary Policy Department:

- Analysis Division;
- Securities Division;
- Refinancing Division.

Credit Institution Supervision Department:

- Licensing Division;
- Supervision Division;
- Methodological Division.

Foreign Exchange Department:

- Settlements Division;
- Market Operations and Investment Division;
- Foreign Loan Division.

Accounting and Settlements Department:

- Central Accounting Division;
- Internal Operations Division;
- Finance Division;
- Settlements Division.

Information Systems Department:

- Systems Analysis and Design Division;
- Programming and Systems Introduction Division;
- Technical Maintenance Division.

Statistics Department:

- Statistics Division;
- Mathematical Analysis of Statistics Division.

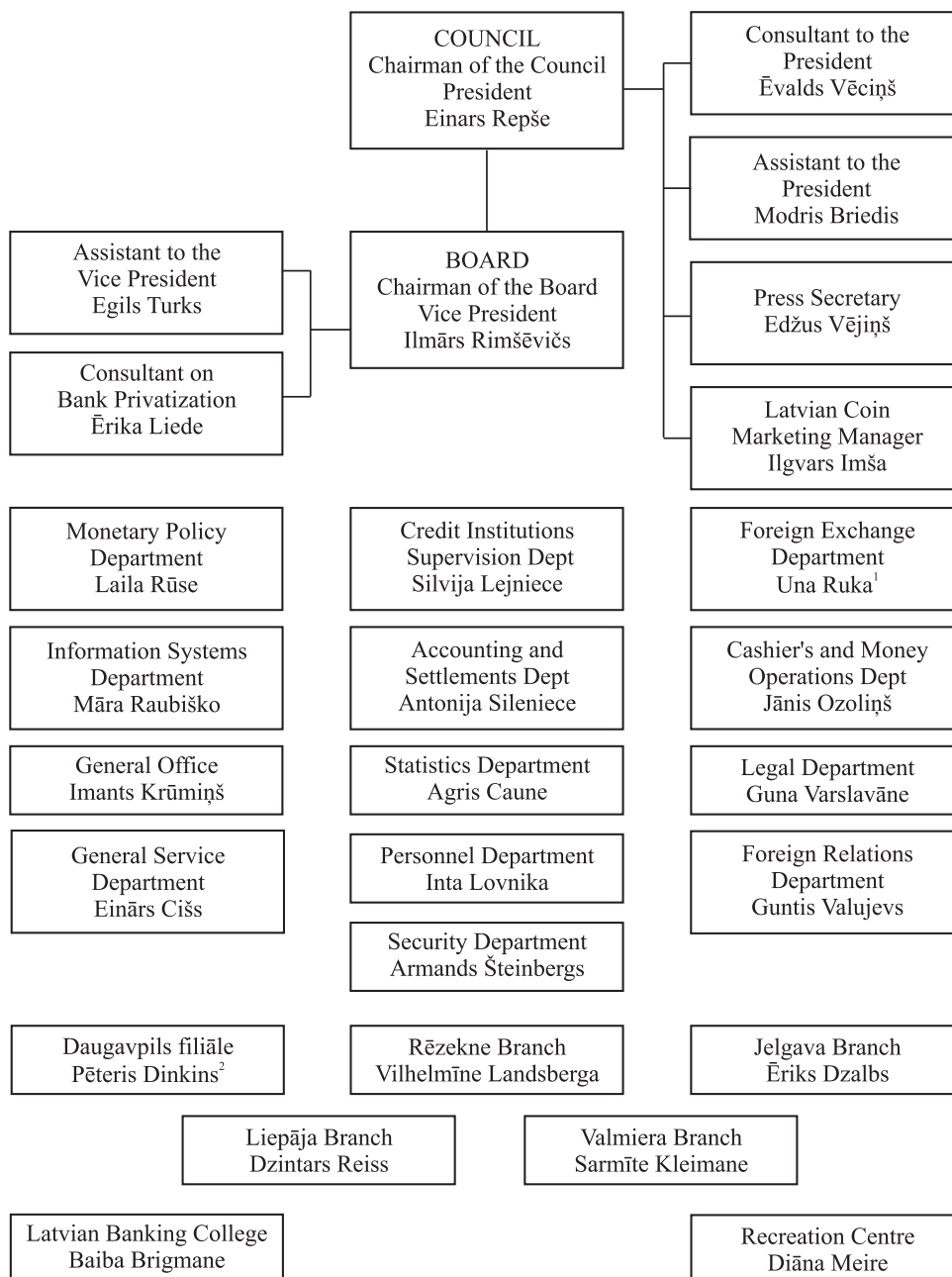
Cashier's and Money Operations Department:

- Cash and Money Transportation Division;
- Money Turnover Regulation Division;
- Central Vault.

General Office:

- Clerical Office;
- Guest Reception and Translation Bureau.

STRUCTURE OF THE BANK OF LATVIA AT THE END OF 1993



¹ Acting Head. Mr. Roberts Grava was appointed as the Head of said Department effective April 18, 1994.

² Ms. Jolanda Mateša was appointed as the Manager of said Branch effective January 10, 1994.

Annual Report 1993
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